

Prefatory Note

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Part 2

June 22, 2005

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

June 22, 2005

Recent Developments

Domestic Nonfinancial Developments

Domestic Nonfinancial Developments

Overview

Although the data have been uneven, the economy appears to have been expanding at a moderate pace in recent months. Manufacturing production posted a solid gain in May. Consumer spending is on track for another moderate gain in the current quarter, and the housing market remains strong: Home sales have been brisk, and residential construction activity remained at a high level in May. Labor demand continued to expand, albeit erratically, in April and May, and the unemployment rate edged down further. Core CPI inflation slowed in April and May.

Labor Market Developments

Labor demand has increased at a moderate pace, on balance, in recent months. Private nonfarm payrolls rose 73,000 in May following an increase of 261,000 in April; the average monthly gain of 153,000 jobs over the past three months is on par with the average for the six months before that. Among major industries, construction, transportation and utilities, and nonbusiness services have been expanding payrolls in line with their recent trends, while hiring in financial activities and professional and business services has slowed a bit. The manufacturing sector has posted further small job losses.

The average workweek of production or nonsupervisory workers moved up 0.1 hour in April to 33.8 hours and remained at that higher level in May. After having surged 0.6 percent in April, aggregate hours of production or nonsupervisory workers rose just 0.1 percent in May to reach its highest level since March 2001.

The unemployment rate dipped to 5.1 percent in May and now stands $\frac{1}{4}$ percentage point below its average in the fourth quarter of 2004. Meanwhile, the labor force participation rate moved up, to 66.1 percent. The increase in participation between March and May suggests that the labor market has strengthened enough to attract some individuals back into the workforce. Indeed, the percentage of household employment made up of individuals unemployed less than five weeks who are new entrants and reentrants to the labor market has moved up noticeably over the past several months.

Other indicators of labor market activity also imply that slack is diminishing gradually. The share of individuals working part-time for economic reasons has drifted lower since the fourth quarter of 2004. The four-week moving average of new claims for unemployment insurance, at 335,000 in the week ending June 11, remains in the narrow range that has prevailed since the start of the year. The exhaustion rate—the proportion of workers leaving the unemployment insurance rolls after using their entire period of

Changes in Employment

(Thousands of employees; seasonally adjusted)

Measure and sector	2004						
	2004	2004		2005			
		Q3	Q4	Q1	Mar.	Apr.	May
	Average monthly change			Monthly change			
Nonfarm payroll employment (establishment survey)	183	134	190	182	122	274	78
Private	171	98	182	172	124	261	73
Previous	171	98	182	179	147	256	...
Manufacturing	3	3	-6	-6	-6	-9	-7
Construction	23	14	29	24	26	48	20
Wholesale trade	7	6	4	6	14	7	10
Retail trade	13	-8	13	17	3	27	11
Transportation and utilities	9	8	5	18	12	17	9
Information	-2	-8	0	2	7	15	-8
Financial activities	12	11	15	13	2	14	4
Professional and business services	45	33	53	41	21	33	-1
Temporary help services	15	18	14	9	-2	11	-4
Nonbusiness services ¹	59	37	67	51	38	107	33
Total government	12	35	8	10	-2	13	5
Total employment (household survey)	146	123	210	115	357	598	376
Memo:							
Aggregate hours of private production workers (percent change) ²	2.4	2.4	2.4	2.3	.1	.6	.1
Average workweek (hours) ³	33.7	33.7	33.7	33.7	33.7	33.8	33.8
Manufacturing (hours)	40.8	40.8	40.6	40.6	40.4	40.5	40.4

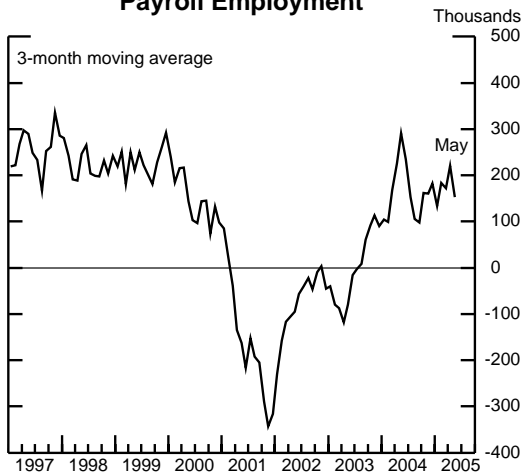
1. Nonbusiness services comprises education and health, leisure and hospitality, and "other."

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.

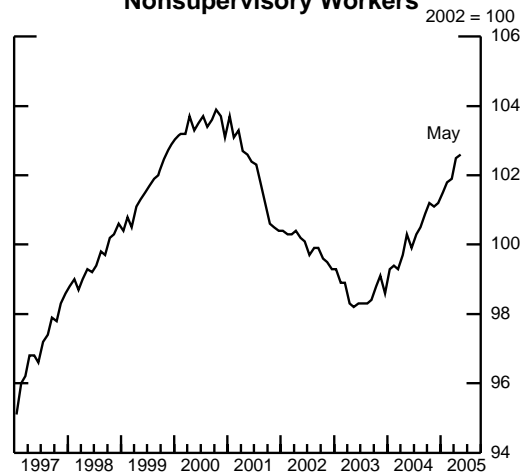
3. Establishment survey.

... Not applicable.

Changes in Private Payroll Employment



Aggregate Hours of Production or Nonsupervisory Workers

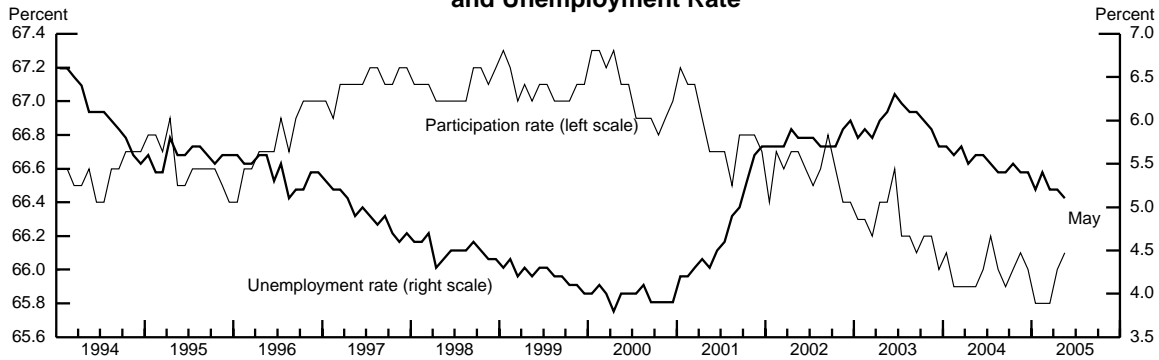


Selected Unemployment and Labor Force Participation Rates

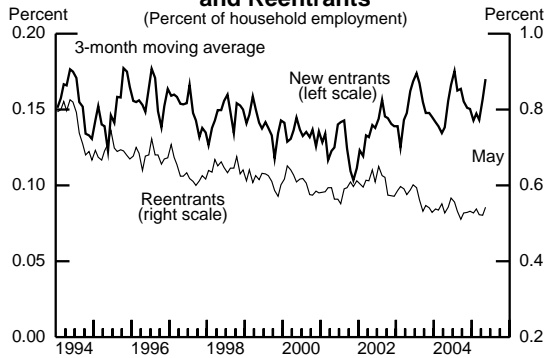
(Percent; seasonally adjusted)

Rate and group	2004	2004		2005			
		Q3	Q4	Q1	Mar.	Apr.	May
<i>Civilian unemployment rate</i>							
Total	5.5	5.5	5.4	5.3	5.2	5.2	5.1
Teenagers	17.0	17.1	17.1	16.9	16.9	17.7	17.9
20-24 years old	9.4	9.3	9.3	9.5	9.0	8.9	8.8
Men, 25 years and older	4.4	4.4	4.3	4.1	4.0	3.8	3.8
Women, 25 years and older	4.4	4.3	4.2	4.1	4.0	4.2	4.1
<i>Labor force participation rate</i>							
Total	66.0	66.0	66.0	65.8	65.8	66.0	66.1
Teenagers	43.8	43.9	44.1	43.5	44.0	43.8	44.0
20-24 years old	75.0	74.9	75.3	74.4	74.2	74.0	74.3
Men, 25 years and older	75.3	75.4	75.3	75.2	75.3	75.5	75.6
Women, 25 years and older	59.3	59.3	59.2	59.1	58.9	59.3	59.3

Labor Force Participation Rate and Unemployment Rate



Unemployed New Entrants and Reentrants

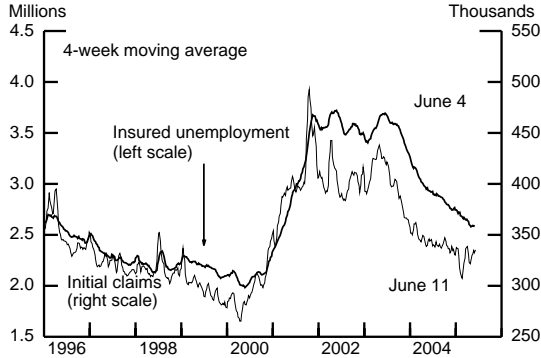


Persons Working Part-Time for Economic Reasons

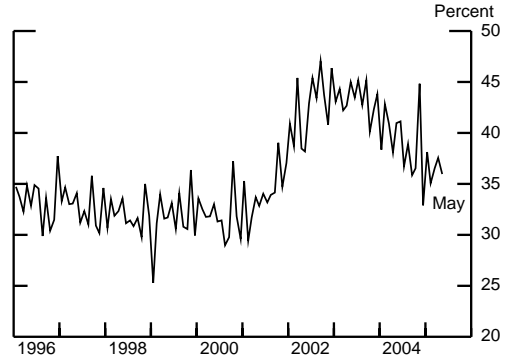


Labor Market Indicators

Unemployment Insurance

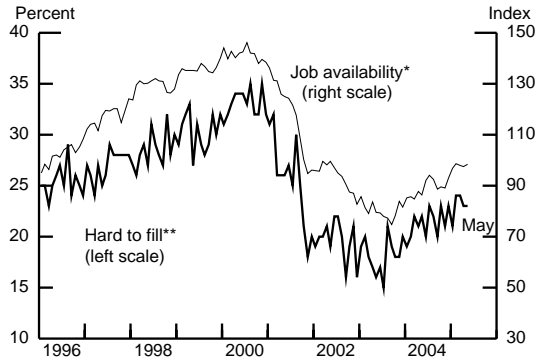


Exhaustion Rate



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

Labor Market Tightness



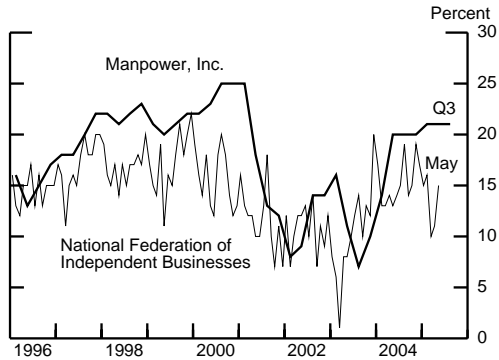
*Proportion of households believing jobs are plentiful, minus the proportion believing jobs are hard to get, plus 100.
 **Percent of small businesses surveyed with at least one "hard to fill" job opening.
 Source. For job availability, Conference Board; for hard to fill, National Federation of Independent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

Job Openings and Help Wanted Index



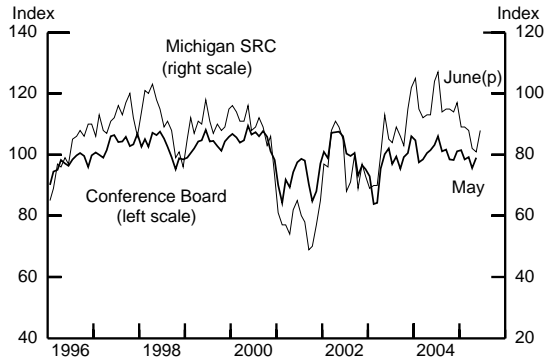
Source. For job openings, Job Openings and Labor Turnover Survey; for help wanted index, Conference Board.

Net Hiring Plans



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

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.

eligibility—edged down in May and has fallen by approximately ½ percentage point over the past year. In May, 23 percent of firms reporting to the National Federation of Independent Businesses said that they had a hard-to-fill position, down 1 percentage point from February and March, but 1 percentage point above the average reading in the second half of last year. Households’ assessments of job availability rose gradually through the first quarter and have remained near their recent high since then. Similarly, job openings as a percent of private employment, as measured by the JOLTS, rose from 2.5 percent last summer to 2.8 percent in February, and the reading has remained steady in recent months. At the same time, the help wanted index is currently above the level posted at the end of last year, although it receded a bit in April and May from February’s recent high.

Looking ahead, hiring plans of small businesses popped up in May from their depressed levels in March and April. Meanwhile, the third-quarter net hiring plans of participants in the Manpower survey are unchanged at the relatively high level that has prevailed during the first half of the year. Coinciding with the relatively positive hiring indicators, households’ views of the future have brightened a touch in recent weeks. Household expectations of the labor market, as measured by the Michigan survey, bounced back to first-quarter levels in June following weak readings in April and May. The Conference Board measure of expected labor market conditions also improved a bit in the most recent reading for May but has moved little on balance in recent months.

Labor Output per Hour

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

Sector	2003	2004	2004		2005	2003:Q1 to 2004:Q1	2004:Q1 to 2005:Q1 ^e
			Q3	Q4	Q1 ^e		
Nonfarm business							
All persons	5.4	2.8	.9	2.3	3.5	5.5	2.7
All employees ¹	6.0	2.7	2.2	1.9	3.9	5.5	2.9
Nonfinancial corporations ²	5.4	4.5	4.9	9.0	3.0	5.1	5.0

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

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

2. 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.

^e Staff estimate.

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

Component	Proportion 2004 (percent)	2004 ¹	2004	2005	2005		
			Q4	Q1	Mar.	Apr.	May
			Annual rate		Monthly rate		
Total	100.0	4.3	4.5	3.5	.2	-.3	.4
Previous	100.0	4.3	4.5	3.6	.1	-.2	...
Manufacturing	81.9	5.1	4.6	3.9	-.2	-.1	.6
Ex. motor veh. and parts	74.7	5.3	3.5	4.0	.1	.1	.6
Ex. high-tech industries	70.2	4.4	2.8	2.4	.1	.0	.5
Mining	8.3	-2.0	-3.6	8.4	-.1	.1	.1
Utilities	9.8	2.7	10.4	-3.2	3.6	-2.4	-.7
<i>Selected industries</i>							
High technology	4.5	18.7	14.5	29.8	.8	1.3	2.3
Computers	1.0	6.9	13.8	14.7	1.0	.9	.9
Communications equipment	1.2	9.6	13.2	23.6	-1.2	.1	3.6
Semiconductors ²	2.3	29.9	15.4	40.0	1.7	2.1	2.3
Motor vehicles and parts	7.2	2.9	16.3	2.7	-3.1	-2.0	.0
<i>Market groups excluding energy and selected industries</i>							
Consumer goods	22.0	3.7	3.4	2.3	.0	-.3	.5
Durables	4.3	1.3	-1.0	.4	-.2	-.9	.6
Nondurables	17.7	4.3	4.5	2.7	.0	-.2	.5
Business equipment	7.7	9.3	1.9	6.6	.7	1.5	.7
Defense and space equipment	1.9	6.1	5.0	9.3	.8	2.1	1.1
Construction supplies	4.3	3.8	.1	4.4	-.1	.4	.2
Business supplies	8.1	3.2	.9	4.7	.3	.2	.5
Materials	25.2	3.9	3.0	.2	.0	-.5	.5
Durables	13.9	4.6	4.2	.1	.2	-.6	.6
Nondurables	11.3	2.9	1.5	.2	-.3	-.3	.4

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

2. Includes related electronic components.

... Not applicable.

Capacity Utilization
(Percent of capacity)

Sector	1972- 2004 average	1982 low	1990- 1991 low	2004		2005		
				Q3	Q4	Q1	Apr.	May
Total industry	81.0	70.8	78.6	78.2	78.8	79.3	79.1	79.4
Manufacturing	79.8	68.5	77.2	77.0	77.6	78.1	77.9	78.2
High-tech industries	78.3	74.1	74.3	69.9	69.8	71.9	72.0	72.9
Excluding high-tech industries	79.9	68.2	77.3	77.8	78.5	79.0	78.7	79.1
Mining	87.1	78.6	83.5	86.3	85.6	87.5	88.3	88.5
Utilities	86.8	77.7	84.2	83.7	85.4	84.4	84.1	83.4

We now estimate that productivity in the nonfarm business sector rose at an annual rate of 3.5 percent in the first quarter, following an increase of 2.3 percent in the fourth quarter. Over the four quarters ending in 2005:Q1, productivity increased 2.7 percent by our estimate—half the blistering pace recorded during the preceding four quarters but close to the average rate of increase since 1995. We also estimate that output per hour in the nonfinancial corporate sector rose 3 percent in the first quarter to a level 5 percent higher than a year earlier—the latter rate is only a shade below the 5.1 percent increase recorded over the four quarters ending in 2004:Q1.¹

Industrial Production

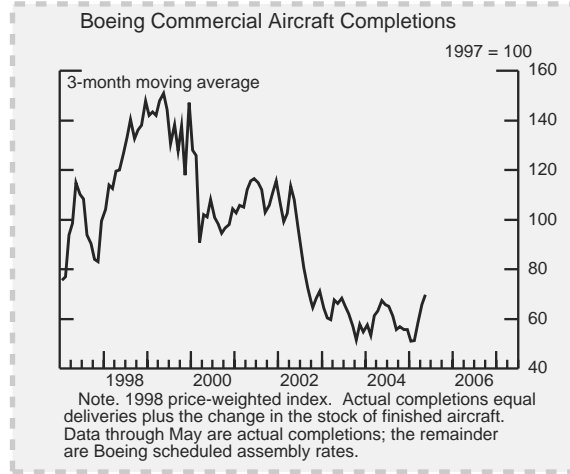
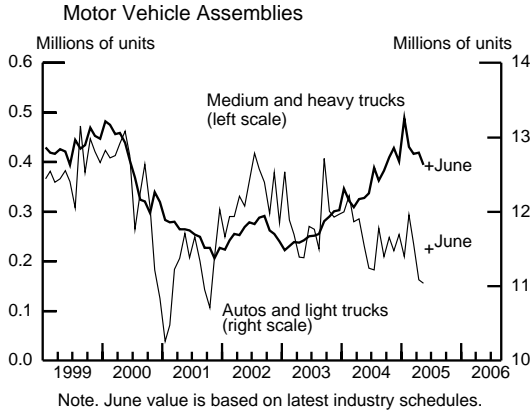
Industrial production increased 0.4 percent in May after having declined 0.3 percent in April. The increase in May was led by a gain of 0.6 percent in manufacturing output. Production in mining edged up 0.1 percent last month, while the output of utilities fell 0.7 percent. Excluding motor vehicles and parts, manufacturing production expanded 0.6 percent in May after having advanced little during the preceding three months.

The production of motor vehicles and parts was unchanged in May after a cumulative decline of 5.1 percent in March and April. Manufacturers continued their efforts to work off inventories of light trucks by holding down light vehicle assemblies in May to an annual rate of 11.0 million units, the slowest pace since October 2001. However, despite the lower assembly rates recently, days' supply edged down to only 71 days in May from an average of 74 days in the first quarter. The pace of assemblies of medium and heavy trucks has also come down in recent months, but this decline is from a level in January that was the highest since February 1980.² For June, total motor vehicle assemblies are set at an 11.9 million unit pace reflecting a sizable step-up in light truck production. Third-quarter schedules currently point to a pace of 11.8 million units.

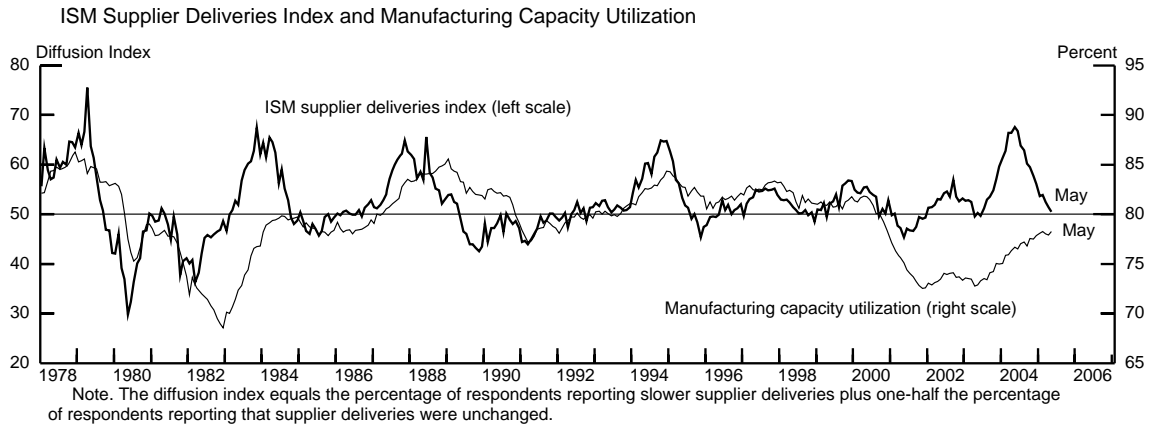
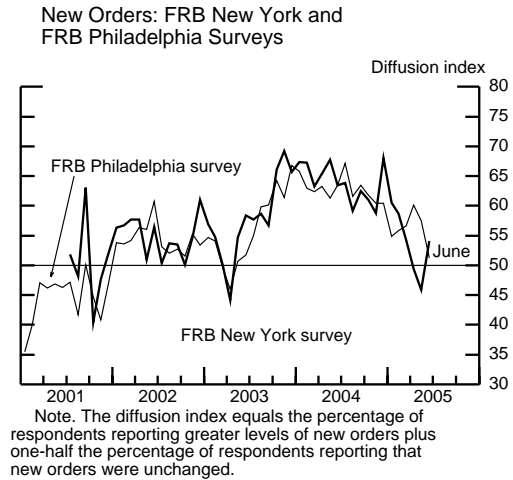
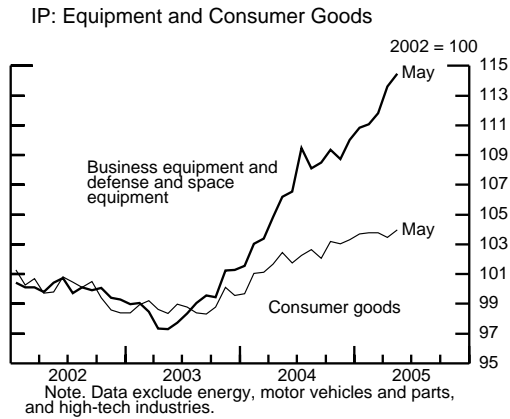
¹ Output for the nonfinancial corporate sector, used in construction of the output per hour measure shown in the table, is measured on the income side of the national accounts, while output in the nonfarm business sector is measured on the product side of the accounts.

² Moreover, at a recent symposium, an industry expert from the Americas Commercial Transportation Research Company suggested that the recent slackening in production reflected, at least in part, delayed delivery of selected parts and that replacement demand for heavy trucks was still strong.

Indicators of Manufacturing Activity



Content partially redacted.



Production of Domestic Light Vehicles

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

Item	2004	2005			2005		
		Q1	Q2 ¹	Q3 ¹	Apr.	May	June ¹
U.S. production	11.7	11.6	11.2	11.4	11.1	11.0	11.5
Autos	4.3	4.4	4.1	4.1	4.1	4.1	4.1
Light trucks	7.4	7.2	7.1	7.3	6.9	6.9	7.3
Days' supply ²	74	74	n.a.	n.a.	70	71	n.a.
Autos	59	57	n.a.	n.a.	51	53	n.a.
Light trucks	83	86	n.a.	n.a.	84	83	n.a.
Inventories ³	3.22	3.15	n.a.	n.a.	3.14	3.05	n.a.
Autos	1.02	.99	n.a.	n.a.	.96	.92	n.a.
Light trucks	2.20	2.15	n.a.	n.a.	2.18	2.12	n.a.
Memo: U.S. production, total motor vehicles ⁴	12.0	12.1	11.6	11.8	11.5	11.4	11.9

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

1. Production rates for June and the second and third quarters reflect the latest schedules from Ward's Communications.

2. Quarterly and semiannual 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.

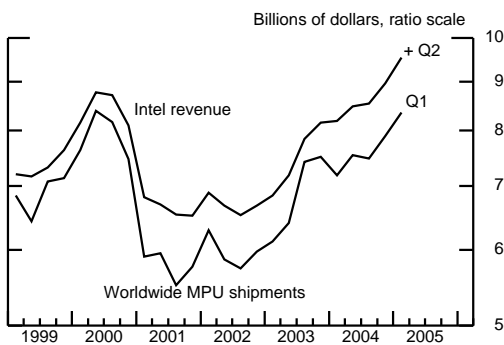
Elsewhere in the transportation sector, production has been buoyant. The IP index for commercial aircraft jumped at an annual rate of 25 percent in the first quarter, and robust output gains in April and May have put the industry on track for another significant increase in the second quarter.

In the high-tech sector, recent news about semiconductor production has been mostly positive. Shipments of semiconductors in the first four months of the year exceeded industry expectations, and the Semiconductor Industry Association (SIA) raised its forecast of worldwide nominal shipments for 2005 from no change to an increase of 6 percent.³ Nonetheless, this forecast, coming on the heels of the solid output gains early in the year, actually implies some decline in the rate of increase in the near-term. Similarly, although Intel upgraded its revenue guidance for the second quarter, that guidance still shows some slowing in the seasonally adjusted rate of increase relative to the first quarter. Orders for semiconductor manufacturing equipment, which are heavily influenced by the introduction of each new generation of semiconductor chips, have been

³ Other outside forecasts of semiconductor shipments have been revised up similarly in recent weeks.

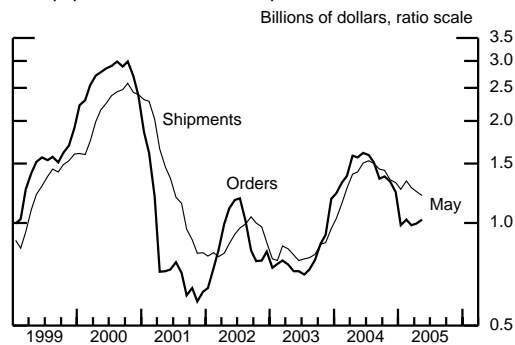
Indicators of High-Tech Manufacturing Activity

Microprocessor Unit (MPU) Shipments and Intel Revenue



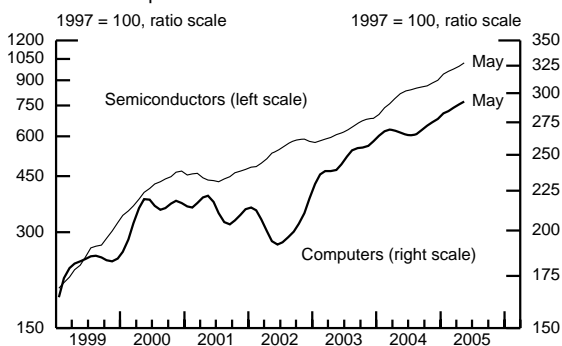
Note. Q2 is the midpoint of Intel's guidance as of June 9, 2005. FRB seasonals.
Source. Intel and Semiconductor Industry Association.

Semiconductor Manufacturing Equipment Orders and Shipments

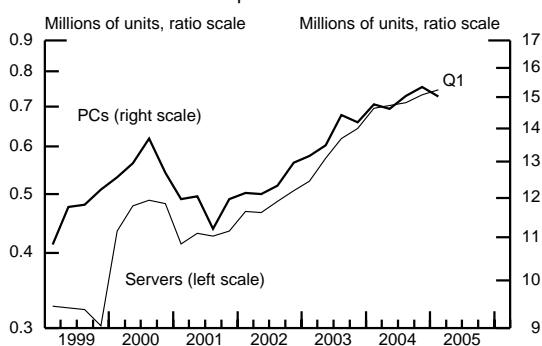


Source. Semiconductor Equipment and Materials International.

IP: Computers and Semiconductors

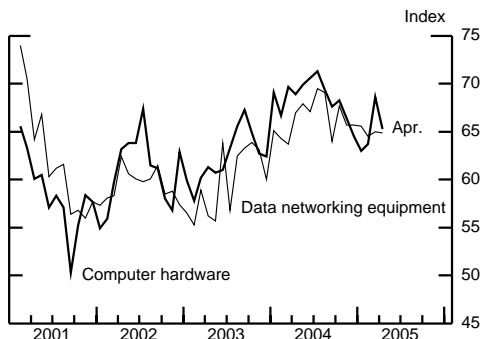


U.S. Personal Computer and Server Sales



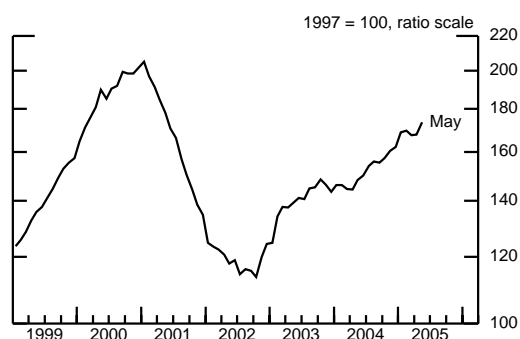
Note. FRB seasonals.
Source. Gartner.

CIO Magazine Future Spending Diffusion Indexes



Note. The diffusion index equals the percentage of respondents planning to increase future spending plus one-half the percentage of respondents planning to leave future spending unchanged.
Source. CIO Magazine.

IP: Communications Equipment



about flat in recent months; moreover, industry observers have suggested that orders will fall a bit further in 2005 and 2006 before picking up again in 2007 and 2008.

