Prefatory Note

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

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

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

Confidential (FR) Class III FOMC

Part 2

September 27, 2000

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

Confidential (FR) Class III FOMC

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Domestic Nonfinancial Developments

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Overview

Overall, economic activity appears to be expanding more moderately in the third quarter than during the first half of the year. Employment has been advancing at a slower pace, and hours worked have been nearly flat since the spring. Consumer spending and housing demand have firmed a bit of late, but the recent pace of activity in these sectors still is well below the exceptional rates seen earlier. Meanwhile, businesses have continued to invest briskly in equipment and software. Tight supplies of labor and energy are boosting costs, and despite spectacular productivity gains, core inflation has picked up from a year ago.

Labor Market Developments

Nonfarm payroll employment fell 105,000 in August, partly reflecting further declines in the number of temporary Census workers and the now-resolved strike of nearly 90,000 Verizon employees.[1] Looking beyond these special circumstances, strike-adjusted private payrolls rose only 102,000, much less than the first-half pace of 186,000. Averaging the July and August data, a deceleration relative to the first half of the year has been evident in most major industries and is particularly pronounced in construction, manufacturing, and services.[2]

In August, the average workweek of production or nonsupervisory workers on private nonfarm payrolls edged down for the second consecutive month, leaving the level at 34.3 hours--a bit below its two-year-long plateau of about 34.5 hours. The shorter average workweek over the summer has combined with slower employment growth to keep aggregate production-worker hours essentially flat since the spring.

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1. The Census Bureau cut nearly 160,000 temporary positions from the decennial Census payrolls in August, and only about 40,000 temporary employees remain. (At its peak in May, the Census employed about 620,000 temporary workers.) Although there is no way to know precisely how private payrolls were affected by this year's Census hiring, individual-level data from the Current Population Survey indicate that an unusually large number of workers moved from private employment to federal employment between April and May, when the Census added the bulk of its temporary employees. These data also show a reverse flow beginning in June, when most of the temporary jobs ended. A rough guess is that the Census Bureau may have "borrowed" as many as 25,000 workers per month from the private sector last spring and paid back at about the same monthly pace over the summer. Thus, accounting for this small Census effect slightly reinforces our general impression that the growth of private labor demand has slowed.

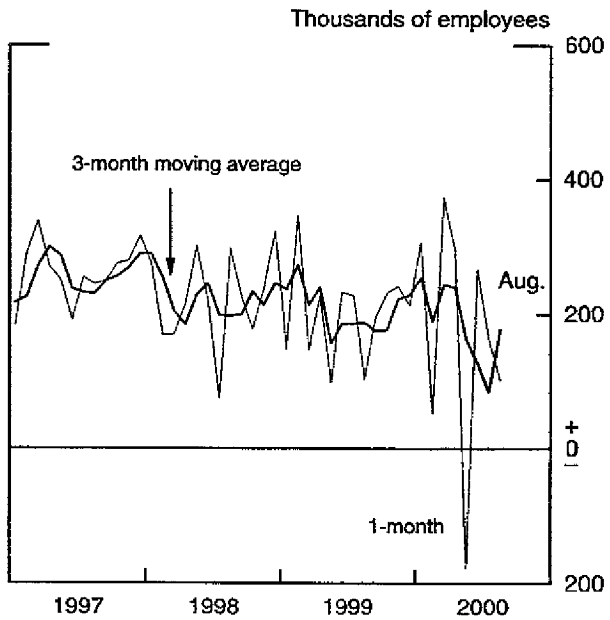
2. As we have mentioned before, tight labor markets, heavy demand, and unusually mild winter weather may have distorted the usual seasonal employment patterns in the construction industry, accentuating its deceleration since the beginning of the year. In addition, shifts in the timing of plant shutdowns have distorted the normal seasonal pattern of July and August changes in manufacturing; thus, the two-month average loss of 14,000 per month probably gives a better signal of the change in factory jobs than does either month's figure.

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

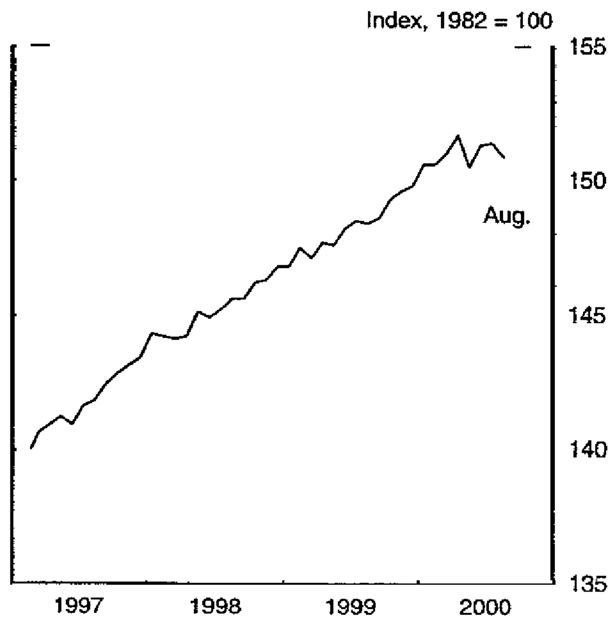
	1998	1999	2000 Q1	2000 Q2	2000 June	2000 July	2000 Aug.
	----Average monthly change----						
Nonfarm payroll employment[1]	251	229	324	213	57	-51	-105
Previous	*251*	*229*	*324*	*204*	*30*	*-108*	
Private	224	202	244	128	267	164	17
Strike-adjusted Private	224	201	244	128	267	164	102
Mining	-3	-3	2	1	0	0	0
Manufacturing	-12	-18	-1	6	14	51	-79
Construction	37	25	58	-19	2	5	0
Transportation and utilities	20	15	14	11	23	23	23
Retail trade	30	36	30	32	58	74	-35
Wholesale trade	10	13	10	5	1	-1	10
Finance, insurance, real estate	22	10	3	-11	-12	1	25
Services	120	124	128	104	183	11	158
Total government	28	28	80	85	-210	-215	-122
Census			58	97	-138	-281	-158
Total employment[2]	156	159	246	7	464	-430	163
Nonagricultural	169	155	220	19	441	-408	119
Memo:							
Aggregate hours of private production workers (percent change)[1,3]	2.3	2.1	3.2	1.2	0.5	0.1	-0.3
Average workweek (hours)[1]	34.6	34.5	34.5	34.5	34.5	34.4	34.3
Manufacturing (hours)	41.8	41.7	41.7	41.7	41.6	41.7	41.3

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 changes from Q4 to Q4. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.

Private Payroll Employment Growth
(Strike-adjusted data)



Aggregate Hours of Production or Nonsupervisory Workers



In the household survey, the unemployment rate edged up in August to 4.1 percent; on balance, the rate has barely changed so far this year. The labor force participation rate also rose slightly last month, but it remains well below the elevated level registered in the first few months of the year.

Other indicators have provided somewhat mixed signals about labor market activity. The four-week moving averages of both initial claims and insured unemployment have moved up from last winter's extremely low levels, consistent with some slowing in employment growth. In addition, consumer perceptions of job prospects, as measured by both the Conference Board and Michigan surveys, are a bit lower than they were during the summer, although households remain upbeat about the labor market. From the vantage point of employers, a smaller percentage of personnel executives responding to the Bureau of National Affairs' survey reported difficulties filling technical and production positions, but a larger percentage indicated that office and clerical jobs have been hard to fill this quarter. Greater tightness in the labor market also was evident in the National Federation of Independent Businesses' (NFIB) measure of "positions hard to fill," which climbed to a record high in August.[3] In addition, a sizable fraction of employers in the Manpower and NFIB surveys expect that current hiring strength will persist into the near future.

Labor Output per Hour

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

Sector	1998[1]	1999[1]	1999		2000	
			Q3	Q4	Q1	Q2
Nonfarm business	2.9	4.1	5.2	8.0	1.9	5.7
Ex. Defense spending anomaly	2.9	4.0	5.2	7.4	3.1	5.1
Nonfinancial corporations[2]	3.8	4.8	5.1	6.1	2.9	5.0

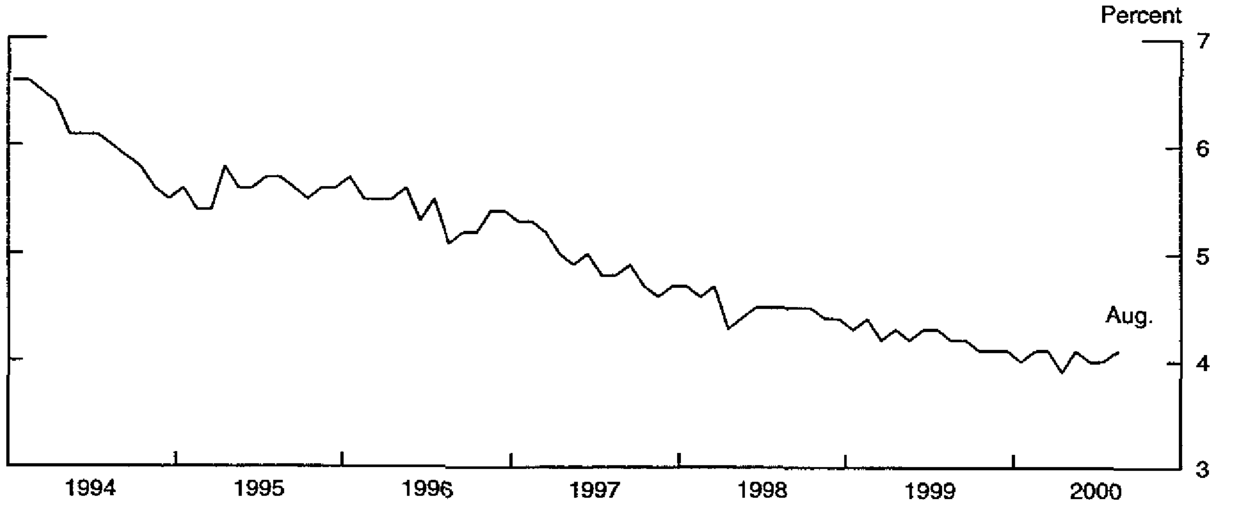
1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, and finance and insurance companies; the sector accounts for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

3. This series begins in 1986.

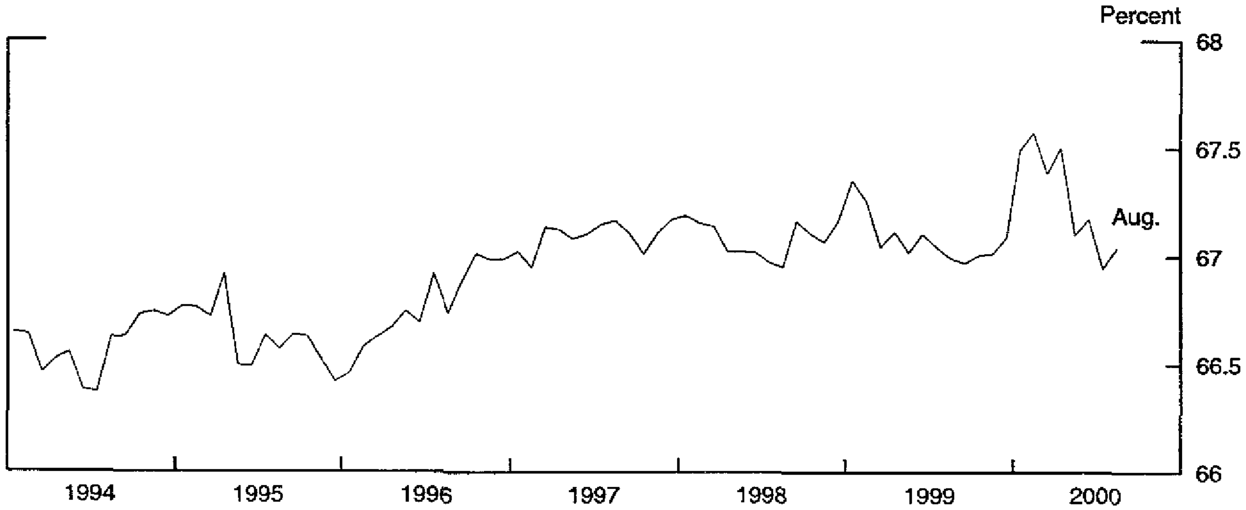
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data, as published)

	1998	1999	2000 Q1	2000 Q2	2000 June	2000 July	2000 Aug.
Civilian unemployment rate (16 years and older)	4.5	4.2	4.1	4.0	4.0	4.0	4.1
Teenagers	14.6	13.9	13.4	12.3	11.6	13.4	14.4
20-24 years old	7.9	7.5	7.5	7.6	7.5	6.8	6.4
Men, 25 years and older	3.2	3.0	2.9	2.8	2.8	2.8	2.8
Women, 25 years and older	3.6	3.3	3.2	3.2	3.2	3.3	3.5
Labor force participation rate	67.1	67.1	67.5	67.3	67.2	66.9	67.0
Teenagers	52.8	52.0	52.1	52.5	52.9	51.3	52.7
20-24 years old	77.5	77.6	78.6	77.7	77.6	76.8	77.3
Men, 25 years and older	76.2	76.1	76.3	75.8	75.8	75.8	76.1
Women, 25 years and older	59.2	59.5	60.0	60.0	59.7	59.6	59.4
Memo:							
Potential worker rate	7.6	7.1	6.8	6.7	6.6	6.8	6.8

Unemployment Rate



Labor Force Participation Rate



According to the Bureau of Labor Statistics, output per hour in the nonfarm business sector rose at an annual rate of 5.7 percent in the second quarter, and we expect no revision to that figure.[4] Over the four quarters ending in 2000:Q2, nonfarm business productivity increased 5-1/4 percent. This marks the largest four-quarter growth rate registered since 1983, a period when the economy was recovering from a deep recession.

The BLS report also indicated that productivity in the nonfinancial corporate sector rose at an annual rate of 5.0 percent in the second quarter of 2000.[5] Over the four quarters ending in 2000:Q2, output per hour in this sector was reported to have increased 4.8 percent, about 1/2 percentage point more than the gain over the four quarters ending in 1999:Q2.

Industrial Production

Gains in industrial output have slowed from rates posted earlier in the year. After having risen at an annual rate of 7-1/4 percent in the first half of the year, the August level of total industrial production was up only 3-1/2 percent at an annual rate from the second-quarter average. On the strength of a sharp gain at utilities in August, industrial production rose 0.3 percent that month, following a downward-revised figure showing no gain in July.[6] Overall, manufacturing output increased only a touch in August; excluding motor vehicles and parts, output in this sector edged down 0.1 percent after having risen at an average rate of 0.6 percent for several months. With this weakness in production, the utilization rate in manufacturing edged down to 81.2 percent, a shade below its long-run average.

The rate of increase in output in the high-tech sector (computers, semiconductors, and communications equipment) has dropped back from the extraordinary pace seen earlier this year, although it is still quite rapid by

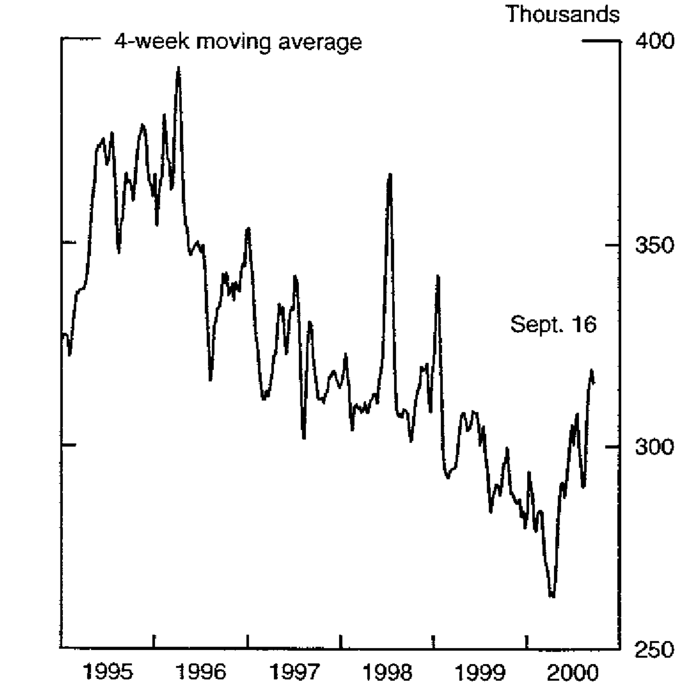
4. The quarterly pattern of changes in nonfarm business output and productivity from the fourth quarter of 1999 to the second quarter of 2000 is distorted because the BEA attributed to the fourth quarter of 1999 payments to defense contractors for goods and services that were delivered in the first quarter of 2000. The staff estimates that this shift boosted the fourth-quarter increases in output and productivity about 0.6 percentage point, held down first-quarter changes about 1.2 percentage points, and raised second-quarter changes about 0.6 percentage point. The change in productivity over the four quarters ended in 2000:Q2 is unaffected by this special factor.

5. Measured productivity growth in the nonfinancial corporate sector--which is based on income-side data from the national accounts--appears to have been unaffected by the defense spending anomaly.

6. The downward revision to July IP growth of 0.4 percentage point was unusually large. The average revision to the percent change in total IP, without regard to sign, from the first to the fourth estimates was 0.2 percentage point during the 1987-97 period. Three industries accounted for the bulk of the revisions in July: steel mill products, paper, and original equipment motor vehicle parts. In each case, the physical product data for July that we received after the first estimate was published pointed to lower growth than in the initial estimate.

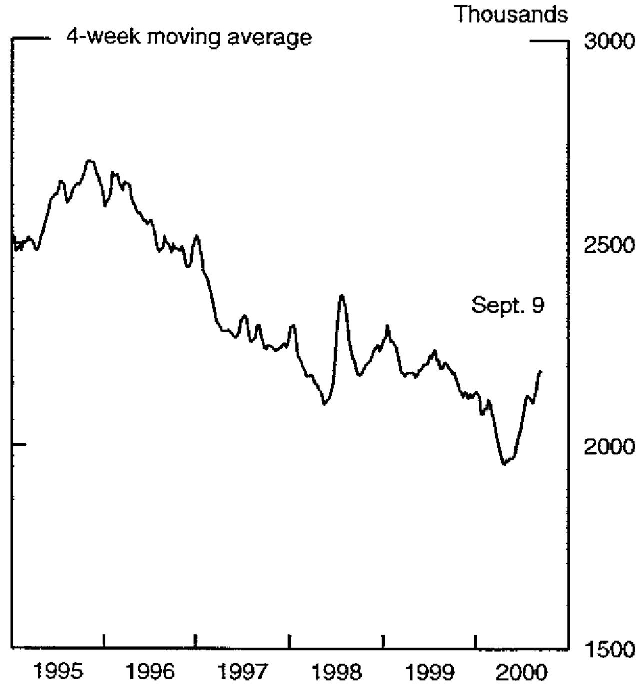
Labor Market Indicators

Initial Claims for Unemployment Insurance

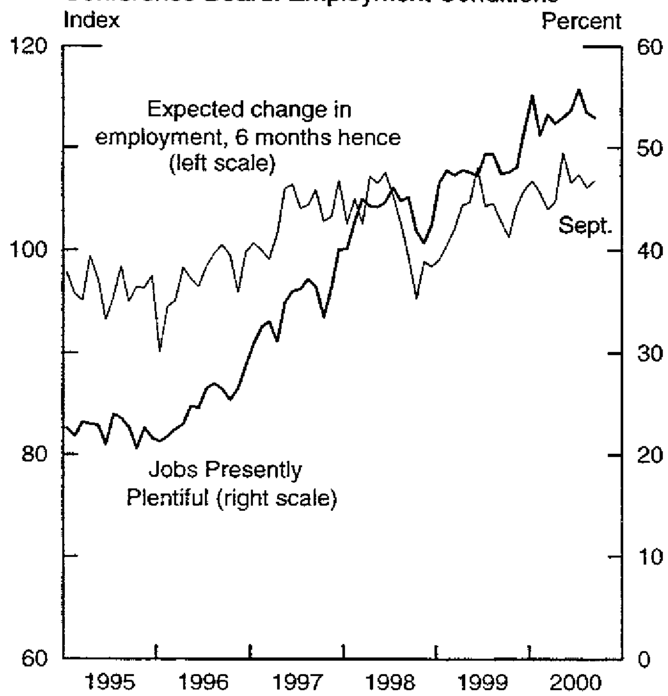


Note. State programs, includes EUC adjustment.

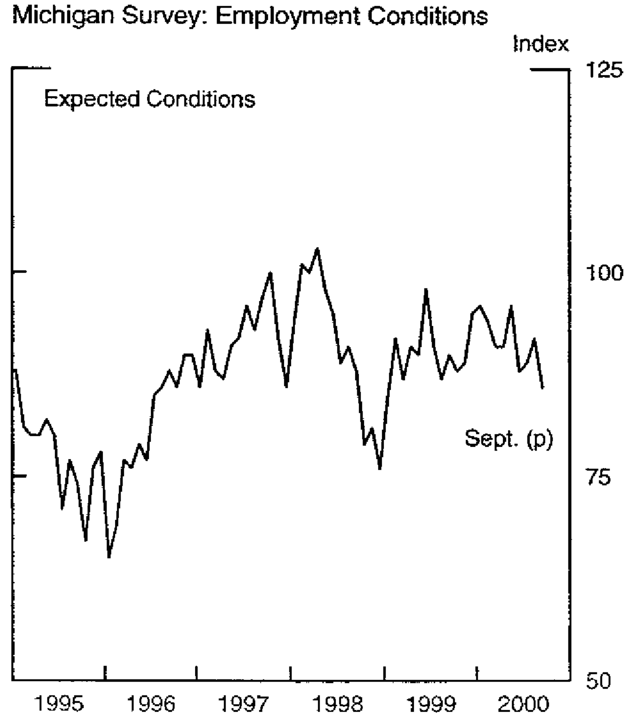
Insured Unemployment



Conference Board: Employment Conditions



Michigan Survey: Employment Conditions

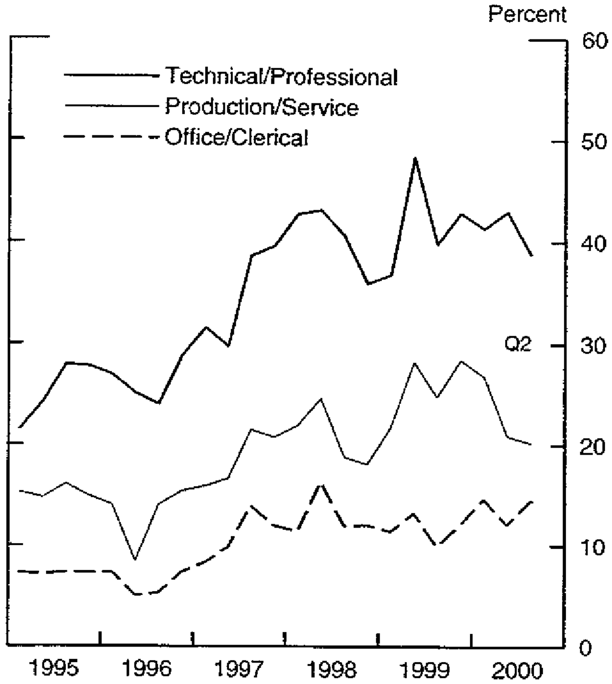


Note. Expected conditions index is the proportion of households expecting unemployment to fall, minus the proportion expecting unemployment to rise, plus 100.

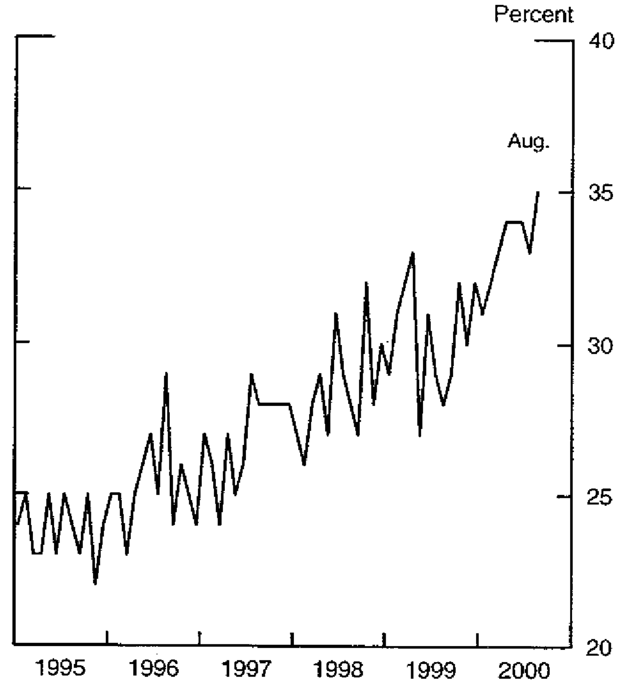
Employer Surveys of Labor Market Activity

Reporting Positions Hard to Fill

BNA's Survey of Personnel Executives

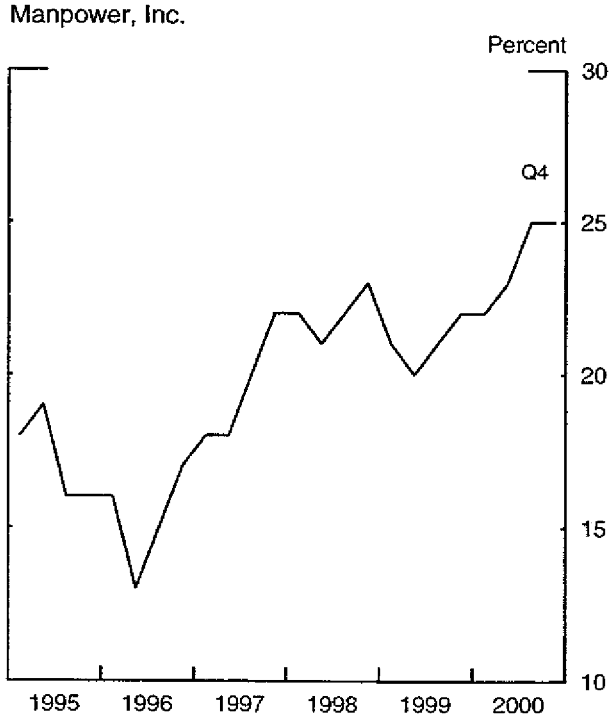


Nat. Fed. of Independent Businesses



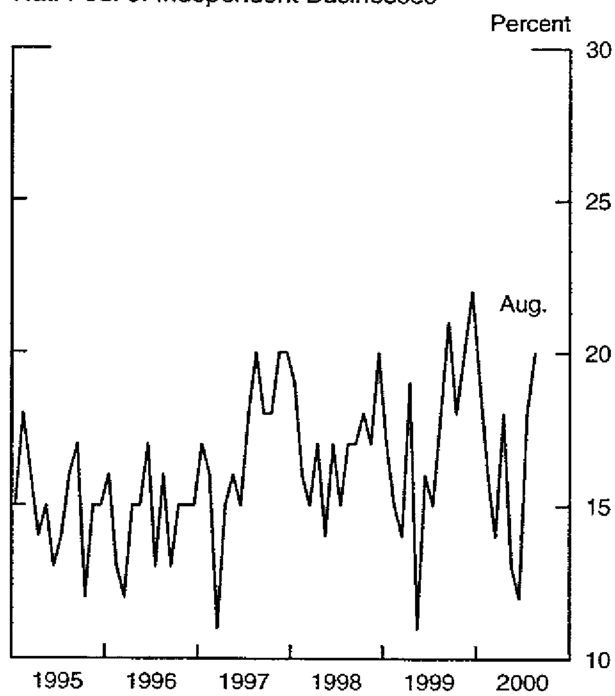
Net Hiring Strength*

Manpower, Inc.



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

Nat. Fed. of Independent Businesses



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

	Proportion 1999	1999[1]	2000 Q1	2000 Q2	2000 June	2000 July	2000 Aug.
			-Annual rate-		--Monthly rate---		
Total	100.0	4.2	6.5	8.0	.3	.0	.3
Manufacturing	88.5	4.8	7.0	7.8	.5	.1	.1
Ex. motor vehicles and parts	83.1	4.8	7.4	7.8	.6	.6	-.1
Mining	5.2	-.9	3.6	7.5	.8	1.1	.0
Utilities	6.3	.2	1.3	10.9	-2.8	-2.0	4.0
Selected industries							
High technology	9.5	37.4	59.8	70.7	3.2	4.0	3.3
Computers	3.1	51.1	44.4	44.2	2.6	2.6	2.6
Communication equipment	2.5	13.6	35.6	26.4	-.6	4.8	3.6
Semiconductors[2]	4.0	44.3	91.3	127.0	5.7	4.8	3.5
Motor vehicles and parts	5.4	4.0	1.2	7.4	-.6	-7.9	2.5
Aircraft and parts	2.6	-16.6	-13.2	-7.0	1.7	2.0	-1.5
Oil and gas extraction	3.5	.2	7.0	5.8	.2	.6	.5
Market groups, excluding selected industries and other energy							
Consumer goods	22.7	1.5	1.0	-.6	.3	.4	-.1
Durables	3.6	6.2	2.3	-3.0	.1	.0	-1.3
Nondurables	19.1	.7	.8	-.2	.3	.5	.1
Business equipment	8.6	-.3	9.4	3.8	.4	.1	-1.0
Construction supplies	6.2	3.2	8.4	.6	-.3	.1	-1.2
Materials	24.0	3.4	.6	1.2	.0	-.5	-.6
Durables	16.3	2.3	2.9	2.5	.0	-.1	-.8
Nondurables	7.7	6.1	-4.2	-1.5	.1	-1.3	-.2

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)

	1988-89 High	1959-99 Avg.	1999 Q4	2000 Q1	2000 Q2	2000 June	2000 July	2000 Aug.
Manufacturing	85.7	81.6	80.3	80.8	81.5	81.6	81.4	81.2
Primary processing	88.9	82.9	83.7	83.8	83.4	83.3	82.7	82.2
Advanced processing	84.2	81.1	79.1	79.9	80.9	81.1	81.1	81.1

historical standards. In the computer industry, production gains have come off the elevated pace associated with the earlier lifting of Y2K-related lockdowns. Meanwhile, output of communications equipment has continued to grow rapidly. In addition to the growth in underlying demand for computers and communications equipment, the production of semiconductors in the first half of the year received an extra boost from the desire of major purchasers to increase inventories in response to lengthening order lead times. With the rapid rise in output, utilization rates in this industry moved above 100 percent. In the past couple of months, the rate of production advance--although still quite rapid--has slowed to a pace closer to that of capacity expansion.

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

Component	Share, 2000:H1	2000				
		Q1	Q2	June	July	Aug
Total orders	**100.0**	**2.9**	**4.1**	**9.2**	**-13.1**	**2.9**
Adjusted orders[1]	70.0	4.3	2.3	-0.2	-4.9	2.0
Computers	6.0	6.1	9.6	-3.8	8.2	9.9
Communication equipment	5.0	-2.4	11.6	28.4	-23.1	-2.8
Other capital goods	14.0	10.0	0.1	5.5	-0.6	-3.7
Other[2]	45.0	3.3	1.0	-4.2	-5.6	3.1
Memo:						
Real adjusted orders[3]	...	5.0	3.0	0.1	-4.7	2.5
Excluding high tech	...	3.6	-0.7	0.2	0.1	0.5

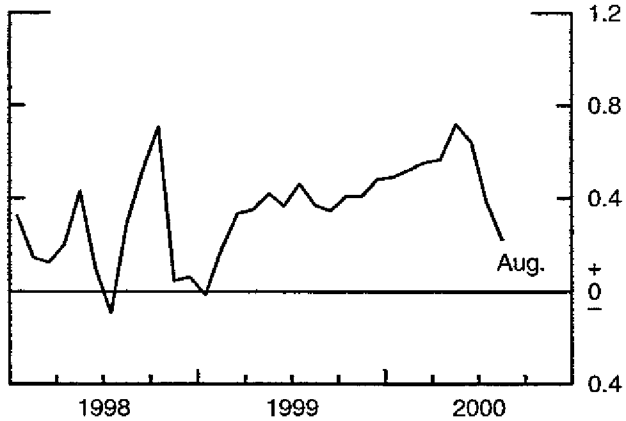
1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.
2. Includes primary metals, most fabricated metals, most stone, clay, and glass products, electronic components, household appliances, scientific instruments, and miscellaneous durable goods.
3. Nominal adjusted 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.
... Not applicable.

In some areas outside of the high-tech sector, production has softened. First, light vehicle sales have dropped back from their high first-quarter level, and--with days' supply now higher than earlier in the year--production has been reduced. Second, as housing starts have trended down this year, the production of construction supplies also has decelerated. Third, higher imports have squeezed producers of iron and steel, and, with a buildup of inventories at steel service centers, production has been cut back sharply in the past couple of months. Finally, higher energy prices have affected production in a number of industries. In trucking, high fuel prices--along with an abundant supply of used

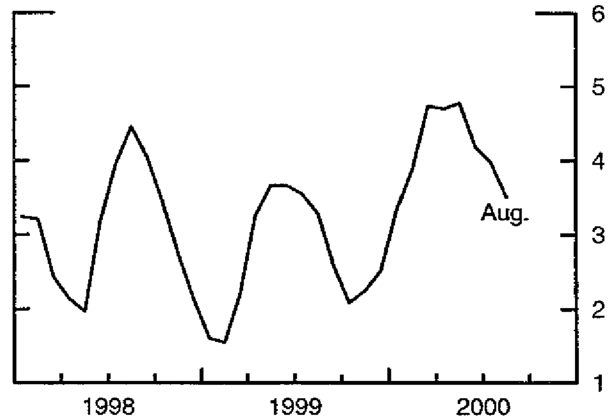
Industrial Production

Selected Industries and Market Groups
(Percent change of 3-month moving average)

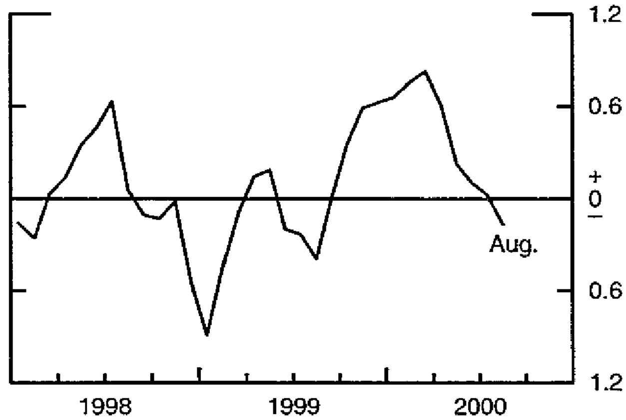
Total



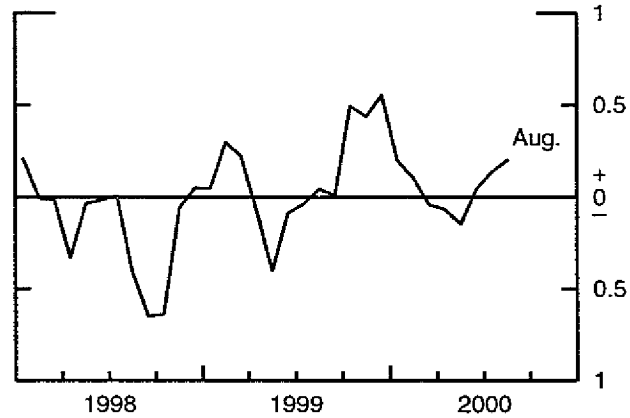
High-Technology Industries



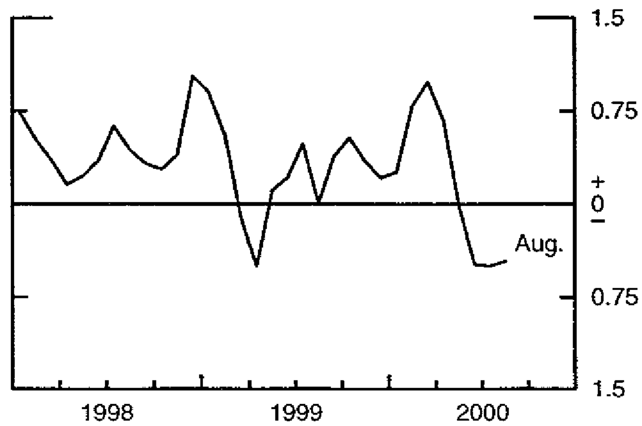
Business Equipment *



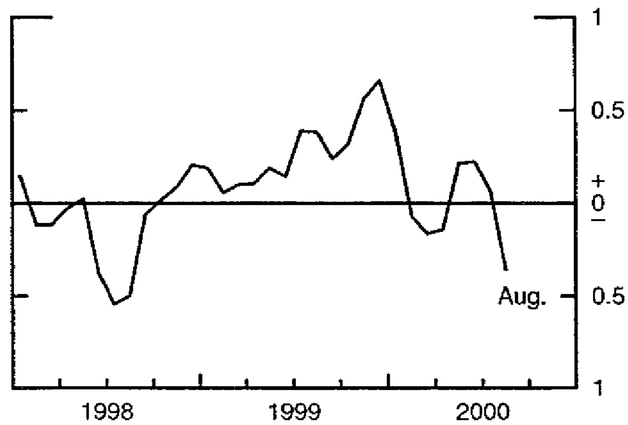
Consumer Goods Excluding Energy *



Construction Supplies



Materials Excluding Energy *



* Business equipment and consumer goods exclude motor vehicles, aircraft, and high-tech. Materials exclude related parts.

rigs--have reduced demand for medium and heavy trucks, and production has moved down as well. At the same time, rising electricity costs in the Northwest have curtailed operations at copper and aluminum processors. In contrast, higher fuel prices have stimulated a sharp increase in oil and natural gas extraction.

