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May 18, 1983

RECENT DEVELOPMENTS

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	Apr.	5-06-83	110.8	3.3	.9	1.0
Unemployment rate (%) 1/	Apr.	5-06-83	10.2	10.3	10.4	9.3
Insured unemployment rate (%) 1/	Feb.	4-28-83	4.5	4.5	5.3	4.0
Nonfarm employment, payroll (mil.)	Apr.	5-06-83	89.2	3.5	1.3	-1.0
Manufacturing	Apr.	5-06-83	18.4	7.2	3.9	-4.1
Nonmanufacturing	Apr.	5-06-83	70.8	2.5	.7	-.1
Private nonfarm:						
Average weekly hours (hr.) 1/	Apr.	5-06-83	35.0	34.8	35.1	34.9
Hourly earnings ($) 1/	Apr.	5-06-83	7.94	7.89	7.87	7.59
Manufacturing:						
Average weekly hours (hr.) 1/	Apr.	5-06-83	40.1	39.6	39.8	39.0
Unit labor cost (1967=100)	Mar.	4-29-83	95.5	-16.1	-10.2	-6.0
Industrial production (1967=100)	Apr.	5-13-83	142.6	24.9	15.1	1.7
Consumer goods	Apr.	5-13-83	147.7	24.9	11.4	3.9
Business equipment	Apr.	5-13-83	146.7	21.7	.3	-11.0
Defense & space equipment	Apr.	5-13-83	119.1	13.2	9.3	11.1
Materials	Apr.	5-13-83	139.5	26.4	22.7	2.4
Consumer prices all items (1967=100)	Mar.	4-22-83	293.6	1.6	.4	3.6
All items, excluding food & energy	Mar.	4-22-83	282.9	2.5	4.3	4.5
Food	Mar.	4-22-83	290.1	7.5	2.8	2.6
Producer prices: (1967=100)						
Finished goods	Apr.	5-13-83	282.8	-.8	-.3	2.1
Intermediate materials, nonfood	Apr.	5-13-83	312.3	-4.2	-5.1	-.3
Crude foodstuffs & feedstuffs	Apr.	5-13-83	258.0	35.9	24.7	.9
Personal income ($ bil.) 2/	Apr.	5-18-83	2,679.1	9.1	5.7	5.7
				(Not at annual rates)		
Mfgrs. new orders dur. goods ($ bil.)	Mar.	5-02-83	80.8	3.5	5.5	3.8
Capital goods industries	Mar.	5-02-83	28.5	14.2	-9.6	-2.7
Nondefense	Mar.	5-02-83	7.7	25.1	-32.1	8.7
Defense	Mar.	5-02-83	20.8	10.7	3.1	-6.3
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Mar.	5-12-83	1.45	1.50	1.52	1.51
Manufacturing	Mar.	5-02-83	1.61	1.67	1.74	1.78
Trade	Mar.	5-12-83	1.32	1.35	1.34	1.29
Ratio: Mfgrs.' durable goods inventories to unfilled orders 1/	Mar.	5-02-83	.589	.600	.621	.608
Retail sales, total ($ bil.)	Apr.	5-11-83	94.2	1.6	2.1	6.5
GAF 3/	Apr.	5-11-83	19.8	.5	.5	4.9
Auto sales, total (mil. units.) 2/	Apr.	5-04-83	8.4	2.3	-2.0	16.4
Domestic models	Apr.	5-04-83	6.4	5.7	5.8	17.6
Foreign models	Apr.	5-04-83	2.0	-7.1	-20.5	12.8
Housing starts, private (thous.) 2/	Apr.	5-17-83	1,490	-8.4	-12.0	63.6
Leading indicators (1967=100)	Mar.	4-29-83	149.8	1.5	6.2	11.2

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.

The recovery in economic activity continued to strengthen in April as both production and employment rose rapidly. April's output gain reflected reduced inventory levels in conjunction with a further advance in household sector spending. At the same time, the contraction in business equipment outlays appears to be ending. Underlying cost pressures on prices have moderated further, but the extremely favorable developments in energy and food prices seen earlier in the year were partly reversed in April.

Industrial Production

Industrial production rose 2.1 percent in April, the largest increase so far this year. Since its trough in November, industrial production has risen about 6 percent, with production increases most pronounced in auto- and housing-related industries. In April, output gains were widespread among a wide range of final products and materials. Large advances were recorded for home goods such as appliances, carpeting, and furniture. Output of construction supplies rose substantially for a fourth month in a row. Even business equipment output, which had been contracting sharply until February, increased 1.8 percent in April after a moderate gain the month before. Among the major components of business equipment, only building and mining equipment continued to decline in April as weakness persisted in oil and gas well drilling.

Autos were assembled at an annual rate of 5.9 million units in April--up slightly further from March and significantly improved over the 4.5 million unit rate in November; given the reduced level of stocks relative to sales, automakers are planning to step up assemblies

INDUSTRIAL PRODUCTION
(Percentage change from preceding period;
based on seasonally adjusted data)

	1982		1983	1983		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
	-----Annual rate-----			----Monthly rate---		
Total	-3.4	-8.2	9.7	.4	1.2	2.1
Final products	-3.0	-6.5	3.0	-.6	.8	1.9
Consumer goods	2.6	-6.9	6.4	.2	.6	2.1
Durable	3.6	-22.2	28.0	2.1	.4	3.2
Nondurable	2.3	-.9	-.2	-.5	.7	1.6
Business equipment	-17.2	-14.5	-7.1	-2.6	.9	1.8
Defense and space equipment	7.8	16.5	10.6	-.3	1.6	1.1
Construction supplies	8.7	-8.0	23.2	2.0	1.9	2.6
Materials	-6.0	-11.3	18.4	1.7	1.6	2.2
Durable goods	-7.3	-22.2	28.8	2.6	2.7	3.0
Nondurable goods	-4.3	5.1	14.2	1.8	1.3	1.7
Energy materials	-5.3	-7.3	2.7	-.7	-.3	1.0

THE TURNAROUND IN CAPACITY UTILIZATION RATES
(Percent, seasonally adjusted)

	1975 Low[1]	1982-83 Low[1]	1982 Q4	1983 Q1	1983 Apr.	Increase Since Low (Percentage Points)
Manufacturing, total	69.0	67.4	67.6	69.1	71.1	3.7
Primary processing	68.2	63.7	64.2	67.0	69.5	5.8
Advanced processing	69.4	69.2	69.5	70.2	71.9	2.7
Nonelec. machinery	71.8	58.6	60.9	59.4	61.1	2.5
Motor vehicles & pts.	51.3	43.7	50.3	57.7	60.2	16.5
Materials, total	69.4	65.2	65.8	68.3	70.7	5.5
Durable goods materials	63.6	58.4	58.8	62.3	65.7	7.3
Raw steel	68.0	37.9	39.3	48.8	55.2	17.3
Nondurable goods mat.	67.2	70.2	71.8	73.7	75.8	5.6
Energy materials	84.8	76.0	76.8	77.0	77.3	1.3

1. The lows are specific to each series.

further in May and June. Raw steel production, although still quite low by historical standards, has increased 45 percent from its trough. Output of home goods and construction supplies in April were about 10 percent above their levels at the end of 1982. These production gains helped to lift capacity utilization rates in manufacturing and at materials producers from their record lows to around 71 percent in April.

Employment and Unemployment

Rising output in the industrial sector over the past five months has been accompanied by a strengthening in labor demand. Total nonfarm payroll employment grew 260,000 in April and is now two-thirds of a million above its December low. The bulk of April's job gains occurred in two major sectors--the services industry and manufacturing. Employment growth in services had slowed during the recession, but now appears to be resuming its upward secular trend. In manufacturing, employment rose more than 100,000--mostly in durable goods industries--bringing the cumulative rebound in factory jobs since December to 250,000. Manufacturers have relied heavily on overtime to meet production schedules; indeed, the factory workweek has rebounded more vigorously than in past cycles and already is close to its pre-recession level.

The civilian unemployment rate edged down again in April to 10.2 percent. In recent months, short-term joblessness and the layoff rate have continued to decline, albeit very gradually; most of the reduction in these cyclically-sensitive series came in January or February. In contrast, the large number of workers unemployed longer than 26 weeks has not yet receded. The labor force participation rate edged up in April, but retraced only a portion of the unusually large decline earlier in the year.

CHANGES IN EMPLOYMENT[1]
(Thousands of employees; based on seasonally adjusted data)

	1981	1982	1982 Q3	1982 Q4	1983 Q1	1983 Feb.	1983 Mar.	1983 Apr.
	---Average monthly changes---							
Nonfarm payroll employment[2]	-7	-173	-192	-233	130	-161	196	258
Strike adjusted	-8	-171	-195	-239	132	-156	196	258
Manufacturing	-40	-129	-119	-147	48	18	50	109
Durable	-32	-100	-101	-127	40	31	33	89
Nondurable	-8	-28	-18	-20	8	-13	17	20
Construction	-22	-17	-19	-22	-14	-140	-10	31
Trade	16	-17	-34	-59	68	-39	73	-9
Finance and services	56	30	37	25	65	15	121	122
Total government	-26	-14	-23	-2	-8	18	-26	-9
Private nonfarm production workers	-8	-147	-152	-223	138	-161	223	215
Manufacturing production workers	-48	-110	-95	-131	50	21	56	109
Total employment[3]	2	-49	-46	-150	3	-40	40	355
Nonagricultural	25	-65	-43	-166	16	-21	59	359

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)

	1981	1982	1982 Q3	1982 Q4	1983 Q1	1983 Feb.	1983 Mar.	1983 Apr.
Civilian, 16 years and older	7.6	9.7	10.0	10.7	10.3	10.4	10.3	10.2
Teenagers	19.6	23.2	23.9	24.3	22.8	22.2	23.5	23.4
20-24 years old	12.2	14.8	15.1	16.1	15.9	16.3	15.4	15.4
Men, 25 years and older	5.1	7.5	7.8	8.6	8.4	8.5	8.4	8.5
Women, 25 years and older	5.9	7.3	7.3	7.9	7.8	7.7	7.7	7.4
White	6.7	8.6	8.8	9.5	9.1	9.2	9.0	8.9
Black and other	14.2	17.3	17.7	18.6	18.5	18.0	18.5	18.8
Fulltime workers	7.3	9.6	9.8	10.6	10.3	10.4	10.3	10.2
Memo:								
Total national[1]	7.5	9.5	9.8	10.5	10.2	10.2	10.1	10.1

1. Includes resident Armed Forces as employed.

Inventory Investment

Businesses continued to draw down inventories at a rapid rate during the first quarter. Total manufacturing and trade inventories in book value terms fell at a $37-1/2 billion annual rate after a similar large contraction in the fourth quarter. The recent inventory liquidation was accompanied by a sizable advance in shipments and sales, bringing the level of stocks into much better balance with final demands and thus laying the groundwork for April's strong gain in production. Although some businesses--particularly in the trade sector--may pare stocks further during the next few months, the runoff in inventories appears to be ending at many manufacturers and at auto dealers. Thus, on balance, a swing away from very rapid liquidation should add significantly to output growth in the second quarter.

In March, manufacturing inventories declined at an annual rate of $46 billion in book value terms after a small liquidation in February. By the end of March, the book value of total manufacturing stocks was 6 percent below the level of mid-1981; only a few durable goods industries--notably nonelectrical machinery--were carrying inventories that were not in line with sales by historical standards. In the trade sector, retail stocks were liquidated at a $16 billion annual rate in March with about two-thirds of the runoff occurring in autos. Some overhangs persisted at nonauto stores such as those in the GAF grouping. At merchant wholesalers, inventories still were quite unbalanced in March, despite a sizable liquidation throughout the first quarter.

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

	1981	1982	1982 Q3	1982 Q4	1983 Q1	1983 Jan.	1983 Feb.[r]	1983 Mar.[p]
Book Value Basis								
Total	34.2	-14.7	2.2	-38.2	-37.4	-56.3	10.7	-66.5
Manufacturing	19.1	-17.9	-10.6	-29.0	-29.6	-37.1	-5.8	-46.0
Durable	13.8	-11.5	-6.0	-23.3	-23.6	-35.6	-6.2	-28.8
Nondurable	5.4	-6.5	-4.6	-5.8	-6.1	-1.4	.4	-17.2
Wholesale trade	4.6	1.8	-1.2	-3.0	-10.9	-14.7	-13.8	-4.3
Retail trade	10.4	1.4	14.0	-6.2	3.2	-4.6	30.3	-16.2
Automotive	2.1	-.1	11.2	-10.2	1.4	-4.2	18.7	-10.3
Constant Dollar Basis								
Total	7.1	-8.9	3.4	-20.1	--	-30.5	-2.7	--
Manufacturing	2.6	-8.7	-5.0	-14.4	--	-21.6	-2.5	--
Wholesale trade	1.5	.0	1.3	-.6	--	-4.7	-10.5	--
Retail trade	3.1	-.2	7.1	-5.2	--	-4.2	10.2	--
Automotive	.7	-.3	5.5	-6.0	--	-2.9	5.4	--

INVENTORIES RELATIVE TO SALES[1]

	Cyclical Reference Points June 1981	Cyclical Reference Points 1982 High[2]	1982 Q3	1982 Q4	1983 Q1	1983 Jan.	1983 Feb.[r]	1983 Mar.[p]
Book Value Basis								
Total	1.42	1.55	1.52	1.51	1.47	1.48	1.50	1.45
Manufacturing	1.61	1.81	1.71	1.74	1.64	1.67	1.67	1.61
Durable	2.08	2.51	2.36	2.43	2.19	2.25	2.24	2.15
Nondurable	1.11	1.18	1.09	1.11	1.09	1.11	1.12	1.08
Wholesale trade	1.14	1.31	1.27	1.30	1.24	1.24	1.26	1.25
Retail trade	1.39	1.45	1.45	1.40	1.40	1.39	1.43	1.39
Automotive	1.78	1.92	1.96	1.60	1.60	1.63	1.78	1.60
Constant Dollar Basis								
Total	1.63	1.77	1.73	1.73	--	1.66	1.68	--
Manufacturing	1.92	2.15	2.05	2.10	--	1.99	1.99	--
Wholesale trade	1.35	1.50	1.46	1.47	--	1.40	1.43	--
Retail trade	1.38	1.46	1.46	1.41	--	1.39	1.42	--
Automotive	1.75	1.94	1.95	1.61	--	1.62	1.71	--

1. Ratio of end-of-period inventories to average monthly sales for the period.
2. Cyclical highs are specific to each series and are not necessarily coincident.
r--revised estimates.
p--preliminary estimates.

Personal Income and Consumption

Growth of private wage and salary income began to pick up in the first quarter and accelerated in April, reflecting strong gains in employment and the workweek that month. Real disposable income only rose at a 2.1 percent annual rate in the first quarter, and likely rose again in April. Real outlays for personal consumption have been growing about in line with disposable income, and the personal saving rate has remained near its fourth-quarter level of 6 percent.

Retail sales increased 1.6 percent in April, following a similar advance in March that was considerably stronger than initially estimated. Increased spending on new autos was a major factor in the April gain. Domestic cars sold at a 6.4 million unit annual rate after hovering close to a 6 million unit rate since November, and increased somewhat further in early May. Foreign car sales dropped again in April because of depleted inventories of some Japanese models. With the beginning of a new quota year for Japanese exports in April, sales of imported cars are expected to rebound in May as they did last year. Total retail sales also were boosted by a 3 percent rise in outlays at gasoline stations; most or all of the increase probably was attributable to higher prices associated with the April 1 hike in federal gasoline taxes.

Spending for consumer goods other than automobiles and gasoline has been increasing moderately--up 1/2 percent in both March and April.

