Prefatory Note

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Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

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

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

Content last modified 6/05/2009.

Confidential (FR) Class III FOMC

Part 2

January 27, 2000

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

Confidential (FR) Class III FOMC

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Domestic Nonfinancial Developments

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Overview

Economic activity continued to expand rapidly in late 1999 and appears to have carried a good deal of positive momentum into the current quarter. Consumers are wealthy and exuberant, and business managers are upbeat about the prospects for sales. The labor market is widely viewed as very tight, but the latest readings on wages and consumer inflation have been on the tame side.

Labor Market Developments

Labor demand remained strong through year-end. Despite the many reports of labor shortages, nonfarm payrolls expanded 315,000 in December, and the unemployment rate held at 4.1 percent for a third month.

Private nonfarm payrolls increased 251,000 in December after having posted strong gains in November and October; during the second half of the year, private payrolls rose an average of 202,000 per month, little changed from the pace in the first half. Over the second half, employment losses in manufacturing slowed noticeably, and job growth in construction and most service-producing industries remained robust.

One industry in which hiring has been rather subdued is retail trade. A sizable increase of 65,000 jobs was registered in December, but this followed two months of essentially flat employment; over the past five months, employment gains averaged only 18,000 per month. Nearly half of December's increase came at eating and drinking establishments, and another large portion was at automotive dealers and service stations. Among the businesses for which the holiday shopping season is a heavy hiring period--general merchandise stores, apparel stores, and miscellaneous retailers--December's increase of 10,000 jobs brought the average monthly change over the October to December span to just 2,000. This is consistent with reports that shortages among seasonal retail workers prompted the use of hiring bonuses and deeper merchandise discounts, as well as higher wages, to attract needed staff.

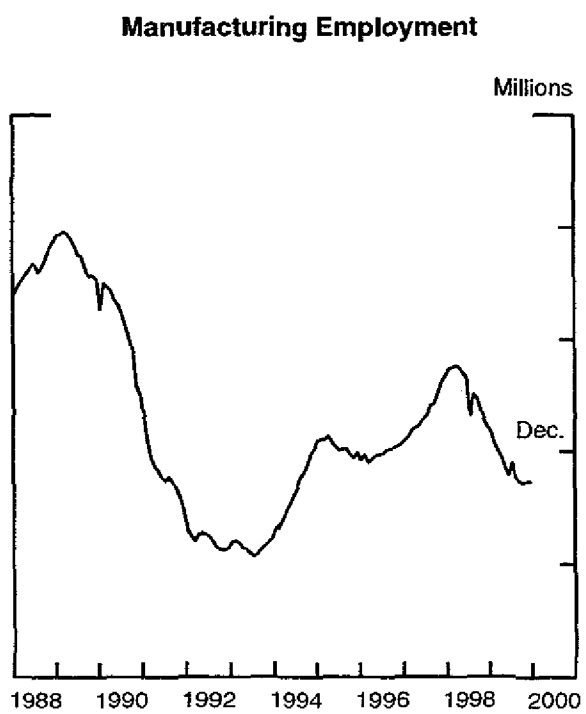
Elsewhere in the service-producing sector, the services industry added 109,000 jobs in December, just a shade less than the average for the year, with the bulk of the increase coming in business services. Employment in transportation and public utilities jumped 32,000, about twice the average pace over the second half of the year; both the trucking and air transport industries posted sizable gains, with at least some of the rise in air transport probably associated with a surge in on-line retailing.

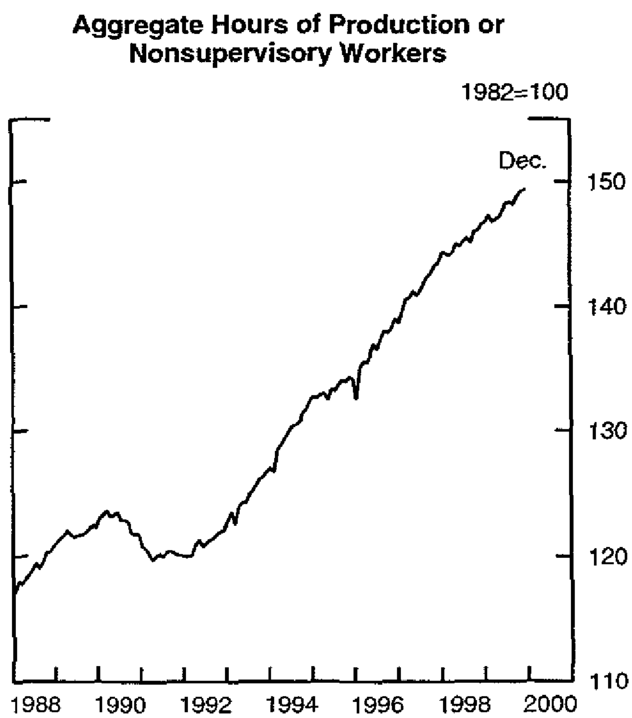
In the goods-producing sector, employment in construction increased 16,000 last month, a relatively hefty gain on top of November's 55,000. Good weather and

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

	1998	1999 H1	1999 H2	1999 Oct.	1999 Nov.	1999 Dec.
	-Average monthly change-					
Nonfarm payroll employment[1]	244	210	238	284	222	315
Private	217	188	202	265	201	251
Mining	-3	-7	1	1	-1	2
Manufacturing	-19	-36	-6	-10	8	-1
Construction	30	14	21	21	55	16
Transportation and utilities	18	16	19	10	19	32
Retail trade	32	45	26	29	-4	65
Wholesale trade	14	15	15	23	2	16
Finance, insurance, real estate	26	16	9	15	10	12
Services	119	124	117	176	112	109
Total government	27	22	36	19	21	64
Total employment[2]	156	147	170	290	158	322
Nonagricultural	169	132	179	231	86	353
Memo:						
Aggregate hours of private production workers (percent change)[1,3]	2.1	1.5	2.4	0.4	0.3	0.1
Average workweek (hours)[1]	34.6	34.5	34.5	34.5	34.5	34.5
Manufacturing (hours)	41.8	41.6	41.8	41.8	41.7	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. Semi-annual data are percent change from Q4 to Q2 and from Q2 to Q4 at an annual rate. Monthly data are percent change from preceding month.

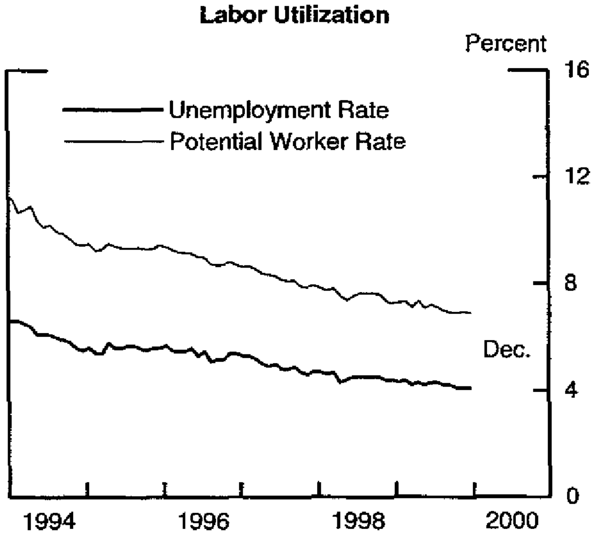




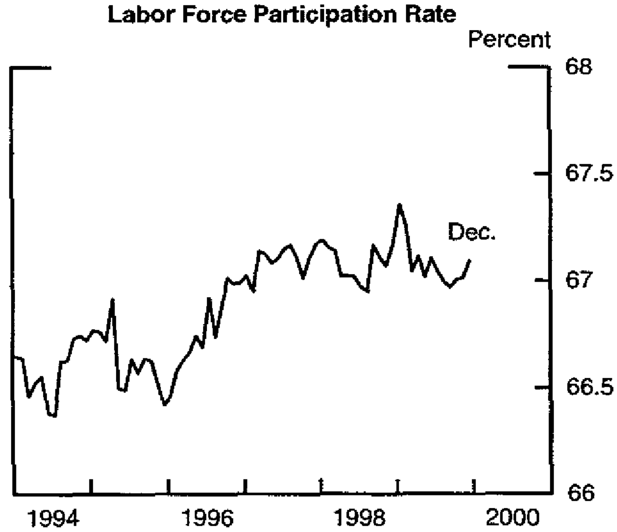
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data, as published)

	1998	1999	1999 Q2	1999 Q3	1999 Q4	1999 Oct.	1999 Nov.	1999 Dec.
Civilian unemployment rate (16 years and older)	4.5	4.2	4.3	4.2	4.1	4.1	4.1	4.1
Teenagers	14.6	13.9	13.6	13.8	13.8	13.8	14.0	13.8
20-24 years old	7.9	7.5	7.5	7.4	7.6	7.7	7.7	7.4
Men, 25 years and older	3.2	3.0	3.0	3.0	2.9	2.9	2.8	2.8
Women, 25 years and older	3.6	3.3	3.4	3.3	3.1	3.1	3.1	3.2
Labor force participation rate	67.1	67.1	67.1	67.0	67.0	67.0	67.0	67.1
Teenagers	52.8	52.0	51.8	51.5	52.2	52.1	52.1	52.3
20-24 years old	77.5	77.6	77.2	77.7	77.8	77.9	77.6	78.0
Men, 25 years and older	76.2	76.1	76.1	76.0	75.9	75.8	75.9	76.0
Women, 25 years and older	59.2	59.5	59.6	59.4	59.5	59.4	59.5	59.5

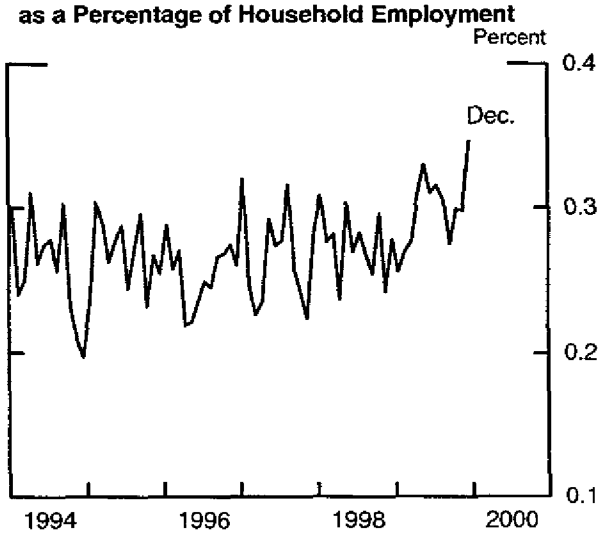
Labor Utilization



Labor Force Participation Rate

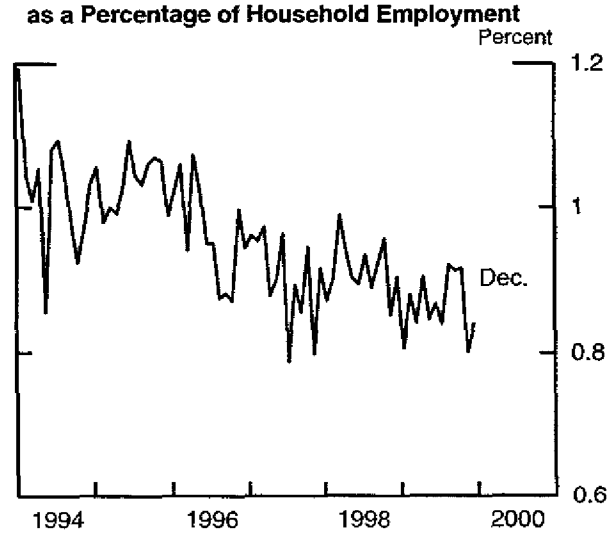


Job Leavers Unemployed Less than 5 Weeks as a Percentage of Household Employment



Note. Seasonally adjusted by FRB staff.

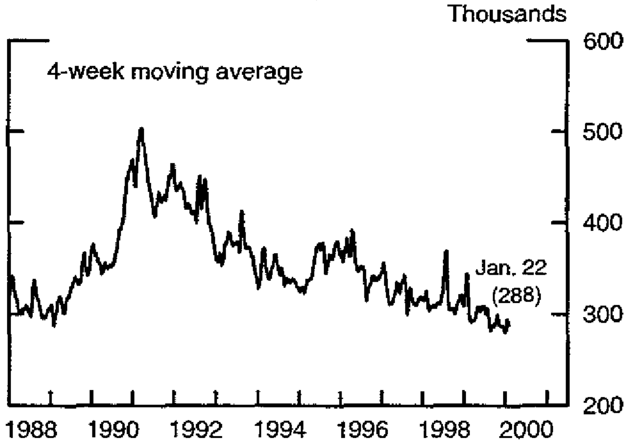
Job Losers Unemployed Less than 5 Weeks as a Percentage of Household Employment



Note. Seasonally adjusted by FRB staff.

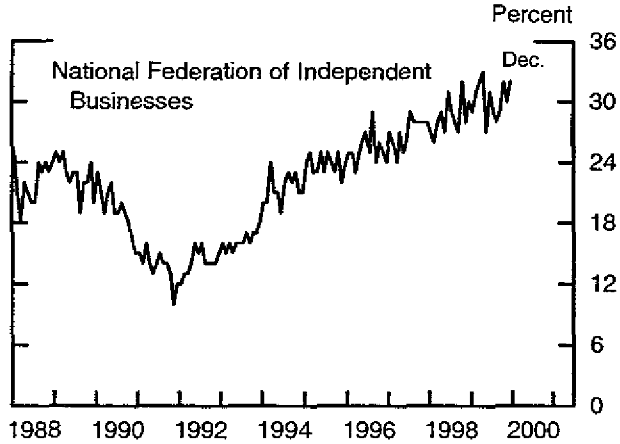
Labor Market Indicators

Initial Claims for Unemployment Insurance

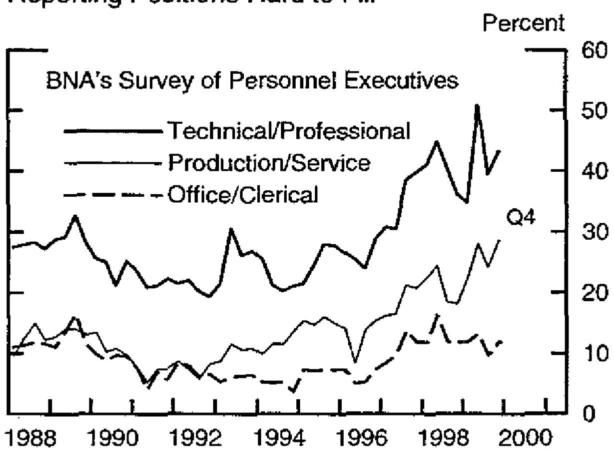


Note. State programs, includes EUC adjustment.

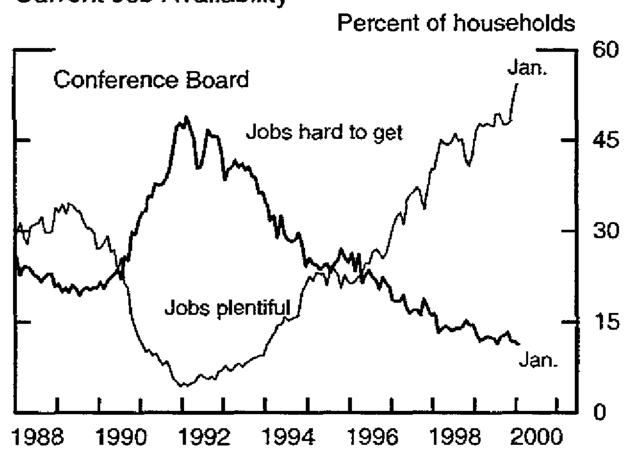
Reporting Positions Hard to Fill



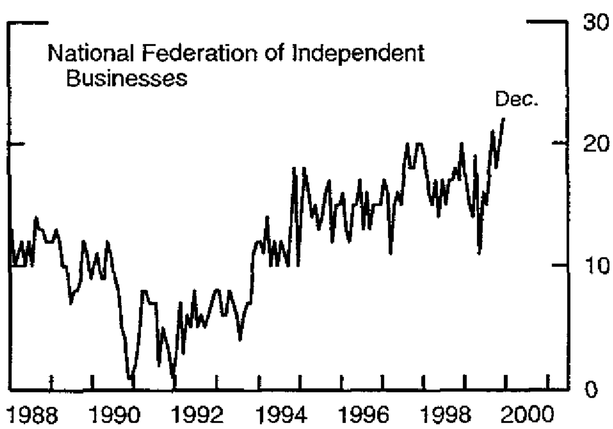
Reporting Positions Hard to Fill



Current Job Availability

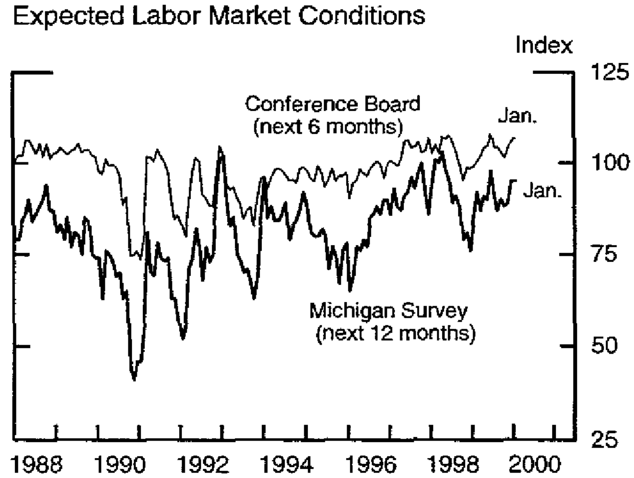


Net Hiring Strength



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.

a backlog of projects combined to forestall some of the normal seasonal layoffs in the construction industry, leading to increases in the sector after seasonal adjustment. Anecdotal reports of shortages of construction workers, which were widespread during the peak summer months, have subsided some recently, probably because of the greater capacity afforded by the seasonal ebbing of building activity. Since September, a month when the layoffs typically begin, job gains in this industry have averaged 35,000 per month after seasonal adjustment.[1] In contrast, from March through August, the normal buildup period, construction employment rose at an average pace of less than 2,000 per month after seasonal adjustment. In manufacturing, employment was about flat last month. The downswing in factory jobs that was related to the crisis in Asia in 1998 appears to have ended, especially in the durable goods industries; however, the longer-term downtrend in the apparel industry has continued.

Aggregate weekly hours of production or nonsupervisory workers on private nonfarm payrolls only inched up in December despite the robust employment gains. On a rounded basis, the implied average workweek held steady at 34.5 hours, but unrounded, it likely fell almost 0.1 hour. For the fourth quarter as a whole, aggregate hours rose at an annual rate of 2.2 percent on the strength of more sizable gains earlier in the quarter. Adding in supervisory and non-production workers, hours of all employees on private nonfarm payrolls rose 0.2 percent in December and at an annual rate of 2.2 percent in the fourth quarter.

As noted, the unemployment rate held at 4.1 percent in December, an almost thirty-year low. The labor force participation rate ticked back up to 67.1 percent; since spiking last January and February, it has fluctuated between 67.0 and 67.1 percent. Both the number of unemployed workers aged 16 to 64 and the number who report that they want a job but who are not in the labor force moved lower in December; however, like the official jobless rate, the potential worker rate changed little over the last five months of 1999.[2] Current employees also seem more confident about alternative job prospects: A proxy for the quit rate--job leavers unemployed less than five weeks as a percentage of employment--moved up sharply in December and now stands above its peak in the previous cycle.

Other indicators show no significant slackening of labor demand or of diminishing supply constraints. Smoothing through the erratic weekly data, the

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1. On a not seasonally adjusted basis, employment in contract construction declined 336,000 from September to December.

2. With the next Employment Situation release, the BLS will publish a seasonally adjusted series for the number of individuals not in the labor force (aged 16 and older) reporting that they want a job.

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

	Proportion 1999	1999[1]	1999 Q3	1999 Q4	1999 Oct.	1999 Nov.	1999 Dec.
			-Annual rate-		--Monthly rate---		
Total index	100.0	4.5	4.8	6.6	1.0	.4	.4
Previous			4.7		.8	.3	
Manufacturing	88.4	4.8	4.7	7.2	1.0	.6	.2
Durables	50.1	6.9	8.7	6.8	.8	.7	.1
Motor vehicles and parts	5.4	4.0	7.4	3.6	.1	.5	-2.8
Aircraft and parts	2.6	-18.0	-13.4	-27.8	-2.9	-2.6	-2.3
Nondurables	38.3	2.1	-.4	7.8	1.2	.5	.3
Manufacturing excluding motor vehicles and parts	83.0	4.9	4.5	7.5	1.0	.6	.4
Mining	5.2	-.6	4.8	6.5	1.0	.5	.4
Utilities	6.3	4.3	6.6	-1.9	.7	-2.6	3.5
IP by market group, excluding motor vehicles and parts and energy							
Consumer goods							
Durables	4.0	10.0	2.6	11.6	3.3	-.8	.4
Nondurables							
Business equipment	14.4	5.7	7.0	6.1	.8	.5	.3
Information processing	7.1	22.5	27.5	18.9	2.0	1.2	1.3
Industrial	4.5	-2.6	-2.0	2.8	1.1	-.1	-.1
Transit	1.6	-22.1	-15.8	-35.5	-4.4	-3.2	-3.2
Other	1.3	-7.8	-24.0	9.1	-.8	2.7	-1.1
Construction supplies	6.2	3.8	3.5	7.1	.9	.3	.4
Materials							
Durables	21.8	9.1	12.8	8.6	.6	1.4	.9
Semiconductors	4.0	41.4	53.0	40.4	3.5	4.0	3.2
Basic Metals	3.0	4.8	6.2	7.0	.6	2.3	.3
Nondurables							

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

Industrial Capacity Growth

	1960-74 Avg.	1975-89 Avg.	1990-94 Avg.	1995-99 Avg.	1998	1999
Manufacturing	4.5	2.7	2.6	5.9	7.0	4.7

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 and the BNA survey of personnel executives, firms continued to report hiring difficulties, while the Conference Board reported that, from the worker side, employment opportunities look plentiful. According to the NFIB's survey, the hiring plans of smaller firms moved above the previous high for the current expansion. Moreover, after a slight dip last fall, the forward-looking readings on expected labor market conditions from the Michigan Survey Research Center and the Conference Board have rebounded to highly favorable levels.

Industrial Production

Industrial production posted gains of 0.4 percent in December and November on the heels of a large increase in October that was partly a bounce back from the effects of Hurricane Floyd. All told, the index rose at an annual rate of 6.6 percent in the fourth quarter. The output of utilities was up sharply last month; production had been low in the prior two months when the weather was unseasonably warm. Manufacturing output, which rose a modest 0.2 percent in December, posted a substantial 7.2 percent gain in the fourth quarter. The factory operating rate ended the year at 80.3 percent, about 0.4 percentage point higher than a year earlier but below its long-run average.

The output of motor vehicles and parts fell in December, in part, because Ford and GM slowed some assembly lines as dealers sought to shed excessive stocks

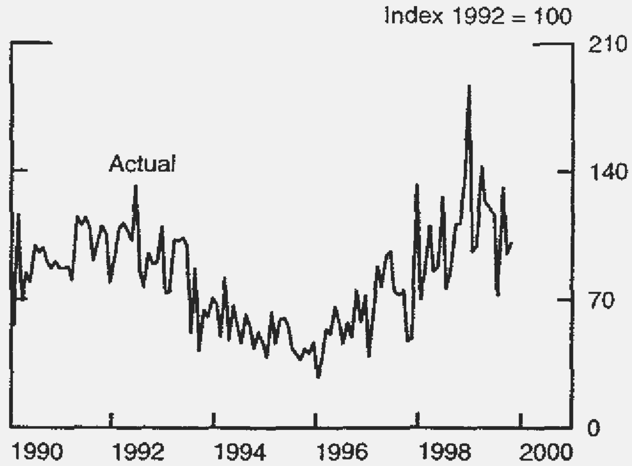
Production of Domestic Autos and Trucks
(Millions of units at an annual rate except as noted; FRB seasonal basis)

Item	1999: Q4	2000: Q1[1]	1999		2000		
			Nov.	Dec.	Jan.[1]	Feb.[1]	Mar.[1]
U.S. production	13.2	13.1	13.4	12.9	13.5	13.1	12.8
Autos	5.7	5.7	5.9	5.6	5.9	5.7	5.5
Trucks	7.4	7.4	7.5	7.3	7.6	7.4	7.3
Days' supply							
Autos	54.6	n.a.	51.6	54.6	n.a.	n.a.	n.a.
Light trucks[2]	68.5	n.a.	72.7	68.5	n.a.	n.a.	n.a.

NOTE. Components may not sum to totals because of rounding.
1. Production rates reflect manufacturers' schedules for January, February, and March.
2. Excludes medium and heavy (class 3-8) trucks.
n.a. Not available.

Content partially redacted.

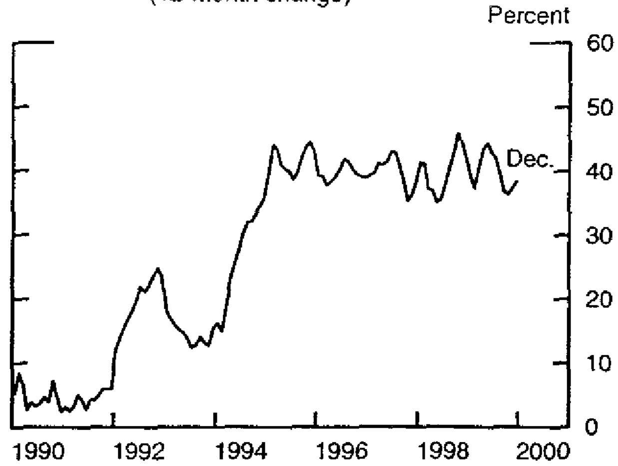
Boeing Commercial Aircraft Completions



Note. 1997 price-weighted index. Actual completions equal deliveries plus the change in the stock of finished aircraft.

Output of High-Tech Industries

(12-month change)

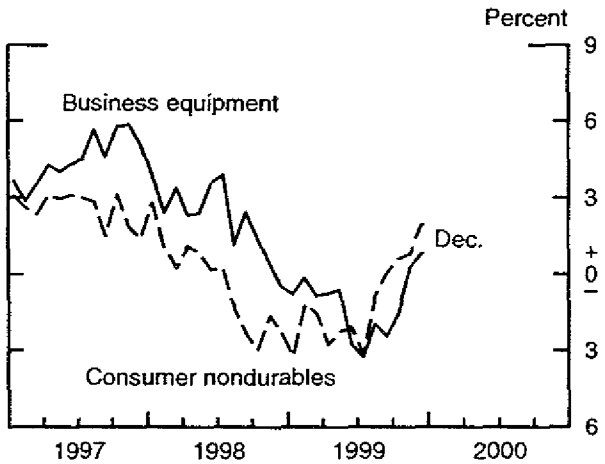


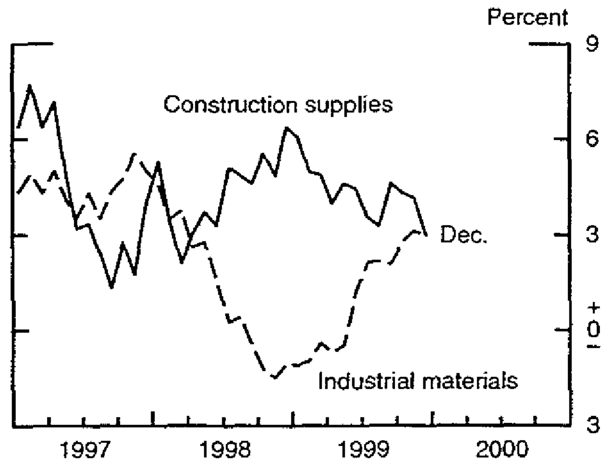
Note. Computers, semiconductors, and communications equipment.

Industrial Production by Selected Market Groups

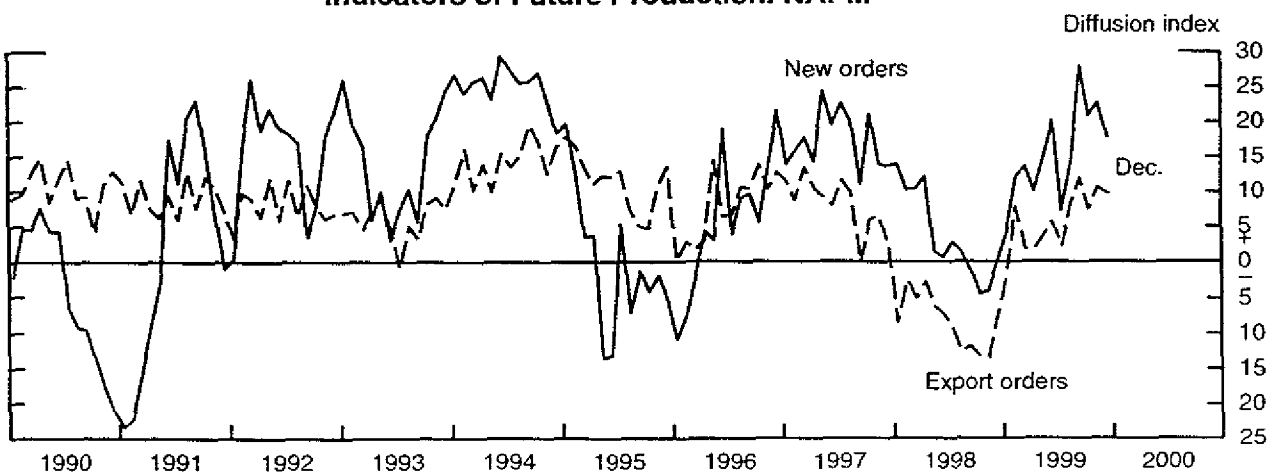
Excluding High-Tech, Motor Vehicles and Parts, Aircraft and Parts, and Energy

(12-month change)





Indicators of Future Production: NAPM



of selected models. Data for the first three weeks of this month indicate that the industry has ramped production back up to a level just above the November high. Current schedules for the first quarter as a whole, which are at a 13.1 million unit rate, are only slightly below the already strong fourth-quarter pace and reflect the industry's expectation of continued strength in light vehicle sales. However, GM has indicated that if its dealer inventories are still excessive by the end of this quarter, it will cut production significantly in the second quarter.

Excluding motor vehicles, manufacturing IP rose 0.4 percent in December after having posted strong gains in the preceding two months. Output increased at moderate to strong rates in most industries, with the notable exception of civilian aircraft and parts; Boeing's production schedules suggest that output in this sector will continue to slide, as it has for more than a year. Strong domestic demand and improving export growth have contributed to the recovery elsewhere in manufacturing. Notably, production of industrial chemicals, primary metals, and other internationally traded industrial materials increased substantially in the fourth quarter and over the year.

The output of high-tech industries was restrained in the second half of the year by Y2K, with the effect most noticeable in the fourth-quarter, when IP for this group slowed to an annual rate of 31 percent after having risen at close to a 50 percent pace during the previous two quarters. The production of communications equipment expanded at a less rapid rate from August through November than had been the case earlier in the year--with at least some of the deceleration attributable to Y2K effects--but it picked up again in December. A slowdown in the production of large servers developed during the third quarter and spread to other types of computing equipment in the fourth quarter. Part of the deceleration seems to have been the direct result of a Y2K-related drop in demand. However, chip makers overestimated the size of the demand decline, and the resulting shortage of selected memory chips weakened computer production even further.[3] After having slowed sharply in August and September, semiconductor output reversed itself dramatically in the fourth quarter, as the chip shortage drove up DRAM prices and encouraged a step-up in production.

Elsewhere, production of drugs and of some foods jumped noticeably. These are industries in which we expected increases to meet Y2K-related stockbuilding by consumers.

3. Gateway, in particular, blames chip shortages at Intel for some of its low fourth-quarter production. Although Intel, in an earlier press release, asserted that the ramp-up of production over the quarter eliminated any parts shortages, Gateway has announced that it will no longer rely exclusively on Intel for memory chips.

CAPACITY UTILIZATION IN INDUSTRY
(Percent of capacity; seasonally adjusted)

	1967-99	1988-89	1999		1999		
	Avg.	High [1]	Q3	Q4	Oct.	Nov.	Dec.
Total industry	82.0	85.4	80.7	81.2	81.2	81.2	81.3
Manufacturing	81.1	85.7	79.7	80.3	80.2	80.4	80.3
Primary processing	82.4	88.9	82.8	83.6	83.3	83.7	83.7
Textile mill products	85.6	90.4	84.8	85.5	86.5	85.2	84.8
Paper and products	92.4	98.0	92.4	93.9	93.5	94.1	94.1
Chemicals[2]	83.5	92.0	86.3	89.4	88.5	89.7	89.9
Petroleum products	87.0	88.5	93.4	92.2	93.2	91.5	92.1
Rubber and plastics products	84.6	89.6	84.0	83.6	83.5	83.5	83.9
Lumber and products	82.6	93.6	81.7	81.5	81.4	81.4	81.7
Stone, clay, and glass	78.7	83.5	83.1	83.7	83.8	83.9	83.6
Primary metals	81.4	92.7	86.2	86.8	85.7	87.4	87.4
Iron and steel	81.2	95.2	83.7	83.9	81.8	85.1	84.8
Nonferrous metals	81.7	89.3	89.3	90.5	90.6	90.3	90.6
Fabricated metal products	77.9	82.0	74.9	75.8	75.3	75.9	76.1
Advanced processing	80.5	84.2	78.7	79.2	79.2	79.4	79.1
Foods	82.8	85.4	78.2	79.2	79.0	79.4	79.3
Apparel products	80.6	85.1	68.0	68.4	68.4	68.4	68.4
Printing and publishing	85.5	91.7	80.1	82.0	82.2	81.9	82.0
Furniture and fixtures	81.2	86.6	79.3	79.8	79.6	79.7	80.0
Chemicals[3]	76.6	82.2	73.5	75.1	74.4	75.3	75.6
Industrial machinery and computer equipment	81.4	85.4	81.4	81.3	81.8	81.3	80.7
Electrical machinery	81.0	84.0	80.4	81.2	80.7	81.2	81.8
Motor vehicles and parts	76.9	89.1	82.9	83.6	84.1	84.6	82.1
Autos and light trucks[4]		92.3	89.8	89.0	90.1	90.3	86.6
Aerospace and misc. transportation equipment	75.3	87.3	74.3	70.6	71.6	70.6	69.6
Instruments	81.6	81.4	80.9	81.1	81.2	81.2	81.0
Miscellaneous manufactures	75.8	79.0	81.7	81.4	81.4	81.2	81.7
Mining	87.3	88.0	81.7	83.0	82.6	83.1	83.4
Utilities	87.6	92.6	92.7	91.9	92.6	90.1	93.1

1. The historical highs shown are specific to each series and did not occur in the same month.
2. Includes industrial organic and inorganic chemicals, synthetic materials, plastics resins, and fertilizers.
3. Includes drugs and toiletries, soaps and detergents, paints and allied products, pesticides, and other miscellaneous chemical products.
4. Series begins in 1977.

Looking ahead, the latest National Association of Purchasing Management survey reported continued expansion of both new orders and export orders in December. The staff's estimate of real adjusted orders for durable goods placed in December posted a solid gain after having surged in November. The December increase in adjusted durable orders was widespread with the exception of new bookings for computers, which declined for a second month. Both the NAPM and staff's estimates of orders indicate that manufacturing output, apart from motor vehicles, should increase appreciably in the near term.

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

Component	Share, 1999:H1	1999				
		Q2	Q3	Oct.	Nov.	Dec.
Total orders	100.0	-1.1	4.9	-.9	1.0	4.1
Adjusted orders[1]	69.0	.5	5.2	-2.2	3.4	2.0
Computers	6.0	3.6	5.6	15.8	-6.0	-4.1
Communication equipment	4.0	1.8	9.2	5.6	-10.4	8.7
Nondefense capital goods excluding aircraft, computers, and communication equipment	13.0	-2.2	4.1	-8.7	5.6	4.5
Other	46.0	.8	5.0	-3.2	5.7	1.4
MEMO						
Real adjusted orders[2]	. . .	1.3	6.0	-2.3	3.6	2.3

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 staff's preliminary estimate of capacity growth in 2000 will be issued with the February 15 release of the report on January industrial activity. Investment data and other currently available indicators suggest that manufacturing capacity is likely to grow around 4 percent this year, compared with the estimated 4-3/4 percent pace in 1999.