Elsewhere in the tech sector, computer production has been increasing roughly 1 percent per month, a pace that is well below the average gain in the latter half of the 1990s. Unit sales of personal computers (PCs) moved down in the first quarter, while the latest outlook from Gartner suggests that unit sales may edge up in the second quarter. Within total PC sales, the increase in desktop sales continues to lag the more rapid sales pace for mobile PCs, of which fewer are domestically produced. Unit sales of computer servers continue to trend up steadily, but some industry reports suggest these gains may start slowing. Indeed, diffusion indexes of future business spending plans for computers and data networking equipment, though volatile, have edged down over the past year. In contrast, the production of communications equipment, which has trended up since its trough in late 2002, may receive some added impetus from the continued rollout of new products designed for telecommunications service providers and other enterprises.⁴

Excluding energy, motor vehicles and parts, and high-tech products, production gains were widespread in May. The output of equipment—both for business and for defense and space—has continued to trend upward, and the production of consumer goods, which had been moving sideways of late, increased ½ percent in May. Among upstream market groups, the combined output of business and construction supplies increased at an annual rate of 4.6 percent in the first quarter and has been rising in the second quarter. In contrast, the output of materials designated for further processing in the industrial sector increased in May but has been little changed, on balance, since October 2004. Within this grouping, the production of iron and steel was curtailed sharply in April, as inventories at steel service centers continued to rise in response to relatively flat shipments.

Overall, the manufacturing utilization rate in May, at 78.2 percent, was 1.6 percentage points below its 1972-2004 average.⁵ Although the factory operating rate changed little

⁴ Examples include equipment that better handles the complex routing requirements of voice traffic over the Internet and products that bundle functions such as data, security, and voice handling into a single piece of equipment.

⁵ Industries whose utilization rates remain below their long-run averages include, among others, textiles and apparel; converted paper product; printing and related support activities; fabricated metal product; furniture and related product; and communications equipment. Industries with above-average rates of utilization include motor vehicles and parts as well as several upstream industries such as

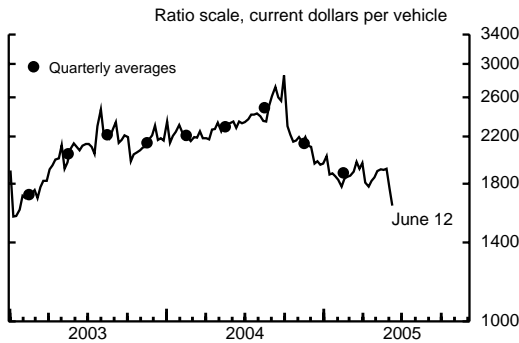
Sales of Light Vehicles
(Millions of units at an annual rate; FRB seasonals)

Category	2004	2004		2005			
		Q3	Q4	Q1	Mar.	Apr.	May
Total	16.9	17.1	17.2	16.4	16.8	17.4	16.6
Autos	7.5	7.3	7.7	7.5	7.7	8.2	7.6
Light trucks	9.4	9.7	9.5	8.9	9.1	9.2	9.1
North American ¹	13.5	13.8	13.6	13.1	13.4	13.8	13.2
Autos	5.4	5.3	5.4	5.4	5.5	5.8	5.3
Light trucks	8.1	8.5	8.2	7.7	7.9	8.0	7.8
Foreign-produced	3.4	3.3	3.6	3.3	3.4	3.6	3.4
Autos	2.1	2.0	2.3	2.1	2.2	2.3	2.2
Light trucks	1.2	1.2	1.3	1.2	1.2	1.3	1.2
Memo: Big Three market share (percent)	58.7	59.9	56.9	57.7	57.8	56.4	57.4

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

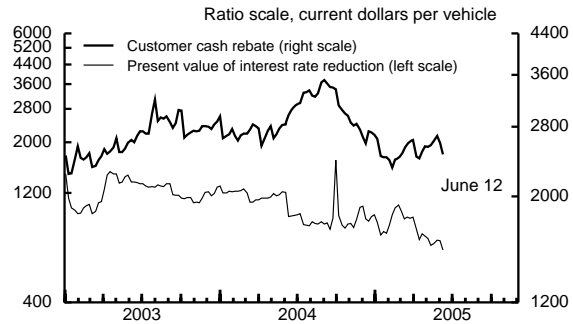
1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

Average Value of Incentives on Light Vehicles



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

Average Value of Cash and Financing Incentives for Vehicles with Incentives



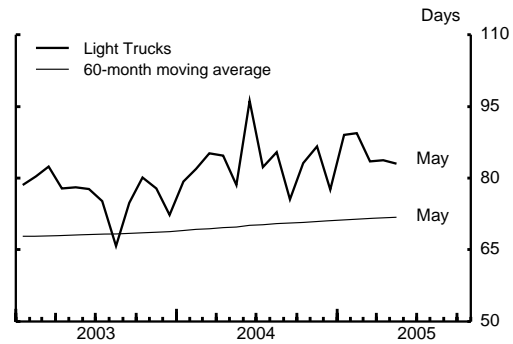
Source. J.D. Power and Associates.

Domestic Market Share

Period	Total	GM	Other ¹
2003	80.6	28.3	52.3
2004	80.7	27.3	53.4
2004: May	80.8	26.8	54.0
2005: Q1	80.6	25.4	55.2
April	80.1	25.0	55.1
May	80.3	25.3	55.0

Note. Percent share of total light vehicle sales.
1. Includes domestic manufacturers except GM.

Days' Supply of Light Trucks



between February and May, it has risen fairly steadily over the past two years. In contrast, the Institute for Supply Management (ISM) supplier deliveries diffusion index has fallen sharply; this index had jumped in 2004 in response to tight conditions in the freight transportation sector. The recent behavior of these two series resembles the experience of the early 1980s.

Recent indicators of industrial activity have been mixed but are generally consistent with modest near-term gains. Thus far in June, the available weekly indicators of production have been positive: The pace of motor vehicle assemblies has picked up; electricity generation has risen because of unseasonably warm weather in June (following a cooler-than-usual May); and other weekly physical product data, with the exception of that for steel, have risen, on balance, relative to May. Looking ahead, indicators of new orders activity have been less upbeat. Although the new orders diffusion index from the New York Fed's Empire State Survey in June partly reversed its recent string of declines, the Philadelphia Fed's Business Outlook Survey posted a sizable drop after having edged down in May; that said, both series were above 50 in June. In addition, the three-month moving average of the staff's series on real adjusted durable goods orders was unchanged in March and April.

Motor Vehicles

Light vehicle sales fell 800,000 units in May to an annual rate of 16.6 million units. Nonetheless, the average pace of sales in April and May still exceeded the first-quarter average, despite the fact that incentives were a little less rich, on average, over the period than they were in the first quarter. Confidential reports from vehicle manufacturers suggest that sales are rebounding in June primarily in response to temporary price cuts by General Motors (GM).

To clear out inventories of its 2005 model-year vehicles, GM made its generous employee discount on new vehicle purchases available to the general public through July 5.⁶ The price cut, which may be combined with other incentives, shaves 17 percent

petroleum and coal products; pulp, paper, and paperboard; and cement and concrete product.

In addition, the publication of industrial production for May included updated estimates of industrial capacity for 2005. The increase in total industrial capacity from the fourth quarter of 2004 to the fourth quarter of 2005 was revised down 0.1 percentage point, to 1.2 percent; manufacturing was revised down similarly, to 1.4 percent.

⁶ The offer applies to all 2005 model-year cars (except the Corvette) and to most light trucks. The price cut is not included in J.D. Power's estimate of incentives, which includes only cash rebates and interest subvention.

Retail and Food Services Sales

(Percent change from preceding period, unless otherwise noted; seasonally adjusted current dollars)

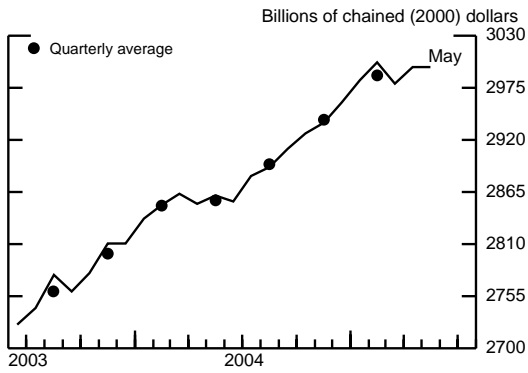
Category	2004		2005			
	Q3	Q4	Q1	Mar.	Apr.	May
	Annual rate		Monthly rate			
Total sales	6.7	10.2	6.0	.3	1.5	-.5
Retail control ¹	6.6	10.6	7.3	.0	1.4	-.3
Previous estimate	6.6	10.6	7.3	.0	1.1	...
Ex. sales at gasoline stations	6.1	8.3	7.0	-.3	1.3	-.1
GAF	4.7	7.2	7.3	-.8	1.3	-.1
Memo: Real PCE goods ex. autos and trucks ²	5.4	6.7	6.5	-.7	.6	.0

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

2. Q1, March, and April are staff estimates. May is a staff forecast.

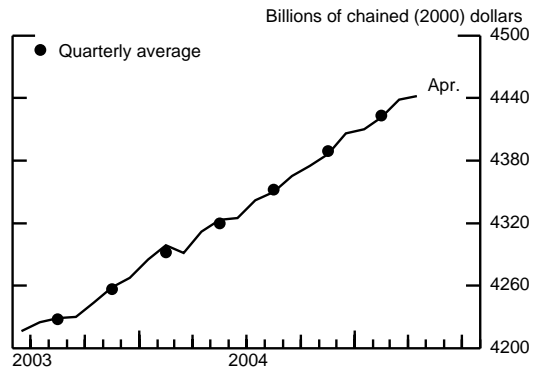
... Not applicable.

Real PCE Goods Excl. Autos and Trucks

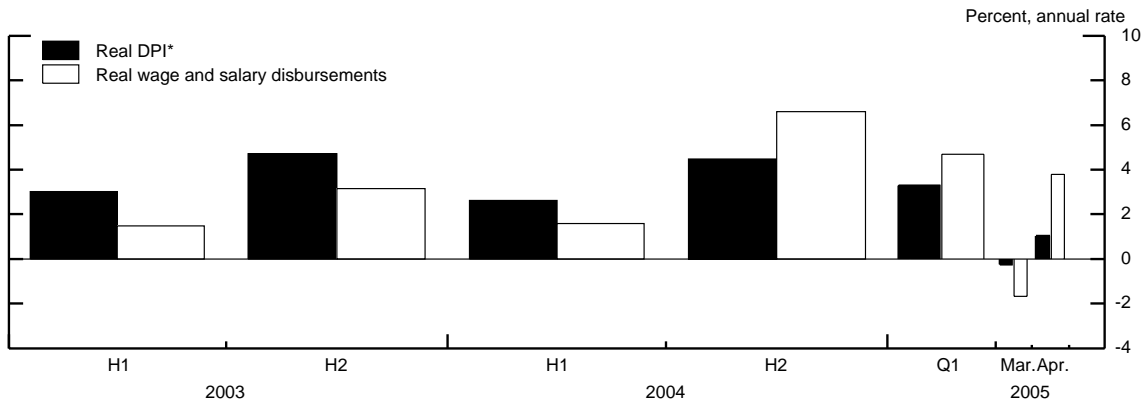


Note. March, April, and 2005:Q1 are staff estimates; May is a staff forecast.

Real PCE Services



Change in Real DPI and Real Wages and Salaries



* 2004:H2 and 2005:Q1 values exclude the effect on income of the one-time Microsoft dividend payment in December.

from GM's suggested retail prices of the targeted vehicles.⁷ Information from J.D. Power and Associates through June 12 suggests that the program appears to have significantly boosted sales of GM's sport utility vehicles and pickups. Perhaps because other manufacturers expect GM's unusually large price cut to be short-lived, they have not yet moved aggressively to compete by enriching their own incentives.

After an abrupt drop in April, the market share of domestically produced vehicles edged up to 80.3 percent in May but remained below its level a year earlier. That modest slippage masks a more serious erosion of market share for the Big Three nameplates, particularly GM, whose market share has tumbled 1.5 percentage points since May 2004.⁸ The winners have been the domestic transplant firms and Chrysler.⁹

Consumer Spending

Real personal consumption expenditures are on track to increase at a moderate pace in the current quarter, albeit at a bit less than the 3½ percent (annual rate) rate posted in the first quarter. Purchases of motor vehicles have more than recovered from their decline in the first quarter. At the same time, however, real outlays for goods excluding cars and trucks seem to have decelerated this quarter against a backdrop of somewhat lackluster fundamentals.

Nominal retail sales at the control group of stores, which excludes automotive dealers and building materials and supply stores, fell last month, as did spending at most categories of retail outlets. However, with prices of non-auto consumer goods having fallen in May, we estimate that real spending on goods excluding cars and trucks was unchanged after a jump of 0.6 percent in the previous month. Real spending on services was flat in April, the most recent month for which data are available. Expenditures on energy services dropped because of cooler-than-normal temperatures; outlays for non-energy services were also tepid.

As a result of rising energy prices and only moderate improvements in the labor market, the rate of increase in real disposable income slowed this spring after strong gains (even abstracting from the extraordinarily large dividend payment by Microsoft) in late 2004

⁷ Because vehicle prices tend to drop over a model-year's selling season, the impact of GM's program on the actual transactions price of GM vehicles is less than the employee discount.

⁸ Domestic market share excludes foreign-produced vehicles (such as Saab, which is sold by GM).

⁹ The manufacturers other than the Big Three with light vehicle production capacity in the U.S. are BMW, Honda, Hyundai, Mazda, Mercedes-Benz, Mitsubishi, Nissan, Subaru, and Toyota.

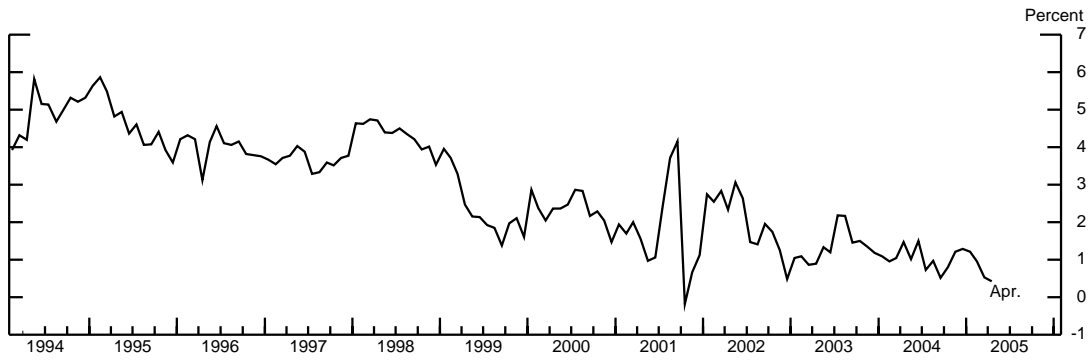
Household Indicators

Household Net Worth and Wilshire 5000



* December 2004 value excludes the effect on income of the one-time Microsoft dividend payment in that month.

Personal Saving Rate



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

Consumer Confidence



* June 2005 value is preliminary.

and early this year. With spending outpacing income thus far this year, the personal saving rate has moved down, to only ½ percent in April (its most recent reading). The stock market has been about flat, on net, since the start of the year, but house prices have continued to appreciate rapidly; we estimate that overall household net worth has increased roughly in line with income over the course of the first two quarters.

The Michigan Survey Research Center (SRC) index of consumer sentiment rebounded in early June after having declined noticeably in April and May. The Conference Board index of consumer confidence moved up in May (the most recent reading). Both indexes appear to have been held down in April by the jump in energy prices but have moved back up recently as gasoline prices fell for a time.

Housing

Activity in the housing sector remains strong. Single-family starts were at an annual rate of 1.70 million units in May, in line with their first-quarter average and about 5 percent above the average pace last year. Permits for single-family homes—after adjusting for activity in areas where permits are not required—were issued at an annual rate of 1.65 million units in May, a little above the first-quarter pace, and the backlog of unused permits edged down. Starts of multifamily dwellings fell to an annual pace of 305,000 units in May, a rate well below the average pace over the past year. Altogether, the permits data suggest that total starts may decline slightly in June but remain at a robust level.

Sales of both new and existing homes climbed to record highs in April. Sales of single-family existing homes were at an annual rate of 6.28 million units in April, while new homes sold at a 1.32 million unit pace. Housing demand is undoubtedly receiving considerable support from favorable financing conditions. The thirty-year fixed mortgage rate has declined in recent weeks, and the mid-June level of 5.6 percent is at the low end of the range observed since the spring of 2004. In addition, the one-year adjustable mortgage rate has risen only about 35 basis points during the past year. The four-week moving average of mortgage applications to purchase homes has been at an elevated level in recent weeks, suggesting that home sales will remain strong in June and July.

Prices of existing homes continue to increase rapidly, while prices of new homes appear to have decelerated. In the market for existing homes, the OFHEO purchase-only repeat-sales index—which measures changes in the sale price of the same house over time and

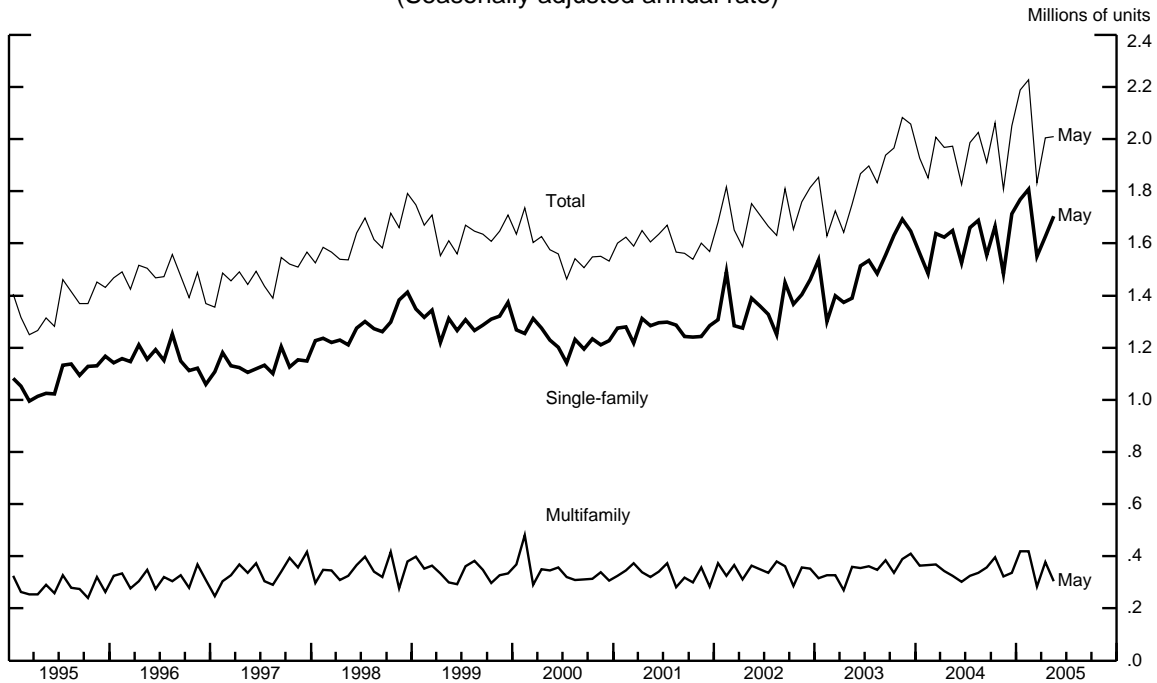
Private Housing Activity

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

Sector	2004	2004	2005			
		Q4	Q1	Mar.	Apr.	May
<i>All units</i>						
Starts	1.96	1.97	2.08	1.83	2.01	2.01
Permits	2.05	2.09	2.08	2.02	2.15	2.05
<i>Single-family units</i>						
Starts	1.61	1.62	1.71	1.55	1.63	1.70
Permits	1.60	1.60	1.60	1.55	1.64	1.62
Adjusted permits ¹	1.64	1.64	1.63	1.58	1.67	1.65
Permit backlog ²	.150	.150	.150	.150	.154	.152
New home sales	1.20	1.24	1.25	1.31	1.32	n.a.
Existing home sales	5.96	6.05	5.98	6.01	6.28	n.a.
<i>Multifamily units</i>						
Starts	.35	.35	.37	.28	.38	.31
Permits	.46	.49	.48	.47	.51	.43
Permit backlog ²	.075	.075	.068	.068	.063	.062
<i>Mobile homes</i>						
Shipments	.131	.138	.138	.124	n.a.	n.a.
<i>Condos and Co-ops</i>						
Existing home sales	.82	.83	.85	.86	.90	n.a.

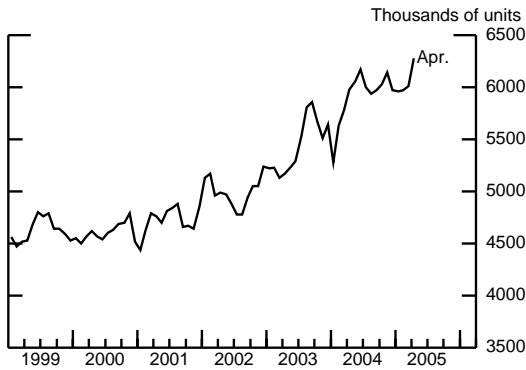
1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
2. Number outstanding at end of period. Seasonally adjusted by Board staff. Excludes permits that have been canceled, abandoned, expired, or revoked. Not at an annual rate.
n.a. Not available.

Private Housing Starts
(Seasonally adjusted annual rate)



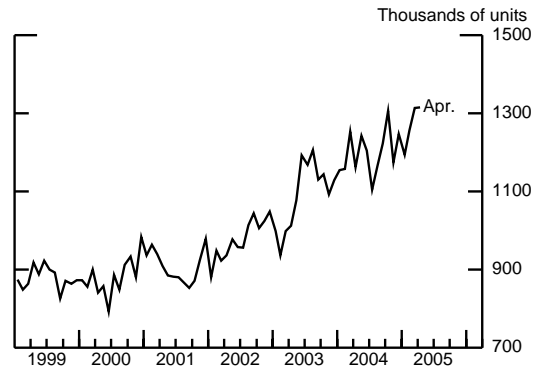
Indicators of Single-Family Housing

Existing Home Sales



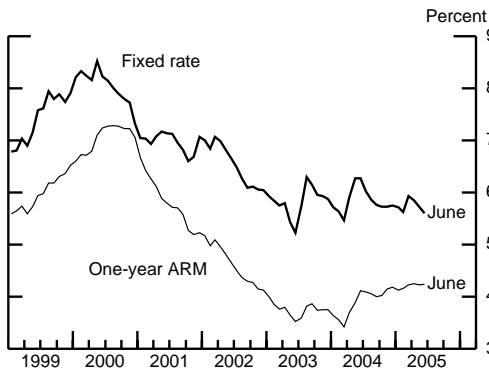
Source. National Association of Realtors.

New Home Sales



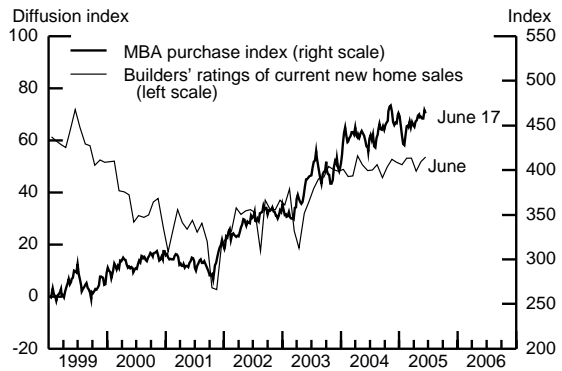
Source. Census Bureau.

Mortgage Rates



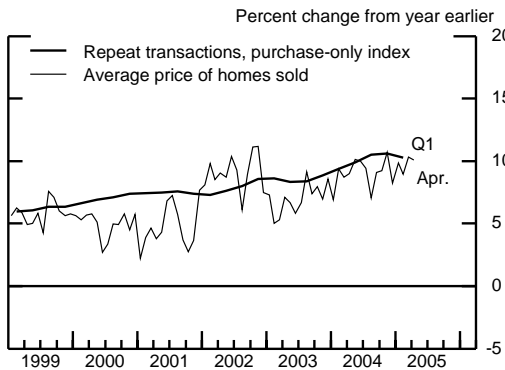
Note. The June readings are based on data through June 15.
Source. Freddie Mac.

Homebuying Indicators



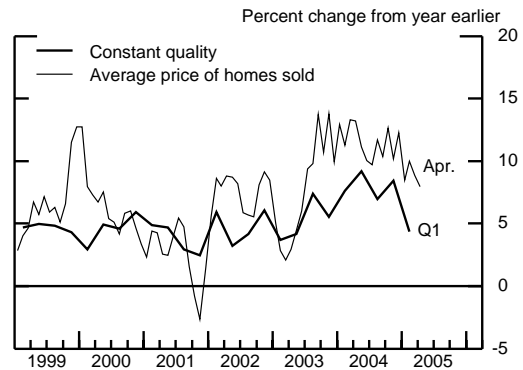
Note. MBA index is a 4-week moving average. Builders' ratings data are seasonally adjusted by Board staff.
Source. Mortgage Bankers Association and National Association of Home Builders.

Prices of Existing Homes



Source. For repeat transactions, OFHEO; for average price, National Association of Realtors.

Prices of New Homes



Note. Average price of homes sold is a 3-month moving average.
Source. Census Bureau.

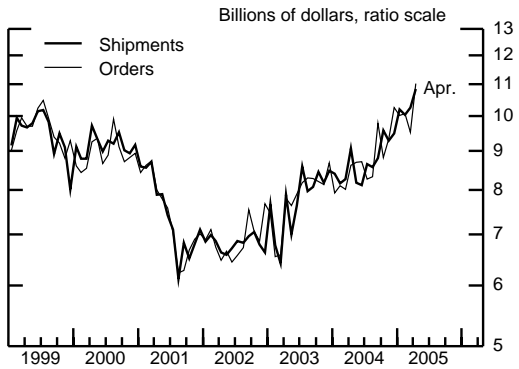
Orders and Shipments of Nondefense Capital Goods

(Percent change; seasonally adjusted current dollars)

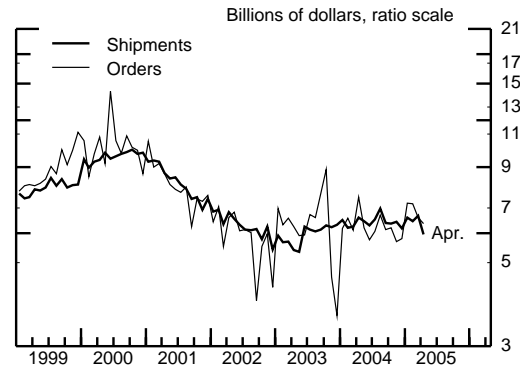
Indicators	2004	2005			
	Q4	Q1	Feb.	Mar.	Apr.
	Annual rate		Monthly rate		
Shipments	9.7	12.8	-2.7	1.1	2.0
Excluding aircraft	9.6	14.0	-2.6	-.1	1.0
Computers and peripherals	40.3	33.9	-1.6	2.3	5.8
Communications equipment	-17.1	16.2	-2.2	3.4	-10.7
All other categories	8.6	10.0	-2.8	-1.0	1.6
Orders	4.7	7.6	-.4	-3.2	4.1
Excluding aircraft	6.3	21.8	-2.1	-1.6	1.7
Computers and peripherals	34.6	18.0	.4	-5.4	15.7
Communications equipment	-23.0	99.3	-.4	-8.2	-3.5
All other categories	5.9	14.9	-2.9	.1	-.3
Memo: Shipments of complete aircraft ¹	27.1	23.9	18.4	27.9	34.7

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

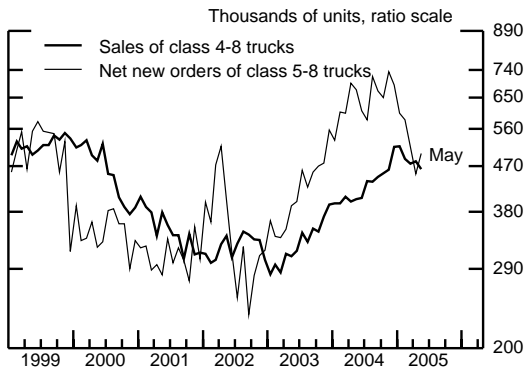
Computers and Peripherals



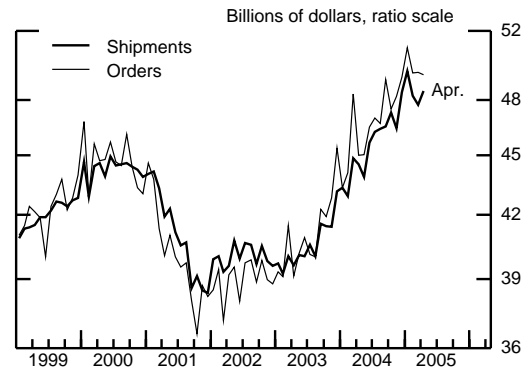
Communications Equipment



Medium and Heavy Trucks



Other Equipment



Note. Annual rate, FRB seasonals.
Source. For class 4-8 trucks, Ward's Communications;
for class 5-8 trucks, ACT Research.

excludes appraisals from refinancings—was 10¼ percent higher in the first quarter than a year earlier, continuing the steep climb that has prevailed since late 2003. The average sales price of existing homes has shown a similar pattern. In contrast, in the market for new homes, the constant-quality price index—which controls for changes in the geographic composition of sales, home size, and a few other readily measurable attributes—was up about 4½ percent in the first quarter from a year earlier, noticeably slower than the gain of more than 7½ percent during the previous four-quarter period. Average sales prices of new homes have also decelerated.

Equipment and Software

After having climbed at a heady annual rate of 18 percent in the second half of last year, real outlays for equipment and software increased at a more-moderate 7 percent pace in the first quarter. Although business purchases of high-tech goods surged last quarter, spending on transportation equipment and other equipment fell back following large gains in 2004. Available data for the current quarter suggest that equipment and software expenditures will likely register another moderate increase. More broadly, the fundamentals remain supportive of business investment: The user cost of capital is low, business output is rising briskly, and corporate balance sheets are healthy. In addition, surveys of business leaders indicate that capital spending sentiment remains relatively favorable.

