Prefatory Note

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

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

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

Confidential (FR) Class III FOMC

Part 2

March 15, 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

Real GDP almost surely has decelerated from the 7 percent annualized pace of the fourth quarter, but the underlying thrust of expansion has remained strong. Consumer spending has continued to rise at a remarkable clip, while business fixed investment evidently has registered strength after a lull in the fourth quarter. Although labor markets are still extremely tight, the official statistics have given only hints of a pickup in compensation gains. And, with the notable exception of the energy sector, price inflation has remained subdued.

Labor Market Developments

Labor demand has been robust thus far this year. Although uneven weather contributed to some choppiness in the month-to-month changes, the average increase in private payroll employment in January and February was only a little below the pace of 1999. The unemployment rate held near 4 percent, as the household survey registered a large gain in employment, while the labor force participation rate posted an equally sharp jump to a record 67.6 percent.

About 360,000 jobs were added to private payrolls over the January-February period, with almost all of the increase coming in January. Construction employment fell back in February after an outsized gain in January, when relatively mild weather during the survey reference week likely allowed construction firms to productively retain workers they would otherwise have laid off. Services added a meager 6,000 jobs in February after a stronger-than-usual January. Some of this weakness, especially in agricultural services and amusement services, probably also reflected a payback for January's weather-related strength. However, the weather cannot explain the bulk of the slow pace of hiring in other industries, such as business services. Indeed, for services as a whole, the average monthly employment increase of about 75,000 in January and February was well below last year's average monthly pace of more than 120,000. Whether this slackening represents mere statistical noise or either reduced demand or supply constraints is not clear. With regard to the latter possibility, stories of firms having difficulty finding qualified workers remain plentiful, although such accounts do not seem to have intensified since last year.

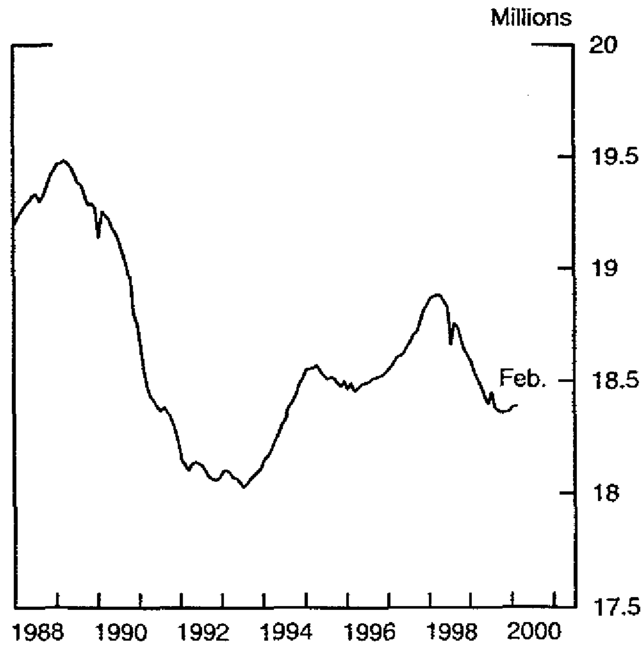
Employment gains in retail trade, unlike those in other industries, were steady in the first two months of the year, with about 35,000 jobs added each month. Manufacturing employment also increased in both January and February, underscoring the turnaround in this sector after the long downswing that began in the wake of the Asian economic slump. Given powerful productivity trends in manufacturing, however, job gains will likely continue to be modest at best even if the economy remains strong.

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

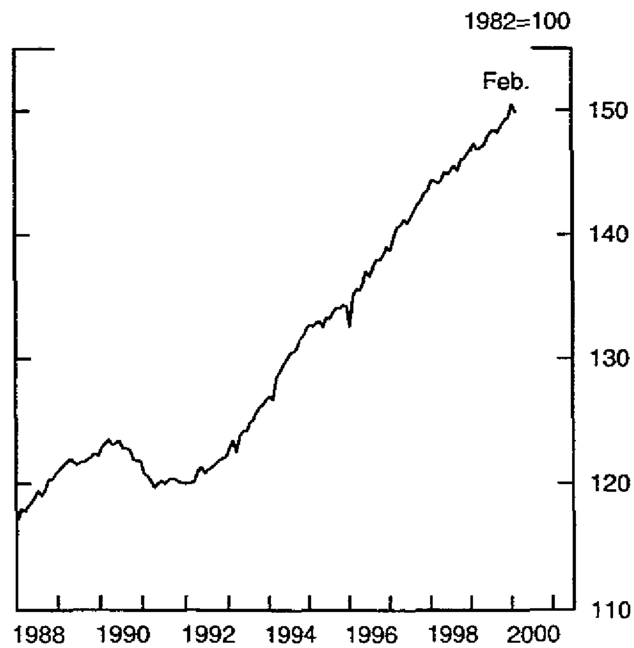
	1998	1999	1999 Dec.	2000 Jan.	2000 Feb.
	-Average monthly change-				
Nonfarm payroll employment[1]	244	226	309	384	43
Private	217	198	263	331	30
Mining	-3	-3	2	-1	2
Manufacturing	-19	-21	0	21	5
Construction	30	18	24	116	-26
Transportation and utilities	18	18	35	5	-8
Retail trade	32	37	71	35	33
Wholesale trade	14	16	18	19	8
Finance, insurance, real estate	26	12	10	-6	10
Services	119	121	103	142	6
Total government	27	29	46	53	13
Total employment[2]	156	159	322	801	141
Nonagricultural	169	155	353	709	104
Memo:					
Aggregate hours of private production workers (percent change)[1,3]	2.1	2.0	0.1	0.7	-0.4
Average workweek (hours)[1]	34.6	34.5	34.5	34.6	34.5
Manufacturing (hours)	41.8	41.7	41.6	41.7	41.9

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. Monthly data are percent change from preceding month.

Manufacturing Employment



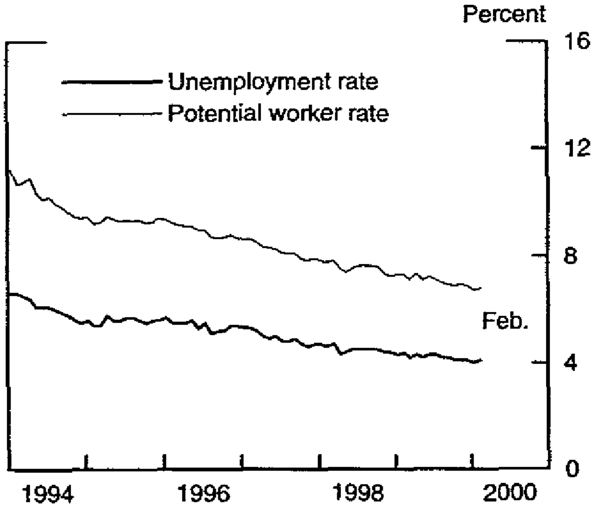
Aggregate Hours of Production or Nonsupervisory Workers



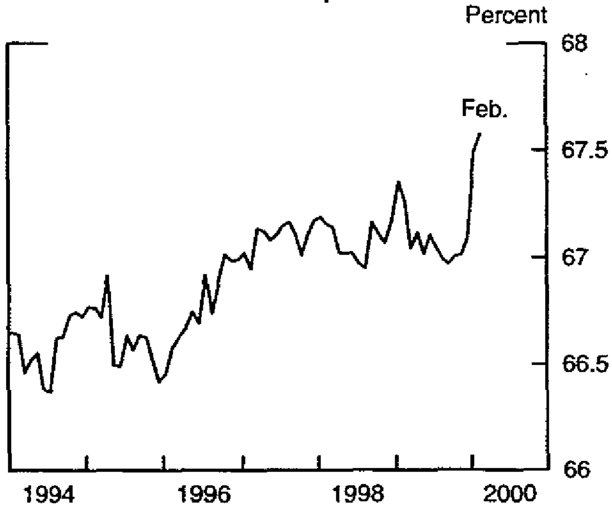
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data, as published)

	1998	1999	1999 H1	1999 H2	1999 Dec.	2000 Jan.	2000 Feb.
Civilian unemployment rate (16 years and older)	4.5	4.2	4.3	4.2	4.1	4.0	4.1
Teenagers	14.6	13.9	14.0	13.8	13.8	12.6	14.1
20-24 years old	7.9	7.5	7.5	7.5	7.4	7.4	7.5
Men, 25 years and older	3.2	3.0	3.0	2.9	2.8	2.8	2.9
Women, 25 years and older	3.6	3.3	3.4	3.2	3.2	3.2	3.0
Labor force participation rate	67.1	67.1	67.1	67.0	67.1	67.5	67.6
Teenagers	52.8	52.0	52.1	51.8	52.3	52.1	52.4
20-24 years old	77.5	77.6	77.4	77.8	78.0	79.0	78.5
Men, 25 years and older	76.2	76.1	76.2	76.0	76.0	76.3	76.5
Women, 25 years and older	59.2	59.5	59.6	59.4	59.5	60.0	59.8

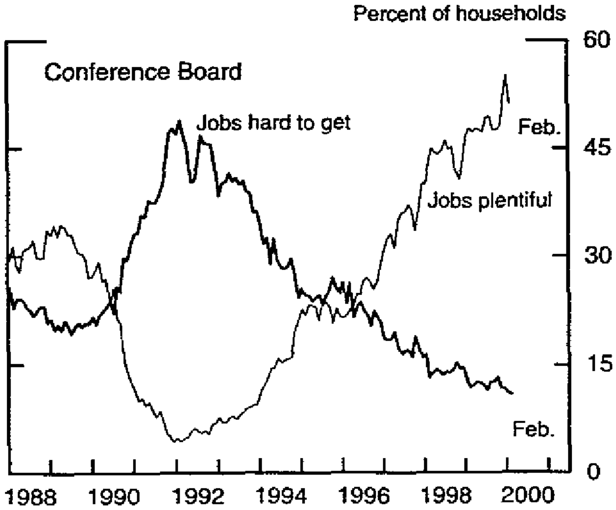
Labor Utilization



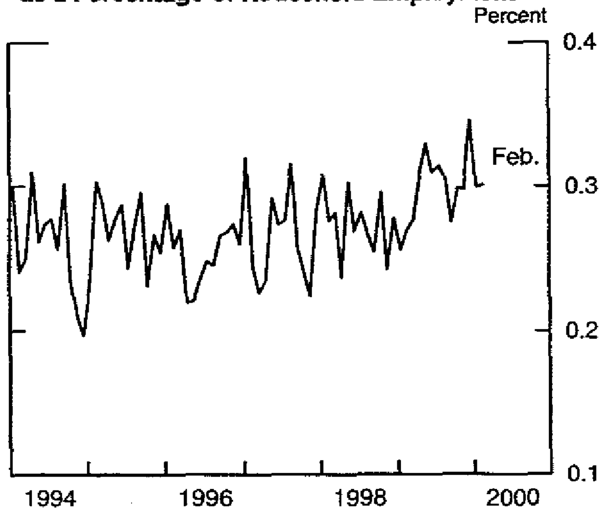
Labor Force Participation Rate



Current Job Availability



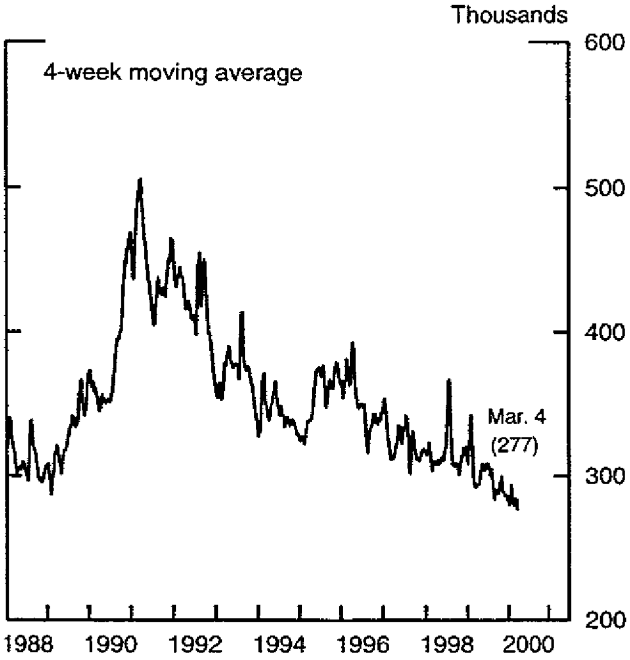
Job Leavers Unemployed Less than 5 Weeks as a Percentage of Household Employment



Note. Seasonally adjusted by FRB staff.

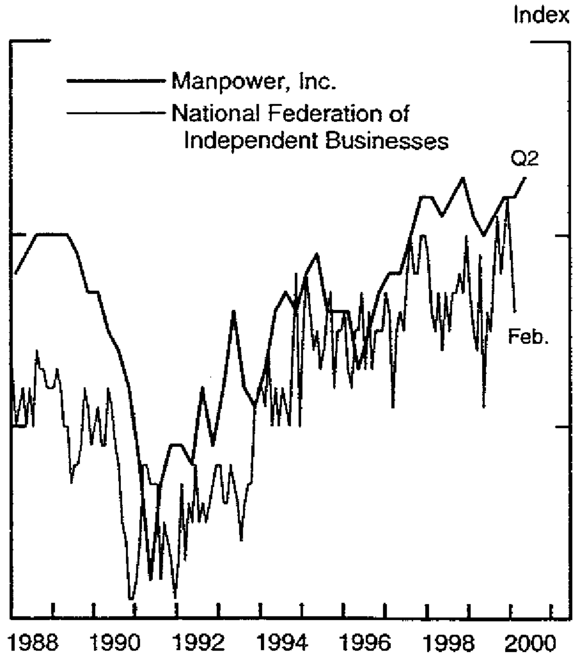
Labor Market Indicators

Initial Claims for Unemployment Insurance



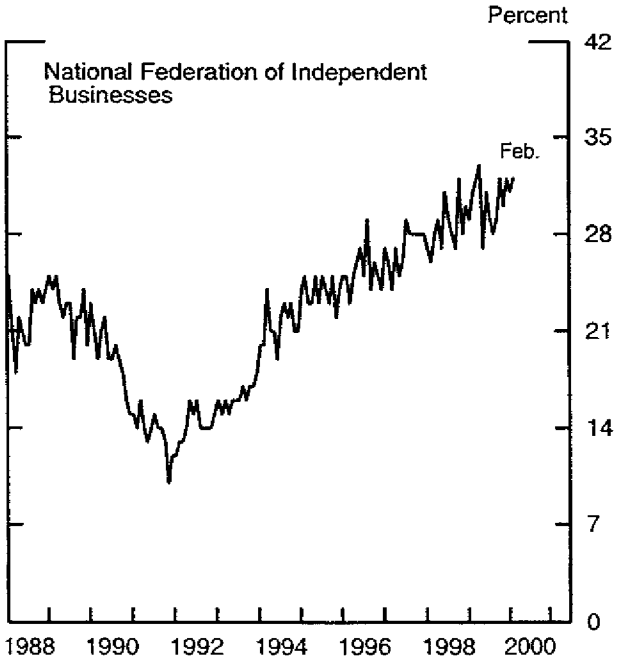
Note. State programs, includes EUC adjustment.

Net Hiring Strength

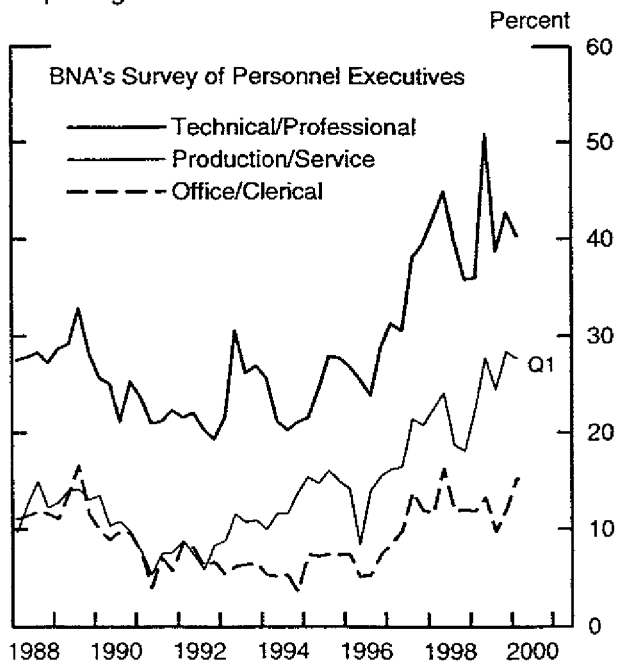


Note. Percent planning an increase in employment minus percent planning a reduction.

Reporting Positions Hard to Fill



Reporting Positions Hard to Fill



Government employment increased 13,000 in February on the strength of 20,000 hires for the decennial census. We estimate that census employment will increase dramatically over the next three months from its February level of 46,000, to a peak level of about 400,000 in May. Based on the 1998 census "dress rehearsal," we expect that a bit more than half of the hires will hold other jobs. As a result, the household employment figures--which count the number of employed persons--should be affected less than the payroll employment figures--which count the number of jobs. The Census Bureau is aggressively seeking enumerators, using both heavy advertising and market-sensitive wages.[1]

The average workweek followed the same up-and-down pattern as employment gains in January and February. On balance, however, production-worker hours in February were up 2-1/4 percent (annual rate) from the average for the fourth quarter. In addition, hours worked by the self-employed appear to be on track for a sizable gain this quarter; consequently, total nonfarm business sector hours likely will increase faster than production-worker hours, a pattern that suggests some damping of measured productivity growth.

In the household survey, the unemployment rate ticked down to 4.0 percent in January but edged back up to 4.1 percent in February; it has been at or below 4.1 percent since October. The "potential worker" rate has moved much the same way. The labor force participation rate--which had fluctuated around 67 percent for more than three years--shot up to 67.5 percent in January and then increased another tenth in February. Although a similarly timed spike in January and February of last year suggests that at least part of the recent increase may reflect some statistical flaw, this year's even higher levels may be a sign that the extraordinary availability of job opportunities is finally attracting some additional people into the labor force. The perception of ample job availability, which is evident in household surveys such as the Conference Board's, apparently is also affecting the behavior of those already employed: The ratio of job leavers unemployed less than five weeks to total employment--a rough proxy for the voluntary quit rate--remained high in January and February.

Other indicators suggest that labor demand continues to expand briskly. The four-week moving average of initial claims for unemployment insurance fell to about 275,000--extremely low relative to the labor force. The Manpower survey index of net hiring strength remained high, and, while the more erratic National Federation of Independent Businesses (NFIB) measure bounced down in February, it remained above its level of a year ago. A sizable fraction of the

1. For the "dress rehearsal," roughly a fifth of new hires came from outside the labor force. We believe that the fraction will be slightly higher this year, as the pool of unemployed persons is somewhat smaller.

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

	Proportion 1999	1999[1]	1999 Q3	1999 Q4	1999 Dec.	2000 Jan.	2000 Feb.
			-Annual rate-		--Monthly rate---		
Total index	100.0	4.2	4.8	5.4	.5	1.1	.3
Mining	5.2	-.8	4.8	5.7	.2	.6	-.7
Utilities	6.3	.4	6.6	-15.8	3.1	2.7	.7
Manufacturing	88.5	4.8	4.7	7.1	.4	1.0	.3
Motor vehicles and parts	5.4	4.0	7.4	3.7	-2.0	2.8	-.7
Aircraft and parts	2.6	-17.1	-13.4	-24.5	-1.9	-.8	-1.8
High-tech	9.6	37.9	44.9	32.9	3.3	4.7	2.6
Other manufacturing	70.9	1.9	.7	5.6	.3	.4	.1
Consumer goods	23.5	1.5	.1	5.9	.2	.7	.1
Durables	3.6	6.1	1.1	6.6	2.4	1.5	-.4
Nondurables	19.9	.7	-.1	5.8	-.2	.5	.2
Business equipment	8.6	-.6	-2.6	6.0	.3	1.0	.0
Construction supplies	5.8	3.4	3.8	4.2	.7	1.2	.2
Materials	23.7	3.5	3.8	6.8	.2	.0	.3
Durables	15.9	2.5	5.1	2.8	.5	.5	-.1
Nondurables	7.5	6.1	3.5	13.9	-.6	-.8	1.2
Memo: High-tech industries							
Computer equipment	3.1	51.2	47.0	40.6	1.9	3.1	2.5
Communication equipment	2.5	13.6	29.2	-2.9	1.3	7.9	.9
Semiconductors[2]	4.0	45.4	53.0	56.7	5.7	3.9	3.7

1. From the final quarter of the previous period to the final quarter of the period indicated.
2. Includes related electronic components.

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1988-89 High	1959-99 Avg.	1999 Q3	1999 Q4	1999 Dec.	2000 Jan.	2000 Feb.
Manufacturing	85.7	81.6	79.7	80.3	80.4	80.9	80.9
Primary processing	88.9	82.8	82.8	83.7	83.8	84.0	84.2
Advanced processing	84.2	81.1	78.7	79.2	79.2	79.9	79.7

NFIB sample continued to report difficulties in filling job openings, and the Bureau of National Affairs survey showed high levels of difficulties in hiring technical, professional, production, and service workers.

As a result of the revised figures on real output, the Bureau of Labor Statistics estimates that productivity in the nonfarm business sector increased at an annual rate of 6.4 percent in the fourth quarter of 1999; it was up 3.6 percent from a year earlier. We believe that the increases in output and productivity in the fourth quarter may be overstated by about 0.6 percentage point (annual rate) because of an overstatement of federal purchases, but even so, productivity gains in both the third and fourth quarters were huge.[2]

Labor Output per Hour

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

Sector	1998[1]	1999[1]	1999			
			Q1	Q2	Q3	Q4
Total business	3.2	3.6	3.0	.8	4.7	6.1
Nonfarm	3.1	3.6	2.7	.6	5.0	6.4
Manufacturing	5.0	6.9	7.3	5.5	4.4	10.3
Nonfinancial corporations[2]	4.1	n.a.	4.2	3.3	4.1	n.a.

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, and finance and insurance companies; the sector accounts for about two-thirds of business employment.
n.a. Not available.

Industrial Production

Industrial production rose sharply over the first two months of the year, with a 1.1 percent gain in January followed by an increase of 0.3 percent in February. The increases in manufacturing output were nearly identical to these. The factory operating rate has risen half a percentage point since December, but, at 80.9 percent, it remains below the long-run average.

After having risen 400,000 units in January, motor vehicle assemblies fell back by a like amount in February to an annual rate of 12.9 million units; current production schedules also call for a 12.9 million unit rate in March. The operating rate for motor vehicles and parts--at 83.9 percent in February--is well

2. Estimated fourth-quarter output was boosted by a surge in payments to defense contractors that the BEA assumed reflected goods and services delivered in the fourth quarter. We think that about $10 billion (annual rate) of the increase was for items delivered in the first quarter of this year.

above the 1967-99 average of 76.9 percent.[3] Second-quarter production plans point to a step-up to a 13-1/4 million unit rate, as the industry--having raised its assessment of underlying sales trends--wants not only to meet current demand but also to replenish dealer inventories.

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

Item	1999	2000					
	Q4	Q1[1]	Q2[1]	Jan.	Feb.[1]	Mar.[1]	Apr.[1]
U.S. production	13.2	13.0	13.3	13.3	12.9	12.9	13.2
Autos	5.7	5.6	5.5	5.7	5.6	5.5	5.5
Trucks	7.4	7.4	7.7	7.6	7.4	7.4	7.7
Days' supply							
Autos	54.9	n.a.	n.a.	51.2	[47.4]	n.a.	n.a.
Light trucks[2]	71.9	n.a.	n.a.	70.0	[61.6]	n.a.	n.a

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

Boeing engineers and technicians have been on strike since February 9. The strike appears to have had no impact on production last month. However, because these workers contribute importantly to the planning stages of the production process, assemblies may be affected later this year. In the meanwhile, deliveries have been slowed because engineers and technicians are involved in the certification of aircraft before delivery. Moreover, the discovery of a construction flaw in recently installed fasteners for wings and fuselages has required reinspection of jetliners in use as well as those poised for delivery; Boeing has warned that this problem could exacerbate delivery lags, but the effect on production, if any, has yet to be determined.

The high-technology sector is booming. Sizable increases in the production of computer and communications equipment over January and February indicate that these industries are recovering quickly from the Y2K-related deceleration observed during the third and fourth quarters of last year. In the semiconductor industry, heavy demand for computer components has kept high-end

3. Utilization for light truck production has been about at capacity since last spring. However, utilization rates for autos and total motor vehicle parts, although up noticeably from a year ago, have been a little under 83 percent recently. The operating rate for heavy truck manufacturing is also high, but there is considerable slack at makers of medium trucks.

microprocessors in short supply despite rapid production advances in recent months.

Elsewhere within manufacturing, the output of durables, outside of high-tech goods and motor vehicles and parts, edged down in February but has been rising, on balance, since mid-1999. The upturn has been notable in farm and construction machinery as well as in steel. The production of nondurables was boosted in recent months by gains in the paper and chemicals industries, along with an uptick in apparel output.

Looking ahead, the February survey by the National Association of Purchasing Management indicated that new orders continued to rise and that backlogs remained high. Looking at the Census "M-3" data, real durable goods orders, as adjusted by the staff, weakened in January, but the underlying trend in the series remains very positive.

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

Component	Share, 1999:H1	1999				2000
		Q3	Q4	Nov.	Dec.	Jan.
Total orders	**100.0**	**4.9**	**1.3**	**1.2**	**6.5**	**-1.9**
Adjusted orders[1]	70.0	5.2	.9	3.6	2.7	-1.4
Computers	6.0	5.6	.1	-6.1	-2.2	8.8
Communication equipment	5.0	9.2	15.4	-10.1	14.5	-6.6
Capital goods excl. computers and comm. equipment	13.0	4.1	-1.2	6.5	5.5	8.5
Other[2]	46.0	5.0	.2	5.8	1.3	-4.9
MEMO						
Real adjusted orders[3]	...	6.0	1.2	3.8	3.0	-1.1

1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.
2. Includes primary metals, most fabricated metals, most stone, clay, and glass products, electronic components, household appliances, scientific instruments, misc. durable goods.
3. 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.

Manufacturing capacity is expected to expand 4.2 percent in 2000, compared with 4.7 percent last year. The deceleration reflects cuts in investment in factory plant and equipment that have already occurred; going forward, investment in the manufacturing sector seems to be rising as the recent pickup in output has elevated utilization rates and bolstered profits in many industries.

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

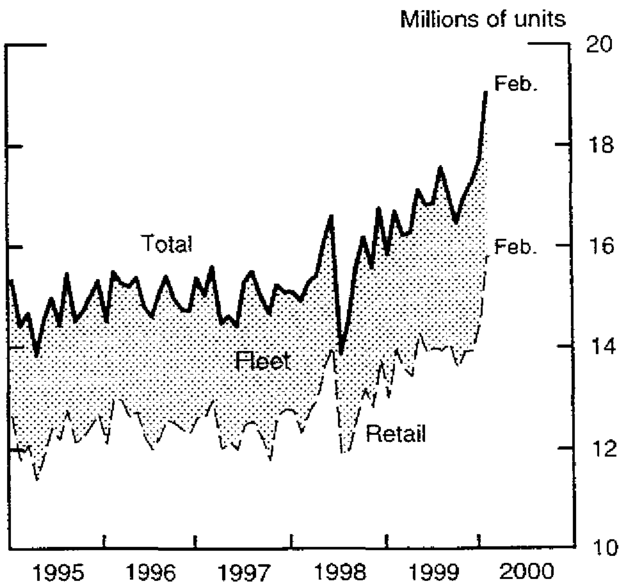
	1998	1999	1999 Q2	1999 Q3	1999 Q4	1999 Dec.	2000 Jan.	2000 Feb.
Total[1]	15.5	16.8	16.7	17.2	16.9	17.4	17.7	19.0
Autos	8.2	8.7	8.8	8.8	8.8	8.8	9.3	9.7
Light trucks	7.3	8.1	8.0	8.3	8.1	8.6	8.5	9.3
North American[2]	13.4	14.3	14.3	14.7	14.1	14.6	15.0	16.0
Autos	6.8	7.0	7.1	7.1	6.9	6.9	7.3	7.6
Big Three	4.7	4.9	5.0	4.8	4.7	4.8	5.0	5.5
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	7.3	7.6	7.7	8.4
Foreign Produced	2.0	2.5	2.4	2.5	2.8	2.8	2.7	3.0
Autos	1.4	1.7	1.7	1.7	2.0	1.9	2.0	2.1
Light trucks	.7	.8	.7	.7	.9	.9	.8	.9
Memo:								
Total, as reported	15.4	16.8	16.7	17.2	16.9	17.3	17.7	19.0

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.

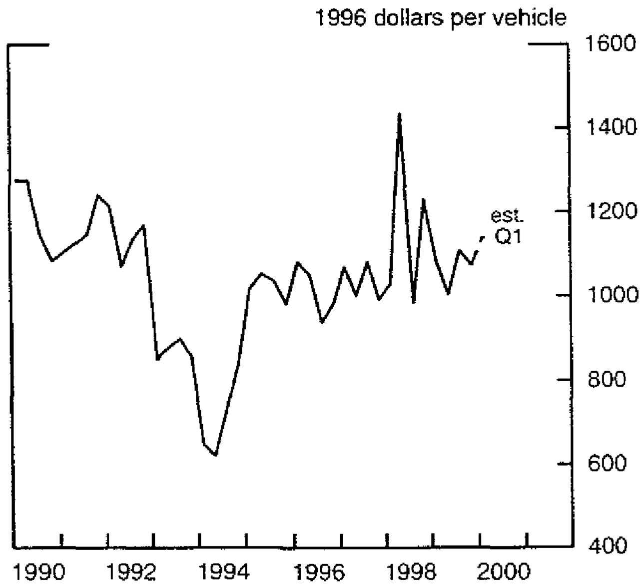
2. Excludes some vehicles produced in Canada that are classified as imports by the industry.

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



Note. Staff estimates based on confidential data.

Marketing Incentives for Light Vehicles



Note. Data deflated by total CPI.

Consumer Spending and Income

Consumer spending has continued to post big gains, and the fundamentals still look favorable. Growth in real disposable income has remained strong; household wealth has moved up considerably, on net, in recent quarters; and consumer confidence remained high in February.

The already impressive demand for new light vehicles escalated even further early this year. Sales of light vehicles stepped up to an annual rate of 17.7 million units in January and then surged to a pace of 19 million units in February--the second highest rate on record.[5] According to **confidential** data, the increase in demand so far this quarter has been concentrated in retail sales. Despite GM's $500 rebate coupon program (which expired at the end of February), industry analysts suggest that only part of the spike in consumer purchases in February can be attributed to the sweetening of incentives at the major firms. In the near term, the strong economy and favorable pricing--including still generous incentives--are likely to continue to buoy demand for new light vehicles.

Purchases of goods other than motor vehicles have continued to expand briskly. According to the advance release, nominal spending in the retail control category rose 1.1 percent in February. The increase reflected higher expenditures in nearly all major categories, although a huge rise in nominal outlays at gasoline stations likely owed to the sharply higher prices that prevailed at the pump in February. (Indeed, physical-product data from the Department of Energy indicate that real purchases of gasoline declined.) On the basis of the retail sales data and our forecast of consumer prices, we estimate that real outlays for goods excluding motor vehicles increased 0.4 percent in February, putting the average level of spending for the first two months of the year up 1-1/4 percent from the fourth quarter.

The Census Bureau recently released its first-ever estimate of retail sales made over the Internet. The new series covers both traditional brick-and-mortar establishments and firms that operate exclusively online.[6] According to Census, retail e-commerce sales totaled $5.3 billion (not seasonally adjusted) in the fourth quarter (quarterly rate), or about 0.6 percent of total retail sales in that

5. Total light vehicle sales rocketed to an annual rate of 21.6 million units in September 1986, which was the first instance of "fire-sale" incentive programs designed to clear out the previous year's models. Sales were appreciably lower in both of the adjacent months.

6. Beginning in October 1999, the Census Bureau asked firms to report e-commerce sales separately on the Monthly Retail Trade survey, and quarterly releases of the data currently are planned.

RETAIL SALES
(Percent change; seasonally adjusted)

	1999[1]	1999 Q3	1999 Q4	1999 Dec.	2000 Jan.	2000 Feb.
Total sales	9.7	2.2	2.3	1.9	.4	1.1
Previous estimate			2.2	1.7	.3	
Retail control[2]	9.2	1.6	2.7	2.1	-.4	1.1
Previous estimate			2.6	1.9	-.4	
Durable goods stores	10.3	2.8	2.1	1.5	2.0	.7
Previous estimate			2.1	1.4	1.4	
Furniture and appliances	7.5	2.2	1.3	2.0	1.9	.7
Other durable goods	10.3	-.3	7.3	1.8	1.0	-.9
Nondurable goods stores	9.3	1.7	2.4	2.2	-.8	1.4
Previous estimate			2.3	2.0	-.5	
Apparel	4.6	-.8	-1.0	.4	.8	1.1
Food	6.7	1.1	2.9	3.5	-4.7	1.8
General merchandise[3]	7.9	1.6	1.5	1.0	.9	.6
Gasoline stations	20.7	6.5	4.8	3.8	-.6	4.3
Other nondurable goods[4]	10.1	1.5	2.6	1.9	.8	.7
Eating and drinking	7.6	.8	3.6	.3	1.3	-.0
Drug and proprietary	11.1	1.2	2.4	1.6	-1.4	.1

1. Annual data are percent change from Q4 to Q4.
2. Total retail sales less sales at building material and supply stores and automotive dealers, except auto and home supply stores.
3. Excludes mail-order nonstores.
4. Also includes sales at liquor stores and mail order houses.

