Prefatory Note

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Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

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[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Confidential (FR) Class III FOMC

Part 2

May 13, 1999

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Prepared for the Federal Open Market Committee
by the staff of the Board of Governors of the Federal Reserve System

Confidential (FR) Class III FOMC

May 13, 1999

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee
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DOMESTIC NONFINANCIAL DEVELOPMENTS

Domestic Nonfinancial Developments

Overview

The striking combination of robust expansion and low inflation continued during the first quarter. The fragmentary data for April and early May suggest that the economy has maintained considerable momentum in the second quarter. While wages have remained remarkably subdued in a tight labor market, prices have been lifted by a sharp run-up in energy prices.

Real GDP

According to BEA's advance estimate, real GDP rose 4-1/2 percent at an annual rate in the first quarter. Subsequently, we have received additional source data that--all else equal--point to a downward revision to first-quarter GDP growth of about ½ percentage point. The bulk of this revision can be accounted for by lower-than-expected inventory accumulation in wholesale trade. Changes to estimates for the components of final sales are expected to be small and roughly offsetting. *Unless otherwise noted, the discussion of first-quarter activity in the remainder of this section of the Greenbook incorporates our expected revisions to the GDP data.*

Labor Market Developments

The April labor market report provided some mixed signals. But we believe that the central feature, in terms of the strength of the economy, is the continued rapid pace of hiring. Nonfarm payroll employment rose a substantial 234,000 in April--above the first-quarter monthly average and on pace with the average monthly growth in 1998.[1]

The gains in employment in April were concentrated in the service-producing industries: Retail trade employment jumped 66,000 after having declined 24,000 in March, a swing that can be explained primarily by large gyrations in jobs at eating and drinking places. Employment in finance, insurance, and real estate increased 23,000 in April, and payroll growth in services totaled 131,000.

In construction, payrolls bounced back a slight 8,000 in April from the large decline in March. Weather conditions played a role in this fluctuation, as they do so often in this sector. Since October, construction payrolls have risen 32,000 per month, on average, indicating considerable strength in this industry

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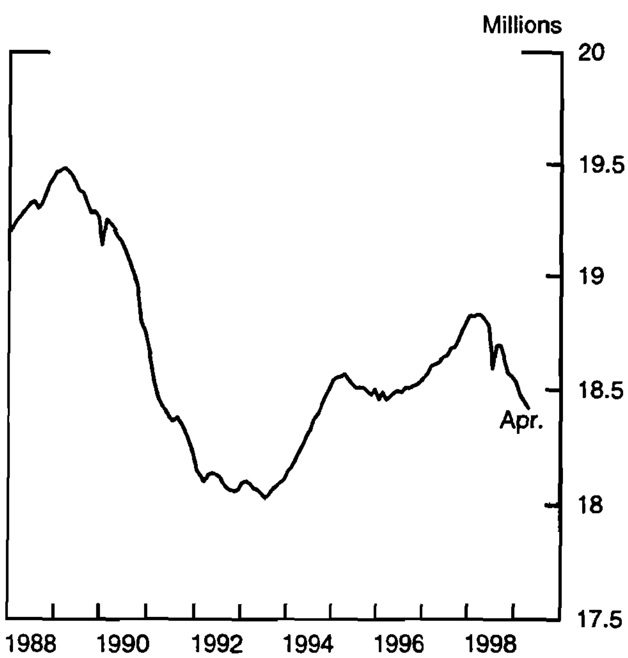
1. With the employment report to be released in early June, the payroll employment figures will reflect the annual benchmark revision. Preliminary tabulations by the BLS indicate that total nonfarm payroll employment for March 1998 will be revised upward by approximately 50,000, or about 0.04 percent. The revision will be wedged into the level of employment evenly from April 1997 to March 1998. The anticipated revision is quite small compared with the average revision of about 0.3 percent over the previous decade and does not noticeably affect our views of the trends in employment, hours, or productivity.

CHANGES IN EMPLOYMENT
(Thousands of employees; based on seasonally adjusted data)

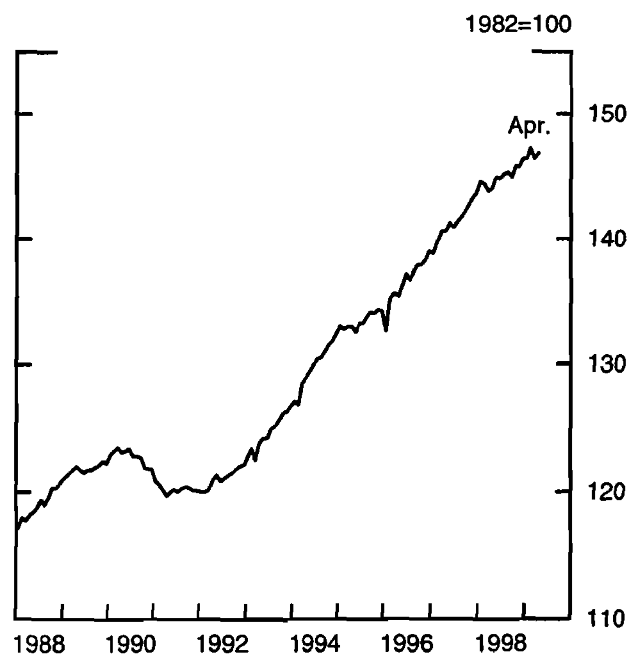
	1998	1998 Q3	1998 Q4	1999 Q1	1999 Feb.	1999 Mar.	1999 Apr.
	--Average monthly changes--						
Nonfarm payroll employment [1]	236	204	252	186	335	7	234
Private	207	166	220	151	273	-15	226
Manufacturing	-19	-29	-44	-37	-56	-29	-29
Construction	29	12	57	14	79	-53	8
Transportation and utilities	15	14	16	13	9	12	22
Retail trade	39	48	40	40	100	-24	66
Finance, insurance, real estate	22	20	22	14	7	6	23
Services	113	91	127	99	132	69	131
Business services	39	16	50	39	54	28	51
Help supply services	6	-12	13	13	24	7	18
Total government	29	38	31	36	62	22	8
Private nonfarm production workers [1]	157	125	173	125	321	-53	162
Total employment [2]	157	188	236	169	-252	-111	36
Nonagricultural	171	153	319	149	-280	-65	-67
Memo:							
Aggregate hours of private production workers (percent change)[1,3]	2.0	1.6	2.3	1.9	0.5	-0.5	0.3
Average workweek (hours) [1]	34.6	34.5	34.6	34.5	34.6	34.4	34.5
Manufacturing (hours)	41.8	41.7	41.7	41.6	41.6	41.5	41.7

Note. Average change from final month of preceding period to final month of period indicated.
1. Survey of establishments.
2. Survey of households.
3. Annual data are percent change from Q4 to Q4. Quarterly data are percent change from preceding quarter at an annual rate. Monthly data are percent change from preceding month.

Manufacturing Employment



Aggregate Hours of Production or Nonsupervisory Workers



over the period. In manufacturing, firms continued to shed jobs in April: The decline of 29,000 brought the loss in that sector to almost 140,000 so far in 1999--and about 410,000 since the recent peak in March 1998. In mining, where the weakness in the oil and gas extraction industry has taken a toll, employment has fallen 26,000 since the beginning of the year.

Despite the overall strength of hiring, aggregate hours of production or nonsupervisory workers in private industry rose 0.3 percent in April to a level about 0.1 percent above the average for the first quarter (not at an annual rate). In the household survey, the unemployment rate ticked up a tenth in April to 4.3 percent, matching the first-quarter average.

We are giving greater weight to the payroll employment figures in gauging the strength of labor demand, in part because of the impressive evidence from a range of supplementary measures. In particular, initial claims for unemployment insurance have remained low, averaging 304,000 in the most recent four weeks. In addition, in April, the Conference Board survey continued to report an abundance of jobs and the Michigan SRC and the Conference Board's measures of expected labor market conditions rose. And although the Conference Board's Help Wanted Index ticked down recently, it continued to point to very tight labor markets. Also, the National Federation of Independent Businesses' survey of small firms indicated that about a third of the respondents in April found jobs hard to fill.

Nonfarm business sector productivity surged again in the first quarter--rising at an annual rate of about 4 percent according to the preliminary estimate from the BLS, and about 3-1/2 percent after taking into account our anticipated revision to output. The gains in recent quarters have been impressive, running well above the average of the preceding couple of years--and, we believe, more than can be attributed simply to a sluggish adjustment of labor input to the surge in output. In fact, since the 1990-95 period, when productivity growth averaged 1.0 percent per year, output per hour has accelerated steadily. From the end of 1995 to the end of 1997, labor productivity grew at an average annual rate of 1-3/4 percent per year. Since the end of 1997, productivity has increased 2-3/4 percent per year, on average. The acceleration in output per hour is consistent with the view that we are beginning to see a payoff from capital deepening and, possibly, structural gains in multifactor productivity.

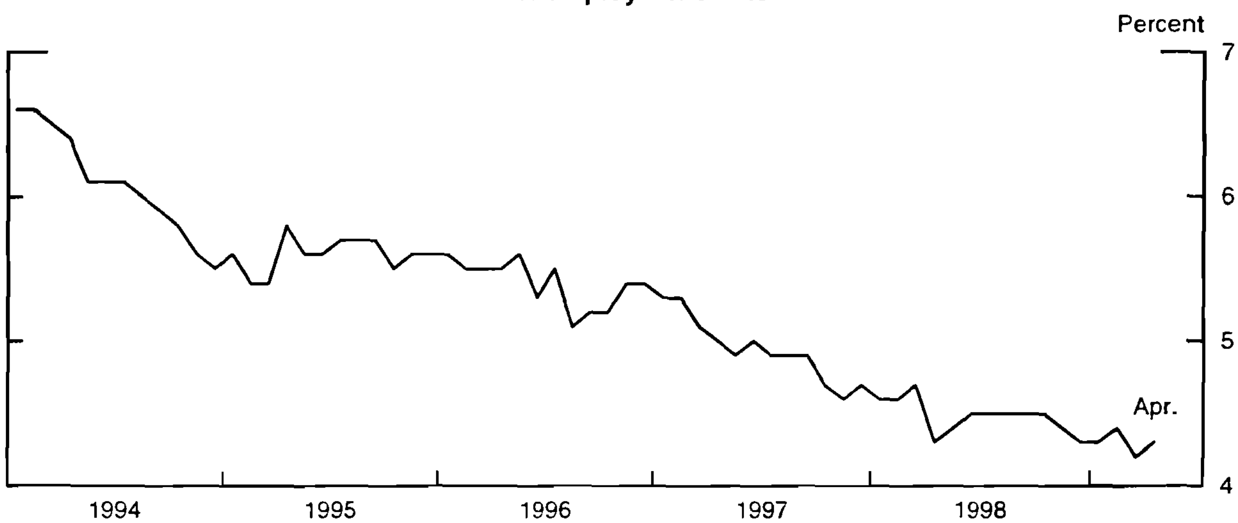
Industrial Production

(The industrial production report for April will be released tomorrow and will be discussed in the GB supplement.)

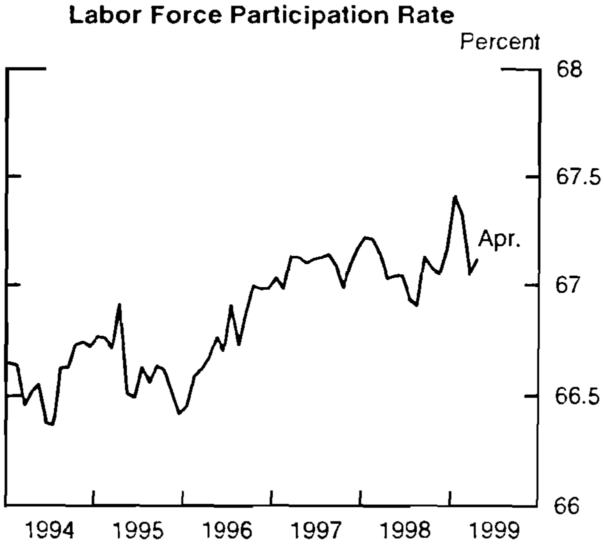
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data, as published)

			1998		1999	1999		
	1997	1998	Q3	Q4	Q1	Feb.	Mar.	Apr.
Civilian unemployment rate	4.9	4.5	4.5	4.4	4.3	4.4	4.2	4.3
Teenagers	16.0	14.6	14.7	14.9	14.6	14.1	14.3	14.1
Men, 20 years and older	4.2	3.7	3.8	3.6	3.4	3.7	3.2	3.4
Women, 20 years and older	4.4	4.1	4.0	4.0	3.8	3.8	3.9	4.1
Labor force participation rate	67.1	67.1	67.0	67.1	67.3	67.3	67.0	67.1
Teenagers	51.6	52.8	52.8	52.8	52.6	53.2	52.1	51.9
Men, 20 years and older	76.9	76.8	76.7	76.8	76.9	77.0	76.7	76.7
Women, 20 years and older	60.5	60.4	60.3	60.5	60.8	60.8	60.6	60.8
Women maintaining families	67.4	68.3	68.7	69.1	69.4	69.8	68.8	69.1

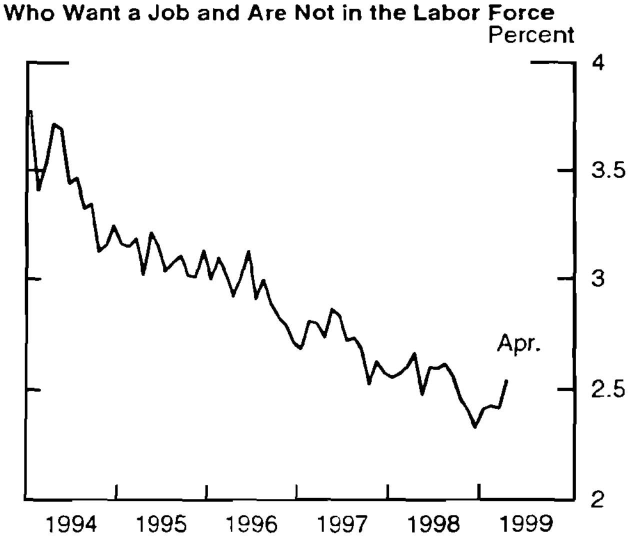
Unemployment Rate



Labor Force Participation Rate



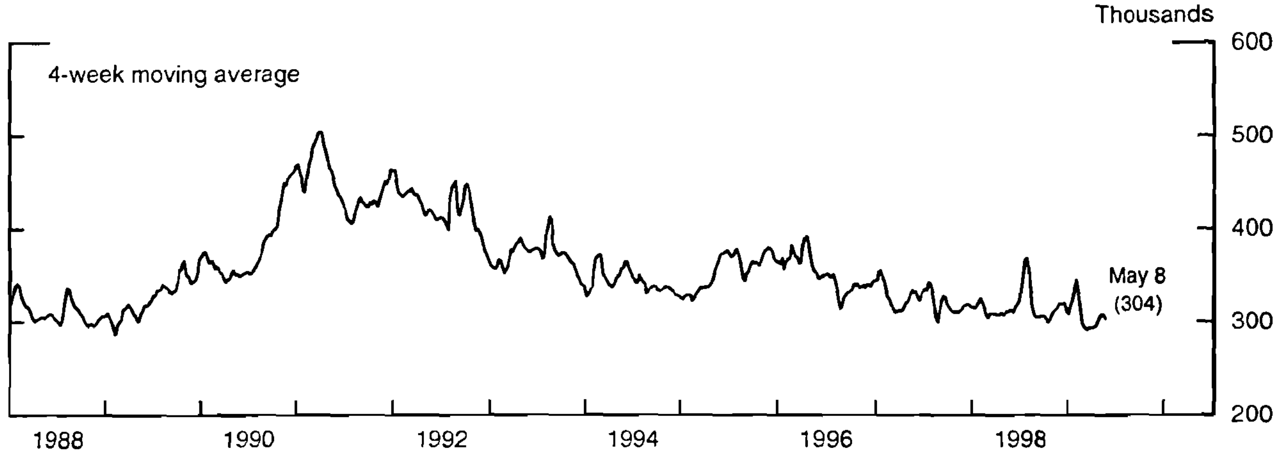
Share of the Population Age 16 to 64 Who Want a Job and Are Not in the Labor Force



Note. Seasonally adjusted by FRB staff.

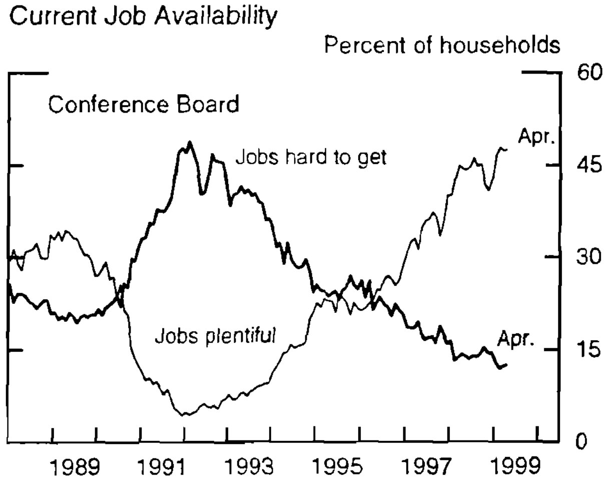
Labor Market Indicators

Initial Claims for Unemployment Insurance

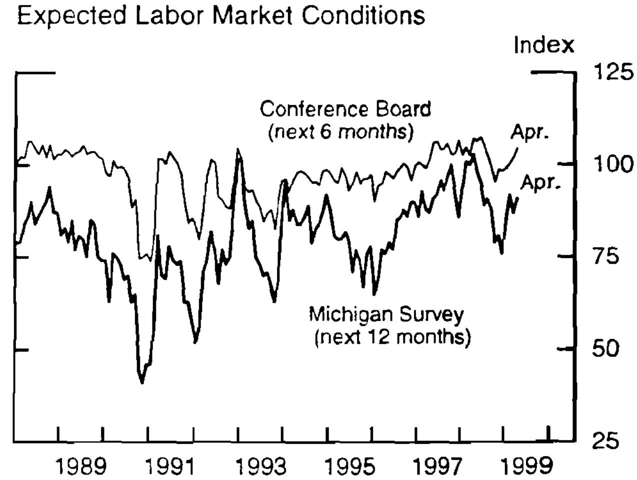


Note. State programs, includes EUC adjustment.

Current Job Availability

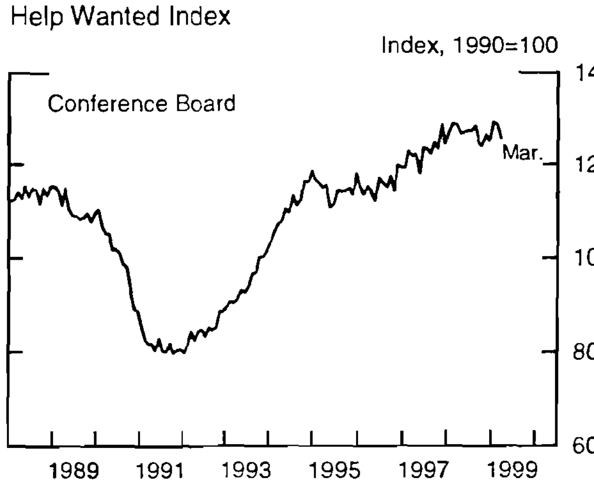


Expected Labor Market Conditions



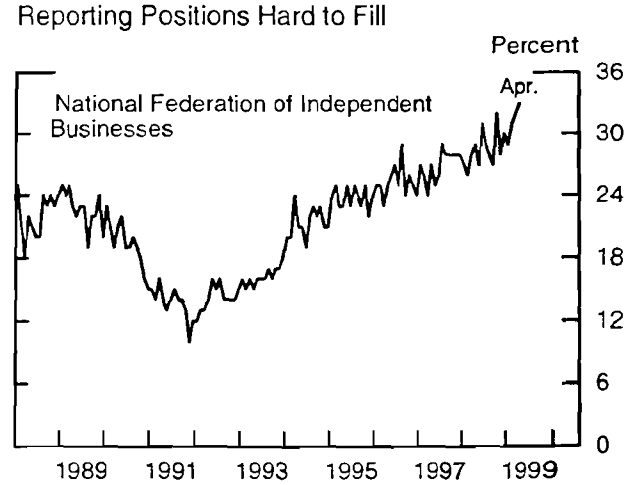
Note. Michigan index: the proportion of households expecting unemployment to fall, less the proportion expecting unemployment to rise, plus 100. Conference Board index: the proportion of respondents expecting more jobs, less the proportion expecting fewer jobs, plus 100.

Help Wanted Index



Note. Series has been adjusted to take account of structural and institutional changes, including consolidation of newspaper industry and tendency to increase hiring through personnel supply agencies.

Reporting Positions Hard to Fill

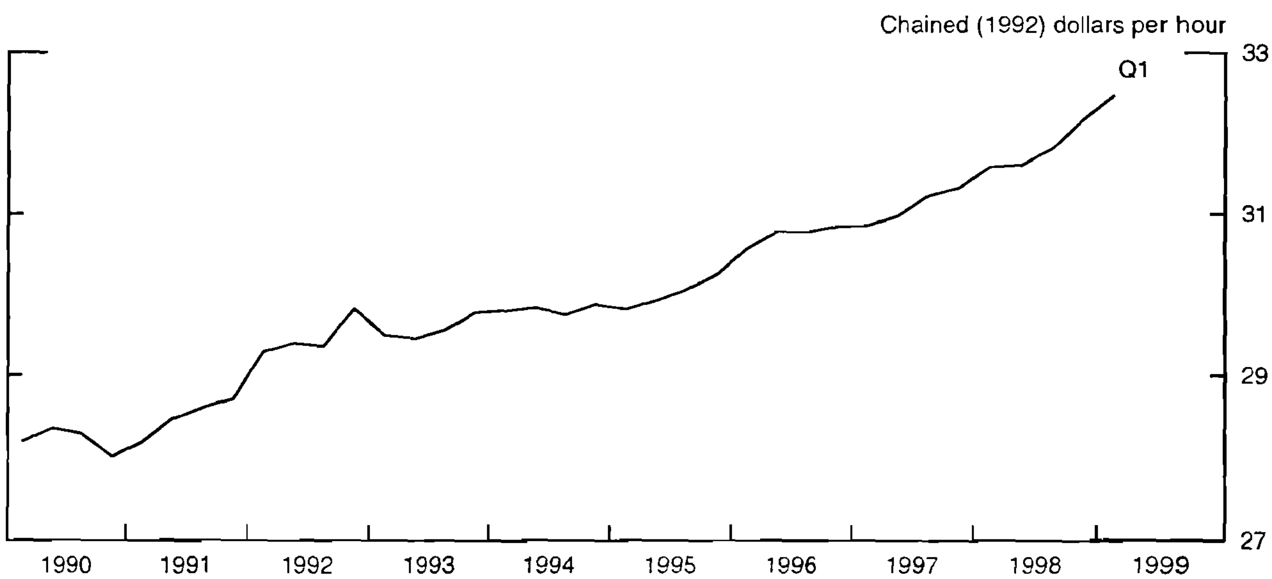


LABOR PRODUCTIVITY
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

	1997 [1]	1998 [1]	1998 Q2	1998 Q3	1998 Q4	1999 Q1
Output per hour						
Total business	1.7	2.9	0.1	2.6	4.6	4.7
Nonfarm business	1.5	2.7	0.3	2.5	4.3	4.0
Manufacturing	5.6	3.9	3.9	4.7	5.3	5.8
Nonfinancial corporations [2]	2.5	3.4	3.1	4.4	3.3	n.a.

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. Nonfinancial corporate sector includes all corporations doing business in the United States except banks, stock and commodity brokers, and finance and insurance companies; the sector accounts for about two-thirds of business employment.

Nonfarm Business Sector Productivity



Note. Data are shown on a methodologically consistent basis.

On the basis of production worker hours and available physical product data, the staff estimates that both total industrial production and manufacturing output increased sharply in April after having risen modestly in the first quarter.[2]

Motor vehicle assemblies rose from a 12.6 million unit annual rate in March to a 12.9 million unit annual rate in April, near the upper end of the high range that has prevailed since last fall. But sales have also been exceptionally strong this year, and inventories were still a little tight at the end of April. Accordingly, the industry plans to push assemblies a bit above 13 million units at an annual rate, on average, in May and June in an attempt to meet expected demand and to replenish stocks.

Outside of the motor vehicle industry, the pickup in orders in the past few months points to further advances in output in the near term. In the National Association of Purchasing Management survey of manufacturers, the number of respondents reporting increases in new orders has been exceeding the number reporting decreases since January. The staff's estimate of real adjusted durable goods orders rose 3.2 percent (not at an annual rate) in the first quarter, with orders moving up across a range of categories--with especially large gains for communications equipment. The Beige Book reports improvement in manufacturing activity in most districts.

The acceleration in industrial production that seems to be under way may help narrow the gap that has developed in recent quarters between growth in industrial production and growth in the goods and structures component of GDP. Both series advanced, on a four-quarter percent change basis, at around 4 to 5 percent between mid-1996 and mid-1998. However, industrial production has decelerated sharply since the middle of last year while growth in goods and structures GDP has been well maintained.

In part, the two series have diverged because the industries included in the IP index account for only about half of the value of goods and structures GDP; the remainder is the value added by the distributive industries (transportation, wholesale and retail trade, and selected service industries) and construction, which are insulated to some extent from the weak export demand and competition from imports that have taken a toll on domestic manufacturers in recent quarters. Indeed, profit margins for firms in the distributive industries

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2. BLS reported a 0.1 percent increase in manufacturing hours in April. However, using the FRB staff's seasonal adjustment procedure, we estimate a 0.4 percent increase in manufacturing hours. The discrepancy between the FRB and BLS estimates results from the different treatment of the Easter holiday in our seasonal adjustment methodology: The FRB seasonal factors reflect more years of data and a more complete specification of the Easter effects than the BLS factors.

Production of Domestic Autos and Trucks
(Millions of units at an annual rate; FRB seasonal basis)

Item	1998	1999				
	Q4	Q1	Q2[1]	Mar.	Apr.	May[1]
U.S. production	12.9	12.7	13.0	12.6	12.9	13.2
Autos	5.9	5.5	5.6	5.5	5.6	5.7
Trucks	7.0	7.2	7.4	7.0	7.2	7.5
Days' supply[2]						
Autos	52.6	60.3	n.a.	60.3	58.7	n.a.
Light trucks	57.7	61.4	n.a.	61.4	65.6	n.a.

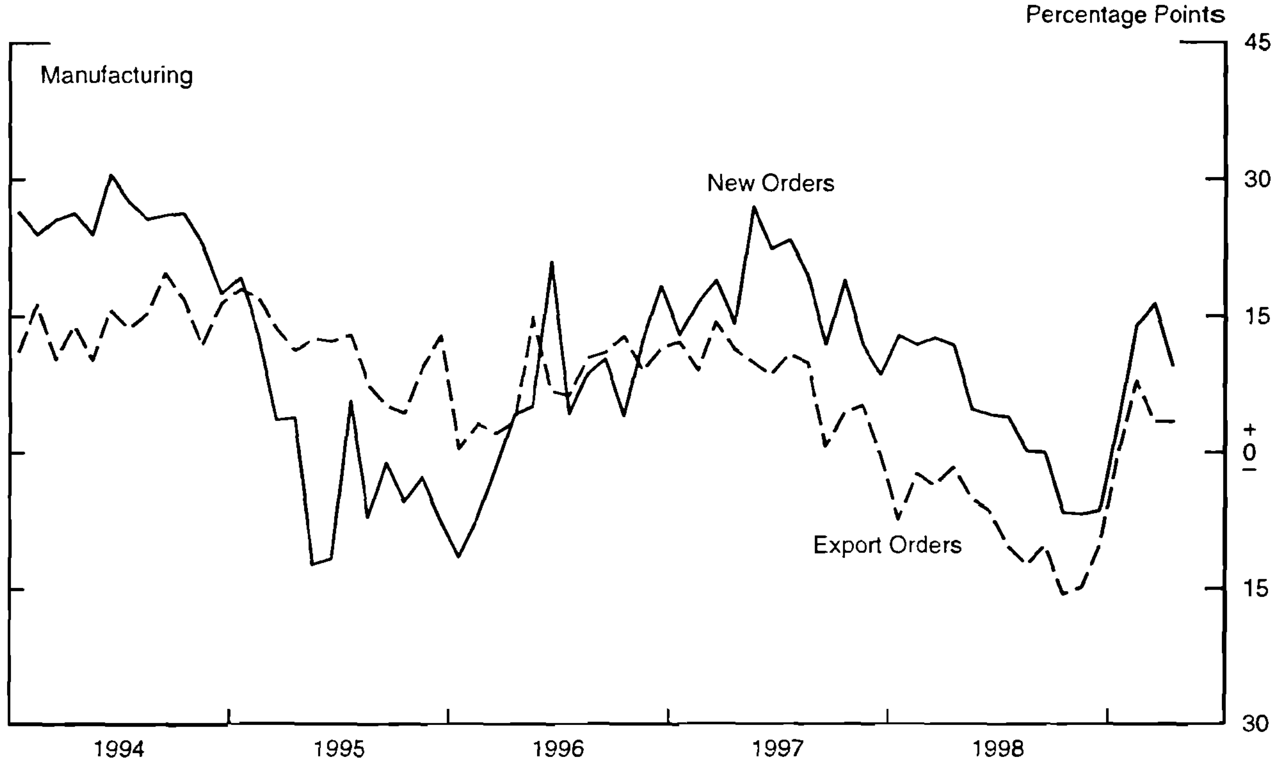
NOTE. Components may not sum to totals because of rounding.
1 Production rates are manufacturers' schedules.
2. Quarterly data are for last month of quarter.
n.a. Not available.

New Orders for Durable Goods
(Percent change from preceding period; seasonally adjusted)

Component	MEMO Share, 1998:H2 (percent)	1998	1999			
		Q4	Q1	Jan.	Feb.	Mar.
Total durable goods	100	.6	3.8	3.1	-3.9	2.9
Adjusted durable goods[1]	70	.0	2.0	-.9	-1.5	2.4
Computers	6	.6	-1.1	-4.9	-.7	2.2
Nondefense capital goods excluding aircraft and computers	18	-2.4	4.7	-3.5	.8	4.8
Other	46	.8	1.3	.6	-2.5	1.5
MEMO						
Real adjusted orders[2]	...	.9	3.2	-.5	-1.3	2.8

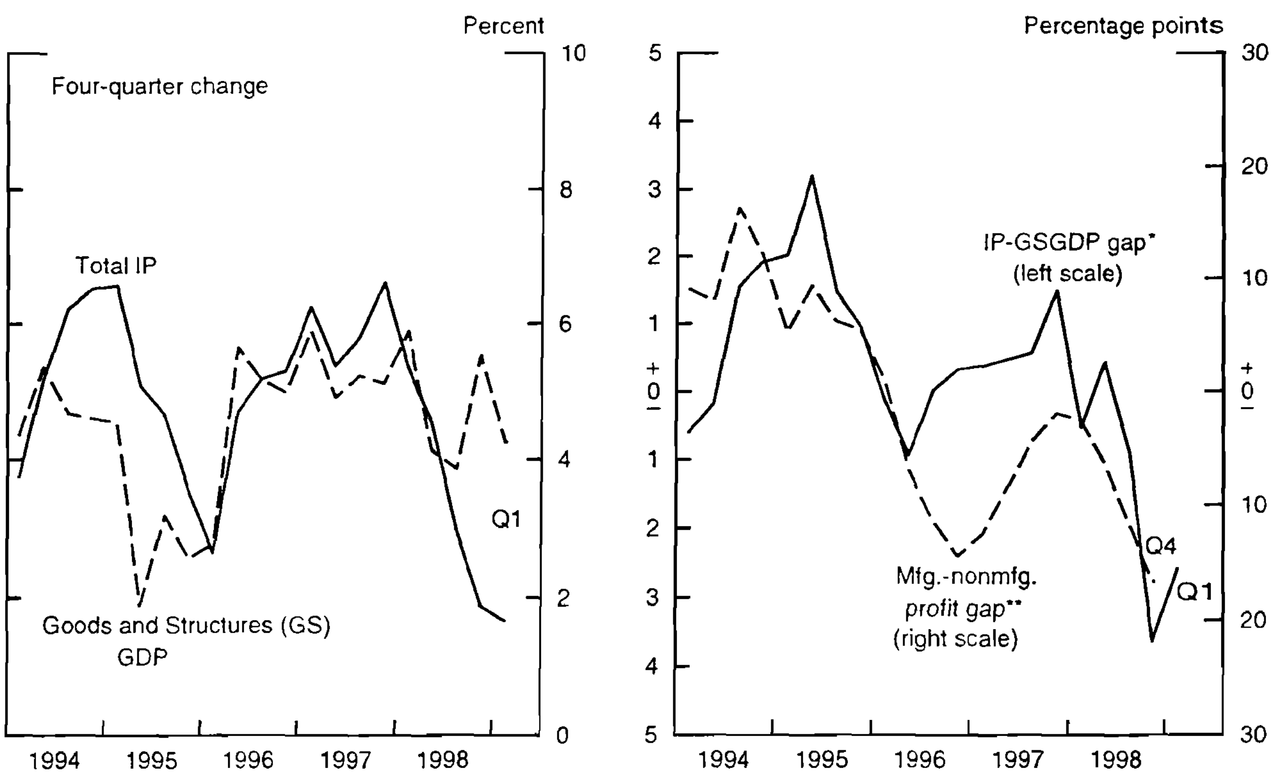
1 Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.
2. Nominal adjusted durable goods orders were split into three components: computers, electronic components, and all other. The components were deflated and then aggregated in a chain-weighted fashion.
... Not applicable.

Purchasing Managers



Note. Percent reporting increases minus percent reporting decreases.

The Gap Between IP and Goods & Structures GDP



* Gap defined as the four-quarter percent change in IP minus the four quarter-percent change in goods and structures GDP.

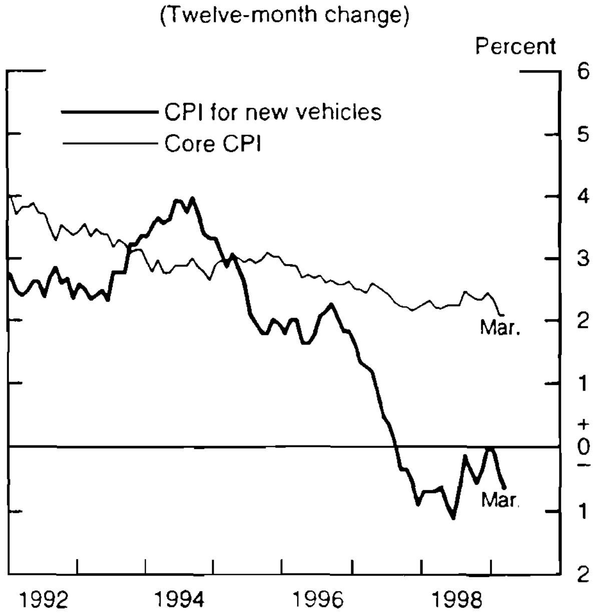
** Profits are from the NIPA and are smoothed with a four-quarter moving average. Nonmanufacturing profits also exclude profits in farm and financial corporations. Gap defined as the difference between the four-quarter percent change of each series.

SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

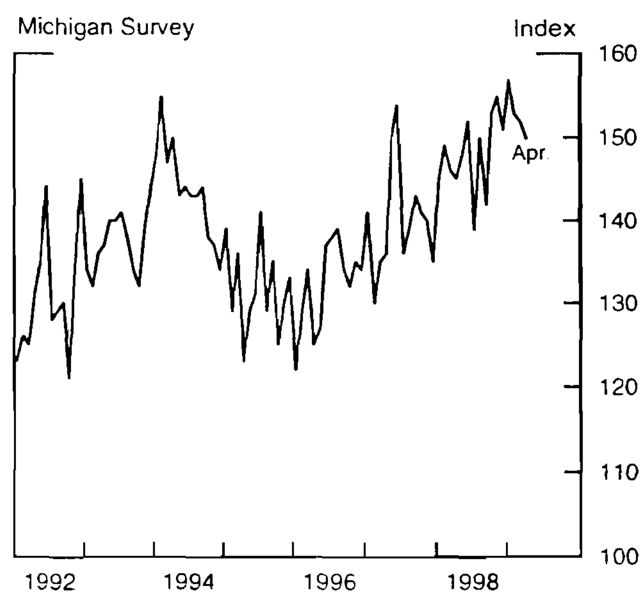
	1997	1998	1998 Q4	1999 Q1	1999 Feb.	1999 Mar.	1999 Apr.
Total	15.1	15.4	16.3	16.2	16.8	16.3	16.2
Adjusted[1]	15.0	15.5	16.3	16.2	16.8	16.3	16.2
Autos	8.3	8.1	8.5	8.4	8.8	8.4	8.5
Light trucks	6.8	7.3	7.7	7.9	8.1	7.9	7.6
North American[2]	13.1	13.4	14.1	13.9	14.5	14.0	13.8
Autos	6.9	6.8	7.1	6.8	7.2	6.8	6.9
Light trucks	6.2	6.7	7.0	7.1	7.3	7.2	6.9
Foreign Produced	1.9	2.0	2.2	2.3	2.4	2.3	2.3
Autos	1.4	1.4	1.5	1.5	1.6	1.6	1.6
Light trucks	.6	.6	.7	.8	.8	.7	.7
Memo:							
Retail Sales	12.4	12.9	13.3	13.5	14.2	13.8	13.3
Fleet Sales	2.6	2.6	3.0	2.7	2.7	2.5	2.9

Note. Components may not add 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 the estimated effect of automakers' changes in reporting periods.
2. Excludes some vehicles produced in Canada that are classified as imports by the industry.

Core CPI and Vehicle Prices
(Twelve-month change)



Buying Attitudes for New Vehicles



evidently have held steady or even increased, while manufacturers' profits have generally been weak.

Consumer Spending and Personal Income

Consumer spending appears to have gathered additional speed this year, after having posted a very sizable gain in 1998. Real expenditures rose a whopping 6-3/4 percent at an annual rate in the first quarter, as outlays for non-auto goods soared and spending on services rose substantially. In April, spending on non-auto goods appears to have remained brisk, while sales of motor vehicles continued to exhibit exceptional strength. More broadly, the growth in consumer spending this year has been fueled by rapid income growth, rising equity prices, and cash freed up by mortgage refinancings and home sellers' extraction of equity.

Motor vehicles. Overall sales of light vehicles held around 16-1/4 million units in April, matching the blistering pace of the fourth and first quarters, and industry sources expect sales this month to remain near the April level. Demand has continued to be spurred by solid fundamentals--robust income, wealth, and confidence--and by attractive pricing. On a twelve-month percent change basis, the CPI for new motor vehicles has been rising much less rapidly than the core CPI since early 1995, and has been declining in absolute terms since the end of 1997. Manufacturers have also continued to offer below-market rates on auto loans. The Michigan survey's index of perceived car-buying conditions, although down some from the recent peak in January, suggests that demand should remain relatively healthy.

Other consumption and personal income. April's advance report on retail sales suggests that consumer spending is on track for an appreciable gain this quarter, but one much smaller than what occurred in the first quarter. In April, nominal spending in the retail control category, which excludes sales at automotive dealers and at building material and supply stores, rose 0.4 percent. Within the control category, nominal spending at gasoline stations was up sharply, but this gain reflected large increases in prices: Physical product data from the Department of Energy indicate that real expenditures on gasoline tumbled 3-3/4 percent in April. Putting this evidence together with the incoming data on unit sales of autos and light trucks, we estimate that real spending on all goods in April was 0.7 percent above the first-quarter level, not at an annual rate.

Real spending on services rose at a 4-1/2 percent annual rate in the first quarter. Expenditures on energy services rose sharply, as temperatures were not so unusually warm as they had been in the fourth quarter of 1998. Outside of energy, outlays on services increased at a 4 percent annual rate, paced by large

RETAIL SALES
(Percent change from preceding period)

	1998	1999	1999		
	Q4	Q1	Feb.	Mar.	Apr.
Total sales	2.3	3.5	1.7	.1	.1
Previous estimate		3.5	1.7	.2	
Building materials and supplies	3.5	6.5	3.6	-1.7	.2
Automotive dealers	5.1	4.3	2.9	-1.1	-.8
Retail control[1]	1.3	2.9	1.1	.6	.4
Previous estimate		2.8	1.0	.6	
GAF[2]	1.5	4.2	.8	.7	.1
Durable goods	1.4	3.3	1.3	.8	.7
Furniture and appliances	1.1	3.3	1.5	.9	.7
Other durable goods	1.6	3.3	1.2	.7	.7
Nondurable goods	1.3	2.8	1.0	.6	.4
Apparel	.5	4.8	.5	.2	.9
Food	1.1	1.5	1.3	-.1	-.3
General merchandise	2.1	4.3	.6	.9	-.4
Gasoline stations	-1.1	1.5	.5	2.5	2.4
Other nondurable goods	1.7	2.6	1.4	.6	.8

1. Total retail sales less sales at building material and supply stores and automotive dealers, except auto and home supply stores.
2. General merchandise, apparel, furniture, and appliance stores.

