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Confidential (FR) Class III FOMC

March 22, 1995

RECENT DEVELOPMENTS

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Signs that growth of economic activity is moderating have been multiplying in recent weeks, with indications of weakening demand in several sectors. However, rates of resource utilization remain high: After jumping in January, the unemployment rate fell back to 5.4 percent last month, and capacity utilization in manufacturing remained around 85 percent. Producer and consumer price indexes have risen more rapidly, on average, in the past two months than they did in 1994, but no acceleration of wages is evident at this point.

Labor Market Developments

The demand for labor still appears to be quite robust. Average monthly growth of private payrolls has slowed only a little in recent months, and although the average workweek of production or nonsupervisory workers no longer appears to be lengthening, the aggregate hours of these workers has continued to move up at an appreciable pace. On average, the level of aggregate hours in January and February was 0.7 percent above the fourth-quarter level.

Nonfarm payroll employment increased 318,000 in February after a rise of 176,000 in January. The average gain of about 250,000 over the two months is only a little below the sizable increases recorded in the fourth quarter of last year. In the service-producing sector, jobs in business services were up an average of 50,000 a month in January and February, as personnel supply services and computer services scored strong gains; employment in health services rose 23,000 per month, on average. The average monthly gain in retail and wholesale trade employment was about 75,000.

In the goods-producing sector, manufacturing payrolls rose an average 36,000 per month in January and February. The largest gains

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

	1993	1994	1994 Q2	1994 Q3	1994 Q4	1994 Dec.	1995 Jan.	1995 Feb.
	-----------Average monthly changes---------							
Nonfarm payroll employment[2]	194	292	345	284	309	231	176	318
Private	179	273	320	240	309	270	195	295
Manufacturing	-11	24	21	17	43	43	44	27
Durable	-7	21	21	18	32	32	27	32
Nondurable	-4	3	0	0	11	11	17	-5
Construction	19	26	40	15	26	6	41	-32
Trade	42	82	96	79	107	115	53	95
Finance, insurance, real estate	10	1	6	-1	-3	-6	-1	-2
Services	116	132	146	124	123	92	56	191
Health services	23	21	22	20	21	29	20	25
Business services	46	59	57	59	59	37	27	73
Total government	15	19	26	44	0	-39	-19	23
Private nonfarm production workers	164	242	300	199	258	216	179	222
Manufacturing production workers	-1	26	24	19	41	32	39	20
Total household employment[3]	209	326	158	336	309	167	69	486
Nonagricultural	219	289	192	297	268	135	26	405
Civilian labor force	119	236	-56	251	145	7	411	172
Memo:								
Aggregate hours of private production workers (percent change)	.3	.3	.4	.2	.3	.2	1.1	-.8
Average workweek (hours)	34.5	34.6	34.7	34.5	34.7	34.6	34.9	34.5
Manufacturing (hours)	41.5	42.0	42.1	42.0	42.1	42.2	42.2	42.1

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households. Data for 1994 are not directly comparable with earlier years because of a redesign of the CPS in January 1994.

SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES[1]
(Percent; based on seasonally adjusted data)

	1993	1994	1994 Q2	1994 Q3	1994 Q4	1994 Dec.	1995 Jan.	1995 Feb.
Civilian unemployment rate (16 years and older)	6.8	6.1	6.2	6.0	5.6	5.4	5.7	5.4
Teenagers	19.0	17.6	18.1	17.5	16.7	17.2	16.7	17.6
20-24 years old	10.5	9.7	9.7	9.7	8.9	8.6	8.5	8.5
Men, 25 years and older	5.8	4.8	4.8	4.7	4.4	4.3	4.5	4.0
Women, 25 years and older	5.4	4.9	5.0	4.8	4.5	4.3	4.6	4.3
Full-time workers	6.8	6.1	6.2	6.0	5.6	5.3	5.5	5.3
Labor force participation rate	66.2	66.6	66.5	66.5	66.6	66.6	66.8	66.9

1. Data for 1994 are not directly comparable with earlier years because of a redesign of the CPS in January 1994.

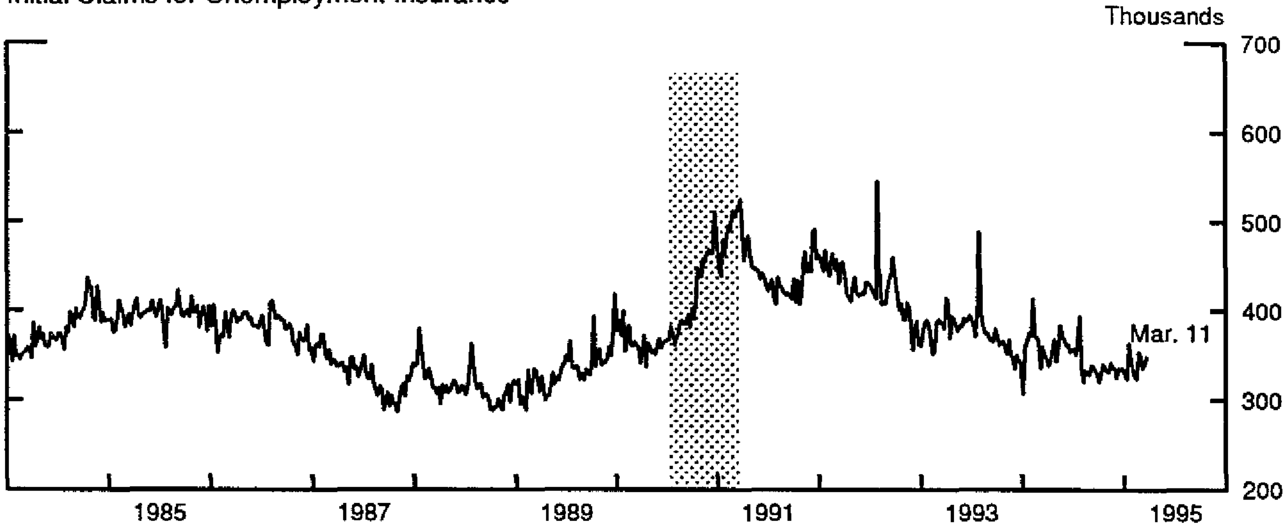
occurred among manufacturers of fabricated metals, industrial machinery, electrical machinery, transportation equipment, food products, and rubber and plastics. The factory workweek remained roughly constant in the very high range that has prevailed over the past year. In construction, employment fell 32,000 in February after increasing 41,000 the previous month; these gyrations evidently reflected the unseasonably mild weather in January and the return of more normal conditions in February.

Various other data to which we look for indications of the strength of labor demand have continued to be relatively upbeat in recent months. Since the week of the latest employment surveys in mid-February, initial claims for unemployment insurance have remained in the low range observed over the past year. The most recent Employment Outlook Survey conducted by Manpower, Inc., showed its measure of net hiring strength for the second quarter to be the strongest reading in several years. The Conference Board Survey of consumers indicates that respondents have found job opportunities to be increasingly plentiful this year; however, expectations of future labor market conditions have softened a little.

Employment indicators in the household survey have fluctuated a good deal in recent months. Most notably, the unemployment rate declined to 5.4 percent in December, rose to 5.7 percent in January, and then dropped back to 5.4 percent again in February. These ups and downs may have reflected, at least in part, difficulties with seasonal adjustment of data from the new household survey, which has been in place only fourteen months. The average unemployment rate for January and February was the same as the average for the fourth quarter and about 1 percentage point below the rates recorded in the same two months of 1994. The latest Bureau of National Affairs quarterly employment survey also indicates that labor

Labor Market Indicators

Initial Claims for Unemployment Insurance

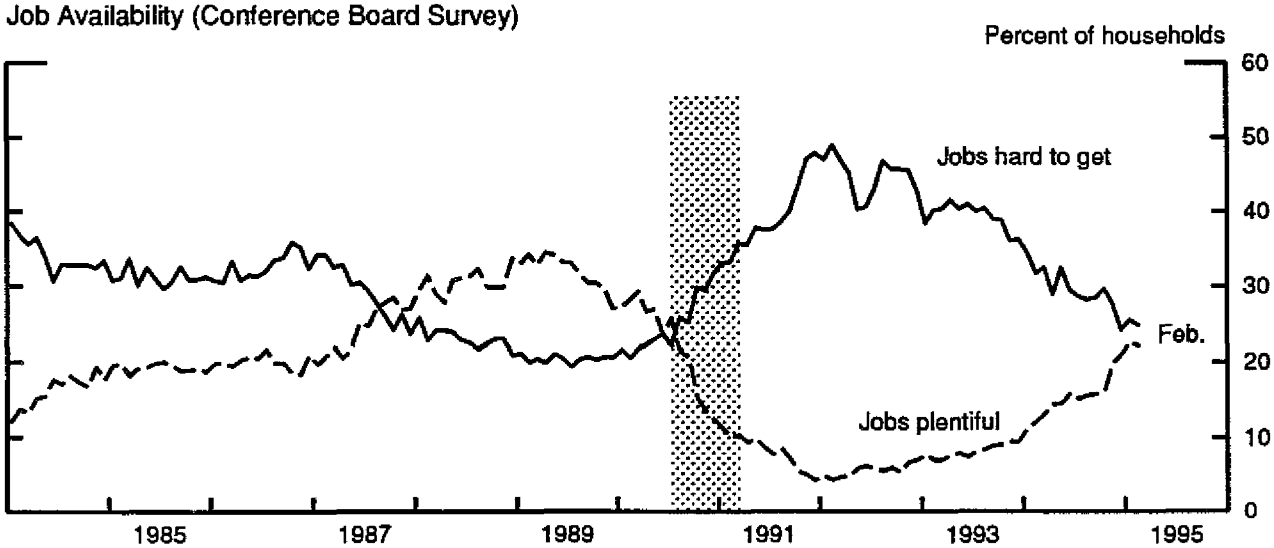


Note. Includes EUC adjustment.

