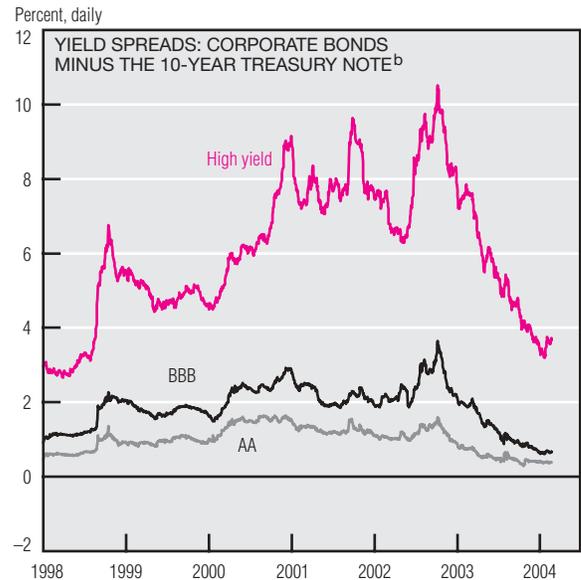
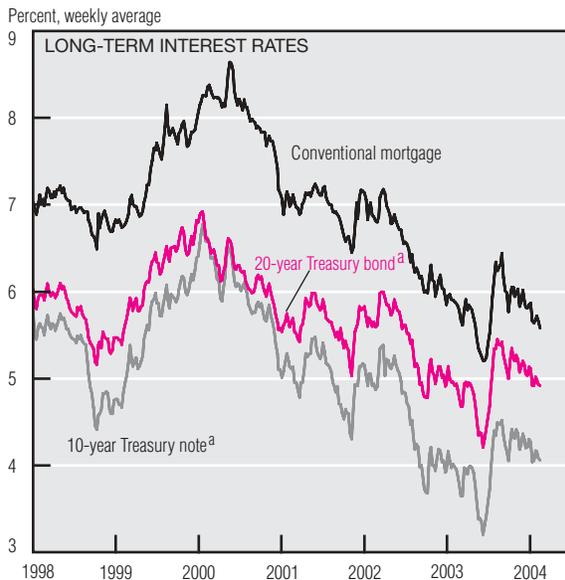
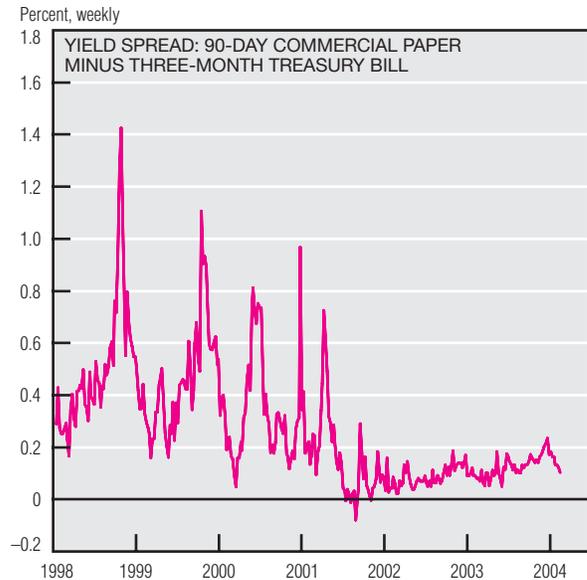
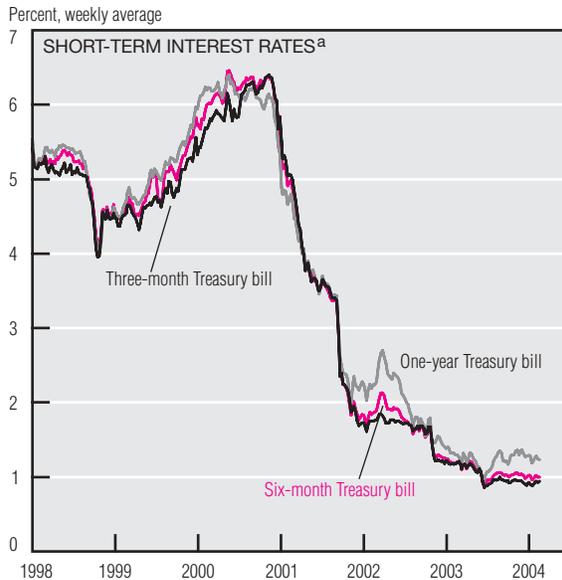


Money and Financial Markets



a. Yields from constant-maturity series.

b. Merrill Lynch AA, BBB, and High Yield Master II indexes, each minus the yield on the 10-year Treasury note.

