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September 15, 1993

## **RECENT DEVELOPMENTS**

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

# **DOMESTIC NONFINANCIAL DEVELOPMENTS**

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## DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic activity appears to be expanding at a tepid pace in the current quarter. An uncertain outlook has discouraged employers from hiring, especially permanent full-time workers, and households remain worried about job security. Consumer spending apparently was up moderately through August, but indicators of housing activity have not yet given off any clear sign of a homebuilding response to lower mortgage rates. Shipments of business equipment (excluding aircraft) rose in July, pointing to further gains in domestic investment or exports. However, in general, a large share of domestic demand for consumer goods and machinery seems to be leaking abroad, and manufacturing output is posting only a mild gain this quarter. The prices of gold, oil, and some industrial commodities have been weak of late, while the consumer price index has continued to post more moderate increases, on average, in July and August.

### Labor Market Developments

The labor market data sent mixed signals in August. Nonfarm payroll employment fell 39,000 in August, after gaining more than 200,000 in July.<sup>1</sup> But the average workweek rose to a relatively high level of 34.7 hours in August; as a result, hours of production or nonsupervisory workers moved up further and stood 0.9 percent (not at an annual rate) above the second-quarter average. The civilian unemployment rate has moved down over the past two months and stood at 6.7 percent in August.

Private payroll employment declined 28,000 in August because of widespread weakness throughout the goods- and service-producing

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1. The BLS estimates that the summer jobs program added about 13,000 to local government payrolls in July and added an additional 10,000 in August. The program is estimated to have boosted private payrolls in July by about 7,000, with no further increase in August.

**CHANGES IN EMPLOYMENT<sup>1</sup>**  
(Thousands of employees; based on seasonally adjusted data)

	1992		1993			1993		
	1991	1992	Q4	Q1	Q2	June	July	Aug.
-----Average monthly changes-----								
Nonfarm payroll employment <sup>2</sup>	-72	80	135	162	179	43	211	-39
Private	-88	59	123	155	167	39	191	-28
Manufacturing	-44	-26	-12	7	-55	-56	-14	-42
Durable	-39	-22	-9	3	-44	-36	-20	-26
Nondurable	-5	-5	-3	5	-10	-20	6	-16
Construction	-33	-5	4	7	31	-3	22	-8
Trade	-30	20	35	62	51	34	50	-9
Finance, insurance, real estate	-9	-2	3	0	5	2	12	2
Services	39	78	92	77	140	76	129	34
Health services	30	29	36	29	26	14	24	11
Business services	4	31	47	31	41	25	45	16
Total government	17	22	12	7	12	4	20	-11
Private nonfarm production workers	-71	74	132	149	156	5	172	-17
Manufacturing production workers	-29	-13	1	16	-39	-40	-6	-28
Total employment <sup>3</sup>	-62	130	196	85	218	-54	82	409
Nonagricultural	-53	122	182	145	237	-8	67	467
<b>Memo:</b>								
Aggregate hours of private production workers (percent change)	-.1	.1	.2	.1	.4	-.8	.4	.6
Average workweek (hours)	34.3	34.4	34.4	34.4	34.5	34.4	34.5	34.7
Manufacturing (hours)	40.6	41.1	41.2	41.3	41.4	41.2	41.4	41.5

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households.

**SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES**  
(Percent; based on seasonally adjusted data)

	1992		1993			1993		
	1991	1992	Q4	Q1	Q2	June	July	Aug.
Civilian unemployment rate (16 years and older)	6.7	7.4	7.3	7.0	7.0	7.0	6.8	6.7
Teenagers	18.7	20.0	19.4	19.6	20.1	19.8	18.2	18.2
20-24 years old	10.8	11.3	11.1	11.0	10.8	10.4	10.6	10.7
Men, 25 years and older	5.7	6.4	6.3	5.9	5.8	5.9	5.9	5.7
Women, 25 years and older	5.1	5.7	5.8	5.4	5.4	5.6	5.3	5.2
Fulltime workers	6.5	7.1	7.0	6.7	6.6	6.6	6.7	6.5
Labor force participation rate	66.0	66.3	66.2	66.0	66.2	66.2	66.1	66.2
Teenagers	51.7	51.3	51.2	51.5	51.9	51.4	51.9	51.6
20-24 years old	76.8	77.1	77.0	77.3	77.4	77.4	77.5	77.0
Men, 25 years and older	76.7	76.7	76.4	76.1	76.2	76.4	76.3	76.3
Women, 25 years and older	56.5	57.0	57.1	56.8	56.8	57.1	56.8	57.2

sectors.<sup>2</sup> Manufacturing lost an additional 42,000 jobs last month; so far this year, manufacturing employment has fallen nearly 200,000 and currently stands 780,000 below its level at the most recent cyclical trough. Construction employment also moved lower in August; nevertheless, construction payrolls have expanded a total of 129,000 so far in 1993. Although employment in services increased in August, gains were well off the pace of recent months, largely reflecting more modest increments in health and business services. Employment also edged up in finance, insurance, and real estate in August; however, elsewhere in the private service-producing sector, employment generally moved lower.

Total employment, as measured by the household survey, surged 409,000 in August, following a gain of 82,000 in July.<sup>3</sup> Despite the divergent movements in employment in the household and payroll surveys in August, household employment so far this year has grown 1.4 million--similar to the gain of 1.2 million recorded in the payroll survey. The decline in the overall unemployment rate over the past two months was widespread by demographic groups.

Alternative indicators of labor demand also have been mixed. The Conference Board's help wanted index rose in July to a level of 100 from 97 in the previous month. Nevertheless, this measure of labor demand has only been inching up over the past year. Filings of initial claims for unemployment insurance (including the EUC adjustment) moved down in early September, and, with the exception

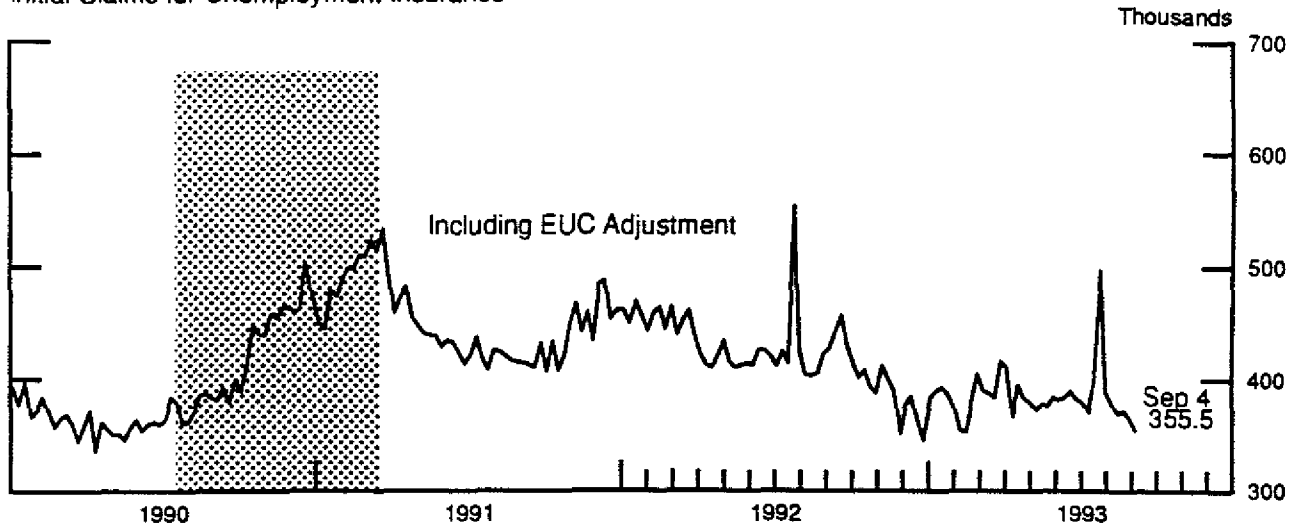
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2. Data regarding the effect of Midwest flooding on August employment growth are limited. The Employment and Training Administration estimated that only about 13,000 flood-related initial claims for unemployment insurance had been filed through the August survey week. In addition, aggregate data from the household survey indicate that the number of individuals who were unable to report to work because of bad weather was not unusually large in August--similar to the results in July.

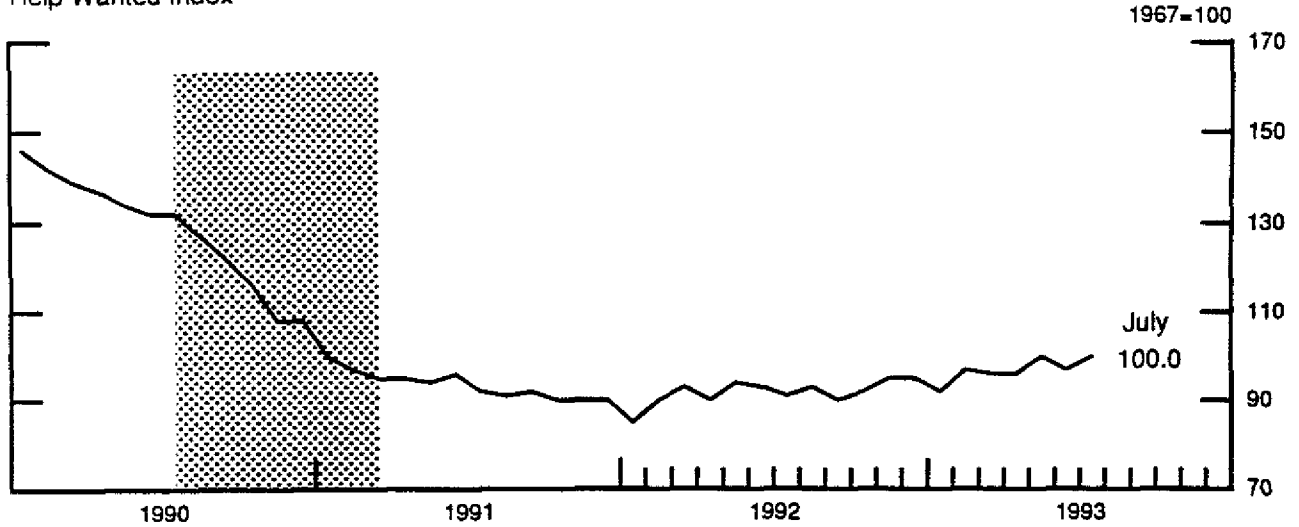
3. Other data from the household survey, such as involuntary part-time employment and job losers, generally were little changed in August.

### Labor Market Indicators

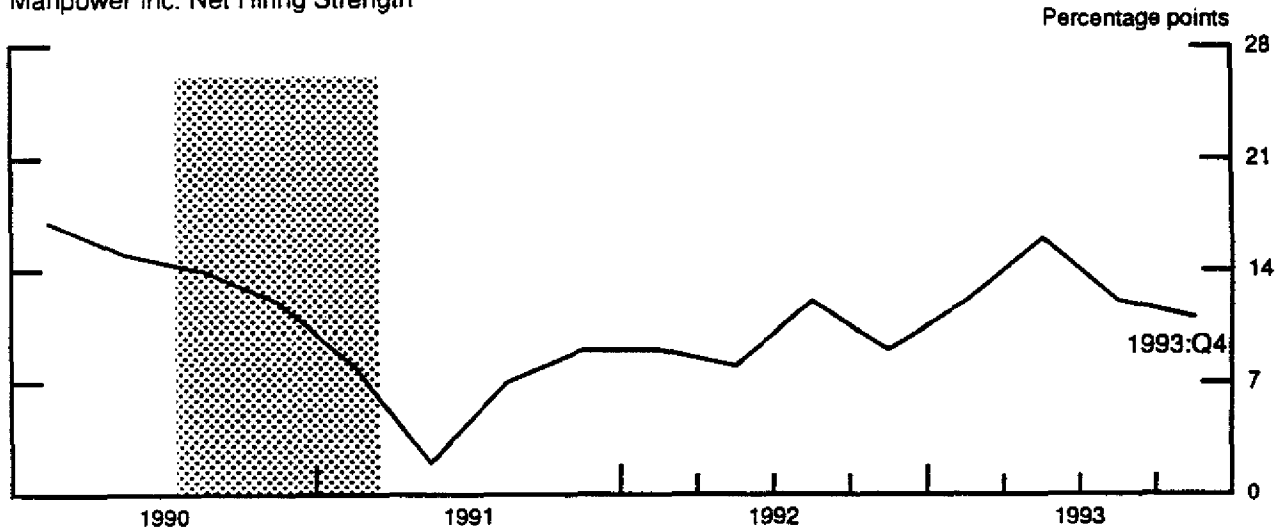
Initial Claims for Unemployment Insurance



Help Wanted Index



Manpower Inc. Net Hiring Strength\*



\* Seasonally adjusted.

of the jump induced by GM layoffs during the week ended July 24, have run between 350,000 to 400,000 since early April of this year.<sup>4</sup> Claims in this range historically have been consistent with moderate increases in payroll employment. The Manpower survey of employer hiring plans for the fourth quarter points to continued job gains, albeit at a slower rate than earlier in this year: The survey indicates that hiring in construction, retail trade, and wholesale trade should exceed seasonal norms in the fourth quarter.

Average hourly earnings of production or nonsupervisory workers rose 0.5 percent in August, reflecting, in part, overtime earnings in manufacturing and a rise in the volatile finance, insurance, and real estate sector. Over the twelve months ended in August, hourly earnings increased 2.3 percent, compared with an increase of 2.5 percent over the same period a year ago.

Revised data on labor productivity and costs, based largely on the revisions to the NIPA, indicate that productivity fell at an average annual rate of 1-1/2 percent over the first half of 1993--about 1/2 percentage point less than previously estimated. In addition, the revised data show that productivity growth over the most recent recovery and expansion was substantially stronger than previously estimated; productivity growth in the nonfarm business sector was revised upward 0.6 percentage point in 1990 and nearly 1 percentage point in both 1991 and in 1992 (table). Since the most recent business cycle peak in output, productivity is now estimated to have increased at an average annual rate of 1.5 percent--substantially above the 1 percent trend that prevailed in the 1980s.

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4. Because the civilian unemployment rate fell to 6.7 percent in August--bringing the rate below 7 percent for two consecutive months--the number of weeks of benefits that new EUC participants can receive will be reduced from the current level of 20 or 26 weeks to 10 or 15 weeks beginning on September 12. The EUC program is scheduled to expire on October 2 (with final payments to be made by January 15), although talk of extending the program for a fourth time has surfaced.

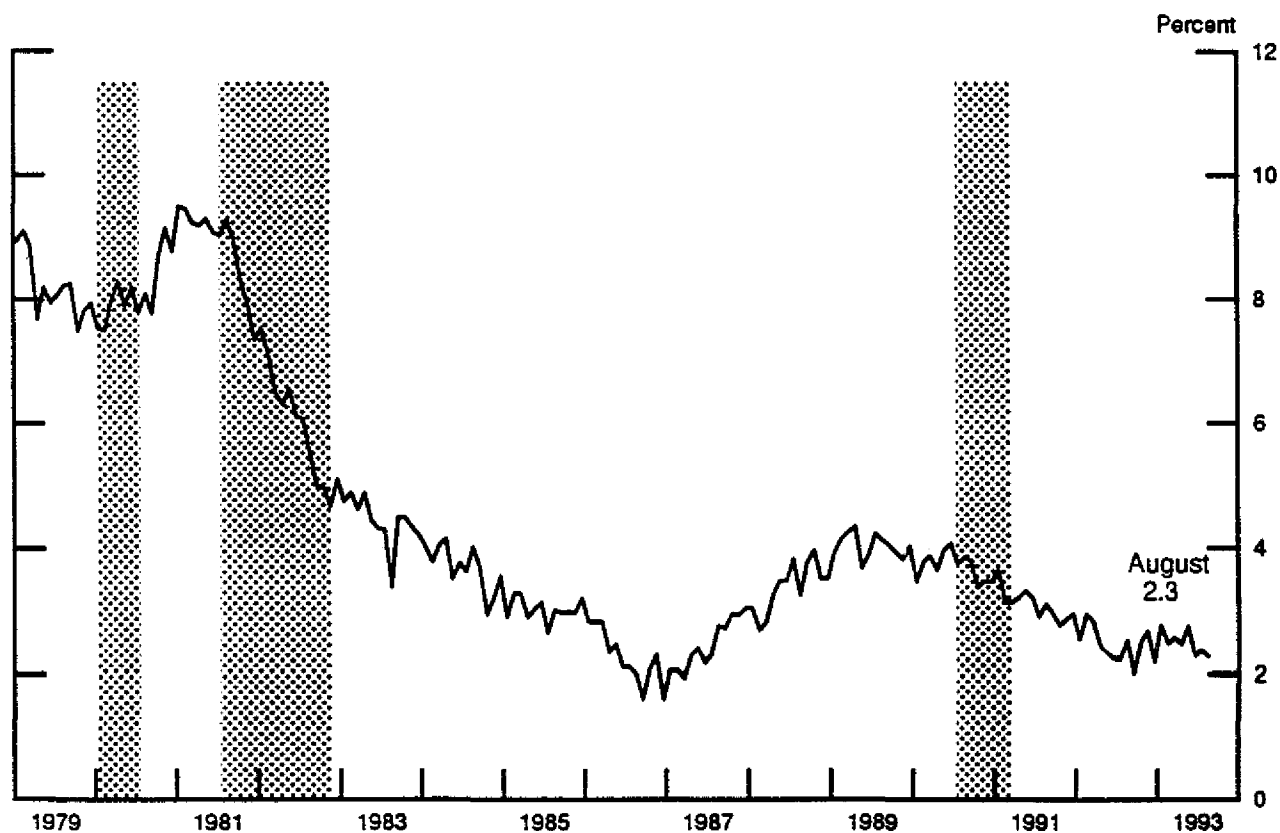


**AVERAGE HOURLY EARNINGS**  
(Percentage change; based on seasonally adjusted data)<sup>1</sup>

	1991	1992	1992			1993		
			Q4	Q1	Q2	June	July	Aug.
			-Annual rate-			-Monthly rate-		
Total private nonfarm	2.9	2.2	2.3	3.8	1.1	-.1	.1	.5
Manufacturing	3.0	2.3	2.5	2.8	2.1	.1	.1	.5
Durable	3.2	2.2	3.4	2.3	2.3	.0	-.1	.7
Nondurable	2.9	2.5	.0	1.9	2.6	.2	.4	.3
Contract construction	1.5	1.1	2.9	2.0	1.1	-.1	.5	-.1
Transportation and public utilities	1.5	1.7	.6	2.7	.3	.2	.1	-.1
Finance, insurance and real estate	4.3	3.5	5.3	4.4	5.5	-.7	.4	1.7
Total trade	3.0	2.1	1.4	4.9	.5	-.4	.2	.4
Services	3.9	2.6	2.3	3.4	.7	-.2	-.1	.6

1. Annual changes are measured from final quarter of preceding year to final quarter of year indicated.

**AVERAGE HOURLY EARNINGS OF PRODUCTION OR NONSUPERVISORY WORKERS**  
(Twelve-month percent change)

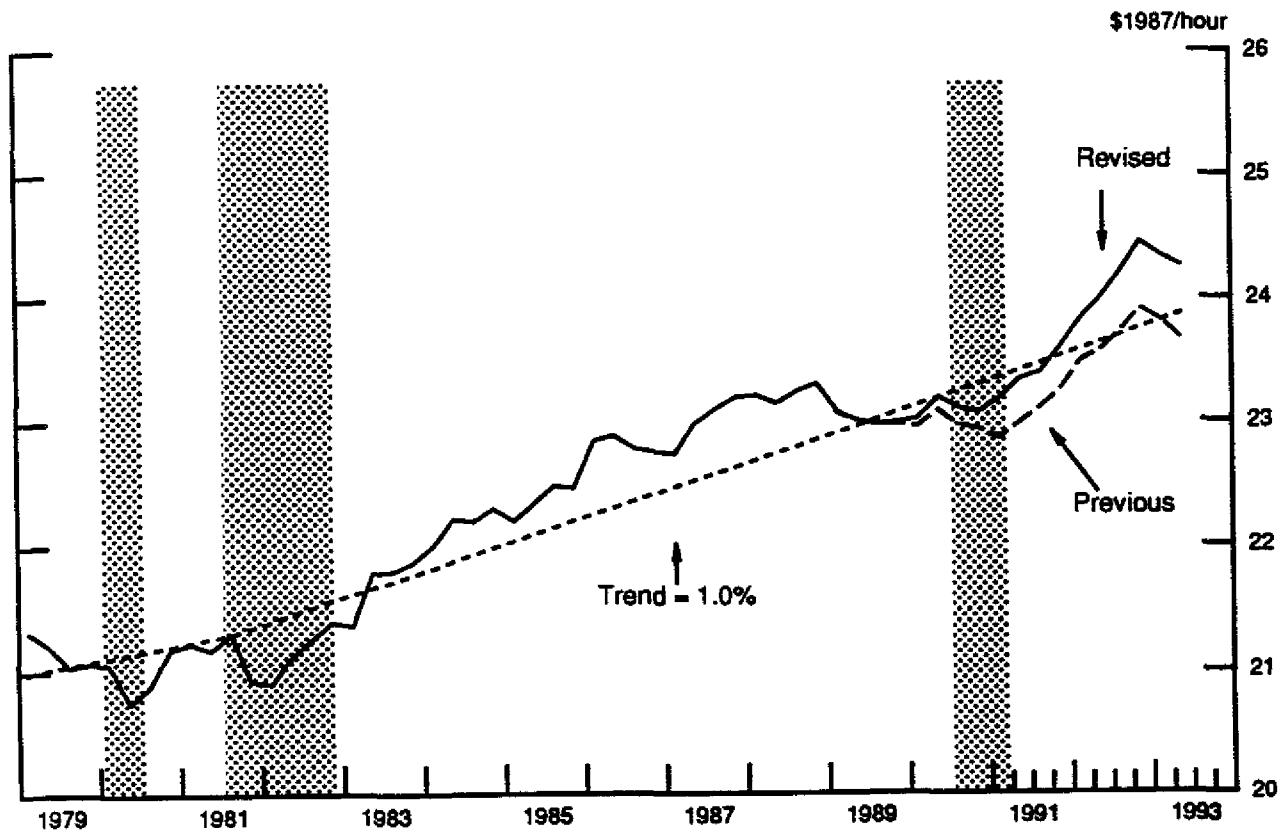


REVISIONS TO LABOR PRODUCTIVITY AND COST  
(Nonfarm Business Sector; Percent change at an annual rate)

	1990	1991	1992	1993	
				Q1	Q2
Output per hour					
Revised	.4	2.3	3.7	-1.8	-1.3
Previous	-.2	1.3	2.8	-1.6	-2.5
Compensation per hour					
Revised	6.1	4.8	5.3	2.8	1.4
Previous	6.0	4.1	3.4	3.2	1.6
Unit labor costs					
Revised	5.7	2.4	1.6	4.7	2.8
Previous	6.2	2.8	.6	4.8	4.2
memo:					
ECI hourly compensation	4.6	4.4	3.5	4.2	3.5

1. Annual data are percent change from the fourth quarter of preceding year to the fourth quarter of year shown. Quarterly data are seasonally adjusted percent change at an annual rate.

LABOR PRODUCTIVITY  
(Nonfarm business sector; seasonally adjusted data)



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

	Proportion in total IP		1993		1993		
	1992:4	1992 <sup>1</sup>	Q1	Q2	June	July	Aug.
			-Annual rate		---Monthly rate---		
Total index	100.0	3.2	5.5	2.3	.2	.4	.2
Previous		3.2	5.5	1.9	-.1	.4	
Manufacturing	84.6	3.7	6.4	3.4	.0	.2	.3
Motor vehicles and parts	4.9	10.2	37.4	-8.7	-2.6	-2.9	.0
Mining	7.3	-.9	-5.7	2.5	.2	-.3	-1.0
Utilities	8.2	2.0	4.6	-7.5	2.5	3.3	.0
MANUFACTURING EXCEPT MOTOR VEHICLES AND PARTS	79.7	3.3	4.7	4.2	.2	.4	.3
Consumer goods	22.0	2.0	1.9	.1	-.1	.2	-.2
Durables	3.6	3.7	15.4	3.1	-2.2	1.8	-.9
Nondurables	18.4	1.7	-.6	-.6	.4	-.1	.0
Business equipment	14.5	9.9	8.9	12.1	.6	1.3	.7
Office and computing	3.2	31.1	31.5	42.3	2.5	2.9	2.6
Industrial	4.0	6.1	5.6	7.1	.0	1.0	-.2
Other	7.1	4.2	.8	2.3	.1	.4	.3
Defense and space equipment	3.3	-7.8	-7.7	-8.9	-1.3	-.1	-.9
Construction supplies	4.8	4.5	6.2	2.8	-1.1	1.1	.1
Materials	28.2	3.2	7.4	5.0	.4	.1	.6
Durables	18.9	3.6	9.4	4.0	.2	.4	.8
Nondurables	9.0	2.3	4.2	7.2	.8	-.5	.1

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

CAPACITY UTILIZATION  
(Percent of capacity; seasonally adjusted)

	1967-92	1992	1992	1993	1993		
	Avg.	Avg.	Q4	Q1	June	July	Aug.
Total industry	81.9	79.8	80.7	81.4	81.5	81.8	81.8
Manufacturing	81.2	78.8	79.6	80.5	80.6	80.7	80.8
Primary processing	82.2	82.2	82.7	83.9	84.4	84.5	84.7
Advanced processing	80.7	77.3	78.3	79.0	79.0	79.1	79.2

We see these data as strengthening the argument that structural and technological improvements have boosted the noncyclical component of productivity growth thus far in the 1990s relative to the average pace of the 1980s business expansion.

Incorporating revised data on wages and employer contributions for benefits, growth in hourly compensation in the nonfarm business sector also was revised up noticeably for the past three years, especially in 1992: Hourly compensation is now reported to have increased faster than the Employment Cost Index in each of the past three years. With upward revisions to both productivity and compensation per hour, estimates of unit labor costs were little revised, on net.

#### Industrial Production

**IP DATA ARE CONFIDENTIAL UNTIL RELEASED ON SEPTEMBER 16 AT 9:15 AM**

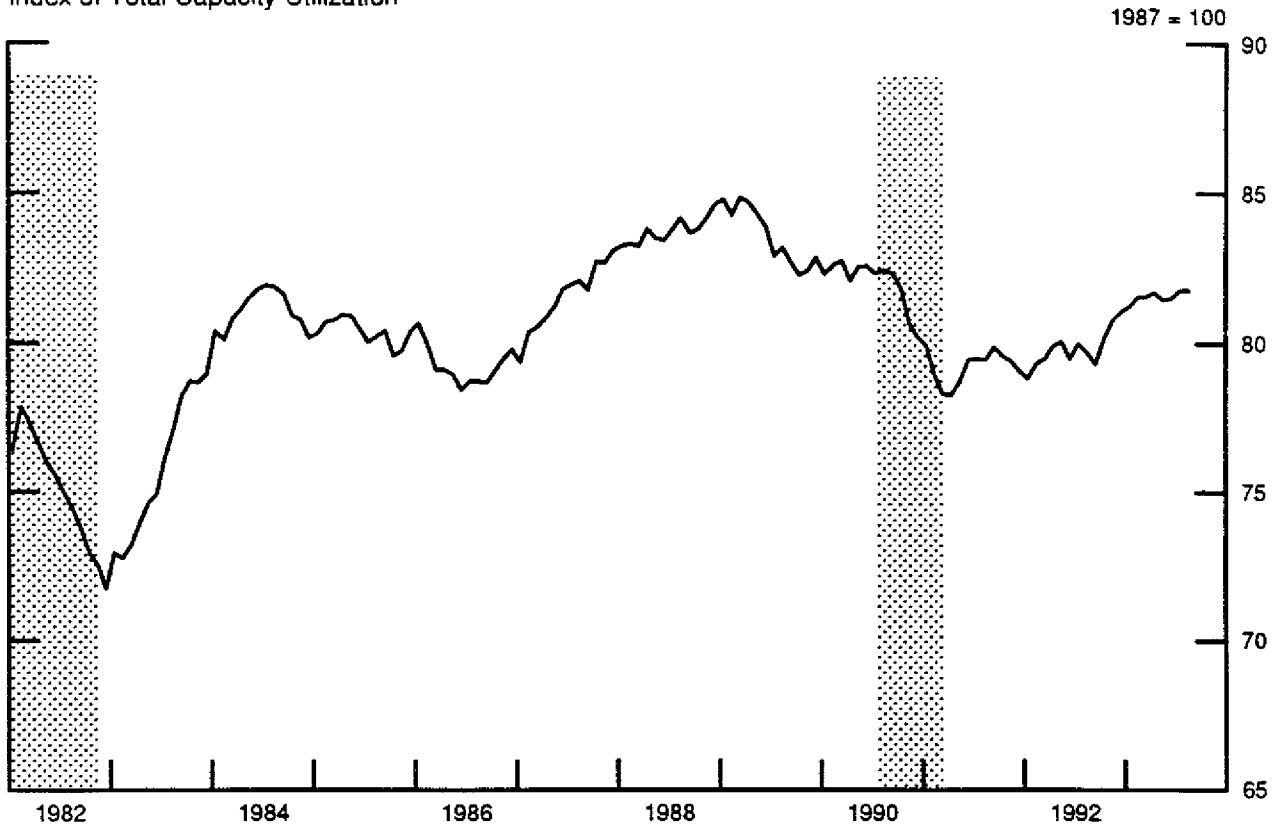
Overall industrial production rose 0.2 percent in August, after advancing 1/4 percent, on average, in June and July. Manufacturing output posted a moderate gain in August, while strikes curtailed overall output at mines. Utilities generation was unchanged following large gains earlier in the summer.

Motor vehicle assemblies in August edged a bit below July's annual rate of 9.6 million units.<sup>5</sup> Anecdotal reports suggest that start-up problems for some new models temporarily held down August assemblies. Indeed, despite lower assemblies, output of motor vehicle parts and production of related materials picked up in August. Inventories of light vehicles are at the low end of the range that has prevailed since late last year: With production of autos noticeably lower than in July, inventories returned to

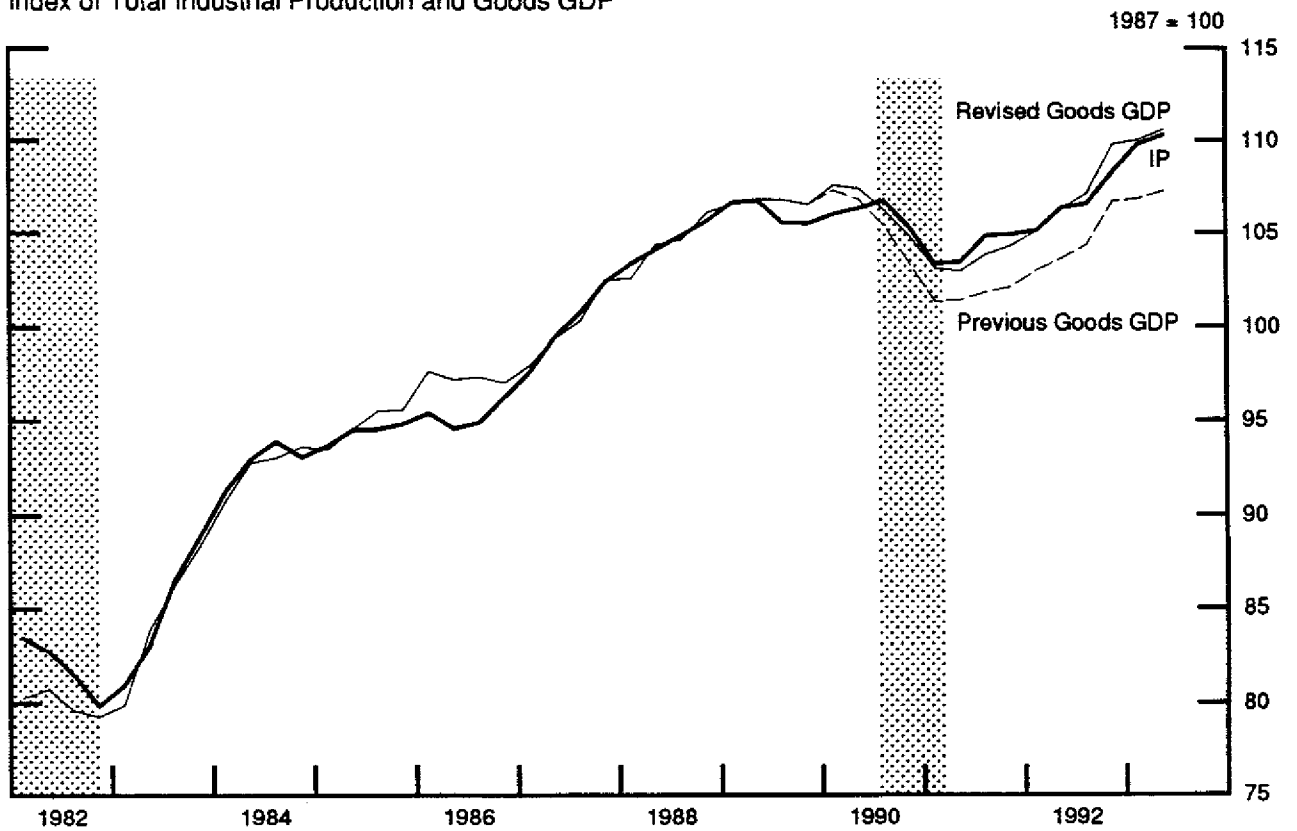
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5. The motor vehicle assembly schedules for August reported in the last Greenbook were overstated by more than one million units at an annual rate, owing to an error by Wards Automotive Reports. Actual production fell short even of the corrected schedules.

Index of Total Capacity Utilization



Index of Total Industrial Production and Goods GDP



64 days' supply in August, while inventories of light trucks held at 62 days' supply.