Manpower Inc.'s Employment Outlook Survey (Index of Net Hiring Strength)

Note. Percentage expecting an increase in employment minus those expecting a decrease.

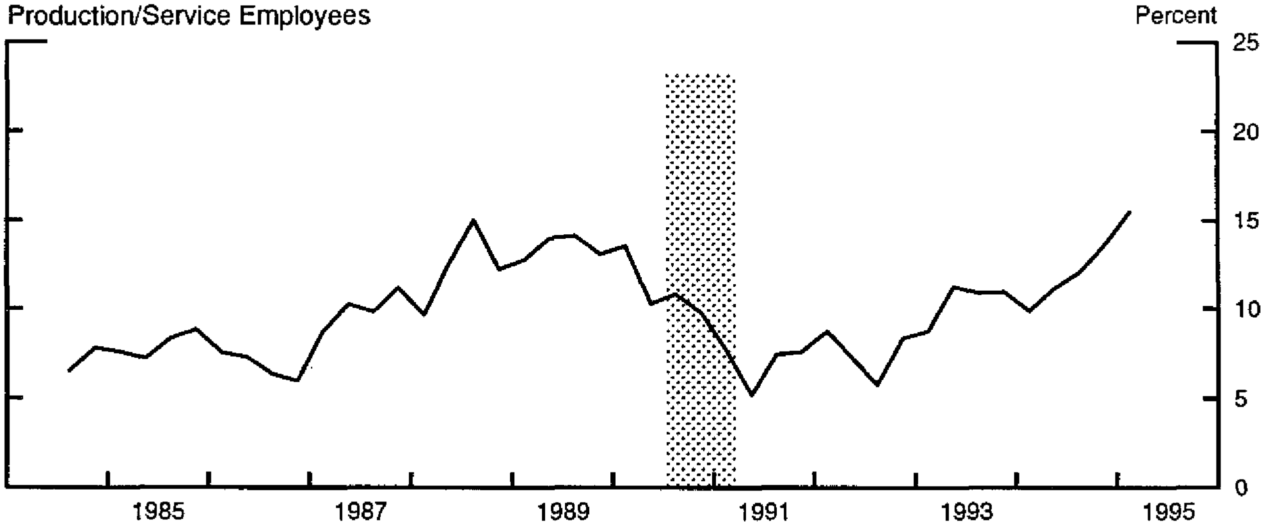
Job Availability (Conference Board Survey)



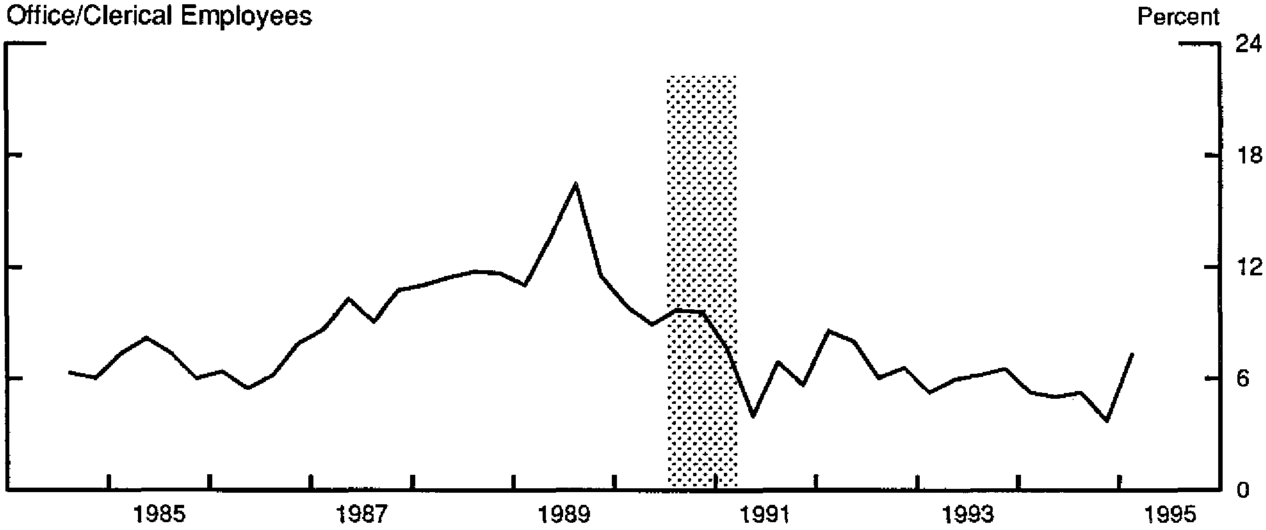
Firms Reporting Jobs Difficult to Fill

(Quarterly data through 1995:Q1; seasonally adjusted by staff)

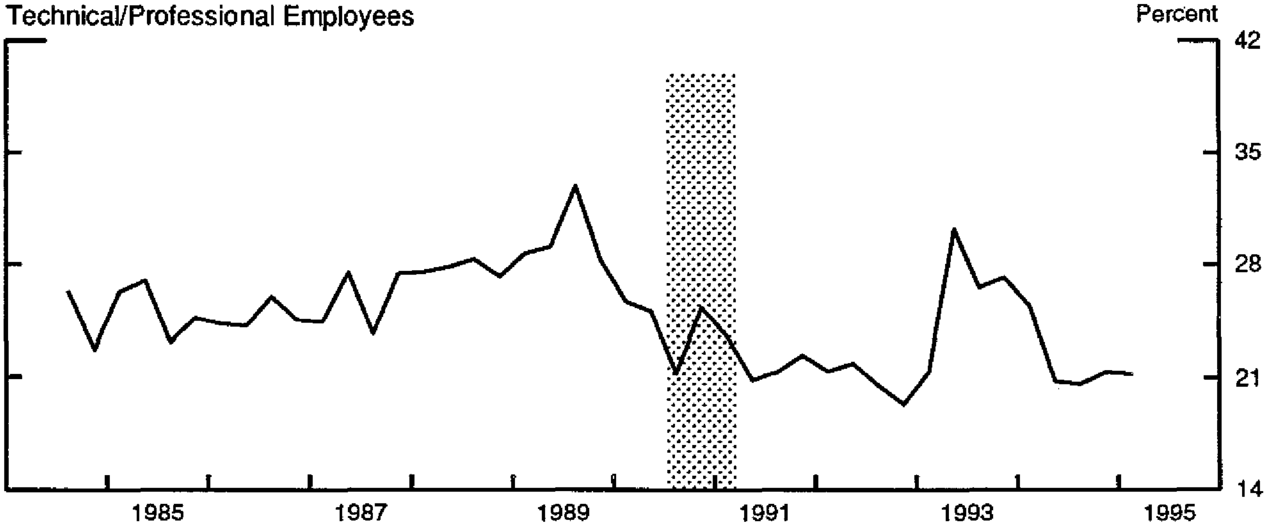
Production/Service Employees



Office/Clerical Employees



Technical/Professional Employees



Source. Bureau of National Affairs.

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

	Proportion in total IP 1994:Q4	1994			1994	1995	
		Q2	Q3	Q4	Dec.	Jan.	Feb.
		----Annual rate-----			----Monthly rate----		
Total index	100.0	6.0	4.9	5.9	1.1	.2	.5
Previous		6.0	4.9	5.7	.9	.4	
Major Market Groups:							
Products, total	60.1	4.9	3.9	4.5	1.0	.4	.4
Consumer goods	27.4	2.1	1.9	2.4	1.2	.1	.5
Durable	5.8	-7.1	6.5	6.3	2.3	.5	.1
Nondurable	21.6	4.6	.7	1.3	.9	-.1	.7
Intermediate products	14.2	9.6	4.6	6.0	.4	.4	.4
Construction supplies	5.5	11.4	9.7	8.1	1.7	.6	.1
Business supplies	8.8	8.5	1.5	4.7	-.3	.3	.6
Equipment	18.4	5.8	6.4	6.5	1.1	.8	.3
Business equipment	15.3	8.2	11.4	9.0	1.3	1.0	.4
Defense and space equipment	2.4	-7.9	-16.1	-2.8	-.4	-.5	-.6
Materials	39.9	7.7	6.5	8.0	1.4	.0	.7
Durable	22.4	10.1	8.4	12.7	1.9	.3	.6
Nondurable	8.8	6.2	7.6	6.4	.7	-1.1	.5
Energy	8.7	3.3	.9	-1.5	.5	.5	1.0
Major Industry Groups:							
Manufacturing	86.8	7.3	5.5	7.6	1.2	.2	.4
Manufacturing excluding motor vehicles and parts	81.1	9.3	5.5	6.8	1.2	.1	.4
Motor vehicles and parts	5.7	-17.8	5.1	20.6	2.2	1.1	.9
Mining	6.1	5.7	-2.3	-3.4	1.9	-.1	.1
Utilities	7.2	-6.7	3.1	-5.4	-.6	1.3	2.6

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1988-89	1967-94	1994	1994		1994	1995	
	High	Avg.	Avg.	Q3	Q4	Dec.	Jan.	Feb.
Total industry	84.9	82.0	84.0	84.3	84.9	85.5	85.5	85.7
Manufacturing	85.2	81.3	83.4	83.6	84.5	85.2	85.1	85.1
Primary processing	89.0	82.5	87.8	88.1	89.5	90.7	89.9	89.8
Advanced processing	83.5	80.7	81.6	81.8	82.5	83.0	83.2	83.3

markets have been tightening: Most notably, an increasing percentage of firms have been reporting that production and service jobs are difficult to fill.

