

## **Prefatory Note**

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## **Part 2**

April 28, 2004

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

April 28, 2004

## **Recent Developments**

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## **Domestic Nonfinancial Developments**

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## Domestic Nonfinancial Developments

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### Overview

The economy appears to have expanded robustly again in the first quarter. Available data are consistent with another quarter of solid growth in consumer spending, and activity in the housing sector has remained high. Outlays for equipment and software have continued to increase at a vigorous pace even as spending on nonresidential structures have continued to fall. Output in the industrial sector expanded solidly in the first quarter. In the labor market, the overall employment picture brightened somewhat in March. Core consumer prices rose 0.4 percent in March; the twelve-month change in the core CPI was 1.6 percent, about the same rate of change as a year earlier.

### Labor Market Developments

The labor market has shown additional signs of recovery since the last Greenbook. Private payroll employment climbed 277,000 in March, with gains spread widely across industries. Construction employment rose smartly, retail trade employment increased beyond the effect of the end of the supermarket strikes in California, and employment in both business and nonbusiness services expanded briskly. For the first quarter as a whole, the average monthly gain in private payrolls was 161,000, well above the fourth-quarter average of 58,000. However, the average workweek of production or nonsupervisory workers slipped 0.1 hour in March to 33.7 hours, the level that has persisted on average since early 2003. Thus, despite the pickup in payroll employment, aggregate hours increased at an annual rate of just 1-1/2 percent in the first quarter, slightly below the 2 percent pace in the fourth quarter.

The unemployment rate was 5.7 percent in March, more than 1/2 percentage point below its peak in June 2003. However, the decline in the unemployment rate since last summer likely overstates the reduction in labor market slack because the labor force participation rate has also fallen to the unexpectedly low level of 65.9 percent. The employment-population ratio combines movements in the unemployment rate and the labor force participation rate; at 62.1 percent, this ratio remains below its level for most of 2003. In addition, the fraction of persons working part-time for economic reasons in March was close to the recent high from the middle of last year.

The sluggishness of the labor market's recovery through the beginning of this year appears to have been attributable to anemic hiring rather than to continued high rates of separations. Although initial claims for unemployment insurance changed little in the past two months, they had fallen substantially since the spring of last year, suggesting that discharges had declined. This assessment is supported by data from the Job Openings and Labor Turnover Survey (JOLTS), which show that the rate of separations moved down considerably between late

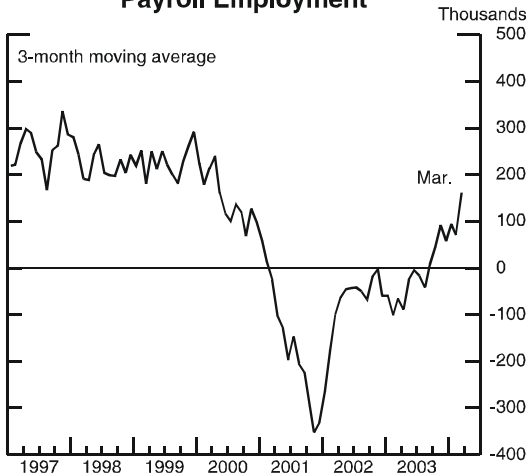
**Changes in Employment**

(Thousands of employees; seasonally adjusted)

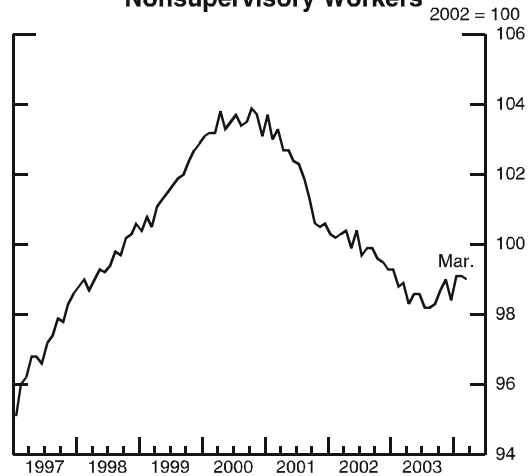
Measure and sector	2003		2004			
	H1	Q4	Q1	Jan.	Feb.	Mar.
	Average monthly change			Monthly change		
Nonfarm payroll employment (establishment survey)	-40	60	171	159	46	308
Private	-35	58	161	176	31	277
Previous	-35	58	...	103	0	...
Manufacturing	-64	-17	-5	-10	-4	0
Construction	4	7	29	38	-21	71
Wholesale trade	-4	4	8	13	-1	11
Retail trade	-4	-17	44	69	16	47
Transportation and utilities	-8	-1	11	20	-2	15
Information	-16	0	-3	-12	5	-1
Financial activities	14	-8	5	0	8	6
Professional and business services	14	36	23	13	13	42
Temporary help services	10	23	5	-11	29	-2
Nonbusiness services <sup>1</sup>	31	53	47	46	16	79
Total government	-5	2	10	-17	15	31
Total employment (household survey)	202	278	-60	87	-265	-3
Memo:						
Aggregate hours of private production workers (percent change) <sup>2</sup>	-1.9	1.9	1.5	0.7	0.0	-0.1
Average workweek (hours) <sup>3</sup>	33.7	33.7	33.8	33.8	33.8	33.7
Manufacturing (hours)	40.3	40.6	41.0	41.0	41.0	40.9

1. Nonbusiness services comprises education and health, leisure and hospitality, and "other."
  2. Establishment survey. Semiannual data are percent changes from Q4 to Q2. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.
  3. Establishment survey.
- ... Not applicable.

**Changes in Private Payroll Employment**

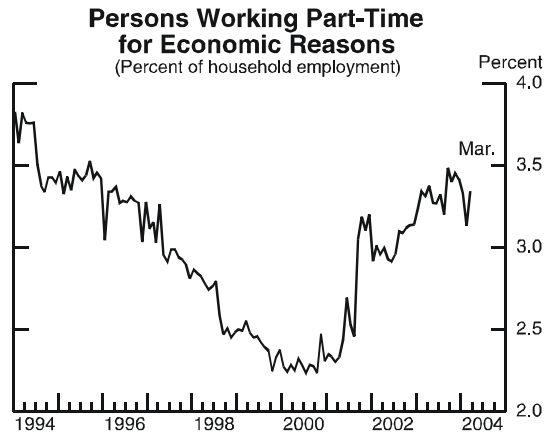
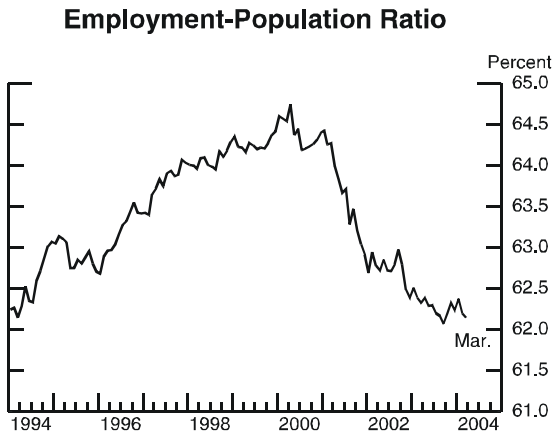


**Aggregate Hours of Production or Nonsupervisory Workers**



**Selected Unemployment and Labor Force Participation Rates**  
(Percent; seasonally adjusted)

Rate and group	2002	2003	2003	2004			
			Q4	Q1	Jan.	Feb.	Mar.
<i>Civilian unemployment rate</i>							
16 years and older	5.8	6.0	5.9	5.6	5.6	5.6	5.7
Teenagers	16.5	17.4	16.3	16.6	16.7	16.6	16.5
20-24 years old	9.7	10.0	10.0	9.6	9.8	9.5	9.6
Men, 25 years and older	4.7	5.1	4.9	4.5	4.5	4.5	4.6
Women, 25 years and older	4.6	4.6	4.6	4.5	4.6	4.4	4.6
<i>Labor force participation rate</i>							
Total	66.6	66.2	66.1	66.0	66.1	65.9	65.9
Teenagers	47.4	44.5	43.6	43.6	44.4	43.6	42.9
20-24 years old	76.4	75.4	74.9	74.7	75.0	74.5	74.6
Men, 25 years and older	75.9	75.5	75.6	75.4	75.6	75.3	75.3
Women, 25 years and older	59.4	59.6	59.4	59.2	59.1	59.2	59.2



2001 and February of this year.<sup>1</sup> Meanwhile, both the hiring rate and the rate of job openings, as measured by JOLTS, remained near their cyclical lows in February. And although insured unemployment is down, recipients still appear to be exhausting their benefits in large numbers rather than entering employment more quickly.

However, the sizable gain in payroll employment in March suggests that the hiring rate may now be picking up. Other labor market indicators also point to near-term improvement in hiring conditions. Manpower Inc.'s survey of firms' hiring plans for the second quarter reached its highest level since 2000; the National Federation of Independent Businesses has reported a net improvement in hiring plans over the past year; and hiring plans in the National Association of Business Economists (NABE) survey, which had stepped up in the second half of last year, improved further in the most recent surveys. In addition, households' perceptions of current employment conditions, as measured by the Conference Board, improved in April to the highest level since mid-2002. Nevertheless, households are less optimistic now about the future of the labor market than they were at the end of last year. Both the Michigan survey and the Conference Board reported that, in April, households' expectations of labor market conditions remained below their year-end levels.

### **Industrial Production**

Although a weather-related decline in utilities production helped push total industrial production down 0.2 percent in March, the pace of expansion quickened for the first quarter as a whole.<sup>2</sup> Total IP rose at an annual rate of 6.6 percent in the first quarter, 1 percentage point faster than in the fourth quarter of 2003.

Manufacturing output climbed 5.9 percent last quarter, with gains again spread widely across both industry and market groups. The factory operating rate edged up to 75 percent in the first quarter—a level that remains 5 percentage points below its 1972–2003 average. Motor vehicle assemblies were 12.2 million units (annual rate) in March, about 1/2 million units slower than in February but still enough to leave first-quarter assemblies about 200,000 units above the fourth-quarter pace. Excluding motor vehicles, manufacturing IP rose at an annual rate of 5.6 percent last quarter.

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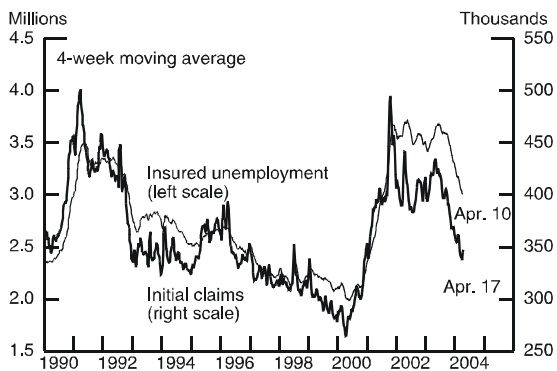
1. The Bureau of Labor Statistics seasonally adjusted the JOLTS data for the first time earlier this month. These data cover the period December 2000 to February 2003. Separations include quits, layoffs and discharges, retirements, and transfers to other locations.

2. Utilities production, which accounts for about 10 percent of total IP, declined 2.3 percent in March as a result of unseasonably warm weather—heating degree days in March were 2.1 standard deviations below normal.

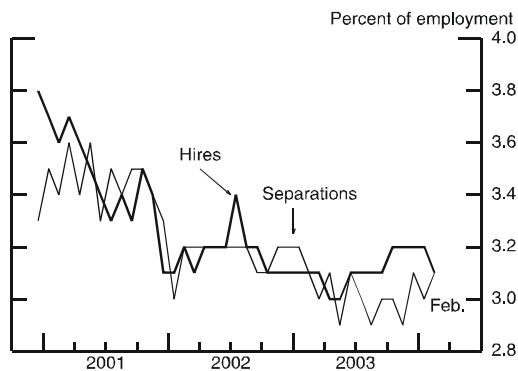


## Labor Market Indicators

### Unemployment Insurance

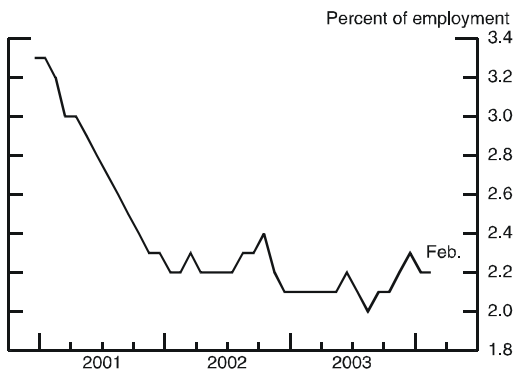


### Hires and Separations



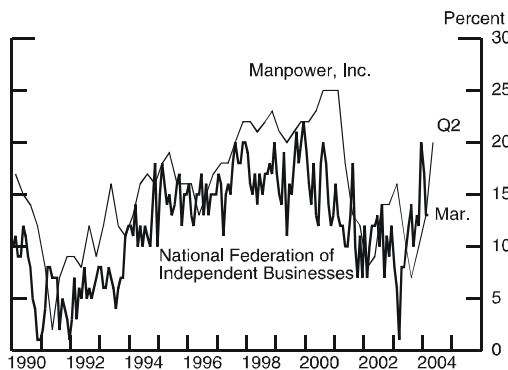
Note. Seasonally adjusted.  
Source. Job Openings and Labor Turnover Survey.

### Job Openings



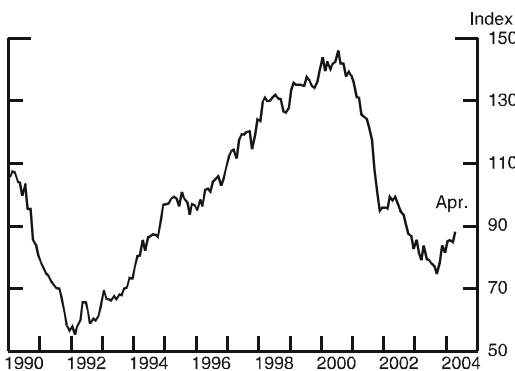
Note. Seasonally adjusted.  
Source. Job Openings and Labor Turnover Survey.

### Net Hiring Strength



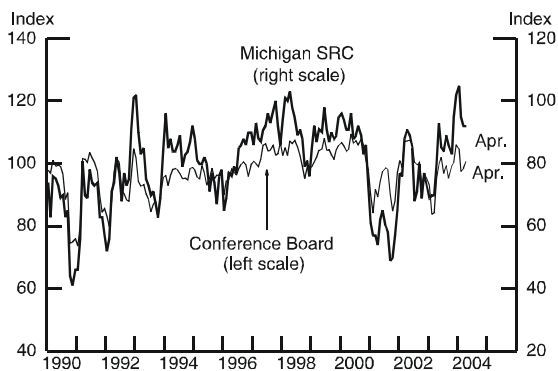
Note. Percent planning an increase in employment minus percent planning a reduction.

### Current Labor Market Conditions



Note. The proportion of households believing jobs are plentiful, minus the proportion believing jobs are hard to get, plus 100.  
Source. Conference Board.

### Expected Labor Market Conditions



Note. The proportion of households expecting labor market conditions to improve, minus the proportion expecting conditions to worsen, plus 100.

### Production of Domestic Autos and Trucks

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

Item	2003	2003		2004	2004		
		Q3	Q4	Q1	Jan.	Feb.	Mar.
U.S. production	12.1	12.3	12.2	12.4	12.3	12.7	12.2
Autos	4.5	4.6	4.4	4.4	4.3	4.5	4.4
Trucks	7.6	7.7	7.8	8.0	8.0	8.1	7.8
Days' supply <sup>1</sup>	70	63	68	74	71	72	73
Inventories <sup>2</sup>	3.04	2.88	3.04	3.16	3.01	3.06	3.16

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

1. Quarterly and annual values are calculated with end-of-period stocks and average reported sales; excludes medium and heavy trucks.

2. End-of-period stocks; excludes medium and heavy trucks.

Production in the high-tech sector of manufacturing rose at an annual rate of 30 percent in the first quarter. Semiconductor production chalked up a gain of 48 percent, and computer production rose 29 percent; in contrast, IP for communications equipment barely edged up in the first quarter and was little changed from year-ago levels.

Outside of energy, motor vehicles and parts, and high-tech, production at all stages of processing rose in the first quarter. The output of finished products, led by a surge in the production of business equipment, moved up at an annual rate of 3-1/2 percent. Production at the earlier stages of processing—primary and semifinished—rose 4-1/2 percent, continuing a trend that began in the middle of last year. Indexes for both durable and nondurable materials moved up smartly again, as did those for business and construction supplies.

Available weekly physical product data are up slightly, on balance, thus far in April. Motor vehicle assemblies are scheduled to edge up in April to an annual rate of 12.4 million units, and production through the first half of the month is running a bit above schedules. Electricity generation has also edged up. However, output in other manufacturing industries for which we have weekly physical product data—principally, crude oil and refinery products, iron and steel, appliances, meat products, and lumber and plywood—has slipped a bit so far this month.

The forward-looking indicators of near-term production point to continued expansion in the industrial sector in the coming months. The Institute for Supply Management's (ISM) diffusion index of new orders remained high in March, and the index for new export orders rose significantly. More recently, the Philadelphia Fed's new orders index ticked up in April and continued to indicate expansion, and the ISM Semiannual Forecast reported that prospects for

**Selected Components of Industrial Production**  
(Percent change from preceding comparable period)

Component	Proportion 2003 (percent)	2003 <sup>1</sup>	2003	2004	2004		
			Q4	Q1	Jan.	Feb.	Mar.
			Annual rate		Monthly rate		
<b>Total</b>	<b>100.0</b>	<b>1.5</b>	<b>5.6</b>	<b>6.6</b>	<b>.7</b>	<b>.8</b>	<b>-.2</b>
Previous	100.0	1.4	5.3	...	.8	.7	...
Manufacturing	82.3	1.9	6.1	5.9	.3	1.1	.0
Ex. motor veh. and parts	75.6	1.7	5.9	5.6	.3	1.0	.2
Ex. high-tech industries	70.7	.3	4.6	4.0	.0	.8	.2
Mining	7.6	.4	1.1	1.0	.3	.1	-.3
Utilities	10.1	-6	5.0	17.0	3.7	-8	-2.3
<i>Selected industries</i>							
High technology	4.9	21.3	24.8	30.4	3.2	3.4	1.4
Computers	1.2	14.1	27.2	28.8	2.2	2.3	2.4
Communications equipment	1.3	5.8	2.5	1.3	2.2	.4	-2.0
Semiconductors <sup>2</sup>	2.4	34.3	36.4	47.5	4.2	5.3	2.5
Motor vehicles and parts	6.7	3.8	8.8	8.6	.8	2.1	-2.2
<i>Market groups excluding energy and selected industries</i>							
Consumer goods	22.6	.2	3.6	2.0	-1	.6	.2
Durables	4.3	1.1	7.6	4.6	.5	.0	.6
Nondurables	18.3	.0	2.6	1.4	-2	.7	.1
Business equipment	7.3	1.0	5.6	11.6	.5	1.7	.0
Defense and space equipment	1.9	4.8	.4	-3.3	-4	.0	.7
Construction supplies	4.2	1.1	7.9	2.9	.0	.5	.7
Business supplies	8.5	.2	1.9	3.8	.2	1.0	-4
Materials	24.8	-.3	6.3	4.5	.1	.8	.1
Durables	13.6	-.1	8.2	4.7	.2	.8	.3
Nondurables	11.2	-.5	4.0	4.3	.0	.9	-.1

1. From fourth quarter of preceding year to fourth quarter of year shown.

2. Includes related electronic components.

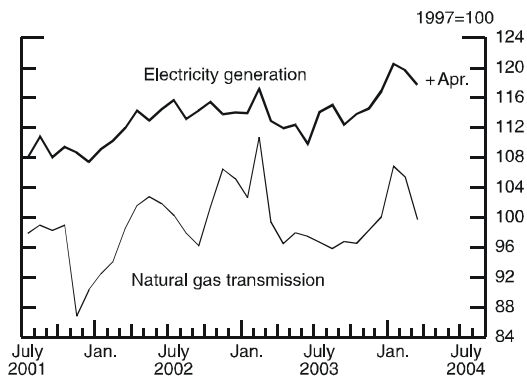
... Not applicable.

**Capacity Utilization**  
(Percent of capacity)

Sector	1972- 2003 average	1982 low	1990- 91 low	2003		2004		
				Q3	Q4	Q1	Feb.	Mar.
<b>Total industry</b>	<b>81.1</b>	<b>70.9</b>	<b>78.6</b>	<b>74.6</b>	<b>75.5</b>	<b>76.5</b>	<b>76.7</b>	<b>76.5</b>
Manufacturing	80.0	68.7	77.2	73.2	74.1	75.0	75.3	75.2
High-tech industries	78.8	75.4	74.5	65.0	67.0	69.5	70.0	70.0
Excluding high-tech industries	80.1	68.2	77.3	74.3	75.2	76.0	76.3	76.2
Mining	86.9	78.6	83.4	85.0	85.3	85.5	85.6	85.4
Utilities	86.9	77.6	84.1	82.9	83.1	85.8	86.2	84.0

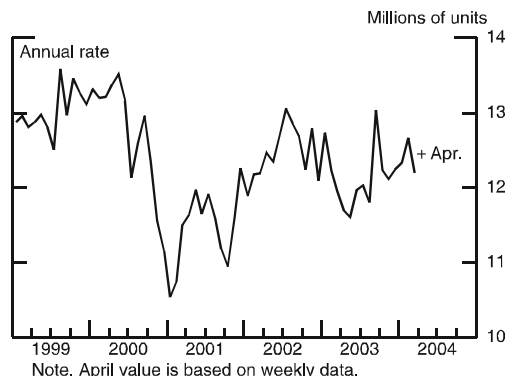
## Indicators of Manufacturing Activity

Utilities Production



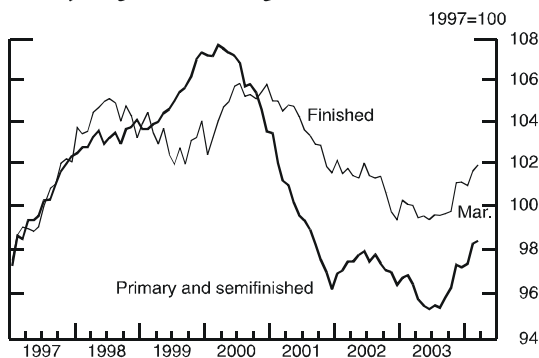
Note. April value for electricity generation is based on weekly data.

Motor Vehicle Assemblies



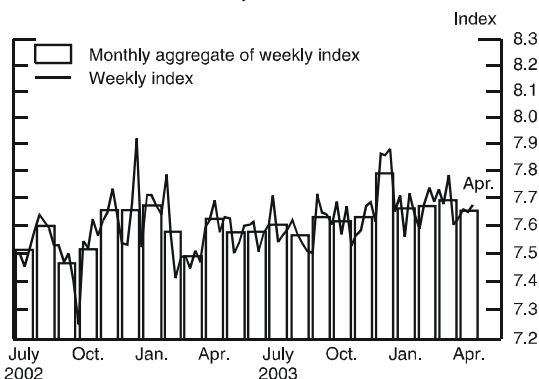
Note. April value is based on weekly data.

IP by Stage of Processing



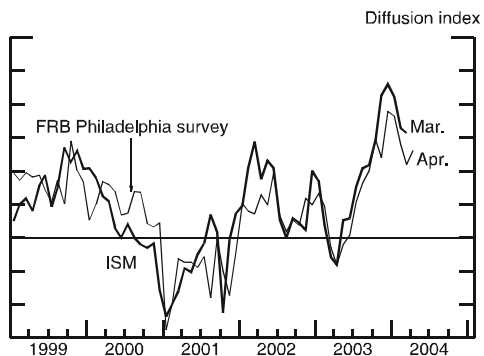
Note. Excludes energy, motor vehicles and parts, and high technology.

Weekly Production Index excluding Motor Vehicles and Electricity Generation



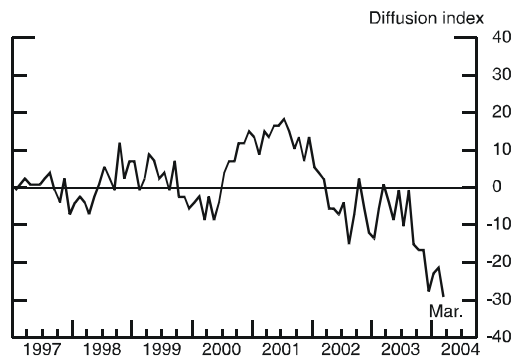
Note. One index point equals 1 percent of 1997 total industrial output.

New Orders: ISM and FRB Philadelphia Surveys



Note. The diffusion index equals the percentage of respondents reporting greater levels of new orders, plus one-half the percentage of respondents reporting that new orders were unchanged.

Flow-of-Goods Diffusion Index for Days' Supply



Note. The diffusion index equals one-half times the difference between the share of industries with above average days' supply, and the share of industries with below average days' supply.  
Source. Board staff's flow-of-goods system.

manufacturing in the remainder of 2004 are bright. The staff's series for real adjusted durable goods orders increased 3.3 percent in March, and its first-quarter average moved up 6-1/2 percent. In addition, estimates from the Board staff's flow-of-goods system indicate that IP inventories are low in the majority of industries. Given continued strong demand, the current low level of inventories could provide further impetus to near-term production.

**New Orders for Durable Goods**

(Percent change from preceding period except as noted; seasonally adjusted)

Component	Proportion, 2003: H2 (percent)	2003	2004	2004		
		Q4	Q1	Jan.	Feb.	Mar.
		Annual rate		Monthly rate		
<b>Total orders</b>	<b>100.0</b>	<b>18.4</b>	<b>5.3</b>	<b>-2.6</b>	<b>3.8</b>	<b>3.4</b>
Adjusted orders <sup>1</sup>	75.0	19.1	8.9	-1.4	2.8	3.8
Computers	5.0	4.7	-13.3	-8.7	2.4	.0
Communication equipment	4.0	-56.0	-56.4	70.6	9.1	-8.2
Other capital goods	23.0	27.7	11.4	-4.5	2.0	4.4
Other <sup>2</sup>	43.0	26.0	7.2	-2.1	2.8	4.8
Memo:						
Real adjusted orders	...	18.0	6.4	-1.6	2.5	3.3
Excluding high tech	...	22.9	4.7	-3.5	2.0	4.4

1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.

2. Primary metals; most fabricated metals; most stone, clay, and glass products; household appliances; scientific instruments; and miscellaneous durable goods.

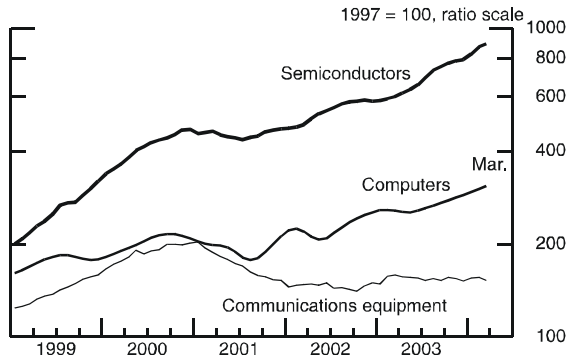
... Not applicable.

In the high-tech sector, orders and shipments of equipment for manufacturing semiconductors remained high in March, suggesting that chipmakers are expanding productive capacity. In addition, Intel's revenue guidance for the second quarter of 2004 points to another respectable increase in semiconductor production.<sup>3</sup> For computers and communications equipment, server sales were especially strong in the first quarter, and *CIO Magazine* diffusion indexes for planned spending on computer hardware and data-networking equipment were up. Furthermore, a majority of respondents in the NABE Industry Survey for April expect their firms to increase spending for these types of equipment over the coming year.

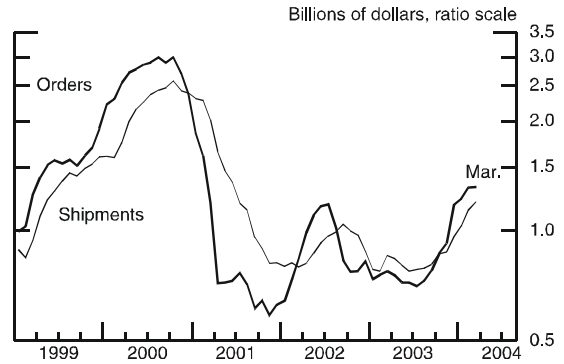
3. Intel's first-quarter revenues were a touch below market expectations. The shortfall was likely due to heightened competition from AMD, which reported stronger-than-expected first-quarter revenues. AMD's successful 64-bit Opteron chip for high-end servers continues to gain market share, and the company's strong sales of flash-memory have outpaced Intel's.

## Indicators of High-Tech Manufacturing Activity

Industrial Production in the High-Tech Sector

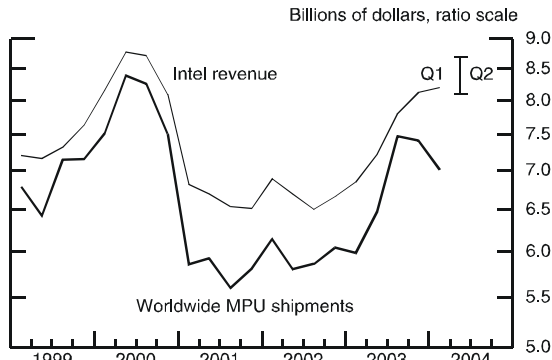


Semiconductor Manufacturing Equipment Orders and Shipments



Source: Semiconductor Equipment and Materials International.

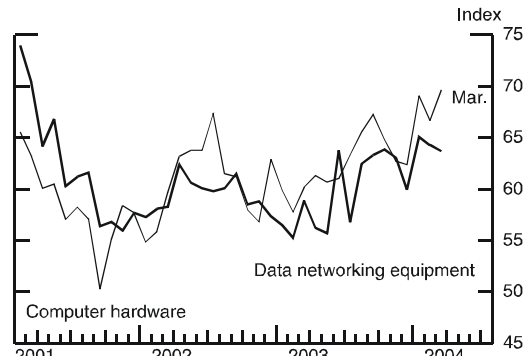
Microprocessor Unit (MPU) Shipments and Intel Revenue



Note: Q2 is the range of Intel's guidance as of April 13, 2004. FRB seasonals.

Source: Intel and Semiconductor Industry Association.

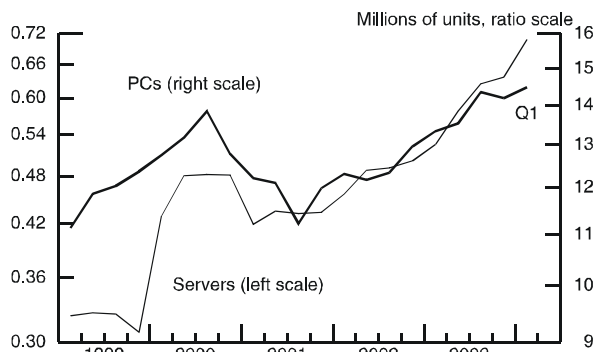
CIO Magazine Future Spending Diffusion Index



Note: The diffusion index equals the percentage of respondents planning to increase future spending plus one-half the percentage of respondents planning to leave future spending unchanged.

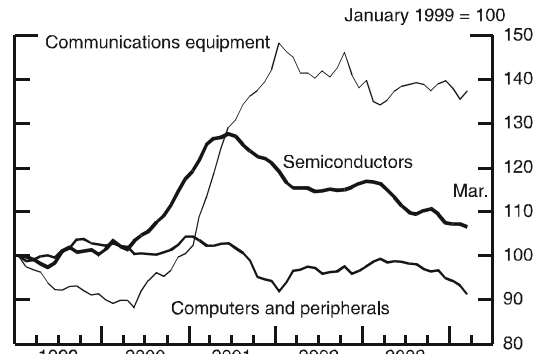
Source: CIO Magazine.

U.S. Personal Computer and Server Sales



Note: FRB seasonals. Source: Gartner.

