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June 22, 2001

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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## **Supplemental Notes**

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## Supplemental Notes

### The International Economy

#### U.S. International Transactions

##### *Trade in Goods and Services*

The U.S. trade deficit in goods and services was \$32.2 billion in April, compared with a deficit of \$33.1 billion in March (revised). The value of exports declined 2 percent, with most of the decrease in capital goods, especially computers and semiconductors. The value of imports dropped 2-1/4 percent. Large declines in imported capital goods and consumer goods were partly offset by increases in oil (higher quantity) and automotive products.

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

	2000	Annual rate			Monthly rate		
		2000		2001	2001		
		Q3	Q4	Q1	Feb.	Mar.	Apr.
<i>Real NIPA<sup>1</sup></i>							
Net exports of G&S	-412.4	-427.7	-441.7	-411.9	...	...	...
<i>Nominal BOP</i>							
Net exports of G&S	-375.7	-389.4	-401.2	-380.1	-28.6	-33.1	-32.2
Goods, net	-452.2	-458.4	-474.1	-450.1	-34.6	-38.8	-37.8
Services, net	76.5	69.1	72.9	70.0	6.0	5.7	5.7

1. Billions of chained (1996) dollars.

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

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

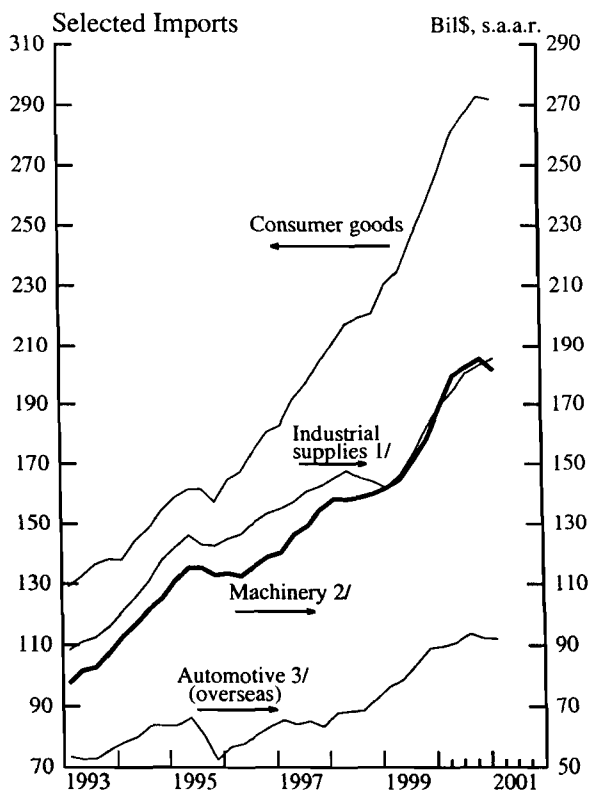
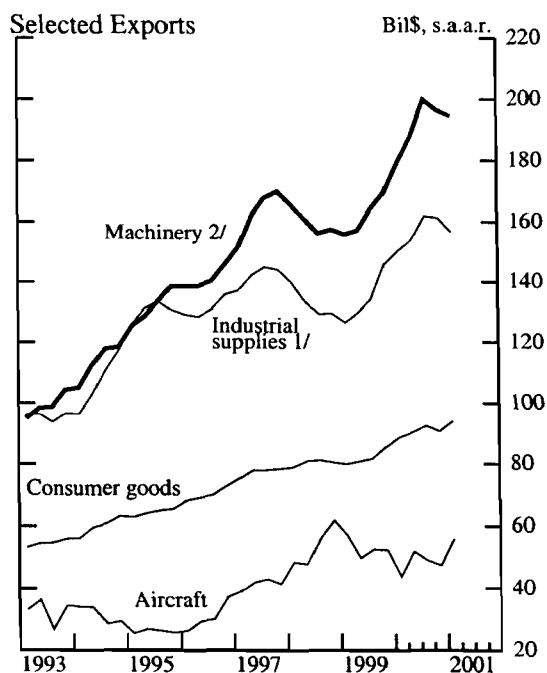
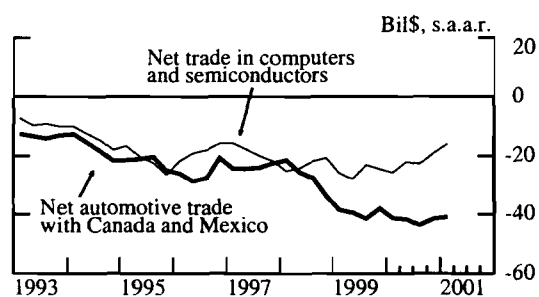
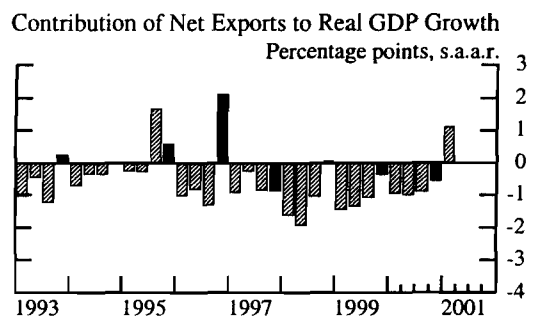
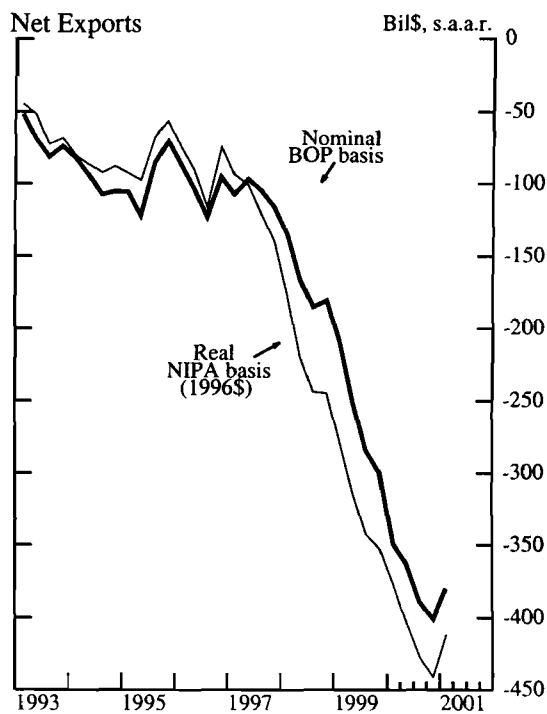
As part of the annual revisions of the U.S. international transactions accounts, data for trade in the first quarter of 2001 were revised significantly. The value of imports was raised \$14 billion and the value of exports was lowered \$1 billion, both at a seasonally adjusted annual rate. Thus, the trade deficit for the first quarter was \$15 billion (s.a.a.r.) larger than previously published. Data were revised back to 1989.

Based on this week's revised trade figures, NIPA real net exports of goods and services in the first quarter of 2001 could be weakened \$11 to \$12 billion (s.a.a.r.) from what was published previously by BEA, with the growth of real exports raised about \$5 billion and the growth of real imports raised about \$16 billion. Revised NIPA data for the first quarter will be released on June 29.

#### *U.S. Current Account through 2001:Q1*

The U.S. current account deficit fell to \$438 billion at a seasonally adjusted annual rate in the first quarter of 2001, a decrease of \$27 billion from the fourth