REAL PCE SERVICES
(Percent change from the preceding period)

	1999	1999 Q3	1999 Q4	1999 Nov.	1999 Dec.	2000 Jan.
	Q4/Q4	-- Annual rate --		--- Monthly rate ---		
PCE Services	4.5	5.0	3.8	.3	.4	.6
Energy	4.0	9.9	-13.4	-5.5	4.9	3.3
Non-energy	4.6	4.8	4.5	.6	.3	.5
Housing	2.7	2.7	2.7	.2	.2	.2
Household operation	5.0	4.4	3.0	.1	.1	.3
Transportation	3.3	4.2	2.5	.2	-.5	.2
Medical	3.2	4.2	4.0	.3	.4	.3
Recreation	11.4	13.8	8.3	1.3	.4	1.4
Personal business	7.9	5.6	9.5	1.2	.7	.9
Brokerage services	23.2	-2.6	46.5	7.5	1.7	2.4
Other	4.0	5.2	2.5	1.1	.4	.3
Memo:						
Total Real PCE	5.6	4.9	5.9	.7	.9	.3

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

period.[7] These online purchases were already embedded in the previously released monthly retail sales figures but were not identified separately. The estimates do not include purchases of services, such as travel (lodging and transportation) and financial services. Census will collect data on purchases of services made over the Internet in its annual survey of service providers. Information on e-commerce activity by manufacturers and wholesalers will also be collected in the annual surveys of these establishments.

Real PCE services continued to expand briskly through January, when outlays rose 0.6 percent. Spending was boosted by higher expenditures for energy services resulting from a return to more seasonal temperatures after a warmer-than-usual fourth quarter. In January, real purchases for brokerage services rose nearly 2-1/2 percent, reflecting the jump in trading activity that month. The "other recreational services" category climbed 1.3 percent, or about $1.7 billion, in January, with almost $1 billion of the gain attributable to higher payments to Internet service providers.[8] Looking beyond January, real energy outlays have likely declined in recent weeks because temperatures have generally been warmer than usual. In contrast, services spending has likely been bolstered in February and March by high levels of stock trading.

Nominal personal income rose 0.7 percent in January. As is the case each January, income was boosted by the federal government's annual pay raise for civilian and military personnel and by cost-of-living adjustments to social security benefits and other federal transfer programs.[9] Personal tax and nontax payments fell in January because of refunds by some states, changes in current tax laws, and indexation provisions in the tax code. After factoring in the decline in tax payments and the increase in consumer prices, real disposable personal income also increased 0.7 percent in January and was up 3.9 percent over the preceding twelve months. Data on hours and earnings for February suggest only a modest gain in wage and salary income that month.

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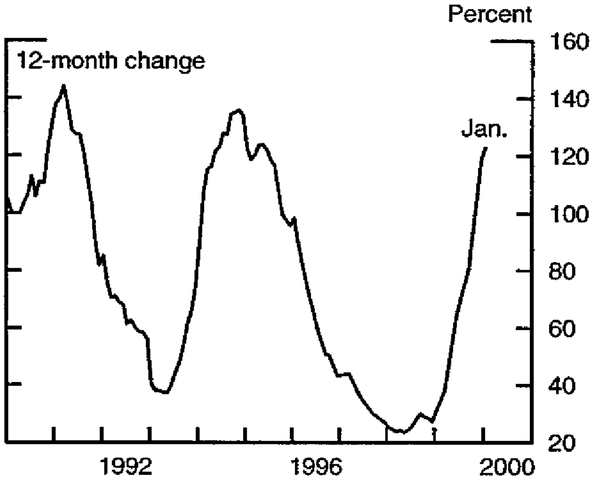
7. On March 1, the day before Census published its e-commerce figures, the National Retail Federation and Forrester Research (NRF/FR) released an estimate of online purchases of both goods and services by consumers. According to NRF/FR, these purchases totaled $2.8 billion in January (not seasonally adjusted) and about $20 billion for 1999 as a whole. The largest categories for online sales in January were air tickets, computer hardware and software, books, and apparel. The total for goods expenditures in the NRF/FR estimate amounted to about 1 percent of total retail sales in January--somewhat higher than the Census Bureau's e-commerce share of 0.6 percent in the fourth quarter of 1999. Unlike the Census Bureau's Monthly Retail Trade survey of firms, the NRF/FR estimates were obtained from a survey of consumers.

8. BEA's estimates of real PCE for Internet service providers are based on quarterly data from these companies on the number of subscribers.

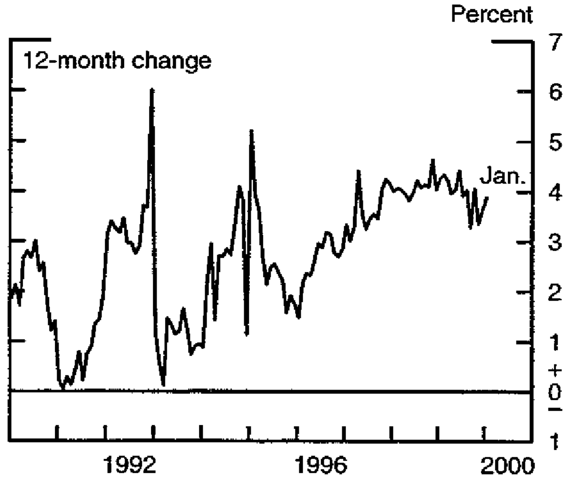
9. These and other special factors boosted the increase in personal income 0.1 percentage point, in nominal terms, in January.

Household Indicators

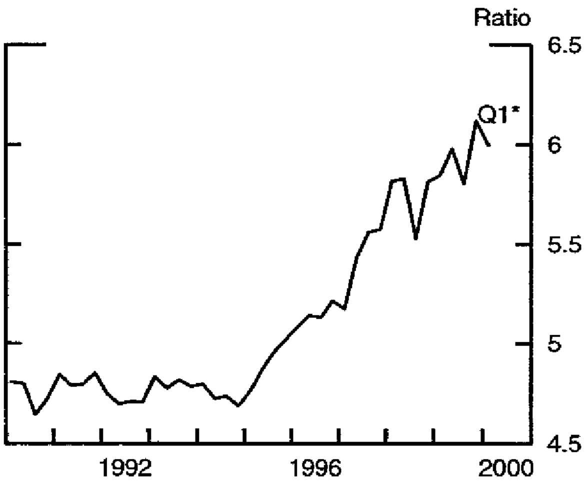
Real PCE for Internet Service Providers



Real Disposable Income

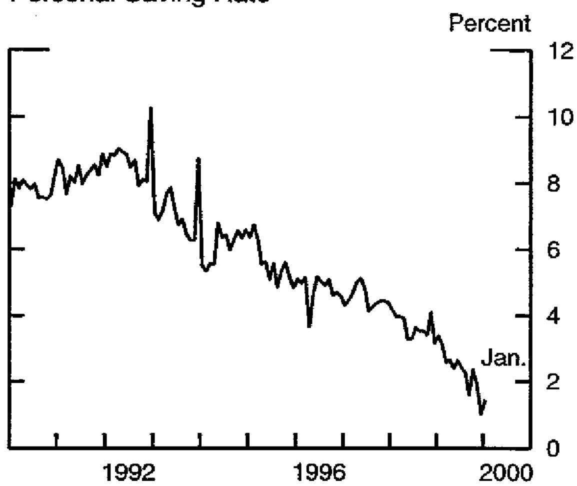


Ratio of Household Net Worth to DPI

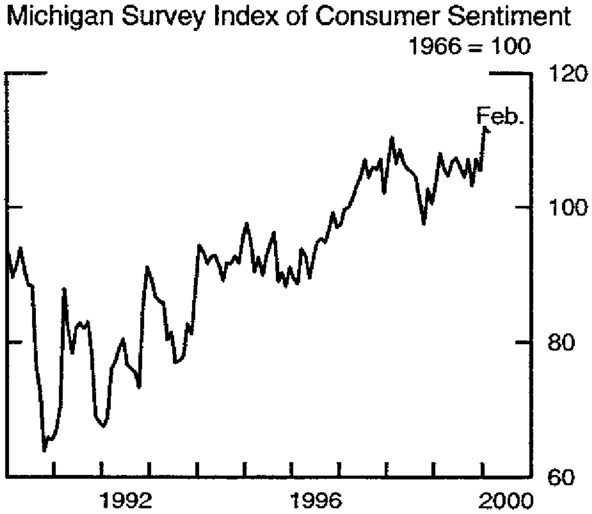


*The Q1 value is an estimate.

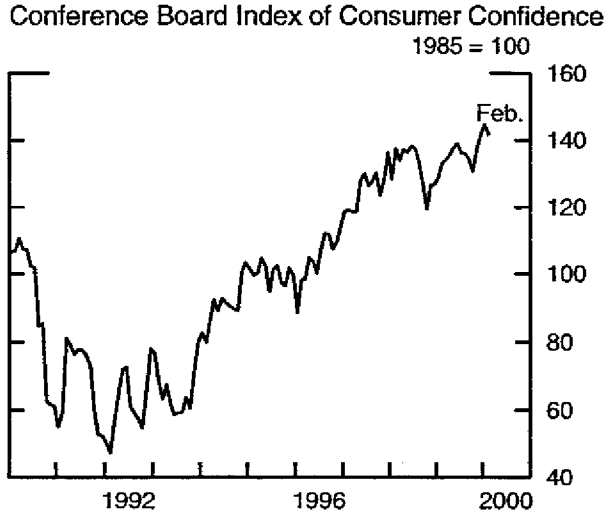
Personal Saving Rate



Michigan Survey Index of Consumer Sentiment



Conference Board Index of Consumer Confidence



After climbing to a historical high in the fourth quarter, the ratio of net worth to income has edged down thus far in the first quarter but remains well above its level in the same period last year. The NIPA personal saving rate moved up 0.4 percentage point in January, to 1.4 percent; however, it was still nearly 1/2 percentage point below its fourth-quarter level, and it has tumbled 2 percentage points over the past year.[10]

The cheer with which households greeted the new year has ebbed only a bit, according to recent survey data. Consumer sentiment as measured by both the Michigan and Conference Board surveys climbed to new highs in January and eased off only slightly from those levels in February.

Housing Markets

Residential construction activity remained high in early 2000, aided in part by favorable weather. But underlying the boom in building has been a buoyant demand for homes in the face of a 125-basis-point rise on thirty-year fixed-rate mortgages last year. Home sales have been supported by sustained growth in employment and income and increased wealth--which have given people the wherewithal and the confidence to make such purchases.

Starts of single-family homes declined 2 percent in January, to an annual rate of 1.40 million units. However, the decrease was from an upward-revised December reading that was the fastest pace in twenty-one years. Construction of single-family homes has likely been sustained not only by current sales but also by a large backlog of projects waiting to be started.

Sales of new single-family homes retraced their December jump in January, but--at a level just below the 1999 average--they remained quite robust by historical standards. In contrast, sales of existing homes have slackened somewhat since last July. Some analysts have suggested that supply constraints have been holding back sales of existing homes recently; in January, inventories of existing homes for sale were at a record low relative to sales, according to the National Association of Realtors.

Tight supplies of houses for sale may be showing through to higher prices, especially for existing homes. The repeat-sales price index for existing homes increased 6.6 percent in the fourth quarter (year-over-year), which is the most rapid advance since late 1989. The rate of increase of the constant-quality price

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10. Our reading of the available data on tax receipts suggests that BEA's estimates of personal tax payments are a touch on the low side. We estimate that--all else equal--the understatement of taxes has been boosting the published personal saving rate by increasing amounts since the beginning of last year; we believe the effect in January amounts to 1/4 percentage point.

Private Housing Activity

(Millions of units; seasonally adjusted annual rate)

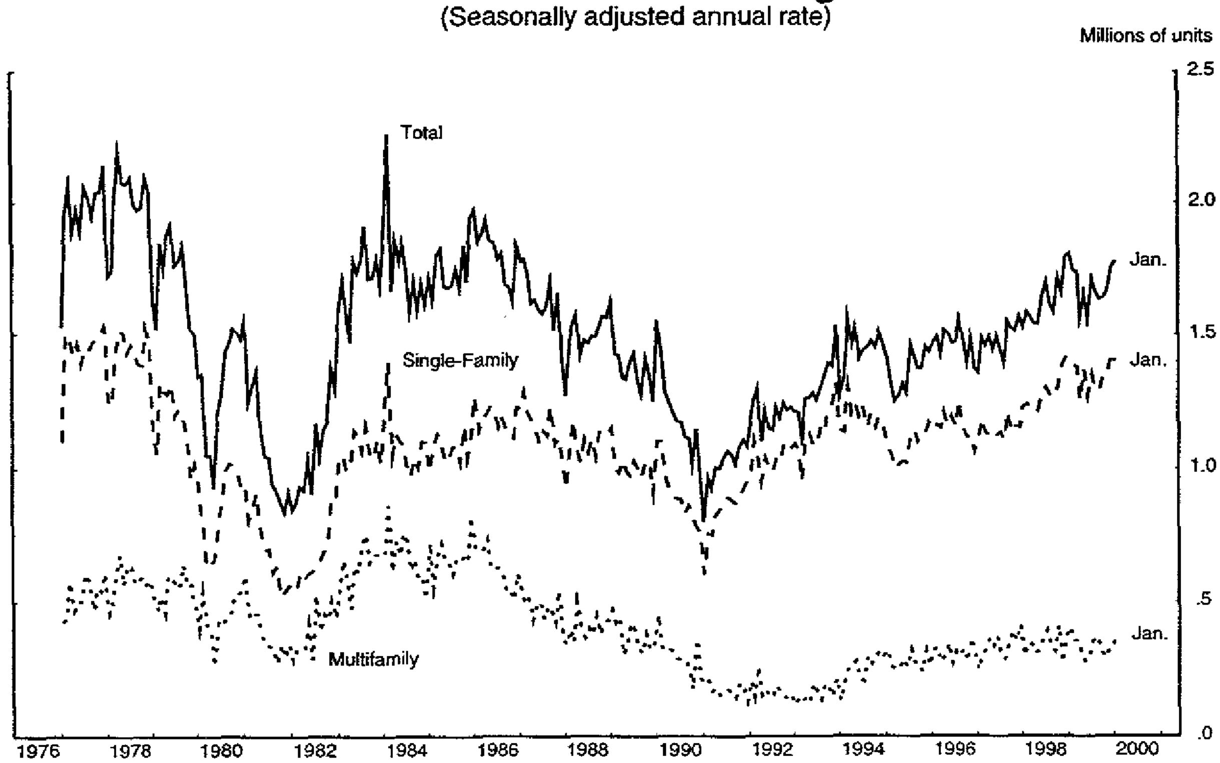
		1999					2000
	1999	Q2	Q3	Q4[r]	Nov.[r]	Dec.[r]	Jan.[p]
All units							
Starts	1.66	1.59	1.66	1.68	1.66	1.75	1.78
Permits	1.64	1.60	1.59	1.61	1.61	1.62	1.76
Single-family units							
Starts	1.33	1.30	1.31	1.37	1.34	1.43	1.40
Permits	1.23	1.23	1.21	1.20	1.20	1.23	1.30
Adjusted permits[1]	1.32	1.32	1.30	1.30	1.28	1.35	1.41
New home sales	.91	.93	.90	.90	.89	.92	.88
Existing home sales	5.20	5.29	5.25	5.06	5.15	5.14	4.59
Multifamily units							
Starts	.33	.30	.36	.31	.32	.32	.38
Permits	.41	.37	.38	.41	.41	.39	.46
Mobile homes							
Shipments	.35	.36	.33	.31	.32	.30	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.

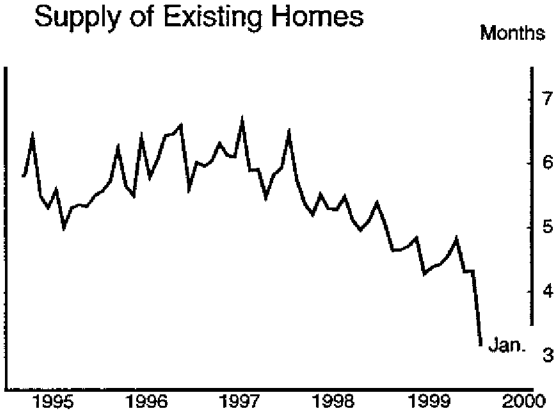
Total Private Building

(Seasonally adjusted annual rate)



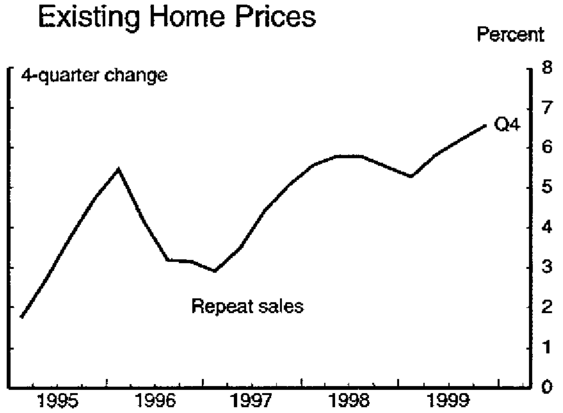
Indicators of Housing Supply, Home Prices, and Housing Demand

Supply of Existing Homes



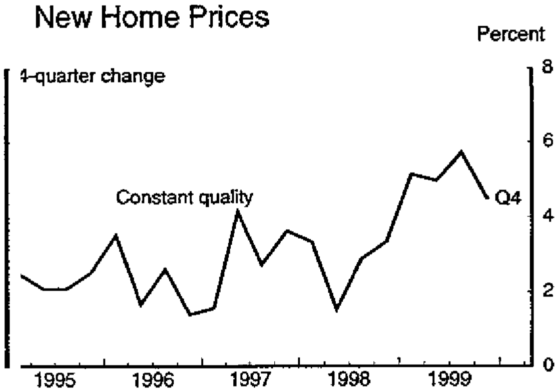
Note. Ratio of inventory, seasonally adjusted by Board staff, to sales, seasonally adjusted by the National Association of Realtors.

Existing Home Prices



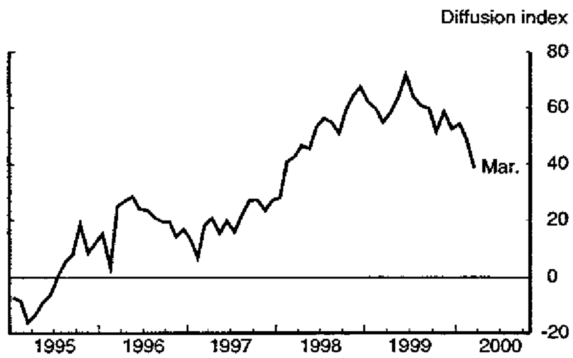
Note. Not seasonally adjusted.

New Home Prices



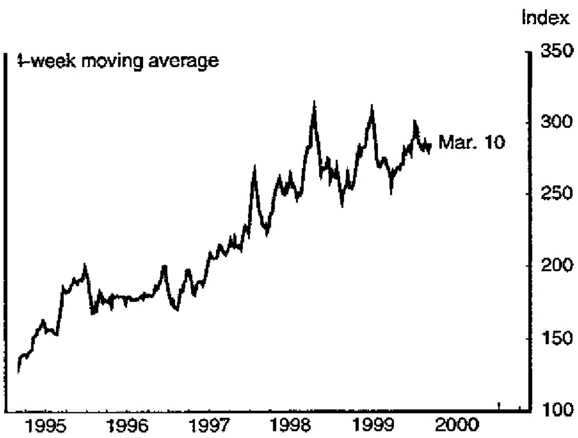
Note. Not seasonally adjusted.

Builders' Rating of New Home Sales



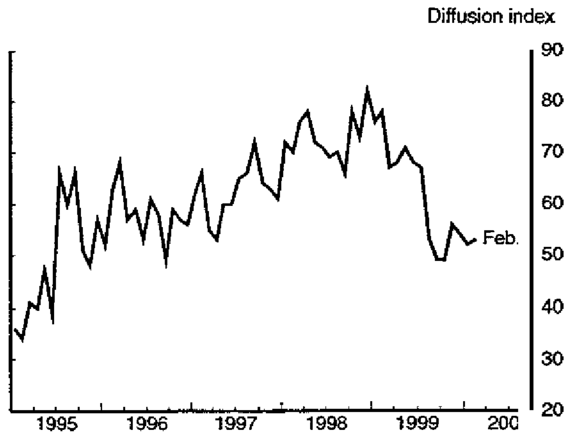
Note. Calculated from National Association of Homebuilders' data as the proportion of respondents rating current sales as good minus the proportion rating them as poor. Seasonally adjusted by Board staff.

MBA Index of Purchase Applications



Note. Seasonally adjusted by Board staff.

Perceived Homebuying Conditions



Source. Michigan Survey, not seasonally adjusted.

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

	1999		1999		2000
	Q3	Q4	Nov.	Dec.	Jan.
Equipment and software					
Shipments of nondefense capital goods	2.1	-.1	-1.9	2.4	4.0
Excluding aircraft and parts	3.8	.3	-.9	.8	5.8
Office and computing equipment	5.1	-.6	-6.6	-8.0	16.4
Communications equipment	5.4	-1.7	.8	2.5	10.3
All other categories	2.7	1.4	1.4	4.1	.3
Shipments of complete aircraft	15.1	5.1	-15.6	7.6	n.a.
Medium & heavy truck sales (units)	5.2	3.5	3.1	.3	-9.7
Orders for nondefense capital goods	7.0	3.5	-3.4	15.2	2.3
Excluding aircraft and parts	5.4	2.3	-.5	5.4	5.3
Office and computing equipment	5.6	.1	-6.1	-2.2	8.8
Communications equipment	7.4	9.4	2.5	20.6	-7.6
All other categories	4.7	1.0	1.2	3.7	8.8
Nonresidential structures					
Construction put in place, buildings	-1.2	.4	1.2	.4	3.2
Office	4.3	-2.7	-2.7	.2	3.9
Other commercial	-4.9	3.4	5.6	-1.4	4.6
Institutional	-2.5	1.8	-3.0	2.0	1.9
Industrial	1.1	-.2	3.0	.1	.2
Lodging and miscellaneous	-3.7	-.9	2.3	3.3	2.9
Rotary drilling rigs in use[1]	16.0	20.0	5.7	3.9	.2

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

index for new homes slowed to 4.5 percent in the fourth quarter of 1999, from 5.7 percent in the third quarter, which was the fastest rate in nearly six years.

Near-term indicators of housing demand have moved down or been flat in recent weeks, but for the most part they remained on the high side. Builders' rating of new home sales moved down further in early March, while the four-week moving average of the Mortgage Bankers Association index of purchase applications for home mortgages has been little changed, on balance. The Michigan SRC measure of household perceptions of homebuying conditions was about unchanged in February, remaining in the narrow range it has occupied since declining sharply last summer.

In the multifamily sector, housing starts soared 18 percent in January, to nearly a 380,000 unit annual rate, the strongest reading since early 1999. Adjusted permits in January were up almost the same amount as starts, indicating that the starts reading should not be disregarded as a statistical aberration. Nonetheless, the January starts figure is well above the average 330,000 pace of last year, which is probably closer to the current underlying trend.

Business Fixed Investment

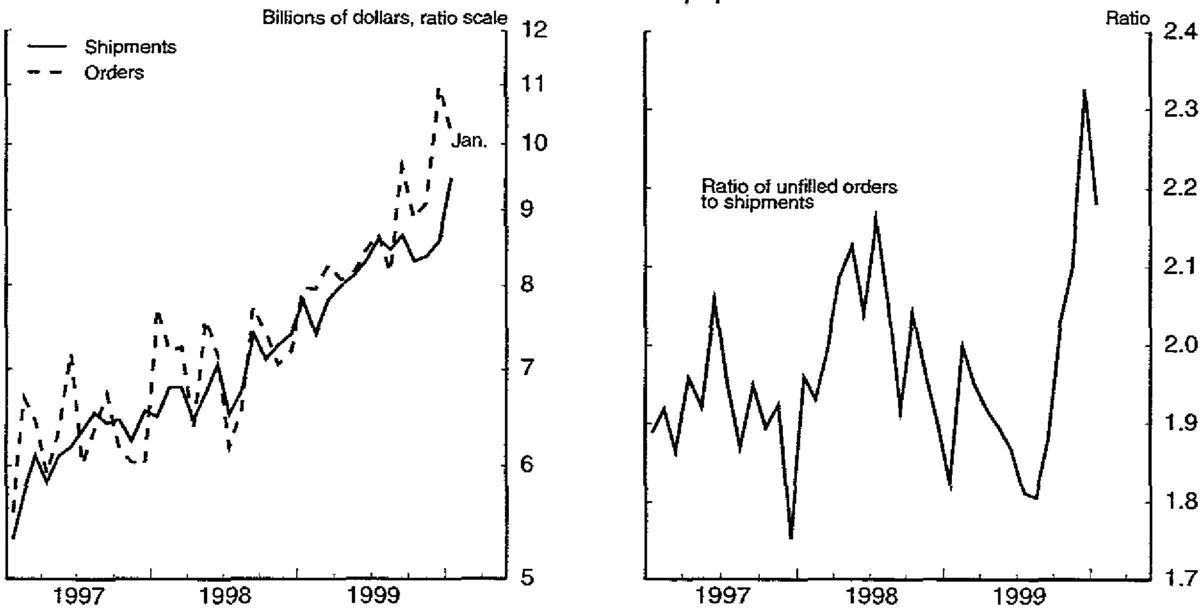
Equipment and software. Business expenditures on equipment and software started off the new year on a strong note. Outlays have been boosted by the recent acceleration in output and profits, the end of Y2K-related computer system "lockdowns," and the effects of Internet expansion and telecommunications deregulation on the demand for communications equipment. With orders recently running at very high levels, the near-term outlook appears to be for continued brisk advances in spending.

Shipments of computing equipment surged 16-1/2 percent (in nominal terms) in January, reversing the large declines of November and December. The substantial fluctuations in the recent data likely were partly the result of Y2K-related factors. Smoothing through these fluctuations, nominal expenditures on computing equipment appear to have maintained their steep uptrend. However, information from the PPI for January suggests that slower-than-usual price declines may restrain the current quarter's increase in real computer spending a bit.

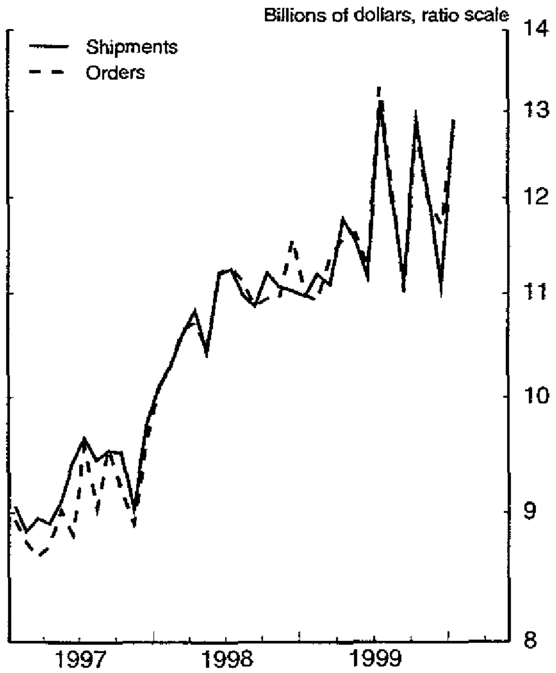
Elsewhere in the high-tech sector, outlays on communications equipment are set for a large gain in the current quarter. Shipments increased 10 percent in January, and orders have been exceptionally robust of late. Indeed, relative to shipments, the backlog of unfilled orders has risen to a quite high level by recent historical standards. Demand has been boosted by the expansion of the Internet and wireless technology and by the effects of deregulation in the

Recent Data on Orders and Shipments

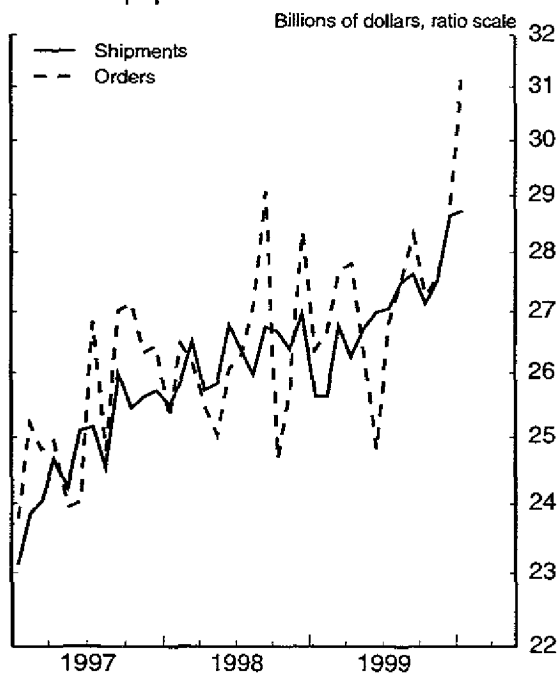
Communications Equipment



Office and Computing Equipment



Other Equipment



Note. Excluding aircraft, computers, and communications equipment.

telecommunications industry. The desire for high-speed Internet access is spurring spending on "broadband" networks.[11] Spending on switches and other telephone-related equipment is being boosted by increased competition: Competitive local exchange carriers still service only a small fraction of the nation's telephone lines (3 percent as of the second quarter of 1999), but over the past two years they have been adding a million lines a quarter and are spending heavily to expand their networks. The likely continuation of these developments and the current backlog of orders point to further sizable gains in outlays for communications equipment for some time to come.[12]

In the transportation sector, business demand has been mixed. Fleet sales of light motor vehicles (confidential data) averaged a little higher in January and February than in the fourth quarter. However, despite the strength in the economy, sales and orders of medium and heavy trucks declined on balance in January and February relative to the fourth quarter. The slowdown in demand partly reflects pressure on truckers' profits from higher costs for fuel, labor, and insurance. Business spending on transportation equipment this quarter is also likely to be held down by the delay in domestic aircraft deliveries associated with the strike at Boeing.

Business spending on items other than high-tech and transportation equipment is making a strong recovery from the sluggishness during the first three quarters of 1999. Real outlays rose at an annual rate of 9 percent in the fourth quarter, and orders have been robust in recent months, increasing 13 percent over the December-January period. Moreover, the strength in orders reflects an increase in demand extending across a wide range of subcategories of equipment and machinery. With accelerator effects from the recent pickup in growth of business output--especially in the manufacturing sector--providing a positive impetus, spending on this grouping of equipment is likely to move up in coming months.

Nonresidential structures. Nominal spending on nonresidential buildings jumped 3.2 percent in January, the biggest increase since mid-1998. The January gain accelerated an upturn in expenditures that began last fall. Looking ahead, contracts for private nonresidential construction fell 5-1/2 percent in

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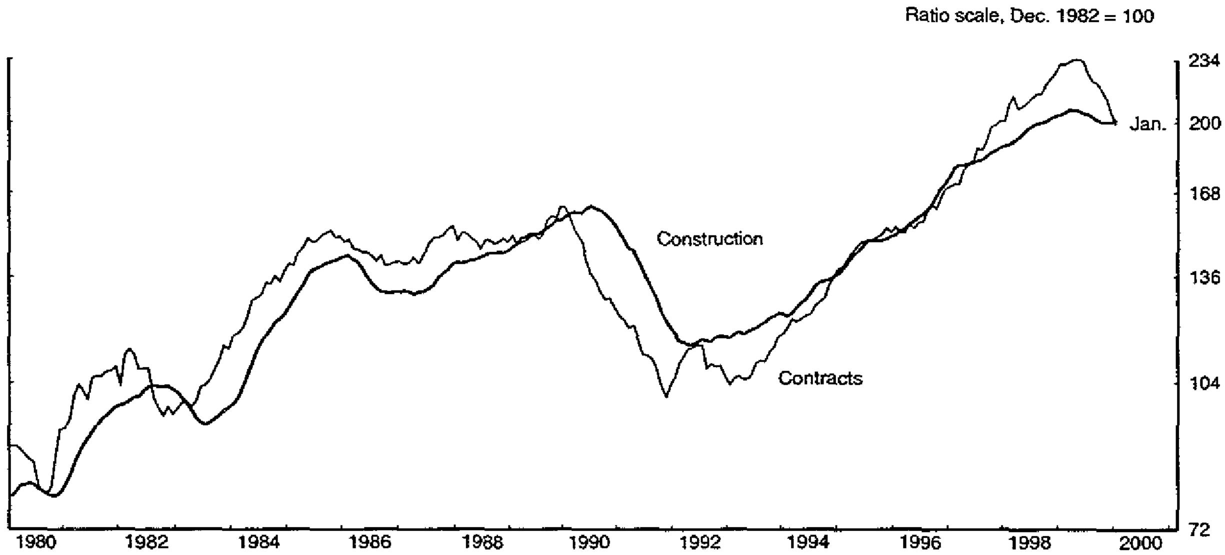
11. For example, according to the FCC, two million high-speed cable modems were in service at the end of 1999, compared with just 50,000 at the beginning of 1998. The number of digital subscriber lines provided by local phone companies, although smaller, is also increasing rapidly.