Near-term indicators are consistent with a continuation of a slower pace of production than earlier in the year. The NAPM diffusion index for new orders showed a net decline in July and August; other components of the purchasing managers' survey have also weakened. Real adjusted new orders in the Census M3 data, excluding high-tech equipment and electronic components, have moved up only slightly, on net, in July and August.

Motor Vehicles

Sales of light motor vehicles in August were at an annual rate of 17.4 million units and have averaged 17.2 million units so far in the third quarter. This pace is the same as in the second quarter, but down considerably from the blistering rate of sales in the first quarter. In July and August, sales received a boost from fleet deliveries **(confidential)**. Retail sales in those months were noticeably below the second-quarter pace, likely reflecting the same macroeconomic factors--slower income and employment gains and a flattening of the stock market--that have restrained other consumer spending.

Business demand for motor vehicles continues to be mixed. As indicated, fleet sales of light vehicles jumped in July and August, with the increase largely concentrated at GM. Despite an uptick in August, the level of net new orders for heavy trucks remains well below that of last year; also, backlogs have fallen every month since May 1999. For medium trucks, net new orders declined in August, retracing some of the surge in July, and remain below the elevated levels reached in mid-1999.

Total motor vehicle assemblies (including medium and heavy trucks) in August came in at an annual rate of 12.8 million units, and September assemblies appear headed for a similar rate. Production was held down in both months by shutdowns at Ford to free up replacement tires for the Firestone recall; in addition, GM and DaimlerChrysler made some inventory-related cutbacks.[5] The inventory problems are concentrated in the light-truck segment, where domestic days' supply was 75 days in August--significantly above the desired level of 65 to 70 days; days' supply of autos was in a more comfortable range in August.

5. On August 28, Ford shut down production of three light truck plants; the company restarted production on September 18. This shutdown held down production in August by 0.15 million units (annual rate) and by 0.3 million units in September. Ford has indicated that it intends to make up about half of the lost production later this year, although the company has not yet built that into its production plans.

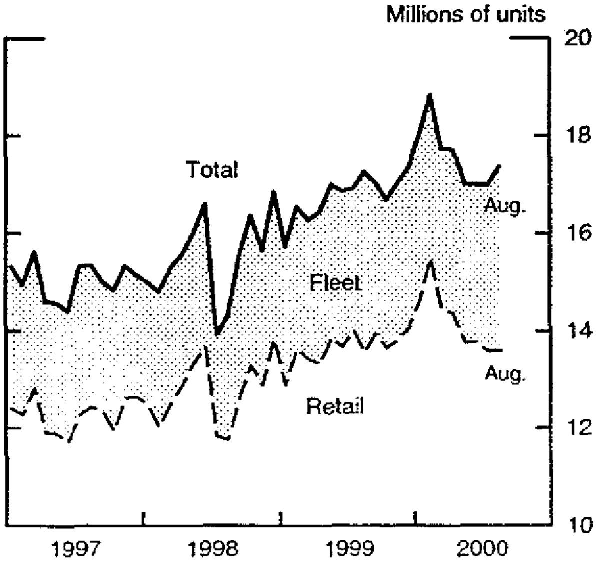
SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

	1998	1999	1999 Q4	2000 Q1	2000 Q2	2000 June	2000 July	2000 Aug.
Total[1]	15.5	16.8	17.1	18.1	17.2	17.0	17.0	17.4
Autos	8.2	8.7	8.9	9.3	8.9	8.8	8.8	8.7
Light trucks	7.3	8.1	8.2	8.8	8.3	8.2	8.2	8.6
North American[2]	13.4	14.3	14.3	15.3	14.4	14.1	14.2	14.6
Autos	6.8	7.0	6.9	7.3	6.9	6.8	6.8	6.8
Big Three	4.7	4.9	4.7	5.2	4.8	4.8	4.5	4.5
Transplants	2.1	2.1	2.2	2.1	2.1	2.1	2.3	2.3
Light trucks	6.7	7.3	7.3	8.0	7.4	7.3	7.4	7.8
Big Three	6.1	6.6	6.4	7.1	6.5	6.3	6.4	6.8
Transplants	.6	.8	.9	.9	.9	.9	1.0	1.0
Foreign Produced	2.0	2.5	2.8	2.9	2.9	2.9	2.8	2.7
Autos	1.4	1.7	2.0	2.0	2.0	2.0	2.0	1.9
Light trucks	.7	.8	.8	.8	.9	.9	.8	.8
Memo:								
Total, as reported	15.4	16.8	17.0	18.2	17.2	17.0	17.0	17.4

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.

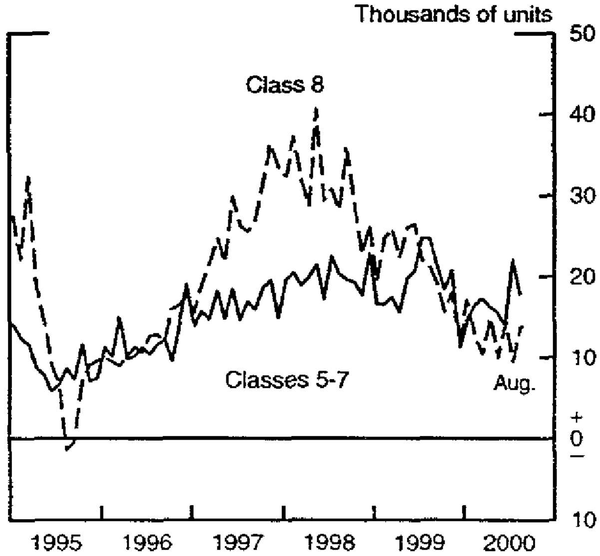
1. Excludes the estimated effect of automakers' changes in reporting periods.
2. Excludes some vehicles produced in Canada that are classified as imports by the industry.

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



Note. Staff estimates based on confidential data.

Net New Orders for Medium and Heavy Trucks
(Monthly rate; FRB seasonals)



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

Item	2000						
	Q2	Q3[1]	Q4[1]	July	Aug	Sept[1]	Oct[1]
U.S. production	13.4	12.7	12.7	12.4	12.8	12.8	12.4
Autos	5.8	5.7	5.5	5.5	5.7	5.7	5.4
Trucks	7.6	7.0	7.2	6.9	7.1	7.1	7.1
Days' supply							
Autos	53.9	n.a.	n.a.	54.3	54.8	n.a.	n.a.
Light trucks[2]	78.0	n.a.	n.a.	81.5	75.4	n.a.	n.a.

Note. Components may not sum to totals because of rounding.
1. Production rates reflect actual August data and manufacturers' schedules for September, October, and Q4.
2. Excludes medium and heavy (classes 3-8) trucks.
n.a. Not available.

For the third quarter as a whole, total production is scheduled at 12.7 million units, down from the 13.4 million unit pace in the second quarter. Schedules for the fourth quarter also point to a 12.7 million unit production rate, suggesting that automakers do not expect sales to weaken dramatically in the near term. Regarding medium and heavy trucks, domestic production dropped to an annual rate of 390,000 units in August--the lowest rate posted so far this year. Both Navistar and DaimlerChrysler's Freightliner unit recently announced layoffs and further production cuts to deal with slower demand.

Consumer Spending and Income

The pace of real consumer spending appears to have picked up in July and August, following a second-quarter increase in real PCE of just 2.9 percent at an annual rate.[6] That said, available data suggest that the third-quarter increase in real consumption will be less than the pace over the past couple of years.

Nominal retail sales in the control category of stores rose 0.4 percent in August after an upward-revised gain of 0.8 percent in July. In August, outlays at durable goods stores rose briskly; spending also increased at outlets selling apparel, food, general merchandise, and "other nondurable goods." In contrast, nominal purchases at gasoline stations fell 1-1/4 percent in August, reflecting

6. Unless otherwise indicated, the discussion of second-quarter real GDP figures in this section of the Greenbook incorporates our expected revisions to GDP.

RETAIL SALES
(Percent change; seasonally adjusted)

	2000		2000		
	Q1	Q2	June	July	Aug.
Total sales	3.2	.5	.4	.9	.2
Retail control[1]	2.8	1.5	.5	.8	.4
Previous estimate		1.5	.4	.6	
Furniture and appliances	3.6	.6	-1.3	.3	1.1
Other durable goods	2.9	-1.2	-.3	2.8	.7
Apparel	3.2	.6	-1.2	.0	.3
Food	-.1	2.7	.7	.1	.3
General merchandise[2]	2.4	1.4	.1	1.5	.2
Gasoline stations	7.7	1.9	2.9	.7	-1.3
Eating & drinking establishments	2.5	.9	.4	1.0	-.2
Other nondurable goods[3]	4.5	2.7	1.1	.5	1.7
Memo: Sales of autos[4]	9.4	8.9	8.8	8.8	8.7
Sales of light trucks[4]	8.8	8.3	8.2	8.2	8.6

1. Total retail sales less sales at building material and supply stores and automotive dealers, except auto and home supply stores.
2. Excludes mail-order houses.
3. Includes sales at liquor stores, mail-order houses, and drug and proprietary stores.
4. Sales to both households and businesses. Millions of units, annual rate.

REAL PERSONAL CONSUMPTION EXPENDITURES FOR SERVICES
(Percent change from the preceding period)

		2000		2000		
	1999	Q1	Q2	May	June	July
	Q4/Q4	- Annual rate -		--- Monthly rate ---		
Services	4.2	5.2	4.4	.4	.2	.3
Household operations	4.5	6.1	9.5	1.2	-.8	.2
Electricity and natural gas	1.5	7.2	15.4	2.3	-3.2	-.6
Transportation	4.2	4.2	3.9	.8	.2	-.0
Medical	3.2	2.1	2.9	.3	.2	.1
Personal business	9.0	11.3	2.4	-.6	.7	.5
Brokerage services	34.7	79.0	-10.3	-7.0	2.4	-.7
Recreation	5.7	9.6	9.0	1.2	.0	1.0
Other	2.5	4.0	4.4	.4	.3	.3

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

both lower prices and, according to physical product data from the Department of Energy, a decline in real gasoline purchases.[7]

Our most recent information on service expenditures is for July, when real PCE for services rose 0.3 percent, just a bit below the 0.4 percent average monthly increase over the first half of the year. In July, as in June, service outlays were held down by declines in real spending on electricity. Brokerage services also are estimated to have dropped in July, and declines in motor vehicle leasing and purchases of airline tickets held down the transportation services category. However, real spending rose across most of the other major categories of services, led by a significant increase in recreational services--a component that has been growing strongly throughout the year.

Although the fundamentals underlying consumption growth remain solid, the trends in real income and household net worth are not so stimulative as during the past couple of years. Real DPI increased 2-3/4 percent over the twelve months ending in July (our most recent reading), a touch lower than the 3 percent gain over the preceding twelve-month period. Furthermore, on the basis of the payroll employment data, we expect little change in the level of private wage and salary income in August. Meanwhile, with little impetus from the stock market, the ratio of net worth to disposable income slipped in the second quarter, and we expect the third-quarter ratio to tick down a bit further. If sustained, this would represent a significant break from the uptrend observed, on average, from 1995 through the end of 1999.

Despite these recent developments--and rising prices for gasoline and fuel oil--consumer confidence has remained favorable. The preliminary estimate of the Michigan Survey Research Center index of consumer sentiment rose 1-1/2 points in September, and the Conference Board measure increased 1 point. In both surveys, respondents gave more favorable assessments of current conditions and were more optimistic about future conditions, as well.

Housing Markets

After having weakened sharply earlier in the year, housing demand appears to have received a lift from the easing of rates on fixed-rate mortgages in the spring and summer. Since mid-May, mortgage rates have reversed more than a third of the increase that occurred between late 1998 and the spring of 2000. Still, the stimulative effect of softening mortgage rates has been working against a considerable drag on demand from the slower rise in income and employment

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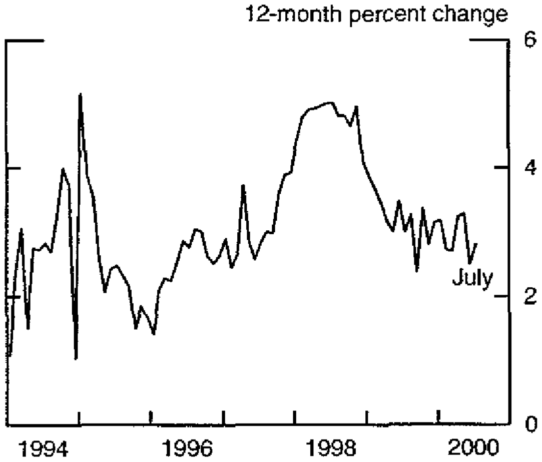
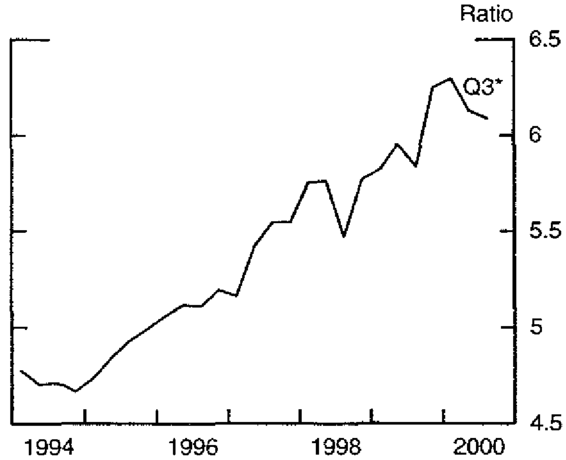
7. When estimating quarterly GDP, the BEA uses Department of Energy data on gallons of gasoline delivered to retail outlets (gasoline stations and truck stops) to estimate real gasoline purchases rather than deflating retail sales at gasoline stations.

Household Indicators

Real DPI

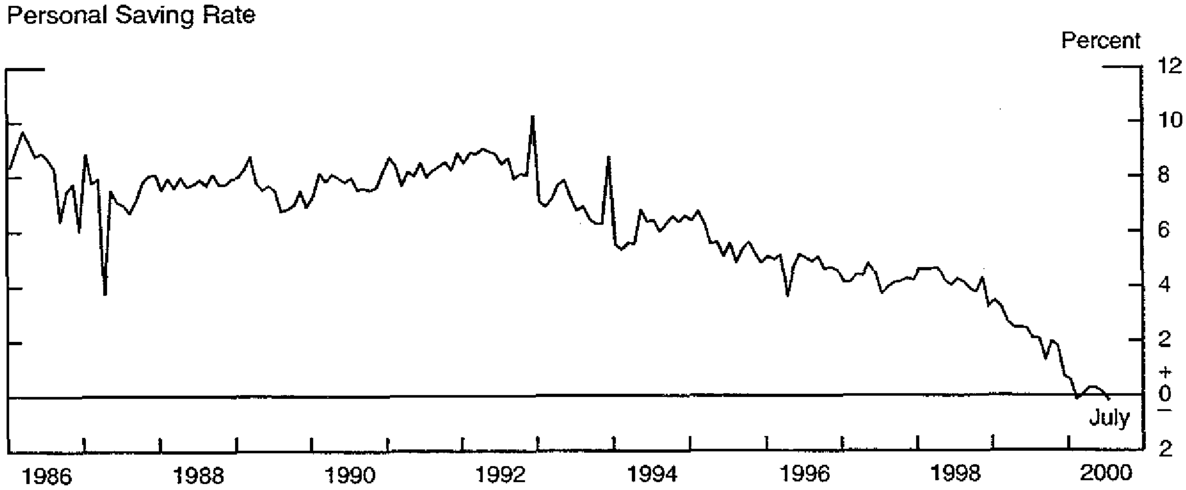


Ratio of Household Net Worth to DPI

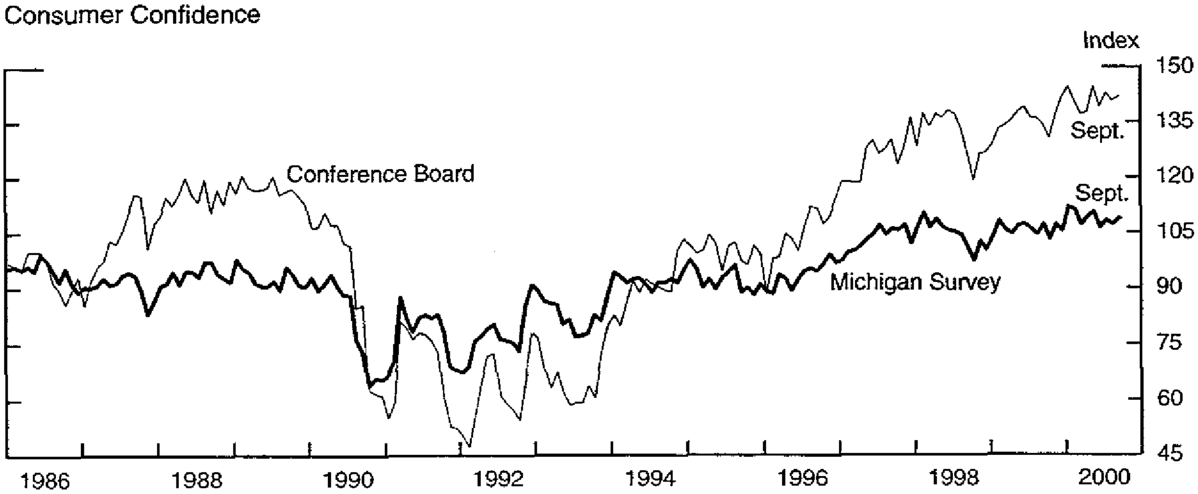


*Value for 2000:Q3 is a staff estimate.

Personal Saving Rate



Consumer Confidence



and the recent decline in the wealth-to-income ratio; consequently, a return to the pace of construction seen earlier in the year seems unlikely.

In August, single-family housing starts rose 4.6 percent to 1.26 million units at an annual rate, returning starts to about the May level. However, even with this pickup, the average pace of starts in July and August was still 5-1/4 percent below that in the first half of this year. Meanwhile, the starts-to-permits ratio was on the high side in August, pointing to a slightly lower pace of starts going forward.

In addition to the pickup in starts, the most recent readings on home sales have pointed to firmer demand. New home sales jumped more than 14 percent in July, although the pace that month may have been inflated some by a glitch in the Census Bureau's estimation procedures and probably should not be taken at face value.[8] Sales of existing homes bounced back more than 9 percent in August, about offsetting a drop in July. On average, the level of existing home sales in July and August was up 2 percent from the first half of this year.[9]

Some other indicators of conditions in housing markets also have been more favorable in recent months, although they remain substantially below peaks reached more than a year ago. After having declined steeply since late 1998, the home buying conditions index from the Michigan survey rose in September for the third consecutive month, and the proportion of respondents citing low interest rates as a reason why it was a good time to buy a home has been rising. Similarly, after having fallen considerably since mid-1999, builders' ratings of new home sales have been essentially flat, on balance, over the past four months.

In the multifamily sector, starts fell 16 percent in August to an annual rate of 270,000 units, well below the average level for last year and the first half of this year. However, the starts-to-permits ratio was on the low side in August, suggesting that starts are likely to strengthen some. In addition, underlying conditions in the multifamily housing market are fairly favorable: In the second quarter (latest available data), the vacancy rate for multifamily rental units remained in the low range observed in recent years, and both apartment rents and the value per square foot of multifamily rental properties continued to rise.

8. The Census staff makes an imputation for homes that are sold before a permit has been issued, and they believe that processing errors caused the imputation to overestimate sales in July. Nonetheless, even excluding imputed sales, their figures showed a large number of new home sales in July, still suggesting relatively strong sales activity.

9. New home sales are recorded when the contracts are signed. Existing home sales are mostly recorded when the sales are closed and therefore should tend to lag further behind changing market conditions than would sales of new houses.

Private Housing Activity

(Millions of units; seasonally adjusted annual rate)

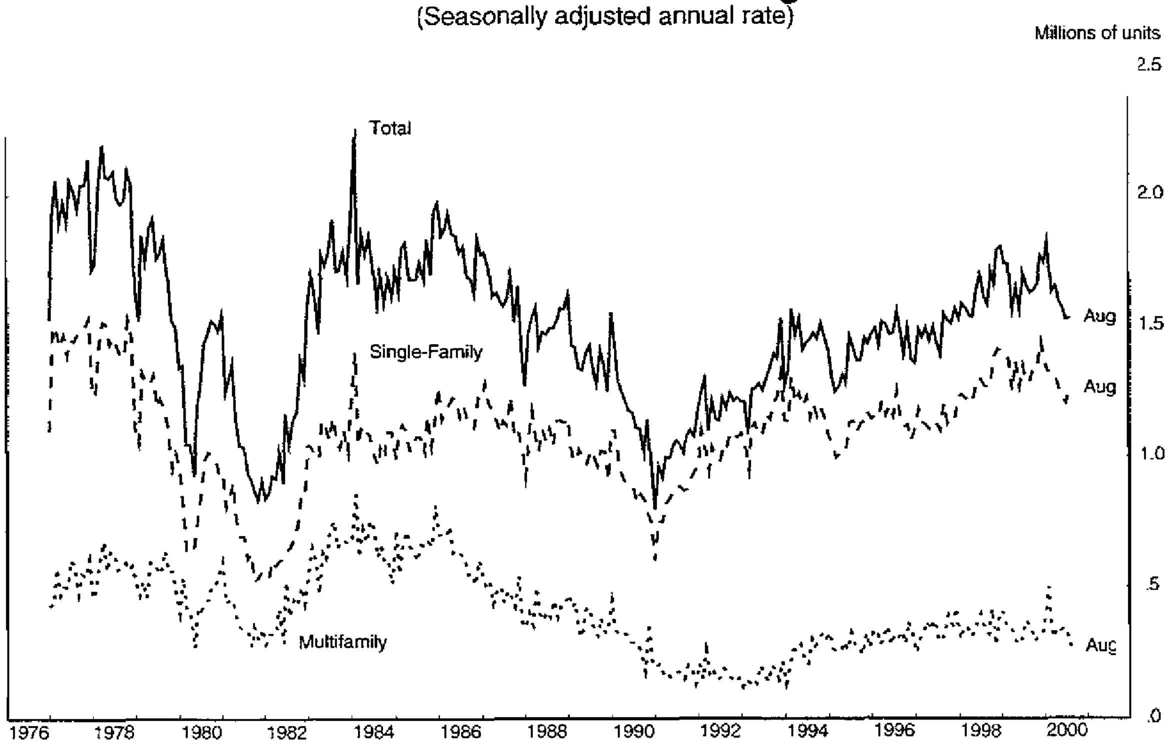
		1999	2000				
	1999	Q4	Q1	Q2[r]	June[r]	July[r]	Aug.[p]
All units							
Starts	1.67	1.69	1.73	1.61	1.57	1.53	1.53
Permits	1.66	1.67	1.67	1.53	1.53	1.51	1.47
Single-family units							
Starts	1.33	1.38	1.34	1.27	1.23	1.21	1.26
Permits	1.25	1.24	1.26	1.15	1.13	1.12	1.14
Adjusted permits[1]	1.34	1.33	1.34	1.24	1.20	1.20	1.22
New home sales	.91	.91	.93	.86	.82	.94	n.a.
Existing home sales	5.20	5.06	4.80	5.09	5.31	4.82	5.27
Multifamily units							
Starts	.33	.31	.40	.34	.34	.32	.27
Permits	.42	.43	.41	.39	.40	.39	.33
Mobile homes							
Shipments	.35	.31	.30	.27	.26	.25	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

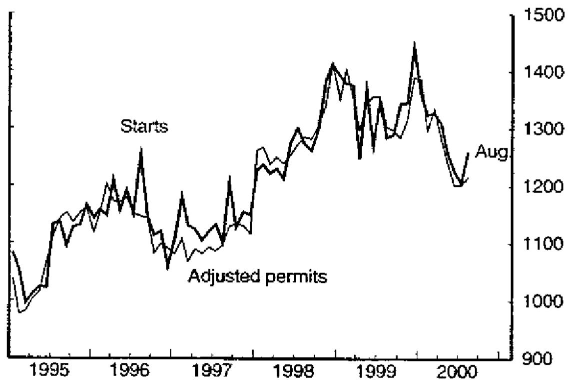
(Seasonally adjusted annual rate)



Indicators of Single-Family Housing

Starts and Adjusted Permits

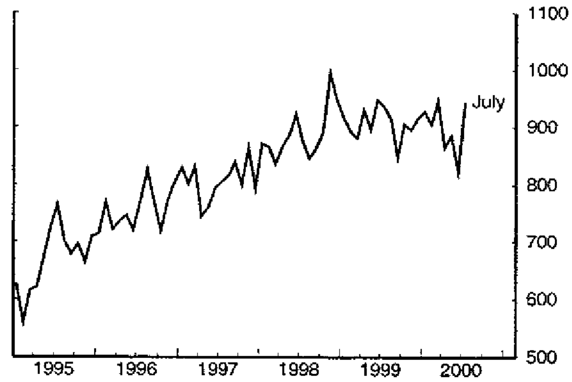
Thousands of units



Source. Census Bureau. Adjusted permits calculated by staff.

New Home Sales

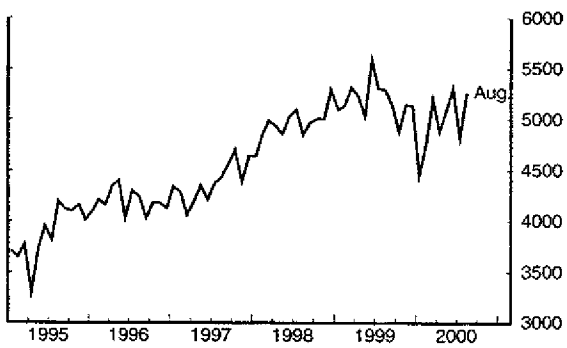
Thousands of units



Source. Census Bureau.

Existing Home Sales

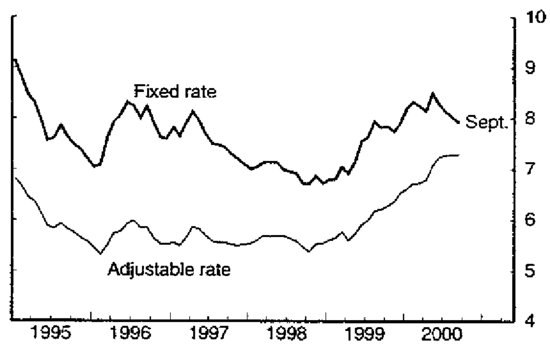
Thousands of units



Source. National Association of Realtors.

Mortgage Rates

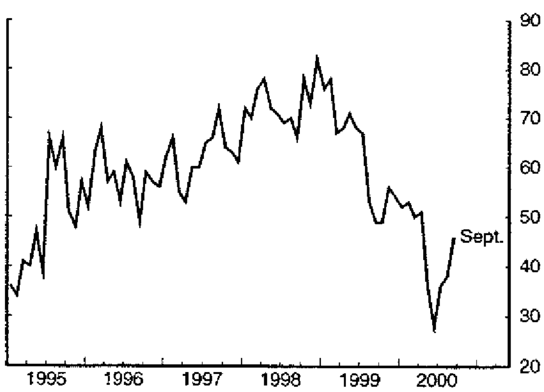
Percent



Source. Freddie Mac.
Note. The Sept. reading is an average of weekly data through Sept. 22.

Perceived Homebuying Conditions

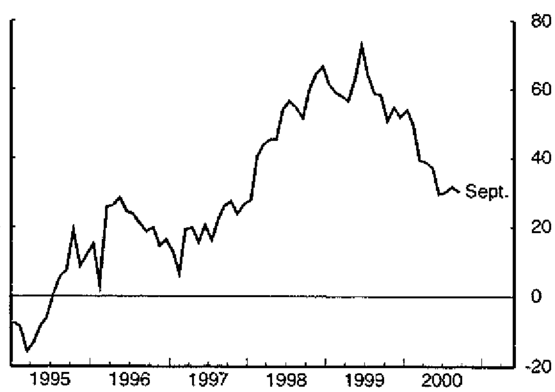
Diffusion index



Source. Michigan Survey, not seasonally adjusted.

Builders' Rating of New Home Sales

Diffusion index



Source. National Association of Home Builders.

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

	2000		2000		
	Q1	Q2	June	July	Aug.
Equipment and software					
Shipments of nondefense capital goods	3.9	5.8	-1.0	-1.7	4.8
Excluding aircraft and parts	6.0	4.0	.8	1.0	1.6
Office and computing equipment	7.4	9.4	-1.9	9.1	2.0
Communications equipment	13.9	4.6	-5.3	1.0	3.1
All other categories	3.1	1.4	4.2	-2.8	.9
Shipments of complete aircraft	-31.0	59.4	-27.8	128.8	n.a.
Medium & heavy truck sales (units)	-3.0	-3.0	8.0	-14.3	1.8
Orders for nondefense capital goods	4.7	6.5	16.6	-12.2	5.6
Excluding aircraft and parts	6.4	4.7	7.5	-3.7	.1
Office and computing equipment	6.1	9.6	-3.8	8.2	9.9
Communications equipment	2.1	11.9	29.2	-23.4	-3.2
All other categories	8.0	.2	5.6	-.9	-3.5
Nonresidential structures					
Construction put in place, buildings	8.1	1.8	.7	-.8	n.a.
Office	6.9	5.7	1.8	.1	n.a.
Other commercial	6.4	-2.1	1.6	-.9	n.a.
Institutional	5.9	2.0	-.2	-.3	n.a.
Industrial	15.1	5.9	.4	-2.1	n.a.
Lodging and miscellaneous	8.0	-2.2	-1.6	-.8	n.a.
Rotary drilling rigs in use[1]	6.2	8.7	-.8	7.1	3.0

1. Percent change of number of rigs in use, seasonally adjusted.
n.a. Not available.

Business Fixed Investment

Equipment and software. Real business spending on equipment and software--which rose at an annual rate of 19 percent over the first half of the year--appears set for another large gain in the current quarter, again led by sizable increases in outlays on high-tech equipment. However, the recent data on orders point tentatively toward some moderation in the pace of spending growth in the coming months.

Shipments of computing equipment increased 11 percent over the July-August period (not at an annual rate), implying a continuation of the very hefty gains in nominal spending that occurred in the first half of the year. Even though prices have declined more slowly than in recent years, these recent gains are strong enough to generate a continued rapid advance in real hardware outlays. Similarly, strong demand for business software has led to persistent growth in real investment even as its price has turned up this year. The strength in demand for hardware and software reflects continuing efforts by businesses throughout the economy to adopt a range of technologies that improve information flow and supply-chain management.

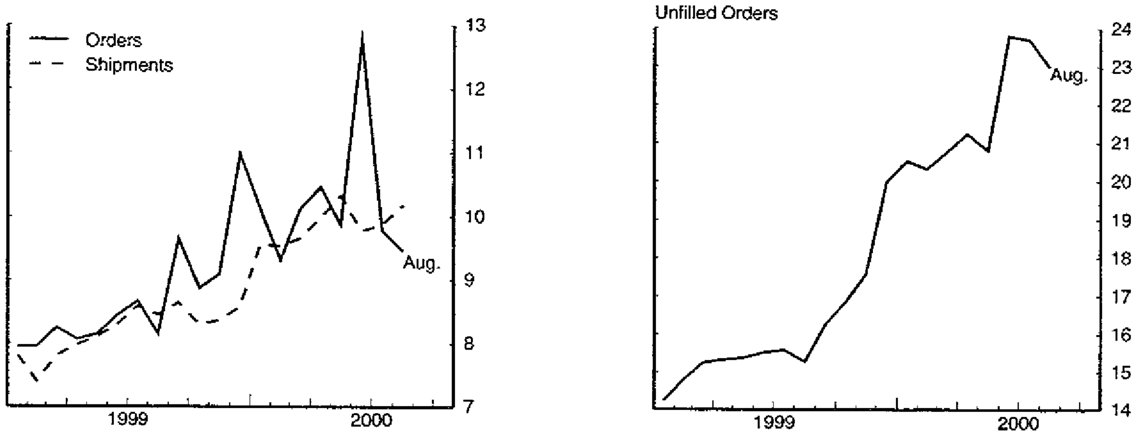
Elsewhere in the high-tech sector, outlays on communications equipment appear to have decelerated in the current quarter: Shipments and imports have both increased more modestly in recent months than earlier in the year. Orders have also declined from their previous very high levels. However, despite these signs of slowing, the near-term outlook for spending on communications equipment remains positive. In the near term a substantial backlog of unfilled orders should provide support for shipments. And increasing demand for broadband links and wireless communication, along with the effects of deregulation, should be a source of continuing strength in equipment demand.

Outside of the high-tech and transportation categories, business spending on equipment appears to be cooling off a little, following the substantial gains recorded over the first half of the year. Shipments for this category fell 1.9 percent over the July-August period. Orders have continued to run ahead of shipments in recent months, but these data are a somewhat misleading indicator of the near-term outlook for shipments because of the high level of orders for gas turbines, which have delivery lags of at least two years.[10] Although still up from the levels of late 1999, the backlog of orders in this category excluding turbines has been about flat in recent months; with orders also flattening out, this suggests some softness in shipments in the coming months.