## U.S. International Trade in Goods and Services



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

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

**U.S. Exports and Imports of Goods and Services**  
(Billions of dollars, s.a.a.r., BOP basis)

	Levels				Amount Change <sup>1</sup>			
	2000	2001	2001		2000	2001	2001	
	Q4	Q1	Mar.	Apr.	Q4	Q1	Mar.	Apr.
<b>Exports of G&amp;S</b>	<b>1080.5</b>	<b>1077.2</b>	<b>1064.6</b>	<b>1043.0</b>	<b>-9.5</b>	<b>-3.3</b>	<b>-21.1</b>	<b>-21.6</b>
Goods exports	784.9	779.8	766.6	745.5	-12.1	-5.2	-22.4	-21.1
Gold	6.5	6.7	7.6	7.8	2.3	0.2	0.8	0.3
Other goods	778.4	773.1	759.1	737.7	-14.4	-5.4	-23.2	-21.4
Aircraft & parts	47.4	56.1	58.0	52.8	-1.7	8.6	-4.0	-5.2
Computers	57.2	56.0	54.2	50.0	-1.4	-1.2	-1.7	-4.2
Semiconductors	62.2	58.0	53.0	48.6	-2.6	-4.2	-4.8	-4.4
Other capital gds	199.0	197.3	187.1	183.3	-3.0	-1.7	-12.3	-3.8
Automotive	77.2	71.8	73.1	73.5	-3.4	-5.5	2.6	0.4
to Canada	42.1	37.5	39.5	41.3	-3.0	-4.5	2.6	1.8
to Mexico	17.2	16.2	17.6	14.9	1.4	-1.0	1.2	-2.8
to ROW	18.0	18.0	16.1	17.3	-1.7	0.0	-1.2	1.3
Agricultural	52.7	54.4	55.4	55.0	-2.6	1.7	-0.1	-0.3
Ind supplies (ex. ag)	161.2	156.7	156.2	149.6	-0.6	-4.6	-0.8	-6.5
Consumer goods	90.7	94.0	94.3	95.0	-1.7	3.3	-0.0	0.7
All other goods	30.7	28.9	27.8	29.9	2.6	-1.8	-3.5	2.0
Services exports	295.6	297.4	298.0	297.5	2.7	1.8	1.3	-0.5
<b>Imports of G&amp;S</b>	<b>1481.7</b>	<b>1457.3</b>	<b>1461.5</b>	<b>1429.1</b>	<b>2.4</b>	<b>-24.4</b>	<b>32.5</b>	<b>-32.4</b>
Goods imports	1259.0	1229.9	1232.0	1199.5	3.5	-29.2	27.6	-32.5
Petroleum	127.5	117.2	110.1	116.0	0.3	-10.3	-4.6	5.9
Gold	6.7	6.1	6.2	5.6	2.5	-0.6	0.2	-0.5
Other goods	1124.8	1106.5	1115.7	1077.9	0.7	-18.3	32.0	-37.8
Aircraft & parts	30.6	31.0	36.9	31.2	3.9	0.4	8.5	-5.7
Computers	89.6	85.7	86.5	79.6	-4.0	-3.9	1.9	-7.0
Semiconductors	49.0	44.3	40.1	33.3	-3.7	-4.7	-5.5	-6.8
Other capital gds	188.1	184.6	181.5	167.8	2.4	-3.5	-1.7	-13.7
Automotive	193.0	186.9	185.5	193.2	-5.4	-6.1	-1.2	7.7
from Canada	60.4	56.1	56.0	60.8	-3.2	-4.3	0.6	4.7
from Mexico	40.3	38.7	43.9	38.7	-0.6	-1.7	8.1	-5.2
from ROW	92.3	92.2	85.6	93.7	-1.5	-0.1	-9.9	8.1
Ind supplies	183.2	185.4	186.2	182.6	2.6	2.2	5.6	-3.6
Consumer goods	292.6	291.7	305.3	291.0	6.4	-0.9	27.6	-14.3
Foods, feeds, bev.	46.3	45.9	44.7	45.0	-0.5	-0.5	-1.1	0.3
All other goods	52.3	50.9	49.1	54.3	-1.1	-1.4	-2.0	5.2
Services imports	222.7	227.4	229.5	229.6	-1.1	4.7	4.8	0.1
<i>Memo:</i>								
Oil quantity (mb/d)	12.00	12.80	12.48	13.43	-0.13	0.80	0.22	0.95
Oil import price (\$/bbl)	29.13	25.08	24.15	23.64	0.38	-4.05	-1.45	-0.51

1. Change from previous quarter or month.

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

quarter of 2000 (revised). The decrease in the current account deficit was more than accounted for by large decreases in the deficits on goods and services trade and on unilateral transfers. The trade deficit declined as the U.S. economic slowdown reduced imports more than the foreign economic slowdown reduced exports. Unilateral transfers had been elevated in 2000:Q4 by the annual grant to Israel. Partially offsetting these decreases was a significant increase in the deficit on investment income.