Days' Supply of Computers and Peripherals, Communications Equipment, and Semiconductors



Source: Board staff's flow-of-goods system.

**Motor Vehicles**

Sales of light vehicles firmed in March after some softening in the first two months of the year, and our industry contacts expect sales in April to improve a bit further. Thus far, the pickup has not been driven by rising sales incentives: The average value of incentives that consumers received ticked down in early April.<sup>4</sup> Nonetheless, attitudes toward car-buying continue to be favorable, according to the Michigan Survey of Consumer Sentiment.

Sales of domestically produced light trucks and automobiles slowed in the first quarter. With the pace of assemblies up and sales down, days' supply of light trucks ended the quarter at an uncomfortably high level. Accordingly, manufacturers have scheduled fewer assemblies of light trucks for the second quarter than in the first quarter. In contrast, stocks of automobiles ended the quarter in line with historical norms.

**Consumer Spending**

Real consumer spending appears to have increased in the first quarter at a pace similar to the gain in the second half of last year. Spending is being supported by expanding wealth, rising wages and salaries, and the continuing effects of last year's tax cut.

Nominal spending in the retail control category of goods—which excludes auto dealers and building material and supply stores—is now estimated to have increased 0.6 percent in February and March after having moved up 1.6 percent in January.<sup>5</sup> After accounting for price changes, we estimate that real spending in the retail control category rose at an annual rate of 6.8 percent in the first quarter. Although, as noted above, spending on motor vehicles dropped back in the first quarter, spending on other goods remained robust. Real expenditures on services rose 0.5 percent in January largely on the strength of brokerage and energy services, and they rose 0.3 percent in February (the latest available data) on broad-based gains. Thus, services appear on track for a solid increase for the quarter as a whole.

The major determinants of consumption look fairly strong. Equity values and prices of owner-occupied real estate have increased significantly over the past year, lifting the ratio of household net worth to disposable income. Nominal

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4. We re-estimated seasonal factors for these series after receiving some additional data from J.D. Power and Associates. The picture has changed a bit from what we had previously shown. Seasonally adjusted, incentives now appear to have been relatively flat, rather than falling, since the fourth quarter.

5. Nominal sales at building material and supply stores, boosted by unusually favorable weather and a large increase in prices for building materials, also moved up sharply in March. However, sales at these stores are not used in the BEA's estimates of total personal consumption expenditures.

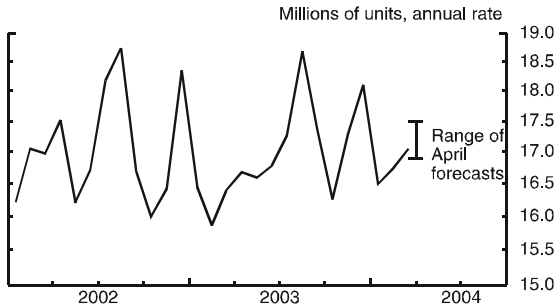
**Sales of Automobiles and Light Trucks**  
(Millions of units at an annual rate, FRB seasonals)

Category	2003	2003		2004	2004		
		Q3	Q4	Q1	Jan.	Feb.	Mar.
Total	16.6	17.4	16.8	16.4	16.1	16.3	16.6
Autos	7.6	7.7	7.5	7.4	7.1	7.4	7.7
Light trucks	9.0	9.7	9.3	9.0	9.0	8.9	8.9
North American <sup>1</sup>	13.3	14.1	13.6	13.1	13.0	13.1	13.3
Autos	5.5	5.7	5.5	5.4	5.2	5.4	5.6
Light trucks	7.8	8.4	8.2	7.7	7.8	7.7	7.7
Foreign-produced	3.3	3.4	3.2	3.2	3.0	3.3	3.4
Autos	2.1	2.1	2.0	2.0	1.8	2.1	2.1
Light trucks	1.2	1.3	1.2	1.2	1.2	1.2	1.3
Memo: Medium and heavy trucks	.33	.34	.37	.40	.41	.40	.41

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

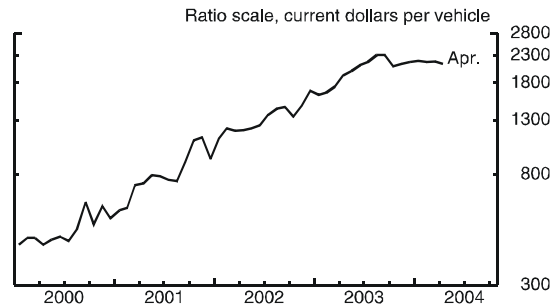
1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

**Total Motor Vehicle Sales**



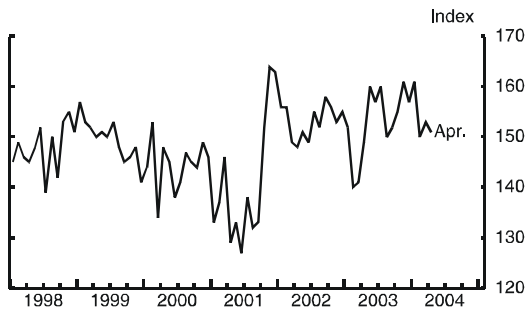
Note. FRB seasonals. Adjusted for shifts in reporting periods.

**Average Value of Incentives on Light Vehicles**

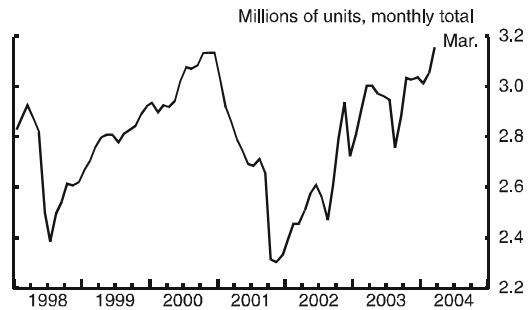


Note. Weighted average of customer cash rebate and interest rate reduction. Data are seasonally adjusted. Source: J.D. Power and Associates.

**Michigan Survey Index of Car-Buying Attitudes**



**Inventories of Light Vehicles**



Note. FRB seasonals.



**Retail and Food Services Sales**

(Percent change from preceding period; seasonally adjusted current dollars)

Category	2003			2004		
	H1	Q3	Q4	Jan.	Feb.	Mar.
Total sales	2.9	2.6	1.1	.5	1.0	1.8
Previous estimate	2.9	2.6	1.1	.2	.6	...
Retail control <sup>1</sup>	2.1	2.4	1.5	1.6	.6	.6
Previous estimate	2.1	2.4	1.5	1.4	.0	...
GAF <sup>2</sup>	1.4	2.7	1.2	1.2	.9	.6
Gasoline stations	.9	3.4	1.6	3.4	1.6	.8
Food services	4.8	2.3	2.9	2.1	1.2	.6
Other retailers <sup>3</sup>	2.1	1.9	1.2	1.4	-.4	.6

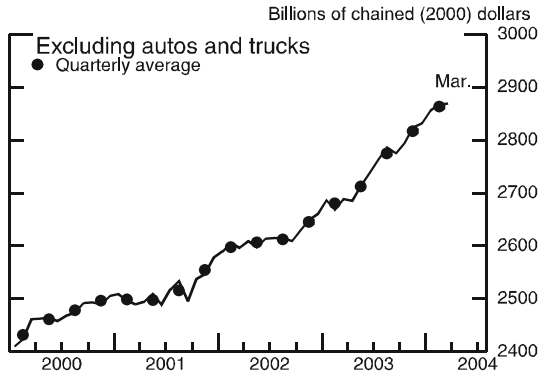
1. Total retail trade and food services less sales at building material and supply stores and automobile and other motor vehicle dealers.

2. Furniture and home furnishing stores; electronics and home appliance stores; clothing and accessories stores; sporting goods, hobby, book, and music stores; and general merchandise stores.

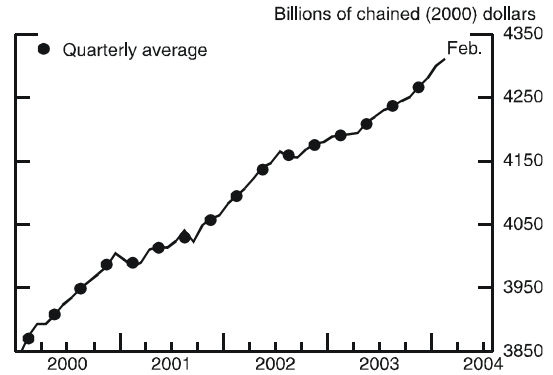
3. Health and personal care stores, food and beverage stores, electronic shopping and mail order houses, and miscellaneous other retailers.

... Not applicable.

**Real PCE Goods**

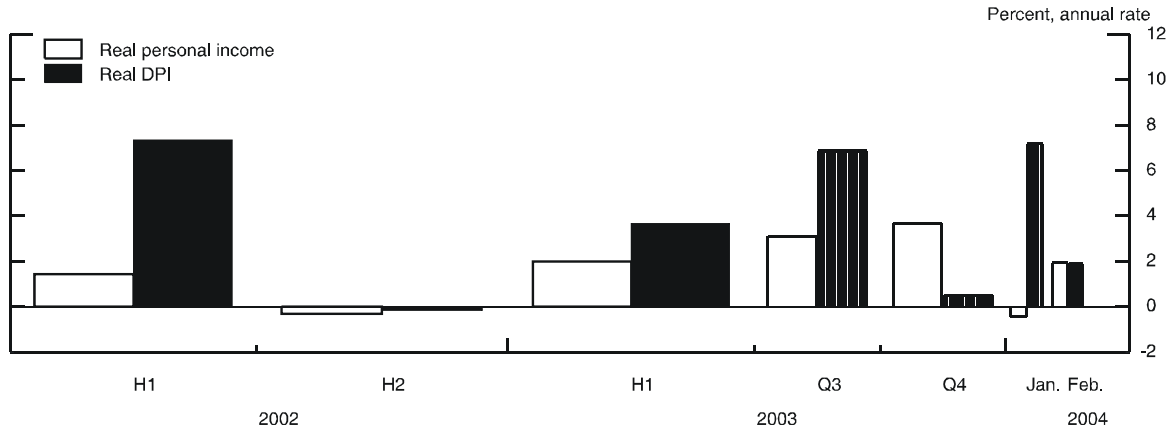


**Real PCE Services**



Note. Data for March and 2004:Q1 are a staff estimate.

**Change in Real Personal Income and Real DPI**



disposable income was boosted in February by an increase in tax refunds and a decline in final tax payments as well as by solid gains in wages and salaries. Real disposable personal income was 1.0 percent (not an annual rate) higher in February than the fourth-quarter average despite a run-up in energy prices. The personal saving rate in February, at 1.9 percent, was a bit below its average level in 2003.<sup>6</sup>

Consumer confidence was roughly stable in March and April. Both the Michigan Survey Research Center's index of consumer sentiment and the Conference Board's index of consumer confidence remained well above their lows in early 2003, in keeping with improved fundamentals.

### **Housing Markets**

Housing construction rebounded in March after having slowed in January and February; some of this swing appears to reflect atypical weather patterns. Unusually wet weather in February slowed single-family starts to an annual rate of 1.52 million units, but unseasonably warm and dry weather last month helped boost starts to a rate of 1.60 million units. Issuance of new permits (adjusted for activity in areas where permits are not required) is less sensitive to unusual weather and was between 1.54 million and 1.56 million units in each month of the first quarter, indicating that the underlying pace of single-family construction has remained consistently high. In the multifamily sector, starts ran up to an annual rate of 408,000 units in March and averaged 383,000 units for the first quarter as a whole. Starts were elevated relative to permits in March, and the vacancy rate for multifamily units reached a record high 11.4 percent in the first quarter, suggesting that the recent pace of construction in this sector probably will not be sustained.

Sales of new homes jumped nearly 9 percent in March to a record 1.23 million units and were up 4 percent for the first quarter as a whole. Sales of existing homes bounced back 5-3/4 percent in March to the second highest figure on record, but were nevertheless down 1-1/2 percent for the quarter. Housing market indicators suggest that the demand for housing will continue to hold up well in the near term. The average rate for thirty-year fixed-rate mortgages in the first three weeks of April was 5.87 percent, 40 basis points above the near-record low in March; over the same period, the average rate for adjustable-rate mortgages rose about 1/4 percentage point. Still, the levels of mortgage rates

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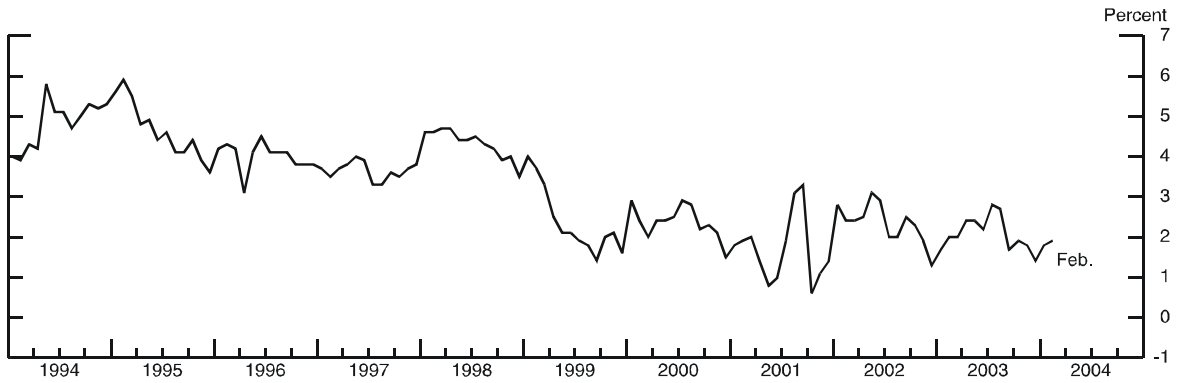
6. In its final report on fourth-quarter GDP, the BEA revised up its estimate of the saving rate in the second half of last year by 0.1 percentage point, as upward revisions to compensation in the third and fourth quarters more than offset upward revisions to consumption. The annual revision to retail sales, which will be reflected in the quarterly GDP estimates when the BEA publishes its annual revision to the national accounts this summer, lowered the level of retail sales in the fourth quarter by \$8 billion. We estimate that the revised sales data, by themselves, would add another 0.1 percentage point to the fourth-quarter saving rate, all else equal.

### Household Indicators

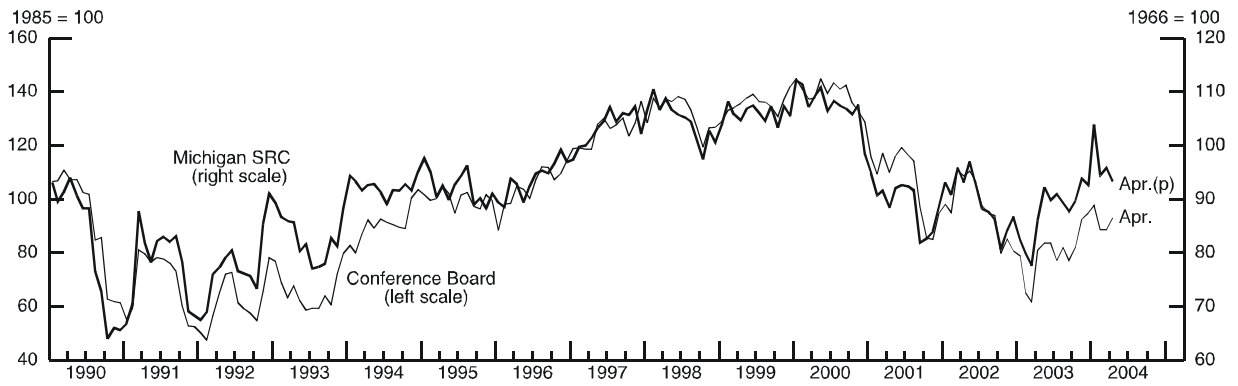
#### Household Net Worth and Wilshire 5000



#### Personal Saving Rate



#### Consumer Confidence



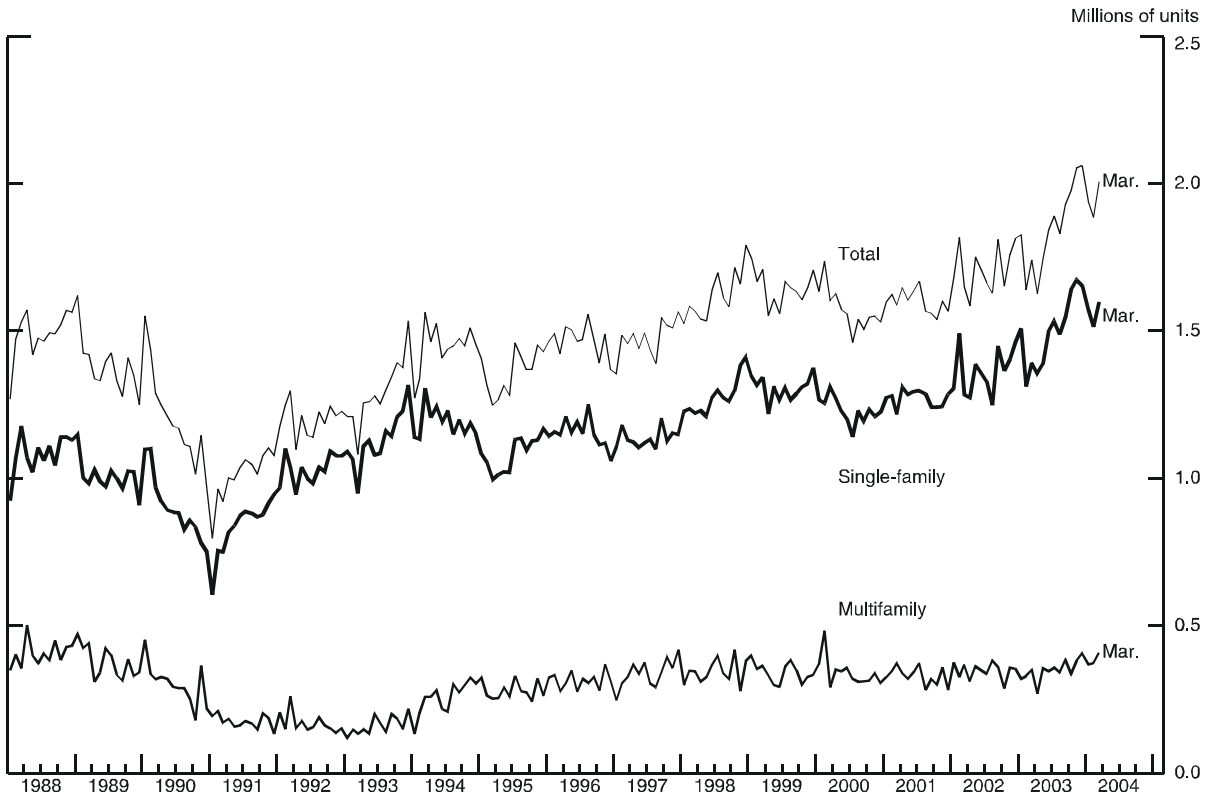
p Preliminary.

**Private Housing Activity**  
(Millions of units; seasonally adjusted annual rate)

Sector	2003	2003		2004			
		Q3	Q4	Q1	Jan.	Feb.	Mar.
<i>All units</i>							
Starts	1.85	1.88	2.03	1.94	1.94	1.89	2.01
Permits	1.86	1.86	1.93	1.93	1.93	1.91	1.95
<i>Single-family units</i>							
Starts	1.50	1.52	1.66	1.56	1.57	1.52	1.60
Permits	1.44	1.47	1.51	1.52	1.51	1.52	1.52
Adjusted permits <sup>1</sup>	1.47	1.51	1.57	1.55	1.54	1.55	1.56
New home sales	1.09	1.16	1.12	1.17	1.14	1.13	1.23
Existing home sales	6.10	6.42	6.30	6.20	6.00	6.13	6.48
<i>Multifamily units</i>							
Starts	0.35	0.36	0.38	0.38	0.37	0.37	0.41
Permits	0.42	0.39	0.42	0.41	0.43	0.39	0.42
<i>Mobile homes</i>							
Shipments	0.13	0.13	0.13	n.a.	0.12	0.12	n.a.

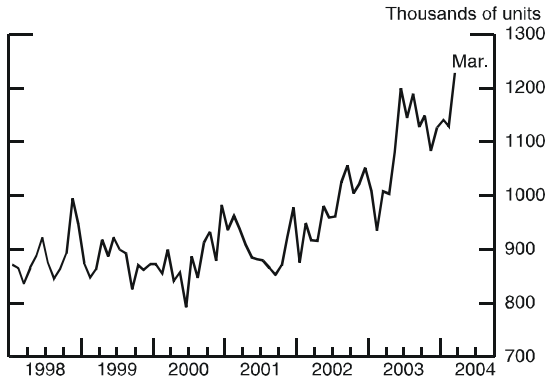
1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.

**Private Housing Starts**  
(Seasonally adjusted annual rate)



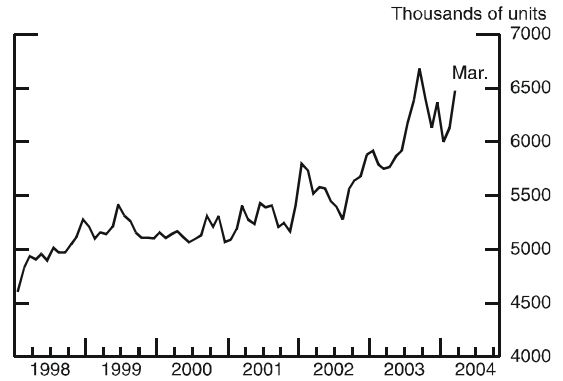
## Indicators of Single-Family Housing

New Home Sales



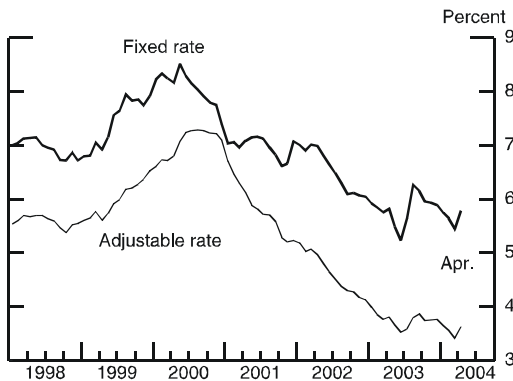
Source. Census Bureau.

Existing Home Sales



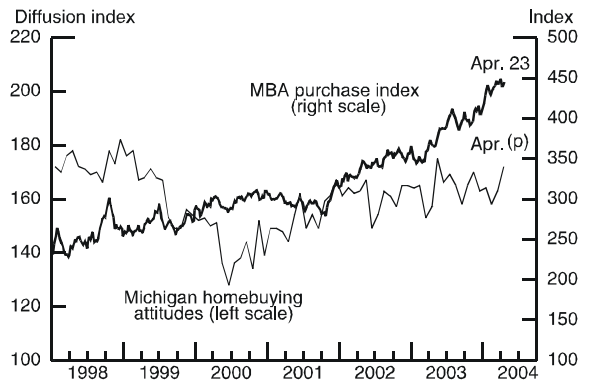
Source. National Association of Realtors.

Mortgage Rates



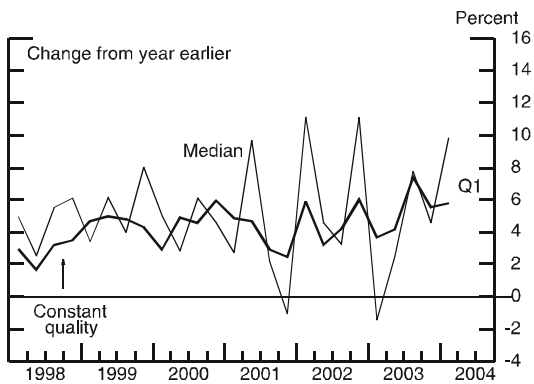
Note. The April reading is based on data through April 23.  
Source. Freddie Mac.

Homebuying Indicators



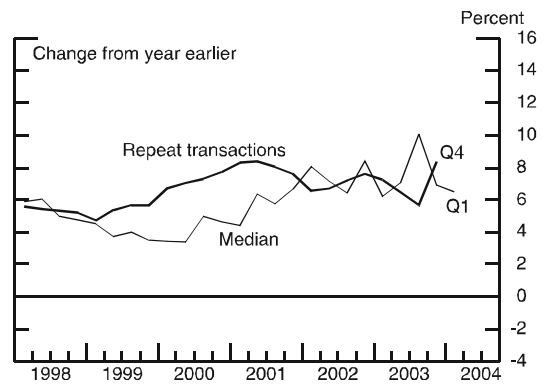
Note. MBA index is a 4-week moving average. Michigan Survey data are not seasonally adjusted.  
Source. Mortgage Bankers Association and Michigan Survey.

Prices of New Homes



Source. Census Bureau.

Prices of Existing Homes



Source. National Association of Realtors and Freddie Mac.

remain low. The four-week moving average of purchase applications from the Mortgage Bankers Association moved to a new high in early April, and attitudes toward homebuying, as measured in the preliminary Michigan survey, were near the upper end of their range over the past year.

Home prices continued to rise rapidly. In the first quarter, the median price for new homes was 9.8 percent higher than the year-ago level, and the constant-quality price index for new homes—which controls for changes in geographic composition, home size, and other amenities—increased 5.8 percent over the same period, which is toward the upper end of the distribution of price increases over the past several years. In the much larger market for existing homes, the median price in the first quarter was 6.5 percent higher than a year earlier.

### **Business Fixed Investment**

**Equipment and software.** Real outlays for equipment and software appear to have expanded at a vigorous clip in the first quarter, with the exception of spending on transportation equipment. The fundamentals underlying business investment remain favorable: Business output is rising briskly, corporate cash flows are showing sizable gains, and the user cost of capital remains low, in part because of the partial-expensing tax incentive. In addition, according to anecdotal reports from industry contacts and surveys of business persons, confidence in the durability of the economic expansion is growing.

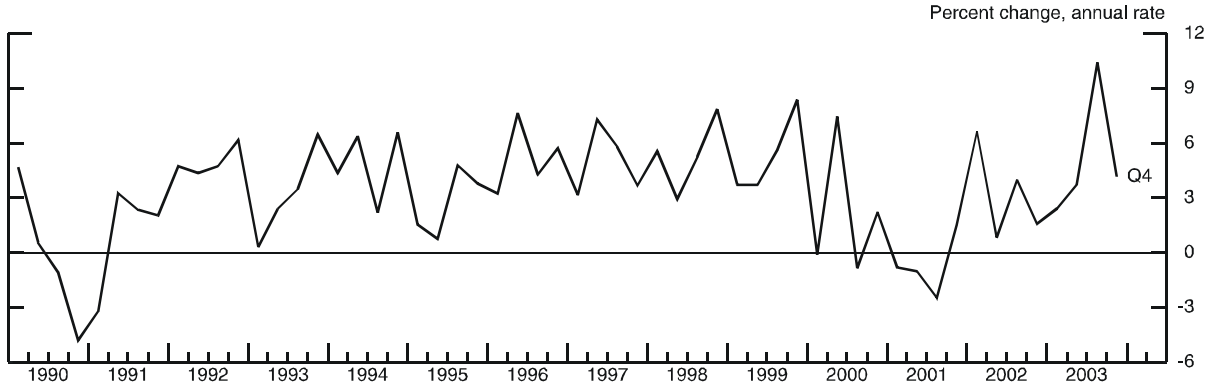
Nominal shipments of nondefense capital goods excluding aircraft rose at an annual rate of 12.3 percent in the first quarter after a similar increase in the fourth quarter. In the high-tech sector, shipments of computers and peripherals fell 3.9 percent in the first quarter, while shipments of communications equipment moved up 9.8 percent. Outside the high-tech categories, shipments were up 16.2 percent, continuing the impressive growth seen in this category since the middle of last year. Revenue reports from Microsoft and other major software vendors indicate that business purchases of software increased at a moderate pace in the first quarter.

The average level of new orders for communications equipment over the past twelve months exceeded the average level of shipments, suggesting that demand has firmed somewhat in this beleaguered category. Outside of high-tech, new orders for capital equipment surged 4.4 percent (not at an annual rate) in March, pushing the level of orders significantly above the level of shipments.

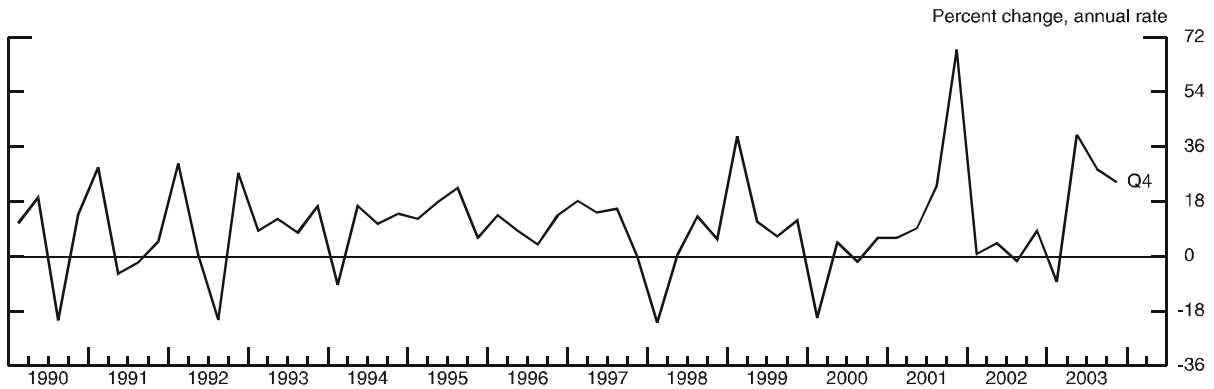
Business spending on transportation equipment seems to have declined, on balance, in the first quarter after an outsized jump in the fourth quarter. A drop in spending on light vehicles more than offset strong demand for medium and heavy trucks, which sold at an annual rate of a little over 400,000 units for the fourth straight month. Truck orders also have remained robust, and backlogs

## Equipment and Software Investment Fundamentals

Real Business Output

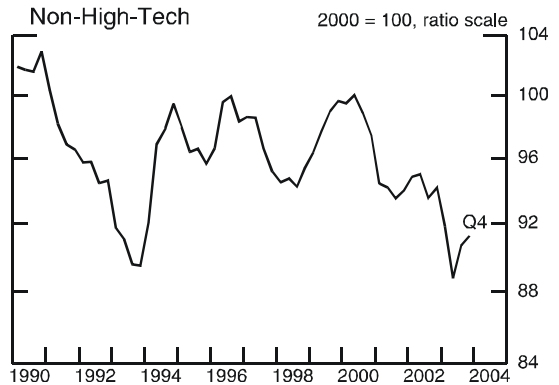
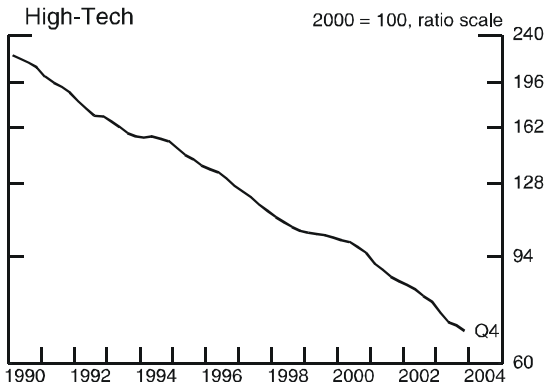


Real Corporate Cash Flow



### User Cost of Capital

(Excludes the effects of the partial expensing tax incentive)



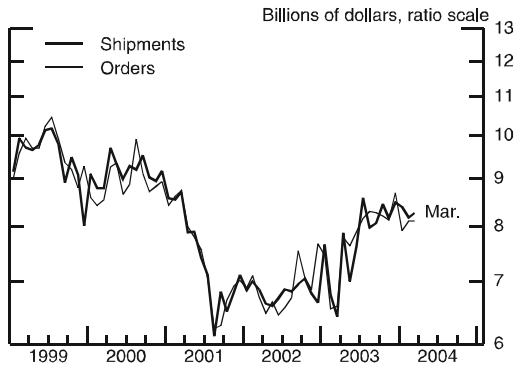
**Orders and Shipments of Nondefense Capital Goods**

(Percent change; seasonally adjusted current dollars)

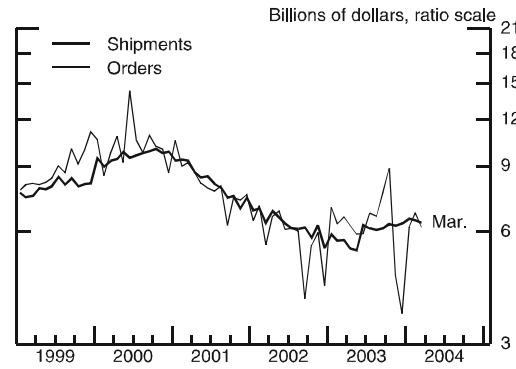
Indicators	2003	2004			
	Q4	Q1	Jan.	Feb.	Mar.
	Annual rate		Monthly rate		
Shipments	11.2	10.7	-4	.3	2.4
Excluding aircraft	12.2	12.3	.5	-1.0	2.5
Computers and peripherals	7.8	-3.9	-1.0	-2.6	1.3
Communications equipment	11.3	9.8	3.1	-1.1	-1.5
All other categories	13.3	16.2	.4	-.7	3.3
Orders	9.7	5.7	-2.7	4.5	2.1
Excluding aircraft	10.2	11.4	-.4	2.8	2.4
Computers and peripherals	4.7	-13.3	-8.7	2.4	.0
Communications equipment	-56.0	56.4	70.6	9.1	-8.2
All other categories	27.7	11.4	-4.5	2.0	4.4
Memo: Shipments of complete aircraft <sup>1</sup>	29.0	n.a.	25.0	31.4	n.a.

