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Part 2

December 15, 1999

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

December 15, 1999

Recent Developments

Domestic Nonfinancial Developments

Domestic Nonfinancial Developments

Overview

The economic expansion appears to have lost little, if any, of its considerable vigor. Payrolls continue to rise rapidly, and manufacturers registered a substantial gain in production last month. Consumer demand has remained robust, with spirits elevated in part by further gains in stock market wealth. Although business fixed investment is unlikely to match the third quarter's sharp advance, the underlying uptrend in capital spending is still well intact. At the same time, consumer price increases were modest in the past couple of months, with a temporary respite from the outsized energy price hikes of the spring and summer.

Labor Market Developments

The demand for workers remained strong in November. Payroll gains were well maintained, despite continuing anecdotal reports of labor shortages, and the unemployment rate held at the lowest level in almost thirty years.

Private nonfarm payrolls expanded 203,000 in November, having gained 239,000 and 95,000 in October and September, respectively. The average increase for the three months of 180,000 was close to the 190,000 pace of the first eight months of the year. The services industry drove much of the private job growth in November, posting an increase of 120,000--right in line with its average pace this year. Within services, employment at computer services and data processing firms has tailed off noticeably in recent months, reportedly reflecting some drop-off in Y2K-related work.

Payrolls of retail trade establishments were essentially unchanged on a seasonally adjusted basis in November. Labor "shortages" may be constraining hiring in this sector. Despite widespread expectations of strong holiday sales, employment in three seasonally sensitive categories--general merchandise stores, apparel and accessory stores, and miscellaneous retail establishments--posted somewhat smaller gains in October and November than the normal seasonal increase. The Beige Book reported that firms in a number of Districts were having difficulty hiring temporary holiday workers.

In the goods-producing sector, construction employment rose 55,000 in November, after October's gain of 20,000. Typically, construction firms begin laying off workers in November as weather conditions deteriorate. This year, however, shortages of workers in the skilled trades during the busy summer months left firms with a backlog of projects, and last month's warmer-than-usual weather may have allowed some building to continue that would otherwise have been curtailed. In manufacturing, the pace of job loss has slowed considerably in recent months, averaging 9,000 per month since September compared with an average monthly decline of 29,000 over the first eight months of the year.

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

| | 1998 | 1999 | | | 1999 | | |
|-------------------------------------------------------------------------------|---------------------------------|------|------|------|-------|------|------|
| | | Q1 | Q2 | Q3 | Sept. | Oct. | Nov. |
| | -Average monthly change- | | | | | | |
| Nonfarm payroll employment ¹ | 244 | 209 | 210 | 202 | 103 | 263 | 234 |
| Private | 217 | 171 | 204 | 164 | 95 | 239 | 203 |
| Mining | -3 | -7 | -8 | 0 | 3 | 1 | 0 |
| Manufacturing | -19 | -36 | -36 | -10 | -12 | -14 | -2 |
| Construction | 30 | 20 | 9 | 12 | 47 | 20 | 55 |
| Transportation and utilities | 18 | 16 | 16 | 17 | 18 | 9 | 15 |
| Retail trade | 32 | 29 | 62 | 22 | -26 | 12 | 1 |
| Wholesale trade | 14 | 15 | 15 | 16 | 10 | 25 | 6 |
| Finance, insurance, real estate | 26 | 18 | 14 | 6 | 3 | 14 | 8 |
| Services | 119 | 116 | 132 | 102 | 52 | 172 | 120 |
| Total government | 27 | 38 | 6 | 38 | 8 | 24 | 31 |
| Total employment ² | 157 | 169 | 133 | 39 | 139 | 346 | 189 |
| Nonagricultural | 171 | 149 | 109 | 112 | 221 | 280 | 88 |
| Memo: | | | | | | | |
| Aggregate hours of private production workers (percent change) ^{1,3} | 2.1 | 2.0 | 1.0 | 2.7 | -0.1 | 0.4 | 0.3 |
| Average workweek (hours) ¹ | 34.6 | 34.6 | 34.4 | 34.5 | 34.4 | 34.5 | 34.6 |
| Manufacturing (hours) | 41.8 | 41.6 | 41.7 | 41.8 | 41.8 | 41.8 | 41.7 |

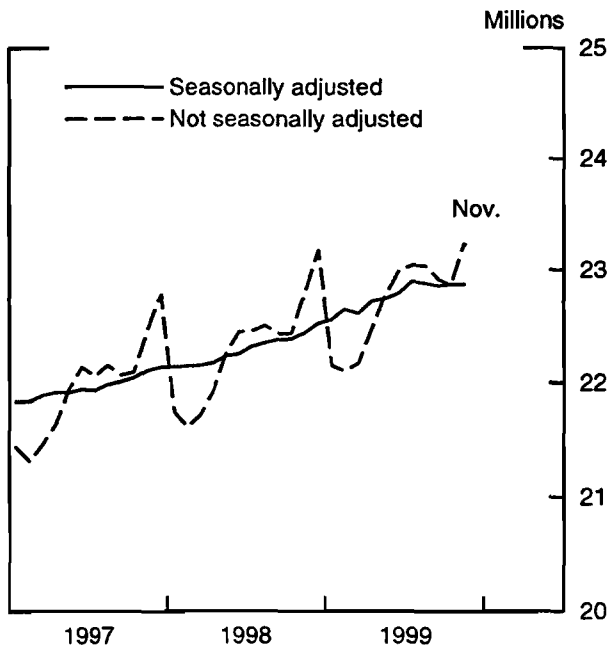
Note. Average change from final month of preceding period to final month of period indicated.

1. Survey of establishments.

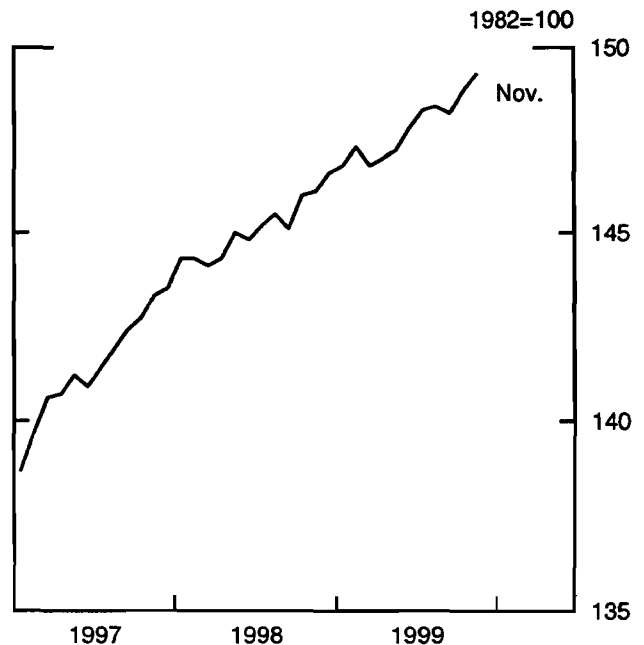
2. Survey of households.

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.

Retail Trade Employment



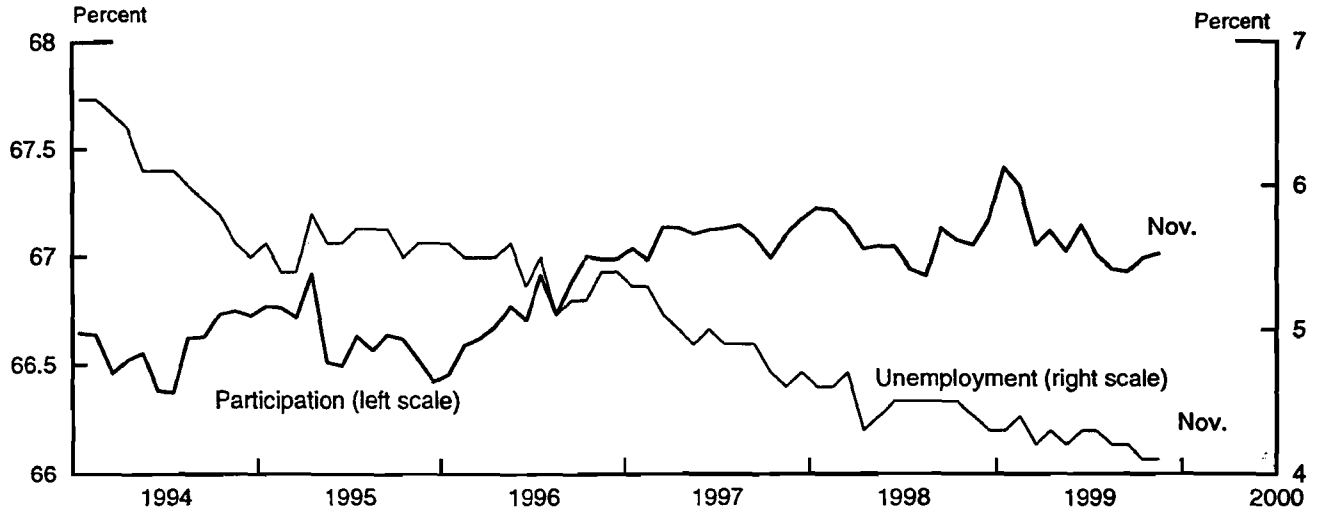
Aggregate Hours of Production or Nonsupervisory Workers



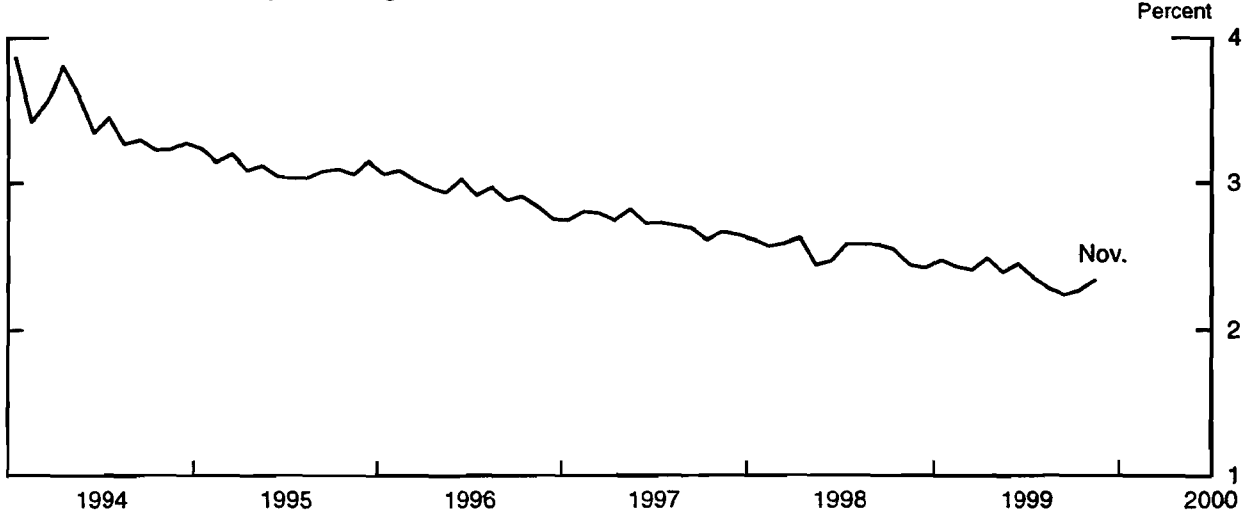
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
 (Percent; based on seasonally adjusted data, as published)

| | 1997 | 1998 | 1999 | | | 1999 | | |
|-----------------------------------------------------------|------|------|------|------|------|-------|------|------|
| | | | Q1 | Q2 | Q3 | Sept. | Oct. | Nov. |
| Civilian unemployment rate (16 years and older) | 4.9 | 4.5 | 4.3 | 4.3 | 4.2 | 4.2 | 4.1 | 4.1 |
| Teenagers | 16.0 | 14.6 | 14.6 | 13.4 | 13.7 | 15.0 | 13.9 | 14.1 |
| 20-24 years old | 8.5 | 7.9 | 7.3 | 7.6 | 7.4 | 7.2 | 7.8 | 7.6 |
| Men, 25 years and older | 3.6 | 3.2 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 2.8 |
| Women, 25 years and older | 3.9 | 3.6 | 3.4 | 3.5 | 3.4 | 3.2 | 3.0 | 3.1 |
| Labor force participation rate | 67.1 | 67.1 | 67.3 | 67.1 | 67.0 | 66.9 | 67.0 | 67.0 |
| Teenagers | 51.6 | 52.8 | 52.6 | 51.7 | 51.3 | 51.4 | 52.4 | 52.2 |
| 20-24 years old | 77.6 | 77.5 | 77.7 | 77.2 | 77.7 | 78.0 | 77.9 | 77.5 |
| Men, 25 years and older | 76.3 | 76.2 | 76.4 | 76.1 | 76.0 | 76.0 | 75.7 | 75.8 |
| Women, 25 years and older | 59.3 | 59.2 | 59.6 | 59.6 | 59.4 | 59.3 | 59.4 | 59.5 |

Labor Force Participation Rate and Unemployment Rate



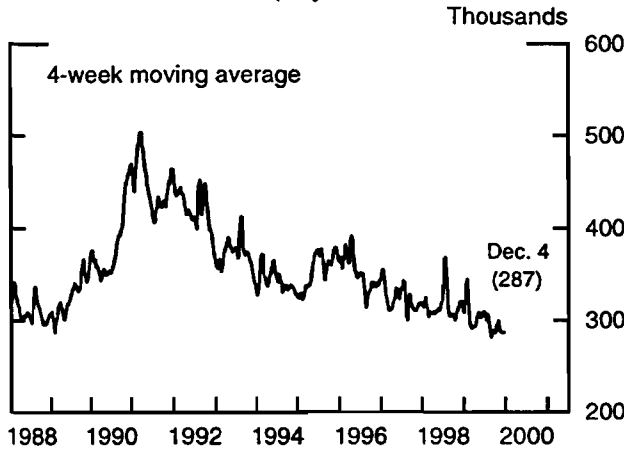
Share of the Population Aged 16 to 64 Who Want a Job and Are Not in the Labor Force



Note. Seasonally adjusted by Board staff.

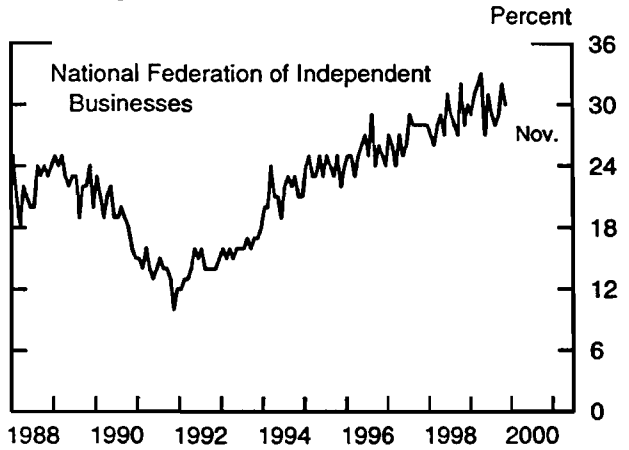
Labor Market Indicators

Initial Claims for Unemployment Insurance

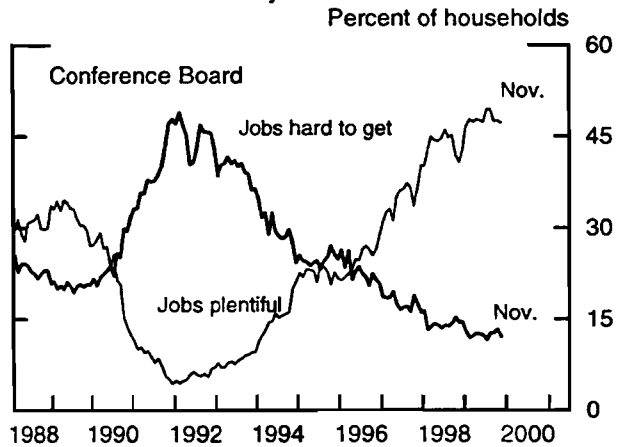


Note. State programs; includes EUC adjustment.

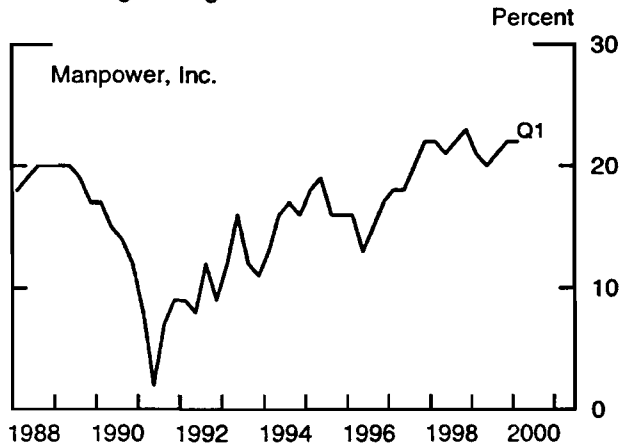
Reporting Positions Hard to Fill



Current Job Availability

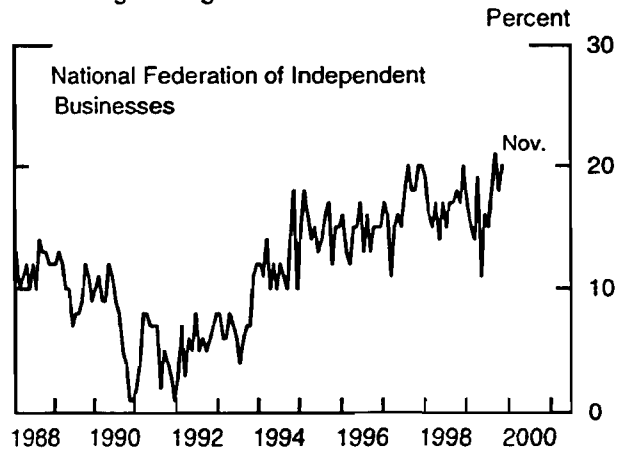


Net Hiring Strength



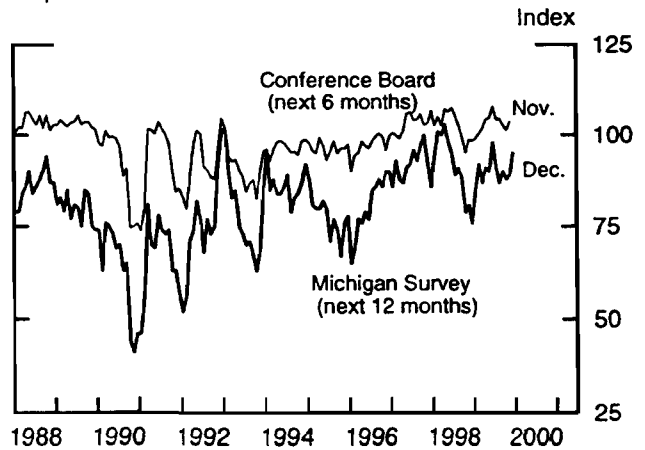
Note. Percent planning an increase in employment minus percent planning a reduction.

Net Hiring Strength



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

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.

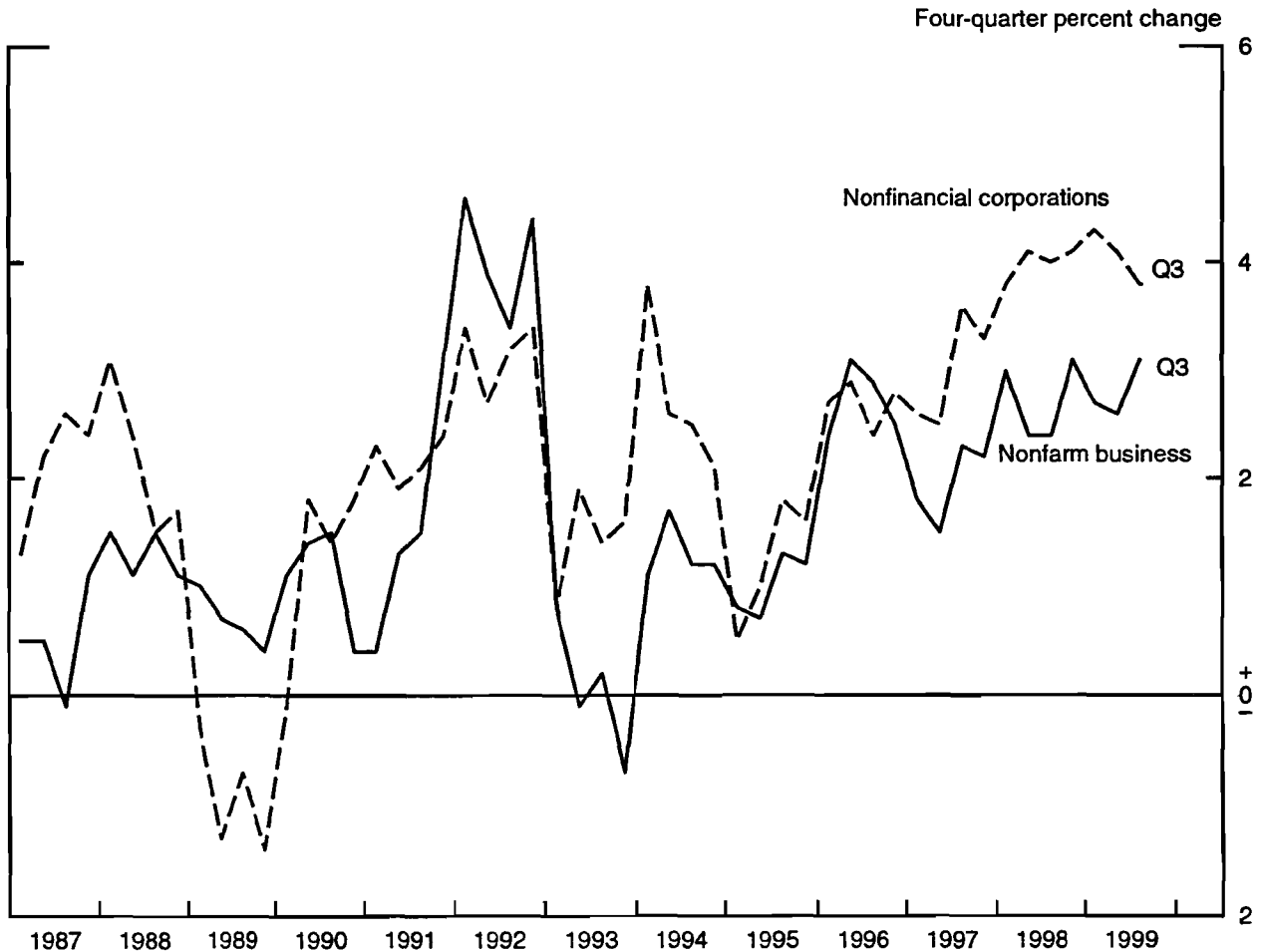
LABOR PRODUCTIVITY
 (Percent change from preceding period at compound annual rate;
 based on seasonally adjusted data)

| | 1997 ¹ | 1998 ¹ | 1998 | 1999 | | |
|----------------------------------------|-------------------|-------------------|------|------|-----|-----|
| | | | Q4 | Q1 | Q2 | Q3 |
| Output per hour | | | | | | |
| Total business | 2.4 | 3.2 | 4.3 | 3.0 | 0.8 | 4.7 |
| Nonfarm business | 2.2 | 3.1 | 4.1 | 2.7 | 0.6 | 4.9 |
| Previous | | | | | | 4.2 |
| Manufacturing | 5.5 | 5.0 | 6.1 | 7.3 | 5.5 | 3.9 |
| Nonfinancial corporations ² | 3.3 | 4.1 | 3.2 | 4.1 | 3.2 | 4.7 |

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.

Labor Productivity



GROWTH IN SELECTED COMPONENTS OF INDUSTRIAL PRODUCTION
(Percent change from preceding comparable period)

| | Proportion 1998 | 1999 | | | 1999 | | |
|-----------------------------------------------------|--------------------|----------------------|-------|-------|-------------------|------|------|
| | | Q1 | Q2 | Q3 | Sept. | Oct. | Nov. |
| | | ----Annual rate----- | | | --Monthly rate--- | | |
| Total index | 100.0 | 2.0 | 4.7 | 4.7 | .2 | .8 | .3 |
| Previous | | 1.3 | 3.8 | 3.7 | -.1 | .7 | |
| Manufacturing | 88.3 | 2.5 | 4.9 | 4.7 | .3 | .8 | .5 |
| Durables | 49.8 | 3.1 | 9.3 | 8.6 | .3 | .7 | .6 |
| Motor vehicles and parts | 5.2 | -3.4 | 8.9 | 7.4 | 2.2 | -.4 | 1.1 |
| Aircraft and parts | 2.9 | -16.1 | -13.8 | -12.7 | -3.0 | -3.1 | -2.6 |
| Nondurables | 38.5 | 1.8 | -.8 | -.4 | .2 | .9 | .3 |
| Manufacturing excluding motor vehicles and parts | 83.1 | 2.9 | 4.6 | 4.5 | .1 | .8 | .4 |
| Mining | 5.5 | -10.5 | -2.2 | 4.9 | -.1 | .8 | .7 |
| Utilities | 6.2 | 5.9 | 7.0 | 5.6 | -.8 | 1.9 | -2.3 |
| IP by market group | | | | | | | |
| Consumer goods | 27.7 | 4.0 | .0 | 1.3 | -.6 | 1.6 | .1 |
| Durables | 5.9 | 11.8 | 8.1 | 3.2 | -1.3 | 1.9 | -.3 |
| Nondurables | 21.7 | 1.9 | -2.2 | .8 | -.4 | 1.5 | .2 |
| Business equipment | 15.6 | -1.6 | 10.0 | 6.9 | -.1 | .6 | .3 |
| Information processing | 6.4 | 10.3 | 34.9 | 27.2 | .4 | 2.0 | 1.0 |
| Computer and office eq. | 2.5 | 59.1 | 59.0 | 47.0 | 3.9 | 3.4 | 2.2 |
| Industrial | 4.7 | -8.0 | -3.0 | -2.0 | .2 | 1.1 | -.7 |
| Transit | 3.1 | -15.8 | -6.8 | -6.4 | -2.7 | -2.9 | -.6 |
| Other | 1.5 | 1.4 | -14.1 | -24.1 | 2.5 | -.8 | 2.2 |
| Construction supplies | 6.0 | 5.5 | -.7 | 3.5 | .8 | .8 | .7 |
| Materials | 38.8 | 2.8 | 7.8 | 8.7 | .7 | .5 | .6 |
| Durables | 23.8 | 4.3 | 10.7 | 12.7 | 1.2 | .2 | 1.2 |
| Semiconductors | 4.0 | 15.6 | 61.2 | 52.5 | 1.3 | 2.2 | 2.3 |
| Basic metals | 3.5 | -1.3 | 8.0 | 7.7 | -1.1 | .8 | 2.6 |
| Nondurables | 8.0 | 1.8 | 5.4 | 3.4 | .3 | .9 | .1 |

1. From the final quarter of the previous period to the final quarter of the period indicated.

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

| | 1988-89 | 1959-98 | 1999 | | 1999 | | |
|---------------------|---------|---------|------|------|-------|------|------|
| | High | Avg. | Q2 | Q3 | Sept. | Oct. | Nov. |
| Manufacturing | 85.7 | 81.7 | 79.6 | 79.7 | 79.7 | 80.0 | 80.1 |
| Primary processing | 88.9 | 82.8 | 82.7 | 82.8 | 82.8 | 83.0 | 83.3 |
| Advanced processing | 84.2 | 81.1 | 78.6 | 78.7 | 78.7 | 79.1 | 79.1 |

Aggregate weekly hours of production or nonsupervisory workers on nonfarm payrolls rose 0.3 percent in November, reflecting the gains in employment and an implied increase in the workweek to 34.6 hours. We are anticipating that the aggregate hours index will rise more than 2-1/2 percent at an annual rate this quarter, but total hours in the nonfarm business sector may increase less, reflecting a slip in "non-employee" hours so far this quarter.

The unemployment rate stayed at 4.1 percent last month, and the labor force participation rate held at 67.0 percent. The participation rate has generally been drifting sideways since the fall of 1996--mostly fluctuating between 66.8 percent and 67.2 percent during this period. The share of the population aged 16 to 64 who report that they want a job but who are not in the labor force moved up in November but remained below the third-quarter average. Over the past several years, this series has been moving down with the unemployment rate, and last month's uptick did not really disturb the trend.

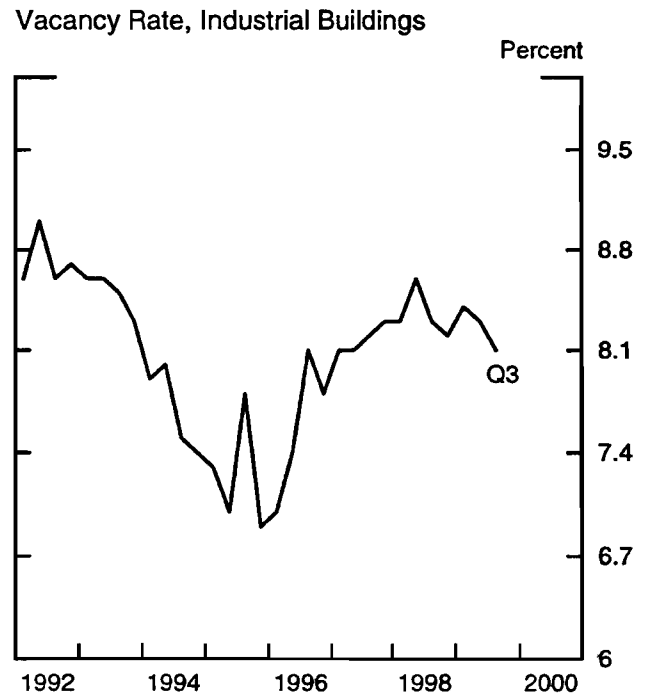
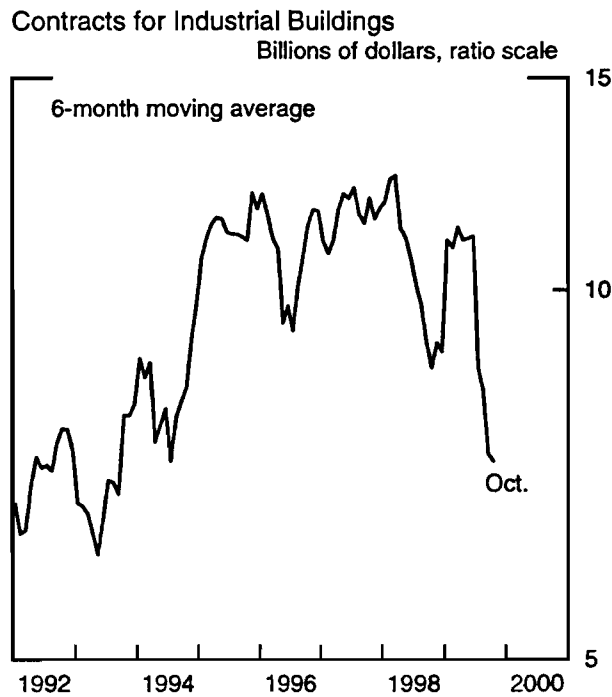
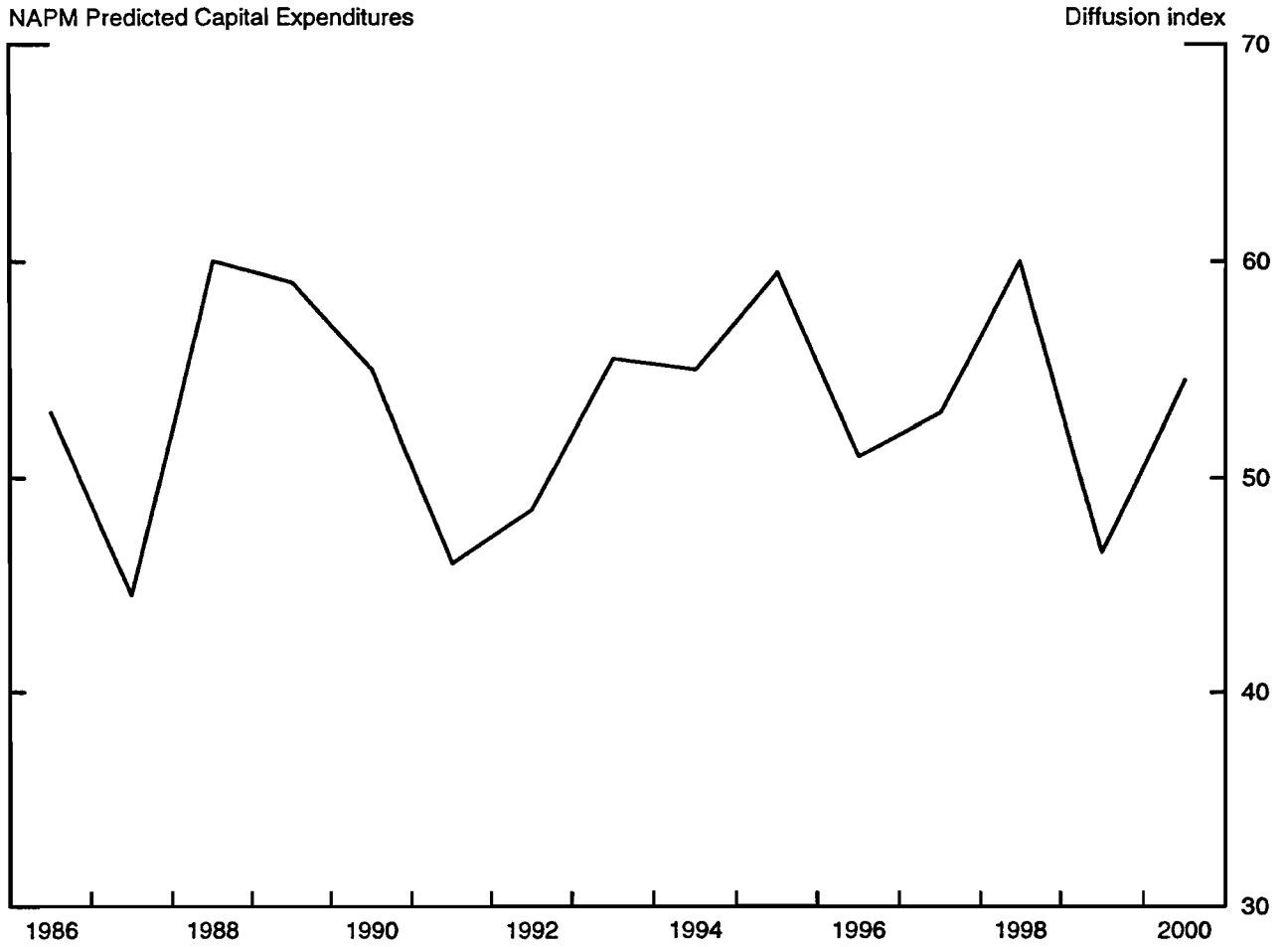
Other indicators confirm the strength of labor demand. The four-week moving average of initial claims for unemployment insurance has held below 300,000 since late July. According to the National Federation of Independent Businesses, firms are still reporting hiring difficulties, while the most recent readings from the Manpower, Inc., and NFIB surveys of hiring plans remained quite positive. The forward-looking reading on expected labor market conditions from the Michigan Survey Research Center improved considerably in the preliminary December data, underscoring households' expectations of continued strength in employment.

According to the most recent release from the BLS, productivity in the nonfarm business sector is estimated to have increased at an annual rate of 4.9 percent in the third quarter. Over the past year, productivity advanced 3.1 percent, compared with a 2.4 percent gain in the previous four quarters. The acceleration in productivity in recent years--during a period when output stopped accelerating--underpins our view that the recent pickup in productivity growth reflects in large measure an acceleration in structural productivity.

Industrial Production

Industrial production increased 0.3 percent in November, with manufacturing output rising substantially for a second month while the output of utilities fell because of unseasonably warm weather. The moderate rise follows a sharp 0.8 percent increase in production in October, which partly reflected a bounceback from the effects of Hurricane Floyd. The factory operating rate rose to 80 percent in October and edged up a tad further in November; still, manufacturing capacity utilization is 1-1/2 percentage points below its long-term average.

Indicators of Manufacturing Investment



Motor vehicle assemblies reached 13.4 million units in November (annual rate), well above the average for this year. Assembly plans for the first quarter indicate that manufacturers intend to maintain a high level of production, undoubtedly encouraged by the record pace of sales so far this year. However, GM has indicated that it will trim production plans in the first quarter by about 200,000 units (annual rate) to correct excessive inventories of some models. Elsewhere in the transportation sector, the production of aircraft and parts dropped again in November. In addition to ongoing plans to downshift production, Boeing has recently experienced production interruptions, including delays in the shipment of 34 planes that had been equipped with faulty drip shields, a series of additional quality-control problems, and the unscheduled implementation of a three-month FAA inspection.

Production of Domestic Autos and Trucks

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

| Item | 1999 | | 2000 | 1999 | | |
|---------------------------|------|-----------------|-----------------|------|------|-------------------|
| | Q3 | Q4 ¹ | Q1 ¹ | Oct. | Nov. | Dec. ¹ |
| U.S. production | 13.1 | 13.3 | 13.4 | 13.2 | 13.4 | 13.3 |
| Autos | 5.7 | 5.8 | 5.8 | 5.7 | 5.9 | 5.8 |
| Trucks | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 |
| Days' supply | | | | | | |
| Autos | 54.5 | n.a. | n.a. | 53.8 | 52.3 | n.a. |
| Light trucks ² | 65.5 | n.a. | n.a. | 73.5 | 72.7 | n.a. |

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

1. Production rates reflect actual October and November data and manufacturers' schedules for December.
 2. Excludes medium and heavy (class 3-8) trucks.
- n.a. Not available.

Computer production rose strongly in November, albeit not as rapidly as in recent months. Detailed data for the third quarter show that the production of personal computers and small-scale servers soared, but that the output of mainframes plummeted at an annual rate of about 40 percent. That sharp drop is consistent with reports that mainframe users have "locked down" systems prior to the turn of the year. The production of communications equipment, while still expanding, appears to have settled at a somewhat slower rate of increase than that recorded over the first half of the year, whereas the rise in semiconductor production in November about matched October's robust gains.

The output of construction supplies posted a third sizable monthly increase in November. The production of consumer durables edged off a bit, but output of consumer nondurables showed a slight gain; the large increases that occurred in

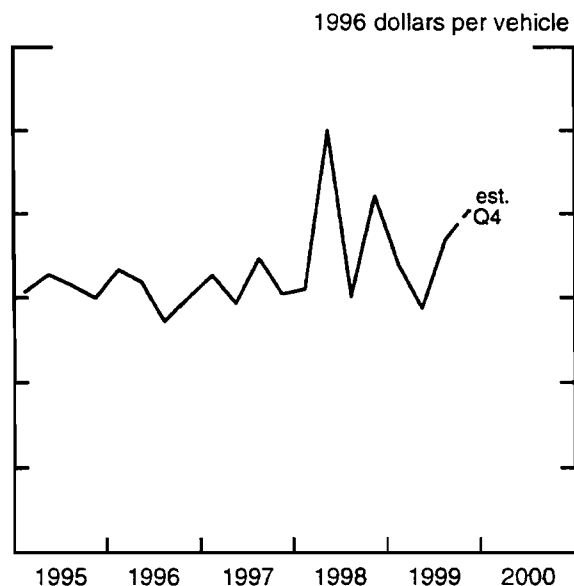
SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

| | 1997 | 1998 | 1999 | | | 1999 | | |
|-----------------------------------|------|------|------|------|------|-------|------|------|
| | | | Q1 | Q2 | Q3 | Sept. | Oct. | Nov. |
| Total¹ | 15.0 | 15.5 | 16.3 | 16.7 | 17.2 | 17.1 | 16.2 | 17.2 |
| Autos | 8.2 | 8.2 | 8.4 | 8.8 | 8.8 | 8.5 | 8.5 | 9.1 |
| Light trucks | 6.8 | 7.3 | 7.8 | 8.0 | 8.3 | 8.6 | 7.7 | 8.1 |
| North American² | 13.1 | 13.4 | 14.0 | 14.3 | 14.7 | 14.6 | 13.5 | 14.3 |
| Autos | 6.9 | 6.8 | 6.9 | 7.1 | 7.1 | 6.8 | 6.5 | 7.1 |
| Big Three | 4.9 | 4.7 | 4.9 | 5.0 | 4.8 | 4.6 | 4.4 | 4.8 |
| Transplants | 2.0 | 2.1 | 2.0 | 2.0 | 2.3 | 2.2 | 2.1 | 2.3 |
| Light trucks | 6.2 | 6.7 | 7.1 | 7.2 | 7.6 | 7.8 | 6.9 | 7.2 |
| Foreign Produced | 1.9 | 2.0 | 2.3 | 2.4 | 2.5 | 2.5 | 2.7 | 2.9 |
| Autos | 1.4 | 1.4 | 1.5 | 1.7 | 1.7 | 1.7 | 2.0 | 2.0 |
| Light trucks | .6 | .7 | .7 | .7 | .7 | .7 | .8 | .9 |
| Memo: | | | | | | | | |
| Total, as reported | 15.1 | 15.4 | 16.3 | 16.7 | 17.2 | 17.1 | 16.5 | 16.9 |

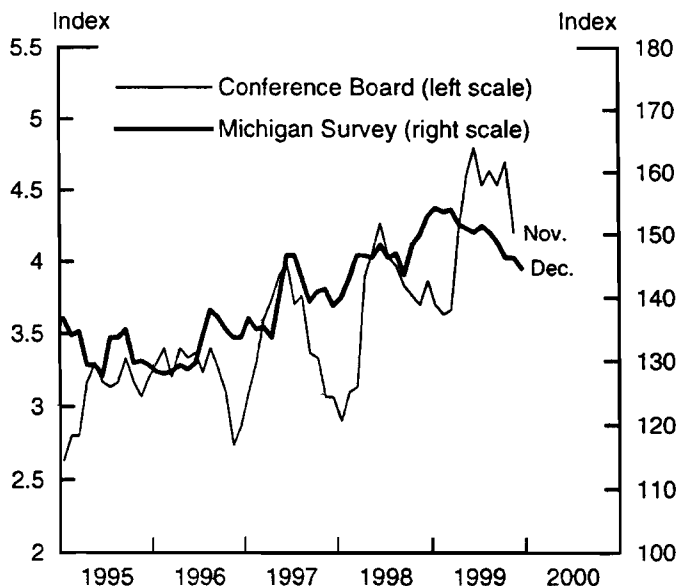
Note. Components may not add to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

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.