PERSONAL INCOME
(Based on seasonally adjusted data)

	1981	1982	1982 Q4	1983 Q1	1983 Feb.	1983 Mar.	1983 Apr.
	- - Percentage changes at annual rates[1] - -						
Total personal income	10.4	5.2	5.0	3.7	1.0	6.8	9.1
Wage and salary disbursements	8.4	2.8	1.2	6.0	-1.7	6.9	9.5
Private	8.7	2.1	-.3	6.2	-3.2	7.4	10.7
Disposable personal income							
Nominal	10.4	5.9	4.9	4.2	-.9	7.3	11.5
Real	2.6	.7	.3	2.1	-1.6	3.7	--
	- - Changes in billions of dollars[2] - -						
Total personal income	17.9	11.5	12.6	8.0	2.2	14.9	20.2
Wage and salary disbursements	8.8	4.1	3.3	7.7	-2.2	9.1	12.8
Private	7.1	2.7	.9	6.5	-3.4	7.9	11.5
Manufacturing	1.1	-.9	-2.3	3.7	2.1	2.7	5.2
Other income	10.3	7.8	9.5	1.6	4.3	6.3	8.3
Transfer payments	2.9	4.0	6.0	-1.4	.8	1.4	2.4
Less: personal contributions for social insurance	1.2	.5	.1	1.3	-.2	.5	.8
Disposable personal income							
Nominal	15.2	10.8	9.8	7.8	-1.7	13.6	21.7
Real	1.7	1.2	2.2	1.2	-1.4	3.3	--
Memorandum:							
Personal saving rate	6.4	6.6	6.0	5.9	5.9	5.8	5.7

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.

RETAIL SALES
(Percent change from previous period;
based on seasonally adjusted data)

	1982 Q3	1982 Q4	1983 Q1	1983 Feb.	1983 Mar.	1983 Apr.
	---quarterly rate---		---monthly rate---			
Total sales	.2	2.8	.1	-1.2	1.7	1.6
(Real)[1]	-1.1	2.4	.2	-1.1	1.5	n.a.
Total, less autos and nonconsumption items	1.4	1.0	.5	-.7	.3	.7
Total, less autos, nonconsumption items, and gasoline	1.2	1.2	1.2	-.2	.5	.4
GAF[2]	-.1	1.8	1.2	-1.2	1.2	.5
Durable goods	-3.0	7.7	.0	-2.9	4.9	4.0
Automotive	-4.3	11.8	-2.8	-3.0	7.7	5.5
Furniture & appliances	-1.4	2.6	3.0	-3.1	2.8	3.8
Nondurable goods	1.6	.7	.2	-.5	.4	.5
Apparel	.2	.2	-.3	1.6	.3	1.7
Food	1.3	.6	-.3	1.1	.5	.8
General merchandise[3]	.3	2.1	1.1	-1.6	1.1	-1.1
Gasoline	2.6	-.7	-4.6	-4.3	-1.2	3.1

1. BCD series 59. Data are available approximately three 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)

	1982 Q3	1982 Q4	1983 Q1	1983 Jan.	1983 Feb.	1983 Mar.	1983 Apr.	1983 May[1]
Total	7.8	8.6	8.4	8.6	8.4	8.3	8.4	6.6
Foreign-made	2.2	2.5	2.4	2.6	2.4	2.2	2.0	--
U.S.-made	5.6	6.1	6.1	6.1	6.0	6.1	6.4	6.6
Small	2.6	2.8	2.5	2.7	2.5	2.5	2.6	--
Intermediate & standard	2.9	3.3	3.6	3.4	3.8	3.6	3.8	--

Note: Components may not add to totals due to rounding.
1. First 10 days.

Outlays for furniture and appliances have been quite brisk, probably reflecting the recovery in housing markets, but sales at general merchandise stores remain sluggish. Consumer surveys point toward an improvement in consumer demand. Both the Conference Board and the Michigan Survey Research Center have reported strong increases in their measures of consumer confidence since the beginning of the year.

Housing Markets

Total private housing starts retreated further in April from the unusually high levels early this year; but, at an annual rate of 1.5 million units, starts were still nearly 20 percent above the rates reached in late 1982. Newly-issued permits rose to 1.56 million units in April, with a particularly large increase for multifamily units.

A good deal of this year's strength in residential construction activity has been in the multifamily sector. Multifamily starts have averaged just under 600,000 units (annual rate) since the first of the year--a level of activity not sustained since the early 1970s. Available information suggests that much of the strength has been in rental units. A number of factors have enhanced profitability in the rental market, including a dramatic slowdown in operating cost increases relative to rental receipts, the more favorable treatment of depreciation for federal income tax purposes effective last year, and more favorable financing terms that have bolstered housing markets generally. Other factors also may have provided a temporary stimulus in recent months, such as a spurt in the use of special tax-exempt mortgage revenue bonds.

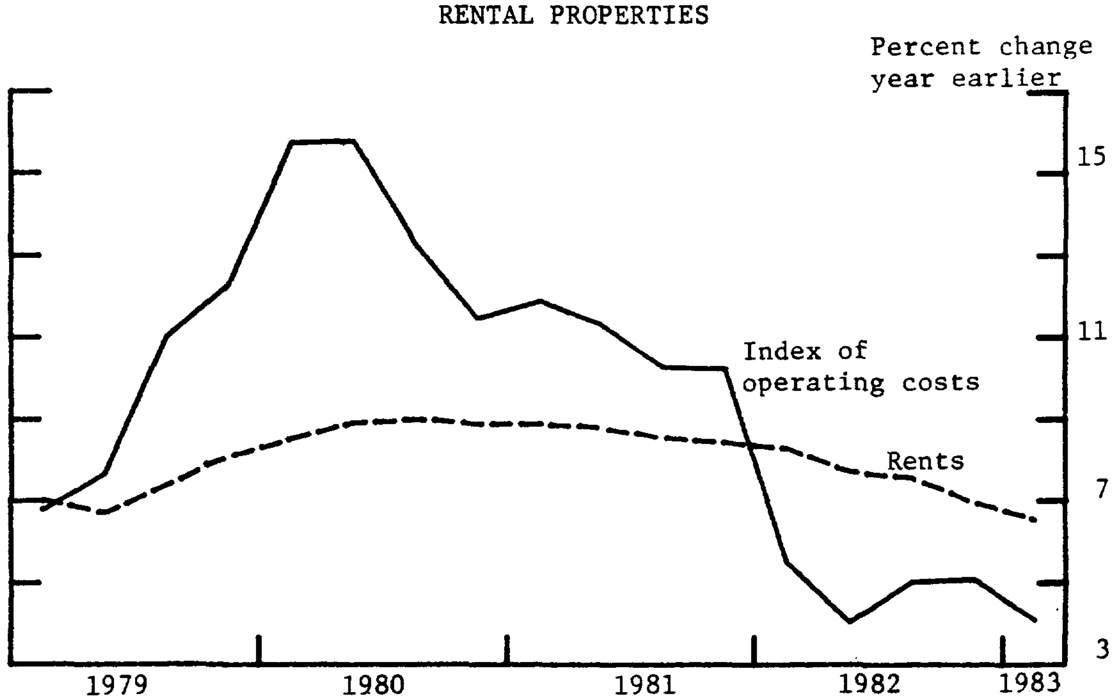
Construction and sales of single-family housing also have shown considerable improvement from last year. Single-family start averaged

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

	1982		1983			
	Annual	Q4	Q1	Feb.	Mar.	Apr.
All units						
Permits	1.00	1.24	1.46	1.48	1.47	1.56
Starts	1.06	1.26	1.70	1.78	1.63	1.49
Single-family units						
Permits	.55	.72	.85	.84	.86	.84
Starts	.66	.81	1.08	1.10	1.02	.98
Sales						
New homes	.41	.52	.59	.59	.58	n.a.
Existing homes	1.99	2.13	2.58	2.46	2.70	n.a.
Multifamily units						
Permits	.45	.52	.61	.64	.61	.73
Starts	.40	.45	.62	.68	.60	.51
Mobile home shipments	.24	.24	.28	.28	.28	n.a.

1. Preliminary estimates.
n.a.--not available.

OPERATING COSTS AND RETURNS FOR RESIDENTIAL RENTAL PROPERTIES



1.06 million units at an annual rate during the first four months of 1983--up 30 percent from the fourth-quarter pace. Sales of new houses jumped 14 percent in the first quarter. Sales of existing houses, which had been slower to pick up than new house sales, rose quite rapidly in early 1983, with the March sales rate up 20 percent from the pace at year end. The increase in sales volume during the last several quarters has yet to generate any rebound in house prices. The average price of existing houses sold in March was 3 percent above a year earlier, and new house prices in the first quarter (adjusted for quality changes and regional mix) were barely 1 percent above a year earlier.

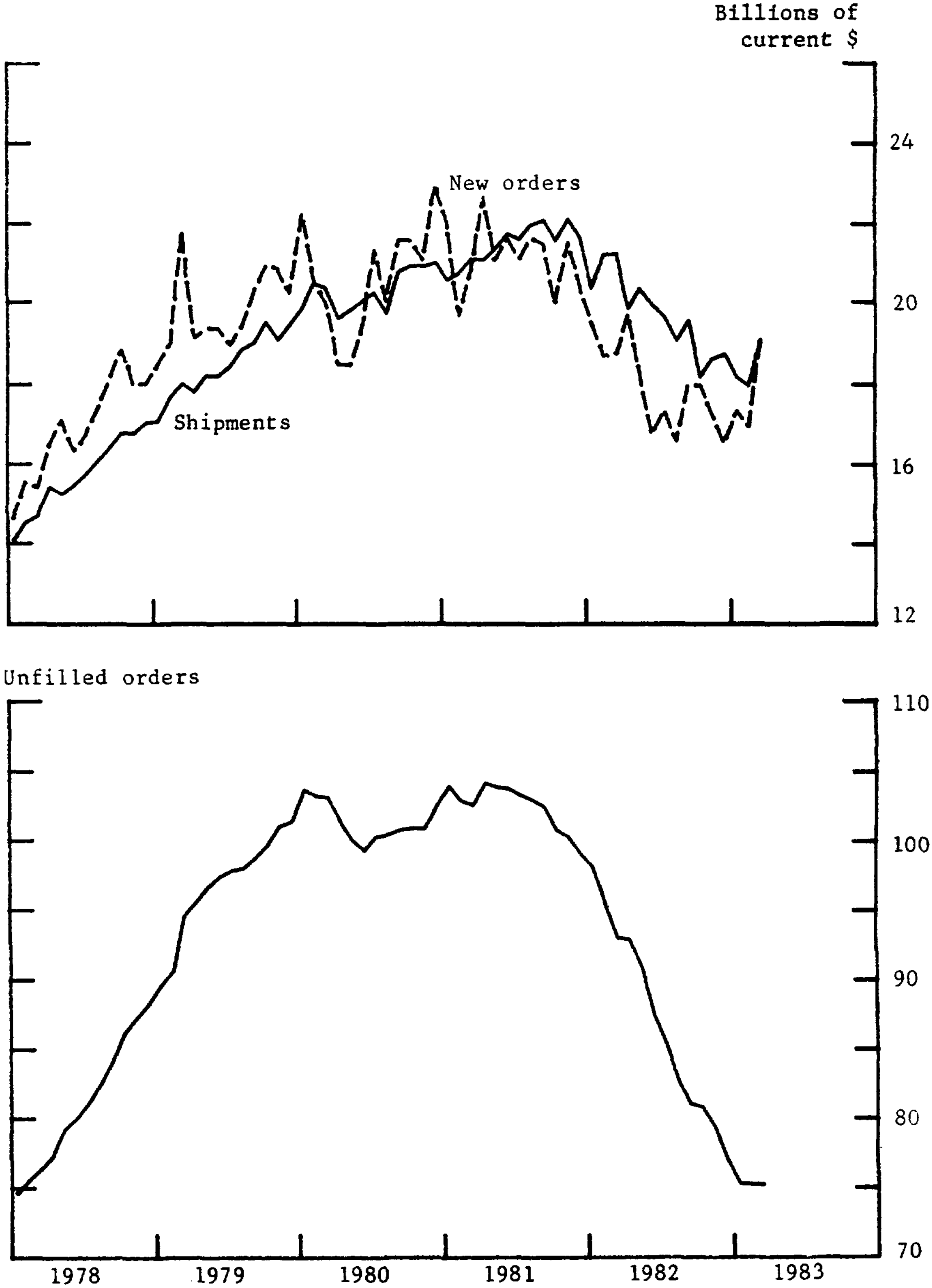
Business Fixed Investment

The long contraction in demand for capital equipment now appears to be ending, but investment in nonresidential structures shows signs of weakening. Business spending on producers' durable equipment increased 1.5 percent at an annual rate in the first quarter after more than a year of deterioration. Increased spending occurred primarily in office and store machinery, fabricated metals, and motor vehicles. In addition, new orders for nondefense capital goods have begun to show some improvement. A particularly sharp jump in March brought new orders (excluding aircraft) in line with recent shipments. Thus, the backlog of unfilled orders, which had fallen by nearly 30 percent since the beginning of the recession, now appears to be stabilizing. At the same time, private nonresidential construction put-in-place fell precipitiously in real terms during both February and March, bringing the first-quarter average to a level 4 percent below that of the fourth quarter. Much of

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

	1982		1983			
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Producers' durable equipment						
Nondefense capital goods shipments	-3.5	-2.7	-.4	-3.4	-1.6	7.5
Machinery	-3.1	-4.9	.0	-3.0	-1.5	7.2
Nondefense capital goods orders	-4.4	1.7	.8	1.5	-8.3	10.7
Machinery	-5.1	-.7	3.5	3.9	-1.9	14.0
Addenda:						
Ratio of unfilled orders to shipments	5.74	5.69	5.51	5.76	5.75	5.28
Machinery	4.04	4.03	3.91	4.03	4.03	3.76
Sales of heavy-weight trucks (thousands of units)	168	162	173	169	167	183
Nonresidential structures						
Nonresidential construction	.2	-.3	-1.3	2.1	-3.6	-1.9
Contracts for commercial and industrial buildings (mil. of sq. ft.)	-4.0	-6.8	14.7	18.3	4.0	-15.5

NONDEFENSE CAPITAL GOODS
EXCLUDING AIRCRAFT AND PARTS



the decrease was in industrial building, but spending on office buildings also fell; considering high financing costs and rising vacancy rates, expenditures on office buildings had been relatively bouyant during the recession.

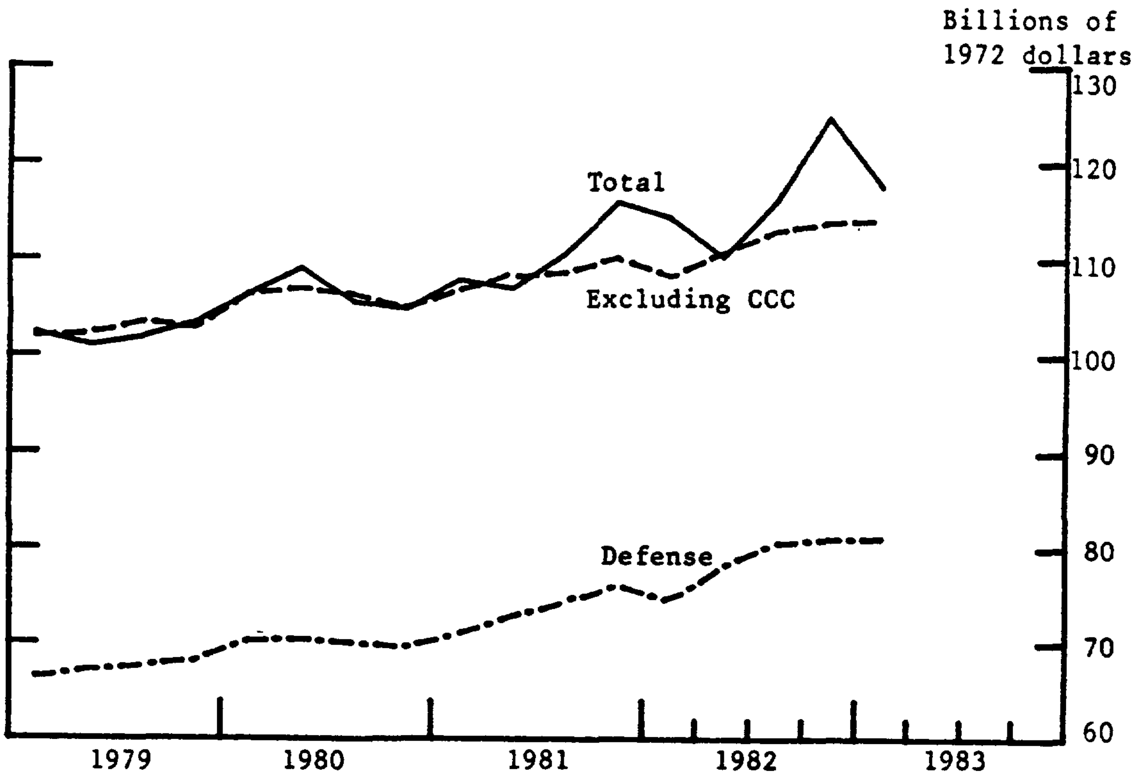
Surveys of capital spending plans by McGraw-Hill and Merrill-Lynch are still generally pessimistic. The McGraw-Hill spring survey showed an anticipated decline of about 1 percent in nominal investment spending in 1983, along with expected price increases for capital goods of about 5.5 percent. Similarly, the Merrill-Lynch spring survey projected a nominal decline of about 2 percent this year.