1. From Census Bureau, Current Industrial Reports; billions of dollars, annual rate.  
n.a. Not available.

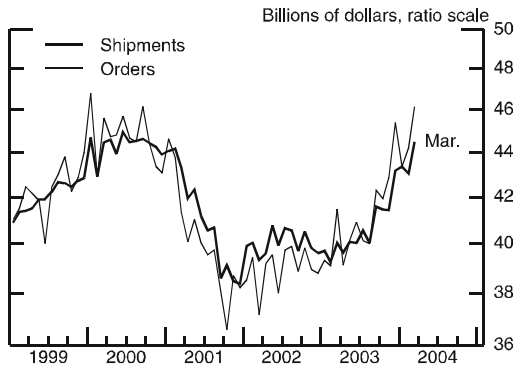
**Computers and Peripherals**



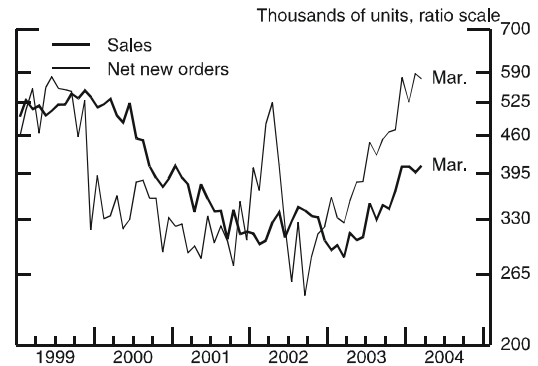
**Communications Equipment**



**Other Equipment**



**Medium and Heavy Trucks**



Note. Annual rate, FRB seasonals.

Source. Ward's Communications and ACT Research Co.



have continued to climb from a low point reached in early 2003. Truck demand is reportedly being supported by investment tax incentives as well as by generally greater demand for trucking services. In addition, industry contacts indicate that replacement demand has been strong. Nominal shipments of aircraft moved up in the first two months of the year, and real investment in aircraft appears to have firmed since its low last summer.

**Nonresidential construction.** Real business investment in structures appears to have weakened further in the first quarter. Nominal spending on commercial and health care structures—a large sector that includes offices and other commercial buildings—was 3-1/2 percent (not an annual rate) lower in February than its fourth-quarter average. Nominal outlays for manufacturing facilities were 5 percent lower in February than in the fourth quarter, and investment in other types of nonresidential structures was down 2-1/2 percent.<sup>7</sup> On a more positive note, nominal expenditures for power and communication structures were 9-1/2 percent higher in February than the fourth-quarter average, and spending in the drilling and mining category has likely increased in the past few months because of a rise in the number of natural gas rigs in operation.

Other indicators of market conditions for nonresidential structures remain weak. The vacancy rate for industrial buildings set another new high in the first quarter, while the vacancy rate for office properties remained quite elevated. According to the latest available data, rents for retail properties edged up in the fourth quarter, but warehouse rents were flat, and rents for office space continued to decline.

### **Business Inventories**

Book-value inventory investment has moved up since the start of the year. Excluding motor vehicles and parts, the manufacturing and trade sector added inventories at an annual rate of \$18 billion in January and \$72 billion in February. However, the sharp rise in the prices of materials in these months suggests that the pickup in book-value stocks likely overstates the accumulation of real inventories.<sup>8</sup> Moreover, because of strong growth in sales and shipments, inventory-sales ratios remain near historical lows in most industries.

In March, days' supply in the Board staff's flow-of-goods system ticked up, reversing February's decline, but nevertheless remained low by historical standards. Excluding motor vehicles and parts, the inventory-consumption ratio has, on balance, continued to trend down since the end of 2001. The only

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7. The "other structures" category includes buildings for a wide variety of uses (including religious, educational, lodging, amusement, recreation, and transportation purposes).

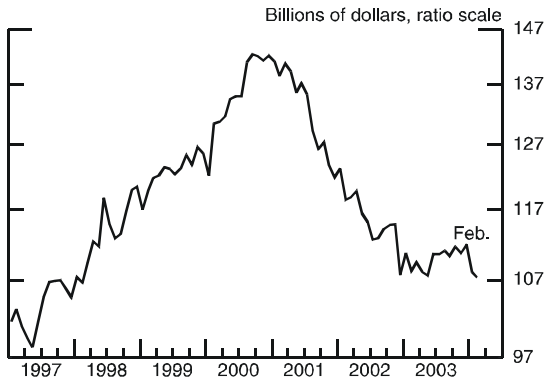
8. Data on real inventories that incorporate the recent revision to retail inventories have not yet been published.

### Nonresidential Construction

Total Structures



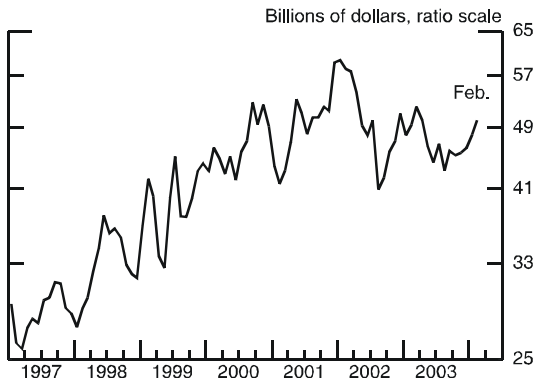
Commercial and Health Care



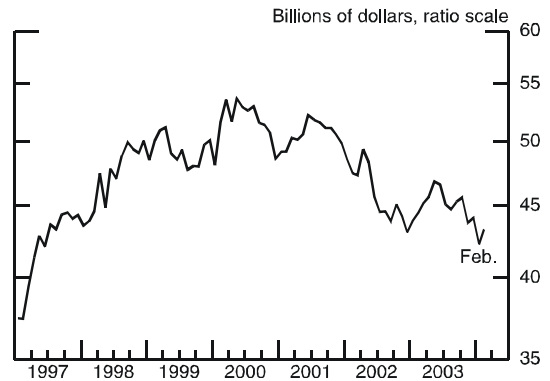
Manufacturing



Power and Communication



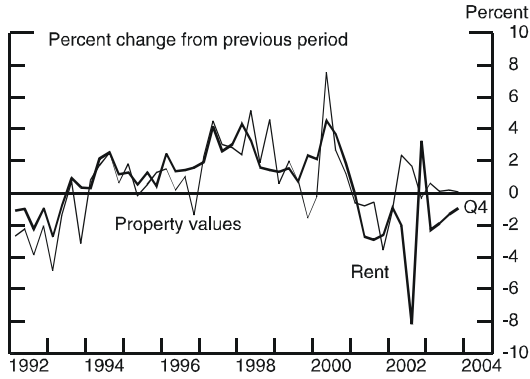
Other



**Indicators of Nonresidential Construction**

**Office Buildings**

**Rent and Property Values**



Source. National Real Estate Index.

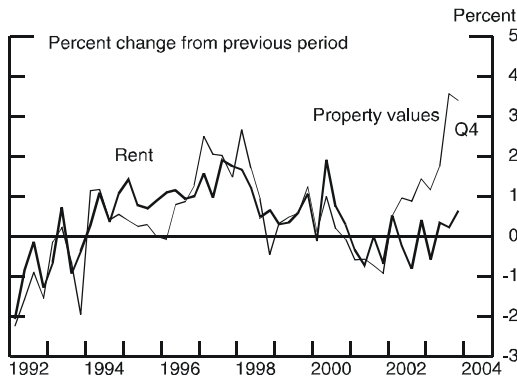
**Vacancy Rate**



Source. Torto Wheaton Research.

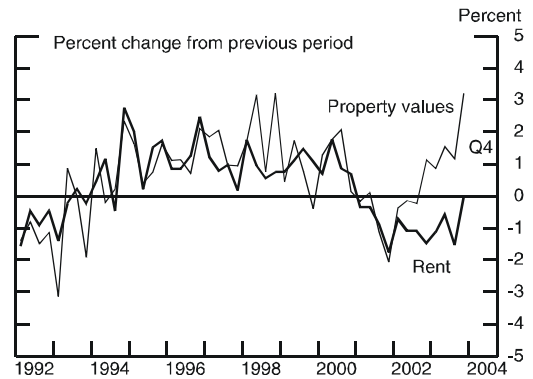
**Other Commercial Buildings**

**Retail Rent and Property Values**



Source. National Real Estate Index.

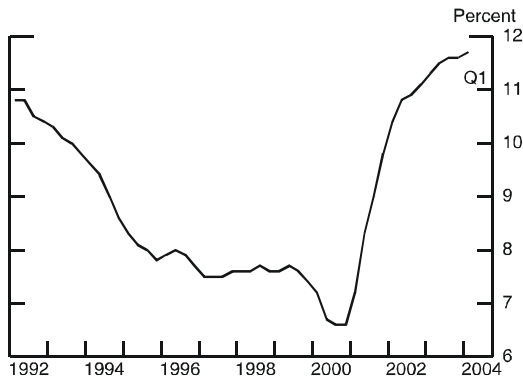
**Warehouse Rent and Property Values**



Source. National Real Estate Index.

**Industrial Buildings**

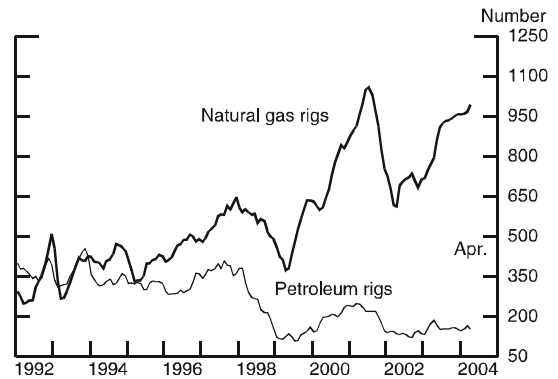
**Vacancy Rate**



Source. Torto Wheaton Research.

**Drilling Activity**

**Rigs in Operation**



Note. April values are averages through April 23.  
Source. DOE/Baker Hughes.

**Changes in Manufacturing and Trade Inventories**  
(Billions of dollars; seasonally adjusted book value; annual rate)

Sector	2003			2004	
	Q3	Q4	Dec.	Jan.	Feb.
Manufacturing and trade Ex. wholesale and retail motor vehicles and parts	-4.4	48.1	44.9	23.1	92.8
Manufacturing Ex. aircraft	-17.5	1.2	5.5	17.3	28.0
Wholesale trade Motor vehicles and parts Ex. motor vehicles and parts	6.1	16.7	22.8	7.0	43.6
Retail trade Motor vehicles and parts Ex. motor vehicles and parts	-4.2	6.2	10.2	1.2	4.3
	10.3	10.5	12.6	5.8	39.4
	7.0	30.2	16.6	-1.2	21.2
	-4.7	16.9	4.9	3.6	17.0
	11.8	13.4	11.7	-4.8	4.2

**Book-Value Inventories Relative to Shipments and Sales**



**Inventory-Consumption Ratios, Flow-of-Goods System**



industries with elevated days' supply levels are paper and communications equipment.

### **Government Sector**

**Federal.** Incoming budget data remain consistent with a substantial widening of the federal deficit this year. Although tax collections have firmed somewhat in February and March, this increase in revenues has been more than matched by a pickup in spending.

Federal unified budget outlays rose 8 percent in February and March relative to a year earlier, about 1 percentage point faster than the twelve-month changes recorded in 2003. The acceleration reflects the waning effects of lower interest rates on the rise in debt-service costs and a pickup in the pace of spending on Medicaid and Medicare. Medicaid payments are being elevated by the temporary increase in the federal match rate that was enacted last year, and Medicare outlays are being lifted, in part, by last year's legislation that increased payment rates to certain health care providers. Budget outlays are also being boosted by continued rapid increases in defense spending. Indeed, the incoming data indicate that real defense expenditures in the NIPA accounts rose at an annual rate of 15 percent in the first quarter.

Receipts in February and March came in 7-1/2 percent above a year earlier, as gains in both corporate and personal taxable income apparently more than offset the effects of last year's tax cut legislation. Nevertheless, last year's legislation has led to a noticeable step-up in refunds and a reduction in final settlements. Data through mid-April show refunds running 9 percent above year-ago levels. In addition, daily data for April on nonwithheld income taxes and social insurance collections, which are largely final settlements, suggest that payments are running roughly 8 percent below last year.

**State and local governments.** Indicators of state and local spending in the first quarter have been mixed. Employment jumped 32,000 in March after little change, on balance, over the first two months of the quarter. In contrast, construction spending has moved down for five consecutive months, and the February level stood nearly 6 percent below the high recorded last September.

With the economy expanding and revenues strengthening, the states, as a group, appear to be facing fewer budgetary difficulties than in recent years. According to the National Conference of State Legislatures, states expect that ending balances for the current fiscal year as a percentage of general fund expenditures will rise for the first time since 2000; both rainy day funds and cash on hand are projected to increase. Reflecting this improvement, credit rating agencies have raised state ratings: For example, Standard & Poor's has assigned 41 states a stable outlook, compared with 34 last year; and 7 states have a negative outlook,

**Federal Government Outlays and Receipts**  
(Unified basis; billions of dollars except as noted)

Function or source	February-March			12 months ending in March		
	2003	2004	Percent change	2003	2004	Percent change
Outlays	365.4	394.8	8.0	2078.3	2228.0	7.2
Financial transactions <sup>1</sup>	.6	-.4	...	-1.9	-2.1	...
Payment timing <sup>2</sup>	-11.9	-12.5	...	-.6	-.3	...
Adjusted outlays	376.7	407.7	8.2	2080.8	2230.4	7.2
Receipts	209.8	225.4	7.4	1799.3	1807.4	.4
Payment timing	.0	.0	...	.0	.0	...
Adjusted receipts	209.8	225.4	7.4	1799.3	1807.4	.4
Surplus or deficit (-)	-155.6	-169.4	...	-279.0	-420.6	...
<i>Selected components of adjusted outlays and receipts</i>						
Adjusted outlays	376.7	407.7	8.2	2080.8	2230.4	7.2
Net interest	26.6	26.1	-1.8	164.5	151.7	-7.7
Non-interest	350.0	381.6	9.0	1916.3	2078.6	8.5
National defense	63.7	76.1	19.3	369.4	436.9	18.3
Social security	78.3	82.3	5.1	465.5	484.5	4.1
Medicare	39.4	45.7	16.1	242.4	257.5	6.2
Medicaid	24.4	29.1	19.3	152.5	170.2	11.6
Income security	79.5	83.2	4.7	330.0	341.2	3.4
Agriculture	2.9	1.0	-65.2	22.2	21.7	-2.4
Other	61.9	64.1	3.6	334.3	366.6	9.7
Adjusted receipts	209.8	225.4	7.4	1799.3	1807.4	.4
Individual income and payroll taxes	172.7	178.0	3.1	1500.8	1464.2	-2.4
Withheld + FICA	238.4	248.5	4.3	1369.9	1375.7	.4
Nonwithheld + SECA	9.2	11.4	24.4	313.3	288.5	-7.9
Less: Refunds	74.8	81.9	9.5	182.4	200.0	9.7
Corporate	10.4	19.8	90.3	114.3	154.5	35.2
Gross	25.8	27.5	6.7	184.4	204.1	10.7
Less: Refunds	15.4	7.7	-49.7	70.1	49.5	-29.4
Other	26.7	27.6	3.1	184.3	188.7	2.4
Adjusted surplus or deficit (-)	-166.8	-182.3	...	-281.5	-423.0	...

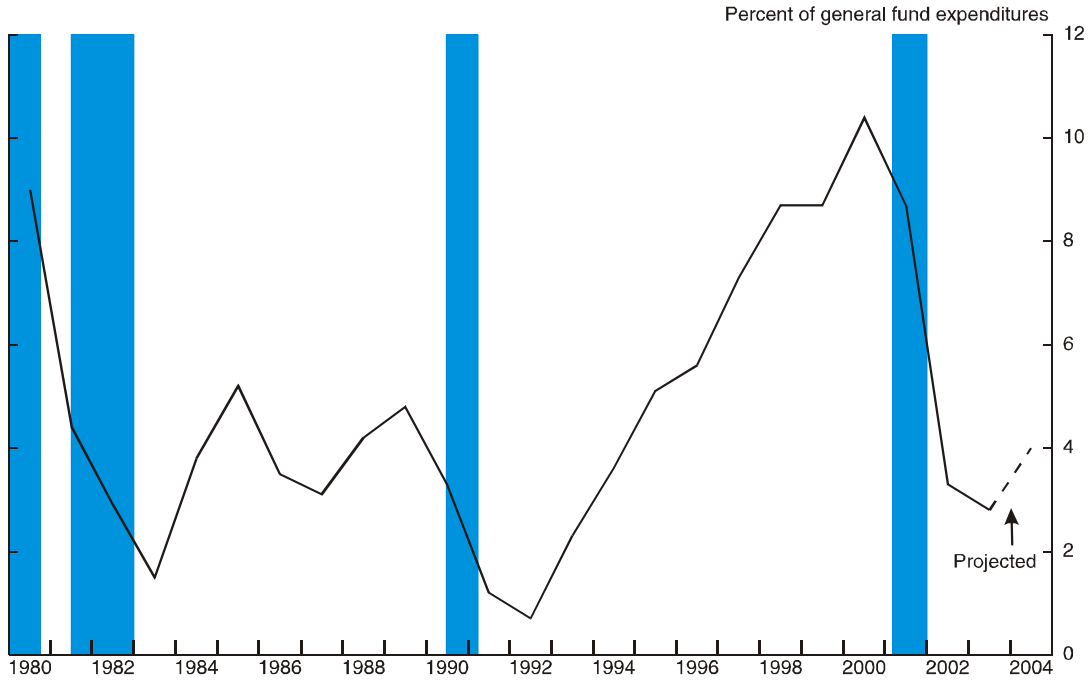
Note. Components may not sum to totals because of rounding.

1. Financial transactions consist of deposit insurance, spectrum auction and sales of major assets.

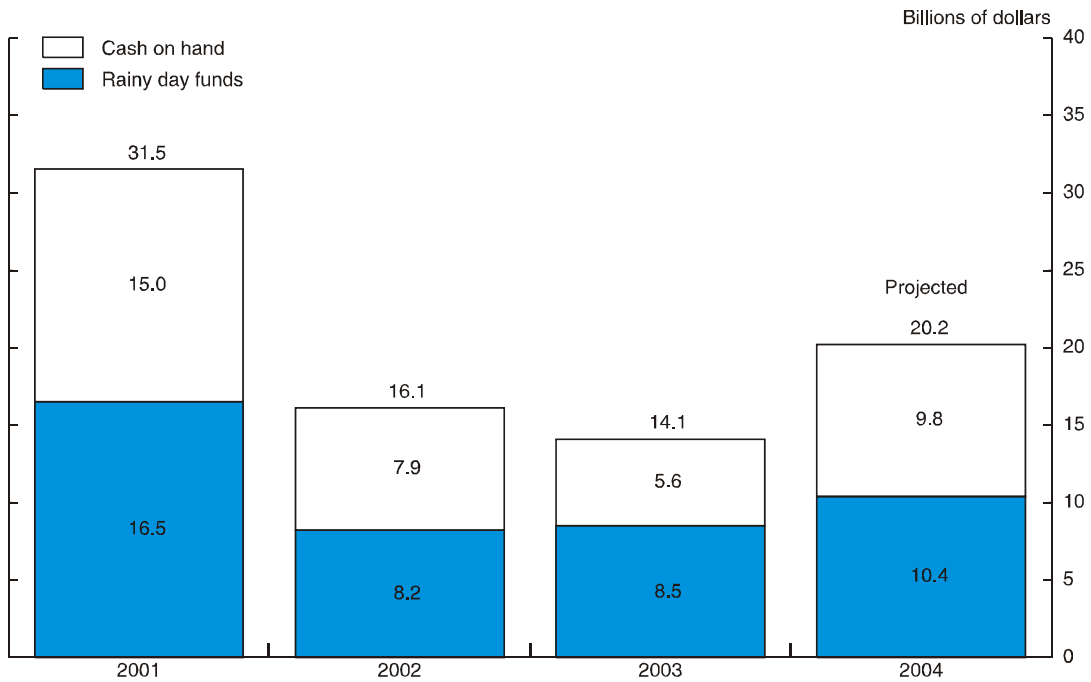
2. A shift in payment timing occurs when the first of the month falls on a weekend or holiday, or when the first three days of a month are nonworking days. Outlays for defense, social security, Medicare, income security, and "other" have been adjusted to account for these shifts.

... Not applicable.

### State General Fund Ending Balances (Fiscal years)



Note. Shaded bars are periods of recession as determined by the National Bureau of Economic Research.



Note. Fiscal 2004 ends on June 30 for all but four states.  
Source. National Conference of State Legislatures.

compared with 13 last year. With the end of fiscal 2004 just a little more than two months away, most states are working to nail down their 2005 general fund budgets. Despite the recent fiscal strengthening, budgetary pressures still prevail in some states, where legislators are negotiating another round of provisions, including further spending reductions, tax hikes, and funds transfers, to cover prospective shortfalls.

### **Prices**

A surge in energy prices helped push up consumer price inflation in the first quarter. Still, the cumulative increase in the consumer price index during the twelve months ending in March, at 1.7 percent, was more than 1 percentage point lower than in the preceding year. Excluding food and energy, inflation also moved up in the early part of this year after very low readings in late 2003; over the twelve months ending in March, the core CPI rose 1.6 percent, similar to the increase a year earlier.

The run-up in consumer energy prices since the beginning of the year has been driven by rising crude oil costs and strong demand for gasoline. The energy component of the CPI rose 1.9 percent in March, as another sharp increase in gasoline prices was only partially offset by declines in prices of natural gas and electricity. Survey data for April point to a modest further increase in retail gasoline prices, not seasonally adjusted, although less than the seasonal norm. Moreover, the upward pressures on wholesale prices seem to have eased: Inventories of gasoline have risen, on balance, from their trough in mid-March, and wholesale margins have fallen noticeably in recent weeks. The March drop in residential natural gas prices is not likely to be repeated in April: Demand for gas from electric utilities has pushed up spot gas prices despite a small recovery in natural gas inventories.

Consumer prices for food rose 0.2 percent in March, matching February's increase. Although retail prices for beef fell again last month, trade reports note a strong rebound in wholesale prices for beef, suggesting that consumer demand for beef has held up much better than some observers had feared in the wake of the mad cow disease incident. Price increases for a variety of other food items stepped up in the first quarter, most notably fats and oils and cereal and bakery products—likely reflecting robust global demand for crops and poor harvests in the Southern Hemisphere—and food away from home. Over the twelve months ending in March, food prices rose 3.2 percent, a pickup of nearly 2 percentage points from the preceding year.

Excluding food and energy, the CPI rose 0.4 percent in March. This jump, which was the largest monthly increase in more than two years, likely overstates the trend in inflation. Some of the noteworthy price increases in March followed unusually low readings in the same categories in previous months and probably will not be repeated; examples include a jump of 3.8 percent in the



**Measures of Inflation**  
(Percent)

Measures	12-month change		3-month change		1-month change	
	Mar. 2003	Mar. 2004 <sup>1</sup>	Annual rate		Monthly rate	
			Dec. 2003	Mar. 2004 <sup>1</sup>	Feb. 2004	Mar. 2004 <sup>1</sup>
<i>CPI</i>						
<b>Total</b>	<b>3.0</b>	<b>1.7</b>	<b>-.4</b>	<b>5.1</b>	<b>.3</b>	<b>.5</b>
Food	1.4	3.2	5.9	1.3	.2	.2
Energy	23.4	.4	-22.2	38.6	1.7	1.9
<b>Ex. food and energy</b>	<b>1.7</b>	<b>1.6</b>	<b>.8</b>	<b>2.9</b>	<b>.2</b>	<b>.4</b>
Ex. tobacco	1.7	1.6	.8	2.9	.2	.4
Core commodities	-1.4	-1.6	-2.8	1.4	.2	.1
Core services	3.0	2.9	2.5	3.4	.1	.5
Current-methods total	3.0	1.8	-.3	5.1	.3	.5
Ex. food and energy	1.7	1.6	.7	2.9	.2	.4
Ex. tobacco	1.6	1.6	.7	2.9	.2	.4
Chained CPI (n.s.a.) <sup>2</sup>	2.7	1.4	...	...	...	...
Ex. food and energy <sup>2</sup>	1.3	1.2	...	...	...	...
<i>PCE Prices</i>						
<b>Total</b>	<b>2.4</b>	<b>1.5</b>	<b>.8</b>	<b>3.5</b>	<b>.2</b>	<b>.3</b>
Food	1.5	2.7	4.7	1.6	.2	.2
Energy	24.0	1.3	-22.7	42.7	1.8	2.3
<b>Ex. food and energy</b>	<b>1.4</b>	<b>1.4</b>	<b>1.8</b>	<b>1.9</b>	<b>.1</b>	<b>.2</b>
Ex. tobacco	1.3	1.4	1.8	1.8	.1	.2
Core commodities	-1.9	-1.3	-2.3	1.3	.1	.1
Core services	2.8	2.5	3.6	2.1	.1	.3
Core market-based	1.4	n.a.	.6	n.a.	.2	n.a.
Core non-market-based	1.7	n.a.	7.7	n.a.	-.3	n.a.
<i>PPI</i>						
<b>Total finished goods</b>	<b>4.0</b>	<b>1.4</b>	<b>2.8</b>	<b>5.1</b>	<b>.1</b>	<b>.5</b>
Food	-.4	5.3	8.1	1.1	.2	1.5
Energy	26.4	-.4	1.6	23.5	.2	.6
<b>Ex. food and energy</b>	<b>.5</b>	<b>.7</b>	<b>1.3</b>	<b>2.1</b>	<b>.1</b>	<b>.2</b>
Ex. tobacco	.7	.7	1.2	2.3	.1	.2
Core consumer goods	.6	.6	1.3	2.3	.0	.3
Capital equipment	.3	.9	1.4	2.3	.0	.3
Intermediate materials	8.0	1.2	2.7	10.1	.9	.7
Ex. food and energy	2.7	2.8	2.6	8.9	.9	.6
Crude materials	46.8	-1.6	23.6	26.3	2.5	.7
Ex. food and energy	14.8	29.8	46.2	57.2	5.5	2.7

1. PCE prices in March are staff estimates.

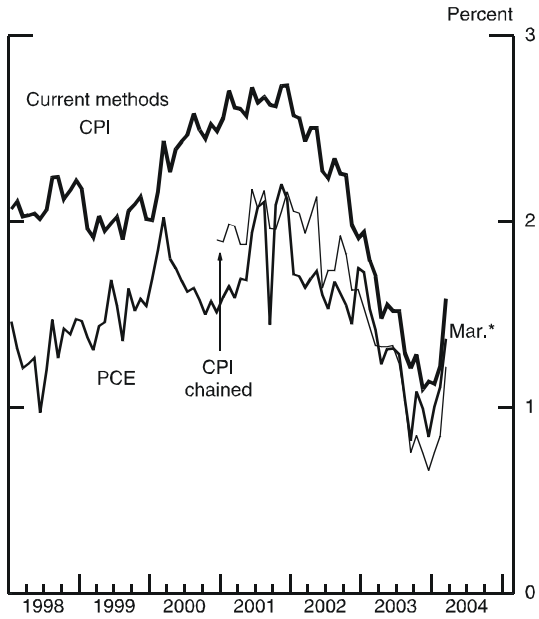
2. Higher-frequency figures are not applicable for data that are not seasonally adjusted.

... Not applicable.

n.a. Not available.

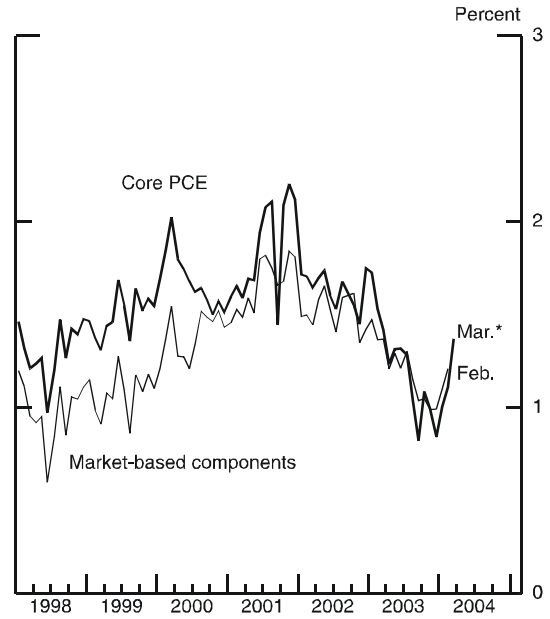
**Core Consumer Price Inflation**  
(12-month change except where noted)

CPI and PCE excluding Food and Energy



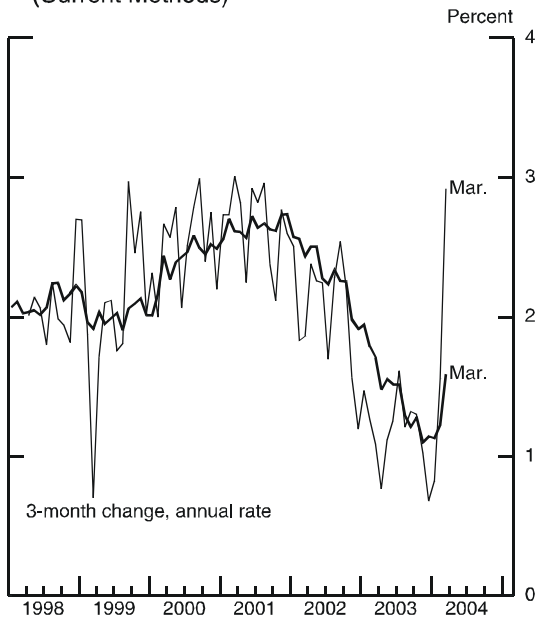
\* PCE for March is a staff estimate.

