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January 27, 1993

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

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DOMESTIC NONFINANCIAL DEVELOPMENTS

DOMESTIC NONFINANCIAL DEVELOPMENTS

The incoming data on economic activity have continued to have a predominantly positive cast, and surveys indicate that consumers and business executives have a greater confidence in the prospects for sustained growth. Nonetheless, the job creation process has yet to move into high gear--a point highlighted by the persistent drumbeat of corporate downsizing announcements. Recent readings on wage and consumer price changes suggest that the general disinflationary trend remains intact, though the pickup in manufacturing and homebuilding activity evidently has produced some firming in materials prices.

Employment and Unemployment

Despite the continuing flow of announcements of layoffs by major firms, the aggregate data suggest that labor demand has been on an upward trend--albeit a rather tentative one. Nonfarm payroll employment rose 64,000 in December--the fourth consecutive month of small job gains. The civilian unemployment rate held steady in December at 7.3 percent, as the labor force participation rate edged upward. The jobless rate in December was about 1/2 percentage point below its midyear peak, but still slightly above the level at the beginning of the year.

INITIAL CLAIMS WITH EUC ADJUSTMENT¹
(In thousands; seasonally adjusted by BLS)

	1992				1993	
	Dec. 5	Dec. 12	Dec. 19	Dec. 26	Jan. 2	Jan. 9
Initial claims						
All regular programs	356	368	339	296	350	371
EUC effect	20	22	22	21	23	19
Adjusted claims	376	390	361	317	373	391

1. Includes revised data.

CHANGES IN EMPLOYMENT¹
(Thousands of employees: based on seasonally adjusted data)

	1991	1992	1992		1992		
			Q3	Q4	Oct.	Nov.	Dec.
	----- Average monthly changes -----						
Nonfarm payroll employment ²	-79	46	25	71	74	76	64
Private	-91	29	-13	67	101	13	86
Manufacturing	-36	-21	-45	-9	-56	25	3
Durable	-33	-19	-33	-9	-40	17	-5
Defense-related ³	-8	-12	-13	-13	-19	-11	-10
Nondurable	-3	-3	-11	0	-16	8	8
Construction	-26	-1	-9	2	27	-17	-5
Retail trade	-35	2	-11	6	24	-21	15
Finance, insurance, real estate	-3	1	-1	3	11	-11	8
Services	30	58	70	63	87	31	70
Health services	29	20	20	25	29	22	23
Business services	3	27	10	45	84	20	32
Total government	12	18	37	5	-27	63	-22
Private nonfarm production workers	-76	43	-16	82	143	11	93
Manufacturing production workers	-23	-10	-36	6	-35	44	8
Total employment ⁴	-62	130	71	196	-37	377	247
Nonagricultural	-53	122	79	182	15	337	194

Memo:

Aggregate hours of private production workers (percent change)	-.1	0	-.1	.2	.7	.5	-.7
Average workweek (hours)	34.3	34.4	34.4	34.5	34.5	34.6	34.3
Manufacturing (hours)	40.7	41.1	41.0	41.2	41.1	41.2	41.7

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Industries which are dependent on defense expenditures for at least 50 percent of their output.
4. Survey of households.

UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; seasonally adjusted)

	1991	1992	1992		1992		
			Q3	Q4	Oct.	Nov.	Dec.
Civilian unemployment rate (16 years and older)	6.7	7.4	7.5	7.3	7.4	7.3	7.3
Teenagers	18.7	20.0	20.3	19.4	18.9	20.2	19.2
20-24 years old	10.8	11.3	11.5	11.1	11.0	11.1	11.3
Men, 25 years and older	5.7	6.4	6.5	6.3	6.6	6.3	6.2
Women, 25 years and older	5.1	5.7	5.8	5.8	5.7	5.7	5.8
Labor force participation rate	66.0	66.3	66.4	66.2	66.1	66.2	66.3
Teenagers	51.7	51.3	51.6	51.2	50.6	51.4	51.6
20-24 years old	76.8	77.1	77.4	77.1	76.5	77.0	77.5
Men, 25 years and older	76.7	76.7	76.7	76.4	76.6	76.4	76.3
Women, 25 years and older	56.5	57.0	57.1	57.1	57.0	57.1	57.2

Since the December survey week, weekly initial claims for unemployment insurance (adjusted to include the EUC program) have remained below 400,000--suggesting that another modest rise in employment in January is likely. In addition, the Conference Board's January survey of consumers showed a further improvement in respondents' assessments of current job availability.

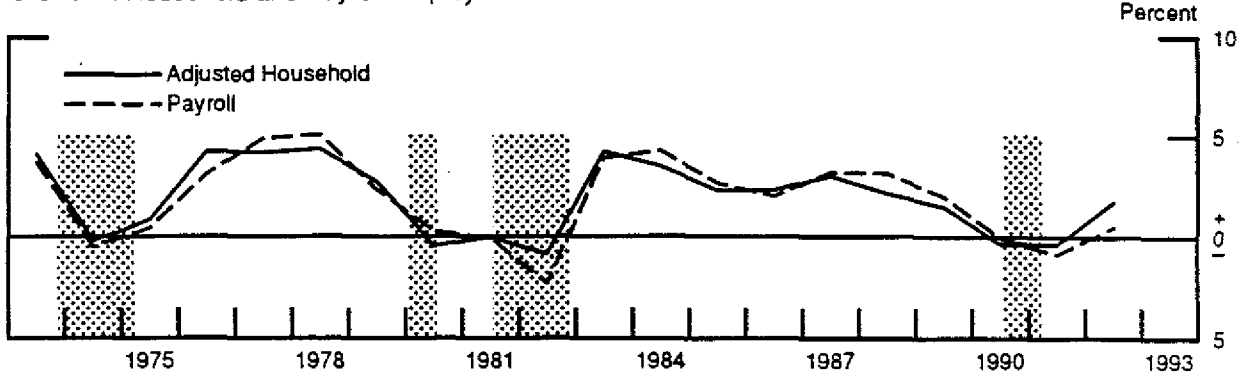
In the December payroll survey, private employment advanced 86,000, similar to the average gain in October and November.¹ Hiring at service establishments accounted for much of the increase over this period, especially in business and health services industries. As was the case for most of last year, the growth in business services was concentrated at temporary help agencies, suggesting that employers remained reluctant to add permanent workers to their payrolls--either as they await further evidence of a sustained improvement in demand or because such "outsourcing" is simply less costly. The current and prospective fixed costs of benefits, especially health care, apparently are an important factor in the reluctance of many firms to hire new workers; in retail trade, employment rose 15,000 on a seasonally adjusted basis in December, but on the whole, hiring in this sector has remained sluggish.

In the goods-producing sector, manufacturing and construction payrolls were little changed in December. Although the employment picture in manufacturing and construction has improved from the sizable net reduction in jobs seen in 1990 and 1991, no substantial pickup in hiring in either of these areas is, as yet, evident. Moreover, surveys of manufacturers do not point to widespread plans to increase hiring in the near term.

1. Government employment fell 22,000 in December because temporary election workers left payrolls.

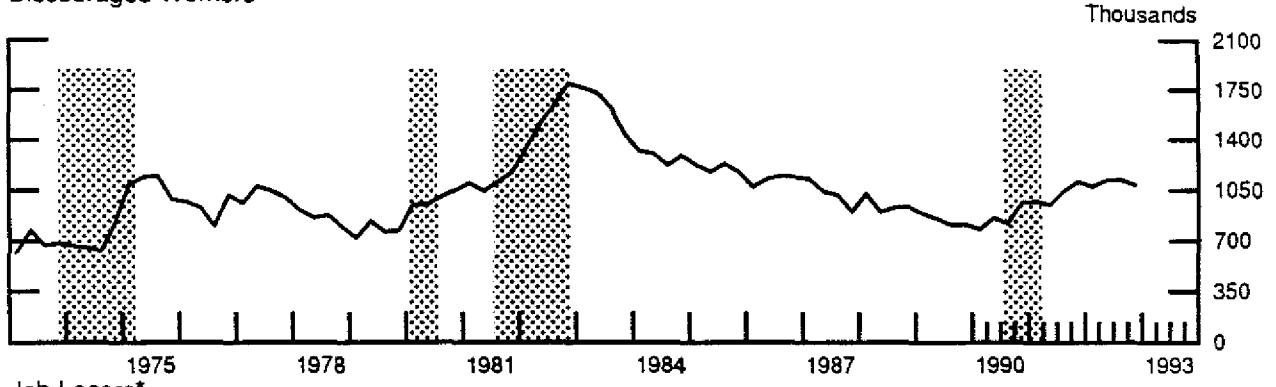
OTHER LABOR MARKET INDICATORS

Growth in Household and Payroll Employment*

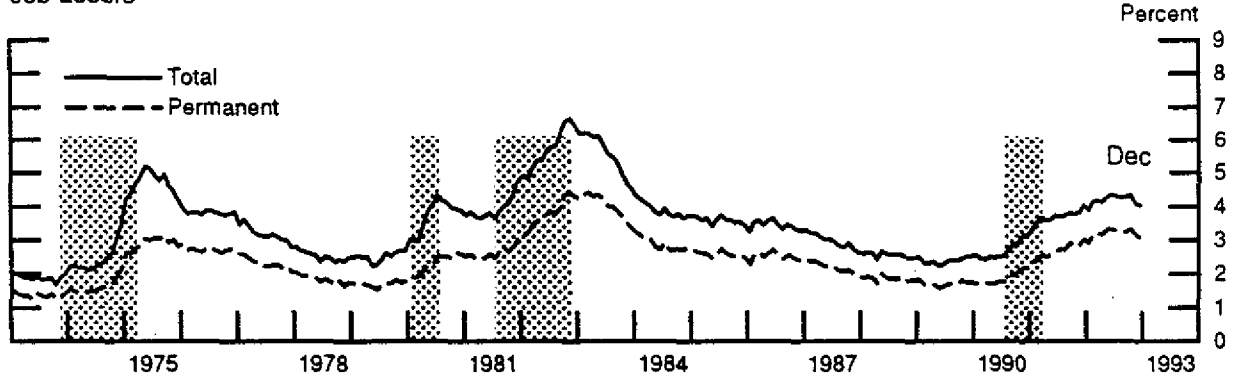


*Annual percent change

Discouraged Workers

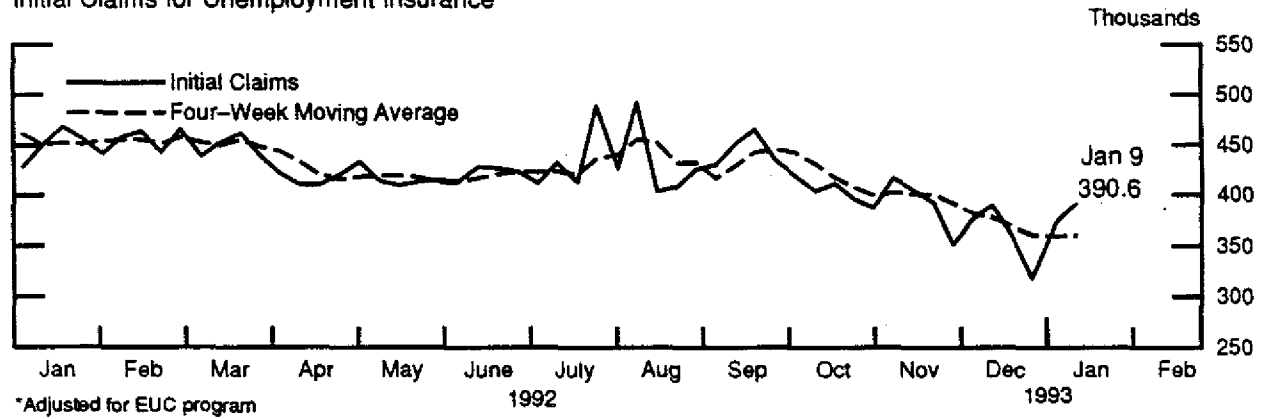


Job Losers*



*As a percent of civilian labor force

Initial Claims for Unemployment Insurance*



*Adjusted for EUC program

The total private workweek dropped 0.3 hour to 34.3 hours in December, possibly in part because of a storm that hit several Northeastern states late in the December survey week. As a result, the index of aggregate hours of private production or nonsupervisory workers fell 0.7 percent last month. Despite this drop, the strong gains in hours in October and November produced the largest quarterly advance (1.7 percent at an annual rate) since the first quarter of 1990. In the manufacturing sector, hours edged up 0.4 percent at an annual rate in the fourth quarter, after falling at an annual rate of 3.8 percent in the third quarter.

Employment, as measured by the household survey, rose 247,000 in December, bringing the increase during all of 1992 to about 1.6 million. This contrasts sharply with the gain of only about 600,000 in payroll employment and raises the question of whether the establishment survey has been understating job and income growth. The household survey includes employment categories that are not covered in the establishment survey--namely, self-employed individuals, unpaid family workers, domestic workers, and those on unpaid absences. However, as shown in the chart, even when these categories are removed from household employment, its growth still exceeded that of payrolls.

The BLS revises the payroll employment series each year by setting the payroll level in March of the preceding year equal to the level of employment derived from unemployment insurance records; historically the payroll survey tends to be revised in the direction of the household survey. Such revisions apparently often reflect net business formations, which the BLS attempts to capture--albeit imperfectly--in its bias adjustment to the national monthly establishment data; thus, one potential explanation of the gap last year is a failure to adequately account for net business formations

in the payroll data. This interpretation would lead us to expect stronger employment and income growth when recent payroll data are eventually revised. However, through March 1992 at least, the BLS expects such revisions to be small--less than 100,000--based on their reading of the preliminary UI records.² And, although final UI records are not yet available for subsequent months, the bias adjustment factor, which depends arithmetically on past revisions and on the recent pace of employment growth, has risen to 50,000 per month. Whether this adjustment has sufficiently accounted for the net increase in new businesses since the March 1992 benchmark is, for now, difficult to judge. However, separate data from Dun and Bradstreet suggest that, until last fall, no pickup in new business formations had occurred.

LABOR FORCE GROWTH¹
(Thousands)

	1990	1991	1992	1992	
				Nov.	Dec.
Total	682	518	1885	299	226
Teenagers	-678	-442	65	116	3
Young adults	19	50	14	133	51
Men, ages 25 and over	804	253	731	-81	58
Women, ages 25 and over	530	765	1044	100	130
Memo:					
Discouraged workers ²	153	145	-28	n.a.	-42

1. Change from final month of preceding period to final month of period indicated.

2. Annual changes are Q4 to Q4; December 1992 represents the change from 1992:Q3 to 1992:Q4.

2. In June of last year, the BLS released its March 1991 benchmark revision, which revised down the level of payroll employment in March 1991 by 640,000. Recent analysis by the BLS indicated that about 500,000 of the 640,000 downward revision resulted from improved reporting procedures and not sampling error. As a result, when the BLS releases its next benchmark revision, it will lengthen the time period over which the decline is wedged in--possibly to as long as a decade. Thus, the data eventually will show a much smaller drop in employment during the recession than is currently evident.

The stronger growth in household employment also has been accompanied by a pickup in labor supply. The labor force participation rate edged higher in December to 66.3 percent, and for 1992 as a whole, the labor force grew about 1.9 million--the biggest increase since 1989. Most of the gain in participation, as in household employment, occurred among adults. The labor supply of young adults (ages 20 to 24) and teenagers was little changed over the year--in the latter case, though, a marked contrast to declines in 1990-91. In addition, the number of discouraged workers edged lower in the fourth quarter and was about flat for 1992 as a whole.³

Recent data also point to a decline in the number of workers on layoff. The number of job losers moved lower in December, and the number of individuals on permanent layoff has declined gradually in recent months. In addition, involuntary part-time employment edged lower in December and over the year was little changed, suggesting that most of the job growth last year came in full-time employment. The median duration of unemployment held at 9.4 weeks in December and stood about 1-1/2 weeks higher at the end of 1992 relative to December 1991. Such a pattern is typical during the early part of an employment recovery. As labor demand picks up, the flow into unemployment slows, raising the share of longer-term unemployed in total unemployment.

Industrial Production

Activity in the industrial sector continued to improve in the fourth quarter. In December, industrial production rose

3. As reported recently in the press, the BLS plans to revise the household survey questionnaire beginning in January 1994. At this point, how these changes will affect estimates of employment and unemployment is unclear. BLS is currently testing the new form in parallel with the current one: The changes will also alter the definition of part-time workers to include individuals who work more than 35 hours per week at multiple part-time jobs.

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

	Proportion in total IP 1991:Q4	1992 ¹	1992		1992		
			Q3	Q4	Oct.	Nov.	Dec.
			-----Annual Rate-----		-----Monthly Rate-----		
Total index	100.0	2.0	2.3	3.7	.7	.4	.3
Previous			2.1		.5	.4	
Motor vehicles and parts	4.2	6.8	-9.3	24.2	4.3	.8	5.0
EXCLUDING MOTOR VEHICLES AND PARTS:							
Total index	95.8	1.8	2.9	2.8	.6	.4	.1
Products, total	57.1	1.7	2.4	4.1	.8	.3	.0
Final products	42.9	1.9	2.6	4.6	.8	.4	.0
Consumer goods	25.0	1.9	2.8	3.6	.8	.0	-.1
Durables	3.7	1.5	.9	-6.6	-.6	-.2	.8
Nondurables	20.9	2.0	3.2	5.6	1.1	.0	-.3
Excluding energy	18.2	2.3	3.5	5.2	.7	.3	.0
Business equipment	14.6	4.7	5.8	7.3	.8	1.1	.5
Office and computing	2.8	20.5	26.7	20.4	1.6	1.6	1.5
Industrial	3.9	-.9	-.3	3.5	.4	1.9	.5
Other	7.9	1.8	1.3	4.1	.6	.4	.1
Defense and space equip.	4.4	-9.8	-10.6	-8.7	-.7	-.6	-.7
Intermediate products	14.2	1.4	1.8	2.6	.9	.0	-.3
Construction supplies	5.3	3.3	3.7	2.2	1.6	.2	-.4
Materials	38.7	1.9	3.6	1.0	.3	.4	.
Durables	18.2	3.0	3.7	3.9	.9	.8	.
Nondurables	9.0	2.1	3.7	-1.7	-.9	1.0	.1
Energy	10.2	-.2	3.6	-.9	.3	-.7	-.5
Memo:							
Manufacturing	84.9	2.4	2.1	4.0	.7	.5	.5
Manufacturing excluding motor vehicles and parts	80.8	2.1	2.7	3.1	.5	.5	.3
Mining	7.3	-.1	1.3	1.6	.8	.8	.2
Utilities	7.7	.0	7.7	-.1	.6	-1.0	-1.9

1. Growth from the fourth quarter of 1991 to the fourth quarter of 1992

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1967-91		1992		1992		
	Avg.	1992	Q3	Q4	Oct.	Nov.	Dec.
Total industry	82.1	78.8	78.8	79.2	79.0	79.2	79.3
Manufacturing	81.4	77.8	77.8	78.2	77.9	78.2	78.4
Primary processing	82.3	81.5	81.9	82.2	81.8	82.4	82.5
Advanced processing	81.0	76.3	76.2	76.5	76.4	76.5	76.8

0.3 percent, bringing the fourth-quarter advance to 3.7 percent at an annual rate versus 2.3 percent in the third quarter. Strong gains in the production of motor vehicles and parts, business equipment, and nondurable consumer goods contributed to the year-end acceleration in IP.

Motor vehicle assemblies rose sharply in the fourth quarter to a 10.3 million unit pace, from 9.5 million units in the third quarter. Manufacturers' schedules call for a further big increase in assemblies during the first quarter of 1993, to an 11.2 million unit pace. Most of the first-quarter pickup in production is scheduled to be in automobiles, for which assemblies are slated to rise from a 5.7 million unit pace in the fourth quarter to a 6.4 million unit rate in the first quarter. Truck assemblies are scheduled at 4.8 million units this quarter, up from 4.6 million units in the fourth quarter.

PRODUCTION OF DOMESTIC AUTOS AND TRUCKS
(Millions of units at an annual rate; FRB seasonal basis)¹

	1992		1993	1992		1993
	Q3	Q4	Q1	Nov.	Dec.	Jan.
U.S. production	9.5	10.3	11.2	10.0	10.8	11.7
Autos	5.6	5.7	6.4	5.6	6.1	6.7
Trucks	3.9	4.6	4.8	4.5	4.8	5.1
Days' supply ²			-sched.			-sched.-
Autos	68.2	64.3	n.a.	65.9	61.5	n.a.
Trucks	74.7	66.0	n.a.	65.9	72.1	n.a.

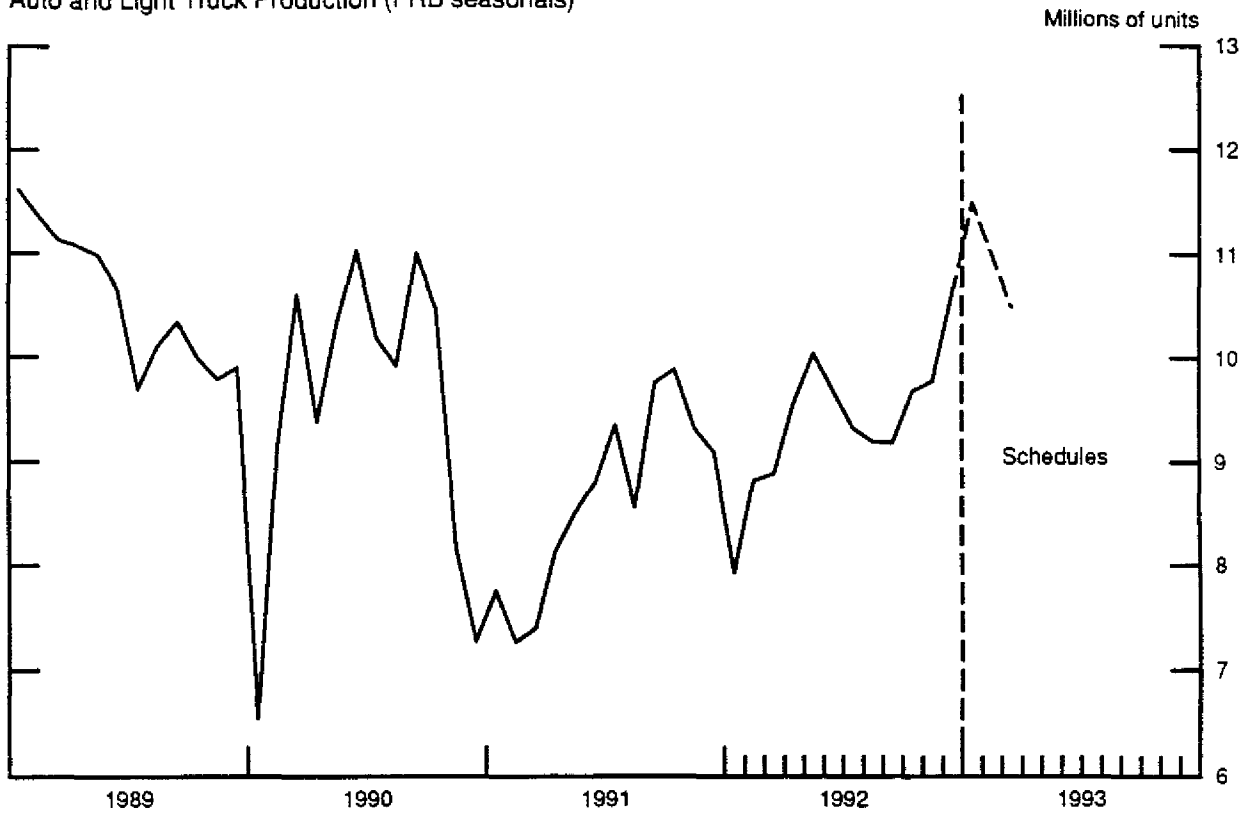
1. Components may not add to totals due to rounding.

2. BEA seasonal basis, end of month.

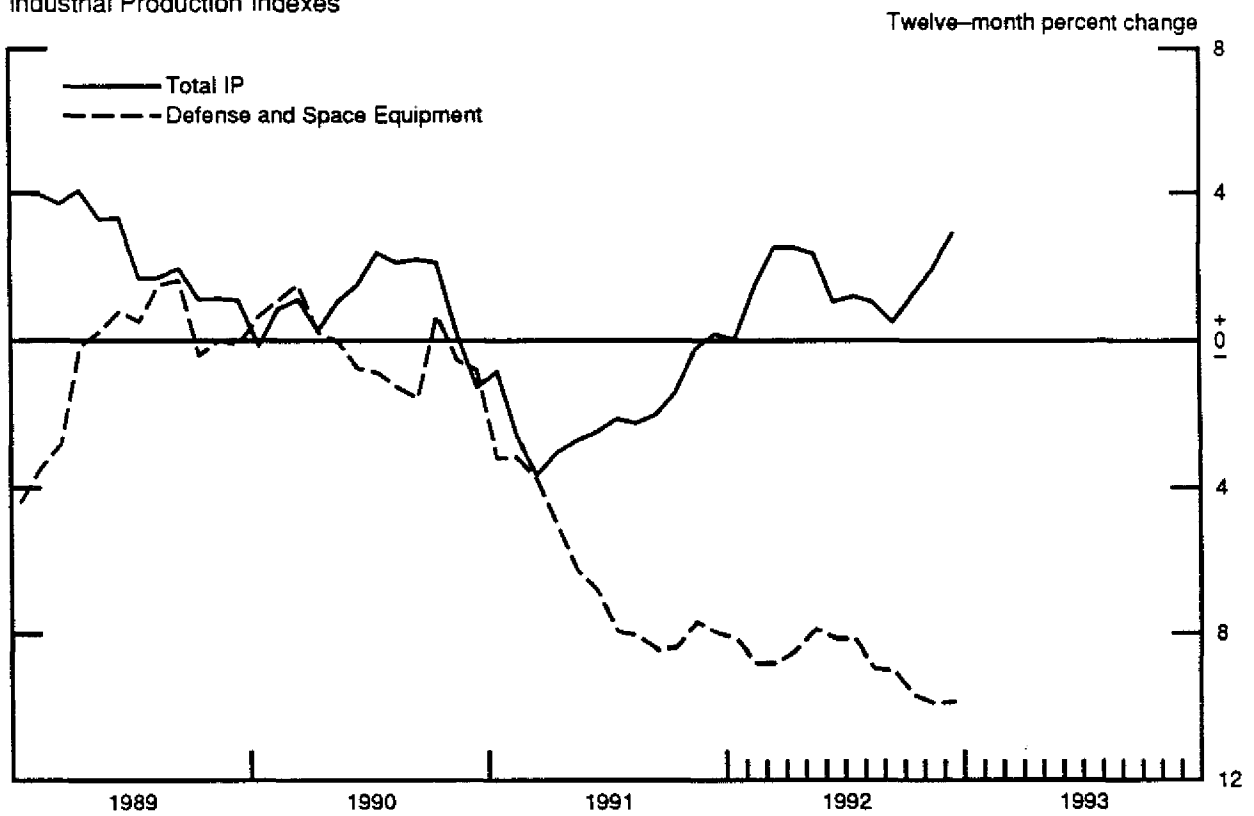
Dealers' inventories of autos and trucks were fairly comfortable at year-end. Stocks of automobiles were at about a 60 days' supply, while inventories of trucks were a little over 70 days. Unless manufacturers see a pickup in the pace of sales relative to the fourth quarter--which has not occurred thus far--they likely will not meet their optimistic first-quarter production

Key Components of Industrial Production

Auto and Light Truck Production (FRB seasonals)



Industrial Production Indexes



schedules. Production data for the first three weeks of January indicate that actual assemblies are running only a bit behind the planned rate, suggesting that what adjustments are necessary will occur in February and March.

Apart from motor vehicles, industrial production increased 2.8 percent at an annual rate in the fourth quarter, about the same rate of advance as in the third quarter. Output of business equipment jumped 7.3 percent (annual rate) in the fourth quarter, following a gain of 5.8 percent in the third quarter. Computer output continued to rise rapidly, and production of industrial and other types of business equipment accelerated. The output of consumer goods other than motor vehicles edged lower in December, but buoyed by a sharp gain in October, the quarterly increase amounted to 3.6 percent at an annual rate.

In contrast, cuts in defense production and the weak demand for commercial aircraft exerted a significant drag on IP throughout 1992 and likely will continue to do so in 1993. Production of defense and space equipment, which constituted about 4-1/2 percent of total IP at the end of 1991, fell nearly 10 percent last year. The direct effect of this decline was to lower growth of total IP about 1/2 percentage point; indirect effects might have raised the drag from defense cuts last year to a full percentage point. In addition, output of commercial aircraft fell more than 5 percent during 1992, and the production rate for aircraft at Boeing is scheduled to drop roughly an additional 20 percent by the end of this year. Currently, commercial aircraft and parts make up about 2 percent of IP, and should Boeing go through with its scheduled production cuts for 1993, total growth in IP this year would be directly reduced about 1/4 to 1/2 percentage point.

Although a continued drag from defense and aircraft seems likely, other areas of the industrial sector are poised to post gains in the near term. Real adjusted durable goods orders have risen steadily in recent months. Moreover, business inventories appear relatively lean, suggesting that any further strengthening in final demand should translate relatively quickly into increased production. Weekly production data for January indicate that although electricity generation has weakened, coal mining and lumber production appear to have started the month fairly strongly. Prices of industrial commodities have firmed in recent weeks, suggesting that manufacturing activity has been strengthening.

NEW ORDERS FOR DURABLE GOODS
(Percent change from preceding period; seasonally adjusted)

	1992			1992		
	Q2	Q3	Oct-Nov	Sept.	Oct.	Nov.
Total durable goods	2.6	-1.7	3.7	.4	4.6	-1.9
Office and computing	4.4	2.0	-.7	-4.4	-3.6	9.4
Nondefense capital goods ¹	-.6	2.6	2.3	10.0	-1.1	-2.1
Other	3.8	.8	1.0	-.6	2.2	-.2
Defense capital goods	.9	-18.3	23.7	-20.0	43.9	-8.6
Memo:						
Real adjusted durable goods ²	3.1	2.0	1.4	1.7	.6	.6

1. Excludes aircraft and computers.

2. Orders excluding defense capital goods, nondefense aircraft, motor vehicle parts, and those not reporting unfilled orders, deflated by the PPI for durable goods excluding transportation equipment and the BEA deflator for office, computing, and accounting machinery.

With the recent increase in IP, capacity utilization moved up to 79.3 percent by the end of 1992, 0.6 percentage point above its year-ago level but still nearly 3 percentage points below its 1967-91 average. Capacity utilization for primary processing manufacturing industries has returned to 82.5 percent, just above its long-run average.