New Car and Light Truck Incentives



Buying Attitudes for New Vehicles
(3-month moving average)



Note: Data deflated by total CPI.

October in these sectors partly reflected recovery from the storm-related disruptions in September. Business equipment production, outside of computers and office equipment, remained flat.

New Orders for Durable Goods

(Percent change from preceding period; seasonally adjusted)

| Component | Share, 1999:H1 | 1999 | | | | |
|----------------------------------------------------------------------------------------------|-------------------|------|-----|------|-------|------|
| | | Q2 | Q3 | Aug. | Sept. | Oct. |
| Total durable goods | 100.0 | -1.1 | 4.9 | 0.9 | -1.5 | -1.2 |
| Adjusted durable goods ¹ | 69.0 | 0.5 | 5.2 | 0.5 | -0.6 | -2.8 |
| Computers | 6.0 | 3.6 | 5.6 | -8.8 | -9.0 | 16.1 |
| Communication equipment | 4.0 | 1.8 | 9.2 | -6.0 | 22.7 | 3.2 |
| Nondefense capital goods excluding aircraft, computers, and communication equipment | 13.0 | -2.2 | 4.1 | 2.7 | 1.5 | -7.9 |
| Other | 46.0 | 0.8 | 5.0 | 1.9 | -2.2 | -4.2 |
| MEMO | | | | | | |
| Real adjusted orders ² | ... | 1.3 | 6.0 | 1.0 | -0.4 | -3.0 |

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.

The pickup in the pace of industrial production in 1999 has begun to lift the rate of capacity utilization. Looking forward, the evidence regarding future capital spending and capacity expansion by manufacturers is mixed. Some recent indicators, such as the sharp decline in contracts for industrial buildings, flat vacancy rates, and the low utilization rates themselves, would seem to indicate that there is, on average, no marked incentive to accelerate capital spending and boost the rate of growth of manufacturing capacity. In some sectors, though, strains on productive facilities have begun to emerge--for example, in the production of light trucks and some construction materials. The National Association of Purchasing Management's (NAPM) semiannual survey conducted in November reports that more manufacturers plan to increase than to decrease their capital expenditures in 2000. This diffusion index, which has been a good predictor of actual capital spending, suggests a moderate increase in

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RETAIL SALES
(Percent change; seasonally adjusted)

| | 1999 | | | 1999 | | |
|-------------------------------------|------|-----|-----|-------|------|------|
| | Q1 | Q2 | Q3 | Sept. | Oct. | Nov. |
| Total sales | 3.2 | 1.7 | 2.2 | .0 | .3 | .9 |
| Previous estimate | | | 2.1 | -.1 | -.0 | |
| Retail control ¹ | 2.7 | 1.9 | 1.6 | .7 | .8 | .3 |
| Previous estimate | | | 1.6 | .7 | .4 | |
| Total excl. automotive group | 3.0 | 1.8 | 1.4 | .6 | .8 | .4 |
| Previous estimate | | | 1.4 | .6 | .5 | |
| GAF ² | 3.6 | 1.3 | 1.3 | .7 | .1 | .6 |
| Previous estimate | | | 1.3 | .8 | -.1 | |
| Durable goods stores | 4.0 | 1.0 | 2.8 | -.9 | -.1 | 1.5 |
| Previous estimate | | | 2.7 | -1.1 | -.6 | |
| Bldg. material and supply | 6.1 | .1 | -.9 | -1.1 | .8 | .9 |
| Automotive dealers | 4.0 | 1.5 | 4.5 | -1.7 | -1.1 | 2.4 |
| Furniture and appliances | 2.3 | 1.5 | 2.2 | 1.6 | -.1 | .5 |
| Other durable goods | 3.2 | -.3 | -.3 | .9 | 3.9 | -.8 |
| Nondurable goods stores | 2.7 | 2.2 | 1.7 | .7 | .6 | .4 |
| Previous estimate | | | 1.7 | .7 | .4 | |
| Apparel | 4.4 | 2.3 | -.8 | -.7 | .0 | .8 |
| Food | 1.6 | 1.0 | 1.1 | .6 | .4 | .5 |
| General merchandise ³ | 3.8 | .8 | 1.6 | .8 | .2 | .6 |
| Gasoline stations | .3 | 6.4 | 6.5 | 2.1 | .5 | 1.1 |
| Other nondurable goods ⁴ | 3.2 | 2.9 | 1.5 | .5 | 1.1 | -.1 |
| Eating and drinking | 1.2 | 1.7 | .8 | 1.2 | 2.6 | .5 |
| Drug and proprietary | 4.3 | 2.8 | 1.2 | .6 | .8 | -.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.

3. Excludes mail-order nonstores; mail-order sales are also excluded from the GAF grouping.

4. Also includes sales at liquor stores and mail order houses.

manufacturing investment in 2000, after what we estimate to have been a small decline in 1999.¹

Real adjusted durable goods orders declined sharply in October. A good portion of this decline reflects a 25 percent drop in orders for engines and turbines. However, orders in this category are subject to erratic movements, and the lead times are so long that sharp monthly movements contain little information for near-term production prospects.

Consumer Spending

The spending data in hand, as well as reports on consumer sentiment, employment, and the further sharp upward movement in the stock market, all point to a continuation of brisk growth in consumer outlays in the fourth quarter.

Light vehicle sales rebounded to 17.2 million units in November (excluding the estimated effects of shifts in reporting periods), and confidential information from manufacturers suggests that a good part of the jump stemmed from an improvement in sales to consumers. According to informal discussions with industry contacts, sales of new vehicles stayed near November's very high level through the first ten days of December. Automakers also indicated that incentives are likely to remain near the fourth quarter's high level early next year.

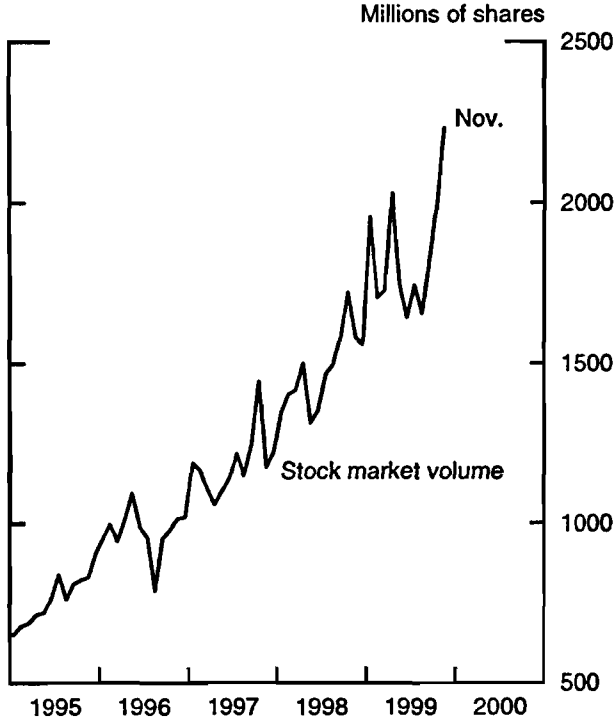
Total nominal retail sales jumped 0.9 percent in November. Nominal sales in the retail control category rose 0.3 percent in November, and the percent change for October was revised up to 0.8 percent. As a result, the average level of retail control spending in October and November was 1.8 percent above the third-quarter average, not at an annual rate. Strength was evident across most categories of stores.

Data on service expenditures in November are not yet available, but two indicators that BEA uses to construct its estimate are providing mixed signals at this point. The volume of trading on the major stock exchanges soared further in November, which points to a large increase in PCE brokerage charges and investment counseling (about 1-3/4 percent of total PCE services). In contrast, temperatures in November were much warmer than usual, suggesting a decrease in spending on energy services (about 3-1/2 percent of total PCE services) last month.

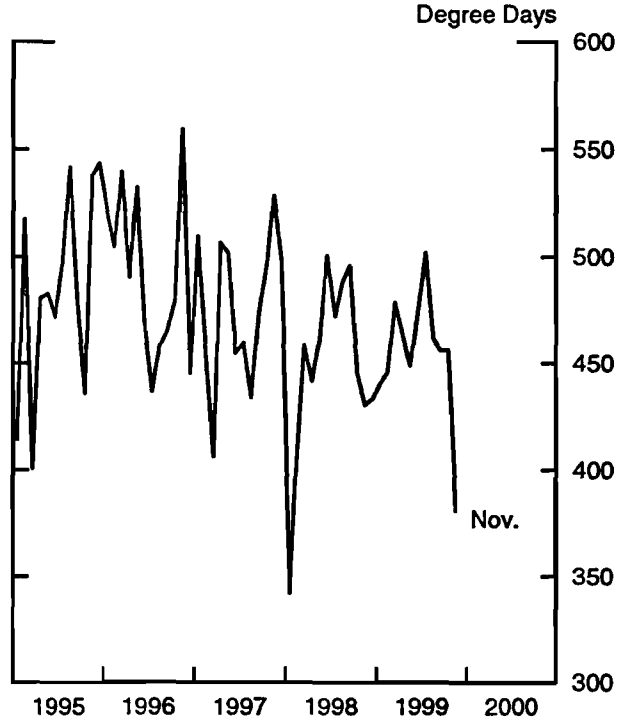
1. Although the diffusion index of predicted capital expenditures has proved to be a good indicator of actual expenditures, the NAPM readings on actual spending have not proved to be good indicators of the comprehensive Census Bureau data that are used in our capacity estimates.

Indicators of PCE Services

Indicator of Brokerage Services



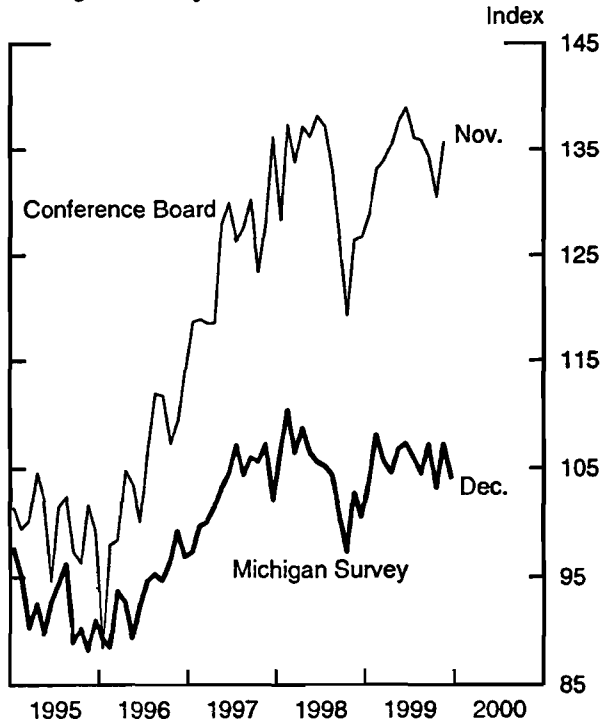
Indicator of Energy Services



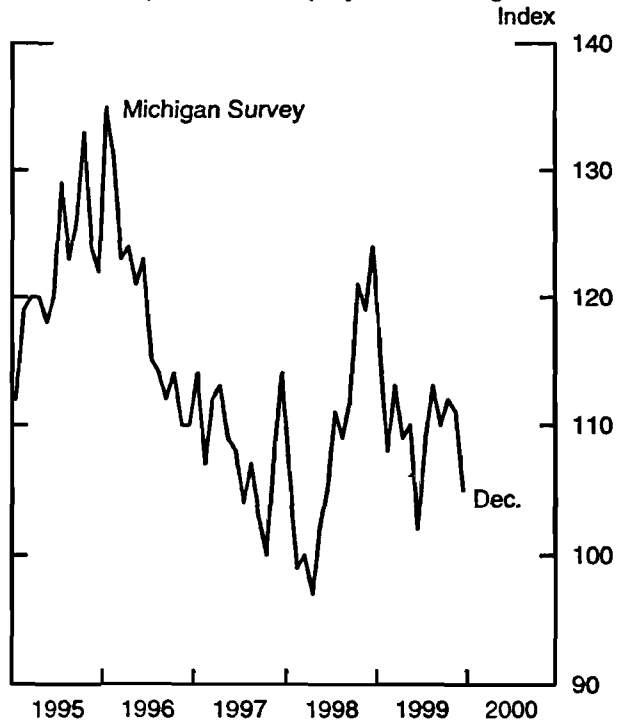
Note. Sum of seasonally adjusted heating and cooling degree days.

Consumer Sentiment

Michigan Survey Overall Index



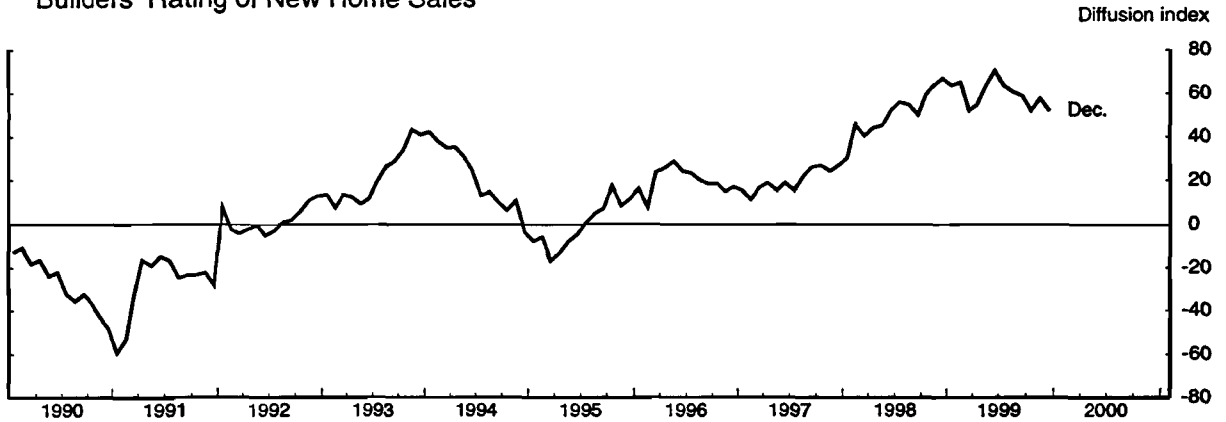
Index of Expected Unemployment Change



Note. Percentage expecting "more" minus percentage expecting "less" plus 100.

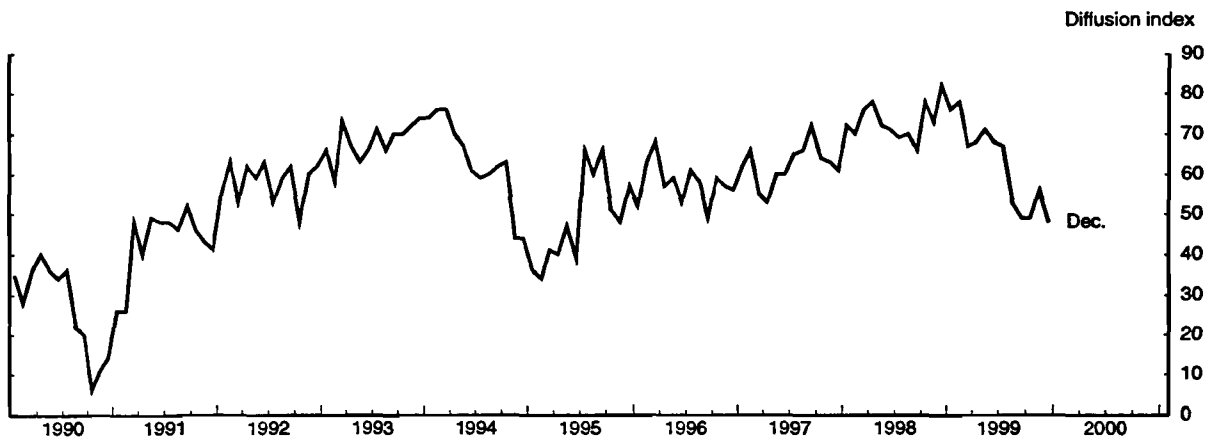
Indicators of Housing Demand

Builders' Rating of New Home Sales



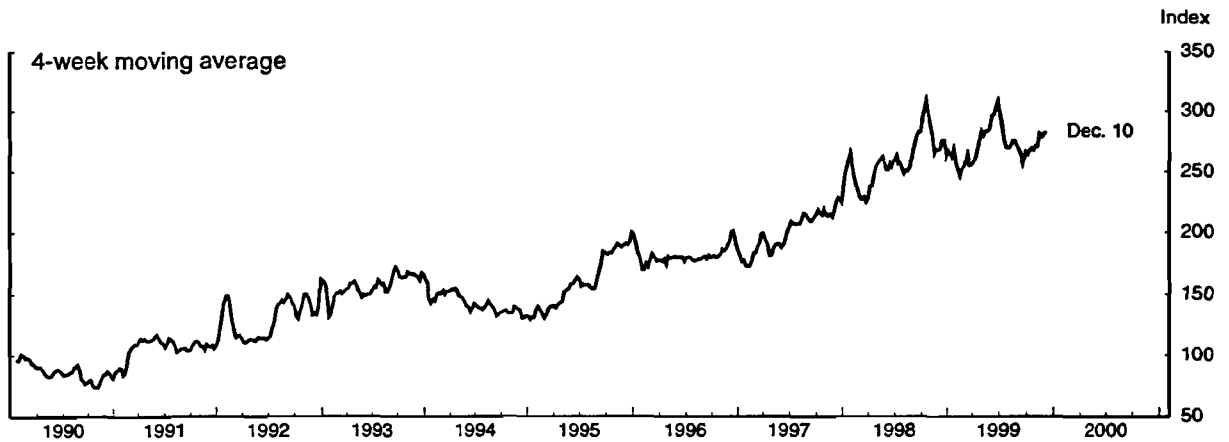
Note. Calculated from National Association of Homebuilders' data as the proportion of respondents rating current sales as good minus the proportion rating them as poor. Seasonally adjusted by Board staff.

Perceived Homebuying Conditions



Source. Michigan Survey, not seasonally adjusted.

MBA Index of Purchase Applications



Private Housing Activity

(Millions of units; seasonally adjusted annual rate)

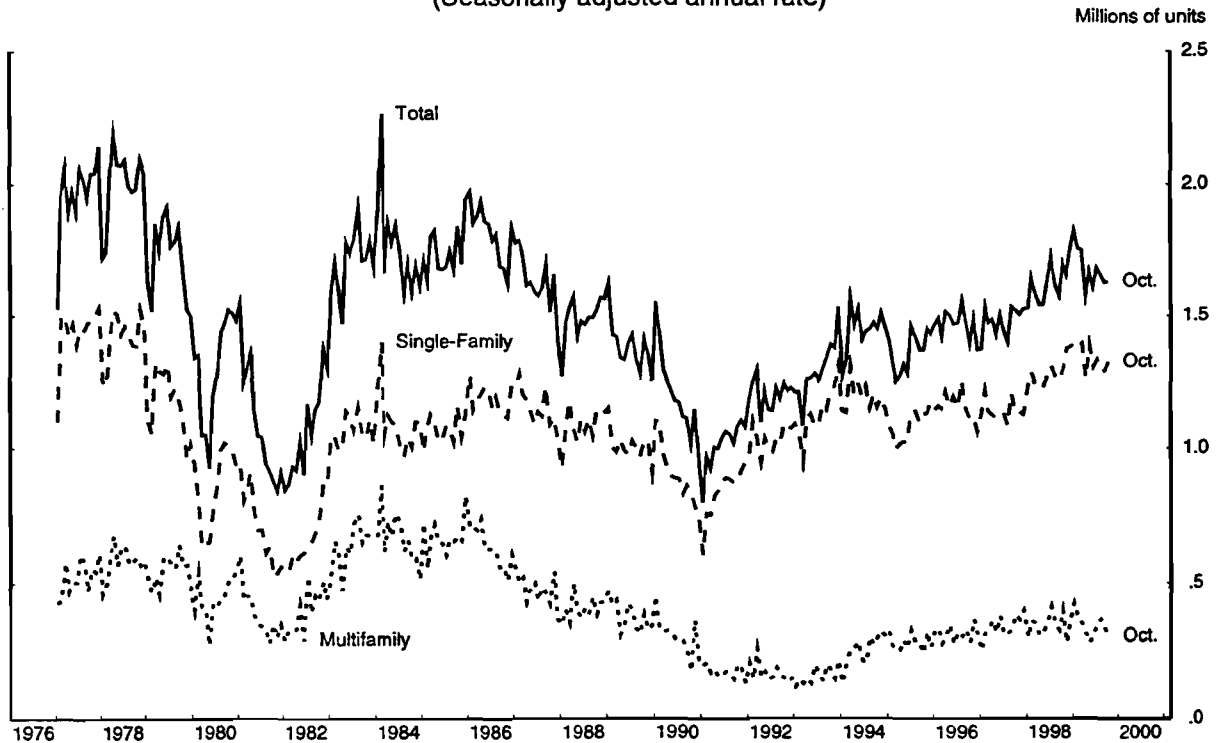
| | 1998 | 1999 | | | | | |
|-------------------------------|------|------|------|-----------------|-------------------|--------------------|-------------------|
| | | Q1 | Q2 | Q3 ^r | Aug. ^r | Sept. ^r | Oct. ^p |
| <i>All units</i> | | | | | | | |
| Starts | 1.62 | 1.77 | 1.62 | 1.65 | 1.66 | 1.63 | 1.63 |
| Permits | 1.60 | 1.72 | 1.60 | 1.59 | 1.62 | 1.51 | 1.58 |
| <i>Single-family units</i> | | | | | | | |
| Starts | 1.27 | 1.39 | 1.32 | 1.30 | 1.29 | 1.29 | 1.33 |
| Permits | 1.18 | 1.27 | 1.23 | 1.21 | 1.21 | 1.17 | 1.17 |
| Adjusted permits ¹ | 1.28 | 1.37 | 1.32 | 1.30 | 1.28 | 1.27 | 1.25 |
| <i>New home sales</i> | .89 | .90 | .93 | .90 | .92 | .85 | .99 |
| <i>Existing home sales</i> | 4.97 | 5.21 | 5.29 | 5.26 | 5.24 | 5.13 | 4.79 |
| <i>Multifamily units</i> | | | | | | | |
| Starts | .35 | .38 | .30 | .35 | .37 | .34 | .30 |
| Permits | .42 | .45 | .37 | .38 | .41 | .34 | .42 |
| <i>Mobile homes</i> | | | | | | | |
| Shipments | .37 | .38 | .36 | .33 | .34 | .32 | 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)



Near-term indicators of demand, as well as anecdotal reports on retail sales, suggest that spending in December is likely to remain strong. According to the Conference Board, consumer sentiment rebounded in November to a level near the highs recorded earlier this year. The preliminary report from the Michigan Survey Research Center revealed a drop in sentiment in early December, but also showed that consumers' expectations regarding unemployment over the next year--which have proved useful in tracking consumption expenditures--improved sharply.

Nominal personal income jumped 1.3 percent in October. Much of the steep rise was attributable to special factors--agricultural subsidy payments, union contract-signing bonuses, and a considerable bounceback in rental income after the effects of Hurricane Floyd in September. Still, netting out these special factors, BEA estimated that nominal personal income increased a solid 0.5 percent in October. The latest employment report suggests personal income in November will be boosted by another sizable increase in wages and salaries.

Housing Markets

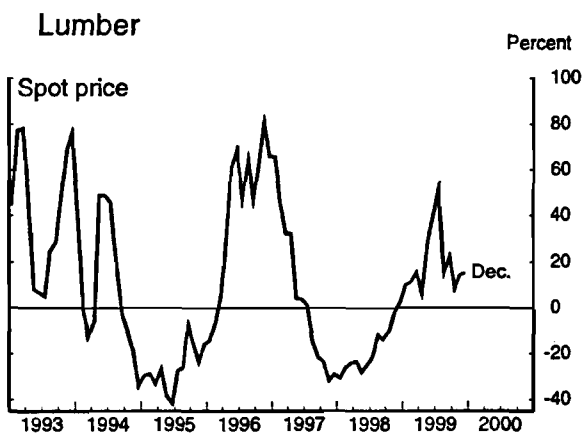
Some indicators of housing activity strengthened in October, but the increases may be temporary. Although single-family starts rose 2-3/4 percent, to 1.33 million units (annual rate), adjusted permits for single-family dwellings declined 2 percent, to a level of permits more suggestive of starts near the 1.25 million mark. Apart from the possibility that starts actually may not have been as strong as estimated, activity may have received a boost from the commencement of projects that had been delayed by shortages of labor and some materials. Also, starts in the Northeast likely were elevated some by activity that had been delayed in September by Hurricane Floyd.

Sales of new homes surged 16-1/4 percent in October, to an annual rate of 986,000 units--a new high for the series. However, half of the rise reflected a suspicious 40 percent jump in sales in the Midwest. Given the unusual size of this increase and the recent pattern of fairly large revisions to the new home sales series, some trimming of the initial estimate would not be surprising.² Discounting the October estimate somewhat and averaging it with the lower September reading would put the average pace of sales over the past two months a bit below the pace recorded in the spring and early summer. Existing home

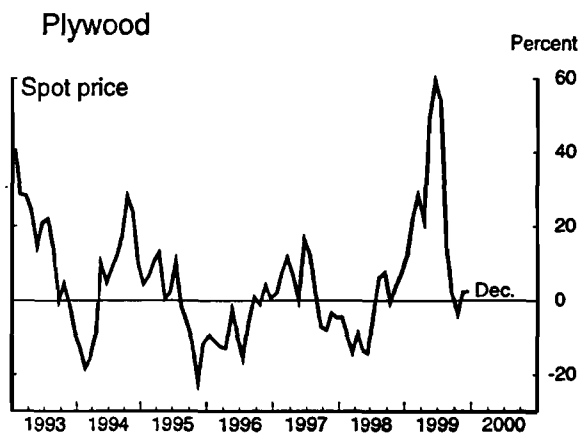
2. The Census Bureau estimates of new home sales are based on a sample of building permits issued by local governments plus an imputation for sales that occur before the issuance of a permit. Census has experienced long-standing problems with this imputation, and Census staff report that such difficulties accounted for most of the large revisions to the new home sales estimates in recent months.

Costs of Construction Materials and Labor

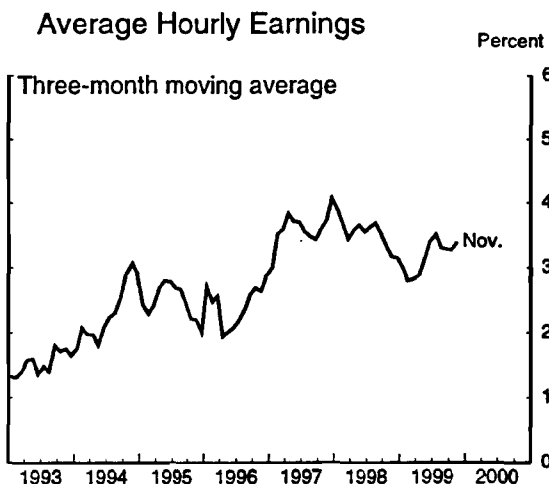
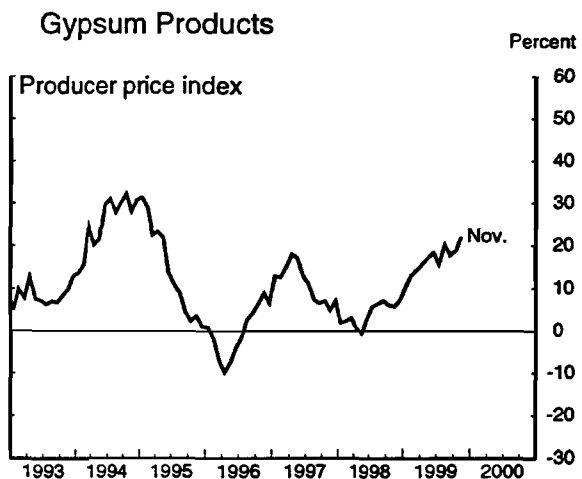
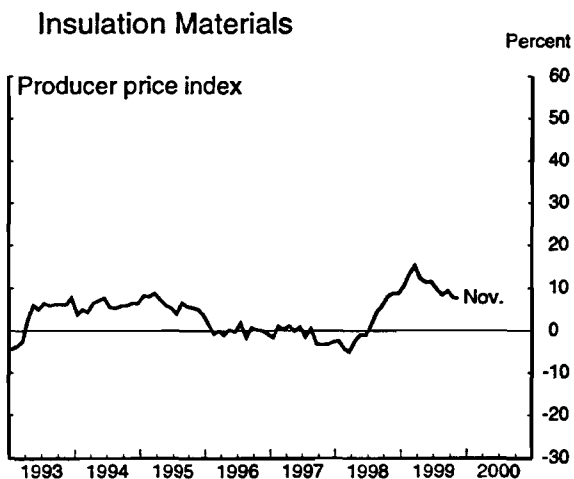
(Percent change from a year earlier)



Note. The Dec. reading is an average of weekly data through Dec. 10.



Note. The Dec. reading is an average of weekly data through Dec. 10.



sales decreased 6-1/2 percent in October--the fourth consecutive monthly decline.³

More timely indicators of housing demand ticked up in November but were mixed in December. Builders' ratings of new home sales--which are collected during the first half of the month--rose a bit in November but retraced that movement in December. The Mortgage Bankers Association's index of purchase loan applications also continued to rise, on balance, through early December. However, the Michigan SRC measure of consumer opinions of homebuying conditions fell in early December, reversing November's increase; the latest decline reflected a drop in the share of respondents indicating that mortgage rates were relatively low.

In the multifamily sector, starts dropped 10 percent in October, to an annual rate of 303,000 units, only a touch above the low for the year. However, multifamily permit issuance jumped 25 percent, more than offsetting its drop in September and suggesting that starts should rise later this fall. The vacancy rate for multifamily rental units has been trending down, and in the third quarter was at one of the lowest levels since the mid-1980s.

Movements in the prices of construction materials have been mixed. Despite upticks in November and December, the year-over-year rates of change in lumber and plywood prices have slowed substantially from earlier this year, and the rise in the price of insulation materials also has been tapering off. In contrast, the price of gypsum products has continued to accelerate. Labor cost increases have moderated recently after picking up over the first half of this year.

Business Investment

Equipment and software. The underlying trend in equipment and software spending remains robust, although some reversal of the third-quarter surge in outlays on motor vehicles appears to be under way.⁴ The data through October indicate that outlays for equipment other than motor vehicles started the fourth quarter on a positive note, primarily because of a 16-3/4 percent jump in shipments of office and computing equipment in October. However, the surge

3. More than half of existing home sales are recorded when the sale is closed; therefore, movements in sales of existing homes typically lag those in new home sales, all of which are recorded early in the sale process (at the time a contract is signed or when a deposit is made).

4. The reversal is concentrated in light vehicle purchases: Confidential data from industry sources suggest that fleet sales of light vehicles in October and November were below the elevated pace of the third quarter. Sales of medium and heavy trucks in October and November were, on average, up 30,000 units from the third quarter's high level.

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

| | 1999 | | 1999 | | |
|------------------------------------------|-------|------|------|-------|------|
| | Q2 | Q3 | Aug. | Sept. | Oct. |
| <u>Equipment and software</u> | | | | | |
| Shipments of nondefense capital goods | 3.0 | 2.1 | 2.1 | -4.2 | 3.0 |
| Excluding aircraft and parts | 3.4 | 3.8 | -1.8 | -1.1 | 2.2 |
| Computers and peripherals | 3.7 | 5.1 | -8.8 | -7.2 | 16.8 |
| Communications equipment | 6.0 | 5.4 | -1.7 | 2.3 | -4.7 |
| All other categories | 2.5 | 2.7 | 1.6 | .5 | -1.4 |
| Shipments of complete aircraft | -19.5 | 14.9 | 40.5 | -45.8 | 52.1 |
| Medium & heavy truck sales (units) | -.8 | 3.7 | 4.1 | 8.4 | -5.1 |
| Orders for nondefense capital goods | -4.2 | 7.0 | 2.5 | -.7 | .7 |
| Excluding aircraft and parts | -.1 | 5.4 | -2.0 | 2.6 | -.2 |
| Computers and peripherals | 3.6 | 5.6 | -8.8 | -9.0 | 16.1 |
| Communications equipment | 2.1 | 7.4 | -5.9 | 18.4 | -8.6 |
| All other categories | -2.2 | 4.7 | 2.6 | 3.0 | -3.6 |
| <u>Nonresidential structures</u> | | | | | |
| Construction put in place, buildings | -2.2 | -1.3 | -1.3 | -.5 | -1.5 |
| Office | .9 | 5.7 | 3.0 | 4.2 | -3.4 |
| Other commercial | 1.5 | -5.2 | -4.3 | -1.2 | .0 |
| Institutional | -.1 | -3.1 | -1.4 | -1.5 | 2.0 |
| Industrial | -12.8 | -1.3 | -2.2 | -7.4 | -5.7 |
| Lodging and miscellaneous | -6.1 | -3.5 | -1.8 | -.2 | -.4 |
| Rotary drilling rigs in use ¹ | -6.4 | 17.4 | 5.7 | 8.7 | 5.5 |

1. Percent change of number of rigs in use, seasonally adjusted.

in shipments followed a 15-3/4 percent plunge in the preceding two months, leaving the October level of shipments about 7-1/2 percent above the third-quarter average. Other available indicators point to less robust growth in the current quarter in real spending on computers: Computer prices appear to be declining less rapidly than in the first half of the year, and computer imports finished the third quarter on a decidedly negative note. Overall, the signs of slowing in computer expenditures this quarter are less apparent than earlier expectations regarding Y2K "lockdowns" suggested.⁵

Growth of software investment--which, by construction, is positively correlated with growth of computer expenditures--also seems likely to be considerable in the current quarter but may slow somewhat with computer spending. Firms that are unwilling to deploy new hardware may also refrain from installing new software applications.

Outlays on communications equipment appear to be rising slowly this quarter following a sub-par performance in the third quarter. Shipments of communications equipment dropped notably in October, leaving the level of shipments 3-3/4 percent below the third-quarter average. However, the recent slow pace of growth in this category is likely only a temporary setback. Major communications equipment producers have continued to report booming demand for their products. Furthermore, orders have far outpaced shipments in recent months, leaving a sizable backlog yet to be filled.

Business expenditures on aircraft likely will boost equipment spending again in the fourth quarter. Aircraft shipments rose smartly in October and now stand 9-1/2 percent above their third-quarter average. Although Boeing plans to deliver fewer aircraft in the current quarter than it did in the third quarter (on a seasonally adjusted basis), a larger share is expected to be delivered to domestic airlines. Moreover, U.S. carriers are continuing to buy large numbers of planes from abroad: Deliveries to domestic carriers from Airbus have picked up considerably since the first half of the year.

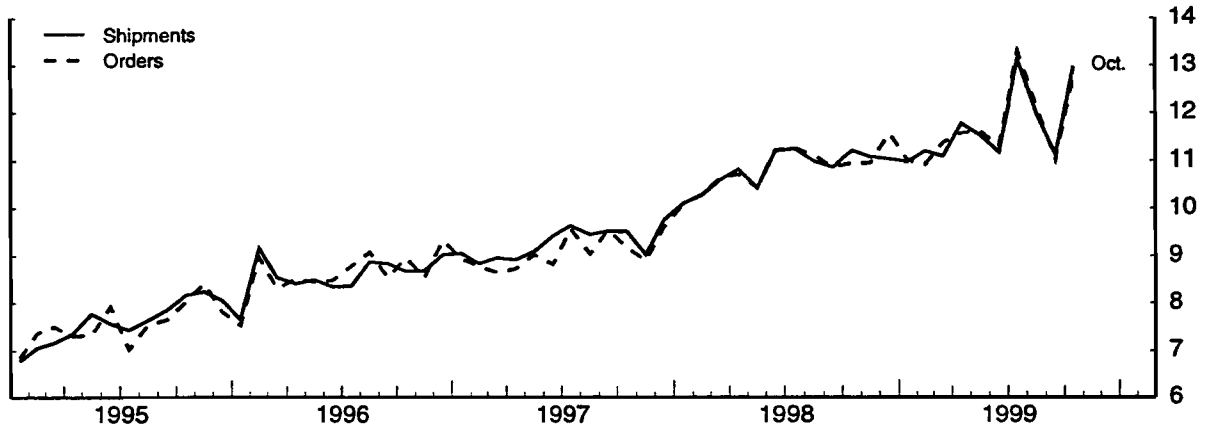
Outside of the high-tech and transportation sectors, orders for nondefense capital goods fell 3-1/2 percent in October. The decline resulted mainly from the 25 percent drop in orders of engines and turbines; as mentioned above, the erratic month-to-month movements in this category contain little information for the near term. Looking through the monthly noise, the level of orders for

5. A recent report from Intel supports the anecdotes that the degree of Y2K-related slowing in computer expenditures this quarter may be less than previously anticipated. The company initially forecast a significant Y2K effect on computer sales this quarter and consequently has been surprised by the demand for its Coppermine microprocessors.

Recent Data on Orders and Shipments

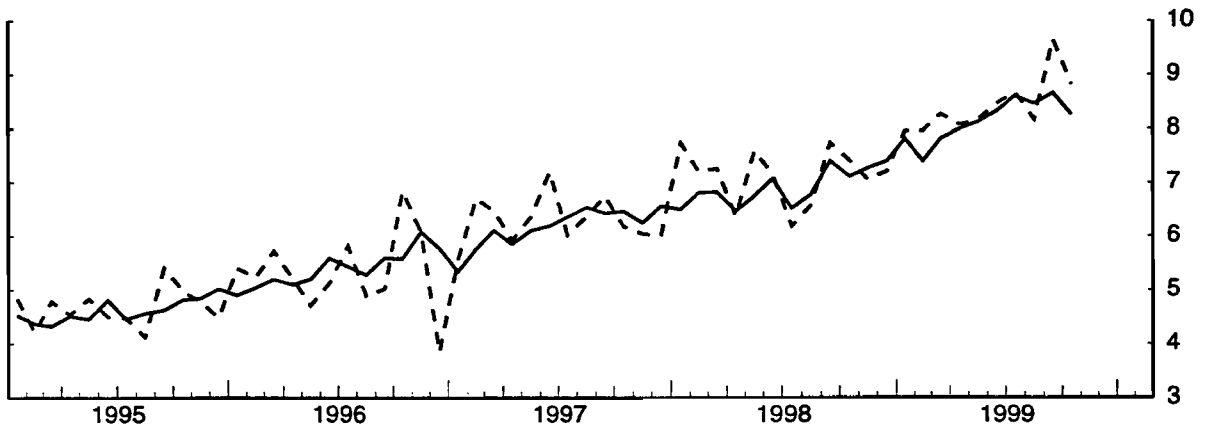
Office and Computing Equipment

Billions of dollars



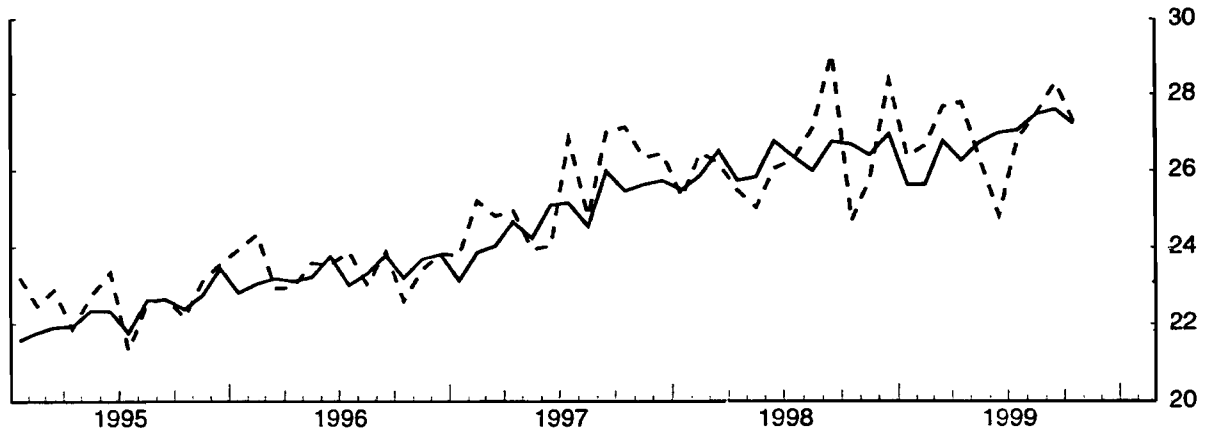
Communications Equipment

Billions of dollars



Other Equipment (Total Ex. Aircraft, Computers, Communications)

Billions of dollars



equipment excluding high-tech and transportation in October was still a bit above the level of shipments (which declined 1-1/2 percent in October), causing the backlog of unfilled orders to increase for the third consecutive month. In addition, imports rose briskly in the third quarter and may buoy outlays again in the current quarter. Thus, real domestic equipment spending in this category appears on track to grow moderately in the fourth quarter.