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

	1993					
	May	June	July	Aug.	Sep.	Q4
U.S. production	10.7	10.2	9.6	9.5	10.7	11.7
Autos	6.0	5.8	5.4	5.0	5.9	6.5
Trucks	4.7	4.4	4.2	4.5	4.8	5.2
Days' supply						
Autos <sup>2</sup>	67	66	69	64		
Light trucks	69	69	62	62		

1. Components may not sum to totals because of rounding.
2. BEA seasonal basis, end of month.

Outside of the motor vehicle industry, another sharp gain in computers and related electronic components held up production of business equipment, and advances in the output of steel boosted production of durable materials. Output of nondurable consumer goods was unchanged, and durable consumer goods fell back as the production of appliances retraced much of the advance posted in July. Apart from the rise in office and computing equipment, production of business equipment was sustained after rising quite rapidly in July. Construction supplies changed little in August, after bouncing about of late.

With the modest increase in industrial production, overall capacity utilization remained unchanged in August (chart). Within manufacturing, the operating rate edged up; utilization for primary processing industries now is 2-1/2 percentage points above its long-run average, as most major industries in this category have posted sustained improvement over the past year.

The revision to the NIPA brought the cyclical pattern of goods GDP more in line with the pattern in industrial production

**RETAIL SALES**  
(Percent change; seasonally adjusted)

	1992	1993		1993		
	Q4	Q1	Q2	June	July	Aug.
Total sales	3.0	.3	1.8	.5	.3	.2
Previous estimate			1.7	.2	.1	
Retail control <sup>1</sup>	2.2	.3	1.0	.6	.1	-.0
Previous estimate			1.0	.4	.4	
Total excl. automotive group	2.3	.4	1.2	.5	.0	.1
Previous estimate			1.1	.3	.4	
GAF <sup>2</sup>	2.7	.7	1.6	.9	.7	.1
Previous estimate			1.5	.7	1.7	
Durable goods stores	4.4	.2	3.9	1.2	.7	.6
Previous estimate			3.6	.5	-.0	
Bldg. material and supply	3.8	1.1	3.2	-1.0	-.3	1.8
Automotive dealers	5.7	.2	4.2	.5	1.4	.7
Furniture and appliances	4.5	.8	2.4	1.1	.5	-1.5
Other durable goods	.1	-1.3	5.1	6.8	-.6	1.2
Nondurable goods stores	2.2	.4	.6	.1	.1	-.0
Previous estimate			.6	.0	.2	
Apparel	2.9	-2.5	.3	.0	.0	.8
Food	1.3	.5	-.2	1.0	.1	1.1
General merchandise <sup>3</sup>	1.9	2.0	1.7	1.1	1.1	.4
Gasoline stations	-.3	2.7	.2	-1.1	-.8	-2.5
Other nondurables <sup>4</sup>	3.8	-.7	1.0	-1.0	-.4	-.8

1. Total retail sales less building material and supply stores and automotive dealers, except auto and home supply stores.

2. General merchandise, apparel, furniture, and appliance stores.

3. Excludes mail order nonstores; mail order sales are also excluded from the GAF grouping.

4. Includes sales at eating and drinking places, drug stores and proprietary stores.

(chart).<sup>6</sup> From the output peak of the recent business cycle (the second quarter of 1990) to its trough, goods GDP declined 5.4 percent at an annual rate, and industrial production decreased 3.7 percent. In contrast, before the revision, goods GDP was estimated to have declined at a 7.4 percent rate. Since then, both goods GDP and IP have increased at close to a 3 percent rate.

#### Personal Income and Consumption

Consumer spending appears to be heading toward a healthy advance this quarter, led by substantial gains in the services component. Total personal income declined in July owing to flood losses, but smoothing through this special factor, real disposable income has continued to advance at a modest pace.

Total nominal retail sales posted a modest 0.2 percent increase (not at an annual rate) in August, following upward-revised increases of 0.5 percent and 0.3 percent in June and July, respectively. Nominal spending in the retail control category, which excludes sales at auto dealers and building material and supply stores, was unchanged last month, and the July gain in this category was revised down 0.3 percentage point to just 0.1 percent. Despite the recent flatness, real consumer spending for goods excluding motor vehicles in July and August was well above the level in the second quarter.

Light vehicle sales in July and August averaged 13.7 million units--0.4 million units below the strong pace in the second quarter. This weakness in sales resulted from both a decline in "fleet" sales and a leveling off in consumer demand. Sales to consumers (including leased vehicles) of GM and Ford autos were

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6. Goods GDP is equal to durable and nondurable PCE, BFI, residential structures, the change in nonfarm inventories, government outlays for goods and structures (NIPA basis, excluding CCC purchases), and net exports of merchandise (exports do not include agricultural products).



relatively well maintained this summer, with favorable financing rates and replacement needs continuing to support demand.<sup>7</sup> Sales of North American-produced vehicles, which came in at 11.5 million units in August, perked up to a 12 million unit annual pace in early September.

SALES OF AUTOMOBILES AND LIGHT TRUCKS<sup>1</sup>  
(Millions of units at an annual rate; BEA seasonals)

	1992	1993		1993		
		Q1	Q2	June	July	Aug.
Total <sup>2</sup>	12.85	13.31	14.15	13.95	13.79	13.64
Autos	8.38	8.36	8.96	8.83	8.64	8.62
Light trucks	4.46	4.95	5.20	5.12	5.15	5.02
North American <sup>3</sup>	10.51	11.12	11.89	11.82	11.55	11.51
Autos	6.28	6.39	6.90	6.89	6.60	6.68
Big Three	5.10	5.34	5.69	5.65	5.20	5.02
Transplants	1.18	1.05	1.21	1.23	1.40	1.66
Light trucks	4.23	4.73	5.00	4.93	4.95	4.83
Foreign produced	2.34	2.20	2.26	2.13	2.24	2.13
Autos	2.11	1.97	2.06	1.95	2.04	1.94
Light trucks	.23	.23	.20	.19	.20	.19
Memo:						
Domestic nameplate						
Market share, total	.72	.75	.75	.75	.72	.71
Autos	.63	.66	.66	.66	.63	.61

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. Annual rates incorporate revised seasonal factors from BEA.
3. Excludes some vehicles produced in Canada and Mexico that are classified as imports by the industry.

Real expenditures on services grew rapidly in July because of unusually high spending on energy services. Weather data for August indicate that spending on electricity continued at a fairly high level. Spending on services excluding energy also has been robust in recent months. This category grew at roughly a 2-3/4 percent

<sup>7</sup> In the NIPA, sales to leasing companies are counted as business equipment spending even though they ultimately reflect consumer demand for new vehicles.

annual rate between December and July, boosted by particularly rapid growth in spending on medical care services and brokerage charges.

Nominal personal income fell 0.2 percent, or \$9.7 billion, at an annual rate in July because of weather-related reductions in proprietors' income and rental income.<sup>8</sup> However, nominal wages and salaries showed a healthy 0.6 percent advance in July, and the August employment report is consistent with further sizable gains in this area. Looking over a longer period, and smoothing through fluctuations associated with the timing of year-end bonuses, real disposable income appears to be growing at a modest pace. Between the third quarter of 1992 and the second quarter of 1993, real disposable personal income grew approximately 2.6 percent at an annual rate. Growth in real income still trailed growth in consumer spending, however, and the personal saving rate declined from 4.9 percent to 4.5 percent over the same period.

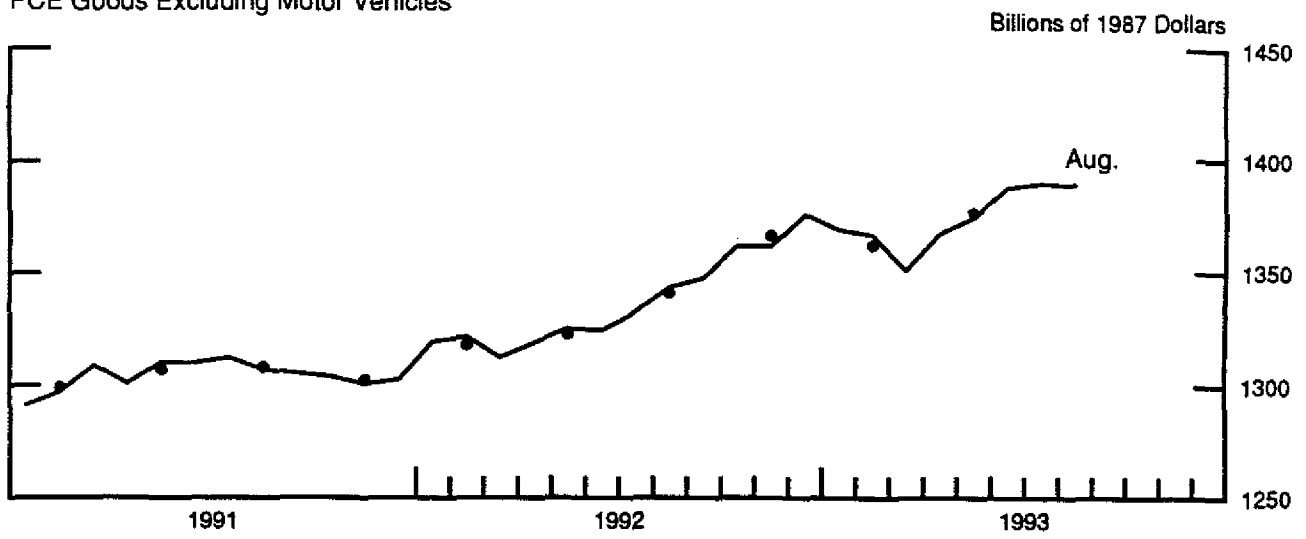
The most recent readings of the Michigan and Conference Board surveys showed that consumer confidence was roughly unchanged in August. Indicators of consumers' assessments of current conditions edged down last month, while indicators of expectations of future conditions rose slightly. During the first six months of 1993, both the Michigan and Conference Board indexes of consumer sentiment fell sharply, a move largely reflecting a substantial deterioration in expectations of future economic conditions.

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8. The BEA made two explicit adjustments to July personal income for the floods in the Midwest and the drought in the Southeast. First, crop damage was estimated to have reduced farm proprietors' income by \$23.5 billion at an annual rate in July. Second, uninsured losses of residential and business property lowered rental income and proprietors' income by \$7.2 billion and \$4.2 billion (at annual rates), respectively. The BEA noted, however, that these estimates are very preliminary and subject to revision as more information becomes available.

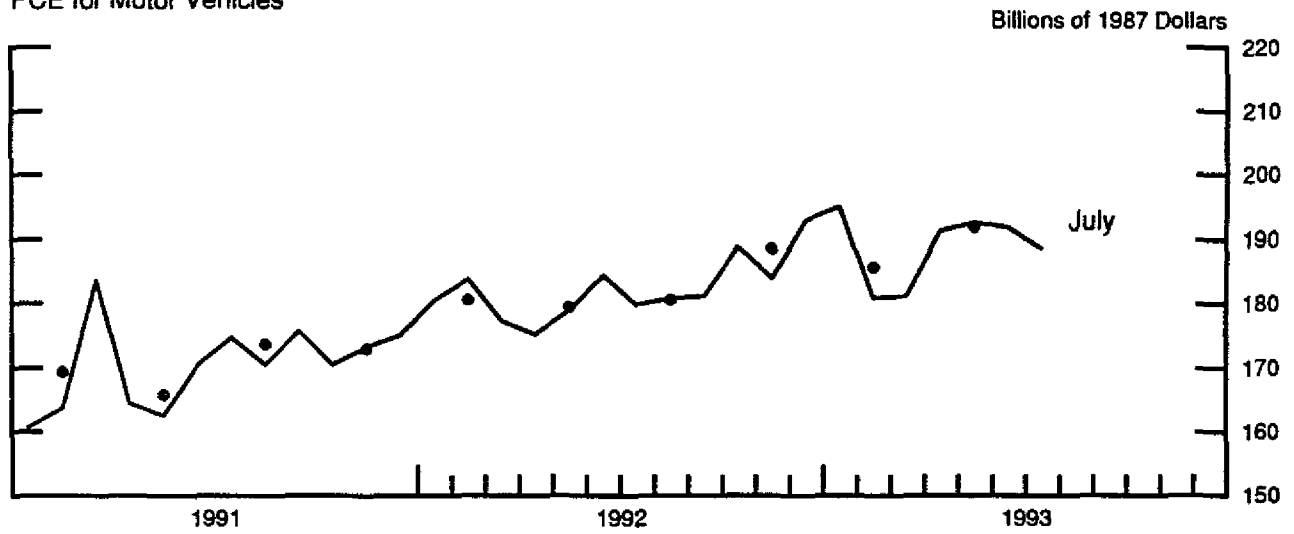
### Personal Consumption Expenditures

PCE Goods Excluding Motor Vehicles

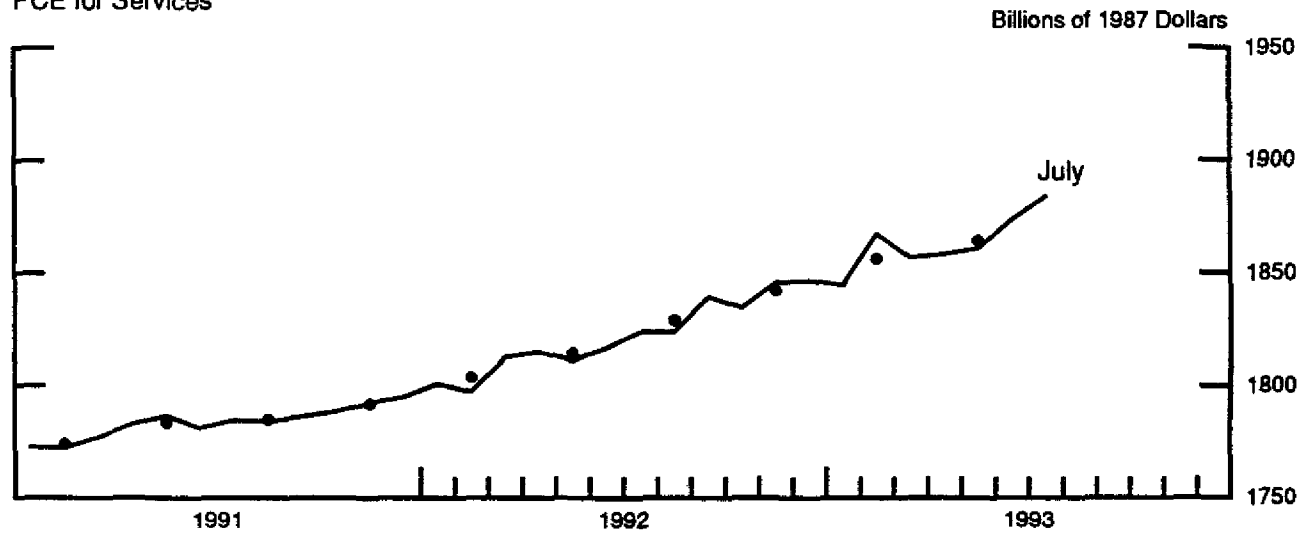


Note: June, July, and August are staff estimates

PCE for Motor Vehicles



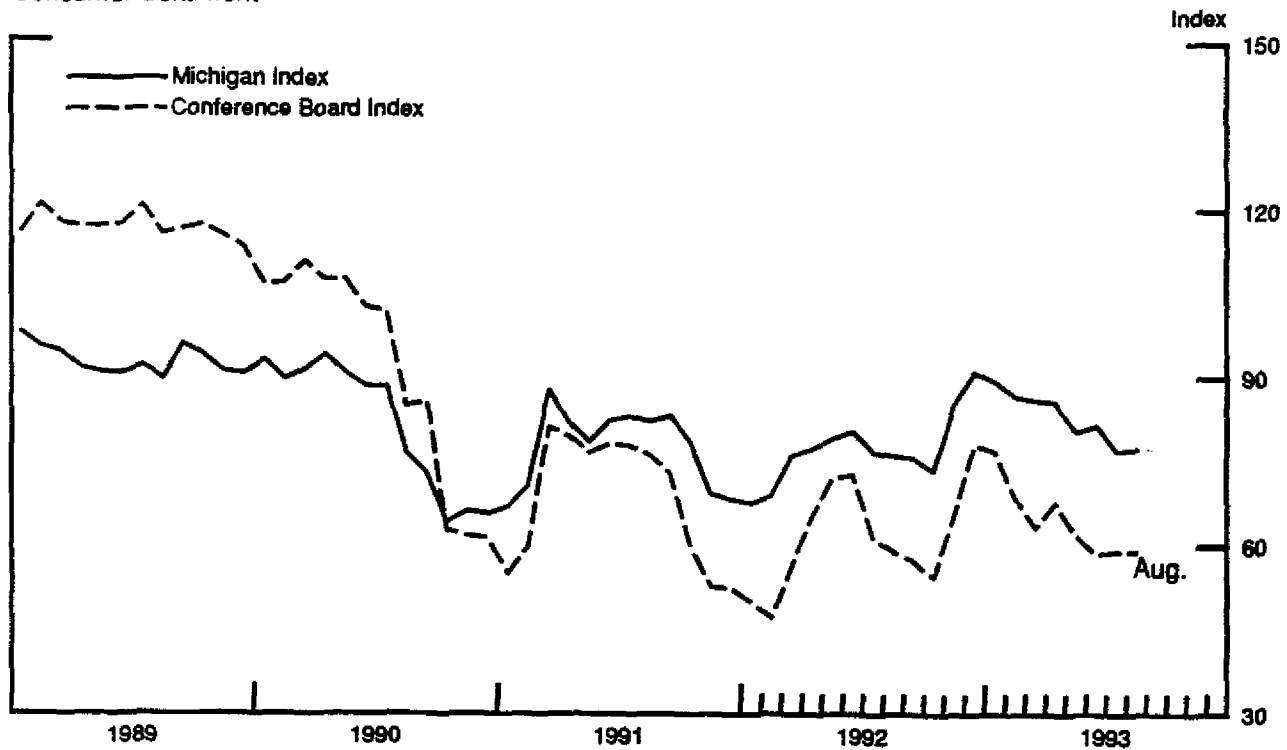
PCE for Services



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

	1992		1993		1993	
	1992	Q4	Q1	Q2	June	July
Total personal income	44.2	111.6	-72.7	29.6	-5.3	-9.7
Wages and salaries	32.4	95.9	-96.0	36.2	-7.5	20.0
Private	30.4	94.0	-98.6	34.4	-9.4	18.3
Other labor income	2.0	1.7	2.7	2.7	2.7	2.7
Proprietors' income	2.9	5.6	12.1	-13.6	-7.5	-29.2
Farm	.2	.8	11.9	-15.8	-9.7	-28.3
Rent	.5	2.5	2.8	2.8	1.3	-8.2
Dividend	2.5	2.6	.6	.3	.4	.4
Interest	-1.0	2.3	-.5	-.1	-.1	1.0
Transfer payments	6.0	2.7	6.0	3.8	5.0	5.1
Less: Personal contributions for social insurance	1.1	1.8	.5	2.5	-.5	1.4
Less: Personal tax and nontax payments	6.0	19.9	-15.4	8.5	-.1	4.6
Equals: Disposable personal income	38.2	91.8	-57.4	21.1	-5.2	-14.2
mo: Real disposable income	21.6	65.4	-56.2	10.9	-5.7	-13.2

Consumer Sentiment

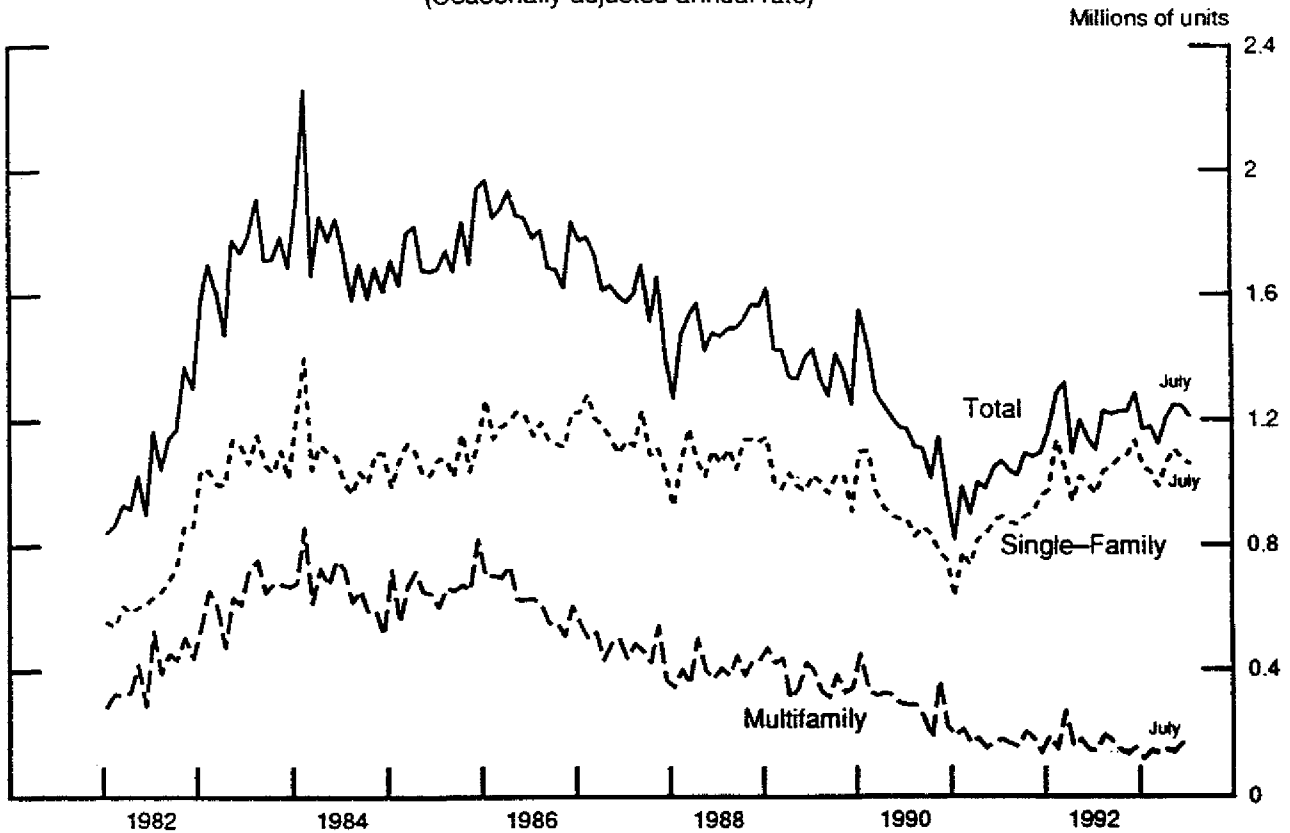


PRIVATE HOUSING ACTIVITY  
(Millions of units; seasonally adjusted annual rates)

	1992	1992	1993		1993		
	Annual	Q4	Q1	Q2 <sup>r</sup>	May <sup>r</sup>	June <sup>r</sup>	July <sup>p</sup>
All units							
Starts	1.20	1.25	1.16	1.23	1.25	1.25	1.21
Permits	1.11	1.16	1.11	1.11	1.12	1.12	1.15
Single-family units							
Starts	1.03	1.10	1.03	1.08	1.11	1.08	1.06
Permits	.92	.99	.93	.92	.92	.93	.97
Sales							
New homes	.61	.64	.60	.66	.64	.66	.63
Existing homes	3.52	3.87	3.54	3.58	3.62	3.68	3.88
Multifamily units							
Starts	.17	.15	.13	.15	.14	.17	.15
Permits	.19	.17	.18	.19	.20	.19	.18

p Preliminary. r Revised estimates.

PRIVATE HOUSING STARTS  
(Seasonally adjusted annual rate)



Housing Markets

Housing indicators for mid-summer paint a mixed picture of the strength of demand and production. Starts were down about 3 percent in July. Both the single-family and multifamily components posted small losses. Permit issuance rose, and the level of issuance indicates slightly more production than does the sample-based estimate of starts.

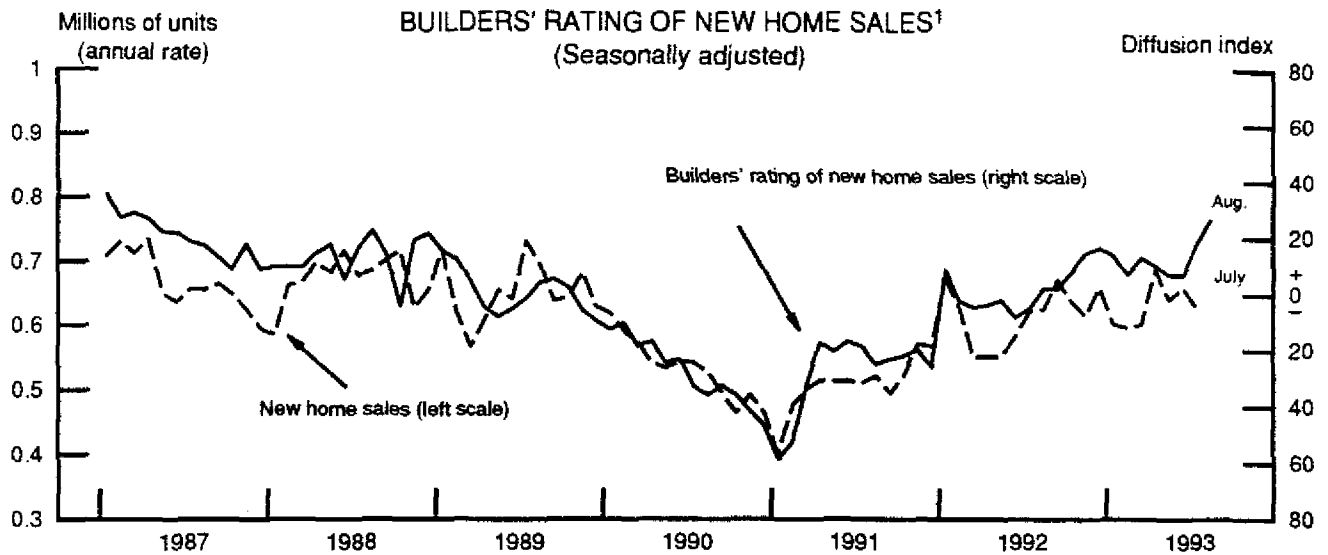
Regionally, flooding in the Midwest contributed to a 4 percent decline in starts; in the West, where starts were off 12 percent, production is being held down by weak demand in California. During the first seven months of the year, California posted a 13 percent decline in permit issuance, relative to a year earlier, even as the Mountain states were racking up double-digit increases.<sup>9</sup>

Home sales, too, have been mixed (chart). Sales of existing homes rose for the fourth consecutive month in July and are approaching the fourteen-year high recorded last December. Sales of new homes, by contrast, fell in July in all four regions, according to the preliminary estimate. Transactions prices of homes sold in July were up 3 percent to 6 percent from a year earlier, depending on the measure. For the nation as a whole, house prices have shown some tentative signs of firming in recent months.

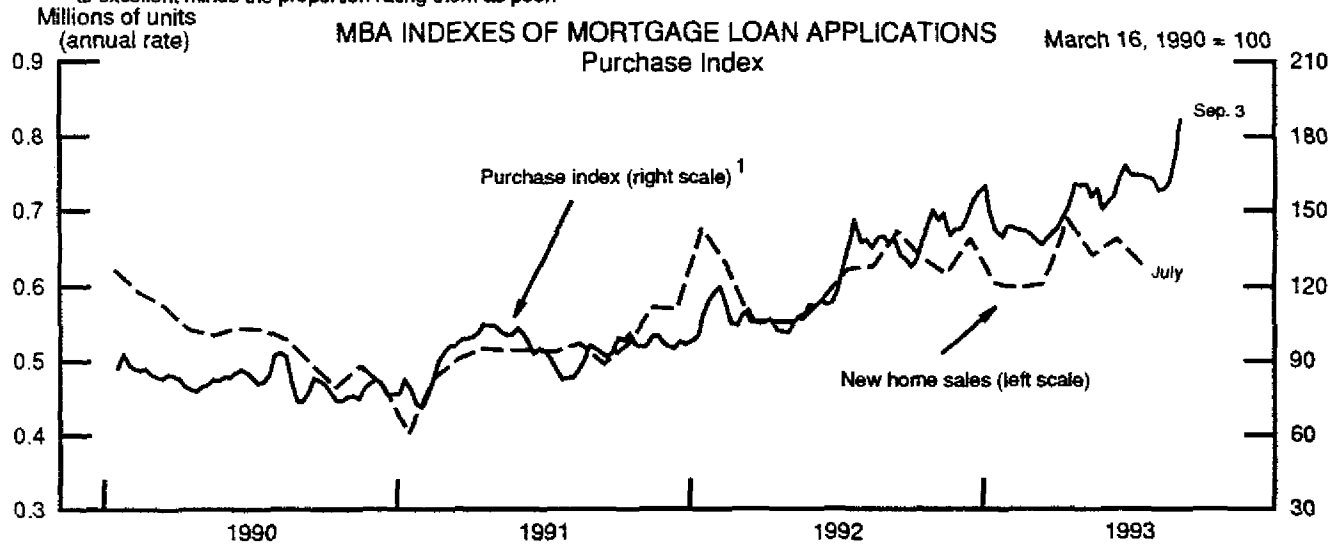
Surveys of builders, lenders, and consumers during August and early September suggest some pickup in housing activity. As illustrated in the chart, respondents in all three surveys have been giving more positive readings of market conditions than the level

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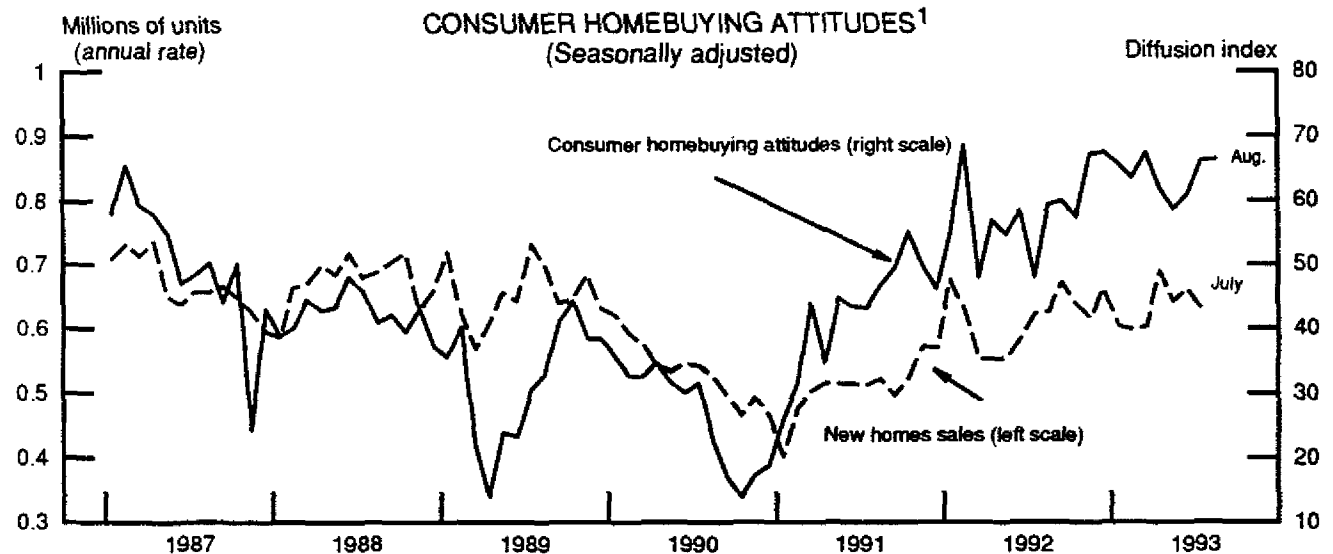
9. California accounted for 7.6 percent of all residential permits issued nationwide during the first 7 months of this year (second to Florida's 10.0 percent). As recently as 1989, California's share of the U.S. total was 17.8 percent. In the existing home market, California had 10.3 percent of total U.S. sales in the first half of this year, nearly double the share of second place Texas; in 1989, California's share had been 14.5 percent.



<sup>1</sup> 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.



<sup>1</sup> Seasonally adjusted by Federal Reserve Board Staff



<sup>1</sup> 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.

suggested by new home sales, given the usual relationships among these indicators.

#### Business Fixed Investment

Real business fixed investment advanced 14.4 percent at an annual rate in the second quarter but appears to be decelerating this quarter. On the equipment side, nominal orders and shipments of nondefense capital goods (excluding aircraft and parts) only edged up in July, and motor vehicle and aircraft purchases also have slipped from their rapid second-quarter pace. Investment in nonresidential structures posted its largest advance in three years in the second quarter, but construction activity declined in July and stood 2-1/2 percent (not at an annual rate) below the second-quarter level.

Sales of motor vehicles boosted capital spending significantly in the second quarter but have dropped off so far in the third quarter. Heavy-truck sales dropped 20 percent in July, after advancing steadily since late 1992. In addition, fleet sales of automobiles and light trucks tailed off in July and August, suggesting that business purchases of light vehicles did not repeat their solid second-quarter gain.

Nominal shipments of computing equipment rose 8.9 percent in July, after dropping off somewhat in the second quarter. The healthy growth in real spending on computers over the past year has been driven in large part by rapid price declines, which likely will continue in the the current quarter, although at a slightly slower pace.<sup>10</sup> In contrast, the demand for other types of equipment

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10. As reported in the August Greenbook, a shortage of Bakelite epoxy resin, an important semiconductor ingredient, caused a sharp jump in computer memory prices. The shortage of the resin was the result of a fire at the Sumitomo chemical plant, which accounted for up to 60 percent of the world's supply. Sumitomo has since made arrangements for stopgap production with several other suppliers, and we now expect shortages of the resin to be of minor importance.