For portfolio investment income, payments declined \$14 billion (at an annual rate) while receipts declined \$19 billion, as falling dividends and interest rates reduced the returns on financial assets. For direct investment income, payments increased \$5 billion in a partial rebound from their depressed fourth-quarter levels. Direct investment receipts decreased \$5 billion, as profits at foreign affiliates of U.S. manufacturing and petroleum companies fell back from their unusually strong fourth-quarter levels.

Historical current account data were revised back to 1989. By far the biggest changes were to 1999 and 2000. The current account deficit for 1999 was revised down \$7 billion to \$324 billion. This revision was more than accounted for by upward revisions to direct and portfolio investment receipts of \$5 billion each. The current account deficit for 2000 was revised up \$9 billion to \$445 billion, primarily due to higher portfolio investment payments.

<b>U.S. Current Account</b>				
(Billions of dollars, seasonally adjusted annual rate)				
Period	Goods and services, net	Investment income, net	Other income and transfers, net	Current account balance
<i>Annual</i>				
1999	-261.8	-8.5	-54.0	-324.4
2000	-375.7	-9.6	-59.3	-444.7
<i>Quarterly</i>				
2000:Q2	-363.1	-14.4	-55.0	-432.5
Q3	-389.4	-14.5	-57.4	-461.2
Q4	-401.2	7.9	-72.0	-465.3
2001:Q1	-380.1	-6.9	-51.3	-438.2
<i>Change</i>				
Q2-Q1	-13.8	3.2	-2.2	-12.9
Q3-Q2	-26.2	-0.1	-2.3	-28.7
Q4-Q3	-11.8	22.4	-14.6	-4.1
Q1-Q4	21.1	-14.8	20.7	27.0

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

***U.S. International Financial Transactions***

In addition to several quarterly and annual revisions addressed below, the June 21 release of balance of payments capital flows included preliminary data for direct investment inflows and outflows in 2001:Q1 (lines 6 and 7 of the revised Summary of International Transactions table). At almost \$42 billion, foreign direct investment in the United States (line 7) was close to the staff's forecast; this figure is considerably lower than those for recent quarters, but is consistent with the low foreign takeover activity in the first quarter. The flow of U.S. direct investment abroad in the first quarter (line 6) was quite comparable to recent quarterly flows.

In the release, BEA made several adjustments to official and private portfolio flows to account for misleading or incomplete coverage in the TIC system. The most prominent adjustment was the removal of a distortion arising from China's decision to shift some of its securities from European to U.S. custodians. In the attached table, we now report foreign official inflows of \$4.7 billion in the first quarter (line 1), compared with the almost \$20 billion reported in the table included in the Greenbook Part II. The smaller figure more accurately reflects the flows that occurred in the quarter. Offsetting adjustments were made to private foreign purchases of Treasuries (line 4a) and bank custody liabilities (included in line 3). In addition, BEA has begun to include adjustments to foreign acquisitions of U.S. equity (line 4d) to reflect the stock that is swapped when U.S. firms take over foreign firms. These adjustments raised foreign acquisition of U.S. equity by \$14 billion in 1999 and \$20 billion in 2000. A similar adjustment for U.S. acquisition of foreign stock acquired through swaps (line 5c) has been included in the accounts for some time.

BEA also changed its methodology for estimating some banking flows, which resulted in significantly smaller reported outflows in 2000 (line 9). These smaller banking outflows, together with the newly included stock swaps, raised recorded net financial inflows in 2000 and reduced the statistical discrepancy for the year from \$36 billion to near zero (last line).