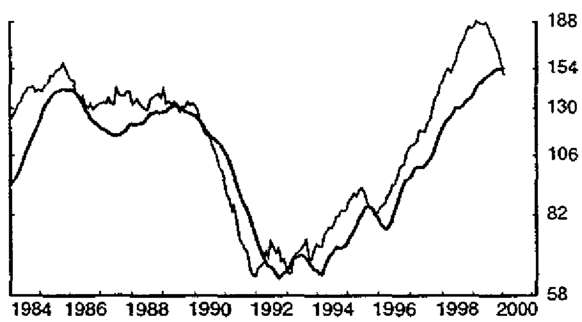
12. The strength in demand for communications equipment may also be boosting nonresidential construction: Whereas the cost of the equipment itself is counted by BEA as investment in equipment and software, the value added when the equipment is installed is (at least in principle) counted as investment in nonresidential structures.

Nonresidential Construction and Contracts
(6-month moving average)

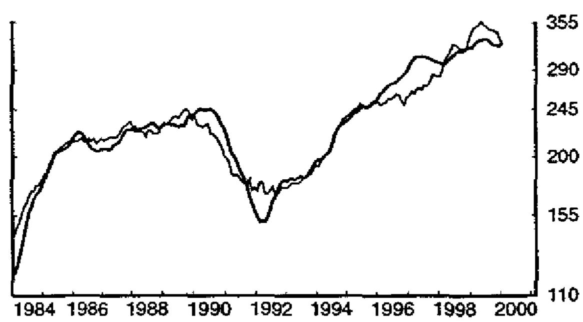
Total Private Building



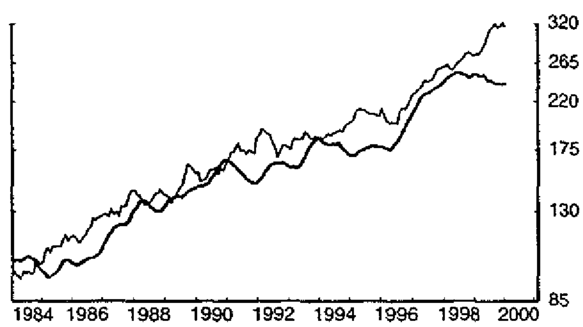
Office



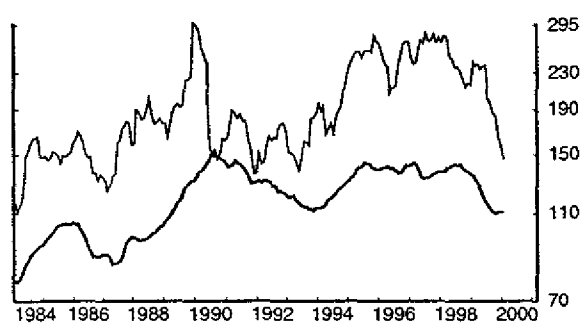
Other Commercial



Institutional



Industrial



Note. Individual sectors include both public and private building.

January, a considerably faster pace of decline than that seen during the fourth quarter; however, the contracts data are quite erratic, and preliminary estimates are often revised up. On the whole, indicators of conditions in commercial real estate markets seem quite positive.

Spending for construction of office buildings increased nearly 4 percent in January, boosting expenditures to a level almost matching the high recorded last September. For the twelve months ending in January, construction spending for office buildings was up 7 percent.

Construction spending for other commercial structures increased 4-1/2 percent in January after having risen 8-1/2 percent over the past year. Indeed, the level of spending in January was the highest on record. The expansion of e-commerce has unclear implications for the demand for structures in this category: Although spending on retail selling space is thought by some analysts to have been reduced, many firms in the sector are building warehouses to facilitate efficient distribution.

Outlays for industrial buildings were little changed in January. Spending on these structures has been fairly flat, on balance, in recent months following a nearly 25 percent drop between early 1998 and mid-1999.

Business Inventories

The book value of manufacturing and trade inventories excluding motor vehicles rose at an annual rate of $42 billion in January, compared with the $70 billion pace in the fourth quarter. With total non-vehicle manufacturing and trade shipments and sales increasing 0.6 percent in January, the inventory-sales ratio for this category held steady at 1.28 months, the lowest value on record.

Manufacturers' inventories rose at an annual rate of $19 billion (book value) in January, about matching the pace of stockbuilding during the fourth quarter.[13] January's accumulation reflected an increase in inventories of finished goods; stocks of both materials and supplies and work-in-process inventories were little changed. With shipments increasing 1 percent, the inventory-shipments ratio for manufacturing fell to a new low for this series.

Wholesale inventories excluding motor vehicles increased a hefty $26 billion (annual rate) in January, somewhat above the fourth-quarter pace, but the inventory-sales ratio remained at its relatively low December level. Notably,

13. In real terms, manufacturers' stocks rose just $10 billion in the fourth quarter. We expect that January's book-value accumulation will translate into a similar pace of real stockbuilding.

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

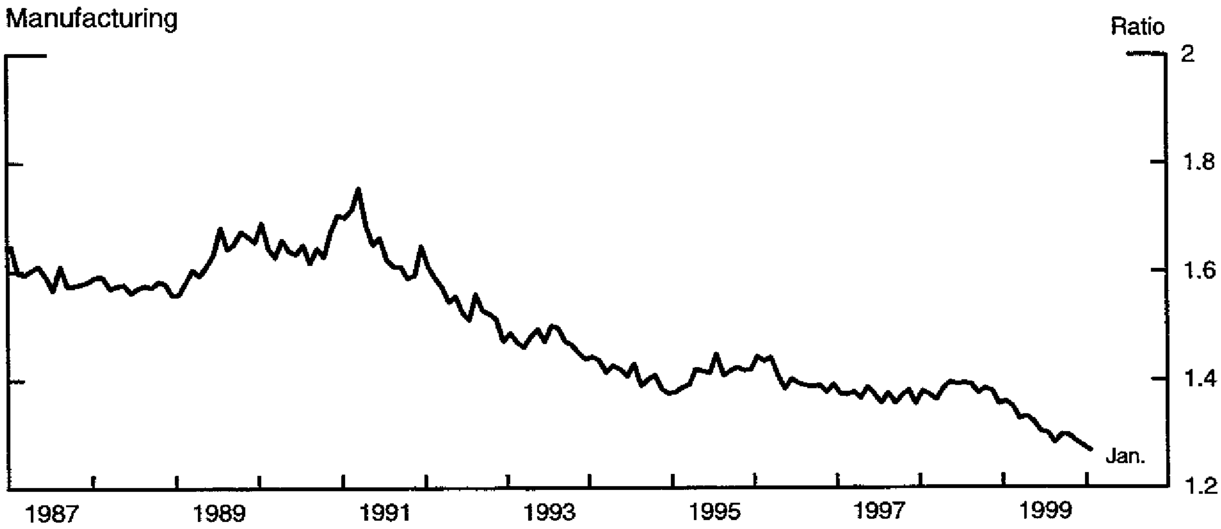
Category	1999 Q2	1999 Q3	1999 Q4	1999 Nov.	1999 Dec.	2000 Jan.
Manufacturing and trade	34.8	46.8	83.5	135.0	70.5	66.5
Less wholesale and retail motor vehicles	12.9	47.5	69.9	98.3	54.9	41.5
Manufacturing	-3.6	11.9	18.8	27.8	6.5	18.9
Less aircraft	5.1	15.0	27.2	32.0	18.1	21.3
Merchant wholesalers	8.0	28.4	25.0	46.3	12.8	23.8
Less motor vehicles	6.2	24.8	20.8	37.6	10.3	25.9
Retail trade	30.3	6.5	39.7	61.0	51.2	23.9
Automotive dealers	20.1	-4.3	9.4	28.1	13.1	27.1
Less automotive dealers	10.2	10.8	30.3	32.9	38.1	-3.2

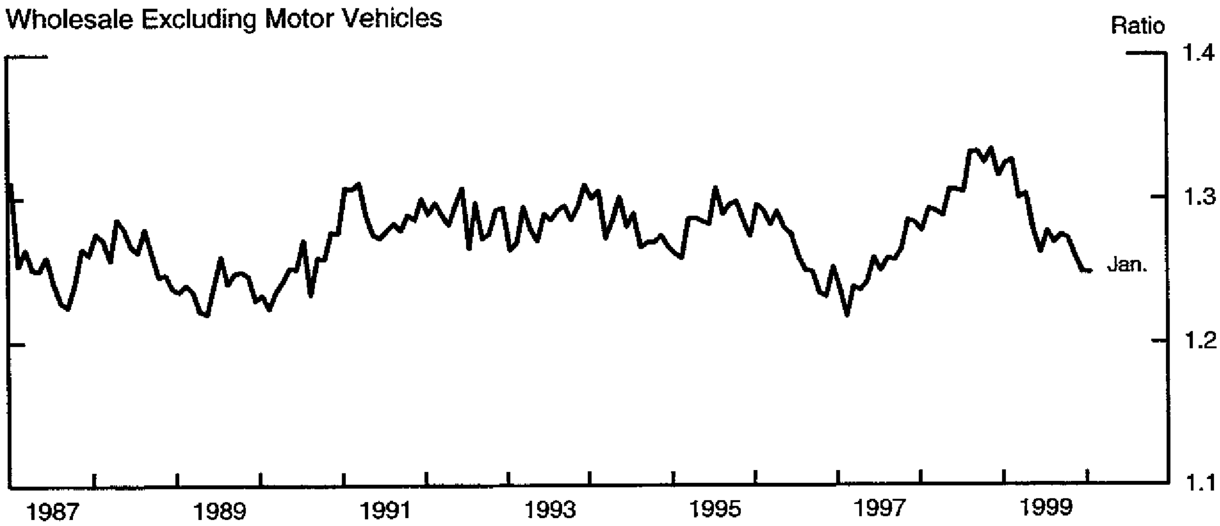
SELECTED INVENTORY-SALES RATIOS IN MANUFACTURING AND TRADE
(Months' supply, based on seasonally adjusted Census book value)

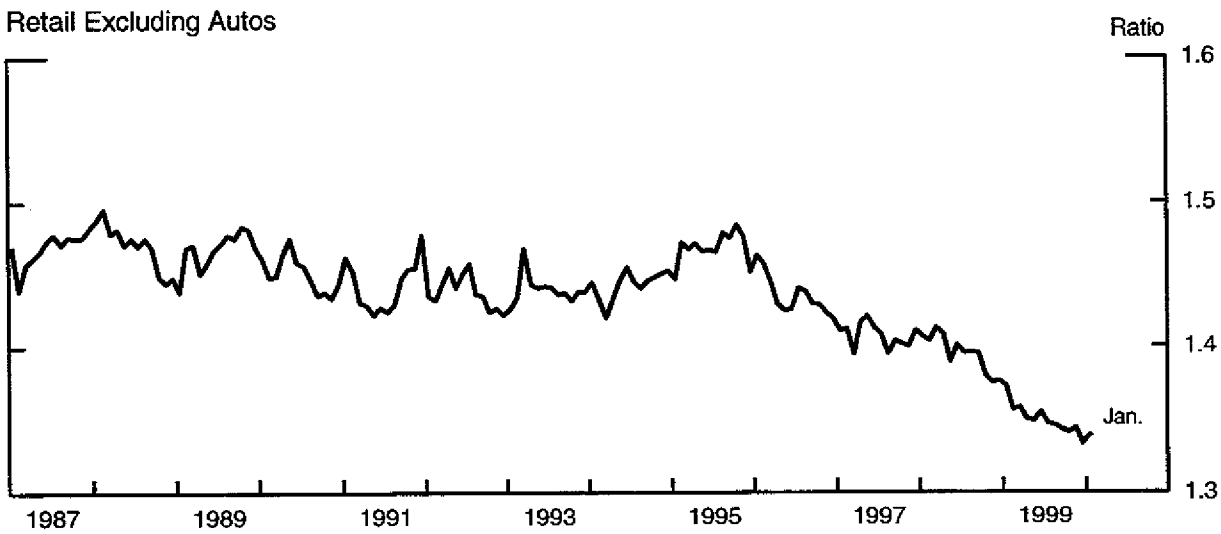
Category	Cyclical reference points 1990-91 high	Cyclical reference points 1991-98 low	Range over preceding 12 months High	Range over preceding 12 months Low	January 2000
Manufacturing and trade	1.58	1.37	1.38	1.32	1.31
Less wholesale and retail motor vehicles	1.55	1.34	1.35	1.28	1.28
Manufacturing	1.75	1.36	1.36	1.28	1.27
Primary metals	2.08	1.46	1.71	1.54	1.53
Steel	2.56	1.59	2.21	1.88	1.88
Nonelectrical machinery	2.48	1.61	1.66	1.52	1.47
Electrical machinery	2.08	1.21	1.25	1.17	1.15
Transportation equipment	2.93	1.51	1.56	1.38	1.40
Motor vehicles	.97	.53	.54	.51	.52
Aircraft	5.84	4.05	4.47	3.68	4.08
Nondefense capital goods	3.09	2.04	2.09	1.87	1.79
Textiles	1.71	1.38	1.58	1.52	1.51
Paper	1.32	1.06	1.20	1.12	1.15
Chemicals	1.44	1.25	1.44	1.32	1.35
Petroleum	.94	.80	.93	.70	.69
Home goods & apparel	1.96	1.59	1.61	1.53	1.52
Merchant wholesalers	1.36	1.24	1.34	1.27	1.27
Less motor vehicles	1.31	1.22	1.33	1.25	1.25
Durable goods	1.83	1.54	1.64	1.54	1.54
Nondurable goods	.95	.90	1.01	.95	.95
Retail trade	1.61	1.44	1.45	1.41	1.41
Less automotive dealers	1.48	1.38	1.37	1.33	1.34
Automotive dealers	2.22	1.59	1.74	1.62	1.63
General merchandise	2.42	2.00	1.95	1.91	1.93
Apparel	2.53	2.28	2.35	2.24	2.26
Food	.83	.79	.81	.78	.82

Inventory-Sales Ratios, by Major Sector

(Book value)







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

	Jan.			12 months ending in Jan.		
	1999	2000	Percent change	1999	2000	Percent change
Outlays	101.2	127.3	25.8	1657.3	1726.1	4.2
Deposit insurance	0.0	-1.4	...	-5.3	-3.8	...
Spectrum auction	0.0	0.0	...	-2.8	-1.5	...
Sale of major assets	0.0	0.0	...	-3.2	0.0	...
Other	101.2	128.7	27.2	1668.5	1731.4	3.8
Receipts	171.7	189.5	10.3	1756.8	1876.0	6.8
Surplus	70.5	62.2	...	99.5	149.9	50.7
	Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts[1]					
Outlays	139.7	139.8	0.0	1682.2	1731.6	2.9
National defense	21.6	20.0	-7.5	270.2	282.6	4.6
Net interest	19.9	19.4	-2.6	238.7	228.6	-4.2
Social security	32.1	33.4	4.1	383.6	394.3	2.8
Medicare	15.2	16.2	7.0	191.9	192.0	0.1
Medicaid	8.9	8.6	-3.1	102.3	110.6	8.0
Other health	2.1	3.0	40.6	30.4	33.8	11.4
Income security	19.7	19.0	-3.5	234.3	239.3	2.2
Other	20.2	20.1	-0.5	230.9	250.4	8.5
Receipts	171.7	189.5	10.3	1756.8	1876.0	6.8
Individual income and payroll taxes	153.2	169.7	10.8	1392.0	1505.3	8.1
Withheld + FICA	106.5	118.4	11.2	1174.1	1284.2	9.4
Nonwithheld + SECA	47.7	52.5	9.9	318.1	346.0	8.8
Refunds (-)	1.0	1.2	18.6	100.1	124.5	24.3
Corporate	5.1	5.3	4.0	185.8	186.1	0.2
Gross	7.2	7.1	-0.7	213.8	216.9	1.5
Refunds (-)	2.1	1.8	-12.4	28.0	30.8	9.9
Other	13.4	14.4	8.0	179.0	184.7	3.2
Surplus	32.0	49.7	...	74.6	144.4	93.6

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.

with sales extremely strong over the past year, inventory-sales ratios are down a good deal from the recent peaks recorded in late 1998 and early 1999.

Retail inventories excluding motor vehicles decreased at an annual rate of $3.2 billion in January, compared with a $30 billion rate of increase in the fourth quarter. Stocks were drawn down in most major categories after sizable increases at the end of last year. Whereas the pace of stockbuilding in the retail sector has been considerable, on net, in recent months, the inventory-sales ratio has been about flat.

Government Expenditures

Federal government. Although the numbers have been bounced around by timing quirks and other anomalies, the federal budget surplus continues to increase. Adjusted for payment timing shifts, deposit insurance, spectrum auction proceeds, and sales of major assets, the surplus in January was $50 billion, up $18 billion from last January. The improvement reflects both sizable revenue gains and the slow rise in outlays.

Spending totals in January for net interest, income security, Medicaid, and national defense were all below the year-ago levels. Defense spending was depressed in January, in part by what appears to have been an acceleration of some vendor payments in December in response to Y2K concerns. The end-of-month Daily Treasury Statement (DTS) indicates that defense vendor payments returned to normal in February. In any event, smoothing through the monthly fluctuations, the level of defense spending appears to have been quite strong in recent months relative to the modest uptrend implied by the annual appropriations figures--suggesting that a weaker pattern may lie ahead.

Receipts in January were about 10 percent above the level recorded last year. Individual income and payroll taxes, both withheld and nonwithheld, remained on a strong uptrend. The data from the DTS suggest that February collections also were robust. At the same time, refunds have increased a good deal this filing season. Total refunds issued by March 10 were about 16 percent higher than for the same period last year. This surge in refunds predominantly reflects faster processing of returns, owing largely to an increase in electronic filings. The percentage of returns receiving refunds is essentially the same as last year, while the size of the average refund is up about 6 percent.

State and local governments. Real activity appears to have been quite strong in the state and local sector early in the first quarter. The small drop in employment in February came after a 32,000 gain in January. Much of the weakness last month was at local educational establishments and came on the

CPI AND PPI INFLATION RATES
(Percent)

	From 12 months earlier		1999		1999	2000
	Jan. 1999	Jan. 2000	Q3	Q4	Dec.	Jan.
			-Annual rate-		-Monthly rate-	
CPI						
All items (100.0)[1]	1.7	2.7	2.4	2.9	.2	.2
Food (15.3)	2.3	1.5	1.8	2.7	.1	-.1
Energy (7.0)	-7.4	14.7	12.7	10.7	1.8	1.0
CPI less food and energy (77.7)	2.4	1.9	2.1	2.3	.1	.2
Commodities (23.4)	1.2	-.1	.6	1.5	-.1	-.2
New vehicles (4.8)	.0	-.8	-.1	.5	.0	-.3
Used cars and trucks (1.9)	1.7	2.2	12.1	5.0	-.7	-.7
Apparel (4.7)	-1.5	-.9	-3.5	3.5	.0	-1.1
Tobacco (1.3)	39.6	5.9	16.9	12.5	-.2	1.6
Other Commodities (10.7)	-.3	-.5	-.7	-.7	.0	.1
Services (54.3)	2.8	2.8	2.3	2.7	.2	.3
Shelter (29.9)	3.1	2.8	2.5	2.3	.2	.3
Medical care (4.5)	3.5	3.5	3.5	3.4	.4	.3
Other Services (20.0)	2.2	2.8	1.9	3.3	.2	.3
PPI						
Finished goods (100.0)[2]	.8	2.5	4.0	3.7	.1	.0
Finished consumer foods (22.9)	1.9	-.4	2.3	.9	.0	.1
Finished energy (13.8)	-8.0	17.5	24.9	14.3	.4	.7
Finished goods less food and energy (63.3)	2.2	.8	.8	2.4	.1	-.2
Consumer goods (38.9)	3.8	1.1	1.7	3.4	.1	-.4
Capital equipment (24.4)	-.1	.4	-.5	1.4	.1	.1
Intermediate materials (100.0)[3]	-2.7	4.1	6.0	4.5	.2	.4
Intermediate materials less food and energy (81.6)	-1.8	2.4	3.8	2.3	.2	.3
Crude materials (100.0)[4]	-11.4	18.0	32.7	17.5	-3.9	2.7
Crude food materials (38.8)	-4.1	-4.7	-2.2	10.0	-2.1	.7
Crude energy (39.4)	-18.6	52.3	96.2	21.3	-8.7	4.4
Crude materials less food and energy (21.8)	-14.4	16.9	18.3	26.0	2.0	3.2

1. Relative importance weight for CPI, December 1999.
2. Relative importance weight for PPI, December 1999.
3. Relative importance weight for intermediate materials, December 1999.
4. Relative importance weight for crude materials, December 1999.

heels of fairly large increases the previous two months. Real construction spending surged in January for the third consecutive month, boosted by continued strength in highway construction that probably was associated, in part, with persistently dry weather. However, unlike in the earlier months, real spending on school buildings and water supply facilities rose smartly in January.

States reduced taxes, on net, for the fifth straight year in fiscal 1999, according to a report released early this year by the National Conference of State Legislatures. Tax cuts enacted last year will trim an estimated $7.3 billion from revenues during fiscal 2000, or 1.7 percent of 1999 collections--the largest net decline in revenues resulting from the recent string of tax cuts. Thirty-four states reduced taxes last year, with significant cuts in seven states--Colorado, Connecticut, Minnesota, Missouri, New York, Washington, and Wisconsin--ranging from 3 percent to 18 percent of the previous year's collections. As in recent years, most of the reductions were in personnel income taxes. States also reduced corporate and general sales taxes, but several states raised excise taxes on cigarettes, gasoline, and alcoholic beverages.

Prices and Labor Costs

Consumer price inflation remained moderate early this year. Both the consumer price index and the index excluding food and energy items rose 0.2 percent in January. Over the twelve months ending in January, the CPI increased 2.7 percent, compared with a 1.7 percent rise over the preceding twelve months. Higher energy prices more than accounted for the pickup. Excluding food and energy, the CPI was up 1.9 percent from its year-earlier value, 0.5 percentage point less than the increase over the preceding twelve months. The extremely sharp rise in tobacco prices in late 1998 contributed importantly to the year-earlier increase; excluding tobacco as well as food and energy items, the CPI decelerated only 0.1 percentage point over the year ending in January, and the introduction of geometric-means aggregation at the beginning of 1999 can more than account for this small deceleration.[14]

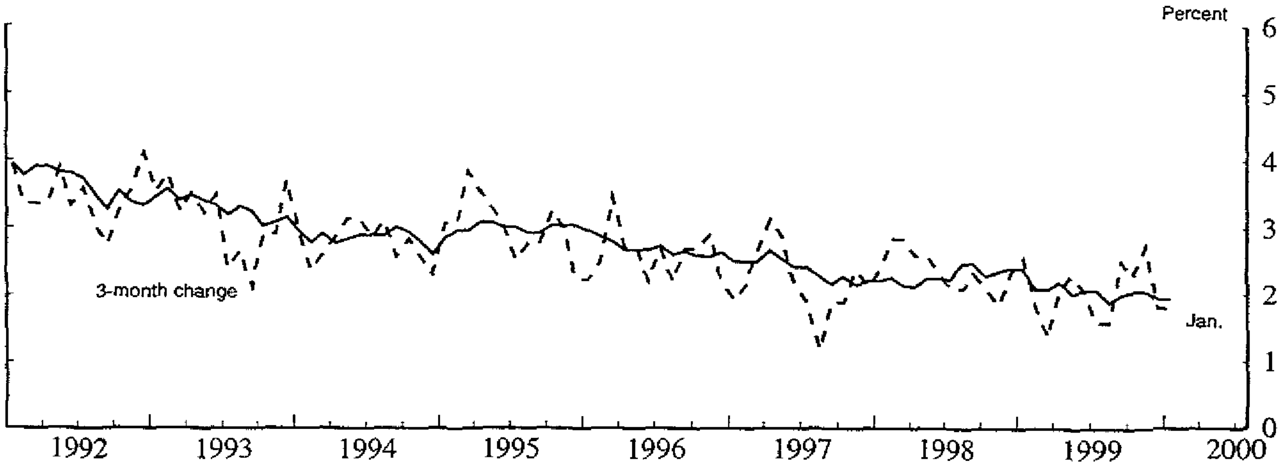
Energy prices have continued to play an important role in recent inflation developments. After essentially no change in October and November, consumer energy prices rose 1.8 percent in December and another 1 percent in January. These increases were largely a result of higher prices for gasoline and heating

14. The technical changes that have been introduced in the CPI in recent years affect the magnitude of the upward bias that most analysts believe is a feature of the CPI and other price indexes. The General Accounting Office recently released a report in which the members of the Boskin Commission were asked to update their estimates of bias in the CPI. The members' estimates currently center at 0.8 percent per year, compared with 1.1 percent in the Commission's 1996 final report. The most important reason for the reduction in bias since 1996 was the introduction of geometric-means aggregation in 1999.

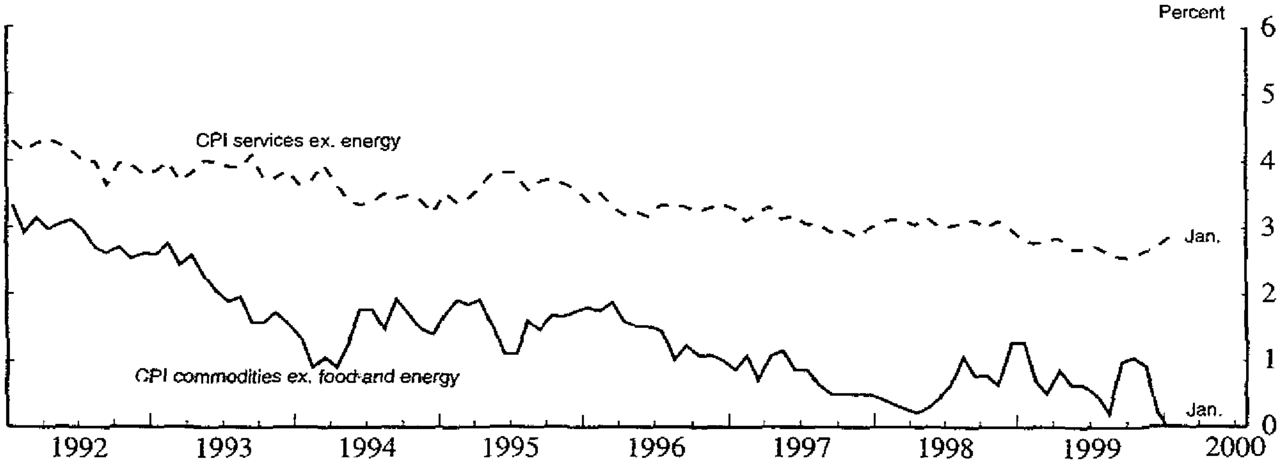
Measures of Core Consumer Price Inflation

(12-month change except as noted)

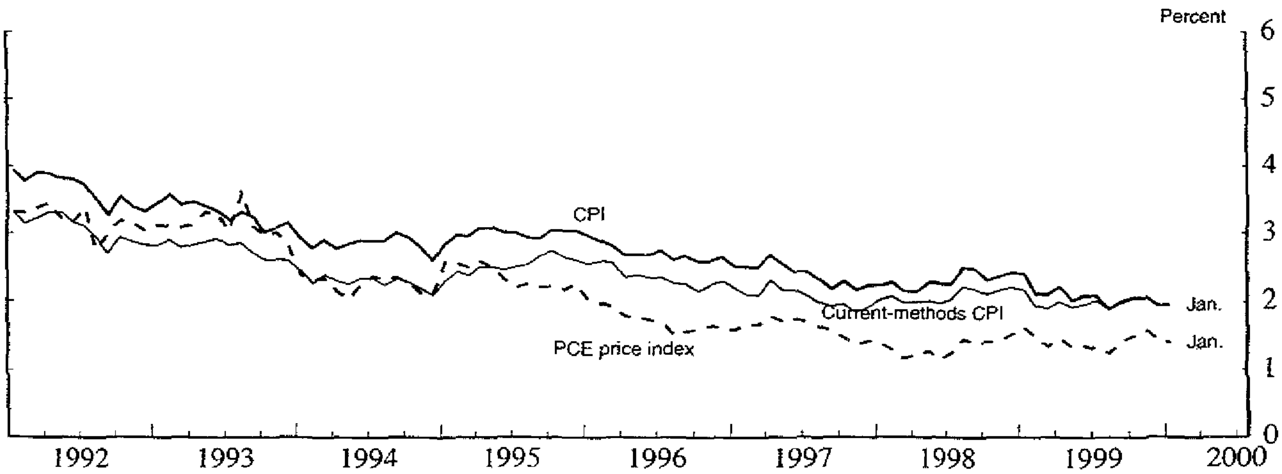
CPI Excluding Food and Energy



CPI Services and Commodities



CPI and PCE Excluding Food and Energy



oil, and survey data for February and early March point to much larger price increases for these products than in December and January. Increases for gasoline and heating oil have been driven by the rise in crude oil prices to more than $31 per barrel and, in the case of gasoline, by the diversion of production toward heating oil and by some refinery disruptions in California. The latter developments are leaving gasoline inventories at extremely low levels before the summer driving season. Overall, through January, the CPI for energy has risen nearly 15 percent since it hit bottom twelve months earlier, not quite fully reversing the declines that began in early 1997.

These energy price increases appear to have contributed to higher prices at the intermediate stage of processing. The PPI for core intermediate materials excluding food and energy continued to rise in the few months through January, with prices of goods that have a high petroleum content, such as chemicals and plastics, posting especially large increases. Also, press reports indicate that some transportation firms have raised rates in response to higher costs. Certainly, anecdotal reports suggest that businesses are starting to be squeezed by higher fuel and transportation costs. Nevertheless, there is little evidence that these cost increases, as yet, have had any strong influence on prices at the consumer level.

Indeed, outside of energy items, consumer price increases have remained subdued. Food prices were little changed in December and January and increased only 1.5 percent over the twelve months ending in January. Prices of commodities excluding food and energy edged down in January for a third consecutive month; however; some of the January decline reflected factors that are likely to be reversed in February and March. Specifically, the CPI for apparel dropped 1.1 percent in January, a decline that may have been exaggerated by seasonal adjustment difficulties. In addition, prices for new cars and trucks came down with the coupon incentives put in place by General Motors, and some uptick may be expected in March after the coupons expire. Nevertheless, the CPI for new vehicles is down 3/4 percent over the twelve months ending in January, and, aside from some makers having raised destination charges, there are few signs of any impending sticker price

BROAD MEASURES OF INFLATION
(4-quarter percent change)

	1996 Q4	1997 Q4	1998 Q4	1999 Q4
Product prices				
GDP chain price index	1.7	1.6	1.1	1.6
Less food and energy	1.6	1.6	1.2	1.7
Nonfarm business chain price index[1]	1.5	1.5	0.4	1.4
Expenditure prices				
Gross domestic purchases chain price index	1.7	1.1	0.7	1.9
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
Current-methods CPI	2.8	1.6	1.3	2.6
Less food and energy	2.2	1.9	2.2	2.1
Median CPI	2.9	2.9	3.0	2.2
Trimmed mean CPI	2.9	2.2	1.9	1.9

1. 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)[4]
		Mean[2]	Median[2]	Mean[3]	Median[3]	
1998-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
2000-Q1						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.	2.7	3.5	3.0	3.5	3.0	
Feb.		3.5	2.9	3.3	2.9	
Mar.						2.5

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

increases--although the higher costs associated with the rocketing of palladium prices in commodity markets certainly has the industry concerned.[15] Elsewhere, consumer tobacco prices rose 1.6 percent in January, reflecting the wholesale price increase that went into effect midmonth; we expect the remainder of that price increase to enter the CPI in February.[16] In addition, New York State boosted cigarette taxes on March 1, which should lead to a further tobacco price increase in this month's CPI.

Prices of non-energy services rose 0.3 percent in January, the same as the average increase over the preceding two months. Owners' equivalent rent increased 0.3 percent in January; over the three months ending in January, it rose at a 3.1 percent annual rate after a surprisingly low 2.3 percent rate of increase over the preceding twelve months. Price increases among other services were fairly widespread in January, although the extremely erratic CPI for airfares declined in January despite increases in fuel costs. Overall, prices of non-energy services rose 2.8 percent over the twelve months ending in January, the same as the increase over the preceding year.

Over the four quarters of 1999, most broad price measures continued to rise less rapidly than the CPI, but they also showed more evidence of acceleration. Core CPI prices rose 2.1 percent (a deceleration of 0.1 percentage point on a current methods basis relative to 1998), and core PCE prices rose 1.5 percent (an acceleration of 0.1 percentage point).[17] The GDP chain-type price index rose 1.6 percent over the four quarters of 1999, 1/2 percentage point more than its increase over 1998. This measure accelerated more than consumption prices, in part because of a firming of investment goods prices that is attributable entirely to a smaller decline in computer prices. Following a decrease of 28 percent in

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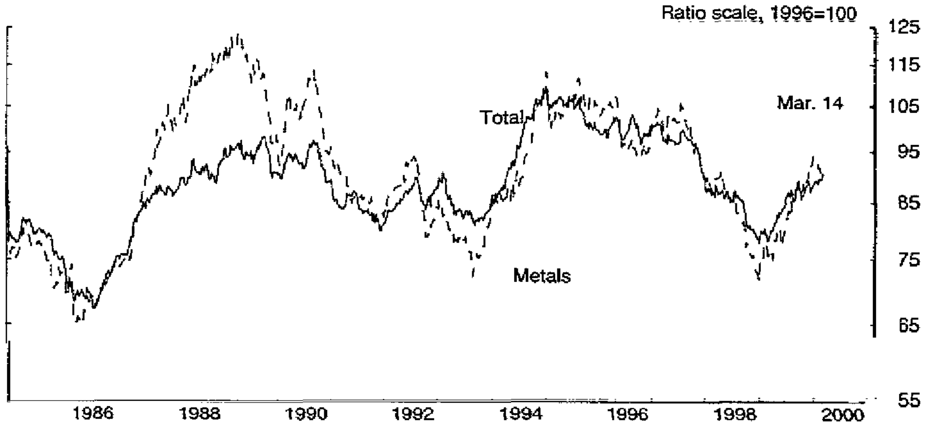
15. Palladium is a critical component in catalytic converters. In February, prices peaked at more than double their level last fall, reportedly adding $100 per vehicle to automakers' costs. Prices of palladium have been erratic, but there has been a pronounced uptrend in the past several years. News accounts attribute the movements largely to sporadic efforts by the Russian government to drive up prices by limiting and delaying exports of the metal. The most recent surge in palladium prices appears to be related to investor speculation that Moscow will further choke supplies in the face of a step-up in industry demand.