Nonresidential structures. Spending on nonresidential construction slowed in October, with nominal outlays for private buildings declining 1-1/2 percent after a 1-1/4 percent decrease in the third quarter. Except for a small uptick in July, private nonresidential construction put in place has declined in every month since March, and in October was down 4 percent from a year earlier. Contracts for nonresidential construction declined 4-1/2 percent in October after a 9-1/2 percent drop in the third quarter.⁶

Spending for construction of office buildings fell 3-1/2 percent in October, offsetting most of a large increase in September and leaving the level of spending close to its third-quarter average. Despite the October decline, office construction was 13 percent above the level of a year earlier. Contracts for office construction declined in October for the third consecutive month; the 12 percent decrease brought office building contracts down to the lowest level since early 1997. Still, there are no noticeable signs of overbuilding in the aggregate. Although the rates of increase in both rent and property values continued to taper off, they remain fairly high. Furthermore, after rising some earlier this year, the vacancy rate for office properties in downtown locations edged down in the third quarter, and the rate for suburban locations was unchanged; both series remain at very low levels.

Construction spending for commercial structures (which include retail space and warehouses) was unchanged in October after four months of decline and is down 2-1/4 percent below the level of a year earlier. Contracts for commercial structures rose 9-3/4 percent in October--the first increase in this category since June. Rents and property values for retail space still are increasing, albeit relatively slowly. Property values for warehouses continued to rise at a fast clip, and warehouse rents maintained their moderate rate of increase.

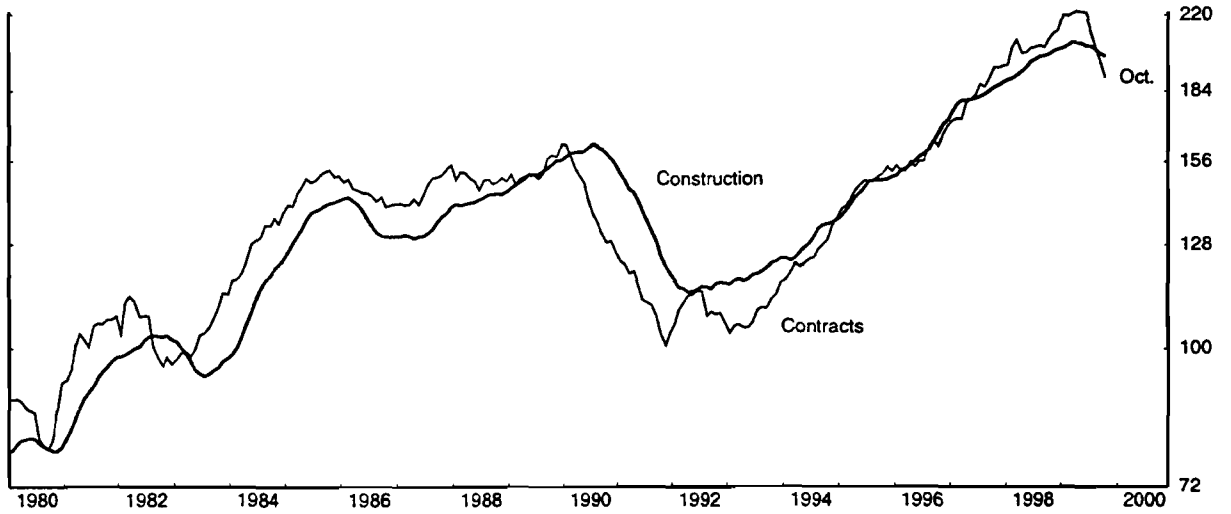
Outlays for industrial buildings continued to plummet; the 5-3/4 percent drop in October left expenditures nearly 28 percent below the year-earlier level. Also, despite a 25 percent rebound in October, contract awards for industrial construction still were 25 percent below their level of a year ago. As of the third

6. Note that preliminary estimates of contracts often are revised up substantially.

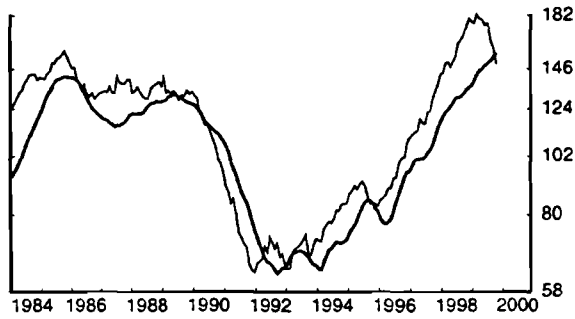
Nonresidential Construction and Contracts (Six-month moving average)

Total Private Building

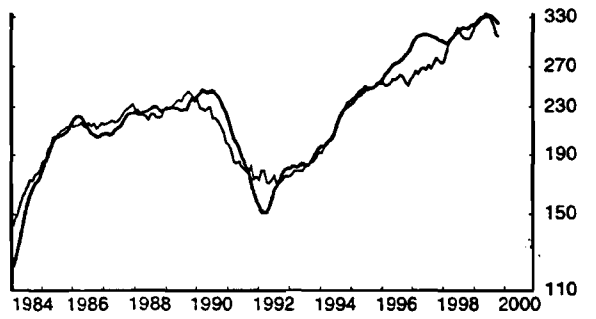
Dec. 1982 = 100, ratio scale



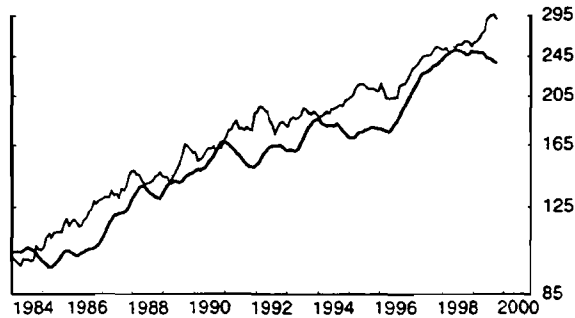
Office



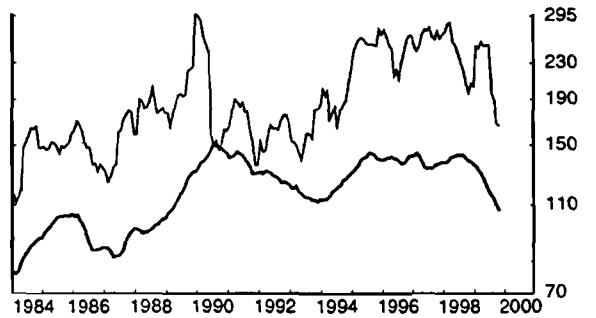
Other Commercial



Institutional



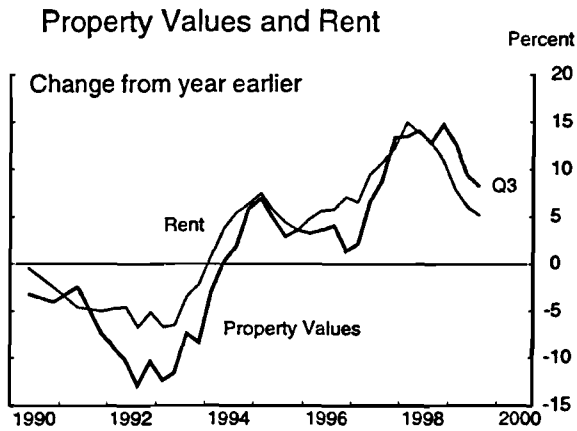
Industrial



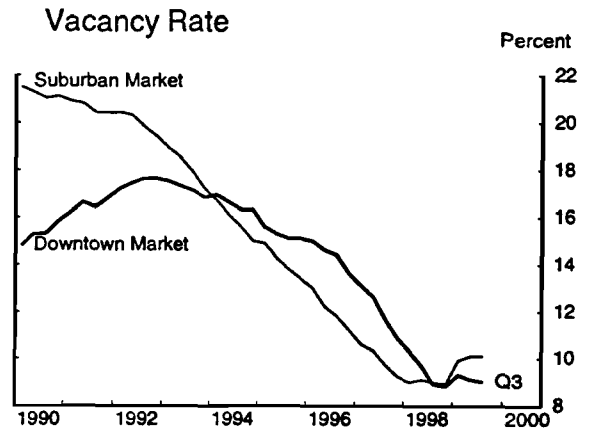
Note. Individual sectors include both public and private building.

Indicators of Nonresidential Construction

Office Buildings

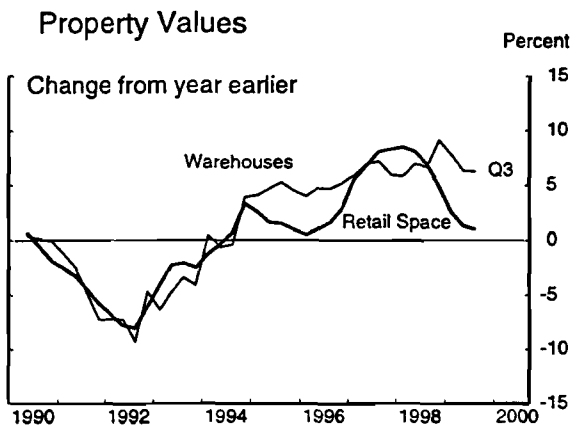


Source. National Real Estate Index.

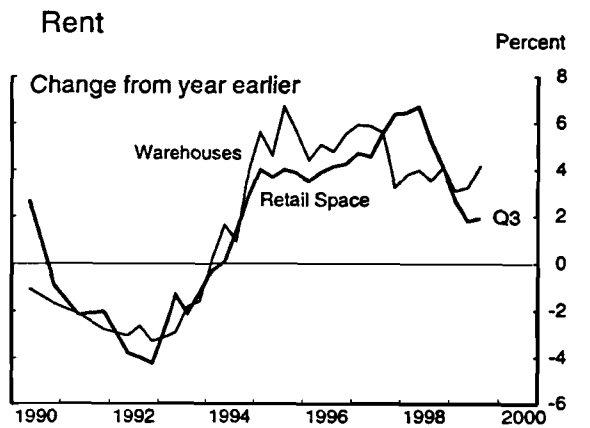


Source. CB Richard Ellis.

Other Commercial

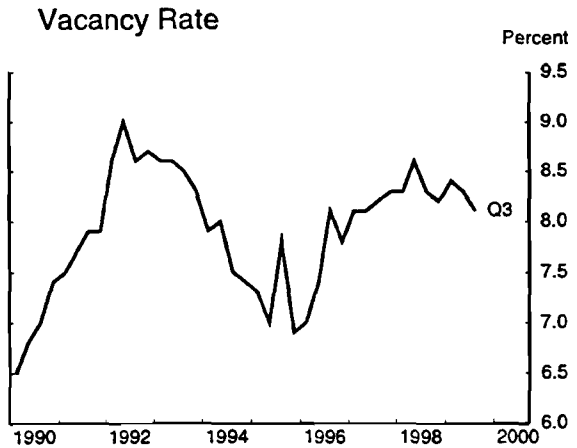


Source. National Real Estate Index.

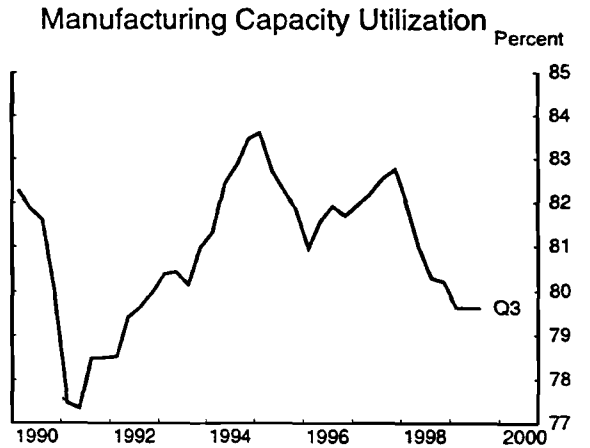


Source. National Real Estate Index.

Industrial



Source. CB Richard Ellis.



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

| Category | 1999 | | | 1999 | | |
|------------------------------------------|-------|------|------|------|-------|-------|
| | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. |
| Manufacturing and trade | 34.3 | 34.8 | 46.8 | 41.5 | 57.2 | 28.9 |
| Less wholesale and retail motor vehicles | 10.2 | 12.9 | 47.5 | 35.4 | 57.3 | 43.4 |
| Manufacturing | -12.9 | -3.6 | 11.9 | -8.3 | 15.8 | 16.5 |
| Less aircraft | -3.0 | 5.1 | 15.0 | 10.2 | 13.5 | 25.1 |
| Merchant wholesalers | 7.5 | 8.0 | 28.4 | 18.9 | 34.9 | 11.1 |
| Less motor vehicles | 6.5 | 6.2 | 24.8 | 17.5 | 30.4 | 10.0 |
| Retail trade | 39.7 | 30.3 | 6.5 | 30.9 | 6.4 | 1.3 |
| Automotive dealers | 23.1 | 20.1 | -4.3 | 4.7 | -4.6 | -15.6 |
| Less automotive dealers | 16.6 | 10.2 | 10.8 | 26.2 | 11.1 | 16.9 |

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 | | October 1999 |
|------------------------------------------|---------------------------|-------------|--------------------------------|------|--------------|
| | 1990-91 high | 1991-98 low | High | Low | |
| | Manufacturing and trade | 1.58 | 1.37 | 1.39 | |
| Less wholesale and retail motor vehicles | 1.55 | 1.34 | 1.37 | 1.29 | 1.30 |
| Manufacturing | 1.75 | 1.36 | 1.38 | 1.28 | 1.30 |
| Primary metals | 2.08 | 1.46 | 1.74 | 1.55 | 1.57 |
| Steel | 2.56 | 1.59 | 2.25 | 1.93 | 1.93 |
| Nonelectrical machinery | 2.48 | 1.61 | 1.66 | 1.52 | 1.51 |
| Electrical machinery | 2.08 | 1.21 | 1.26 | 1.17 | 1.20 |
| Transportation equipment | 2.93 | 1.51 | 1.60 | 1.39 | 1.48 |
| Motor vehicles | .97 | .53 | .55 | .51 | .53 |
| Aircraft | 5.84 | 4.05 | 4.47 | 3.68 | 4.05 |
| Nondefense capital goods | 3.09 | 2.04 | 2.11 | 1.87 | 1.89 |
| Textiles | 1.71 | 1.38 | 1.58 | 1.53 | 1.52 |
| Paper | 1.32 | 1.06 | 1.23 | 1.14 | 1.17 |
| Chemicals | 1.44 | 1.25 | 1.45 | 1.33 | 1.32 |
| Petroleum | .94 | .80 | .99 | .76 | .77 |
| Home goods & apparel | 1.96 | 1.59 | 1.75 | 1.53 | 1.58 |
| Merchant wholesalers | 1.36 | 1.24 | 1.35 | 1.28 | 1.29 |
| Less motor vehicles | 1.31 | 1.22 | 1.34 | 1.26 | 1.27 |
| Durable goods | 1.83 | 1.54 | 1.66 | 1.56 | 1.57 |
| Nondurable goods | .95 | .90 | 1.01 | .95 | .96 |
| Retail trade | 1.61 | 1.44 | 1.45 | 1.42 | 1.42 |
| Less automotive dealers | 1.48 | 1.38 | 1.38 | 1.34 | 1.34 |
| Automotive dealers | 2.22 | 1.59 | 1.74 | 1.61 | 1.66 |
| General merchandise | 2.42 | 2.00 | 2.03 | 1.91 | 1.92 |
| Apparel | 2.53 | 2.28 | 2.40 | 2.24 | 2.23 |
| GAF | 2.41 | 2.06 | 2.08 | 1.96 | 1.96 |

quarter, the vacancy rate for industrial properties, although edging down, remained elevated.

Business Inventories

The pace of inventory accumulation rose considerably in September and October. For manufacturing and trade excluding motor vehicles, the book value of inventories increased at a \$43 billion annual rate in October, a touch below the September pace but about the same as the rate posted in the third quarter as a whole. While the sectoral pattern of the build-up contains some hints of precautionary stockbuilding associated with Y2K concerns, sales have also been strong, and inventory-sales ratios have not picked up.

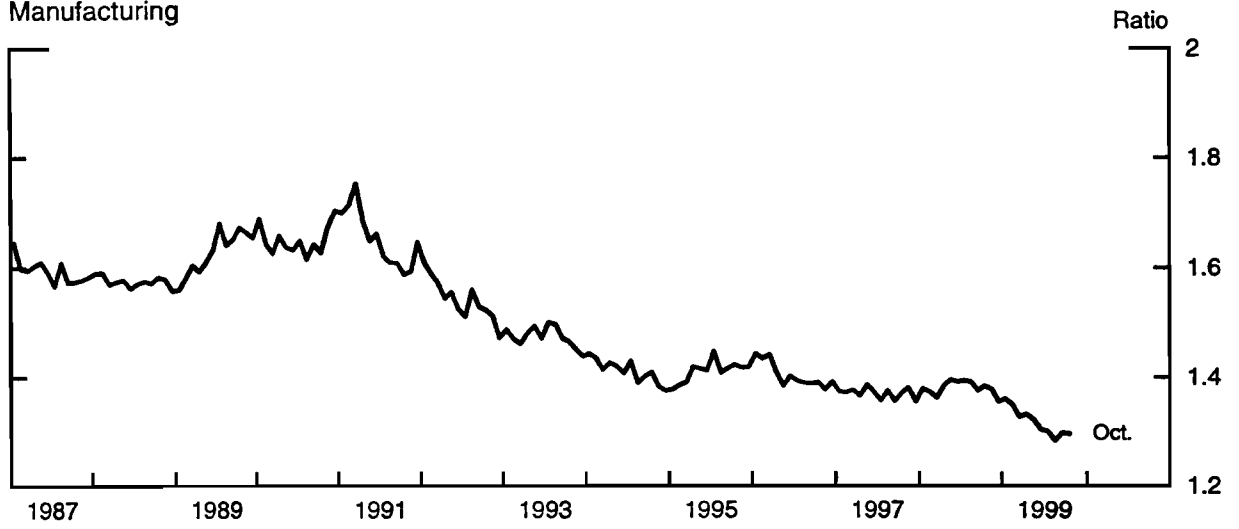
In manufacturing, the book value of inventories increased at a \$17 billion annual rate in October, up a bit from the \$12 billion pace posted in the third quarter. Aircraft inventories declined at an annual rate of \$9 billion in October as Boeing continued to curtail production. Outside of the aircraft industry, stocks rose at a \$25 billion annual rate, led by large increases in inventories held by manufacturers of food products and electrical machinery. The \$6 billion rise in stocks at food manufacturers--the largest one-month gain in more than four years--may reflect stockpiling associated with the century date change.

Wholesale inventories excluding motor vehicles rose at an annual rate of \$10 billion in October. The accumulation was damped by a \$14 billion liquidation of inventories held by farm product distributors. The decline in farm product inventories followed an \$8 billion increase in the third quarter, which may have resulted, in part, from an early start to this year's harvest. In October, the peak month of the fall harvest, farm stocks rose at an annual rate of \$54 billion on a not seasonally adjusted basis, but that was a smaller increase than the seasonal factors anticipated. Moreover, grain prices fell 4 percent in October, and this likely lowered inventories in book-value terms. Excluding farm products (and motor vehicles), wholesale inventories accumulated at an annual rate of \$24 billion, up from a \$17 billion increase in the third quarter. The build-up was led by an \$8 billion accumulation at distributors of electrical goods and a \$6 billion accumulation at drug wholesalers, which may be holding extra inventories to avoid Y2K-related stockouts.

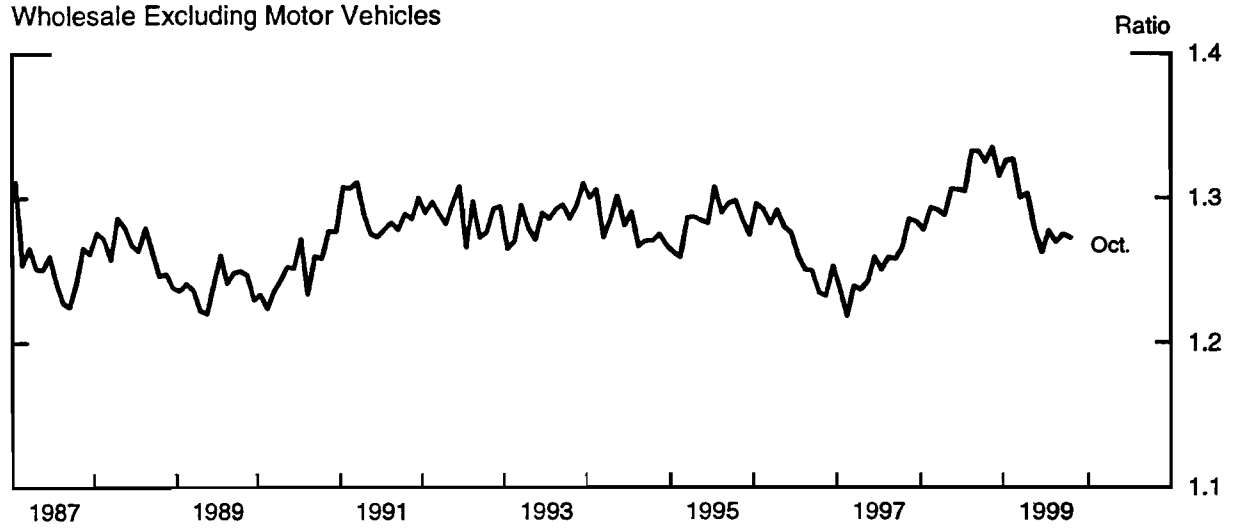
The book value of retail inventories rose \$1.3 billion at an annual rate in October, held down by a sizable liquidation at automotive dealerships. Excluding automotive dealers, retailers accrued inventories at a \$17 billion annual rate in October, a step-up from the pace recorded in the third quarter.

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

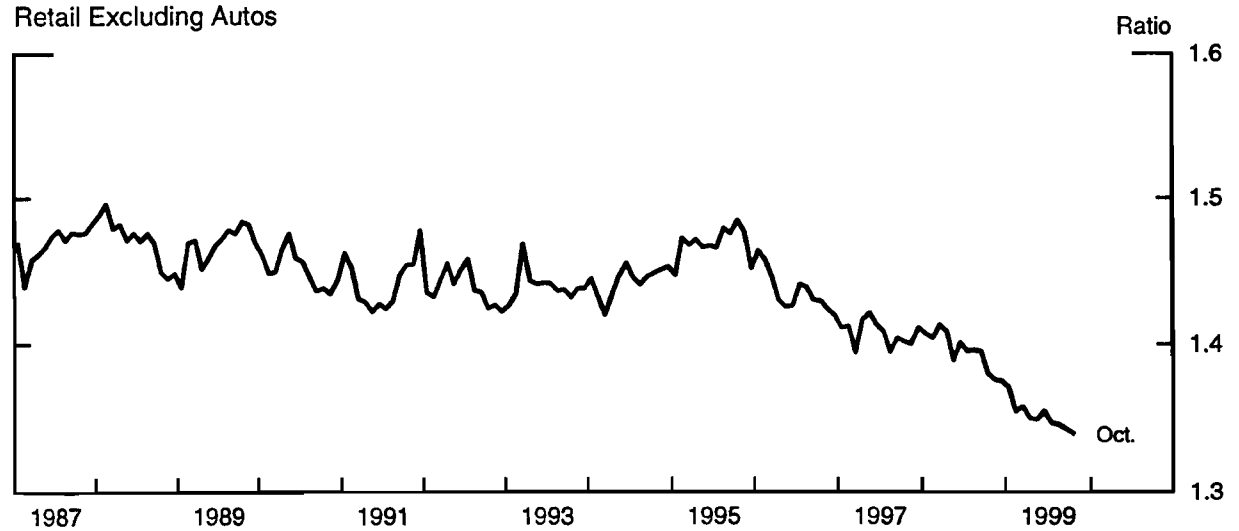
Manufacturing



Wholesale Excluding Motor Vehicles



Retail Excluding Autos



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

| | Oct. | | | 12 months ending in Oct. | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|----------------|--------------------------|--------|----------------|
| | 1998 | 1999 | Percent change | 1998 | 1999 | Percent change |
| Outlays | 152.4 | 147.7 | -3.1 | 1653.8 | 1698.9 | 2.7 |
| Deposit insurance | -0.4 | 0.3 | ... | -4.4 | -4.7 | ... |
| Spectrum auction | 0.0 | 0.0 | ... | -2.6 | -1.8 | ... |
| Sale of major assets | 0.0 | 0.0 | ... | -3.2 | 0.0 | ... |
| Other | 152.8 | 147.4 | -3.5 | 1664.0 | 1705.3 | 2.5 |
| Receipts | 120.0 | 121.0 | 0.9 | 1726.5 | 1828.3 | 5.9 |
| Surplus | -32.4 | -26.7 | ... | 72.8 | 129.4 | 77.8 |
| <hr/> Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts ¹ <hr/> | | | | | | |
| Outlays | 142.7 | 147.4 | 3.4 | 1669.3 | 1716.3 | 2.8 |
| National defense | 23.4 | 24.0 | 2.6 | 269.5 | 277.4 | 3.0 |
| Net interest | 19.4 | 18.9 | -2.8 | 241.0 | 229.7 | -4.7 |
| Social security | 31.7 | 32.7 | 3.2 | 380.4 | 391.6 | 2.9 |
| Medicare | 14.9 | 15.4 | 3.8 | 194.0 | 190.6 | -1.7 |
| Medicaid | 10.0 | 9.5 | -4.2 | 101.8 | 107.6 | 5.8 |
| Other health | 2.6 | 2.7 | 2.7 | 29.9 | 32.8 | 9.7 |
| Income security | 17.9 | 17.6 | -1.4 | 232.9 | 237.2 | 1.8 |
| Other | 22.8 | 26.5 | 16.4 | 219.9 | 249.3 | 13.4 |
| Receipts | 120.0 | 121.0 | 0.9 | 1726.5 | 1828.3 | 5.9 |
| Individual income and payroll taxes | 99.6 | 105.6 | 6.0 | 1366.3 | 1461.3 | 7.0 |
| Withheld + FICA | 93.4 | 99.4 | 6.4 | 1150.9 | 1244.1 | 8.1 |
| Nonwithheld + SECA | 7.3 | 7.4 | 0.7 | 315.0 | 340.5 | 8.1 |
| Refunds (-) | 1.1 | 1.2 | 9.0 | 99.7 | 122.8 | 23.2 |
| Corporate | 1.8 | 2.2 | 24.0 | 187.2 | 185.1 | -1.1 |
| Gross | 6.5 | 7.2 | 9.6 | 213.5 | 217.0 | 1.6 |
| Refunds (-) | 4.8 | 5.0 | 4.3 | 26.3 | 31.9 | 21.2 |
| Other | 18.6 | 13.3 | -28.5 | 173.1 | 181.9 | 5.1 |
| Surplus | -22.7 | -26.4 | ... | 57.3 | 112.1 | 95.7 |

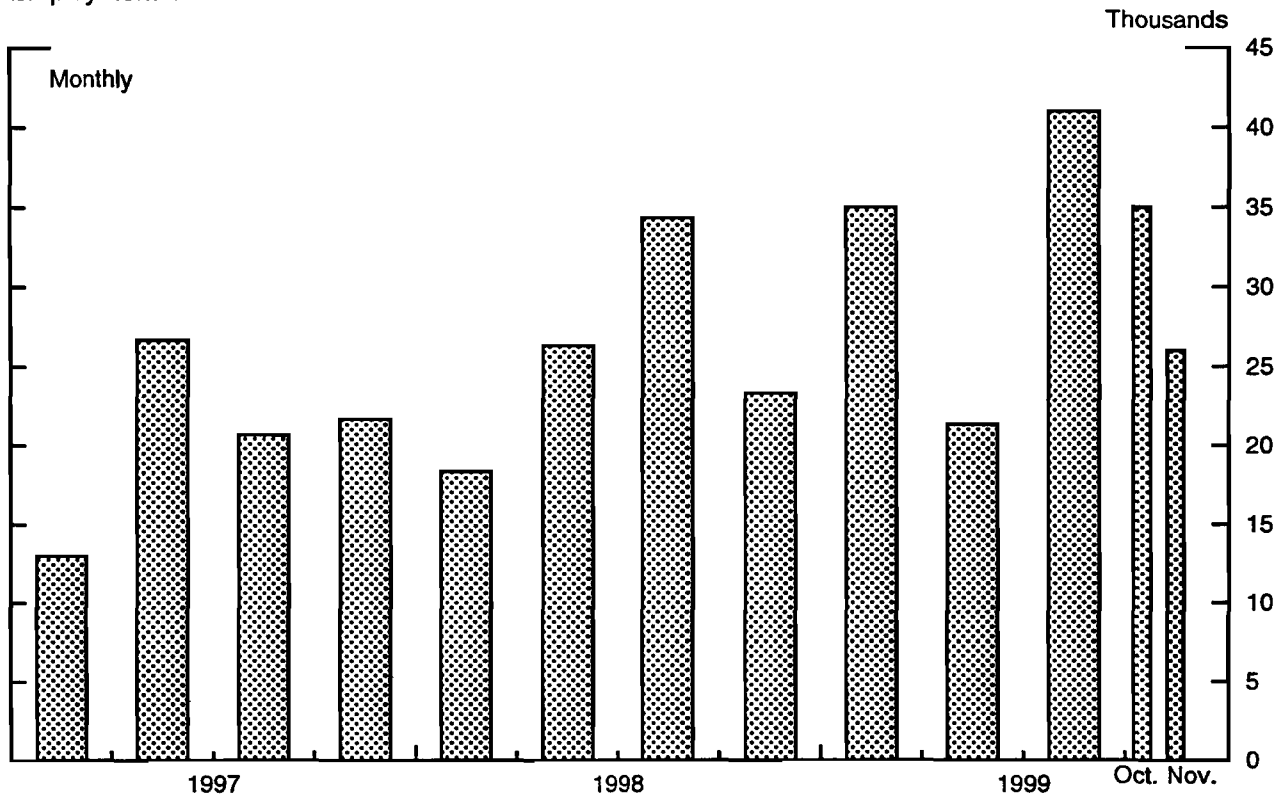
Note. Components may not sum to totals because of rounding.

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.

... Not applicable.

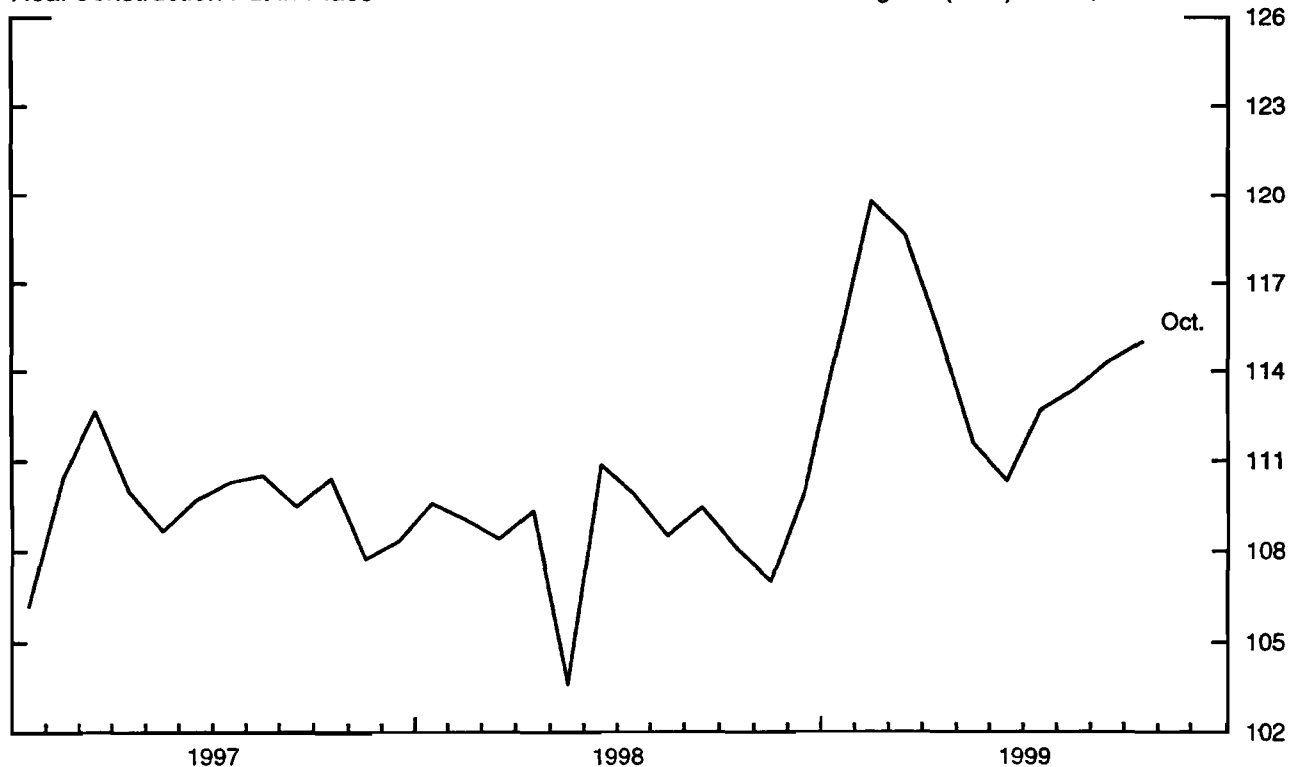
State and Local Sector

Employment Growth



Real Construction Put in Place

Billions of chain weighted (1992) dollars, annual rate



Government Expenditures

Federal government sector. The federal government's fiscal position continues to show improvement. For the twelve months ended in October, the surplus adjusted for routine payment-timing shifts, deposit insurance, spectrum auction proceeds, and sales of major assets reached \$112 billion. This is \$55 billion greater than in the preceding twelve months.

Adjusted outlays continued to grow at a subdued pace in October, although a large increase in farm support payments boosted the "other" category. Net interest payments fell further, while spending on Medicare, Medicaid, and other health spending was restrained.

Receipts were only about 1 percent above the level recorded last October. However, this understates the strength of receipts because the 1997 Taxpayer Relief Act boosted last October's excise tax payments (included in "other"), shifting them out of September and August 1998. Individual income and payroll taxes continued to increase moderately in October, up 6 percent from a year earlier.

The legislation needed to implement the fiscal 2000 budget was completed with the enactment of the Omnibus Consolidated Appropriations Act in late November. This legislation included the five regular appropriations bills for fiscal 2000 that had not yet been completed. The CBO has estimated that this action brings total fiscal 2000 discretionary spending to \$617 billion, \$37 billion above its July baseline (which had assumed adherence to the spending caps). The increased spending included in the bill is not expected to violate discretionary spending caps and trigger a sequester primarily because a substantial portion (\$20 billion) of the increase was designated as emergency spending that is exempt from the caps. Additionally, provisions to offset some of the spending increases include a small (0.38 percent) across-the-board cut in most discretionary spending accounts, a delay into fiscal 2001 of the end-of-September paydays for some military and civilian personnel, and an acceleration in the payment to the Treasury of \$4 billion in Federal Reserve earnings.⁷ Finally, OMB, whose estimates determine whether a sequester is needed, is expected to have lower spending estimates than CBO for this year's appropriation bills.

7. The President is given substantial discretion in determining the allocation of the across-the-board cuts within departments and agencies. The accelerated payment of Federal Reserve earnings will come out of the System's surplus account.

CPI AND PPI INFLATION RATES
(Percent)

| | From twelve months earlier | | 1999 | | 1999 | |
|----------------------------------------------------|----------------------------|-----------|---------------|------|----------------|------|
| | Nov. 1998 | Nov. 1999 | Q2 | Q3 | Oct. | Nov. |
| | | | -Annual rate- | | -Monthly rate- | |
| <u>CPI</u> | | | | | | |
| All items (100.0) ¹ | 1.5 | 2.6 | 3.4 | 2.7 | .2 | .1 |
| Food (15.4) | 2.3 | 1.9 | .9 | 2.1 | .2 | .1 |
| Energy (6.3) | -9.2 | 10.6 | 25.5 | 13.6 | -.1 | .0 |
| CPI less food and energy (78.3) | 2.3 | 2.1 | 2.5 | 1.6 | .2 | .2 |
| Commodities (24.0) | .7 | .8 | .6 | .7 | .1 | -.2 |
| New vehicles (5.0) | -.3 | -.3 | -1.0 | .1 | .1 | .0 |
| Used cars and trucks (1.9) | 4.3 | 1.4 | 2.3 | 12.1 | .4 | -.2 |
| Apparel (4.8) | .2 | -1.0 | 3.9 | -4.0 | .6 | -.5 |
| Tobacco (1.2) | 12.2 | 31.5 | -.7 | 18.1 | -.6 | -.9 |
| Other Commodities (11.1) | .0 | -.6 | -.3 | -.5 | -.1 | -.1 |
| Services (54.3) | 3.1 | 2.7 | 3.1 | 2.1 | .3 | .4 |
| Shelter (29.9) | 3.5 | 2.5 | 3.4 | 2.3 | .1 | .3 |
| Medical care (4.5) | 3.4 | 3.4 | 3.3 | 3.3 | .2 | .3 |
| Other Services (19.9) | 2.2 | 2.7 | 2.7 | 1.6 | .5 | .4 |
| <u>PPI</u> | | | | | | |
| Finished goods (100.0) ² | -.6 | 3.1 | 2.8 | 3.8 | -.1 | .2 |
| Finished consumer foods (23.3) | .2 | .4 | -2.1 | .7 | -.7 | .1 |
| Finished energy (12.0) | -11.1 | 15.4 | 27.7 | 27.2 | -1.0 | 1.4 |
| Finished goods less food and energy (64.7) | 1.4 | 1.8 | .2 | .6 | .3 | .0 |
| Consumer goods (39.5) | 2.3 | 3.0 | .4 | 1.3 | .3 | .1 |
| Capital equipment (25.2) | -.1 | .1 | .0 | -.6 | .3 | -.1 |
| Intermediate materials (100.0) ³ | -2.9 | 3.0 | 4.5 | 6.2 | .3 | .3 |
| Intermediate materials less food and energy (83.2) | -1.5 | 1.5 | 1.9 | 3.5 | .4 | .1 |
| Crude materials (100.0) ⁴ | -18.4 | 16.0 | 27.1 | 30.6 | -1.6 | 4.0 |
| Crude food materials (45.0) | -7.2 | -2.8 | -10.3 | -2.7 | -.1 | 1.0 |
| Crude energy (31.7) | -31.1 | 45.7 | 131.1 | 86.3 | -4.8 | 8.8 |
| Crude materials less food and energy (23.3) | -15.6 | 9.7 | 2.0 | 22.5 | 2.4 | .3 |

1. Relative importance weight for CPI, December 1998.

2. Relative importance weight for PPI, December 1998.

3. Relative importance weight for intermediate materials, December 1998.

4. Relative importance weight for crude materials, December 1998.

State and local government sector. Indicators of spending by state and local governments in the fourth quarter point to another solid increase. Employment gains averaged 30,000 during October and November, about matching the average so far this year and a little higher than the average in 1998. In addition, real construction expenditures rose 0.6 percent in October, bringing the level of real outlays 1.4 percent above its third-quarter average.

The tobacco settlement between 46 states and a group of tobacco companies was finally approved on November 12, nearly one year after it was announced. On December 14, payments of around \$2 billion were released to the states. Another \$2.5 billion is to be distributed from the tobacco companies on January 10, and \$4.5 billion will be distributed on April 15;⁸ most of it will go directly to the states, but some will go into the escrow account as long as some states have not approved the settlement.⁹ Tobacco payments will continue in perpetuity and are expected to total around \$206 billion over the first 25 years. So far, 21 states have decided how to use the tobacco money; programs expected to benefit include health care, education, tobacco control and smoking cessation, non-health-related children's services, and services to the elderly. In addition, some funds are being set aside for other general fund needs and for budget reserve accounts.