REAL PCE SERVICES
(Percent change from the preceding period)

		1998	1999	1999		
	1998	Q4	Q1	Jan.	Feb.	Mar.
	Q4/Q4	- Annual rate -		--- Monthly rate ---		
PCE Services	4.0	1.7	4.5	.6	.1	.5
Energy	-4.6	-30.8	18.9	5.7	-.8	3.5
Non-energy	4.4	3.3	4.0	.4	.2	.4
Housing	2.4	2.4	2.9	.3	.2	.3
Household operation	6.5	5.1	5.1	.6	.3	.3
Transportation	2.7	2.5	4.0	-.4	.7	.5
Medical	3.0	3.1	2.9	.2	.2	.2
Recreation	9.9	9.9	11.9	1.3	1.2	1.1
Personal business	6.0	5.2	7.4	1.3	-.6	.8
Brokerage services	17.1	11.6	37.4	9.2	-6.0	4.5
Other	6.8	-2.3	-.1	.4	.1	.5

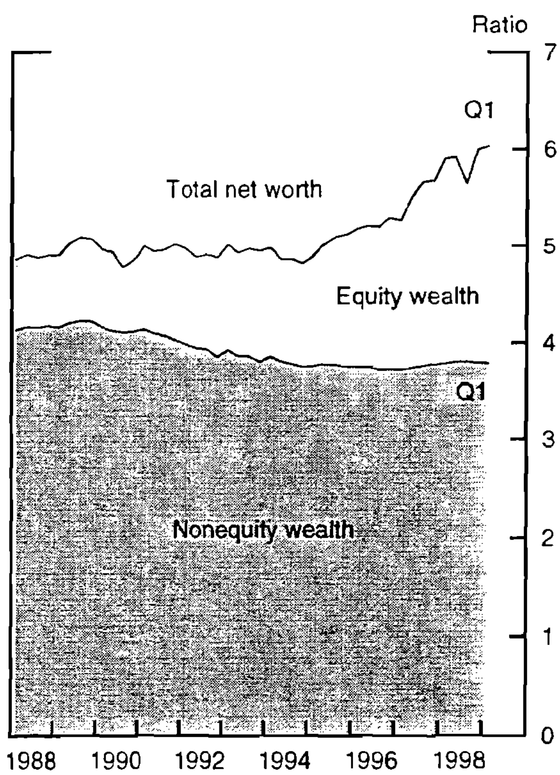
Note. Derived from billions of chained (1992) dollars.

PERSONAL INCOME
(Percent change)

	1997	1998	1998 Q3	1998 Q4	1999 Q1	1999 Jan.	1999 Feb.	1999 Mar.
	-- Q4/Q4 --		-- Annual rate --			-- Monthly rate --		
Total personal income	5.4	5.1	4.5	5.5	5.4	.6	.5	.4
Wages and salaries	7.2	6.3	5.9	6.4	7.0	.7	.6	.3
Private	7.9	6.8	6.3	7.0	7.0	.7	.6	.2
Other labor income	2.8	3.5	2.7	2.6	3.6	.2	.4	.5
Transfer payments	3.8	3.4	2.5	1.9	6.1	1.0	.1	.6
Less: Personal tax and nontax payments	11.5	9.7	5.8	6.1	4.2	.2	.6	-.1
Equals: Disposable personal income	4.4	4.3	4.3	5.4	5.6	.7	.4	.4
Memo:								
Real disposable income[1]	2.9	3.5	3.2	4.3	4.6	.5	.4	.4
Saving rate (percent)	2.1	.5	.2	.0	-.5	-.3	-.6	-.6

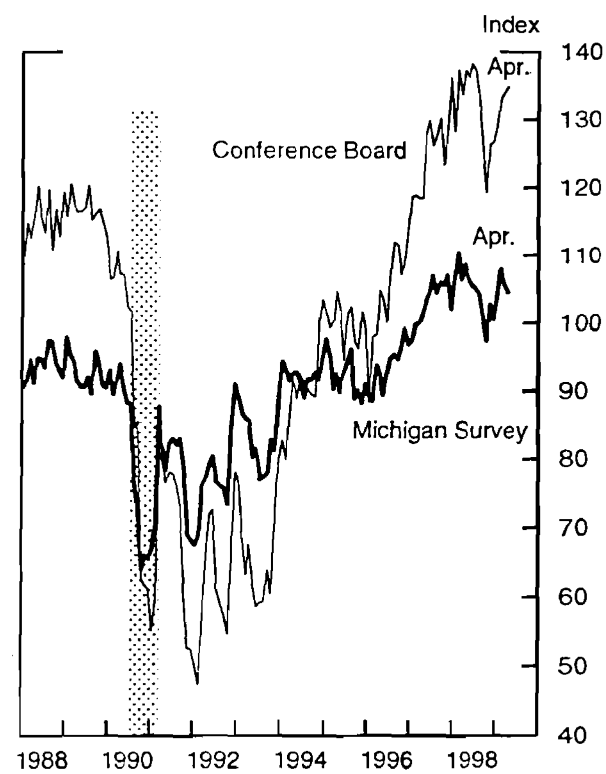
1. Derived from billions of chained (1992) dollars.

Household Net Worth and its Composition



Note. As a ratio to disposable personal income.

Consumer Confidence



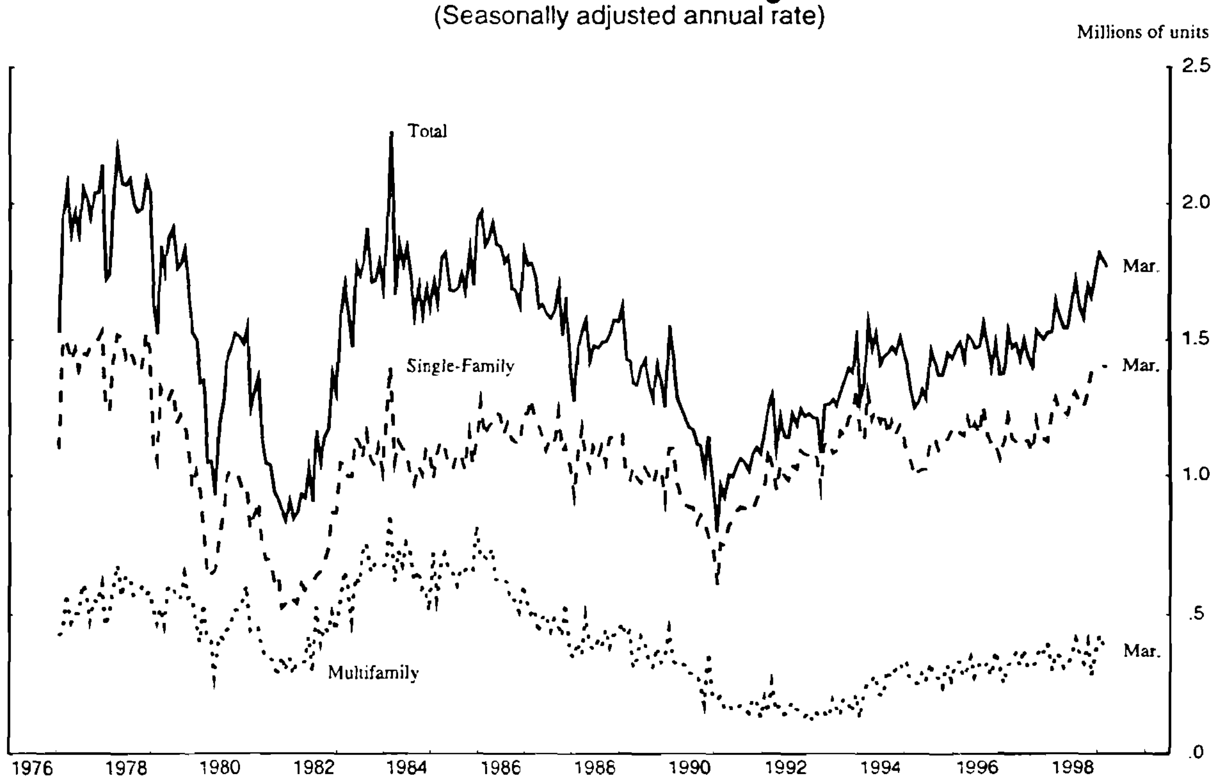
Private Housing Activity
(Millions of units; seasonally adjusted annual rate)

	1998	1998 Q3	1998 Q4	1999 Q1[p]	1999 Jan.[r]	1999 Feb.[r]	1999 Mar.[p]
All units							
Starts	1.62	1.64	1.70	1.79	1.82	1.79	1.77
Permits	1.60	1.58	1.69	1.72	1.78	1.74	1.64
Single-family units							
Starts	1.27	1.27	1.35	1.40	1.39	1.40	1.40
Permits	1.18	1.17	1.25	1.27	1.28	1.30	1.24
Adjusted permits[1]	1.27	1.26	1.34	1.37	1.36	1.40	1.34
New home sales	.89	.86	.95	.90	.91	.89	.91
Existing home sales	4.79	4.77	4.91	5.04	5.04	5.02	5.05
Multifamily units							
Starts	.35	.36	.35	.39	.43	.39	.37
Permits	.42	.41	.45	.45	.50	.44	.40
Mobile homes							
Shipments	.37	.37	.37	n.a.	.39	.38	n.a.

Note. p Preliminary. r Revised. n.a. Not available.

1. Adjusted permits equals permit issuance plus total starts outside of permit-issuing areas, minus a correction for those starts in permit-issuing places that lack a permit.

Total Private Building
(Seasonally adjusted annual rate)



increases in spending on brokerage services, bank services, and recreation. Early in the second quarter, the high volume of stock market trading in April likely kept outlays for brokerage services at an elevated level; temperature data suggest that energy spending also was up from the first-quarter average.

Real disposable income increased at an annual rate of 4-1/2 percent in the first quarter, led by another rapid gain in wages and salaries. Even so, income did not grow so fast as personal outlays, and the personal saving rate declined to -1/2 percent. However, the $31 billion of "dissaving" by households last quarter was swamped by the appreciation of their stock market assets, which was reflected in a further edging up in the ratio of household net worth to disposable income.

The recent upsurge in energy prices will cut into gains in real income in the current quarter. Indeed, a rise in consumer prices probably offset much of the increase in nominal wage and salary income in April. However, other key influences on spending have remained favorable. Major stock market indexes have continued to advance. In addition, the April surveys from the University of Michigan and the Conference Board indicate that consumers have remained quite optimistic. Responses to most questions regarding current economic conditions and expectations for the next year were still very upbeat. And, although expectations of economic conditions over the next five years have receded from the highs reached earlier in the year, they remained elevated.

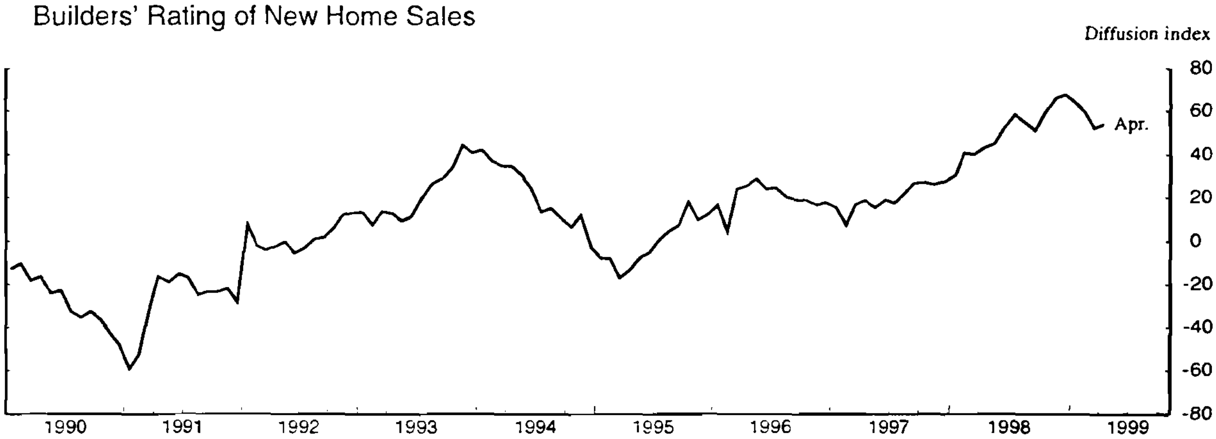
Housing Markets

Housing activity remained strong in the first quarter, with total starts averaging 1.8 million units at an annual rate, 5-1/4 percent above the pace in the fourth quarter of last year. In the single-family sector, starts totaled about 1.4 million units (annual rate) in each month of the first quarter, resulting in the highest quarterly pace of construction since late 1978. However, unseasonably good weather probably helped boost starts in the first quarter. Moreover, adjusted permits for new single-family homes--which tends to be a more statistically reliable series than starts--decreased 4-1/2 percent in March, and the ratio of starts to adjusted permits was well above its long-run average. The divergence between starts and permits suggests that the March starts number may be overstating the underlying pace of activity.

Other indicators suggest that housing activity may have peaked. In particular, sales of new homes declined 5 percent in the first quarter to a level only a touch

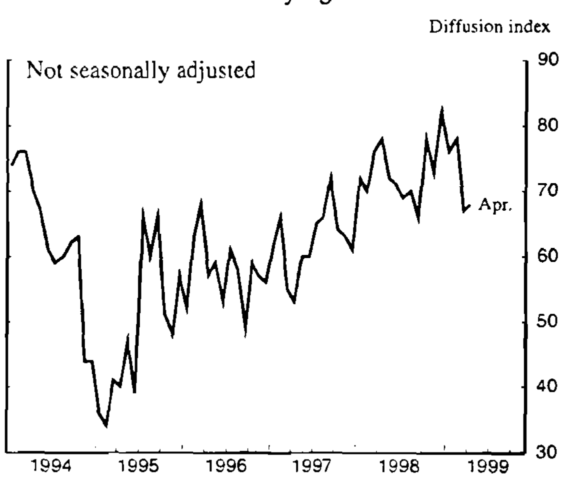
Indicators of Housing Demand and Prices

Builders' Rating of New Home Sales

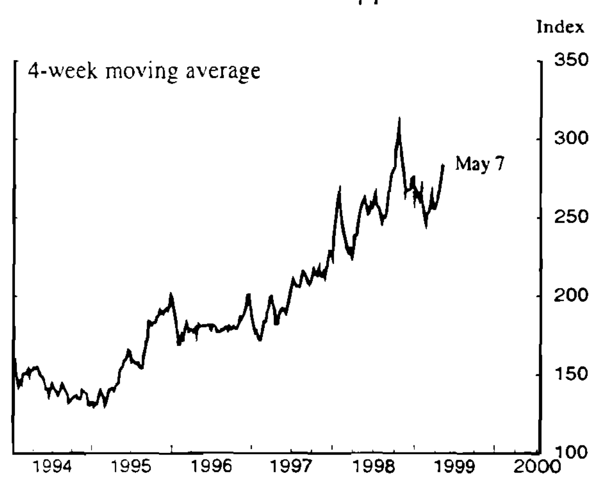


Note. Calculated from National Association of Homebuilders' data as the proportion of respondents rating current sales as good minus the proportion rating them as poor. Seasonally adjusted by board staff.

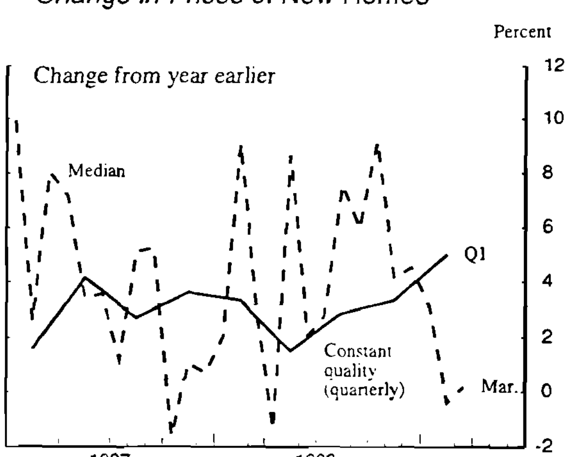
Consumer Home-Buying Attitudes



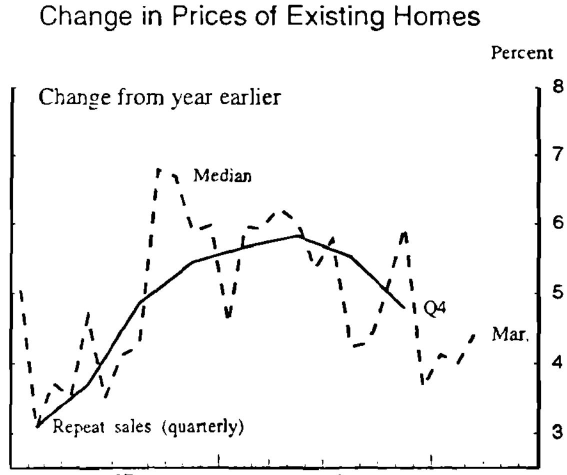
MBA Index of Purchase Applications



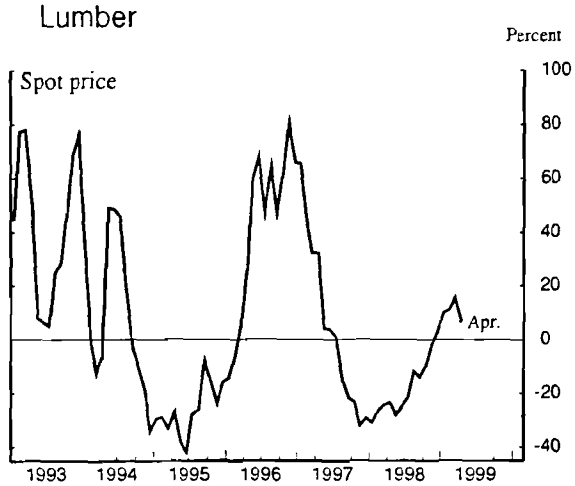
Change in Prices of New Homes

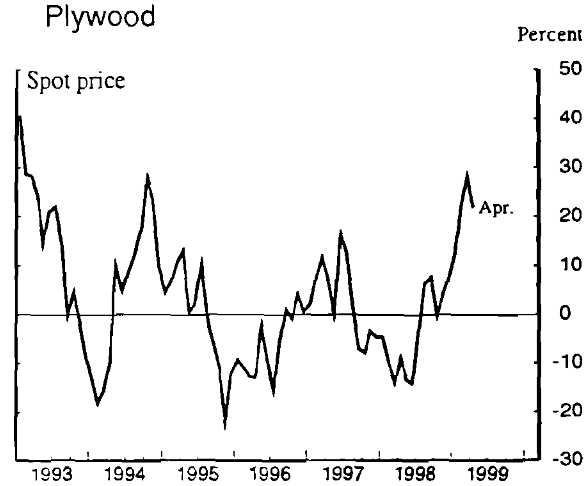


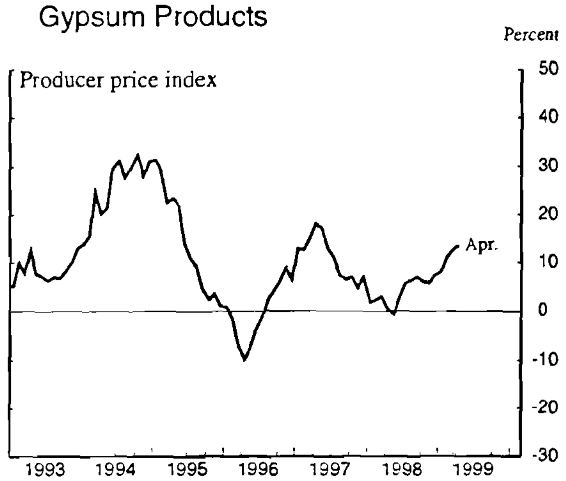
Change in Prices of Existing Homes

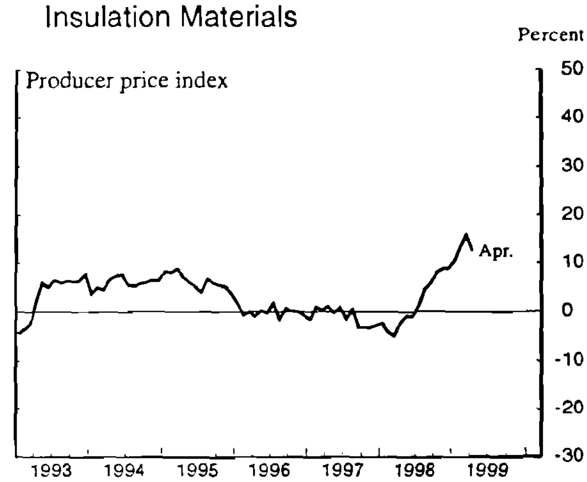


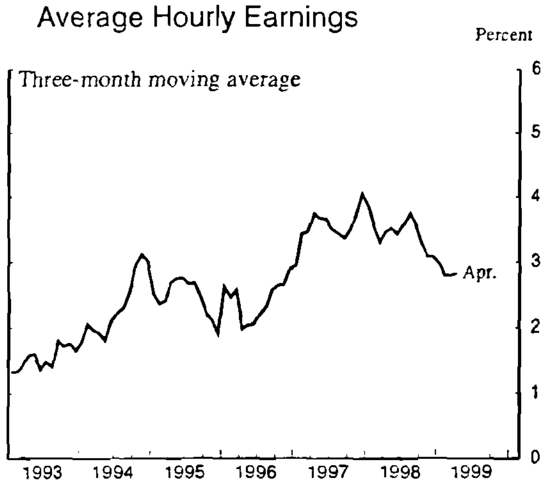
Costs of Construction Materials and Labor
(Percent change from a year earlier)

Lumber


Plywood


Gypsum Products


Insulation Materials


Average Hourly Earnings


Employment Cost Index


BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period;
based on seasonally adjusted data, in current dollars)

	1998		1999	1999		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Producers' durable equipment						
Shipments of nondefense capital goods	1.6	4.0	-1.4	-2.1	-.3	2.7
Excluding aircraft and parts	1.4	1.7	-.7	-2.1	-.4	3.0
Office and computing	2.0	.6	-.7	-.5	2.0	-2.9
Communications equipment	2.1	5.3	5.7	5.5	-5.2	5.4
All other categories	1.0	1.2	-2.4	-4.9	.0	4.8
Shipments of complete aircraft	5.3	22.5	-21.2	34.7	-28.9	-18.0
Medium & heavy truck sales (units)	9.9	9.8	5.9	.3	8.6	-.3
Orders for nondefense capital goods	4.3	-4.3	7.2	9.3	-6.4	1.0
Excluding aircraft and parts	4.7	-1.6	3.2	-3.9	.5	4.2
Office and computing	2.7	.6	-1.1	-4.9	-.7	2.2
Communications equipment	-3.0	5.8	11.6	10.6	-.1	3.8
All other categories	7.7	-4.4	2.8	-7.1	1.1	5.1
Nonresidential structures						
Construction put in place, buildings	1.7	3.1	2.5	-.8	4.0	-2.1
Office	1.4	11.0	5.9	.1	3.8	1.1
Other commercial	-.2	4.1	.3	-3.3	3.0	-2.3
Institutional	-.6	.4	.1	-3.9	3.4	-.6
Industrial	.1	-3.3	-.4	-1.1	6.1	-5.3
Lodging and miscellaneous	11.8	.0	7.5	7.0	4.6	-5.0
Rotary drilling rigs in use[1]	-11.9	-14.7	-13.9	-3.2	-6.9	-4.1
Memo (1992 Chained dollars):						
Business fixed investment	-.7	14.6	7.6	n.a.	n.a.	n.a.
Producers' durable equipment	-1.0	17.8	10.5	n.a.	n.a.	n.a.
Office and computing	50.0	49.2	22.2	n.a.	n.a.	n.a.
Communications equipment	12.4	18.3	35.2	n.a.	n.a.	n.a.
Motor Vehicles	-29.9	43.9	12.7	n.a.	n.a.	n.a.
Aircraft	-53.2	34.8	-16.3	n.a.	n.a.	n.a.
Other equipment[2]	2.8	.1	3.1	n.a.	n.a.	n.a.
Nonresidential structures	.2	6.0	-.1	n.a.	n.a.	n.a.

1. Percent change of number of rigs in use, seasonally adjusted.
2. Producers' durable equipment excluding office and computing, communications, motor vehicles, and aircraft and parts.
n.a. Not available.

above the 1998 average.[3] Moreover, in April, both builders' evaluations of new home sales and consumers' home buying attitudes, though still extremely positive, remained below the high levels recorded at the end of last year. In addition, even though applications for mortgages to finance home purchases have turned back up in recent weeks, they remained below their peak of last fall.

The quality-adjusted prices of new homes have accelerated since mid-1998, and the increase over the twelve months ending last quarter--5.0 percent--was the largest since the fourth quarter of 1994. In addition to strong demand, home prices have come under pressure from tight supplies of some building materials; most notably, prices for plywood, gypsum wallboard, and insulation have accelerated sharply over the past twelve months, and lumber prices have firmed after having plummeted in 1997 and 1998. In contrast, we see only weak evidence of pressures in the nationwide statistics on construction wages, despite anecdotal reports of shortages of workers and big pay hikes in some areas of the country. In fact, the average hourly earnings of construction workers have actually decelerated over the past year. And although the twelve-month change in the ECI for construction workers has picked up of late, the increase over the twelve months ended in March was still less than 4 percent.

The shortages of building materials also seem to be contributing to a lengthening of construction times. For example, in a survey conducted in March by the National Association of Home Builders, about 40 percent of builders reported some problems in obtaining enough wallboard to maintain production schedules, and another 20 percent indicated serious shortages. All told, about half the respondents indicated that shortages of building materials had delayed completions by at least one or two weeks.[4]

Business Fixed Investment

Producers' durable equipment. Real equipment spending increased at a solid 10 percent annual rate in the first quarter, boosted by sizable advances in spending on communications equipment and motor vehicles. With new orders

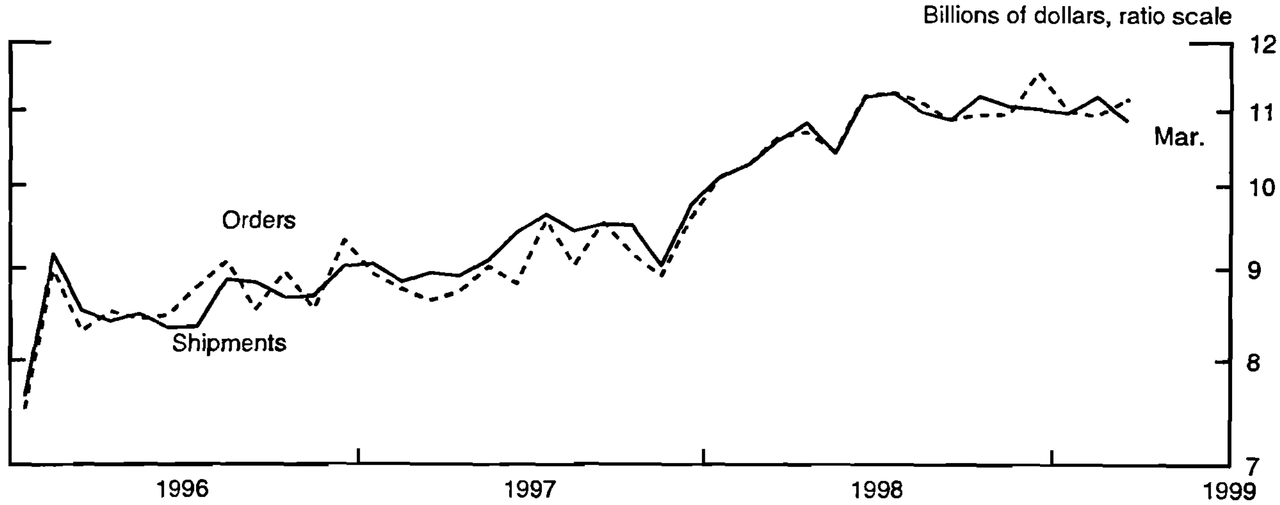
---

3. Sales of existing homes increased 2-1/2 percent in the first quarter to a level 5 percent above the 1998 average. However, the increase mainly reflects earlier strength in the housing market because a majority of existing home sales are recorded at closing. New home sales are recorded when a contract is signed and, therefore, are a better indicator of current housing activity.

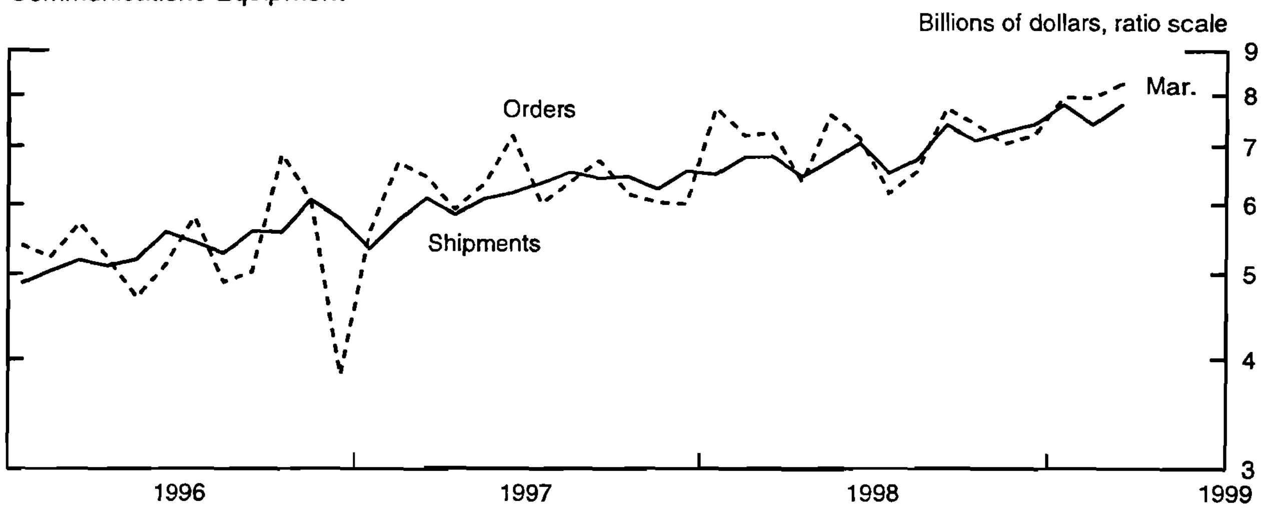
4. In addition, annual data from the Census Bureau show that the average number of months from start to completion of new single-family houses built for sale increased to 5.4 in 1998 after having held steady at 5.2 over the preceding three years. (The standard deviation for this series is just 0.05 month.) A significant lengthening also occurred in the time required to complete multifamily structures with five or more units, from 9.2 months in 1997 to 9.6 months in 1998.

Orders and Shipments of Nondefense Capital Goods

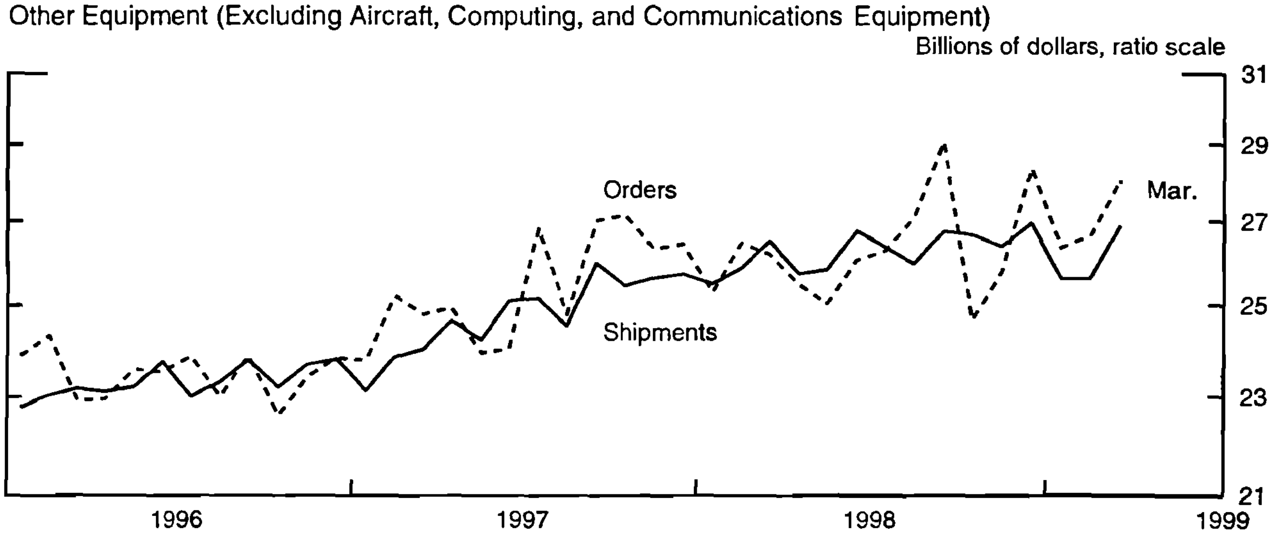
Office and Computing Equipment



Communications Equipment



Other Equipment (Excluding Aircraft, Computing, and Communications Equipment)



moving up and output having accelerated in recent quarters, the near-term outlook for equipment spending is upbeat.

Real outlays on communications equipment soared in the first quarter, posting an increase of more than 35 percent at an annual rate. Spending in this area is likely to retain considerable momentum. Nominal orders rose 11-1/2 percent (not at an annual rate) in the first quarter, and a substantial backlog of unfilled orders has built up. The ongoing effort by telecommunications companies to upgrade their networks to provide a full range of voice and data transmission services appears to be providing a considerable boost to spending in this sector.

Growth in real outlays for office and computing equipment slowed to an annual rate of about 25 percent in the first quarter after having exceeded 40 percent in the fourth quarter and 60 percent in 1998 as a whole. Efforts to address the Y2K problem undoubtedly lifted spending last year. But, with Y2K preparations well along in most industries--and firms perhaps being cautious about disturbing their systems--this addition to spending may be waning. On the other hand, the continuing expansion in the use of the Internet may be spurring a considerable amount of investment. Indeed, the first-quarter earnings of technology companies were surprisingly strong, with some firms citing the explosion of electronic commerce as a factor stimulating sales. Moreover, the plunge in computer prices indicated by the PPI for April should boost real outlays on computers in the current quarter.

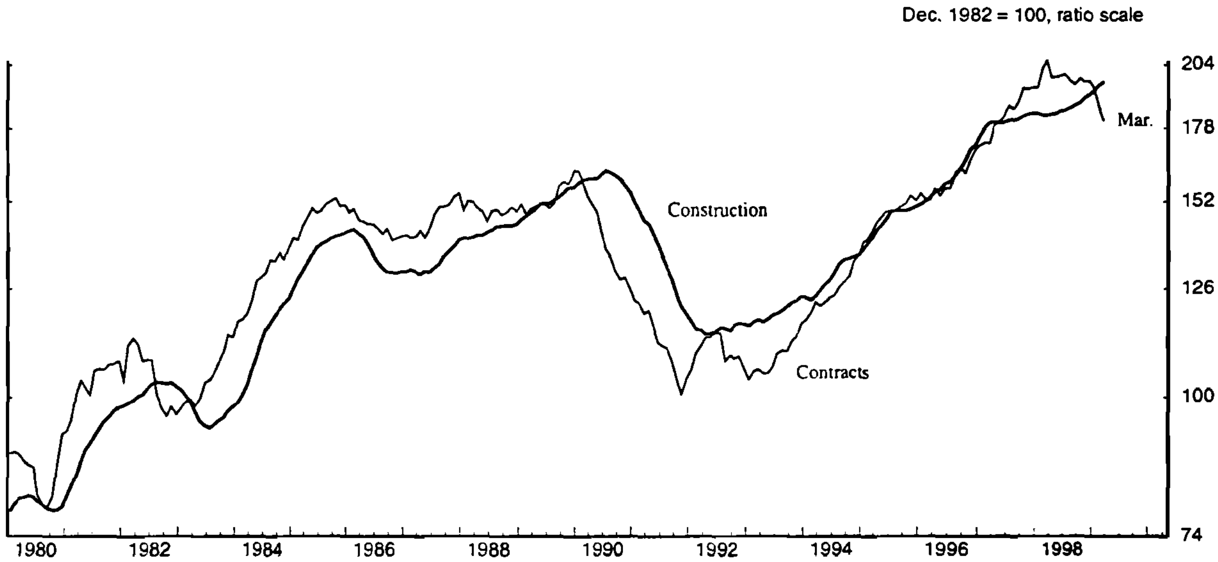
Business spending on motor vehicles has been brisk of late, lifted by surging sales of medium and heavy trucks. Sales of these trucks rose 6 percent in the first quarter and held at the robust first-quarter pace in April. And, although the preliminary data indicate a drop in orders in April, backlogs are sufficient to sustain sales near the recent pace for the next couple of months. In addition, fleet sales of autos and light trucks rebounded sharply in April after having been depressed late in the first quarter when manufacturers shifted supplies to the booming retail market.

Outlays on aircraft continued to fluctuate around a fairly high level in the first quarter. Boeing's delivery schedule, as well as information from industry contacts on the destination of these planes, suggests that domestic expenditures on aircraft will be well maintained in the current quarter.

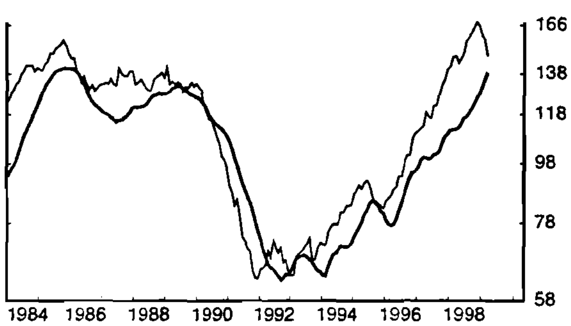
Outside the high-tech and transportation categories, spending on equipment increased 3 percent at an annual rate in the first quarter after having recorded only a small increase, on balance, in the second half of 1998. Moreover, the outlook for outlays in this category appears to be improving: Nominal orders rose 2.8 percent (not at an annual rate) in the first quarter. These figures are

Nonresidential Construction and Contracts
(Six-month moving average)

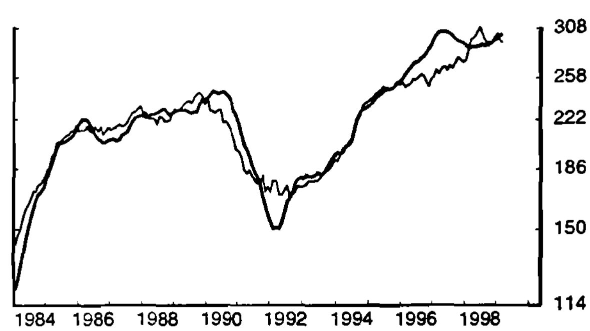
Total Private Building



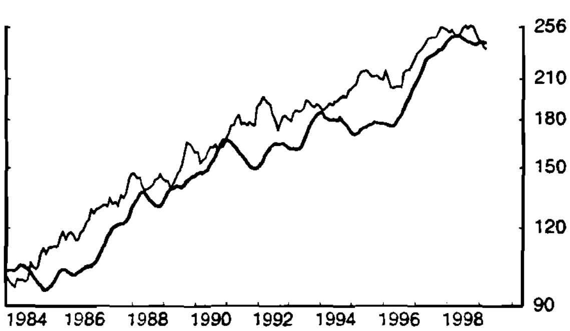
Office



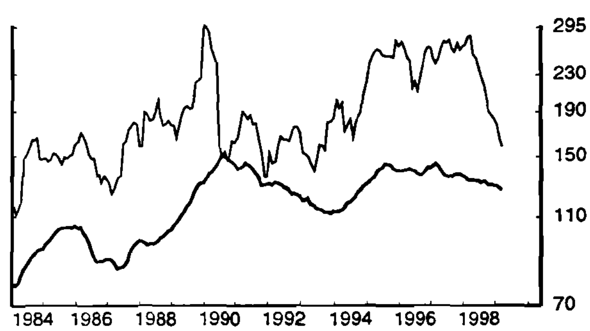
Other Commercial



Institutional



Industrial



Note. Individual sectors include both public and private building.

impressive given that spending no doubt has been damped by the sluggishness of the manufacturing sector, which typically represents a high percentage of demand for this category.[5]

Nonresidential structures. Real spending on nonresidential construction appears to have increased at a 3-3/4 percent annual rate in the first quarter, after factoring in the March construction put-in-place data, which were not available for the advance GDP estimate. The growth in spending reflected sizable further increases for office buildings and lodging facilities; spending in the other major categories was little changed.