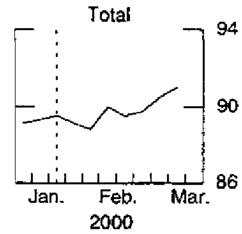
16. Unlike the CPI, the PPI for tobacco declined in January. Federal excise taxes increased 10 cents per pack of cigarettes on January 1, and, in the absence of a wholesale price increase, reduced the net price received by manufacturers. (The mid-January wholesale price increase came after the PPI pricing date for that month and thus should appear in the February PPI data.)

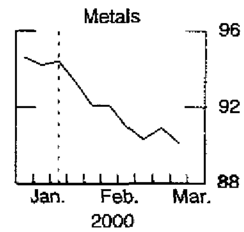
17. Although the PCE price index has some advantages relative to the CPI at the quarterly frequency, these advantages are less clear on a monthly basis. In particular, some of the non-CPI data that underlie quarterly PCE prices are not available monthly, and the weights used in aggregating the monthly PCE data may be somewhat erratic. In addition, the CPI is released about two weeks before PCE. For these reasons, we do not ordinarily emphasize the monthly PCE prices.

Commodity Price Measures

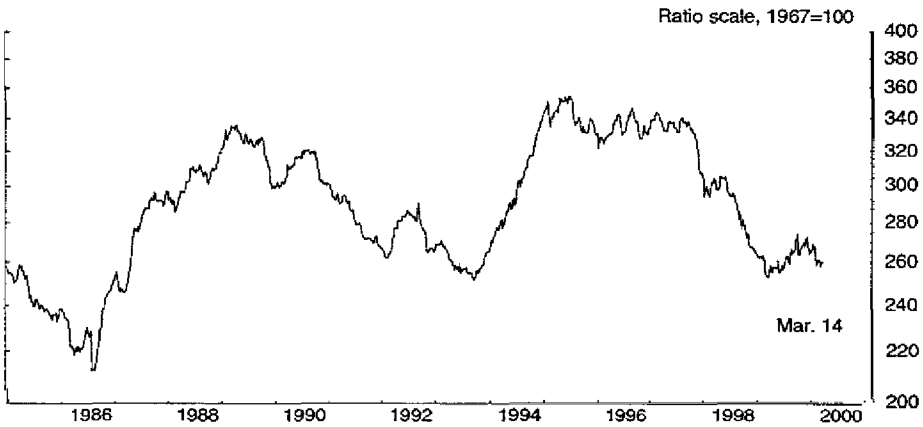
Journal of Commerce Index

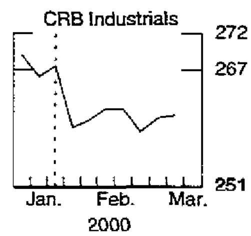




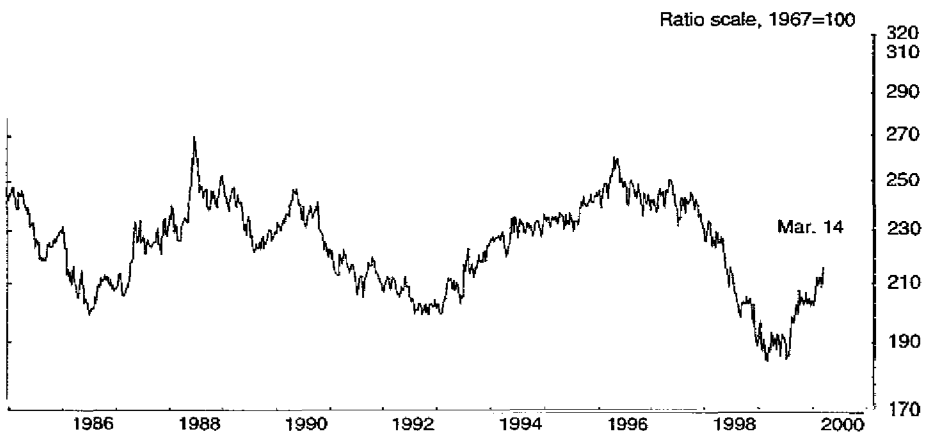


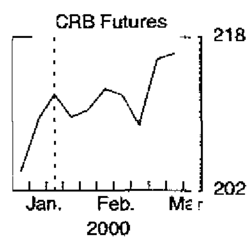
CRB Spot Industrials





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.

SPOT PRICES OF SELECTED COMMODITIES

	Current price (dollars)	Percent change[1]: 1998	1999	Dec. 28 to Jan. 25[2]	Jan. 25[2] to Mar. 14	Memo: Year earlier to date
Metals						
Copper (lb.)	.820	-18	27.5	1.1	-7.9	26.2
Steel scrap (ton)	110.67	-47	61.5	4.5	-9.8	31.0
Aluminum, London (lb.)	.719	-18	26.8	10.9	-9.1	39.0
Precious metals						
Gold (oz.)	290.65	-1.8	1.3	-.9	.9	2.7
Silver (oz.)	5.125	-20	4.3	1.8	-3.9	2.2
Forest products[3]						
Lumber (m. bdft.)	330.00	2.7	8.3	1.5	.0	-2.4
Plywood (m. sqft.)	340.00	6.8	-1.6	-1.6	13.3	-5.6
Petroleum						
Crude oil (barrel)	28.950	-43	147.2	6.1	6.8	135.4
Gasoline (gal.)	.914	-43	109.2	7.0	22.4	122.7
Fuel oil (gal.)	.761	-39	115.2	79.4	-40	101.6
Livestock						
Steers (cwt.)	72.000	-13	15.3	1.6	4.2	11.6
Hogs (cwt.)	42.750	-65	127.4	9.9	10.3	76.3
Broilers (lb.)	.518	27.6	1.4	-16	6.6	-8.2
U.S. farm crops						
Corn (bu.)	2.140	-19	-8.5	8.5	4.6	1.4
Wheat (bu.)	2.875	-11	-20.3	4.4	4.2	-3.2
Soybeans (bu.)	5.040	-20	-16.8	11.7	1.7	9.0
Cotton (lb.)	.599	-9.3	-19.4	17.4	10.5	2.7
Other foodstuffs						
Coffee (lb.)	1.090	-30	2.1	-.4	-8.4	5.3
Memo:						
JOC Industrials	91.000	-14	12.2	1.5	1.7	14.9
JOC Metals	90.100	-20	28.0	1.5	-4.6	19.4
CRB Futures	216.26	-18	6.9	3.9	2.0	15.7
CRB Spot	260.74	-14	1.0	.6	-2.6	3.2

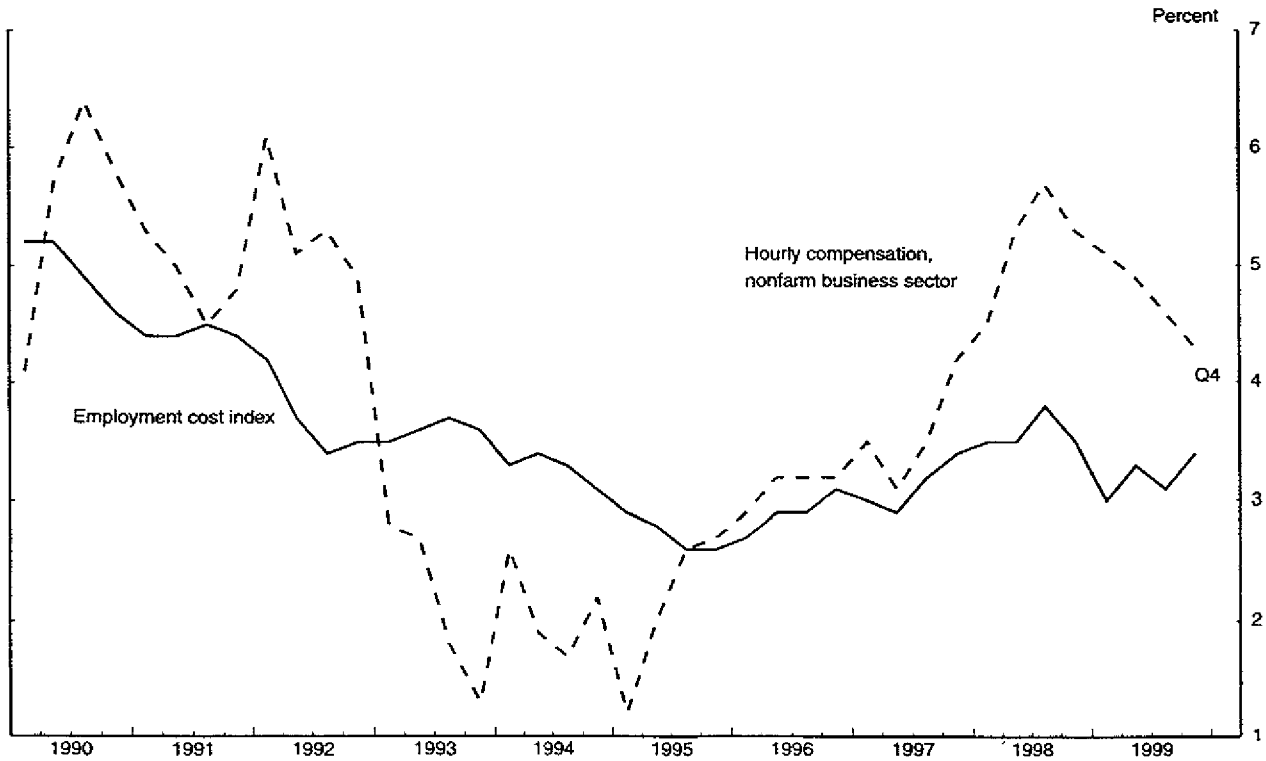
1. Changes, if not specified, are from the last week of the preceding year to the last week of the period indicated.
2. Week of the January Greenbook.
3. Reflects prices on the Friday before the date indicated.

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

			1999			
	1998[1]	1999[1]	Q1	Q2	Q3	Q4
Compensation per hour						
Total business	5.4	4.5	4.9	5.1	4.5	3.3
Nonfarm business	5.3	4.3	4.2	4.8	4.7	3.7
Nonfinancial corporations[2]	5.4	n.a.	4.7	4.8	4.5	n.a.
Unit labor costs						
Total business	2.1	.8	1.9	4.2	-.2	-2.7
Nonfarm business	2.1	.7	1.4	4.2	-.3	-2.5
Nonfinancial corporations[2]	1.2	n.a.	.5	1.4	.4	n.a.

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

Measures of Compensation per Hour
(4-quarter change)



1998, computer prices fell at an annual rate of 19 percent in the first three quarters of 1999 and at an annual rate of 12 percent rate in the fourth quarter. This acceleration likely reflects strong demand and, at the end of last year, decisions by semiconductor manufacturers to hold down production in anticipation--largely mistaken, as it turned out--of a lull in demand before the century date change. Although the PPI for computers posted another smaller-than-average decline in January, anecdotal reports suggest that more rapid production and heightened competition have caused semiconductor prices to start declining more rapidly again, hinting that computer prices may follow.

As noted above, prices continued to firm at earlier stages of processing, at least into January. The PPI for intermediate materials excluding food and energy rose another 0.3 percent in January, bringing the twelve-month change in this series to 2.4 percent. Prices of crude goods excluding food and energy jumped 3.2 percent in January and are up 17 percent over the past year. Prices of industrial commodities have been mixed, on balance, since the PPI's price quotes were collected in mid-January. The Journal of Commerce index of industrial prices is up about 1-3/4 percent since the time of the last Greenbook. However, metals prices have eased somewhat in recent weeks after rising notably through much of 1999.

The median response to the University of Michigan survey of one-year-ahead inflation expectations was 2.9 percent in February, the same as its average level over the fourth quarter of 1999. Near-term inflation expectations from this survey have risen about 1/2 percentage point since the end of 1998, presumably reflecting the actual increase in inflation that occurred over this period as energy prices increased. The median five- to ten-year expectation of inflation from the Michigan survey also was 2.9 percent in February; these longer-term inflation expectations have been quite stable over the past year.

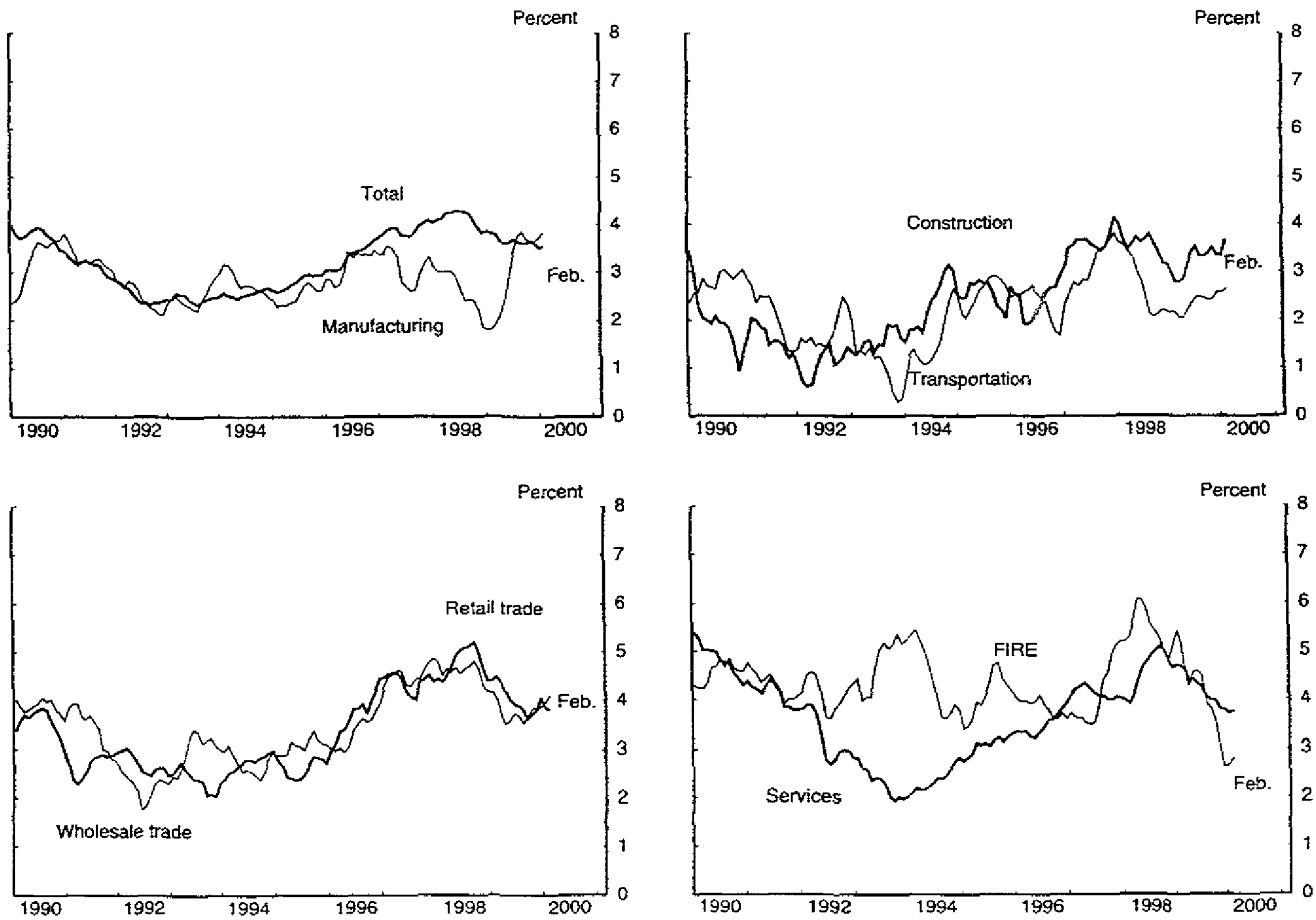
Turning to labor costs, despite anecdotal reports of labor shortages and upward pressure on labor costs, evidence of a pickup in the pace of compensation increases remains fairly scarce in the official statistics. Nonfarm compensation per hour rose at an annual rate of only 3.7 percent in the fourth quarter and was up 4.3 percent for 1999 as a whole--versus 5.3 percent in 1998. Compensation in the employment cost index accelerated in the fourth quarter, bringing the increase for the year to 3.4 percent, little changed from 1998. (We continue to suspect that stock option exercises account for much of the differential between the two compensation series.) With either measure, the strength of productivity implies that unit labor costs actually declined over the second half of last year.

At present, our only "hard" data on labor costs in the first quarter come from the monthly average hourly earnings reports--the most important input into the

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

	12-month percent change			Percent change to Feb. 2000 from month indicated		2000	
	Feb. 1998	Feb. 1999	Feb. 2000	Aug. 1999	Nov. 1999	Jan.	Feb.
	-Annual rate-					-Monthly rate-	
Total private nonfarm	4.2	3.7	3.6	3.6	3.9	.4	.3
Manufacturing	3.0	1.9	3.9	2.4	4.0	.4	.4
Construction	3.3	2.7	4.3	4.7	5.7	.1	.7
Transportation and public utilities	3.8	2.0	2.8	3.2	3.6	-.5	.6
Finance, insurance, and real estate	6.0	4.9	2.5	3.0	3.3	.9	-.3
Retail trade	4.5	4.4	3.8	3.5	4.0	-.2	.5
Wholesale trade	4.7	3.8	3.9	4.0	3.0	.7	-.4
Services	4.2	4.8	3.5	3.6	3.9	.3	.3

Average Hourly Earnings
(3-month moving average of 12-month change)



quarterly estimates of nonfarm compensation per hour. Average hourly earnings rose 0.3 percent in February after increasing 0.4 percent in January. Although the pace of increase of late has been a shade faster, over the twelve months ending in February average hourly earnings rose 3.6 percent, about the same as the increase over the preceding twelve-month period.

Of course, average hourly earnings exclude benefits as well as bonus payments and other forms of compensation that, reportedly, are increasingly being used to attract and retain workers. Indeed, press accounts suggest that bonus payments may have been quite large in the first quarter. In the motor vehicle industry, bonuses totaled $1.8 billion, up $0.5 billion from the previous year's level, with Ford's and Chrysler's payments even larger than last year's sizable amounts, and GM's payment snapping back from the strike-depressed levels of 1998. Because these bonuses are not included in the average hourly earnings data, they also will not be reflected in the data on nonfarm compensation per hour until those data have gone through the annual revision process. Since 1996, BEA has not made any special adjustments in response to press reports of annual bonuses; contacts at BEA feel that these annual bonuses will be satisfactorily captured by the implicit assumption that bonuses increase at the same rate as other forms of wage and salary income. By contrast, BEA does sometimes make adjustments to capture special payments such as last fall's signing bonuses in the motor vehicle and aircraft industries.

Domestic Financial Developments

III-T-1

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

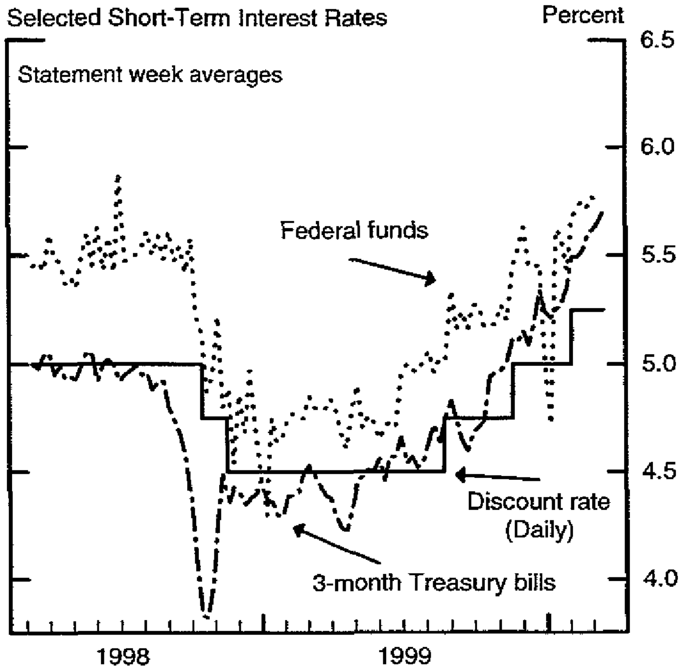
Instrument	1999 June 29	1999 Dec. 31	2000 FOMC* Feb. 2	2000 Mar. 14	Change to Mar. 14 from selected dates (percentage points) 1999 June 29	1999 Dec. 31	FOMC* Feb. 2
Short-term							
FOMC intended federal funds rate	4.75	5.50	5.50	5.75	1.00	.25	.25
Treasury bills [1]							
3-month	4.70	5.17	5.54	5.71	1.01	.54	.17
6-month	4.92	5.49	5.69	5.86	.94	.37	.17
1-year	4.89	5.63	5.92	5.84	.95	.21	-.08
Commercial paper							
1-month	5.18	5.13	5.79	5.91	.73	.78	.12
3-month	5.12	5.75	5.84	6.00	.88	.25	.16
Large negotiable CDs [1]							
1-month	5.21	5.72	5.86	5.97	.76	.25	.11
3-month	5.32	5.90	6.01	6.11	.79	.21	.10
6-month	5.43	6.08	6.24	6.32	.89	.24	.08
Eurodollar deposits [2]							
1-month	5.13	5.69	5.84	5.97	.84	.28	.13
3-month	5.25	5.88	6.03	6.09	.84	.21	.06
Bank prime rate	7.75	8.50	8.50	8.75	1.00	.25	.25
Intermediate- and long-term							
U.S. Treasury (constant maturity)							
2-year	5.68	6.24	6.60	6.48	.80	.24	-.12
10-year	5.93	6.45	6.62	6.31	.38	-.14	-.31
30-year	6.07	6.48	6.43	6.11	.04	-.37	-.32
U.S. Treasury 10-year indexed note	4.01	4.33	4.30	4.16	.15	-.17	-.14
Municipal revenue (Bond Buyer) [3]	5.62	6.23	6.34	6.20	.58	-.03	-.14
Corporate bonds, Moody's seasoned Baa	8.05	8.18	8.27	8.46	.41	.28	.19
High-yield corporate [4]	10.74	11.12	11.50	11.72	.98	.60	.22
Home mortgages (FHLMC survey rate) [5]							
30-year fixed	7.63	8.06	8.25	8.23	.60	.17	-.02
1-year adjustable	5.93	6.56	6.65	6.68	.75	.12	.03

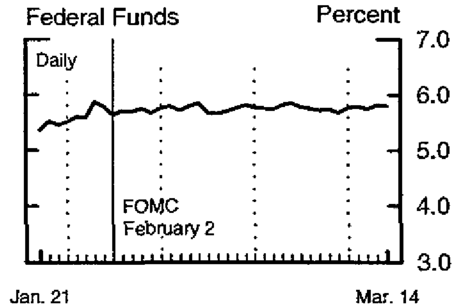
Stock exchange index	Record high Level	Record high Date	1999 Dec. 31	2000 FOMC* Feb. 2	2000 Mar. 14	Change to Mar. 14 from selected dates (percent) Record high	Dec. 31	FOMC* Feb. 2
Dow-Jones Industrial	11,723	1-14-00	11,497	11,041	9,811	-16.31	-14.66	-11.14
S&P 500 Composite	1,469	12-31-99	1,469	1,409	1,359	-7.49	-7.49	-3.56
Nasdaq (OTC)	5,049	3-10-00	4,069	4,052	4,707	-6.77	15.66	16.16
Russell 2000	606	3-9-00	505	504	573	-5.47	13.52	13.74
Wilshire 5000	14,006	3-9-00	13,813	13,393	13,461	-3.89	-2.55	.51

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 Master II high-yield bond index composite.
5. For week ending Friday previous to date shown.
* Data are as of the close on February 1, 2000.

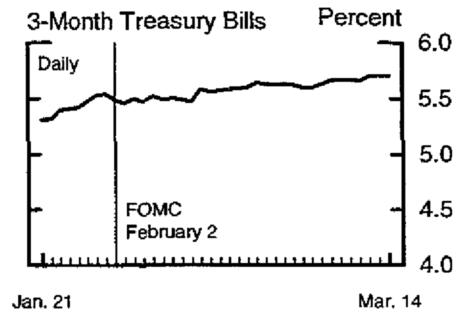
BA:DAM

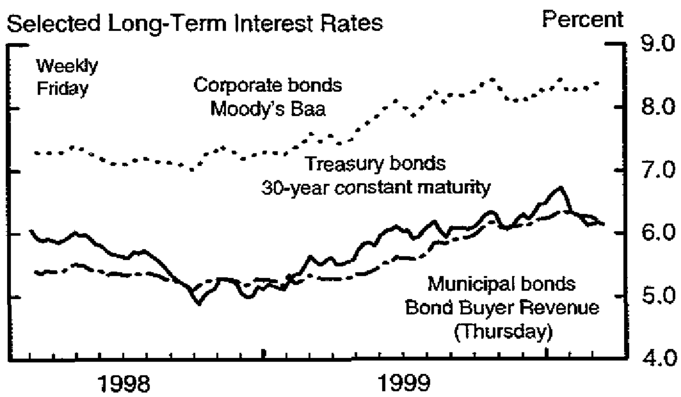
Selected Interest Rates

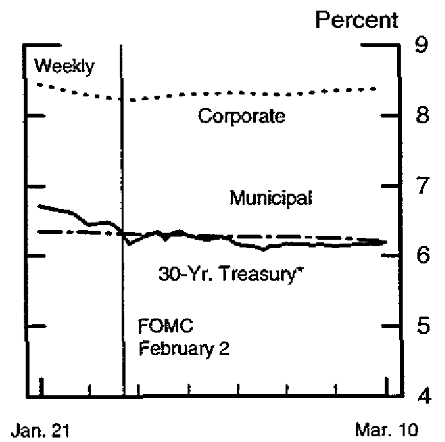




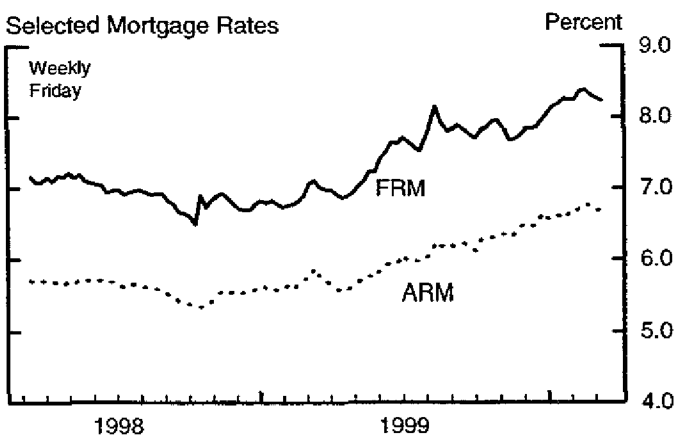
Note. Vertical dashed lines indicate end of reserve period.

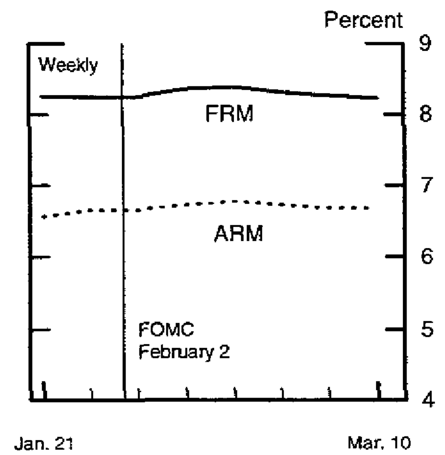






*Daily frequency.





Domestic Financial Developments

Interest Rates and Equity Prices

The FOMC's decision in February to raise the federal funds rate 1/4 percentage point and to proclaim its concerns about inflation risks was no surprise and generated little response in financial markets. Federal funds and eurodollar futures rates indicate that market participants continue to expect a 1/4 percentage point tightening at the upcoming FOMC meeting and perhaps a full percentage point in total by year-end.

Over the first few weeks after the meeting, intermediate-term Treasury yields drifted higher as incoming macroeconomic data and the Chairman's Humphrey-Hawkins testimony solidified expectations of further policy tightening. More recently, however, these rates have reversed that earlier rise. Notably, the sharpest rate declines coincided with occasional equity market selloffs. On balance, yields on coupon issues with maturities out to several years are now down around 10 basis points since February 1, while ten- and thirty-year rates are off more than 1/4 point--with the larger decline partly reflecting increased focus on the prospect of a diminishing supply of longer-maturity issues. Corporate bond rates, by contrast, have risen somewhat over the intermeeting period.

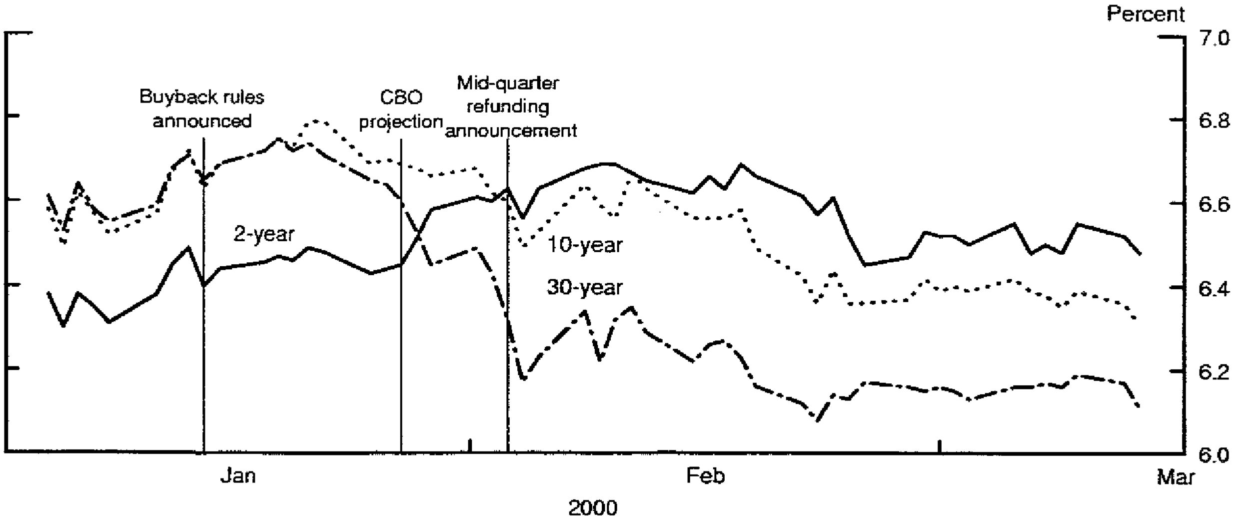
The hottest story, however, has been the behavior of the stock market. Taken as a whole--gauged by the broad Wilshire 5000 index--the market has fluctuated erratically in a generally sideways channel. At its close on March 14, the index was essentially unchanged from where it was on February 2. This in itself might seem remarkable, given the Fed's four tightening actions and warnings of more to come if the market advance does not subside. But beyond that, there have also been dramatically divergent share price movements across various sectors. Shares of biotechnology, telecommunications, and computer-related technology companies have surged, despite their already breathtaking valuations, contributing to a 16 percent gain in the Nasdaq composite and a 14 percent gain in the small-cap Russell 2000 since the last FOMC meeting. In contrast, stock prices in the "old economy" financial and consumer goods and services sectors have been under downward pressure over much of the intermeeting period, helping to drag the Dow Jones Industrial Average down 11 percent.

Impact of Prospective Reductions in the Supply of Treasury Debt

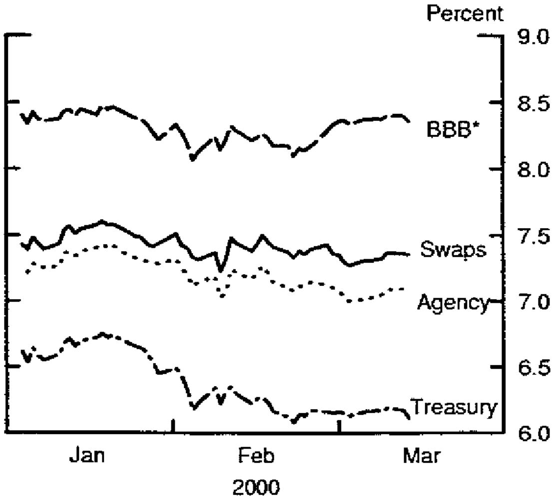
The drop in longer-term Treasury yields over the intermeeting period extended a decline that began in mid-January, which seems to have been largely influenced by concern about the prospective shrinkage in the supply of Treasury securities. The triggering events were several: The Treasury announced the final rules of its debt buyback program, the CBO and OMB issued projections of larger budget

Recent Bond Yields

Treasury Yields

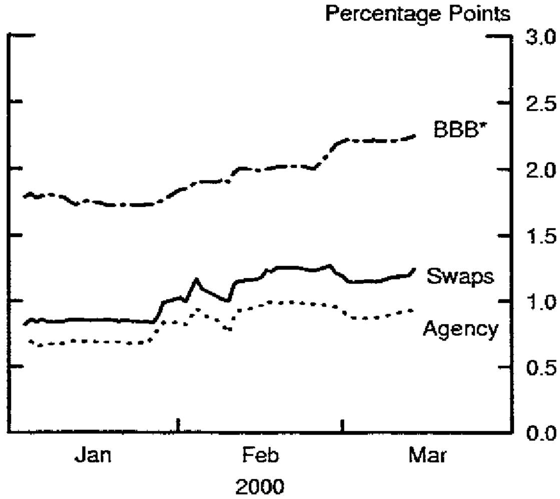


30-year Treasury and Private Sector Yields



* The BBB yield is for maturities of 15 years or more

Spreads over 30-year Treasury



Changes in Yields (basis points)
Jan. 12, 2000 to March 14, 2000

	Maturity (in years)			
	2	5	10	30
Treasury	-1	-11	-41	-60
Agency	3	3	-6	-28
Swaps	10	4	-5	-21
BBB Corporate*	0	0	-14	-8

* The BBB yields refer to maturities of 1 to 3 years, 3 to 5 years, 7 to 10 years, and 15 years or more

surpluses, and the Treasury outlined numerous cutbacks to its debt issuance (chart).

