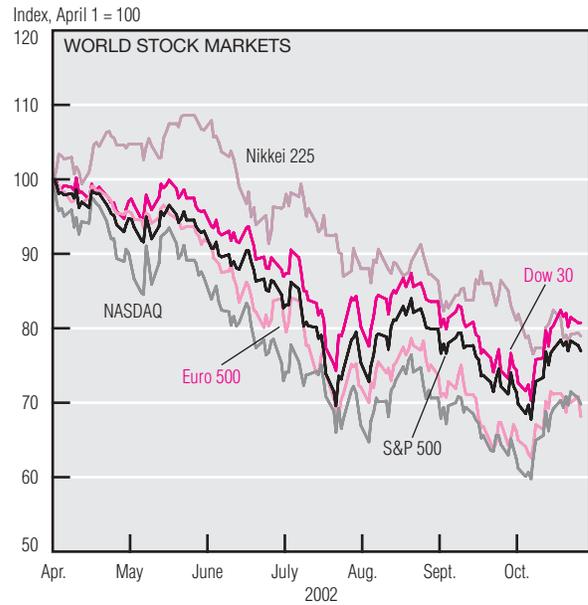
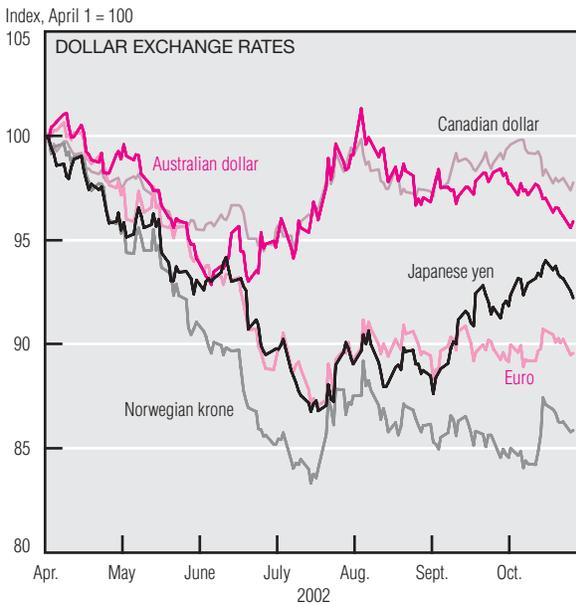
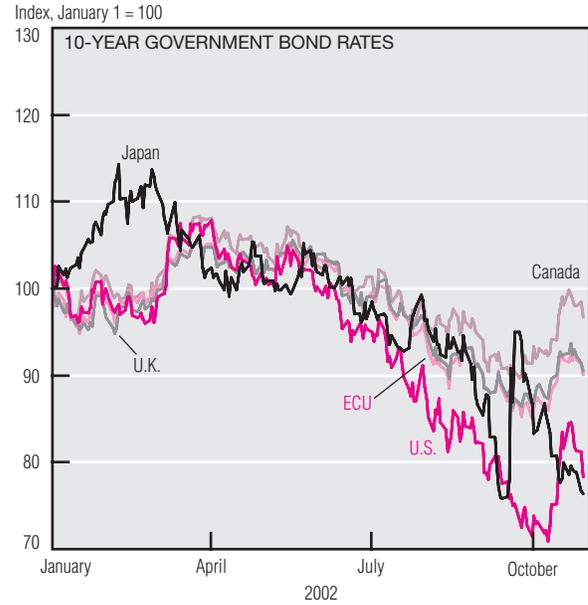
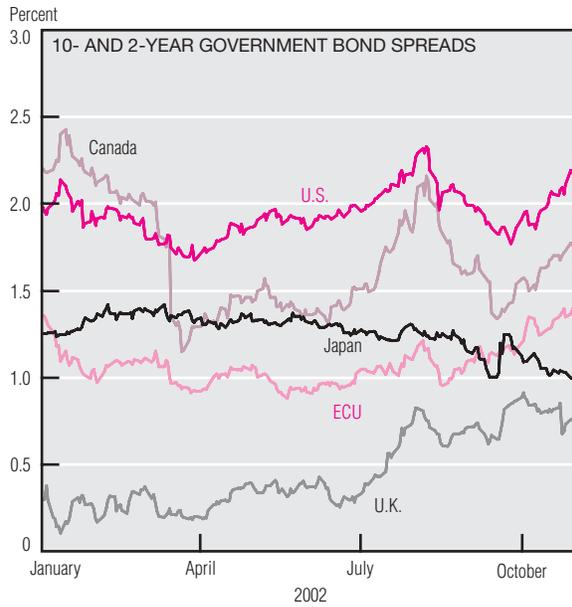


