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June 23, 1982

# **RECENT DEVELOPMENTS**

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Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

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SELECTED DOMESTIC NONFINANCIAL DATA  
(Seasonally adjusted)

	Latest data			Percent change from		
	Period	Release date	Data	Preceding period	Three periods earlier	Year earlier
						(At annual rate)
Civilian labor force	May	6-4-82	110.7	11.1	5.5	1.3
Unemployment rate (%) <u>1/</u>	May	6-4-82	9.5	9.4	8.8	7.5
Insured unemployment rate (%) <u>1/</u>	May	6-12-82	4.6	4.6	4.0	3.4
Nonfarm employment, payroll (mil.)	May	6-4-82	90.0	-.3	-2.2	-1.3
Manufacturing	May	6-4-82	19.1	-2.1	-6.9	-6.0
Nonmanufacturing	May	6-4-82	70.8	.2	-.9	.1
Private nonfarm:						
Average weekly hours (hr.) <u>1/</u>	May	6-4-82	35.0	34.9	35.0	35.4
Hourly earnings (\$) <u>1/</u>	May	6-4-82	7.63	7.58	7.53	7.19
Manufacturing:						
Average weekly hours (hr.) <u>1/</u>	May	6-4-82	39.1	39.0	39.4	40.2
Unit labor cost (1967=100)	Apr.	5-28-82	228.3	-1.6	-3.6	10.8
Industrial production (1967=100)	May	6-15-82	140.3	-2.6	-7.3	-8.1
Consumer goods	May	6-15-82	143.8	10.1	5.6	-4.6
Business equipment	May	6-15-82	163.3	-19.5	-19.3	-10.3
Defense & space equipment	May	6-15-82	107.9	6.7	5.3	5.8
Materials	May	6-15-82	135.5	-7.9	-14.0	-11.7
Consumer prices all items (1967=100)	May	6-22-82	286.7	11.4	3.7	6.7
All items, excluding food & energy	May	6-22-82	274.6	10.6	6.8	8.7
Food	May	6-22-82	285.4	10.2	3.1	4.7
Producer prices: (1967=100)						
Finished goods	May	6-11-82	276.8	.4	-.1	3.0
Intermediate materials, nonfood	May	6-11-82	313.4	.4	-4.2	1.3
Crude foodstuffs & feedstuffs	May	6-11-82	262.2	31.9	26.2	.5
Personal income (\$ bil.) <u>2/</u>	May	6-18-82	2,548.1	7.9	5.5	7.6
						(Not at annual rates)
Mfrs. new orders dur. goods (\$ bil.)	May	6-22-82	78.7	1.4	-.6	-10.7
Capital goods industries	May	6-22-82	25.7	-5.9	-11.9	-12.1
Nondefense	May	6-22-82	20.4	-4.7	-.1	-14.3
Defense	May	6-22-82	5.3	-10.2	-39.3	-2.2
Inventories to sales ratio: <u>1/</u>						
Manufacturing and trade, total	Apr.	6-11-82	1.50	1.48	1.52	1.39
Manufacturing	Apr.	6-2-82	1.74	1.74	1.76	1.60
Trade	Apr.	6-11-82	1.28	1.26	1.31	1.20
Ratio: Mfrs.' durable goods inventories to unfilled orders <u>1/</u>	Apr.	6-2-82	.597	.593	.595	.565
Retail sales, total (\$ bil.)	May	6-10-82	89.2	1.5	1.8	3.3
GAF <u>3/</u>	May	6-10-82	19.0	3.4	1.2	4.0
Auto sales, total (mil. units.) <u>2/</u>	May	6-3-82	8.4	16.1	-.5	6.0
Domestic models	May	6-3-82	6.4	17.3	3.4	11.8
Foreign models	May	6-3-82	2.0	12.7	-11.0	-8.8
Plant & Equipment expen. (\$ bil.) <u>4/</u>						
Total nonfarm business	1982	6-10-82	328.60	--	--	2.2
Manufacturing	1982	6-10-82	127.29	--	--	.4
Nonmanufacturing	1982	6-10-82	201.31	--	--	3.4
Housing starts, private (thous.) <u>2/</u>	May	6-16-82	1,086	22.3	14.9	-7.3
Leading indicators (1967=100)	Apr.	5-28-82	125.2	.8	-.1	-8.8

1/ Actual data used in lieu of percent changes for earlier periods.

2/ At annual rate.

3/ Excludes mail order houses.

4/ Planned-Commerce May 1982 Survey.

## DOMESTIC NONFINANCIAL DEVELOPMENTS

There were signs that economic activity leveled off in May, as consumer demand firmed. Employment and industrial production were little changed, following several months of steep declines. Increased production of autos mostly offset continued reductions in the output of basic metals and business equipment. Investment demand appears to be declining as indicated by the prolonged weakness in orders for capital goods and downward revisions in business spending plans. Except for the reversal in food and energy, price increases continued to moderate.

### Employment and Industrial Production

Labor demand appeared to be about unchanged in May, after contracting steadily since the pre-recession peak last July. Nonfarm payroll employment, as measured by the establishment survey, remained about constant between April and May. However, initial claims for unemployment insurance benefits have remained very high into early June--an indication that substantial layoffs still were occurring in some industries.

The overall unemployment rate was 9.5 percent in May, about the same as April's 9.4 percent, with the household survey showing substantial increases in both employment and the labor force. However, these sharp jumps appear to be attributable to a seasonal influx of summer job-seekers that formerly were reflected in the June survey but now seem to be shifting into the May report. When new seasonal factors are introduced next month, the large May increases in the labor force and household employment could be revised downward significantly.

Industrial production also held fairly constant in May, edging down an estimated 0.2 percent following declines of 0.8 percent in each

CHANGES IN EMPLOYMENT<sup>1</sup>

(Thousands of employees; based on seasonally adjusted data)

	1980	1981	1981	1982			
			Q4	Q1	Mar.	Apr.	May
- - Average monthly changes - -							
<u>Nonfarm payroll employment</u> <sup>2</sup>	14	-7	-240	-113	-155	-311	-24
Strike adjusted	8	-8	-252	-111	-153	-301	-25
Manufacturing	-62	-40	-197	-119	-135	-165	-34
Durable	-46	-32	-153	-78	-85	-130	-19
Nondurable	-16	-8	-44	-41	-50	-35	-15
Construction	-19	-22	-33	-31	-40	-44	9
Trade	0	16	-45	44	-15	-72	46
Finance and services	81	56	43	25	47	12	-5
Government	11	-26	4	-19	9	-16	9
Private nonfarm production workers	-23	-8	-260	-90	-150	-288	-41
Manufacturing production workers	-69	-48	-200	-103	-111	-148	-17
<u>Total employment</u> <sup>3</sup>	-27	-2	-215	-40	-98	-152	777
Nonagricultural	-35	22	-165	-87	-73	-112	597

1. Average change from final month of preceding period to final month of period indicated.

2. Survey of establishments. Strike-adjusted data noted.

3. Survey of households.

## SELECTED UNEMPLOYMENT RATES

(Percent; based on seasonally adjusted data)

	1980	1981	1981	1982			
			Q4	Q1	Mar.	Apr.	May
Total, 16 years and older	7.1	7.6	8.3	8.8	9.0	9.4	9.5
Teenagers	17.8	19.6	21.1	21.9	21.9	23.0	23.1
20-24 years old	11.5	12.3	13.1	14.0	14.2	14.7	14.3
Men, 25 years and older	4.8	5.1	5.9	6.4	6.6	6.9	6.9
Women, 25 years and older	5.5	5.9	6.3	6.6	7.0	7.2	7.4
White	6.3	6.7	7.3	7.7	7.9	8.4	8.5
Black and other	13.1	14.2	15.4	15.9	16.6	16.9	17.2
Fulltime workers	6.9	7.3	8.1	8.6	8.9	9.2	9.2
White collar	3.7	4.0	4.3	4.5	4.8	4.9	4.8
Blue collar	10.0	10.3	11.8	12.6	12.9	13.7	13.5

## INDUSTRIAL PRODUCTION

(Percentage change from preceding period except where indicated;  
based on seasonally adjusted data)

	1981		1982	1982			
	Q3	Q4	Q1	Feb.	Mar.	Apr.	May
	---annual rate---			-----monthly rate-----			
Total	1.4	-16.6	-11.7	1.6	-.8	-.8	-.2
Final products	.8	-9.6	-10.4	.9	-.5	-.1	.1
Consumer goods	-1.5	-13.2	-8.6	1.6	-.2	.8	.8
Durable	-8.9	-32.6	-14.3	4.8	1.9	2.3	2.3
Nondurable	1.4	-5.0	-6.5	.5	-.9	.2	.3
Business equipment	3.9	-9.4	-17.7	-.3	-1.5	-1.8	-1.6
Oil & Gas Well Dr.	6.4	10.8	-16.1	-3.6	-7.1	-8.0	-8.5
Defense and space eq.	4.3	11.4	2.7	1.2	.7	.1	.6
Construction supplies	-8.6	-29.3	-14.5	2.7	-1.4	-1.8	.4
Materials	2.5	-24.1	-14.0	2.3	-1.3	-1.6	-.7
Durable goods	1.2	-29.1	-24.1	2.1	-1.4	-1.9	-.9
Nondurable goods	-5.7	-23.3	-8.1	4.7	-1.2	-1.0	-.1
Energy materials	22.4	-10.6	6.4	-.5	-1.2	-1.6	-.8
Cr. Oil & Nat. Gas	-2.4	-5.2	4.2	-1.7	.8	.9	-.2

CAPACITY UTILIZATION RATES: MANUFACTURING AND MATERIALS  
(Percent, seasonally adjusted)

	1978-80	1980	1981	1982	1982			
	High	Low	Q4	Q1	Feb.	Mar.	Apr.	May
Manufacturing industries	87.2	74.9	74.8	71.7	72.2	71.7	71.0	70.8
Primary processing	90.1	71.0	72.7	69.1	70.0	68.7	67.4	67.0
Advanced processing	86.2	77.2	75.9	73.2	73.6	73.2	72.9	72.8
Motor vehicles & pts.	94.5	51.0	51.5	47.5	47.6	51.2	53.8	57.7
Materials producers	88.8	73.8	75.2	72.0	72.9	71.8	70.5	69.9
Durable goods mats.	88.4	68.2	71.8	66.6	67.4	66.4	65.0	64.3
Raw steel	100.7	55.3	70.7	62.9	63.9	59.8	54.1	50.5
Nondurable goods mats.	91.6	77.5	77.2	75.0	76.5	75.4	74.4	74.2
Energy materials	88.8	82.7	82.1	83.0	83.2	82.2	80.7	80.1



PERSONAL INCOME  
(Based on seasonally adjusted data)

	1980	1981	1981		1982		
			Q3	Q4	Q1	Apr.	May
- - - - Percentage changes at annual rates <sup>1</sup> - - - -							
Total personal income	11.0	10.2	12.9	7.5	4.1	4.1	7.9
Wage and salary disbursements	9.0	8.9	8.9	6.6	4.3	-1.8	6.1
Private	9.2	9.2	9.5	5.1	4.0	-3.2	6.5
Disposable personal income							
Nominal	10.9	10.1	11.8	9.4	4.8	8.9	2.2
Real	.8	2.2	2.6	1.6	0.0	6.7	n.a.
- - - - - Changes in billions of dollars <sup>2</sup> - - - - -							
Total personal income	18.7	18.0	26.1	9.8	10.3	8.7	16.6
Wage and salary disbursements	9.8	9.3	12.1	4.0	6.4	-2.3	7.8
Private	8.1	7.6	10.3	1.6	5.1	-3.3	6.8
Manufacturing	2.3	1.5	2.2	-2.7	0.6	-1.7	1.5
Other income	9.6	9.9	14.7	6.1	5.6	11.2	9.6
Transfer payments	4.1	2.9	5.5	2.3	3.0	5.7	4.3
Less: Personal contributions for social insurance	.8	1.2	.7	.4	1.7	.2	.8
Memorandum:							
Personal saving rate <sup>3</sup>	5.6	5.3	5.2	6.1	5.4	5.8	n.a.

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly periods are compounded rates of change; monthly changes are not compounded.

2. Average monthly changes are from the final month of the preceding period to the final month of period indicated; monthly figures are changes from the preceding month.

3. Monthly saving rate equals the centered three-month moving average of personal saving as a percentage of the centered three-month moving average of disposable personal income.

n.a.--not available

of the two preceding months. Output of business equipment and basic metals continued to drop sharply, while production of consumer goods rose again, primarily due to about a 10 percent increase in auto assemblies. Overall, industrial production in May was 8.8 percent below its recent peak in July 1981.

Capacity utilization for total manufacturing declined 0.2 percentage point in May, to 70.8 percent. The operating rate for industrial materials production dropped 0.6 percentage point to 69.9 percent--only half a percentage point above its March 1975 low. The declines in both the manufacturing and materials rates were more moderate than in March and April.

#### Personal Income and Consumer Spending

Personal income rose at an 8 percent annual rate in May, after increasing at a 4 percent rate in the two previous months. Wage and salary disbursements increased in May, after declining in March and April when employment fell sharply in goods-producing industries. Interest income and unemployment insurance benefit payments continued to rise substantially. Real disposable personal income has been edging up in recent months, despite a probable decline in May due to the concentration in March and April of tax relief on some 1981 federal tax liabilities.