At the benchmark ten-year and, especially, thirty-year maturities, the market reactions have been striking. The thought that the thirty-year bond might disappear entirely caused its yield to fall more than 1/2 percentage point from mid-January to early February, even while short-term Treasury yields were rising. More generally, liquidity in the coupon sector deteriorated noticeably and the February midquarter refunding auctions were very poorly received. Liquidity has since improved; moreover, the recent fallback by shorter-term yields has reversed some of the earlier yield curve inversion. Currently, the thirty-year yield stands 37 basis points below the two-year yield.

Downward pressure on the longer-end of the Treasury yield curve has been only partially reflected in fixed-income markets. Yield spreads on agency, swap, and corporate securities over Treasuries (chart) thus have widened considerably, but there is little evidence to suggest that increased concern about credit risk has played a significant role.

Equity Market

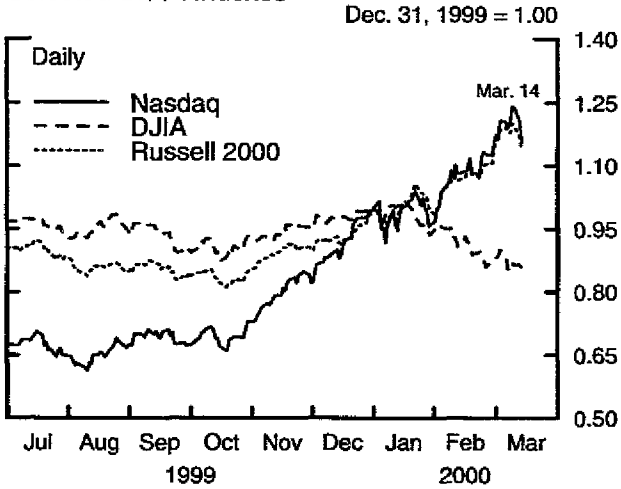
Stock prices have been influenced in recent months by massive funds flows toward shares of high-tech companies partly at the expense of "old" economy companies. The frenzy to invest in stocks with outsized return potential has been evidenced by the enormous flows into aggressive growth mutual funds. Total net inflows into equity funds ran at a record $40 billion pace in January and appear to have been even larger in February. Inflows into aggressive growth funds accounted for a whopping $17 billion in January and $21 billion in February--a 3 percent average monthly growth rate for this subgroup. This compares with a $1 billion monthly pace over the first three quarters of 1999. Similarly, flows into sector funds have exceeded $11 billion per month in January and February--a 5 percent monthly pace; high-tech funds are thought to have accounted for most of this growth. Meanwhile, outflows from the more conservative total return equity funds accelerated to $15 billion in February. Hybrid and bond funds also continue to hemorrhage.

Another trend that reflects an apparent shift in risk tolerance is the recent jump in trading of "penny stocks"--tiny stocks listed on the NASD Bulletin Board. The average number of such shares changing hands daily has quadrupled from around 250 million last summer and early autumn--which was already quite high by historical standards--to more than 1 billion shares in February.

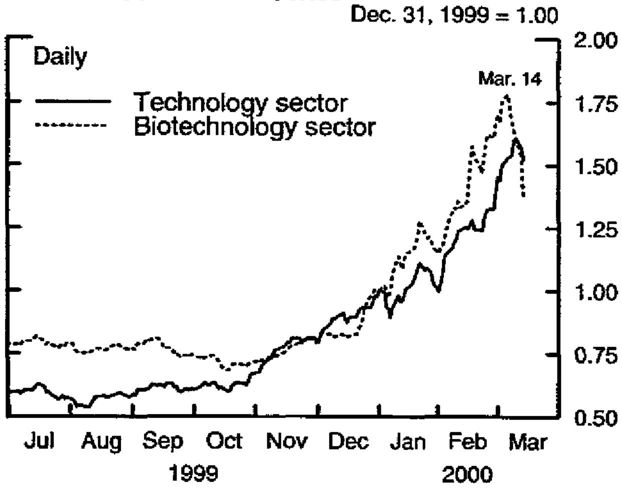
Certainly, fundamentals deserve some of the credit for the long-running divergence between prices for technology and all other shares. That divergence has been paralleled by a gap in expected, as well as actual, earnings growth

Equity Market

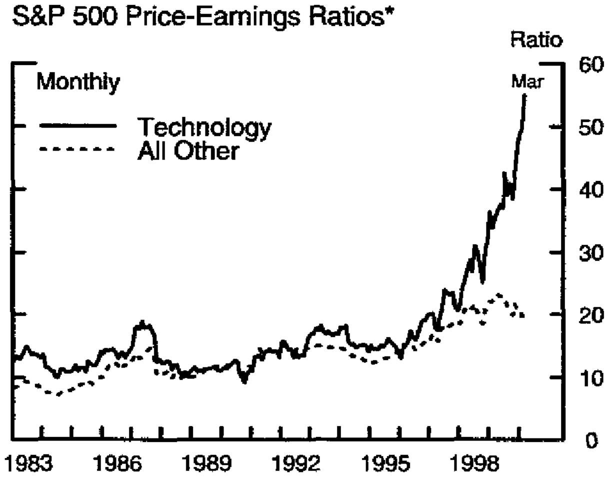
Selected Stock Indexes



Russell 2000 Stock Indexes

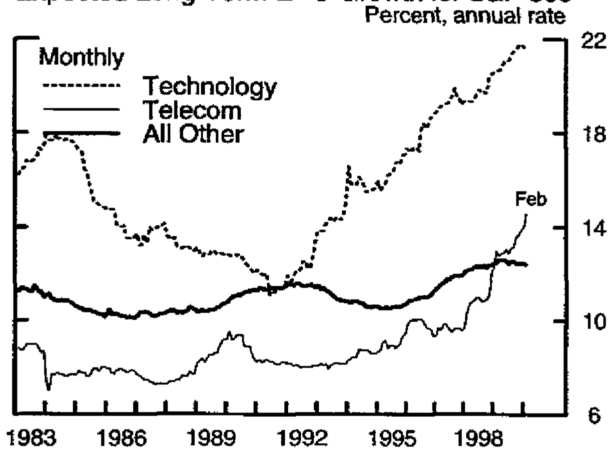


S&P 500 Price-Earnings Ratios*



*Using expected earnings for twelve months ahead.
Source. I/B/E/S.

Expected Long-Term EPS Growth for S&P 500*



*Earnings-weighted average of I/B/E/S consensus firm-level 5-year growth forecasts.

Net Flows into Long-Term Mutual Funds

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

			1999			2000		Assets
	1997	1998	H1	Q3	Q4	Jan.	Feb. e	Jan.
Equity funds	**19.0**	**13.2**	**15.2**	**10.7**	**21.7**	**40.0**	**42.6**	**3,949**
Capital appreciation	7.9	7.1	12.1	8.6	21.1	40.5	42.2	2,100
Aggresive growth	2.7	1.0	0.6	1.9	8.5	16.7	21.1	630
Growth	4.3	5.5	10.1	5.6	6.7	12.3	9.0	1,256
Sector	0.8	0.6	1.4	1.1	5.8	11.5	12.1	214
Total return	7.9	5.5	3.6	2.4	-4.1	-12.5	-15.1	1,274
International	3.1	0.6	-0.4	-0.3	4.7	12.0	15.6	575
Hybrid funds	**1.4**	**0.9**	**-0.4**	**-0.7**	**-2.6**	**-6.6**	**-5.5**	**368**
Bond funds	**2.4**	**6.2**	**3.4**	**-1.4**	**-7.3**	**-12.6**	**-7.1**	**792**

e Staff estimates based on confidential ICI weekly data.
* Change in assets.
Source. Investment Company Institute (ICI).

between technology and non-technology firms. Security analysts' forecasts of long-term earnings growth rates for the computer-related technology sector of the S&P 500--now above 20 percent--have been rising dramatically since 1995. Similarly, long-term growth forecasts for the S&P 500 telecom sector have moved significantly higher over the past few years and currently are at 15 percent per annum. In contrast, average growth expectations for the remainder of the S&P 500, although not low, have not risen over the past two years.

On the other hand, fourth-quarter earnings reports do not appear to have been a catalyst for this diverging stock price performance. S&P 500 firms handily beat expectations in most sectors; overall, earnings per share grew around 22 percent from somewhat depressed levels four quarters ago, with petroleum, basic materials, and the financial sectors logging the largest gains. Even relatively small, non-S&P 500, firms appear to have registered solid double-digit earnings growth. For the current quarter, analysts are forecasting some moderation in the four-quarter earnings per share growth rate of the S&P 500 to somewhere in the mid-teens.

These crosscurrents have resulted in a possibly unprecedented divergence between valuations for the computer technology sector and valuations for other firms, even among the relatively mature companies belonging to the S&P 500. Between the early 1980s (when our data begin) and 1997, the price-earnings ratios (PEs) for these two groups of firms have deviated little (chart). However, since early 1998, the forward PE for the S&P 500 technology sector has shot up to 55 while the PE for other S&P 500 firms has slipped below 19.

Business Finance

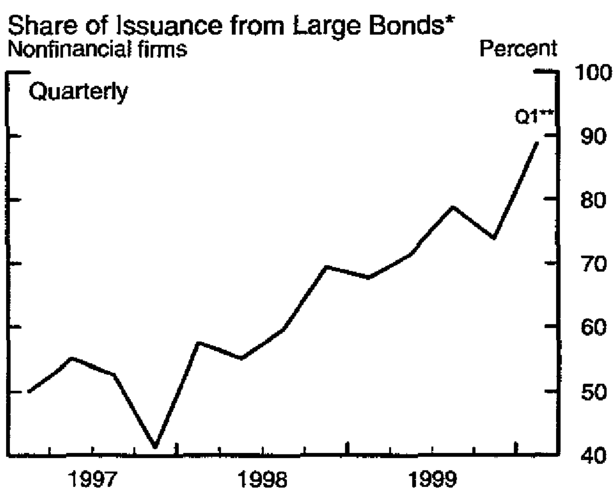
In response to the enormous demand for technology stocks, high-tech firms issued new shares at a furious pace in February, resulting in a large jump in overall nonfinancial public equity offerings. Seasoned offerings raised a record $14 billion, as several high-flying technology firms that debuted as IPOs in 1999 returned to the market with follow-on offerings. IPOs by wireless, telecom, biotech, and business-to-business Internet companies continued to be red hot, and, although the reception of web-retailers cooled recently, 100 percent first-day gains remain the norm. High-tech firms have accounted for 75 percent of IPOs so far this year and figure prominently in the pipeline of forthcoming IPOs, which swelled after new filings rose sharply in February and early March. The pipeline is likely to remain well stocked, as venture capitalists invested a record $48 billion in private firms during 1999, more than double the record $20 billion they invested in 1998.

On the other hand, equity retirements, which these days are relatively more prominent in non-technology sectors, continued their heavy pace. Announced

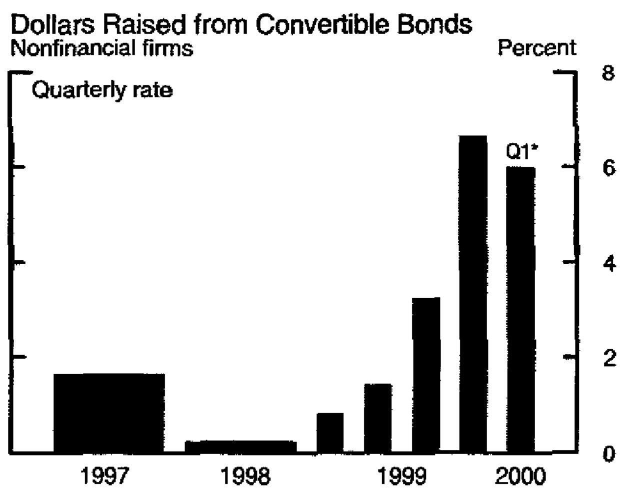
GROSS ISSUANCE OF SECURITIES BY U.S. CORPORATIONS
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1998	1999	1999 Q3	1999 Q4	1999 Dec.	2000 Jan.	2000 Feb.
All U.S. corporations	94.0	89.4	87.5	64.8	50.8	54.2	77.0
Stocks [1]	10.6	11.0	9.1	14.6	8.3	11.3	21.3
Bonds	83.5	78.4	78.4	50.2	42.5	42.9	55.7
Nonfinancial corporations							
Stocks [1]	6.2	9.2	7.9	13.7	7.5	9.1	20.9
Initial public offerings	2.2	4.2	3.2	7.9	4.0	1.1	6.6
Seasoned offerings	4.0	5.0	4.7	5.8	3.4	8.0	14.3
Bonds [2]	25.7	24.5	23.0	17.6	14.6	14.9	24.9
Investment grade [3]	14.1	13.9	14.5	8.8	7.3	5.5	11.7
Speculative grade [3]	10.2	7.5	5.1	6.6	6.5	5.2	10.4
Other (Sold Abroad/Unrated)	1.3	3.1	3.3	2.2	.8	4.2	2.8
Financial corporations							
Stocks [1]	4.4	1.8	1.3	.9	.9	2.2	.4
Bonds	57.8	53.9	55.4	32.6	27.9	28.0	30.8
Memo:							
Net issuance of commercial paper, nonfinancial corporations [4]	2.3	3.6	4.7	4.2	12.4	1.8	9.5
Change in C&I loans at commercial banks [4]	7.1	5.0	6.3	6.8	-6.1	14.6	5.9

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.



*Proceeds from issues greater than or equal to $250 million.
**Data through Feb. 29, 2000, at a quarterly rate.



*Data through Feb. 29, 2000, at a quarterly rate.

share repurchases have rebounded sharply so far this quarter, as lower stock prices and ample free cash flow among blue-chips, such as Merck and General Motors, have motivated the announcement of huge equity buyback programs. Merger announcements continue at a brisk clip, and, while stock-swaps account for a growing percentage of deal financing, the level of cash financing still is expected to remain near recent highs.

Nonfinancial corporations tapped the credit markets in volume in February, extending the rebound in borrowing after the year-end lull. Gross bond issuance resumed at a strong pace as large borrowers, predominantly driven by telecom investments and acquisition financing, shrugged off rate volatility to come to the market. Reluctant investors were wooed with attractive pricing, liquidity, and--in some cases--equity features. The preference for large, liquid issues remains particularly marked, and almost 90 percent of total proceeds were raised in issues sized at $250 million or greater (chart). The issuance totals in the high-yield sector reflect a significant amount of convertible bonds issued by technology firms. Most of these firms are recent IPOs that face enthusiastic demand for the equity aspect of their issues. Smaller non-technology issuers have found the bond markets less receptive, and anecdotal reports suggest that these firms have turned to banks as well as private lenders that acquire subordinated debt.

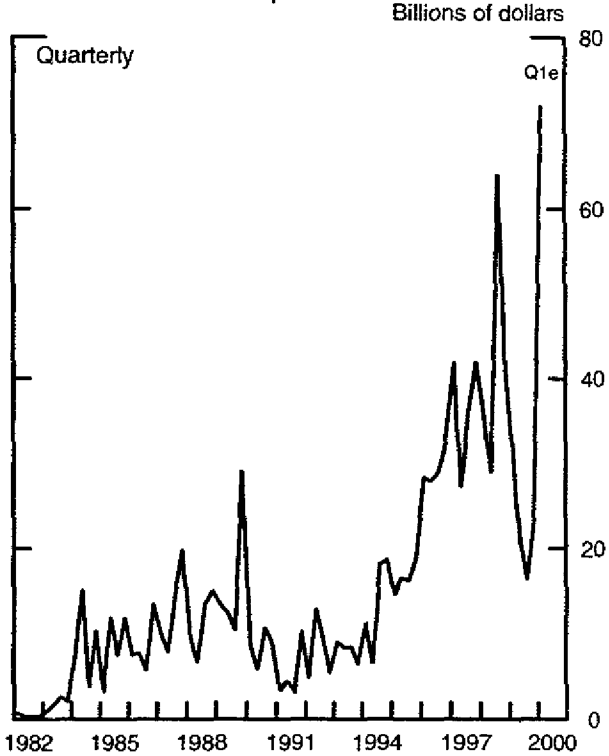
Corporate bond yields followed Treasuries lower early in February but reversed course more recently amid the heavy issuance, resulting in a notable widening of spreads. The limited role of credit concerns in the spread widening is indicated by the fact that the gap between AAA and BBB corporate yields has widened only a little since early February.

Nonfinancial commercial paper issuance and C&I bank loans both expanded at a fairly robust pace in February, as they did toward the end of January. Some of the commercial paper increase was related to merger financing and appears to have reversed a bit in early March. The latest NFIB survey of small businesses shows only a slight deterioration from the widespread perception of relatively ample access to credit. According to the February Survey of Terms of Bank Lending, loan spreads, while ticking down, have remained somewhat elevated, as they have since the financial turmoil of the fall of 1998 and consistent with loan officer reports indicating that they continue to hold the firmer lending stance adopted in that period.

Most corporations remain in a strong financial position, but there are signs of a continued modest deterioration at the edges. Moody's actions in January resulted in little net change in overall credit ratings, and about equal amounts of debt remain on watch for possible downgrades and upgrades. The ratio of the liabilities of failed businesses to the total liabilities of nonfinancial firms ticked

Corporate Finance

Announced Share Repurchases



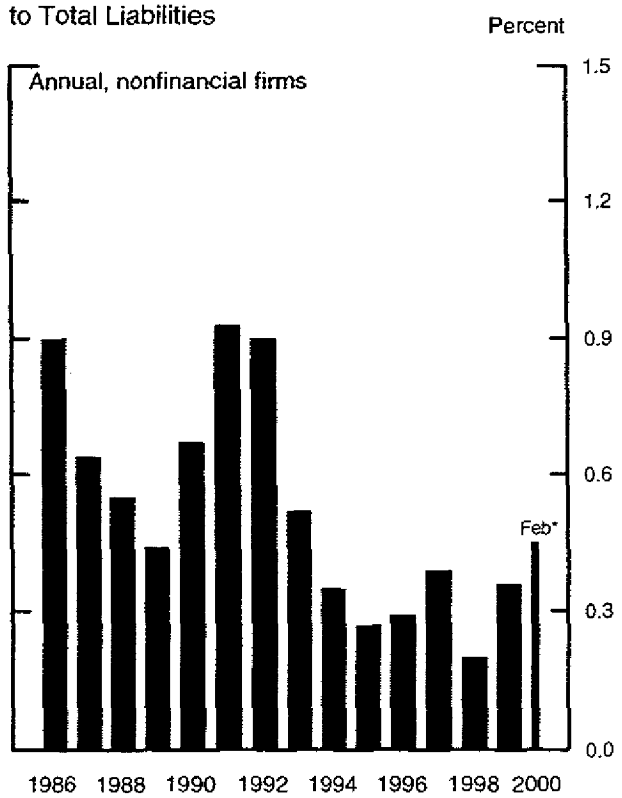
Mergers and Acquisitions, Nonfinancial Firms

Billions of dollars

Quarterly rate

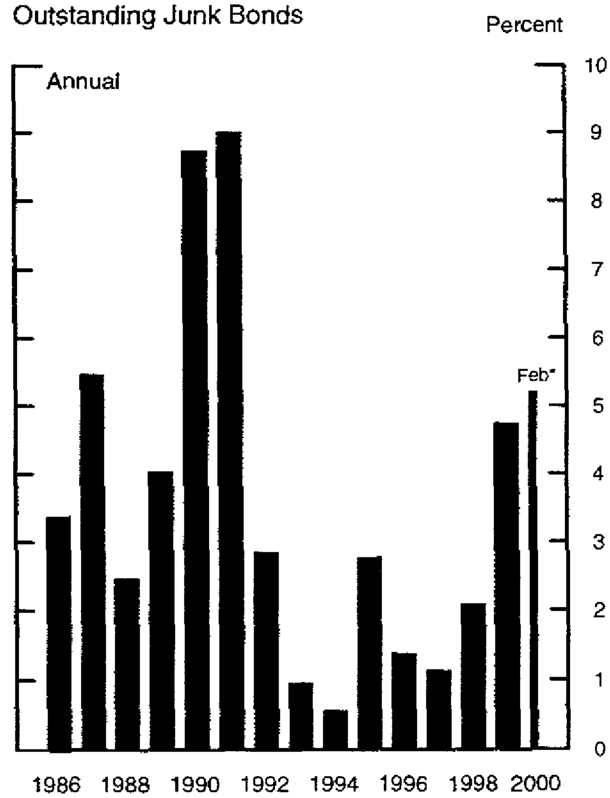
	Cash paid by domestic firms	Total deal value
1997	21.5	82.9
1998	32.6	129.4
1999 H1	23.8	181.5
H2	33.7	218.6
2000 Q1e	20.0	90.0

Liabilities of Failed Businesses to Total Liabilities



*Previous 12 months, at an annual rate.
Source. Dun & Bradstreet.

Default Rates
Outstanding Junk Bonds



*Previous 12 months, at an annual rate.

up in both January and February, and the junk-bond default rate for U.S. companies remained at about 5 percent, the highest level since the early 1990s.

Commercial Real Estate Finance

Primary commercial mortgage interest rates fell almost 1/4 percentage point in February, leaving them just above their November level. Yields on AAA-rated commercial-mortgage-backed securities (CMBS) have fallen only slightly.

CMBS issuance was slow in the first two months of the year, though the current calendar of deals points to a sizable pickup in coming weeks. About 40 percent of the CMBS issued thus far this year have been floating rate, an unusually high share. With the rise in interest rates over the past year, borrowers have found floating-rate loans more attractive because, in addition to having lower current rates, they typically carry fewer prepayment restrictions than fixed-rate mortgages.

Newly available data indicate that commercial mortgage lending remained robust in the fourth quarter. The outstanding amount of loans increased more than 13 percent over 1999, paced by double-digit loan growth at all major holders except life insurance companies.

Delinquency rates on commercial mortgages held by life insurance companies and banks edged down in the fourth quarter, and both series are at record lows.

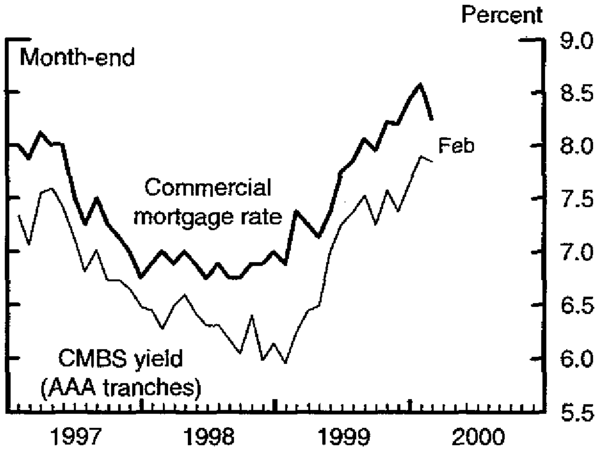
Household Finance

With the market value of equity having been roughly flat over the year to date, the ratio of household assets to disposable personal income is expected to have remained close to the record level reached in the fourth quarter.

Apparently buoyed by high asset values and strong income growth, households continue to take on debt at a rapid clip, despite the rise in mortgage and consumer loan rates over the past year. Mortgage debt grew 8-3/4 percent at an annual rate in the fourth quarter; this increase, while hefty, was actually down some from the third quarter's 11-1/4 percent pace. We expect that mortgage growth will remain strong in the current quarter, as the MBA purchase-loan application index has stayed elevated. Boosted in part by brisk growth in auto loans at captive finance companies, consumer credit grew at a 14-1/2 percent annual rate in January after rising 8-1/2 percent in the fourth quarter. Moreover, debt balances in margin accounts at brokers and dealers rose more than $20 billion in February. Since October, margin credit has shot up $83 billion, or nearly 50 percent, outpacing the growth in aggregate equity market value over the same period. With rapid debt growth and higher interest rates, the aggregate household debt-service burden continued to rise, drawing a bit closer to the levels reached in the mid-1980s.

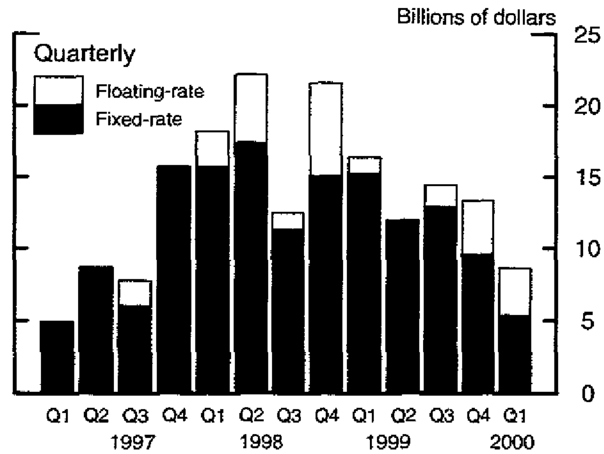
Commercial Real Estate Finance

Funding Costs



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

CMBS Gross Issuance



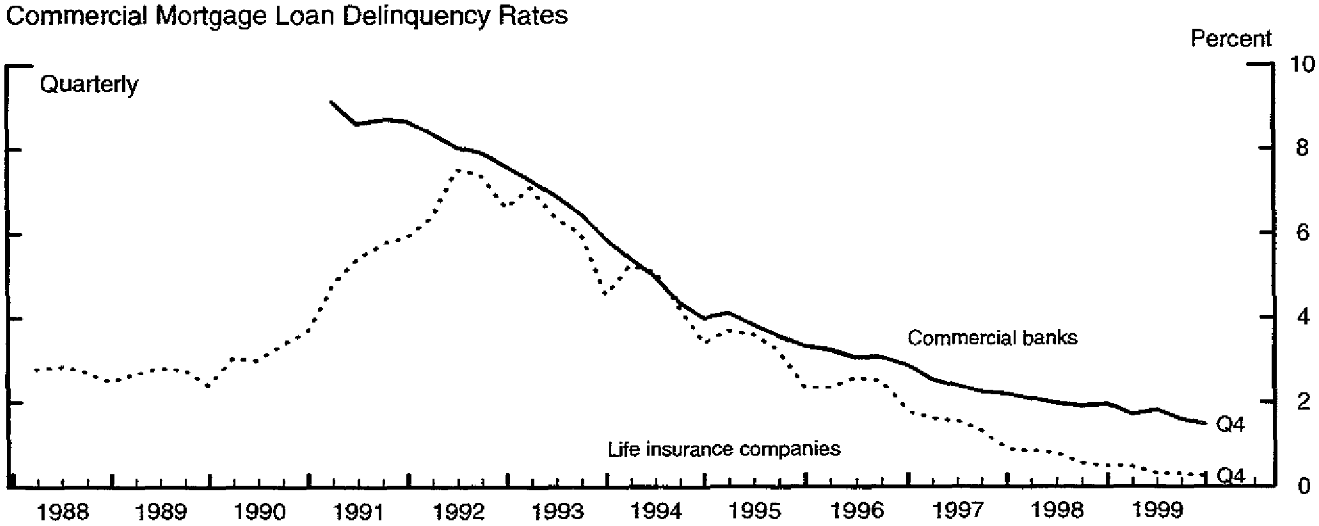
Note. 2000:Q1 is Jan. and Feb. issuance at a quarterly rate.
Source. Commercial Mortgage Alert.

Multifamily and Commercial Mortgage Loans Outstanding
(Percent; seasonally adjusted annual rates; annual data are Q4 to Q4)

Holders	1997	1998	1999	1999 H1	1999 Q3	1999 Q4	Memo 1999:Q4 Level (billions)
Commercial banks and thrifts	4.7	6.5	13.3	9.9	14.6	16.5	704
Fannie Mae and Freddie Mac*	6.6	24.0	25.0	26.3	23.7	17.1	64
Life insurance companies	-1.0	3.4	6.4	8.6	2.5	6.1	210
CMBS	37.1	62.7	26.2	26.3	23.4	21.5	200
Total**	5.9	11.0	13.0	12.0	12.1	13.4	1,457

*Includes multifamily mortgage portfolio holdings and MBS collateral.
**Includes holders not listed above.
Source. Federal Reserve Board flow of funds accounts; Fannie Mae and Freddie Mac.

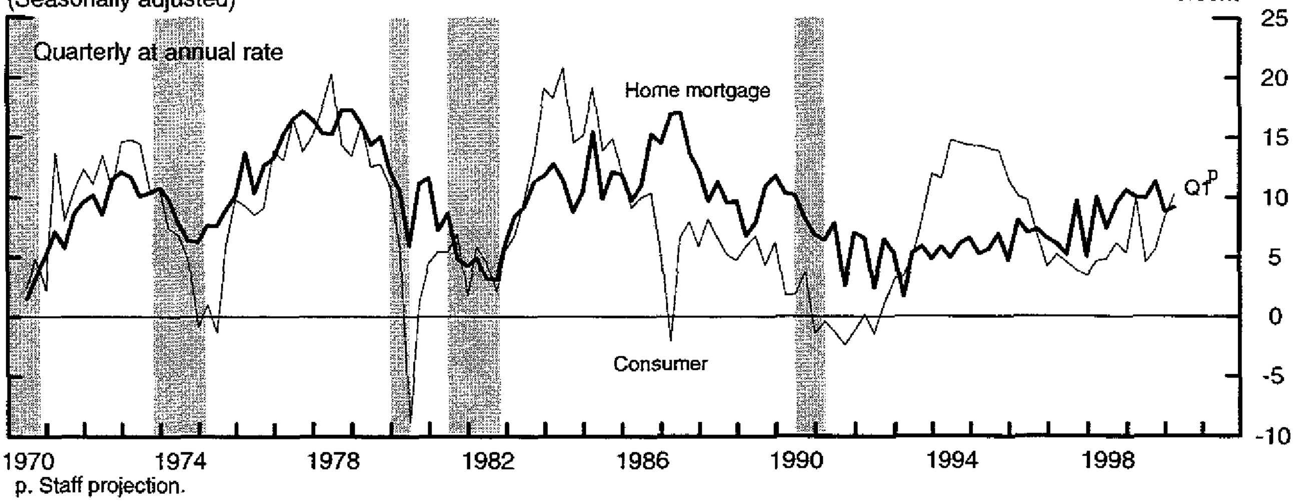
Commercial Mortgage Loan Delinquency Rates



Source. ACLI, Bank Call Report.

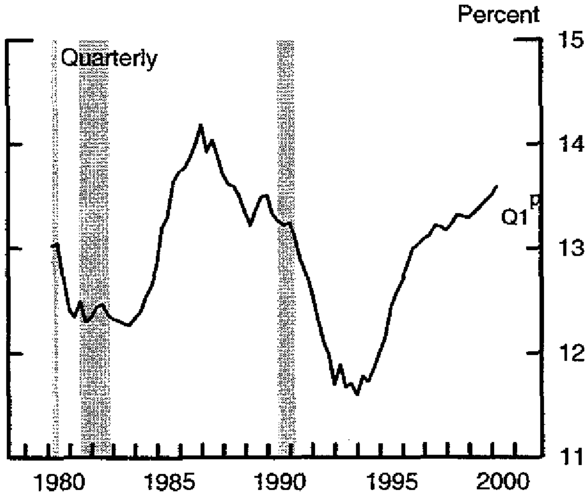
Household Liabilities

Household Debt Growth
(Seasonally adjusted)



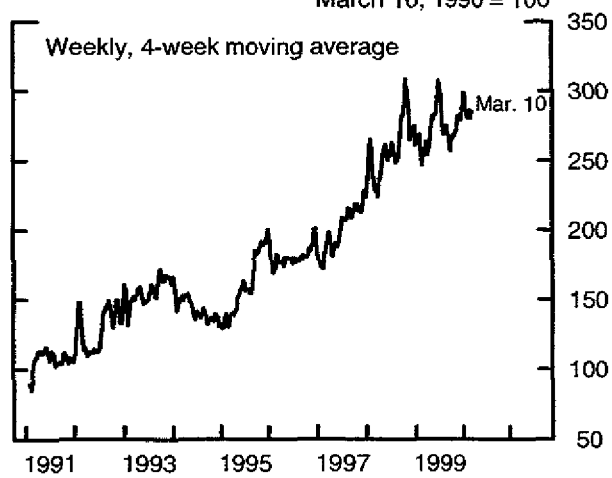
p. Staff projection.