Consumer Spending

Consumer spending remained robust through year-end: We estimate that real outlays for all goods increased 0.7 percent in December and at an annual rate of 6.8 percent in the fourth quarter as a whole. Although Y2K-related spending may have given an extra boost to outlays, the underlying pace of expenditure growth still appears to have been very brisk.

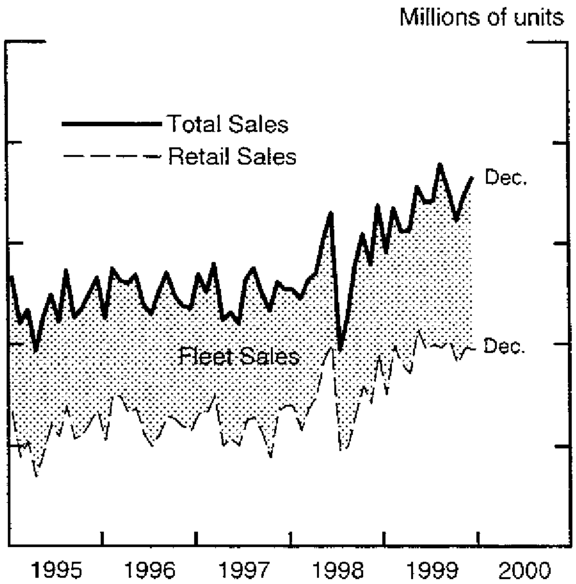
SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

	1998	1999	1999 Q2	1999 Q3	1999 Q4	1999 Oct.	1999 Nov.	1999 Dec.
Total[1]	15.5	16.8	16.7	17.2	16.9	16.2	17.2	17.4
Autos	8.2	8.7	8.8	8.8	8.8	8.5	9.1	8.9
Light trucks	7.3	8.1	8.0	8.3	8.1	7.7	8.1	8.5
North American[2]	13.4	14.3	14.3	14.7	14.1	13.5	14.3	14.5
Autos	6.8	7.0	7.1	7.1	6.9	6.5	7.1	6.9
Big Three	4.7	4.9	5.0	4.8	4.7	4.4	4.8	4.8
Transplants	2.1	2.1	2.0	2.3	2.2	2.1	2.3	2.1
Light trucks	6.7	7.3	7.2	7.6	7.2	6.9	7.2	7.6
Foreign Produced	2.0	2.5	2.4	2.5	2.8	2.7	2.9	2.9
Autos	1.4	1.7	1.7	1.7	2.0	2.0	2.0	1.9
Light trucks	.7	.8	.7	.7	.9	.8	.9	.9
Memo:								
Total, as reported	15.4	16.8	16.7	17.2	16.9	16.5	17.0	17.3

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.

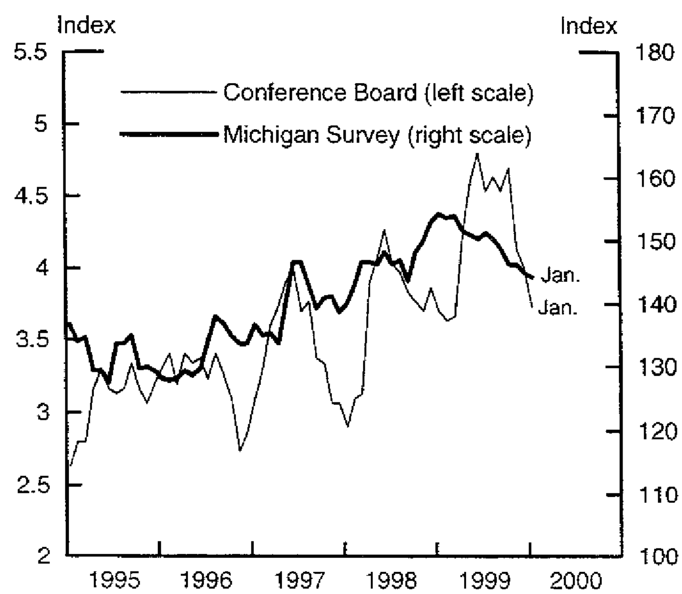
1. Excludes the estimated effect of automakers' changes in reporting periods.
2. Excludes some vehicles produced in Canada that are classified as imports by the industry.

Fleet and Retail Sales of Light Vehicles
(Annual rate; FRB seasonals)



Note: Staff estimates based on confidential data.

Buying Plans/Conditions for New Vehicles
(3-month moving average)



Motor vehicles. Sales of light vehicles ended last year on a high note. Adjusted for shifts in manufacturers' reporting periods, sales of light vehicles in December were at a remarkably robust annual rate of 17.4 million units, about 250,000 units more than in November. Based on confidential data that show a step-up in deliveries to fleets, we estimate that retail sales of new light vehicles were unchanged at a high level in December. Much of the strength in consumer demand toward the end of the year was for foreign-produced vehicles, whose sales increased nearly 16 percent in the fourth quarter; sales of domestically produced vehicles actually dropped 4 percent in the fourth quarter.

For the year as a whole, light vehicle sales reached a record-setting 16.8 million units, an increase of nearly 700,000 units over the previous record in 1986. The whopping pace of sales in 1999 continued to be driven by extremely positive market fundamentals—strong gains in employment, income and wealth, buoyant consumer attitudes, and favorable prices and financing rates.

The incoming data suggest that these positive forces are not diminishing much. Both the Michigan SRC index of perceived car-buying conditions and the Conference Board index of consumers planning to buy a new vehicle within the next six months, while down from their highs last summer, remain in favorable territory. Although the level of incentives fell in the fourth quarter, automakers' estimates suggest that they plan to boost them again in the near term. This month, GM announced it would be distributing several million coupons for a $500 discount on most models. When GM last mailed out coupons, in the second quarter of 1998, Ford and Chrysler quickly responded with similar programs, and the average value of incentives jumped roughly $400. To date, the response from GM's competitors has been limited, but we expect that it will broaden. Looking at prices more broadly, the CPI for new vehicles (including autos and light trucks) edged down in December and was 0.3 percent below its year-earlier level.

Other consumer spending. Nominal sales by establishments in the retail control category jumped 1.4 percent in December, with gains in all major

RETAIL SALES
(Percent change; seasonally adjusted)

	1999			1999		
	H1	Q3	Q4	Oct.	Nov.	Dec.
Total sales	2.5	2.2	1.9	.3	1.1	1.2
Previous estimate		2.2		.3	.9	
Retail control[1]	2.3	1.6	2.3	.7	.5	1.4
Previous estimate		1.6		.8	.3	
GAF[2]	2.4	1.3	.8	-.1	-.1	.8
Previous estimate		1.3		.1	.6	
Durable goods stores	2.5	2.8	1.9	.0	2.2	1.1
Previous estimate		2.8		-.1	1.5	
Furniture and appliances	2.0	2.2	1.1	-.4	-.6	1.3
Other durable goods	1.6	-.3	7.5	4.4	1.8	2.4
Nondurable goods stores	2.4	1.7	2.0	.5	.4	1.4
Previous estimate		1.7		.6	.4	
Apparel	3.3	-.8	-.9	-.3	-.9	.6
Food	1.3	1.1	2.3	.5	.7	2.0
General merchandise[3]	2.3	1.6	1.3	.1	.5	.6
Gasoline stations	4.0	6.5	4.1	.3	1.0	2.5
Other nondurable goods[4]	2.8	1.5	2.2	.9	.1	1.3
Eating and drinking	1.5	.8	3.5	2.3	.5	.4
Drug and proprietary	3.5	1.2	2.4	1.0	.2	1.7

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.

REAL PCE SERVICES
(Percent change from the preceding period)

		1999		1999		
	1998	H1	Q3	Sept.	Oct.	Nov.
	Q4/Q4	- Annual rate -		--- Monthly rate ---		
PCE Services	3.6	4.7	5.0	.3	.4	.2
Energy	-4.9	11.0	9.9	-1.5	3.3	-5.9
Non-energy	3.9	4.5	4.8	.4	.3	.4
Housing	2.4	2.8	2.7	.3	.3	.3
Household operation	6.8	6.4	4.4	-.1	.7	.2
Transportation	3.1	3.2	4.2	.2	.5	.4
Medical	2.9	2.3	4.2	.3	.2	.3
Recreation	5.3	11.8	13.8	1.1	.5	.6
Personal business	4.4	8.2	5.6	1.1	.0	1.2
Brokerage services	17.0	27.0	-2.6	7.5	-3.8	8.1
Other	7.5	4.1	5.2	-.2	.4	-.0

Note. Derived from billions of chained (1996) dollars.

components.[4] Spending at stores in the GAF group (general merchandise, apparel, furniture, and appliance stores) increased 0.8 percent last month and 7 percent over the twelve months ending in December, beating some industry forecasts. Spending at food stores surged 2 percent in December. This was the largest monthly gain of the decade and probably was boosted by Y2K-related stockpiling by consumers. In addition, spending rose strongly at drug stores and at gasoline stations, where we also anticipated some Y2K effects. However, these latter two series are quite erratic (much more so than food stores), and the December gains are not outliers. According to physical product data from the Department of Energy, real outlays for gasoline were also up last month, but the increase in this series was not unusually large.

Data on outlays for services are available only through November. Real PCE for services increased 0.2 percent that month, as warm weather held down spending for electricity and natural gas. Temperatures were somewhat closer to normal in December, and energy items probably provided a small boost to spending. Excluding energy, outlays for other services continued to rise at a robust pace through November, with particularly large gains for recreation and brokerage services; the October-November average for non-energy services was 0.9 percent above the third-quarter level (not at an annual rate). However, stock market volume advanced only a small amount in December, suggesting that real expenditures for brokerage services were little changed.

Real disposable income increased 0.4 percent in November, and the payroll data for December suggest that it is poised to post another gain. The personal saving rate averaged about 2-1/4 percent in October and November, little changed from the third-quarter average but about 1-1/2 percentage points below the level of the same period in 1998. Over this span, the ratio of net worth to income has climbed substantially, likely reaching another historical high in the fourth quarter of 1999.

Consumers greeted the new year with a surge of optimism. According to the preliminary report, the Michigan SRC index of consumer sentiment soared to a

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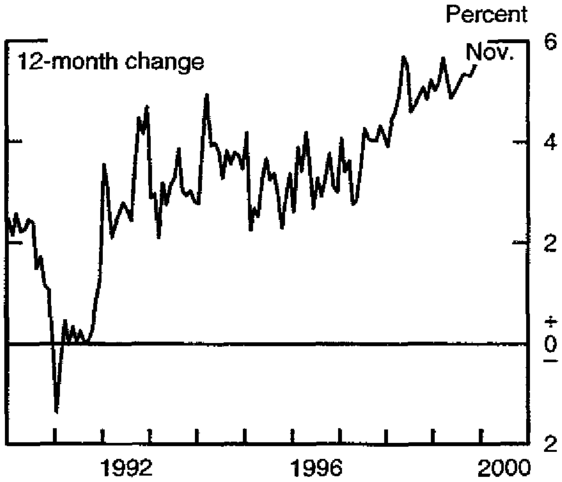
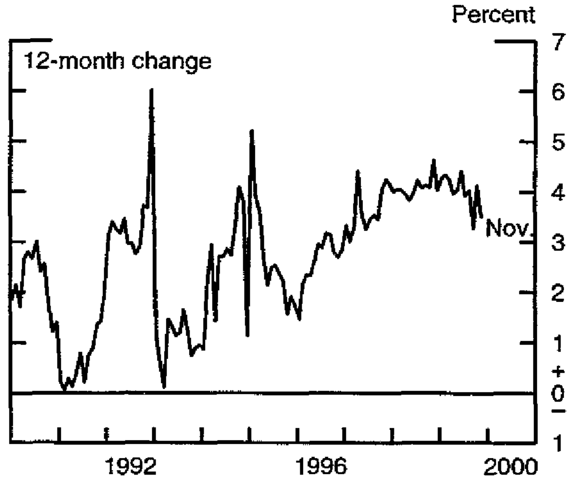
4. E-commerce again received a lot of attention in the press over the holiday season. The Census Bureau is confident that it is correctly capturing purchases made over the Internet, except perhaps for the normal lags that are involved in getting new firms into the retail sales sample. As for any type of retailer, Census updates the survey each month with new outlets based on recently issued employer identification numbers from the IRS. A firm typically gets its ID number about three months before it could show up in the retail sales survey. Goods purchased from firms that operate exclusively over the Internet are reported in the mail order category of retail sales, which is part of "other nondurable goods." Because of the small sample in the advance estimate, the Census does not publish a separate figure for mail order stores until the preliminary estimate of retail sales. Purchases over the Internet from traditional "brick and mortar" establishments will be reflected in the categories in which these establishments fall.

Household Indicators

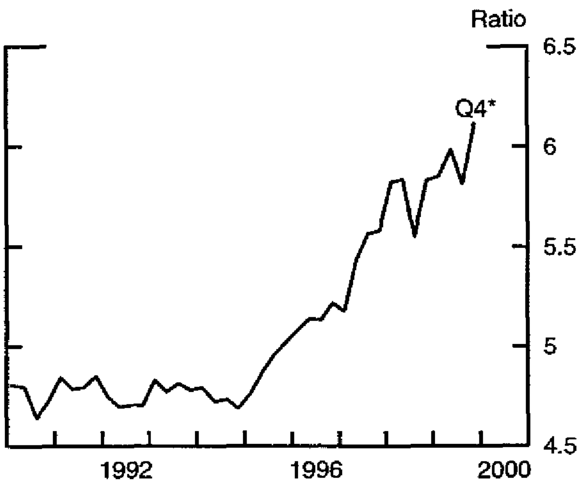
Real Total PCE



Real Disposable Income

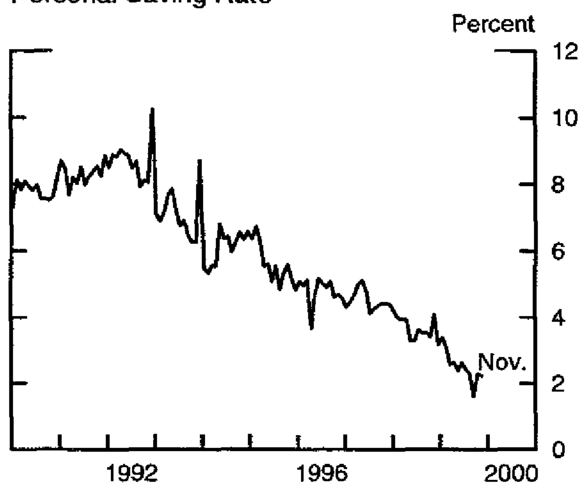


Ratio of Household Net Worth to DPI

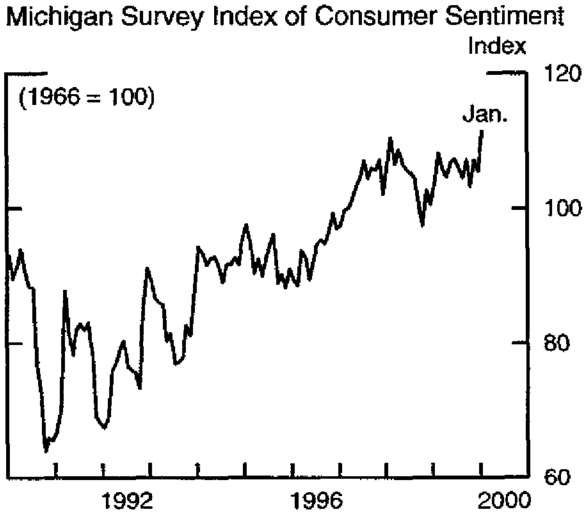


*The Q4 value is an estimate.

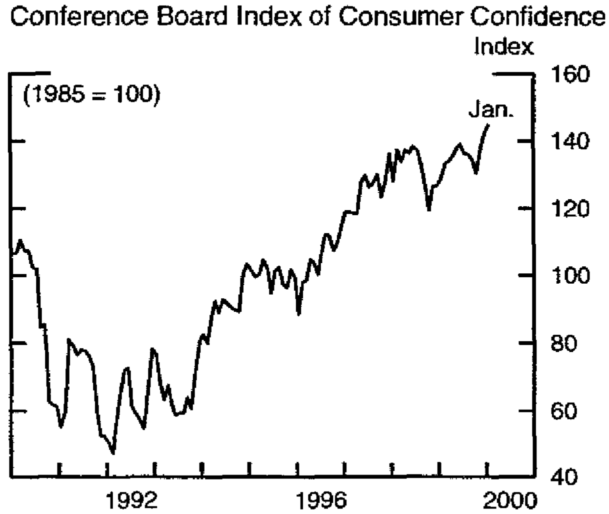
Personal Saving Rate



Michigan Survey Index of Consumer Sentiment



Conference Board Index of Consumer Confidence



record level in early January, largely reflecting greater optimism about future finances and business conditions and despite widespread expectations of higher interest rates over the coming year: According to the SRC, 74 percent of respondents expect interest rates to rise over the next twelve months. The Conference Board's index of consumer confidence also climbed to a historic high in January, spurred by more bullish assessments of current and future business activity and more favorable views of employment conditions.

Housing Markets

Housing activity showed substantial resilience at year-end. With other economic fundamentals remaining positive, rising mortgage rates have left little imprint on the demand for single-family homes: Sales appear to have softened only a bit, on balance, since last spring, and prices have continued to rise.

Single-family starts rebounded in December, to 1.40 million units (annual rate). Activity may have been boosted some by favorable weather conditions; furthermore, adjusted permits for single-family units rose less than starts in December, and the ratio of starts to permits was abnormally high, suggesting that the starts estimate may be overstating somewhat the underlying strength of construction activity. Even with those caveats, the average rate of single-family construction during the fourth quarter was impressive in moving above the already strong pace of the first three quarters of the year.

Sales of new homes fell 7 percent in November, offsetting most of a 9 percent rise in October. At an average annual rate of 900,000 units, sales in the two months equaled the third-quarter pace and were just 2 percent below the average for the first half of the year. Sales of existing homes, which had stayed close to 5-1/4 million units (annual rate) during the first three quarters of the year, dropped back to 5 million units (annual rate) in the fourth quarter.

More timely indicators are mixed but on balance indicate that housing demand has been well maintained. The Michigan Survey's measure of household perceptions of homebuying conditions edged down in early January and is off sharply over the past year, owing mainly to a drop in the share of respondents who thought that mortgage rates were relatively low. However, they do not seem to have let that deter them greatly from entering the market. Many homebuyers have muted the effect of the rise in mortgage rates on their monthly payments--at least initially--by opting for adjustable rate loans; the rates on ARMs have risen considerably less than those on FRMS, and the share of ARMs in loan originations increased from 12 percent in the first quarter of 1999 to about 30 percent in the second half. Builders' ratings of new home sales, though down somewhat from the pace of last summer, have held at a high level. The

Private Housing Activity

(Millions of units; seasonally adjusted annual rate)

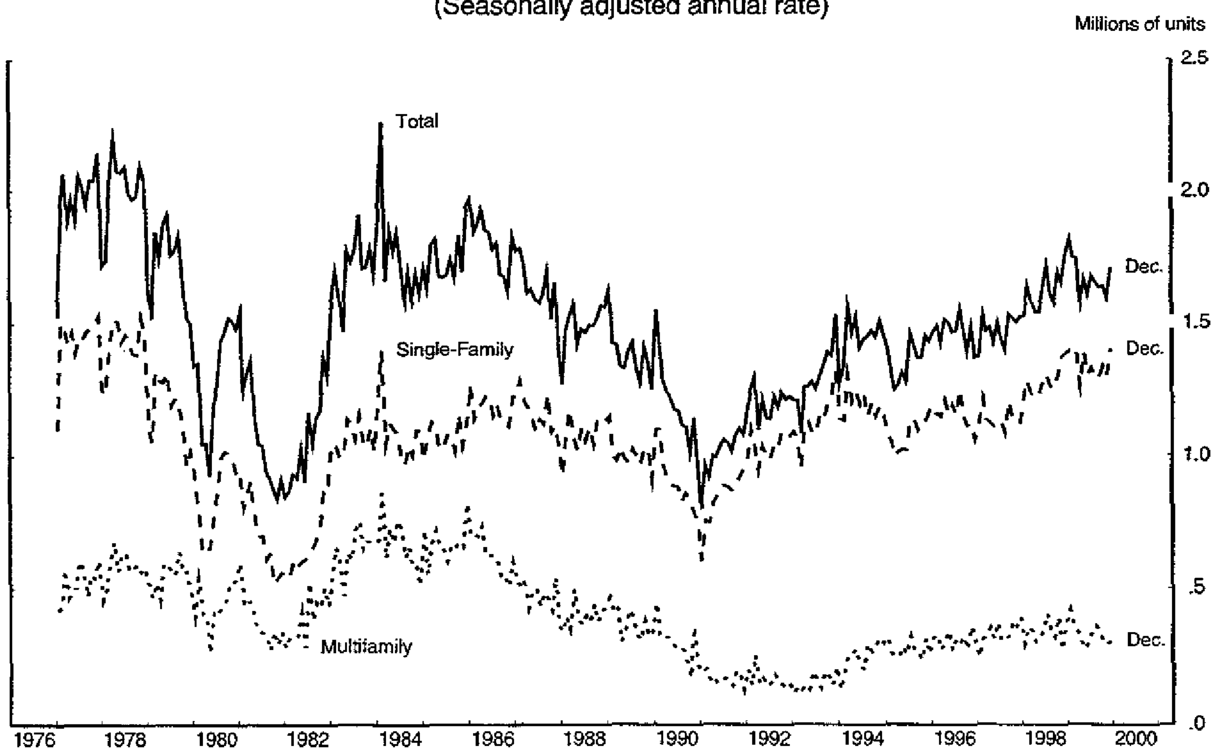
	1999p	1999 Q2	1999 Q3	1999 Q4p	1999 Oct.r	1999 Nov.r	1999 Dec.p
All units							
Starts	1.66	1.62	1.66	1.65	1.64	1.60	1.71
Permits	1.64	1.60	1.59	1.61	1.59	1.61	1.61
Single-family units							
Starts	1.33	1.32	1.31	1.35	1.34	1.30	1.40
Permits	1.23	1.23	1.21	1.20	1.18	1.20	1.22
Adjusted permits[1]	1.32	1.32	1.30	1.29	1.26	1.27	1.34
New home sales	n.a.	.93	.90	n.a.	.93	.87	n.a.
Existing home sales	5.20	5.29	5.26	5.00	4.80	5.13	5.06
Multifamily units							
Starts	.33	.30	.35	.30	.30	.30	.31
Permits	.41	.37	.38	.41	.42	.41	.39
Mobile homes							
Shipments	n.a.	.36	.33	n.a.	.32	.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

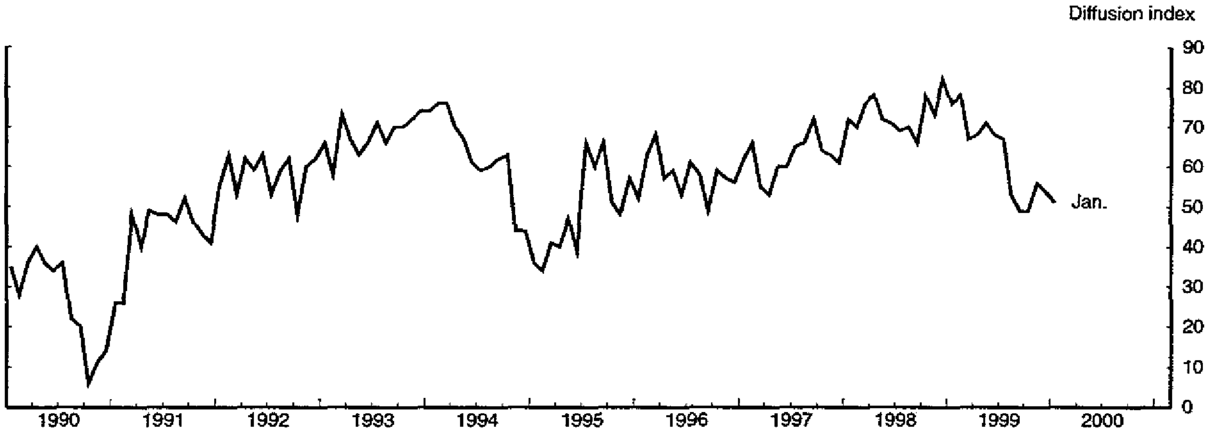
Total Private Building

(Seasonally adjusted annual rate)



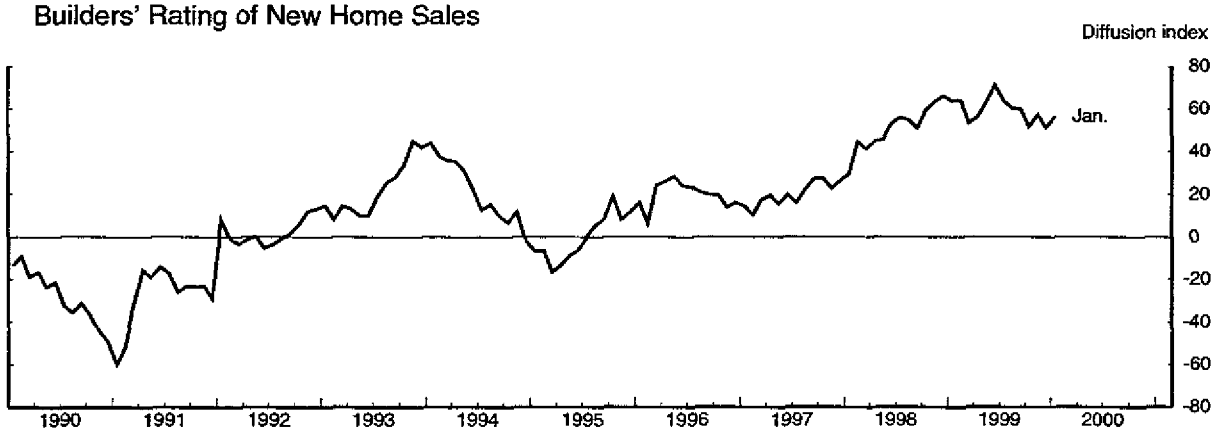
Indicators of Housing Demand

Perceived Homebuying Conditions



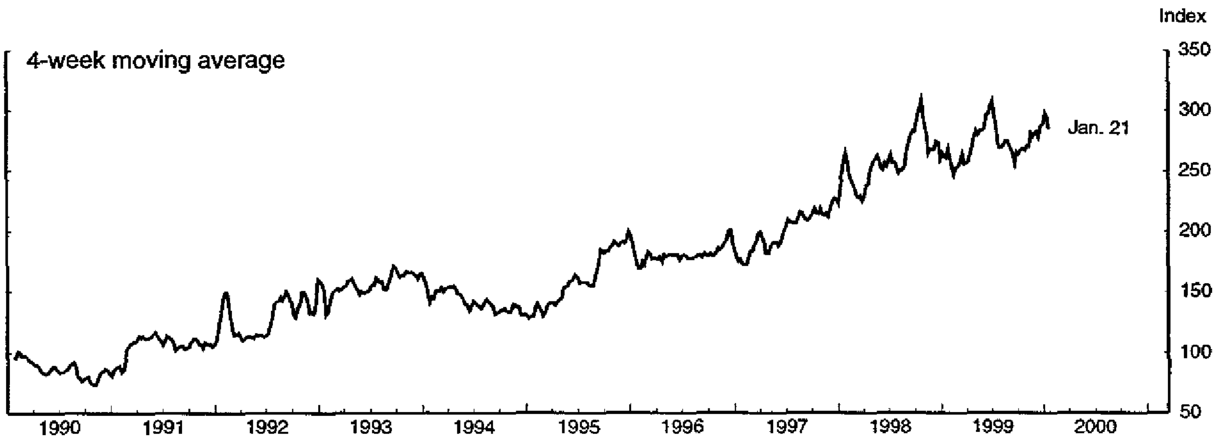
Source. Michigan Survey, not seasonally adjusted.

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.

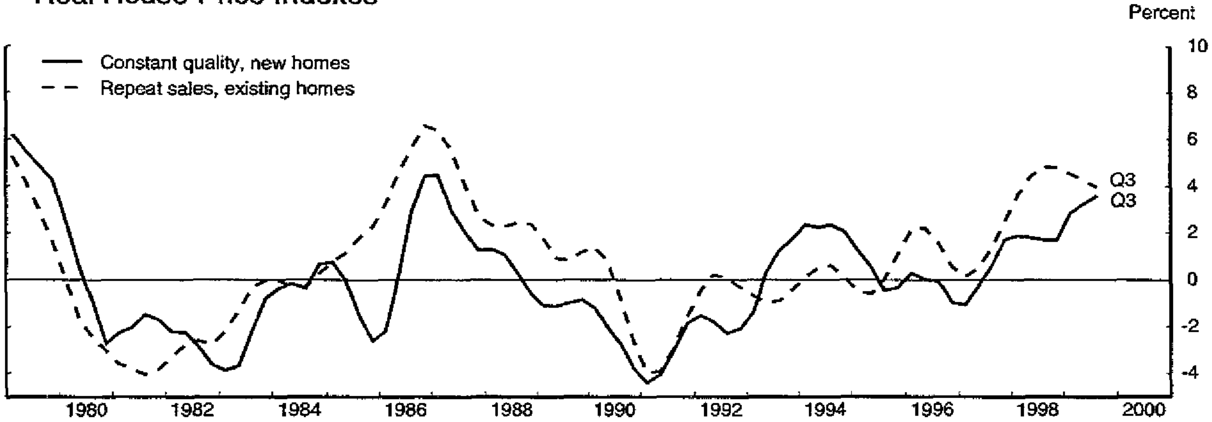
MBA Index of Purchase Applications



House Prices and Construction Costs

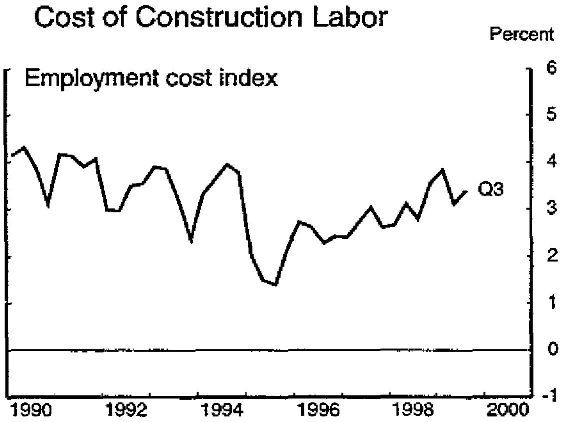
(Change from year earlier)

Real House Price Indexes



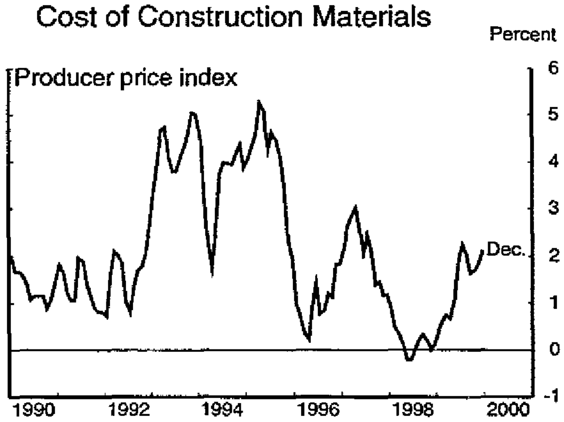
Note. Three-quarter moving average. Nominal house price divided by the consumer price index excluding shelter.

Cost of Construction Labor



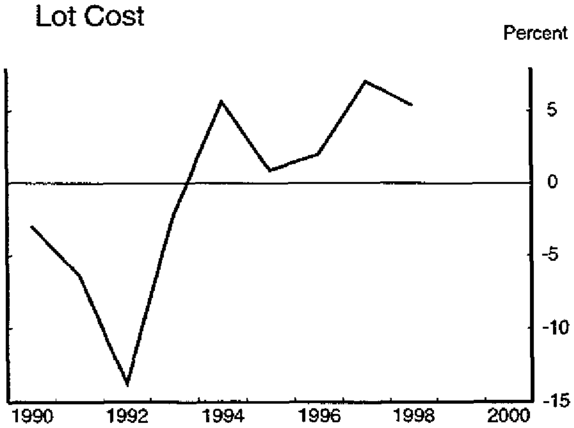
Note. ECI for total compensation.

Cost of Construction Materials



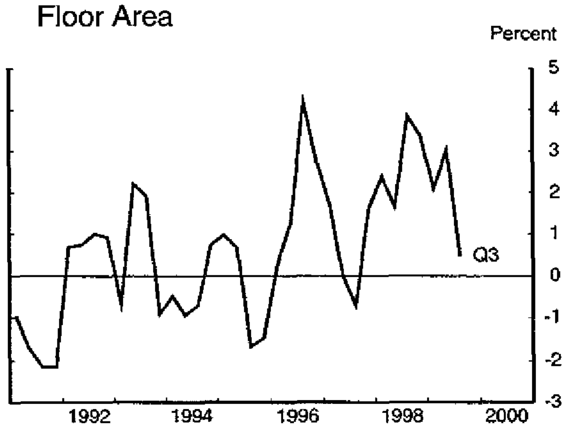
Note. PPI intermediate materials and components for construction.

Lot Cost



Note. Computed by staff from Census data.

Floor Area



Note. Computed by staff from Census data for new homes completed for sale.

Mortgage Bankers' Association index of purchase applications for home mortgages has remained at a high level despite decreases in the past two weeks.

In the multifamily sector, housing starts rose 3-3/4 percent in December to an annual rate of 310,000 units; starts averaged 304,000 units (annual rate) in the fourth quarter, almost 12 percent below the pace in the first three quarters of 1999. The ratio of starts to permits was below normal at year-end, a sign that starts may pick up in coming months.

Home prices have registered some dramatic increases of late. For example, the twelve-month change in the median price of a new home was 11 percent in November, the largest increase in more than six years. This series is quite erratic because it does not control for variations in house size or the geographic composition of sales and because it is based on a very small sample. Nevertheless, statistically more reliable data that control for many changes in amenities and for geographic shifts also point to an acceleration in real new home prices over the past three years. In particular, the year-over-year increase in the constant-quality price of new homes, deflated by the CPI excluding shelter, averaged 3.6 percent over the first three quarters of 1999 (latest data), the most rapid three-quarter rise since early 1987. Similarly, despite some small declines in recent quarters, the rate of increase in the real repeat-sales price of existing homes in the third quarter was one of the highest since late 1987.

One factor in the acceleration of new home prices is higher construction costs. The rate of increase in the employment cost index for construction trended higher, on balance, in 1997 and 1998, and the rise in the cost of construction materials, as measured by the producer price index, picked up substantially beginning in the second half of 1998. Furthermore, the cost of lots rose sharply in 1997 and 1998. In 1999, however, increases in the costs of construction materials and labor appear to have flattened out; data for land costs are not yet in, but builders' complaints about the scarcity of lots suggest that prices rose further.