PCE excluding Food and Energy

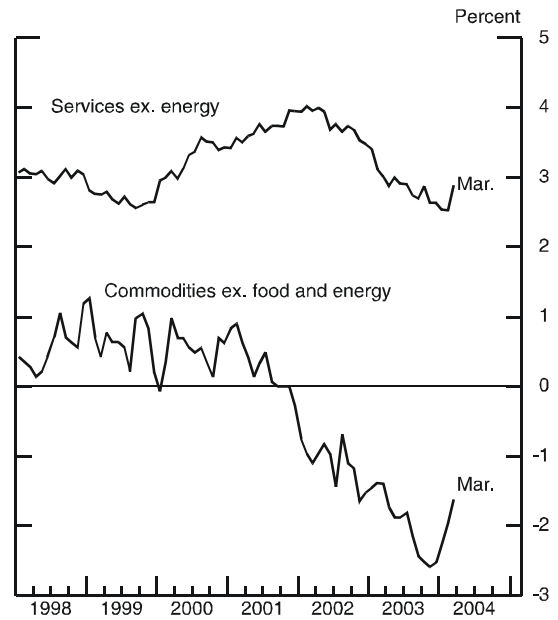


\* Staff estimate.

CPI excluding Food and Energy  
(Current Methods)



CPI Services and Commodities



volatile category of lodging away from home and a sharp upturn of 0.9 percent in prices for apparel after four consecutive months of decline. Nevertheless, prices for a wide range of goods and services—including autos and medical services—have recently risen faster than in 2003, bringing the twelve-month change in the core CPI back up from the very low readings seen late last year.

Translation of the available price data into an estimate of core PCE prices points to an increase of about 0.2 percent in March, which would put the twelve-month change in core PCE prices in March at 1.4 percent, the same rate of increase as over the preceding year.

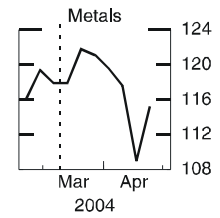
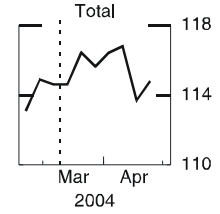
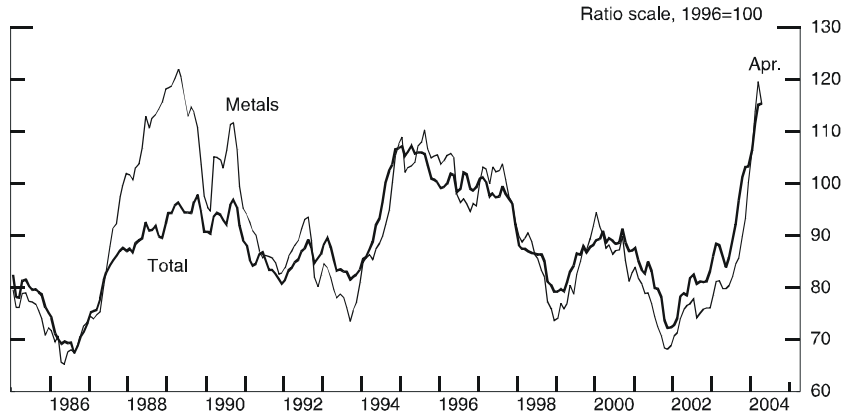
Prices for capital equipment as measured in the producer price index rose 0.3 percent in March after having been flat in February. These prices have fluctuated in recent months, largely mirroring monthly swings in prices for new cars and trucks. For the twelve months ending in March, prices for capital equipment rose 0.9 percent, a pickup of a little more than 1/2 percentage point from the preceding year.

Industrial commodity prices as measured by the Journal of Commerce index are up almost 12 percent (not at an annual rate) so far this year after a surge of more than 20 percent in 2003. The 18 percent decline in prices for scrap steel since the last Greenbook reversed only one-third of the run-up earlier in the year. Moreover, demand for other commodities appears to have remained robust, with further increases in prices for forest products, some metals, and most agricultural commodities. At later stages of production, price increases have been more modest. In the first three months of the year, producer prices for intermediate materials excluding food and energy rose at an annual rate of 8.9 percent, while producer prices for core finished goods rose 2.1 percent.

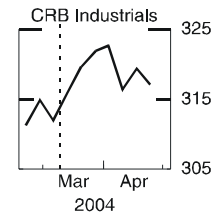
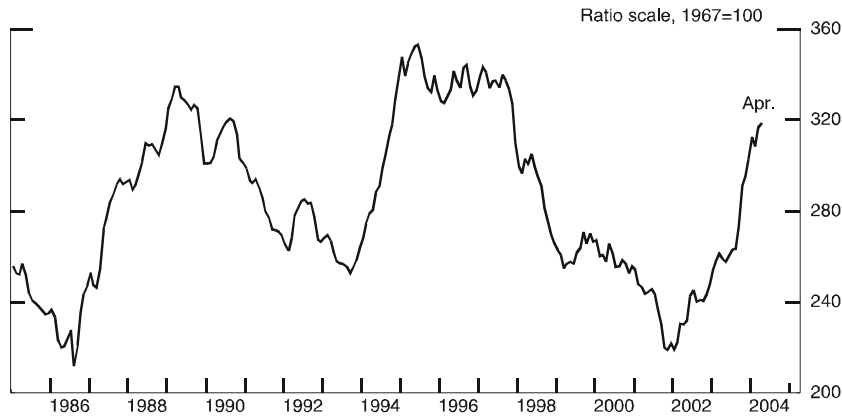
Median year-ahead expected inflation as measured by the Michigan Survey rose to 3.0 percent in early April, likely reflecting the run-up in energy prices. In contrast, the preliminary report on median expectations over a five- to ten-year horizon dropped to 2.5 percent, well below the readings over the past couple of years.

## Commodity Price Measures

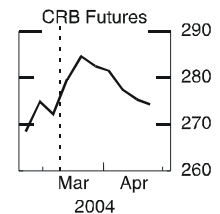
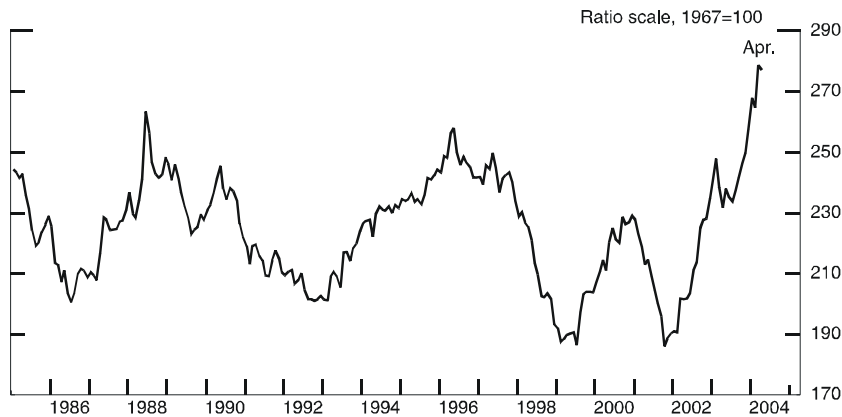
Journal of Commerce Index



CRB Spot Industrials



CRB Futures



Note. Larger panels show monthly average of weekly data through last available week. Smaller panels show 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 Commodity Research Board (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**  
(Percent change except as noted)

Commodity	Current price (dollars)	2002 <sup>1</sup>	2003 <sup>1</sup>	12/30/03 to 3/9/04 <sup>2</sup>	3/9/04 <sup>2</sup> to 4/27/04	Memo: 52-week change to 4/27/04
<i>Metals</i>						
Copper (lb.)	1.310	5.6	47.9	24.1	-2.2	74.7
Steel scrap (ton)	206.000	49.2	66.8	56.0	-18.4	72.1
Aluminum, London (lb.)	.775	2.8	16.7	3.6	5.2	27.9
<i>Precious metals</i>						
Gold (oz.)	396.250	24.3	20.7	-3.5	-1.3	19.6
Silver (oz.)	6.265	3.8	24.6	19.7	-12.3	36.5
<i>Forest products</i> <sup>3</sup>						
Lumber (m. bdft.)	425.000	-8.9	44.5	33.2	10.4	81.6
Plywood (m. sqft.)	585.000	.7	36.7	45.6	1.7	99.0
<i>Petroleum</i>						
Crude oil (barrel)	34.330	66.9	-7.4	13.7	1.9	49.7
Gasoline (gal.)	1.167	69.2	12.5	7.7	13.8	60.0
Fuel oil (gal.)	.935	63.8	6.3	-2.0	3.8	18.4
<i>Livestock</i>						
Steers (cwt.)	83.920	16.5	4.1	12.4	-4	9.0
Hogs (cwt.)	49.750	-13.2	18.3	21.1	15.7	18.5
Broilers (lb.)	.801	6.5	10.9	18.9	1.6	45.9
<i>Farm crops</i>						
Corn (bu.)	2.940	18.1	1.7	22.5	2.8	28.1
Wheat (bu.)	4.150	37.7	-2.1	-1.5	3.6	11.7
Soybeans (bu.)	9.830	32.2	37.1	23.0	4.0	59.3
Cotton (lb.)	.592	52.1	42.5	-13.7	.8	16.4
<i>Other foodstuffs</i>						
Coffee (lb.)	.625	1.1	23.1	20.4	-5.3	26.9
<i>Memo:</i>						
JOC Industrials	114.800	16.8	22.3	11.7	.2	35.5
JOC Metals	115.300	9.7	38.1	12.6	-2.2	44.7
CRB Futures	274.250	24.4	9.1	6.4	.8	19.0
CRB Spot Industrials	317.130	13.7	24.0	1.2	1.7	23.6

1. Changes are from the last week of the preceding year to the last week of the year indicated.

2. March 9, 2004, is the Tuesday preceding publication of the March Greenbook.

3. Prices shown apply to the Friday before the date indicated.

**Broad Measures of Inflation**  
(Percent change, Q4 to Q4)

Measure	2000	2001	2002	2003
<i>Product prices</i>				
GDP chain price index	2.2	2.4	1.4	1.6
Less food and energy	2.0	2.3	1.5	1.3
Nonfarm business chain price index	1.9	1.8	1.0	1.0
<i>Expenditure prices</i>				
Gross domestic purchases chain price index	2.4	1.6	1.7	1.7
Less food and energy	1.8	2.1	1.4	1.4
PCE chain price index	2.3	1.6	1.8	1.5
Less food and energy	1.5	2.1	1.6	1.0
PCE chain price index, market-based components	2.4	1.3	1.8	1.6
Less food and energy	1.5	1.8	1.5	1.0
CPI	3.4	1.8	2.2	1.9
Less food and energy	2.6	2.7	2.0	1.2
Chained CPI	n.a.	1.5	1.8	1.5
Less food and energy	n.a.	2.1	1.7	.8
Median CPI	3.1	3.8	3.0	2.0
Trimmed mean CPI	2.8	2.6	2.1	1.7

n.a. Not available.

**Surveys of Inflation Expectations**  
(Percent)

Period	Actual CPI inflation <sup>1</sup>	University of Michigan				Professional forecasters (10-year) <sup>4</sup>
		1 year <sup>2</sup>		5 to 10 years <sup>3</sup>		
		Mean	Median	Mean	Median	
2002:Q2	1.3	3.1	2.7	3.4	2.9	2.5
Q3	1.6	2.8	2.6	3.2	2.7	2.5
Q4	2.2	2.7	2.5	3.3	2.8	2.5
2003:Q1	2.9	3.2	2.8	3.0	2.7	2.5
Q2	2.1	2.6	2.2	3.1	2.7	2.5
Q3	2.2	2.8	2.3	3.1	2.7	2.5
Q4	1.9	3.0	2.6	3.1	2.8	2.5
2004:Q1	1.8	3.1	2.7	3.4	2.9	2.5
2003:Oct.	2.0	3.1	2.6	3.1	2.8	...
Nov.	1.8	3.1	2.7	3.1	2.7	...
Dec.	1.9	2.8	2.6	3.1	2.8	2.5
2004:Jan.	1.9	2.9	2.7	3.4	2.8	...
Feb.	1.7	2.9	2.6	3.3	2.9	...
Mar.	1.7	3.4	2.9	3.4	2.9	2.5
Apr.	n.a.	3.6	3.0	2.8	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 average, during the next twelve months?
  3. Responses to the question: By about what percent per year do you expect prices to go up, on average, during the next five to ten years?
  4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.
- n.a. Not available.  
... Not applicable.

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## **Domestic Financial Developments**

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

Instrument	2003		2004		Change to Apr. 27 from selected dates (percentage points)		
	June 24	Dec. 31	Mar. 15	Apr. 27	2003 June 24	2003 Dec. 31	2004 Mar. 15
<i>Short-term</i>							
FOMC intended federal funds rate	1.25	1.00	1.00	1.00	-.25	.00	.00
Treasury bills <sup>1</sup>							
3-month	0.81	0.93	0.95	0.97	.16	.04	.02
6-month	0.82	1.00	1.00	1.15	.33	.15	.15
Commercial paper (A1/P1 rates) <sup>2</sup>							
1-month	0.95	1.00	1.01	1.03	.08	.03	.02
3-month	0.91	1.05	1.02	1.08	.17	.03	.06
Large negotiable CDs <sup>1</sup>							
1-month	0.96	1.06	1.03	1.05	.09	-.01	.02
3-month	0.93	1.09	1.04	1.10	.17	.01	.06
6-month	0.92	1.16	1.08	1.28	.36	.12	.20
Eurodollar deposits <sup>3</sup>							
1-month	0.94	1.04	1.02	1.03	.09	-.01	.01
3-month	0.91	1.07	1.04	1.09	.18	.02	.05
Bank prime rate	4.25	4.00	4.00	4.00	-.25	.00	.00
<i>Intermediate- and long-term</i>							
U.S. Treasury <sup>4</sup>							
2-year	1.14	1.83	1.55	2.25	1.11	.42	.70
10-year	3.46	4.40	3.91	4.59	1.13	.19	.68
30-year	4.53	5.22	4.83	5.35	.82	.13	.52
U.S. Treasury 10-year indexed note	1.70	2.00	1.49	2.00	.30	.00	.51
Municipal revenue (Bond Buyer) <sup>5</sup>	4.89	5.04	4.75	5.20	.31	.16	.45
Private instruments							
10-year swap	3.67	4.66	4.11	4.89	1.22	.23	.78
10-year FNMA <sup>6</sup>	3.84	4.72	4.24	4.89	1.05	.17	.65
10-year AA <sup>7</sup>	4.13	5.05	4.56	5.23	1.10	.18	.67
10-year BBB <sup>7</sup>	5.16	5.74	5.21	5.81	.65	.07	.60
5-year high yield <sup>7</sup>	8.95	7.94	7.76	7.92	-1.03	-.02	.16
Home mortgages (FHLMC survey rate) <sup>8</sup>							
30-year fixed	5.21	5.81	5.41	5.94	.73	.13	.53
1-year adjustable	3.51	3.73	3.41	3.69	.18	-.04	.28

Stock exchange index	Record high		2003	2004		Change to Apr. 27 from selected dates (percent)		
	Level	Date	Dec. 31	Mar. 15	Apr. 27	Record high	2003 Dec. 31	2004 Mar. 15
Dow-Jones Industrial	11,723	1-14-00	10,454	10,103	10,478	-10.62	.23	3.71
S&P 500 Composite	1,527	3-24-00	1,112	1,104	1,138	-25.49	2.36	3.04
Nasdaq	5,049	3-10-00	2,003	1,939	2,033	-59.74	1.46	4.81
Russell 2000	606	4-5-04	557	567	591	-2.58	6.08	4.20
Wilshire 5000	14,752	3-24-00	10,800	10,799	11,129	-24.56	3.05	3.06

1. Secondary market.
2. Financial commercial paper.
3. Bid rates for eurodollar deposits collected around 9:30 a.m. Eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Most recent Thursday quote.
6. Constant maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.
8. For week ending Friday previous to date shown.

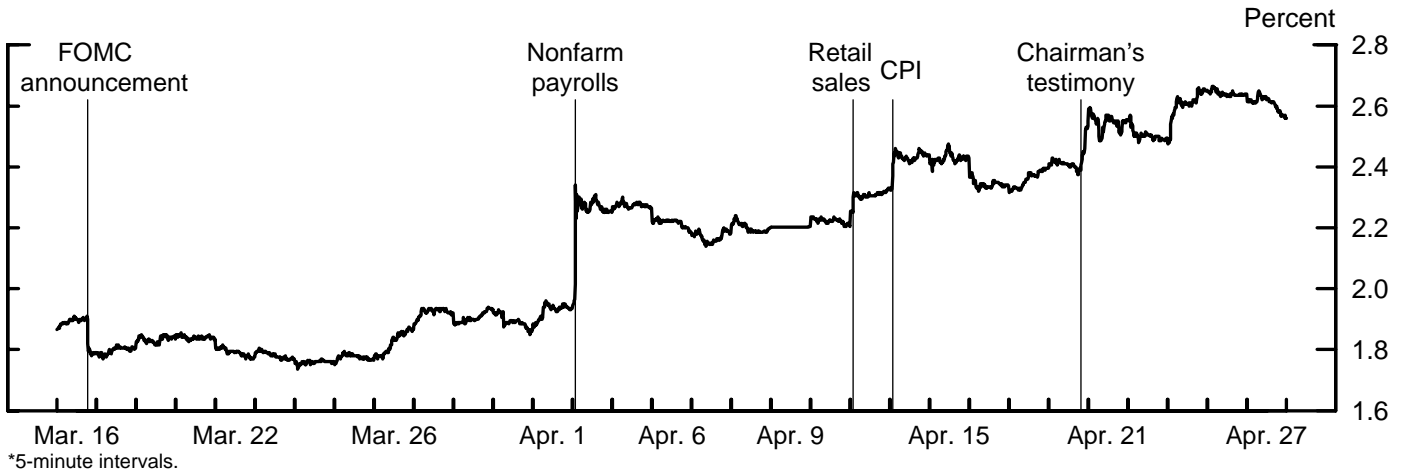
NOTES:

June 24, 2003, is the last day before the most recent policy easing.  
March 15, 2004, is the day before the most recent FOMC meeting.

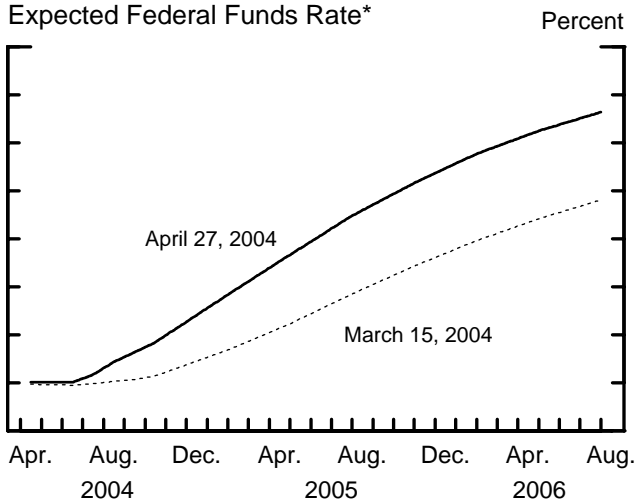


# Policy Expectations and Treasury Yields

March 2005 Eurodollar Futures Contract Rate\*

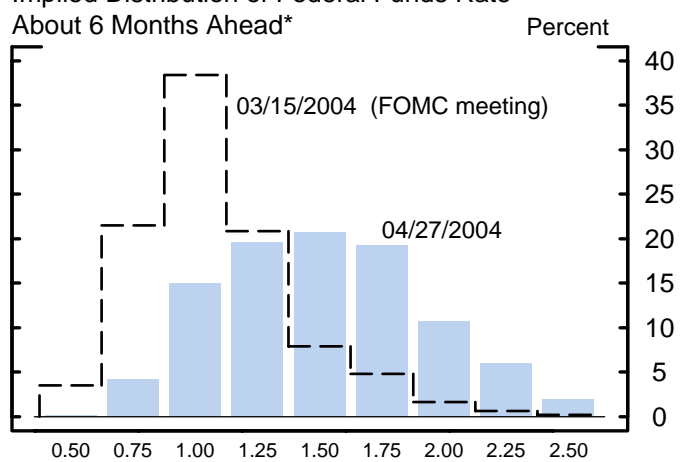


Expected Federal Funds Rate\*



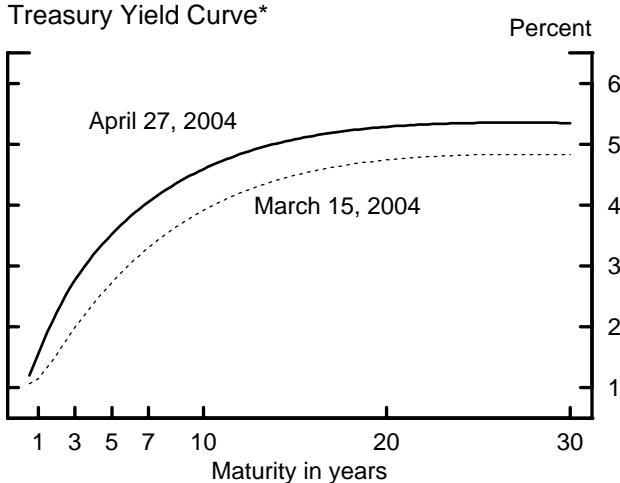
\*Estimates from federal funds and Eurodollar futures.

Implied Distribution of Federal Funds Rate About 6 Months Ahead\*



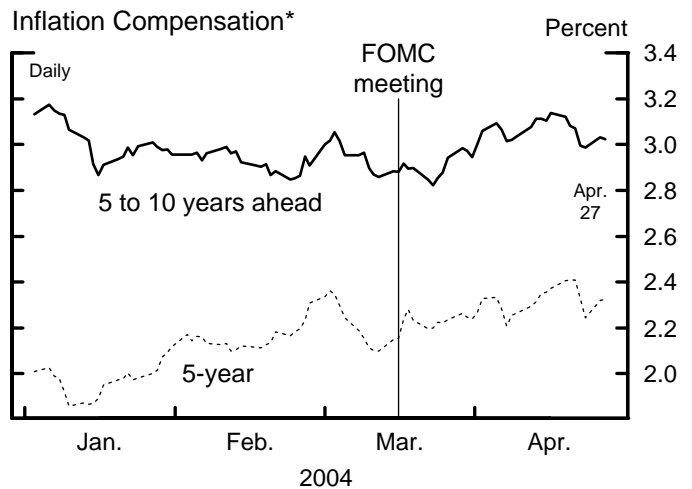
\*Based on the distribution of the 3-month eurodollar rate 5 months ahead (adjusted for a risk premium), as implied by options on Eurodollar futures contracts.

Treasury Yield Curve\*



\*Smoothed yield curve estimated from off-the-run Treasury securities.

Inflation Compensation\*



\*Estimates based upon smoothed nominal and inflation-indexed Treasury yield curves.

## Domestic Financial Developments

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### Overview

Data on economic activity and prices received over the intermeeting period were generally stronger than expected, leading investors to anticipate a tighter stance of monetary policy. Treasury coupon yields climbed as much as 80 basis points, reflecting mainly an increase in real interest rates. Yields on investment-grade corporate bonds rose about in line with those on Treasuries, while yields on speculative-grade bonds increased more modestly, narrowing their risk spreads. Despite the rise in interest rates, broad equity-market indexes moved higher, as reported and expected earnings continued to strengthen. Business borrowing picked up in the first quarter, but it appears to have slackened somewhat in recent weeks in response to the rise in rates. Household borrowing is estimated to have remained robust in the first quarter.

### Policy Expectations and Treasury Yields

Stronger-than-expected macroeconomic data released during the intermeeting period, particularly the employment report in early April, led market participants to expect that policy tightening will begin sooner than previously anticipated. Quotes on federal funds futures indicate that investors have now fully priced in a rate hike of 25 basis points by the August FOMC meeting and place significant odds on rates rising a total of 50 basis points or more by November. Similarly, recent surveys indicate that a significant fraction of the primary dealers anticipate a rate hike at the August meeting and expect the federal funds rate to be 50 to 100 basis points higher by year-end. These surveys also suggest that market participants generally expect the Committee will view inflation risks as balanced at the upcoming meeting and will drop or modify its reference to “patience” in removing policy accommodation.

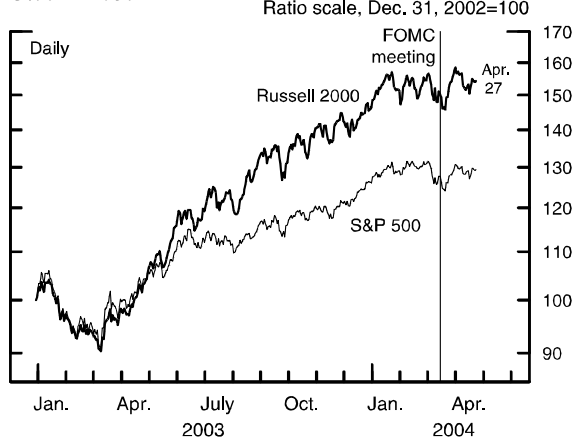
In addition to the expectation of an earlier tightening move, the trajectory of futures rates through the middle of 2006 has steepened, implying that investors anticipate that policy tightening will proceed at a faster pace once it commences. The upward revisions to the expected policy path since the last FOMC meeting showed through to Treasury yields, which rose, on balance, 70 to 80 basis points across the two- to ten-year curve. Yields on inflation-indexed Treasury securities climbed slightly less—about 50 to 60 basis points—pointing to a small increase in inflation compensation.

### Stock Prices and Corporate Risk Spreads

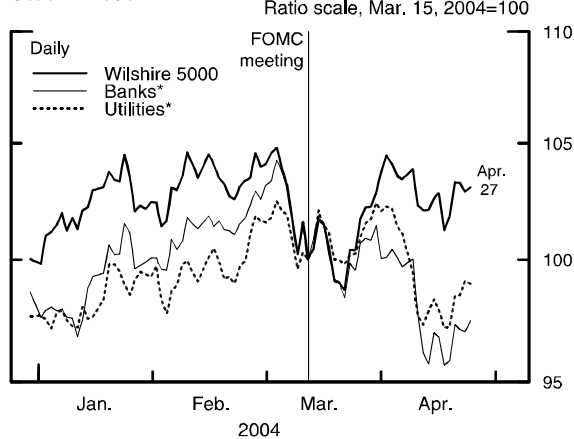
Broad equity-price indexes rose about 3 percent, on net, over the intermeeting period in response to strong earnings reports and positive economic news. The stock market rise was tempered somewhat by the upward shift in interest rates, which caused stock prices in some interest-sensitive sectors—such as banks and brokerage firms, utilities, and REITs—to fall.

### Stock Prices and Corporate Risk Spreads

Stock Prices

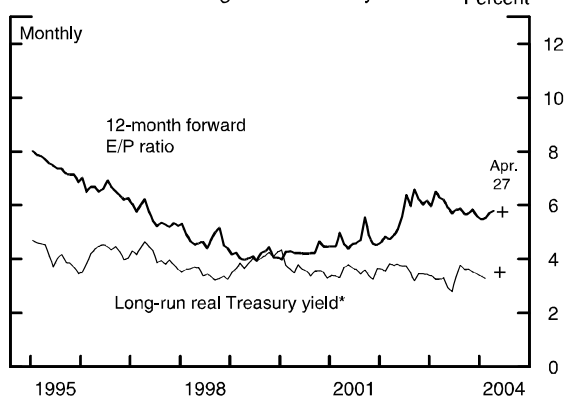


Stock Prices



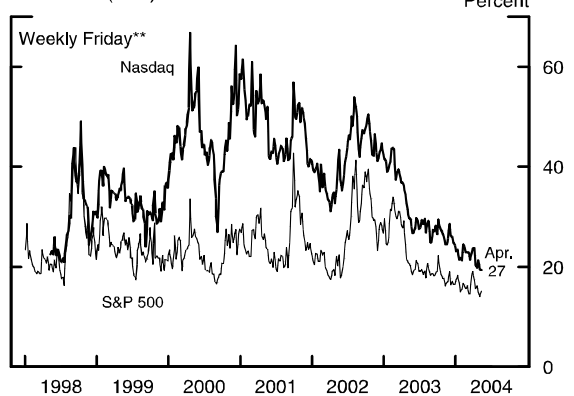
\* Dow Jones Sector Index.

12-Month Forward Earnings-Price Ratio for S&P 500 and Long-Run Treasury



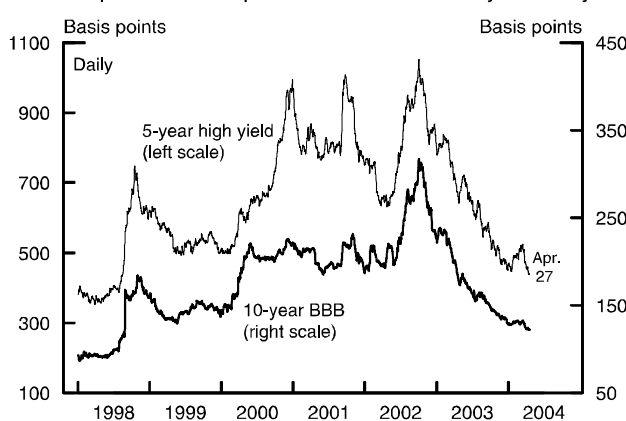
\* Yield on synthetic Treasury perpetuity minus Philadelphia Fed 10-year expected inflation.  
+ Denotes the latest observation using daily interest rates and stock prices and latest earnings data from I/B/E/S.

Implied Volatility on Nasdaq 100\* and S&P 500 (VIX)

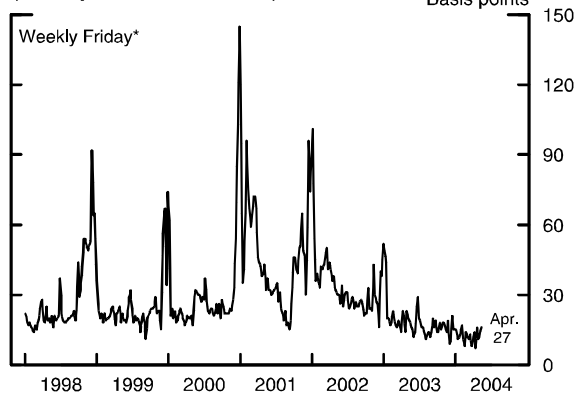


\* Implied volatility calculated from one to four month options.  
\*\* Latest observation is for most recent business day.

Corporate Bond Spreads to Similar Maturity Treasury



Commercial Paper Quality Spread (30-Day A2/P2 less A1/P1)



\* Latest observation is for most recent business day.

The forward earnings-price ratio for the S&P 500 was virtually unchanged over the intermeeting period, and its spread over a long-run Treasury yield—a rough measure of the equity premium—narrowed a little. Implied volatility of both the S&P 500 and Nasdaq 100 declined slightly, leaving both measures at their lowest levels since the late 1990s.

While risk spreads on investment-grade corporate bonds were nearly unchanged, spreads on speculative-grade bonds declined about 65 basis points, reversing the run-up that had occurred over the previous intermeeting period. Risk spreads on commercial paper remained quite low.

### **Corporate Earnings and Credit Quality**

With nearly 300 of the S&P 500 firms having reported for the first quarter, earnings per share for the S&P 500 appears to have increased almost 25 percent from its year-ago level. Market analysts continue to revise up their twelve-month forward-earnings forecasts, with the revisions index rising to a very high level in April. Expectations for long-term earnings growth inched up further in March and April, continuing the turnaround that began in late 2003 and ending the three-year slide in analysts' views on long-term prospects.

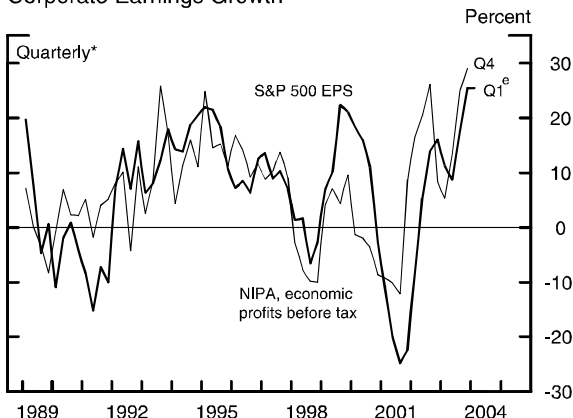
Corporate credit quality continued to improve over the intermeeting period. Bond downgrades, measured as the share of the par value of outstanding bonds, declined further in the first quarter and were almost matched by bond upgrades. With no defaults registered in February and defaults in March low, the six-month moving average of the realized bond default rate dropped further. The KMV expected year-ahead default rate based on firm-specific measures declined a shade in both February and March.