Consumer purchases picked up in May, and consumer confidence also showed some further improvement. Domestic-model autos sold at a 6.4 million unit annual rate, up from the 5.5 million rate in April. Sales of these cars continued at an annual rate of 6.1 million units in the first ten days of June, even though GM discontinued its popular 12.8 percent financing promotion. Foreign car sales increased in May to an

RETAIL SALES  
(Percent change from preceding period except where indicated;  
based on seasonally adjusted data)

	1981		1982	1982	1982			
	Q3	Q4	Q1	May/Q1	Feb.	Mar.	Apr.	May
Total sales	1.2	-1.3	.2	2.9	2.7	-.4	.7	1.5
(Real) <sup>1</sup>	-5	-2.7	-.7	...	3.0	-.3	1.1	n.a.
Total, less autos and nonconsumption items	1.1	.4	.2	.4	1.5	-1.0	-.3	1.0
Total, exc. auto group, gasoline, and nonconsumption items	1.2	.4	.5	1.4	2.2	-.6	-.1	1.2
GAF <sup>2</sup>	.5	-.1	-.2	3.0	4.9	-.4	-1.6	3.4
<u>Durable goods</u>	1.6	-5.6	.1	7.9	5.9	.6	3.0	2.5
Automotive	3.5	-7.3	.3	13.7	8.9	1.9	5.0	4.0
Furniture & appliances	-.3	-.8	-4.6	1.8	4.2	-.1	1.2	-.7
<u>Nondurable goods</u>	1.1	.7	.2	.6	1.4	-.9	-.3	1.1
Apparel	1.5	-.9	4.3	1.3	10.0	-3.3	-4.8	5.4
Food	1.8	1.7	-.2	1.6	1.0	-.4	1.1	.4
General merchandise <sup>3</sup>	.3	.5	-.4	4.1	3.3	.6	-1.3	4.0
Gasoline	.3	.4	-2.0	-6.7	-2.9	-4.0	-2.3	-.9

1. BCD series 59. Data are available approximately 3 weeks following the retail sales release.
2. General merchandise, apparel, and furniture and appliance stores.
3. General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

AUTO SALES  
(Millions of units; seasonally adjusted annual rates)

	1981	1982	1982			
	Q4	Q1	Mar.	Apr.	May	June
Total	7.4	8.1	7.9	7.3	8.4	n.a.
Foreign-made	2.2	2.2	2.0	1.8	2.0	n.a.
U.S.-made	5.1	5.9	5.9	5.5	6.4	6.1 <sup>1</sup>
Small	2.6	3.0	3.1	2.4	2.9	n.a.
Intermediate & standard	2.5	2.8	2.8	3.0	3.5	n.a.

Note: Components may not add to totals due to rounding.

1. First ten days

annual rate of 2.0 million units, but this still was 8.5 percent below the first-quarter average.

Retail sales excluding autos and mainly nonconsumer items increased 1.0 percent in May, following a 0.3 percent decline in April, and were 0.4 percent above their monthly average in the first quarter. Spending for both apparel and general merchandise strengthened in May, probably in response to widespread sales promotions. Spending for furniture and appliances--often related to housing market developments--declined 0.7 percent to a current dollar level 3.7 percent below a year earlier.

#### Business Fixed Investment

Fixed capital spending declined, on balance, in April and there were indications of further deterioration in the coming months. Shipments of nondefense capital goods in April and May averaged about 3 percent less than in the first quarter. While part of this decline was offset by increased purchases of new cars, sales of heavyweight trucks in the two months dropped to nearly 20 percent below the already depressed first quarter monthly average. In the structures category, nonresidential construction rose only slightly in April; drilling footage of oil and gas wells reportedly rose in April and May, but these data tend to lag behind the industrial production index drilling figure, which has declined in recent months.

Near-term commitments data suggest further weakness in the second half of 1982. Contracts and orders for plant and equipment, a leading indicator of fixed capital spending, fell 6 percent in April, following large declines in the two preceding quarters. Orders for nondefense

BUSINESS CAPITAL SPENDING INDICATORS  
(Percentage change from preceding comparable period;  
based on seasonally adjusted data)

	1981		1982			
	Q3	Q4	Q1	Mar.	Apr.	May
Nondefense capital goods shipments						
Current dollars	.9	-.5	-5.3	-.3	-5.9	4.8
Addendum: Sales of heavy-weight trucks (thousands)	232	201	217	193	170	187
Nonresidential construction						
Current dollars	5.1	2.3	1.9	-1.1	1.5	n.a.
Addendum: Oil and gas well drilling (millions of feet)	29.9	34.9	34.9	35.0	42.8	42.4

BUSINESS CAPITAL SPENDING COMMITMENTS  
(Percentage change from preceding comparable period;  
based on seasonally adjusted data)

	1981		1982			
	Q3	Q4	Q1	Mar.	Apr.	May
Nondefense capital goods orders						
Current dollars	.2	-6.4	-4.5	7.9	-2.8	-4.7
Machinery						
Current dollars	.4	-1.3	-11.9	-.1	3.0	-2.5
Addenda: Ratio of current dollar unfilled orders to shipments						
Total	6.00	5.81	5.93	5.88	6.23	5.84
Machinery	4.50	4.44	4.41	4.36	4.67	4.40
Nonresidential building contracts						
Current dollars	12.3	-16.9	5.9	27.9	-27.3	n.a.

n.a.--not available

capital goods fell 4.7 percent in May, following a 2.8 percent drop in April. Permits for nonresidential construction plunged over 25 percent in April, while contracts for nonresidential construction dropped about 12 percent.

In addition to these sector-specific indicators, the most recent Commerce department survey of plant and equipment spending indicated that business plans to increase capital spending only 2.2 percent in 1982. This represents a downward revision of more than 5 percentage points from the increase shown by the February survey, and is lower than the 3.9 percent rise reported by McGraw-Hill for a survey taken recently.

### Housing

Residential construction activity has trended up since last fall, but it has not yet demonstrated a broad and sustained recovery. Housing starts increased to a 1.1 million annual rate in May, exceeding the 1 million unit rate for the first time in 9 months. However, most of the May increase was in the volatile multifamily sector. Multifamily activity has been aided by increased demand in the rental market and an upsurge in the share of condominiums in new homebuilding, but the May increase of nearly 50 percent might have been an aberration. Single-family starts rose 9 percent, in contrast.

Long-term prospects for single-family homebuilding are dependent on sales; these have yet to show any noticeable reaction to the decline in mortgage commitment rates since last autumn or to the continued spread of innovative financing techniques. According to preliminary data, new house sales declined in April to the lowest level of the current

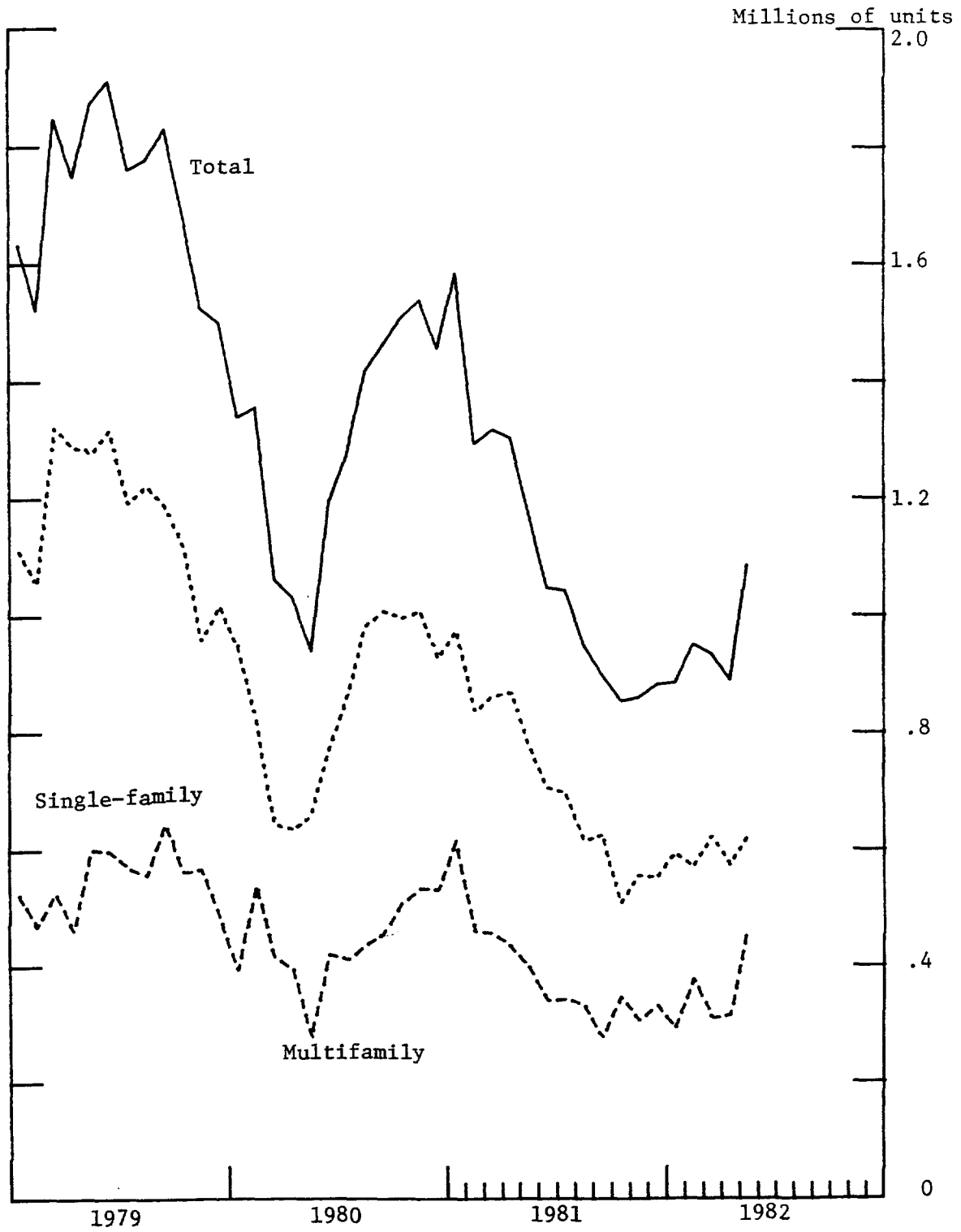
PRIVATE HOUSING ACTIVITY  
(Seasonally adjusted annual rates, millions of units)

	1981			1982			
	Annual	Q3	Q4	Q1	Mar.	Apr.	May.
All units							
Permits	0.99	0.89	0.76	0.82	0.85	0.88	0.97
Starts	1.08	0.96	0.87	0.92	0.93	0.89	1.09
Single-family units							
Permits	0.56	0.50	0.42	0.45	0.46	0.45	0.49
Starts	0.71	0.64	0.54	0.59	0.62	0.57	0.62
Sales							
New homes	0.44	0.37	0.40	0.38	0.37	0.32	n.a.
Existing homes	2.35	2.25	1.92	1.93	1.99	1.90	n.a.
Multifamily units							
Permits	0.42	0.38	0.34	0.37	0.39	0.43	0.48
Starts	0.38	0.32	0.33	0.33	0.31	0.32	0.46
Mobile home shipments	0.24	0.25	0.21	0.24	0.25	0.26	n.a.

1. Preliminary estimates.

n.a.—Not available.

PRIVATE HOUSING STARTS  
(Seasonally adjusted annual rate)





CHANGES IN MANUFACTURING AND TRADE INVENTORIES  
(Billions of dollars at annual rates)

	1979	1980	1981		1982				
			Q3	Q4	Q1	Jan.	Feb.	Mar.(r)	Apr.(p)
<u>Book Value Basis</u>									
Total	49.0	31.0	53.3	11.8	-20.5	-26.3	-26.9	-8.4	10.8
Manufacturing	31.5	16.4	27.6	-3.0	-3.6	-8.4	12.4	-15.5	-9.1
Durable	23.7	10.2	25.9	-1.8	-5.0	-7.6	5.0	-12.5	.1
Nondurable	7.8	6.2	1.8	-1.2	1.2	-.8	7.4	-3.0	-9.2
Wholesale Trade	10.3	11.7	8.2	9.5	-7.2	-.3	-29.3	7.9	21.8
Retail Trade	7.2	2.9	17.5	5.3	-9.4	-17.6	-10.0	-.8	-1.9
<u>Constant Dollar Basis</u>									
Total	7.2	-2.5	12.5	1.0	-16.8	-27.0	-16.8	-4.8	3.5
Manufacturing	6.8	-1.0	5.4	-2.5	-4.4	-12.1	.0	-2.9	-2.4
Wholesale Trade	.4	.6	2.7	4.6	-6.0	-1.2	-10.0	-4.4	6.2
Retail Trade	-.1	-2.2	4.5	-1.1	-6.4	-13.7	-6.8	2.5	-.4

INVENTORIES RELATIVE TO SALES<sup>1</sup>

	1974	1980	1981		1982				
	Cyclical Peak <sup>2</sup>	Cyclical Peak <sup>2</sup>	Q3	Q4	Q1	Jan.	Feb.	Mar.(r)	Apr.(p)
<u>Book Value Basis</u>									
Total	1.64	1.53	1.44	1.49	1.49	1.52	1.48	1.48	1.50
Manufacturing	1.95	1.76	1.63	1.70	1.74	1.76	1.73	1.74	1.74
Durable	2.51	2.36	2.13	2.26	2.33	2.38	2.31	2.31	2.32
Nondurable	1.39	1.18	1.11	1.13	1.15	1.15	1.15	1.16	1.16
Wholesale Trade	1.24	1.21	1.12	1.16	1.14	1.16	1.13	1.12	1.18
Retail Trade	1.57	1.44	1.42	1.45	1.42	1.46	1.41	1.41	1.40
<u>Constant Dollar Basis</u>									
Total	1.76	1.76	1.69	1.76	1.75	1.79	1.74	1.73	1.75
Manufacturing	2.18	2.11	2.00	2.10	2.14	2.18	2.12	2.12	2.14
Wholesale Trade	1.40	1.45	1.43	1.46	1.42	1.49	1.43	1.40	1.44
Retail Trade	1.52	1.48	1.43	1.47	1.44	1.46	1.42	1.43	1.43

1. Ratio of end-of-period inventories to average monthly sales for the period.

2. Highs are specific to each series and are not necessarily coincident.

r Revised estimates.

p Preliminary estimates.

downswing. The continued malaise in real estate markets is reflected in the University of Michigan consumer survey for May in which indexes of respondents' attitudes on homebuying remained just slightly above the record lows registered last fall.

#### Inventory Investment

Incoming data show that, except for domestic autos, business inventory liquidation generally slowed in March and April as attempts to trim inventories were hampered by sluggish shipments and sales. In constant-dollar terms total manufacturing and trade inventories rose at an annual rate of \$3.5 billion in April, in contrast to declines averaging at a \$17 billion rate in the first quarter.

Although sharp production cutbacks have enabled manufacturers to reduce inventories in recent months, sales have declined as well, and inventory-sales ratios have remained high. For total manufacturing, this ratio was 2.14 in April, only slightly below its January peak. Inventory overhang is particularly serious in the primary metals industry; although stocks were reduced a little over 1 percent in April, the inventory-sales ratio remained near 4.1 nearly fifty percent above "normal". In addition, book value data indicate an \$11 billion annual rate increase in nondefense capital goods inventories in April, with much of the increase probably unintended. April stocks in this sector in book value terms were only slightly below their level six months earlier, when the current inventory liquidation began.