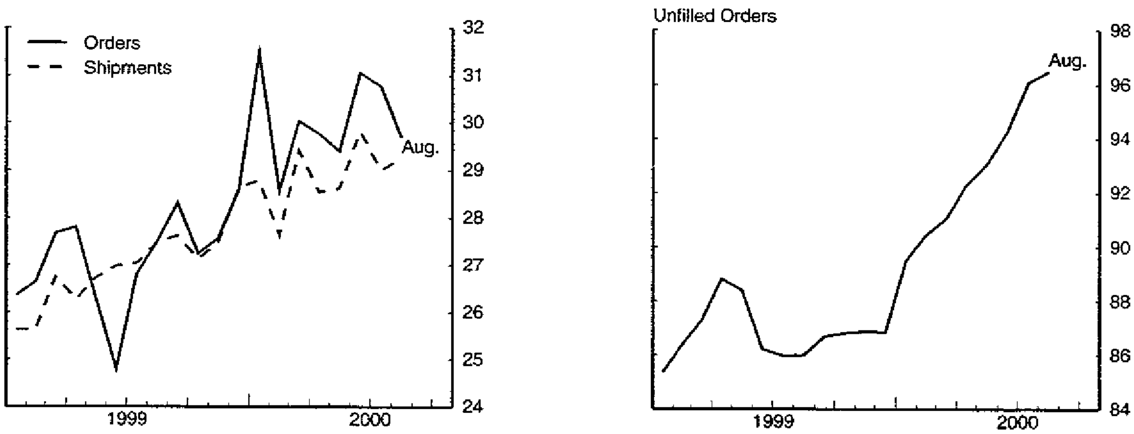
10. The long delivery times imply that new orders for turbines do not boost shipments or real equipment and software outlays in the near term. However, once firms begin to produce the newly ordered turbines, work-in-process inventories increase, and real GDP rises accordingly.

Orders and Shipments for Nondefense Equipment
(Billions of Dollars; not at annual rate)

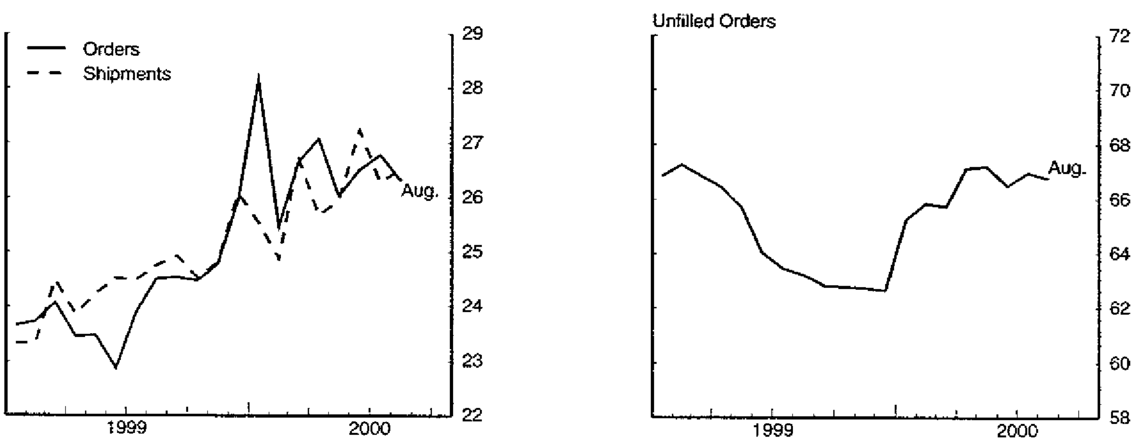
Communications Equipment



Non-High-Tech Equipment Excluding Aircraft

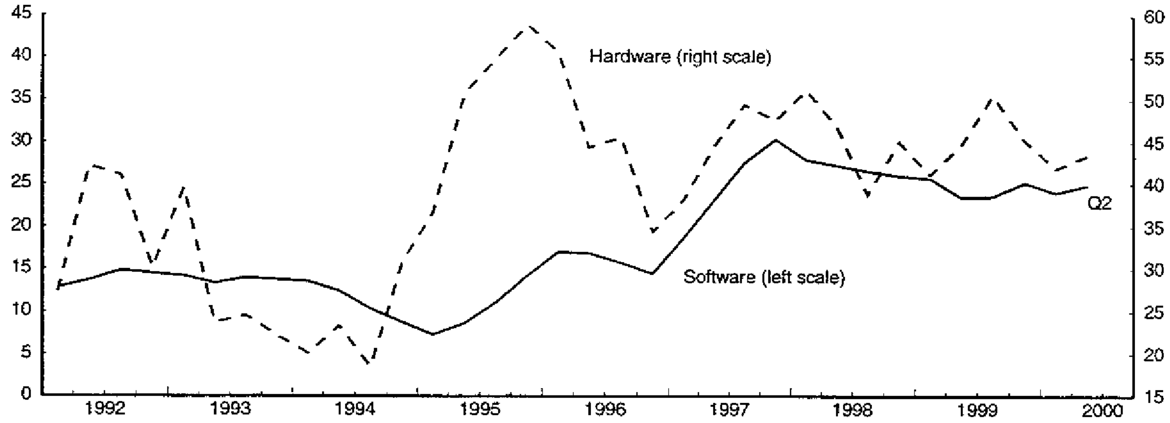


Non-High-Tech Equipment Excluding Aircraft and Turbines

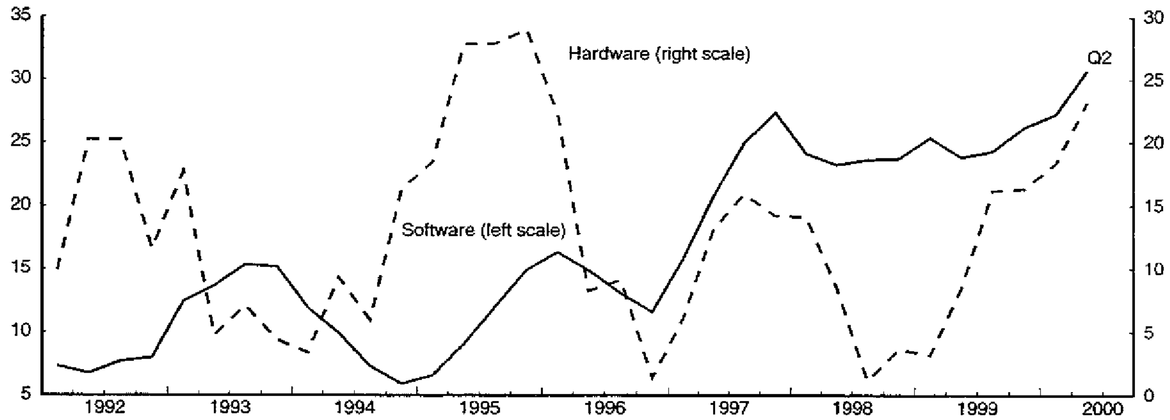


Computer Hardware and Software
(4-quarter percentage change)

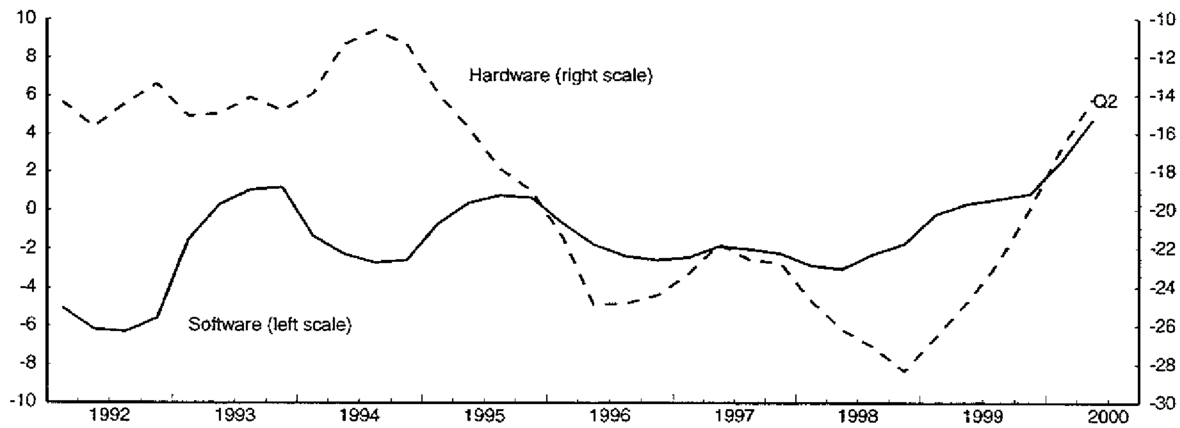
Real Expenditures



Nominal Expenditures



Prices



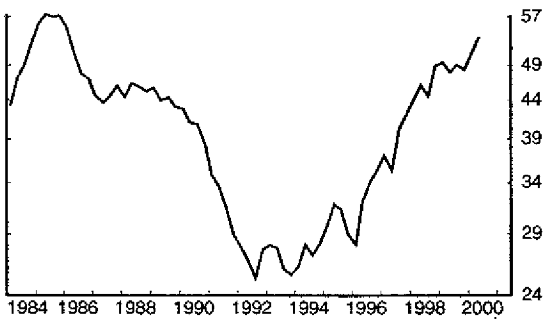
Real Investment in Nonresidential Structures

(Billions of 1996 dollars, chain weighted)

Buildings

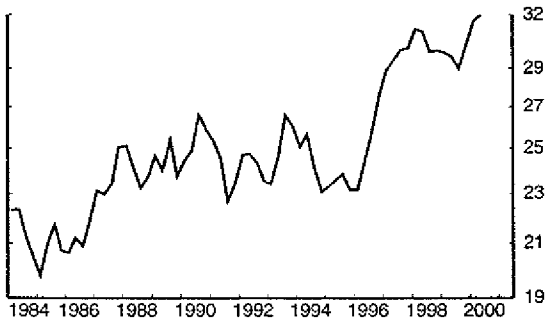
Note. In addition to buildings, the nonresidential structures category includes outlays for drilling and mining, expenditures by utilities, and investment in miscellaneous private facilities such as streets, sewers, and parks.

Office

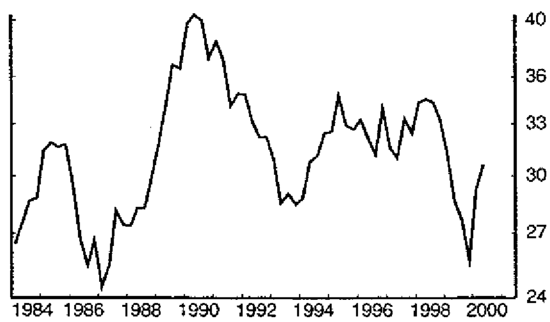


Other Commercial

Institutional



Industrial



Note. Estimates for 2000:Q2 are staff estimates based on the latest data for construction put in place.

Nonresidential structures. The rise in real investment in nonresidential structures moderated to an annual rate of 4-3/4 percent in the second quarter, down sharply from the 22 percent pace in the first quarter. In July, nominal nonresidential construction put in place fell 0.8 percent, leaving the level of spending about equal to the second-quarter average. However, property values and rents rose somewhat in the second quarter and vacancy rates fell, suggesting that, on the whole, the environment for nonresidential investment remains fairly positive.

Office buildings remain one of the key areas of strength in nonresidential construction, and the fundamentals in that market appear to support further growth in outlays. According to the latest available data, vacancy rates for office properties in both downtown and suburban locations declined further in the second quarter. Moreover, after having trended down between early 1998 and the fall of 1999, the year-over-year change in office rent has picked back up steadily, reaching 10 percent in the second quarter. And the year-over-year increase in the value of office properties jumped to 6-1/2 percent in the second quarter, retracing about one-third of the deceleration that began early last year.

Construction of other commercial structures, which include retail space and warehouses, dropped back in the second quarter; however, the 3-1/4 percent increase in expenditures over the past year was a bit above the pace of a year earlier. The rates of increase in both property values and rents in the retail sector picked up in the second quarter, extending the upturn that began in the latter half of last year. Still, the gains are well below those recorded in early 1998. For warehouses, the year-over-year rate of increase in rents continued to move up in the second quarter, and the rate of increase in property values held steady after having picked up a bit from its low of late last year.

With vacancy rates having dropped through the second quarter and manufacturing capacity utilization approaching long-run norms, real outlays for industrial construction have rebounded some of late. These expenditures rose at an annual rate of 21 percent in the second quarter and were up 6-3/4 percent from the year-earlier level. Nonetheless, the level of construction is 11-1/2 percent below its recent peak in mid-1998.

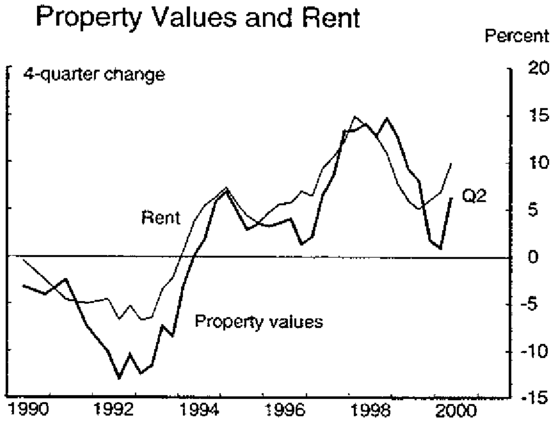
Business Inventories

The book value of manufacturing and trade inventories excluding motor vehicles increased at an annual rate of $61 billion in July, down from the $72 billion pace recorded in the second quarter. With sales decelerating, inventory-sales ratios--which had declined throughout 1999 and earlier this year--have leveled out, on balance, in recent months. Still, only a few scattered inventory imbalances are evident at the industry level.

Indicators of Nonresidential Construction

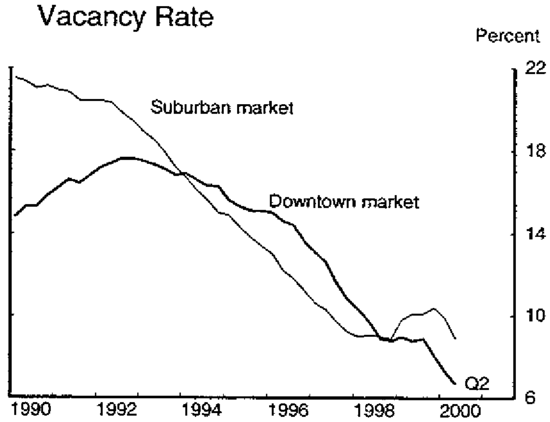
Office Buildings

Property Values and Rent



Source. National Real Estate Index.

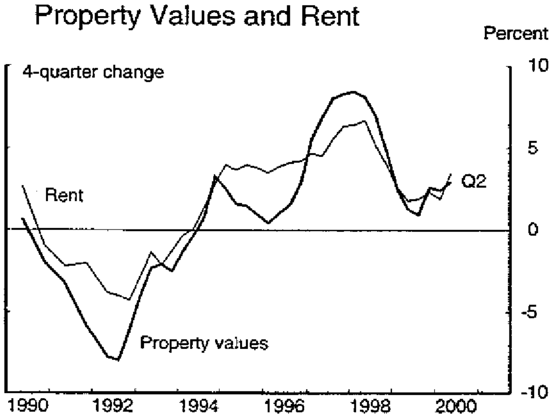
Vacancy Rate



Source. CB Richard Ellis.

Retail Space

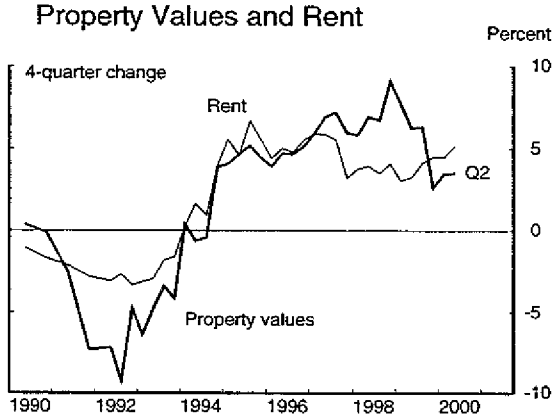
Property Values and Rent



Source. National Real Estate Index.

Warehouses

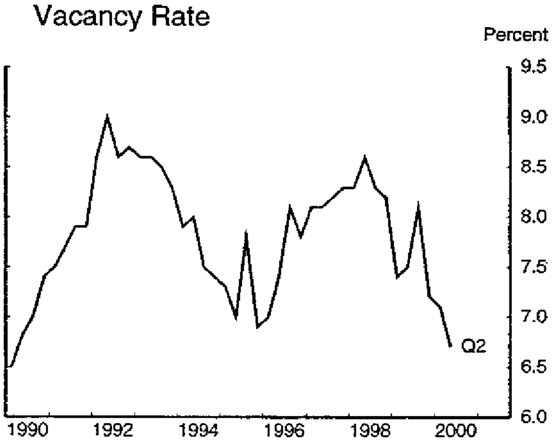
Property Values and Rent



Source. National Real Estate Index.

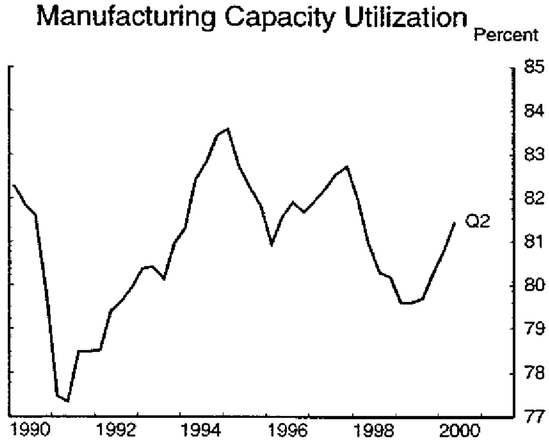
Industrial

Vacancy Rate



Source. CB Richard Ellis.

Manufacturing Capacity Utilization



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

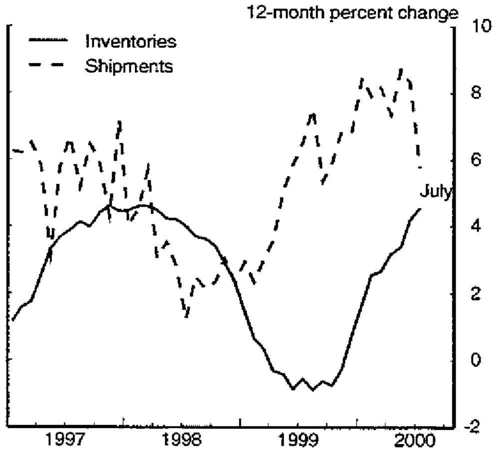
Category	1999 Q4	2000 Q1	2000 Q2	2000 May	2000 June	2000 July
Manufacturing and trade	81.0	60.8	105.9	122.4	120.7	46.9
Less wholesale and retail motor vehicles	70.3	50.9	72.3	87.8	77.0	61.3
Manufacturing	18.8	22.0	24.6	17.9	32.1	50.6
Less aircraft	27.2	18.6	30.0	29.8	29.4	53.4
Merchant wholesalers	25.7	25.1	36.2	36.3	36.8	10.8
Less motor vehicles	22.8	21.6	33.1	34.7	32.7	13.8
Retail trade	36.5	13.6	45.1	68.1	51.8	-14.4
Automotive dealers	7.7	6.4	30.5	33.0	39.7	-11.4
Less automotive dealers	28.8	7.2	14.6	35.2	12.1	-3.1

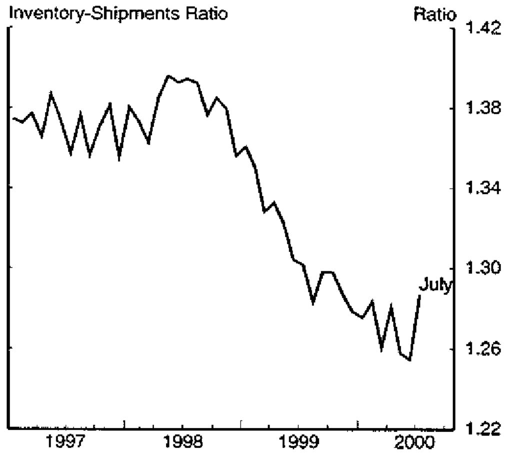
SELECTED INVENTORY-SALES RATIOS IN MANUFACTURING AND TRADE
(Months' supply, based on seasonally adjusted Census book value)

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	July 2000
Manufacturing and trade	1.58	1.37	1.34	1.31	1.33
Less wholesale and retail motor vehicles	1.55	1.34	1.31	1.27	1.29
Manufacturing	1.75	1.36	1.30	1.25	1.29
Primary metals	2.08	1.46	1.59	1.53	1.59
Steel	2.56	1.59	2.01	1.87	2.06
Nonelectrical machinery	2.48	1.61	1.59	1.41	1.40
Electrical machinery	2.08	1.21	1.21	1.09	1.12
Transportation equipment	2.93	1.51	1.50	1.32	1.48
Motor vehicles	.97	.53	.57	.51	.57
Aircraft	5.84	4.05	4.53	3.51	4.33
Nondefense capital goods	3.09	2.04	1.96	1.70	1.76
Textiles	1.71	1.38	1.60	1.52	1.60
Paper	1.32	1.06	1.18	1.12	1.19
Chemicals	1.44	1.25	1.36	1.30	1.37
Petroleum	.94	.80	.77	.66	.72
Home goods & apparel	1.96	1.59	1.60	1.49	1.58
Merchant wholesalers	1.36	1.24	1.30	1.27	1.30
Less motor vehicles	1.31	1.22	1.28	1.25	1.27
Durable goods	1.83	1.53	1.61	1.55	1.62
Nondurable goods	.96	.90	.97	.94	.95
Retail trade	1.61	1.45	1.44	1.40	1.42
Less automotive dealers	1.48	1.38	1.36	1.32	1.32
Automotive dealers	2.23	1.58	1.77	1.60	1.73
General merchandise	2.68	2.01	1.95	1.88	1.85
Apparel	2.54	2.29	2.29	2.18	2.27
Food	.83	.79	.82	.78	.78

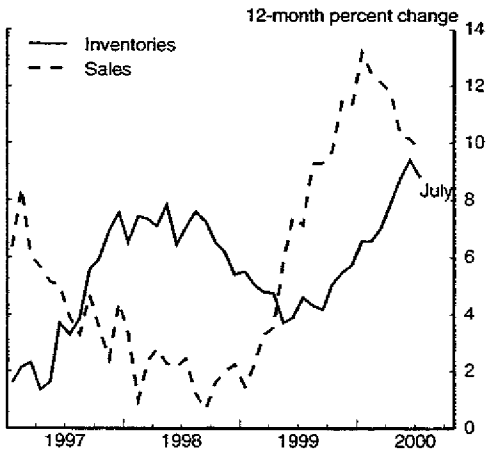
Inventories and Sales

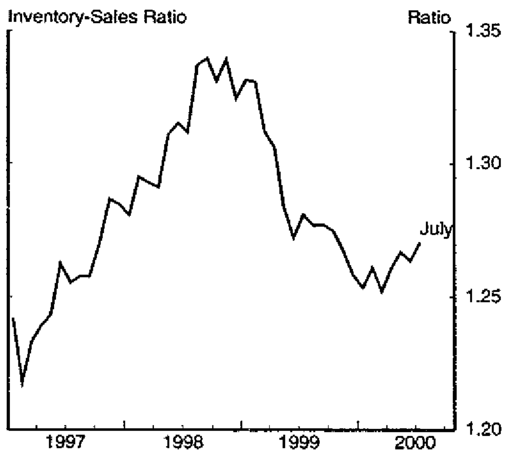
Manufacturing



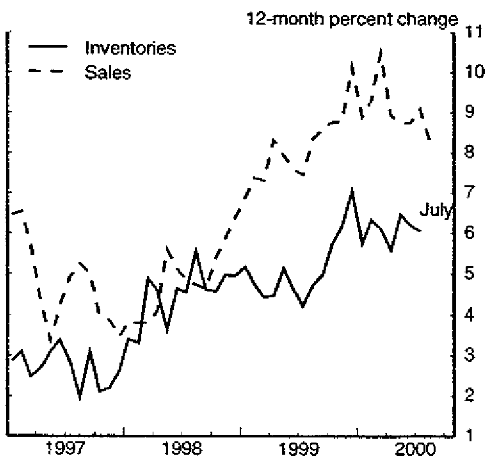


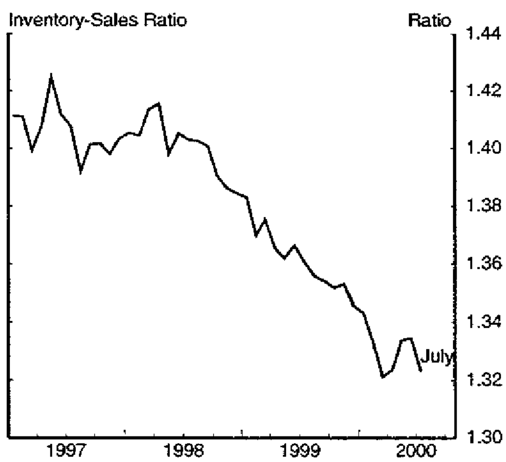
Wholesale Trade Excluding Motor Vehicles





Retail Trade Excluding Motor Vehicles





Manufacturers' inventories increased at an annual rate of $50.6 billion in book-value terms in July, up from the $25 billion second-quarter pace. More than half of July's stockbuilding occurred in the durable goods sector, in which shipments declined 1.6 percent. Smoothing through the monthly fluctuations, the overall manufacturing inventory-shipments ratio has been essentially flat since the beginning of the year, and the disaggregated data show only a couple of industries--notably construction materials and textiles--in which overhangs in stocks are apparent.

The book value of non-auto wholesale inventories increased at an annual rate of $13.8 billion in July, down from the $33 billion pace recorded in the second quarter. Despite the slowing pace of stockbuilding, the July inventory-sales ratio for this category edged up to 1.27 months, as sales declined a touch. Wholesale sales--which had grown rapidly throughout 1999--have decelerated appreciably this year, and inventory-sales ratios have increased across a range of wholesale categories. Stocks at steel service centers and at wholesalers of lumber, construction materials, and hardware are currently on the high side. Nonetheless, these ratios generally remain well below the elevated levels reached in mid-1998.

Inventories of non-auto retailers fell at an annual rate of $3.1 billion in July after an accumulation of $14-1/2 billion in the second quarter. The decline in retail stocks in July may have reflected a positive sales surprise: Non-auto retail sales increased 0.8 percent in July, somewhat faster than their recent trend, and the inventory-sales ratio fell to 1.32 months, at the low end of the range recorded this year. On balance, though, the retail inventory-sales ratio has also been about flat over the past few months.

Government Expenditures

Federal government. The recent information on the federal budget remains very favorable. The unified budget surplus reached $229 billion over the twelve months ending in August, $125 billion more than the level of the preceding twelve months.

Receipts have continued to rise sharply in recent months. The receipts total for July and August, which consists mainly of payments for withheld income and social insurance taxes, were 9-1/2 percent above the level of a year earlier. Daily Treasury data point to sizable advances in nonwithheld taxes and corporate tax payments in September.

Outlays, adjusted for paydate timing shifts and major financial transactions, rose 4 percent in July and August relative to a year earlier. Defense spending was a little lower in nominal terms than during the summer of 1999 and considerably

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

	July-August			12 months ending in Aug.		
	1999	2000	Percent change	1999	2000	Percent change
Outlays	276.2	277.6	0.5	1704.1	1777.1	4.3
Deposit insurance	-0.6	-0.2	...	-5.2	-3.4	...
Spectrum auction	-0.1	-0.2	...	-2.5	-0.9	...
Sale of major assets	0.0	0.0	...	0.0	0.0	...
Other	276.8	278.0	0.4	1711.8	1781.4	4.1
Receipts	248.2	272.2	9.6	1807.9	2006.0	11.0
Surplus	-28.0	-5.4	...	103.7	228.9	120.6
	Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts[1]					
Outlays	279.2	289.2	3.6	1714.3	1781.4	3.9
National defense	47.1	46.8	-0.7	276.8	290.6	5.0
Net interest	39.5	37.7	-4.7	231.0	226.1	-2.1
Social security	64.8	68.7	5.9	389.8	407.2	4.5
Medicare	32.9	35.3	7.3	190.6	197.5	3.6
Medicaid	18.0	20.5	13.9	106.7	117.5	10.2
Other health	5.7	6.5	14.4	32.4	36.1	11.5
Income security	37.6	36.3	-3.5	237.9	244.3	2.7
Agriculture	1.2	1.9	60.1	25.9	32.8	26.4
Other	32.3	35.5	10.0	223.2	229.3	2.7
Receipts	248.2	272.2	9.6	1807.9	2006.0	11.0
Individual income and payroll taxes	209.2	228.7	9.3	1444.8	1604.1	11.0
Withheld + FICA	204.1	219.7	7.6	1229.8	1350.3	9.8
Nonwithheld + SECA	10.0	13.2	31.3	337.3	387.3	14.8
Refunds (-)	4.9	4.1	-16.2	122.4	133.5	9.1
Corporate	7.1	9.7	36.4	181.2	204.1	12.6
Gross	10.4	13.2	26.5	212.7	232.0	9.1
Refunds (-)	3.3	3.5	5.4	31.4	28.0	-11.1
Other	32.0	33.8	5.7	181.9	197.8	8.7
Surplus	-30.9	-17.0	...	93.6	224.6	140.0

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.

below the average level in the second quarter of 2000. These data point to a sharp decline in NIPA real defense purchases in the third quarter. In contrast, agricultural spending rose sharply during the year ending in August, and another large increase apparently occurred in September, as roughly $5 billion of Commodity Credit Corporation (CCC) payments contained in the Agricultural Risk Protection Act were distributed to farmers. These CCC payments are reflected in farm income in the NIPA and thus will provide a significant boost to September personal income.

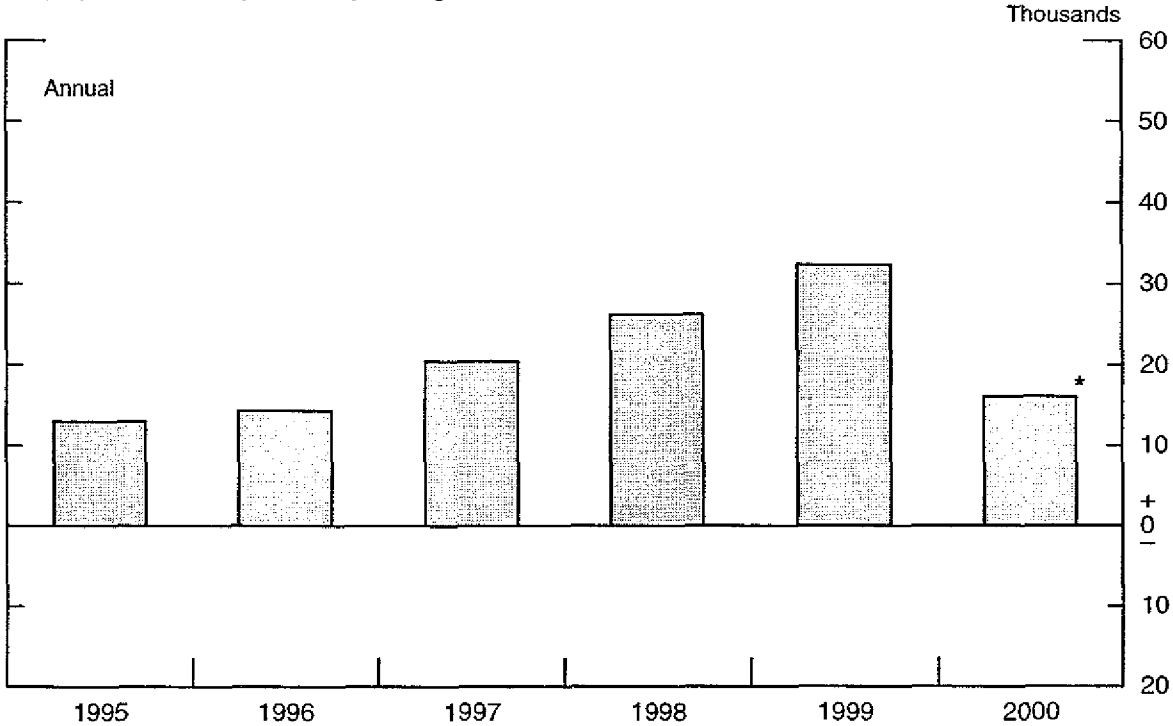
The House has passed all thirteen of the fiscal 2001 appropriations bills. According to the Congressional Budget Office, these bills would allow nominal discretionary outlays to increase about 4 percent in fiscal 2001. The Senate has passed nine appropriations bills; two of these have been signed by the President, and we expect a continuing resolution to keep the government operating while differences are hashed out. Given the current negotiating position of the Administration, discretionary spending likely will rise more than in the House-passed versions of the appropriations bills. When all is said and done, the likely increase in appropriations would be consistent with a moderate gain in real discretionary outlays next year. Little headway has been made on finding agreement between the two branches on tax or mandatory spending legislation.

State and local governments. Indicators of state and local spending available for the third quarter have been mixed, but appear consistent with a modest increase in real outlays. Employment gains averaged 41,000 in July and August, marking a substantial rebound from the outright decline registered in the second quarter. Averaging through the monthly ups and downs, state and local government employment has increased somewhat more slowly this year than in the past two years.

Total real construction spending dropped 2-1/2 percent at a monthly rate in July, continuing its retreat from the surge around the turn of the year. Unusually warm and dry weather in the first quarter no doubt elevated construction spending and then damped the typical seasonal step-up during the spring. Nonetheless, the level of spending in July seems anomalously low, and some bounceback seems likely.

