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Confidential (FR) Class III FOMC

March 21, 1990

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System

TABLE OF CONTENTS

DOMESTIC FINANCIAL DEVELOPMENTS--Continued III

INTERNATIONAL DEVELOPMENTS IV

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic indicators have been quite volatile recently, but, on balance, have been somewhat firmer than the staff had anticipated at the time of the last Greenbook. This is especially true of the labor market data, which strongly suggest that real GNP growth in the first quarter exceeded the upward revised 0.9 percent annual rate estimated for the final quarter of 1989. Construction activity has been bolstered by unusually warm weather, service sector employment has risen briskly, and auto production has rebounded from January's depressed levels. In contrast, manufacturing activity outside the motor vehicles industry has remained sluggish. While average hourly earnings have risen moderately on net this year, consumer price inflation has been surprisingly rapid, even apart from the largely anticipated surges in food and energy prices.

Employment and Unemployment

Labor demand was strong early this year, even after accounting for transitory weather effects and other identifiable special factors. Total payroll employment soared 372,000 in February, following an upward revised increase of 332,000 in January, and the unemployment rate held steady at 5.3 percent for the ninth consecutive month.

Unusually good weather in January and in the February survey week probably accounted for a large share of the jump in construction employment, which totaled more than 160,000 jobs for the two months. To a considerable degree, however, this gain probably reflected an acceleration of work planned for later months, and it is likely to be followed by reduced hiring, if not outright declines, on a seasonally adjusted basis, in coming months.

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

	1988	1989	1989 Q2	1989 Q3	1989 Q4	1989 Dec.	1990 Jan.	1990 Feb.
	-----------Average monthly changes---------							
Nonfarm payroll employment[2]	276	206	240	163	158	118	332	372
Strike-adjusted	275	208	245	177	134	44	327	375
Private	248	177	198	115	156	77	292	344
Strike-adjusted	248	179	203	128	133	3	287	347
Manufacturing	29	-8	-10	-30	-23	-28	-130	90
Durable	20	-13	-12	-29	-24	-30	-121	106
Nondurable	9	5	2	-1	0	2	-9	-16
Construction	14	8	10	14	-7	-51	104	60
Trade	64	48	32	38	44	-15	133	11
Finance, insurance, real estate	11	12	11	15	11	14	12	15
Services	118	99	137	76	87	74	145	146
Total government	27	29	42	48	2	41	40	28
Private nonfarm production workers	197	144	151	94	129	50	246	282
Manufacturing production workers	20	-10	-14	-27	-19	-14	-129	94
Total employment[3]	192	146	165	-41	156	52	-25	172
Nonagricultural	193	145	181	-68	164	15	37	229

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)

	1988	1989	1989 Q2	1989 Q3	1989 Q4	1989 Dec.	1990 Jan.	1990 Feb.
Civilian, 16 years and older	5.5	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Teenagers	15.3	15.0	15.0	15.0	15.2	15.2	14.5	14.8
20-24 years old	8.7	8.6	8.4	8.7	8.9	8.9	8.5	8.4
Men, 25 years and older	4.2	3.9	3.9	3.9	4.0	3.9	4.2	4.1
Women, 25 years and older	4.3	4.2	4.2	4.2	4.3	4.3	4.1	4.3
White	4.7	4.5	4.5	4.5	4.5	4.6	4.5	4.6
Black	11.7	11.5	11.3	11.3	11.8	11.8	11.3	10.5
Fulltime workers	5.1	4.9	4.9	5.0	5.0	5.0	5.0	4.9
Memo:								
Total national[1]	5.4	5.2	5.2	5.2	5.3	5.3	5.2	5.2

1. Includes resident armed forces as employed.

Employment in services posted a second monthly increase of nearly 150,000 in February, with gains widespread. Over the past year, services have accounted for more than one-half of the growth in private nonfarm payroll employment. Between February 1989 and February 1990, jobs in services industries rose 4.8 percent, compared with 2.5 percent for private employment overall. Growth has been particularly rapid in the large health services category. However, gains in business services have been held down by a decline in jobs at personnel supply agencies, a source of considerable growth between 1983 and 1987.

Employment in the manufacturing sector was boosted in February by the return to work of 97,000 auto workers who had been laid off in January. Smoothing through these fluctuations, employment in the motor vehicles industry was flat over the two-month period and has dropped nearly 50,000 over the past year. Related industries, including textiles, rubber, and plastics, also have suffered losses. Elsewhere, small cutbacks in manufacturing jobs continued to cumulate in February, particularly in the electrical equipment, machinery, and lumber industries.

In the government sector, hiring of workers to conduct the decennial Census is giving a temporary boost to employment. The BLS reports that about 20,000 Census workers were hired in January and February; in total, funding for 500,000 positions has been provided. Nevertheless, the maximum number actually employed at any single time is expected to be closer to 300,000, because enumerators will be terminated as processors begin work. As the Census winds down in the third quarter of 1990, the related bulge in federal government employment will be reversed.

GROWTH IN SELECTED COMPONENTS OF INDUSTRIAL PRODUCTION
(Percent change from preceding comparable period)

	1989:Q4		1989			1989	1990	
	Proportion	1989[1]	H1[1]	Q3	Q4	Dec.	Jan.	Feb.
			---Annual rate---			---Monthly rate---		
Total index	100.0	1.6	2.7	1.3	-.2	.1	-1.0	.6
Previous		1.6	2.7	1.3	-.1	.2	-1.2	
Final products	47.3	2.3	5.0	.3	-1.1	.7	-1.5	1.1
Consumer goods	25.2	2.5	3.5	-1.6	4.5	.5	-2.2	1.3
Motor vehicles	2.5	-7.5	-3.6	-21.5	.3	3.0	-19.0	17.5
Durables excluding motor vehicles	3.7	2.7	6.3	-.9	-.6	-1.0	1.9	.0
Nondurable goods	19.0	3.9	4.1	1.4	6.0	.5	-.6	-.3
Business equipment	16.8	3.4	9.5	1.1	-5.9	1.3	-1.3	1.0
Motor vehicles	.9	-14.0	-13.2	-25.0	-3.3	1.9	-31.0	33.7
Computers	4.5	9.7	24.0	-4.7	-1.1	1.2	-.8	-.5
Civilian aircraft	.8	.1	22.7	18.7	-44.2	19.2	3.2	2.6
Other	11.4	2.7	6.7	6.2	-8.0	1.2	.9	-.2
Construction supplies	6.0	2.6	-.3	2.9	8.1	.9	.0	-.3
Materials	38.1	.1	-.1	2.0	-1.2	-1.0	-.5	.1
Durables	20.0	-.5	-.3	4.0	-5.0	-1.1	-.6	.9
Consumer parts	3.7	-4.7	-2.1	-2.0	-12.0	-3.4	-5.4	5.2
Metals	3.1	-7.1	-9.3	8.0	-16.2	-1.1	3.1	-1.1
Nondurables	9.8	1.8	2.5	2.4	-.1	-1.0	.3	-.7
Memo:								
Manufacturing	87.9	1.7	3.4	1.5	-1.4	-.1	-.7	.7
Utilities	5.0	3.5	2.4	-5.9	16.5	7.5	-10.6	-.8

1. From the final quarter of the previous period to the final quarter of the period indicated.

PERCENT CHANGE IN ORDERS FOR MANUFACTURED GOODS[1]
(For industries that report unfilled orders; seasonally adjusted)

	1989		1990	1989			1990
	Q3	Q4	Jan./Oct.	Oct.	Nov.	Dec.	Jan.
Durable goods excluding civilian aircraft, defense, and motor vehicles and parts	-1.9	2.6	.1	-1.4	1.4	1.7	-3.0
Nondefense capital goods excluding aircraft	-4.2	2.2	2.8	-4.1	4.7	3.3	-4.9
Nondurable goods	-.7	-1.0	.1	-.9	1.6	-4.3	2.9

1. Percent change from prior comparable period.

According to the household survey, total employment rose 172,000 in February. Growth in this measure of jobs has been weak relative to the payroll survey since mid-1989.[1] Over this period, unemployment has been little changed. This has been associated with a decline in the number of unemployed persons who are just entering or reentering the labor force. That decline has offset a rise of about 300,000 in the number of job losers, an increase consistent with the rise in insured unemployment since the middle of last year.

A number of private firms conduct surveys of labor market conditions. The Conference Board's index of help-wanted advertising, which measures the volume of job advertising in major newspapers, fell in January and remains substantially below its year-ago level, suggesting that labor demand might not be quite as strong as the payroll survey indicates. In contrast, the survey by Manpower Inc. of the hiring plans of 15,000 large public and private employers showed strong gains expected to continue into the first quarter of this year, even before the weather boosted actual payrolls. This survey, however, suggests weaker labor demand in the second quarter.

Industrial Production and Capacity Utilization

The monthly figures on industrial activity have continued to be bounced around by special factors. In February, total industrial production increased 0.6 percent, retracing more than half of a sharp January decline. Manufacturing output rose 0.7 percent, returning to its December level, with

1. Growth in multiple jobholding, which is captured in the payroll count, may be responsible for some of the difference. But the gap also may be attributable to an undercount of population in the household survey or overestimates of growth of new firms in the payroll survey. Revised population figures will become available with data from the 1990 Census. The payroll survey will be rebenchmarked in early September to March 1989 universe counts of business employment from unemployment insurance records.

CAPACITY UTILIZATION IN INDUSTRY
(Percent of capacity; seasonally adjusted)

	1967-89 Ave.	1973 Ave.	1978-79 Ave.	1989 Feb.	1989 Dec.	1990 Jan.	1990 Feb.
Total industry	81.7	87.9	85.0	83.9	83.0	82.0	82.3
Manufacturing	80.9	87.0	84.4	84.3	82.8	82.0	82.4
Primary processing	82.2	91.3	86.3	87.0	84.6	85.0	84.4
Advanced processing	80.3	85.1	83.3	83.0	82.0	80.7	81.5
Durable manufacturing	79.0	86.2	83.5	82.9	81.0	79.6	80.5
Primary metals	80.2	96.6	87.8	88.4	78.6	82.1	80.7
Iron and steel	79.1	97.9	88.2	87.9	76.2	80.5	78.6
Nonferrous metals	81.8	94.2	87.1	89.0	81.8	84.2	83.6
Fabricated metal products	78.2	84.0	84.6	84.1	82.1	80.8	81.4
Nonelectrical machinery	78.5	86.6	83.2	84.7	85.6	85.1	84.8
Electrical machinery	78.0	84.2	85.3	77.5	75.6	75.9	75.8
Motor vehicles & parts	78.3	94.5	83.6	85.4	75.6	58.8	71.4
Autos	75.8	89.3	81.7	72.9	64.3	43.1	60.4
Nondurable manufacturing	83.8	88.1	85.7	86.3	85.4	85.5	85.0
Textile mill products	85.5	90.1	86.7	89.9	90.3	89.6	88.2
Paper and products	89.0	94.2	89.4	93.5	91.3	91.1	90.4
Chemicals and products	79.6	86.9	81.4	88.7	86.3	87.1	86.3
Mining	86.3	91.4	90.5	80.6	82.6	84.8	84.4
Utilities	86.5	92.8	85.3	82.6	87.3	78.0	77.3
Memo:							
Industrial materials	82.4	91.1	86.7	84.0	82.3	81.7	81.6
Raw steel	80.9	100.4	90.7	87.6	76.7	83.0	79.2
Aluminum	88.3	93.8	94.0	99.2	97.2	97.9	97.4
Paper materials	92.1	96.8	92.1	95.8	94.3	93.5	92.2
Chemical materials	81.6	91.1	85.9	89.8	84.8	85.9	84.9
Energy materials	88.7	93.7	89.4	84.9	85.9	84.9	84.3

a rebound in assemblies of motor vehicles and related materials more than accounting for the rise in output. Auto assemblies picked up to an annual rate of 5.8 million units (FRB seasonals), from a 4.1 million unit pace in January, and production of trucks returned to its fourth-quarter rate. By contrast, mild weather continued to hold down the output of utilities. Setting aside these factors, industrial production was essentially unchanged last month, and has been flat, on balance, since last autumn.

CONTRIBUTIONS OF SPECIAL FACTORS TO IP GROWTH[1]
(Percent)[2]

	1989				1990	
	Q4	Oct.	Nov.	Dec.	Jan.	Feb.
Total IP	**-.2**	**-.3**	**.3**	**.1**	**-1.0**	**.6**
Motor vehicles	-.3	-.1	.0	.0	-.9	.7
Auto assemblies	.0	.0	-.1	.0	-.4	.3
Truck assemblies	-.1	-.1	.1	.1	-.3	.3
Parts	-.2	.0	.0	-.1	-.2	.1
Aircraft and parts	-1.1	-.4	.1	.2	.1	.0
Utilities	.7	.0	.0	.4	-.6	.0
IP excluding all of above	**.5**	**.2**	**.2**	**-.5**	**.4**	**-.1**

1. Components may not add to total because of rounding. The contribution of industry _i_ to output growth at time _t_ equals its growth rate multiplied by its proportion in the total index at time _t_ - 1.
2. Quarterly percent changes are at annual rates.

Excluding motor vehicles and aircraft, output of final products was down in February, as production of nondurable consumer goods and other types of business equipment declined. While production of durable materials was boosted by the rebound in output of parts for motor vehicles, output of basic metals was reduced. Despite last month's decline, output of metal materials appears to have leveled out since December after falling more than 7 percent during 1989. Production of nondurable materials decreased 0.7

PERSONAL INCOME
(Average monthly change at an annual rate; billions of dollars)

	1989	1989 Q3	1989 Q4	1989 Nov.	1989 Dec.	1990 Jan.
Total personal income	30.0	16.5	33.2	42.1	22.7	35.9
Wages and salaries	16.2	15.6	14.4	1.3	16.8	16.2
Private	13.7	13.3	12.1	-.8	14.7	11.3
Other labor income	1.6	1.6	1.6	1.5	1.6	1.6
Proprietors' income	2.3	-2.5	4.7	7.1	.9	3.5
Farm	.8	-3.4	1.9	-.2	-1.2	.6
Rent	-.4	-3.8	4.4	18.0	1.9	1.6
Dividend	.8	.6	.9	1.0	.6	.8
Interest	6.5	2.9	4.5	4.6	4.5	4.2
Transfer payments	4.6	3.1	3.6	8.5	-2.2	16.6
Less: Personal contributions for social insurance	1.6	.8	.9	.1	1.0	8.8
Less: Personal tax and nontax payments	5.6	4.5	4.9	2.7	5.4	-.6
Equals: Disposable personal income	24.4	12.1	28.2	39.3	17.4	36.5
Memo: Real disposable income	9.2	5.2	10.2	19.5	8.7	-2.7

REAL PERSONAL CONSUMPTION EXPENDITURES
(Percent change from the preceding period)

	1989	1989 Q3	1989 Q4	1989 Nov.	1989 Dec.	1990 Jan.
	---Annual rate---			---Monthly rate---		
Personal consumption expenditures	2.5	5.6	.4	.0	.9	-.5
Motor vehicles	-5.9	28.4	-33.7	-4.6	2.5	8.9
Electricity, natural gas, and fuel oil and coal	2.8	-.4	30.1	2.7	13.4	-21.9
Other goods and services	3.1	4.3	2.3	.2	.2	.0
Goods	1.6	3.9	-.2	.4	.1	-.3
Services	4.5	4.7	4.7	.1	.3	.3
Personal saving rate (percent)	5.4	5.1	5.7	6.0	5.5	5.9

percent in February; there were declines in the output of textile, paper, and chemical materials, coupled with continued weakness in production of energy materials.

For March, a further increase in assemblies of motor vehicles is expected to boost industrial output about 0.2 percent, even though production in recent weeks has been running just a bit under schedule. Nevertheless, other indicators of manufacturing activity suggest that production outside of the motor vehicle industry is likely to remain about flat. The basic trend in those orders for durable goods containing information about near-term movements in industrial production has been moving essentially sideways since last October.

In February, the overall capacity utilization rate for manufacturing, mining, and utilities was 82.3 percent, about 1-3/4 percentage points below mid-1989 levels. For advanced-processing industries, the retrenchment in auto production has contributed importantly to the increased slack; the slowdown in output of nonelectrical machinery also has reduced utilization. The operating rate for primary-processing industries declined more steeply--by around 2 percentage points--over the second half of 1989, but in February was only a bit below its December level. Utilization at producers of primary metals, which had fallen almost 10 percentage points last year, has increased slightly so far this year.

Consumption and Personal Income

The underlying pace of consumer spending has been difficult to discern because of wide swings in outlays for motor vehicles and energy-related items. Reduced spending for cars and light trucks held down growth in overall consumer outlays substantially in the fourth quarter, but outlays

RETAIL SALES
(Seasonally adjusted percentage change)

	1989			1989	1990	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
Total sales	1.8	1.6	-.4	-.4	2.9	-.8
Previous estimate[1]	1.7	1.7	-.5	-.3	2.8	-.9
Retail control[2]	1.9	1.2	1.2	.3	.9	.7
Previous estimate[1]	2.0	1.1	1.2	.4	.8	.5
GAF[3]	1.2	1.2	1.2	-1.1	1.5	1.6
Previous estimate[1]	1.4	1.0	1.1	-.9	1.3	1.6
Durable goods stores	1.4	2.5	-3.2	-2.0	7.0	-3.2
Previous estimate[1]	1.5	2.7	-3.2	-2.1	6.7	-3.0
Automotive dealers	1.4	3.5	-5.0	-2.2	10.1	-6.2
Furniture and appliances	.3	-.4	.7	-3.5	4.2	1.0
Other durable goods	2.3	2.7	.3	.9	1.7	1.9
Nondurable goods stores	2.0	1.1	1.2	.6	.6	.6
Previous estimate[1]	1.9	1.1	1.3	.7	.5	.4
Apparel	3.7	1.5	.4	-1.8	.4	1.5
Food	1.6	1.2	1.2	.6	.2	.6
General merchandise[4]	.6	1.8	1.8	.2	.8	1.9
Gasoline stations	6.5	-1.9	1.5	1.7	1.0	-.9
Other nondurables[5]	1.2	1.7	1.0	1.1	.7	.0
Memo:						
Motor vehicle sales[6]	14.9	15.9	13.0	13.2	15.3	13.7
Autos	10.3	10.8	8.7	8.9	10.2	9.5
Light trucks	4.6	5.1	4.3	4.3	5.1	4.2

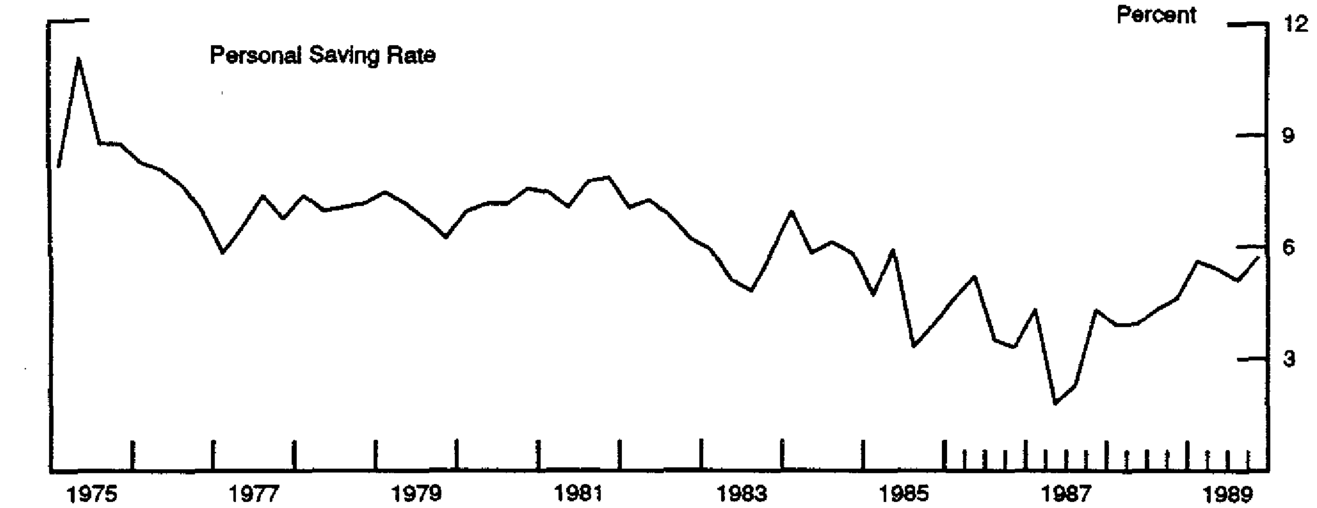
1. Based on incomplete sample counts approximately one month ago.
2. Total retail sales less building material and supply stores and automotive dealers, except auto and home supply stores.
3. General merchandise, apparel, furniture, and appliance stores.
4. General merchandise excludes mail order nonstores; mail order sales are also excluded in the GAF grouping.
5. Includes sales at eating and drinking places, drug and proprietary stores.
6. Millions of units at an annual rate; BEA seasonals.

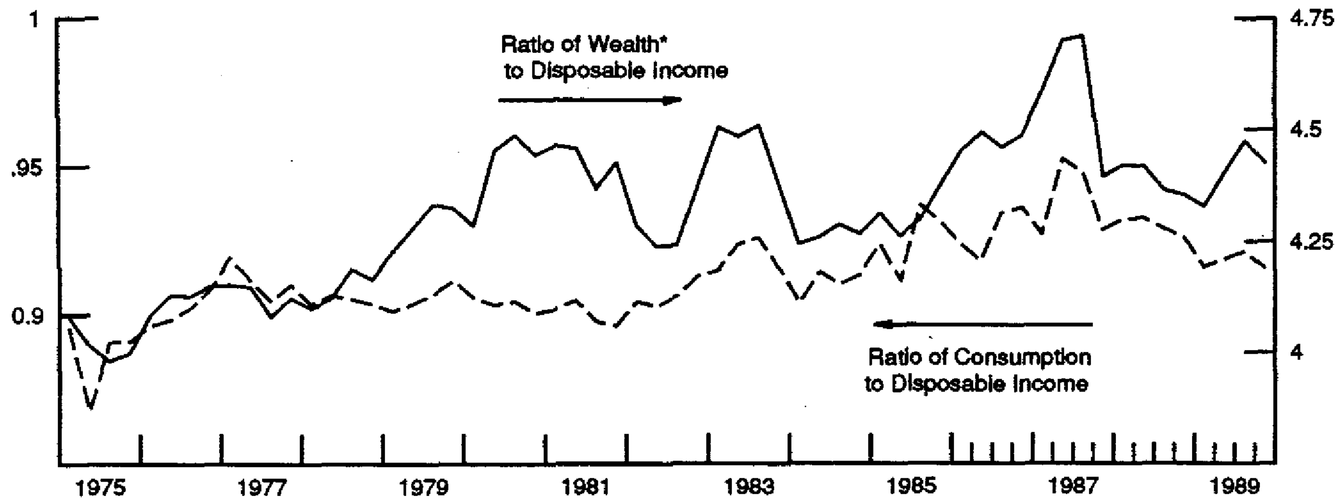
for motor vehicles picked up in January. By contrast, spending on electricity, natural gas, and heating oil rose 13 percent with the colder-than-usual weather in December and then dropped 22 percent during the unseasonably warm January. Excluding energy items and motor vehicles and parts, real personal consumption expenditures currently are estimated by BEA to have been flat in January after rising at an annual rate of 2-1/4 percent in the fourth quarter of 1989 and at a 3-1/2 percent rate over the first three quarters of the year.[2]

The recent sluggishness in spending has been concentrated in outlays for consumer goods. Spending on goods other than fuel oil and motor vehicles is now shown to have edged down in January after recording little change in the fourth quarter. According to the revised estimates of retail sales, outlays in the retail control category, which excludes automotive dealers and building supply stores, increased 0.7 percent in nominal terms in February after rising 0.9 percent in January. Nonetheless, given the recent increases in consumer prices, sales in real terms in February probably were a bit below the fourth-quarter average. Much of the recent weakness has been in outlays for food. In contrast, spending on durable goods other than motor vehicles has been relatively robust. Expenditures for services have remained strong; in real terms, spending on nonenergy

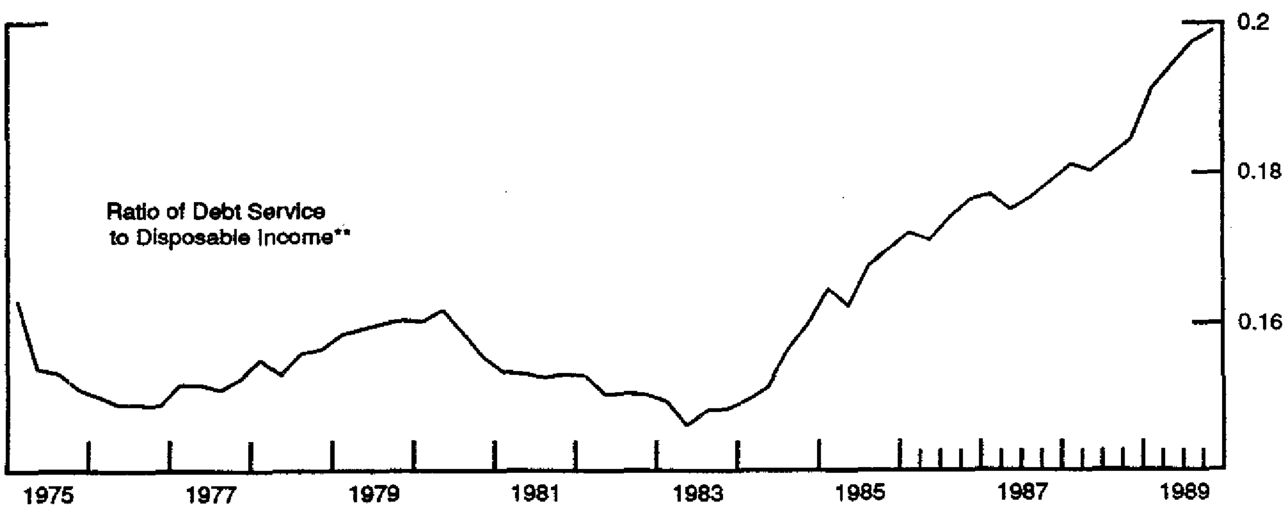
2. On March 20, the Commerce Department released its annual revisions to retail sales and inventories for the period from January 1982 to February 1990. The revisions benchmark these series to annual retail trade surveys and quinquennial censuses of business. The BEA will incorporate the revised changes in retail sales in January and February in their estimates of first-quarter GNP. The staff estimates that on a revised basis, real personal consumption expenditures excluding motor vehicles and weather-related energy items rose about 0.2 percent in January.

Consumer Saving, Wealth, and Debt Service





*Flow of Funds definition of household net worth



**Includes mortgage and consumer installment debt. Estimate services rose 1/4 percent in January following a 4-3/4 percent annual rate increase in the fourth quarter of 1989.

With income growing faster than spending, the personal saving rate, which rose substantially during 1988 and early 1989, has continued to edge up, on balance, and reached 5.9 percent in January. This behavior is difficult to explain. Unlike the rise in 1988, the recent behavior of the saving rate does not seem attributable to changes in household wealth: substantial gains in stock market prices have boosted the ratio of net worth to disposable income over the past year. One hypothesis is that developments in markets for consumer credit have been making households either less able or less willing to take advantage of gains in net worth to finance current consumption. On the demand side, household finances appear to be under somewhat greater stress, as reflected in increased delinquency rates for some consumer loans and in a rise in personal bankruptcies. Short of such pronounced difficulties, rising debt service payments may have caused some consumers to decide it was time to increase saving in order to work down their stock of debt, especially in light of the lower marginal tax rates and loss of deductibility of interest on consumer loans.[3] The Michigan SRC survey indicates some reduced willingness to use savings or to borrow to make purchases. On the supply side, losses experienced by lenders

3. While there is no high-frequency survey coverage of consumer debt service payments, debt service estimates can be derived from data on outstanding debt, interest rates, and loan maturities; the estimates also require assumptions concerning prepayments and, where otherwise not available, loan extensions. The methodology is described by Lynn Paquett in "Estimating Household Debt Service Payments," Federal Reserve Bank of New York, *Quarterly Review* (Summer 1986). These data show that the ratio of mortgage and consumer installment debt service to disposable personal income trended up through 1988 and 1989, reaching almost 20 percent by the end of 1989.

appear to have led to a tightening of terms on some types of installment credit; more restrictive lending practices could increase saving by preventing consumers from leveraging themselves as much as desired.

Another possible factor contributing to the higher personal saving rate in 1989 is the shift in the composition of income. Some econometric models, such as the MPS model, estimate a higher marginal propensity to save from interest than labor income. Over the past year, personal interest income has increased 13.5 percent, while wages and salaries have risen 7.8 percent. Thus, some of the recent upward movement in the saving rate may reflect a tendency of households to save more from interest than from labor income.

Autos and Light Trucks

Motor vehicle sales responded well initially to manufacturers' incentive programs, but the effect now may be fading--in part because current incentives are somewhat less generous than those in place at the turn of the year. Sales of domestically produced cars and light trucks were at a 10.6 million unit annual rate in February, down from the 12.1 million unit rate recorded in January. At 3.1 million units, sales of foreign-made cars and light trucks were little changed from their January pace.

Domestic auto production, although up, remained quite low in February, running at just a 5.8 million unit annual rate. Domestic automakers have been successful in eliminating the overhang of stocks; dealers' new-car inventories are estimated to have fallen to 1.34 million units by the end of last month, the lowest level since September 1985. At the February sales pace, dealers had a sixty-one days' supply of cars on their lots. Manufacturers appear committed to avoiding a renewed inventory buildup in the near term. Production is scheduled to be less than 6-1/2 million units, at an annual rate, through midyear, about 1/2 million units below the rate of production during 1989 as a whole.

SALES OF AUTOMOBILES AND LIGHT TRUCKS[1]
(Millions of units at an annual rate, BEA seasonals)

			1989		1989	1990	
	1988	1989	Q3	Q4	Dec.	Jan.	Feb.
Autos and light trucks	15.45	14.51	15.91	13.02	13.22	15.24	13.71
Autos	10.64	9.90	10.77	8.75	8.87	10.19	9.50
Light trucks	4.81	4.61	5.14	4.28	4.35	5.06	4.20
Domestically produced[2]	11.74	11.19	12.43	9.99	10.33	12.07	10.58
Autos	7.54	7.08	7.87	6.19	6.47	7.45	6.77
Light trucks	4.21	4.11	4.57	3.80	3.87	4.62r	3.81
Imports	3.70	3.33	3.48	3.04	2.89	3.17	3.13
Autos	3.10	2.82	2.90	2.56	2.41	2.73	2.73r
Light trucks[3]	.60	.50	.58	.48	.48	.44r	.39r

Note: Data on sales of trucks and imported autos for the current month are preliminary and subject to revision.
1. Components may not add to totals due to rounding.
2. Includes vehicles produced in Canada and Mexico and vehicles made in U.S. plants of foreign manufacturers.
3. Based on seasonals for domestic light trucks.
r--revised nsa data for month.

Manufacturing and Trade Inventories

The relatively prompt adjustment of output to the slowing in demand for domestic manufactured goods has prevented, so far, any persistent backup of factory stocks. Indeed, outside of the transportation equipment sector, inventory changes have been relatively small since mid-1989, and the inventory-to-shipments ratio has been essentially flat (chart, dashed line in upper left panel).

In the transportation equipment industry, the stock-sales ratio has risen appreciably since the middle of last year. In January, for example, almost two-thirds of the $33 billion accumulation in manufacturing

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars at annual rates; based on seasonally adjusted data)

	1989			1989		1990
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Current-cost basis:						
Total	59.7	39.3	14.1	39.1	-31.1	23.2
Total excluding retail auto	47.4	30.3	28.6	40.0	-23.1	50.1
Manufacturing	21.4	17.6	.8	13.2	-20.8	33.3
Wholesale	11.5	1.4	15.8	10.4	-1.7	4.5
Retail	26.7	20.3	-2.5	15.5	-8.6	-14.6
Automotive	12.2	8.9	-14.5	-.8	-8.1	-26.9
Excluding auto	14.5	11.3	12.0	16.3	-.6	12.4
Constant-dollar basis:						
Total	16.2	9.9	22.1	44.7	-28.5	n.a.
Total excluding retail auto	19.2	18.9	14.8	34.1	-32.5	n.a.
Manufacturing	8.3	12.0	-2.7	8.5	-17.9	n.a.
Wholesale	5.2	-.5	10.7	10.4	-9.3	n.a.
Retail	2.6	-1.6	14.1	25.9	-1.3	n.a.
Automotive	-3.0	-9.0	7.3	10.6	4.1	n.a.
Excluding auto	5.7	7.4	6.8	15.3	-5.4	n.a.