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

	1999	2000	2000			2001		Apr.
			Q2	Q3	Q4	Q1	Mar.	
<b>Official financial flows</b>	<b>55.0</b>	<b>39.3</b>	<b>9.4</b>	<b>12.2</b>	<b>-4.7</b>	<b>4.7</b>	<b>0.8</b>	<b>-9.8</b>
1. Change in foreign official assets in the U.S. (increase, +)	46.4	39.6	7.4	12.5	-3.3	4.5	-2.0	-9.8
a. G-10 countries	49.7	12.3	6.0	-4.2	-.8	-5.5	-3.3	-6.0
b. OPEC countries	2.0	10.7	1.2	3.4	.6	.8	-1.6	-0.2
c. All other countries	-5.3	16.6	.3	13.3	-3.1	9.2	2.9	-3.6
2. Change in U.S. official reserve assets (decrease, +)	8.6	-.3	2.0	-.3	-1.4	.2	-.1	.0
<b>Private financial flows</b>	<b>321.7</b>	<b>404.0</b>	<b>147.0</b>	<b>102.2</b>	<b>118.5</b>	<b>75.9</b>	<b>...</b>	<b>...</b>
<b>Banks</b>								
3. Change in net foreign positions of banking offices in the U.S. <sup>1</sup>	-12.4	-1.7	44.5	-27.0	10.5	-101.6	-99.6	34.4
<b>Securities<sup>2</sup></b>								
4. Foreign net purchases of U.S. securities (+)	333.2	434.1	74.3	116.3	115.8	149.3	50.2	33.1
a. Treasury securities	-19.9	-52.3	-20.4	-12.4	-10.3	0.1	-2.3	-5.7
b. Agency bonds	71.9	111.9	19.0	28.6	38.3	38.7	18.3	9.8
c. Corporate and municipal bonds	158.8	180.4	41.6	45.7	49.1	68.8	26.3	21.9
d. Corporate stocks <sup>3</sup>	122.4	194.0	34.1	54.4	38.8	41.7	8.0	7.1
5. U.S. net acquisitions (-) of foreign securities	-112.9	-97.2	-32.0	-20.8	-15.5	-23.4	-16.0	-2.1
a. Bonds	-5.7	-3.9	10.8	-9.0	3.8	-.8	-1.5	5.2
b. Stock purchases	15.6	-9.3	5.2	-4.1	5.4	-20.0	-14.5	-7.3
c. Stock swaps <sup>3</sup>	-122.9	-84.0	-48.0	-7.7	-24.7	-2.6	-.0	-.0
<b>Other flows (quarterly data, s.a.)</b>								
6. U.S. direct investment (-) abroad	-155.4	-152.4	-33.3	-41.6	-39.1	-33.0	...	...
7. Foreign direct investment in U.S.	301.0	287.7	90.4	76.0	84.7	41.6	...	...
8. Foreign holdings of U.S. currency	22.4	1.1	1.0	.8	6.2	2.3	...	...
9. Other (inflow, +) <sup>4</sup>	-40.0	-47.4	9.2	4.4	-41.7	40.6	...	...
<b>U.S. current account balance (s.a.)</b>	<b>-324.4</b>	<b>-444.7</b>	<b>-108.1</b>	<b>-115.3</b>	<b>-116.3</b>	<b>-109.6</b>	<b>...</b>	<b>...</b>
<b>Capital account balance (s.a.)<sup>5</sup></b>	<b>-3.5</b>	<b>.7</b>	<b>.2</b>	<b>.2</b>	<b>.2</b>	<b>.2</b>	<b>...</b>	<b>...</b>
<b>Statistical discrepancy (s.a.)</b>	<b>-48.8</b>	<b>.7</b>	<b>-48.5</b>	<b>.7</b>	<b>2.4</b>	<b>28.8</b>	<b>...</b>	<b>...</b>

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. Includes (4d) or represents (5c) stocks acquired through mergers.