Household Debt Service Burden*



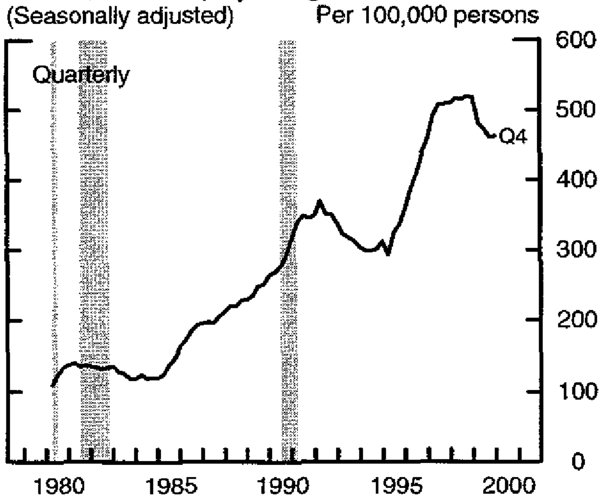
p. Staff projection.
*Required debt payments relative to disposable personal income.

MBA Purchase Index
(Seasonally adjusted)



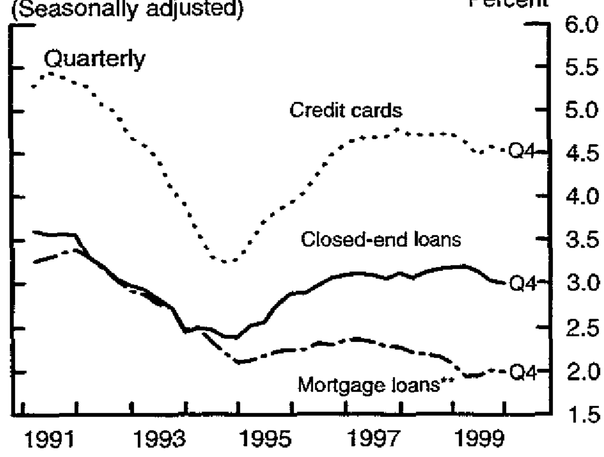
Source. Mortgage Bankers Association.

Personal Bankruptcy Filings
(Seasonally adjusted)



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

Delinquencies at Banks*
(Seasonally adjusted)



*30 days or more past due.
**Q3 Data for one large institution was estimated.

Treasury and Agency Finance

Treasury Financing
(Billions of dollars)

Item	1999				2000	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
Total surplus, deficit (-)	**143.1**	**30.1**	**-20.6**	**33.1**	**62.2**	**n.a.**
Means of financing deficit						
Net borrowing	-108.0	-20.1	47.6	35.7	-84.0	18.8
Nonmarketable	6.3	-2.7	1.0	-1.2	-2.3	0.0
Marketable	-114.3	-17.4	46.6	37.0	-81.7	18.8
Bills	-78.0	4.7	83.6	49.1	-67.2	25.8
Coupons	-36.3	-22.0	-37.0	-12.1	-14.5	-7.1
Decrease in cash balance	-31.5	-3.4	-26.9	-77.2	20.6	40.8
Other[1]	-3.6	-6.7	-0.1	8.4	1.2	n.a.
MEMO						
Cash balance, end of period	53.1	56.5	83.3	83.3	62.7	22.0

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					2000
	Q2	Q3	Q4	Nov.	Dec.	Jan.
FHLBs	34.7	44.5	47.4	13.4	26.2	-6.3
Freddie Mac	15.2	26.7	19.6	4.8	3.4	11.9
Fannie Mae	24.5	25.0	22.7	13.0	7.3	-3.3
Farm Credit Banks	1.2	0.2	0.9	-0.7	1.2	0.2
Sallie Mae	1.2	4.0	0.1	0.2	-2.4	n.a.
MEMO						
Outstanding non-callable notes and bonds						
Fannie Mae benchmark	76.4	93.9	106.4	93.9	101.9	116.4
Freddie Mac reference	41.0	56.5	69.5	61.5	66.5	75.5

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

Nonetheless, household credit quality appears to have changed little on net in recent months. The rate of personal bankruptcy filings was up slightly in the fourth quarter but is about 11 percent off the peak reached in the third quarter of 1998. Bank Call Reports indicate that delinquency rates on mortgages and consumer credit edged down in the fourth quarter. Delinquencies on auto loans at captive finance companies were about unchanged in the fourth quarter but moved up somewhat in January. Moody's index of credit card delinquencies fell further in January, reaching a four-year low.

Treasury Finance

At its mid-quarter refunding announcement on February 2, the Treasury described a number of changes in its debt issuance to address its declining borrowing needs. It will adopt a regular schedule of reopenings for its five-, ten- and thirty-year securities, under which every other auction of each of those securities will be a relatively smaller reopening. Because the thirty-year bond is issued on a semiannual basis, this change implies that only one new security will be offered each year.

The Treasury stated that the two-year note would continue to be auctioned monthly, but the issue size of that security was cut at the February auction from $14 billion to $12 billion. In addition, the Treasury eliminated the April auction of the thirty-year inflation-indexed bond and indicated that the size of the ten-year inflation-indexed note would be modestly reduced. On net in the first quarter, the Treasury is expected to pay down about $39 billion in Treasury coupon securities.

In the bill sector, the Treasury announced that the year bill would no longer be issued every fourth week (after March 2), but would instead be issued only four times a year (beginning June 1). This change was intended to permit the size of its weekly auctions of three- and six-month bills to increase--most recently to $17 billion.

Uncertainty about the implications of these announcements may have limited participation at the midquarter refunding auctions in February. Bid-to-cover ratios were well below historical averages, and stop-out yields were unusually far above the when-issued rates prevailing just before the auction. More recently, the auction of the two-year note was well received.

Last week, the Treasury completed its first debt buyback under its recently established program, repurchasing $1 billion par value of outstanding bonds with remaining maturities of about fifteen to nineteen years and a total market value of $1.35 billion. The buyback operation was well received: Primary dealers submitted offers to sell more than $8-1/2 billion of the thirteen eligible securities back to the Treasury, and the prices that the Treasury accepted were near those observed in the secondary market.

Agency Finance

Spreads between the yields on longer-term benchmark agency securities and those on Treasury securities have widened considerably since mid-January, primarily owing to the unusual developments in the Treasury market. Currently, spreads on five-year securities are up about 15 basis points from their mid-January level to 60 basis points, and spreads on the ten- and thirty-year securities are up between 30 and 35 basis points, to about 90 and 100 basis points respectively.

Fannie Mae and Freddie Mac continued to issue Reference and Benchmark securities at a strong pace over the intermeeting period. As expected under their announced issuance calendars, Fannie Mae auctioned $3 billion of five-year and $4 billion of seven-year Benchmark notes, and Freddie Mac auctioned $5 billion of three-year Reference notes. In addition, Fannie Mae opportunistically responded to the scaling back of Treasury bond issuance by conducting an unscheduled auction of $2.5 billion of a thirty-year Benchmark bond and announcing that it would issue thirty-year bonds four times this year rather than two.

Concurrent with that auction, Fannie Mae offered its third debt exchange program, under which investors could exchange previously issued medium-term notes with maturities between twenty-five and twenty-nine years for the newly auctioned Benchmark bond. Under the exchange rates set, investors had to give up about 5 to 7 basis points on the yields of most eligible securities to obtain the more liquid new bond. Investors exchanged nearly two-thirds of the total amount of securities that were eligible for the program, increasing the issue size of the new bond to $4.7 billion.

In total, more than $200 billion in Benchmark and Reference notes and bonds have been issued to date. In addition to those securities, Fannie and Freddie are currently issuing more than $10 billion of Benchmark and Reference bills each week.

In a development that could further enhance the liquidity of Benchmark and Reference notes, the Chicago Board of Trade and the Chicago Mercantile Exchange are introducing this month futures contracts based on five- and ten-year benchmark and reference notes and options based on these new futures contracts. The specifications of the contracts are similar to those already available on the five- and ten-year Treasury notes from the CBOT.

Municipal Finance

Gross issuance of long-term municipal bonds averaged about $10 billion per month in January and February, about half the pace of the past two years. Rising interest rates have choked off nearly all refunding issuance. New capital issuance is also down, as rising rates and increasing tax revenue appear to have limited the demand for new funds.

Although the municipal yield curve flattened somewhat, long-term yields did not follow Treasuries down entirely, and the ratio of the thirty-year revenue bond yield to the thirty-year Treasury yield backed up to above 1.

The credit quality of municipal issuers remains strong, despite a slight net downgrade of issues by Standard and Poor's in February. The downgrades owed to the downgrading of a credit enhancement provider rather than to a decline in issuer financial strength.[1] Also of note, Fitch upgraded its rating for California, bringing $22 billion of debt up to the AA- level, the rating already applied by Moody's and Standard and Poor's.

Money and Bank Credit

Growth of the broad monetary aggregates slowed substantially in February owing largely to the unwinding of Y2K effects. M2 decelerated to a 2-1/4 percent annual growth rate, down from a 6 percent rate in January. Y2K-related bulges in currency and money funds unwound in February, while liquid deposits got a boost from currency reflows. Abstracting from these effects and the impact of larger-than-usual income tax refunds, M2 growth over the first two months of the year was below its pace over the second half of 1999. Shifts into credit market instruments and equities as interest rates rose and stock prices soared probably dampened underlying M2 growth.

M3 rose at a 4 percent rate in February, held down by a 11-1/2 percent decline in institution-only money market mutual funds. This retreat reflected the unwinding of Y2K effects plus the typical restraining effects of monetary policy tightening. (These funds often decline temporarily when interest rates rise because their yields lag changes in market rates a bit.) By contrast, large time deposits increased at a robust 17 percent rate. The extraordinary buildup in these deposits at the end of last year has not unwound, reflecting in part the continued growth in bank credit.

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1. The CD ratings of Bank One Corp. and its subsidiaries were downgraded to 'A+/A-1' from 'AA-/A-1+' by S&P. This triggered downgrades of more than fifty small bond issues--the vast majority under $25 million in face value--for which Bank One and a subsidiary had provided letters of credit.

State and Local Finance

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

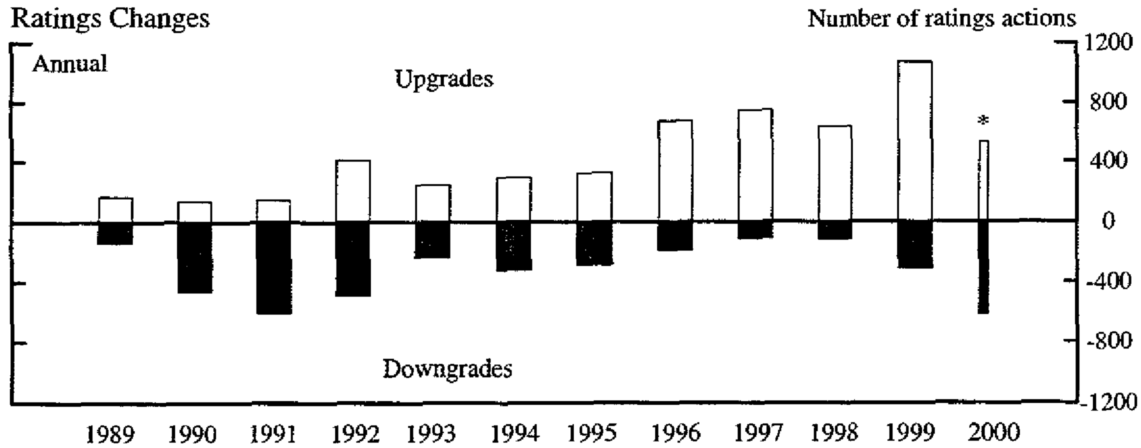
	1998	1999	1999 Q3	1999 Q4	1999 Dec.	2000 Jan.	2000 Feb.
Long-term	21.9	18.0	17.6	16.6	14.8	9.0	10.9
Refundings [1]	8.5	4.5	4.4	3.1	3.3	0.9	1.5
New capital	13.4	13.5	13.2	13.5	11.5	8.0	9.4
Short-term	2.4	2.7	3.9	2.2	2.6	1.8	1.3
Total tax-exempt	24.3	20.6	21.5	18.8	17.4	10.8	12.2
Total taxable	1.1	1.1	0.8	1.1	1.4	0.5	0.6

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

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

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

Ratings Changes



* Data through Mar. 2, 2000, at an annual rate.

Monetary Aggregates

(Based on seasonally adjusted data)

Aggregate or component	1999	1999 Q3	1999 Q4	1999 Dec.	2000 Jan.	2000 Feb. (p)	1999:Q4 to Feb. 00 (p)	Level (bil. $) Jan. 00
	Percent change (annual rate)[1]							
Aggregate								
1. M2[2]	6.1	5.2	5.0	7.3	5.9	2.2	4.9	4683.5
2. M3	7.4	4.9	9.7	16.8	8.1	4.1	9.5	6533.4
Selected components								
3. Currency	10.9	9.7	12.3	26.9	19.8	-14.2	9.1	517.9
4. Liquid deposits[3]	5.9	5.3	1.5	-1.7	-5.4	3.3	-1.0	2330.2
5. Small time deposits	-0.7	0.3	6.2	7.6	7.8	6.7	7.6	966.6
6. Retail money market funds	12.3	8.0	9.4	20.2	26.9	4.1	16.0	860.6
7. M3 minus M2[4]	11.1	4.0	22.8	41.9	13.7	9.2	21.5	1849.9
8. Large time deposits, net[5]	8.3	0.4	32.6	42.3	10.4	17.3	24.2	718.2
9. Institution-only money market mutual funds	17.1	9.3	21.4	31.0	31.8	-11.5	17.0	617.5
10. RPs	9.8	9.1	12.8	49.3	-20.4	47.4	23.3	342.0
11. Eurodollars	4.8	-9.8	9.1	65.8	29.5	-21.2	23.9	172.2
Memo								
12. M1	1.8	-1.8	4.8	15.6	-3.3	-17.0	-2.4	1104.8
13. Sweep-adjusted M1[6]	5.1	3.4	5.7	14.0	-1.8	-9.3	0.3	1478.3
14. Demand deposits	-6.2	-11.1	-1.2	0.7	-35.4	-25.0	-18.8	338.2
15. Other checkable deposits	-2.7	-11.1	-0.2	13.9	-4.9	-11.9	-2.0	240.6
16. Savings deposits	10.2	11.3	2.3	-4.3	0.7	11.0	2.7	1751.4
17. Monetary base	12.4	9.2	20.0	44.2	1.1	-38.3	-0.3	572.3
	Average monthly change (billions of dollars)[7]							
Memo								
Selected managed liabilities at commercial banks								
18. Large time deposits, gross	7.5	1.1	25.0	38.0	9.2	2.1	...	878.0
19. Net due to related foreign institutions	0.5	5.1	1.1	-4.7	6.3	4.7	...	232.5
20. U.S. government deposits at commercial banks	0.2	0.3	2.7	26.4	4.7	-7.7	...	38.3

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 demand deposits, other checkable deposits, and saving deposits.
4. Sum of large time deposits, institutional money funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees.
5. Net of holdings of depository institutions, money market mutual funds, U.S. government and foreign banks and official institutions.
6. 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.
7. For the years shown, "average monthly change" is the Q4 to Q4 dollar change divided by 12. For the quarters shown, it is the quarter to quarter dollar change, divided by 3.

p--Preliminary

Commercial Bank Credit

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

Type of credit	1999	Q3 1999	Q4 1999	Dec. 1999	Jan. 2000	Feb. 2000	Level, Feb. 2000 ($ billions)
Total							
1. Adjusted[1]	**5.4**	**6.1**	**11.3**	**19.4**	**3.8**	**5.4**	**4,737**
2. Reported	4.1	5.4	11.0	20.0	1.8	5.7	4,811
Securities							
3. Adjusted[1]	8.1	18.8	6.5	15.2	.0	-11.2	1,177
4. Reported	2.9	14.9	6.0	17.6	-7.8	-8.7	1,251
5. U.S. government	2.4	6.6	-6.0	6.9	2.8	-7.2	801
6. Other[2]	3.9	31.8	29.4	36.4	-26.1	-11.3	451
Loans[3]							
7. Total	4.5	1.9	12.9	20.9	5.2	10.9	3,560
8. Business	5.2	5.3	10.8	2.9	2.4	15.6	1,022
9. Real estate	9.1	6.5	17.6	31.6	13.8	12.4	1,505
10. Home equity	-.2	-21.0	15.7	63.6	38.0	20.6	113
11. Other	9.9	8.7	17.8	29.1	11.9	11.8	1,392
12. Consumer	-2.0	-11.5	3.8	25.4	16.1	12.3	504
13. Adjusted[4]	4.6	5.2	8.7	15.7	10.0	7.1	802
14. Other[5]	-1.8	-3.5	13.0	21.7	-22.6	-3.6	530

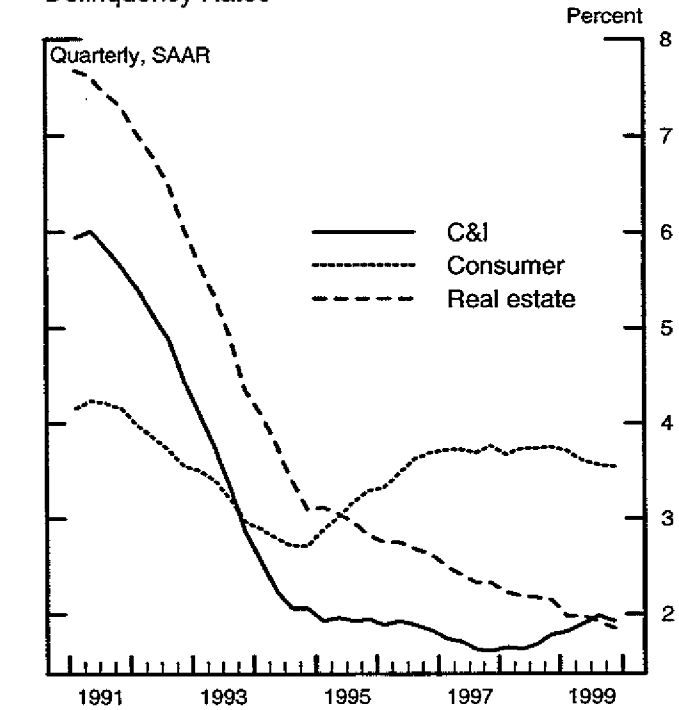
Note. All data are adjusted for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in 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.

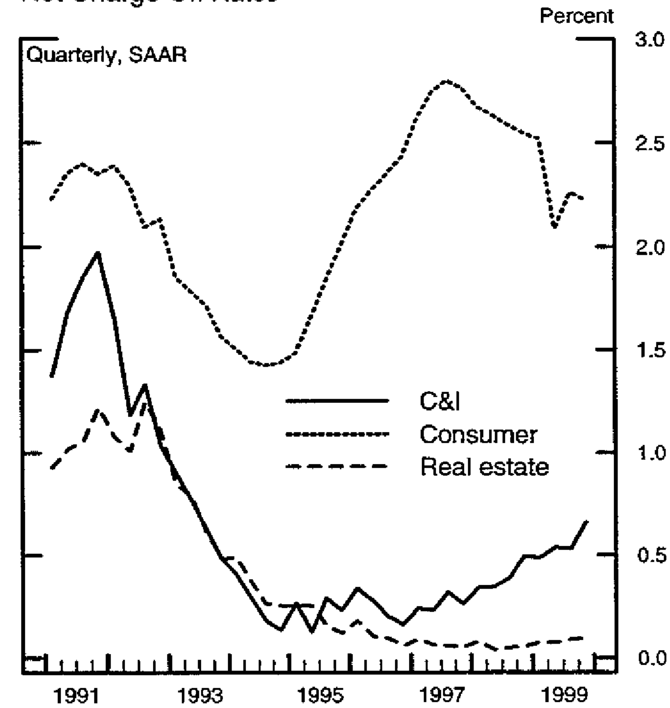
BA:LRC

Commercial Banks

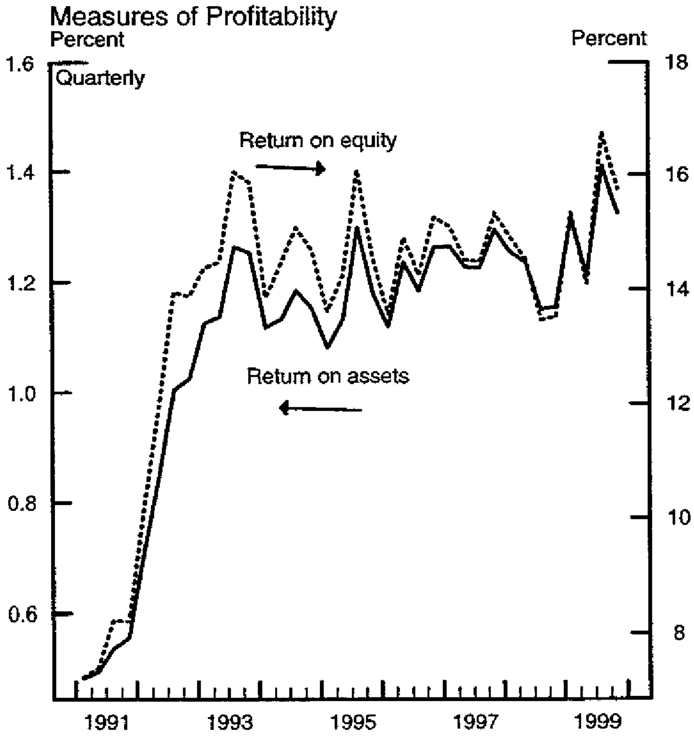
Delinquency Rates



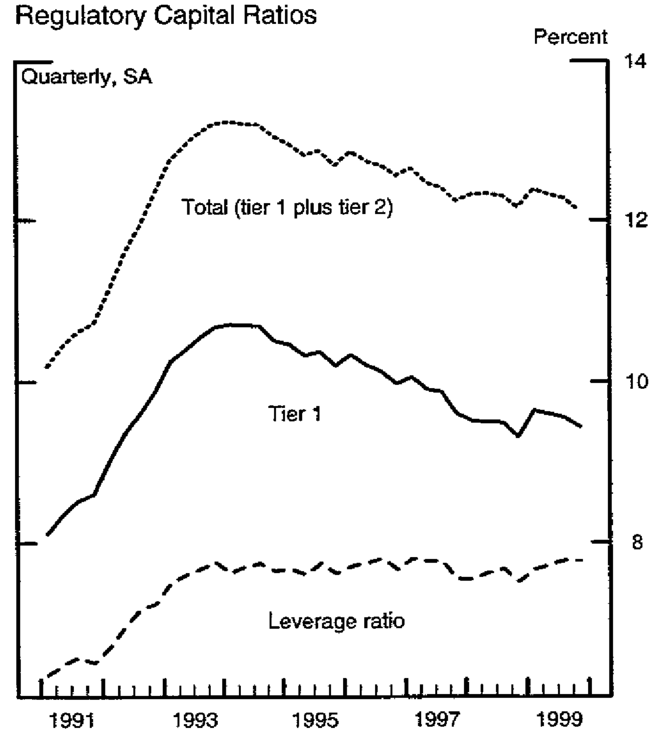
Net Charge-Off Rates



Measures of Profitability



Regulatory Capital Ratios



Source: Call Report Data

Bank credit grew at a 5-1/2 percent annual rate in February, up only mildly from January's sluggish pace. Growth in both months was held down by declines in security loans and banks' holdings of securities, volatile components that had grown rapidly at the end of last year. Commercial and industrial loans increased at a 15-1/2 percent rate in February after rising 2-1/2 percent in January; the weekly data actually show steady increases since mid-January, following the slump in growth around year-end. Real estate loans have also expanded rapidly so far this year, bolstered by continued strong growth in commercial real estate lending. Growth of home mortgages at banks has slowed a bit, perhaps owing, in part, to a relatively heavy backlog of securitizations delayed until after the turn of the year. Growth of consumer loans on bank balance sheets grew at a 12-1/4 percent pace last month, but adjusted for securitizations, growth slipped to 7 percent.

The robust growth in bank loans reflects strong demand for credit, but banks' willingness to meet that demand is surely buoyed by their continued profitability and strong balance sheets, evidenced in fourth-quarter Call Report data. Return on equity remained high even by the elevated standards of recent years. Loan-loss rates stayed low, with a decline in charge-off rates on consumer loans about offsetting a rise in loss rates on C&I loans. Delinquency rates declined for all major loan types.

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

In December, the U.S. trade deficit in goods and services was $25.5 billion, $1.6 billion smaller than in November (revised). The deficit in the fourth quarter was $19 billion (s.a.a.r.) larger than in the third quarter. Despite the increase in the nominal deficit, real net exports made a smaller negative contribution to U.S. GDP growth in the fourth quarter than in the previous three quarters; a small slowdown in real export growth was exceeded by a larger slowdown in the growth of real imports.

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

	1999	Annual rate 1999			Monthly rate 1999		
		Q2	Q3	Q4	Oct.	Nov.	Dec.
Real NIPA[1]							
Net exports of G&S	-322.9	-319.0	-338.2	-349.7	...	...	...
Nominal BOP							
Net exports of G&S	-271.3	-261.1	-294.5	-313.1	-25.6	-27.1	-25.5
Goods, net	-347.1	-338.4	-367.8	-384.9	-31.9	-32.9	-31.5
Services, net	75.8	77.3	73.3	71.8	6.3	5.8	5.9

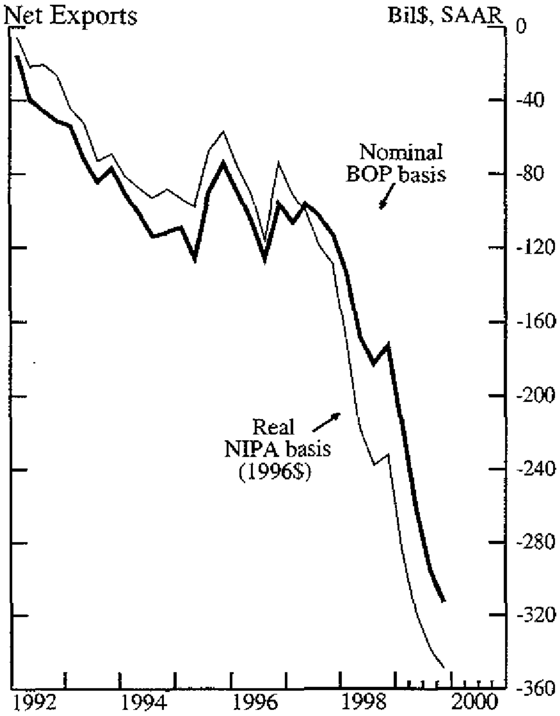
1. Billions of chained (1996) dollars.
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.
n.a. Not available. ... Not applicable.

The value of exports jumped in December, led by increases in aircraft, machinery, automotive products and consumer goods. Growth of exports in the fourth quarter was only slightly slower than in the third quarter. About 45 percent of the rise in value was concentrated in industrial supplies (especially chemicals). The remaining increase was spread among all other major trade categories except agricultural products, which declined. Real exports of goods and services rose 9 percent at an annual rate in the fourth quarter. Over the four quarters of 1999, real exports rose 4½ percent, with nearly all export growth occurring in the second half of the year. By area, most of the increase in exports went to Mexico and Canada.

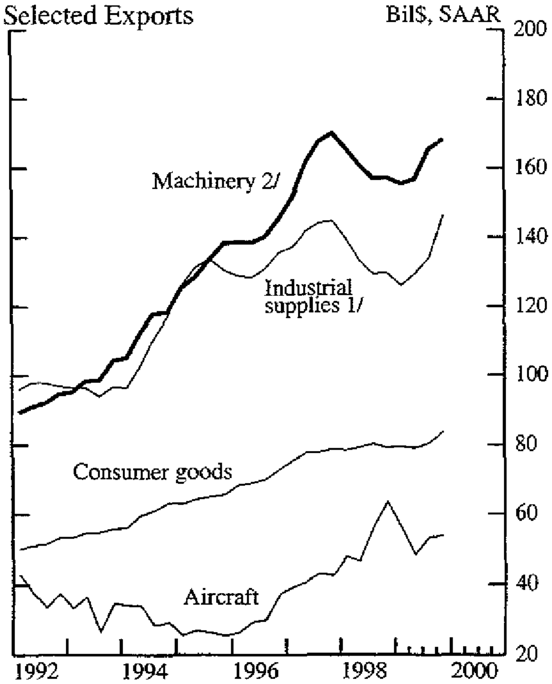
The value of imports rose 1 percent in December, somewhat less rapidly than in October and November, with increases spread over most major trade categories. Growth of imports was strong in the fourth quarter, but it did not match the pace set in the previous two quarters. There were robust increases in all major trade categories with the exception of automotive products (where the value was only slightly above the very high level reached in the third quarter). Real imports of goods and services rose 10 percent at an annual rate in the fourth quarter

U.S. International Trade in Goods and Services

Net Exports

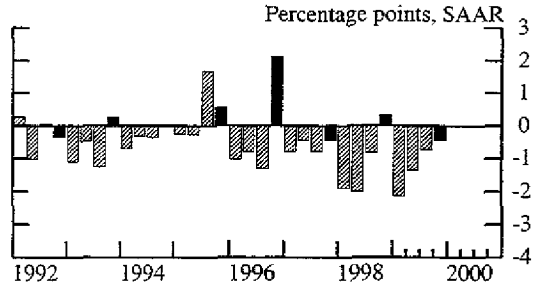


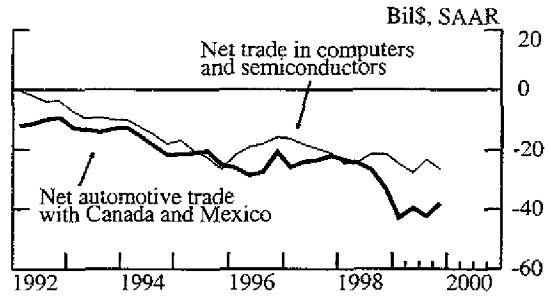
Selected Exports



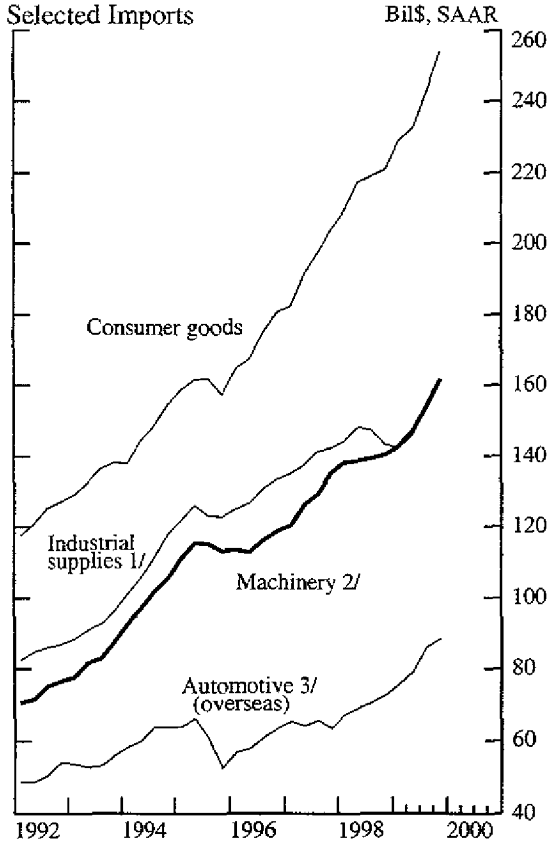
1. Excludes agriculture and gold.
2. Excludes computers and semiconductors.