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

	1992	1993		1993		
	Q4	Q1	Q2	June	July	Aug.
<u>Producers' durable equipment</u>						
Shipments of nondefense capital goods	3.4	1.1	1.0	2.1	-4.7	n.a.
Excluding aircraft and parts	2.6	3.3	.8	.8	.9	n.a.
Office and computing	.6	10.1	-2.2	.8	8.9	n.a.
All other categories	3.1	1.5	1.7	.8	-1.4	n.a.
Shipments of complete aircraft <sup>1</sup>	4.9	21.5	-.3	12.3	-62.4	n.a.
Sales of heavy weight trucks	6.4	4.0	11.2	3.0	-20.1	n.a.
Orders of nondefense capital goods	3.7	1.5	4.1	13.1	-10.8	n.a.
Excluding aircraft and parts	4.2	4.4	1.3	3.1	.5	n.a.
Office and computing	2.6	9.0	-.7	-5.3	8.1	n.a.
All other categories	4.6	3.1	1.9	5.6	-1.6	n.a.
<u>Nonresidential structures</u>						
Construction put-in-place	1.4	.2	3.3	1.1	-3.9	n.a.
Office	-.3	-2.2	-.1	-4.4	2.0	n.a.
Other commercial	2.8	4.9	3.6	6.3	-14.6	n.a.
Industrial	-1.2	6.2	-5.0	-4.0	1.7	n.a.
Public utilities	4.6	-4.3	3.9	1.8	-.9	n.a.
All other	-1.2	-.4	10.0	1.8	-4.5	n.a.
Rotary drilling rigs in use	14.5	-8.2	-5.3	6.6	2.9	7.2
Footage drilled <sup>2</sup>	10.5	1.9	3.5	9.7	2.3	n.a.
<u>Memo:</u>						
Business fixed investment <sup>3</sup>	7.6	14.4	14.4	n.a.	n.a.	n.a.
Producers' durable equipment <sup>3</sup>	11.5	19.9	17.4	n.a.	n.a.	n.a.
Nonresidential structures <sup>3</sup>	-2.1	.5	6.4	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.

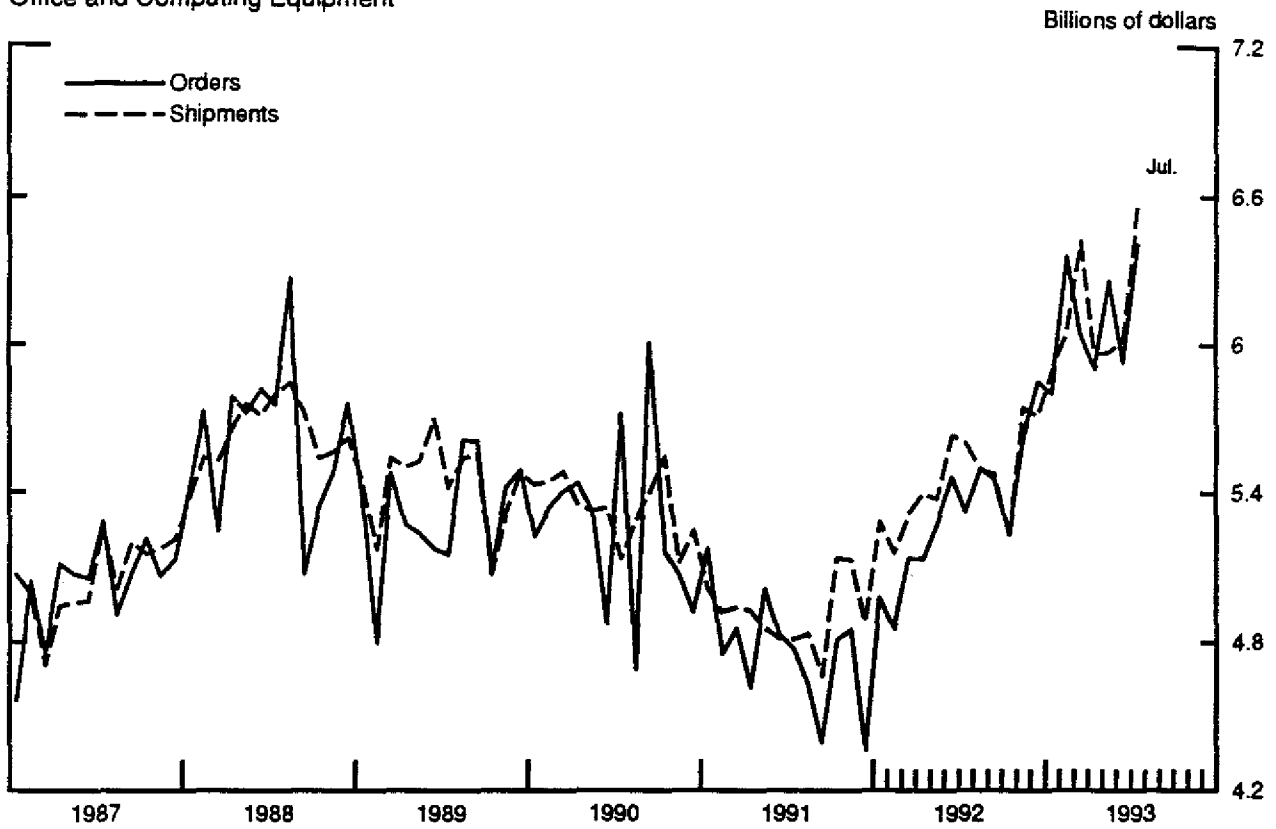
2. From Department of Energy.

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

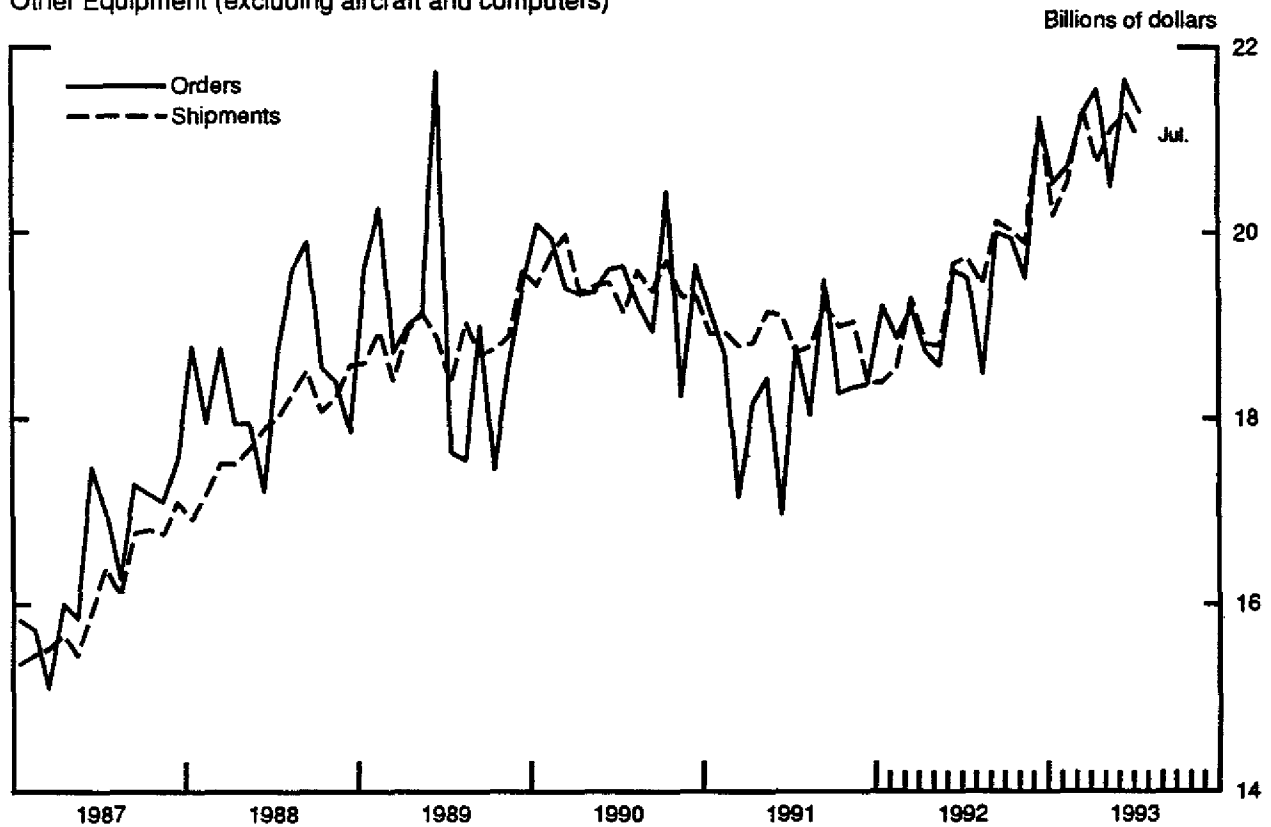
n.a. Not available.

### RECENT DATA ON ORDERS AND SHIPMENTS

Office and Computing Equipment

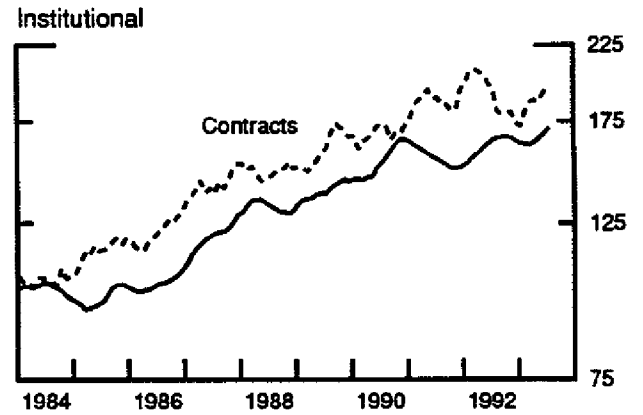
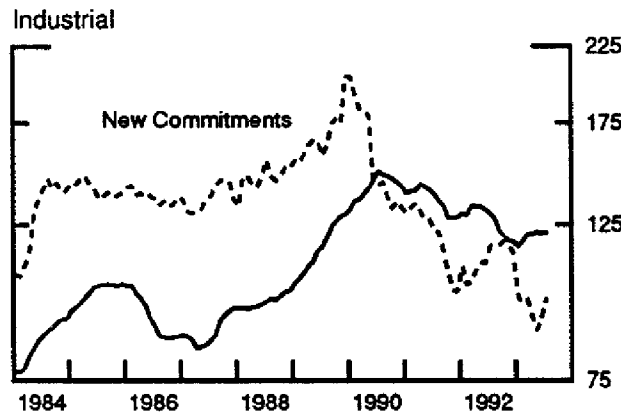
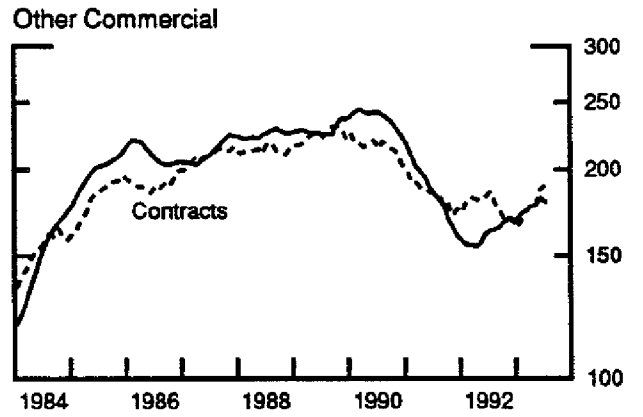
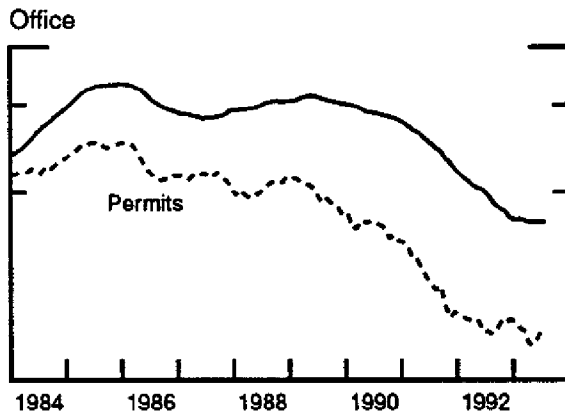
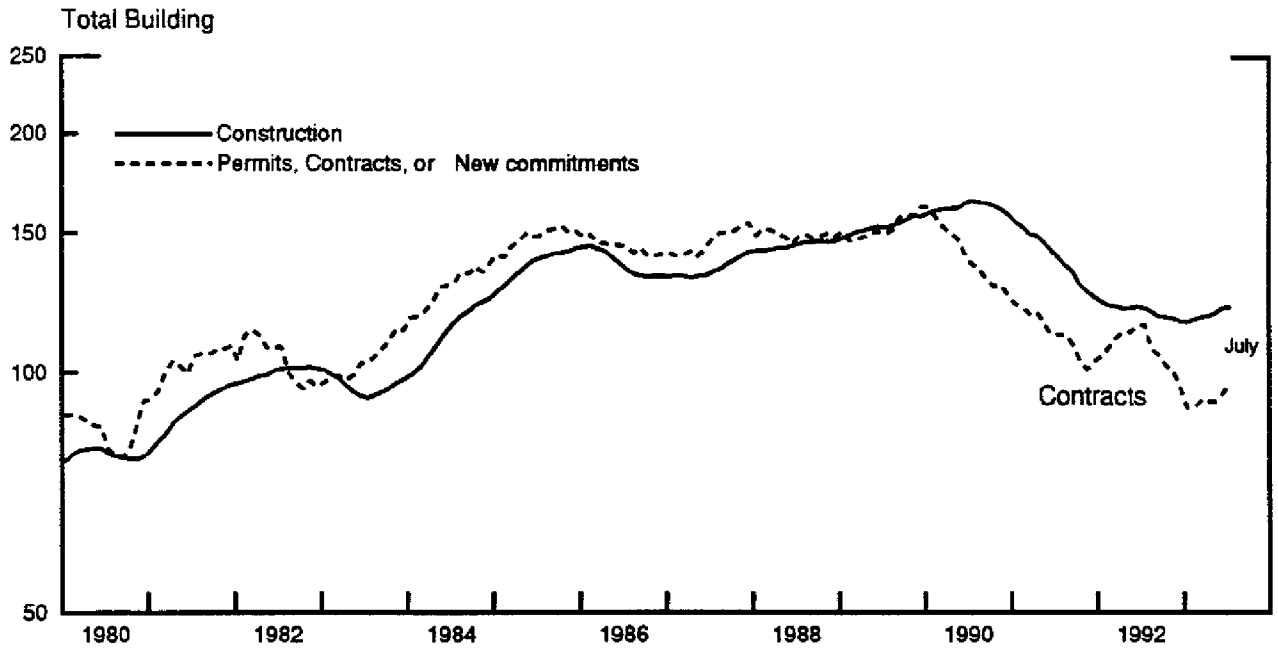


Other Equipment (excluding aircraft and computers)



### NONRESIDENTIAL CONSTRUCTION AND SELECTED INDICATORS\*

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



\*Six-month moving average for all series shown. For contracts, individual sectors include private & public buildings. All other include private only. New commitments are the sum of permits and contracts.

softened in July. Orders for nondefense capital goods excluding aircraft and computers fell 1.6 percent. Contributing to the decline were reductions in orders for communication and railroad equipment that reversed large increases in the preceding month. Elsewhere, the picture was less negative, with metalworking, special industrial and electrical transmission equipment each showing modest growth.

Nonresidential private construction put-in-place was off 3.8 percent in July after advancing in the second quarter. Much of the July decline was the result of softness in the "other commercial" and hotel and motel categories. Outlays for office, industrial, and institutional construction were roughly flat. Smoothing through the extreme monthly volatility of these series, construction activity has advanced slightly so far in 1993, with even the devastated office sector showing some signs of bottoming out.<sup>11</sup>

According to the Russell-NCREIF index, the decline in prices for office buildings and other commercial properties has continued. The national average of nominal appraised values for office properties fell 17 percent over the year ended in the second quarter, little different from the decline over the preceding four quarters. The drop in property values was largest in the West. The values of both retail and warehouse properties continued to slip, also due to sharp drops in the West. However, the FDIC's latest survey of real estate reaches somewhat different conclusions. Nationwide, 74 percent of the bank examiners and liquidators

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11. A few figures indicate the dramatic dimensions of the current collapse in office building. Coldwell Banker reports that only 2 million square feet of new office space entered the market over the first half of 1993. In the last "bust" of 1977, 10 million square feet were built over the first six months of the year. In the boom years of the 1980s, more than 60 million square feet were built in a typical six-month period.

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

	1992	1993		1993		
	Q4	Q1	Q2	May	June	July
<b>Current-cost basis</b>						
Total	20.4	39.9	20.5	20.6	.3	-46.7
Excluding auto dealers	11.7	20.6	20.9	26.4	-.9	-6.1
Manufacturing	-19.1	1.2	7.1	15.4	-3.2	.8
Defense aircraft	-2.0	-4.4	-.2	3.1	-1.9	-3.9
Nondefense aircraft	-2.8	.0	-3.1	-1.1	-3.9	5.1
Excluding aircraft	-14.3	5.6	10.5	13.4	2.6	-.4
Wholesale	16.5	5.1	6.2	4.0	-1.6	-4.4
Retail	23.1	33.6	7.2	1.3	5.1	-43.1
Automotive	8.7	19.3	-.3	-5.7	1.3	-40.7
Excluding auto dealers	14.4	14.3	7.5	7.0	3.8	-2.4
<b>Constant-dollar basis</b>						
Total	10.0	23.0	14.5	15.2	11.9	n.a.
Excluding auto dealers	11.7	6.4	18.2	17.1	20.3	n.a.
Manufacturing	-12.5	-.8	4.2	10.6	2.0	n.a.
Wholesale	12.8	-.1	8.5	4.2	9.0	n.a.
Retail	9.7	24.0	1.8	.4	.9	n.a.
Automotive	-1.7	16.6	-3.7	-1.9	-8.5	n.a.
Excluding auto dealers	11.4	7.4	5.5	2.3	9.4	n.a.

**INVENTORIES RELATIVE TO SALES<sup>1</sup>**  
 (Months supply; based on seasonally adjusted data)

	1992	1993		1993		
	Q4	Q1	Q2	May	June	July
<b>Current-cost basis</b>						
Total	1.48	1.47	1.47	1.47	1.46	1.47
Excluding auto dealers	1.46	1.44	1.44	1.44	1.44	1.45
Manufacturing	1.52	1.48	1.49	1.50	1.48	1.52
Defense aircraft	5.21	5.07	5.25	5.39	5.25	5.00
Nondefense aircraft	4.66	5.08	4.87	5.03	4.60	6.64
Excluding aircraft	1.37	1.34	1.35	1.36	1.34	1.37
Wholesale	1.35	1.33	1.32	1.31	1.33	1.33
Retail	1.55	1.60	1.58	1.57	1.57	1.54
Automotive	1.85	1.99	1.90	1.89	1.89	1.77
Excluding auto dealers	1.47	1.49	1.49	1.49	1.48	1.48

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

responding to the survey believed that prices of commercial real estate were either steady or increasing at the beginning of the third quarter: This measure of sentiment has trended up from a low of 54 percent in early 1992. Weakness in California, where only 53 percent of examiners surveyed believed prices were holding steady or increasing, held back the national average. Finally, vacancy rates have moved down about 1 percentage point over the past year, to a national average of 18 percent.

RUSSELL-NCREIF INDEX OF PROPERTY VALUES  
(Annual percent change, not seasonally adjusted)

	1990	1991	1992	1993
Total	-.8	-7.7	-13.4	-11.2
Office buildings	-3.6	-11.8	-17.6	-16.9
Retail stores	2.9	-3.5	-10.2	-7.4
Warehouses	1.6	-6.5	-10.0	-11.9

Note: Changes are from second quarter to second quarter.

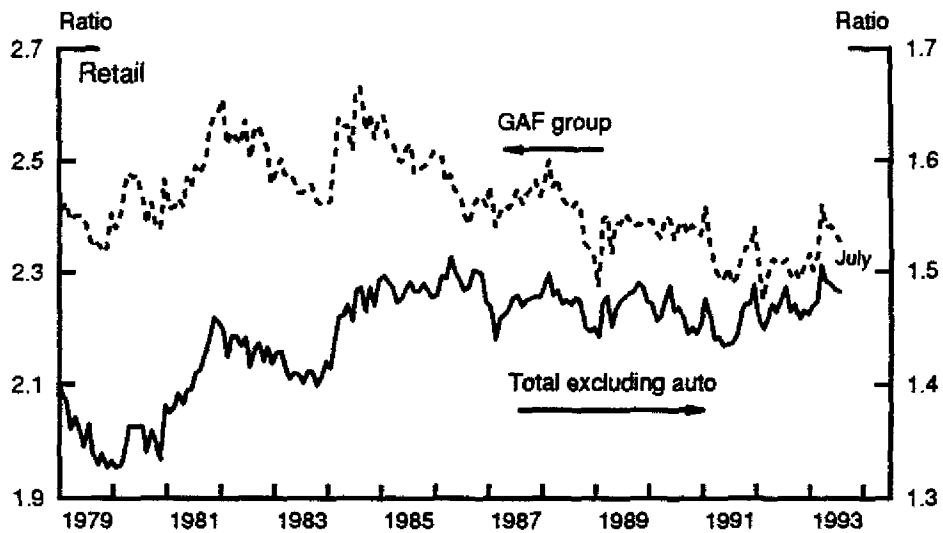
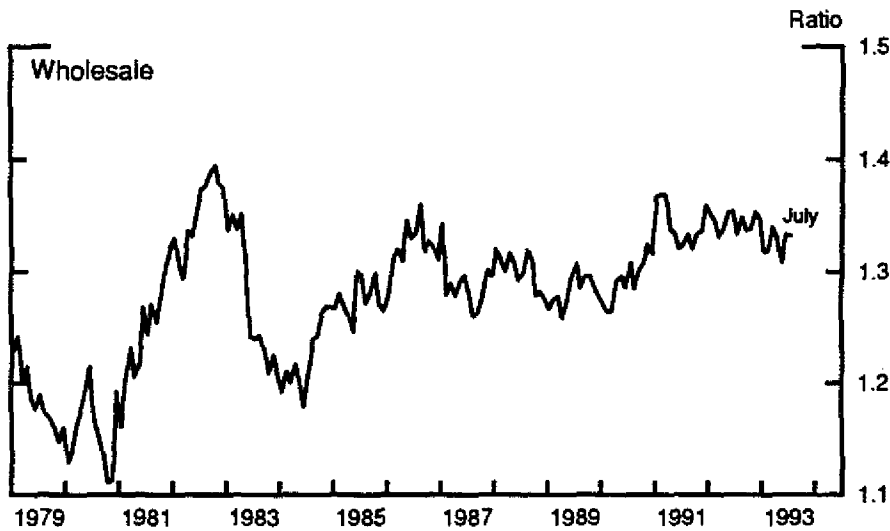
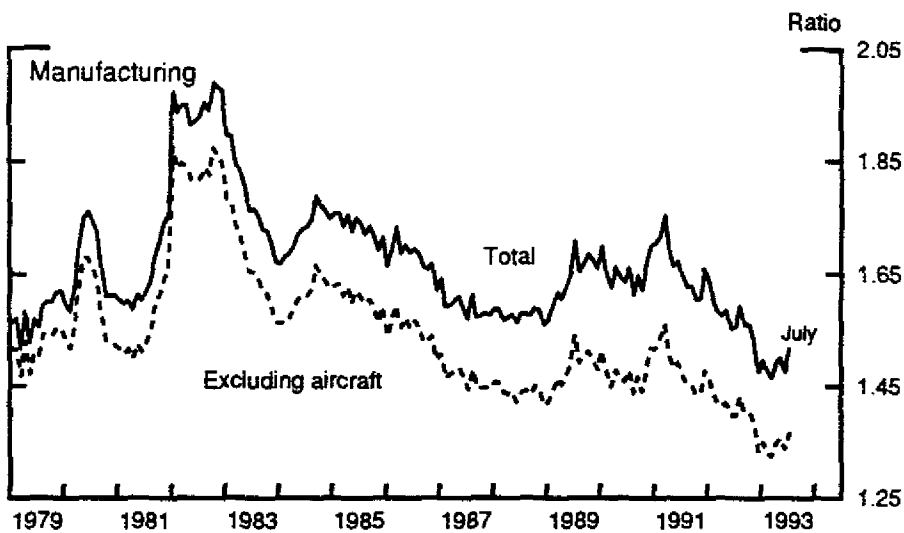
Elsewhere, natural gas exploration is continuing to pick up in the current quarter, with footage drilled in July and the rig count for August both well above their second-quarter levels. Natural gas producers are optimistic about the demand for gas over the next decade, as, among other things, the Clean Air Act is inducing utilities to switch to gas-fired plants.<sup>12</sup>

#### Business Inventories

Business inventory investment came to a halt around midyear. Excluding auto dealers, manufacturing and trade inventories fell at an annual rate of \$6.1 billion in July, after a downward-revised decline of \$0.9 billion in June. The slowing occurred at a time

<sup>12</sup> The Utility Data Institute, in its 1993 annual survey, estimates that natural gas plants will account for more than 40 percent of the additions to generating capacity over the remainder of the decade. Natural gas plants have lower stack emissions than coal- or oil-fired units. In addition, the cost of generating a kilowatt-hour with a gas-fired unit can be up to 30 percent less than with a coal-powered unit.

### RATIO OF INVENTORIES TO SALES (Current-cost data)



when growth in shipments and sales was moderate, and non-auto inventories appear well aligned with market demand.

In manufacturing, inventories were about unchanged in July, after a small reduction in June. Except for a \$4.5 billion buildup in stocks of electrical and electronic equipment, inventory changes in most manufacturing industries were relatively small. By stage of processing, stocks of production materials and supplies rose only marginally in July, and a \$4.9 billion accumulation of finished goods inventories was about offset by a drawdown in stocks of work-in-process. Although the manufacturers' inventory-shipments ratio rose quite a bit in July, the increase was largely due to weak shipments in aircraft and motor vehicles--two of the more volatile series in the manufacturing data. Excluding these two industries, the ratio moved up more moderately. On the whole, no serious imbalances in manufacturing stocks are apparent at this point.

Inventories were run off in the trade sector in July. Wholesale inventories were trimmed somewhat in July, following a \$6.2 billion accumulation over the second quarter. Much of the July decline in wholesale inventories was in the durable goods category, with an especially large drawdown in stocks held by distributors of machinery and equipment; nondurable inventories posted a small net increase. The inventory-sales ratio for the wholesale sector is at the midpoint of its range in the past 3 years. In retail trade, auto dealers' inventories fell at \$41 billion annual rate in July, while non-auto inventories declined \$2.4 billion. Stocks at GAF stores were little changed in July, after hefty increases in the second quarter. GAF stores continued to register healthy sales gains in July and their inventory-sales ratio fell to 2.35 months--about the level that prevailed early last winter. Outside of GAF stores, retailers' inventory changes in July were generally small.



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

	Jul. 1992	Jul. 1993	Fiscal year to date			
			FY1992	FY1993	Dollar change	Percent change
<b>Outlays</b>	122.2	120.2	1165.1	1179.7	14.6	1.3
Deposit insurance (DI)	-.4	-3.4	9.0	-23.9	-32.9	n.m.
Defense Cooperation account (DCA)	.0	.0	-5.2	.0	5.2	n.m.
<b>Outlays excluding DI and DCA</b>	122.6	123.6	1161.3	1203.6	42.3	3.6
National defense	30.2	25.9	256.3	244.7	-11.6	-4.5
Net interest	16.7	17.2	166.6	166.0	-.6	-.4
Social security	24.2	25.6	239.3	253.5	14.2	5.9
Medicare and health	18.5	20.1	172.4	190.1	17.8	10.3
Income security	18.2	18.7	168.1	178.3	10.2	6.1
Other	14.7	16.1	158.7	171.0	12.3	7.7
<b>Receipts</b>	79.1	80.6	894.2	939.5	45.4	5.1
Personal income and Social insurance taxes	66.9	69.8	733.0	769.0	36.0	4.9
Corporate income taxes	2.8	2.7	78.8	91.1	12.3	15.6
Other	9.3	8.2	82.4	79.4	-2.9	-3.6
<b>Deficit(+)</b>	43.1	39.6	270.9	240.2	-30.7	-11.3
Excluding DI and DCA	43.5	42.9	267.1	264.1	-3.0	-1.1

Details may not add to totals due to rounding.  
n.m. - not meaningful

Federal Sector

Federal unified deficit numbers for the first ten months of fiscal year 1993 have come in at \$240 billion, well below the \$271 billion deficit for the comparable period of fiscal year 1992.<sup>13</sup> However, excluding deposit insurance, the deficit for the first ten months of FY93 is nearly identical with the comparable deficit for the same period of last year.

Reduced outlays for deposit insurance also made the deficit results better than anticipated by the Administration and CBO at the time budget estimates were released last spring. In its recently released Mid-Session Review of the Budget, the Administration reduced its FY93 deficit estimate from \$310 billion to \$285 billion. The CBO's recent update of the budget shows even more improvement with an estimated FY93 deficit of \$266 billion. The CBO forecast seems more consistent with data for the first ten months of the fiscal year.

For the fiscal years from 1994 to 1998, the Administration and CBO forecasts of the deficit are similar. The Administration now projects the deficit to decline to \$180 billion by FY96 and to stay at that level through FY98, while CBO projects the deficit to decline to \$190 billion by FY96 and to rise slightly thereafter, to \$200 billion by FY98.

Some of the reduction in deficits from the spring forecasts reflects more favorable economic assumptions, but most of it results from the Omnibus Budget Reconciliation Act of 1993 (OBRA-93). Measured relative to a baseline that incorporates the reductions in defense spending in President Bush's January 1992 budget and holds the rest of the budget at "current services" levels, the

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13. Benchmark revisions show the NIPA deficit over calendar year 1992 to have been \$276 billion, about \$22 billion lower than previously estimated. Almost all of the revision comes from increased receipts, particularly for personal and corporate taxes.

OMB BUDGET PROJECTIONS  
(Billions of dollars)

	Fiscal years					
	1993	1994	1995	1996	1997	1998
Outlays	1425	1500	1536	1599	1677	1758
Receipts	1140	1240	1336	1420	1493	1577
Deficit	285	259	200	179	184	181
Memo:						
Deficit reduction package, relative to baseline <sup>1</sup>	0	-47	-83	-101	-129	-146

1. The Administration's baseline assumes that nondefense discretionary spending would grow with inflation, that defense spending would evolve according to President Bush's last budget proposal, and that expiring tax provisions would not be extended.

ADMINISTRATION ECONOMIC ASSUMPTIONS

	Calendar years					
	1993	1994	1995	1996	1997	1998
	-----Percent change, Q4 over Q4-----					
Real GDP	2.0	3.0	2.7	2.7	2.6	2.6
GDP deflator	2.9	2.9	3.1	3.1	3.1	3.1
CPI-U	3.3	3.3	3.5	3.5	3.5	3.5
	-----Percent, annual average-----					
Civilian unemployment rate	6.9	6.5	6.1	5.9	5.7	5.5
Interest rates						
3-month Treasury bills	3.1	3.6	3.9	4.2	4.5	4.5
10-year Treasury notes	6.0	5.9	5.9	5.9	5.9	5.9

Source: OMB, Mid-Session Review of the 1994 Budget, September 1993.

CBO BUDGET PROJECTIONS  
(Billions of dollars)

	Fiscal years					
	1993	1994	1995	1996	1997	1998
Outlays	1416	1497	1529	1592	1670	1747
Receipts	1150	1244	1332	1403	1472	1547
Deficit	266	253	196	190	198	200
Deficit reduction package <sup>1</sup>	0	-42	-73	-94	-124	-144

1. The deficit reduction package is shown relative to CBO's re-estimate of the Administration's baseline, which assumes that nondefense discretionary spending would grow with inflation, that defense spending would evolve according to President Bush's last budget proposal, and that expiring tax provisions would not be extended.

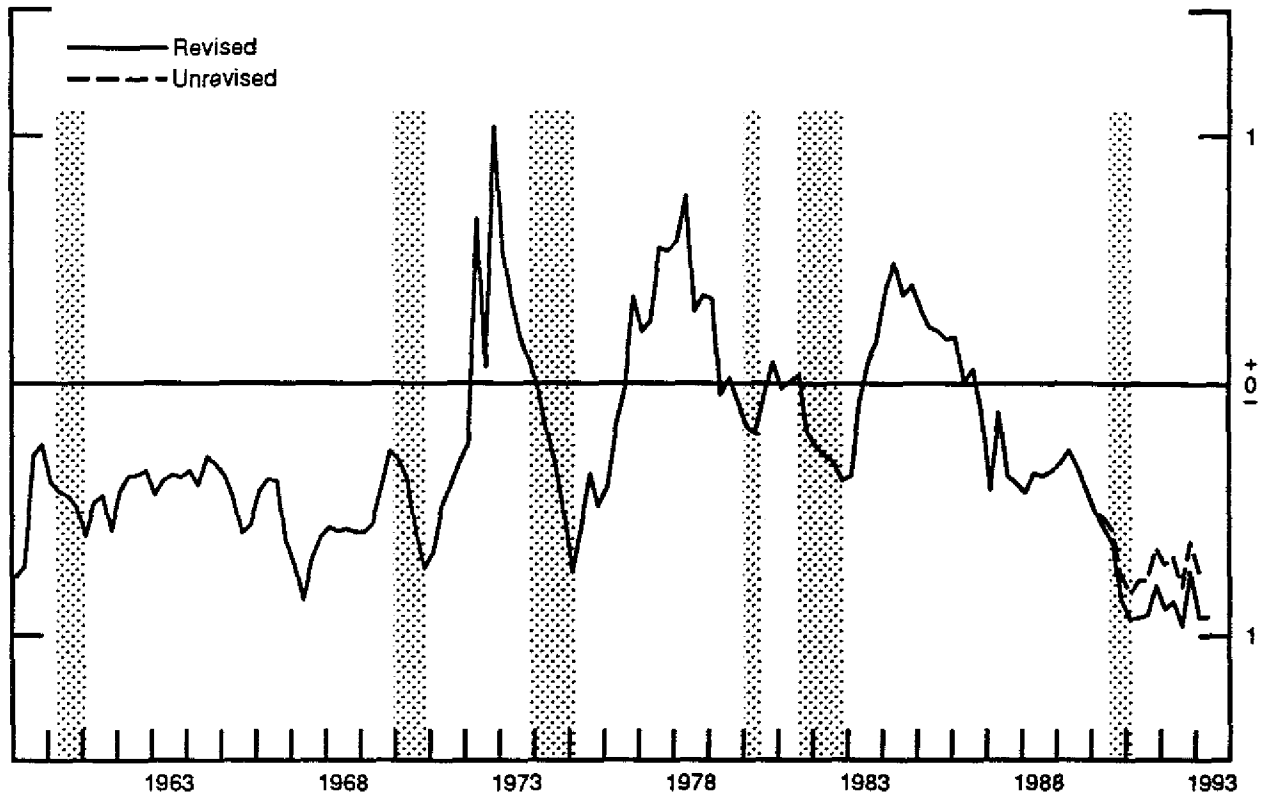
CBO ECONOMIC ASSUMPTIONS

	Calendar years					
	1993	1994	1995	1996	1997	1998
	-----Percent change, year over year-----					
Real GDP	2.6	2.7	2.7	2.7	2.6	2.4
GDP deflator	2.6	2.6	2.5	2.5	2.5	2.5
CPI-U	3.3	3.2	3.0	3.0	3.0	3.0
	-----Percent, annual average-----					
Civilian unemployment rate	6.9	6.6	6.3	6.0	5.8	5.7
Interest rates						
Treasury bills	3.1	3.6	4.1	4.5	4.6	4.6
Treasury notes	6.0	6.1	6.1	6.1	6.1	6.1

Source: CBO, The Economic and Budget Outlook: An Update, September 1993.