Federal Government

For the first half of fiscal year 1983 ended in March, the unified federal government budget deficit totaled $129 billion, about $57 billion larger than the deficit recorded in the comparable period a year earlier. The widening deficit reflects rapid growth in some outlay programs as well as the effects of lower levels of economic activity and of tax law changes. Outlays have risen substantially for social security retirement, medicare, and medicaid.

Federal purchases of goods and services also have trended higher due to the buildup in defense spending and larger farm price support activities. In the first quarter, however, these upward trends were interrupted when real purchases by the federal goverment declined sharply, largely because CCC purchases dropped back from the record pace of late 1982. This decline was an important factor restraining first-quarter growth in the final sales. Outlays for unemployment compensation also declined between the fourth quarter and the first quarter as the rate of new layoffs fell.

FEDERAL PURCHASES
(NIPA basis, seasonally adjusted annual rates)



BUDGET ESTIMATES FOR FISCAL 1984
(Unified basis, billions of dollars)

	Administration		Congressional resolutions	
	January	April	House[1]	Senate[2]
Receipts	660	654	689	665
Outlays	849	844	864	850
Deficit	189	190	174	185

Note: Underlying economic assumptions of the Administration and Congress differ slightly.

1. First Concurrent Budget Resolution, as passed by the House in March 1983.
2. The data show the so-called 'moderate compromise' narrowly defeated last week. A new proposal, reportedly similar to this defeated legislation, is coming from the Senate Budget Committee this week.

In terms of the unified budget, revenues in the first half of the fiscal year were $13 billion below a year earlier. Most of the decline reflects a sharp drop in net corporate tax liabilities, although individual tax receipts also were lower. More recently, net tax receipts in April and May have been held down by personal tax refunds that were larger than usual because of the expanded use of IRA-Keough accounts.

The Administration and Congress continue to debate the size and shape of the federal budget. Deficit estimates in the Administration's April update were revised up slightly for both FY 1983 and FY 1984. The revisions reflected the largely offsetting effects of recently completed spending bills and of revised economic assumptions that project stronger real output growth and lower inflation in 1983. Relative to the Administration's estimates, the House budget resolution for FY 1984 calls for some $30 billion more in receipts and $20 billion more in outlays; this represents a $6 billion spending increase compared with current law. The Senate has not yet been able to resolve the impasse between those who want to increase tax revenues and spend more for domestic programs (partly in lieu of defense programs) and others who want a budget resolution that follows the Administration's recommendations more closely.

<u>State and Local Government</u>

State and local government purchases rose slightly in real terms in the first quarter. These purchases have been practically unchanged for a year. The major component of spending, employee compensation, has been declining steadily, and the contraction in employment that began more than two years ago continued through April. In contrast, state and local construction expenditures, which represent 10 percent of total purchases, registered a moderate gain of 2.3 percent at an annual rate in the first quarter. This increase may be the beginning of an upward trend in state and local construction, supported by increased federal grants for highway and community development projects.

The prospect of large deficits for the current fiscal year has forced many states and localities to take measures to reduce expenditures or to raise revenues. At least 12 states already have raised income or sales taxes this year, and Illinois and Michigan are considering large tax increases to cover projected deficits. As a result of these actions and the improvement in economic activity, both personal and indirect tax collections by state and local governments rose substantially in the first quarter. Growth in the property tax component of these receipts--a major source of revenue for cities and counties--also was strong.

Wages and Labor Costs

Wage inflation has continued to trend lower this year. The employment cost index--a comprehensive wage measure covering all private nonfarm wage and salary workers--rose at less than a 4 percent annual rate from December through March, down from a 6-1/4 percent increase last year. Moreover, April data from the hourly earnings index for production workers suggest that the moderate wage trend is continuing into the second quarter. The deceleration has been very broadly based, affecting nearly all major industrial and occupational groups.

In many depressed industries, the reduction in wage adjustments has been particularly dramatic. During the first quarter, half of the union workers reaching new major settlements took initial pay cuts and another one-sixth accepted wage freezes, bringing the cumulative number of union workers involved in such concessions to 2 million. A large portion of these workers still are covered by cost-of-living clauses, but recently escalator provisions have contributed little to wage increases and in some cases generated wage cuts. Outside of concession situations, the size of union wage settlements has dropped markedly as well.

Hourly compensation, which includes nonwage labor costs as well as wages, rose at a 6 percent annual rate in the first quarter. About 1 percentage point of the increase can be attributed to legislated changes in payroll taxes effective January 1. At the same time, nonfarm productivity posted a strong cyclical gain of 4-3/4 percent at an annual rate. Output per hour typically rebounds in the first quarter of a recovery because large production gains initially are possible by increasing the efficiency of an underutilized work force and capital stock. Still, this latest increase--coming after a reasonably good performance in 1982 when output was declining--suggests that the underlying productivity trend may have improved from its anemic 0.6 percent growth rate of the 1970s. Increased productivity, coupled with the slowing in hourly compensation, has cut the rise in unit labor costs sharply to 3-1/2 percent over the last four quarters--down from 9 percent in 1981.

Prices

Most aggregate inflation measures have shown low or negative rates so far in 1983. The gross business product fixed-weighted price index rose at only a 2.8 percent annual rate in the first quarter. Consumer prices as measured by the index for all urban consumers (CPI-U) were almost flat over the first three months of 1983, and at the producer level the index of finished goods actually fell at nearly a 4 percent annual rate from December to April.

Rapidly declining prices for petroleum products held down these inflation rates during the first quarter. However, prices of refined petroleum products stabilized after the latest OPEC agreement in March. In addition, all of the April 1 increase of 5 cents per gallon in the federal gasoline tax apparently was passed on to consumers according to survey data. At the same time, food prices at the producer level increased rapidly in April. Farm policies have helped to boost prices sharply for a number of key crops this year, and bad weather during the spring has led to large price increases for some foodstuffs such as fruits and vegetables. These much less favorable developments in food and energy prices should temporarily worsen overall inflation measures during the next few months.

More fundamentally, however, labor cost pressures on prices have continued to moderate, and inflation rates for goods and services aside from food and energy still are trending lower. Consumer prices excluding food and energy items rose at a 4-1/2 percent annual rate in the first quarter with an exceptionally low increase in March. The inflation rate for services in March was only about 1-1/2 percent (annual rate). Even price increases for medical services slowed in March, although they still were above those for most other consumer goods and services. At the producer level, capital equipment prices have risen at less than a 2 percent annual rate this year.

SELECTED MEASURES OF LABOR COSTS IN THE NONFARM BUSINESS SECTOR
(Percentage change at annual rates; based on seasonally adjusted data)

	1980	1981	1982	1982 Q4	1983 Q1	1983 Apr.	Last Six Months
Hourly earnings index, wages of production workers[1]							Oct. 1982–Apr. 1983
Total private nonfarm	9.6	8.4	6.0	4.8	4.9	3.9	4.1
Manufacturing	10.9	8.8	6.1	2.9	4.8	.8	3.3
Contract construction	7.7	8.1	4.9	5.1	6.8	8.6	5.1
Transportation and public utilities	9.3	8.5	6.2	7.1	9.5	-2.0	6.8
Trade	8.8	7.1	4.9	4.9	3.1	6.5	3.7
Services	9.5	9.1	6.7	5.5	2.5	6.3	3.2
Employment cost index, wages and salaries of all persons							Sept. 1982–Mar. 1983
Total	9.0	8.8	6.3	5.2	3.8		4.5
By occupation:							
White collar	8.7	9.1	6.4	4.4	4.2		4.3
Blue collar	9.6	8.6	5.6	5.0	4.5		4.7
Service workers	8.1	8.3	8.5	10.8	-2.2		4.3
By bargaining status:							
Union	10.9	9.6	6.5	4.1	5.9		5.0
Nonunion	8.0	8.5	6.1	4.4	2.5		3.5
Major collective bargaining agreements[2]							
New settlements: first-year wage adjustments	9.5	9.8	3.8	--	-1.4		
Contracts with COLAs	8.0	8.0	2.2	--	-4.3		
Contracts without COLAs	11.7	10.6	7.0	--	4.4		
Effective wage change: all contracts[3]	9.9	9.5	6.8	--	1.2		
Labor costs and productivity, all persons							1982-Q3 to 1983-Q1
Compensation per hour	10.6	8.9	6.5	5.5	6.1		5.7
Output per hour	.3	.0	1.3	.4	4.8		2.4
Unit labor costs	10.2	8.9	5.1	5.1	1.3		3.3
Employment cost index, compensation[3]							
Compensation per hour	9.8	9.8	6.4	5.2	7.0		6.1

1. Changes are from final quarter of preceding period to final quarter of period indicated. Quarterly changes at compound rates.
2. Data are for contracts covering 1,000 or more workers.
3. Not seasonally adjusted.

RECENT CHANGES IN CONSUMER PRICES
(Percentage change at annual rates; based on seasonally adjusted data)[1]

	Relative Importance Dec. 1982	1981	1982	1982 Q3	1982 Q4	1983 Q1	1983 Feb.	1983 Mar.
All items[2]	100.0	8.9	3.9	4.1	.5	.4	-2.5	1.6
Food	19.0	4.3	3.1	.6	.8	2.8	.0	7.5
Energy	12.4	11.9	1.3	8.1	10.2	-25.1	-44.5	-10.7
All items less food and energy[3]	68.6	9.4	6.0	6.1	5.8	4.4	4.3	2.6
Commodities	26.2	7.9	5.0	4.3	5.7	5.7	5.6	4.5
Services	42.4	10.6	6.9	8.4	5.1	3.7	3.6	1.4
Memorandum:								
CPI-W[4]	100.0	8.7	3.9	4.2	.7	.3	-2.9	3.7

1. Changes are from final month of preceding period to final month of period indicated; monthly changes are not compounded.
2. Official index for all urban consumers, based on a rental equivalence measure for owner-occupied housing after December 1982.
3. Data not strictly comparable. Before 1983, they are based on unofficial series that exclude the major components of homeownership; beginning in 1983, data include a rental equivalence measure of homeowners costs.
4. Index for urban wage earners and clerical workers.

RECENT CHANGES IN PRODUCER PRICES
(Percentage change at annual rates; based on seasonally adjusted data)[1]

	Relative Importance Dec. 1982	1981	1982	1982 Q3	1982 Q4	1983 Q1	1983 Mar.	1983 Apr.
Finished goods	100.0	7.1	3.7	4.2	5.2	-4.7	-1.7	-.8
Consumer foods	23.7	1.4	2.1	-7.7	.8	3.6	6.0	14.2
Consumer energy	13.2	14.1	-.1	30.9	7.0	-34.3	-38.6	-34.1
Other consumer goods	40.5	7.1	5.3	4.2	7.9	-2.3	1.5	2.0
Capital equipment	22.5	9.2	3.9	3.5	3.6	3.3	4.6	-3.3
Intermediate materials[2]	95.2	7.3	.3	2.3	1.5	-5.1	-9.1	-4.2
Exc. energy	78.8	6.6	.6	1.0	1.0	1.1	-1.6	-2.1
Crude food materials	51.2	-14.0	1.5	-26.4	1.3	18.1	8.2	35.9
Crude energy	34.4	22.8	2.6	8.7	6.4	-7.6	.6	-16.4
Other crude materials	14.4	-11.4	-7.6	2.9	-8.0	-15.7	18.3	23.9

1. Changes are from final month of preceding period to final month of period indicated; monthly changes are not compounded.
2. Excludes materials for food manufacturing and animal feeds.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1982 Highs	1982 FOMC Dec. 21	1983 FOMC Mar. 29	1983 Intermeeting low	1983 May 17	Change from: FOMC Dec. 21	Change from: FOMC Mar. 29
Short-term rates							
Federal funds[2]	15.61	8.69	8.88	8.48	8.55p	-.14	-.33
Treasury bills							
3-month	14.57	7.90	8.63	7.96	8.13	.23	-.50
6-month	14.36	8.01	8.63	7.97	8.18	.17	-.45
1-year	13.55	8.11	8.56	7.95	8.21	.10	-.35
Commercial paper							
1-month	15.73	8.48	9.03	8.17	8.41	-.07	-.62
3-month	15.61	8.43	8.94	8.13	8.36	-.07	-.58
Large negotiable CDs[3]							
1-month	15.94	8.59	8.99	8.26	8.51	-.08	-.48
3-month	16.14	8.62	9.06	8.26	8.56	-.06	-.50
6-month	16.18	8.78	9.18	8.29	8.70	-.08	-.48
Eurodollar deposits[2]							
1-month	16.36	9.44	9.59	8.68	8.81	-.63	-.78
3-month	16.53	9.56	9.54	8.71	8.89	-.67	-.65
Bank prime rate	17.00	11.50	10.50	10.50	10.50	-1.00	0
reasury bill futures							
June 1983 contract	13.97	8.25	8.73	7.87	8.24	-.01	-.49
Dec. 1983 contract	13.97	8.98	9.06	8.21	8.66	-.32	-.40
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	15.16	9.87	10.05	9.36	9.64	-.23	-.41
10-year	14.95	10.54	10.60	10.12	10.41	-.13	-.19
30-year	14.80	10.53	10.66	10.27	10.58	.05	-.08
Municipal (Bond Buyer)	13.44	10.05[4]	9.15[4]	8.78	8.86[4]	-1.19	-.29
Corporate--Aaa utility							
Recently offered	16.34	11.96e	11.79e	11.03	11.33e	-.63	-.46
S&L fixed-rate mortgage commitment	17.66	13.63[5]	12.86[5]	12.59	12.59[5]	-1.04	-.27

	1982 Lows	1983 FOMC Mar. 29	1983 Intermeeting high	1983 May 17	Percent change from: 1982 lows	Percent change from: FOMC Mar. 29
Stock prices						
Dow-Jones Industrial	776.92	1131.19	1232.59	1205.79	55.2	6.6
NYSE Composite	58.80	87.24	95.50	94.48	60.7	8.3
AMEX Composite	237.29	383.76	451.96	449.85	89.6	17.2
NASDAQ (OTC)	159.14	268.77	304.34	301.02	89.2	12.0

1. One-day quotes except as noted.
Averages for statement week closest to date shown.
Secondary market.
4. One-day quotes for preceding Thursday.
5. One-day quotes for preceding Friday.
p--preliminary. e--estimated.

The monetary aggregates were very weak in April, but--especially in the case of M1--appear to be rebounding in May. M1 contracted in April after an extended period of extremely rapid growth; however, in recent years deposit flows have tended to be highly volatile in the spring, leaving room for considerable uncertainty regarding underlying growth rates. It seems quite likely that M2 growth was damped to a degree by the record last-minute surge in IRA/Keogh contributions; much smaller inflows to MMDAs probably also played a role. Owing to the sharp slowdown in M2, M3 decelerated further in April despite the first increase in large time deposits since last November.

Short-term market interest rates have declined 35 to 65 basis points, on balance, since the March 29 FOMC meeting, while long-term rates have declined by 10 to 45 basis points. Long rates reached new cyclical lows during the intermeeting period, but the most recent direction of both long and short rates has been upward as stronger monetary and economic data have dimmed hopes of a near-term easing in money market conditions. The improved economic picture, however, evidently has contributed to a decided narrowing of risk premiums in interest rates and new record highs for major stock price indexes.