On the demand side of the ledger, house prices have been bid up dramatically in some of the locales with heavy concentrations of individuals who have recently reaped large wealth gains from the technology and financial sectors. But, more broadly, wealth effects seem to be showing up in the Census Bureau's figures that reveal large increases in the average size of houses completed for sale in 1998 and the first half of 1999. We suspect that other amenities are also being built into new homes with growing frequency; to the extent that the quality

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

	1999		1999		
	Q3	Q4	Oct.	Nov.	Dec.
Equipment and software					
Shipments of nondefense capital goods	2.1	-.6	2.6	-2.1	1.5
Excluding aircraft and parts	3.8	-.2	2.0	-1.2	-.1
Office and computing equipment	5.1	-.9	16.0	-6.5	-9.4
Communications equipment	5.4	-2.8	-4.0	.5	-.2
All other categories	2.7	1.0	-1.8	.9	4.0
Shipments of complete aircraft	14.9	n.a.	58.7	-12.7	n.a.
Medium & heavy truck sales (units)	5.2	3.5	-4.2	3.1	.3
Orders for nondefense capital goods	7.0	1.3	.4	-3.5	8.6
Excluding aircraft and parts	5.4	1.2	-.2	-1.0	3.2
Office and computing equipment	5.6	-.5	15.8	-6.0	-4.1
Communications equipment	7.4	6.3	-8.0	2.2	12.4
All other categories	4.7	.3	-3.8	.3	3.3
Nonresidential structures					
Construction put in place, buildings	-1.2	n.a.	-1.5	3.2	n.a.
Office	4.3	n.a.	-2.0	-.9	n.a.
Other commercial	-4.9	n.a.	-2.8	9.2	n.a.
Institutional	-2.5	n.a.	2.9	-.3	n.a.
Industrial	1.1	n.a.	-3.6	3.8	n.a.
Lodging and miscellaneous	-3.7	n.a.	-.8	2.7	n.a.
Rotary drilling rigs in use[1]	17.4	18.5	5.5	4.9	3.3

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

adjustment calculations do not fully capture these factors, the published index would overstate the true increase in constant-quality new home prices.[5]

Business Fixed Investment

Equipment and software. Available information suggests that real business outlays on high-tech equipment--computers and communications equipment--rose at a slow pace in the fourth quarter relative to recent trends. However, with spending on equipment outside of the high-tech and transportation categories moving ahead, total real equipment and software expenditures still appear to have increased at an annual rate of about 5-1/2 percent last quarter, well below the average pace earlier in 1999. Y2K concerns held down expenditures on high-tech equipment in the fourth quarter, as some firms were reluctant to undertake major upgrades until their systems successfully cleared the century date change. Nonetheless, underlying demand for computers and communications equipment still seems to be very strong, and we expect that spending on high-tech equipment will re-accelerate during the first half of this year.

We estimate that real outlays for computers increased at an annual rate of about 20 percent last quarter. This relatively sluggish gain in spending appears to reflect not only a pause in demand but also some supply constraints. As noted above, some manufacturers, notably Dell and Gateway, reported difficulty in meeting demand because of a chip shortage that developed when Intel held back production in anticipation of a deeper slump in PC demand than apparently occurred. These supply shortages also appear to have slowed the decline in computer prices--and to have restrained the increase in real expenditures.[6]

Real outlays for communications equipment--which expanded at an average annual rate of 34 percent over the first three quarters of 1999--appear to have been up only a little in the fourth quarter. In addition to "system freezing" in advance of Y2K, industry contacts report that the proposed mergers of GTE with Bell Atlantic and of SBC with Ameritech led to a postponement of some capital expenditures until the merging companies complete their plans to integrate and rationalize their systems. Supply difficulties, such as shortages of components

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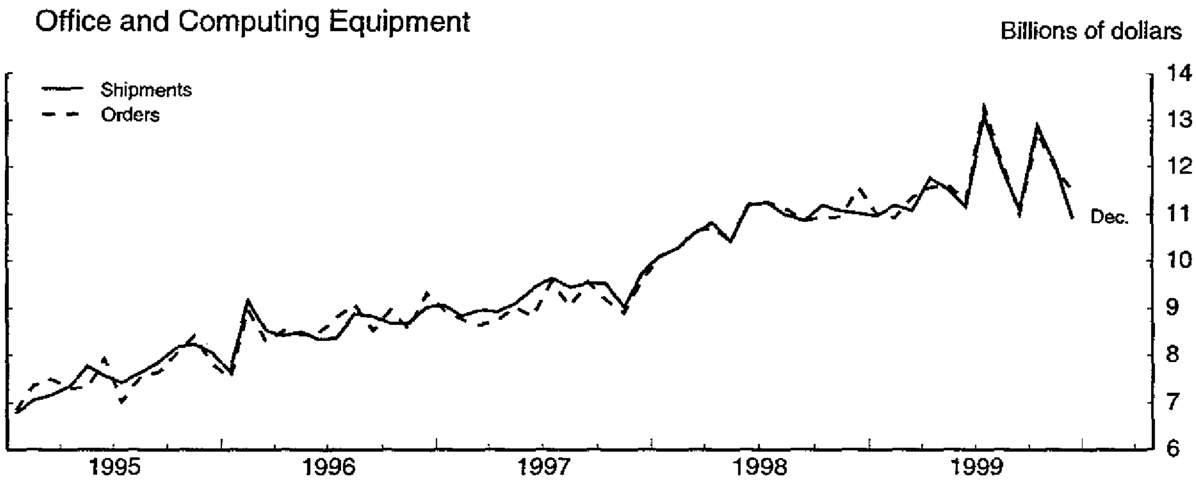
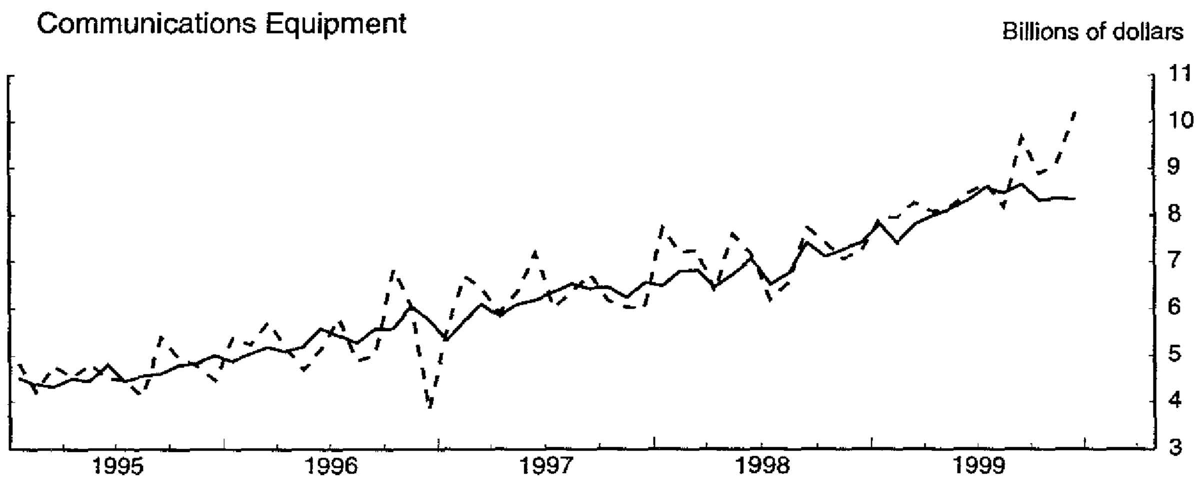
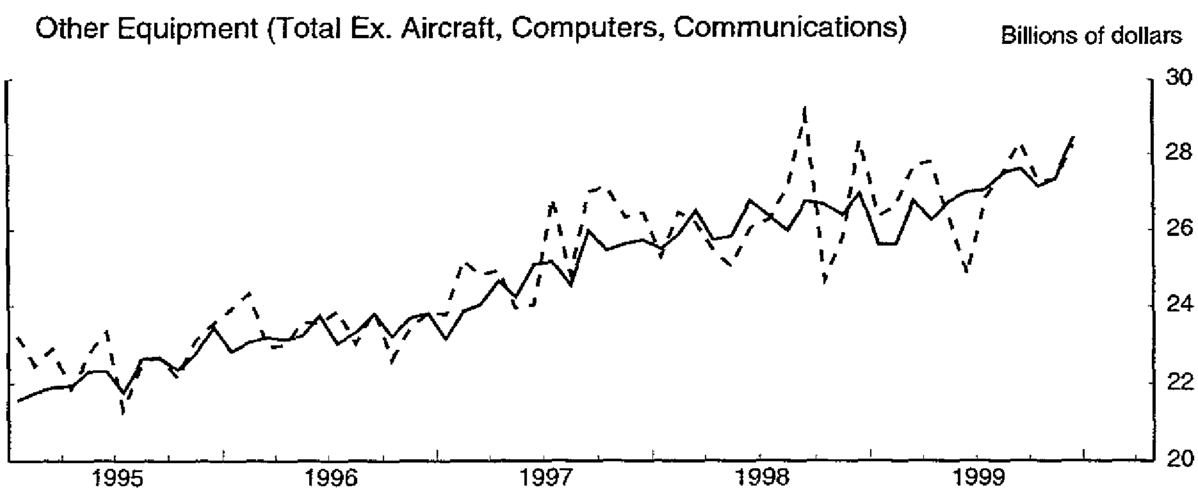
5. The constant-quality price of new homes uses hedonic regression to adjust the sales price (including the cost of the improved lot and direct and indirect selling costs) to hold constant several important characteristics that affect prices, such as geographic location, floor area, some other structural features, and types of materials. The more frequent inclusion in new homes of amenities that are not in the hedonic regression models and are not highly correlated with the included characteristics would boost the rate of price increase.

6. The PPI for computing equipment fell at an annual rate of 14.5 percent in the fourth quarter, the slowest pace of price decline in four years.

Recent Data on Orders and Shipments







and suitably trained technicians, have also slowed shipments of Lucent's newest 80-channel fiber optic system. Nonetheless, new orders for communications equipment surged in December, and a rising backlog of unfilled orders points to renewed growth in spending in this area in the coming months.

In the transportation sector, domestic outlays for aircraft appear to have been about flat. Business demand for new vehicles has eased a bit. In December, fleet sales are estimated to have jumped 9 percent (about 300,000 units), although for the quarter as a whole, deliveries to fleets were down slightly from the third-quarter high.[7] Sales of medium and heavy trucks slipped back in December from their exceptionally strong November pace; but, for the quarter, sales were at an annual rate of 677,000 units--a blistering high for the year. Looking ahead, net new orders for heavy trucks plummeted in December to the lowest level since April 1996, and backlogs, which peaked in late 1998, fell sharply further. Our contacts at the truck makers sense that demand has begun to soften; one contact attributed some of the drop to the reluctance of trucking companies to order new vehicles because of shortages of drivers.

Real expenditures for equipment outside of the high-tech and transportation categories--which were about unchanged over the first three quarters of 1999--likely registered a sizable gain in the fourth quarter. A good deal of this equipment appears to have been purchased from abroad: While both the orders and shipments of U.S. manufacturers of such items rose modestly in the fourth quarter, the merchandise trade data show that imports of this type of equipment picked up noticeably.[8] The stronger growth of manufacturing activity points to continuing increases in this area in the coming months.

Nonresidential structures. Spending on private nonresidential construction edged down, on balance, in October and November, continuing the fairly steady decline that began last March. Despite a 3-1/4 percent increase in November, nominal outlays for buildings averaged 1/2 percent lower in those two months than in the third quarter. Contracts for nonresidential construction fell 10-3/4 percent in the fourth quarter after an equally steep drop in the third quarter. Underlying these overall trends may be a shift in the mix of nonresidential construction.

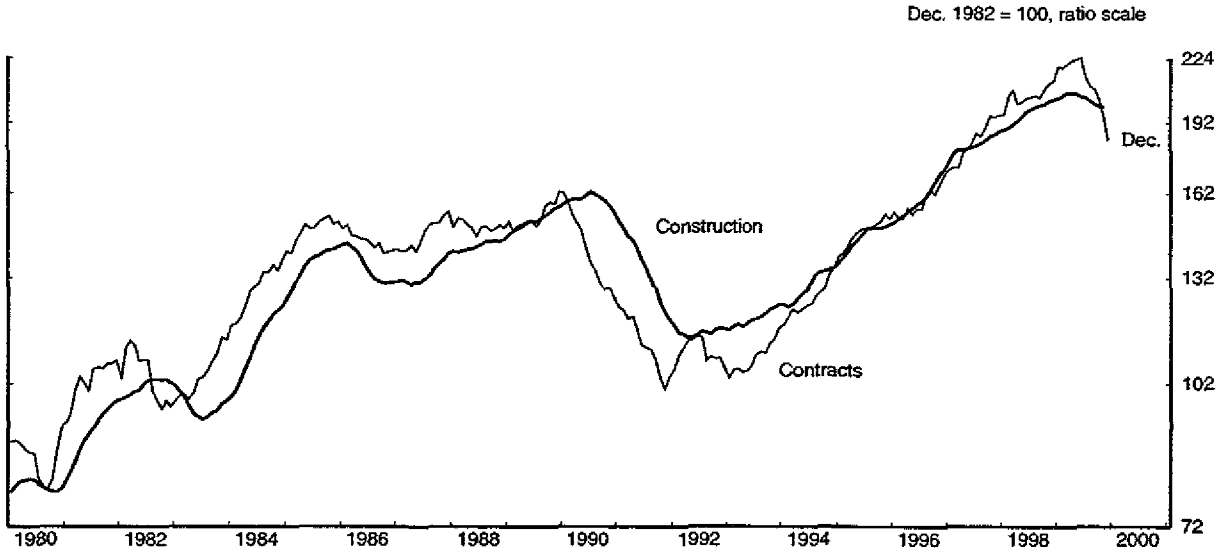
Spending for construction of office buildings leveled off, on average, in October and November. Finance has become more costly, and investors appear to have become more cautious, evidently perceiving that the supply of space coming on

7. The data that we receive on fleet sales are confidential and are not comprehensive.

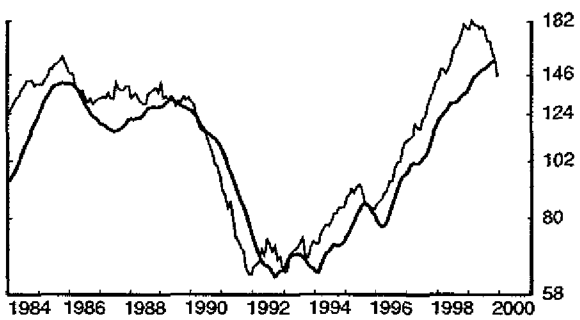
8. Over the past few years, imported goods have accounted for about 35 percent of domestic expenditures for this type of equipment.

Nonresidential Construction and Contracts
(Six-month moving average)

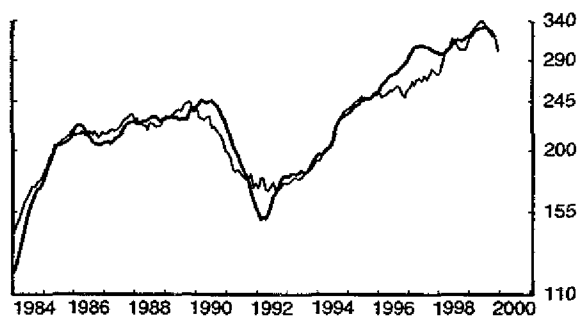
Total Private Building



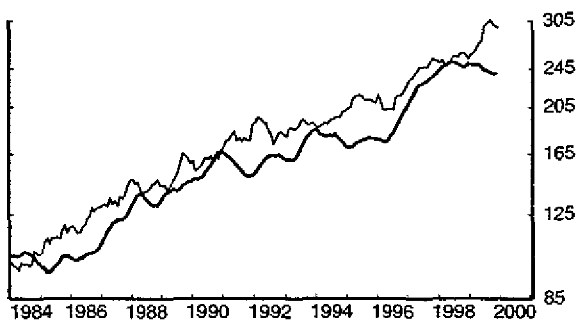
Office



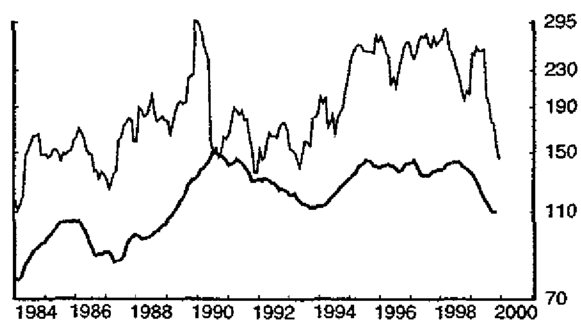
Other Commercial



Institutional



Industrial



Note. Individual sectors include both public and private building.

line in many markets will be sufficient to meet demand. Preliminary reports, which are often revised substantially, show that contracts nosedived in the fourth quarter, with a 22 percent drop that left contracting for office space 27-1/2 percent below the level a year earlier.

In contrast, construction spending for other commercial structures (which include retail space and warehouses) rose 9-1/4 percent in November, to the highest level since last June. Average outlays for October and November were only a bit below the third-quarter pace, though down 2 percent from the year-earlier mark. Although the positive trends in retailing--including e-commerce--and in manufacturing would suggest that demand for these facilities would be well maintained, contracts decreased 10 percent in the fourth quarter and are down nearly 12 percent from the year-earlier period.

Industrial building--which now accounts for less than 15 percent of nominal spending on nonresidential buildings--showed a few glimmers of an upturn toward year-end. Outlays rebounded in November, exactly offsetting the October decline, although they remained, on average, 18-1/2 percent below their year-earlier level. Contract awards for industrial projects rose 12-1/2 percent in the fourth quarter; but given the sharp declines earlier in the year, the average level of contracts still was 30 percent below the level in the final quarter of 1998.

Business Inventories

The book value of manufacturing and trade inventories (excluding motor vehicles) increased at an annual rate of $70.6 billion, on average, in October and November--almost 50 percent greater than the pace of the third quarter. Despite this rapid rate of stockbuilding, inventory-sales ratios generally edged down over this period because of the very strong increases in shipments and sales.

Nonetheless, the October and November data on inventories and sales provided some evidence of Y2K-related precautions. A $21 billion (annual rate) increase in inventories of materials and supplies accounted for most of November's accumulation in the manufacturing sector, a rise consistent with earlier reports from purchasing managers that they would undertake some stockbuilding as insurance against Y2K supply disruptions. Following a sharp October rise in inventories held by pharmaceutical distributors, wholesale drug sales were very strong in November; those sales may have contributed to a large increase in November ($12 billion) in retail stocks in the "miscellaneous" nondurable category, which includes drug stores. The inventory-sales ratio at retail food stores moved up a bit, on balance, last fall, even though sales were fairly strong. And inventories held at general merchandise stores also registered a large gain of $14 billion in November.

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

Category	1999 Q1	1999 Q2	1999 Q3	1999 Sept.	1999 Oct.	1999 Nov.
Manufacturing and trade	34.3	34.8	46.8	57.2	45.1	115.0
Less wholesale and retail motor vehicles	10.2	12.9	47.5	57.3	56.5	83.0
Manufacturing	-12.9	-3.6	11.9	15.8	22.2	24.0
Less aircraft	-3.0	5.1	15.0	13.5	31.6	27.0
Merchant wholesalers	7.5	8.0	28.4	34.9	15.9	37.8
Less motor vehicles	6.5	6.2	24.8	30.4	14.4	29.7
Retail trade	39.7	30.3	6.5	6.4	6.9	53.2
Automotive dealers	23.1	20.1	-4.3	-4.6	-12.9	23.8
Less automotive dealers	16.6	10.2	10.8	11.1	19.9	29.4

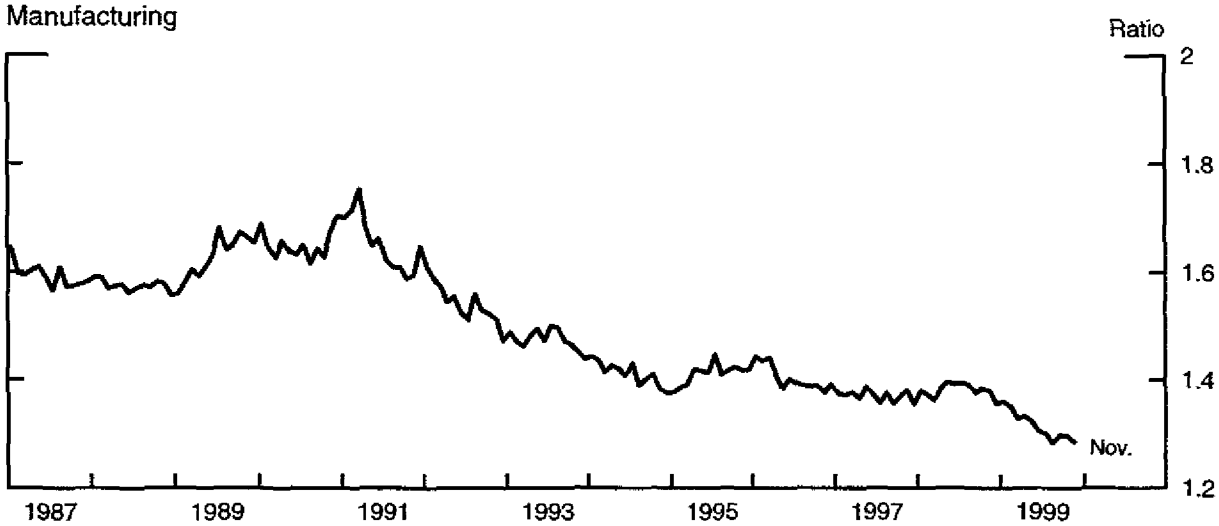
SELECTED INVENTORY-SALES RATIOS IN MANUFACTURING AND TRADE
(Months' supply, based on seasonally adjusted Census book value)

Category	Cyclical reference points: 1990-91 high	Cyclical reference points: 1991-98 low	Range over preceding 12 months: High	Range over preceding 12 months: Low	November 1999
Manufacturing and trade	1.58	1.37	1.39	1.33	1.33
Less wholesale and retail motor vehicles	1.55	1.34	1.37	1.29	1.29
Manufacturing	1.75	1.36	1.38	1.28	1.29
Primary metals	2.08	1.46	1.74	1.55	1.54
Steel	2.56	1.59	2.25	1.92	1.88
Nonelectrical machinery	2.48	1.61	1.66	1.52	1.55
Electrical machinery	2.08	1.21	1.25	1.17	1.20
Transportation equipment	2.93	1.51	1.58	1.39	1.46
Motor vehicles	.97	.53	.55	.51	.54
Aircraft	5.84	4.05	4.47	3.68	4.03
Nondefense capital goods	3.09	2.04	2.09	1.87	1.96
Textiles	1.71	1.38	1.58	1.52	1.54
Paper	1.32	1.06	1.22	1.14	1.15
Chemicals	1.44	1.25	1.44	1.32	1.32
Petroleum	.94	.80	.99	.76	.73
Home goods & apparel	1.96	1.59	1.74	1.53	1.57
Merchant wholesalers	1.36	1.24	1.35	1.28	1.28
Less motor vehicles	1.31	1.22	1.33	1.26	1.26
Durable goods	1.83	1.54	1.65	1.56	1.57
Nondurable goods	.95	.90	1.01	.95	.95
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	2.00	1.91	1.95
Apparel	2.53	2.28	2.39	2.24	2.27
GAF	2.41	2.06	2.06	1.96	1.99

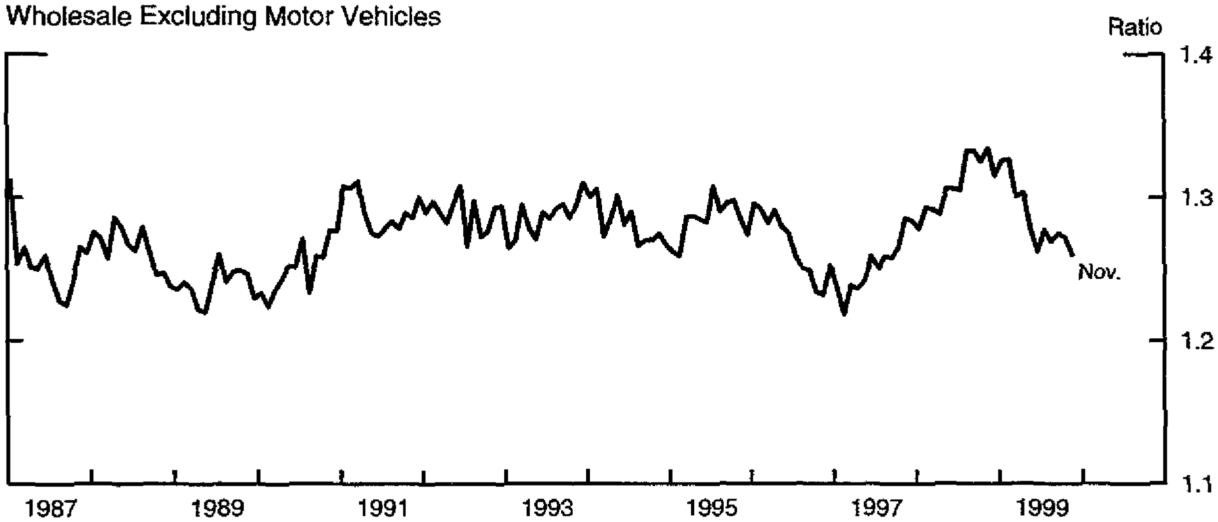
Inventory-Sales Ratios, by Major Sector

(Book value)

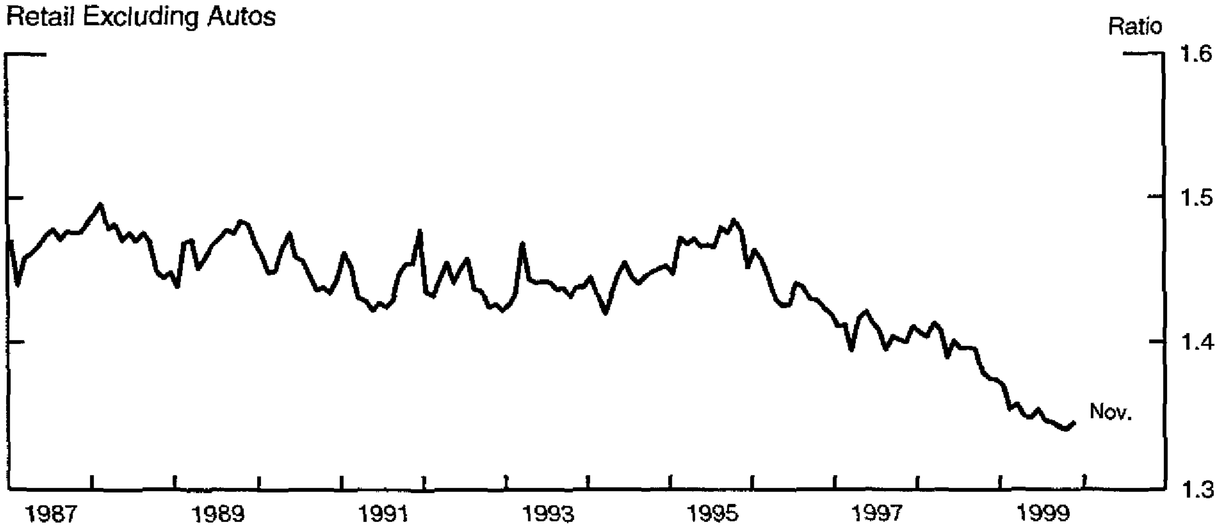
Manufacturing



Wholesale Excluding Motor Vehicles



Retail Excluding Autos



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

	Dec. 1998	Dec. 1999	Dec. Percent change	12 months ending in Dec. 1998	12 months ending in Dec. 1999	12 months ending in Dec. Percent change
Outlays	183.8	168.1	-8.5	1693.3	1700.0	0.4
Deposit insurance	-0.5	0.1	...	-5.6	-2.4	...
Spectrum auction	-0.3	0.0	...	-2.8	-1.5	...
Sale of major assets	0.0	0.0	...	-3.2	0.0	...
Other	184.6	168.0	-9.0	1704.8	1703.9	-0.1
Receipts	178.6	201.2	12.6	1747.7	1858.3	6.3
Surplus	-5.2	33.1	...	54.4	158.3	191.0
	Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts[1]					
Outlays	145.9	157.2	7.7	1682.5	1731.6	2.9
National defense	24.9	28.9	16.1	269.5	284.2	5.5
Net interest	20.0	18.3	-8.5	239.3	229.1	-4.3
Social security	32.3	32.8	1.8	382.8	393.0	2.7
Medicare	15.0	15.6	3.8	193.5	190.9	-1.3
Medicaid	8.6	10.4	21.5	102.0	110.8	8.7
Other health	3.2	3.1	-4.1	30.9	33.0	6.8
Income security	19.7	21.4	8.8	235.2	240.0	2.0
Other	22.3	26.7	19.6	229.3	250.5	9.3
Receipts	178.6	201.2	12.6	1747.7	1858.3	6.3
Individual income and payroll taxes	123.5	141.9	14.9	1384.6	1488.8	7.5
Withheld + FICA	118.7	136.8	15.2	1168.9	1272.2	8.8
Nonwithheld + SECA	5.5	6.2	13.2	315.7	341.3	8.1
Refunds (-)	0.7	1.1	56.5	100.0	124.3	24.3
Corporate	42.4	44.9	6.1	185.0	185.9	0.5
Gross	45.1	46.5	3.0	213.5	217.0	1.6
Refunds (-)	2.7	1.5	-44.0	28.5	31.1	9.2
Other	12.8	14.4	12.6	178.0	183.6	3.2
Surplus	32.7	44.0	...	65.2	126.7	94.5

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.

While these figures for various categories provide limited evidence of intentional Y2K-related stockpiling that could later be reversed, the inventory data in the aggregate suggest that the sizable increases in stocks have been motivated by strong sales. In the manufacturing sector, the inventory-shipments ratio slipped to 1.29 months in November despite the extensive stockpiling of materials and supplies. This ratio is in the middle of the narrow, flat range recorded over the past six months. In the wholesale sector, stocks rose markedly in November at suppliers of electrical goods ($9 billion) and professional and commercial equipment ($5 billion) as well in the miscellaneous durables category ($7 billion), which includes jewelry, toys, CDs, and sporting goods; in each of these cases, the change in inventories largely tracked the change in sales, leaving inventory-sales ratios about unchanged. In the retail sector, sales of durable goods excluding motor vehicles were very strong in October and November, and the stock-sales ratio dropped from the 2.10 months level recorded between July and September to 2.05 months in November. Thus, on balance, inventories appear to have ended November in lean shape.

Government Expenditures

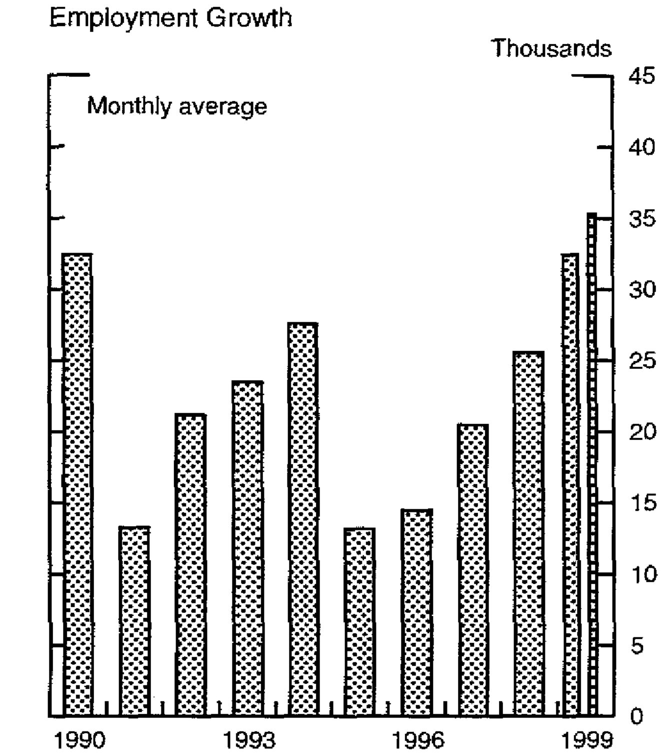
Federal government sector. Recent data show continuing growth of the federal budget surplus. Adjusted for payment timing shifts, December's surplus was about $11 billion higher than the level recorded last year. Tax receipts surged last month, but were offset to a great extent by a large increase in outlays.

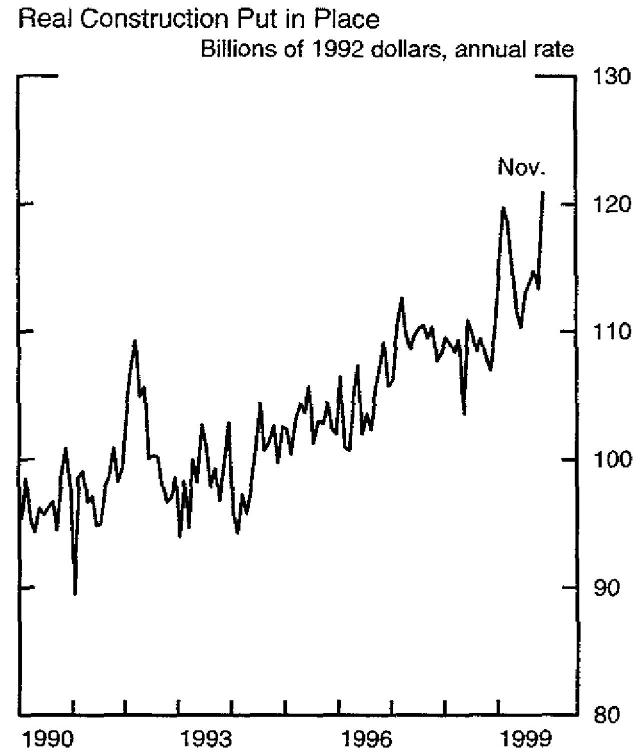
Receipts in December were about 13 percent higher than the level recorded last year. In particular, individual income and payroll taxes rose sharply--up almost 15 percent above last year's level--while corporate tax payments increased moderately. Incoming data for January show that individual income and payroll tax receipts continue to surge, with strength in both withheld and non-withheld tax payments.

Outlays also increased significantly in December, up about 18 percent over last year's level. Defense spending, in particular, was quite robust, fueled by unusually large vendor payments. The rise in Medicare spending remained quite subdued, but Medicaid spending was up 22 percent over last year; indeed, Medicaid spending so far this fiscal year is about 10 percent higher than last year. Spending in the "other" category also increased significantly in December, largely as a result of higher agricultural support payments and a change in the timing of international assistance.

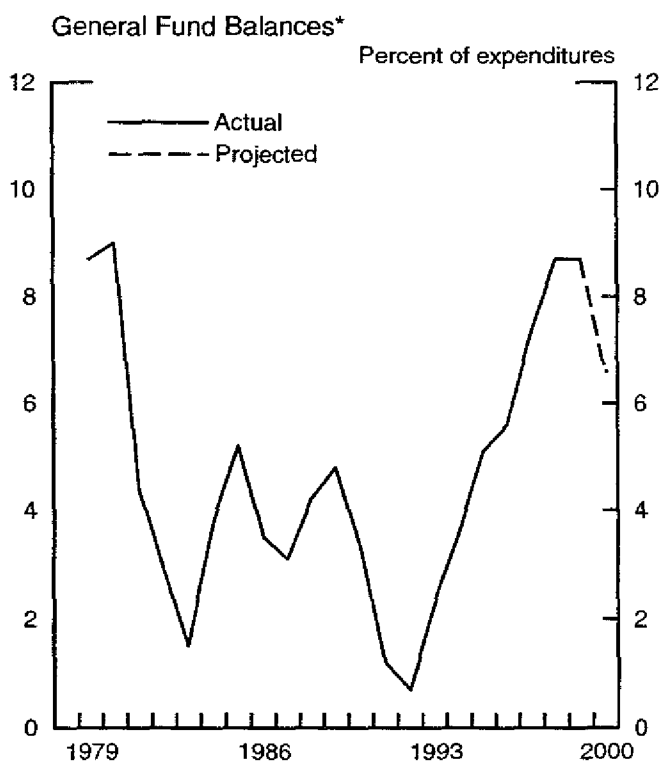
CBO has speculated that the December surge in outlays owed, in part, to an acceleration in spending by government agencies trying to avoid potential Y2K problems by processing payments early. If this was the case, then outlays should

State and Local Indicators

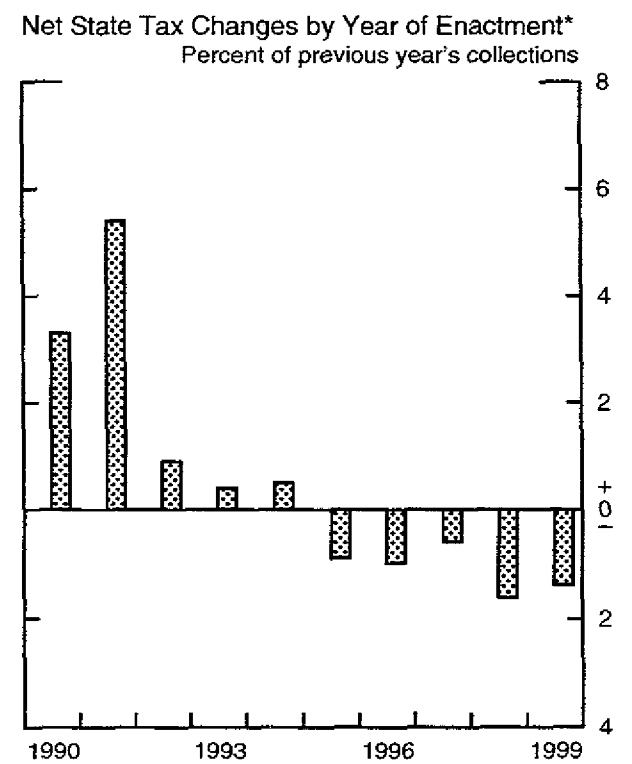




State Fiscal Conditions



* Source. National Conference of State Legislatures.



rise at a more moderate pace in coming months. Indeed, defense vendor payments this month appear significantly weaker than in December. We believe that not all of this timing pattern will show through to the NIPAs because the NIPAs reflect deliveries rather than payments.