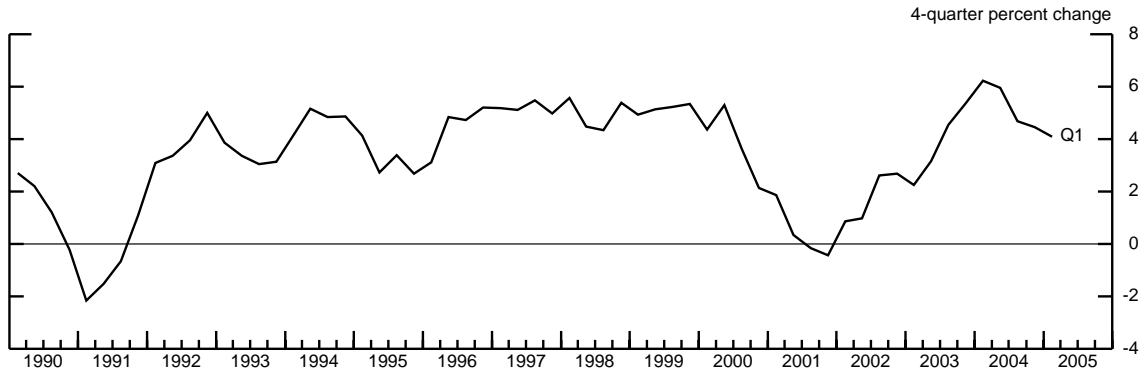
Real business spending on transportation equipment stumbled in the first quarter. Although we expect a rebound in deliveries of aircraft to domestic purchasers in the current quarter, investment in motor vehicles appears set for another quarterly decline. Business purchases of light vehicles are estimated to have edged down in May, and sales of medium and heavy trucks also declined. Net new orders for medium and heavy trucks ticked up in May but have moved lower, on balance, since the turn of the year—signaling that demand may ease a bit further in coming months, albeit from an elevated level. Order backlogs are still at high levels, and industry reports point to rising prices as evidence that overall demand (particularly for class-8 heavy trucks) remains strong.¹⁰

Real outlays for high-tech equipment and software increased at a robust annual rate of 28 percent in the first quarter, but the recent orders and shipments data paint a mixed picture of spending in this category in the current quarter. Nominal shipments of computers rose 6 percent in April, and orders leaped 16 percent. Coupled with ongoing

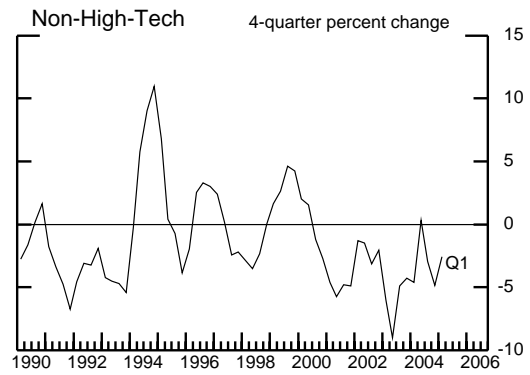
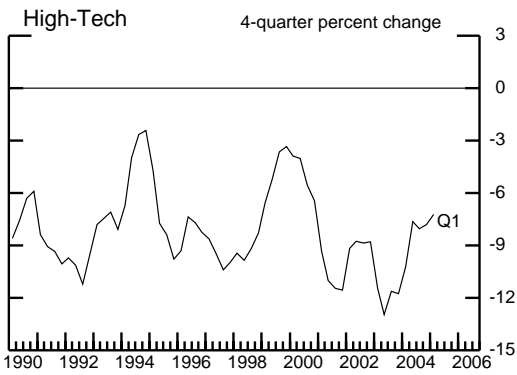
¹⁰ Freightliner has reported that it expects its revenue to increase this year to a record level. Freightliner, a unit of DaimlerChrysler, is the largest heavy-truck maker in North America.

Equipment and Software Investment Fundamentals

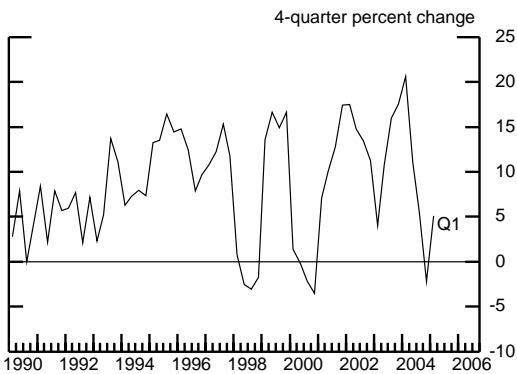
Real Business Output



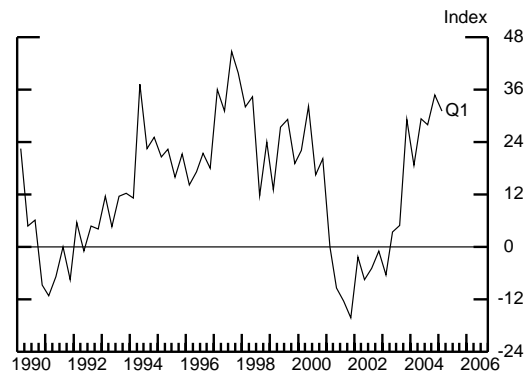
User Cost of Capital



Real Corporate Cash Flow



NABE Capital Spending Diffusion Index



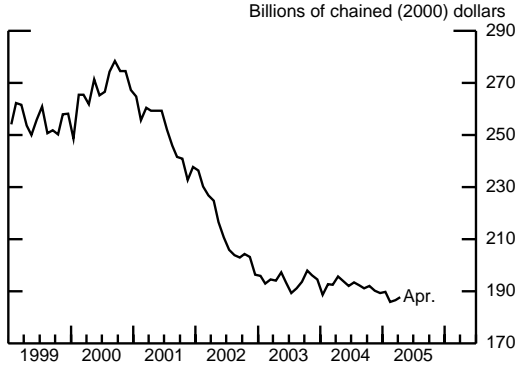
Note. The diffusion index equals the percentage of respondents planning to increase spending minus the percentage of respondents planning to reduce spending.
Source. NABE Industry Survey.

Nonresidential Construction and Indicators

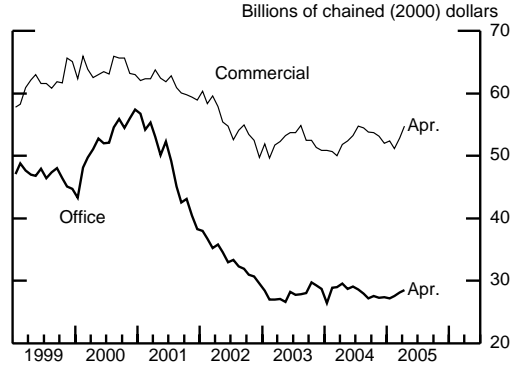
Real Construction

(Seasonally adjusted, annual rate; nominal CIPPI deflated by BEA prices through Q4 and by staff projection thereafter)

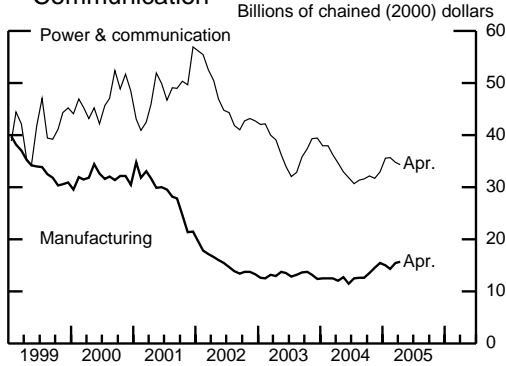
Total Structures



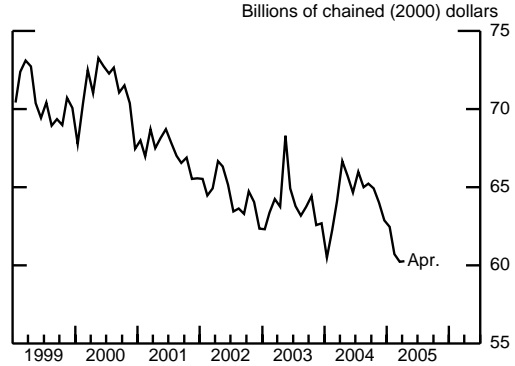
Office and Commercial



Manufacturing and Power & Communication



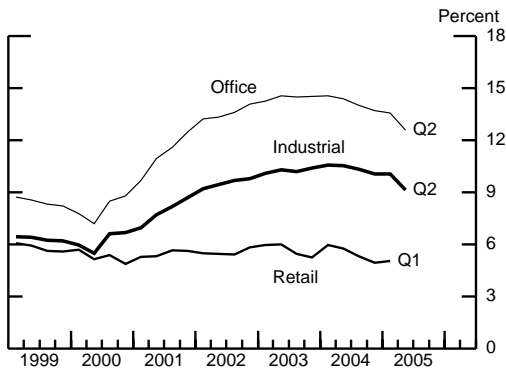
Other



Note. Includes religious, educational, lodging, amusement and recreation, transportation, and health-care facilities.

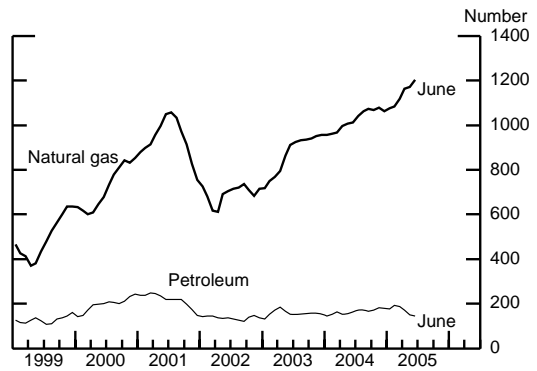
Indicators

Vacancy Rates



Source. Office and industrial, CoStar Property Professional; retail, National Council of Real Estate Investment Fiduciaries.

Drilling Rigs in Operation

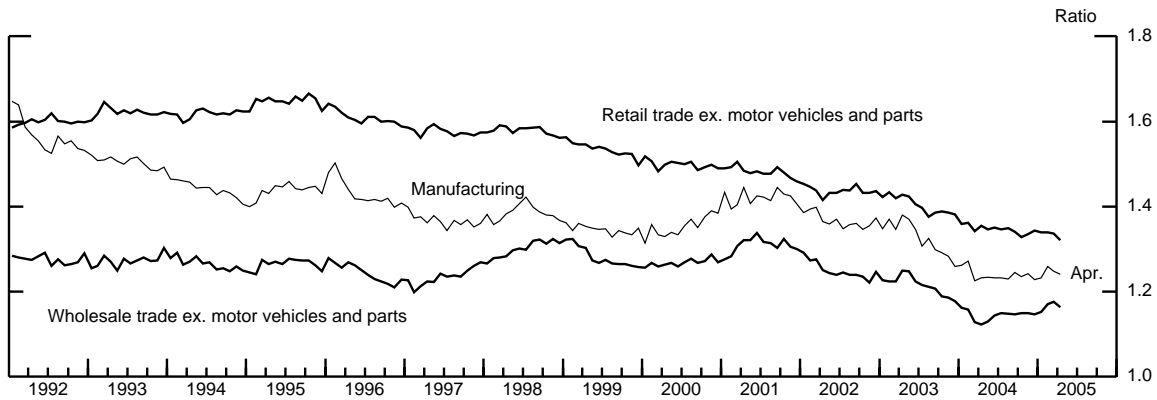


Note. June values are averages through June 17.
Source. DOE/Baker Hughes.

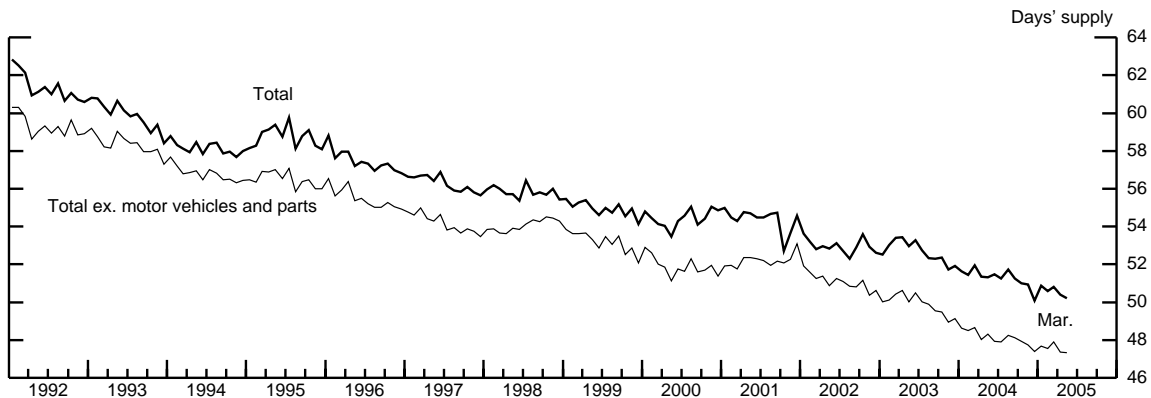
Changes in Manufacturing and Trade Inventories
(Billions of dollars; seasonally adjusted book value; annual rate)

Sector	2004		2005			
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Manufacturing and trade	86.5	84.6	98.8	81.2	75.4	49.4
Ex. wholesale and retail motor vehicles and parts	77.6	101.8	102.2	83.6	80.2	40.8
Manufacturing	32.3	35.9	52.8	35.2	39.2	7.3
Ex. aircraft	33.9	33.2	46.4	26.8	34.7	15.3
Wholesale trade	38.3	36.7	30.5	26.0	23.8	32.2
Motor vehicles and parts	3.8	-2.4	-1.1	-2.8	-8.6	5.7
Ex. motor vehicles and parts	34.5	39.1	31.6	28.8	32.4	26.5
Retail trade	15.8	12.0	15.5	20.0	12.4	9.9
Motor vehicles and parts	5.0	-14.8	-2.3	.4	3.8	2.9
Ex. motor vehicles and parts	10.8	26.8	17.7	19.5	8.6	7.0

Book-Value Inventories Relative to Shipments and Sales



Inventory-Consumption Ratios, Flow-of-Goods System



rapid price declines, real spending for computers is poised to increase appreciably this quarter. In contrast, a plunge of 11 percent in shipments of communications equipment and a drop of 4 percent in orders in April suggest that real outlays in this category are likely to fall in the current quarter. Although most large software vendors have not yet released earnings updates for the second quarter, surveys of CIOs indicate that replacement purchases of software should continue to support strong gains in real spending.

Real outlays for non-high-tech, nontransportation equipment declined at an annual rate of 2 percent in the first quarter. The source of this weakness is unclear. Indeed, some of the softness in the first quarter occurred in subcategories such as construction machinery and mining and oilfield machinery, in which final users clearly face favorable economic conditions. The first-quarter decline may have reflected, in part, the expiration of the partial-expensing allowances at the end of 2004, or it may have represented a pause following a spurt in spending that was unrelated to partial expensing. In either case, the downturn appears to have been short lived: Shipments of non-high-tech, nontransportation equipment rose 1.6 percent in April, and the level of new orders remained well above the level of shipments.

Nonresidential Construction

Real outlays for construction of nonresidential structures have remained at a low level so far this year. Although spending on commercial structures has moved up in recent months, outlays for office buildings have remained at a depressed level despite a small decline in the elevated vacancy rate for that sector. In addition, spending for manufacturing structures still is less than half the level seen in 1999 despite some uptrend over the past year, and other construction has continued to fall. The number of rigs drilling for natural gas still is moving up, but drilling for petroleum has remained weak.

Business Inventories

The book value of manufacturing and trade inventories excluding motor vehicles increased at an annual rate of \$100 billion in the first quarter. However, the pace of stockbuilding cooled off some in April—firms added about \$41 billion in book value to their inventories in that month. The large buildup of inventories in the first quarter raised inventory-sales ratios a little from their very low levels of last year. In the manufacturing sector, respondents to the ISM survey report that they now view their customers' inventory positions as roughly appropriate after having seen them as too lean last year. Data from the staff's flow-of-goods inventory system indicate that inventories declined

Federal Government Outlays and Receipts

(Unified basis; billions of dollars except as noted)

Function or source	April-May			12 months ending in May		
	2004	2005	Percent change	2004	2005	Percent change
Outlays	380.4	407.9	7.2	2240.9	2402.0	7.2
Financial transactions ¹	-.7	-.8	...	-2.2	-.8	...
Payment timing ²	.0	.0	...	-11.9	-.1	...
Adjusted outlays	381.1	408.8	7.3	2255.0	2402.9	6.6
Receipts	335.5	430.3	28.3	1808.4	2063.2	14.1
Payment timing	.0	.0	...	.0	.0	...
Adjusted receipts	335.5	430.3	28.3	1808.4	2063.2	14.1
Surplus or deficit (-)	-44.9	22.4	...	-432.5	-338.8	...
<i>Selected components of adjusted outlays and receipts</i>						
Adjusted outlays	381.1	408.8	7.3	2255.0	2402.9	6.6
Net interest	31.4	36.5	16.4	153.2	172.9	12.8
Non-interest	349.8	372.3	6.4	2101.7	2230.1	6.1
National defense	75.1	79.4	5.7	441.2	476.0	7.9
Social Security	83.9	87.7	4.6	489.3	512.6	4.8
Medicare	44.5	48.9	9.8	259.0	286.0	10.5
Medicaid	29.6	30.4	2.6	172.9	180.3	4.3
Income security	54.3	57.5	5.8	339.0	342.4	1.0
Agriculture	-1.4	1.4	...	19.0	26.2	38.0
Other	63.8	67.0	5.1	381.4	406.5	6.6
Adjusted receipts	335.5	430.3	28.3	1808.4	2063.2	14.1
Individual income and payroll taxes	262.7	340.2	29.5	1455.8	1627.1	11.8
Withheld + FICA	220.6	237.9	7.8	1373.8	1460.0	6.3
Nonwithheld + SECA	119.4	172.1	44.2	284.0	345.4	21.6
Less: Refunds	77.3	69.8	-9.7	202.0	180.5	-10.7
Corporate	28.7	41.6	44.7	162.3	234.7	44.6
Gross	35.4	45.3	28.1	208.0	265.4	27.6
Less: Refunds	6.7	3.8	-43.3	45.7	30.7	-32.7
Other	44.1	48.6	10.1	190.3	201.5	5.9
Adjusted surplus or deficit (-)	-45.6	21.6	...	-446.6	-339.7	...

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

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

2. A shift in payment timing occurs when the first of the month falls on a weekend or holiday, or when the first three days of a month are nonworking days. Outlays for defense, Social Security, Medicare, income security, and "other" have been adjusted to account for these shifts.

... Not applicable.

for a second month in April and that days' supply edged down. Apart from the high levels of stocks at motor vehicle dealers and steel service centers noted earlier, inventories appear elevated relative to consumption only for paper and, to a lesser degree, for food and chemicals (excluding pharmaceuticals).

Federal Government Sector

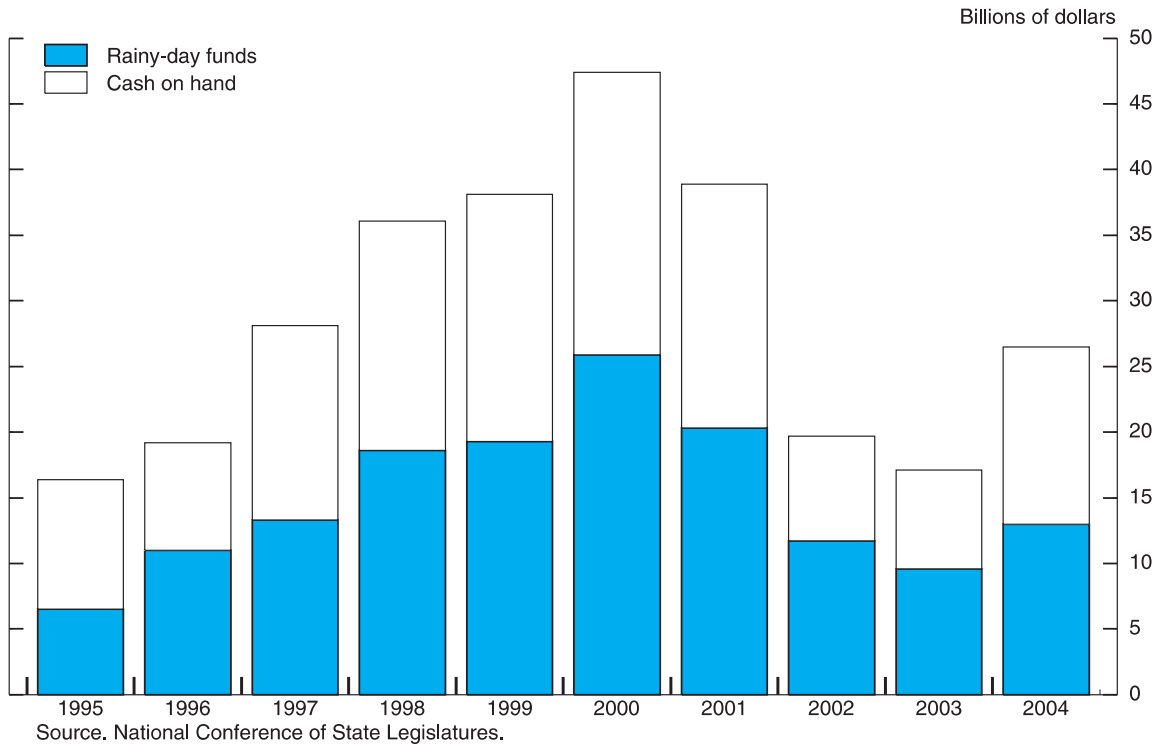
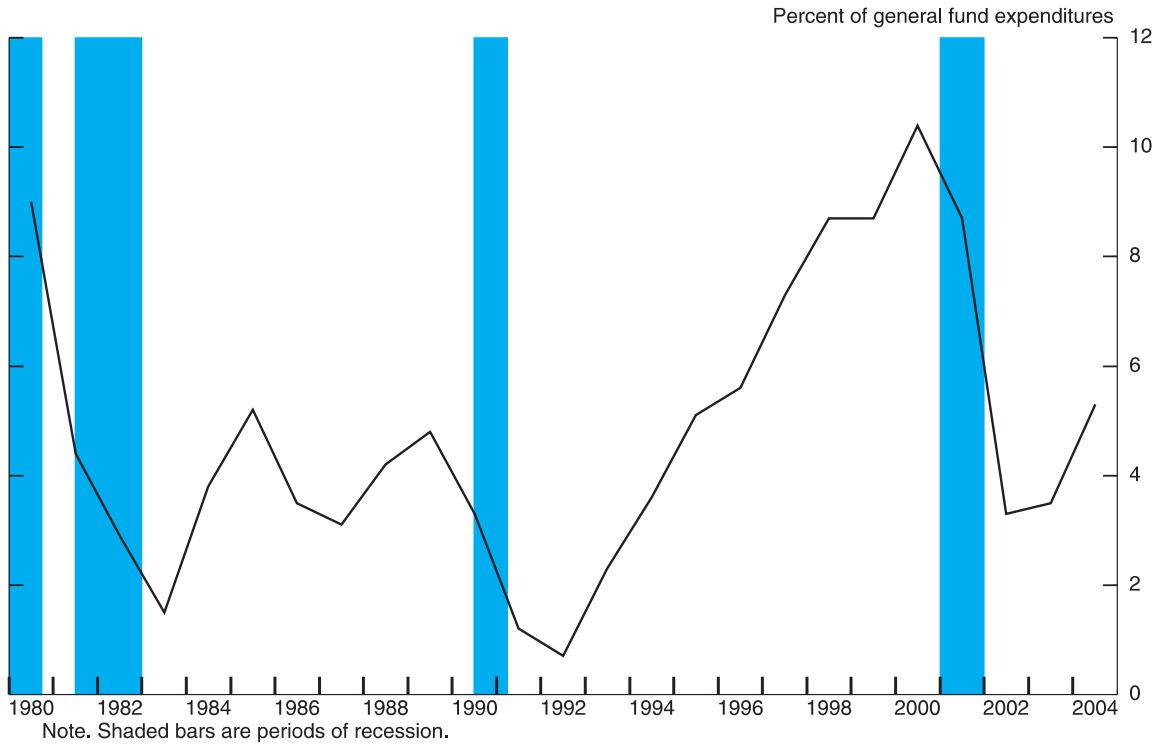
According to recent monthly Treasury statements, individual and corporate income tax receipts have surged over the past few months. In response, the Congressional Budget Office reduced its projection for the baseline unified deficit (adjusted for spending on Iraq) in the current fiscal year from around \$400 billion as of the beginning of the year to roughly \$350 billion currently.

Receipts during the April-May tax season, which were nearly 30 percent higher than year-earlier levels, were boosted by a jump in individual nonwithheld income taxes that mostly reflected final payments on 2004 income tax liability. Roughly one-third to one-half of the surge in individual nonwithheld taxes (net of refunds) reflected a recovery from the temporarily depressed level last year associated with the effects of the 2003 tax bill.¹¹ In addition, individual withheld and FICA taxes increased at a robust pace during the first five months of this year. On the corporate side, income taxes were up markedly during the April-May period relative to year-earlier levels because of the strength in corporate income and, likely to a lesser extent, the expiration of the partial-expensing provision at the end of last year. Further, daily data for June indicate a substantial increase in corporate declarations relative to last year's level.

Outlays, after adjusting for financial transactions and payment timing shifts, have picked up a bit of late, outpacing their increase of about 6½ percent in the year ending this May. Net interest and Medicare continued to post sizable gains. In contrast, the pace of defense spending has cooled off a bit recently.

¹¹ The 2003 tax act was passed in midyear but was made retroactive to the beginning of 2003. However, because tax withholding rates were lowered to their new permanent levels in July of that year, the reduction in liability exceeded the reduction in withheld taxes in 2003. Thus, some of the reduction in 2003 liability showed up as lower final payments and higher refunds during the tax season in 2004. In addition to the effects of the 2003 tax act, this year's surge in net final payments likely reflects a host of other factors that could include faster gains in labor and capital income, higher capital gains realizations, and a shift in the distribution of taxable income toward the higher end. Given the available data, their relative contributions are difficult to quantify.

State General Funds Ending Balances (Fiscal years)



State and Local Governments

Recent indicators suggest that the fiscal situation of state and local governments continues to improve and that real spending is back on a gradual uptrend. Although nominal construction spending has continued to trend up recently, rapid increases in the costs of construction have held down real outlays in recent quarters. In April, nominal construction spending rose 0.2 percent (monthly rate) to a level 1.1 percent above its first-quarter average, a performance consistent with a modest real gain this quarter. Much of the April increase was in outlays for public safety and sewer facilities, while outlays for highways have fallen back from highs reported during the first quarter. Hiring by state and local governments has been on an upward path for almost a year; however, the April-May average rise of 12,000 was toward the low end of the range seen since last summer.

Meanwhile, recent reports corroborate earlier signs of strengthening state government finances. Tax collections have been quite strong this spring, and personal income tax collections in April and May appear to have been coming in above expectations in many states. In addition, most states seem likely to finish the current fiscal year, which ends June 30 in all but four states, with solid surpluses in their general fund accounts.¹² This would follow a year of rising balances: The National Conference of State Legislatures recently reported that aggregate general fund year-end balances—which include both cash on hand and rainy-day funds—rose in fiscal 2004 for the first time since 2000. However, even with relatively strong collections in hand, some states still have concerns about Medicaid and about the need to restore funding to programs that were pared back earlier in the decade.

Prices

As energy prices reversed part of their earlier run-up, consumer prices were about unchanged in May after having posting large increases in the previous few months. Excluding food and energy, the rise in inflation in the first part of the year—noted in the April Greenbook—appears to have moderated a touch in April and May. Despite the moderation, core PCE prices are still estimated to have increased at an annual rate of 2.5 percent in the three months ending in May; they are up 1.8 percent since May of last year, a little above the rise of 1.5 percent in the comparable period one year earlier.¹³

¹² Fiscal 2005 ended March 31 in New York, and it will end August 31 in Texas and September 30 in Alabama and Michigan.

¹³ This Greenbook was published before the BEA released its initial estimate of PCE prices for May. As a result, all references in this section to PCE prices including that month represent staff estimates.

Measures of Inflation
(Percent)

Measures	12-month change		3-month change		1-month change	
	May 2004	May 2005	Annual rate		Monthly rate	
			Feb. 2005	May 2005	Apr. 2005	May 2005
<i>CPI</i>						
Total	3.1	2.8	1.7	4.4	.5	-.1
Food	4.1	2.4	.6	3.9	.7	.1
Energy	15.0	9.9	-2.0	28.7	4.5	-2.0
Ex. food and energy	1.7	2.2	2.4	2.2	.0	.1
Core goods	-1.1	.6	1.1	.6	-.1	.2
Core services	2.9	2.7	2.8	2.9	.2	.1
Chained CPI (n.s.a.) ¹	2.6	2.5	...	...	...	...
Ex. food and energy ¹	1.6	1.8	...	...	...	...
<i>PCE prices</i> ²						
Total	2.4	2.4	1.5	4.0	.4	.1
Food	3.5	2.2	.5	3.8	.7	.0
Energy	15.4	11.8	-2.3	29.2	4.5	-2.2
Ex. food and energy	1.5	1.8	1.9	2.5	.1	.3
Core goods	-.7	.1	.8	.8	-.1	.2
Core services	2.4	2.5	2.4	3.2	.2	.3
Core market-based	1.4	1.8	1.9	2.2	.1	.3
Core non-market-based	1.6	n.a.	1.9	n.a.	.3	n.a.
<i>PPI</i>						
Total finished goods	4.9	3.5	1.1	2.6	.6	-.6
Food	7.5	.8	2.1	.5	.1	-.3
Energy	14.9	10.2	-7.9	7.2	2.1	-3.5
Ex. food and energy	1.5	2.6	4.0	1.6	.3	.1
Core consumer goods	1.6	2.6	4.5	1.7	.2	.1
Capital equipment	1.3	2.6	2.8	2.2	.2	.1
Intermediate materials	7.2	6.3	3.8	4.4	.8	-.7
Ex. food and energy	5.2	5.4	6.8	.8	.2	-.3
Crude materials	23.6	6.1	-22.5	21.5	2.7	-2.0
Ex. food and energy	21.4	9.4	-25.4	-7.5	.8	-3.6

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

2. PCE prices in May are staff estimates.

... Not applicable.

n.a. Not available.