### **Business Finance**

Gross issuance of investment-grade bonds by nonfinancial corporations spiked in March, as firms apparently responded to the lower yields that followed the employment report released on March 5<sup>th</sup>. With the recent backup in yields, offerings by these firms have slowed considerably in April. In contrast, speculative-grade issuance has remained robust in March and April, with the proceeds largely being used to repay other debt. Outstanding commercial paper and C&I loans fell in March; however, over the first few weeks of April, both have registered small increases. The recent uptick in C&I loans is consistent with reports from the April Senior Loan Officer Survey that banks have eased C&I loan standards on net and that demand for these loans has picked up. Overall, net debt financing was about zero in March but appears to have increased thus far in April.

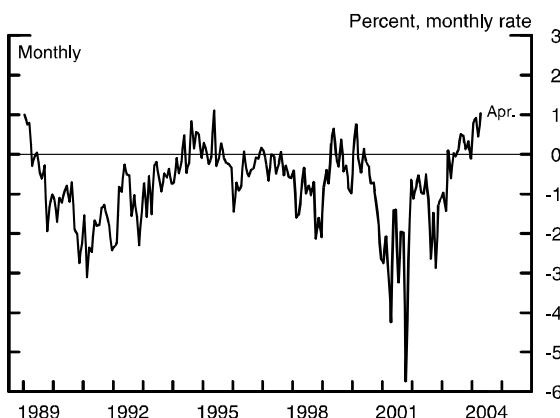
### Corporate Earnings and Credit Quality

Corporate Earnings Growth



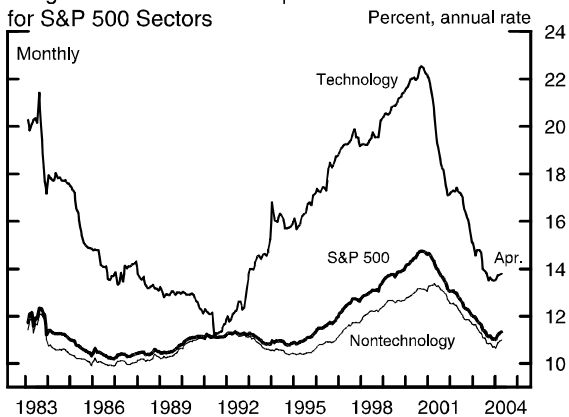
e Analysts' estimate as of April 27, 2004.  
 \* Change from four quarters earlier.  
 Source: I/B/E/S for S&P 500 EPS.

S&P 500 EPS Revisions Index



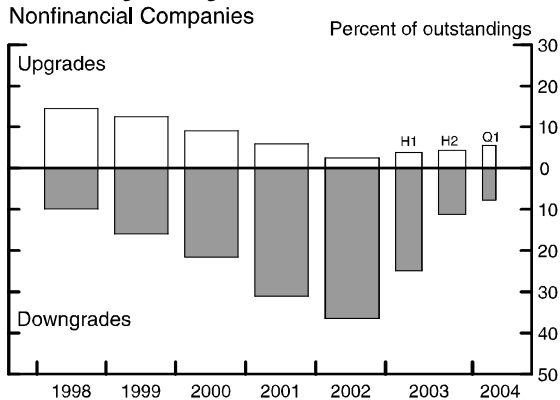
Note. Index is a weighted average of the percent change in the consensus forecasts of current-year and following-year EPS.

Long-Term EPS Growth Expectations for S&P 500 Sectors



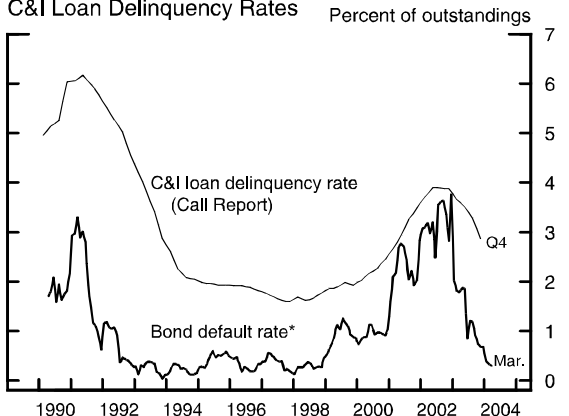
Note. Earnings-weighted average of I/B/E/S consensus firm-level 5-year growth forecasts.

Bond Ratings Changes of Nonfinancial Companies



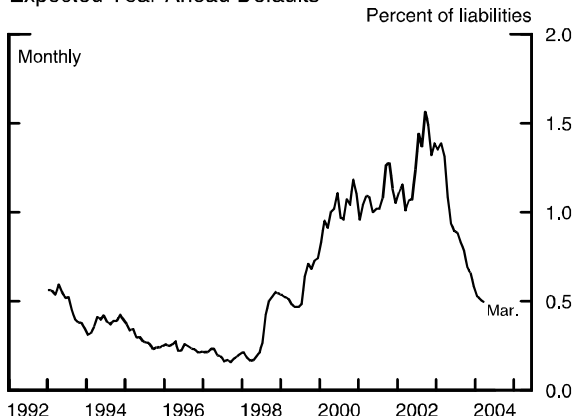
Note. Data are at an annual rate.  
 Source: Moody's Investors Service.

Bond Default and C&I Loan Delinquency Rates



\*6-month moving average, from Moody's Investors Service.

Expected Year-Ahead Defaults



Note. Firm-level estimates of default weighted by firm liabilities as a percent of total liabilities, excluding defaulted firms.  
 Source: KMV Corporation.

## Business Finance

### Gross Issuance of Securities by U.S. Corporations

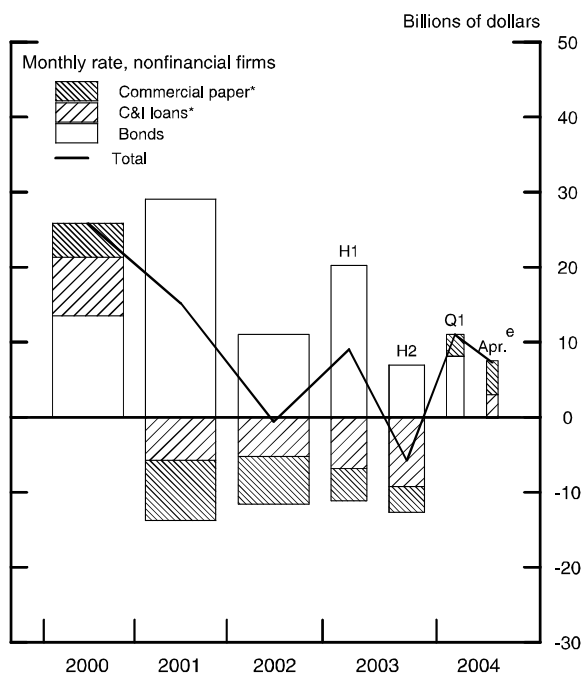
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	2000	2001	2002	2003		2004		Apr. <sup>e</sup>
				H1	H2	Q1	Mar.	
<i>Nonfinancial corporations</i>								
Stocks <sup>1</sup>	9.9	6.5	5.2	2.8	4.6	6.8	9.2	2.6
Initial public offerings	4.4	2.1	0.7	0.0	0.9	0.8	0.5	0.5
Seasoned offerings	5.5	4.4	4.4	2.8	3.7	6.0	8.7	2.1
Bonds	22.7	39.8	24.8	36.5	27.4	25.3	35.4	22.0
Investment grade <sup>2</sup>	13.2	27.5	15.7	20.1	11.9	10.6	18.8	3.0
Speculative grade <sup>2</sup>	4.7	8.9	4.8	11.5	11.1	12.3	13.5	12.0
Other (sold abroad/unrated)	4.9	3.4	4.2	4.9	4.5	2.4	3.0	7.0
<i>Memo</i>								
Net issuance of commercial paper <sup>3</sup>	4.5	-8.0	-6.3	-4.3	-3.4	2.9	-4.7	4.5
Change in C&I loans at commercial banks <sup>3,4</sup>	7.8	-5.8	-5.3	-6.9	-9.3	-0.0	-9.4	3.0
<i>Financial corporations</i>								
Stocks <sup>1</sup>	1.4	4.2	4.0	6.0	7.8	10.4	7.2	5.0
Bonds <sup>5</sup>	57.8	80.2	87.0	114.1	108.2	128.4	139.4	70.0

Note. Components may not sum to totals because of rounding. These data include bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.

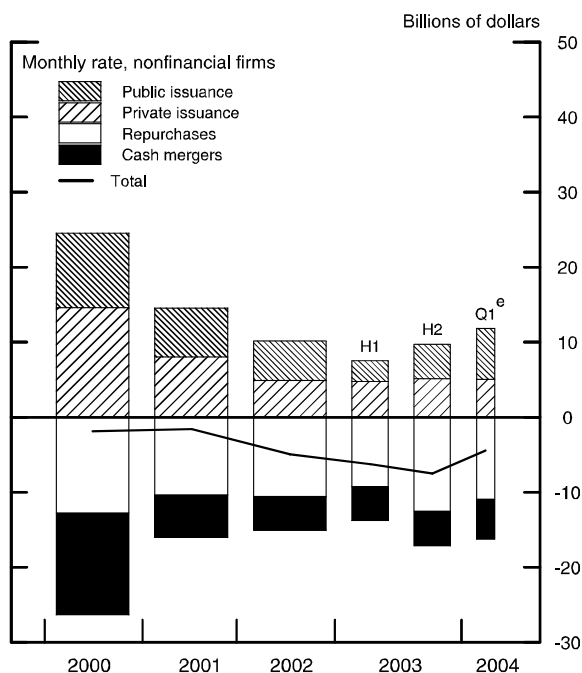
1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.
  2. Bonds sold in U.S., categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.
  3. End-of-period basis, seasonally adjusted.
  4. Adjusted for FIN 46 effects.
  5. Excludes mortgage-backed and asset-backed bonds.
- e Staff estimate based on data as of April 23, 2004.

#### Selected Components of Net Debt Financing



\* Seasonally adjusted, period-end basis.  
e Staff estimate based on data as of April 23, 2004.

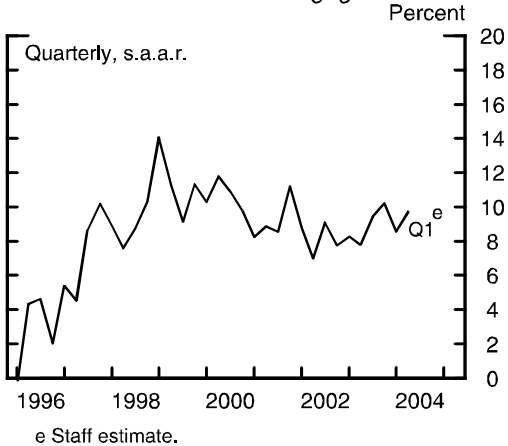
#### Components of Net Equity Issuance



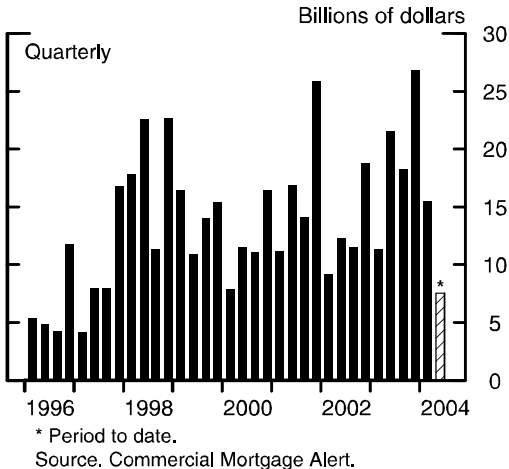
e Staff estimate.

### Commercial Real Estate

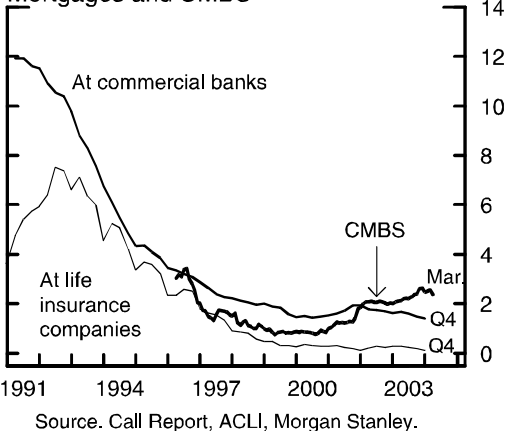
Growth of Commercial Mortgage Debt



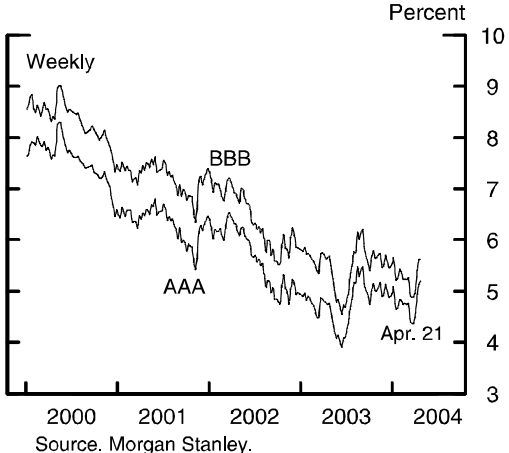
Gross Issuance of CMBS



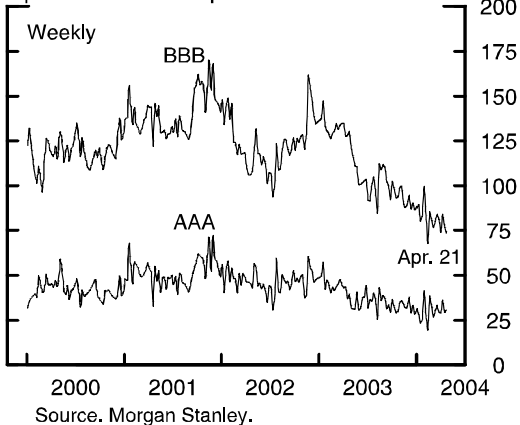
Delinquency Rates on Commercial Mortgages and CMBS



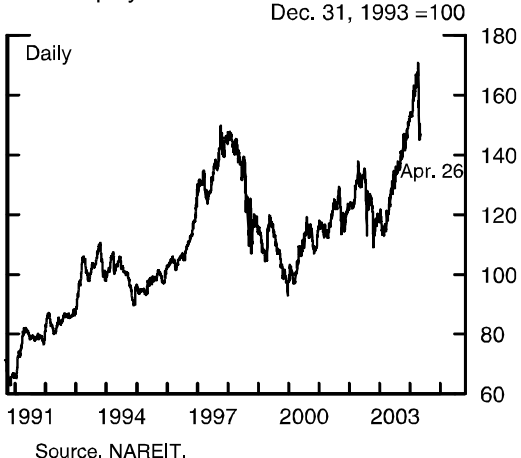
Investment-Grade CMBS Yields



Investment-Grade CMBS Spreads over Swaps



REIT Equity Price Index



Gross public equity issuance by nonfinancial firms moved up in March on the strength of a couple of large seasoned equity offerings that were reportedly related to acquisitions and capital expenditures. So far in April, gross issuance has waned, reflecting a slowdown in seasoned offerings and a continued sluggish pace of initial public offerings. Total equity issuance by nonfinancial firms continues to be outweighed by equity retirements. Many firms are maintaining their use of share repurchases as a way to distribute strong earnings to shareholders. Although equity retirements from cash mergers remain subdued, they are expected to increase given the pickup in announcements of new M&A deals so far this year.

### **Commercial Real Estate**

Commercial mortgage debt growth moved up in the first quarter to an estimated 10 percent pace, as both CMBS issuance and real estate lending by banks were strong. Delinquency rates on commercial mortgages at banks and insurers remained low through the end of 2003, and CMBS delinquencies—which had moved higher through late last year—have flattened over the past several months. CMBS yields rose over the intermeeting period, with spreads little changed. However, REIT equity prices have tumbled about 12 percent since the March FOMC meeting, in response to recent increases in interest rates and perhaps to concerns expressed by some investors that commercial real estate may be overvalued.

### **Household Finance**

Interest rates on thirty-year fixed-rate mortgages climbed about 50 basis points over the intermeeting period. Refinancing applications have declined in April as rates have increased, although refinancing originations, which lag applications, have not yet fallen off. Originations for home purchases have continued to rise. Home mortgage debt is estimated to have grown at a rapid pace of 10-3/4 percent in the first quarter.

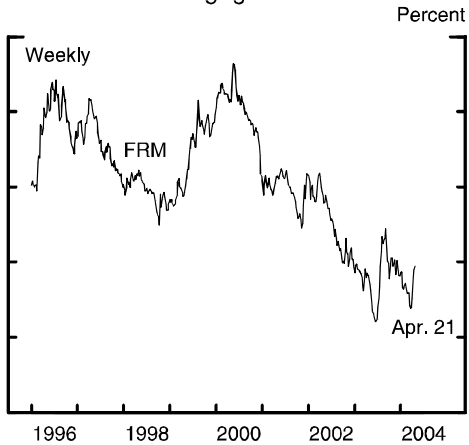
Consumer credit expanded at an estimated 4-1/2 percent rate in the first quarter, a little above the previous quarter's pace. On the whole, indicators of consumer credit quality have shown some improvement this year. Delinquencies on credit cards in securitized pools have declined, household bankruptcy filings have moved down to slightly below their year-ago levels, and delinquencies on auto loans at captive finance companies have remained low.

Although data on household assets in the first quarter are still incomplete, the modest rise in stock prices together with a larger estimated increase in disposable income suggest that the ratio of household assets to income most

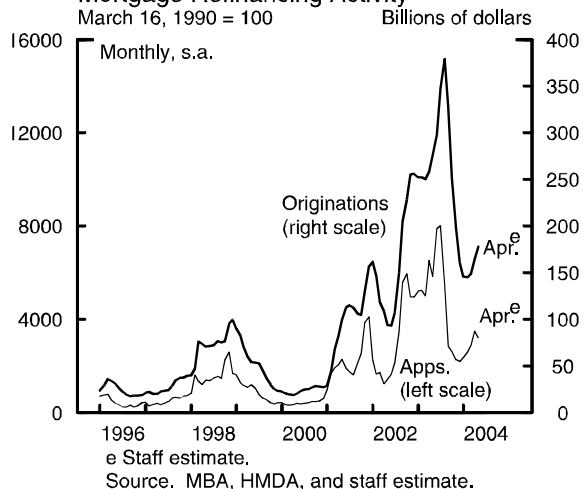


**Household Liabilities**

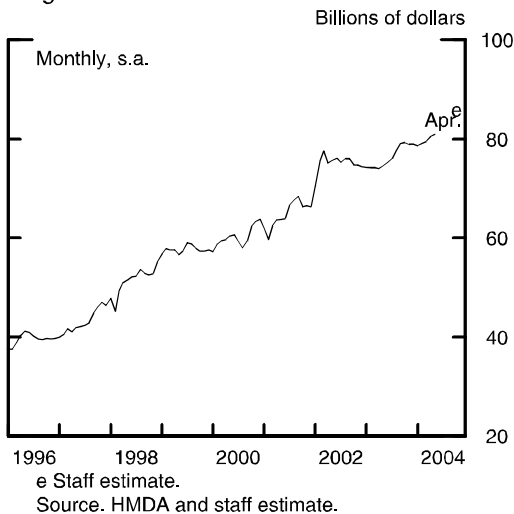
**Freddie Mac Mortgage Rate**



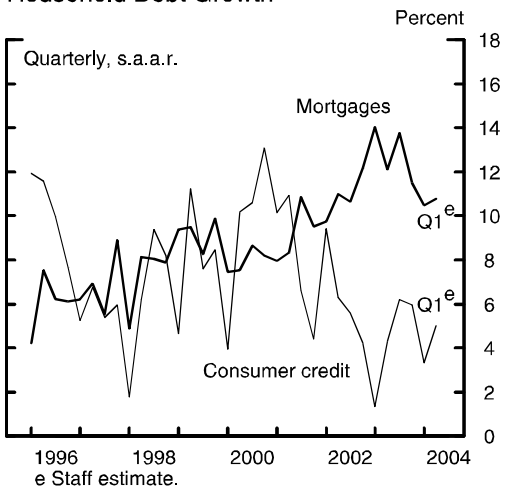
**Mortgage Refinancing Activity**



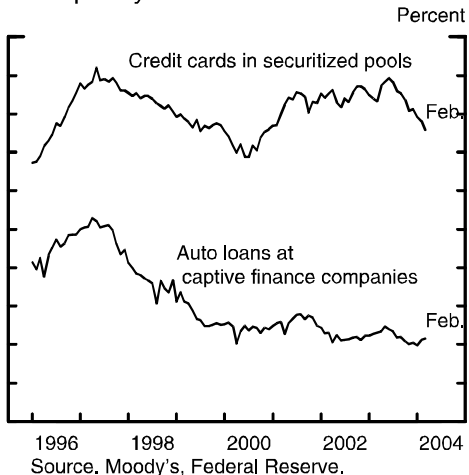
**Originations for Home Purchases**



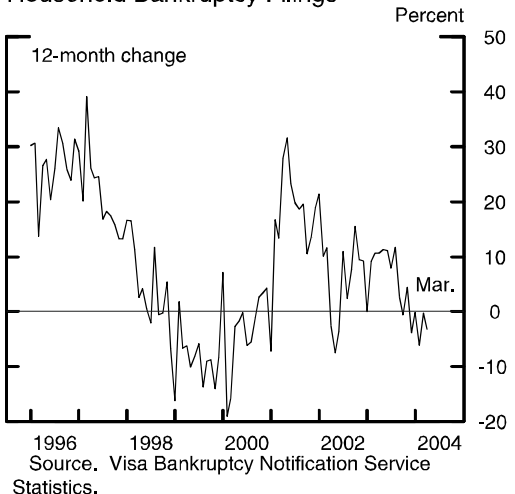
**Household Debt Growth**



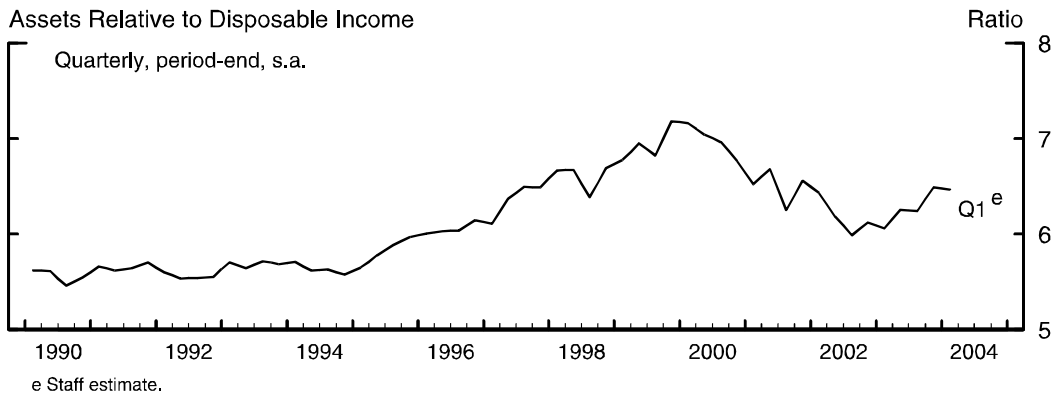
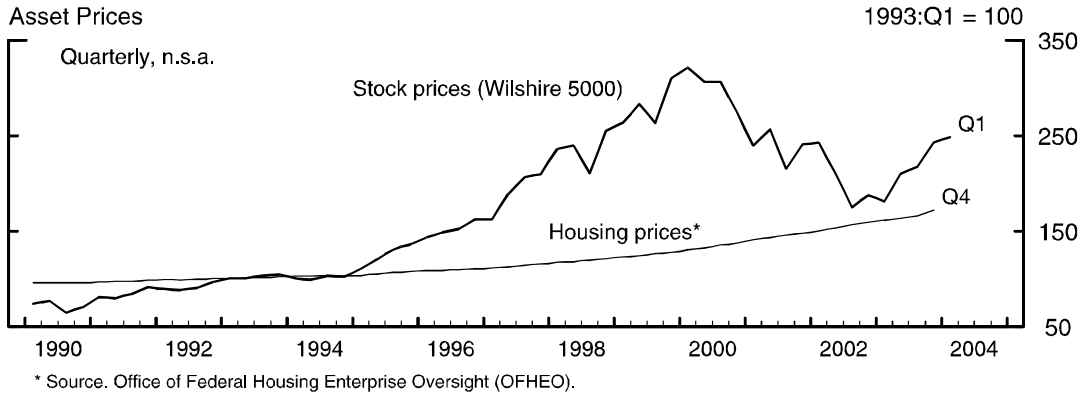
**Delinquency Rates**



**Household Bankruptcy Filings**



**Household Assets**



**Net Flows into Long-Term Mutual Funds**  
(Billions of dollars, monthly rate)

Fund Type	2001	2002	2003		2004		Assets Mar. <sup>e</sup>
			H1	H2	Q1 <sup>e</sup>	Apr. <sup>e</sup>	
<b>Total long-term funds</b>	<b>10.7</b>	<b>10.1</b>	<b>19.1</b>	<b>16.9</b>	<b>36.6</b>	<b>30.2</b>	<b>5,598</b>
<b>Equity funds</b>	<b>2.7</b>	<b>-2.3</b>	<b>5.9</b>	<b>19.4</b>	<b>28.0</b>	<b>27.4</b>	<b>3,865</b>
Domestic	4.5	-2.1	5.4	15.9	19.5	18.4	3,303
International	-1.8	-0.2	0.5	3.5	8.5	9.0	562
<b>Hybrid funds</b>	<b>0.7</b>	<b>0.7</b>	<b>2.0</b>	<b>3.6</b>	<b>5.2</b>	<b>4.9</b>	<b>461</b>
<b>Bond funds</b>	<b>7.3</b>	<b>11.7</b>	<b>11.3</b>	<b>-6.1</b>	<b>3.4</b>	<b>-2.1</b>	<b>1,272</b>
High-yield	0.6	0.9	3.7	0.7	-1.4	-1.4	151
Other taxable	5.7	9.4	7.1	-5.1	4.4	1.6	781
Municipals	1.0	1.4	0.5	-1.6	0.4	-2.4	340

Note. Excludes reinvested dividends.

e Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute.

**State and Local Government Finance**

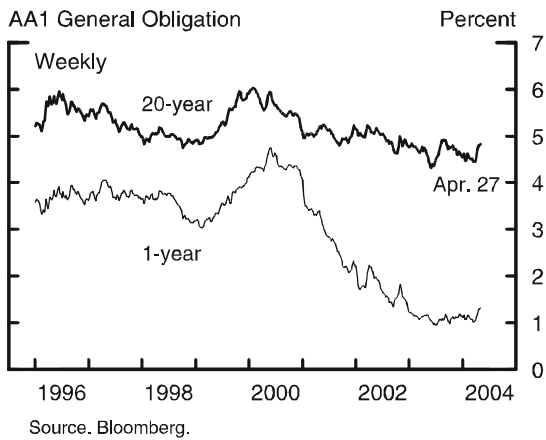
**Gross Offerings of Municipal Securities**

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

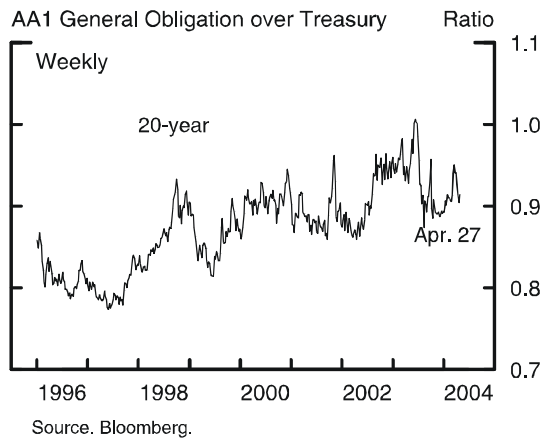
Type of security	2001	2002	2003		2004		
			H1	H2	Q1	Mar.	Apr. <sup>e</sup>
Total	29.0	36.3	40.7	35.0	31.2	40.1	22.5
Long-term <sup>1</sup>	24.3	30.3	34.5	29.7	28.4	38.1	21.1
Refundings <sup>2</sup>	7.6	10.1	11.6	8.1	10.1	14.7	6.5
New capital	16.7	20.2	22.9	21.6	18.4	23.4	14.6
Short-term	4.7	6.0	6.2	5.4	2.7	2.0	1.4
Memo: Long-term taxable	1.4	1.7	3.9	3.1	2.1	2.1	1.5

- 1. Includes issues for public and private purposes.
- 2. All issues that include any refunding bonds.
- e. Staff estimate based on preliminary data through April 22.

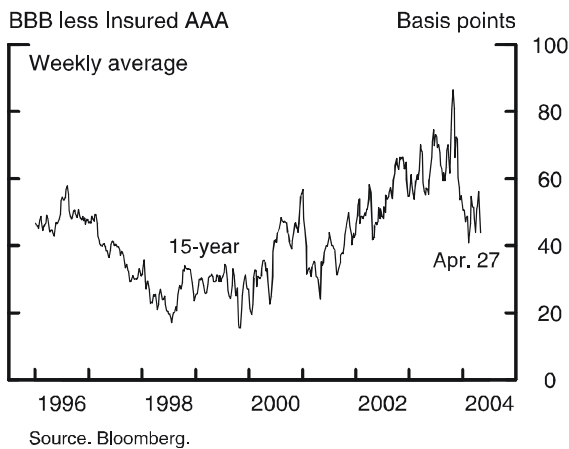
**Municipal Bond Yields**



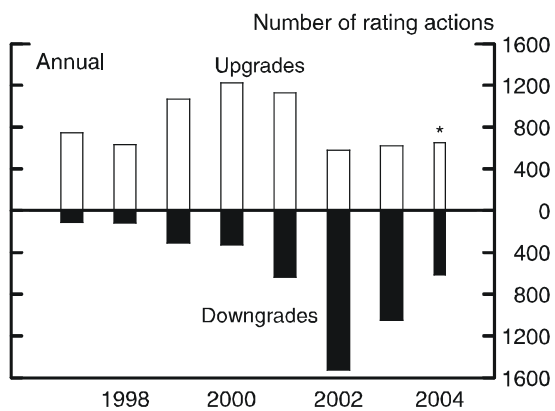
**Municipal Bond Yield Ratios**



**Revenue Bond Spread**



**Bond Rating Changes**



likely ticked down but remained above the year-ago level.<sup>1</sup> Through April, incoming mutual fund data indicate that households have continued to invest heavily in equity mutual funds.

### **State and Local Government Finance**

Gross municipal bond issuance bounced back in March, as states and municipalities ramped up their borrowing for transportation projects and health care facilities. In addition, the volume of advance refunding issues posted a particularly large gain in March, in response to the dip in yields. Gross issuance has been lower in April, with new capital issuance weakening a little and advance refunding issues falling off noticeably.

Yields on longer-term general obligation municipal bonds rose in line with comparable Treasuries over the intermeeting period, leaving the muni-to-Treasury yield ratio unchanged on net. The risk spread between AAA-rated and BBB-rated revenue bonds remained volatile over the period but posted little net change and remained well below the high of last year. In a reversal of a two-year trend, upgrades of municipal bonds have outpaced downgrades since early February. As a result, municipal bond upgrades and downgrades are nearly balanced thus far this year.