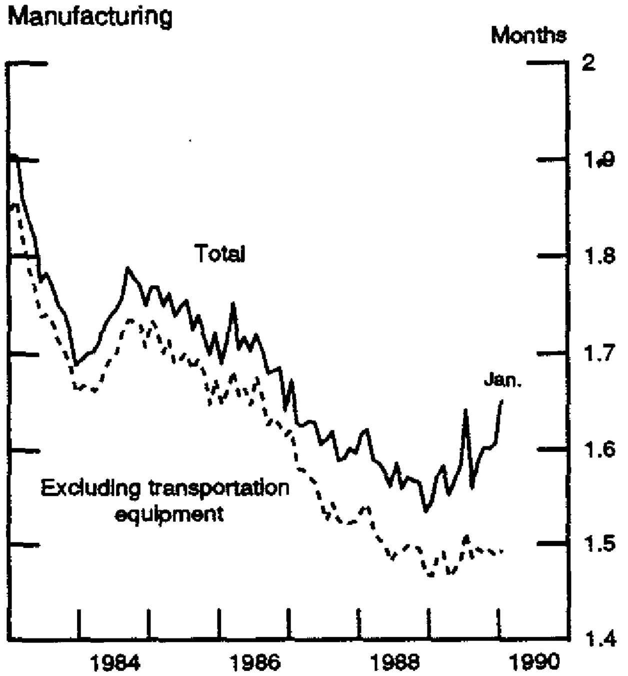
INVENTORIES RELATIVE TO SALES[1]
(Months supply; based on seasonally adjusted data)

	Range in preceding 12 months:[2]		1989			1989		1990
	Low	High	Q2	Q3	Q4	Nov.	Dec.	Jan.
Current-cost basis:								
Total	1.48	1.53	1.50	1.51	1.52	1.52	1.52	1.51
Total excluding retail auto	1.45	1.50	1.47	1.48	1.48	1.49	1.48	1.49
Manufacturing	1.55	1.64	1.57	1.59	1.60	1.60	1.61	1.65
Wholesale	1.27	1.30	1.28	1.28	1.29	1.29	1.28	1.26
Retail	1.58	1.62	1.60	1.61	1.62	1.61	1.62	1.56
Automotive	1.98	2.07	2.04	2.04	2.04	2.04	2.07	1.81
Excluding auto	1.46	1.50	1.48	1.49	1.50	1.50	1.50	1.49
Constant-dollar basis:								
Total	1.48	1.52	1.50	1.49	1.51	1.51	1.50	n.a.
Total excluding retail auto	1.46	1.51	1.47	1.48	1.48	1.49	1.48	n.a.
Manufacturing	1.52	1.63	1.57	1.58	1.59	1.59	1.59	n.a.
Wholesale	1.31	1.36	1.33	1.32	1.32	1.33	1.31	n.a.
Retail	1.51	1.56	1.55	1.52	1.56	1.56	1.56	n.a.
Automotive	1.70	1.93	1.88	1.72	1.89	1.87	1.94	n.a.
Excluding auto	1.44	1.48	1.46	1.46	1.47	1.48	1.47	n.a.

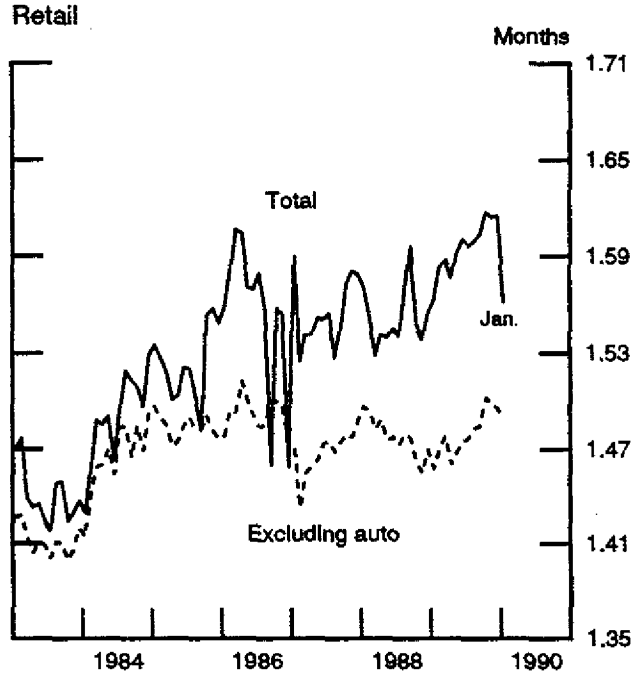
1. Ratio of end of period inventories to average monthly sales for the period.
2. Highs and lows are specific to each series and are not necessarily coincidential. Range is for the 12-month period preceding the latest month for which data are available.

RATIO OF INVENTORIES TO SALES
(Current–cost data)

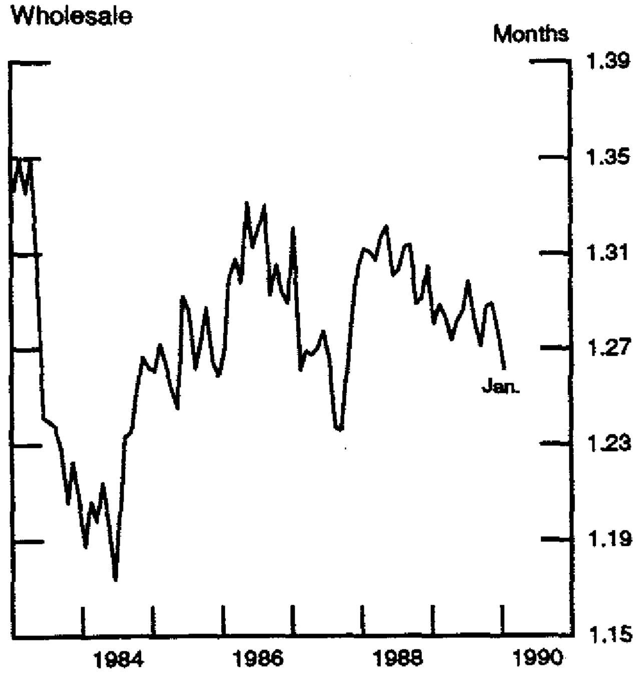
Manufacturing



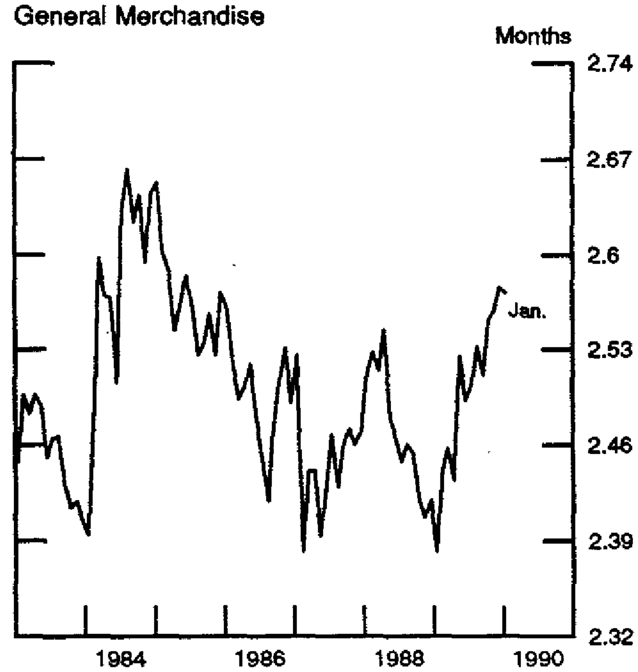
Retail



Wholesale



General Merchandise



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

	1989			1989		1990
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Producers' durable equipment						
Shipments of nondefense capital goods	3.0	2.2	-2.7	-.1	2.5	.6
Excluding aircraft and parts	3.0	-.2	-.4	1.2	2.9	-2.1
Office and computing	6.1	-1.0	-2.1	2.2	5.9	.6
All other categories	2.3	.0	.1	.9	2.2	-2.7
Weighted PDE shipments[1]	3.1	1.2	.8	1.7	.1	.5
Shipments of complete aircraft[2]	14.7	46.2	-42.0	-26.0	13.2	60.4
Sales of heavy-weight trucks	-3.7	-2.2	-4.7	-11.2	-.3	8.0
Orders of nondefense capital goods	1.0	-2.5	4.7	8.1	14.1	-14.2
Excluding aircraft and parts	2.9	-4.2	2.2	4.7	3.3	-4.9
Office and computing	1.8	6.5	-2.5	1.4	.4	1.3
All other categories	3.1	-6.6	3.4	5.5	3.9	-6.3
Weighted PDE orders[1]	.8	-.4	2.6	2.8	2.4	-3.5
Nonresidential structures						
Construction put-in-place	-.8	1.9	-.7	.2	-3.9	4.5
Office	-3.4	-3.5	-2.6	-.8	-1.6	-.4
Other commercial	-6.5	5.4	1.3	-1.1	-8.8	4.4
Public utilities	3.8	-1.8	-.3	.8	1.6	.7
Industrial	3.9	7.0	2.3	1.5	-3.9	14.7
All other	.3	5.3	-3.2	.9	-7.0	7.2
Rotary drilling rigs in use	16.0	3.3	-2.7	-.6	-3.4	.0

1. Computed as the weighted sum of 25 individual equipment series (excluding aircraft) from the Census M-3 report with weights equal to the fraction of final business spending for each type of equipment.

2. From the Current Industrial Report (CIR) titled Civil Aircraft and Aircraft Engines. Seasonally adjusted with BEA seasonal factors. To estimate PDE spending for aircraft, BEA uses the aircraft shipments shown in that report, not the corresponding Census M-3 series. The CIR does not provide information on aircraft orders.

n.a. Not available.

inventories was in stocks of work-in-process reported by producers of transportation equipment. This likely reflected the restocking of parts and components as aircraft assembly plants returned to full production following the Boeing strike. Inventories of finished goods fell for the fourth straight month.

At the trade level, the pace of inventory accumulation slowed considerably around the turn of the year, owing to widespread reductions in December. Overall trade inventories continued to decline in January, but the drop in auto dealers' stocks more than accounted for the reduction. Stocks appear to be under control in most sectors, and although the inventory-sales ratio for general merchandisers continued to move up in January, the data now show that increase to have been less steep than reported earlier.[4] Most types of non-auto retailers reported small changes in stocks in January, and the inventory-sales ratio for this category of stores tipped down (chart, upper right panel).

Business Fixed Investment

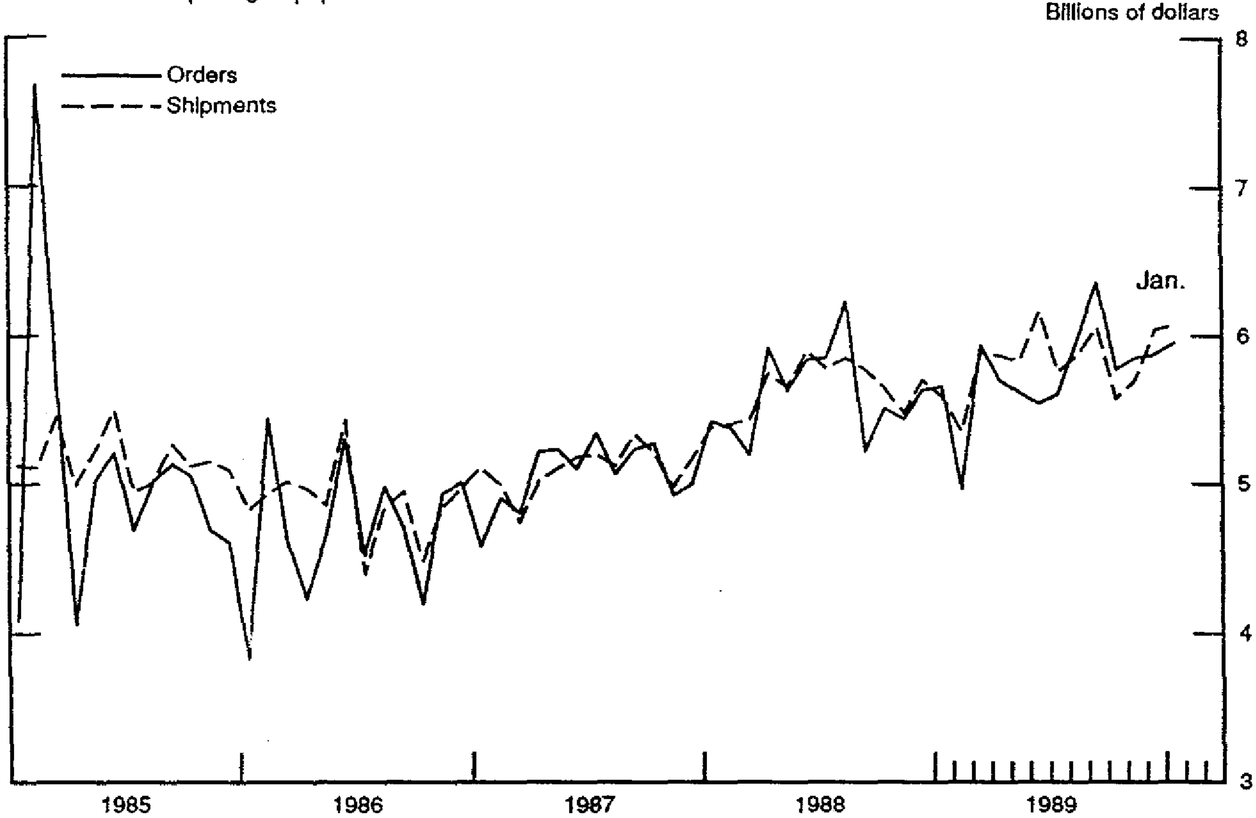
Capital spending appears to be retracing a fourth-quarter decrease that largely reflected transitory developments in motor vehicles and aircraft. Business purchases of autos and trucks probably rose sharply in January and February in response to enhanced incentives, and shipments of aircraft to domestic firms have resumed at Boeing.

Excluding the transportation sector, indicators of real producers' durable equipment point to a substantial advance in the current quarter. Outside of aircraft, shipments of nondefense capital goods, weighted by PDE

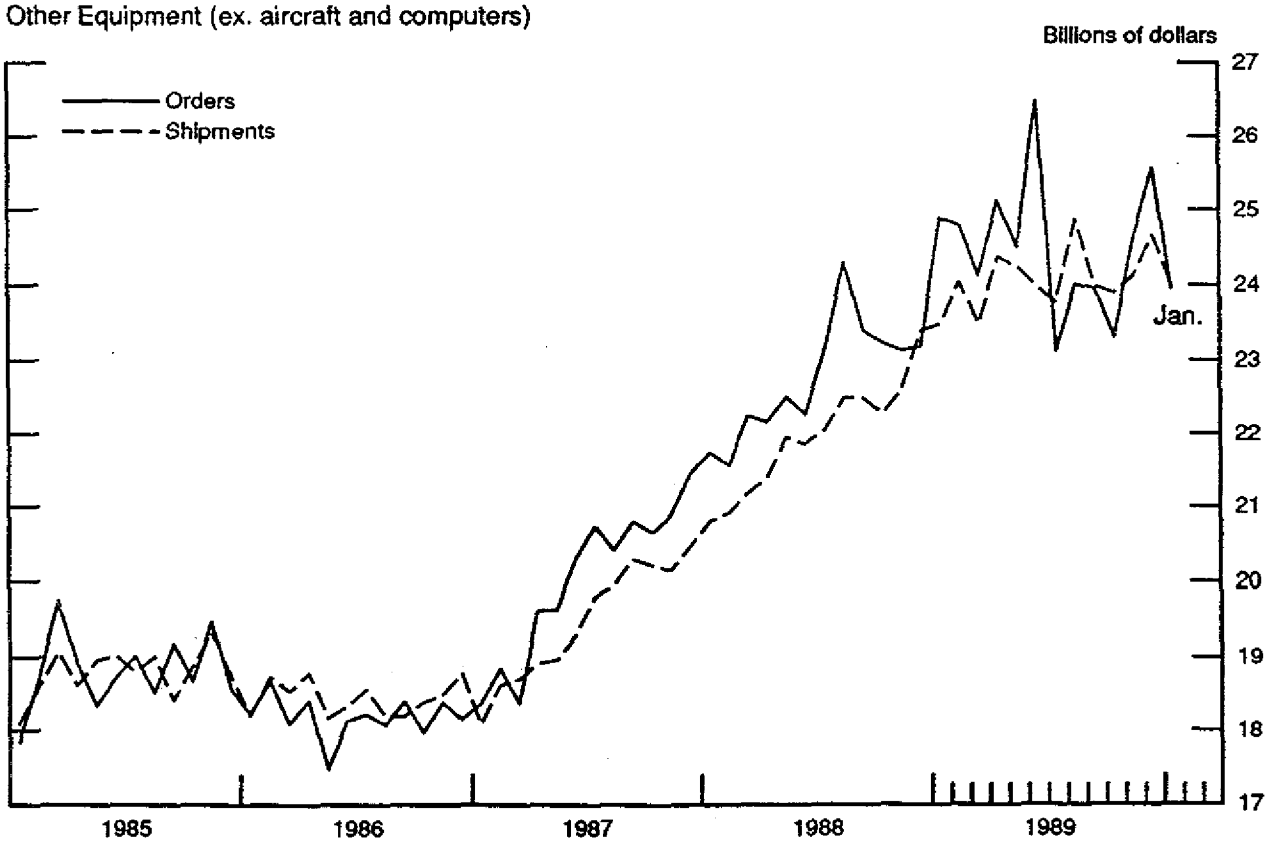
4. The annual benchmark revisions to retail sales and inventories were released on March 20. See footnote 2.

RECENT DATA ON ORDERS AND SHIPMENTS

Office and Computing Equipment



Other Equipment (ex. aircraft and computers)



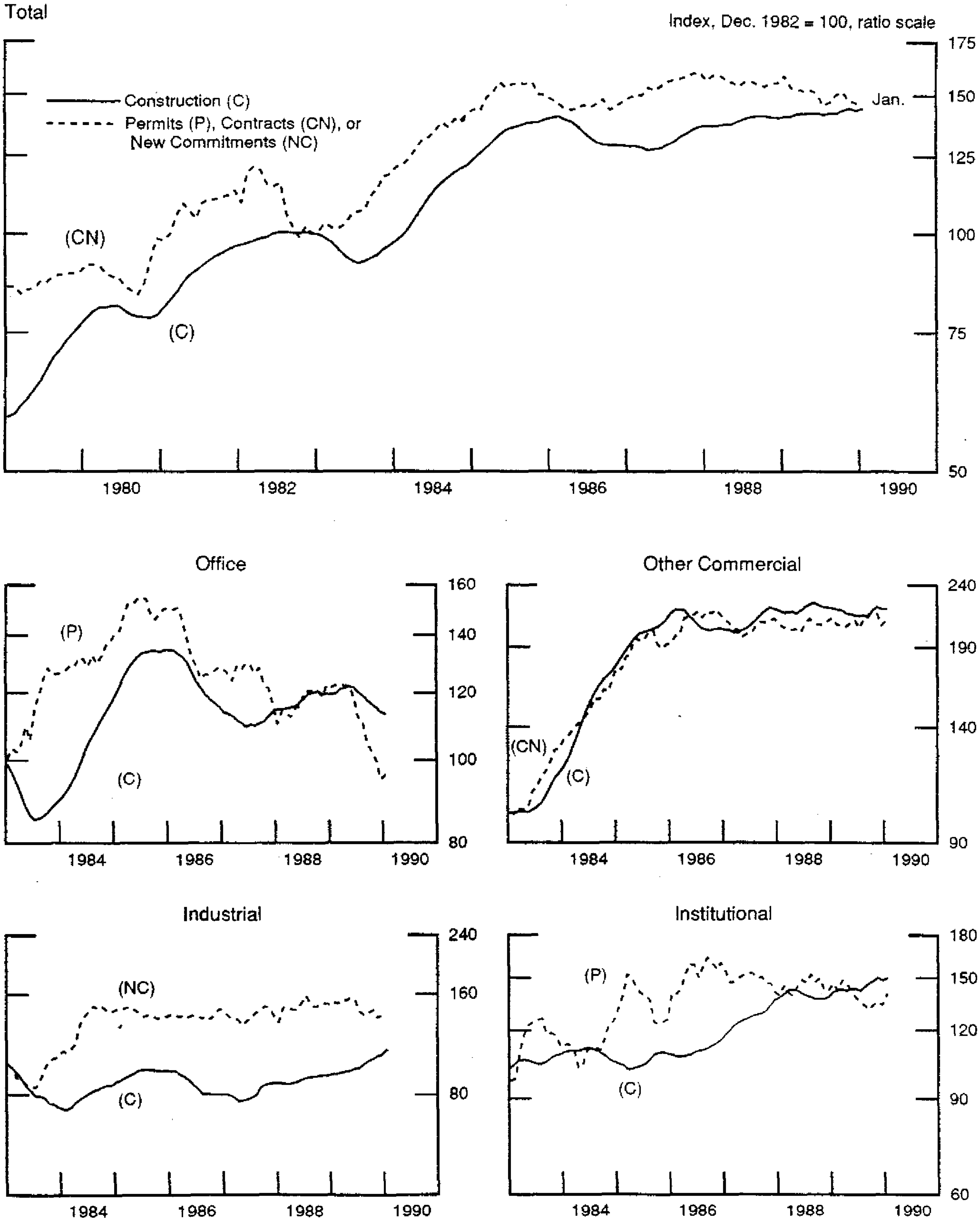
spending shares, rose 0.5 percent (not at an annual rate) in January to a level 1 percent above their fourth-quarter average. Shipments of machinery were strong at year-end, but fell a bit in January; however, sales of computers appear to have revived after a lackluster fourth quarter (chart).

Orders for nondefense capital goods, excluding the aircraft group, fell 5 percent in January. Much of the January decline was attributable to a sharp drop in bookings for communication equipment, after large runups in November and December. However, excluding communication equipment, as well as aircraft, orders in January stood 1 percent above the fourth-quarter level, suggesting continued moderate growth in equipment spending outside of transportation in the near term.

Real investment in nonresidential structures was flat last quarter, and forward-looking indicators have remained weak. Construction put-in-place jumped 4.5 percent in January, owing in part to unseasonably warm weather. This increase more than reversed the December decline, pushing the January level 1-3/4 percent (in nominal terms) above the fourth-quarter average. Construction contracts and building permits suggest a soft picture over the coming months (chart). Permits for office construction fell precipitously throughout 1989, as permits and contracts for most other types of buildings remained stagnant.

Expenditures on drilling structures rose notably in the fourth quarter. And, although the average number of drilling rigs in use during January and February fell to a level 1-1/4 percent below its fourth-quarter average, footage drilled in January stood 3-1/2 percent above its fourth-quarter

NONRESIDENTIAL CONSTRUCTION AND SELECTED INDICATORS*



*Six-month moving average for all series shown.

level.[5] On balance, these data point to moderate growth of outlays in the current quarter.

Housing Markets

Housing starts--at 1.48 million units--were robust for a second month in February. The continuation of unusually warm weather contributed to a further strengthening of single-family construction, despite a small rise in mortgage rates. The average January-February pace of single-family construction--1.14 million units, compared with the 1989 average of 1 million units--no doubt reflects weather-related rescheduling of construction from future months. Other indicators of activity in this market are less robust. In particular, permit issuance for construction of single-family homes was unchanged through February compared with the fourth quarter of last year, suggesting that builders have not perceived a significant change in the demand for homes; this view matches the results of recent surveys of homebuilders. Existing home sales also have been essentially flat over the past several months, while new home sales declined 10 percent in January.

In the multifamily sector, starts fell 35 percent in February to an annual rate of 331,000 units, more than offsetting the sharp jump a month earlier, and permit issuance dropped back to a similar level. In January, builders apparently rushed to beat proposed HUD regulations that set new standards for most apartment projects receiving permits after January 13. Underlying conditions in the multifamily housing market have not improved.

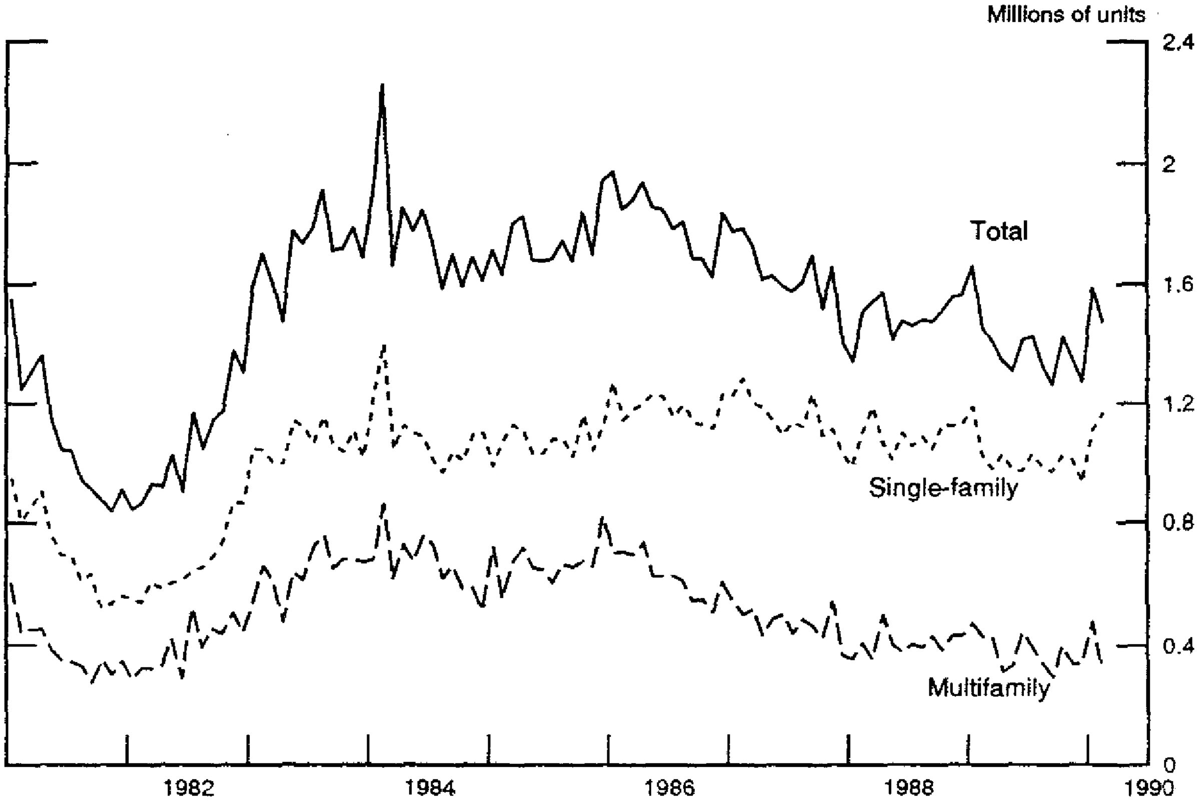
5. For the advance estimate of drilling and mining, BEA uses a weighted average of footage drilled (NSA) and the Baker-Hughes rig count (SA) with the weights set judgmentally. In recent quarters, BEA appears to be placing more weight on footage drilled than on the rig count.

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

	1989	1989			1989	1990	
	Annual	Q2	Q3	Q4	Dec.	Jan.	Feb.
All units							
Permits	1.33	1.33	1.31	1.36	1.38	1.75	1.31
Starts	1.38	1.35	1.34	1.35	1.27	1.59	1.48
Single-family units							
Permits	.93	.91	.93	.97	.97	1.00	.98
Starts	1.00	.99	1.00	.99	.93	1.11	1.17
Sales							
New homes	.65	.64	.70	.65	.63	.59	n.a.
Existing homes	3.44	3.34	3.44	3.54	3.56	3.48	n.a.
Multifamily units							
Permits	.40	.42	.38	.39	.41	.74	.33
Starts	.37	.36	.34	.36	.34	.48	.31
Vacancy rate[1]							
Rental units	9.3	9.3	9.2	9.5	n.a.	n.a.	n.a.
Owned units	7.5	6.8	7.6	9.6	n.a.	n.a.	n.a.

1. Percent. Owned units consist mainly of condominiums.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



Moreover, the recent increases in mortgage interest rates may be restraining multifamily construction activity.

Some builders continue to express concern about restrictions on the availability of financing from savings and loan associations for land acquisition, development, and construction (ADC loans) as a result of the higher capital requirements and tighter loan limits mandated by FIRREA. The constraint on home construction owing to the reduction in ADC lending by thrift institutions probably has been relatively small to date, but it will take some time to discern just how well other sources of credit are filling the gap faced by homebuilders too large to fall within S&L limits and too small to tap the open market.

The Federal Sector

The federal government recorded a budget surplus of $10 billion in January, bringing the deficit for the first four months of the current fiscal year to $60 billion, compared with $65 billion a year earlier. Personal income tax payments have remained the primary source of receipts growth, accounting for $14 billion of the $17 billion increase in receipts. Corporate income tax payments so far this fiscal year have been lower than a year ago, reflecting the falloff in corporate profits.

Outlays in the first four months of FY1990 were 3-1/4 percent, or $12 billion, higher than a year earlier. Growth in outlays was reduced, in part, by the $3 billion shift in military pay from the beginning of FY1990 to the end of FY1989. Also, agriculture spending has been well below the year-ago pace, owing to a sharp decline in drought-related disaster payments and the shift from FY1990 to FY1989 of about $1 billion in farm payments.

In addition, $9.5 billion in REFCORP borrowing was recorded as an offsetting receipt (negative outlay) in the unified budget.

The major sources of outlay growth were social security and Medicare outlays and net interest payments. In addition, spending in the education, science, health, and justice functions (areas that the President has identified as domestic priorities) was more than 10 percent above a year earlier. Expenditures for disaster relief, foreign military sales financing, federal employee retirement, and low-income support programs also rose rapidly.

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Billions of dollars,
except where otherwise noted)

	October-January		Net	Percent
	FY1989	FY1990	change	change
Outlays	375.7	388.1	12.4	3.3
National defense	99.5	95.7	-3.8	-3.8
Net interest	55.4	58.5	3.1	7.6
OASDI	74.3	79.2	4.9	6.6
Medicare	26.0	30.7	4.7	18.1
Deposit insurance	9.2	4.8	-4.4	-47.9
Agriculture	9.3	5.1	-4.2	-45.2
"Priority" nondefense domestic[1]	35.2	39.0	3.8	10.7
Other	67.8	75.1	7.3	10.8
Receipts	310.9	328.3	17.4	5.6
Personal income taxes	149.4	163.4	14.0	9.4
Social insurance contributions	105.3	109.8	4.5	4.3
Corporate income taxes, net	28.7	25.1	-3.6	-12.5
Other	27.5	30.0	2.5	9.1
Deficit	64.8	59.8	-5.0	-7.7

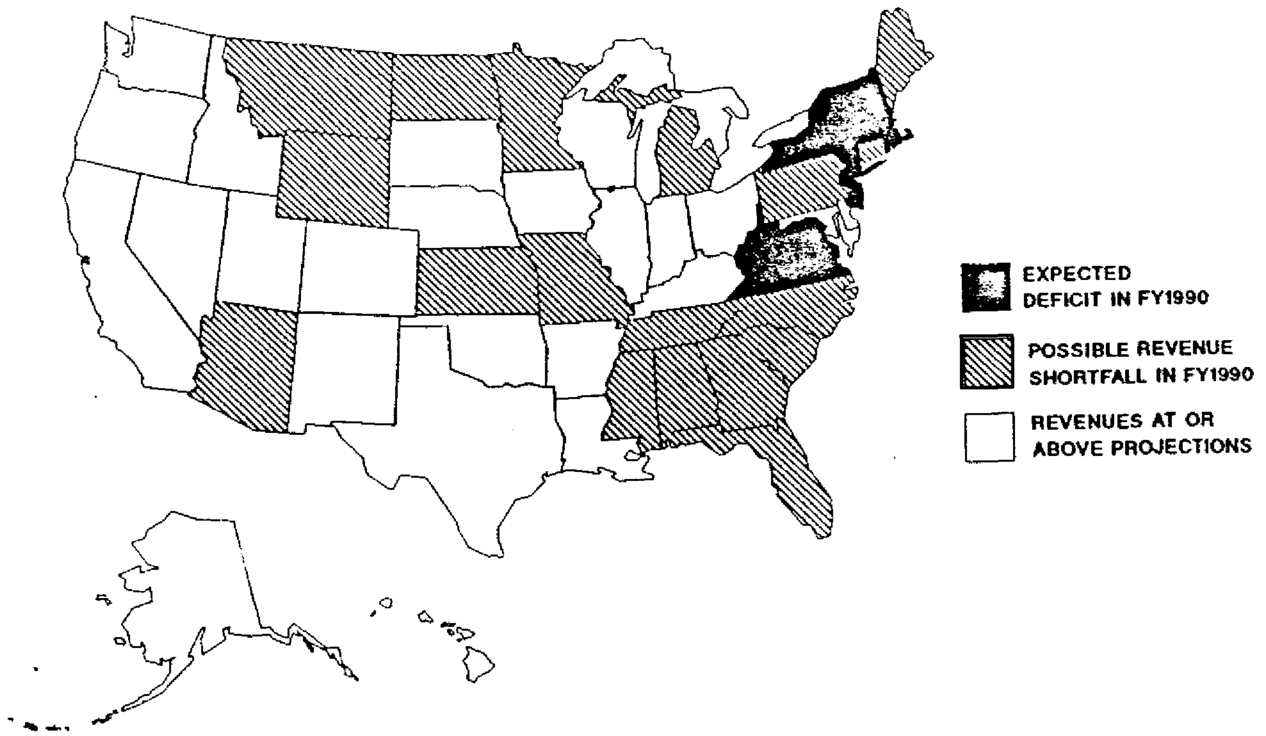
1. The sum of four functions that include areas of priority initiative spending targeted by President Bush: general science, space and technology; education, training, employment and social services; health; and administration of justice.