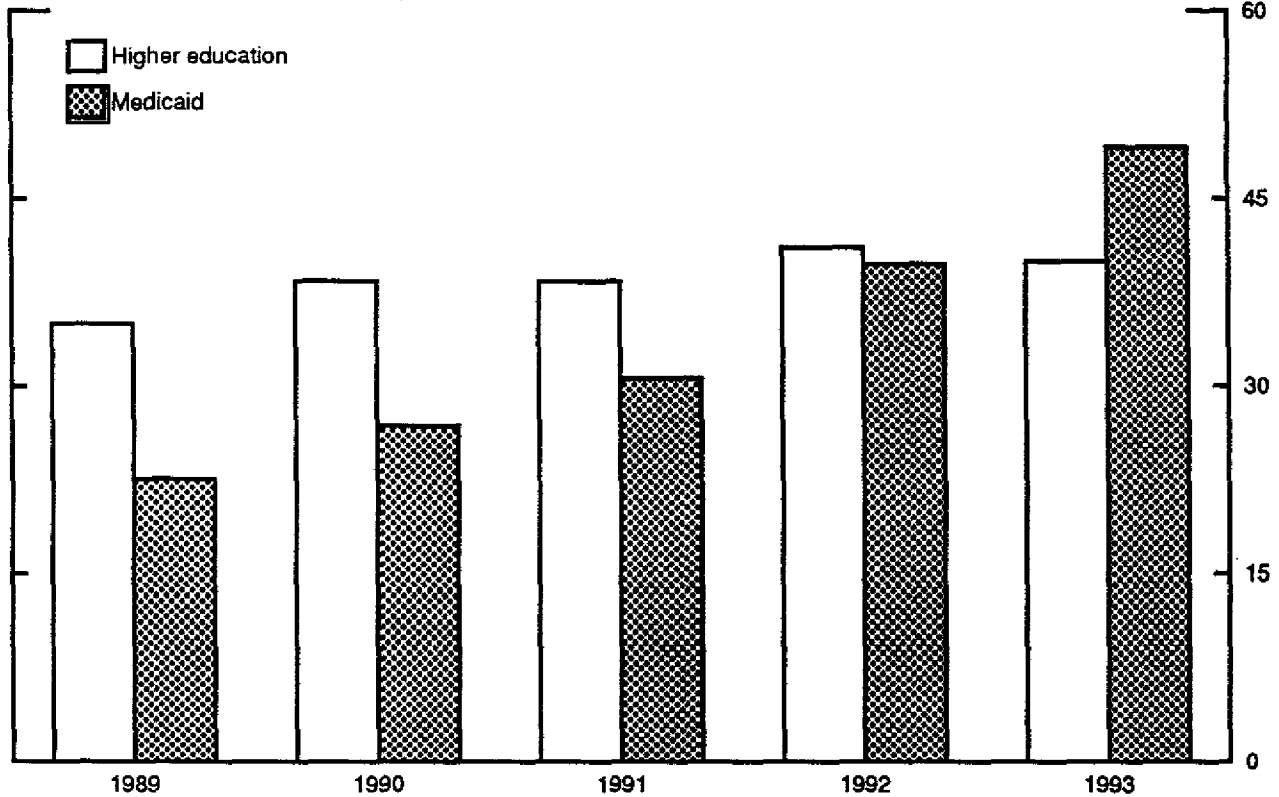
### STATE AND LOCAL GOVERNMENT SECTOR

SURPLUS(DEFICIT) AS A PERCENT OF GDP\*



\*Excludes social insurance funds. Source: NIPA.

STATE EXPENDITURES (Fiscal years)



Source: National Conference of State Legislatures.

Administration estimates that the package is worth \$505 billion over the next five years, while CBO estimates savings of \$477 billion.<sup>14</sup> Much of the difference is explained by the \$16 billion in savings claimed by the Administration from a shortening of debt maturities; CBO does not see as large an effect and, in any event, treats such savings as a technical re-estimate rather than as part of OBRA-93. The Administration also is somewhat more optimistic than the CBO about the likely revenue gain from the higher tax rates for upper-income individuals.

Enactment of the thirteen regular appropriation bills that fund discretionary spending will complete the major legislation that is required to implement the FY94 budget. To date, the House has passed eleven of these bills and the Senate five, a pace similar to that of recent years.

#### State and Local Government Sector

In the recent revisions to the NIPA, real purchases by state and local governments were revised up substantially over the 1990s; indeed, the level of real purchases in the second quarter of 1993 is now estimated to be \$15 billion, or more than 2.5 percent, above the level reported earlier.<sup>15</sup> As a result, the deficit of operating and capital accounts, excluding social insurance funds, was revised up, reaching historical highs as a share of GDP (chart): While the fundamental story regarding the weak budgetary picture for the sector has not changed, the extent of the fiscal erosion is somewhat greater. Nevertheless, even though the level of real purchases is now higher than in recent years, the pattern of a clear slowing in

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14. When measured relative to its more traditional baseline, which assumes compliance with the discretionary spending limits of OBRA-90 through fiscal 1995 and allows discretionary spending to grow at the same pace as inflation after fiscal 1995, CBO estimates the five-year savings at \$433 billion.

15. The only other major revision in the state and local sector was to transfer payments, which were revised down, providing only a small offset to the stronger purchases.

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

	Relative importance, Dec. 1992	1991	1992	1992	1993		1993	
				Q4	Q1	Q2	July	Aug.
				-----Annual rate-----			-Monthly rate-	
All items <sup>2</sup>	100.0	3.1	2.9	3.2	4.0	2.2	.1	.3
Food	15.8	1.9	1.5	1.4	2.6	1.4	.0	.3
Energy	7.3	-7.4	2.0	1.9	3.1	-3.8	.0	-.5
All items less food and energy	76.9	4.4	3.3	3.8	4.3	2.9	.1	.3
Commodities	24.7	4.0	2.5	1.5	4.6	.6	.0	.3
Services	52.2	4.6	3.7	4.7	4.4	4.1	.2	.3
Memo:								
CPI-W <sup>3</sup>	100.0	2.8	2.9	3.2	4.1	2.0	.1	.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.

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

	Relative importance, Dec. 1992	1991	1992	1992	1993		1993	
				Q4	Q1	Q2	July	Aug.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	-.1	1.6	-.3	4.3	.6	-.2	-.6
Consumer foods	22.4	-1.5	1.6	3.3	-1.6	1.3	-.1	.5
Consumer energy	13.9	-9.6	-.3	-10.2	16.6	-3.5	-1.0	-.8
Other finished goods	63.7	3.1	2.0	1.2	3.6	1.2	.1	-1.0
Consumer goods	40.6	3.4	2.1	1.2	3.2	1.2	.1	-1.7
Capital equipment	23.1	2.5	1.7	.6	4.4	1.2	.1	.2
Intermediate materials <sup>2</sup>	95.4	-2.7	1.1	-2.1	5.7	.3	-.2	.0
Excluding food and energy	81.8	-.8	1.2	-.3	4.7	-.3	.1	.2
Crude food materials	41.2	-5.8	3.0	5.1	1.9	-1.5	1.2	1.6
Crude energy	39.5	-16.6	2.3	-17.8	-10.1	19.3	-4.9	-1.8
Other crude materials	19.3	-7.6	5.7	1.9	24.3	10.9	.6	-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.

the growth rate of purchases in 1991 and 1992 remains, as states and localities responded to the deterioration in their finances.

More recently, however, spending by state and local governments has been strong. In the second quarter, real purchases of goods and services by state and local governments increased at a 5.0 percent annual rate. Construction spending accounted for most of this gain, with increases since March divided between educational facilities and highways; increases in other purchases were quite modest.

So far, data for the third quarter indicate that activity in the sector has remained robust. In July, real outlays for construction stood 5 percent above the second-quarter average; much of the rise was in building of educational facilities. Employment of state and local government workers edged off a bit in August, but the average so far this quarter is 36,000 above the second-quarter level. Increases in employment in the summer jobs program for youth as recorded by the BLS were small this summer.

As noted above, many governments have tried to hold the line on spending in dealing with persistent fiscal difficulties in recent years. Higher education has been one of the areas most affected. In contrast, Medicaid spending, spurred in part by federal mandates, has continued to grow. Indeed, Medicaid spending from state sources exceeded outlays for higher education for the first time in fiscal year 1993, which ended in June for most states (chart).

### Prices

The recent news on prices has been good. In August, the overall CPI rose 0.3 percent, following a 0.1 percent increase in July. Excluding food and energy, the CPI also advanced 0.3 percent in August, after a 0.1 percent increase in July.

The CPI for food was up 0.3 percent in August, following no change in July. The prices of fresh fruits and vegetables rose



## INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Aug 1991	Aug 1992	Aug 1993
CPI	4.6	3.5	3.3
Goods	4.5	2.7	2.0
Alcoholic beverages	10.4	2.6	1.4
New vehicles	4.3	2.7	2.9
Apparel	4.4	1.9	1.1
House furnishings	1.0	1.3	0.5
Housekeeping supplies	2.7	0.9	-0.7
Medical commodities	8.6	5.6	3.8
Entertainment	3.6	1.8	1.3
Services	4.7	3.9	4.0
Owners' equivalent rent	2.9	3.4	3.2
Tenants' rent	3.1	2.3	2.6
Other renters' costs	9.6	6.2	1.7
Airline fares	4.1	-3.3	21.7
Medical care	8.4	7.4	6.4
Entertainment	5.6	3.0	3.0
Auto financing	-1.5	-12.2	-9.1
PPI finished goods	3.4	2.1	0.7
Consumer goods	3.7	2.3	.0
Capital goods, excluding computers	3.4	2.7	2.4
Computers	n.a.	-15.2	-13.6
PPI intermediate materials	0.1	1.1	1.3
PPI crude materials	-10.3	3.8	6.2
<u>Factors affecting price inflation</u>			
ECI hourly compensation <sup>1</sup>	4.4	3.7	3.6
Goods-producing	4.4	4.1	4.2
Service-producing	4.4	3.5	3.3
Civilian unemployment rate <sup>2</sup>	6.8	7.6	6.7
Capacity utilization <sup>2,3</sup> (manufacturing)	77.9	78.9	80.4
Inflation expectations <sup>4</sup>			
Mean of responses	4.3	4.0	4.9
Median, bias-adjusted <sup>5</sup>	4.3	3.8	4.2
Non-oil import price <sup>6</sup>	1.9	1.3	1.1
Consumer goods, excluding autos, food, and beverages	0.9	3.0	1.5
Autos	4.9	1.8	2.0

1. Private industry workers, periods ended in June.
  2. End-of-period value.
  3. July values.
  4. Michigan Survey one-year ahead expectations.
  5. Median adjusted for average downward bias of 0.9 percentage points, relative to actual inflation, since 1978.
  6. BLS import price index (not seasonally adjusted), periods ended in June.
- n.a. Not available.

2-3/4 percent last month, boosted in part by crop losses associated with the flooding and the drought. Other food prices were little changed in August.

Energy prices fell 0.5 percent in August after no change in July. Gasoline prices made the biggest contribution to the decline, as they decreased another 1.7 percent in August. Pump prices have fallen nearly 7 percent since February, mainly reflecting an easing in crude oil costs. In contrast, natural gas prices rose 1.4 percent in August, reflecting the continued passthrough of higher well-head prices for natural gas to consumers. Although supplies of natural gas have increased since the spring, they remain below seasonal norms and this has put upward pressure on prices.

The CPI for commodities other than food and energy rose 0.3 percent in August after virtually no change between April and July. Although tobacco prices fell 3 percent (see below), the pick-up in goods prices in August was fairly broad based. Apparel prices rose almost 1 percent last month, as retailers introduced higher-priced, fall-winter merchandise a bit earlier than usual. Used car prices continued to rise at a rapid clip, while new car prices were up 0.4 percent in August.

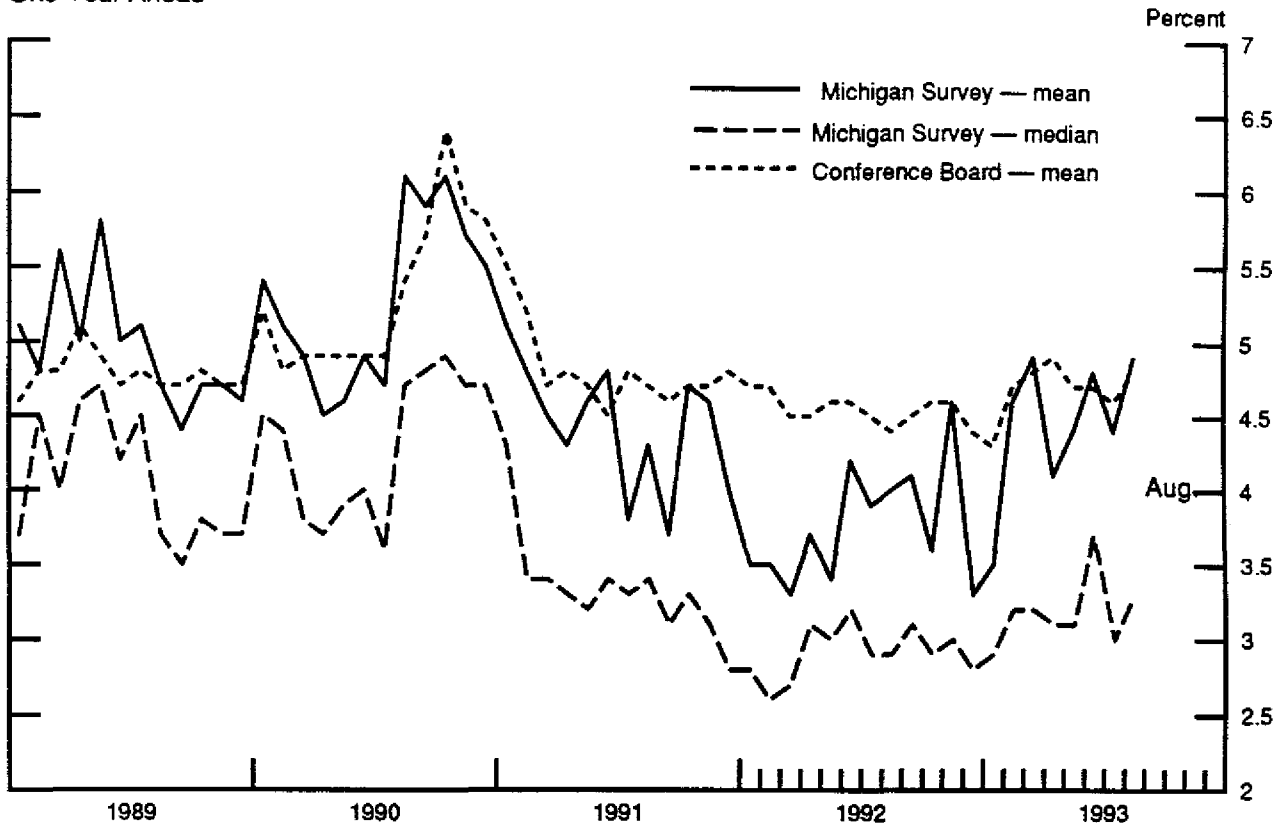
The major automakers have now announced prices for their 1994 model-year cars and light trucks. On a comparably equipped basis, General Motors will be raising prices 1.8 percent, Chrysler plans a 1.2 percent increase, while Ford's prices will edge up only 0.2 percent. Both GM and Chrysler are increasingly moving to a policy of including many popular options as standard equipment in an effort to standardize models and reduce costs.<sup>16</sup> Among foreign

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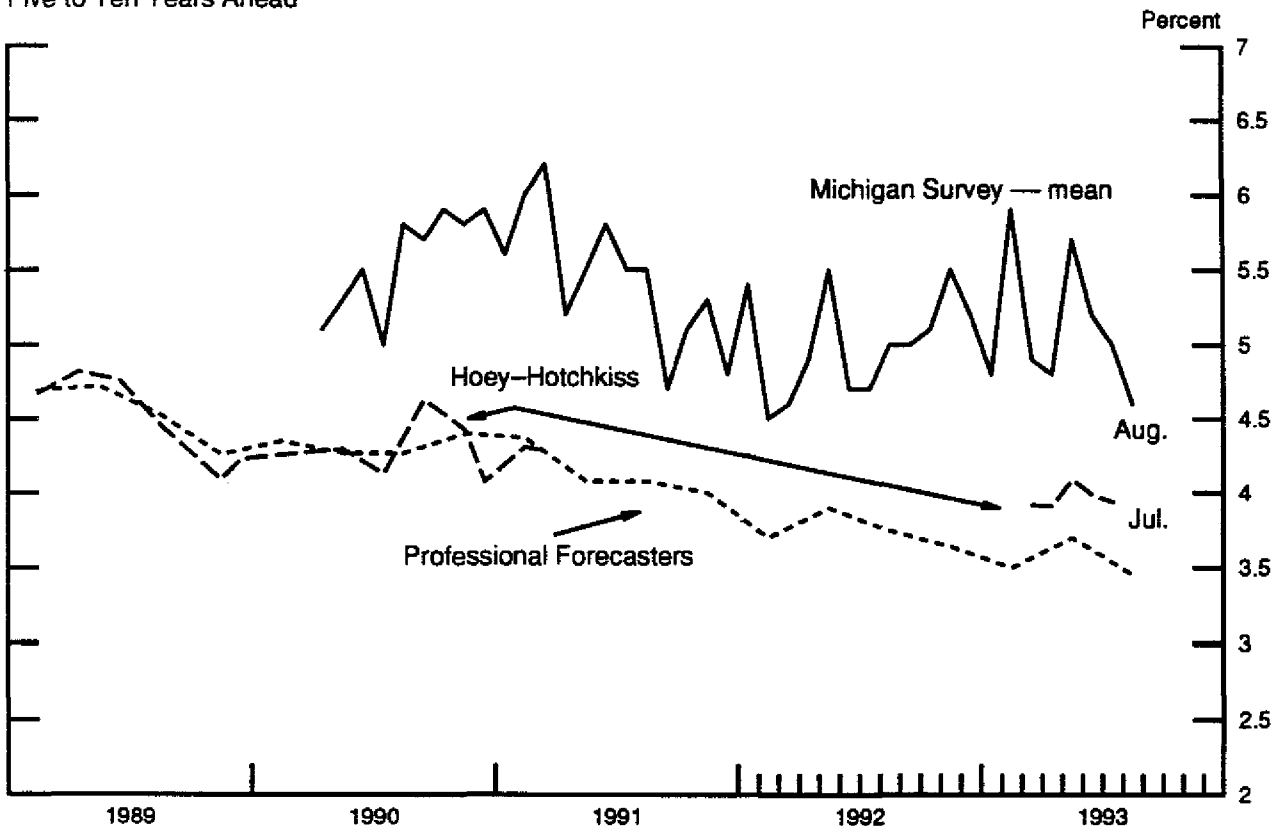
16. Before adjustment for changes in standard equipment, the GM price increase is 7 percent and the increase in Chrysler's sticker prices is 5 percent. Ford has not adopted the "value-pricing" strategy of its competitors and still is being very aggressive in pricing the 1994 models: the average sticker price is scheduled to rise only around 2 percent.

### Inflation Expectations

One Year Ahead



Five to Ten Years Ahead



companies. Toyota and Mazda have announced price increases of around 4 percent on a comparably equipped basis. Larger price increases for Japanese imports than for domestic vehicles are not surprising, given the appreciation of the yen in recent months.

Service price increases were also comparatively modest in July and August, averaging just 1/4 percent per month for CPI services other than energy. Owners' equivalent rent rose 0.3 percent in August after no change in July. Over the twelve months ended in August, owners' equivalent rent has risen 3.2 percent, compared with 3.5 percent in the preceding twelve-month period. Among other services, airfares were essentially unchanged in August, after a 2-3/4 percent jump in July. Over the last twelve months, airfares have risen 22 percent, as some weaker carriers have ceased operation and the remaining airlines have boosted ticket prices in an attempt to stem their losses. Medical services prices have decelerated, rising at a 4-1/4 percent annual rate from May to August, down from a 7-1/2 percent pace in the first five months of the year.

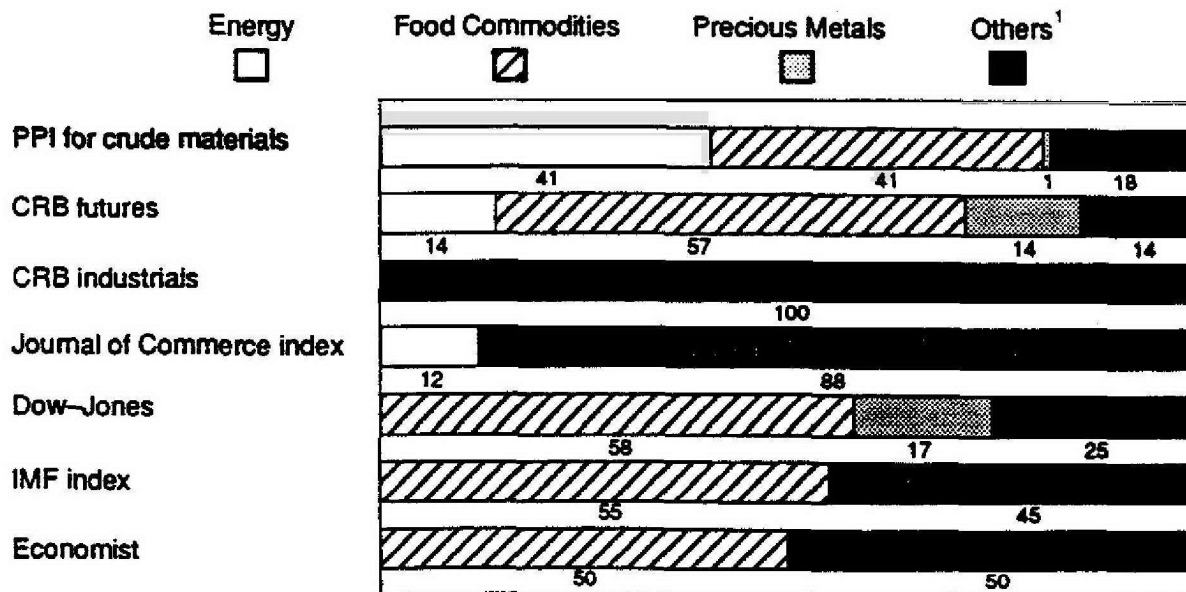
The latest readings on consumer expectations of inflation over the next year remain at high levels. In August, the Michigan Survey reported a mean expectation of inflation of 4.9 percent for the coming twelve months, up substantially from the year-earlier reading. The mean expectation from the Michigan survey can be quite volatile from month to month; but a less volatile measure, the median expectation, also has moved up from its year-earlier reading, as has the Conference Board's measure of the mean of expected inflation. By contrast, expectations of inflation over longer horizons have been more optimistic recently. The expectation of inflation over the next ten years, as measured by the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters, has trended steadily downward and is currently below 3-1/2 percent.

PRICE INDEXES FOR COMMODITIES AND MATERIALS<sup>1</sup>

	Last observ- ation	-----Percent change <sup>2</sup> -----				Year earlier to date
		1991	1992	Dec 92 to Aug 193	Aug 10 <sup>3</sup> to date	
1. PPI for crude materials	Aug	-11.6	3.3	0.7	n.a.	1.0
1a. Foods and feeds	Aug	-5.8	3.0	3.3	n.a.	4.2
1b. Energy	Aug	-16.6	2.3	-5.0	n.a.	-4.9
1c. Excluding food and energy	Aug	-7.6	5.7	7.1	n.a.	6.2
1d. Excluding food and energy, seasonally adjusted	Aug	-7.7	6.0	6.1	n.a.	6.2
2. Commodity Research Bureau						
2a. Futures prices	Sep 14	-6.5	-2.9	6.5	-1.3	4.6
2b. Industrial spot prices	Sep 14	-11.3	-0.7	-3.6	-1.1	-12.7
3. Journal of Commerce industrials	Sep 14	-7.2	5.0	-2.3	-0.9	-5.4
3a. Metals	Sep 14	-7.1	1.9	-4.0	-2.4	-11.0
4. Dow-Jones Spot	Sep 14	-12.1	10.4	2.8	-2.4	2.3
5. IMF commodity index <sup>4</sup>	Jul	0.7	-2.6	n.a.	n.a.	-4.8
5a. Metals	Jul	-8.9	-3.1	n.a.	n.a.	-20.4
5b. Nonfood agricultural	Jul	1.3	2.4	n.a.	n.a.	-2.0
6. Economist (U.S. dollar index)	Sep 07	-9.1	1.6	-0.5	0.5	-2.5
6a. Industrials	Sep 07	-14.9	4.5	-5.9	1.1	-9.6

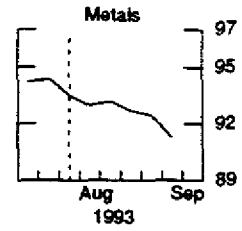
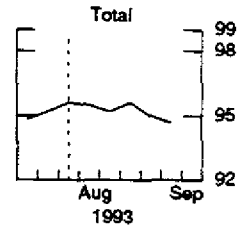
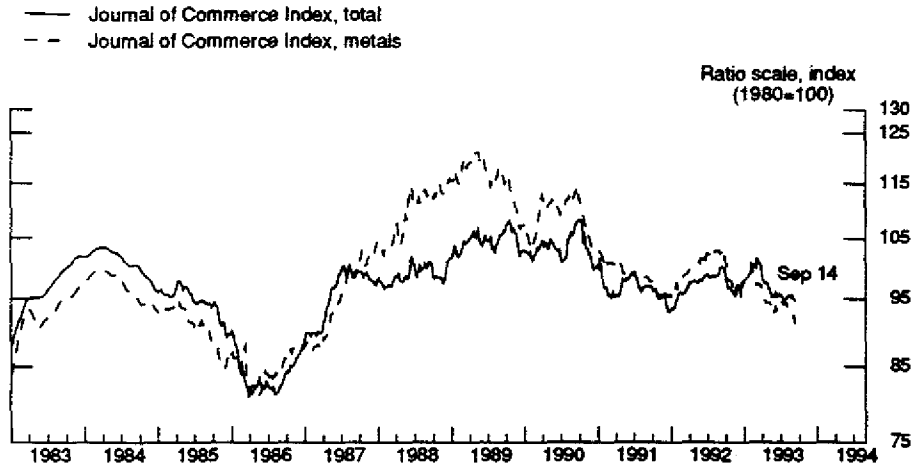
- 1. Not seasonally adjusted.
- 2. Change is measured to end of period, from last observation of previous period.
- 3. Week of the August Greenbook.
- 4. Monthly observations. IMF index includes items not shown separately.
- n.a. Not available

Index Weights

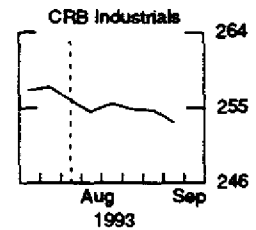
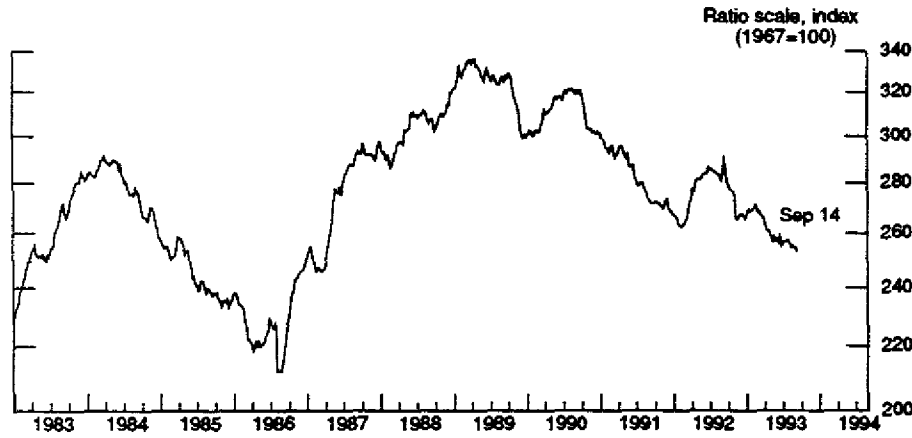


1. Forest products, industrial metals, and other industrial materials.

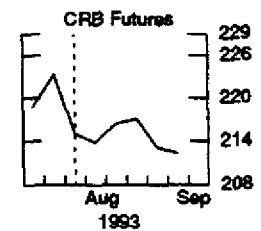
# COMMODITY PRICE MEASURES \*



CRB Spot Industrials



CRB Futures



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

Dotted lines indicate week of last Greenbook.

U.S. CROP PRODUCTION<sup>1</sup>

	1991	1992	USDA Projection for 1993		
			May 11	Aug. 11	Sep. 9
-----billions of bushels-----					
1. Corn	7.48	9.48	8.50	7.42	7.23
2. Soybeans	1.99	2.20	2.05	1.90	1.91
3. Wheat	1.98	2.46	2.52	2.55	2.49
4. Sorghum	.59	.88	.66	.64	.65
5. Oats	.24	.30	.25	.25	.25
6. Barley	.46	.46	.41	.47	.44
-----billions of hundredweight-----					
7. Rice	.16	.18	.17	.17	.17
-----billions of pounds-----					
8. Peanuts	4.93	4.28	n.a.	3.91	3.49
9. Tobacco	1.66	1.72	n.a.	1.55	1.54
-----millions of bales-----					
10. Cotton	17.61	16.22	17.50	18.55	17.87
-----millions of tons-----					
11. Sugar beets	28.20	28.93	n.a.	28.05	27.92
12. Sugar cane	30.25	30.36	n.a.	30.85	30.85
Memo:					
-----billions of 1987 dollars-----					
13. Value, 12 crops <sup>2</sup>	41.18	47.05	44.31	42.18	41.39

1. Data are from the U.S. Department of Agriculture.  
 2. Calculated by the staff from USDA data.

Producer prices of finished goods fell 0.6 percent in August, following a drop of 0.2 percent in July. Excluding food and energy, finished goods prices declined 1.0 percent in August, as prices of tobacco products plummeted 26 percent;<sup>17</sup> excluding tobacco prices as well as food and energy, the finished goods PPI rose 0.2 percent. As noted above, the reductions in wholesale cigarette prices began to appear at the retail level in August, and, if fully passed through, they would reduce the level of the CPI by about 1/4 percent. The index for intermediate materials excluding food and energy posted another small increase in August; slack in the industrial sector continues to restrain price increases in this area.

The Journal of Commerce index of industrial materials prices has moved down about 1 percent since the August Greenbook. Prices of the major industrial metals have been flat or down, consistent with the recent deceleration in industrial production in the United States and the ongoing recession abroad. Corn and soybean prices have moved down since the last Greenbook, partly reversing their run-up during the Midwestern flood. Precious metals prices have also reversed part of their recent run-up, and gold prices are down 10 percent since the last Greenbook.

#### Agricultural Production

In its September crop report, the Department of Agriculture trimmed its projection of 1993 corn production 3 percent further but

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17. The recent round of reductions in prices of tobacco products began in June, and reflected discounts on a number of "premium" cigarette brands (in the form of coupon reductions taken at cash registers). In August, these coupon reductions became a permanent part of the wholesale price, and the reductions were extended to other premium brands and to the so-called "discount" brands. In August, manufacturers raised prices slightly on the lowest tier of brands--the so-called "sub-generics"--to the level of the discount brands. However, the sub-generic brands have only very recently begun to enjoy significant market share, and these price increases are not likely to affect either the PPI or the CPI.



left its estimate of soybean production essentially unchanged from the forecast of a month ago. The projections for cotton, wheat, and peanuts also were lowered somewhat in the USDA's September report.

Using 1987 prices to value the USDA's projections of physical output, we now estimate that the constant-dollar value of twelve major field crops will decline about \$5-3/4 billion from 1992 to 1993. This estimated decline is about \$3/4 billion larger than the figure that we obtained using data from the USDA's August crop report. We think that the BEA will count about half of this decline--roughly \$2-3/4 billion--as the losses from flood and drought. The remaining portion of the decline in output probably would have occurred even without flood or drought because of planned cutbacks in acreage and an anticipated reduction in yields from last year's exceptionally high levels.

## APPENDIX

### ANNUAL REVISIONS TO THE NATIONAL INCOME AND PRODUCT ACCOUNTS

The Bureau of Economic Analysis recently released its annual revisions to the National Income and Product Accounts for 1990 to 1992, incorporating new source data and updated seasonal factors. The revisions raised the growth rate of real GDP in each of the three years, but especially in 1990 and 1992. Examining the upward revisions by sector, growth in goods consumption was raised in all three years; upward revisions were also significant in business fixed investment and state and local purchases. Real services consumption, the component of spending that usually has the largest adjustments at the time of the annual revision, saw only a slight net increase in growth over the three years.

As for prices, the largest revisions were to 1992 when the increases in both the fixed-weighted price index and the implicit deflator for GDP were revised up 0.3 percentage point. For both of these measures, the largest upward revision was to PCE services and reflected a higher imputation for "services furnished without payment by financial intermediaries."

The 1990-91 recession is now estimated to have been more shallow, with real GDP declining a cumulative 1.6 percent rather than 2.2 percent as reported earlier (chart).<sup>1</sup> Also, the expansion since the trough has been stronger, with output growth having grown at a 2.4 percent annual rate on average, 0.4 percentage point higher than estimated earlier.