Personal Income and Consumption

Consumer spending was up sharply on average in the fourth quarter. Total nominal retail sales rose 1.2 percent in December, boosted, in part, by strong spending at auto dealers and building material and supply stores. The retail control component of spending, which excludes these two components of sales, rose a more modest 0.4 percent in December, but for the fourth quarter as a whole, spending at the retail control group of stores advanced 7.0 percent (annual rate) from the previous quarter. Among the components of control, sales were down last month at general merchandise and furniture and appliance establishments but were up smartly in food and in the other durable and nondurable categories.

The decline in sales at general merchandise stores in December seems at odds with the glowing news reports about the strength of sales during the holiday season. The contrast may reflect the tendency of the press--and of businesses--to focus on year-over-year comparisons rather than monthly growth rates, and sales at these stores already had risen appreciably in October and in November. On a year-over-year basis, nominal sales at these stores in December were up about 10 percent--similar to the increases in department store and chain store sales that have received the most attention in the press.

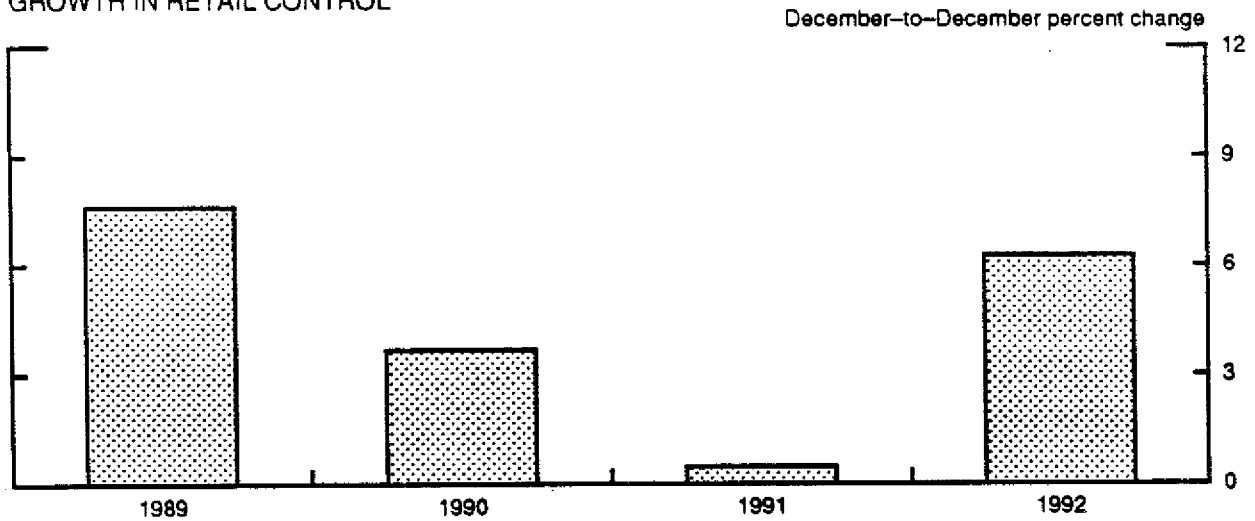
In the motor vehicle sector, sales of North American produced light vehicles fell to about a 10 million unit annual rate during the first twenty days of January from an 11 million unit rate in December. Part of the decline is attributable to a contest between the Honda Accord and Ford Taurus at year-end, which boosted December auto sales by an estimated 1/2 million units. In addition, sales of transplants (other than the Accord) fell, likely hurt by the expiration early this month of numerous dealer incentive packages.

Percent Changes in Selected Categories of Retail Sales

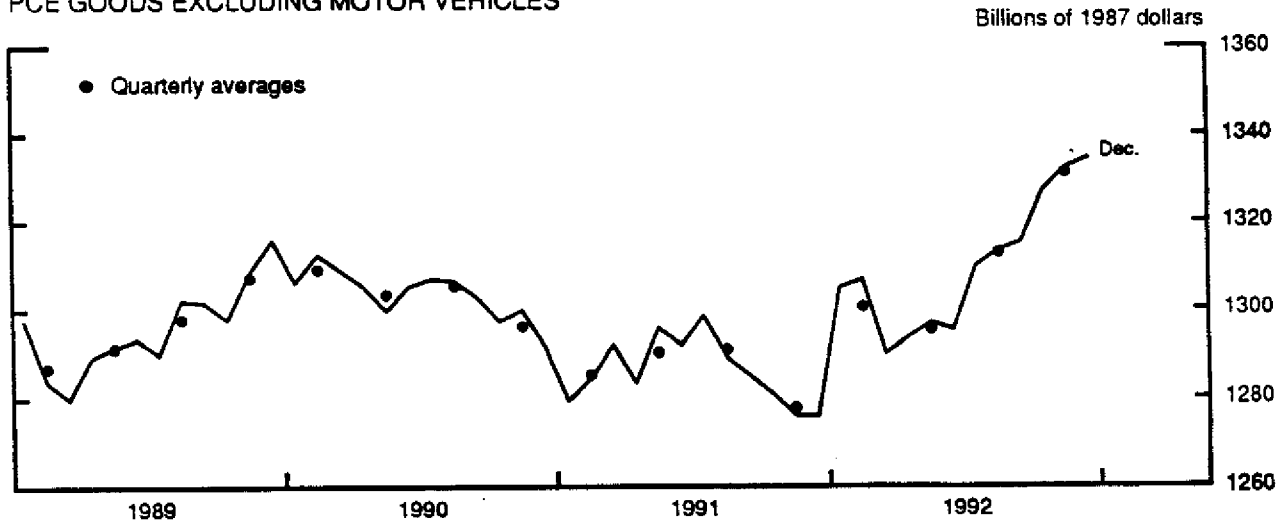
	Dec. 91 to Dec. 92	Nov. 92 to Dec. 92
Retail Sales	8.0	1.2
Retail control	6.2	.4
GAF*	10.3	-.5
General merchandise	10.3	-.6

* General merchandise, apparel, furniture, and appliance stores

GROWTH IN RETAIL CONTROL



PCE GOODS EXCLUDING MOTOR VEHICLES*



* October, November, and December are staff estimates.

SALES OF AUTOMOBILES AND LIGHT TRUCKS¹
(Millions of units at an annual rate; BEA seasonals)

	1991	1992	1992			1992		
			Q2	Q3	Q4	Nov.	Dec.	Jan. ² 1-20
Total	12.30	12.85	12.99	12.59	13.24	12.99	13.24	12.20
Autos	8.39	8.38	8.50	8.21	8.38	8.19	8.66	7.83
Light trucks	3.91	4.46	4.49	4.38	4.86	4.81	4.58	4.37
North American ³	9.73	10.51	10.57	10.41	11.02	10.78	11.02	9.93
Autos	6.14	6.28	6.32	6.24	6.38	6.20	6.65	5.78
Big Three	4.99	5.10	5.17	4.94	5.18	5.06	5.30	4.87
Transplants	1.14	1.18	1.15	1.30	1.20	1.14	1.34	0.91
Light trucks	3.59	4.23	4.25	4.17	4.65	4.58	4.37	4.15
Foreign produced	2.57	2.34	2.43	2.18	2.22	2.21	2.22	2.27
Autos	2.25	2.11	2.18	1.97	2.01	1.99	2.01	2.05
Light trucks	.32	.23	.24	.20	.21	.22	.21	.22

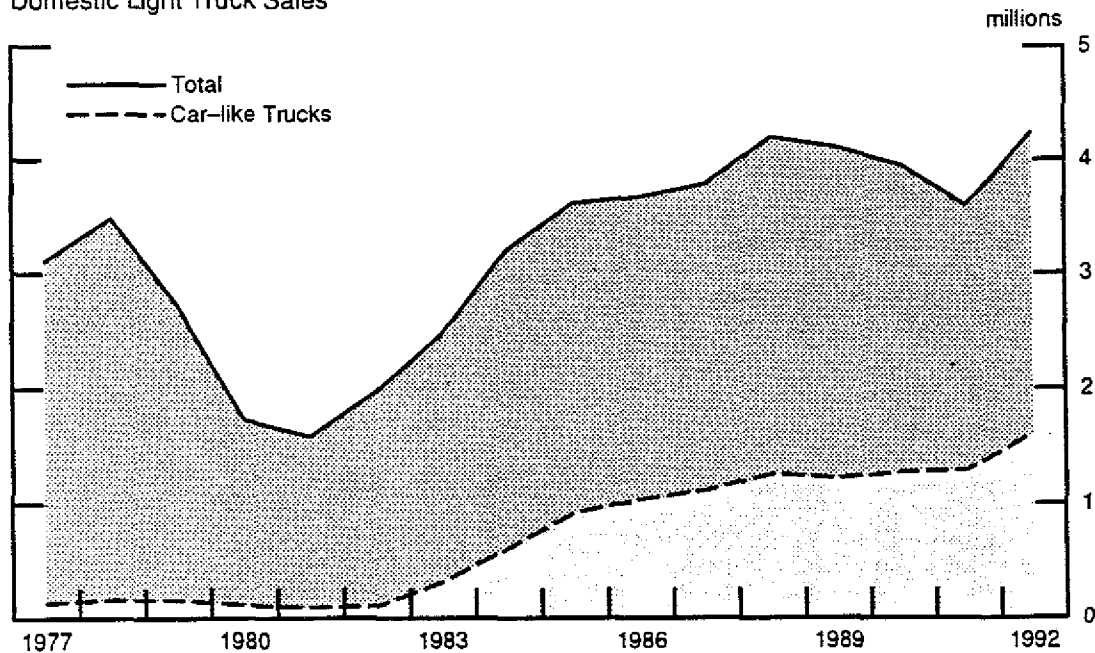
Note: Data on sales of trucks and imported autos for the current month are preliminary and subject to revision.

1. Components may not add to totals because of rounding.

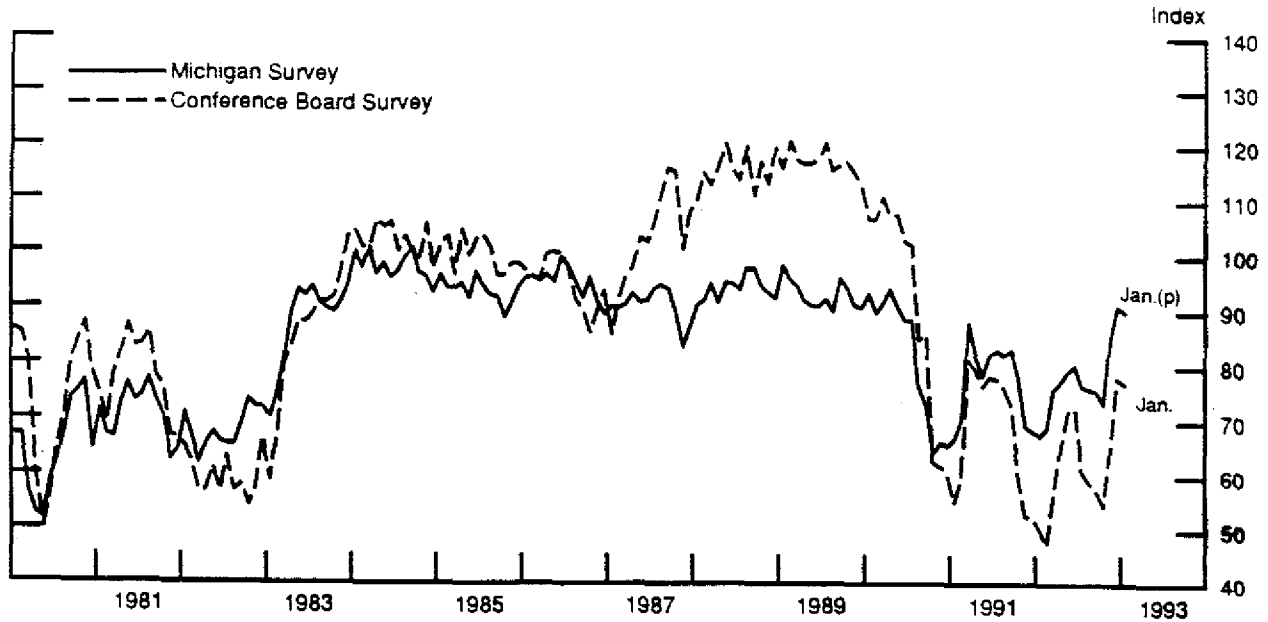
2. Sales of North-American produced vehicles are actual data; sales of imported vehicles are staff estimates.

3. Excludes some vehicles produced in Canada and Mexico that are classified as imports by the industry.

Domestic Light Truck Sales



CONSUMER SENTIMENT



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

	1991	1992			1992	
		Q1	Q2	Q3	Oct.	Nov.
Total personal income	12.8	21.6	9.6	14.1	58.3	10.7
Wages and salaries	5.2	11.3	3.6	7.5	20.6	20.9
Private	3.8	8.6	.9	7.5	16.4	21.8
Other labor income	1.5	1.4	1.4	1.4	1.5	1.4
Proprietors' income	.1	7.1	-4.2	5.3	22.4	-8.5
Farm	-.3	1.7	-5.9	2.6	16.9	-13.1
Rent	.6	-.1	3.7	-.6	-7.9	1.1
Dividend	-.8	.1	1.2	1.5	1.5	1.5
Interest	-.6	-8.6	-.8	-5.5	-3.0	-1.5
Transfer payments	7.8	12.2	5.3	5.3	9.0	-2.8
Less: Personal contributions for social insurance	1.1	1.9	.6	.7	1.6	1.5
Less: Personal tax and nontax payments	-.1	-5.0	3.3	4.4	5.9	6.1
Equals: Disposable personal income	12.9	26.6	6.3	9.7	52.4	4.6
Memo: Real disposable income	1.2	9.8	-1.9	1.9	27.5	-4.3

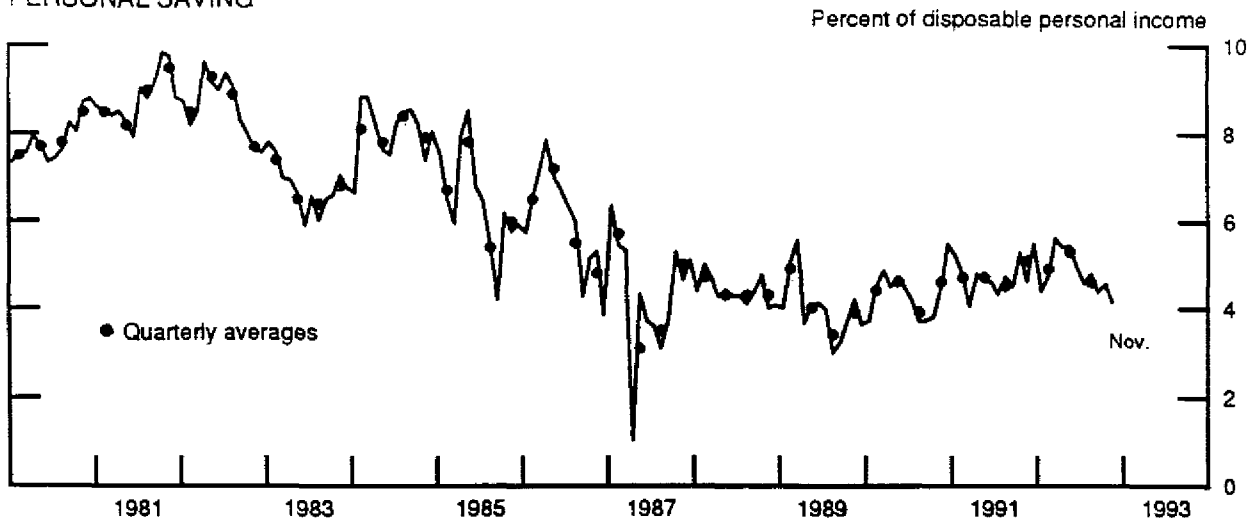
For 1992 as a whole, lower financing costs and relatively small price increases helped boost sales of light vehicles (including imports) to 12.85 million units--1/2 million units above sales in 1991.⁴ The sales pace remained well below prerecession levels, however. Sales of automobiles last year about matched sales in 1991, with stronger sales of North American produced autos offsetting declines in imports. Sales of light trucks in 1992 were 1/2 million units higher than in 1991, reflecting increases in both the car-like truck segment (such as minivans and sport-utility vehicles) and other light trucks.

Growth of personal income also picked up in October and November, though by less than consumer spending. The monthly movements were distorted by a variety of special factors, but real disposable income rose, on balance, at a 3 percent annual rate in October and November. However, even adjusting for the temporary impact of a winter storm on earnings during the survey week, data from the December labor market report suggest that wage and salary income was little changed for the month, after solid gains in the prior two months.

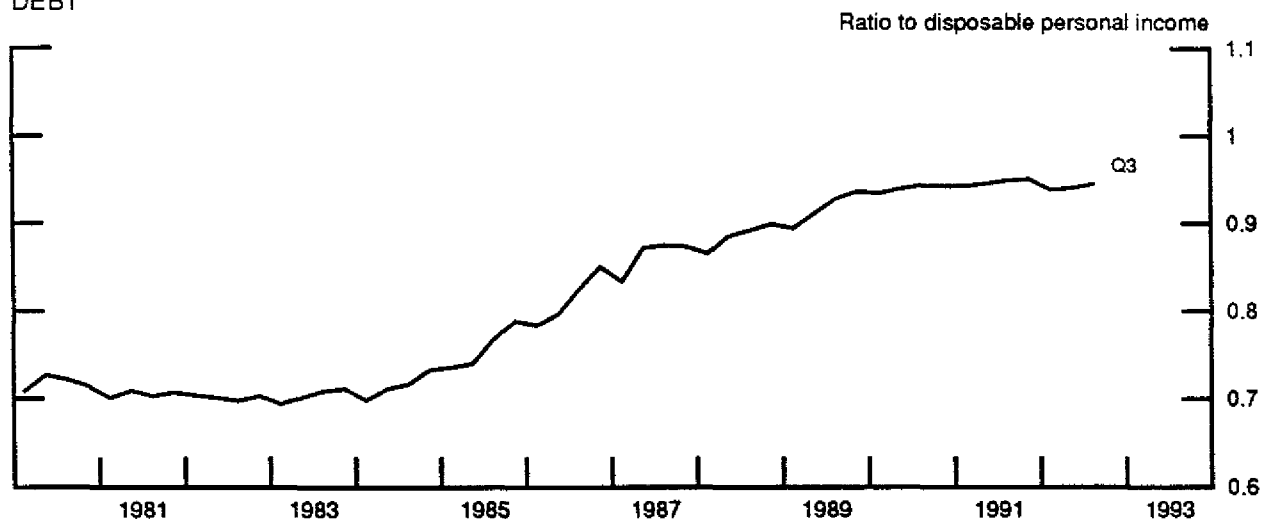
Reflecting the recent movements in spending and income growth, the personal saving rate likely edged down further in the fourth quarter, after falling 3/4 percentage point in the third quarter. The drop in the saving rate in the second half of last year comes on the heels of a prolonged period of cautious spending and a discernible uptrend in the saving rate from mid-1989 to mid-1992. The recent decline in the saving rate may be associated, at least partly, with reductions in household debt service burdens over the past two years. In addition, consumer sentiment has improved

4. As measured by the CPI, automobile prices increased 2.3 percent in 1992 versus 3.3 percent in 1991. Prices for trucks rose 2.5 percent in 1992 compared with 3.0 percent in 1991.

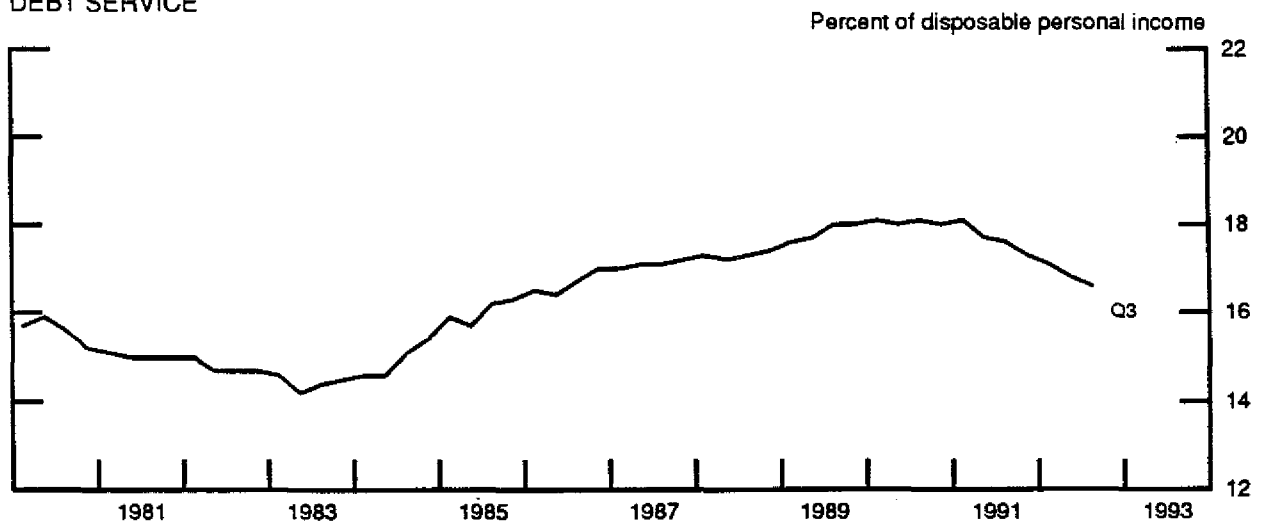
PERSONAL SAVING



DEBT



DEBT SERVICE



sharply since its recent trough in October, according to survey evidence. Although changes in consumer sentiment typically reflect recent gains in income and employment, the rise in sentiment since October seems to exceed the strength posted by these indicators and evidently reflects to a degree increased optimism about the role of government economic policy. Greater confidence could, of course, reduce precautionary saving.

Housing Markets

Housing activity rose further at year-end. Total private housing starts increased 5.5 percent in December, as single-family starts jumped to 1.13 million units--the highest level in nearly three years--and multifamily starts moved above the extraordinarily low levels of October and November. An even larger increase in permits helped to restore a typical alignment of starts and permits and gave added credence to the rise in starts observed in recent months. For all of 1992, 1.20 million units were started, the highest level since 1989.

Other indicators of single-family housing generally point to a strengthening in demand. Sales of existing homes increased 5 percent in December. And, although the preliminary estimate of new home sales in November showed an 8-1/4 percent decline, the prevalence of positive revisions to the preliminary estimates of new home sales throughout 1992 suggests a strong likelihood that the November figure also will be revised upward.⁵ Furthermore, consumer attitudes toward homebuying and builders' assessments of new home sales strengthened in November and December, lending

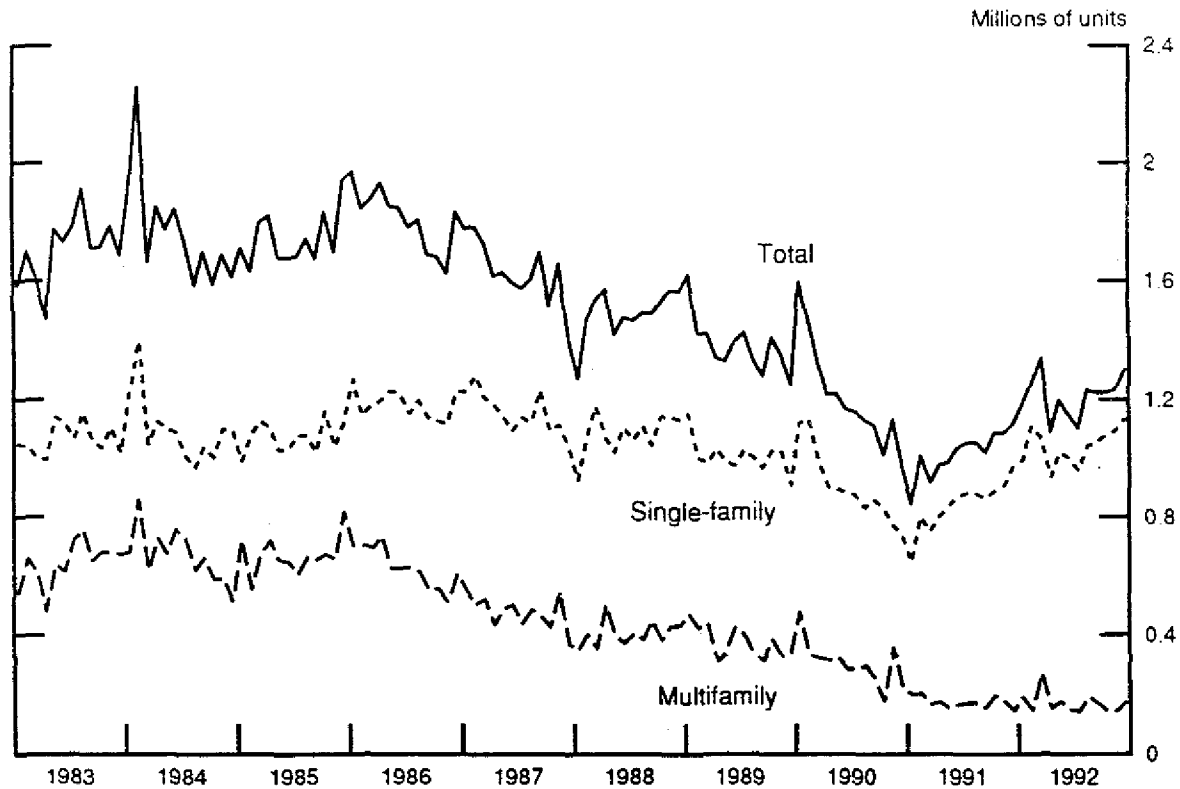
5. From the preliminary estimate to the final estimate, the average revision for the first eight months of 1992 was almost 38,000 units. Next month, with the release of the December estimate, Census will implement a new procedure to address the underestimation problem.

PRIVATE HOUSING ACTIVITY
(Millions of units; seasonally adjusted annual rates)

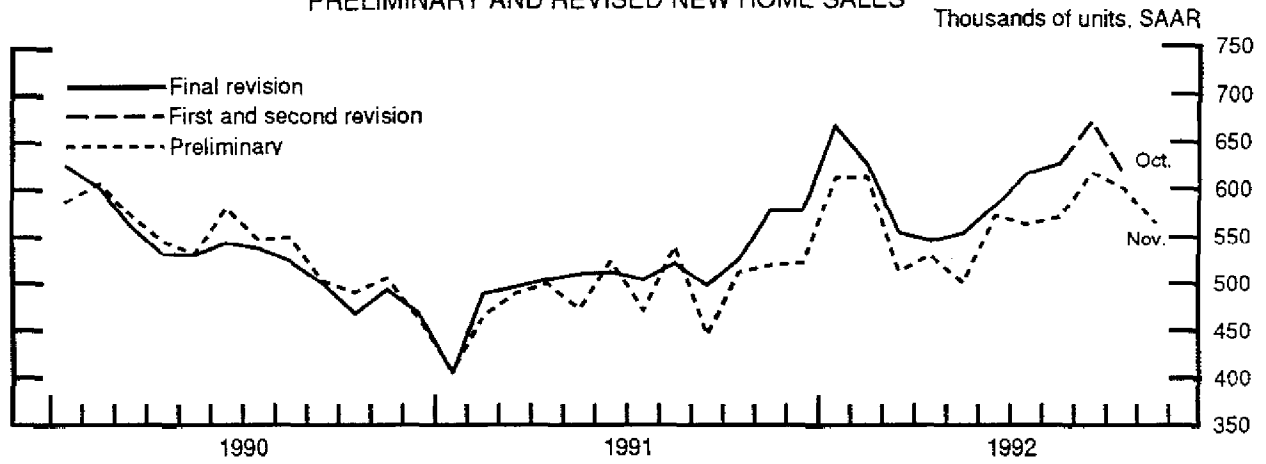
	1992		1992		1992		
	Annual	Q2	Q3	Q4 ^r	Oct. ^r	Nov. ^r	Dec. ^p
All units							
Starts	1.20	1.14	1.19	1.25	1.22	1.23	1.30
Permits	1.11	1.05	1.09	1.16	1.14	1.13	1.21
Single-family units							
Starts	1.03	.98	1.02	1.10	1.08	1.09	1.13
Permits	.92	.88	.89	.99	.96	.96	1.05
Sales							
New homes	n.a.	.56	.64	n.a.	.62	.57	n.a.
Existing homes	3.50	3.43	3.35	3.83	3.64	3.83	4.02
Multifamily units							
Starts	.17	.16	.17	.15	.15	.14	.17
Permits	.19	.17	.20	.17	.18	.17	.16

p Preliminary. r Revised estimates. n.a. Not available.

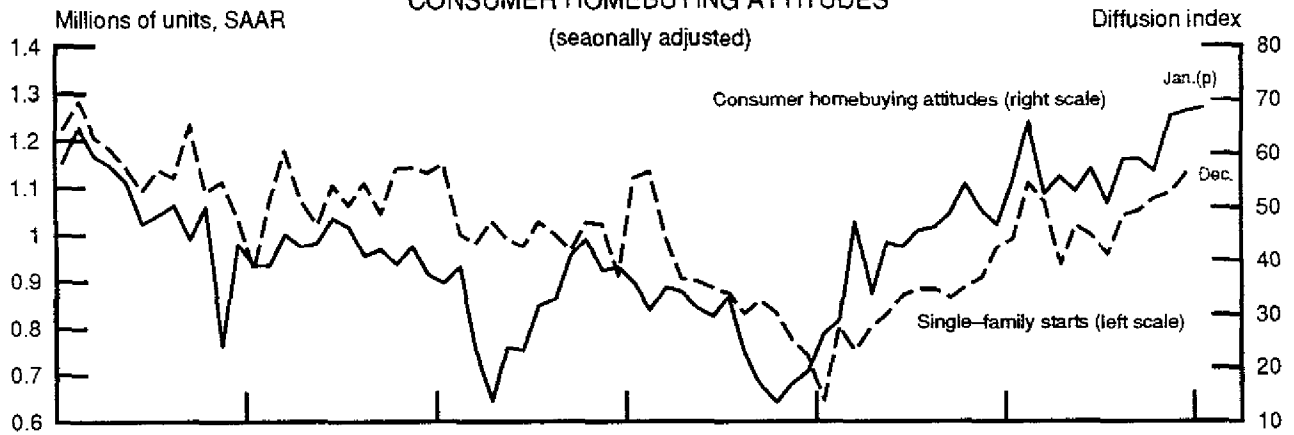
PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



PRELIMINARY AND REVISED NEW HOME SALES

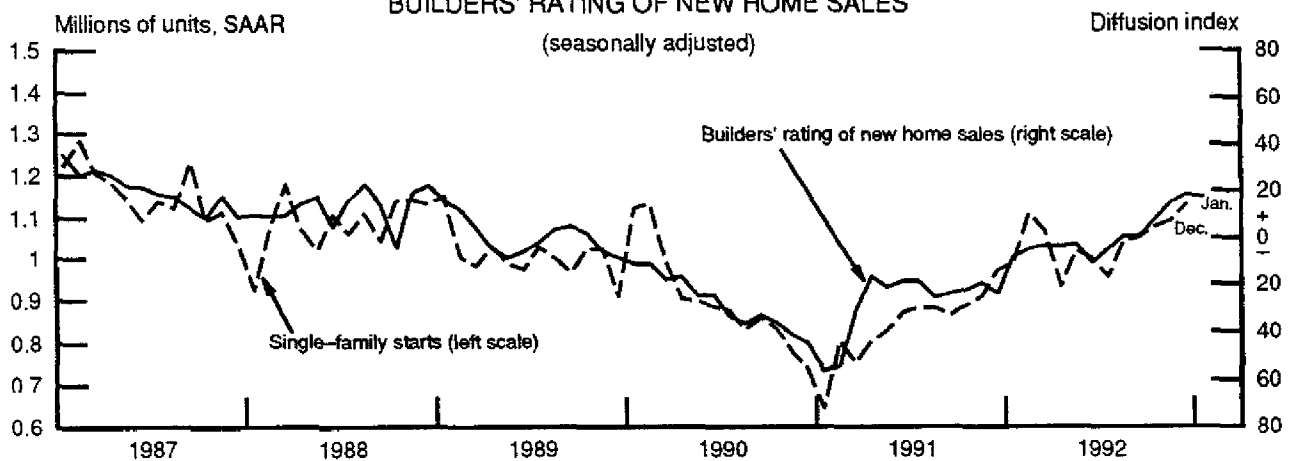


CONSUMER HOMEBUYING ATTITUDES¹



¹ The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

BUILDERS' RATING OF NEW HOME SALES



² The index is calculated from National Association of Homebuilders data as the proportion of respondents rating current sales as good to excellent minus the proportion rating them as poor.

support to the view that housing activity remains on a course of moderate expansion.