SOURCES: Board of Governors of the Federal Reserve System, "Selected Interest Rates," H.15, *Federal Reserve Statistical Releases*; and Bloomberg Financial Information Services.

After declining strongly from late 2000 to mid-2003, interest rates on three- and six-month Treasury bills have remained nearly constant at values close to the federal funds rate. One-year Treasury bills continue to have a premium of nearly 30 basis points (bp) over 90-day Treasury bills.

Since late December, the spread between 90-day commercial paper and the three-month Treasury bill rate has fallen about 13 bp. Despite low commercial paper rates, the amount of domestic nonfinancial commercial

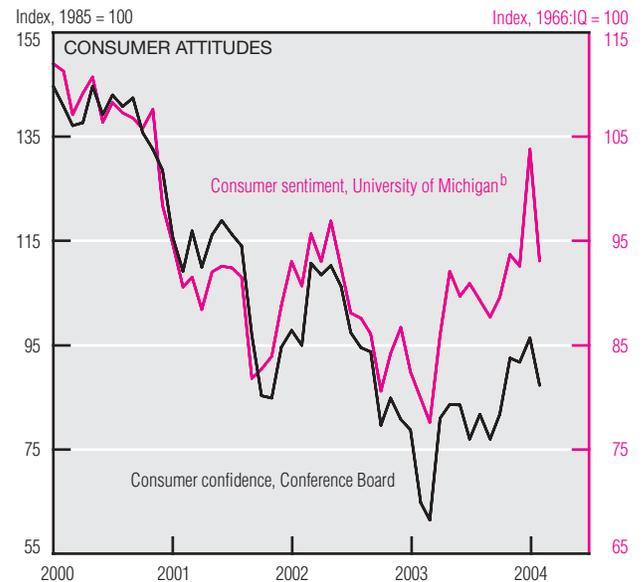
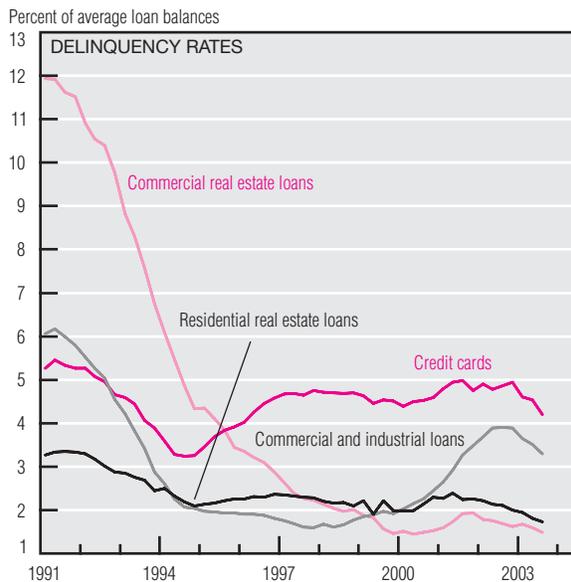
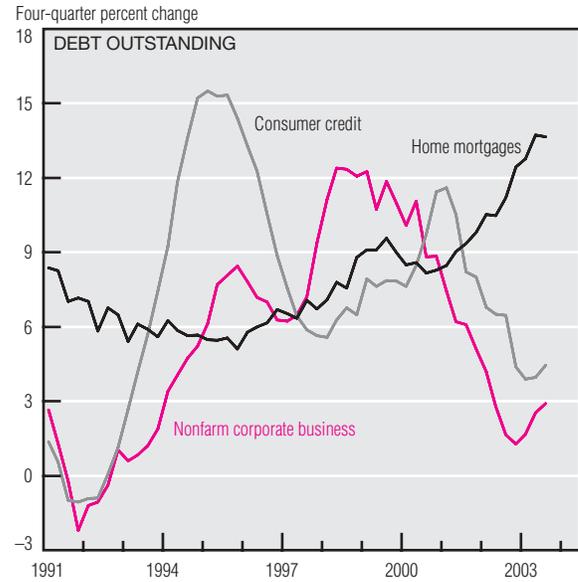
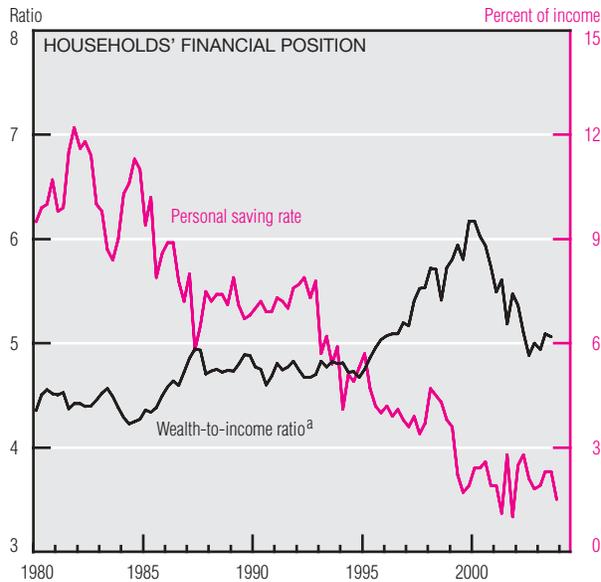
paper outstanding has contracted by more than two-thirds since it peaked in November 2000.