International Markets



SOURCES: Board of Governors of the Federal Reserve System; and Bloomberg Financial Information Services.

The difference between the 10-year and two-year government bond yields is a measure of the steepness of the yield curve. For the U.S., Canada, the U.K., and the ECU, yield curves were all quite flat in late March and early April. Since then, they have steepened, except for a brief period of flatness between August and late September. Japan's yield curve remained unchanged until the end of August, when it began to flatten out.

Ten-year government yields declined steadily between late March and late September in all of the

selected countries. Since September, 10-year rates in the U.S., Canada, the U.K., and the ECU have risen somewhat. Japan's 10-year rate increased significantly in late September but has fallen since then, taking back the entire increase.

The U.S. dollar lost ground to many currencies between April and July of this year. Subsequently, however, it has appreciated against the currencies of Japan, Canada, the U.K., and the ECU and has maintained its value against the Swiss franc and the Norwegian krone.

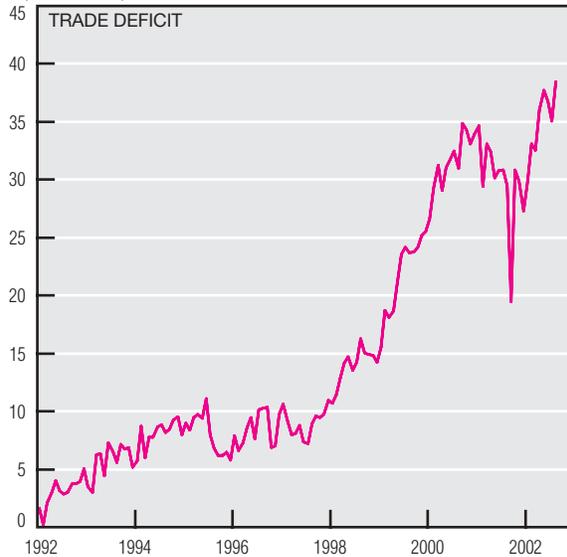
Stock markets around the world have been losing value since April. The NASDAQ lost almost 40% of its value between April and early October. Between April and late October, the Dow 30 was the best-performing index, but it still lost almost 20% of its value. Among the broad market indexes, the worst performer was the Euro 500, whose value slipped slightly more than 30%.

In August, the U.S. trade deficit, the difference between exports and imports of goods and services, increased \$3.4 billion to \$38.5 billion.

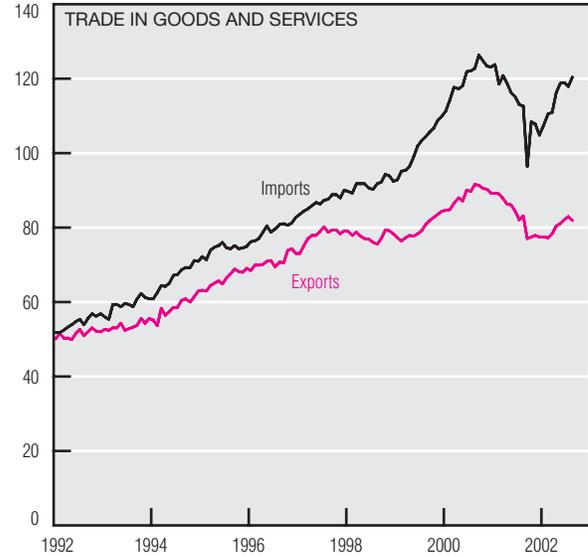
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International Markets (cont.)