The CBO recently released its cost analysis of the President's budget proposals and used the occasion to boost its estimate of the FY1990 deficit from $138 billion to $158 billion. The higher figure mainly reflects a reassessment of RTC working capital needs, in light of the Administration's decision to fund RTC working capital by borrowing from the Federal Financing Bank (FFB), a part of the Department of the Treasury. Funds borrowed from the FFB are scored as an outlay in the unified budget as the borrowing agency spends the loan proceeds, while repayment is scored as an offsetting receipt (a negative outlay). CBO now estimates that the RTC net borrowing for working capital will be $24 billion in FY1990. The Administration estimated in its budget document that RTC net borrowing will be in the $39 billion to $62 billion range, but did not include any provision for RTC working capital in its FY1990 and FY1991 deficit projections.

State and Local Government Sector

Real purchases of goods and services by state and local governments increased at a 5.9 percent annual rate in the fourth quarter of last year, the largest quarterly advance in 3-1/2 years. Essentially all of the recent strength was in construction expenditures, which jumped more than 25 percent at an annual rate. Among the categories of construction, by far the largest increase at the end of the year was in highways, as construction apparently continued in the West, particularly in the San Francisco area where rebuilding efforts late in the year followed the October earthquake; the December cold weather was concentrated in the eastern and central regions of the country. In January, real construction spending fell back sharply, with the largest drop for highways.

STATE FISCAL CONDITIONS FOR FY1990



Source: National Conference of State Legislatures, February 1990.

Most state legislatures currently are in session, and many are reporting deteriorating budgetary pictures. Fiscal erosion has been most severe in the Northeast, but difficulties abound in much of the Mid-Atlantic and Southeast. Generally, states in the West and the middle of the nation are in fairly good condition (map). Eight states are expecting to show deficits for FY1990, which ends June 30 for most, and many more are experiencing revenue shortfalls as economic activity has been weaker than expected at the time budgets were planned last spring. Indeed, unemployment rates in most of the Northeast states rose last year. Tax increases are being considered; New Hampshire, for example, recently raised several types of excise taxes. In addition, 18 states have announced plans to cut spending below budgeted levels. Meeting Medicaid, corrections, and education spending goals, all top priorities, likely will be more difficult than in recent years. Infrastructure spending is even more problematic because it often can be postponed.

Prices

Inflation picked up somewhat early this year, even apart from weather-related increases in the food and energy sectors. The consumer price index rose 1.1 percent in January and 0.5 percent in February; the increases were 0.6 and 0.5 percent respectively, if food and energy items are excluded. Meanwhile, producer prices of finished goods were unchanged in February, after surging 1.8 percent in January.

Retail energy prices climbed 5 percent in January but turned down in February. Prices of fuel oil in February reversed more than half of the big January runup, as inventories were replenished when demand eased with warmer weather. In contrast, gasoline stocks remained low through the end of

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

	Relative importance Dec. 1989	1988	1989	1989 Q2	1989 Q3	1989 Q4	1990 Jan.	1990 Feb.
				------Annual rate-----			-Monthly rate-	
All items[2]	100.0	4.4	4.6	5.3	2.3	4.9	1.1	.5
Food	16.3	5.2	5.6	5.6	3.6	5.5	2.0	.5
Energy	7.4	.5	5.1	22.7	-12.6	3.9	5.1	-.7
All items less food and energy	76.3	4.7	4.4	3.8	3.5	4.7	.6	.5
Commodities	25.2	4.0	2.7	2.4	1.3	3.4	.4	1.0
Services	51.1	5.0	5.3	4.6	4.5	5.7	.7	.4
Memorandum:								
CPI-W[3]	100.0	4.4	4.5	5.7	2.0	4.6	1.1	.5

1. Changes are from final month of preceding period to final month of period indicated.
2. Official index for all urban consumers.
3. Index for urban wage earners and clerical workers.

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

	Relative importance Dec. 1989	1988	1989	1989 Q2	1989 Q3	1989 Q4	1990 Jan.	1990 Feb.
				------Annual rate-----			-Monthly rate-	
Finished goods	100.0	4.0	4.8	5.8	.4	5.0	1.8	.0
Consumer foods	25.9	5.7	5.0	-2.3	.7	12.0	2.1	.9
Consumer energy	9.2	-3.6	9.6	34.3	-15.3	-4.8	13.6	-5.0
Other finished goods	64.9	4.3	4.2	5.4	3.0	3.6	.1	.4
Consumer goods	39.5	4.8	4.5	6.0	2.3	4.6	.0	.6
Capital equipment	25.4	3.6	3.7	4.5	4.4	1.7	.2	.2
Intermediate materials[2]	94.9	5.3	2.6	2.9	-.7	.4	1.2	-.7
Excluding food and energy	82.5	7.2	.9	.3	-.7	-1.3	.1	.1
Crude food materials	41.9	14.2	2.6	-16.9	-2.2	18.4	1.0	1.0
Crude energy	40.5	-9.5	17.9	23.6	-7.0	13.2	5.0	.1
Other crude materials	17.5	7.5	-3.8	-7.7	.6	-16.3	.2	-.8

1. Changes are from final month of preceding period to final month of period indicated.
2. Excludes materials for food manufacturing and animal feeds.

January, after the freeze-related refinery disruptions; retail gasoline prices were up somewhat further in February following their January increase of 8 percent. Gasoline stocks have since recovered, and spot prices have moved down, suggesting some reversal at the retail level in the next few months.

The CPI for food jumped 2 percent in January, but slowed considerably in February, to a rise of 1/2 percent, and the recent farm price data point to an easing of food price increases in the spring. In wholesale markets, fresh vegetable prices turned down in the second half of February and had fallen considerably by mid-March, though not back to pre-freeze levels. Similarly, the farm price of milk, which had climbed in the second half of 1989, fell steeply in February, as did the producer prices of dairy products. The spot and futures prices of other livestock products, while mixed of late, do not seem to indicate sustained upward pressures at anything close to the pace of early 1990. For most other foods, big price increases in January were followed in February by either moderate increases or small declines. A little acceleration was evident, however, in the index for food away from home; prices in this relatively low-wage sector could be boosted further in the spring by the rise in the minimum wage.

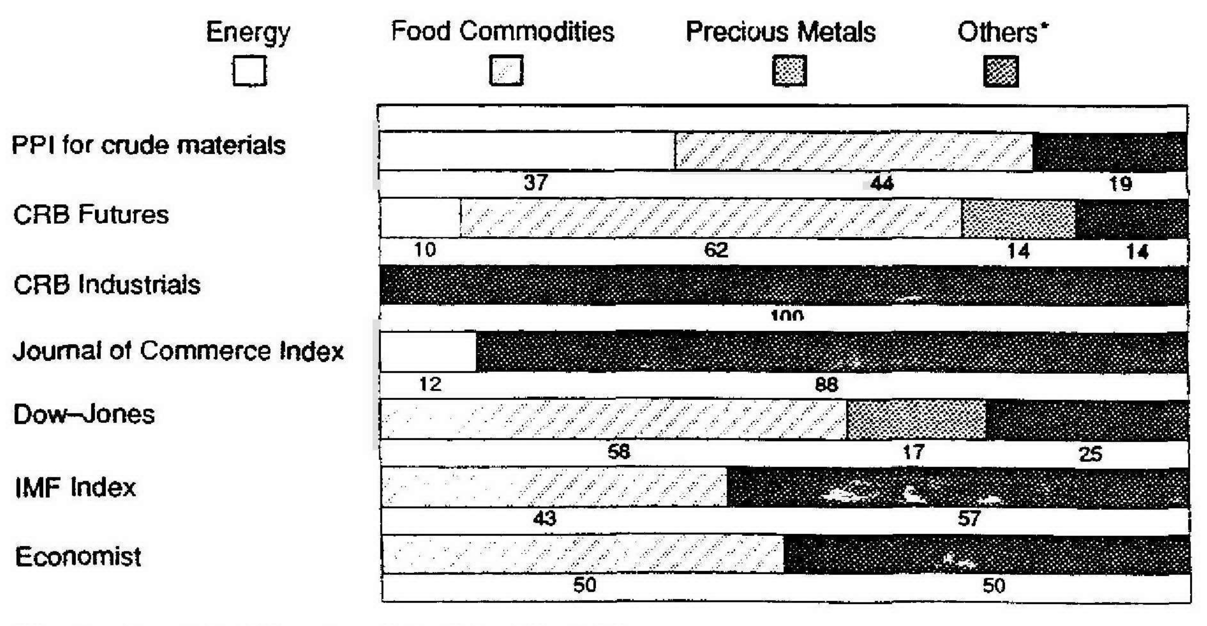
Excluding food and energy items, increases in consumer prices in January and February were widespread. The index for lodging while out of town was up by more than 2-1/2 percent in both months, as rates were raised by more than usual in winter resort areas. Air fares also rose substantially in January and February. The January CPI was boosted by hikes in prices of services provided by the government sector, including a 4.3 percent increase in auto registration fees and a 3.9 percent rise in charges

PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

	Last observation	Percent change[2] 1988	1989	1990 To Jan. 30[3]	1990 Jan. 30[3] to date	Memo: Year earlier to date
1. PPI for crude materials[4]	Feb.	3.1	6.9	2.6	.2	5.6
1a. Foods and feeds	Feb.	14.2	2.6	1.2	.7	3.1
1b. Energy	Feb.	-9.5	17.9	5.0	.1	14.6
1c. Excluding food and energy	Feb.	7.5	-3.8	.3	-.6	-6.4
1d. Excluding food and energy, seasonally adjusted	Feb.	7.6	-3.9	.2	-.8	-6.4
2. Commodity Research Bureau						
2a. Futures prices	Mar. 20	8.5	-9.0	.1	2.9	-4.4
2b. Industrial spot prices	Mar. 19	7.3	-5.9	.4	1.0	-9.1
3. Journal of Commerce industrials	Mar. 20	3.8	1.3	-.2	.6	-.9
4. Dow-Jones Spot	Mar. 20	6.9	-10.1	-1.2	5.0	-3.5
5. IMF commodity index[4]	Feb.	12.6	-12.9	-1.5	-1.0	-13.6
5a. Metals	Feb.	33.7	-23.2	-4.8	.2	-25.1
5b. Nonfood agric.	Feb.	-9.4	-4.6	-.7	.2	-5.1
6. Economist (U.S. dollar index)	Mar. 13	17.7	-22.8	-4.1	9.2	-14.8
6a. Industrials	Mar. 13	18.9	-23.8	-7.7	12.0	-15.5

1. Not seasonally adjusted.
2. Change is measured to end of period, from last observation of previous period.
3. Week of the January Greenbook.
4. Monthly observations. IMF index includes items not shown separately.
n.a. Not available.

Index Weights



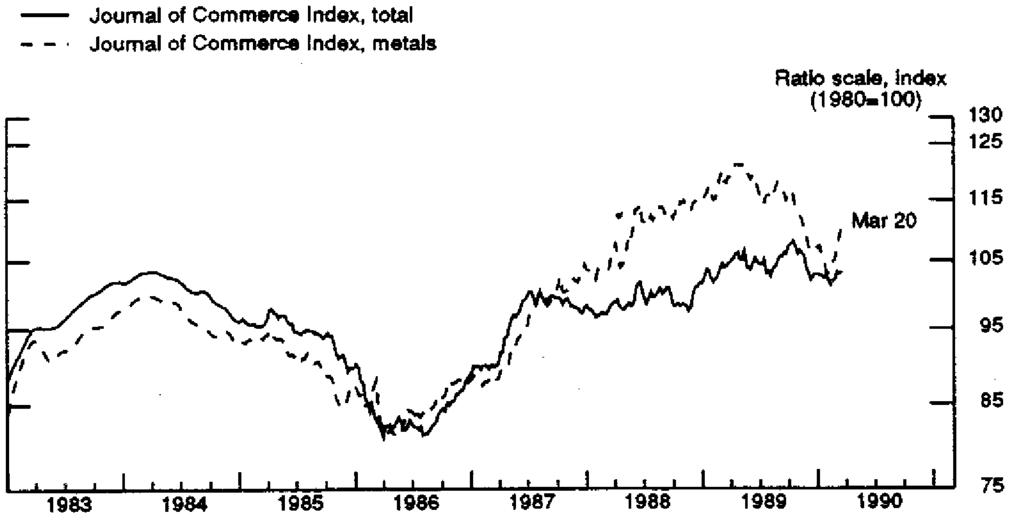
*Forest products, industrial metals, and other industrial materials.

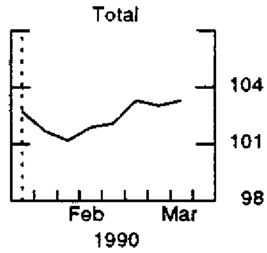
for intracity public transportation. In February, apparel prices added about 0.2 percent to the CPI, as spring clothing was introduced into the sample earlier than usual.

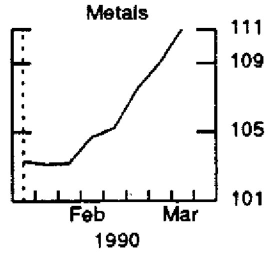
At the producer level, prices of capital equipment rose about 1/4 percent in January and February, slightly below the average pace of the previous 12 months; prices were held down in part by discounting for cars and light trucks over this period. The PPI for intermediate materials less food and energy edged up slightly in both January and February. Prices of crude nonfood materials less energy rose 0.2 percent in January, but then fell 3/4 percent in February.

Since the February pricing week, measures of spot prices on domestic markets, based mainly on industrial materials, have turned up, retracing a fraction of the slide from their 1989 peaks. The *Journal of Commerce* index (upper panel of chart) has risen about 2 percent since mid-February; the sub-index for metals has moved up more sharply over the period--7-1/2 percent--reaching the levels of late autumn. In large part, the pickup has reflected increases for nonferrous metals that began around mid-February and gained substantial upward force by the third week of March. Over this period, price increases amounted to more than 10 percent for aluminum and 20 percent or more for copper, lead, and zinc. The reason for such sudden and sizable increases is not altogether clear at the moment. While these prices often are heavily influenced by trends in aggregate demand, the current price upswing started so recently that data on activity for the same period are quite sparse. Special factors, such as strikes and other supply disruptions, are reported to be influencing prices of some of the metals, but it does not seem likely that special factors could have

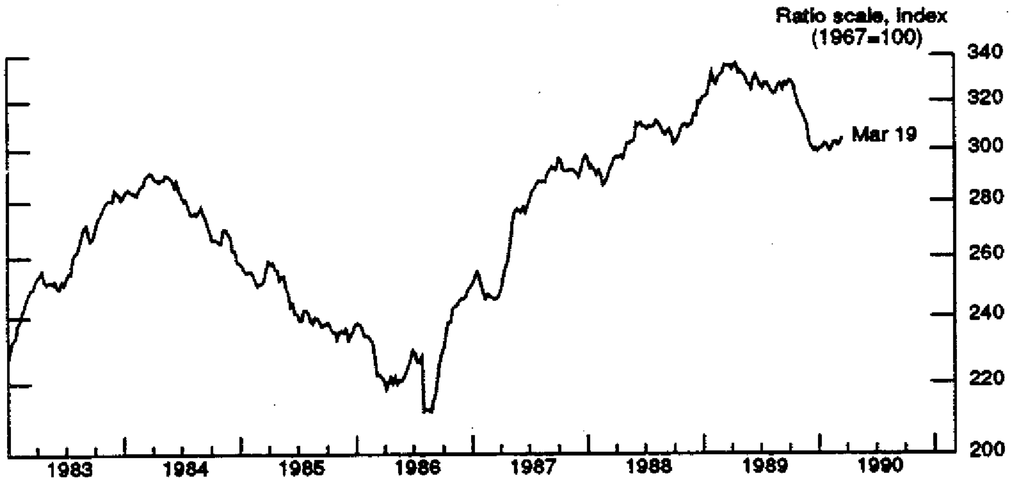
COMMODITY PRICE MEASURES *

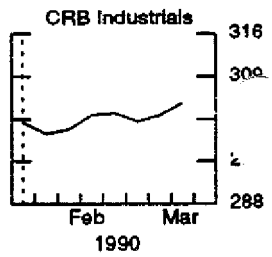




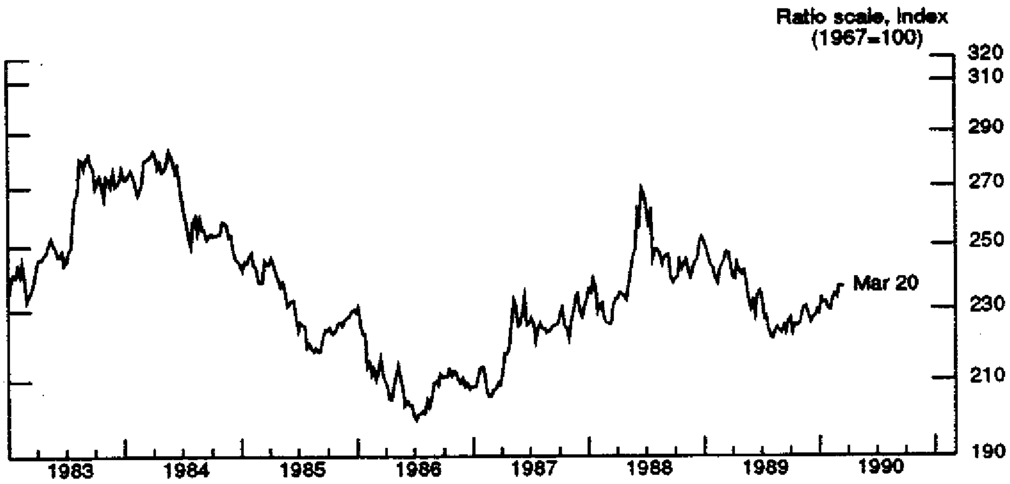


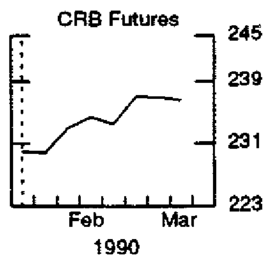
CRB Spot Industrials





CRB Futures





* Weekly data, Tuesdays; Journal of Commerce data monthly before 1985

Dotted lines indicate week of last Greenbook.

affected virtually all of the nonferrous metals simultaneously. Still another explanation that has appeared in the recent press reports is that the rise in commodity prices is reflecting strong activity abroad. Which, if any, of these various interpretations is correct presumably will become more clear as additional data become available over the next few weeks.

Labor Costs

Little additional information on labor costs has become available since the last Greenbook. Average hourly earnings of production or nonsupervisory workers fluctuated considerably in January and February, owing to shifts in employment among manufacturing and construction workers. The February reading was 3-3/4 percent above a year earlier, at the low end of the range of 12-month changes observed since late 1988.

Revised data still show productivity in the nonfarm business sector to have been essentially flat in the fourth quarter of 1989, and up only 0.6 percent over the four quarters of 1989, well below the recent trend. With hourly compensation estimated to have risen 5-1/2 percent last year, unit labor costs accelerated, rising 4-3/4 percent compared with 3 percent the year before.

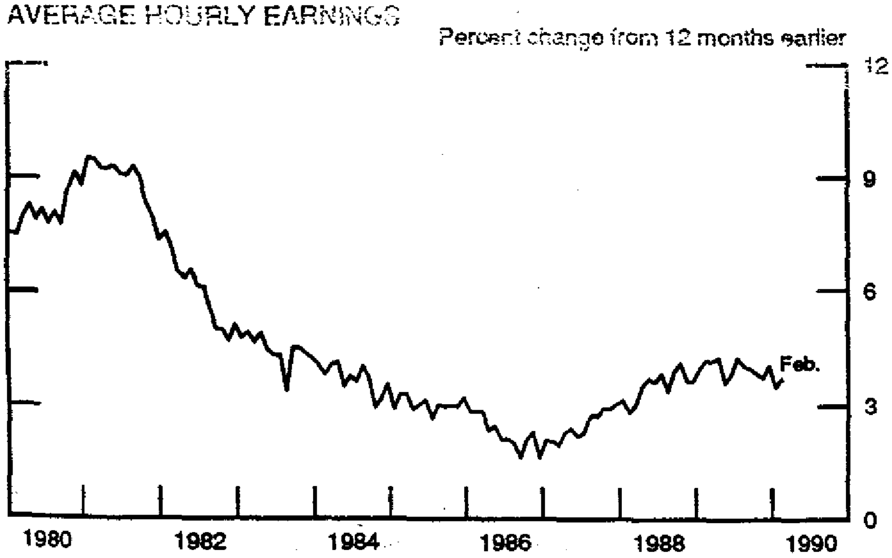
Productivity in the manufacturing sector is estimated to have risen 2-3/4 percent at an annual rate last quarter, well above the rate for the nonfarm business sector, but below increases posted in this sector earlier in the year. Compensation per hour in the manufacturing sector increased 4-3/4 percent over the four quarters of last year, and unit labor costs grew around 2 percent, somewhat faster than a year earlier.

SELECTED MEASURES OF LABOR COSTS IN THE NONFARM BUSINESS SECTOR
(Percentage change at annual rates)

	1987	1988	1989	1989 Q1	1989 Q2	1989 Q3	1989 Q4
Employment cost index[1]							
Compensation, all persons	3.3	4.9	4.8	4.6	4.8	5.0	4.7
Wages and salaries, all persons	3.3	4.1	4.2	4.1	4.0	4.6	3.9
Benefits, all persons	3.5	6.8	6.1	7.1	6.3	6.1	5.2
Labor costs and productivity, all persons[2]							
Nonfarm Business Sector							
Output per hour	2.4	1.6	.6	-1.3	1.1	2.4	.2
Compensation per hour	4.0	4.8	5.4	4.9	5.6	5.3	6.0
Unit labor costs	1.5	3.1	4.8	6.2	4.5	2.8	5.8
Manufacturing							
Output per hour	3.5	2.9	2.5	2.4	3.7	1.2	2.8
Compensation per hour	2.0	4.4	4.7	3.5	2.7	5.9	6.9
Unit labor costs	-1.4	1.5	2.1	1.0	-1.0	4.6	4.0
Major collective bargaining agreements[3]							
First-year wage adjustments	2.1	2.6	4.0	3.2	3.7	3.7	4.0
Total effective wage change	3.1	2.6	3.2	2.7	2.8	3.0	3.2
Average hourly earnings, production workers[2]							
Total private nonfarm	3.0	3.7	3.9	3.6	4.0	4.1	3.8
Manufacturing	2.3	3.0	2.7	2.6	2.2	3.6	2.3
Services	4.7	4.9	5.6	5.4	6.1	5.7	5.2

1. Changes are from final month of preceding period to final month of period indicated at a compound annual rate. The data are seasonally adjusted by FRB staff.
2. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated at a compound annual rate. Seasonally adjusted data.
3. Agreements covering 1,000 or more workers; not seasonally adjusted. The numbers reported are cumulative averages from the beginning of the year through the indicated quarter.

AVERAGE HOURLY EARNINGS



Average Hourly Earnings percent change — monthly —		
1989	Oct.	.4
	Nov.	.0
	Dec.	.5
1990	Jan.	-.1
	Feb.	.5

DOMESTIC FINANCIAL DEVELOPMENTS

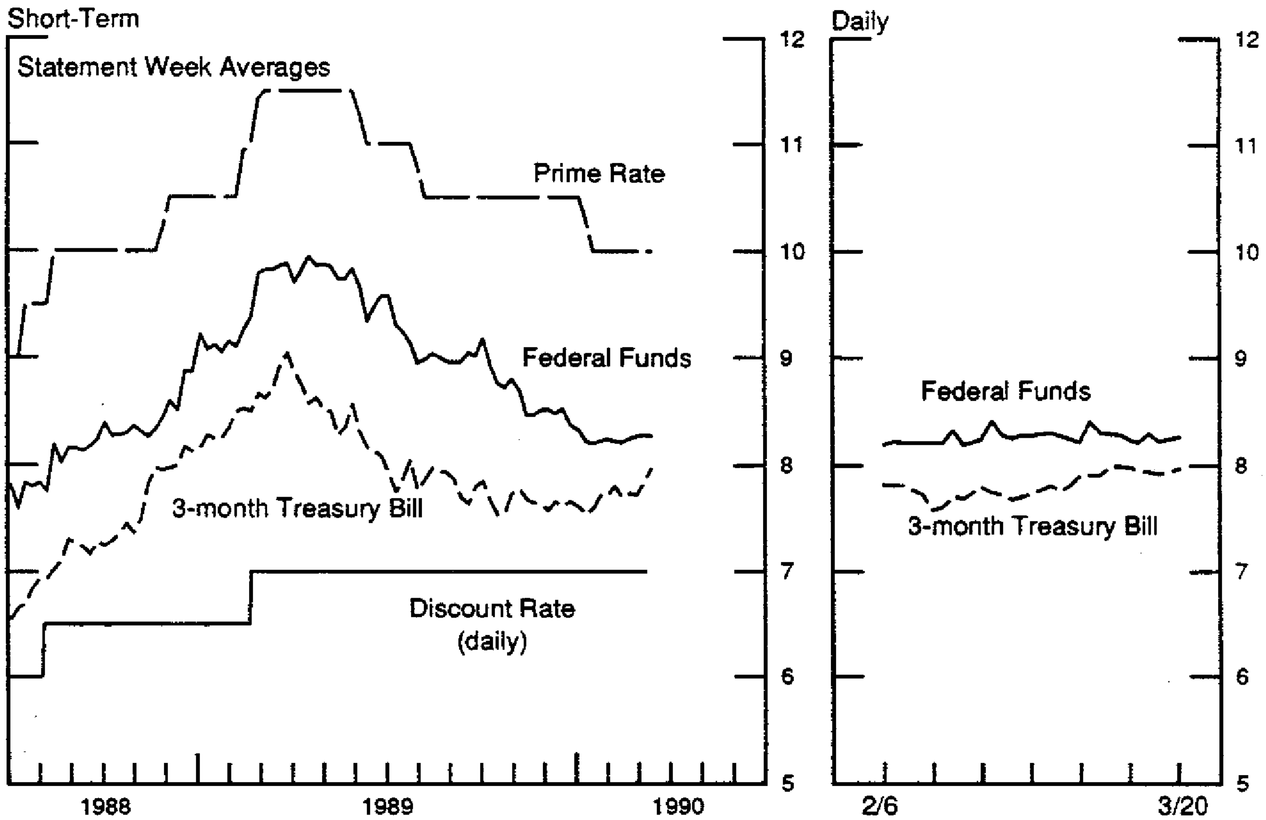
SELECTED FINANCIAL MARKET QUOTATIONS[1]
(percent)

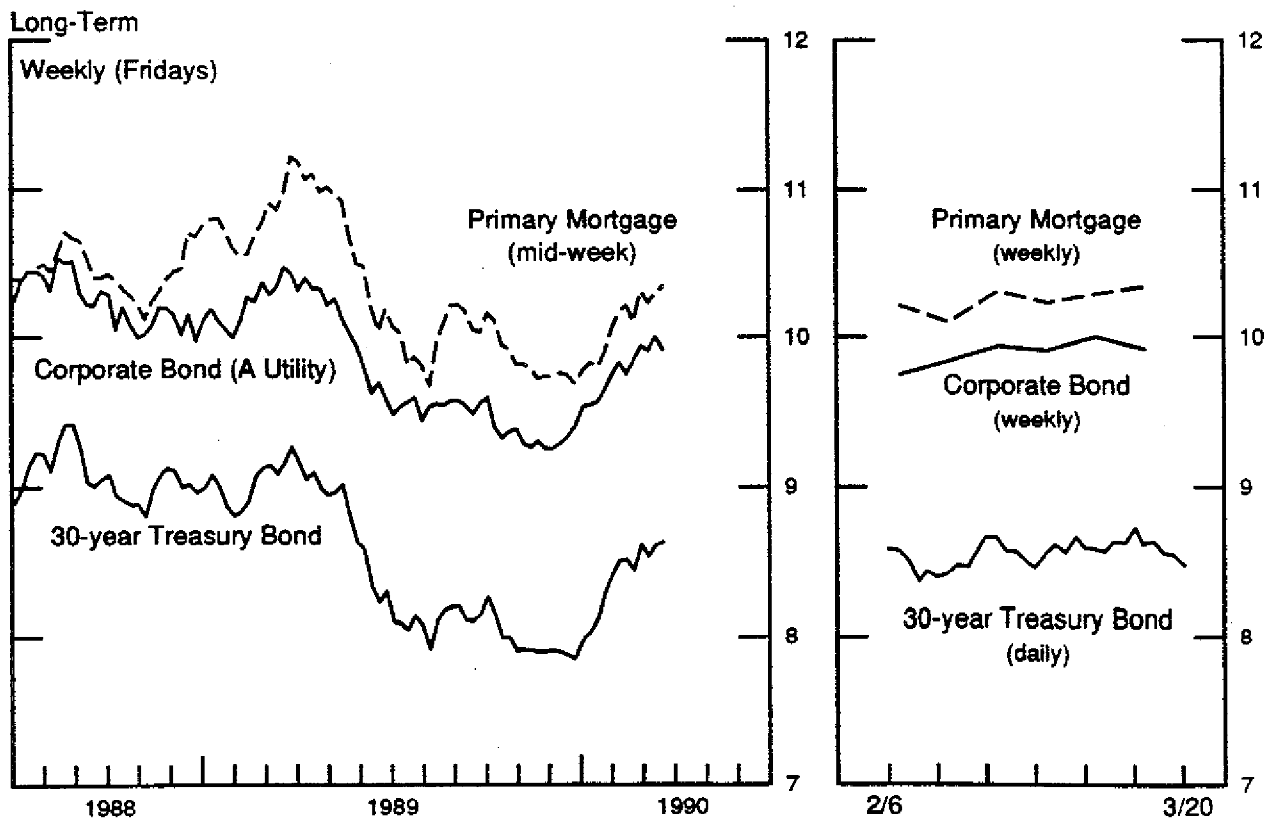
	1987	1989		1990		Change from:		
	Oct 16[2]	March highs	Dec lows	FOMC Feb 7	Mar 20	Mar 89 highs	Dec 89 lows	FOMC Feb 7
Short-term rates								
Federal funds[3]	7.59	9.85	8.45	8.23	8.26	-1.59	-.19	.03
Treasury bills[4]								
3-month	6.93	9.09	7.53	7.81	7.97	-1.12	.44	.16
6-month	7.58	9.11	7.29	7.76	7.91	-1.20	.62	.15
1-year	7.74	9.05	7.11	7.61	7.78	-1.27	.67	.17
Commercial paper								
1-month	7.94	10.05	8.51	8.25	8.35	-1.70	-.16	.10
3-month	8.65	10.15	8.22	8.16	8.33	-1.82	.11	.17
Large negotiable CDs[4]								
1-month	7.92	10.07	8.52	8.20	8.35	-1.72	-.17	.15
3-month	8.90	10.32	8.22	8.24	8.41	-1.91	.19	.17
6-month	9.12	10.08	8.01	8.29	8.60	-1.48	.59	.31
Eurodollar deposits[5]								
1-month	8.00	10.19	8.38	8.19	8.31	-1.88	-.07	.12
3-month	9.06	10.50	8.25	8.25	8.38	-2.12	.13	.13
Bank prime rate	9.25	11.50	10.50	10.00	10.00	-1.50	-.50	.00
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	9.52	9.88	7.69	8.43	8.65	-1.23	.96	.22
10-year	10.23	9.53	7.77	8.52	8.54	-.99	.77	.02
30-year	10.24	9.31	7.83	8.57	8.47	-.84	.64	-.10
Municipal revenue[6] (Bond Buyer)	9.59	7.95	7.28	7.52	7.55	-.40	.27	.03
Corporate--A utility recently offered	11.50	10.47	9.29	9.84	9.82	-.65	.53	-.02
Home mortgage rates[7]								
S&L fixed-rate	11.58	11.22	9.69	10.17	10.34	-.88	.65	.17
S&L ARM, 1-yr.	8.45	9.31	8.34	8.45	8.55	-.76	.21	.10

	Record highs	Date	1989 Lows Jan 3	1990 FOMC Feb 7	1990 Mar 20	Percent change from: Record highs	1989 lows	FOMC Feb 7
Stock prices								
Dow-Jones Industrial	2810.15	1/2/90	2144.64	2640.09	2738.74	-2.54	27.70	3.74
NYSE Composite	199.34	10/9/89	154.98	184.31	187.71	-5.83	21.12	1.84
AMEX Composite	397.03	10/10/89	305.24	356.35	363.42	-8.47	19.06	1.98
NASDAQ (OTC)	485.73	10/9/89	378.56	426.79	440.08	-9.40	16.25	3.11
Wilshire	3523.47	10/9/89	2718.59	3218.33	3292.46	-6.56	21.11	2.30

1/ One-day quotes except as noted.
2/ Last business day prior to stock market decline on Monday Oct. 19, 1987.
3/ Average for two-week reserve maintenance period closest to date shown. Last observation is average-to-date for the maintenance period ending March 21, 1990.
4/ Secondary market.
5/ Bid rates for Eurodollar deposits at 11 a.m. London time.
6/ Based on one-day Thursday quotes and futures-market index changes.
7/ Quotes for week ending Friday closest to date shown.