Prices and Labor Costs

Inflation has remained subdued in recent months. The consumer price index rose just 0.1 percent in November, following an increase of 0.2 percent in October. Outside of food and energy, consumer prices rose 0.2 percent in each of the past two months.¹⁰ Over the past twelve months, the overall CPI was up 2.6 percent, compared with an increase of 1.5 percent in the year-earlier period, with the acceleration accounted for by a large increase in energy prices. Excluding food and energy, the CPI was up 2.1 percent over the past twelve

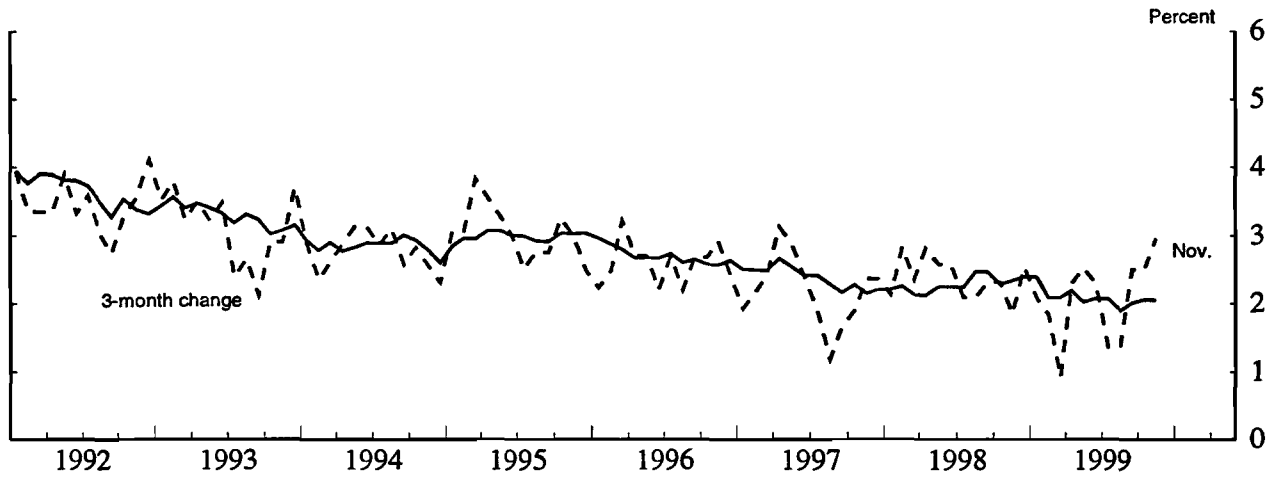
8. Funds totaling \$2.4 billion from the tobacco companies had been placed in an escrow account during the fourth quarter of 1998 pending the final approval of the agreement; at that time BEA scored this transaction as state and local indirect business tax and nontax accruals. Thus, the current distribution will not have a direct effect on the NIPAs. BEA plans to spread the 2000 payments evenly throughout the year in the NIPAs.

9. Seven states have not yet approved the master settlement and have not yet received funds. They include Alabama, Arizona, Arkansas, Missouri, New Jersey, Pennsylvania, and Tennessee. As these states reach approval status, more money will be released. Reaching final approval status--dubbed "state specific finality"--means that all legal challenges to the agreement between that state and the tobacco companies have been cleared. If a state fails to approve the agreement by December 31, 2001, the state's participation in the settlement is terminated.

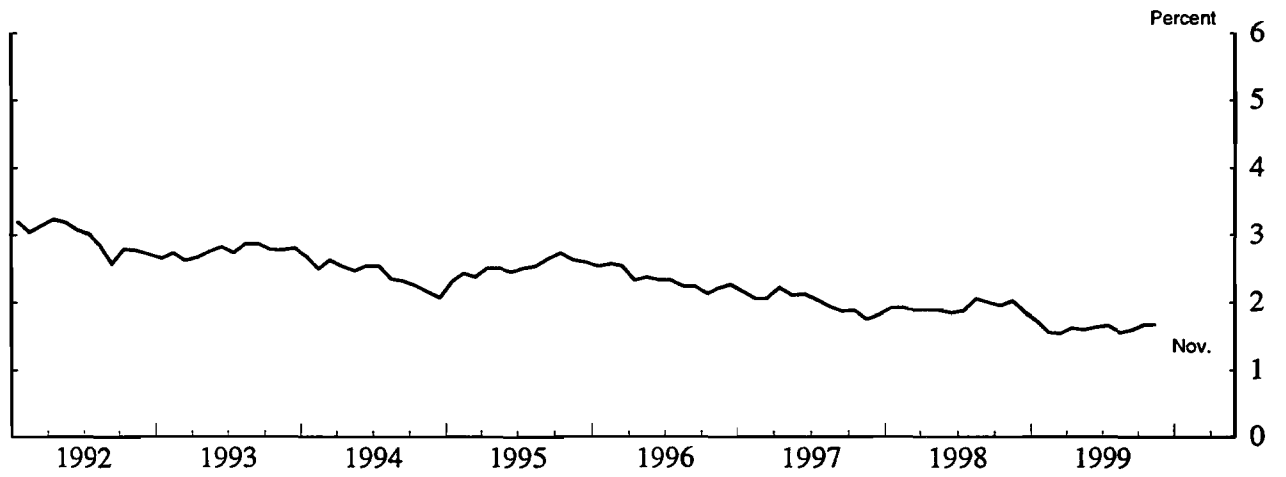
10. Although the October and November increases in core CPI were modest, the 0.3 percent jump in September sets up a sizable fourth-quarter increase in core CPI on a quarterly average basis. Excluding tobacco (as well as food and energy), the monthly figures through November also point to a step-up in the quarterly average pace.

Measures of Core Consumer Price Inflation (Twelve-month change except as noted)

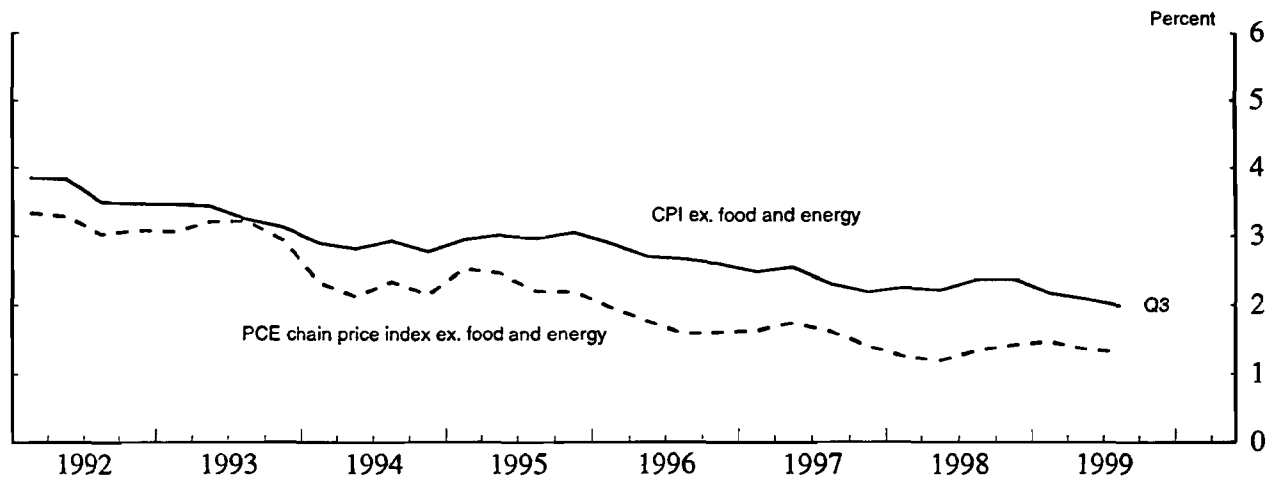
CPI Excluding Food and Energy



CPI Excluding Food, Energy, and Tobacco, Current-Methods Basis



CPI and PCE



BROAD MEASURES OF INFLATION
(Four-quarter percent change)

| | 1996 Q3 | 1997 Q3 | 1998 Q3 | 1999 Q3 |
|-------------------------------------------------|------------|------------|------------|------------|
| Product prices | | | | |
| GDP chain price index | 1.8 | 1.6 | 1.2 | 1.3 |
| Nonfarm business chain price index ¹ | 1.2 | 1.8 | 0.7 | 0.8 |
| Expenditure prices | | | | |
| Gross domestic purchases chain price index | 1.7 | 1.3 | 0.8 | 1.5 |
| Less food and energy | 1.4 | 1.4 | 1.1 | 1.3 |
| PCE chain price index | 1.9 | 1.6 | 1.0 | 1.7 |
| Less food and energy | 1.6 | 1.6 | 1.3 | 1.3 |
| CPI | 2.9 | 2.2 | 1.6 | 2.3 |
| Less food and energy | 2.7 | 2.3 | 2.4 | 2.0 |
| Median CPI | 3.1 | 2.9 | 2.9 | 2.3 |
| Trimmed mean CPI | 2.9 | 2.4 | 2.0 | 1.8 |

1. Excluding housing.

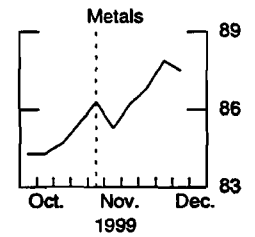
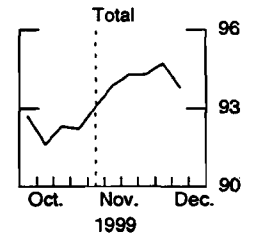
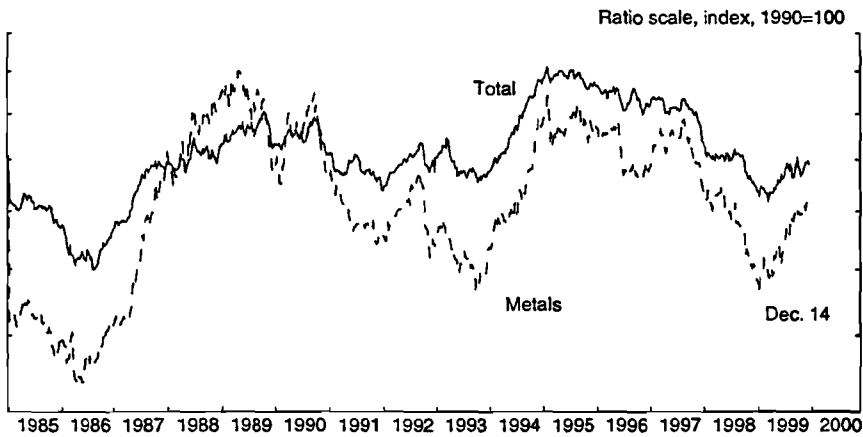
SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

| | Actual inflation ¹ | University of Michigan | | | | Professional forecasters (10-year) ⁶ |
|---------|----------------------------------|------------------------|---------------------|-------------------|---------------------|-------------------------------------------------------|
| | | 1 year | | 5 to 10 years | | |
| | | Mean ² | Median ³ | Mean ⁴ | Median ⁵ | |
| 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 |
| Q2 | 2.1 | 3.1 | 2.7 | 3.3 | 2.8 | 2.5 |
| Q3 | 2.3 | 3.1 | 2.7 | 3.4 | 2.9 | 2.5 |
| Q4 | | 3.4 | 2.9 | 3.3 | 2.9 | 2.5 |
| July | 2.1 | 3.0 | 2.7 | 3.3 | 2.9 | |
| Aug. | 2.3 | 3.2 | 2.8 | 3.3 | 2.8 | |
| Sept. | 2.6 | 3.2 | 2.7 | 3.5 | 2.9 | 2.5 |
| Oct. | 2.6 | 3.5 | 2.9 | 3.2 | 2.8 | |
| Nov. | 2.6 | 3.3 | 2.9 | 3.5 | 2.9 | |
| Dec. | | 3.5 | 3.0 | 3.2 | 2.9 | 2.5 |

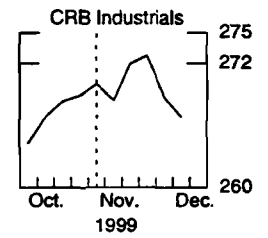
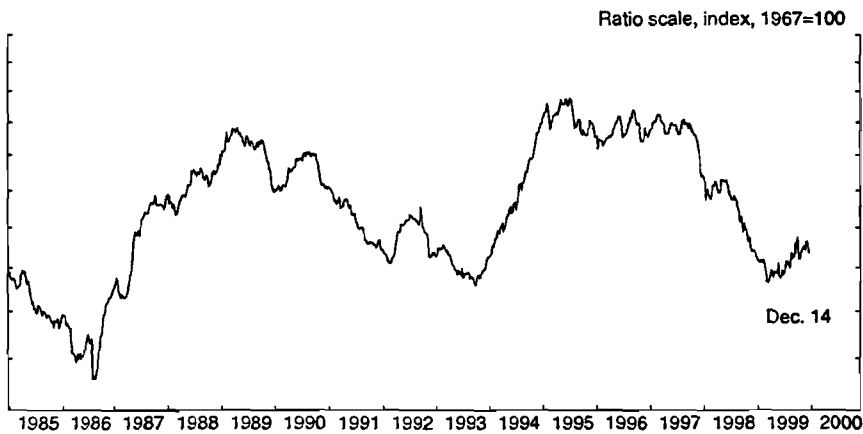
1. CPI; percent change from the same period in the preceding year.
2. Average increase for responses to the question: By about what percent do you expect prices (CPI) to go up, on the average, during the next 12 months?
3. Median increase for responses to the question above.
4. Average increase for responses 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.

Commodity Price Measures

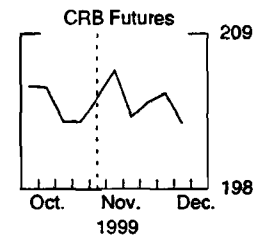
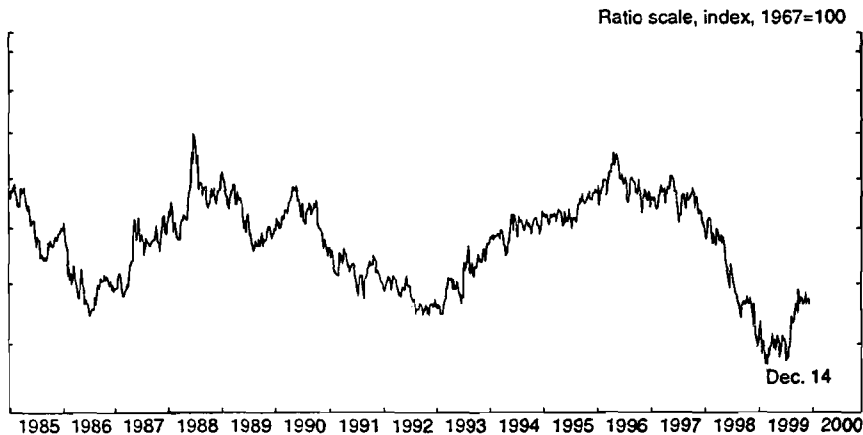
Journal of Commerce Index



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.

months, down a little from its pace in the prior twelve-month period on a published basis.¹¹

Energy prices were little changed in October and November. Higher crude oil prices pushed up heating oil prices in both months, but low margins through mid-November held retail gasoline prices in check. Looking ahead, the recent increases in crude costs likely will lead to sizable additional hikes in gasoline and heating oil prices in coming months; for gasoline, higher prices already are evident in surveys for early December. As for Y2K considerations, the increases in crude oil prices seem to stem mostly from other factors, and there are not many signs that prices of refined product have been affected to date by precautionary stockpiling. Food prices rose modestly in both October and November. Over the past twelve months, the food index increased 1.9 percent, a little less than the increase in the CPI excluding food and energy.

In October and November, the modest increases in the core CPI reflected softness in prices of core commodities that was balanced by a pickup in price increases for non-energy services. In November, price declines for core commodities were widespread, including drops in the prices of tobacco and apparel, relatively erratic categories. Apparel prices dropped back last month after two months of sizable increases, and cigarette prices were pulled down by discounts on selected major brands. Tobacco product prices have been particularly volatile in the past year, and the large increases in retail prices associated with last year's settlement between the tobacco companies and the states--especially the jump last December--have boosted the increase in core commodity prices and the overall core CPI over the past year.¹² Over the past twelve months, the CPI for core commodities was up 3/4 percent, but that increase owed to the very large increase in tobacco prices over the past year.¹³

Prices of core services rose 0.4 percent in November and 0.3 percent in October, larger increases than seen in the prior couple of months. In October, the services figure was pushed up by a jump in the airfares category, but last month the increase owed to a faster pace for owners' equivalent rent and tenants' rent, both of which rose 0.4 percent in November. According to BLS, the upward movement in both series reflected widespread increases in their source quotes.

11. On a current-methods basis, the core CPI increased 2.1 percent over the past twelve months, the same as its pace in the year-earlier period.

12. The core CPI excluding tobacco (as well as food and energy) was up 1.7 percent over the past twelve months, compared with the 2.1 percent increase in core CPI when tobacco is included.

13. Next month, last December's jump in tobacco prices will fall out of the twelve-month change, and we expect the twelve-month change in prices of core commodities to drop back in the next CPI release.

SPOT PRICES OF SELECTED COMMODITIES

| | Current price (dollars) | -----Percent change ¹ ----- | | | | Memo: Year earlier to date |
|------------------------------------|-------------------------------|----------------------------------------|-------|---------------------------------------|---------------------------------------|-------------------------------------|
| | | 1997 | 1998 | Dec. 29 to Nov. 09 ² | Nov. 09 ² to Dec. 14 | |
| Metals | | | | | | |
| Copper (lb.) | .830 | -21 | -14.8 | 21.7 | -1.2 | 20.3 |
| Steel scrap (ton) | 117.33 | 19.3 | -47.5 | 46.8 | 10.0 | 61.5 |
| Aluminum, London (lb.) | .692 | -1.9 | -17.6 | 17.4 | 5.0 | 25.6 |
| Precious metals | | | | | | |
| Gold (oz.) | 279.25 | -21 | -1.1 | 1.3 | -4.0 | -4.5 |
| Silver (oz.) | 5.230 | 27.2 | -18.0 | 2.0 | 2.0 | 6.7 |
| Forest products³ | | | | | | |
| Lumber (m. bdft.) | 335.00 | -27 | 2.7 | 5.0 | 6.3 | 15.5 |
| Plywood (m. sqft.) | 320.00 | -1.7 | 3.3 | 4.8 | -1.5 | .9 |
| Petroleum | | | | | | |
| Crude oil (barrel) | 24.900 | -27 | -36.1 | 134 | 2.9 | 155.6 |
| Gasoline (gal.) | .690 | -23 | -33.5 | 103 | 2.2 | 114.4 |
| Fuel oil (gal.) | .653 | -30 | -33.6 | 90.5 | 4.5 | 100.2 |
| Livestock | | | | | | |
| Steers (cwt.) | 70.000 | 4.2 | -13.2 | 17.4 | 1.1 | 20.7 |
| Hogs (cwt.) | 35.000 | -31 | -55.7 | 102 | 12.0 | 218.2 |
| Broilers (lb.) | .563 | -24 | 15.0 | 7.6 | -7.9 | -3.7 |
| U.S. farm crops | | | | | | |
| Corn (bu.) | 1.820 | -3.8 | -19.4 | -11 | -1.1 | -13.7 |
| Wheat (bu.) | 2.570 | -24 | -5.7 | -18 | -6.0 | -19.6 |
| Soybeans (bu.) | 4.380 | -3.2 | -21.1 | -15 | -3.5 | -19.3 |
| Cotton (lb.) | .470 | -11 | -10.2 | -16 | -2.5 | -20.7 |
| Other foodstuffs | | | | | | |
| Coffee (lb.) | 1.260 | 26.1 | -31.4 | -3.4 | 11.5 | 2.4 |
| Memo: | | | | | | |
| JOC Industrials | 93.800 | -7.3 | -9.8 | 5.2 | .8 | 4.9 |
| JOC Metals | 87.500 | -4.7 | -18.5 | 19.2 | 1.4 | 19.2 |
| CRB Futures | 202.57 | -4.9 | -17.2 | 7.1 | -.9 | 5.7 |
| CRB Spot | 266.75 | -7.6 | -14.1 | 2.5 | -1.2 | .1 |

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 November Greenbook.

3. Reflects prices on the Friday before the date indicated.

The PPI for capital equipment edged down 0.1 percent in November after an increase of 0.3 percent in October. Over the past twelve months, the prices of capital goods have been essentially unchanged, with modest price increases for many types of equipment balanced by declines in prices of computers and communication equipment. In November, computer prices fell 1.0 percent; their average rate of decline over the past three months has been relatively slow compared with the trend of recent years. This slowing in price declines for computers likely reflects some supply disruptions for components; lately, these disruptions appear to have abated.

The NIPA-based inflation measures also have remained quite tame, aside from energy. For consumers, the PCE chain price index for items other than food and energy rose 1-1/4 percent over the four quarters ending in the third quarter of this year, the same as the pace in the prior four-quarter period. Reflecting the run-up in energy prices, the overall PCE price index was up 1-3/4 percent from a year earlier, compared with an increase of just 1 percent in the prior four-quarter period. The price index for gross domestic purchases—which includes consumption, investment, and government prices—showed a similar pickup. On the other hand, the price index for gross domestic product—which measures prices of goods produced in the United States and therefore places a smaller weight on energy—increased 1-1/4 percent over the past four quarters, about the same as the increase in the year-earlier period.

Near-term inflation expectations have moved up recently, probably reflecting, at least in part, the increases in energy prices seen over much of this year. Specifically, the median of one-year ahead inflation expectations from the Michigan Survey has averaged 2.9 percent in the fourth quarter, up about 1/2 percentage point from the end of last year. However, longer-term inflation expectations as measured in both the Michigan Survey and the Professional Forecasters Survey have not moved up since the end of last year and remain at about 3 percent and 2-1/2 percent, respectively.

At earlier stages of processing, the PPI for intermediate materials excluding food and energy rose 0.1 percent in November, the ninth consecutive month of increase. Over the past twelve months, this index is up 1.5 percent, reversing the decline registered in the preceding twelve months. The index for core crude prices, after considerably larger increases in the previous several months, rose 0.3 percent in November. Although prices of some industrial commodities--such as petroleum products and steel scrap--have moved up since mid-November, there are hints of a pause in the upward trend in commodity prices in the past couple of months. In particular, broad indexes of industrial commodity prices have fluctuated in a fairly narrow range since the end of September after

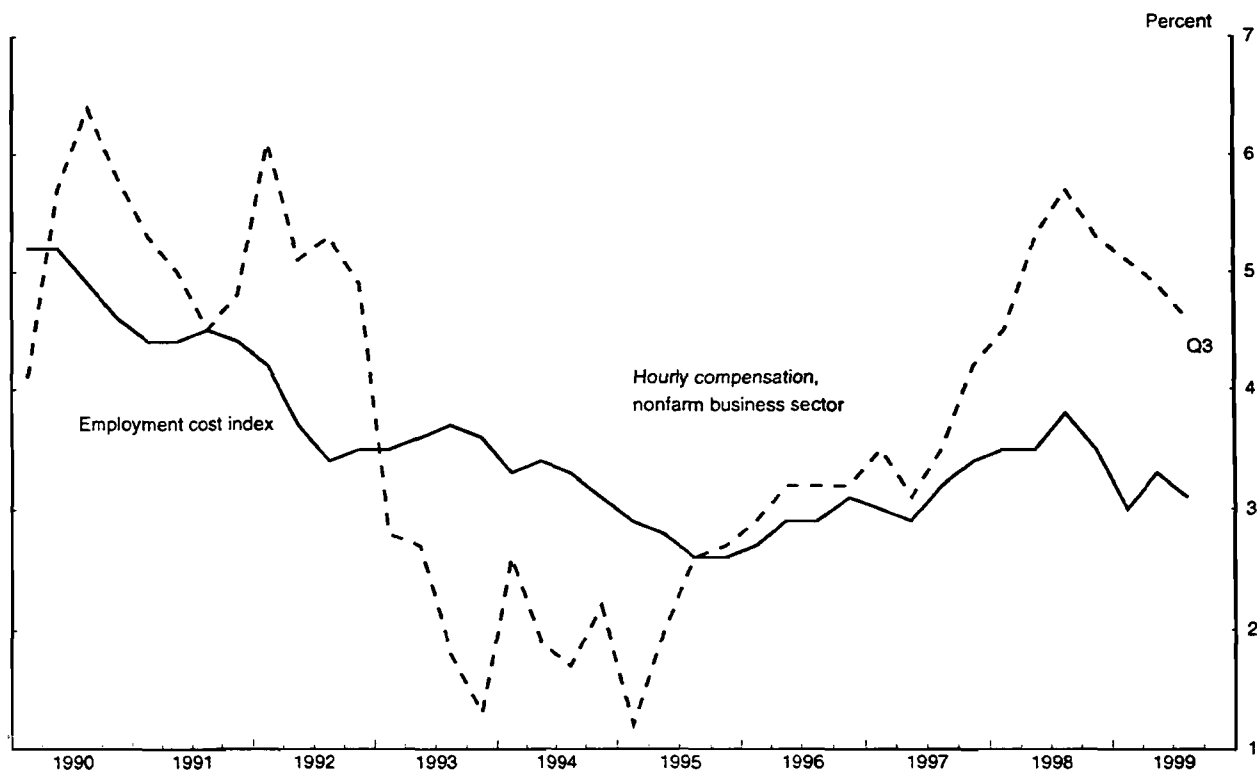
LABOR COSTS (Staff Estimates)
 (Percent change; annual rate; based on seasonally adjusted data)

| | 1997 ¹ | 1998 ¹ | 1998 Q4 | 1999 Q1 | 1999 Q2 | 1999 Q3 | 1998:Q3 to 1999:Q3 |
|----------------------------------------|-------------------|-------------------|------------|------------|------------|------------|--------------------------|
| <u>Compensation per hour</u> | | | | | | | |
| Total business | 4.4 | 5.4 | 4.9 | 4.9 | 5.1 | 4.6 | 4.9 |
| Nonfarm business | 4.2 | 5.3 | 4.6 | 4.2 | 4.8 | 4.7 | 4.6 |
| Nonfinancial corporations ² | 4.3 | 5.4 | 4.9 | 4.7 | 4.8 | 4.6 | 4.8 |
| <u>Unit labor costs</u> | | | | | | | |
| Total business | 1.9 | 2.1 | .6 | 1.9 | 4.2 | -.1 | 1.7 |
| Nonfarm business | 2.0 | 2.1 | .5 | 1.4 | 4.2 | -.2 | 1.5 |
| Nonfinancial corporations ² | 1.0 | 1.2 | 1.7 | .6 | 1.6 | -.1 | .9 |

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)



having rebounded from the substantial declines associated with the Asian economic crisis.

For the third quarter, compensation per hour in the nonfarm business sector--as reported by the BLS in the Productivity and Cost release--increased at an annual rate of 4.7 percent. Over the past four quarters, compensation per hour has risen 4.6 percent, down from the 5.7 percent increase reported for the previous four quarters. This deceleration is even greater than that in the ECI, although the current pace of increase in compensation per hour is well above the 3.1 percent pace registered by the ECI over the past year.

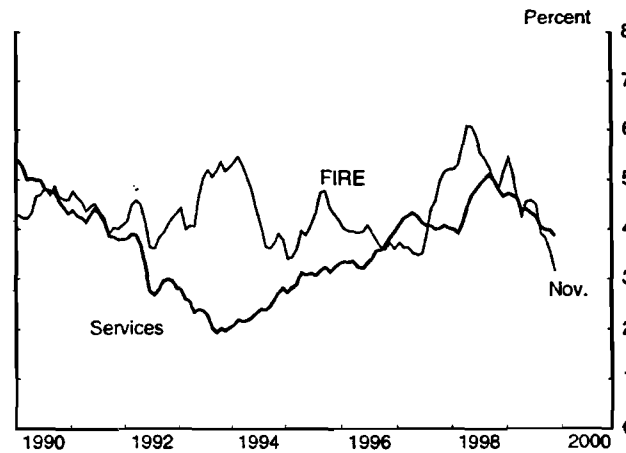
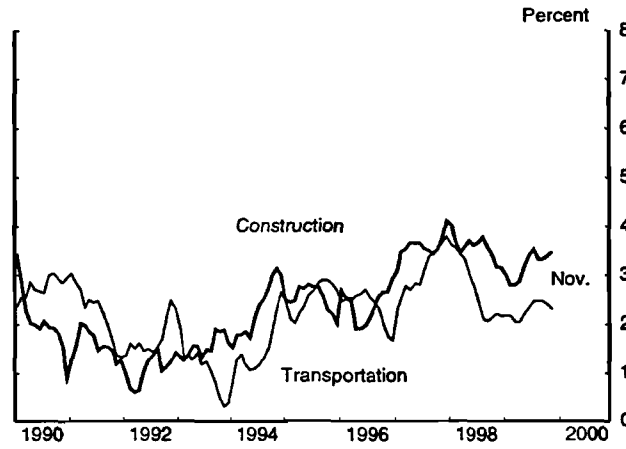
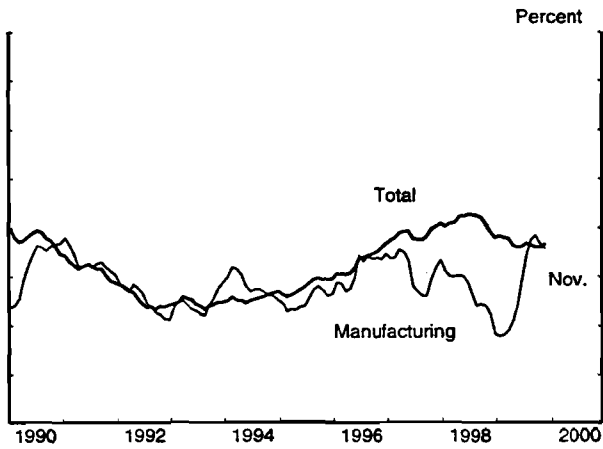
Our only data on labor costs for the fourth quarter are the monthly figures for average hourly earnings.¹⁴ In November, hourly wages rose 0.1 percent after an upward-revised increase of 0.3 percent in October. Over the past twelve months, average hourly earnings are up 3.6 percent, similar to the pace seen since early this year. Although these modest advances in average hourly earnings appear to contradict the widespread anecdotes about labor market tightness, this measure of wages does not include many types of compensation--such as hiring and retention bonuses, employee discounts, and payments in kind--that employers have reportedly offered to attract and retain workers.

14. In addition to hard data, anecdotal reports suggest hefty bonus payments on Wall Street this year. The ECI will incorporate these at the time that they are paid, and any bonuses paid after the middle of December will appear in the first-quarter ECI figures. (The fourth-quarter ECI will pick up bonuses paid through the payroll week including December 12th.)

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

| | Twelve-month percent change | | | Percent change to Nov. 1999 from | | 1999 | |
|--------------------------------------------|-------------------------------|-----------|-----------|----------------------------------|-----------|----------------|------|
| | Nov. 1997 | Nov. 1998 | Nov. 1999 | May 1999 | Aug. 1999 | Oct. | Nov. |
| | - - - - -Annual rate- - - - - | | | | | -Monthly rate- | |
| Total private nonfarm | 4.0 | 3.8 | 3.6 | 3.5 | 3.7 | .3 | .1 |
| Manufacturing | 3.3 | 1.8 | 3.4 | 2.8 | .3 | .1 | -.1 |
| Construction | 3.9 | 3.3 | 3.2 | 2.6 | 3.5 | .3 | .2 |
| Transportation and public utilities | 3.6 | 2.1 | 2.2 | 1.3 | 1.3 | -.1 | .0 |
| Finance, insurance, and real estate | 4.9 | 5.1 | 3.1 | 2.2 | 3.6 | .1 | .3 |
| Retail trade | 4.6 | 4.2 | 4.1 | 3.8 | 3.6 | .4 | .2 |
| Wholesale trade | 5.0 | 3.9 | 3.9 | 4.9 | 5.6 | .4 | .2 |
| Services | 4.1 | 4.6 | 4.0 | 3.6 | 3.9 | .4 | .1 |

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



Domestic Financial Developments

III-T-1

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

| Instrument | 1998 | | 1999 | | Change to Dec. 14 from selected dates (percentage points) | | |
|-------------------------------------------------|-------------------|---------|------------------|---------|--------------------------------------------------------------|-----------------|------------------|
| | Oct. 15 | Dec. 31 | FOMC* Nov. 16 | Dec. 14 | 1998 Oct. 15 | 1998 Dec. 31 | FOMC* Nov. 16 |
| | <i>Short-term</i> | | | | | | |
| FOMC intended federal funds rate | 5.00 | 4.75 | 5.25 | 5.50 | .50 | .75 | .25 |
| Treasury bills ¹ | | | | | | | |
| 3-month | 4.05 | 4.37 | 5.12 | 5.23 | 1.18 | .86 | .11 |
| 6-month | 4.12 | 4.39 | 5.22 | 5.46 | 1.34 | 1.07 | .24 |
| 1-year | 4.06 | 4.33 | 5.21 | 5.48 | 1.42 | 1.15 | .27 |
| Commercial paper | | | | | | | |
| 1-month | 5.27 | 4.90 | 5.31 | 6.03 | .76 | 1.13 | .72 |
| 3-month | 5.13 | 4.84 | 5.80 | 5.92 | .79 | 1.08 | .12 |
| Large negotiable CDs ¹ | | | | | | | |
| 1-month | 5.35 | 5.01 | 5.43 | 6.44 | 1.09 | 1.43 | 1.01 |
| 3-month | 5.31 | 4.97 | 5.99 | 6.06 | .75 | 1.09 | .07 |
| 6-month | 5.10 | 4.97 | 5.98 | 6.05 | .95 | 1.08 | .07 |
| Eurodollar deposits ² | | | | | | | |
| 1-month | 5.34 | 4.94 | 5.38 | 6.38 | 1.04 | 1.44 | 1.00 |
| 3-month | 5.28 | 4.94 | 5.94 | 6.00 | .72 | 1.06 | .06 |
| Bank prime rate | 8.25 | 7.75 | 8.25 | 8.50 | .25 | .75 | .25 |
| <i>Intermediate- and long-term</i> | | | | | | | |
| U.S. Treasury (constant maturity) | | | | | | | |
| 2-year | 4.13 | 4.54 | 5.79 | 6.07 | 1.94 | 1.53 | .28 |
| 10-year | 4.58 | 4.65 | 5.94 | 6.22 | 1.64 | 1.57 | .28 |
| 30-year | 5.02 | 5.09 | 6.04 | 6.31 | 1.29 | 1.22 | .27 |
| U.S. Treasury 10-year indexed note | 3.69 | 3.88 | 4.07 | 4.20 | .51 | .32 | .13 |
| Municipal revenue (Bond Buyer) ³ | 5.21 | 5.26 | 6.08 | 6.13 | .92 | .87 | .05 |
| Corporate bonds, Moody's seasoned Baa | 7.26 | 7.23 | 8.03 | 8.16 | .90 | .93 | .13 |
| High-yield corporate ⁴ | 11.28 | 10.17 | 10.91 | 10.80 | -.48 | .63 | -.11 |
| Home mortgages (FHLMC survey rate) ⁵ | | | | | | | |
| 30-year fixed | 6.49 | 6.77 | 7.67 | 7.84 | 1.35 | 1.07 | .17 |
| 1-year adjustable | 5.36 | 5.58 | 6.30 | 6.45 | 1.09 | .87 | .15 |

| Stock exchange index | Record high | | 1998 | 1999 | | Change to Dec. 14 from selected dates (percent) | | |
|----------------------|----------------------|-----------|-----------|------------------|-----------|----------------------------------------------------|---------|------------------|
| | Level | Date | Dec. 31 | FOMC* Nov. 16 | Dec. 14 | Record high | Dec. 31 | FOMC* Nov. 16 |
| | Dow-Jones Industrial | 11,326.04 | 8-25-99 | 9,181.43 | 10,760.75 | 11,160.17 | -1.46 | 21.55 |
| S&P 500 Composite | 1,433.30 | 12-3-99 | 1,229.23 | 1,394.39 | 1,403.17 | -2.10 | 14.15 | .63 |
| Nasdaq (OTC) | 3,658.17 | 12-13-99 | 2,192.69 | 3,219.54 | 3,571.66 | -2.36 | 62.89 | 10.94 |
| Russell 2000 | 491.41 | 4-21-98 | 421.96 | 452.97 | 462.75 | -5.83 | 9.67 | 2.16 |
| Wilshire 5000 | 13,281.06 | 12-3-99 | 11,317.59 | 12,844.55 | 13,088.72 | -1.45 | 15.65 | 1.90 |

1. Secondary market.

2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.

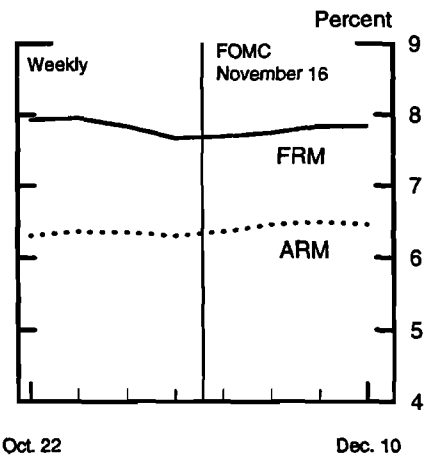
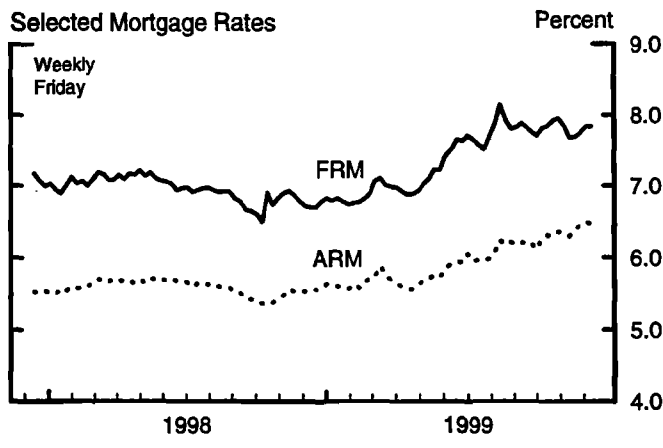
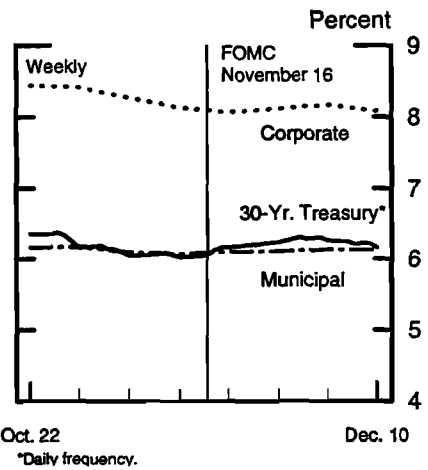
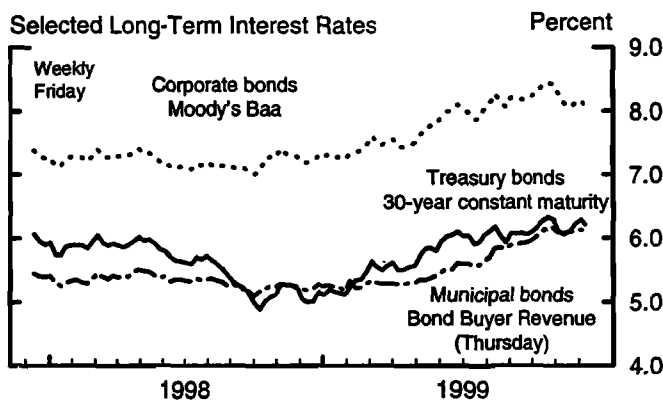
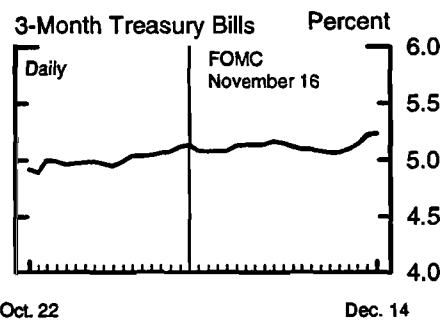
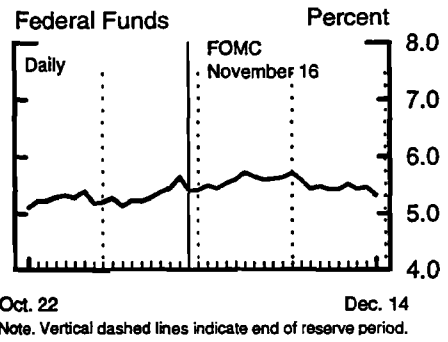
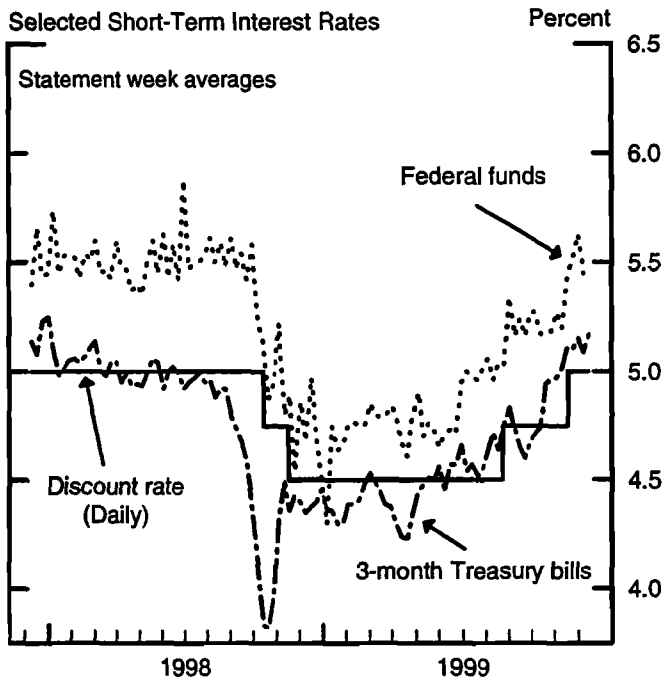
3. Most recent Thursday quote.