Data through the end of 1994 indicate continued appreciable gains in labor productivity. Output per hour in the nonfarm business sector rose at a 1.7 percent annual rate in the fourth quarter of 1994 and increased 1.4 percent over the four quarters of the year, a gain that was close to our estimate of the underlying trend rate. In manufacturing, productivity continued to soar last year, and the desire for additional gains in efficiency reportedly is an important driving force behind the strong investment plans for 1995.

CHANGE IN BUSINESS PRODUCTIVITY
(Percent, annual rate; seasonally adjusted)

	1991[1]	1992[1]	1993[1]	1994[1]	1994[2] Q1	Q2	Q3	Q4
Nonfarm	2.3	3.2	1.8	1.4	2.9	-2.1	3.2	1.7
Manufacturing	2.4	2.1	3.8	4.6	6.4	5.6	3.5	3.1

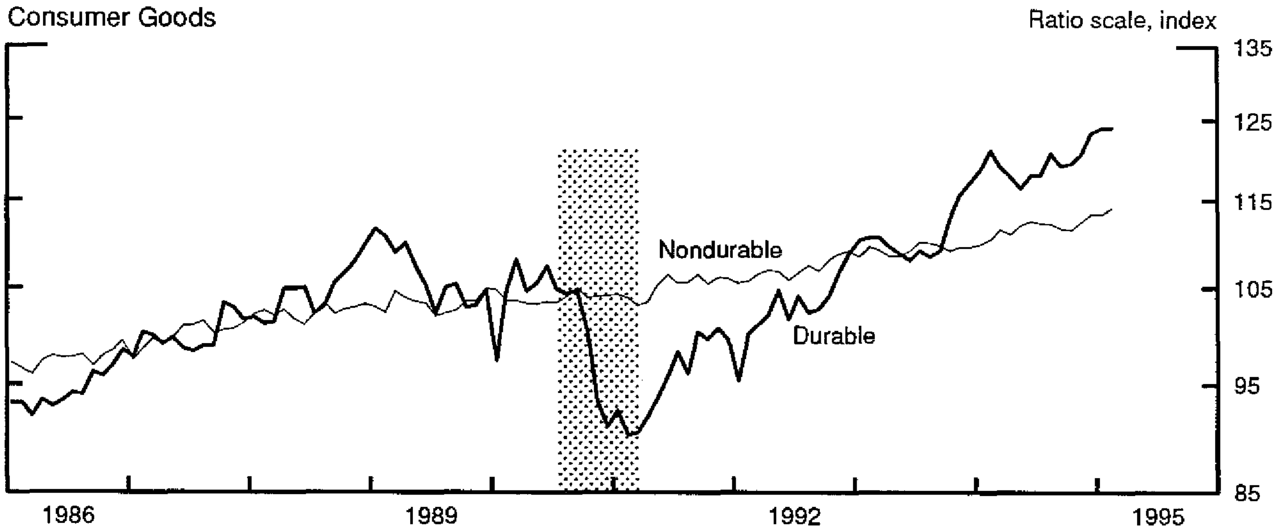
1. Change from Q4 of preceding year to Q4 of year shown.
2. Change from previous quarter.

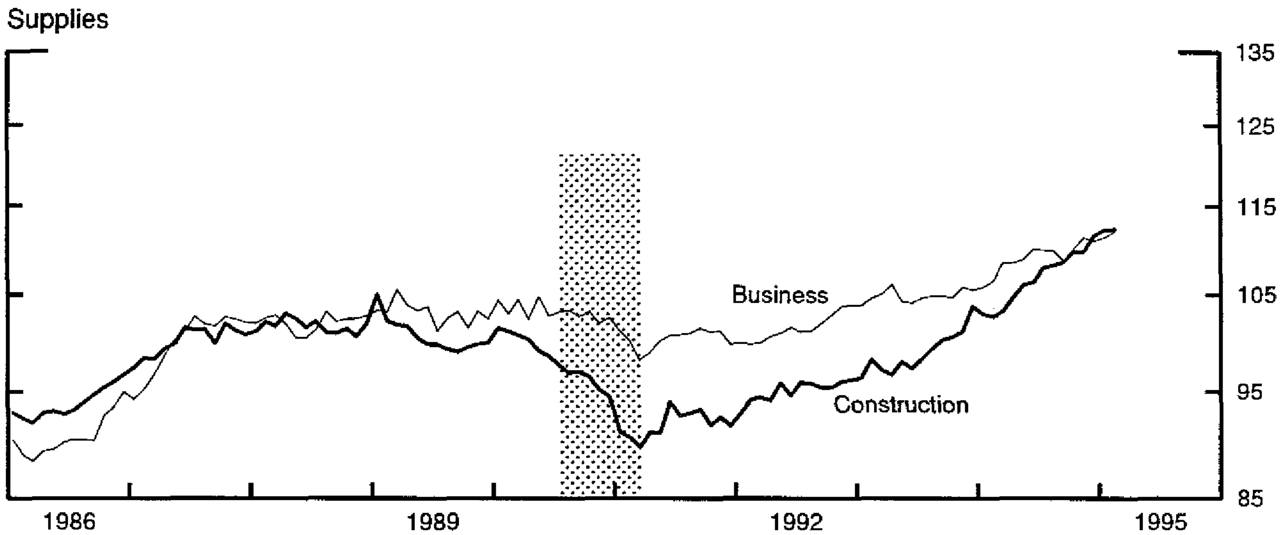
Industrial Production

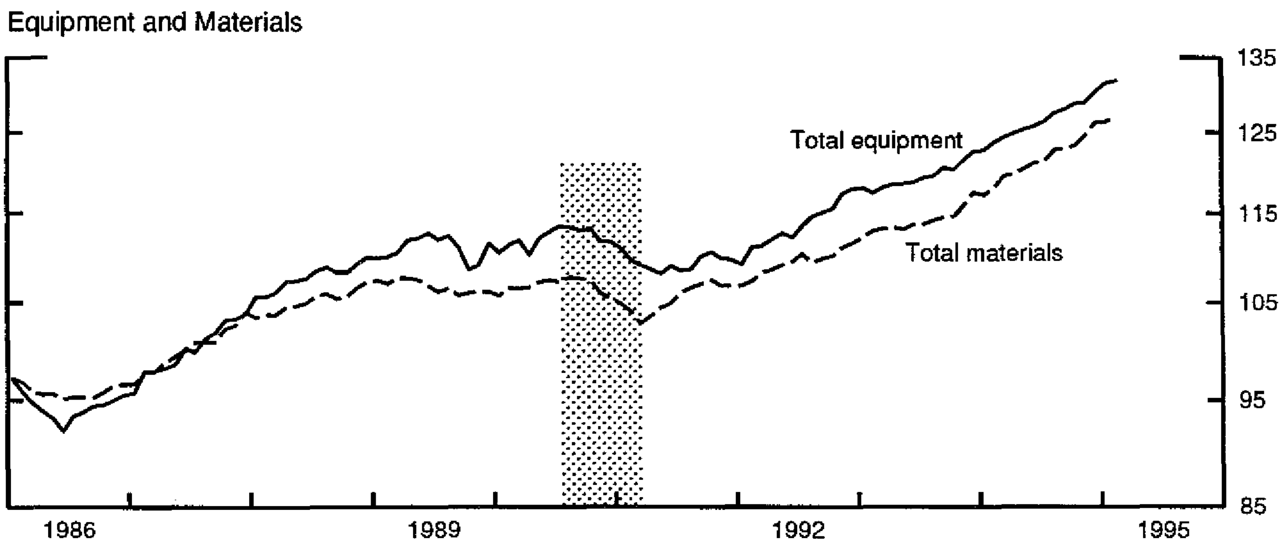
The total index of industrial production rose 0.5 percent in February. The output of utilities surged as temperatures moved back closer to normal last month. Manufacturing output expanded 0.4 percent after a revised 0.2 percent gain in January; the average gain for the two months was substantially below the rapid pace seen toward the end of 1994. The factory operating rate remained flat at 85.1 percent in February; over the past few months, it has been hovering around the peak reached during the business expansion of the 1980s.

Industrial Production, Market Groups

(1987 = 100)







Growth in output of motor vehicles and parts moderated last month. Assemblies of vehicles moved up just a touch, to an annual rate of 13.0 million units. Industry schedules for March show production holding at the February level, with available weekly output figures running close to schedules. A sizable reduction in assemblies currently is scheduled for the second quarter, owing to inventory problems and retooling.

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

	1995				
	Jan.	Feb.	Mar.	Q1	Q2
			-----scheduled-----		
U.S. production	12.9	13.0	13.0	13.0	12.0
Autos	7.2	7.1	7.4	7.2	6.5
Trucks	5.7	5.9	5.6	5.8	5.4
Days' supply					
Autos	64.0	73.9	...	...	...
Light trucks	64.2	65.3	...	...	...