State and local government sector. The available indicators suggest that state and local spending was quite strong in the fourth quarter. Employment rose 58,000 in December, boosted by a jump in hiring at primary and secondary schools. The average monthly gain in jobs for the quarter came in above the large increases recorded for both 1998 and the first three quarters of 1999. Meanwhile, real construction spending surged to a record high level in November, apparently largely because of unusually warm and dry weather throughout much of the country. As a result, the October-November average stood 2.8 percent above its third-quarter level.

Recent reports from the National Conference of State Legislatures confirm that states are enjoying another year of very favorable fiscal conditions. Fiscal 1999 marked the seventh straight year of high or rising general fund balances. Unexpectedly robust growth in revenues again accounted for the good news. As a result, states enacted another $6 billion in tax cuts, on net, during their 1999 legislative sessions, the fifth straight year of cuts. In addition, a survey for fiscal year 2000, which ends on June 30 for all but four states, indicates that most states are continuing to enjoy good fiscal conditions. Twenty states reported that, as of this past December, they expected that their revenues would come in above previously anticipated levels, mostly because personal income and sales tax collections will be higher than were projected at the start of the year. Twenty-nine states and the District of Columbia expect collections to be on target. Only Louisiana is anticipating lower revenues for fiscal 2000. Moreover, at least twelve states appear likely to enact yet another round of tax cuts during upcoming legislative sessions.

Prices and Labor Costs

Overall consumer price inflation remained moderate as 1999 came to a close. The consumer price index rose 0.2 percent in December after a 0.1 percent increase in November. Excluding food and energy, consumer prices edged up 0.1 percent last month after having risen 0.2 percent in each of the two preceding months.[9] Over last year as a whole, the consumer price index rose 2.7 percent, about 1 percentage point faster than the 1.6 percent increase posted in 1998. Energy prices more than accounted for this acceleration in the overall CPI;

9. Although the past three months saw only modest increases in the core CPI, September's 0.3 percent jump helped push fourth-quarter core inflation to 2.5 percent (at an annual rate) on a quarterly average basis.

CPI AND PPI INFLATION RATES
(Percent)

	From twelve months earlier Dec. 1998	Dec. 1999	1999 Q3	Q4	1999 Nov.	Dec.
			-Annual rate-		-Monthly rate-	
CPI						
All items (100.0)[1]	1.6	2.7	2.7	2.9	.1	.2
Food (15.4)	2.3	1.9	2.1	2.4	.1	.1
Energy (6.3)	-8.8	13.4	13.6	9.8	.0	1.4
CPI less food and energy (78.3)	2.4	1.9	1.6	2.5	.2	.1
Commodities (24.0)	1.3	.2	.7	1.3	-.2	-.1
New vehicles (5.0)	.0	-.3	.1	.7	.0	-.1
Used cars and trucks (1.9)	3.5	1.2	12.1	5.0	-.2	-.7
Apparel (4.8)	-.7	-.5	-4.0	4.2	-.5	.0
Tobacco (1.2)	31.8	11.4	18.1	10.8	-.9	.4
Other Commodities (11.1)	-.1	-.6	-.5	-1.3	-.1	-.0
Services (54.3)	3.0	2.7	2.1	2.9	.4	.2
Shelter (29.9)	3.3	2.5	2.3	2.6	.3	.2
Medical care (4.5)	3.2	3.6	3.3	3.4	.3	.4
Other Services (19.9)	2.4	2.8	1.6	3.2	.4	.2
PPI						
Finished goods (100.0)[2]	.0	3.0	3.9	3.7	.2	.3
Finished consumer foods (23.3)	.1	.9	.8	.7	.1	.4
Finished energy (12.0)	-11.7	18.4	27.0	13.2	1.4	1.2
Finished goods less food and energy (64.7)	2.5	.9	.7	3.0	.0	.1
Consumer goods (39.5)	4.2	1.2	1.5	3.8	.1	.1
Capital equipment (25.2)	.0	.3	-.7	1.9	-.1	.1
Intermediate materials (100.0)[3]	-3.3	3.9	6.1	4.4	.3	.2
Intermediate materials less food and energy (83.2)	-1.6	1.9	3.5	2.5	.1	.2
Crude materials (100.0)[4]	-16.7	15.7	32.2	17.4	4.0	-3.9
Crude food materials (45.0)	-11.0	-.2	-2.7	8.5	1.0	-1.6
Crude energy (31.7)	-23.8	38.6	92.4	23.7	8.8	-8.7
Crude materials less food and energy (23.3)	-16.0	13.6	22.5	23.3	.3	1.8

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.

excluding food and energy, the CPI rose 1.9 percent over 1999, compared with a 2.4 percent increase over 1998. (About 0.2 percentage point of the deceleration in the published core CPI last year reflected technical changes: On a current-methods basis, the core CPI rose 2.2 percent in 1998.)

The biggest inflation development--both last month and over the past year--was in the energy sector. After having remained essentially flat in October and November, the CPI for energy rose 1.4 percent in December, reflecting sharp increases in gasoline and heating oil prices. The December increase in gasoline prices owed to both higher costs of crude oil and higher margins at refiners; however, available survey data (which cover most of January) suggest that retail gasoline price inflation has moderated somewhat this month. Over 1999 as a whole, higher world oil prices helped push consumer energy prices up more than 13 percent; this run-up largely reversed the decline in energy prices that began in 1997.

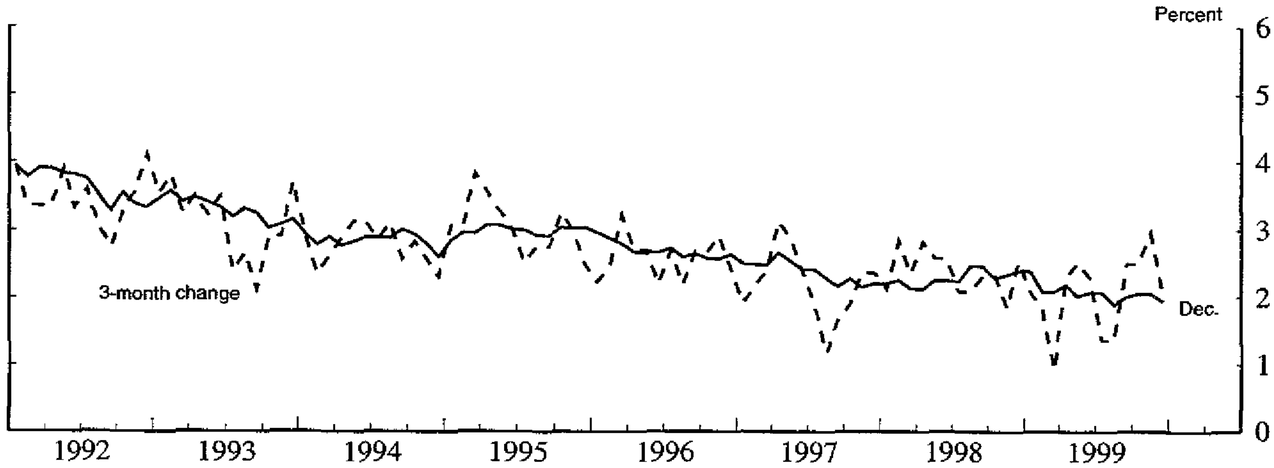
Food prices, by contrast, finished the year in line with the core index, increasing 0.1 percent in December and 1.9 percent over 1999 as a whole. Food prices in December rose slightly, as lower dairy and meat prices largely offset higher prices for other foodstuffs.

Prices for core CPI goods continued to be soft late last year, edging down 0.1 percent in December after having fallen 0.2 percent in November. Tobacco prices rose 0.4 percent last month--the first increase in prices since September's cigarette price hike. Apparel prices were unchanged after declining 0.5 percent in the preceding month. New car and truck prices posted a 0.1 percent decline, and used vehicle prices fell 0.7 percent. Prices for both categories of vehicles decelerated in 1999, with new vehicles down 0.3 percent last year and used vehicles up only 1.2 percent. December also saw a 0.4 percent increase in computer prices; this was the first rise since the CPI began measuring computer prices two years ago. The increase reflected a rare upward movement in the component of computer prices that is derived from hedonic quality adjustments as well as continued cost pressures associated with shortages of memory chips.[10] For 1999 as a whole, core commodity prices rose just 0.2 percent, compared with a 1.3 percent increase in 1998; the deceleration in core goods prices was largely the result of a sharp reduction in tobacco price inflation, from 32 percent in 1998 to 11 percent in 1999.

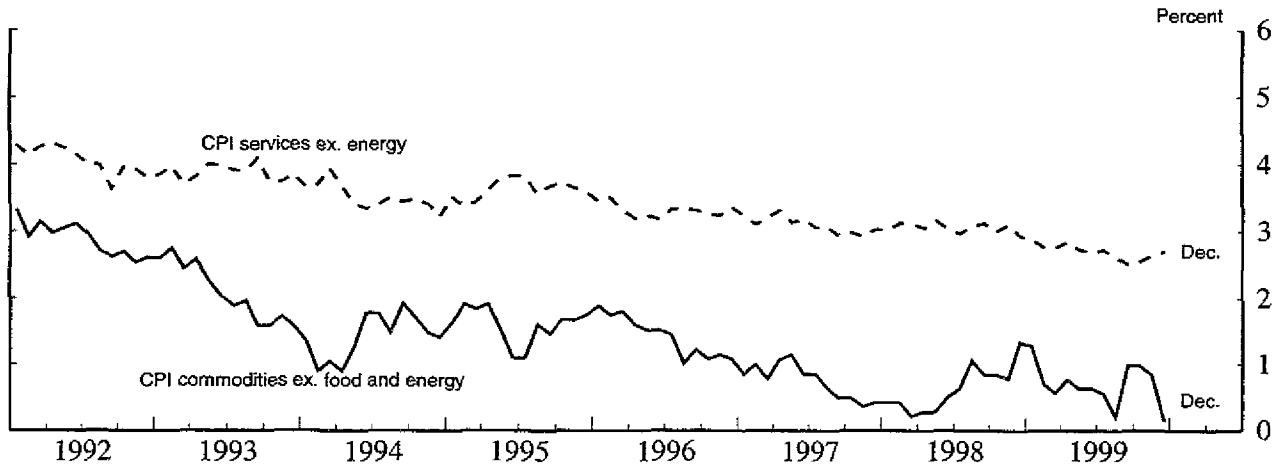
10. According to a BLS analyst, computer manufacturers have been responding to higher memory prices by reducing the amount of memory in the systems they produce. This, together with other changes in the configuration of typical systems (such as the inclusion of lower-quality monitors and smaller hard drives), reduced the measured quality of computers in December and boosted their price in the CPI on a quality-adjusted basis.

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

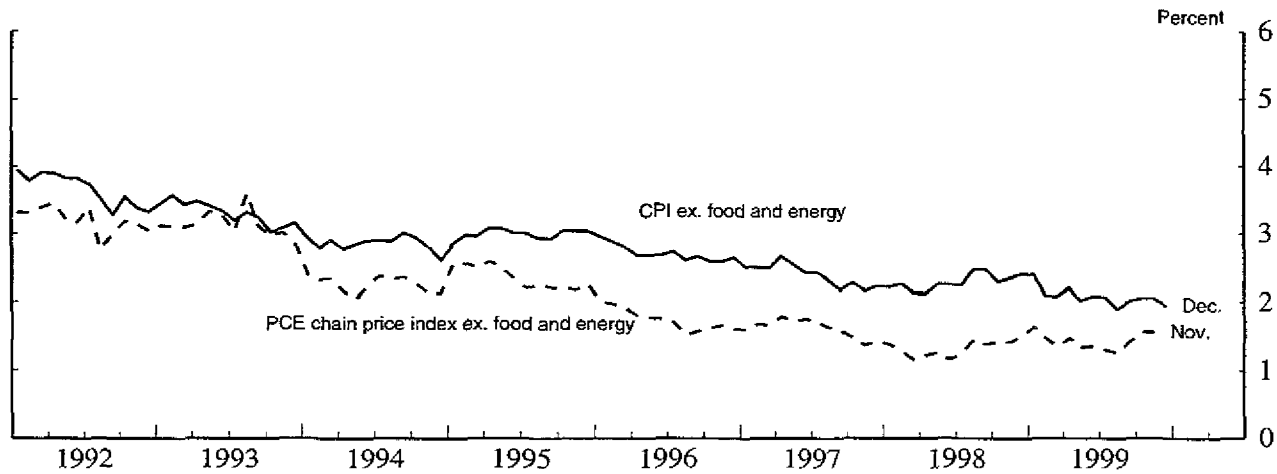
CPI Excluding Food and Energy



CPI Services and Commodities



CPI and PCE



BROAD MEASURES OF INFLATION
(Four-quarter percent change)

	1996 Q4	1997 Q4	1998 Q4	1999 Q4[1]
Product prices				
GDP chain price index	1.7	1.6	1.1	1.5
Nonfarm business chain price index[2]	1.5	1.5	0.4	1.2
Expenditure prices				
Gross domestic purchases chain price index	1.7	1.1	0.7	1.8
Less food and energy	1.3	1.3	1.1	1.5
PCE chain price index	2.2	1.3	1.0	2.0
Less food and energy	1.6	1.4	1.4	1.5
CPI	3.1	1.9	1.5	2.6
Less food and energy	2.6	2.2	2.4	2.1
Median CPI	2.9	2.9	3.0	2.2
Trimmed mean CPI	2.9	2.2	1.9	1.9

1. CPI changes for 1999:Q4 are actual; other 1999:Q4 changes are forecasts.
2. Excluding housing.

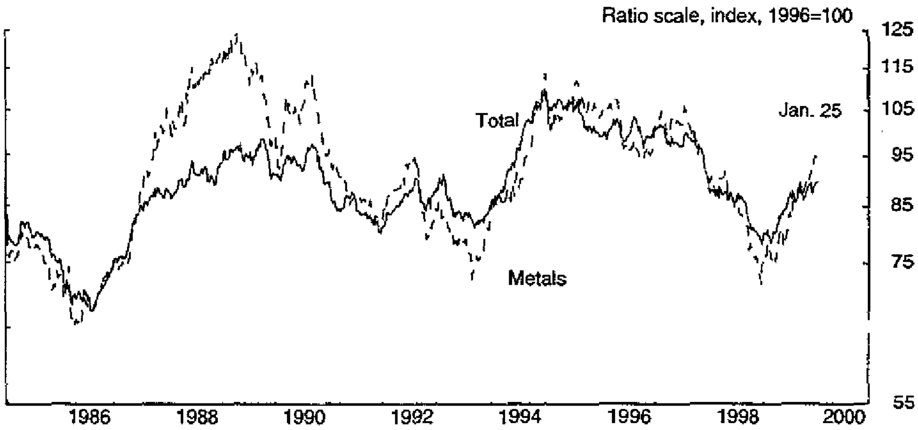
SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

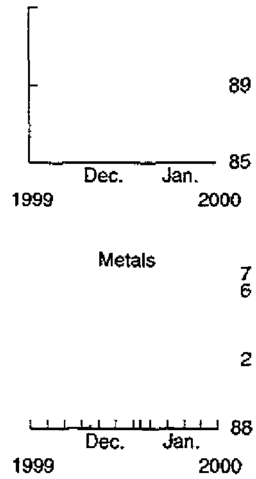
	Actual inflation[1]	University of Michigan: 1 year		University of Michigan: 5 to 10 years		Professional forecasters (10-year)[6]
		Mean[2]	Median[3]	Mean[4]	Median[5]	
1998-Q1	1.5	2.8	2.4	3.3	2.9	2.6
Q2	1.6	3.0	2.6	3.3	2.8	2.5
Q3	1.6	2.8	2.4	3.2	2.8	2.5
Q4	1.5	2.7	2.4	3.2	2.8	2.5
1999-Q1	1.7	3.0	2.6	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	2.6	3.5	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.	2.7	3.6	3.0	3.2	2.9	2.5
2000-Jan.		3.6	2.9	3.4	3.0	

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.

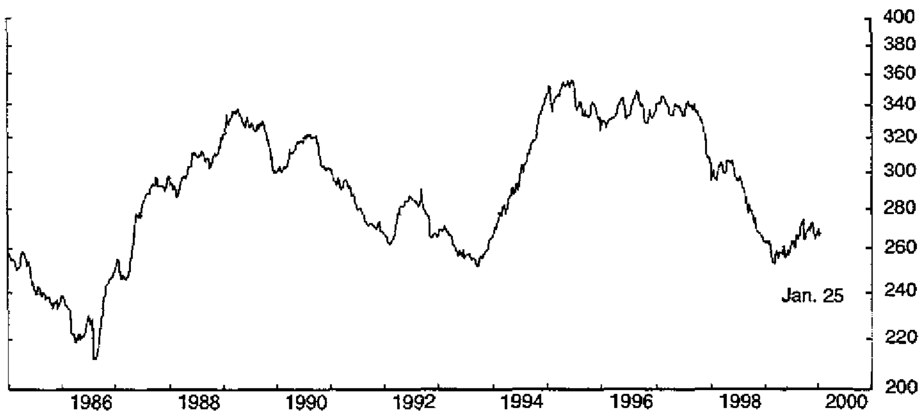
Commodity Price Measures

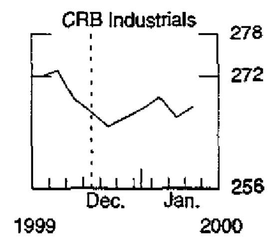
Journal of Commerce Index



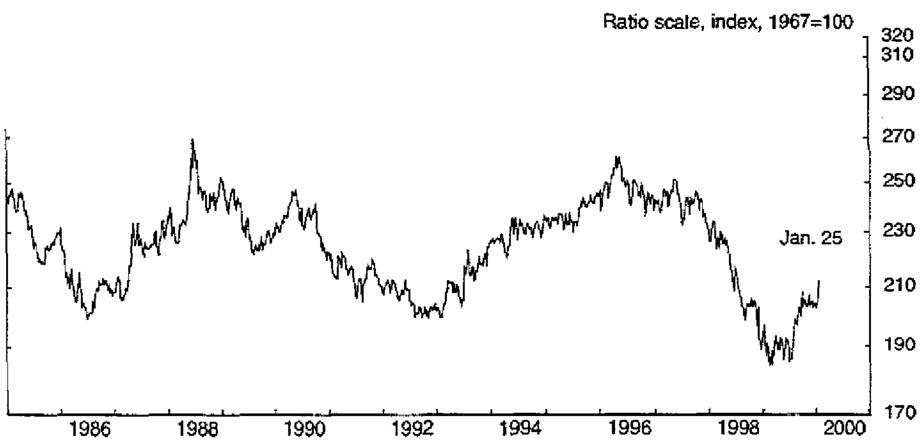


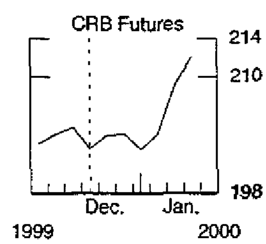
CRB Spot Industrials





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.

Price inflation for non-energy services moderated slightly, falling from 0.4 percent in November to 0.2 percent in December. After having risen 0.4 percent in November, owners' equivalent rent rose 0.2 percent in December, a rate of increase more in line with that seen in previous months; tenants' rent rose 0.4 percent for a second consecutive month. Over the past year, owners' equivalent rent rose 2.4 percent, compared with 3.2 percent in 1998; this slowing, and a 0.3 percentage point deceleration in tenants' rent, were largely responsible for an overall decline in core services price inflation from 3.0 percent in 1998 to 2.7 percent in 1999. Excluding shelter, prices of core services rose 0.2 percent in December after a 0.4 percent gain in the preceding month; these prices were up 2.9 percent over 1999 as a whole, compared with a 2.6 percent increase over 1998.

The PPI for capital equipment rose 0.1 percent in December after having edged down in the preceding month. Capital equipment prices rose only 0.3 percent over 1999 as a whole, as modest price increases for most categories of equipment were offset by price declines for computer, communications, and medical equipment. However, like the CPI, the PPI for computer prices has not been declining in recent months as rapidly as it did earlier in the year: Over the fourth quarter, the PPI for computers dropped at an annual rate of about 13 percent, compared with an average decline of almost 22 percent over the first three quarters of last year.

At earlier stages of processing, the PPI for intermediate materials excluding food and energy rose 0.2 percent in December, the tenth consecutive month in which core intermediate prices rose. For 1999 as a whole, core intermediate goods prices posted a 1.9 percent increase, roughly retracing their 1998 decline. Prices of crude goods excluding food and energy rose 1.8 percent in December; after having dropped 16 percent in 1998, the PPI for core crude goods began rising last May and increased about 14 percent over the course of the year. Spot prices of many industrial commodities have risen since the PPI's price quotes were collected in mid-December, while futures prices ticked upward in mid-January after having fluctuated within a relatively flat range for several months. The recent uptick in futures prices was driven, in part, by higher prices for agricultural crops, stocks of which finished lower at the end of autumn than traders had anticipated. However, with the exception of metals, broad indexes of commodity prices do not appear to be rising as rapidly as they did over the first half of 1999.

The median response to the preliminary University of Michigan survey of one-year-ahead inflation expectations was 2.9 percent in January, the same as its average level over the fourth quarter of 1999. Near-term inflation expectations from this survey rose about 1/2 percentage point over 1999, presumably

SPOT PRICES OF SELECTED COMMODITIES

	Current price (dollars)	Percent change[1] 1997	1998	Dec. 29 to Dec. 14[2]	Dec. 14[2] to Jan. 25	Memo: Year earlier to date
Metals						
Copper (lb.)	.890	-21	-14.8	20.3	7.2	29.0
Steel scrap (ton)	122.67	19.3	-47.5	61.5	4.5	44.0
Aluminum, London (lb.)	.791	-1.9	-17.6	23.2	14.2	43.0
Precious metals						
Gold (oz.)	288.00	-21	-1.1	-2.7	3.1	.3
Silver (oz.)	5.335	27.2	-18.0	4.1	2.0	3.5
Forest products[3]						
Lumber (m. bdft.)	330.00	-27	2.7	11.7	-1.5	.0
Plywood (m. sqft.)	300.00	-1.7	3.3	3.2	-6.3	-10.4
Petroleum						
Crude oil (barrel)	27.110	-27	-36.1	141	8.9	150.8
Gasoline (gal.)	.747	-23	-33.5	107	8.2	132.5
Fuel oil (gal.)	1.267	-30	-33.6	99.1	94.0	300.9
Livestock						
Steers (cwt.)	69.120	4.2	-13.2	18.6	-1.3	11.5
Hogs (cwt.)	38.750	-31	-55.7	126	10.7	36.0
Broilers (lb.)	.486	-24	15.0	-.8	-14	-17.1
U.S. farm crops						
Corn (bu.)	2.045	-3.8	-19.4	-12	12.4	-1.4
Wheat (bu.)	2.760	-24	-5.7	-23	7.4	-11.5
Soybeans (bu.)	4.955	-3.2	-21.1	-18	13.1	-1.6
Cotton (lb.)	.543	-11	-10.2	-18	15.6	-1.5
Other foodstuffs						
Coffee (lb.)	1.190	26.1	-31.4	7.7	-5.6	13.9
Memo:						
JOC Industrials	89.500	-8.2	-13.1	12.3	1.5	12.3
JOC Metals	94.400	-4.6	-20.6	25.0	4.0	26.3
CRB Futures	212.02	-4.9	-17.2	6.1	4.7	13.0
CRB Spot	267.59	-7.6	-14.1	1.2	.3	1.9

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

reflecting the actual increase in inflation that occurred over the course of the year. Longer-term inflation expectations from the Michigan survey have been more stable, although the median response in January edged up 0.1 percentage point from the preceding month, to 3 percent.

At present, our only hard data on fourth-quarter labor costs come from the monthly report on average hourly earnings. Average hourly earnings rose 0.4 percent in December after a 0.1 percent increase in November; over the fourth quarter of 1999, they rose at an annual rate of 3.3 percent, in line with the third-quarter increase. For 1999 as a whole, the increase was 3.7 percent, about the same as in 1998.

Expressed as a twelve-month change, average hourly earnings inflation is currently running 1/2 to 3/4 percentage point below its peak in early 1998. Although this deceleration may appear somewhat surprising given the extremely tight labor market, much of it--although not all--can be explained by the influence of lagged price inflation on wages. Econometric evidence suggests that 1997's sharp deceleration in the CPI helped put downward pressure on average hourly earnings in 1998 and over the first half of 1999.[11] However, these models now estimate that the effect of lower price inflation on wage change has largely run its course.

Survey data released this month provide a modicum of evidence on prospective employer health insurance costs in 2000. Respondents to a survey of large employers conducted by the Towers-Perrin consulting firm indicated that the rate of increase of health insurance costs will pick up, from 7 percent in 1999 to 10 percent in 2000. The survey also indicated that employers are not expecting to pass on a disproportionate share of the increases in health care costs to employees. Although the measure of health benefit costs collected by the Towers-Perrin survey differs significantly (in terms of concept and coverage) from the employer cost index for health insurance, the two measures are reasonably well correlated.[12] Moreover, some mixed evidence of higher health care inflation can be found in the CPI. After having increased sharply in 1998, prescription drug inflation rose by more than a percentage point in 1999, to 6.1 percent. Prices of medical services rose slightly faster--3.6 percent--in 1999 than in 1998, which suggests that the rise in medical services inflation that occurred in 1998 has turned out to be persistent. The impact on the CPI of this

---

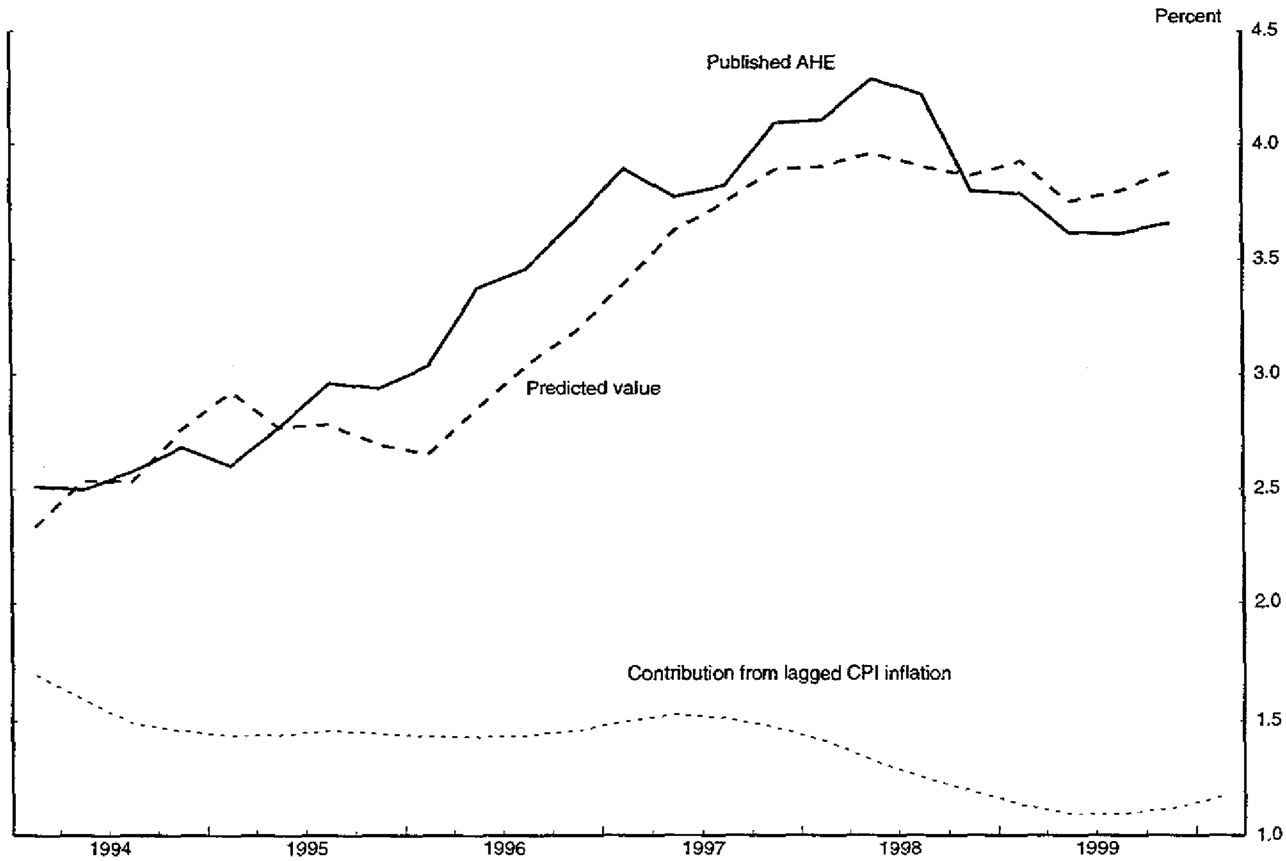
11. Within the context of an econometric model of average hourly earnings, lagged inflation serves to largely offset the effect of labor market tightness. However, a large fraction of the recent observed deceleration in average hourly earnings is left unexplained by the model.

12. Towers-Perrin surveys only large firms, while the ECI attempts to cover the universe of employers. In addition, the ECI measures only the employer cost of providing health benefits, while the Towers-Perrin figures include both employer and employee costs.

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

	Twelve-month percent change			Percent change to Dec. 1999 from		1999	
	Dec. 1997	Dec. 1998	Dec. 1999	June 1999	Sept. 1999	Nov.	Dec.
	-Annual rate-					-Monthly rate-	
Total private nonfarm	4.1	3.8	3.7	3.4	3.3	.1	.4
Manufacturing	3.1	1.6	3.7	2.2	1.7	.0	.2
Construction	4.5	2.9	3.7	3.2	5.2	.3	.6
Transportation and public utilities	3.5	2.3	2.7	3.1	3.3	.3	.6
Finance, insurance, and real estate	5.1	5.6	2.4	1.6	1.1	.0	.1
Retail trade	4.2	4.6	4.2	4.5	4.9	.2	.7
Wholesale trade	4.6	4.2	4.5	5.4	5.8	.3	.7
Services	4.0	4.6	4.1	3.6	3.9	.0	.5

Predicted Values from Average Hourly Earnings Model
(Four-quarter percent change)



pickup is small--the CPI measures only out-of-pocket health care expenditures--but these figures are consistent with the presence of continued upward pressure on the health insurance component of labor compensation.

DOMESTIC FINANCIAL DEVELOPMENTS

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

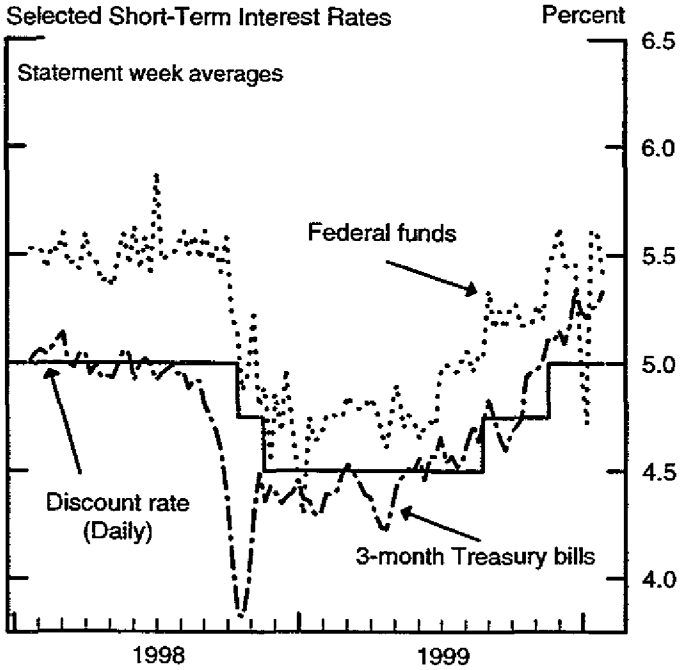
Instrument	1999			2000	Change to Jan. 26 from selected dates (percentage points)		
	June 29	Dec. 31	FOMC* Dec. 21	Jan. 26	1999 June 29	1999 Dec. 31	FOMC* Dec. 21
Short-term							
FOMC intended federal funds rate	4.75	5.50	5.50	5.50	.75	.00	.00
Treasury bills [1]							
3-month	4.70	5.17	5.39	5.41	.71	.24	.02
6-month	4.92	5.49	5.60	5.53	.61	.04	-.07
1-year	4.89	5.63	5.64	5.76	.87	.13	.12
Commercial paper							
1-month	5.18	5.13	6.30	5.65	.47	.52	-.65
3-month	5.12	5.75	5.93	5.81	.69	.06	-.12
Large negotiable CDs [1]							
1-month	5.21	5.72	6.47	5.77	.56	.05	-.70
3-month	5.32	5.90	6.17	5.93	.61	.03	-.24
6-month	5.43	6.08	6.15	6.14	.71	.06	-.01
Eurodollar deposits [2]							
1-month	5.13	5.69	6.38	5.75	.62	.06	-.63
3-month	5.25	5.88	6.13	5.94	.69	.06	-.19
Bank prime rate	7.75	8.50	8.50	8.50	.75	.00	.00
Intermediate- and long-term							
U.S. Treasury (constant maturity)							
2-year	5.68	6.24	6.21	6.45	.77	.21	.24
10-year	5.93	6.45	6.36	6.69	.76	.24	.33
30-year	6.07	6.48	6.44	6.60	.53	.12	.16
U.S. Treasury 10-year indexed note	4.01	4.33	4.31	4.32	.31	-.01	.01
Municipal revenue (Bond Buyer) [3]	5.62	6.23	6.17	6.35	.73	.12	.18
Corporate bonds, Moody's seasoned Baa	8.05	8.18	8.27	8.28	.23	.10	.01
High-yield corporate [4]	10.53	10.94	10.95	11.08	.55	.14	.13
Home mortgages (FHLMC survey rate) [5]							
30-year fixed	7.63	8.06	7.86	8.26	.63	.20	.40
1-year adjustable	5.93	6.56	6.49	6.56	.63	.00	.07

Stock exchange index	Record high		1999		2000	Change to Jan. 26 from selected dates (percent)		
	Level	Date	Dec. 31	FOMC* Dec. 21	Jan. 26	Record high	Dec. 31	FOMC* Dec. 21
Dow-Jones Industrial	11,723	1-14-00	11,497	11,144	11,033	-5.89	-4.04	-1.00
S&P 500 Composite	1,469	12-31-99	1,469	1,418	1,404	-4.43	-4.43	-.99
Nasdaq (OTC)	4,235	1-21-00	4,069	3,784	4,070	-3.91	.01	7.56
Russell 2000	534	1-21-00	505	467	521	-2.42	3.23	11.53
Wilshire 5000	13,813	12-31-99	13,813	13,249	13,452	-2.61	-2.61	1.53

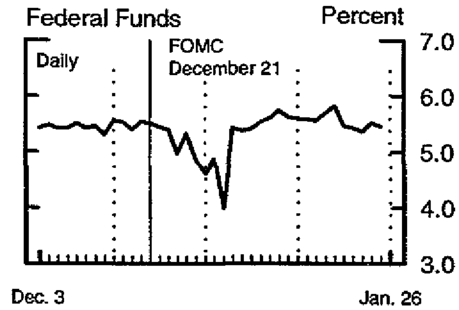
1. Secondary market.
2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
3. Most recent Thursday quote.
4. Merrill Lynch 175 high-yield bond index composite.
5. For week ending Friday previous to date shown.
* Data are as of the close on December 20, 1999.