### **Treasury Finance**

Net issuance of marketable debt by the Treasury surged to \$146 billion in the first quarter—the largest quarterly total on record. Moreover, incoming tax receipts in April have been somewhat lighter than the Treasury expected, pushing up the government's anticipated financing needs in the second quarter. Over the intermeeting period, the Treasury conducted auctions of two- and five-year nominal notes and a ten-year inflation-indexed note. Investor demand at the auctions was mixed.

Investors continued to focus on the participation of foreign official institutions in the Treasury market. Indirect bidding at Treasury auctions, which includes bidding by the Federal Reserve Bank of New York on behalf of foreign institutions, remained strong. However, in light of the sharp fall-off in Japanese currency intervention, market chatter centered on whether the pace of foreign official purchases would decline going forward.

### **Agency Finance**

Net borrowing by the housing GSEs continued to be quite light. For the most part, investors seemed unmoved by the ongoing debate over regulatory reform

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1. At this point, the key piece of missing data for first quarter is the OFHEO repeat-transactions house price index, which will not be released until early June.

**Treasury Financing**  
(Billions of dollars)

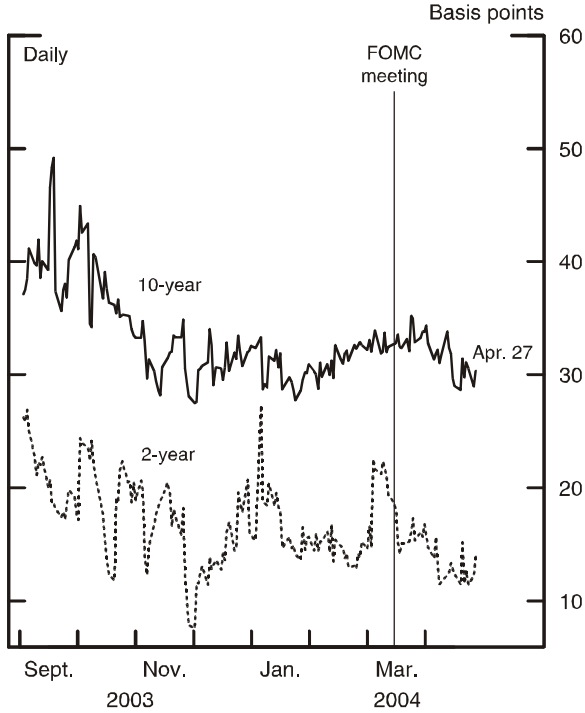
Item	2003			2004		
	Q2	Q3	Q4	Q1	Feb.	Mar.
<b>Total surplus, deficit (-)</b>	<b>-16.6</b>	<b>-104.5</b>	<b>-128.7</b>	<b>-170.8</b>	<b>-96.7</b>	<b>-72.7</b>
Means of financing deficit						
Net borrowing	106.3	107.6	118.6	135.9	80.7	51.6
Nonmarketable	45.9	31.4	6.6	-10.1	-0.8	-5.8
Marketable	60.4	76.2	112.0	146.0	81.4	57.5
Bills	-27.2	-14.9	9.2	56.1	50.3	26.8
Coupons	87.6	91.1	102.8	89.9	31.1	30.7
Decrease in cash balance	-16.8	-4.9	1.8	11.9	25.8	-4.6
Other <sup>1</sup>	-73.0	1.9	8.3	23.0	-9.7	25.6
Memo:						
Cash balance, end of period	30.0	35.0	33.2	21.3	16.7	21.3

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

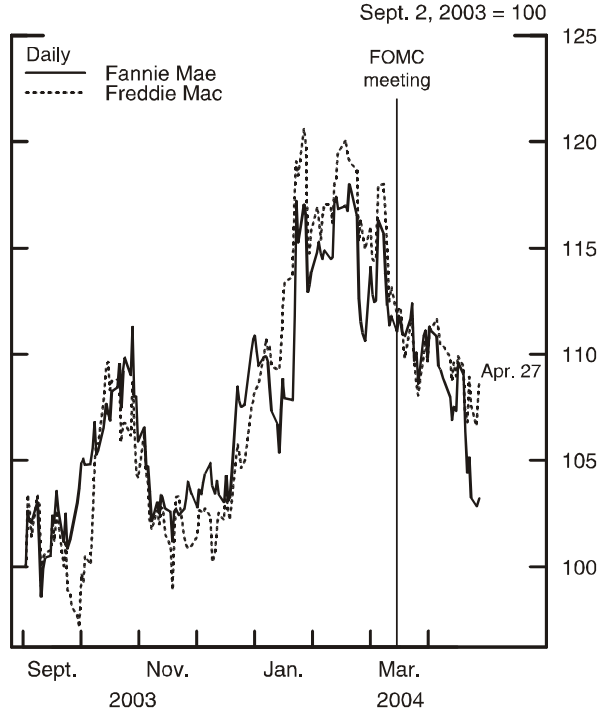
1. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

**Agency Market Developments**

Fannie Mae Spread Over Treasury



Agency Stock Price



and the questions raised about Fannie Mae's accounting practices. Yield spreads on most Fannie Mae and Freddie Mac debt securities narrowed a touch, on balance, over the intermeeting period, but equity prices for the two GSEs moved down.

The Senate Banking Committee approved a bill that would create a new regulator for the housing GSEs that would have the ability to place those entities into receivership if they were to become financially distressed. However, the current bill would require that the Congress not object to such an action. The current version of the bill is unlikely to be enacted, in part because the Administration opposes this provision.

### **Money and Bank Credit**

M2 continued to recover from its extraordinary weakness in late 2003, growing about 9 percent in March and April. Mortgage refinancing appears to have boosted M2 growth in both months. Liquid deposits have again driven most of the advance in M2, although growth in currency has moved closer to its long-term trend in April after a weak first quarter.

Bank loans increased smartly in March and April; the growth was led primarily by increases in residential and commercial real estate lending. The April Senior Loan Officer Opinion Survey reported a noticeable pickup in demand for commercial real estate loans compared with three months earlier but indicated that demand for residential loans had weakened a little.

First-quarter earnings reports by several large bank holding companies show continued strong profitability. In particular, loss provisions shrank with improvements in credit quality, while non-interest income expanded, reflecting in part increased fees from trading and asset management.

**Monetary Aggregates**  
(Based on seasonally adjusted data)

Aggregate or component	2003	2003	2004	2004			Level
		Q4	Q1	Feb	Mar	Apr (e)	(\$ billions) Apr 04 (e)
<i>Aggregate</i>							
Percent change (annual rate) <sup>1</sup>							
1. M2 <sup>2</sup>	5.3	-1.5	3.3	10.4	8.8	8.9	6,220
2. M3 <sup>3</sup>	4.5	-1.5	5.2	9.0	9.3	8.7	9,074
<i>Components of M2<sup>4</sup></i>							
3. Currency	5.9	6.3	2.7	1.6	1.6	3.2	668
4. Liquid deposits <sup>5</sup>	13.9	4.0	10.7	21.4	19.3	16.6	3,989
5. Small time deposits	-9.5	-9.7	-5.2	-3.6	-4.3	-4.6	797
6. Retail money market funds	-11.6	-22.8	-21.4	-20.3	-23.7	-11.5	757
<i>Components of M3</i>							
7. M3 minus M2 <sup>6</sup>	2.8	-1.6	9.2	5.9	10.5	8.3	2,855
8. Large time deposits, net <sup>7</sup>	3.6	8.3	33.5	10.8	26.0	39.3	958
9. Institutional money market funds	-6.0	-16.6	-8.1	-13.2	9.4	5.4	1,103
10. RPs	12.8	8.8	6.2	45.2	.7	-46.5	501
11. Eurodollars	26.1	13.9	11.0	-4.9	-16.4	18.7	293
<i>Memo</i>							
12. Monetary base	6.0	5.2	2.9	2.9	2.0	9.4	731
Average monthly change (billions of dollars) <sup>8</sup>							
<i>Selected managed liabilities at commercial banks</i>							
13. Large time deposits, gross	-2.1	-5.3	17.2	7.4	13.1	24.6	1,061
14. Net due to related foreign institutions	3.0	9.3	-15.9	-25.2	-14.3	-19.4	72
15. U.S. government deposits at commercial banks	-.3	.4	2.5	2.8	7.4	-7.7	22

1. For the years shown, Q4 to Q4 percent change. For the quarters shown, based on quarterly averages.

2. Sum of currency, liquid deposits (demand, other checkable, savings), small time deposits, retail money market funds, and non-bank travelers checks.

3. Sum of M2, net large time deposits, institutional money market funds, RP liabilities of depository institutions, and eurodollars held by U.S. addressees.

4. Non-bank travelers checks not listed.

5. Sum of demand deposits, other checkable deposits, and savings deposits.

6. Sum of large time deposits, institutional money market funds, RP liabilities of depository institutions, and eurodollars held by U.S. addressees.

7. Net of holdings of depository institutions, money market funds, U.S. government, and foreign banks and official institutions.

8. 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.

e Estimated.

**Commercial Bank Credit**

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

Type of credit	2003	Q4 2003	Q1 2004	Feb. 2004	Mar. 2004	Apr. <sup>e</sup> 2004	Level, Apr. 2004 <sup>e</sup> (\$ billions)
<b>Total</b>							
<b>1. Adjusted<sup>1</sup></b>	<b>5.9</b>	<b>-.5</b>	<b>10.4</b>	<b>22.6</b>	<b>12.2</b>	<b>7.0</b>	<b>6,229</b>
2. Reported	5.6	.1	11.4	23.1	14.2	-.2	6,410
<i>Securities</i>							
3. Adjusted <sup>1</sup>	8.7	6.9	17.2	51.0	23.9	-5.3	1,732
4. Reported	7.4	8.1	19.8	49.6	29.1	-27.5	1,913
5. Treasury and agency	8.7	2.5	25.6	72.5	32.5	-19.8	1,187
6. Other <sup>2</sup>	5.5	16.8	11.1	14.6	23.9	-40.1	727
<i>Loans<sup>3</sup></i>							
7. Total	4.9	-3.2	7.9	12.0	7.7	11.7	4,497
8. Business	-9.4	-11.8	-4.4	3.3	-4.6	-3.3	862
9. Real estate	11.1	-2.3	9.3	10.2	20.1	28.3	2,350
10. Home equity	30.7	31.4	38.1	26.8	42.7	28.4	316
11. Other	8.8	-6.6	5.3	7.8	16.6	28.3	2,034
12. Consumer	5.8	10.8	11.1	4.2	10.2	5.4	642
13. Adjusted <sup>4</sup>	6.0	9.4	10.2	1.8	10.3	-.7	1,017
14. Other <sup>5</sup>	6.6	-7.4	16.7	37.2	-20.6	-20.4	643

Note. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FAS 115).

2. Includes private mortgage-backed securities, securities of corporations, state and local governments, foreign governments, and any trading account assets that are not Treasury or agency securities, including revaluation gains on derivative contracts.

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.

e Estimated.



## Appendix

### April 2004 Senior Loan Officer Opinion Survey

The April 2004 Senior Loan Officer Opinion Survey on Bank Lending Practices addressed changes in the supply of, and demand for, bank loans to businesses and households over the past three months. In addition, the survey contained a series of questions on residential real estate loans and a question on changes in banks' pricing and investment behavior in light of declining net interest margins. Responses were received from fifty-two domestic and nineteen foreign banking institutions.

Both domestic banks and U.S. branches and agencies of foreign banks indicated that they had eased lending standards and terms for C&I loans over the past three months. Domestic banks also eased lending standards on commercial real estate loans over the same period, while standards at foreign institutions were little changed. The share of domestic banks reporting stronger demand for C&I loans in the April survey was notably larger than in the January survey. Demand for commercial real estate loans at domestic banks also strengthened on net. By contrast, foreign institutions reported weaker C&I loan demand, on net, and indicated that demand for commercial real estate loans had not changed.

In the April survey, a small net fraction of domestic banks reported having eased lending standards on residential real estate loans, but standards and terms for consumer loans were generally unchanged. On net, demand for residential real estate loans was little changed, while demand for consumer loans had strengthened.

#### **Lending to Businesses**

Both domestic and foreign banks reported having eased lending standards on C&I loans over the past three months. About 20 percent of domestic banks, on net, indicated that they had eased standards for large and middle-market firms, the largest share doing so since the beginning of the 1990s, and a similar fraction noted having eased standards for small firms. The net share of U.S. branches and agencies of foreign banks that reported having eased lending standards for C&I loans jumped to 32 percent in the April survey, up from 10 percent in the January survey.

Both domestic and foreign institutions also indicated that they had eased many terms on C&I loans over the past three months. On net, almost 40 percent of domestic banks reported having narrowed spreads of loan rates over their cost of funds for large and middle-market borrowers in April, up from 27 percent in the previous survey, and 26 percent had done so for small firms. About 37 percent of foreign institutions indicated that they had reduced spreads on their C&I loans, up notably from 14 percent in January. Survey respondents, on net, continued to report having eased terms on credit lines, both by increasing the maximum size of these lines and by reducing their cost. Furthermore, about one-fourth of both domestic and foreign banks said that they had eased loan covenants over the past three months.

More than 80 percent of the banks that reported having eased standards and terms on C&I loans in the April survey cited more aggressive competition from other banks or nonbank lenders as the most important reason for having done so, roughly the same percentage as in the previous survey. Domestic banks that had eased standards and

terms also pointed to a more favorable economic outlook and improvements in industry-specific problems, as well as an increased tolerance for risk. The few domestic banks that had tightened standards or terms generally cited a less favorable economic outlook or a reduced tolerance for risk.

**C&I loan demand.** On net, 29 percent of domestic banks reported in the April survey that the demand for C&I loans from large and middle-market borrowers had increased, the largest share doing so since 1998. About 40 percent reported stronger demand from small firms. Furthermore, about half of domestic respondents noted increased inquiries from potential business borrowers. Domestic banks that had experienced an increase in demand pointed to greater customer financing needs for inventories and accounts receivable as well as for investment in plant and equipment. By contrast, foreign banks, on net, reported decreased demand for C&I loans and indicated that customer borrowing had shifted to other banks or nonbank lenders and that customers' internally generated funds had increased.

**Commercial real estate lending.** In the April survey, 10 percent of domestic banks, on net, said that they had eased lending standards on commercial real estate loans, up a bit from the previous survey. The percentage of domestic banks reporting increased demand for these loans also increased in the current survey, rising to 23 percent, up from 16 percent in January. At foreign institutions, both commercial real estate lending standards and loan demand were reportedly unchanged on net.

#### **Lending to Households**

In the April survey, demand for residential real estate loans was little changed on net. Lending standards for residential real estate loans had been eased over the past three months by about 10 percent of respondents, on net, up somewhat from the previous survey.

The April survey asked banks about house price appreciation over the past year in the markets they served. The responses were fairly diverse: About one-fourth of the respondents indicated that the average rate of increase had been less than 5 percent, around half of them reported that the growth rate had been between 5 percent and 10 percent, and the rest pointed to home price appreciation of more than 10 percent. Regarding the future, the banks expected price increases to moderate: About 60 percent of the banks expected home prices to grow less than 5 percent over the next year in the markets they serve, and almost all the rest expected appreciation of 5 percent to 10 percent.

The April survey also contained several questions about loan-to-value ratios for residential mortgage loans. Banks reported that about 85 percent of the first-lien mortgages that they originated over the past year had loan-to-value ratios below 90 percent, and only 2 percent had ratios of 100 percent or more. About 80 percent of the volume of second-lien mortgages and home equity loans that respondents had originated over the past year were to customers with a ratio of total mortgage debt to home value below 90 percent. Only 5 percent were to customers with indebtedness ratios of 100 percent or more. Banks that had originated loans in areas where home prices had been rising relatively quickly tended to have originated more loans,

especially second-lien and home equity loans, with lower loan-to-value ratios than banks that operated in markets with slower appreciation. Indeed, at banks serving markets in which home prices rose 5 percent or less, 8 percent of second-lien mortgage and home equity loan originations were to borrowers with ratios of total mortgage debt to home value of 100 percent or more and 74 percent of originations were to borrowers with ratios of 90 percent or less. By comparison, at banks originating loans in areas where homes had appreciated between 10 percent and 20 percent, these shares were 1 percent and 88 percent respectively.

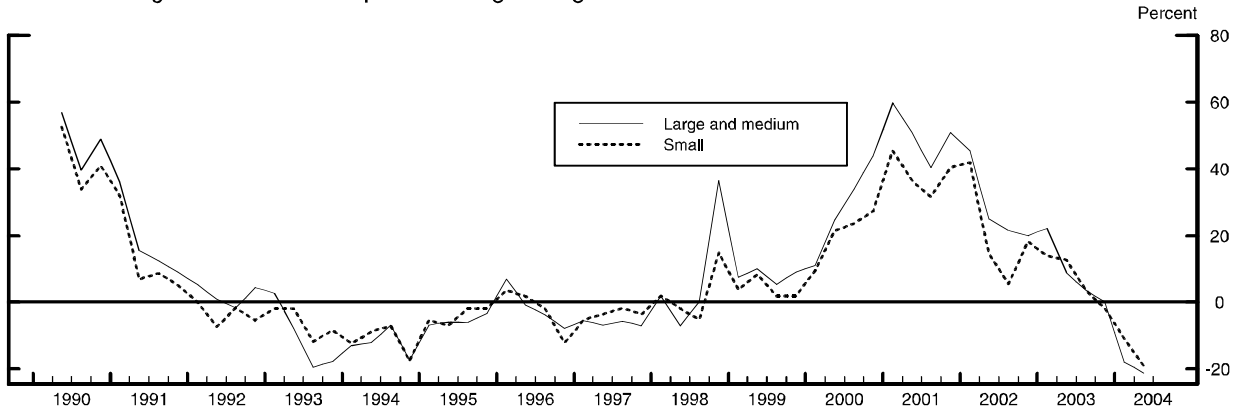
In April, banks continued to indicate, on net, that they had become more willing to make consumer installment loans, although they reported that lending standards and most lending terms for consumer loans were basically unchanged. Banks did, however, report having reduced the extent to which consumer loans other than credit card loans were granted to customers who did not meet credit-scoring thresholds. Of the respondents, 22 percent reported that demand for consumer loans of all types had strengthened over the past three months. By contrast, in the January survey, 13 percent of respondents, on net, indicated that demand had weakened.

#### **Net Interest Margins**

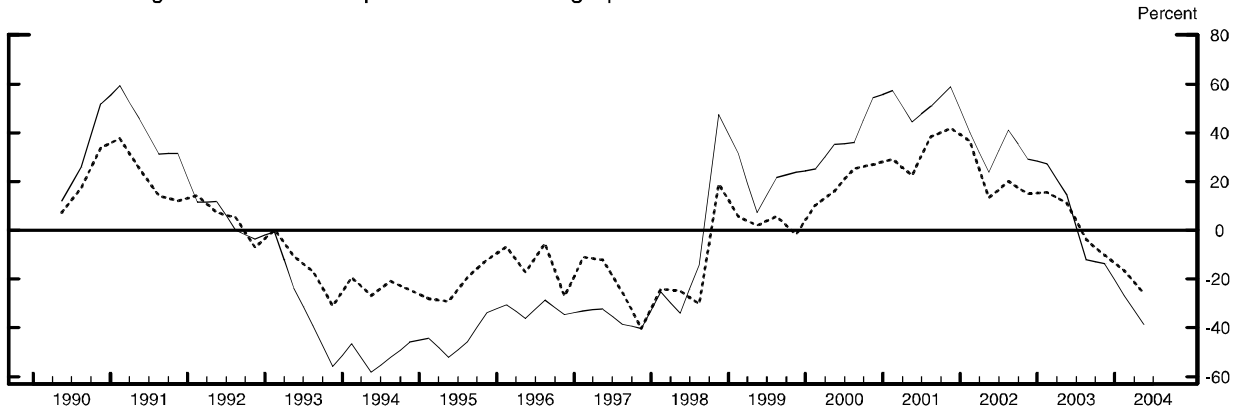
Special questions in the April survey asked banks how they had changed their investment and pricing behavior in response to the historically low level of short-term interest rates and to resulting pressure on their net interest margins. On net, domestic banks indicated that these factors had not led them to change their desired levels of either credit risk or interest rate risk. However, 21 percent of domestic banks, on net, indicated that they had increased fees charged to borrowers and depositors. About 20 percent of foreign banks, on net, reported that they had taken on more credit risk.

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

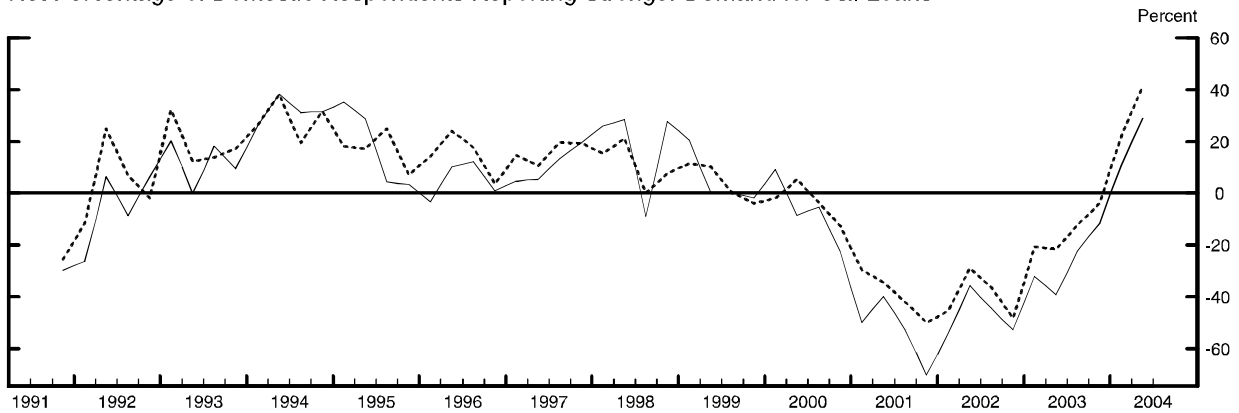
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



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

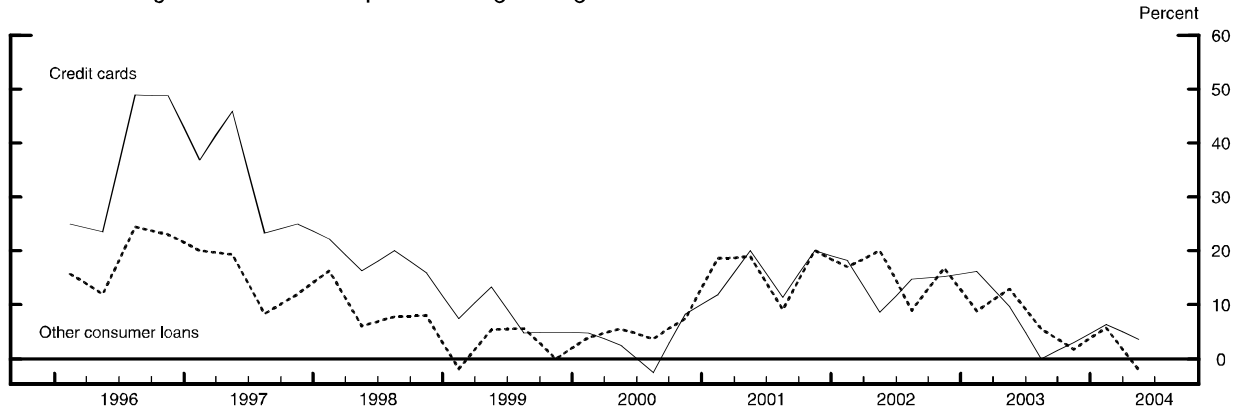


Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans

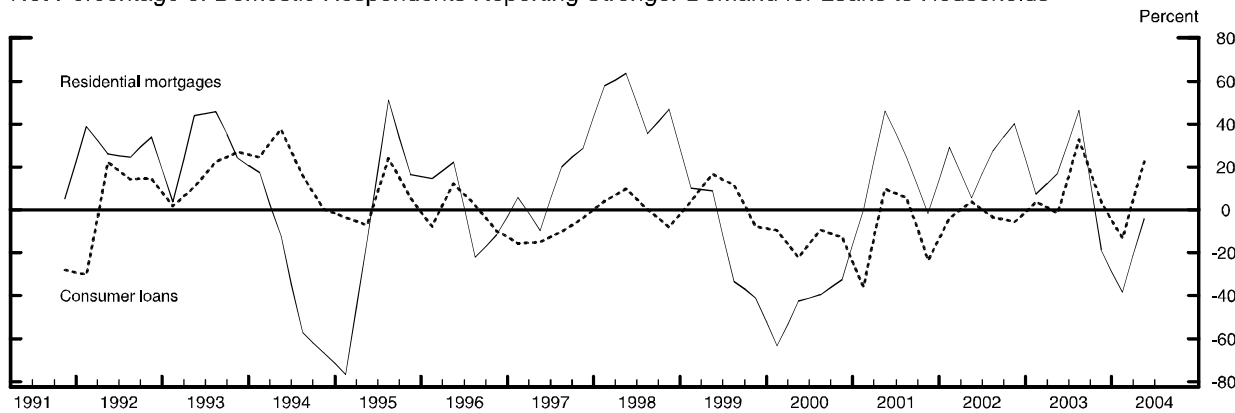


## Measures of Supply and Demand for Loans to Households

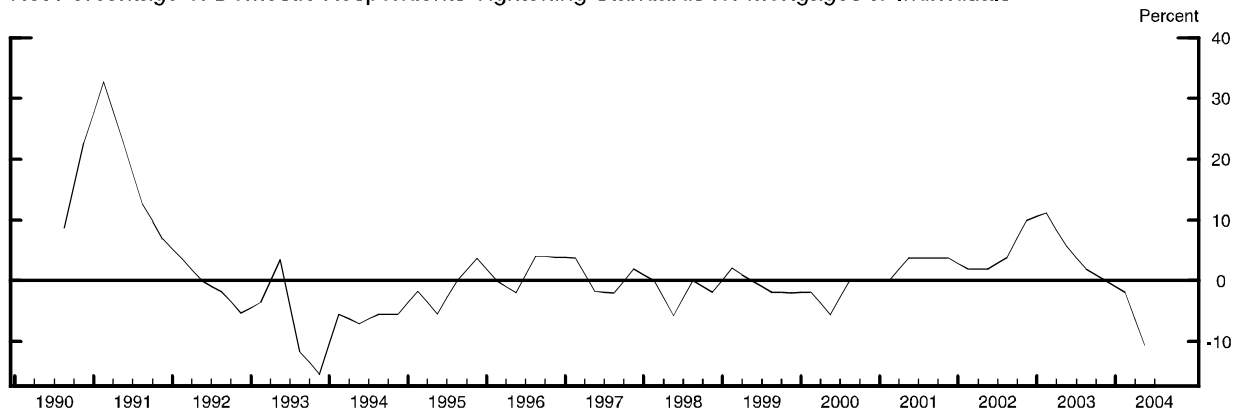
Net Percentage of Domestic Respondents Tightening Standards on Consumer Loans



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



Net Percentage of Domestic Respondents Tightening Standards for Mortgages to Individuals



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## **International Developments**

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## International Developments

### U.S. International Transactions

#### Trade in Goods and Services

The U.S. international trade deficit in February narrowed from January's record high to \$42.1 billion, its lowest level since November of last year.

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

	2003	Annual rate			Monthly rate		
		2003		2004	2003		2004
		Q3	Q4	Q1 <sup>e</sup>	Dec.	Jan.	Feb.
<i>Real NIPA<sup>1</sup></i>							
Net exports of G&S	-508.9	-505.2	-515.2	n.a.	...	...	...
<i>Nominal BOP</i>							
Net exports of G&S	-489.9	-486.6	-490.5	-513.3	-42.7	-43.5	-42.1
Goods, net	-549.2	-545.0	-555.8	-574.5	-47.9	-48.5	-47.2
Services, net	59.2	58.4	65.3	61.2	5.2	5.1	5.2

1. Billions of chained (2000) dollars.

e. BOP data are two months at an annual rate.

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

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

The value of exports of goods and services increased 4 percent in February, as services receipts rose 1.4 percent and exports of goods rose 5.1 percent from January levels. The rise in exported goods was widespread across major categories of goods, with the largest increases in industrial supplies, aircraft, and other capital goods. At an annual rate, the average for January and February of the value of exported goods and services was about 4 percent above the average for the fourth quarter of last year. The increase was concentrated in industrial supplies and other capital goods, although exports of automotive products and consumer goods also rose. Exports of agricultural goods, in contrast, fell, reflecting declines in exports of meats, partly owing to foreign bans on the import of U.S. beef, and soybeans.