Selected Interest Rates*
(percent)





*--Friday weeks through March 16, Wednesday weeks through March 14.

Most short-term interest rates have risen slightly since the February FOMC meeting. Statements by System officials, against a backdrop of stronger than expected economic data, have largely eliminated the anticipation of any near-term easing of monetary policy. Treasury bond yields have moved down a bit from levels at the time of the mid-quarter financing, while other long-term rates are little changed. Increases in major stock price indexes of 2 to 4 percent in the intermeeting period likely reflect wider acceptance of the view that the risks of recession are low.

The monetary aggregates accelerated significantly in February after growing relatively slowly in January. M1 grew at a 10 percent pace, as demand deposits resumed their growth and currency continued to expand briskly. Growth of M2 was concentrated in its more liquid components--M1 as well as money market funds, savings deposits, and MMDAs. M3 growth was a more moderate 6 percent, owing mainly to the continued shrinkage of managed liabilities of thrift institutions. Data for early March indicate that growth of the monetary aggregates has slowed somewhat from February's pace.

Borrowing by nonfinancial businesses appeared to weaken further in February, as bank lending, public bond offerings, and issuance of commercial paper, especially for restructuring purposes, were all anemic. The bankruptcy filing of Drexel Burnham Lambert on February 13 and the announcement by Columbia Savings on March 14 that it was seeking a buyer for its large junk-bond portfolio contributed to another 60 basis point widening of yield spreads on junk bonds over Treasuries since the last FOMC meeting.

MONETARY AGGREGATES
(based on seasonally adjusted data unless otherwise noted)

	1989[1]	1989 Q3	1989 Q4	1989 Dec	1990 Jan	1990 Feb p	Growth Q4 89- Feb 90p
	-----------Percent change at annual rates--------------------						
1. M1	0.6	1.8	5.1	8.2	-0.2	10.0	5.3
2. M2	4.6	6.9	7.1	7.8	3.8	9.3	7.0
3. M3	3.2	3.9	1.8	3.8	2.3	5.8	3.9
	-----------Percent change at annual rates-----------						Levels bil. $ Feb 90p
Selected components							
4. M1-A	0.4	1.4	2.5	5.9	0.7	11.8	514.4
5. Currency	4.8	3.9	4.0	8.2	14.6	10.7	226.6
6. Demand deposits	-2.8	-0.6	1.1	3.9	-10.3	13.0	280.3
7. Other checkable deposits	1.0	2.5	9.8	12.3	-1.7	6.7	286.9
8. M2 minus M1[2]	5.9	8.7	7.7	7.7	5.1	9.1	2455.7
9. Overnight RPs and Eurodollars, NSA	-9.2	-2.5	-12.8	32.1	62.5	11.9	81.6
10. General purpose and broker/dealer money market mutual fund shares	29.8	37.7	29.5	15.5	29.5	31.0	329.1
11. Commercial banks	7.5	7.6	10.9	9.5	5.7	9.7	1082.4
12. Savings deposits plus MMDAs[3]	-1.7	3.5	10.4	9.4	4.9	12.2	547.7
13. Small time deposits	19.0	11.9	11.3	9.6	6.6	7.2	534.7
14. Thrift institutions	-0.2	3.5	-0.9	-0.6	-3.0	-3.1	961.6
15. Savings deposits plus MMDAs[3]	-9.3	-5.5	1.9	-0.3	0.7	7.8	355.3
16. Small time deposits	5.8	8.8	-2.5	-0.8	-5.1	-9.4	606.3
17. M3 minus M2[4]	-1.5	-6.9	-17.3	-12.0	-3.8	-8.1	811.3
18. Large time deposits	4.2	-1.3	-6.7	-5.8	-8.4	-9.7	549.9
19. At commercial banks, net[5]	9.9	2.9	2.7	-0.3	0.3	-4.8	399.9
20. At thrift institutions	-7.8	-10.6	-28.8	-20.3	-29.8	-22.8	150.0
21. Institution-only money market mutual fund shares	17.1	36.9	3.2	14.2	10.6	5.8	103.7
22. Term RPs, NSA	-16.1	-29.8	-49.2	-138.8	-44.3	43.4	94.6
23. Term Eurodollars, NSA	-22.5	-33.4	-41.8	15.2	-75.1	-44.9	72.1
MEMORANDA:[6]	-----Average monthly change in billions of dollars----						
24. Managed liabilities at commercial banks (25+26)	5.9	3.5	5.0	0.6	-1.4	6.5	725.4
25. Large time deposits, gross	2.6	0.0	1.4	0.3	-1.6	-2.2	460.5
26. Nondeposit funds	3.4	3.5	3.5	0.3	0.2	8.7	264.9
27. Net due to related foreign institutions	0.2	1.0	-0.9	-1.4	3.2	3.6	14.4
28. Other[7]	3.2	2.5	4.4	1.7	-3.0	5.1	250.5
29. U.S. government deposits at commercial banks[8]	-0.3	-1.0	-0.6	0.7	-0.9	-2.4	17.8

1. Amounts shown are from fourth quarter to fourth quarter.
2. Nontransactions M2 is seasonally adjusted as a whole.
3. Commercial bank savings deposits excluding MMDAs grew during January and February at rates of 8.9 percent and 12.6 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during January and February at rates of 0 percent and 7.6 percent, respectively.
4. The non-M2 component of M3 is seasonally adjusted as a whole.
5. Net of large denomination time deposits held by money market mutual funds and thrift institutions.
6. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis.
7. Consists of borrowing 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 borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estimated.
8. Consists of Treasury demand deposits and note balances at commercial banks.

p - preliminary

Federal debt issuance in the first quarter has been augmented by borrowing to provide working capital to the RTC. State and local bond offerings continued very weak in February. Limited information suggests that household debt may be continuing to grow at about the same, more moderate, rate as in the fourth quarter.

Monetary Aggregates and Bank Credit

After recording no change in January, M1 expanded at a 10 percent annual rate in February, as demand deposits and, to a lesser extent, other checkable deposits accelerated. Currency growth slowed somewhat from its very rapid January pace, but remained at a double-digit rate, evidently buoyed by unusually large demands for U.S. currency in Latin America and Eastern Europe. So far in March, M1 appears to be growing more slowly than in February.

M2 grew almost as fast as M1 in February, owing to a pickup in its nontransactions components. Strength was especially marked in liquid accounts, despite some widening of spreads between rates on these accounts and on Treasury bills. Tax refunds to individuals have been relatively strong so far this year and may have contributed a little to growth in MMDAs and MMMFs. Expansion of small time deposits, on the other hand, moderated somewhat last month as rates on such deposits lagged increases in market rates; the greater attractiveness of Treasury issues was evidenced by a sharp rise in noncompetitive tenders. Banks, fairly flush with funds, appear to be sluggish in raising their deposit rates to meet the increase in Treasury rates. Perhaps reflecting this widening yield spread, data for early March suggest some slowing of M2 growth this month.

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

		1988:Q4 to 1989:Q4	1989 Q3	1989 Q4	1989 Dec.	1990 Jan.	1990 Feb.p	Levels bil.$ February p
		---------- Commercial Bank Credit ----------						
1.	Total loans and securities at banks	7.1	6.9	6.7	1.6	2.7	8.6	2603.5
2.	Securities	3.9	.2	9.5	.8	16.3	20.6	592.5
3.	U.S. government securities	9.6	4.7	16.8	-1.8	24.0	28.0	411.7
4.	Other securities	-6.8	-9.0	-5.3	6.7	-1.3	4.0	180.8
5.	Total loans	8.1	8.8	5.9	1.9	-1.2	5.2	2011.1
6.	Business loans	6.8	6.8	2.4	-6.7	-6.0	-1.5	637.3
7.	Real estate loans	12.8	12.8	10.9	12.0	7.2	12.6	767.1
8.	Consumer loans	6.2	6.6	6.2	4.8	7.4	3.5	378.9
9.	Security loans	4.1	-7.9	-3.0	-60.7	-6.1	15.3	39.7
10.	Other loans	.8	8.0	-.6	-1.9	-32.8	-.6	188.1
		---------- Short- and Intermediate-Term Business Credit ----------						
11.	Business loans net of bankers acceptances	6.7	6.6	2.2	-6.8	-5.7	-2.7	629.5
12.	Loans at foreign branches[2]	-5.0	-76.9	9.5	58.5	83.7	-47.0	22.1
13.	Sum of lines 11 & 12	6.3	3.3	2.5	-4.7	-2.6	-4.4	651.6
14.	Commercial paper issued by nonfinancial firms	31.2	14.6	21.0	37.8	27.7	.9	137.3
15.	Sum of lines 13 & 14	9.8	5.1	5.5	2.3	2.6	-3.5	788.9
16.	Bankers acceptances: U.S. trade related[3,4]	6.1	-1.1	-9.1	-3.5	3.5	n.a.	34.6[5]
17.	Line 15 plus bankers acceptances: U.S. trade related	9.6	4.9	4.8	2.0	2.6	n.a.	825.8[5]
18.	Finance company loans to business[3]	11.1	14.1	2.3	-3.2	-9.3	n.a.	255.8[5]
19.	Total short- and intermediate-term business credit (sum of lines 17 & 18)	10.0	7.0	4.3	.9	-.4	n.a.	1081.6[5]

1. Average of Wednesdays.
2. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
3. Based on average of data for current and preceding ends of month.
4. Consists of acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.
5. January data.
p--preliminary.
n.a.--not available
Note: Data have revised due to new seasonal adjustment factors and benchmarking of the data to the June 30, 1[illegible] Call Report.

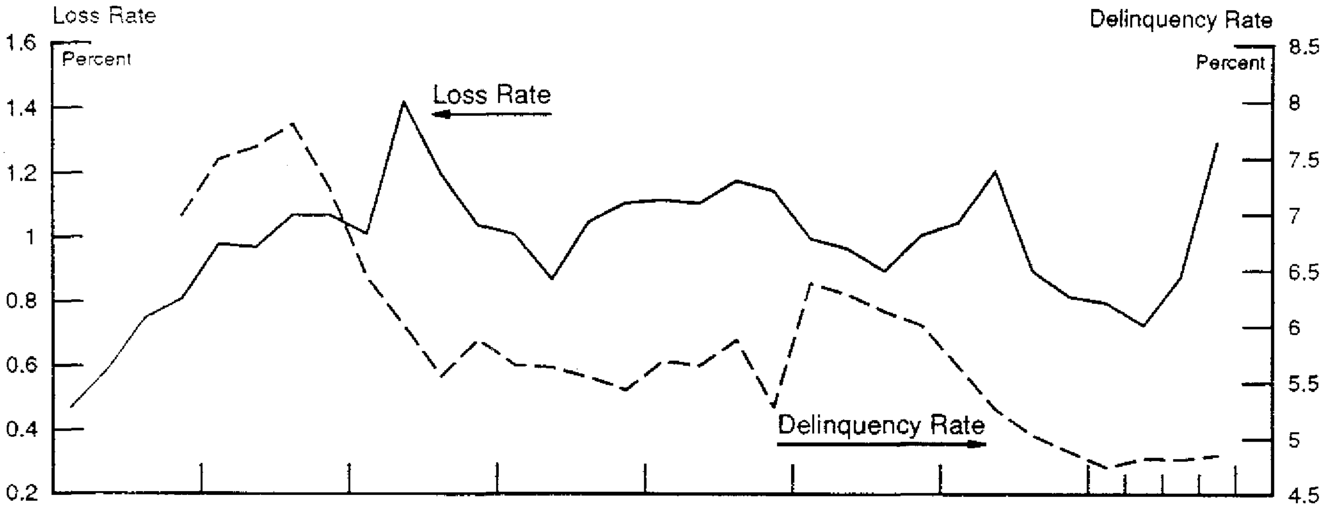
Growth of M3 picked up in February, but less so than was the case with the narrower aggregates, as banks joined thrifts in running off large time deposits. Although savings and loans remain under pressure to pare their balance sheets to improve capital ratios, SAIF-insured institutions not in RTC conservatorship ran off managed liabilities at a slower pace in January and February than in the last quarter of 1989. At S&Ls in conservatorship, however, the pace of the run-off of managed liabilities increased significantly. At banks, healthy growth in core deposits in February moderated the need to rely on managed liabilities to fund a pickup in credit extended. With continued weakness in its non-M2 component, M3 growth also appears to be moderating in March.

Bank credit strengthened in February to an 8-1/2 percent annual rate of growth. Banks continued to acquire U.S. government securities at a rapid pace, with data for large banks suggesting that, on a month-average basis, the February growth was about evenly split between Treasury issues and mortgage-backed securities. Over the whole period since the implementation of FIRREA last August, about two-thirds of the growth in U.S. government securities held at large banks have taken the form of mortgage-backed securities.

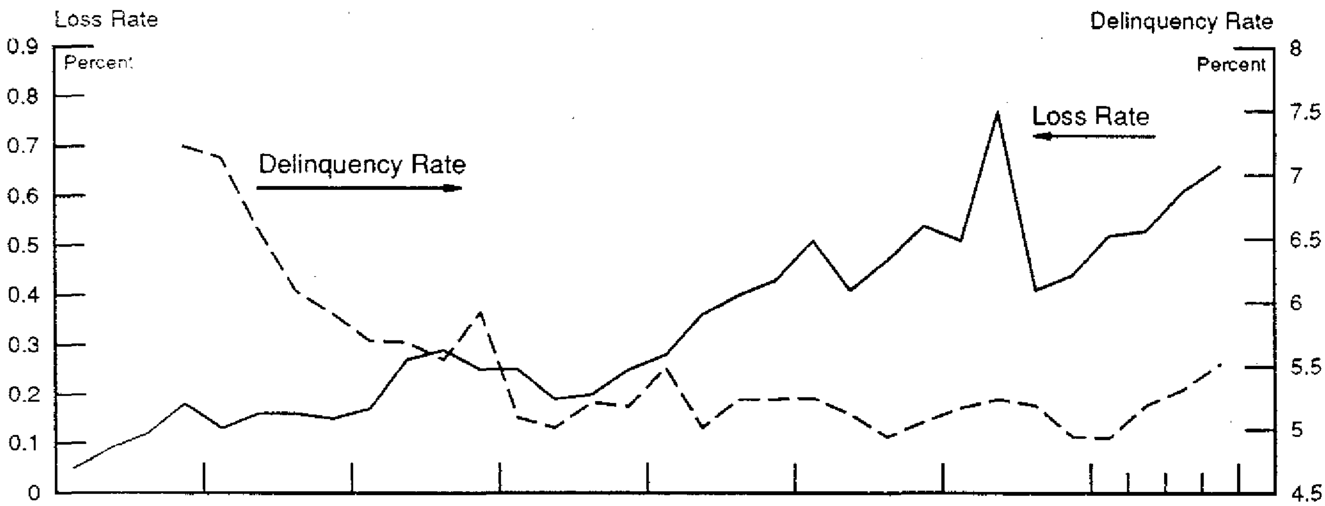
After below-trend growth in January, real estate loans returned to a 12 percent annual rate of growth last month. Preliminary call report data for December show that the major contributors to real estate loan growth in the fourth quarter of 1989 were mortgages on single-family homes and nonfarm nonresidential properties, while construction and land development loans weakened, likely reflecting greater caution in extending such credit. Consumer loan growth, at a 3-1/2 percent rate in February, was depressed by

Loan Loss (Chargeoffs) and Delinquency Rates at Large Banks, SA [1]

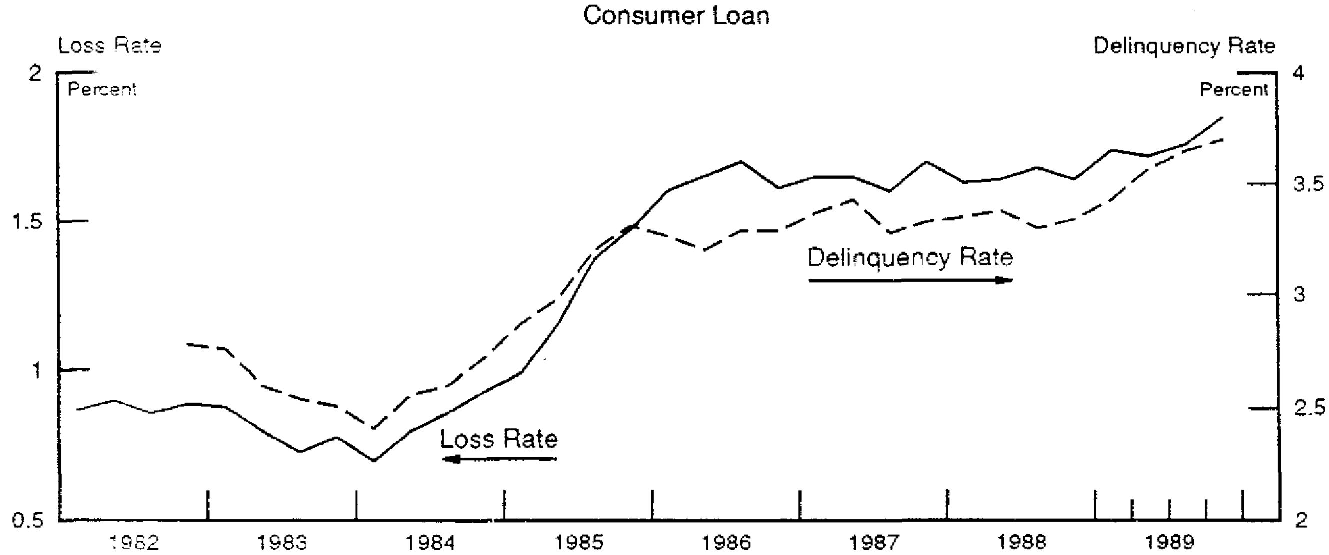
Commercial and Industrial Loan



Real Estate Loan



Consumer Loan



1. Loss rates are based on chargeoffs net of recoveries. Delinquent loans include those past due 30 days or more and still accruing interest, as well as those on nonaccrual status. Data are reported on the Quarterly Report of Condition by banks with at least $300 million in assets. Data are consolidated (foreign and domestic offices). Percent at annual rate of average amount outstanding, seasonally adjusted. Loss rate series begin in 1982 Q1, delinquency rate series begin in 1982 Q4.

about 6 percentage points owing to securitization. After adjusting for securitization, the growth of consumer loans picked up a bit over the pace of the last three months.

Business loans contracted last month, continuing the decline begun late last year. The decline can be traced, in part, to the virtual cessation of net extensions of credit in connection with major corporate restructurings. Such transactions kept business loans from declining for 1989 as a whole. The decline in non-merger loans also was faster in February than on average in 1989.

Preliminary fourth-quarter data from bank call reports indicate a continuing deterioration in asset quality. Even though chargeoffs net of recoveries increased, which, other things equal, would lower delinquencies, delinquencies also increased for major loan categories (see chart). On a consolidated basis, banks charged off C&I loans (largely to foreign borrowers) at a seasonally adjusted annual rate of 1.3 percent; still, the share of delinquent C&I loans remaining on banks' books edged up to 4.9 percent, seasonally adjusted. The rate at which real estate loans were charged off moved up, largely reflecting developments in the Boston and Dallas Federal Reserve districts; nevertheless, the share of delinquent real estate loans rose to 5.5 percent, mainly reflecting a deterioration at banks in the Boston and New York districts. For both C&I and real estate loans, delinquency rates remained well below the peaks seen just after the 1982 recession, but chargeoff rates were near the highest levels recorded since these data were first collected in 1982. Finally, chargeoff rates of consumer loans continued to rise in the fourth quarter, and delinquencies rose slightly.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly rates, not seasonally adjusted, billions of dollars)

	1987	1988	1989	1989		1990		
	Year	Year	Year	Q3	Q4	Jan.[p]	Feb.[p]	Mar.[e]
Corporate securities - total[1]	24.08	22.23	19.60	16.20	22.60	14.29	14.43	17.30
Public offerings in U.S.	21.89	20.21	17.56	14.75	20.71	12.28	12.98	15.00
Stocks--total[2]	4.45	3.53	2.69	3.12	3.96	2.28	2.98	2.00
Nonfinancial	2.32	1.14	1.09	1.06	1.37	1.19	2.09	1.50
Utility	.57	.24	.29	.36	.33	.11	.63	.40
Industrial	1.75	.90	.80	.70	1.04	1.08	1.46	1.10
Financial	2.12	2.39	1.60	2.06	2.59	1.09	.89	.50
Bonds--total[1]	17.44	16.68	14.87	11.63	16.75	10.00	10.00	13.00
Nonfinancial	6.61	6.08	6.14	5.09	7.42	3.20	3.50	4.00
Utility	2.02	1.77	1.72	1.50	2.70	.85	.95	1.50
Industrial	4.59	4.31	4.42	3.59	4.72	2.35	2.55	2.50
Financial	10.83	10.60	8.73	6.54	9.33	6.80	6.50	9.00
By quality[3]								
Aaa and Aa	3.26	2.68	3.26	2.99	3.31	1.89	4.24	3.00
A and Baa	5.20	5.47	5.50	4.39	6.06	2.85	2.80	5.00
Less than Baa	2.77	2.54	2.39	1.90	1.94	.33	.20	.00
No rating (or unknown)	.07	.04	.03	.01	.02	.01	.01	.05
Memo items:								
Equity-based bonds[4]	.87	.28	.52	.60	.78	.09	.05	.05
Mortgage-backed bonds	5.19	4.69	1.61	1.23	1.27	1.80	.50	2.00
Other asset-backed	.95	1.26	2.08	1.11	4.15	3.12	2.25	2.95
Variable-rate notes	1.88	1.19	.99	.25	1.01	2.21	.20	.50
Bonds sold abroad - total	2.03	1.93	1.88	1.15	1.60	2.00	1.00	2.00
Nonfinancial	.94	.74	.48	.29	.25	.50	.30	1.00
Financial	1.09	1.19	1.40	.86	1.35	1.50	.70	1.00
Stocks sold abroad - total	.16	.09	.16	.30	.29	.01	.45	.30
Nonfinancial	.12	.08	.12	.29	.16	.01	.18	.12
Financial	.04	.01	.04	.01	.13	.00	.26	.18

1. Securities issued in the private placement market are not included. Total reflects gross proceeds rather than par value of original discount bonds.
2. Excludes equity issues associated with equity-for-equity swaps that have occured in restructurings. Such swaps totaled $20.4 billion in 1989.
3. Bonds categorized according to Moody's bond ratings, or to Standard and Poors' if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.
p--preliminary. e--staff estimate.

Business Finance

Total borrowing by nonfinancial firms appears to have weakened further in February, reflecting in part the reluctance of investors to fund restructuring activity. In addition, available evidence suggests non-merger-related borrowing slackened. After posting strong growth in January, the outstanding commercial paper of nonfinancial firms was about unchanged in February, and bank loans declined, so that total short-term borrowing dropped off significantly. Public bond issuance by nonfinancial corporations remained weak in February and early March.

The immediate impact on the corporate bond market of Drexel's bankruptcy filing on February 13 was quite mild. Merger and restructuring activity, which in the past three years had accounted for about 80 percent of all new junk issuance, already had slowed considerably owing to difficulties in funding new deals, as investors demanded much higher yields or refused to lend altogether. The effect on the secondary market was also cushioned somewhat because Drexel had already withdrawn as a marketmaker over the preceding months.

A more noticeable impact of Drexel's bankruptcy was on the issuance of commercial paper by nonfinancial corporations. Drexel's disappearance left some low-rated and unrated companies without a dealer to issue their paper. Because other dealers have been very cautious in picking up Drexel's junk commercial paper business, nonfinancial paper outstanding, unchanged in February, was approximately $1 to $1-1/2 billion less than it otherwise would have been; outstanding paper of nonfinancial corporations had been growing around $3 billion monthly in the preceding three months.

The potential for sizable sales of junk bonds by large institutional investors has led to wider spreads between junk bonds and other issues. The most recently available data indicate that outflows from high-yield mutual funds were large in January, and at the same time, mutual funds built up their cash positions as protection against further redemptions. Outflows reportedly moderated somewhat in February, however, with no indication that they have picked up in response to publicity about Drexel's problems. Thrifts are reported to have sold significant amounts of junk bonds over the past few months, likely reflecting requirements that they mark their holdings of junk bonds to market and divest direct holdings by 1994. On March 14, Columbia Savings announced it was seeking a buyer for its nearly $4 billion portfolio of junk bonds. At the same time, however, the RTC announced that it would not dump its holdings of junk bonds on the market. No significant sales of junk bonds by life insurance companies have been reported thus far, but market participants have expressed concern that the recent downgrading in the claims-paying ability of Executive Life--a large holder of junk bonds--could make it difficult for that company, and perhaps some others, to roll over the amounts of guaranteed investment contracts necessary to support its portfolio.

Drexel's failure is the most dramatic indication to date of the stresses that brokerage firms are experiencing. Sluggish retail business and a drop-off in fees associated with debt-financed mergers are among the problems facing many brokerage houses. In addition, a number of houses have large bridge loans outstanding that they are finding hard to refinance in the troubled junk bond market. Such problems led to the downgrading of Merrill Lynch's senior and subordinated debt and commercial paper, and some investors have curtailed their lending to other securities firms. Some firms with deep-pocketed owners have had to dig into those pockets to reassure creditors. Shearson Lehman Hutton had to withdraw a planned stock offering and has been the recipient of a $250 million capital infusion from its parent, American Express, which also announced plans to inject a further $750 million and to buy back the remaining publicly held Shearson stock. First Boston, under pressure from credit-rating concerns, sold to its parent, CS Holding, more than half of a $450 million troubled bridge loan to Ohio Mattress.

Despite the turmoil in the junk bond market and associated negative implications for merger and acquisition activity--and despite the plunge in share prices in Tokyo--most major U.S. stock indexes have risen between 2 and 4 percent since the last FOMC meeting. Gross equity offerings by nonfinancial firms have remained substantial with the $2 billion issuance in February representing the highest level since July 1988. At this point, it appears that net equity retirements in the first half of the year will fall below the fourth quarter's already reduced pace.

Treasury and Sponsored Agency Financing

The staff anticipates that the federal government will run a $68 billion deficit (not seasonally adjusted) in the first quarter, close to that in the fourth quarter. The deficit is expected to be financed by about $51 billion in marketable borrowing, including a $10 billion cash management bill already issued, and by a moderate draw on the Treasury's cash balance.

Relative to projections in the last Greenbook, first-quarter Treasury borrowing was boosted by the decision of the RTC Oversight Board to fund the working capital needs of the RTC through the Federal Financing Bank. In

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

	1989		1990			
	Q3	Q4	Q1[p]	Jan.	Feb.[p]	Mar.[p]
Treasury financing						
Total surplus/deficit (-)	-46.5	-69.7	-68.4	9.9	-35.6	-42.7
Means of financing deficit:						
Net cash borrowing from the public	38.6	63.3	60.8	15.8	16.5	28.5
Marketable borrowings/ repayments (-)	33.4	52.8	50.8	11.1	16.4	23.3
Bills	9.5	24.0	22.1	4.7	2.4	15.0
Coupons	23.9	28.8	28.7	6.4	14.0	8.3
Nonmarketable[2]	5.2	10.5	10.0	4.7	.1	5.2
Decrease in the cash balance	2.8	14.1	6.3	-18.2	25.5	-1.0
Memo: Cash balance at end of period	41.0	26.9	20.6	45.1	19.6	20.6
Other[3]	5.1	-7.6	1.3	-7.6	-6.3	15.2
Federally sponsored credit agencies, net cash borrowing[4]	1.5	4.2	--	--	--	--
FHLBs	-10.3	-7.5	--	-2.4	--	--
FHLMC	1.5	.1	--	--	--	--
FNMA	5.2	4.6	--	-.9	--	--
Farm Credit Banks	1.6	.8	--	.9	--	--
FAC	0.0	0.0	0.0	0.0	0.0	0.0
SLMA	2.9	1.6	--	--	--	--
FICO	0.7	0.0	0.0	0.0	0.0	0.0
REFCORP	--	4.5	5.0	5.0	0.0	0.0

1. Data reported on a not seasonally adjusted, payment basis.
2. Includes proceeds from securities issued by federal agencies under special financing authorities (primarily FSLIC) and the face value of the zero coupon bonds issued to REFCORP. The discount from face value is offset in other means of finance.
3. Includes checks issued less checks paid, accrued items and other transactions.
4. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
p--projected.
Note: Details may not add to totals due to rounding.

line with the move, the Treasury announced at the end of February that it would increase the size of the weekly bill auctions from $15.2 billion to $16.0 billion through the end of March. The cost to the RTC of working capital will be 1/8 percent over the 90-day Treasury bill rate. As of mid-March, however, the RTC had not yet drawn on the working capital of $11 billion earmarked for it by the Treasury. If the RTC does not use the earmarked funds, Treasury cash balances will be at unusually high levels in April.

In January, FHLB debt outstanding declined for the eighth consecutive month, and a decline in FHLB advances to member thrifts in February may point to a continuation of the string of declines in FHLB debt outstanding. FNMA, which in 1989 had been borrowing heavily to acquire mortgages for its portfolio, paid down almost $1 billion of debt in January. This one-month drop apparently owed partly to a narrowing of spreads on mortgage instruments over FMNA's cost of funds and a consequent slowing of its portfolio acquisitions. Spreads on agency debt over Treasuries have remained fairly stable in recent weeks.

Several items were included in the Administration's budget, released at the end of January, that could affect the market for agency securities. User fees were once again proposed on new securities issued by Freddie Mac, Fannie Mae, and Sallie Mae. For debt instruments, the proposed fee paid by these agencies would begin at 10 basis points in the first year, FY 1991, and increase to 20 basis points in FY 1992 and 30 basis points in FY 1993. For mortgage-backed securities, the fees would run 5, 10, and 15 basis points, respectively. User fees on GSE debt have been proposed a number of times in recent years, and hence the current proposal, based on the rationale that these agencies should reimburse the federal government for the borrowing advantages they enjoy as a result of their special relationship with the government, did not generate much comment. Elsewhere in the budget document, there was an unusually explicit acknowledgement of the widespread belief that government assistance would be provided if these agencies were unable to support their debt. This acknowledgement, however, did not have any noticeable impact in the market.

Municipal Securities

Gross issuance of long-term municipal securities continued sluggish in February and the first half of March. Refunding volume has been noticeably weak thus far in 1990, as the backup in yields since the first of the year has contributed to a reduction in issuance to about one-fifth of its 1989 pace. New capital issuance also has fallen below last year's monthly average. Largely reflecting a single offering by Puerto Rico, short-term offerings picked up in February; they should strengthen further in coming

GROSS OFFERINGS OF MUNICIPAL SECURITIES
(Monthly rates, not seasonally adjusted, billions of dollars)

	1988	1989	1989			1990		
	Year	Year	Q2	Q3	Q4	Jan.	Feb.	Mar.[f]
Total offerings[1]	11.73	11.90	13.14	12.78	12.47	7.40	6.14	--
Total tax-exempt	11.41	11.65	12.95	12.58	12.13	7.28	6.14	9.50
Long-term	9.54	9.47	9.56	9.79	10.76	6.69	5.04	7.50
Refundings[2]	2.90	2.47	2.20	2.83	2.35	0.43	0.50	--
New capital	6.64	7.01	7.36	6.97	8.41	6.26	4.54	--
Short-term[3]	1.87	2.17	3.39	2.78	1.37	.58	1.10	2.00
Total taxable	.32	.25	.19	.20	.34	.13	.00	--

f--forecast.
1. Includes issues for public and private purposes; also includes taxable issues.
2. Includes all refunding bonds, not just advance refundings.
3. Does not include tax-exempt commercial paper.

weeks as New York State and Massachusetts are expected to come to market with large issues to cover budget shortfalls.

The stricter limitations contained in the Tax Reform Act of 1986 on bonds issued for private activity purposes and issued by tax-exempt entities other than hospitals are reportedly beginning to constrain the issuance of tax-exempt debt. For example, the $150 million cap on outstanding debt issued by individual non-profit institutions now precludes twenty-four universities from issuing additional tax-exempt debt. In addition, several states, including California, have reached their $50 per capita limit on outstanding private activity debt.