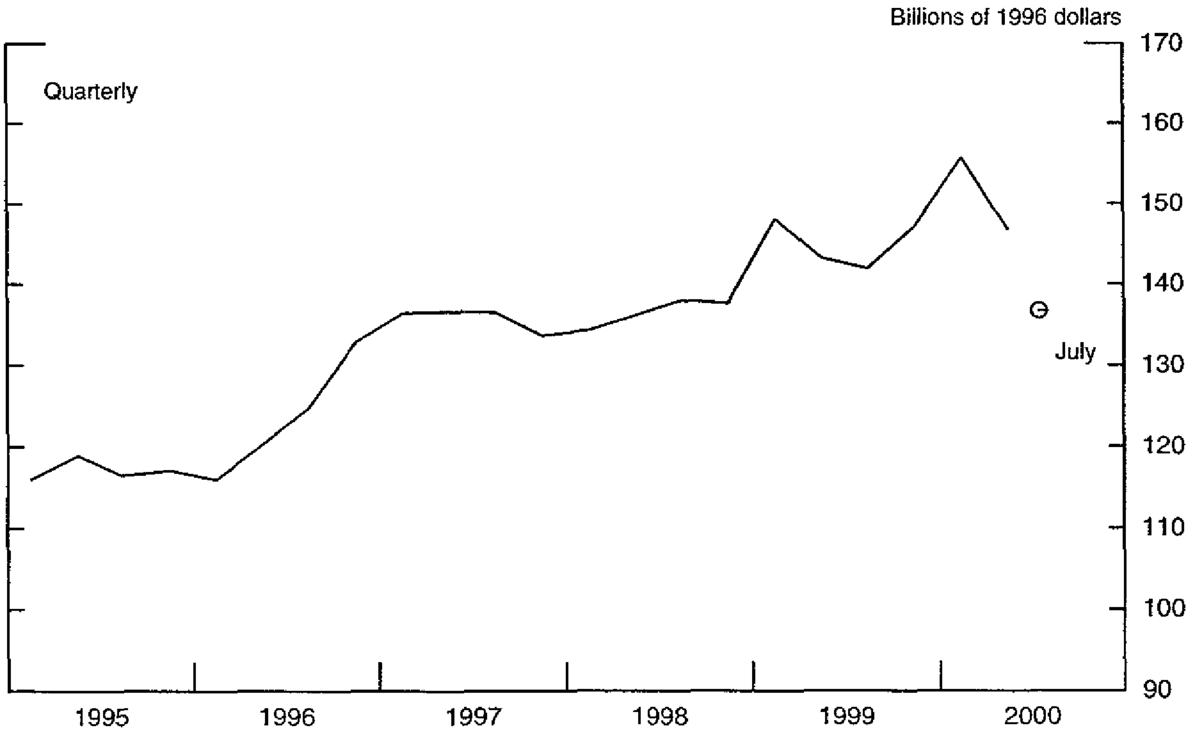
Indicators of State and Local Spending

Employment: Average Monthly Change



*2000 is the monthly average through August.

Real Construction Put in Place



Prices

Although the consumer price index edged down 0.1 percent in August, the increase over the past twelve months was 3.4 percent, 1 percentage point more than over the preceding twelve-month period.[11] Excluding food and energy, the CPI rose 0.2 percent in August and was up 2.5 percent over the past twelve months. On a current-methods basis, the twelve-month change in the core CPI has moved up 0.8 percentage point over the past year; excluding tobacco as well as food and energy items, the acceleration over the past year is 0.9 percentage point. Core PCE prices, available through July, have also accelerated over the past year, though less so than the core CPI.

Energy prices remain an important element of the inflation story. Despite a decline of 2.9 percent in August, the CPI for energy was up 13 percent over the past twelve months, and the run-up in crude oil prices since early August points to further increases in the coming months. Indeed, survey data for the first half of September already indicate sizable increases in prices of both gasoline and heating oil. Natural gas prices turned down in August--the first decline so far this year--but spot prices point to another increase in September, and futures markets suggest that natural gas prices will rise further in the coming months. Consumer electricity prices were unchanged in August after having posted a large increase in July that was concentrated in California, where deregulation has combined with very strong demand to generate sharp price spikes.

Consumer food prices rose 0.2 percent in August after having moved up 0.5 percent in July. Over the past year, food prices have accelerated roughly in line with the core CPI, with the twelve-month change moving up to about 2-3/4 percent in August from a pace of about 2 percent over the preceding twelve-month period. Higher energy prices have boosted the costs of processing, transporting, and preserving food products this past year. In addition, the rate of decline in farm prices seems to have slowed; after having fallen about 5 percent per year over the 1997-99 period, the index of prices received by farmers from January to August of this year was only slightly below the average for the same months of 1999. Futures prices are on about the same track as in mid-August and continue to point to little change in overall farm prices over the course of 2000.

11. The BLS announced on September 27 that it would revise this year's CPI data to correct calculation errors in the indexes for owners' equivalent rent and tenants' rent. The only information released by the BLS today indicated that the increase in the total CPI from December 1999 to August 2000 using the corrected data is 2.7 percent (not at an annual rate), compared with an increase of 2.6 percent in the originally published data. The BLS plans to release the revised indexes on September 28, and we will discuss the latest information in the Greenbook Supplement.

CPI AND PPI INFLATION RATES
(Percent)

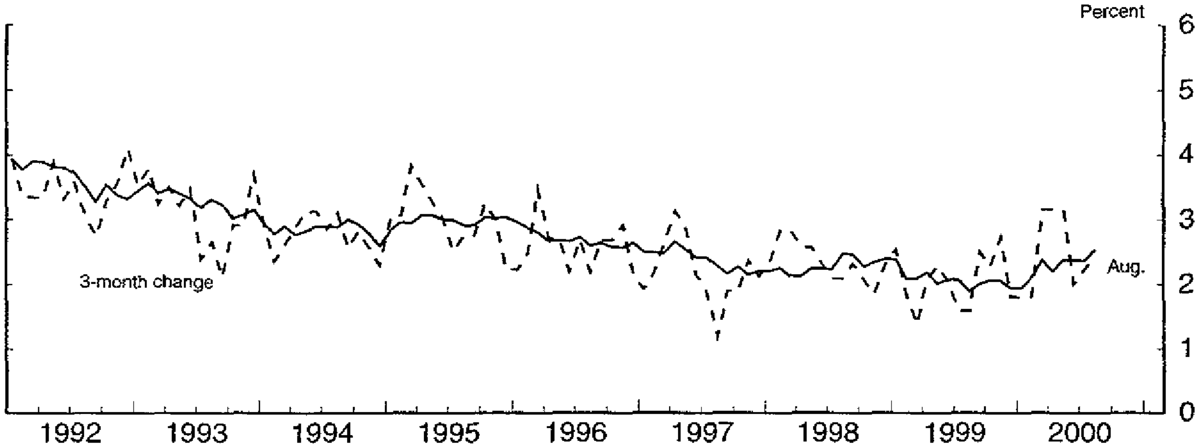
	From 12 months earlier		2000		2000	
	Aug. 1999	Aug. 2000	Q1	Q2	July	Aug.
			-Annual rate-		-Monthly rate-	
CPI						
All items (100.0)[1]	2.3	3.4	4.1	3.6	.2	-.1
Food (15.3)	2.0	2.7	1.5	2.6	.5	.2
Energy (7.0)	7.2	13.1	31.5	13.8	.1	-2.9
CPI less food and energy (77.7)	1.9	2.5	2.3	2.8	.2	.2
Commodities (23.4)	.2	.5	-.9	1.3	.0	-.1
New vehicles (4.8)	-1.0	.4	-1.4	1.8	.2	-.2
Used cars and trucks (1.9)	1.8	.9	-6.3	4.6	-.3	-.1
Apparel (4.7)	-3.1	-1.7	-4.2	-2.2	-1.0	.2
Tobacco (1.3)	27.9	12.6	12.5	15.1	3.1	-1.6
Other Commodities (10.7)	-.5	.1	.2	.5	.0	.1
Services (54.3)	2.6	3.5	3.6	3.5	.2	.3
Shelter (29.9)	2.8	3.2	3.5	3.5	.2	.2
Medical care (4.5)	3.2	4.6	4.6	5.1	.4	.4
Other Services (20.0)	2.2	3.7	3.4	3.2	.2	.6
PPI						
Finished goods (100.0)[2]	2.3	3.3	4.8	3.4	.0	-.2
Finished consumer foods (22.9)	.5	.7	2.2	4.2	.0	-.7
Finished energy (13.8)	10.7	15.3	30.8	10.5	-.7	-.2
Finished goods less food and energy (63.3)	1.3	1.5	.3	1.6	.1	.1
Consumer goods (38.9)	2.2	1.8	.2	1.5	.1	.1
Capital equipment (24.4)	.1	1.1	1.0	1.3	.1	.0
Intermediate materials (100.0)[3]	1.1	4.3	6.9	4.4	.2	-.2
Intermediate materials less food and energy (81.7)	.2	2.5	3.4	3.5	.2	-.1
Crude materials (100.0)[4]	9.3	15.6	18.1	20.9	-1.1	-1.5
Crude food materials (39.0)	-3.1	-4.7	5.3	8.2	-2.7	-4.5
Crude energy (39.0)	35.3	42.3	30.9	50.8	.4	.6
Crude materials less food and energy (22.0)	-2.1	4.0	19.6	-7.2	-1.8	-1.3

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.

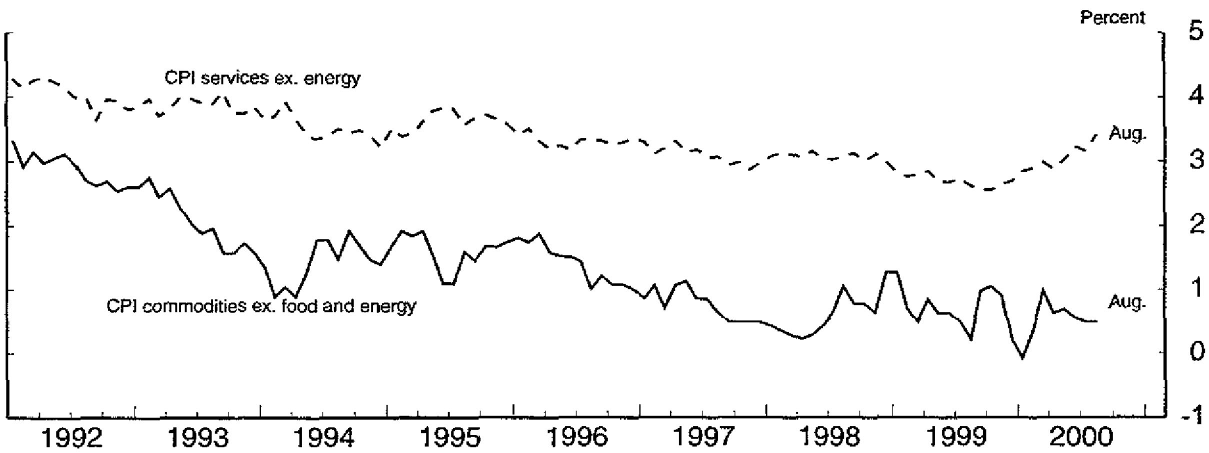
Measures of Core Consumer Price Inflation

(12-month change except as noted)

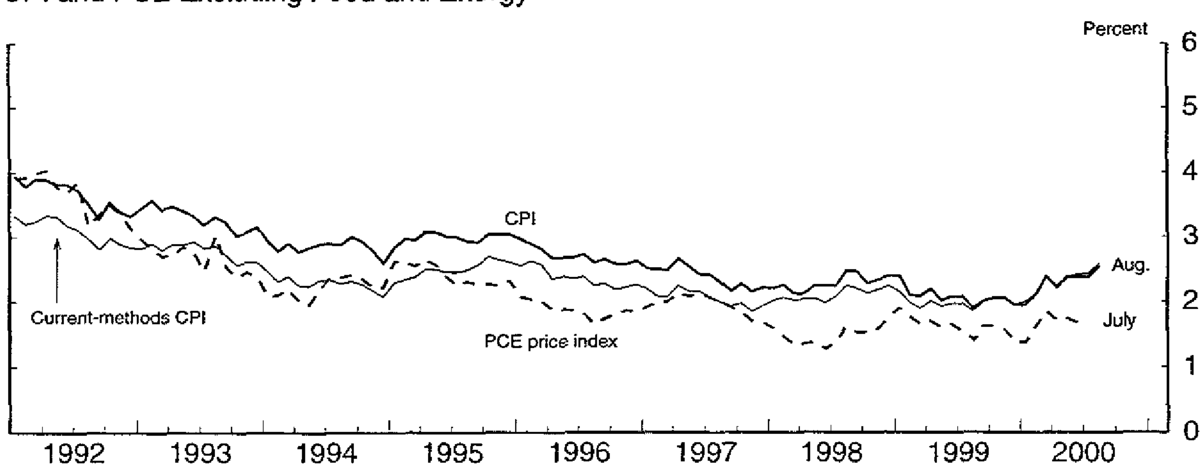
CPI Excluding Food and Energy



CPI Services and Commodities

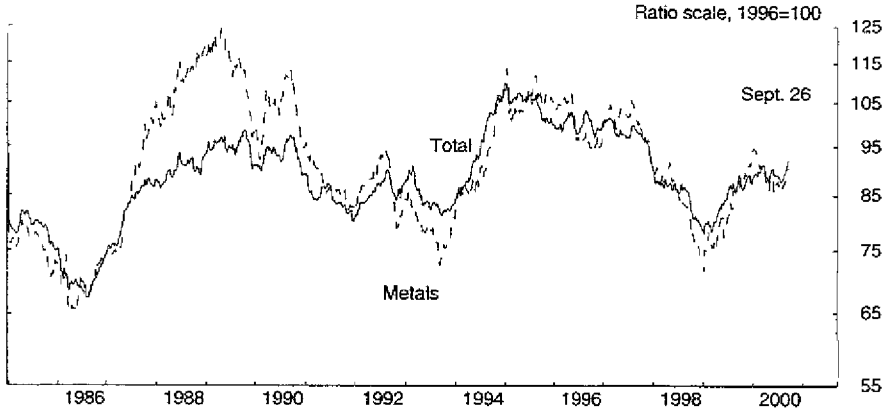


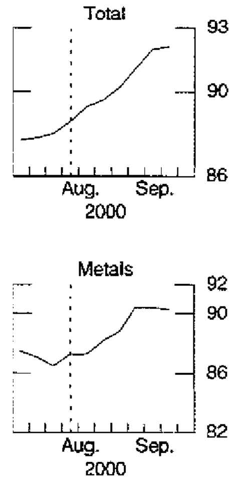
CPI and PCE Excluding Food and Energy



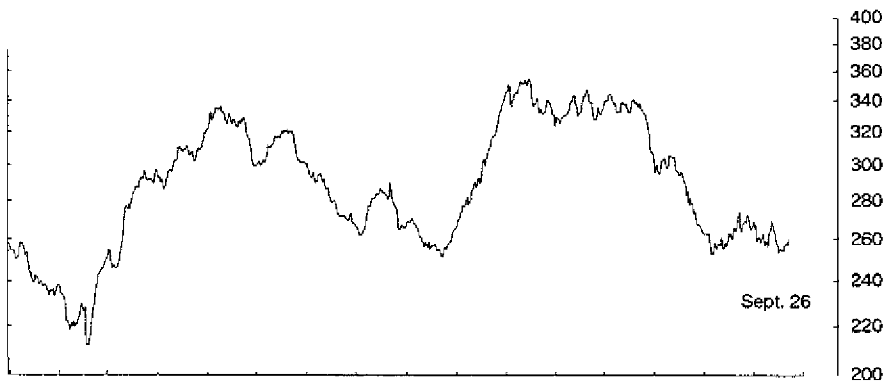
Commodity Price Measures

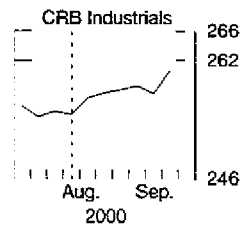
Journal of Commerce Index



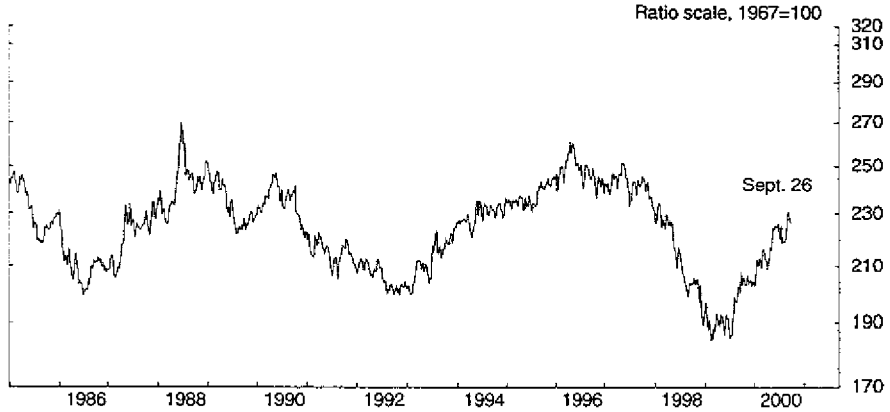


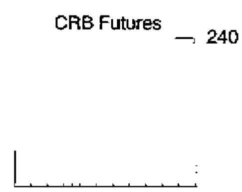
CRB Spot Industrials





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 Aug. 08[2]	Aug. 08[2] to Sept. 26	Memo: Year earlier to date
Metals						
Copper (lb.)	.970	-18	27.5	3.4	6.6	16.9
Steel scrap (ton)	92.000	-47	61.5	-22	.0	-7.7
Aluminum, London (lb.)	.730	-18	26.8	-2.4	4.9	9.0
Precious metals						
Gold (oz.)	274.85	-1.8	1.3	-6.1	.6	-14.8
Silver (oz.)	4.970	-20	4.3	-5.9	.8	-13.8
Forest products[3]						
Lumber (m. bdft.)	230.00	2.7	8.3	-29	.0	-30.3
Plywood (m. sqft.)	ND	6.8	-1.6	-6.6	12.3	-15.8
Petroleum						
Crude oil (barrel)	29.350	-43	147.2	8.7	5.8	26.1
Gasoline (gal.)	.926	-43	109.2	12.4	18.1	27.5
Fuel oil (gal.)	.928	-39	115.2	14.3	15.0	51.1
Livestock						
Steers (cwt.)	66.000	-13	15.3	-5.9	3.1	1.1
Hogs (cwt.)	43.500	-65	127.4	26.2	-2.2	18.8
Broilers (lb.)	.536	27.6	1.4	-13	6.9	-1.8
U.S. farm crops						
Corn (bu.)	1.590	-19	-8.5	-22	8.2	-12.9
Wheat (bu.)	3.095	-11	-20.3	2.1	14.7	8.9
Soybeans (bu.)	4.655	-20	-16.8	-1.7	6.8	1.3
Cotton (lb.)	.609	-9.3	-19.4	25.4	5.0	23.7
Other foodstuffs						
Coffee (lb.)	.850	-30	2.1	-30	2.1	1.5
Memo:						
JOC Industrials	92.100	-14	12.2	-.2	4.7	3.2
JOC Metals	90.300	-20	28.0	-6.9	4.4	4.1
CRB Futures	226.33	-18	6.9	7.3	3.4	8.8
CRB Spot	ND	-14	1.0	-4.1	1.0	-5.4

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

BROAD MEASURES OF INFLATION
(4-quarter percent change)

	1997 Q2	1998 Q2	1999 Q2	2000 Q2
Product prices				
GDP chain price index	2.1	1.2	1.5	2.1
Less food and energy	2.2	1.3	1.6	2.0
Nonfarm business chain price index[1]	2.2	0.8	1.3	1.7
Expenditure prices				
Gross domestic purchases chain price index	1.8	0.8	1.5	2.4
Less food and energy	1.8	1.0	1.5	1.8
PCE chain price index	2.0	1.0	1.7	2.5
Less food and energy	2.1	1.3	1.6	1.7
CPI	2.3	1.6	2.1	3.2
Less food and energy	2.5	2.2	2.1	2.3
Current-methods CPI	2.0	1.4	2.0	3.2
Less food and energy	2.2	2.1	1.9	2.3
Median CPI	2.9	2.9	2.6	2.5
Trimmed mean CPI	2.5	2.0	1.8	2.4

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

	Actual inflation[1]	University of Michigan: 1 year Mean[2]	University of Michigan: 1 year Median[2]	University of Michigan: 5 to 10 years Mean[3]	University of Michigan: 5 to 10 years Median[3]	Professional forecasters (10-year)[4]
1998-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	3.2	3.6	3.0	3.5	3.0	2.5
Q2	3.2	3.5	3.0	3.3	2.8	2.5
Q3		3.6	2.9	3.4	2.9	2.5
Apr.	3.0	3.5	3.2	3.2	2.8	
May	3.1	3.5	3.0	3.4	2.9	
June	3.7	3.4	2.9	3.3	2.8	2.5
July	3.5	3.7	3.0	3.2	2.8	
Aug.	3.4	3.5	2.7	3.5	2.9	
Sept.		3.5	2.9	3.6	3.1	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.

Outside of the food and energy areas, acceleration in consumer prices is evident both in commodities and services. Core commodity prices edged down in August but are up 1/2 percent over the past twelve months, 1/4 percentage point more than the increase over the preceding period. Excluding tobacco prices, which had increased especially sharply over the earlier period, the acceleration in core commodity prices over the past year is close to 3/4 percentage point. Prices of new vehicles edged down in August and are up only 1/2 percent over the past twelve months--although this represents an acceleration relative to the outright declines seen over the previous year. Prices have also been rising more rapidly for a range of other consumer goods. The CPI for non-energy services increased 0.3 percent in August and was up 3.5 percent over the past year, nearly 1 percentage point above its year-earlier increase. Shelter price increases have moved up only a bit over the past year, but the rate of increase of prices of medical services has picked up more noticeably, as have prices of a range of other services.

As with consumer prices, capital goods prices have accelerated modestly. The PPI for capital equipment was unchanged in August but has increased 1.1 percent over the past year--1 percentage point more than the increase over the preceding twelve-month period. That acceleration is most pronounced in aircraft and motor vehicles and also reflects a smaller rate of decline of computer prices: The PPI for computers fell about 15 percent over the past twelve months after having declined at about a 24 percent rate over the preceding three years. The firming of computer prices this year is consistent with evidence of very strong demand in the face of limited capacity in the short run. This is especially true for semiconductors, where capacity utilization rates have been exceeding 100 percent. In August, however, the PPI for computers fell 2.2 percent, its largest decline since January; whether this presages a renewal of larger price declines is an open question.

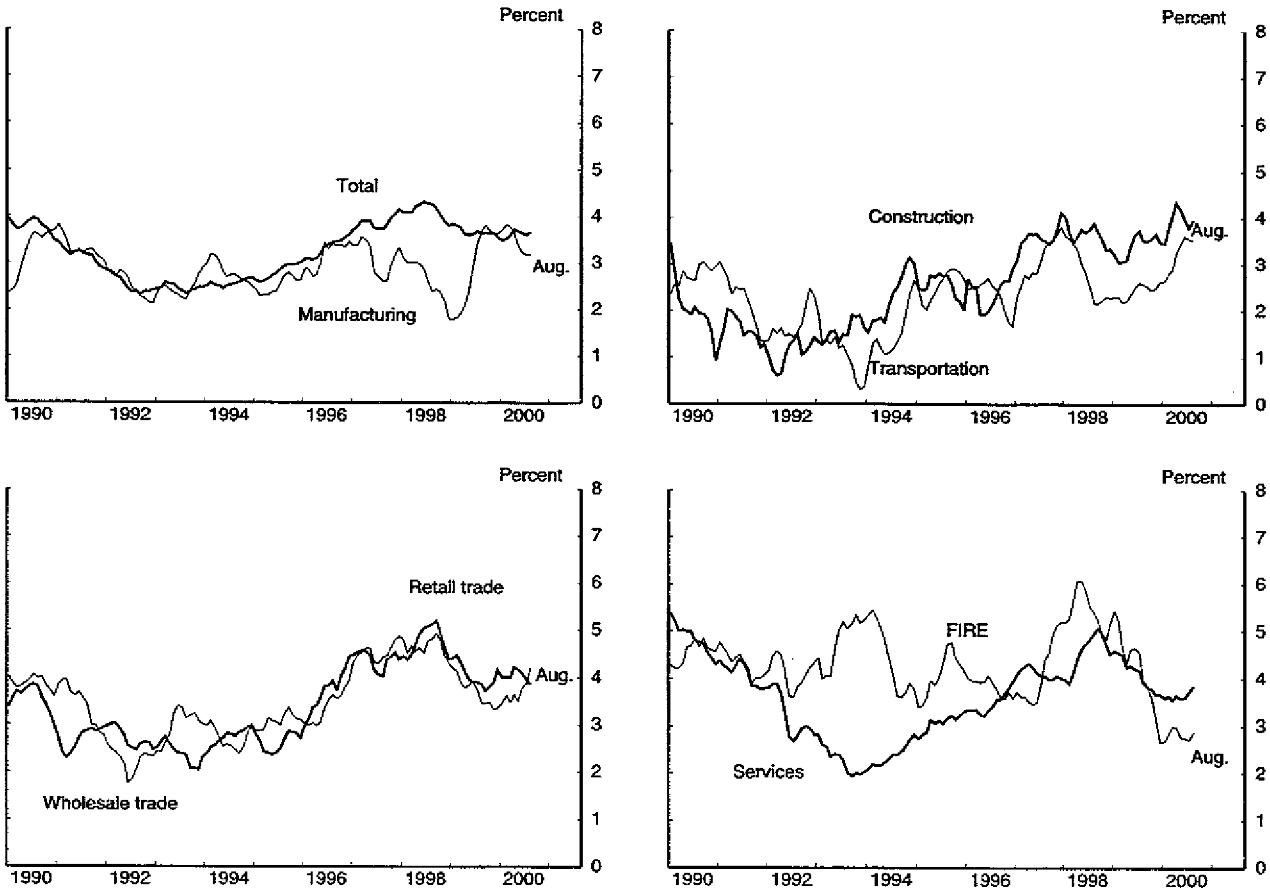
Price changes have been mixed at earlier stages of processing. The PPI for intermediate materials excluding food and energy edged down 0.1 percent in August--the first decline in this index since early 1999. The twelve-month change in this series has edged off its highs and now stands at 2-1/2 percent. Furthermore, the PPI for core crude prices moved down for a sixth month in August; this series has declined about 6 percent (not at an annual rate) since February after having risen more than 15 percent over the preceding twelve months. However, prices of industrial commodities have increased since the price quotes for the PPI were collected in mid-August. Prices of forest products and some metals have moved up lately, and the Journal of Commerce industrial price index has increased 4.7 percent over the past month.

Despite the fact that overall consumer price inflation has continued to pick up this year, survey measures of inflation expectations have changed little on balance. The median response to the University of Michigan survey of one-

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

	12-month percent change			Percent change to Aug. 2000 from month indicated		2000	
	Aug. 1998	Aug. 1999	Aug. 2000	Feb. 2000	May 2000	July	Aug.
	-Annual rate-					-Monthly rate-	
Total private nonfarm	4.2	3.5	3.8	3.9	4.2	.4	.3
Manufacturing	2.4	3.7	3.1	3.3	4.9	.2	.3
Construction	3.9	3.1	4.3	4.0	4.6	.8	.2
Transportation and public utilities	2.1	2.5	3.5	3.5	1.5	-.6	.6
Finance, insurance, and real estate	4.8	3.5	3.1	3.3	2.7	-.1	.5
Retail trade	5.3	3.8	3.8	3.5	3.9	.2	.3
Wholesale trade	4.6	3.2	4.3	5.3	7.1	.5	.3
Services	4.9	3.8	4.0	4.4	5.0	.6	.4

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



year-ahead inflation expectations, which averaged 3 percent in the first half of this year, stood at 2.9 percent in early September after having ticked down to 2.7 percent in August. These near-term inflation expectations had risen about 1/2 percentage point over 1999, but have not increased further this year despite the larger CPI increases. Longer-term inflation expectations have also been quite stable over the past year; the median five- to ten-year expectation of inflation from the Michigan survey was 3.1 percent in early September, up about 1/4 percentage point from a year ago.

Information on labor costs this quarter is mostly limited to the BLS monthly data on average hourly earnings of production or nonsupervisory workers, which increased 0.3 percent in August after having risen 0.4 percent in July. Over the past twelve months, average hourly earnings increased 3.8 percent, near the high end of the relatively flat range seen over the past two years.

One important aspect of labor costs looking forward is the prospect for substantial increases in employers' costs for health care premiums. The federal government--the nation's largest health-care purchaser--announced that increases in FEHB premiums will average 10-1/2 percent in 2001, up from a pace of about 9 percent this year. CALPERS--the nation's second largest purchaser--announced premium increases of about 11 percent next year. Scattered survey data suggest that increases in the private sector may be of similar magnitude, and a recent Kaiser survey found that firms have not been able, to date, to shift cost increases on to their employees in this tight labor market.

Domestic Financial Developments

III-T-1

Selected Financial Market Quotations

(One-day quotes in percent except as noted)

Instrument	1999 June 29	2000 May 15	2000 FOMC* Aug. 22	2000 Sept. 26	Change to Sept. 26 from selected dates (percentage points) 1999 June 29	2000 May 15	FOMC* Aug. 22
Short-term							
FOMC intended federal funds rate	4.75	6.00	6.50	6.50	1.75	.50	.00
Treasury bills [1]							
3-month	4.70	5.94	6.09	6.00	1.30	.06	-.09
6-month	4.92	6.24	6.07	5.97	1.05	-.27	-.10
1-year	4.89	6.05	5.88	5.75	.86	-.30	-.13
Commercial paper							
1-month	5.18	6.47	6.48	6.49	1.31	.02	.01
3-month	5.12	6.59	6.47	6.47	1.35	-.12	.00
Large negotiable CDs [1]							
1-month	5.21	6.55	6.55	6.56	1.35	.01	.01
3-month	5.32	6.74	6.61	6.58	1.26	-.16	-.03
6-month	5.43	6.97	6.75	6.66	1.23	-.31	-.09
Eurodollar deposits [2]							
1-month	5.13	6.53	6.53	6.54	1.41	.01	.01
3-month	5.25	6.72	6.60	6.58	1.33	-.14	-.02
Bank prime rate	7.75	9.00	9.50	9.50	1.75	.50	.00
Intermediate- and long-term							
U.S. Treasury (constant maturity)							
2-year	5.68	6.88	6.28	6.07	.39	-.81	-.21
10-year	5.93	6.47	5.79	5.81	-.12	-.66	.02
30-year	6.07	6.17	5.71	5.86	-.21	-.31	.15
U.S. Treasury 10-year indexed note	4.01	4.21	4.01	3.97	-.04	-.24	-.04
Municipal revenue (Bond Buyer) [3]	5.62	6.23	5.76	5.81	.19	-.42	.05
Private instruments							
10-year swap	6.81	7.82	7.07	6.98	.17	-.84	-.09
10-year FNMA	6.59	7.70	6.91	6.81	.22	-.89	-.10
Merrill Lynch BBB	7.60	8.86	8.26	8.17	.57	-.69	-.09
High yield[4]	10.53	11.94	11.80	11.83	1.30	-.11	.03
Home mortgages (FHLMC survey rate) [5]							
30-year fixed	7.63	8.52	7.96	7.90	.27	-.62	-.06
1-year adjustable	5.93	6.96	7.21	7.27	1.34	.31	.06

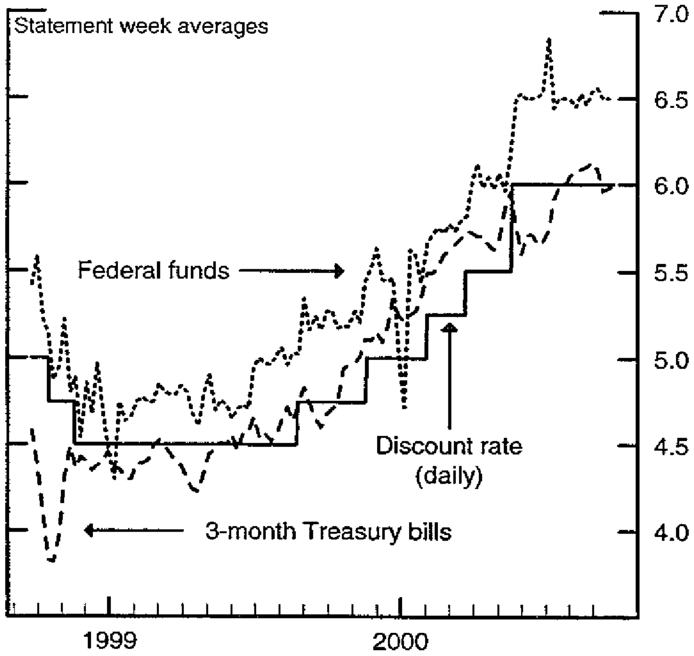
Stock exchange index	Record high Level	Record high Date	2000 May 15	2000 FOMC* Aug. 22	2000 Sept. 26	Change to Sept. 26 from selected dates (percent) Record high	May 15	FOMC* Aug. 22
Dow-Jones Industrial	11,723	1-14-00	10,808	11,080	10,631	-9.31	-1.63	-4.05
S&P 500 Composite	1,527	3-24-00	1,452	1,499	1,427	-6.56	-1.73	-4.82
Nasdaq (OTC)	5,049	3-10-00	3,608	3,953	3,689	-26.93	2.26	-6.68
Russell 2000	606	3-9-00	498	516	510	-15.88	2.43	-1.27
Wilshire 5000	14,752	3-24-00	13,438	13,970	13,485	-8.59	.35	-3.47

1. Secondary market.
2. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.
3. Most recent Thursday quote.
4. Merrill Lynch 175 high-yield bond index composite.
5. For week ending Friday previous to date shown.
* Data are as of the close on August 21, 2000.

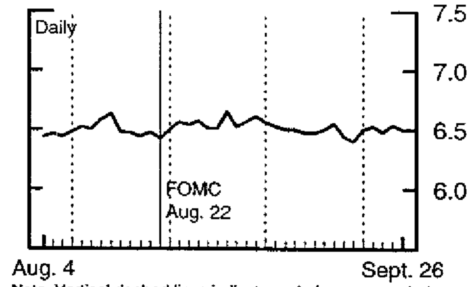
NOTE. June 29, 1999 is the day before the beginning of the most recent sequence of policy tightenings. May 15, 2000 is the day before the most recent tightening.

Selected Interest Rates

Selected Short-Term Interest Rates

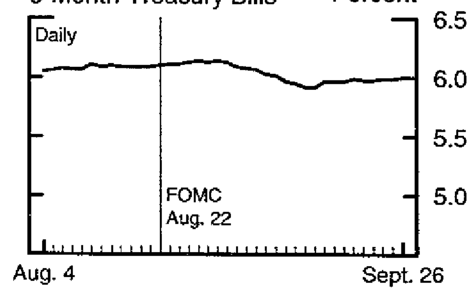


Federal Funds

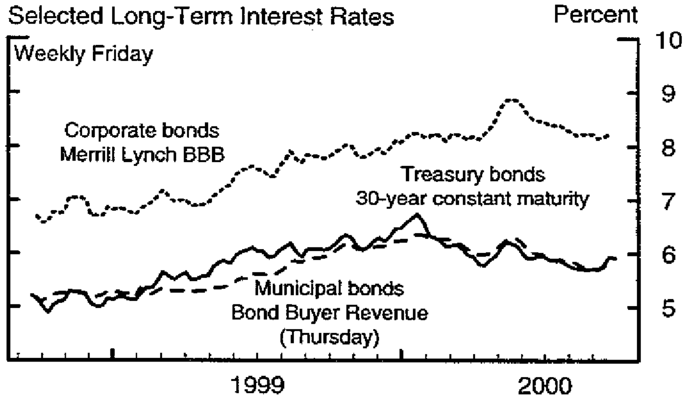


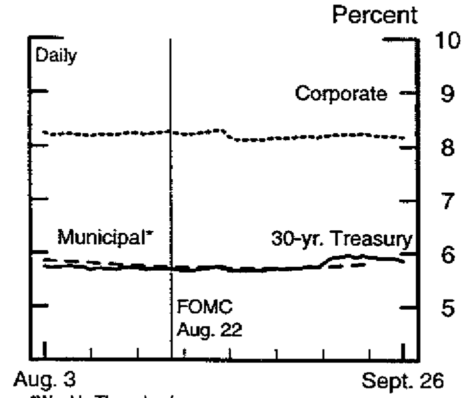
Note. Vertical dashed lines indicate end of reserve period.