The Treasury has been a heavy borrower thus far in the second quarter, principally in long-term markets, as it runs a sizable deficit despite the seasonal rise in tax receipts. Long-term borrowing by state and local governments appears to be picking up again, far outstripping current spending needs. Stronger consumer durables spending and increased S&L mortgage commitments suggest that household borrowing may be running ahead of the

III-2
MONETARY AGGREGATES
(Based on seasonally adjusted data unless otherwise noted)[1]

	1982 Q3	1982 Q4	1983 Q1	1983 Feb.	1983 Mar.	1983 Apr.p	Growth from base period to April 1983[2]
	------- Percentage change at annual rates ------						
Money stock measures							
1. M1	6.1	13.1	14.0	22.4	15.6	-3.1	11.5
2. (M1)[3]	(4.3)	(14.5)	(13.8)	(24.2)	(19.6)	(-1.0)	(12.4)
3. M2	10.9	9.3	19.8	23.9	10.7	3.1	5.6
4. M3	12.5	9.5	9.7	13.2	7.7	4.4	8.7
Selected components							Level in billions of dollars April 1983
5. Currency	7.2	7.4	10.9	12.5	12.4	8.8	138.0
6. Demand deposits	0.0	8.4	2.7	-3.5	6.5	-6.5	238.7
7. Other checkable deposits	21.6	34.0	46.2	91.9	37.3	-11.4	114.9
8. M2 minus M1 (9+10+11+14)	12.4	8.1	21.6	24.4	9.1	5.1	1575.5
9. Overnight RPs and Eurodollars, NSA[4]	28.6	23.9	32.4	40.7	-19.7	42.5	49.7
10. General purpose and broker/dealer money market mutual fund shares, NSA	35.0	15.3	-57.5	-51.1	-42.1	-56.9	146.7
11. Commercial banks	12.6	9.9	57.3	44.6	17.3	10.3	660.0
12. Savings deposits, SA, plus MMDAs, NSA[5]	-1.8	35.3	295.1	189.4	79.7	39.9	338.6
13. Small time deposits	18.7	-0.4	-48.6	-63.6	-38.7	-19.8	321.4
14. Thrift institutions	5.7	4.1	13.6	22.9	15.0	11.0	726.4
15. Savings deposits, SA, plus MMDAs, NSA[5]	2.8	30.1	166.0	170.0	78.4	34.7	320.6
16. Small time deposits	6.9	-5.9	-50.3	-62.5	-29.3	-7.1	405.8
17. M3 minus M2 (18+21+22)	20.0	10.4	-36.6	-41.5	-8.5	11.5	380.6
18. Large time deposits	13.4	4.2	-43.0	-49.4	-6.8	17.8	300.6
19. At commercial banks, net[6]	12.9	-1.5	-49.9	-60.1	-18.4	-1.0	231.4
20. At thrift institutions	15.6	29.3	-14.6	-7.6	36.4	85.4	69.2
21. Institution-only money market mutual fund shares, NSA	109.3	32.7	-32.7	-23.4	-45.1	-69.0	41.0
22. Term RPs, NSA	-11.9	34.4	20.5	8.9	23.5	40.3	43.1
	-- Average monthly change in billions of dollars --						
MEMORANDA:							
23. Managed liabilities at commercial banks (24+25)	2.2	-4.9	-19.2	-12.9	-7.2	4.6	410.2
24. Large time deposits, gross	5.7	-6.5	-17.1	-16.2	-7.1	0.1	296.0
25. Nondeposit funds	-3.5	1.6	-2.1	3.3	-0.1	4.5	80.0
26. Net due to related foreign institutions, NSA	-4.3	-0.3	-4.5	0.4	0.0	-0.1	-62.0
27. Other[7]	0.8	2.0	2.4	3.0	-0.2	4.6	142.0
28. U.S. government deposits at commercial banks[8]	0.2	0.3	0.2	-6.9	3.7	1.0	13.5

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. The base for M1 and M3 targets is the fourth-quarter 1982 average. The base period for the M2 target is the February-March 1983 average.
3. M1 seasonally adjusted using an experimental model-based procedure applied to weekly data.
4. Overnight and continuing contract RPs issued to the nonbank public by commercial banks plus overnight Eurodollar deposits issued by branches of U.S. banks to U.S. nonbank customers, both net of amounts held by money market mutual funds. Excludes retail RPs, which are in the small time deposit component.
5. Beginning December, 1982, growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Savings deposits excluding MMDAs declined at commercial banks at annual rates of 57.1 percent in February, 18.3 percent in March and 9.3 percent in April. At thrift institutions, savings deposits excluding MMDAs declined during February, March and April at annual rates of 21.2 percent, 7.4 percent, and 1.4 percent, respectively.
6. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
7. 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. Data are partially estimated.
8. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
p--preliminary. n.a.--not available.

increased first-quarter pace. Meanwhile, in the nonfinancial business sector, overall external funding needs probably are low, but firms have raised large sums in the bond and equity markets to repay short-term debt and otherwise improve balance sheets.

Monetary Aggregates and Bank Credit

M1 declined in April at a 3 percent annual rate after eight consecutive months of double-digit or near double-digit growth. Even so, from the fourth quarter of 1982 to April, M1 grew at an 11-1/2 percent annual rate and remains well above the long-run growth target range of 4 to 8 percent. Other checkable deposits declined in April for the first time since October 1981, in striking contrast to the nearly 50 percent annual rate of growth for such accounts in the first quarter of this year. Inflows to Super NOWs--which currently amount to about one quarter of outstanding OCD--continued to slow in April; the flow actually turned negative immediately after the tax date.

Owing in part to the varying patterns of tax payments and refunds, M1 tends to be highly volatile in the spring and the contraction last month likely overstates any underlying weakening in M1 growth.[1] The early-May surge in M1 seems to be consistent with this notion.

The broader monetary aggregates also decelerated sharply in April. M2 edged up at only a 3 percent annual rate after growing at an annual rate of 20 percent in the first quarter, about half of which is estimated to have

1. There has been considerable speculation that the revised seasonal factors used this year which, based on an additional year of data, had the effect of substantially lowering M1 growth for last April and raising it for last May, may have been off the mark. While, ex post, the behavior of seasonally adjusted M1 in recent weeks is consistent with this view, it is of interest to note that the experimental model-based seasonal adjustment procedure yields a rather similar M1 growth rate for April of this year.

BALANCES IN SUPER NOW ACCOUNTS AND MMDAS
(Billions of dollars, not seasonally adjusted)

	Super NOWs	MMDAs
	-------- Daily averages ---------	
Monthly levels:		
1982-Dec.	0	43.2
1983-Jan.	13.4	189.1
Feb.	22.7	277.7
Mar.	26.5	320.5
Apr.	29.4	341.4
Weekly levels:		
1983-Apr. 6	28.7	334.9
13	29.4	340.6
20	30.1	342.3
27	29.1	344.1
May 4p	29.1	347.6

SELECTED YIELDS
(Percent, annual rate)

	Week ending		
	Dec. 29, 1982	Mar. 30, 1983	Apr. 27, 1983
Super NOWs			
Commercial banks[1]	n.a.	7.31	7.16
Mutual savings banks[1]	n.a.	7.49	7.26
MMDAs			
Commercial banks[1]	10.56	8.24	8.12
Mutual savings banks[1]	10.97	8.57	8.56
MMMFs[2]	8.09	7.84	7.91
3-month Treasury bills[3]	8.24	8.96	8.44

1. Average nominal yield weighted by amount of balances outstanding.
2. Average nominal rate at all money market mutual funds for the week ending Wednesday.
3. Average coupon-equivalent yield for the week ending Wednesday.
p--preliminary. n.a.--not applicable.

resulted from inflows to MMDAs from outside M2. With April being the first month following the February-March base period, M2 now lies below its 7-to-10 percent growth target range set by the FOMC in February. The weakness in M2 in April was accounted for not only by the contraction in narrow money but also by a further deceleration of its nontransactions component.

The slowdown in the nontransactions component coincided with diminished inflows to MMDAs to roughly half the March pace. However, MMDAs apparently continued to draw balances from MMMFs as rates on MMDAs remained above those offered by money market mutual funds, and outflows from general purpose and broker/dealer money market funds continued at around the pace of February and March.

Also contributing to the deceleration of M2 in April were large inflows to IRA and Keogh accounts. IRA/Keogh balances, which are excluded from measures of the money stock, surged more than $6 billion in April at depository institutions and MMMFs, as individuals rushed to lower their 1982 taxable income before the mid-April tax deadline. This is well above the $3 billion monthly average in the first quarter of this year or the $1-1/2 billion average in the second half of last year.

Reflecting the weakness in M2, M3 growth also decelerated sharply in April, to a 4-1/2 percent annual rate, leaving M3 in the upper portion of its 6-1/2 to 9-1/2 percent growth target range. Institution-only money funds continued to contract in April while term RPs rose sharply. Large time deposits registered their first monthly increase since MMDAs were introduced. The rise in large CDs was concentrated at S&Ls, where acquisition of mortgage assets has strengthened recently. Since late 1982 interest rates on S&L CDs have fallen substantially relative to rates on commercial

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)[1]

	1982		1983				Levels in bil. of dollars
	Q3	Q4	Q1	Feb.	Mar.	Apr.	April 1983
	Commercial Bank Credit						
1. Total loans and investments at banks[2,3]	5.8	6.3	10.7	7.6	11.2	8.9	1463.8
2. Investments[3]	4.8	15.9	25.1	14.1	17.9	22.5	401.3
3. Treasury securities	8.3	43.0	61.1	40.3	53.1	54.8	157.9
4. Other securities[3]	3.0	2.5	5.7	-1.5	-2.0	2.5	243.4
5. Total loans[2,3]	6.2	3.0	5.7	5.4	8.9	4.0	1062.6
6. Business loans[2,3]	9.0	-.2	3.9	1.5	1.7	-11.0	395.4
7. Security loans	63.6	37.2	-34.0	-26.4	21.6	15.9	22.9
8. Real estate loans	2.8	4.9	7.2	6.7	7.0	7.4	311.4
9. Consumer loans	3.0	4.6	6.5	1.9	11.2	7.4	196.0
	Short- and Intermediate-Term Business Credit						
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)[3]	9.2	-2.9	n.a.	-0.6	n.a.	n.a.	n.a.
11. Business loans net of bankers acceptances[3]	9.0	.6	3.5	3.0	-0.3	-11.0	386.4
12. Commercial paper issued by non-financial firms[4]	-6.2	-39.6	-33.1	12.7	-7.5	-27.7	46.5
13. Sum of lines 11 & 12[3]	7.0	-4.5	-0.5	4.0	-0.8	-13.0	432.9
14. Line 13 plus loans at foreign branches[3,5]	8.4	-4.8	0.2	4.6	-1.5	-13.3	449.0
15. Finance company loans to business[6]	15.8	-15.2	4.0	5.9	4.4	n.a.	n.a.
16. Total bankers acceptances outstanding[6]	6.6	22.9	n.a.	-38.8	n.a.	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 September 1982.
4. Average of Wednesdays.
5. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
6. Based on average of current and preceding ends of month.
n.a.--not available.

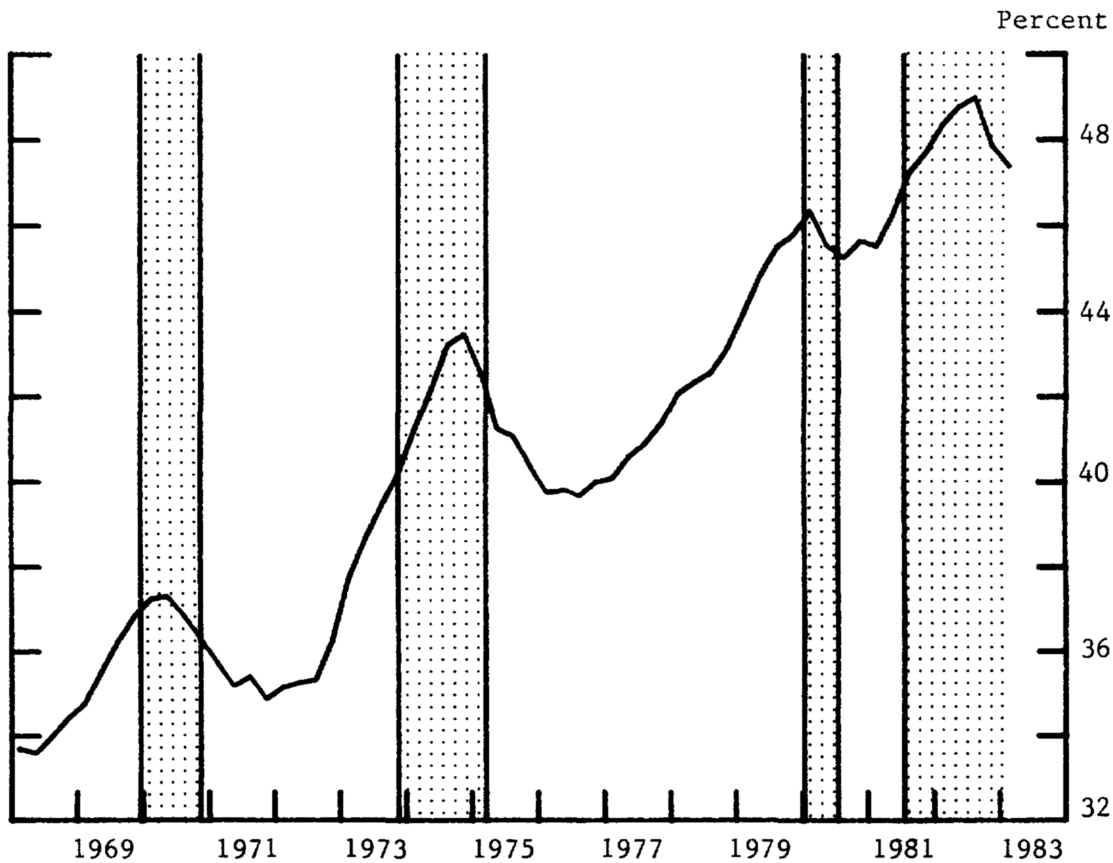
bank CDs, apparently in response to lessened investor concern about these institutions, and S&Ls may have taken advantage of the more attractive rates to prepay costly FHLB advances, as well as to acquire assets.

At commercial banks, large time deposits were about flat in April following sharp runoffs in the previous four months. Such CD runoffs have been concentrated at large banks and represent these banks' principal balance sheet adjustment to MMDA inflows, although large banks also have acquired sizable amounts of Treasury securities, and earlier had advanced funds to their foreign offices, mostly in January. Small banks, which have relied less heavily on managed liabilities, have adjusted to MMDA inflows largely by acquiring Treasury securities.

In the first quarter of this year, commercial banks and thrift institutions, flush with funds as a result of MMDA inflows, accounted for close to half of the net funds supplied in credit markets, well above their share in the previous two years but about in line with their historical share. By contrast, net investments by MMMFs contracted in the first quarter and direct direct acquisitions of credit market instruments by private domestic nonfinancial sectors are estimated to have slowed.

In April, growth of loans and securities at commercial banks, at about a 9 percent annual rate, slowed somewhat from the first-quarter pace. As in the first quarter, expansion was concentrated in Treasury securities. Loan growth was very sluggish, owing mostly to the sharpest decline in C&I loans since April 1976. Real estate loans grew at about the pace of the first quarter--at a rate about in line with comparable stages of other recent recoveries--while consumer loans at banks, which have been highly erratic over recent months, slowed appreciably from the rapid March rate.

RATIO OF SHORT-TERM DEBT TO TOTAL DEBT
NONFINANCIAL CORPORATIONS



Latest data shown: 1983-Q1.

Business Finance

Net funds raised by nonfinancial corporations in the first quarter increased from the slow fourth-quarter pace but remained well below the quarterly volume of previous years. Improved cash flow and substantial inventory liquidation reduced the need for external financing. In April, corporations continued to reduce their heavy reliance on short-term debt by paying down bank loans and commercial paper with the proceeds from a large volume of long-term debt and equities.

Gross offerings of public bonds in domestic markets totaled $6.2 bil- (seasonally adjusted) in April--the largest monthly volume since last October--and continued strong in early May. A large portion of the offerings in April were issues of industrial firms and utilities, in contrast to other recent months when financial firms had dominated. Total stock issuance also remained brisk in April, albeit somewhat below the record pace of March. Industrial firms were the major issuers as financial firms sold only small amounts of new stock in April, following several months of heavy issuance of adjustable-rate preferreds.