The CPI for energy fell 2 percent in May, as a dip in crude oil prices showed through to the retail level. However, with crude oil prices having rebounded since the end of May, survey data suggest that retail gasoline prices have risen—even though margins appear to have fallen back. The high price of crude oil has induced some substitution toward natural gas by industrial users, which has pushed up the consumer price of natural gas as well. All told, consumer energy prices rose 10 percent during the twelve months through May.

Food prices in the CPI edged up 0.1 percent in May after an increase of 0.7 percent in April that included a pop in the index for fruits and vegetables. Following the drought in 2002 and a supply-restricting rebuilding of beef and dairy herds, food prices have been increasing faster than core prices. Still, food prices have decelerated over the past year, rising 2½ percent in the twelve months ending in May compared with a rise of 4 percent in the previous year.

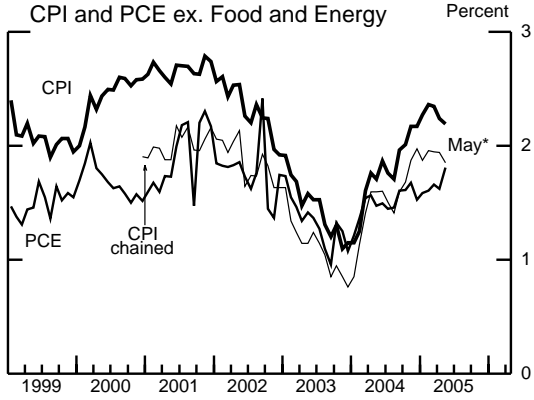
The CPI excluding food and energy was unchanged in April and increased 0.1 percent in May after having risen 0.4 percent in March. The recent volatility has resulted mainly from significant swings in the prices of lodging away from home and apparel—two regular contributors of month-to-month variability. Over the three-month period, the core CPI increased at an annual rate of 2.2 percent.

We estimate that core PCE prices rose 0.3 percent in May following an increase of 0.1 percent in April.¹⁴ Price inflation for core goods has been steady at a moderate annual rate of about ¾ percent in the past few months. This leveling-off follows a noticeable acceleration in core goods prices in 2004 that likely reflected the rise in import, energy, and core intermediate materials prices. At the same time, PCE prices for core consumer services have accelerated a bit in the past few months, but the year-over-year increase in May was about the same in the preceding year.

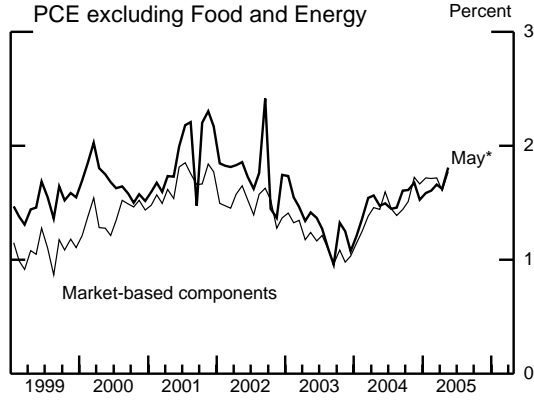
Inflation expectations appear to have drifted down in the past two months. The Michigan SRC's preliminary report for June showed that median year-ahead inflation expectations fell from 3.3 percent in April to 3.1 percent in early June, a decline that is generally

¹⁴ Our expectation for core PCE price inflation in May (0.3 percent) is above the published increase in the core CPI (0.1 percent). Rounding accounts for nearly half of the difference and weighting accounts for the remainder—in particular, the PCE index has a lower weight for lodging away from home, which fell sharply in May, and a higher weight for medical care services, which posted a relatively large increase in May.

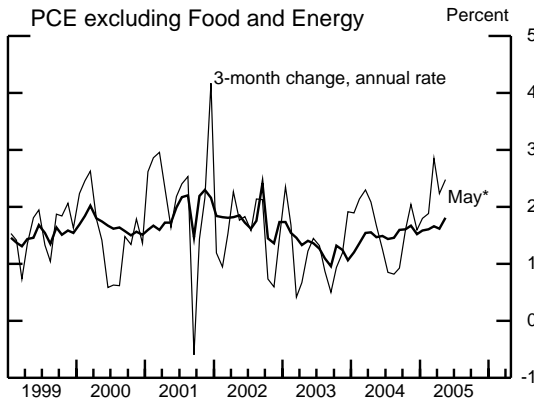
Consumer Price Inflation (12-month change except as noted)



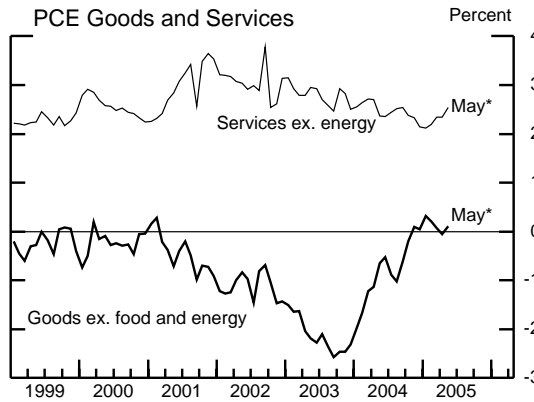
* PCE for May is a staff estimate.



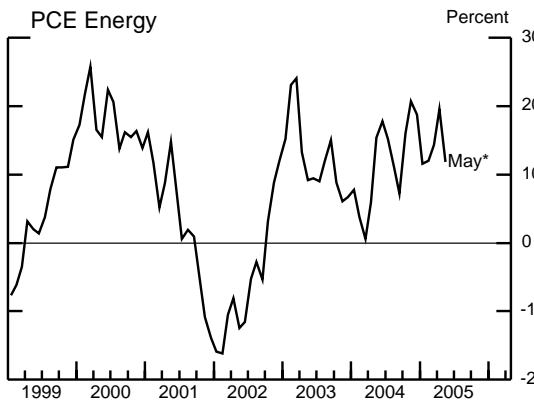
* Staff estimate.



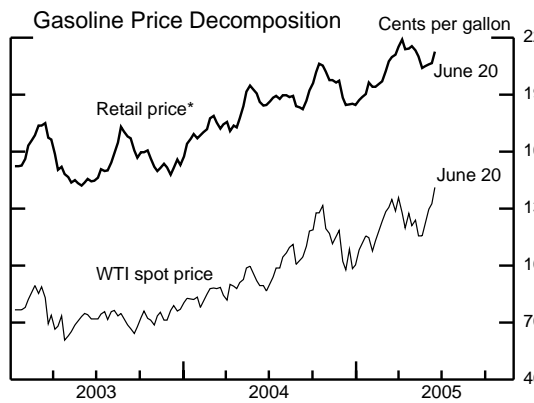
* Staff estimate.



* Staff estimate.



* Staff estimate.



* Average of all grades reported by the Department of Energy, seasonally adjusted by FRB staff.

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

Measure	2002	2003	2004	2005
<i>Product prices</i>				
GDP price index	1.9	2.0	1.7	2.5
Less food and energy	2.2	1.9	1.4	2.4
Nonfarm business chain price index	1.2	1.5	.8	2.5
<i>Expenditure prices</i>				
Gross domestic purchases price index	1.3	2.5	1.7	2.8
Less food and energy	1.9	1.8	1.5	2.3
PCE price index	1.1	2.4	1.7	2.3
Less food and energy	1.8	1.6	1.4	1.6
PCE price index, market-based components	.8	2.3	1.7	2.5
Less food and energy	1.5	1.4	1.3	1.7
CPI	1.2	2.9	1.8	3.0
Less food and energy	2.5	1.8	1.3	2.3
Chained CPI	.9	2.5	1.6	2.6
Less food and energy	2.0	1.4	1.1	1.9
Median CPI	3.8	2.7	1.9	2.5
Trimmed mean CPI	2.3	2.1	1.7	2.3

Surveys of Inflation Expectations
(Percent)

Period	Actual CPI inflation ¹	University of Michigan				Professional forecasters (10-year) ⁴
		1 year ²		5 to 10 years ³		
		Mean	Median	Mean	Median	
2003:Q3	2.2	2.8	2.3	3.1	2.7	2.5
Q4	1.9	3.0	2.6	3.1	2.8	2.5
2004:Q1	1.8	3.1	2.7	3.4	2.9	2.5
Q2	2.9	4.0	3.3	3.3	2.8	2.5
Q3	2.7	3.3	2.9	3.1	2.8	2.5
Q4	3.3	3.4	3.0	3.1	2.8	2.5
2005:Q1	3.0	3.6	3.0	3.2	2.8	2.5
Q2	n.a.	3.9	3.2	3.3	2.9	2.5
2005:Jan.	3.0	3.5	2.9	3.2	2.7	...
Feb.	3.0	3.3	2.9	3.1	2.8	...
Mar.	3.1	4.0	3.2	3.3	2.9	2.5
Apr.	3.5	4.0	3.3	3.4	3.0	...
May	2.8	3.8	3.2	3.5	2.9	...
June	n.a.	3.9	3.1	2.9	2.7	2.5

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?

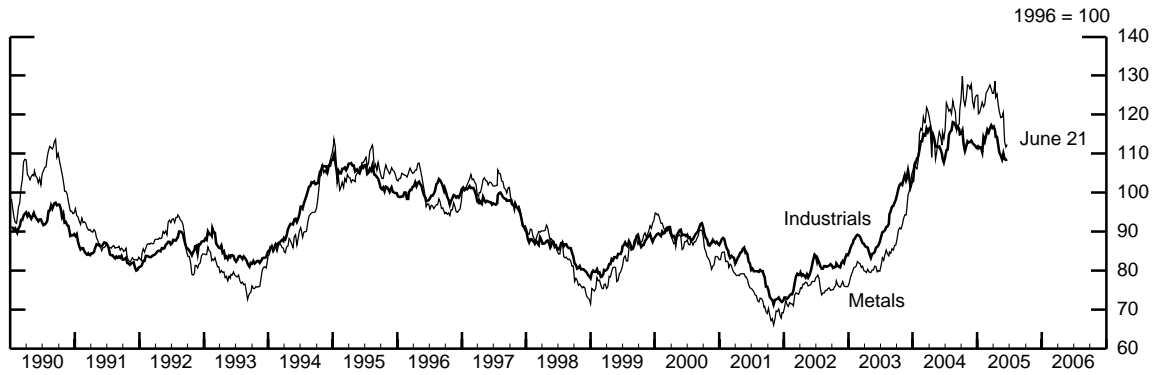
4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.

... Not applicable.

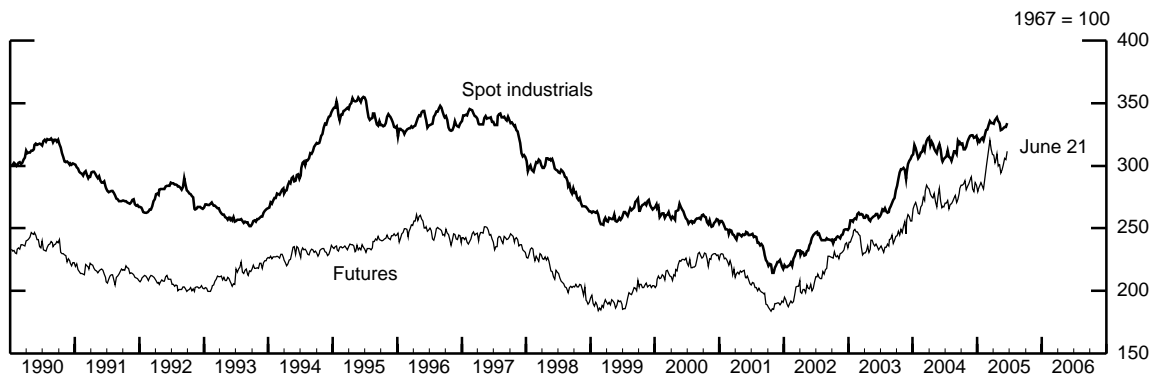
n.a. Not available.

Commodity Price Indexes

Journal of Commerce



Commodity Research Bureau



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

Selected Commodity Price Indexes (Percent change)

Index	2004 ¹	12/28/04 to 4/26/05 ²	4/26/05 ² to 6/21/05	52-week change to 6/21/05
JOC industrials	8.7	2.5	-5.0	-.1
JOC metals	19.4	.2	-10.4	-2.7
CRB spot industrials	5.0	4.6	-1.4	10.1
CRB spot foodstuffs	2.7	-.3	1.9	-6.8
CRB futures	11.1	9.0	.6	16.5

1. From the last week of the preceding year to the last week of the year indicated.
2. April 26, 2005, is the Tuesday preceding publication of the April Greenbook.

consistent with the energy-induced movements in headline consumer price inflation. In the June preliminary release, five-to-ten year median inflation expectations moved down to 2.7 percent, a reading in the lower part of the narrow range observed in the past few years.

Broader measures of inflation have picked up over the past year. In the four quarters through the first quarter of 2005, GDP prices increased 2½ percent, ¾ percentage point more than in the year-earlier period. Excluding food and energy, GDP prices also increased 2½ percent over the past year, 1 percentage point more than in the previous year. In broad terms, the cost pressures from higher energy and materials prices, along with rising demand, have shown through to a pickup in prices of capital goods and structures as well as in core PCE.

The PPI for capital equipment rose 0.1 percent in May after an advance of 0.2 percent in April. The increase in these prices over the twelve months ending in May, at 2½ percent, was noticeably faster than the 1¼ percent rate of the preceding twelve months. Turning to earlier stages of processing, the PPI for core intermediate materials continues to decelerate after having posted outsized increases in 2004. The three-month moving average has tumbled to a ¾ percent rate, well below the 6¾ percent rate over the three months ending in February. Commodities prices have receded slightly since the April Greenbook—the CRB spot industrials index is down 1½ percent, and the JOC industrials index is down 5 percent. However, on balance, commodity prices have remained at an elevated level since the beginning of 2004.

Labor Costs

We estimate that compensation per hour in the nonfarm business sector increased at an annual rate of 6¼ percent last quarter after a substantially upward-revised pace of 10¼ percent in the final quarter of 2004. Over the most recent four quarters, this measure of compensation per hour appears to have increased 7 percent. Unit labor costs in the nonfarm business sector climbed at an annual rate of 7¾ percent in the fourth quarter and at an estimated 2¾ percent rate in the first quarter.¹⁵

¹⁵ Unit labor costs for the nonfinancial corporate sector show significantly less revision than do unit labor costs for the nonfarm business sector. This is in part because output for the nonfinancial corporate sector, used in construction of the unit labor costs measure shown in the table, is based on income data, which was revised upward in the fourth quarter; data from the product side of the accounts that are used to construct GDP and to derive nonfarm business output were not revised.

Hourly Compensation and Unit Labor Costs

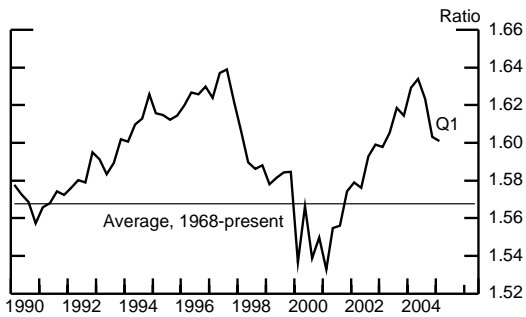
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

Category	2003:Q1 to	2004:Q1 to	2004			2005
	2004:Q1	2005:Q1 ^e	Q2	Q3	Q4	Q1 ^e
<i>Compensation per hour</i>						
Nonfarm business	4.4	7.0	6.0	5.5	10.2	6.3
Nonfinancial corporations ¹	4.6	6.8	5.5	5.5	10.2	6.0
<i>Unit labor costs</i>						
Nonfarm business	-1.1	4.1	1.8	4.5	7.7	2.7
Nonfinancial corporations ¹	-.5	1.7	2.1	.6	1.1	3.0

1. 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.

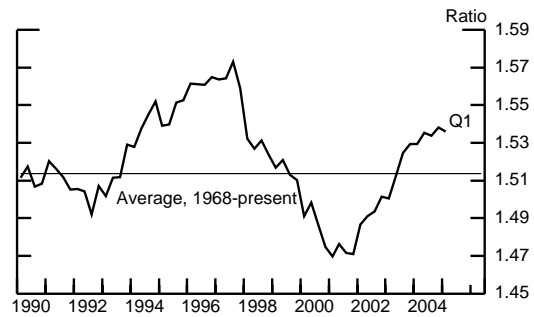
e Staff estimate.

Markup, Nonfarm Business



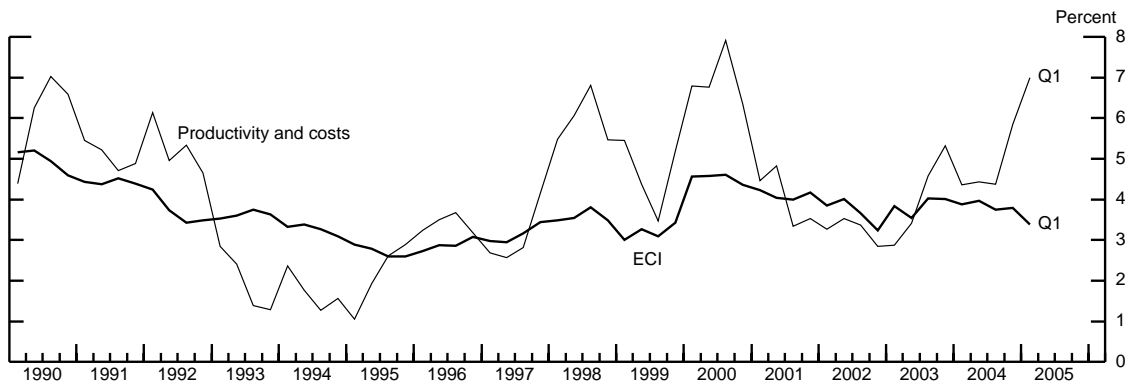
Note. Ratio of output price to unit labor costs.

Markup, Nonfinancial Corporations



Note. Ratio of output price to unit labor costs.

Compensation per Hour
(Percent change from year-earlier period)



The upward revision to fourth-quarter compensation, which was unusually large, reflects the benchmarking of private wages and salaries to the newly available fourth-quarter unemployment insurance tax records. We suspect that the jump in the fourth quarter was caused, in part, by a one-time burst of stock-option exercises and sizable year-end bonuses. Confidential industry detail shows that the upward revisions were concentrated in industries in which stock options and bonuses might be more common; four industries—finance and insurance, management of companies and enterprises, information, and professional and technical services—accounted for nearly half of the revision to wages and salaries. Using data currently available, the staff’s rough and preliminary estimates of stock-option exercises for 2004 suggest a step-up in exercises compared with 2003, and, given the pattern of stock price increases during 2004, exercises were likely concentrated in the fourth quarter. Also, some firms may have accelerated the vesting date of options to the fourth quarter in response to the December 2004 revision to accounting standards that would have required firms to start expensing options in 2005.¹⁶ In addition, the employment cost index (ECI) of bonuses for nonproduction workers rose sharply in the first quarter of 2005, which could reflect bonuses paid in late December after the survey date for the ECI. In any event, an initial indication as to the persistence of the fourth-quarter bulge will become available at the end of August when the wage and salary data for the first quarter of 2005 are benchmarked.

By comparison, gauges of hourly compensation aside from the measures in the Productivity and Cost release have been subdued; in particular, the ECI, which does not include stock options, rose only 3½ percent over the four quarters ending in the first quarter. Similarly, average hourly earnings for production or nonsupervisory workers have increased at an annual rate of 2.7 percent in the past six months, essentially the same pace as in the preceding six-month period.

¹⁶ Implementation of this change in standards has since been delayed.

Domestic Financial Developments

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

Instrument	2004		2005		Change to June 21 from selected dates (percentage points)		
	June 28	Dec. 31	May 2	June 21	2004 June 28	2004 Dec. 31	2005 May 2
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	2.25	2.75	3.00	2.00	.75	.25
Treasury bills ¹							
3-month	1.36	2.18	2.88	2.96	1.60	.78	.08
6-month	1.74	2.52	3.10	3.18	1.44	.66	.08
Commercial paper (A1/P1 rates) ²							
1-month	1.28	2.29	3.00	3.21	1.93	.92	.21
3-month	1.45	2.28	3.10	3.35	1.90	1.07	.25
Large negotiable CDs ¹							
3-month	1.53	2.50	3.16	3.41	1.88	.91	.25
6-month	1.82	2.72	3.38	3.61	1.79	.89	.23
Eurodollar deposits ³							
1-month	1.29	2.32	3.03	3.24	1.95	.92	.21
3-month	1.51	2.49	3.14	3.39	1.88	.90	.25
Bank prime rate	4.00	5.25	5.75	6.00	2.00	.75	.25
<i>Intermediate- and long-term</i>							
U.S. Treasury ⁴							
2-year	2.88	3.08	3.63	3.71	.83	.63	.08
5-year	3.97	3.63	3.87	3.82	-.15	.19	-.05
10-year	4.90	4.34	4.27	4.13	-.77	-.21	-.14
U.S. Treasury indexed notes							
5-year	1.56	1.03	1.16	1.42	-.14	.39	.26
10-year	2.25	1.65	1.61	1.72	-.53	.07	.11
Municipal revenue (Bond Buyer) ⁵	5.37	5.04	4.83	4.83	-.54	-.21	.00
Private instruments							
10-year swap	5.21	4.65	4.67	4.46	-.75	-.19	-.21
10-year FNMA ⁶	5.30	4.61	4.59	4.38	-.92	-.23	-.21
10-year AA ⁷	5.59	4.98	4.98	4.83	-.76	-.15	-.15
10-year BBB ⁷	6.18	5.38	5.50	5.36	-.82	-.02	-.14
5-year high yield ⁷	8.30	7.34	8.31	8.00	-.30	.66	-.31
Home mortgages (FHLMC survey rate) ⁸							
30-year fixed	6.21	5.77	5.75	5.63	-.58	-.14	-.12
1-year adjustable	4.19	4.10	4.22	4.25	.06	.15	.03

Stock exchange index	Record high		2004	2005		Change to June 21 from selected dates (percent)		
	Level	Date	Dec. 31	May 2	June 21	Record high	2004 Dec. 31	2005 May 2
Dow Jones Industrial	11,723	1-14-00	10,783	10,252	10,600	-9.58	-1.70	3.39
S&P 500 Composite	1,527	3-24-00	1,212	1,162	1,214	-2.55	.14	4.43
Nasdaq	5,049	3-10-00	2,175	1,929	2,091	-58.58	-3.88	8.42
Russell 2000	655	12-28-04	652	586	641	-2.07	-1.62	9.42
Wilshire 5000	14,752	3-24-00	11,971	11,422	12,045	-18.35	.62	5.45

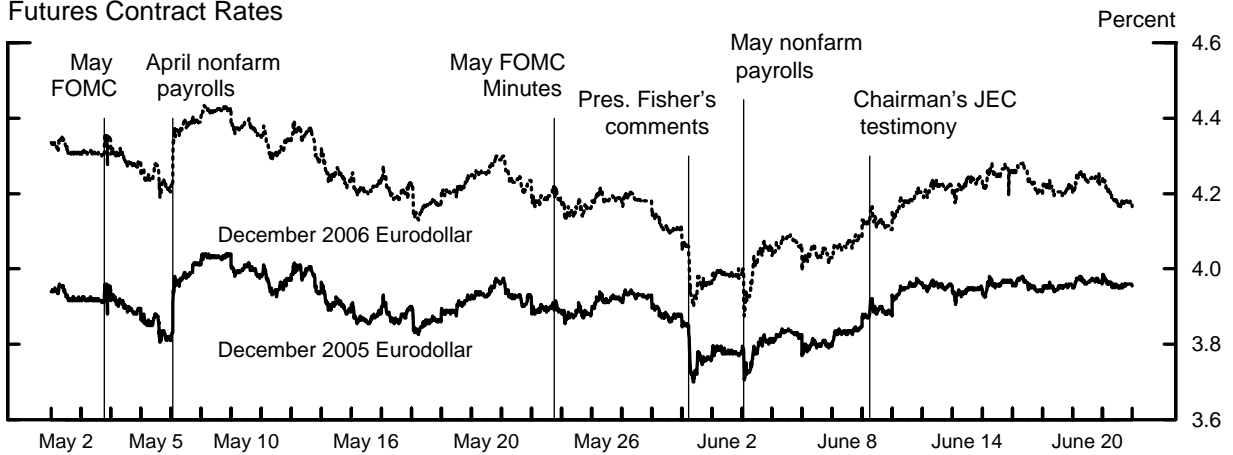
1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Most recent Thursday quote.
6. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
8. Home-mortgage data for June 21, 2005, is from June 16, 2005.

NOTES:

June 28, 2004, is the day before the most recent policy tightening began.
May 2, 2005, is the day before the most recent FOMC announcement.

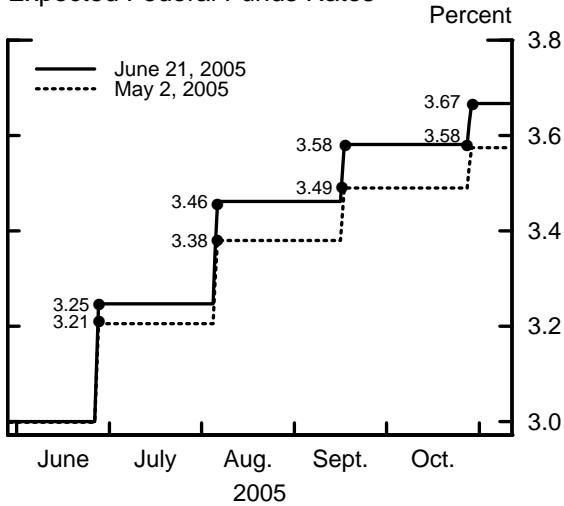
Policy Expectations and Treasury Yields

Futures Contract Rates



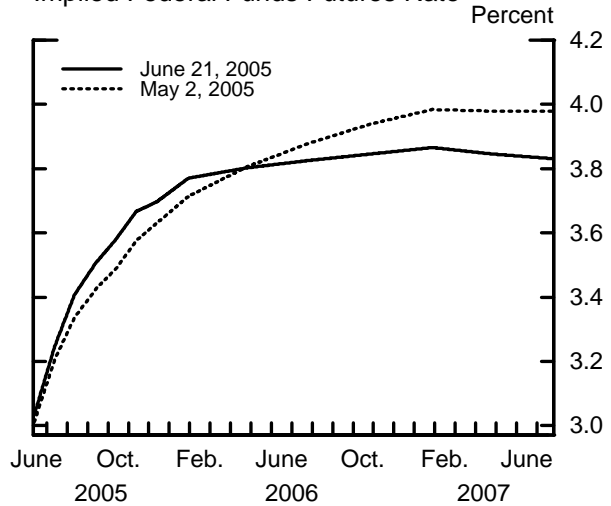
Note. 5-minute intervals.

Expected Federal Funds Rates



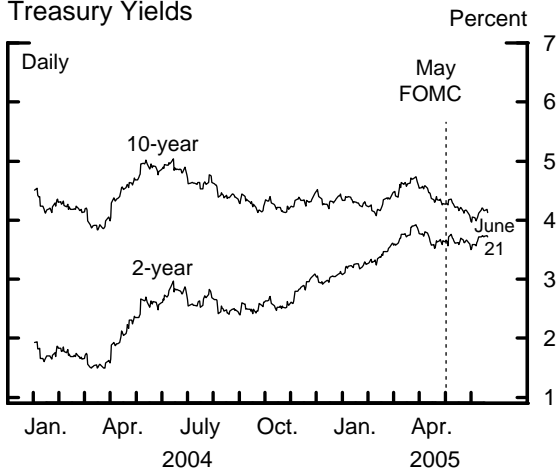
Note. Estimates assume a 1.0 basis point per month term premium and zero probability of intermeeting moves.

Implied Federal Funds Futures Rate



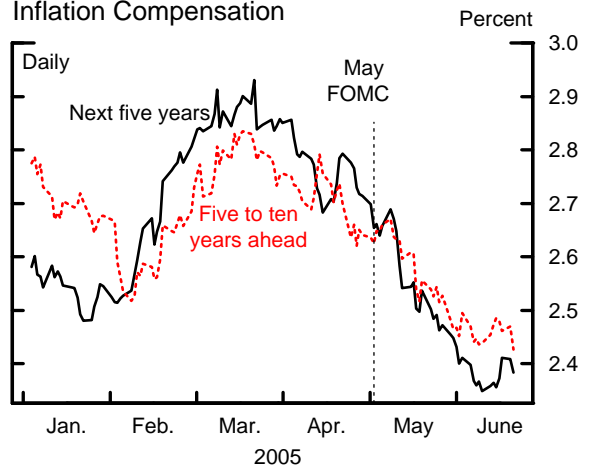
Note. Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.

Treasury Yields



Note. Estimates from smoothed Treasury yield curve based on off-the-run securities.

Inflation Compensation



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

Domestic Financial Developments

Overview

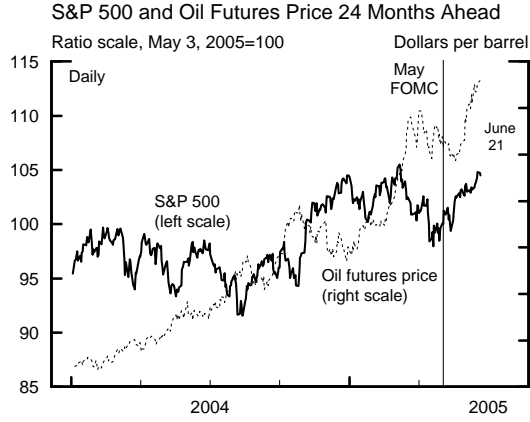
Developments in financial markets over the intermeeting period suggest that investors have become more confident that the economy remains on a solid growth track with subdued inflation. Market participants are virtually certain of a 25 basis point increase in the target federal funds rate at the upcoming FOMC meeting and have marked up the expected path for policy through early next year. Beyond that point, policy expectations have shifted down a bit. Longer-term nominal Treasury yields have declined, on net, while real yields on TIPS have edged up, leaving inflation compensation lower. Stock prices have posted solid gains. Investment-grade corporate spreads are largely unchanged, while speculative-grade spreads are down, on net, as concerns regarding the effects of the auto-sector downgrades in early May subsequently subsided. The growth of business debt has been moderate this quarter, while that of households appears to have remained brisk.