The value of imports of goods and services rose 1.6 percent in February. Services payments rose 1.3 percent, and imports of goods increased 1.7 percent from January levels. Within goods, imports of industrial supplies rose sharply; imports of automotive products also contributed to the overall increase. Imports of aircraft, computers, and consumer goods, however, fell. Oil imports rose 3.8 percent, with increases in both volume and price. At an annual rate, the average for January and February of the value of imported goods and services was about 9 percent above the average for the fourth quarter of last year, a much slower pace than the 17 percent fourth-quarter rise. The increase was driven

### U.S. Exports and Imports of Goods and Services

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

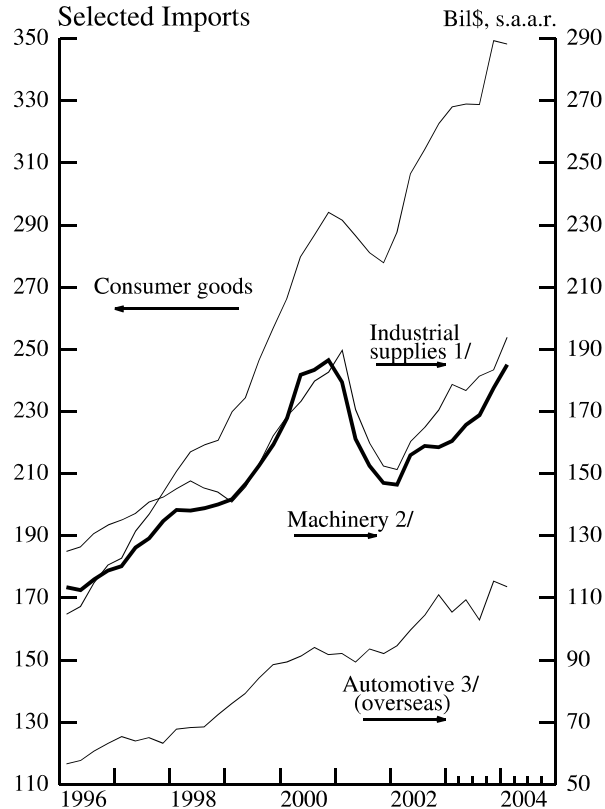
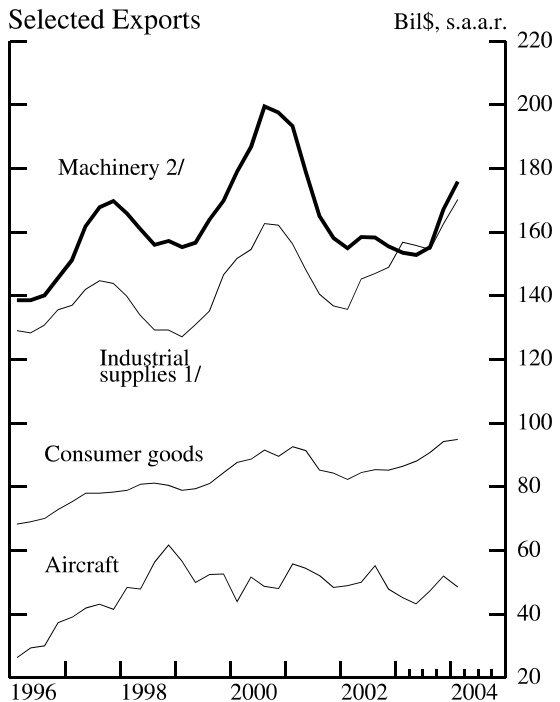
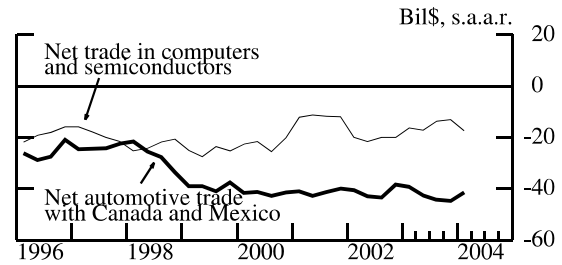
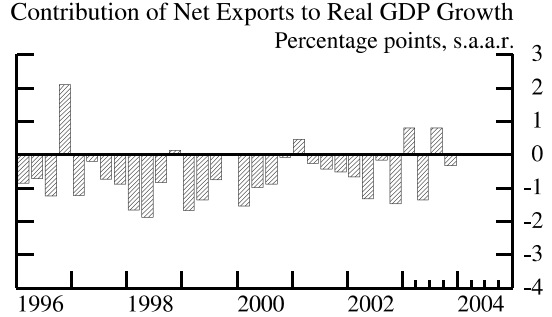
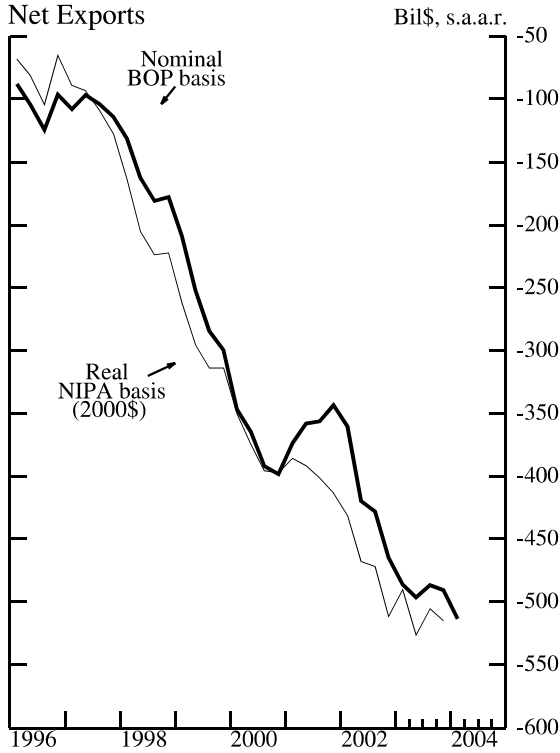
	Levels				Amount Change <sup>1</sup>			
	2003	2004	2004		2003	2004	2004	
	Q4	Q1 <sup>e</sup>	Jan.	Feb.	Q4	Q1 <sup>e</sup>	Jan.	Feb.
<b>Exports of G&amp;S</b>	<b>1075.9</b>	<b>1087.1</b>	<b>1065.8</b>	<b>1108.4</b>	<b>56.6</b>	<b>11.2</b>	<b>-15.4</b>	<b>42.6</b>
Goods exports	753.4	761.6	742.6	780.7	42.2	8.3	-13.0	38.1
Gold	4.7	4.6	5.1	4.0	-0.7	-0.1	0.5	-1.1
Other goods	748.7	757.1	737.5	776.7	42.9	74.8	-13.5	39.3
Aircraft & parts	51.9	48.5	45.5	51.5	4.6	-3.4	0.6	6.1
Computers & accessories	43.2	42.5	43.5	41.5	2.4	-0.8	-0.3	-2.0
Semiconductors	49.6	49.3	48.3	50.3	2.7	-0.3	-3.2	2.0
Other capital goods	170.5	178.5	172.4	184.6	12.4	8.1	0.5	12.2
Automotive	82.1	83.0	81.4	84.6	3.4	0.8	-1.9	3.2
to Canada	47.2	46.8	46.7	46.8	4.2	-0.4	-1.0	0.1
to Mexico	13.7	14.1	13.4	14.9	0.3	0.5	1.2	1.5
to ROW	21.3	22.0	21.2	22.9	-1.0	0.8	-2.0	1.7
Agricultural	66.4	62.5	62.0	62.9	4.9	-3.9	-5.4	0.9
Ind supplies (ex. ag, gold)	162.7	170.3	166.0	174.5	8.1	7.6	-0.1	8.5
Consumer goods	94.2	94.9	92.9	96.9	3.4	0.7	-2.1	3.9
All other goods	28.0	27.7	25.4	29.9	0.9	-0.4	-3.3	4.5
Services exports	322.6	325.5	323.3	327.7	14.3	2.9	-2.4	4.4
<b>Imports of G&amp;S</b>	<b>1566.4</b>	<b>1600.4</b>	<b>1587.3</b>	<b>1613.4</b>	<b>60.4</b>	<b>34.0</b>	<b>-6.2</b>	<b>26.1</b>
Goods imports	1309.2	1336.2	1324.8	1347.6	53.1	27.0	-5.8	22.8
Petroleum	129.5	144.0	141.3	146.7	-7.6	14.5	9.5	5.3
Gold	3.8	4.3	4.1	4.4	-0.3	0.5	0.8	0.4
Other goods	1175.9	1187.9	1179.3	1196.5	61.0	12.0	-16.1	17.1
Aircraft & parts	26.6	21.5	24.0	18.9	3.6	-5.1	-5.6	-5.1
Computers & accessories	81.3	82.8	85.8	79.8	4.7	1.5	1.6	-6.0
Semiconductors	24.6	26.3	25.9	26.7	-0.2	1.7	0.5	0.7
Other capital goods	179.7	188.0	187.4	188.5	8.9	8.3	3.8	1.1
Automotive	221.1	216.1	211.7	220.6	17.3	-4.9	-13.0	8.9
from Canada	64.4	62.5	59.1	66.0	4.4	-1.9	-7.7	6.9
from Mexico	41.3	39.9	37.6	42.2	0.5	-1.4	1.0	4.6
from ROW	115.4	113.7	115.0	112.4	12.4	-1.7	-6.4	-2.6
Ind supplies (ex. oil, gold)	183.4	193.8	184.4	203.2	1.9	10.4	-1.6	18.9
Consumer goods	349.2	348.1	351.8	344.4	20.5	-1.1	0.5	-7.5
Foods, feeds, bev.	58.4	59.5	58.1	61.0	2.8	1.1	-1.2	2.9
All other goods	51.7	51.8	50.2	53.4	1.4	0.1	-1.0	3.2
Services imports	257.2	264.2	262.6	265.9	7.4	7.0	-0.4	3.3
<i>Memo:</i>								
Oil quantity (mb/d)	12.79	12.81	12.79	12.82	-0.61	0.02	-0.00	0.04
Oil import price (\$/bbl)	27.73	30.79	30.26	31.31	-0.29	3.05	2.03	1.05

1. Change from previous quarter or month. e. Average of two months.

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



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



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

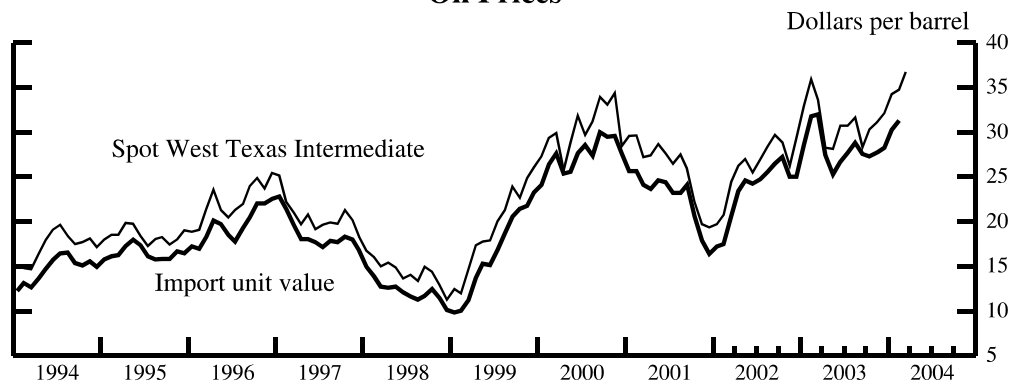
1. Excludes oil and gold.  
2. Excludes computers and semiconductors.  
3. Excludes Canada and Mexico.

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

	Annual rates			Monthly rates		
	2003		2004	2004		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
----- BLS prices (2000 weights)-----						
<b>Merchandise imports</b>	3.0	1.4	11.6	1.5	0.4	0.9
Oil	27.2	5.3	68.9	7.4	0.1	6.1
Non-oil	0.4	1.0	5.9	0.8	0.4	0.2
Core goods*	0.9	2.0	7.2	1.0	0.4	0.3
Cap. goods ex comp & semi	1.1	0.1	2.9	0.5	0.1	0.1
Automotive products	0.0	2.8	1.7	0.2	0.1	0.1
Consumer goods	0.0	0.3	2.7	0.6	0.0	0.0
Foods, feeds, beverages	0.1	3.9	9.4	0.5	1.3	0.8
Industrial supplies ex oil	2.7	5.6	25.7	3.1	1.7	1.1
Computers	-7.6	-9.5	-2.6	-0.4	0.1	-0.4
Semiconductors	5.3	-3.0	-8.5	-0.7	-0.4	-0.1
<b>Merchandise exports</b>	-0.3	3.7	7.5	0.7	0.7	0.9
Core goods*	1.1	5.1	8.4	0.9	0.7	0.9
Cap. goods ex comp & semi	1.2	0.5	2.1	0.3	0.2	0.0
Automotive products	0.9	0.3	0.4	0.1	0.1	0.0
Consumer goods	0.1	1.8	0.0	0.0	0.0	0.0
Agricultural products	6.1	39.6	19.5	0.7	1.6	3.3
Industrial supplies ex ag	0.1	5.6	21.6	2.6	1.6	1.7
Computers	-3.3	0.9	3.7	-0.7	1.0	0.8
Semiconductors	-12.8	-10.8	-2.2	-0.8	0.5	0.6
---Prices in the NIPA accounts (2000 weights)---						
<b>Chain price index</b>						
Imports of goods & services	2.7	0.9	n.a.	...	...	...
Non-oil merchandise	0.2	0.8	n.a.	...	...	...
Core goods*	0.6	1.5	n.a.	...	...	...
Exports of goods & services	1.6	2.6	n.a.	...	...	...
Total merchandise	-0.2	3.6	n.a.	...	...	...
Core goods*	1.1	5.4	n.a.	...	...	...

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

**Oil Prices**



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largely by increases in imports of oil, industrial supplies, and other capital goods. Imports of aircraft, automotive products, and consumer goods fell.

### **Prices of Internationally Traded Goods**

**Non-oil imports.** In March, the prices of U.S. imports of non-oil goods and of core goods rose 0.2 and 0.3 percent, respectively. After a 1.7 percent increase in February, the price index for industrial supplies excluding oil rose another 1.1 percent in March, reflecting further price increases for building materials and unfinished metals. Prices for foods, feeds and beverages rose 0.8 percent in March, largely because of higher prices for imported seafood. Prices of capital goods (excluding computers and semiconductors) and automotive products both edged up 0.1 percent. Prices for consumer goods were unchanged. Prices for computers and semiconductors fell 0.4 and 0.1 percent, respectively. The average level of imported core goods prices in the first quarter was about 7¼ percent at an annual rate above the fourth-quarter level of last year; this is the largest percentage increase on a quarterly basis since the fourth quarter of 1988. Much of this increase was concentrated in the commodity-intensive categories of industrial supplies and foods, feeds and beverages.

**Oil.** The BLS price of imported oil rose 6.1 percent in March, similar to the increase in the spot price of West Texas Intermediate (WTI) crude oil, which averaged \$36.75 per barrel. After falling to less than \$35 per barrel at the beginning of April, the spot price of WTI rebounded and has averaged about \$36.60 per barrel so far this month. Oil prices remained elevated because of strong oil demand, fueled by the recovery in world economic activity, OPEC's decision to cut its production target by 1 million barrels per day, and geopolitical concerns regarding Iraq and Venezuela.

**Exports.** In March, the prices of U.S. exports of total goods and of core goods both increased 0.9 percent. The price index for agricultural products rose 3.3 percent, reflecting higher prices for soybeans and corn. Higher prices for exported metals and chemicals contributed to the 1.7 percent increase in nonagricultural industrial supplies. The price indexes for all other categories of core goods were basically unchanged. Prices of exported computers and semiconductors rose 0.8 and 0.6 percent, respectively. The average level of exported core goods prices in the first quarter was about 8½ percent at an annual rate above the fourth-quarter level of last year, the highest pace of increase since the first quarter of 1995. Nearly all of the increase reflected higher prices for agricultural products and industrial supplies.

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

Private foreign net purchases of U.S. securities (line 4 of the Summary of U.S. International Transactions table) continued at a strong pace in February. Inflows into Treasury securities (line 4a) and corporate bonds (4c) accelerated

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from already strong flows in January. Foreign demand for agency securities (line 4b) appears to have recovered from last year's dip: private net purchases totaled about \$30 billion in the first two months of 2004, compared with net sales of \$48 billion last year. Foreign purchases of equities (line 4d) slowed somewhat from January's vigorous pace to \$5 billion. A little over half of the inflow into equities in February reflected a merger-related stock swap. These swaps are not directly captured in the monthly TIC data and are often overlooked in press reports.

Net foreign official inflows (line 1) were \$30 billion in February, a bit of an easing from the remarkable \$48 billion recorded in January, but well above the average monthly inflow in 2003. Net foreign official inflows are on track to register a record increase in the first quarter, as partial data from the Federal Reserve Bank of New York indicate that foreign official reserves in custody there increased by another \$18 billion during March. The majority of foreign official inflows continue to come from Japan. FRBNY custody data indicate that Japanese inflows, which were especially large in the first half of March, remained strong through mid-April. Foreign official demand for agency securities also appears to have recovered this year, as official net purchases of agencies totaled \$10 billion in January and February, compared with \$25 billion for all of 2003.

U.S. investors made modest net purchases of foreign securities in February (line 5), following sizable purchases in January. As in January, net purchases of foreign equities (line 5b) more than offset net sales of foreign debt (line 5a). In both months U.S. residents' equity purchases were concentrated in Japan.

The highly volatile banking sector (line 3) saw a net outflow in February, reversing much of the inflow recorded in January. As is typical for the banking data, much of the monthly swing reflected a shifting of inter-bank funding positions, primarily against affiliated offices in Caribbean banking centers.

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

	2002	2003	2003				2004	
			Q1	Q2	Q3	Q4	Jan	Feb
<b>Official financial flows</b>	<b>87.8</b>	<b>208.3</b>	<b>41.4</b>	<b>57.7</b>	<b>42.5</b>	<b>66.6</b>	<b>48.9</b>	<b>30.2</b>
1. Change in foreign official assets in the U.S. (increase, +)	91.5	206.8	41.3	57.9	43.2	64.4	48.4	30.3
a. G-10 countries	30.7	115.7	26.4	26.0	15.9	47.3	37.8	23.3
b. OPEC countries	-7.5	6.1	-7.6	1.1	2.1	10.5	1.6	2.1
c. All other countries	68.2	85.0	22.4	30.8	25.2	6.6	9.1	5.0
2. Change in U.S. official reserve assets (decrease, +)	-3.7	1.5	.1	-2	-6	2.2	.5	-1
<b>Private financial flows</b>	<b>440.2</b>	<b>370.7</b>	<b>100.0</b>	<b>93.0</b>	<b>63.4</b>	<b>114.3</b>	<b>...</b>	<b>...</b>
<b>Banks</b>								
3. Change in net foreign positions of banking offices in the U.S. <sup>1</sup>	117.0	88.9	-6.8	-22.4	19.2	98.9	37.6	-29.1
<b>Securities<sup>2</sup></b>								
4. Foreign net purchases of U.S. securities (+)	377.9	379.6	65.1	143.9	61.6	109.0	58.8	60.9
a. Treasury securities	80.7	137.7	9.9	57.0	50.5	20.4	16.8	23.7
b. Agency bonds	78.1	-47.9	-2.3	-1.7	-44.4	.4	17.4	12.4
c. Corporate and municipal bonds	160.3	249.7	59.6	67.3	58.2	64.6	11.1	19.7
d. Corporate stocks <sup>3</sup>	58.8	40.1	-2.1	21.2	-2.7	23.6	13.4	5.1
5. U.S. net acquisitions (-) of foreign securities	5.5	-73.2	-26.4	8.1	-28.5	-26.4	-10.4	-2.6
a. Bonds	33.5	27.8	7.8	24.9	2.2	-7.0	4.7	.7
b. Stock purchases	-24.8	-83.6	-19.6	-16.8	-30.7	-16.5	-14.0	-3.3
c. Stock swaps <sup>3</sup>	-3.2	-17.4	-14.7	.0	.0	-2.8	-1.1	.0
<b>Other flows (quarterly data, s.a.)</b>								
6. U.S. direct investment (-) abroad	-137.8	-154.8	-33.8	-29.2	-42.2	-49.6	...	...
7. Foreign direct investment in U.S.	39.6	82.0	34.5	22.5	1.8	23.2	...	...
8. Foreign holdings of U.S. currency	21.5	16.6	4.9	1.5	2.8	7.5	...	...
9. Other (inflow, +) <sup>4</sup>	16.4	31.5	62.4	-31.3	48.7	-48.3	...	...
<b>U.S. current account balance (s.a.)</b>	<b>-480.9</b>	<b>-541.8</b>	<b>-139.2</b>	<b>-139.8</b>	<b>-135.3</b>	<b>-127.5</b>	<b>...</b>	<b>...</b>
<b>Capital account balance (s.a.)<sup>5</sup></b>	<b>-1.3</b>	<b>-3.1</b>	<b>-.4</b>	<b>-1.6</b>	<b>-.8</b>	<b>-.3</b>	<b>...</b>	<b>...</b>
<b>Statistical discrepancy (s.a.)</b>	<b>-45.8</b>	<b>-34.1</b>	<b>-1.8</b>	<b>-9.3</b>	<b>30.2</b>	<b>-53.1</b>	<b>...</b>	<b>...</b>

NOTE: Data in lines 1 through 5 differ in timing and coverage from the balance of payments data published by the Department of Commerce. 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 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.

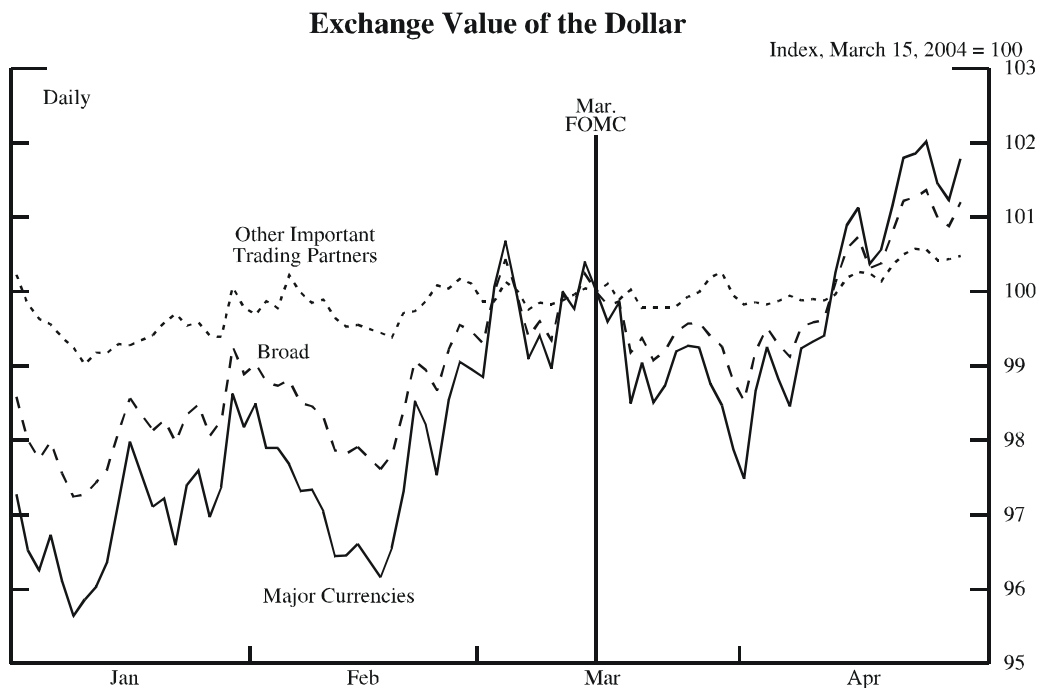
4. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business

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

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

## Foreign Financial Markets

The exchange value of the dollar, as measured by the major currencies index, rose  $1\frac{3}{4}$  percent on net over the intermeeting period. The index declined in the first two weeks following the March FOMC meeting but rose in early April. Market participants attributed the dollar's gain in April to releases of stronger-than-expected U.S. economic data, particularly the March employment report, and to speculation that the FOMC may tighten policy sooner than had previously been anticipated.



The dollar appreciated 3 percent on net against the euro and  $2\frac{1}{2}$  percent against the Canadian dollar over the intermeeting period. In contrast, the dollar depreciated almost 1 percent against the yen in highly volatile trading. The dollar depreciated 6 percent against the yen in the first two weeks following the March FOMC meeting. The dollar's movement against the yen appeared to coincide with a Nikkei news report that the Bank of Japan was "weighing an exit strategy for its yen-weakening market interventions." The Japanese monetary authorities have, in fact, not intervened in the currency market since March 16. Since early April, the dollar has almost fully rebounded from its earlier decline against the yen.

Long-term benchmark yields moved up 23 to 51 basis points in major foreign industrial countries, less than the 63-basis-point rise in the ten-year Treasury yield. Much of the change occurred in early April following the March U.S. employment report. Interest rates at the three-month tenor moved little over the intermeeting period in the major industrial countries, except in Canada and the United Kingdom. The Bank of Canada cut its policy rate 25 basis points on April 13. Although the policy decision had been anticipated, market participants interpreted the accompanying statement as being more bullish than had been expected, and medium- and long-term Canadian interest rates rose following the decision. The Bank of England left its monetary policy stance unchanged, surprising some market participants who were expecting a 25-basis-point tightening. Market participants are currently pricing in a 25-basis-point increase at the next meeting of the Bank of England's Monetary Policy Committee on May 6. As had been widely expected, the European Central Bank and the Bank of Japan left their respective monetary policy stances unchanged during the intermeeting period.

### Financial Indicators in Major Industrial Countries

Country	Three-month rate		Ten-year yield		Equities
	Apr. 28 (Percent)	Percentage Point Change	Apr. 28 (Percent)	Percentage Point Change	Percent Change
Canada	2.05	-.09	4.67	.44	-.84
Japan	.05	.00	1.52	.23	7.29
Euro area	2.06	.01	4.18	.28	4.36
United Kingdom	4.35	.17	5.00	.36	2.86
Switzerland	.25	.04	2.71	.33	4.65
Australia	5.55	.06	5.85	.51	1.17
United States	1.10	.06	4.41	.63	2.60
Memo: Weighted-average foreign	1.71	-.01	4.18	.36	n.a.

NOTE. Change is from March 15 to April 28 (10 a.m. EDT).  
n.a. Not available.

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**Financial Indicators in Latin America, Asia, and Russia**


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Economy	Currency/ US dollar		Short-term Interest rates <sup>1</sup>		Dollar-denominated bond spread <sup>2</sup>		Equity prices
	Apr. 28	Percent Change	Apr. 27/28 (Percent)	Percentage Point Change	Apr. 27/28 (Percent)	Percentage Point Change	Percent Change
Mexico	11.31	3.01	5.65	-.88	1.93	.04	8.16
Brazil	2.92	.57	15.50	-.45	6.43	.81	-2.23
Argentina	2.85	-2.15	n.a.	n.a.	45.55	-2.12	-7.85
Chile	619.95	2.15	1.69	-.25	.70	-.10	-1.17
China	8.27	-.13	n.a.	n.a.	.56	.07	-7.45
Korea	1156.00	-1.66	4.09	.04	...	...	5.82
Taiwan	33.08	-.97	1.24	.01	...	...	-.92
Singapore	1.70	-.69	.63	-.06	...	...	.34
Hong Kong	7.80	.06	.06	-.04	...	...	-5.84
Malaysia	3.79	-.26	2.95	-.05	.67	-.04	-3.23
Thailand	39.73	.58	1.25	-.03	.60	-.05	-.90
Indonesia	8639.00	.05	7.42	-.16	2.19	-.02	12.95
Philippines	55.67	-1.03	7.00	-.50	4.20	-.70	13.45
Russia	28.88	1.29	n.a.	n.a.	2.78	.18	.10

NOTE. Change is from March 15 to April 27/28.

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 security yield. Mexico, Brazil, Argentina, Korea, the Philippines and Russia: EMBI+ yield. Chile and China: Global bond yield. Malaysia: 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.

Since the March FOMC meeting, broad share price indexes in most major industrial economies have risen 1 to 7 percent, with the Japanese market registering the largest gain. Better-than-expected Japanese economic data were cited as factors supporting the gain in the Japanese equity market.

Over the intermeeting period, the dollar gained ½ percent on a trade-weighted basis against the currencies of our other important trading partners. The Mexican peso depreciated 3 percent against the dollar; Mexican share prices rose 8¼ percent. The central bank of Mexico unexpectedly tightened its policy stance on April 27, citing declines in the 28-day Cetes rate after the bank left policy unchanged at its previous biweekly policy-setting meeting on April 23. The bank noted that a decrease in rates was incompatible with its stated goals for inflation. The Brazilian central bank cut its policy rate 25 basis points twice over the intermeeting period. Brazil's EMBI+ spread over Treasuries rose about 80 basis points, in part on concerns about the Brazilian government's



ability to achieve fiscal austerity. The Brazilian *real* was little changed on net against the dollar. The exchange value of the dollar against the currencies of the emerging Asian economies has changed little on net since the March FOMC meeting.

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

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## Developments in Foreign Industrial Countries

Indicators for the first quarter suggest continued growth in the industrial countries, but at a more moderate rate than that of late last year. In Japan, strong exports and a marked increase in business sentiment point toward continued growth, although recent readings on several other indicators have been somewhat less buoyant. In Canada, growth appears to have slowed from the brisk inventory-led pace of the fourth quarter, notwithstanding some firming in consumer expenditures, while evidence points to still sluggish growth in the euro area. In the United Kingdom, the preliminary GDP release for the first quarter showed growth softening a bit from its rapid fourth-quarter pace, but housing prices have continued to move up.

Consumer price inflation remained low. Twelve-month headline inflation in Canada fell under the 1 percent lower bound of the Bank of Canada's inflation target band in February and March. Inflation in the euro area remained below the ECB's 2 percent ceiling in March, while in the United Kingdom inflation slipped further below the Bank of England's 2 percent inflation target. Slight CPI deflation persisted in Japan.

In early April, the Bank of Canada eased monetary policy for the third time this year, citing the need to support aggregate demand.

In **Japan**, indicators suggest that the economy continued to expand in the first quarter, albeit at a more moderate pace than last year. Real exports rose 2.2 percent for the quarter, while real imports increased slightly. Household expenditures posted solid gains in January and February on average, and new car registrations jumped during the first quarter. Industrial production edged up in March, bringing average production for the first quarter 0.3 percent above the fourth-quarter level. The broader all-industries index of output was flat in January and February on average compared with the fourth-quarter, as services sector output edged down. Core machinery orders, a leading indicator of business fixed investment, declined sharply in January and rebounded only moderately in February following hefty increases late last year.

Recent readings on labor market conditions have been mixed. In February, the unemployment rate remained at 5 percent. The job-offers-to-applicants ratio, a leading indicator of employment, was unchanged, but remained at a ten-year high. Core consumer goods prices in the Tokyo area (which exclude fresh food but include energy) rose 0.1 percent in March from the previous month but were down 0.1 percent from a year earlier. Wholesale prices were up 0.2 percent in March compared with the same month a year ago, the first increase on a twelve-month basis since July 2000. Average nationwide land prices were

down 5.6 percent in January from a year ago, though prices in parts of Tokyo have stopped falling.

The Bank of Japan's Tankan index of business conditions rose in March, with the level of the aggregate diffusion index for business sentiment among firms of all sizes and across all industries increasing to -5 from -11 in December. The closely-watched index for large manufacturers improved to 12 from 7 in December. The strengthening in the aggregate index in March was broadly based, with increases for both manufacturers and non-manufacturers across all firm sizes, suggesting that economic recovery is gradually spreading from export-related industries to other sectors.

### Japanese Economic Indicators

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

Indicator	2003		2004	2003	2004		
	Q3	Q4	Q1	Dec.	Jan.	Feb.	Mar.
Industrial production <sup>1</sup>	1.0	3.9	.3	-.6	2.9	-3.8	.1
All-industries index	.0	1.7	n.a.	.1	2.3	-3.8	n.a.
Housing starts	-6.5	4.9	n.a.	8.3	2.7	-6.4	n.a.
Machinery orders <sup>2</sup>	-2.9	11.3	n.a.	8.1	-12.2	4.9	n.a.
Machinery shipments <sup>3</sup>	2.5	7.6	n.a.	2.2	2.6	-6.4	n.a.
New car registrations	2.5	-2.2	13.5	2.1	18.7	-5.5	1.1
Unemployment rate <sup>4</sup>	5.2	5.1	n.a.	4.9	5.0	5.0	n.a.
Job offers ratio <sup>5</sup>	.65	.73	n.a.	.77	.77	.77	n.a.
Business sentiment <sup>6</sup>	-21.0	-15.0	n.a.	...	...	...	...
CPI (Core, Tokyo area) <sup>7</sup>	-.3	-.1	-.2	-.1	-.3	-.2	-.1
Wholesale prices <sup>7</sup>	-.7	-.4	.0	-.2	-.1	.0	.2

1. Mining and manufacturing.
  2. Private sector, excluding ships and electric power.
  3. Excluding ships and railway vehicles.
  4. Percent.
  5. Level of indicator.
  6. Tankan survey, diffusion index.
  7. Percent change from year earlier, n.s.a.
- n.a. Not available. ... Not applicable.

In the **euro area**, economic indicators for the first quarter were mixed, indicative of continued sluggish growth. Industrial production in January and February was on average slightly below the fourth-quarter level. German

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industrial production unexpectedly posted its first drop in five months in February, whereas French industrial production rose 0.8 percent after falling 0.5 percent the previous month. The volume of retail trade in the euro area fell by 0.8 percent in February, partially reversing a sharp increase in January. The purchasing manager's index (PMI) for the euro-area manufacturing sector rose in March, while the PMI for services fell.

Survey measures for April point towards increased optimism in the second quarter. The German IFO business climate index rose in April, reversing most of its March decline. The Belgian business confidence index rose in both months. An evaluation of the IFO responses received before and after the March 11 terrorist attack in Madrid did not reveal any differences. Italian consumer confidence had declined in the days of polling that took place immediately after the Madrid bombing, but in April the index rebounded to levels close to those prior to the attack.

Twelve-month consumer price inflation rose slightly in March to 1.7 percent, remaining below the ECB's 2 percent target ceiling. Core inflation, excluding energy, food, alcohol, and tobacco was 1.8 percent in March.

<b>Euro-Area Economic Indicators</b>							
(Percent change from previous period except as noted, s.a.)							
Indicator	2003		2004	2003	2004		
	Q3	Q4	Q1	Dec.	Jan.	Feb.	Mar.
Industrial production <sup>1</sup>	.6	.9	n.a.	.1	-.3	.1	n.a.
Retail sales volume <sup>2</sup>	-.1	-.2	n.a.	.2	2.3	-.8	n.a.
Unemployment rate <sup>3</sup>	8.8	8.8	n.a.	8.8	8.8	8.8	n.a.
Consumer confidence <sup>4</sup>	-17.3	-16.0	-14.3	-16.0	-15.0	-14.0	-14.0
Industrial confidence <sup>4</sup>	-11.0	-7.3	-6.7	-8.0	-6.0	-7	-7
Mfg. orders, Germany	1.1	3.7	n.a.	1.9	-1.2	.5	n.a.
CPI <sup>5</sup>	2.0	2.0	1.7	2.0	1.9	1.6	1.7
Producer prices <sup>5</sup>	1.2	1.1	n.a.	1.0	.3	.0	n.a.
M3 <sup>5</sup>	7.6	7.0	n.a.	7.0	6.5	6.3	n.a.