Business Inventories

(The retail trade inventories report for March will be released tomorrow and will be discussed in the GB supplement.)

Excluding motor vehicles, we estimate that real nonfarm inventory investment remained around $30 billion at an annual rate in the first quarter, close to the subdued pace of late 1998. In the aggregate, stocks seem to be at fairly comfortable levels--or perhaps even a bit lean. But the situation across sectors is uneven: In retail trade, for example, the surge in sales in early 1999 probably pushed inventories below desired levels, while the inventory-sales ratios for a few manufacturing and wholesale trade categories remain high.

Using the book-value data, manufacturers' inventories fell $14 billion at an annual rate in the first quarter, twice the drop recorded in the fourth quarter. A steeper drop in inventories of aircraft and parts, a development related to the decline in production at Boeing, accounted for almost all of the swing. The inventory-shipments ratio for all manufacturing moved down in the first quarter, with the aggregate ratio falling from 1.36 in December to 1.33 in March. The decline was most pronounced for the primary metals industry, where the ratio had risen appreciably last year; the ratios for chemicals and non-high-tech machinery have also fallen during the past couple of months. However, even with the recent declines, inventory-shipments ratios in these three industries remain somewhat high relative to their historical levels.

Wholesale inventories excluding motor vehicles rose at an annual rate of $6-1/2 billion in the first quarter, about the same as in the fourth quarter. Last quarter's increase was concentrated in durable goods, as accumulations in the machinery and miscellaneous durables categories more than offset a drop in

---

5. Unpublished BEA data indicate that in 1997 (latest available data), manufacturers accounted for 34 percent of all outlays on equipment in the non-high-tech, nontransportation category--compared, for instance, with only 15 percent of all outlays for computers and 6 percent for communications equipment.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars; annual rate except as noted;
based on seasonally adjusted Census book value)

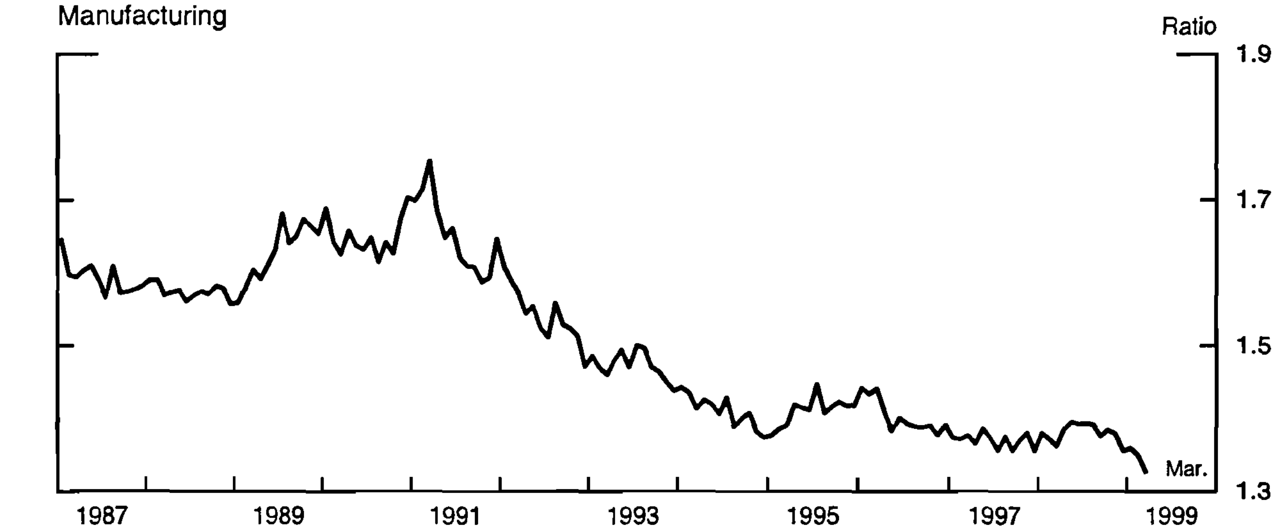
Category	1998		1999	1999		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Manufacturing and trade	41.4	26.2	n.a.	-6.1	41.9	n.a.
Less wholesale and retail motor vehicles	33.8	6.3	n.a.	-8.0	25.4	n.a.
Manufacturing	7.4	-7.0	-13.8	-23.2	-8.0	-10.2
Less aircraft	1.3	-3.9	-4.6	-2.8	-9.4	-1.6
Merchant wholesalers	26.4	11.3	6.5	-12.7	22.3	9.8
Less motor vehicles	24.5	6.3	6.4	-8.3	21.5	6.0
Retail trade	7.6	21.9	n.a.	29.7	27.6	n.a.
Automotive dealers	5.7	14.9	n.a.	6.3	15.7	n.a.
Less automotive dealers	1.8	6.9	n.a.	23.4	11.9	n.a.

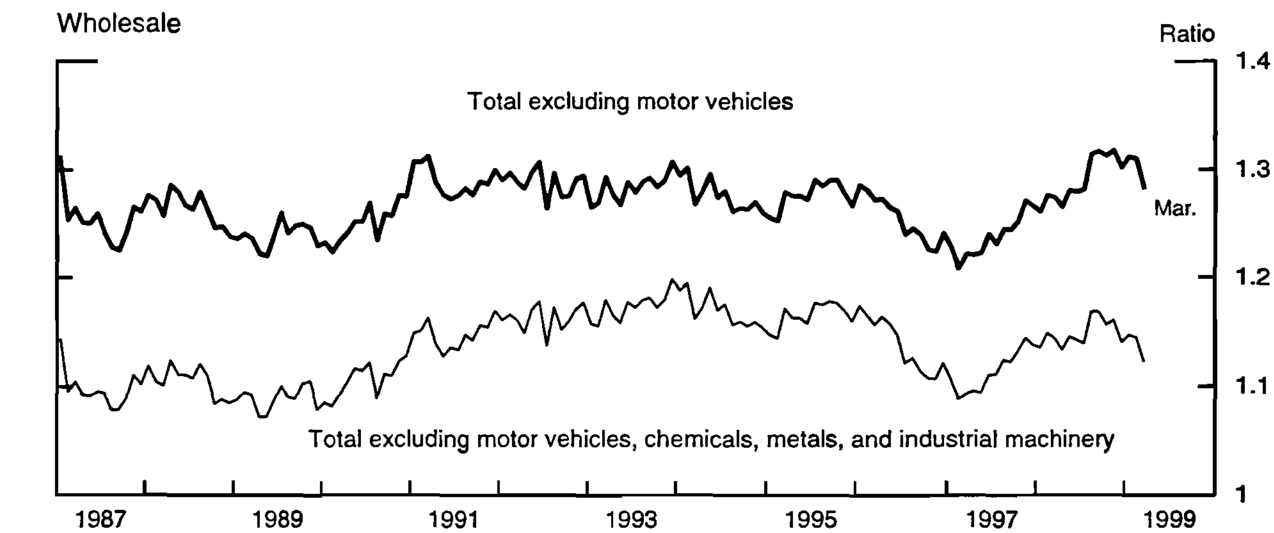
SELECTED INVENTORY-SALES RATIOS IN MANUFACTURING AND TRADE
(Months' supply, based on seasonally adjusted Census book value)

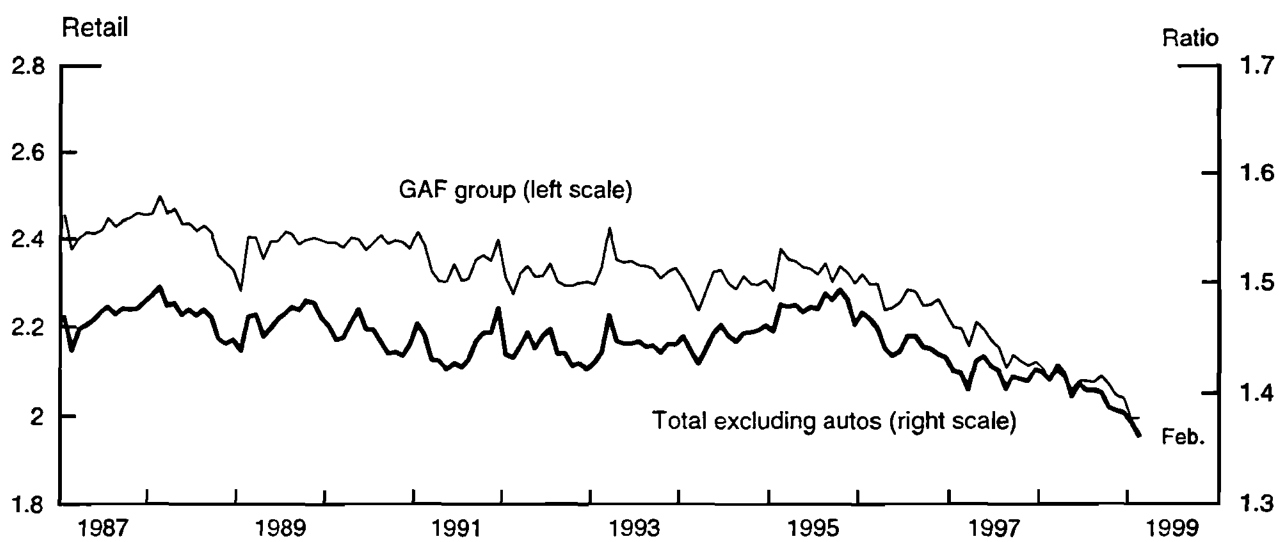
Category	Cyclical reference points		Range over preceding 12 months		
	1990-91 high	1991-98 low	High	Low	March 1999
Manufacturing and trade	1.58	1.37	1.39	1.37	1.36
Less wholesale and retail motor vehicles	1.55	1.34	1.37	1.35	1.34
Manufacturing	1.75	1.36	1.40	1.35	1.33
Primary metals	2.08	1.46	1.74	1.55	1.64
Steel	2.56	1.59	2.25	1.83	2.06
Nonelectrical machinery	2.48	1.61	1.67	1.61	1.65
Electrical machinery	2.08	1.21	1.39	1.21	1.23
Transportation equipment	2.93	1.51	1.85	1.56	1.48
Motor vehicles	.97	.53	.64	.53	.52
Aircraft	5.84	4.05	4.97	4.05	4.13
Nondefense capital goods	3.09	2.04	2.21	2.04	2.04
Textiles	1.71	1.38	1.59	1.48	1.58
Paper	1.32	1.06	1.23	1.17	1.20
Chemicals	1.44	1.25	1.45	1.38	1.37
Petroleum	.94	.80	.99	.88	.85
Home goods & apparel	1.96	1.59	1.75	1.60	1.60
Merchant wholesalers	1.36	1.24	1.33	1.29	1.30
Less motor vehicles	1.31	1.21	1.32	1.27	1.28
Durable goods	1.83	1.54	1.66	1.59	1.59
Nondurable goods	.95	.90	.99	.94	.96
Retail trade	1.61	1.44	1.49	1.43	1.42
Less automotive dealers	1.48	1.38	1.42	1.37	1.36
Automotive dealers	2.22	1.56	1.70	1.56	1.57
General merchandise	2.42	1.98	2.07	1.91	1.92
Apparel	2.53	2.27	2.54	2.37	2.38
GAF	2.42	2.04	2.10	1.99	1.99

Note. March 1999 ratios for manufacturing and wholesale; February 1999 ratios for retail trade.

Inventory-Sales Ratios, by Major Sector
(Book value)



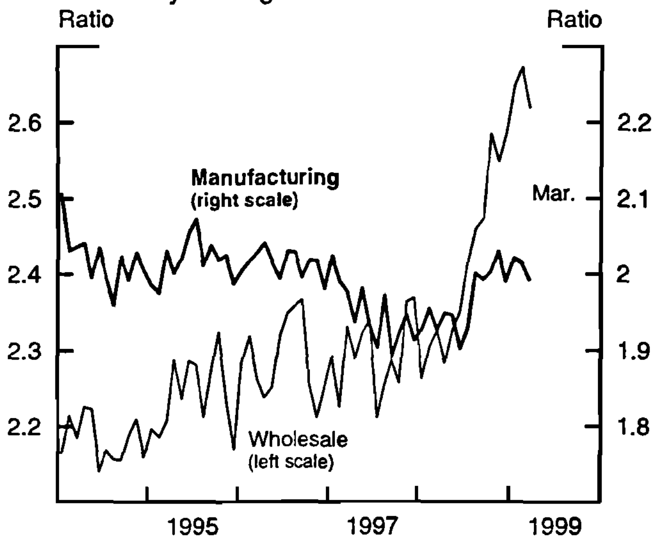




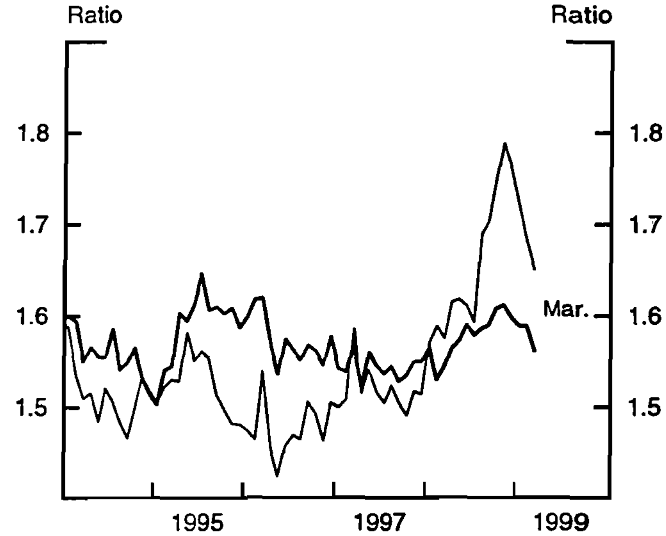
Inventory-Sales Ratios

Manufacturing and Wholesale

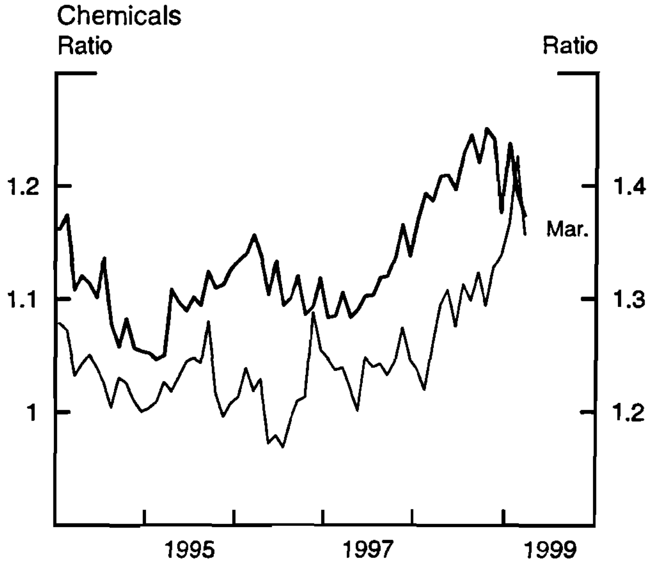
Machinery ex. High Tech



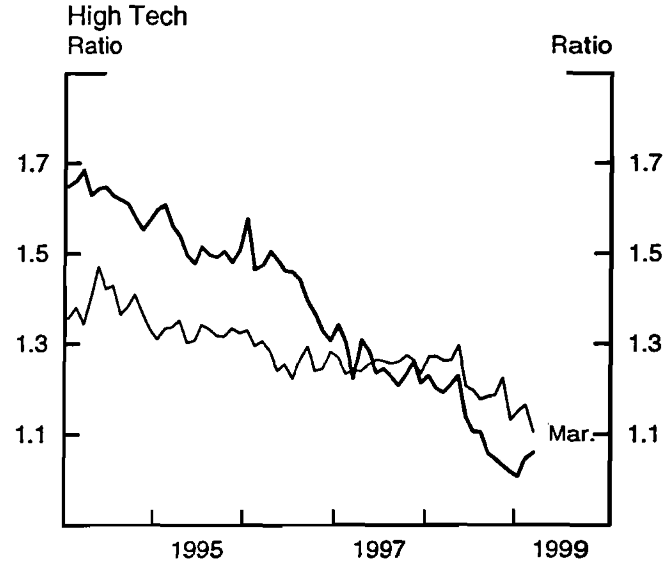
Metals



Chemicals

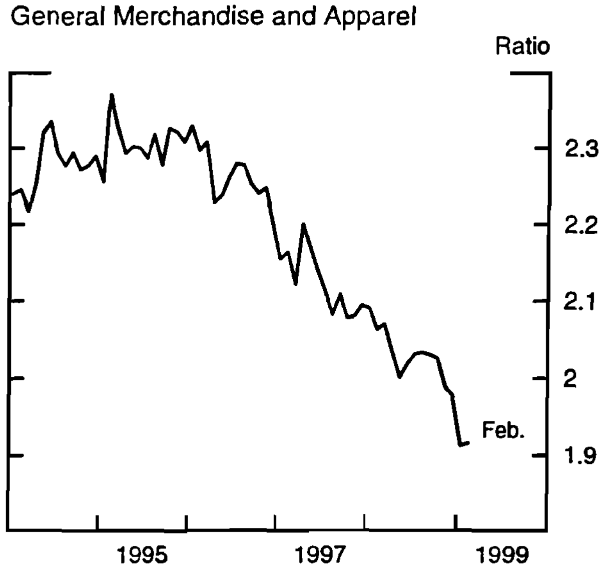


High Tech

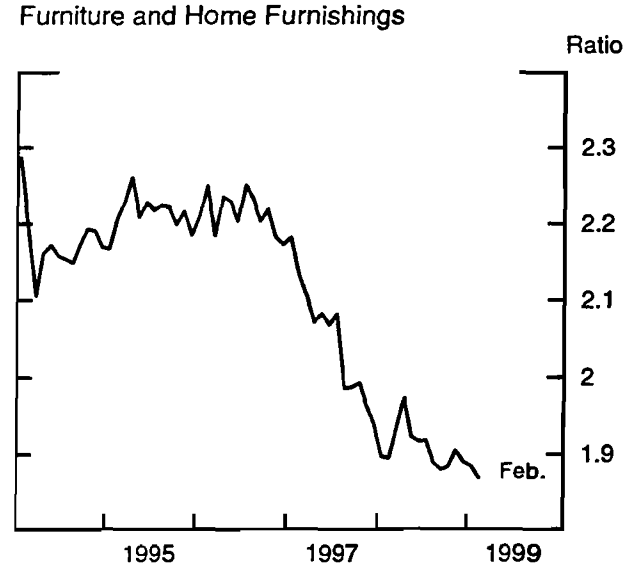


Retail Trade

General Merchandise and Apparel



Furniture and Home Furnishings



stocks of metals and minerals. The overall inventory-sales ratio for wholesalers (excluding motor vehicles) plummeted in March, returning to about the levels of the first half of 1998. The ratio for metals and minerals, which had jumped in the second half of last year, fell sharply in the first quarter, while the ratios for chemicals and machinery remained around the elevated levels of late 1998.

Non-auto retail inventories posted sizable increases over the first two months of the year, accumulating at an average pace of $18 billion at an annual rate in book-value terms. Nonetheless, the extraordinary strength of retail sales through February meant that stockbuilding in most sectors failed to match the gains in sales, and the inventory-sales ratio for the sector as a whole fell to its lowest level since 1980. The inventory-sales ratios for general merchandise and apparel outlets posted especially dramatic declines.

Federal Government

Real federal expenditures on consumption and gross investment, as measured in the NIPAs, declined at an annual rate of 3/4 percent in the first quarter. Real defense expenditures fell at a 4-1/4 percent rate, somewhat faster than the downward trend of the past few years. Nondefense purchases rose at a 6-1/4 percent rate, reflecting a surge in equipment investment resulting from the acquisition of a large number of new motor vehicles.

The federal budget surplus over the twelve months ended in March, adjusted for payment timing shifts and excluding deposit insurance, spectrum auction proceeds, and sales of major assets, was $75 billion, compared with $2-1/2 billion over the twelve months ended in March 1998. Outlays accelerated somewhat in March. In particular, defense spending was almost 13 percent above the level recorded in March of last year. The increase in defense expenditures predated the military action in Kosovo and, as far as we know, was unrelated to it. However, defense spending is very volatile, and the cumulative level of spending over the twelve months ended in March was only 0.6 percent higher than over the preceding twelve months. Spending on a variety of other programs also grew substantially in March. The notable exception was Medicare expenditures, which continued to run below year-earlier levels.

Individual income tax receipts continue to be strong. Withheld individual income and payroll taxes in March were well above the level of March of last year, even after accounting for an extra business day in March 1999. In addition, daily Treasury Statements for April and early May indicate that nonwithheld income and self-employed payroll taxes (which include both final payments on 1998 liability and estimated taxes for the first quarter of 1999)

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Unified basis; billions of dollars)

	March			12 months ending in Mar.		
	1998	1999	Percent change	1998	1999	Percent change
Outlays	131.7	152.7	15.9	1629.4	1680.6	3.1
Deposit insurance	-0.5	-0.5	n.a.	-6.2	-5.3	n.a.
Spectrum auction	0.0	-0.4	n.a.	-8.1	-2.6	n.a.
Sale of major assets	0.0	0.0	n.a.	0.0	-3.2	n.a.
Other	132.2	153.6	16.1	1643.7	1691.7	2.9
Receipts	117.9	130.3	10.5	1648.7	1770.6	7.4
Surplus	-13.8	-22.4	n.a.	19.3	90.0	n.a.
	Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts[1]					
Outlays	142.9	153.6	7.5	1646.3	1696.1	3.0
National defense	22.6	25.5	12.7	271.8	273.4	0.6
Net interest	20.7	20.0	-3.3	245.5	236.1	-3.8
Social security	31.4	32.4	3.0	372.4	385.5	3.5
Medicare	19.0	17.5	-8.0	195.7	190.7	-2.6
Medicaid	8.4	9.0	7.2	98.4	103.9	5.6
Other health	2.5	3.0	20.6	28.4	31.3	10.5
Income security	24.9	26.7	7.2	232.0	237.7	2.5
Other	13.4	19.6	46.1	202.2	237.4	17.4
Receipts	117.9	130.3	10.5	1648.7	1770.6	7.4
Individual income and payroll taxes	86.6	98.6	13.9	1292.6	1406.6	8.8
Withheld + FICA	101.1	116.4	15.1	1101.8	1196.1	8.6
Nonwithheld + SECA	8.4	8.5	1.5	287.7	318.2	10.6
Refunds (-)	23.0	26.4	14.7	97.0	107.8	11.2
Corporate	19.5	18.6	-4.8	190.3	185.2	-2.7
Gross	23.2	23.1	-0.1	213.4	213.8	0.2
Refunds (-)	3.7	4.6	25.0	23.1	28.7	24.1
Other	11.9	13.1	10.7	165.9	178.9	7.9
Surplus	-25.0	-23.3	n.a.	2.5	74.6	n.a.

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

1. 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.

n.a.--Not applicable

were about $15-1/2 billion higher than last year.[6] Income tax refunds have also grown substantially. Thus far this tax season, refunds--including the portion of the earned income tax credit included in outlays--are about $18 billion higher than last year; this increase is largely attributable to the effects of the child tax credit that became effective in 1998. The March Monthly Treasury Statement and the April and early May Daily Treasury Statements indicate that corporate tax receipts have been relatively weak.

The incoming tax data, along with last year's withheld and estimated tax payments, can be used to construct a reasonable estimate of 1998 individual income tax liability. Total personal income tax liability on 1998 income now appears to be roughly 10 percent above last year's level, considerably above estimates of nominal income growth. Thus, the trend of increasing effective personal income tax rates that has been observed over the past three years appears to have continued in 1998.

State and Local Government

We estimate that real purchases by state and local governments rose at an annual rate of 7-3/4 percent in the first quarter, the largest quarterly advance in almost fifteen years. Real outlays for investment (taking into account the March construction data, which BEA did not have at the time of the advance GDP estimate) jumped at about a 30 percent annual rate because of a surge in highway and bridge construction in the western part of the country; in particular, Utah has a major building program under way in preparation for the winter Olympics scheduled for February 2002, including the repair of a 17-mile stretch of highway that includes 144 bridges. With the weather unusually favorable during the first quarter, highway work could proceed without the usual winter slowdown, further boosting the seasonally adjusted figures. State and local government employment rose 31,000 in April, just a bit below the first-quarter pace.

Labor Costs

The employment cost index for hourly compensation of private industry workers increased at an annual rate of 1.4 percent over the three months ended in March.

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6. In its *Monthly Budget Review* released on May 7, CBO indicated that fiscal year 1999 revenues through April were very close to its expectations while outlays were slightly lower than anticipated. Accordingly, CBO will not revise its projection of a $111 billion surplus for fiscal 1999 at this time. However, CBO also noted that if current trends continue, it may increase the surplus estimate slightly when it issues its summer update in July. (In the spring of both 1997 and 1998, CBO indicated that its official budget projections were much too low because it had greatly underpredicted the increase in nonwitheld taxes, and it issued interim projections with much higher surpluses.)

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

	1998				1999
	Mar.	June	Sept.	Dec.	Mar.
	-----Quarterly percent change------- (Compound annual rate)				
Total hourly compensation[1]	3.0	3.6	4.1	2.9	1.4
Wages and salaries	3.4	3.9	4.8	3.0	1.8
Benefit costs	1.4	2.8	2.5	2.8	0.8
By industry					
Construction	2.8	5.0	1.5	4.9	3.9
Manufacturing	3.0	2.4	2.9	2.3	2.6
Trans., comm., and public utilities	4.2	4.8	3.8	2.9	0.0
Wholesale trade	7.0	2.3	7.1	6.7	-1.4
Retail trade	4.6	3.3	3.9	0.9	3.0
FIRE	6.7	5.1	7.7	4.3	-2.8
Services	2.0	3.2	3.8	3.1	2.0
By occupation					
White collar	3.3	4.1	4.7	3.7	0.0
Blue collar	2.1	3.0	2.7	3.0	2.7
Service occupations	4.3	2.7	3.3	2.1	4.4
Memo:					
State and local governments	3.3	3.0	2.9	2.9	2.6
	-----Twelve-month percent change----				
Total hourly compensation	3.5	3.5	3.8	3.5	3.0
Excluding sales workers	3.4	3.4	3.5	3.1	3.0
Wages and salaries	4.0	4.0	4.3	3.9	3.3
Excluding sales workers	4.0	3.8	3.9	3.4	3.4
Benefit costs	2.3	2.6	2.6	2.4	2.2
By industry					
Construction	2.7	3.1	2.9	3.5	3.8
Manufacturing	2.9	2.5	2.7	2.7	2.6
Trans., comm., and public utilities	3.4	4.1	4.2	3.8	2.9
Wholesale trade	3.6	3.6	4.6	5.7	3.6
Retail trade	3.6	3.6	3.7	3.0	2.8
FIRE	6.3	7.0	8.0	5.9	3.5
Services	3.5	3.4	3.5	3.0	3.0
By occupation					
White collar	3.8	4.0	4.4	3.9	3.1
Sales	4.0	5.0	6.2	6.8	3.2
Nonsales	3.8	3.8	4.0	3.3	3.0
Blue collar	2.7	2.7	2.7	2.7	2.9
Service occupations	4.2	3.9	3.2	2.9	3.1
Memo:					
State and local governments	2.5	2.7	3.0	3.0	2.9

1. Seasonally adjusted by the BLS.

This figure was held down notably by a sharp drop in compensation in the finance, insurance, and real estate (FIRE) industry, but compensation in several other industries decelerated significantly as well. Over the past twelve months, the ECI for compensation increased 3 percent--down 3/4 percentage point from its recent peak last September.

Part of the recent deceleration probably reflects the influence of restrained price inflation in tempering nominal wage increases. But beyond that, about half of the deceleration stems from a reversal of the surge in wage gains in the FIRE industry. The surge appeared to have been driven by commissions associated with the sharply rising levels of activity in the industry. Similarly, the first-quarter drop in the ECI for the industry was most pronounced in sales occupations, suggesting that commissions were important in that decline as well. And, indeed, there have been independent indications that activity may have eased in these areas: Mortgage refinancings dropped sharply in the first quarter after having spiked last fall, and home sales have nearly leveled off. Nevertheless, the first-quarter decline in compensation in the FIRE industry seems larger than can be explained by such a slowdown in activity, and we would not be surprised to see some offset in the coming quarters.

Another factor contributing to the deceleration in the ECI in the first quarter was a sharp plunge in nonproduction bonuses. (Details on these and other benefits in the ECI--with the exception of health care costs--are confidential.) Unlike the size of commissions, which is largely fixed by a formula related to an individual's production, the size of nonproduction bonuses is affected by managerial discretion; these bonuses are recorded in the ECI as a benefit cost. Although last year's weak profits performance may well have depressed first-quarter bonus payments, anecdotal evidence does not support anything like the sharp decline in bonuses reported in the ECI. Thus, we suspect that the decrease may have been exaggerated.

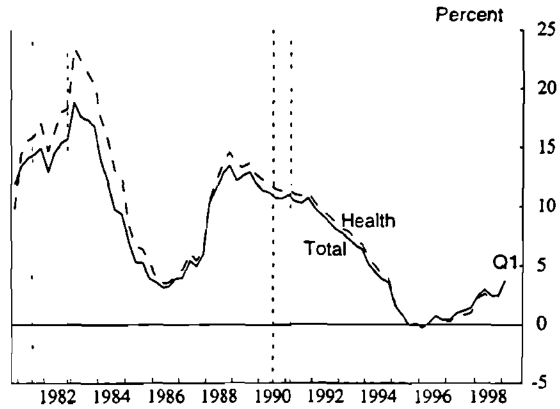
Among other benefits captured by the ECI, health insurance costs rose appreciably last quarter, increasing nearly 8 percent at an annual rate. The rise brought the twelve-month change to 3-3/4 percent in March, up from 2-1/4 percent a year earlier. Anecdotal reports had pointed to rising health insurance premiums this year, and we expect the twelve-month change to move up further as more policies are renewed over the course of the year.

Compensation per hour in the nonfarm business sector--as reported in the Productivity and Costs release--has been rising more rapidly than the ECI, although it, too, has shown hints of deceleration lately. In the first quarter, compensation per hour increased at a 4.3 percent annual rate, bringing the four-quarter change to 4.1 percent--down from 4-1/2 percent last summer. The ECI

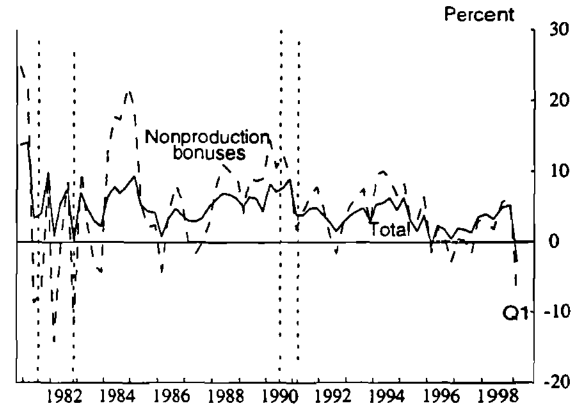
Components of ECI Benefits Costs (CONFIDENTIAL)

(Private industry workers; twelve-month change)

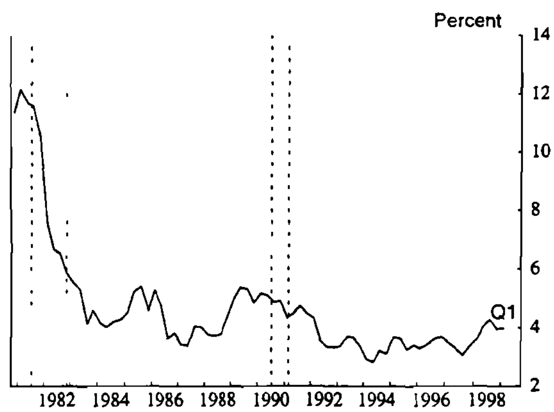
Insurance Costs



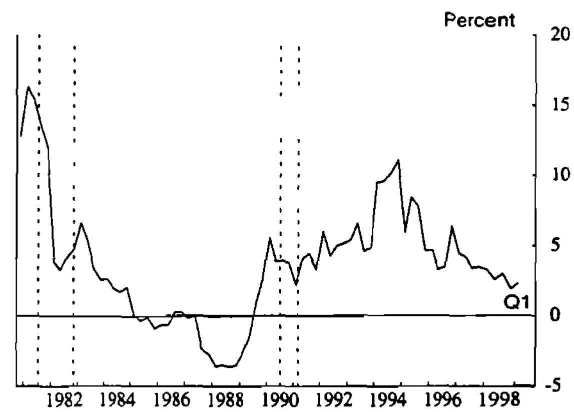
Supplemental Pay



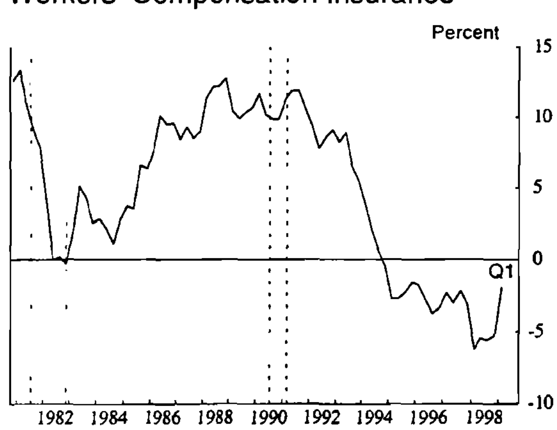
Paid Leave



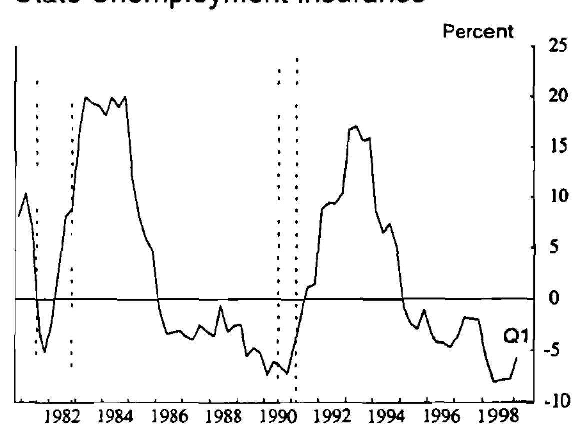
Retirement and Savings



Workers' Compensation Insurance



State Unemployment Insurance



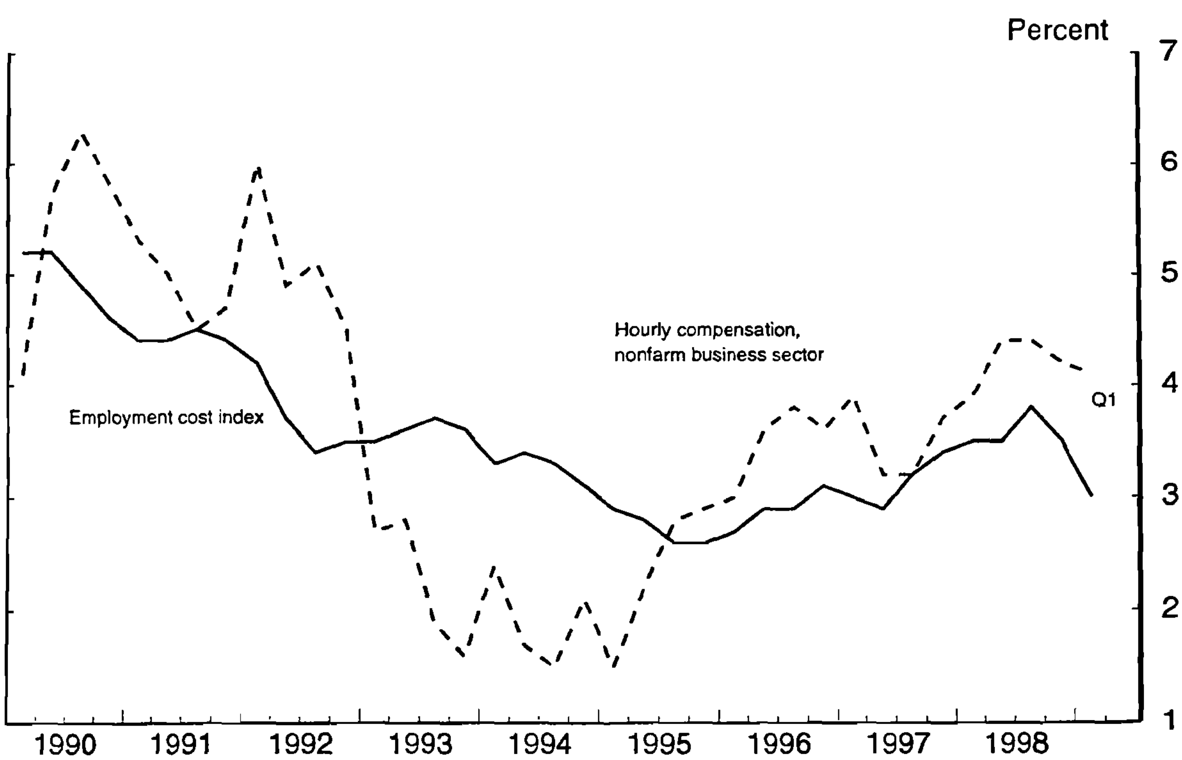
Note. Unpublished and confidential ECI benefits detail.

LABOR COSTS
(Percent change; annual rate; based on seasonally adjusted data)

	1997[1]	1998[1]	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1998:Q1 to 1999:Q1
Compensation per hour							
Total business	3.8	4.3	4.1	3.7	4.4	5.2	4.4
Nonfarm business	3.7	4.2	4.1	3.9	4.0	4.3	4.1
Manufacturing	5.4	3.3	2.6	3.2	3.3	4.9	3.5
Nonfinancial corporations[2]	3.8	4.1	4.6	4.0	4.2	n.a.	n.a.
Unit labor costs							
Total business	2.0	1.4	4.0	1.0	-.1	.4	1.3
Nonfarm business	2.1	1.5	3.7	1.4	-.4	.3	1.3
Manufacturing	-.1	-.6	-1.3	-1.5	-1.9	-.9	-1.4
Nonfinancial corporations[2]	1.2	.7	1.5	-.3	.8	n.a.	n.a.

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, finance and insurance companies; the sector accounts for about two-thirds of business employment.