Probably the most interesting facet of this annual revision is the upward revision to implied productivity growth. Given current estimates of hours worked, all of the upward revision to real nonfarm output was translated into productivity. The sharpness of the increase in output per hour in the 1990s relative to the 1.0 percent per year trend line of the 1980s suggests that more than normal cyclical forces have been at work and improvements have yielded greater underlying gains (chart).

Looking at the revisions to the income side of the accounts, the largest revision was to compensation and resulted from newly available data on wages and salaries reported through the unemployment insurance system for 1992. The profit share is now estimated to have been significantly higher in 1990 and 1991, although it remains unchanged more recently (chart). The basic trend in the personal saving rate was unchanged (chart); however, the new data show a large bulge in the saving rate in the fourth quarter of 1992 and a dip in the first quarter of 1993. This reflects BEA's estimate that about \$20 billion of year-end bonuses, usually paid in January, were advanced into December.

Overall, the income side was revised up more than the spending side of the accounts. As a result, the statistical discrepancy, the difference between the product and income sides of the accounts, is now smaller than reported earlier. Nevertheless, the discrepancy still increased by \$14 billion in 1992, indicating that income-side measures of output growth still showed slightly slower growth than product-side measures.

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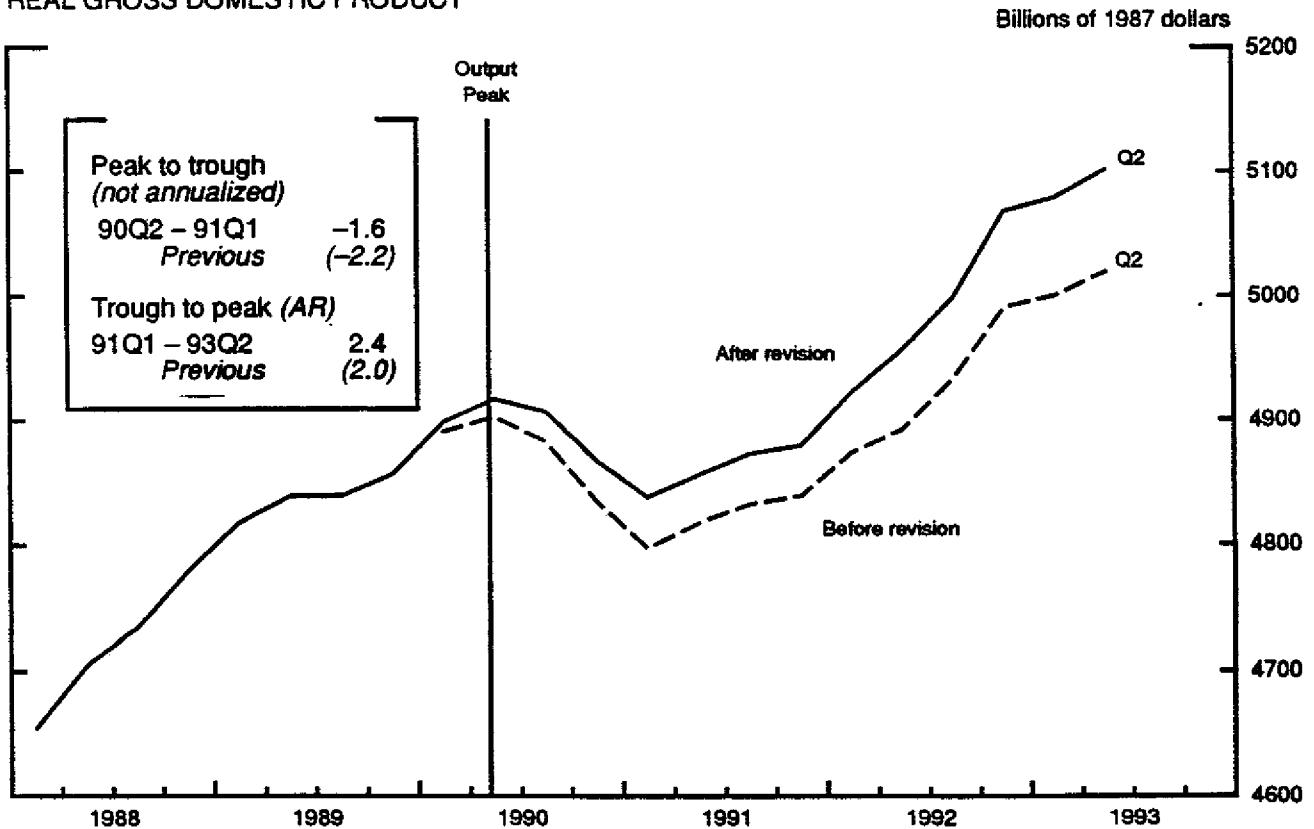
1. The 1990-91 recession was among the milder of the post-war recessions; five of the eight post-war recessions were deeper (when measured in 1987 dollars).

**REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS**

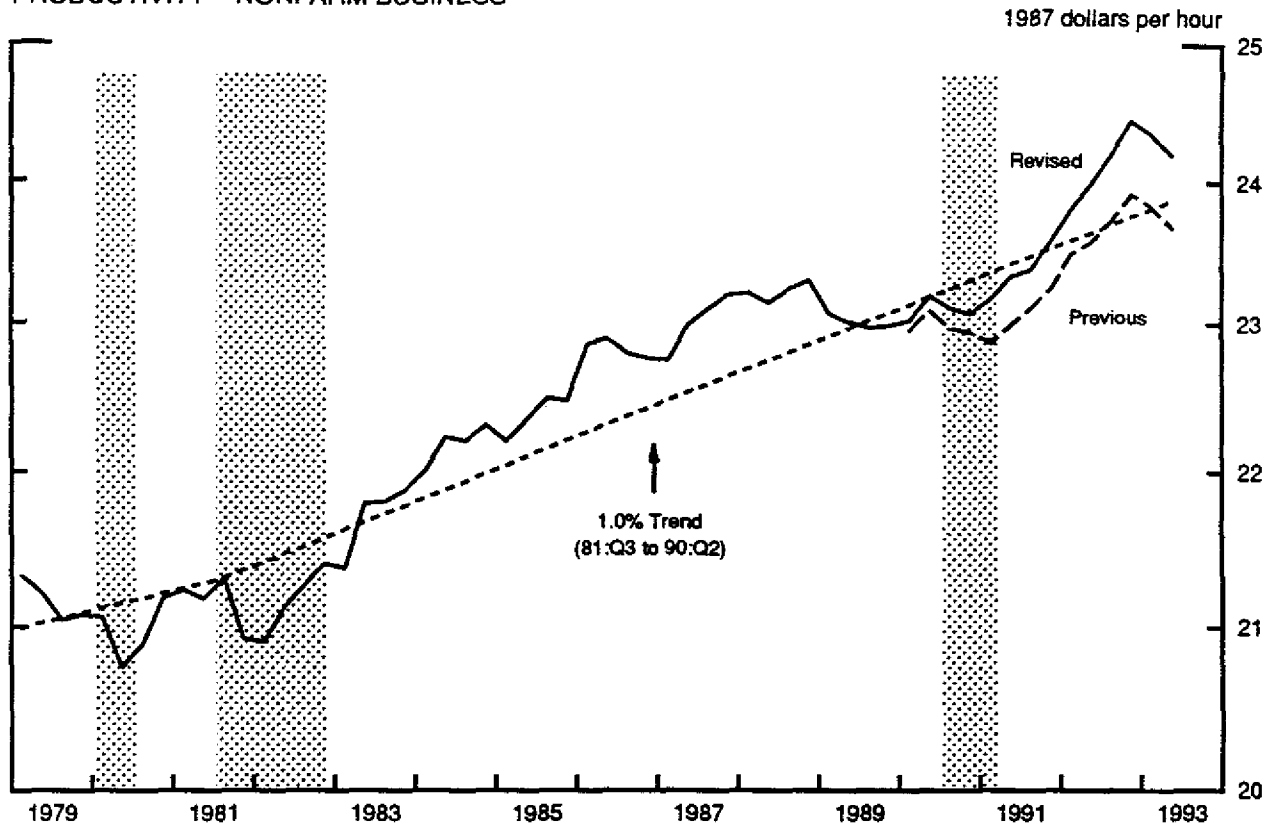
(Percent change over period shown)

	1989-Q4 to 1990-Q4	1990-Q4 to 1991-Q4	1991-Q4 to 1992-Q4
1. Gross domestic product	.2	.3	3.9
<i>Previous</i>	(-.5)	(.1)	(3.1)
2. PCE goods	-.3	-1.0	5.4
<i>Previous</i>	(-1.2)	(-1.8)	(5.0)
3. PCE services	1.7	.9	2.8
<i>Previous</i>	(1.3)	(1.6)	(2.2)
4. Business fixed investment	.7	-6.3	7.4
<i>Previous</i>	(-1.4)	(-7.0)	(7.9)
5. State and local purchases	3.6	1.5	1.6
<i>Previous</i>	(2.7)	(.7)	(1.3)
6. Nominal GDP	4.7	3.7	6.7
<i>Previous</i>	(4.1)	(3.5)	(5.7)
7. GDP implicit price deflator	4.5	3.4	2.8
<i>Previous</i>	(4.5)	(3.4)	(2.5)
8. GDP fixed-weight price index	4.6	3.6	3.3
<i>Previous</i>	(4.7)	(3.4)	(3.0)

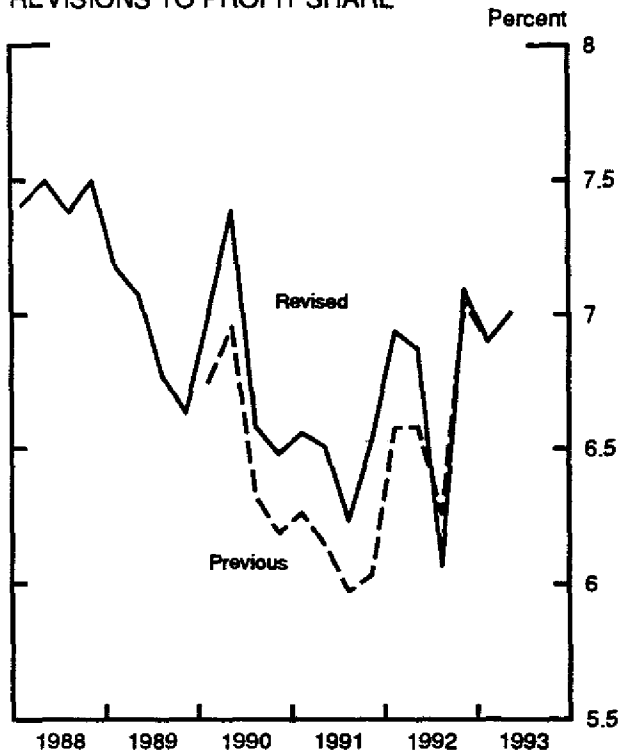
**REAL GROSS DOMESTIC PRODUCT**



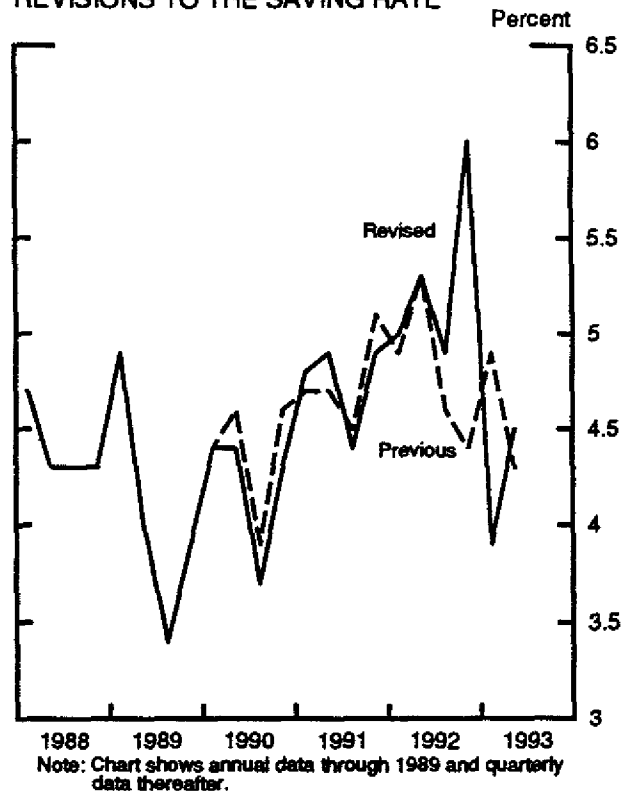
PRODUCTIVITY – NONFARM BUSINESS



REVISIONS TO PROFIT SHARE



REVISIONS TO THE SAVING RATE



**DOMESTIC FINANCIAL  
DEVELOPMENTS**

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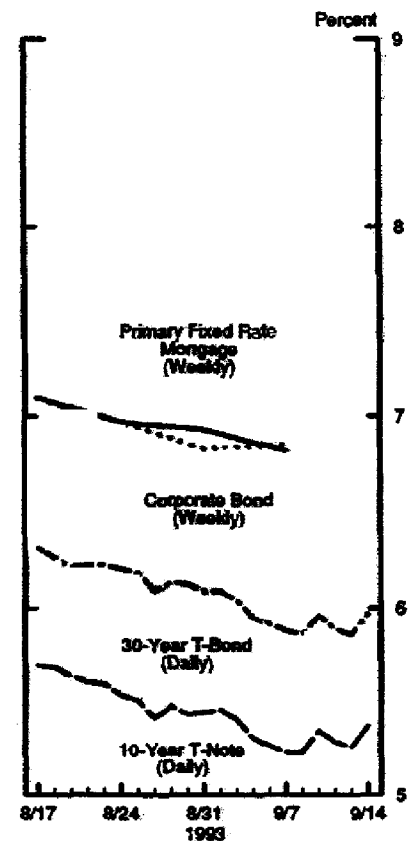
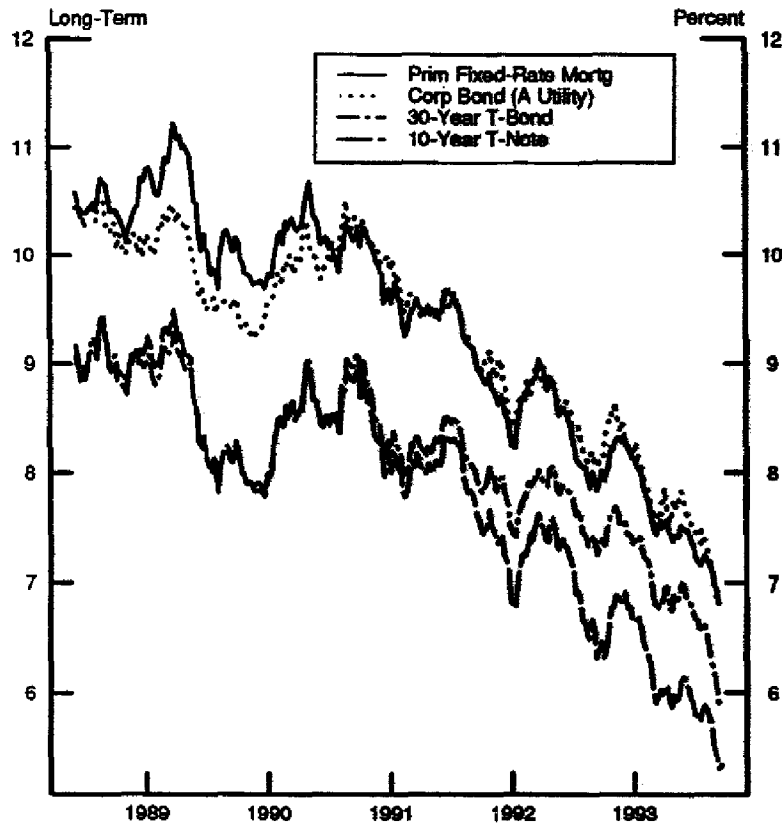
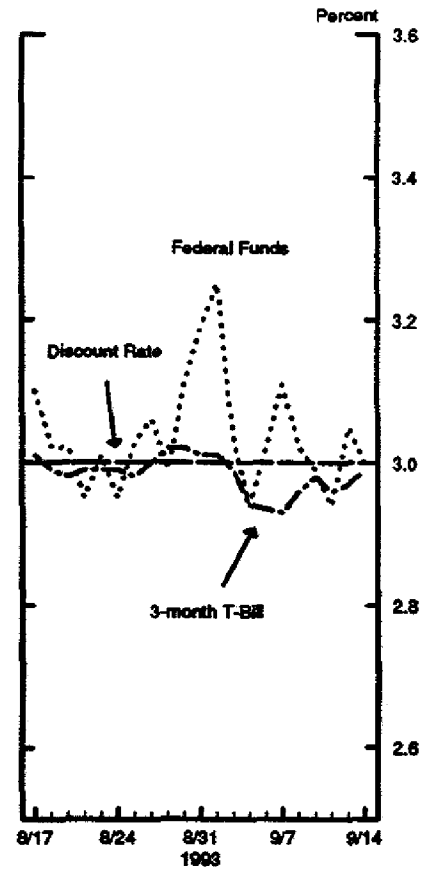
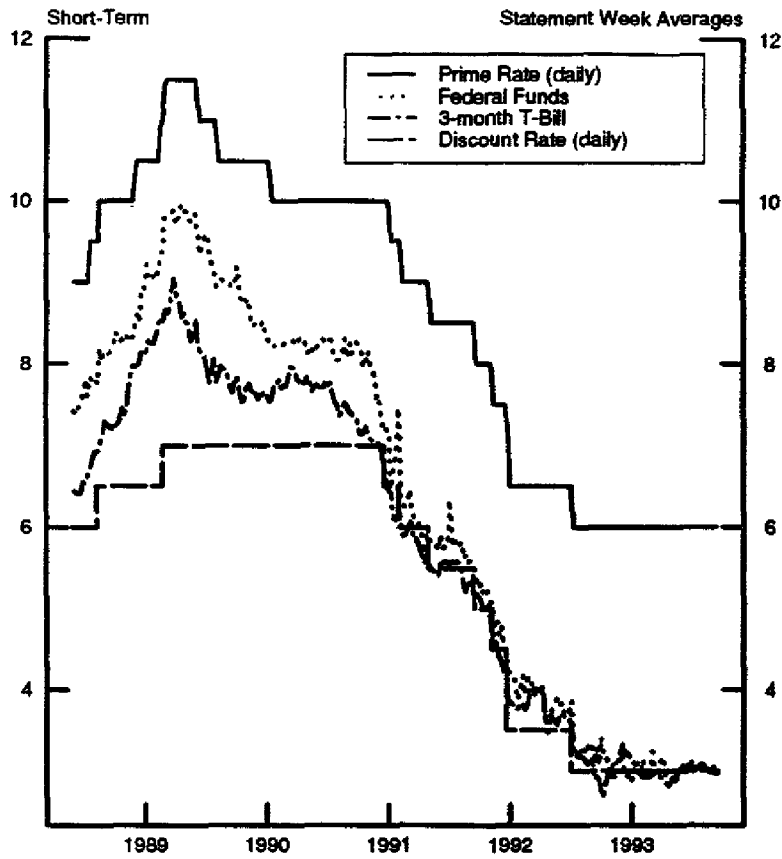
SELECTED FINANCIAL MARKET QUOTATIONS<sup>1</sup>  
(Percent except as noted)

Instrument	1992		1993		Change to Sep 14, 1993			
	Sept. 4		FOMC, Aug 17	Sep 14	From Sept. 4	From FOMC, Aug 17		
<b>SHORT-TERM RATES</b>								
Federal funds <sup>2</sup>	3.19		3.02	2.98	.21	.04		
Treasury bills <sup>3</sup>								
3-month	2.92		3.01	2.99	.07	.02		
6-month	2.96		3.12	3.09	.13	.03		
1-year	3.06		3.28	3.26	.20	.02		
Commercial paper								
1-month	3.22		3.16	3.13	.09	.03		
3-month	3.22		3.18	3.16	.06	.02		
Large negotiable CDs <sup>3</sup>								
1-month	3.06		3.09	3.09	.03	.00		
3-month	3.06		3.13	3.13	.07	.00		
6-month	3.11		3.31	3.26	.15	.05		
Eurodollar deposits <sup>4</sup>								
1-month	3.31		3.06	3.00	.31	.06		
3-month	3.31		3.13	3.06	.25	.07		
Bank prime rate	6.00		6.00	6.00	.00	.00		
<b>INTERMEDIATE- AND LONG-TERM RATES</b>								
U.S. Treasury (constant maturity)								
3-year	4.38		4.39	4.23	.15	.16		
10-year	6.40		5.70	5.37	-1.03	-.33		
30-year	7.29		6.31	5.97	-1.32	-.34		
Municipal revenue <sup>5</sup> (Bond Buyer)	6.31		5.68	5.48	.83	.20		
Corporate--A utility, recently offered <sup>6</sup>	8.06		7.16	6.98	-1.08	.18		
Home mortgages								
FHLMC 30-yr. fixed rate	7.84		7.17	6.82	-1.02	-.35		
FHLMC 1-yr. adjustable rate	5.15		4.51	4.33	.82	.18		
<b>Stock exchange index</b>								
	Record high		1989	1993		Percentage change to Sep 14		
	Level	Date	Low, Jan. 3	FOMC, Aug 17	Sep 14	From record high	From 1989 low	From FOMC, Aug 17
Dow-Jones Industrial	3652.09	8/25/93	2144.64	3586.98	3615.76	-.99	68.60	.80
NYSE Composite	256.88	8/31/93	154.00	251.27	254.97	-.74	65.56	1.47
AMEX Composite	461.57	9/3/93	305.24	442.66	452.76	-1.91	48.33	2.28
NASDAQ (OTC)	749.71	9/3/93	378.56	731.01	732.64	-2.28	93.53	.22
Wilshire	4606.97	9/1/93	2718.59	4509.28	4566.32	-.88	67.97	1.26

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 September 15, 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 Sep 10 statement weeks through Sep 8, 1993.

## DOMESTIC FINANCIAL DEVELOPMENTS

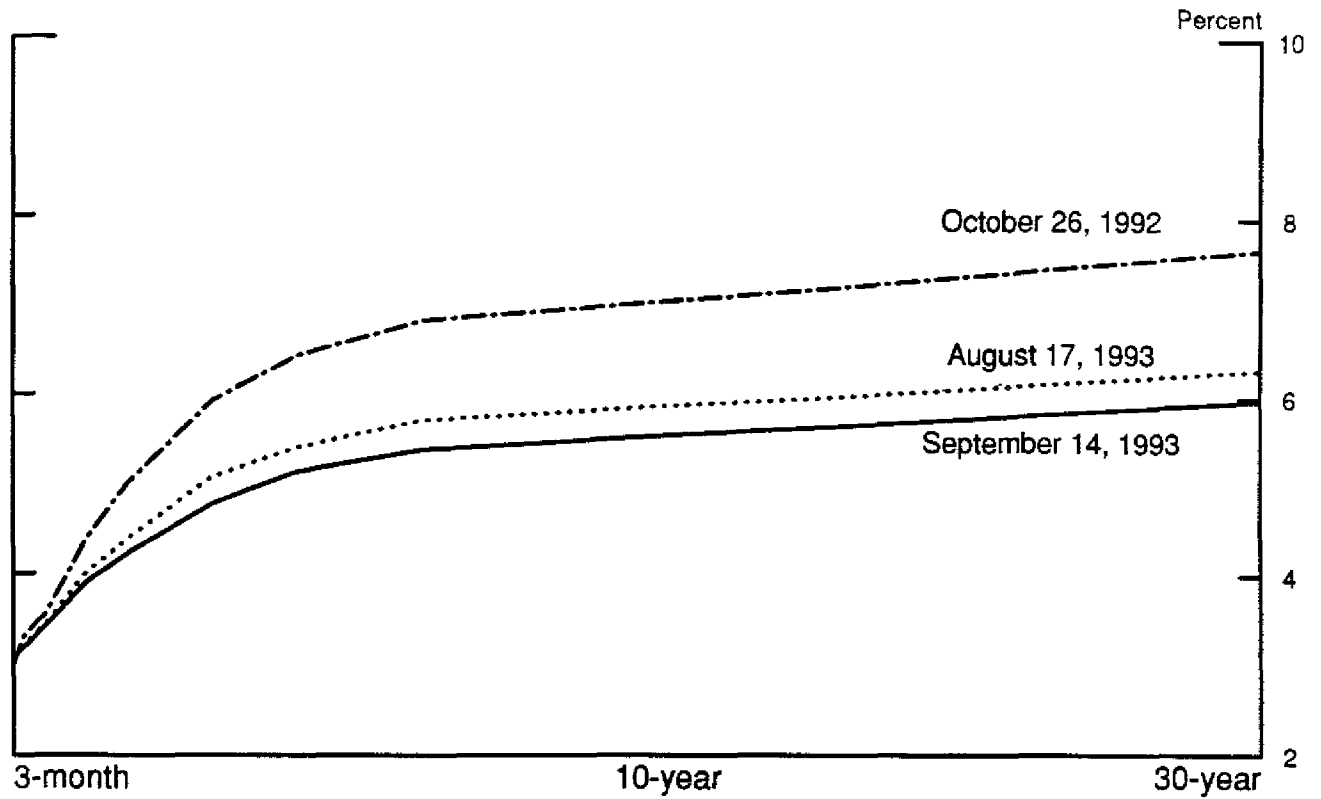
Since the last FOMC meeting, Treasury bond yields have fallen sharply further. While the federal funds rate remained at 3 percent, other money market rates edged down as lingering fears of a near-term System tightening evaporated. With new evidence of a sluggish economy and modest inflation, and with money market rates now expected to be stable at low levels for some time to come, investors have continued to seek higher yields in the capital markets. The accompanying flattening of the yield curve has been quite pronounced (chart), although the gap between the long and short rates remains large by historical standards. Since the August 17 meeting, the yield on thirty-year Treasuries has declined 34 basis points, with about half of this drop accounted for by revisions to forward rates beyond ten years from now.

Yields on corporate securities and fixed-rate mortgages have declined slightly less than those on Treasuries over the intermeeting period, while yields on municipal bonds have lagged a bit more. Broad equity indexes have risen almost 2 percent, setting new highs, as lower bond rates and heavy inflows to stock mutual funds have bolstered demand for shares.

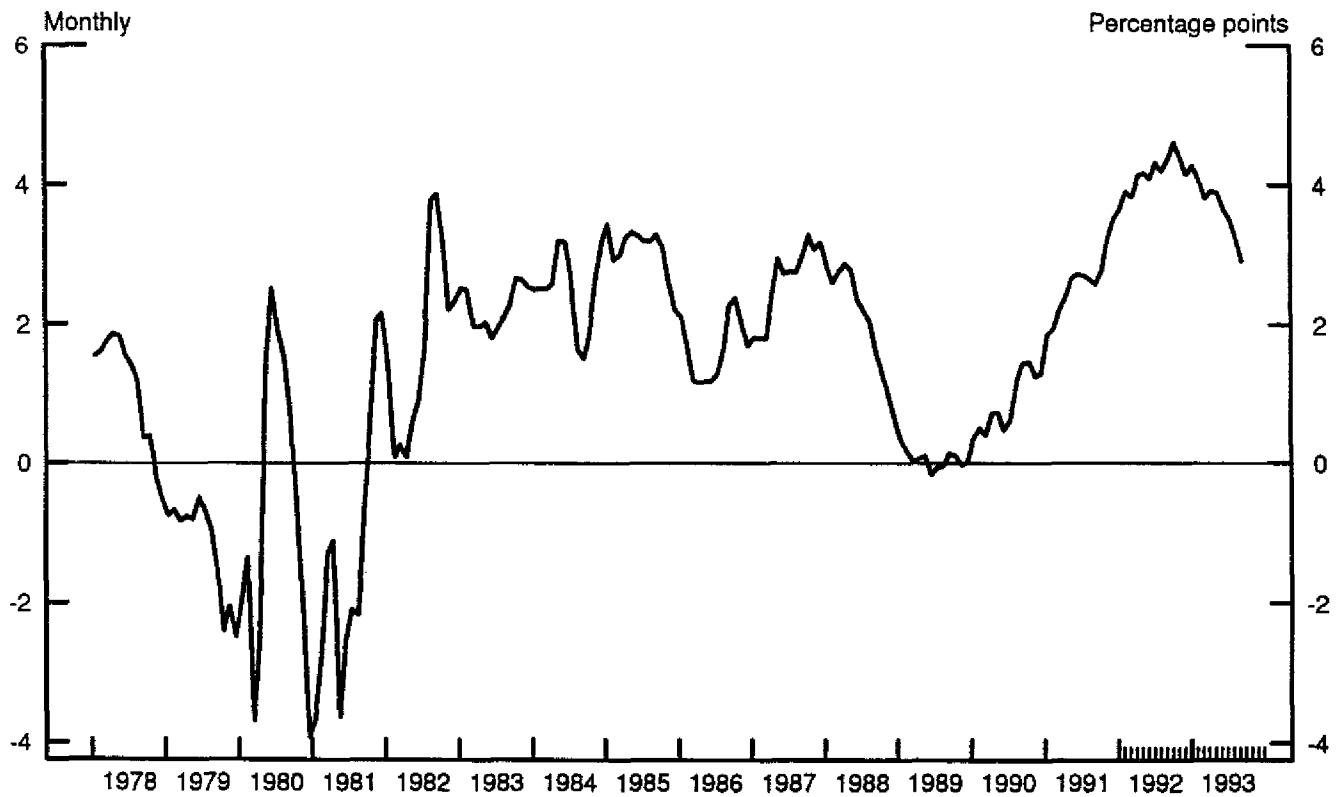
Falling long-term rates have sparked further refinancing among businesses, households, and state and local governments, but net borrowing by most nonfinancial sectors probably has been moderate so far in the current quarter. The monetary aggregates have continued to be held down by the public's pursuit of higher returns available on capital market instruments, leaving M2 and M3 around the bottoms of their target ranges. Bank credit growth slowed sharply last month, as the boost that had been provided by strong security loan growth disappeared.



Selected Treasury Yield Curves\*



Spread Between 30-Year T-Bond and 3-Month T-Bill Rates\*



\*Based on constant-maturity yields for coupon securities. Treasury bill rates are on a coupon-equivalent basis.

Money and Bank Credit

M2 expanded at a 2 percent rate in August, close to the pace of recent months. Household savings continued to be diverted to stock and bond mutual funds, with preliminary data for August indicating no slackening from the record rate of net share purchases recorded in July. Led by strong growth in currency and demand deposits, M1 continued to expand robustly. M2 in August was just above the lower bound of its 1 to 5 percent annual target range.

M3 edged up in August after two months of declines, as banks slowed their issuance of nondeposit liabilities outside M3. On a gross basis, large time deposits continued to run off. However, a large drop in money fund holdings of bank CDs, which are netted from the aggregate, caused the large time component of M3 to be flat. M3 remained just below the lower bound of its 0 to 4 percent target range.

Bank credit slowed in August, to a 3-1/4 percent annual rate, following three months of fairly rapid expansion.<sup>1</sup> Acquisitions of securities accounted for nearly all of the rise in bank credit during the month, as total loans were about flat. Most loan components slowed, but the weakening was particularly pronounced in the volatile security loan component, which contracted after accounting for a significant part of the strength in the three preceding months.

Business loans were flat in August. Runoffs at large domestic banks persisted, as firms with ready access to capital markets continued to tap those markets for new funds and refinancing. Renewed growth at small banks, however, offset some of the runoff. Consumer loans in August decelerated from July's double-digit pace.

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1. July data had been boosted by a large bank's acquisition of a primary dealer. The August data represent a deceleration even after adjusting for the effects of this acquisition.

MONETARY AGGREGATES  
(Based on seasonally adjusted data except as noted)

Aggregate or component	1992 <sup>1</sup>	1993 Q1 <sup>2</sup>	1993 Q2 <sup>2</sup>	1993 Jun.	1993 Jul.	1993 Aug. (pe)	1992:Q4 to Aug. 93 (pe)	Level (bil. \$) Jul. 93
<u>Aggregate</u>	<u>Percentage change (annual rate)</u>							
1. M1	14.3	6.6	10.5	7.3	13.6	11	10%	1085.5
2. M2	1.8	-1.8	2.2	2.6	2.1	2	1	3520.9
3. M3	0.3	-3.7	2.6	-0.5	-1.7	1	-%	4167.3
<u>Selected components</u>								
4. M1-A	13.7	6.2	13.0	7.3	13.9	14	11%	683.2
5. Currency	9.1	9.5	9.7	11.1	11.0	11	10%	309.6
6. Demand deposits	18.0	3.7	16.1	5.0	17.3	16	12%	365.8
7. Other checkable deposits	15.4	7.3	6.3	7.3	13.3	5	8%	402.3
8. M2 minus M1 <sup>3</sup>	-2.6	-5.3	-1.3	0.6	-3.0	-2	-2%	2435.4
9. Overnight RPs and Eurodollars, n.s.a.	2.7	-7.4	-9.7	66.9	29.2	22	3	75.7
10. General-purpose and broker- dealer money market funds	-5.2	-10.1	-0.5	-1.1	-0.7	-6	-3%	336.3
11. Commercial banks	-0.1	-2.2	-0.4	-0.3	-4.3	0	-1%	1252.9
12. Savings deposits	14.5	1.6	4.6	6.4	0.8	7	4	769.5
13. Small time deposits	-15.8	-7.9	-8.0	-10.5	-12.3	-10	-8%	483.4
14. Thrift institutions	-5.5	-8.4	-4.2	-3.6	-4.0	-3	-5	768.5
15. Savings deposits	14.8	-0.2	0.7	2.8	2.5	2	1%	430.6
16. Small time deposits	-21.5	-18.0	-10.1	-11.5	-12.3	-9	-12%	337.9
17. M3 minus M2 <sup>3</sup>	-6.6	-13.1	4.6	-17.1	-22.1	-4	-7	646.4
18. Large time deposits	-16.3	-17.8	-1.0	-11.1	-17.2	1	-8%	337.8
19. At commercial banks <sup>4</sup>	-15.4	-18.0	0.6	-11.5	-20.7	3	-8%	274.1
20. At thrift institutions	-19.6	-17.5	-7.9	-9.3	-1.9	-8	-10%	63.7
21. Institution-only money market mutual funds	18.2	-14.1	0.4	-27.8	-18.8	-10	-9	195.0
22. Term RPs, n.s.a.	7.8	9.9	38.3	41.5	44.0	-5	25%	96.2
23. Term Eurodollars, n.s.a.	-22.6	0.0	30.6	-44.0	-77.0	28	2%	46.7
<u>Average monthly change (billions of dollars)</u>								
<u>Memo</u>								
24. Managed liabilities at com'l. banks (lines 25 + 26)	-2.1	3.4	5.8	8.5	17.1	5	. . .	722.7
25. Large time deposits, gross	-4.6	-3.6	-1.0	-3.7	-8.0	-5	. . .	344.6
26. Nondeposit funds	2.5	7.0	6.9	12.2	25.1	10	. . .	378.1
27. Net due to related foreign institutions	2.7	2.8	2.1	2.9	14.9	14	. . .	100.8
28. Other <sup>5</sup>	-0.2	4.2	4.7	9.3	10.3	-4	. . .	277.4
29. U.S. government deposits at commercial banks <sup>6</sup>	-0.5	-0.5	2.4	7.0	4.0	-1	. . .	30.1

1. "Percentage change" is percentage change in quarterly average from fourth quarter of preceding year to fourth quarter of specified year. "Average monthly change" is dollar change from December to December, divided by 12.