Policy Expectations and Treasury Yields

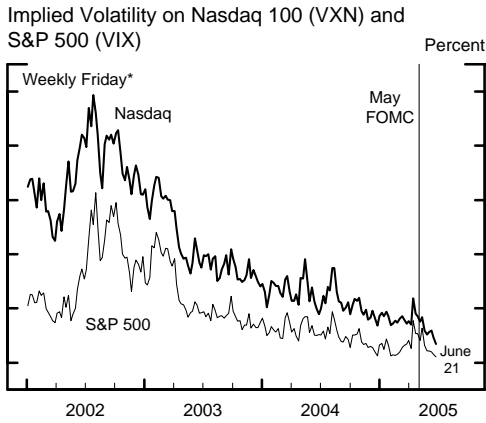
Investors largely anticipated the FOMC's decision at its May meeting to increase the target federal funds rate 25 basis points and to retain the "measured pace" language in the statement. The effect on financial markets of both the initially released statement and the corrected version was limited. The minutes of the May meeting reportedly also contained few surprises for market participants, and subsequent comments by Federal Reserve officials over the intermeeting period had mixed effects on monetary policy expectations. Investors evidently read economic data releases as consistent with continued moderate expansion and subdued inflationary pressures. According to futures quotes, market participants are virtually certain of a 25 basis point hike in the target federal funds rate at the upcoming FOMC meeting, and they place very high odds on another such increase at the August meeting. The expected path of the federal funds rate through the early part of next year edged a bit higher, but policy expectations beyond that horizon declined somewhat.

Yields on two-year nominal Treasury securities increased almost 10 basis points. In contrast, yields on ten-year nominal Treasury securities, which fell for a time to levels last observed early this year before backing up, ended the period down almost 15 basis points, on net. With the rise in shorter-term rates and the decrease in longer-dated yields, the term structure continued to flatten, although it still maintains a moderate positive slope. Despite the rise in far-dated oil futures prices since the last FOMC meeting, five-year TIPS inflation compensation adjusted for the lag in indexation dropped about

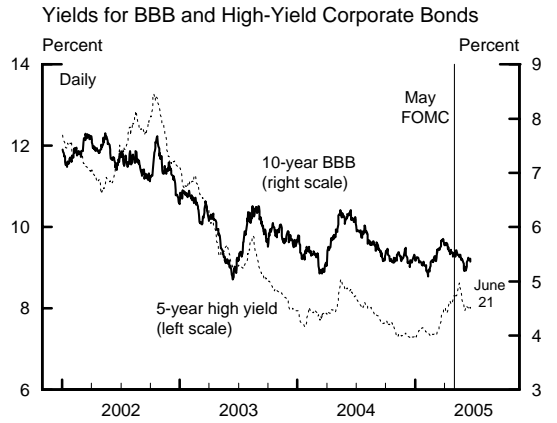
Stock Prices, Corporate Yields, and Risk Spreads



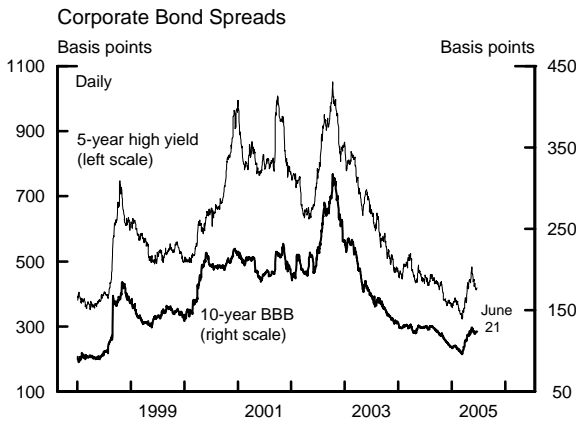
* Yield on synthetic Treasury perpetuity minus Philadelphia Fed 10-year expected inflation.
 + Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.



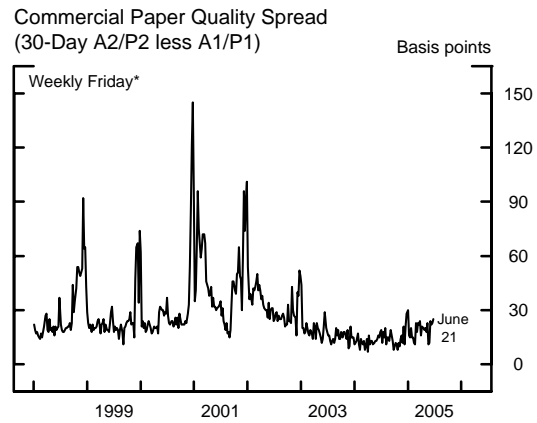
* Latest observation is for most recent business day.



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



Note: Measured relative to comparable-maturity Treasuries.



* Latest observation is for most recent business day.

20 basis points amid benign readings on core PPI and CPI. Inflation compensation over the subsequent five years also declined around 20 basis points.

Stock Prices, Corporate Yields, and Risk Spreads

Incoming economic news buoyed stock prices over the intermeeting period, as investors apparently shrugged off the large rise in oil prices. Broad equity indexes rose about 5 percent, on net, while shares of technology and retail companies, as well as those of small firms, recorded even larger increases. The gap between the trend-adjusted twelve-month forward earnings-price ratio and the real long-run perpetuity Treasury yield—a rough measure of the equity premium—widened further to a level last observed in early 2003. Actual and implied volatilities on both the Nasdaq 100 and the S&P 500 returned to historical lows after having edged higher earlier this year.

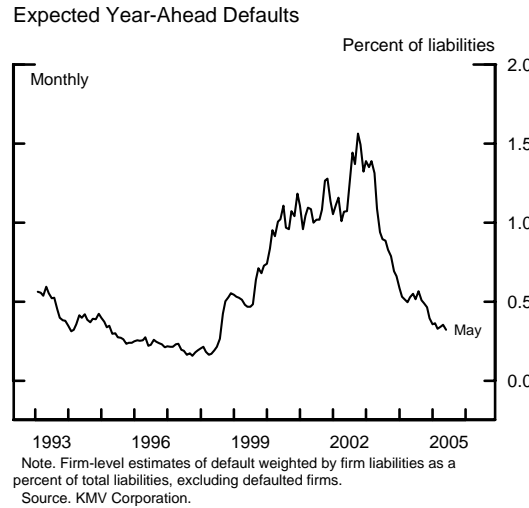
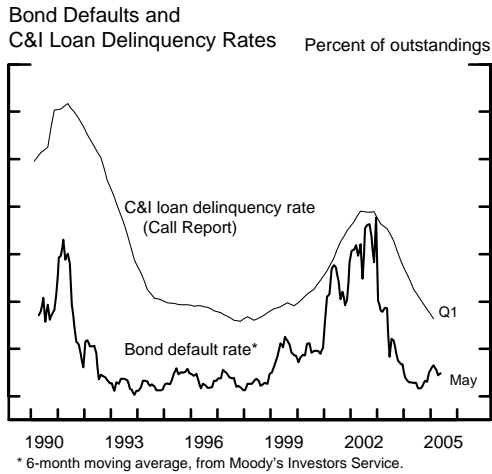
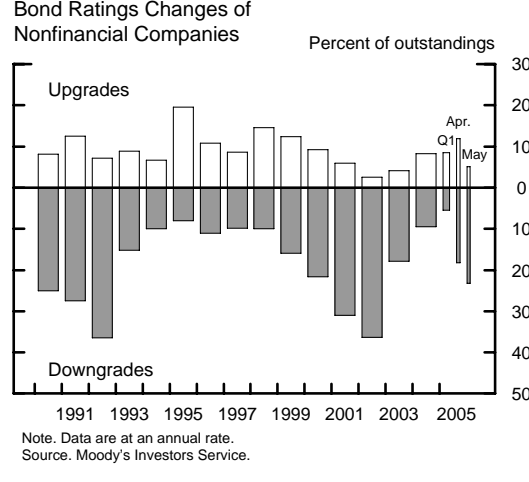
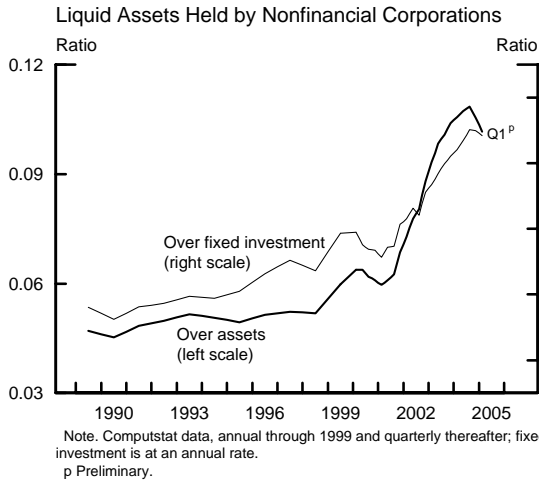
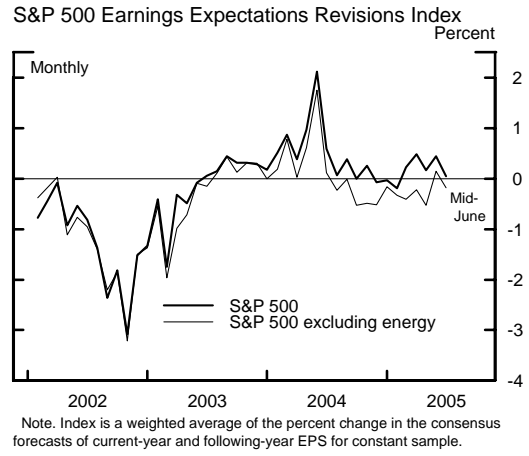
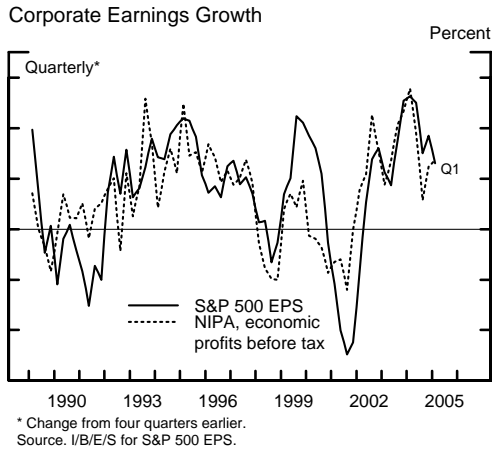
Yields on investment-grade corporate bonds moved about in line with those on comparable-maturity Treasuries, leaving spreads on these securities little changed. Credit spreads on speculative-grade bonds widened in the aftermath of Standard and Poor's downgrade of General Motors and Ford debt in early May, but credit quality concerns eased in recent weeks, and junk bond spreads finished the period about 25 basis points lower, on net. However, these spreads remain substantially above the low levels they reached in early March as concerns in the auto sector earlier this spring apparently prompted investors to mark up expectations of default and to demand greater compensation for bearing risk. The yield spread between thirty-day A2/P2 and A1/P1 commercial paper remained low over the intermeeting period.

Corporate Earnings and Credit Quality

The first-quarter reporting season drew to a close in early May, when retailers' reports modestly surpassed investors' expectations. All told, operating earnings per share for S&P 500 firms came in about 13 percent above results from four quarters earlier. Analysts' estimates of year-ahead earnings for S&P 500 firms were again about unchanged from mid-May to mid-June, with upward revisions for the energy sector offsetting slight downward revisions for other firms.

Measures of credit quality for nonfinancial firms outside of the auto sector remained strong. Aggregate cash positions of nonfinancial corporations are still very large, despite a downtick in the first quarter associated with continued rapid M&A and share repurchase activity. The appreciable rise in bond downgrades in April and May primarily reflected troubles in the auto sector, and corporate bond defaults remained minimal. The

Corporate Earnings and Credit Quality



Business Finance

Gross Issuance of Securities by U.S. Corporations

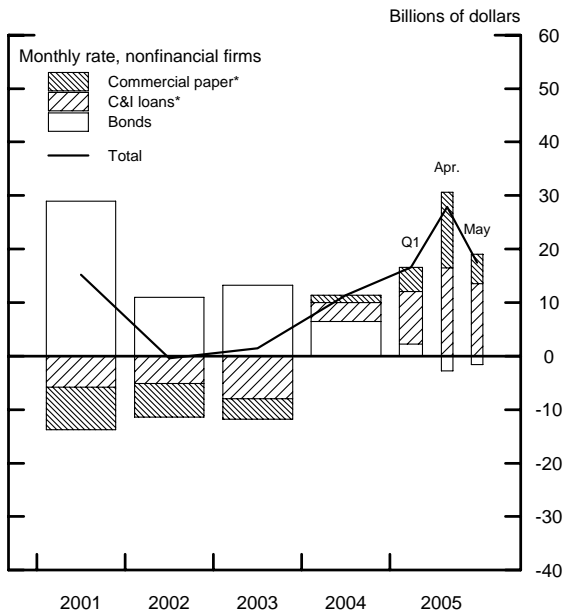
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	2001	2002	2003	2004		2005		
				H1	H2	Q1	Apr.	May
<i>Nonfinancial corporations</i>								
Stocks ¹	6.5	5.2	3.7	5.7	4.9	4.4	2.6	2.7
Initial public offerings	2.1	.7	.4	.8	2.3	2.3	.6	1.0
Seasoned offerings	4.4	4.4	3.2	4.9	2.6	2.1	2.0	1.8
Bonds ²	39.8	24.8	31.6	22.8	22.7	16.9	11.7	9.0
Investment grade	27.5	15.7	16.0	8.2	8.5	6.0	6.2	6.2
Speculative grade	8.9	4.8	11.3	10.5	8.5	7.7	3.7	2.4
Other (sold abroad/unrated)	3.4	4.2	4.3	4.1	5.7	3.2	1.7	.4
<i>Memo</i>								
Net issuance of commercial paper ³	-8.0	-6.3	-3.8	2.8	-.1	4.5	14.2	5.5
Change in C&I loans at commercial banks ^{3,4}	-5.8	-5.1	-7.9	-.8	7.8	9.9	16.4	13.5
<i>Financial corporations</i>								
Stocks ¹	4.2	4.0	6.9	8.3	5.1	5.4	2.5	2.7
Bonds ²	80.2	87.0	111.1	131.1	147.6	162.1	128.8	141.5

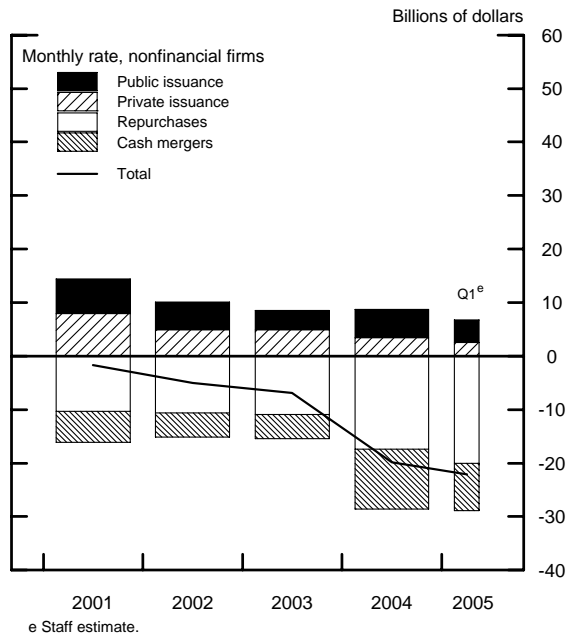
Note. Components may not sum to totals because of rounding.

1. Excludes private placements and equity-for-equity swaps that occur in restructurings.
2. Data include regular and 144a private placements. Bond totals reflect gross proceeds rather than par value of original discount bonds. Bonds are categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.
3. End-of-period basis, seasonally adjusted.
4. Adjusted for FIN 46 effects.

Selected Components of Net Debt Financing

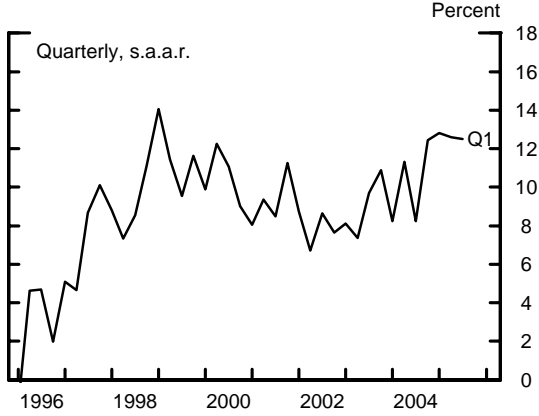


Components of Net Equity Issuance

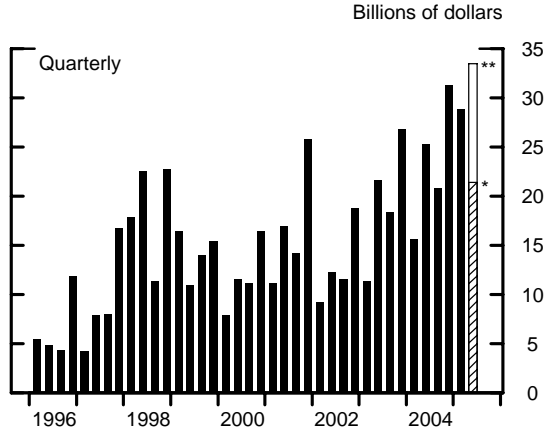


Commercial Real Estate

Growth of Commercial Mortgage Debt

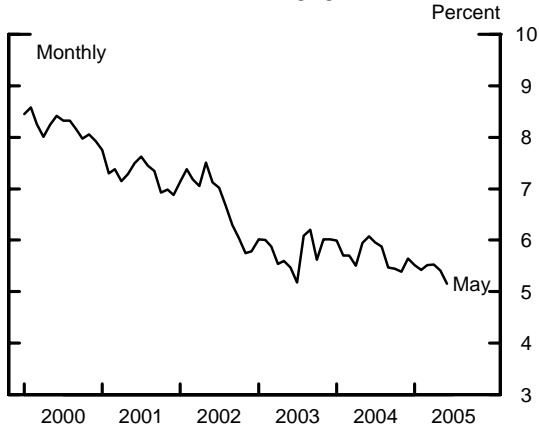


Gross Issuance of CMBS



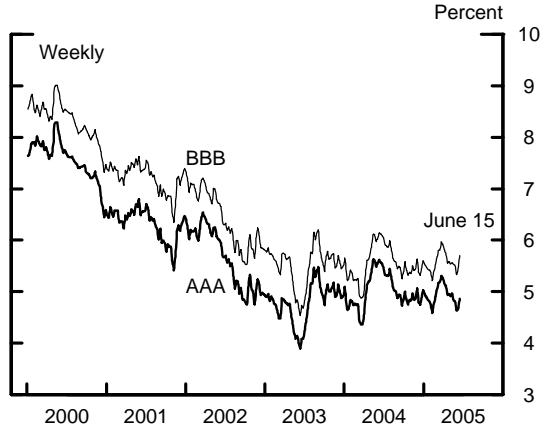
* Through June 17.
 ** Staff estimate for Q2.
 Source. Commercial Mortgage Alert.

10-Year Commercial Mortgage Rates



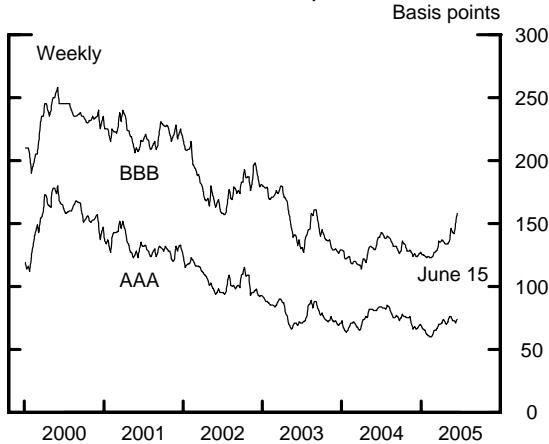
Source. Barron's/Levy.

Investment-Grade CMBS Yields



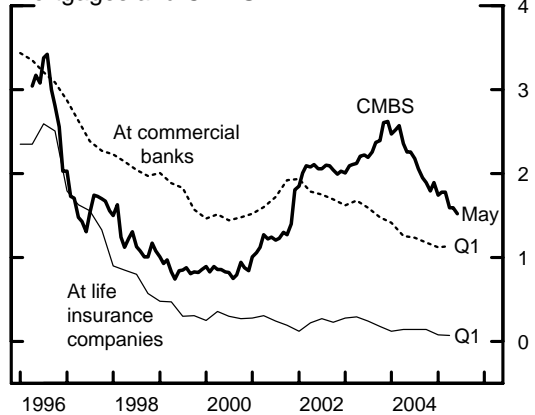
Source. Morgan Stanley.

Investment-Grade CMBS Spreads



Note. Measured relative to the 10-year Treasury yield.
 Source. Morgan Stanley.

Delinquency Rates on Commercial Mortgages and CMBS



Source. Call Report, ACLI, Morgan Stanley.

aggregate expected year-ahead default rate based on firm-level estimates from KMV continued to be low in May.

Business Finance

Gross issuance of bonds by nonfinancial corporations was subdued in April and May but has picked up in recent weeks, albeit to moderate levels, as interest rates have declined and credit spreads narrowed. C&I lending at banks has remained robust in the intermeeting period, with demand for bank loans reportedly supported by a few firms that pulled or downsized their bond offerings in the aftermath of the General Motors and Ford debt downgrades. Commercial paper outstanding has also continued to expand. On balance, net borrowing through bank loans, commercial paper, and bonds picked up during April and May compared with its first-quarter pace.

During the intermeeting period, equity issuance by nonfinancial firms remained at the muted pace recorded in April, but filings with the SEC regarding future IPOs stayed plentiful amid some postponed offerings. Equity retirements appear to have accelerated this quarter from an already rapid pace, as strong profits and liquid balance sheets continued to bolster cash-financed M&A deals and share repurchases. As a result, net equity issuance has likely moved further into negative territory.

Commercial Real Estate

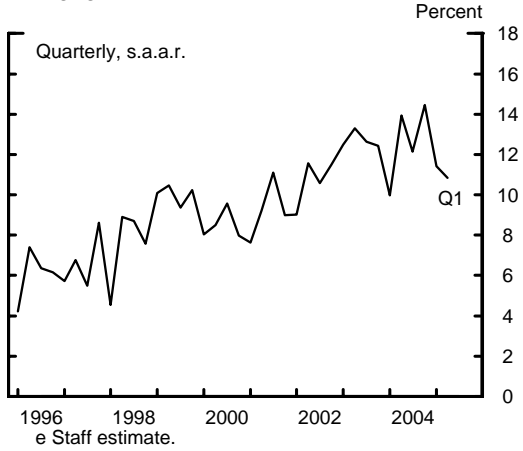
Commercial mortgage debt expanded rapidly in the first quarter, and actual and anticipated CMBS issuance suggest a further strong gain in the second quarter. The spreads on AAA-rated CMBS over Treasuries held steady over the intermeeting period, while those on BBB-rated issues rose somewhat further. The widening of spreads since the beginning of this year appears more related to abundant supply than to increased credit quality concerns. Delinquency rates on CMBS have continued to recede, and those on commercial mortgages held by banks and insurance companies remain quite low.

Household Finance

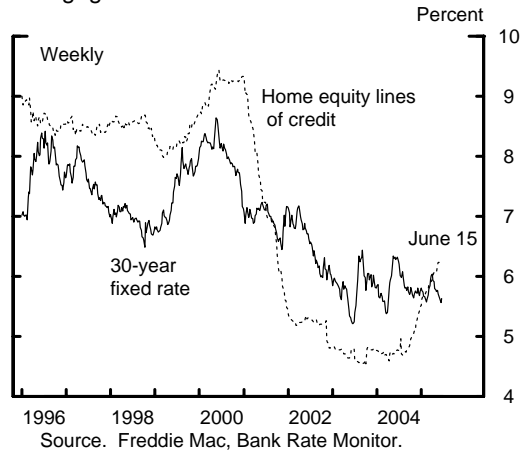
Household debt increased at a robust pace in the first quarter, led by a further rapid gain in mortgage debt. Brisk increases in prices of existing homes through early spring suggest that the growth of mortgage debt is likely to have stayed strong in the current quarter. Rates on both fixed-rate and adjustable-rate mortgages remain low, but the substantial rise in short-term interest rates has shown through to rates on home equity lines of credit, damping the growth of borrowing under these lines. Year-over-year

Household Liabilities

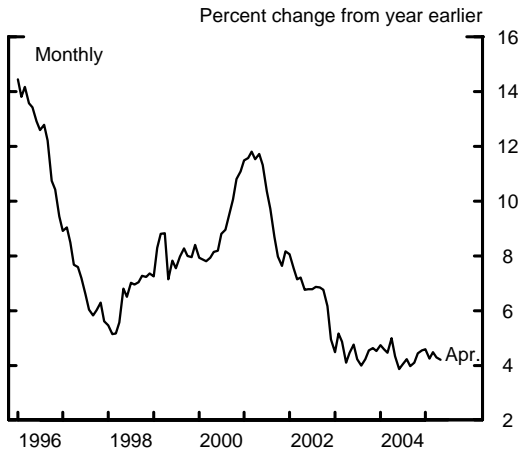
Mortgage Debt Growth



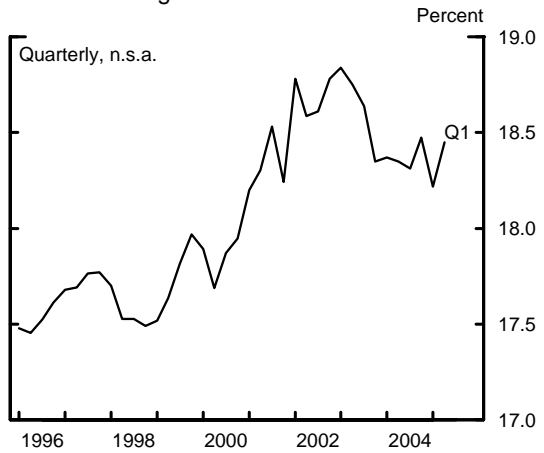
Mortgage Rates



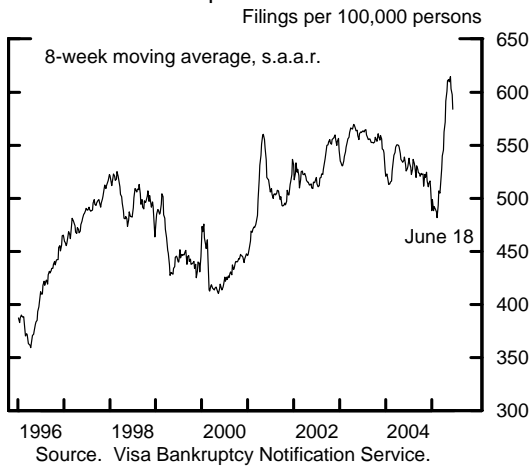
Consumer Credit Growth



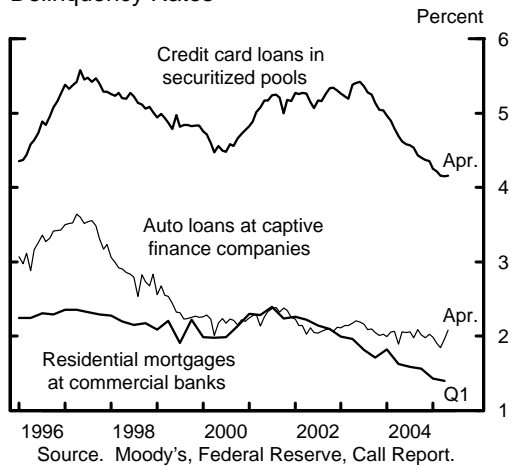
Financial Obligations Ratio



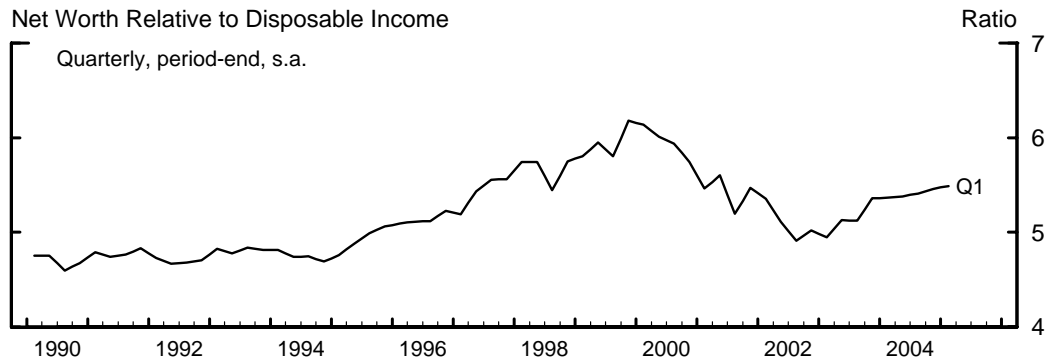
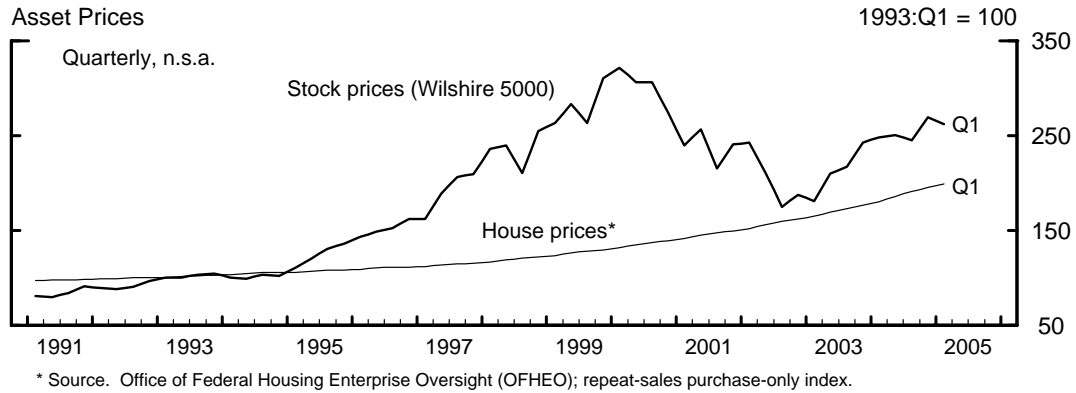
Household Bankruptcies



Delinquency Rates



Household Assets



Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

Fund type	2003	2004	2004		2005			Assets Apr.
			Q3	Q4	Q1	Apr.	May ^e	
Total long-term funds	18.0	17.5	11.7	18.3	22.3	12.6	18.6	6,076
Equity funds	12.7	14.8	6.9	13.0	15.8	8.8	9.5	4,247
Domestic	10.7	9.3	3.8	5.9	5.2	2.5	3.6	3,535
International	2.0	5.6	3.1	7.1	10.6	6.3	5.9	712
Hybrid funds	2.7	3.6	2.8	3.2	4.5	2.6	2.0	524
Bond funds	2.6	-0.9	2.0	2.1	2.0	1.2	7.1	1,306
High-yield	2.2	-0.8	0.5	0.5	-2.3	-2.1	-0.4	144
Other taxable	1.0	1.0	2.0	1.9	3.8	3.9	6.4	830
Municipals	-0.6	-1.1	-0.5	-0.3	0.4	-0.6	1.1	331

Note. Excludes reinvested dividends.