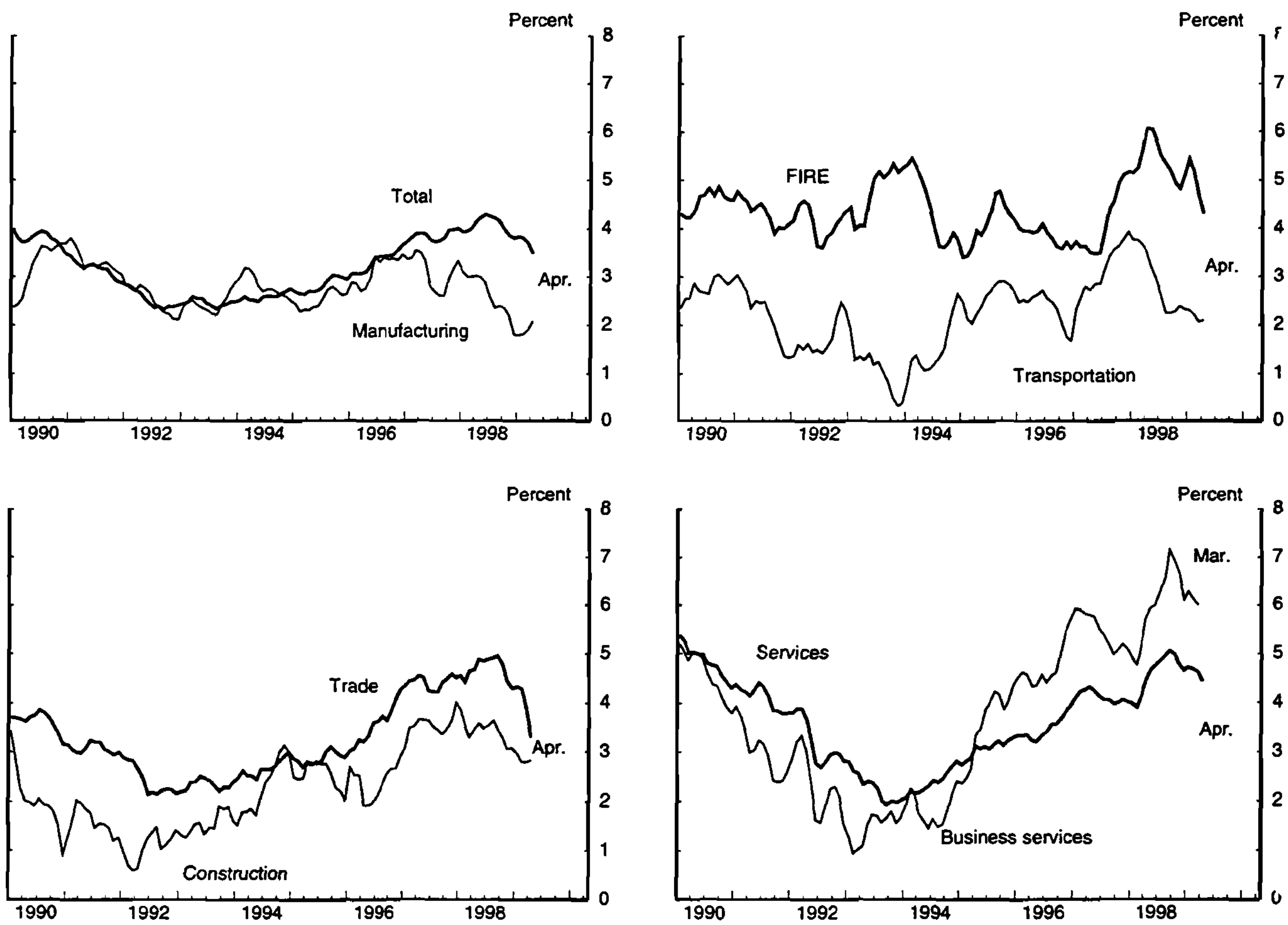
Measures of Compensation per Hour
(Four-quarter change)



AVERAGE HOURLY EARNINGS
(Percentage change; based on seasonally adjusted data)

	Twelve-month percent change			Percent change to Apr. 1999		1999	
	Apr. 1997	Apr. 1998	Apr. 1999	Oct. 1998	Jan. 1999	Mar.	Apr.
	-Annual rate-					-Monthly rate-	
Total private nonfarm	3.8	4.4	3.2	3.3	2.5	.2	.2
Manufacturing	2.8	2.8	2.5	3.1	4.5	.4	.5
Construction	3.7	3.6	3.0	3.0	4.9	.8	.3
Transportation and public utilities	2.8	3.5	2.2	3.1	2.9	.1	.6
Finance, insurance, and real estate	2.9	6.5	4.4	5.3	3.4	.1	.6
Retail trade	4.4	5.5	2.9	2.3	-.4	-.2	.0
Wholesale trade	4.5	4.2	2.1	-.3	-4.9	.0	-.9
Services	4.1	4.8	4.4	4.5	4.3	.4	.4

Average Hourly Earnings
(Three-month moving average of twelve-month change)



and nonfarm compensation per hour differ not only in that the ECI measures costs for a fixed industry/occupation structure, but also in that the two measures are constructed using fundamentally different sources and methods. Nonfarm compensation per hour is somewhat broader in scope than the ECI; it includes, for example, payments such as hiring bonuses and stock option exercises. In addition, the early estimates of nonfarm compensation per hour are often revised substantially as source data become available.

Regarding the first-quarter figures, the estimation procedures for nonfarm compensation per hour would not have picked up the sharp drop in nonproduction bonuses that was indicated by the ECI; the drop may show up eventually, however, if it is reflected in the 1999 unemployment insurance records, which will become available next year. Movements in commissions earned by supervisory workers also would not get into the nonfarm compensation data immediately. However, commissions earned by nonsupervisory workers, as well as regular wage and salary changes, ought to have been captured in average hourly earnings and thus reflected right away in the nonfarm compensation data. Indeed, in the first quarter, average hourly earnings increased much more rapidly than its closest counterpart in the ECI--the series measuring wages and salaries of production or nonsupervisory workers.

In all, probably only a small part of the difference between the first-quarter readings of these two labor cost indicators can be attributed to clear differences in scope or data availability; most of the difference simply reflects the fact that they provide two independent readings on labor costs. We view the two measures as complementary and interpret the recent nonfarm business data as a caution that firms' actual labor costs, although decelerating, may be rising more rapidly than is being measured by the ECI.

Information on labor costs this quarter is mostly limited to the BLS monthly data on average hourly earnings of production or nonsupervisory workers, which increased 0.2 percent in April. Over the past twelve months, average hourly earnings increased 3.2 percent, down from 4.4 percent over the previous twelve-month period. The deceleration was fairly widespread across industries, with the largest slowdowns in wholesale and retail trade and in finance, insurance, and real estate.

Prices

(The CPI report for April will be released tomorrow and will be discussed in the GB supplement.)

Consumer price inflation remained low through March, although the April CPI is expected to be lifted appreciably by a sharp increase in energy prices.

CPI INFLATION RATES
(Percent change)

	From twelve months earlier		1998	1999	1999	
	Mar. 1998	Mar. 1999	Q4	Q1	Feb.	Mar.
			-Annual rate-		-Monthly rate-	
All items (100.0)[1]	1.4	1.7	2.0	1.5	.1	.2
Food (15.4)	2.0	2.3	2.9	2.4	.1	-.2
Energy (6.3)	-8.6	-3.1	-6.2	-2.0	.0	1.6
CPI less food and energy (78.3)	2.1	2.1	2.3	1.6	.1	.1
Commodities (24.0)	.1	.6	1.0	.0	-.4	-.3
New vehicles (5.0)	-.7	-.7	-.9	-.7	-.3	-.2
Used cars and trucks (1.9)	-4.6	.1	5.2	-11.5	-1.5	-.6
Apparel (4.8)	.3	-1.6	-1.3	-6.8	-.2	-.3
Tobacco (1.2)	6.7	32.2	34.3	81.5	-1.4	-3.5
Other Commodities (11.1)	.1	-.3	-.4	-.6	-.3	-.0
Services (54.3)	3.0	2.8	2.8	2.4	.2	.3
Shelter (29.9)	3.2	3.1	3.8	1.7	.1	.4
Medical care (4.5)	3.0	3.4	2.8	3.7	.3	.2
Other Services (19.9)	3.0	2.2	1.4	3.1	.3	.3

1. Relative importance weight for CPI, December 1998.

PPI INFLATION RATES
(Percent change)

	From twelve months earlier		1998	1999	1999	
	Apr. 1998	Apr. 1999	Q4	Q1	Mar.	Apr.
			-Annual rate-		-Monthly rate-	
Finished goods (100.0)[1]	-.9	1.1	1.4	1.7	.2	.5
Finished consumer foods (23.3)	-.4	-.4	1.0	2.3	.4	-.9
Finished energy (11.9)	-8.7	1.5	-6.1	-2.0	1.2	5.1
Finished goods less food and energy (64.8)	.6	1.7	2.9	2.3	.0	.1
Consumer goods (39.6)	1.4	2.7	4.3	4.3	.1	.0
Capital equipment (25.2)	-.6	.0	1.0	-.5	.0	.0
Intermediate materials (100.0)[2]	-1.6	-1.4	-3.4	-2.0	.3	.6
Intermediate materials less food and energy (83.2)	-.1	-1.4	-2.9	-1.5	.1	.2
Crude materials (100.0)[3]	-7.0	-9.9	-5.8	-11.4	1.0	1.3
Crude food materials (42.2)	-9.3	-9.5	1.5	-1.2	-1.3	-2.5
Crude energy (31.9)	-4.8	-8.5	-1.8	-27.5	6.1	8.5
Crude materials less food and energy (25.9)	-5.6	-12.7	-24.0	-5.3	-.8	-1.1

1. Relative importance weight for PPI, December 1998.
2. Relative importance weight for intermediate materials, December 1998.
3. Relative importance weight for crude materials, December 1998.

Excluding food and energy items, the CPI increased just 0.1 percent in each of the first three months of the year. Over the twelve months to March, the core CPI increased 2.1 percent, the same as over the year-earlier period. The overall CPI is up only 1.7 percent over the past twelve months, reflecting the decline in energy prices through early this year.

Because of seasonal adjustment difficulties, the CPI data through March appear to have slightly exaggerated the low rate of inflation of late. In January, the BLS began to use a geometric-means aggregation formula, rather than a fixed-weight Laspeyres formula, at the finest level of aggregation of price quotes.[7] But in adjusting the new data for seasonal variation, BLS used the seasonal patterns of the old, Laspeyres indexes. BLS has been calculating geometric-mean CPIs on an experimental basis since 1991, and according to those data, the geometric-mean CPIs have a somewhat different seasonal pattern than do the Laspeyres data. In particular, the geometric-mean series typically rise less rapidly than the Laspeyres series in the first few months of the year, and rise more rapidly later in the year. Our rough guess is that had BLS utilized the experimental geometric-means data to generate their seasonal factors--as seems to us to be the appropriate procedure--the twelve-month changes in the overall and core CPIs would have been roughly 0.1 percentage point higher in March.[8]

Having said that, even adding a tenth or so to the most recent twelve-month change, and taking into account other modifications in CPI methodology, the core CPI has accelerated only about 1/4 percentage point from a year ago, and the December surge in tobacco prices can fully account for this pickup. Excluding tobacco, goods prices have declined over the past twelve months. The CPI for new motor vehicles was down 0.7 percent over the twelve months to March, the same as over the preceding twelve months. Apparel prices were reported as having declined 1.6 percent over the past twelve months (although this series is one for which the seasonal adjustment difficulties discussed above likely held down the first-quarter index by a considerable amount). At the same time, the prices of non-energy services have decelerated slightly over the past twelve months.

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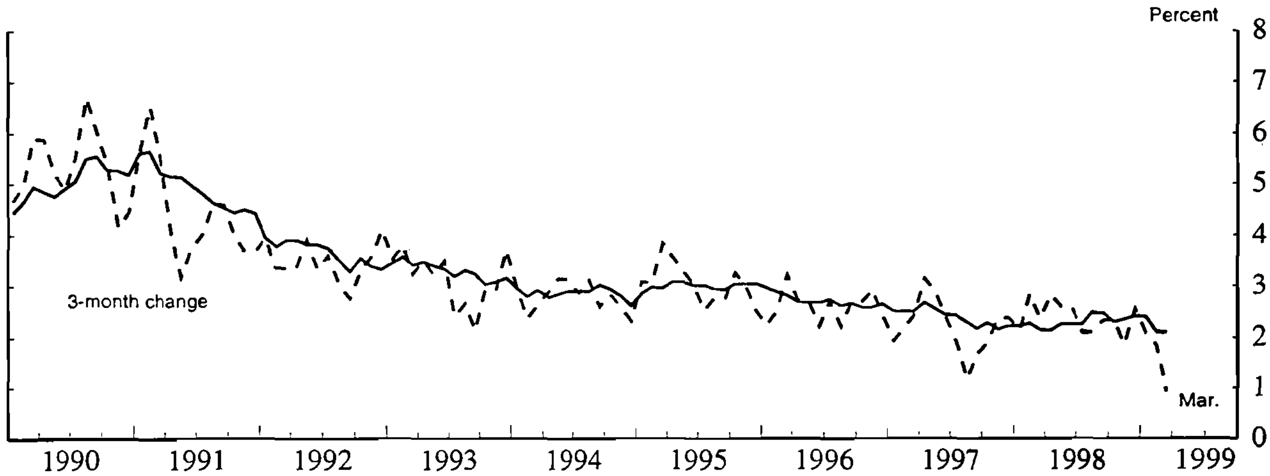
7 In contrast to the Laspeyres formula, the geometric-means formula assumes that consumers make some degree of substitution in their consumption choices in response to changes in relative prices.

8. Although these effects are difficult to pin down, we estimate that the published data understate the true seasonally adjusted increase in the CPI from December to March by about 0.3 percentage point at an annual rate.

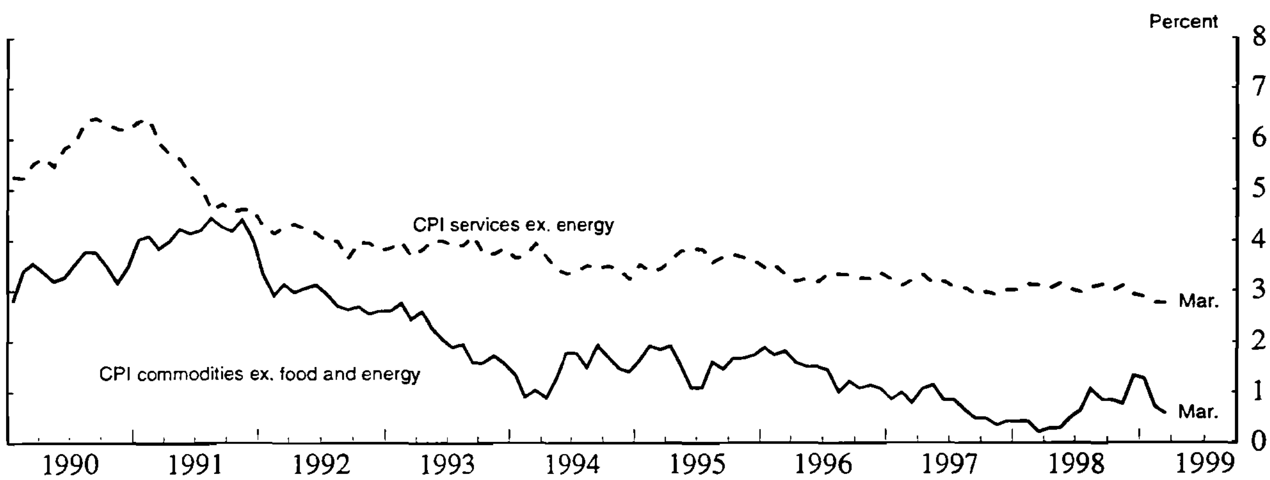
Measures of Core Consumer Price Inflation

(Twelve-month change except as noted)

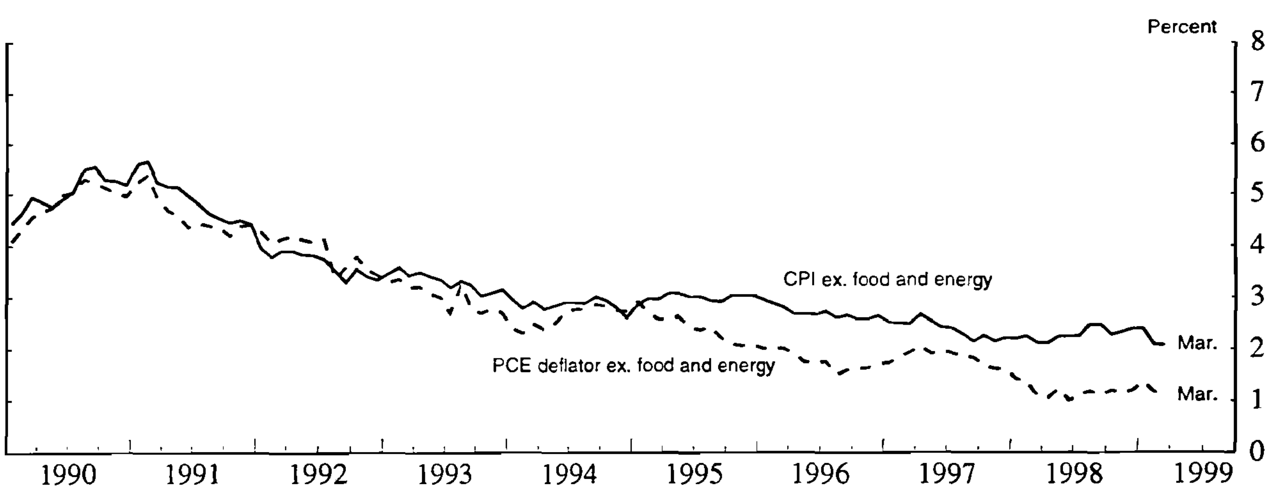
CPI Excluding Food and Energy



CPI Services and Commodities



CPI and PCE



As with prices of core goods and services, food prices have been restrained recently. The CPI for food increased only 0.1 percent per month, on average, in the first quarter. Over the twelve months to March, the CPI for food rose 2.3 percent, about 1/4 percentage point more than over the preceding twelve months. Spot crop prices have been moving down lately as well.

In contrast, consumer energy prices have rebounded sharply after declining substantially last year. The CPI for energy declined nearly 9 percent over 1998 and was little changed in January and February, but it jumped 1-1/2 percent in March, reflecting a 3-1/2 percent rise in gasoline prices. We expect to see even larger increases in consumer energy prices in April: The PPI for energy goods soared, and survey evidence points to a steep rise in retail gasoline and heating oil prices as well. These price movements stem both from the run-up we have seen in crude oil prices over the past couple of months and from disruptions at three refineries in California. Barring further increases in crude oil prices, the rise in the CPI for energy should have about run its course by now; this is borne out by survey evidence showing about flat gasoline prices in early May.

Outside of the energy area, there are few direct signs of inflationary pressures coming from earlier stages of processing. As noted above, food commodity prices have been declining in recent weeks. Outside of the food and energy area, the PPI for core intermediate materials moved up in April but is down 1-1/2 percent over the past twelve months. The PPI for core crude materials has dropped nearly 13 percent over the past year. However, since late March, spot prices of many industrial commodities have risen notably, especially for some metals and building materials. These increases likely are due to greater optimism about prospects for a strengthening of activity in Asia and Latin America as well as to the boom in construction activity in the United States. In all, the Journal of Commerce industrial price index has risen 1-1/2 percent since the last Greenbook.

As has been the case for some time, broader price indexes have continued to rise less rapidly than the CPI. The GDP chain price index rose 1 percent over the four quarters ended in the first quarter of 1999, about 1/4 percentage point less than the increase over the preceding four quarters. GDP prices have been held down, relative to consumption prices, by unusually sharp declines in the prices of investment goods. In the first quarter, however, prices of producers' durable equipment declined at only a 2-3/4 percent annual rate, compared with a nearly 5 percent rate of decline in 1998. Much of that difference reflects a slowing in the rate of decline in computer prices from nearly 29 percent last year to 21 percent in the first quarter. Whether this more moderate pace will continue is unclear: The PPI for computers fell 4 percent in April.

Daily Spot and Posted Prices of West Texas Intermediate

Note. Posted prices are evaluated as the mean of the range listed in the Wall Street Journal.

Monthly Average Prices of West Texas Intermediate

Month	Posted	Spot
June	12.09	13.66
July	12.36	14.08
August	11.73	13.36
September	12.65	14.95
October	12.81	14.39
November	11.54	12.94
December	9.59	11.28
January	10.81	12.47
February	10.33	12.01
March	12.80	14.66
April	15.47	17.34
May [1]	16.91	18.43

1. Through May 12, 1999.

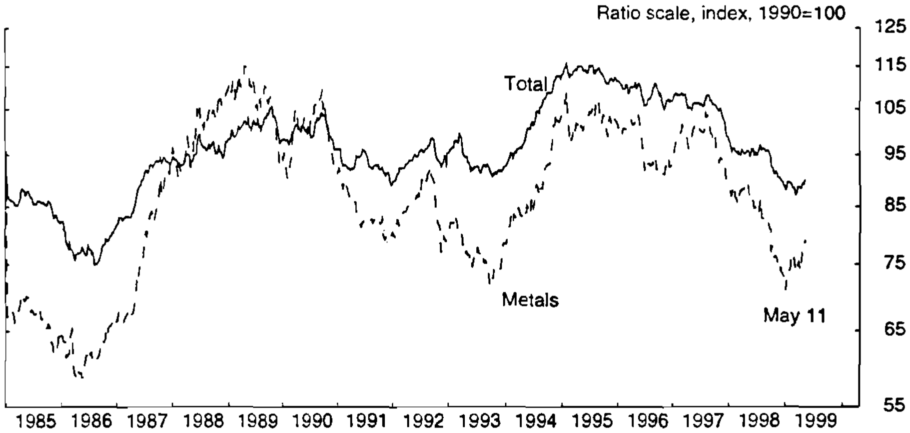
SPOT PRICES OF SELECTED COMMODITIES

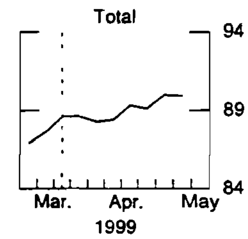
	Current price ($)	Percent change[1]: 1997	1998	Dec. 29 to Mar. 23[2]	Mar. 23[2] to May 11	Memo: Year earlier to date
Metals						
Copper (lb.)	.760	-21.5	-14.8	-1.4	11.8	-7.3
Steel scrap (ton)	82.167	19.3	-47.5	16.3	-2.8	-34.1
Aluminum, London (lb.)	.601	-1.9	-17.6	1.5	5.4	-2.7
Precious metals						
Gold (oz.)	279.450	-20.7	-1.1	-1.0	-1.6	-6.6
Silver (oz.)	5.395	27.2	-18.0	.9	6.4	-5.8
Forest products						
Lumber (m. bdft.)	345.000	-26.6	2.7	6.3	8.2	23.2
Plywood (m. sqft.)	380.000	-1.7	3.3	17.7	4.1	35.7
Petroleum						
Crude oil (barrel)	15.390	-27.4	-36.1	28.7	15.8	6.4
Gasoline (gal.)	.505	-23.5	-33.5	35.4	11.8	1.7
Fuel oil (gal.)	.427	-29.6	-33.6	26.8	2.6	1.5
Livestock						
Steers (cwt.)	64.250	4.2	-13.2	11.9	-2.7	-4.1
Hogs (cwt.)	39.500	-30.8	-55.7	82.3	39.8	-4.8
Broilers (lb.)	.601	-24.4	15.0	-5.4	11.8	-2.3
U.S. farm crops						
Corn (bu.)	2.040	-3.8	-19.4	2.7	-3.5	-12.8
Wheat (bu.)	2.808	-24.1	-5.7	-12.3	-3.5	-13.9
Soybeans (bu.)	4.585	-3.2	-21.1	-11.4	-2.9	-28.2
Cotton (lb.)	.569	-10.9	-10.2	3.0	-3.7	-12.2
Other foodstuffs						
Coffee (lb.)	1.095	26.1	-31.4	-14.5	9.5	-22.9
Memo:						
JOC Industrials	89.900	-7.3	-9.8	.1	1.5	-6.0
JOC Metals	79.100	-4.7	-18.5	3.0	6.0	-9.7
CRB Futures	191.760	-4.9	-17.2	-.6	1.0	-14.2
CRB Spot	257.370	-7.6	-14.1	-2.7	.3	-15.6

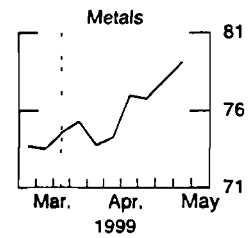
1. Changes, if not specified, are from the last week of the preceding year to the last week of the period indicated.
2. Week of the March Greenbook.

Commodity Price Measures

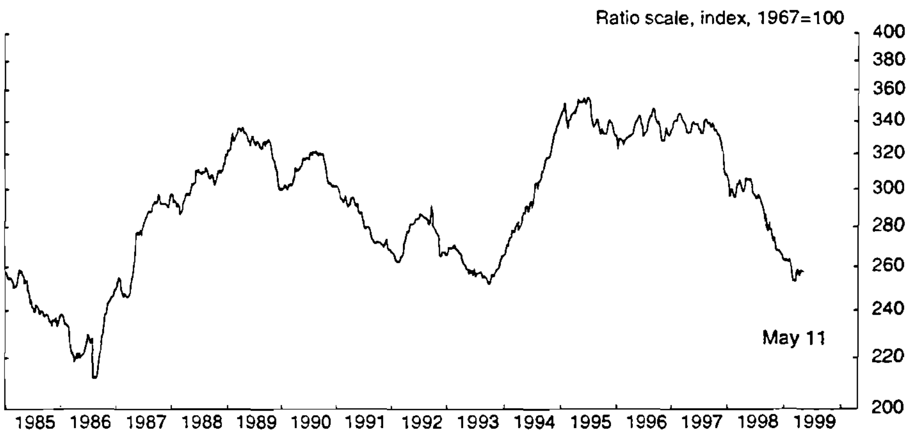
Journal of Commerce Index

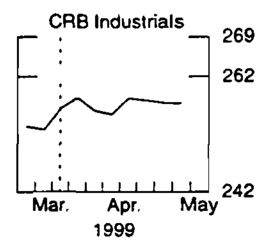




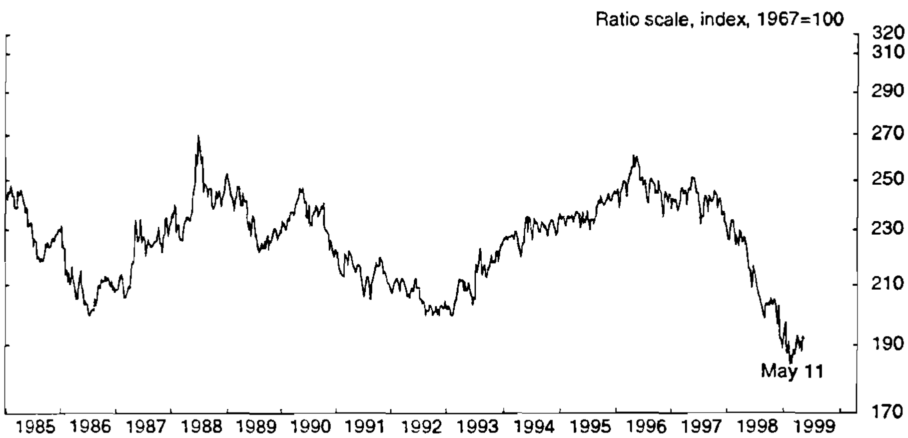


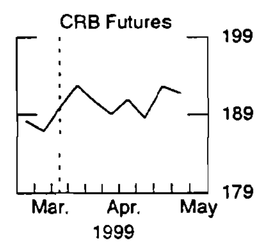
CRB Spot Industrials





CRB Futures





Note. Weekly data, Tuesdays. Vertical lines on small panels indicate week of last Greenbook. The Journal of Commerce index is based almost entirely on industrial commodities, with a small weight given to energy commodities, and the CRB spot price index consists entirely of industrial commodities, excluding energy. The CRB futures index gives about a 60 percent weight to food commodities and splits the remaining weight roughly equally among energy commodities, industrial commodities, and precious metals. Copyright for Journal of Commerce data is held by CIBCR, 1994.

BROAD MEASURES OF INFLATION
(Four-quarter percent change)

	1996 Q1	1997 Q1	1998 Q1	1999 Q1
Product prices				
GDP chain price index	2.0	1.9	1.2	1.0
Nonfarm business chain-type price index[1]	1.3	1.9	1.1	0.4
Expenditure prices				
Gross domestic purchases chain-type price index	2.0	1.8	0.7	0.7
Less food and energy	2.0	1.5	1.1	0.9
PCE chain-type price index	2.0	2.2	0.9	1.0
Less food and energy	2.0	1.8	1.3	1.2
CPI	2.8	2.9	1.5	1.7
Less food and energy	2.9	2.5	2.3	2.2
Median CPI	3.4	2.8	2.9	2.8
Trimmed mean CPI	2.8	2.7	2.0	1.7

1. Excluding housing.

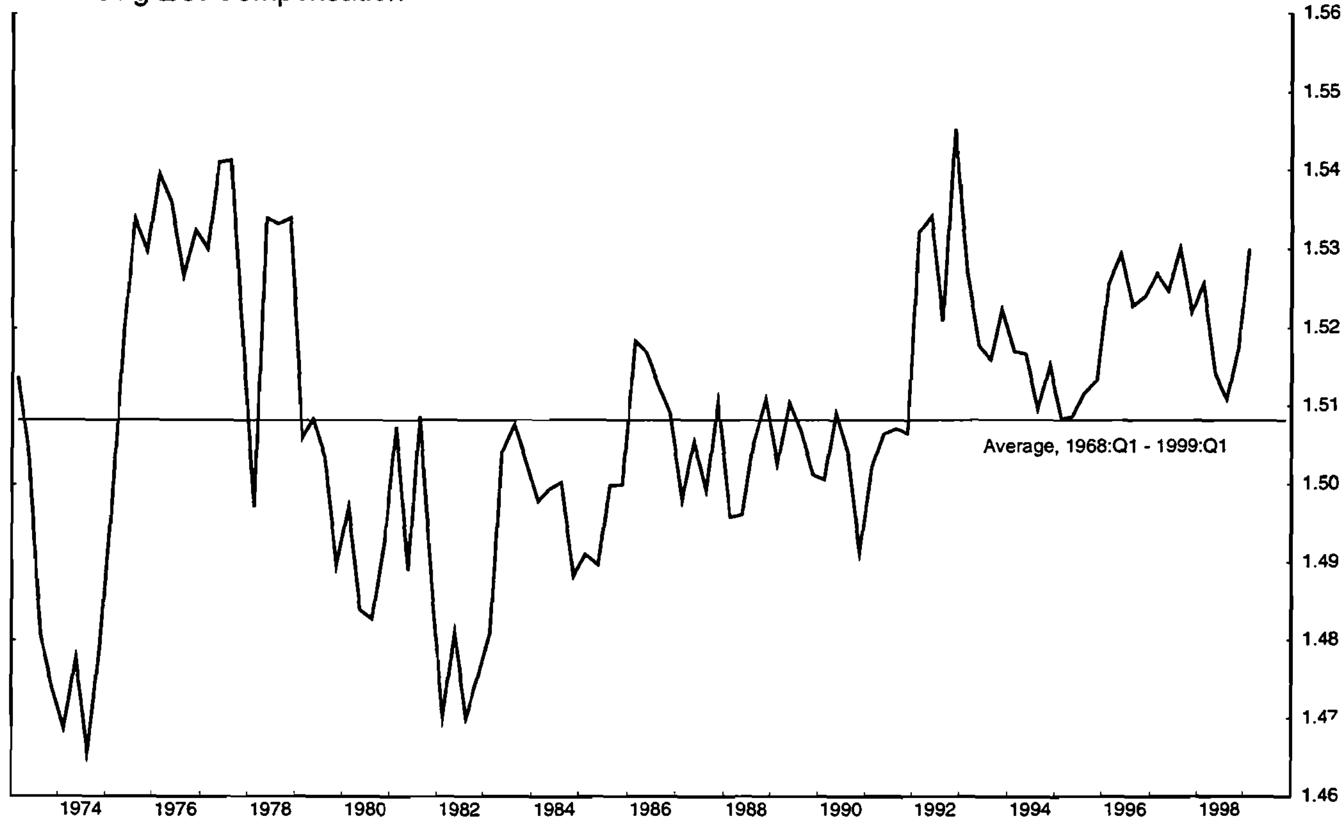
SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

	Actual inflation[1]	University of Michigan (1-year) Mean[2]	University of Michigan (1-year) Median[3]	University of Michigan (5- to -10-year) Mean[4]	University of Michigan (5- to -10-year) Median[5]	Professional forecasters (10-year)[6]
1997-Q1	2.9	3.8	2.9	3.8	3.1	3.0
Q2	2.3	3.6	2.9	3.8	3.0	2.9
Q3	2.2	3.4	2.7	3.6	3.0	3.0
Q4	1.9	3.3	2.8	3.8	3.1	2.7
1998-Q1	1.5	2.8	2.4	3.3	2.9	2.6
Q2	1.6	3.0	2.6	3.3	2.8	2.5
Q3	1.6	2.8	2.4	3.2	2.8	2.5
Q4	1.5	2.7	2.4	3.2	2.8	2.5
1999-Q1	1.7	3.0	2.6	3.3	2.8	2.3
Oct.	1.5	2.6	2.5	3.2	2.8	
Nov.	1.5	2.7	2.3	3.1	2.8	
Dec.	1.6	2.8	2.5	3.2	2.9	2.5
1999-Jan.	1.7	3.0	2.7	3.5	3.0	
Feb.	1.6	2.8	2.5	3.3	2.8	
Mar.	1.7	3.1	2.7	3.0	2.7	2.3
Apr.		3.0	2.7	3.0	2.8	

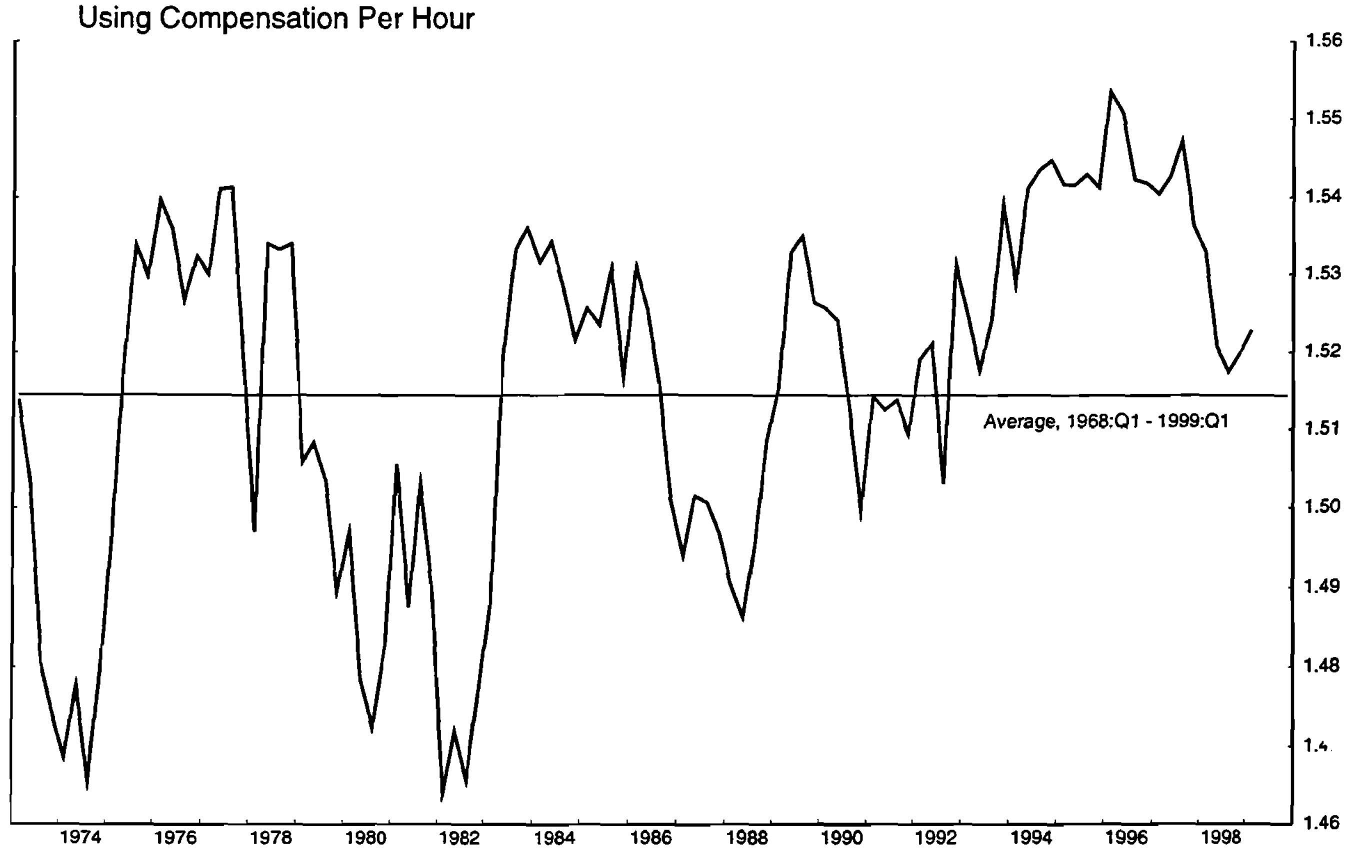
1. CPI; percent change from the same period in the preceding year.
2. Average increase for responses to the question: By about what percent do you expect prices (CPI) to go up, on the average, during the next 12 months?
3. Median increase for responses to the question above.
4. Average increase for responses to the question: By about what percent per year do you expect prices (CPI) to go up, on the average, during the next 5 to 10 years?
5. Median increase for responses to question above.
6. Compiled by the Federal Reserve Bank of Philadelphia.

Price Markup Over Unit Labor Costs
Nonfarm Business Sector Excluding Housing

Using ECI Compensation



Using Compensation Per Hour



Because GDP includes the government, nonprofit, and household sectors of the economy, it often is useful to focus on the nonfarm business sector (excluding housing). In this sector, prices have been even more restrained than for overall GDP, rising only 0.4 percent over the past four quarters. The deceleration of nonfarm business prices, other things equal, has exerted downward pressure on the markup of prices over unit labor costs in the nonfarm business sector. At the same time, the markup has been buoyed by rapid productivity growth, which helped to restrain growth in unit labor costs. In the end, the behavior of the markup over the past year has been mixed: When measured using nonfarm compensation per hour, the markup was well above its long-term average in early 1998, came down a good bit last year, and has only moved up slightly with the recent surge in productivity. This reduction in the markup hints that businesses will be less able to absorb further cost increases going forward than they have in the past couple of years. When measured using the ECI, the markup also came down last year; but it rebounded in the past couple of quarters as the ECI slowed, and in the first quarter it stood well above its long-run average.

Looking ahead, according to the Michigan survey, median one-year-ahead inflation expectations were 2.7 percent in April, up a tad from first-quarter levels and 1/4 percentage point higher than readings from the latter part of last year. Longer-term inflation expectations have remained low, however, with both the Michigan SRC's median five-to-ten-year inflation expectations and the Philadelphia Fed's survey of professional forecasters' ten-year expectations continuing to show expected inflation below 3 percent.