4. Merrill Lynch 175 high-yield bond index composite.

5. For week ending Friday previous to date shown.

* Data are as of the close on November 15, 1999.

Selected Interest Rates



Domestic Financial Developments

Overview

The announcement of a policy tightening and the shift to a neutral bias after the last FOMC meeting elicited only a slight rise in Treasury yields. However, yields trended higher in subsequent weeks as the policy statement and comments by Federal Reserve officials were taken as suggesting that inflation pressures remained a significant concern. In addition, economic data released over the intermeeting period have generally pointed to unsustainable growth, although the readings on wages and prices remained favorable. This combination led market participants to mark up their expectations for short-term rates next year: Futures quotes now indicate expectations that the funds rate will be raised to 6 percent or above by the end of next year, more than 1/4 percentage point higher than anticipated at the time of the November FOMC meeting.

On net, Treasury coupon yields have risen about 25 basis points. Corporate bond yields are up by less or have even moved a little lower; the narrowing of spreads may reflect reduced concerns about market liquidity around year-end, as well as generally favorable economic data. The latter, along with increasingly optimistic views of the prospects for technology companies, also helped to buoy equity markets over the intermeeting period. Broad measures of share prices climbed 1 percent to 4 percent on balance, reaching new highs. The technology-rich Nasdaq rose nearly 11 percent.

Available data on borrowing by nonfederal sectors in the fourth quarter point to continued brisk expansion, although debt growth is likely to fall short of the 9-1/4 percent pace in the third quarter. Businesses borrowed large amounts at commercial banks as well as in the bond markets in November. Households also appear to be taking on debt at a brisk pace, especially mortgage debt. Meanwhile, the paydown of federal debt has slowed as the Treasury seeks to build up its cash balance to an unusual degree in preparation for potential Y2K needs.

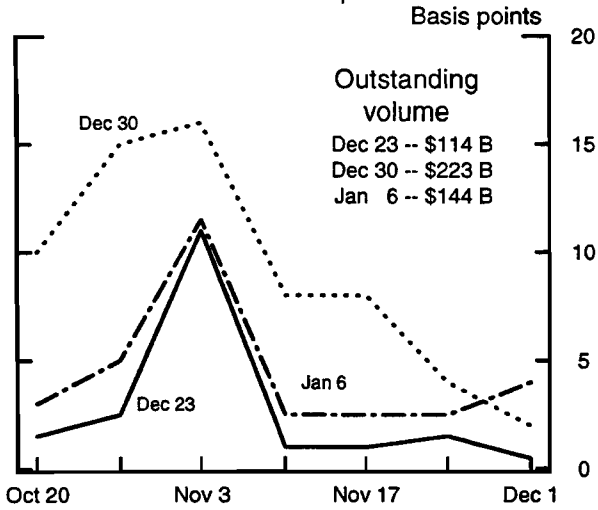
Year-End Financing Pressures

Measures of year-end pressures continue to indicate expectations of elevated funding costs and reluctance to be exposed to refinancing risks around the turn of the year. Nonetheless, concerns that conditions will deteriorate markedly toward year-end have mostly disappeared. Indeed, most measures of year-end funding pressures, including the Eurodollar deposit butterfly spread and forward premiums derived from yields on commercial paper, term fed funds, and term repos, have changed little on balance in recent weeks, preserving the considerable easing in these measures that occurred in late October and the first half of November.

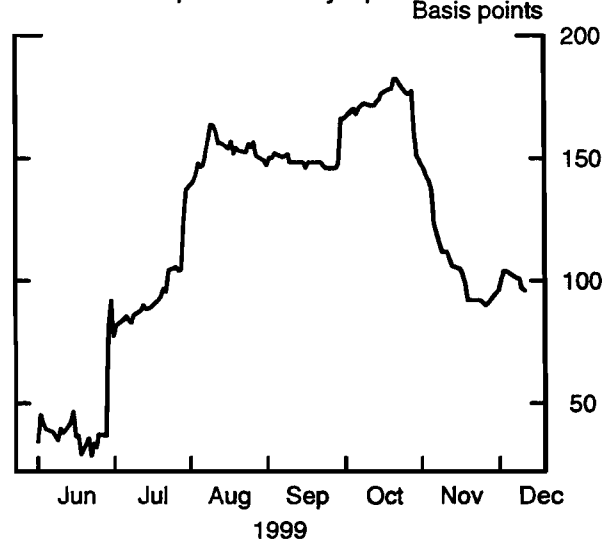
Measures of Year-End Financing Pressures

(All series are daily through December 10)

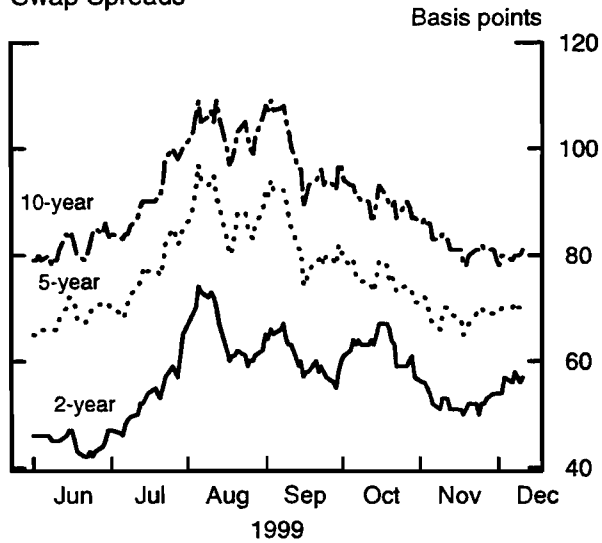
Rates on Auctions of RP Options



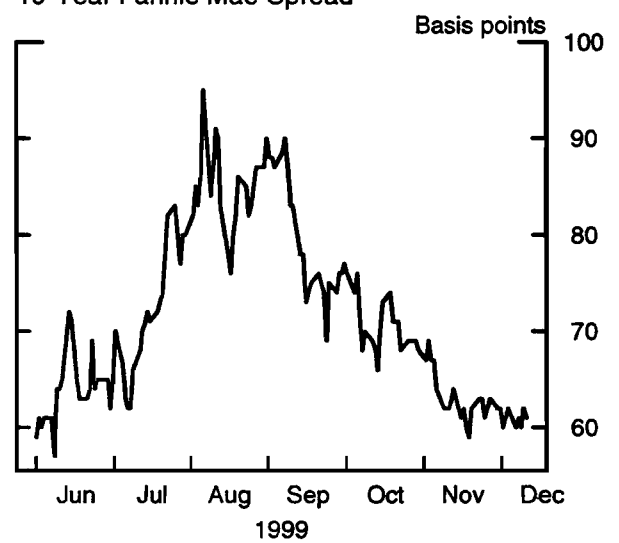
Eurodollar Deposit Butterfly Spread



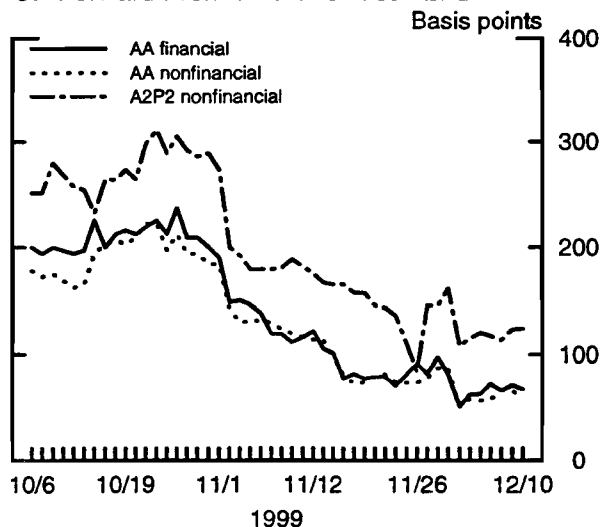
Swap Spreads



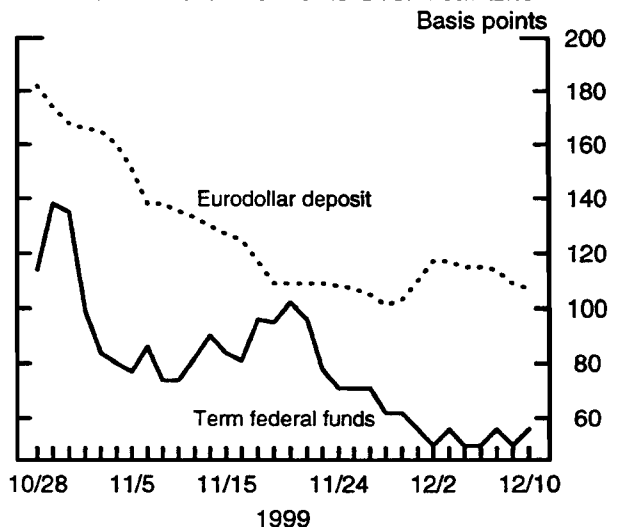
10-Year Fannie Mae Spread



CP Forward Premiums Over Year-End*



1-Month Forward Premiums Over Year-End



* Plot shows 30-day forward premiums before Dec. 2 and 23-day forward premiums thereafter.

Although the premiums remain substantially larger than over previous year-ends, liquidity and issuance in capital markets have been much better maintained in recent weeks than many had anticipated.

Various initiatives taken by the Federal Reserve, including the sale of options on repurchase agreements around year-end, have contributed to the more relaxed attitudes toward year-end funding. The final weekly auction of the options was completed on December 1, and premiums paid and volumes of bids remained significantly below their early-November peaks for all three of the weekly strips. A total of \$481 billion of options was sold in seven auctions, far exceeding the amount initially scheduled. Apparently, dealers consider these options to be relatively inexpensive insurance against the possibility of a disruption in access to financing around year-end. Borrowing from the Special Liquidity Facility has remained subdued over recent weeks.

In commercial paper markets, firms have continued to focus on placing their paper well into the new year to avoid the last week of December and the early part of January. About 70 percent of all outstanding paper will mature beyond the first two weeks in January, about 15 percentage points more than at the same point in recent years. Premiums for funding across year-end are above those prevailing last year, although they have drifted down on balance over recent weeks.

Many market participants had expected some deterioration in liquidity in the Treasury market as year-end approaches, in part because dealers often pare back their activity in the market at the close of their fiscal years. The positions of the four primary dealers whose fiscal years ended November 30 were reduced only slightly, however, as their fiscal year drew to an end. For the other dealers, changes to date in trading volumes and balance sheets have been in line with previous year-ends.

Banks continued to stockpile vault cash over the intermeeting period, and holdings are currently more than 50 percent, or roughly \$25 billion, above their early August levels. This far exceeds the normal seasonal increase of around \$2 billion to \$3 billion. Currency held by the public has started to pick up in recent weeks, but holdings are still only somewhat elevated relative to previous year-ends.

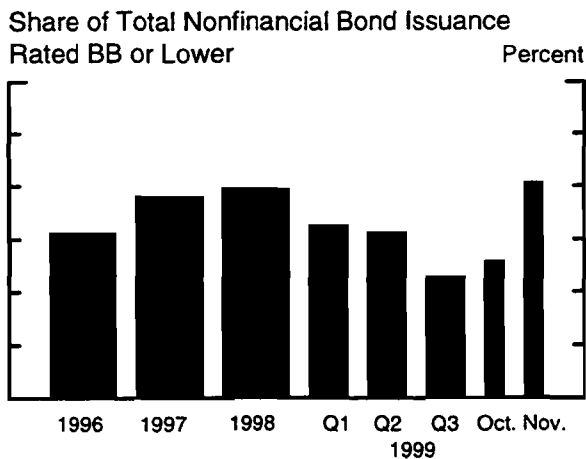
Banks' managed liabilities surged tremendously last month, particularly large time deposits, likely related in part to the century date change. From the supply-side perspective, the run-up in banks' managed liabilities seems to be driven by the steps banks themselves are taking to get ready for the century date change, such as helping to finance the extraordinary increase in vault cash and a rapid

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

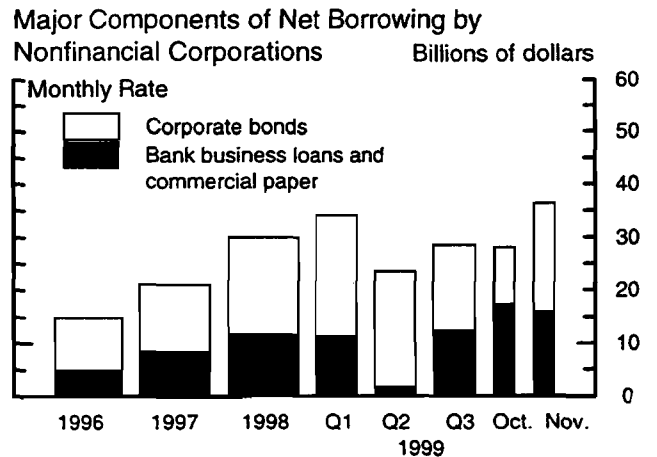
| Type of security | 1997 | 1998 | 1999 | | | |
|--------------------------------------------------------------------------|-------------|-------------|--------------|-------------|-------------|-------------|
| | | | H1 | Q3 | Oct. | Nov. |
| All U.S. corporations | 77.4 | 94.0 | 102.7 | 87.5 | 54.6 | 79.5 |
| Stocks ¹ | 9.8 | 10.6 | 10.1 | 9.1 | 9.8 | 20.9 |
| Bonds | 67.6 | 83.5 | 92.6 | 78.4 | 44.8 | 58.7 |
| Nonfinancial corporations | | | | | | |
| Stocks ¹ | 5.0 | 6.2 | 7.6 | 7.9 | 9.5 | 19.8 |
| Initial public offerings | 1.8 | 2.2 | 2.8 | 3.2 | 4.4 | 12.4 |
| Seasoned offerings | 3.2 | 4.0 | 4.8 | 4.7 | 5.1 | 7.4 |
| Bonds ² | 18.6 | 25.7 | 28.7 | 23.0 | 15.0 | 26.7 |
| Investment grade ³ | 8.4 | 14.1 | 16.1 | 14.5 | 8.1 | 12.3 |
| Speculative grade ³ | 8.2 | 10.2 | 9.2 | 5.1 | 4.0 | 9.2 |
| Other (Sold Abroad/Unrated) | 1.9 | 1.3 | 3.4 | 3.3 | 2.8 | 5.1 |
| Financial corporations | | | | | | |
| Stocks ¹ | 4.8 | 4.4 | 2.4 | 1.3 | .4 | 1.0 |
| Bonds | 49.1 | 57.8 | 63.9 | 55.4 | 29.8 | 32.0 |
| Memo: | | | | | | |
| Net issuance of commercial paper, nonfinancial corporations ⁴ | 1.1 | 2.3 | 2.8 | 4.7 | 7.8 | .8 |
| Change in C&I loans at commercial banks ⁴ | 6.1 | 7.2 | 2.4 | 6.7 | 9.1 | 15.2 |

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. Excludes mortgage-backed and asset-backed bonds.
3. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard Poor's if unrated by Moody's.
4. End-of-period basis based on weekly data ending Wednesday. Seasonally adjusted.



Source. Securities Data Company.



Note. Calculated on a period-end basis. Bank loans include CLOs.

growth in loans. Part of this loan growth reportedly owes to a buildup in inventories and liquid assets as firms take precautions before year-end. In addition, branches and agencies of foreign banks evidently used some of the large time issuance to help fund their head offices abroad. From the demand-side perspective, some of the bulge in managed liabilities may reflect a buildup in liquidity by firms as protection against the possibility of disruptions in cash flows or the inability to roll over maturing obligations around year-end. Balances in institution-only money market mutual funds, another potential parking spot for funds, also have ramped up recently. Overall, it seems clear that any demand-driven sources have not been sufficient to meet banks' needs for funds, as domestic banks have also tapped foreign offices and sold securities to fund loan growth.

Business Finance

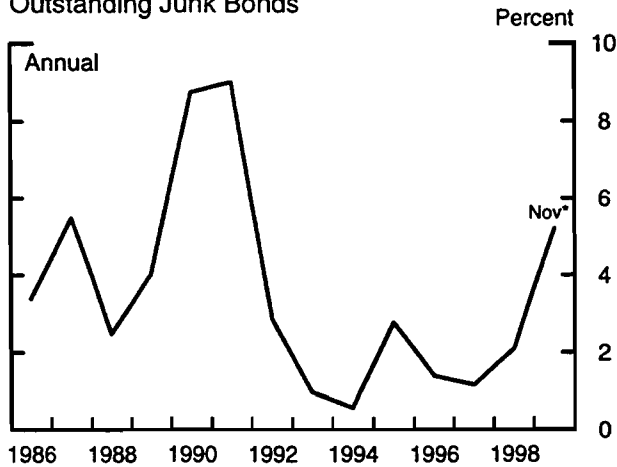
Gross equity issuance by nonfinancial corporations exploded in November, to a record \$20 billion. Several massive initial offerings, led by the United Parcel Service deal that raised \$5-1/2 billion, boosted total IPO issuance to a record \$12-1/2 billion. Investor enthusiasm for Internet-related IPOs continued unabated, and first-day returns of 100 percent and more were the norm. Offerings of seasoned equity also ballooned in November, with telecommunications firms accounting for nearly half of the total volume. Looking ahead, the list of registrations for future offerings remains long, and there are no signs of the IPO market winding down for year-end.

Gross offerings of bonds by nonfinancial corporations rebounded in November after a lull in October that reportedly reflected investors' uncertainty about FOMC action and year-end liquidity. Sales by both investment-grade and speculative-grade firms increased, but investor interest was still mainly focused on large, liquid issues. Risk premiums narrowed as yields on investment-grade debt increased less than yields on Treasury benchmarks, and yields on below-investment-grade debt actually edged down. Net issuance of commercial paper was slight in November, probably owing to the rebound in bond markets, but has moved back up in early December. And, as noted, growth of business loans at banks turned up sharply last month, even as lending officers continued to snug standards and terms on C&I loans. Overall, net business borrowing in November was surprisingly strong. Available data indicate this strength has carried through to early December.

The credit performance of U.S. businesses has eroded a bit, but still is strong overall. The problems that have emerged in the bond market appear concentrated among borrowers in the junk sector and reflect the fallout from the easy provision of credit through the middle of last year. Junk bond defaults picked up further in November, boosting the twelve-month trailing average default rate to its highest level since 1991. In the banking sector, delinquency

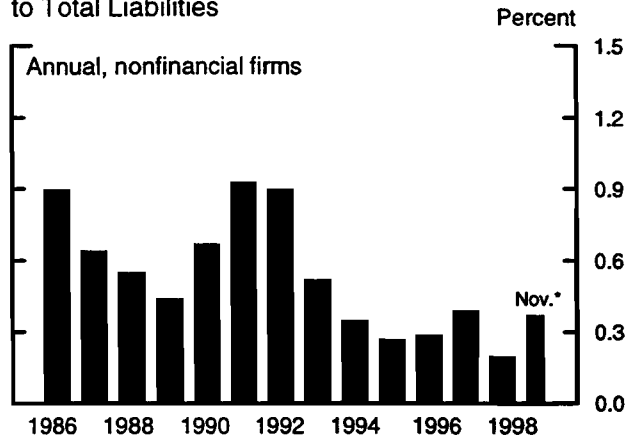
Corporate Finance and Stock Prices

Default Rates
Outstanding Junk Bonds



*Previous 12 months.

Liabilities of Failed Businesses
to Total Liabilities



*Previous 12 months.

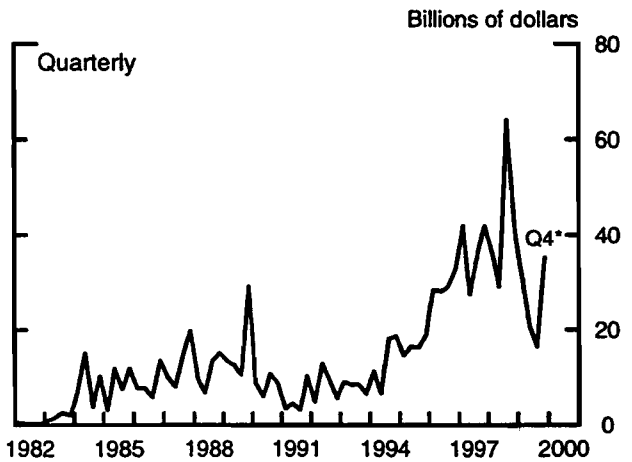
Source: Dun & Bradstreet.

Mergers and Acquisitions
Nonfinancial Firms

| Quarterly rate | Billions of dollars | |
|----------------|--------------------------------|---------------------|
| | Cash paid by domestic firms | Total deal value |
| 1997 | 21.5 | 82.9 |
| 1998 | 32.6 | 129.4 |
| 1999 Q1 | 23.5 | 145.0 |
| Q2 | 24.0 | 218.0 |
| Q3 | 38.8 | 121.0 |
| *Q4 | 25.1 | 245.9 |

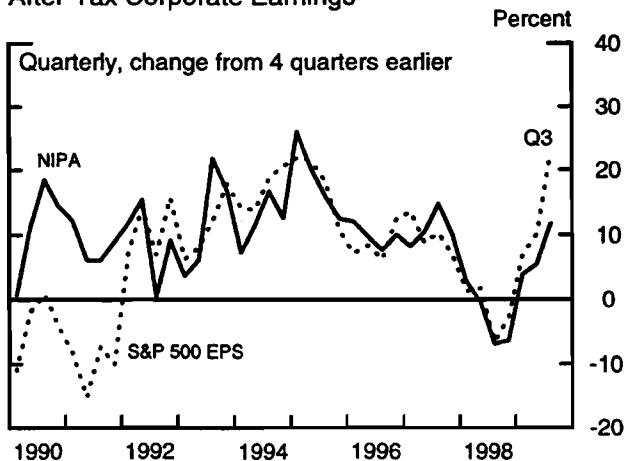
*Estimate based on data through Nov. 1999.

Announced Share Repurchases

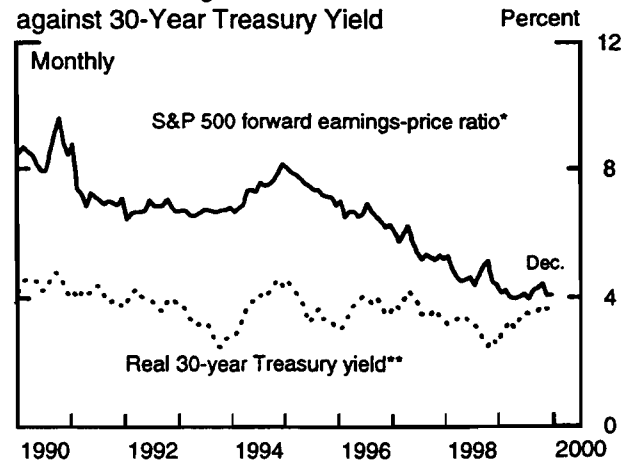


*Estimate based on data through Nov. 1999.

After-Tax Corporate Earnings



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 10-year inflation expectations.

rates on business loans continued their gradual rise last quarter. A broader measure of credit problems, the ratio of the liabilities of failed firms to total liabilities for nonfinancial businesses, has picked up a bit recently, although it remains at a relatively low level. Moody's rating changes in November resulted in a modest net downgrade, both in terms of the number of rating actions and the amount of affected debt, and more firms remain on watch for possible downgrades than upgrades.

Merger activity continued at a rapid pace. Mergers financed with cash payments--instead of stock--led to equity retirements of about \$25 billion at an annual rate in October and November, down from the third quarter but in line with the brisk rate in the first half of this year. New deals continued to be announced at a blistering pace, boosting the pending list to nearly a trillion dollars. While the bulk of the deals will be financed with stock, indications are that cash needs will remain high in the near term. Announcements of share repurchases have picked up this quarter from a weak third-quarter level but remain below last year's record pace.

Preliminary NIPA estimates showed third-quarter after-tax reported earnings up about 12 percent from a year ago, less than the rise in operating profits per share of S&P 500 companies. The NIPA data suggest that most of the growth in earnings came from foreign operations of larger companies, which tend to be concentrated in the S&P 500 index, while earnings for smaller companies, which are not included in that index, were held down by rising interest costs and reduced margins.

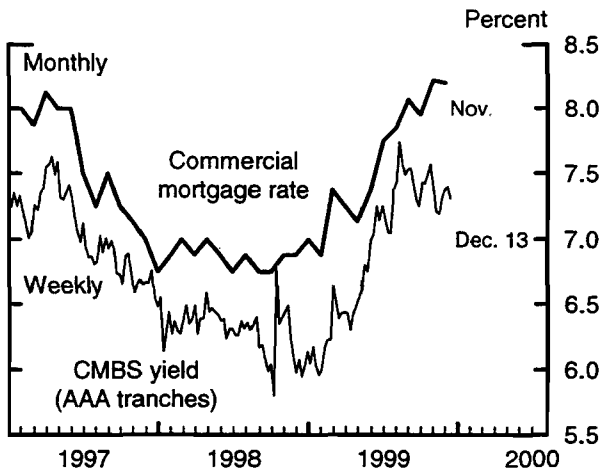
Equity price indexes set new records during the intermeeting period, propelled by technology sector gains that sent the Nasdaq composite up more than 10 percent; the ratio of price to twelve-month trailing earnings for Nasdaq stocks stood at 134 at the end of October, and price increases since then--taken alone--have lifted the ratio above 150. Broader indexes posted smaller increases--about 1 percent to 4 percent--as prices outside the technology sector were generally flat or down somewhat. The recent gains in the S&P 500 index, combined with rising interest rates, have squeezed the spread of the S&P forward earnings-price ratio over the real thirty-year Treasury bond to its narrowest point on record.

Commercial Real Estate Finance

Interest rates on commercial mortgages in primary markets were little changed last month and remain substantially higher--roughly 120 basis points--than at the end of last year. Yields on commercial mortgage-backed securities have risen a similar amount over the year. Since the last FOMC meeting, yields on AAA-rated CMBS have increased about in line with those on ten-year Treasury notes. Despite the increase in rates, CMBS issuance shows no evidence yet of a slowdown. Gross issuance is projected to total \$13 billion in the fourth quarter,

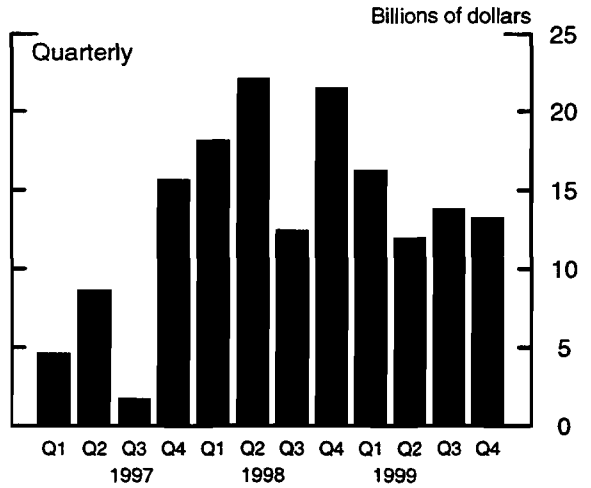
Commercial Real Estate Finance

Funding Costs



Source: Barron's/Levy National Mortgage Survey; Morgan Stanley.

CMBS Gross Issuance



Note: 1999:Q4 staff estimate.
Source: Commercial Mortgage Alert.

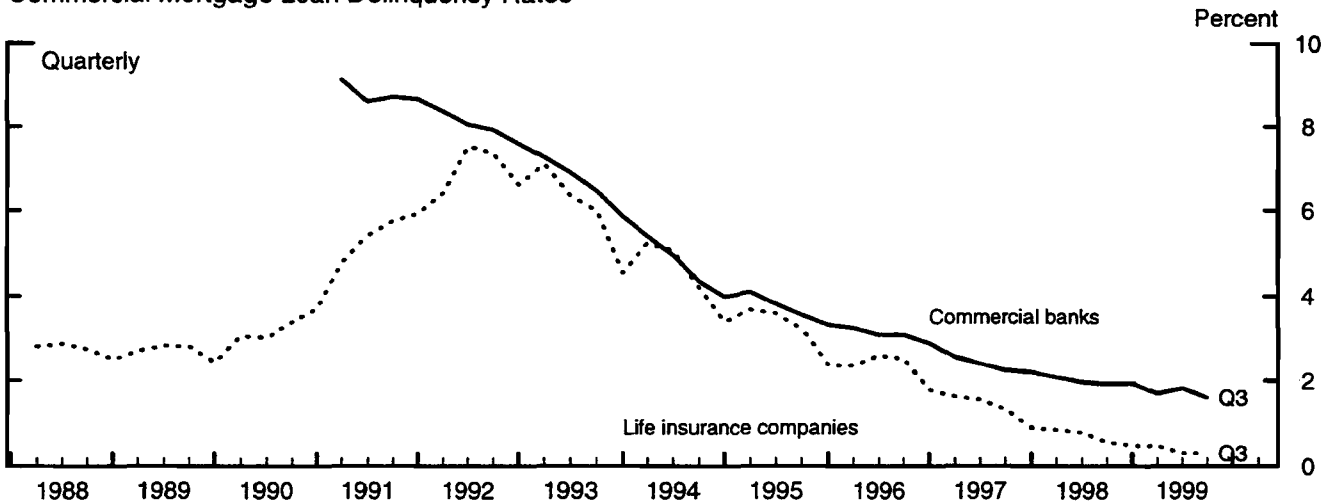
Multifamily and Commercial Mortgage Lending
(Percent; annual growth rates, seasonally adjusted)

| Lenders | 1997 | 1998 | | 1999 | | Memo 1999:Q3 Level (billions) |
|------------------------------|------|------|------|------|------|-------------------------------|
| | | H1 | H2 | H1 | Q3 | |
| Commercial banks and thrifts | 4.7 | 3.5 | 9.4 | 9.9 | 15.7 | 678 |
| Fannie Mae and Freddie Mac* | 6.6 | 6.3 | 40.3 | 26.3 | 23.7 | 62 |
| Life insurance companies | -1.0 | 0.9 | 5.7 | 8.6 | 3.9 | 207 |
| Total | 3.4 | 3.1 | 10.1 | 10.6 | 13.6 | 947 |

*Includes multifamily mortgage portfolio holdings and MBS collateral.

Source: Federal Reserve Board flow of funds accounts; Fannie Mae and Freddie Mac

Commercial Mortgage Loan Delinquency Rates



Source: ACLI, Bank Call Report.

maintaining the third-quarter pace. Market participants indicate that any slowdown caused by year-end funding concerns will be confined to the final two weeks of this year.

Commercial mortgage lending by financial institutions rose at a hefty 13-1/2 percent annual rate in the third quarter, paced by strong loan growth at banks, at thrifts, and at government-sponsored enterprises. Delinquency rates on commercial mortgage loans held by banks and life insurance companies remain at or near record low levels.

Household Finance

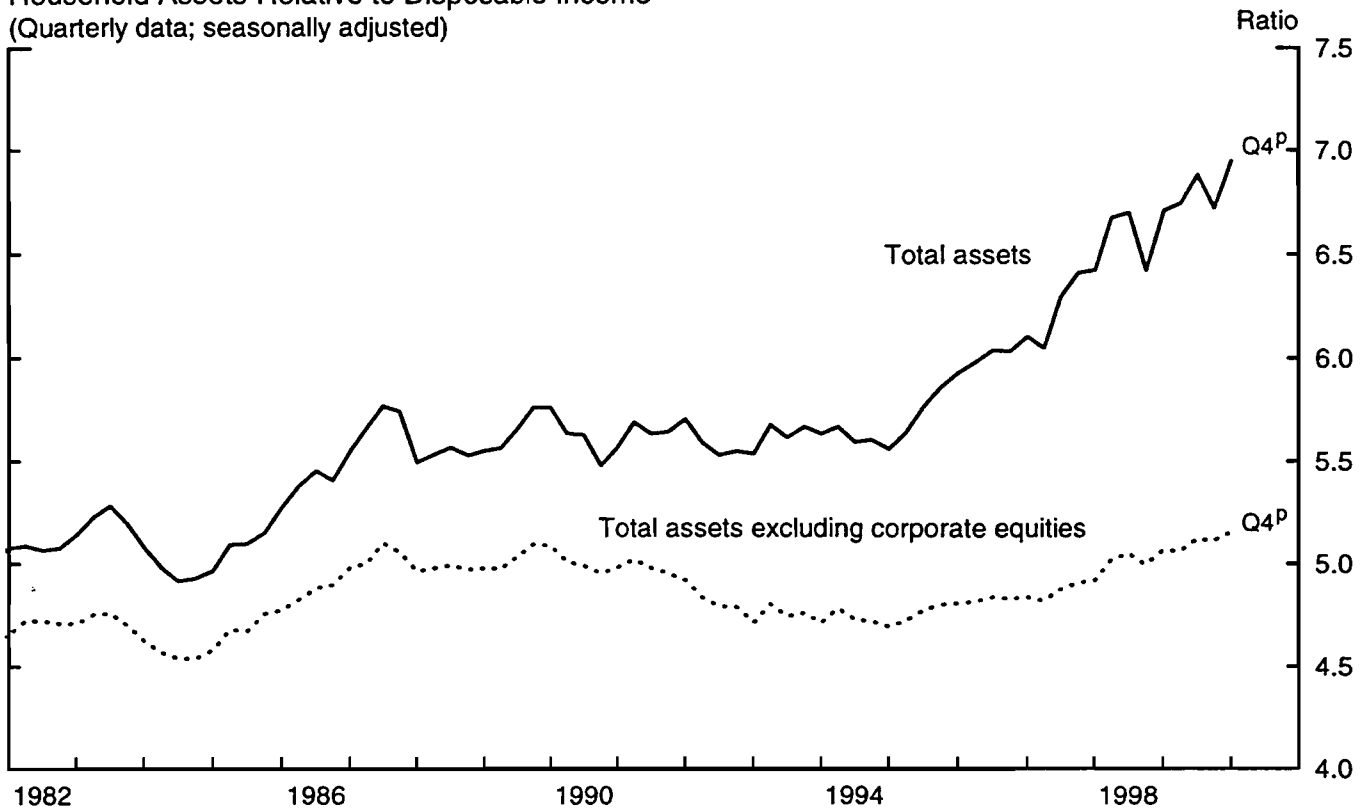
With the rise in equity prices this quarter, the ratio of household assets to income probably has set another record. Net new flows into equity mutual funds increased at nearly a \$20 billion monthly pace in October and November, a rate exceeding that of the first three quarters of the year. Domestic funds continued to draw the bulk of inflows, but growth of international equity funds also picked up considerably. In contrast, declining bond prices over the intermeeting period apparently encouraged continued outflows from bond funds. Available weekly data suggest a continuation of these flow patterns in December.

Most measures of household debt quality suggest little change. The debt-service burden is estimated to have remained about steady in the fourth quarter at 13-1/4 percent of income, up from several years ago but still a percentage point below the peak of the mid-1980s. In addition, bankruptcies continued to fall in the third quarter. Call Report data on household credit quality were mixed last quarter. The delinquency rate on home mortgage loans remained near the historically low level reached in the first half of the year; the broader measure compiled by the Mortgage Bankers' Association also changed very little. The Call Report delinquency rate on consumer loans edged up slightly on balance last quarter, as did Moody's index of credit card delinquencies for October. Delinquency rates on auto loans at captive finance companies also rose slightly last quarter.

Rising rates on fixed-rate and adjustable-rate mortgages last month do not appear to have cooled mortgage activity appreciably. The four-week moving average of the volatile MBA mortgage purchase loan index has risen of late, though it remains below its recent July peak. Refinancing activity appears to have reached a trough. With housing activity down only slightly to date, mortgage debt growth remained strong in the third quarter, at a 10 percent rate, and is expected to be well maintained this quarter. Growth in consumer credit appears to be in line with the 5-1/2 percent rate in the third quarter.

Household Assets

Household Assets Relative to Disposable Income
(Quarterly data; seasonally adjusted)



p. Staff projection.

Net Flows of Long-Term Mutual Funds

(Excluding reinvested dividends; billions of dollars, monthly rates.)

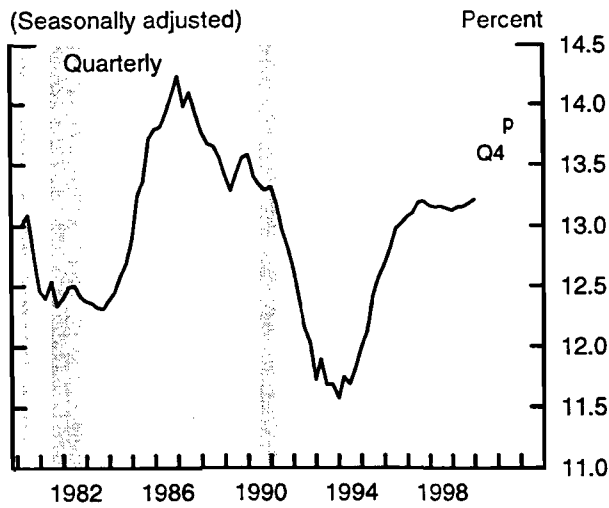
| | 1997 | 1998 | | 1999 | | | | Assets Oct. |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|----------------|
| | | H1 | H2 | H1 | Q3 | Oct. | Nov. ^e | |
| Total long-term funds | 22.7 | 29.3 | 11.4 | 18.3 | 8.6 | 16.2 | 13.8 | 4,704 |
| Equity funds | 19.0 | 21.1 | 5.4 | 15.2 | 10.7 | 20.4 | 18.6 | 3,506 |
| Domestic | 15.8 | 18.6 | 6.7 | 15.7 | 11.0 | 16.0 | 14.4 | 3,037 |
| International | 3.1 | 2.5 | -1.3 | -0.4 | -0.3 | 4.4 | 4.2 | 469 |
| Hybrid funds | 1.4 | 1.7 | 0.1 | -0.4 | -0.7 | -0.7 | -2.0 | 375 |
| Bond funds | 2.4 | 6.5 | 5.9 | 3.4 | -1.4 | -3.5 | -2.8 | 823 |
| International | -0.1 | 0.0 | -0.2 | -0.1 | -0.2 | -0.0 | -0.3 | 23 |
| High-yield | 1.4 | 1.8 | 0.5 | 0.3 | -0.8 | -0.6 | 1.2 | 116 |
| Other taxable | 1.0 | 3.5 | 4.3 | 2.5 | 1.0 | -1.2 | -1.4 | 401 |
| Municipals | 0.1 | 1.2 | 1.3 | 0.7 | -1.4 | -1.6 | -2.3 | 283 |

^e Staff estimates based on ICI weekly data.

Source: Investment Company Institute (ICI).

Household Liabilities

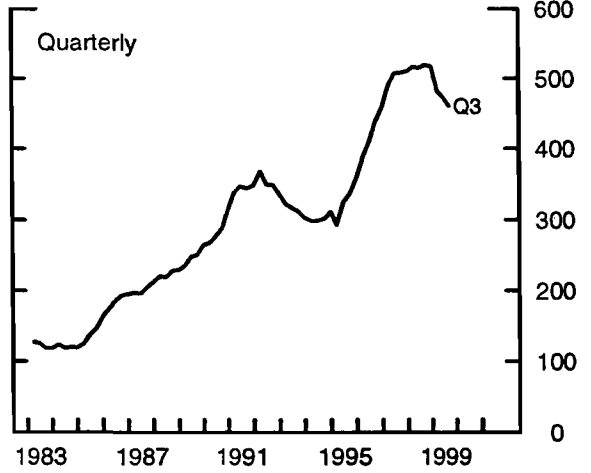
Household Debt Service Burden*
(Seasonally adjusted)



p. Staff projection.