^e Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute.

Treasury Financing
(Billions of dollars)

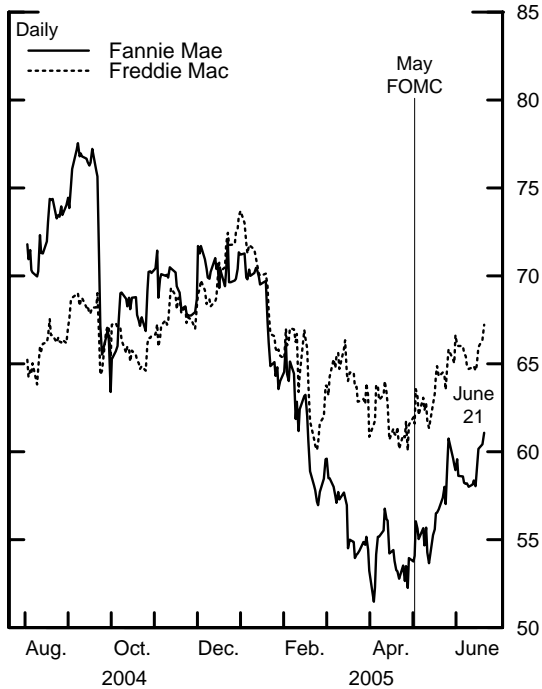
Item	2004		2005			
	Q3	Q4	Q1	Mar.	Apr.	May
Total surplus, deficit (-)	-85.7	-118.1	-176.6	-71.2	57.7	-35.3
Means of financing deficit						
Net borrowing	83.4	102.1	164.7	65.0	-21.8	-8.4
Nonmarketable	-5.2	2.4	20.8	16.1	13.0	14.5
Marketable	88.6	99.7	143.9	49.0	-34.8	-22.9
Bills	14.3	43.6	55.7	28.2	-67.8	-30.1
Coupons	74.3	56.0	88.2	20.8	33.0	7.2
Decrease in cash balance	8.3	11.7	2.2	-2.8	-53.9	59.8
Other ¹	-6.0	4.3	9.7	9.0	18.0	-16.1
Memo:						
Cash balance, end of period	36.3	24.7	22.4	22.4	76.4	16.6

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

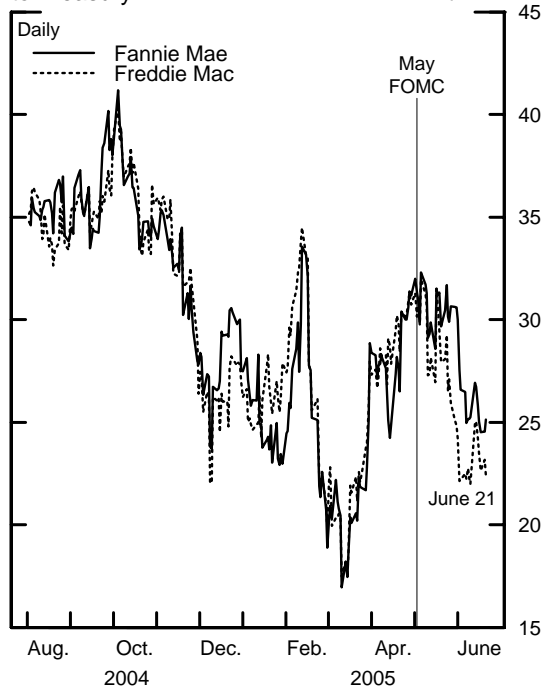
1. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

GSE Market Developments

GSE Stock Prices



Ten-Year GSE Yield Spreads to Treasury



Note. GSE yields based on senior unsecured debt.

growth of consumer credit through April remained near the moderate pace registered since early 2003.

The ratio of financial obligations to disposable income ticked up in the first quarter after having been held down in the fourth quarter by the surge of income associated with the special dividend payment by Microsoft. From a slightly longer-term perspective, the financial obligations ratio has edged up, on net, from its low last summer, as rapid debt growth has boosted debt service payments faster than income. Bankruptcy filings have fallen slightly in recent weeks but remain elevated, as individuals rush to file before the new bankruptcy law takes effect this fall. The latest data on other measures suggest that household credit quality has improved or held steady—delinquency rates on credit cards, auto loans, and residential mortgages have remained low or have continued to decline.

Large increases in house prices have continued to support household wealth, as the ratio of net worth to income was about unchanged in the first quarter despite a decline in stock prices. The recent rebound in equity prices suggests that net worth will increase in the current quarter. Compared with April's relatively sluggish pace, net flows into long-term mutual funds rebounded some in May, reflecting a slight increase for domestic equity funds and a large rise for bond funds.

Treasury and Agency Finance

The Treasury announced at its May mid-quarter refunding that it was considering reintroducing the thirty-year nominal bond in February 2006. This development reportedly took market participants somewhat by surprise—perhaps especially given the recent improvement in the federal budget outlook—and the announcement pushed the yield on the current on-the-run thirty-year bond, which matures in 2031, 14 basis points higher. Auctions of nominal Treasury coupon securities that took place during the intermeeting period were reasonably well received. Bid-to-cover ratios were about average, and foreign demand, as indicated by investor-class allotments, remained at robust levels. Data from the Treasury International Capital System showed that net purchases of Treasury securities by foreign official institutions rebounded in April after a drop the month before, while purchases by private foreign investors moderated from a record reading in March.

The House Financial Services Committee approved legislation that would create a new regulator for Fannie Mae and Freddie Mac. The legislation was generally viewed as favorable for the GSEs, with only modest changes in their regulatory oversight and no

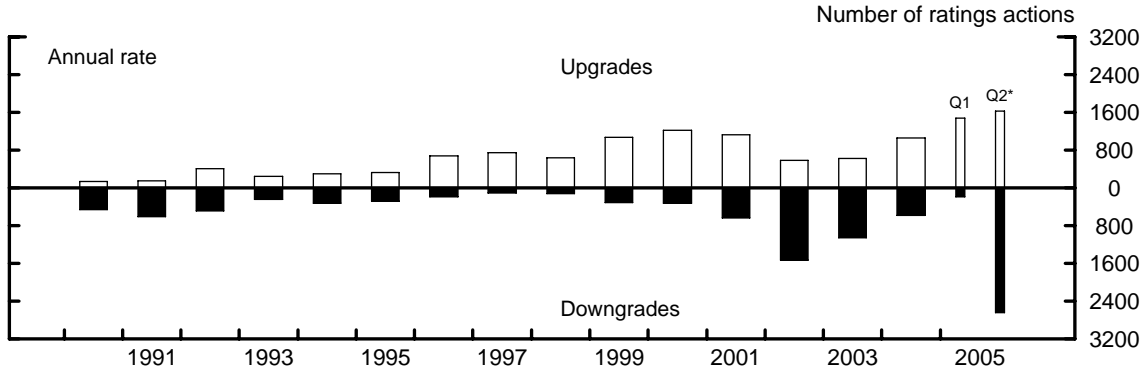
State and Local Government Finance

Gross Offerings of Municipal Securities (Billions of dollars; monthly rate, not seasonally adjusted)

Type of security	2002	2003	2004	2005		
				Q1	Apr.	May
Total	36.3	37.9	34.6	34.7	32.7	37.0
Long-term ¹	30.3	32.0	29.8	32.7	31.4	35.9
Refundings ²	10.1	10.0	10.8	16.0	15.3	15.7
New capital	20.2	22.1	19.0	16.7	16.1	20.1
Short-term	6.0	5.8	4.9	2.0	1.3	1.2
Memo: Long-term taxable	1.7	3.5	2.0	1.5	.9	1.8

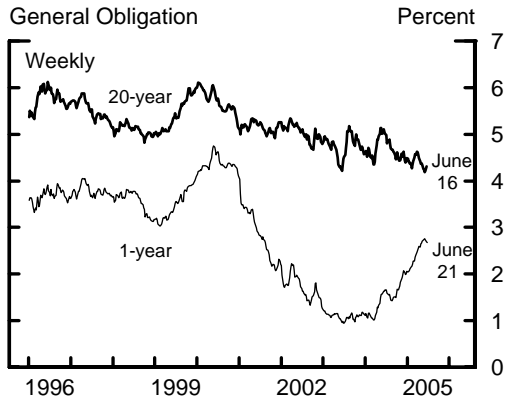
1. Includes issues for public and private purposes.
2. All issues that include any refunding bonds.

Ratings Changes



* Data through June 15 at an annual rate.
Source. S&P's Credit Week Municipal and Ratings Direct.

Municipal Bond Yields



Source. Bloomberg and Bond Buyer.

Municipal Bond Yield Ratio



Source. Bond Buyer.

significant changes in their business operations or in their relationship to the federal government. Equity prices of Fannie Mae and Freddie Mac moved up over the intermeeting period, and spreads of GSE senior unsecured debt over comparable Treasury securities narrowed.

State and Local Government Finance

Gross municipal bond issuance moved up in May and the first half of June, with education-related projects accounting for the bulk of the new-capital issuance. Advance refundings also have been elevated, as states and municipalities have continued to take advantage of low long-term interest rates. With regard to credit quality, Standard and Poor's downgraded a large number of municipal issues in Michigan, a rating action related to the difficulties of Ford and General Motors. However, the dollar amount of the downgraded debt was small. Apart from these actions, upgrades of municipal bonds continued to outpace downgrades. Yields on long-term general obligation bonds ticked down over the intermeeting period, but by less than comparable Treasuries, perhaps reflecting the recent strong pace of issuance.

Money and Bank Credit

M2 contracted slightly in April and May. The weakness can be attributed to increases in the opportunity cost of holding M2 assets. M2 velocity—the ratio of nominal GDP to M2—is somewhat lower than would be expected on the basis of its historical relationship with opportunity cost, perhaps in part because the lower level of long-term interest rates does not offer much inducement to move out of M2 assets.

Within M2, small time deposits continued to expand briskly during April and May, while liquid deposits ran off. The divergent trends reflect in part the more rapid adjustment of rates paid on small time deposits to rising short-term market yields than rates paid on liquid assets. Currency growth continued to be weak relative to historical trends.

Bank credit decelerated sharply in April and May from the rapid gains posted in the first quarter as both securities and loan growth fell. Consumer loans ran off, and the growth of real estate loans weakened considerably, in part because of securitizations. Business lending remained strong, and results from the most recent Survey of Terms of Business Lending, conducted during the week of May 2, indicate that spreads of rates on C&I loans over banks' estimated funding costs had edged a bit lower since the February survey. Meanwhile, spreads on leveraged syndicated loans moved somewhat higher in May but remained at fairly low levels.

Monetary Aggregates
(Based on seasonally adjusted data)

Aggregate or component	2003	2004	2005				Level (\$ billions), May
			Q4	Q1	Apr.	May	
<i>Aggregate</i>	Percent change (annual rate) ¹						
1. M2 ²	5.4	5.2	5.7	3.6	-9	-1	6,464
2. M3 ³	4.8	5.8	3.8	5.1	5.9	3.9	9,640
<i>Components of M2⁴</i>							
3. Currency	5.9	5.5	5.0	3.7	.9	2.9	706
4. Liquid deposits ⁵	14.0	10.1	8.6	3.4	-6.9	-5.1	4,167
5. Small time deposits	-9.4	-.3	5.6	13.3	21.3	24.7	883
6. Retail money market funds	-11.5	-11.8	-9.4	-6.1	5.8	-3.6	701
<i>Components of M3</i>							
7. M3 minus M2 ⁶	3.6	7.1	-.3	8.4	20.2	12.1	3,175
8. Large time deposits, net ⁷	4.3	20.8	10.0	34.7	43.1	-3.6	1,194
9. Institutional money market funds	-5.6	-5.7	-12.0	-10.2	16.9	-3.4	1,051
10. RPs	14.1	.9	-18.0	-19.6	-28.1	69.8	508
11. Eurodollars	29.3	27.1	34.4	26.4	22.3	30.0	422
<i>Memo</i>							
12. Monetary base	5.9	5.6	4.7	3.6	1.4	1.6	768
	Average monthly change (billions of dollars) ⁸						
<i>Selected managed liabilities at commercial banks</i>							
13. Large time deposits, gross	-1.1	14.8	9.9	26.2	40.7	-5.2	1,308
14. Net due to related foreign institutions	3.1	-11.0	-5.8	13.7	-31.5	27.5	68
15. U.S. government deposits at commercial banks	-.3	.2	1.9	2.0	1.8	1.7	36

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

2. Sum of currency, liquid deposits (demand, other checkable, savings), small time deposits, retail money market funds, and nonbank traveler's checks.

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

4. Nonbank traveler's checks not listed.

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

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

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

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

p Preliminary.

Commercial Bank Credit

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

Type of credit	2003	2004	Q4 2004	Q1 2005	Apr. 2005	May 2005	Level (\$ billions), May 2005
Total							
1. Adjusted¹	5.9	8.9	6.7	14.0	4.7	6.7	6,882
2. Reported	5.6	8.4	6.9	12.0	4.5	8.4	7,028
<i>Securities</i>							
3. Adjusted ¹	8.6	6.5	1.1	22.7	-8.5	10.3	1,866
4. Reported	7.2	5.2	2.4	14.8	-8.4	16.3	2,012
5. Treasury and agency	8.9	5.0	-10.6	20.7	-23.4	5.7	1,202
6. Other ²	4.9	5.5	24.1	5.8	15.1	32.4	809
<i>Loans³</i>							
7. Total	4.9	9.8	8.7	10.9	9.6	5.3	5,016
8. Business	-9.4	1.4	6.8	15.9	18.0	14.6	957
9. Real estate	11.1	13.9	13.4	13.7	11.6	2.3	2,684
10. Home equity	30.8	43.4	37.6	18.7	12.1	9.7	424
11. Other	8.8	9.7	9.3	12.8	11.5	.9	2,261
12. Consumer	5.4	8.8	-1.1	8.2	7.8	-11.6	687
13. Adjusted ⁴	5.8	6.0	2.9	5.0	.4	-8.4	1,047
14. Other ⁵	6.8	7.9	4.0	-3.7	-7.6	21.7	688

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

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

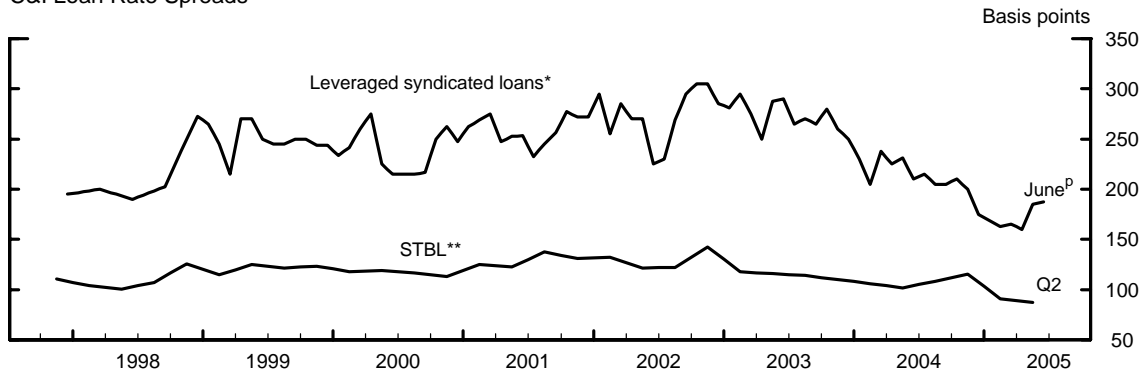
2. Includes private mortgage-backed securities, securities of corporations, state and local governments, foreign governments, and any trading account assets that are not Treasury or agency securities, including revaluation gains on derivative contracts.

3. Excludes interbank loans.

4. Includes an estimate of outstanding loans securitized by commercial banks.

5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

C&I Loan Rate Spreads



p -- preliminary

* Monthly data are the average spread of selected BB loans over LIBOR. Source. Loan Pricing Corporation.

** Quarterly data are spreads over banks' estimated cost of funds, adjusted for changes in nonprice loan characteristics.

Source. Survey of Terms of Business Lending.

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

After reaching a record \$60.1 billion in February, the U.S. international trade deficit narrowed to \$53.6 billion in March before widening to \$57 billion in April.

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

	2004	Annual rate			Monthly rate		
		2004		2005	2005		
		Q3	Q4	Q1	Feb.	Mar.	Apr.
<i>Real NIPA¹</i>							
Net exports of G&S	-583.7	-583.2	-621.1	-640.0	...	...	...
<i>Nominal BOP</i>							
Net exports of G&S	-617.6	-629.9	-676.9	-687.0	-60.1	-53.6	-57.0
Goods, net	-665.4	-671.1	-728.7	-745.3	-64.7	-58.9	-62.2
Services, net	47.8	41.2	51.8	58.3	4.6	5.3	5.3

1. Billions of chained (2000) dollars.

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

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

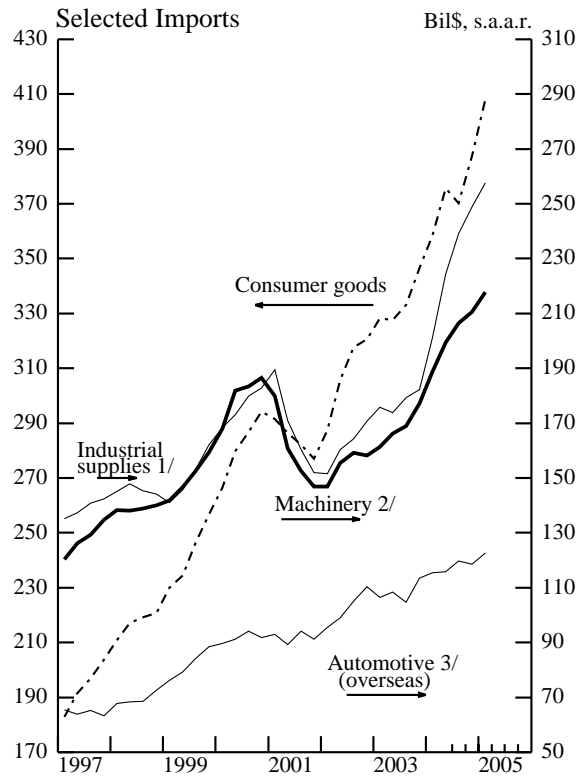
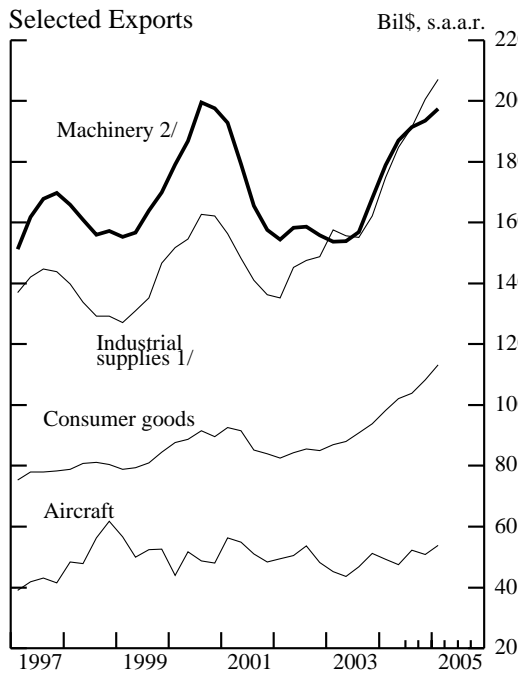
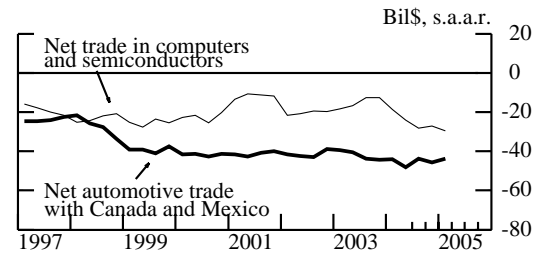
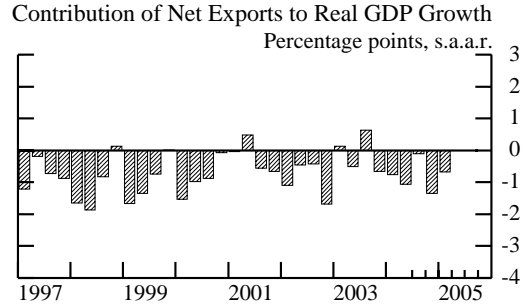
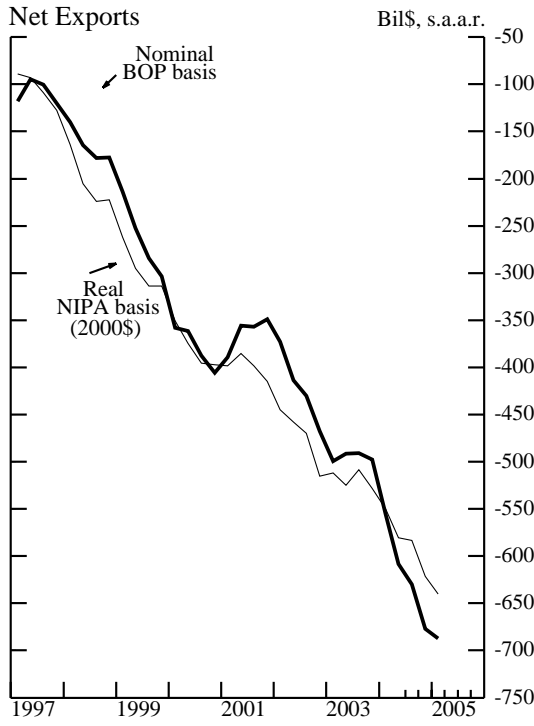
In April, the value of exports of goods and services increased a robust 3 percent, after increasing 1.6 percent in March. In both months the increase in exports was widely dispersed across major product categories. Exports of capital goods were particularly strong in both April and March, led by robust exports of aircraft. Exports of both computers and semiconductors also turned up noticeably in April, following slight increases in March. After declining in March, exports of industrial supplies jumped up in April. Exports of consumer goods declined in both months, while exports of automotive products declined a bit in March before moving up in April. Services exports were about flat in April after increasing strongly in March. Accounting for March data exports of goods and services in the first quarter climbed over 12 percent at an annual rate.

The value of imported goods and services jumped just over 4 percent in April, more than offsetting a 3 percent decline in March. In April, imports of capital goods and industrial supplies snapped back sharply after falling in March, while imports of consumer goods and automotive products reversed some, but not all, of their steep March declines.

Imports of petroleum, aircraft, and services all increased in both months.

Notwithstanding the March decline, in the first quarter, imports of goods and services rose 10 percent at an annual rate, with increases in imports of non-oil goods and services more than offsetting a decrease in the value of oil imports.

U.S. International Trade in Goods and Services



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

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

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

	Levels				Change ¹			
	2004	2005	2005		2004	2005	2005	
	Q4	Q1	Mar.	Apr.	Q4	Q1	Mar.	Apr.
Exports of G&S	1195.5	1230.8	1240.2	1277.0	34.1	35.2	19.1	36.8
Goods exports	835.5	855.4	858.4	894.4	16.3	19.9	9.8	36.0
Gold	5.0	5.5	6.5	5.4	0.0	0.5	2.3	-1.1
Other goods	830.5	849.8	851.8	889.0	16.2	19.3	7.5	37.1
Aircraft & parts	50.9	53.9	58.2	70.5	-1.3	2.9	6.3	12.3
Computers & accessories	43.6	44.0	44.1	46.0	0.2	0.4	0.9	1.9
Semiconductors	46.0	43.4	43.6	45.8	-0.8	-2.6	0.3	2.2
Other capital goods	196.8	200.4	200.6	203.2	2.6	3.7	2.7	2.7
Automotive	93.7	94.8	92.6	94.7	1.4	1.1	-0.7	2.1
to Canada	52.2	51.4	49.1	52.0	-0.1	-0.7	-2.2	3.0
to Mexico	16.3	14.8	15.2	15.9	1.8	-1.4	-0.0	0.7
to ROW	25.3	28.5	28.4	26.8	-0.3	3.2	1.6	-1.6
Agricultural	62.6	62.3	63.4	65.2	0.9	-0.3	2.1	1.8
Ind supplies (ex. ag, gold)	200.5	207.0	206.4	219.3	9.1	6.5	-2.6	12.9
Consumer goods	108.2	113.2	113.0	111.4	4.4	5.0	-0.8	-1.6
All other goods	28.3	30.8	30.0	32.9	-0.2	2.6	-3.3	3.0
Services exports	360.1	375.4	381.9	382.7	17.8	15.3	9.3	0.8
Imports of G&S	1872.4	1917.8	1883.0	1960.6	81.1	45.4	-59.6	77.6
Goods imports	1564.2	1600.7	1565.1	1641.0	73.9	36.5	-60.4	75.9
Petroleum	215.1	211.7	223.3	232.9	34.6	-3.4	10.9	9.5
Gold	4.8	3.8	4.1	3.9	0.8	-1.0	0.3	-0.2
Other goods	1344.3	1385.1	1337.6	1404.2	38.5	40.8	-71.5	66.6
Aircraft & parts	27.7	25.6	26.2	28.7	3.7	-2.1	3.5	2.5
Computers & accessories	91.2	92.1	90.5	90.7	0.2	0.8	-1.7	0.3
Semiconductors	25.6	25.0	24.5	26.0	-1.8	-0.6	0.1	1.5
Other capital goods	213.2	220.3	214.5	237.4	4.6	7.1	-6.2	22.8
Automotive	232.5	232.7	221.4	224.0	2.5	0.2	-16.1	2.6
from Canada	70.0	69.4	62.9	64.8	1.6	-0.6	-10.8	1.9
from Mexico	44.1	40.6	43.7	45.1	2.0	-3.5	1.5	1.4
from ROW	118.5	122.7	114.8	114.1	-1.2	4.3	-6.9	-0.7
Ind supplies (ex. oil, gold)	248.9	257.7	251.8	263.8	9.8	8.7	-11.4	12.0
Consumer goods	387.4	408.1	385.6	406.7	17.2	20.7	-40.8	21.1
Foods, feeds, bev.	64.3	66.3	65.6	66.2	2.4	2.0	-0.3	0.6
All other goods	53.4	57.4	57.6	60.8	0.0	4.0	1.3	3.2
Services imports	308.2	317.1	317.9	319.6	7.2	8.9	0.8	1.7
<i>Memo:</i>								
Oil quantity (mb/d)	14.39	14.55	14.11	13.63	1.27	0.16	-0.77	-0.48
Oil import price (\$/bbl)	40.99	39.89	43.34	46.78	3.32	-1.10	4.24	3.44

1. Change from previous quarter or month.

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

Prices of Internationally Traded Goods

Non-oil imports. In May, the prices of U.S. imports of non-oil goods and of core goods both fell 0.3 percent. The main contribution to the price decline came from non-oil industrial supplies. After increasing 2.1 percent in April, the price index for non-oil industrial supplies fell 1.5 percent in May, mainly on lower prices for natural gas and building materials. Food prices rose 0.3 percent in May, which partially offset the previous month's 0.4 percent decline. After large price increases earlier in the year, the finished goods categories had only small price movements in May. Prices for both consumer goods and capital goods (excluding computers and semiconductors) edged up 0.1 percent. (Within consumer goods, apparel prices fell 0.2 percent.) Prices for imported automotive products fell 0.1 percent. Prices for computers declined 0.3 percent in May, and prices for semiconductors were unchanged.

The average level of imported core goods prices in April and May was 2½ percent at an annual rate above the first-quarter level. The main contributors to the overall price increase were foods and non-oil industrial supplies, with both categories having price increases of over 8 percent (a.r.). In April and May, the average price for capital goods (excluding computers and semiconductors) increased 2¾ percent (a.r.) compared to the previous quarter, a much slower rate of increase than observed in the first quarter, and prices for consumer goods increased only slightly.

Oil. The BLS price of imported oil fell 6.5 percent in May. Similarly, the spot price of West Texas Intermediate crude oil fell 6 percent in May—averaging around \$50 per barrel. The spot price fell in the middle of the month as crude oil inventories in the United States climbed to above-average levels, but edged back up on renewed concerns of strong world oil demand and limited spare production capacity. Thus far in June, the spot price has averaged more than \$55 per barrel, closing at \$58.90 per barrel on June 21. The increase in the spot price in June reflects continued strong world oil demand, amplified concerns about future supplies from Iran, Iraq, Nigeria, Venezuela, and Russia, and limited spare production capacity in OPEC to offset a significant supply disruption.

Exports. In May, the prices of U.S. exports of total goods and of core goods both fell 0.1 percent. A 2 percent increase in prices for agricultural products only partially offset the 1.1 percent fall in prices of non-agricultural industrial supplies. Prices for the finished goods categories were little changed. Exported automotive products saw the largest price increase at 0.1 percent. Prices of exported computers and semiconductors declined slightly.