Selected Interest Rates

Selected Short-Term Interest Rates

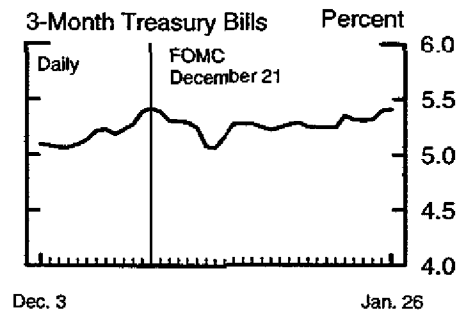


Federal Funds

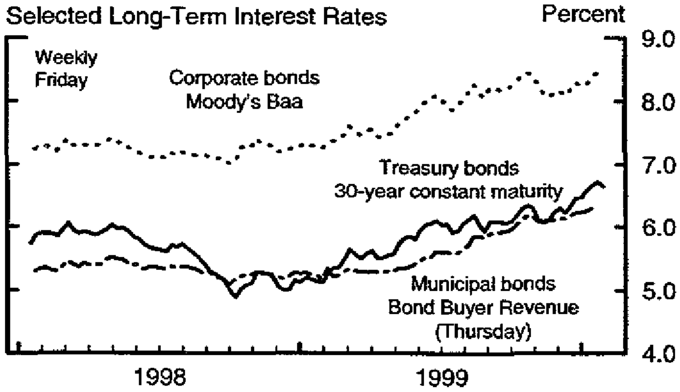


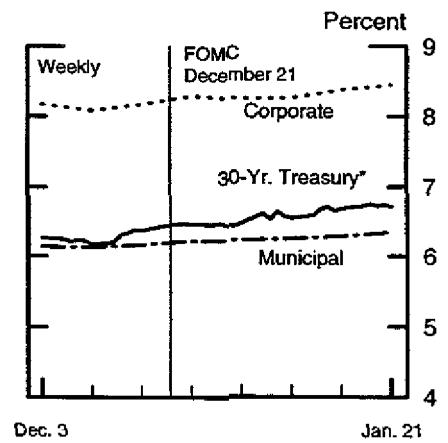
Note. Vertical dashed lines indicate end of reserve period.

3-Month Treasury Bills



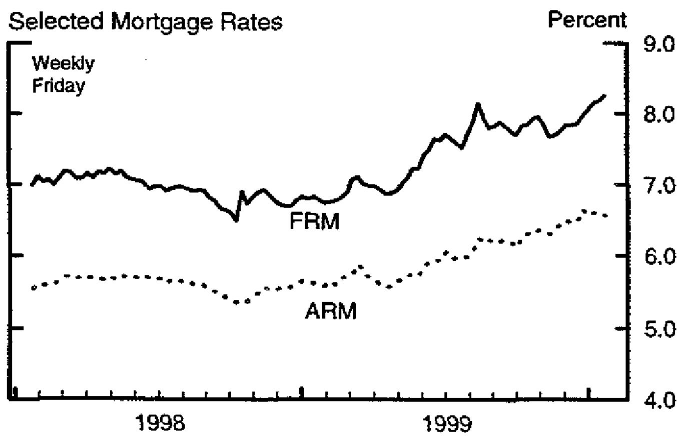
Selected Long-Term Interest Rates

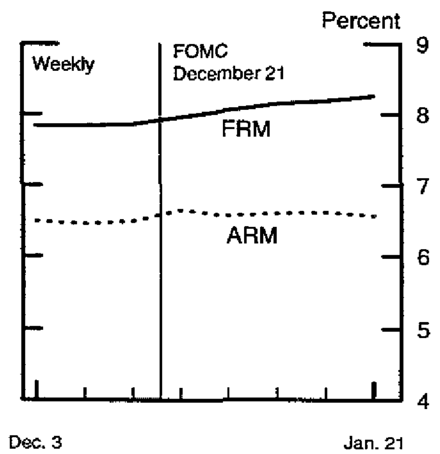




*Daily frequency.

Selected Mortgage Rates





Domestic Financial Developments

Overview

The announcement that the FOMC would maintain a neutral bias over the century date change was widely expected and elicited little market reaction. At year-end, it became apparent to market participants that financial markets would successfully negotiate the change, and attention returned to evidence of continuing strong economic expansion. Given the Federal Reserve's announced concern regarding unsustainable growth, the incoming information led to an elevation of earlier expectations regarding the dimension of likely monetary policy firming. Market participants found only temporary relief in Chairman Greenspan's mid-January speech on technology and in subsequent, relatively benign inflation reports.

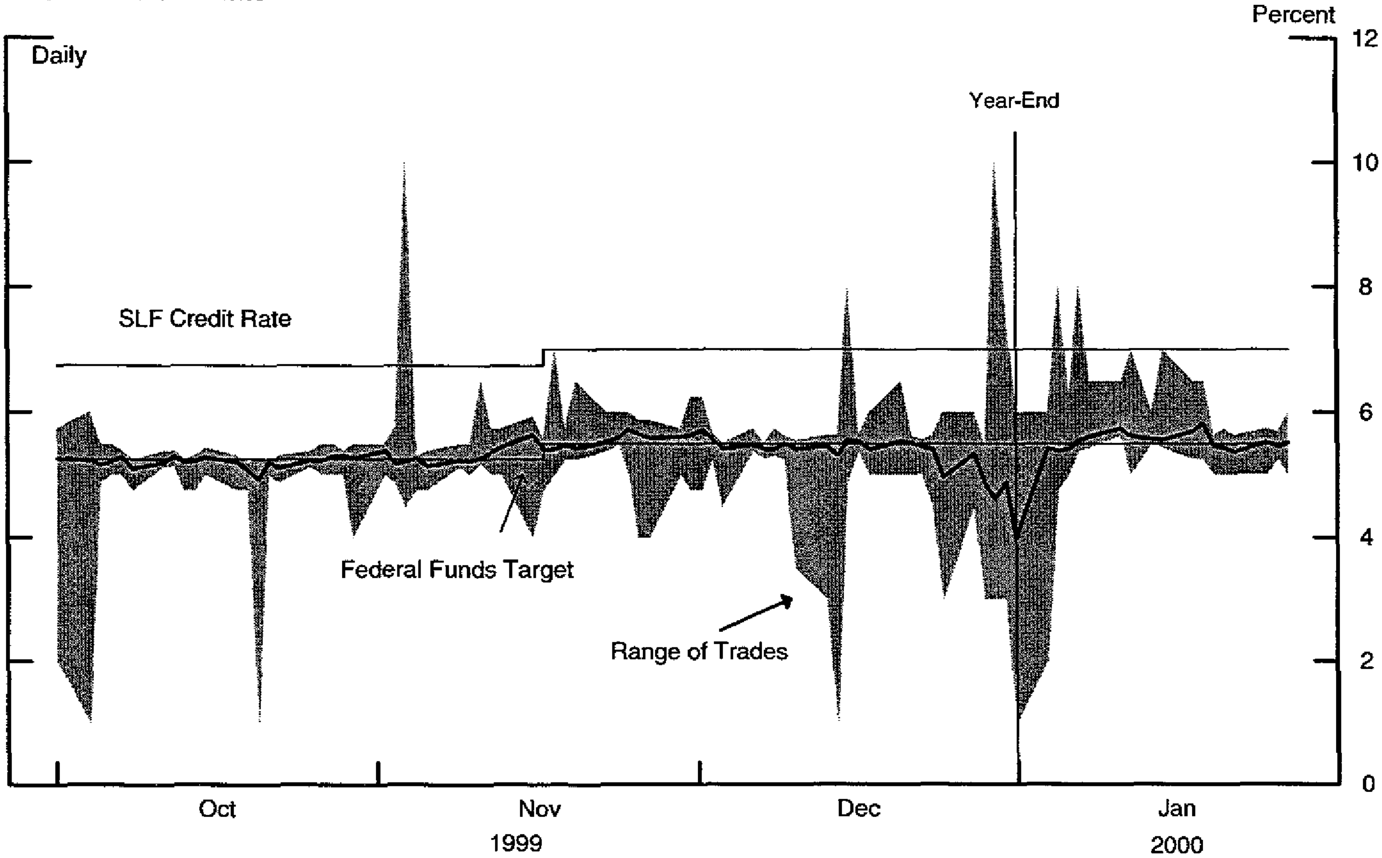
All told, under these pressures, yields on intermediate- and long-term Treasuries have risen 16 to 33 basis points over the intermeeting period. Corporate bond yields also have risen, but by less than Treasuries, narrowing spreads by 15 basis points on investment-grade bonds and by 10 basis points on speculative-grade bonds. Readings on federal funds futures rates suggest that the market is virtually certain of at least a 25-basis-point tightening next week and that a few participants now see a 50-basis-point move as possible. Eurodollar futures have priced in as much as a full percentage increase in the targeted funds rate by early 2001.

The rise in market interest rates and accompanying volatility over the intermeeting period helped put a dent in the enthusiasm for equities, most notably for blue chips. The Dow Jones Industrial Average and the S&P 500 are off about 1 percent, and the Wilshire 5000 is up only a little over 1 percent, despite generally favorable earnings reports. However, the Nasdaq has climbed close to 8 percent, led once again by price gains in technology shares.

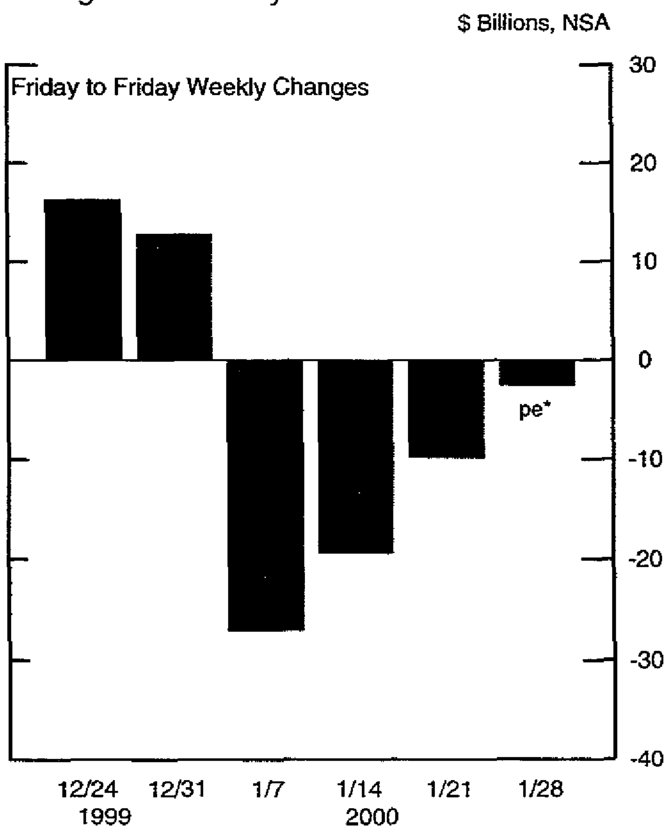
Overall, growth in the total debt of the nonfinancial sectors in the fourth quarter appears to have remained close to the 6-3/4 percent pace of the first three quarters of last year. Net business borrowing remained brisk in the quarter as a whole, but did fall off toward year-end; it has picked up again, though somewhat sluggishly, in the new year. In the household sector, growth of mortgage debt appears to have sustained its strong pace in recent months; consumer credit expanded sharply in October and November, and bank data for December point to another substantial gain. Municipal bond issuance was slow at the end of 1999 and has remained light in January, but indicators point to a pickup in coming weeks. The Treasury stepped up its issuance of securities in the fourth quarter to boost its year-end cash balance, but so far in 2000, it has been paying down debt in volume.

Y2K

Federal Funds Rate



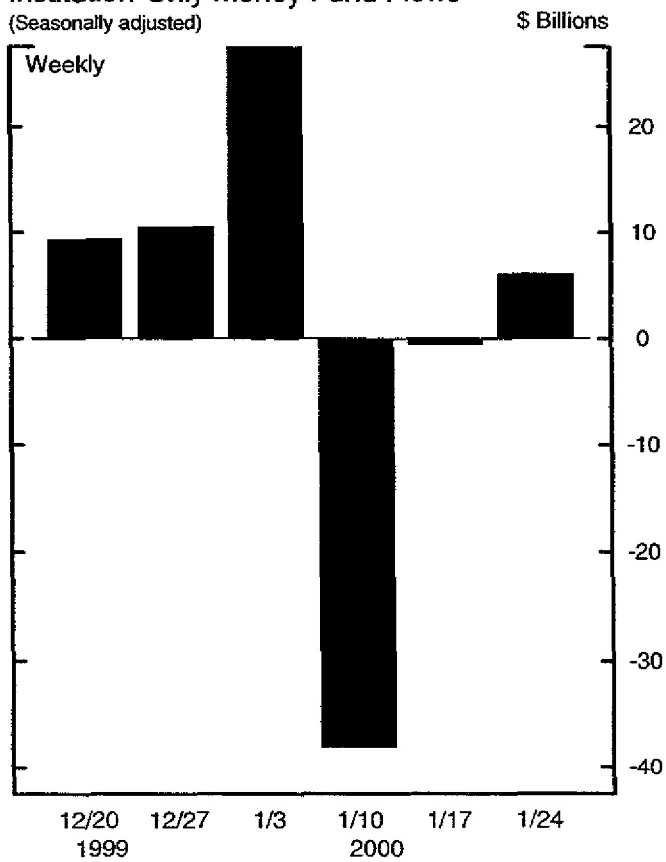
Changes in Currency in Circulation



*Partial Estimates

Institution-Only Money Fund Flows

(Seasonally adjusted)



The growth of the broad monetary aggregates picked up in December, mainly reflecting precautionary liquidity building prior to year-end by households and businesses. Those positions began to unwind around the turn of the year. For the year as a whole, M2 rose 6-1/4 percent, 1-1/4 percentage points above the top of its monitoring range, and M3 expanded 7-3/4 percent, 1-3/4 percentage points above the top of its range. Overall, the growth of bank credit remained strong in December partly owing to borrowers tapping banks for funds before year-end; data in the first weeks of the new year suggest a softening.

Effect of Y2K Rollover on Financial Markets
Conditions in most financial markets over the intermeeting period followed a pattern similar to that of other year-ends. Prior to the turn, activity in most markets was subdued. Federal funds traded in a range that was fairly typical for year-end, although the effective funds rate on a few days before year-end fell below the target rate. In the Treasury market, trading volumes declined and bid-asked spreads widened a bit, but they were not out of line with previous years. As noted, the pace of business borrowing generally dropped off, with bond issuance falling appreciably, but not much more than in previous years. Business borrowing at banks, which had been brisk over November and early December, tapered off as well.

After the New Year holiday, activity in financial markets quickly perked up, and the unwinding of positions taken in advance of the turn proceeded in an orderly fashion. Reflows of currency to the System have been rapid, reversing two-thirds of the estimated $84 billion buildup of currency at banks and in the hands of the public. Similarly, after the smooth transition to Y2K, investors began to pare the large balances they had accumulated in large-denomination time deposits and in institution-only money funds.

Business Finance
Gross issuance of bonds by nonfinancial corporations slowed significantly in December from November's rapid pace. Indeed, offerings in the latter half of December were almost nil as the primary market shut down in advance of the holidays and the century date change. So far in January, issuance has resumed, but has remained light, especially by lower-rated credits. While some investment-grade firms reportedly have come to market in anticipation that rates may rise further, a number of others have pulled back offerings as bond rates firmed.

Short- and intermediate-term business credit continued to expand rapidly in the fourth quarter. Nonfinancial commercial paper outstanding increased substantially in December, as firms built up precautionary liquid reserves prior to year-end. In January to date, commercial paper has continued to expand, but

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

Type of security	1998	1999	1999 H2	1999 Q4	1999 Nov.	1999 Dec.	2000 Jan. [e]
All U.S. corporations	94.0	89.3	76.0	64.5	85.3	49.6	49.7
Stocks [1]	10.6	10.9	11.8	14.5	23.9	8.0	11.1
Bonds	83.5	78.4	64.2	50.0	61.4	41.6	38.6
Nonfinancial corporations							
Stocks [1]	6.2	9.2	10.8	13.8	22.7	7.8	9.4
Initial public offerings	2.2	4.2	5.5	7.9	14.8	3.9	1.8
Seasoned offerings	4.0	5.0	5.3	5.9	7.9	3.9	7.6
Bonds [2]	25.7	24.8	20.9	18.8	27.5	15.1	15.6
Investment grade [3]	14.1	14.0	11.8	9.0	12.7	7.3	7.0
Speculative grade [3]	10.2	7.5	5.8	6.6	9.2	6.5	3.7
Other (Sold Abroad/Unrated)	1.3	3.3	3.3	3.2	5.6	1.3	4.9
Financial corporations							
Stocks [1]	4.4	1.7	1.0	.7	1.2	.2	1.7
Bonds	57.8	53.6	43.3	31.2	33.9	26.5	23.0
Memo:							
Net issuance of commercial paper, nonfinancial corporations [4]	2.3	3.6	4.4	4.2	-7.6	12.4	n.a.
Change in C&I loans at commercial banks [4]	7.2	5.0	7.7	7.1	18.6	-6.7	n.a.

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, seasonally adjusted.
e Staff estimate.
n.a. Not available.

at a more subdued pace. After rising strongly in November, business loans at banks contracted somewhat over December, and weekly data for January indicate a flattening. The January Senior Loan Officer Survey indicated some further tightening over the past three months in terms and standards for C&I loans at commercial banks. The survey respondents cited a reduced tolerance for risk, a less favorable economic outlook, and industry-specific problems as the main reasons.

On balance, business credit quality deteriorated in 1999 but remained high by historical standards. The ratio of liabilities of failed nonfinancial businesses to total liabilities for the sector moved up in 1999 from 1998 but was below the rate in 1997 and those recorded in the late 1980s and early 1990s. Moody's rating changes in the past two months have led to a modest net downgrade of corporate debt, particularly for speculative-grade firms. However, the amount of debt on watch is evenly split between upgrades and downgrades. The deterioration last year was concentrated among firms that issue junk bonds. The junk bond default rate for U.S. companies jumped to 4.7 percent in 1999--the highest annual pace since the peak of almost 9 percent in 1991.

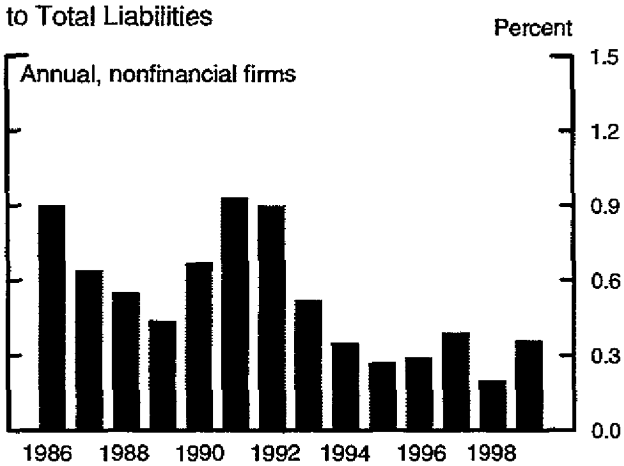
Equity issuance by nonfinancial corporations fell off in December from November's record pace; activity in late December is usually lackluster, and there were no multi-billion-dollar offerings as had been the case in November. Firms have raised only about $6 billion to date in January, but more than 150 initial public offerings have been registered for the next few months.

Merger and acquisition activity continues to sizzle. In the fourth quarter, mergers financed with cash payments--rather than with stock--led to equity retirements of about $29 billion, bringing merger-related equity retirements for the year to $115 billion, second only to 1998's record pace. In December and January, many new deals were announced, including the record AOL-Time Warner merger in early January; the list of pending M&A transactions now tops a trillion dollars. Although most deals will be financed with stock, the volume of cash transactions also is expected to remain high. Announcements of share repurchases picked up in the fourth quarter from a weak third-quarter level, but they remain below the record pace of 1998.

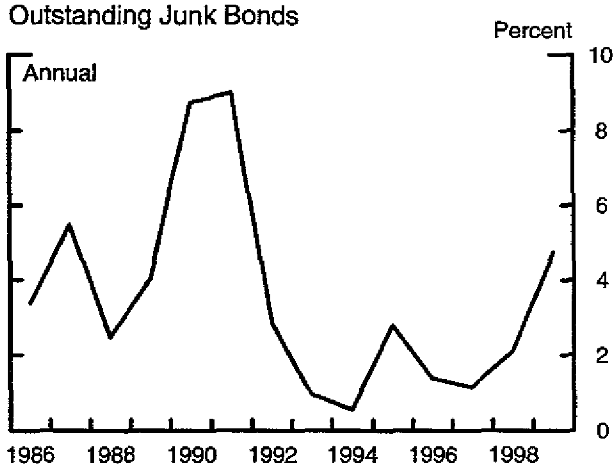
More than half of the S&P 500 firms have reported fourth-quarter earnings, and these reports suggest that the four-quarter growth for S&P 500 earnings per share was robust, exceeding 20 percent. Earnings growth was boosted, in part, by strong recoveries in the oil and basic materials sectors and by exceptionally high revenues earned by investment banks from underwriting and trading activity. Earnings of small- and mid-sized companies are expected to show respectable gains, too, though their growth continues to lag those of large firms.

Corporate Finance and Stock Prices

Liabilities of Failed Businesses
to Total Liabilities



Default Rates
Outstanding Junk Bonds



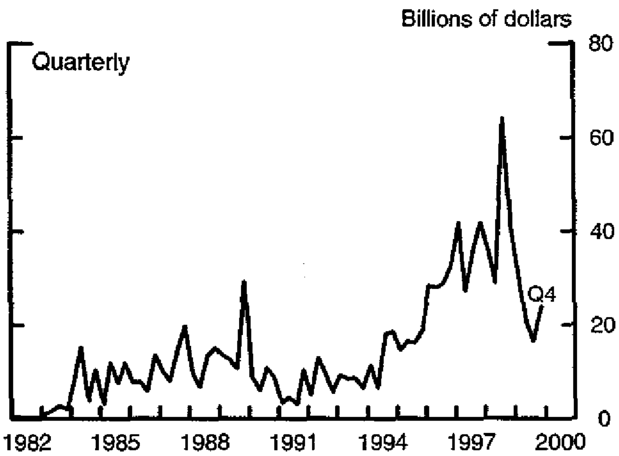
Mergers and Acquisitions
Nonfinancial Firms

Billions of dollars

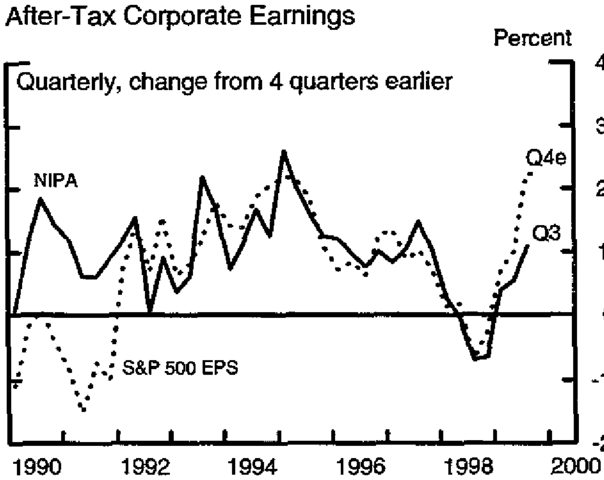
Quarterly rate

	Cash paid by domestic firms	Total deal value
1997	21.5	82.9
1998	32.6	129.4
1999	28.7	200.1
1999 H1	23.8	181.5
Q3	38.8	121.0
Q4	28.5	316.2

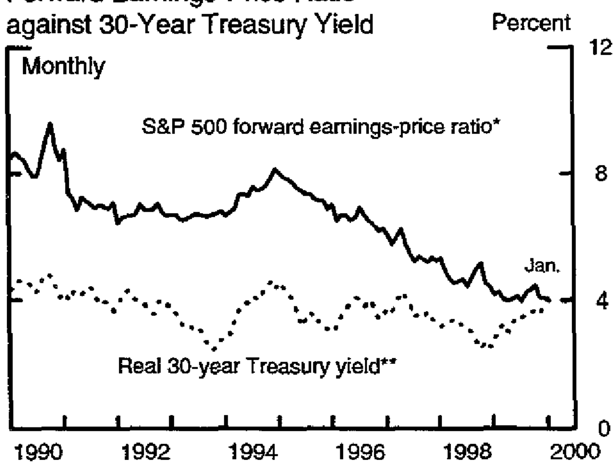
Announced Share Repurchases



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.

Since November, strategists' projections for S&P 500 earnings growth in 2000 have increased more than 3 percentage points to nearly 11 percent.

Technology sector stock gains propelled the Nasdaq index to a new high; despite some fallback in recent days, the index is up almost 8 percent since the December FOMC meeting. In addition, the Russell 2000 index of small- to mid-cap firms is up about 12 percent, reflecting in large part the gains of biotech firms. Rising interest rates have essentially eliminated any difference between the S&P forward earnings-price ratio and the real thirty-year Treasury bond rate.

Commercial Real Estate Finance

Primary commercial mortgage interest rates increased 20 basis points in December and now are up almost 160 basis points since last January. Yields on AAA-rated commercial mortgage-backed securities have risen by a like amount. The Senior Loan Officer Survey indicated that, on net, banks have continued to tighten credit standards on commercial mortgage loans. Conduits originating loans for CMBS also appear to be tightening credit standards, with Moody's recently reporting that average loan-to-value ratios for loans backing newly issued CMBS reached a two-year low in the fourth quarter.

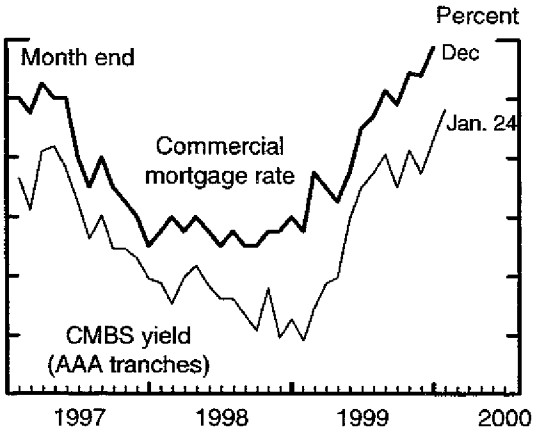
Higher rates and the somewhat tighter credit standards do not appear to have damped loan demand much. The Senior Loan Officer Survey indicated that demand for commercial mortgage loans remains strong, with 11 percent of banks, on net, reporting increased demand. In addition, loans in the pipeline will push up CMBS issuance in the near-term. Issuance in the first quarter, as indicated by the current calender of deals, is expected to total between $16 billion and $20 billion, the strongest pace in more than a year. Loans backing new CMBS issues are likely to continue the trend toward floating interest rates. In the fourth quarter of 1999, nearly 40 percent of CMBS issuance was floating rate compared with an average of 5 percent over the first three quarters.[1] Spreads on fixed-rate, investment-grade CMBS have narrowed 13 to 15 basis points since the December FOMC meeting, mainly because of lower swap spreads and the prospect of a reduced supply of fixed-rate CMBS issuance.

REIT stock prices have moved up 9 percent since their trough in mid-December. However, they are still more than 32 percent below the peak reached in October 1997, and REIT property acquisition and development activity is likely to remain subdued.

1. Fixed-rate mortgages are usually thirty-year amortization, ten-year bullet mortgages with a fixed lock-out period on refinancing and substantial prepayment penalties after the lock-out period. Floating-rate mortgages tend to be short-term--usually three years.

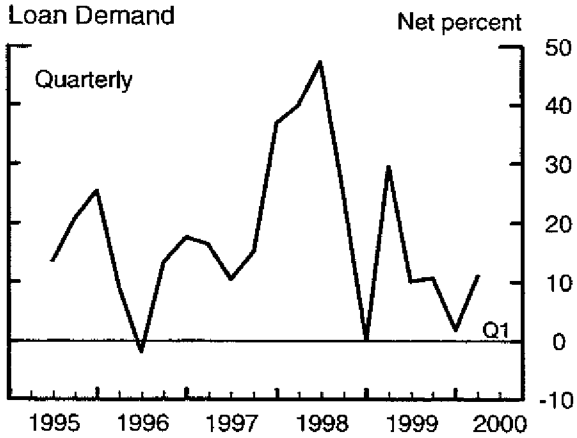
Commercial Real Estate

Funding Costs



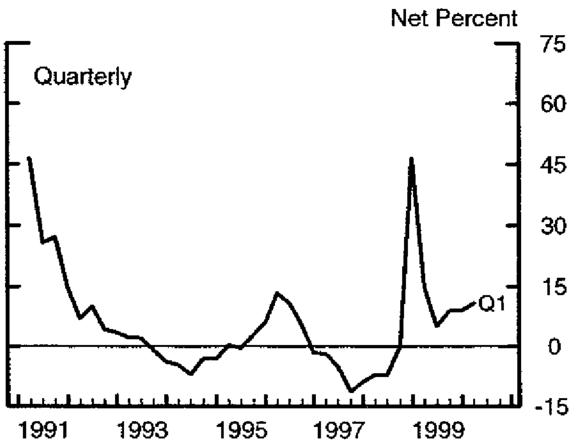
Source. Barron's/Levy National Mortgage Survey; Morgan Stanley.

Domestic Banks Reporting Stronger Loan Demand



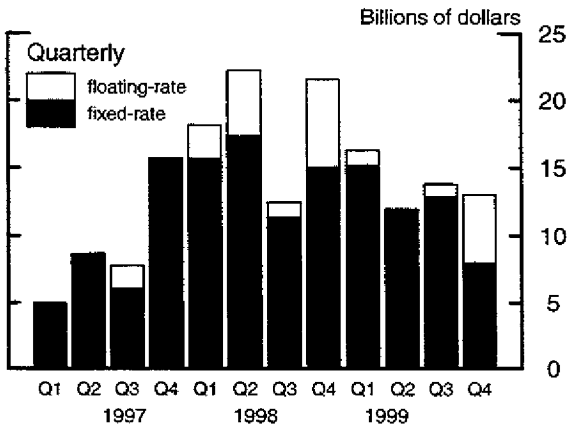
Note. Percent reporting stronger demand less percent reporting weaker demand.
Source. Senior Loan Officer Survey.

Domestic Banks Tightening Credit Standards



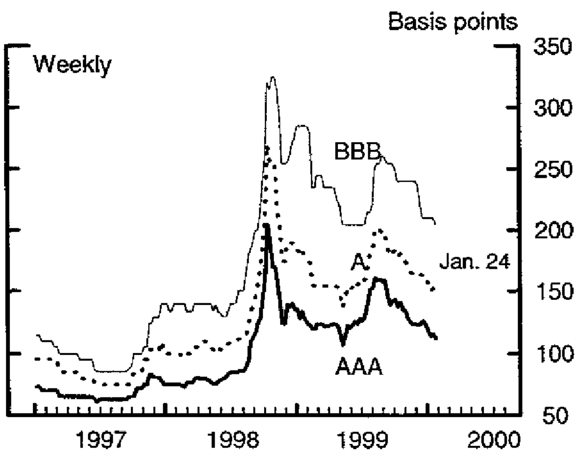
Note. Percent reporting tightening less percent reporting easing.
Source. Senior Loan Officer Survey.

CMBS Gross Issuance



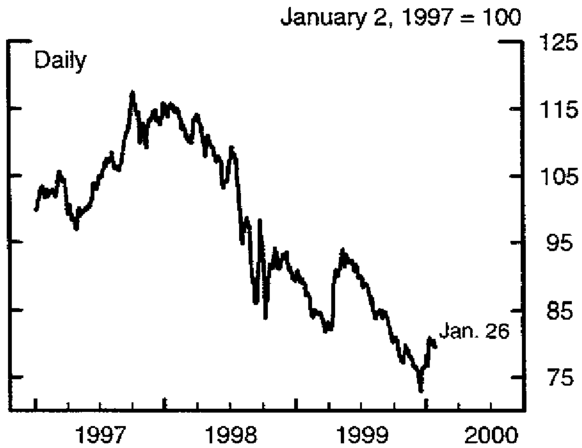
Note. 1999:Q4 staff estimate.
Source. Commercial Mortgage Alert.

CMBS Yield Less Ten-Year Treasury



Source. Morgan Stanley.

REIT Price Index



Source. National Association of Real Estate Investment Trusts.

Household Finance
Household debt rose briskly in the fourth quarter despite higher mortgage and consumer loan rates. Consumer credit growth jumped to a 13-3/4 percent annual rate in November, pulling the average growth rate in the first two months of the quarter to slightly over 9 percent—well above the third-quarter pace. Consumer loans originated by banks expanded rapidly in December, as well. Also, home mortgage debt growth in the fourth quarter is estimated to have been close to the brisk third-quarter rate of about 10 percent. The continued high level of the MBA purchase index suggests that mortgage debt growth likely remained strong into the new year. This indicator is a bit at odds with results from the Senior Loan Officer Survey, which showed some decrease in demand for home mortgage loans. On net, 64 percent of respondents reported weaker demand for home mortgages--the largest net percentage since the first quarter of 1995. However, on net, banks have been reporting a weakening in demand for home mortgage loans for the past three quarters, but the slowing has yet to materialize in the data for mortgage debt growth.

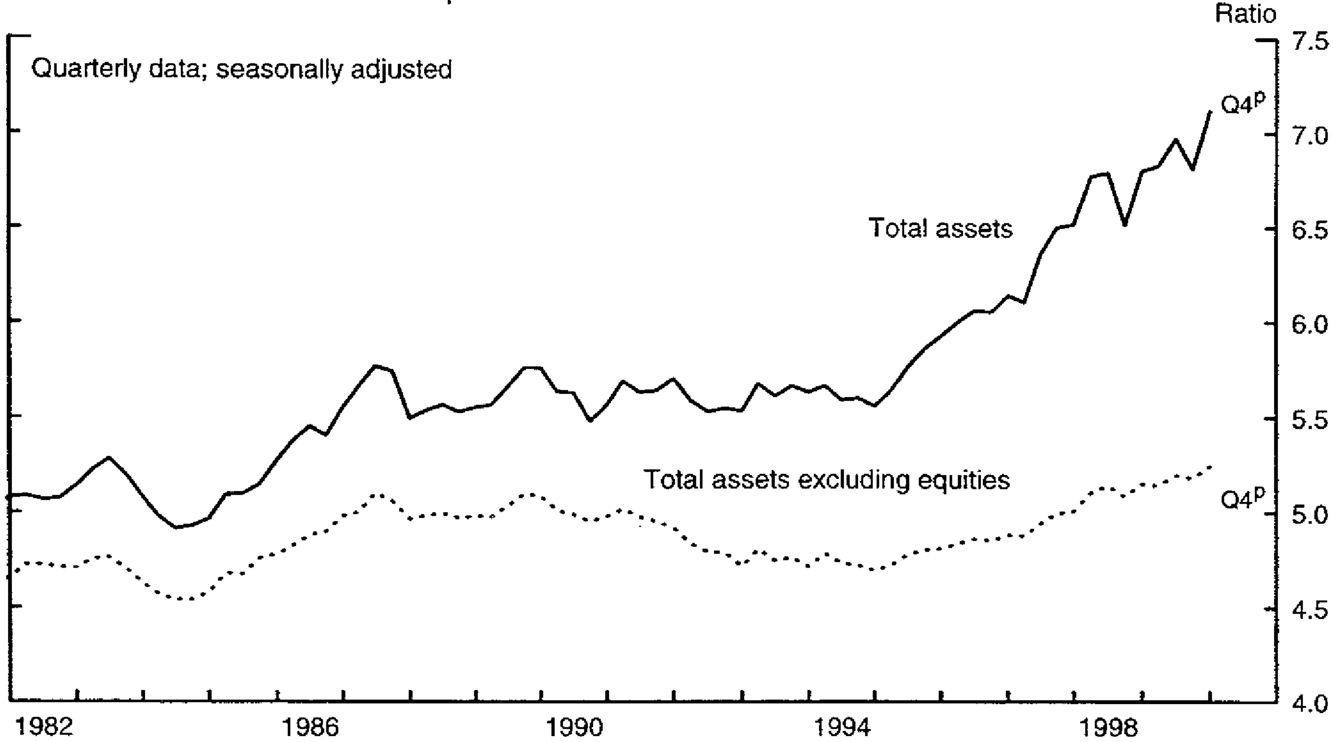
Interest rates have risen on most types of households loans. Relative to a year ago, rates on fixed-rate mortgages have increased about 148 basis points, and rates on one-year adjustable mortgages have risen about 100 basis points. Rates charged by commercial banks on home equity lines of credit, personal loans, and auto loans have risen between 42 and 73 basis points from the troughs reached earlier last year. In addition, captive auto finance companies reduced credit incentives, contributing to a substantial rise in rates on their loans. The combination of rapid debt growth and higher interest rates has lifted the household debt-service burden still higher, but it remains below the peak levels reached in the mid-1980s.