In the wholesale trade sector, the process of liquidation was reversed in April. After a \$5 billion annual rate liquidation in the first quarter, merchant wholesalers' inventories in constant dollars posted a \$6 billion rate accumulation in April. Again, disappointing sales were largely responsible for the abrupt change. In the retail trade sector, no inventory

DEFICIT REDUCING MEASURES IN THE FIRST BUDGET RESOLUTION FOR FY1983  
(Billions of dollars)

	Conference Committee Report
<hr/>	
Congressional Budget Office	
Baseline deficit	-182.0
Re-estimates	<u>1.3</u>
Revised Baseline Deficit	-180.7
Deficit Reducing Measures	
Revenue Increases	
Unspecified tax increases	20.0
User fees	<u>0.9</u>
Subtotal revenue increases <sup>1</sup>	<u>20.9</u>
Spending Reductions	
Defense (excluding pay and retirement)	7.8
Federal pay limitations	5.1
Entitlements (including COLA caps)	6.6
Other non-defense program savings	<u>8.2</u>
Subtotal reductions requiring legislation actions <sup>1</sup>	<u>27.7</u>
Management initiatives	13.7
Lower interest costs	<u>14.5</u>
Total Deficit Reduction	76.8
FY1981 Deficit Target	-103.9
<hr/>	

1. Reconciliation instructions require Senate and House authorizing committees to report legislation that will increase FY1983 revenues by \$20.9 billion and change program authorizations (primarily in entitlements) to save about \$7 billion. The remaining outlay reductions that require legislative action, about \$21 billion, would be achieved in the appropriations process.

liquidation occurred in March and April, but the pickup in sales in May suggests that retailers were able to reduce inventories, especially autos, during that month.

### Federal Government

Recent Treasury reports indicate that Federal outlays through the first eight months of fiscal 1982 are about 11 percent higher than in the comparable period for FY1981. A decline in Commodity Credit Corporation outlays in recent months has been offset by increases in defense, unemployment insurance, and interest outlays.

Receipts in the first eight months of FY1982 appear to be about 8 percent above those of the year-earlier period. Revenue growth has been slowed by last year's tax cut and weakness in income and oil prices.

The Congress is expected to adopt a first budget resolution for FY1983 on June 23. This resolution stipulates reducing the budget deficit from the CBO estimate of \$182 billion to \$104 billion (see table). About \$21 billion of the reduction would come from new revenues, \$7 billion from defense cuts, and \$20 billion from trimming other programs. The other \$28 billion of the reduction is to be derived from "management initiatives," the assumption of lower interest rates and less debt to be financed, and reduced estimates of defense spendout rates.

In the resolution, tax committees are instructed to report legislation raising revenues by about \$21 billion; other authorization committees are required to reduce expenditures, mainly entitlements, by about \$7 billion. These actions are scheduled to take place by August. Subsequently, funding for programs subject to annual appropriations will be considered; the resolution contemplates that funding for many of these programs will be frozen at FY1982 levels.

RECENT CHANGES IN CONSUMER PRICES<sup>1</sup>(Percentage change at annual rates; based on seasonally adjusted data)<sup>2</sup>

	Relative importance Dec. 1981	1980	1981	1981		1982	
				H2	Q1	Apr.	May
All items	100.0	12.4	8.9	9.1	1.0	3.0	11.4
Food	16.6	10.2	4.3	4.7	3.9	3.4	10.2
Energy	11.1	18.1	11.9	.3	-8.0	-30.7	19.4
Homeownership	26.1	16.5	10.1	10.4	-2.4	15.8	22.0
All items less food, energy, and homeowner- ship <sup>3</sup>	49.8	9.9	9.4	9.9	5.4	7.4	4.4
Used cars	3.3	18.3	20.3	33.0	5.5	6.7	1.2
Other commodities <sup>3</sup>	19.9	8.1	6.1	5.4	4.8	3.5	2.9
Other services <sup>3</sup>	26.6	10.3	10.6	11.2	6.3	8.2	7.7
Memorandum:							
Experimental CPI <sup>4</sup>	100.0	10.8	8.5	8.8	2.7	-1.9	7.0

1. Based on index for all urban consumers (CPI-U).

2. Changes are from final month of preceding period to final month of period indicated; monthly changes at simple annual rates.

3. Includes the home maintenance and repair items of homeownership costs.

4. BLS experimental index for "All items"--CPI-U-X1--which uses a rent substitution measure for homeownership costs.

## RECENT CHANGES IN PRODUCER PRICES

(Percentage change at annual rates; based on seasonally adjusted data)<sup>1</sup>

	Relative importance Dec. 1981	1980	1981	1981		1982	
				H2	Q1	Apr.	May
Finished goods	100.0	11.8	7.1	4.5	.3	0.9	0.4
Consumer food	21.9	7.5	1.4	-1.2	6.0	19.2	8.7
Consumer energy	12.7	27.8	14.1	2.5	-18.0	-62.2	-36.7
Other consumer goods	44.5	10.4	7.1	6.4	2.7	6.8	4.2
Capital equipment	20.8	11.4	9.2	7.7	2.1	4.4	5.2
Intermediate materials <sup>2</sup>	94.7	12.4	7.3	4.0	-1.4	-9.5	0.4
Exc. energy	77.6	10.1	6.6	4.6	.6	-3.3	5.0
Crude Materials							
Food	50.6	8.6	-14.0	-22.0	23.3	42.3	32.0
Energy	33.6	26.9	22.8	1.8	-6.1	-12.8	8.0
Other	15.8	7.5	-11.4	-11.6	-40.0	23.3	46.8

1. Changes are from final month of preceding period to final month of period indicated; monthly changes at simple annual rates.

2. Excludes materials for food manufacturing and animal feeds.

State and Local Government

Activity in the state and local sector continues to be weak. The real value of construction activity fell 7.5 percent in April, more than reversing the 4.3 percent gain that occurred in March.

Several states are raising taxes because of serious revenue problems. For instance, Ohio is expected to levy a state income tax surcharge that would offset about half of this year's federal tax cuts for the average household in order to reduce a projected revenue shortfall of \$1.5 billion over the fiscal biennium ending June 1983. Several other states have increased sales taxes and excises on gasoline and alcohol.

Employment in the state and local sector appears to have stopped falling, at least temporarily. The preliminary estimate for May was essentially the same as January's revised total, about 1.3 percent below May of last year.

Prices

The consumer price index rose 0.2 percent in April and then accelerated to 1 percent in May, led by sharp increases in the homeownership, energy, and food components. A jump in the volatile CPI measure of house prices accounted for a large portion of the May rise. The experimental CPI that uses a rental equivalence measure of housing costs rose 0.6 percent in May.

Food prices, rising 0.8 percent, also contributed to the acceleration in the May CPI. As expected, retail meat prices posted a steep rise as earlier increases in livestock prices began to be passed on to consumers. Reduced marketings of livestock so far this year were the major

SELECTED MEASURES OF COMPENSATION, PRODUCTIVITY,  
AND COSTS IN THE NONFARM BUSINESS SECTOR  
(Seasonally adjusted annual rates)

	1980	1981	1981				1982	Dec. 1981- May 1982
			Q1	Q2	Q3	Q4	Q1	
Wage rate measures:								
<u>Hourly Earnings Index - production workers<sup>1</sup></u>								
Total private nonfarm	9.6	8.4	9.3	8.5	8.5	7.3	6.5	6.6
Manufacturing	10.9	8.8	9.4	9.4	8.7	7.7	8.7	7.9
Contract construction	7.7	8.1	9.2	5.7	8.9	8.8	9.0	4.3
Transportation and public utilities	9.3	8.5	9.1	11.0	6.4	7.7	7.4	5.5
Trade	8.8	7.1	9.1	7.1	8.0	4.3	3.8	5.3
Services	9.5	9.1	9.1	8.9	9.3	9.2	5.1	6.7
<u>Employment Cost Index, wages and salaries - all persons<sup>2</sup></u>								
Total	9.0	8.8	10.3	8.9	8.4	7.7	7.2	n.a.
By Occupation:								
White collar	8.7	9.1	10.9	9.1	7.5	9.1	7.2	n.a.
Blue collar	9.6	8.6	9.1	8.9	9.3	6.9	6.4	n.a.
Service Workers	8.1	8.3	11.3	7.1	8.5	6.5	7.9	n.a.
By Bargaining Status:								
Union	10.9	9.6	8.1	11.0	10.4	8.9	7.1	n.a.
Nonunion	8.0	8.5	10.6	8.1	7.7	7.7	6.5	n.a.
Compensation measures:								
<u>Labor Productivity and Costs - all persons<sup>1</sup></u>								
Compensation per hour	10.1	9.3	11.7	9.6	9.5	6.3	7.9	n.a.
Output per hour	.2	-.8	4.4	1.4	-1.7	-6.9	.5	n.a.
Unit labor costs	9.9	10.1	7.0	8.1	11.5	14.1	7.3	n.a.
<u>Employment Cost Index, compensation rates - all persons<sup>3</sup></u>								
- - - - - Not seasonally adjusted - - - - -								
Total	9.8	9.8	15.2	7.8	8.2	8.1	7.1	n.a.

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Quarterly changes are at compound rates; monthly changes are not compounded.

2. Percent change from final month of previous period, compounded. Seasonal adjustment by FRB staff.

3. Percent change from final month of previous period, compounded. Series was introduced 1980-Q1.

influence in these increases. Excluding meats, food prices increased 0.4 percent.

Retail gasoline prices rose 0.9 percent in the May CPI, retracing a small part of the declines registered in preceding months. Recent survey evidence indicates that gasoline prices have rebounded nearly 6 percent from their April low; thus, another large hike in gasoline prices is likely to be reported for June.

In other areas, inflation continues to moderate. Excluding food, energy, and homeownership, the CPI rose 0.4 percent in May, and has been increasing at a 5-1/4 percent annual rate since the beginning of the year. At the producer level, prices for capital equipment have risen at a 3-1/4 percent annual rate over the first five months of the year while prices of intermediate materials other than energy--a broad measure of manufacturing input costs--have been little changed.

#### Wages and Labor Costs

A further deceleration in wage inflation has been evident in various wage measures. The rate of increase in the hourly earnings index, which approximates changes in wage rates for private nonfarm production workers, eased to a 6-1/2 percent annual rate rise over the first five months of 1982, down from the 8-1/2 percent rise over 1981. Hourly compensation in the nonfarm business sector, which includes non-wage supplements as well as wages, rose at about an 8 percent annual rate in 1982-Q1--down from 9-1/2 percent in 1981. In the white-collar category, non-wage compensation as measured by the employment cost index fell in the first quarter, as profit-related benefits were trimmed.



Unit labor costs in the nonfarm business sector rose at a 7-1/4 percent annual rate in the first quarter, compared with an increase of 10-1/2 percent during 1981. Part of this reduction reflected an edging up of productivity at a 1/2 percent annual rate, following a sizable cyclical drop during the second half of 1981 and a small decline for the year as a whole. Output per hour typically begins to rise in the latter state of recession.

III-T-1

SELECTED FINANCIAL MARKET QUOTATIONS<sup>1</sup>  
(Percent)

	1981	1982		Change from:		
	Highs	Feb. Highs	FOMC May 18	June 22	Feb. Highs	FOMC May 18
<u>Short-term rates</u>						
Federal funds <sup>2</sup>	20.06	15.61	14.67	14.15p	-1.46	-.52
Treasury bills						
3-month	17.01	14.57	12.23	12.78	-1.79	.55
6-month	15.93	14.36	12.25	13.20	-1.16	.95
1-year	15.21	13.55	12.04	12.96	-.59	.92
Commercial paper						
1-month	18.63	15.73	13.95	14.21	-1.52	.26
3-month	18.29	15.61	13.52	14.44	-1.17	.92
Large negotiable CDs <sup>3</sup>						
1-month	18.90	15.94	14.16	14.50	-1.44	.34
3-month	19.01	16.14	14.00	14.96	-1.18	.96
6-month	18.50	16.18	13.87	15.36	-.82	1.49
Eurodollar deposits <sup>2</sup>						
1-month	19.80	16.36	14.89	14.60	-1.76	-.29
3-month	19.56	16.53	14.58	15.05	-1.48	.47
Bank prime rate	21.50	17.00	16.50	16.50	-.50	0
Treasury bill futures						
June 1982 contract	14.46	14.18	11.86	12.79	-1.39	.93
Dec. 1982 contract	14.20	14.02	12.26	13.54	-.48	1.28
<u>Intermediate- and long-term rates</u>						
U.S. Treasury (constant maturity)						
3-year	16.59	15.16	13.79	14.94	-.22	1.15
10-year	15.84	14.95	13.60	14.66	-.29	1.06
30-year	15.20	14.80	13.26	14.21	-.59	.95
Municipal (Bond Buyer)	13.44	13.44	11.82 <sup>4</sup>	12.63	-.81	.81
Corporate--Aaa utility						
Recently offered	17.72	16.34	15.24 <sup>e</sup>	16.45p	.11	1.21
S&L fixed-rate mortgage commitment	18.63	17.66	16.63 <sup>5</sup>	16.71 <sup>5</sup>	-.95	.08
	1981	1982		Percent change from:		
	Highs	FOMC May 18	June 22	1981 Highs	FOMC Mar 18	
<u>Stock Prices</u>						
Dow-Jones Industrial	1,024.05	840.85	799.66	-21.9	-4.9	
NYSE Composite	79.14	66.84	62.29	-21.3	-6.8	
AMEX Composite	380.36	273.81	249.12	-34.5	-9.0	
NASDAQ (OTC)	223.47	185.81	169.05	-24.4	-9.0	

1. One-day quotes except as noted.

2. Averages for statement week closest to date shown.

3. Secondary market.

4. One-day quotes for preceding Thursday.

5. One-day quotes for preceding Friday.

p--preliminary. e--estimated.

## DOMESTIC FINANCIAL DEVELOPMENTS

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M1 declined in May after the large April increase, but it strengthened again in early June. M2 and M3, in contrast, maintained their brisk growth rates in May before apparently tapering off this month. All three monetary aggregates appear likely to be above the upper bounds of their 1982 ranges in June.

The reserve positions of depository institutions eased in May and then firmed in mid-June as the acceleration in M1 raised required reserves relative to nonborrowed reserve supplies. The federal funds rate, after falling into the 13-1/2 percent area in late May and early June has been in the 14 to 14-1/2 percent range of late--still below the level prevailing in mid-May. Other interest rates have increased from 1/4 to 1-1/2 percentage points, net, thus far in the intermeeting period. The term structure of rates and the pattern of futures quotes suggest that market participants expect further increases in rates. Market commentary focuses on the large financing requirements of the Treasury in the second half of the year and the possibility of an M1 surge in July as the key bearish factors in investor thinking.