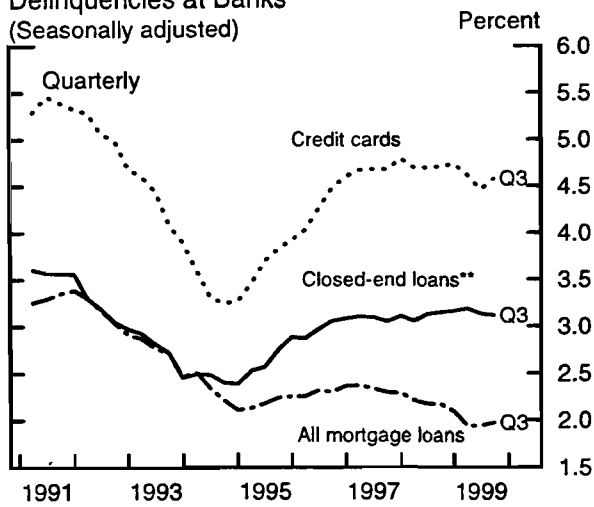
*Required debt payments relative to disposable personal income.

Personal Bankruptcy Filings
(Seasonally adjusted) Per 100,000 persons



Source. Administrative Office of the U.S. Courts.

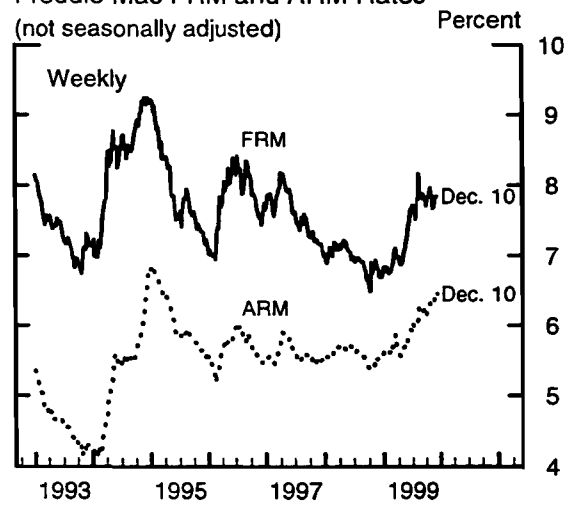
Delinquencies at Banks*
(Seasonally adjusted)



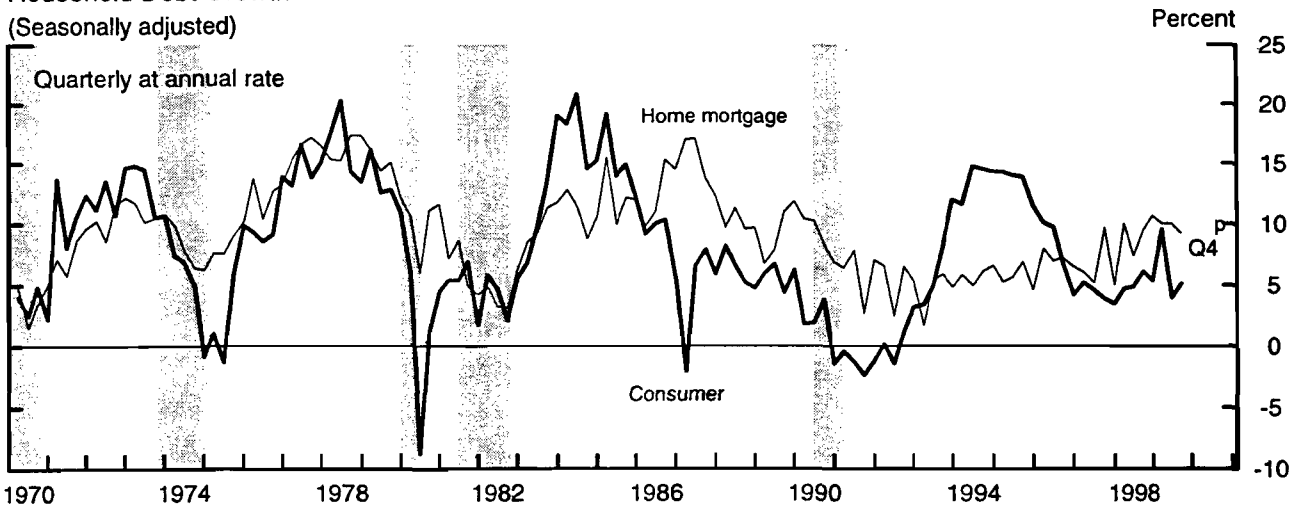
*30 days or more past due.

**Data for one large institution was estimated.

Freddie Mac FRM and ARM Rates
(not seasonally adjusted)



Household Debt Growth
(Seasonally adjusted)



p. Staff projection.

Treasury and Agency Finance

Treasury Financing (Billions of dollars)

| Item | 1999 | | | | | |
|-----------------------------------|------------|--------------|-------------|-------------|--------------|-------------------|
| | Q1 | Q2 | Q3 | Sept. | Oct. | Nov. ^e |
| Total surplus, deficit (-) | 5.8 | 143.1 | 29.4 | 57.3 | -26.7 | n.a. |
| Means of financing deficit | | | | | | |
| Net borrowing | 7.5 | -108.0 | -20.1 | -47.7 | 5.8 | 3.8 |
| Nonmarketable | 2.2 | 6.3 | -2.7 | 1.0 | -1.0 | 1.0 |
| Marketable | 5.2 | -114.3 | -17.4 | -48.7 | 6.8 | 2.9 |
| Bills | 34.0 | -78.0 | 4.7 | -37.2 | 9.7 | 24.8 |
| Coupons | -28.7 | -36.3 | -22.0 | -11.5 | -3.0 | -21.9 |
| Decrease in cash balance | -4.1 | -31.5 | -3.4 | -20.1 | 8.9 | 41.5 |
| Other ^f | -9.1 | -3.6 | -6.0 | 10.4 | 12.0 | n.a. |
| MEMO | | | | | | |
| Cash balance, end of period | 21.6 | 53.1 | 56.5 | 56.5 | 47.6 | 6.1 |

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

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

e Estimated.

n.a. Not available.

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

| Agency | 1999 | | | | | |
|------------------------------------|------|------|-------|-------|-------|-------|
| | Q1 | Q2 | Q3 | Sept. | Oct. | Nov. |
| FHLBs | 20.2 | 34.7 | 44.5 | 23.3 | 7.8 | n.a. |
| Freddie Mac | 11.8 | 15.2 | 26.7 | 0.2 | n.a. | n.a. |
| Fannie Mae | 15.1 | 24.5 | 25.0 | 7.7 | 2.5 | n.a. |
| Farm Credit Banks | 3.0 | 1.2 | .2 | 0.7 | 0.4 | n.a. |
| Sallie Mae | 1.4 | 1.2 | 4.0 | 1.6 | n.a. | n.a. |
| MEMO | | | | | | |
| <i>Outstanding Notes and Bonds</i> | | | | | | |
| Fannie Mae benchmark | 61.5 | 82.7 | 100.4 | 100.4 | 100.9 | 108.9 |
| Freddie Mac reference | 30.0 | 45.5 | 62.3 | 62.3 | 67.3 | 75.3 |

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.

n.a. Not available.

Government Finance

Treasury. The results of the Treasury's mid-quarter refunding in November were mixed. Although bidding for the five-year note was somewhat tepid, the reopening of the ten-year note the following day elicited considerable demand, as indicated by a high bid-to-cover ratio and a stop-out rate slightly below the market yield just prior to the auction. The Treasury is widely expected to cut back on auctions of two-year notes and year bills as the next step in adapting to continuing surpluses and debt paydowns. The cutbacks will enable the Treasury to keep up its issuance of three- and six-month bills.

In the bill sector, the Treasury has maintained the size of the weekly offerings of three- and six-month bills at \$17 billion in order to build its cash balance before year-end. In addition, as largely expected, the Treasury auctioned a 43-day cash management bill in early December, the second such bill issued in the fourth quarter. The cash management bills, both of which mature in January 2000, provided the Treasury with \$44 billion of additional financing through year-end. The Board staff projects a large enough surplus in December that, absent a change in auction schedules, the Treasury's year-end cash balance will be noticeably above its announced target level of \$70 billion.

Federal agency. Debt issuance by GSEs remained brisk over the intermeeting period, importantly reflecting the efforts to capture some of the liquidity premium lost by Treasury securities as issuance is trimmed. Fannie Mae reopened a five-year benchmark note for \$4.5 billion, while Freddie Mac reopened a ten-year reference note for \$3 billion and issued \$2 billion of its first thirty-year bond. To date, Freddie Mac has issued more than \$75 billion of reference securities and expects to issue an additional \$65 billion of those securities next year. Fannie Mae has issued nearly \$110 billion of benchmark securities and reportedly plans to issue an additional \$50 billion next year. Spreads between the yields on benchmark agency securities and those on Treasuries are between 53 and 65 basis points in the five- to ten-year sector, largely unchanged from the last FOMC meeting.

Fannie Mae and Freddie Mac recently made some changes in their programs for benchmark and reference securities in an attempt to render such instruments even better substitutes for Treasury securities. They also introduced programs under which they will issue short-dated securities to fill the gap caused by shrinking Treasury supplies.

State and local. Gross offerings of long-term municipal bonds totaled \$17-1/2 billion in November, matching the October pace. A modest slowdown in issuance to raise new capital was offset by a pickup in refundings. So far in December, the volume of offerings has been somewhat lighter than in

State and Local Finance

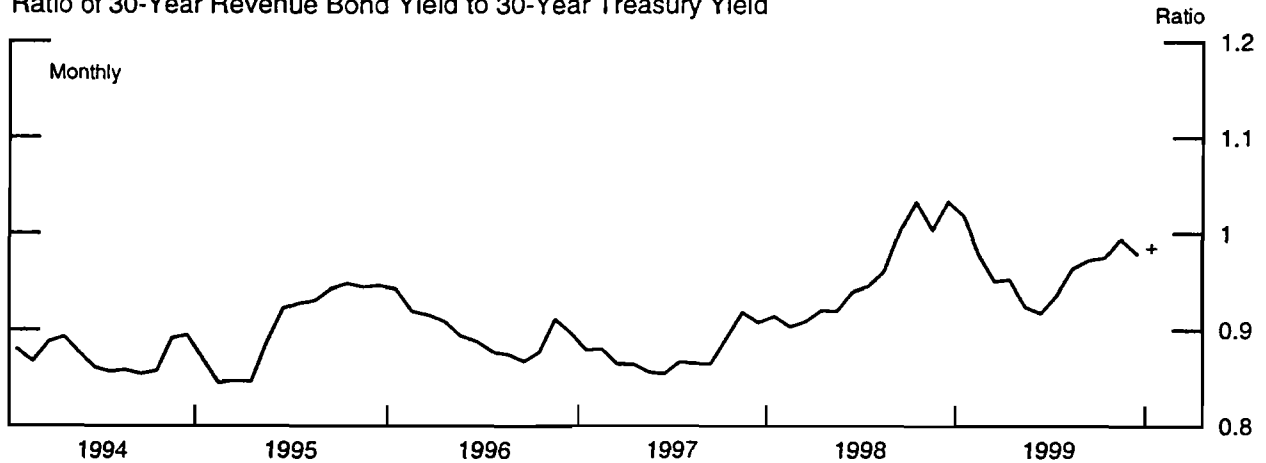
Gross Offerings of Municipal Securities

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

| | 1997 | 1998 | 1999 | | | | |
|-------------------------|------|------|------|------|-------|------|------|
| | | | H1 | Q3 | Sept. | Oct. | Nov. |
| Long-term | 17.9 | 21.9 | 18.8 | 17.6 | 18.4 | 17.5 | 17.4 |
| Refundings ¹ | 6.6 | 8.5 | 5.2 | 4.4 | 3.5 | 2.6 | 3.3 |
| New capital | 11.3 | 13.4 | 13.6 | 13.2 | 15.0 | 14.9 | 14.1 |
| Short-term | 3.6 | 2.4 | 2.3 | 3.9 | 3.1 | 2.2 | 1.8 |
| Total tax-exempt | 21.5 | 24.3 | 21.1 | 21.5 | 21.5 | 19.7 | 19.3 |
| Total taxable | 1.1 | 1.1 | 1.2 | 0.8 | 1.2 | 0.7 | 1.3 |

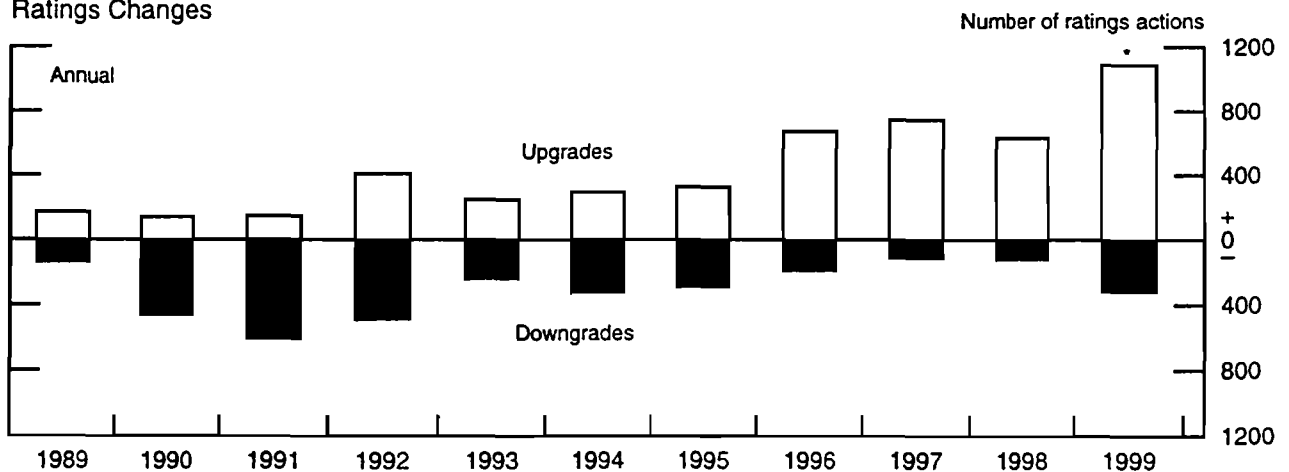
Note. Includes issues for public and private purposes.
¹. All issues that include any refunding bonds.

Ratio of 30-Year Revenue Bond Yield to 30-Year Treasury Yield



Note. Average of weekly data. + indicates latest observation (Dec. 9).

Ratings Changes



* 1999 data through Nov. 25 at an annual rate.

November, and market participants expect little activity in the second half of the month.

In November, relatively strong supply and soft demand kept yields on long-term municipal bonds high. Evidently, investor concerns about rising rates have led to sizable net outflows from tax-exempt mutual funds since the summer. The ratio of the thirty-year revenue bond yield to the thirty-year Treasury yield remains relatively elevated.

The generally strong credit quality of municipal issuers has shown further improvement in recent months. Standard and Poor's continued to upgrade more issues than it downgraded last month, both in terms of the number and dollar volume. Even in the not-for-profit health care sector, which has accounted for the bulk of downgrades in the past year, conditions are expected to improve with the recently signed legislation to expand Medicare funds, which should reduce some of the pressures on the revenues of health care issuers.

Money and Bank Credit

Despite the recent pickup in currency, M2 continued to grow moderately, increasing at about a 5 percent rate in November. Growth of M2 has likely been restrained by the steady rise in its opportunity cost, as the rise in most deposit and money fund rates has lagged earlier policy tightenings.

In contrast, M3 accelerated sharply last month, with growth in the non-M2 components surging at a 48 percent annual rate. The growth was fueled by an extraordinary runup in large time deposits, which soared at a 58 percent rate in November following strong gains in October. U.S. offices of foreign banks--mostly European institutions--have accounted for about two-thirds of the increase in large time deposits in the past two months, with almost half of these funds being used to pay down net borrowing from related foreign offices. Conversations with several large foreign banks suggest that they have found it cheaper to raise funds in U.S. markets. Domestic banks, in contrast, have increased their net borrowing from foreign offices while also expanding their large time deposits. Other components of M3, including institutional money market mutual funds, Eurodollars, and RPs, also grew rapidly in November. Available data for early December indicate these patterns have continued.

The runup in banks' managed liabilities may have helped fund the rapid accumulation of vault cash as well as a sharp pickup in bank credit growth. Bank credit expanded at an 18-1/4 percent rate in November, owing to a fairly widespread rise in loans. Business lending has been particularly strong: C&I loans grew at a 23 percent rate in November, a monthly pace not seen since the fall of 1998, when capital market funding dried up. A small part of the C&I volume reflects the rebooking of loans from offshore to domestic offices for

Monetary Aggregates
(Based on seasonally adjusted data)

| Aggregate or component | 1999 | | 1999 | | | 1998:Q4 | | Level |
|---------------------------------------------------------|-----------------------------------------------------------|------|-------|-------|-------|---------|---------|-----------|
| | 1998 | Q2 | Q3 | Sept. | Oct. | Nov. | to | (bil. \$) |
| | | | | | | (pe) | Nov. 99 | Oct. 99 |
| | Percent change (annual rate) ¹ | | | | | | | |
| Aggregate | | | | | | | | |
| 1. M1 | 1.8 | 3.5 | -2.3 | -9.6 | 5.5 | 10 | 1 3/4 | 1098.6 |
| 2. M2 ² | 8.5 | 5.8 | 5.3 | 5.1 | 5.2 | 5 | 6 | 4605.9 |
| 3. M3 | 10.9 | 5.8 | 5.5 | 6.0 | 9.5 | 17 | 7 1/2 | 6296.5 |
| Selected components | | | | | | | | |
| 4. Currency | 17.6 | 11.2 | 8.8 | 10.0 | 10.2 | 14 | 10 3/4 | 499.2 |
| 5. Demand deposits | -4.2 | -3.8 | -9.9 | -34.7 | 5.8 | 9 | -5 | 354.6 |
| 6. Other checkable deposits | 0.4 | -0.3 | -13.3 | -11.0 | -3.0 | 5 | -3 3/4 | 236.8 |
| 7. M2 minus M1 ³ | 10.9 | 6.5 | 7.8 | 9.8 | 5.1 | 4 | 7 1/2 | 3507.3 |
| 8. Savings deposits | 14.0 | 11.0 | 12.6 | 11.8 | 2.2 | -3 | 10 | 1745.9 |
| 9. Small time deposits | -1.4 | -4.7 | -0.2 | 6.7 | 6.7 | 10 | - 3/4 | 939.5 |
| 10. Retail money market funds | 23.6 | 10.7 | 6.9 | 8.7 | 9.6 | 12 | 12 1/2 | 821.9 |
| 11. M3 minus M2 ⁴ | 18.1 | 5.8 | 5.9 | 8.5 | 21.4 | 48 | 12 | 1690.6 |
| 12. Large time deposits, net ⁵ | 9.8 | -3.6 | 3.3 | 19.1 | 45.3 | 58 | 9 3/4 | 654.8 |
| 13. Institution-only money market mutual funds | 34.7 | 14.5 | 7.5 | 6.3 | 25.1 | 37 | 17 1/4 | 571.0 |
| 14. RPs | 17.6 | -2.9 | 16.2 | -1.2 | -11.6 | 38 | 9 1/2 | 307.4 |
| 15. Eurodollars | 8.5 | 31.8 | -7.5 | -6.0 | -21.7 | 63 | 8 | 157.4 |
| Memo | | | | | | | | |
| 16. Liquid deposits ⁶ | 8.8 | 7.3 | 6.2 | 2.3 | 2.2 | 0 | 6 | 2337.3 |
| 17. Sweep-adjusted M1 ⁷ | 6.2 | 6.9 | 3.0 | -5.7 | 5.8 | 10 | 5 1/4 | 1462.4 |
| 18. Monetary base | 7.1 | 10.1 | 8.5 | 11.3 | 16.5 | 26 | 11 3/4 | 557.1 |
| 19. Household M2 ⁸ | 9.8 | 6.6 | 6.7 | 8.5 | 5.2 | 5 | 7 | 4251.3 |
| | Average monthly change (billions of dollars) ⁹ | | | | | | | |
| Memo | | | | | | | | |
| Selected managed liabilities at commercial banks | | | | | | | | |
| 20. Large time deposits, gross | 5.1 | -2.5 | 2.3 | 9.1 | 27.9 | 41.0 | ... | 785.3 |
| 21. Net due to related foreign institutions | 1.6 | -0.9 | 2.7 | -4.1 | 1.3 | 6.2 | ... | 219.6 |
| 22. U.S. government deposits at commercial banks | 0.6 | 0.2 | 1.4 | 14.3 | 7.7 | -24.6 | ... | 38.1 |

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, saving 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. addresses.

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 saving 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.

pe--Preliminary estimate. ... Not applicable.

possible use as collateral for discount window borrowings. Banks also added to their holdings of consumer and real estate loans, in part reflecting lower levels of securitization. To help finance their loan growth, banks sold off some of their holdings of U.S. government securities last month.

Measures of asset quality at banks remain generally strong. As noted, Call Report data for the third quarter indicate that delinquency rates on business loans continued their gradual rise, while those on real estate loans edged down further, with these series generally remaining at very low levels. In contrast, delinquency rates on consumer loans stayed at the fairly high level of the previous two years. Nearly all bank assets remain at well-capitalized banks. Although the capital buffer--the difference between actual capital levels and minimal capital requirements--at the largest such banks rose somewhat over the year, it remains considerably below the buffer enjoyed by other well-capitalized banks. Banks continued to record strong earnings in the third quarter, but higher interest rates and a few early profit warnings have raised investor concerns about a pinch in fourth-quarter earnings.

Commercial Bank Credit

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

| Type of credit | 1998 | Q2 1999 | Q3 1999 | Sept. 1999 | Oct. 1999 | Nov. 1999 | Level, Nov. 1999 (\$ billions) |
|---------------------------|------|------------|------------|---------------|--------------|--------------|--------------------------------------|
| Total | | | | | | | |
| 1. Adjusted ¹ | 10.2 | 2.2 | 5.8 | 6.6 | 6.2 | 18.3 | 4,621 |
| 2. Reported | 11.0 | .6 | 4.7 | 6.4 | 5.0 | 18.3 | 4,697 |
| <i>Securities</i> | | | | | | | |
| 3. Adjusted ¹ | 11.2 | 4.6 | 17.9 | 4.5 | 4.8 | -2.9 | 1,170 |
| 4. Reported | 14.0 | -1.8 | 13.2 | 3.8 | .5 | -1.4 | 1,245 |
| 5. U.S. government | 5.9 | 4.1 | 6.2 | -3.8 | -11.6 | -19.6 | 796 |
| 6. Other ² | 32.3 | -13.4 | 27.4 | 18.5 | 23.8 | 31.8 | 449 |
| <i>Loans³</i> | | | | | | | |
| 7. Total | 9.9 | 1.4 | 1.7 | 7.3 | 6.7 | 25.6 | 3,451 |
| 8. Business | 11.7 | 2.7 | 4.8 | 9.6 | 5.1 | 23.3 | 1,004 |
| 9. Real estate | 6.5 | 3.6 | 6.5 | 14.7 | 21.1 | 13.0 | 1,437 |
| 10. Home equity | .0 | 6.7 | -10.8 | 96.2 | 99.2 | 15.6 | 117 |
| 11. Other | 7.1 | 3.3 | 7.9 | 8.5 | 14.7 | 12.8 | 1,320 |
| 12. Consumer | -1.6 | -2.9 | -11.8 | 2.2 | .0 | 9.5 | 485 |
| 13. Adjusted ⁴ | 6.0 | 1.2 | 5.1 | 10.7 | 6.5 | 13.6 | 786 |
| 14. Other ⁵ | 30.5 | -2.4 | -4.1 | -12.5 | -23.9 | 82.4 | 526 |

Note. All data are 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 are percentage changes in consecutive levels, annualized but not compounded.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 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 and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

Appendix

Review of Debt and Money Growth in 1999

Aggregate debt of domestic nonfinancial sectors is estimated to have increased near the top of its 3-to-7 percent growth range again in 1999. The composition of borrowing shifted further toward the private sectors, which were financing strong growth in spending: Household debt accelerated from 1998 and business debt growth held steady at a robust pace, while state and local debt growth waned and the federal government paid down debt.

Growth of the monetary aggregates moderated somewhat relative to the rapid expansion of 1998. Contributing to the deceleration were an unwinding of the unusual liquidity demands that developed late in 1998 and an increase in market interest rates. As expected at the beginning of the year, both M2 and M3 overshot their annual ranges again in 1999. Those ranges were chosen as benchmarks for monetary expansion at price stability, but inflation ran a little above the rate associated with approximate price stability, and the output assumptions upon which the ranges were built several years ago did not allow for the substantial pickup in the pace of potential economic growth in recent years.

Domestic Nonfinancial Debt

The advance in domestic nonfinancial sector debt in 1999, estimated at 6-1/2 percent on a fourth-quarter basis, included an increase of 9-1/2 percent in the nonfederal sector and a decline of 2-1/2 percent in federal government debt, reflecting the growing budget surplus.

In the household sector, home mortgage debt growth picked up to 10-1/4 percent as housing activity remained at a high level despite a considerable rise in mortgage interest rates over the year. Consumer credit grew 6-1/4 percent in 1999, fueled in part by further strong gains in personal consumption expenditures for durable goods. Household sector debt growth, at 9 percent, again outpaced increases in disposable personal income, but measures of household credit quality show virtually no deterioration. Mortgage foreclosures, bankruptcies, and delinquency rates on credit cards and auto loans all were down significantly from 1998 levels.

The debt of nonfinancial businesses is estimated to have grown at a brisk 10-3/4 pace again in 1999. Most borrowers found credit readily available, though terms and standards for businesses were noticeably tighter than they had been before the financial market disruptions in the fall of 1998. To some extent, wider risk spreads reflected a greater appreciation of borrower risk and a reduced lender appetite for taking that risk in the wake of the 1998 disruptions. In addition, at times this year, spreads came under pressure from concerns about liquidity and access to funding over the century date change.

Corporate demands for external funds were boosted by a further widening of the gap between corporate capital outlays and internal funds, and by a large volume of equity retirements resulting from stock repurchase programs and mergers and acquisitions. Overall, net corporate bond issuance, especially by investment-grade firms, was robust.

With default rates on junk bonds rising sharply and yield spreads remaining elevated over the year, issuance of those securities fell more than 25 percent, albeit from a heady pace last year.

Commercial mortgage lending was fairly strong again in 1999. Banks and life insurance companies provided a larger share of funds than in recent years, as other investors demonstrated reluctance to absorb lower-rated tranches of commercial mortgage-backed securities. REITs generally found the capital markets far less accommodative than in past years, and their pullback in both debt and equity investments in commercial real estate left a gap that more traditional lenders found opportune to fill.

State and local government debt expanded 4 percent this year, well off the pace of 1998. Borrowing for new capital edged up, but the roughly full percentage-point rise in municipal bond yields over the year, and a diminishing pool of bonds eligible for refunding in advance of retirement dates, held down refunding activity.

Depository Credit

After increasing for several years, the share of total lending accounted for by depository institutions leveled out in 1999. Growth in credit extended by those institutions subsided to 6-1/4 percent this year, from its recent high of 8-1/2 percent in 1998. Bank credit slowed considerably early in the year, as the surge in holdings of non-U.S. government securities, business loans, and security loans associated with the fall 1998 disruptions in securities markets unwound; however, lending picked up again very late in the year, owing in part to Y2K factors. Adjusted for mark-to-market accounting rules, bank credit growth retreated from 10-1/4 percent in 1998 to 5-1/4 percent this year.

Surveys indicate that large commercial banks tightened standards and terms for C&I loans modestly, on balance, over the year, amid signs of some deterioration from the recent high levels of credit quality. Terms and conditions were similarly reported to be a bit stricter, on balance, for both credit card and other consumer loans.

Monetary Aggregates

M3 rose 7-1/2 percent in 1999, well above the FOMC's range of 2 to 6 percent, but far below the nearly 11 percent pace recorded in 1998. M3 growth retreated in early 1999, as the surge in depository credit in the final quarter of 1998 unwound and depository institutions curbed their issuance of the managed liabilities included in that aggregate. In addition, the expansion of institutional money funds slowed with the ebbing of heightened preferences for liquid assets. However, M3 growth surged again in the fourth quarter of 1999, as loan growth picked up and banks funded the increase largely with large time deposits and other managed liabilities in M3. Some of the step-up in issuance of large time deposits by U.S. branches and agencies of foreign banks was used to augment the liquidity of their foreign parents and affiliates over the century date change, apparently because it was cheaper to fund in U.S. markets. This issuance may have been facilitated to the extent that wholesale money holders were moving to M3 liabilities, including institutional money funds, to build up precautionary Y2K liquidity.

Like M3, M2 expanded more slowly this year. Both the easing of elevated demands for liquid assets that had boosted M2 in the fourth quarter of 1998 and the rise in its opportunity cost during 1999 depressed M2 growth relative to last year. That rise in opportunity cost also helped halt the decline in M2 velocity that began in mid-1997; velocity is estimated to have risen about 1 percent over the second half of 1999. M2 growth in 1999, at 6 percent, exceeded the FOMC's range of 1 percent to 5 percent.

Within M2, currency demand surged over the year as a whole, likely reflecting in part brisk retail sales and, late in the year, some Y2K-related precautionary holdings. The strong expansion of currency more than offset the effects of continued proliferation of retail sweep programs on the monetary base, which grew 11-1/2 percent.¹

¹ New sweep programs totaled \$49-1/2 billion in 1999, down from \$64 billion in 1998.

GROWTH OF THE MONETARY AND CREDIT AGGREGATES
(Q4 to Q4 averages, seasonally adjusted)

| | 1995 | 1996 | 1997 | 1998 | 1999 ¹ | Memo: Recent 1999 levels (billions of dollars) ¹ |
|--------------------------------------|------|------|------|------|-------------------|----------------------------------------------------------------------------|
| Growth rates (percent) | | | | | | |
| Domestic nonfinancial debt - total | 5.5 | 5.4 | 5.2 | 6.7 | 6.7 | 17,164.4 |
| Federal | 4.4 | 3.8 | 0.8 | -1.1 | -2.3 | 3,680.1 |
| Nonfederal | 5.9 | 6.0 | 6.7 | 9.3 | 9.5 | 13,484.3 |
| Depository credit | 5.7 | 4.4 | 6.5 | 8.6 | 6.1 | 5,906.8 |
| Bank credit ² | 7.2 | 4.6 | 8.5 | 10.2 | 5.2 | 4,621.1 |
| Thrift credit | 1.6 | 3.6 | 0.7 | 3.3 | 9.3 | 1,378.5 |
| M1 | -1.6 | -4.5 | -1.2 | 1.8 | 1.9 | 1,107.8 |
| Sweep-adjusted M1 ³ | 1.6 | 5.5 | 6.1 | 6.2 | 5.2 | 1,474.0 |
| M2 | 3.9 | 4.6 | 5.7 | 8.5 | 6.0 | 4,626.5 |
| M3 | 6.1 | 6.8 | 8.8 | 10.9 | 7.6 | 6,384.5 |
| Memo: Nominal gross domestic product | 4.3 | 6.0 | 5.9 | 5.9 | 5.2 | 9,295.3 |

1. For debt aggregates, the rate reported is for 1998 Q4 through October at an annual rate; for the monetary and credit aggregates, the rate reported is for 1998 Q4 through November at an annual rate; for nominal gross domestic product the rate is for 1998 Q4 to 1999 Q3 at an annual rate; depository and thrift credit data are partially projected.

2. Adjusted for the estimated effects of mark-to-market accounting rules.

3. Sweep figures used to adjust this series are the estimated national total of transaction account balances initially swept into MMDAs by new sweep programs, on the basis of monthly averages of daily data.

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

In September, the U.S. trade deficit in goods and services was \$24.4 billion, somewhat larger than in August. Although the nominal deficit widened \$35 billion at a seasonally adjusted annual rate in the third quarter, NIPA real net exports were less of a drag on U.S. GDP growth than in the previous two quarters as real export growth picked up and import growth continued at the second quarter pace.

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

| | 1998 | Annual rate 1999 | | | Monthly rate 1999 | | |
|------------------------------|--------|---------------------|--------|--------|----------------------|-------|-------|
| | | Q1 | Q2 | Q3 | July | Aug. | Sept. |
| <i>Real NIPA¹</i> | | | | | | | |
| Net exports of G&S | -215.1 | -284.5 | -319.0 | -336.7 | ... | ... | ... |
| <i>Nominal BOP</i> | | | | | | | |
| Net exports of G&S | -164.3 | -215.9 | -260.3 | -295.3 | -24.9 | -23.5 | -24.4 |
| Goods, net | -246.9 | -296.8 | -337.6 | -368.6 | -31.4 | -30.1 | -30.6 |
| Services, net | 82.6 | 80.9 | 77.3 | 73.3 | 6.5 | 6.6 | 6.2 |

1. Billions of chained (1996) dollars.

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

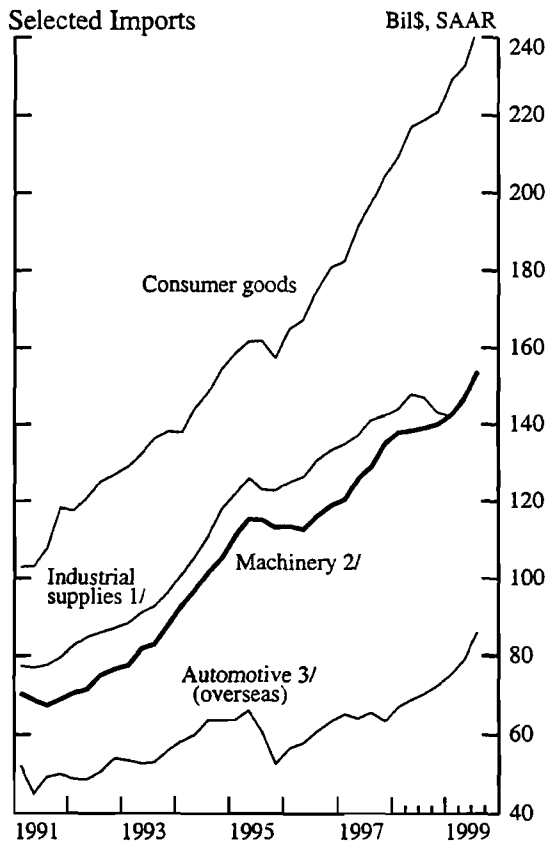
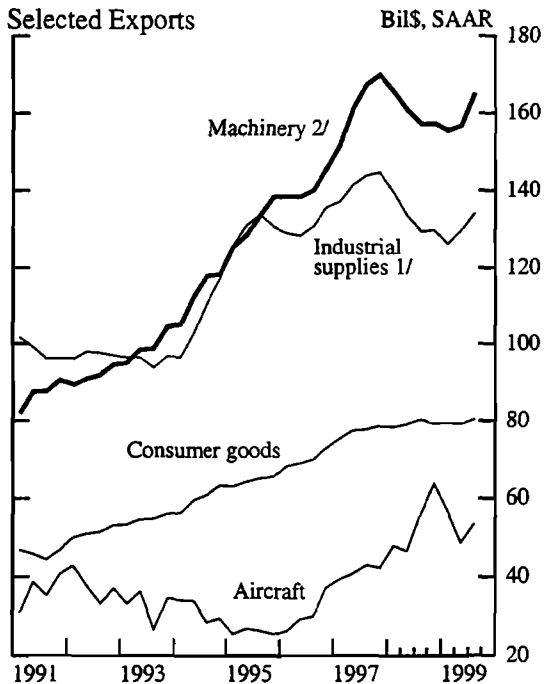
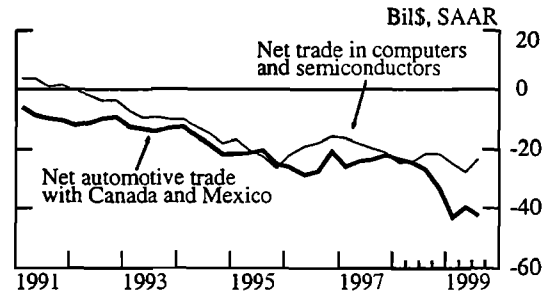
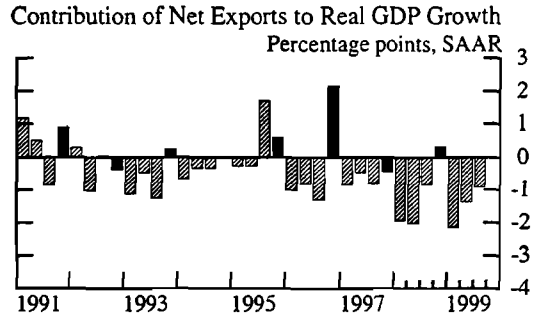
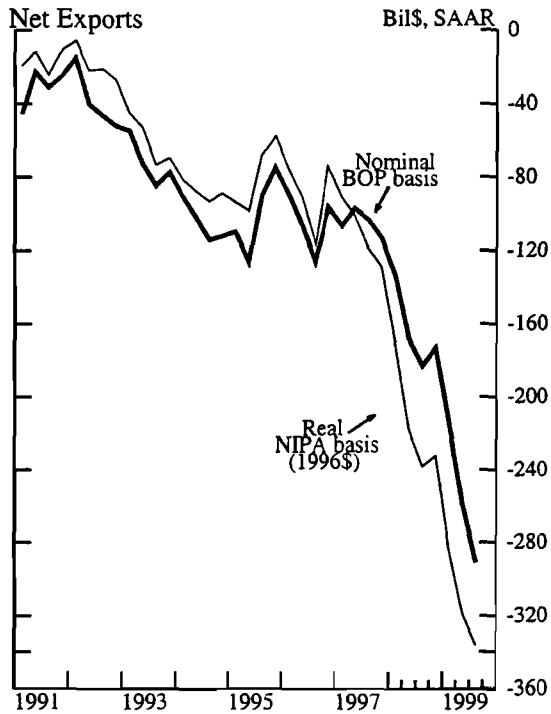
n.a. Not available. ... Not applicable.

The value of exports eased back in September from a peak level in August, reflecting primarily swings in deliveries of aircraft. The value of exports in the third quarter was 3½ percent higher than in the second quarter. The strongest increases were in capital goods (aircraft, semiconductors, and industrial machinery). Exports of industrial materials also rose briskly (particularly organic chemicals), and there were smaller increases in all other major trade categories. By area, most of the increase in exports went to Mexico and emerging market economies in Asia.

The value of imports was about the same in September as in August. Declines in imports of computers and automotive products were offset by increases in the value of imported oil and in most other trade categories. In the third quarter, the value of imports was 5½ percent higher than in the second quarter, with notable increases in all major trade categories except food.

Trade data for October will be released on December 16 and will be reported in the Greenbook Supplement.