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.

III-T-1  
**Selected Financial Market Quotations**  
(One-day quotes in percent except as noted)

Instrument	2000		2001			Change to June 21 from selected dates (percentage points)		
	June 26	Mar. 19	May 14	June 21	2000 June 26	2001 Mar. 19	2001 May 14	
<i>Short-term</i>								
FOMC intended federal funds rate	6.50	5.50	4.50	4.00	-2.50	-1.50	-.50	
<i>Treasury bills</i> <sup>1</sup>								
3-month	5.66	4.42	3.63	3.43	-2.23	-.99	-.20	
6-month	5.94	4.25	3.64	3.37	-2.57	-.88	-.27	
1-year	5.82	4.07	3.62	3.27	-2.55	-.80	-.35	
<i>Commercial paper</i>								
1-month	6.56	4.85	4.02	3.71	-2.85	-1.14	-.31	
3-month	6.56	4.71	3.94	3.63	-2.93	-1.08	-.31	
<i>Large negotiable CDs</i> <sup>1</sup>								
1-month	6.64	4.93	4.10	3.74	-2.90	-1.19	-.36	
3-month	6.73	4.79	4.05	3.63	-3.10	-1.16	-.42	
6-month	6.89	4.64	4.06	3.63	-3.26	-1.01	-.43	
<i>Eurodollar deposits</i> <sup>2</sup>								
1-month	6.63	4.90	4.06	3.71	-2.92	-1.19	-.35	
3-month	6.69	4.79	4.06	3.65	-3.04	-1.14	-.41	
Bank prime rate	9.50	8.50	7.50	7.00	-2.50	-1.50	-.50	
<i>Intermediate- and long-term</i>								
<i>U.S. Treasury (constant maturity)</i>								
2-year	6.50	4.32	4.29	3.99	-2.51	-.33	-.30	
10-year	6.11	4.82	5.46	5.22	-.89	.40	-.24	
30-year	5.99	5.30	5.85	5.64	-.35	.34	-.21	
U.S. Treasury 10-year indexed note	4.08	3.29	3.23	3.26	-.82	-.03	.03	
Municipal revenue (Bond Buyer) <sup>3</sup>	5.99	5.40	5.56	5.52	-.47	.12	-.04	
<i>Private instruments</i>								
10-year swap	7.38	5.76	6.24	6.02	-1.36	.26	-.22	
10-year FNMA	7.15	5.67	6.14	5.95	-1.20	.28	-.19	
Merrill Lynch BBB	8.49	7.31	7.43	7.12	-1.37	-.19	-.31	
High yield <sup>4</sup>	11.97	12.03	12.03	13.11	1.14	1.08	1.08	
<i>Home mortgages (FHLMC survey rate)</i> <sup>5</sup>								
30-year fixed	8.14	6.96	7.10	7.14	-1.00	.18	.04	
1-year adjustable	7.22	6.32	5.90	5.82	-1.40	-.50	-.08	

Stock exchange index	Record high		2001			Change to June 21 from selected dates (percent)		
	Level	Date	Mar. 19	May 14	June 21	Record high	2001 Mar. 19	2001 May 14
Dow-Jones Industrial	11,723	1-14-00	9,959	10,877	10,715	-8.59	7.59	-1.49
S&P 500 Composite	1,527	3-24-00	1,171	1,249	1,237	-19.01	5.66	-.95
Nasdaq (OTC)	5,049	3-10-00	1,951	2,082	2,059	-59.22	5.51	-1.11
Russell 2000	606	3-9-00	451	487	498	-17.87	10.32	2.30
Wilshire 5000	14,752	3-24-00	10,754	11,506	11,424	-22.56	6.22	-.71

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.

NOTES:

June 26, 2000, is the day before the FOMC meeting that ended the most recent period of policy tightening.  
March 19, 2001, is the day before the March FOMC meeting.  
May 14, 2001 is the day before the most recent FOMC meeting.