3-Month Treasury Bills



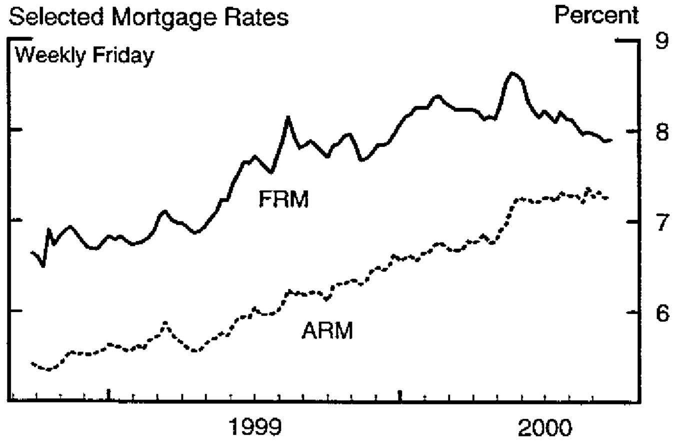
Selected Long-Term Interest Rates

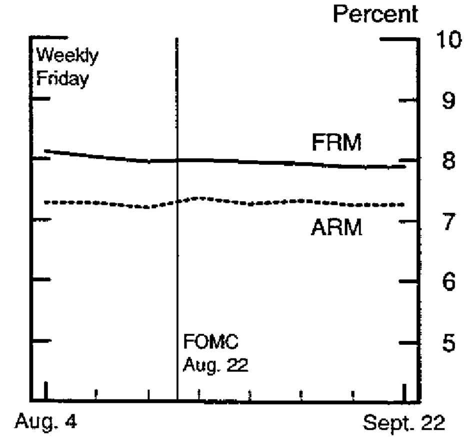




*Weekly Thursday frequency.

Selected Mortgage Rates





Domestic Financial Developments

Overview

Market participants have read the news over the intermeeting period as further confirmation that growth is slowing to or below the economy's potential, and sentiment has begun to emerge that the next monetary policy action is at least as likely to be an easing as a tightening. Yields on short-term and many intermediate-term instruments fell with the change in the policy outlook, but some yields at the longest maturities, twenty to thirty years, moved higher. Increased uncertainty that accompanied the rise in oil prices may have reduced the attractiveness of long-term debt in general. In addition, heavy corporate issuance of long-term debt and, perhaps, growing skepticism about the size of future budget surpluses helped to erode some of the earlier scarcity premiums at the long end of the Treasury yield curve. Major equity indexes have declined 3-1/2 to 7 percent on bearish warnings about corporate earnings, and measures of stock market uncertainty derived from options prices have increased in recent weeks, especially for technology stocks.

Net borrowing by businesses and households appears to have ebbed from the strong pace observed during the second quarter of the year but nonetheless has remained robust. In the government sector, the Treasury has continued to pay down its debt, and net borrowing by state and local governments stayed light. Growth in M2, which had slowed in June and July, picked up strongly in August and early September.

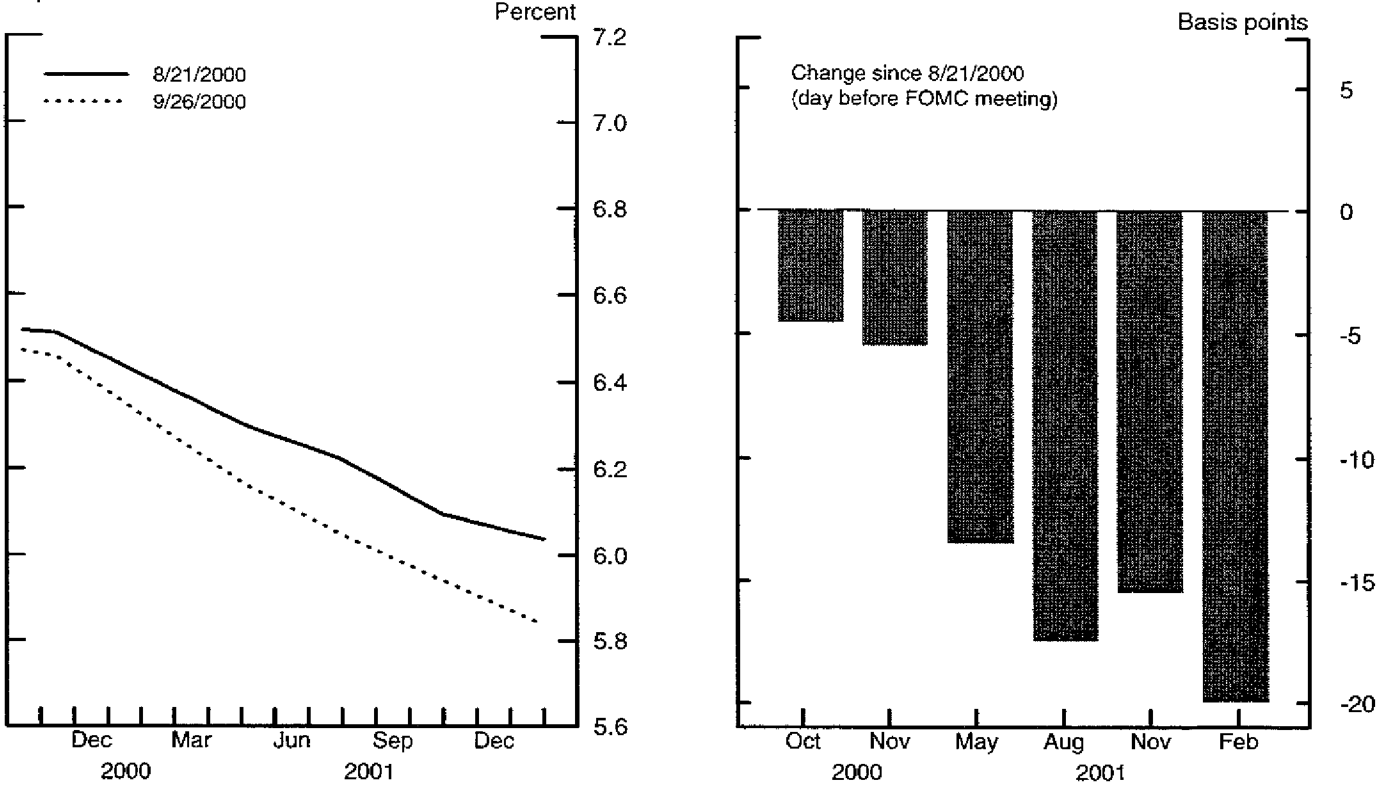
Interest Rates and Stock Prices

Movements in Treasury yields over the intermeeting period resulted in a notable twisting of the yield curve, with shorter-term yields falling in concert with the lower expected path for the federal funds rate and long-dated Treasury yields rising. Market participants have pointed to uncertainty about high oil prices and the course of the euro as factors prompting some investors to shift funds away from relatively riskier positions in long-term debt and toward shorter-dated instruments. Moreover, as the election approaches, investors have apparently focused more on the possibility that the next President and Congress may implement policies that would slow the paydown of federal debt. In addition to influencing the outlook for national saving, such considerations seem to have led to some unwinding of the "supply effects" that have depressed Treasury yields since the beginning of this year.

Consistent with the notion that supply factors are partly responsible for movements in long-dated Treasury yields, the rise in the thirty-year Treasury yield since the August FOMC meeting has not been matched by rates on comparable agency securities and swaps, which are about unchanged. The Baa corporate bond yield, which pertains to bonds with an average maturity of approximately twenty-two years, did move up but by less than the thirty-year Treasury yield. As with the Treasury yield curve, private yield curves have

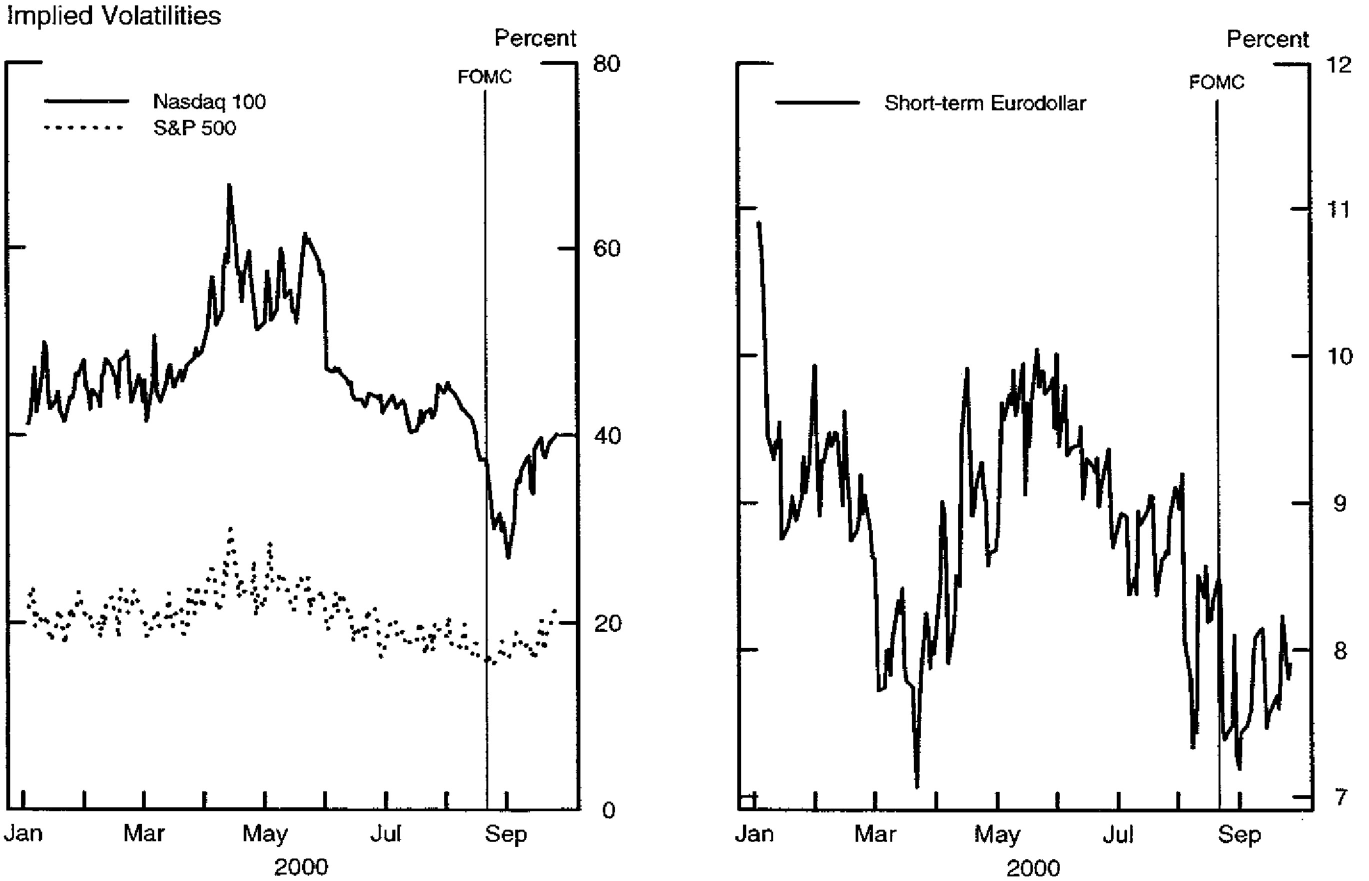
Expectations and Uncertainty

Implied Fed Funds Rate



Note: Based on federal funds futures through November and Eurodollar futures thereafter, with an allowance for term premia and other adjustments.

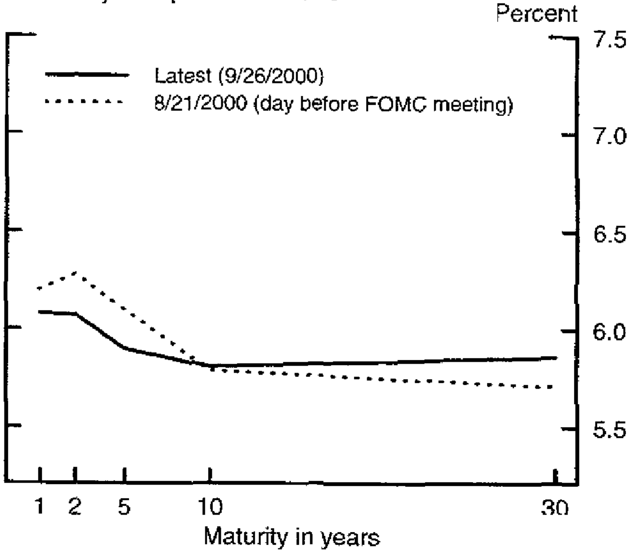
Implied Volatilities

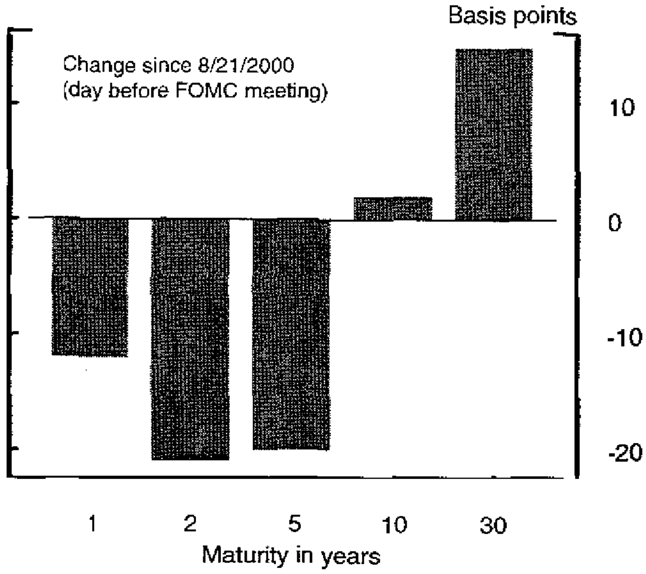


Note: Eurodollar volatility is calculated on a notional contract with 120 days to expiration.

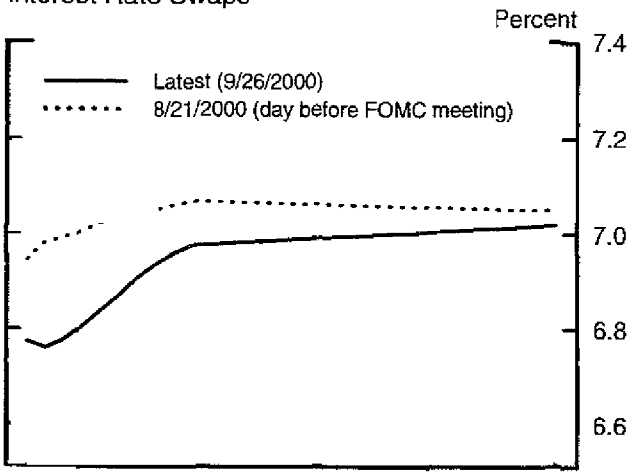
Selected Benchmark Yield Curves

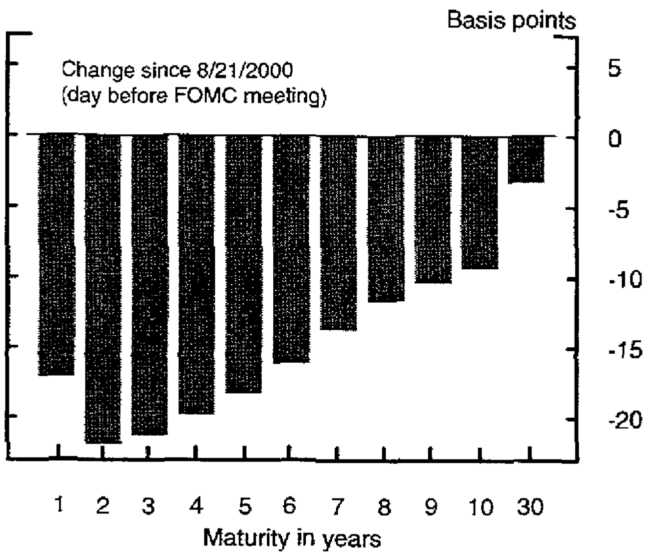
Treasury Coupon Securities

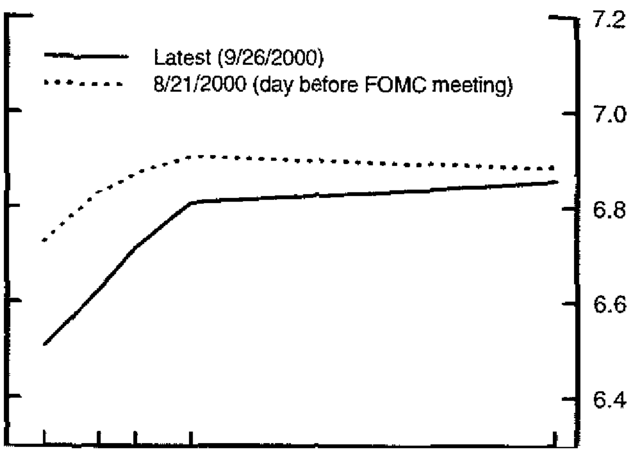


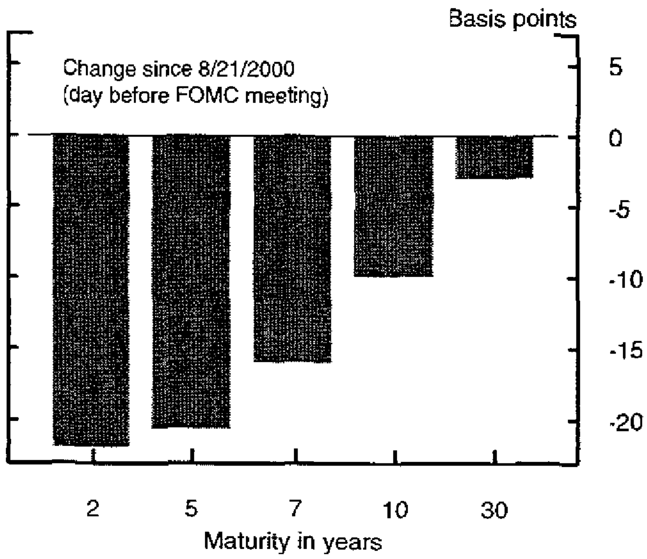


Interest Rate Swaps









Gross Issuance of Securities by U.S. Corporations

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

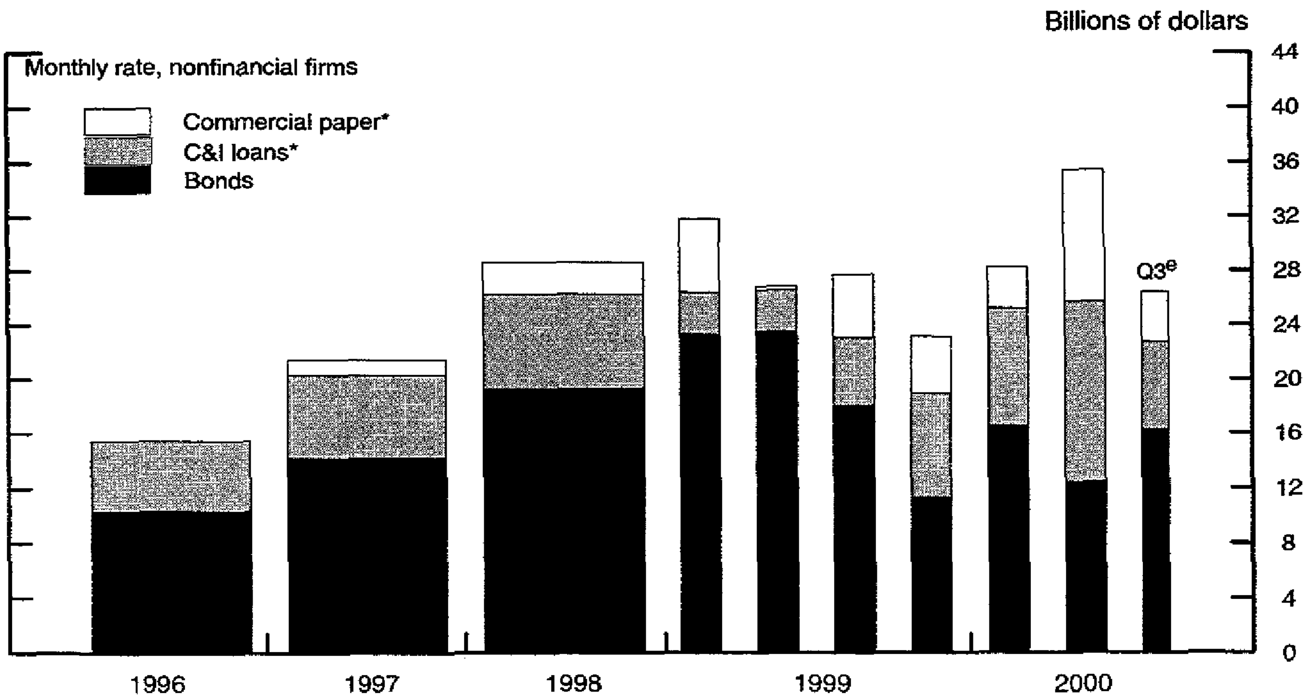
Type of security	1998	1999	2000 Q1	2000 Q2	2000 July	2000 Aug.	2000 Sept.[e]
All U.S. corporations	94.0	89.4	84.8	75.2	63.3	81.5	81.2
Stocks[1]	10.6	11.0	16.9	11.2	7.6	11.4	5.2
Bonds	83.5	78.4	67.9	64.0	55.6	70.1	76.0
Nonfinancial corporations							
Stocks[1]	6.2	9.2	15.6	9.3	7.4	7.7	5.1
Initial public offerings	2.2	4.2	4.8	6.6	4.2	5.0	3.4
Seasoned offerings	4.0	5.0	10.8	2.6	3.2	2.7	1.7
Bonds[2]	25.7	24.5	23.1	19.4	15.9	19.5	26.0
Investment grade[3]	14.1	13.9	11.6	11.4	7.8	11.5	17.0
Speculative grade[3]	10.2	7.5	7.5	3.2	3.8	4.0	6.8
Other (Sold abroad/unrated)	1.3	3.1	4.0	4.8	4.3	4.1	2.2
Financial corporations							
Stocks[1]	4.4	1.8	1.3	1.9	.3	3.8	.1
Bonds	57.8	53.9	44.8	44.5	39.7	50.6	50.0
Memo							
Net issuance of commercial paper, nonfinancial corporations[4]	2.3	3.6	3.0	9.7	15.0	4.8	-8.6
Change in C&I loans at commercial banks[4]	7.0	4.7	8.8	13.3	10.8	5.5	2.1

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.

Components of Net Debt Financing



* Seasonally adjusted
e Staff estimate.

steepened a bit, suggesting that some of the same forces behind movements in the Treasury curve–such as the uncertainty surrounding oil prices and the euro–have also driven movements in private yield curves.

Third-quarter earnings reports are a few weeks away, but the number of profit warnings has been atypically high of late, weighing on equity prices. Some multinationals have announced that profits will be depressed because of weakness in European currencies, and technology companies have cited slowing sales. Rising oil prices have also caused firms to issue earnings warnings for this quarter, and share prices in the basic materials sector, which relies heavily on oil as an input, have been particularly hard hit. On net over the intermeeting period, the Wilshire 5000 index is down 3-1/2 percent, and the Nasdaq has fallen about 7 percent.

Business Finance

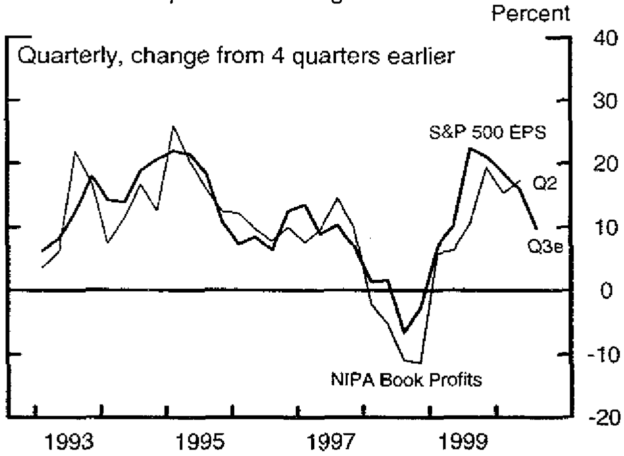
The cooling off in the equity market has also been evident in the pace of gross public equity issuance. Seasoned offerings, which are largely carried out by firms that have recently gone public, have remained depressed because share prices of many young firms have weakened considerably since the spring. Although the pace of IPO issuance has recovered–there were fifty-five IPOs in August, the most since July 1999–investors apparently remain less enthusiastic than they were in late 1999 and early this year, when the average first-day returns far exceeded those posted of late. Going forward, IPO volume is expected to continue at a moderate pace because the pipeline for companies waiting to go public remains full.

Several large mergers among financial firms were announced during the intermeeting period. In the nonfinancial sector, no similar-sized mergers were announced or completed, but the list of pending deals suggests that equity retirements through domestic mergers will continue at a brisk pace in the next few quarters. Pending foreign acquisitions of U.S. companies also point to sizable merger-related domestic equity retirements. Although few companies have announced share buyback programs lately, actual share repurchases this quarter are expected to be robust as "old economy" firms complete the buyback programs that they announced in the first quarter of the year.

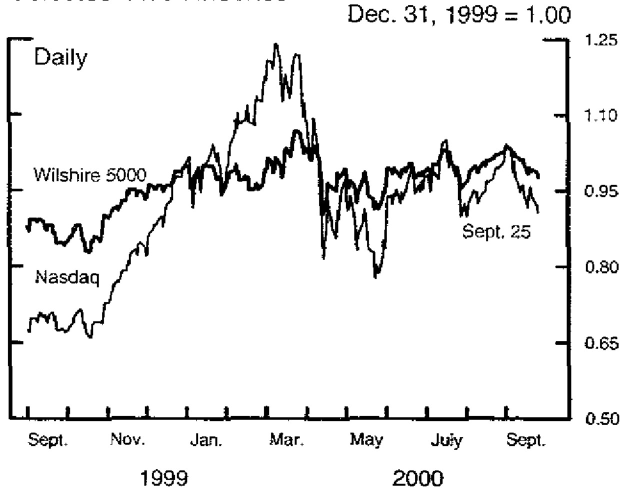
In the bond market, investment-grade offerings picked up in August, and data in hand point to a further increase in volume in September. In addition, issuance of speculative-grade bonds has recovered in September after two months of weakness. Nonetheless, small-sized offerings continue to represent a historically low share of total proceeds raised, suggesting that liquidity remains a concern to investors. Proceeds from recent bond issues have mainly been used to finance capital expenditures, although some issues were acquisition related.

Equity Market and Corporate Credit Quality

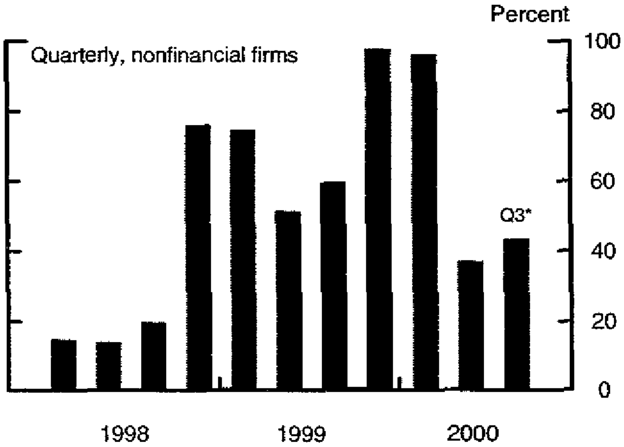
After-Tax Corporate Earnings



Selected Stock Indexes

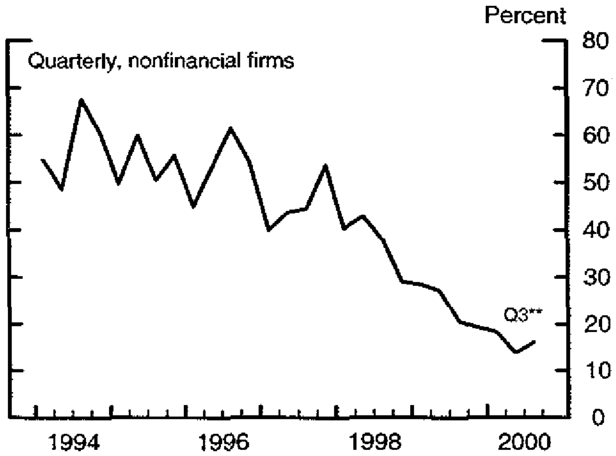


Average First-Day Returns on IPOs



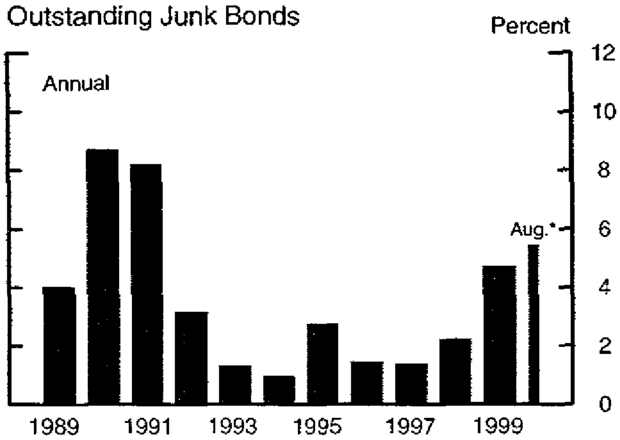
* Data through Sept. 22, 2000.

Share of Bond Issuance from Small Issues*



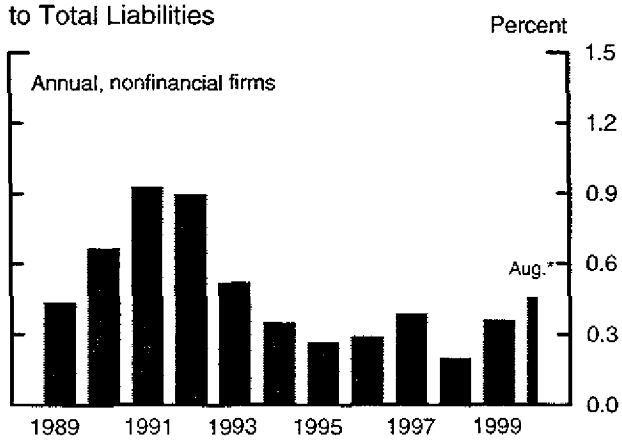
* Proceeds from issues less than $250 million.
** Data through August 2000.

Default Rates
Outstanding Junk Bonds



* Year-to-date (August 2000) at an annual rate.

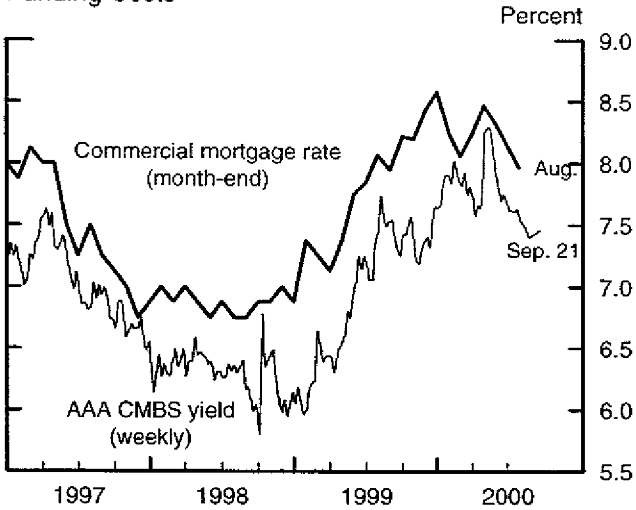
Liabilities of Failed Businesses
to Total Liabilities



* Year-to-date (August 2000) at an annual rate.
Source. Dun & Bradstreet.

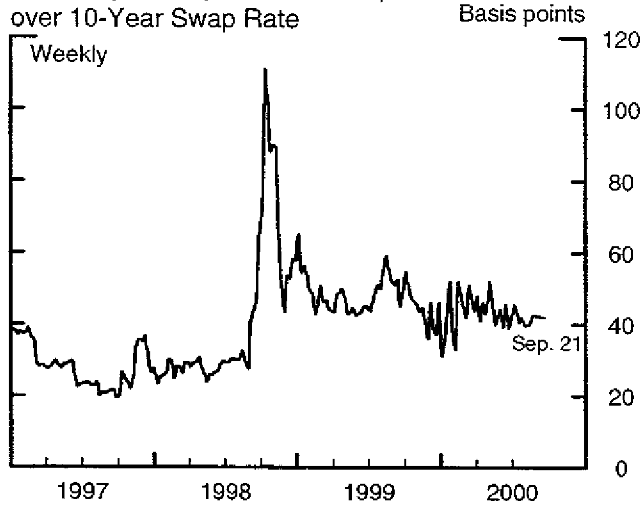
Commercial Real Estate

Funding Costs



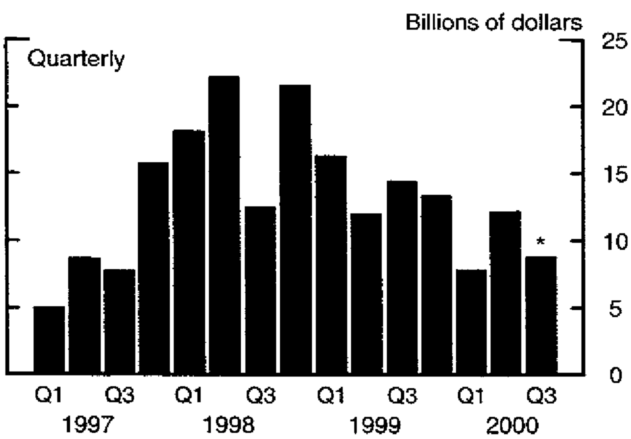
Source. Barron's/Levy National Mortgage Survey; Morgan Stanley.

CMBS Spreads (AAA Tranches) over 10-Year Swap Rate



Source. Morgan Stanley.

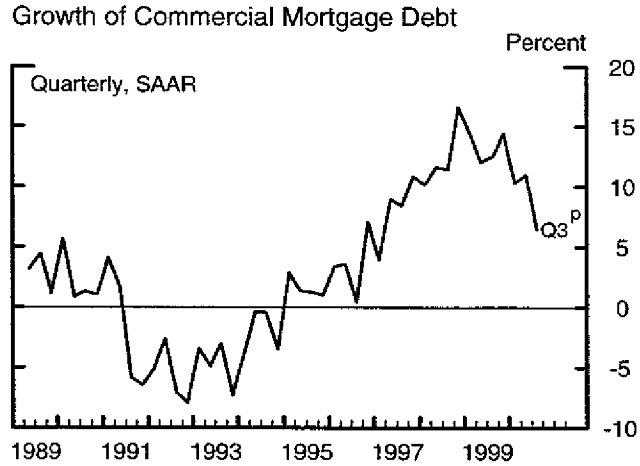
Total CMBS Gross Issuance



* Projection.