Low interest rates on conventional mortgages in 2003 encouraged a 10% increase in real residential construction expenditures for the year. In June 2003, mortgage rates reached their lowest level in 40 years, then increased markedly during the rest of the summer. However, the downward trend resumed late last year and continued into 2004. Ten- and 20-year Treasury security yields have fallen more than 45 bp since early fall 2003.

After trending downward since October 2002, yield spreads between AA-rated corporate bonds and Treasury notes have flattened markedly in the last three months. However, the premium on riskier corporate bonds has increased slightly. In his January testimony to Congress, Federal Reserve Chairman Greenspan commented on the strengthening in capital spending that occurred during the final three quarters of 2003, encouraged by lower risk spreads in credit markets and higher corporate profits. Nonfarm corporate

(continued on next page)

Money and Financial Markets (cont.)



a. Wealth is defined as household net worth. Income is defined as personal disposable income. Data are not seasonally adjusted.

b. Data are not seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System, "Charge-Off and Delinquency Rates on Loans and Leases at Commercial Banks," and "Flow of Funds Accounts of the United States," Z.1, *Federal Reserve Statistical Releases*; University of Michigan; and the Conference Board.

business debt grew at a 3% annual rate during 2003:IIIQ.

Although consumer debt rose substantially last year, households' net worth increased relative to disposable income because stock prices were up and real estate wealth increased. The personal saving rate has fluctuated markedly around 2% over the past three years.

Last year's low mortgage rates encouraged substantial refinancing of homes, and homeowners used some of the proceeds to pay down higher-interest consumer debt. Even so, consumer debt grew during the

year, mainly because credit card debt increased. However, in December 2003, nonrevolving debt growth exceeded credit card debt growth for consumers. Analysts expect nonrevolving debt growth to slow down in the coming months as auto sales wane. After a strong performance through much of last year, home mortgage growth slowed in December and January.

Despite higher levels of household debt, delinquency rates on credit cards and residential real estate loans continued to trend downward. Commercial loans showed similar improvement.

The University of Michigan's Consumer Sentiment Index rose dramatically in January, reaching its highest level since November 2000. Both the present conditions component and expectations component of the index rose vigorously. Although analysts expected a modest gain in February, the index retraced nearly all of January's increase in the preliminary release of the February survey. Both components of the index declined in February, as did the Conference Board's Index of Consumer Confidence.