Contribution of Net Exports to Real GDP Growth





Selected Imports



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

U.S. Exports and Imports of Goods and Services

(Billions of dollars, SAAR, BOP basis)

	Levels				Amount Change[1]			
	1999		1999		1999		1999	
	Q3	Q4	Nov.	Dec.	Q3	Q4	Nov.	Dec.
Exports of G&S	970.9	999.7	990.0	1022.1	34.0	28.8	3.2	32.0
Goods exports	694.7	719.0	710.2	740.9	32.4	24.3	4.2	30.7
Agricultural	51.5	50.4	49.5	50.0	2.7	-1.1	-2.2	0.5
Gold	6.1	8.8	12.1	9.4	2.8	2.7	7.3	-2.7
Other goods	637.1	659.9	648.6	681.5	26.9	22.8	-0.9	32.9
Aircraft & pts	53.5	53.9	47.5	58.0	5.1	0.4	-8.6	10.5
Computers	48.2	47.6	46.9	48.7	1.8	-0.6	-0.4	1.8
Semiconductors	49.2	51.0	51.5	54.9	4.1	1.8	4.8	3.4
Other cap gds	167.9	170.9	168.8	178.3	8.8	3.0	3.1	9.5
Automotive	75.8	76.6	74.9	79.2	0.9	0.7	-0.7	4.3
to Canada	46.0	46.0	45.5	47.8	1.5	0.0	0.6	2.3
to Mexico	11.4	13.9	13.0	14.5	-0.0	2.4	-1.0	1.4
to ROW	18.4	16.7	16.3	17.0	-0.6	-1.7	-0.3	0.7
Ind supplies	134.1	146.3	144.8	147.2	4.7	12.3	-2.2	2.4
Consumer goods	80.5	83.6	82.8	87.0	1.5	3.1	2.0	4.2
All other	28.0	30.0	31.4	28.2	0.1	2.0	-0.0	-3.3
Services exports	276.2	280.6	279.8	281.2	1.6	4.4	-1.1	1.4
Imports of G&S	1265.4	1312.8	1315.3	1328.7	67.4	47.4	20.9	13.4
Goods imports	1062.5	1103.9	1104.6	1118.5	61.8	41.4	16.2	13.9
Petroleum	78.5	86.1	85.0	84.2	14.6	7.6	-4.0	-0.8
Gold	7.4	9.3	12.1	9.6	4.3	1.9	5.7	-2.5
Other goods	976.6	1008.5	1007.5	1024.7	42.9	31.9	14.5	17.2
Aircraft & pts	24.9	23.8	23.1	23.5	2.4	-1.1	-1.7	0.4
Computers	82.6	83.6	86.0	81.9	0.5	1.0	3.1	-4.1
Semiconductors	38.2	41.7	40.8	44.7	0.9	3.5	1.3	3.9
Other cap gds	156.7	165.1	165.4	167.0	6.7	8.5	2.3	1.6
Automotive	185.8	186.4	186.2	192.6	11.1	0.6	5.7	6.4
from Canada	65.7	64.0	62.3	67.6	3.4	-1.7	0.1	5.3
from Mexico	34.1	33.9	33.1	32.9	0.9	-0.2	-2.6	-0.2
from ROW	86.0	88.5	90.8	92.1	6.9	2.5	8.2	1.3
Ind supplies	153.8	161.1	159.6	165.5	7.9	7.3	1.3	5.9
Consumer goods	242.7	254.0	254.3	256.8	10.1	11.3	3.2	2.5
Foods	44.2	44.7	44.7	46.0	0.4	0.6	1.0	1.3
All other	47.7	47.9	47.6	46.8	2.9	0.2	-1.9	-0.8
Services imports	202.9	208.9	210.6	210.1	5.6	6.0	4.8	-0.5
Memo:								
Oil quantity (mb/d)	11.49	10.68	10.73	9.92	-0.37	-0.81	-0.67	-0.81
Oil import price ($/bbl)	18.63	22.00	21.62	23.16	3.93	3.37	0.30	1.54

1. Change from previous quarter or month.

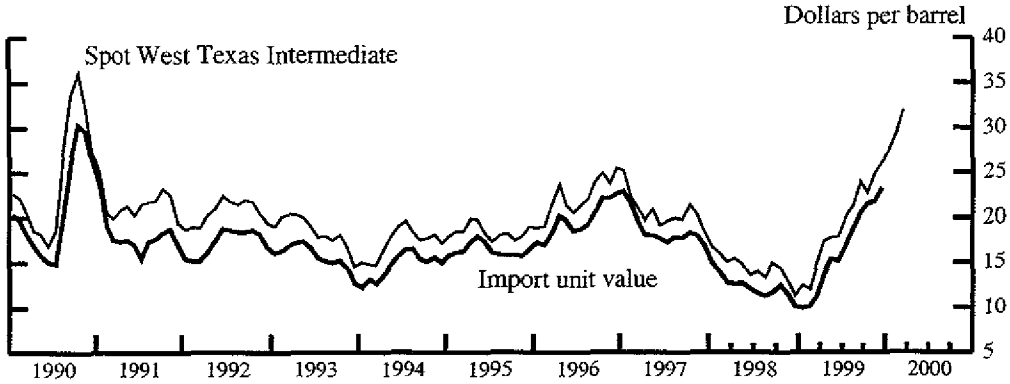
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

	Annual rates 1999 Q2	Annual rates 1999 Q3	Annual rates 1999 Q4	Monthly rates 1999 Nov.	Monthly rates 1999 Dec.	Monthly rates 2000 Jan.
	------------- BLS prices (1995 weights)-------------					
Merchandise imports	6.6	9.0	8.2	0.8	0.6	0.1
Oil	256.6	178.2	84.2	4.0	6.8	1.6
Non-oil	-2.0	-0.1	1.9	0.4	0.0	-0.1
Core goods*	-1.1	1.0	2.5	0.4	0.0	-0.1
Foods, feeds, beverages	0.4	-6.8	2.5	1.5	1.8	-1.3
Industrial supplies ex oil	1.5	7.9	9.9	1.6	-0.1	0.1
Computers	-17.7	-13.7	-1.0	-0.2	0.5	-0.2
Semiconductors	-3.3	-7.4	-1.6	-1.4	-0.3	-0.2
Cap. goods ex comp & semi	-3.4	-2.1	0.3	-0.2	-0.3	-0.1
Automotive products	0.9	0.8	0.5	0.0	0.0	0.1
Consumer goods	-2.3	-0.4	-0.1	0.0	-0.1	-0.1
Merchandise exports	-0.3	0.7	2.6	0.2	0.0	0.0
Agricultural	-8.5	-4.2	-1.7	-0.9	-0.7	0.0
Nonagricultural	0.6	1.1	3.0	0.3	0.0	0.1
Core goods*	1.8	1.6	4.1	0.5	0.0	0.2
Industrial supples ex ag	2.9	10.1	10.5	0.9	0.5	0.3
Computers	-7.0	-8.6	-1.6	0.0	-0.1	-0.3
Semiconductors	-5.9	-9.6	-3.8	-0.3	-0.9	-0.1
Cap. goods ex comp & semi	0.3	-0.5	0.5	0.2	-0.2	0.0
Automotive products	0.1	0.8	3.0	0.0	0.0	0.0
Consumer goods	0.0	0.3	1.3	0.0	0.2	0.0
Chain price index	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	5.2	6.2	4.6	...	...	...
Non-oil merchandise	-2.6	-0.7	0.8	...	...	...
Core goods*	-0.9	1.1	1.2	...	...	...
Exports of goods & services	0.7	1.3	2.6	...	...	...
Nonag merchandise	0.2	1.0	2.8	...	...	...
Core goods*	1.2	2.5	2.9	...	...	...

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

Oil Prices



compared with rates of about 15 percent in both the second and third quarters and 13 percent in the first quarter. Over the four quarters of 1999, real imports rose 13 percent reflecting the strength of U.S. economic activity.

Trade data for January will be released on March 21, the day of the FOMC meeting.

Prices of Internationally Traded Goods.

Oil. The run up in the price of imported oil (BLS) slowed a bit in January relative to that in the prior six months. Nonetheless, the 12-month change in price was 132 percent, reflecting strengthening world demand and constrained world supply (primarily a result of production restraints by OPEC and other important producers). Since January, spot oil prices have moved up sharply as apparent dissent within OPEC has increased uncertainty over the outcome of the cartel's March 27 meeting. Temporary supply disruptions in Nigeria and the North Sea have further exacerbated tight oil market conditions. In February, the average spot price of West Texas Intermediate rose over two dollars to $29.40 per barrel. Spot WTI is currently trading above $31 per barrel, after peaking at over $34 per barrel on March 7.

Non-oil imports and exports. Prices of non-oil imported goods declined slightly in January after showing no change in December. Prices of imported industrial supplies rose marginally in January, the second month of very small changes after five months of hefty price increases. There were small price declines in most other major trade categories. The one exception was imported food and beverages where prices dropped sharply following two months of strong increases. The turnaround was due primarily to a drop in prices for imported coffee and vegetables. The price index for non-oil imports, as well as that for imported core goods (which exclude oil, computers, and semiconductors), was the same in January as the average for the fourth quarter of last year.

Prices of total exported goods were unchanged in January for the second consecutive month. Prices of agricultural exports were unchanged following declines in six of the past seven months. Prices of exported core goods (which exclude computers, semiconductors, and agricultural products) rose 0.2 percent in January reflecting a moderate increase in the price of industrial supplies and no change in prices of other major categories. Prices of computers and semiconductors declined slightly. The index for prices of nonagricultural exports in January was marginally higher than the average for the fourth quarter of last year.

U.S. Current Account

Data for U.S. international transactions in the fourth quarter of 1999 were released today. The current account deficit rose to $399 billion at a seasonally adjusted annual rate in the fourth quarter of 1999, an increase of $43 billion over the third quarter. About one-fourth of the rise in the deficit was accounted for by a larger deficit for goods and services; an even larger fraction, nearly half, arose from an increase in net investment income payments. Other net income and unilateral transfers jumped $11 billion at an annual rate in the fourth quarter, largely because of year-end government grants to Israel. The current account deficit for the year was $339 billion compared with $221 billion in 1998. A more complete description of these developments and the underlying data will appear in the Greenbook supplement.

U.S. International Financial Transactions

Foreign private-sector demand for U.S. securities slowed in December, but then picked up in January to match again the record pace of last year. (See line 4 of the Summary of U.S. International Transactions table.) The recent pattern of weak demand for Treasury securities, offset by strong net purchases of other securities, continued in December and January. Compared to most of last year, foreign purchases of agency debt also appeared relatively weak in December and January. This effect may owe to the recent initiation of agency benchmark bills programs. Agency bills are currently included in a catch-all category in the TIC banking data; thus, foreign demand for agency debt may not have slowed as much as line 4.b would indicate. January's net purchases of U.S. stocks and corporate bonds were fairly concentrated, with most of the purchases of bonds coming from the United Kingdom, and an unusually large portion of the purchases of stocks coming from Germany. For 1999 as a whole, net foreign purchases of agency bonds, corporate bonds, and corporate stocks all surpassed previous record annual levels. In contrast, last year was the first year since 1990 in which private-sector foreigners sold Treasuries on net.

U.S. residents sold a modest amount of foreign stocks in January (line 5), following modest net purchases in December. The geographical pattern changed somewhat in January: net sales through Europe continued, but the strong net purchases seen earlier through Japan ceased. U.S. residents made small net purchases of foreign bonds in January, mostly through Europe and, notably, Mexico. For 1999 as a whole, taking into account an estimated $110 billion in foreign stocks that U.S. investors acquired through stock swaps (included in line 9), net U.S. purchases of foreign securities were at about the same level as in the previous few years.

Foreign official assets held in the United States fell slightly in January after a huge increase in December (line 1). Argentina, fully reversing a sizable increase for December, more than accounted for the decrease in January. In December, sizable increases were also recorded for Japan, Hong Kong, and Korea. For 1999 as a whole, foreign official assets in the United States increased $46 billion, compared to a decrease of $17 billion in 1998. The increase in 1999 was largely accounted for by Japan ($45 billion), as the result of its foreign exchange intervention operations. OPEC members' assets in the United States increased only slightly in 1999, despite a significant increase in oil revenues. Reserves of other non-G-10 countries (line 1c) generally fell for the second consecutive year, although Korea, Hong Kong, China, and India recorded significant increases. Preliminary data from the FRBNY suggest that foreign official assets held in the United States changed little in February.

Monthly net capital flows through banks (line 3) remain large and volatile. Banks recorded net outflows of nearly $50 billion in December as both domestic and foreign chartered banks in the United States reduced their net liabilities to foreign affiliates. December's outflow reversed a similar-sized net inflow recorded in November. In January, however, banks again recorded large net inflows. While monthly bank flows are often volatile, we attribute the exceptionally large offsetting flows in the November-January period as being at least partially attributable to repositioning over the century date change.

For 1999 as a whole, net inflows through banks slowed to less than $6 billion, compared to $57 billion in 1998. Although this slowing could be swamped by a single month's data, it is consistent with other developments in the capital account over the year. The significant pickup in inflows through direct investment and securities transactions, together with the swing to large official inflows, imply that less of the U.S. current account deficit needed to be financed through private bank transactions.

The data for the fourth quarter of 1999 that were released today will provide our first look at direct investment capital flows in the fourth quarter. These data, and the statistical discrepancy, will be included in the Greenbook supplement.

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

	1998	1999	1999					2000
			Q1	Q2	Q3	Q4	Dec	Jan
Official capital								
1. Change in foreign official assets in U.S. (increase, +)	-16.6	46.0	5.8	*	13.0	27.3	26.7	-2.2
a. G-10 countries	6.9	49.7	12.7	7.6	19.2	10.2	9.5	4.0
b. OPEC countries	-9.0	1.7	2.2	2.5	-1.3	-1.7	-1.3	3.2
c. All other countries	-14.4	-5.4	-9.2	-10.2	-5.0	18.9	18.6	-9.4
2. Change in U.S. official reserve assets (decrease, +)	-6.8	8.6	3.9	1.2	1.9	1.6	.8	-.1
Private capital								
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	57.3	5.9	6.0	19.0	-21.5	2.4	-48.1	47.3
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	275.2	320.8	55.8	83.5	105.7	75.7	19.5	28.0
a. Treasury securities[3]	49.3	-19.8	-7.3	-5.2	9.8	-17.1	-1.9	*
b. Agency bonds	50.5	73.8	18.1	17.1	21.2	17.5	2.6	3.9
c. Corporate and municipal bonds	121.7	158.6	34.8	33.8	49.5	40.4	9.9	13.7
d. Corporate stocks	53.7	108.2	10.2	37.9	25.2	35.0	8.9	10.4
5. U.S. net purchases (-) of foreign securities	-11.1	10.0	7.3	17.4	-10.8	-3.9	2.4	-2.4
a. Bonds	-17.4	-5.7	-.8	3.2	-10.1	2.0	3.9	-3.5
b. Stocks[4]	6.2	15.6	8.1	14.2	-.8	-5.9	-1.5	1.1
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-132.8	n.a	-41.4	-31.6	-44.5	n.a	...	...
7. Foreign direct investment in U.S.	193.4	n.a	22.9	154.4	44.5	n.a	...	...
8. Foreign holdings of U.S. currency	16.6	n.a	2.4	3.1	4.7	n.a	...	...
9. Other (inflow, +)[4,5]	-164.7	n.a	11.2	-127.3	12.8	n.a	...	...
U.S. current account balance (s.a.)	-220.6	n.a	-68.7	-80.9	-89.9	n.a	...	...
Statistical discrepancy (s.a.)	10.1	n.a	-5.2	-38.8	-15.9	n.a	...	...

NOTE. The sum of official capital, private capital, the current account balance, and the statistical discrepancy is zero. Details may not sum to totals because of rounding.

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

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

3. Includes Treasury bills.

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

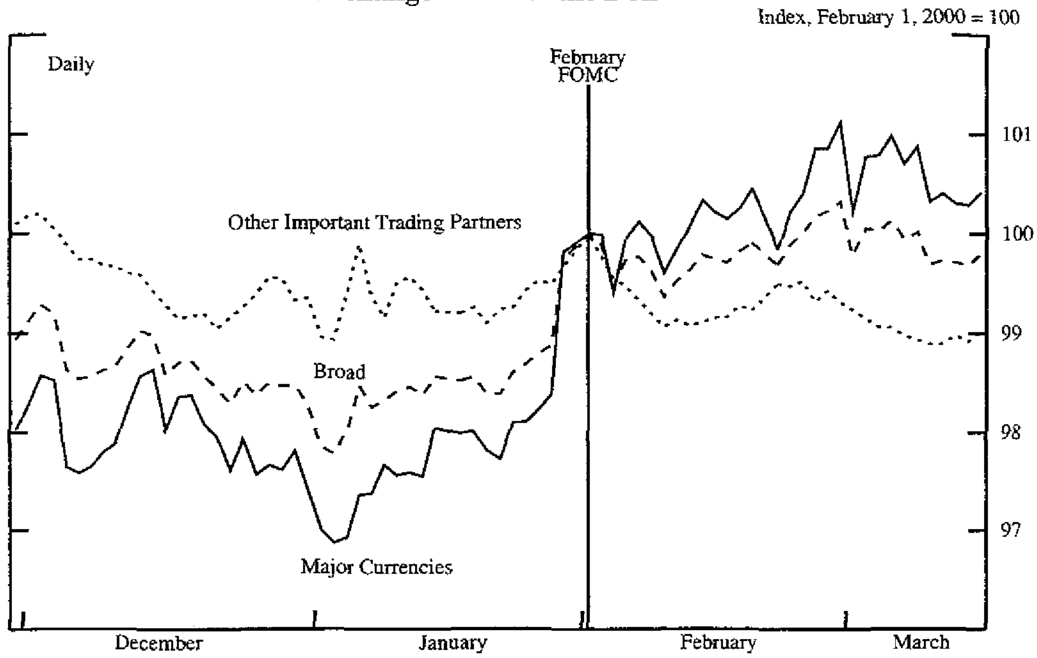
5. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.

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

Foreign Exchange Markets

Since the February FOMC meeting, the nominal exchange value of the dollar has appreciated 0.4 percent, on balance, in terms of the major currencies index. The dollar depreciated 2.1 percent against the yen, but appreciated 2.8 against the British pound, 0.6 percent against the euro, and 1.5 percent against the Canadian dollar. The index of the dollar's value relative to the currencies of other important trading partners slipped 1.0 percent in the intermeeting period. The major contributor to the decline was a 2.6 percent depreciation of the dollar against the Mexican peso, but depreciations of 3.0 percent and 3.2 percent versus the Brazilian *real* and new Taiwan dollar, respectively, added to the fall.

Exchange Value of the Dollar



The yen, whose exchange value had weakened to a level of 111 per dollar in mid-February after warnings that Japanese fourth quarter GDP growth was probably negative, appreciated almost 3 percent on March 1. On March 8, when the yen hit a level of 106 per dollar, Japanese monetary authorities intervened to weaken the yen, purchasing both dollars and euros. The intervention had a limited effect on impact, which quickly dissipated. The yen appreciated still further following the March 13 release of preliminary estimates of Japan's fourth quarter GDP, which showed strong non-residential investment growth despite an overall contraction of 5.5 percent (s.a.a.r.). The Bank of Japan intervened once more on March 15, again having only limited effect, despite an even larger purchase of dollars.

On February 28, the overnight call money rate in Japan rose as high as 55 basis points--reflecting anticipation of Leap-Day computer glitches--despite provision by the Bank of Japan of ¥9.8 trillion in excess reserves. The following day, the Bank of Japan injected ¥11.4 trillion of excess liquidity, and the rate returned to a level of two basis points.

The exchange value of the euro was quite volatile within the intermeeting period, rising above parity for two days in mid-February, only to hit a new low of $0.939 in intra-day trading one week later. The volatility was especially pronounced in the yen/euro cross rate, covering a range of more than ten yen within the intermeeting period. The euro appreciated in mid-February on hawkish statements by ESCB officials, but later dramatically reversed itself after the release of strong fourth quarter GDP growth in the United States.

Financial Indicators in Major Industrial Countries

	Three-month rate		Ten-year yield		Equities
Country	Mar. 15 (Percent)	Percentage Point Change	Mar. 15 (Percent)	Percentage Point Change	Percent Change
Canada	5.44	0.07	6.11	-0.39	10.13
Japan	0.06	-0.01	1.81	0.06	-1.78
Euro area	3.79	0.30	5.35	-0.14	7.83
United Kingdom	6.04	-0.02	5.31	-0.32	-5.26
Switzerland	2.45	0.48	3.88	0.03	-1.40
Australia	5.82	0.11	6.55	-0.62	2.56
United States	6.11	0.10	6.33	-0.29	-5.83
Memo: Weighted-average foreign	3.46	0.13	5.11	-0.20	

NOTE. Change is from February 1 to March 15.

Since the last FOMC meeting, ten-year government bond yields have risen modestly in Japan, but have fallen 12 to 14 basis points in continental Europe and more than 30 basis points in both Canada and the United Kingdom. In Canada, data releases showing that prices are rising at rates near the bottom of the Bank of Canada's inflation target band dampened market participants' earlier expectations for the Bank of Canada to match all the policy moves anticipated in the United States this year. Similarly, comments by members of the Bank of

England's Monetary Policy Committee characterizing the pound as both overvalued and as helping to suppress inflation, along with signs that previous policy moves have begun to slow the British economy, have led to a downward revision in the amount of policy tightening expected in the United Kingdom.

Since the start of February, continental European equity prices have surged, led by telecommunication stocks. Share prices are up 15 percent in Italy, 10 percent in Germany and 8 percent in France. In contrast, stock prices are down more than 5 percent over the same period in the United Kingdom and on the TOPIX index in Japan.

Financial Indicators in Latin America, Asia, and Russia

	Currency/ US dollar		Short-term Interest rates[1]		Dollar-denominated bond spread[2]		Equity prices
Economy	Mar. 15	Percent Change	Mar.14/15 (Percent)	Percentage Point Change	Mar.14/15 (Percent)	Percentage Point Change	Percent Change
Mexico	9.34	-2.71	13.35	-3.75	3.34	-1.95	16.25
Brazil	1.74	-3.05	19.75	-0.05	8.35	-0.61	4.23
Argentina	1.00	0.00	7.75	-0.50	7.20	-0.66	6.11
Chile	506.80	-2.21	12.95	4.74	1.47	0.08	-4.04
China	8.28	0.00	n.a.	n.a.	1.34	0.12	9.54
Korea	1118.50	-0.75	6.00	0.00	1.37	-0.01	-9.82
Taiwan	30.75	-3.15	4.95	-0.10	...	...	-12.34
Singapore	1.72	0.94	2.13	-0.19	...	...	-6.14
Hong Kong	7.78	0.05	5.90	0.10	...	...	6.98
Malaysia	3.80	0.00	2.70	-0.04	1.62	0.11	-0.17
Thailand	38.16	1.73	3.75	0.25	1.20	-0.14	-18.59
Indonesia	7485.00	0.47	11.40	-0.54	7.17	0.23	-4.86
Philippines	40.90	0.99	8.81	0.00	3.04	0.29	-16.97
Russia	28.42	-0.49	n.a.	n.a.	28.26	-16.83	29.83

NOTE. Change is from February 1 to March 14/15.

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

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

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

Several developments in emerging markets led to a substantial decline in stripped spreads over U.S. Treasuries of sovereign bond yields of developing countries. On February 3, Moody's Investor Service placed Mexico's sovereign foreign currency credit rating on review for possible upgrade, which materialized on March 7; the rating went from Ba1 to investment grade, Baa3. Shortly thereafter, Standard & Poor's also raised its rating for Mexico, to one notch below investment grade. In the intermeeting period, the sovereign spread on Mexico's dollar-denominated foreign bonds fell about 200 basis points and Mexican share prices gained more than 16 percent. Standard & Poor's revision of the outlook for Brazil's foreign currency credit rating from stable to positive had a similar effect on Brazil's sovereign spread, which shed 60 basis points over the same period. The agreement of Russia and its London Club creditors to exchange new senior Eurobonds for the defaulted debt of the former Soviet Union helped to bring the spread on Russian debt down 18 percentage points.

Prior to the FOMC's decision on February 2, the Reserve Bank of Australia raised its cash rate 50 basis points, and immediately following the U.S. move, the Bank of Canada raised its policy rate 25 basis points. The next day, the European Central Bank and the Hong Kong Monetary Authority each raised their respective policy rates 25 basis points, the Danish central bank raised its two-week lending rate 30 basis points, and the Swiss National Bank moved its target band for Swiss-franc LIBOR 50 basis points higher. On February 4, the Swedish Riksbank hiked its repurchase rate 50 basis points. The Bank of England increased its repurchase rate 25 basis points on February 10, the same day the Bank of Korea raised its overnight call rate a similar amount. The Reserve Bank of New Zealand raised its cash rate 50 basis points on March 15.

The price of gold experienced wide gyrations over the intermeeting period. Various announcements about hedging activity by gold producing companies and speculation about the outcome of bankruptcy proceedings against a large Ghanian gold producer caused the metal's price to shoot over $320 per troy ounce in early February. As speculation subsided and other gold producers announced that they would not change their hedging activity, the price of gold retreated, falling to $289 per ounce or $7 above its early February level.

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

Developments in Foreign Industrial Countries

Data released since the January Greenbook suggest a further pickup in economic activity in the foreign industrial countries in the first quarter. Indicators for Canada and the major European countries point to a continuation of the solid gains posted in the second half of last year. In Japan, the economy is showing signs of expansion, following an unexpectedly sharp decline in real GDP in the fourth quarter of 1999.

Headline measures of twelve-month inflation have crept up in some foreign industrial countries in response to higher energy prices, but core consumer price inflation generally remains low. The euro-area harmonized CPI inflation rate rose in January to the European Central Bank's target of 2 percent, but excluding energy prices, inflation was only 1 percent. U.K. inflation has actually declined over the past year and was 2.1 percent in January, below the Bank of England's 2.5 percent target. Canadian core inflation was 1.6 in February, below the center of the Bank of Canada's inflation target range. To contain inflationary pressures, the central banks in each of these regions raised their key policy interest rates 25 basis points in early February. Japan's consumer prices, on the other hand, have stabilized over the first two months of 2000, but have continued to decline on a year-over-year basis.

In **Japan**, indicators pointed to improvement in the second half of 1999, although preliminary estimates of Japanese GDP indicate a decline in economic activity of nearly 5 percent. While industrial production rose by more than 3 percent in the second half of 1999 from year-earlier levels, and capacity utilization and the inventory-to-shipments ratio also pointed toward expansion, these data track activity in sectors that comprise only a relatively small fraction of GDP. For example, the headline-grabbing index of industrial production consists of the mining and manufacturing sectors, which account for 24 percent of GDP (down from 35 percent in 1960), while services such as wholesale and retail trade, finance and insurance, real estate, and transportation and communications make up well over one-half of GDP (up from about one-third in 1960). Other indicators such as real household expenditures and housing starts predicted weakness in the second half of 1999.

Looking forward, however, indicators paint a brighter picture for real economic activity. Housing starts in January were up 16 percent from the previous month and new car registrations rose 12 percent. Increases in shipments of machinery in January far exceeded expectations. Machinery orders were up 18.4 percent in January from a year earlier. The January diffusion index of leading indicators came in at a preliminary 85.7 (on a scale of 100), its highest level since August 1994 and far above December's 50.0. January's rise in industrial production was a resumption of the increases observed in the second half of 1999 after an interruption in December. However, household spending fell 3 percent in January from its level of a year earlier.

The Japanese labor market has remained steady recently. The unemployment rate was unchanged at 4.7 percent in January, down from a record high of 4.9 percent in July. The offers-to-applicants ratio rose to 0.52 in January, up from its 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. Core consumer goods prices (excluding fresh food) in the Tokyo area were down 0.4 percent in February from a year earlier. Wholesale prices for domestic goods were down 0.5 percent in January, following a drop of 1.5 percent in 1999 despite a sharp increase in the price of oil. A 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 Real GDP
(Percent change from previous period, SAAR)

Component	1998[1]	1999[1]	1999			
			Q1	Q2	Q3	Q4
GDP	-3.1	.0	6.3	3.9	-3.9	-5.5
Total domestic demand	-3.1	.5	7.5	4.4	-5.8	-3.5
Consumption	.5	.1	3.5	4.6	-1.0	-6.3
Private investment	-13.2	3.3	8.6	2.4	-7.4	10.5
Public investment	4.1	-5.5	27.1	11.7	-32.7	-16.4
Government consumption	1.2	.2	3.2	-5.2	3.5	-.5
Inventories (contribution)	-.8	.2	1.0	.6	-.5	-.1
Exports	-6.2	7.0	.2	6.0	21.6	1.6
Imports	-7.5	12.7	9.9	10.7	11.7	18.6
Net exports (contribution)	.0	-0.4	-1.0	-.4	1.4	-1.8

1. Q4/Q4.

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

Indicator	1999					2000	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial production[1]	-1.0	3.9	.9	4.5	-1.2	.9	n.a.
Housing starts	3.0	-1.1	-5.2	4.4	-3.0	16.4	n.a.
Machinery orders	-3.7	-2.9	13.6	-1.7	11.4	.1	n.a.
Machinery shipments	-2.4	4.9	2.6	5.7	-2.0	2.2	n.a.
New car registrations	.3	-1.3	-4.7	5.2	1.7	12.1	n.a.
Unemployment rate[2]	4.7	4.7	4.6	4.6	4.7	4.7	n.a.
Job offers ratio[3]	.47	.47	.49	.49	.5	.52	n.a.
Business sentiment [4]	-37	-32	-26	...	...	..	...
CPI[5]	-.4	.0	-1.2	-1.3	-1.4	-1.0	-.8
CPI (Core, Tokyo area)[5]	-.2	.0	-.4	-.3	-.5	-.5	-.4
Wholesale prices[5]	-3.6	-4.0	-1.8	-1.7	-1.5	-.5	n.a.

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

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 average, while imports were up about 11 percent, partly reflecting a jump in the value of oil imports in the latter part of the year. Exports to developing Asia surged last year, as recovery in these economies took hold, but exports to Europe have declined significantly from 1998 levels. On a national accounts basis, net exports contributed -0.4 percent to GDP growth in 1999. In January, Japan's seasonally adjusted current account surplus rose sharply to $12 billion, from $7.2 billion in December.

In the **euro area**, the pace of real economic activity picked up considerably during the second half of 1999. Real GDP rose a preliminary 3.8 percent (s.a.a.r.) in the fourth quarter after a 4.1 percent surge in the previous quarter, resulting in a 2.2 percent growth rate in 1999. In the final quarter of last year, all GDP components rose, with both domestic demand and net exports contributing positively to economic growth.

Incoming data for the current quarter suggest that economic activity remains strong. German industrial production rose ½ percent (s.a.) in January, after falling ½ percent in the fourth quarter of 1999. The overall economic sentiment index in the euro area rose again in February after hitting a ten-year high in January and showing consistent gains during most of 1999. Confidence improved in the industrial sector and among consumers. Confidence declined somewhat in the construction sector, but remained above its fourth quarter and December levels.

Harmonized twelve-month CPI inflation rose again in January to hit the 2 percent target ceiling set by the European Central Bank (ECB). Excluding energy prices, however, the inflation rate was only 1 percent. Noticeable differences still exist across individual countries, with harmonized inflation rates in Germany, Austria, and France (around 1½ percent) considerably below the rate prevailing in Ireland (about 4½ percent).

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

Component	1998[1]	1999[1]	1999			
			Q1	Q2	Q3	Q4
Euro-11 GDP	2.8	2.2	2.2	2.1	4.1	3.8
Germany:						
GDP	1.2	2.3	2.7	.3	3.5	2.7
Domestic demand	2.5	1.9	3.8	-.3	2.1	2.0
Net exports (contribution)	-1.3	.4	-1.0	.6	1.4	.7
France:						
GDP	2.9	3.2	1.8	3.4	3.9	3.6
Domestic demand	3.8	2.9	1.6	2.6	1.5	6.1
Net exports (contribution)	-.7	.3	.2	.8	2.5	-2.3
Italy:						
GDP	.2	n.a.	.9	1.5	3.8	n.a.
Domestic demand	1.5	n.a.	4.1	1.6	-.9	n.a.
Net exports (contribution)	-1.3	n.a.	-3.1	-.1	4.7	n.a.

1. Q4/Q4.
n.a. Not available.

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

Indicator	1999					2000	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial production[1]							
Euro-11	.5	1.4	1.0	.7	.1	n.a.	n.a.
Germany	.8	1.7	-.5	-.1	-.1	.5	n.a.
France	1.1	1.9	1.4	1.7	.0	n.a.	n.a.
Italy	-.6	1.7	1.6	1.2	.1	-.8	n.a.
Unemployment rate[2]							
Euro-11	10.1	10.0	9.7	9.8	9.6	9.6	n.a.
Germany	10.5	10.5	10.4	10.4	10.2	10.1	10.0
France	11.3	11.2	10.8	10.8	10.6	10.5	n.a.
Italy	11.5	11.5	11.0	...	...	...	...
Consumer prices[3]							
Euro-11[4]	1.0	1.2	1.6	1.6	1.7	2.0	n.a.
Germany	.5	.7	1.0	1.0	1.2	1.5	n.a.
France	.4	.5	1.0	.9	1.2	1.6	1.5
Italy	1.5	1.7	2.1	2.0	2.1	2.2	2.4

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.

On February 3, the Governing Council of the ECB raised its official refinancing rate by 25 basis points to 3¼ percent. Interest rates on the marginal lending and deposit facilities were also increased by 25 basis points, to 4¼ percent and 2¼ percent, respectively. ECB President Duisenberg said that the decision reflected greater risks to price stability due to the recent depreciation of the euro and generous liquidity associated with relatively rapid money supply growth. The Governing Council of the ECB had last changed its official rates on November 4, 1999, when they were raised by 50 basis points each.

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

Indicator	1999					2000	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Consumer confidence[1]	-4	-4	-1	-1	-1	-1	0
Construction confidence[2]	-7	-7	-3	0	-4	2	-2
Industrial confidence[3]	-10	-6	-1	-1	0	1	3
of which:							
Production expectations	3	8	13	15	13	13	15
Total orders	-21	-17	-9	-9	-6	-4	-2
Stocks	13	10	8	8	7	7	4

NOTE: Confidence indicators 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.

Real GDP in the **United Kingdom** expanded 3.1 percent (s.a.a.r) in the fourth quarter of last year. Total domestic demand grew a rapid 7.2 percent, as investment and consumption expenditures registered strong gains and inventory accumulation made a large positive contribution to growth. Strength in domestic demand was partially offset by a large negative contribution from net exports, as import growth remained robust but exports declined.

Incoming data for the current quarter suggest that economic activity remains strong in the United Kingdom. Although industrial production edged down in January, it was partially explained by Y2K-related precautionary shutdowns. Manufacturing surveys indicate expansion in February, even with weak export orders. Service sector surveys indicate that activity continued at a brisk pace through February. The volume of retail sales increased 1.5 percent in January to a level 4 percent above its fourth-quarter average, although heavy price discounting may have contributed to the unusually large volume of sales.

Labor market conditions remain tight. The official claims-based unemployment rate remained 4.0 percent in February, 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 December. Average annual earnings growth rose further to 6.4 percent in January, in part reflecting year-end bonuses. This rate is well above the level of 4.5 percent that the Bank of England has suggested is compatible with its inflation target.