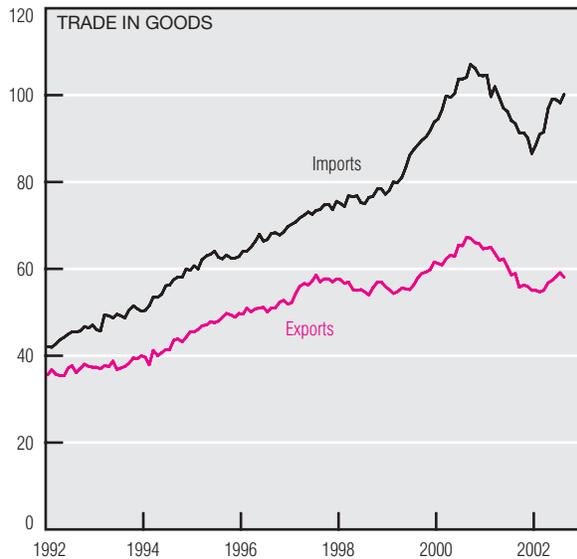
Imports minus exports, billions of dollars



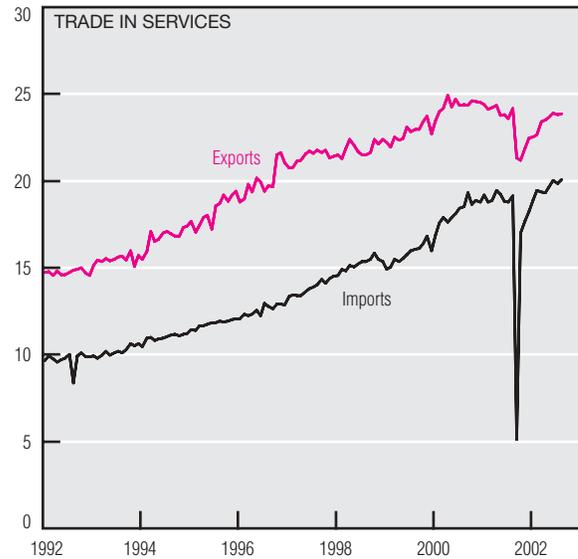
Billions of dollars



Billions of dollars



Billions of dollars



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

A deficit occurs when imports exceed exports, so when exports of goods and services fell slightly and imports rose that month, the deficit widened. The deficit, which started in 1992, grew slowly but steadily until 1998; since then, it has tripled, reaching an all-time high of \$38.5 billion in August.

The entire U.S. trade deficit results from the deficit in the trading of goods, which it resembles closely. In August, the goods deficit increased about \$3.2 billion to \$42.3 billion, when goods exports decreased from

\$59.1 billion to \$58.0 billion and goods imports increased from \$98.1 billion to \$100.3 billion. The July-to-August change in the goods balance reflects increases in the trade of consumer goods and industrial supply and materials. There were decreases in the trade of capital goods, and food and beverages, as well as automotive vehicles, parts, and engines.

While most people are aware of the goods deficit, not everyone realizes that the U.S. is also running a trade surplus in services, exporting

more than it imports. However, the services trade surplus is significantly smaller than the goods trade deficit. In August, the services surplus decreased \$0.2 billion to \$3.8 billion because while services exports increased from \$23.8 billion to \$23.9 billion, services imports also increased from \$19.8 billion to \$20.1 billion. The July-to-August change in the services balance reflected increased exports in the travel category as well as in direct defense expenditures and other private services.