DOMESTIC FINANCIAL DEVELOPMENTS

Selected Financial Market Quotations

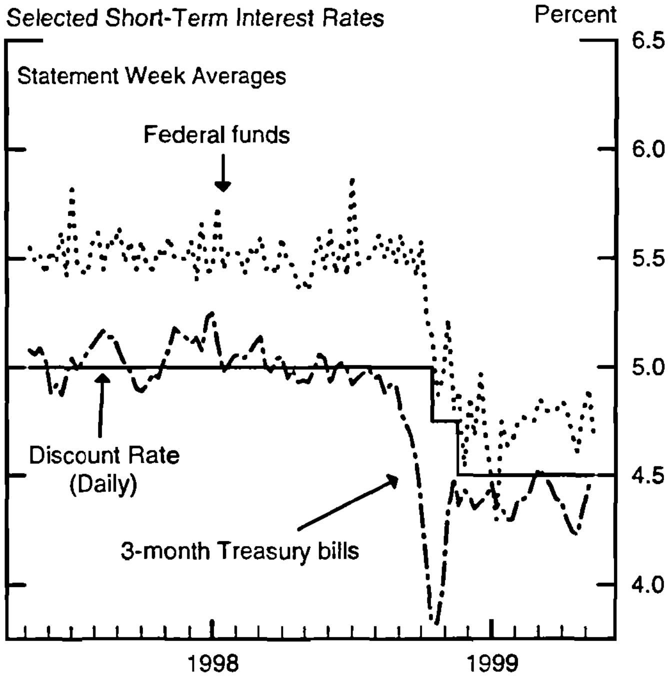
(One-day quotes in percent except as noted)

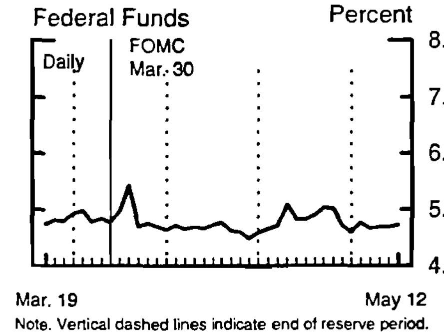
Instrument	1998 Oct. 15	1998 Dec. 31	1999 FOMC* Mar. 30	1999 May 12	Change to May 12 from selected dates (percentage points) Oct. 15	Dec. 31	FOMC* Mar. 30
Short-term							
Federal funds							
FOMC intended rate	5.00	4.75	4.75	4.75	-.25	.00	.00
Realized rate [1]	5.40	4.58	4.79	4.70	-.70	.12	-.09
Treasury bills [2]							
3-month	4.05	4.37	4.39	4.47	.42	.10	.08
6-month	4.12	4.39	4.36	4.51	.39	.12	.15
1-year	4.06	4.33	4.50	4.54	.48	.21	.04
Commercial paper							
1-month	5.27	4.90	4.84	4.77	-.50	-.13	-.07
3-month	5.13	4.84	4.80	4.79	-.34	-.05	-.01
Large negotiable CDs [2]							
1-month	5.35	5.01	4.87	4.83	-.52	-.18	-.04
3-month	5.31	4.97	4.90	4.88	-.43	-.09	-.02
6-month	5.10	4.97	4.96	4.97	-.13	.00	.01
Eurodollar deposits [3]							
1-month	5.34	4.94	4.81	4.75	-.59	-.19	-.06
3-month	5.28	4.94	4.88	4.88	-.40	-.06	.00
Bank prime rate	8.25	7.75	7.75	7.75	-.50	.00	.00
Intermediate- and long-term							
U.S. Treasury (constant maturity)							
2-year	4.13	4.54	5.02	5.19	1.06	.65	.17
10-year	4.58	4.65	5.28	5.51	.93	.86	.23
30-year	5.02	5.09	5.65	5.83	.81	.74	.18
U.S. Treasury 10-year indexed note	3.69	3.88	3.91	3.87	.18	-.01	-.04
Municipal revenue (Bond Buyer) [4]	5.21	5.26	5.29	5.35	.14	.09	.06
Corporate bonds, Moody's seasoned Baa	7.26	7.23	7.57	7.70	.44	.47	.13
High-yield corporate [5]	11.29	10.52	10.65	10.33	-.96	-.19	-.32
Home mortgages (FHLMC survey rate) [6]							
30-year fixed	6.49	6.77	6.98	7.02	.53	.25	.04
1-year adjustable	5.36	5.58	5.69	5.68	.32	.10	-.01

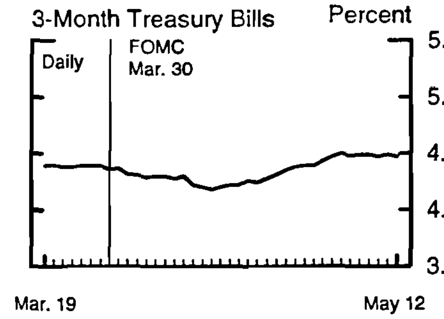
Stock exchange index	Record high Level	Record high Date	1998 Dec. 31	1999 FOMC* Mar. 30	1999 May 12	Change to May 12 from selected dates (percent) Record high	Dec. 31	FOMC* Mar. 30
Dow-Jones Industrial	11,031.59	5-7-99	9,181.43	10,006.78	11,000.37	-.28	19.81	9.93
S&P 500 Composite	1,364.00	5-12-99	1,229.23	1,310.17	1,364.00	.00	10.96	4.11
NASDAQ (OTC)	2,652.05	4-26-99	2,192.69	2,492.84	2,606.54	-1.72	18.87	4.56
Russell 2000	491.41	4-21-98	421.96	399.76	449.26	-8.58	6.47	12.38
Wilshire 5000	12,510.39	5-12-99	11,317.59	11,893.39	12,510.39	.00	10.54	5.19

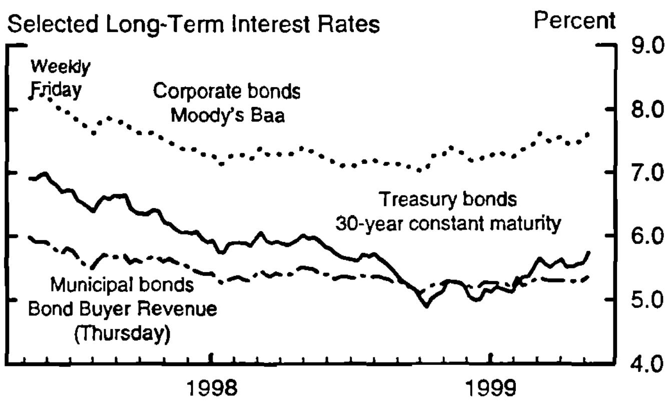
1. Average for two-week reserve maintenance period ending on or before date shown. Most recent observation is average for current maintenance period to date.
2. Secondary market.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
4. Most recent Thursday quote.
5. Merrill Lynch Master II high-yield bond index composite.
6. For week ending Friday previous to date shown.
* Data are as of the close on March 29, 1999.

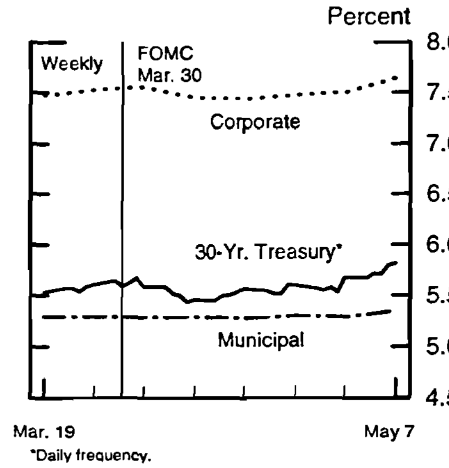
Selected Interest Rates

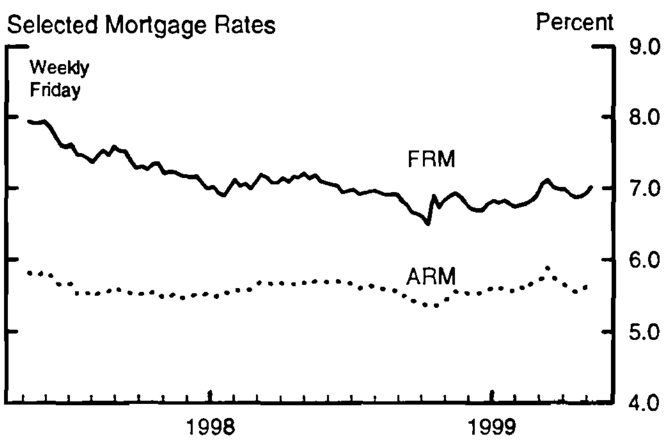


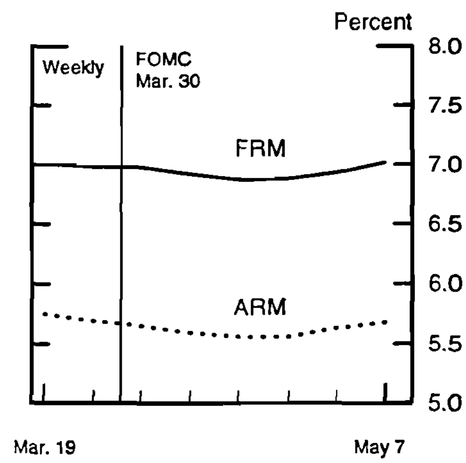












Domestic Financial Developments

Overview

Yields on Treasury securities have risen, on net, since the March FOMC meeting, as early enthusiasm that the pace of economic expansion might be slowing gave way to concern that policy tightening would be needed before long. In the first week or so after the FOMC meeting, a weak March employment report, combined with unanticipated easings in monetary policy abroad, contributed to sizable declines in Treasury rates. Since then, yields have more than reversed those declines, as investors read the strength in economic data releases and concerns expressed by Chairman Greenspan about tightening labor markets as suggesting that policy might firm somewhat over the next year. However, with profits strong and investors showing increased tolerance for risk, yields on corporate debt have risen less than those on Treasuries and, indeed, yields on lower-rated junk bonds have declined.

Robust corporate profits outweighed the effect of rising Treasury bond yields to boost the Wilshire 5000 index--the broadest measure of U.S. equity prices--more than 5 percent over the intermeeting period. Shares of cyclical and primary industry companies gained considerably more than that, as did shares of smaller firms; concerns about earnings prospects in the high-tech sector restrained the gains for those stocks and cooled enthusiasm a bit for Internet shares. Meanwhile, gross issuance of both seasoned equity offerings and IPOs has been strong.

Business and household borrowing has remained robust. Corporate borrowing has been focused on the bond market in recent months, as favorable market conditions have encouraged firms to lock in long-term funding in lieu of shorter-maturity bank loans and commercial paper. Growth of consumer credit cooled in March from its sizzling pace earlier in the year but still advanced rapidly for the first quarter as a whole, and home mortgage borrowing remained brisk as well last quarter. State and local governments continued to issue a sizable volume of debt to fund new capital. In contrast, the Treasury has been paying down debt as a result of the surplus, which has been growing.

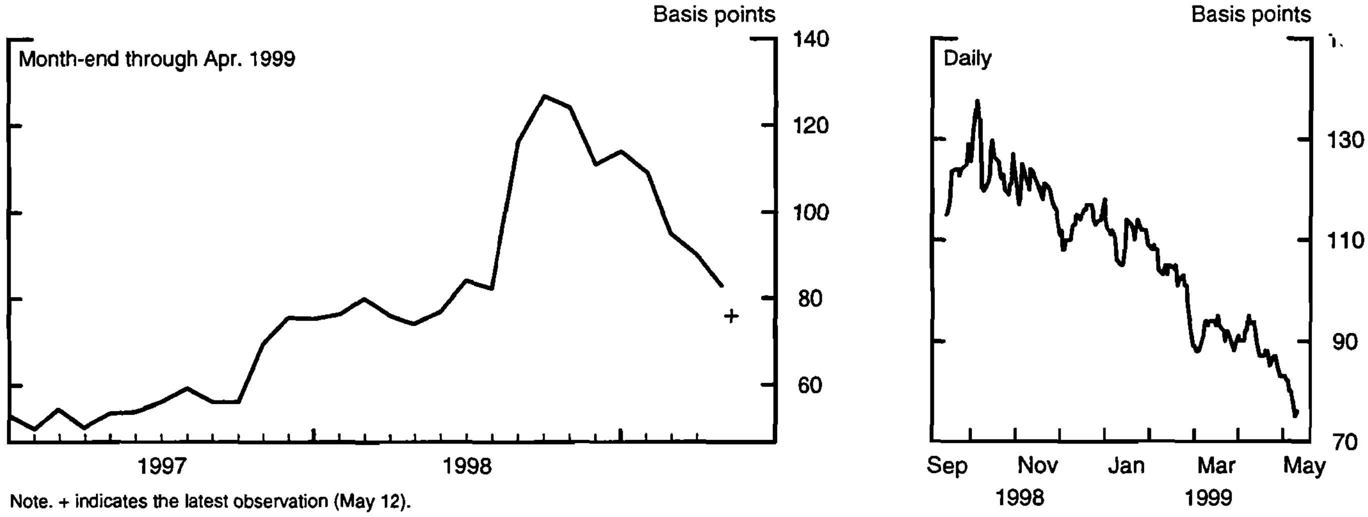
Growth of M2 and M3 picked up in April after a soft March. Some of the strength in M2 was apparently attributable to a transitory rise in liquid accounts associated with larger-than-normal tax payments and refunds; these accounts fell back in late April when tax payments cleared. Bank credit was flat in April, as loan expansion was held down by securitization and banks continued to run off mortgage-backed securities acquired last fall when spreads widened.

Business Finance

Investor demand for corporate bonds has been strong, and yield spreads narrowed further over the intermeeting period. The improvement in spreads was

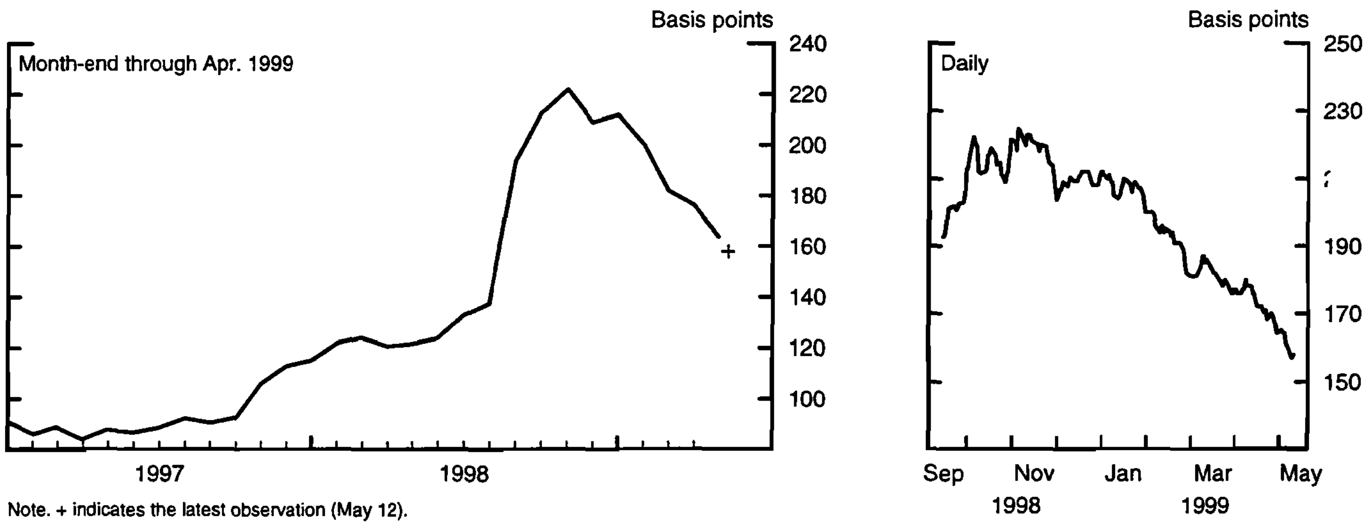
Spreads on Corporate Securities

AA Corporate Bond Yield Less Ten-Year Treasury



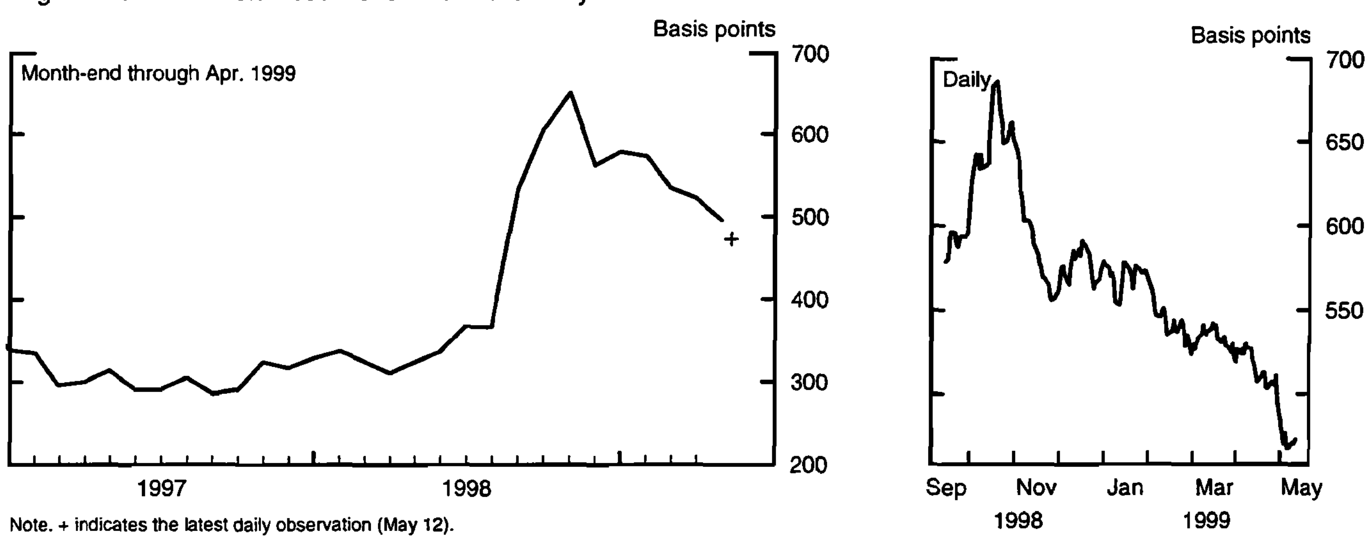
Note. + indicates the latest observation (May 12).
Source. Merrill Lynch.

BBB Corporate Bond Yield Less Ten-Year Treasury



Note. + indicates the latest observation (May 12).
Source. Merrill Lynch.

High-Yield Bond Yield Less Seven-Year Treasury



Note. + indicates the latest daily observation (May 12).
Source. Merrill Lynch Master II.

especially pronounced for below-investment-grade issues, as yields actually fell on lower-rated junk bonds. Firms have taken advantage of the favorable market conditions: Gross nonfinancial bond issuance totaled a hefty $30 billion in April, following the record issuance of $39-1/2 billion in March. Moreover, the calendar of forthcoming issues is bulging. Although most of the proceeds have been employed to pay down existing debt, in April, a large share also was used for mergers and other corporate restructurings. The speculative-grade segment of the market demonstrated considerable breadth in April, with offerings including a number of smaller issues and some industries--energy and oil producers, for example--that had been largely absent from the market since last fall. With firms turning to the bond market for funds, net issuance of commercial paper was fairly light in March and April, and growth in business loans at banks was subdued.

Gross equity issuance by nonfinancial corporations totaled $7-1/2 billion in April, slightly above the already brisk first-quarter pace. Seasoned offerings were unusually robust and were concentrated in Internet-related and telecom firms. Internet-related IPOs continue to meet with exceptionally strong demand, including, importantly, demand from on-line retail investors, and such IPOs have accounted for about half of the total number of offerings this year. The long-anticipated IPO by Goldman Sachs, which raised $3.7 billion in early May, was also well received, with its stock price rising more than 30 percent on its first day of trading.

Equity retirements associated with mergers were weak in April, as they were in the first quarter, reflecting the small number of cash-financed megamergers (as opposed to stock swaps) that have closed since year-end. Announcements of new mergers continue to be numerous, however, and, relative to the first quarter, these deals will involve more cash payments to retire the equity of acquired companies. Nonetheless, the list of deals pending completion suggests that merger-related cash demands in 1999 will fall below the high level in 1998. Meanwhile, announcements of share repurchases have remained strong in recent months, though below last year's record pace.

Credit quality in the corporate business sector has continued to show some signs of deterioration. The default rate on junk bonds picked up considerably in April, boosted by defaults by several energy and health care firms. The average default rate over the past twelve months moved above its levels of recent years, and a simple forecasting model predicts that the default rate in 1999 will be more than

GROSS ISSUANCE OF SECURITIES BY U.S. CORPORATIONS
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1997	1998	1998 Q4	1999 Q1	1999 Mar.	1999 Apr.
All U.S. corporations	77.4	94.0	87.8	107.6	125.9	82.2
Stocks[1]	9.8	10.6	8.7	9.0	9.5	9.0
Bonds	67.6	83.4	79.0	98.6	116.3	73.2
Nonfinancial corporations						
Stocks[1]	5.0	6.2	6.5	7.0	8.4	7.5
Initial public offerings	1.8	2.2	3.7	2.7	3.7	2.2
Seasoned offerings	3.2	4.0	2.8	4.3	4.7	5.3
Bonds	18.6	25.7	23.9	27.9	39.4	30.1
By rating, sold in U.S.[2]						
Investment grade	8.4	14.0	16.5	15.6	20.3	18.7
Speculative grade	8.2	10.3	6.8	9.2	10.9	6.7
Public	1.5	1.8	.6	1.2	1.5	1.0
Rule 144A	6.7	8.5	6.2	7.9	9.4	5.7
Other (Sold Abroad/Unrated)	1.9	1.4	.6	3.1	8.2	4.7
Financial corporations						
Stocks[1]	4.8	4.4	2.2	2.0	1.2	1.6
Bonds	49.1	57.7	55.2	70.7	77.0	43.0
Memo:						
Net issuance of commercial paper, nonfinancial corporations[3]	1.1	2.3	-3.3	5.4	.6	2.0
Change in C&I loans at commercial banks[3]	6.1	7.5	8.4	1.4	.2	1.6

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

1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.

2. Bonds categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.

3. End-of-period basis. Seasonally adjusted.

double the level in 1998.[1] Business failures also increased in the first quarter and in April they jumped to about twice the recent monthly pace; however, the failure rate over the past twelve months is still below the annual average since 1990. In addition, bonds of nonfinancial firms, on net, have been downgraded by Moody's through April of this year. Firms in the oil and gas and health care sectors have accounted for a large portion of the failures and downgrades since year-end. Looking ahead, Moody's Watchlist suggests little further deterioration in the near term, as the dollar volume of debt on review for upgrades and downgrades is roughly balanced.

First-quarter corporate earnings have come in strong and well above expectations. With 90 percent of reports in hand, S&P 500 book earnings per share are estimated to have risen at least 6 percent from four quarters earlier, in marked contrast to the 2-1/2 percent drop in the fourth quarter.[2] Earnings of financial firms picked up substantially, fully recovering from the falloff in the second half of 1998; the renewed strength largely reflected the surge in capital market activity and trading income. Earnings for the technology sector also accelerated in the first quarter, from already large gains in the previous quarter. The profits of other nonfinancial firms were up about 4 percent, on balance, from a year earlier, an improvement over their fourth-quarter performance.

The magnitude of the positive earnings surprises helped propel the DJIA, the S&P 500 index and the NASDAQ composite to new highs, though the NASDAQ has since edged down from its peak. Share price indexes of firms producing primary commodities and industrial machinery have risen between 16 percent and 30 percent over this period, helping to boost the DJIA 10 percent. Share prices for a broad range of smaller companies also moved up sharply, lifting the Russell 2000 index about 12 percent. In contrast, the technology-heavy NASDAQ composite increased less than 5 percent, on net, amid high volatility. Prices of Internet stocks, which by some measures now account for about one-quarter of the NASDAQ,[3] gyrated wildly but are up slightly since the March FOMC meeting and up about 55 percent on the year. The market rally

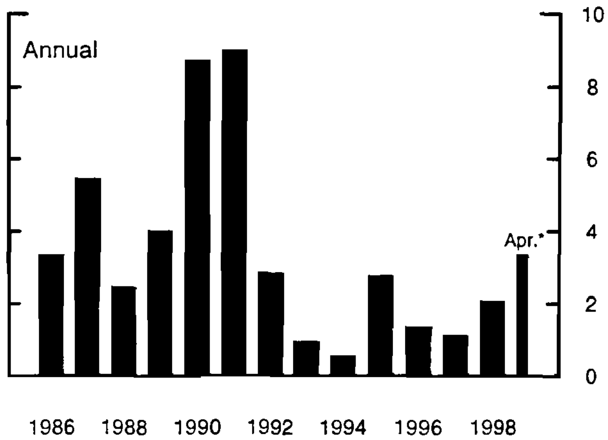
1. Inputs to the model are the rating distribution of outstanding bonds, the percentage of banks tightening loan underwriting standards, and aggregate default rate predictions from a private sector model that forecasts firms' default probabilities on the basis of their outstanding debt, asset values, and asset volatility.

2. A measure of earnings per share that accounts for changes in the composition of firms included in the S&P 500 index increased about 8 percent in the first quarter from the year-earlier level.

3. This estimate is based on the market value of the fifty companies in the Inter@ctive Week Internet index, all of whose principal line of business is tied to the Internet. America Online, the only company in the index for Internet stocks that is traded on the NYSE, is excluded from the share calculation for NASDAQ.

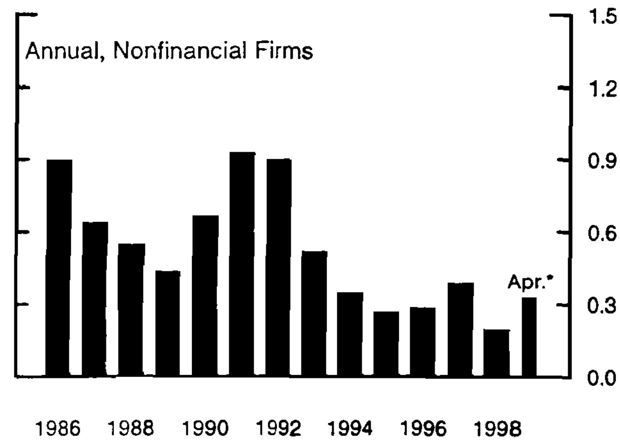
Corporate Finance and Stock Prices

Default Rates
Outstanding Junk Bonds



*Previous 12 months.

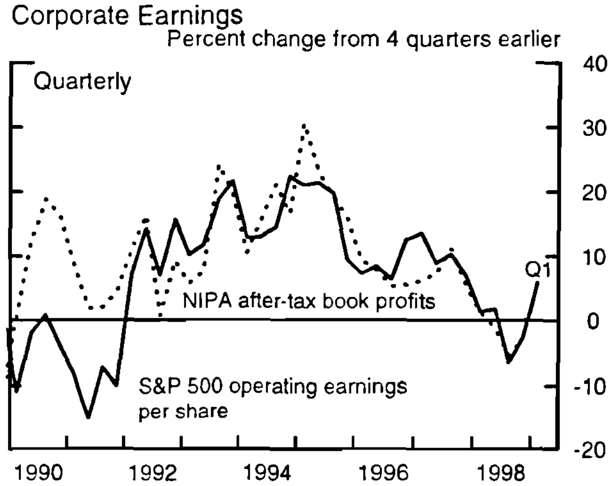
Liabilities of Failed Businesses
to Total Liabilities



*Previous 12 months.

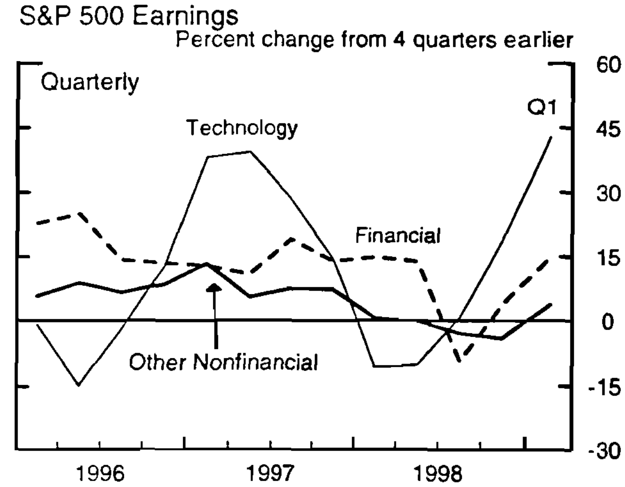
Source. Dun & Bradstreet.

Corporate Earnings



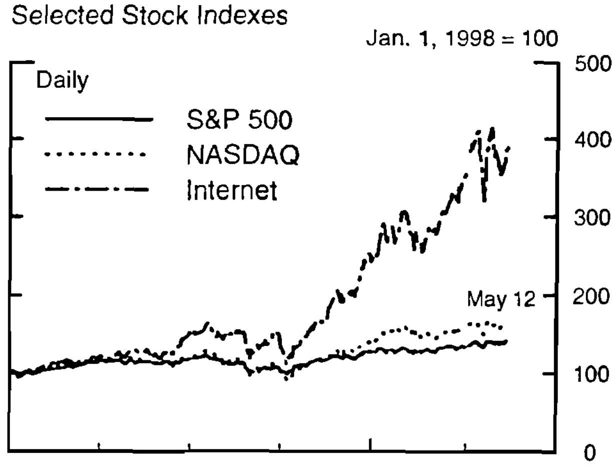
* Source. Goldman Sachs, I/B/E/S.

S&P 500 Earnings

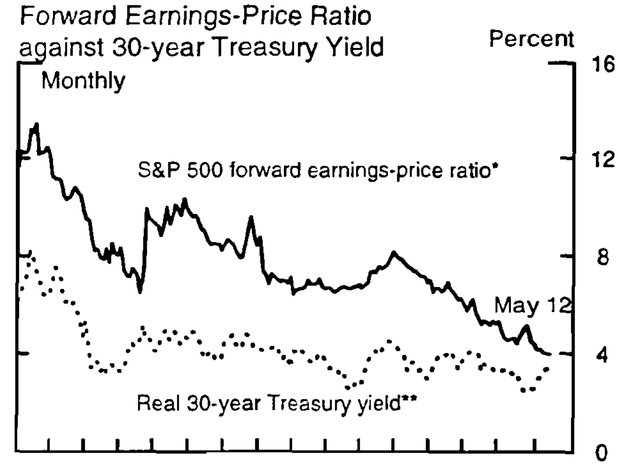


* Source. I/B/E/S.

Selected Stock Indexes



Forward Earnings-Price Ratio
against 30-year Treasury Yield

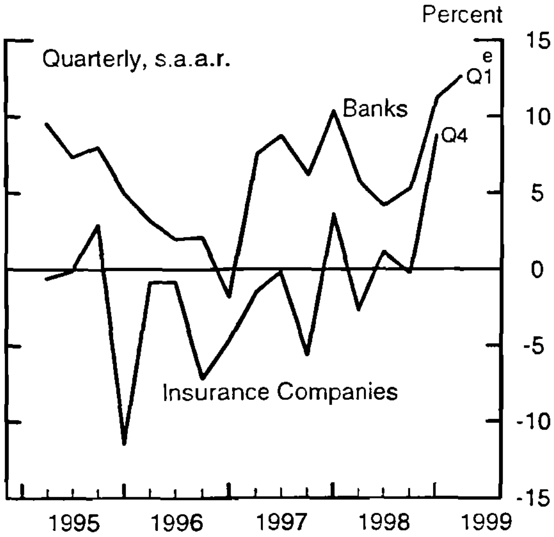


* Based on I/B/E/S operating earnings over coming 12 months.

** Nominal yield less Philadelphia Fed ten-year inflation expectations.

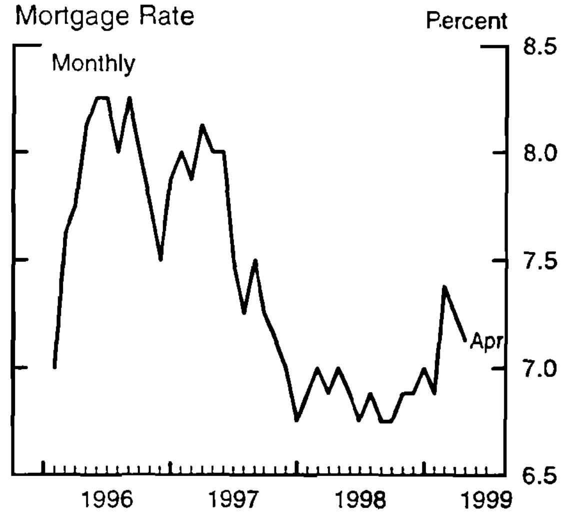
Commercial Real Estate

Growth in Commercial Mortgage Holdings



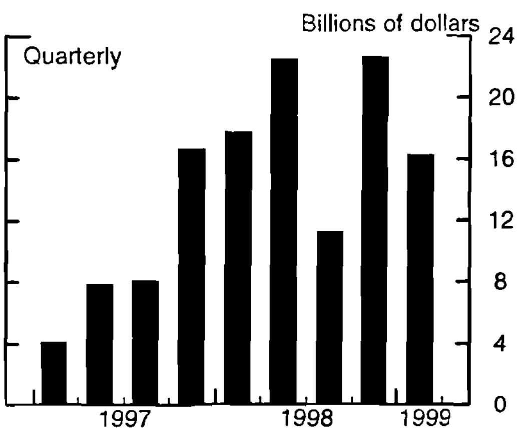
Source. Flow of Funds accounts through 1998:Q4.
1999:Q1 value for banks is a staff estimate.

10-Year Commercial Mortgage Rate



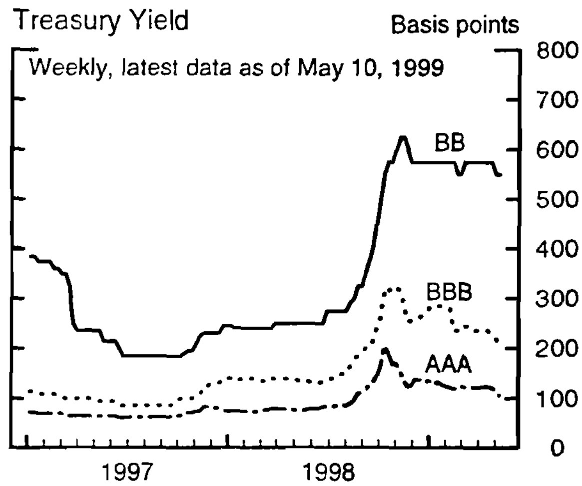
Source. Barron's/Levy National Mortgage Survey.

CMBS Gross Issuance



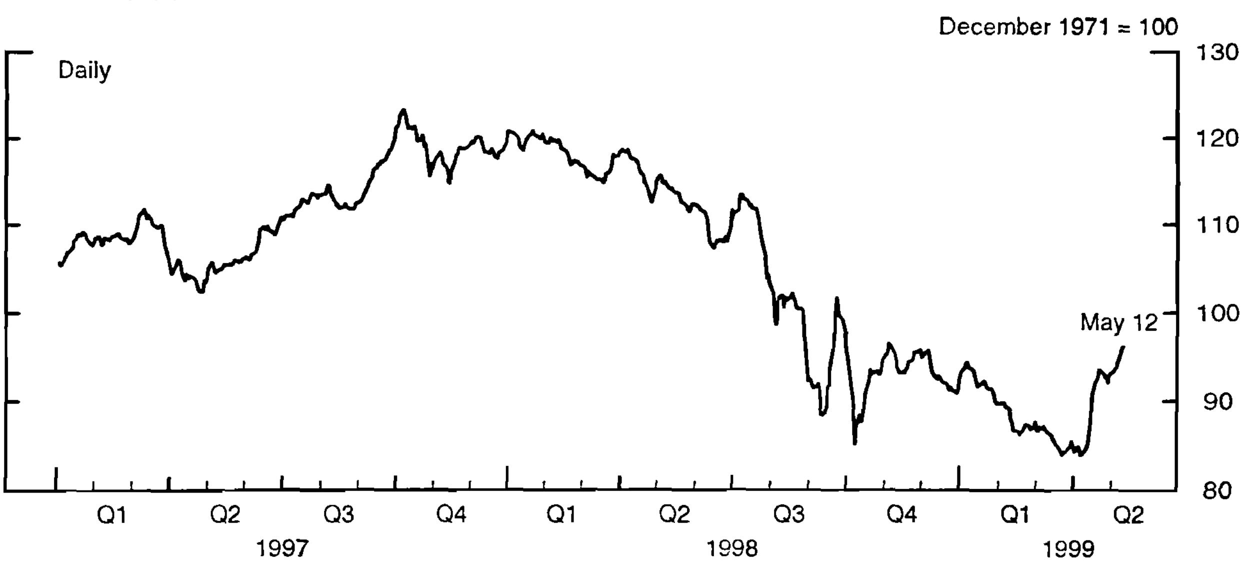
Source. Commercial Mortgage Alert.

CMBS Yield less 10-Year Treasury Yield



Source. Morgan Stanley.

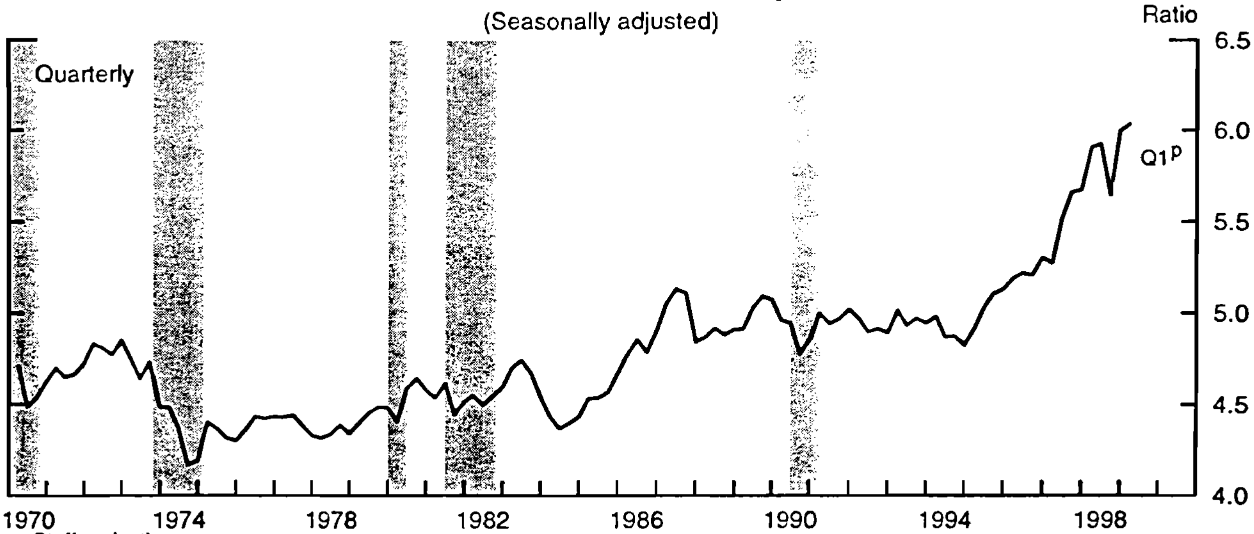
REIT Price Index



Source. National Association of Real Estate Investment Trusts.

Household Net Worth Relative to Disposable Income

(Seasonally adjusted)



p. Staff projection.

Net Flows of Mutual Funds

(Excluding reinvested dividends; billions of dollars; monthly rates; not seasonally adjusted)

		1998			1999		Assets
	1997	H1	Q3	Q4	Q1	Apr. e	Mar.
Total long-term funds	22.7	29.3	10.5	12.2	16.5	25.3	4,330
Equity funds	19.0	21.1	4.7	6.1	10.5	22.8	3,110
Domestic	15.8	18.6	5.9	7.6	12.6	21.9	2,713
International	3.1	2.5	-1.2	-1.5	-2.1	0.8	397
Hybrid funds	1.4	1.7	-0.1	0.4	-0.5	-0.3	368
Bond funds	2.4	6.5	6.0	5.8	6.5	2.8	852
International	-0.1	0.0	-0.3	-0.2	-0.1	0.1	25
High-yield	1.4	1.8	-0.4	1.3	1.1	1.2	123
Other taxable	1.0	3.5	5.3	3.3	3.9	1.7	399
Municipals	0.1	1.2	1.4	1.3	1.6	-0.1	305

Source. Investment Company Institute (ICI).
e Staff estimates based on ICI weekly data.

401(k) Plan Contributions and Transfers

(Percent of total)

	Contributions[1]				Transfers[2]			
	1998		1999		1998		1999	
	H1	H2	Q1	Apr.	H1	H2	Q1	Apr.
Company stock	17	21	19	18	-35	-24	-12	-94
Equity funds	47	47	43	56	19	-30	-1	37
Domestic	41	42	38	53	22	-32	6	31
International	6	5	5	4	-3	2	-7	6
Hybrid funds	13	11	17	10	14	-6	-10	-3
Fixed income[3]	23	21	21	16	2	60	22	60

1 Allocation of new contributions to 401(k) plans; percentages sum to 100.
2. Allocation of transfers among existing assets within 401(k) plans; percentages sum to zero.
3. Includes bond and money funds and GIC/stable value investments.
Source. Hewitt Associates.

among the "cyclical" stocks pushed the S&P 500 twelve-month forward earnings-price ratio down to a record low in April, as stock price gains outpaced upward revisions to expected earnings.

Commercial Real Estate Finance

Commercial mortgage lending was robust in the first quarter, with banks apparently gaining market share at the expense of conduits. An estimate based on data from large domestic banks indicates that banks' holdings of commercial mortgage loans expanded in the first quarter at a 13 percent annual rate. In contrast, gross issuance of commercial mortgage-backed securities fell to $16 billion in the first quarter, from $23 billion in the fourth quarter of 1998. As the stock of commercial mortgages originated last year that have yet to be securitized has shrunk, and with fewer new conduit loan originations occurring this year, many analysts predict further declines in CMBS issuance. Spreads across all risk classes of CMBSs were little changed over the intermeeting period and remain elevated compared with a year ago, especially for the lowest-rated tranches.

Share prices for real estate investment trusts have surged nearly 13-1/2 percent since the last FOMC meeting, breaking the downward trend in place since late 1997. The recent rally followed the widely publicized announcement that Warren Buffett had made sizable investments in REITs. Despite this rally, a broad index of REIT prices is still more than 20 percent below its peak in late 1997. With REIT share prices still relatively low, issuance of new equities by REITs remains weak and property acquisitions have been modest.