Attitudes of households toward selling a home have been considerably more downbeat recently compared with their attitudes toward homebuying. Roughly 80 percent of all households responding to the Michigan consumer sentiment survey in late 1992 rated homebuying conditions as good, primarily reflecting low interest rates and relatively low home prices. However, almost two-thirds of those homeowners, when asked a set of special questions on selling, felt that it was a bad time to sell a house, primarily because home prices were perceived to be too low. Homeowners also frequently mentioned that they would lose money if they were to sell their house now, and they expressed concern that many prospective buyers would not be able to afford a home, even with lower prices. These contrasting assessments of the conditions for buying and selling homes are consistent with anecdotal reports that the "trade-up" portion of the home market continues to be relatively dormant, at the same time that sales of homes to first-time buyers are brisk.

In the multifamily sector, construction continues to be impeded by a persistent oversupply of rental apartments and the resulting restraint on rents. Starts rose in December to an annual rate of 172,000 units, but that increase was from an unusually low level. Indeed, the average level of multifamily starts in 1992--171,000 units--was the lowest annual figure on record, dating back to 1959. The vacancy rate for rental apartments edged down to 8.9 percent in the fourth quarter of 1992 from 9.2 percent during the same period in the previous year. This suggests a slight reduction in the overhang of apartment units.

Business Fixed Investment

Real outlays for business fixed investment likely increased moderately through November, with higher spending on both producers' durable equipment and nonresidential structures. Moreover, the available data on capital goods orders appear consistent with a further rise in investment spending in early 1993.

For equipment, the data point to an increase in spending on all major categories of capital equipment except aircraft. October and November shipments of nondefense capital goods excluding aircraft were, on average, 3/4 percent above their third-quarter level (in nominal terms). As has been the case all year, sales of office and computing equipment have accounted for much of the increase in shipments in recent months. However, in contrast to the first three quarters of 1992, when fierce competition among producers and the resultant dramatic price declines led to a striking surge in demand, the real growth rate of these shipments apparently slowed as the price declines moderated. In addition, industry contacts have suggested that the fourth-quarter demand for some types of computing equipment may have been damped by the anticipation of the introduction of the faster microprocessors in early 1993.⁶ After increasing earlier in the year, shipments of equipment excluding aircraft and computers edged lower in the first two months of the fourth quarter but still appear to be on an upward trend. Business purchases of heavy trucks increased 5.8 percent in the fourth quarter, and automobile and light truck purchases shot up, as end-of-year price incentives lured business customers into the market.

In contrast, domestic outlays for civil aircraft appear to have dropped considerably in October and November. Data from the major

6. The gain from waiting may be quite large. PCs based on the new Pentium chip, for example, are expected to triple the speed of the current top-of-the-line models and demand only a 50 percent price premium.

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

	1992			1992		
	Q1	Q2	Q3	Sep.	Oct.	Nov.
<u>Producers' durable equipment</u>						
Shipments of nondefense capital goods	.5	1.4	.8	2.8	-.9	3.4
Excluding aircraft and parts	.2	2.6	3.0	3.4	-1.8	2.2
Office and computing	5.0	3.8	.2	-3.0	-3.6	12.3
All other categories	-1.2	2.3	3.9	5.4	-1.3	-.5
Shipments of complete aircraft ¹	64.6	-12.7	-18.1	7.6	-16.1	.5
Sales of heavy weight trucks	7.1	5.9	2.0	4.6	6.8	-7.0
Orders of nondefense capital goods	2.5	-.4	-3.6	8.6	3.6	-9.5
Excluding aircraft and parts	4.0	.5	2.5	6.5	-1.7	.4
Office and computing	9.2	4.4	2.0	-4.4	-3.6	9.4
All other categories	2.6	-.6	2.6	10.0	-1.1	-2.1
<u>Nonresidential structures</u>						
Construction put-in-place	.6	.6	-3.7	4.0	1.0	2.0
Office	-4.9	-6.7	-11.2	.4	1.2	1.2
Other commercial	1.5	3.8	-2.0	10.5	3.2	.1
Industrial	2.4	-6.0	-8.2	6.5	-2.1	2.1
Public utilities	5.2	2.5	-2.1	2.7	-.1	.2
All other	-2.7	6.2	.9	1.0	2.3	6.1
Rotary drilling rigs in use	-5.1	-.9	.9	-1.0	9.7	4.7
Footage drilled ²	-17.3	-4.5	3.1	-4.9	33.7	-19.9
Memo:						
Business fixed investment ³	3.0	16.1	3.1	n.a.	n.a.	n.a.

1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines." Monthly data are seasonally adjusted using FRB seasonal factors constrained to BEA quarterly seasonal factors. Quarterly data are seasonally adjusted using BEA seasonal factors.

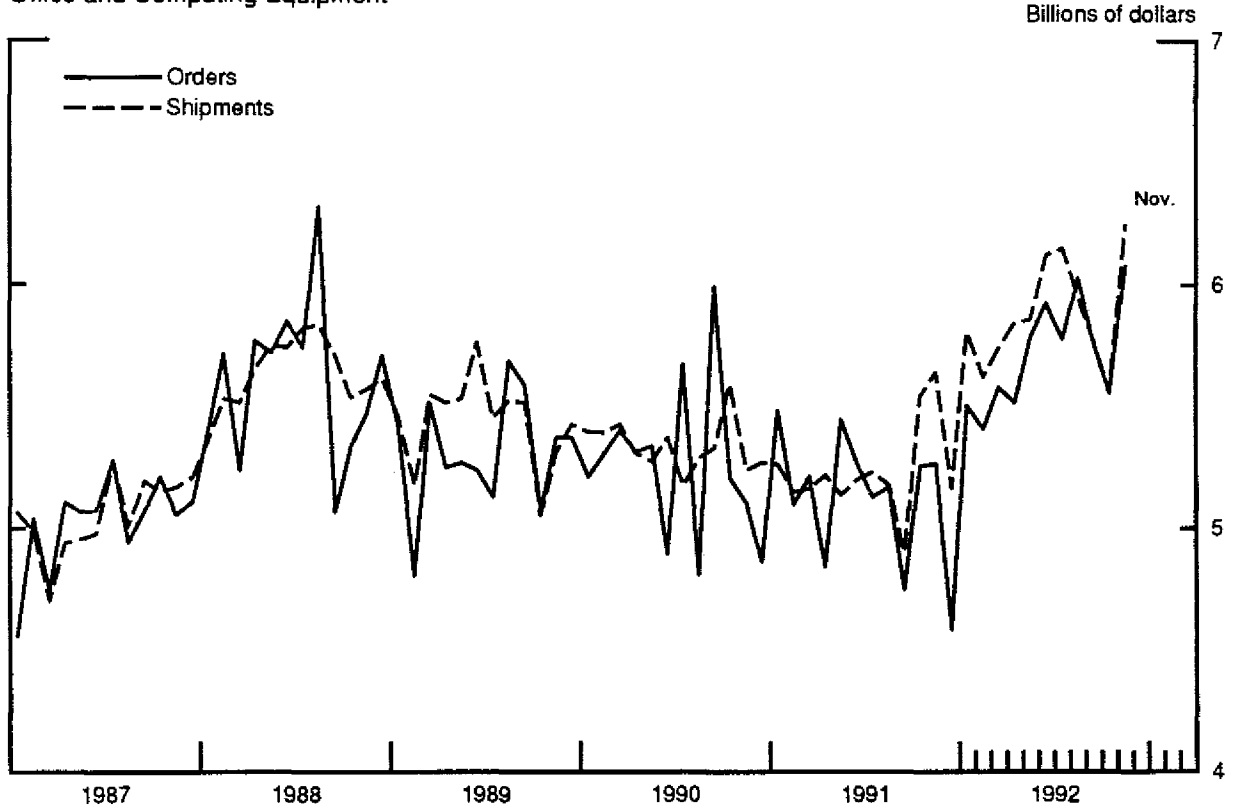
2. From Department of Energy. Not seasonally adjusted.

3. Based on constant-dollar data; percent change, annual rate.

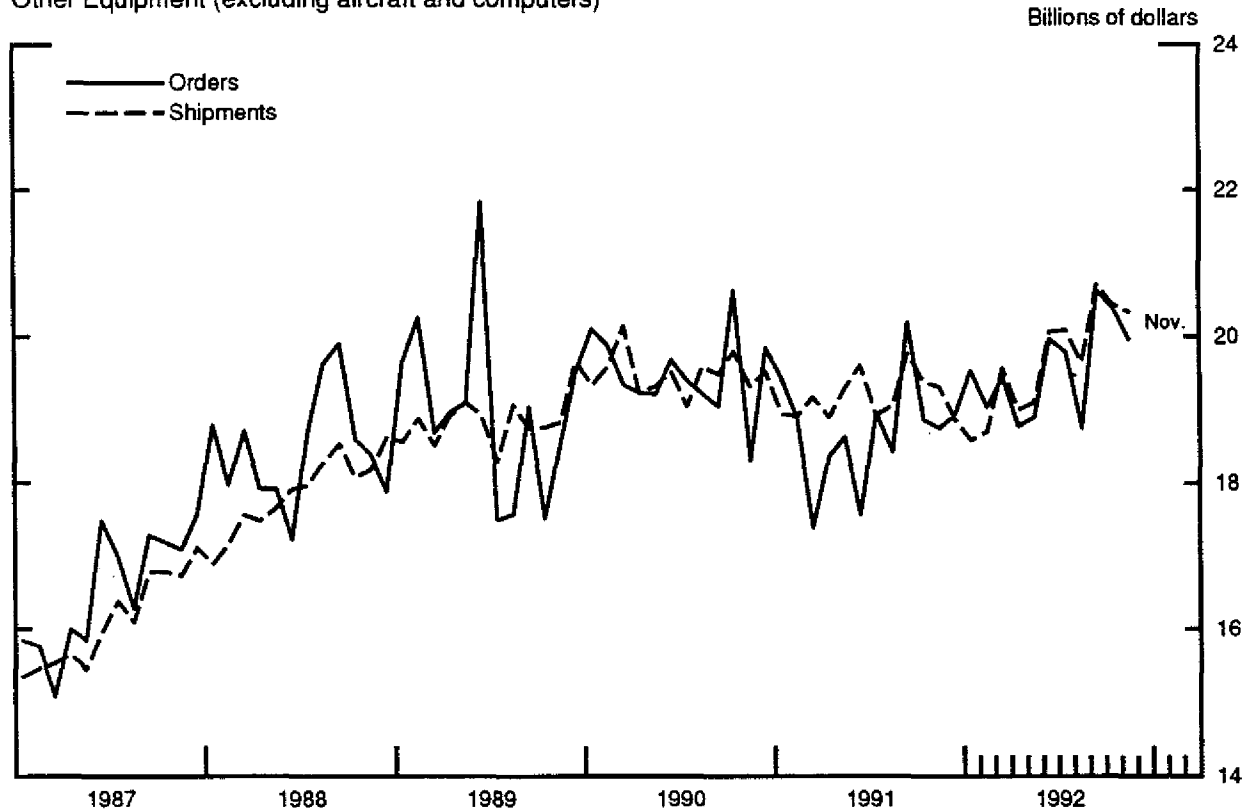
n.a. Not available.

RECENT DATA ON ORDERS AND SHIPMENTS

Office and Computing Equipment



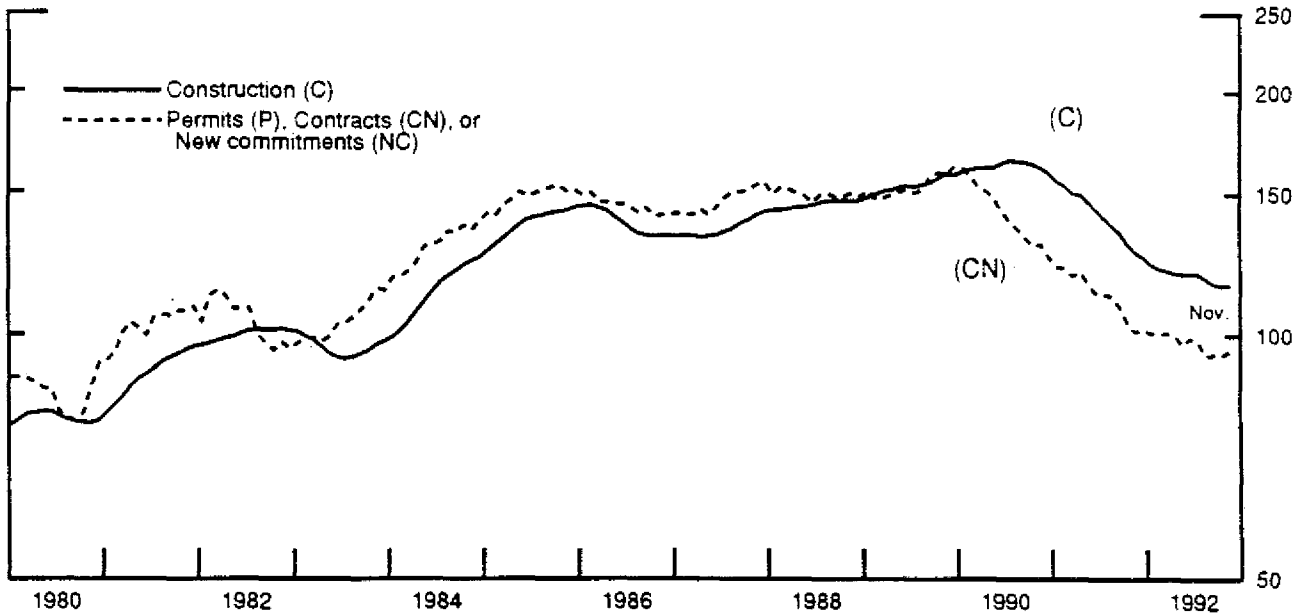
Other Equipment (excluding aircraft and computers)



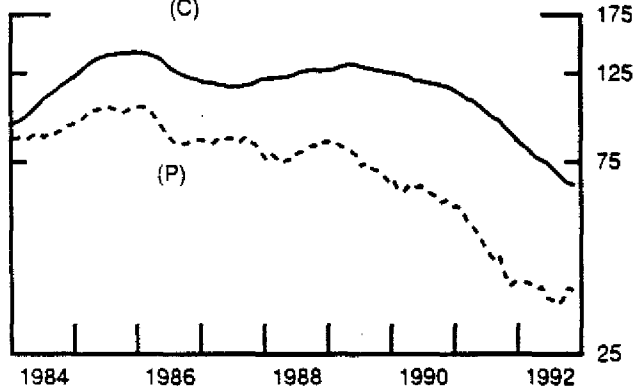
NONRESIDENTIAL CONSTRUCTION AND SELECTED INDICATORS*

(Index, Dec. 1982 = 100, ratio scale)

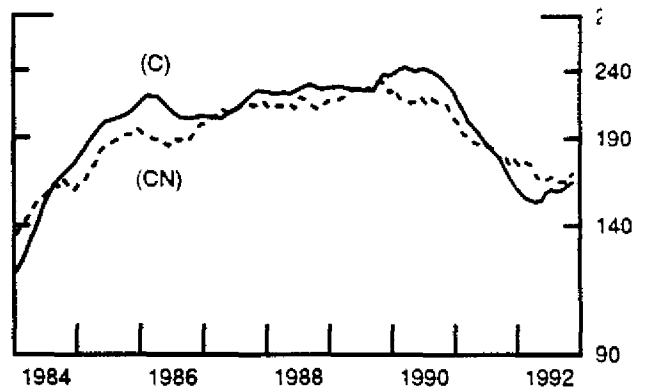
Total Building



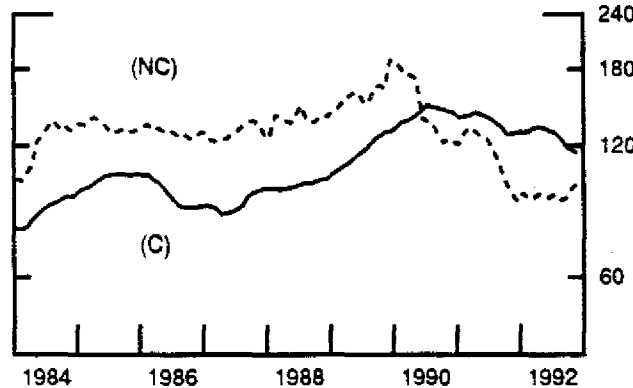
Office



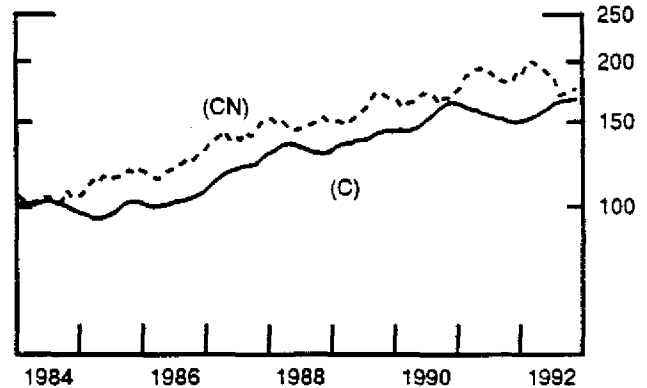
Other Commercial



Industrial



Institutional



*Six-month moving average for all series shown. For contracts, total only includes private, while individual sectors include private and public. New commitments are the sum of permits and contracts.

manufacturers suggest that fourth-quarter shipments will be well below the third-quarter level, with shipments to domestic carriers hit the hardest. Looking ahead, recent press reports indicate a further weakening in the aircraft market for 1993 and 1994. For example, Northwest has delayed taking delivery of several planes until 1994, and United is in negotiations with Boeing concerning the deferral of up to 50 planes scheduled for delivery this year. The recent news of large orders by the leasing group, ILFC, and by the United Parcel Service, will not alter the bleak outlook for deliveries over the next two years.

The Commerce Department's fall (October-November) survey of capital spending plans for 1993 indicates that firms expect to increase nominal outlays for plant and equipment 5.3 percent this year. If realized, these plans would represent a moderate acceleration of spending from the 3.6 percent increase now anticipated for 1992. The planned increase in expenditure is widespread, with the notable exception of the aircraft and airline industries, in which outlays are expected to decline 21 and 11 percent respectively. Past experience suggests that the survey's results are a noisy indicator of plant and equipment spending, and actual outlays have fallen short of anticipated levels in each of the last three years.⁷

Outlays for nonresidential structures, which dropped sharply in late summer, retraced virtually all of this decline by November.⁸

7. The survey is designed to be an indicator of plant and equipment spending. Plant and equipment spending and business fixed investment are independent measures of investment outlays. Plant and equipment spending is measured by tracking expenditures, whereas business fixed investment is calculated by tracking shipments and construction put-in-place. In the past, the realized values of these two different measures of investment activity have been very highly correlated.

8. The regional Dodge contracts data suggest that the 1992 decline was particularly large in California, which accounts for about 15 percent of total contracts. Through November, cumulative (Footnote continues on next page)

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

	1992			1992		
	Q1	Q2	Q3	Sep.	Oct.	Nov.
Current-cost basis						
Total	-7.9	22.7	14.3	-18.2	16.0	16.5
Excluding auto dealers	-13.7	16.1	16.7	-12.2	23.4	12.4
Manufacturing	-11.2	-1.5	6.1	-14.5	-8.2	-23.2
Defense aircraft	-1.0	-4.4	-9.5	-13.3	3.4	-9.6
Nondefense aircraft	-3.1	-3.5	3.6	5.0	-1.6	-2.1
Excluding aircraft	-7.1	6.3	12.1	-6.1	-9.9	-11.5
Wholesale	-1.2	6.1	-1.1	-13.8	21.5	22.4
Retail	4.5	18.1	9.3	10.1	2.7	17.3
Automotive	5.8	6.6	-2.3	-6.0	-7.5	4.2
Excluding auto dealers	-1.3	11.5	11.7	16.1	10.2	13.2
Constant-dollar basis						
Total	-13.2	7.4	10.1	-23.9	-31.9	n.a.
Excluding auto dealers	-18.0	1.9	8.5	-19.9	-22.6	n.a.
Manufacturing	-8.7	-6.5	3.9	-16.0	-5.5	n.a.
Wholesale	-4.9	2.1	-3.5	-15.1	-16.2	n.a.
Retail	.5	11.0	9.7	7.2	-10.3	n.a.
Automotive	4.8	5.5	1.6	-4.0	-9.3	n.a.
Excluding auto dealers	-4.4	6.3	8.1	11.2	-1.0	n.a.

INVENTORIES RELATIVE TO SALES¹
(Months supply; based on seasonally adjusted data)

	1992			1992		
	Q1	Q2	Q3	Sep.	Oct.	Nov.
Current-cost basis						
Total	1.52	1.51	1.50	1.50	1.49	1.49
Excluding auto dealers	1.50	1.49	1.48	1.47	1.47	1.47
Manufacturing	1.62	1.57	1.57	1.56	1.57	1.55
Defense aircraft	5.84	5.86	5.37	5.25	5.57	5.65
Nondefense aircraft	4.58	4.60	5.19	5.21	5.01	4.58
Excluding aircraft	1.45	1.41	1.41	1.41	1.41	1.39
Wholesale	1.36	1.36	1.32	1.33	1.33	1.34
Retail	1.54	1.57	1.56	1.55	1.52	1.53
Automotive	1.85	1.90	1.86	1.84	1.72	1.76
Excluding auto dealers	1.46	1.48	1.48	1.47	1.46	1.47

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

The average for October and November was about 3 percent above the third-quarter level. Most of the components of nonresidential structures were either up or steady in the fourth quarter of 1992. Office construction, which had declined sharply in the second and third quarters, held steady through November at its third-quarter level. Commercial construction other than office buildings increased 6-1/2 percent in October and November, while "all other" construction (which includes institutional buildings, hotels, motels, and miscellaneous construction and makes up about one-quarter of total construction) was 5-1/2 percent above its third-quarter level. In addition, drilling and mining activity surged, as producers raced to qualify for the expiring Section 29 tax credit, amounting to a \$6 per "oil-equivalent" barrel subsidy for natural gas as well as some types of oil and coal. On the whole, the new commitments data suggest that outlays for nonresidential construction (excluding drilling and mining) have hit bottom, although with little sign of an impending pickup in activity.

Business Inventories

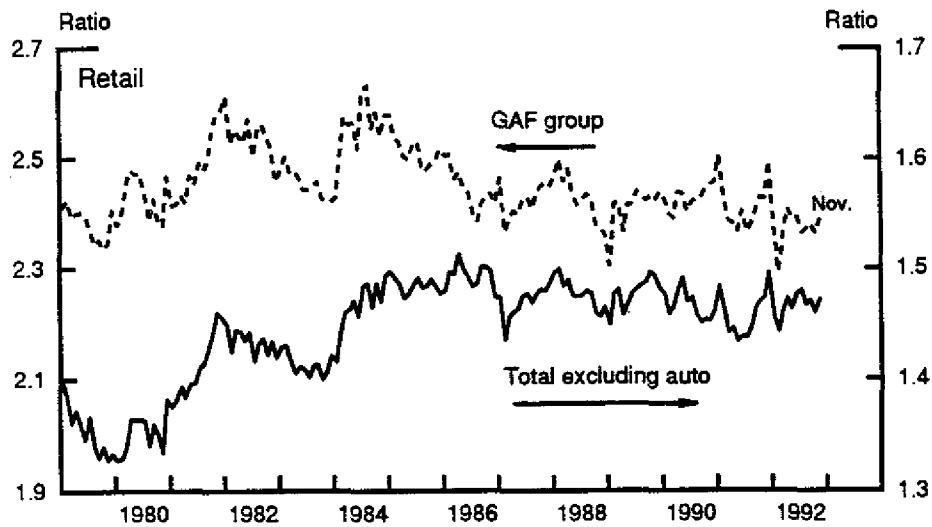
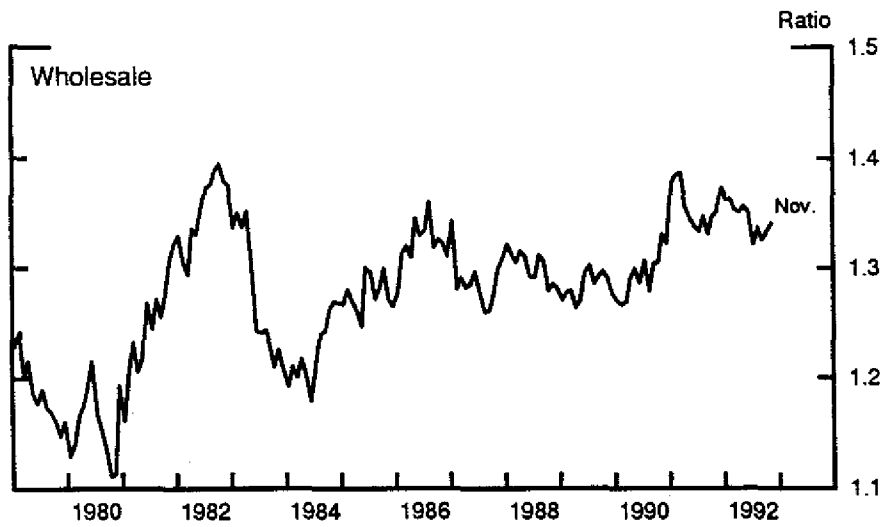
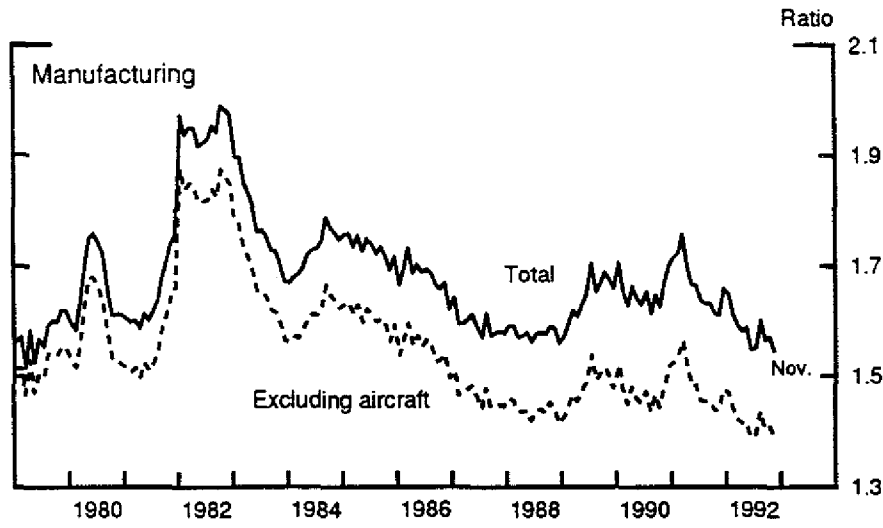
The business inventory situation has not changed materially since the December Greenbook. Inventory levels have been reported in the press and elsewhere to range mainly from "lean" to "satisfactory," with little evidence of excess stocks. For all manufacturing and trade, inventories expanded at a moderate pace of \$16 billion (current cost, annual rate) in November, with appreciable buildups in retail and wholesale inventories partially

(Footnote continued from previous page)

nonresidential contracts were 1 percent below the pace of 1991 for the United States as a whole. Excluding California, contracts were up 0.5 percent.

RATIO OF INVENTORIES TO SALES

(Current-cost data)



offset by a noticeable drawdown in manufacturing stocks.⁹ The November inventory accumulation was broadly in line with the increases in shipments and sales, and the inventory-sales ratio for all manufacturing and trade was about the same as those observed in the previous few months.

In manufacturing, strong shipments of durable goods in November led to widespread inventory reductions, pushing down the inventory-to-shipments ratios for most durable goods industries. As in recent months, stocks at aircraft and parts manufacturers contracted, reflecting the industry's ongoing adjustment to defense cutbacks and to slackening orders for commercial jets. Stocks of defense capital goods in general, and at defense aircraft producers in particular, have trended down since late 1990, and the defense cutbacks are expected to remain a significant downside factor in manufacturers' overall inventory investment in the months ahead. Elsewhere in manufacturing, buildups occurred in November in stocks held by some materials industries--chemicals, rubber and plastics, and textiles. However, such buildups appear roughly in line with the general picture of strengthening demand in the industrial sector, as indicated both by the increases in non-aircraft orders in the Census reports since September and by purchasing managers in many regions of the country.

In the trade sector, non-auto retail inventories continued to expand in November at about the average pace of the preceding several months; sales dropped slightly. Although the inventory-sales ratio edged up as a result, sales subsequently were brisk, and we have seen few anecdotal reports of inventory overhangs in the retail sector, either during or after the holiday sales season. For

9. Given the substantial upward revision to the current-cost estimates of manufacturing and trade inventories in October, it is likely that stocks will be revised up sharply on a constant-dollar basis as well, perhaps by as much as \$40 billion.