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

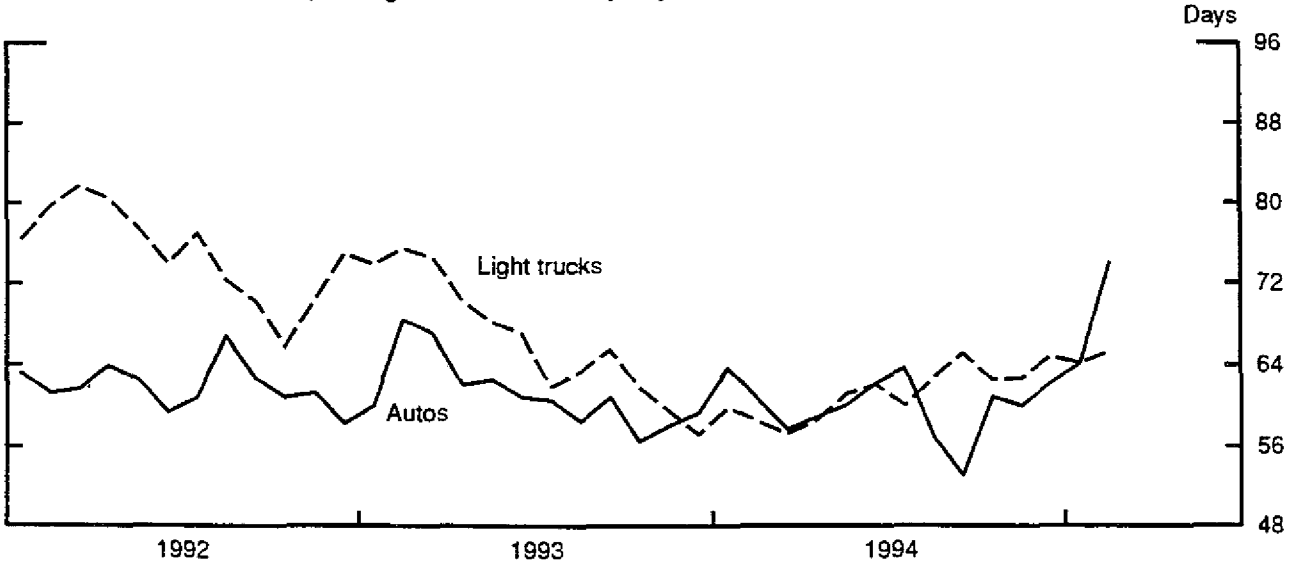
Throughout 1994, market groups such as consumer durables and construction supplies, which typically exhibit strong cyclical patterns, continued to rise quite rapidly, seemingly little affected by the consequences of last year's rise in interest rates. However, production gains for these items slowed appreciably in February. Output of consumer durable goods was up 0.1 percent last month, as a small gain in consumer automotive parts, coming mainly from light trucks and replacement parts, was nearly offset by a decline in output of other durable goods such as household appliances and furniture. Output of construction supplies also was up just 0.1 percent in February, after a rise of 0.6 percent in January and even stronger increases, on average, during 1994. With housing starts down sharply in the past couple of months and motor vehicle assemblies scheduled to drop back in the second quarter, renewed

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

			1994			1994	1995	
	1993	1994	Q2	Q3	Q4	Dec.	Jan.	Feb.
Total	13.9	15.1	14.8	15.1	15.3	15.2	15.3	14.5
(BEA seasonals)	13.9	15.1	14.8	14.6	15.4	15.6	14.9	14.7
Autos	8.7	9.2	9.1	9.3	9.2	9.3	9.2	8.6
Light trucks	5.2	5.8	5.7	5.8	6.1	6.0	6.1	5.9
North American[2]	11.7	12.9	12.6	12.8	13.2	13.2	13.2	12.5
Autos	6.7	7.3	7.2	7.2	7.3	7.5	7.3	6.8
Big Three	5.5	5.7	5.7	5.6	5.8	5.9	5.8	5.4
Transplants	1.3	1.5	1.5	1.6	1.6	1.6	1.5	1.4
Light trucks	5.0	5.7	5.5	5.6	5.9	5.8	5.8	5.7
Foreign produced	2.1	2.1	2.1	2.2	2.0	2.0	2.1	2.0
Autos	2.0	2.0	2.0	2.0	1.8	1.8	1.9	1.8
Light trucks	.2	.2	.2	.2	.2	.2	.3	.2
Memo: Domestic name-plate market share								
Total	.74	.73	.73	.71	.74	.74	.74	.75
Autos	.65	.63	.63	.61	.64	.64	.64	.64

Note. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.
1. Components may not add to totals because of rounding.
2. Excludes some vehicles produced in Canada that are classified as imports by the industry; before January 1994, some vehicles produced in Mexico were also excluded.

Days' Supply of Domestic Autos and Light Trucks
(Through Feb., seasonally adjusted; FRB seasonals)



strength in consumer durables and construction supplies does not seem likely in the near term.

Although utilization rates have generally drifted sideways in the past two months, they remain at high levels. In primary processing industries (mainly the producers of intermediate goods) average operating rates have come down a bit since December but remain around the highest levels since 1973; the absence of slack in these industries continues to be a source of significant upward pressure in the prices of materials.

The estimates of capacity utilization for January and February of this year incorporate a further step-up in the estimated rate of growth in manufacturing capacity. After increasing at a relatively sluggish rate of about 2 percent over the four years ended in 1991, growth of capacity began picking up in 1992 as investment started to climb; last year's rise in capacity is estimated to have been about 3 percent. We have estimated that the increase this year could be more than 4 percent, given the continued strength in most of the recent indicators of near-term investment spending and the bullish investment plans that manufacturers seem to have made for the year as a whole.[1]

Motor Vehicles

Based on seasonal factors prepared by the Board staff, the unit sales of light vehicles declined 5 percent in February, after holding in January. Purchases of both autos and trucks fell last month; the drop was especially large for sales of domestic autos.

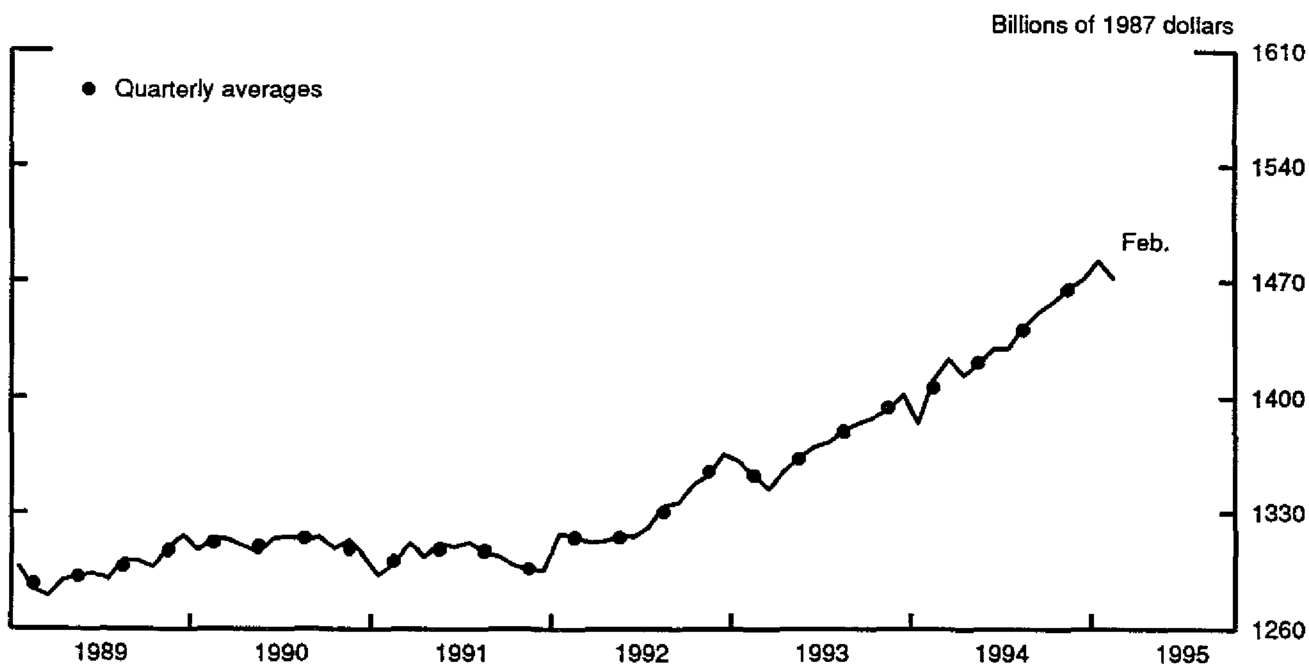
1. The Census Bureau's Investment Plans Survey, introduced just this year, indicates that manufacturers are planning to spend 20 percent more on new capital than they did in 1994. Although a longer track record of survey results will be needed before the usefulness of the IPS can be assessed, the initial survey results for manufacturing seem to reinforce other indicators that point to strength in investment in that sector.

RETAIL SALES
(Percent change; seasonally adjusted)

	1994		1994	1995	
	Q3	Q4	Dec.	Jan.	Feb.
Total sales	2.0	2.6	0.1	0.6	-0.5
Previous		2.6	0.2	0.2	
Retail control[1]	1.9	1.3	0.3	1.0	-0.5
Previous		1.4	0.3	0.5	
Nondurables	1.6	1.1	0.3	1.0	-0.5
General merchandise	1.9	0.7	0.4	2.3	-1.1
Apparel	0.9	2.1	-1.5	-0.6	-1.2
Other [2]	1.5	1.2	0.8	-0.6	0.1
Durables	3.6	2.7	0.1	1.3	-0.6
Furniture and appliances	4.6	5.9	1.0	-0.5	-1.2
Other	2.7	-0.1	-0.7	3.0	-0.1

1. Total excluding auto dealers and building material and supply stores
2. Includes sales at eating and drinking places, drug and proprietary stores, and other nondurable goods stores.