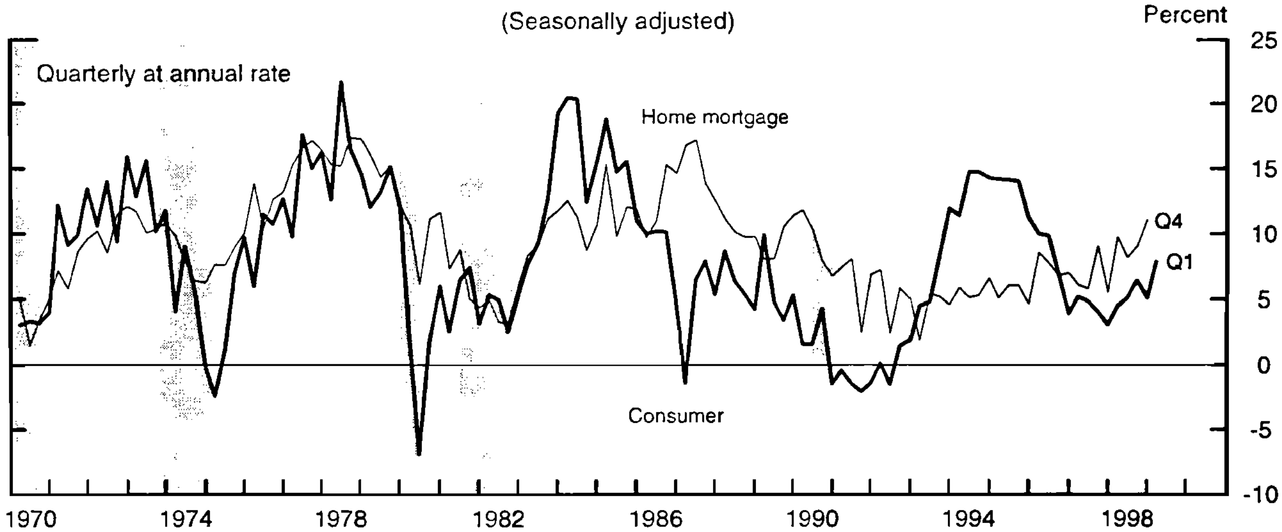
Household Finances

The ratio of household net worth to disposable income edged up to a new record in the first quarter, boosted by robust stock market gains. Net purchases of equity mutual funds picked up in the first quarter and strengthened further in April, suggesting renewed household interest in riskier investments. Inflows into equity funds are estimated to have been $23 billion in April, comparable to the strong inflows in the first half of 1998. Domestic equity funds received the bulk of these investments, but net flows to international equity funds turned positive for only the second month since last July. Investments in bond funds diminished in April, probably because of some substitution into equity funds and perhaps also because of some shareholders making withdrawals to pay taxes. However, inflows into junk bond funds were still appreciable, at $1-1/4 billion in April.

Households with 401(k) plans also tended to show a greater willingness to invest in equity funds. In April, new 401(k) contributions to company stock and equity funds accounted for three-quarters of total contributions, up from an average

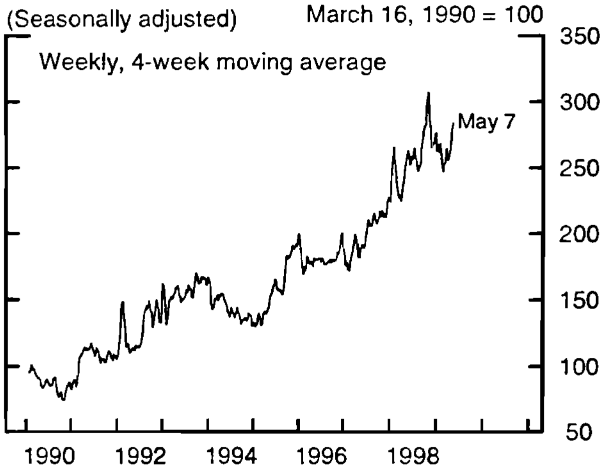
Household Debt Growth

(Seasonally adjusted)



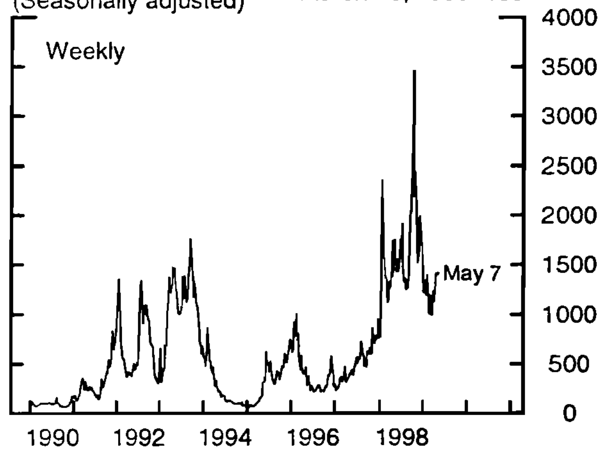
MBA Purchase Index

(Seasonally adjusted)

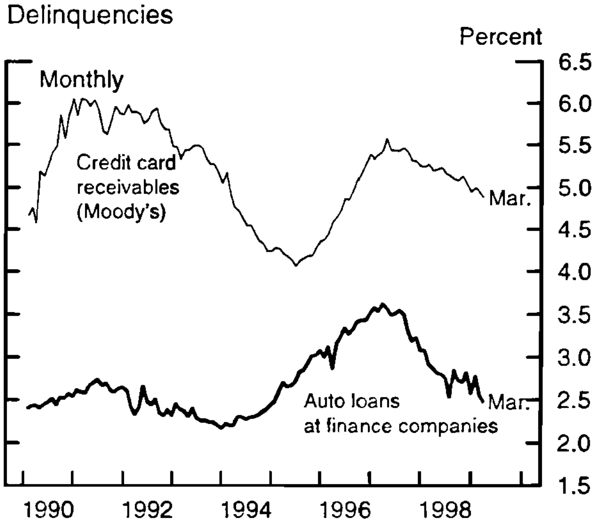


MBA Refinancing Index

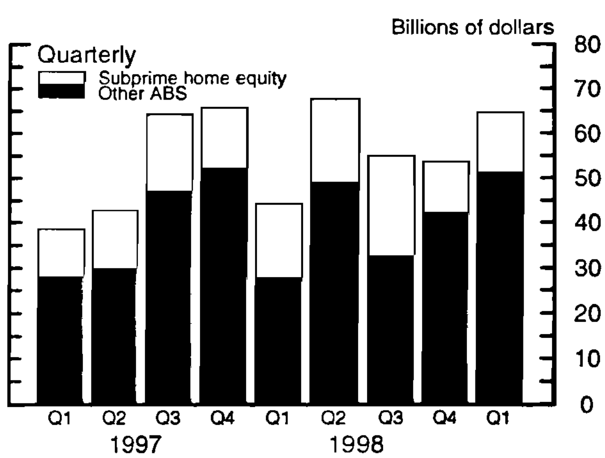
(Seasonally adjusted)



Delinquencies



Asset-Backed Security Issuance



Note. Excludes securities backed by commercial mortgages and by first mortgages on residential properties.
Source. Inside MBS & ABS.

pace of about two-thirds of contributions over the past year. Transfers of existing 401(k) assets in April, which totaled 2 percent of account balances, were primarily out of company stock and into more diversified equity and fixed income funds.

Household debt growth, although erratic from month to month, was brisk in the first quarter. Growth in consumer credit picked up to nearly 8 percent at an annual rate for the quarter as a whole, although growth was markedly slower in March than in January. Results from the May Senior Loan Officer Opinion Survey indicate a slightly firmer stance toward credit card lending with a net 16 percent of banks tightening standards for credit cards. However, terms for credit cards and other consumer loans were essentially unchanged. Issuance of asset-backed securities--which has been an important source of financing for consumer credit in recent years--totaled $65 billion in the first quarter, capping the highest quarterly level of securitizations since the second quarter of 1998. After narrowing in January and February, spreads on asset-backed securities were relatively stable through April, but they remain 20 to 30 basis points wider than a year ago.

On the basis of incomplete data, it appears that home mortgage debt expanded vigorously in the first quarter, albeit down a bit from the previous quarter. Strong home sales undergirded this growth. Looking beyond the first quarter, the Mortgage Bankers Association purchase index has risen in recent weeks, suggesting that borrowing will remain robust in the near term. The MBA mortgage refinancing index edged up in April but is well below the peaks reached last fall, as the rise in rates during the first quarter discouraged refinancings.

Recent indicators of household credit quality have been roughly stable. Moody's reported that the delinquency rate on securitized credit card receivables continued to edge down in February and March but remained above the low levels reached in 1995. The delinquency rate at auto finance companies also declined slightly in March.

On May 5, the House passed bankruptcy reform legislation that seeks to shift some households from chapter 7, under which most unsecured debts are forgiven outright, to chapter 13, under which debtors must file a repayment plan. The households affected by this portion of the legislation are those earning more than the median income of the United States who can afford to make more than $6,000 in payments toward unsecured debt over five years. The Senate is expected to consider a similar bill next month. Even if the final bill is close to the House version, it is unlikely to have a major influence on the growth of household debt. It would directly affect only an estimated 0.2 percent of all

Treasury and Agency Finance

Treasury Financing
(Billions of dollars)

Item	1998 Q3	1998 Q4	1999 Q1	1999 Feb	1999 Mar	1999 Apr[e]
Total surplus, deficit (-)	**3.0**	**-55.0**	**5.1**	**-42.9**	**-22.4**	**n.a.**
Means of financing deficit						
Net borrowing	-28.8	32.3	7.5	1.7	37.0	-85.3
Nonmarketable	10.1	8.2	2.2	0.8	2.2	3.7
Marketable	-38.9	24.1	5.2	0.9	34.8	-89.0
Bills	-3.5	53.3	34.0	4.3	58.0	-75.5
Coupons	-35.3	-29.2	-28.7	-3.5	-23.2	-13.4
Decrease in cash balance	33.4	21.4	-4.1	52.4	-17.0	-36.5
Other[1]	-7.6	1.3	-8.4	-11.3	2.4	n.a.
MEMO						
Cash balance, end of period	38.9	17.5	21.6	4.6	21.6	58.1

e = estimate
NOTE. Components may not sum to totals because of rounding.
1. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

Net Cash Borrowing of Government-Sponsored Enterprises
(Billions of dollars)

Agency	1998 Q3	1998 Q4	1999 Q1	1999 Jan	1999 Feb	1999 Mar
FHLBs	14.7	38.9	20.2	1.4	0.2	18.6
FHLMC	32.7	54.4	n.a.	13.5	n.a.	n.a.
FNMA	24.2	29.7	15.1	0.9	10.1	4.1
Farm Credit Banks	-0.4	-0.8	3.0	-2.2	5.3	-0.1
SLMA	0.5	1.6	1.4	1.0	0.1	0.3

NOTE. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

households, who would be required to switch to chapter 13 each year under the proposed rules. Furthermore, it is not even clear whether the indirect effects on other households and lenders would tend, on net, to boost or lower the growth of consumer credit. Households may reduce their demand for credit as bankruptcy becomes less attractive, but lenders may increase the supply of credit as their expected losses from bankruptcy diminish.

Treasury and Agency Finance

Erratic inflows of individual non-withheld tax receipts, which are typical at this time of year, led to wide fluctuations in the Treasury cash balance in April. Early receipts were lower than expected, forcing the Treasury to issue a one-day cash management bill and to increase the size of its weekly bill auctions $1 billion. A subsequent surge in receipts pushed Treasury cash balances sharply higher and increased cumulative tax inflows well above last year's levels. Amid these fluctuations, the Treasury decided to leave the size of its April two-year note auction unchanged at $15 billion but cut the size of its April auction of inflation-protected securities $1 billion, issuing $7 billion of a new thirty-year inflation-protected bond. This issue brought the total outstandings of TIPS to $84 billion, or 3-1/4 percent of all marketable Treasury coupon securities. Demand was weak at the Treasury's midquarter refunding auction of $15 billion of five-year notes and $12 billion of ten-year notes, and yields at these maturities rose to their highest levels in nearly a year.

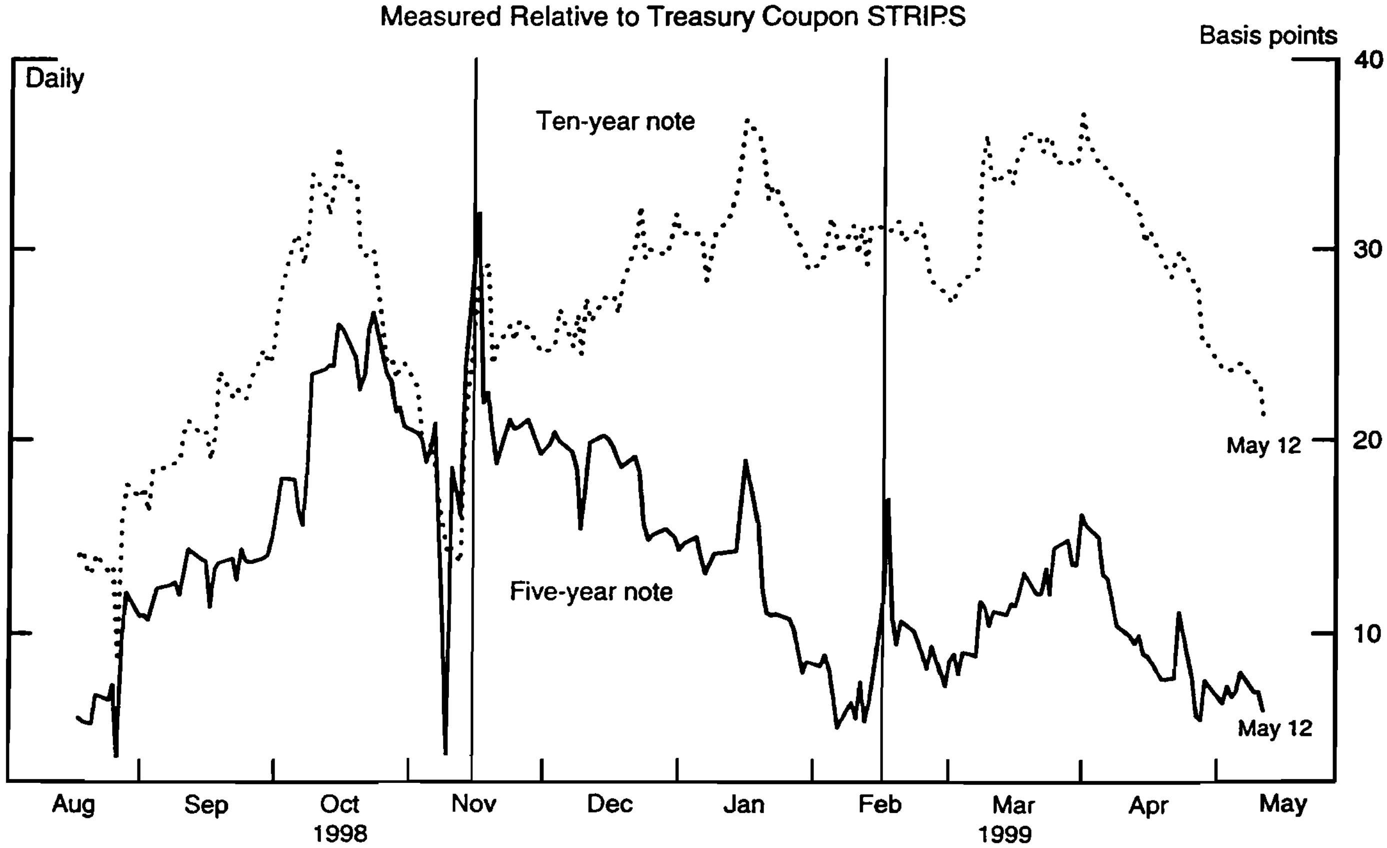
Trading volume in the Treasury market has remained light, but a recent survey of dealers indicates that liquidity conditions have continued to improve. Bid-offer spreads for on-the-run securities have returned to their levels of last summer, and those for off-the-run securities remain slightly elevated only for maturities of more than five years. However, price premiums, though diminished, persist on some Treasury securities, particularly the on-the-run ten-year Treasury note, which has been used to hedge the sizable volume of corporate and mortgage-backed security issuance.

Government-sponsored enterprises have continued to issue debt in large, uniform blocks in an effort to establish their securities as alternative benchmarks as Treasury issuance declines. Fannie Mae, Freddie Mac, and the Federal Home Loan Banks all have issued global bonds in recent months; outstandings of Fannie Mae's current five-year benchmark note total $13 billion, more than for any other non-Treasury security in the debt markets. The flight to safety of last fall has continued to unwind, and spreads between GSE benchmark securities and Treasuries narrowed about 8 basis points over the intermeeting period, though they remain slightly elevated relative to the first half of 1998.

Treasury Market Bid-Offer Spreads
(basis points)

Security Type	Typical	Early Oct.	March 25	April 28
On-the-Run				
Treasury Bills	1/2 to 1-1/2	1 to 3	1/2 to 1-1/2	1/2 to 1-1/2
Up to 5-year Coupons	1-1/2 or less	3 to 12	1-1/2 or less	1-1/2 or less
5- to 30-year Coupons	1-1/2 or less	9 to 16	1-1/2 to 3	1-1/2 or less
Off-the-Run				
Treasury Bills	1/2 to 1-1/2	1 to 10	1/2 to 2	1/2 to 2
Up to 5-year Coupons	1-1/2	25 to "no market"	1-1/2 to 2-1/2	1-1/2 or less
5- to 30-year Coupons	1-1/2	25 to "no market"	3 to 10	3 to 5

On-the-Run Premia for Treasury Securities
Measured Relative to Treasury Coupon STRIPS



Note. Vertical lines denote auctions and reopenings of the security.

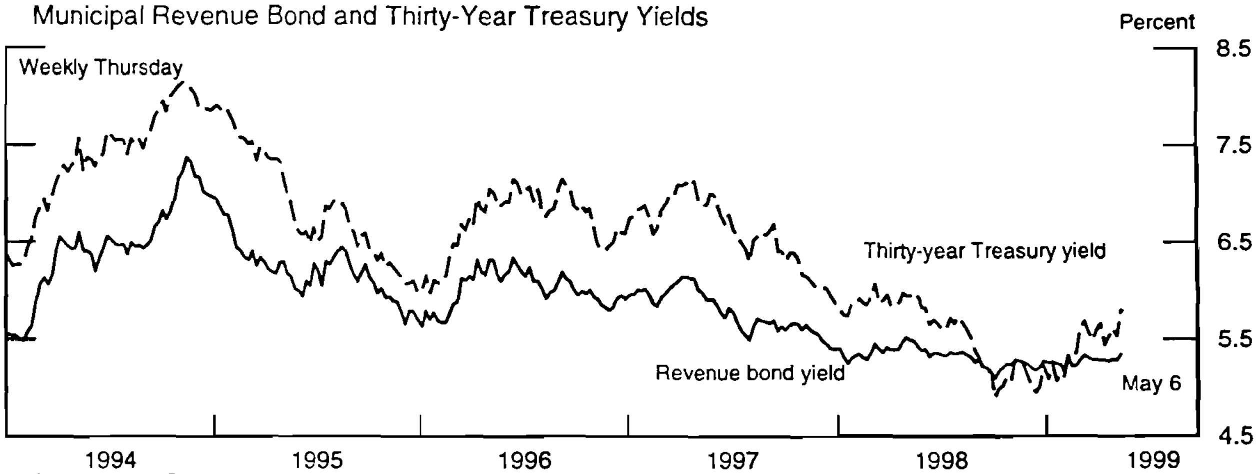
State and Local Finance

GROSS OFFERINGS OF MUNICIPAL SECURITIES
(Billions of dollars; monthly rates, not seasonally adjusted)

	1997	1998	1998 Q4	1999 Q1	1999 Feb.	1999 Mar.	1999 Apr.
Total tax-exempt	21.5	24.3	23.4	20.6	17.4	25.7	16.8
Long-term	17.9	21.9	21.0	19.2	16.2	24.3	15.8
Refundings[1]	6.6	8.5	7.8	6.2	5.6	8.1	5.3
New capital	11.3	13.4	13.2	12.9	10.7	16.2	10.5
Short-term	3.6	2.4	2.3	1.4	1.2	1.4	1.0
Total taxable	1.1	1.1	0.8	1.4	0.7	1.2	0.6

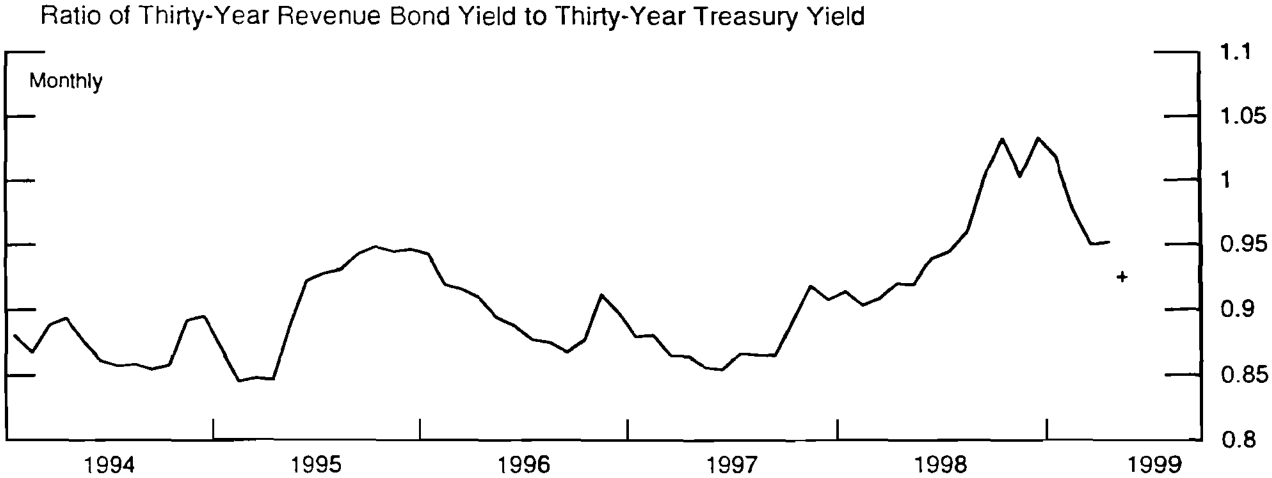
Note. Includes issues for public and private purposes.
1. All issues that include any refunding bonds.

Municipal Revenue Bond and Thirty-Year Treasury Yields



Source. Bond Buyer.

Ratio of Thirty-Year Revenue Bond Yield to Thirty-Year Treasury Yield



Note. Average of weekly data. + indicates latest observation (May 6).

Municipal Finance

Gross long-term municipal bond issuance totaled $15-3/4 billion in April, down from the strong first-quarter pace. Advance refundings fell to $5-1/4 billion in April; issuers have refunded much of the stock of eligible outstanding high-coupon bonds, and refundings are likely to taper off further unless interest rates fall. New capital issuance also declined significantly, but the number of issues on the calendar suggests that volumes will pick up again in coming weeks. Funds raised in April were largely targeted for education and transportation, as has been the case of late.

Yields on long-dated municipal bonds have been stable for some time. The rise in Treasury rates over the intermeeting period, however, has led to a further decline in yield ratios from their record highs last fall. In addition, credit quality continued to improve in April. Standard & Poor's posted twenty-one upgrades of municipal bonds, versus only six downgrades. Many state and local governments have improved the quality of their credits by using recent surpluses to create "rainy day funds."

Money and Bank Credit

The broad monetary aggregates advanced briskly in April after a weak March. M2 grew at a 8-3/4 percent annual rate, buoyed by a surge in money market mutual funds and liquid deposits. Swings in tax payments and refunds often have caused gyrations in April, and it is likely that efforts by households to build up their liquid balances in advance of tax payments, which have been larger than in recent years, accounted for a significant part of the rise last month. Currency also increased smartly, apparently buoyed by strong demand for domestic use. M2 velocity edged down in the first quarter, continuing its trend of the past year and a half.

M3 expanded at an 8 percent annual rate in April after falling in March. M3 was boosted in April by a substantial increase in large time deposits, and by a rebound in institution-only money market mutual funds, which--following the usual pattern--experienced inflows when short-term interest rates dipped temporarily. Repurchase agreements continued to contract in April, although by less than in March.

Bank credit was about flat in April, after declining over the three prior months. Growth in April was held down by a continuing reversal of the fourth-quarter surge in banks' securities holdings. Last month, banks again unloaded securities they had accumulated last fall, when relatively high yields on mortgage-backed and other non-Treasury securities apparently made them unusually attractive. By contrast, most categories of loans showed small increases. Commercial and

MONETARY AGGREGATES
(Based on seasonally adjusted data)

Aggregate or component	1998	1998 Q4	1999 Q1	1999 Feb.	1999 Mar.	1999 Apr. (p)	1998:Q4 to Apr. 99 (p)	Level (bil. $) Apr. 99 (p)
Aggregate	Percentage change (annual rate)[1]							
1. M1	1.8	5.0	2.8	1.6	10.1	6.6	4.5	1107.8
2. M2[2]	8.5	11.0	7.2	5.7	2.7	8.8	6.9	4489.8
3. M3	10.9	12.9	7.2	8.7	-2.1	7.9	6.2	6092.5
Selected Components								
4. Currency	8.3	9.6	9.7	12.7	11.3	11.2	10.6	476.4
5. Demand deposits	-4.2	.2	-4.5	1.6	7.4	-1.6	-1.9	373.4
6. Other checkable deposits	.4	4.9	1.3	-19.2	12.2	10.6	3.2	250.2
7. M2 minus M1[3]	10.9	13.0	8.7	7.0	.3	9.5	7.7	3382.0
8. Savings deposits	14.0	15.6	11.9	7.7	2.1	15.4	11.1	1657.0
9. Small time deposits	-1.4	-2.1	-5.7	-7.0	-5.0	-3.7	-5.2	934.4
10. Retail money market funds	23.7	28.4	20.5	22.6	3.1	12.6	16.9	790.5
11. M3 minus M2[4]	18.2	18.4	7.1	16.9	-15.4	5.6	4.5	1602.7
12. Large time deposits, net[5]	9.8	4.7	-.8	-25.2	-21.4	14.1	-2.3	619.7
13. Institution-only money market mutual funds	34.7	41.8	17.9	34.7	-1.8	21.1	17.3	538.4
14. RPs	17.3	16.4	11.2	68.7	-50.2	-39.0	-3.7	285.7
15. Eurodollars	9.8	7.6	-2.8	34.4	31.9	3.0	5.4	158.8
Memo								
16. Liquid Deposits[6]	8.8	11.7	7.9	3.7	4.1	12.1	8.0	2280.6
17. Sweep-adjusted M1[7]	6.2	7.6	5.7	5.0	10.1	8.7	6.9	1441.4
18. Monetary base	7.1	8.7	9.0	9.4	7.7	10.2	9.2	528.7
19. Household M2[8]	9.9	12.1	8.3	6.0	2.3	9.7	7.7	4116.4
	Average monthly change (billions of dollars)[9]							
Memo								
Selected managed liabilities at commercial banks:								
20. Large time deposits, gross	5.1	8.1	4.8	1.9	-10.1	2.5	...	748.4
21. Net due to related foreign institutions	1.6	4.4	-.1	3.9	-.3	-11.5	...	205.6
22. U.S. government deposits at commercial banks	.6	.5	-3.0	-18.3	5.2	1.8	...	18.0

1. For the years shown, Q4-to-Q4 percent change. For the quarters shown, based on quarterly averages.
2. Sum of M1, retail money market funds, savings deposits, and small time deposits.
3. Sum of retail money funds, savings deposits, and small time deposits.
4. Sum of large time deposits, institutional money funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees.
5. Net of holdings of depository institutions, money market mutual funds, U.S. government and foreign banks and official institutions.
6. Sum of demand deposits, other checkable deposits, and savings deposits.
7. Sweep figures used to adjust these series are the estimated national total of transaction account balances initially swept into MMDAs owing to the introduction of new sweep programs on the basis of monthly averages of daily data.
8. M2 less demand deposits.
9. 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; seasonally adjusted annual rate)

Type of credit	1998	1998 Q4	1999 Q1	1999 Feb	1999 Mar	1999 Apr	Level, Apr 1999 (billions of $)
1. Bank credit: Reported	11.0	16.8	-0.9	-3.6	-8.6	0.2	4,484.2
2. Adjusted[1]	10.3	15.4	1.1	-1.9	-1.7	0.1	4,397.1
3. Securities: Reported	13.7	22.4	-5.7	-10.7	-18.1	-1.7	1,184.1
4. Adjusted[1]	11.1	17.5	1.7	-4.5	8.9	-2.5	1,097.1
5. U.S. government	5.8	8.2	4.0	-3.6	11.2	-0.9	797.2
6. Other[2]	31.5	50.9	-23.2	-23.9	-74.3	-3.1	387.0
7. Loans[3]	10.0	14.7	0.9	-1.0	-5.2	0.9	3,300.0
8. Business	12.2	16.3	0.2	0.1	4.7	2.3	954.2
9. Real estate	6.7	10.2	6.9	2.4	-0.2	0.4	1,337.4
10. Home equity	0.0	-3.2	-2.4	-4.9	2.4	9.7	99.4
11. Other	7.3	11.4	7.7	3.1	-0.3	-0.4	1,238.0
12. Consumer: Reported	-1.5	5.1	2.5	-1.2	-2.9	1.0	501.6
13. Adjusted[4]	6.0	8.0	3.1	-0.2	3.8	4.7	762.0
14. Other[5]	29.4	32.9	-14.3	-12.3	-37.8	-0.2	506.8

Note. Adjusted 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 shown are percentage changes in consecutive levels, annualized but not compounded.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FASB 115).
2. Includes securities of corporations, state and local governments, and foreign governments and any trading account assets that are not U.S. government securities.
3. Excludes interbank loans.
4. Includes an estimate of outstanding loans securitized by commercial banks.
5. Includes security loans, loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

industrial loans, which had contracted earlier in the year after having grown rapidly in the fourth quarter, posted their second month of modest gains, increasing at a 2-1/4 percent pace in April. Results from the May Senior Loan Officer Survey indicate only a slight further tightening of terms and standards for C&I loans over the past three months--certainly nothing to suggest a material crimp on credit supply. Real estate loans were flat in April, held down by securitizations, although the home equity component grew at a 9-3/4 percent clip. Consumer loans originated by banks increased at a 4-3/4 percent rate, well above the pace seen earlier this year.

The fifty largest commercial bank holding companies experienced solid growth in net income in the first quarter. Noninterest income, particularly trading income and investment banking fees, grew markedly, but net interest margins were about unchanged from year-earlier levels. Asset quality again contributed positively to the net increase, as both provisioning for loan losses and the percentage of non-performing assets remained low.

Appendix

May Senior Loan Officer Opinion Survey on Bank Lending Practices

The May 1999 Senior Loan Officer Opinion Survey on Bank Lending Practices again focused on changes over the past three months in the supply of and demand for bank loans to businesses and households. A substantial set of additional questions, some of which were also asked in either the May or the November 1998 survey, concerned Year 2000 issues.

In general, the tightening of standards and terms for business loans in evidence since the fall of 1998 has eased considerably. As in the most recent survey, in January, only a few domestic banks, on net, reported having tightened credit standards for commercial and industrial loans. Credit terms, which in recent surveys had been reported tightened, were reported generally unchanged, with the exception of risk premiums, which were again increased. The number of branches and agencies of foreign banks reporting tightened lending standards and terms for commercial and industrial loans was much lower than in recent surveys. Few banks, domestic or foreign, reported increased demand for commercial and industrial loans from large and middle-market firms, but some domestic banks reported increased demand from smaller firms.

For commercial real estate loans, standards were reported to have been tightened, but by a smaller fraction of both domestic and foreign banks than in recent surveys; demand for these loans was up at some domestic banks but little changed, on net, at foreign banks.

A number of banks indicated that they had tightened credit card lending standards. However, few had changed credit standards for other consumer loans, or terms on consumer loans of all types. Demand for consumer loans was reported to have increased since the most recent survey.

Most domestic and foreign respondents indicated that customer Year 2000 preparedness is part of their loan underwriting, review, and documentation processes. Banks have begun Year 2000 compliance reviews for a substantially larger share of their customers than in the fall, but many banks have not yet completed their reviews. Similarly, banks reported substantial progress in the preparedness of those customers they have evaluated, but a number of customers were said to be lagging. Still, most banks have downgraded relatively few customers because of inadequate Year 2000 preparedness.

Respondents, domestic and foreign, reported little demand to date for special contingency lines of credit related to Year 2000, but many expected demand for such lines to increase somewhat as the year progresses. Almost all domestic respondents, but fewer than half the foreign ones, reported that they are willing to extend such credit lines, although in some cases with tighter standards or terms. Responses also indicated that lines of credit that are up for renewal and will extend beyond year-end have been little affected by Year 2000 concerns at domestic banks but face tighter standards and terms at branches and agencies of foreign banks.

Lending to Businesses

About 10 percent of domestic respondents reported having tightened lending standards for large, middle-market, and small firms over the past three months, a slight uptick from the January survey.[1] However, the general tightening of lending terms that had been apparent in recent surveys was absent in May, except for increased premiums on riskier loans, which were reported, on net, by one-fifth of domestic banks. Branches and agencies of foreign banks continued to report tightened credit standards and terms on commercial and industrial loans in larger proportions than domestic banks, but in fewer numbers than in previous surveys. About a quarter of the foreign respondents indicated that they had tightened standards; more than 40 percent reported higher charges for credit lines, wider spreads of loan rates over the bank's cost of funds, and increased premiums on riskier loans. Those domestic and foreign banks reporting tighter standards or terms cited as key reasons a reduced tolerance for risk, industry-specific problems, or a less favorable or more uncertain economic outlook.

Evidence of demand for commercial and industrial loans at domestic banks was mixed: On net, no banks reported a change in demand from large and middle-market firms, whereas approximately 20 percent, on net, had reported stronger demand in the January survey; 10 percent, on net, reported increased demand from small firms, about the same as in January. Banks pointed to changes in customers' merger and acquisition financing, plant and equipment purchases, and borrowing from other lending sources as important reasons for changes in loan demand. Branches and agencies of foreign banks characterized loan demand as little changed, on balance.

Credit standards on commercial real estate loans were tightened by 5 percent of domestic respondents, on net, down from 15 percent in the January survey. About 14 percent, on net, reported increased demand for commercial real estate loans, down from 30 percent in January. Only a few branches and agencies reported having tightened standards on commercial real estate loans, and demand for these loans was reported to have been essentially unchanged. In the January survey, more than half of these banks, on net, reported having tightened standards for these loans, while a quarter, on net, reported increased demand for these loans.

Lending to Households

About 13 percent of banks reported increased willingness to extend consumer installment loans, about the same as in recent surveys. In contrast, standards for credit card loans were tightened by about 18 percent of respondents, somewhat more than in the January survey. However, terms for credit card loans, which were tightened by some banks in January, were reported as essentially unchanged in May.

A few banks reported having tightened credit standards for consumer loans other than credit card loans, reversing the small net easing reported in the January survey.

1. Figures that are net are so reported.

Demand for consumer loans of all types increased at 15 percent of respondent banks, on net, up from January. Credit standards for home mortgage loans were reported as unchanged, while about 7 percent of respondents, on net, reported increased demand for home mortgages, about the same as in January.

Year 2000

Virtually all respondents reported that they include Year 2000 preparedness as part of their underwriting or loan review standards and documentation, and more than a quarter of domestic, and a smaller percentage of foreign, respondents reported having rejected at least a few loan applications because of inadequate Year 2000 preparedness of the applicant. The rejection percentages for each banking group was about double that reported in the May 1998 survey.

About 75 percent of domestic respondents and all foreign respondents said they include Year 2000 covenants, conditions, representations, or warranties in loan documentation for at least some loans to customers not already Year 2000 compliant, up from 40 percent (domestic respondents) and 35 percent (foreign respondents) in May 1998.[2]

Only 9 percent of domestic banks reported that they had evaluated fewer than 75 percent of their material business customers for Year 2000 preparedness, down from 15 percent in November and 88 percent a year ago.[3] Just over half of domestic respondents and almost three-quarters of foreign respondents had evaluated 95 percent or more of these customers. Two-thirds of domestic banks, up from one-half in November, reported that fewer than 5 percent of their material customers were making unsatisfactory progress on preparedness. About 15 percent reported unsatisfactory progress at 10 percent or more of these customers. The foreign responses with respect to customer preparedness were similar.

A subset of the Year 2000 questions addressed the issues of demand for and supply of credit that will extend beyond year-end. Banks reported very little demand to date for new credit lines or extensions of existing credit lines that are specifically related to firms' Year 2000 contingency preparation (Year 2000 contingency lines of credit), but many expect to receive a moderate number of such requests. What demand banks have seen is in large part from other banks. About half of domestic banks were willing to extend Year 2000 contingency lines of credit to both new and existing customers, and all but a few of the remaining respondents were willing to make such lines available to existing customers. By contrast, three-fifths of foreign respondents were unwilling to extend these loans, and none were willing to extend them to new customers.

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2. At least part of the increase may be due to more inclusive wording of the question in response to comments from respondents the last time it was used. Specifically, the May 1998 survey asked only about covenants, with no mention of conditions, representations, or warranties.

3. A material business customer is one that represents a material risk as indicated, for example, by the size of the overall relationship with the customer, the customer's risk rating, the complexity of the customer's operating and information technology systems, and the degree of the customer's reliance on these systems.

Those banks expressing reluctance or unwillingness to extend Year 2000 lines of credit listed a variety of reasons, including concerns about the effects of additional lending on capital ratios and concerns about repayment prospects related to Year 2000 effects on customers. About 40 percent of domestic banks and about 65 percent of foreign banks willing to extend Year 2000 contingency lines of credit indicated that these lines will have tighter standards than other credits. Sixty-five percent of domestic banks willing to extend these loans reported that they would be priced no differently than other loans. The remaining third of respondents expected to charge a premium of 25 basis points or less.[4]

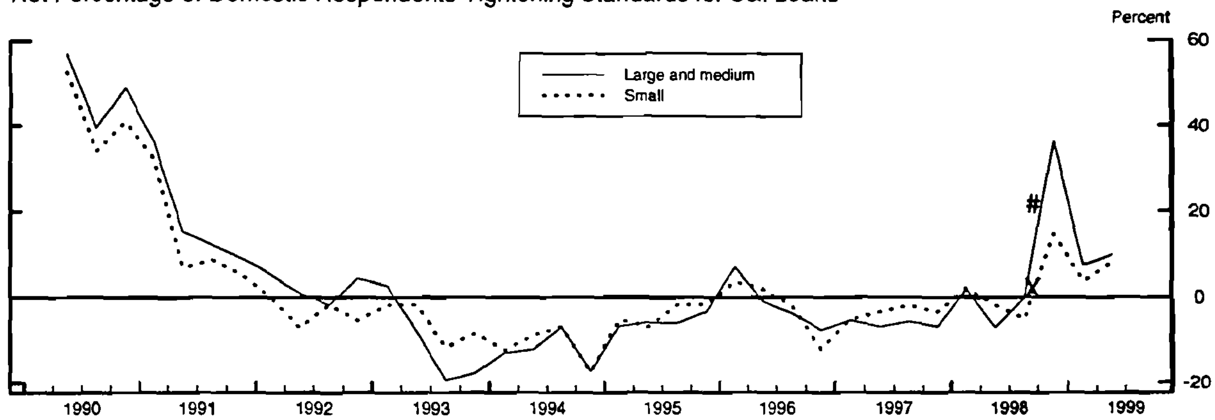
Few domestic respondents expect to impose tighter standards and terms for credit-line renewals that are not specifically meant to meet year-end funding needs but that would extend beyond year-end. Many foreign respondents, by contrast, expect to impose tighter loan standards and terms for such loans, including limited usage around year-end.

More than half of domestic and foreign banks thought that actual usage of existing lines of credit will be stronger than normal around year-end. Banks expected credit demand to be boosted by increased financing needs for inventory or accounts receivable and by market disruptions affecting borrowing elsewhere.

4. Those domestic banks reporting a willingness to extend Year 2000 contingency lines of credit reported an average rate premium of 6.5 basis points (unweighted basis) and 4.5 basis points (weighted basis). The average is computed using the median of the ranges of potential premiums provided in the question. For the weighted basis, responses were weighted using commercial and industrial loans outstanding.