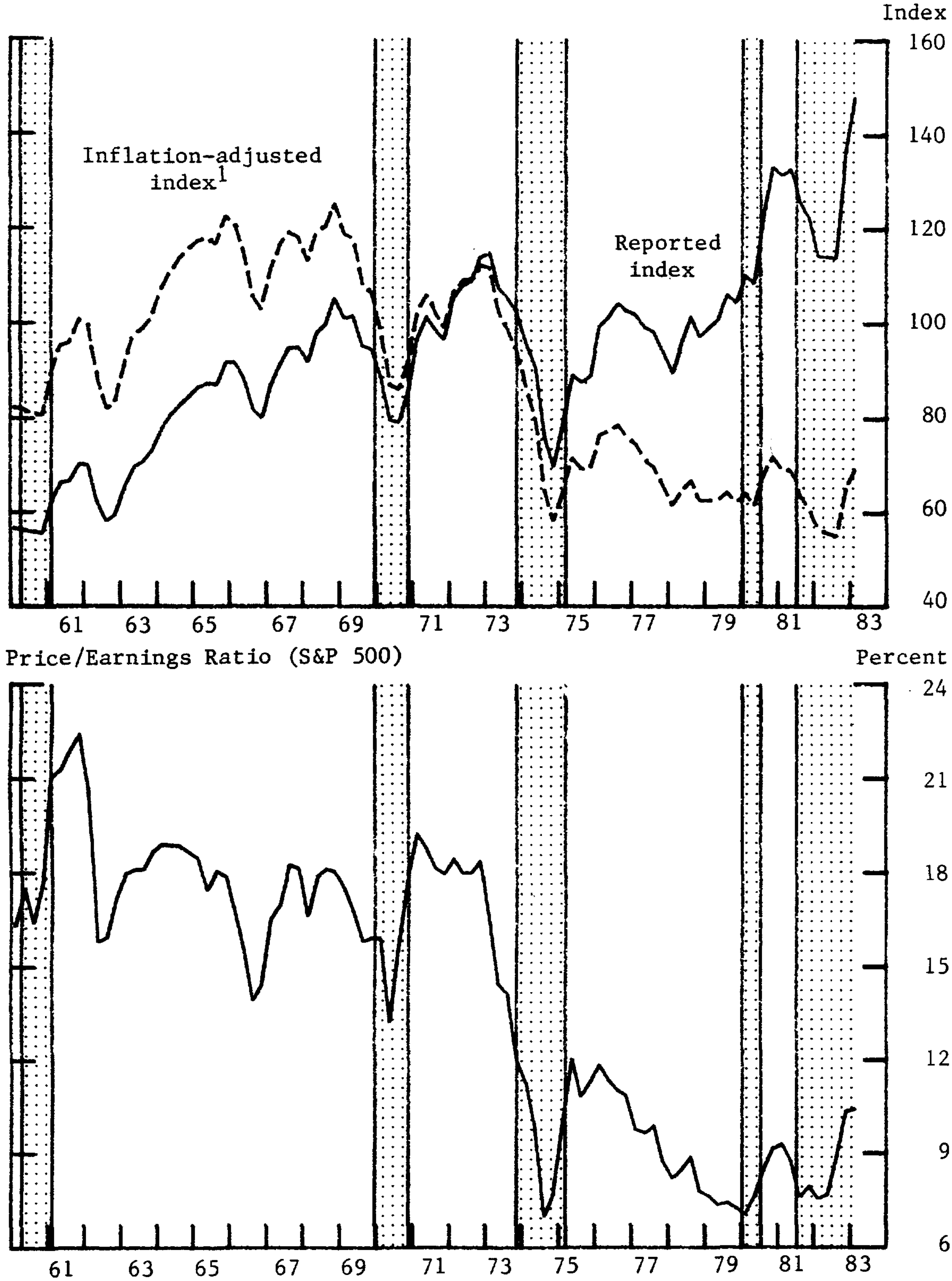
Long-term financing has been encouraged by further advances in stock and bond prices. Stock prices have moved up sharply since the last FOMC meeting, repeatedly setting new record highs for the major market indexes. The current rise in stock prices, which began last August, has exceeded previous cyclical expansions in stock prices over comparable time periods (see chart on page III-11). However, stock prices in real terms, while also up sharply, remain low relative to levels of the early 1970s and late 1960s. Similarly, although the price-earnings ratio for the S&P 500 stocks

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly totals or monthly averages, millions of dollars)

	1982		1983			
	Year	Q4	Q1P	Mar.P	Apr.P	May.f
	---------------	Seasonally adjusted	---------------			
Corporate securities--total	8,118	10,092	10,696	12,606	11,724	10,800
Securities sold in U.S.	6,982	9,333	9,766	11,800	11,200	10,300
Publicly offered bonds[1]	3,619	5,274	4,643	5,400	6,200	6,100
Privately placed bonds	816	892	700	700	700	700
Stocks[2]	2,547	3,167	4,413	5,700	4,300	3,500
Securities sold abroad[3]	1,136	759	940	806	524	500
	----Domestic offerings, not seasonally adjusted----					
Publicly offered bonds--total[1]	3,619	5,205	4,596	5,500	6,100	6,000
By industry						
Utility	976	1,304	1,002	1,600	1,655	--
Industrial	1,252	1,998	1,383	1,603	2,545	--
Financial	1,391	1,903	2,211	2,297	1,900	--
By quality[4]						
Aaa and Aa	1,357	1,943	1,724	2,040	1,202	--
A and Baa	1,505	2,311	1,869	2,577	2,715	--
Less than Baa	283	552	588	306	1,253	--
No rating (or unknown)	473	399	415	577	930	--
Memo items:						
Convertible bonds	273	664	781	1,320	976	--
Original discount bonds						
Par value	946	1,094	165	195	700	--
Gross proceeds	276	183	134	150	554	--
Stocks--total[2]	2,547	3,484	4,530	5,800	3,700	4,000
By industry						
Utility	871	1,283	1,171	1,800	900	--
Industrial	1,119	1,474	2,079	2,675	2,500	--
Financial	557	727	1,280	1,325	300	--

1. Total reflects gross proceeds rather than par value of original discount bonds.
2. Includes equity issues associated with debt/equity swaps.
3. Notes and bonds, not seasonally adjusted.
4. Bonds categorized according to Moody's bond ratings.
p--preliminary. f--forecast.

CYCLICAL BEHAVIOR OF EQUITY PRICES
(S&P's 500 Index and Price/Earnings Ratio)



1. S&P's 500 index of stock prices deflated using the GNP price deflator.

TREASURY AND AGENCY FINANCING[1]
(Total for period; billions of dollars)

	1983				
	Mar.	Apr.p	May f	Q1	Q2 f
Treasury financing					
Combined surplus/deficit(-)	-27.3	-2.3	-29.2	-62.5	-29.7
Means of financing deficit:					
Net cash borrowing from the public	31.3	2.8	20.8	55.6	38.2
Marketable borrowings/ repayments(-)	30.0	2.1	20.3	56.0	36.7
Bills	17.0	-5.9	3.0	20.1	.0
Coupons	13.0	8.0	17.3	35.9	36.7
Nonmarketable	1.3	.7	.5	-.4	1.5
Decrease in the cash balance	-5.5	-8.6	17.5	4.3	-10.0
Memo: Cash balance at end of period	15.5	24.1	6.6	15.5	25.5
Other[2]	1.5	8.1	-9.1	2.6	1.5
Federally sponsored credit agencies net cash borrowing[3]	-2.0	-2.1	.2	-3.8	-.8
FHLB	-1.1	-1.5	-.6	-4.1	-2.1
FNMA	-.9	-.9	.6	1.3	.5
Farm Credit Banks	-.2	.2	0	-1.0	.4
Other	.3	.2	.2	*	.4

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.
p--preliminary. f--forecast. *--less than $50 million.

has risen considerably, it remains low historically--giving further credence to the view that real interest rates currently are relatively high.

Corporate bond yields have declined about 45 basis points since the last FOMC meeting, reaching their lowest level since July 1980. Both the rate spread of prime corporate bonds over Treasuries and the spread between high-quality and low-quality corporates have narrowed to their lowest levels since 1979. Lower-rated firms have stepped up their debt offerings to take advantage of the more receptive mood of investors.

Government Finance

Federal sector. The Treasury is expected to borrow $38 billion, net, in the current quarter--an unprecedented amount for a second quarter--to finance a nearly $30 billion deficit and build up its cash balance. A little little less than $37 billion will be raised by selling marketable debt. Owing to a runoff of cash management bills of about $15 billion just after April 15, bill auctions are not expected to raise any new cash. Through mid-May, the Treasury has raised $21.7 billion of new money by means of coupon issues. Additional financing needs probably will be met through regular cycles of 2-, 4-, and 5-year notes, bringing total net coupon sales in the quarter to a shade more than in the first quarter.[1]

Another $1-1/2 billion, net, is expected to be raised through nonmarketable borrowing in the second quarter. Issues of savings bonds are expected to raise about $700 million. The remainder reflects state and local government acquisition of special nonmarketable debt issues with the proceeds of debt refinancings.

1. Over the next few weeks, Congressional delays in raising the debt ceiling may disrupt Treasury financing patterns.

Federally sponsored credit agencies have continued to pay down their outstanding debt, with net repayments of $2 billion estimated for April. The Federal Home Loan Banks retired about $1-1/2 billion, reflecting repayments of outstanding advances by thrift institutions. FNMA reduced its outstanding liabilities by almost $900 million for the second month in a row; but its borrowing in May could be large enough to offset a further moderate runoff in FHLBS debt.[1]

State and Local Sector. Interest rates on municipal securities have declined along with other market rates since the last FOMC meeting. The spread of medium-grade securities over high-grade securities has fallen to the lowest level in two years, while the spread of yields on revenue bonds over yields on general obligation issues has fallen to a record low.[2]

In early May, offerings of long-term municipal securities were running at about the very advanced pace of the fourth quarter of 1982. As in that earlier period, the imminence of registration requirements may have stimulated acceleration of a good many issues. However, lower interest rates and a desire to refund older higher-coupon debt--about 20 percent of

1. While FNMA has been purchasing substantial amounts of mortgages, $5 billion in the first quarter and approximately $1 billion in April, its portfolio has grown by much less. The first-quarter increase of only $1.5 billion reflected both a large jump in mortgage repayments and large sales of mortgages--mostly through issuance of mortgage-backed securities--from the agency's portfolio.

2. The relatively low risk premiums in municipal markets suggest that the widely publicized financial problems of the Washington Public Power Suppl, System (WPPSS)--the nation's largest issuer of municipal securities--have not led to widespread investor concerns about quality in the tax-exempt sector. Nonetheless, a limited number of public utilities, with bond programs similar to WPPSS's controversial "take or pay" contracts, have paid slightly higher costs for borrowed funds. WPPSS is facing the possibility of default at the end of this month on $15.6 million in interest payments owed the bond trustee.

the gross proceeds from municipal offerings in April were refundings--also continue to stimulate offerings.

GROSS OFFERINGS OF SECURITIES BY STATE AND LOCAL GOVERNMENTS
(Monthly totals or monthly averages; billions of dollars)

	1982		1983		
	Year	Q4	Q1	Apr.[e]	May[f]
	Seasonally adjusted				
Total	9.80	13.00	9.60	9.40	11.30
Long-term	6.40	8.75	6.65	7.00	8.60
Short-term[1]	3.40	4.25	2.95	2.40	2.70
	Not seasonally adjusted				
Total	9.80	12.60	8.00	14.50	11.00
Long-term	6.40	9.10	5.65	8.50	8.50
Refundings	.35	.70	1.00	1.60	1.60
Mortgage revenue	1.00	1.20	.75	1.20	1.00
Short-term[1]	3.40	3.50	2.35	6.00[2]	2.50

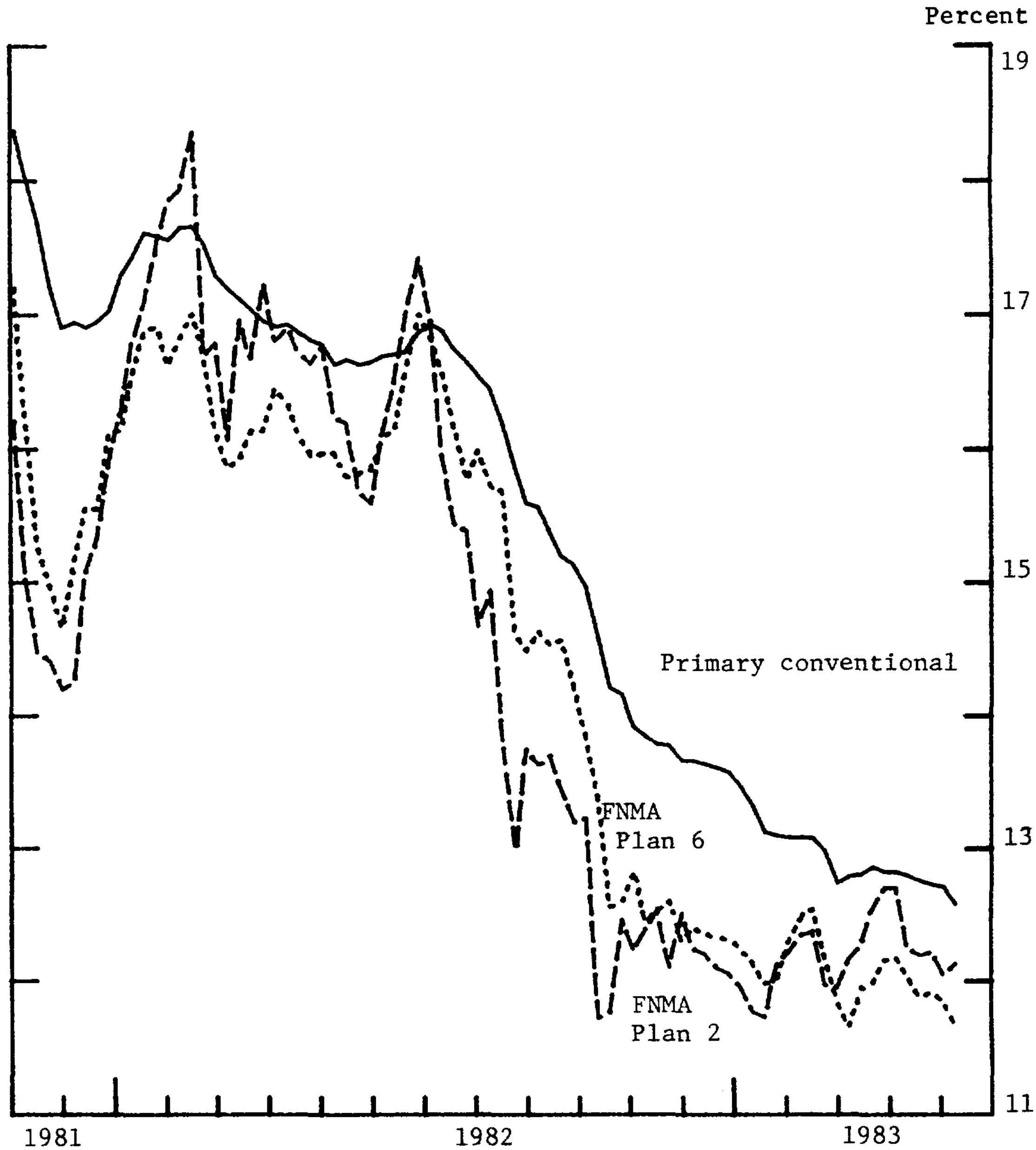
1. These figures do not include tax-exempt commercial paper.
2. Includes $4.0 billion of notes sold by New York State which in recent years typically has sold a large volume of short-term notes in this month.
e--estimate. f--forecast.

Individuals reportedly remain the primary purchasers of municipal securities, through purchases of tax-exempt mutual fund shares as well as direct bond purchases. At the same time, dealers report that increased purchases by commercial banks and property and casualty insurance companies in recent weeks, albeit small by historical standards, have helped to absorb the heavy new-issue volume.

Mortgage Markets

Average interest rates on long-term, fixed-rate conventional home mortgages at S&Ls have fallen by 27 basis points since the last FOMC meeting to 12.59 percent; secondary market yields have receded by similar amounts. Reductions in yields on new issues of GNMA-guaranteed pass-through

SELECTED HOME MORTGAGE INTEREST RATES



NOTE: FNMA Plan 2 adjustable-rate loans have rates indexed to 6-month Treasury securities yields, provide for payment adjustment every three years, and have no caps on interest rate changes or payment adjustments. Plan 6 loans have rates indexed to 5-year Treasury yields, provide for payment adjustment every five years, and have no interest rate or payment caps.

securities prompted a downward adjustment, effective May 9, of 50 basis points in the rate ceiling for level-payment FHA/VA home loans to 11-1/2 percent, and a cut of 25 basis points in the limit for graduated-payment loans to 11-3/4 percent.