2. "Percentage change" is percentage change in quarterly average from preceding quarter to specified quarter. "Average monthly change" is dollar change from the last month of the preceding quarter to the last month of the specified quarter, divided by 3.

3. Seasonally adjusted as a whole.

4. Net of holdings of money market mutual funds, depository institutions, U.S. government, and foreign banks and official institutions.

5. 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.

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

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

Type of credit	Dec. 1991 to Dec. 1992	1993 Q1	1993 Q2	1993 Jun.	1993 Jul.	1993 Aug. p	Level, Aug. 1993 p (\$billions)
Commercial bank credit							
1. Total loans and securities at banks	3.6	2.7	7.2	9.2	9.0	3.2	3,046.5
2. Securities	13.0	11.6	10.6	12.1	6.0	9.4	896.1
3. U.S. government	17.5	13.0	12.2	16.6	6.1	9.7	713.9
4. Other	-1.1	6.2	4.5	-5.3	5.3	8.6	182.2
5. Loans	.2	-.8	5.8	7.9	10.2	.6	2,150.4
6. Business	-3.2	-1.2	.5	3.5	-1.2	.2	591.1
7. Real estate	2.1	-.9	5.2	7.6	4.1	2.6	910.2
8. Consumer	-1.8	7.7	6.5	3.9	12.4	7.4	374.1
9. Security	18.4	-3.7	47.3	50.4	170.2	-27.8	80.2
10. Other	1.1	-13.0	9.9	16.2	9.9	-8.6	194.8
Short- and intermediate-term business credit							
1. Business loans net of bankers acceptances	-3.3	-1.7	.1	3.7	-2.7	-.4	581.5
12. Loans at foreign branches <sup>2</sup>	2.0	-33.1	-5.2	-20.5	-26.1	-48.0	21.6
13. Sum of lines 11 and 12	-3.1	-3.1	0.0	2.8	-3.6	-2.2	603.1
14. Commercial paper issued by nonfinancial firms	9.5	-9.3	15.8	-1.6	38.4	23.5	161.1
15. Sum of lines 13 and 14	-.8	-4.3	3.1	2.1	4.9	3.1	764.2
16. Bankers acceptances, U.S. trade-related <sup>3,4</sup>	-16.9	-10.4	-14.2	-16.4	-33.2	n.a.	21.1 <sup>5</sup>
17. Finance company loans to business <sup>4</sup>	1.8	-5.1	-.4	-1.2	-1.2	n.a.	302.8 <sup>5</sup>
18. Total (sum of lines 15, 16, and 17)	-.5	-4.7	1.8	.8	2.4	n.a.	1,086.1 <sup>5</sup>

1. Except as noted, levels are averages of Wednesday data and percentage changes are based on averages of Wednesday data; data are adjusted for breaks caused by reclassification; changes are measured from preceding period to period indicated.

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

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

4. Changes are based on averages of month-end data.

5. July 1993.

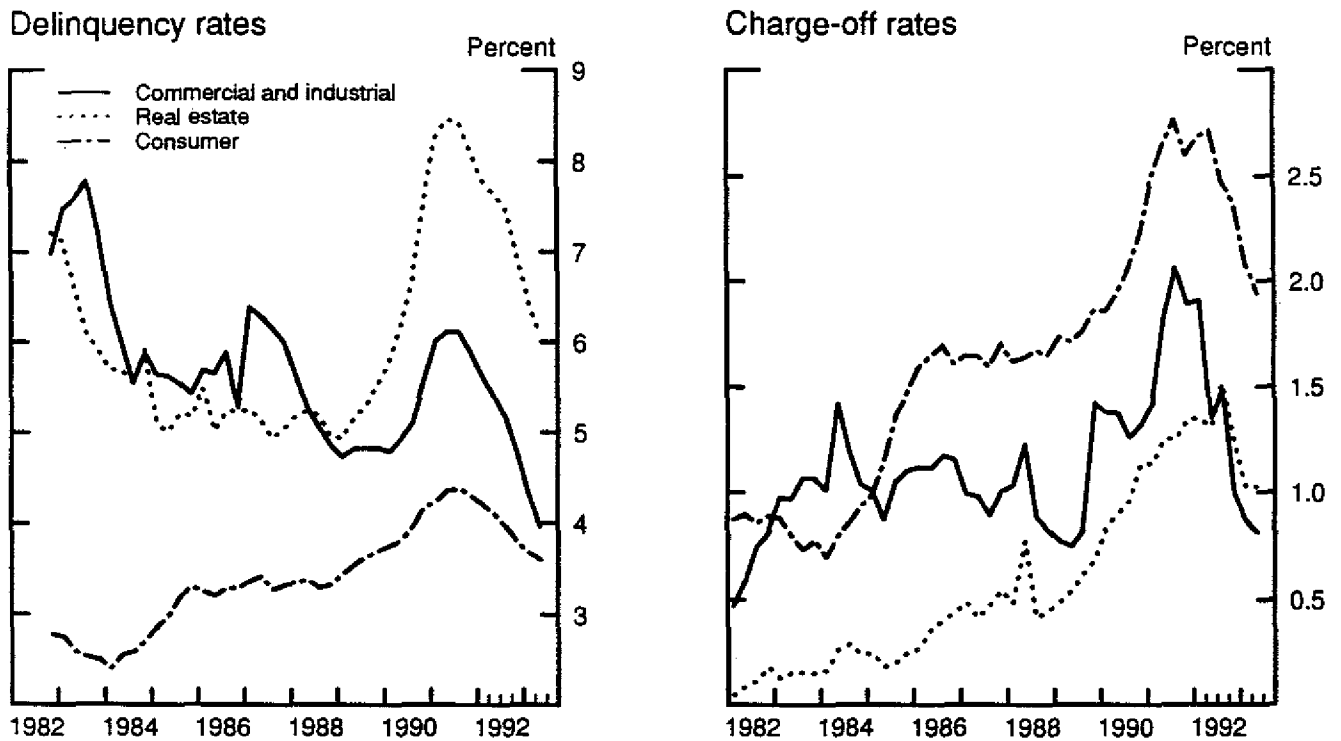
p Preliminary.

n.a. Not available.

### Growth of Real Estate Loans at Domestically Chartered Banks (By category; percent, saar)

	Total	1 - 4 family		Nonfarm nonres.	Construction and land dev.	Multifamily	Farm	Memo: Other real estate owned
		Home equity	Other					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Annual								
1990	8.6	20.9	12.9	10.6	-7.3	5.5	3.6	58.3
1991	2.9	14.5	6.6	4.8	-18.6	14.2	6.9	26.4
1992	2.6	4.3	8.2	3.1	-23.4	14.1	7.5	-5.4
Quarterly								
1993: Q1	.7	8.2	3.0	2.3	-23.4	-1.5	2.0	-12.2
Q2	6.3	.5	14.9	2.9	-22.2	8.8	8.0	-39.2
Memo: Outstandings as of 6/30/93 (\$ billions)	858.4	74.7	405.7	259.7	69.9	28.0	20.5	23.0

### Delinquency and Charge-Off Rates at Large Banks, SA (By Type of Loan)



but still grew at a healthy 7-1/2 percent annual rate; securitizations had only small effects on growth in July and August. Real estate loans, which had surged in the second quarter, expanded more slowly in August. Smaller increases were recorded at domestic banks, while loans at foreign branches and agencies, whose portfolios are almost entirely commercial real estate, continued to contract.

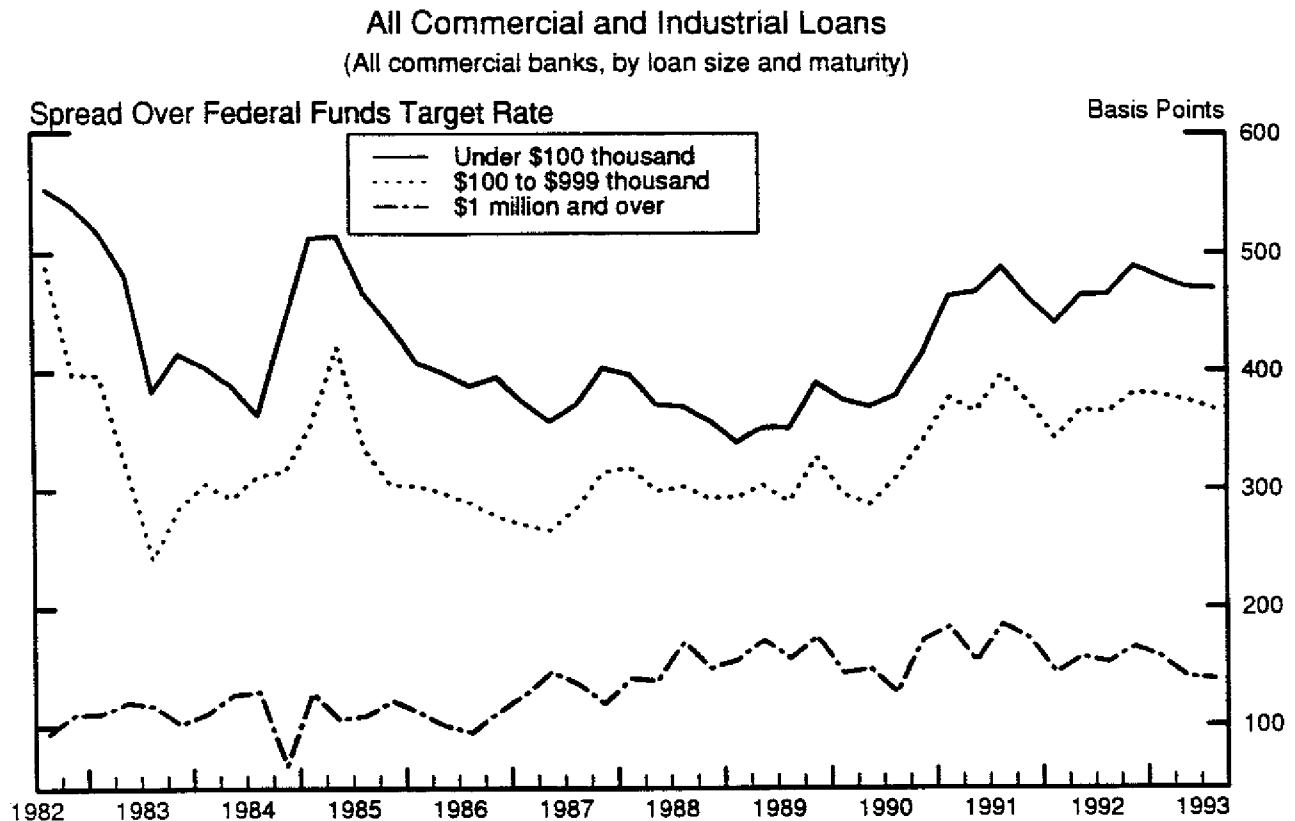
Call report data show that the second-quarter surge in bank real estate loans was concentrated in 1-4 family mortgages (table). Home equity loans stagnated, probably because of paydowns with some of the proceeds from refinanced first mortgages. Rates on home equity loans, which are often tied to the prime rate or Treasury bill rates, have fallen relatively little this year, whereas mortgage rates have declined substantially. The two major commercial real estate categories, nonfarm nonresidential loans and construction and land development loans, continued to be weak in the second quarter.

These data also show further improvements in bank asset quality through the second quarter. Delinquency rates fell for all three major loan categories (chart). Charge-offs, net of recoveries, declined for business and consumer loans and held steady for real estate loans. Reduced charge-offs were accompanied by lower provisioning for loan losses, which was an important factor in strong second-quarter profits. Higher profits, combined with substantial equity issuance over the quarter, boosted bank capital further. Indeed, the share of loans held by well-capitalized banks at the end of the second quarter stood at 70 percent, five percentage points above the year-end 1992 figure.<sup>2</sup> With improving financial health, results from the August Senior Loan

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2. These shares reflect any exclusions of banks with CAMEL ratings of 3, 4, or 5 from the well-capitalized group.

Officer Opinion Survey suggest that banks have reversed some of the tightening of business loan standards and terms that occurred over the last few years. The quarterly Survey of the Terms of Bank Lending indicates that spreads on business loans, however, have narrowed only marginally and still are wide relative to the late 1980s (chart).



Business Finance

Nonfinancial corporations took advantage of lower long-term rates by continuing to issue large amounts of investment-grade and junk bonds. As has been true all year, most of the proceeds reportedly were for refinancing bank and other debt. Nonfinancial

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

	1991	1992	-----1993-----				
			Q1	Q2	Jun	Jul <sup>P</sup>	Aug <sup>P</sup>
Corporate securities - total <sup>1</sup>	32.14	40.81	55.99	49.97	66.11	52.69	52.43
Public offerings in U.S.	29.35	38.01	51.68	45.84	60.94	48.84	49.50
Stocks--total <sup>2</sup>	5.44	6.54	8.04	8.25	9.79	9.14	8.00
Nonfinancial	3.71	4.03	4.39	4.73	5.13	4.87	5.10
Utility	0.43	0.87	0.63	0.99	1.13	0.61	0.21
Industrial	3.15	3.16	3.76	3.75	4.01	4.26	4.89
Financial	1.73	2.51	3.66	3.52	4.66	4.27	2.90
Bonds	23.91	31.47	43.63	37.60	51.15	39.70	41.50
Nonfinancial	9.52	12.81	19.85	15.22	19.36	17.00	16.00
Utility	2.99	5.33	9.12	7.23	8.93	9.00	7.00
Industrial	6.54	7.47	10.73	7.98	10.43	8.00	9.00
Financial	14.39	18.67	23.78	22.38	31.79	22.70	25.50
By quality <sup>3</sup>							
Aaa and Aa	3.72	3.73	5.50	4.49	5.09	5.35	3.20
A and Baa	12.09	14.50	20.90	16.46	22.60	17.59	18.20
Less than Baa	1.03	3.10	4.92	4.45	5.19	3.97	6.11
No rating (or unknown)	0.02	0.08	0.08	0.07	0.09	0.22	0.12
Memo items:							
Equity-based bonds <sup>4</sup>	0.63	0.63	0.49	0.77	1.52	0.83	0.33
Mortgage-backed bonds	2.99	6.07	8.04	7.90	13.83	10.42	9.00
Other asset-backed	4.07	4.00	4.23	4.24	4.35	2.16	4.87
Variable-rate notes	0.84	1.89	2.04	2.63	2.52	3.04	2.61
Bonds sold abroad - total	2.33	2.30	3.79	3.68	4.50	2.04	2.65
Nonfinancial	1.00	0.84	0.64	1.04	0.80	0.72	0.49
Financial	1.33	1.46	3.15	2.64	3.70	1.33	2.16
Stocks sold abroad - total	0.46	0.50	0.53	0.45	0.67	1.81	0.27
Nonfinancial	0.38	0.39	0.37	0.27	0.24	1.15	0.19
Financial	0.08	0.11	0.16	0.18	0.42	0.66	0.08

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.

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.



issuance of junk bonds in August is estimated to have been \$5.3 billion, the strongest pace since January's record \$6.1 billion. Moreover, the calendar of upcoming junk issues is crowded. Although some of the junk bond offerings in August featured original issue discounts and step-up interest payments, most were straight bonds. In a somewhat surprising development, issuance of nonfinancial commercial paper was brisk again in August, as it had been in July. Part of the strength over these two months, though, owed to large issues by a foreign government in late July. Some of the additional strength in commercial paper may be coming from corporations borrowing short-term while waiting for the bottom in long-term rates.

August indicators of financing by nonfinancial firms suggest continued modest amounts of net funds raised, roughly in line with July's pace. The net flow of business loans and commercial paper was \$1-1/4 billion less in August than in July, while preliminary estimates of the sum of gross public equity and bond issuance were \$3/4 billion less in August than in July. The lack of data on retirements and private placements, however, makes it difficult to judge the net volume of stock and bond issuance.

Pricing of new corporate issues in late August was complicated by an unusually wide difference in secondary market yields between the newest and previous thirty-year Treasury issue. The on-the-run (August) long bond proved particularly attractive in secondary market trading. With an unusually large premium that may be due in part to the new, less-frequent auction schedule, this security currently trades at a yield about 17 basis points below its nearest neighbor on the yield curve (the May issue). Traders and purchasers of corporate securities have been unwilling to follow the yield on the benchmark Treasury security down to that extent. Although

measured spreads on investment-grade bonds have widened somewhat because of this anomaly, these spreads have remained tight throughout the summer, probably because of massive inflows into corporate bond mutual funds. The heavy recent and scheduled issuance of junk bonds may have caused some widening in spreads on these bonds since the August FOMC. Prices of junk bonds have been supported by sizable inflows to mutual funds this year, but anecdotal reports suggest that junk bond inflows may have weakened recently.

Spreads on commercial paper narrowed further in August as investors scraped for a few extra basis points in yield. Rates paid by high-rated firms hovered just above those on agency discount notes, which traded on top of Treasury bills. Moreover, spreads paid by medium-grade and low-grade issuers fell to near their lowest levels since records have been kept. As an alternative, investors reportedly have been buying asset-backed commercial paper to enhance yield. Despite a top rating, this paper typically trades at a rate premium because of its complicated structuring and lack of investor familiarity. As a result of Moody's recent downgrade of IBM's commercial paper to medium-grade, SEC restrictions will force money market mutual funds to curtail new purchases of the company's paper. Like GMAC and Sears before it, IBM likely will run off a significant amount of its commercial paper, perhaps turning to the asset-backed securities market for funding.

Major stock price indexes increased about 1 to 2 percent since the last FOMC. Bank stocks in most regions of the country outperformed the indexes. Data for August suggested continued support for prices from strong inflows to stock mutual funds. Prices of initial public offerings (IPOs) strengthened over August. Only about half of IPOs, however, have outperformed the Standard &

Poor's (S&P) 500 stock price index this year. The composite price-earnings ratio for the S&P 500 now stands at 23, down from the peak, 26, reached in 1992, but still high by historical standards. In fact, the ratio is about where it was just before the 1987 market crash, even after adjusting for nonrecurring charges for restructuring that inflate the ratio by depressing reported earnings.

The boom in gross equity issuance by nonfinancial firms this year continued through August. Volume for the month is estimated to have picked up slightly from its July pace, to \$5.1 billion. RJR Nabisco's \$1.25 billion perpetual preferred issue dominated the offerings in August. That issue was the largest preferred deal on record, surpassing IBM's \$1.1 billion issue in June. The market for initial public offerings also remained robust, with nonfinancial corporations raising an estimated \$1.8 billion in each of July and August. Moreover, the calendar of proposed IPOs is jammed: About 150 are expected in September alone, a sharp pickup over the previous three months.

#### Municipal Securities

With municipal bond rates having declined over the past month to levels last seen nearly twenty years ago, gross issuance of tax-exempt bonds continued its recent torrid pace. At \$21.3 billion, August marked the sixth consecutive month in which gross long-term issuance surpassed \$20 billion, a level that before 1993 had only been exceeded seven times. Last month, offerings to refund outstanding bonds once again paced issuance and accounted for two-thirds of the volume. Dealers expect no abatement of refunding activity in the near term.

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

	1993						
	1991	1992	Q1	Q2	June	July <sup>P</sup>	Aug. <sup>P</sup>
Total offerings <sup>1</sup>	16.68	21.78	23.88	32.69	41.62	26.26	25.50
Total tax-exempt	16.26	21.21	23.37	31.77	40.45	25.88	24.96
Long-term	12.87	17.93	21.75	25.56	28.53	21.60	21.26
Refundings <sup>2</sup>	3.12	7.91	15.04	17.28	17.32	13.87	14.23
New capital	9.75	10.02	6.71	8.28	11.21	7.74	7.03
Short-term	3.39	3.28	1.62	6.21	11.92	4.28	3.70
Total taxable	.42	.57	.51	.92	1.17	.38	.54

p -- preliminary

1. Includes issues for public and private purposes.
2. Includes all refunding bonds, not just advance refundings.

The expectation of new supply is the main reason that the ratio of the index of yields on new issues of thirty-year revenue bonds to the yield on the thirty-year Treasury bond has risen to its highest level since late 1989.<sup>3</sup> The ratio of tax-exempt to taxable yields has increased despite greater demand for municipal securities arising from the anticipation, and now the reality, of higher personal income tax rates.

Allegations regarding the use of political contributions by securities firms to obtain underwriting business in negotiated offerings have not affected bond yields or issuance. Since such allegations first came to light last spring in connection with a refunding by the New Jersey Turnpike Authority, several issuers have moved to competitive offerings. Nonetheless, negotiated sales

3. In late 1989, an increase in the alternative minimum tax on income from tax-exempt bonds caused property/casualty insurance companies to curtail sharply purchases of municipal securities.

The use of the yield on the most recently issued thirty-year Treasury bond also has pushed the ratio up, but this explains only a small part of the increase in the ratio.

TREASURY FINANCING<sup>1</sup>  
(Total for period; billions of dollars)

	1993				
	Q2	Q3 <sup>P</sup>	July	Aug.	Sept. <sup>P</sup>
<u>Treasury financing</u>					
Total surplus/deficit (-)	-17.8	-57.9	-39.6	-27.8	9.5
Means of financing deficit:					
Net cash borrowing from the public	61.1	42.2	1.1	52.5	-11.3
Marketable borrowings/ repayments (-)	53.6	43.6	5.2	51.5	-13.2
Bills	-.6	-1.2	11.9	5.8	-19.0
Coupons	54.3	44.8	-6.7	45.7	5.8
Nonmarketable	7.4	-1.3	-4.1	0.9	1.9
Decrease in the cash balance	-39.0	16.7	32.4	-12.7	-3.1
Memo: Cash balance at end of period	60.6	43.9	28.1	40.8	43.9
<sup>2</sup>					
Other	-4.2	-1.0	6.1	-12.0	4.9

FEDERALLY SPONSORED CREDIT AGENCIES  
Net Cash Borrowing<sup>3</sup>  
(billions of dollars)

	1993				
	Q1	Q2	Apr.	May	June
FHLBs	0.5	12.0	2.1	2.8	7.1
FHLMC	11.6	-5.6	6.7	-1.3	-11.0
FNMA	-0.5	10.7	-0.7	5.6	5.8
Farm Credit Banks	0.3	0.1	-0.4	0.3	0.1
SLMA <sup>4</sup>	-0.9	0.1	-0.6	-0.2	0.9
FAMC <sup>4</sup>	0.0	--	0.0	--	--

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. Federal Agricultural Mortgage Corporation.
- e--estimated.  
p--projected.
- NOTE: Details may not add to totals due to rounding.

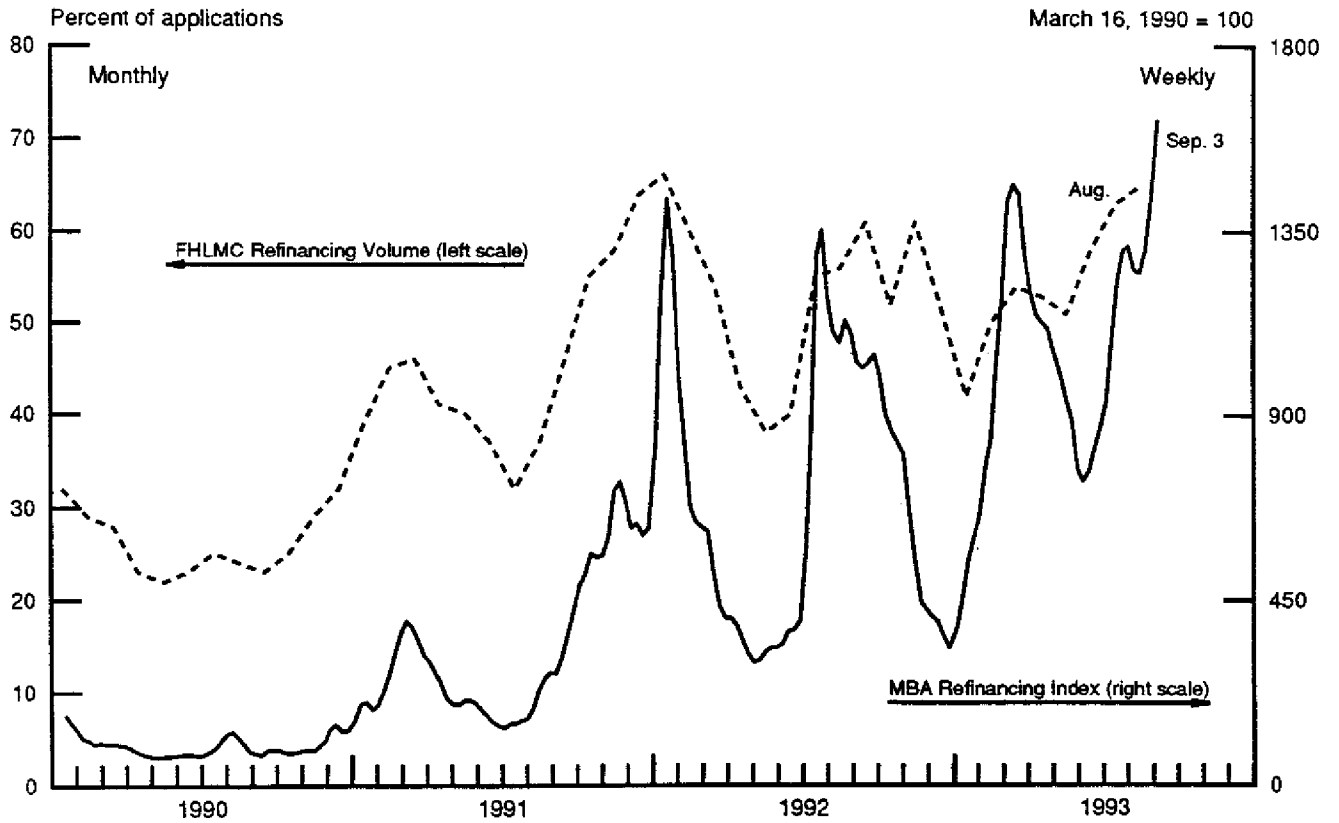
continue to constitute about 80 percent of all bond offerings, roughly the same percentage as that of recent years.

The Municipal Securities Rulemaking Board (MSRB), the self-regulatory organization for brokers and dealers in municipal securities, has responded to the scandal by proposing a new rule that would prohibit underwriters from making political contributions aimed at obtaining or retaining securities business. The rule also would require underwriters to disclose political contributions made to officials of states and municipalities awarding business to the dealer. Concerns have also been raised about the adequacy of disclosures of financial condition by issuers of municipal securities, who are exempt from the requirements imposed on corporate issuers of public securities. Congress is considering a bill that would remove that exemption. In addition, the MSRB and the SEC are considering rules for dealers in secondary market transactions, the effect of which would be to pressure issuers to disclose more information voluntarily.

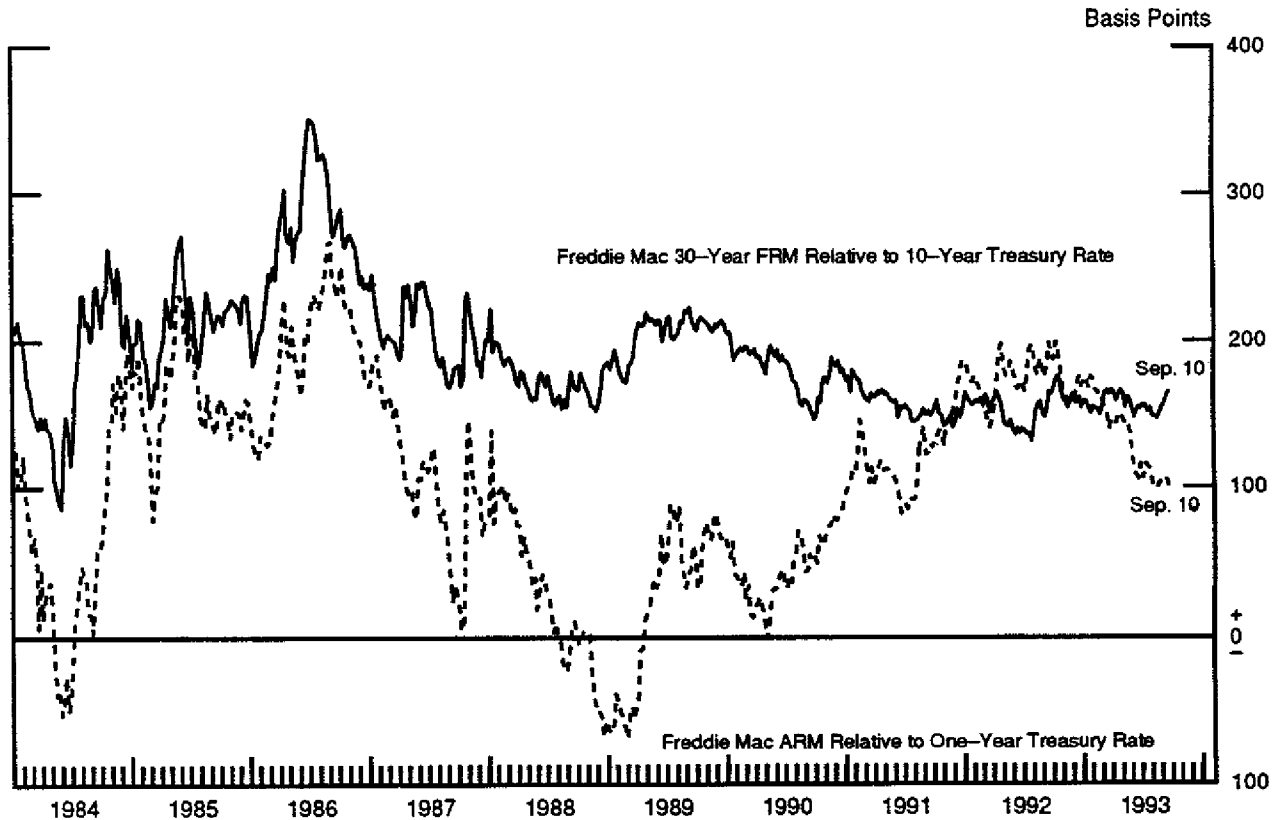
#### Treasury and Sponsored Agency Financing

The Treasury likely will finance the projected third-quarter fiscal deficit of \$58 billion by borrowing \$42 billion from the public and by drawing down its cash balance by \$17 billion. The marketable borrowing should occur in the coupon sector, where gross auction sizes are expected to be unchanged to up \$500 million. The Treasury held the gross sizes of the weekly bill auctions at \$24.4 billion over much of the quarter, but in recent weeks it trimmed these auctions to \$22.4 billion. These cutbacks should be temporary, however, as the anticipated sharp increase in fourth-quarter borrowing could drive weekly bill auctions up to \$25 billion.

Refinancing Indicators  
(Not Seasonally Adjusted)



Freddie Mac Fixed Mortgage Rate and Adjustable Mortgage Rate Spreads  
(Weekly)



The August midquarter refunding was an exception to the recent pattern of small changes in coupon auction sizes. The thirty-year bond was boosted from \$8.25 billion last quarter to \$11 billion, as the Treasury began its scheduled semiannual auctions of long bonds in August and February.

The House of Representatives has passed legislation that extends the life of the Resolution Trust Corporation for eighteen months and provides the agency with an additional \$18.3 billion to complete the cleanup of the saving and loan industry. Earlier, the Senate approved legislation with similar provisions, but the House and Senate bills differ significantly over funding for the Saving Association Insurance Fund (SAIF). The House bill authorizes only \$8 billion for SAIF, compared with \$16 billion in the Senate bill. In addition, the House version places strict conditions on the release of the funds to SAIF, and many analysts feel that these conditions effectively deny funding to SAIF.

Yields on securities issued by government-sponsored enterprises declined with yields on Treasuries, maintaining the tight spreads that have become the norm.

#### Mortgage Markets

Since the August FOMC meeting, contract rates on conventional fixed-rate mortgage loans have declined 35 basis points, to 6.82 percent, the lowest level since 1968. With the further decline in mortgage interest rates, the volume of refinancing has surged once again. In Freddie Mac's monthly survey of conventional loan applications at all lenders, the refinancing share, which had declined in late spring as mortgage interest rates rose, has since rebounded to a near-record level of 65 percent in August (chart). The Mortgage Bankers Association (MBA) index of refinancing activity at mortgage bankers has also hit a new high. The latest survey



indicates that over 60 percent of applications at mortgage bankers were for refinancing.

The spread of rates on newly originated mortgages over rates on comparable Treasury securities has widened a bit in the past few weeks (chart). Initial rates on ARMs have declined 10 basis points over the intermeeting period to a series-low 4.33 percent, narrowing the spread over the one-year Treasury constant maturity yield to roughly 1 percentage point. Despite low ARM rates, most borrowers have continued to choose fixed-rate loans. The MBA's weekly survey shows that ARMs accounted for less than one-quarter of the volume of all loan applications at mortgage bankers in recent weeks. Refinancing data from Freddie Mac show that conventional ARMs accounted for only 5 percent and 27 percent, respectively, of refinanced FRMs and ARMs in the second quarter of 1993.