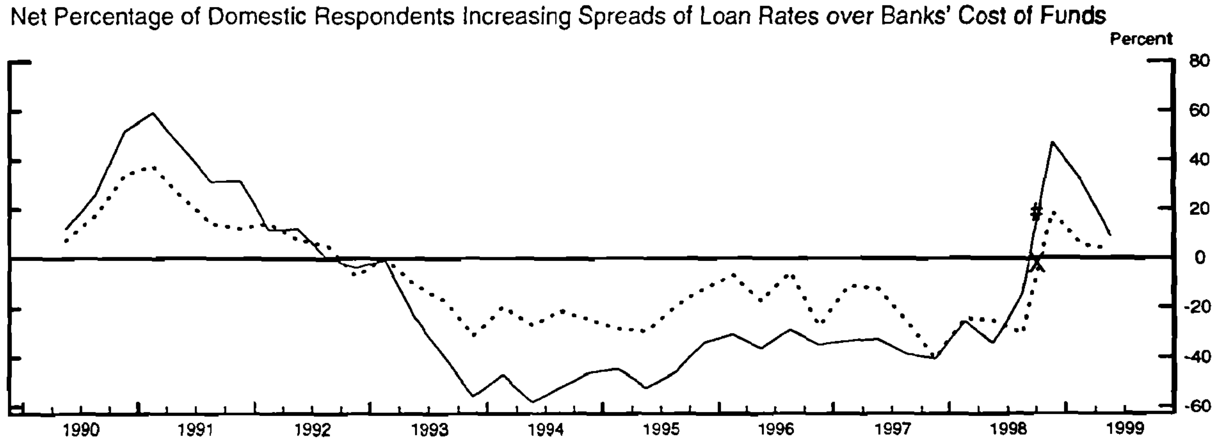
Measures of Supply and Demand for C&I Loans, by Size of Firm Seeking Loan

Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



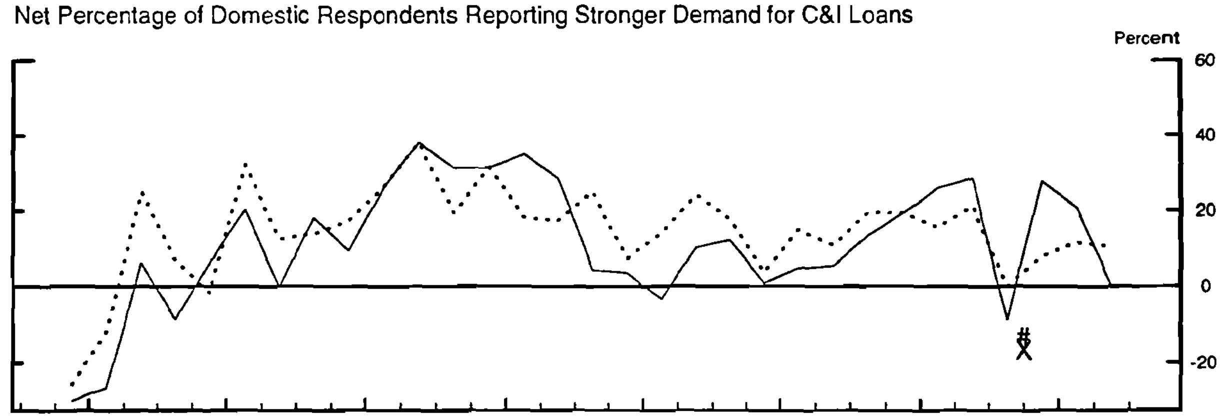
Result for September survey (large and medium).
X Result for September survey (small).

Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks' Cost of Funds



Result for September survey (large and medium).
X Result for September survey (small).

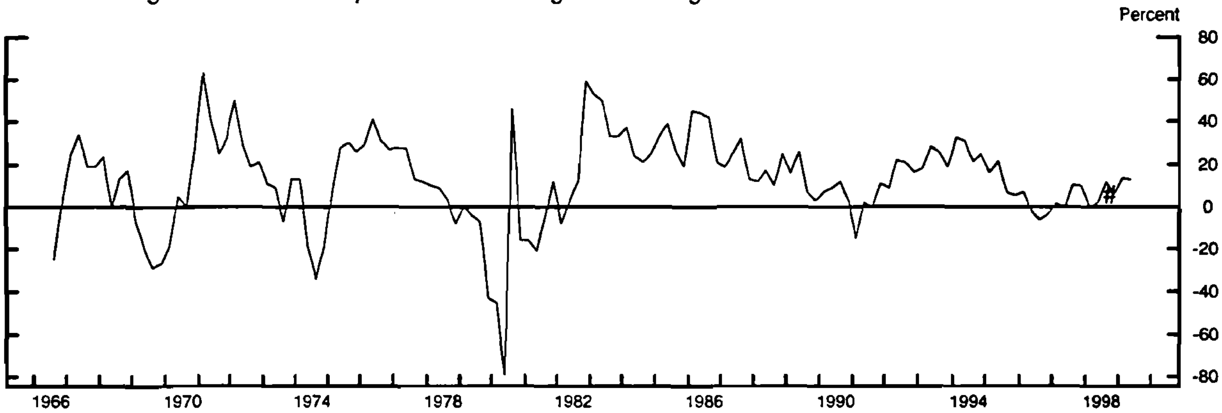
Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans



Result for September survey (large and medium).
X Result for September survey (small).

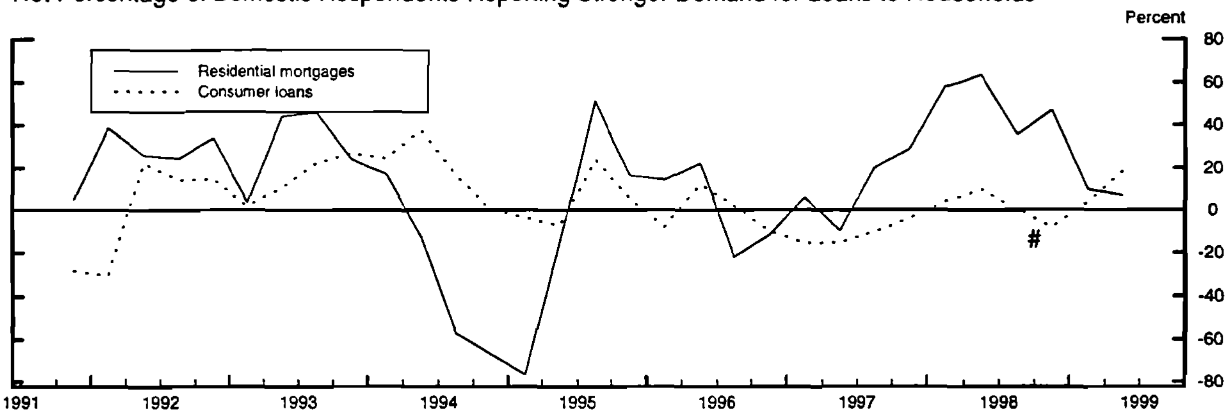
Measures of Supply and Demand for Loans to Households

Net Percentage of Domestic Respondents Indicating More Willingness to Make Consumer Installment Loans



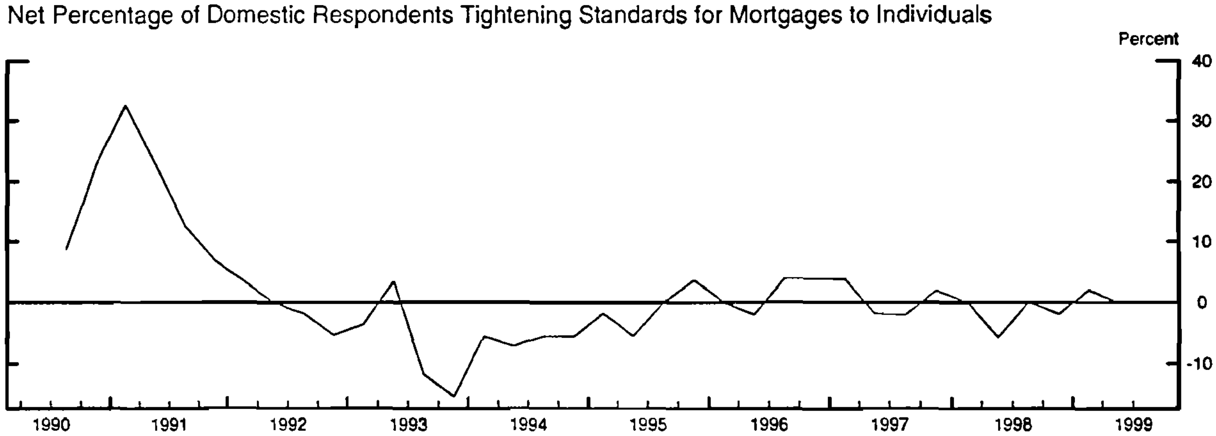
Result for September survey.

Net Percentage of Domestic Respondents Reporting Stronger Demand for Loans to Households



Result for September survey (consumer loans).

Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals



INTERNATIONAL DEVELOPMENTS

International Developments

U.S. International Transactions

Trade in Goods and Services

For January-February combined, the nominal U.S. trade deficit in goods and services increased to nearly $218 billion, substantially larger than for any quarter in 1998. Exports (especially goods) fell back to levels recorded in the second and third quarters of last year, and imports rose strongly.

Trade data for March will be released on May 20.

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

	1998	Annual rate 1998 Q3	Annual rate 1998 Q4	Annual rate 1999 Q1[e]	Monthly rate 1998 Dec.	Monthly rate 1999 Jan.	Monthly rate 1999 Feb.
Real NIPA[1]							
Net exports of G&S	-238.2	-259.0	-250.0	-305.6	...	...	...
Nominal BOP							
Net exports of G&S	-169.3	-186.0	-172.7	-217.5	-14.1	-16.8	-19.4
Goods, net	-248.2	-259.6	-249.8	-296.5	-20.5	-23.3	-26.2
Services, net	78.9	73.6	77.1	79.0	6.4	6.5	6.7

1. Billions of chained (1992) dollars.
e. BOP data are two months at an annual rate.
Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

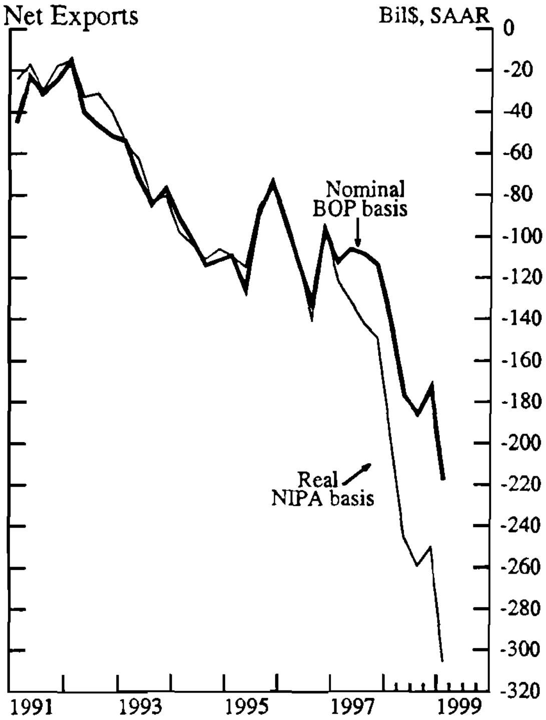
Exports fell 2-3/4 percent in January-February relative to the fourth quarter of 1998, nearly reversing the strong increase recorded in the fourth quarter. The largest declines were in the values of exported aircraft, machinery, industrial supplies, and agricultural products. Exports to countries in Asia generally turned down in January-February from the peak levels in the fourth quarter that had been boosted by record deliveries of aircraft to that region.

Imports were 1-1/2 percent higher in January-February than in the fourth quarter, with large increases in consumer goods, automotive products, and computers and semiconductors. These increases were only partly offset by declines in the value of imported oil, steel, and aircraft; most of the decrease in the value of oil was in price.

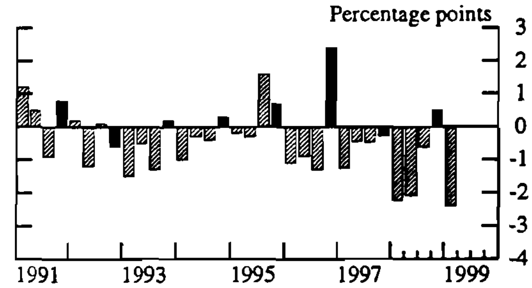
Quantity and price of imported oil. The quantity of imported oil increased slightly in January-February, due to declines in domestic production and to robust U.S. economic growth. Preliminary Department of Energy statistics indicate that imports in March and April remained near January-February levels.

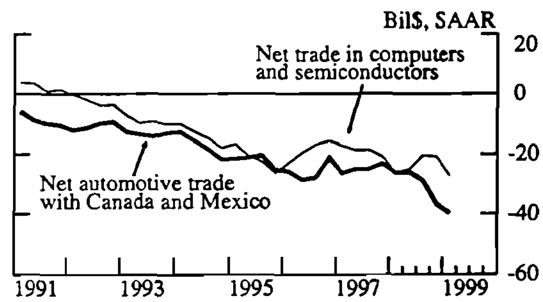
U.S. International Trade in Goods and Services

Net Exports

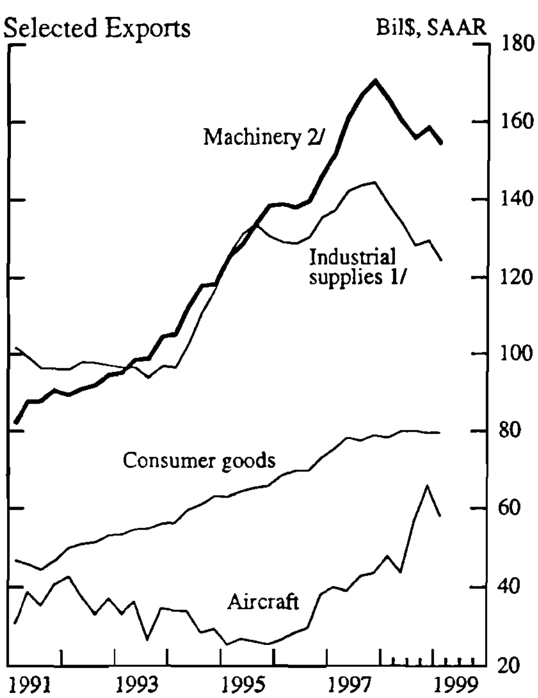


Contribution of Net Exports to Real GDP Growth



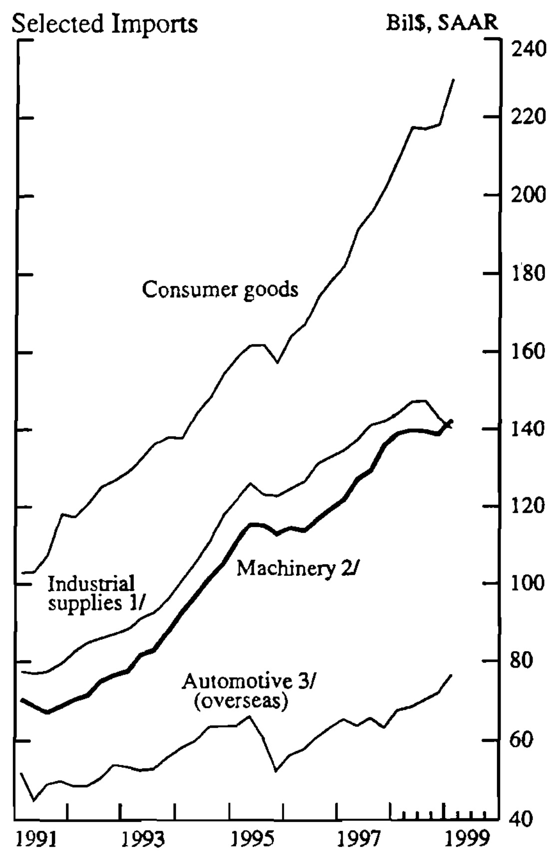


Selected Exports



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

Selected Imports



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, SAAR, BOP basis)

	Levels				Amount Change[1]			
	1998	1999	1999		1998	1999	1999	
	Q4	Q1[e]	Jan.	Feb.	Q4	Q1[e]	Jan.	Feb.
Exports of G&S	948.9	922.1	925.0	919.2	39.5	-26.8	-9.5	-5.8
Goods exports	686.0	657.0	662.0	652.1	32.3	-28.9	-11.6	-9.9
Agricultural	54.1	48.2	48.4	47.9	4.9	-5.9	-6.8	-0.5
Gold	6.9	2.9	2.7	3.0	1.7	-4.1	-0.3	0.3
Other goods	624.9	606.0	610.9	601.1	25.7	-18.9	-4.5	-9.8
Aircraft & pts	65.8	58.1	63.1	53.0	8.9	-7.8	-0.6	-10.2
Computers	45.9	44.4	45.4	43.4	0.9	-1.5	0.1	-1.9
Semiconductors	40.1	42.1	42.0	42.2	2.8	2.0	-0.2	0.2
Other cap gds	161.7	157.6	158.4	156.7	3.2	-4.2	-0.8	-1.7
Automotive	74.3	73.2	71.2	75.1	8.6	-1.2	-2.7	3.9
to Canada	43.2	43.4	43.4	43.3	8.9	0.2	0.5	-0.1
to Mexico	11.9	11.3	10.5	12.2	1.5	-0.6	-0.4	1.7
to ROW	19.2	18.5	17.3	19.6	-1.7	-0.8	-2.7	2.3
Ind supplies	129.5	124.4	124.2	124.6	1.3	-5.1	-2.7	0.4
Consumer goods	79.5	79.5	78.1	80.9	-0.6	0.0	0.5	2.9
All other	28.0	26.8	28.5	25.1	0.6	-1.1	-3.6	-3.4
Services exports	263.0	265.0	263.0	267.1	7.2	2.1	2.1	4.1
Imports of G&S	1121.7	1139.6	1126.7	1152.4	26.2	17.9	23.5	25.7
Goods imports	935.7	953.5	941.1	965.9	22.5	17.7	21.5	24.7
Petroleum	46.6	41.9	41.9	41.9	-2.6	-4.7	2.2	-0.0
Gold	6.6	3.1	3.6	2.7	-0.7	-3.4	-0.8	-0.9
Other goods	882.6	908.5	895.6	921.3	25.8	25.8	20.1	25.7
Aircraft & pts	24.1	21.8	22.2	21.4	2.2	-2.3	-0.1	-0.8
Computers	74.7	79.0	76.7	81.4	3.6	4.3	4.5	4.7
Semiconductors	32.0	34.7	33.9	35.5	0.5	2.7	1.6	1.6
Other cap gds	144.3	145.8	144.4	147.3	1.9	1.5	2.0	2.9
Automotive	164.0	171.1	166.9	175.4	20.2	7.1	0.9	8.5
from Canada	61.3	65.2	64.7	65.7	13.6	3.9	6.0	1.0
from Mexico	30.6	29.3	27.9	30.7	4.8	-1.3	-1.1	2.8
from ROW	72.1	76.6	74.3	79.0	1.8	4.5	-4.0	4.7
Ind supplies	143.2	140.3	140.9	139.8	-4.4	-2.9	1.8	-1.1
Consumer goods	218.2	229.9	224.1	235.7	1.1	11.7	6.3	11.6
Foods	41.0	42.8	43.6	42.1	0.6	1.8	0.9	-1.4
All other	41.0	43.0	43.2	42.9	0.0	2.0	2.0	-0.3
Services imports	185.9	186.1	185.6	186.6	3.7	0.2	2.0	1.0
Memo:								
Oil qty (mb/d)	11.21	11.53	11.63	11.43	-0.41	0.31	0.88	-0.20
Oil price ($/bbl)	11.33	9.95	9.87	10.03	-0.25	-1.39	-0.23	0.16

1. Change from previous quarter or month. e. Average of two months.
Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

The price of imported oil fell 8 percent at an annual rate in January-February combined, reflecting unseasonably warm weather, strong exports from Iraq, and high levels of oil inventories. More recently, the average spot price of West Texas Intermediate (WTI) increased markedly from about $12 per barrel in February to $17.34 in April. This rapid run-up in prices was mostly fueled by the March agreement of OPEC and non-OPEC producers to restrict production by two million barrels per day, although weaker than expected inventories in the United States and temporary supply disruptions have also contributed to higher prices. Spot WTI is currently trading above $17.50 per barrel.

Prices of non-oil imports and exports. Non-oil import prices fell during the first quarter at nearly the same rate as in the previous quarter. Prices of "core" imports (which exclude oil, computers, and semiconductors) were about flat in the first quarter, as declines in prices of imported industrial supplies and foods were offset by increases in prices of imported machinery (other than computers and semiconductors), automotive products, and consumer goods. Prices of imported computers fell, and prices of imported semiconductors rose. Non-oil import prices declined further in April. Prices of "core" goods imports declined 0.1 percent, as lower prices of imported industrial supplies, machinery, and consumer goods were partly offset by higher prices for foods and automotive products. Prices of imported computers and semiconductors fell substantially.

Prices of goods exports declined during the first quarter at a slightly smaller rate than in the fourth quarter of last year. Prices of exported "core" goods (which exclude agricultural products, computers, and semiconductors) were about flat, as increases in prices of exported capital equipment and automotive products about offset declines in prices of exported industrial supplies and consumer goods. Prices of agricultural exports dropped again, as did prices of exported computers and semiconductors. Export prices rose slightly in April. A swing from decrease to increase was recorded for agricultural products and industrial supplies. Prices of exported machinery (other than computers and semiconductors) increased slightly, while price declines were recorded for consumer goods, automotive products and computers.

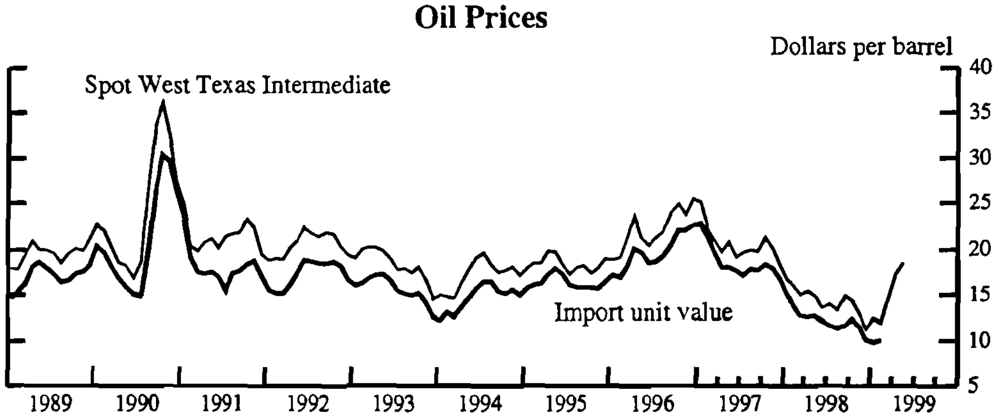
Price data for May will be released on June 10.

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

	Annual rates			Monthly rates		
	1998		1999	1999		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
	BLS prices (1995=100)					
Merchandise imports	-6.0	-1.9	-1.7	-0.1	0.1	0.8
Oil	-23.3	-17.7	-21.7	-0.5	10.7	17.7
Non-oil	-4.5	-0.7	-0.7	0.0	-0.5	-0.3
Core goods*	-3.6	0.3	-0.1	-0.1	-0.4	-0.1
Foods, feeds, beverages.	-7.0	1.3	-6.0	-2.7	-0.3	0.8
Industrial supplies ex oil	-8.4	-4.7	-1.7	0.0	-0.3	-0.2
Computers	-10.4	-16.6	-9.0	-1.1	-3.1	-2.9
Semiconductors	-12.1	2.6	2.4	0.8	0.3	-1.2
Cap. goods ex comp & semi	-3.7	2.9	0.7	0.3	-0.5	-0.3
Automotive products	-1.6	1.5	1.3	0.1	-0.1	0.1
Consumer goods	-1.3	0.7	0.3	0.3	-0.4	-0.3
Merchandise exports	-4.5	-2.1	-1.0	-0.2	-0.3	0.2
Agricultural	-11.5	-7.3	-6.0	-2.4	-3.0	0.4
Nonagricultural	-3.7	-1.4	-0.4	0.1	-0.1	0.3
Core goods*	-2.5	-1.1	0.3	0.2	-0.1	0.3
Industrial supples ex ag	-9.1	-5.6	-2.1	0.0	-0.2	0.6
Computers	-14.0	-5.0	-6.5	-0.6	-0.4	-0.6
Semiconductors	-10.2	-1.6	-5.3	0.3	0.3	1.3
Cap. goods ex comp & semi	-0.6	0.1	1.4	0.1	0.1	0.2
Automotive products	0.4	1.7	0.6	0.2	-0.1	-0.1
Consumer goods	-0.8	0.3	-0.5	0.0	-0.1	-0.2
Chain-weight	Prices in the NIPA accounts (1992=100)					
Imports of goods & services	-4.8	-0.2	-3.7	...	...	...
Non-oil merchandise	-4.4	-1.1	-1.8	...	...	...
Core goods*	-3.3	0.3	0.0	...	...	...
Exports of goods & services	-2.8	-0.9	-0.8	...	...	...
Nonag merchandise	-3.4	-1.8	-1.4	...	...	...
Core goods*	-2.4	-1.2	-0.2	...	...	...

*/ Excludes computers and semiconductors.
n.a. Not available. ... Not applicable.

Oil Prices



U.S. International Financial Transactions

Foreign official assets held in the United States increased moderately in the first quarter of 1999, with most of the increase coming in March (line 1 of the Summary of U.S. International Transactions table). Saudi Arabian reserves increased substantially, as last year's oil-related drawdowns were partially restored. Hong Kong, Korea, and Japan also registered significant increases. Argentinian and Brazilian reserves fell moderately, while Mexican reserves were steady for the quarter. Acting on a stated intention to hold more official reserves in the currencies of its non-U.S. trading partners, Singapore reduced its official holdings in the United States throughout the quarter.

Private foreigners' net purchases of U.S. securities amounted to almost $50 billion in the first quarter, over half of the net purchases coming in March (line 4). Although substantial, the total was far below that of the fourth quarter. The net inflow was more than accounted for by purchases of corporate and other bonds (line 4b). With the spreads between corporate and Treasury bonds falling, U.S. corporations responded by issuing huge amounts of domestic and Eurobonds, particularly in March; preliminary data indicate that Eurobond sales in April were almost as strong as in March. Foreign private holdings of U.S. Treasury securities fell moderately (line 4a); net sales were dominated by hedge funds in the Caribbean.

U.S. residents sold foreign stocks net throughout the first quarter (line 5b). There were large net sales of European stocks. On the other hand, U.S. residents made almost $9 billion in net purchases of Japanese stocks.

Banks registered moderate capital inflows for each month of the quarter (line 3).

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

	1997	1998	1998			1999		
			Q2	Q3	Q4	Q1	Feb.	Mar.
Official capital								
1. Change in foreign official assets in U.S. (increase, +)	20.0	-18.6	-9.7	-46.3	25.4	10.2	-1.2	7.1
a. G-10 countries	1.8	6.5	-10.0	*	12.5	13.1	3.8	6.1
b. OPEC countries	12.9	-9.0	.1	-11.6	2.8	4.8	-1.9	2.2
c. All other countries	5.2	-16.0	.1	-34.7	10.1	-7.7	-3.1	-1.2
2. Change in U.S. official reserve assets (decrease, +)	-1.0	-6.8	-1.9	-2.0	-2.4	3.9	4.0	.3
Private capital								
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	34.0	58.4	1.2	52.1	14.3	20.7	10.6	7.7
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	346.7	275.7	98.9	20.1	81.3	49.6	12.7	29.3
a. Treasury securities[3]	147.2	47.0	26.0	-1.2	24.6	-11.2	-9.9	6.3
b. Corporate and other bonds[4]	128.1	170.9	57.7	25.6	41.0	50.2	17.5	20.6
c. Corporate stocks	71.3	57.8	15.3	-4.2	15.7	10.6	5.2	2.4
5. U.S. net purchases (-) of foreign securities	-89.1	-10.5	-30.2	15.6	16.5	7.7	3.1	3.7
a. Bonds	-48.2	-19.0	-27.2	7.5	10.4	-.5	*	1.8
b. Stocks	-40.9	8.5	-3.0	8.1	6.2	8.2	3.1	1.8
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-121.8	-131.9	-41.0	-23.3	-33.0	n.a.	n.a.	n.a.
7. Foreign direct investment in U.S.	93.4	196.2	19.2	30.3	120.6	n.a.	n.a.	n.a.
8. Foreign holdings of U.S. currency	24.8	16.6	2.3	7.3	6.3	n.a.	n.a.	n.a.
9. Other (inflow, +)[5]	-52.1	-142.1	16.0	-15.4	-134.6	n.a.	n.a.	n.a.
U.S. current account balance (s.a.)	-155.2	-233.4	-57.0	-65.7	-63.8	n.a.	n.a.	n.a.
Statistical discrepancy (s.a.)	-99.7	-3.6	2.2	27.3	-30.6	n.a.	n.a.	n.a.

NOTE. The sum of official capital, private capital, the current account balance, and the statistical discrepancy is zero. 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 Treasury bills.

4. Includes U.S. government agency bonds.

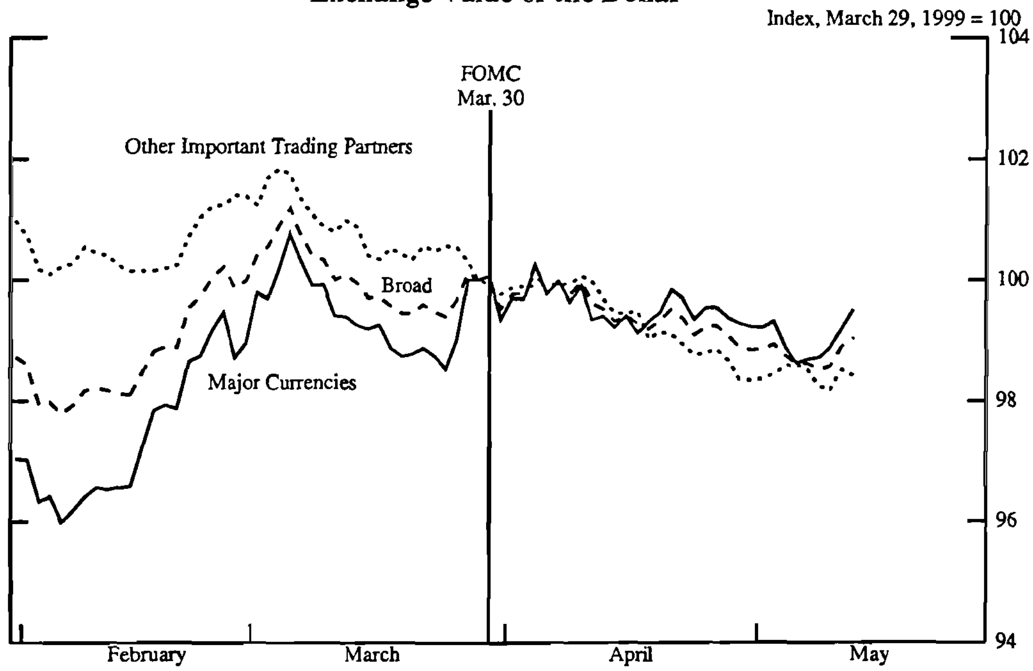
5. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.

n.a. Not available. * Less than $50 million.

Foreign Exchange Markets

In the period following the March FOMC meeting, the foreign exchange value of the dollar declined 0.5 percent on a weighted average basis against the other major currencies, primarily driven by a 3.6 percent depreciation against the Canadian dollar and a 4.2 percent decline versus the Australian dollar.

Exchange Value of the Dollar



These currencies were boosted by the recovery in commodity prices. The price of industrial metals rose over 10 percent, oil rose 4 percent and lumber rose 9 percent. The price of gold also rose as much as 3 percent, but the rally was completely reversed after the U.K. Treasury announced that it would be selling a significant portion of U.K. gold reserves over the next few years. The Canadian dollar firmed, even after the Bank of Canada twice cut its key bank rate, each time by 25 basis points, lowering the effective overnight rate below that of the federal funds target rate for the first time since last August.

The large disparity in growth rates between the U.S. economy and those in the euro zone weighed on the euro. The Governing Council of the European Central Bank reacted to the low euro-area growth rates, particularly in Germany and Italy, by reducing its refinancing rate 50 basis points on April 8, more than the market had expected. Once the euro weakened below $1.06, ECB officials and euro-area finance ministers began a process of verbal intervention, expressing concern over the value the euro if it were to fall much further and threatening to take action should a further decline occur. During much of the intermeeting period movements in the euro against the dollar appear to have been tied to the level of optimism on prospects for a near-term resolution to the armed conflict between NATO and Serbia. On balance, the dollar appreciated 0.9 percent versus the euro for the period.

The dollar moved within a fairly narrow range against the yen, appreciating 1.6 percent on balance, as the yield spread between U.S. and Japanese 10-year bonds widened from 346 basis points to 411 basis points. The 10-year JGB yield declined 53 basis points, and Japanese equities rallied, boosted by optimism that the economy had bottomed and that substantial restructuring would ensue.

Sterling has surprised market analysts by remaining strong against the dollar in the face of an economy that has slowed markedly. The Bank of England reported in the May *Inflation Report* that further easing may be necessary if the trade-weighted value of sterling does not depreciate. On April 8 the Bank of England cut its official repo rate 25 basis points, and since the March FOMC meeting the pound has depreciated 0.2 percent versus the dollar.

Yields on 10-year bonds fell slightly in the euro area and the United Kingdom, while they rose about 15 basis points in the United States and Canada.

The dollar dipped 1.6 percent versus the currencies of our other important trading partners, due in large part to a 2.6 percent depreciation against the Mexican peso. The Mexican peso was buoyed by the rise in oil prices and a lower-than-expected inflation rate. In addition, the generally more optimistic outlook on emerging economies has benefitted the Mexican peso and Mexican equities, with the Bolsa up 21 percent. Brazilian markets also rallied, with the dollar falling 7.2 percent versus the Brazilian *real*, even as the Brazilian central bank lowered its overnight rate from 42 percent to 27 percent during the intermeeting period. Yield spreads over Treasuries of Brazilian and Mexican bonds have fallen sharply.

Financial Indicators in Major Industrial Countries

Country	Three-month rate May 13	Three-month rate Change	Ten-year yield May 13	Ten-year yield Change	Equities Change
Canada	4.61	-0.43	5.29	0.14	5.28
Japan	0.05	-0.03	1.29	-0.53	5.26
Euro area	2.58	-0.41	4.03	-0.01	4.14
United Kingdom	5.25	0.06	4.65	-0.01	6.65
Switzerland	0.84	-0.34	2.64	0.02	2.59
Australia	4.82	0.01	5.77	0.27	1.87
United States	4.89	-0.01	5.44	0.16	6.21
Memo: Weighted-average foreign	2.70	-0.26	4.14	-0.10	

NOTE. Change is in percentage points from March 29 to May 13.

The performance of the stock markets of the emerging market economies in Asia was impressive. Share prices in Thailand, Indonesia, and Malaysia rose over 30 percent, while stocks in the Phillippines, Hong Kong and Korea gained more than 20 percent. The yield spread of bonds in these countries over Treasuries fell about 50 basis points as well. All the major floating currencies of emerging Asia appreciated against the dollar, generally from 1 to 3 percent. Gaining much more was the Indonesian rupiah, which appreciated 12 percent against the dollar. An unwinding of the effects from a bout of domestic turmoil, which unsettled Indonesian financial markets in the period before the March FOMC, helped magnify the appreciation of the rupiah as well as the sharp rise in the Indonesia stock market.

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

Financial Indicators in Latin America, Asia, and Russia

	Currency/ US dollar		Short-term Interest Rates		Dollar-denominated bond spread[1]		Equity prices
Country	May 13	Change	May 12/13	Change	May 12/13	Change	Change
Mexico	9.27	-2.60	20.00	-1.25	6.74	-0.14	21.30
Brazil	1.65	-7.21	25.90	-8.00	10.45	-0.69	13.45
Argentina	1.00	-0.00	5.25	-0.75	7.41	-0.30	30.20
Chile	479.10	-1.20	n.a.	n.a.	n.a.	n.a.	14.47
China	8.28	-0.02	n.a.	n.a.	1.50	-0.25	-6.89
Korea	1205.50	-1.69	4.95	-0.25	2.18	-0.25	23.51
Taiwan	32.71	-1.48	4.65	-0.05	n.a.	n.a.	7.45
Singapore	1.70	-1.65	1.63	-0.13	n.a.	n.a.	29.72
Hong Kong	7.75	0.02	4.75	-0.71	n.a.	n.a.	22.13
Malaysia	3.80	-0.00	3.10	-2.60	2.67	-0.55	46.66
Thailand	36.95	-1.89	4.75	-0.50	1.77	-0.51	31.26
Indonesia	7750.00	-11.93	32.45	-6.33	7.80	-1.89	46.74
Philippines	37.60	-2.72	n.a.	n.a.	3.20	-0.57	25.52
Russia	25.57	2.48	n.a.	n.a.	60.97	-14.77	3.71

NOTE. Change is in percentage points from March 29 to May 12/13.

1. Mexico, Brazil, Argentina, Venezuela, and Russia: Stripped Brady bond yield spread over U.S. Treasuries. China and Korea: Global bond yield spread. Malaysia and Philippines: Eurobond yield spread. Thailand and Indonesia: Yankee bond yield spread.

n.a. Not available.

Developments in Foreign Industrial Countries

Economic developments in recent months have confirmed that growth in most of the major industrialized countries remains weak. In Japan, recent data releases have provided scant evidence of a turnaround in economic fortunes, with private consumption slumping further. In the euro area, real GDP declined in the fourth quarter, with contractions in real activity in Germany and Italy only partially offset by more robust economic performance in France. In the United Kingdom, preliminary estimates show that economic growth in the first-quarter remained unchanged from its meager fourth-quarter rate, but business surveys point to stronger activity looking forward. In Canada, recent indicators suggest that economic performance, while remaining strong in the first quarter, has moderated somewhat from its torrid pace late last year.

Inflationary pressures remain virtually nonexistent, with consumer price inflation remaining around one percent in the euro area and Canada. In Japan, consumer prices have been declining. The stable outlook for prices factored into decisions by several central banks to lower official interest rates. The Bank of England and the European Central Bank (ECB) lowered rates by 25 basis points and 50 basis points, respectively, on April 8, while the Bank of Canada lowered its rate a cumulative 50 basis points in two separate actions on March 31 and May 4.

In **Japan**, recent economic indicators provide little evidence of recovery, with private consumption showing marked weakness. Retail sales during the first quarter were down 4 percent (SAAR) from the fourth-quarter average. The household expenditure series plunged during February and stayed weak during March, after remaining roughly stable for most of the previous year. Labor market conditions continued to be grim, with unemployment reaching a new all-time high of 4.8 percent in March and the offers-to-applicants ratio remaining near an all-time low. On the other hand, housing starts during the first quarter increased smartly, as government incentives to stimulate home purchases supported demand. New public works contracts also jumped during the first quarter, suggesting that the November 1998 stimulus measures have already come on line. Finally, industrial production during the first quarter edged up 0.4 percent (not annualized) from the fourth-quarter level but remained down 4.7 percent from a year earlier.

Japanese Economic Indicators
(Percent change from previous period except as noted, SA)

Indicator	1998		1999				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Industrial production	.0	-.7	.4	-.9	1.3	2.2	n.a.
Housing starts	-6.7	-1.8	7.8	.7	3.2	8.8	n.a.
Machinery orders	-4.6	-3.3	n.a.	-3.1	1.8	n.a.	n.a.
New car registrations	.7	-11.9	3.6	6.8	-5.2	1.2	n.a.
Unemployment rate[1]	4.3	4.4	4.6	4.4	4.6	4.8	n.a.
Job offers ratio[2]	.49	.47	.49	.49	.49	.49	n.a.
Business sentiment[3]	-51	-56	n.a.	...	...	...	...
CPI (Tokyo area)[4]	-.1	.7	-.2	.1	-.2	-.4	-.2
Wholesale prices[4]	-.7	-3.6	-4.0	-4.9	-3.8	-3.4	-3.5

1. Percent.
2. Level of indicator.
3. Tankan survey, diffusion index.
4. Percent change from year earlier, NSA.
n.a. Not available. ... Not applicable.

Deflationary pressures remain significant. The Tokyo CPI in April was down 0.2 percent from a year earlier. Given the estimated 3/4 to 1 percentage point upward bias in inflation as measured by the Japanese CPI, consumer prices (accurately measured) already are registering meaningful declines. In addition, the wholesale price index in April declined 3.5 percent from a year earlier, largely reflecting the yen's sharp appreciation during the second half of 1998. Total employee earnings during the first quarter were down over 5 percent from a year earlier, with bonus payments showing particular weakness.

In late March, fifteen major banks, with the conspicuous exception of Bank of Tokyo-Mitsubishi, received injections of public funds totaling about ¥7.5 trillion, mostly in the form of convertible preferred shares. The banks have pledged to cut employment and the number of branches, and implement other restructuring measures.