Yields on adjustable-rate conventional mortgages (ARMs) purchased by FNMA in the secondary market generally have declined 50 to 60 basis points, reflecting declines in the Treasury securities yields employed as indexes for the various ARM plans.[1] FNMA's ARM rates currently are 50 to 200 basis points below market rates on fixed-rate mortgages; the chart shows rates prevailing on two of the more popular FNMA plans. Despite the persistence of yield discounts, the relative importance of ARMs in the home mortgage market has been declining at both FNMA and private institutional originators as the general level of market interest rates has fallen from the highs of last summer. With long-term rates now below 13 percent, increased proportions of borrowers have refused to accept ARMs without yield concessions bigger than those currently available.

S&Ls have greatly expanded their activity in mortgage markets since late last year. The volume of their new mortgage commitments in March was more than double the amount issued as recently as last September, and their level of mortgage commitments outstanding has risen 60 percent over this period to a record $38.4 billion. The amount of mortgage loans held by S&Ls rose for the third consecutive month in March, despite both large sales of mortgages and a large volume of mortgage retirements (swollen by refinancings of high-rate loans). However, in March as in other recent

1. ARM rates are established by FNMA as a markup over rates on relevant maturities of Treasury securities.

months, mortgage pass-through securities accounted for the bulk of the increase in total S&L mortgage assets, largely reflecting the continuation of swap transactions with FNMA and FHLMC.

NET CHANGE IN MORTGAGE DEBT OUTSTANDING
(Seasonally adjusted annual rates, billions of dollars)

				1982				1983
	1980	1981	1982	Q1	Q2	Q3	Q4	Q1[e]
By type of debt								
Total	134	115	87	105	81	72	90	139
Residential	105	81	65	77	53	58	72	114
Other[1]	29	34	22	28	28	14	18	25
By type of institution								
Commercial banks	18	24	16	23	18	11	13	20
Savings and loans	28	15	-20	6	-17	-38	-32	20
Mutual savings banks	1	*	-3	-2	-4	-2	-5	-2
Life insurance companies	12	8	4	5	3	4	2	1
Federal and related agencies	17	12	12	11	11	15	12	7
Mortgage pools	19	15	47	36	40	51	63	74
Other[2]	39	41	31	26	30	31	35	19

1. Includes commercial and nonresidential as well as farm properties.
2. Includes mortgage companies, real estate investment trusts, state and local government credit agencies, state and local government retirement funds, private pension funds, credit unions, and individuals.
e--partially estimated.

Total mortgage debt outstanding is estimated to have increased at a seasonally adjusted annual rate of $139 billion during the first quarter of this year, up from $90 billion in the final quarter of 1982. The first-quarter surge was concentrated in residential lending, particularly for single-family dwellings. S&Ls and mortgage pools that back issues of federally guaranteed pass-through securities have accounted for much of the pickup in lending. Although securities issuance was buoyed by heavy FNMA and FHLMC securities/mortgage swap transactions with depository institutions, non-swap issues increased substantially; indeed, the volume of GNMA-guaranteed securities outstanding increased at a record annual rate of $38 billion in the first quarter.

Consumer Credit

Consumer installment credit outstanding grew at a 9 percent annual rate during March as revolving and automobile credit rebounded strongly from small February declines. Installment credit growth in the first quarter was more rapid than has been typical of comparable stages of earlier business cycles.

Some further reductions in consumer loan rates at commercial banks appear to have occurred recently, partly reflecting promotional programs and efforts in some states to forestall legislative action to reduce usury ceilings. Moreover, although credit standards apparently remain stringent, the February Senior Loan Officer Opinion Survey indicated that a historically large proportion of reporting commercial banks had become increasingly willing to extend installment credit to consumers. In April, automobile manufacturers offered new concessionary financing at 9.9 percent on selected models. From October 1982 through March, average customer rates at finance companies on new-car contracts declined roughly 450 basis points to about 12 percent, reflecting the special financing programs offered by auto manufacturers.

During the first quarter, delinquency rates on consumer installment auto credit at finance companies fell to the lowest level in more than 14 years. In addition, personal bankruptcy cases filed during January and February were about 12 percent below the record level of the fourth quarter of 1982. In the mortgage area, however, delinquencies at savings and loan associations during the first quarter remained at the postwar high reached in the preceding quarter.

CONSUMER INSTALLMENT CREDIT

	1981	1982	1982 Q4	1983 Q1	1983 Jan.r	1983 Feb.r	1983 Mar.
	- - - - - Percent rate of growth, SAAR - - - - -						
Change in outstandings--total	5.8	4.0	5.1	7.1	9.6	2.6	9.0
By type:							
Automobile credit	7.3	3.9	9.3	5.0	5.8	-2.1	11.2
Revolving credit	7.7	7.0	4.0	7.1	1.3	-2.6	22.5
All other[1]	4.5	2.6	2.0	9.1	16.7	8.9	1.5
	- - - - - - Billions of dollars, SAAR - - - - - -						
Change in outstandings--total	18.2	13.1	17.2	24.2	32.7	8.8	31.0
By type:							
Automobile credit	8.5	4.9	11.8	6.5	7.5	-2.8	14.7
Revolving credit	4.5	4.4	2.5	4.4	0.8	-1.6	14.1
All other[1]	5.3	3.8	2.9	13.3	24.4	13.2	2.2
By major holder:							
Commercial banks	-0.1	4.8	6.6	10.2	4.9	9.5	16.3
Finance companies	13.4	4.6	6.8	6.8	22.6	-7.9	5.8
All other	5.4	3.9	3.8	7.1	5.2	7.3	8.9
	- - - - - - - Annual percentage rate - - - - - - -						
Interest rates							
At commercial banks[2]							
New cars, 48 mos.[3]	16.54	16.83	15.97	14.81	n.a.	14.81	n.a.
Personal, 24 mos.	18.09	18.65	17.99	17.59	n.a.	17.59	n.a.
Credit cards	17.78	18.51	18.75	18.89	n.a.	18.89	n.a.
At auto finance cos.[4]							
New cars	16.17	16.15	14.02	12.12	12.25	12.05	12.07
Used cars	20.00	20.75	20.69	19.83	20.20	19.91	19.38

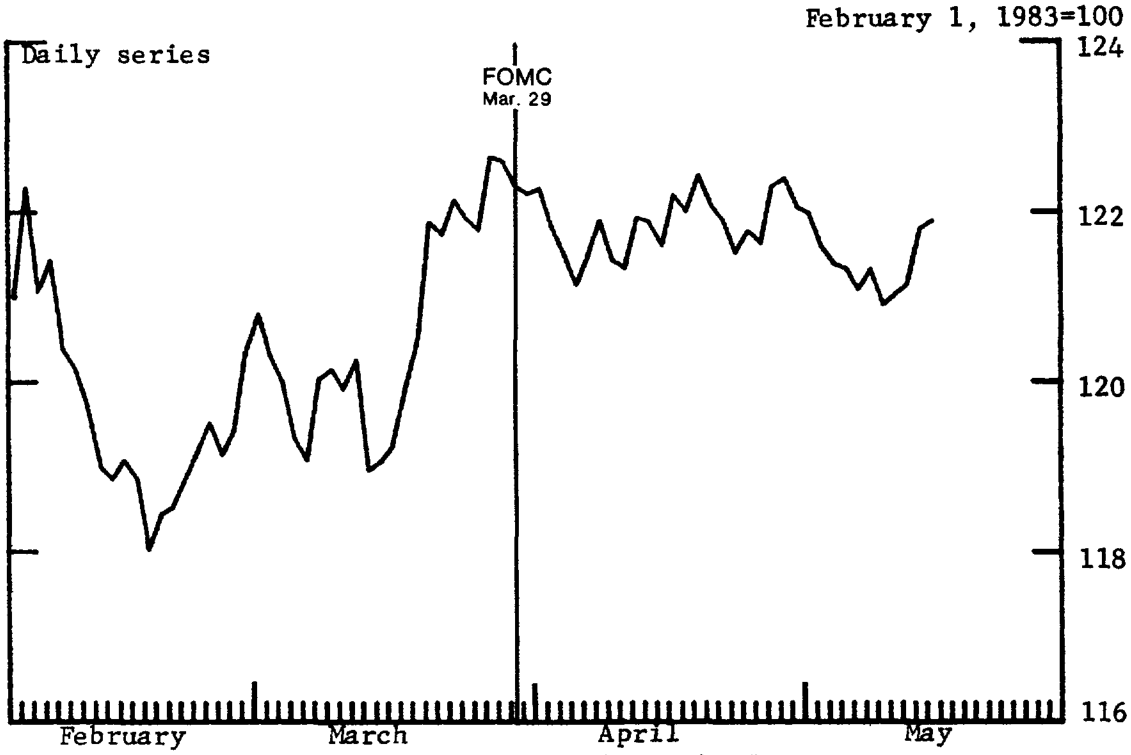
1. Includes primarily personal cash loans, home improvement loans, and sales finance contracts for non-automotive consumer durable goods.
2. Average of "most common" rates charged, on loans of specified type and maturity, during the first week in the middle month of each quarter.
3. Data for periods prior to 1983-Q1 are for new-car loans at a 36-month maturity.
4. Average rate for all loans of each type made during the period, regardless of maturity.
r--revised. n.a.--not available.

Foreign Exchange Markets

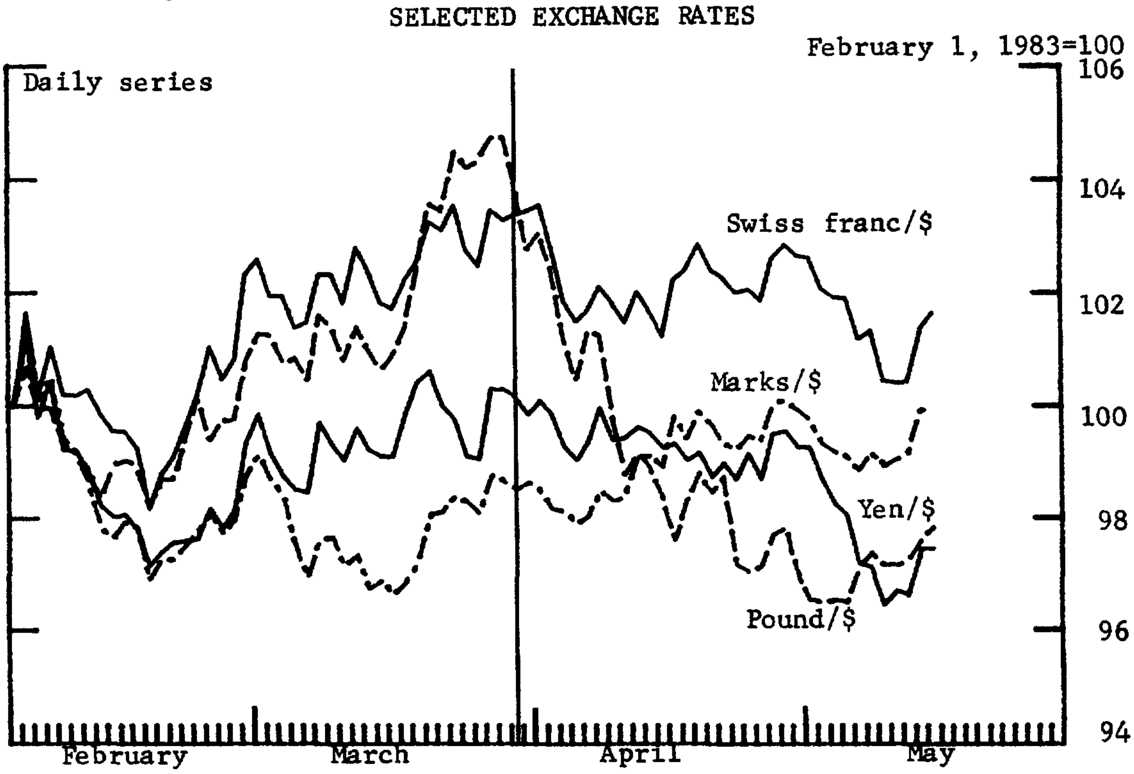
As shown in the upper panel of the chart, the weighted average value of the dollar has fluctuated in a narrow band since late March and is currently about one-half percent lower than it was at the time of the last FOMC meeting. The dollar's depreciation is in association with a one-half percent decline in U.S. short term interest rates relative to a weighted average of foreign interest rates, and may have been tempered by disturbances in Poland. On a bilateral basis, as shown in the lower panel of the chart, the pound has appreciated about seven percent against the dollar, the yen has appreciated about three percent, the Swiss franc has appreciated about one and one-half percent, and the mark has depreciated about one and one-half percent.

The appreciation of the pound, which had reached a trough at the time of the last FOMC meeting, seems to be predominantly a result of developments in international oil markets and the political situation in the United Kingdom. In late March the British National Oil Corporation reduced the price of its crude oil by only 50 cents/barrel, alleviating fears of a reduction large enough to induce OPEC to retaliate. Since then spot prices have firmed to about the level of official OPEC prices. On May 9, long-held expectations of a call for an early election in the United Kingdom, which is perceived as favorable for the Thatcher government, were realized when Prime Minister Thatcher called for a June 9 election. Since then the pound has depreciated about one and one-half percent.

WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR



SELECTED EXCHANGE RATES



1983

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. In other official actions, Belgium lowered its official discount rate by one and one-half percent, Italy and Denmark each lowered their discount rates one percent, and the Netherlands raised its discount rate by one-half percent.

U.S. International Financial Transactions

Partial data for April indicate that foreign official reserve assets in the United States declined during the month after increasing by $0.5 billion during the first quarter, as shown on line 4 of the Summary Table of U.S. International Transactions.

On balance, G-10 holdings rose somewhat.

After falling $1.4 billion in the first quarter of 1983, OPEC official reserve assets in the United States appeared on the basis of partial data to decline further in April. These developments follow a $6.6 billion increase in such OPEC holdings during 1982. The 1982 increase was about one-half of the $13.1 billion increase last year in the sum of official and nonofficial OPEC assets in the United States; the overall change consisted principally of increases in bank deposits ($4.4 billion) and Treasury bonds and notes ($6.9 billion). The rise in OPEC assets in the United States last year occurred despite an estimated $10 billion OPEC current account deficit and was accompanied by substantial declines in OPEC assets in other parts of the world. According to Bank of England estimates, OPEC holdings of Eurocurrency deposits, together with domestic-currency deposits outside the United States, decreased by about $21 billion. Although the OPEC countries continued in 1982 to make investments outside the banking area in industrial countries abroad ($5.7 billion) and to make loans to developing countries ($3.9 billion), both of these types of transactions were much smaller than in 1981, when the OPEC surplus was still large. The remaining types of OPEC assets, largely unidentified, were reduced in 1982 by a total of around $12 billion. Staff estimates for 1983 show the OPEC current account deficit widening to $34 billion.

U.S. official reserve assets (excluding foreign currencies held in anticipation of repayments of Carter bonds) rose further during the first quarter, but not by as much as in the preceding quarters. As indicated in the table following, the increase in the U.S. reserve position in the IMF, which resulted from the International Monetary Fund's use of dollars during February and March, was partially offset by repayments to the United States on the short-term programs of bridging finance extended directly to certain developing countries late last year and early in 1983. The April pause in the increase of U.S. official reserve assets is not likely to persist, since future drawings by developing countries on current or prospective IMF programs will doubtlessly be financed at least partly in dollars.

Regarding transactions involving private securities, lines 2(b) and (c) of the Summary Table show that the substantial net flow of funds from U.S. residents into foreign securities that occurred during the last half of 1982 abated considerably during the first three months of 1983, while foreign residents again stepped up sharply their volume of net purchases of U.S. corporate stocks as equity prices in markets here advanced during the first-quarter.