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Unified basis, billions of dollars, except where otherwise noted)

	October-December		Dollar change	Percent change
	FY1992	FY1993		
Outlays	338.7	385.7	47.0	13.9
Deposit insurance (DI)	-5.0	-7.8	-2.8	56.0
Defense Cooperation account (DCA)	-3.6	0.0	3.6	-100.0
Outlays excluding DI and DCA	347.3	393.5	46.2	13.3
National defense	77.5	78.0	.5	.1
Net interest	49.7	49.2	-.5	-1.0
Social security	68.5	97.4	28.9	42.2
Medicare and health	50.8	54.7	3.9	7.6
Income security	45.4	51.2	5.8	12.8
Other	55.4	63.0	7.6	13.6
Receipts	254.9	265.2	10.3	4.0
Personal income taxes	114.0	121.6	7.6	6.7
Social insurance taxes	90.9	94.4	3.5	3.8
Corporate income taxes	23.7	26.5	2.8	11.8
Other	26.3	22.7	-3.6	-13.6
Deficit(+)	83.8	120.5	36.7	43.8
excluding DI and DCA	92.4	128.3	35.9	38.8
Memo:				
Outlays ex. DI, DCA, & SS shift ¹	347.3	369.3	18.9	6.3
Deficit ex. DI, DCA, & SS shift ¹	92.4	104.1	11.7	12.2

Details may not add to totals due to rounding.

1. Adjusting for \$24 billion of Social Security payments advanced into December from their normal January payment date.

stores in the GAF grouping in particular, Census data show that the inventory-sales ratio remained close to trend despite a small uptick in November. In the wholesale sector, sizable inventory increases were reported in October and November, but the buildups were limited to only a few categories--machinery, motor vehicles, and some miscellaneous nondurable goods. With the increases in wholesale shipments since September, the wholesalers' inventory-sales ratio stood at 1.34 months at the end of November, still below its recent peak of 1.37 months observed in December of 1991.

Federal Sector

The federal government's unified budget deficit for the fourth calendar quarter of 1992 totaled \$120 billion, \$37 billion above the year-earlier level. About two-thirds of the increase was attributable to the advance into December of \$24 billion of Social Security disbursements because the normal January payment date fell on a holiday. Excluding this timing shift, as well as swings in expenditures for deposit insurance and financial contributions for Operation Desert Storm, outlays were up about 6 percent from a year earlier.

Meanwhile, receipts rose 4 percent over this period. Withheld income taxes continued to be damped by the change in withholding schedules last March; adjusting for this rule change, they were up 10 percent over the year, compared with an estimated increase in wages and salaries of about 4 percent. The rapid growth in withholdings may reflect, in part, the shifting of income by taxpayers into 1992 in anticipation of higher marginal tax rates under the new Administration. Such income shifting also may have contributed to the surge in nonwithheld collections around January 15, which was the final due date for the payment of 1992 quarterly estimated taxes; daily data indicate that these

collections were about \$10 billion above year-earlier levels. However, estimated tax payments also were strong throughout 1992, in part because of tighter "safe harbor" rules that require taxpayers to meet a higher portion of their tax liabilities through withheld or estimated tax payments--and perhaps greater realizations of capital gains. Tighter "safe harbor" rules for corporations, as well as strong corporate profits, helped to lift corporate tax payments in the fall quarter about 12 percent above the level of late 1991.

The changes in tax provisions will continue to affect the pattern of receipts in 1993. In particular, the reduction in withholding rates that took effect last March lowered withholdings about \$20 billion in calendar 1992; because it had no effect on liabilities, final settlements in the first half of 1993 likely will be higher by a comparable amount, with both lower refunds and higher final payments.

The Office of Management and Budget (OMB), under President Bush, and the Congressional Budget Office (CBO) have released new baseline budget projections for the next five years. Through FY1995, these projections assume that the caps on discretionary spending established by OBRA in 1990 are adhered to, and that there will be no changes, on net, in the laws governing mandatory spending and taxes. Both agencies anticipate little change in the deficit over this period. Excluding deposit insurance, the deficit is projected to edge up from \$288 billion in FY1992 to the area of \$310 billion in FY1993 and to fall only slightly over the next two years. (The OMB and CBO projections for FY1995 are \$280 billion and \$273 billion respectively.) In both projections, the deficit is narrowed by the projected pickup in economic activity. The reductions in real discretionary spending (of roughly 7 percent

between 1993 and 1995) required to meet the OBRA caps also help to lower the deficit over this period, but these savings are largely offset by a continued surge in outlays for health care. Outlays for deposit insurance are not expected to have substantial effects on the deficit over the next five years; both OMB and CBO expect such spending to add to the deficit, on net, over the next few years, but to help to reduce it thereafter.

After FY1995, when OBRA expires, the OMB and CBO budget projections diverge, primarily because of differences in how the agencies define their baselines for discretionary spending. The OMB projection, which holds discretionary spending constant in nominal terms, shows the deficit (excluding deposit insurance) widening to \$327 billion in FY1998. Meanwhile, the CBO projection, which allows discretionary spending to grow at the rate of inflation, shows a deficit of \$367 billion (excluding deposit insurance) in that year. According to CBO, the difference in baseline concepts is worth \$50 billion in FY1998.

With respect to the economic assumptions that underlie the budget estimates, both agencies expect real GDP growth to be about 3 percent in both 1993 and 1994.¹⁰ The projected growth paths differ somewhat in subsequent years, but the differences are essentially offsetting, and, by 1998, the levels of both real GDP and the unemployment rate are essentially the same in the two forecasts. CBO's inflation forecast is lower than OMB's, as is its forecast for long-term interest rates. By the late 1990s, CBO's

10. In contrast to normal practice, OMB based its budget estimates on the economic forecasts of the "Blue Chip consensus" of private forecasters. An extension of the November Blue Chip forecast with the Blue Chip's October long-run forecast shows somewhat slower real growth and faster inflation over the next five years than what the Bush Administration considered "the most likely outcome." All else equal, under the Bush Administration's preferred forecast, the deficit would fall to \$265 billion in FY1995 and change relatively little thereafter.

CBO BUDGET ESTIMATES¹
(Billions of dollars)

	Fiscal years					
	1993	1994	1995	1996	1997	1998
Outlays	1453	1507	1575	1643	1733	1839
Receipts	1143	1215	1291	1356	1414	1482
Deficit	310	291	284	287	319	357
Deficit ex deposit insurance	307	282	273	288	333	367
Memo: Deposit insurance	3	10	11	-1	-14	-10

CBO ECONOMIC ASSUMPTIONS

	Calendar years					
	1993	1994	1995	1996	1997	1998
	-----Percent change, year over year---					
Real GDP	2.8	3.0	2.9	2.7	2.4	2.0
GDP deflator	2.4	2.4	2.3	2.3	2.2	2.2
CPI-U	3.0	2.7	2.7	2.7	2.7	2.7
	-----Percent, annual average-----					
Civilian unemployment rate	7.1	6.6	6.2	6.0	5.8	5.7
Interest rates						
Treasury bills	3.1	3.7	4.4	4.7	4.8	4.9
Treasury notes	6.7	6.6	6.6	6.5	6.5	6.4

Source: CBO, The Economic and Budget Outlook: Fiscal Years 1994-1998, January 1993.

1. The projections assume that revenues and outlays for major benefit programs evolve according to laws in effect at the time the projections are made, and that appropriations through FY1995 for other programs are consistent with the discretionary spending caps. For FY1996-FY1998, discretionary spending is allowed to grow with inflation. The projections include Social Security and the Postal Service, which are off-budget.

OMB BASELINE BUDGET ESTIMATES¹
(Billions of dollars)

	Fiscal years					
	1993	1994	1995	1996	1997	1998
Outlays	1475	1523	1578	1645	1745	1843
Receipts	1148	1230	1306	1379	1440	1523
Deficit	327	292	272	266	305	320
Deficit excluding deposit insurance	312	276	280	281	316	327
Memo: Deposit insurance	16	16	-7	-15	-11	-7

OMB ECONOMIC ASSUMPTIONS

	Calendar years					
	1993	1994	1995	1996	1997	1998
	-----Percent change, Q4 over Q4-----					
Real GDP	3.0	2.9	2.5	2.5	2.5	2.5
GDP deflator	2.9	3.3	3.4	3.3	3.4	3.3
CPI-U	3.3	3.6	3.7	3.6	3.6	3.5
	-----Percent, annual average-----					
Civilian unemployment rate	7.2	6.4	6.1	5.9	5.8	5.7
Interest rates						
Treasury bills	3.4	4.6	5.0	5.1	5.2	5.1
Treasury notes	7.0	7.2	7.3	7.3	7.3	7.2

Source: OMB, Budget Baselines, Historical Data, and Alternatives for the Future, January 1993. Economic assumptions underlying the baseline budget estimates, based on the Blue Chip consensus of private sector forecasts.

1. The projections assume that revenues and outlays for major benefit programs evolve according to laws in effect at the time the projections are made, and that appropriations through FY1995 for other programs are consistent with the discretionary spending caps. For FY1996-FY1998, discretionary spending is held constant at the FY1995 level. The projections include Social Security and the Postal Service, which are off-budget.

short-term interest rates are only a little lower than OMB's, and thus somewhat higher in real terms. All told, however, the differences in economic assumptions are not large enough to have a significant effect on the budget outlook.

Reportedly, the Clinton Administration plans to release its economic proposals in February and a budget by mid-March. Current indications are that the Administration is considering a small stimulus package (on the order of \$20 billion) as well as a longer-term deficit-reduction package that would include both restraints on expenditure growth and additions to revenues.

State and Local Government Sector

Recent data on the state and local sector point toward sluggish growth in purchases of goods and services during the fourth quarter. According to the initial estimate (which often revises appreciably), real construction put-in-place jumped 3 percent in November following a decline the month before; on net, the October-November average was 0.2 percent above the third-quarter level. Employment by state and local governments, which had been boosted in November by the hiring of temporary election workers, dropped back in December. Over the fourth quarter as a whole, state and local employment rose 37,000, a bit slower than the pace recorded in previous quarters.

A recent survey by the National Conference of State Legislatures (NCSL) provides new information on the austere budgets enacted by many states for fiscal 1993. According to the NCSL, general fund spending is expected to increase only 3 percent in nominal terms in FY1993, after rising 5.3 percent in FY1992. Among the components of spending, outlays for higher education are expected to fall slightly, while planned increases in outlays for primary education and corrections are well below the increases of

the previous fiscal year. In addition, Medicaid expenditures are projected to rise only 6 percent this fiscal year, after a 29 percent increase in FY1992.

The limited information on the states' general funds, which account for only about half of states' expenditures, indicate that revenue collections so far in FY1993 are at or above expectations but that spending is exceeding plans. In particular, states' expenditures on Medicaid appear to be running higher than anticipated, while outlays for primary education and corrections are overbudget in some states. However, many states are acting quickly to make midyear budget cuts. And two states, Arkansas and Ohio, enacted significant tax increases in December.

Labor Costs

Although the progress was uneven over the year, hourly wage and benefit costs, on balance, decelerated further in 1992. In the fourth quarter, hourly compensation of private industry workers, as measured by the Employment Cost Index (ECI), rose 3.5 percent at an annual rate, a bit more than in the previous two quarters. However, some part of that acceleration appears to reflect a rebound in compensation paid to sales workers. Commission earnings account for a large portion of the pay of sales workers, and a pickup in these earnings, which had languished with the sluggish pace of spending in earlier quarters, is consistent with the apparent strength of final demand in the fourth quarter. Over the twelve months of 1992, the ECI rose 3.5 percent--almost a full percentage point less than the increase recorded in 1991.

The slowing in labor costs last year came in both the wages and benefits components. The index for wages and salaries rose 2.6 percent over the 12 months of 1992, about 1 percentage point less than in 1991. Growth in benefits slowed from more than

EMPLOYMENT COST INDEX
(Private industry workers; twelve-month percent changes)

	1990	1991	1992	1992			
				Mar.	June	Sep.	De
Total compensation costs:							
Private industry workers	4.6	4.4	3.5	4.2	3.7	3.4	3.5
By industry:							
Goods-producing	4.8	4.6	3.8	4.6	4.1	3.9	3.8
Service-producing	4.6	4.3	3.2	4.0	3.5	3.1	3.2
By occupation:							
White-collar	4.9	4.5	3.3	4.0	3.5	3.3	3.3
Blue-collar	4.4	4.3	3.6	4.3	4.0	3.7	3.6
Service workers	4.7	4.8	3.1	4.8	3.9	3.5	3.1
By bargaining status:							
Union	4.3	4.6	4.3	5.2	4.8	4.6	4.3
Nonunion	4.8	4.3	3.2	4.0	3.4	3.1	3.2
Memo:							
Wages and salaries	4.0	3.7	2.6	3.4	3.0	2.7	2.6
Benefits	6.6	6.2	5.2	6.3	5.5	5.2	5.2

EMPLOYMENT COST INDEX
(Percent change from preceding period at compound annual rates;
based on seasonally adjusted data)¹

	1991		1992			
	Sep.	Dec.	Mar.	June	Sep.	Dec.
Total compensation costs:						
Private industry workers	4.4	3.7	4.0	2.9	3.2	3.5
By industry:						
Goods-producing	3.7	4.4	4.7	3.2	3.5	3.5
Service-producing	4.4	3.3	3.3	2.9	2.8	3.5
By occupation:						
White-collar	4.0	2.9	4.3	2.9	3.2	2.8
Blue-collar	4.9	3.7	4.4	3.2	3.6	3.2
Service workers	5.6	3.3	4.0	2.8	3.5	2.1
By bargaining status:						
Union	4.9	3.7	7.4	3.2	4.3	2.5
Nonunion	4.1	2.5	4.4	2.5	3.2	2.8
Memo:						
Wages and salaries	3.0	3.3	2.9	2.2	2.5	2.9
Benefits	6.5	5.7	5.2	4.8	5.5	5.0

1. Changes are from final month of preceding period to final month of period indicated. Percent changes are seasonally adjusted by the BLS. Data by bargaining status are not seasonally adjusted.

6 percent in 1991 to just over 5 percent in 1992. Much of the deceleration in the benefit component was in health insurance costs: Smaller increases in medical services prices and efforts by employers to shift more of the burden of medical care costs to employees combined to hold the 1992 increase in employer costs to 8.6 percent, the lowest since 1987. In addition, employer costs for pensions slowed last year, likely reflecting increases in the market value of defined benefit plans.

By occupation, compensation growth of white-collar workers slowed 1-1/4 percentage points in 1992 to 3.3 percent. The deceleration was especially sharp in the executive, administrative, and managerial occupations; compensation rose just 2 percent in these occupations--more than 2-1/2 percentage points below the gain in 1991. In blue-collar occupations, hourly compensation rose 3.6 percent in 1992 after a gain of 4.3 percent in 1991. The deceleration in compensation growth last year for blue-collar occupations was more evenly spread, with compensation slowing between 1/2 and 1 percentage point across most occupations.

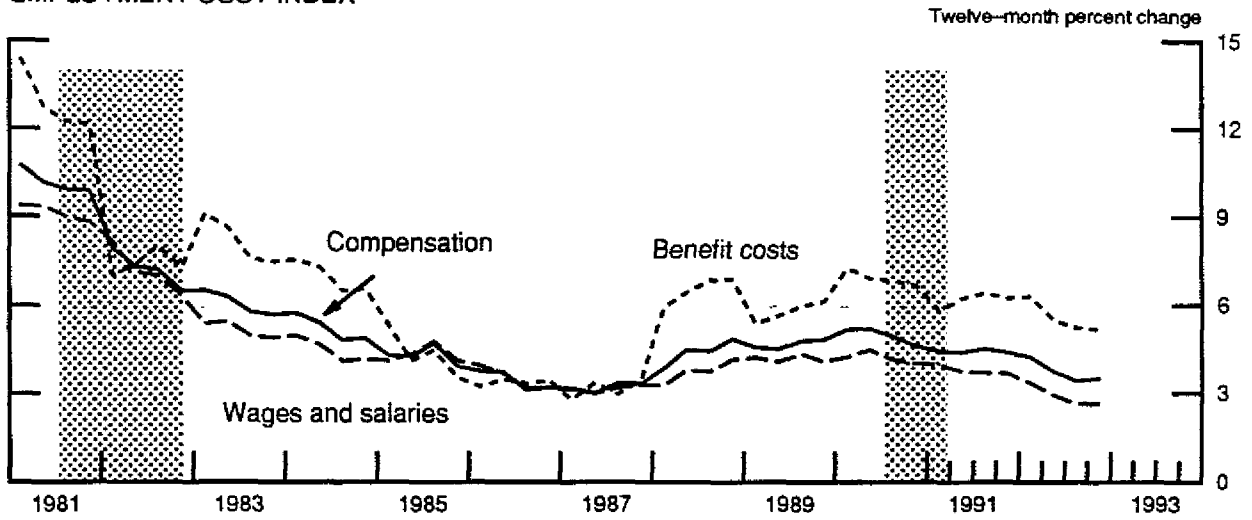
ECI HOURLY COMPENSATION BY OCCUPATION
(Twelve-month percent change)

	1991	1992
White collar	4.5	3.3
Excluding sales	4.6	3.5
Professional, technical	4.8	4.5
Executive, administrative, managerial	4.8	2.0
Administrative support	4.3	4.0
Blue collar	4.3	3.6
Precision production, craft, repair	4.5	3.6
Machine operators, assemblers, inspectors	4.4	3.8
Handlers, cleaners, helpers, laborers	4.4	3.5

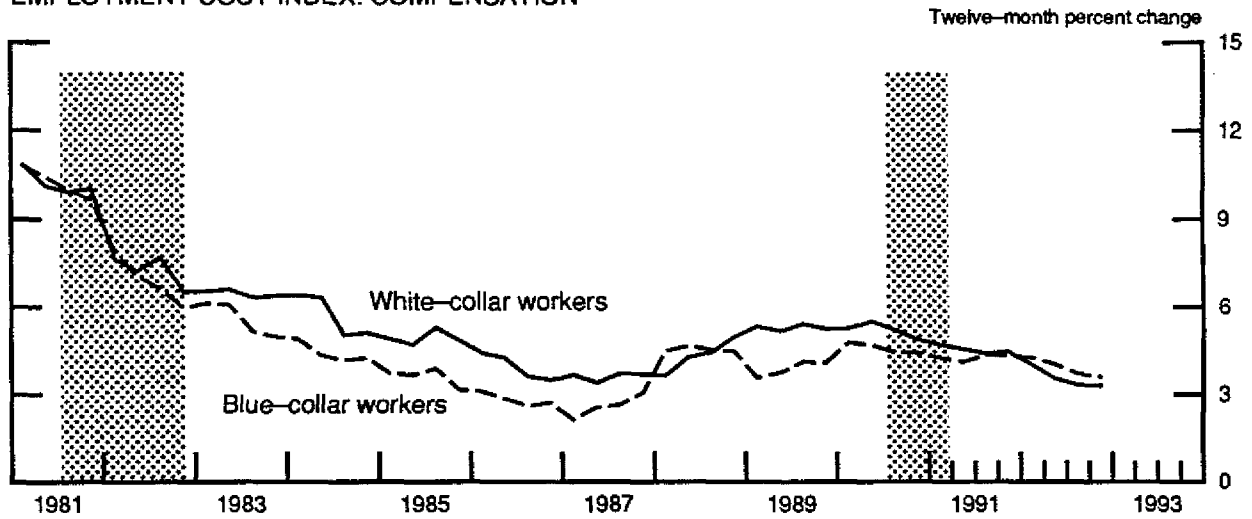
By industry, hourly compensation rose 3.2 percent last year in the service-producing sector--down about 1 percentage point from

LABOR COST MEASURES
 (Private Industry Workers; Quarterly Data)

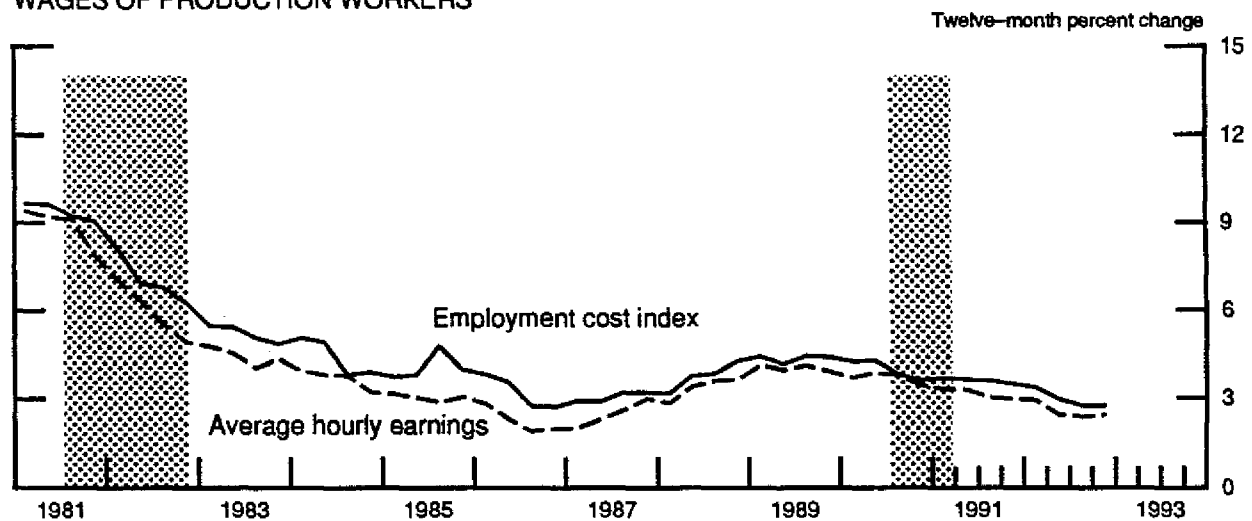
EMPLOYMENT COST INDEX



EMPLOYMENT COST INDEX: COMPENSATION



WAGES OF PRODUCTION WORKERS



1991. Employers in retail trade, and in finance, insurance, and real estate (FIRE) reported the largest decelerations over the year. In retail trade, considerable weakness at general merchandise stores held compensation gains to 2.6 percent in 1992--more than 1-1/2 percentage point below the increase in 1991. Compensation in FIRE rose just 1.2 percent in 1992 compared with an increase of 4.3 percent in 1991. Much of the slowing in FIRE was in the real estate sector, although compensation gains were down as well in the insurance industry. In contrast, compensation gains in the financial industry accelerated last year to 3.7 percent from 1.5 percent during 1991, as the improvement in financial profits apparently fed through into higher employee compensation. In the goods-producing sector, compensation rose 3.8 percent in 1992 compared with an increase of 4.6 percent in 1991. In manufacturing, compensation slowed almost 1 percentage point to 3.8 percent in 1992, while hourly compensation in construction slowed more than 1/2 percentage point in 1992 to 3.5 percent.

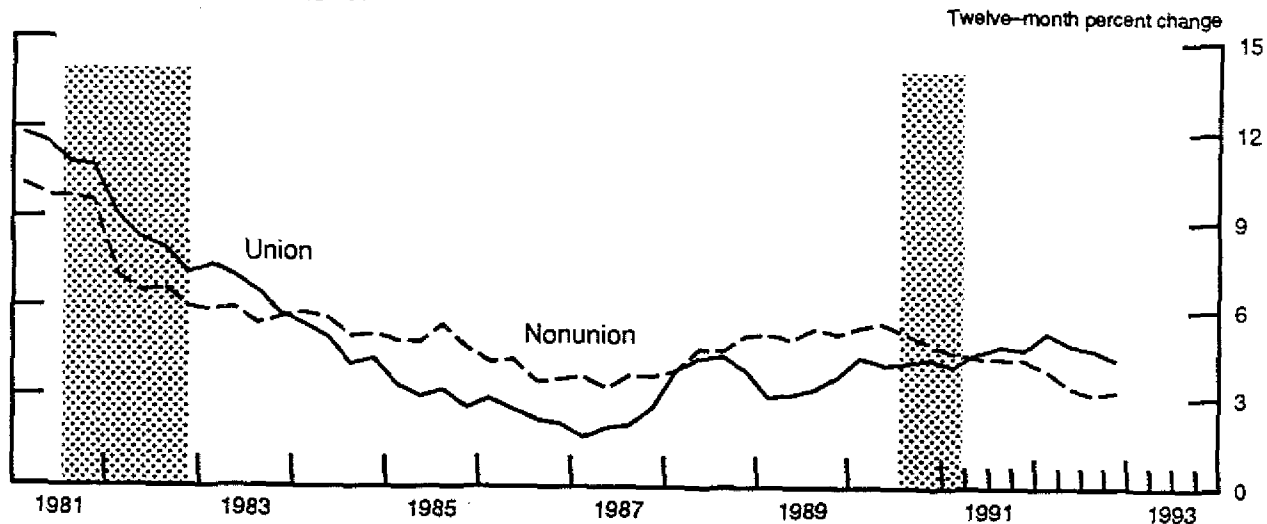
ECI HOURLY COMPENSATION BY SELECT INDUSTRY
(Twelve-month percent change)

	<u>1991</u>	<u>1992</u>
Finance, insurance, and real estate	4.3	1.2
Retail trade	4.2	2.6
Services	4.3	4.3
Manufacturing	4.7	3.8
Construction	4.1	3.5

By collective bargaining status, the ECI data indicate that most of the deceleration over the past year was in the compensation of nonunion workers--from an increase of 4.3 percent in 1991 to just over 3 percent in 1992. In contrast, union workers saw only a slight slowing in their compensation gains, which remained well

COMPENSATION IN THE UNION SECTOR

EMPLOYMENT COST INDEX



CHANGES IN NEGOTIATED WAGE AND COMPENSATION RATES
UNDER MAJOR COLLECTIVE BARGAINING SETTLEMENTS¹
(Percent change)

	1990	1991	1992	Same parties under prior settlements
Wage rate changes (all industries)²				
First-year adjustments	4.0	3.6	2.9	3.3
Average over life of contract	3.2	3.2	3.1	3.1
Workers affected (in thousands)	2,004	1,744	1,551	
Compensation rate changes (all industries)³				
First-year adjustments	4.6	4.1	3.3	n.a.
Average over life of contract	3.2	3.4	3.3	n.a.
Workers affected (in thousands)	1,278	1,155	870	n.a.

1. Estimates exclude lump-sum payments and potential gains under cost-of-living clauses.

2. Contracts covering 1,000 or more workers.

3. Contracts covering 5,000 or more workers.

EFFECTIVE WAGE CHANGE IN MAJOR UNION CONTRACTS AND COMPONENTS OF CHANGE

	1987	1988	1989	1990	1991	1992
Total effective wage change ¹	3.1	2.6	3.2	3.5	3.6	3.1
Contribution of:						
New settlements	.7	.7	1.2	1.3	1.1	.8
Prior settlements	1.8	1.3	1.3	1.5	1.9	1.9
COLAs	.5	.6	.7	.7	.5	.4

1. Four-quarter percent change.

above 4 percent in 1992. The smaller deceleration in union wages is generally consistent with separate data on major collective bargaining settlements.¹¹ Although first-year wage adjustments were down from 1991, the average wage gain over the life of the contract in 1992 was the same as the average wage change in the contracts that they replaced. A similar pattern is evident for compensation costs in contracts covering 5,000 or more workers. These data indicate that first-year wage adjustments in contracts negotiated in 1992 averaged 3.3 percent--down from 4.1 percent in 1991. However, the average compensation cost increase over the life of the contract stood at 3.3 percent in 1992, only a bit below the average for contracts negotiated in 1991.

Including pay increases from earlier settlements and COLAs, the average wage rate change for workers covered by major collective bargaining contracts was 3.1 percent in 1992, versus 3.6 percent in 1991. Most of the slowing in the average wage change last year came from current settlements. The contribution from prior settlements was unchanged, while the contribution from COLA provisions edged lower over the year.

AVERAGE HOURLY EARNINGS
(Percent change; based on seasonally adjusted data)¹

	1990	1991	1992	1992		1992		
				Q3	Q4	Oct.	Nov.	Dec.
				Annual rate		--Monthly rate--		
Total private nonfarm	3.5	3.1	2.2	1.9	2.7	.2	.6	-.1
Manufacturing	3.6	3.0	2.2	2.5	2.1	.0	.3	.2
Services	4.4	3.8	2.6	2.3	2.7	.2	.6	-.1

1. Changes over periods longer than one month are measured from final month of preceding period to final month of period indicated.

Average hourly earnings fell 0.1 percent in December. Over the twelve months ended in December, average hourly earnings were up

¹¹. Agreements covering 1,000 or more private industry workers.

RECENT CHANGES IN PRODUCER PRICES
(Percent change; based on seasonally adjusted data)¹

	Relative importance Dec.	1991		1992			1992	
		1991	1992	Q2	Q3	Q4	Nov.	Dec.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	-.1	1.6	3.3	1.6	.0	-.2	.2
Consumer foods	21.9	-1.5	1.5	-1.0	3.6	3.3	-.5	1.2
Consumer energy	13.8	-9.6	-.1	17.9	-.5	-7.8	-1.5	-1.9
Other finished goods	64.2	3.1	1.9	1.8	1.2	.9	.1	.3
Consumer goods	39.5	3.4	2.1	2.4	1.2	1.2	.2	.2
Capital equipment	24.7	2.5	1.6	.9	.9	.6	.1	.2
Intermediate materials ²	95.3	-2.7	1.2	5.4	.3	-.7	-.2	.0
Excluding food and energy	81.7	-.8	1.1	1.7	1.0	.0	.0	.2
Crude food materials	41.2	-5.8	2.8	1.9	-6.2	4.3	-.6	1.1
Crude energy	40.0	-16.6	1.5	51.5	16.4	-17.9	.6	-4.9
Other crude materials	18.7	-7.6	5.6	4.8	2.5	1.2	-.9	2.6

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

RECENT CHANGES IN CONSUMER PRICES
(Percent change; based on seasonally adjusted data)¹

	Relative importance Dec.	1991		1992			1992	
		1991	1992	Q2	Q3	Q4	Nov.	Dec.
				-----Annual rate-----			-Monthly rate-	
All items ²	100.0	3.1	2.9	2.6	2.6	2.9	.2	.1
Food	16.0	1.9	1.5	-1.2	4.7	.9	.0	.2
Energy	7.4	-7.4	2.0	12.5	.4	2.7	.8	-.6
All items less food and energy	76.6	4.4	3.3	2.8	2.5	3.3	.3	.1
Commodities	24.8	4.0	2.5	2.1	2.1	.6	.1	-.2
Services	51.9	4.6	3.7	2.9	2.6	4.7	.3	.3
Memorandum:								
CPI-W ³	100.0	2.8	2.9	2.7	2.9	2.6	.2	.1

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.

2.2 percent--almost a full percentage point below the reading of a year ago.

Prices

On balance, 1992 ended with good news on price inflation. In December, both the overall CPI and the index excluding food and energy rose just 0.1 percent, after somewhat larger increases in the preceding months. Over the twelve months of 1992, the CPI increased 2.9 percent, a bit less than in 1991. For the index excluding food and energy, the deceleration was more marked, with prices up just 3.3 percent, down from a 4.4 percent increase in 1991. Last year's increase in the CPI excluding food and energy was the smallest since wage and price controls were in effect in the early 1970s.