Mortgage Markets

Mortgage debt growth appears to have been maintained into the new year at about the fourth-quarter pace of 7-1/4 percent, despite continued shedding of mortgage assets by the thrift industry. Mortgage-related lending by banks continued robust through February, with the strength evidently still concentrated in single-family mortgages, home equity lines, and mortgage-backed securities. Thrift institutions, on the other hand, have continued to disinvest mortgage assets held either as whole loans or as mortgage pass-through securities, but at a considerably more moderate pace than the 20 percent annual rate of decline recorded in December at SAIF-insured institutions. On balance, however, there does not appear to be any shortfall in credit availability, especially for residential mortgage credit: There has been no significant widening in yield spreads of either fixed or adjustable-rate mortgages over Treasuries of comparable maturities.

Pricing of mortgages and mortgage securities has been adjusting to the market's gradual recognition that prepayments on fixed-rate mortgages have

MORTGAGE ACTIVITY AT ALL SAIF-INSURED INSTITUTIONS
(Monthly averages, billions of dollars, seasonally adjusted)

	Mortgage transactions			Net change in mortgage assets		
	Origina-tions	Commit-ments	Sales	Total	Mortgage loans	Mortgage-backed securities
1987 r	21.1	20.0	10.5	5.5	2.0	3.6
1988 r	19.9	19.4	8.8	5.0	3.6	1.0
1988-Q4	19.8	19.9	9.5	4.2	3.1	1.7
1989-Q1	20.5	19.3	8.1	6.1	4.2	.7
Q2	14.7	13.0	7.2	-2.8	-.5	-1.9
Q3 r	14.2	14.8	9.2	-10.8	-3.3	-8.0
Q4 r	15.3	16.0	10.7	-12.7	-7.4	-5.4
1989-Jan.	21.5	19.6	7.0	7.5	6.9	-1.6
Feb.	19.7	19.7	8.7	6.2	3.1	4.8
Mar.	20.4	18.6	8.7	4.7	2.7	-1.1
Apr.	16.2	13.9	7.0	.9	3.2	2.0
May	15.1	12.7	7.1	-1.2	-.8	-1.3
June	12.9	12.3	7.4	-8.1	-3.8	-6.4
July r	12.4	12.6	8.0	-7.2	-1.0	-6.2
Aug. r	15.2	16.1	10.9	-13.5	-3.5	-10.3
Sep. r	14.9	15.6	8.6	-12.0	-5.5	-7.4
Oct. r	15.4	16.0	10.0	-16.1	-9.3	-7.7
Nov. r	16.7	17.2	10.4	-7.3	-3.3	-4.4
Dec. p	13.7	14.9	11.7	-14.7	-9.5	-4.1

r--revised
p--preliminary

CHANGE IN MORTGAGE HOLDINGS
(billions of dollars, seasonally adjusted annual rates)

		Commercial banks		FSLIC/SAIF insured thrifts			
Period	Total	Mortg.	Pools	Mortg.	Pools	All other mortg. pools	All other holders
1986	316.4	70.1	25.7	10.7	42.8	104.6	62.5
1987	324.9	86.2	22.1	35.3	43.6	90.7	47.0
1988	306.7	77.8	15.0	60.2	12.8	47.1	93.8
1989	255.4	88.7	36.6	-9.2	-43.8	122.6	60.5
1989-Q1	289.0	81.2	23.2	62.1	23.0	74.6	24.9
Q2	246.1	99.5	48.5	-18.2	-36.4	76.8	75.9
Q3	240.3	79.0	47.3	-30.3	-87.8	160.1	62.0
Q4	246.4	85.2	27.3	-50.3	-73.9	178.8	79.3

slowed during the past three years by more than would be expected given changes in market interest rates. Lower inflation in housing prices resulting in reduced economic incentives for homeowners to move, as well as a shift to ARMs by relatively mobile households, appear to have contributed to the slowdown in prepayments on fixed-rate mortgages. Responding in part to the increased popularity of ARMs with more mobile households, FNMA is promoting fixed-rate products targeted on homebuyers who want the security of fixed-rate financing but who expect to move within a few years of the purchase of a home. These loans carry a fixed interest rate for the first seven years and amortize according to a thirty-year schedule. At the end of seven years, the borrower can extend the loan for another 23 years, using then-current interest rates. The main attraction to borrowers is the loan's lower interest rate compared to standard 30-year fixed-rate mortgages.

Since the previous FOMC meeting, contract rates on fixed-rate mortgages rose 17 basis points to 10.34 percent. In response to higher market rates since late last year, the Department of Veteran Affairs in February raised the ceiling rate on loans it guarantees to 10 percent.[1] In the market for adjustable-rate mortgages, initial rate discounting has continued to moderate. Only 55 percent of the ARMs originated in early January carried

1. The VA ceiling rate tends to serve also as the market standard contract rate for home loans insured by the FHA. Based on a survey of lenders, the U.S. Department of Housing and Urban Development estimates that about 12 percent of all mortgage-loan originations (measured in dollars) on 1-4 family homes in the last half of 1989 were insured by FHA or VA. The National Association of Realtors estimates that fully 35 percent of originations for home purchase (measured in number of loans) were insured by FHA or VA, based on a survey of its members. Because FHA/VA loans are significantly smaller on average than conventional loans, these two estimates are not necessarily inconsistent.

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (at annual rate)						Net change (billions of dollars)		Memo: Outstandings (billions of dollars)
				1989		1990	1989	1990	1990
	1987	1988	1989[1] r	Q4 r	Dec. r	Jan. r	Dec. r	Jan. p	Jan. p
Total installment[2]	6.2	8.5	5.9	6.9	7.3	5.9	4.35	3.54	720.1
Installment, excluding auto	5.2	10.7	8.8	10.4	12.6	4.7	4.44	1.68	429.1
Selected types									
Auto	7.5	5.7	1.9	1.9	-.4	7.7	-.09	1.86	291.0
Revolving	12.3	13.6	15.6	16.1	23.7	1.4	3.94	.24	203.4
All other	.1	8.3	3.4	5.3	2.7	7.7	.50	1.44	225.7
Selected holders									
Commercial banks	7.6	12.7	6.1	8.8	6.7	8.8	1.87	2.47	337.0
Finance companies	4.7	3.5	.6	-10.3	-7.7	8.5	-.91	1.00	141.5
Credit unions	5.1	7.5	4.2	-.8	.5	8.7	.04	.65	90.4
Savings institutions[3]	6.6	3.8	-7.8	-17.4	-20.2	-1.2	-.98	-.06	57.2
Asset pools (NSA)	n.a.	n.a.	65.8	118.2	113.4	-11.8	4.14	-.47	47.4
Memorandum:									
Total[4]	4.9	7.3	5.7	6.7	8.9	8.2	5.73	5.35	787.6

1. Growth rates are adjusted for discontinuity in data between December 1988 and January 1989.
2. Includes items not shown separately.
3. Savings and loans, mutual savings banks, and federal savings banks.
4. Installment plus noninstallment.
r--revised. p--preliminary.
Note: Details may not add to totals due to rounding.

CONSUMER INTEREST RATES
(Annual percentage rate)

	1987	1988	1989	1989 Nov.	1989 Dec.	1990 Jan.	1990 Feb.
At commercial banks[1]							
New cars (48 mo.)	10.46	10.86	12.07	11.94	...	...	11.80
Personal (24 mo.)	14.23	14.68	15.44	15.42	...	...	15.27
Credit cards	17.92	17.79	18.02	18.07	...	...	18.12
At auto finance cos.[2]							
New cars	10.73	12.60	12.62	13.27	13.27	12.64	...
Used cars	14.61	15.11	16.18	16.09	16.10	15.77	...

1. Average of "most common" rate charged for specified type and maturity during the first week of the mid-month of each quarter.
2. Average rate for all loans of each type made during the month regardless of maturity.

any initial-period discount below the scheduled contract rate, and about half of the discounts were for less than 2 percentage points.

Consumer Credit

Consumer installment credit outstanding grew at a 6 percent annual rate in January, equal to the average pace for all of last year, and a little slower than in December. After increasing faster than consumption spending over the first three years of the current economic expansion, consumer credit growth has roughly matched the spending pace since 1986, notwithstanding some divergence in quarter-to-quarter movements.[2]

January's increase in consumer credit was held down by a 2 percent annual rate of increase in revolving credit; in December, that component had surged at a 24 percent rate. Revolving credit frequently moves erratically in December and January because the proportions of Christmas season transactions entering lenders' books in each of these months can vary substantially from year to year, complicating seasonal adjustment. Looking through the near-term volatility, revolving credit appears to have slowed somewhat recently: From the end of the third quarter through January, it grew at a 12-1/2 percent annual rate, compared with 15-1/2 percent over the first nine months of 1989.

While revolving credit was slowing, the growth of automobile credit picked up in January to nearly an 8 percent annual rate from 2 percent in both the fourth quarter and 1989 as a whole. A rebound in new-car sales in

2. A pattern of initial growth more rapid than consumption and subsequent parity of growth rates is typical of consumer credit over an extended upward movement in a business cycle. This pattern owes partly to the behavior of debt repayments, which grow relatively slowly early in an expansion (reflecting reduced credit extensions in the previous recession), then pick up later in the cycle, providing more of an offset to new borrowing.

January, stimulated by expanded offerings of price rebates and low-rate loans, spurred the faster auto credit growth. Reflecting the below-market rates on some transactions, the average finance rate on new-car loans at the auto finance companies declined 5/8 percentage point in January to 12-5/8 percent.

DELINQUENCY RATES ON CONSUMER INSTALLMENT LOANS AT BANKS
(Number of loans delinquent 30 days or more as a percent of number of loans outstanding, seasonally adjusted)

				1989		1989	
	1980	1988	1989	Q3	Q4	Nov.	Dec.
All closed-end loans[1]	2.61	2.40	2.55	2.82	2.66	2.63	2.64
Auto - direct	1.85	1.89	1.87	1.87	2.01	1.99	2.03
Auto - indirect	2.38	2.31	2.47	2.61	2.50	2.35	2.61
Personal, home goods	3.56	3.30	3.36	3.50	3.49	3.45	3.52
Mobile home	3.02	2.72	2.45	2.79	2.47	2.38	2.51
Property improvement	2.40	1.96	2.03	2.05	2.22	2.17	2.25
Credit cards	2.73	2.34	2.31	2.36	2.12	2.02	2.24

1. Weighted average of separate categories, excluding credit cards.

Measures of household debt repayment problems, which generally had worsened in the third quarter of 1989, improved somewhat during the fourth quarter. Auto loan delinquencies at the auto finance companies edged down after several quarters of steady increases. Delinquencies on bank credit cards fell fairly sharply in the fourth quarter to a relatively low level, according to the American Bankers Association (ABA). The ABA's average delinquency rate on a variety of closed-end consumer loans at commercial banks also declined moderately in the fourth quarter, following a sharp jump in the previous quarter.[3] As indicated in the section on bank credit,

3. The third-quarter climb had raised the rate from the middle of its historical range to its upper bound, but had appeared suspect because none of the component loan types experienced increases as big as the overall increase. In the fourth quarter, delinquencies rose for some components and fell for others, but seemed consistent with a decline on average.

above, call report data for large banks showed a small increase in consumer loan delinquencies in the fourth quarter. The quarterly movements of the call report series have deviated from the pattern of the ABA series, but both were up moderately over 1989.

Delinquencies on home mortgages generally have shown less evidence of repayment problems in recent months than the consumer loan series. The proportion of mortgages 60 or more days past due, reported by the Mortgage Bankers Association (MBA), declined slightly in the fourth quarter, leaving the delinquency rate at about the level prevailing at the beginning of 1989, which was the lowest in eight years.

In contrast to the general improvement in delinquency experience in the fourth quarter of last year, personal bankruptcy filings rose rather sharply, reversing a small decline in the previous quarter. For the full year, personal bankruptcies rose 12 percent, about in line with the increases of the previous two years, but well below the 20-to-30 percent increases of 1985 and 1986. It is difficult to interpret the upward trend in bankruptcies in the past few years because changes in bankruptcy law have made it a more attractive remedy to borrowers for debt payment problems.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(percent)

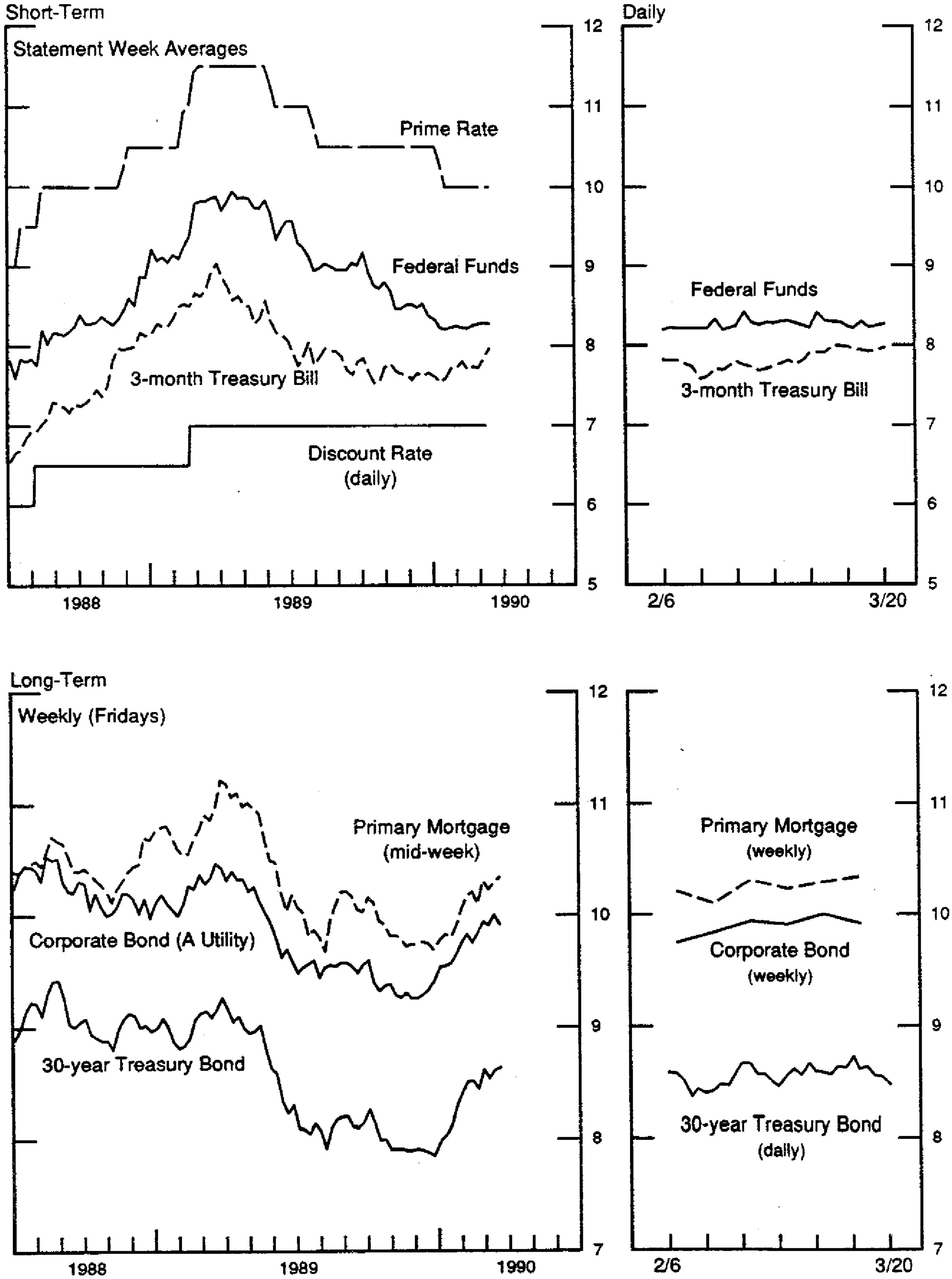
	1987	1989	1989	1990	1990	Change from:		
	Oct 16[2]	March highs	Dec lows	FOMC Feb 7	Mar 20	Mar 89 highs	Dec 89 lows	FOMC Feb 7
Short-term rates								
Federal funds[3]	7.59	9.85	8.45	8.23	8.26	-1.59	-.19	.03
Treasury bills[4]								
3-month	6.93	9.09	7.53	7.81	7.97	-1.12	.44	.16
6-month	7.58	9.11	7.29	7.76	7.91	-1.20	.62	.15
1-year	7.74	9.05	7.11	7.61	7.78	-1.27	.67	.17
Commercial paper								
1-month	7.94	10.05	8.51	8.25	8.35	-1.70	-.16	.10
3-month	8.65	10.15	8.22	8.16	8.33	-1.82	.11	.17
Large negotiable CDs[4]								
1-month	7.92	10.07	8.52	8.20	8.35	-1.72	-.17	.15
3-month	8.90	10.32	8.22	8.24	8.41	-1.91	.19	.17
6-month	9.12	10.08	8.01	8.29	8.60	-1.48	.59	.31
Eurodollar deposits[5]								
1-month	8.00	10.19	8.38	8.19	8.31	-1.88	-.07	.12
3-month	9.06	10.50	8.25	8.25	8.38	-2.12	.13	.13
Bank prime rate	9.25	11.50	10.50	10.00	10.00	-1.50	-.50	.00
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	9.52	9.88	7.69	8.43	8.65	-1.23	.96	.22
10-year	10.23	9.53	7.77	8.52	8.54	-.99	.77	.02
30-year	10.24	9.31	7.83	8.57	8.47	-.84	.64	-.10
Municipal revenue[6] (Bond Buyer)	9.59	7.95	7.28	7.52	7.55	-.40	.27	.03
Corporate--A utility recently offered	11.50	10.47	9.29	9.84	9.82	-.65	.53	-.02
Home mortgage rates[7]								
S&L fixed-rate	11.58	11.22	9.69	10.17	10.34	-.88	.65	.17
S&L ARM, 1-yr.	8.45	9.31	8.34	8.45	8.55	-.76	.21	.10

	Record highs	Date	1989 Lows Jan 3	1990 FOMC Feb 7	1990 Mar 20	Percent change from: Record highs	1989 lows	FOMC Feb 7
Stock prices								
Dow-Jones Industrial	2810.15	1/2/90	2144.64	2640.09	2738.74	-2.54	27.70	3.74
NYSE Composite	199.34	10/9/89	154.98	184.31	187.71	-5.83	21.12	1.84
AMEX Composite	397.03	10/10/89	305.24	356.35	363.42	-8.47	19.06	1.98
NASDAQ (OTC)	485.73	10/9/89	378.56	426.79	440.08	-9.40	16.25	3.11
Wilshire	3523.47	10/9/89	2718.59	3218.33	3292.46	-6.56	21.11	2.30

1/ One-day quotes except as noted.
2/ Last business day prior to stock market decline on Monday Oct. 19, 1987.
3/ Average for two-week reserve maintenance period closest to date shown. Last observation is average-to-date for the maintenance period ending March 21, 1990.
4/ Secondary market.
5/ Bid rates for Eurodollar deposits at 11 a.m. London time.
6/ Based on one-day Thursday quotes and futures-market index changes.
7/ Quotes for week ending Friday closest to date shown.

Selected Interest Rates*

(percent)



*--Friday weeks through March 16, Wednesday weeks through March 14.

Most short-term interest rates have risen slightly since the February FOMC meeting. Statements by System officials, against a backdrop of stronger than expected economic data, have largely eliminated the anticipation of any near-term easing of monetary policy. Treasury bond yields have moved down a bit from levels at the time of the mid-quarter financing, while other long-term rates are little changed. Increases in major stock price indexes of 2 to 4 percent in the intermeeting period likely reflect wider acceptance of the view that the risks of recession are low.

The monetary aggregates accelerated significantly in February after growing relatively slowly in January. M1 grew at a 10 percent pace, as demand deposits resumed their growth and currency continued to expand briskly. Growth of M2 was concentrated in its more liquid components--M1 as well as money market funds, savings deposits, and MMDAs. M3 growth was a more moderate 6 percent, owing mainly to the continued shrinkage of managed liabilities of thrift institutions. Data for early March indicate that growth of the monetary aggregates has slowed somewhat from February's pace.

Borrowing by nonfinancial businesses appeared to weaken further in February, as bank lending, public bond offerings, and issuance of commercial paper, especially for restructuring purposes, were all anemic. The bankruptcy filing of Drexel Burnham Lambert on February 13 and the announcement by Columbia Savings on March 14 that it was seeking a buyer for its large junk-bond portfolio contributed to another 60 basis point widening of yield spreads on junk bonds over Treasuries since the last FOMC meeting.

MONETARY AGGREGATES
(based on seasonally adjusted data unless otherwise noted)

	1989[1]	1989 Q3	1989 Q4	1989 Dec	1990 Jan	1990 Feb p	Growth Q4 89- Feb 90p
	Percent change at annual rates						
1. M1	0.6	1.8	5.1	8.2	-0.2	10.0	5.3
2. M2	4.6	6.9	7.1	7.8	3.8	9.3	7.0
3. M3	3.2	3.9	1.8	3.8	2.3	5.8	3.9
	Percent change at annual rates						Levels bil. $ Feb 90p
Selected components							
4. M1-A	0.4	1.4	2.5	5.9	0.7	11.8	514.4
5. Currency	4.8	3.9	4.0	8.2	14.6	10.7	226.6
6. Demand deposits	-2.8	-0.6	1.1	3.9	-10.3	13.0	280.3
7. Other checkable deposits	1.0	2.5	9.8	12.3	-1.7	6.7	286.9
8. M2 minus M1[2]	5.9	8.7	7.7	7.7	5.1	9.1	2455.7
9. Overnight RPs and Eurodollars, NSA	-9.2	-2.5	-12.8	32.1	62.5	11.9	81.6
10. General purpose and broker/dealer money market mutual fund shares	29.8	37.7	29.5	15.5	29.5	31.0	329.1
11. Commercial banks	7.5	7.6	10.9	9.5	5.7	9.7	1082.4
12. Savings deposits plus MMDAs[3]	-1.7	3.5	10.4	9.4	4.9	12.2	547.7
13. Small time deposits	19.0	11.9	11.3	9.6	6.6	7.2	534.7
14. Thrift institutions	-0.2	3.5	-0.9	-0.6	-3.0	-3.1	961.6
15. Savings deposits plus MMDAs[3]	-9.3	-5.5	1.9	-0.3	0.7	7.8	355.3
16. Small time deposits	5.8	8.8	-2.5	-0.8	-5.1	-9.4	606.3
17. M3 minus M2[4]	-1.5	-6.9	-17.3	-12.0	-3.8	-8.1	811.3
18. Large time deposits	4.2	-1.3	-6.7	-5.8	-8.4	-9.7	549.9
19. At commercial banks, net[5]	9.9	2.9	2.7	-0.3	0.3	-4.8	399.9
20. At thrift institutions	-7.8	-10.6	-28.8	-20.3	-29.8	-22.8	150.0
21. Institution-only money market mutual fund shares	17.1	36.9	3.2	14.2	10.6	5.8	103.7
22. Term RPs, NSA	-16.1	-29.8	-49.2	-138.8	-44.3	43.4	94.6
23. Term Eurodollars, NSA	-22.5	-33.4	-41.8	15.2	-75.1	-44.9	72.1
	Average monthly change in billions of dollars						
MEMORANDA:[6]							
24. Managed liabilities at commercial banks (25+26)	5.9	3.5	5.0	0.6	-1.4	6.5	725.4
25. Large time deposits, gross	2.6	0.0	1.4	0.3	-1.6	-2.2	460.5
26. Nondeposit funds	3.4	3.5	3.5	0.3	0.2	8.7	264.9
27. Net due to related foreign institutions	0.2	1.0	-0.9	-1.4	3.2	3.6	14.4
28. Other[7]	3.2	2.5	4.4	1.7	-3.0	5.1	250.5
29. U.S. government deposits at commercial banks[8]	-0.3	-1.0	-0.6	0.7	-0.9	-2.4	17.8

1. Amounts shown are from fourth quarter to fourth quarter.
2. Nontransactions M2 is seasonally adjusted as a whole.
3. Commercial bank savings deposits excluding MMDAs grew during January and February at rates of 8.9 percent and 12.6 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during January and February at rates of 0 percent and 7.6 percent, respectively.
4. The non-M2 component of M3 is seasonally adjusted as a whole.
5. Net of large denomination time deposits held by money market mutual funds and thrift institutions.
6. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis.
7. Consists of borrowing 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 borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estimated
8. Consists of Treasury demand deposits and note balances at commercial banks.

p - preliminary

Federal debt issuance in the first quarter has been augmented by borrowing to provide working capital to the RTC. State and local bond offerings continued very weak in February. Limited information suggests that household debt may be continuing to grow at about the same, more moderate, rate as in the fourth quarter.

Monetary Aggregates and Bank Credit

After recording no change in January, M1 expanded at a 10 percent annual rate in February, as demand deposits and, to a lesser extent, other checkable deposits accelerated. Currency growth slowed somewhat from its very rapid January pace, but remained at a double-digit rate, evidently buoyed by unusually large demands for U.S. currency in Latin America and Eastern Europe. So far in March, M1 appears to be growing more slowly than in February.

M2 grew almost as fast as M1 in February, owing to a pickup in its nontransactions components. Strength was especially marked in liquid accounts, despite some widening of spreads between rates on these accounts and on Treasury bills. Tax refunds to individuals have been relatively strong so far this year and may have contributed a little to growth in MMDAs and MMMFs. Expansion of small time deposits, on the other hand, moderated somewhat last month as rates on such deposits lagged increases in market rates; the greater attractiveness of Treasury issues was evidenced by a sharp rise in noncompetitive tenders. Banks, fairly flush with funds, appear to be sluggish in raising their deposit rates to meet the increase in Treasury rates. Perhaps reflecting this widening yield spread, data for early March suggest some slowing of M2 growth this month.

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

	1988:Q4 to 1989:Q4	1989 Q3	1989 Q4	1989 Dec.	1990 Jan.	1990 Feb.p	Levels bil.$ February p
	Commercial Bank Credit						
1. Total loans and securities at banks	7.1	6.9	6.7	1.6	2.7	8.6	2603.5
2. Securities	3.9	.2	9.5	.8	16.3	20.6	592.5
3. U.S. government securities	9.6	4.7	16.8	-1.8	24.0	28.0	411.7
4. Other securities	-6.8	-9.0	-5.3	6.7	-1.3	4.0	180.8
5. Total loans	8.1	8.8	5.9	1.9	-1.2	5.2	2011.1
6. Business loans	6.8	6.8	2.4	-6.7	-6.0	-1.5	637.3
7. Real estate loans	12.8	12.8	10.9	12.0	7.2	12.6	767.1
8. Consumer loans	6.2	6.6	6.2	4.8	7.4	3.5	378.9
9. Security loans	4.1	-7.9	-3.0	-60.7	-6.1	15.3	39.7
10. Other loans	.8	8.0	-.6	-1.9	-32.8	-.6	188.1
	Short- and Intermediate-Term Business Credit						
11. Business loans net of bankers acceptances	6.7	6.6	2.2	-6.8	-5.7	-2.7	629.5
12. Loans at foreign branches[2]	-5.0	-76.9	9.5	58.5	83.7	-47.0	22.1
13. Sum of lines 11 & 12	6.3	3.3	2.5	-4.7	-2.6	-4.4	651.6
14. Commercial paper issued by nonfinancial firms	31.2	14.6	21.0	37.8	27.7	.9	137.3
15. Sum of lines 13 & 14	9.8	5.1	5.5	2.3	2.6	-3.5	788.9
16. Bankers acceptances: U.S. trade related[3,4]	6.1	-1.1	-9.1	-3.5	3.5	n.a.	34.6[5]
17. Line 15 plus bankers acceptances: U.S. trade related	9.6	4.9	4.8	2.0	2.6	n.a.	825.8[5]
18. Finance company loans to business[3]	11.1	14.1	2.3	-3.2	-9.3	n.a.	255.8[5]
19. Total short- and intermediate-term business credit (sum of lines 17 & 18)	10.0	7.0	4.3	.9	-.4	n.a.	1081.6[5]

1. Average of Wednesdays.
2. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
3. Based on average of data for current and preceding ends of month.
4. Consists of acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.
5. January data.
p--preliminary.
n.a.--not available
Note: Data have revised due to new seasonal adjustment factors and benchmarking of the data to the June 30, 1989 Call Report.

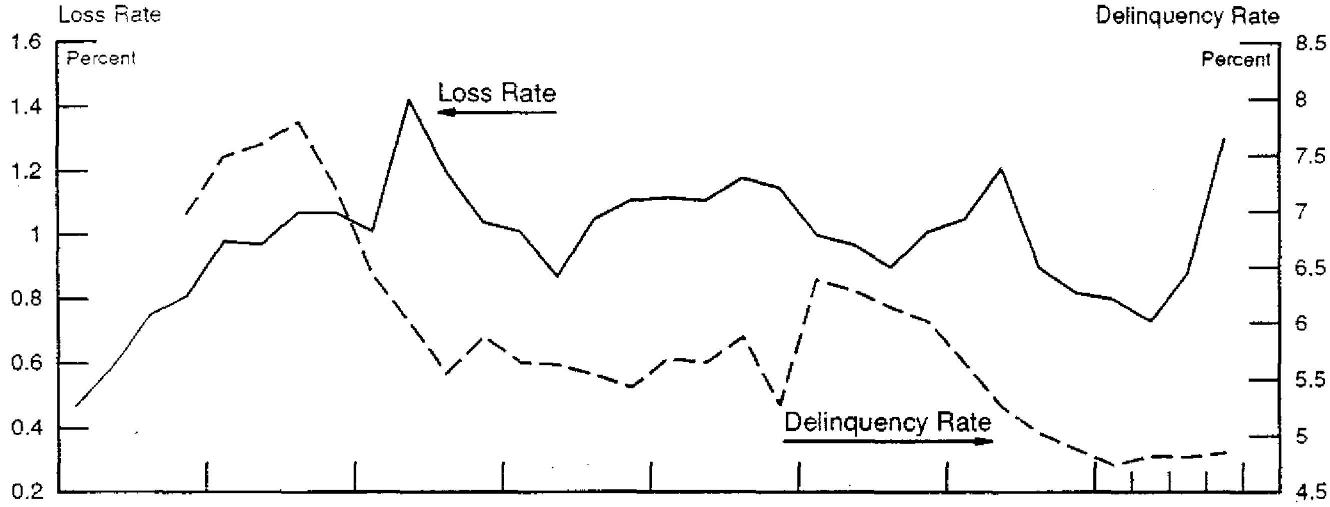
Growth of M3 picked up in February, but less so than was the case with the narrower aggregates, as banks joined thrifts in running off large time deposits. Although savings and loans remain under pressure to pare their balance sheets to improve capital ratios, SAIF-insured institutions not in RTC conservatorship ran off managed liabilities at a slower pace in January and February than in the last quarter of 1989. At S&Ls in conservatorship, however, the pace of the run-off of managed liabilities increased significantly. At banks, healthy growth in core deposits in February moderated the need to rely on managed liabilities to fund a pickup in credit extended. With continued weakness in its non-M2 component, M3 growth also appears to be moderating in March.

Bank credit strengthened in February to an 8-1/2 percent annual rate of growth. Banks continued to acquire U.S. government securities at a rapid pace, with data for large banks suggesting that, on a month-average basis, the February growth was about evenly split between Treasury issues and mortgage-backed securities. Over the whole period since the implementation of FIRREA last August, about two-thirds of the growth in U.S. government securities held at large banks have taken the form of mortgage-backed securities.