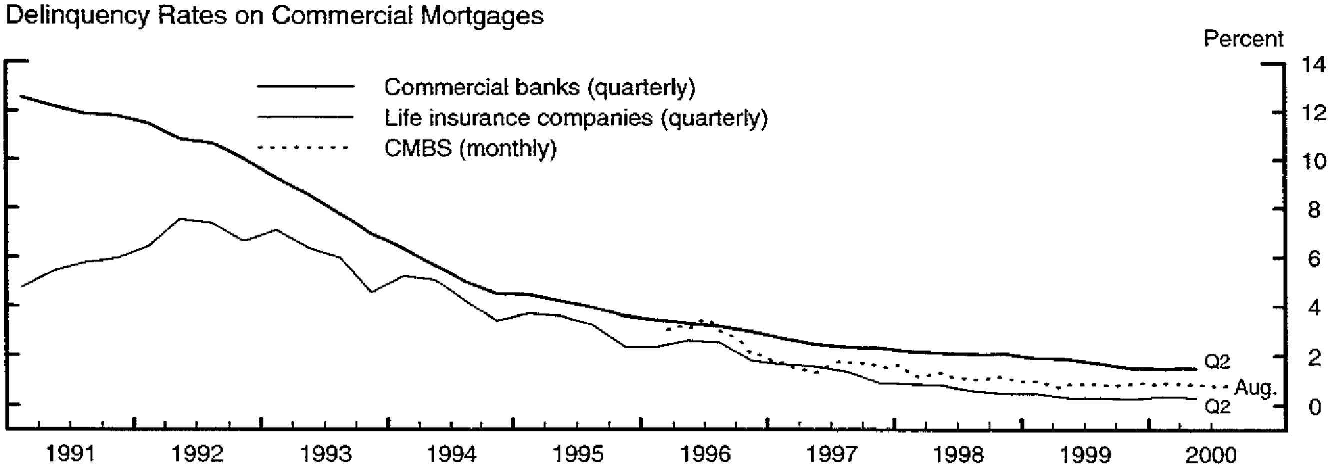
Source. Commercial Mortgage Alert.

Growth of Commercial Mortgage Debt



p. Staff projection.

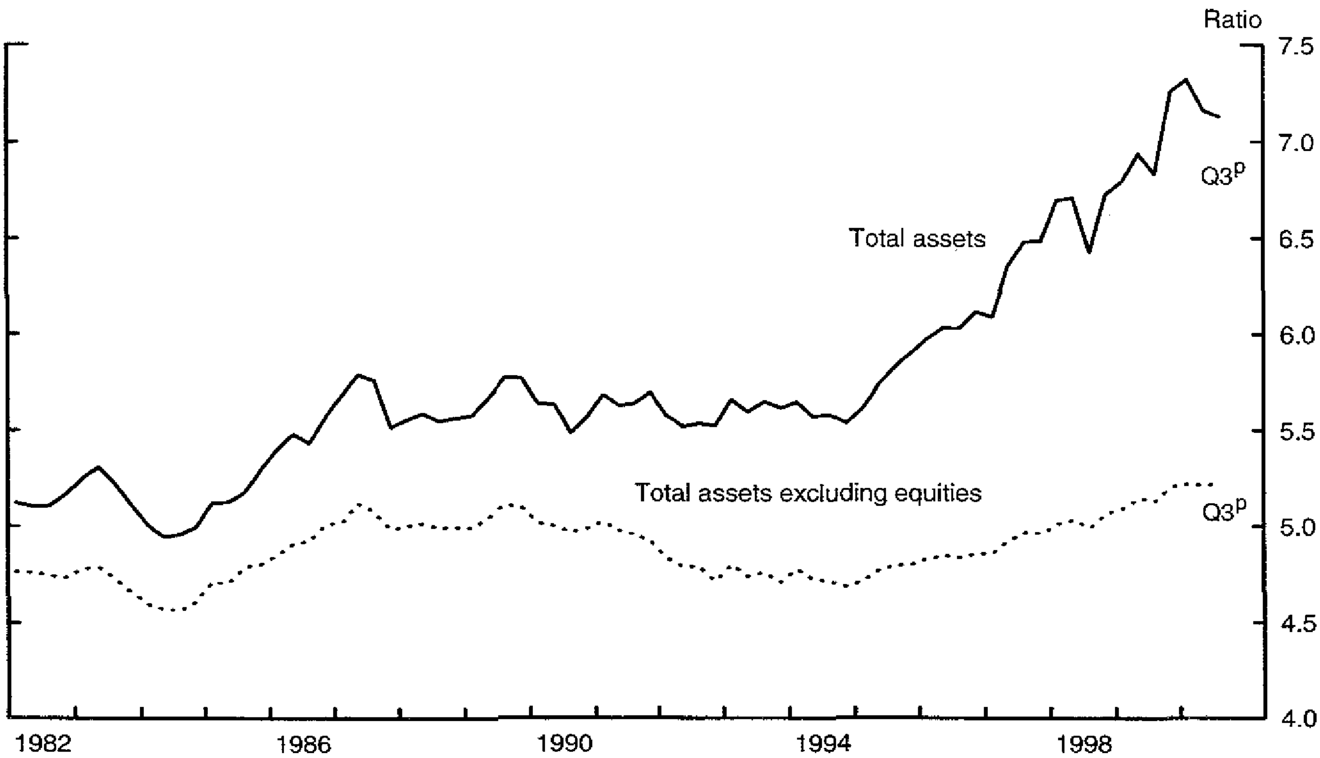
Delinquency Rates on Commercial Mortgages



Source. ACLI; Morgan Stanley; Call Reports.

Household Assets Relative to Disposable Income

(Quarterly Data; Seasonally Adjusted)



p. Staff projection.

Net Flows into Long-Term Mutual Funds

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

	1997	1998	1999	2000 Q1	2000 Q2	2000 July	2000 Aug.[e]	Assets July
Total long-term funds	**22.7**	**20.2**	**14.2**	**29.2**	**18.5**	**15.7**	**10.3**	**5,380**
Equity funds	**19.0**	**13.2**	**15.7**	**44.5**	**24.3**	**17.6**	**13.1**	**4,232**
Domestic	15.8	12.6	14.8	32.3	21.1	16.1	11.7	3,640
Capital appreciation	7.9	7.1	13.5	46.5	22.2	18.8	17.8	2,364
Total return	7.9	5.5	1.4	-14.2	-1.1	-2.7	-6.1	1,276
International	3.1	0.6	0.9	12.1	3.2	1.5	1.4	592
Hybrid funds	**1.4**	**0.9**	**-1.0**	**-5.9**	**-2.0**	**-1.2**	**-2.0**	**352**
Bond funds	**2.4**	**6.2**	**-0.5**	**-9.4**	**-3.8**	**-0.7**	**-0.9**	**796**
International	-0.1	-0.1	-0.2	-0.2	-0.2	0.0	0.0	22
High-yield	1.4	1.1	-0.2	-1.7	-0.5	-0.7	-0.6	105
Other taxable	1.0	3.9	1.0	-4.5	-1.2	-0.9	0.4	401
Municipals	0.1	1.3	-1.0	-3.0	-1.9	0.9	-0.7	268

e. Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute (ICI).

After substantial issuance of commercial paper in June and July by firms seeking immediate financing to complete mergers, offerings moderated in August, and the incoming data suggest a net paydown of commercial paper in September. Commercial and industrial loans at banks also slowed in late August and so far in September, perhaps because more firms were able to tap the capital markets.

Recent indicators of credit quality in the business sector continue to point to some deterioration. The junk bond default rate on a year-to-date basis rose to 5.5 percent of outstandings in August, its highest level since 1991, when the default rate was 9 percent. The staff's model for forecasting the default rate for junk bonds predicts some further deterioration ahead. Broader measures of credit quality also signal that some slippage has occurred. The year-to-date ratio of liabilities of failed businesses to total liabilities remained above the average of recent years. In addition, Moody's downgraded $110 billion of corporate debt in August after three months of net upgrades, bringing the net amount of debt downgraded since the start of the year to $270 billion, and debt on watch to be downgraded slightly exceeds that on watch to be upgraded. It now appears that 2000 will be the first year since 1992 with a net downgrade of corporate debt. Overall, credit quality measures appear to be consistent with relatively wide spreads of corporate yields over swap rates.

Commercial Real Estate Finance

Yields on AAA-rated commercial-mortgage-backed securities (CMBS) have changed little since the August FOMC meeting, about in line with swap rates. CMBS issuance has been relatively light in the third quarter, and commercial mortgage debt from all sources apparently expanded at a 6-1/2 percent annual rate in the third quarter, the smallest quarterly rise since early 1997.

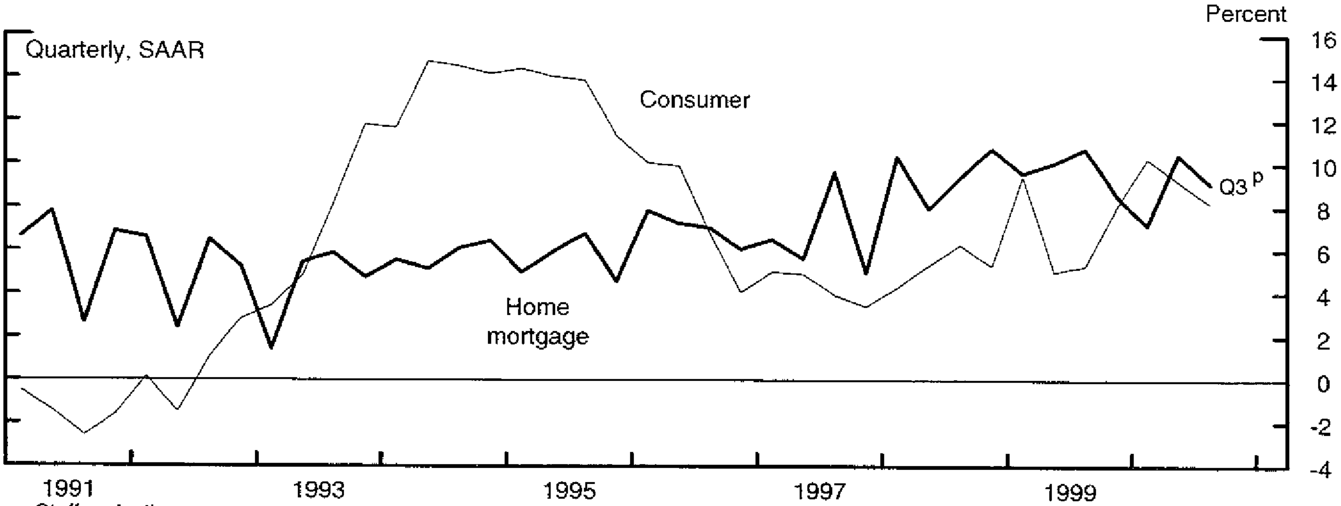
Delinquency rates for commercial mortgages at banks and insurance companies and in securitized pools have remained near their historic lows. The fast pace of commercial mortgage growth in recent years is probably helping to hold down delinquency rates because many of these new mortgages have not yet reached an age at which default is most likely to occur.

Household Finance

Financial conditions in the household sector continued to be fairly strong, although the decline in broad stock market indexes since the last FOMC meeting led to a slight erosion in the value of household assets over the third quarter. With declining share prices and increased market volatility, inflows to equity mutual funds dropped in August to the lowest monthly pace of the year, but the incoming data indicate a moderate recovery in inflows in September. Equity mutual fund investors continued to favor technology-laden capital appreciation funds and international equity funds over less-risky total return funds. Bond

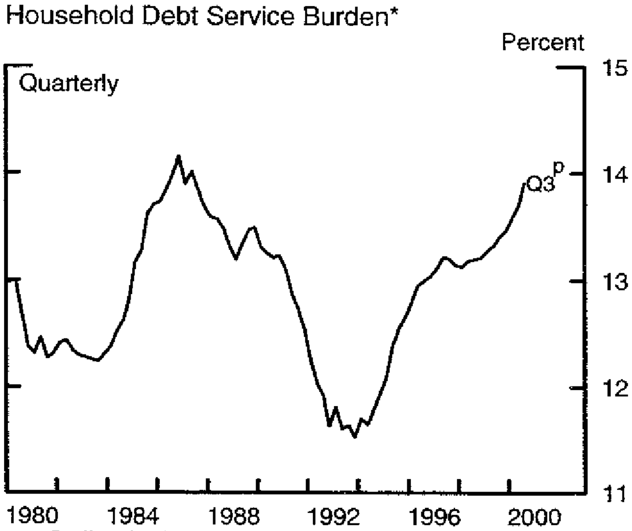
Household Liabilities

Household Debt Growth



p. Staff projection.

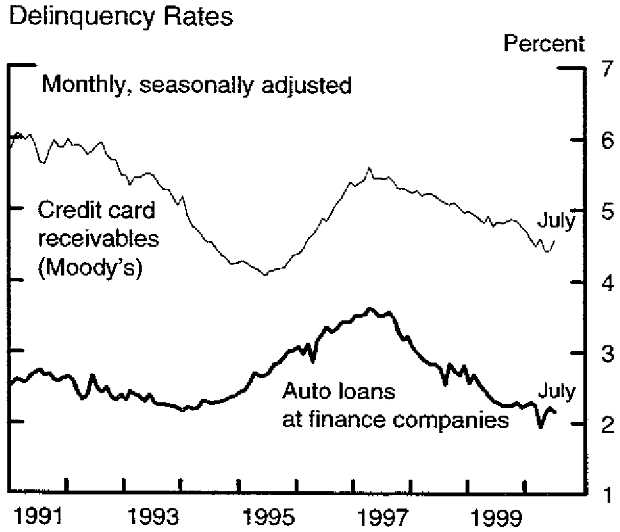
Household Debt Service Burden*



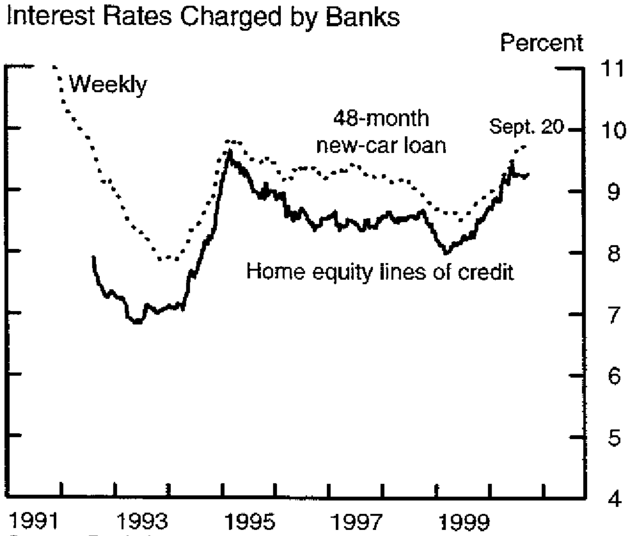
p. Staff projection.

*Required debt payments relative to disposable personal income.

Delinquency Rates

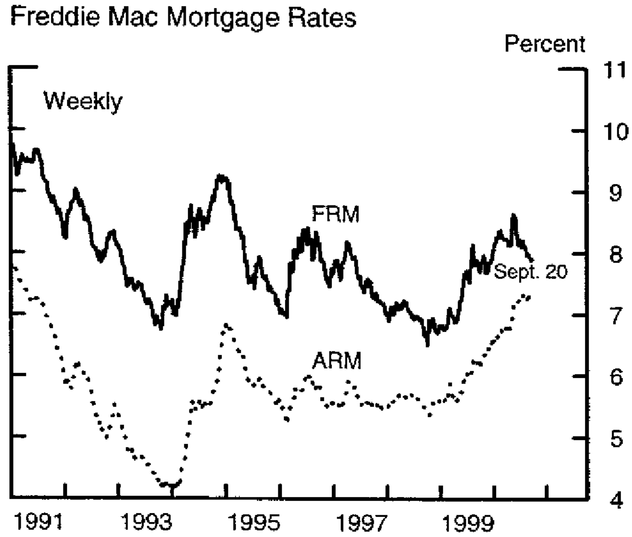


Interest Rates Charged by Banks



Source. Bank Rate Monitor.

Freddie Mac Mortgage Rates



funds recorded net outflows in August but have received some meager inflows thus far in September.

Available data for the third quarter point to household debt growth a shade below the very strong second-quarter pace. As housing activity has cooled off a bit, mortgage debt is estimated to have decelerated a little after advancing at a 10-1/2 percent rate in the second quarter. The expansion of consumer credit also appears to have edged down in recent months, from the 9 percent pace in the second quarter, but it has remained robust to help finance growing outlays on consumer durables.

Household debt-service burdens have continued to rise, but the latest measures of debt repayment performance show few signs of deterioration in credit quality. Through July, delinquency rates on credit cards and auto loans at finance companies were little changed at low levels, as were delinquency rates for mortgages loans. Per capita personal bankruptcies fell 11 percent at an annual rate in the second quarter, to the lowest level in almost four years. Interest rates on consumer loans, new auto loans at banks, and residential mortgages have changed little over the intermeeting period.

Treasury Finance

The federal government continued to pay down its debt over the intermeeting period, bringing the total paydown of marketable debt in the third quarter, including debt buybacks, to $48 billion. The coupon sector accounted for a little over two-thirds of the amount retired, which is consistent with the Administration's efforts to keep the average maturity of its debt from rising.

The Federal Reserve's ongoing redemptions of government securities should continue to provide support to issuance of new Treasury debt to the public. Since early July, when the System Open Market Account (SOMA) adopted limits on its holdings of individual Treasury debt issues, the Federal Reserve has redeemed about $13-1/2 billion of government securities at Treasury auctions, $12-1/4 billion of which is in bills. The bill redemptions roughly offset the Treasury's paydown of such securities, leaving the amount of bills held by the public little changed since midsummer. SOMA purchases of Treasury coupon securities to replace redeemed bills have added to the net decline in the public's holdings of longer-term issues.

On August 24, the Treasury conducted its first debt buyback operation involving callable securities, purchasing a total of $750 million, and on September 21 it bought an additional $1.5 billion of noncallable bonds. Those operations, along with the one scheduled for September 28, will bring the total amount of debt repurchased since the inception of the buyback program in March to $22-1/4 billion. The Treasury still intends to buy back $30 billion by year-end.

Treasury and Agency Finance

Treasury Financing
(Billions of dollars)

Item	1999	2000				
	Q4	Q1	Q2	July	Aug.	Sept. (e)
Total surplus, deficit (−)	**-20.6**	**-15.0**	**211.8**	**4.8**	**-10.4**	**n.a.**
Means of financing deficit						
Net borrowing	47.6	-27.1	-189.6	-31.3	10.0	n.a.
Nonmarketable	1.0	-6.4	2.2	-6.3	0.3	n.a.
Marketable	46.6	-20.7	-191.7	-25.0	9.7	-32.7
Bills	83.6	16.0	-123.7	-9.5	26.6	-31.2
Coupons[1]	-37.0	-34.7	-57.1	-11.0	-14.7	0.0
Debt buybacks	0.0	-2.0	-11.0	-4.5	-2.2	-1.5
Decrease in cash balance	-26.9	38.6	-12.7	23.4	20.9	n.a.
Other[2]	-0.2	3.5	-9.6	3.2	-20.4	n.a.
MEMO						
Cash balance, end of period	83.3	44.8	57.4	34.1	13.2	n.a.

NOTE. Components may not sum to totals because of rounding.
1. Does not include Treasury debt buybacks.
2. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.
e. Estimated.
n.a. Not available.

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

Agency	1999	2000				
	Q4	Q1	Q2	July	Aug.	Sept.
FHLBs	47.4	6.3	33.2	-3.4	7.8	n.a.
Freddie Mac	19.6	17.3	6.3	15.1	n.a.	n.a.
Fannie Mae	22.7	9.9	21.0	0.9	15.7	n.a.
Farm Credit Banks	0.9	-1.7	2.4	0.2	0.4	n.a.
Sallie Mae	0.1	-3.9	-0.8	n.a.	n.a.	n.a.
MEMO						
Outstanding noncallable notes and bonds						
Fannie Mae benchmark	106.4	128.1	142.1	147.6	159.1	163.6
Freddie Mac reference	69.5	85.5	96.5	100.5	104.5	110.5

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

Over the intermeeting period, auction sizes have remained unchanged in both the bill and note sectors. Going forward, the large inflow of tax receipts in September could potentially allow the Treasury to delay the temporary increase in the size of weekly bill auctions that was announced in early August.

Agency Finance

Agencies issued substantial debt during the intermeeting period. Fannie Mae and Freddie Mac sold a combined $10-1/2 billion of Benchmark and Reference notes, lifting the total amount outstanding of such notes and bonds to about $274 billion. Fannie and Freddie have also continued to issue a large volume of other securities, and issuance by the Federal Home Loan Bank System has remained strong. In addition, in September Freddie Mac launched its EuroReference note program, under which it plans to conduct regular auctions of euro-denominated debt. The first auction of €5 billion of ten-year notes was oversubscribed but only after the notes' spread over yields on German bunds widened slightly above the range expected by Freddie Mac.

Fannie Mae and Freddie Mac announced their 2001 issuance calendars for Benchmark and Reference securities. Both agencies increased the number of scheduled offerings, especially of shorter-dated notes, and adopted a borrowing calendar that is very close to that of the Treasury. In particular, their schedules call for several sales of Benchmark and Reference securities within a week or two of a major Treasury auction. Freddie Mac also introduced a number of major initiatives, including quarterly offerings of thirty-year bonds, the adoption of Internet-based Dutch auctions for two- and three-year notes, and suspension of its callable Reference note program. Neither agency offered details on the sizes of scheduled offerings.

The public discussion over the housing agencies' relationship with the federal government has continued with little market reaction, and recent innovations in the financial markets suggest that investors' interest in agency debt as a potential substitute for Treasuries remains strong. Major brokers and dealers now provide services that could facilitate the wider use of agency debt in pricing and hedging of positions in the fixed-income markets, including the creation of a long-duration benchmark index based on agency zeros and strips and direct brokering of trades involving simultaneous positions in agencies and swaps and in agencies and agency futures.[1] The latter service also highlights the increasing use of the agency futures contracts that started trading at the Chicago Board of

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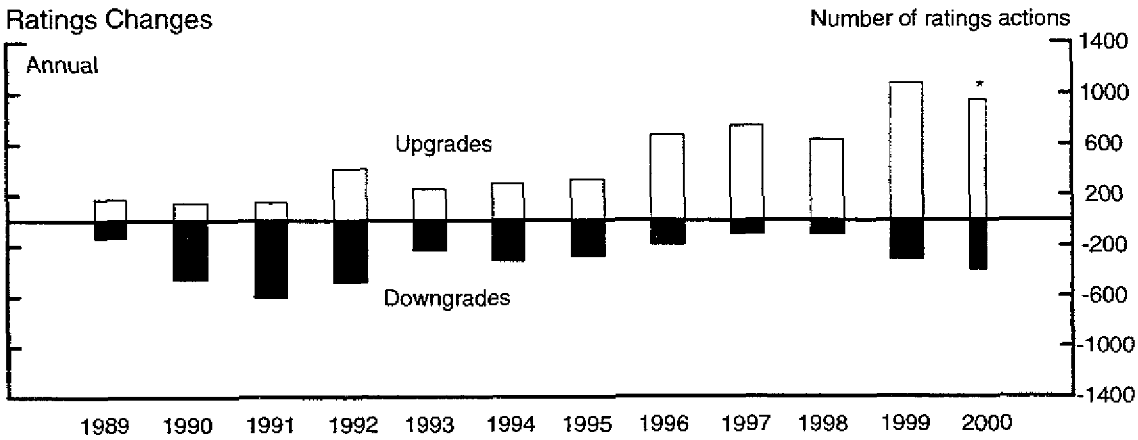
1. The direct trades involving positions in swaps and agencies allow market participants to more easily use such instruments for hedging and arbitrage purposes. For instance, while market participants have traditionally hedged swap positions with Treasuries, some have started to use agencies as hedging vehicles. The brokered trades involving agencies and agency futures help the further development of the agency futures market to the extent that they facilitate a tighter and more transparent link between futures and cash prices in that market.

State and Local Finance

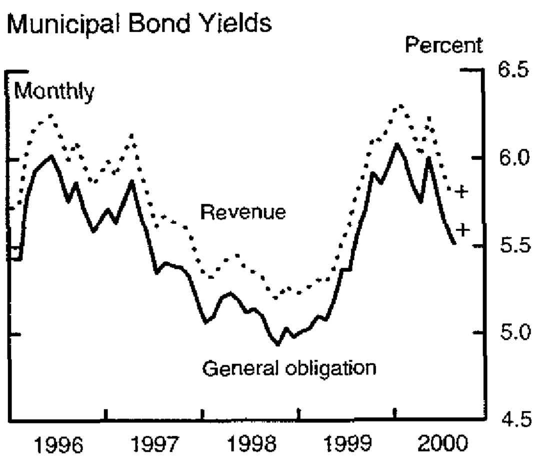
Gross Offerings of Municipal Securities
(Billions of dollars; monthly rates, not seasonally adjusted)

	1998	1999	2000 Q1	2000 Q2	2000 July	2000 Aug.	2000 Sept.[e]
Long-term[1]	21.9	18.0	12.2	16.2	12.8	15.3	15.0
Refundings[2]	8.5	4.5	1.9	2.4	1.5	2.9	2.0
New capital	13.4	13.5	10.3	13.8	11.3	12.4	13.0
Short-term	2.4	2.7	1.6	3.6	2.6	6.2	1.2
Total tax-exempt	24.3	20.6	13.8	19.8	15.4	21.5	16.2
Total taxable	1.1	1.1	0.6	0.6	0.7	1.1	0.7

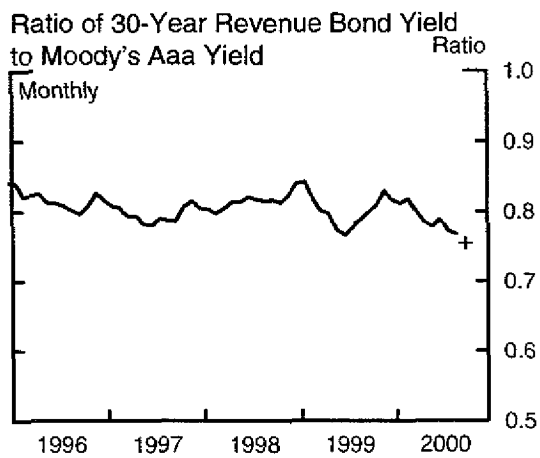
1. Includes issues for public and private purposes.
2. All issues that include any refunding bonds.
e. Staff estimate.



* Data through Sept. 14, 2000, at an annual rate.



Note. Average of weekly data.
+ indicates latest observation (Sept. 21).



Note. Average of weekly data.
+ indicates latest observation (Sept. 21).

Trade in early March: After hovering around 40,000 contracts during most of the summer, open interest in agency futures surpassed the 50,000 mark in early September, a sizable number for such a young contract but still only about a tenth of the open interest in ten-year Treasury notes futures.

State and Local Government Finance

Gross issuance of long-term bonds by state and local governments in August and September remained significantly below the robust pace of 1998 and 1999. As has been true for some time, refunding activity has been lackluster, as higher interest rates over the past year have made it unprofitable to refund old debt. Issuance to raise new capital also has been held down by the strong fiscal condition of states and localities. Indeed, credit quality improved further in the state and local sector, with upgrades so far this year substantially outpacing downgrades for the fifth year in a row. Not-for-profit health care providers continue to account for a large share of total downgrades. Long-term municipal bond yields largely moved up with Treasuries and corporate bond yields, and yield ratios were little changed.

Money and Bank Credit

M2 growth picked up significantly in August and September following sluggish growth in June and July. Strong transaction-related demands for money and the waning effects of the latest monetary policy tightening in May appear to have supported M2 growth. In addition, as noted, flows into stock mutual funds were weak in August, perhaps indicating that investors redirected savings from equities into M2 assets. Retail money market funds, in particular, bounced back in August.

M3 posted another strong advance in August, largely funding the continued brisk expansion in bank credit. Adjusted for mark-to-market accounting rules, bank credit advanced at an 8-3/4 percent rate in August, but the incoming data suggest some slowing in both M3 and bank credit in September. Broad-based loan growth continues to be the driving force behind the expansion of banks' balance sheets, as securities ran off a bit last month. C&I loans grew strongly in early August but have moderated more recently, perhaps reflecting the pickup in issuance in the corporate bond market. Consumer loans at banks advanced at an annual rate of more than 20 percent in August, fueled by a surge in credit card debt. Real estate loans were the one segment that softened in August, but growth has picked up again in recent weeks.

According to the most recent Survey of Terms of Business Lending, spreads of C&I loan rates over the intended level of the federal funds rate widened slightly between the May and August survey weeks and remain in the high range evident since mid-1999. Consistent with anecdotal reports, the tightening has been concentrated among large loans having above-average risk.

Monetary Aggregates

(Based on seasonally adjusted data)

Aggregate or component	1999	2000 Q1	2000 Q2	2000 June	2000 July	2000 Aug.	Level (bil. $) Aug. 00
Aggregate	Percent change (annual rate)[1]						
1. M2[2]	6.2	6.1	6.3	3.8	3.6	7.3	4827.5
2. M3	7.7	10.8	8.0	7.4	9.4	10.3	6847.3
Selected components							
3. Currency	10.9	9.9	-0.2	5.3	3.5	1.6	523.0
4. Liquid deposits[3]	5.9	-0.4	4.3	1.5	5.2	7.6	2382.1
5. Small time deposits	-0.7	8.6	10.3	14.6	9.7	11.5	1022.8
6. Retail money market funds	13.1	19.3	10.9	-3.9	-7.9	5.4	890.3
7. M3 minus M2[4]	11.8	23.2	12.2	16.5	23.5	17.5	2019.9
8. Large time deposits, net[5]	8.6	21.6	15.3	19.6	18.4	23.1	777.6
9. Institution-only money market mutual funds	17.2	23.7	13.7	15.5	51.8	28.2	704.9
10. RPs	12.1	22.4	10.8	28.8	5.9	-16.9	363.3
11. Eurodollars	5.9	29.2	-3.4	-17.6	-22.7	22.5	174.1
Memo							
12. M1	1.8	0.0	-1.3	-1.7	1.3	-3.4	1101.5
13. Sweep-adjusted M1[6]	5.1	2.1	2.4	1.3	4.3	1.6	1500.7
14. Demand deposits	-6.2	-14.8	-6.1	-12.2	3.3	-16.9	328.1
15. Other checkable deposits	-2.7	1.3	2.8	-4.9	-8.4	4.5	241.1
16. Savings deposits	10.2	2.3	6.5	5.0	7.4	12.5	1812.9
17. Monetary base	12.4	4.3	-3.2	2.8	3.7	0.4	577.6
	Average monthly change (billions of dollars)[7]						
Selected managed liabilities at commercial banks							
18. Large time deposits, gross	7.5	16.7	4.6	11.9	8.3	16.0	924.8
19. Net due to related foreign institutions	0.6	3.1	4.0	9.8	1.5	8.7	269.8
20. U.S. government deposits at commercial banks	0.2	1.7	1.1	-9.5	-1.5	-12.0	18.4

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.

Commercial Bank Credit

(Percer hange, annual rate, except as noted; seasonally adjusted)

Type of credit	1999	Q1 2000	Q2 2000	June 2000	July 2000	Aug. 2000	Level, Aug. 2000 ($ billions)
Total							
1. Adjusted[1]	**5.5**	**11.7**	**12.5**	**9.4**	**9.0**	**8.7**	**5,022**
2. Reported	4.2	11.9	12.3	7.5	8.6	9.6	5,108
Securities							
3. Adjusted[1]	8.3	4.2	10.0	4.8	5.3	-.6	1,229
4. Reported	3.1	5.3	9.4	-2.1	3.9	3.4	1,315
5. U.S. government	2.8	3.1	.6	2.5	3.1	-9.8	813
6. Other[2]	3.8	9.2	25.1	-9.7	5.4	25.1	502
Loans[3]							
7. Total	4.5	14.3	13.3	10.9	10.1	11.8	3,793
8. Business	4.9	10.4	13.8	9.8	7.0	10.1	1,082
9. Real estate	9.4	19.9	15.8	11.5	11.1	6.6	1,617
10. Home equity	-3.3	23.8	28.9	5.2	14.5	13.3	118
11. Other	10.4	19.6	14.8	11.9	10.9	6.1	1,499
12. Consumer	-2.3	12.4	9.4	15.8	8.4	21.2	530
13. Adjusted[4]	4.4	7.3	7.8	16.3	12.6	12.9	838
14. Other[5]	-1.7	8.1	9.2	7.1	15.3	21.2	564

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. These data have been benchmarked to the December 1999 Call Report.

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.

International Developments

International Developments

U.S. International Transactions

Trade in Goods and Services

In July, the U.S. trade deficit in goods and services was $31.9 billion. This was higher than the $29.8 billion average value in the previous three months. In the second quarter, the deficit was $357 billion at an annual rate.

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

	1999	Annual rate 1999 Q4	2000 Q1	2000 Q2	Monthly rate 2000 May	June	July
Real NIPA[1]							
Net exports of G&S	-322.4	-352.5	-376.8	-408.6	...	...	...
Nominal BOP							
Net exports of G&S	-265.0	-305.1	-340.5	-357.1	-29.8	-29.8	-31.9
Goods, net	-345.6	-384.9	-423.4	-440.9	-36.5	-36.9	-38.7
Services, net	80.6	79.8	82.9	83.8	6.7	7.0	6.8

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 of goods and services declined 1.5 percent in July, reversing part of the extraordinary jump recorded in June. Even so, the level of exports in July is 1.5 percent higher than the second-quarter average. The decline in exports from June to July was primarily in aircraft and automotive products, with smaller decreases in most other trade categories. The notable exception was machinery (excluding computers and semiconductors) which increased further; exports of machinery accounted for one-quarter of the jump in exports in June.

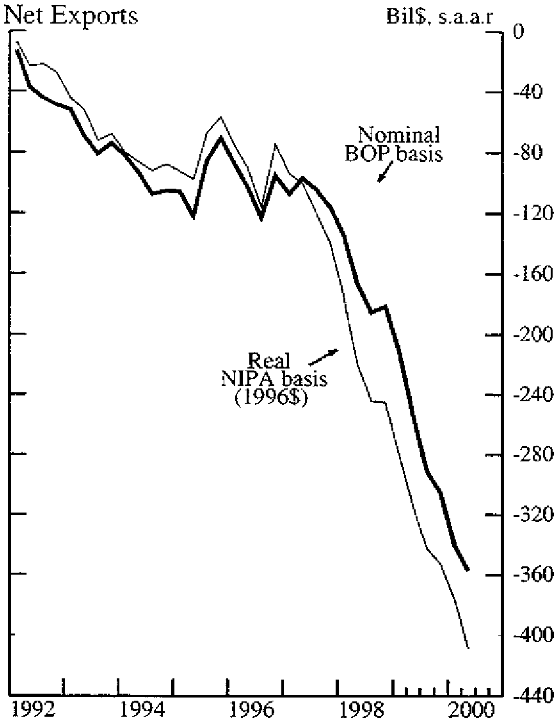
The value of imports of goods and services rose 0.6 percent in July following a strong rise in June. The level of imports in July was 2.9 percent higher than the average for the second quarter. The increase in imports from June to July was largely in industrial supplies, automotive products, and services. There were small declines in the value of imported consumer goods, machinery, and oil (the price of oil rose and the quantity of imported oil declined).