Real PCE Goods Excluding Motor Vehicles



Note. December, January, and February figures are staff estimates.

Confidential data from General Motors and Ford suggest that the falloff in sales in February came mainly from weakness in the consumer sector. Consumer purchases of autos manufactured by those two companies (including leased vehicles) fell more than 10 percent in February, while fleet sales were down about 2 percent (chart). Moreover, both the Michigan and Conference Board surveys indicate that auto buying intentions continued to weaken early this year, with higher prices and interest rates cited in the Michigan survey as the main reasons. Regarding truck sales, purchases of sport utility vehicles eased a bit last month; according to anecdotal reports, supply limitations, which had constrained sales last year, were not a major factor in February. Sales of pickups and vans declined a bit as well; minivan sales, while up last month, were still at a relatively low level.

The pace of motor vehicle sales so far this quarter is about 2 percent below the strong fourth-quarter average and well below auto producers' expectations. As a result, dealer stocks have increased. In February, the days' supply of domestic autos rose sharply to an uncomfortably high 74 days; the days' supply of light trucks also moved up somewhat. In response, vehicle manufacturers have recently introduced or extended sales incentives for many models, in addition to scheduling a lower level of assemblies through the spring. Among the Big Three, most of the incentive programs currently are scheduled to end between March 31 and April 30.

Personal Income and Consumption

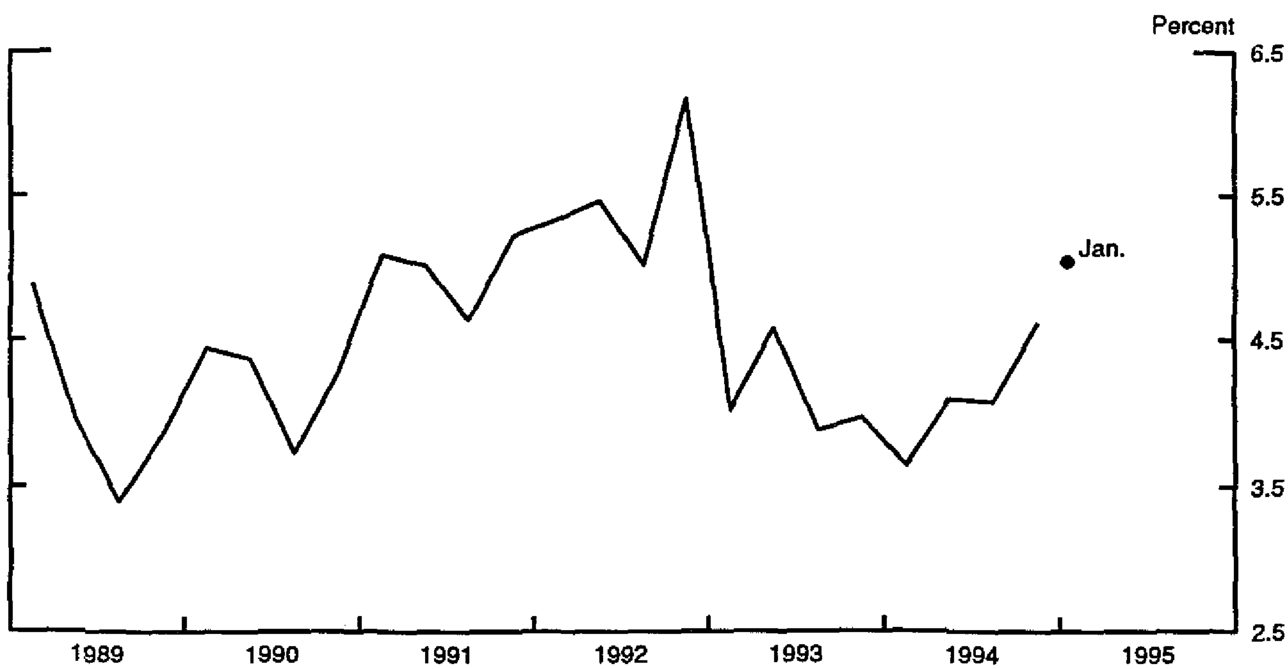
Growth in consumer spending has slowed somewhat in recent months following robust gains in the second half of last year. According to staff estimates that incorporate revised retail sales data, total real personal consumption expenditures rose 0.1 percent

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

	1994	1994 Q2	1994 Q3	1994 Q4	1994 Dec.	1995 Jan.
Total personal income	30.7	22.5	31.2	38.9	42.7	50.1
Wages and salaries	17.3	15.6	14.4	19.5	19.3	30.2
Private	15.5	14.0	13.1	17.8	17.3	26.8
Other labor income	1.7	1.7	1.8	1.6	1.6	1.5
Proprietors' income	.9	-4.0	1.2	5.9	8.9	-1.5
Farm	-1.1	-5.5	-.8	3.5	5.8	-4.8
Rent	-.5	-1.9	.0	-2.3	-3.4	.4
Dividend	1.7	2.1	1.8	1.9	1.6	.4
Interest	7.2	7.5	8.9	9.3	9.1	9.2
Transfer payments	4.0	2.8	4.1	4.0	6.9	16.0
Less: Personal contributions for social insurance	1.7	1.3	1.1	1.1	1.4	5.9
Less: Personal tax and nontax payments	3.9	4.1	2.8	3.5	3.4	14.0
Equals: Disposable personal income	26.8	18.4	28.3	35.4	39.3	36.2
Memo: Real disposable income	13.4	5.9	12.2	23.8	27.3	13.0

Personal Saving Rate

(Proportion of disposable income; quarterly data except as noted)



in December and about 1/4 percent in January.[2] Available data for February point to soft motor vehicle sales and, as indicated in the advance report on retail sales, a marked decline in spending on other goods.[3] Nominal sales in the retail control category--which excludes automotive dealers and building materials and supply stores--fell 0.5 percent last month, according to the advance report. Sales declined at furniture and appliance stores, apparel outlets, general merchandisers, and food stores. Real outlays for services rose 0.2 percent in January after a gain of only 0.1 percent in December. The January increase in part reflected higher spending on electricity and natural gas, as temperatures were not quite as unseasonably warm as they had been in December. Outlays for non-energy services rose just 0.1 percent in January, compared with an average monthly increase of 0.2 percent over the past year.

Personal income continued to grow at a robust pace in January, largely because of the big increases in aggregate hours and average hourly earnings that month; the level of real disposable income in January was up 4.6 percent, at an annual rate, from its fourth-

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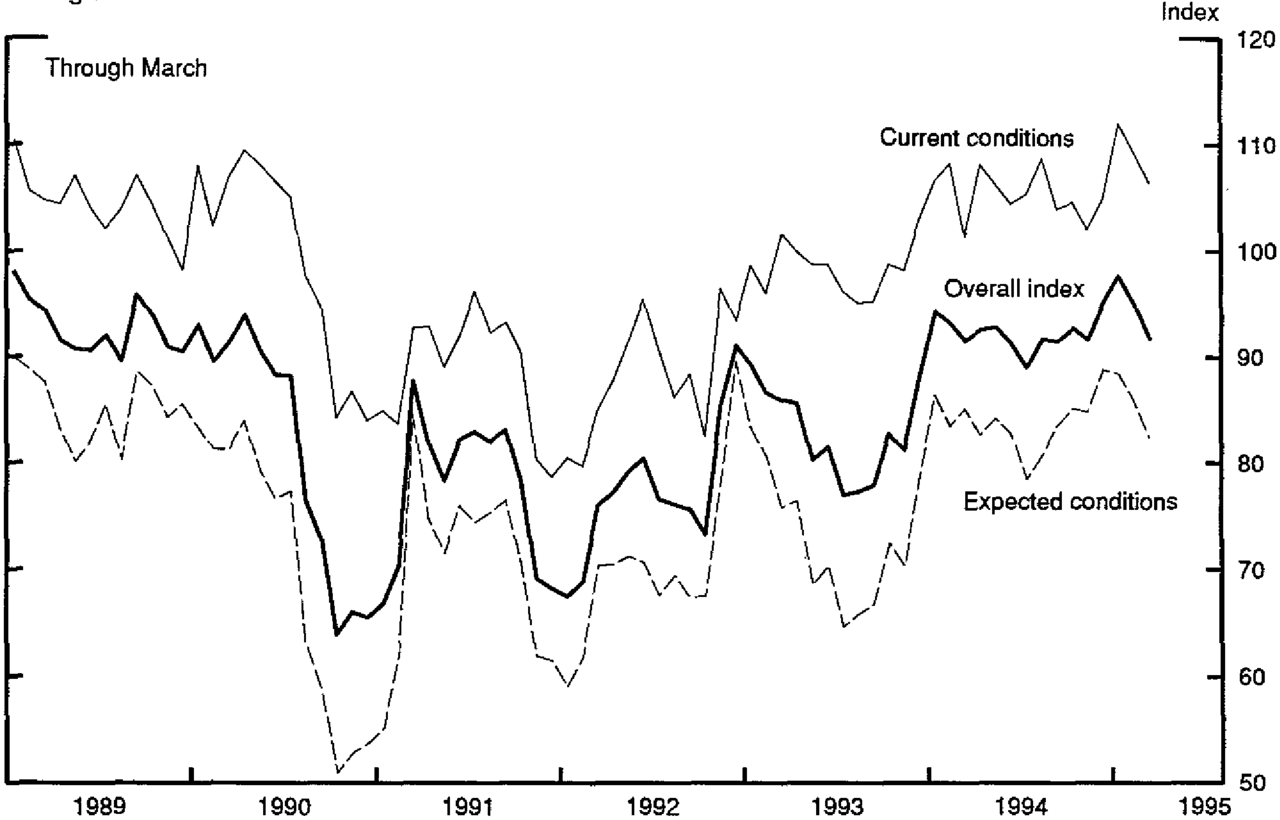
2. Officially, real PCE in January still is reported as having been unchanged from the level of December. However, nominal sales of stores in the retail control category now are estimated to have risen 1 percent in January, up from an initial estimate of 0.5 percent.