Energy prices fell at all levels in December. The price of crude petroleum fell 8 percent, the second consecutive decline of that magnitude. In addition, spot prices for natural gas, which had jumped in the weeks immediately following Hurricane Andrew, have since returned to pre-hurricane levels. The declines in crude oil and natural gas at the end of the year were reflected at the consumer level, as gasoline prices fell 0.9 percent in the CPI, and natural gas prices declined 1-3/4 percent, reversing about half their November increases. Based on survey information, consumer gasoline prices rose about 0.4 percent in January. Food prices rose 0.2 percent at the consumer level in December after no change in October and November. The volatile fruit and vegetable category moved up 1 percent last month; elsewhere, prices were about flat on net.

In December, the CPI for commodities excluding food and energy fell 0.2 percent. Some of the decline may have reflected holiday discounting: For example, apparel prices fell 0.9 percent; prices of VCRs, toys, and sporting goods also were down. To the extent

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Dec. 1990	Dec. 1991	Dec. 1992
<u>CPI</u>	5.2	4.4	3.3
Goods	3.4	4.0	2.5
Alcoholic beverages	4.2	9.9	2.9
New vehicles	2.0	3.2	2.3
Apparel	5.0	3.4	1.2
Housefurnishings	.6	.9	1.5
Housekeeping supplies	3.2	1.8	-.2
Entertainment	3.0	3.5	1.8
Services	6.0	4.6	3.7
Owners' equivalent rent	4.8	3.7	3.0
Tenants' rent	4.1	2.9	2.3
Other renters' costs	14.4	8.1	4.1
Airline fares	22.7	-6.0	6.6
Medical care	9.9	8.0	7.0
Entertainment	5.4	4.4	3.7
<u>PPI Finished goods</u>	3.5	3.1	1.9
Consumer goods	3.7	3.4	2.1
Capital equipment, excluding computers	3.4	3.3	3.2
Computers	n.a.	-19.4	-15.1
PPI intermediate materials	1.9	-.8	1.1
PPI crude materials	.6	-7.6	5.6
<u>Factors Affecting Price Inflation</u>			
ECI hourly compensation ¹	4.6	4.4	3.5
Goods-producing	4.8	4.6	3.8
Service-producing	4.6	4.3	3.2
Civilian unemployment rate ²	6.2	7.1	7.3
Capacity utilization ² (manufacturing)	79.4	77.7	78.4
Inflation expectations ^{2,3}			
Mean of responses	5.1	3.5	3.3
Median, bias adjusted ⁴	5.2	3.7	3.9
Non-oil import prices ⁵	2.4	.4	2.8
Consumer goods, excluding autos, food, and beverages	3.6	.5	3.7
Autos	1.0	4.2	2.3

1. Private industry workers, periods ended in December.

2. End-of-period value.

3. Michigan Survey; January values.

4. Median adjusted for average downward bias of 0.9 percentage points since 1978.

5. BLS import price index (not seasonally adjusted), periods ended in September.

n.a. - not available

that such earlier-than-normal discounting was important, prices for these goods may rebound somewhat in the January and February reports, especially if the December sales were successful in moving holiday merchandise. A similar effect may be at work in the market for new motor vehicles, where prices fell in December but may have rebounded at the turn of the year when incentive programs on some popular models ended. In addition, Ford recently announced price increases of 1 percent on 1993 model cars. Elsewhere, prices of nonenergy services rose 0.3 percent, about in line with their average increase in 1992.

Looking at 1992 as a whole, developments in oil and agricultural markets obscured somewhat the overall deceleration in the CPI. While energy prices in the CPI rose only 2 percent over the twelve months of 1992, this marked an acceleration from 1991, when energy prices fell 7-1/2 percent in the aftermath of Iraq's invasion of Kuwait. Food prices in the CPI rose 1-1/2 percent in 1992, 1/2 percentage point less than in 1991. At the wholesale level, food prices were also up 1-1/2 percent, but this marked an acceleration from a 1-1/2 percent decline in 1991. A major factor in this acceleration was prices of meats and poultry, which had declined in 1991 but rose 2.3 percent in 1992. Indeed, in other categories at the consumer level, deceleration in food prices last year was in line with that for nonfood, nonenergy items.

The indexes for goods and services contributed about equally to 1992's deceleration in the CPI excluding food and energy. Prices of commodities other than food and energy decelerated 1-1/2 percentage points to post a 2-1/2 percent increase. While weak demand and declining labor costs likely played a role in this easing, part of the deceleration reflected sales and other excise taxes, which were raised more in 1991 than in 1992. This was especially notable in

the indexes for tobacco and alcoholic beverages, where federal excise taxes were raised significantly at the beginning of 1991 as part of the 1990 budget accord. Increases in nonenergy services prices continued to slow in 1992, with the deceleration widespread across categories. In particular, owners' equivalent rents rose only 3 percent last year, 3/4 of a percentage point less than in 1991. Medical service fees decelerated 1 percentage point, posting a 7.0 percent increase in 1992.

Factors influencing inflation remained mostly favorable to continued disinflation at the end of 1992. Upward pressures on import prices have been mitigated by the strength of the dollar and weakness in economic activity abroad. Moreover, capacity utilization in December was only 78.4 percent, well below the level at which industrial capacity constraints have become important in the past. Economywide slack also was large, with output considerably below the staff's estimate of potential in the third quarter of 1992. And, with the unemployment rate still relatively high, labor cost increases continued to slow through the end of 1992.

Inflation expectations also eased a bit over the past year. In the preliminary Michigan survey of consumer expectations for January, the mean expected price rise for the next twelve months was 3-1/4 percent, about 1/4 percentage point lower than a year earlier. However, this measure can be erratic from month to month; only two months before, for example, the reading was 4-1/2 percent. A more stable (though historically downward-biased) indicator is the median of consumers' expectations; according to this measure, consumers are expecting inflation at 3 percent in 1993, compared with over 4 percent a year ago.

Producer prices of finished goods rose 0.2 percent in December, reversing a decline in November. Excluding food and energy, finished goods prices rose 0.3 percent in December after six months of no change on net. Increases for cars, light trucks, and tobacco were large in December, but no one category was responsible for the pickup. For 1992 as a whole, the PPI for finished goods rose 1.6 percent after little change in 1991. However, the acceleration last year was entirely the result of the food and energy price factors mentioned earlier, and increases in the index for finished goods other than food and energy slowed from 3.1 percent in 1991 to 1.9 percent last year.

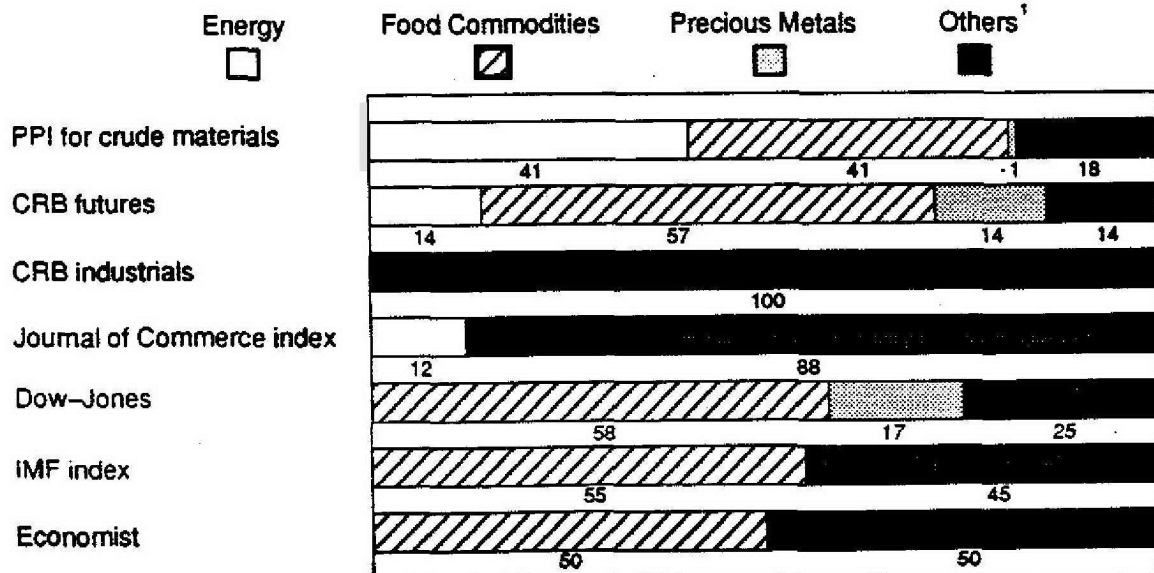
Consistent with the ongoing recovery in the industrial sector, many measures of commodity prices have moved up in recent weeks. The Journal of Commerce index of industrial materials prices has risen 2-3/4 percent since the December Greenbook. The spot price of steel scrap jumped early this year, and prices of a variety of other industrial metals have been tilting up since late autumn. Also, lumber prices have continued to soar in the spot markets, rising nearly 25 percent since mid-December. This price surge apparently is a reflection both of increased housing construction and weather-related supply disruptions in some regions, in the context of adjustment to environmental restrictions on logging in some areas. Futures prices for lumber currently follow a sharply declining trajectory over the next year, suggesting that traders think that at least some of the factors pushing prices up currently will prove to be transitory in nature.

PRICE INDEXES FOR COMMODITIES AND MATERIALS¹

	Last obser- vation	Percent change ²				Memo Year earlier to date
		1990	1991	1992	Dec. 15 ³ to date	
1. PPI for crude materials ⁴	Dec.	6.0	-11.6	2.9	n.a.	2.9
1a. Foods and feeds	Dec.	-4.2	-5.8	2.8	n.a.	2.8
1a. Energy	Dec.	19.1	-16.6	1.5	n.a.	1.5
1b. Excluding food and energy	Dec.	.6	-7.6	5.6	n.a.	5.6
1c. Excluding food and energy, seasonally adjusted	Dec.	.7	-7.6	5.8	n.a.	5.8
2. Commodity Research Bureau						
2a. Futures prices	Jan. 26	-2.7	-6.5	-2.9	-1.3	-5.5
2b. Industrial spot prices	Jan. 25	.6	-11.3	-.7	.6	1.3
3. <u>Journal of Commerce</u> industrials	Jan. 26	-2.4	-7.2	5.0	3.2	4.3
3a. Metals	Jan. 26	-3.9	-7.1	1.9	2.1	.8
4. Dow-Jones Spot	Jan. 26	-1.7	-12.1	10.4	-.4	5.2
5. IMF commodity index ⁴	Dec.	-5.2	.7	-2.6	n.a.	-2.6
5a. Metals	Dec.	-1.1	-8.9	-3.1	n.a.	-3.1
5b. Nonfood agriculture	Dec.	-3.5	1.3	2.4	n.a.	2.4
6. <u>Economist</u> (U.S. dollar index)	Jan. 19	-4.4	-9.1	1.6	2.1	.9
6a. Industrials	Jan. 19	-3.2	-14.9	4.5	3.1	2.3

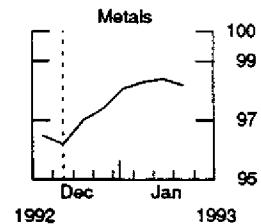
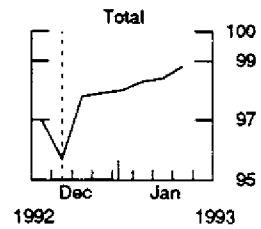
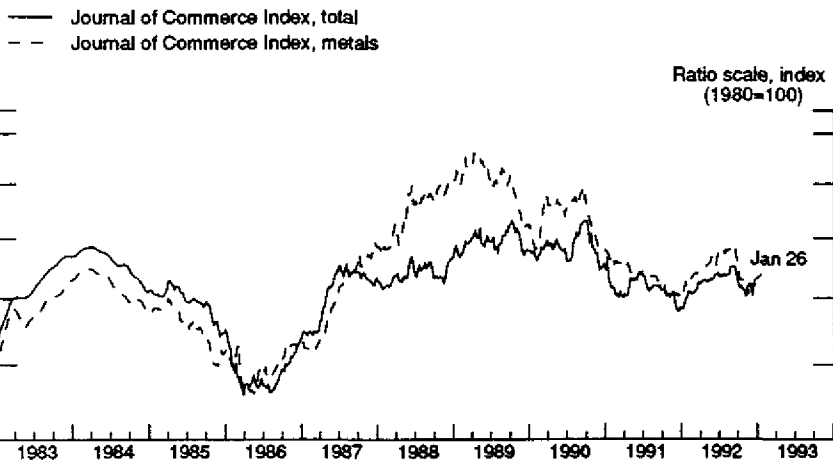
1. Not seasonally adjusted.
 2. Change is measured to end of period, from last observation of previous period.
 3. Week of the December Greenbook.
 4. Monthly observations. IMF index includes items not shown separately.
- n.a. Not available

Index Weights

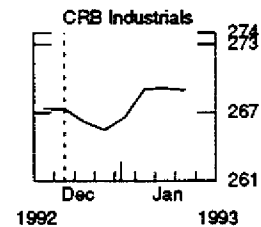
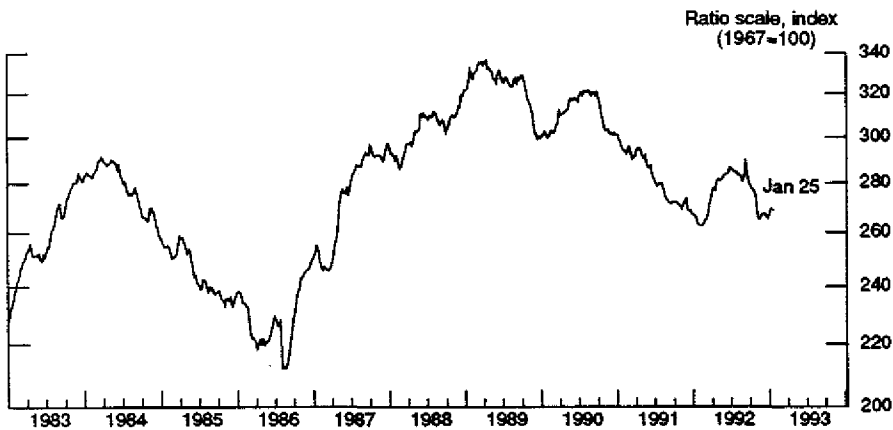


1. Forest products, industrial metals, and other industrial materials.

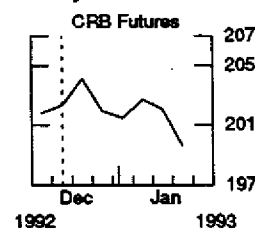
COMMODITY PRICE MEASURES *



CRB Spot Industrials



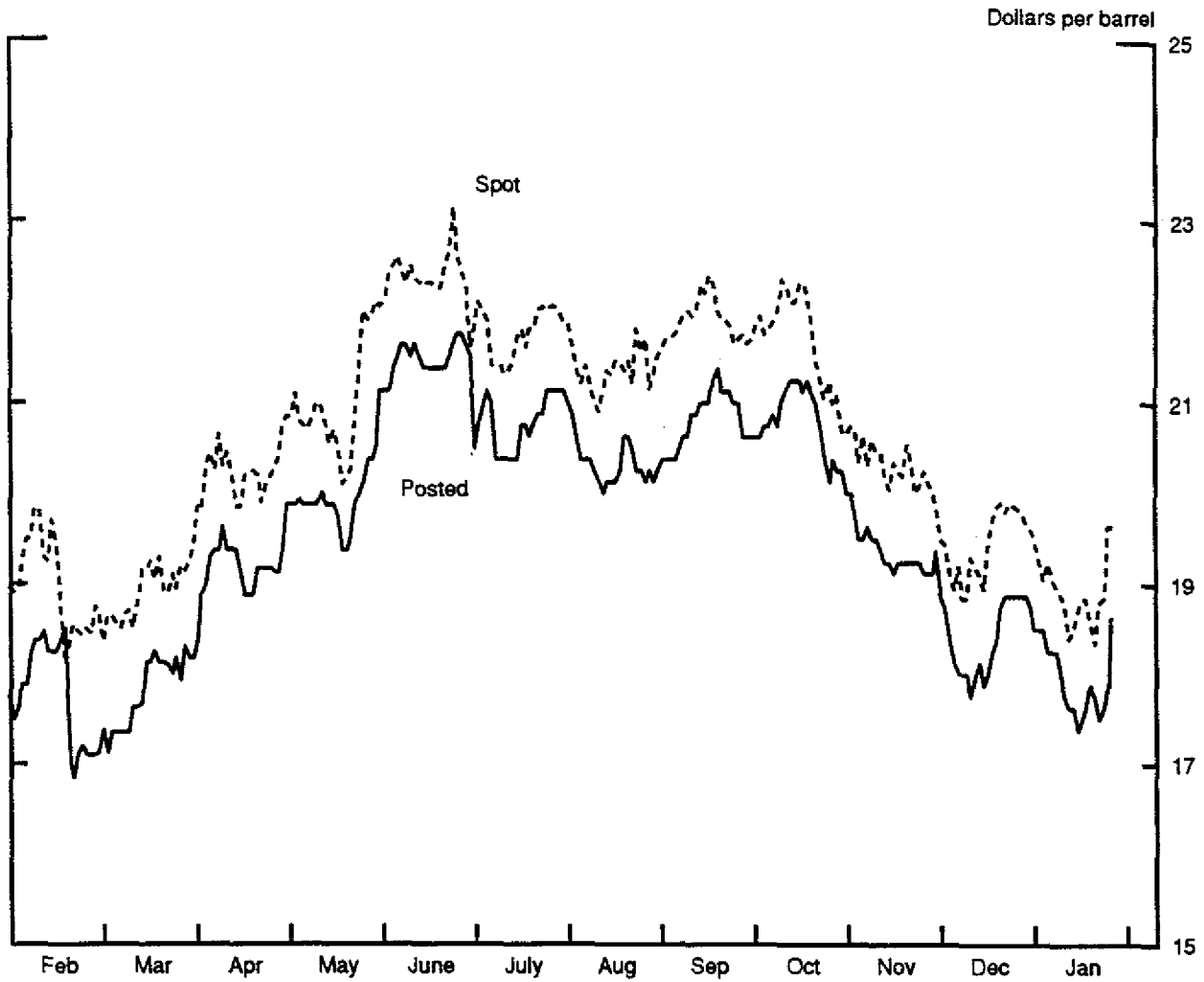
CRB Futures



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

Dotted lines indicate week of last Greenbook.

Daily Spot and Posted Prices of West Texas Intermediate ¹



1. Posted prices are evaluated as the mean of the range listed in the Wall Street Journal.

MONTHLY AVERAGE PRICES—WEST TEXAS INTERMEDIATE

Year and Month	Posted	Spot
1992		
February	17.72	19.00
March	17.81	18.92
April	19.20	20.24
May	19.90	20.94
June	21.46	22.38
July	20.77	21.76
August	20.32	21.35
September	20.83	21.90
October	20.77	21.68
November	19.38	20.34
December	18.40	19.41
1993		
January ¹	17.88	18.89

1. Price through January 26.

DOMESTIC FINANCIAL DEVELOPMENTS

III-T-1
 SELECTED FINANCIAL MARKET QUOTATIONS
 (percent)

1

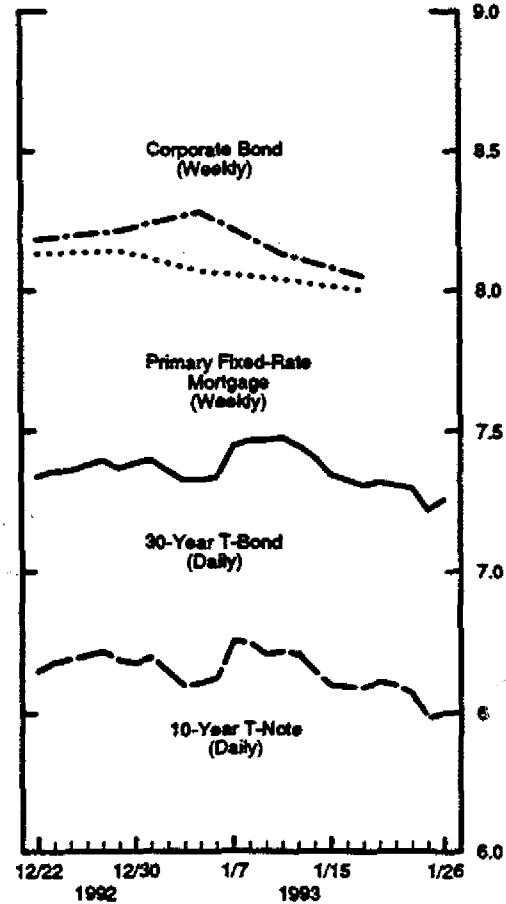
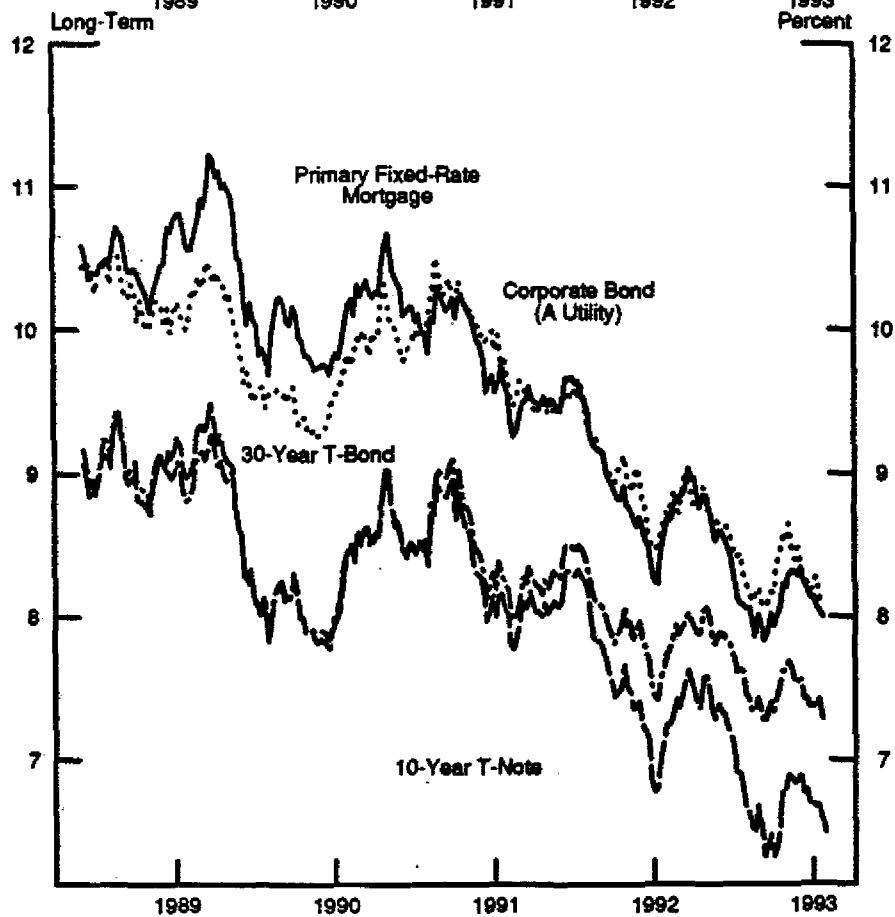
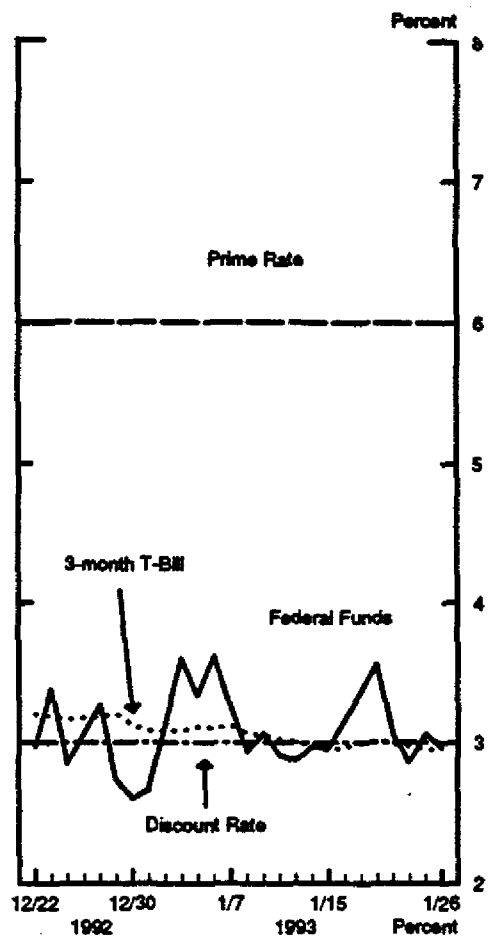
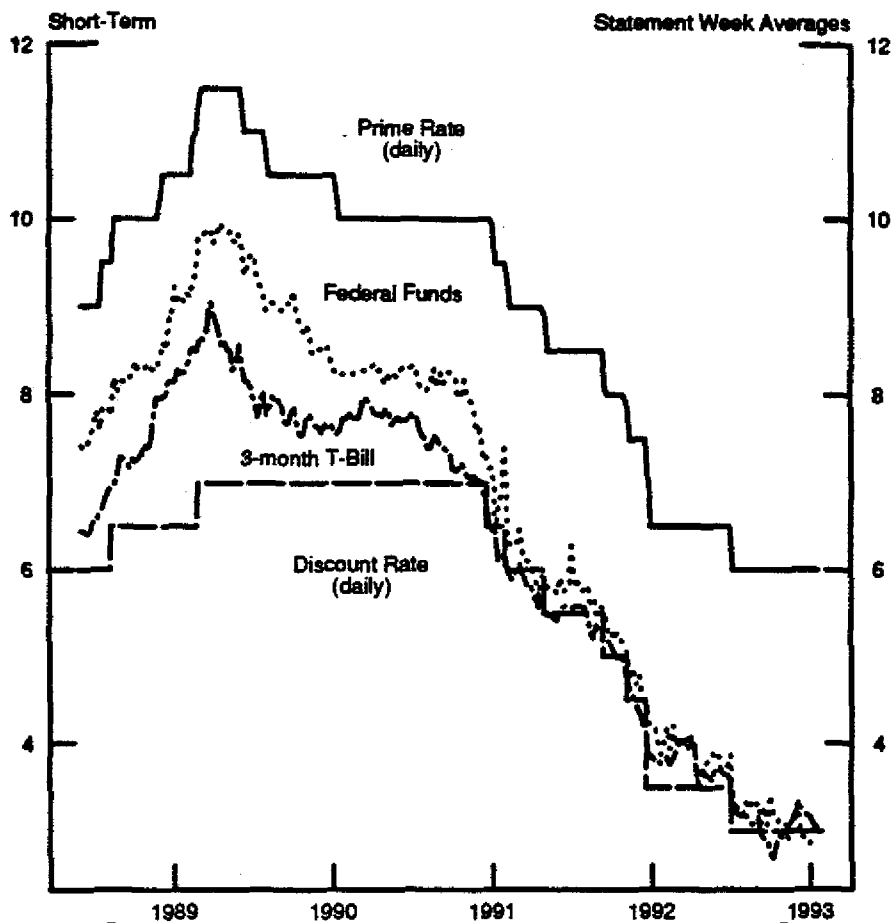
	1992		1993		Change from:	
	Sept 4	FOMC Dec 22	Jan 26		Sept 4	FOMC Dec 22
Short-term rates						
Federal funds ²	3.19	2.90	2.94		-.25	.04
Treasury bills ³						
3-month	2.92	3.20	2.95		.03	-.25
6-month	2.96	3.31	3.09		.13	-.22
1-year	3.06	3.48	3.30		.24	-.18
Commercial paper						
1-month	3.22	3.63	3.14		-.08	-.49
3-month	3.22	3.59	3.19		-.03	-.40
Large negotiable CDs ³						
1-month	3.06	3.34	3.09		.03	-.25
3-month	3.06	3.35	3.14		.08	-.21
6-month	3.11	3.49	3.27		.16	-.22
Eurodollar deposits ⁴						
1-month	3.31	3.31	3.06		-.25	-.25
3-month	3.31	3.38	3.19		-.12	-.19
Bank prime rate	6.00	6.00	6.00		.00	.00
Intermediate- and long-term rates						
U.S. Treasury (constant maturity)						
3-year	4.38	5.12	4.83		.45	-.29
10-year	6.40	6.65	6.50		.10	-.15
30-year	7.29	7.34	7.26		-.03	-.08
Municipal revenue ⁵ (Bond Buyer)	6.31	6.44	6.38		.07	-.06
Corporate--A utility recently offered	8.06	8.16	8.10		.04	-.06
Home mortgage rates ⁶						
FHLMC 30-yr. FRM	7.84	8.19	8.00		.16	-.19
FHLMC 1-yr. ARM	5.15	5.44	5.20		.05	-.24

	Record highs	Date	1989	1992	1993	Percent change from:		
			Lows Jan 3	FOMC Dec 22	Jan 26	Record highs	1989 lows	FOMC Dec 22
Stock prices								
Dow-Jones Industrial	3413.21	6/1/92	2144.64	3321.10	3298.95	-3.35	53.82	-.67
NYSE Composite	242.53	1/26/93	154.00	241.68	242.53	.00	57.49	.35
AMEX Composite	418.99	2/12/92	305.24	391.66	411.60	-1.76	34.84	5.09
NASDAQ (OTC)	707.16	1/26/93	378.56	660.84	707.16	.00	86.80	7.01
Wilshire	4358.33	1/26/93	2718.59	4294.50	4358.33	.00	60.32	1.49

1/ One-day quotes except as noted.
 2/ Average for two-week reserve maintenance period closest to date shown. Last observation is average to date for maintenance period ending February 3, 1993.

3/ Secondary market.
 4/ Bid rates for Eurodollar deposits at 11 a.m. London time.
 5/ Based on one-day Thursday quotes and futures market index changes.
 6/ Quotes for week ending Friday previous to date shown.

Selected Interest Rates*



* Friday weeks are plotted through January 22 statement weeks through January 20, 1993.

DOMESTIC FINANCIAL DEVELOPMENTS

Interest rates have declined across the maturity spectrum since the December FOMC meeting, with most short-term market interest rates down about 25 basis points and bond rates down less. The federal funds rate has continued to fluctuate around 3 percent, and other short rates now appear to have returned to a more normal alignment with the funds rate, perhaps because of the passage of year-end pressures and a growing sense that inflationary forces are sufficiently subdued that Fed tightening actions may be well down the road. Both Treasury and corporate bond rates were up about 20 basis points in mid-January, in reaction to reports that the 1993 federal deficit would likely be larger than previously forecast. Subsequent discussion of deficit reduction plans and of a possible shift in Treasury issuance toward shorter maturities helped roll back those increases, and late in the period yields dropped below their mid-December levels. Stock price movements have been mixed; the NASDAQ index has continued to post new highs, bolstered by the performance of high-technology and computer-related firms, while the Dow-Jones Industrial stock index is down slightly on balance, owing mainly to the troubles of IBM and a few other major companies.