The government securities market was shaken in May and June by the difficulties of two relatively small dealers. While these events seem to have had some effect on the cost and availability of financing for dealers whose credit-worthiness is not well established, the government securities market appears to have functioned fairly normally on the whole, absorbing the moderate volume of new debt needed by the Treasury to cover an unusual second-quarter deficit and to maintain its cash balance over the quarter. State and local governments continued to borrow

## MONETARY AGGREGATES

(Based on seasonally adjusted data unless otherwise noted)<sup>1</sup>

	1981		1982			QIV. '81 to May '82	
	Q3	Q4	Q1	Mar.	Apr.		May
--Percentage change at annual rates--							
<u>Money stock measures</u>							
1. M1	0.3	5.7	10.4	2.7	10.7	-1.9	6.8
2. M2	8.3	8.9	9.8	11.2	10.0	10.3	9.9
3. M3	11.2	9.3	8.7	11.3	11.9	10.6	9.8
<u>Selected components</u>							
4. Currency	4.7	4.3	7.9	4.8	11.5	11.4	8.8
5. Demand deposits	-7.5	-0.2	-0.5	-8.2	0.0	-2.1	-2.8
6. Other checkable deposits	21.2	27.6	48.9	27.2	40.6	-21.7	33.9
7. M2 minus M1 (8+9+10+13)	10.9	9.9	9.5	13.9	9.7	14.2	10.9
8. Overnight RPs and Eurodollars, NSA <sup>2</sup>	14.9	-44.1	63.6	2.8	-72.6	68.3	30.2
9. General purpose and broker/dealer money market mutual fund shares, NSA	91.5	74.2	33.8	24.6	20.4	17.8	27.4
10. Commercial banks	7.8	10.3	9.4	21.4	20.1	13.3	13.6
11. savings deposits	-22.7	-11.9	8.7	13.6	-0.7	-1.5	5.5
12. small time deposits	24.3	20.8	9.7	25.1	28.8	19.9	17.1
13. Thrift institutions	1.2	1.5	1.6	5.8	4.7	10.8	4.3
14. savings deposits	-22.9	-11.7	10.2	1.9	-0.0	3.2	5.7
15. small time deposits	11.4	6.6	-1.5	7.3	6.5	13.6	3.7
16. M3 minus M2 (17+20+21)	26.1	11.2	3.3	11.8	21.4	12.1	9.4
17. Large time deposits	30.6	3.5	8.9	17.5	17.3	15.1	13.3
18. at commercial banks, net <sup>3</sup>	32.4	0.2	6.1	14.8	17.9	19.5	12.4
19. at thrift institutions	22.2	19.5	21.6	29.7	14.5	-4.1	17.5
20. Institutions-only money market mutual fund shares, NSA	69.0	132.8	-2.5	39.3	0.0	49.5	6.9
21. Term RPs, NSA	-30.8	0.0	-29.9	-36.9	102.9	-63.2	-13.8
--Average monthly change in billions of dollars--							
<u>MEMORANDA:</u>							
22. Managed liabilities at commercial banks <sup>4</sup> (23+24)	6.0	0.2	0.4	1.0	2.7	4.7	-3.3
23. Large time deposits, gross <sup>4</sup>	7.4	-0.2	2.7	4.8	2.4	6.6	2.8
24. Nondeposit funds <sup>4</sup>	-1.4	0.4	-2.3	-3.8	0.3	-1.9	-6.1
25. Net due to related foreign institutions, NSA <sup>4</sup>	1.0	-2.2	-2.2	-3.6	0.9	-1.8	-6.3
26. Other <sup>4,5</sup>	-2.4	2.7	-0.1	-0.2	-0.4	-0.1	0.2
27. U.S. government deposits at commercial banks <sup>6</sup>	-0.7	0.8	1.9	-4.6	-4.0	1.8	0.6

1. Quarterly growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda for quarterly changes are calculated on an end-month-of-quarter basis.

2. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers. Excludes retail RPs, which are in the small time deposit components.

3. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.

4. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to April 1982.

5. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve and unaffiliated foreign banks), loans sold to affiliates, loan RPs and other minor items.

6. Consists of Treasury demand deposits at commercial banks and Treasury note balances.

heavily in May and June, although at a somewhat slower pace than the record of April. Borrowing by nonfinancial business firms has continued to be substantial--surprisingly so in light of estimated aggregate cash flows and outlays, suggesting an accumulation of liquid assets overall and some marked disparities in the financial fortunes of individual firms. Residential mortgage lending probably moderated somewhat in April and May after a sharp pickup in the first quarter, but lending was still above the depressed pace of the fourth quarter of 1981. Outstanding consumer installment credit continued to increase slowly in April, and a somewhat larger increase appears likely for May.

#### Monetary Aggregates and Bank Credit

M1 declined at a 2 percent annual rate in May, led by a contraction in other checkable deposits (OCDs), which had increased at an annual rate of about 50 percent over the preceding six months. The runoff in OCDs, on a month-average basis, may have been at least partially associated with tax collections, however, as OCDs have rebounded somewhat in early June. On balance, there is as yet no definitive sign of an unwinding of the late-1981, early-1982 bulge in OCDs. Sample data indicate that the number of OCD accounts at commercial banks rose at an annual rate of 13 percent between February and May--somewhat less than in the prior six months, but enough to suggest that a small amount of funds shifted into new accounts during this period. The size of the OCD increase since last fall, however, indicates that a more important factor in this surge may have been a build-up of liquid balances for precautionary reasons during a period of recessionary uncertainties--although a recent survey of households undertaken

NET INFLOWS TO SELECTED DEPOSIT CATEGORIES  
AT COMMERCIAL BANKS AND THRIFT INSTITUTIONS  
(Billions of dollars, not seasonally adjusted)

Month	Money Market Certificate		Small Saver Certificate		All Saver Certificate	
	Comm. Banks	Thrift Institutions	Comm. Banks	Thrift Institutions	Comm. Banks	Thrift Institutions
	1982-Jan.	3.3	1.1	2.7	6.5	1.1
Feb.	4.5	2.1	2.6	4.2	0.7	0.9
Mar.	3.9	-0.8	3.6	6.2	1.0	1.2
Apr.	2.9	-1.6	3.2	3.7	0.7	0.8
May <sup>P</sup>	0.4	-2.9	2.1	2.2	0.5	0.6
	TOTAL MMC BALANCES:		TOTAL SSC BALANCES:		TOTAL ASC BALANCES:	
	231.3	231.4	71.3	142.6	22.6	29.1
Month	1-1/2 year IRA/Keogh Time Deposit		91-day Certificate		3-1/2 year Deregulated Time Deposit	
	Comm. Banks	Thrift Institutions	Comm. Banks	Thrift Institutions	Comm. Banks	Thrift Institutions
	1982-Jan.	1.5	1.5	--	--	--
Feb.	1.1	0.8	--	--	--	--
Mar.	1.3	1.0	--	--	--	--
Apr.	2.6	1.4	--	--	--	--
May <sup>P</sup>	0.7	0.4	2.0	1.9	0.3	0.2
	TOTAL BALANCES:		TOTAL BALANCES:		TOTAL BALANCES:	
	7.2	5.1	2.0	1.9	0.3	0.2

p--Preliminary.

by the Survey Research Center under Board contract provides only mild support for this hypothesis.<sup>1</sup>

M2 expanded at a 10-1/4 percent annual rate in May, about the same as in April. Growth in the nontransaction component of M2 was buoyed by a rebound in overnight RPs, after a sharp April decline associated with holiday-related reporting problems.<sup>2</sup> Total growth of the other nontransactions components of M2 in May was at roughly the same rate as in April. Savings deposits again showed little change, and general purpose and broker/dealer money market funds continued to grow moderately. Total small time deposits expanded only fractionally faster in May than in April, but seasonally adjusted inflows were almost evenly divided between thrifts and banks, in contrast to the large gap favoring banks that generally has been evident since mid-1981. In part, the improvement in deposit growth at thrifts resulted from inflows into accounts with an interest rate differential in their favor--the 2-1/2 year small saver certificate and the new 91-day money market certificate.<sup>3</sup>

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1. The survey covered more than 4,000 households, including nearly 1,100 respondents who held an OCD account. Among the OCD account holders, only about 20 percent perceived an increase in their OCD balances between last fall and early this year, while about the same number of respondents perceived a decrease in their OCD balances over this period. Among those reporting increases in their OCD balances, about 30 percent of these respondents indicated that the increase was at least in part attributable to precautionary motives associated with concern over income, employment, or the state of the economy.

2. Weakness in overnight RPs in April was attributed to reporting problems over the long Easter weekend when many RPs that would ordinarily be classified as overnight were instead reported as term RPs.

3. These accounts at thrifts attracted a combined inflow of \$4 billion in May--a small amount compared with typical inflows when a new account is introduced. The 50/50 split with commercial banks in May also is low relative to the typical experience for accounts with interest rate differentials, although it is higher than for accounts without such a differential.

III-6  
 COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT  
 (Percentage changes at annual rates, based on seasonally adjusted data)<sup>1</sup>

	1981		1982			QIV '81 to May '82	
	Q3	Q4	Q1	Mar.	Apr.		May
--Commercial Bank Credit--							
1. Total loans and investments at banks <sup>2,3</sup>	6.8	6.4	10.1	8.5	9.3	8.6	9.5 <sup>4</sup>
2. Investments	.5	4.8	5.7	-.3	10.7	2.1	5.6
3. Treasury securities	-12.0	-7.8	11.5	-9.4	23.1	-3.1	8.6
4. Other securities	7.2	11.2	2.8	4.1	4.6	4.6	4.1
5. Total loans <sup>2,3</sup>	9.1	6.9	11.6	11.1	8.9	11.0	10.8
6. Business loans <sup>2,3</sup>	17.9	9.2	16.8	14.8	10.9	18.8	15.6
7. Security loans	-36.2	58.6	-18.3	5.8	.0	-17.2	-1.9
8. Real estate loans	8.0	7.3	7.8	7.4	5.7	6.5	7.7
9. Consumer loans	4.4	4.1	2.8	4.5	3.2	3.2	3.6
--Short- and Intermediate-Term Business Credit--							
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	23.3	13.8	15.3	15.6	9.6	n.a.	n.a.
11. Business loans net of bankers acceptances <sup>3</sup>	19.7	9.3	16.5	12.9	8.9	19.9	15.4
12. Commercial paper issued by non-financial firms <sup>5</sup>	57.9	21.3	30.0	38.9	14.7	33.1	29.2
13. Sum of line 11 & 12	24.1	10.8	19.2	16.2	9.7	21.7	17.0
14. Line 13 plus loans at foreign branches <sup>6</sup>	25.9	14.0	18.5	18.2	10.2	22.8	18.0
15. Finance company loans to business <sup>7</sup>	14.7	7.6	1.0	.0	-4.5	n.a.	n.a.
16. Total bankers acceptances outstanding <sup>7</sup>	16.6	20.9	11.7	15.5	25.5	n.a.	n.a.

1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.
  2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.
  3. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to April 1982.
  4. Growth of bank credit from the FOMC's December-January base through May 1982, not adjusted for shifts of assets from domestic offices to IBFs, was at an annual rate of 8.5 percent. Adjusted for such shifts after January, growth over this period was 9.7 percent.
  5. Average of Wednesdays.
  6. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
  7. Based on average of current and preceding ends of month.
- n.a.--not available.



The growth of M3 fell to a 10-1/2 percent annual rate in May from 12 percent in April. Shares of institution-only money market funds grew rapidly in May following what was likely a tax-date related pause. The growth of net large time deposits slowed slightly, but there was an increase on a gross basis at commercial banks as core deposits weakened and Eurodollar borrowings became less attractive in terms of cost.

Bank credit grew at an 8-1/2 percent annual rate in May, down slightly from the pace in April, but still brisk for this stage of the business cycle. Growth was dominated by an expansion in business loans, which increased at an annual rate of nearly 20 percent; other types of loans and investments either declined or expanded only moderately. Business loans have been growing rapidly since the beginning of the year, but the May increase was the largest to date and was accompanied by an increase in loans at foreign branches and heavy issuance of commercial paper by nonfinancial corporations. Data from weekly reporting banks in early June indicate that business loans have continued to expand rapidly.

The deteriorating financial condition of business firms over the past few years has become evident in the loan portfolios of commercial banks. At the end of the first quarter, business loans with interest or principal payments past due represented about 5 percent of loan portfolios at national banks, up from 3.5 percent in the first quarter of 1979. In addition, survey data on the terms of bank lending suggest an appreciable increase in the volume of loans with terms that have been restructured to assist borrowers whose financial condition prevents them from meeting the original terms of the loan. Commercial banks also have increased sharply their volume of unused loan commitments and standby

GROSS OFFERINGS OF CORPORATE SECURITIES IN DOMESTIC MARKETS  
(Monthly totals or monthly averages, millions of dollars)

	1981		1982			
	Year	Q4	Q1	Apr.	May <sup>p</sup>	June <sup>f</sup>
----- Seasonally adjusted -----						
Corporate securities--total	5,774	7,613	4,525	4,650	5,600	2,550
Publicly offered bonds <sup>1</sup>	3,138	5,673	2,088	1,659	3,500	900
Privately placed bonds	582	235	725	274	500	500
Stocks	2,054	1,705	1,712	2,717	1,600	1,150
----- Not seasonally adjusted -----						
Publicly offered bonds--total <sup>1</sup>	3,138	4,239	1,873	2,100	3,500	1,800
By industry						
Utility	1,079	958	693	792	1,160	--
Industrial	1,192	1,750	464	446	1,060	--
Financial	867	1,531	716	862	1,280	--
By quality <sup>2</sup>						
Aaa and Aa	1,182	1,882	528	1,055	870	--
A and Baa	1,448	1,772	928	765	2,000	--
Less than Baa <sup>3</sup>	508	585	417	280	630	--
Memo items:						
Convertible bonds	357	349	48	0	358	--
Original discount bonds						
Par value	808	1,478	910	910	2,355	--
Gross proceeds	358	677	297	288	794	--
Stocks--total	2,054	1,777	1,672	2,032	1,800	1,400
By industry						
Utility	667	565	642	749	700	--
Industrial	1,023	775	798	889	400	--
Financial	364	437	232	394	700	--

p--preliminary. f--forecast.

1. Total reflects gross proceeds rather than par value of original discount bonds.

2. Bonds categorized according to Moody's bond ratings.

3. Includes issues not rated by Moody's.

letters of credit outstanding. By assuming these contingent claims, banks have accommodated the needs of certain customers--primarily issuers of commercial paper and tax-exempt obligations--for additional backing for their debt.<sup>1</sup>

### Business Finance

The total volume of funds raised by nonfinancial businesses picked up rather sharply in May after a comparatively light month in April. Although most of the increase was in loans at commercial banks and commercial paper, utilities and industrial firms also raised \$2.2 billion in the public bond market, the largest amount since the record volume of last November. Subsequently, bond volume slowed markedly in response to a run-up in interest rates. Currently, the Board's recently offered Aaa utility bond rate index stands at 16.45 percent, 120 basis points higher than at the time of the last FOMC meeting.