Prices of Internationally Traded Goods

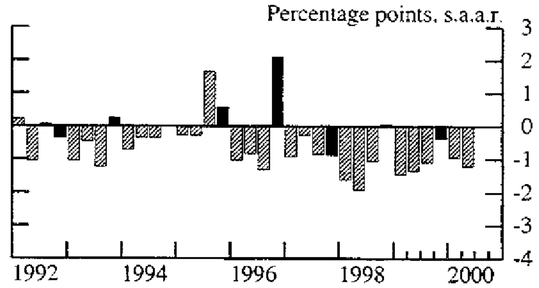
Oil. The price of imported oil (BLS) rose slightly in August. For July and August on average, the oil import price index increased 30 percent at an annual rate from the second quarter. Through most of August and early September, spot oil prices surged higher, driven by strong demand, concerns about low

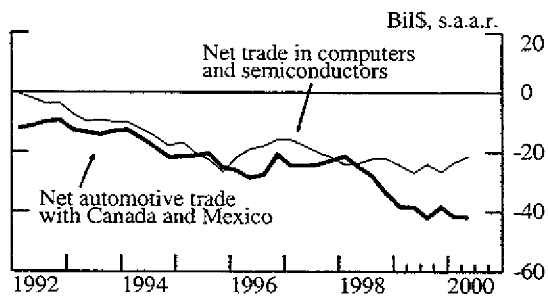
U.S. International Trade in Goods and Services

Net Exports

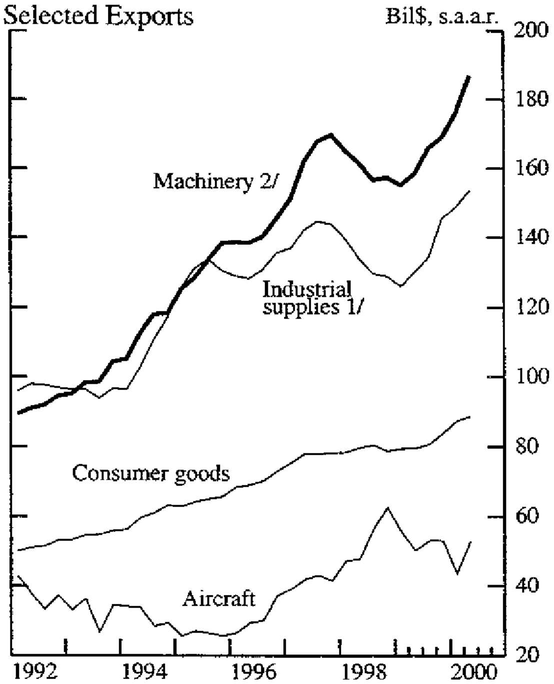


Contribution of Net Exports to Real GDP Growth



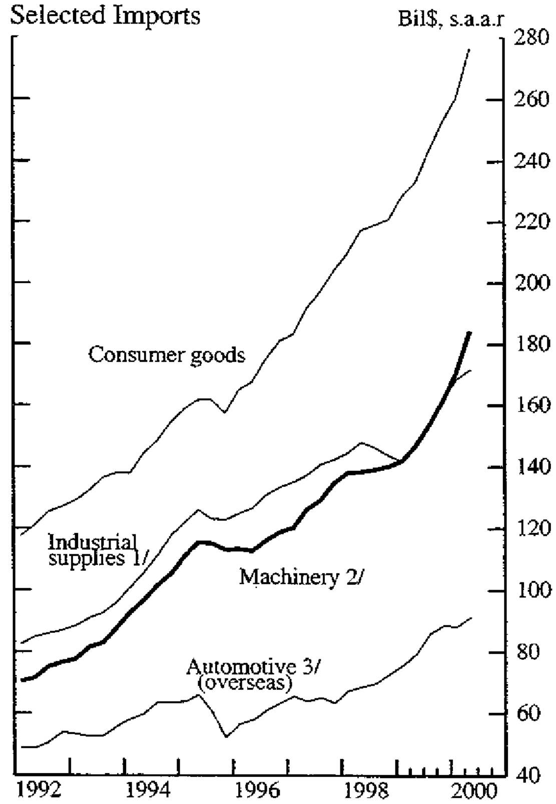


Selected Exports



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

Selected Imports



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

U.S. Exports and Imports of Goods and Services

(Billions of dollars, s.a.a.r., BOP basis)

	Levels				Amount Change[1]			
	2000		2000		2000		2000	
	Q1	Q2	June	July	Q1	Q2	June	July
Exports of G&S	**1023.9**	**1060.4**	**1091.9**	**1076.0**	**25.3**	**36.5**	**49.7**	**-15.9**
Goods exports	734.9	767.1	797.6	779.7	14.6	32.2	44.6	-17.9
Agricultural	52.5	52.8	53.6	53.8	2.5	0.3	-0.2	0.2
Gold	9.6	3.7	5.1	2.6	0.9	-5.9	2.4	-2.5
Other goods	672.8	710.6	738.9	723.4	11.2	37.9	42.4	-15.5
Aircraft & pts	43.6	52.9	55.4	49.3	-9.4	9.2	-1.0	-6.2
Computers	51.2	55.4	57.3	57.3	3.4	4.2	4.9	-0.0
Semiconductors	52.5	59.6	65.0	62.8	1.2	7.1	7.2	-2.2
Other cap gds	179.0	189.1	195.7	199.5	7.2	10.1	13.7	3.8
Automotive	80.3	80.1	84.4	77.8	2.8	-0.3	5.6	-6.6
to Canada	47.5	45.0	46.9	42.7	0.2	-2.5	2.5	-4.2
to Mexico	15.9	17.3	18.4	13.7	2.2	1.4	1.3	-4.7
to ROW	17.0	17.8	19.0	21.4	0.4	0.8	1.8	2.4
Ind supplies	148.8	153.6	156.9	156.0	3.3	4.8	4.8	-0.9
Consumer goods	87.3	88.5	93.0	90.9	3.7	1.2	7.1	-2.1
All other	30.0	31.5	31.1	29.8	-1.1	1.4	4.1	-1.3
Services exports	289.0	293.3	294.3	296.3	10.7	4.3	5.1	2.0
Imports of G&S	**1364.4**	**1417.5**	**1450.0**	**1458.7**	**60.7**	**53.1**	**50.4**	**8.7**
Goods imports	1158.3	1208.1	1240.0	1244.1	53.0	49.8	49.3	4.1
Petroleum	108.0	117.1	128.4	127.8	22.3	9.0	14.7	-0.6
Gold	9.6	3.0	4.2	2.4	0.3	-6.6	1.8	-1.7
Other goods	1040.6	1088.0	1107.4	1113.8	30.4	47.4	32.7	6.4
Aircraft & pts	23.2	24.9	25.1	25.6	-0.9	1.7	0.5	0.5
Computers	83.8	89.9	91.4	93.0	0.1	6.1	3.4	1.6
Semiconductors	43.2	46.4	50.2	49.9	1.5	3.1	4.4	-0.3
Other cap gds	173.9	187.3	189.0	186.4	8.8	13.4	1.7	-2.7
Automotive	193.3	195.4	200.9	204.2	5.3	2.1	13.4	3.3
from Canada	66.1	63.3	66.2	66.1	0.8	-2.8	5.5	-0.0
from Mexico	38.9	40.7	42.4	36.1	5.0	1.8	3.1	-6.2
from ROW	88.3	91.4	92.3	101.9	-0.5	3.1	4.9	9.6
Ind supplies	168.4	171.6	174.5	179.6	6.3	3.2	3.4	5.1
Consumer goods	260.5	276.4	277.6	276.7	7.6	15.9	1.2	-0.8
Foods	44.6	45.6	46.0	47.2	0.0	1.1	0.4	1.1
All other	49.6	50.5	52.7	51.3	1.6	0.9	4.3	-1.4
Services imports	206.1	209.5	210.1	214.7	7.7	3.4	1.1	4.6
Memo:								
Oil quantity (mb/d)	11.35	12.26	12.72	12.26	0.75	0.90	0.47	-0.46
Oil import price ($/bbl)	25.98	26.11	27.63	28.54	3.83	0.13	2.23	0.91

1. Change from previous quarter or month.

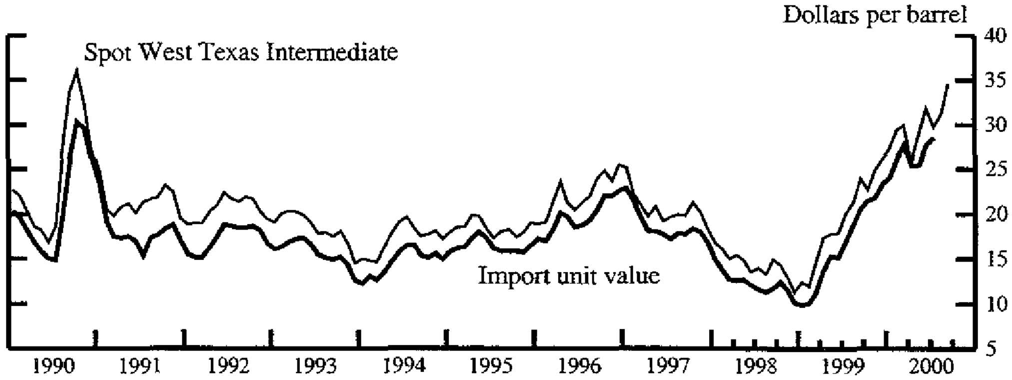
Source: U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

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

	Annual rates 2000			Monthly rates 2000		
	Q1	Q2	Q3e	June	July	Aug.
	------------- BLS prices (1995 weights)-------------					
Merchandise imports	10.5	0.1	4.5	1.3	0.0	0.2
Oil	105.1	-6.3	30.5	10.6	-1.6	0.6
Non-oil	1.7	1.0	1.5	0.1	0.3	0.1
Core goods*	1.9	1.6	2.1	0.2	0.4	0.1
Foods, feeds, beverages	0.0	-4.4	-3.4	-0.9	0.0	0.4
Industrial supplies ex oil	11.0	9.8	9.1	1.4	1.0	0.9
Computers	-1.4	-9.1	-3.2	-0.4	-0.2	-0.4
Semiconductors	-3.9	0.0	-4.3	-0.3	-0.8	0.3
Cap. goods ex comp & semi	-1.7	0.3	-1.2	-0.5	0.1	-0.1
Automotive products	0.7	1.4	1.2	0.1	0.2	-0.1
Consumer goods	-0.8	-1.9	-0.3	-0.5	0.3	0.0
Merchandise exports	2.7	2.0	-1.0	-0.1	-0.1	-0.3
Agricultural	0.5	5.7	-14.6	-1.4	-2.1	-2.1
Nonagricultural	2.9	1.5	0.5	-0.1	0.2	-0.2
Core goods*	4.2	2.1	1.2	0.0	0.3	-0.2
Industrial supples ex ag	12.2	6.0	1.3	0.1	0.4	-0.7
Computers	-7.1	-4.5	-2.7	-0.3	-0.3	-0.5
Semiconductors	-5.0	-4.1	-5.2	-1.5	-0.1	-0.1
Cap. goods ex comp & semi	0.9	1.2	1.0	0.1	0.1	0.1
Automotive products	0.3	0.8	0.9	-0.1	0.3	0.0
Consumer goods	0.5	-0.3	-0.3	-0.2	0.1	-0.1
Chain price index	---Prices in the NIPA accounts (1996 weights)---					
Imports of goods & services	5.6	0.1	n.a.	...	...	...
Non-oil merchandise	0.9	0.8	n.a.	...	...	...
Core goods*	1.5	1.8	n.a.	...	...	...
Exports of goods & services	1.9	1.9	n.a.	...	...	...
Nonag merchandise	1.4	1.4	n.a.	...	...	...
Core goods*	3.3	2.4	n.a.	...	...	...

*/ Excludes computers and semiconductors.
e/ Average of two months.
n.a. Not available. ... Not applicable.

Oil Prices



inventories, and the threats to supply posed by hurricanes and Iraq. Shortly after the spot price of West Texas Intermediate moved above $37 per barrel, oil prices eased somewhat as the U.S. government announced that 30 million barrels of oil would be released from the Strategic Petroleum Reserve. Spot WTI is currently trading around $32 per barrel.

Non-oil imports. Prices of imported non-oil goods, as well as core goods (which exclude computers and semiconductors), increased slightly in August, led by rising prices for industrial supplies (primarily natural gas and unfinished metals). For July-August combined, prices of core goods rose 2.1 percent at an annual rate, only marginally more than in the previous two quarters. The increase was attributable to industrial supplies and, to a lesser extent, to automotive products. The price indexes of imported machinery, consumer goods, and foods all declined in July-August.

Exports. Prices of total goods exports declined moderately in August. For the second consecutive month there was a sharp decline in prices of agricultural exports, largely grains and oilseeds. For July-August combined, agricultural export prices fell 15 percent at an annual rate. While prices of nonagricultural exports fell slightly in August, for July-August combined prices of nonagricultural exports, and core goods, rose slightly. The price decline in August was largely in industrial supplies led by prices of chemicals and fuels, both of which generally follow (sometimes with a lag) movements in oil prices.

U.S. Current Account through 2000:Q2

The U.S. current account deficit rose to $425 billion at a seasonally adjusted annual rate in the second quarter of 2000, an increase of $19 billion over the first quarter (revised). The increase in the current account deficit was driven by a $17 billion (annual rate) widening in the deficit on goods and services. The deficits on investment income and unilateral transfers widened slightly in the second quarter. For portfolio investment income, payments increased $6 billion more than receipts (at annual rate). On the other hand, for direct investment income, receipts rose $5 billion more than payments, also at annual rate. The increase in net outflows of unilateral transfers was mostly the result of a small increase in U.S. government grants.

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

Period	Goods and services, net	Investment income, net	Other income and transfers, net	Current account balance
Annual				
1998	-166.9	-1.0	-49.2	-217.1
1999	-265.0	-13.1	-53.4	-331.5
Quarterly				
1999:Q3	-290.9	-16.8	-51.0	-358.6
Q4	-305.1	-17.3	-62.5	-384.9
2000:Q1	-340.5	-11.9	-53.6	-406.0
Q2	-357.0	-12.6	-54.9	-424.6
Change				
Q3-Q2	-37.7	-5.5	0.5	-42.7
Q4-Q3	-14.2	-0.5	-11.5	-26.3
Q1-Q4	-35.4	5.4	8.9	-21.1
Q2-Q1	-16.5	-0.7	-1.3	-18.6

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

U.S. International Financial Transactions

Foreign official assets held in the United States (line 1 of the Summary of U.S. International Transactions table) rose $12 billion in July after a similar increase in June. Thus far this year, reported increases in reserve assets of OPEC countries have been modest. However, increased oil export earnings have apparently permitted Russia to bolster its reserves in the United States, which have increased each month since last October, rising from $3 billion to $15 billion during the October 1999 - July 2000 period. Partial data from the FRBNY show that between end-July and mid-September foreign official reserves in the United States increased by an additional $4 billion.

Foreign private net purchases of U.S. securities slowed slightly in July but continued at a strong pace (line 4). Net purchases of corporate stocks accounted for an unusually high 70 percent of the total. There were also modest net purchases of corporate and agency bonds. Net sales of Treasuries continued for a third consecutive month, but at a much slower pace than in June. In July both the purchases of corporate securities and the sales of Treasuries were concentrated in Europe, while the majority of agency bond purchases went through Japan. Year-to-date sales of Treasuries have been more than offset by purchases of agencies.

U.S. net purchases of foreign equities (line 5b) reached a record high of almost $15 billion in July, easily exceeding the previous monthly high of $10 billion set in March 1996. Net equity purchases occurred primarily in Europe, while there were modest net sales in Japan. U.S. residents also acquired an additional $5 billion in foreign equity as a result of equity-financed takeovers of U.S. companies by European multinationals (shown separately in line 5c).[1] Net sales of foreign debt securities continued for a fourth consecutive month (line 5a), with small purchases in Europe more than offset by sales in Japan and the Caribbean financial centers.

The U.S. banking sector recorded a net inflow of $20 billion (line 3) in July as a result of increased flows into U.S. agencies and branches from their related foreign offices. This followed an outflow of $13 billion in June.

Recently released balance of payments data for the second quarter showed foreign direct investment flows into the United States increasing significantly to $80 billion (line 7). Approximately half of this inflow was associated with merger and acquisition activity, with the acquisition of Atlantic Richfield by BP Amoco alone accounting for over $27 billion. U.S. direct investment abroad decreased slightly to $38 billion.

Foreigners increased their holdings of U.S. currency by $1 billion in the second quarter following a decrease of $7 billion in the first quarter (line 8). The decrease in the first quarter reflected a rebalancing of positions after a buildup late last year in anticipation of the century date change. The modest increase in the first quarter is a return to a more typical pattern.

The statistical discrepancy (last line) was negative $43 billion in the second quarter, almost exactly offsetting the first quarter's positive $44 billion. (A negative statistical discrepancy indicates a combination of over-recorded net capital inflows and under-recorded net exports.)

In addition to the new line showing stock swap acquisitions, another line, the "Capital account balance," has been added to the table to conform to IMF and BEA conventions. This balance captures debt forgiveness and certain other transfer-like transactions, and appears near the bottom of the table before the "Statistical discrepancy" line. This line will generally be small for the United States, but amounted to negative $3.5 billion in 1999, owing primarily to the transfer of the Panama Canal.

1. Stock swap figures, which had previously been included in line 9, now appear separately in line 5c of the Summary table; stock swap data for recent months are staff estimates while quarterly data are provided by the BEA.

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

	1998	1999	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 June	2000 July
Official financial flows	**-23.4**	**55.0**	**14.9**	**29.0**	**22.1**	**9.1**	**9.9**	**12.2**
1. Change in foreign official assets in U.S. (increase, +)	-16.6	46.4	13.0	27.4	22.7	7.1	9.8	12.2
a. G-10 countries	6.9	49.7	19.2	10.2	11.1	5.6	-.3	2.8
b. OPEC countries	-9.0	2.0	-1.3	-1.7	5.7	1.2	2.7	1.2
c. All other countries	-14.4	-5.3	-5.0	19.0	5.9	.4	7.3	8.2
2. Change in U.S. official reserve assets (decrease, +)	-6.8	8.6	1.9	1.6	-.6	2.0	.1	.0
Private financial flows	**170.6**	**268.4**	**56.3**	**40.7**	**35.4**	**139.9**	**...**	**...**
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	57.3	-9.8	-18.3	-16.0	-32.4	52.3	-13.2	20.1
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	275.2	321.2	105.7	76.1	124.0	66.1	29.2	26.4
a. Treasury securities	49.3	-19.8	9.8	-17.0	-9.1	-20.5	-18.2	-6.6
b. Agency bonds	50.5	73.8	21.2	17.5	26.6	18.6	3.9	5.2
c. Corporate and municipal bonds	121.7	159.0	49.5	40.8	44.5	41.8	25.8	9.1
d. Corporate stocks	53.7	108.2	25.2	35.0	62.1	27.0	17.8	18.7
5. U.S. net acquisitions (-) of foreign securities	-107.3	-113.0	-38.4	-17.3	-24.9	-19.6	1.0	-17.4
a. Bonds	-17.4	-5.7	-10.1	2.0	-8.9	10.8	5.8	2.8
b. Stock purchases	6.2	15.6	-.8	-5.9	-16.0	7.2	-2.0	-14.8
c. Stock swaps[3]	-96.1	-122.9	-27.5	-13.4	.0	-37.6	-2.8	-5.4
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-146.1	-150.9	-43.6	-33.3	-43.0	-37.5	...	...
7. Foreign direct investment in U.S.	186.3	275.5	55.6	49.4	49.0	80.0	...	...
8. Foreign holdings of U.S. currency	16.6	22.4	4.7	12.2	-6.8	1.0	...	...
9. Other (inflow, +)[4]	-111.4	-77.0	-9.4	-30.4	-30.5	-2.4	...	...
U.S. current account balance (s.a.)	**-217.1**	**-331.5**	**-89.6**	**-96.2**	**-101.5**	**-106.1**	**...**	**...**
Capital account balance (s.a.)[5]	**.2**	**-3.5**	**.2**	**-4.0**	**.2**	**.2**	**...**	**...**
Statistical discrepancy (s.a.)	**69.7**	**11.6**	**18.2**	**30.5**	**43.8**	**-43.1**	**...**	**...**

NOTE. The sum of official and private financial flows, the current account balance, the capital 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 adjustments BEA makes to account for incomplete coverage; therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

3. U.S. acquisitions of foreign equities associated with foreign takeovers of U.S. firms.

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

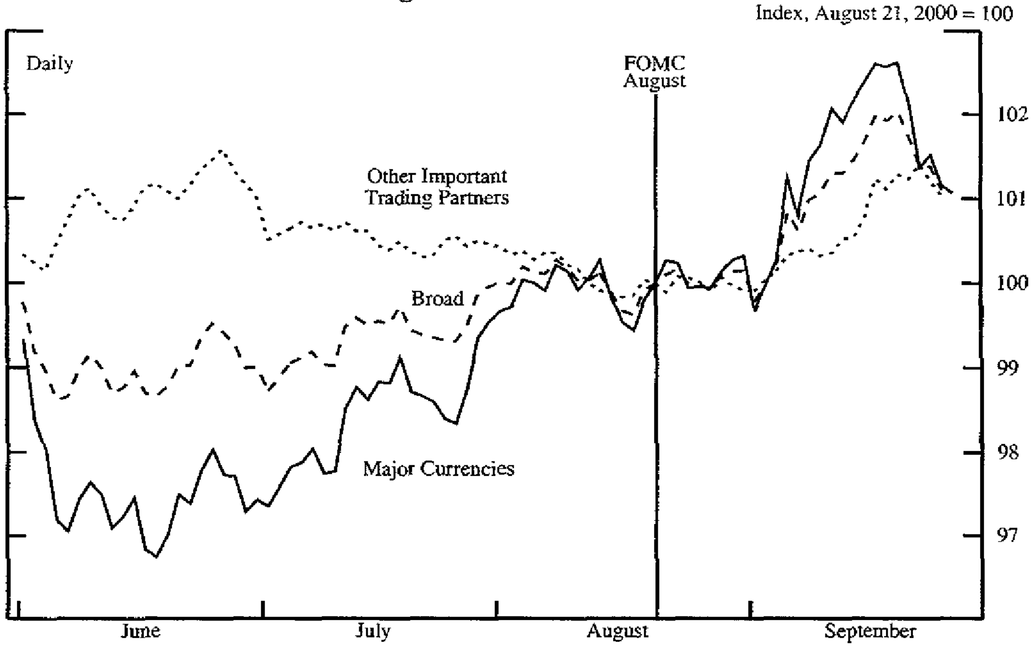
5. Consists of transactions in nonproduced nonfinancial assets and capital transfers.

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

Foreign Exchange Markets

The dollar moved up against the major currencies following the August FOMC meeting, but the dollar's appreciation, particularly versus the major European currencies, was curbed on Friday September 22, when the Desk participated in joint intervention operations to purchase euros with the European Central Bank, the Bank of Japan, the Bank of Canada and the Bank of England. Prior to the intervention, the dollar had risen 2¼ percent on a weighted average basis against the other major currencies since the August FOMC meeting. Following the intervention, this gain has been cut in half. On balance, the dollar has risen 1 percent against the major currencies over the intermeeting period.

Exchange Value of the Dollar



Prior to the intervention operations, the dollar's overall rise was led by a 5½ percent appreciation against the euro and a 4¼ percent rise versus the British pound. On August 31 the Governing Council of the European Central Bank raised official interest rates 25 basis points, stating that part of the reason for the increase was to counter the inflationary impact of the euro's weakness. The rate hike failed to stabilize the exchange value of the euro, which continued to fall as negative market sentiment toward the currency mounted, in part on concerns over capital flows out of the euro area. Various European officials commented on the single currency, but their messages were mixed. The failure of foreign exchange markets to respond to the cajoling led to calls for official intervention in the foreign exchange market to support the euro.

On September 14 the ECB announced that it would repatriate €2.5 billion of interest earnings on its foreign exchange portfolio, stating that the operation was not for intervention purposes. Most market participants, however, considered the ECB's repatriation operations to be de facto intervention. In the event, these operations, which took place between September 14 and September 22, had little effect on the value of the euro, which touched a new low against the dollar during this period. On September 22, a few hours after the day's repatriation operation, the joint intervention operation commenced. For this operation, the Desk sold $1.33 billion for the accounts of the Treasury and the System. The European Central Bank sold , the Bank of Japan purchased a very large amount of euros, while the Bank of Canada and Bank of England each bought a small sum of euros. This was the first operation for U.S. accounts since June 17, 1998. Immediately following the first wave of the intervention operation, the European Central Bank released a statement that at their initiative, the monetary authorities of the United States and Japan had joined the ECB in concerted intervention in exchange markets because of the shared concern over the potential implications of recent movements in the euro . This announcement, together with the overall size of the operation, served to immediately boost the euro. Since the afternoon of the operation, the euro has traded in a relatively narrow range. The communiqué stemming from the September 23 G-7 meeting, which stated that exchange rates would continue to be monitored and that member nations would cooperate in the exchange market as appropriate, appeared to have little net effect on the exchange value of the euro. On balance, the dollar appreciated 2 percent versus the euro over the intermeeting period.

The August 31 rate hike by the ECB was largely anticipated by market participants, and had little effect on short-term interest rates in the euro area. Share prices in the euro area fell about 4 percent on declines of around 10 percent in the manufacturing and construction sectors.

The dollar appreciated 2 percent against the British pound. For most of the life of the euro, sterling seemed to be more closely linked with the dollar than with the euro. However, over the past two months, sterling's moves against the dollar have been closely linked with movements of the euro.

The dollar depreciated 1 percent versus the yen during the intermeeting period. The yield on ten-year Japanese government bonds rose 10 basis points amid annual wrangling over the size of the supplementary budget and renewed interest by market participants in the Japanese government's aggregate fiscal condition. The yield on the ten-year Japanese government bond, at 1.9 percent, is near the upper end of the narrow 30 basis point range it has been in since March 1999, when the Bank of Japan initiated its zero-interest-rate policy. Since August 11, when the Bank of Japan boosted the near-zero overnight rate to 25 basis points, the yield on the ten-year JGB has risen nearly 20 basis points.

Financial Indicators in Major Industrial Countries

	Three-month rate		Ten-year yield		Equities
Country	Sep. 27 (Percent)	Percentage Point Change	Sep. 27 (Percent)	Percentage Point Change	Percent Change
Canada	5.86	-.04	5.75	-.03	-5.37
Japan	.33	.02	1.88	.10	-2.50
Euro area	4.89	.04	5.28	.03	-3.78
United Kingdom	6.06	-.02	5.33	.02	-4.17
Switzerland	3.28	-.09	4.01	-.03	-3.07
Australia	6.65	.14	6.23	.00	-2.87
United States	6.61	.00	5.87	.08	-2.84
Memo: Weighted-average foreign	4.03	.01	5.01	.02	n.a.

NOTE. Change is from August 21 to September 27.
n.a. Not available.

The U.S. dollar appreciated 7 percent against the Australian dollar, which hit its lowest value against the U.S. dollar since the currency became free floating in 1983. The Australian dollar was hurt by a softening in mineral and agricultural commodity prices, and by renewed attention by market participants on Australia's large current account deficit. The U.S. dollar also appreciated 1 percent against the Canadian dollar.

The exchange value of the dollar increased 1 percent versus the currencies of our other important trading partners, due largely to a 1½ percent appreciation versus the Mexican peso. Although the price of oil hit a new post-Gulf War high, the Mexican peso was hurt by concerns that Mexico's current growth rate may be unsustainable. The dollar also appreciated 1½ against the Brazilian *real*, as the inflation rate in Brazil rose above market expectations during the intermeeting period. Brazilian equity prices fell 5 percent, while Mexican equities gained 2½ percent.

Financial Indicators in Latin America, Asia, and Russia

Economy	Currency/ US dollar		Short-term Interest rates[1]		Dollar-denominated bond spread[2]		Equity prices
	Sep. 27	Percent Change	Sep.26/27 (Percent)	Percentage Point Change	Sep.26/27 (Percent)	Percentage Point Change	Percent Change
Mexico	9.41	1.55	15.24	-.46	3.31	-.36	2.65
Brazil	1.85	1.43	16.45	.25	8.54	-.22	-4.85
Argentina	1.00	.05	8.50	1.00	8.56	-.54	2.70
Chile	566.70	3.36	9.90	2.97	1.77	-.07	-2.54
China	8.28	.00	n.a.	n.a.	1.38	.10	-9.23
Korea	1113.50	-.09	5.90	.00	1.82	-.03	-17.06
Taiwan	31.19	.29	5.07	.20	...	...	-18.66
Singapore	1.74	1.44	2.50	.00	...	...	-11.71
Hong Kong	7.80	-.02	6.36	.29	...	...	-11.76
Malaysia	3.80	.00	2.97	-.01	1.83	.02	-10.00
Thailand	42.16	3.03	3.25	.00	1.11	.17	-8.73
Indonesia	8835.00	7.35	13.52	.20	6.74	-.01	-17.54
Philippines	46.15	2.68	10.94	1.50	4.46	.26	-3.58
Russia	27.76	.11	n.a.	n.a.	8.84	.35	-10.61

NOTE. Change is from August 21 to September 26/27.

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

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

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

Share prices in the emerging market economies in Asia came under pressure, particularly in countries with the highest concentration of chip-making companies, which were hurt by softness in the spot market for memory chips and concomitant worries of overcapacity in the industry. Share prices in Korea, which declined 17 percent, were further weakened after Ford declined to purchase Daewoo Motors, reigniting fears over the Korean governments ability to restructure the *chaebol*. The Philippines peso came under pressure, depreciating 2¾ percent against the dollar. To support the peso, the central bank of the Philippines raised its key overnight rate 100 basis points and the bank also acknowledged that it had intervened in the foreign exchange market. The Thai baht and Indonesian rupiah weakened substantially, declining 3 and 7 percent, respectively, versus the dollar.

. The Desk sales of $1.3 billion for euros were split evenly between the accounts of the System and the Treasury.

Developments in Foreign Industrial Countries

Data released since the August Greenbook confirm that economic activity in the foreign industrial countries was strong in the second quarter, but the limited forward-looking indicators now available suggest some moderation in the pace of growth in the current quarter. Second-quarter data for Japan were positive on balance, but concerns about the durability of the Japanese recovery remain. Growth in the second quarter picked up in the United Kingdom and continued at a strong pace in the euro area, but moderated somewhat in Canada.

The surge in oil prices has left a noticeable imprint on broad measures of inflation in recent months. However, core consumer price data show little evidence of inflationary pressures in most of the foreign industrial countries. Headline consumer price inflation in the euro area, at 2.3 percent in August, remained above the European Central Bank's 2 percent target ceiling, while core inflation edged up to 1.5 percent. Headline Canadian inflation moderated to 2.5 percent, within its target band, while core inflation was only 1.5 percent. U.K. consumer price inflation remains below its target rate, and in Japan twelve-month consumer price inflation remains negative.

In **Japan,** economic activity continued to expand in the second quarter, with real GDP up 4.2 percent (s.a.a.r.) from the previous quarter. The increase was due primarily to a 66 percent (a.r.) increase in public investment and a 4.5 percent (s.a.a.r.) rise in private consumption. Recovery remains fragile, however, as the high level of government investment is not expected to be sustained beyond the current quarter. Although the increase in consumption is a positive sign, this sector has been quite volatile, and the latest household expenditure data showed a decline in July to a level more than 2 percent below the second-quarter average. Shipments of machinery and housing starts were also below their second-quarter averages in July. In contrast, the July level of industrial production was about ¾ percent above the second-quarter average.

The unemployment rate remained at 4.7 percent in July, a little below the peak level of 4.9 percent reached earlier this year; the job-offers-to-applicants ratio continued to rise. Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) continued to slide, down 0.8 percent in August from a year earlier. The wholesale price index for domestic goods was slightly higher than its level of a year earlier, but this increase largely reflects higher energy prices. The GDP deflator in the second quarter was down almost 2 percent from its year-ago level. Residential land prices declined once again. Japan's merchandise trade surplus for the first eight months of 2000 was $113 billion (s.a.a.r.), up from $109 billion in the same period last year. Denominated in dollars, exports were up 20 percent from year-ago levels, largely owing to a continuing surge in exports to the developing Asian economies. Imports were up 26 percent, partly reflecting a jump in the value of oil imports.

Japanese Real GDP
(Percent change from previous period, s.a.a.r.)

Component	1998[1]	1999[1]	1999		2000	
			Q3	Q4	Q1	Q2
GDP	-3.1	-.2	-3.9	-6.4	10.3	4.2
Total domestic demand	-3.1	.3	-5.1	-5.0	6.8	4.3
Consumption	.5	.1	-1.0	-6.3	7.0	4.5
Private investment	-13.2	2.2	-7.4	5.8	22.1	-10.9
Public investment	4.1	-5.5	-32.7	-16.5	-26.8	66.3
Government consumption	1.2	.2	3.5	-.6	3.3	-5.2
Inventories (contribution)	-.8	.2	.1	-.8	.3	.5
Exports	-6.2	7.4	21.6	2.9	25.0	16.7
Imports	-7.5	13.3	11.7	21.4	-0.5	21.0
Net exports (contribution)	.0	-.5	1.4	-1.9	3.5	.0

1. Q4/Q4.

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

Indicator	1999	2000		2000			
	Q4	Q1	Q2	May	June	July	Aug
Industrial production[1]	1.2	.7	1.5	.2	1.8	-.5	n.a.
Housing starts	-5.2	8.6	-2.5	-2.3	4.9	-8.0	n.a.
Machinery orders[2]	8.7	4.9	3.1	4.5	14.4	-11.7	n.a.
Machinery shipments	3.0	2.4	4.6	.7	3.6	-3.2	n.a.
New car registrations	-4.7	9.2	1.0	5.4	3.1	-13.6	n.a.
Unemployment rate[3]	4.6	4.8	4.7	4.6	4.7	4.7	n.a.
Job offers ratio [4]	.49	.52	.57	.56	.59	.60	n.a.
Business sentiment[5]	-26	-23	-18	...	...	...	...
CPI (Core, Tokyo area)[6]	-.3	-.4	-.6	-.4	-.9	-.7	-.8
Wholesale prices[6]	-.7	-.1	.4	.3	.3	.3	.2

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

In the **euro area**, real GDP rose 3.8 percent (s.a.a.r.) in the second quarter. Consumption expenditures increased 4.2 percent, marking the second consecutive quarter of robust consumption growth. Fixed investment spending was unchanged in the second quarter, after increasing 7.9 percent the previous quarter. The arithmetic contribution of net exports trimmed 0.6 percentage points from GDP growth, as strong export growth was more than offset by a surge in imports. Inventory accumulation contributed 2 percentage points to growth. Among the major euro-area countries, growth in Germany picked up markedly, primarily reflecting strength in domestic demand. In France and Italy, however, growth was somewhat disappointing, reflecting weaker-than-expected consumption growth in France and a substantial decline in Italian net exports.