Most outstanding mortgage securities are backed by loans with interest rates that are 1 to 3 percentage points above current no-points mortgage rates. Consequently, prepayment rates, which had paused because of higher mortgage rates and fewer applications for refinancing this past spring, are expected to resume their climb this fall. Gross issuance of agency pass-through securities continued at a record pace in July, reaching a seasonally adjusted \$57 billion (table). Pass-through issuance, which generally follows prepayments with a lag of a month or two, is expected to increase by year-end. In the mortgage-derivative market, REMIC volume also remained strong, while heavy demand for principal-only securities continued to boost issuance of agency-backed, stripped mortgage securities.

Following a weak first quarter, growth of mortgage debt outstanding rebounded in the second quarter because of somewhat stronger activity in housing markets and stronger loan originations

**MORTGAGE-BACKED SECURITY ISSUANCE**  
(Monthly averages, billions of dollars, NSA unless noted)

	Pass-through securities				Multiclass securities				
	Total (SA)	Federal agency		Private	Total	Non-agency <sup>2</sup>			
		Fixed- rate (SA)	ARM- backed(SA)	Non- agency <sup>2</sup>		Non- agency <sup>2</sup>	FNMA REMICs	FHLM REMICs	Agency strips
1989	17.4	14.0	2.8	.7	7.4	.6	3.1	3.2	.4
1990	20.1	17.2	2.2	.6	10.6	1.4	5.1	3.4	.7
1991	23.7	20.2	1.9	1.6	18.1	2.6	8.5	6.0	1.1
1992	40.1	34.7	3.2	2.2	30.4	5.3	12.9	11.0	1.3
1992 Q3	35.0	29.4	3.3	2.3	36.6	6.1	16.7	11.5	2.3
Q4	47.6	41.7	3.2	2.8	28.3	4.6	9.9	12.9	.9
1993 Q1	39.5	32.9	5.1	1.5	27.0	5.6	10.6	6.8	3.9
Q2 p	43.8	36.6	4.0	1.1	32.9	5.1	12.3	10.6	4.9
1993 Apr	39.2	34.0	4.1	1.1	30.4	4.3	10.1	9.9	6.1
May	44.4	39.7	4.1	.6	37.3	4.1	13.8	13.7	5.7
Jun	47.6	42.1	3.9	1.5	31.0	6.9	12.8	8.3	3.0
Jul p	56.7	49.9	5.6	1.2	36.6	5.3	14.6	10.2	6.6

1. Collateralized by adjustable-rate mortgages.

2. Collateralized by fixed-rate mortgages.

p Preliminary. r Revised.

associated with the surge of refinancing earlier in the year. Real estate loans at banks also grew in the second quarter at their most rapid pace since 1990. Although growth at banks has fallen off in the July-August period, the latest spurt in originations of both refinancing and home purchase loans is expected to lead to somewhat higher growth of residential mortgage debt in the third quarter.

In contrast to call report data for banks, the MBA series on delinquency rates on home mortgages rose somewhat on a seasonally adjusted basis. The thirty-day "all loan" delinquency rate increased for the second consecutive quarter, to 4.39 percent, up 10 basis points from the previous quarter but still among the lowest ratios recorded in more than a decade. The MBA series is based on a survey of bank and nonbank mortgage servicers and is more heavily influenced than the call report data by FHA and VA mortgages, whose delinquency rates rose in the second quarter.

CONSUMER INTEREST RATES  
(Annual percentage rate)

	1990	1991	1992	1993				
				Feb.	May	June	July	Aug.
At commercial banks <sup>1</sup>								
New cars (48 mo.)	11.78	11.14	9.29	8.57	8.17	...	...	7.98
Personal (24 mo.)	15.46	15.18	14.04	13.57	13.63	...	...	13.45
Credit cards	18.17	18.23	17.78	17.26	17.15	...	...	16.59
At auto finance cos. <sup>2</sup>								
New cars	12.54	12.41	9.93	10.32	9.51	9.45	9.37	...
Used cars	15.99	15.60	13.79	13.90	12.61	12.55	12.46	...

1. Average of "most common" rate charged for specified type and maturity during the first week of the middle month of each quarter.

2. For monthly data, rate for all loans of each type made during the month regardless of maturity.

Note: Annual data are averages of quarterly data for commercial bank rates and of monthly data for auto finance company rates.

CONSUMER CREDIT  
(Seasonally adjusted)

	Percentage change (annual rate)							Memo: Outstandings <sup>1</sup> (billions of dollars)
	1990	1991	1992	1993				1993
				Q1	Q2 <sup>r</sup>	June <sup>r</sup>	July <sup>p</sup>	July <sup>p</sup>
Installment	2.0	-.7	1.0	4.9	2.4	6.0	8.1	759.7
Auto	-2.7	-8.4	-.5	4.2	4.0	4.2	9.2	267.0
Revolving	12.1	9.5	4.4	8.4	4.5	5.0	12.8	265.4
Other	-.8	-1.0	-.8	1.8	-1.8	9.4	1.4	227.4
Noninstallment	-4.6	-15.1	3.0	-8.5	17.5	-12.1	-23.9	52.2
Total	1.5	-1.8	1.2	4.0	3.6	4.8	6.0	811.9

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

r Revised.    p Preliminary.

Consumer Credit

Interest rates on consumer loans at commercial banks continued to decline between early May and early August (table). The average "most common" rate on four-year new car loans was down 19 basis points since the previous survey in May.<sup>4</sup> Personal loan rates fell by 18 basis points and were at their lowest point since November 1990. The average most common rate on bank credit card plans fell 56 basis points, to 16.59 percent, the lowest level in the twenty-one-year history of the series. To some extent, the drop in card rates reflected special promotions. In the latest survey week, a few banks were running promotions and reported as the most common rate the very low introductory rates offered on new accounts or on transfers of existing balances from other issuers. Presumably, rates at these banks will rise when the usual six-month promotional periods expire. Some banks reporting lower rates mentioned competition from other issuers as the reason for the reductions. It also may be that accounts on which rates were lowered earlier generated enough activity in August to qualify as the "most common."

The spread between auto loan rates at banks and the three-year constant-maturity Treasury rate has narrowed somewhat in the past two years. In contrast, spreads on both personal loans and credit card loans remain close to record levels. In particular, the credit card rate spread, at 12-1/4 percentage points, is only 3/4 percentage point below its record high reached in August 1992. These high-margin loans remain quite profitable for banks. The 1992 report on credit card profitability, which the Board recently sent

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4. The "most common" rate is the rate at which the largest dollar volume of loans was made. The staff is proposing to modify the existing report form in order to collect more representative information on credit card interest rates. These changes are currently in the System report clearance process.

to the Congress, noted that the large "credit card" banks (which account for 60 percent of total bank-card receivables) improved their net earnings as a percentage of outstanding balances from 2.57 percent in 1991 to 3.05 percent in 1992. The report noted that this improvement reflected both a substantial decline in the cost of funds and an improvement in credit loss experience.

Consumer installment credit outstanding grew at an 8 percent seasonally adjusted annual rate in July, following a downward-revised 6 percent rate in June (table). The expansion in installment credit in July was led by strong increases in the revolving and auto loan components. The "other loans" component--mainly unsecured personal cash loans--posted a small gain. Total consumer credit (installment plus noninstallment) expanded at a 6 percent annual rate in July, up from 4-3/4 percent in June.

Consistent with data from the call report, the American Bankers Association series on delinquency rates on closed-end consumer loans fell in the second quarter of 1993 (table). The drop continued a downtrend in this series since the beginning of 1992. Delinquency rates on all types of loans, except those for property improvement, declined.

DELINQUENCY RATES ON CONSUMER INSTALLMENT LOANS AT BANKS<sup>1</sup>  
(Seasonally adjusted)

	1990	1991	1992	1993	1993	1993	
				Q1	Q2	May	June
All closed-end loans <sup>2</sup>	2.50	2.66	2.61	2.38	2.08	2.16	2.06
Auto - direct	2.05	2.18	2.27	2.06	1.83	1.91	1.84
Auto - indirect	2.54	2.74	2.54	2.37	2.00	2.12	1.97
Personal, home goods	3.41	3.29	3.42	3.10	2.63	2.64	2.59
Mobile home	2.62	3.05	3.80	3.87	3.73	3.78	3.77
Property improvement	2.11	2.35	2.37	1.98	2.00	2.06	1.95
Recreational vehicle	2.13	2.44	2.44	1.79	1.55	1.58	1.51
Credit cards	2.48	3.21	2.98	2.81	2.71	2.75	2.63

1. Number delinquent 30 days or more as percentage of number of loans outstanding. Source: American Bankers Association.  
 2. Weighted average of separate categories, excluding credit cards.  
 Note: Series are affected by definitional changes between 1991 and 1992.

# **INTERNATIONAL DEVELOPMENTS**

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INTERNATIONAL DEVELOPMENTS

Merchandise Trade

In June, the merchandise trade deficit was \$12.1 billion (seasonally-adjusted, Census-basis) larger than recorded in any month since February 1988. Imports rose 5 percent and exports declined 3 percent from May levels. The rise in imports was spread across all major trade categories except food, feeds, and beverages. The decline in exports included principally gold, consumer goods, and automotive products. Data for July will be released on September 16, and will be included in the Greenbook supplement.

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

	Exports			Imports			Balance
	Total	Ag.	NonAg.	Total	Oil	NonOil	
1992-Oct	38.9	4.0	34.9	46.1	5.0	41.1	-7.2
Nov	37.8	3.7	34.1	45.6	4.6	41.1	-7.8
Dec	39.2	3.7	35.5	46.1	4.1	42.0	-7.0
1993-Jan	37.5	3.5	34.0	45.2	4.2	40.9	-7.7
Feb	36.9	3.7	33.3	44.8	4.1	40.8	-7.9
Mar	38.9	3.6	35.3	49.3	4.5	44.9	-10.5
Apr	38.5	3.7	34.7	48.7	4.9	43.7	-10.2
May	38.9	3.6	35.3	47.3	4.6	42.7	-8.4
Jun	37.6	3.5	34.2	49.7	4.8	44.9	-12.1

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

In the first half of 1993, the merchandise trade deficit widened significantly from levels recorded in 1992, and amounted to \$127.4 billion (SAAR). Exports rose 2 percent in the first half from year-end levels, while non-oil imports grew 8 percent. The growth, direction, and composition of U.S. trade flows increasingly reflect differing rates of economic activity in the United States and key trading partners, as well as the sources of economic growth.

The expanding economies of Asia (particularly China and the NIEs) and, to a lesser extent, Latin America (particularly Argentina

and Mexico) accounted for nearly three-fourths of the increase in exports from January to June, and more than 90 percent of the increase in the second quarter alone; these regions accounted for 37 percent of exports for the whole of 1992. Exports to Western Europe (which accounted for 26 percent of exports in 1992) fell 2 percent in the first half from their end-1992 levels and dropped 9 percent between the first and second quarters, as those economies, on average, continued to stagnate. Exports to Japan remained unchanged in the first half of 1993 from their year-end 1992 levels. Exports to Canada grew about 9 percent over that period, but most of the increase was in autos.

Export growth to Asia was principally transportation goods (including autos and aircraft), high technology capital goods (such as telecommunications, computers, and semiconductors), and industrial and service machinery. Export growth to Latin America was principally industrial supplies and materials (such as chemicals), basic investment goods (such as power generating equipment, and industrial and service machinery), and consumer nondurables.

In the United States, robust investment activity supported a 9 percent increase (not at an annual rate) in imported capital goods between the fourth quarter of 1992 and the second quarter of 1993, while consumer goods imports rose 6 percent reflecting more modest growth in retail sales. Most of the increase in imported capital goods came from Japan, Latin America, and Asia. Semiconductors, and computers, parts and accessories accounted for more than half of the increase in capital goods imports, while basic investment goods such as engines, pumps, compressors, parts for power generating equipment, and some specialized machinery accounted for the rest.



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

	Year	1992			1993		\$ Change	
	1992	Q2	Q3	Q4	Q1	Q2	Q2-Q2	Q2-Q1
Trade Balance	-96.1	-99.2	-110.4	-103.8	-117.2	-137.5	-38.3	-20.3
Total U.S. Exports	440.1	433.2	438.0	456.0	446.1	452.5	19.3	6.4
Agric. Exports	44.0	42.6	44.7	45.5	43.4	43.2	0.5	-0.2
Nonagric. Exports	396.1	390.6	393.3	410.4	402.7	409.4	18.7	6.6
Industrial Suppl.	101.8	100.9	102.3	104.5	102.6	103.5	2.6	0.9
Gold	4.5	3.5	3.6	7.2	6.4	7.5	4.0	1.2
Fuels	13.6	13.7	13.5	13.4	12.6	12.5	-1.3	-0.2
Other Ind. Suppl.	83.7	83.6	85.2	83.8	83.6	83.4	-0.2	-0.1
Capital Goods	176.9	175.0	173.3	182.0	177.8	183.3	8.3	5.4
Aircraft & Parts	37.7	37.7	33.4	37.1	33.1	36.3	-1.3	3.3
Computers & Parts	28.8	28.7	28.8	30.0	28.8	28.0	-0.6	-0.8
Other Machinery	110.4	108.6	111.1	114.9	115.9	118.9	10.3	2.9
Automotive Goods	47.1	46.4	47.8	50.9	51.2	51.4	5.0	0.2
To Canada	23.8	23.8	24.2	25.6	26.4	27.1	3.3	0.7
To Other	23.2	22.6	23.6	25.4	24.8	24.3	1.7	-0.6
Consumer Goods	50.4	49.0	51.0	53.3	51.5	52.2	3.3	0.8
Other Nonagric.	20.0	19.3	19.0	19.7	19.6	19.0	-0.3	-0.7
Total U.S. Imports	536.3	532.4	548.4	559.8	563.4	590.1	57.6	26.7
Oil Imports	51.6	52.4	57.2	54.9	51.0	57.2	4.8	6.2
Non-Oil Imports	484.7	480.0	491.2	505.0	512.3	532.8	52.8	20.5
Industrial Suppl.	88.6	88.1	88.3	93.5	94.1	98.9	10.8	4.8
Gold	3.8	3.6	2.7	6.7	5.3	8.4	4.9	3.1
Other Fuels	4.6	4.3	5.0	4.7	4.5	4.8	0.5	0.3
Other Ind. Suppl.	80.3	80.2	80.6	82.1	84.2	85.6	5.5	1.4
Capital Goods	134.2	131.8	137.8	141.8	142.6	150.9	19.1	8.3
Aircraft & Parts	12.6	13.3	12.3	13.0	10.5	11.8	-1.4	1.3
Computers & Parts	31.8	30.8	33.6	34.6	35.9	37.2	6.4	1.4
Other Machinery	89.8	87.6	91.9	94.2	96.2	101.8	14.2	5.6
Automotive Goods	91.8	91.2	91.8	95.1	100.5	102.1	10.9	1.6
From Canada	31.7	31.6	31.6	32.3	36.8	36.9	5.3	0.1
From Other	60.1	59.6	60.2	62.8	63.7	65.2	5.6	1.5
Consumer Goods	123.0	121.3	126.7	126.5	128.9	132.8	11.5	4.0
Foods	27.9	28.7	28.1	27.6	27.4	27.5	-1.2	0.1
All Other	19.3	19.0	18.5	20.6	18.9	20.6	1.6	1.7

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

Nearly half of the increase in consumer goods came from China with an additional 30 percent coming from Canada.

### Oil Imports

The value of imported oil increased in June, despite a decline in oil prices. Preliminary Department of Energy data suggest that perhaps two-thirds of the increase in the volume of imports was the result of an increase in consumption. For the second quarter as a whole, the increase in the volume of imported oil boosted inventories. Imports may have continued strong in July as stocks appear to have been built for the fourth consecutive month.

OIL IMPORTS  
(BOP basis, seasonally adjusted annual rates)

	1992		1993		Months			
	Q4	Q1	Q2	Mar	Apr	May	Jun	
Value (Bil. \$)	54.85	51.04	57.25	53.41	59.15	54.78	57.82	
Price (\$/BBL)	17.89	16.44	17.07	16.90	17.20	17.35	16.67	
Quantity (mb/d)	8.39	8.50	9.18	8.65	9.41	8.64	9.49	

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

The price of imported oil fell almost \$0.70 per barrel from May to June. Spot oil prices declined almost continuously from late May through the middle of July, on strong OPEC production (especially Kuwait and Iran). Import prices should follow this trend with a bit of a lag. The price of imported oil in August will probably fall to roughly \$15.50 per barrel. Since the middle of July, spot oil prices have moved in a saw-tooth pattern; declining on increased prospects of Iraqi exports and bickering between Saudi Arabia and Iran, and increasing on threats of possible disruptions in Nigerian and Libyan exports. Currently, the near-term futures contract for West Texas Intermediate is trading near \$16.77 per barrel, about \$2.30 per barrel below its June average of \$19.07.

Prices of Exports and Non-Oil Imports

Prices of U.S. non-oil imports resumed their slight upward trend in July, rising 0.1 percent. Moderate increases of about 0.3 percent in non-computer consumer durables (such as recreational and home entertainment equipment) and imported automotive vehicles reflected in part the rise in the value of the yen, and were only partially offset by small declines in the prices of consumer nondurables and industrial supplies (such as paper and chemical products).

Prices of U.S. agricultural exports increased 5.3 percent in July, the largest monthly change in over four years. The largest rises were reported in soybeans and other oilseeds, which were adversely affected by the Midwest flooding, and wheat and rice.

Nonagricultural export prices declined in July for the first time since December, with decreases reported in most major trade categories. The largest declines were in the prices of exported nonagricultural industrial supplies, especially building materials, whose price had risen substantially earlier in the year.

U.S. Current Account

The U.S. current account deficit in the second quarter of 1993 was \$107.7 billion (seasonally-adjusted, annual rate). The \$18.5 billion deterioration from the first quarter rate was due to the worsening of the merchandise trade balance. The surplus in services trade was virtually unchanged from the first quarter. Net investment income recorded a small deficit.

The deficit on merchandise trade widened to \$137.6 billion in the second quarter (SAAR) as imports surged. The surplus on services transactions was little changed at \$59.2 billion (SAAR); increased receipts for travel and passenger fares and license fees

and royalties were about offset by increased payments for "other private services", including financial services.

The balance on investment income showed a small deficit of \$1.1 billion, the third deficit quarter in a row. A sharp increase in payments on foreign direct investment in the United States was nearly offset by an increase in receipts on foreign direct investment abroad. Both receipts and payments on portfolio investments grew modestly.

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

Year	Trade Balance	Services net	Investment Income, net	Transfers net	Current Acct. Bal.	
					Pub.	Ex Special Grants 1/
1990	-109.0	30.7	20.3	-33.8	-91.9	-89.0
1991	-73.8	45.9	13.0	6.6	-8.3	-45.6
1992	-96.1	56.4	6.2	-32.9	-66.4	-67.6
Quarters						
1992-1	-71.1	56.2	17.7	-29.6	-26.7	-28.5
2	-99.2	54.6	3.6	-32.0	-73.0	-76.0
3	-110.4	61.1	6.8	-28.6	-71.1	-71.1
4	-103.8	53.7	-3.2	-41.4	-94.7	-94.7
1993-1	-117.2	58.5	-0.2	-30.3	-89.2	-89.2
2	-137.6	59.2	-1.1	-28.3	-107.7	-107.7

1/ Excludes foreign cash grants to the United States to cover costs of the war in the Persian Gulf. These grants amounted to \$4.3 billion in 1990, \$42.6 billion in 1991, and \$1.3 billion in 1992; they are shown in the accounts as positive unilateral transfers. Also excludes special U.S. grants to foreign countries amounting to \$7.2 billion in 1990 and \$5.2 billion in 1991.

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

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

	Year		Quarters			Months	
	1993-Q2	1992-Q2	1992	1993		1993	
			Q4	Q1	Q2	Jun	Jul
			(Quarterly Average, AR)			(Monthly Rates)	
-----BLS Prices-----							
<u>Imports, Total</u>	1.1	0.4	-5.1	3.3		-0.5	-0.4
Foods, Feeds, Bev.	-0.3	2.8	-5.5	3.5		0.8	0.1
Industrial Supplies	-0.0	-4.2	-9.2	4.7		-2.0	-2.1
Ind Supp Ex Oil	0.1	-0.5	-1.9	0.5		-0.8	0.1
Capital Goods	1.3	-0.1	-4.4	1.9		0.3	0.1
Automotive Products	2.2	3.0	-2.8	5.0		-0.1	0.3
Consumer Goods	1.8	2.9	-3.1	2.1		-0.2	0.1
Memo:							
Oil	-1.0	-11.4	-23.6	12.9		-4.1	-5.8
Non-oil	1.3	1.5	-3.3	2.5		-0.1	0.1
<u>Exports, Total</u>	0.4	-1.0	1.2	1.6		-0.2	0.2
Foods, Feeds, Bev.	-3.0	-3.9	5.7	0.7		-2.8	5.0
Industrial Supplies	2.3	-2.7	1.9	4.7		-0.2	-0.6
Ind Supp Ex Ag	--	--	1.6	5.6		-0.1	-0.7
Capital Goods	0.1	-0.7	-0.7	0.2		0.4	-0.3
Automotive Products	1.4	2.5	1.2	0.5		-0.1	-0.2
Consumer Goods	1.9	3.3	3.1	0.3		-0.5	0.1
Memo:							
Agricultural	-1.5	-2.7	5.6	-1.4		-2.9	5.3
Nonagricultural	1.0	-0.8	0.6	1.9		0.1	-0.4
-----Prices in the NIPA Accounts-----							
<u>Fixed-Weight</u>							
Imports, Total	1.1	0.0	-5.2	3.6		--	--
Oil	-2.8	-14.0	-29.7	15.0		--	--
Non-oil	1.3	0.7	-2.4	2.9		--	--
Exports, Total	0.6	-0.4	0.7	1.8		--	--
Ag	-2.8	-6.0	4.9	-1.4		--	--
Nonag	1.1	0.0	0.7	1.8		--	--
<u>Deflators</u>							
Imports, Total	-1.4	-1.3	-7.8	1.5		--	--
Oil	-2.4	-13.2	-28.8	16.1		--	--
Non-oil	-1.3	0.1	-5.4	0.3		--	--
Exports, Total	-0.9	-0.5	-1.1	0.7		--	--
Ag	-0.4	4.3	5.3	-3.8		--	--
Nonag	-0.9	-1.1	-1.6	1.0		--	--

U.S. International Financial Transactions

U.S. net purchases of foreign securities accelerated further in July to reach \$18.5 billion (line 2.c of the Summary of U.S. International Transactions table). For the first seven months of the year, net purchases totaled \$69 billion, well in excess of the record annual total for 1992 of \$50 billion. The purchases in July were concentrated in the United Kingdom (\$10.5 billion), Canada (\$2.7 billion), and France (\$1.9 billion). U.S. residents on net sold almost \$1.5 billion in Japanese securities in July. Purchases in the United Kingdom were primarily Eurobonds, providing little information about the country of issuance. Purchases of Canadian securities were also primarily bonds and reflected heavy issuance of Yankee bonds by the provinces in late June and July. For the first seven months of the year U.S. net purchases have been fairly evenly split between bonds and equities. Net purchases have been largest in the United Kingdom, but there have also been significant purchases in smaller countries as well. Net purchases in Mexico totaled almost \$4 billion and net purchases in Argentina, Malaysia, and Israel each totaled about \$1 billion. In Japan, U.S. residents have acquired \$1.8 billion in equities and sold \$1.4 billion in bonds during the the first seven months.

Foreigners on net sold \$0.6 billion in U.S. stocks in July, after recording small net purchases in the second quarter (line 2.b). Large sales by Canadian residents more than offset sizable purchases by Japanese residents. Foreign net purchases of corporate and agency bonds fell to \$1.5 billion in July from nearly \$7 billion in June (line 2.a). June's figure was inflated by extraordinarily large new Eurobond offerings by U.S. corporations in that month.

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

	1992	1992		1993		1993		
	Year	Q3	Q4	Q1	Q2	May	June	July
<u>Private Capital</u>								
Banks								
1. Change in net foreign positions of banking offices <sup>1</sup> in the U.S. (+ = inflow)	39.2	37.2	-0.1	-9.4	-0.7	-1.8	2.2	4.8
Securities								
2. Private securities transactions, net <sup>2</sup>	-19.4	-11.6	-5.3	-18.1	-7.5	-0.5	-5.9	-17.6
a) foreign net purchases (+) of U.S. corporate bonds <sup>3</sup>	34.8	6.6	8.7	5.8	14.8	3.5	6.9	1.5
b) foreign net purchases (+) of U.S. corporate stocks	-3.7	-3.8	4.2	3.9	0.4	0.3	0.4	-0.6
c) U.S. net purchases (-) of foreign securities	-50.5	-14.4	-18.1	-27.8	-22.8	-4.3	-13.2	-18.5
3. Foreign net purchases (+) of U.S. Treasury obligations	37.4	5.0	21.4	13.8	-0.5	1.5	-4.7	3.6
<u>Official Capital</u>								
4. Changes in foreign official reserves assets in U.S. (+ = increase)	38.1	-8.2	4.9	11.3	17.3	10.6	3.3	-0.8
a) By area								
G-10 countries	4.8	3.8	-4.7	-1.9	17.1	6.9	5.4	-2.7
OPEC	4.9	2.9	1.7	0.5	-1.7	0.5	-1.1	-1.7
All other countries	28.5	-14.9	7.9	12.7	1.8	3.3	-1.0	3.6
b) By type								
U.S. Treasury securities	17.5	-0.3	-7.4	1.0	5.7	3.5	-1.1	4.1
Other <sup>4</sup>	20.8	-7.9	12.4	10.3	11.7	7.2	4.3	-5.0
5. Changes in U.S. official reserve assets (+ = decrease) <sup>5</sup>	3.9	2.0	1.5	-1.0	1.5	-0.2	1.5	-0.3
<u>Other transactions (Quarterly data)<sup>5</sup></u>								
6. U.S. direct investment (-) abroad	-34.8	-2.0	-11.5	-8.3	-10.8	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	2.4	1.0	3.1	8.6	8.3	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) <sup>6</sup>	11.8	-7.7	-5.6	16.5	5.2	n.a.	n.a.	n.a.
9. U.S. current account balance	-66.4	-17.8	-23.7	-22.3	-26.9	n.a.	n.a.	n.a.
10. Statistical discrepancy	-12.2	2.1	15.3	8.9	14.1	n.a.	n.a.	n.a.

## MEMO:

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

-96.1    -27.6    -26.0    -29.3    -34.4    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.

Foreigners on net purchased \$3.6 billion in Treasury securities in July, after selling \$4.7 billion in June (line 3). The swing between June and July is attributable to much larger purchases by Canada and much smaller net sales by Japan and offshore financial centers.

Foreign official reserves in the United States declined slightly in July (line 4) after posting large inflows in the first half. Significant declines in German and OPEC reserves were offset by increases in Mexican and Argentine reserves. Partial data for August from the FRBNY indicate large increases in Japanese, Argentine, and Singapore reserves. The increase in Japanese reserves was associated with exchange market intervention, while the increase in Argentine reserves reflected proceeds from the sale of a state-owned oil company.

Net capital inflows through banks and securities dealers totaled \$4.8 billion in July (line 1). Very large inflows through interbank transactions of foreign-based banks were partly offset by increased lending by securities dealers to foreigners. Available data for August indicate further large inflows through interbank transactions, especially at foreign-based banks. This can be seen on line 1.b of the International Banking Table where the net claims of U.S. offices of foreign-based banks declined from \$-110 billion in July to \$-122 billion in August (on a monthly-average basis). This inflow was associated with a restructuring of liabilities away from large time deposits rather than an increase in lending.

Capital outflows through U.S. direct investment abroad picked up in the second quarter to \$10.8 billion (line 6 of the Summary table). As usual, much of the investment was in Western Europe, although investment in Latin America, particularly Mexico and



INTERNATIONAL BANKING DATA  
(Billions of Dollars)

	1991				1992				1993			
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	July	Aug.*
1. Net Claims of U.S. Banking Offices (excluding IBFS) on Own Foreign Offices and IBFS	-23.8	-13.7	-14.1	-35.8	-41.4	-56.8	-58.1	-71.6	-77.1	-80.4	-93.6	-107.2
(a) U.S.-chartered banks	7.6	5.4	11.0	12.4	3.2	8.3	12.8	17.0	8.9	16.8	16.8	15.0
(b) Foreign-chartered banks	-31.3	-19.2	-25.2	-48.3	-44.6	-65.1	-70.9	-88.6	-86.0	-97.2	-110.4	-122.2
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	26.0	23.9	23.7	23.9	23.3	24.5	24.8	24.8	23.5	23.1	22.4	21.7
3. Eurodollar Holdings of U.S. Nonbank Residents <u>1/</u>	114.6	105.8	100.8	102.9	100.3	91.2	86.3	90.0	89.5	86.1	82.1	82.8

1. Includes term and overnight Eurodollars held by money market mutual funds.

\* Data through August 30.

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.

Brazil. was also substantial. For the first half of 1993, U.S. direct investment abroad totaled \$19 billion, similar to the strong pace in the first half of 1992.

Foreign direct investment in the United States continued strong in the second quarter at \$8.3 billion, bringing the total for the first half to \$17 billion (line 7). Although it represents a significant increase over the pace of last year, the first-half inflow is well below the pace set in the late 1980s when annual inflows averaged about \$60 billion.

The statistical discrepancy in the U.S. international transaction accounts was a positive \$14 billion in the second quarter, up from \$9 billion in the first quarter (line 10). The increase can be attributed in part to larger outflows of currency, which are not captured in the recorded capital accounts.

#### Foreign Exchange Markets

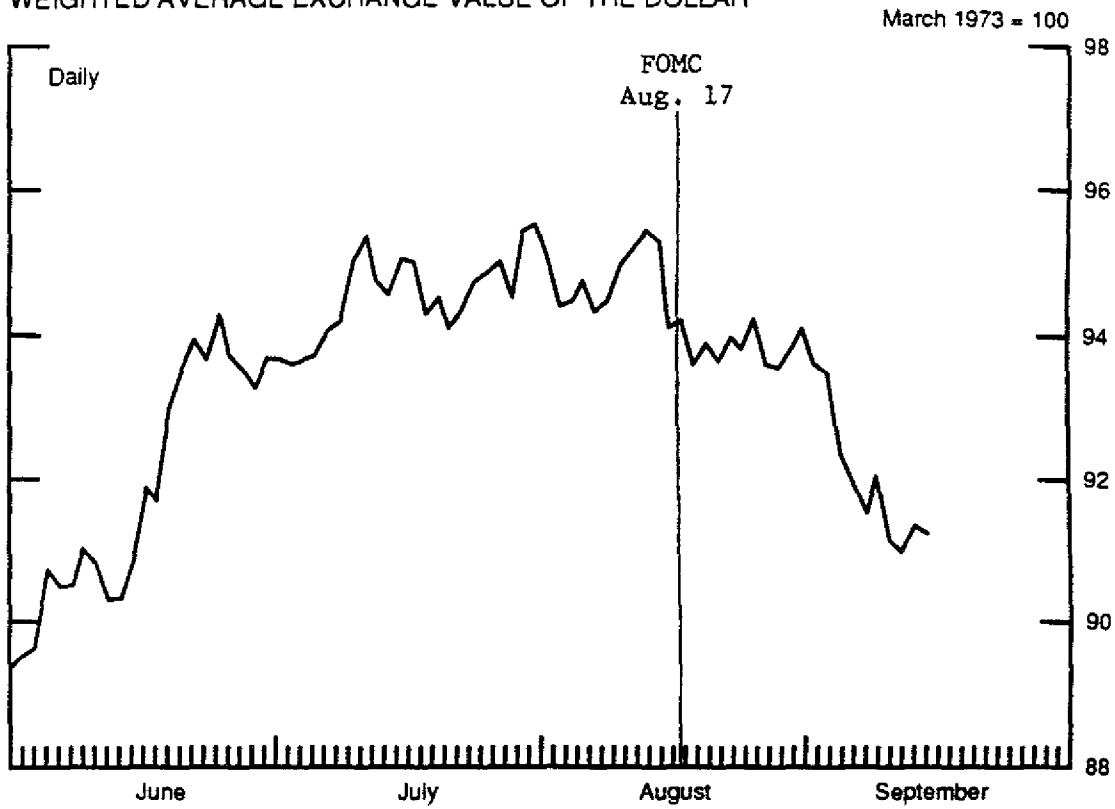
The weighted average value of the dollar declined 3-3/4 percent since the August 17 FOMC meeting. A large part of that decline occurred as a counterpart to the rise of the mark and other European currencies during the period: the dollar depreciated 6 percent against the mark and about 6-3/4 percent against the French franc. Against the yen, however, the dollar rose 4-1/4 percent. The move down in the weighted average dollar was accompanied by a widening of about 10 basis points in the U.S.-German long-term interest rate differential. While the yield on the U.S. ten-year Treasury security declined nearly 30 basis points during the period to roughly 5-3/8 percent, the comparable German yield moved down about 20 basis points to a bit more than 6-1/8 percent. Several other

European yields moved down similarly. The bellwether bond yield in Japan declined less than 10 basis points during the period to about 4.15 percent.