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

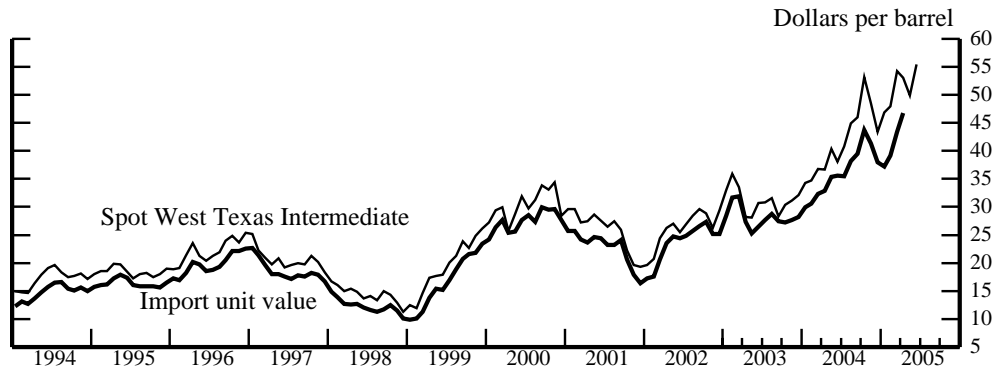
	Annual rate			Monthly rate		
	2004	2005		2005		
	Q4	Q1	Q2 ^e	Mar.	Apr.	May
	----- BLS prices -----					
Merchandise imports	7.3	3.3	9.5	2.2	1.2	-1.3
Oil	35.3	-1.9	59.2	13.2	5.4	-6.5
Non-oil	3.2	4.2	1.9	0.3	0.4	-0.3
Core goods*	4.1	5.1	2.6	0.4	0.5	-0.3
Cap. goods ex comp & semi	2.6	5.3	2.7	0.1	0.5	0.1
Automotive products	2.4	0.4	0.6	0.0	0.2	-0.1
Consumer goods	1.2	4.5	0.1	-0.3	0.0	0.1
Foods, feeds, beverages	10.7	9.1	8.8	3.2	-0.4	0.3
Industrial supplies ex oil	11.1	8.6	8.3	1.1	2.1	-1.5
Computers	-7.3	-6.9	-9.2	-1.3	-1.2	-0.3
Semiconductors	-4.9	-1.1	-0.9	0.2	-0.3	0.0
Merchandise exports	3.6	4.9	4.0	0.7	0.6	-0.1
Core goods*	4.8	6.0	5.0	0.7	0.7	-0.1
Cap. goods ex comp & semi	3.3	3.9	1.8	0.2	0.3	0.0
Automotive products	1.2	1.4	0.7	0.2	0.0	0.1
Consumer goods	0.1	2.4	1.5	0.0	0.4	0.0
Agricultural products	-11.5	3.6	15.6	3.8	0.3	2.0
Industrial supplies ex ag	17.2	12.9	9.2	1.2	1.8	-1.1
Computers	-9.2	-8.1	-7.5	-1.1	-1.1	-0.2
Semiconductors	-1.7	-1.6	-3.0	-0.3	-0.4	-0.1
	----- NIPA prices -----					
Chain price index						
Imports of goods & services	7.7	2.4	n.a.	...	...	...
Non-oil merchandise	3.2	3.9	n.a.	...	...	...
Core goods*	4.2	4.8	n.a.	...	...	...
Exports of goods & services	3.9	4.3	n.a.	...	...	...
Total merchandise	3.9	4.3	n.a.	...	...	...
Core goods*	5.1	6.0	n.a.	...	...	...

*/ Excludes computers and semiconductors.

e/ Average of two months.

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

Oil Prices



The average level of exported core goods prices in April and May was 5 percent at an annual rate above the first-quarter level. During these months, prices for agricultural products and non-agricultural industrial supplies were up over 15 percent and 9 percent, respectively. Prices for capital goods (excluding computers and semiconductors) and consumer goods were both up about 1½ percent.

Current Account

The U.S. current account deficit was \$780 billion (s.a.a.r.) in the first quarter of 2005, up from \$753 billion in the fourth quarter of 2004 (revised). Most of the change owed to an increase in unilateral transfers, but a wider trade deficit on goods and services also contributed. The positive balance on net investment income increased slightly.

The negative balance on unilateral transfers widened \$19 billion (became more negative) in the first quarter, mostly as a result of larger government grants. The deficit on goods and services widened \$10 billion, as a \$45 billion increase in imports was only partially offset by a \$35 billion increase in exports. A larger deficit in goods was partly offset by a larger surplus on services. The surplus on net investment income rose \$2 billion in the first quarter, as payments declined a bit more than receipts. For both payments and receipts, a large decline in the direct investment component was almost offset by a similarly large increase in interest and dividends.

U.S. Current Account

(Billions of dollars, seasonally adjusted annual rate)

Period	Goods and services, net	Investment income, net	Other income and transfers, net	Current account balance
<i>Annual</i>				
2003	-494.8	51.8	-76.7	-519.7
2004	-617.6	36.2	-86.7	-668.1
<i>Quarterly</i>				
2004:Q2	-608.2	29.6	-88.0	-666.5
Q3	-629.9	30.8	-68.8	-667.9
Q4	-676.9	18.8	-95.3	-753.4
2005:Q1	-687.0	20.7	-113.9	-780.2
<i>Change</i>				
Q2-Q1	-52.8	-36.1	6.7	-82.1
Q3-Q2	-21.7	1.1	19.2	-1.4
Q4-Q3	-47.0	-12.0	-26.5	-85.5
Q1-Q4	-10.1	2.0	-18.6	-26.8

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

U.S. International Financial Transactions

Private foreign purchases of U.S. securities remained very strong in the first quarter of 2005 but weakened in April (line 4 of the Summary of U.S. International Transactions table). Most of the slowdown in private inflows from March to April reflects notably weaker net purchases of Treasury securities (line 4a), which dropped back from their record monthly high in March. A swing from net purchases to net sales by Caribbean banking centers more than accounted for this decline. Private purchases of corporate equities (line 4d) were relatively strong at the beginning of the year, but have been weak for the past three months, and private foreign investors sold agency bonds (line 4b) for the third consecutive month. Private inflows into corporate bonds (line 4c) eased a bit in April from the very strong inflows recorded in recent months; on balance, average net purchases of corporate bonds this year have been just a bit weaker than in 2004.

Net foreign official flows (line 1) picked up from weak inflows in February and March to \$39 billion in April, the largest monthly official inflow since June 2004. Activity by Norway, which actively manages its oil fund, has accounted for much of the recent monthly swings in official flows. Inflows from most Asian countries have been well below those of the second half of last year, and for the first four months of 2005, foreign official inflows have amounted to \$65 billion, well below the pace of the past two years. However, inflows from China have remained relatively strong so far this year. Partial data from the Federal Reserve Bank of New York for May and the first half of June indicate sizable official inflows, primarily reflecting further increases in holdings for China.

U.S. investors acquired on net \$8 billion in foreign securities in April (line 5), bringing total acquisitions of foreign securities this year to \$47 billion, compared with \$32 billion for the first four months of 2004. U.S. purchases of foreign bonds (line 5a) edged up in April, but purchases of stocks (line 5b) were notably weaker than in recent months, consistent with a recent slowdown in inflows to global mutual funds.

The volatile banking sector (line 3) registered a large net outflow in April, in large part reflecting repurchase activity concentrated in Caribbean banking centers. For the year to date, the banking sector has recorded a net outflow of \$66 billion.

Since the last Greenbook, we have received preliminary Balance of Payments data for the first quarter. Direct investment flows were roughly offsetting in the quarter. U.S. direct

investment abroad (line 6) returned to a more normal outflow of \$32 billion, reflecting a moderate pace of new equity investment and reinvested earnings. This followed a surge in the fourth quarter that was influenced by both the re-incorporation in the United States of News Corporation Ltd. (Australia) and anticipation of the partial tax holiday. Inflows from foreign direct investment in the United States (line 7) continued at their recent trend rate.

With the first quarter Balance of Payments release, BEA also provided annual revisions to its estimates of financial transactions. BEA revised upward its estimates of foreign official inflows in 2003 and 2004 to account for increased official holdings of Treasury and agency bonds as identified in the June 2003 and June 2004 surveys of foreign holdings of U.S. securities. These revisions increased estimated foreign official inflows by roughly \$30 billion in each year. There were roughly offsetting downward revisions to private inflows. BEA also made significant revisions to its estimates of U.S. net acquisitions of foreign securities in 2002 and 2003. The new estimates incorporate results from the December 2003 survey of U.S. holdings of foreign securities, which measured higher than expected holdings especially of foreign bonds. BEA now estimates that for 2002 and 2003 combined, U.S. investors purchased on net \$73 billion in foreign bonds over the two-year period. This compares with the previous estimate of \$49 billion in net sales—a revision of \$122 billion.

The revised international transactions accounts continue to show negative statistical discrepancies in 2002 and 2003, indicating that net financial inflows exceeded the reported current account deficit. However, in the new estimates the combined discrepancy for the two years is smaller. For 2004, the statistical discrepancy was increased to a positive \$85 billion. The statistical discrepancy in the first quarter of 2005 was a positive \$34 billion.

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

	2003	2004	2004			2005		
			Q2	Q3	Q4	Q1	Mar.	Apr.
Official financial flows	276.8	397.5	79.5	75.5	95.3	30.8	2.9	38.9
1. Change in foreign official assets in the U.S. (increase, +)	275.3	394.7	78.3	75.1	94.6	25.5	3.1	39.0
a. G-10 countries	114.7	162.7	46.2	20.3	-.4	4.6	2.1	.1
b. OPEC countries	6.1	12.1	-2.3	3.6	7.3	-4.8	-5.9	1.9
c. All other countries	154.5	219.9	34.5	51.2	87.8	25.6	6.9	37.0
2. Change in U.S. official reserve assets (decrease, +)	1.5	2.8	1.1	.4	.7	5.3	-.2	-.2
Private financial flows	283.8	187.1	91.6	41.2	73.6	134.6	...	...
Banks								
3. Change in net foreign positions of banking offices in the U.S. ¹	64.7	-15.8	33.6	-23.1	16.4	-15.7	38.3	-50.6
Securities²								
4. Foreign net purchases of U.S. securities (+)	335.6	478.4	140.8	84.4	174.5	163.8	52.2	23.6
a. Treasury securities	105.6	105.8	58.3	-.8	16.1	75.7	39.8	5.4
b. Agency bonds	-33.1	66.5	24.5	.9	43.2	.8	-7.6	-1.3
c. Corporate and municipal bonds	225.0	243.5	48.4	82.6	69.5	57.7	18.4	14.4
d. Corporate stocks ³	38.1	62.6	9.6	1.7	45.7	29.6	1.7	5.0
5. U.S. net acquisitions (-) of foreign securities	-155.9	-102.3	-30.3	-38.4	-18.1	-39.1	-22.1	-7.9
a. Bonds	-41.1	-18.5	10.1	-21.5	-8.4	1.0	-4.5	-5.3
b. Stock purchases	-97.4	-96.0	-27.7	-16.4	-35.1	-38.0	-15.5	-2.7
c. Stock swaps ³	-17.4	12.2	-12.7	-.6	25.5	-2.1	-2.1	.0
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-140.6	-252.0	-58.4	-41.2	-100.0	-32.2	...	...
7. Foreign direct investment in U.S.	67.1	106.8	31.0	35.7	31.6	28.8	...	...
8. Foreign holdings of U.S. currency	16.6	14.8	8.8	2.6	5.3	1.1	...	...
9. Other (inflow, +) ⁴	96.3	-42.9	-33.9	21.2	-36.2	28.0	...	...
U.S. current account balance (s.a.)	-519.7	-668.1	-166.6	-167.0	-188.4	-195.1	...	...
Capital account balance (s.a.)⁵	-3.2	-1.6	-0.4	-0.4	-0.5	-4.5	...	...
Statistical discrepancy (s.a.)	-37.8	85.1	-4.0	50.7	19.9	34.1	...	...

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

1. Changes in dollar-denominated positions of all depository institutions and bank holding companies plus certain transactions between broker-dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements). Includes changes in custody liabilities other than U.S. Treasury bills.

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

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

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

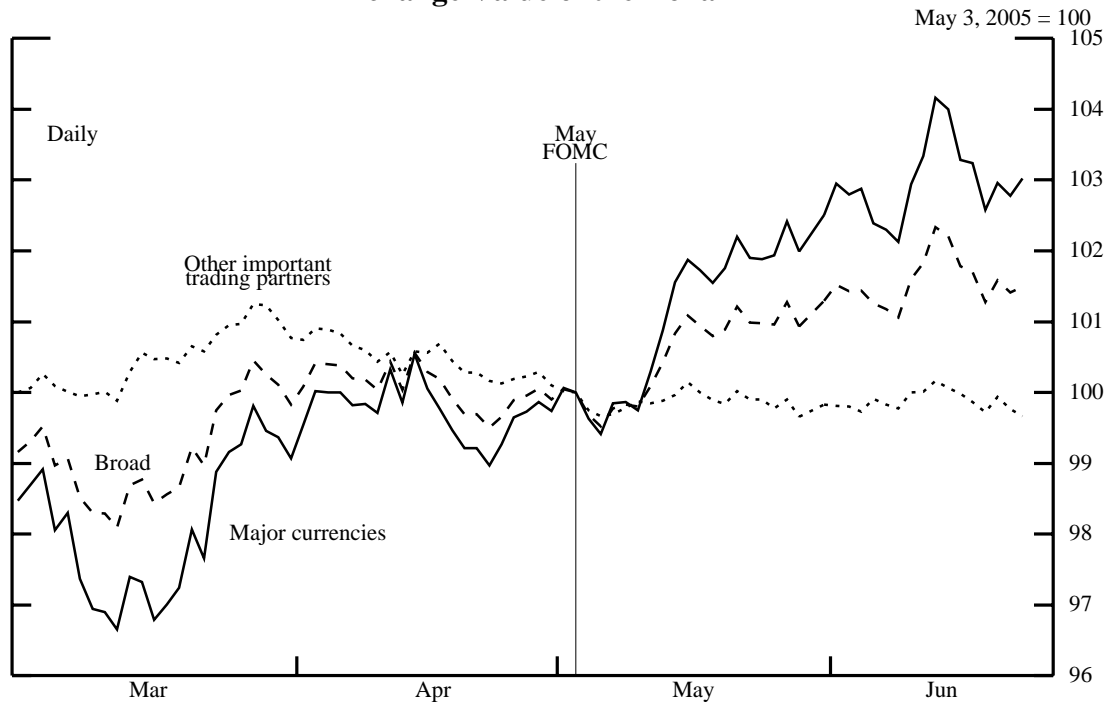
5. Consists of transactions in nonproduced nonfinancial assets and capital transfers.

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

Foreign Financial Markets

The trade-weighted index of the nominal exchange value of the dollar against the major currencies has risen 3 percent on net since the May FOMC meeting, with the dollar appreciating sharply against most major foreign currencies. The dollar appreciated 6½ percent against the euro, with much of the movement occurring after the clear rejections of the European Union's constitution by French and Dutch voters. Several weaker-than-expected economic data releases in the euro area and comments by some ECB officials that appeared to signal a willingness to consider an interest rate cut also weighed on the euro. The dollar appreciated about 3½ against sterling and the yen amid some weaker-than-expected economic data releases in the United Kingdom and Japan. In contrast, the dollar depreciated 1½ percent against the Canadian dollar, which was supported by stronger-than-expected Canadian economic data releases, including employment and trade data. Market participants also interpreted the increase in Canadian government's fiscal spending plans as offering further support to economic growth.

Exchange Value of the Dollar



Recent differences in economic performance between the United States and several European countries were reflected in developments in short-term interest rates. Whereas U.S. dollar three-month deposit rates rose 25 basis points over the intermeeting period, comparable euro and sterling interest rates declined slightly. As had been widely

expected, the European Central Bank, the Bank of Japan (BOJ), the Bank of England, and the Bank of Canada all left their respective monetary policy stances unchanged during the intermeeting period. Although the BOJ did not change its official monetary stance at its meeting on May 20, it stated that it may allow banks' current accounts held at the BOJ to fall below its target range of ¥30 to ¥35 trillion in cases of exceptionally weak liquidity demand. At the June 8-9 meeting of the Bank of England's Monetary Policy Committee, two members voted for a rate cut. Yields on ten-year government bonds declined 20 to 25 basis points in the euro area, the United Kingdom, and the United States. Despite strong economic growth in Canada, the yield on the ten-year Canadian government bond declined 35 basis points.

Financial Indicators in Major Industrial Countries

Country	Three-month rate		Ten-year yield		Equities
	Jun. 22 (Percent)	Percentage point change	Jun. 22 (Percent)	Percentage point change	percent change
Canada	2.59	.02	3.79	-.35	5.40
Japan	.05	.00	1.26	.03	3.66
Euro area	2.10	-.02	3.15	-.24	7.70
United Kingdom	4.72	-.13	4.26	-.25	5.50
Switzerland	.70	.00	1.97	-.08	6.42
Australia	5.65	-.06	5.22	-.11	7.32
United States	3.41	.25	4.01	-.20	4.43
Memo: Weighted-average foreign	1.93	-.02	3.58	-.14	n.a.

NOTE. Change is from May 2/3 to June 22 (10 a.m. EDT).

n.a. Not available.

Equity price indexes in major industrial countries rose 3½ to 8 percent over the intermeeting period, in part on declines in nominal interest rates and as well as on several positive earnings announcements from firms in Europe and the United States. Share prices in the euro area were also likely supported by the decline in the real effective exchange value of the euro.

Financial Indicators in Latin America, Asia, and Russia

Economy	Currency/ US dollar		Short-term interest rates ¹		Dollar-denominated bond spread ²		Equity prices
	Jun. 22	Percent change	Jun.21/22 (Percent)	Percentage point change	Jun.21/22 (Percent)	Percentage point change	Percent change
Mexico	10.75	-2.48	9.60	.10	1.67	-.22	9.04
Brazil	2.37	-5.95	20.58	1.08	4.08	-.48	3.70
Argentina ³	2.87	-1.21	n.a.	n.a.	8.75	-54.37	6.04
Chile	578.40	-.16	3.41	-.25	.73	.02	2.84
China	8.26	-.15	n.a.	n.a.	.71	.06	-4.93
Korea	1010.00	.80	3.55	-.01	...	...	9.67
Taiwan	31.33	.22	1.41	.03	...	...	9.27
Singapore	1.67	2.02	2.00	.00	...	...	2.78
Hong Kong	7.77	-.34	3.21	1.40	...	...	1.92
Malaysia	3.80	-.01	2.83	.02	.60	.15	1.27
Thailand	41.14	4.10	2.62	.17	n.a.	n.a.	2.52
Indonesia	9652.00	1.37	8.11	.43	.57	-.45	9.79
Philippines	55.58	2.72	6.06	2.13	4.23	-.15	5.01
Russia	28.60	2.88	n.a.	n.a.	1.66	-.19	3.55

NOTE. Change is from May 2/3 to June 21/22.

1. One month interbank interest rate, except Chile: 30-day deposit rate; Korea: 1-week call rate. No reliable short-term interest rates exist for China or Russia.

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

3. J.P. Morgan re-structured Argentina's EMBI+ index in reaction to the recent debt exchange, prompting a drop in the Argentine EMBI+ spread from 66.07 to 9.10 percentage points on June 13. n.a. Not available. ... Not applicable.

The dollar was little changed on balance on a trade-weighted basis against the currencies of our other important trading partners. Speculation about how and when China may abandon the renminbi's peg to the dollar continued to be a focus of market participants' discussions. The expected rates of appreciation of the renminbi (RMB) against the dollar three- and twelve-months ahead remained at relatively elevated levels over the intermeeting period, at 1½ and 5 percent, respectively. On May 18, the China Foreign Exchange Trade System began to include eight additional non-RMB foreign currency pairs. Market participants viewed this step as a precursor to moving toward a more flexible Chinese exchange rate regime. Also on that day, the Hong Kong Monetary Authority announced a new trading band of 7.75-7.85 Hong Kong dollars per U.S. dollar,

imposing a limit to appreciation of the currency for the first time in many years. (The Hong Kong dollar's peg was, before then, one-sided: the Hong Kong dollar was allowed to appreciate relative to the stated peg, but not to depreciate.) Market participants reported that the move was likely designed to reduce expectations that Hong Kong's currency board arrangement would be affected by any future change in China's exchange rate regime.

The Brazilian *real* appreciated about 6 percent on balance against the dollar, and Brazil's EMBI+ spread over Treasuries declined about 50 basis points. The central bank of Brazil raised the policy rate another 25 basis points in May, to 19.75 percent, but in June it left the policy rate unchanged in response to signs of falling inflation and weakening economic activity. Brazilian financial indicators rose early in the intermeeting period, but declined somewhat in late May and early June following reports of corruption allegations regarding members of the Lula administration. Financial indicators rebounded in mid-June as concerns about the corruption allegations were alleviated.

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

Developments in Foreign Industrial Countries

GDP growth in most major foreign industrial economies picked up slightly in the first quarter. Both Germany and Japan posted uncharacteristically large increases; real GDP grew 4.2 and 4.9 percent, respectively. In the United Kingdom and France, however, growth slowed, while the Italian economy contracted for the second consecutive quarter. Recent economic indicators for the major foreign economies in the second quarter have been mixed. Indicators for Japan and Canada have been strong, while indicators for the United Kingdom and the euro area have been weak.

Consumer price inflation remained subdued overall, despite recent increases in oil prices. In the euro area, 12-month inflation edged down to 1.9 percent in April. In Canada, consumer prices continued rising at moderate rates. Even though the inflation rate in the United Kingdom moved up earlier in the year, it continued to be slightly below the Bank of England's 2-percent target. Mild deflation persisted in Japan.

In **Japan**, first-quarter growth jumped markedly to 4.9 percent at an annual rate. Private consumption grew 4.6 percent, fueled in part by a further decline in household saving rates. Private investment rose 7.1 percent after minimal growth in the previous two quarters. Although high-tech inventories continued to decline gradually, stocks in other sectors have risen over the last two quarters, and overall inventory investment contributed 1.1 percentage points to GDP growth. Net exports continued to make a slight negative contribution to growth.

Indicators of second-quarter activity have so far been positive. After falling in February and March, industrial production rose 1.9 percent in April. Real spending by households rose 1 percent on the month in April, matched by a similar rise in retail sales, and consumer sentiment rose in May to its highest level in nearly a year. Labor markets continued to improve gradually. In April, the unemployment rate fell to 4.4 percent, marking its lowest level since late 1998. The job-offers-to-applicants ratio, a leading indicator of employment, rose to 0.94, matching highs not seen in twelve years. The external sector continued to make negative contributions: Real exports of goods rose 0.4 percent in April while real imports of goods rose 1.1 percent.

Japanese Real GDP

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

Component	2003 ¹	2004 ¹	2004			2005
			Q2	Q3	Q4	Q1
GDP	2.2	.9	-6	-1.0	.2	4.9
Total domestic demand	1.3	.7	-1.5	-.3	.5	5.5
Consumption	1.0	.3	.2	-.4	-1.4	4.6
Private investment	8.8	1.3	13.5	.7	.2	7.1
Public investment	-12.5	-11.8	-52.4	-7.2	-1.4	-2.5
Government consumption	1.0	3.1	2.7	1.2	2.6	2.4
Inventories ²	-.3	.4	-.7	-.1	.8	1.1
Exports	10.6	10.8	14.4	2.1	5.5	-1.5
Imports	2.8	10.4	7.8	9.4	8.8	1.9
Net exports ²	.9	.3	1.0	-.6	-.2	-.4

1. Q4/Q4.

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

Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) rose one tenth of a percentage point in May from the previous month and were down 0.4 percent from a year earlier. Wholesale price inflation ticked down to 1.8 percent in May. While continuing to state that it would maintain its policy of quantitative easing until deflation ends, the Bank of Japan's (BOJ) Policy Board in late May decided to allow temporary breaks below the target range for banks' balances with the BOJ if banks' demand for funds was too weak to satisfy the target. The balance of reserve accounts fell below the ¥30 trillion lower end of the target range in early June but reversed these declines subsequently.

Japanese Economic Indicators

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

Indicator	2004		2005				
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Industrial production ¹	-1	-9	1.8	-2.3	-2	1.9	n.a.
All-industries index	0.0	-1	1.3	-1.3	-5	n.a.	n.a.
Housing starts	5.0	-3.9	3.3	-9.9	-6	-2.4	n.a.
Machinery orders ²	-5.4	5.7	.8	4.8	1.9	-1.0	n.a.
Machinery shipments ³	-.7	-.8	-.4	-3.5	.8	4.5	n.a.
New car registrations	10.0	1.0	-2.7	-.6	-.3	.3	-.7
Unemployment rate ⁴	4.8	4.6	4.6	4.7	4.5	4.4	n.a.
Job offers ratio ⁵	.85	.90	.91	.91	.91	.94	n.a.
Business sentiment ⁶	2.0	1.0	-2.0	...	...	...	...
CPI (core, Tokyo area) ⁷	-1	-3	-5	-5	-5	-5	-.4
Wholesale prices ⁷	1.8	2.0	1.3	1.3	1.4	1.9	1.8

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

GDP growth in the **euro area** picked up in the first quarter to a 2 percent pace. Net exports rebounded sharply to contribute 2.2 percentage points to GDP, as imports fell and exports firmed. Domestic demand made a slight negative contribution to growth, as contractions in investment and government spending more than offset a moderate rise in household consumption. Among individual countries, Italian GDP contracted for the second straight quarter. In contrast, German GDP growth rose to more than a 4 percent pace, but that gain was exaggerated by inadequate adjustment for working days.

Indicators for the second quarter generally have pointed to economic weakness, especially in the industrial sector. The European Commission's measure of euro-area economic sentiment fell in May to its lowest level in more than a year and a half. The euro-area manufacturing PMI declined in May to 48.7, its lowest level in nearly two years and below the 50 threshold for growth. In contrast, the PMI for the services sector picked up a bit in May and has fluctuated around 53 during the past nine months, indicating positive growth. The continued buoyancy of the consumer sector has been called into question by a decline in consumer confidence and the 1.2 percent decline in euro-area retail sales in April.

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

Component	2003 ¹	2004 ¹	2004			2005
			Q2	Q3	Q4	Q1
GDP	.9	1.5	1.7	1.1	.6	2.0
Total domestic demand	1.7	1.7	1.3	3.3	1.6	-.2
Consumption	.7	1.6	.4	1.3	2.5	1.1
Investment	1.1	1.2	1.7	1.9	3.1	-2.8
Government consumption	2.3	2.1	2.8	3.5	1.0	-.7
Inventories ²	.5	.1	.2	1.3	-.7	-.0
Exports	.6	5.5	11.3	3.9	1.0	.9
Imports	2.7	6.4	11.2	9.8	3.6	-4.4
Net exports ²	-.7	-.2	.4	-2.0	-1.0	2.2
Memo:						
<i>GDP of selected countries</i>						
France	1.4	2.1	2.4	.8	2.7	.8
Germany	.3	.5	.8	-.2	-.5	4.2
Italy	.1	.8	1.5	1.5	-1.7	-2.0

1. Q4/Q4.

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

Labor markets conditions remained weak in the euro area, with the unemployment rate unchanged at 8.9 percent in April. In Germany, the national definition of the unemployment rate was 11.8 percent in May, down a bit from 12 percent in March.

Euro-area twelve-month consumer price inflation inched down to 1.9 percent in May, just below the ECB ceiling, from 2.1 percent in April. Core inflation, excluding energy and unprocessed food, was up a bit to 1.5 percent but remained below the first quarter-average. In April and May, on average, energy prices were up more than 1½ percent from March.

French and Dutch voters rejected the EU constitutional treaty in recent referendums. Nearly 55 percent of French voters voted “no” on May 29, and nearly 62 percent of Dutch voters followed suit on June 1. The future of this treaty is now very uncertain. Nine countries, accounting for nearly half of the EU population, have already ratified the constitutional treaty, although only one – Spain – did so by referendum. Several EU countries, including the United Kingdom, have put plans for constitutional referendums

Euro-Area Economic Indicators

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

Indicator	2004		2005				
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Industrial production ¹	.2	-.3	-.1	-.6	-.2	n.a.	n.a.
Retail sales volume ²	-.2	0.0	.7	0.0	.1	-1.2	n.a.
Unemployment rate ³	8.8	8.8	8.9	8.9	8.9	8.9	n.a.
Consumer confidence ⁴	-13.7	-13.0	-13.3	-13.0	-14.0	-13.0	-15.0
Industrial confidence ⁴	-3.7	-3.3	-6.3	-6.0	-8.0	-9.0	-11.0
Manufacturing orders, Germany	-.1	1.6	-.3	-2.0	2.1	-2.9	n.a.
CPI ⁵	2.2	2.3	2.0	2.1	2.1	2.1	2.0
Producer prices ⁵	3.1	3.8	4.1	4.2	4.2	4.2	n.a.
M3 ⁵	6.0	6.6	6.5	6.6	6.5	6.7	n.a.

1. Excludes construction.

2. Excludes motor vehicles.

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

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

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

n.a. Not available.

on hold. So far, the recent decline in the exchange value of the euro has been the main economic effect of the rejections. In the medium term, however, the rejection of the Constitution could make it more difficult for member states to agree on EU affairs and hinder structural reforms that the EU Commission has promoted in recent years.

Real GDP in the **United Kingdom** rose 2 percent at an annual rate in the first quarter, slightly lower than the preliminary estimate. Total domestic demand growth slowed sharply in the first quarter to a paltry 0.6 percent rate. Consumption growth improved over the fourth quarter but remained quite weak. Investment surprised on the downside, actually contracting 0.1 percent. Imports fell more than exports, leading to a large positive contribution from net exports. House prices were essentially unchanged in April and May, marking a slowdown from the first quarter. Consistent with the deceleration in house prices, household net mortgage borrowing weakened somewhat in April, staying well below its 2003 peak.