U.S. corporations also have continued to raise large amounts of credit abroad. The volume of bonds sold by U.S. firms in international markets totaled nearly \$2 billion in both April and May, up from a first-quarter monthly average of about \$1.4 billion. As in previous months, Eurobond

1. In the commercial paper market, some issuers have been able to avoid downgradings in their ratings and others have been able to obtain new ratings by having bank standby letters of credit behind their paper. Although no hard data exist, dealers estimate that about 10 percent of commercial paper is supported by letters of credit. In the tax-exempt market, letters of credit or loan commitments are used to allow an issuer of a municipal revenue bond to shorten the maturity of its security and take advantage of the lower rates on shorter-term issues. If the bond matures before the project being financed is completed, the issuer can take down the commitment from the bank and substitute the bank financing for the bond financing. These standby agreements between tax-exempt issuers and commercial banks are unique in that they only provide interim financing from the time a bond matures until the project being financed is completed. The commercial bank is not liable for interest or principal payments in the event of default by the tax-exempt issuer.

offerings were made by a broad range of companies, including nonfinancial firms.

Stock prices have fallen almost without interruption since the last FOMC meeting, with the major stock price indexes registering new lows for 1982 and beginning to approach their lowest levels since 1980. The weakness in the stock market has been broadly based, although declines have been largest for natural resource industries while stock prices for retail firms associated with basic consumer goods have fallen only moderately. Reflecting the weakness in stock prices, gross equity offerings by corporations tapered off in May and June from the advanced April pace. The volume of stock offerings in June probably will be the lowest in 16 months.

Recent information bearing on corporate financial stress suggests that firms continue to face substantial pressure. The number of adverse dividend actions--both reductions and suspensions--increased further in May and June and some of these actions were taken by major corporations. The total number of business failures through the end of May approached 10,000, about 40 percent above the number of failures over the same period last year. Moody's and Standard and Poor's have continued to downgrade long-term debt at a rapid pace; through the end of May, such actions occurred at almost twice the frequency registered over the same interval last year. In the securities market, spreads between the yields on long-term private and U.S. Treasury bonds, and between the yields on low- and high-quality corporate bonds, generally remain wide, but they have not increased in recent weeks and are below the previous highs reached last fall or in 1974-75.

Government Finance

U.S. Government Securities Market. The government securities market became the focus of widespread attention in the intermeeting period as two episodes involving small government securities dealers--Drysdale Government Securities and Comark--raised the specter of a major disruption in the financial markets.<sup>1</sup> However, except for a temporary "flight to quality" that led to a decline in short-term Treasury yields relative to private yields, the immediate impacts of these incidents appear to be rather mild and limited to smaller, lesser-known participants of the money market. The 36 primary government securities dealers generally have not experienced difficulty in obtaining financing and appear to be willing to maintain a large inventory of securities. In addition, the volume of secondary market trading has been well maintained; bid-asked spreads have not widened; Treasury auctions have been conducted routinely; and open market operations have been undertaken without hindrance.

Nevertheless, market participants uniformly report that the "tone and feel" of the market has changed since mid-May and attitudes have become more "cautious" and "nervous." Indirect evidence--such as a decline in reverse RPs at reporting dealers and an increase in bank loans to brokers and dealers--seems to indicate that the availability of RP financing to

1. The first and apparently more important of these episodes occurred in mid-May, when Drysdale Government Securities failed to pass on to the original owners interest payments accrued on securities it had borrowed. Chase Manhattan Bank, which claims that it acted only as an intermediary in the transactions, reluctantly agreed to remunerate the original owners on behalf of Drysdale, thereby averting large scale repercussions. The second incident involved a decision by Marine Midland Bank in late May to discontinue securities clearing operations for a client, Comark, because of the confused state of the latter's records; Marine Midland later resumed the clearing operations after it was satisfied that it was incurring no immediate potential for significant loss.

FEDERAL GOVERNMENT AND SPONSORED AGENCY FINANCING<sup>1</sup>  
 (Total for period; billions of dollars)

	1981		1982		
	Q2	Q1	May	June <sup>e</sup>	Q2 <sup>e</sup>
<u>Treasury financing</u>					
Combined surplus/deficit(-)	10.8	-25.7	-21.7	6.0	-7.0
Means of financing deficit:					
(1) Net cash borrowing from the public	-2.6	32.8	3.2	2.8	8.5
Marketable borrowings/ repayments(-)	-.4	32.3	4.0	3.4	10.2
Bills	-16.5	11.2	1.2	-.5	-.6
Coupons	16.1	21.1	2.8	3.9	10.8
Nonmarketable	-2.2	.5	-.8	-.6	-1.7
(2) Decrease in the cash balance	-5.7	-1.0	20.8	-5.6	-.5
Memo: Cash balance at end of period	16.4	13.0	7.9	13.5	13.5
(3) Other <sup>2</sup>	-2.5	-6.1	-2.3	-3.2	-1.0
<u>Federally sponsored credit agencies net cash borrowing<sup>3</sup></u>	8.8	1.6	2.5	2.3	8.7

e—estimated.

1. Numbers reported on a not seasonally adjusted, payment basis.

2. Includes checks issued less checks paid, accrued items and other transactions.

3. Includes debt of Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, the Federal Farm Credit Bank System, and the Student Loan Marketing Association. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

small dealers has contracted. In addition, market participants have indicated that rate tiering, which always existed, has become more pronounced. Reportedly, small, less well capitalized firms are being charged about 75 basis points more than the larger dealer firms. From a longer-run perspective, a continuation of interest rate spreads this large would make it difficult for the "fringe" dealers to remain competitive and probably would lead to a contraction in the number of government securities dealers.<sup>1</sup>

Federal Sector Financing. The combined federal deficit of \$22 billion in May was financed largely by drawing down the Treasury's cash balance, and net borrowing from the public totaled only \$3 billion. Despite a surplus of \$6 billion in June (resulting largely from corporate tax payments), the Treasury raised about \$3 billion in new funds in an effort to rebuild its cash balance before its heavy financing requirements in the third quarter. Net Treasury borrowing in June has consisted entirely of coupon issues. The Treasury raised \$2-1/2 billion net in its regular bill auctions, but net runoffs of cash management bills more than offset this amount.

The four-year note auction planned for June 23 was rescheduled for June 29 as a result of congressional delay in raising the debt ceiling, and the amount of outstanding bills has been reduced in the regular bill auctions on June 21 and 28. Furthermore, the Treasury remains unable to issue

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1. Another likely longer-run impact of the Drysdale incident is a change in the method of pricing repurchase agreements. The current practice is for RPs to be priced "flat," that is, the accrued interest on the underlying security is not included in the principal amount of an RP loan. It was this practice that provided Drysdale with additional capital which it ultimately was unable to repay. The dealers' industry association has recommended that its members begin including accrued interest in the pricing of RPs by September 1.

bonds of more than ten years maturity because there has been no congressional action on that limitation. The four-year note, to be settled after the first of July, will raise \$1.5 billion, and an additional \$4 billion will be raised by auctioning seven-year notes on July 1. These funds can be raised without encountering the debt limit but if action on the limit is not completed by June 25, when the Senate leaves for a recess, it will be required soon after they return on July 12.

Federally sponsored credit agencies are estimated to have borrowed almost \$9 billion in the second quarter, a considerable pick-up over the first quarter pace. The FHLBs and FNMA each raised somewhat under \$3 billion, using about two-thirds of their respective borrowing to finance lending activity and about one-third to increasing their liquidity positions. In other agency activity, the Farm Credit Banks increased their borrowing somewhat in the second quarter, raising slightly under \$2 billion. Both FHLMC and SLMA are estimated to have borrowed about \$600 million each in the second quarter, with FHLMC's borrowing replacing a similar amount of debt runoff in the first quarter.<sup>1</sup>

State and Local Sector. Yields on long-term, tax-exempt securities turned up in late May and early June, after trending downward earlier in the year. The Bond Buyer general obligation index has increased about 80 basis points since the time of the last FOMC meeting to 12.63 percent, and the revenue index has risen a similar amount to 13.59 percent. The increases in tax-exempt yields generally were less than in the Treasury

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1. Mortgage pass-through securities issued by FHLMC and FNMA are not included in these data. The issuance of these securities has increased sharply recently in connection with the mortgage swap programs with thrift institutions.



market, however, and the ratio of tax-exempt to taxable yields declined somewhat. A strong demand for tax-exempt securities by property/casualty insurance companies has been reported; if this is so, it may not be sustained because underwriting losses are still quite large for this industry.

STATE & LOCAL GOVERNMENT SECURITY OFFERINGS  
(Monthly totals or monthly averages, billions of dollars)

	1981	1982			
	Year	Q1 <sup>e</sup>	April <sup>e</sup>	May <sup>e</sup>	June <sup>f</sup>
		-----Seasonally adjusted -----			
Total	6.80	8.30	7.30	12.50	8.80
Long-term	4.00	5.00	6.00	5.10	5.00
Short-term	2.80	3.30	1.30	7.40	3.80
		----- Not seasonally adjusted -----			
Total	6.80	6.90	9.50	11.30	9.90
Long-term	4.00	4.20	6.50	5.30	6.20
Housing bonds	.40	.30	.90	1.25	1.40
Short-term	2.80	2.70	3.00	6.00	3.70

e--estimate. f--forecast.

Gross issuance of tax-exempt bonds totaled about \$5 billion in both May and June, somewhat less than the record volume sold in April, but still equal to the relatively high first-quarter monthly average. Local housing authorities stepped up their offerings of mortgage revenue bonds in the second quarter, evidently to assure that they would capture some share of their state's quota for such bonds.<sup>1</sup> In the short-term market, gross sales

1. Each state is limited by the Mortgage Subsidy Bond Tax Act of 1980 in the aggregate principal amount of single-family mortgage revenue bonds that it and its political subdivisions can issue annually through 1983, after which the issuance of tax-exempt bonds for such a purpose will be prohibited. Much of the recent mortgage revenue bond issuance was in states where there are no programs to determine how the annual quota of such bonds is to be allocated among localities, and it appears that local housing authorities are rushing to issue debt before the quotas are reached.

averaged about \$4-1/4 billion in the second quarter, somewhat above the pace in the first quarter.

### Mortgage Markets

Following the general pattern in other long-term markets, interest rates on mortgages and mortgage-backed securities have moved up since the last FOMC meeting. In the primary market, rates on conventional home mortgages have increased only a little, but in the more sensitive secondary markets rates have risen by as much as 90 basis points since mid-May.

Based on limited data at commercial banks and savings and loan associations, mortgage lending has receded after a marked pickup in the first quarter. The annual rate of growth of real estate loans at commercial banks averaged about 6 percent in April and May combined, compared with 7-3/4 percent in the first quarter. At savings and loan associations, the net change in mortgage assets (including mortgage loans and mortgage-backed securities) was \$1 billion in April, down from the \$2-1/4 billion monthly average in the first quarter but above the \$0.3 billion pace of the fourth quarter of last year. Outright holdings of mortgage loans at S&Ls actually declined in April and in five of the last seven months, but this pattern reflected the swap programs of FHLMC and FNMA under which an institution can exchange existing mortgages, typically bearing low rates, for more liquid mortgage-backed securities guaranteed by these agencies. Since last fall when the programs began, FHLMC has completed about \$8 billion of such swaps with S&Ls.<sup>1</sup>

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1. After engaging in a swap with FHLMC or FNMA, an S&L could either use the mortgage-backed security as collateral for borrowing through a repurchase agreement or sell it in the secondary market and reinvest the proceeds at market rates. RPs recently have been the primary source of borrowing from other than the Federal Home Loan Banks, with such borrowing increasing about \$5 billion since the programs began in September. (Con't. on p. 19.)

The volume of mortgage commitments outstanding at FNMA and FHLMC has more than doubled over the last nine months. The marked increase in commitment activity at FHLMC has reflected growth of its off-balance-sheet swap program; the size of FHLMC's mortgage portfolio has changed little during the past year. FNMA's holdings of mortgages, on the other hand, have risen by \$5.7 billion in the past year. FNMA has been particularly aggressive in the markets for adjustable-rate loans. During the first five months of this year, it issued \$4.6 billion in commitments to buy a wide variety of ARMs, compared with \$3.3 billion for fixed-rate first and second mortgages.

Recent data on home mortgage delinquency rates and foreclosure rates indicate that additional households are experiencing difficulty in coping with their mortgage debts. Delinquency rate series from both the Mortgage Bankers Association and the Federal Home Loan Bank Board climbed sharply during the first quarter to record highs. Foreclosures started also surged in the first quarter, according to the MBA, although they remained below levels reached in 1973-75. The rate of foreclosures had been quite low since the mid-1970s, even at times when delinquencies were relatively high, in part because rapid advances in house values made other solutions to repayment problems much preferable to foreclosure. By early 1982, however, such alternatives as selling the house or refinancing the mortgage had been

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An institution might be induced to sell the mortgage-backed security by a recent regulatory change which allows S&Ls to amortize gradually the capital loss on the sale of an asset rather than realize the entire loss in the current accounting period. In addition, the sale of low-rate mortgage assets has been fairly common following the merger of two or more S&Ls. Since assets are usually marked to market before these mergers are effected, there would be no capital loss for the acquiring institution to absorb.

CONSUMER INSTALLMENT CREDIT  
(Seasonally adjusted annual rates)

	1980	1981	1981	1982		
			Q4	Q1	Mar.	Apr.
- - - - Percent rate of growth - - - - -						
Change in outstandings -- total	0.5	6.4	1.9	1.8	3.6	4.3
By type:						
Automobile credit	0.4	8.2	5.3	-0.7	-0.3	2.2
Revolving credit	2.5	8.1	2.8	-0.3	6.3	10.1
All other	-0.3	4.1	-1.3	4.9	5.9	3.7
- - - - - Billions of dollars - - - - -						
Change in outstandings -- total	1.4	19.9	6.3	6.0	11.9	14.1
By type:						
Automobile credit	0.5	9.6	6.6	-0.8	-0.3	2.8
Revolving credit	1.4	4.7	1.6	-0.2	3.7	6.0
All other	-0.4	5.6	-1.9	7.0	8.5	5.3
By major holder:						
Commercial banks	-7.2	2.3	6.1	0.0	2.0	1.1
Finance companies	8.4	13.1	5.0	1.5	8.1	6.5
All other	0.2	4.5	-4.8	4.5	1.8	6.3
Extensions -- total	306.1	336.3	323.5	326.0	329.5	344.2
By type:						
Automobile credit	83.5	94.4	91.7	87.8	86.2	94.5
Revolving credit	128.1	140.1	138.9	139.8	145.7	149.0
All other	94.5	101.8	92.9	98.4	97.6	100.8
Liquidations -- total	304.6	316.5	317.2	320.0	317.7	330.1
Memo:						
Ratio of liquidations to disposable income (percent)	16.7	15.7	15.2	15.1	15.0	15.4
Ratio of extensions to total retail sales (percent)	32.3	32.7	31.2	31.3	31.5	32.5

rendered less attractive by weak house prices and high interest rates. Foreclosure problems have been especially severe in the heavily industrialized states of the midwest; for the east north-central states, including Indiana and Michigan, the rate of new foreclosures started is almost double the national average.