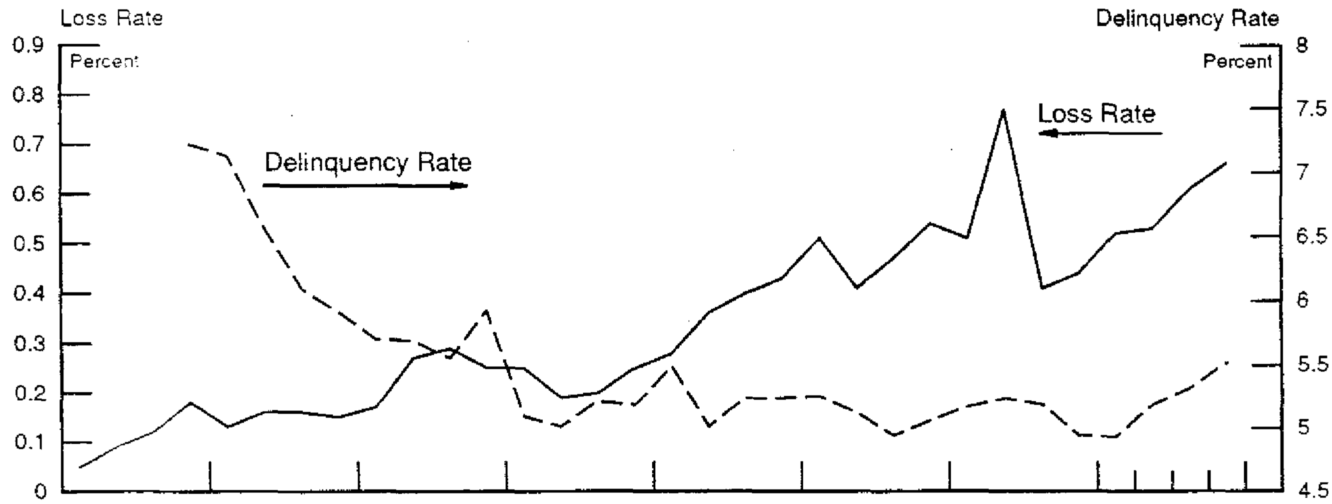
After below-trend growth in January, real estate loans returned to a 12 percent annual rate of growth last month. Preliminary call report data for December show that the major contributors to real estate loan growth in the fourth quarter of 1989 were mortgages on single-family homes and nonfarm nonresidential properties, while construction and land development loans weakened, likely reflecting greater caution in extending such credit. Consumer loan growth, at a 3-1/2 percent rate in February, was depressed by

Loan Loss (Chargeoffs) and Delinquency Rates at Large Banks, SA [1]

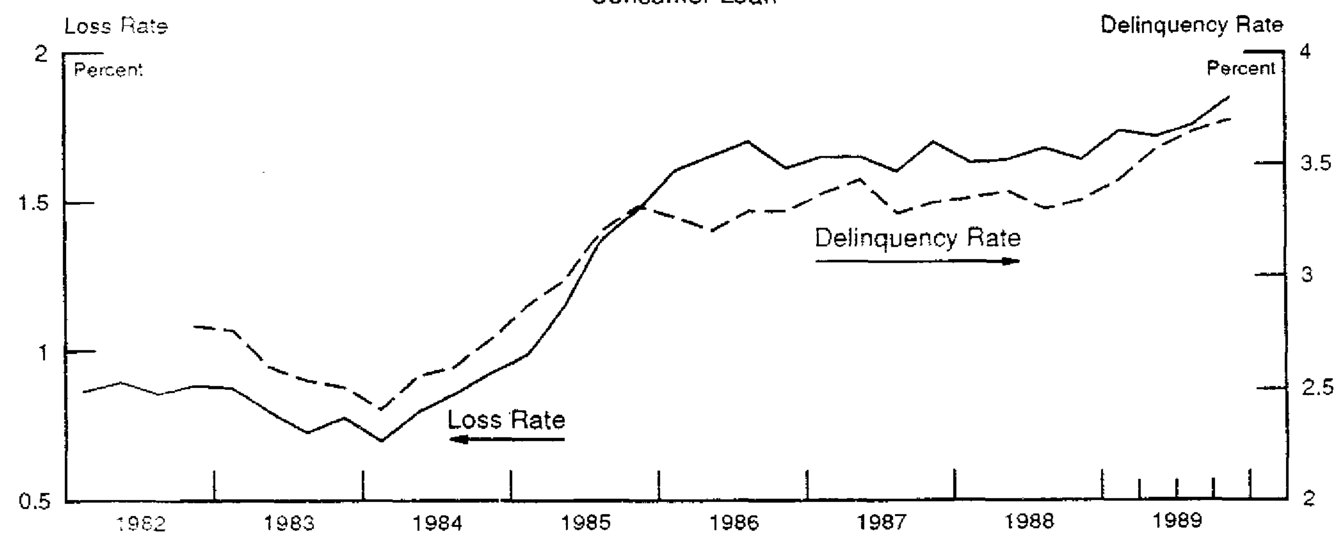
Commercial and Industrial Loan



Real Estate Loan



Consumer Loan



1. Loss rates are based on chargeoffs net of recoveries. Delinquent loans include those past due 30 days or more and still accruing interest, as well as those on nonaccural status. Data are reported on the Quarterly Report of Condition by banks with at least $300 million in assets. Data are consolidated (foreign and domestic offices). Percent at annual rate of average amount outstanding, seasonally adjusted. Loss rate series begin in 1982 Q1, delinquency rate series begin in 1982 Q4.

about 6 percentage points owing to securitization. After adjusting for securitization, the growth of consumer loans picked up a bit over the pace of the last three months.

Business loans contracted last month, continuing the decline begun late last year. The decline can be traced, in part, to the virtual cessation of net extensions of credit in connection with major corporate restructurings. Such transactions kept business loans from declining for 1989 as a whole. The decline in non-merger loans also was faster in February than on average in 1989.

Preliminary fourth-quarter data from bank call reports indicate a continuing deterioration in asset quality. Even though chargeoffs net of recoveries increased, which, other things equal, would lower delinquencies, delinquencies also increased for major loan categories (see chart). On a consolidated basis, banks charged off C&I loans (largely to foreign borrowers) at a seasonally adjusted annual rate of 1.3 percent; still, the share of delinquent C&I loans remaining on banks' books edged up to 4.9 percent, seasonally adjusted. The rate at which real estate loans were charged off moved up, largely reflecting developments in the Boston and Dallas Federal Reserve districts; nevertheless, the share of delinquent real estate loans rose to 5.5 percent, mainly reflecting a deterioration at banks in the Boston and New York districts. For both C&I and real estate loans, delinquency rates remained well below the peaks seen just after the 1982 recession, but chargeoff rates were near the highest levels recorded since these data were first collected in 1982. Finally, chargeoff rates of consumer loans continued to rise in the fourth quarter, and delinquencies rose slightly.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly rates, not seasonally adjusted, billions of dollars)

	1987	1988	1989	1989		1990		
	Year	Year	Year	Q3	Q4	Jan.[p]	Feb.[p]	Mar.[e]
Corporate securities - total[1]	24.08	22.23	19.60	16.20	22.60	14.29	14.43	17.30
Public offerings in U.S.	21.89	20.21	17.56	14.75	20.71	12.28	12.98	15.00
Stocks--total[2]	4.45	3.53	2.69	3.12	3.96	2.28	2.98	2.00
Nonfinancial	2.32	1.14	1.09	1.06	1.37	1.19	2.09	1.50
Utility	.57	.24	.29	.36	.33	.11	.63	.40
Industrial	1.75	.90	.80	.70	1.04	1.08	1.46	1.10
Financial	2.12	2.39	1.60	2.06	2.59	1.09	.89	.50
Bonds--total[1]	17.44	16.68	14.87	11.63	16.75	10.00	10.00	13.00
Nonfinancial	6.61	6.08	6.14	5.09	7.42	3.20	3.50	4.00
Utility	2.02	1.77	1.72	1.50	2.70	.85	.95	1.50
Industrial	4.59	4.31	4.42	3.59	4.72	2.35	2.55	2.50
Financial	10.83	10.60	8.73	6.54	9.33	6.80	6.50	9.00
By quality[3]								
Aaa and Aa	3.26	2.68	3.26	2.99	3.31	1.89	4.24	3.00
A and Baa	5.20	5.47	5.50	4.39	6.06	2.85	2.80	5.00
Less than Baa	2.77	2.54	2.39	1.90	1.94	.33	.20	.00
No rating (or unknown)	.07	.04	.03	.01	.02	.01	.01	.05
Memo items:								
Equity-based bonds[4]	.87	.28	.52	.60	.78	.09	.05	.05
Mortgage-backed bonds	5.19	4.69	1.61	1.23	1.27	1.80	.50	2.00
Other asset-backed	.95	1.26	2.08	1.11	4.15	3.12	2.25	2.95
Variable-rate notes	1.88	1.19	.99	.25	1.01	2.21	.20	.50
Bonds sold abroad - total	2.03	1.93	1.88	1.15	1.60	2.00	1.00	2.00
Nonfinancial	.94	.74	.48	.29	.25	.50	.30	1.00
Financial	1.09	1.19	1.40	.86	1.35	1.50	.70	1.00
Stocks sold abroad - total	.16	.09	.16	.30	.29	.01	.45	.30
Nonfinancial	.12	.08	.12	.29	.16	.01	.18	.12
Financial	.04	.01	.04	.01	.13	.00	.26	.18

1. Securities issued in the private placement market are not included. Total reflects gross proceeds rather than par value of original discount bonds.
2. Excludes equity issues associated with equity-for-equity swaps that have occured in restructurings. Such swaps totaled $20.4 billion in 1989.
3. Bonds categorized according to Moody's bond ratings, or to Standard and Poors' if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.
p--preliminary. e--staff estimate.

Business Finance

Total borrowing by nonfinancial firms appears to have weakened further in February, reflecting in part the reluctance of investors to fund restructuring activity. In addition, available evidence suggests non-merger-related borrowing slackened. After posting strong growth in January, the outstanding commercial paper of nonfinancial firms was about unchanged in February, and bank loans declined, so that total short-term borrowing dropped off significantly. Public bond issuance by nonfinancial corporations remained weak in February and early March.

The immediate impact on the corporate bond market of Drexel's bankruptcy filing on February 13 was quite mild. Merger and restructuring activity, which in the past three years had accounted for about 80 percent of all new junk issuance, already had slowed considerably owing to difficulties in funding new deals, as investors demanded much higher yields or refused to lend altogether. The effect on the secondary market was also cushioned somewhat because Drexel had already withdrawn as a marketmaker over the preceding months.

A more noticeable impact of Drexel's bankruptcy was on the issuance of commercial paper by nonfinancial corporations. Drexel's disappearance left some low-rated and unrated companies without a dealer to issue their paper. Because other dealers have been very cautious in picking up Drexel's junk commercial paper business, nonfinancial paper outstanding, unchanged in February, was approximately $1 to $1-1/2 billion less than it otherwise would have been; outstanding paper of nonfinancial corporations had been growing around $3 billion monthly in the preceding three months.

The potential for sizable sales of junk bonds by large institutional investors has led to wider spreads between junk bonds and other issues. The most recently available data indicate that outflows from high-yield mutual funds were large in January, and at the same time, mutual funds built up their cash positions as protection against further redemptions. Outflows reportedly moderated somewhat in February, however, with no indication that they have picked up in response to publicity about Drexel's problems. Thrifts are reported to have sold significant amounts of junk bonds over the past few months, likely reflecting requirements that they mark their holdings of junk bonds to market and divest direct holdings by 1994. On March 14, Columbia Savings announced it was seeking a buyer for its nearly $4 billion portfolio of junk bonds. At the same time, however, the RTC announced that it would not dump its holdings of junk bonds on the market. No significant sales of junk bonds by life insurance companies have been reported thus far, but market participants have expressed concern that the recent downgrading in the claims-paying ability of Executive Life--a large holder of junk bonds--could make it difficult for that company, and perhaps some others, to roll over the amounts of guaranteed investment contracts necessary to support its portfolio.

Drexel's failure is the most dramatic indication to date of the stresses that brokerage firms are experiencing. Sluggish retail business and a drop-off in fees associated with debt-financed mergers are among the problems facing many brokerage houses. In addition, a number of houses have large bridge loans outstanding that they are finding hard to refinance in the troubled junk bond market. Such problems led to the downgrading of Merrill Lynch's senior and subordinated debt and commercial paper, and some investors have curtailed their lending to other securities firms. Some firms with deep-pocketed owners have had to dig into those pockets to reassure creditors. Shearson Lehman Hutton had to withdraw a planned stock offering and has been the recipient of a $250 million capital infusion from its parent, American Express, which also announced plans to inject a further $750 million and to buy back the remaining publicly held Shearson stock. First Boston, under pressure from credit-rating concerns, sold to its parent, CS Holding, more than half of a $450 million troubled bridge loan to Ohio Mattress.

Despite the turmoil in the junk bond market and associated negative implications for merger and acquisition activity--and despite the plunge in share prices in Tokyo--most major U.S. stock indexes have risen between 2 and 4 percent since the last FOMC meeting. Gross equity offerings by nonfinancial firms have remained substantial with the $2 billion issuance in February representing the highest level since July 1988. At this point, it appears that net equity retirements in the first half of the year will fall below the fourth quarter's already reduced pace.

Treasury and Sponsored Agency Financing

The staff anticipates that the federal government will run a $68 billion deficit (not seasonally adjusted) in the first quarter, close to that in the fourth quarter. The deficit is expected to be financed by about $51 billion in marketable borrowing, including a $10 billion cash management bill already issued, and by a moderate draw on the Treasury's cash balance.

Relative to projections in the last Greenbook, first-quarter Treasury borrowing was boosted by the decision of the RTC Oversight Board to fund the working capital needs of the RTC through the Federal Financing Bank. In

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

	1989		1990			
	Q3	Q4	Q1[p]	Jan.	Feb.[p]	Mar.[p]
Treasury financing						
Total surplus/deficit (-)	-46.5	-69.7	-68.4	9.9	-35.6	-42.7
Means of financing deficit:						
Net cash borrowing from the public	38.6	63.3	60.8	15.8	16.5	28.5
Marketable borrowings/ repayments (-)	33.4	52.8	50.8	11.1	16.4	23.3
Bills	9.5	24.0	22.1	4.7	2.4	15.0
Coupons	23.9	28.8	28.7	6.4	14.0	8.3
Nonmarketable[2]	5.2	10.5	10.0	4.7	.1	5.2
Decrease in the cash balance	2.8	14.1	6.3	-18.2	25.5	-1.0
Memo: Cash balance at end of period	41.0	26.9	20.6	45.1	19.6	20.6
Other[3]	5.1	-7.6	1.3	-7.6	-6.3	15.2
Federally sponsored credit agencies, net cash borrowing[4]	1.5	4.2	--	--	--	--
FHLBs	-10.3	-7.5	--	-2.4	--	--
FHLMC	1.5	.1	--	--	--	--
FNMA	5.2	4.6	--	-.9	--	--
Farm Credit Banks	1.6	.8	--	.9	--	--
FAC	0.0	0.0	0.0	0.0	0.0	0.0
SLMA	2.9	1.6	--	--	--	--
FICO	0.7	0.0	0.0	0.0	0.0	0.0
REFCORP	--	4.5	5.0	5.0	0.0	0.0

1. Data reported on a not seasonally adjusted, payment basis.
2. Includes proceeds from securities issued by federal agencies under special financing authorities (primarily FSLIC) and the face value of the zero coupon bonds issued to REFCORP. The discount from face value is offset in other means of finance.
3. Includes checks issued less checks paid, accrued items and other transactions.
4. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
p--projected.
Note: Details may not add to totals due to rounding.

line with the move, the Treasury announced at the end of February that it would increase the size of the weekly bill auctions from $15.2 billion to $16.0 billion through the end of March. The cost to the RTC of working capital will be 1/8 percent over the 90-day Treasury bill rate. As of mid-March, however, the RTC had not yet drawn on the working capital of $11 billion earmarked for it by the Treasury. If the RTC does not use the earmarked funds, Treasury cash balances will be at unusually high levels in April.

In January, FHLB debt outstanding declined for the eighth consecutive month, and a decline in FHLB advances to member thrifts in February may point to a continuation of the string of declines in FHLB debt outstanding. FNMA, which in 1989 had been borrowing heavily to acquire mortgages for its portfolio, paid down almost $1 billion of debt in January. This one-month drop apparently owed partly to a narrowing of spreads on mortgage instruments over FMNA's cost of funds and a consequent slowing of its portfolio acquisitions. Spreads on agency debt over Treasuries have remained fairly stable in recent weeks.

Several items were included in the Administration's budget, released at the end of January, that could affect the market for agency securities. User fees were once again proposed on new securities issued by Freddie Mac, Fannie Mae, and Sallie Mae. For debt instruments, the proposed fee paid by these agencies would begin at 10 basis points in the first year, FY 1991, and increase to 20 basis points in FY 1992 and 30 basis points in FY 1993. For mortgage-backed securities, the fees would run 5, 10, and 15 basis points, respectively. User fees on GSE debt have been proposed a number of times in recent years, and hence the current proposal, based on the rationale that these agencies should reimburse the federal government for the borrowing advantages they enjoy as a result of their special relationship with the government, did not generate much comment. Elsewhere in the budget document, there was an unusually explicit acknowledgement of the widespread belief that government assistance would be provided if these agencies were unable to support their debt. This acknowledgement, however, did not have any noticeable impact in the market.

Municipal Securities

Gross issuance of long-term municipal securities continued sluggish in February and the first half of March. Refunding volume has been noticeably weak thus far in 1990, as the backup in yields since the first of the year has contributed to a reduction in issuance to about one-fifth of its 1989 pace. New capital issuance also has fallen below last year's monthly average. Largely reflecting a single offering by Puerto Rico, short-term offerings picked up in February; they should strengthen further in coming

GROSS OFFERINGS OF MUNICIPAL SECURITIES
(Monthly rates, not seasonally adjusted, billions of dollars)

	1988	1989	1989			1990		
	Year	Year	Q2	Q3	Q4	Jan.	Feb.	Mar.[f]
Total offerings[1]	11.73	11.90	13.14	12.78	12.47	7.40	6.14	--
Total tax-exempt	11.41	11.65	12.95	12.58	12.13	7.28	6.14	9.50
Long-term	9.54	9.47	9.56	9.79	10.76	6.69	5.04	7.50
Refundings[2]	2.90	2.47	2.20	2.83	2.35	0.43	0.50	--
New capital	6.64	7.01	7.36	6.97	8.41	6.26	4.54	--
Short-term[3]	1.87	2.17	3.39	2.78	1.37	.58	1.10	2.00
Total taxable	.32	.25	.19	.20	.34	.13	.00	--

f--forecast.
1. Includes issues for public and private purposes; also includes taxable issues.
2. Includes all refunding bonds, not just advance refundings.
3. Does not include tax-exempt commercial paper.

weeks as New York State and Massachusetts are expected to come to market with large issues to cover budget shortfalls.

The stricter limitations contained in the Tax Reform Act of 1986 on bonds issued for private activity purposes and issued by tax-exempt entities other than hospitals are reportedly beginning to constrain the issuance of tax-exempt debt. For example, the $150 million cap on outstanding debt issued by individual non-profit institutions now precludes twenty-four universities from issuing additional tax-exempt debt. In addition, several states, including California, have reached their $50 per capita limit on outstanding private activity debt.

Mortgage Markets

Mortgage debt growth appears to have been maintained into the new year at about the fourth-quarter pace of 7-1/4 percent, despite continued shedding of mortgage assets by the thrift industry. Mortgage-related lending by banks continued robust through February, with the strength evidently still concentrated in single-family mortgages, home equity lines, and mortgage-backed securities. Thrift institutions, on the other hand, have continued to disinvest mortgage assets held either as whole loans or as mortgage pass-through securities, but at a considerably more moderate pace than the 20 percent annual rate of decline recorded in December at SAIF-insured institutions. On balance, however, there does not appear to be any shortfall in credit availability, especially for residential mortgage credit: There has been no significant widening in yield spreads of either fixed or adjustable-rate mortgages over Treasuries of comparable maturities.

Pricing of mortgages and mortgage securities has been adjusting to the market's gradual recognition that prepayments on fixed-rate mortgages have

MORTGAGE ACTIVITY AT ALL SAIF-INSURED INSTITUTIONS
(Monthly averages, billions of dollars, seasonally adjusted)

	Mortgage transactions			Net change in mortgage assets		
	Origina-tions	Commit-ments	Sales	Total	Mortgage loans	Mortgage-backed securities
1987 r	21.1	20.0	10.5	5.5	2.0	3.6
1988 r	19.9	19.4	8.8	5.0	3.6	1.0
1988-Q4	19.8	19.9	9.5	4.2	3.1	1.7
1989-Q1	20.5	19.3	8.1	6.1	4.2	.7
Q2	14.7	13.0	7.2	-2.8	-.5	-1.9
Q3 r	14.2	14.8	9.2	-10.8	-3.3	-8.0
Q4 r	15.3	16.0	10.7	-12.7	-7.4	-5.4
1989-Jan.	21.5	19.6	7.0	7.5	6.9	-1.6
Feb.	19.7	19.7	8.7	6.2	3.1	4.8
Mar.	20.4	18.6	8.7	4.7	2.7	-1.1
Apr.	16.2	13.9	7.0	.9	3.2	2.0
May	15.1	12.7	7.1	-1.2	-.8	-1.3
June	12.9	12.3	7.4	-8.1	-3.8	-6.4
July r	12.4	12.6	8.0	-7.2	-1.0	-6.2
Aug. r	15.2	16.1	10.9	-13.5	-3.5	-10.3
Sep. r	14.9	15.6	8.6	-12.0	-5.5	-7.4
Oct. r	15.4	16.0	10.0	-16.1	-9.3	-7.7
Nov. r	16.7	17.2	10.4	-7.3	-3.3	-4.4
Dec. p	13.7	14.9	11.7	-14.7	-9.5	-4.1

r--revised
p--preliminary

CHANGE IN MORTGAGE HOLDINGS
(billions of dollars, seasonally adjusted annual rates)

Period	Total	Commercial banks		FSLIC/SAIF insured thrifts		All other mortg. pools	All other holders
		Mortg.	Pools	Mortg.	Pools		
1986	316.4	70.1	25.7	10.7	42.8	104.6	62.5
1987	324.9	86.2	22.1	35.3	43.6	90.7	47.0
1988	306.7	77.8	15.0	60.2	12.8	47.1	93.8
1989	255.4	88.7	36.6	-9.2	-43.8	122.6	60.5
1989-Q1	289.0	81.2	23.2	62.1	23.0	74.6	24.9
Q2	246.1	99.5	48.5	-18.2	-36.4	76.8	75.9
Q3	240.3	79.0	47.3	-30.3	-87.8	160.1	62.0
Q4	246.4	85.2	27.3	-50.3	-73.9	178.8	79.3

slowed during the past three years by more than would be expected given changes in market interest rates. Lower inflation in housing prices resulting in reduced economic incentives for homeowners to move, as well as a shift to ARMs by relatively mobile households, appear to have contributed to the slowdown in prepayments on fixed-rate mortgages. Responding in part to the increased popularity of ARMs with more mobile households, FNMA is promoting fixed-rate products targeted on homebuyers who want the security of fixed-rate financing but who expect to move within a few years of the purchase of a home. These loans carry a fixed interest rate for the first seven years and amortize according to a thirty-year schedule. At the end of seven years, the borrower can extend the loan for another 23 years, using then-current interest rates. The main attraction to borrowers is the loan's lower interest rate compared to standard 30-year fixed-rate mortgages.

Since the previous FOMC meeting, contract rates on fixed-rate mortgages rose 17 basis points to 10.34 percent. In response to higher market rates since late last year, the Department of Veteran Affairs in February raised the ceiling rate on loans it guarantees to 10 percent.[1] In the market for adjustable-rate mortgages, initial rate discounting has continued to moderate. Only 55 percent of the ARMs originated in early January carried

1. The VA ceiling rate tends to serve also as the market standard contract rate for home loans insured by the FHA. Based on a survey of lenders, the U.S. Department of Housing and Urban Development estimates that about 12 percent of all mortgage-loan originations (measured in dollars) on 1-4 family homes in the last half of 1989 were insured by FHA or VA. The National Association of Realtors estimates that fully 35 percent of originations for home purchase (measured in number of loans) were insured by FHA or VA, based on a survey of its members. Because FHA/VA loans are significantly smaller on average than conventional loans, these two estimates are not necessarily inconsistent.

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (at annual rate)						Net change (billions of dollars)		Memo: Outstandings (billions of dollars)
				1989		1990	1989	1990	1990
	1987	1988	1989[1] r	Q4 r	Dec. r	Jan. r	Dec. r	Jan. p	Jan. p
Total installment[2]	6.2	8.5	5.9	6.9	7.3	5.9	4.35	3.54	720.1
Installment, excluding auto	5.2	10.7	8.8	10.4	12.6	4.7	4.44	1.68	429.1
Selected types									
Auto	7.5	5.7	1.9	1.9	-.4	7.7	-.09	1.86	291.0
Revolving	12.3	13.6	15.6	16.1	23.7	1.4	3.94	.24	203.4
All other	.1	8.3	3.4	5.3	2.7	7.7	.50	1.44	225.7
Selected holders									
Commercial banks	7.6	12.7	6.1	8.8	6.7	8.8	1.87	2.47	337.0
Finance companies	4.7	3.5	.6	-10.3	-7.7	8.5	-.91	1.00	141.5
Credit unions	5.1	7.5	4.2	-.8	.5	8.7	.04	.65	90.4
Savings institutions[3]	6.6	3.8	-7.8	-17.4	-20.2	-1.2	-.98	-.06	57.2
Asset pools (NSA)	n.a.	n.a.	65.8	118.2	113.4	-11.8	4.14	-.47	47.4
Memorandum:									
Total[4]	4.9	7.3	5.7	6.7	8.9	8.2	5.73	5.35	787.6

1. Growth rates are adjusted for discontinuity in data between December 1988 and January 1989.
2. Includes items not shown separately.
3. Savings and loans, mutual savings banks, and federal savings banks.
4. Installment plus noninstallment.
r--revised. p--preliminary.
Note: Details may not add to totals due to rounding.

CONSUMER INTEREST RATES
(Annual percentage rate)

				1989		1990	
	1987	1988	1989	Nov.	Dec.	Jan.	Feb.
At commercial banks[1]							
New cars (48 mo.)	10.46	10.86	12.07	11.94	...	...	11.80
Personal (24 mo.)	14.23	14.68	15.44	15.42	...	...	15.27
Credit cards	17.92	17.79	18.02	18.07	...	...	18.12
At auto finance cos.[2]							
New cars	10.73	12.60	12.62	13.27	13.27	12.64	...
Used cars	14.61	15.11	16.18	16.09	16.10	15.77	...

1. Average of "most common" rate charged for specified type and maturity during the first week of the mid-month of each quarter.
2. Average rate for all loans of each type made during the month regardless of maturity.

any initial-period discount below the scheduled contract rate, and about half of the discounts were for less than 2 percentage points.

Consumer Credit

Consumer installment credit outstanding grew at a 6 percent annual rate in January, equal to the average pace for all of last year, and a little slower than in December. After increasing faster than consumption spending over the first three years of the current economic expansion, consumer credit growth has roughly matched the spending pace since 1986, notwithstanding some divergence in quarter-to-quarter movements.[2]

January's increase in consumer credit was held down by a 2 percent annual rate of increase in revolving credit; in December, that component had surged at a 24 percent rate. Revolving credit frequently moves erratically in December and January because the proportions of Christmas season transactions entering lenders' books in each of these months can vary substantially from year to year, complicating seasonal adjustment. Looking through the near-term volatility, revolving credit appears to have slowed somewhat recently: From the end of the third quarter through January, it grew at a 12-1/2 percent annual rate, compared with 15-1/2 percent over the first nine months of 1989.

While revolving credit was slowing, the growth of automobile credit picked up in January to nearly an 8 percent annual rate from 2 percent in both the fourth quarter and 1989 as a whole. A rebound in new-car sales in

2. A pattern of initial growth more rapid than consumption and subsequent parity of growth rates is typical of consumer credit over an extended upward movement in a business cycle. This pattern owes partly to the behavior of debt repayments, which grow relatively slowly early in an expansion (reflecting reduced credit extensions in the previous recession), then pick up later in the cycle, providing more of an offset to new borrowing.

January, stimulated by expanded offerings of price rebates and low-rate loans, spurred the faster auto credit growth. Reflecting the below-market rates on some transactions, the average finance rate on new-car loans at the auto finance companies declined 5/8 percentage point in January to 12-5/8 percent.

DELINQUENCY RATES ON CONSUMER INSTALLMENT LOANS AT BANKS
(Number of loans delinquent 30 days or more as a percent of number of loans outstanding, seasonally adjusted)

				1989		1989	
	1980	1988	1989	Q3	Q4	Nov.	Dec.
All closed-end loans[1]	2.61	2.40	2.55	2.82	2.66	2.63	2.64
Auto - direct	1.85	1.89	1.87	1.87	2.01	1.99	2.03
Auto - indirect	2.38	2.31	2.47	2.61	2.50	2.35	2.61
Personal, home goods	3.56	3.30	3.36	3.50	3.49	3.45	3.52
Mobile home	3.02	2.72	2.45	2.79	2.47	2.38	2.51
Property improvement	2.40	1.96	2.03	2.05	2.22	2.17	2.25
Credit cards	2.73	2.34	2.31	2.36	2.12	2.02	2.24

1. Weighted average of separate categories, excluding credit cards.

Measures of household debt repayment problems, which generally had worsened in the third quarter of 1989, improved somewhat during the fourth quarter. Auto loan delinquencies at the auto finance companies edged down after several quarters of steady increases. Delinquencies on bank credit cards fell fairly sharply in the fourth quarter to a relatively low level, according to the American Bankers Association (ABA). The ABA's average delinquency rate on a variety of closed-end consumer loans at commercial banks also declined moderately in the fourth quarter, following a sharp jump in the previous quarter.[3] As indicated in the section on bank credit,

3. The third-quarter climb had raised the rate from the middle of its historical range to its upper bound, but had appeared suspect because none of the component loan types experienced increases as big as the overall increase. In the fourth quarter, delinquencies rose for some components and fell for others, but seemed consistent with a decline on average.

above, call report data for large banks showed a small increase in consumer loan delinquencies in the fourth quarter. The quarterly movements of the call report series have deviated from the pattern of the ABA series, but both were up moderately over 1989.

Delinquencies on home mortgages generally have shown less evidence of repayment problems in recent months than the consumer loan series. The proportion of mortgages 60 or more days past due, reported by the Mortgage Bankers Association (MBA), declined slightly in the fourth quarter, leaving the delinquency rate at about the level prevailing at the beginning of 1989, which was the lowest in eight years.

In contrast to the general improvement in delinquency experience in the fourth quarter of last year, personal bankruptcy filings rose rather sharply, reversing a small decline in the previous quarter. For the full year, personal bankruptcies rose 12 percent, about in line with the increases of the previous two years, but well below the 20-to-30 percent increases of 1985 and 1986. It is difficult to interpret the upward trend in bankruptcies in the past few years because changes in bankruptcy law have made it a more attractive remedy to borrowers for debt payment problems.

INTERNATIONAL DEVELOPMENTS

U.S. Merchandise Trade

The U.S. merchandise trade deficit widened to $9.3 billion in January (seasonally adjusted, Census basis), from an unusually low $7.7 billion deficit (revised) in December, but was still less than the fourth-quarter average. A sharp, 7 percent increase in the value of imports was partly offset by a 4 percent rise in the value of exports.

A jump in oil imports, both in quantity and in price, accounted for two-thirds of the rise in total imports in January. The quantity of oil imports reached 9-1/2 million barrels per day (mb/d) in January,

U.S. MERCHANDISE TRADE: MONTHLY DATA -- REVISED
(Billions of dollars, seasonally adjusted, Census customs basis)

	Exports			Imports			
	Total	Ag.	Nonag.	Total	Oil (nsa)	Non-oil	Balance
1988-Oct	28.1	3.1	25.0	37.4	2.9	34.5	-9.4
Nov	27.7	3.2	24.5	38.2	2.9	35.3	-10.5
Dec	29.0	3.3	25.7	40.3	3.3	37.0	-11.3
1989-Jan	28.4	3.2	25.1	36.9	3.5	33.4	-8.5
Feb	28.6	3.4	25.2	37.5	3.2	34.3	-8.9
Mar	31.1	3.9	27.2	40.0	3.7	36.3	-8.9
Apr	31.0	3.7	27.3	38.6	4.0	34.6	-7.6
May	30.6	3.5	27.1	41.0	4.7	36.2	-10.4
Jun	31.2	3.3	27.9	39.7	4.2	35.5	-8.5
Jul	29.7	3.3	26.3	39.2	4.3	34.9	-9.6
Aug	30.2	3.1	27.2	40.4	4.3	36.1	-10.2
Sep	30.4	3.3	27.1	38.5	4.0	34.5	-8.2
Oct	31.5	3.2	28.3	41.9	4.4	37.5	-10.4
Nov	30.6	3.4	27.3	40.7	4.4	36.4	-10.1
Dec	30.8	3.3	27.5	38.5	4.1	34.5	-7.7
1990-Jan[p]	32.1	3.6	28.4	41.3	5.9	35.5	-9.3

r--revised p--preliminary
Source: U.S. Department of Commerce, Bureau of the Census.

compared with an average of 8 mb/d in the fourth quarter. Imports are estimated to have strengthened in the first quarter as stocks were rebuilt after having been drawn down during the fourth quarter, especially given the colder than expected weather in December.

OIL IMPORTS
(BOP basis, seasonally adjusted, value at annual rates)

	1989						1990
	Year	Q1	Q2	Q3	Q4	Dec.	Jan-e
Value (Bil. $)	50.25	43.38	53.70	52.07	51.85	49.26	70.72
Price ($/BBL)	17.07	15.49	18.33	16.76	17.61	18.18	20.00
Quantity (mb/d)	8.06	7.67	8.02	8.51	8.04	7.42	9.69

e-- Staff estimate.

The price of imported oil rose nearly $2.00 per barrel in January, reflecting the earlier run-up in spot prices associated with the December cold snap and supply disruptions in the centrally planned economies. Given shipping and contract lags and the recent behavior of spot prices, the import price is estimated to have averaged a little over $20 per barrel during the first quarter.