Business confidence has fallen considerably since the end of the first quarter. Consumer confidence, after increasing at the end of the first quarter, fell back below its long-run average in April and May. The PMI for manufacturing fell below 50 in April and dropped further in May, signaling a possible contraction in manufacturing. The PMI for

U.K. Real GDP

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

Component	2003 ¹	2004 ¹	2004			2005
			Q2	Q3	Q4	Q1
GDP	2.7	2.9	3.9	2.2	2.8	2.0
Total domestic demand	2.7	3.4	3.3	4.7	3.6	.6
Consumption	2.1	3.0	3.2	3.1	1.1	1.3
Investment	2.3	4.5	10.7	4.3	2.3	-1
Government consumption	5.1	3.6	2.8	4.7	3.4	2.8
Inventories ²	-.0	-.0	-.7	1.2	1.7	-.6
Exports	4.7	4.4	8.9	-.2	6.6	-3.8
Imports	4.5	5.7	6.0	8.6	8.9	-7.4
Net exports ²	-.2	-.6	.5	-2.7	-1.0	1.4

1. Q4/Q4.

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

services has remained unchanged, on balance, over the course of the year and continues to indicate expansion in the services sector.

The twelve-month rate of consumer price inflation has remained at 1.9 percent since March, just below the Bank of England's 2 percent target. Twelve-month consumer price inflation excluding energy has also remained stable near 1.5 percent since March. In its *May Inflation Report*, the Bank of England forecast inflation, using market expectations for interest rates, to edge just above the target in the very near term and then fall back below target at a two-year horizon.

U.K. Economic Indicators

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

Indicator	2004		2005				
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
Industrial production	-1.2	-.1	-.8	-.5	-1.0	.8	n.a.
Retail sales volume ¹	.9	.2	.1	.1	-.3	.5	.1
Unemployment rate ²							
Claims-based	2.7	2.7	2.6	2.6	2.7	2.7	2.7
Labor force survey ³	4.7	4.7	n.a.	4.7	4.7	n.a.	n.a.
Business confidence ⁴	12.3	4.3	12.7	19.0	9.0	5.0	-1.0
Consumer confidence ⁵	-3.3	-.7	1.0	0.0	3.0	0.0	-3.0
Consumer prices ⁶	1.2	1.4	1.7	1.6	1.9	1.9	1.9
Producer input prices ⁷	5.6	6.8	10.5	10.8	11.0	10.2	7.8
Average earnings ⁷	3.8	4.3	4.6	5.7	4.0	4.3	n.a.

1. Excludes motor vehicles.

2. Percent.

3. Three-month average centered on month shown.

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

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

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

7. Percent change from year earlier.

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

In **Canada**, real GDP grew 2.3 percent in the first quarter, a slight acceleration from the previous quarter. The sharp divergence between net external demand, which made a negative contribution to GDP growth and domestic demand, which expanded strongly, continued for the third quarter in a row. Following two quarters of declines, exports rebounded to post a 5.9 percent advance. However, a much larger surge in imports caused net exports to subtract 1.7 percentage points from growth. Personal consumption and business investment, especially of machinery and equipment, continued their strong growth.

Indicators for the second quarter suggest further strengthening of economic activity. The merchandise trade surplus ticked up in April as exports rose and imports fell slightly. Housing starts dipped a bit in May, but still remain solid. Manufacturing shipments and new orders each perked up in April following a weak finish in the first quarter. Retail sales surged in April, continuing their first-quarter strength. In May, the composite index of leading indicators continued its recent solid advances.

Employment growth was quite strong in both April and May, with the notable exception of the manufacturing sector, which continues to shed jobs. The unemployment rate continued to edge down in the first two months of the second quarter, reaching a five-year low of 6.8 percent.

In April, the twelve-month rate of consumer price inflation edged up to 2.4 percent, while the twelve-month rate of core inflation, which excludes the eight most volatile components from the overall price index, moved down slightly to 1.7 percent.

In May, as part of a deal to help keep the minority Liberal government in place, the government announced roughly C\$10 billion of additional spending in 2005 and 2006. The new spending is targeted mostly for health care and other social programs.

Canadian Real GDP

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

Component	2003 ¹	2004 ¹	2004			2005
			Q2	Q3	Q4	Q1
GDP	1.7	3.3	5.0	3.5	2.1	2.3
Total domestic demand	3.9	5.1	1.7	9.7	6.2	3.2
Consumption	2.7	3.9	2.2	3.5	3.8	6.3
Investment	8.5	5.4	2.3	6.3	7.5	6.9
Government consumption	2.7	2.5	3.2	2.0	2.1	3.2
Inventories ²	.0	1.2	-.7	5.5	1.9	-2.4
Exports	.1	3.0	19.0	-2.8	-3.1	5.9
Imports	5.7	8.3	11.6	12.4	8.3	10.6
Net exports ²	-2.1	-1.9	3.0	-5.8	-4.5	-1.7

1. Q4/Q4

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

Canadian Economic Indicators

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

Indicator	2004		2005				
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
GDP by industry	.9	.5	.5	.2	-.1	n.a.	n.a.
Industrial production	1.3	0.0	-.2	-.4	-.6	n.a.	n.a.
New manufacturing orders	1.5	-.9	3.1	-4.9	-.5	.4	n.a.
Retail sales	1.5	1.5	2.4	1.6	.1	1.5	n.a.
Employment	.3	.4	.1	.2	.0	.2	.2
Unemployment rate ¹	7.1	7.1	7.0	7.0	6.9	6.8	6.8
Consumer prices ²	2.0	2.3	2.1	2.1	2.3	2.4	n.a.
Core consumer prices ^{2,3}	1.7	1.6	1.7	1.8	1.8	1.7	n.a.
Consumer attitudes (1991 = 100)	122.8	123.7	123.7	...	...	...	...
Business confidence (1991 = 100)	151.4	139.8	135.9	...	...	...	...

1. Percent.

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

3. Excluding the 8 most volatile components (fruits, vegetables, gasoline, fuel oil, natural gas, mortgage interest, intercity transportation, and tobacco).

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

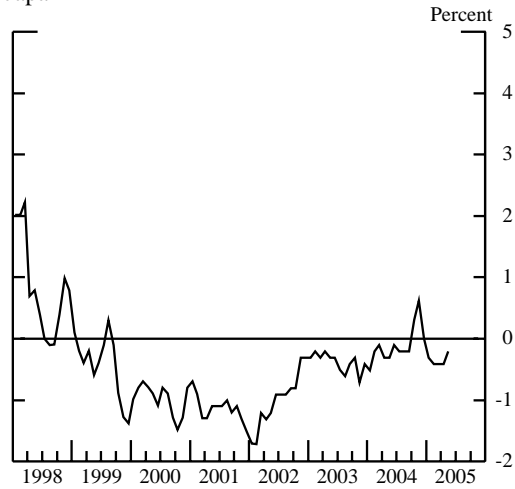
External Balances
(Billions of U.S. dollars, s.a.a.r.)

Country and balance	2004		2005	2005		
	Q3	Q4	Q1	Feb	Mar	Apr.
<i>Japan</i>						
Trade	102.7	105.5	102.8	105.2	102.1	79.4
Current account	169.8	173.8	174.3	190.0	156.6	155.5
<i>Euro area</i>						
Trade	57.3	61.6	75.9	79.2	69.3	n.a.
Current account	19.6	36.8	33.9	n.a.	36.4	n.a.
<i>Germany</i>						
Trade	182.0	195.3	215.0	205.7	232.2	195.4
Current account	100.5	83.7	144.2	128.1	119.6	91.9
<i>France</i>						
Trade	-16.2	-26.2	-28.1	-23.7	-37.1	-49.9
Current account	-12.2	-16.9	-24.4	13.8	-25.5	n.a.
<i>Italy</i>						
Trade	-1.3	-8.6	-9.2	-8.2	-14.1	n.a.
Current account	-3.2	-24.4	-24.8	-16.6	-31.8	n.a.
<i>United Kingdom</i>						
Trade	-110.1	-115.3	-112.6	-108.9	-106.0	-110.1
Current account	-68.7	-37.7	n.a.	...	--	--
<i>Canada</i>						
Trade	50.7	47.3	42.9	46.9	47.4	49.1
Current account	21.9	17.3	13.0	...	--	--

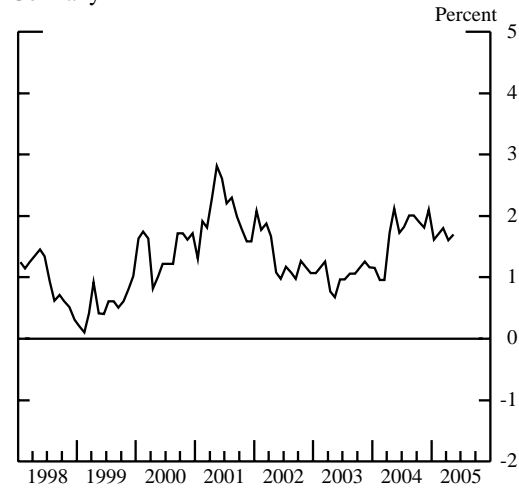
n.a. Not available. ... Not applicable.

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

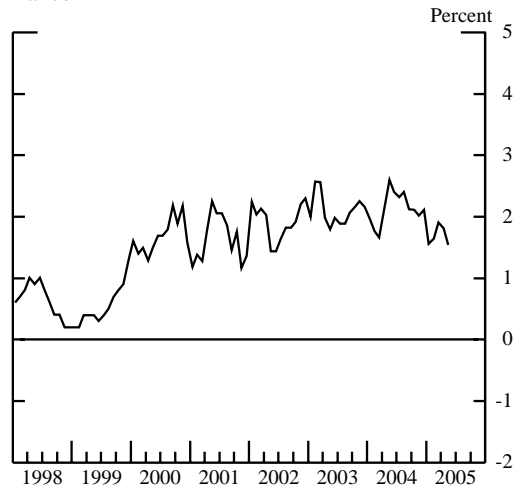
Japan



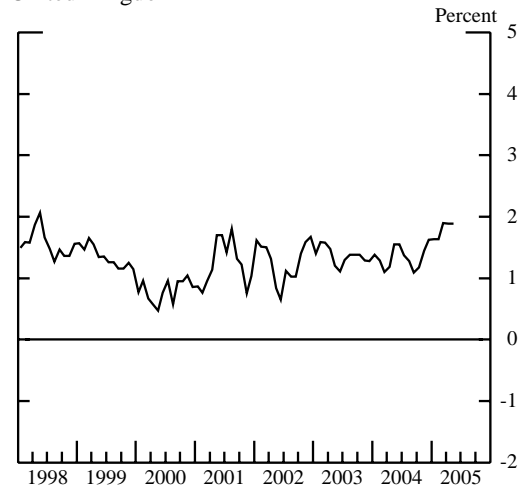
Germany



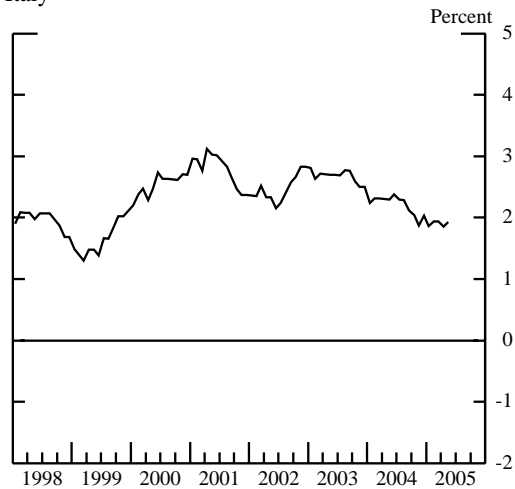
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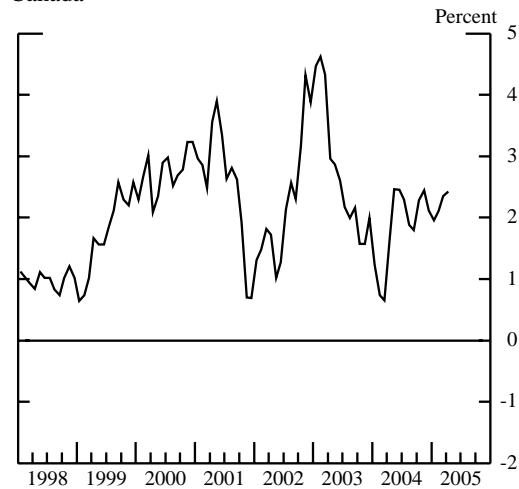
United Kingdom



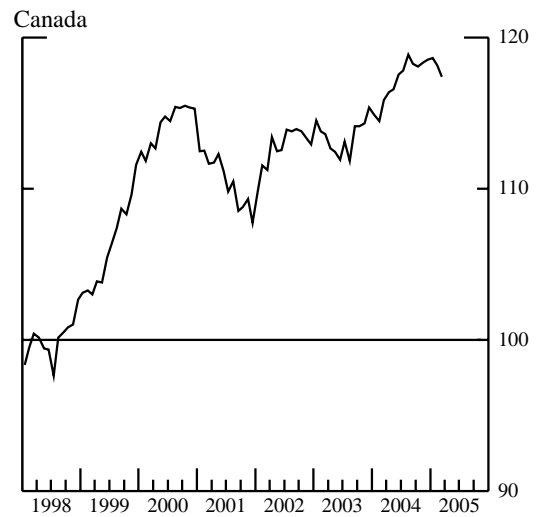
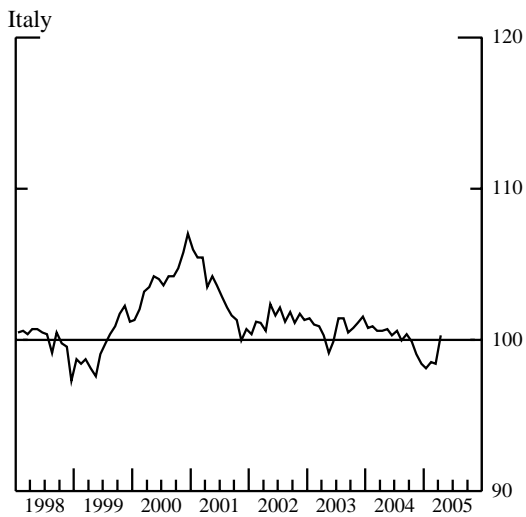
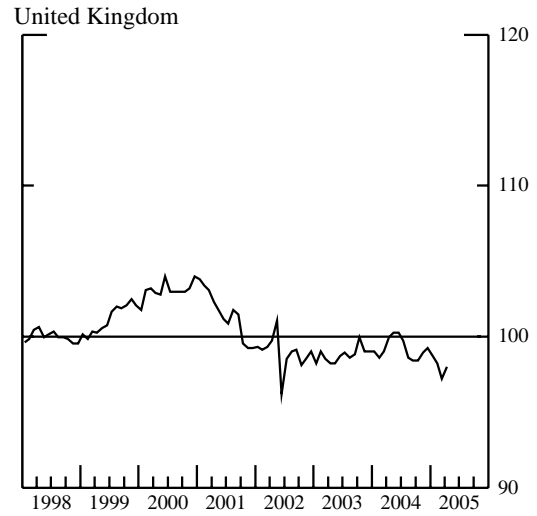
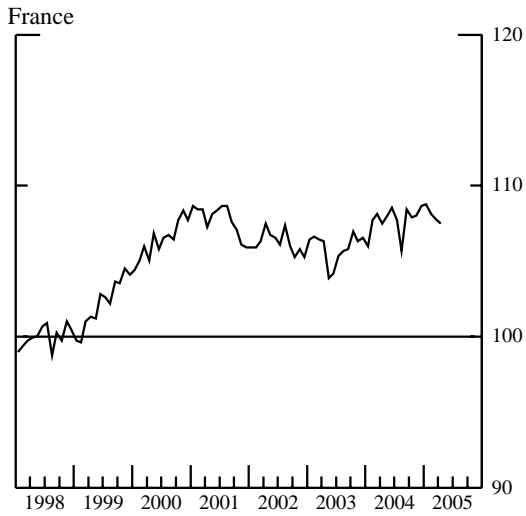
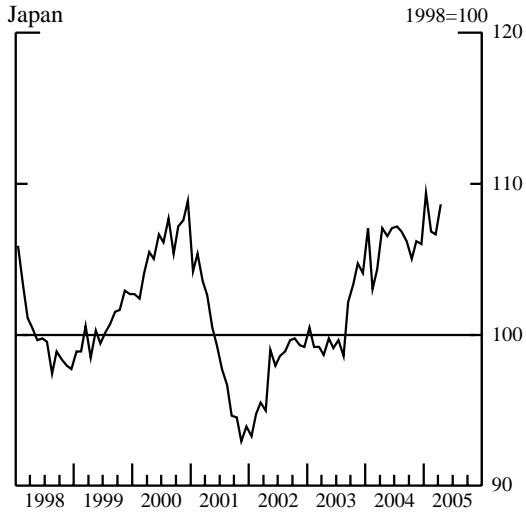
Italy



Canada



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

Indicators have varied across the developing economies but, on balance, point to moderation in economic performance. In Asia, some ASEAN countries are showing signs of a sharp pickup from a weak first quarter, while performance has disappointed in Korea and recent data suggest some slowing in China's extraordinary pace of growth. For the major Latin American economies, tighter monetary policy has contributed to a step-down in growth. With the notable exception of China and Mexico, inflation rates in most of the emerging economies have held steady or risen from their levels last year.

Indicators from **China** point to strong growth, albeit off the blistering pace of the first quarter. The trade balance has widened significantly in recent months; exports continued to grow rapidly while imports slowed considerably. The weakness in imports has been widespread across categories and is likely due to the effects of last year's measures to rein in investment growth as well as to the increased domestic production of certain imported goods. Imports of steel, for example, have slowed as domestic steel production has soared in response to significant investment in steel manufacturing capacity. Industrial production was flat in May after surging in April. Investment growth remains robust, though below its first-quarter pace, and the Chinese PMI fell in May but stayed in expansionary territory. Consumer price inflation remained low, as declining food prices have offset modest increases in non-food prices.

Chinese Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	10.0	9.5	11.7	13.0	...	...	...
Industrial production	18.6	14.5	3.6	3.0	1.0	2.5	.2
Consumer prices ²	3.2	2.6	3.3	2.8	2.8	1.6	1.9
Trade balance ³	25.5	32.1	72.9	90.9	97.4	93.4	110.0

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

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

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

... Not applicable.

Real GDP in **Hong Kong** grew over 6 percent at an annual rate in the first quarter. Exports and investment both made strong positive contributions to growth. The unemployment rate continued its steady decline, and the trade deficit narrowed a bit in April, with a rise in exports outpacing that of imports. Twelve-month consumer price inflation remains positive but low.

Hong Kong Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	4.5	6.8	2.4	6.1	...	...	...
Unemployment rate ²	7.9	6.9	6.5	6.1	6.1	5.9	5.7
Consumer prices ³	-1.9	.2	.2	.3	.8	.5	n.a.
Trade balance ⁴	-8.5	-12.0	-7.4	-9.4	-9.0	-7.6	n.a.

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

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

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

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

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

Taiwanese real GDP grew just over 2½ percent (a.r.) in the first quarter. Export growth was strong enough to offset a large negative contribution from the change in inventories. Industrial production rose in April after contracting, on average, in each of the last two quarters. Orders for electronic goods rebounded in April following a weak first quarter. Consumer price inflation was up from the first quarter, largely due to increases in food prices.

Taiwan Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	5.8	3.2	2.1	2.6	...	...	...
Unemployment rate ²	5.0	4.5	4.2	4.2	4.2	4.2	4.2
Industrial production	7.1	9.8	-.5	-.2	-1.0	1.1	n.a.
Consumer prices ³	-.1	1.6	1.8	1.6	2.3	1.6	2.3
Trade balance ⁴	16.9	6.1	-3.1	2.8	.4	4.9	1.2
Current account ⁵	29.3	18.7	7.4	16.7	...	...	...

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

2. Percent.

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

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

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

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

Data for **Korea** have generally weakened. Real GDP rose only 1.4 percent (a.r.) in the first quarter. Output was boosted by consumption and a notable increase in net exports but held down by a sharp inventory runoff and a drop in investment. Indicators for the second quarter are mixed. Recent sales and confidence surveys were up from first-quarter levels but industrial production fell in April and the current account registered a deficit as export growth moderated and foreigners received sizable investment income. Consumer price inflation remained within the government's target range of 2.5-3.5 percent and the unemployment rate was basically unchanged.

Korean Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	4.2	3.0	3.8	1.4	...	...	...
Industrial production	4.9	10.2	2.0	1.1	3.9	-1.7	n.a.
Unemployment rate ²	3.4	3.5	3.5	3.5	3.5	3.6	3.5
Consumer prices ³	3.4	3.0	3.4	3.1	3.0	3.2	3.1
Trade balance ⁴	22.0	38.2	35.5	43.1	38.8	28.3	n.a.
Current account ⁵	11.9	27.6	29.4	23.8	13.4	-10.9	n.a.

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

2. Percent.

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

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

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

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

In the ASEAN region, first-quarter performance was mixed. Real GDP growth increased in Malaysia and the Philippines, moderated in Indonesia, and turned negative in Thailand and Singapore. Domestic factors, including a recovery in the Philippine agriculture sector and the effects of the tsunami in Thailand, contributed to the divergent performance. More recently, for a number of countries, April industrial production was up from the first-quarter average.

The ASEAN economies continued, on average, to run trade surpluses. The exception is Thailand where the effect of higher oil prices on imports has contributed to large trade deficits so far this year.

Aside from Singapore, consumer price inflation remained elevated across the region, reflecting higher food and energy prices and the effect of reductions in oil subsidies in some countries. The Thai central bank continued tightening monetary policy by raising interest rates 25 basis points to 2.50 percent on June 9, the fifth rate increase since August 2004.

ASEAN Economic Indicators: Growth

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Feb.	Mar.	Apr.
<i>Real GDP¹</i>							
Indonesia	5.0	6.5	9.8	6.0	...	...	...
Malaysia	6.6	5.7	5.0	9.3	...	...	...
Philippines	4.9	5.5	3.3	4.6	...	...	...
Singapore	5.5	6.5	7.9	-5.5	...	...	...
Thailand	7.6	5.5	6.1	-2.4	...	...	...
<i>Industrial production²</i>							
Indonesia ³	3.9	4.1	4.5	-1.5	6.2	4.8	n.a.
Malaysia	9.3	11.3	1.3	1.4	3.8	.0	1.7
Philippines	.0	1.0	.6	-2.6	.2	-3.9	n.a.
Singapore	3.0	13.9	5.3	-7.8	-10.4	-1.2	13.4
Thailand	14.0	6.4	2.9	-3.0	-5.2	6.1	-8

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

2. Annual data are annual averages.

3. Staff estimate.

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

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Mar.	Apr.	May
Indonesia	28.5	25.1	30.4	28.2	29.5	19.3	n.a.
Malaysia	21.4	21.2	18.3	27.5	30.7	29.5	n.a.
Philippines	-1.3	-.7	-.5	1.0	.3	n.a.	n.a.
Singapore	16.2	16.1	18.3	14.9	13.9	12.4	17.2
Thailand	3.8	1.7	3.6	-12.3	-12.3	-15.7	n.a.

n.a. Not available.

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

Indicator	2003 ¹	2004 ¹	2004	2005			
			Q4	Q1	Mar.	Apr.	May
Indonesia	5.2	6.4	6.3	7.8	8.8	8.1	7.4
Malaysia	1.2	2.1	2.1	2.4	2.6	2.7	3.1
Philippines	3.9	8.6	8.1	8.5	8.5	8.5	8.5
Singapore	.7	1.3	1.7	.3	.4	.4	n.a.
Thailand	1.8	2.9	3.2	2.8	3.2	3.6	3.7

1. Dec./Dec.

n.a. Not available.

Recent indicators for **India** have been generally positive. Industrial production surged in March before pausing in April. Although consumer price inflation has risen recently, growth in the more-watched wholesale price index remains well below the fourth-quarter pace. Export growth is up but has been outpaced by surging imports, and the current account deficit has expanded. The Reserve Bank of India surprised market participants by increasing a key target rate 25 basis points at its late April meeting, citing concerns over higher oil and other commodity prices.

Indian Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	11.0	6.2	6.0	n.a.	...	...	...
Industrial production	6.6	8.5	4.6	4.6	3.4	-1	n.a.
Consumer prices ²	3.7	3.8	4.2	4.2	4.2	5.0	n.a.
Wholesale prices ²	5.8	6.7	7.2	5.3	5.4	5.8	5.5
Trade balance ³	-13.8	-21.7	-28.8	-33.6	-28.8	-46.5	-33.6
Current account ⁴	6.9	-1.6	-21.9	n.a.	...	...	...

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

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

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

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

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

In **Mexico**, recent data suggest a moderation in economic activity. First-quarter real GDP grew 1.7 percent at an annual rate, down from 5.4 percent in the fourth quarter, reflecting weaker U.S. demand for Mexican manufacturing exports and higher Mexican real interest rates. Fewer working days in the first quarter—as the Easter holidays fell in March this year compared with April in 2004—also contributed to the soft economic performance. Production remained sluggish in April.

After tightening monetary policy a dozen times from early 2004 to March 2005, the Bank of Mexico has left its monetary stance unchanged so far in the second quarter. The rate on 28-day peso-denominated bills is now about 9.6 percent, up from about 5 percent when tightening began. Twelve-month consumer prices rose 4.6 percent in May, below the 5.3 percent registered at the end of last year, but still above the target range of 2 to 4 percent. Core inflation (not shown) has been trending down, however.

Mexican Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	2.1	4.8	5.4	1.7	...	...	...
Overall economic activity	1.4	4.0	1.2	.3	-.4	n.a.	n.a.
Industrial production	-.2	3.5	.5	-.1	-1.0	.0	n.a.
Unemployment rate ²	3.2	3.7	3.7	3.8	3.9	4.1	n.a.
Consumer prices ³	4.0	5.2	5.3	4.4	4.4	4.6	4.6
Trade balance ⁴	-5.8	-8.8	-14.4	-11.7	-8.8	-7.6	n.a.
Imports ⁴	170.5	196.8	207.9	210.8	210.2	211.1	n.a.
Exports ⁴	164.8	188.0	193.5	199.1	201.3	203.5	n.a.
Current account ⁵	-8.4	-7.3	-18.8	-10.4	...	...	...

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

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

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

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

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

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

In **Brazil**, data releases since the April Greenbook have pointed to continued weakening in economic activity. Real GDP growth was up only 1.3 percent (a.r.) in the first quarter, with private consumption declining over 2 percent and investment dropping for the second consecutive quarter. The export sector was the only bright spot. In April, industrial production held steady, but output of capital goods declined. Both headline inflation and core inflation (excluding food and administered prices) slowed in May, and the median expected inflation for twelve months ahead declined to about 5 percent.

After a surprise 25 basis point rate hike in May, the Brazilian central bank has left its policy rate, the Selic, unchanged at 19¾ percent in response to the weaker economy. Scandals involving members of Lula's political coalition have dominated the headlines in recent weeks. Although Lula has not been implicated, the crisis is eroding his previously high level of popular support and raising some concerns about the future of the government's reform efforts.

Brazilian Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	.8	4.6	1.7	1.3	...	...	...
Industrial production	.1	8.3	.6	-.2	1.5	.0	n.a.
Unemployment rate ²	12.3	11.5	10.8	10.6	10.4	10.3	n.a.
Consumer prices ³	9.3	7.6	7.2	7.4	7.5	8.1	8.1
Trade balance ⁴	24.8	33.7	34.0	39.8	39.8	49.1	41.2
Current account ⁵	4.2	11.7	8.0	10.8	21.1	9.1	7.4

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

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

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

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

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

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

The economic recovery in **Argentina** appears to be maturing. Real GDP rose at an annual rate of just 2 percent in the first quarter as construction in part took a respite from the heady pace of expansion of late last year. The unemployment rate moved up in the first quarter after having fallen relatively steadily to about half of its crisis peak. More recently, industrial production ticked down in April following previous strong gains. Twelve-month consumer price inflation was 8½ percent in May as a result of a jump in food prices earlier in the year. Inflation remains above the upper end of the central bank's unofficial target range of 5-8 percent for 2005.

The final settlement of Argentina's debt exchange was completed in early June. On June 1, Standard & Poor's changed Argentina's long-term sovereign credit rating from selective default to B-. Argentina's access to international capital markets may partially depend on the fate of Argentina's hold-out investors, accounting for almost \$20 billion (about 25 percent) in defaulted bonds, and on the outcome of upcoming negotiations with the IMF over a new loan program.

Argentine Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	11.8	9.1	10.6	2.1	...	...	...
Industrial production	16.2	10.7	2.0	2.0	2.0	-4	n.a.
Unemployment rate ²	17.3	13.6	12.1	13.0	...	...	...
Consumer prices ³	3.7	6.1	5.8	8.2	9.2	8.8	8.6
Trade balance ⁴	15.7	12.1	10.2	9.7	9.7	9.3	n.a.
Current account ⁵	7.4	3.0	1.9	n.a.	...	...	...

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

2. Percent; n.s.a.

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

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

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

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

In **Venezuela**, preliminary estimates point to strong real GDP growth in the first quarter, supported by oil revenue-financed government spending. Inflation has continued to be high, with the monthly CPI rising 2.6 percent in May, driven by pass-through from the March devaluation of the bolivar as well as by expansionary fiscal policies. International reserves edged up to \$28 billion in mid-June. Oil production is widely believed to have declined in recent months, reflecting numerous problems at the government oil firm and the government's continued hostility toward private investors.

Venezuelan Economic Indicators

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

Indicator	2003	2004	2004	2005			
			Q4	Q1	Mar.	Apr.	May
Real GDP ¹	6.6	12.1	8.2	n.a.	...	...	...
Unemployment rate ²	18.0	15.1	14.1	13.3	13.2	11.6	n.a.
Consumer prices ³	27.1	19.2	19.5	17.0	15.7	15.8	17.4
Non-oil trade balance ⁴	-5.5	-10.5	-12.2	-14.5	...	...	...
Trade balance ⁴	16.5	21.4	24.6	28.1	...	...	...
Current account ⁵	11.4	13.8	14.3	18.5	...	...	...

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

2. Percent.

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

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

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

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