Businesses paid down bank loans and commercial paper in December while stepping up their public bond offerings. Thus far in January, they have continued to concentrate borrowing in the long-term sector, as bond issuance has strengthened further and bank loans and commercial paper have stabilized on balance. Partial data for the household sector indicate that growth in home mortgage debt, boosted by a heavy volume of refinancings, rebounded in the final quarter of the year. An upturn in credit card use in December likely helped lift consumer installment debt to its first quarterly gain in a year. Consumer loans at banks continued to expand in

MONETARY AGGREGATES

(based on seasonally adjusted data unless otherwise noted)

	1992 ¹	1992 Q3	1992 Q4p	1992 Oct	1992 Nov	1992 Dec p	Growth Q4 91- Dec 92p
-----Percent change at annual rates-----							
1. M1	14.3	11.6	16.8	19.1	15.7	8.8	14.2
2. M2	1.9	0.8	3.0	4.6	2.7	-0.6	1.8
3. M3	0.5	0.0	0.4	0.1	0.6	-3.2	0.3
-----Percent change at annual rates-----							Levels bil. \$ Dec 92p
<u>Selected components</u>							
4. M1-A	13.7	12.2	15.3	16.9	10.1	7.3	641.4
5. Currency	9.1	11.1	10.5	7.1	7.5	10.8	292.4
6. Demand deposits	18.0	13.3	19.6	25.5	12.5	4.9	340.9
7. Other checkable deposits	15.4	10.8	19.3	22.9	25.4	11.3	385.2
8. M2 minus M1 ²	-2.4	-3.3	-2.4	-1.2	-2.5	-4.5	2475.8
9. Overnight RPs and Eurodollars, NSA	0.4	14.0	-1.6	16.3	-6.5	-21.1	72.7
10. General purpose and broker/dealer money market mutual fund shares	-3.4	-7.3	-1.0	14.5	-2.4	-7.2	348.8
11. Commercial banks	-0.1	-1.6	0.2	1.3	-1.7	-1.2	1263.0
12. Savings deposits (including MMDAs)	14.5	10.9	12.9	14.5	10.3	5.7	756.1
13. Small time deposits	-15.8	-17.4	-17.2	-17.3	-18.5	-11.7	506.9
14. Thrift institutions	-5.5	-4.8	-5.7	-8.0	-4.6	-6.9	793.3
15. Savings deposits (including MMDAs)	14.8	9.2	8.7	7.7	9.9	5.6	429.9
16. Small time deposits	-21.5	-18.9	-21.1	-25.3	-21.0	-21.4	363.4
17. M3 minus M2 ³	-6.1	-3.5	-12.4	-22.0	-10.3	-16.1	674.7
18. Large time deposits	-16.2	-17.9	-16.7	-21.5	-18.3	-10.0	358.4
19. At commercial banks, net ⁴	-15.3	-18.6	-18.0	-26.5	-16.2	-7.0	291.1
20. At thrift institutions	-19.6	-14.7	-11.3	0.0	-29.1	-21.0	67.3
21. Institution-only money market mutual fund shares	18.2	32.8	-19.3	-53.3	-9.7	-39.6	202.3
22. Term RPs, NSA	8.7	3.2	26.2	34.0	34.6	-4.4	81.8
23. Term Eurodollars, NSA	-18.1	-19.5	-7.1	-4.8	17.0	-4.8	49.8
-----Average monthly change in billions of dollars-----							
<u>MEMORANDA:⁵</u>							
24. Managed liabilities at commercial banks (25+26)	-2.0	0.9	-3.0	-8.0	-0.5	-0.4	679.0
25. Large time deposits, gross	-4.6	-3.4	-5.5	-7.5	-4.4	-4.7	366.6
26. Nondeposit funds	2.6	4.2	2.6	-0.5	3.9	4.3	312.4
27. Net due to related foreign institutions	2.7	0.6	3.2	3.5	3.2	2.8	71.4
28. Other ⁶	-0.1	3.6	-0.6	-4.1	0.8	1.5	241.0
29. U.S. government deposits at commercial banks ⁷	-0.5	-0.2	-1.2	-2.6	-0.8	-0.3	20.4

1. Amounts shown are from fourth quarter to fourth quarter.

2. Nontransactions M2 is seasonally adjusted as a whole.

3. The non-M2 component of M3 is seasonally adjusted as a whole.

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

5. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis.

6. 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.

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

p - preliminary

early January and home mortgage applications have increased after a lull late in 1992.

The strengthening of monetary growth during the fall faded in December, as growth in M1 slowed to a single-digit pace and the broader aggregates registered declines. M2 contracted at an annual rate of about 1/2 percent and M3 fell at a 3-1/4 percent rate, leaving both of the broader aggregates below the lower bounds of their 1992 target ranges. The velocities of these aggregates are estimated to have increased substantially further in the fourth quarter. Preliminary data for January suggest continued growth in M1 at about the December pace but further declines in M2 and M3. Some of the recent weakening in money growth reflects the ebbing of special factors, such as mortgage refinancing, that had spurred growth earlier. But the underlying growth also is sluggish, and the forces raising velocity continue to influence broad money growth.

Monetary Aggregates and Bank Credit¹

The slower growth of M1 in December resulted from a sharp deceleration in OCDs and demand deposits. OCD growth had surged to 25 percent in November, as _____ completed the dismantling of its sweep account program and reclassification of account balances from large time deposits to OCDs, but fell back to an 11-1/4 percent rate in December. Growth in demand deposits dwindled to 5 percent, less than half the November rate, partly because a diminishing volume of home mortgage refinancing required less temporary parking of escrowed funds in demand deposits. In contrast, currency growth picked up in December, apparently in part as a result of increased shipments abroad.

1. Monetary aggregate data in this document incorporate benchmarks and updates to seasonal adjustment factors that should be treated as confidential until their public release, tentatively scheduled for February 4.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT¹
(Percentage change at annual rate, based on seasonally adjusted data)

Category	1991 Dec. to 1992 Dec.	1992 Q 3	1992 Q 4 p	1992 Oct.	1992 Nov.	1992 Dec. p	Level, bil.\$ 1992 Dec. p
	Commercial bank credit						
1. Total loans and securities at banks	3.7	4.2	4.4	4.8	4.8	3.7	2,945.7
2. Securities	13.1	15.2	9.8	11.6	9.3	8.2	837.2
3. U.S. government	17.5	17.8	14.4	13.1	13.9	15.6	662.2
4. Other	-1.1	5.9	-6.5	6.1	-7.4	-18.2	175.1
5. Loans	0.5	0.0	2.3	2.1	3.0	1.9	2,108.4
6. Business	-2.7	-1.0	0.1	0.4	5.2	-5.2	602.9
7. Real estate	1.7	0.5	3.4	6.0	3.1	0.9	890.3
8. Consumer	-1.9	-2.6	-1.5	-4.0	-1.4	1.0	354.8
9. Security	20.9	11.2	0.0	-5.5	-23.7	29.8	66.0
10. Other	3.3	1.7	12.7	4.5	14.0	19.5	194.3
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-2.7	-1.2	-0.5	-1.8	4.4	-4.2	596.2
12. Loans at foreign branches ²	2.4	1.6	26.2	14.8	29.1	33.2	26.0
13. Sum of lines 11 and 12	-2.5	-1.1	0.5	-1.2	5.4	-2.7	622.2
14. Commercial paper issued by nonfinancial firms	9.8	7.3	20.2	19.1	49.9	-8.6	151.8
15. Sum of lines 13 and 14	-0.3	0.4	4.2	2.7	13.9	-3.9	774.0
16. Bankers acceptances, U.S. trade-related ^{3,4}	-17.5	-19.5	-5.1	5.1	-25.5	5.2	23.1
17. Finance company loans to business ⁴	n.a.	8.6	n.a.	-1.6	0.4	n.a.	304.8 ⁵
18. Total (sum of lines 15, 16, and 17)	n.a.	2.2	n.a.	1.4	9.4	n.a.	1,104.3 ⁵

1. Average of Wednesdays. Data are adjusted for breaks caused by reclassifications.

2. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.

3. Consists of acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.

4. Based on average of data for current and preceding ends of month.

5. November 1992.

p--Preliminary.

n.a.--Not available.

The nontransactions component of M2 declined at a 4-1/2 percent annual rate in December, a bit faster than in the previous month. Small time deposits continued to run off rapidly, and growth in savings accounts (including money market deposit accounts) slowed appreciably. Retail money market mutual funds experienced a larger outflow in December. Increased opportunity costs may have contributed to the reduced growth in savings deposits (and also in OCDs), as depositories did not raise interest rates on these deposits when short-term rates moved up in October and November. Stock and bond mutual funds continued to attract a large volume of funds, although anecdotal reports suggest that inflows in December may have slowed somewhat from November's near-record pace. Over the four quarters of 1992, M2 grew by nearly 2 percent, dropping about 3/4 percentage point below the lower bound of its target range by December. Using the current staff estimate for fourth-quarter GDP, the velocity of M2 rose at about a 3-1/2 percent annual pace both in the fourth quarter of 1992 and for the year as a whole.

The decline in M3 in December reflected, in addition to the weakness in M2, continued sizable runoffs in large time deposits and institution-only money market funds. For the full year 1992, M3 increased only 1/2 percent, and by December it was 3/4 percentage point below the lower bound of its target range. M3 velocity is estimated to have increased last year by about 5 percent, the largest annual increment since 1969. Bank and thrift credit were weak; moreover, a substantial proportion of credit was financed by additions to depository capital accounts.

Bank credit slowed somewhat in December, to an annual rate of 3-3/4 percent, as growth in both loans and securities holdings edged down. Real estate loans eked out a slight gain. Consumer loans posted a small increase, the first since June, as reportedly heavy

credit card use outweighed a relatively strong pace of securitizations; adjusted for securitizations, consumer loans grew at a 6-1/2 percent rate, the largest gain in eighteen months. Business loans contracted at a 5-1/4 percent rate, following a surge in November that owed partly to drawdowns on a line of credit by a single firm that needed to replace its commercial paper funding. The December dropoff may have reflected in part a smaller need to finance retail inventories than in other recent years because of the reportedly stronger than expected retail sales volume during the holiday season. Partial data for early January suggest that the fourth-quarter trend toward positive but modest increases in bank lending continued into the new year. The survey of senior loan officers taken in the latter part of January indicated no change in underwriting standards or terms on loans to businesses of various size which, given the historical bias of the survey against indicating ease, may suggest a tilt toward some loosening of credit availability for businesses. No change in standards was reported for commercial real estate loans, and a few banks indicated greater willingness to make consumer loans.

The moderate upturn in bank lending during the fourth quarter was fairly widespread geographically (table). Loans continued to contract in the West, but at a reduced rate. Consumer loans were the weakest category in the West. The greatest strength was in the Central region, particularly in real estate loans, reflecting steady growth in the Dallas district and a surge in lending in the Kansas City district. A jump in business lending accounted for much of the rebound in the Southeast.

1

LOAN GROWTH AT ALL WEEKLY REPORTING BANKS BY REGION
(Percentage Annual Rates, NSA)

Region	1991	1992			
	Q4	Q1	Q2	Q3	Q4
Northeast	-3.4	-6.7	-5.9	-7.1	3.3
Southeast	-4.9	-4.4	-7.0	-5.2	5.5
Midwest	3.1	2.0	0.6	-3.6	3.9
Central	-3.9	3.4	10.3	5.3	12.5
West	-3.5	-5.4	-10.6	-15.4	-6.4
Total	-2.5	-3.6	-4.8	-6.9	2.5

1. Growth rates are based on quarterly averages of the weekly data. The data have been adjusted for mergers.

Business Finance

Net borrowing by nonfinancial firms remained subdued in December; data through mid-January, however, suggest some pickup early this year. Gross public bond issuance rebounded in December from its slow November pace as businesses took advantage of a sharp drop in bond rates mainly to refinance outstanding debt. In contrast, both nonfinancial commercial paper outstanding and business loans at banks contracted. December reports are not yet available for business loans at finance companies, which were about flat on balance during October and November.

Year-end pressures in short-term credit markets appeared sooner and peaked earlier in 1992 than in either of the previous two years; by late December, they had all but disappeared. To minimize potential liquidity problems, many firms had satisfied their funding needs by late November, particularly Japanese banks and commercial paper issuers. The premium paid by paper issuers to finance into the new year declined throughout December after peaking in the first week of the month. Although the spread between rates on medium- and top-grade commercial paper remained high until the first full week of January, it stayed well below the levels of 1990 and 1991. Both Sears, which was downgraded by Standard & Poor's in December, and

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

	1991	1992 ^P	-----1992-----				-1993-
			Q3	Q4 ^P	Nov ^P	Dec ^P	Jan ^e
Corporate securities - total ¹	32.15	40.64	42.22	37.92	35.10	38.94	46.70
Public offerings in U.S.	29.37	37.86	39.83	35.80	32.80	37.15	44.50
Stocks--total ²	5.44	6.53	5.69	5.84	4.50	6.05	4.50
Nonfinancial	3.72	4.03	2.86	3.13	2.13	4.03	2.25
Utility	0.42	0.90	1.11	0.44	0.48	0.34	0.30
Industrial	3.30	3.14	1.75	2.69	1.65	3.69	1.95
Financial	1.72	2.50	2.83	2.71	2.37	2.02	2.25
Bonds	23.93	31.33	34.14	29.97	28.30	31.10	40.00
Nonfinancial	9.52	12.77	14.93	10.40	6.80	9.80	17.00
Utility	2.99	5.32	7.51	3.37	1.75	3.85	6.00
Industrial	6.54	7.45	7.42	7.03	5.05	5.95	11.00
Financial	14.40	18.56	19.21	19.57	21.50	21.30	23.00
By quality ³							
Aaa and Aa	3.72	3.72	4.57	3.32	1.45	3.20	5.00
A and Baa	12.09	14.41	15.20	11.58	12.59	10.73	20.48
Less than Baa	1.03	3.07	3.11	3.22	1.68	3.79	5.70
No rating (or unknown)	0.02	0.08	0.04	0.16	0.03	0.07	0.02
Memo items:							
Equity-based bonds ⁴	0.63	0.62	0.28	0.67	0.30	1.27	0.59
Mortgage-backed bonds	2.99	6.07	6.76	6.05	6.37	5.80	6.00
Other asset-backed	4.08	3.99	4.45	5.64	6.18	7.52	2.80
Variable-rate notes	0.84	1.89	2.00	2.47	1.15	4.42	0.20
Bonds sold abroad - total	2.33	2.28	2.18	1.87	2.20	1.50	2.00
Nonfinancial	1.00	0.83	0.71	0.59	0.55	0.40	0.60
Financial	1.33	1.44	1.46	1.28	1.65	1.10	1.40
Stocks sold abroad - total	0.46	0.50	0.22	0.25	0.11	0.29	0.20
Nonfinancial	0.38	0.39	0.17	0.19	0.06	0.29	0.20
Financial	0.08	0.12	0.04	0.09	0.04	0.00	0.00

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 occurred in restructurings. Such swaps totaled \$15 billion in 1991.

3. Bonds categorized according to Moody's bond ratings, or to Standard and Poor's 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.

GMAC successfully tapped the paper market for year-end funds, although their paper trades at rates 30 basis points or so higher than that of other medium-grade issuers.

Among nonfinancial firms, public offerings of both investment-grade and junk bonds increased in December. Investment-grade offerings climbed to about \$7 billion in December, still well below the monthly average pace of \$10 billion for the full year, and appear to have increased substantially further in January. Despite some widening of rate spreads in the junk bond arena, particularly for lower-rated firms, junk issuance doubled to about \$3 billion in December and already has surpassed that pace in January. Several lower-rated firms issued debt with equity-like kickers, such as Levitz Furniture's zero-coupon issue with warrants to acquire senior deferred-coupon debentures.

Gross equity issuance by nonfinancial firms surged in December to more than \$4 billion, its highest level since June; issuance in January is expected to be about half of that level. In a rush to complete deals before year-end and to take advantage of improved share price performance in the aftermarket, a large number of smaller-capitalization firms came to the market with initial public offerings in December. As a result, the volume of IPOs by nonfinancial firms rebounded to the pace of the first half of 1992. The IPO calendar still remains long and includes some relatively large issues. A planned offering by WordPerfect would be the largest software IPO since Microsoft went public seven years ago.

Stock price movements have been mixed since the last FOMC meeting. The NASDAQ, powered by high-technology stocks, almost daily recorded new highs and rose about 7 percent over the intermeeting period. Shares of smaller-capitalization firms that typically trade in the over-the-counter market have benefitted from

speculation that the Clinton administration will adopt programs favorable to smaller firms, especially those in high-tech industries. Announcements of stronger-than-anticipated fourth-quarter earnings of several major semiconductor and software companies also fueled the latest surge in the index. In contrast, the Dow Jones Industrial Average and the Standard & Poor's 500 Stock Index both dipped slightly. The DJIA has been restrained partly because of investor concern about IBM: Since the FOMC meeting, the price of IBM stock has declined over 5 percent.

Bank share prices have climbed sharply on favorable earnings announcements by several major regional and money center banks. In 1992, banking organizations took the opportunity afforded by higher prices for their securities to issue record levels of debt and equity. Banking firms strengthened capital ratios with new issues of subordinated debt last year exceeding \$12 billion, more than doubling the previous record amount of 1991. Banking organizations also issued nearly \$10 billion in new equity during 1992. In the opening weeks of 1993, they issued about \$3-1/2 billion in total of debt and equity securities. An overwhelming majority of banks reporting on the January senior loan officer opinion survey indicated that their capital positions could be characterized as comfortable.

Recent indicators of financial stress generally point to continued improvement in the condition of businesses. Defaults on corporate bonds in 1992 registered a substantial decline from levels of the previous two years. Positive dividend actions also increased in 1992, reflecting stronger profits and improved cash flows. Although the number of business bankruptcy filings remained at high levels throughout 1992, the number of ratings downgrades declined

appreciably. Firms downgraded, however, included a number of large, well-known corporations.

Treasury and Sponsored Agency Financing

The staff anticipates that a \$76 billion first quarter deficit will be financed by \$74 billion of marketable borrowing, with financing concentrated in February and March. A large cash management bill is expected to cover a seasonal low in the cash balance between early March and mid-April.

The Treasury recently announced that, for the second time since the early 1960s, it will call an outstanding bond issue, one with five years remaining to maturity. By replacing the security with a new five-year issue, the Treasury will be able to save about 120 basis points at current interest rates. However, only about \$500 million of the issue is held by nongovernmental investors, so the budgetary impact will be small. Possible future calls would have little effect on Treasury borrowing costs, as callable issues are a miniscule proportion of outstanding bonds, and have not been issued since 1985.

More dramatic action on debt management may be in store: Attention within the Administration and Congress has been given to recommendations that the Treasury shorten the average maturity of the government's debt, on grounds that this would substantially lower Treasury borrowing costs and would also reduce long-term interest rates. This argument hinges on the existence of a significant and persistent term premium that causes long-term rates to exceed future short rates. However, evidence on the term premium is decidedly mixed, and other work suggests that shifts in Treasury bond auction sizes have only modest effects on long-term Treasury rates.

TREASURY AND AGENCY FINANCING¹
(Total for period; billions of dollars)

	1992		1993		
	Q4	Q1 ^P	Jan. ^P	Feb. ^P	Mar. ^P
<u>Treasury financing</u>					
Total surplus/deficit (-)-	-120.5	-75.5	20.8	-52.5	-43.8
Means of financing deficit:					
Net cash borrowing from the public	81.4	75.1	-9.9	33.3	51.7
Marketable borrowings/ repayments (-)	76.7	73.9	-7.2	32.0	49.2
Bills	23.4	21.1	-10.7	4.3	27.6
Coupons	53.3	52.8	3.6	27.6	21.6
Nonmarketable	4.7	1.1	-2.8	1.4	2.5
Decrease in the cash balance	28.9	.3	-17.1	33.3	-15.9
Memo: Cash balance at end of period	29.9	29.5	47.0	13.6	29.5
²					
Other	10.1	.1	6.2	-14.2	8.1
<u>Federally sponsored credit agencies, net cash borrowing³</u>					
	4.6	--	--	--	--
FHLBs ⁴	3.5	--	--	--	--
FHLMC ⁴	-5.8	--	--	--	--
FNMA ⁴	6.1	--	--	--	--
Farm Credit Banks ⁴	.0	--	--	--	--
SLMA	0.8	--	--	--	--
FAMC ^{4,5}	--	--	--	--	--

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

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

3. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

4. December data not included.

5. Federal Agricultural Mortgage Corporation.

p--projected.

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

Municipal Securities

Gross issuance of long-term municipal bonds surged in December, spurred mainly by a spike in refunding activity. For the entire year, total long-term issuance topped \$215 billion, a volume somewhat larger than the previous record set in 1985, when issuers sold debt in advance of restrictions to be imposed by the 1986 Tax Reform Act. The pace of refunding has dropped off in January, but the forward calendar has begun to build, as municipal yields remain at levels that make large portions of debt sold between 1988 and 1991 attractive for refinancing. Despite the large volume of refunding offerings in recent months, at least two-thirds of eligible debt has yet to be refunded. Market analysts suggest that these refundings will take place whenever demand is sufficient to accommodate sales without spurring sharp increases in yields. Favorable demand conditions are likely to exist in the current quarter, as managers of tax-exempt bond funds will probably attempt to keep heavy seasonal cash inflows fully invested.

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

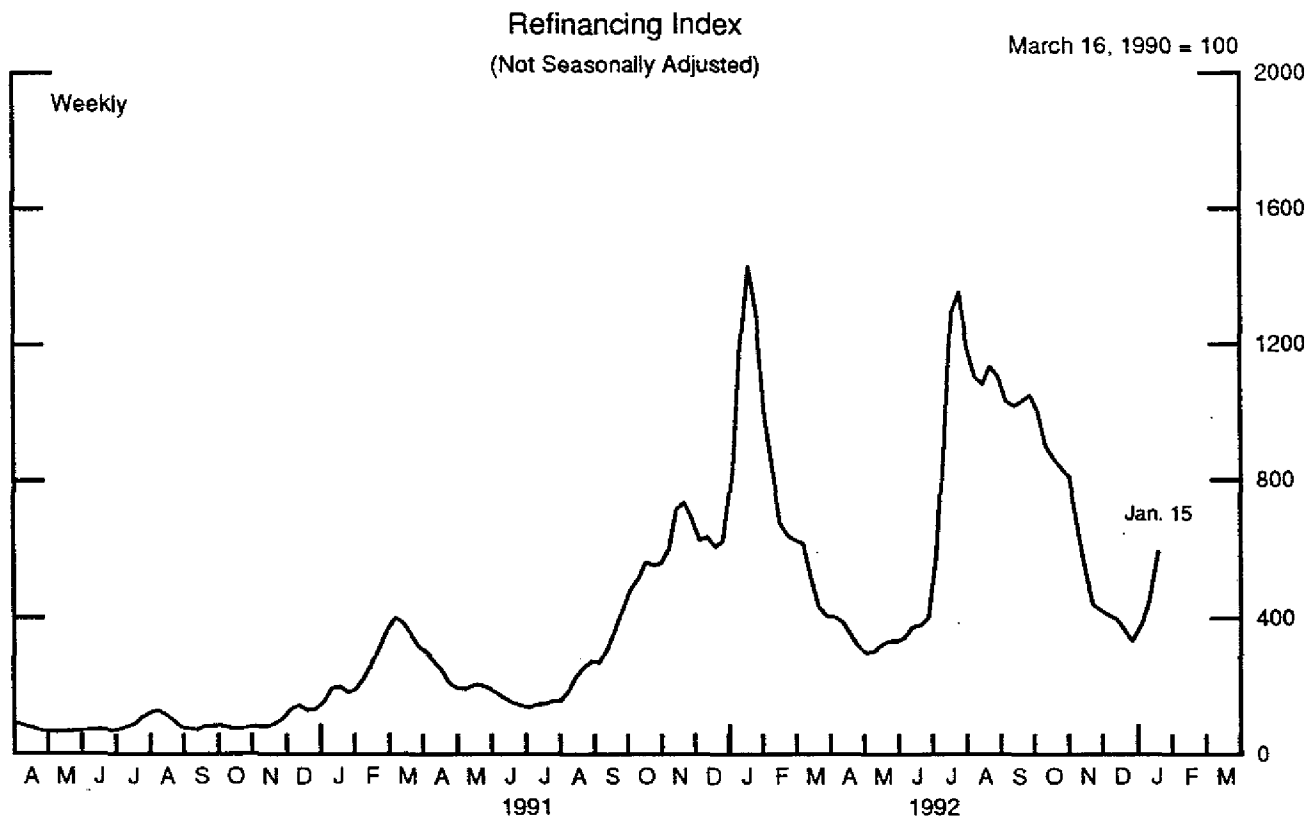
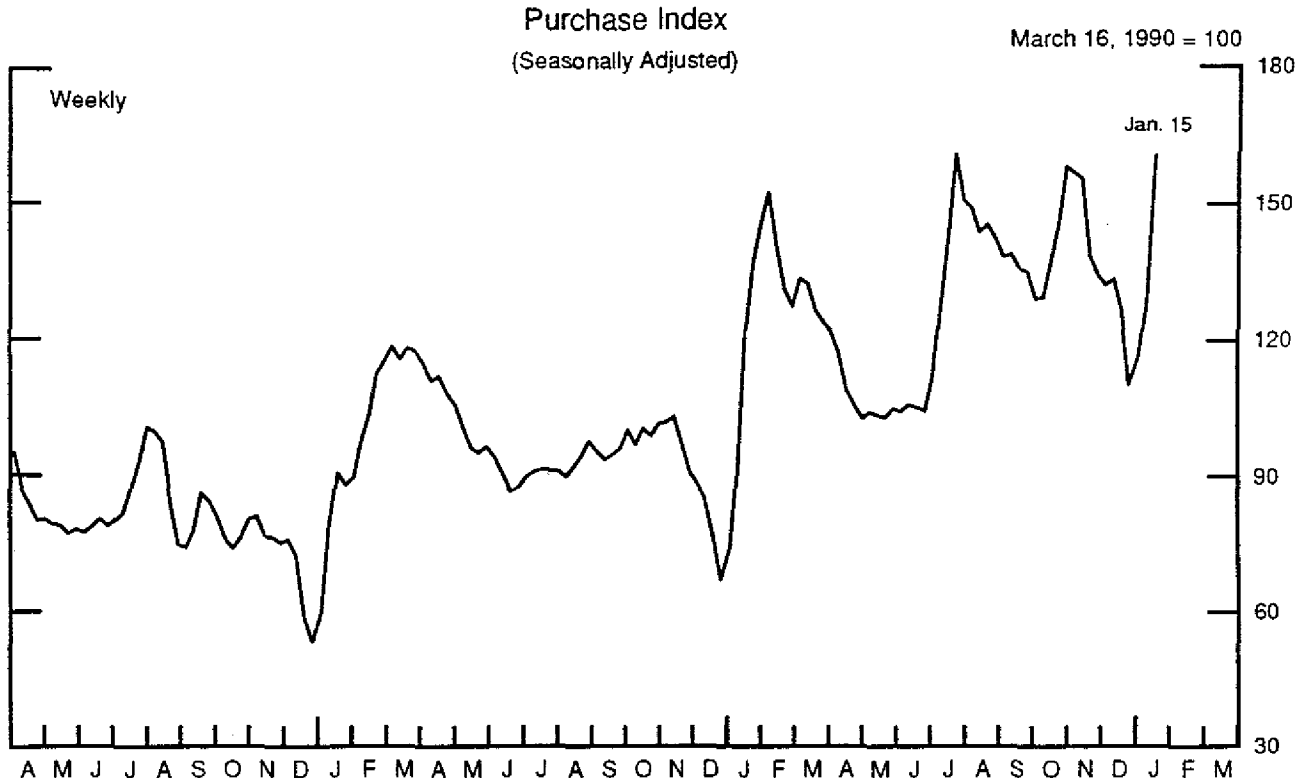
	1991	1992 ^P	1992		1992		1993
			Q3	Q4 ^P	Nov. ^P	Dec. ^P	Jan. ^f
Total offerings ¹	16.68	21.78	25.09	19.87	15.04	20.92	---
Total tax-exempt	16.26	21.22	24.65	19.33	14.60	20.35	16.00
Long-term	12.87	17.93	18.62	18.27	14.14	19.58	15.00
Refundings ²	3.12	7.91	8.60	8.33	6.11	11.57	7.00
New capital	9.75	10.02	10.02	9.33	8.03	8.01	8.00
Short-term	3.39	3.28	6.03	1.07	.46	.77	1.00
Total taxable	.42	.57	.44	.54	.44	.57	---

p--preliminary. f--forecast.

1. Includes issues for public and private purposes.

2. Includes all refunding bonds, not just advance refundings.

MBA Indexes of Mortgage Loan Applications



Changes in municipal bond ratings in 1992 suggest that credit quality in the sector declined somewhat over the year. Although Moody's raised a few more ratings than it lowered, the dollar volume of debt downgraded by Moody's was twice the volume of upgraded debt, a disparity reflecting in part two separate downgradings of California debt during the year. Ratings changes at Standard & Poor's have a similar pattern. The majority of both credit agencies' downgrades consisted of general obligation issuers facing weak tax revenues; many issuers began fiscal 1993 with their lowest cash balances in several decades. Nevertheless, analysts at the two credit agencies believe that credit quality likely will improve on balance during 1993, partly because tax collections are expected to improve for many issuers; several states in the Northeast have already reported significant increases in income tax receipts. In addition, issuers that refinanced in 1992 are likely to benefit from lower debt service payments.

Mortgage Markets

Data on recent mortgage credit growth are sparse. Total real estate loans at commercial banks posted their strongest quarterly gain of the past year in the fourth quarter, although the monthly growth rates slowed sharply after a spike in October; early data for January suggest an overall decline, some of which may be due to write-downs of real estate loans near year-end. On the other hand, the Mortgage Bankers Association's index of mortgage applications to purchase new homes has risen in the three most recent survey weeks through January 15 (chart). The MBA's index for mortgage refinancing applications has also picked up a bit. Applications for both purposes may have been responding to recent declines in mortgage rates; over the intermeeting period, rates for both

adjustable-rate mortgages and conventional 30-year fixed-rate mortgages have dropped about 20 basis points.²

Mortgage yield spreads have continued to narrow from their widest points reached last fall when mortgage prepayment rates on even low coupon mortgages increased to unanticipated levels and market volatility rose to the highest levels of the year. Investor anxiety about uncertain prepayment rates has calmed in recent weeks, as prepayment rates appear to have peaked in November and as most mortgage market analysts have been predicting slower prepayment rates in the months ahead, on the assumption that mortgage rates will not decline significantly further.