3. In contrast to Federal Reserve data, which show vehicle sales edging up in January and then falling sharply in February, BEA data show sales dropping appreciably in January and decreasing a bit further last month. Seasonal factors that the Federal Reserve now is employing adjust for reporting changes that automakers adopted early this year; the BEA's seasonal factors do not incorporate an adjustment for these changes.

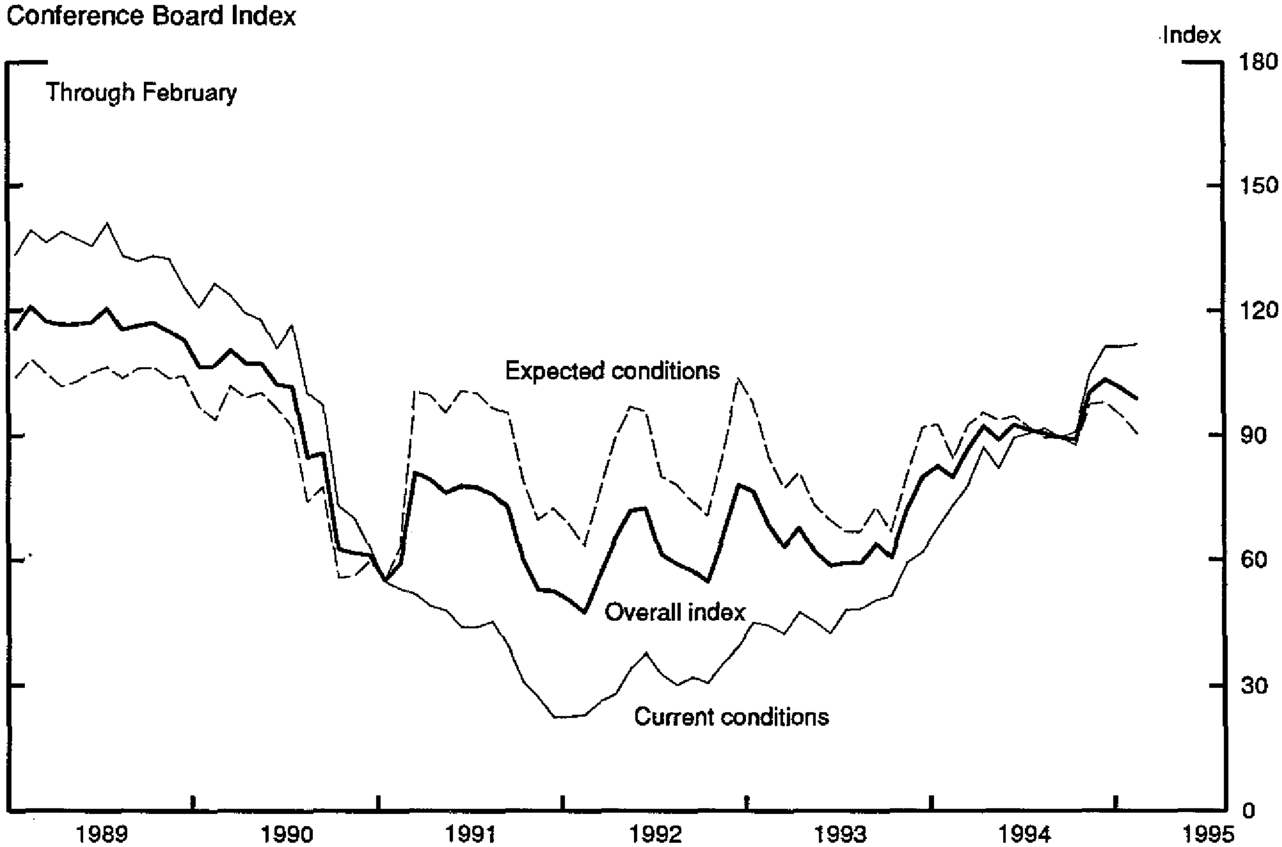
The difficulty in allocating sales between months should have little effect on BEA's estimate of the contribution of the motor vehicle sector to GDP in the first quarter. Because BEA estimates the change in inventories of new domestic motor vehicles from the difference between production and sales, mismeasurement in sales is accompanied by offsetting mismeasurement in inventory investment.

Consumer Sentiment

Michigan Index



Conference Board Index



quarter average.[4] Looking to February, the data on hours worked and average hourly earnings point to some weakness in gains in wages and salaries, but a boost is expected from the $1.7 billion of bonuses (not at an annual rate) paid to auto workers in February. These payouts are more than double the size of last year's auto bonuses.

Some of the recent softness in spending may be attributable to delays in the disbursement of tax refunds. As discussed in more detail in a later section, the IRS has indicated that a disproportionate number of processing delays occurred on returns claiming the Earned Income Tax Credit; households receiving the credit are more likely to use refunds to finance consumption than are higher-income households. Any effect of late refunds on PCE should be offset by higher spending when the refund checks start rolling out this spring. If BEA follows their usual procedure in calculating disposable income, they will allocate refunds smoothly over the entire year; thus, the change in the timing of refunds will not show up in the published monthly pattern of disposable income.

Consumer sentiment has moved down of late in both the Michigan and Conference Board surveys. A noticeable decline in the preliminary reading of the Michigan index in March reflected less optimistic assessments of current and prospective personal financial situations and of expected business conditions over the next twelve months and five years. A drop in the Conference Board measure in February reflected moderate declines in households' expectations of

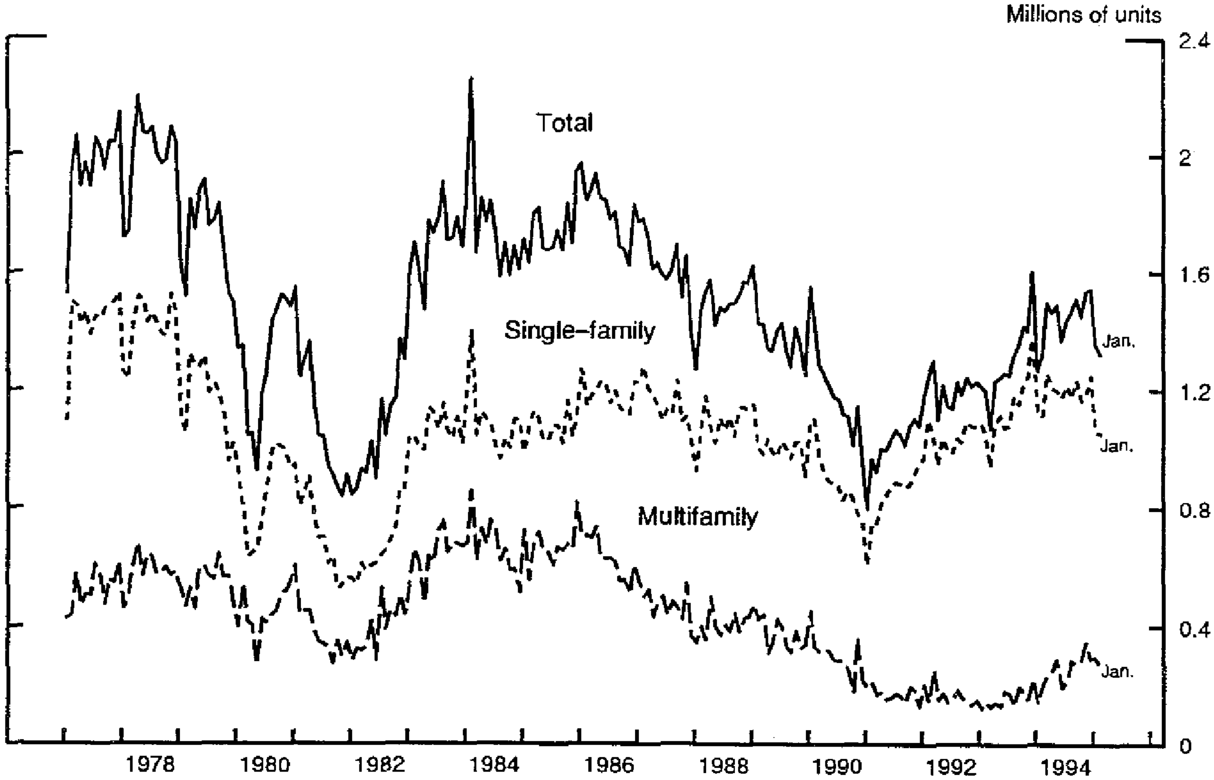
4. Each January, disposable income growth is affected by adjustments to social security, other federal programs, pay raises for federal employees, and indexing of income tax brackets. Although these factors exert a regular influence on income growth each year, the BEA does not seasonally adjust them. This year, income growth in January also was affected by changes made in OBRA93 that boosted Earned Income Tax credits and tax rates on upper income brackets. The effects of the regular and OBRA93-related adjustments on real DPI growth this January were largely offsetting.