U.K. Real GDP
(Percent change from previous period, SAAR)

Component	1998[1]	1999[1]	1999 Q1	1999 Q2	1999 Q3	1999 Q4
GDP	1.5	2.9	1.5	3.0	3.9	3.1
Total domestic demand	3.5	3.9	5.0	.3	3.1	7.2
Consumption	2.3	4.4	7.8	4.4	2.5	3.1
Investment	10.3	3.1	.4	4.7	3.0	4.4
Government consumption	1.9	3.3	4.4	3.5	2.7	2.8
Inventories (contribution)	-.2	-.1	-.7	-4.2	.5	4.0
Exports	-.1	5.3	-5.0	10.4	25.0	-6.4
Imports	6.6	8.4	6.7	2.0	18.4	7.3
Net exports (contribution)	-2.3	-1.3	-3.9	2.4	1.0	-4.8

1. Q4/Q4.

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

Indicator	1999 Q2	1999 Q3	1999 Q4	1999 Nov.	1999 Dec.	2000 Jan.	2000 Feb.
Industrial production	.8	1.3	.4	.1	-.5	-.2	n.a.
Retail sales	1.1	1.3	1.4	.3	.6	1.5	n.a.
Unemployment rate[1]							
Claims-based	4.5	4.2	4.1	4.1	4.1	4.0	4.0
Labor force survey	6.0	5.9	5.9	5.9	5.9	n.a.	n.a
Business confidence[2]	8.0	10.0	10.7	6.0	14.0	11.0	10.0
Retail prices[3]	2.3	2.2	2.2	2.2	2.2	2.1	n.a.
Producer input prices[4]	-1.6	4.2	9.6	10.1	12.1	10.8	14.5
Average earnings[4]	4.4	4.7	5.4	5.1	6.1	6.3	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.

Producer input prices have risen sharply in recent months, in part reflecting higher oil prices. However, the twelve-month rate of retail price inflation (excluding mortgage interest rates) remains below the 2½ percent target, in large part reflecting the continued strength of sterling relative to the euro. After raising the official repo rate a further 25 basis points in February, the Bank of England's Monetary Policy Committee left the repo rate unchanged in March.

Real GDP in **Canada** continued to expand rapidly, rising 4.6 percent (s.a.a.r.) in the fourth quarter. Domestic demand rose sharply in the fourth quarter, as business and inventory investment surged and consumer spending continued to post solid gains. The fast pace of domestic demand growth caused imports to rise a hefty 21 percent. This was only partially offset by 7 percent rise in exports, causing net exports to subtract 4.7 percentage points from growth.

Partly reflecting improved job opportunities, consumer confidence rose 5 percent in the fourth quarter. Also, business confidence surged in the fourth quarter, as firms became increasingly optimistic about future profitability and the ability to undertake investment activities. Economic indicators for the current quarter suggest that activity remains strong. Employment continued to rise in the first quarter, posting gains in January and February after a sizeable 0.9 percent increase (s.a.) in the fourth quarter. The unemployment rate remained unchanged at 6.8 percent in February (s.a.), as labor force participation rose to 65.8 percent, its highest level since June of 1992.

Despite the strong pace of economic activity, core CPI inflation (which excludes food and energy prices) remains low. In February, core prices were up only 1.6 percent on a twelve-month basis. The Canadian dollar's appreciation has helped contain price pressures in recent months, but headline inflation has increased, reflecting higher oil prices.

Following the 25 basis point increase in the U.S. federal funds rate, the Bank of Canada raised its Bank Rate by 25 basis points to 5.25 percent on February 3. The Bank cited "the strong momentum of demand in the Canadian economy from both external and domestic sources, the importance of approaching the economy's full capacity in a prudent way, and the risk of a spillover of potential inflation pressures from the United States into Canada" as important factors behind this decision.

In delivering Canada's FY2000-01 federal budget on February 28, Finance Minister Paul Martin proposed a larger-than-expected C$58 billion ($40 billion) in tax cuts to take place over the next five years. Tax cutting initiatives include the immediate restoration of full indexation of personal income taxes for inflation, an additional lowering of personal income tax rates, particularly for middle and lower income families, and reductions in both corporate tax rates and the capital gains tax rate. Mr. Martin also announced nearly C$17 billion ($12 billion) in new spending initiatives over the next four years and devoted another C$15 billion over the next five years to debt reduction (this represents 2.5 percent of the total outstanding net federal debt).

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

Component	1998[1]	1999[1]	1999			
			Q1	Q2	Q3	Q4
GDP	2.8	4.7	5.1	3.6	5.5	4.6
Total domestic demand	1.0	5.8	2.9	10.4	2.1	8.0
Consumption	2.0	4.2	4.2	4.8	3.9	3.8
Investment	1.3	13.1	11.8	21.0	2.5	17.9
Government consumption	2.1	1.0	.3	.3	2.0	1.6
Inventories (contribution)	-.8	.6	-1.7	3.3	-1.2	2.0
Exports	9.0	8.7	11.5	1.2	15.0	7.4
Imports	4.2	13.0	6.4	18.6	6.5	21.2
Net exports (contribution)	1.9	-1.3	2.1	-6.0	3.3	-4.7

1. Q4/Q4.

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

Indicator	1999					2000	
	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
GDP at factor cost	.9	1.3	1.1	.7	.4	n.a.	n.a.
Industrial production	.8	2.8	1.4	1.2	0.5	n.a.	n.a.
New manufacturing orders	1.2	5.7	1.9	-.6	4.8	n.a.	n.a.
Retail sales	1.1	3.0	.7	.7	2.0	n.a.	n.a.
Employment	.6	.5	.9	.4	.4	.3	.2
Unemployment rate[1]	7.9	7.6	6.9	6.9	6.8	6.8	6.8
Consumer prices[2]	1.6	2.2	2.4	2.2	2.6	2.3	2.7
Consumer attitudes[3]	116.6	114.2	119.9	...	...	...	...
Business confidence[4]	150.7	153.9	164.9	...	...	...	...

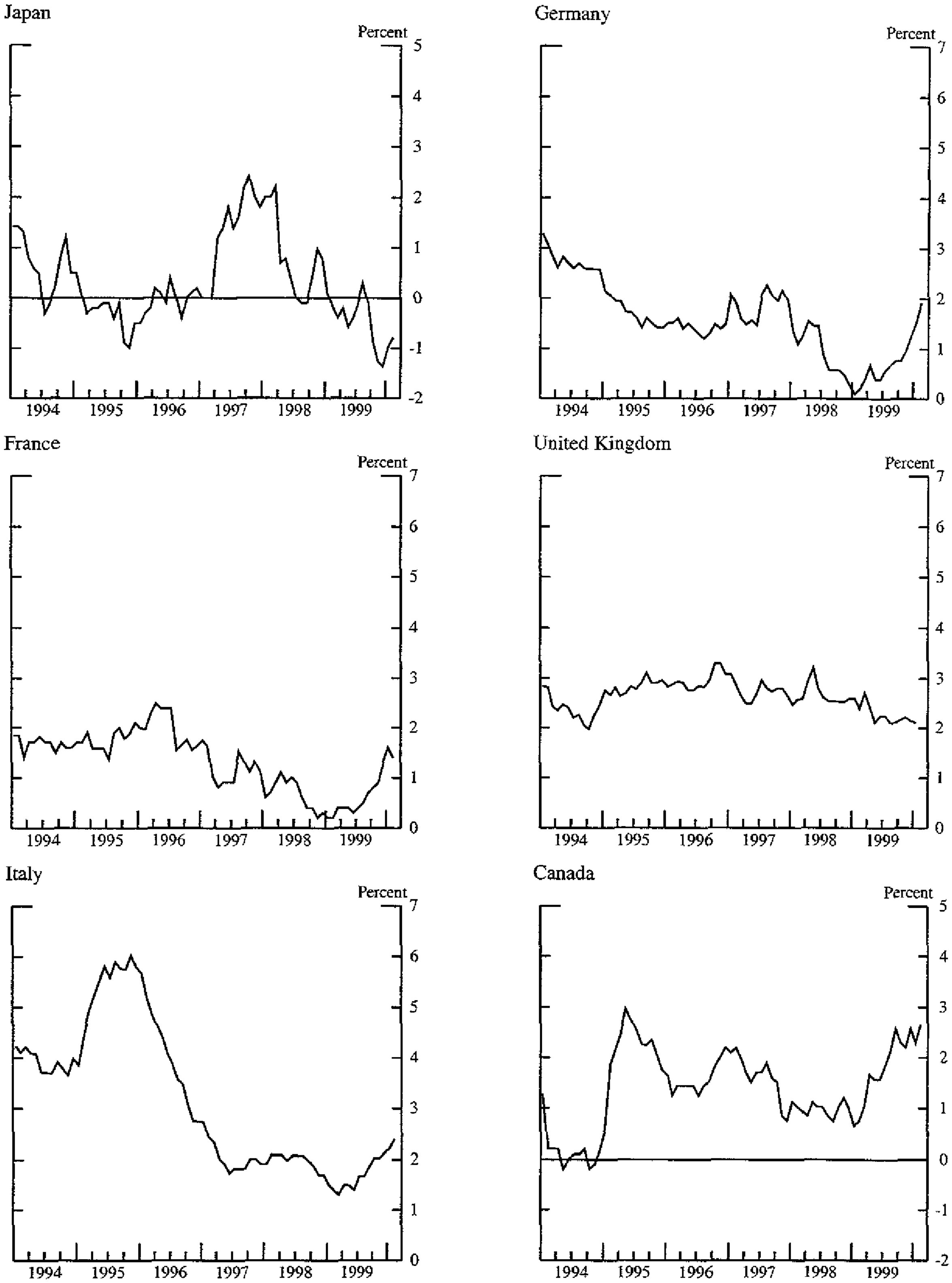
1. Percent.
2. Percent change from year earlier, n.s.a.
3. Level of index, 1991 = 100.
4. Level of index, 1977 = 100.
n.a. Not available. ... Not applicable.

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

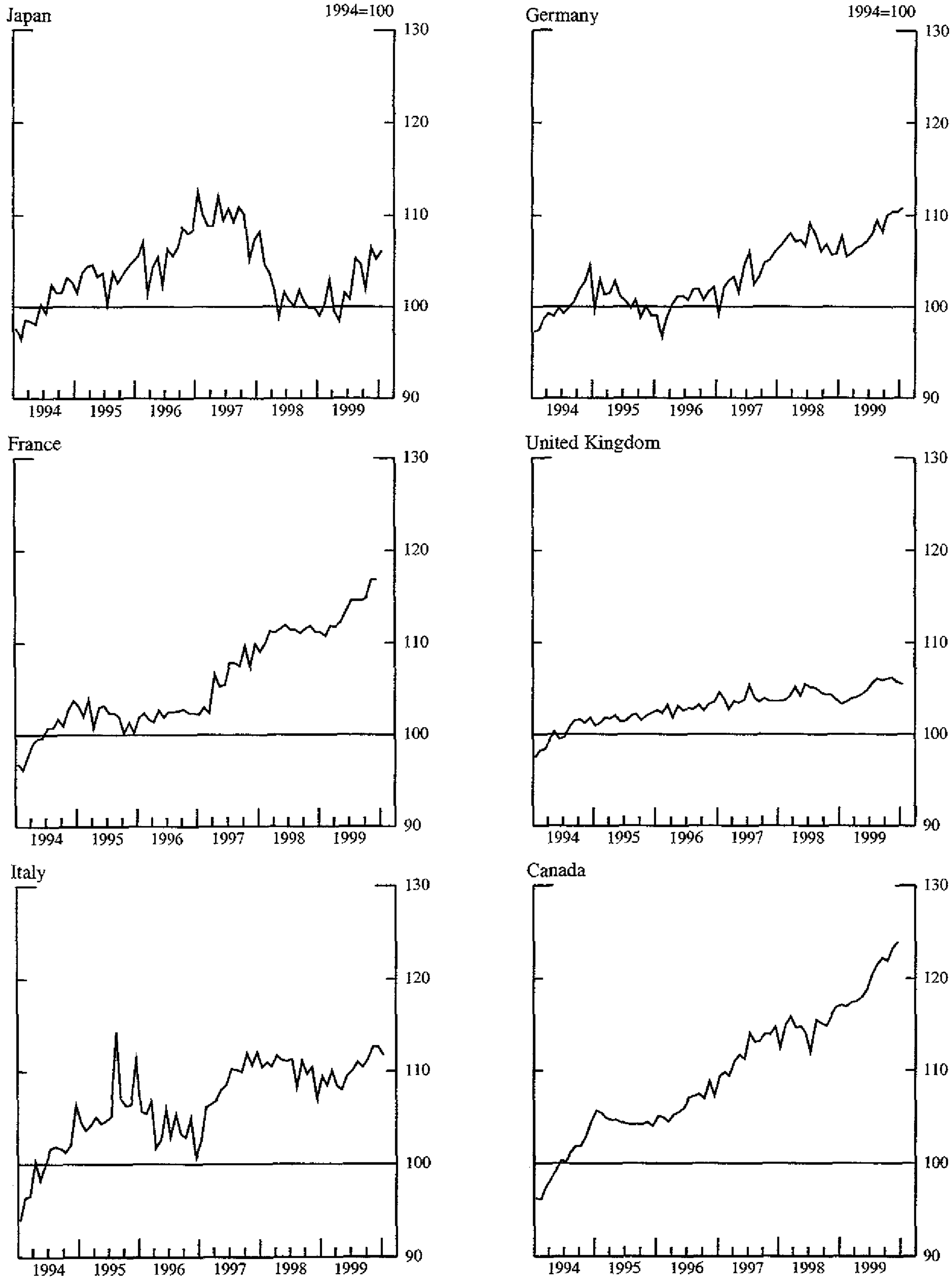
Country and balance	1999					2000
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Japan						
Trade	103.1	113.8	98.1	78.6	93.0	119.2
Current account	109.4	110.2	104.7	99.5	86.6	144.2
Euro-11						
Trade[1]	62.9	69.9	65.1	50.9	57.0	n.a.
Current account[1]	62.1	33.6	35.7	...	...	...
Germany						
Trade	64.5	64.9	64.5	74.8	57.1	57.2
Current account	-6.4	-18.2	-39.7	...	...	...
France						
Trade	15.2	27.8	20.0	19.8	11.7	n.a.
Current account	29.4	47.8	n.a.	36.8	n.a.	n.a.
Italy						
Trade	14.5	10.6	9.6	11.2	8.0	n.a.
Current account[1]	12.8	22.7	11.4	-2.3	12.9	n.a.
United Kingdom						
Trade	-39.4	-34.5	-48.5	-48.9	-52.4	n.a.
Current account	-18.6	-17.9	n.a.	...	...	...
Canada						
Trade	20.8	27.4	23.2	26.2	22.3	n.a.
Current account	-5.4	1.4	-3.4	...	...	...

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

In Latin America, output rose at an uneven pace across countries. In Mexico, the evidence suggests that activity has remained strong this year. Growth increased in Brazil late last year, but recent data give an unclear picture as to whether this strengthening has carried over to 2000. The Argentine recovery has yet to gain momentum, and the Venezuelan economy continues to flounder, with only a hint of an improvement. Notwithstanding Mexican export strength, a pickup in domestic demand has led to a widening of the country's external deficits. In the rest of Latin America, exports have also generally been expanding and have led to a strengthening of external balances. Inflation remains in control with a decline in inflation rates in Brazil, Mexico, and Venezuela, and slight deflation in Argentina.

In developing Asia, the economic expansion has been more widespread and sustained, in part reflecting the global boom in the electronics industry. Korea and China continue to grow at a robust pace, while growth has accelerated in Taiwan and Hong Kong. The ASEAN countries generally registered strong growth in the fourth quarter of last year. Rapid growth has fueled imports, leading to a narrowing of external balances in Korea, Hong Kong and Taiwan. China's trade surplus is also down, although special factors might account for some of this decline. Inflation in developing Asia remains well-contained, despite the recovery and the runup in oil prices.

Brazil grew rapidly during the fourth quarter of 1999, with real GDP up 5.8 percent (s.a.a.r.) from the previous quarter. A surge in real exports and a fall in imports contributed significantly to the fourth quarter growth. Industrial production was essentially unchanged (s.a.) in January, but, boosted by strong exports, the trade surplus for the three-month period ending in February 2000 was $4 billion, versus a $2 billion deficit over the corresponding period a year ago. The improvement in the trade balance contributed heavily to a narrowing in the current account deficit. Inflation news has been good, with consumer price inflation declining in February.

The central bank's monetary policy committee left its target for the overnight interest rate unchanged at 19 percent at its mid-February meeting; this rate has not been altered since September 1999. The central bank has been concerned about potential inflationary pressures stemming from increases in oil prices and from scheduled future increases in government-controlled utilities prices. In late February, the Brazilian government postponed its planned deregulation of petroleum prices until early 2001 in response to oil price rises. Brazil met its fiscal and other targets for the fourth quarter of last year under its IMF program, but its primary surplus of 3 percent of GDP was boosted by temporary measures.

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

Indicator	1998	1999	1999			2000	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	-1.6	3.2	.1	5.8	...	...	...
Industrial production	-2.1	-1.0	-.3	2.9	3.1	-.1	n.a.
Unemployment rate[2]	7.6	7.6	7.5	8.0	7.9	7.6	n.a.
Consumer prices[3]	1.7	8.9	5.5	8.4	8.9	8.8	7.8
Trade balance[4]	-6.6	-1.2	-2.1	2.6	7.9	-.7	3.9
Current account[5]	-33.8	-24.4	-18.4	-26.5	-24.4	-11.2	n.a.

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. "Open" unemployment rate.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec. Price index is IPC-A.
4. Billions of U.S. dollars, annual rate.
5. Billions of U.S. dollars, n.s.a., annual rate.

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

In **Mexico,** growth slowed in the fourth quarter of last year to 2.2 percent (s.a.a.r.), partly pulled down by a surge in imports. However, industrial production rose 2.3 percent (s.a.) in January, signaling that economic activity remains strong. In addition, data on retail sales indicate a pickup in consumption spending beginning in the fourth quarter of last year. The strength of the economy is producing a widening of external imbalances; the trade deficit and the current account deficit in the fourth quarter of 1999 increased to nearly $7 billion (s.a.a.r.) and $18 billion (a.r.), respectively, compared with averages of roughly $5 billion and $13 billion over the previous three quarters. The widening of external deficits has been tempered by the continued strength of Mexican exports, resulting primarily from a booming U.S. economy. Inflation continues on a downward trend, with consumer prices less than 11 percent higher in February over a year earlier, about two percentage points lower than the comparable rate in December.

Mexican financial markets received a boost on March 7, when Moody's upgraded its rating of Mexico's long-term foreign currency debt to Baa3 from Ba1, bringing the securities up to investment grade. Although the move was largely anticipated, market prices rallied on the news, as it opened the door for many institutional investors–previously constrained from investing in Mexico–to put money in that country's securities. Moody's cited a lower foreign currency debt burden, a dynamic export sector, large inflows of foreign direct investment in recent years, and the effectiveness of the country's flexible exchange rate regime as the reasons behind the upgrade. Less than a week later, Standard and Poor's followed suit, raising its rating on Mexican foreign currency debt to BB+ from BB, but still leaving Mexico one notch shy of investment grade. Besides citing reasons that echoed those of Moody's, S&P also expressed the belief that the banking sector may be poised to recover. It appeared to base this view partly on the expectation of increased foreign participation in the banking sector, as evidenced by last week's merger of the Mexican unit of the Spanish giant, BBVA, with Bancomer, Mexico's second largest bank.

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

Indicator	1998	1999	1999			2000	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	2.6	5.2	8.9	2.2	...	...	...
Industrial production	6.6	3.8	2.0	.3	1.5	2.3	n.a.
Unemployment rate[2]	3.2	2.5	2.4	2.3	2.3	2.2	n.a.
Consumer prices[3]	18.6	12.3	16.5	13.7	12.3	11.0	10.5
Trade balance[4]	-7.9	-5.4	-1.7	-6.9	-6.1	-6.3	n.a.
Imports[4]	125.4	142.1	142.3	152.8	154.4	161.0	n.a.
Exports[4]	117.5	136.7	140.6	145.9	148.3	154.7	n.a.
Current account[5]	-15.7	-14.0	-13.2	-17.9	...	...	...

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, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

In **Argentina**, data released since the last Greenbook generally suggest that the recovery is continuing but has not yet gained momentum. Industrial production rose 1.1 percent (s.a.) in January, a bit off from the fourth quarter pace. In January, the trade balance swung to a $4.8 billion (s.a.a.r.) surplus, boosted by growth in exports and a sizable decline in imports. Consumer prices continue to fall, albeit at a slower rate; the latest price data for February show a slight month-over-month decline and a drop of 1.3 percent from the year-earlier level.

Argentina and the IMF signed a three-year stand-by loan arrangement totaling $7.2 billion on March 10. Anticipation of the IMF package and continued progress on fiscal and other structural reforms had been met with enthusiasm by market participants, leading Standard and Poor's to revise its outlook for

Argentina from negative to stable in mid-February. Since the beginning of February, the Argentine stock market has risen over 5 percent, and short-term domestic interest rates and Brady spreads have dropped around 100 basis points. Taking advantage of the positive market sentiment, the Argentine government has made substantial progress toward meeting its borrowing needs for 2000, completing over 40 percent of its planned external and internal debt issuance for the year as of early March.

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

Indicator	1998	1999	1999			2000	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	-.6	n.a.	-.3	n.a.	...	...	...
Industrial production	1.5	-6.9	2.4	4.9	1.7	1.1	n.a.
Unemployment rate[2]	12.9	13.8	14.5	13.8	...	...	...
Consumer prices[3]	.7	-1.8	-1.8	-1.7	-1.8	-1.5	-1.3
Trade balance[4]	-3.0	-.7	-1.3	-.7	-.8	4.8	n.a.
Current account[5]	-14.5	n.a.	-13.8	n.a.	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent, n.s.a. Data are released for May, August, and October, only. Figures for Q3 and Q4 reflect data for 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, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

The sparse economic news from **Venezuela** since the last Greenbook provides only modest hints of recovery. Automobile sales surged in January and February compared with the very depressed levels in these months last year. Consumer prices rose only 18 percent over the 12 months ended January--the smallest annual growth rate since the mid-1980s--suggesting continued weakness in domestic demand. In May, elections will be held for over 6,000 offices, including the Presidency, as part of the new constitutional process. Political uncertainty in anticipation of these sweeping elections continues to be a source of anxiety for investors. Non-oil export industries are being crushed by the appreciated real exchange rate, which some analysts believe may be overvalued by 40 percent or more. On the other hand, the sustained runup in oil prices since mid-1999 is generating a sizable current account surplus.

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

Indicator	1998	1999	1999			2000	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	-4.9	-4.5	-4.0	1.5	...	...	...
Unemployment rate[2]	11.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Consumer prices[3]	29.9	20.0	22.2	20.1	20.0	19.3	18.0
Non-oil trade balance[4]	-9.4	-7.5	n.a.	n.a.	n.a.	n.a.	n.a.
Trade balance[4]	2.7	9.2	n.a.	n.a.	n.a.	n.a.	n.a.
Current account[5]	-2.6	5.5	9.3	12.2	...	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. n.s.a.
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, n.s.a., annual rate.

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

In **Korea**, recent data suggest that activity has continued to increase at a robust pace. Industrial production rebounded strongly in January from a dip in the previous month, led by rapid increases in the output of communications equipment, computers, and automobiles. The unemployment rate eased slightly further in January, to a level more than 3 percentage points below its peak level reached early last year. Total employment was 6.1 percent above its year-earlier level in January.

The trade surplus declined in December and January. For 1999 as a whole, it was down by about one-third from its record level of the previous year. Total exports grew by 9 percent in 1999, led by a 34 percent jump in exports of electronic and electrical products; semiconductor exports were up 11 percent. However, total imports grew even more strongly, increasing by 28 percent, reflecting the rapid growth of domestic demand. Imports of capital goods were particularly strong, rising nearly 40 percent in 1999.

On February 10, the central bank raised its target for the overnight rate by 25 basis points to 5 percent. According to Governor Chon of the Bank of Korea, the rate hike was ". . . aimed at narrowing the wide spread between short- and long-term interest rates [about 500 basis points] and thus normalizing the country's interest rate curve." Governor Chon said that the rate hike was not prompted by any signs of inflationary pressure. The Bank of Korea had held its target for the overnight rate at 4.75 percent since last April, despite the rapid growth of activity over this period, citing the need to promote the restructuring and stability of financial markets.

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

Indicator	1998	1999	1999			2000	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	-5.3	n.a.	12.9	n.a.	...	...	...
Industrial production	-7.3	22.5	8.1	6.6	-1.3	3.0	n.a.
Unemployment rate[2]	6.8	6.3	5.8	4.8	4.7	4.6	n.a.
Consumer prices[3]	4.0	1.4	.7	1.3	1.4	1.6	1.4
Trade balance[4]	41.6	28.7	31.1	24.8	18.9	8.5	n.a.
Current account[5]	40.6	25.0	27.0	22.9	16.8	3.8	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, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

The **ASEAN** region registered a strong fourth quarter, following mixed performance in the third quarter. Fueled by increased demand for electronics, Malaysian GDP increased by over 10 percent (s.a.a.r.) in the fourth quarter as well as from a year earlier. Indonesian GDP rebounded in the fourth quarter, rising 7.8 percent after two quarters of negative growth, spurred largely by gains in consumer spending that likely reflect an increase in confidence following the October elections and an end to the conflict in East Timor. Singapore's GDP grew by a more moderate 4.7 percent in the fourth quarter, while GDP in the Philippines expanded only 2 percent.

Activity data for this quarter are limited. Singapore's production rebounded in January after a weak fourth quarter. Malaysian production edged up slightly in January, but Thai industrial output fell off in December and January after rapid growth earlier last year.

During the fourth quarter, both exports and imports continued to increase throughout most of the ASEAN region. Despite growing domestic demand, a clear pattern of narrowing trade surpluses has yet to emerge. January trade data were mixed, with the trade surplus increasing in Indonesia and Thailand, but dropping sharply in Singapore and Malaysia. Inflation remains muted across the region.

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

Indicator and country	1998	1999	1999				2000
			Q2	Q3	Q4	Dec.	Jan.
Real GDP[1]							
Indonesia	-17.7	6.0	-2.9	-5.8	7.8	...	...
Malaysia	-10.3	10.6	22.8	-1.6	10.1	...	...
Philippines	-1.9	4.6	6.0	4.4	2.0	...	...
Singapore	-1.2	7.0	19.0	1.1	4.7	...	...
Thailand	-6.9	n.a.	-2.1	10.1	n.a.	...	...
Industrial production							
Indonesia	-13.3	n.a.	7.5	7.0	n.a.	...	...
Malaysia	-7.2	9.1	6.0	4.5	3.3	-.6	.4
Philippines	-11.6	3.2	.3	1.4	-2.9	22.6	n.a.
Singapore	-.4	12.3	.4	5.2	-1.4	-3.4	16.4
Thailand	-10.0	12.4	5.4	5.9	2.9	-4.0	-7.1

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			2000	
			Q3	Q4	Dec.	Jan.	Feb.
Indonesia	77.6	1.9	6.6	1.7	1.9	.4	-.8
Malaysia	5.3	2.5	2.3	2.1	2.5	1.6	n.a.
Philippines	10.3	4.3	5.6	4.5	4.3	2.6	3.0
Singapore	-1.5	1.4	.9	1.4	1.4	1.5	n.a.
Thailand	4.3	.7	-1.0	.1	.7	.5	.9

1. December/December.
n.a. Not available.

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

Country	1998	1999	1999				2000
			Q2	Q3	Q4	Dec.	Jan.
Indonesia	21.5	24.4	23.2	29.1	26.5	25.8	29.7
Malaysia	15.0	19.0	18.5	18.5	18.7	21.9	14.4
Philippines	.0	4.3	1.2	6.3	6.7	2.5	n.a.
Singapore	8.3	3.6	2.7	-1.2	6.2	10.2	.9
Thailand	12.2	9.0	10.5	9.5	4.4	1.8	19.8

n.a. Not available.

In **China**, consumer prices rose 0.7 percent in February from their year-earlier level, reflecting the impact of rising food and oil prices. This is the first 12-month increase since March 1998. China's trade surplus narrowed significantly in January and February, although the trade data are likely distorted by Y2K-related effects and the timing of Chinese New Year celebrations. In March, the government pledged to continue to increase government spending this year to boost the economy. The government also announced that it expects real GDP to expand around 7 percent this year and average inflation to be close to zero. On the trade front, a bill granting China permanent normal trading relations with the United States was sent to Congress in March by the White House. Congress is expected to vote on the bill before the end of the summer.

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

Indicator	1998	1999	1999			2000	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	9.5	6.2	11.4	10.6	...	...	...
Industrial production[2]	7.8	9.6	9.5	8.8	11.3	n.a.	n.a.
Consumer prices[2]	-1.0	-1.0	-1.2	-.8	-1.0	-.2	.7
Trade balance[3]	43.5	29.2	33.9	43.7	50.4	.2	8.9

1. Annual rate. Quarterly data estimated by staff from reported four-quarter growth rates. Annual figures are Q4/Q4.
2. Percent change from year earlier.
3. Billions of U.S. dollars, annual rate. Imports are c.i.f.
n.a. Not available. ... Not applicable.

In **Hong Kong**, real GDP rose a blistering 14.3 percent in the fourth quarter (s.a.a.r.), much faster than all expectations. The government attributed the impressive performance to growing exports, driven by strong demand in Asia, the United States, and the European Union, and to a rebound in currency values across Asia that has improved Hong Kong's competitiveness. The upsurge in growth prompted the government to raise its forecast for year-over-year growth for 2000 from 4 percent to 5 percent. The unemployment rate fell to 5.7 percent (s.a.) in the November-January period, the lowest rate in over a year, although still well above pre-crisis levels. Rapid growth of imports has widened the trade deficit in recent months. Consumer prices showed a steep decline of 5.3 percent in January from a year earlier, although prices were roughly flat on a seasonally adjusted month-to-month basis. In March, the government revised downward its estimate for the 1999/2000 budget deficit to just $200 million, from an original estimate of $4.7 billion; this shift largely reflects realized capital gains on fiscal reserves invested in the stock market.

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

Indicator	1997	1998	1999	1999			2000
				Q3	Q4	Dec.	Jan.
Real GDP[1]	2.2	-5.8	8.6	9.1	14.3	...	...
Unemployment rate[2]	2.4	4.4	6.1	6.1	6.0	6.0	5.7
Consumer prices[3]	5.2	-1.6	-4.0	-5.9	-4.1	-4.0	-5.3
Trade balance[4]	-20.6	-10.6	-5.6	-8.1	-8.2	-11.0	-16.7

1. Annual rate. Annual figures are Q4/Q4.
2. Percent. Monthly numbers are averages of the current and previous two months.
3. Percent change from year-earlier period, except annual figures, which are Dec./Dec.
4. Billions of U.S. dollars, annual rate. Imports are c.i.f.
... Not applicable.

In **Taiwan**, real GDP rose about 10 percent in the fourth quarter, led by booming exports of electronics and information technology products, as the economy bounced back strongly from an earthquake-induced decline during the third quarter. Economic activity appears to have continued to expand at a rapid pace in the early months of this year, with export growth remaining robust and industrial production rising 1.3 percent (s.a.) in January. The trade surplus narrowed significantly in February, as growing imports, driven by stronger domestic demand and rising oil prices, outstripped exports. These factors also contributed to a rise in consumer prices, although the 12-month rate of inflation remained very low. Presidential elections are due to take place on March 18, with the three front runners locked in a tight race.

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

Indicator	1998	1999	1999			2000	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	3.3	6.8	-1.6	10.1	...	...	...
Unemployment rate[2]	2.7	2.9	2.9	2.9	3.0	2.9	n.a.
Industrial production	2.6	7.7	-1.4	4.0	-1.1	1.3	n.a.
Consumer prices[3]	2.1	.1	.3	-.1	.1	.5	.9
Trade balance[4]	10.3	11.0	6.1	8.8	15.3	13.7	4.8
Current account[5]	3.4	5.9	3.5	5.9	...	...	...

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, n.s.a., annual rate.
n.a. Not available. ... Not applicable.

In **Russia**, little by way of economic data has been reported since last Greenbook. Consumer price inflation continues to slow, with 12-month inflation falling to 25 percent in February. Russia is also still registering high trade surpluses, supported mainly by the surge in world oil prices. In mid-February, the London Club agreed to write off an average of 37 percent of the principal and interest arrears on Russia's Soviet-era debt, in exchange for new 30-year Eurobonds. (The new bonds will include cross-default provisions that essentially give them the same status as Russia's other Eurobonds, debt on which Russia has remained current.) The new Eurobonds will have a seven-year grace period on principal payments, with a reduced interest rate that steps up in years eight through maturity. Analysts estimate that, including the interest rate concessions, the London Club agreement provides debt relief amounting to roughly 50 percent. Russia is now seeking comparable treatment from the Paris Club.

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

Indicator	1997	1998	1999			2000	
			Q3	Q4	Dec.	Jan.	Feb.
Real GDP[1]	2.6	-9.0	-3.3	n.a.	...	...	...
Industrial production	1.7	-5.1	5.3	7.6	7.4	-7.9	n.a.
Unemployment rate[2]	10.8	11.5	14.2	11.7	11.7	12.3	n.a.
Consumer prices[3]	11.0	84.4	98.1	47.4	36.6	28.9	25.0
Trade balance[4]	14.6	15.1	34.2	38.2	43.7	n.a.	n.a.
Current account[5]	4.0	2.4	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, n.s.a., annual rate.

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