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

Component	1998[1]	1999[1]	1999		2000	
			Q3	Q4	Q1	Q2
Euro-Area GDP	1.9	3.2	4.1	3.7	3.8	3.8
Germany:						
GDP	.9	2.4	3.6	3.0	3.1	4.7
Domestic demand	2.6	2.2	1.4	2.8	1.4	4.6
Net exports (contribution)	-1.6	.3	2.1	.3	1.7	.1
France:						
GDP	2.9	3.4	4.0	4.2	2.6	2.7
Domestic demand	4.1	2.9	1.6	5.7	2.8	1.8
Net exports (contribution)	-1.1	.6	2.4	-1.4	-.1	1.0
Italy:						
GDP	.4	2.2	2.9	2.2	4.3	1.1
Domestic demand	2.8	1.6	-1.6	3.8	1.8	4.7
Net exports (contribution)	-2.3	.6	4.5	-1.5	2.5	-3.5

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

The harmonized unemployment rate for the euro area remained 9.1 percent in July, its lowest rate since July 1992. (In constructing the harmonized unemployment series, Eurostat standardizes national statistics to International Labor Organization definitions.) In France, Germany, and Italy, unemployment rates remain above the euro-area average, although they have declined noticeably over the past year. In several smaller euro-area countries, unemployment rates are at 20-year lows, reaching 4.5 percent in Ireland and almost 2.5 percent in the Netherlands.

Euro-area consumer prices rose 2.3 percent in the twelve months to August, with higher energy prices keeping headline inflation above the European Central Bank's 2 percent target ceiling. Excluding energy prices, the twelve-month inflation rate edged up to 1.5 percent. In September, although the Italian inflation rate remained unchanged, German inflation rose sharply to 2.4 percent.

Limited available indicators suggest that while economic activity remained strong in the third quarter, euro-area growth is no longer rising. After moving up sharply late last year, euro-area economic sentiment has been unchanged since March, although it remains at a high level. Euro-area purchasing managers surveys for August indicate that manufacturing activity eased somewhat from the high levels recorded earlier this year. In Germany, industrial production increased 3.7 percent in July, largely reversing a decline in June, and the volume of German industry orders rose 0.2 percent in July. However, the German Ifo Business Climate index ticked down for the third consecutive month in August.

Euro-Area Current Indicators
(Percent change from previous period except as noted, s.a.)

Indicator	2000			2000			
	Q1	Q2	Q3	June	July	Aug	Sept
Industrial production[1]							
Euro-area	1.1	1.6	n.a.	-.4	n.a.	n.a.	n.a.
Germany	.9	2.5	n.a.	-3.1	3.7	n.a.	n.a.
France	.7	.1	n.a.	-.6	n.a.	n.a.	n.a.
Italy	.6	1.3	n.a.	-.9	-.9	n.a.	n.a.
Unemployment rate[2]							
Euro-area	9.5	9.2	n.a.	9.1	9.1	n.a.	n.a.
Germany	10.1	9.6	n.a.	9.6	9.5	9.5	n.a.
France	10.2	9.8	n.a.	9.6	9.7	n.a.	n.a.
Italy	11.1	10.7	10.5	...	...	...	...
Consumer prices[3]							
Euro-area[4]	2.1	2.1	n.a.	2.4	2.4	2.3	n.a.
Germany	1.8	1.6	2.0	1.9	1.9	1.8	2.4
France	1.5	1.4	n.a.	1.6	1.8	1.8	n.a.
Italy	2.3	2.4	2.4	2.7	2.6	2.3	2.3

1. Indexes exclude construction.
2. Euro-area 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.

Euro-Area Forward-Looking Indicators
(Percent balance, s.a.)

Indicator	1999	2000		2000			
	Q4	Q1	Q2	Apr	May	June	July
Consumer confidence[1]	-1.3	-.3	.0	0	1	-1	0
Construction confidence[2]	-3.3	.0	2.0	2	1	3	2
Industrial confidence[3]	-1.3	2.7	6.0	5	5	8	7
of which:							
Production expectations	13.7	14.7	17.0	15	16	20	19
Total orders	-8.7	-1.7	5.0	3	4	8	5
Stocks	8.3	5.0	3.3	3	4	3	4

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

In the **United Kingdom**, real GDP rose 3.6 percent (s.a.a.r) in the second quarter of 2000, up considerably from its first-quarter pace. Total domestic demand rose 3.7 percent, led by growth in private and government consumption expenditures. The large increase in government spending is a bounceback from the first quarter, as government agencies carried funds into the second quarter. The contribution of net exports to GDP growth was slight.

Despite the rebound from a modest pace of growth in the first quarter, indicators suggest that growth is slowing. Industrial production edged down slightly in July. Business confidence picked up somewhat in August, but remains considerably below levels recorded earlier this year. New orders fell again in August, primarily due to weaker prospects for export orders. Increases in retail sales have been surprisingly low given heavy price discounting of consumer goods. Consumer confidence has also fallen since early this year.

U.K. Real GDP
(Percent change from previous period, s.a.a.r.)

Component	1998[1]	1999[1]	1999		2000	
			Q3	Q4	Q1	Q2
GDP	2.0	2.8	4.1	2.8	2.0	3.6
Total domestic demand	4.1	4.0	4.2	6.9	1.1	3.7
Consumption	3.5	4.9	3.1	6.0	2.7	3.3
Investment	8.0	5.4	2.3	4.7	-4.5	1.0
Government consumption	2.2	2.3	.9	1.2	-2.6	7.7
Inventories (contribution)	.1	-.5	1.6	2.0	.7	.1
Exports	.1	6.2	24.2	-5.4	9.9	10.9
Imports	6.7	9.3	20.8	8.3	5.7	9.7
Net exports (contribution)	-2.2	-1.3	.1	-4.8	1.0	-.1

1. Q4/Q4.

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

Indicator	1999	2000		2000			
	Q4	Q1	Q2	May	June	July	Aug
Real GDP (s.a.a.r.)	2.8	2.0	3.6	...	...	...	...
Industrial production	.1	-.8	1.4	.3	.2	-.1	n.a.
Retail sales	1.3	1.4	.3	.4	.5	.1	.6
Unemployment rate[1]							
Claims-based	4.1	4.0	3.8	3.8	3.8	3.7	3.6
Labor force survey[2]	5.9	5.8	5.5	5.5	5.3	n.a.	n.a.
Business confidence[3]	10.7	12.7	-4.0	-6.0	-7.0	3.0	2.0
Retail prices[4]	2.2	2.1	2.1	2.0	2.2	2.2	1.9
Producer input prices[5]	9.7	12.7	11.4	12.4	14.3	10.6	10.8
Average earnings[5]	5.5	5.7	4.1	4.0	3.9	3.8	n.a.

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

The official claims-based unemployment rate fell to a 25-year low of 3.6 percent in August, and the labor force survey measure of the unemployment rate fell to 5.3 percent for the three months centered in June, a record low. Nonetheless, twelve-month growth in average earnings has moderated in recent months, to 3.8 percent in July. This rate is now below the 4.5 percent rate that the Bank of England has suggested as compatible with its inflation target.

Producer input prices have risen sharply in recent months, in part reflecting higher oil prices. The twelve-month rate of retail price inflation (excluding mortgage interest rates) remains below the 2½ percent target.

Real GDP in **Canada** was stronger than expected in the second quarter, rising 4.7 percent (s.a.a.r) from the first quarter, and only slightly below the growth rate in each of the previous two quarters. Domestic demand rose 4.3 percent, led by surging business investment and stronger than expected personal consumption growth. Export growth, while moderating somewhat from the previous two quarters, still rose a strong 8.5 percent in the second quarter. Notably, industries producing high-technology commodities accounted for close to half of the second quarter growth in real GDP, underscoring the increasing importance of high-technology industries in Canada.

Canadian Real GDP
(Percent change from previous period, s.a.a.r.)

Component	1998[1]	1999[1]	1999		2000	
			Q3	Q4	Q1	Q2
GDP	3.2	4.9	6.5	5.1	5.1	4.7
Total domestic demand	1.0	5.9	4.1	8.1	4.1	4.3
Consumption	2.2	4.4	4.6	3.7	3.4	3.6
Investment	1.6	13.0	4.8	18.2	11.3	10.8
Government consumption	2.2	1.3	2.4	1.6	3.1	.9
Inventories (contribution)	-1.0	.6	-.0	2.0	-.6	-.2
Exports	9.7	9.3	12.9	10.7	17.5	8.5
Imports	4.2	13.3	6.5	22.1	14.7	10.2
Net exports (contribution)	2.1	-1.2	2.6	-3.7	1.3	-.5

1. Q4/Q4.

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

Indicator	1999	2000		2000			
	Q4	Q1	Q2	May	June	July	Aug
GDP at factor cost	1.1	1.1	1.0	.7	.4	n.a.	n.a.
Industrial production	1.1	1.4	1.6	1.5	.4	n.a.	n.a.
New manufacturing orders	1.7	1.0	1.6	2.5	2.4	4.2	n.a.
Retail sales	.4	1.9	1.0	.6	1.1	1.3	n.a.
Employment	.9	.9	.4	.3	-.1	-.1	.2
Unemployment rate[1]	6.9	6.8	6.7	6.6	6.6	6.8	7.1
Consumer prices[2]	2.4	2.7	2.4	2.4	2.9	3.0	2.5
Consumer attitudes[3]	119.9	113.8	117.0	...	...	...	...
Business confidence[4]	164.9	161.9	154.3	...	...	...	...

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.

Economic activity in the current quarter appears to have moderated somewhat, but still retains considerable strength. The merchandise trade surplus narrowed in July, reflecting a 2.9 percent decline in exports from June. In addition, employment in July and August, on average, was essentially unchanged from the second quarter, following rapid employment growth the previous year. As a result of a surge in the labor force participation rate, the unemployment rate moved up in August. Despite these signs of slowing however, both retail sales and new and unfilled orders for manufactured goods grew strongly in July, suggesting economic growth remains robust.

The twelve-month rate of consumer price inflation moderated to 2.5 percent in August from 3.0 percent in July, largely due to lower energy prices. The twelve-month core rate of inflation (which excludes food and energy prices) was only 1.5 percent in August, the same as in July and well within the Bank of Canada's 1 to 3 percent target range. Wage increases have been contained, with average hourly earnings increasing just above 3 percent in the first half of this year.

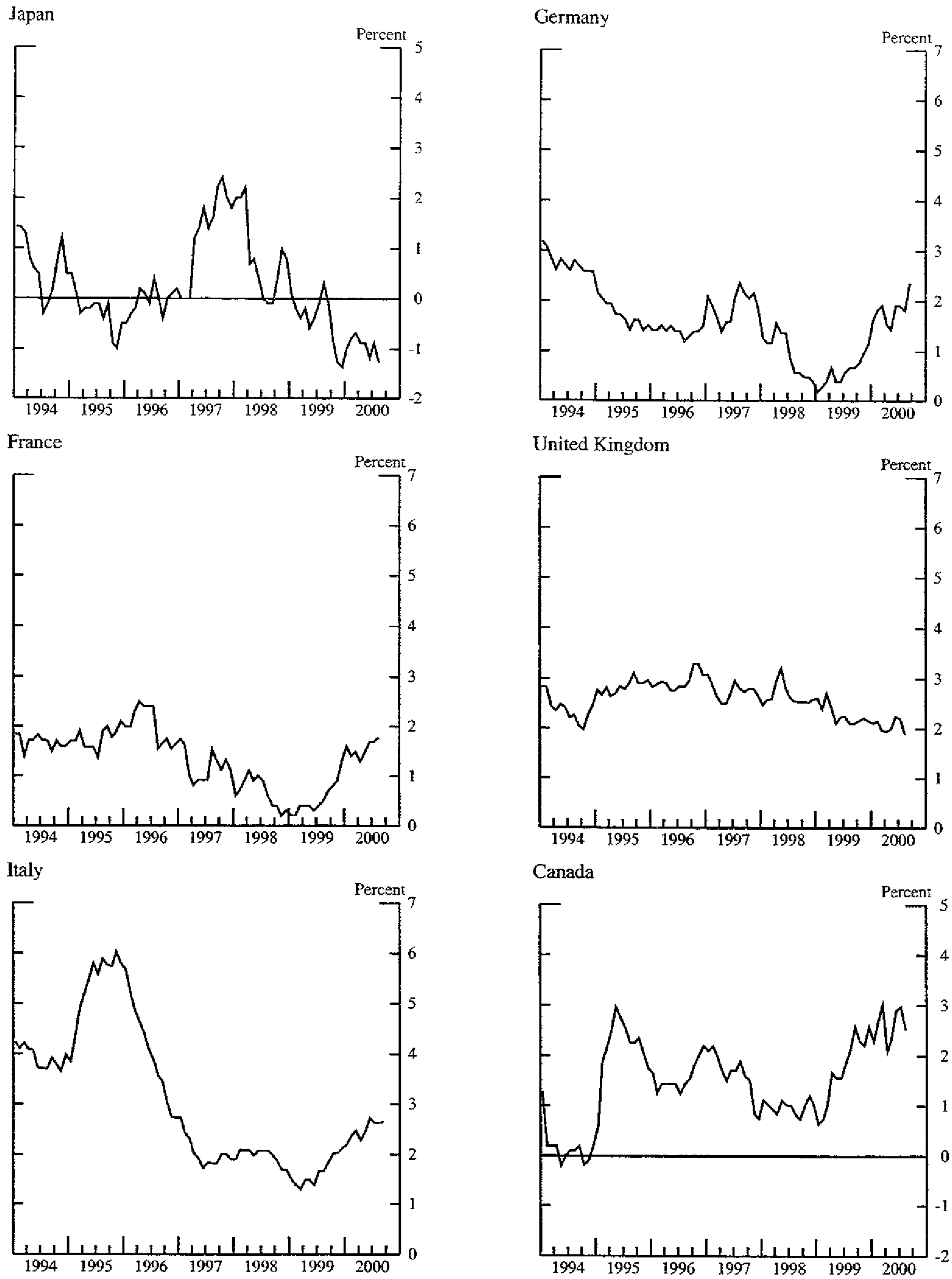
External Balances
(Billions of U.S. dollars, s.a.a.r.)

Country and balance	1999	2000		2000		
	Q4	Q1	Q2	June	July	Aug
Japan						
Trade	98.1	120.1	112.5	125.3	102.8	100.2
Current account	103.5	136.4	130.4	122.6	111.9	n.a.
Euro-Area						
Trade[1]	58.8	-4.7	7.8	17.1	n.a.	n.a.
Current account[1]	14.0	-31.9	-14.7	-1.1	-24.8	n.a.
Germany						
Trade	70.4	62.6	53.5	62.7	55.2	n.a.
Current account	-31.6	-11.5	-28.8	...	...	...
France						
Trade	12.0	9.1	10.1	10.9	-9.2	n.a.
Current account	5.8	4.2	5.3	6.8	n.a.	n.a.
Italy						
Trade	9.5	9.4	-2.6	-3.8	n.a.	n.a.
Current account[1]	-3.8	-7.4	-13.9	-22.0	33.0	n.a.
United Kingdom						
Trade	-47.0	-42.2	-44.3	-40.4	n.a.	n.a.
Current account	-10.1	-25.7	n.a.	...	...	...
Canada						
Trade	23.7	33.4	33.8	41.6	34.0	n.a.
Current account	-.9	13.4	9.7	...	...	...

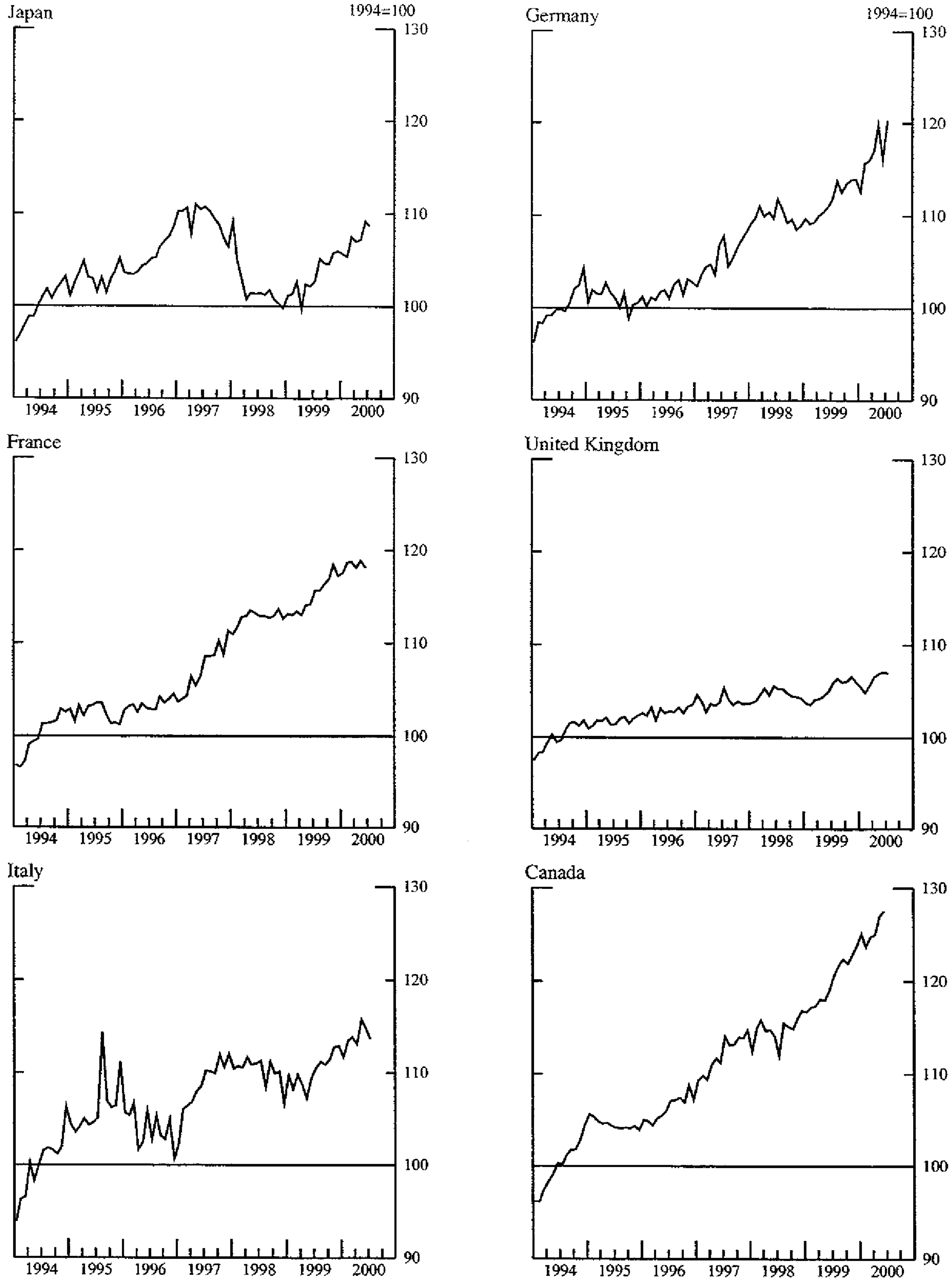
1. Not seasonally adjusted.
n.a. Not available. ... Not applicable.

Consumer Price Inflation in Selected Industrial Countries

(12-month change)



Industrial Production in Selected Industrial Countries



Economic Situation in Other Countries

Economic conditions in most of the major developing countries have continued to be quite favorable. In Latin America, growth has picked up in Brazil and remained robust in Mexico, but weakness in Argentine economic activity has persisted. In developing Asia, activity has generally remained strong, although growth seems to have moderated in several countries from the very rapid rates seen in the first quarter. Political instability provides grounds for continuing concern in several countries in the ASEAN region.

Despite the runup in oil prices and higher levels of resource utilization, there is little evidence of a substantial increase in inflationary pressures in developing countries, with Brazil and Korea being possible exceptions.

Driven by the strength of exports, external balances have improved in most of the major Latin American countries (Brazil being an exception) and have also generally improved or held steady in the ASEAN region. However, external balances have deteriorated somewhat in Greater China due to rising imports.

In **Mexico**, revised data indicate that although real activity remains strong, growth has slowed and appears to be settling at more sustainable rates. Real GDP is now estimated to have risen 5.4 percent in the second quarter (s.a.a.r.) following 12 percent growth in the first quarter. Indicators for the third quarter also generally point to continued strength: exports grew over 5 percent (s.a.) in both July and August, and the average unemployment rate for these two months was 2.3 percent (s.a.), roughly the same as in the second quarter. July industrial production fell on a seasonally-adjusted basis from a strong June figure, but rose about 6 percent from its year-earlier level. Despite the spur to imports from rapid growth of domestic demand, export strength has led to some narrowing of the trade deficit in July and August. Concerned about the potential overheating of the economy, the Bank of Mexico has kept monetary policy tight, and twelve-month inflation held steady in August at single-digit levels, below the government's target of 10 percent for this year.

In late August, the government of Mexico announced that it had made a $3 billion prepayment to the IMF, fully repaying its debt to the Fund. One stated goal of the government in retiring the IMF debt early is to allow the next Mexican presidential administration to determine more freely the nature and scope of its relationship with the Fund.

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Q2	July	Aug.
Real GDP[1]	2.7	5.3	3.1	12.0	5.4	...	...
Industrial production	6.1	3.9	.9	2.5	2.4	-1.2	n.a.
Unemployment rate[2]	3.2	2.5	2.3	2.2	2.2	2.0	2.6
Consumer prices[3]	18.6	12.3	13.7	10.5	9.5	9.1	9.1
Trade balance[4]	-7.9	-5.4	-5.6	-6.8	-10.0	-7.3	-6.4
Imports[4]	125.4	142.1	152.2	160.8	170.9	182.3	189.7
Exports[4]	117.5	136.7	146.6	154.0	160.8	175.1	183.3
Current account[5]	-15.7	-14.0	-17.7	-16.8	-14.6	...	...

1. Annual rate. Annual figures are Q4/Q4.
2. Percent; counts as unemployed those working one hour a week or less.
3. Percent change from year-earlier period, except annual 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 **Brazil**, data releases since the last Greenbook have suggested a pickup in economic activity in the third quarter. Industrial output grew nearly 1 percent (s.a.) in July and automobile production rose considerably in August, fueled by a strong increase in shipments abroad. A pickup in domestic demand contributed to stronger import growth, leading to a widening of the trade deficit in August from its levels earlier this year, although the deterioration also reflected higher oil imports. Monthly consumer price inflation was higher in July and August relative to the first half of 2000, driven in large part by an increase in food prices owing to bad weather, a rise in the domestic price of fuels, and increases in other government-controlled prices. Other price indices have pointed to a fall in inflation so far in September. Analysts expect that the government will refrain from further increases in domestic fuel prices until after the municipal elections in late October.

A rise in "core" inflation in July/August and the potential inflationary effects of the latest oil price increases put a halt to the round of monetary loosening in recent months. The central bank's monetary policy committee held its key overnight interest rate (the Selic) steady at 16-1/2 percent at its August and September meetings, and left the bias at neutral. The government has continued to record fiscal surpluses well in excess of its IMF program targets. In late August, the federal supreme court ruled that the government must compensate worker special savings accounts (a type of government insurance program) for past inflation. This ruling, which had been widely anticipated for several months, is expected to increase the federal government's debt by roughly 4 percent of GDP over the next several years.

In mid-September, the Brazilian government issued a seven-year euro-denominated bond priced at 450 basis points over comparable German Treasuries. This new issue and the government's exchange of Brady bonds for new forty-year bonds in August further the government's objectives of developing yield curves in various foreign currencies to facilitate private sector issues and of lengthening the maturity structure of the Brazilian government's foreign debt.

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Q2	July	Aug.
Real GDP[1]	-2.0	3.8	9.4	5.0	.9	...	...
Industrial production	-2.0	-.7	4.1	1.2	.2	1.0	n.a.
Unemployment rate[2]	7.6	7.6	8.0	7.6	7.2	7.0	7.0
Consumer prices[3]	1.7	8.9	8.4	7.9	6.6	7.0	7.8
Trade balance[4]	-6.6	-1.2	2.6	1.9	-.9	-1.0	-2.0
Current account[5]	-33.8	-25.1	-30.3	-16.2	-28.2	-16.1	-18.9

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 **Argentina**, data suggest that the recovery faltered in the first half of the year. GDP fell 1.2 percent (s.a.a.r.) in the second quarter after a 1.5 percent drop in the first quarter. More recent indicators have been mixed. Consumer prices declined in August, while industrial production jumped, although this follows sharp declines in previous months. Exports grew 14 percent in July from their year-earlier level. In addition, construction activity rebounded in August, hinting at the possibility of a pickup in this industry.

Acknowledging the effect of weaker-than-expected economic growth on tax revenues, the IMF agreed to revise the fiscal targets laid out in its stand-by loan agreement with Argentina. The federal deficit ceilings for 2000 and 2001 are now 1.8 percent of GDP and 1.4 percent of GDP, respectively, up from the previous targets of 1.6 percent of GDP and 0.9 percent of GDP. Concerns over the state of the domestic economy, the fallout from a recent senate bribery scandal, and more general fears of the effect of oil prices on industrial country performance have kept sovereign spreads elevated. Domestic short-term rates, both on peso- and dollar-denominated deposits, have risen about 100 basis points.

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Q2	July	Aug.
Real GDP[1]	-.6	-.3	6.6	-1.5	-1.2	...	...
Industrial production	1.5	-6.9	4.9	1.2	-4.8	-1.8	7.0
Unemployment rate[2]	12.9	13.8	13.8	...	15.4	...	n.a.
Consumer prices[3]	.7	-1.8	-1.7	-1.3	-1.1	-1.0	-.8
Trade balance[4]	-3.1	-.8	-.2	1.8	.8	4.6	n.a.
Current account[5]	-14.3	-12.3	-13.6	-12.9	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 Q2 and Q4 reflect data for May 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.

There are signs of further recovery in **Venezuela**. Real GDP rose 8.7 percent (s.a.a.r.) in the second quarter, boosted by bulging oil revenues and high levels of government spending. Bank loans and deposits have been rising in recent months and in August stood about 23 percent over their very depressed year-earlier levels. Inflation continued its downward trend, with a twelve-month consumer price inflation rate of 15 percent in August. However, uncertainty over the government's economic policies, Chavez's increasing willingness to tap the earnings of the central bank and of the state oil company to fund government spending, and continued capital flight remain sources of concern for investors.

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Q2	July	Aug.
Real GDP[1]	-4.9	-4.5	1.5	4.4	8.7	...	...
Unemployment rate[2]	11.2	15.2	14.5	15.3	n.a.	n.a.	n.a.
Consumer prices[3]	29.9	20.0	20.1	18.2	17.1	15.8	15.0
Non-oil trade balance[4]	-9.4	-7.5	-7.1	-8.7	n.a.	n.a.	n.a.
Trade balance[4]	2.7	9.2	12.9	19.9	n.a.	n.a.	n.a.
Current account[5]	-2.6	5.4	12.0	14.0	n.a.	...	...

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 activity data have been mixed, but on balance suggest a continued moderation of growth from the blistering pace of last year and earlier this year. Real GDP growth moved below 5 percent in the second quarter, as expansion of both consumption and fixed investment slowed and inventory investment made a negative contribution. However, industrial production increased at a healthy rate for the second consecutive month in July, boosted by continued strong exports of computer and telecom-related goods, suggesting that growth in the third quarter is unlikely to weaken further.

At its latest meeting, the Monetary Policy Committee of the Korean central bank decided to leave its overnight rate target unchanged at the 5 percent level maintained since February, surprising many in the market who had been expecting policy firming. Bank of Korea officials had recently expressed concern over rising inflationary pressures, noting the increase in the inflation rate in recent months to near 3 percent (reflecting in part higher oil prices). However, the monetary officials appear to have been influenced by arguments put forward by the Ministry of Finance stressing the need to keep interest rates stable in order to facilitate ongoing restructuring of the banking system. The recent decision by Ford to withdraw its $7 billion bid for troubled Daewoo Motor has refocused market attention on still unresolved corporate restructuring problems.

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Q2	July	Aug.
Real GDP[1]	-4.6	14.0	11.7	7.2	4.6	...	...
Industrial production	-6.5	24.2	7.0	2.3	1.0	3.4	n.a.
Unemployment rate[2]	6.8	6.3	4.8	4.4	3.9	3.7	4.1
Consumer prices[3]	3.9	1.3	1.3	1.5	1.5	2.9	2.7
Trade balance[4]	41.9	28.4	23.6	16.2	13.6	13.4	n.a.
Current account[5]	40.6	24.5	22.7	6.7	10.9	9.7	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 economic recovery continued in the **ASEAN** region. Both Singapore and Indonesia recorded double-digit second-quarter growth rates (s.a.a.r.), and second-quarter growth in Thailand and the Philippines exceeded market expectations. Strong exports have been the driving force behind the recovery, although domestic demand has also posted gains in Malaysia, the Philippines, and Singapore. Despite the pace of economic activity, price pressures in the ASEAN countries remained generally well-contained, although inflation rates have moved up a bit in some cases. However, industrial production has stagnated recently in some of the countries in the region.

Many parts of the ASEAN region are suffering from political problems. Having recently survived the threat of removal from office, Indonesian President Wahid experienced fresh setbacks after being named as the subject of two investigations into recent scandals and after the murder of UN workers who were aiding refugees from East Timor. In addition, his newly appointed cabinet has not been viewed favorably by financial markets. In the Philippines, President Estrada's image has suffered as a result of the hostage crisis in Jolo and unrest in the province of Mindanao. In Thailand, it appears increasingly likely that Prime Minister Leekpai will be voted out of office in scheduled parliamentary elections this fall, increasing uncertainty over that country's prospects.

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

Indicator and country	1998	1999	1999	2000			
			Q4	Q1	Q2	July	Aug.
Real GDP[1]							
Indonesia	-17.5	5.1	.7	15.1	10.7	...	...
Malaysia	-11.1	11.0	9.8	19.8	4.1	...	...
Philippines	-2.0	5.0	3.2	1.2	8.5	...	...
Singapore	-1.2	7.0	4.7	15.3	11.1	...	...
Thailand	-7.2	6.8	4.7	5.8	2.9	...	...
Industrial production							
Indonesia	-13.3	24.5	3.9	n.a.	n.a.	...	...
Malaysia	-7.2	9.1	3.5	7.0	4.2	-2.8	n.a.
Philippines	-11.6	3.5	-.6	3.8	4.0	5.2	n.a.
Singapore	-.3	13.9	1.5	3.7	5.4	-2.4	9.5
Thailand	-10.0	12.5	3.0	-4.1	-.6	-1.2	n.a.

1. Annual rate. Annual figures are Q4/Q4.
n.a. Not available. ... Not applicable.

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

Country	1998	1999	1999	2000			
			Q4	Q1	Q2	June	July
Indonesia	21.5	24.7	29.0	32.7	31.4	32.3	34.0
Malaysia	15.0	18.9	20.2	18.7	14.0	15.0	16.0
Philippines	-.2	4.3	6.7	3.4	7.0	10.9	5.9
Singapore	8.3	3.6	5.6	5.9	-1.6	-7.3	7.0
Thailand	12.2	9.3	6.3	6.5	7.1	4.8	7.3

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

Country	1998[1]	1999[1]	1999	2000			
			Q4	Q1	Q2	July	Aug.
Indonesia	77.5	2.0	1.7	-.5	1.2	4.6	6.1
Malaysia	5.3	2.5	2.1	1.5	1.4	1.4	1.5
Philippines	10.3	4.2	4.5	3.0	3.9	4.3	4.6
Singapore	-1.5	.9	.8	1.1	.8	1.1	1.7
Thailand	4.3	.7	.1	.8	1.6	1.9	2.2

1. December/December.

Incoming data point to ongoing robust expansion of economic activity in **China**. Growth in industrial output picked up further in July and August, supported by an increase in exports and stronger domestic demand. Retail sales figures suggest that consumer demand continued to recover. Public sector investment rose 13 percent in August from the same month a year earlier, significantly faster than the rates registered earlier in the year. Despite the pickup in activity, inflation remained very low. The trade balance swung into deficit (s.a.) in August, as the combination of higher oil prices and strengthening domestic demand drove imports sharply higher.

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Q2	July	Aug.
Real GDP[1]	9.5	6.2	10.6	9.6	1.9	...	...
Industrial production[2]	9.2	8.0	7.3	10.8	11.7	12.8	12.8
Consumer prices[2]	-1.0	-1.0	-.8	.1	.1	.5	.3
Trade balance[3]	43.5	29.2	43.7	13.8	30.3	21.2	-1.4

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

In August, the government announced a supplementary issue of $6 billion (about 0.6 percent of GDP) in special treasury bonds, which were sold to domestic banks to finance increased infrastructure spending in the underdeveloped western regions. The government also announced plans to lower telecommunication costs and reduce internal trade barriers as part of a policy package to boost private consumption further. Multilateral negotiations on China's accession to the World Trade Organization (WTO) were reportedly in their final stage, with most analysts now expecting China to join the WTO before the end of the year. In September, the U.S. Senate voted in favor of permanent normalized trade relations (PNTR) with China.

In **Hong Kong**, real GDP fell 3.2 percent (s.a.a.r.) in the second quarter. The weak performance was widely expected, given the extraordinarily strong growth rate in the first quarter, and to some extent reflected incomplete adjustment for the difference in the number of working days in the two quarters. However, fundamental factors also played a role, with negative wealth effects associated with recent declines in Hong Kong's stock market helping to depress private consumption. Despite the weak data, the government raised its annual average GDP growth forecast for this year to 8.5 percent from 6 percent. More recent indicators suggest a return to positive growth, with exports up slightly (s.a.) in the July-August period, relative to the second quarter. In addition, the unemployment rate remained at 4.9 percent (s.a.) over the June-August period, despite rapid labor force growth. The twelve-month rate of decline in consumer prices moderated in July and August, partly reflecting higher oil prices.

Hong Kong Economic Indicators

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Q2	July	Aug.
Real GDP[1]	-5.8	9.3	16.1	22.9	-3.2	...	...
Unemployment rate[2]	4.4	6.1	6.0	5.6	5.0	4.9	4.9
Consumer prices[3]	-1.6	-4.0	-4.1	-5.1	-4.5	-3.2	-2.7
Trade balance[4]	-10.6	-5.6	-8.2	-7.7	-8.9	-13.1	-14.0

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**, industrial production rebounded strongly in August, following a sharp drop in July. For the July-August period, production rose about 3/4 percent (s.a.) from the second quarter. Inflation in August fell to its lowest rate this year, despite price hikes in some agricultural products due to two large typhoons that hit the island that month. Monthly trade surpluses have narrowed sharply since the second quarter, as robust private and public sector investment has fueled an increase in imports. Taiwan registered a current account surplus of $5.7 billion (a.r.) in the second quarter, down from $8.5 billion in the same period a year earlier. Stock prices in Taiwan have fallen sharply over recent weeks as investors remained skittish in the face of continuing revelations of banking and corporate scandals being brought to light by the new government's anti-corruption campaign.

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

Indicator	1998	1999	1999	2000			
			Q4	Q1	Q2	July	Aug.
Real GDP[1]	3.3	6.4	10.6	11.8	2.8	...	...
Unemployment rate[2]	2.7	2.9	2.9	2.9	2.9	2.9	2.8
Industrial production	2.6	7.7	4.3	3.1	1.7	-3.7	2.9
Consumer prices[3]	2.1	.1	-.1	.9	1.4	1.4	.3
Trade balance[4]	5.9	10.9	8.6	8.8	6.0	1.2	1.5
Current account[5]	3.4	8.4	8.3	4.5	5.7	...	...

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.
... Not applicable.