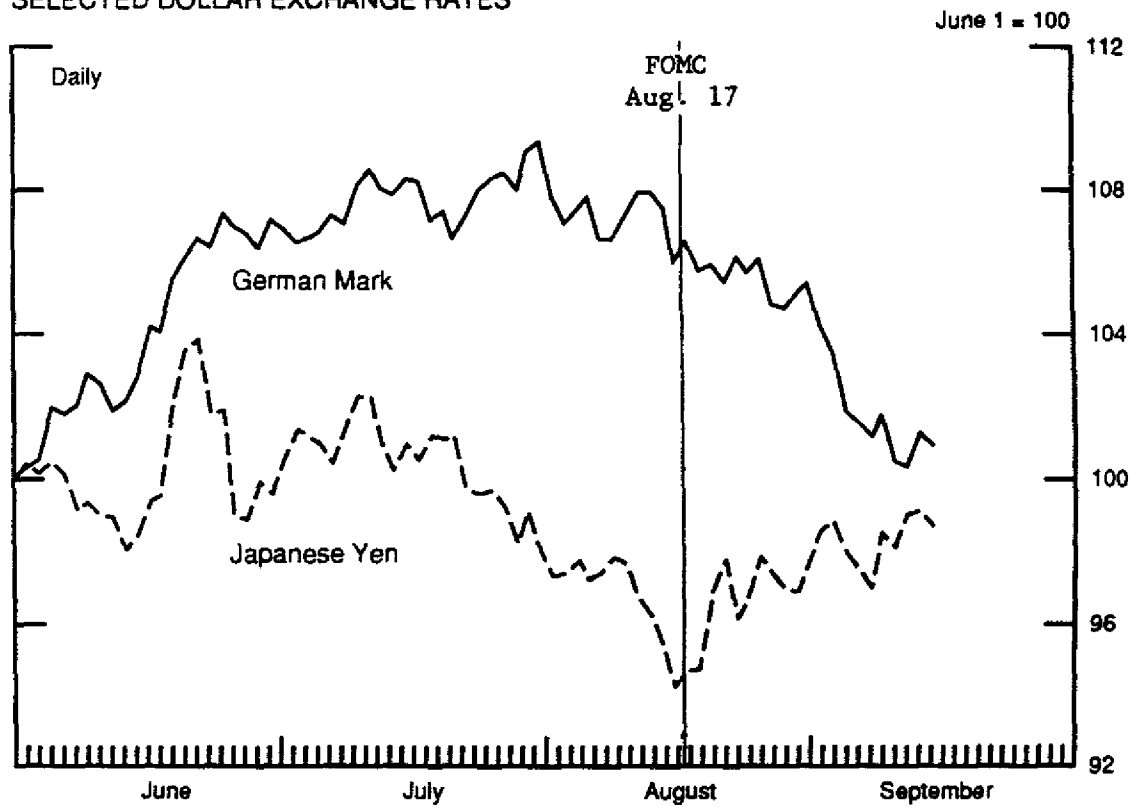
Market participants continued to be disappointed by the pace of easing by the Bundesbank during the period. This disappointment was most notable on two occasions. The Bundesbank Council decided not to reduce official interest rates following its August 26 meeting, prompting an acceleration of the upward pressure on the mark. After the subsequent Council meeting two weeks later, despite announced reductions of 50 basis points each in its Lombard and discount rates to 7-1/4 percent and 6-1/4 percent, respectively, the dollar declined further. Although the cut in the discount rate increased the scope for easing, the RP rate was lowered only 10 basis points. Market participants evidently interpreted this mix of policy measures as indicating some reluctance on the part of the Bundesbank to ease market conditions.

On balance over the period since the August FOMC meeting, the three-month interest rate in Germany was unchanged at about 6-1/2 percent. Comparable interest rates elsewhere in Europe generally moved down. The three-month rate in France declined 100 basis points, as French authorities reduced their overnight lending rate several times during the period and followed the Bundesbank's official rate reductions with a cut of 225 basis points in the 5-to-10-day RP rate to 7-3/4 percent. Short-term interest rates also declined in Spain, Italy, and the Netherlands. In Belgium, the three-month rate rose from near 9-1/2 percent at the beginning of the period to a high of 13 percent, as Belgian authorities sought, with only limited success, to keep the Belgian franc close to its parity with the mark.

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



SELECTED DOLLAR EXCHANGE RATES



. Late in the period, however, the pressure on the franc receded, and the three-month rate moved down sharply to 9-1/8 percent.

The dollar moved up against the yen early in the period following joint intervention purchases of dollars against yen on August 19 by the Desk and the Bank of Japan. The intervention operations were supported by a statement from Treasury Under Secretary Summers, in which he indicated concern about the recent rise of the yen and welcomed the recent decline in the Japanese call money rate. The market interpreted the intervention and the statement as a shift in U.S. attitudes and a sign that a U.S.-Japanese bilateral agreement had been reached that might include other economic policy actions. The call money rate in Japan declined about 20 basis points during the period to roughly 2.9 percent until mid-September, when the rate backed up somewhat amid pressures associated with the end of the reserve maintenance period. The three-month rate declined nearly 1/4 percentage point during the intermeeting period to about 2-5/8 percent.

. The Desk purchased \$165 million against yen during the period, split equally between the Treasury and System accounts. All of the U.S. intervention was done in its joint operations with the Bank of Japan on August 19.

#### Developments in Foreign Industrial Countries

Available data for the major foreign industrial countries give a mixed picture of economic activity in recent months. In Japan real GDP declined in the second quarter, following a modest first-quarter increase, and more recent indicators suggest that weakness

has persisted. Real GDP in western Germany recorded an increase in the second quarter, but much of the gain may have resulted from unintended accumulation of inventories. Output declines in France and Italy appear to have levelled off in the second quarter. The United Kingdom's modest recovery appears to have continued in the third quarter, and Canadian real GDP expanded further in the second quarter.

Inflation in foreign industrial countries continues to hold steady. Small increases in the rate of inflation in Japan have been attributed largely to special factors. There are indications in western Germany that price pressures in services and housing have begun to moderate and will lead soon to lower rates of consumer price inflation.

On balance, fiscal policy has moved toward consolidation as proposed budgets in Germany, France, and Italy have included additional tightening. Japan's new ruling coalition has not introduced any new stimulative measures so far, but an economic package is expected sometime this month.

Individual Country Notes. In Japan, real GDP declined 1.6 percent (s.a.a.r.) in the second quarter after rising a revised 2.5 percent in the first quarter. Domestic demand remained virtually unchanged. A 2.6 percent fall-off in private consumption and a 14 percent drop in private non-residential investment (the largest fall in almost two decades) were offset by a 21.9 percent increase in residential investment, a 22.5 percent increase in public investment, and strong growth in inventories. Real net exports declined sharply as a 20 percent fall in exports more than offset a

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

	1991	1992	1992		1993		1993					Latest three months from year ago 2/
			Q3	Q4	Q1	Q2	MAR	APR	MAY	JUN	JUL	
<b>JAPAN</b>												
GDP	3.0	0.0	-0.5	-0.2	0.6	-0.4	*	*	*	*	*	-0.5
IP	-1.6	-7.7	0.1	-2.9	-0.1	-1.5	2.5	-2.5	-2.6	1.9	-0.3	-4.8
<b>WEST GERMANY</b>												
GDP	2.7	0.0	-0.4	-1.0	-1.6	0.6	*	*	*	*	*	-2.4
IP	0.1	-4.6	-1.4	-4.1	-2.9	-0.0	1.5	-1.0	0.7	-0.3	0.5	-7.5
<b>FRANCE</b>												
GDP	1.3	0.6	0.0	-0.3	-0.7	NA	*	*	*	*	*	-1.0
IP	1.8	-2.3	-0.1	-2.6	-0.9	-0.4	-1.0	-0.5	0.1	-0.2	NA	-4.0
<b>UNITED KINGDOM</b>												
GDP	-1.5	0.3	0.5	0.3	0.4	0.5	*	*	*	*	*	18.0
IP	-0.8	0.7	0.9	0.9	0.2	0.6	-1.0	0.0	1.8	-1.0	0.8	3.1
<b>ITALY</b>												
GDP	1.7	-0.2	-0.4	-0.4	-0.1	NA	*	*	*	*	*	-0.9
IP	-0.5	-3.2	-2.3	-0.7	1.2	NA	-1.5	-4.3	NA	NA	NA	-5.1
<b>CANADA</b>												
GDP	-0.1	0.8	0.1	0.7	0.9	0.8	*	*	*	*	*	2.4
IP	-1.1	1.9	0.5	1.5	1.8	0.7	1.2	-0.7	-0.3	1.1	NA	4.6
<b>UNITED STATES</b>												
GDP	0.3	3.9	0.8	1.4	0.2	0.4	*	*	*	*	*	2.9
IP	-0.3	3.2	0.2	1.6	1.4	0.5	0.2	0.3	-0.2	-0.1	0.4	3.6

\* Data not available on a monthly or quarterly basis.  
1/ Yearly data are Q4 to Q4 percent change.  
2/ For quarterly data, latest quarter from a year ago.

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

	1991	1992	1992				1993		1993				Latest month from year ago 2/
			Q1	Q2	Q3	Q4	Q1	Q2	MAY	JUN	JUL	AUG	
<b>JAPAN</b>													
CPI	3.2	0.9	-0.3	1.3	-0.1	0.0	0.0	1.1	0.4	-0.2	0.3	0.5	2.0
WPI	-1.7	-1.5	-0.4	0.0	-0.2	-0.9	-0.5	-1.4	-0.3	-0.5	-0.1	-0.6	-4.0
<b>WEST GERMANY</b>													
CPI	3.9	3.7	1.2	1.1	0.5	0.9	1.8	1.0	0.3	0.2	0.1	0.0	4.2
WPI	1.6	-1.9	0.4	0.5	-2.0	-0.8	0.7	0.1	-0.1	0.2	-0.2	-0.4	-0.4
<b>FRANCE</b>													
CPI	2.9	1.8	0.5	0.8	0.0	0.5	0.8	0.7	0.2	0.0	0.1	0.0	2.3
WPI	-3.6	-2.1	0.2	0.4	-0.4	-2.3	0.0	NA	*	*	*	*	-2.3
<b>UNITED KINGDOM</b>													
CPI	4.2	3.1	0.5	2.2	-0.1	0.4	-0.7	1.6	0.4	-0.1	-0.2	0.4	1.7
WPI	3.9	3.1	0.9	1.3	0.1	0.7	1.4	1.7	0.3	0.1	0.2	0.0	4.3
<b>ITALY</b>													
CPI	6.1	4.8	1.4	1.2	0.7	1.3	1.0	1.1	0.4	0.5	0.4	0.1	4.4
WPI	1.1	3.0	0.0	0.8	-0.5	2.8	1.6	-1.3	-0.3	0.1	NA	NA	5.3
<b>CANADA</b>													
CPI	4.1	1.8	0.4	0.5	0.4	0.4	0.7	0.2	0.2	0.1	0.2	0.1	1.7
WPI	-3.2	3.3	0.5	0.6	0.8	1.2	1.2	-0.0	-0.1	0.1	0.1	NA	2.8
<b>UNITED STATES</b>													
CPI (SA)	3.0	3.1	0.8	0.8	0.7	0.8	0.9	0.7	0.1	0.0	0.1	0.3	2.8
WPI (SA)	-0.1	1.5	0.1	0.8	0.4	0.2	0.6	0.7	-0.1	-0.3	-0.2	-0.6	0.6

\* Data not available on a monthly or quarterly basis.

1/ Yearly data are Q4 to Q4 percent change.

2/ For quarterly data, latest quarter from year ago.



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

	1991	1992	1992				1993		1993			
			Q1	Q2	Q3	Q4	Q1	Q2	MAY	JUN	JUL	AUG
JAPAN												
TRADE	78.5	107.3	28.0	24.5	26.2	28.6	29.7	29.9	10.0	8.6	11.2	9.0
CURRENT ACCOUNT	73.1	117.2	28.6	28.8	28.1	31.7	36.0	31.8	11.1	9.0	11.2	NA
GERMANY												
TRADE (NSA)	13.6	21.4	4.4	3.4	8.6	5.0	5.9	7.9	3.2	3.8	NA	NA
CURRENT ACCOUNT (NSA)	-19.5	-25.5	-5.3	-6.4	-8.6	-5.2	-5.8	-4.0	-0.7	-0.4	NA	NA
FRANCE												
TRADE	-5.3	5.6	1.1	1.9	1.3	1.3	2.5	NA	2.0	NA	NA	NA
CURRENT ACCOUNT	-5.8	3.8	-1.0	1.5	0.1	3.2	-1.5	NA	*	*	*	*
UNITED KINGDOM												
TRADE	-18.3	-24.1	-5.3	-5.6	-6.3	-6.8	-5.2	-5.1	NA	NA	NA	NA
CURRENT ACCOUNT 2/	-13.5	-16.0	NA	NA	NA	NA	-5.9	NA	*	*	*	*
ITALY												
TRADE	-13.0	-10.5	-2.6	-4.2	-2.2	-1.6	2.5	5.4	2.7	1.2	NA	NA
CURRENT ACCOUNT (NSA)	-21.4	-25.4	-9.0	-5.4	-6.4	-4.7	NA	NA	*	*	*	*
CANADA												
TRADE	4.3	7.4	1.3	1.4	1.7	2.9	2.5	2.3	0.7	0.7	NA	NA
CURRENT ACCOUNT	-25.3	-23.0	-6.7	-6.1	-5.6	-4.6	-4.9	-5.3	*	*	*	*
UNITED STATES												
TRADE	-73.8	-96.1	-17.8	-24.8	-27.6	-26.0	-29.3	-34.4	-9.8	-13.1	NA	NA
CURRENT ACCOUNT	-8.3	-66.4	-6.7	-18.3	-17.8	-23.7	-22.2	NA	*	*	*	*

\* Data not available on a monthly or quarterly basis.

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

2/ Revised annual data reported. Revised quarterly data preceding 1993-Q1 not yet available.

12.6 percent decline in imports. Incoming data suggest that weakness in activity continued into the third quarter. Industrial production (s.a.) was about unchanged in July relative to the second-quarter average. July new machinery orders were down 2.9 percent from their second-quarter average after having declined 9.5 percent from the first quarter. New car registrations (s.a.) also remained about unchanged in July and August from their second-quarter average. Retail sales (n.s.a.) declined in July for the fourteenth consecutive month and fell 5.0 percent below their year-earlier level. The index of leading indicators, after registering above the boom/bust demarcation line of 50 for four months, fell to 41.7 in May and 36.4 in June. The ratio of job offers to applicants (s.a.) declined somewhat further in July to 0.72, while the unemployment rate (s.a.) held steady at 2.5 percent. In the Bank of Japan's August economic survey (Tankan), the index of business sentiment of major manufacturing firms (the percentage having a favorable view of business conditions minus the percentage with an unfavorable outlook) dropped to -51 from -49 in the previous survey taken in May. Firms predicted a 5.9 percent decline in investment in the fiscal year that began in April, compared with a 4.4 percent decline predicted in May's survey.

## JAPANESE ECONOMIC INDICATORS

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

	1992		1993				
	Q4	Q1	Q2	Q3	Jun.	Jul.	Aug.
Machinery Orders	-14.8	16.0	-9.5	--	-2.9	--	--
New Car Registrations	-5.6	10.7	-11.8	--	8.5	-2.7	1.5
Job Offers Ratio	-7.8	-3.2	-12.1	--	-8.6	-2.7	--
Business Sentiment*	-44	-49	-49	-51	--	--	--

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

Consumer prices (n.s.a.) in the Tokyo area continued to edge up in August, rising 2.0 percent on a 12-month basis, up from 1.6 percent in July. The increase was attributable to higher fresh food prices resulting from poor weather; excluding perishables, Tokyo consumer prices rose 1.1 percent on a 12-month basis in August, somewhat below the rate in the first half of 1993. In part reflecting the appreciation of the yen, wholesale prices (n.s.a.) continued to decline in August, falling 4.1 percent below their year-earlier level.

The trade surplus (customs basis, s.a.) moved down to \$9 billion in August from \$11.2 billion in July, bringing the cumulative surplus for the first eight months of 1993 to \$120 billion at an annual rate, well above the 1992 surplus of \$107 billion. The July current account surplus (s.a.) increased to \$11.2 billion from \$9 billion in June; the cumulative surplus for the first half of 1993 was \$135 billion at an annual rate, up from \$117 billion last year.

The protracted slowdown in economic activity, as well as the recent surge in the value of the yen, have prompted calls for monetary and fiscal easing. To date, Prime Minister Hosokawa and Finance Minister Fujii have resisted demands for an income tax cut and a substantial increase in public spending, citing an erosion of tax revenues associated with the economic slowdown and the need to evaluate the effects of the public investment package announced in April. Instead, on August 19 the government stated its intention to promote economic deregulation and the passing on of the benefits of yen appreciation to consumers. On September 10, Prime Minister Hosokawa called for additional infrastructure spending totalling one trillion yen (about 0.2 percent of GDP). A detailed package of economic measures is expected to be unveiled in mid-September.

Real GDP in western Germany increased 2.3 percent at an annual rate in the second quarter (adjusted for seasonal and working day variation), marking the first quarterly increase in real activity since the beginning of the recession last year. Net exports rose as imports declined more than exports. The only other major GDP component that increased was inventories, which showed rapid accumulation during the second quarter after significant run-offs during each of the two previous quarters.

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

	1992		1993				
	Q3	Q4	Q1	Q2	Jun.	Jul.	Aug.
Total Orders	-2.3	-7.1	-0.9	0.3	-1.4	3.1	--
Capacity Utilization	-2.2	-3.1	-2.5	-0.3	--	--	--
Unemployment Rate (%)	6.7	7.2	7.6	8.1	8.2	8.3	8.4
Production Plans* (%)	-12.0	-33.3	-25.7	-21.7	-19.0	-17.0	--

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

Inventory estimates are derived as a residual between real GDP (based on production indicators) and its components (based on expenditure data). One possible interpretation of the second-quarter increase in inventories is that it reflects measurement error to some extent. While industrial production was flat in the second quarter, other evidence (such as the moderation in service-sector prices and the decline in construction activity) suggests that the recession has finally reached the service sector. However, data on production in the service sector are limited, and the increase in real GDP based on production indicators may overstate the true increase in real activity. Another possible interpretation of the second-quarter increase in inventories is that it was

unintended. Survey data available through July indicate that since late last year, firms have regarded inventories as excessively high. Either interpretation of the second-quarter GDP data suggests that recovery in western Germany is not yet underway.

Slow growth in western Germany appears to have delayed recovery in eastern Germany. East German GDP in the first half of this year was 6.2 percent above its level in the first half of 1992, considerable below the 10.1 percent figure recorded in the second half of last year. The smaller rate of increase in the first half of this year is attributed in part to a sharp deceleration of capital investment expenditure.

After remaining flat in the second quarter, industrial production (s.a.) rose 0.5 percent in July, but German officials expect that revised data for July will show a decline in production. The volume of new orders for west German manufactured goods (s.a.) has shown signs of improvement recently, increasing more than 3 percent in July from the second-quarter average. The unemployment rate (s.a., as a percent of the dependent labor force) rose to 8.4 percent in August, still well below peak rates of more than 9 percent registered during the recession in the early 1980s.

Consumer prices in western Germany increased 4.2 percent in August on a year/year basis, up from the 4 percent inflation rate registered in 1992. Inflation has been boosted by an increase in the value-added tax at the beginning of the year, by an increase in postal rates, and by a tax on insurance premiums that took effect on July 1. Wholesale, producer, and import prices (n.s.a.) all have been declining in recent months from year-ago levels. New data for May and June show that the the pan-German current account deficit (n.s.a.) in the first half of 1993 was \$9.8 billion, down from the \$11.7 billion deficit recorded in the first half of 1992.

The Federal budget for 1994 and the medium-term financial plan were submitted to the German parliament for approval in early September, but passage is not expected until later this fall. This budget holds the Federal deficit to DM 68 billion in 1994 (unchanged from the expected Federal deficit this year), and it provides for fiscal consolidation in 1995 and 1996.

In France, recent indicators suggest that economic activity may have flattened or declined only slightly in the second quarter after real GDP dropped sharply in the first quarter by a revised 2.8 percent (s.a.a.r.). Industrial production (s.a.) fell 0.4 percent in the second quarter relative to the first-quarter average. A July survey by INSEE, the French statistics institute, found that industrialists expect economic activity to stabilize in the second half of the year. Consumption of manufactured products (s.a.) rose 0.3 percent in the second quarter, pointing to some recovery in consumption spending. The unemployment rate (s.a.) continued to rise in July, reaching 11.7 percent. Capacity utilization (s.a.) was 80.3 percent in July, slightly below the level of 80.5 percent recorded in the April survey.

Consumer price inflation (n.s.a.) was unchanged in August at 2.3 percent on a 12-month basis. Inflation has risen slightly from the level recorded in the second quarter due to increases in excise taxes on gasoline and alcohol.

France's trade surplus (s.a.) increased to \$2 billion in May from a revised surplus of \$1.1 billion in April, as exports rose 6 percent but imports remained essentially flat. The cumulative surplus for the first five months of 1993 was \$5.6 billion (s.a.), roughly double the surplus registered over the same period last year.

Prime Minister Balladur announced that the 1994 budget would include a reform of the income tax system resulting in an expected reduction in income taxes of FF17 billion (about 1/4 percent of GDP). He also stated that the central government budget deficit target for 1994 was FF300 billion (about 4-1/4 percent of GDP) down slightly from the 1993 target of FF317 billion (that is likely to be overshoot). The 1994 target would be achieved by holding expenditure growth to 1.1 percent in 1994.

Balladur also announced a 5-year plan to combat unemployment. Some social security charges paid by employers for lower-wage workers will be transferred to the government, reducing the cost of employing these workers by roughly 10 percent. The 39-hour work week is to be replaced with an equivalent annual total to increase flexibility. In addition, the government will strengthen apprenticeship programs and provide subsidies to firms for the first three new workers hired.

Major economic indicators in the United Kingdom suggest that recovery continued in the third quarter, following a rise in real GDP of about 2 percent (s.a.a.r.) in the second quarter. Industrial production (s.a.) rose 0.7 percent in July from the second-quarter average. Consumer confidence (s.a.) weakened somewhat in July and August from its strong second-quarter average, but it has remained well above the first-quarter level. Average retail sales (s.a.) in July and August stood 0.6 percent above the second-quarter level. In August, new car sales (n.s.a.) were 17.8 percent above their year-earlier level. Business sentiment (s.a.) continued to be positive in July and August, but was weaker than in the second quarter on average. The unemployment rate (s.a.) remained unchanged at 10.4 percent in July.

In August, consumer prices (n.s.a.) increased 1.7 percent on a 12-month basis. Excluding mortgage interest rates, consumer prices were 3.1 percent above their level of August 1992. Cost pressures associated with depreciation of sterling have begun to ease. In August, input prices fell for the fifth month in a row and stood 6.2 percent higher than their level a year earlier. In addition, labor costs continue to moderate. In June, the underlying rate of inflation in earnings was 3.5 percent, well down from 6.3 percent in June 1992. In August, M0 was 5.2 percent above its level a year earlier; the increase, the largest in three years, has been interpreted as indicating further recovery in private consumption.

In the second quarter, the trade balance (s.a.) registered a deficit of \$5.1 billion, little changed from the deficit in the first quarter.

In Italy, the economy remains weak. Revised data for the first quarter indicate that real GDP fell 0.2 percent (s.a.a.r.) reflecting a 12.5 percent drop in domestic demand. Available indicators suggest that real activity remained flat or declined slightly further in the second quarter. According to preliminary data, industrial production (s.a.) declined 1.2 percent in the second quarter, after stabilizing in the first quarter. The unemployment rate (n.s.a.), which stood at 13.0 percent in the first quarter, rose to 13.7 percent in the second quarter; preliminary estimates suggest that the rate dipped to about 13-1/4 percent in the third quarter. Surveys conducted in May and June reveal that more respondents expect production to fall than to rise.

Wholesale and producer prices (n.s.a.) continue to feel the effects of lira depreciation. In the year to June, wholesale and producer price inflation averaged 4.9 percent and 3.5 percent, respectively, on a 12-month basis, up from rates registered in 1992.



Weakness of economic activity and aggregate demand has kept producers from passing on these price increases to consumers. In the year to August, consumer price inflation (n.s.a.) averaged 4.3 percent, down from the 5.3 percent recorded last year.

On August 26, the government announced a 10 trillion lire (\$6.3 billion equivalent) program of public works to combat rising unemployment. The program had already been approved in the 1993 budget, but funding had been blocked due to ongoing investigations of corruption. Roughly one third of the money will be spent in southern Italy to pay for projects already completed. The remainder will fund new projects in transportation infrastructure. On September 10, the cabinet approved the 1994 budget that seeks to cut 31 trillion lire (1.9 percent of GDP) from the baseline deficit. If approved by the Italian parliament, the deficit in 1994 would equal 144 trillion lire (8.4 percent of GDP), down from 151 trillion lire (9.3 percent of GDP) in 1993.

In Canada, real GDP expanded 3.4 percent (s.a.a.r.) in the second quarter, about equal to the rate registered in the first quarter. Business plant and equipment investment grew strongly for the second consecutive quarter, and residential construction edged up 1.6 percent (s.a.a.r.), after a sharp drop in the first quarter of the year. A large increase in inventories also contributed to growth, the first quarter of inventory building since the end of 1989. Consumption expenditures recorded a moderate increase of 1.9 percent (s.a.a.r.), while export growth slowed somewhat from the first quarter.

Although real GDP growth in the first half of the year was considerably stronger than in 1992, growth of final domestic demand was only moderate, and its rate of increase has remained below that in periods of recovery in previous cycles. The composite indicator

index rose 0.6 percent in July and 0.5 percent in August. The consumer confidence index for the second quarter fell 12.6 percent to its lowest level in almost three years, as consumers expressed continued pessimism over high levels of unemployment and tax increases announced in several provincial budgets. However, the business confidence index for the same period increased 2.3 percent, continuing its upward trend since the fourth quarter of 1991.

Considerable slack persists in Canadian labor markets. Total employment (s.a.) grew 0.2 percent in the second quarter and rose 0.1 percent further in July and August on average. The increase in total employment since December 1992 is more than accounted for by an increase in part-time employment. Nearly 18 percent of employment is now part-time, a record high, and the percentage of those working part-time involuntarily has doubled in the past three years. Wage settlements averaged only 0.4 percent in the second quarter, a record low.

Low wage increases combined with moderate growth in domestic demand have helped restrain consumer price inflation, although depreciation of the Canadian dollar during the past year has raised industrial prices. The targeted 12-month change in the CPI excluding food and energy was 1.8 percent in July, already below the 2 percent target set for end-1995.

Prime Minister Kim Campbell has called a general federal election on October 25. The latest polls still suggest that it will be a close contest between her Progressive Conservative Party and the Liberals, who are led by Jean Chretien.

#### Economic Situation in Other Countries

Mexico experienced its weakest year-on-year GDP growth in almost five years during the second quarter, while Argentina's unemployment rate increased to its highest level in a decade. Korea

has experienced a slight rebound, and Taiwan's economy has grown at a moderate pace. In China, authorities have continued to implement measures to combat overheating, following the initiation of an economic retrenchment program in early July.

Argentina's consumer price index increased only 9.1 percent in August from a year earlier, marking its first single-digit inflation rate in two decades. Inflation also stayed at a single-digit rate in Mexico, but increased slightly in Brazil. Inflation remained stable and at modest levels in Korea and Taiwan; however, inflation has increased slightly in China.

The trade deficits of Mexico and Korea have continued to narrow because of weak internal demand, while Brazil and Taiwan have experienced modest declines in their trade surpluses. China's trade balance has shifted into deficit in 1993 after having posted large surpluses over the past two years.

Individual country notes. Mexico's real GDP was only 0.3 percent higher in the second quarter of 1993 than in the same period of 1992. This follows a 2.4 percent rise for the first quarter over the same period of 1992, and it is the lowest year-over-year increase since the third quarter of 1988. The deceleration has been underway since 1990. This year, economic activity has been slowed not only by the tight fiscal and monetary policies that have been pursued since early 1992, but also because uncertainty about the fate of NAFTA in the U.S. Congress has significantly retarded investment spending.

Slower growth of economic activity has been accompanied by a reduction in import growth. As a result, Mexico's cumulative trade deficit for the first half of 1993 decreased to \$6.9 billion from \$7.4 billion during the same period of 1992. Exports in the first

half were \$24.8 billion, up 11.9 percent from a year earlier, and imports were \$31.7 billion, up 7.4 percent from a year earlier.

In August, the CPI was 0.5 percent higher than in July, leaving it 9.6 percent higher than a year earlier. This compares with a twelve-month increase of 15.5 percent in the year ending in August 1992. The falling inflation rate has fostered a decline in inflation expectations, as a result of which interest rates also have fallen. At the auction of September 14, the twenty-eight-day Treasury-bill rate was 13.4 percent, 628 basis points less than at the recent high of March 3, 1993.

In Brazil, anecdotal evidence suggests that second quarter economic growth slowed somewhat relative to the first quarter. In the first seven months of 1993, imports were 28 percent higher than in the same period of 1992, while exports were 12 percent higher. As a result, the cumulative trade surplus for the year through July fell to \$7.3 billion from a surplus of \$8 billion over the same period a year earlier. Inflationary pressures continued to be strong. Monthly inflation rose from 30 percent in July to 33-34 percent in August. In mid-August, the central bank began to require foreign investors to place funds in restricted types of instruments to reduce capital inflows.

Central Bank President Paulo Ximenes resigned in mid-August after a series of policy disputes with President Franco. He was replaced by Pedro Malan, formerly Brazil's foreign debt negotiator. Although securing an IMF agreement would facilitate the implementation of the first stage of a Brady-style bank agreement by the end-November deadline, the absence of progress towards fiscal and monetary reform makes it unlikely that Brazil will succeed in doing so by that time.

In Argentina, exchange rate parity between the peso and the U.S. dollar continues to exert a strong influence on the economy. The manufacturing sector showed continued signs of weakness, as industrial production (excluding autos) in the second quarter was down 0.1 percent from the same period a year earlier. The official rate of unemployment jumped to 9.9 percent in the second quarter from 6.6 percent a year earlier. Consumer prices in August were 9.1 percent higher than in August 1992, marking the country's first single-digit inflation rate in over two decades.

The trade balance shifted to a \$162 million deficit during the first half of 1993, from a \$10 million surplus in the same period of 1992, and a \$2.4 billion surplus in the same period of 1991. In the first half of 1993 merchandise exports were 6.9 percent higher than a year earlier, while merchandise imports were 9.9 percent higher.

In early August, the federal administration and the major provinces reached an agreement that will eliminate a number of distortionary provincial taxes (e.g., on financial transactions) and shift the tax burden further to VAT and payroll taxes collected by the central government. The government also imposed higher duties on textile imports in response to allegations of extensive dumping, and announced a package of tax relief and loans directed toward the struggling agricultural sector.

In August, Moody's and Standard and Poors assigned initial credit ratings below investment grade, as expected, to Argentina's Brady bonds (issued in April 1993) as well as to its other dollar-denominated government securities.

Industrial production in China grew 23.4 in August from a year earlier, after increasing 25.1 percent in July and a record 30.2 percent in June. Fixed investment jumped 71.3 percent (in nominal terms) in July from a year earlier after increasing 73.7 percent in

June. Inflation has continued to rise. The urban cost-of-living index rose 23.3 percent in July from a year earlier, compared with a rise of 21.6 percent in June.

Chinese authorities continued to implement measures to combat overheating during the past two months. Central to China's current stabilization effort is a recall of "unauthorized" loans (lending by China's specialized banks, or their nonbank subsidiaries, directed toward "speculative" activities such as real estate ventures). However, since 70 percent of recalled loans are eventually slotted for other policy lending or to clear inter-enterprise arrears, it is not clear if the recall will tighten liquidity sufficiently.

Money growth continued to be brisk in the second quarter, with M2 growing 26.5 percent from the same period a year ago and with currency in circulation growing 54.1 percent (this latter indicator is relatively more important in China because of the greater use of cash in transactions).

After two years of record-setting trade and current account surpluses, China posted a \$4.6 billion merchandise trade deficit for the first seven months of 1993. U.S.-China trade relations have become fractious again in the past month. In late August, the United States placed restrictions on up to \$500 million of high technology exports to China after it found China in violation of the Missile Technology Control Regime.

Real GNP in Taiwan grew 6.2 percent in the second quarter from a year earlier, after growing 6.3 percent in the first quarter. Taiwan's cumulative merchandise trade surplus decreased to \$5.2 billion in the year through August from \$6.6 billion over the same period one year earlier, as exports rose 5.0 percent in value and imports increased by 8.5 percent. A weaker merchandise trade balance helped to reduce Taiwan's first half current account surplus

to \$3.1 billion, compared with a \$4.2 billion surplus for the same period in 1992.

Consumer price inflation remained mild in August, with the CPI up 3.3 percent from a year ago, the same pace as in July.

In Korea, manufacturing output edged up 2.2 percent in the second quarter from a year earlier, after growing only 1.4 percent in the first quarter. Most of the increase in manufacturing output was attributable to growth in electronics, vehicles, and other heavy industrial products; output of light industrial products (such as textiles) was markedly lower during the first two quarters of the year than in the same period of 1992. Fixed investment has also remained weak by historical standards, increasing only 0.6 percent in the second quarter from a year earlier after falling 5.8 percent in the first quarter. The CPI was 4.4 percent higher in August than a year earlier.

In the first seven months of 1993 exports grew 7.0 percent and imports fell 1.4 percent from the corresponding period one year earlier. This contributed to narrowing the current account deficit to \$1.1 billion over the January-July period from \$4.3 billion over the corresponding period in 1992.

President Kim Young-Sam issued an emergency decree on August 12 that prohibits the use of aliases in financial transactions. The imposition of property registration requirements for government officials and anticipation of the "real-name" reform led to a substantial exodus of funds from financial institutions during July and August. The government has attempted to mitigate the current liquidity squeeze by loosening monetary policy since early August. It has also coupled the reform with regulations that deter moving

funds into "speculative activities" such as real estate and that further restrict overseas capital movement. The stock market has fallen 6 percent since the announcement of the ban.

In Russia, real GDP is estimated to have fallen 13 percent in the second quarter of 1993 from a year earlier. However, most of this decline occurred in the second half of 1992 and output has roughly stabilized in the several months through July of this year. Between April and July, monthly industrial production fluctuated narrowly around two-thirds of its average level for 1990. Russia registered a trade surplus for the first half of 1993 of an estimated \$9.4 billion, compared with a deficit of \$1.3 billion for the same period last year; exports increased 15 percent, while imports plunged 49 percent.

Russian monetary indicators have been giving mixed signals recently. The monthly rate of growth of ruble M2 dropped from 19 percent in May to just 1 percent in June. However, the monthly rate of growth of central bank credit rose from 8 percent in May to 16 percent in June. Monthly consumer price inflation, which had averaged about 20 percent from March through July, rose to 29 percent in August. The ruble traded at 1010 rubles per dollar in the Moscow MICEX auction of September 15. The ruble has been relatively stable since mid-June at about 1,000 rubles per dollar.

An IMF mission is now in Moscow evaluating Russia's performance under its Structural Transformation Facility (STF). It remains unclear whether Russia has made sufficient progress on economic reform to allow the IMF to disburse the next \$1.5 billion tranche of the STF later this year.