Despite a relatively weak housing market, residential mortgage originations in 1992, fueled by heavy refinancing activity, are reported to have reached a new high of nearly \$800 billion (table). As the thrift industry continued to contract, an increasing share of mortgage originations were associated with issuance of mortgage-backed pass-through securities, which rose more than 70 percent to a record volume of \$545 billion.

The private (non-agency) sector of the mortgage securities market issued a record \$90 billion in 1992. Private securities generally are collateralized by higher-yielding nonconforming mortgages that are not eligible for purchase by Fannie Mae or Freddie Mac. These securities receive their credit enhancement in the form of letters of credit, private mortgage pool insurance, cash reserve accounts, or various forms of senior/subordinated

2. While MBA staff assume that mortgage refinancings exhibit little or no seasonal variation, they do seasonally adjust indirectly the purchase index based on averages of seasonal factors for new and existing home sales and mortgage originations. Nevertheless, the sharp declines and abrupt increases in the purchase index immediately before and after the end of the year for each of the past three years suggests that at least some of the seasonal variation in the data has not been adequately captured by the MBA's subjective procedures.

MORTGAGE MARKET ORIGINATIONS
(Billions of dollars)

Year	Residential Mortgage Loans	Pass-Through Securities				Total	Agency CMOs
		GNMA	FNMA	FHLMC	Private ¹		
1985	243.6	46.0	23.6	38.8	2.0	110.4	16.0
1986	454.8	101.4	60.6	100.2	7.0	269.2	48.3
1987	450.0	94.9	63.2	75.0	11.1	244.2	59.9
1988	375.6	55.2	54.9	39.8	15.4	165.3	78.8
1989	352.8	57.1	69.8	73.5	14.2	214.6	97.8
1990	439.2	64.4	96.7	73.8	24.4	259.3	111.7
1991	534.0	62.7	112.9	92.5	49.3	317.4	195.0
1992p	780.0	83.6	193.9	178.4	89.5	545.4	278.7

1. Includes privately issued CMOs.
p--preliminary

structures. Prudential Home Mortgage Securities Corporation edged out the Resolution Trust Corporation to become the largest issuer of non-agency mortgage securities in 1992, accounting for nearly 20 percent of private issues.

In the derivative market, new-issue Fannie Mae and Freddie Mac collateralized mortgage obligations (CMOs) increased 43 percent in 1992 to just under \$280 billion, but fell short of the levels that had been expected earlier in the year. CMO issuance in 1992 began at the brisk pace set in 1991, but slowed later in the year as demand softened. The unanticipated surge in prepayments was larger for a number of planned amortization class (PAC) bonds than allowed for in their conditional guarantees of cash flow; many investors thus received larger-than-expected principal repayments which could only be reinvested at lower rates. Investors' frustration over these broken PAC bonds resulted in reduced liquidity in the CMO market and a clear preference for regular pass-throughs in the second half of the year.

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (at annual rate)						Memo: Outstandings (billions of dollars)
	1990	1991	1992		1992		1992
			H1	Q3	Oct. ^r	Nov. ^p	Nov. ^p
Installment	2.6	-1.0	-1.3	-.5	0.9	2.0	723.9
Auto	-2.4	-7.6	-4.3	.1	-1.3	3.3	257.8
Revolving	11.9	8.9	3.8	4.2	2.2	.5	250.6
Other	.8	-2.3	-3.5	-6.3	2.1	2.3	215.5
Noninstallment	-3.5	-10.0	13.0	8.2	-52.4	24.0	56.0
Total	2.1	-1.7	-.4	.2	-3.0	3.6	779.8

r--revised. p--preliminary.

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

CONSUMER INTEREST RATES
(Annual percentage rate)

	1990	1991	1992	1992			
				Aug.	Sept.	Oct.	Nov.
At commercial banks ¹							
New cars (48 mo.)	11.78	11.14	9.29	9.15	8.60
Personal (24 mo.)	15.46	15.18	14.04	13.94	13.55
Credit cards	18.17	18.23	17.78	17.66	17.38
At auto finance cos. ²							
New cars	12.54	12.41	...	8.88	8.65	9.51	9.65
Used cars	15.99	15.60	...	13.49	13.44	13.37	13.37

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.

Consumer Installment Credit

Consumer installment credit outstanding apparently grew in the fourth quarter, for only the second time in eight quarters. Although December figures are not final, mainly because reports from finance companies are not yet in, a modest pickup in revolving credit in December may have lifted total installment credit to its largest monthly increase in more than two years. Revolving credit--primarily credit card debt--increased at a rate of around 5 percent in December.³ Even if finance company loans to consumers did not grow at all, total installment credit would have risen at about a 4 percent annual rate in December, and at a 2 percent rate for the quarter.

Conversations with credit executives at major retailers revealed diverse experience on the proportion of their holiday sales financed by credit. At Penney's, for instance, sales volume was described as very strong, particularly after mid-December, but charge card use was about flat. Some Penney's customers had paid down outstanding balances from the proceeds of mortgage refinancings in recent months, and were paying off new charges within the billing period rather than rolling over balances. In contrast, a Sears executive said that credit sales at that firm were the best since 1988, and that the proportion of credit sales to total sales increased during the year.

Collection experience was generally quite good at these firms in the fourth quarter. Bankruptcies, chargeoffs for bad debt, and delinquency rates all dropped substantially at Penney's over the

3. The growth for revolving credit that will be published in the Board's consumer credit release in early February will be about 1-1/2 percent, rather than the 5 percent rate cited here. The discrepancy results from a transfer of \$800 million of credit card receivables from a bank to a finance company. Finance companies do not report revolving credit as a separate category, but include it within the "other" component.

second half of the year, particularly during the fourth quarter. Delinquency rates and chargeoffs at Sears were higher in December than a year earlier, but the trend from month to month recently has been down. Aggregate statistics on delinquency rates and bankruptcies for the fourth quarter will not be available for several weeks. Most delinquency series moved lower on balance over the first three quarters; a flattening out of bankruptcy increases during the second and third quarters suggests that the rise in that measure will probably drop below a double-digit pace for the year for the first time since 1984.

INTERNATIONAL DEVELOPMENTS

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

The U.S. merchandise trade deficit widened slightly in November to \$7.6 billion (seasonally adjusted, Census basis) from a revised October deficit of \$7.2 billion. Exports declined 3 percent and imports declined 2 percent. For both exports and imports, increases in automotive products were more than offset by declines in most other items. The increase in automotive exports was largely parts shipped to Mexico; the increase in automotive imports was largely passenger cars from countries other than Mexico or Canada. A 7 percent decline in the value of imported oil resulted from decreases in both quantity and price. Data for December will be released February 18.

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

	Exports			Imports			Balance
	Total	Ag.	NonAg.	Total	Oil	NonOil	
1992-Jul	37.8	3.9	33.9	45.1	4.8	40.3	-7.3
Aug	35.8	3.6	32.2	44.8	4.6	40.2	-9.0
Sep	37.9	4.0	33.9	46.5	4.8	41.7	-8.6
Oct	39.1	4.1	35.0	46.3	5.0	41.3	-7.2
Nov	38.0	3.6	34.3	45.6	4.7	40.9	-7.6

Source: U.S. Department of Commerce, Bureau of the Census.

For October-November combined, the trade deficit at an annual rate was slightly less than in the third quarter. Nonetheless, for the last three quarters of 1992, the merchandise trade deficit is estimated to have averaged \$103 billion at an annual rate on a balance-of-payments basis; this compares with an average of \$73 billion at an annual rate for the preceding five quarters. While exports rose substantially faster than imports in October-November,

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

	Year		1992				S Change	
	1991	1992e	Q1	Q2	Q3	Q4e	Q4e-Q4	Q4e-Q3
Trade Balance	-73.4	-94.4	-68.9	-98.2	-106.2	-104.5	-30.3	1.7
Total U.S. Exports	416.0	439.3	431.8	429.9	443.2	452.4	21.0	9.1
Agric. Exports	40.1	44.5	43.3	41.9	46.4	46.5	3.3	0.1
Nonagric. Exports	375.8	394.8	388.5	388.0	396.8	405.9	17.7	9.1
Industrial Suppl.	101.8	102.0	99.7	100.3	103.2	104.7	4.7	1.5
Gold	3.6	4.7	3.8	3.5	3.7	7.7	4.2	4.1
Fuels	14.3	13.3	13.9	13.5	13.4	12.4	-2.2	-1.0
Other Ind. Suppl.	83.9	84.0	82.1	83.3	86.1	84.6	2.8	-1.6
Capital Goods	167.0	176.0	176.4	173.9	174.6	179.0	2.7	4.4
Aircraft & Parts	36.4	37.3	42.6	37.7	33.3	35.5	-5.3	2.2
Computers & Parts	27.3	28.5	27.4	28.6	29.0	29.2	1.3	0.2
Other Machinery	103.3	110.1	106.4	107.6	112.2	114.3	6.8	2.1
Automotive Goods	40.0	46.4	42.9	46.2	49.0	47.5	5.9	-1.4
To Canada	22.8	23.3	20.8	23.7	24.5	24.1	1.1	-0.4
To Other	17.5	23.1	22.1	22.5	24.5	23.4	4.8	-1.1
Consumer Goods	45.9	50.6	47.9	48.5	51.4	54.5	6.4	3.1
Other Nonagric.	21.0	19.8	21.5	19.1	18.6	20.1	-2.0	1.5
Total U.S. Imports	489.4	533.8	500.7	528.1	549.4	556.9	51.3	7.5
Oil Imports	51.2	52.0	41.5	51.7	56.9	58.0	9.3	1.2
Non-Oil Imports	438.2	481.7	459.2	476.4	492.5	498.9	42.1	6.3
Industrial Suppl.	83.9	88.2	84.3	88.3	88.0	92.4	9.1	4.5
Gold	2.9	3.6	2.3	3.6	2.8	5.8	2.8	3.0
Other Fuels	3.9	4.5	4.4	4.6	4.4	4.6	-0.2	0.2
Other Ind. Suppl.	77.1	80.2	77.7	80.1	80.8	82.0	6.6	1.2
Capital Goods	120.7	133.5	125.1	131.4	138.0	139.6	17.6	1.6
Aircraft & Parts	11.7	12.6	12.1	13.5	12.3	12.6	1.1	0.3
Computers & Parts	26.1	31.6	27.7	30.7	33.8	34.1	7.3	0.2
Other Machinery	82.9	89.4	85.4	87.2	91.9	93.0	9.2	1.0
Automotive Goods	84.9	90.2	87.8	89.5	91.3	92.2	3.6	0.9
From Canada	28.8	31.4	30.9	31.7	33.0	30.0	-0.1	-3.0
From Other	56.2	58.8	56.9	57.8	58.3	62.2	3.7	3.8
Consumer Goods	108.0	122.5	116.2	119.2	128.5	126.3	7.6	-2.1
Foods	26.5	27.9	26.8	29.1	28.3	27.4	1.0	-0.9
All Other	14.1	19.3	19.0	18.9	18.5	20.9	3.2	2.4

e--For quarter, average of first 2 months at an annual rate.

For year, average of first 11 months at an annual rate.

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

over the four quarters of 1992 imports are estimated to have grown about 5 percentage points faster than exports.

Most of the increase in exports in October-November was in capital goods (both machinery and aircraft) and consumer goods. The rise in machinery exports was strongest in high tech equipment, especially telecommunications equipment (boosted by a satellite launched for foreign owners), semiconductors, and computers. There was also a jump in gold exports that was largely offset by an increase in gold imports on a BOP basis; these movements may have reflected shifts in gold holdings out of the Federal Reserve Bank of New York which were subsequently exported. [When gold leaves the Federal Reserve Bank of New York it is recorded as an "import" into the United States on a BOP-basis; when it leaves the country it is recorded as an export.] By area, the increase in nonagricultural exports in October-November went primarily to developing countries (particularly Taiwan and China) as well as to certain industrial countries, including the United Kingdom (from a low third-quarter level) and Canada. Overall, the value of nonagricultural exports grew an estimated 5 percent during 1992 (Q4/Q4), somewhat less than in 1991.

The value of agricultural exports was about the same in October-November as in the third quarter as declines in a wide range of commodities such as soybeans, tobacco, and cotton were offset by increases in wheat, corn, dairy products, and other agricultural industrial supplies. For the year as a whole, agricultural exports grew an estimated 8 percent (Q4/Q4).

A substantial part of the rise in imports in October-November from the third quarter was in passenger cars from Asia and Europe that increased from lows recorded during the summer. Imports of consumer goods eased back a bit in both October and November from

the very strong pace recorded in September. While imports of machinery in October-November were only slightly higher than in the third quarter, the cumulative rise over the four quarters of 1992 was substantial for key categories: computers, accessories and parts rose 27 percent, and semiconductors increased 19 percent. In all, the value of non-oil imports grew an estimated 9 percent in 1992 (Q4/Q4), more than twice the pace recorded in 1991.

Oil Imports

The value of oil imports fell in November; the price of oil declined by about 40 cents per barrel and the quantity imported declined 0.4 mb/d from the October average. For October-November combined, the quantity of oil imports for the third quarter was 0.2 mb/d above the third-quarter rate, largely the result of increased consumption. For 1992 as a whole, oil imports averaged 8.1 mb/d, approximately 0.4 mb/d above the average for 1991. The increase in imports largely reflected increased oil consumption brought about by the pickup in economic activity. Prices of oil imports increased over most of 1992, recovering from the trough in the first quarter.

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1992			Months			
	Q2	Q3	Q4-e	Aug	Sep	Oct	Nov
Value (Bil. \$)	51.73	56.85	58.03	54.90	58.10	59.99	56.08
Price (\$/BBL)	17.47	18.55	18.54	18.49	18.47	18.74	18.33
Quantity (mb/d)	8.11	8.39	8.57	8.13	8.61	8.77	8.38

e--Average of first 2 months of quarter at an annual rate.

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

At the beginning of 1993, the oil market continues to remain relatively oversupplied from strong OPEC production, a surge in Russian net exports, and gains in North Sea production. At the turn of the year, spot prices resumed their decline begun in mid-October of 1992 before rallying this week on calls for production restraint

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

	Year	Quarters			Months	
	1992-Q3	1992			1992	
	1991-Q3	Q1	Q2	Q3	Oct	Nov
	(Quarterly Average, AR)				(Monthly Rates)	
-----BLS Prices-----						
<u>Imports, Total</u>	2.8	-1.2	0.8	6.6	0.6	-0.6
Foods, Feeds, Bev.	-1.1	10.0	-15.0	-1.5	0.3	0.2
Industrial Supplies	1.8	-15.1	12.1	9.7	1.1	-1.6
Ind Supp Ex Oil*	0.4	4.7	-0.5	2.1	0.2	-0.7
Capital Goods	4.0	4.7	-3.4	8.4	0.0	-0.4
Automotive Products	2.5	0.9	-2.6	4.6	0.4	-0.5
Consumer Goods	4.2	6.2	0.3	5.3	0.6	0.0
Memo:						
Oil	4.5	-45.0	44.4	25.5	2.6	-3.5
Non-oil	2.6	4.4	-2.7	4.8	0.3	-0.4
<u>Exports, Total</u>	1.0	-1.2	2.0	0.7	-0.4	-0.1
Foods, Feeds, Bev.	-0.4	-1.3	-2.0	-13.6	-2.6	1.4
Industrial Supplies	0.2	-6.5	5.5	5.5	-0.5	-0.6
Capital Goods	1.4	1.2	0.9	1.2	-0.2	-0.2
Automotive Products	1.8	1.6	1.2	1.3	0.6	0.0
Consumer Goods	2.6	5.9	1.6	0.3	0.2	0.4
Memo:						
Agricultural	-0.5	-3.3	-1.0	-7.6	-2.0	0.8
Nonagricultural	1.2	-1.0	2.7	2.0	-0.2	-0.2
-----Prices in the NIPA Accounts-----						
<u>Fixed-Weight</u>						
Imports, Total	2.6	-4.2	4.8	6.3	--	--
Oil	8.0	-48.9	72.1	28.6	--	--
Non-oil	2.1	1.8	0.0	4.3	--	--
Exports, Total	0.8	-0.7	1.5	0.4	--	--
Ag	-1.0	-4.1	-1.1	-8.2	--	--
Nonag	1.1	-0.4	1.8	1.8	--	--
<u>Deflators</u>						
Imports, Total	-0.1	-6.9	2.3	2.2	--	--
Oil	7.6	-48.6	70.7	26.9	--	--
Non-oil	-1.0	-1.5	-2.3	-0.3	--	--
Exports, Total	-0.8	-1.1	-1.8	-1.5	--	--
Ag	-2.1	-5.2	-1.6	-6.0	--	--
Nonag	-0.8	-0.7	-1.8	-1.3	--	--

* Months not for publication.

by Saudi Arabia and Iran. Spot West Texas Intermediate currently stands at \$19.61 per barrel. Because of shipping and contract lags, import prices should continue to fall at least through January, with January's import unit value likely to be below \$16.00 per barrel.

Prices of Non-oil Imports and Exports

In November, prices of non-oil imports declined 0.4 percent, the the first decline since May 1992. The largest decreases were in prices of imported non-oil industrial supplies, followed by capital goods and motor vehicles. Part of the decline in prices was associated with the appreciation of the dollar last fall. For October-November combined, the small average increase in non-oil import prices was substantially less than the 4-1/2 percent annual rate rise recorded in the third quarter. The strength of the rise in the third quarter was attributable in part to the depreciation of the dollar over the summer; increases were particularly strong in prices of imported capital goods and to a lesser extent consumer goods and automotive products.

Prices of exports declined slightly recently. In November, prices of nonagricultural exports decreased for the third consecutive month. Most of the decline was in capital goods (led by a 1.6 percent -- not an annual rate -- drop in the prices of exported computers, peripherals, and semiconductors) and in industrial supplies. Prices of agricultural exports increased slightly in November following a sharp decline in October. For the two months combined prices declined 6 percent at an annual rate; price declines were recorded for the last 4 quarters.

Price data for December will be released January 29.

U.S. International Financial Transactions

Banks reported large net capital inflows in November, reversing their outflows in October (line 1 of the Summary of U.S.

International Transactions table). A large part of the \$20.5 billion inflow was accounted for by foreign-chartered banks, continuing a trend observed since August in the monthly-average data on net borrowing by these banks from own foreign offices and IBFs. See line 1b of the table on International Banking Data. However, unlike previous months when inflows were recorded primarily by non-Japanese banks, significant inflows were registered in November by Japanese and non-Japanese banks alike. Data for December indicate that the trend has continued through the end of the year (line 1b). As in previous months, the November inflow registered by foreign-chartered banks coincided with asset growth at these banks; all categories of assets were involved.

Private foreign net purchases of U.S. Treasury obligations soared to \$16.4 billion in November (line 3 of the Summary table). \$3.3 billion of the total was purchased by Japanese residents, while \$7 billion and \$5 billion went through the United Kingdom and the Netherlands Antilles, respectively. The net purchases in November reflected Treasury's mid-quarter refunding schedule and, thus, are not likely to have been repeated in December.

Net purchases of other U.S. bonds by private foreigners were small in November (line 2a of the Summary table); purchases of U.S. government agency bonds more than accounted for the total. Information on new U.S. issues in the Eurobond market suggests continued low net purchases of corporate bonds in December. Foreign net purchases of U.S. stocks were positive in November (line 2b).

U.S. residents continued the buildup of their holdings of foreign securities (line 2c). Of the \$4.4 billion increase in net holdings in November, most was in stocks (\$3.6 billion); the small total for net purchases of foreign bonds did, however, mask a \$2 billion decline in U.S. holdings of Japanese bonds. Net purchases

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

	1990	1991	1991	1992			1992		
	Year	Year	Q4	Q1	Q2	Q3	Sept.	Oct.	Nov.
<u>Private Capital</u>									
Banks									
1. Change in net foreign positions of banking offices ¹ in the U.S. (+ = inflow)	36.6	-18.8	-1.8	4.6	-2.4	34.4	27.9	-19.7	20.5
Securities									
2. Private securities transactions, net ²	-29.1	-10.9	-6.0	-4.3	1.7	-11.7	-4.5	-2.5	-1.8
a) foreign net purchases (+) of U.S. corporate bonds ³	16.2	25.7	6.6	7.7	11.8	6.8	2.3	3.2	1.2
b) foreign net purchases (+) of U.S. corporate stocks	-13.7	10.1	-1.5	-2.8	-1.2	-3.8	-2.4	0.4	1.3
c) U.S. net purchases (-) of foreign securities	-31.6	-46.8	-11.1	-9.1	-8.9	-14.6	-4.4	-6.2	-4.4
3. Foreign net purchases (+) of U.S. Treasury obligations	-1.0	19.3	1.9	0.8	10.3	5.0	-2.7	3.1	16.4
<u>Official Capital</u>									
4. Changes in foreign official reserves assets in U.S. (+ = increase)	32.1	16.0	13.3	21.0	20.4	-8.2	-12.9	11.6	-9.3
a) By area									
G-10 countries	10.0	-17.6	0.5	2.4	3.4	3.8	0.5	-3.0	-4.4
OPEC	1.2	-5.8	1.2	2.7	-2.5	2.9	1.8	0.9	-0.3
All other countries	20.8	39.3	11.6	15.9	19.5	-14.9	-15.2	13.8	-4.5
b) By type									
U.S. Treasury securities ⁴	29.6	14.8	12.6	14.9	11.1	-0.3	-4.1	-6.4	-4.1
Other	2.5	1.2	0.7	6.0	9.2	-7.8	-8.8	18.1	-5.
5. Changes in U.S. official reserve assets (+ = decrease)	-2.2	5.8	1.2	-1.1	1.5	2.0	*	0.5	0.6
<u>Other transactions (Quarterly data)⁵</u>									
6. U.S. direct investment (-) abroad	-32.7	-27.1	-11.7	-15.1	-7.0	-7.2	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	45.1	11.5	5.7	-3.8	5.3	-3.4	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) ⁶	-5.8	9.0	2.2	12.2	17.7	-13.8	n.a.	n.a.	n.a.
9. U.S. current account balance	-90.4	-3.7	-7.2	-5.9	-17.8	-14.2	n.a.	n.a.	n.a.
10. Statistical discrepancy	47.4	-1.1	2.4	-8.4	-29.7	17.1	n.a.	n.a.	n.a.

MEMO:

U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)

-108.9 -73.4 -18.5 -17.2 -24.6 -26.5 * n.a. n.a. n.a.

1. Includes changes in positions of all depository institutions, bank-holding companies, and certain transactions between brokers/dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements.)
2. 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.
3. Includes all U.S. bonds other than Treasury obligations.
4. Includes deposits in banks, commercial paper, acceptances, borrowing under repurchase agreements, and other securities.
5. Seasonally adjusted.
6. 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)

	1990	1991				1992					
	Dec.	Mar.	June	Sept.	Dec.	July	Aug.	Sept.	Oct.	Nov.	Dec.
1. Net Claims of U.S. Banking Offices (excluding IBFS) on Own Foreign Offices and IBFS	-31.3	-23.8	-13.7	-14.1	-35.8	-56.0	-54.1	-58.0	-61.5	-66.6	-71.6
(a) U.S.-chartered banks	5.5	7.6	5.4	11.0	12.4	9.0	11.2	12.7	14.6	13.5	17.0
(b) Foreign-chartered banks	-36.9	-31.3	-19.2	-25.2	-48.3	-65.0	-65.3	-70.9	-76.2	-80.0	-88.6
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	24.7	26.0	23.9	23.7	23.9	25.1	24.8	24.8	25.0	25.1	24.8
3. Eurodollar Holdings of U.S. Nonbank Residents <u>1</u> /	116.1	114.6	105.8	100.8	102.9	88.2	86.9	86.3	88.4	90.2	92.1

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.

of foreign securities in the United Kingdom totaled \$1.6 billion in bonds and \$1.7 billion in stocks. U.S. nonbank residents also continued to acquire Eurodollar deposits in November and December (line 3 of the International Banking Data table); this coincided with large increases in October and November in the spread between Eurodollar deposits and the Treasury bill rate. The recent increase in deposits contrasts with the downward trend over the last two years.

Foreign official reserve assets held in the United States fell by over \$9 billion in November (line 4 of the Summary table). Spain, Taiwan, and Canada accounted for most of the decline, while Mexico registered a significant increase. German holdings declined marginally. Preliminary data from the FRBNY for December indicate a reversal of the November picture, with net official inflows in the \$7 billion range and Germany accounting for most of the total.

Foreign Exchange Markets

The weighted-average foreign-exchange value of the dollar, in terms of the other G-10 currencies, is little changed on net since the December 22 FOMC meeting, as shown in the accompanying chart. The dollar rose against the both the mark and the yen through early January on expectations of interest rate reductions in Germany and Japan. At its peak, the dollar had gained 3-1/2 percent versus the mark and nearly 2 percent against the yen. The dollar gave up those gains late in the period on postponed expectations of German easing and on the market perception that the new Administration intends to reduce the fiscal deficit and that the Federal Reserve is not likely to tighten in the near term.

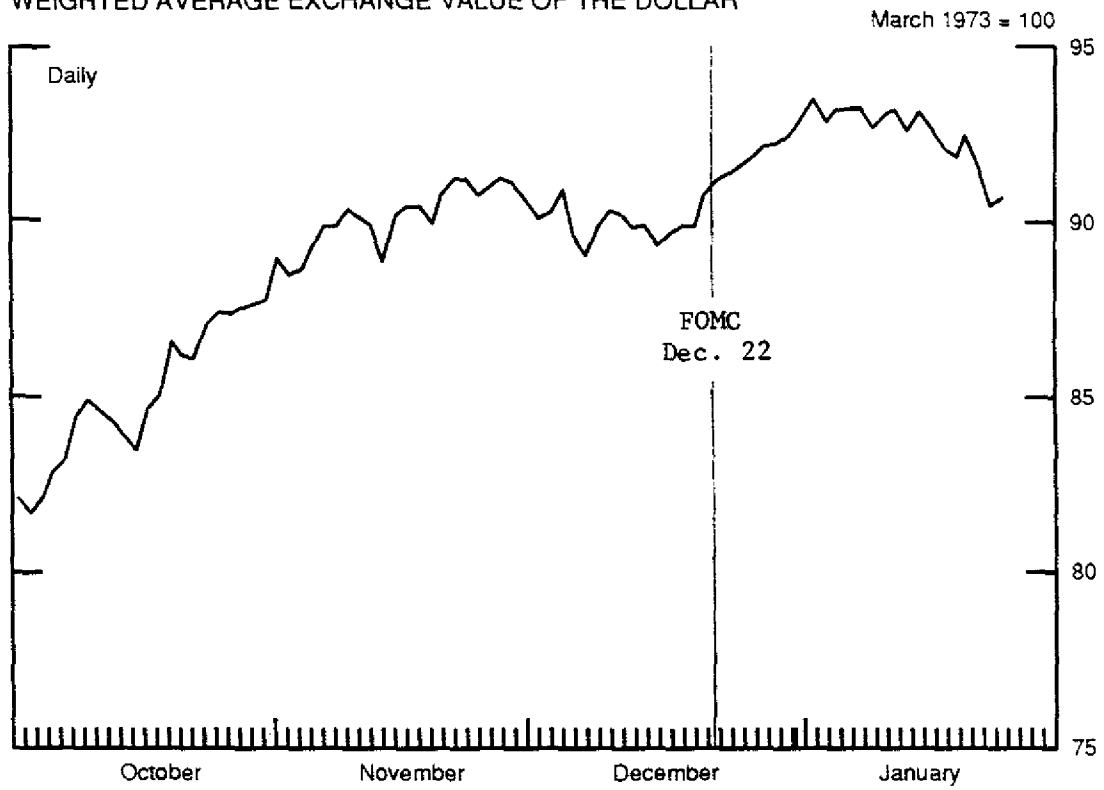
The Bundesbank signalled a slightly easier monetary stance on January 7 by announcing that its next 14-day RP tender would be at a fixed rate of 8.60 percent, down from 8.75 percent at previous

tenders. Reflecting expectations of further Bundesbank easing, German 3-month interest rates declined 1/2 percentage point, to 8.45 percent. However, Bundesbank officials have since indicated that further easing is not imminent due to concern over German inflation that, at 4 percent last year, is well above the Bundesbank's preferred inflation rate of 2 percent. In addition, the Bundesbank is reluctant to ease significantly before German wage negotiations are completed in the Spring.

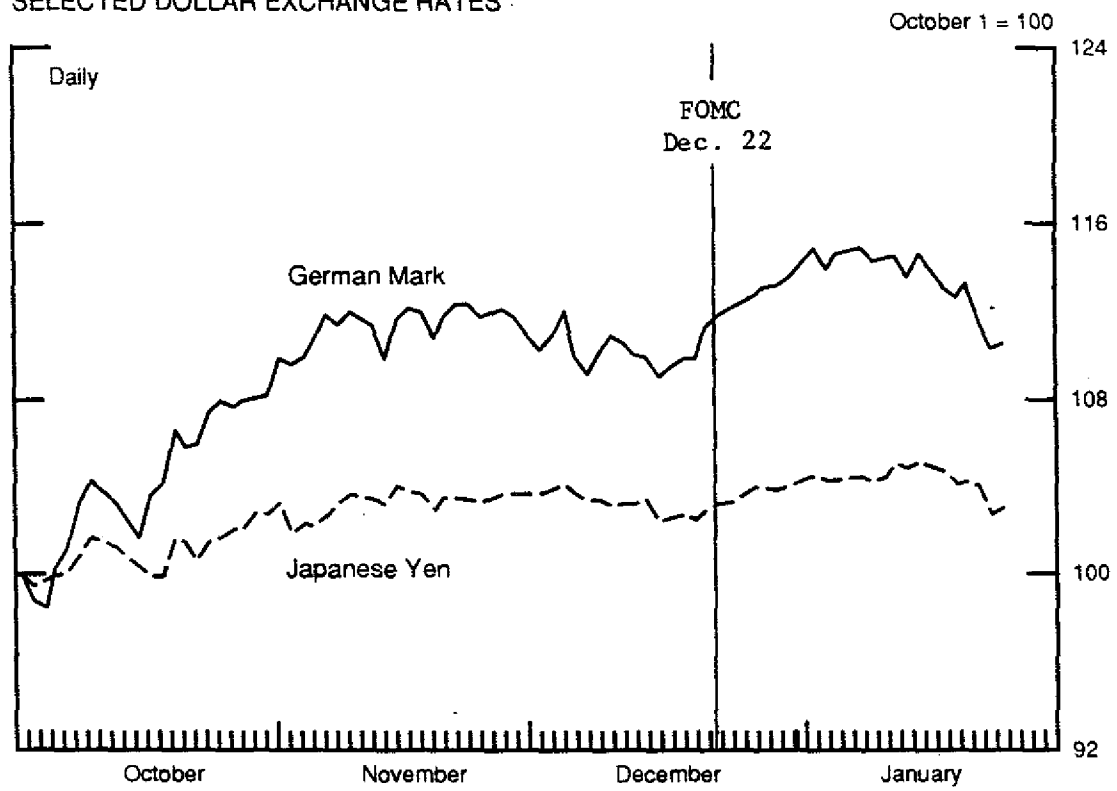
The Bank of England surprised the market on January 26 by reducing its minimum lending rate from 7 percent to 6 percent. Sterling declined sharply following the rate cut, and is now nearly 2 percent lower against the dollar than at the last FOMC meeting. Market participants and the press viewed the easing move as indicating panic among U.K. policymakers over continued weakness in the U.K. economy.