Households' demand for equity mutual fund shares has continued to be strong. Weekly data show that inflows to equity mutual funds so far in January have been extremely robust. Domestic funds have continued to draw the bulk of inflows, but flows into international equity funds have increased considerably, likely reflecting the recent relatively high rates of return experienced abroad. Bond and hybrid funds continued to show outflows in January, as rising interest rates generated capital losses, while inflows to retail money market funds have continued to be strong.

Government Securities Markets
Treasury. At year-end, the Treasury's cash balance was $83 billion, significantly higher than the $70 billion targeted level and well in excess of the typical year-end cash balance of about $30 billion. The excess in the cash balance at this past year-end included $23 billion earmarked to support the Federal Financing Bank's line of credit to credit unions. As a contingency

Household Assets

Household Assets Relative to Disposable Income



p. Staff projection.

Net Flows into Long-Term Mutual Funds

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

	1997	1998	1999 H1	1999 Q3	1999 Oct.	1999 Nov.	1999 Dec. e	Assets Nov.
Total long-term funds	**22.7**	**20.2**	**18.3**	**8.6**	**16.7**	**11.9**	**7.3**	**4,875**
Equity funds	**19.0**	**13.2**	**15.2**	**10.7**	**21.0**	**19.1**	**21.3**	**3,675**
Domestic	15.8	12.6	15.7	11.0	16.0	17.9	13.8	3,166
International	3.1	0.6	-0.4	-0.3	5.1	1.2	7.5	509
Hybrid funds	**1.4**	**0.9**	**-0.4**	**-0.7**	**-0.8**	**-2.6**	**-2.3**	**377**
Bond funds	**2.4**	**6.2**	**3.4**	**-1.4**	**-3.5**	**-4.7**	**-11.7**	**823**
International	-0.1	-0.1	-0.1	-0.2	-0.1	-0.4	-0.1	23
High-yield	1.4	1.1	0.3	-0.8	-0.6	0.9	-2.1	117
Other taxable	1.0	3.9	2.5	1.0	-1.2	-1.9	-2.6	400
Municipals	0.1	1.3	0.7	-1.4	-1.6	-3.2	-6.9	282
Memo:								
Retail Money Funds *	3.2	8.8	6.4	13.2	10.8	9.6	17.6	3,645

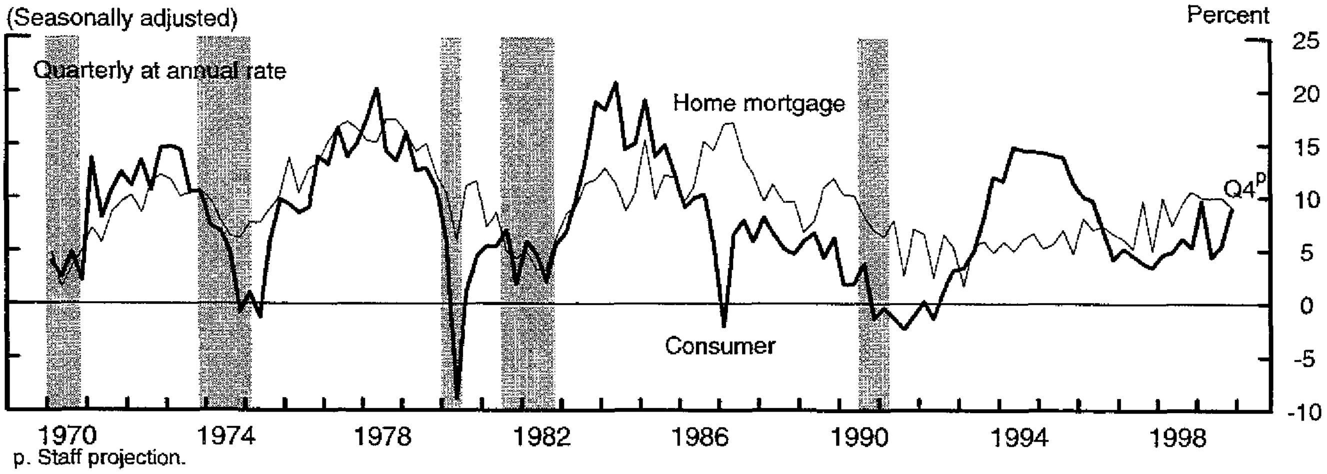
e Staff estimates based on confidential ICI weekly data.

* Change in assets.

Source. Investment Company Institute (ICI).

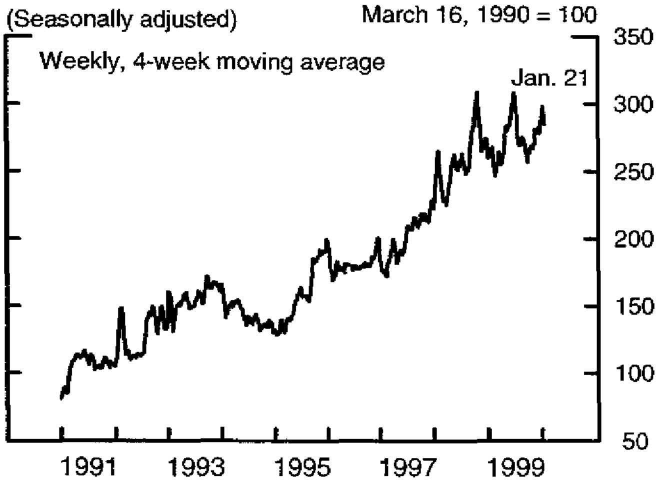
Household Liabilities

Household Debt Growth
(Seasonally adjusted)



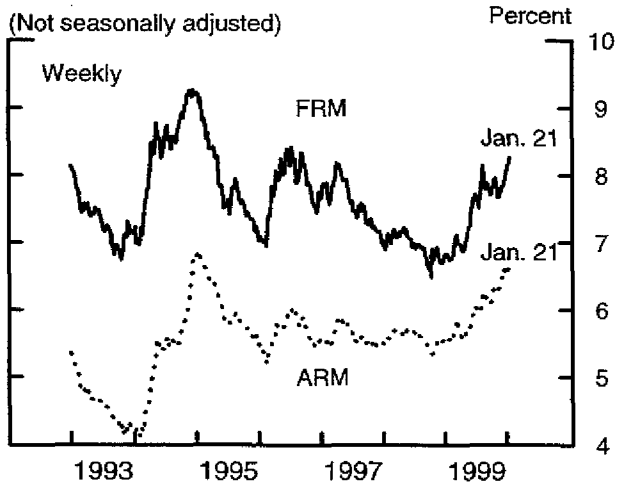
p. Staff projection.

MBA Purchase Index
(Seasonally adjusted)

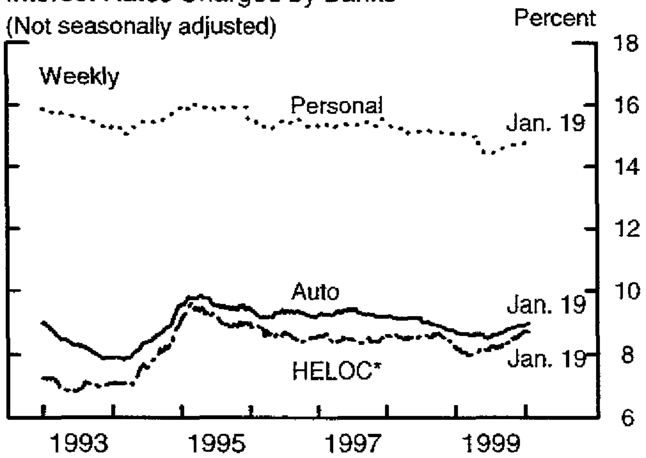


Source. Mortgage Bankers Association.

Freddie Mac FRM and ARM Rates
(Not seasonally adjusted)

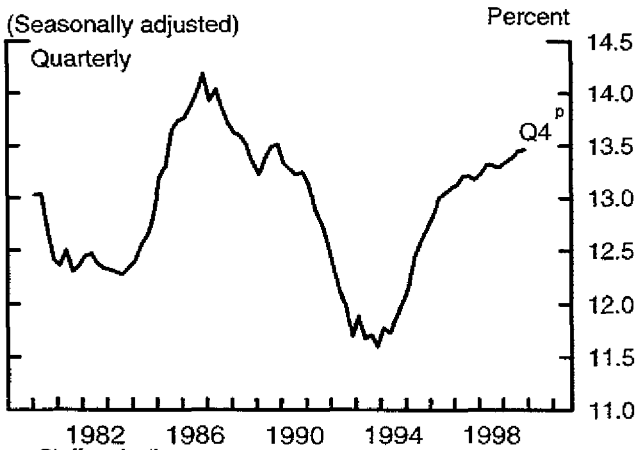


Interest Rates Charged by Banks
(Not seasonally adjusted)



Source. Bank Rate Monitor.
* Home equity lines of credit.

Household Debt Service Burden
(Seasonally adjusted)



p. Staff projection.

Treasury and Agency Finance

Treasury Financing
(Billions of dollars)

Item	1999					2000
	Q2	Q3	Q4	Nov.	Dec.	Jan.[e]
Total surplus, deficit (–)	**143.1**	**29.0**	**-20.6**	**-27.6**	**33.1**	**n.a.**
Means of financing deficit						
Net borrowing	-108.0	-20.1	48.0	6.1	36.1	n.a.
Nonmarketable	6.3	-2.7	1.4	3.3	-0.9	n.a.
Marketable	-114.3	-17.4	46.6	2.9	37.0	-81.7
Bills	-78.0	4.7	83.6	24.8	49.1	-67.2
Coupons	-36.3	-22.0	-37.0	-21.9	-12.1	-14.5
Decrease in cash balance	-31.5	-3.4	-26.9	41.5	-77.2	n.a.
Other[1]	-3.6	-5.6	-0.1	-20.0	8.4	n.a.
MEMO						
Cash balance, end of period	53.1	56.5	83.3	6.1	83.3	n.a.

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					
	Q2	Q3	Q4	Oct.	Nov.	Dec.
FHLBs	34.7	44.5	n.a.	7.8	13.4	n.a.
Freddie Mac	15.2	26.7	19.6	11.3	4.8	3.4
Fannie Mae	24.5	25.0	22.7	2.5	13.0	7.3
Farm Credit Banks	1.2	0.2	0.9	0.4	-0.7	1.2
Sallie Mae	1.2	4.0	n.a.	n.a.	n.a.	n.a.
MEMO						
Outstanding non-callable notes and bonds						
Fannie Mae benchmark	76.4	93.9	106.4	93.9	101.9	106.4
Freddie Mac reference	41.0	56.5	69.5	61.5	66.5	69.5

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.
n.a. Not available.

measure, the NCUA drew down $1 billion of this special financing at year-end, but faced demands of only $140 million from individual credit unions. Since the turn of the year, the Treasury has scaled back its weekly bill auctions to a bit below typical levels, and cash management bills issued in the fourth quarter matured without replacement in mid-January.

In January, the Treasury provided details of its debt buyback plan, much of which had been anticipated. The program will purchase off-the-run Treasury securities to help maintain the size and liquidity of on-the-run issues. The Treasury plans to initiate the program within the next few months, concentrating its purchases at the long end of the maturity spectrum to hold down the average maturity of the outstanding debt; it will retire as much as $30 billion of outstanding debt this year, somewhat more than market participants had expected. Also contrary to expectations, the Treasury announced that any premium over par paid on repurchased securities would not be treated as a budget outlay, removing an obstacle that many market participants believed would limit the Treasury's willingness to repurchase securities trading at a high premium.[2] After the announcement, spreads between yields on off-the-run and on-the-run bonds narrowed a bit, with rates on bonds that had been trading at substantial premiums declining the most.

Also in January, the Treasury auctioned $6 billion of ten-year, inflation-indexed securities. Demand for these securities was strong, leading to a better-than-expected price and a three-to-one bid to cover ratio. However, the yield on these securities, at 4.34 percent, was 60 basis points higher than a year ago and 100 basis points above the yield on the first offering in 1997.

Federal agency. Spreads between yields on benchmark five- and ten-year agency securities and those on comparable Treasuries narrowed about 8 basis points over the intermeeting period and now range between 43 and 55 basis points. Issuance of Fannie Mae Benchmark and Freddie Mac Reference notes picked up in January and thus far totals $16 billion, up sharply from the $300 million issued in December. The Federal Home Loan Bank System also stepped up its issuance of "Taps" securities in January, garnering about $3 billion so far, compared with just $200 million in December.

Fannie Mae and Freddie Mac have also jumped into the short-term market to take advantage of the gap left by a reduction in the supply of Treasury bills. In January, Fannie and Freddie auctioned nearly $60 billion of short-term

2. OMB made the decision not to treat the premiums as a budget outlay.

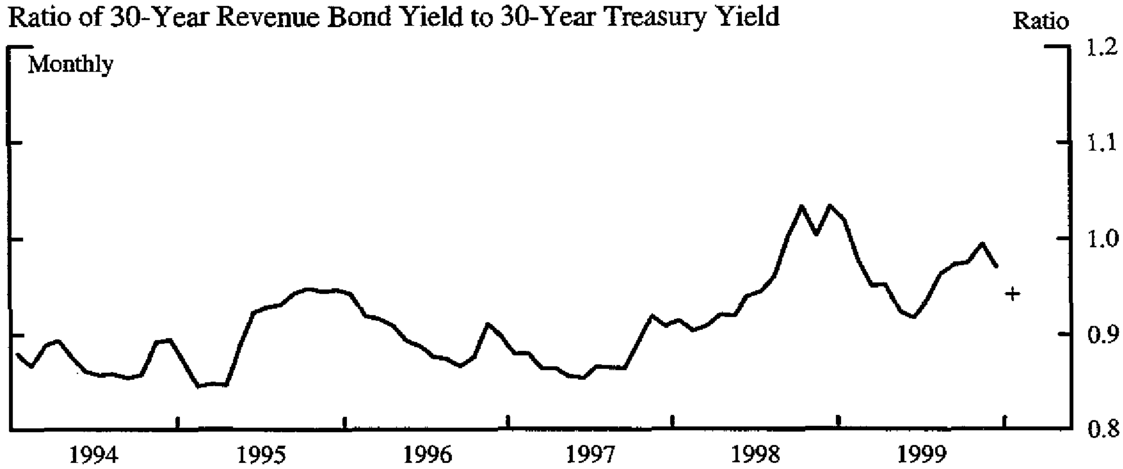
State and Local Finance

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

	1998	1999	1999 Q3	1999 Q4	1999 Nov.	1999 Dec.	2000 Jan.[e]
Long-term	21.9	18.0	17.6	16.6	17.4	14.8	6.1
Refundings[1]	8.5	4.5	4.4	3.1	3.3	3.3	0.2
New capital	13.4	13.5	13.2	13.5	14.1	11.5	5.9
Short-term	2.4	2.7	3.9	2.2	1.8	2.6	0.8
Total tax-exempt	24.3	20.6	21.5	18.8	19.3	17.4	6.9
Total taxable	1.1	1.1	0.8	1.1	1.3	1.4	0.0

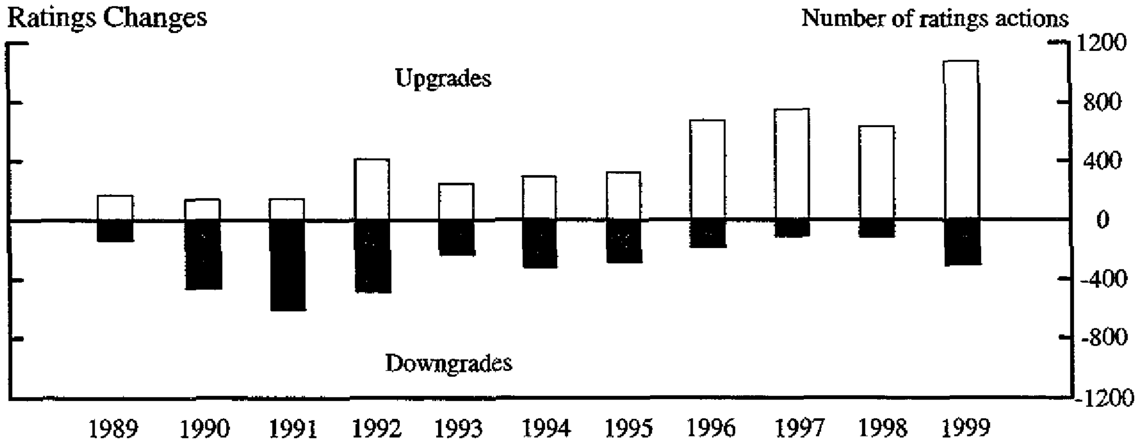
Note. Includes issues for public and private purposes.
1. All issues that include any refunding bonds.
e. Staff estimate.

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



Note. Average of weekly data. + indicates latest observation (Jan. 20).

Ratings Changes



benchmark bills with maturities of six months or less.[3] At that pace, market observers predict that about half of Fannie Mae's and most of Freddie Mac's short-term debt will consist of benchmark bills by the time the new benchmark programs are fully phased in.

The agency benchmark bills share many characteristics of Treasury bills. They are issued weekly or monthly, with the three-, six-, and twelve-month benchmark bills auctioned early in the week and settled on Thursdays to coincide with the Treasury's schedule. Another similarity is that Fannie Mae's six-month bills will be reopened as three-month bills, and Freddie Mac's twelve-month bill will be reopened as six-month and then again as three-month bills.

State and local. A lull in activity in late December left gross offerings of long-term municipal bonds at $15 billion last month, down a bit from the average for the previous months of 1999. So far in January, offerings have remained light, but a notable increase in the forward calendar suggests that municipal debt issuance is poised to rebound.

In December, weak demand kept yields on municipal bonds at high levels. Concerns about the possibility of rising inflation and Fed actions, as well as the booming stock market, prompted net outflows from tax-exempt mutual funds. However, the increases in muni yields lagged the rise in Treasury yields, and the ratio of the thirty-year revenue bond yield to the thirty-year Treasury yield fell back in December. These trends have continued in January, bringing the ratio down to levels last seen in the first half of 1998.

Credit quality of municipal issuers remained strong over the intermeeting period. Standard and Poor's upgrades exceeded downgrades, both in number of issues and dollar volume. Not-for-profit health care providers continue to account for the bulk of downgrades. Although recent legislation to expand Medicare funding will provide some relief to health care providers with municipal debt, the additional money is to be paid out over five years, making revenue increases for most firms too small to have an immediate effect on credit quality.

Money and Bank Credit

Growth in the broad monetary aggregates picked up appreciably in December, largely due to heightened demands for liquidity associated with Y2K

3. The term "benchmark bills" refers to both Fannie Mae's Benchmark bills and Freddie Mac's Reference bills.

Monetary Aggregates
(Based on seasonally adjusted data)

Aggregate or component	1999 Q3	1999 Q4 (p)	1999 Oct.	1999 Nov.	1999 Dec. (p)	1998:Q4 to 1999:Q4 (p)	Level (bil. $) Dec. 99 (p)
Aggregate	Percent change (annual rate)[1]						
1. M1	-2.1	5.3	6.0	9.8	17.6	1.8	1125.5
2. M2[2]	5.9	5.8	5.1	4.6	8.5	6.2	4668.0
3. M3	5.6	10.7	10.3	14.6	17.6	7.7	6492.7
Selected components							
4. Currency	9.7	13.0	10.7	13.2	28.0	11.1	517.0
5. Demand deposits	-11.5	-0.9	6.5	9.2	3.7	-6.3	356.4
6. Other checkable deposits	-11.9	-0.2	-3.0	5.0	17.0	-3.0	243.9
7. M2 minus M1[3]	8.6	5.9	4.8	3.0	5.6	7.7	3542.5
8. Savings deposits	12.6	3.3	2.4	-3.0	-2.3	10.2	1741.3
9. Small time deposits	0.5	5.8	5.4	7.6	6.5	-0.8	953.6
10. Retail money market funds	9.6	11.6	9.2	10.6	21.5	13.4	847.6
11. M3 minus M2[4]	4.7	24.2	24.6	41.6	41.3	11.7	1824.7
12. Large time deposits, net[5]	0.5	37.9	48.2	59.0	49.6	9.7	715.5
13. Institution-only money market mutual funds	9.3	21.4	22.9	29.9	31.0	17.1	607.4
14. RPs	9.0	8.9	-3.1	23.0	39.5	8.8	329.2
15. Eurodollars	-2.7	10.6	-7.5	48.9	46.2	7.2	172.5
Memo							
16. Liquid deposits[6]	6.1	2.3	2.5	-0.3	0.6	5.9	2341.6
17. Sweep-adjusted M1[7]	3.1	5.9	5.9	9.1	15.6	5.0	1490.5
18. Monetary base	9.2	20.0	16.4	25.6	44.2	12.4	590.6
19. Household M2[8]	7.5	6.5	5.0	4.3	8.9	7.4	4311.6
	Average monthly change (billions of dollars)[9]						
Memo							
Selected managed liabilities at commercial banks							
20. Large time deposits, gross	1.1	24.8	29.2	41.5	37.7	...	865.6
21. Net due to related foreign institutions	3.7	0.7	1.3	6.5	-7.7	..	218.4
22. U.S. government deposits at commercial banks	0.3	2.8	8.1	-18.3	26.4	...	41.3

1. For the years shown, Q4 to Q4 precent 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.

p--Preliminary

The above monetary data incorporate revisions associated with the annual benchmark and seasonal review and are strictly confidential until released on February 3.

preparations.[4] The public's demand for currency climbed, and growth in retail money funds was strong. In contrast, liquid deposit growth remained anemic, as depositors apparently reduced inflows to these accounts to help finance their currency buildup. Preliminary data for January suggest that the growth of M2 has slowed, as the buildup in currency has started to unwind.

Y2K appears to have had a more sizable effect on M3, as the managed liabilities included in this aggregate surged in December. A heightened desire by banks--especially U.S. branches of foreign banks--to lock in over-the-turn funding, as well as an increased desire on the part of investors for safe, liquid assets, contributed to the massive fourth-quarter run-up in large time deposits. Institution-only money funds also swelled at the end of last year as many businesses apparently built up precautionary liquid balances. The RP and eurodollar components of M3 posted strong increases as well. Preliminary data for January show that each of these non-M2 components has declined, on balance, since the turn of the year.

Bank credit grew rapidly in December, with strength in both securities and loans. Real estate and consumer loans each expanded at more than a 20 percent annual rate. However, about half of the growth in real estate bookings at banks reflected the acquisition of a large thrift. The increase in consumer loans was likely driven by strong retail spending as well as by a shift toward credit card purchases, including those associated with Internet shopping. Business loan growth slowed in December, in part due to a pickup in securitizations.

4. Data in the table incorporate the annual benchmark and seasonal revisions. These data are confidential until their release on February 3.

Commercial Bank Credit

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

Type of credit	1998	Q3 1999	Q4 1999	Oct. 1999	Nov. 1999	Dec. 1999	Level, Dec. 1999 ($ billions)
Total							
1. Adjusted[1]	**10.2**	**5.9**	**11.3**	**7.9**	**18.0**	**19.5**	**4,702**
2. Reported	11.0	4.8	11.2	7.6	17.5	20.1	4,783
Securities							
3. Adjusted[1]	11.2	18.4	6.1	7.7	-3.7	15.5	1,187
4. Reported	14.0	13.2	5.8	6.6	-4.1	17.8	1,268
5. U.S. government	5.9	6.5	-6.0	-7.3	-20.4	7.5	804
6. Other[2]	32.3	27.0	28.8	33.3	25.9	36.0	464
Loans[3]							
7. Total	9.9	1.7	13.1	7.9	25.5	20.9	3,515
8. Business	11.7	5.0	11.2	6.6	24.1	2.7	1,008
9. Real estate	6.5	6.4	17.4	19.4	12.3	31.8	1,472
10. Home equity	.0	-20.8	14.2	7.3	19.4	64.4	106
11. Other	7.1	8.7	17.6	20.3	11.8	29.3	1,366
12. Consumer	-1.5	-11.9	5.5	1.0	9.0	26.2	496
13. Adjusted[4]	6.0	5.0	10.2	7.6	8.0	19.5	796
14. Other[5]	30.5	-3.9	12.5	-15.0	82.2	21.3	540

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

Senior Loan Officer Opinion Survey on Bank Lending Practices

The January 2000 Senior Loan Officer Opinion Survey on Bank Lending Practices focused primarily on changes in the supply of, and demand for, bank loans to businesses and households over the past three months. Supplementary questions addressed the reasons behind the recent rise in delinquency rates on C&I loans, the unusually heavy lending to securities brokers and dealers over November and December, and Year 2000 (Y2K) issues. Loan officers from fifty-five large domestic banks and twenty-one U.S. branches and agencies of foreign banks participated in the survey. The responses indicate that banks became more cautious lenders over the past three months but do not suggest a widespread reduction in credit availability.

The survey results point to a continued firming of business lending practices. Both domestic banks and branches and agencies of foreign banks reported tightening terms on C&I loans, in particular risk premiums. Compared with November, a higher net percentage of both domestic and foreign respondents reported that they had boosted underwriting standards on C&I loans as well. In addition, a notable fraction of domestic banks raised standards for commercial real estate loans. On the demand side, domestic banks noted that demand for C&I loans from large and middle-market firms and demand for commercial real estate loans had increased over the past three months.

Well over half of the respondents agreed that the pattern of delinquency rates on their own C&I loan portfolios is consistent with the upward trend in aggregate delinquency rates that began in early 1998. Both domestic banks and branches and agencies of foreign banks indicated that their problem loans are limited to specific industries, such as health care. However, many banks also view the delinquency rates on C&I loans as returning to a more normal long-run level.

Among domestic banks, there was some evidence of greater willingness to make consumer installment loans. Nonetheless, a few banks tightened their standards on credit card and other consumer loans. For the third consecutive quarter, a large fraction of banks reported that demand for home mortgages weakened, and a fair number of banks also reported a modest decrease in demand for consumer loans.

In the period leading up to year-end, a number of large banks stepped up their lending to securities brokers and dealers through reverse RP agreements. Both domestic and foreign participants in this market indicated that they increased their activity in response to greater funding needs by dealers, some of whom encountered difficulties in obtaining funding elsewhere. Consistent with the relatively tame aftermath of the century date change, very few banks indicated that Y2K-related concerns had any significant effect on their lending activities. The survey results suggest that Y2K-related deposit inflows tended to exceed Y2K-related credit demands.

Lending to Businesses

Over the past three months, about 11 percent of domestic banks tightened standards on C&I loans to large and middle-market firms, up from 9 percent, on net, in November.

No domestic or foreign banks reported that they had eased standards. For the second consecutive survey, almost 29 percent of branches and agencies of foreign banks reported tighter standards on C&I loans. In the case of lending to small firms, nearly 10 percent of domestic banks indicated that they had tightened standards, up from only 2 percent, on net, in November.

Regarding terms on business loans, both domestic and foreign respondents reported a further tightening, though the tightening was slightly more pronounced at branches and agencies of foreign banks. For domestic respondents, 35 percent, on net, reported charging higher premiums on riskier loans to large and middle-market firms, and 25 percent, on net, charged higher spreads of loan rates over their bank's cost of funds. For small firms, 22 percent of domestic banks, on net, reported charging higher spreads on riskier loans, while other terms remained basically unchanged. On the foreign side, 43 percent of respondents reported charging higher risk premiums, and 29 percent reported raising costs for credit lines. Both domestic and foreign banks reported a reduced tolerance for risk as the most important reason for tightening standards and terms, followed by a less-favorable or more-uncertain economic outlook and a worsening of industry-specific problems.

On net, 9 percent of domestic banks reported stronger demand for business loans from large and middle-market firms, while the demand from small firms was reported to be about unchanged. In contrast, 19 percent of foreign banks indicated a moderate weakening in the demand for C&I loans. Among domestic banks that reported stronger demand, increased merger and acquisition financing was given as the primary reason, followed by the need to finance accounts receivable and capital expenditures. Banks that reported decreased demand for C&I loans cited reduced business fixed investment as the most common reason.

A special question addressed reasons for the increase in delinquency rates on C&I loans evident since early 1998. Among the banks surveyed, nearly 60 percent of domestic respondents and 90 percent of foreign respondents reported that their delinquency rates had in fact increased. Industry-specific problems, particularly in health care, were cited as the most important factor, especially among large domestic banks and foreign respondents. Although several foreign respondents pointed to a general easing of lending standards between 1994 and 1998 as a cause of the recent rise in delinquency rates on C&I loans, many banks viewed delinquencies as returning to a more normal long-run level from the unusually low levels before 1998. Despite the continued increase in average maturity of business loans evident in the Survey of Terms of Business Lending, relatively few banks noted that a general seasoning of their C&I loan portfolio has had an effect on the recent increase in delinquency rates.

For commercial real estate loans, 11 percent, on net, of domestic banks reported somewhat tighter standards, while standards at foreign respondents were reported to be unchanged. On the demand side, 11 percent, on net, of domestic banks reported moderately stronger demand for commercial real estate loans, while 17 percent of foreign respondents reported weaker demand.

Bank lending to securities brokers and dealers in the form of reverse RP transactions was very strong during November and early December. Eight foreign respondents and twelve domestic banks indicated that they had increased their activity in the RP market over this period. Several respondents noted that demand for credit rose because of heavy funding needs of securities brokers and dealers. In addition, banks stepped up their lending in this market because broker-dealers' cost of commercial paper extending over year-end rose markedly and because other institutional lenders pulled back.

Lending to Households

The demand for home mortgage loans was reported to have deteriorated into January. Compared with November, when 41 percent of senior loan officers, on net, reported weaker demand, 64 percent reported weaker demand in the current survey—the highest net percentage since the first quarter of 1995. On net, banks have been reporting weaker demand for home mortgage loans for the past three quarters. On the demand side, the results may be influenced by a sharp slowdown in refinancing activity, though the question specifically refers to demand for mortgage loans to purchase a home.

Compared with three months ago, 4 percent, on net, of banks reported somewhat greater willingness to make consumer installment loans. A small net fraction of banks indicated that they had tightened credit standards for both credit card and other consumer loans. Despite rapid growth in consumer credit in December, almost 10 percent of respondents, on net, reported decreased demand for consumer loans. It appears likely that much of the consumer lending late last year represented heavy credit card usage, which lending officers may not have factored into their responses.

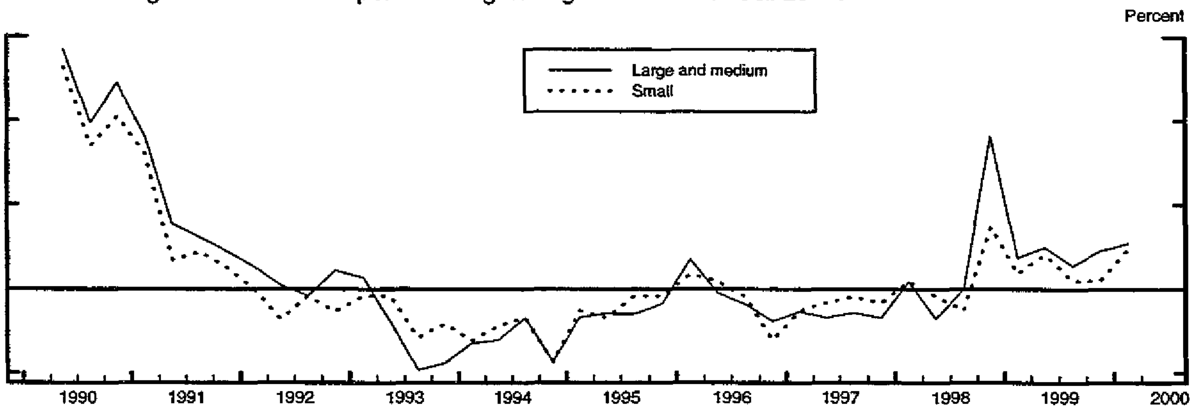
Year 2000

Only three domestic banks reported that they extended more than a negligible amount of credit to nonfinancial firms for Y2K-related needs. These loans were used mostly to fund precautionary buildups of liquidity and inventories. Banks also mentioned inventories and liquidity to explain strong C&I loan demand, and it was possible that some of the strength in C&I lending was for Y2K-related reasons that were not evident to respondents. Similarly, only four domestic banks extended at least a moderate amount of Y2K-related credit to financial firms, particularly mutual funds, other domestic banks, and insurance companies.

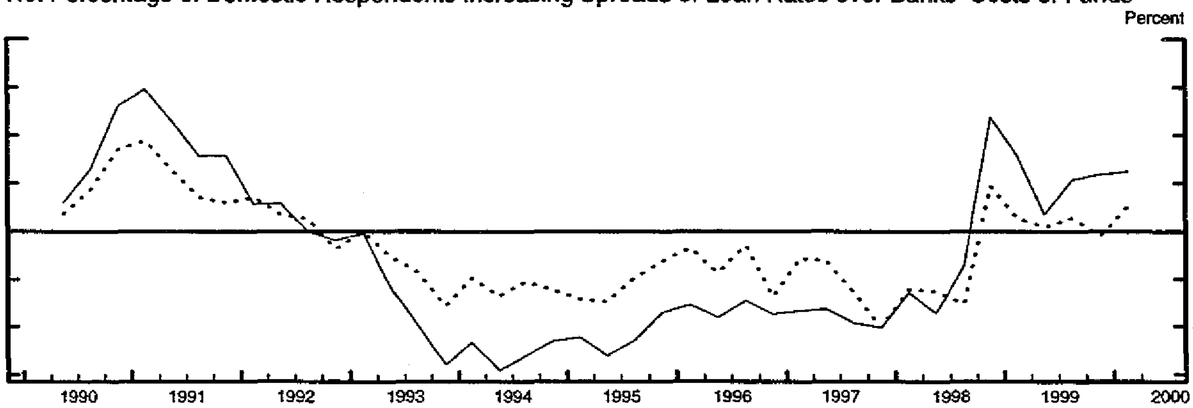
Most banks reported no unusual funding pressures around year-end. Sixty percent reported that neither credit demands nor deposit flows were materially affected by Y2K-related concerns. However, about one-quarter of domestic banks indicated that higher credit demands were about matched by Y2K-related net deposit inflows, and 9 percent of domestic respondents and 14 percent of foreign branches and agencies indicated that they had excess funds to invest, owing to stronger Y2K-related deposit inflows than loan demands.