As shown in the International Banking Data table, there have been no significant shifts in U.S. banking offices' positions vis-a-vis

U.S. OFFICIAL RESERVE ASSETS 1/
(Billions of dollars; increase in assets (+))

	Holdings 2/		Transactions 3/						
			1982			1983			
	Dec. 1981	Dec. 1982	1st Half	Q3	Q4	Q1	Feb.	Mar.	Apr.e/
Total 4/	15.9	21.5	2.6	1.7	2.5	1.2	.2	.2	0
SDRs	4.1	5.2	.6	.4	.3	.1	0	0	0
Reserve Position in the I.M.F.	5.1	7.3	1.4	.5	.7	2.1	.5	.8	0
Foreign Currency 4/	6.8	8.9	.6	.8	1.4	-1.1	-.4	-.6	0
G10 + Switzerland 4/	6.8	6.8	.4	.2	.1	.1	0	.1	0
Other	--	2.1	.2	.6	1.3 -	-1.2	-.4	-.7	0

1. Excludes holdings of gold.
2. Valued at market exchange rates.
3. Net flows on a balance-of-payments basis excluding valuation changes.
4. Holdings are net of foreign exchange held in anticipation of redemption of Treasury debt denominated in foreign currencies (Carter bonds); transactions are net of use of foreign exchange for such redemptions. Carter bond redemptions for the period indicted totaled $354 million for the 1st half 1982, $902 million for 1982 Q3, $519 million for 1982 Q4, and $386 million for January 1983.

e. Estimated.

their own foreign branches in recent months, and the aggregate amount of credit extended to U.S. nonbank residents by foreign branches of U.S. banks has not changed much since the third quarter of last year.

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1982			1983				
	June	Sept.	Dec.	Jan.	Feb.	Mar.	Apr.	May 4/
1. U.S. Banking Offices' Positions Vis-a-Vis Own Foreign Offices 1/								
(a) Total	16.6	5.9	8.1	-5.4	-6.5	-5.7	-6.3	-7.4
(b) U.S.-Chartered Banks	2.8	-5.0	-3.1	-13.7	-14.6	-17.5	-16.5	-15.4
(c) Foreign-Chartered Banks	13.8	10.9	11.2	8.3	8.1	11.8	10.2	8.0
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. banks 2/								
(a) Total	14.2	16.1	15.7	16.3	16.5	16.4	16.0	16.4
(b) New York Banks Only	9.7	11.4	11.2	11.9	12.0	12.2	11.9	12.0
3. Eurodollar Holdings of U.S. Nonbank Residents 3/	116.0	111.5	110.3	108.6e/	109.4e/	n.a.	n.a	n.a.

1. Average of Wednesdays; net due to own foreign office = (+). IBFs are included in U.S. offices.
2. Daily averages.
3. End of month.
4. Through May 4.
e. Estimated.

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS
(Billions of dollars)

	1981	1982			1983			
	Year	Year	Q-3	Q-4	Q-1	Jan.	Feb.	Mar.
Private Capital								
Banks								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	-34.0	-39.6	-13.1	-10.8	-6.5	-9.6	-.4	3.5
a) with own foreign offices	-2.7	-9.6	-9.8	-3.2	-8.4	-8.9	-1.8	2.3
b) all other	-31.3	-30.0	-3.3	-7.6	1.9	-.8	1.4	1.2
Securities								
2. Private securities transactions, net	1.2	-1.8	-2.9	-1.6	.9	.5	.6	-.2
a) Foreign net purchases (+) of U.S. corp. bonds	2.1	2.5	.1	.1	.1	*	.1	*
b) Foreign net purchases (+) of U.S. corp. stocks	4.8	3.6	.3	1.8	2.8	.8	1.0	1.0
c) U.S. net purchases (-) of foreign securities	-5.7	-8.0	-3.3	-3.5	-2.0	-.3	-.5	-1.2
3. Foreign net purchases (+) of U.S. Treasury obligations 1/	2.5	6.4	1.0	2.1	2.9	3.0	-.7	.6
Official Capital								
4. Changes in foreign official reserve assets in U.S. (+ = increase)	5.5	2.7	2.8	1.5	.5	2.4	-2.2	.4
a) By area								
G-10 countries and Switzerland	-10.8	-12.7	1.6	-2.8	2.9	2.0	.5	.4
OPEC	12.7	6.6	*	-1.0	-1.4	-.2	-1.8	.6
All other countries	3.6	8.8	1.2	5.3	-1.0	.6	-1.0	-.6
b) By type								
U.S. Treasury securities	5.0	5.8	4.8	4.3	3.2	3.8	.3	-.9
Other 2/	.5	-3.1	-2.0	-2.8	-2.7	-1.4	-2.5	1.3
5. Changes in U.S. official reserve assets (+ = decrease) 3/	-5.2	-5.0	-.8	-2.0	-.8	-.4	-.2	-.2
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	-8.7	2.2	.4	-.6	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	21.3	9.4	2.4	3.0	n.a.	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 4/ 5/	-12.9	-8.1	1.3	-2.0	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance 5/	4.5	-8.1	-5.2	-6.1	n.a.	n.a.	n.a.	n.a.
10. Statistical Discrepancy 5/	25.8	41.9	14.1	16.5	n.a.	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-27.9	-36.3	-12.5	-12.1	-8.4	-2.6	-2.7	-3.1

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 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.

U.S. Merchandise Trade

In March, the merchandise trade deficit was about the same as recorded in the previous three months. Both exports and imports were up somewhat from February levels.

For the first quarter as a whole, the trade deficit was $15 billion annual rate smaller than in the fourth quarter. Much of the swing appears to be attributable to temporary factors, especially related to oil imports.

Oil imports dropped dramatically in the first quarter from fourth quarter levels -- by 30 percent in volume and by about $1.55 per barrel in price (see the table on the next page) -- in response to several largely temporary circumstances. U.S. oil consumption was lower than expected reflecting a warmer-than-usual winter. Petroleum inventories

U.S. MERCHANDISE TRADE*

	1982			1983			
	Year	3Q	4Q	1Q	Jan.	Feb.	Mar.
Value (Bil. $, SAAR)							
Exports	211.0	209.3	192.3	199.9	207.0	192.0	200.8
Agricultural	37.4	33.6	32.3	36.0	37.1	35.9	34.9
Nonagricultural	173.6	175.8	160.0	164.0	170.0	156.1	165.9
Imports	247.3	259.3	240.8	233.7	238.8	224.6	237.6
Oil	61.2	65.8	62.8	42.0	48.0	36.2	41.8
Nonoil	186.1	193.5	178.0	191.7	190.8	188.4	195.8
Trade Balance	-36.3	-50.0	-48.5	-33.7	-31.8	-32.6	-36.8
Volume (Bil. 72$, SAAR)							
Exports - Agric.	17.3	15.8	15.6	16.9	17.5	16.9	16.1
- Nonagric.	60.8	62.0	56.1	56.7	58.7	53.6	57.6
Imports - Oil	5.0	5.5	5.2	3.6	4.0	3.1	3.7
Nonoil	71.8	75.4	69.9	75.7	75.5	74.8	77.0

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

were drawn down, particularly in March, in anticipation of reduced OPEC prices and because of a desire to reduce inventory-to-sales ratios. In addition, during most of 4Q82 and 1Q83 there was increasing uncertainty regarding world oil pricing and production policies; between November 1982 and March 1983 spot oil prices dropped $5.00 per barrel. In mid-February, in an effort to expand sales, Britain, Norway, and Nigeria cut their official oil prices by $3 to $5.50 per barrel. In mid-March, after almost two weeks of emergency talks, OPEC reached a formal agreement on a $29 per barrel marker price for Saudi Arabian light and a 17.5 mbd OPEC output ceiling. Mexico lowered its prices to be in line with OPEC prices and in late March North Sea oil prices were lowered in order to match Nigerian crude (a similar quality of oil.) Since then spot oil prices firmed during April to be at or near official levels; during the past two weeks, however, spot prices have declined somewhat.

OIL IMPORTS

	1982			1983			
	Year	3Q	4Q	1Q	Jan.	Feb.	Mar.
Volume (mbd, SA)	5.36	5.76	5.56	3.91	4.36	3.48	4.04
Price ($/BBL)	31.23	31.25	30.97	29.43	30.48	28.98	28.51
Value (Bil$ SAAR)	61.2	65.8	62.8	42.0	48.0	36.2	41.8

Nonoil imports were significantly higher in the first quarter than in the fourth quarter, returning to import levels recorded in the second and third quarters of last year. Items that declined sharply in 4Q82, partly in response to the strong drawdown in business inventories at that time, for the most part increased in 1Q83. Virtually all of the swing was in volume. Nonoil import prices declined marginally in the first quarter; small price declines have been recorded each quarter for the past year reflecting in part the current and lagged effects of the appreciation of the weighted average value of the U.S. dollar that occurred through the fourth quarter of last year. The value of automotive products from Japan and Europe increased by nearly 10 percent in the first quarter, and, unlike in the case of aggregate nonoil imports, much of the automotive increase was a result of higher prices. Part of the automotive price rise resulted from a 9 percent dollar depreciation (1Q83/4Q82) against the Japanese yen and a 4 percent depreciation against the German mark that occurred largely during the fourth quarter of 1982; Japan accounts for two-thirds of U.S. automotive imports other than from Canada and Germany accounts for another 15-20 percent. About half of the increase in value was in passenger cars and half in trucks and parts. Shipments of cars from Japan to the United States have followed closely the U.S.-Japan automotive agreement; the agreement-year ended March 31 with the agreed upon 1.68 million units being shipped to the United States. Stocks of new foreign cars continued to be very low through March.

Agricultural exports increased by 8 percent in volume in the first quarter from the low levels recorded in the third and fourth quarters of last year. Much of the rise was increased wheat shipments to the U.S.S.R. and China under contracts signed in December. Export prices increased in the first quarter. For corn and soybeans the rise followed two years of price declines; wheat prices began to increase in the fourth quarter. Prices rose as U.S. grain production moved into inventories (primarily CCC purchases), as demand for wheat by the U.S.S.R.

and China increased sharply in December and January, and as world demand for U.S. soybeans increased because of limited supplies available from Argentina and Brazil. Most recently, agricultural prices rose because of extensive farmer participation in the Payments-in-Kind program.

The increase in nonagricultural exports in the first quarter was more than accounted for by sharp increases in commercial aircraft exports (largely to developed countries) and in automotive exports to Canada (from an unusually low 4Q82 rate); these items account for 10 percent of U.S. nonagricultural exports. Machinery exports (one-third of all non-agricultural exports) declined for the second consecutive quarter; the volume declined by 18 percent since the third quarter of 1982 as a result of sluggish economic activity in major foreign markets and the continued strong exchange value of the dollar.

Foreign economic developments. Although it is too soon to declare the 1982 recession over for foreign industrial countries, early signs of recovery are emerging in several countries. German real GNP (s.a.) grew at an annual rate of about 2 percent in the first quarter, according to preliminary information. Industrial production so far this year has increased significantly in Canada and France, and less sharply in Germany, Japan and the United Kingdom. Italian industrial production fell in the first quarter. Surveys in Canada, Germany, and the United Kingdom indicate positive developments. A French survey, taken soon after the announcement of the austerity package, reveals a deterioration in production prospects.

Inflation continued to moderate in the first quarter of this year in all major foreign countries except France, where tight price controls in the last half of 1982 have distorted the pattern.

Early data suggest that only France and Japan will have significant imbalances in trade this year; the French deficit will be big and the Japanese surplus will be large.

New budgets were passed in Japan and Canada in April. Both budgets may provide mild stimulus to the economy through the timing of expenditure or taxes; public-works expenditures are to be "front loaded" in both countries, and taxes are to be "back loaded" in Canada. In late March, France initiated a fairly stern austerity package which includes tighter fiscal policy, tighter monetary policy, and restricted foreign expenditures by French tourists. Both Italy and the United Kingom have announced elections for June.

Individual country notes. German industrial production was unchanged between February and March. The first-quarter average was about 1 percent above the previous quarter's level, but still 6 percent below a year ago. The rate of unemployment rose to 9.3 percent (s.a.) in April, with 2.3 million unemployed. The most encouraging indicators to date besides the above mentioned first-quarter GNP estimate are business climate surveys, which have been showing strong gains for several months.

The rate of consumer price inflation for the first four months of this year at an annual rate was 1.2 percent, compared to 5.4 percent in the first four months a year ago. The seasonally adjusted consumer price index declined in each month of the first quarter -- an unprecedented development even for Germany. One of the contributing factors in the inflation picture has been the decline of import prices, which in March were 3 percent below their year-earlier level. This year's wages round is nearly completed, with an average wage increase of about 3 percent.

The current account for the first quarter of this year showed a surplus of $1.6 billion, compared with a $0.4 billion deficit for the same period of last year.

Fiscal policy remains tight, as the government seeks to carry out its pledge to control the budget. Recent decisions make it appear plausible that there will be a slight decline in real government spending this year. Monetary policy, on the other hand, has continued to ease with the most recent reduction in official interest rates occurring in March. The growth of Central Bank Money in the first quarter was over 10 percent compared with the 7 percent upper target limit. CBM growth slowed in April, but still remains significantly above target.

Despite some gains in March, economic activity in Japan is still quite sluggish, and pressure for a discount-rate reduction has intensified as the yen has showed signs of strengthening. Industrial production recovered sharply in March by 1-1/4 percent (s.a.) from February's very low level, but growth in the index for the quarter was only 0.1 percent (s.a.a.r.). Industrial production is still about 1 percent below its year-earlier level. Unemployment declined in March from the record levels reached in January and February, but still was extremely high by Japanese standards. Recent surveys by the Bank of Japan and the Economic Planning Agency are cautiously optimistic about the progress of the current recovery. Some strengthening of exports and adjustment of inventories are bright spots, but other surveys suggest that corporate investment in plant and equipment is likely to remain weak.

Price and wage developments have continued to be very favorable. The CPI rose slightly in April, but was still only 2 percent above its year-previous level. Wholesale prices have declined in recent months; the April WPI was about 3 percent below the fourth-quarter level. A preliminary survey of settlements in the current spring wage-negotiation round indicates that average wage settlements will be considerably below the 7 percent increase of 1982.

Further strengthening of the trade and current account positions in March has added some urgency to the need for a timely recovery. The trade balance in March was $2.2 billion (s.a.), the largest monthly figure since autumn 1981. The current account surplus was $1.3 billion (s.a.), bringing the surplus for the first quarter to almost $3.5

billion -- about half that for all of 1982.

Concern over expanding the already large government deficits of recent years has limited spending in the FY 1983 budget (which received final approval in early April and is effective from April 1) to a 1-1/2 percent nominal increase over that of the previous year. As part of a package of measures designed to stimulate the economy, more than 75 percent of government expenditure is targeted for the first half of the year.

Prime Minister Margaret Thatcher has called for a general election in the United Kingdom on June 9. The election has been called at a time of recovery from the recent recession. Industrial production rose by 1.4 percent (s.a.) in the first quarter to a level 2.2 percent above its average for the first quarter of 1982. Continued strength in retail sales and a sharp increase in the rate of housing starts in the first quarter confirm the expansion in the pace of economic activity. Unemployment remains high, however; and in April was unchanged from the March level of 13 percent. The rate of price inflation has greatly decreased during the past year. In the first quarter of 1983, consumer prices averaged 5 percent higher than their level in the first quarter of 1982; for that period the comparable figure was 11 percent. Wholesale inflation has also improved. In April the wholesale price index was 7.3 percent above its year earlier level.

The U.K. current account balance registered a large surplus in March, $0.8 billion, following a small surplus in February and a deficit in January. The surplus resulted in part from a substantial increase in exports that generated a trade surplus of $0.6 billion in March after deficits totalling $1 billion in January and February.

Through April, growth in the monetary aggregates averaged well above the 7-11 percent target ranges announced in March. Nevertheless, fiscal and monetary policies are following the basically restrained course contained in the March budget and are likely to do so until the election has been decided.

French economic activity grew irregularly in 1982 by over 1 percent (Q4/Q4); growth in the fourth quarter was at an annual rate over 3 percent (s.a.). Industrial production in the first two months of 1983, while showing recent strength, was at the same level as in the first two months of 1982 and only marginally higher than in the final quarter of 1982. The April survey of industry reveals a recent weakening in production and a strong deterioration in production prospects for the next three months. Order books are weak, particularly for exports.

Inflation, as measured by the consumer and wholesale price indexes, was in the 10-11 percent range (a.r.) in the first quarter of 1983. These rates were well above the 6-7 percent range recorded in the last half of 1982 when rigorous price controls were in effect, but were marginally lower than the rates recorded in the first quarter of 1982. However, in April consumer price inflation accelerated to nearly 1-1/2 percent.

Reflecting the relative strength of the French economy and the overvalued franc, the first quarter trade deficit (s.a.) returned to the $14 billion annual rate of 1982, reversing the temporary improvement in the previous quarter.