The French franc remained under downward pressure during the first half of the intermeeting period, with that pressure coming to a head on January 5 when the Bank of France suspended its 5-to-10 day RP facility that had offered funds at a rate of 10 percent, and replaced it with an emergency overnight facility at a 12 percent rate. The franc recovered sharply following the Bundesbank's announcement of lower RP rates on January 7. That move was seen as indicating that German policymakers were prepared to adjust their actions to preserve the current ERM central exchange rate between the franc and the mark. Since then, the French franc has moved 1-1/4 percent above the bottom of its ERM band versus the Belgian franc and the Dutch guilder. French overnight interest rates remain at 12 percent, though French 3-month interest rates have come down from a high of 12-3/4 percent to 11-3/4 percent, about 1/4 point

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



SELECTED DOLLAR EXCHANGE RATES



higher than on December 22. The yield on the French bellwether bond has declined 1/4 percentage point over the intermeeting period, indicating in part a renewed confidence in the French franc.

The Irish punt came under heavy downward pressure near year-end following the announcement that Irish capital controls, imposed in September, would be lifted on January 1. The punt traded at or near its bottom limit for over a week, and the Irish central bank was forced to raise its overnight lending rate to 100 percent to defend the currency, amid speculation that an Irish devaluation was imminent. The punt recovered soon after the French franc, and Irish overnight lending rates were reduced to as low as 14 percent. On January 27, however, following the U.K. rate cut and sterling's subsequent slide, the Irish punt was pushed again to the bottom limit and the Central Bank of Ireland raised its overnight rate back up to 100 percent.

. The Desk did not intervene.

In foreign equity markets, German stock prices rose about 2-1/2 percent over the intermeeting period, spurred by the prospect of lower German interest rates. U.K. stock prices were unchanged on net, while the Nikkei index of Japanese stock prices declined more than 6-1/2 percent over the period.

Developments in Foreign Industrial Countries

Activity in the major industrial countries appears to have remained weak in the fourth quarter and high unemployment rates increased further. Partial fourth-quarter data for both Japan and western Germany, including marked declines in industrial production,

suggest that negative growth may have continued through the end of 1992. With the unemployment rate in western Germany reaching 7.2 percent (s.a.) in December and with fairly modest settlements so far in the current round of labor-market negotiations, prospects have brightened for an outcome for wage increases that is within the German government's objectives. In France, recent data on industrial production, exports, and consumption also suggest that the pace of economic activity has slowed. Preliminary third-quarter data for Italy show that real GDP fell 2.4 percent (s.a.a.r.), with weakness in all domestic components. Unemployment rates in both France and Italy have edged upward. Fourth-quarter data for the United Kingdom have been weak, with industrial production contracting in November and the unemployment rate (s.a.) rising to 10.5 percent in December. The Canadian economy continues to move ahead at a modest pace with somewhat stronger employment, shipments, and orders. Continued sluggish demand has kept output well below capacity in all major foreign countries, and on balance inflationary pressures have remained subdued. The leading exception is Germany where inflation in December increased 3.7 percent on a year-over-year basis. Passthroughs to domestic price levels of the effects from the recent depreciation of exchange rates in Italy and the United Kingdom have been muted to date by slack in those economies.

Individual country notes. In Japan, recent indicators suggest continued weak activity. In December, industrial production (s.a.) fell 1.0 percent to a level 8.2 percent below that of a year ago. For 1992 as a whole, industrial production fell 6.1 percent compared with 1991. Retail sales sagged further, recording a 12-month decline of 5.7 percent in December, after falling 3.3 percent in November. Sales of durable goods, including autos, have been especially weak. New passenger car registrations (s.a.) declined

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

	Q4/Q4 1991	Q4/Q4 1992	1992				1992					Latest 3 months from year ago 2
			Q1	Q2	Q3	Q4	Aug.	Sept.	Oct.	Nov.	Dec.	
Canada												
GDP	-.0	n.a.	.2	.1	.4	n.a.	*	*	*	*	*	.7
IP	-1.4	n.a.	-.2	.4	.7	n.a.	2.0	-.2	.1	n.a.	n.a.	.5
France												
GDP	1.8	n.a.	.8	.3	.4	n.a.	*	*	*	*	*	1.6
IP	1.8	n.a.	.3	-.0	-.4	n.a.	.0	.3	.8	-4.5	n.a.	-1.1
WEST GERMANY												
GDP	2.0	n.a.	2.0	-.3	-.5	n.a.	*	*	*	*	*	.9
IP	.1	n.a.	2.7	-1.9	-1.3	n.a.	.0	.0	-2.1	-1.1	n.a.	-3.4
Italy												
GDP	1.7	n.a.	.6	.2	n.a.	n.a.	*	*	*	*	*	1.5
IP	-.5	n.a.	2.5	-2.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	.5
JAPAN												
GDP	3.0	n.a.	1.0	-.2	-.4	n.a.	*	*	*	*	*	.9
IP	-1.6	-7.6	-3.1	-2.3	.3	-2.8	-4.2	5.2	-2.9	-2.2	-1.0	-7.6
United Kingdom												
GDP	-1.6	n.a.	-.4	-.2	.1	n.a.	*	*	*	*	*	-.7
IP	-.8	n.a.	-.8	-.3	.6	n.a.	-.2	.5	1.0	-.7	n.a.	.2
UNITED STATES												
GDP	.1	n.a.	.7	.4	.8	n.a.	*	*	*	*	*	2.1
IP	-.5	2.0	-.7	1.3	.6	.9	-.2	-.2	.7	.4	.3	2.0

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 1991	Q4/Q4 1992	1991		1992				1992				Latest 3 months from year ago
			Q3	Q4	Q1	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.	
Canada													
CPI	4.1	1.8	.6	-.1	.4	.5	.4	.4	-.1	.2	.5	.0	1.8
WPI	-3.2	3.1	-.9	-.4	.5	.6	.8	1.2	.6	.5	.2	.4	3.1
France													
CPI	2.9	2.2	.8	.8	.7	.7	.5	.3	.1	.3	.0	.0	2.2
WPI	-3.6	n.a.	-.7	-1.0	.2	.4	-.5	n.a.	*	*	*	*	-.9
West Germany													
CPI	3.9	3.7	1.5	.7	1.2	1.1	.5	1.0	.3	.3	.5	.2	3.7
WPI	1.6	n.a.	.7	.2	.4	.5	-2.0	n.a.	-.4	-.1	.0	n.a.	-1.7
Italy													
CPI	6.1	4.8	1.0	1.7	1.4	1.2	.7	1.3	.3	.6	.6	.2	4.8
WPI	1.1	n.a.	.5	1.4	.0	.8	-.5	n.a.	.2	2.0	n.a.	n.a.	1.7
Japan													
CPI	3.2	.9	.4	1.1	-.3	1.3	-.1	-.0	.5	-.1	-.3	-.3	.9
WPI	-1.3	-1.4	-.4	-.7	-.4	.0	-.1	-.9	-.3	-.7	-.1	.0	-1.4
United Kingdom													
CPI	4.2	3.1	.4	1.0	.5	2.2	-.1	.4	.4	.4	-.1	-.4	3.1
WPI	4.9	3.4	.6	.5	1.4	1.1	.4	.5	.1	.1	.4	.2	3.4
United States													
CPI (SA)	3.0	3.0	.7	.9	.7	.8	.6	.8	.2	.4	.2	.1	3.0
WPI (SA)	-.1	1.4	.0	.5	.0	.8	.4	.2	.3	.1	-.2	.2	1.4

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)

	1991	1992	1991		1992				1992			
			Q3	Q4	Q1	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.
Canada												
Trade	5.0	n.a.	.9	1.0	1.6	1.5	1.5	n.a.	.3	1.4	.8	n.a.
Current account	-25.5	n.a.	-6.6	-7.3	-6.2	-6.2	-6.4	n.a.	*	*	*	*
France												
Trade	-5.3	5.6	-1.5	.4	1.1	1.9	1.3	1.4	.7	.2	.1	1.1
Current account	-5.8	n.a.	-.9	.8	n.a.	n.a.	n.a.	n.a.	*	*	*	*
Germany 2												
Trade (NSA)	13.6	n.a.	2.9	6.9	4.4	3.4	8.6	n.a.	3.8	3.7	1.1	n.a.
Current Account (NSA)	-19.5	n.a.	-5.9	-2.2	-5.6	-6.1	-9.0	n.a.	-2.5	-1.0	-.4	n.a.
Italy												
Trade	-13.0	n.a.	-4.9	-3.3	-1.9	-4.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Current account (NSA)	-21.5	n.a.	-3.7	-5.0	n.a.	n.a.	n.a.	n.a.	*	*	*	*
Japan												
Trade	78.5	106.9	21.0	21.2	28.0	24.5	26.2	28.2	9.4	10.4	8.7	9.1
Current account	73.1	n.a.	19.5	22.9	28.6	28.8	28.1	n.a.	9.9	10.4	11.6	n.a.
United Kingdom												
Trade	-18.3	n.a.	-4.0	-4.7	-5.4	-5.7	-6.2	n.a.	-1.8	-1.9	-2.1	n.a.
Current account	-10.0	n.a.	-2.1	-3.1	-5.1	-5.1	-5.7	n.a.	-1.6	-1.6	-1.8	n.a.
United States												
Trade	-73.4	n.a.	-20.2	-18.5	-17.2	-24.6	-26.5	n.a.	-9.0	-8.6	-8.8	n.a.
Current account	-3.7	n.a.	-11.1	-7.2	-5.9	-17.8	-14.2	n.a.	*	*	*	*

1. The current account includes goods, services, and private and official transfers. Asterisk indicates that monthly data are not available.
2. Before July 1990, West Germany only.

1.4 percent in December, falling 7.9 percent below their year-earlier level. New machinery orders (s.a.) rose slightly, by 3.9 percent, in November, after falling almost 31 percent in October; the 12-month decline from November 1991 was 21 percent. The unemployment rate (s.a.) edged up to 2.3 percent in November. The job-offers-to-applicants ratio (s.a.), a more sensitive indicator of labor market conditions, declined a further 3.1 percent in November, falling to 37 percent below its peak of March 1991. Another sign of labor market weakness has been a drop in overtime hours, which showed a 12-month decline of 24.3 percent in November. The strongest monthly indicator continues to be housing starts (s.a.), which increased 1.5 percent in November and were up 8.3 percent on a 12-month basis.

Consumer prices in the Tokyo area (n.s.a.) fell 0.3 percent in December, while their 12-month increase was only 0.9 percent.

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

	1992						
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
Machinery Orders	2.4	-14.3	11.4	--	-30.7	3.9	--
New Car Registrations	1.5	-6.7	-2.6	-5.2	-9.3	4.4	-1.4
Job Offers Ratio	-5.3	-9.6	-9.7	--	-5.0	-3.1	--
Business Sentiment* (%)	-5	-24	-37	-44	--	--	--

* Percent of manufacturing firms having a favorable view of business conditions minus those with an unfavorable outlook.

However, nearly all of the recent weakness in the 12-month measure of consumer prices has been caused by a drop in perishable food prices that had been elevated in late 1991 by the effects of a typhoon. Excluding these items, the 12-month consumer price inflation rate was about unchanged at 1.9 percent in December. Wholesale prices (n.s.a) also were unchanged in December and showed

a 12-month decrease of 1.4 percent. The 12-month increase in wages edged down to 2.2 percent in October.

The current account surplus was \$117 billion (s.a.a.r.) in the January through November period. In 1992, the overall trade surplus was \$107 billion, as exports increased 8.1 percent from 1991 and imports fell slightly. The trade surplus with the United States increased by \$5.6 billion, mostly due to increased exports.

On December 26, the cabinet approved a draft budget for fiscal year 1993, beginning in April. The draft budget is relatively austere, with proposed spending on key expenditure categories, such as public works, actually below likely spending levels for the current fiscal year, after taking into account recently passed supplemental expenditures. If the government's relatively optimistic forecast of 3.3 percent real growth is not achieved, another supplemental budget containing expansionary fiscal measures will be necessary later this year, and plans for added fiscal stimulus are under active semi-public discussion in Japan.

In western Germany, figures recently released by the Federal Statistical Office for growth in real GDP estimated an increase of 1.5 percent on a year-over-year basis. However, these figures were not adjusted for the changing number of working days from year to year. Once adjusted for working-day variation, these estimates imply a decline in real activity during the fourth quarter similar to that estimated by FR staff.

Data for industrial production (s.a.) point to a significant decline in the fourth quarter, with production for October and November on average more than 2.6 percent below the third-quarter level. The volume of new orders for west German manufactured goods (s.a.) has fallen steadily since early last year and in October and November on average was almost 6 percent below its level in the

third quarter. After remaining steady throughout 1991 at roughly 6.3 percent, the unemployment rate (s.a.) in western Germany has edged up since last February and reached 7.2 percent in December.

WESTERN GERMAN ECONOMIC INDICATORS
(percent change from previous period except where noted, s.a.)

	1991				1992		
	Q4	Q1	Q2	Q3	Oct.	Nov.	Dec.
Manufacturing Orders	-1.5	2.2	-4.0	-2.1	-5.7	-0.6	--
Capacity Utilization	-0.9	-0.6	-1.4	-2.2	--	--	--
Unemployment Rate (%)	6.3	6.2	6.5	6.8	7.0	7.1	7.2
Production Plans* (%)	-1.7	-3.7	-6.0	-12.0	-35.0	-35.0	--

* Percent of mining and manufacturing firms that expect to increase production minus those who expect to decrease it.

Consumer prices increased 3.7 percent in December on a year-over-year basis, bringing inflation in 1992 up to about 4 percent from the 3.5 percent pace registered in 1991. Consumer price inflation is expected to accelerate somewhat in January, owing to an increase in the VAT of one percentage point at the beginning of the year. The state of North Rhine-Westfalia reported price inflation of 4.5 percent in January relative to year-earlier levels. Wholesale prices (n.s.a.) in western Germany dropped 1.9 percent in October and November on average on a year-over-year basis. Increases in producer prices have moderated significantly, and in October and November on average were up 0.5 percent from year-earlier levels. Import prices (n.s.a.) in western Germany began to edge down in June, and in November were almost 4 percent below their level a year earlier.

After deteriorating significantly in the first quarter of last year, the pan-German current account (n.s.a.) widened further in the second and third quarters. The current account deficit reached a cumulative \$22 billion in November, about \$4 billion more than during the same period of 1991.

Through December, M3 in western and eastern Germany combined increased at a seasonally adjusted annual rate of 8.8 percent in 1992, relative to the fourth quarter of 1991. In 1992, monetary expansion remained well above the Bundesbank's target range for M3 growth of 3-1/2 to 5-1/2 percent. The Bundesbank's M3 target for 1993 is somewhat higher, with growth in the 4-1/2 to 6-1/2 percent range. The Bundesbank has attributed the upward adjustment in its M3 target range for 1993 to a revision in its outlook for the growth of potential output in combined Germany. In early January, the Bundesbank announced a repurchase operation at a fixed interest rate of 8.60 percent, about 15 basis points lower than previous RP tenders, indicating its intention to ease market interest rates somewhat. The markets are anticipating further reductions in the months to come.

Results so far from this year's round of wage negotiations have been consistent with the government's wage goals, and continued progress on wage restraint may provide scope for an easing in official interest rates. Workers in the insurance and steel industries have agreed to wage increases of 4.2 and 3.4 percent, respectively. In addition, steel workers agreed to extend their contract over an 18-month period. The union representing public sector employees (2.3 million workers), the probable trendsetter, has recently begun negotiating its bid for a 5 percent increase; a settlement in the 4 percent range is thought likely.

In France, most indicators point to a weak fourth quarter. Industrial production fell 4.5 percent (s.a.) in November, more than reversing a 0.8 percent increase in October. Industrial production in manufacturing fell 2.1 percent in November, after dropping 1.7 percent in October. (The total measure was distorted by unusually cold weather.) The unemployment rate rose again in November.

reaching 10.5 percent, the third consecutive monthly increase. Real consumption of manufactured products, equal to one-third of total consumption, registered a sharp decline of 5 percent (s.a.) in November, more than offsetting the 2.1 percent October rise.

The consumer price index was unchanged in December, leaving the index 2.0 percent above its level one year earlier. This favorable inflation performance is partly attributable to declines in food and energy prices. Inflation is expected to pick up in the first half of 1993 due to a 30 percent increase in tobacco prices (half occurring in January, and half in May) which should raise the CPI by 0.5 percentage points.

France registered another trade surplus of \$1.1 billion (s.a.) in December. The trade surplus for 1992 as a whole was \$5.6 billion, following a trade deficit of \$5.3 billion in 1991.

In Italy, economic growth continues to slow. Recently released provisional data show that third-quarter GDP fell 2.4 percent (s.a.a.r) from the level attained in the second quarter, and was up only 0.8 percent on a year-over-year basis. The only component providing positive growth was the external sector, as all domestic components fell. Recent data point to continued weakness. Industrial production (n.s.a.) fell 1.6 percent on a year-over-year basis in November and, according to survey results, is likely to drop about 2.1 percent in December. Consumer confidence was down 14.7 percent in November from 12 months earlier, and likely fell 15 percent in December.

The rate of consumer price inflation continued to slow. The year-over-year rate of consumer price inflation decelerated slightly to 4.7 percent in December, the seventh consecutive month in which the year-over-year rate weakened from the previous month. However, increases in the producer price and wholesale price indices may

indicate that recent good news on consumer price inflation may be nearing an end. In October, the producer price index rose 2.0 percent on a year-over-year basis, up from 1.8 percent in September, while the wholesale price index increased 2.5 percent, up from 1.0 percent in September. Both changes reflect effects of lira depreciation that may soon be evident in higher consumer price inflation.

On December 22, Parliament approved the final portion of the 1993 budget that cuts 93 trillion lire (5.8 percent of GDP) from the trend deficit. This draconian measure notwithstanding, the 1993 deficit is estimated to reach 150 trillion lire (approximately 9 percent of GDP).

Latest data show little evidence of economic recovery in the United Kingdom. Real GDP rose 0.4 percent (s.a.a.r.) in the third quarter, but all of the increase was accounted for by a rise in oil and gas production. Industrial production (s.a.) dropped 0.7 percent in November, to a level 0.6 percent above the average in the third quarter. Manufacturing production (s.a.) fell 0.5 percent in November to a level 0.6 percent below the average of the third quarter. Unemployment (s.a.) increased in December, and the unemployment rate climbed to 10.5 percent.

Consumer spending continued to be weak in recent months; the volume of retail sales (s.a.) slumped 0.7 percent in December after stagnating in November. The volume of sales in 1992 as a whole was 0.7 percent higher than in 1991, but at roughly the same level as in 1990. Consumer confidence rebounded somewhat at the end of last year but remains depressed. Business confidence has improved as well.

Inflation continues to decline. Consumer prices (n.s.a.) fell 0.4 percent in December after falling 0.1 percent in November. The

12-month rate of inflation fell to 2.6 percent, its lowest rate since 1986. Excluding mortgage interest rates, consumer price inflation edged up to a 12-month rate of 3.7 percent in December. Producers' output prices (n.s.a.) rose 0.2 percent in December after increasing 0.4 percent in November and were 3.5 percent above their year-earlier level. The prices of producers' materials and fuels (n.s.a.) rose 1.7 in December after rising 3.2 percent in November and 2.6 percent in October, largely reflecting price increases of imported materials associated with sterling's devaluation. They now stand 5.2 percent above year-earlier levels, but have not fed through into output prices yet, in part owing to ongoing moderation of labor costs.

Activity indicators for the fourth quarter in Canada are consistent with continued slow growth: the unemployment rate (s.a.) was unchanged at 11.5 percent, but total employment (s.a.) rose 0.4 percent. Housing starts (s.a.), however, fell 3 percent in the fourth quarter. Industrial production was about unchanged in October, and GDP rose 0.2 percent. Factory shipments (s.a.) for October and November, taken together, increased 2.0 percent from their third quarter average, new orders (s.a.) were up 1.6 percent, and nominal retail sales (s.a.) rose 0.7 percent.

Recent price data show that inflation has remained moderate. The targeted 12-month change in the CPI, excluding food and energy (n.s.a.), increased from 1.8 percent to 2.0 percent in December. The all-items CPI was up 2.1 percent over this period, and wholesale prices rose 3.5 percent. Wage settlements (a.r.) in the first ten months of 1992 produced average increases of 2.2 percent, compared with a 3.6 percent average for all of 1991 and 5.6 percent for 1990.

The October-November merchandise trade surplus (s.a.a.r.) rose to \$13.3 billion from \$5.9 billion in the third quarter, as exports of machinery and equipment surged.

In Russia, price increases may be accelerating. Prices are reported to have increased 25 to 27 percent in December, after increasing 26 percent in November. Weekly increases in food prices are reported to have jumped to about 10 percent in January, after averaging 5.6 percent in November and December. Concerns over inflation appear to have affected the exchange value of the ruble. Since January, the ruble has depreciated 22 percent, reaching 568 rubles/dollar on January 26.

The new government of Prime Minister Viktor Chernomyrdin continues to send somewhat mixed signals about its intentions. A decree reimposing price controls on all producers of certain basic goods was signed in early January, but it was, apparently, reversed after being criticized as unenforceable. Last week, Deputy Prime Minister Fyodorov announced that the Cabinet had approved an anti-inflation program that included restrictions on the fiscal deficit and higher interest rates. But Prime Minister Chernomyrdin is scheduled to present an "anti-crisis" plan to the Supreme Soviet on January 28, and that plan is expected to emphasize increasing output through continued subsidies for state-owned enterprises.

On January 1, the Czech and Slovak Federal Republic (CSFR) divided into two new independent states: the Czech Republic and the Slovak Republic. Prior to the dissolution of the CSFR, the Czech and Slovak governments signed 25 treaties and agreements defining post-split relations between their republics. The two most significant economic treaties pertain to establishment of a customs union and a monetary union. Increasing tensions following the split

have strained the monetary union, and a currency split within the next month appears increasingly likely.

Economic Situation in Other Countries

In Mexico, Argentina, and Korea, tight monetary and fiscal policy during 1992 yielded substantial reductions in consumer price inflation, at the cost of slower growth in domestic production. In Mexico, the CPI rose by 1.4 percent in December, yielding an 11.9 percent inflation rate for the entire year. In Argentina, the CPI rose by only 0.3 percent in December, leaving it 17.6 percent higher than a year earlier. In both countries, the inflation rate for 1992 was the lowest in almost two decades. In Korea, the CPI rose by 4.5 percent during 1992, down from 9.3 percent during 1991; while Korea's real GNP growth slowed to an estimated 4.9 percent in 1992, down from 8.4 percent in 1991. In response to weaker economic conditions, the Korean government reduced a broad range of interest rates in late January. In Venezuela, consumer prices rose 31.9 percent during 1992, about the same as in the previous year, while Brazil's inflation rate remained steady at 20 to 25 percent per month throughout 1992. In Taiwan, inflation and GDP growth during the year were dampened by lower net exports; the CPI rose by 3.4 percent during 1992, while real GDP (Q3/Q3) grew 5.8 percent, the slowest rate in two years.

Recent trade data indicate that lower aggregate demand in the industrial countries reduced export growth during 1992 in five of these six developing countries, while Brazil's export growth remained strong due to its low real exchange rate. Import growth was strong in Mexico and Argentina due to their appreciating real exchange rates, leading both countries to raise some import taxes and non-tariff barriers in late 1992. Changes in domestic absorption during the year contributed to strong import growth in

Venezuela and Taiwan, a stable level of imports in Korea, and reduced imports in Brazil. The combination of these factors resulted in deteriorating trade balances during 1992 in Mexico, Argentina, Venezuela, and Taiwan, and an improved trade balance in Brazil and Korea.

Individual country notes. In Mexico, the CPI rose by 1.4 percent in December, leaving it 11.9 percent higher than a year earlier. This was the lowest twelve-month increase since 1975. The cumulative current account deficit through September 1992 was \$16.2 billion, up from \$9.3 billion during the same period in 1991, foreshadowing a deficit of around \$22 billion for 1992 as a whole. In recent months, attempts to curb the growth of imports have centered on tariffs and non-tariff barriers. Tariffs ranging from 15 to 25 percent were imposed on cattle and beef, which were formerly duty-free. Importers were required to demonstrate that they have met their tax obligations for the past four years, and to submit to extensive audits if the value of intended imports exceeds the gross revenues declared in any of the four preceding years.

The cumulative capital account surplus for the nine-month period grew to \$17.2 billion from \$14.5 billion a year earlier; capital inflows appear to have remained large in the fourth quarter. The exchange rate for the peso has remained within a narrow range, with a level of 3.0965 new pesos per dollar on January 26. (The new peso, worth 1,000 old pesos, was introduced January 1.) The 28-day Treasury-bill rate was 17.1 percent at the January 27 auction, down from a mid-October peak of 19.7 percent. A new interbank money market was launched on January 20, with an auction that yielded a 28-day interest rate of 22.3 percent.

In Taiwan, third-quarter real GDP growth (Q3/Q3) decelerated to 5.8 percent, the slowest pace in two years. Slowing net exports due

to weak world demand continued to act as a drag on growth. For all 1992. Taiwan's merchandise trade surplus shrank to \$9.5 billion, from \$13.3 billion in 1991. Merchandise exports grew 7 percent in 1992, less than half the corresponding 14.5 percent growth rate for imports. Net exports would have fallen even further in the absence of trade with China; preliminary estimates show total Taiwan-China trade jumping about 26 percent in 1992, with Taiwan enjoying a healthy bilateral surplus.

Investment flows continued to help sustain Taiwan's economic activity, with year-on-year quarterly growth expanding from 11.4 to 14.8 percent between the second and third quarters; investment growth for the entire year was projected at 13 percent.

Consumer price inflation was dampened during most of 1992 by the slowdown in aggregate demand. A typhoon in September caused an extraordinary jump in prices, but the CPI fell during each of the following three months. As a result, the inflation rate for 1992 (Dec./Dec.) was only 3.4 percent, in comparison with 4.4 percent during 1991.

Taiwan's main opposition party made deep inroads into the popularity of the ruling Nationalist Party, winning nearly one-third of the seats in December's legislative elections.

The Korean government's controls on construction and tight credit policy led to a slowdown in domestic demand, a reduction in inflationary pressures and an improvement in Korea's trade deficit during 1992. According to projections by the Bank of Korea, real GNP growth slowed in 1992 to 4.9 percent, from 8.4 percent in 1991. Consumer prices rose 4.5 percent during 1992, down from 9.3 percent during 1991. In 1992, Korea's trade deficit (on a customs clearance basis) halved to \$4.9 billion. While exports grew 6.8 percent in

1992, imports were essentially unchanged after growing rapidly in 1991.

In response to weaker economic conditions, the Korean authorities lowered rediscount rates and regulated deposit and loan rates by 1 to 3 percentage points in late January. The rate on rediscounts of commercial bills was lowered to 5 percent from 7 percent, and the rate on rediscounts of trade bills was lowered to 6 percent from 7 percent, marking the first adjustment of these rates since November 1989.

In December, Kim Young Sam, the ruling party candidate, was elected president for a five-year term beginning February 1993. Kim will be Korea's first civilian president in over 30 years.

In Brazil, economic conditions remain depressed and inflation high. Real GDP in the third quarter was 5.2 percent below a year earlier. The inflation rate remained in the range of 20 to 25 percent per month throughout 1992. Brazil's trade surplus rose to \$15.7 billion in 1992 from \$10.6 billion in 1991, mainly because of depressed internal demand and improved competitiveness. Exports grew by 14.6 percent during 1992, while imports were 2.2 percent lower than in 1991.

In December, the Brazilian Senate ratified the July 1992 agreement between Brazil and the Bank Advisory Committee (BAC) on a \$44 billion Brady-style debt restructuring package. In mid-January, Brazil paid \$170 million in interest arrears to commercial bank creditors to fulfill its promise to increase interest payments from 30 percent to 50 percent of interest due, retroactive to July 1992. In late January, Brazil and the BAC are scheduled to present the restructuring package to Brazil's estimated 1,000 commercial bank creditors.

However, implementation of the debt restructuring package will require at least \$3.2 billion in collateral for the par and discount bonds that most creditors are expected to choose. Brazil has refused to finance the full amount from its international reserves (recently reported to be \$20 billion), and currently does not qualify for financing from the IMF and other multilateral institutions due to non-compliance with the fiscal targets contained in its January 1992 IMF standby arrangement.

Finance Minister Gustavo Krause resigned in December due to disagreement over President Franco's advocacy of government controls of prices and interest rates. In late January, Planning Minister Paulo Haddad was appointed to replace Krause, while Yeda Crusius was named to fill the vacancy left by Haddad.

In Venezuela, preliminary data indicate that real output grew 7.3 percent in 1992, compared with 10.4 percent in 1991. Inflation for the twelve months ending in December 1992 was 31.9 percent, about the same as in the previous year. Higher import volumes and lower oil export prices shifted the current account to a deficit of an estimated \$3 billion for 1992 from a surplus of \$1.7 billion for 1991.

In Argentina, the CPI rose by only 0.3 percent in December; the inflation rate for the entire year was 17.6 percent, the lowest rate in almost two decades. Preliminary reports indicate that industrial production remained stagnant during the second half of the year. The trade deficit for 1992 is now estimated to have reached \$1.2 billion, compared with a \$4.4 billion surplus in 1991. Imports grew by 74 percent during 1992, while the level of exports remained unchanged.

Current economic conditions have been strongly influenced by the Convertibility Law, which has fixed the peso at parity with the

U.S. dollar since April 1991. Although Argentine inflation has been declining rapidly, the real exchange rate has appreciated by more than 40 percent over the past 21 months. The central bank was forced to purchase \$300 million in pesos during early November 1992 in order to maintain parity. Due to a combination of high seasonal demand for pesos and diminished expectations of a near-term devaluation, the central bank sold a record \$1.5 billion in pesos during December, and has sold another \$500 million in pesos during the first 20 days of January. Peso interest rates have fallen from a peak of over 50 percent in early November to about 30 percent in December and early January, but still remain very high relative to pre-November levels of around 15 percent.