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

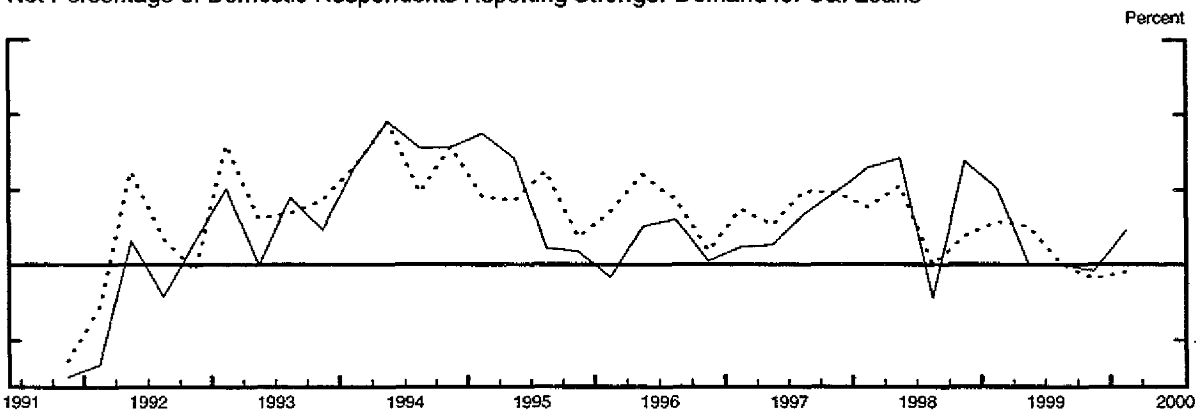
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

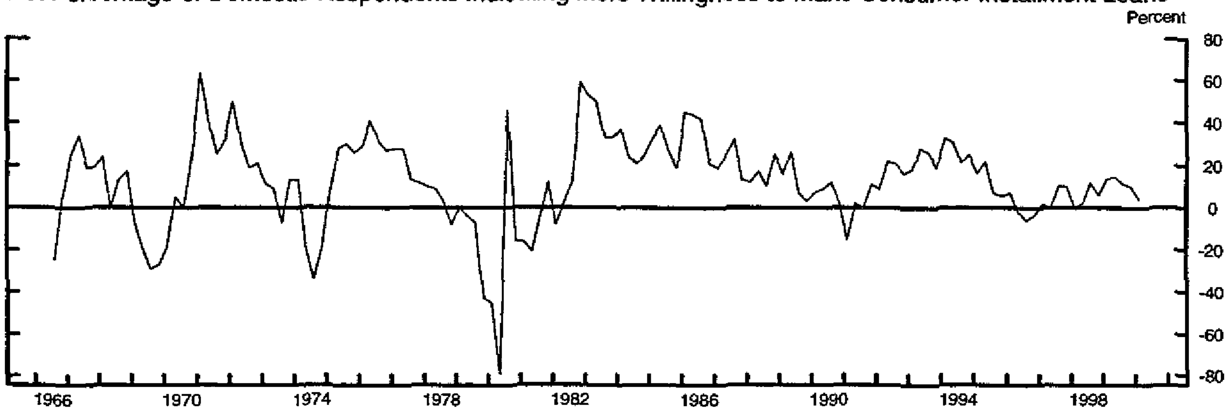


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

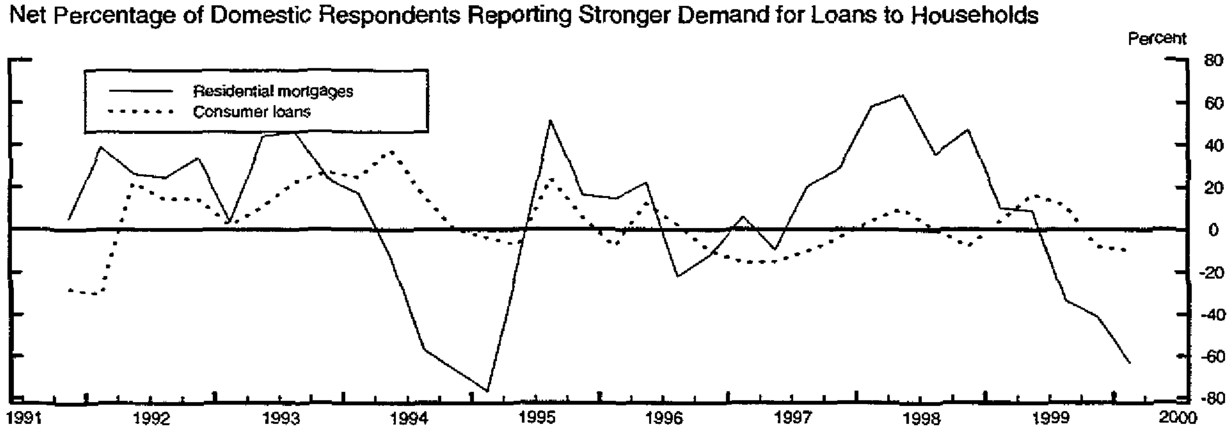


Measures of Supply and Demand for Loans to Households

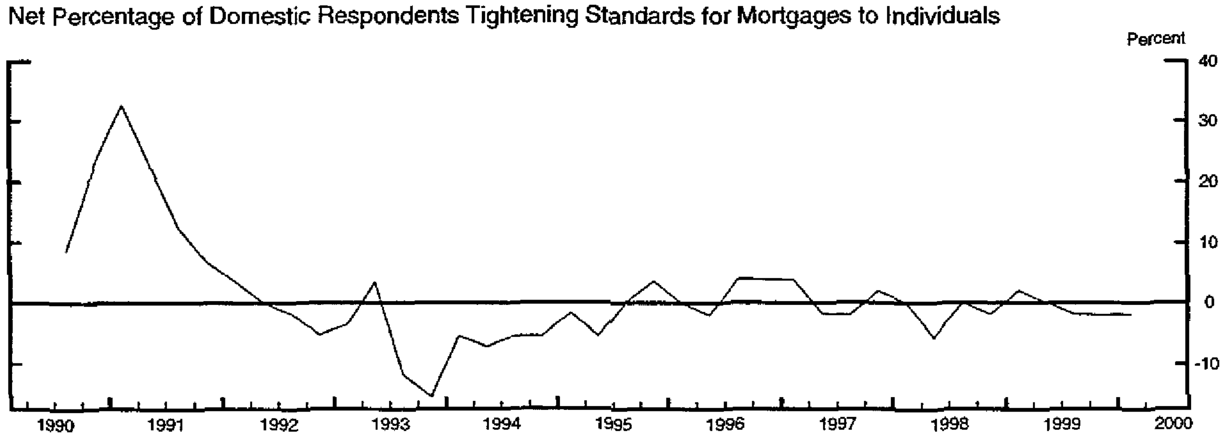
Net Percentage of Domestic Respondents Indicating More Willingness to Make Consumer Installment Loans



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



Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals



International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

In November, the nominal U.S. trade deficit in goods and services was $26.5 billion, about $1 billion larger than in October (revised). For October-November combined, the deficit was $312 billion at a seasonally adjusted annual rate, $20 billion larger than in the third quarter.

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

	1998	Annual rate 1999			Monthly rate 1999		
		Q2	Q3	Q4[e]	Sept.	Oct.	Nov.
Real NIPA[1]							
Net exports of G&S	-215.1	-319.0	-338.2	n.a.	...	...	...
Nominal BOP							
Net exports of G&S	-164.3	-259.1	-292.0	-312.4	-24.2	-25.6	-26.5
Goods, net	-246.9	-337.6	-367.1	-385.6	-30.2	-31.8	-32.4
Services, net	82.6	78.5	75.1	73.2	6.1	6.3	5.9

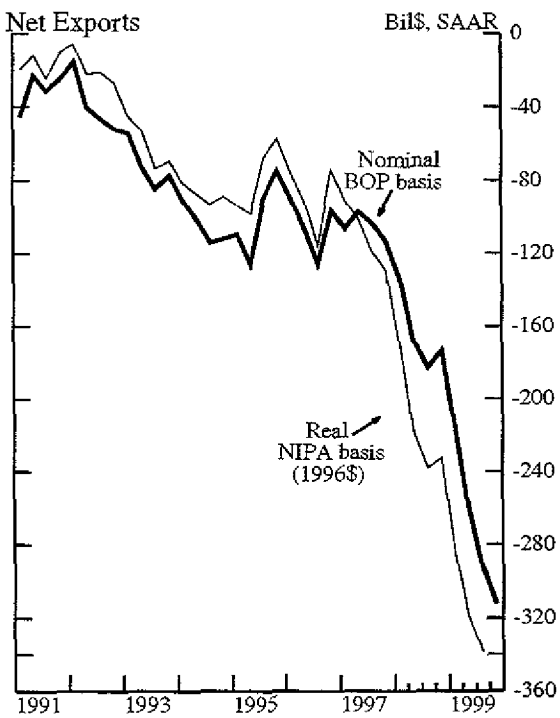
1. Billions of chained (1996) dollars.
e. BOP data are two months at an annual rate.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

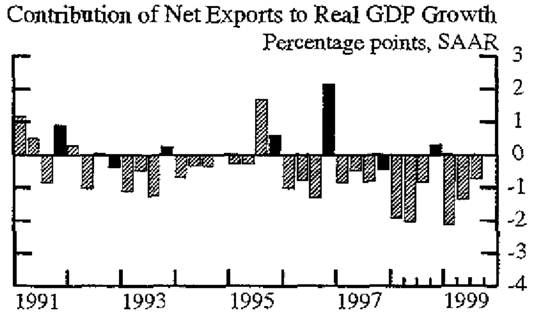
The value of exports rose nearly ¾ percent in November, as increases in consumer goods, industrial machinery, and semiconductors were offset only partly by declines in other categories. For October-November combined, the value of exports was 2 percent higher than in the third quarter. Most of the increase was in industrial supplies (particularly fuels and chemicals) and service receipts. Exports of capital goods, both aircraft and machinery, were about the same as in the third quarter.

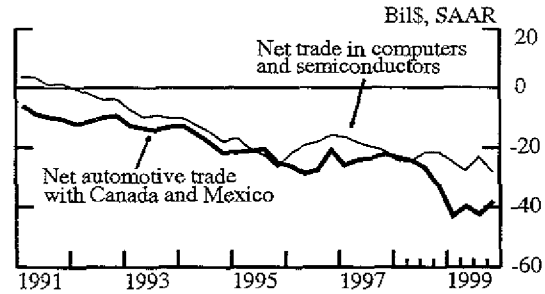
The value of imports rose 1½ percent in November, following a similarly sized increase in October, putting the value of imports for October-November combined 3 percent above its third quarter level. There were solid increases in most major trade categories, except automotive products, aircraft, and foods.

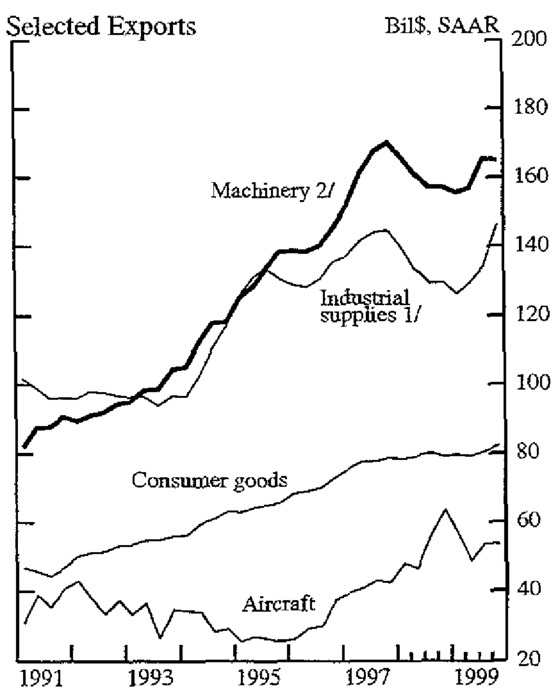
Quantity and price of imported oil. The value of imported oil increased further in October and November, as higher prices outstripped reduced quantities. For October-November combined, the quantity of imported oil dropped nearly 0.4 million barrels per day from the third quarter level as petroleum stocks were drawn down significantly to accommodate an increase in domestic consumption. The average price of imported oil rose to over $21 per barrel in October and November, up nearly $3 per barrel from the third quarter average.

U.S. International Trade in Goods and Services

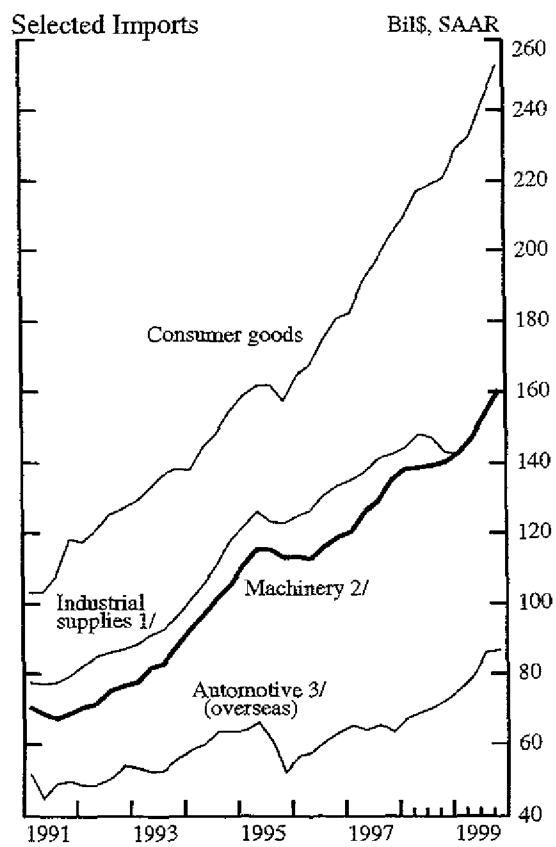








1. Excludes agriculture and gold.
2. Excludes computers and semiconductors.



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	
	Q3	Q4^{e}	Oct.	Nov	Q3	Q4^{e}	Oct.	Nov.
Exports of G&S	972.0	991.4	988.0	994.7	34.0	19.3	3.7	6.7
Goods exports	695.9	710.8	707.1	714.5	32.4	15.0	-0.1	7.4
Agricultural	51.8	51.5	51.9	51.0	2.7	-0.3	-0.4	-0.9
Gold	6.1	8.5	4.8	12.1	2.8	2.4	-6.9	7.3
Other goods	638.0	650.9	650.4	651.4	26.9	12.9	7.2	1.0
Aircraft & pts	53.9	53.4	56.5	50.4	5.1	-0.4	5.3	-6.1
Computers	48.2	47.1	47.4	46.9	1.8	-1.1	-1.4	-0.5
Semiconductors	49.2	49.2	46.8	51.7	4.1	-0.0	-1.8	5.0
Other cap gds	167.9	168.0	165.7	170.2	8.8	0.0	-6.5	4.5
Automotive	76.0	75.4	75.7	75.0	0.9	-0.6	1.3	-0.7
to Canada	46.1	45.3	44.9	45.6	1.5	-0.8	-0.2	0.6
to Mexico	11.4	13.6	14.1	13.1	-0.0	2.2	2.0	-1.0
to ROW	18.5	16.5	16.7	16.3	-0.6	-2.0	-0.4	-0.4
Ind supplies	134.2	146.3	147.1	145.4	4.7	12.0	8.9	-1.8
Consumer goods	80.6	82.2	81.0	83.5	1.5	1.7	-1.9	2.5
All other	28.0	29.3	30.3	28.3	0.1	1.3	12.4	-1.9
Services exports	276.2	280.5	280.9	280.2	1.6	4.3	3.8	-0.7
Imports of G&S	1265.8	1303.7	1294.8	1312.7	67.4	37.9	20.6	18.0
Goods imports	1062.9	1096.4	1088.9	1103.9	61.8	33.5	19.2	14.9
Petroleum	78.3	87.0	88.8	85.2	14.6	8.7	4.3	-3.6
Gold	7.4	9.2	6.4	12.1	4.3	1.8	-5.2	5.7
Other goods	977.2	1000.2	993.7	1006.6	42.9	23.0	20.1	12.9
Aircraft & pts	24.9	23.8	24.8	22.7	2.4	-1.2	-0.5	-2.1
Computers	82.5	84.3	82.8	85.8	0.5	1.8	5.4	3.0
Semiconductors	38.2	40.1	39.5	40.7	0.9	1.9	1.9	1.2
Other cap gds	156.5	163.9	162.9	164.9	6.7	7.4	4.2	1.9
Automotive	186.2	183.6	180.9	186.4	11.1	-2.6	-3.4	5.5
from Canada	66.0	62.5	62.5	62.6	3.4	-3.5	0.6	0.1
from Mexico	34.1	34.5	35.8	33.2	0.9	0.3	-0.2	-2.6
from ROW	86.1	86.6	82.7	90.6	6.9	0.6	-3.8	7.9
Ind supplies	154.0	159.2	158.5	160.0	7.9	5.2	2.8	1.6
Consumer goods	242.9	252.6	251.2	254.0	10.1	9.7	8.0	2.9
Foods	44.2	44.1	43.6	44.6	0.4	-0.1	-0.9	1.0
All other	47.7	48.4	49.4	47.4	2.9	0.7	2.6	-2.1
Services imports	202.9	207.4	205.8	208.9	5.6	4.4	1.5	3.0
Memo:								
Oil quantity (mb/d)	11.50	11.12	11.41	10.83	-0.36	-0.38	0.07	-0.58
Oil import price ($/bbl)	18.64	21.43	21.31	21.54	3.95	2.77	0.90	0.23

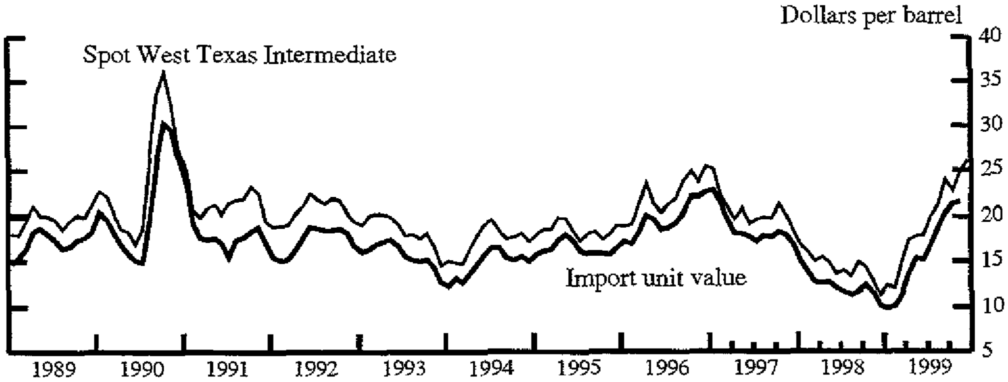
1. Change from previous quarter or month. e. Average of two months.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

	Annual rates 1999 Q2	Q3	Q4	Monthly rates 1999 Oct.	Nov	Dec.
	------------ BLS prices (1995 weights)------------					
Merchandise imports	6.6	9.0	7 7	0.2	0.6	0.7
Oil	256.6	178.2	76.1	1.7	2.7	6.0
Non-oil	-2.0	-0.1	1.9	0.0	0.4	0.0
Core goods*	-1.1	1.0	2.5	0.2	0.4	0.0
Foods, feeds, beverages	0.4	-6.8	1.9	-1.0	1.4	2.3
Industrial supplies ex oil	1.5	7.9	10.5	1.0	1.5	0.2
Computers	-17 7	-13.7	-1.7	0.2	-0.2	0.0
Semiconductors	-3.3	-7.4	-1.4	0.0	-1.4	-0.2
Cap. goods ex comp & semi	-3.4	-2.1	0.4	0.1	-0.2	-0.2
Automotive products	0.9	0.8	0.4	0.1	0.0	-0.1
Consumer goods	-2.3	-0.4	-0.1	-0.2	0.0	-0.1
Merchandise exports	-0.3	0.7	2.4	0.3	0.1	0.1
Agricultural	-8.5	-4.2	-2.0	-0.1	-0.9	-1.0
Nonagricultural	0.6	1.1	3.1	0.4	0.3	0.1
Core goods*	1.8	1.6	4.2	0.4	0.5	0.1
Industrial supples ex ag	2.9	10.1	9.8	0.9	1.0	0.5
Computers	-7.0	-8.6	-1.6	0.4	0.0	-0.1
Semiconductors	-5.9	-9.6	-3.6	-0.4	-0.3	-0.8
Cap. goods ex comp & semi	0.3	-0.5	0.8	0.1	0.2	0.0
Automotive products	0.1	0.8	3.0	0.7	0.0	0.0
Consumer goods	0.0	0.3	1.4	0.3	0.1	0.1
Chain-weight	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	5.2	6.2	n.a.	...	...	...
Non-oil merchandise	-2.6	-0.7	n.a.	...	...	...
Core goods*	-0.9	1.1	n.a.	...	...	...
Exports of goods & services	0.7	1.3	n.a.	...	...	...
Nonag merchandise	0.2	1.0	n.a.	...	...	...
Core goods*	1.2	2.5	n.a.	...	...	...

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

Oil Prices



In December, the monthly average spot price of West Texas Intermediate (WTI) rose $1.25 to over $26 per barrel. The increase was largely driven by Iraq's decision to halt exports for several weeks. More recently, oil prices have increased further with speculation over a possible extension of current OPEC production targets and with the onset of cold weather in key consuming regions. Spot WTI is currently trading near $28 per barrel.

Prices of non-oil imports and exports. In December, prices of non-oil imported goods were unchanged after increasing nearly ½ percent in November. Prices of imported industrial supplies rose much less in December than in the previous two months, and there were small declines in the prices of most other import categories. One exception was imports of foods, feeds, and beverages, where prices increased as a result of the rising cost of coffee. For the fourth quarter, non-oil import prices rose nearly 2 percent at an annual rate, the first increase in four years. Prices of imported computers and semiconductors declined only slightly in the fourth quarter, whereas prices of core goods (which excludes computers, semiconductors, and oil) moved up 2½ percent at an annual rate.

Prices of exported goods increased slightly in December as declines in the prices of agricultural products, computers, and semiconductors were offset by increases in the prices of industrial supplies. For the fourth quarter, prices of exported goods rose nearly 2½ percent at an annual rate, compared with a ¾ percent annual increase in the third quarter. Prices of exported core goods (which excludes computers, semiconductors, and agricultural products) increased 4¼ percent at an annual rate in the fourth quarter, the strongest increase since 1995. The rise was led by increases in the prices of exported industrial supplies and, to a lesser extent, by increases in the prices of exported automotive products and consumer goods. Prices of exported agricultural products, computers, and semiconductors declined moderately.

U.S. International Financial Transactions

Foreign private-sector demand for U.S. securities remained strong in November (line 4 of the Summary of U.S. International Transactions table), as foreign purchases of corporate and agency securities far outpaced net sales of Treasury securities. After further large net purchases in November, year-to-date net foreign purchases of agency bonds, corporate bonds, and corporate stocks are all at record annual levels. November's net purchases of U.S. stocks and bonds were fairly widespread, although as is customary, the largest portion was through the United Kingdom and Caribbean financial centers (CFCs). Purchases of agency bonds were strongest through Japan and Bermuda.

The marked increase in foreign purchases of agency bonds in 1999 coincides with the agencies' issuance of reference and benchmark debt, designed to fill the void left by the reduced supply of Treasury securities. Despite strong demand from Europe, November was the third straight month of net sales of Treasury securities. Barring strong net purchases in December, 1999 will be the first year since 1990 in which private-sector foreigners sold Treasuries on net.

U.S. residents were strong net sellers of foreign stocks in November (line 5), in contrast to the recent trend (since July) of net purchases or modest net sales. The geographical pattern is largely the same as it has been all year, with net purchases of stocks through Japan and net sales through Europe. However, in November there were also strong net sales of stocks through the CFCs. U.S. residents made small net purchases of foreign bonds in November, mostly through Europe, while net sales of bonds were made through CFCs and, notably, Argentina. For 1999 through November, taking into account the $100 billion in foreign stocks U.S. investors acquired through stock swaps (included in line 9), net U.S. purchases of foreign securities are at about the same level as the past few years.

Foreign official assets held in the United States fell slightly in November after a small increase in October (line 1). Modest declines were recorded for OPEC countries, Hong Kong, and Mexico. Sizable increases were recorded for Singapore and China. Foreign official assets have increased nearly $21 billion for the year to date, after decreasing $17 billion in 1998. The increase in 1999 is more than accounted for by Japan ($35 billion), as the result of its foreign exchange intervention operations. Foreign official assets of OPEC countries increased only slightly in 1999, despite a significant increase in oil revenues. Reserves of "all other countries" (line 1c) fell for the second consecutive year, despite significant increases in reserves for China, Korea, and Hong Kong. Preliminary data from the FRBNY for December and the first half of January suggest that foreign official assets held in the United States continued to increase, due almost entirely to further Japanese accumulation.

Large inflows through banking offices in the United States were reported in November (line 3). Partial data for December show outflows of equal magnitude.

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

	1997	1998	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Oct.	1999 Nov.
Official capital								
1. Change in foreign official assets in U.S. (increase, +)	20.0	-16.6	27.2	5.8	*	13.0	4.2	-2.1
a. G-10 countries	1.8	6.9	12.8	12.7	7.6	19.2	2.1	-1.5
b. OPEC countries	12.9	-9.0	2.8	2.2	2.5	-1.3	1.8	-2.3
c. All other countries	5.2	-14.4	11.6	-9.2	-10.2	-4.9	3	1.6
2. Change in U.S. official reserve assets (decrease, +)	-1.0	-6.8	-2.4	3.9	1.2	1.9	3	.5
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	-19.4	2.2	23.8
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	346.7	275.2	80.6	55.7	82.8	104.8	19.5	35.7
a. Treasury securities[3]	147.2	49.3	24.6	-7.3	-5.2	9.8	-11.2	-3.8
b. Agency bonds	45.3	50.5	10.0	18.1	17.1	21.2	7.2	7.7
c. Corporate and municipal bonds	82.8	122.0	30.9	34.8	33.1	48.5	15.6	13.5
d. Corporate stocks	71.3	53.7	15.2	10.2	37.9	25.3	7.9	18.4
5. U.S. net purchases (-) of foreign securities	-89.1	-11.1	16.5	7.3	17.5	-10.8	-9.4	4.0
a. Bonds	-48.2	-17.4	10.4	-.8	3.3	-10.1	-1.2	-.4
b. Stocks[4]	-40.9	6.2	6.2	8.1	14.2	-.7	-8.2	4.4
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	11.3	-124.6	11.6	..	..
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.

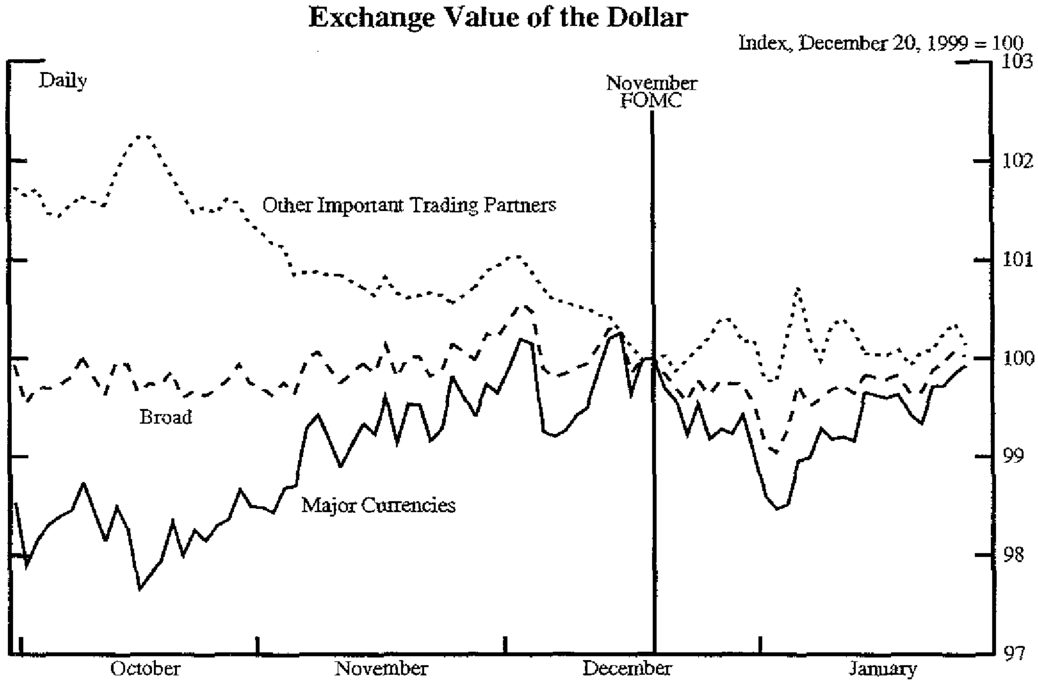
5. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.

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

Foreign Exchange Markets

In the period since the December FOMC meeting, the foreign exchange value of the dollar changed little on a weighted-average basis against the other major currencies, as a 2½ percent gain against the yen offset losses against the British pound (2.0 percent), the Australian dollar (1.8 percent) and the Canadian dollar (3.1 percent). A marked increase in commodity prices helped boost the exchange rates of both the Canadian dollar and Australian dollar against the U.S. dollar, with the price of industrial metals rising 4 percent and oil prices up 9 percent. The dollar appreciated 1.3 percent against the euro, as the single currency broke decidedly below parity on January 27 to reach yet another new low. On average, the dollar is about unchanged vis-à-vis the currencies of our other important trading partners.

Exchange Value of the Dollar



A major concern throughout the world during the intermeeting period was whether potential computer glitches associated with the century date change would disrupt economic activity. Judging from the runup in equity prices in the weeks before the December meeting up through the end of the year, most investors seemed to be confident that disruptions would be minimal. Since the December FOMC meeting, equity prices have extended the climb that began in October, gaining about 4 percent in the euro area and Japan. Share prices in the United Kingdom also rose in the closing days of 1999, but have since fallen and are almost 7 percent lower, on net, for the intermeeting period. As was widely expected in the market, on January 13 the Bank of England raised its repurchase rate 25 basis points to 5¾ percent, continuing what the market has anticipated will be a cycle of tightening by the major central banks, with the Bank of Japan expected to be the noted exception. On January 18, the Reserve Bank of New Zealand raised the official cash rate 25 basis points to 5¼ percent.

With the turn of the century over, three-month rates no longer carry a risk premium reflecting Y2K concerns and have declined slightly in Europe even as market expectations solidified that the European Central Bank will tighten in the first half of this year. Japanese three-month rates declined 7 basis points. These rates were kept low around the turn of the year by mammoth injections of excess liquidity by the Bank of Japan. By mid-January, though, the Bank of Japan's provision of reserves settled back to more normal levels consistent with maintaining the call money rate near zero.

Financial Indicators in Major Industrial Countries

Country	Three-month rate Jan. 27 (Percent)	Three-month rate Percentage Point Change	Ten-year yield Jan. 27 (Percent)	Ten-year yield Percentage Point Change	Equities Percent Change
Canada	5.25	0.04	6.43	0.25	6.49
Japan	0.07	-0.07	1.65	-0.06	5.69
Euro area	3.43	-0.04	5.59	0.33	3.74
United Kingdom	5.99	0.09	5.75	0.42	-6.88
Switzerland	1.82	-0.18	3.80	0.25	-1.30
Australia	5.71	-0.03	7 18	0.40	-1.72
United States	5.93	-0.24	6.71	0.35	0.32
Memo: Weighted-average foreign	3.26	-0.01	5.30	0.23	

NOTE. Change is from December 20 to January 27

In an effort to weaken the yen, the Bank of Japan conducted two intervention operations, on December 24 and January 4. The short-run impact of the first intervention was limited, but the second operation seemed to have a more lasting effect. These interventions did serve to apprise the market of the extent of the Japanese government's concern over the yen's strength. Later in the period, the dollar/yen exchange rate appeared to be affected by various rumors about the content of the G-7 communiqué. The yen did depreciate after the release of the communiqué, with market analysts noting the mention of shared concern over the currency's strength. More fundamentally, signs of a sustainable recovery in

Japan remain difficult to find, with much of the growth coming from government fiscal stimulus and exports, which stands in marked contrast to vigorous expansion in the United States and a quickening recovery in Europe. These prospects are also reflected in ten-year bellwether bond yields, which rose more than 30 basis points in the euro zone, matching the rise in the United States, while falling slightly in Japan. The yield spread between ten-year U.S. Treasury notes and ten-year Japanese government bonds widened 35 basis points to 500 basis points, the widest yield spread on record and 250 basis points above the spread at the start of 1999.

Financial Indicators in Latin America, Asia, and Russia

	Currency/ US dollar		Short-term Interest rates[1]		Dollar-denominated bond spread[2]		Equity prices
Economy	Jan. 27	Percent Change	Jan.26/27 (Percent)	Percentage Point Change	Jan.26/27 (Percent)	Percentage Point Change	Percent Change
Mexico	9.49	1.70	16.90	0.60	4.95	0.56	0.38
Brazil	1.77	-2.21	19.90	-0.15	8.58	1.44	14.78
Argentina	1.00	0.01	8.00	-4.50	7.83	0.75	6.70
Chile	517.60	-3.47	7.96	-0.39	1.40	-0.10	8.06
China	8.28	-0.01	n.a.	n.a.	1.23	-0.06	6.14
Korea	1125.00	-0.88	6.00	0.00	1.39	0.08	-5.98
Taiwan	30.68	-3.16	5.00	0.20	...	..	23.72
Singapore	1.69	1.05	2.19	-0.69	...	...	-0.30
Hong Kong	7.78	0.09	5.38	-0.63	..	..	-1.82
Malaysia	3.80	-0.01	2.75	-0.04	1.38	-0.05	19.28
Thailand	37.32	-1.89	3.50	-2.25	0.35	-0.31	5.38
Indonesia	7400.00	4.82	11.98	-0.86	6.92	-0.20	-0.22
Philippines	40.35	-0.37	8.81	-1.50	2.70	0.00	-2.77
Russia	28.57	7.03	n.a.	n.a.	44.16	-5.26	41.04

NOTE. Change is from December 20 to January 26/27.

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

2. Mexico, Brazil, Argentina, Venezuela, 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.

The dollar appreciated 1.7 percent against the Mexican peso during the intermeeting period. The sharp rise in oil prices helped bolster the Mexican peso in 1999; however, market participants think the peso may be overvalued with an appreciation last year of almost 20 percent versus the dollar in real terms. The widening of the yield spread over Treasuries of bonds from Latin American countries reflects the current higher interest rate environment in which most major central banks are expected to tighten. Previous shifts towards higher interest rates have proved difficult for these countries because of the high level of debt they carry.

A few of the emerging Asian stock markets had impressive gains since the December FOMC, driven by export demand for technology products. The best performing markets were in Taiwan, where share prices gained 24 percent, and in Malaysia, which had gains of nearly 20 percent.

The ruble depreciated 7 percent versus the dollar. This move was attributed partly to seasonal factors, as Russia generally experiences increased demand for imports at this time of the year, accompanied by a slowdown in exports.

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

Developments in Foreign Industrial Countries

Recent information suggests that activity in most of the major industrial countries continued to expand at a healthy pace into the fourth quarter. Growth in Europe appears to have remained well above recent trends, and unemployment rates have continued to fall. The pace of expansion may have moderated a bit in Canada, but is still very strong. The Japanese economy remains much weaker than those of the other major industrial countries, but recent indicators suggest that growth turned mildly positive in the fourth quarter following a third-quarter decline.

Consumer price inflation remains generally under control throughout the industrial countries. While twelve-month inflation has increased recently as a result of rising energy prices, core inflation remains well-behaved. Signs of incipient pressure in the robust U.K. economy, however, were strong enough to prompt an increase in official interest rates in January. In contrast, prices continue to decline on a year-over-year basis in Japan.

In **Japan**, recent information suggests that the economy expanded slightly in the fourth quarter, although key sectors remain weak. Industrial production adjusted for the number of working days was up 0.8 percent relative to the third quarter on average in October and November. Orders and shipments of machinery also were up sharply in October-November relative to the third quarter, suggesting some rebound in business fixed investment after a third-quarter decline. However, consumer demand remains sluggish, with household expenditures and new car registrations both down in October and November on average compared with the third quarter. Housing starts also have been low in the past few months following a burst of tax-related activity earlier in the year.

The Japanese labor market has improved a little in the past few months. The unemployment rate edged down to 4.5 percent in November, while the offers-to-applicants ratio (the number of officially posted job openings relative to the number of officially registered job seekers) rose to 0.49, somewhat above the record low of 0.46 in August. The most recent consumer behavior survey (third-quarter) showed an improvement in attitudes toward job prospects, although the overall consumer sentiment index was little changed.

Deflation continues in both goods and real estate prices. In December, the Tokyo core CPI was down 0.4 percent from a year earlier, and the wholesale price index was down 1.5 percent despite a sharp increase in the price of oil. A recent survey of residential land prices showed a decline of 7 percent in the year ending December 1 in the Tokyo and Osaka areas and a 6 percent decline in the Nagoya area.