U.S. International Trade in Goods and Services



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

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

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

| | Levels | | | | Amount Change ¹ | | | |
|---------------------------|--------|--------|--------|--------|----------------------------|-------|-------|-------|
| | 1999 | | 1999 | | 1999 | | 1999 | |
| | Q2 | Q3 | Aug. | Sept. | Q2 | Q3 | Aug. | Sept. |
| Exports of G&S | 938.0 | 970.5 | 989.3 | 980.5 | 11.2 | 34.2 | 39.9 | -8.9 |
| Goods exports | 663.4 | 694.3 | 709.7 | 702.6 | 6.3 | 30.9 | 39.0 | -7.1 |
| Agricultural | 49.0 | 51.7 | 52.8 | 52.2 | 1.7 | 2.7 | 2.7 | -0.7 |
| Gold | 3.3 | 6.0 | 4.8 | 11.5 | 0.5 | 2.7 | 3.0 | 6.7 |
| Other goods | 611.1 | 636.6 | 652.0 | 638.9 | 4.1 | 25.5 | 33.3 | -13.1 |
| Aircraft & pts | 48.7 | 53.5 | 64.1 | 50.1 | -7.9 | 4.8 | 17.7 | -14.0 |
| Computers | 46.5 | 48.2 | 48.4 | 48.5 | 2.3 | 1.7 | 0.8 | 0.2 |
| Semiconductors | 45.2 | 49.3 | 49.4 | 48.6 | 3.1 | 4.1 | -0.4 | -0.8 |
| Other cap gds | 159.2 | 167.5 | 166.5 | 170.8 | 0.3 | 8.3 | 1.3 | 4.4 |
| Automotive | 75.0 | 76.0 | 80.3 | 74.5 | 3.6 | 1.0 | 7.1 | -5.8 |
| to Canada | 44.6 | 46.1 | 48.2 | 45.2 | 1.9 | 1.5 | 3.4 | -3.1 |
| to Mexico | 11.4 | 11.5 | 12.0 | 12.2 | 1.2 | 0.0 | 1.8 | 0.3 |
| to ROW | 19.0 | 18.4 | 20.1 | 17.1 | 0.6 | -0.6 | 1.9 | -3.0 |
| Ind supplies | 129.5 | 134.1 | 136.0 | 137.8 | 3.4 | 4.6 | 7.6 | 1.7 |
| Consumer goods | 79.1 | 80.4 | 79.0 | 82.3 | -0.5 | 1.2 | -0.9 | 3.3 |
| All other | 27.9 | 27.7 | 28.5 | 26.3 | -0.3 | -0.2 | 8.9 | -2.2 |
| Services exports | 274.6 | 276.2 | 279.6 | 277.9 | 5.0 | 3.4 | 0.9 | -1.8 |
| Imports of G&S | 1198.4 | 1265.8 | 1271.9 | 1273.4 | 54.5 | 66.5 | 23.8 | 1.5 |
| Goods imports | 1001.1 | 1062.9 | 1071.3 | 1069.7 | 47.1 | 61.8 | 23.5 | -1.6 |
| Petroleum | 63.7 | 78.3 | 79.9 | 84.5 | 21.3 | 14.6 | 9.5 | 4.6 |
| Gold | 3.2 | 7.6 | 7.9 | 12.1 | -0.1 | 4.4 | 5.2 | 4.1 |
| Other goods | 934.3 | 977.0 | 983.4 | 973.1 | 25.9 | 42.7 | 8.8 | -10.3 |
| Aircraft & pts | 22.6 | 25.0 | 22.3 | 25.5 | 0.4 | 2.4 | -5.0 | 3.2 |
| Computers | 82.0 | 82.5 | 84.2 | 77.4 | 4.5 | 0.5 | -1.8 | -6.8 |
| Semiconductors | 37.3 | 38.2 | 38.1 | 37.6 | 3.9 | 0.9 | -0.7 | -0.5 |
| Other cap gds | 149.8 | 156.6 | 157.0 | 158.8 | 3.9 | 6.8 | 3.1 | 1.8 |
| Automotive | 175.1 | 186.1 | 188.7 | 184.1 | 3.4 | 11.1 | 3.1 | -4.6 |
| from Canada | 62.6 | 66.0 | 73.0 | 61.9 | -2.5 | 3.4 | 9.9 | -11.1 |
| from Mexico | 33.3 | 34.1 | 35.0 | 35.9 | 2.4 | 0.8 | 3.6 | 0.9 |
| from ROW | 79.2 | 86.0 | 80.7 | 86.3 | 3.6 | 6.8 | -10.3 | 5.6 |
| Ind supplies | 146.2 | 154.0 | 155.5 | 155.6 | 3.9 | 7.8 | 4.7 | 0.0 |
| Consumer goods | 232.7 | 242.7 | 242.9 | 242.7 | 3.6 | 10.0 | 0.5 | -0.2 |
| Foods | 43.8 | 44.1 | 44.0 | 44.3 | 2.1 | 0.4 | -0.0 | 0.2 |
| All other | 44.8 | 47.8 | 50.5 | 47.1 | 0.2 | 3.0 | 4.8 | -3.5 |
| Services imports | 197.3 | 202.9 | 200.7 | 203.7 | 7.4 | 4.7 | 0.3 | 3.0 |
| <i>Memo:</i> | | | | | | | | |
| Oil qty (mb/d) | 11.86 | 11.51 | 11.69 | 11.37 | 0.65 | -0.35 | 0.22 | -0.32 |
| Oil price (\$/bbl) | 14.69 | 18.62 | 18.73 | 20.36 | 4.30 | 3.93 | 1.90 | 1.63 |

1. Change from previous quarter or month.

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

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

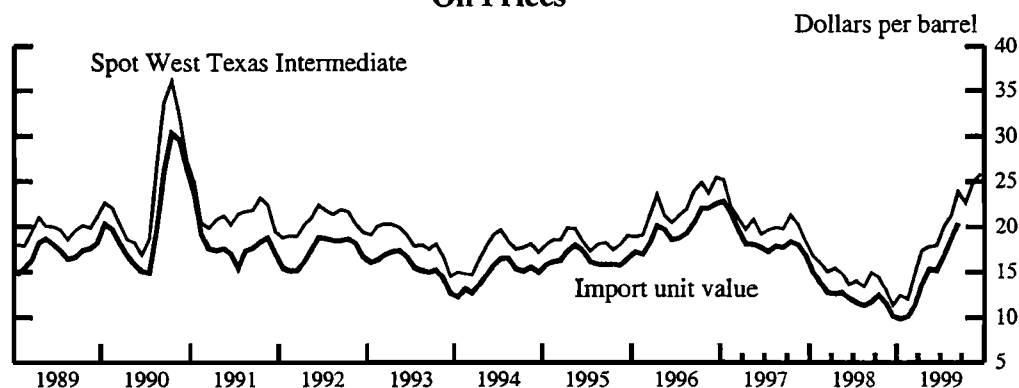
| | Annual rates | | | Monthly rates | | |
|-----------------------------|--------------------------------------------------|-------|-----------------|---------------|------|------|
| | 1999 | | | 1999 | | |
| | Q2 | Q3 | Q4 ^e | Sept. | Oct. | Nov. |
| | ----- BLS prices (1995 weights)----- | | | | | |
| Merchandise imports | 6.6 | 9.1 | 7.6 | 1.1 | 0.5 | 0.5 |
| Oil | 256.6 | 183.7 | 75.0 | 9.8 | 3.5 | 1.9 |
| Non-oil | -2.0 | -0.1 | 1.8 | 0.2 | 0.1 | 0.3 |
| Core goods* | -1.1 | 1.0 | 2.2 | 0.2 | 0.2 | 0.4 |
| Foods, feeds, beverages | 0.4 | -6.8 | -2.1 | -0.2 | -1.1 | 1.6 |
| Industrial supplies ex oil | 1.5 | 7.9 | 8.6 | 0.5 | 1.0 | 1.3 |
| Computers | -17.7 | -13.7 | -1.2 | -0.5 | 0.0 | 0.4 |
| Semiconductors | -3.3 | -7.4 | -1.2 | 0.6 | -0.3 | -1.2 |
| Cap. goods ex comp & semi | -3.4 | -2.1 | 1.5 | 0.3 | 0.1 | 0.1 |
| Automotive products | 0.9 | 0.8 | 0.5 | 0.0 | 0.1 | 0.0 |
| Consumer goods | -2.3 | -0.4 | 0.0 | 0.3 | -0.2 | 0.0 |
| Merchandise exports | -0.3 | 0.6 | 2.1 | 0.0 | 0.3 | 0.2 |
| Agricultural | -8.5 | -4.2 | 0.1 | -0.1 | -0.1 | -0.8 |
| Nonagricultural | 0.6 | 1.1 | 2.5 | 0.1 | 0.3 | 0.4 |
| Core goods* | 1.8 | 1.6 | 3.7 | 0.3 | 0.4 | 0.5 |
| Industrial supplies ex ag | 2.9 | 10.1 | 8.3 | 0.6 | 0.9 | 1.0 |
| Computers | -7.0 | -8.6 | -1.4 | -1.2 | 0.4 | 0.0 |
| Semiconductors | -5.9 | -10.1 | -3.7 | -0.3 | -0.5 | -0.1 |
| Cap. goods ex comp & semi | 0.3 | -0.5 | 0.4 | 0.0 | 0.1 | 0.1 |
| Automotive products | 0.1 | 0.8 | 3.0 | 0.1 | 0.7 | 0.0 |
| Consumer goods | 0.0 | 0.3 | 1.2 | -0.1 | 0.3 | 0.1 |
| | ---Prices in the NIPA accounts (1996 weights)--- | | | | | |
| Chain-weight | | | | | | |
| Imports of goods & services | 5.2 | 6.2 | n.a. | ... | ... | ... |
| Non-oil merchandise | -2.6 | -0.8 | n.a. | ... | ... | ... |
| Core goods* | -0.8 | 1.0 | n.a. | ... | ... | ... |
| Exports of goods & services | 0.7 | 1.2 | n.a. | ... | ... | ... |
| Nonag merchandise | 0.2 | 1.1 | n.a. | ... | ... | ... |
| Core goods* | 1.2 | 2.5 | n.a. | ... | ... | ... |

*/ Excludes computers and semiconductors.

e/ Average of two months.

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

Oil Prices



Quantity and price of imported oil. A small decline in the quantity of oil imported in September (due mainly to a seasonal drop in consumption) was more than offset by higher prices. The price of imported oil rose to over \$20 per barrel in September, up more than \$1.50 per barrel from August. For the third quarter, the U.S. oil import price rose nearly \$4 per barrel, reflecting strengthening world demand and ongoing production restraint from OPEC.

The price of imported oil increased further in October and November (BLS data). The relatively minor increase in November—the smallest since June—primarily reflects declines in spot oil prices during October amid market concerns that OPEC might increase production. Since June, the price of imported oil has risen about \$6 per barrel as world oil production continues to fall short of strengthening world demand. OPEC compliance with production targets has remained high. This, together with Iraq's decision to withhold exports until the U.N.'s oil-for-food program was renewed, pushed up spot oil prices in late November to levels not seen since 1996. In November, the monthly average spot price of West Texas Intermediate (WTI) rose over \$2 to \$22.50 per barrel. Spot WTI is currently trading above \$26 per barrel.

Prices of non-oil imports and exports. Prices of non-oil goods imports increased 0.3 percent in November, faster than in the previous two months, led by rising prices of coffee and industrial materials. For October/November combined, non-oil import prices rose 1.8 percent at an annual rate, the first increase recorded in four years. Prices of imported computers and semiconductors declined only slightly in October/November. In contrast, prices of imported core goods (which exclude computers, semiconductors, and oil) moved up 2.2 percent at an annual rate in October/November, led by a strong increase in prices of industrial materials and a swing from negative to positive price changes for imported machinery.

Prices of total goods exports increased moderately in November. For October/November combined, export prices rose 2 percent at an annual rate, compared with a ½ percent annual rate increase in the third quarter and negative changes in previous quarters. Prices of agricultural products were about unchanged in October/November from the third quarter, and prices of computers and semiconductors declined moderately. In contrast, the price of exported core goods rose nearly 3¾ percent in October/November, led by continued strong increases in prices of industrial materials (primarily paper, metals, and chemicals) and, to a lesser extent, by an increase in the price of exported automotive products and consumer goods.

U.S. Current Account

The U.S. current account deficit increased to nearly \$360 billion at a seasonally adjusted annual rate in the third quarter of 1999. Most of the increase was accounted for by a larger deficit for goods and services. The deficit for investment income widened modestly. Income receipts on U.S.-owned assets abroad rose slightly—both direct investment receipts and private portfolio receipts. Income payments on foreign-owned assets in the United States increased more than income receipts—all in portfolio payments. Direct investment income payments declined slightly from a high level in the second quarter. U.S. portfolio assets abroad and foreign portfolio assets in the United States both rose in the third quarter, as did the rates of return on these assets. Net unilateral transfers were unchanged in the second quarter, as higher private remittances and other transfers were offset by lower U.S. government grant disbursements.

U.S. Current Account
(Billions of dollars, seasonally adjusted annual rate)

| Period | Goods and services, net | Investment income, net | Other income and transfers, net | Current account balance |
|------------------|-------------------------|------------------------|---------------------------------|-------------------------|
| <i>Annual</i> | | | | |
| 1997 | -104.7 | 8.2 | -46.9 | -143.5 |
| 1998 | -164.3 | -7.0 | -49.3 | -220.6 |
| <i>Quarterly</i> | | | | |
| 1998:Q1 | -133.4 | 6.1 | -44.8 | -172.1 |
| Q2 | -167.8 | 2.9 | -44.7 | -209.6 |
| Q3 | -182.9 | -22.5 | -48.5 | -253.9 |
| Q4 | -173.1 | -14.3 | -59.3 | -246.7 |
| 1999:Q1 | -215.9 | -11.8 | -46.9 | -274.6 |
| Q2 | -260.3 | -12.9 | -50.4 | -323.6 |
| Q3 | -295.3 | -14.1 | -50.4 | -359.8 |
| <i>Change</i> | | | | |
| Q1-Q4 | -42.8 | 2.5 | 12.4 | -27.9 |
| Q2-Q1 | -44.4 | -1.1 | -3.5 | -49.0 |
| Q3-Q2 | -35.0 | -1.2 | 0.0 | -36.2 |

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

U.S. International Financial Transactions

Foreign official assets held in the United States rose in October 1999 after a modest decline in September (line 1 of the Summary of U.S. International Transactions table). Sizeable gains were recorded in Argentine and Japanese reserves; the OPEC countries also increased their reserves in concert with the sharp increase in oil prices. Mexico, Brazil, and Korea drew on their U.S. reserves in October, although partial data from the Federal Reserve Bank of New York show some rebuilding in Brazilian and Korean reserves in November.

Net purchases of U.S. securities by private-sector foreigners remained strong in October (line 4). A sharp decline in Treasury holdings (line 4a) was more than offset by net purchases of other securities. The net sales of Treasuries in October were mainly attributable to a single hedge fund in the Caribbean that largely reversed its August purchases of Treasuries. Most of the large net purchases of U.S. stocks and bonds other than Treasuries in October were accounted for by net purchases from Japan and financial centers in Europe and the Caribbean (lines 4b-d). As has been common throughout the year, agency bonds (line 4b) made up a significant share of foreign purchases of U.S. securities.

U.S. investors purchased foreign bonds and stocks on net in October (line 5). Perhaps attracted by the rally in Japanese equities this year, net purchases of Japanese stocks more than accounted for total net purchases in October. According to the Treasury International Capital (TIC) data, U.S. investors sold European equities on net. However, these reported net sales probably reflect portfolio re-balancing by U.S. investors, whose foreign holdings increased markedly following several large equity-financed takeovers of U.S. companies by European multinationals. While foreign equity acquired through such stock swaps is not reported in the TIC data, subsequent sales of these securities are recorded. BEA estimates that these flows, which are included in line 9, totaled more than \$100 billion in the first three quarters of 1999.

Modest inflows through banking offices in the United States were reported in October (line 3). September data were revised from outflows of \$20 billion to outflows of \$32 billion, largely due to a reporting error by a branch of a foreign bank.

Recently released balance of payments data for the third quarter show continued robust direct investment flows, with outflows exactly offsetting inflows (lines 6 and 7). As of the third quarter, direct investment into the United States in 1999 has already surpassed the record set in 1998 (line 7). U.S. direct investment abroad has also been strong this year, and is well on its way to setting its own record (line 6). The growing number of large international mergers and

acquisitions has been primarily responsible for the sizeable direct investment flows.

The statistical discrepancy (last line) was negative in the third quarter of 1999, as it has been in recent quarters, indicating some combination of over-recorded net capital inflows or under-recorded net exports. While there are likely to be errors in reporting both financial and current transactions, the recent robust merger activity has probably strained the financial reporting system, suggesting that reported capital inflows are more likely to be suspect.

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

| | 1997 | 1998 | 1998 | | | 1999 | | |
|--------------------------------------------------------------------------------|---------------|---------------|--------------|--------------|--------------|--------------|-------|-------|
| | | | Q4 | Q1 | Q2 | Q3 | Sept. | Oct. |
| Official capital | | | | | | | | |
| 1. Change in foreign official assets in U.S. (increase, +) | 20.0 | -16.6 | 27.2 | 5.7 | * | 13.0 | -3.8 | 4.2 |
| a. G-10 countries | 1.8 | 6.9 | 12.8 | 12.7 | 7.6 | 19.2 | 8.7 | 2.1 |
| b. OPEC countries | 12.9 | -9.0 | 2.8 | 2.2 | 2.5 | -1.3 | -1.5 | 1.8 |
| c. All other countries | 5.2 | -14.4 | 11.6 | -8.6 | -10.0 | -4.9 | -11.0 | .3 |
| 2. Change in U.S. official reserve assets (decrease, +) | -1.0 | -6.8 | -2.4 | 3.9 | 1.2 | 1.9 | .1 | .3 |
| Private capital | | | | | | | | |
| Banks | | | | | | | | |
| 3. Change in net foreign positions of banking offices in the U.S. ¹ | 33.9 | 57.2 | 12.4 | 6.0 | 16.9 | -22.6 | -32.4 | 6.5 |
| Securities² | | | | | | | | |
| 4. Foreign net purchases of U.S. securities (+) | 346.7 | 275.2 | 80.6 | 55.7 | 82.8 | 104.8 | 29.6 | 18.9 |
| a. Treasury securities ³ | 147.2 | 49.3 | 24.6 | -7.3 | -5.2 | 9.8 | -.2 | -11.2 |
| b. Agency bonds | 45.3 | 50.5 | 10.0 | 18.1 | 17.1 | 21.2 | 8.2 | 7.2 |
| c. Corporate and municipal bonds | 82.8 | 122.0 | 30.9 | 34.8 | 33.1 | 48.5 | 16.7 | 15.0 |
| d. Corporate stocks | 71.3 | 53.7 | 15.2 | 10.2 | 37.9 | 25.3 | 4.9 | 7.8 |
| 5. U.S. net purchases (-) of foreign securities | -89.1 | -11.1 | 16.5 | 7.3 | 17.5 | -10.6 | 2.2 | -9.2 |
| a. Bonds | -48.2 | -17.4 | 10.4 | -.8 | 3.3 | -10.1 | 1.1 | -1.2 |
| b. Stock ⁴ | -40.9 | 6.2 | 6.2 | 8.1 | 14.2 | -.6 | 1.1 | -7.9 |
| Other flows (quarterly data, s.a.) | | | | | | | | |
| 6. U.S. direct investment (-) abroad | -110.0 | -132.8 | -30.8 | -41.4 | -31.6 | -44.5 | ... | ... |
| 7. Foreign direct investment in U.S. | 109.3 | 193.4 | 120.6 | 22.9 | 154.4 | 44.5 | ... | ... |
| 8. Foreign holdings of U.S. currency | 24.8 | 16.6 | 6.3 | 2.4 | 3.1 | 4.7 | ... | ... |
| 9. Other (inflow, +) ^{4,5} | -47.9 | -164.6 | -131.0 | 11.4 | -124.6 | 14.6 | ... | ... |
| U.S. current account balance (s.a.) | -143.5 | -220.6 | -61.7 | -68.7 | -80.9 | -89.9 | ... | ... |
| Statistical discrepancy (s.a.) | -143.2 | 10.1 | -37.7 | -5.2 | -38.8 | -15.9 | ... | ... |

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 excludes securities acquired through exchange of equities; therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

3. Includes Treasury bills.

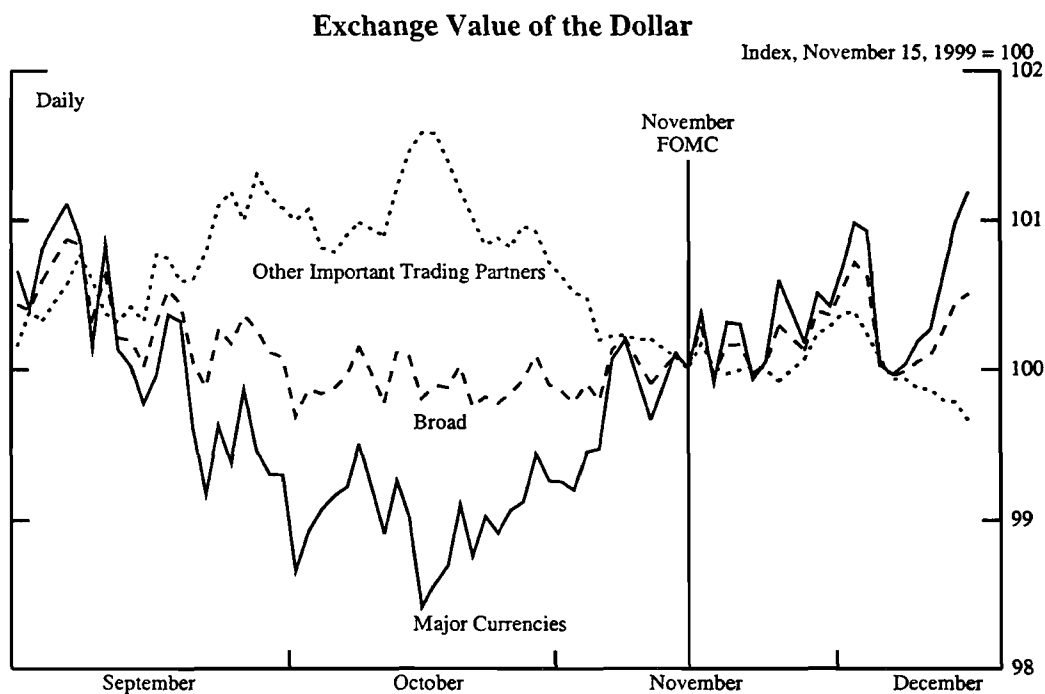
4. Quarterly balance of payments data include large U.S. acquisitions of foreign equities associated with foreign takeovers of U.S. firms. These are not included in line 5.b but are included in line 9.

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. -- Not applicable. * Less than \$50 million.

Foreign Exchange Markets

Since the November FOMC meeting, the nominal exchange value of the dollar has appreciated 1.2 percent, on balance, in terms of the major currencies index. A 1.3 percent depreciation of the dollar versus the Japanese yen was more than offset by appreciations of 2.8 and 1.3 percent against the euro and the Canadian dollar, respectively. The exchange value of the dollar dipped slightly against the currencies of other important trading partners, with an appreciation of the dollar vis-à-vis the Indonesian rupiah and the Mexican peso only partially countering a depreciation versus both the Brazilian *real* and the Korean won.



The sharpest drop in the dollar's exchange value against the yen over the inter-meeting period took place in one hour on Friday, November 26, during trading that was characterized by market participants as thin and illiquid. During that hour, the yen appreciated 2.7 percent versus the dollar and 2.8 percent versus the euro. The following Monday and Tuesday, Japanese officials intervened, buying both dollars and euros, but their actions had no lasting effect. In subsequent weeks, however, the dollar has appreciated marginally versus the yen.

During the inter-meeting period, the euro hit a new low, falling below parity with the dollar on three successive business days (December 2, 3 and 6) before recovering briefly following the release of better-than-expected data on German October factory orders. To explain the recent bout of weakness in the euro, some market participants cited increased skepticism about the commitment of

European governments to a unified, market-oriented economy. This reassessment followed the German government's rescue of a bankrupt construction firm and its opposition to a British firm's hostile takeover bid for a German telecommunications company, as well as market rumors that the Governor of the Bank of France intervened to prevent a Dutch bank from purchasing a French bank. A row between continental E.U. members and the United Kingdom over a pan-European withholding tax on interest earnings also heightened concerns about European policy making.

Financial Indicators in Major Industrial Countries

| Country | Three-month rate | | Ten-year yield | | Equities |
|--------------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|-------------------|
| | Dec. 15 (Percent) | Percentage Point Change | Dec. 15 (Percent) | Percentage Point Change | Percent Change |
| Canada | 5.09 | -0.04 | 6.12 | 0.23 | 3.67 |
| Japan | 0.10 | -0.22 | 1.74 | -0.01 | -0.33 |
| Euro area | 3.46 | 0.01 | 5.06 | 0.18 | 7.02 |
| United Kingdom | 5.90 | 0.39 | 5.19 | 0.18 | 1.71 |
| Switzerland | 1.89 | -0.01 | 3.43 | 0.04 | -0.66 |
| Australia | 5.74 | 0.32 | 6.72 | 0.29 | 3.60 |
| United States | 6.07 | 0.08 | 6.20 | 0.26 | -0.99 |
| Memo: Weighted-average foreign | 3.22 | -0.03 | 4.97 | 0.15 | |

NOTE. Change is from November 15 to December 15, except for the euro area, the United Kingdom and Switzerland, for which the change is from November 16.

Bellwether bond yields rose 17 to 21 basis points across Europe, in the intermeeting period, as more signs of a cyclical upswing in European economies appeared. Switzerland deviated from this trend, with the yield on its ten-year government bond shedding seven basis points, as the Swiss National Bank did not follow the European Central Bank's November rate increase. In Japan, government officials stated that net new issuance of Japanese government bonds to finance next year's initial budget will total about ¥30 trillion, and announced that an increased portion of the total would be in the four to six year maturity to alleviate upward pressure on longer dated Japanese bond yields. Japanese ten-year government bond yields declined modestly over the period, while four-year and six-year bond yields rose 12 and 9 basis points, respectively.

Since mid-November, share prices in several European equity markets have significantly outperformed other industrial country bourses. Swedish share prices leapt nearly 15 percent and French and Italian share prices gained 8 and 12 percent, respectively. German equity prices rose a more modest 5 percent. Japanese share prices, as measured by the Nikkei index, declined a small measure.

Financial Indicators in Latin America, Asia, and Russia

| Economy | Currency/ US dollar | | Short-term Interest rates ¹ | | Dollar-denominated bond spread ² | | Equity prices |
|-------------|------------------------|-------------------|-------------------------------------------|-------------------------------|------------------------------------------------|-------------------------------|-------------------|
| | Dec. 15 | Percent Change | Dec.14/15 (Percent) | Percentage Point Change | Dec.14/15 (Percent) | Percentage Point Change | Percent Change |
| Mexico | 9.41 | 0.45 | 16.40 | -0.20 | 4.35 | -1.83 | 8.82 |
| Brazil | 1.85 | -4.39 | 20.30 | 2.50 | 6.99 | -1.89 | 10.63 |
| Argentina | 1.00 | -0.01 | 12.50 | 1.75 | 6.88 | -0.98 | -3.90 |
| Chile | 537.00 | -0.11 | 8.10 | -1.67 | 1.49 | -0.23 | 5.13 |
| China | 8.28 | 0.02 | n.a. | n.a. | 1.28 | -0.04 | -0.03 |
| Korea | 1134.00 | -4.04 | 5.30 | 0.30 | 1.41 | -0.22 | -1.14 |
| Taiwan | 31.58 | -0.69 | 4.80 | 0.00 | ... | ... | 4.17 |
| Singapore | 1.68 | 0.71 | 3.25 | 1.13 | ... | ... | 2.29 |
| Hong Kong | 7.77 | 0.02 | 6.16 | 0.68 | ... | ... | 8.67 |
| Malaysia | 3.80 | -0.01 | 2.78 | 0.05 | 1.47 | -0.48 | 5.31 |
| Thailand | 38.40 | -0.31 | 5.75 | 2.25 | 0.83 | -0.32 | 2.62 |
| Indonesia | 7050.00 | 2.47 | 13.15 | -0.32 | 7.31 | -0.18 | 2.61 |
| Philippines | 40.65 | 1.50 | 9.75 | 1.06 | 2.86 | -0.11 | 0.81 |
| Russia | 26.83 | 2.23 | n.a. | n.a. | 49.59 | -11.32 | 3.92 |

NOTE. Change is from November 15 to December 14/15.

1 One month interbank interest rate, except Korea: 15-day interbank rate; and Chile: 30-day deposit rate. No reliable short-term interest rates exist for China or Russia.

2. Mexico, Brazil, Argentina, and Russia: Stripped Brady bond yield spread over U.S. Treasuries. Chile, China and Korea: Global bond yield spread. Malaysia and Philippines: Eurobond yield spread. Thailand and Indonesia: Yankee bond yield spread. Taiwan, Singapore and Hong Kong do not have outstanding sovereign bonds demoninated in foreign currencies.

In emerging market economies, stripped spreads of sovereign bond yields continued to fall over the inter-meeting period, with the Emerging Market Bond Index spread tumbling 75 basis points. In part, this decline owed to an announcement that Brazil would issue \$4 billion to \$6 billion in non-collateralized global bonds in 2000, a portion of which will be swapped for outstanding Brady bonds; for the period, Brazilian Brady spreads fell 189 basis

points. Mexico saw its Brady bond spread fall 183 basis points, while Argentine Brady spreads tightened by nearly 100 basis points. Mexican and Brazilian equity prices surged 9 and 11 percent, respectively, but Argentine share prices declined almost four percent. Equity prices in most Asian economies advanced during the period, with Korean stocks a notable exception.

On December 3 and 10, in order to provide additional dollar liquidity to the Brazilian money market over the century date change, Brazil's central bank auctioned a total of \$1.3 billion of U.S. dollar repurchase agreements for delivery on December 29, with \$800 million to be repurchased on January 5 and \$500 million on January 10.

In other actions by foreign central banks, the Bank of Canada raised its Bank rate 25 basis points, to 5 percent, and its overnight target rate a like amount to 4.75 percent, immediately following the FOMC's November decision. On November 23, the central bank of Ecuador nearly doubled its interbank lending rate to 160 percent from 90 percent in an effort to support the sucre. On December 9, the Turkish central bank announced a new crawling exchange rate peg, devised in conjunction with an IMF program. The new peg is designed to reduce gradually inflation expectations over a period of 18 months, at which time the plan calls for the Turkish lira to float within widening trading bands. Turkish equity and bond prices immediately rose following the announcement.

The price of gold has fallen 3.8 percent since the last FOMC meeting, to \$280 per ounce. The commodity's sharpest fall during the period occurred after the Dutch central bank announced on December 6 that it would sell 300 tons of its gold holdings over the next five years. These prospective sales fall within the scope of the arrangement announced on September 26 by the European Central Bank and 14 national central banks, including the Netherlands Bank. The participating parties agreed to limit their gold sales to 2,000 tons over five years. Together with previously announced plans of the Bank of England and the Swiss National Bank, the Dutch plan means that 1,965 tons of the 2,000 tons have been accounted for.

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

Developments in Foreign Industrial Countries

Data released since the November Greenbook generally suggest expanding real economic activity in the foreign industrial countries. In the euro area, growth picked up sharply in the third quarter and most forward-looking indicators suggest further strength. In the United Kingdom and Canada, the expansion of real economic activity in the third quarter exceeded the strong second-quarter rate. In contrast, Japanese economic activity in the third quarter stalled following the surge in GDP in the first half of 1999.

Inflation remains quiescent in the foreign industrial countries, although higher oil prices continue to put upward pressure on headline inflation. Euro-area harmonized CPI inflation continued to climb in October but, at 1.4 percent, remained comfortably below the 2 percent ceiling set by the ECB. Canadian core inflation has nudged up recently, but is still below the midpoint of the Bank of Canada's 1 percent to 3 percent target. U.K. inflation remains close to 2 percent. Japanese core consumer prices remained flat in November, while wholesale prices continued to decline.

In **Japan, real GDP** fell 3.8 percent (SAAR) during the third quarter, after rising in the first two quarters of 1999. Domestic demand led the way down, shaving 5.3 percentage points off growth, while net exports added 1.4 percentage points to growth. Private consumption and all types of investment (private residential and non-residential and public) fell. Revisions to earlier quarters' GDP growth were substantial, including a downward revision from 8 percent to 6.3 percent for the first quarter and upward revision from 0.4 percent to 3.9 percent for the second quarter.

The decline in third-quarter real GDP was surprising in light of relatively strong production indicators. Although industrial production fell 2.3 percent (SA) in October from the previous month, this was due largely to a variation in the number of working days in the month and followed an increase of 4 percent in the third quarter from its level in the second quarter. MITI is expecting a rebound in industrial production of a hefty 5 percent in November. The BoJ's December Tankan improved to -26 from -32 in September, indicating improved business sentiment for the fourth consecutive quarter.

The Japanese unemployment rate in October remained steady at 4.6 percent, while the offers-to-applicants ratio (the number of officially posted job openings relative to the number of officially registered job seekers) rose to 0.48, a bit above the record low of 0.46 in August. Demand indicators for the fourth quarter are scant, but those that are available paint a pessimistic picture. Housing starts and new car registrations were each down 10 percent in October from the previous month, perhaps as a result of employment concerns. The

November Tokyo core CPI was nearly unchanged (SA) from the previous month and was down 0.3 percent (NSA) from a year earlier.

Japanese Real GDP
(Percent change from previous period, SAAR)

| Component | 1997 ¹ | 1998 ¹ | 1998 | 1999 | | |
|----------------------------|-------------------|-------------------|-------|------|------|-------|
| | | | Q4 | Q1 | Q2 | Q3 |
| GDP | -0.5 | -3.1 | -2.0 | 6.3 | 3.9 | -3.8 |
| Total domestic demand | -1.9 | -3.1 | -1.0 | 7.5 | 4.4 | -5.3 |
| Consumption | -1.7 | .5 | -.3 | 3.5 | 4.6 | -1.3 |
| Private Investment | -3.4 | -13.2 | -19.7 | 8.6 | 2.4 | -9.0 |
| Public Investment | -4.6 | 4.1 | 59.0 | 27.1 | 11.7 | -29.8 |
| Government consumption | 1.5 | 1.2 | 3.5 | 3.2 | -5.2 | 3.5 |
| Inventories (contribution) | .1 | -.8 | -.3 | 1.0 | .6 | .1 |
| Exports | 7.5 | -6.2 | -10.0 | .2 | 6.0 | 20.1 |
| Imports | -3.3 | -7.5 | -3.1 | 9.9 | 10.7 | 10.0 |
| Net exports (contribution) | 1.4 | 0 | -1.1 | -1.0 | -.4 | 1.4 |

1. Q4/Q4.

The Japanese cabinet announced details of the much awaited supplemental budget for FY2000 on November 11. The broad package of measures is valued at ¥18 trillion (\$171 billion equivalent), with a "real water" content estimated to be about ¥7 trillion, or 1.4 percent of GDP. Most of the real water spending is on "social infrastructure," which includes both traditional public works and spending on high technology and research-oriented projects. Other measures include financing for small and medium-sized enterprises, assistance for home buyers, funds to start an elderly-care insurance program, and a jobs program for the hiring and re-training of workers. The government has said it plans to issue mostly five-year bonds to fund the package in order to avoid raising rates on ten-year bonds.

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

| Indicator | 1999 | | | | | | |
|-------------------------------------|------|------|------|------|-------|-------|------|
| | Q2 | Q3 | Q4 | Aug. | Sept. | Oct. | Nov. |
| Industrial production | -1.0 | 3.9 | n.a. | 4.4 | -0.6 | -2.3 | n.a. |
| Housing starts | 3.7 | -2.5 | n.a. | 10.7 | -1.3 | -9.6 | n.a. |
| Machinery orders | -3.7 | -2.9 | n.a. | 8.2 | -9.4 | 15.3 | n.a. |
| Machinery shipments | -2.4 | 4.9 | n.a. | 4.5 | .6 | -2.5 | n.a. |
| New car registrations | 0 | -0.3 | n.a. | 11.6 | -4.2 | -10.1 | n.a. |
| Unemployment rate ¹ | 4.8 | 4.7 | n.a. | 4.7 | 4.6 | 4.6 | n.a. |
| Job offers ratio ² | .47 | .46 | n.a. | .46 | .47 | .48 | n.a. |
| Business sentiment ³ | -37 | -32 | -26 | ... | ... | ... | ... |
| CPI (Core, Tokyo area) ⁴ | -0.4 | 0 | n.a. | -0.3 | -0.1 | -0.9 | -1.3 |
| Wholesale prices ⁴ | -3.6 | -4.0 | n.a. | -4.4 | -3.9 | -2.1 | -1.7 |

1. Percent.

2. Level of indicator.

3. Tankan survey, diffusion index.

4. Percent change from year earlier, NSA.

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

In the **euro area**, preliminary data indicate that real GDP expanded at a very healthy 4 percent rate (SAAR) in the third quarter on the back of strong domestic demand and net exports. In Germany, real GDP rose 2.9 percent (SAAR) in the third quarter, led by net exports with consumer, fixed investment and government spending all contributing positively to growth. Inventory investment provided a significant drag. In France, real GDP rose 4.2 percent (SAAR) in the third quarter and—as in Germany—net exports made the biggest contribution, but domestic demand also contributed positively while inventory investment contributed negatively. Third-quarter industrial production (excluding construction) for the area as a whole was up 0.6 percent (SA) from the previous quarter and 1 percent from a year ago.

Data on current economic activity as well as recent information on economic sentiment and new orders suggest a further pickup in activity in the final quarter of 1999. In Germany, industrial production rose 1.7 percent (SA) in October from September on the back of a surge in capital goods production, much of which is usually exported. The volume of industry orders rose 3.2 percent in October after slumping in September. A hefty 5.4 percent gain in domestic

orders, which provided an early indication that domestic demand finally may be strengthening, mostly accounted for October's pickup. Foreign orders, which had fueled the sharp rise in manufacturers orders since April, rose only 0.5 percent but remained at a level nearly 9 percent above the second-quarter average. In Italy, industrial production rose 0.4 percent (SA) in October. Economic sentiment has been increasing in most of the countries in recent months, with improvement in all components of the index—industrial, consumer, and construction.

In October, the harmonized unemployment rate for the euro area dropped to 9.9 percent, the first time the rate has been below 10 percent since 1992. (In constructing the harmonized unemployment series, Eurostat standardizes national statistics to International Labor Organization definitions.) In France, Germany and Italy, unemployment rates remain above the euro-area average, although they have declined somewhat more in France and Italy since the beginning of the year.

Euro-11 Real GDP
(Percent change from previous period, SAAR)

| Component | 1997 ¹ | 1998 ¹ | 1998 | 1999 | | |
|----------------------------|-------------------|-------------------|------|------|-----|------|
| | | | Q4 | Q1 | Q2 | Q3 |
| Euro-11 GDP | 2.9 | 1.9 | .7 | 2.1 | 2.4 | 4.0 |
| <i>Germany:</i> | | | | | | |
| GDP | 1.4 | 1.2 | -.9 | 2.6 | .4 | 2.9 |
| Domestic demand | .7 | 2.5 | 1.8 | 2.5 | -.2 | 1.4 |
| Net exports (contribution) | .7 | -1.3 | -2.7 | .1 | .6 | 1.5 |
| <i>France:</i> | | | | | | |
| GDP | 3.0 | 3.0 | 3.0 | 1.7 | 3.1 | 4.2 |
| Domestic demand | 2.2 | 3.8 | 4.5 | 1.7 | 2.3 | 1.7 |
| Net exports (contribution) | .9 | -.8 | -1.4 | 0 | .8 | 2.5 |
| <i>Italy:</i> | | | | | | |
| GDP | 2.9 | .2 | -1.8 | .7 | 1.7 | n.a. |
| Domestic demand | 4.2 | 1.5 | 1.8 | 3.7 | 1.7 | n.a. |
| Net exports (contribution) | -1.2 | -1.3 | -3.5 | -2.9 | 0 | n.a. |

1. Q4/Q4.

2. Contribution to GDP growth.

| Euro-11 Current Indicators | | | | | | | |
|-----------------------------------------------------------|------|------|------|------|-------|------|------|
| (Percent change from previous period except as noted, SA) | | | | | | | |
| Indicator | 1999 | | | | | | |
| | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. | Nov. |
| <i>Industrial production¹</i> | | | | | | | |
| Euro-11 | .1 | .4 | .6 | .4 | -.3 | n.a. | n.a. |
| Germany | .2 | .9 | .2 | 1.2 | -.9 | 1.7 | n.a. |
| France | .2 | .6 | 2.8 | 0 | -.1 | n.a. | n.a. |
| Italy | .1 | -.6 | 1.7 | .8 | -.4 | .4 | n.a. |
| <i>Unemployment rate²</i> | | | | | | | |
| Euro-11 | 10.3 | 10.1 | 10.0 | 10.1 | 10.0 | 9.9 | n.a. |
| Germany | 10.6 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.4 |
| France | 11.4 | 11.3 | 11.2 | 11.3 | 11.1 | 11.0 | n.a. |
| Italy | 11.8 | 11.5 | 11.5 | ... | ... | ... | ... |
| <i>Consumer prices³</i> | | | | | | | |
| Euro-11 ⁴ | .9 | 1.0 | 1.2 | 1.2 | 1.2 | 1.4 | n.a. |
| Germany | .3 | .5 | .6 | .7 | .7 | .8 | .9 |
| France | .3 | .4 | .6 | .5 | .7 | .8 | .9 |
| Italy | 1.4 | 1.5 | 1.7 | 1.7 | 1.9 | 2.1 | 2.2 |

1. Indexes exclude construction.

2. Euro-11 standardized to ILO definition. Includes Eurostat estimates in some cases.

Country figures represent national definitions.

3. Percent change from year earlier.

4. Eurostat harmonized definition.

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

Euro-area harmonized CPI inflation continues to creep up but remains comfortably below the 2 percent ceiling set by the ECB. In October, euro-area consumer prices rose 1.4 percent (yr/yr). Noticeable differences still exist among individual countries with inflation rates in Germany, Austria and France remaining considerably below those in Ireland, the Netherlands, Spain and Portugal.

The euro-area current account surplus with the rest of the world was slightly above \$37 billion for the first nine months of 1999, down significantly from around \$51 billion over the same period in 1998.

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

| Indicator | 1999 | | | | | | |
|--------------------------------------|------|-----|-----|------|-------|------|------|
| | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. | Nov. |
| Consumer confidence ¹ | 0 | -4 | -4 | -4 | -4 | -2 | -1 |
| Construction confidence ² | -9 | -7 | -7 | -9 | -8 | -6 | 0 |
| Industrial confidence ³ | -10 | -10 | -6 | -7 | -5 | -3 | -1 |
| <i>of which:</i> | | | | | | | |
| Production expectations | 1 | 3 | 8 | 7 | 10 | 13 | 15 |
| Total orders | -19 | -21 | -17 | -17 | -15 | -11 | -9 |
| Stocks | 14 | 13 | 10 | 10 | 10 | 10 | 8 |

NOTE: Diffusion indexes based on European Commission surveys in individual countries.