1. Excludes construction.

2. Excludes motor vehicles.

3. Percent. Euro area standardized to ILO definition. Includes Eurostat estimates in some cases.

4. Diffusion index based on European Commission surveys in individual countries.

5. Eurostat harmonized definition. Percent change from year earlier.

n.a. Not available.

Real GDP in the **United Kingdom** expanded 2.6 percent in the first quarter according to the preliminary estimate, with a wide divergence in performance across sectors. Industrial production is estimated to have fallen around 2 percent, with only energy output rising slightly. However, service sector output climbed more than 3 percent. In particular, output of the retail services and the hotels and restaurants sectors grew strongly. April's industrial survey, suggests expansion in the manufacturing sector, though the survey and actual data have diverged in recent months. Business confidence fell in April, but remained relatively high.

According to the two leading private surveys, housing price inflation has picked up in recent months, with the average twelve-month rise at around 18 percent in March. Household net mortgage and consumer borrowing in February remained elevated.

<b>U.K. Economic Indicators</b>							
(Percent change from previous period except as noted, s.a.)							
Indicator	2003		2004				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Real GDP*	3.4	3.7	2.6	...	...	...	...
Industrial production	.0	-.1	n.a.	-.1	-.6	n.a.	n.a.
Retail sales volume <sup>1</sup>	1.2	1.7	2.0	1.2	.0	.6	n.a.
Unemployment rate <sup>2</sup>							
Claims-based	3.1	3.0	2.9	2.9	2.9	2.9	n.a.
Labor force survey <sup>3</sup>	5.0	4.9	n.a.	4.8	n.a.	n.a.	n.a.
Business confidence <sup>4</sup>	-3.3	-.3	16.7	21.0	14.0	15.0	12.0
Consumer confidence <sup>5</sup>	-5.0	-3.3	-2.3	-3.0	-2.0	-2.0	n.a.
Consumer prices <sup>6</sup>	1.4	1.3	1.3	1.4	1.3	1.1	n.a.
Producer input prices <sup>7</sup>	1.2	2.9	-.3	-.3	-1.6	.9	n.a.
Average earnings <sup>7</sup>	3.6	3.5	n.a.	7.4	4.0	n.a.	n.a.

\* s.a.a.r.

1. Excludes motor vehicles.

2. Percent.

3. Three-month average centered on month shown.

4. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.

5. Average of the percentage balance from consumers' expectations of their financial situation, general economic situation, unemployment, and savings over the next 12 months.

6. Consumer prices index (CPI). Percent change from year earlier.

7. Percent change from year earlier.

n.a. Not available.

... Not applicable.

The labor market continued to be tight, as both the official-claims-based and the labor-force-survey measures of the unemployment rate remained near their lowest points since 1975. The twelve-month CPI inflation rate slipped further to 1.1 percent in March and is well below the Bank of England's 2 percent target.

The government released a new budget plan on March 17, leaving unchanged the projection for Public Sector Net Borrowing (PSNB) for 2003-04 at £37½ billion (almost 3½ percent of GDP) and revising up slightly the projection for 2004-05 and 2005-06 to £33 billion and £31 billion (2.8 and 2.5 percent of GDP, respectively). The government reaffirmed its expectation that real GDP will expand 3 to 3½ percent in both 2004 and 2005.

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In **Canada**, a sharp gain in retail sales in January and February indicates that domestic demand firmed in the first quarter. However, a corresponding decline in February wholesale trade implies that retailers are running down the substantial inventories accumulated at the end of last year, suggesting that inventories are likely to make a negative contribution to growth.

Other indicators for the first quarter were mixed. Housing starts decreased 3 percent in the first quarter, as colder-than-usual weather depressed construction in January and February; however, starts bounced back to their second-highest level in 16 years in March. Employment fell in both February and March, leading to a small increase in the unemployment rate. While both exports and imports increased in February, following declines in January.

In March, the twelve-month rate of headline CPI inflation remained at 0.7 percent, as energy base effects had a substantial negative impact. Twelve-month core inflation, excluding food, energy, and indirect taxes, edged up to 1.1 percent.

On April 13, the Bank of Canada lowered the targeted overnight rate (its key policy rate) and the Bank Rate 25 basis points each, to 2 percent and 2¼ percent, respectively. The Bank stated that it expected output to return to its potential level by the third quarter of 2005 and inflation to reach the 2 percent mid-point of the Bank's 1 to 3 percent target band by the end of 2005.

The government released a new budget on March 23, outlining a small increase in spending, primarily directed towards increased transfers to provinces and municipalities, but maintaining projected budget surpluses over the next three years.

<b>Canadian Economic Indicators</b>							
(Percent change from previous period except as noted, s.a.)							
Indicator	2003		2004	2003	2004		
	Q3	Q4	Q1	Dec.	Jan.	Feb.	Mar.
GDP by industry	.5	1.0	n.a.	.5	-.1	n.a.	n.a.
Industrial production	.3	1.6	n.a.	1.2	-.4	n.a.	n.a.
New mfg. orders	1.2	-.1	n.a.	2.4	2.5	-.8	n.a.
Retail sales	1.0	-1.2	n.a.	-1.4	1.7	2.3	n.a.
Employment	.2	.9	.3	.3	.1	-.1	-.1
Unemployment rate <sup>1</sup>	7.9	7.5	7.4	7.4	7.4	7.4	7.5
Consumer prices <sup>2</sup>	2.1	1.7	.9	2.0	1.2	.7	.7
Core Consumer Prices <sup>2,3</sup>	1.7	1.7	1.2	1.5	1.4	1.0	1.1
Consumer attitudes <sup>4</sup>	122.0	n.a.	n.a.	...	...	...	...
Business confidence <sup>4</sup>	127.2	n.a.	n.a.	...	...	...	...

1. Percent.

2. Percent change from year earlier, n.s.a.

3. Excluding food, energy, and indirect taxes.

4. Level of index, 1991 = 100.

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



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

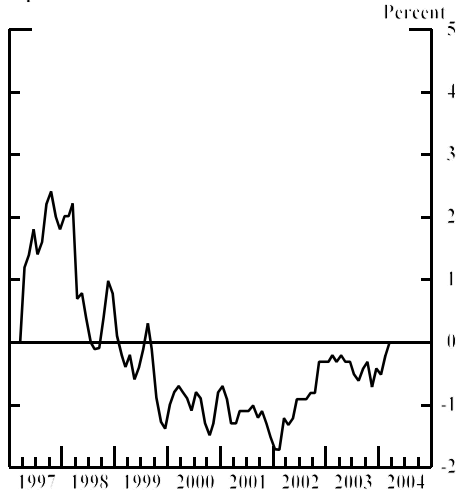
Country and balance	2003		2004			
	Q3	Q4	Q1	Jan.	Feb.	Mar.
<i>Japan</i>						
Trade	87.2	114.1	120.7	117.2	133.0	111.8
Current account	145.3	156.4	n.a.	190.3	189.6	n.a.
<i>Euro area</i>						
Trade <sup>1</sup>	133.3	98.6	n.a.	27.9	82.4	n.a.
Current account <sup>1</sup>	51.9	88.4	n.a.	-67.2	87.3	n.a.
<i>Germany</i>						
Trade	172.8	155.8	n.a.	213.1	181.0	n.a.
Current account <sup>1</sup>	44.6	92.9	n.a.	-10.0	76.7	n.a.
<i>France</i>						
Trade	.7	.7	n.a.	1.7	-.2	n.a.
Current account	1.3	-.3	n.a.	-.9	3.2	n.a.
<i>Italy</i>						
Trade	1.7	3.0	n.a.	-10.8	-3.7	n.a.
Current account <sup>1</sup>	6.5	-22.2	n.a.	-43.1	-15.0	n.a.
<i>United Kingdom</i>						
Trade	-76.2	-85.9	n.a.	-119.0	-95.2	n.a.
Current Account	-40.4	-35.7	n.a.	...	...	...
<i>Canada</i>						
Trade	44.7	45.4	n.a.	46.8	51.2	n.a.
Current Account	22.7	20.2	n.a.	...	...	...

1. Not seasonally adjusted.

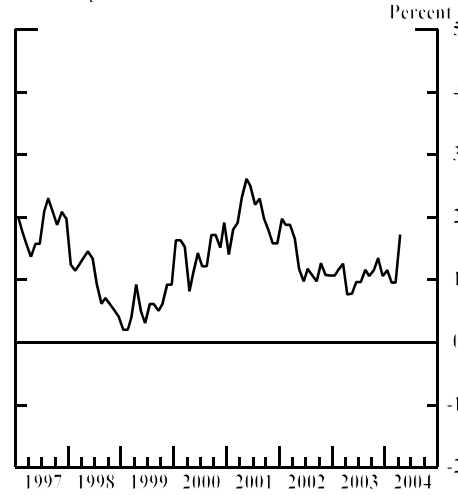
n.a. Not available. ... Not applicable.

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

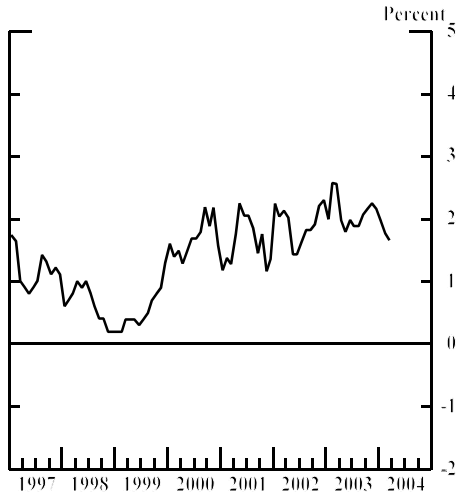
Japan



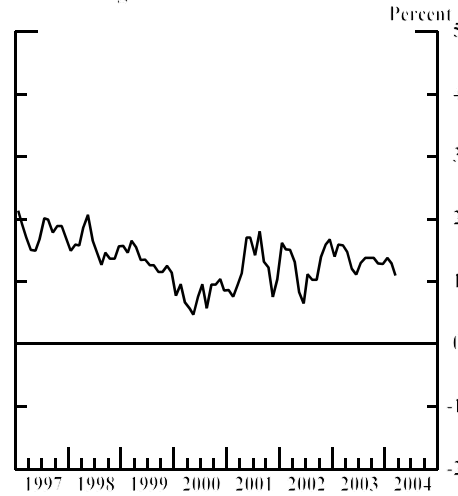
Germany



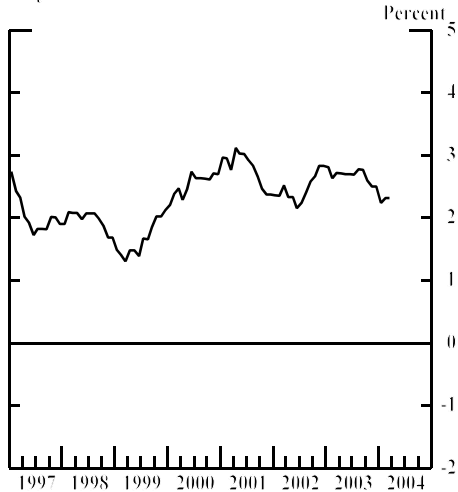
France



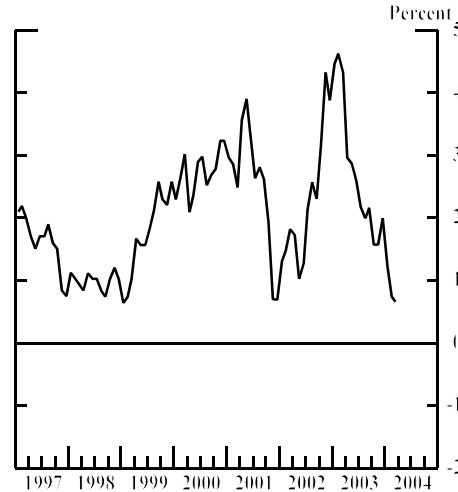
United Kingdom



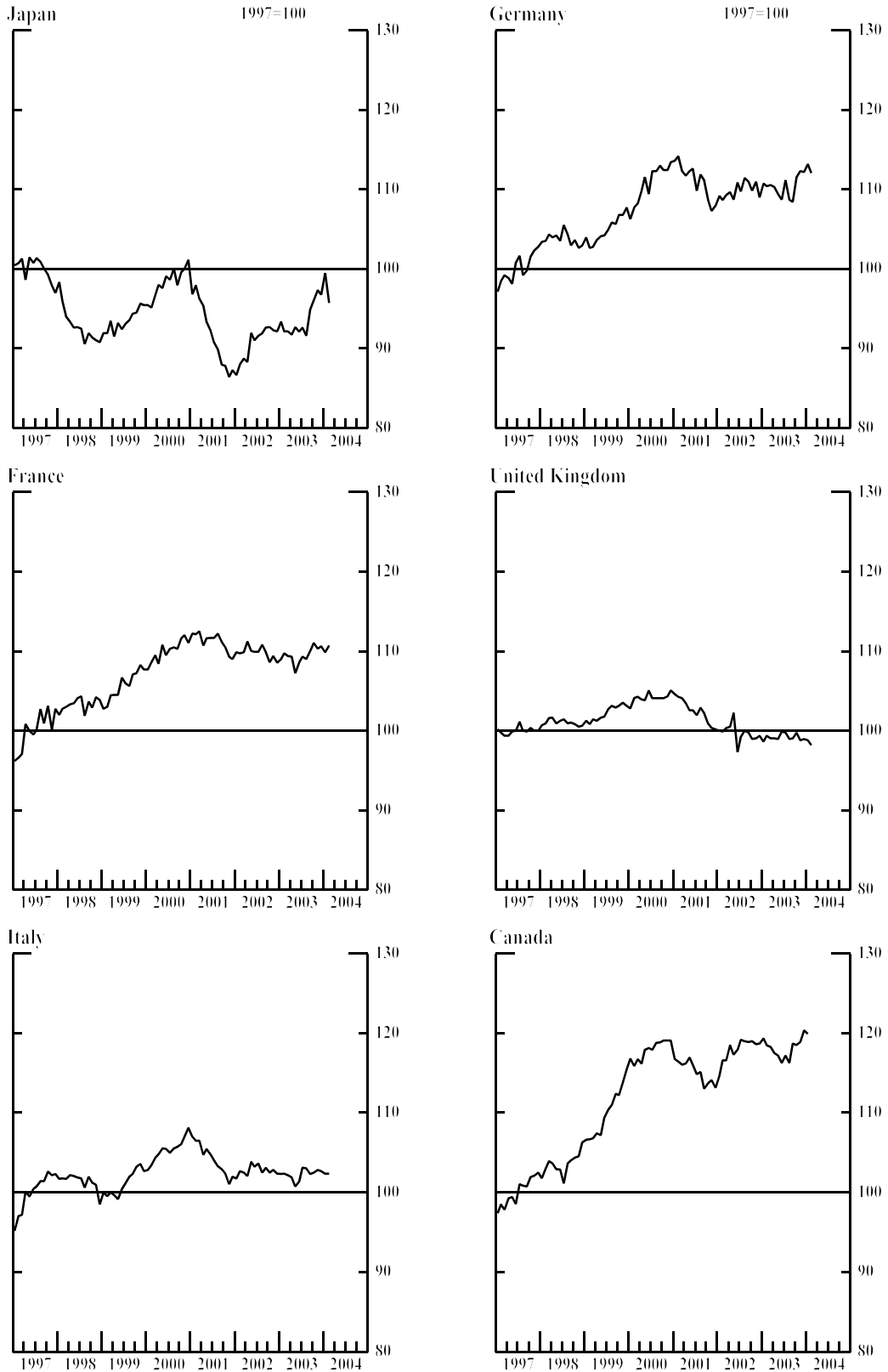
Italy



Canada



Industrial Production in Selected Industrial Countries



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## **Economic Situation in Other Countries**

Economic activity across the developing countries continues to be boosted by strong export performance, reflecting rising global high-tech demand, strength in the United States and China, and—in some cases—higher commodity prices. In Asia, output has soared as a result of booming exports, although domestic demand continues to lag outside of China. In Latin America, economic conditions have been mixed. While, in Mexico, recovery appears to be taking hold, the economic situation is more tenuous in Brazil, and political tensions still afflict Venezuela. For both regions, inflation remains generally modest.

**Chinese** real GDP surged more than 15 percent at an annual rate in the first quarter, according to staff estimates, with domestic investment increasing over 40 percent. This strong performance has fueled concerns there may be excessive investment in some sectors, and the government has raised bank reserve requirements twice since mid-March. Growth in lending has hovered around 20 percent on a twelve-month basis, down slightly from the peak reached late last summer when the first reserve requirement increase was implemented. Exports have also steamed ahead, up 34 percent in the first quarter (four-quarter change), while imports rose more than 40 percent over the same period. The trade balance showed a small surplus on a seasonally adjusted basis, but an \$8 billion deficit on a non-seasonally adjusted basis. The latter figure has been used by Chinese authorities to bolster their case against any near-term changes to the country's exchange rate regime.

Some analysts fear that the Chinese authorities are losing control of the money supply and inflation, in part because of difficulties in sterilizing massive foreign exchange inflows that have averaged more than \$10 billion a month for well over a year. In addition, some indices of raw materials prices have registered significant increases. Consumer prices in the first quarter, however, rose a relatively modest 2.8 percent on a twelve-month basis; non-food prices remained flat, while food prices were up about 8 percent. Overall producer price increases have also been mild. In mid-April, Chinese authorities reported that there were several suspected cases of SARS in China. So far, this outbreak appears minor and to be under control.

<b>Chinese Economic Indicators</b>							
(Percent change from previous period, s.a., except as noted)							
Indicator	2002	2003	2003	2004			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP <sup>1</sup>	8.0	9.9	7.9	15.5	...	...	...
Industrial production <sup>2</sup>	14.2	18.2	17.7	14.9	12.2	13.2	19.4
Consumer prices <sup>2</sup>	-.4	3.2	2.7	2.8	3.2	2.1	3.0
Trade balance <sup>3</sup>	30.4	25.5	38.2	1.6	.4	-15.7	20.0

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, except annual figures, which are Dec./Dec.

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

... Not applicable.

Recent data from **Hong Kong** indicate continuing strong growth. Booming tourism has boosted retail sales considerably and improved consumer confidence. In addition, after falling for most of the last five years, property prices have now risen for six consecutive months. Exports and imports are up, supported by trade with China. The unemployment rate declined to 7.2 percent and is now below the rate that prevailed before the SARS epidemic. Consumer prices have risen on average over the last two quarters, although twelve-month changes have continued to show deflation.

<b>Hong Kong Economic Indicators</b>							
(Percent change from previous period, s.a., except as noted)							
Indicator	2002	2003	2003	2004			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP <sup>1</sup>	5.1	4.9	6.1	n.a.	...	...	...
Unemployment rate <sup>2</sup>	7.2	7.9	7.3	7.2	7.3	7.2	7.2
Consumer prices <sup>3</sup>	-1.6	-1.8	-2.3	-1.9	-1.7	-1.9	-2.1
Trade balance <sup>4</sup>	-7.7	-8.5	-14.1	-13.0	-15.3	-12.7	-11.1

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

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

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

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

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

**Taiwan's** economy is growing rapidly. Recent data show that industrial production picked up again in February and March after falling in January. High-tech production has surged in recent months, despite gyrations in other sectors. Driven by demand from China and the strong global market for high-tech goods, trade has been booming; exports, new orders for exports, and imports reached new highs in March. The unemployment rate fell to 4½ percent in March, its lowest level since the end of the previous high-tech boom in mid-2001. Consumer prices have turned positive with twelve-month inflation close to 1 percent in March. The contested mid-March re-election of President Chen appears to be having little economic effect.

### Taiwan Economic Indicators

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

Indicator	2002	2003	2003	2004			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP <sup>1</sup>	4.3	5.0	5.6	n.a.	...	...	...
Unemployment rate <sup>2</sup>	5.2	5.0	4.7	4.6	4.7	4.6	4.5
Industrial production	7.9	7.2	4.7	.7	-3.9	1.4	.8
Consumer prices <sup>3</sup>	.8	-1	-.2	.5	.0	.6	.9
Trade balance <sup>4</sup>	18.1	16.9	12.6	9.8	14.4	7.5	7.4
Current account <sup>5</sup>	25.6	28.6	31.2	n.a.	...	...	...

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

2. Percent.

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

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

5. Billions of U.S. dollars, n.s.a., annual rate.

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

Data for **Korea** since the last Greenbook have been generally strong. Output surged 11.3 percent in the fourth quarter, and previous quarters were revised up. Fourth-quarter performance across sectors was unbalanced, however, with exports soaring while private consumption fell almost 2 percent. This uneven growth has continued into the first quarter. The trade surplus was \$40 billion at an annual rate in the first quarter, almost double the 2003 average, spurred by recovery in the high-tech sector and trade with China. Exports helped boost average industrial production in January and February to 3.8 percent above the previous quarter. On the other hand, retail sales and confidence indicators remained well off their mid-2002 peaks. In March, the unemployment rate ticked up to 3.4 percent, and twelve-month inflation edged down to 3.1 percent.

On March 12, Korea's parliament impeached President Roh for allegedly violating electoral laws by making statements in support of the Uri Party, made

up of his core supporters. He was then automatically suspended from office for up to six months pending a ruling by Korea's Constitutional Court. Backlash against the impeachment resulted in a strong victory for the Uri Party in Korea's April 15 parliamentary elections. This victory is expected by some to speed the court's decision on the validity of the impeachment and, should the ruling be in his favor, to help remove congressional obstacles to the reform agenda of President Roh.

### Korean Economic Indicators

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

Indicator	2002	2003	2003	2004			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP <sup>1</sup>	7.7	4.1	11.3	n.a.	...	...	...
Industrial production	8.3	5.0	5.4	n.a.	1.1	2.9	n.a.
Unemployment rate <sup>2</sup>	3.1	3.4	3.6	3.3	3.3	3.3	3.4
Consumer prices <sup>3</sup>	3.8	3.4	3.5	3.3	3.4	3.3	3.1
Trade balance <sup>4</sup>	14.8	22.2	33.2	40.3	41.2	46.5	33.1
Current account <sup>5</sup>	5.4	12.3	30.6	24.8	28.1	34.7	11.7

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

2. Percent.

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

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

5. Billions of U.S. dollars, n.s.a., annual rate.

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

The **ASEAN** economies have continued to grow strongly. Despite recent monthly declines in some countries, industrial production has posted significant gains across the region, largely driven by buoyant global high-tech demand. In Malaysia, where production declined in February, the January-February average was up about 5 percent over the fourth-quarter average. Similarly, in Singapore, despite a sharp decline in March, production was up more than 7 percent on average in the first quarter. Export growth generally remains robust in these countries. Imports have been increasing sharply as well, resulting in roughly stable trade balances in Indonesia, Malaysia, and the Philippines, and declining balances most recently in Singapore and Thailand. Inflation has picked up slightly in across most of the region, but remains well-contained.

<b>ASEAN Economic Indicators: Growth</b>							
(Percent change from previous period, s.a., except as noted)							
Indicator and country	2002	2003	2003	2004			
			Q4	Q1	Jan.	Feb.	Mar.
<i>Real GDP<sup>1</sup></i>							
Indonesia	3.6	4.3	-2.2	n.a.	...	...	...
Malaysia	5.3	6.4	6.8	n.a.	...	...	...
Philippines	5.8	4.4	6.6	n.a.	...	...	...
Singapore	2.8	4.9	11.0	n.a.	...	...	...
Thailand	6.0	7.8	11.0	n.a.	...	...	...
<i>Industrial production<sup>2</sup></i>							
Indonesia <sup>3</sup>	-1.1	-1.1	-2.7	n.a.	8.2	n.a.	n.a.
Malaysia	4.6	9.3	3.9	n.a.	2.3	-1.3	n.a.
Philippines	-6.1	.0	-8.3	n.a.	9.2	-1.8	n.a.
Singapore	8.4	3.1	4.2	7.2	18.1	1.3	-16.1
Thailand	8.5	12.3	4.2	n.a.	-9	3.1	n.a.

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

2. Annual figures are annual averages.

3. Staff estimate.

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

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

Country	2002	2003	2003	2004			
			Q4	Q1	Jan.	Feb.	Mar.
Indonesia	25.9	28.6	29.6	n.a.	29.4	27.5	n.a.
Malaysia	13.5	21.4	19.8	n.a.	19.2	19.7	n.a.
Philippines	-2	-1.6	-3.5	n.a.	-2.3	-2.7	n.a.
Singapore	8.7	16.2	17.2	14.2	12.1	21.2	9.1
Thailand	2.7	4.2	1.4	n.a.	7.5	3.1	n.a.

n.a. Not available.



<b>ASEAN Economic Indicators: CPI Inflation</b> (Percent change from year earlier, except as noted)							
Country	2002 <sup>1</sup>	2003 <sup>1</sup>	2003	2004			
			Q4	Q1	Jan.	Feb.	Mar.
Indonesia	9.9	5.2	5.7	4.8	4.8	4.6	5.1
Malaysia	1.7	1.2	1.2	.9	1.0	.9	1.0
Philippines	2.6	3.0	3.0	3.4	3.2	3.2	3.8
Singapore	.4	.8	.7	1.4	1.3	1.6	1.3
Thailand	1.6	1.8	1.6	1.9	1.2	2.2	2.3

1. December/December.

In **Mexico**, recent data suggest that economic growth may be moderating somewhat after a robust fourth quarter. Overall economic activity, a monthly proxy for real GDP, declined in both January and February, although other indicators show more strength. Industrial production slipped a bit in February but remained above the fourth-quarter average. Exports increased rapidly in the first quarter, indicating that demand from the United States continues to buoy the Mexican economy. Mexican consumer spending has begun to be a source of strength as well; retail sales rose in January and February to an average level 1.4 percent above the fourth-quarter average. In addition, although the unemployment rate remains elevated, manufacturing employment has stabilized after more than three years of declines and consumer sentiment turned up in March.

The Bank of Mexico raised the Corto on April 27, after market interest rates fell more than desired by the central bank following its April 23 decision to leave policy unchanged. On net, three-month interest rates have declined 50 basis points since mid-March, to about 6 percent, reflecting reduced market expectations about the pace of future monetary tightening. Mexican twelve-month consumer price inflation eased to 4.2 percent in March, as food prices fell back after surging in previous months.

<b>Mexican Economic Indicators</b>							
(Percent change from previous period, s.a., except as noted)							
Indicator	2002	2003	2003	2004			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP <sup>1</sup>	1.8	2.0	4.9	n.a.	...	...	...
Overall economic activity	.7	1.4	1.3	n.a.	-9	-9	n.a.
Industrial production	-.3	-.7	1.5	n.a.	.2	-.6	n.a.
Unemployment rate <sup>2</sup>	2.7	3.3	3.6	3.7	3.7	3.8	3.8
Consumer prices <sup>3</sup>	5.7	4.0	4.0	4.3	4.2	4.6	4.2
Trade balance <sup>4</sup>	-7.9	-5.7	-4.6	-4.9	-1.5	-6.4	-7.0
Imports <sup>4</sup>	168.7	170.6	176.5	182.7	176.9	184.8	186.3
Exports <sup>4</sup>	160.8	164.9	171.9	177.7	175.5	178.4	179.3
Current account <sup>5</sup>	-14.0	-9.2	-13.1	n.a.	...	...	...

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**, recent indicators—including a major revision to the industrial production series—suggest that growth slowed in the first quarter. A bright spot, however, has been the continued good performance in the external sector, supported by higher world commodity prices and the competitive level of the exchange rate. Inflation declined in March to under 6 percent on a twelve-month basis, within this year's target range of 5½ percent, plus or minus 2½ percent.

Doubts regarding the government's commitment to fiscal and other economic reforms have grown in the face of political pressures to raise the minimum wage substantially and dissent within President Lula's party. The Brazilian central bank reduced its policy rate 25 basis points at each of its mid-March and mid-April meetings. The Selic is now at 16 percent.

<b>Brazilian Economic Indicators</b>							
(Percent change from previous period, s.a., except as noted)							
Indicator	2002	2003	2003	2004			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP <sup>1</sup>	3.7	-.2	6.1	n.a.	...	...	...
Industrial production	2.4	.3	5.5	n.a.	-.6	-1.8	n.a.
Unemployment rate <sup>2</sup>	12.5	12.4	13.2	11.6	11.6	11.5	11.8
Consumer prices <sup>3</sup>	12.5	9.3	11.4	6.8	7.7	6.7	5.9
Trade balance <sup>4</sup>	13.1	24.8	28.2	29.4	25.4	28.1	34.5
Current account <sup>5</sup>	-7.7	4.0	1.2	6.7	8.0	2.3	9.8

1. Annual rate. Annual figures are Q4/Q4.
  2. Percent. Break in October 2001 as a result of change in methodology.
  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.

Recent data indicate continuing economic recovery in **Argentina**. Real GDP jumped over 10 percent at an annual rate in the fourth quarter, supported by strong exports and rising consumer demand. Industrial production rose 1.3 percent in March and was up over 15 percent from its year-earlier level, on the back of large gains in the printing, automobile, and mineral product industries. However, the country is now facing electricity shortages--utility price controls, as well as general economic disruption, over the past few years have limited investment in the energy sector. Argentina has continued to run sizable trade surpluses, reflecting rapid growth of agricultural exports. Twelve-month consumer price inflation remained low in March, at 2.3 percent.

After last-minute negotiations, Argentina made a \$3 billion debt payment to the IMF in early March. Subsequently, on March 22, the IMF Board unanimously approved the second performance review of Argentina's three-year standby program. The Argentine authorities now appear to be somewhat more committed to making progress on debt restructuring. In particular, the government has appointed six investment banks as advisors to assist in the restructuring and recently met with creditor groups.

<b>Argentine Economic Indicators</b>							
(Percent change from previous period, s.a., except as noted)							
Indicator	2002	2003	2003	2004			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP <sup>1</sup>	-3.3	10.9	10.4	n.a.	...	...	...
Industrial production	-10.7	16.1	4.1	5.5	3.5	1.0	1.3
Unemployment rate <sup>2</sup>	22.4	17.3	14.5	n.a.	...	...	...
Consumer prices <sup>3</sup>	41.4	3.8	3.8	2.5	2.8	2.3	2.3
Trade balance <sup>4</sup>	16.7	15.6	11.9	n.a.	11.0	15.0	n.a.
Current account <sup>5</sup>	9.6	7.9	4.1	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 **Venezuela**, the little economic news available since the last Greenbook suggests activity remains depressed, following last year's rebound from devastating strikes. Oil production is still believed to be about 15 percent below pre-strike levels. Furthermore, observers are concerned about the ability of the government-owned oil company (stripped by Chavez of much of its professional workforce) to sustain current production levels. Political stalemate continues between President Chavez and the opposition. In particular, the dispute continues over whether the opposition has enough valid signatures to initiate a recall referendum. Political interference by Chavez in this process has made analysts skeptical that a referendum will be held this year.

<b>Venezuelan Economic Indicators</b>							
(Percent change from previous period, s.a., except as noted)							
Indicator	2002	2003	2003	2004			
			Q4	Q1	Jan.	Feb.	Mar.
Real GDP <sup>1</sup>	-16.7	9.0	17.4	n.a.	...	...	...
Unemployment rate <sup>2</sup>	16.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Consumer prices <sup>3</sup>	31.2	27.1	26.3	24.0	26.6	21.9	23.5
Non-oil trade balance <sup>4</sup>	-8.5	-5.8	19.4	n.a.	n.a.	n.a.	n.a.
Trade balance <sup>4</sup>	13.0	15.0	46.0	n.a.	n.a.	n.a.	n.a.
Current account <sup>5</sup>	7.4	9.6	10.8	n.a.	...	...	...

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

2. Percent.

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

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

5. Billions of U.S. dollars, n.s.a., annual rate.

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