#### Consumer Installment Credit

The volume of consumer installment credit outstanding expanded at an annual rate of 4-1/4 percent in April, the second consecutive month of growth around 4 percent. A moderate acceleration in growth may have occurred in May, in view of a substantial increase at GMAC resulting from its rate-subsidy program, and preliminary data indicating expansion of commercial banks and retailers together at about the April pace.

Although a 4 percent growth rate is rather low compared with the 18 percent gains of 1977-78 or the 10 percent rate in the first half of 1981, the step-up to even this sluggish pace from virtually no growth last winter might be another indication of a revival in consumer demand that would help to establish an upturn in economic activity. In the postwar years, whenever consumer credit has stopped growing or has contracted, a subsequent recovery to the 3 to 4 percent range for at least two months generally has been followed by a sustained period of more rapid expansion in consumer credit and the economy in general.

Beyond the data on mortgage delinquencies and foreclosures discussed above, evidence on financial stress in the household sector is ambiguous. The ratio of debt repayments to disposable income is near its lowest level in six years, and delinquency rates on installment loans have edged down recently and currently are at low levels. On the other hand, personal

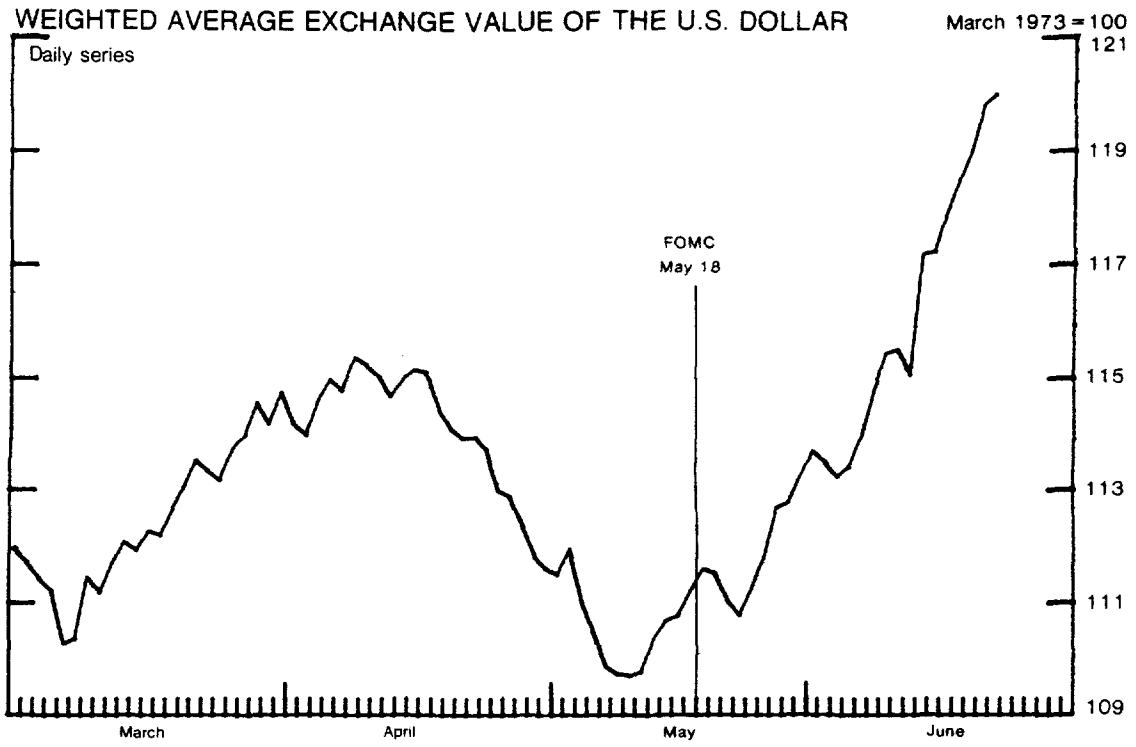
bankruptcies did rise at about a 10 percent annual rate during the first quarter to a historical high. It may be noted, however, that the increase in bankruptcies has slowed substantially from the explosive pace of 1980 which followed a liberalization of the National Bankruptcy Act, and the increase in the first quarter of 1982 was less rapid than normally observed during an economic contraction.

Foreign Exchange Markets

As shown by the chart on the next page, the weighted average value of the dollar has appreciated by more than 7 percent since the May FOMC meeting,

. The weighted-average index has now climbed to its highest values since early in the summer of 1971, prior to the suspension of the dollar's convertability into gold. On a bilateral basis, the dollar has appreciated by 7 to 8 percent since the May FOMC meeting against the yen, the mark, the guilder, and the Swiss franc. The dollar has risen even more sharply against those EMS currencies that were not revalued upward in the June 12 realignment. The pound strengthened against all other major foreign currencies during the period while declining by 4 percent against the dollar. The Canadian dollar fell by 5 percent against the dollar.

The dollar's sharp appreciation over the past 5 weeks has been partly related to the intensification of hostilities in the Middle East, which is viewed as making the dollar more attractive as a safe haven currency. Most of the appreciation, however, has been associated with interest rate developments. In particular, the dollar has appreciated as anticipations of a July money supply bulge have contributed to a rise in dollar interest rates, and as longer-term dollar interest





rates have increased with the evaporation of expectations that the budget negotiations or the Versailles Summit might create conditions favorable to a decline in dollar interest rates.

On June 12 the European Monetary System was realigned. In terms of EMS central rates, the French franc and Italian lira were devalued by 5-3/4 and 2-3/4 percent, respectively, the German mark and the Netherlands guilder were each revalued upward by 4-1/4 percent, and the Belgian franc, the Danish krone, and the Irish pound were left unchanged. The realignment followed several months of strong downward pressures on the French franc,

. Since the realignment, the French franc has been trading near its new upper intervention limits against the mark and the guilder,

. The Belgian franc, which had also been near its lower intervention limit prior to the realignment, has subsequently been trading about 1 percent above its new central rates against the mark and the guilder.

The sharp depreciation of the Canadian dollar against the U.S. dollar during recent weeks has primarily reflected growing expectations that Canadian policy will ease substantially. These expectations have been fostered by announcements of a steep jump in the Canadian unemployment rate from 9.0 percent in March to 10.2 percent in May, and an 8 percent rate of decline in Canadian real GNP during the first quarter. Over the longer term, the weakening of the Canadian

dollar has also reflected the persistent differential between Canadian and U.S. inflation rates and perhaps as well a fundamental weakening in the Canadian balance of payments, reflecting changes in the pattern of long-term financial flows induced in large part by Canada's National Energy Program.

On June 14, U.S. authorities judged that exchange markets were disorderly following the EMS realignment and the dollar's sharp appreciation against all major foreign currencies. The Desk intervened for the first time since March 1981, selling \$21 million against marks and \$9 million against yen. The foreign currency purchases were allocated evenly between Federal Reserve and Treasury accounts.

Partly in association with the rise in interest rates, the price of gold has declined from around \$340 an ounce at the time of the May FOMC meeting to around \$300 an ounce, currently. Silver prices have dropped to roughly \$5 an ounce.

OPEC surpluses and investment flows. The OPEC current account surplus declined sharply from an estimated \$44 billion in the first half of 1981 to \$15 billion in the second half. (See table.) Recession or destocking in many industrial countries caused OPEC oil exports to fall about 14 percent, reflecting a 1 percent decline in oil export prices and a 13 percent decrease in volume. After increasing only 3 percent in the first half of 1981 from the previous half-year, the dollar value of OPEC imports rose by 12 percent (\$9 billion) in the second half of last year.

The OPEC current-account balance is believed to have been slightly in deficit in the first half of 1982, largely because of a further decline of \$15 billion (12 percent) in oil exports. (This is expected to be followed by a \$10 billion rise in the second half of this year.) While OPEC imports will probably continue to increase in 1982, the rate of growth is expected to slow markedly because of moderation of domestic development programs, notably in Nigeria, Iraq, and Libya.

In the second half of 1981 the net increase in identified OPEC external investments amounted to \$25 billion, down from the preceding half-year but \$10 billion more than the estimated current account surplus. Apart from possible errors in the measurement of the surplus or the identified flows themselves, this excess compared with the surplus resulted from some combination of positive net borrowing or liquidation of unidentified assets. The only available data on net borrowings are BIS data, which show that OPEC countries increased their indebtedness to BIS reporting banks by \$5.3 billion in the second half of 1981 after making \$1 billion of net repayments in the first half.

ESTIMATES OF OPEC CURRENT ACCOUNT AND EXTERNAL INVESTMENTS  
(Billions of dollars)

	1978	1979	1980	1981		1982	
	year	year	year	year	1st H	2nd H	1st H <sup>P</sup>
<u>Current account</u>							
1. Exports	143	216	299	275	147	128	113
(Oil)	(132)	(201)	(281)	(257)	(138)	(119)	(104)
(Non-oil)	(11)	(15)	(18)	(18)	(9)	(9)	(9)
2. Imports	102	102	132	155	73	82	85
3. Trade balance (1-2)	41	114	167	120	74	46	28
4. Net services and private transfers	-39	-44	-53	-52	-25	-27	-27
5. Public transfers	-6	-6	-8	-10	-5	-5	-5
6. Current account balance ( 3 + 4 + 5)	-3	63	106	59	44	15	-4
<u>External investments</u>							
7. In United States	.4	7.1	14.0	16.2	7.6	8.6	5.0 <sup>1</sup>
a. Treas. bills & bank liabilities	-.1	8.3	.2	-2.4	-.2	-2.2	2.2 <sup>1</sup>
b. Other securities	.1	-.1	12.9	15.5	8.2	7.3	2.7 <sup>1</sup>
c. Other	.4	-1.2	.9	3.2	-.4	3.6	n.a.
8. In United Kingdom	.2	2.4	3.3	1.1	1.1	0	.4 <sup>1</sup>
9. In other industrial countries <sup>2</sup>	4.2	8.7	16.7	21.7	13.3	8.4	n.a. <sup>1</sup>
a. Germany <sup>3</sup>	.6	.9	9.2	7.6	5.1	2.5	.3 <sup>1</sup>
b. Other	3.6	7.8	7.5	14.1	8.2	5.9	n.a.
10. In Eurocurrency market <sup>4</sup>	3.0	33.5	41.0	10.5	6.8	3.7	n.a.
11. Loans to developing countries	6.2	9.6	6.5	7.2	4.0	3.2	n.a.
12. IMF and IBRD	-.7	-1.6	1.4	1.9	.6	1.3	.5 <sup>1</sup>
13. Gold purchases	.8	1.2	3.5	.6	.7	-.1	n.a.
14. Subtotal ( 7 thru 13)	14.1	60.9	86.4	59.2	34.1	25.1	n.a.
15. Other investments plus net borrow- ings (6 minus 14)	-17.1	2.1	19.6	-.2	9.9	-10.1	n.a.

1. First quarter only.

2. Excluding bank deposits.

3. Long-term only.

p. Projected by staff.

4. Including domestic currency deposits outside the U.S. and U.K.

Note: Numbers may not add to totals due to rounding.

Sources: Federal Reserve, Bank of England, U.S. Treasury, IMF, IBRD.

In spite of the decline in the surplus and the reduction in total identified investments flows, net new OPEC investment in the United States increased from \$7.6 billion in the first half of 1981 to \$8.6 billion in the second, equivalent to 60 percent of the surplus. For the full year 1981 OPEC investments in the United States exceeded the 1980 flow and were equivalent to 27 percent of the surplus, more than twice as large a share as in either of the preceding two years. One factor in the stepped-up flow to the United States in the second half was Kuwait Oil Corp.'s purchase in December 1981 of Santa Fe International, a U.S. petroleum exploration and drilling company, for \$2-1/2 billion. While OPEC holdings of Treasury bills and bank liabilities were reduced in the second half of 1981, purchases of longer-term securities continued at not greatly less than the average rate of the previous 18 months. The \$16 billion of investments in the United States in 1981 do not appear to have been principally motivated by currency considerations, given that OPEC deposits in the Eurodollar market appear to have increased only about \$3 billion last year following an increase of around \$25 billion in 1980.

Outside the United States, almost all other identified investment flows became smaller in the second half of last year. The largest reductions were in the flows to industrial countries other than the United States and United Kingdom, and in the flows to the Eurocurrency market. Notwithstanding the contraction in the second half, investments in industrial countries other than the United States and United Kingdom accounted for a much larger share of the surplus in 1981 (37 percent) than in 1979-80 (14-16 percent). In strong contrast, the Eurocurrency market took less than 20 percent of the 1981 surplus compared with roughly 50 and 40 percent in 1979 and 1980, respectively.

Although the OPEC current account is expected to show a deficit in the first half of 1982, OPEC flows to the United States intensified in the first quarter. Inflows into U.S. bank liabilities and securities alone came to \$5 billion in the first three months of this year. Identified flows to other areas in the first quarter were also positive and totaled \$1.2 billion.

U.S. International Transactions

Wide monthly fluctuations in U.S. merchandise trade data continued in April with a small net surplus being recorded. For the combined first four months of the year the trade deficit was \$18 billion (annual rate), half the size of the fourth quarter deficit.

In April exports continued to decrease at the fairly steady rate that began about a year ago in response to weak foreign demand and the appreciation of the dollar. Most of the decline was in non-agricultural items, which have decreased in volume nearly 15 percent since the second quarter of last year. The decrease through April was concentrated in machinery and nonfuel industrial supplies.