1. Averages of responses to questions on financial situation, general economic situation, and purchasing attitudes.

2. Averages of responses to questions on output trend and orders.

3. Averages of responses to questions on production expectations, orders, and stocks.

On December 2, the Governing Council of the ECB announced that its M3 growth reference value for next year will remain at 4½ percent, despite the fact that euro-area M3 growth has consistently exceeded the reference value since January—with most estimates for the August-October period showing growth of 6 percent.

Economic activity in the **United Kingdom** continued to strengthen in the third quarter, with real GDP registering growth of 3.6 percent (SAAR). This growth reflected in part a sharp pickup in inventory accumulation as consumer spending moderated somewhat and investment spending remained subdued. A surge in export growth more than offset strong import growth, and net exports made a positive contribution to growth for the second consecutive quarter.

Data for the fourth quarter are limited but suggest that activity continues at a robust pace. Industrial production edged up in October and the average volume of retail sales picked up in October to a level 0.9 percent above the third-quarter average. Business sentiment in the industrial sector has eased somewhat from the levels recorded earlier in the fall, but purchasing managers surveys point to continued expansion in manufacturing industries and especially strong activity in the service sector in November.

| U.K. Real GDP | | | | | | |
|---------------------------------------------|-------------------|-------------------|------|------|------|------|
| (Percent change from previous period, SAAR) | | | | | | |
| Component | 1997 ¹ | 1998 ¹ | 1998 | 1999 | | |
| | | | Q4 | Q1 | Q2 | Q3 |
| GDP | 3.4 | 1.6 | .2 | .9 | 2.6 | 3.6 |
| Total domestic demand | 4.6 | 3.4 | 3.3 | 5.1 | .5 | 3.0 |
| Consumption | 4.3 | 2.8 | 4.3 | 6.4 | 4.4 | 2.3 |
| Investment | 10.9 | 9.2 | 8.0 | 1.8 | 1.2 | .8 |
| Government consumption | -1.8 | 2.0 | 3.1 | 6.8 | 2.6 | 2.2 |
| Inventories (contribution) | .4 | -.3 | -1.5 | -.5 | -3.1 | 1.0 |
| Exports | 7.4 | -.7 | -6.4 | -5.3 | 8.8 | 27.0 |
| Imports | 11.2 | 6.0 | 3.2 | 6.5 | 1.9 | 21.2 |
| Net exports (contribution) | -1.2 | -2.2 | -3.2 | -3.9 | 2.0 | .7 |

1. Q4/Q4.

| U.K. Economic Indicators | | | | | | | |
|-----------------------------------------------------------|-------|------|------|------|-------|------|------|
| (Percent change from previous period except as noted, SA) | | | | | | | |
| Indicator | 1999 | | | | | | |
| | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. | Nov. |
| Industrial production | -.5 | .8 | 1.2 | .5 | -.2 | .2 | n.a. |
| Retail sales | 1.1 | 1.0 | 1.3 | .6 | .2 | .5 | n.a. |
| Unemployment rate ¹ | 4.5 | 4.5 | 4.2 | 4.2 | 4.2 | 4.2 | 4.1 |
| Business confidence ² | -10.3 | 8.0 | 10.0 | 17.0 | 17.0 | 12.0 | 6.0 |
| Retail prices ³ | 2.6 | 2.3 | 2.2 | 2.1 | 2.1 | 2.2 | 2.2 |
| Producer input prices ⁴ | -5.8 | -1.6 | 4.2 | 3.9 | 5.8 | 6.5 | 9.1 |
| Average earnings ⁴ | 4.8 | 4.4 | 4.7 | 4.9 | 4.7 | 4.9 | n.a. |

1. Claims-based, 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.

Labor market conditions remain tight. The official claims-based unemployment rate edged down to 4.1 percent in November, the lowest rate in nearly 20 years, and the Labor Force Survey measure of the unemployment rate remained at a record low 5.9 percent for the August-October period. Average annual earnings growth increased to 4.9 percent for the three months centered in October.

Business surveys suggest that recruitment difficulties are intensifying and wage costs are rising.

The twelve-month rate of retail price inflation (excluding mortgage interest rates) remains below the official target of 2.5 percent, but producer input prices have risen noticeably since April.

Real GDP in **Canada** rose 4.7 percent (SAAR) in the third quarter. After acting as a significant drag on growth in the previous quarter, net exports made a sizeable contribution in the third quarter, led by a surge in automotive exports to the United States. Consumer spending also posted another advance in the form of large gains in purchases of durable goods such as motor vehicles, furniture, and appliances. Investment spending slowed sharply, as business spending on computers leveled off after surging in the second quarter. Inventory investment fell off, partly due to stronger than expected external and household demand. Strong economic growth has contributed favorably to labor market developments in recent months. Employment rose a hefty 0.4 percent in November, after posting large gains in September and October. The unemployment rate in November fell to 6.9 percent, an eighteen-year low. The twelve-month change in core inflation fell from 1.8 percent in September to 1.6 percent in October, possibly suggesting that the effect on inflation of last year's depreciation of the Canadian dollar has started to weaken. Even though core inflation was below the midpoint of the Bank of Canada's 1 percent to 3 percent target range, the Bank raised short-term interest rates 25 basis points on November 18, matching the interest rate hike by the Federal Reserve a day earlier.

Canadian Real GDP
(Percent change from previous period, SAAR)

| Component | 1997 ¹ | 1998 ¹ | 1998 | 1999 | | |
|----------------------------|-------------------|-------------------|------|------|------|------|
| | | | Q4 | Q1 | Q2 | Q3 |
| GDP | 4.4 | 2.8 | 4.8 | 4.1 | 3.1 | 4.7 |
| Total domestic demand | 5.1 | 1.0 | 5.0 | 2.9 | 10.3 | 1.0 |
| Consumption | 4.1 | 2.0 | 0 | 4.4 | 4.3 | 4.8 |
| Investment | 12.7 | 1.3 | 5.0 | 11.9 | 21.0 | 1.9 |
| Government consumption | .3 | 2.1 | 2.4 | -.6 | 1.2 | .8 |
| Inventories (contribution) | .4 | -.8 | 3.4 | -1.6 | 3.4 | -2.2 |
| Exports | 11.9 | 9.0 | 14.2 | 10.1 | 1.4 | 15.0 |
| Imports | 14.9 | 4.2 | 15.9 | 6.1 | 18.8 | 5.5 |
| Net exports (contribution) | -.8 | 1.9 | -.2 | 1.7 | -6.0 | 3.7 |

1. Q4/Q4.

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

| Indicator | 1999 | | | | | | |
|----------------------------------|-------|-------|-------|------|-------|------|------|
| | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. | Nov. |
| GDP at factor cost | 1.1 | .8 | 1.2 | .4 | .2 | n.a. | n.a. |
| Industrial production | 1.0 | .9 | 2.7 | .8 | .7 | n.a. | n.a. |
| New manufacturing orders | .6 | 1.2 | 5.9 | 4.4 | 1.2 | -.8 | n.a. |
| Retail sales | 2.5 | 1.1 | 3.1 | 1.3 | .4 | n.a. | n.a. |
| Employment | .9 | -.1 | .4 | 0 | .4 | .5 | .4 |
| Unemployment rate ¹ | 7.8 | 8.0 | 7.7 | 7.8 | 7.5 | 7.2 | 6.9 |
| Consumer prices ² | .8 | 1.6 | 2.2 | 2.1 | 2.6 | 2.3 | n.a. |
| Consumer attitudes ³ | 117.1 | 116.6 | 114.2 | ... | ... | ... | ... |
| Business confidence ⁴ | 150.1 | 150.7 | 153.9 | ... | ... | ... | ... |

1. Percent.

2. Percent change from year earlier.

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

3. Level of index, 1991 = 100.

4. Level of index, 1977 = 100.

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

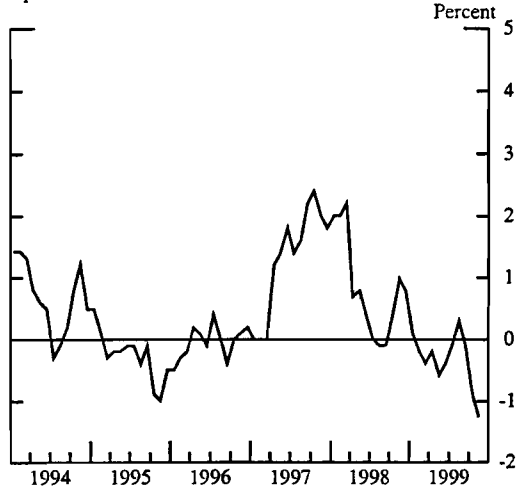
| Country and balance | 1999 | | | | | |
|------------------------------|-------|-------|-------|-------|-------|-------|
| | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. |
| <i>Japan</i> | | | | | | |
| Trade | 113.1 | 104.7 | 118.4 | 101.3 | 129.9 | 129.4 |
| Current account | 116.0 | 110.2 | 110.4 | 119.2 | 91.2 | 131.2 |
| <i>Euro-11</i> | | | | | | |
| Trade ¹ | 45.1 | 62.0 | 72.5 | 38.2 | 31.5 | n.a. |
| Current account ¹ | 52.2 | 61.9 | 32.3 | ... | ... | ... |
| <i>Germany</i> | | | | | | |
| Trade | 77.1 | 64.7 | 68.1 | 49.5 | 72.8 | n.a. |
| Current account | -8.6 | -1.7 | -14.8 | n.a. | n.a. | n.a. |
| <i>France</i> | | | | | | |
| Trade | 17.9 | 15.6 | 28.6 | 18.0 | 29.5 | n.a. |
| Current account | 34.5 | 29.4 | n.a. | 56.7 | n.a. | n.a. |
| <i>Italy</i> | | | | | | |
| Trade | 21.4 | 14.2 | 9.4 | 7.7 | 13.6 | n.a. |
| Current account ¹ | 2.1 | 14.2 | n.a. | 15.7 | n.a. | n.a. |
| <i>United Kingdom</i> | | | | | | |
| Trade | -48.4 | -43.4 | -39.5 | -42.0 | -33.7 | n.a. |
| Current account | -23.3 | -24.0 | n.a. | ... | ... | ... |
| <i>Canada</i> | | | | | | |
| Trade | 19.5 | 19.9 | 25.4 | 29.2 | 20.5 | n.a. |
| Current account | -4.0 | -4.8 | 1.8 | ... | ... | ... |

1. Not seasonally adjusted.

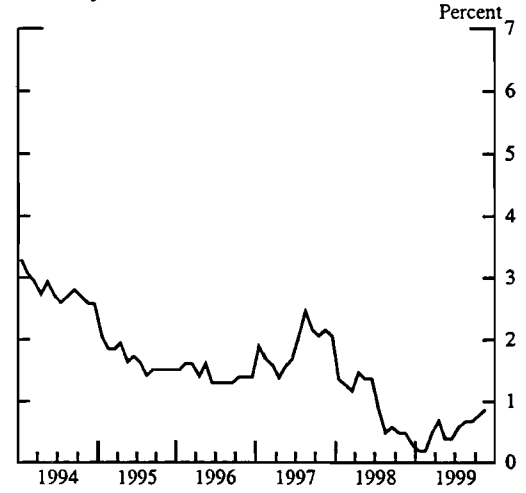
n.a. Not available. ... Not applicable.

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

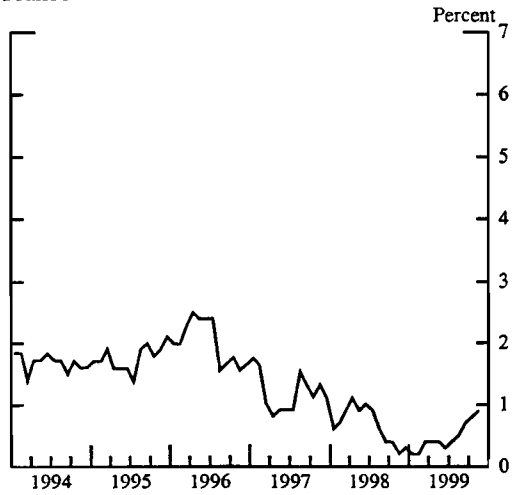
Japan



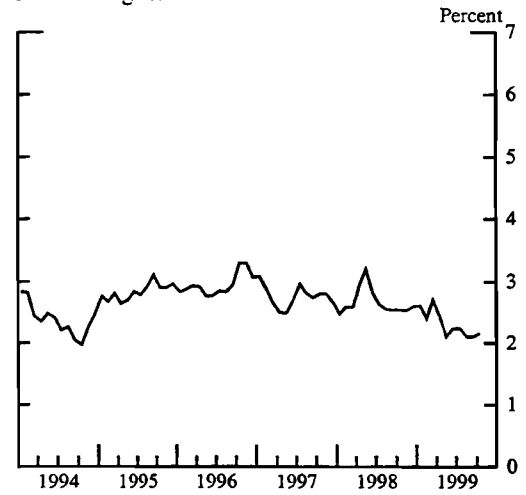
Germany



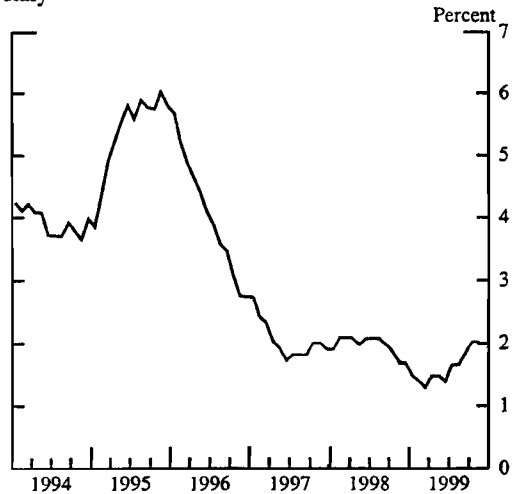
France



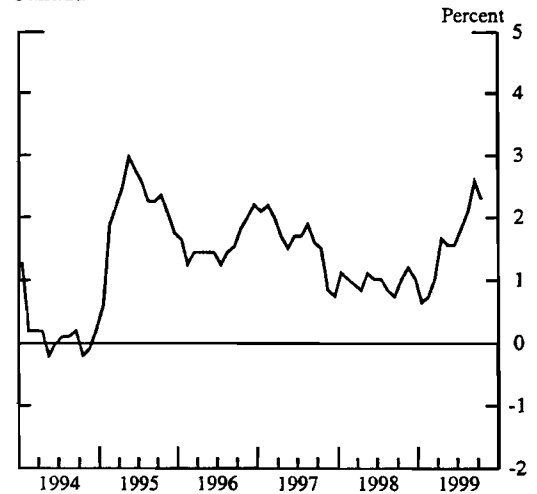
United Kingdom



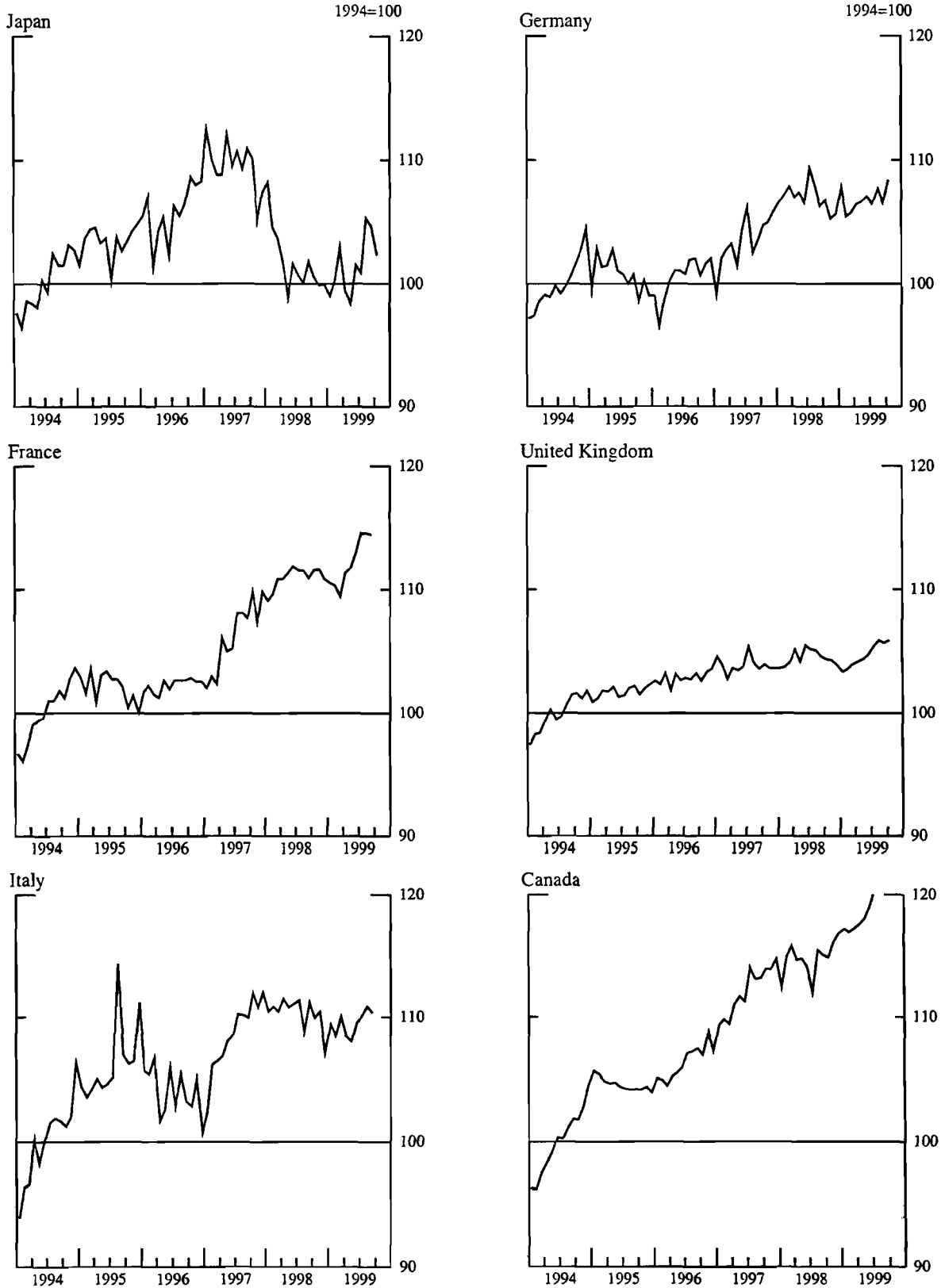
Italy



Canada



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

In Latin America, the Mexican economy continues to grow at a strong pace, while in Argentina the latest industrial production data provide further evidence of a nascent recovery. The picture in Brazil appears more mixed, as economic activity weakened in the third quarter, although there are signs of modest improvement so far in the fourth quarter. Inflation rates continue to edge down across the region, with the exception of Brazil, where upward pressure on prices may be increasing.

In developing Asia, recent indicators suggest that China, Hong Kong and Korea continue to recover at a robust pace, while economic activity in Taiwan appears to have rebounded from the September earthquake. In contrast, growth in the ASEAN region slowed significantly, albeit from an unsustainable pace. Deflation appears to be easing in China and Hong Kong, and inflation rates remain low elsewhere in the region, although there are signs that strong growth in Korea may be putting some upward pressure on prices.

In **Brazil**, real GDP fell almost 1 percent (SAAR) in the third quarter, following two quarters of growth. The decline was led by a fall in manufacturing output, which was partly offset by growth in mining and services. Industrial production data for October were more promising, showing a monthly rise of 1.6 percent (SA). Brazil's trade performance continues to disappoint; available information through October suggests that while export volumes have grown modestly in recent months, export prices have remained weak.

Consumer prices rose about 1 percent (SA) in both October and November from the previous month, bringing the 12-month rate of inflation to nearly 9 percent in November. The steep monthly rises were largely due to sharp increases in food and energy prices. Analysts now expect 12-month inflation to hit 9 percent in December, which would surpass the midpoint of the government's inflation target range of 6 percent to 10 percent.

In November, the Brazilian central bank's monetary policy committee decided to keep unchanged its target overnight interest rate at 19 percent and to drop the downward "tilt" it had introduced at its early October meeting, citing concerns over the likely impact on inflation of increases in government-controlled prices in 2000. The *real* appreciated somewhat over recent weeks, strengthening from about 1.94 per dollar in early November to roughly 1.85 per dollar on December 15,

While further progress on fiscal reform is needed, in November Congress approved a reform aimed at stabilizing the deficit of the social security system for private workers at 1 percent of GDP in coming years. Brazil's government is on track to meet the year-end fiscal targets set in its IMF program.

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

| Indicator | 1997 | 1998 | 1999 | | | | |
|--------------------------------|-------|-------|-------|-------|-------|-------|------|
| | | | Q1 | Q2 | Q3 | Oct. | Nov. |
| Real GDP ¹ | 2.2 | -1.6 | 7.2 | 4.0 | -7 | ... | ... |
| Industrial production | 3.9 | -2.1 | .7 | 1.2 | -3 | 1.6 | n.a. |
| Unemployment rate ² | 5.7 | 7.6 | 7.5 | 7.5 | 7.5 | 7.9 | n.a. |
| Consumer prices ³ | 5.2 | 1.7 | 2.4 | 3.4 | 5.6 | 7.5 | 8.7 |
| Trade balance ⁴ | -6.7 | -6.6 | -2.1 | -2.9 | -2.1 | 2.7 | -2.9 |
| Current account ⁵ | -30.5 | -33.8 | -20.8 | -28.0 | -18.4 | -28.7 | n.a. |

1. Annual rate. Annual figures are Q4/Q4.

2. Percent. "Open" unemployment rate.

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

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

5. Billions of U.S. dollars, NSA, annual rate.

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

Mexico continued to grow rapidly during the third quarter, with real GDP up 8.7 percent (SAAR). Although booming exports remain the main engine of growth, driven in large part by a strong U.S. economy, there are now indications that the contribution of domestic demand might be increasing as well. The strong growth is beginning to fuel imports, which rose roughly 5 percent (SA) in October, while exports were little changed. This resulted in a considerable widening of the trade deficit in October. The current account deficit widened in the third quarter to \$13½ billion (AR) from about \$12 billion in the second quarter, but still down significantly from a deficit of \$16 billion last year. Inflation remains on a downward trend with a 12-month rate of under 14 percent in November.

In mid-November, the new budget for 2000 was presented to Congress. Like the 1999 budget, it is austere, with a target deficit of 1 percent of GDP; the target for the primary budget is for a surplus of about 2.8 percent of GDP. The budget assumes annual real GDP growth of 4.5 percent, year-end inflation of 10 percent, an average exchange rate of 10.4 pesos per dollar over the year, and a current account deficit of \$15 billion.

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

| Indicator | 1997 | 1998 | 1999 | | | | |
|--------------------------------|-------|-------|-------|-------|-------|-------|------|
| | | | Q1 | Q2 | Q3 | Oct. | Nov. |
| Real GDP ¹ | 7.2 | 2.9 | 1.3 | 7.7 | 8.7 | ... | ... |
| Industrial production | 9.3 | 6.6 | 1.2 | 1.4 | 2.0 | -3 | n.a. |
| Unemployment rate ² | 3.7 | 3.2 | 2.7 | 2.5 | 2.3 | 2.4 | n.a. |
| Consumer prices ³ | 15.7 | 18.6 | 18.5 | 17.9 | 16.5 | 14.9 | 13.9 |
| Trade balance ⁴ | .6 | -7.9 | -6.2 | -6.2 | -1.7 | -9.8 | n.a. |
| Imports ⁴ | 109.8 | 125.2 | 129.3 | 138.5 | 142.3 | 152.5 | n.a. |
| Exports ⁴ | 110.4 | 117.5 | 123.1 | 132.3 | 140.6 | 142.7 | n.a. |
| Current account ⁵ | -7.4 | -16.0 | -13.4 | -11.8 | -13.5 | ... | ... |

1. Annual rate. Annual figures are Q4/Q4.

2. Percent.

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

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

5. Billions of U.S. dollars, NSA, annual rate.

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

In **Argentina**, recent industrial production data provide additional evidence that the economy may be recovering. Industrial production rose 2.5 percent (SA) in October from the previous month, faster than the 1.5 percent pace recorded in the third quarter. In October, the trade deficit was \$1.1 billion (SAAR), little changed from the third-quarter average. Both exports and imports continue to fall compared with last year's levels, albeit at a slower pace than in previous months. Further declines in consumer prices point to some weakness in economic activity, however; consumer prices edged down in November and have fallen about 1¾ percent over the past twelve months.

Financial markets have been guardedly upbeat over the past month, although much uncertainty remains about the economic policies of the new president, Fernando de la Rúa, and his finance minister, Jose Luis Machinea. The Argentine stock market has sustained the rally that began immediately before the election and now stands about 2 percent above its mid-October level and 20 percent above the recent trough in July. Short-term domestic interest rates, which had been falling since late October, turned up again recently, possibly reflecting continued uncertainty regarding the fiscal budget for 2000 and an end-of-the-year switch to dollar-denominated assets.

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

| Indicator | 1997 | 1998 | 1999 | | | | |
|--------------------------------|-------|-------|-------|------|------|------|------|
| | | | Q1 | Q2 | Q3 | Oct. | Nov. |
| Real GDP ¹ | 7.8 | -6 | -5.8 | -1.2 | n.a. | ... | ... |
| Industrial production | 10.4 | 1.4 | -2.2 | -1.5 | 1.5 | 2.5 | n.a. |
| Unemployment rate ² | 14.9 | 12.9 | ... | 14.5 | 14.5 | n.a. | ... |
| Consumer prices ³ | .4 | .7 | -1 | -1.1 | -1.8 | -1.6 | -1.7 |
| Trade balance ⁴ | -2.1 | -3.0 | -1.0 | 1.4 | -1.2 | -1.1 | n.a. |
| Current account ⁵ | -12.0 | -14.7 | -14.0 | n.a. | n.a. | ... | ... |

1. Annual rate. Annual figures are Q4/Q4.

2. Percent, NSA. Data are released for May, August, and October only. Figures for Q2 and Q3 are data for May and August, respectively.

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

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

5. Billions of U.S. dollars, NSA, annual rate.

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

In **Venezuela**, consumer prices in November were up about 20 percent by November from a year earlier, slower than the pace recorded earlier in this year. Weak domestic demand and an overvalued exchange rate appear to be outweighing the positive effects of higher oil prices. Furthermore, uncertainties surrounding the new constitution, which went to the population for a vote on December 15, have created anxiety among domestic and foreign investors. Despite elevated oil prices, foreign currency reserves have barely increased in recent months, in part because residents are moving their assets overseas. After dropping during the late summer and early fall, Brady spreads and domestic interest rates have turned up over the last month.

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

| Indicator | 1997 | 1998 | 1999 | | | | |
|------------------------------------|------|------|------|-------|------|------|------|
| | | | Q1 | Q2 | Q3 | Oct. | Nov. |
| Real GDP ¹ | 5.8 | -7.2 | -1.9 | -11.7 | n.a. | ... | ... |
| Unemployment rate ² | 11.7 | 11.2 | 14.0 | 16.3 | n.a. | n.a. | n.a. |
| Consumer prices ³ | 37.6 | 29.9 | 29.1 | 23.9 | 22.2 | 20.2 | 20.2 |
| Non-oil trade balance ⁴ | -7.5 | -8.6 | -8.7 | -5.6 | n.a. | n.a. | n.a. |
| Trade balance ⁴ | 10.6 | 3.4 | 2.0 | 9.8 | n.a. | n.a. | n.a. |
| Current account ⁵ | 4.7 | -1.7 | n.a. | n.a. | n.a. | ... | ... |

1. Annual rate. Annual figures are Q4/Q4.

2. Percent. NSA. Q1 figure is for March. Q2 figure is May-June average.

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

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

5. Billions of U.S. dollars, NSA, annual rate.

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

In **Korea**, recovery has continued at a very strong pace. Real GDP increased at nearly a 14 percent (SAAR) rate in the third quarter, continuing the very rapid growth of the first half of the year. About two-thirds of the third-quarter growth was due to increasing domestic demand. Consumption rose at a double-digit rate for the third consecutive quarter, and fixed investment and inventory investment also made significant positive contributions to growth. A rapid increase in exports, led by sales of semiconductors and computed-related products, also boosted third-quarter growth. Activity appears to have remained strong early in the fourth quarter: in October, industrial production registered another substantial increase and the unemployment rate eased further.

With growth so rapid, recent statements by government officials have increasingly emphasized that the need to contain inflation is a priority of macroeconomic policy. However, so far, the central bank has not moved to push up short-term interest rates, probably reflecting concern over the still fragile health of domestic financial institutions, especially the investment trust companies which hold most of the ailing Daewoo's debt securities. In addition, the recent strength of the won should help moderate inflationary pressures. Although inflation has shown signs of picking up in recent months, the 12-month rate remains below 2 percent.

| Korean Economic Indicators | | | | | | | |
|------------------------------------------------------------|------|------|------|------|------|------|------|
| (Percent change from previous period, SA, except as noted) | | | | | | | |
| Indicator | 1997 | 1998 | 1999 | | | | |
| | | | Q1 | Q2 | Q3 | Oct. | Nov. |
| Real GDP ¹ | 3.7 | -5.3 | 13.9 | 16.5 | 13.7 | ... | ... |
| Industrial production | 5.3 | -7.3 | 1.9 | 6.4 | 8.1 | 1.7 | n.a. |
| Unemployment rate ² | 2.6 | 6.8 | 7.8 | 6.6 | 5.8 | 5.0 | n.a. |
| Consumer prices ³ | 6.6 | 4.0 | .7 | .6 | .7 | 1.2 | 1.4 |
| Trade balance ⁴ | -3.2 | 41.6 | 31.7 | 28.0 | 31.7 | 31.9 | n.a. |
| Current account ⁵ | -8.2 | 40.6 | 24.8 | 25.3 | 26.6 | 25.2 | n.a. |

1. Annual rate. Annual figures are Q4/Q4.

2. Percent.

3. Percent change from year earlier, except annual changes, which are Dec./Dec.

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

5. Billions of U.S. dollars, NSA, annual rate.

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

The ASEAN region saw a slight retrenchment in the third quarter, after remarkable second-quarter growth. Third-quarter output fell slightly in both Malaysia and Singapore, following unsustainably strong second-quarter growth. The slowdown in Singapore came largely as a result of declining market share in low-end electronics, notably disk-drive production, and weakness in Singapore's financial services sector. In Malaysia, construction contracted and both manufacturing and agriculture grew at considerably slower rates than in the second quarter. Third-quarter Indonesian GDP fell more sharply, reflecting a number of factors including uncertainty surrounding the presidential election, the Bank Bali financial scandal, and the crisis in East Timor. The Philippine economy continued to expand in the third quarter, but somewhat more modestly than in the first half of the year. Industrial production data for October suggest that the slowdown across the region may have continued into the fourth quarter. All the ASEAN countries continued to register healthy trade surpluses. Inflation remained muted throughout the region.

In recent national elections, Malaysia's Prime Minister Mahathir was re-elected and the ruling National Front Party maintained its two-thirds majority in parliament. However, the National Front suffered an erosion of support among the politically dominant ethnic Malays, following the government's highly controversial treatment of jailed former Deputy Prime Minister Anwar Ibrahim. In Indonesia, growing separatist tensions in the oil-rich province of Aceh have become a new source of political instability.

ASEAN Economic Indicators: Growth
(Percent change from previous period, SA, except as noted)

| Indicator and country | 1997 | 1998 | 1999 | | | | |
|------------------------------|------|-------|------|------|------|-------|------|
| | | | Q1 | Q2 | Q3 | Sept. | Oct. |
| <i>Real GDP¹</i> | | | | | | | |
| Indonesia | 1.1 | -17.7 | 27.4 | -3.4 | -4.2 | ... | ... |
| Malaysia | 5.7 | -10.3 | 12.4 | 22.6 | -1.6 | ... | ... |
| Philippines | 5.0 | -1.8 | 5.2 | 6.0 | 2.8 | ... | ... |
| Singapore | 7.9 | -1.1 | 6.6 | 22.8 | -1.6 | ... | ... |
| Thailand | -4.7 | -6.0 | 3.6 | 1.7 | n.a. | ... | ... |
| <i>Industrial production</i> | | | | | | | |
| Indonesia | 13.2 | -13.3 | 9.2 | 2.7 | n.a. | ... | ... |
| Malaysia | 10.7 | -7.2 | 1.8 | 5.2 | 3.6 | 3.8 | -1.0 |
| Philippines | 5.1 | -11.6 | 7.0 | .5 | 1.5 | -4.0 | n.a. |
| Singapore | 4.7 | -.4 | 6.1 | 6.5 | 1.2 | 5.3 | -7 |
| Thailand | -5 | -10.0 | 2.2 | 5.4 | 5.9 | .5 | -8 |

1. Annual rate. Annual figures are Q4/Q4.

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

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

| Country | 1997 ¹ | 1998 ¹ | 1999 | | | | |
|-------------|-------------------|-------------------|------|------|------|------|------|
| | | | Q1 | Q2 | Q3 | Oct. | Nov. |
| Indonesia | 10.3 | 77.6 | 56.0 | 30.9 | 6.6 | 1.6 | 1.6 |
| Malaysia | 2.9 | 5.3 | 4.0 | 2.7 | 2.3 | 2.1 | n.a. |
| Philippines | 6.6 | 10.3 | 10.1 | 6.8 | 5.6 | 5.4 | 3.9 |
| Singapore | 2.0 | -1.5 | -.6 | .1 | .9 | 1.5 | n.a. |
| Thailand | 7.6 | 4.3 | 2.7 | -.4 | -1.0 | -.5 | 0 |

1. December/December.

n.a. Not available.

ASEAN Economic Indicators: Trade Balance
(Billions of U.S. dollars, SAAR)

| Country | 1997 | 1998 | 1999 | | | | |
|-------------|-------|------|------|------|------|-------|------|
| | | | Q1 | Q2 | Q3 | Sept. | Oct. |
| Indonesia | 11.9 | 21.5 | 19.7 | 23.2 | 29.2 | 29.9 | 28.1 |
| Malaysia | -2 | 15.0 | 19.4 | 18.8 | 18.5 | 16.6 | 17.7 |
| Philippines | -11.1 | 0 | 2.6 | 1.2 | 6.3 | 11.7 | n.a. |
| Singapore | -7.4 | 8.3 | 6.7 | 2.7 | -1.2 | 2.9 | n.a. |
| Thailand | -4.6 | 12.2 | 11.1 | 10.5 | 9.6 | 5.9 | 9.5 |

n.a. Not available.

In **China**, there are signs that economic activity continued to recover. Industrial production growth in October was lackluster, although likely depressed by a week-long holiday during the 50th anniversary celebration of the People's Republic. Exports, which drove the sharp rise in GDP in the third quarter, continued to soar, causing the trade surplus to widen further in October and November. The rate of decline in consumer prices slowed from the third-quarter average, suggesting some strengthening in private domestic demand. The authorities continued to try to spur economic growth through expansionary fiscal and monetary policy; in late November, the central bank cut the bank reserve ratio from 8 percent to 6 percent, in an effort to boost the growth of the money supply.

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

| Indicator | 1997 | 1998 | 1999 | | | | |
|------------------------------------|------|------|------|------|------|------|------|
| | | | Q1 | Q2 | Q3 | Oct. | Nov. |
| Real GDP ¹ | 8.2 | 9.5 | 2.2 | 1.1 | 11.4 | ... | ... |
| Industrial production ² | 11.7 | 7.8 | 12.4 | 8.5 | 9.5 | 6.8 | 9.4 |
| Consumer prices ² | .4 | -1.0 | -1.4 | -2.2 | -1.2 | -.6 | -.9 |
| Trade balance ³ | 40.4 | 43.6 | 15.0 | 16.0 | 33.9 | 50.6 | 29.9 |

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

2. Percent change from year earlier.

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

... Not applicable.

On November 15, China and the United States signed a bilateral agreement on China's accession to the World Trade Organization (WTO). Under the deal, China has agreed to lower tariffs and remove non-tariff barriers on imports of agriculture and industrial products, and allow significantly more foreign investment in China. WTO accession is expected to boost China's long-run growth prospects, in part by underpinning China's economic reform process, although there may be some short-run costs associated with the movement of resources from the import-competing sectors to other sectors of the economy.

Economic activity in **Hong Kong** continued to rebound at a brisk pace, with real GDP rising 8.7 percent (SAAR) in the third quarter. The expansion largely reflected the benefits to Hong Kong's entrepot economy of rapidly rising regional trade flows, especially flows to and from China. Domestic demand appears to have been sluggish, however, partly reflecting the negative impact of relatively high unemployment on consumer sentiment; the unemployment rate was 6.2 percent (SA) in the August-October period, up slightly from 6.1 percent in the July-September period. Additionally, high real interest rates remained a drag on private investment. Consumer prices continued to fall on a 12-month basis, although the rate of decline eased significantly in October, partly as a result of higher oil prices. Stock prices have soared in recent weeks, with technology stocks showing particular strength, buoyed in part by investors' favorable reaction to the China-U.S. WTO accession agreement.

Hong Kong Economic Indicators

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

| Indicator | 1997 | 1998 | 1999 | | | | |
|--------------------------------|-------|-------|------|------|------|-------|------|
| | | | Q1 | Q2 | Q3 | Sept. | Oct. |
| Real GDP ¹ | 2.5 | -5.6 | -2.1 | 11.4 | 8.7 | ... | ... |
| Unemployment rate ² | 2.4 | 4.4 | 6.2 | 6.1 | 6.1 | 6.1 | 6.2 |
| Consumer prices ³ | 5.2 | -1.6 | -1.8 | -4.0 | -5.9 | -6.1 | -4.2 |
| Trade balance ⁴ | -20.6 | -10.6 | -2.5 | -4.6 | -9.3 | -13.8 | -8.4 |

1. Annual rate. Annual figures are Q4/Q4.

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

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

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

... Not applicable.

In **Taiwan**, GDP contracted by more than 2 percent (SAAR) in the third quarter, reflecting a major earthquake that hit the island in September, disrupting economic activity with widespread electricity outages. Economic activity appears to be recovering rapidly in the fourth quarter, however, with industrial production rebounding sharply in October. Taiwan's trade and current account surpluses narrowed sharply in the third quarter as rising imports outpaced exports, although the trade surplus widened again somewhat in November. The unemployment rate was 2.9 percent in October (SA), unchanged from the previous month. Inflation remains very low, with consumer prices actually falling slightly in November on a 12-month basis.

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

| Indicator | 1997 | 1998 | 1999 | | | | |
|--------------------------------|------|------|------|------|------|------|------|
| | | | Q1 | Q2 | Q3 | Oct. | Nov. |
| Real GDP ¹ | 7.1 | 3.7 | 6.3 | 10.9 | -2.2 | ... | ... |
| Unemployment rate ² | 2.7 | 2.7 | 2.9 | 3.0 | 2.9 | 2.9 | n.a. |
| Industrial production | 7.4 | 2.6 | .8 | 5.9 | -1.8 | 5.7 | n.a. |
| Consumer prices ³ | .3 | 2.1 | .7 | -.1 | .3 | .4 | -.9 |
| Trade balance ⁴ | 14.4 | 10.4 | 14.4 | 14.8 | 6.3 | 2.1 | 9.2 |
| Current account ⁵ | 7.7 | 3.4 | 8.4 | 6.7 | 3.4 | ... | ... |

1. Annual rate. Annual figures are Q4/Q4.

2. Percent.

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

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

5. Billions of U.S. dollars, NSA, annual rate.

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

Russia's economy has continued to recover in recent months, with industrial production rising 2.6 percent (SA) in October from the previous month, and monthly consumer price inflation slowing to 1.2 percent (NSA) in November from 1.4 percent in October. On the fiscal side, reported budget revenues have been higher than expected, while expenditures have been contained, although the war in Chechnya has added further uncertainty to the fiscal picture. Negotiations with the London Club in late November failed to produce an agreement on the restructuring of \$32 billion in commercial Soviet and post-Soviet era debt, causing Russia to miss a \$550 million coupon payment on Soviet-era debt that was due on December 2. The next tranche from the \$4.5 billion IMF loan approved in August is also pending, but there is little hope of Russia's receiving the \$640 million disbursement before the new year.

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

| Indicator | 1997 | 1998 | 1999 | | | | |
|--------------------------------|------|------|-------|-------|------|------|------|
| | | | Q1 | Q2 | Q3 | Oct. | Nov. |
| Real GDP ¹ | 2.6 | -9.0 | 18.6 | 9.4 | n.a. | ... | ... |
| Industrial production | 1.7 | -5.1 | 10.4 | 4.2 | 5.3 | 2.6 | n.a. |
| Unemployment rate ² | 10.8 | 11.5 | 13.0 | 14.1 | 14.2 | 14.2 | n.a. |
| Consumer prices ³ | 11.0 | 84.4 | 102.8 | 116.8 | 92.3 | 57.3 | 50.7 |
| Trade balance ⁴ | 14.6 | 15.1 | 27.3 | 27.5 | 33.3 | n.a. | n.a. |
| Current account ⁵ | 4.0 | 2.4 | 21.9 | 14.0 | n.a. | ... | ... |

1. Annual rate. Annual figures are Q4/Q4.

2. Percent.

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

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

5. Billions of U.S. dollars, NSA, annual rate.

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