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

Indicator	1999						
	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
Industrial production[1]	-.9	3.6	n.a.	-.4	-.3	1.4	n.a.
Housing starts	3.7	-2.5	n.a.	-1.3	-9.6	3.4	n.a.
Machinery orders	-3.7	-2.9	n.a.	-9.4	15.3	-1.7	n.a.
Machinery shipments	-2.4	4.9	n.a.	.5	-2.3	5.7	n.a.
New car registrations	-.0	-.3	n.a.	-4.2	-10.1	5.0	n.a.
Unemployment rate[2]	4.8	4.7	n.a.	4.6	4.6	4.5	n.a.
Job offers ratio[3]	.47	.46	n.a.	.47	.48	.49	n.a.
Business sentiment [4]	-37	-32	-26	...	...	..	...
CPI (Core, Tokyo area)[5]	-.2	-.1	-.3	.0	-.2	-.3	-.4
Wholesale prices[5]	-3.6	-4.0	-1.8	-3.9	-2.1	-1.7	-1.5

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

On December 19, the Japanese Cabinet approved a draft of the FY 2000 budget, starting in April. Spending is expected to increase nearly 4 percent from the initial budget for the current fiscal year. However, because of the large supplemental budget for FY 1999 enacted in November of last year, planned spending is actually down somewhat on a fiscal year basis. On a calendar year basis, fiscal policy is estimated to be roughly neutral in 2000, as most of the spending in the supplemental budget will occur in the first part of this year. Excluding the social security surplus, the calendar year 2000 budget deficit is estimated to be nearly 10 percent of GDP. With the gross government debt-to-GDP ratio now in excess of 100 percent, Finance Minister Miyazawa has indicated that further stimulus is unlikely this year, and that budget deficits for future years are likely to be smaller.

The Japanese ruling coalition decided at the end of December to postpone the termination of the present unlimited bank deposit guarantee for one year from the initially scheduled date of April 1, 2001. The postponement, which applies to all categories of deposit-taking financial institutions, reflects policymakers' concern that smaller institutions might be damaged by a shift of funds to large, healthier banks if the present guarantees were removed too soon. After April 2002, the deposit guarantee per depositor will be limited to ¥10 million yen (a little less than $100,000), as it was under the previous system before June 1995. Market reaction was generally critical of the extension, which was taken as evidence of a lessened willingness of the government to encourage banking sector reform.

Japan's merchandise trade surplus for 1999 was $108 billion at an annual rate, little changed from 1998. Denominated in dollars, exports were up about 8 percent from their 1998 averages, while imports were up about 11 percent, partly reflecting a jump in the value of oil imports in the latter part of the year. Japanese exports to developing Asia surged last year, as recovery in these countries has taken hold, but exports to Europe have declined significantly from 1998 levels.

In the **euro area**, recent information suggests that the pace of economic expansion remained robust in the fourth quarter. In October, industrial production (excluding construction) for the area as a whole was about ½ percent above the third-quarter average. Although production in Germany declined ½ percent in November, officials suggested that an upward revision–similar to those made to third-quarter figures–was very likely. In Italy, where recovery in the first half of last year was more tenuous than in most of the euro area, industrial production posted solid gains in both October and November and was up nearly 1½ percent on average relative to the third-quarter level.

In November, the harmonized unemployment rate for the euro area remained unchanged from October at 9.8 percent. Since mid-1997, the harmonized rate has declined by nearly 2 percentage points to its lowest point since 1992. Although the decline has been most pronounced in some of the smaller countries, notably Spain, Ireland, and the Netherlands, unemployment rates have fallen in the larger countries as well.

Euro-area harmonized CPI inflation continues to rise, due largely to increases in energy prices. In December, euro-area consumer prices were up 1.7 percent over the previous-year level; excluding food and energy the increase was a little more than 1 percent, up slightly from November. Noticeable differences still exist among individual countries, with inflation rates in Germany, Austria and France remaining considerably below those in Ireland and Spain.

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

Indicator	1999						2000
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Industrial production[1]							
Euro-11	.5	1.4	n.a.	.2	n.a.	n.a.	n.a.
Germany	1.0	1.7	n.a.	-.3	-0.5	n.a.	n.a.
France	1.0	2.1	n.a.	.5	1.6	n.a.	n.a.
Italy	-.6	1.7	n.a.	.8	1.1	n.a.	n.a.
Unemployment rate[2]							
Euro-11	10.1	10.0	n.a.	9.8	9.8	n.a.	n.a.
Germany	10.5	10.5	10.4	10.5	10.4	10.2	n.a.
France	11.3	11.2	n.a.	11.0	10.8	n.a.	n.a.
Italy	11.5	11.5	11.0	...	...	...	
Consumer prices[3]							
Euro-11[4]	1.0	1.2	n.a.	1.4	1.6	1.7	n.a.
Germany	.5	.6	.9	.8	1.0	1.1	1.7
France	.4	.6	1.0	.8	.9	1.2	n.a.
Italy	1.5	1.7	2.1	2.1	2.1	2.2	n.a.

1. Indexes exclude construction.
2. Euro-11 standardized to ILO definition. Includes Eurostat estimates in some cases. Country figures are based on national definitions.
3. Percent change from year earlier.
4. Eurostat harmonized definition.
n.a. Not available. ... Not applicable.

Forward-looking indicators are generally positive. The overall economic sentiment index rose slightly in December following sharp gains in the preceding months and was up about 1 percent for the fourth quarter as a whole. Confidence improved in the fourth quarter in all three components of the index--consumer, construction, and business--although confidence in the construction sector fell back somewhat in December. The volume of German industry orders was up sharply in October and November relative to the third quarter, with strength in both the foreign and domestic components.

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

Indicator	1999						
	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
Consumer confidence[1]	-4	-4	-1	-4	-2	-1	-1
Construction confidence[2]	-7	-7	-3	-8	-6	0	-4
Industrial confidence[3]	-10	-6	-1	-5	-3	0	0
of which:							
Production expectations	3	8	13	10	13	15	12
Total orders	-21	-17	-9	-15	-11	-9	-6
Stocks	13	10	8	10	10	7	7

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.

Fourth-quarter data suggest that economic activity in the **United Kingdom** continued to expand at a brisk pace. Industrial production in October and November on average was up ½ percent from the third-quarter level, and the volume of retail sales increased .3 percent in the fourth quarter. Business sentiment has improved markedly since 1998. Business confidence, measured as a diffusion index of output expectations, improved from -23.0 in the fourth quarter of 1998 to +10.7 in the fourth quarter of 1999, although weakness in export orders continues to be a negative factor.

Labor market conditions remain tight. The official claims-based unemployment rate edged down to 4.0 percent in December 1999, the lowest rate in 20 years, and the Labor Force Survey measure of the unemployment rate remained at a record low 5.9 percent for the three months centered in October. Average annual earnings growth was 5 percent in November, somewhat above the level of 4.5 percent that the Bank of England has suggested is the maximum compatible with its 2½ percent inflation target. In addition, recent data on prices for services and inputs suggest that inflationary pressures may be building, although the twelve-month rate of retail price inflation (excluding mortgage interest rates) remains below the target. The Bank of England's Monetary Policy Committee raised official interest rates 25 basis points in January, citing expectations that consumer spending will continue to grow as a result of increases in wealth, labor income and household borrowing.

U.K. Economic Indicators
(Percent change from previous period except as noted, SA)

Indicator	1999						
	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
Industrial production	.8	1.2	n.a.	-.2	.4	.4	n.a.
Retail sales	1.0	1.3	1.3	0.0	.8	.2	.6
Unemployment rate[1]							
Claims-based	4.5	4.2	4.1	4.2	4.2	4.1	4.0
Labor force survey	6.0	5.9	n.a.	5.9	5.9	n.a.	n.a
Business confidence[2]	8.0	10.0	10.7	17.0	12.0	6.0	14.0
Retail prices[3]	2.3	2.2	2.2	2.1	2.2	2.2	2.2
Producer input prices[4]	-1.6	4.2	9.6	5.8	6.6	10.1	12.1
Average earnings[4]	4.4	4.7	n.a.	4.6	5.1	5.0	n.a.

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

Economic indicators in **Canada** for the fourth quarter suggest that real GDP slowed somewhat from the third quarter's rapid pace, although growth remains quite strong. GDP grew only slightly in October, largely due to a decline in manufacturing output from September's high level, but was still nearly ½ percent above the third-quarter average. Forward-looking indicators suggest continued expansion. Although new manufacturing orders fell in both October and November, the decline was mainly confined to the motor vehicle industry, where orders, which tend to be volatile, were up sharply in the third quarter. Excluding this industry, new orders were up 2.1 percent in October and November on average from the third quarter level. In addition, employment surged in the fourth quarter, pushing the unemployment rate down to an eighteen-year low of 6.9 percent in December. These job gains were widely distributed across industries, and most were full-time.

After picking up earlier in the year, core inflation (which excludes food and energy prices) has remain subdued in recent months. In the fourth quarter, core prices rose only 0.3 percent. The twelve-month change in core prices was 1.6 percent in December, comfortably within the Bank of Canada's 1 percent to 3 percent target range for core prices, although higher energy prices pushed the twelve-month rate of overall inflation from 2.2 percent in November to 2.6 percent in December.

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

Indicator	1999						
	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
GDP at factor cost	.8	1.2	n.a.	.2	.1	n.a.	n.a.
Industrial production	.9	2.7	n.a.	.5	-.2	n.a.	n.a.
New manufacturing orders	1.2	5.8	n.a.	1.4	-1.9	-.4	n.a.
Retail sales	1.1	3.0	n.a.	.4	-1.3	.6	n.a.
Employment	-.1	.4	1.2	.4	.5	.4	.3
Unemployment rate[1]	8.0	7.7	7.0	7.5	7.2	6.9	6.9
Consumer prices[2]	1.6	2.2	2.4	2.6	2.3	2.2	2.6
Consumer attitudes[3]	116.6	114.2	n.a.	...	...	...	...
Business confidence[4]	150.7	153.9	n.a.	...	...	...	...

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

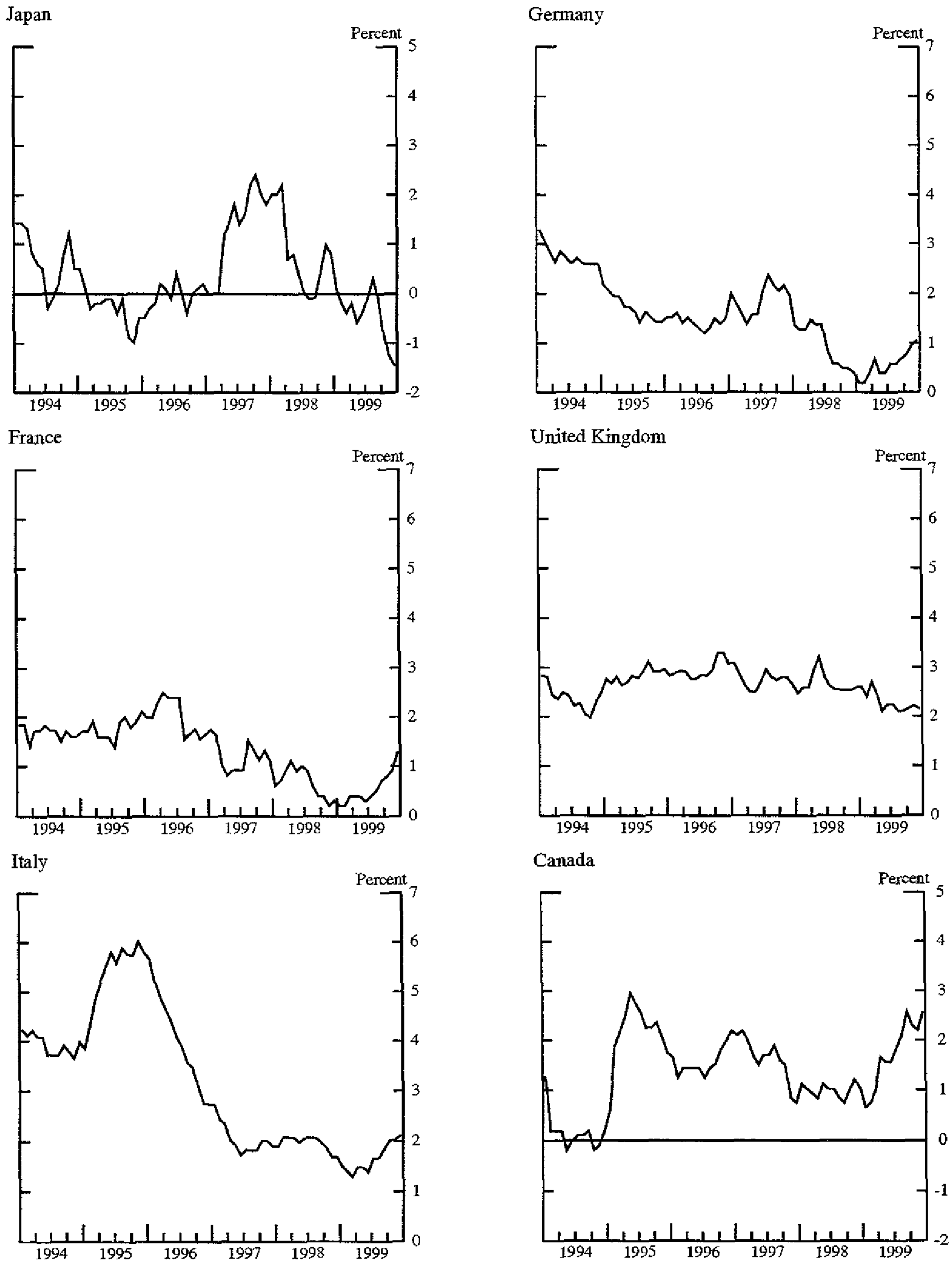
n.a. Not available. ... Not applicable.

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

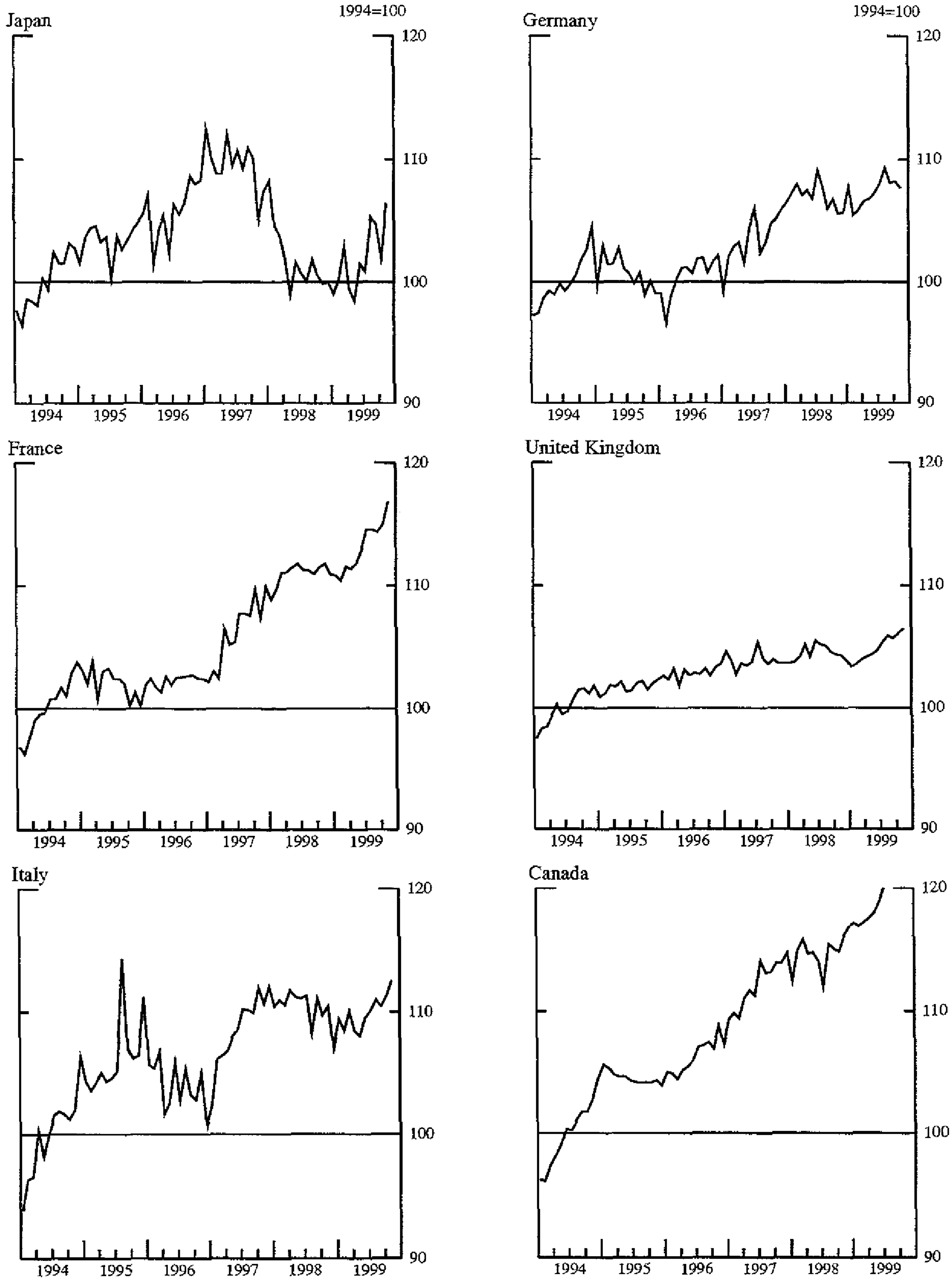
Country and balance	1999					
	Q2	Q3	Q4	Oct.	Nov.	Dec.
Japan						
Trade	104.7	118.4	96.6	129.4	69.5	90.9
Current account	110.2	109.6	n.a.	131.2	112.7	n.a.
Euro-11						
Trade[1]	62.0	70.0	n.a.	88.7	n.a.	n.a.
Current account[1]	61.9	32.3	n.a.	...	...	...
Germany						
Trade	64.3	68.1	n.a.	70.3	77.9	n.a.
Current account	-1.7	-15.6	n.a.	...	...	...
France						
Trade	15.3	27.9	n.a.	28.0	19.7	n.a.
Current account	29.4	47.8	n.a.	47.9	n.a.	n.a.
Italy						
Trade	14.5	10.6	n.a.	10.0	n.a.	n.a.
Current account[1]	14.2	26.0	n.a.	23.8	-2.3	n.a.
United Kingdom						
Trade	-40.8	-36.4	n.a.	-45.4	-48.1	n.a.
Current account	-18.6	-17.9	n.a.	...	...	...
Canada						
Trade	20.3	26.9	n.a.	21.3	25.6	n.a.
Current account	-4.8	1.8	n.a.	...	...	...

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

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



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

The Mexican economy has continued to grow rapidly, driven by buoyant export demand from the United States and an emerging rebound in Mexican domestic demand. Elsewhere in Latin America, recent data suggest that recovery in Argentina is taking hold, as the economy begins to shake off the effects of the deep recession. Current indicators for Brazil are mixed, while economic activity in Venezuela (held back by lingering political uncertainty and the effects of the December storms) has started to bottom out. Inflationary pressures in these countries generally remain well contained.

Recent indicators for developing Asia paint a picture of sustained and rapid recovery. Deflation appears to be easing in China and Hong Kong, and price pressures elsewhere in the region remain muted. There is, however, early evidence suggesting that wage growth in Korea may be rising, as the country continues its remarkably strong recovery.

The Ecuadorean sucre plunged nearly 20 percent during the first week of January, prompting Ecuador's President Jamil Mahuad to announce a plan to dollarize the economy. Subsequently, President Mahuad was removed by a coup and replaced by Vice President Gustavo Noboa, who has said that he will continue with dollarization.

In **Brazil**, industrial production was roughly unchanged in November, following two months of expansion. Unemployment fell in December, mostly reflecting a decline in the number of individuals seeking employment. Altogether, recent data provide a mixed picture of economic activity. The mixed performance of the economy, however, has helped to keep inflationary pressures at bay. The IPC-A, the CPI targeted by the central bank, rose 0.9 percent in December, bringing the yearly increase to just 9 percent. The rise was below the inflation target's 10 percent upper bound. According to staff estimates, core inflation (excluding energy and food prices) was between 6 and 7 percent during 1999.

The current account deficit narrowed from $33 billion in 1998 to $24 billion in 1999, a change amounting to about 1 percent of 1998 GDP, reflecting a narrowing of the trade deficit. Imports grew about 2 percent, while exports shot up about 15 percent. Foreign direct investment for the year stood at about $30 billion, approximately one-third of which reflected investments related to privatizations.

The Brazilian central bank kept the target overnight interest rate unchanged at 19 percent, with no bias as to the future direction of interest rates. The spread between dollar-denominated Brazilian government bonds and comparable U.S. Treasuries, a measure of investor perceptions of default risk, has continued the decline recorded since last August, apparently reflecting an improvement in the political picture and improved prospects for the passage of important fiscal reforms.

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

Indicator	1998	1999	1999				
			Q3	Q4	Oct.	Nov.	Dec.
Real GDP[1]	-1.6	n.a.	-.7	n.a.	...	...	...
Industrial production	-2.1	n.a.	-.3	n.a.	1.6	-.1	n.a.
Unemployment rate[2]	7.6	7.9	7.5	8.0	7.9	8.4	7.9
Consumer prices[3]	1.7	9.0	5.6	8.4	8.4	8.7	9.0
Trade balance[4]	-6.6	-1.1	-8.2	11.0	2.7	-2.9	8.4
Current account[5]	-33.8	-24.4	-18.4	-26.5	-28.7	-26.4	-24.4

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 8.4 percent. Although booming exports remain the main engine of growth, driven in large part by the strong U.S. economy, there are now indications that the contribution of domestic demand may be increasing as well. Every domestic sector except mining showed considerable gains in the November 1999 industrial production report. The strong growth is beginning to fuel imports, which in the fourth quarter of 1999 rose nearly 7.5 percent over the previous quarter. The current account deficit widened in the third quarter, but it is still down significantly from its 1998 level. Consumer price inflation, at 12.3 percent for 1999, came in under the government's 13 percent target. Nevertheless, the Bank of Mexico decided in mid-January to tighten monetary policy by increasing the amount the domestic interbank markets are left short of reserves, in order to stem what it termed "latent" inflationary pressures.

In late December, the Mexican Congress approved the government's 2000 budget, which calls for further cuts in the government's budget deficit to 1 percent of GDP, down from 1¼ percent in 1999. The budget allocates nearly $4 billion for the Bank Deposit Insurance Institute, the agency responsible for administering the bank bailout program resulting from Mexico's 1994-95 crisis.

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

Indicator	1998	1999	1999				
			Q2	Q3	Q4	Nov.	Dec.
Real GDP[1]	2.6	n.a.	8.2	8.4	n.a.	...	...
Industrial production	6.7	n.a.	1.4	2.0	n.a.	0.2	n.a.
Unemployment rate[2]	3.2	2.5	2.6	2.4	2.3	2.2	2.3
Consumer prices[3]	18.6	12.3	17.9	16.5	13.7	13.9	12.3
Trade balance[4]	-7.9	-5.3	-6.2	-1.7	-6.7	-4.8	-5.4
Imports[4]	125.4	141.2	138.5	142.3	152.8	151.6	154.3
Exports[4]	117.5	135.9	132.3	140.6	146.1	146.8	148.9
Current account[5]	-16.0	n.a.	-11.8	-13.5	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.

In **Argentina**, data released since the last Greenbook generally suggest that the recovery is strengthening. Industrial production rose 1.7 percent in December over the previous month, with gains widespread across industries, and although industrial production was down 6.8 percent for 1999 as a whole, the second half of the year showed positive growth. In November, the trade surplus was $1.2 billion, boosted by the first 12-month growth in exports in over a year and a decline in imports. The unemployment rate was 13.8 percent in October–better than most analysts had expected. However, consumer prices continued to fall. The latest price data for December show a slight month-over-month decline and a drop of 1.8 percent from a year earlier.

Financial market conditions in Argentina have been generally favorable over the past month. The passage of a stringent fiscal package for 2000 and the resolution of Y2K concerns have helped take the sting out of an announcement that the 1999 budget deficit will be around $7 billion–$2 billion over the latest IMF target. During the first weeks of January, there was a precipitous drop in short-term domestic interest rates. The 30-day deposit rate in pesos fell over 200 basis points since late December, to around 8 percent, and the spread over dollar-denominated rates of the same duration narrowed to below 100 basis points for the first time since August. However, despite this promising start to the year, market concerns remain about Argentina's financial viability. The government must borrow over $14 billion on the markets this year to cover its financing needs. To guard against international markets drying up, Argentine officials are currently negotiating with the IMF over a new loan program that could provide more funds than does the current $2.8 billion Extended Fund Facility.

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

Indicator	1998	1999	1999				
			Q2	Q3	Q4	Nov.	Dec.
Real GDP[1]	-.6	n.a.	-1.2	-.3	n.a.	...	...
Industrial production	1.4	-6.8	-1.2	2.3	4.9	2.4	1.7
Unemployment rate[2]	12.9	13.8	14.5	14.5	13.8	...	...
Consumer prices[3]	.7	-1.8	-1.1	-1.8	-1.7	-1.7	-1.8
Trade balance[4]	-3.0	n.a.	1.4	-1.2	n.a.	1.2	n.a.
Current account[5]	-14.5	n.a.	-7.4	-13.8	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, Q3, and Q4 reflect data for May, August, and October, 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.

As **Venezuela** ended the year, output appeared to be bottoming out, but continued political uncertainty and the aftermath of a natural disaster seem to be limiting its prospects. GDP fell 0.7 percent over the second half of the year and 4.6 percent for the year as a whole. Reflecting these conditions, consumer prices rose a relatively restrained 20.2 percent over the 12 months ending in December–the lowest annual inflation rate in over a decade. Furthermore, uncertainties surrounding the new constitution (which was resoundingly approved in mid-December) remain, and there has been much reshuffling of top officials over the past month.

In mid-December, torrential storms led to massive flooding in coastal areas near Caracas, causing extensive damage and major disruptions. Officials are predicting that the cost of rebuilding will exceed $10 billion, with at least a quarter of a million people unemployed in the short run. The significant runup in oil prices over the second half of 1999 has been one positive economic development, however, and should help sustain the economy through the rebuilding period.

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

Indicator	1998	1999	1999				
			Q2	Q3	Q4	Nov.	Dec.
Real GDP[1]	-4.9	-4.5	-3.6	-4.0	1.5	...	...
Unemployment rate[2]	11.2	n.a.	16.3	n.a.	n.a.	n.a.	n.a.
Consumer prices[3]	29.9	20.2	23.9	22.2	20.2	20.2	20.2
Non-oil trade balance[4]	-8.6	n.a.	-5.6	n.a.	n.a.	n.a.	n.a.
Trade balance[4]	3.4	n.a.	9.8	n.a.	n.a.	n.a.	n.a.
Current account[5]	-1.7	n.a.	6.5	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**, recent data suggest that economic activity has continued to increase at a very robust pace. Industrial production rose strongly in November, led by rapid increases in the output of automobiles, office machinery and transportation equipment. The inventory to shipments ratio edged down further in November, reaching an all-time low, suggesting that growth this year could be supported by a revival in inventory investment.

Government officials have indicated that they expect real GDP to grow 6 percent this year, after 10 percent growth last year, and aim to contain inflation below 3 percent. Actual inflation ended 1999 below 2 percent, but there are some indications of a revival of inflationary pressures. Average monthly wages at business firms rose 11 percent from year-earlier levels over the first three quarters of last year, compared with a 3 percent decline over the same period the previous year. Much of the rise in wages last year represented jumps in overtime pay and bonuses, but base salaries also rose 5 percent. Tending to offset this acceleration in wages has been the rapid growth of productivity, with real GDP increasing nearly 15 percent from year-earlier levels over the first three quarters of last year, while employment rose only 3 percent over the same period.

In its January policy statement, the central bank indicated that it intends to continue its policy of holding the overnight rate unchanged for the time being. Bank officials attributed this decision mainly to the ongoing vulnerability of financial markets to lingering structural problems, pointing in particular to the risk of large-scale outflows from investment trust companies in February when depositors at these institutions will be permitted to redeem up to 95 percent of their money currently invested through them in the troubled Daewoo Chaebol.

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

Indicator	1998	1999	1999				
			Q2	Q3	Q4	Nov.	Dec.
Real GDP[1]	-5.3	n.a.	16.5	12.9	n.a.	...	...
Industrial production	-7.3	n.a.	6.4	8.1	n.a.	3.6	n.a.
Unemployment rate[2]	6.8	6.3	6.6	5.8	4.8	4.7	4.8
Consumer prices[3]	4.0	1.4	.6	.7	1.3	1.4	1.4
Trade balance[4]	41.9	n.a.	27.6	32.1	n.a.	26.0	n.a.
Current account[5]	40.6	n.a.	25.5	26.6	n.a.	28.4	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.

Recovery in the **ASEAN** region continued in a choppy manner, with growth rates varying across countries. The most recent data releases indicate that GDP in Thailand expanded at a rapid pace in the third quarter and that, on balance, industrial production grew strongly in both Malaysia and Thailand during this same period. However, industrial production data point to some fourth-quarter weakness in the Philippines and lackluster performance in Singapore.

Reflecting continued excess capacity, consumer price inflation remains muted throughout most of the region, increasing only slightly in recent months. Imports rose across most of the region in November, causing trade surpluses to decline. Exports were mixed, falling off in Thailand, Indonesia, and the Philippines, but increasing in Malaysia and Singapore.

ASEAN Economic Indicators: Growth

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

Indicator and country	1997	1998	1999				
			Q2	Q3	Sept.	Oct.	Nov.
Real GDP[1]							
Indonesia	1.1	-17.7	-3.4	-4.2	...	...	...
Malaysia	5.7	-10.3	22.6	-1.6	...	...	...
Philippines	5.0	-1.8	6.0	2.8	...	...	...
Singapore	7.9	-1.1	22.8	-1.6	...	...	...
Thailand	-4.7	-6.9	-2.1	10.1	...	...	...
Industrial production							
Indonesia	13.2	-13.3	2.7	n.a.	...	...	...
Malaysia	10.7	-7.2	5.2	4.1	5.3	-2.5	7.6
Philippines	5.1	-11.6	.6	2.3	-2.4	-2.7	n.a.
Singapore	4.7	-.4	6.8	1.1	5.4	-.6	-.5
Thailand	-.5	-10.0	5.4	5.8	.4	-.8	2.9

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	1998[1]	1999[1]	1999				
			Q2	Q3	Q4	Nov.	Dec.
Indonesia	77.6	1.9	30.9	6.6	1.7	1.6	1.9
Malaysia	5.3	2.5	2.7	2.3	2.0	1.6	2.5
Philippines	10.3	4.3	6.8	5.6	4.5	3.9	4.3
Singapore	-1.5	1.3	.1	.9	1.3	1.2	1.3
Thailand	4.3	.7	-.4	-1.0	.1	.0	.7

1. December/December.

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

Country	1997	1998	1999 Q2	1999 Q3	1999 Sept.	1999 Oct.	1999 Nov.
Indonesia	11.9	21.5	23.2	29.1	28.7	28.0	25.3
Malaysia	-.2	15.0	18.5	18.5	16.8	17.1	17.0
Philippines	-11.1	.0	1.2	6.3	11.7	9.9	7.7
Singapore	-7.4	8.3	2.7	-1.2	2.9	4.3	4.1
Thailand	-4.6	12.2	10.5	9.4	5.4	9.3	2.7

Indonesia signed a new agreement with the International Monetary Fund, calling for a $5 billion loan, subject to approval by the IMF's Executive Board. The total includes about $1.35 billion remaining under a previous IMF loan package, which had been cut off after a financial scandal in the fall of 1999, in addition to new money. The letter of intent envisages medium-term GDP growth of 5-6 percent a year and inflation below 5 percent.

Economic activity in **China** continued to recover strongly in the fourth quarter, with real GDP up 10.6 percent. The pickup in growth in the second half of 1999, largely owing to increased exports and public investment, brought the annual growth rate to 7.1 percent, slightly ahead of the government's target of 7 percent. China's trade surplus widened significantly in the fourth quarter, with exports remaining roughly flat and imports falling about 8 percent. Concerns about a renminbi devaluation have eased, largely as a result of continued improvement in China's external performance and an increase in foreign exchange reserves. Preliminary estimates show actual foreign direct investment slipping to $38 billion last year from about $46 billion in 1998.

The authorities' efforts to stimulate economic growth continued. China's broad M2 money supply was almost 15 percent higher at the end of 1999 than a year earlier, and the central bank has announced a similar money supply growth target for this year. On the fiscal front, the government recently unveiled a plan to boost spending this year on infrastructure in China's relatively backward western regions. Meanwhile, the government announced a series of economic reforms, including measures to promote private enterprise and plans to cut its stake in selected state-owned enterprises from 62 percent to 51 percent.

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

Indicator	1997	1998	1999	1999			
				Q3	Q4	Nov.	Dec.
Real GDP[1]	8.2	9.5	6.2	11.4	10.6	...	...
Industrial production[2]	11.7	7.8	n.a.	9.5	n.a.	9.4	n.a.
Consumer prices[2]	.4	-1.0	n.a.	-1.2	n.a.	-.9	n.a.
Trade balance[3]	40.4	43.6	29.1	33.9	45.6	29.9	56.4

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

In **Hong Kong**, recent trade data provide evidence that the economy continued to recover at a strong pace. Exports rose about 4 percent in November, driven in large part by the rebound elsewhere in Asia. Domestic demand may also have strengthened, partly reflecting the positive impact of rising stock prices and falling unemployment on consumer sentiment. The unemployment rate was 6 percent in the October-December period, down from a recent peak of 6.3 percent in the March-May period. However, high real interest rates continued to act as a drag on private investment. Consumer prices registered further declines on a 12-month basis, although deflationary pressures may be easing as property prices appear to have bottomed out.

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

Indicator	1997	1998	1999	1999			
				Q3	Q4	Nov.	Dec.
Real GDP[1]	2.5	-5.6	n.a.	7.0	n.a.	...	...
Unemployment rate[2]	2.4	4.4	6.1	6.1	6.0	6.1	6.0
Consumer prices[3]	5.2	-1.6	-4.0	-5.9	-4.1	-4.2	-4.0
Trade balance[4]	-20.6	-10.6	n.a.	-9.3	n.a.	-5.5	n.a.

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

In **Taiwan**, industrial production expanded strongly in the fourth quarter, driven by rapid growth in the electronics and information technology sectors, as the economy continued to recover from the September earthquake. Taiwan's exports grew about 11 percent in the fourth quarter of 1999, largely reflecting strong global demand for technology-related goods. For 1999 as a whole, exports increased 10 percent from a year earlier, while imports were nearly 6 percent higher. Consumer prices rose a scant 0.1 percent in 1999, with bumper harvests late in the year helping to push food prices lower and outweighing the impact of rising energy prices.

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

Indicator	1997	1998	1999	1999			
				Q3	Q4	Nov.	Dec.
Real GDP[1]	7.1	3.7	n.a.	-2.2	n.a.	...	...
Unemployment rate[2]	2.7	2.7	2.9	2.9	2.9	2.9	2.9
Industrial production	7.4	2.6	7.5	-1.5	3.9	3.3	-.8
Consumer prices[3]	.3	2.1	.1	.3	-.1	-.9	.1
Trade balance[4]	14.4	10.4	10.9	6.3	8.8	9.2	15.6
Current account[5]	7.7	3.4	n.a.	3.4	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. Imports are c.i.f.
5. Billions of U.S. dollars, NSA, annual rate.
n.a. Not available. ... Not applicable.

In **Russia**, the latest data have provided evidence that economic performance has been improving on balance. Despite a moderate contraction in the third quarter, GDP was still up 5.6 percent from its year earlier level. Industrial production has shown double-digit 12-month growth for the past six months, and inflation has fallen. The ruble has weakened significantly against the dollar since the beginning of the new year, but the Russian equity market has continued to rise, with the dollar value of the Russian Trading Stock reaching an 18-month high in mid-January.

President Yeltsin's resignation on December 31, 1999, left Prime Minister Putin as acting President of Russia and the candidate most likely to win the March presidential elections. Putin's position also was bolstered by the December parliamentary elections, when centrist blocs receiving his endorsement increased their strength in the Duma.

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

Indicator	1997	1998	1999				
			Q2	Q3	Q4	Nov.	Dec.
Real GDP[1]	2.6	-9.0	9.4	-3.3	n.a.	...	...
Industrial production	1.7	-5.1	4.2	5.3	7.6	2.1	7.4
Unemployment rate[2]	10.8	11.5	14.1	14.2	n.a.	11.7	n.a.
Consumer prices[3]	11.0	84.4	116.7	98.1	47.4	50.4	36.6
Trade balance[4]	14.6	15.1	27.5	33.3	n.a.	n.a.	n.a.
Current account[5]	4.0	2.4	14.0	23.2	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.