Non-oil imports also rose strongly in January, reversing about half of their sharp decline during December; the January level was less than the average for the fourth quarter. Strong increases in some categories were partly offset by a sharp decline in imports of automotive products. Imports of consumer goods in January returned to levels recorded in the September-November period from a low recorded in December. Imported consumer goods had accounted for much of the 1-1/2 percent rise in non-oil imports during the fourth quarter despite the drop in December. Imports of industrial supplies and foods also rose strongly in January, to levels well above their fourth-quarter averages. The decline in imports of automotive products continued a downtrend begun a year ago, and also reflected effects of reduced U.S. automotive production in January. Virtually all of the rise in total non-oil imports during fourth-quarter was in quantity, as prices were up only marginally. This trend in prices appears to have continued in January, as discussed further below.

U.S. MERCHANDISE TRADE: QUARTERLY DATA
(Billions of dollars, BOP basis, SAAR)

	Exports			Imports			
	Total	Ag.	Nonag.	Total	Oil	Non-oil	Balance
Years:							
1987	250.3	29.5	220.7	409.8	42.9	366.8	-159.5
1988	319.3	38.1	281.1	446.5	39.3	407.2	-127.2
1989	361.9	41.4	320.4	475.1	50.2	424.9	-113.2
Quarters:							
1988-1	305.8	36.1	269.7	439.6	40.3	399.3	-133.8
2	313.9	37.6	276.3	439.5	41.0	398.5	-125.6
3	322.4	39.7	282.7	443.8	39.1	404.7	-121.4
4	334.9	39.2	295.8	463.0	36.9	426.1	-128.1
1989-1	351.1	43.1	308.0	464.6	43.4	421.2	-113.4
2	365.1	43.5	321.6	475.3	53.7	421.6	-110.1
3	362.8	38.7	324.0	477.0	52.1	424.9	-114.2
4	368.5	40.4	328.1	483.7	51.9	431.8	-115.2

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Exports rose strongly in January, by 3-1/2 percent over the fourth quarter average. Changes in definitions of the data beginning in January make it impossible at this time to assess with any precision the movements in exports by disaggregated trade categories between the fourth quarter and January. Two categories of trade formerly reported as single aggregate figures, "reexports" and "undocumented exports to Canada," were spread among appropriate trade categories; trade in these two categories in 1989 averaged more than $2.5 billion per month.

Historical revisions at a later date will eventually allow us to make these comparisons.

MAJOR TRADE CATEGORIES
(Billions of dollars, BOP basis, SAAR)

	Year 1989	1989 Q1	Q2	Q3	Q4	$ Change Q4-Q3
Nonagricultural Exports	320.4	308.0	321.6	324.0	328.1	4.0
Industrial Supplies	90.1	87.0	93.8	90.5	89.0	-1.5
Gold	2.6	2.3	3.2	2.7	2.2	-0.5
Fuels	12.1	12.0	13.1	11.4	11.8	0.4
Other Ind. Supp.	75.4	72.7	77.5	76.4	75.0	-1.4
Capital Goods	130.1	122.8	128.7	137.8	131.0	-6.8
Aircraft & Parts	26.4	23.0	25.7	32.5	24.2	-8.3
Computers & Parts	22.4	21.3	22.3	23.0	23.0	0
Other Machinery	81.3	78.5	80.7	82.3	83.8	1.5
Automotive Products	34.6	35.3	34.3	33.2	35.7	2.5
To Canada	23.2	24.0	23.2	22.2	23.4	1.2
To Other	11.4	11.3	11.1	11.0	12.3	1.3
Consumer Goods	32.1	29.8	32.1	31.9	34.6	2.6
Other Nonagric.	33.5	33.1	32.7	30.6	37.8	7.2
Non-Oil Imports	424.9	421.2	421.6	424.9	431.8	6.9
Industrial Supplies	83.9	85.4	83.9	82.7	83.8	1.1
Gold	3.6	3.2	3.7	3.4	4.3	0.9
Other Fuels	3.1	3.0	3.1	3.1	3.4	0.3
Other Ind. Supp.	77.2	79.2	77.1	76.2	76.1	-0.1
Capital Goods	113.2	108.6	113.8	114.0	116.6	2.6
Aircraft & Parts	9.5	7.9	10.6	9.3	10.0	0.7
Computers & Parts	21.6	19.3	20.8	22.6	23.5	0.8
Other Machinery	82.1	81.4	82.4	82.1	83.1	1.0
Automotive Products	86.1	91.1	84.7	84.8	83.9	-0.9
From Canada	29.5	30.5	29.4	28.8	29.3	0.5
From Other	56.6	60.6	55.3	56.0	54.6	-1.4
Consumer Goods	102.9	98.3	101.1	104.8	107.5	2.7
Foods	25.1	25.1	25.1	24.9	25.3	0.4
Other Non-oil	13.6	12.7	13.0	13.7	14.7	1.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Total exports were up only slightly in the fourth quarter in both value and quantity, but as can be seen in the table above, the composition of exports shifted significantly. The strike at Boeing from early October to late November disrupted shipments of aircraft, and reduced the rate of those exports substantially, compared with the strong fourth-quarter pace. This decline was offset by increases in exports of a broad array of other products, notably consumer goods, automotive products, and various machinery items. The sharp increase in "other nonagricultural" exports results from changes in the definition of "minimum value shipments." On October 1, the exemption level for filing export declarations was raised, and goods were shifted out of the other categories into the "minimum value" category (which is estimated by the Commerce Department). A 4 percent increase in the value of agricultural exports was led by increased shipments of corn to the Soviet Union, and soybeans to Japan and Western Europe.

Import and Export Prices

In January, import prices as reported by the BLS rose 1.4 percent. The increase was led by sharply higher prices for imported petroleum. The index of prices for non-oil imports rose just 0.2 percent, a rate of increase near that of the preceding four months. Prices of exports increased 1.1 percent in January; the increase was largely in fuels (part of industrial supplies) and agricultural prices. Data for February will be released on March 22, and will be included in the Greenbook supplement.

In the fourth quarter of 1989, the average price of imports rose almost 5 percent at an annual rate, as price increases were recorded across most major categories of trade. Oil prices increased over 30

IMPORT AND EXPORT PRICE MEASURES
(percentage change from previous period, annual rate)

	Year 1989-Q4 / 1988-Q4	Quarters 1989 Q2	Q3	Q4	Months 1989 Dec	1990 Jan
		(annual rates)			(monthly rates)	
	- - - - - - - - - BLS Prices - - - - - - - - -					
Imports, Total	1.9	0.3	-4.6	4.8	0.3	1.4
Foods, Feeds, Bev.	-4.7	-7.2	-15.5	6.5	3.2	3.3
Industrial Supplies	6.2	8.5	-14.1	7.4	0.8	3.8
Ind Supp Ex Oil	-2.5	-5.5	-7.4	-1.9	0.6*	-1.0*
Capital Goods	-0.8	-4.2	-1.2	2.2	0.7	0.6
Automotive Products	-0.8	-2.8	0.0	0.0	-0.8	-0.4
Consumer Goods	2.8	1.2	1.2	4.7	-0.2	0.4
Memo:						
Oil	31.5	47.8	-24.4	30.8	1.4	13.5
Non-oil	-0.2	-3.1	-2.8	2.9	0.3	0.2
Exports, Total	0.6	-0.4	-2.8	-0.4	0.2	1.1
Foods, Feeds, Bev.	-7.8	-11.4	-21.6	-7.4	-0.8	1.8
Industrial Supplies	0.1	0.7	-4.6	-2.7	0.8	1.4
Capital Goods	2.9	2.7	3.0	2.2	0.0	0.7
Automotive Products	2.9	1.9	3.0	5.2	0.1	-0.1
Consumer Goods	3.7	1.0	2.8	2.4	0.5	0.7
Memo:						
Agricultural	-3.7	-5.3	-15.8	-4.9	-0.6	1.5
Nonagricultural	1.3	0.7	-0.4	0.4	0.4	1.0
	- - - - - - - Prices in the GNP Accounts - - - -					
Fixed-Weight						
Imports, Total	3.3	8.0	-8.9	4.0	--	--
Oil	38.2	99.4	-31.0	23.5	--	--
Non-oil	-0.6	-1.3	-4.9	1.3	--	--
Exports, Total	-0.8	2.7	-4.1	-1.1	--	--
Ag.	-7.5	-3.1	-9.4	-13.8	--	--
Nonag.	0.6	3.9	-2.9	1.7	--	--
Deflators						
Imports, Total	-0.8	0.2	-11.1	2.4	--	--
Oil	37.9	100.2	-30.7	22.8	--	--
Non-oil	-4.4	-6.4	-7.1	-2.7	--	--
Exports, Total	-0.8	-0.5	-5.5	-2.2	--	--
Ag.	-7.5	-3.1	-9.4	-13.8	--	--
Nonag.	-0.1	0.0	-4.5	-1.2	--	--

*Not for publication.

percent, reversing the decline registered in the third quarter, and resumed the upward trend recorded in the first half of the year. Prices of non-oil products increased in the fourth quarter following two quarters of declines. Part of the increase in non-oil import prices was associated with the depreciation of the dollar since last October. This was particularly true for those price changes recorded for capital goods and consumer goods, many of which are invoiced in foreign currencies; for these goods, changes in exchange rates are reflected immediately in changes in their recorded dollar import prices. Price movements for other trade categories in the fourth quarter reflected individual U.S. market conditions (food price changes reflected continued increases in the price of meat and a sharp upturn in the volatile price series for fruits and vegetables; industrial supplies prices responded largely to declines in prices for metals and building materials; and automotive prices reflected increases associated with the introduction of a new model year).

Export prices declined slightly in the fourth quarter, as a small increase in the average price of nonagricultural exports was offset by a large decline in the prices of agricultural exports. Prices of exported capital goods, consumer goods, and automotive products rose slightly in nearly every month of 1989, and at about the same rate as comparable domestic prices. This suggests that the exporters of these products allowed their prices in foreign currencies to vary with movements in dollar exchange rates.

U.S. Current Account in the Fourth Quarter of 1989

The U.S. current account deficit (excluding capital gains and losses) narrowed to $98 billion (saar) in the fourth quarter, from $102

U.S. CURRENT ACCOUNT
(Billions of dollars, seasonally adjusted annual rates)

	1989			$ Change
	Year	Q3-r	Q4-p	Q4-Q3
1. Trade Balance	-113.3	-114.2	-115.2	-1.0
2. Exports	361.9	362.8	368.5	5.7
3. Imports	475.1	477.0	483.7	6.7
4. Investment Income, net*	3.2	1.0	11.0	10.0
5. Direct Investment, net*	38.3	36.1	45.8	9.7
6. Portfolio Income, net	-35.1	-35.2	-34.8	0.3
7. Military, net	-5.7	-4.7	-5.9	-1.2
8. Other Services, net	26.3	29.8	29.7	-0.1
9. Unilateral Transfers	-14.3	-13.9	-17.9	-4.0
10. Current Account Balance Excluding Capital Gains and Losses	-103.8	-102.1	-98.3	3.8
Memo:				
11. Capital Gains or Losses[1]	-2.1	10.5	16.0	5.6
12. Current Account Balance Published	-105.9	-91.6	-82.3	9.4

* Excludes capital gains and losses.
1. Gains or losses on net financial assets includes both realized capital gains (or losses) resulting from the sale of assets for more (or less) than book value, and unrealized gains (or losses) largely resulting from the revaluation at current exchange rates of assets and liabilities denominated in foreign currencies.
Plus = gains; minus = losses.
r--revised p--preliminary

billion (revised) in the third quarter. The improvement in the fourth quarter was more than accounted for by an increase in net direct investment income receipts (line 5), reflecting primarily higher operating earnings by U.S. companies abroad. In addition, income payments on foreign direct investment in the United States declined slightly. Net portfolio income payments (line 6) were little changed on balance, as increased receipts were about offset by rising interest payments. Unilateral transfers (line 9) rose substantially in the fourth quarter when Israel drew nearly all of the U.S. government grant funds provided for the fiscal year beginning October 1. For the year 1989, the current account deficit (excluding capital gains and losses) was $104 billion, $22 billion smaller than in 1988.

As indicated in line 11, capital gains on U.S. direct investment holdings abroad rose sharply in the second half of 1989, as a result of the depreciation of the dollar. Published current account deficit figures, which include such gains and losses, showed an improvement from the third to the fourth quarter of $9.4 billion. For 1989, the published current account deficit was $106 billion, $21 billion smaller than in 1988.

U.S. International Financial Transactions

Banks reported capital inflows of more than $13 billion in December and capital outflows of $7 billion in January, on a month-end basis (line 1 of the Summary Table of U.S. International Transactions). Federal Reserve data indicate that the inflow in December was almost entirely an end-of-year event; agencies and branches of foreign banks increased net liabilities to affiliates abroad and IBFs by more than $7 billion in the last week of the year, and then decreased these liabilities by more than $20 billion in the first week of January. Line 1 of the International Banking Data Table, which shows monthly averages of banks' daily positions vis-a-vis their own foreign offices and IBFs, indicates a modest inflow in January and an additional $3 billion inflow in February.

Private foreigners on net purchased $4-1/4 billion of U.S. corporate bonds and U.S. government agency bonds in December (line 2a of the Summary Table); in January these net purchases slowed to $2-1/4

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

	1988 Year	1989 Year	1989 Q1	Q2	Q3	Q4	1989 Nov.	Dec.	1990 Jan
Private Capital									
Banks									
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	22.2	23.6	-1.6	-0.1	13.4	11.9	6.0	13.1	-7.0
Securities									
2. Private securities transactions, net[1]	17.8	21.0	5.7	3.7	-0.1	6.3	2.7	0.5	2.8
a) foreign net purchases (+) of U.S. corporate bonds[2]	26.8	32.9	8.8	6.0	5.6	12.4	4.4	4.2	2.3
b) foreign net purchases (+) of U.S. corporate stocks	0.4	7.6	0.2	3.8	5.1	-1.5	-1.3	-1.4	-0.4
c) U.S. net purchases (-) of foreign securities	-9.4	-19.4	-3.3	-6.1	-10.9	-4.7	-0.4	-2.3	0.9
3. Foreign net purchases (+) of U.S. Treasury obligations	20.6	29.9	8.7	2.4	12.9	6.0	6.6	-0.5	0.8
Official Capital									
4. Changes in foreign official reserves assets in U.S. (+ = increase)	40.2	8.2	8.0	-5.5	12.5	-6.8	-0.6	-7.0	-3.3
a) By area									
G-10 countries (incl. Switz.)	15.5	-5.3	0.3	-9.4	5.8	-2.0	2.6	-0.9	-0.3
OPEC	-3.4	10.1	6.8	0.3	4.6	-1.5	0.6	-1.5	0.8
All other countries	28.1	3.3	0.9	3.6	2.1	-3.3	-3.8	-4.6	-3.8
b) By type									
U.S. Treasury securities	41.7	0.3	4.6	-9.7	12.7	-7.4	2.7	-4.2	-0.4
Other[3]	-1.5	7.9	3.4	4.3	-0.3	0.5	-3.3	-2.8	-2.9
Changes in U.S. official reserve assets (+ = decrease)	-3.6	-25.3	-4.0	-12.1	-6.0	-3.2	-0.7	-0.3	-0.8
Other transactions (Quarterly data)[4]									
6. U.S. direct investment (-) abroad	-17.5	-32.3	-5.1	-5.3	-9.9	-12.0	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	58.4	61.3	19.2	13.3	12.4	16.4	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow)[5]	-1.0	-15.4	-1.8	2.6	-9.2	-1.7	n.a.	n.a.	n.a.
9. U.S. current account balance	-126.5	-105.9	-30.4	-32.0	-22.9	-20.6	n.a.	n.a.	n.a.
10. Statistical discrepancy	-10.6	34.9	1.3	33.0	-3.1	3.7	n.a.	n.a.	n.a.
MEMO:									
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-127.2	-113.2	-28.4	-27.5	-28.6	-28.8	n.a.	n.a.	n.a.

1. These data have not been adjusted to exclude commissions on securities transactions and, therefore, do not match exactly the data on U.S. international transactions as published by the Department of Commerce.
2. Includes all U.S. bonds other than Treasury obligations.
3. Includes deposits in banks, commercial paper, acceptances, borrowing under repurchase agreements, and other securities.
4. Seasonally adjusted.
5. Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, and other banking and official transactions not shown elsewhere. In addition, it includes amounts resulting from adjustments to the data made by the Department of Commerce and revisions to the data in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.
*--Less than $50 million.
NOTE: Details may not add to total because of rounding.

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1988	1989	1989				1990	
	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.
1. Net Claims of U.S. Banking Offices (excluding IBFS) on Own Foreign Offices and IBFS	-4.9	-5.5	-2.9	-3.9	-6.4	-5.5	-6.1	-9.0
(a) U.S.-chartered banks	21.6	19.2	20.4	19.2	14.9	19.2	14.9	11.9
(b) Foreign-chartered banks	-26.5	-24.7	-23.3	-23.1	-21.3	-24.7	-21.0	-21.5
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	21.2	20.7	24.0	26.0	21.6	20.7	21.5	21.7
3. Eurodollar Holdings of U.S. Nonbank Residents 1/	145.3	124.8	144.8	131.5	130.3	122.5	119.6	115.3

1. Includes term and overnight Eurodollars held by money market mutual funds. Note: These data differ in coverage and timing from the overall banking data incorporated in the international transactions accounts. Line 1 is an average of daily data reported to the Federal Reserve by U.S. banking offices. Line 2 is an average of daily data. Line 3 is an average of daily data for the overnight component and an average of Wednesday data for the term component.

billion as differentials on long-term interest rates moved in favor of bonds denominated in foreign currencies. Smaller net purchases by Japanese investors accounted for almost all of the slowing. Private foreigners on net continued to sell U.S. stocks in December (line 2b), though the pace of net sales slowed to less than $1/2 billion in January.

U.S. residents purchased net $2-1/4 billion of foreign securities in December (line 2c), almost half of which was in net purchases of Canadian securities. In January, there was a general swing to net sales with the largest sales in Europe.

Private foreign transactions in U.S. Treasury securities were small on balance in December and January, following large net purchases in November (line 3). The recent pattern of large purchases in the middle month of the quarter, coincident with the Treasury's refunding, and sales in subsequent months was evident. Although sales totaled only $1/2 billion in December, this included purchases of $1-1/4 billion by the World Bank and sales of about the same amount by Japanese investors.

Foreign official reserve assets in the United States declined $7 billion in December (line 4), with large decreases recorded for OPEC, Korea, and Taiwan (line 4). The decline in Korean reserves in the United States mirrored a decline in total reserves, while the decline in Taiwan's reserves in the United States reflected active exchange market intervention to support the NT dollar, and a smaller decline in total reserves. Reserves held by G-10 countries in the United States declined about $1 billion in December despite much larger reported dollar sales associated with exchange market intervention. The intervention sales apparently came largely out of G-10 holdings in the Eurodollar market, which would have been consistent with the narrowing of the spread between rates on Eurodollar deposits and rates on U.S. Treasury securities during December. In January, official reserve assets declined $3-1/4 billion with most of the decline in holdings by the NIEs and Mexico. Partial data from FRBNY show a $3-1/2 billion decline in official holdings in February, with most of the decline attributable to G-10 countries.

Foreign direct investment in the United States remained very strong in the fourth quarter, in part reflecting continued take-over activity. For 1989 as a whole, direct investment inflows to the United States totaled more than $60 billion. The United Kingdom was the largest single source, with about $21 billion. The rest of Western Europe accounted for a similar amount, while inflows from Japan totaled about $12-1/2 billion for the year.

U.S. direct investment abroad also continued at a substantial pace in the fourth quarter (line 6), although capital gains from currency translation elevated the figure by about $4-1/2 billion (quarterly rate). For 1989 as a whole, the outflow of direct investment totaled more than $32 billion.[1] Net capital losses for the year, largely on account of changes in exchange rates, had only a negligible impact; losses were large in the first half when the dollar was appreciating, but they were nearly offset by gains in the second half as the dollar depreciated. Direct investment in the United Kingdom accounted for almost $11 billion of the outflow, and the rest of Western Europe for about $8 billion. Flows to Japan were less than $200 million.

1. Direct investment capital flows include net changes in equity holdings and intercompany accounts as well as reinvested earnings. The capital flows may differ from the expansion of U.S. affiliates of foreign companies because of financing within the United States.

The statistical discrepancy in the U.S. international accounts jumped to $35 billion in 1989, more than reversing the negative $11 billion in 1988 (line 10). Wide swings in the statistical discrepancy from quarter to quarter may very well reflect inconsistencies in the reported timing of counterpart transactions. For example, the transactional counterpart to large end-of-period bank flows may not be captured in the same quarter as the bank flow.

Foreign Exchange Markets

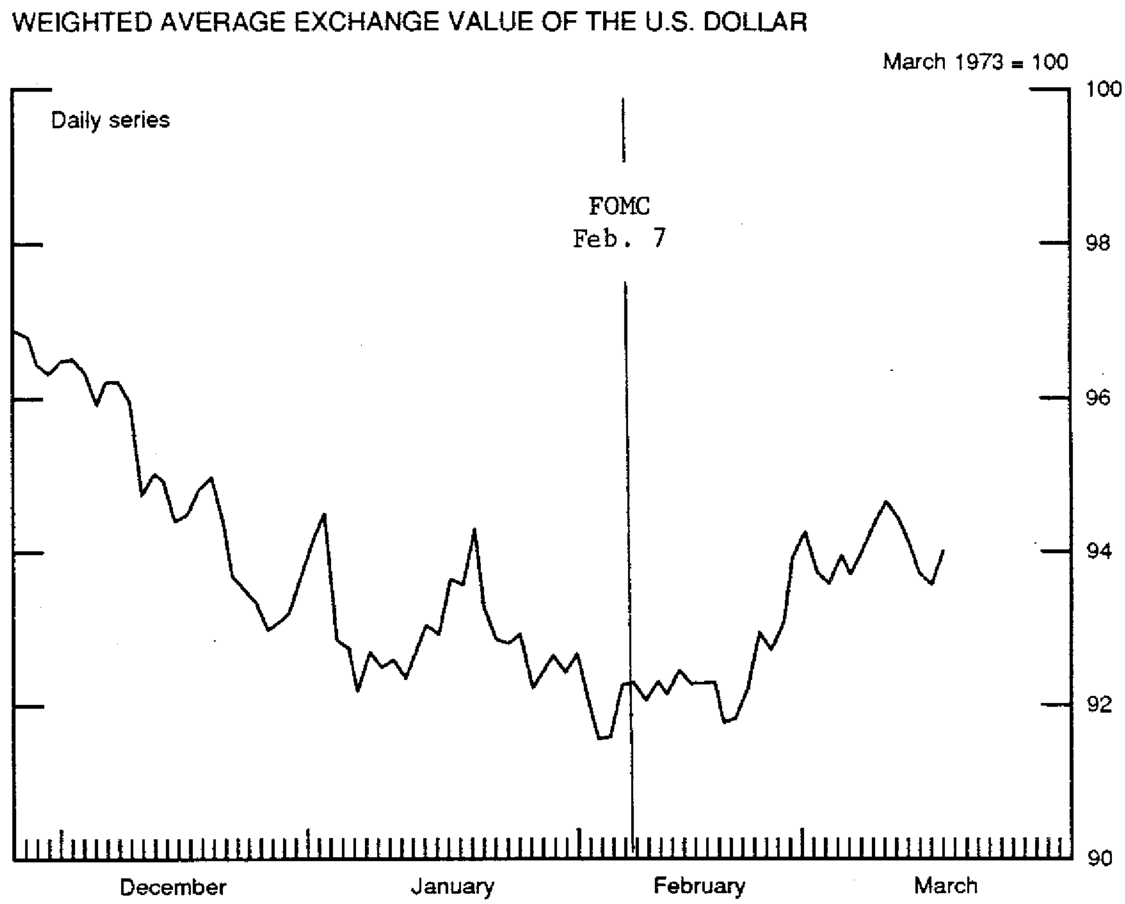
The trade-weighted, foreign exchange value of the dollar against the other G-10 currencies has risen 3 percent since the February FOMC meeting, as shown in the accompanying chart. The dollar benefited from data suggesting that the U.S. economy may have bottomed out, as well as concern about a pick-up in inflation abroad. The dollar gained 6 percent against the yen and 3 percent against the mark during the intermeeting period. Bond yields in Germany and Japan were up sharply, probably reflecting concern about the outlook for inflation. Japanese stock prices declined 17 percent. German stock prices rose 1-1/2 percent, on balance, boosted by the results of the East German elections.

In Germany, talk of rapid movement toward German economic and monetary union generated worries about the inflationary impact of German reunification. Financial markets were buffeted by rumors and official statements regarding the terms and timing of monetary union, with most attention paid to the politically popular proposal to convert all or most of East German savings in Ost Marks one-for-one into Deutsche Marks. Reversing the course it had followed since the opening of the East German border in November, the mark weakened against the dollar and most EMS currencies. The Bundesbank kept official and overnight market rates steady, but 3-month German rates rose 30 basis points. Late in the period, following the victory of the conservative Alliance for Germany in the East German elections, the mark strengthened somewhat.

In Japan, a favorable showing by the ruling Liberal Democratic Party in the February 18 parliamentary elections failed to support the yen or reassure Japanese financial markets. Open disagreement between the Bank of Japan and the Ministry of Finance over an increase in the discount rate delayed until March 20 an increase of a full percentage point to 5-1/4 percent. After remaining unchanged throughout most of the intermeeting period, the Japanese call money rate rose almost 50 basis points in the week preceding the discount rate hike. The 3-month CD rate rose 65 basis points since the last FOMC meeting.

In the United Kingdom, sterling weakened as the U.K. trade picture failed to improve and the ruling Conservative Party lost political ground in the wake of the imposition of a poll tax. Sterling was also hurt by the negative outlook for inflation in the U.K. budget. Since the February FOMC meeting, the dollar has risen 6 percent against sterling.

The dollar has lost nearly 1-1/2 percent, on balance, against the Canadian dollar. Early in the intermeeting period, the Canadian dollar continued its decline begun after the Bank of Canada's easing move in January. In light of the exchange rate response, the Bank of Canada moved short-term interest rates back above their mid-January levels and this halted and later reversed the decline of the Canadian currency.



Interest Rates in Selected Countries

	3-month		10-year	
	Feb. 7	Mar. 20	Feb. 7	Mar. 20
Japan	7.05	7.70	6.66	7.29
Germany	8.10	8.40 (3/21)	8.06	8.65 (3/21)
United Kingdom	15.06	15.44 (3/21)	11.39	12.15 (3/21)
Canada	12.55	13.32	10.18	10.88
United States	8.24	8.41	8.52	8.54

. The Desk sold $1,480 million against yen and $200 million against marks.

On March 2, Korea implemented a new exchange-rate system. In the previous system, the Bank of Korea each day fixed the won mid-rate against the dollar, based loosely on a trade-weighted basket of major foreign currencies. This system had been criticized as manipulative by the United States. In the new system, the won-dollar mid-rate is a weighted-average of the previous day's spot interbank transactions. Buying and selling rates are set by banks within a band around the official mid-rate. The current band for won-dollar transactions set by the central bank is 0.4 percent, unchanged from the previous band. The Korean won has depreciated another 1.5 percent since the time of the last Greenbook after depreciating 3 percent from its peak last April.

Developments in Foreign Industrial Countries

Economic activity in the continental European countries has generally been strong, while in other industrial countries it has been mixed. Growth of real GNP in Germany picked up in the fourth quarter, making 1989 annual growth 3.7 percent. In France and Italy, recent data also indicate sustained growth. In Japan, industrial production has grown slowly in recent months, but retail sales have surged. Real GDP (s.a.a.r.) grew 3 percent in the fourth quarter. In both Canada and the United Kingdom, domestic demand has remained strong, while output appears to have slowed.

Recorded inflation has picked up in Germany and Canada since the beginning of the year, but has remained generally stable in the other major industrial countries. In Japan, the depreciating yen has increased inflationary pressures, although this has yet to be fully reflected in recorded inflation levels. Appreciating currencies have helped moderate inflation in Germany and France.

Current account imbalances show signs of narrowing in Japan, France, and the United Kingdom, but have widened in Germany and Canada. Italy's current account deficit has remained about unchanged since mid-1989.

Government budgets for the fiscal year beginning April 1 have been announced in Canada and the United Kingdom. In Germany, events in East Germany have dominated policy discussions. Officials in the two countries have formed a commission to study economic and monetary union, and the West German government has approved a supplemental budget to support East Germany.

Individual Country Notes. Japanese real GNP (s.a.a.r.) increased 3 percent in the fourth quarter. This was a sharp slowing from the rapid 12.2 percent growth rate in the previous quarter, but the increase from year-earlier levels eased only slightly to 4.7 percent. This fourth quarter slowing reflected lower, but still strong, growth of domestic demand and a sharp swing from a positive to a negative contribution from the external sector. Consumption increased at a 6.5 percent annual rate in the fourth quarter. Plant and equipment spending increased at a strong 16.2 percent rate, and residential investment was up at an 8.4 percent rate. The substantial negative contribution from net exports

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period, seasonally adjusted) 1

	Q4/Q4	Q4/Q4	1989				1989			1990		Latest 3 months
	1988	1989	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.	Feb.	from year ago 2
Canada												
GDP	4.0	2.4	.8	.4	.6	.5	*	*	*	*	*	2.4
IP	2.7	.7	.2	.7	-.2	-.1	-1.1	.7	.6	n.a.	n.a.	.7
France												
GDP	3.0	3.6	1.1	.7	.5	1.3	*	*	*	*	*	3.6
IP	4.6	3.1	.9	1.9	.7	-.5	.8	1.0	-1.4	n.a.	n.a.	3.1
Germany												
GNP	3.0	3.7	2.9	.3	-.5	.9	*	*	*	*	*	3.7
IP	4.0	4.5	2.4	-.8	2.2	.5	.0	.3	1.2	1.7	n.a.	4.6
Italy												
GDP	3.3	n.a.	1.0	.3	.8	n.a.	*	*	*	*	*	2.8
IP	7.5	3.2	-.7	-.6	1.2	3.3	1.5	.7	5.6	n.a.	n.a.	3.2
Japan												
GNP	5.1	4.7	1.8	-.8	2.9	.7	*	*	*	*	*	4.7
IP	7.6	4.0	3.1	.0	.2	.7	.4	.9	.0	.1	n.a.	2.8
United Kingdom												
GDP	3.5	2.0	.8	-.2	.7	.7	*	*	*	*	*	2.0
IP	2.3	1.3	-.6	-.4	1.4	.8	1.4	-.2	-.9	-.7	n.a.	.8
United States												
GNP	3.4	2.5	.9	.6	.7	.2	*	*	*	*	*	2.5
IP	5.0	1.6	.5	.8	.3	-.0	-.3	.3	.1	-1.0	.6	.8

1. Asterisk indicates that monthly data are not available.
2. For quarterly data, latest quarter from year ago.

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period) 1

	Q4/Q4 1988	Q4/Q4 1989	1988 Q3	1988 Q4	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1989 Nov.	1989 Dec.	1990 Jan.	1990 Feb.	Latest 3 months from year ago
Canada													
CPI	4.1	5.2	1.1	.8	1.2	1.7	1.4	.7	.3	-.1	.8	.6	5.4
WPI	3.7	.7	1.1	.6	1.0	.3	-.2	-.4	.0	-.2	.1	n.a.	.2
France													
CPI	3.0	3.6	.9	.6	.8	1.2	.7	.8	.2	.1	.3	n.a.	3.5
WPI	7.2	n.a.	2.4	2.5	2.4	.5	-.5	n.a.	*	*	*	*	5.0
Germany													
CPI	1.6	3.1	.1	.3	1.5	.9	.0	.6	.2	.3	.6	.3	2.8
WPI	2.7	4.1	.4	1.2	2.7	1.7	-.7	.3	-.4	.4	-.2	-.6	1.9
Italy													
CPI	5.2	6.6	1.0	1.9	2.0	1.7	1.0	1.8	.4	.5	.5	.8	6.4
WPI	5.4	5.9	1.2	1.7	2.3	1.4	.6	1.5	.2	.4	n.a.	n.a.	5.9
Japan													
CPI	1.5	2.7	.1	1.0	.2	1.4	.8	.3	-.2	.3	.6	.5	3.5
WPI	-1.4	3.7	.9	-.8	.5	2.7	.8	-.3	-.1	.1	.1	.1	3.7
United Kingdom													
CPI	6.5	7.6	1.4	2.1	1.6	2.9	.9	2.0	.9	.3	.6	.8	7.7
WPI	4.9	5.2	1.2	1.1	1.4	1.2	1.2	1.2	.3	.2	.9	.4	5.3
United States													
CPI (SA)	4.3	4.6	1.2	1.1	1.3	1.5	.7	1.0	.3	.4	1.1	.5	5.0
WPI (SA)	3.4	4.9	1.3	1.0	2.0	1.6	.0	1.2	.1	.6	1.8	.0	5.3

1. Asterisk indicates that monthly data are not available.

TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES [1]
(Billions of U.S. dollars, seasonally adjusted except where otherwise noted)

	1988	1989	1988 Q3	1988 Q4	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1989 Nov.	1989 Dec.	1990 Jan.	1990 Feb.
Canada												
Trade	8.0	4.0	2.3	1.6	2.0	1.0	.8	.2	.6	-.1	n.a.	n.a.
Current account	-8.4	-16.4	-2.0	-3.2	-3.1	-4.5	-4.0	-4.8	*	*	*	*
France												
Trade	-5.4	-7.2	-1.9	-2.0	-.6	-2.1	-2.3	-2.2	-.4	-.4	-.1	-.2
Current account	-3.4	-3.1	-1.1	-3.1	1.6	-1.3	-1.3	-2.1	*	*	*	*
Germany												
Trade (NSA)	72.9	71.6	17.0	21.0	19.4	17.7	17.8	16.6	5.8	5.8	7.6	n.a.
Current account (NSA)	48.7	52.7	8.7	15.9	15.8	13.7	10.4	12.7	5.1	3.5	6.4	n.a.
Italy												
Trade	-10.0	-12.4	-2.7	-2.9	-5.1	-2.8	-2.4	-2.1	-1.2	-.4	-1.9	n.a.
Current account (NSA)	-5.4	-10.9	.2	-1.5	-6.6	-3.6	-.4	-.4	*	*	*	*
Japan												
Trade	77.4	64.8	18.4	21.9	21.9	15.4	15.0	12.6	4.7	4.1	4.0	5.7
Current account [2]	79.6	57.2	18.4	20.8	21.5	12.7	13.2	9.7	4.8	1.1	3.0	n.a.
United Kingdom												
Trade	-36.5	-37.9	-9.7	-11.2	-10.4	-9.6	-10.7	-7.2	-2.4	-1.9	-3.3	n.a.
Current account	-26.0	-32.6	-5.8	-9.6	-8.0	-8.0	-10.3	-6.2	-2.2	-1.3	-3.1	n.a.
United States												
Trade [2]	-127.2	n.a.	-30.3	-32.0	-28.4	-27.5	-28.6	-28.8	*	*	*	*
Current account	-126.5	n.a.	-32.3	-28.7	-30.4	-32.1	-22.7	n.a.	*	*	*	*

1. The current account includes goods, services, and private and official transfers. Asterisk indicates that monthly data are not available.
2. Annual data are subject to revisions and therefore may not be consistent with quarterly and/or monthly data.

reflected a sharp slowing in real exports (to a 4 percent growth rate) and a surge in real imports (to a 27.9 percent growth rate).