U.S. Merchandise Trade\*

	<u>Year</u>	<u>1 9 8 1</u>				<u>1 9 8 2</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>1Q</u>	<u>March</u>	<u>April</u>
<u>Value (Bil. \$, SAAR)</u>								
<u>Exports</u>	<u>236.3</u>	<u>242.9</u>	<u>240.9</u>	<u>230.7</u>	<u>230.4</u>	<u>222.3</u>	<u>218.5</u>	<u>215.5</u>
Agricultural	44.3	50.4	44.4	39.7	42.5	41.6	41.6	41.5
Nonagricultural	192.0	192.4	196.6	191.0	187.9	180.7	176.9	174.0
<u>Imports</u>	<u>264.1</u>	<u>260.0</u>	<u>267.3</u>	<u>262.2</u>	<u>267.0</u>	<u>246.8</u>	<u>243.2</u>	<u>214.8</u>
Petroleum	77.6	82.1	83.2	72.6	72.4	62.8	55.7	48.5
Nonpetroleum	186.5	177.8	184.1	189.5	194.6	184.0	187.5	166.3
<u>Trade Balance</u>	<u>-27.8</u>	<u>-17.1</u>	<u>-26.4</u>	<u>-31.4</u>	<u>-36.6</u>	<u>-24.4</u>	<u>-24.7</u>	<u>+0.7</u>
<u>Volume (Bil. 72\$, SAAR)</u>								
<u>Exports - Agric.</u>	18.1	19.4	17.5	16.7	18.6	18.4	18.5	18.7
- Nonagric.	70.5	72.8	72.9	69.3	66.5	62.7	61.6	60.5
<u>Imports - Petroleum</u>	5.9	6.2	6.1	5.7	5.8	5.0	4.5	4.1
- Nonpetrol.	72.1	67.0	70.5	73.9	76.3	69.8	71.0	62.7

\*/ International Transactions and GNP basis. Monthly data are estimated.

This drop was partly offset by an increase in the volume of petroleum product exports, which occurred after export restrictions were lifted last October. Exports of automotive parts to Canada also rose slightly.

Agricultural exports accounted for only a small part of the export decline this year. Sharp increases in wheat exports (largely in volume to the U.S.S.R.) were offset by falling prices and volumes of other commodities, particularly corn. As of mid-May, the U.S.S.R. had purchased 6 million metric tons of wheat and 7.8 million metric tons of corn. Under the Grain Agreement with the United States the U.S.S.R. may buy 8 million metric tons each of wheat and corn this crop year (October 1981 to September 1982), with additional purchases possible after consultations.

The monthly movement of imports has been erratic during the past year, but for the first four months of 1982 the value of imports dropped 10 percent from the fourth quarter rate. About half the decline in value was in oil imports. Oil imports averaged 4.3 million barrels per day in April, bringing the four-month average to 15 percent less than in the fourth quarter of 1981. Part of this reduction reflects a stock drawdown which is unlikely to persist. Oil import prices have dropped about \$2 per barrel since January. Current

Oil Imports	1981			1982	1982		
	2Q	3Q	4Q	1Q	Feb.	Mar.	Apr.
Volume (mbd, SA)	6.52	5.90	5.99	5.34	4.56	4.87	4.34
Price (\$/BBL)	35.62	33.27	32.42	32.20	32.30	31.53	30.57
Value (Bil. \$, SAAR)	83.2	72.6	72.4	62.8	52.5	55.7	48.5



market conditions suggest that import prices will probably firm in coming months.

Nonoil imports decreased by 8 percent (January-April/fourth quarter of 1981) as a small price rise was offset by sizeable volume declines. Weakening U.S. economic activity was reflected in sharp declines in imports of a wide range of industrial supplies, capital goods, and consumer goods. In addition, there was a big drop in sugar imports (both price and quantity). Foreign car imports were little changed in value; volume declined somewhat from the fourth-quarter rate. The first year of the U.S.-Japan automotive agreement ended on March 30; Japanese shipments to the United States were held to the agreed-upon limit. It was reported that Japanese car shipments in April (most of which will arrive in the United States in May) increased from the level a month earlier. The value of steel imports was about 3 percent higher this year (January-April) than in the fourth quarter; it peaked in January and declined steadily in each subsequent month so that by April the value of steel imports returned to rates recorded in the first quarter of last year.

Turning to U.S. international capital transactions, net borrowing by U.S. banking offices (including IBFs) from their own foreign offices increased about \$3 billion, on a monthly average basis, from April to early June. Loans to U.S. nonbank residents at foreign branches of U.S. banks reached a peak of \$15 billion in late May, as the spread between 3-month LIBOR and the prime rate widened to nearly 200 basis points. Thereafter, they declined somewhat as LIBOR rates increased.

International Banking Data  
(billions of dollars)

	1980	1981		1 9 8 2			
	Dec.	June	Dec.	Mar.	Apr.	May	June <sup>3/</sup>
1. U.S. Offices <sup>1</sup> Banking Positions Vis-a-vis own Foreign Offices <u>1/</u>							
(a) Total	6.5	3.0	9.0	10.4	12.6	11.8	15.5
(b) U.S.-Chartered Banks	-15.2	-15.3	-9.1	-4.8	-1.4	-1.1	1.5
(c) Foreign-Chartered Banks	21.7	18.3	18.1	15.2	14.0	12.9	14.0
2. Credit Extended to U.S. Non-bank Residents by Foreign Branches of U.S. banks <u>2/</u>	4.2	7.1	13.2	13.8	14.1	14.9	14.6
3. Eurodollar Holdings of U.S. Nonbank Residents <u>4/</u>	60.8	76.8	93.6	103.1	n.a.	n.a.	n.a.

1/ Average of Wednesdays, net due to own foreign office = (+).

2/ Daily Averages.

3/ Through June 9

4/ End of month.

During the first quarter, Eurodollar holdings of U.S. non-bank residents increased by almost \$10 billion to a level of \$103.1 billion. About three-quarters of the increase was accounted for by holdings of CDs issued by London offices of banks. CDs outstanding at London branches of U.S. banks increased by about \$5 billion in the first quarter to a level of about \$50 billion, while CDs outstanding at their domestic offices grew sluggishly. Although the yield on London CDs of prime U.S. banks exceeded the yield on prime domestic CDs by about 45 basis points, on average, during the first quarter, the perceived cost to those banks of issuing domestic CDs was about equal to the cost of London CDs. The added cost of domestic CDs is due to

the higher reserve requirement on domestic CDs than on Eurodollar borrowings and the cost of FDIC insurance of domestic deposits. Over the past 10 years the payment of dividends by the FDIC has limited the cost of deposit insurance to an average of less than 4 basis points, well below the nominal premium of 8-1/3 basis points. This year, however, a number of banks are apparently computing the cost of domestic deposits on the expectation that the FDIC will pay little or no dividend.

International Banking Facilities (IBFs) have now been in operation for more than six months. As of June 2, total assets of weekly-reporting IBFs were \$125.5 billion, of which \$110.8 billion were claims on unaffiliated entities. Loans account for about two-thirds of the claims on unaffiliated entities with commercial and industrial loans the largest component. Advances from affiliated banking offices account for about half of the funding of IBF claims on unaffiliated entities; liabilities to unaffiliated foreign banks and other IBFs account for another one third. Liabilities to foreign residents other than foreign banks and foreign governments and official institutions remain under \$10 billion; nearly all of these liabilities have initial maturities of 14 days or more. IBF assets and liabilities denominated in foreign currencies each amount to only about \$3 billion equivalent.

. These declines in G-10 holdings of marketable Treasury issues have been largely offset by purchases by OPEC countries, which increased their net holdings by almost \$7 billion despite the projected elimination of their current account surplus.

U.S. Current Account in the First Quarter of 1982.

The U.S. current account moved back into surplus in the first quarter of 1982 from a deficit in the fourth quarter of last year. See the table below. The movement into surplus resulted from a substantial decline in the merchandise trade deficit, which more than offset a decline in net direct investment receipts. Most of the change in the merchandise trade deficit was accounted for by an 8 percent drop in imports, which reflected weakening U.S. demand for goods. Exports also decreased, but by a smaller amount. The reduction in net investment income receipts was due primarily to a decrease in receipts of income on U.S. direct investment abroad; weak economic conditions abroad, low oil company profits, and the impact of the dollar's appreciation against major currencies and the Mexican peso were important contributing factors. Net receipts on portfolio investment increased slightly because of a rise in the level of interest rates from the fourth quarter to the first quarter and large increases in bank-reported claims and liabilities.

U.S. Current Account  
(Billions of dollars, SAAR)

	<u>Year</u>	<u>1 9 8 1</u>				<u>1982</u>	<u>\$ Change</u>
	<u>1981</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q1 - Q4</u>
<u>U.S. Current Account Balance</u>	4.5	13.0	5.6	3.0	-3.7	4.7	+8.4
Merchandise Trade, net	-27.9	-17.2	-26.2	-31.4	-36.7	-24.2	+12.5
Exports	236.3	242.7	241.1	230.8	230.4	222.4	-7.9
Imports	264.1	260.0	267.3	262.2	267.1	246.7	-20.4
Investment Income, net	33.0	32.5	32.8	32.7	34.1	27.9	-6.2
Direct, net	24.1	25.7	24.6	21.8	24.2	17.5	-6.7
Portfolio, net	9.0	6.8	8.2	10.9	9.9	10.4	+0.5
Other Service Trans., net	6.0	3.4	5.0	8.9	6.4	9.0	+2.6
Unilateral Transfers	-6.6	-5.7	-6.0	-7.2	-7.5	-8.0	-0.5

Summary of U.S. International Transactions  
(in billions of dollars)

June 23, 1982

Private Capital	1981	1 9 8 1			1982	1 9 8 2		
	Year	Q-2	Q-3	Q-4	Q-1	Feb.	Mar.	Apr.
<u>Banks</u>								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	-33.9	-6.2	3.8	-19.7	-1.2	-2.2	-4.6	-3.9
<u>Securities</u>								
2. Private securities transactions, net	2.4	1.8	.1	-2.4	1.0	.6	-.2	.7
a) Foreign net purchases (+) of U.S. corp. bonds	1.2	.6	.6	.1	.6	.2	.2	.7
b) Foreign net purchases (+) of U.S. corp. stocks	4.3	2.7	.1	.2	.7	.4	.1	.2
c) U.S. net purchases (-) of foreign securities	-3.1	-1.5	-.6	-2.8	-.4	-.1	-.4	-.1
3. Foreign net purchases (+) of U.S. Treasury obligations <u>1/</u>	2.5	.7	-.8	1.1	1.3	.1	.8	1.0
<u>Official Capital</u>								
4. Changes in foreign official reserves assets in U.S. (+ = increase)	4.9	-2.9	-5.5	7.8	-2.7	-1.8	.5	-1.7
a) By area								
G-10 countries and Switzerland	-10.7	-7.9	-5.6	.9	-6.7	-2.3	-3.3	-4.2
OPEC	12.7	2.5	2.6	1.9	5.0	1.1	1.9	1.2
All other countries	2.9	2.4	-2.5	5.0	-1.0	-.7	2.1	1.3
b) By type								
U.S. Treasury securities	5.0	-2.1	-4.6	4.4	-1.3	-2.1	.1	-2.9
Other <u>2/</u>	-.1	-.9	-.9	3.4	-1.4	.3	.4	1.1
5. Changes in U.S. official reserve assets (+ = decrease) <u>3/</u>	-3.3	.8	.1	-.4	.1	*	.1	-1.6
<u>Other transactions (Quarterly data)</u>								
6. U.S. direct investment (-) abroad	-8.7	-5.1	-1.0	-1.0	-1.1	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	21.3	4.5	4.5	9.3	1.0	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) <u>4/</u> <u>5/</u>	-15.5	-1.7	-1.6	-3.3	-10.8	n.a.	n.a.	n.a.
9. U.S. current account balance <u>5/</u>	4.5	1.4	0.8	-0.9	1.2	n.a.	n.a.	n.a.
10. Statistical Discrepancy <u>5/</u>	25.8	6.7	-0.4	9.5	11.2	n.a.	n.a.	n.a.
<u>MEMO:</u>								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-27.9	-6.5	-7.8	-9.2	-6.1	-.3	-2.0	+0.1

1/ Includes U.S. Treasury notes publicly issued to private foreign residents.

2/ Includes deposits in banks, commercial paper, acceptances, & borrowing under repurchase agreements.

3/ Includes newly allocated SDR's of \$1.1 billion in January 1979; \$1.2 billion in January 1980, and \$1.1 billion in January 1981.

4/ Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, allocations of SDRs, and other banking and official transactions not shown elsewhere.

5/ Includes seasonal adjustment for quarterly data.

\*/ Less than \$50 million.

NOTE: Details may not add to total because of rounding.

Foreign Economic Developments. Although there are indications that a hesitant recovery may be underway in some countries, the signs are tentative and the pattern of recovery is not uniform. Activity in Germany has improved slightly in recent months, but there is still no firm evidence of a sustained recovery. In Germany, Belgium, and the Netherlands, unemployment is at record levels. In France, the increase in growth seen at the end of last year has not been maintained; GNP fell slightly in the first quarter as net exports declined, and unemployment is still above 8 percent. Prospects for an early recovery are better in Italy as industrial production in the latest three months has risen by about 5-1/2 percent (s.a.a.r.). In the United Kingdom, industrial production has moved ahead from December to April by about 6 percent (s.a.a.r.). Outside Europe, the situation is also mixed. In the first quarter, GNP in Canada fell at almost an 8 percent rate (s.a.a.r.), and Canadian activity remains at a low level with unemployment above 10 percent. In Japan, rising GNP in the first quarter made up for a large fourth-quarter fall, but activity there still remains weak. Of special concern to the Japanese authorities was a sharp first-quarter fall in private investment.

Progress in reducing inflation has continued in most countries. The average rate of CPI inflation for the major six industrial economies in the latest three months is 8-1/2 percent, about 2-3/4 percentage points below the average rate of inflation in 1981. The

recent Japanese and German performances on prices have been especially noteworthy. In Japan, both wholesale prices and consumer prices in May were less than 3 percent above year-previous levels, while in Germany the CPI has been advancing at a rate of about 5 percent. In France and Canada, however, prices have not shown signs of significant deceleration.

As the pace of activity has slackened in recent months, trade volumes have also grown more slowly, and current-account balances have moved somewhat erratically. In April, the Japanese current-account surplus widened by nearly \$1 billion, (s.a.) but the cumulative surplus for the year was only \$2 billion, well below what most forecasters had expected at the start of the year. A significant reduction of the current-account surplus has also taken place in the first three months of 1982 in the United Kingdom. The movement of the German current account in recent months has been in the opposite direction, however. The German surplus in April was \$83 million, making the cumulative deficit for 1982 less than \$1 billion, which may be compared with the deficit of almost \$8 billion for all of 1981. The Canadian trade surplus widened during the first four months to a cumulative total of \$3.9 billion (s.a.), mainly because of depressed demand in Canada.