The French franc was devalued late in March and an accompanying austerity package was announced. The M2 target for 1983 was reduced to 9 percent from a previous level of 10 percent and from an actual growth in 1982 of 12-1/2 percent. The fiscal measures included a forced loan to the government, reduced expenditures, increased taxes, savings incentives, and tigher exchange controls for French tourists. The government expects these measures to reduce demand by about 2 percent of GDP. The French have obtained a 4 billion ECU ($3.7) from the EEC "oil facility." They have not been required to take any measures beyond those taken after the devaluation.

The Italian economy continues to show no evidence of a recovery. Industrial production in the first quarter was 1 percent below the level of the previous quarter and 11 percent below the previous peak in 1980 Q1. Consumer surveys showed a slight improvement in January while investment plans remain weak. Inflation, as measured by the rate of change in consumer prices, decelerated somewhat in recent months. In the three months ending in April, consumer prices rose by under 15 percent (a.r.) over the level of the previous 3 months, after an average increase of 16-1/2 percent in 1982. Wholesale prices in the 12 months ending in March were up by 10-1/4 percent, compared with a 15-3/4 percent rise in the year ending in March 1982.

The trade account continues to reflect the weakness of the Italian economy. In the first quarter of this year, the deficit was $1.5 billion, compared with a $6.2 billion deficit in the same period of 1982.

On May 2, the Italian Banking Association reduced its prime rate by 0.75 percentage points to 18.75 percent. Long-term interest rates on average have declined by about 2 percentage points to about 17-1/2 percent since the beginning of this year.

The caretaker government headed by Prime Minister Fanfani announced on May 5 a general election to coincide with local elections on June 26. The election was necessitated by the Socialist party's withdrawal of support from the four-party coalition. The Socialists, who won about 10 percent of the vote in the 1979 election, are expected to win more seats and favor a less austere fiscal policy. The enlarged public sector deficit last year was about 15-1/2 percent of GDP and is likely to remain about the same this year.

Signs continue to appear suggesting that the deepest and most protracted Canadian recession since the 1930s is over. A turnaround, which first became evident in residential construction toward the end of 1982, now appears to be more general. In January industrial production rose 5-3/4 percent, one of the largest monthly gains ever recorded. This was followed by a further 1-3/4 percent increase in February. Output remains weak, however, with industrial production still more than 13 percent below its most recent peak, reached in June 1981. The unemployment rate, after declining 1/4 percentage point in January, has been unchanged through April at around 12-1/2 percent. Recent consumer and business surveys indicate that the outlook has become more optimistic.

The inflation picture continues to improve. In March, the year-over-year rate of increase in the CPI fell to 7-1/4 percent, the tenth consecutive improvement since peaking last May at almost 12 percent. On the same basis, the industry selling price index rose by less than 4

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(PERCENTAGE CHANGE FROM PREVIOUS PERIOD, SEASONALLY ADJUSTED)

		1980	1981	1982	1981 Q3	1981 Q4	1982 Q1	1982 Q2	1982 Q3	1982 Q4	1983 Q1	1982 DEC.	1983 JAN.	1983 FEB.	1983 MAR.	1983 APR.
CANADA:	GNP	.5	3.1	-4.8	-1.1	-.9	-2.3	-1.3	-1.1	-1.1	N.A.	*	*	*	*	
	IP	-1.7	1.7	-10.8	-2.7	-4.4	-2.8	-2.9	-2.9	-3.9	N.A.	-1.4	5.8	1.7	N.A.	
FRANCE:	GDP	1.1	.1	1.9	.4	.9	.0	1.0	-.6	.8	N.A.	*	*	*	*	
	IP	-.9	-2.6	-1.6	.3	.5	-1.5	.5	-2.3	.8	N.A.	-1.6	1.6	.8	N.A.	
GERMANY:	GNP	1.8	-.2	-1.1	.7	.2	-.5	-.3	-1.1	-.1	N.A.	*	*	*	*	
	IP	-.1	-2.1	-2.6	.0	-1.2	1.3	-.9	-3.4	-1.9	1.0	-1.0	3.0	-1.9	.0	
ITALY:	GDP	4.0	-.2	N.A.	-1.7	2.6	1.2	-1.5	-3.0	N.A.	N.A.	*	*	*	*	
	IP	4.5	-2.4	-2.2	-4.9	4.7	.9	-1.5	-7.6	2.2	-.9	-1.3	-.2	-.5	-1.5	
JAPAN:	GNP	4.8	3.9	3.0	.9	-.3	.4	1.9	.9	.4	N.A.	*	*	*	*	
	IP	7.1	3.0	1.1	1.6	2.6	-.9	-1.7	1.7	-.8	.1	-.7	-.3	-.7	1.2	
UNITED	GDP	-2.4	-2.3	1.1	-.1	1.0	.0	.2	.4	.8	N.A.	*	*	*	*	
KINGDOM:	IP	-6.1	-5.1	.8	.6	.5	-.3	.4	.5	-.1	1.4	1.9	.2	1.0	-.9	
UNITED	GNP	-.4	1.9	-1.7	.5	-1.3	-1.3	.5	.2	-.3	.8	*	*	*	*	*
STATES:	IP	-3.6	2.6	-8.1	.3	-4.4	-3.1	-1.7	-.9	-2.1	2.3	.2	1.6	.4	1.2	2.1

*GNP DATA ARE NOT PUBLISHED ON MONTHLY BASIS.

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(PERCENTAGE CHANGE FROM PREVIOUS PERIOD)

		1981	1982				1983	1983				MEMO: LATEST 3 MONTHS FROM YEAR AGO
		Q4	Q1	Q2	Q3	Q4	Q1	JAN.	FEB.	MAR.	APR.	
CANADA:	CPI	2.5	2.5	3.1	2.2	1.6	.6	-.3	.4	1.0	N.A.	7.6
	WPI	1.3	1.4	1.9	.8	.3	.7	.2	.2	.7	N.A.	3.7
FRANCE:	CPI	3.2	2.8	3.1	1.4	1.9	2.6	.9	.7	.9	1.4	9.1
	WPI	2.3	2.7	2.6	1.9	1.0	2.5	.6	1.4	1.6	N.A.	8.2
GERMANY:	CPI	1.2	1.5	1.5	1.1	.7	.5	.2	.1	-.1	.2	3.5
	WPI	1.8	1.8	1.3	.0	.0	-2.0	-1.0	-.8	-.6	N.A.	-.7
ITALY:	CPI	4.6	4.0	3.0	4.1	4.5	3.6	1.4	1.3	.9	1.0	16.2
	WPI	4.0	3.3	2.0	3.2	3.3	1.6	.5	.4	.3	N.A.	10.6
JAPAN:	CPI	1.4	.3	1.1	.5	1.0	-.1	.3	-.3	.5	.2	2.3
	WPI	-.1	.2	.2	.9	-.1	-1.9	-.9	.1	-.4	-.7	-1.5
UNITED	CPI	2.5	1.7	3.2	.5	.7	.5	.1	.4	.2	N.A.	5.0
KINGDOM:	WPI	2.3	2.2	1.7	1.6	2.0	1.8	.5	.4	.5	.8	7.2
UNITED	CPI (SA)	1.8	.7	1.3	1.9	.5	-.1	.2	-.2	.1	N.A.	3.6
STATES:	WPI (SA)	1.2	.7	.3	1.5	1.1	-.7	-1.2	.1	-.1	-.1	2.1

TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES#
(BILLIONS OF U.S. DOLLARS; SEASONALLY ADJUSTED)

				1981	1982				1983	1983		
		1981	1982	Q4	Q1	Q2	Q3	Q4	Q1	JAN.	FEB.	MAR.
CANADA:	TRADE	5.8	15.9	2.3	2.9	3.7	5.3	4.0	3.3	1.0	1.1	1.1
	CURRENT ACCOUNT	-4.4	2.1	-.2	-.1	.5	.9	.9	N.A.	*	*	*
FRANCE:	TRADE+	-9.3	-14.0	-3.3	-3.0	-4.0	-4.2	-2.9	-3.5	-1.4	-1.1	-.9
	CURRENT ACCOUNT+	-4.7	-12.0	-2.0	-2.0	-4.4	-3.2	-2.4	N.A.	*	*	*
GERMANY:	TRADE	11.9	20.6	5.5	5.0	5.3	5.2	5.1	5.3	1.9	1.7	1.7
	CURRENT ACCOUNT (NSA)	-7.3	3.6	4.4	-.4	.9	-1.6	4.7	1.5	-.1	.4	1.1
ITALY:	TRADE	-15.9	-14.6	-2.5	-6.2	-2.8	-3.2	-2.4	-1.5	-.7	-.5	-.4
	CURRENT ACCOUNT (NSA)	-9.1	N.A.	-.9	-3.7	-1.2	N.A.	N.A.	N.A.	*	*	*
JAPAN:	TRADE+	20.0	18.2	5.0	4.3	5.5	5.1	4.0	6.5	2.1	2.1	2.2
	CURRENT ACCOUNT	4.8	6.9	1.1	.9	2.8	2.3	1.6	3.5	1.3	.9	1.3
UNITED	TRADE	6.4	3.7	.7	.4	.2	1.0	2.1	-.4	-.8	-.2	.6
KINGDOM:	CURRENT ACCOUNT+	12.6	6.8	2.5	1.1	1.4	1.5	2.8	.4	-.5	.1	.8
UNITED	TRADE	-27.9	-36.3	-9.2	-5.9	-5.8	-12.5	-12.1	-8.4	-2.6	-2.7	-3.1
STATES:	CURRENT ACCOUNT	4.5	-8.1	-.9	1.0	2.2	-5.2	-6.1	N.A.	*	*	*

THE CURRENT ACCOUNT INCLUDES GOODS, SERVICES, AND PRIVATE AND OFFICIAL TRANSFERS.
+ QUARTERLY DATA ARE SUBJECT TO REVISION AND ARE NOT CONSISTENT WITH ANNUAL DATA.
* COMPARABLE MONTHLY CURRENT ACCOUNT DATA ARE NOT PUBLISHED.

percent during the first quarter. The trade balance in the first quarter continued in surplus at a rate not far below the record pace of 1982.

On April 19, the government of Canada announced a budget containing C$4.8 billion of additional expenditures over the next four years. This includes C$2-1/4 billion for government capital projects, the bulk of it moved forward from the second half of the decade, and a like amount to fund private investment incentives. Additional sums have been allocated to direct spending on employment, housing, and aid to exports, farmers, small business and fishing. To finance the new spending, federal sales taxes will be increased, but on a delayed basis. As a result, the budget deficit is projected by the government to rise by about 1/2 percent of GNP in FY 1983 and by about one-third that amount again the following year. By FY 1985 and 1986, the deficit is projected to be smaller than it would have been without the budget measures.

Update on Major Debt Problem Situations in Developing Countries

The four Latin American countries that started IMF programs in late 1982 and early 1983 as part of major debt refinancing and adjustment efforts have had mixed success in complying with program performance targets. Argentina and Mexico are expected to pass first-quarter tests. Chile and, likely, Brazil will not be able to draw further from the IMF without a waiver. Venezuela has suspended payments on the principal of its $13 billion in public sector external debt coming due in 1983. Banks want Venezuela to go to the IMF as a precondition to a rescheduling.

According to preliminary indications, Mexico is in compliance with the first-quarter performance tests of the Extended Fund Facility arrangement with the IMF. Public expenditures were cut drastically in the first quarter by the new administration which assumed office in December. Hence, even though public sector revenues in the first quarter were less than expected (mainly because of the low rate of economic activity), the public sector deficit was sharply lower. Organized labor began to press for a raise in April, ahead of the scheduled mid-year review of wages, as the 30 percent rise in the CPI since January had outstripped the 25 percent minimum wage increase granted in January. However, President de la Madrid announced early in May that there would not be any increase before mid-year.

In March, Mexico signed a $5 billion loan agreement with foreign commercial banks and began negotiations to restructure about $20 billion in public sector debts to foreign banks. Mexico also has introduced several plans to deal with components of its private debt:

-- capitalization and conversion to public sector debt of the private sector interest payments due to foreign banks and accruing between August 1, 1982 and January 31, 1983. Mexico made payments of $60 million in February and $37 million in April under this plan. About $750 million in overdue interest potentially eligible for the plan has qualified so far out of an expected total of about $900 million.

-- promotion of a restructuring of private sector external debts on terms parallel to those of the proposed restructuring of the public sector.

-- discussions are under way regarding the treatment of private debts owed to or guaranteed by official institutions in the creditor countries.

The depressed level of economic activity, the sharp depreciation of the peso in 1982, and the severe shortage of foreign exchange are continuing to hold imports well below year earlier levels, while non-oil exports are expanding moderately. The loss in oil export earnings because of the drop in oil prices amounts to $1.0-$1.5 billion over a full year. However, Mexico will save about the same amount in interest payments on its external debt as a result of the substantial decline in world interest rates since last July.

Brazil's trade surplus for March exceeded $500 million and exceeded $600 million in April, after a combined January-February total of only $330 million. Staff analyses indicate that Brazil's targets, under its IMF program, of a trade surplus of $6 billion and current account deficit of $7 billion are attainable.

Brazil's recent problems instead appear to be coming primarily from the capital account. Specifically, there has been attrition on interbank lines. These lines reached a 1983 peak of $7.1 billion (including overnight deposits) in early March as compared with $8.6 billion at end-June, 1982. However, as of late April, total interbank deposits stood at less than $6 billion. Staff estimates suggest that Brazil may need $1.5 to $2.5 billion in additional loans this year even if Brazilian trade and current account targets are reached.

Brazil is scheduled to make its next drawing of SDR 374 million under its three-year SDR 4.5 billion IMF Extended Fund Facility program on May 31. Brazil's drawings of new money from the banks depend on Brazil being in compliance with IMF conditions.

Although Argentina claims to have met the first quarter performance criteria under its 15-month SDR 1.5 billion IMF standby arrangement, recent trends in policy implementation, including the announcement of price controls and credit subsidies and lags in reducing payments arrears, are raising doubts about whether performance criteria beyond the first quarter will be met. Argentina has been negotiating with banks for several months over the refinancing of debt coming due in 1983. An agreement in principle on refinancing about $5 billion in public or publicly-guaranteed debt was reached several months ago but has not been implemented because of various disagreements, including differences over the interest rate to be charged. An Argentinian scheme to reschedule about $4 billion in private sector bank debt covered by government exchange insurance contracts has not yet been accepted by banks. In addition, a medium-term bank loan to Argentina for $1.5 billion, which has been under negotiation for several months, has not yet been signed, although an agreement is again reported to be near.

Venezuela has abandoned its earlier loan-by-loan approach to refinancing its large short-term state agency external debt and has declared a moratorium, through July 1, on repayments of principal on public sector debt. The Venezuelans claim they have remained current on public sector external interest payments, but there are some reports from banks of interest payment arrears on this debt. Arrears are also building up on repayments of Venezuelan private sector external debt. Discussions are underway with international banks on the rescheduling of $13 billion of debt that comes due in 1983. Banks reportedly want the Venezuelans to have an IMF program in place as a precondition for bank debt rescheduling. The Venezuelan authorities, however, would like to delay an approach to the IMF until after the presidential elections scheduled for December of this year. They fear that the likely IMF conditions, including a further devaluation and a rapid return to a unified exchange rate, higher taxes and petroleum prices, and further government spending cuts, would be politically unpopular.

The Chilean authorities have proposed to the international financial community a financial package which includes both new financing and a restructuring of Chile's $14 billion external debt. On April 29 Chile telexed this plan, which has the approval of its 12-bank advisory committee, to its foreign bank creditors. The plan calls for:

- $1.3 billion in new loans, repayable over seven years, including four years grace;

- rescheduling over eight years, with four years grace, of $1.1 billion of medium- and long-term principal payments, $1.3 billion of short-term working capital from foreign banks falling due in February-December 1983, and an additional $1 billion falling due in 1984; and,

- maintenance of short-term trade credits at the end January level of about $1.2 billion.

The cooperation of Chile's foreign creditors in implementing this plan is crucial to Chile's efforts to return to the IMF stand-by path by September 30, 1983. Chile fell out of compliance with its IMF program soon after its approval early this year because of the abrupt cessation of external capital inflows following the Chilean banking crisis in January. Chile has also been attempting to raise $400-500 million in bridge financing from private banks and the BIS as a basis for requesting a waiver of its end-March performance criteria. The proposed waiver would allow Chile to resume drawings from the IMF in July.