Indications of the pace of activity in January have been mixed. Industrial production (s.a.) increased only 0.1 percent in January, lowering the 12-month increase to 1.9 percent. However, retail sales (s.a.) surged 3.6 percent in January, for a 12-month increase of 11.9 percent. The unemployment rate (s.a.), after in December reaching its lowest level since 1981, edged up to 2.2 percent in January.

JAPANESE ECONOMIC INDICATORS
(percent change from previous period except were noted, s.a.)

	1989							
	Q2	Q3	Q4	Sep.	Oct.	Nov.	Dec.	Jan.
Real GNP	-0.8	2.9	0.7	--	--	--	--	--
Industrial Production	0.0	0.2	0.7	-2.0	0.4	0.9	0.0	0.1
Retail Sales	-5.4	5.5	1.5	2.6	2.5	-4.6	3.2	3.6
Capacity Utilization	0.2	0.0	-0.3	-2.9	0.0	1.1	-1.3	--
Unemployment Rate (%)	2.3	2.2	2.2	2.2	2.3	2.2	2.1	2.2

The recorded rate of consumer price inflation has continued to increase, in part because of the weakness of the yen. Consumer prices (n.s.a.) in the Tokyo area rose 0.5 percent in February, raising the 12-month rate to 3.9 percent, up from 3.4 percent the previous month. Part of this increase in consumer prices in February was attributed to a temporary increase in perishable food prices. Wholesale prices (n.s.a.) increased 0.1 percent in February and were up 3.5 percent from their year-earlier level. The wholesale price index of imported goods (n.s.a.) rose 1.3 percent in February, primarily because of the weak yen.

The current account appears to have been contracting since last spring; the cumulative surplus in the nine months through January, at $43.3 billion (s.a.a.r.), was substantially below the $57.2 billion current account surplus rate for 1989 as a whole. Despite this improvement, the trade surplus (s.a.) rose in February, and the current account surplus (s.a.) increased in January, compared to the preceding months.

Economic activity in Germany appears to have picked up in recent months. Industrial production rose further in January, particularly in the construction sector, which benefited from unusually mild weather. Construction activity (s.a.) rose 24 percent in January to a level 2.6 percent above the previous record level of January 1989, which was also a month of mild weather. Although the volume of manufacturers' new orders (s.a.) fell 5.5 percent in January, the level of orders was still 5.7 percent above year-earlier levels.

The unemployment rate has declined from 7.7 percent in December to 7.4 percent in February. These figures are indicative of the strong growth of labor demand in recent months, but they do not fully reflect the continuing influx of immigrants from East Europe. Immigrants arriving after the beginning of the year are not eligible for unemployment benefits for two months and are consequently not yet included in measured unemployment. Over 150,000 immigrants from East Europe have arrived in the FRG since the beginning of 1990, with 130,000 coming from East Germany alone.

Real GNP increased 3.7 percent (s.a.a.r.) in the fourth quarter. This strong growth came in spite of a sharp 22.8 percent increase in imports (s.a.a.r.). The main source of strength was fixed investment, which grew at an annual rate of almost 20 percent. Inventory investment was also strong. For 1989 as a whole, real growth was 3.7 percent, with the principal sources of strength being fixed investment and exports, which increased 8.4 and 7.3 percent, respectively.

Although the strength of the DM in recent months has held producer and wholesale prices down, consumer prices have continued to increase. Consumer prices (n.s.a.) rose 0.6 and 0.3 percent in January and February, respectively. On a 12-month basis, consumer price inflation has declined from 3 percent in November and December to 2.7 percent in January and 2.6 percent in February. This decline in measured inflation took place in part because the excise tax increases that raised consumer prices in January 1989 (by about 0.7 percent) were not reflected in 12-month measures of CPI inflation after December 1989. Wholesale prices were only 0.6 percent above their year-earlier level in February, down from 1.4 percent in January. Producer prices were unchanged between October and February. Import prices declined 1.8 percent in the fourth quarter in response to the sharp appreciation of the DM. In January, import prices were actually 1.7 percent below year-earlier levels.

Germany's external surpluses (n.s.a.) increased sharply in January from the fourth quarter. Most of the change came through a 9 percent increase in exports.

Economic policy has been dominated in recent months by developments in East Germany. On February 13, Chancellor Kohl and East German Prime Minister Modrow agreed to establish a joint commission to study proposals for establishing economic and monetary union. The Commission will discuss three main topics: purely monetary aspects of the proposed union, including the rate of exchange at which Ostmark assets will be converted into Deutschemarks; other economic reforms that need to be implemented in the GDR; and distributional issues, including means of protecting the savings of East Germans. It is expected that a monetary union will be established around mid-year. On February 14, the West German federal government approved a supplemental budget of DM 7 billion to support East Germany.

Activity in France has shown signs of renewed strength. Household consumption of manufactured products (s.a.) grew 4.2 percent from December to January, after having posted declines three of the previous four months. GDP (s.a.a.r.) grew 5.3 percent in the fourth quarter, after growing only 2 percent the previous quarter. Industrial production (s.a.) was weaker than GDP in the fourth quarter.

Inflation remains moderate. The CPI rose 0.3 percent in January, and preliminary government estimates for February inflation are 0.2-0.3 percent. In part, this inflation performance is due to the strength of the French franc against non-European currencies; between February 1989 and February 1990 the franc appreciated 9.7 percent against the dollar, and the price index of imported commodities fell 23.2 percent.

The trade deficit widened to $7.2 billion in 1989, from $5.4 billion in 1988. However, an expanding surplus in service transactions, largely due to tourist revenues, has helped the current account; as a result France posted a current account deficit of $3.1 billion in 1989, down from $3.4 billion in 1988.

In Italy, industrial production (s.a.) grew 3.3 percent in the fourth quarter, the largest increase since the first quarter of 1988. Consumer price inflation on a 12-month basis was 6.3 percent in both January and February.

Preliminary current account data on a balance-of-payments basis indicate that the deficit for 1989 increased sharply to $10.9 billion, from $5.4 billion in 1988, although the bulk of this deterioration occurred in the first half of 1989. The largest deteriorations occurred in the tourism balance (which deteriorated by $1.7 billion), the investment-income balance ($1.6 billion), and the trade balance ($1.2 billion).

The budget deficit for 1989 of the State Sector (consisting of the central government plus agencies) was 133 trillion lira ($97 billion equivalent), slightly above the 1988 deficit of 130 trillion lira. The deficit declined slightly as a share of GDP to 11 percent, but was still 16 trillion lira above its original target set in the fall of 1988. The target for 1990 is set at 133 trillion lira.

While the the growth of output has continued to slow in the United Kingdom, consumer spending has remained surprisingly strong. Real GDP (s.a.a.r.) grew 2.7 percent in the fourth quarter, after expanding 2.8 percent in the third quarter. For the third consecutive month, industrial production (s.a.) fell in January, to a level only 0.3 percent above a year ago. However, consumer credit surged in January and the volume of retail sales (s.a.) rose 2.4 percent in February to a level 2.6 percent above a year ago. Strong consumer spending was also indicated by a surge in imports in January, which caused an unexpected deterioration in trade and current account balances. The unemployment rate continued to fall in February, reaching 5.6 percent.

The annual rate of consumer price inflation stayed at 7.7 percent in January, while the underlying rate (excluding mortgage interest payments) remained at its peak of 6.1 percent. Average earnings in January rose 9.1 percent on a 12-month basis, while the underlying annual rate of increase in average earnings remained at 9.25 percent.

On March 20, Chancellor John Major delivered the British budget to Parliament. The budget was broadly neutral and projected a surplus of £7 billion for the 1990-91 fiscal year, the same as that estimated for 1989-90. Thatcher's government has come under increasing criticism lately, in part because of widespread demonstrations against the poll tax, the new set of community charges to be levied starting April 1 on every person of voting age.

Real GDP (s.a.a.r.) in Canada in the fourth quarter grew 2 percent, down slightly from the upwardly revised 2.5 percent growth rate of the third quarter. Growth for 1989 was 2.4 percent. Final domestic demand, which was sluggish in the third quarter, was unexpectedly robust in the fourth quarter, expanding 6.8 percent, as the pace of both consumption and investment picked up. A sharp drop in real net exports, primarily due to growth in imports, was largely responsible for the slower overall growth. The current account deficit (s.a.) jumped from $4.0 billion (s.a.) in the third quarter to $4.8 billion in the fourth quarter.

Other data point generally to slower growth in the Canadian economy. In February, although the unemployment rate (s.a.) fell 0.1 percentage point to 7.7 percent, the index of help-wanted advertisements (n.s.a.) fell 4.3 percent, the sixth consecutive monthly decline. Housing starts (s.a.a.r.) dropped 6.9 percent in January, and new car sales (s.a.) fell 3.1 percent in December.

Consumer price inflation remains a concern after large monthly increases in January and February. The CPI (n.s.a.) rose 0.6 percent in February to a level 5.4 percent above a year earlier. The CPI excluding food and energy (n.s.a.) rose 0.5 percent, or 5.2 percent from a year before.

Last month, Finance Minister Wilson presented the budget for the 1990-91 fiscal year. Wilson stated that the government is on track to hit its C$30.5 billion deficit in 1989-90 (approximately 4.7 percent of GDP); the 1990-91 deficit is projected to be C$28.5 billion, only C$500 million above last year's forecast. High interest rates on existing government debt continue to hamper efforts to reduce the deficit.

Developments in East European Economies

In late January, the IMF and the government of Hungary reached agreement on a letter of intent for a new IMF stand-by arrangement (SBA) for SDR 159 million ($206 million equivalent). The IMF Board approved the new SBA on March 15. The SBA relies on prior actions (including depreciation of the forint; increased interest rates, increased rents and taxes on housing subsidies; and closure or restructuring of loss-making enterprises). However also on March 15, the new Constitutional Court of Hungary struck down the tax on housing subsidies. Moreover, inflation (a.r.) of over 22 percent in January already exceeds targets in the program. Recent IMF programs were allowed to expire due to non-compliance on quantitative performance criteria -- specifically the government budget and current account deficits. Elections are scheduled for March 25.

Poland signed an agreement with the Paris Club in February to reschedule $9.4 billion of service payments on official debt. Poland's external debt to official and private creditors totals about $40 billion, with about $30 billion of this owed to Paris Club members. The rescheduling includes $3.4 billion in interest arrears as of the end of 1989 and 100 percent of the principal and interest due through the end of 1991. In early February, the IMF agreed on a 13-month, SDR 550 million ($723 million equivalent) stand-by arrangement, and the World Bank approved two loan agreements totaling $360 million, with twice that much in the pipeline.

On March 16, the IMF Board approved an 18-month, SDR 460 million ($610 million equivalent) stand-by arrangement for Yugoslavia. Substantial reform measures were implemented in recent months, meeting IMF requirements.

U.S. bank lending to foreigners

The dollar value of U.S.-chartered banks' claims on all foreigners decreased by $4.7 billion in the fourth quarter of 1989. Excluding the estimated increase in value due to the effects of changes in the value of the dollar on U.S. banks' nondollar-denominated assets, total U.S. bank claims on foreigners decreased an estimated $11 billion in the fourth quarter. In all of 1989 U.S. bank claims on all foreigners declined $6 billion on an exchange rate-adjusted basis.

U.S. bank claims on non-OPEC developing countries declined $2.8 billion in the fourth quarter, in line with declines of the previous two quarters, and a continuation of the longer term trend of a reduction in U.S. bank exposure to these countries. A decrease in claims of $1.2 billion on Argentina in the fourth quarter resulted primarily from debt writeoffs due to mandated reserving actions, and a decrease in claims on Brazil of $1.7 billion was largely associated with writeoffs and informal conversions of Brazilian debt at prices below par. U.S. banks reported an increase of $0.8 billion in claims on Mexico in the fourth quarter of 1989. That increase resulted largely from a collateralized loan backed by existing Mexican holdings of U.S. Treasury securities, which allowed Mexico to manage its liquidity and reserve needs without selling the securities outright. Data through year-end 1989 indicate that U.S. banks have not expanded their relatively minor exposure to Eastern Europe.

As indicated in the chart with data through March 16, 1990, the secondary market prices of bank loans to the heavily indebted countries increased in the first quarter from the depressed levels at year-end. The increase in the price of Brazilian debt through March 1 reflected optimism that the country's newly elected President would not take a confrontational stand with banks. However, that price has declined in the last two weeks reflecting uncertainty about the government's new economic program. An increase in the price of Mexican debt resulted from the signing of the restructuring agreement with the banks. There was some market optimism that Venezuela would complete its negotiation of a financing package with its creditor banks and would eliminate its interest arrears to banks of roughly.

CLAIMS ON FOREIGNERS OF U.S.-CHARTERED BANKS
(billions of dollars)

	Changes (no sign = increase)								Out-
	1986	1987	1988	1989	1989				standing
	Year	Year	Year	Year	Q1	Q2	Q3	Q4	12/31/89
Total, all countries	-2.6	-4.1	-36.1	-6.4	-1.0	-6.1	5.4	-4.7	339.9
Non-OPEC developing countries	-5.4	-1.8	-12.5	-7.3	0.1	-2.3	-2.3	-2.8	78.0
of which:									
(Latin America)	-1.1	-2.0	-9.2	-8.2	-1.2	-2.7	-2.0	-2.3	53.1
(Asia and Africa)	-4.3	0.2	-3.3	0.9	1.3	0.4	-0.3	-0.5	24.9
OPEC countries	-2.1	-2.0	-0.8	0.6	-0.4	-0.2	0.2	1.0	17.2
Eastern Europe	-0.9	-0.3	0.4	-0.1	-0.1	-0.1	0.1	0.0	3.5
Smaller developed countries	-4.2	0.3	-5.4	-0.3	0.0	0.1	-0.2	-0.2	20.7
G-10 countries	9.6	3.1	-7.0	0.2	-7.6	-0.4	1.0	7.2	152.9
Offshore banking centers	-2.5	-7.0	-10.3	-6.8	4.3	-5.4	5.6	-11.3	37.4
Miscellaneous	2.9	3.4	-0.6	7.5	2.5	2.3	1.0	1.7	30.1
Memorandum:									
Total adjusted for exchange rate changes (staff estimates)	-11	-25	-26	-6	5	-2	2	-11	

March 19, 1990

INDICATIVE PRICES FOR BANK LOANS TO
MAJOR BORROWING COUNTRIES
(Average of bid and offer price, expressed
as a percentage of face value)

Countries[1]	86Q4[2]	5/18/87[3]	87Q4[2]	88Q2[2]	88Q3[2]	88Q4[2]	89Q1[2]	89Q2[2]	89Q3[2]	89Q4[2]	3/1/90	3/16/90
Brazil	75.5	63.5	46.5	50.6	46.4	40.4	33.9	31.4	28.1	22.6	31.6	28.0
Mexico	56.5	58.6	50.5	50.4	46.9	43.1	40.5	40.4	41.1	36.1	39.9	39.4
Argentina	66.0	60.0	34.5	24.5	23.4	21.5	16.9	14.6	18.6	13.4	11.9	12.0
Venezuela	74.5	73.0	58.0	54.9	48.5	41.3	34.5	37.4	40.8	34.6	37.4	40.3
Philippines	73.5	71.3	50.4	54.3	52.5	49.5	41.5	49.0	49.8	49.8	49.4	39.4
Chile	68.0	71.3	61.8	61.0	60.1	57.5	58.9	62.5	61.5	59.6	64.4	65.6
Poland	43.0	45.0	43.1	41.5	38.0	34.0	34.5	38.5	33.5	19.0	14.0	n.a.
Yugoslavia	79.0	78.0	49.8	46.0	47.8	45.5	44.0	51.0	55.0	51.5	57.3	57.5
Nigeria	39.0	31.5	30.5	29.0	24.0	24.0	21.5	23.5	28.8	30.3	28.9	n.a.
Colombia	86.5	86.5	66.5	65.8	66.3	58.0	50.5	57.5	65.3	64.5	58.5	n.a.
Ecuador	65.5	53.5	37.3	26.0	19.0	13.0	10.5	12.5	16.5	14.5	15.5	n.a.
Peru	19.0	16.0	8.0	6.8	5.8	5.5	3.5	4.0	5.0	6.0	6.0	n.a.
Morocco	69.5	70.0	53.5	49.8	50.5	48.5	42.5	43.4	45.5	36.1	38.0	n.a.
Cote d'Ivoire	77.0	76.5	42.5	30.3	28.0	5.0	15.0	15.0	7.0	7.0	7.0	n.a.
Uruguay	66.5	74.3	60.0	60.0	60.5	60.0	57.0	55.5	55.5	50.8	49.5	n.a.
Costa Rica	36.0	35.8	16.5	12.5	13.0	12.5	13.5	14.3	17.3	18.0	20.0	n.a.
Bolivia	7.5	10.0	12.0	12.0	10.5	10.5	11.5	11.5	11.5	11.5	11.0	n.a.
Major borrowing countries[4]	65.7	61.8	47.1	46.3	43.2	38.8	34.6	35.1	35.4	30.7	33.8	n.a.

1 Ranked by December 1986 BIS quarterly claims.

2 Prices last reported within quarter.

3 Citibank announced $3 billion reserve action on May 19, 1987.

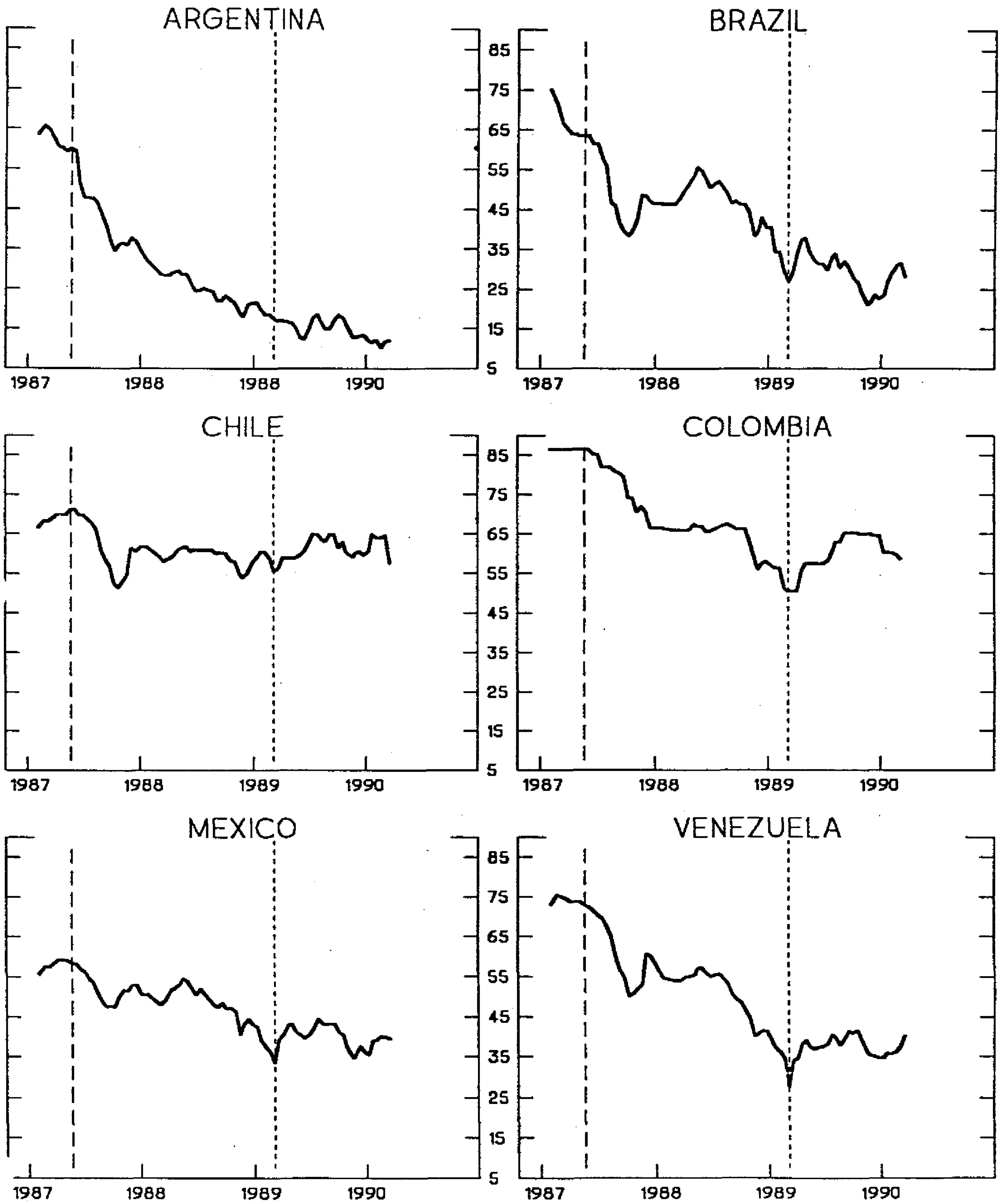
4 Index of weighted-average secondary market value of LDC debt. The weight of each of the 17 countries is the December 1986 BIS quarterly claims on that country divided by the total BIS quarterly claims on the 17 countries combined.

Source: Salomon Brothers.

March 16, 1990

Indicative Secondary Market Prices of Bank Loans for Six of the Baker Initiative Countries

(as a percent of face value)



– – – – Citibank announcement of $3 billion reserve action, May 18, 1987.

-------- Announcement of the Brady Initiative, March 10, 1989.

Economic Situation in Major Developing Countries

Brazilian officials announced on March 16 the new government's program intended to reduce inflation dramatically in the coming months. The bank debt package for Mexico is expected to be implemented on March 28. On March 4 the Argentine government announced a new set of fiscal measures aimed at generating savings equivalent to 3 percent of GDP. In mid-March Venezuela and its commercial bank creditors reached agreement on the terms of debt and debt service reduction and new money options for a financing package. To preserve their claims against Peru before the expiration of a six-year statute of limitations, several international banks sued Peru on March 2. The Philippines signed a new money agreement for $709 million with some 80 commercial banks on February 28.

Individual country notes. One day after taking office March 15, Brazil's new president, Fernando Collor de Mello, announced a program aimed at reducing inflation over the next few months. The program includes the following:

1. Prices and wages will be frozen for 45 days, after which wages will be adjusted monthly by an unknown amount. Price controls will be strictly enforced throughout the period. The adjustment for wages and prices effective May 1 will be announced April 15. Increases in wages in the private sector can be negotiated beyond the established adjustment after May 1, but employers will not be allowed to pass on higher wage costs to consumers.

2. Cash and cruzado-denominated assets worth less than 50,000 New Cruzados (about $1,200 at the old official exchange rate) will be

converted into the new unit of account, the cruzeiro, by a conversion factor 1000 to 1. Determination of the cruzeiro value of all other cruzado-denominated assets is more complex. If, over the next 18 months, an investor wishes to withdraw funds from an account, the cruzeiro value of the cruzado-denominated asset will be determined in auctions conducted by the central bank. Interest on funds remaining in the accounts over the next 18 months will be equal to a 6 percent real annualized return. An estimated $80 to $120 billion, out of $150 billion in cruzado-denominated savings, is affected by this measure.

3. Capital gains taxes will be introduced and all tax payments will be indexed. Bearer instruments will be abolished. Selected financial institutions will be subject to a "compulsory loan."

4. The government will close several ministries, lay off public sector workers, and cease its subsidization of exports and other sectors. Public sector companies will be privatized. Public sector prices will be adjusted upward.

5. The official exchange rate will be allowed to float, but authorities will intervene to manage the float. The exchange rate against the U.S. dollar had previously been adjusted each day, but in recent months the adjustment had lagged inflation.

6. The trade regime will gradually be liberalized. Quantitative controls will be phased out, so that only tariffs will remain. The list of imports with prohibitive tariffs will be eliminated.

Most of the measures have been implemented by presidential decree. The Brazilian Congress will need to approve most of the measures within 30 days.

Financial markets reopened Monday following a three-day bank holiday. Amid general uncertainty, there were few transactions in the stock market and the parallel market for the dollar, but by Tuesday the cruzado had strengthened to about 45 cruzados to the dollar compared to 80 cruzados before the bank holiday.

Not enough is yet known to determine whether the measures will significantly reduce the fiscal deficit, the main cause of Brazil's high inflation. The government estimates that the operational deficit (i.e., the fiscal deficit net of the inflation premium that the government pays in interest on the government debt), will be reduced from a pre-program estimate for 1990 of 8 percent of GDP to a surplus of 2 percent. Monthly inflation rose from 56 percent in January to 73 percent in February, and is expected to be 80 percent in March. Despite the high inflation rates in 1989, real GDP grew 3.6 percent last year compared with no growth in 1988.

The trade surplus of $768 million in February exceeded January's surplus of $659 million. However, the appreciation in the real exchange rate over the past few months has led to a considerable fall in the trade surplus. The surplus for the four months through January 1990 was $3.3 billion, down from $5.7 billion a year ago.

Mexico's agreement with commercial banks, providing debt reduction, interest reduction, and new money options, began to be signed on February 4 and is expected to be implemented on March 28. Until then, Mexico faces a cash flow problem because special factors related to the bank agreement combine to concentrate in the first quarter more than half of the expected 1990 current account deficit: (a) the bank agreement is retroactive to July 1, 1989, but Mexico is continuing to pay interest under the pre-agreement conditions until implementation; (b) in order to avoid an accumulation of accrued but unpaid interest when the agreement goes into effect, Mexico began, last December, to pay interest monthly, instead of quarterly, a move that resulted in a bunching of interest payments in the first quarter; (c) the first interest payment to the creditor banks after the agreement is implemented will not be due for six months; and, (d) a rebate of the excess interest payments being made currently will be deducted from the initial interest payments due under the new conditions, beginning at the end of September.

Two other factors are aggravating Mexico's first quarter cash flow problem. One is repayment on February 15 of the remaining $1.2 billion from last September's bridge loan from the United States, the BIS on behalf of the central banks of the other G-10 countries, and Spain. The other is that, when the bank agreement is implemented, Mexico will have to provide about $1.3 billion toward the enhancement package that supports the operation.

There has also been some nervousness in exchange markets for the peso, prompted by an upsurge of the monthly inflation rate to 3.4 percent in December and 4.8 percent in January, from an average of 1.4 percent in the previous 11 months. The inflation surge reflected sharp increases in public sector prices and in minimum wages. The February inflation rate was 2.3 percent and lower rates are anticipated in coming months. Domestic interest rates have risen sharply since mid-January.

The economic situation in Argentina has continued to deteriorate, triggering the announcement of a new economic program. The previous program, which was announced on January 1, 1990, successfully held the exchange rate at about 2,000 australs per dollar during January by freezing most bank time deposits and domestic government debt instruments. However, in February the exchange rate depreciated substantially, reaching about 5,800 australs per dollar by month's end, reflecting concern that the government would not reduce the fiscal deficit. Monthly inflation registered 79 percent in January and 62 percent in February compared with 40 percent in December 1989. February consumer prices were up more than 12,000 percent over February 1989.

On March 4, the government announced a new set of fiscal adjustment measures, including substantial increases in export taxes, the retirement of many public sector workers, the permanent closing of some official banks, and the postponement of payments to domestic suppliers. The impact of this program on Argentina's fiscal situation is unclear. According to government officials, the program could generate savings of 4 percent of GDP in 1990; however, the 1990 fiscal deficit was estimated to exceed 10 percent of GDP, suggesting that the new program may not be adequate.

The austral has strengthened considerably thus far in March, but this is believed to reflect severe illiquidity in the banking system rather than enhanced confidence in the economy. Short-term interbank interest rates, which exceeded 300 percent (monthly basis) in early March, have fallen considerably since then. Economic activity is believed to be severely depressed; the trade surplus is estimated to have increased by $1 billion in 1989 to more than $5 billion due to strong exports and a recession-induced decline in imports.

On March 20, Venezuela announced an agreement in principle with its major commercial bank creditors on a menu of options for a financing package. The menu items that are to be offered to holders of the country's medium- and long-term bank debt include:

1. New money option. Existing bank debt swapped at par for 17-year Venezuelan bonds paying LIBOR + 7/8. For every $5 of debt exchanged, creditor must purchase $1 worth of 15-year bonds paying LIBOR + 1. 30 percent of the new money bonds would be eligible for debt-to-equity conversion at par.

2. Temporary interest rate reduction bond option. Existing bank debt swapped at par for a 17-year Venezuelan bond with an interest rate of 5 percent in years 1 and 2, 6 percent in years 3 and 4, 7 percent in year 5, and LIBOR + 7/8 thereafter, carrying a 12-month rolling support of interest.

3. Fixed-rate bond option. Existing debt swapped at par for a 30-year Venezuelan bond carrying a fixed interest rate of 6-3/4 percent, a 14-month rolling support of interest, and a principal payment collateralized by a creditor government zero coupon bond. The bonds would come with detachable oil warrants that would be exercisable after a 6-year grace period. These warrants would, in effect, boost the interest rate paid on the bonds by up to 150 basis points if Venezuelan oil export prices rise substantially in real terms.

4. Discount bond option. Existing debt swapped at a 30 percent discount for a 30-year Venezuelan bond with an interest rate of LIBO +

13/16, a 14-month rolling support of interest, and a principal payment collateralized by a creditor government zero coupon bond. The bonds would come with oil warrants (as in option #3).

5. Buy-back option. Venezuela would repurchase existing bank debt, at a discount related to the price of the debt on the secondary market. Venezuela is now working with its major bank creditors to finalize a financing package, and market these options to the universe of creditor banks.

On March 2, several major international banks filed a lawsuit against Peru in a New York federal court over Peru's long-standing arrears to the banks that now approach $4 billion. The lawsuit was prompted by the desire to preserve the banks' claims against Peru from possible expiration under the six-year statute of limitations for unpaid debts under New York State law. Discussions are continuing on a negotiated waiver of Peru's use of the statute of limitations defense, which might lead to a withdrawal of the suit. Adding to the uncertainty is the long transition period between the presidential elections this April and the beginning of the new administration in July 1990.

The third part of the Philippine commercial bank debt agreement was consummated on February 28 in Tokyo when 80 banks agreed to provide $709 million in new money to the Philippines. The Philippines had initially hoped to raise $1 billion in new money. The funds will be provided through the issue of 15-year Philippine government bonds that will be listed on the Luxembourg exchange. The first part of the debt agreement was completed on January 3, 1990, when the Philippines repurchased $1.34 billion of its commercial bank debt at a 50 percent discount. The second part of the debt agreement, which has also been completed, involved a rescheduling of principal payments on commercial bank debt falling due in 1990-94.