Individual Country Notes. Recently released data show that first-quarter GNP in Japan increased at a 3-1/4 percent rate (s.a.a.r.), roughly offsetting the sharp drop of the previous quarter.



June 23, 1982

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES  
(Percentage change from previous period, seasonally adjusted)

		1980	1981	1980	1981				1982	1982			
				Q4	Q1	Q2	Q3	Q4	Q1	Jan.	Feb.	March	April
Canada:	GNP	0.0	3.4	2.3	1.4	1.6	-1.1	-0.9	-2.0	*	*	*	*
	IP	-2.0	1.3	2.2	1.0	2.6	-3.1	-4.6	-3.2	-1.0	-0.3	-1.7	n.a.
France:	GDP	1.2	0.7	0.2	-0.4	1.3	0.0	0.7	-0.1	*	*	*	*
	IP	-1.1	-2.2	-1.0	-1.5	0.8	0.0	1.5	-2.5	-3.8	0.0	0.8	n.a.
Germany:	GNP	1.8	-0.3	-0.4	0.5	-0.5	0.7	0.1	-0.2	*	*	*	*
	IP	-0.1	-1.8	-1.2	1.2	-0.6	0.3	-0.9	0.6	1.0	0.9	1.9	0.0
Italy:	GDP	4.0	-0.2	2.3	0.8	-1.1	-1.7	2.6	1.4	*	*	*	*
	IP	5.6	-5.5	5.3	-4.4	1.5	-4.9	4.5	0.9	-1.4	4.7	-2.1	0.1
Japan:	GNP	4.2	3.0	0.7	0.7	1.2	0.7	-0.7	0.8	*	*	*	*
	IP	7.1	3.0	1.6	1.7	-0.3	1.6	2.6	-0.9	-0.1	-1.1	1.4	-1.9
United Kingdom:	GDP	-2.4	-2.3	-0.9	-0.6	-0.2	0.4	0.5	0.1	*	*	*	*
	IP	-6.6	-5.3	-2.4	-1.4	-0.6	1.0	0.3	-0.5	0.1	0.5	0.6	0.7
United States:	GNP	-0.2	2.0	0.9	2.1	-0.4	0.4	-1.1	-0.9	*	*	*	*
	IP	-3.6	2.6	4.5	2.0	0.5	0.3	-4.4	-3.1	-1.9	1.6	-0.8	-0.8
												(May)	-0.2

\* GNP data are not published on monthly basis.

June 23, 1982

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES  
(Percentage change from preceding period)

											MEMO:
	1981				1982	1982				Latest 3 Months	
	Q1	Q2	Q3	Q4	Q1	Feb.	March	April	May	from Year Ago	
Canada: CPI	3.2	3.1	3.0	2.5	2.5	1.2	1.3	0.5	1.4	11.6	
WPI	2.7	2.2	2.1	1.2	1.3	0.8	0.3	n.a.	n.a.	7.0	
France: CPI	3.0	3.3	3.9	3.2	2.8	1.0	1.2	1.2	0.8	14.0	
WPI	1.4	4.3	4.3	1.9	2.8	0.5	1.8	1.0	n.a.	13.9	
Germany: CPI	2.2	1.8	1.2	1.2	1.5	0.2	0.2	0.5	0.6	5.3	
WPI	3.9	2.3	2.1	1.8	1.8	-0.2	-0.2	0.5	1.1	6.6	
Italy: CPI	5.2	4.4	3.0	4.6	4.1	1.5	0.9	0.9	n.a.	16.5	
WPI	5.0	5.1	3.5	4.0	3.3	0.9	0.6	n.a.	n.a.	16.8	
Japan: CPI	1.1	1.5	0.0	1.3	0.5	0.1	0.4	0.7	0.1	3.1	
WPI	-0.7	1.1	1.4	-0.1	0.2	0.5	0.1	0.3	-0.6	2.4	
United Kingdom: CPI	2.4	4.9	1.7	2.5	1.7	0.0	0.9	2.0	0.7	9.7	
WPI	3.0	3.4	2.1	2.3	2.3	0.6	0.5	0.7	0.5	9.0	
United States: CPI(SA)	2.6	1.9	2.8	1.9	0.8	0.2	-0.3	0.2	1.0	6.7	
WPI(SA)	2.5	2.3	1.1	1.2	0.6	-0.3	-0.1	0.1	0.0	3.4	

June 23, 1982

TRADE AND CURRENT-ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES<sup>a</sup>  
(Billions of U.S. dollars; seasonally adjusted)

	1981	1980		1981				1982	1982		
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Feb.	March	April
Canada: Trade	5.7	2.0	2.4	1.4	0.8	0.6	2.8	2.8	0.8	1.0	1.2
Current Account	-5.5	-0.2	0.3	-1.2	-1.8	-2.1	-0.5	0.2	*	*	*
France: Trade <sup>b</sup>	-9.6	-4.0	-3.2	-2.7	-3.2	-1.9	-3.3	-3.3	-0.9	-0.7	-1.6 (May -0.5)
Current Account <sup>b</sup>	-7.6	-2.1	-2.0	-2.3	-0.4	-2.1	-2.1	-2.0	*	*	*
Germany: Trade	11.9	1.1	0.9	0.2	3.1	3.1	5.5	5.0	1.7	2.0	1.1
Current Account (NSA)	-7.6	-7.1	-3.3	-4.4	-2.3	-4.9	4.1	-0.9	-0.3	0.8	.08
Italy: Trade	-16.0	-8.6	-5.5	-4.5	-4.8	-4.4	-2.3	-4.0	-2.3	-0.4	*
Current Account (NSA)	-9.3.	-1.0	-2.9	-5.8	-2.3	0.3	-1.6	n.a.	*	*	*
Japan: Trade <sup>b</sup>	20.1	1.4	2.9	3.3	5.5	6.3	5.0	4.4	1.0	1.2	1.9
Current Account <sup>b</sup>	4.6	-1.8	-0.2	-1.0	2.0	2.5	1.1	0.9	-0.2	0.1	1.0
United Kingdom: Trade	n.a.	1.5	3.0	n.a.	n.a.	n.a.	0.9	0.4	0.3	0.4	*
Current Account <sup>b</sup>	n.a.	2.1	4.5	n.a.	n.a.	n.a.	2.3	1.0	0.5	0.6	*
United States: Trade	-27.8	-2.9	-5.6	-4.7	-6.9	-7.0	-9.0	-6.1	-0.2	-2.1	0.1
Current Account	4.5	5.0	1.4	3.3	1.2	2.1	-0.1	1.2	*	*	*

a The current account includes goods, services, and private and official transfers.

b Quarterly data are subject to revision and are not consistent with annual data.

\* Comparable monthly current account data are not published.

In the two quarters taken together, however, GNP was nearly flat and judging by other indicators of activity (including industrial production which fell by almost 2 percent (s.a.) in April), the slump in Japan has continued into the second quarter. May unemployment reached 2.4 percent (s.a.), its highest level in 11 months. One somewhat favorable sign is a marked strengthening of personal consumption, which grew by almost 8 percent (s.a.a.r.) in the January-March period after several quarters of little or no real increase. Government spending also made a strong contribution to growth, but private equipment investment fell sharply (by 7 percent, s.a.a.r.), and housing investment continued its prolonged decline. Real growth for the fiscal year, which ended in March, reached only 2.7 percent, well below the 4.1 percent official target. The Japanese are reported to be preparing a new five-year plan (for 1983-1987), which will embody a reduced forecast for real growth.

The April current account expanded to a surplus of more than \$1 billion (s.a.) from a roughly balanced position in March; the cumulative surplus through April came to less than \$2 billion (s.a.). The April increase was due to both a recovery of exports from an unusually low March level, as well as continued stagnation of imports related to weak activity in Japan. In early June, just before the Versailles summit, the Japanese authorities announced a package of measures aimed at alleviating trade frictions; the measures included reductions in tariffs, expansion of quotas, and easing of import

procedures, but notably did not include any significant concessions on farm products which have been the focus of U.S.-Japan trade frictions.

The index of industrial production in Germany rose 2 percent (s.a.) in March, but was flat in April. The March-April level was only 1 percent above its level a year ago. GNP declined slightly in the first quarter. The volume of orders has also declined this year to a level in April as low as previous troughs in the current recession. In contrast to last year, when strong foreign orders supported the total order index, orders from abroad this year have been declining along with domestic orders. The rate of unemployment was 7.5 percent (s.a.) in May, which is two full percentage points above the previous post-war peak.

The rate of consumer-price inflation has slowed considerably this year to slightly under 3 percent (s.a.a.r.) for the cumulative increase from December through April, compared with a 6.6 percent annual rate in fourth quarter of 1981. The monthly rate for May was 0.6 percent (n.s.a.), and on a year-over-year basis, the rate of inflation is now about 5 percent. Germany's current account shows a deficit of \$0.9 billion through April this year. Last year's comparable figure was a deficit of \$4.4 billion.

The Bundesbank has maintained the cautious easing of its monetary policy. April was the third successive month in which Central Bank Money stood slightly above the upper limit of this year's target range. In May, the CBM level returned to a point slightly below the upper

limit. Effective May 7, the Special Lombard facility was shut down, and the Bundesbank returned to its regular Lombard system at a Lombard rate of 9 percent. On June 16, the Bundesbank provided additional liquidity by expanding the banks' rediscount quota by DM5 billion.

In the United Kingdom, the revival of economic activity has continued at a modest pace. The increases in industrial production (s.a.) recorded in March and April raised the level of production to a level some 2-3/4 percent above the cyclical trough recorded in May 1981. Real GDP in the first quarter of this year rose 2.8 percent (s.a.a.r.) but was only about 1 percent above the cyclical trough reached in the second quarter of last year. In April, the U.K.'s twelve-month rate of consumer-price inflation was in single digits -- 9-1/2 percent -- for the first time in three years, and that rate was maintained in May. The monthly increase in May of 0.7 per cent was much smaller than that in April which reflected increases in various taxes and public charges.

The U.K. current account in the first quarter of this year was in surplus by \$1 billion, \$1-1/2 billion below the previous quarter's outcome and much lower than the \$7 billion surplus recorded a year earlier. The sharp swing in the current account from 1981 levels reflects a weakening in both the U.K.'s trade account and a change in the accounting treatment of EC budget refunds.

Preliminary data for May indicate that money supply growth is within or below the target ranges, measured from the February base period.

In Canada, the rate of decline in real growth accelerated sharply in the first quarter of this year. Real GNP fell 8 percent (s.a.a.r.) in the first quarter, after having declined 3.4 percent and 3.6 percent, respectively, in the third and fourth quarters of last year. There is additional evidence that the downturn in economic activity has continued into the second quarter of this year. The rate of unemployment in May reached a post-war high of 10.2 percent after recording a previous high of 9.6 percent in April.

The decline in economic activity has exerted some downward pressure on prices. Consumer price inflation, which on a year-over-year basis reached close to 13 percent through the middle of 1981, was 11.8 percent in May. Despite the weakness in economic activity there continues to be strong upward wage pressure. In the first quarter, newly negotiated wage settlements without cost-of-living adjustments rose more than 12 percent (s.a.a.r.).

The Canadian current-account balance posted a surplus of \$238 million (s.a.) in the first quarter of this year after four consecutive quarters of deficits. This surplus was the result primarily of a cyclical strengthening of the trade surplus. In the first four months of this year, the trade balance registered a cumulative surplus of \$12 billion (a.r.), compared with \$5.5 billion for the same period last year.

French GDP fell slightly (0.4 percent s.a.a.r.) in the first quarter, after showing fairly robust growth of almost 3 percent (s.a.a.r.) in the fourth quarter of 1981. Both household consumption and investment provided strength, but export growth was negative for the second straight quarter. After showing signs of declining to annual rates near 10 percent at the end of 1981, inflation in France in the first five months of the year has accelerated to an average rate of some 14 percent -- about the same rate of inflation as that for all of 1981. The May trade deficit was about \$1/2 billion and brought the cumulative deficit for the year to almost \$5 billion.

In mid-May, the Government announced a supplemental budget in line with the government policy of not increasing the deficit. The new budget measure reduced the VAT rate on necessities (food) and local business taxes and increased taxes on banks, including a first-time tax on Credit Agricole. The budget also cancelled over FF2 billion in lending from the Economic and Social Fund. At the same time, the government announced an infusion of FF9 billion into the newly nationalized enterprises. In mid-June, the authorities announced a wage and price freeze, effective from July through October, as part of a policy package designed to help support the exchange rate at its post-EMS-realignment level. The authorities also said that they would limit budget deficits in France this year and next to 3 percent of GDP.



The Italian economy is beginning to show some signs of recovery. According to latest data, industrial production rose slightly in April following an increase of 3-1/2 percent (s.a.a.r.) in the first quarter. Recently released GDP data indicated that output rose nearly 5-3/4 percent (s.a.a.r.) in 1982-Q1, after having risen 10-3/4 percent in 1981-QIV. Also, upward pressure on prices has eased somewhat in recent months. In May, consumer prices were about 15 percent above their year-earlier level, compared with a 21 percent jump during the corresponding period last year. Wholesale price inflation also has decelerated somewhat. In the first quarter, wholesale prices advanced at a 13.7 percent annual rate, compared with a 16.8 percent rate of increase in the fourth quarter.

The trade deficit in March showed a deficit of about \$400 million (s.a.), making a first quarter deficit of \$4 billion.

May and June have been marked with increased strike activity as 3-year contracts for more than one-half of the labor force are up for renewal. Many of the short-term strikes are aimed at winning tax reductions or spending increases from the government in exchange for (Italian style) wage moderation. In early June, Confindustria, the private employers' association, announced that it was withdrawing from the current 7-year-old scala mobile agreement with the Italian unions. However, the unions have not accepted this move and the final outcome depends on negotiations between businesses and labor.

Real activity continues to be weak in the Benelux countries. Through the first five months of the year, unemployment in Belgium has remained just below 11 percent (n.s.a.), after averaging about 9 percent in the same period in 1981. In the Netherlands, unemployment rose to 12.2 percent (s.a.) in April from 11 percent in March and 10.4 percent in January. The rate of consumer price inflation fell slightly in the Netherlands in April to 6.6 percent on a year-over-year basis after averaging 6.9 percent in the first quarter of the year. In Belgium, however, consumer prices accelerated further in May to 9.5 percent above the year-earlier level, as compared to 8.4 percent in April. In both countries the authorities are trying to restrain government spending and reduce budget deficits. The inability of the Dutch cabinet to agree on the details of such a fiscal program led to the resignation of the government last month.