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

	1994					1994	1995	
	Annual[r]	Q1	Q2	Q3	Q4[r]	Dec.[r]	Jan.[r]	Feb.[p]
All units								
Starts	1.46	1.36	1.44	1.47	1.51	1.55	1.36	1.32
Permits	1.37	1.33	1.37	1.38	1.39	1.42	1.30	1.29
Single-family units								
Starts	1.20	1.16	1.19	1.21	1.20	1.25	1.06	1.05
Permits	1.06	1.09	1.07	1.05	1.04	1.09	1.00	.93
New-home sales	.67	.68	.66	.66	.67	.65	.68	n.a.
Existing-home sales	3.95	4.04	4.08	3.91	3.76	3.76	3.59	n.a.
Multifamily units								
Starts	.26	.20	.25	.26	.31	.30	.30	.27
Permits	.31	.24	.29	.34	.35	.33	.30	.36

Note. p Preliminary. r Revised.

Private Housing Starts
(Seasonally adjusted annual rate)



business conditions and employment opportunities six months from now. Despite the recent slippage, households' views of the economy still appear to be relatively optimistic. The February drop in the Conference Board measure was relatively small, and the declines in the Michigan index in February and early March offset a pickup that had occurred in December and January. The readings for all these months were in a high and relatively narrow range compared with readings that were observed in the first two or three years of the expansion.

Housing Markets

Most key indicators of housing activity have weakened noticeably in recent months and are at, or near, their lowest levels in at least a year. Single-family housing starts edged down in February after falling 15 percent in January; the pace of these starts is at the lowest level in nearly two years. The slowdown probably reflects a lagged response to the higher mortgage rates of the past couple of quarters.

Home sales have been trending down over the past year but with erratic monthly movements and, at times, unusually large revisions. The current figures show that after rallying for a time last autumn, new home sales slumped toward year-end and recovered only part of those losses in January of this year. Although the homebuilding industry has been voicing concern about inventories, the months' supply of unsold new homes at the end of January was only slightly above its long-run average. Sales of existing homes declined 5 percent in January; this decline, together with downward revisions to earlier months, put this series on an unmistakable downtrend. Sales prices of both existing and new homes have been flat in their most recent readings, although the higher rates of rise reported in

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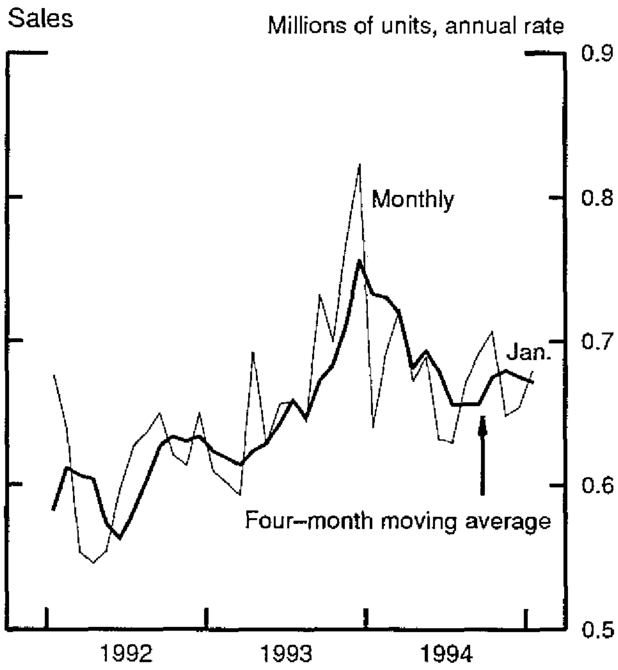
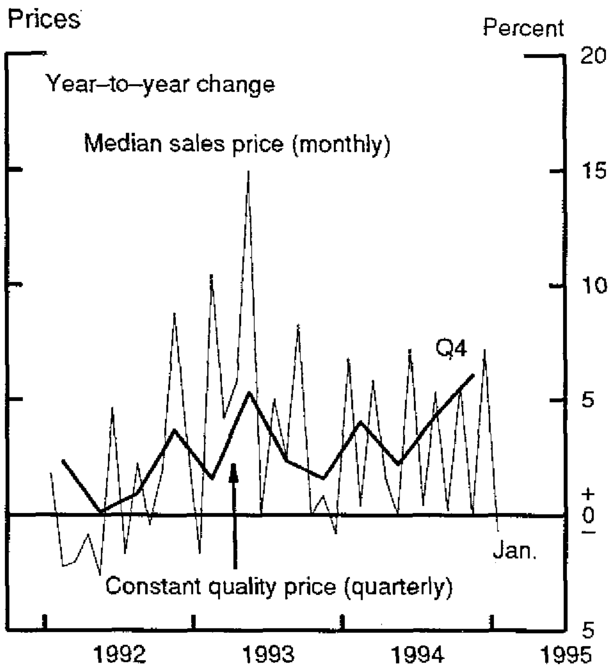
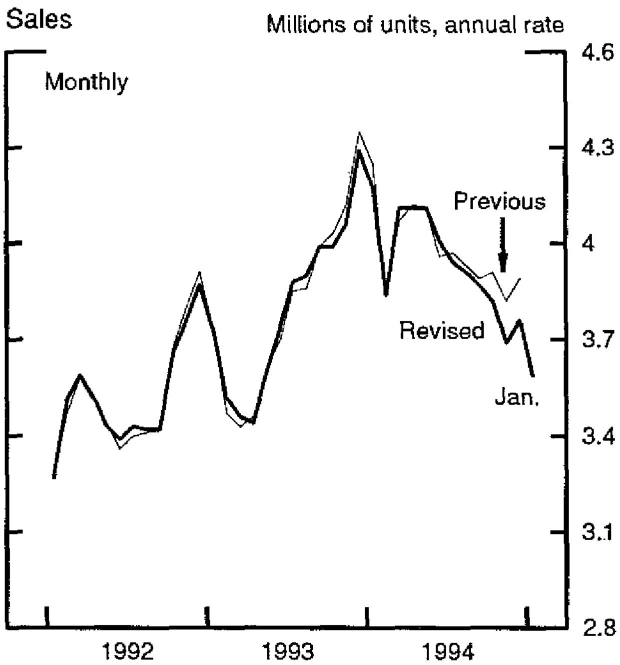
Single-Family Homes

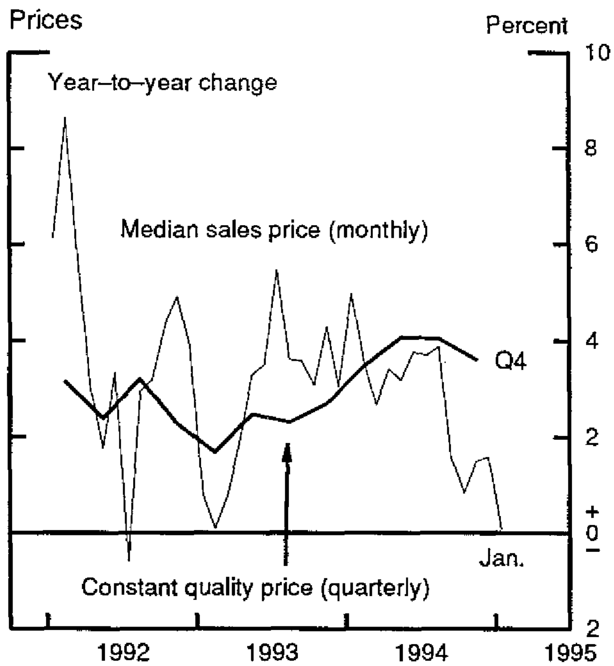
New Homes





Existing Homes



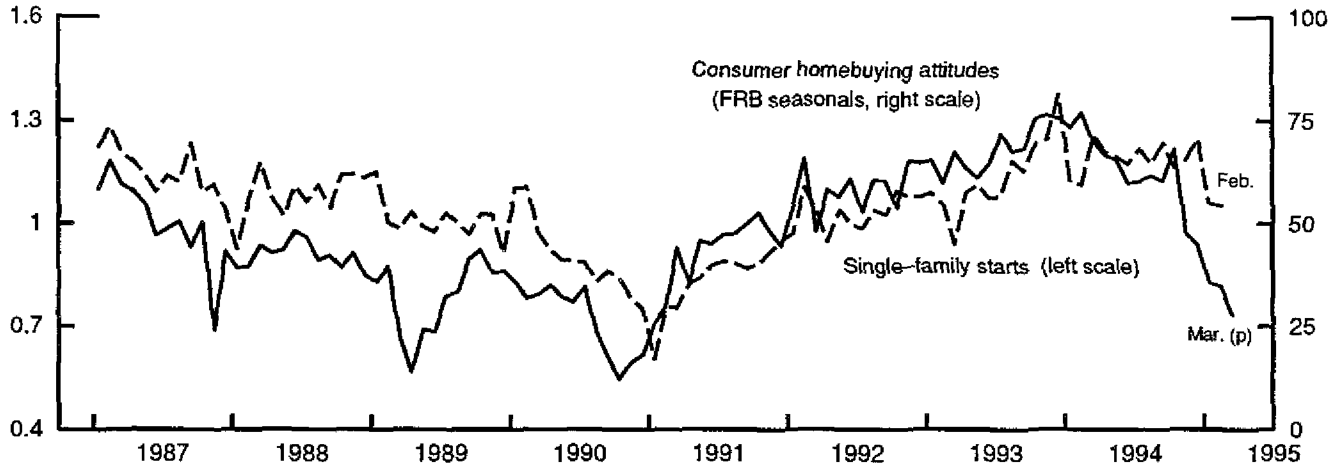


Indicators of Housing Demand

(Seasonally adjusted)