In the **euro zone**, available indicators suggest that real GDP growth remained weak in the first quarter. For the area as a whole, industrial production (s.a.) fell in February. In Germany, industrial production moved down again in March. The harmonized unemployment rate remained unchanged in February at 10.5 percent, somewhat below its December 1998 level of 10.7 percent. (In constructing the harmonized unemployment series, Eurostat standardizes national statistics to International Labor Organization definitions.) The unemployment rates (s.a.) in Germany and France remained steady in March at 10.5 percent and 11.5 percent respectively.

Upward price pressures continue to be nearly absent. Euro-area consumer prices rose 1.0 percent over the year to March, according to the harmonized price figures produced by Eurostat, up only slightly from the rate reported in February.

Euro-11 Current Indicators
(Percent change from previous period except as noted, SA)

Indicator	1998			1999			
	Q2	Q3	Q4	Q1	Feb.	Mar.	April
Industrial production							
Euro-11[1]	.7	.0	-.4	n.a.	-.2	n.a.	n.a.
Germany	-.3	1.0	-2.1	-.0	-3.3	-.5	n.a.
France	1.4	.3	.1	n.a.	-.6	n.a.	n.a.
Unemployment rate							
Euro-11[2]	11.0	10.9	10.7	n.a.	10.5	n.a.	n.a.
Germany	11.2	10.9	10.7	10.6	10.6	10.5	10.6
France	11.9	11.8	11.5	11.5	11.5	11.5	n.a.
Consumer prices[3]							
Euro-11[4]	1.3	1.1	.8	.9	.8.	1.0	n.a.
Germany	1.4	.7	.4	.3	.2	.4	.7
France	1.0	.6	.3	.3	.2	.4	.4
Italy	2.0	2.0	1.8	1.4	1.4	1.3	1.5

1. Index is not working days adjusted and excludes construction. Includes Eurostat estimates for Luxembourg and Portugal.
2. Standardized to ILO definition. Includes Eurostat estimates in some cases.
3. Percent change from year earlier.
4. Eurostat harmonized definition.

Forward-looking indicators point to modest growth, at best, in economic activity in the first-quarter: based on surveys of the eleven countries in the euro area conducted by the European Commission, consumer confidence continued to decline in April. Although business confidence in the construction sector has improved somewhat this year, confidence in the manufacturing sector remained very depressed in April. Both domestic and export orders have weakened considerably in euro zone countries; this weakening is particularly striking for Germany, France, and Italy. (The official orders data for Germany have been sliding since the middle of 1998 and fell by an additional 0.8 percent in February.) On April 26, the German government revised down its growth forecast for this year to about 1-1/2 percent from 2 percent, while predicting a faster expansion of about 2-1/2 percent in 2000.

Euro-11 Forward-looking Indicators
(Percent balance measure, SA)

Indicator	1998		1999				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	April
Consumer confidence[1]	-4.7	-2.0	-.3	.0	.0	-1.0	-3.0
Construction confidence[2]	-13.3	-15.0	-9.0	-9.0	-9.0	-9.0	-8.0
Industrial confidence[3]	-.7	-7.3	-10.7	-9.0	-11.0	-12.0	-11.0
Of which:							
Total orders	-4.0	-13.0	-20.0	-16.0	-20.0	-23.0	-20.0
Export orders	-5.0	-17.3	-24.0	-20.0	-25.0	-28.0	-26.0
Stocks	8.0	11.3	14.0	14.0	15.0	14.0	14.0

NOTE: Diffusion indices based on European Commission surveys in individual countries.
1. Averages response to questions on financial situation, general economic situation, and purchasing attitudes.
2. Averages response to questions on output trend and orders.
3. Averages response to questions on production expectations, orders, and stocks.

At its meeting on April 8, the Governing Council of the European Central Bank (ECB) cut short-term interest rates for the euro zone. The rate on repurchase operations was reduced 50 basis points to 2-1/2 percent. The marginal lending rate and deposit rates (the upper and lower bands around the repo rate) were cut as well, by 100 and 50 basis points, respectively, to 3-1/2 and 1-1/2 percent. These actions marked the first change in the policy stance by the ECB, although short-term interest rates had been reduced to 3 percent last December by the central banks of prospective euro countries.

Both the German government and the ECB have revised down their projections for German GDP growth in 1999. The potential impact of the Kosovo crisis on the European economies remains unclear. However, both Italian and Greek officials noted last week that the conflict could knock 1/4 to 1/2 percentage point off economic growth in their respective countries this year, with the total magnitude determined by how deep and protracted the crisis becomes.

Economic activity in the **United Kingdom** remained weak in the first quarter, with the preliminary estimate showing real GDP growth of only 0.1 percent (quarterly rate), unchanged from the previous quarter. Industrial output declined over the quarter, primarily reflecting lower output of energy extraction and distribution industries during a warmer-than-normal winter. Growth in the service sector slowed to 0.4 percent, as stronger output of consumer services was offset by slower growth in business services. However, business surveys for March and April indicate stronger activity looking forward, and business confidence has improved markedly from the very low levels reached last fall.

U.K. Economic Indicators

(Percent change from previous period except as noted, SA)

Indicator	1998		1999				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
GDP	.3	.1	.1	...	...	...	...
Industrial production	.4	-.9	-.9	-.5	.1	.2	n.a.
Retail sales	.5	-.1	1.0	1.3	-.2	.4	n.a.
Unemployment rate[1]	4.6	4.6	4.6	4.6	4.6	4.6	n.a.
Business confidence[2]	-11.7	-23.0	-10.3	-13.0	-10.0	-8.0	-1.0
Retail prices[3]	2.6	2.6	2.6	2.6	2.4	2.7	n.a.
Producer input prices[4]	-9.2	-9.2	-5.8	-7.0	-6.5	-3.8	-1.3
Average earnings[4]	5.1	4.6	n.a.	4.5	4.6	n.a.	n.a.

1. Percent.
2. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.
3. Excluding mortgage interest payments. Percent change from year earlier.
4. Percent change from year earlier.
n.a. Not available. ... Not applicable.

Conditions in the labor market have been little changed in recent months, but wage pressures may have stepped up a bit. The official unemployment rate was unchanged at 4.6 percent in March, and the Labor Force Survey unemployment rate was unchanged at 6.3 percent for the December-February period. However, average earnings growth picked up slightly to 4.6 percent in February from an upwardly-revised January rate of 4.5 percent.

The twelve-month rate of retail price inflation has remained close to the official inflation target of 2.5 percent; the increase in inflation in March to 2.7 percent primarily reflected tax changes affected by the timing of this year's and last year's budgets. Producer input prices for materials and fuel recently have edged up, primarily reflecting higher crude oil prices. On a twelve-month basis, input prices were down 1.3 percent in April, compared with an average twelve-month decline of about 9 percent last year.

At its May meeting, the Monetary Policy Committee of the Bank of England voted to leave the repo rate unchanged at 5-1/4 percent. In its May *Inflation Report*, the MPC said that "the economy is now on course for growth with price stability." Real GDP growth is expected to rise later this year to around trend by the middle of next year. Compared with the projection in the February *Report*, the pick-up occurs slightly sooner, with domestic demand growth stronger and net trade weaker. Inflation is expected to average slightly below the inflation target of 2.5 percent this year before rising slightly next year. The MPC stated that the current exchange value of sterling was higher than assumed in the February *Report*. The MPC's central projection includes a depreciation of the currency, but the MPC noted that if sterling does not depreciate as expected, "further easing of monetary policy might be needed to prevent undershooting of the inflation target."

In **Canada**, recent indicators suggest that economic growth remained strong in the first quarter but has moderated somewhat from the large upswing in activity late last year. Real GDP at factor cost in January and February was up 0.7 percent on average from the fourth quarter. In comparison, real GDP at factor cost rose 1.1 percent in the fourth quarter of last year. Most of the slowdown in real GDP reflects a return to more sustainable production levels after a large increase in factory output related to the rebuilding of strike-depleted inventories. Consumer spending appears to have rebounded, partly due to strong employment gains late last year. In recent months, employment gains have moderated considerably. In April, sluggish employment gains combined with a sharp jump in the number of people looking for work resulted in a 0.5 percentage point increase in the unemployment rate.

After dipping below the Bank of Canada's 1 to 3 percent target range, twelve-month CPI inflation moved unexpectedly higher in March and is now slightly above one percent. Still, with inflation remaining near the lower end of the target range, the Bank of Canada has lowered interest rates twice over the last six weeks. The Bank of Canada reduced its key lending rate, the Bank Rate, from 5-1/4 percent to 5 percent on March 31, and to 4-3/4 percent on May 4. The Bank cited improvements in international financial markets as an additional motivating factor behind the rate cuts. The potential disinflationary effects of the recent appreciation of the Canadian dollar probably also played a role in the Bank of Canada's decision.

Canadian Economic Indicators
(Percent change from previous period except as noted, SA)

Indicator	1998		1999				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
GDP at factor cost	.2	1.1	n.a.	.2	.1	n.a.	n.a.
Industrial production	-.3	1.2	n.a.	.4	-.1	n.a.	n.a.
New manufacturing orders	1.9	4.5	n.a.	-1.4	5.0	n.a.	n.a.
Retail sales	.6	-.1	n.a.	2.0	-.4	n.a.	n.a.
Employment	.5	1.3	.9	.6	.1	-.2	.1
Unemployment rate[1]	8.3	8.0	7.8	7.8	7.8	7.8	8.3
Consumer prices[2]	.9	1.1	.8	.6	.7	1.0	n.a.
Consumer attitudes[3]	103.2	109.8	n.a.	...	...	...	...
Business confidence[4]	128.6	132.3	n.a.	...	...	...	...

1. Percent.
2. Percent change from year earlier.
3. Level of index, 1991 = 100.
4. Level of index, 1977 = 100.

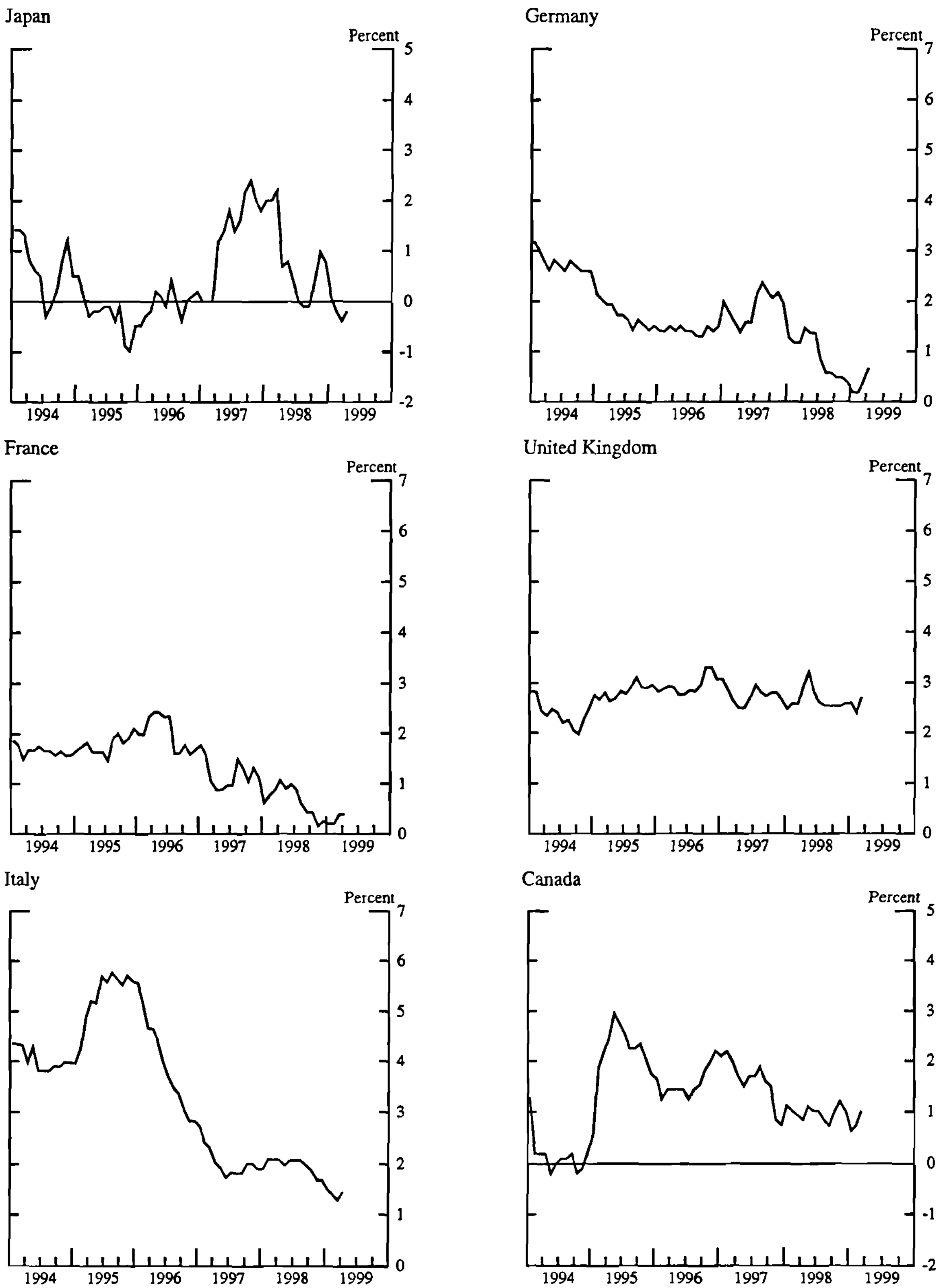
n.a. Not available. ... Not applicable.

External Balances
(Billions of U.S. dollars, SAAR)

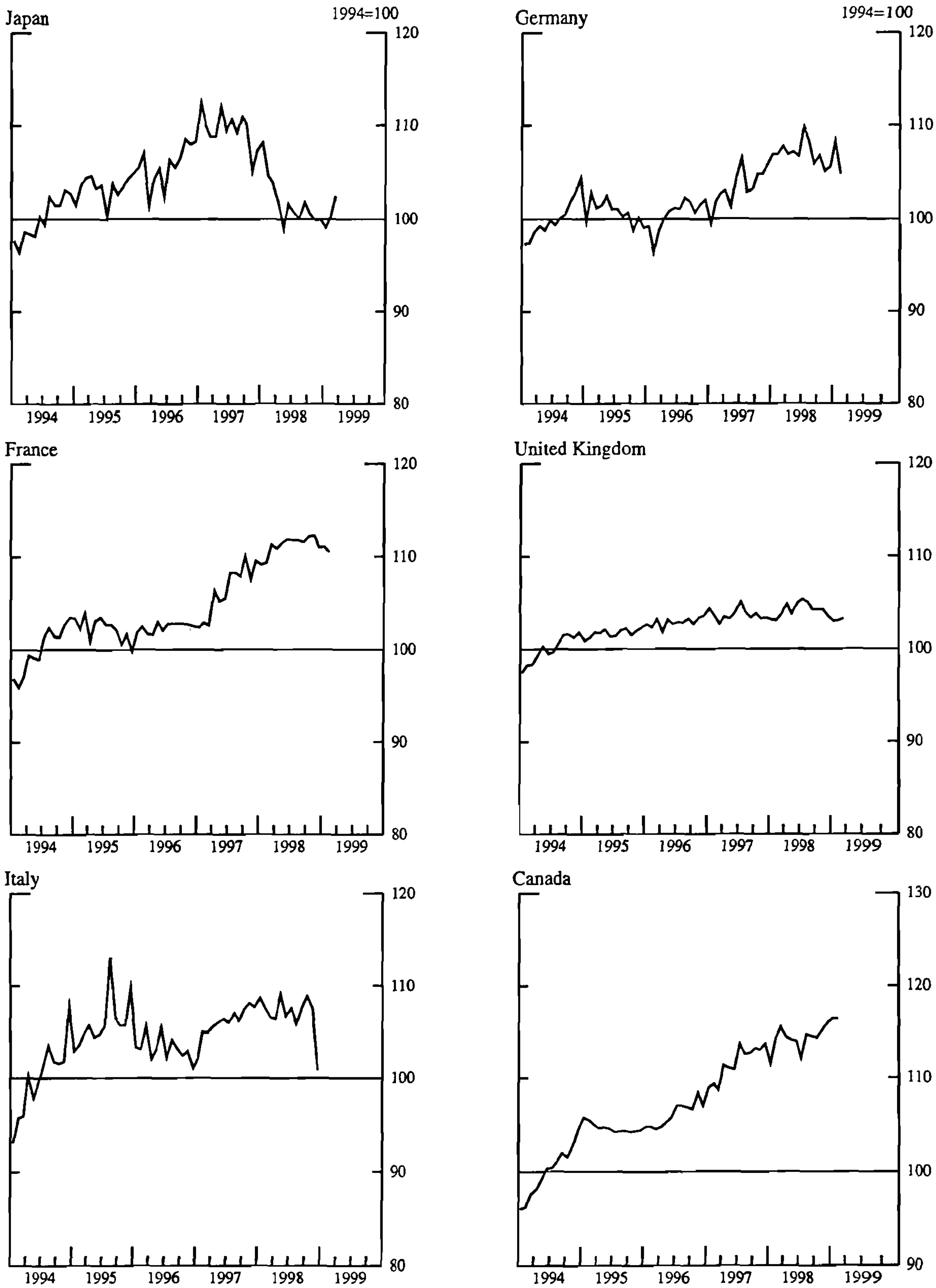
Country and balance	1998			1999		
	Q2	Q3	Q4	Q1	Feb.	Mar.
Japan						
Trade	112.2	107.3	109.3	113.1	88.3	110.8
Current account	113.4	118.9	132.4	n.a.	115.3	n.a.
EU-11						
Trade[1]	89.3	87.4	70.1	n.a.	n.a.	n.a.
Current account[1]	97.7	86.5	84.5	n.a.	52.4	n.a.
Germany						
Trade	75.7	73.9	71.9	78.7	76.6	74.5
Current account	3.6	7.3	-18.3	n.a.	...	...
France						
Trade	26.4	30.6	29.0	n.a.	18.6	n.a.
Current account	36.9	41.7	47.3	n.a.	46.2	n.a.
Italy						
Trade	29.6	28.7	24.3	n.a.	n.a.	n.a.
Current account[1]	29.5	40.0	13.2	n.a.	n.a.	n.a.
United Kingdom						
Trade	-31.0	-34.7	-41.4	n.a.	-51.1	n.a.
Current account	-8.0	15.8	6.4	n.a.	...	...
Canada						
Trade	10.8	13.6	12.9	n.a.	20.9	n.a.
Current account	-13.9	-11.5	-13.5	n.a.	...	...

1. Not seasonally adjusted.
n.a. Not available. ... Not applicable.

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



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

While many emerging market economies remain in recession, there are increasing indications that the international financial crisis may be abating. The Brazilian economy's performance since the January devaluation of the *real* has been much better than anticipated. Inflation has remained significantly lower than expected, the *real* has appreciated substantially from its recent lows, output has been less negatively affected than had been feared, and in late April, Brazil successfully returned to the global bond market with a new issue. Other Latin American economies have also exhibited better than expected performance. The latest monthly statistics for Mexico suggest that output growth may have resumed, while inflation and interest rates have fallen. Argentina is suffering a contraction in output and exports, but has seen improvement in its financial markets and continued low inflation. In Venezuela, however, output has plunged in response to low oil export revenue, large government budget deficits and political uncertainties.

In developing Asia, Korea appears to be recovering strongly from last year's deep recession, with industrial output already above its pre-crisis level. Economic activity in the ASEAN countries seems to have bottomed out, and there are signs that a recovery has begun. Trade surpluses in Korea and the ASEAN countries are falling as imports have begun to rebound. Inflation throughout developing Asia has remained moderate or declined.

The economic situation in Russia remains grim, although a new agreement with the IMF has been concluded, and the government has finally come to agreement with external creditors over its defaulted ruble-denominated debt. Additionally, industrial output has improved and inflation has begun to moderate.

Recent developments in **Brazil** have been far more favorable than feared in the wake of the *real*'s collapse last January. The *real* has strengthened, international reserves (net of IMF and bilateral aid) have been stable, inflation has been surprisingly subdued, and domestic pressures to reindex wage and other contracts have died down. The national consumer price index rose only 3.7 percent in the first four months of 1999. Price indices in which traded goods have a heavier weight rose by about eight percent over this period.

Lately, there have been some signs of economic recovery; the national industrial production index rose 1.6 percent in March (SA, not at AR), after declines earlier this year, but was 3.3 percent lower than in March 1998. However, the unemployment rate in March reached 8.2 percent, high by historical standards. A labor-funded institute's measure of unemployment (which counts as unemployed itinerant, or underemployed workers) put the unemployment rate at about 20 percent, its historical apex. As a result of weak domestic demand, the trade deficit for the first four months of 1999 was about one-half its level a year ago, but did not narrow as much as had been hoped. While imports were down by about 20 percent, exports also fell by about 15 percent; the fall in exports reflected a drop in the prices of commodities and other exports and possibly restricted access to export financing.

Brazilian Economic Indicators

Indicator	1997	1998	1998	1999			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	3.5	.1	-6.4	n.a.	...	...	...
Industrial production[2]	3.9	-2.1	-3.6	.0	-1.3	1.6	n.a.
Unemployment rate[3]	5.7	7.6	6.9	7.8	7.5	8.2	n.a.
Consumer prices[4]	4.3	2.5	2.7	3.0	3.0	3.8	3.9
Trade balance[5]	-8.4	-6.4	-10.5	-3.0	2.6	-2.6	.4
Current account[5]	-33.8	-34.9	-46.8	-20.7	-16.3	-18.2	n.a.

1. Percent change from previous period, SAAR.
2. Percent change from previous period, SA.
3. Percent. "Open" unemployment rate.
4. Percent change from year earlier.
5. Billions of U.S. dollars, AR, NSA.
n.a. Not available. ... Not applicable.

The lower-than-anticipated inflation rates and the recovery of the *real* prompted the central bank to lower the overnight interest rate from 45 percent in early March to 27 percent as of May 12. The central bank also announced that some time in May it would implement an inflation targeting regime modeled after the U.K. system.

Although Brazil is likely to pass the criterion for fiscal performance on the (non-interest) primary surplus at its next IMF program review, which will take place in mid-May at the earliest, the surplus in the first quarter was heavily boosted by one-time revenues. Recent court decisions have also raised questions as to whether the government will enact the financial transactions tax, which is a big element of its fiscal adjustment program, on schedule in mid-1999.

In recent weeks, the Brazilian government and private sector borrowers have returned to international bond markets, albeit at interest rates that, while down from recent highs, were higher than those seen a year ago. In late April, the Brazilian government launched a $3 billion 5-year global bond priced to yield 675 basis points above U.S. Treasuries, marking Brazil's first international bond issue since the collapse of the *real*. (The Brazilian government has indicated that it would issue up to $2 billion in additional bonds over the next couple of months.)

The **Mexican** economy has shown signs of renewed growth in recent months as inflation and interest rates have fallen to 11-month lows. Following virtually no growth in real GDP in the fourth quarter and seasonally adjusted month-to-month declines in industrial production in January and February, industrial production grew 1.2 percent in March. Moreover, the unemployment rate fell to 2.7 percent in March from 3.2 percent in February. The effects of recent oil price increases, improvements in financial markets, and healthy U.S. growth are likely to support further recovery in the near term.

Mexican Economic Indicators

Indicator	1997	1998	1998	1999			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	6.8	4.8	.1	...	...	...	...
Industrial production[2]	9.1	6.3	4.0	2.5	2.2	4.0	n.a.
Unemployment rate[3]	3.7	3.2	2.8	3.0	3.2	2.7	n.a.
Consumer prices[2]	15.7	18.6	17.6	18.6	18.5	18.3	18.2
Trade balance[4]	.6	-7.7	-10.3	-4.4	-3.4	-3.4	n.a.
Imports[4]	109.8	125.2	133.5	124.8	119.2	143.9	n.a.
Exports[4]	110.4	117.5	123.3	120.3	115.8	140.4	n.a.
Current account[4]	-7.4	-16.1	-18.6	...	...	...	...

1. Percent change from previous period; SAAR estimated by staff.
2. Percent change from year earlier.
3. Percent.
4. Billions of U.S. dollars, AR, NSA.
n.a. Not available. ... Not applicable.

The trade deficit was nearly unchanged in March as strong U.S. demand for Mexican exports and higher oil prices helped to offset growing imports. In large part reflecting the recent strength of the peso, inflation has moderated from recent highs; prices rose only 0.9 percent in March, following increases of 2.5 and 1.3 percent in January and February, respectively.

On May 1, Mexico's Congress finally approved President Zedillo's nominations to fill seats on the board of the new Bank Deposit Institute (IPAB) after rejecting earlier nominees. Although negotiations must still take place to resolve who will fill the two seats reserved for the heads of the Central Bank and the National

Banking and Securities Commission, the process of selling-off and restructuring the $65 billion in bad debt assumed from the banking sector can now begin.

In **Argentina**, despite a financial market recovery in recent months, there are indications that consumer and business confidence is low and that the recession is continuing. Real GDP declined by about 6 percent (SAAR) in the fourth quarter, the second consecutive quarterly contraction. Seasonally adjusted industrial production declined four percent in the first quarter of 1999 from fourth quarter 1998. The sharp slowdown of economic activity has now begun to narrow external imbalances; the trade deficit decreased to just over $3 billion (AR) in the first quarter from roughly $4-1/2 billion (AR) in the previous quarter.

Argentine Economic Indicators

Indicator	1997	1998	1998	1999			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	8.6	4.1	-5.7	n.a.	...	...	...
Industrial production[2]	8.6	.4	-9.4	-10.6	-11.6	-11.5	n.a.
Unemployment rate[3]	14.9	12.9	12.4	n.a.	...	...	...
Consumer prices[2]	.3	.7	.7	-.7	.0	-.7	-.8
Trade balance[4]	-2.2	-3.6	-4.7	-3.2	-3.9	-.5	n.a.
Current account[4]	-9.3	-12.4	-14.8	n.a.	...	...	...

1. Percent change from previous period; SAAR.
2. Percent change from year earlier; quarterly and annual consumer price changes use end of period data.
3. Percent. The third and fourth quarter figures are from surveys conducted in August and October, respectively.
4. Billions of U.S. dollars, AR, NSA.
n.a. Not available. ... Not applicable.

Argentina's currency peg has kept inflation in check, with consumer prices falling in April by less than 1 percent from the level a year ago. However, the currency peg has led to a substantial real appreciation of the peso following the Brazilian currency collapse, and has raised concerns about Argentina's international competitiveness. With declining government revenues, the recession has also raised concerns about the fiscal situation. In light of the macroeconomic situation, the government of Argentina has successfully renegotiated with the IMF its target for the 1999 central government balance to a deficit of 1.5 percent of GDP from the 0.8 percent agreed upon earlier under the terms of its $2.8 billion Extended Fund Facility.

The Argentine government continues to show serious interest in the possibility of a complete dollarization of its economy. However, government officials have been sporadically issuing statements that the country plans to dollarize only if a bilateral treaty of monetary association with the United States can be agreed upon.

The **Venezuelan** economy continues to suffer from the effects of the past slump in world oil prices, a ballooning government budget deficit, and uncertainties associated with the domestic political situation. As a result of these factors, real GDP declined sharply, by nearly 20 percent, in the fourth quarter of last year (SAAR), putting year-over-year growth in 1998 into negative territory. Inflation continues to be quite high with a 12-month rate of nearly 25 percent in April, although the month-over-month increase of 1.1 percent in April is the lowest monthly rate of inflation in 10 years. With the recent increase in oil prices, Venezuelan exports and government revenues will rise, improving external balances and easing the fiscal problems the economy is now facing.

Venezuelan Economic Indicators

Indicator	1997	1998	1998	1999			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	5.9	-.5	-19.8	n.a.	...	...	...
Unemployment rate[2]	11.7	11.2	11.0	n.a.	...	...	...
Consumer prices[3]	37.6	29.9	31.2	27.8	29.7	27.8	24.9
Non-oil trade balance[4]	-7.5	-8.6	-6.8	n.a.	n.a.	n.a.	n.a.
Trade balance[4]	10.5	3.4	4.5	n.a.	n.a.	n.a.	n.a.
Current account[4]	4.7	-1.7	-.9	n.a.	...	...	...

1. Percent change from previous period, SAAR.
2. Percent. NSA.
3. Percent change from year earlier, end of period.
4. Billions of U.S. dollars, AR, NSA.
n.a. Not available. ... Not applicable.

In **Korea**, recent data have provided further evidence that a strong recovery is underway. Industrial production registered a seasonally adjusted increase of 4.2 percent in March following a 2.7 percent rise in February, moving it well above its level before the onset of the financial crisis in late 1997. Production of semiconductors and motor vehicles in March were especially strong, showing increases of over 40 percent from their year-earlier levels. The factory operation rate rose to nearly 75 percent (NSA) in March, up from just under 70 percent in February, but still below the rate of around 80 percent prevailing before the 1997 financial crisis. The seasonally unadjusted unemployment rate declined to 8.1 percent in March from the record high 8.7 percent of the previous month. In April, militant unions attempted to launch a "spring offensive" of strikes to protest layoffs associated with corporate restructuring. However, the response by targeted workers was generally tepid, and the strikes were called off.

With activity rising, the trade surplus appears to be declining. The trade surplus in the first quarter was about 25 percent below that in the first quarter of last year. Exports in the first quarter were 3 percent below their year-earlier level while imports increased by 6 percent over this period.

The deal for U.S.-based Newbridge Capital to acquire a controlling interest in government-owned Korea First Bank has collapsed. The tentative agreement that Newbridge and the government reached in December broke down over valuation of Korea First's debts, which the government had agreed to cover. This would have been the first sale of a Korea bank to foreign interests, and a successful completion of the deal has been viewed as an important barometer of the government's commitment to financial reform. Korean officials indicated that they were open to other takeover bids, and still intended to sell the bank to foreign investors.

Korean Economic Indicators

Indicator	1997	1998	1998	1999			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	5.5	-5.8	5.3	n.a.	...	...	...
Industrial production[2]	5.3	-7.3	-1.5	12.2	3.9	18.4	n.a.
Consumer prices[2]	6.6	4.0	6.0	.7	.2	.5	.4
Trade balance[3]	-3.2	41.2	39.2	28.8	28.8	34.8	n.a.
Current account[3]	-8.2	40.0	34.7	27.6	27.6	31.2	n.a.

1. Percent change from previous period; SAAR estimated by staff.
2. Percent change from year earlier.
3. Billions of U.S. dollars, AR, NSA.
n.a. Not available. ... Not applicable.

Recent indicators for the **ASEAN** countries suggest that economic activity in the region has bottomed out and an anemic recovery has begun. Preliminary first quarter GDP growth was stronger than expected in Indonesia, although consumer and business confidence remains fragile in the run-up to parliamentary elections scheduled for June. Industrial production has resumed growing in

Malaysia, Singapore and Thailand, and the contraction has slowed substantially in the Philippines.

All the ASEAN countries are running trade surpluses, with balances up sharply across the region relative to last year, primarily due to a large contraction in imports. However, a positive development in recent months has been the stabilization of imports across the region and even increases in some countries.

ASEAN financial markets have surged recently as signals of an economic recovery have begun to emerge, and the region's currencies have begun to strengthen. Inflation has been declining across the region, mainly reflecting weak domestic demand.

ASEAN Economic Indicators: Growth

Indicator and country	1997	1998	1998	1999			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP[1]							
Indonesia	4.9	-13.6	-.0	20.6	...	...	...
Malaysia	7.7	-6.7	8.8	n.a.	...	...	...
Philippines	5.2	-.5	-1.6	n.a.	...	...	...
Singapore	8.0	1.5	-.6	n.a.	...	...	...
Thailand	-1.8	n.a.	n.a.	n.a.	...	...	...
Industrial production[2]							
Indonesia	13.2	-12.9	-19.5	n.a.	...	...	...
Malaysia	10.7	-7.2	-10.9	-3.4	-11.2	3.9	-.4
Philippines	5.1	-11.6	-18.7	n.a.	-4.3	-8.3	n.a.
Singapore	4.7	-.4	-2.5	6.1	9.3	2.7	6.2
Thailand	-.5	-10.0	-3.6	2.7	-.1	2.4	5.8

1. Percent change from previous period; SAAR estimated by staff.
2. Percent change from year earlier.
n.a. Not available. ... Not applicable.

ASEAN Economic Indicators: Trade Balance
(Billions of U.S. dollars; annual rate; not seasonally adjusted)

Country	1997	1998	1998 Q4	1999 Q1	1999 Jan.	1999 Feb.	1999 Mar.
Indonesia	11.9	21.4	17.6	n.a.	14.3	16.5	n.a.
Malaysia	-.2	15.0	20.8	16.6	13.6	15.6	20.5
Philippines	-10.5	-.2	3.2	n.a.	2.2	3.8	n.a.
Singapore[1]	-5.8	8.3	8.9	3.9	.8	3.5	7.4
Thailand	-4.6	12.2	13.4	10.9	9.4	11.5	11.8

1. Non-oil trade balance.
n.a. Not available. ... Not applicable.

ASEAN Economic Indicators: CPI Inflation
(Percent change from year earlier)

Country	1997	1998	1998 Q4	1999 Q1	1999 Jan.	1999 Feb.	1999 Mar.	1999 Apr.
Indonesia	10.3	77.6	78.4	56.0	71.1	53.7	45.4	38.2
Malaysia	2.9	5.3	5.4	4.0	5.2	3.8	3.0	n.a.
Philippines	6.6	10.4	10.6	10.1	11.5	9.9	8.7	8.0
Singapore	2.1	-1.5	-1.6	-.6	-.5	-.6	-.6	n.a.
Thailand	7.6	4.3	5.0	2.7	3.5	2.9	1.6	.4

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

Several Thai banks met with unexpected success in raising private capital in the first quarter. This success prompted Moody's rating service to upgrade its ratings outlook for Thai banks to stable from negative and the Thai foreign currency ceiling outlook to positive from stable. Moody's also upgraded the foreign currency outlook for Malaysia to stable from negative. Meanwhile, Indonesia and the foreign bank creditors steering committee reached agreement on an exchange offer for interbank debt due by year-end 2001. However, less progress has been made in corporate restructuring throughout the region.

Hong Kong's unemployment rate was 6.2 percent during the first quarter, up from 5.7 percent in the fourth quarter of 1999. Consumer prices continue to fall. The merchandise trade deficit widened sharply in March reflecting seasonal factors. Foreign exchange reserves have risen by about $2 billion from their September low to $90 billion. Spreads between one-year Hong Kong government debt and U.S. Treasuries fell to around 80 basis points in early May, their lowest level since August 1997.

Hong Kong Economic Indicators

Indicator	1997	1998	1998	1999			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP[1]	5.3	-5.1	-1.2	n.a.	...	...	...
Consumer prices[2]	5.2	-1.6	-1.6	-2.6	-1.1	-1.7	-2.6
Trade balance[3]	-20.6	-10.6	-4.4	-6.7	-1.0	-1.7	-17.4

1. Percent change from previous period; SAAR estimated by staff.
2. Percent change from year earlier.
3. Billions of U.S. dollars, AR, NSA. Imports are c.i.f.
n.a. Not available. ... Not applicable.

In **China**, GDP rose 8.3 percent in the first quarter from the year-earlier period, reflecting high public investment in the second half of 1998 and early 1999, but we estimate that seasonally adjusted GDP growth slowed sharply in the first quarter. This slowdown almost surely reflects temporary factors that artificially boosted the level of measured output in the fourth quarter, and thus probably overstates the weakening of the economy. Moderate deflation continues, reflecting weak private demand as well as falling import prices. Foreign direct investment fell 14 percent from its year-earlier level. The trade surplus continued to narrow in the first four months of the year, reflecting weakening exports and a surge in imports. The dollar value of exports fell 8 percent from its year-earlier level, while the value of imports rose 14 percent. The strength in imports appears to reflect an anti-smuggling campaign begun in the second half of last year. As a result of this campaign, some smuggled imports that were previously unrecorded in the customs statistics (and thus increased China's sizeable errors and omissions in the balance of payments) are now passing through official import channels.

Chinese Economic Indicators
(Percent change from year earlier except as noted)

Indicator	1997	1998	1998 Q4	1999 Q1	1999 Feb.	1999 Mar.	1999 Apr.
Real GDP[1]	8.8	7.8	13.8	2.2	...	...	...
Industrial production	13.1	10.4	13.7	12.1	3.1	11.6	n.a.
Consumer prices	.4	-1.0	-1.1	-1.4	-1.3	-1.7	-1.6
Trade balance[2]	40.7	43.3	32.7	17.2	27.4	6.0	11.5

1. Percentage change from previous period; SAAR estimated by staff.
2. Billions of U.S. dollars, AR, NSA, imports are c.i.f.
n.a. Not available. ... Not applicable.

In **Taiwan**, unemployment was 2.8 percent in March, roughly unchanged from the beginning of the year. Prices in March were slightly lower than their year-earlier level. This deflation appears to reflect falling import prices as well as slowing demand growth. Taiwan's trade surplus rose in the first four months of 1999, with the value of exports rising 4 percent from a year-earlier and the value of imports falling 7 percent. Foreign exchange reserves rose to $95 billion in April, up about $4 billion from December and the highest level since July 1997. Taiwan's stock market has risen about 30 percent since its recent low in February. Earlier in the year, the government's stock stabilization fund intervened heavily, but recent stock market increases do not appear to reflect intervention.

Taiwan Economic Indicators

Indicator	1997	1998	1998 Q4	1999 Q1	1999 Feb	1999 Mar.	1999 Apr.
Real GDP[1]	6.8	4.8	2.9	n.a.	...	...	...
Industrial production[2]	6.8	3.8	1.6	5.3	-7.0	7.9	n.a.
Consumer prices[2]	.2	2.1	2.9	-.5	2.1	-.5	-.1
Trade balance[3]	7.7	6.0	5.0	10.8	12.8	13.1	11.7
Current account[3]	7.7	3.4	2.1	n.a.	...	...	...

1. Percent change from previous period; SAAR estimated by staff.
2. Percent change from year earlier.
3. Billions of U.S. dollars, AR, NSA, imports are c.i.f.
n.a. Not available. ... Not applicable.

The **Russian** economy continues to deteriorate, but the news is not uniformly bad. The cheaper ruble (down about 75 percent in nominal terms since the crisis struck last August and down 15 percent so far this year) and strong import substitution have cushioned the impact of the crisis on producers, allowing industrial output to post positive twelve-month growth of 1.4 percent in March. Inflation soared to over 113 percent in April (twelve-month basis), but monthly inflation has declined from a recent high of 11.6 percent in December to 3 percent in April.

On April 28, an agreement was reached on a new IMF program that offers \$4.5 billion over 18 months, with \$3 billion available in the first twelve months. Russia is required to repay to the IMF in 1999 more than four billion dollars owed from previous programs. Compliance with the agreement, which specifies a primary budget surplus of 2 percent of GDP in 1999, hinges on the ability of the government to pass key legislation on tax reform and bank restructuring through the communist-dominated lower house of parliament. The agreement also opens the door to a further \$2 billion from the World Bank and \$1 billion from Japan, and gives the green light to talks with London and Paris Club creditors on restructuring Russia's large Soviet-era debts.

The agreement with the IMF is threatened, however, by President Yeltsin's May 12 decision to dismiss Yevgeny Primakov from the post of Prime Minister. Likely Duma hostility towards a new Prime Minister could undermine the new government's ability to deliver on key reforms needed to secure multilateral funding to service external debts. Both the IMF and the World Bank have said that their agreements were with the old Primakov government and that they will wait to see how the new government shapes up before pronouncing on the fate of their recently agreed programs.

The eight-month standoff between the government and foreign investors over restructuring short-term domestic ruble debt (GKO/OFZ debt) ended in April with 88.5 percent of foreigners conceding to accept the "confiscatory" terms offered by the government. About half of the foreigners held out until the last moment before relenting in the face of still harsher terms to be imposed on unyielding investors.

Russian Economic Indicators

Indicator	1997	1998	1998	1999			
			Q4	Q1	Feb.	Mar.	Apr.
Real GDP[1]	.8	-4.6	-.9	13.8	...	...	...
Industrial production[2]	1.8	-5.2	-8.9	-2.2	-3.7	1.4	n.a.
Unemployment rate[3]	10.8	11.5	11.7	12.4	12.4	12.4	n.a.
Consumer prices[2]	11.0	84.4	70.0	102.7	103.4	107.7	113.1
Ruble depreciation[2]	17.0	71.3	71.3	74.3	73.6	75.6	75.1
Trade balance[4]	17.4	17.3	40.0	n.a.	23.7	n.a.	n.a.
Current account[4]	4.0	2.4	26.5	n.a.	...	...	...

1. Percent change from previous period, AR.
2. Percent change from year earlier.
3. Percent.
4. Billions of U.S. dollars, AR, NSA.

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