Consumer Homebuying Attitudes

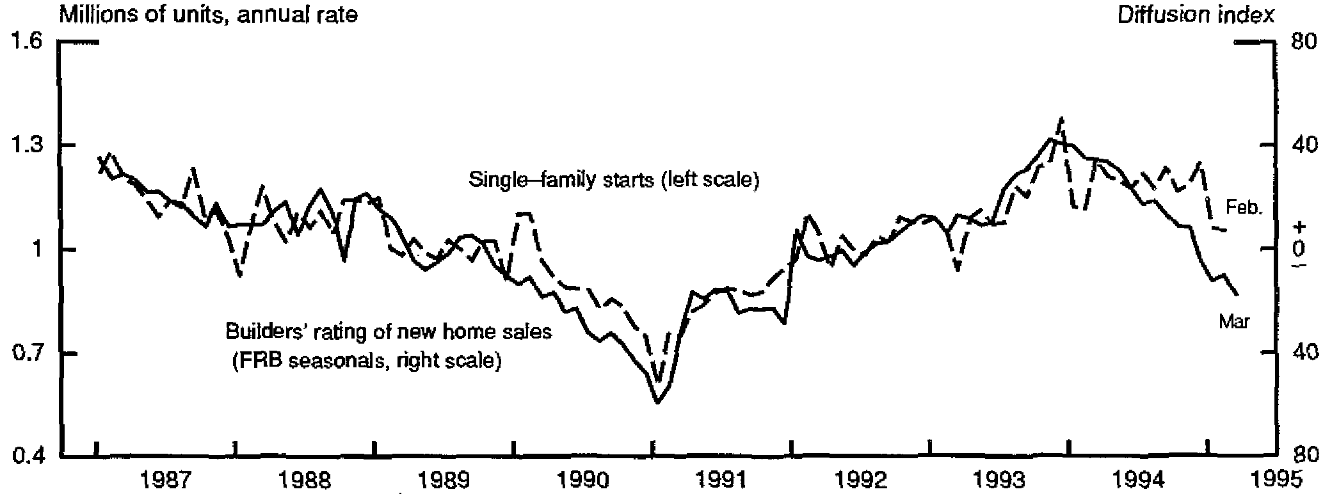
Millions of units, annual rate Diffusion index



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

Builders' Rating of New Home Sales

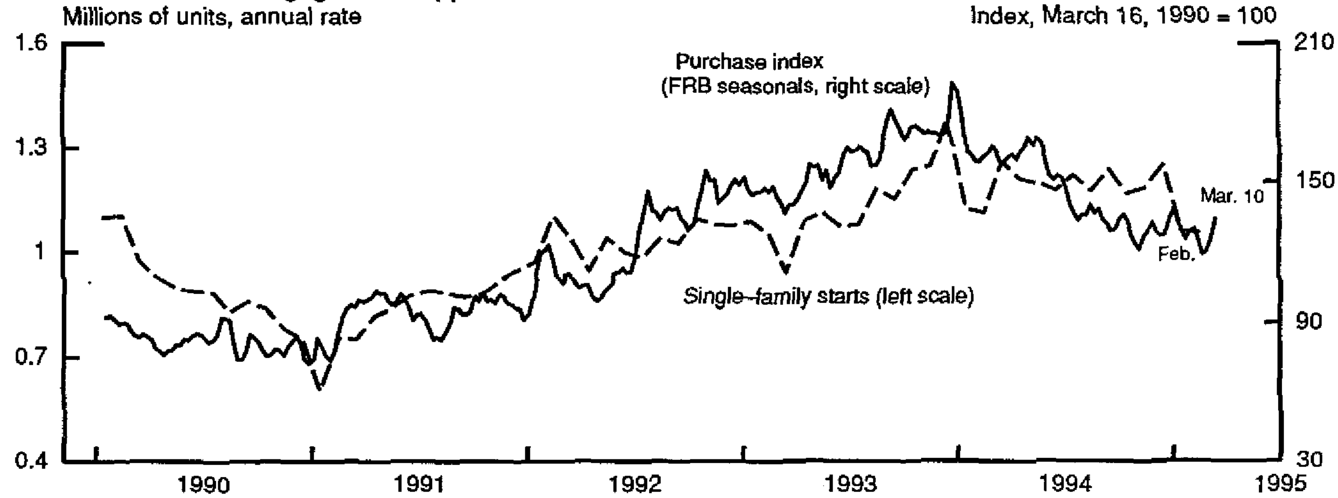
Millions of units, annual rate Diffusion index



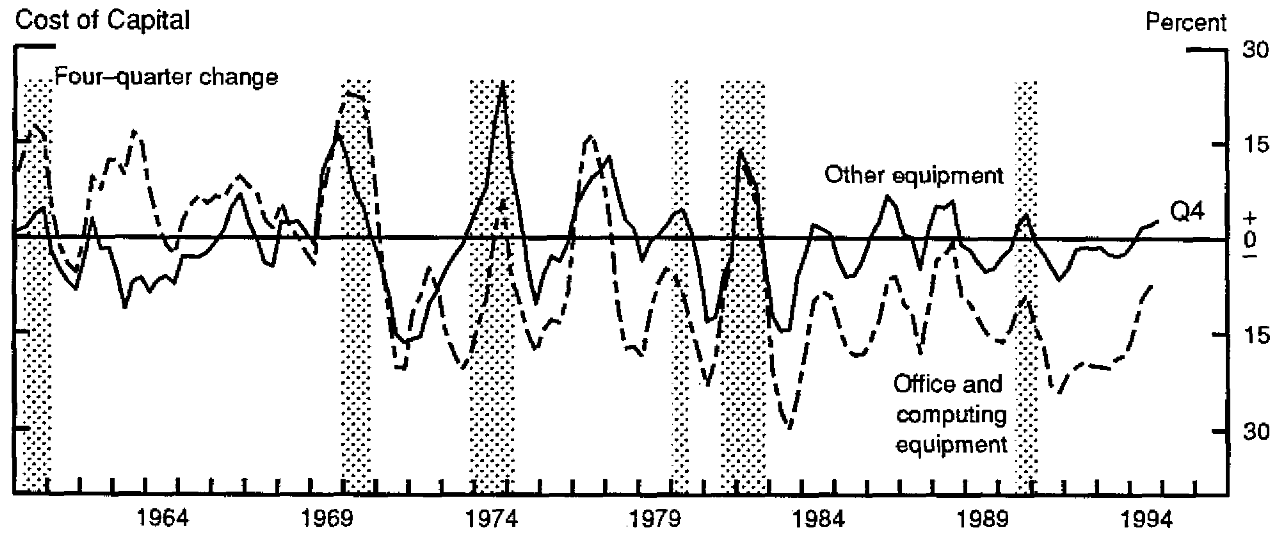
Note. The index is calculated from National Association of Homebuilders data as the proportion of respondents rating current sales as good to excellent minus the proportion rating them as poor.

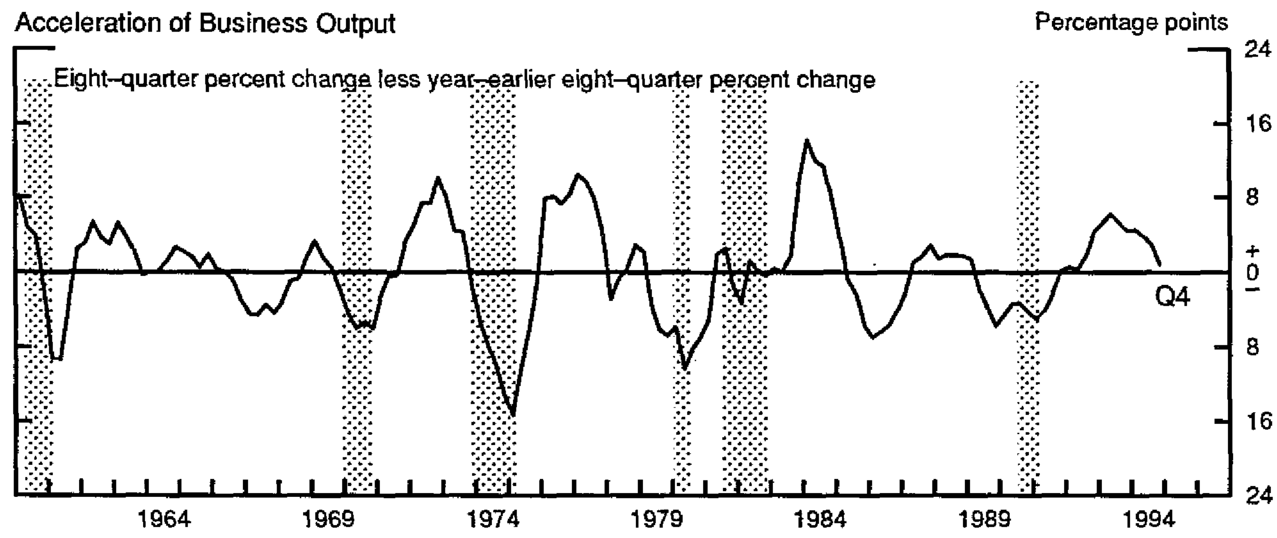
MBA Index of Mortgage Loan Applications

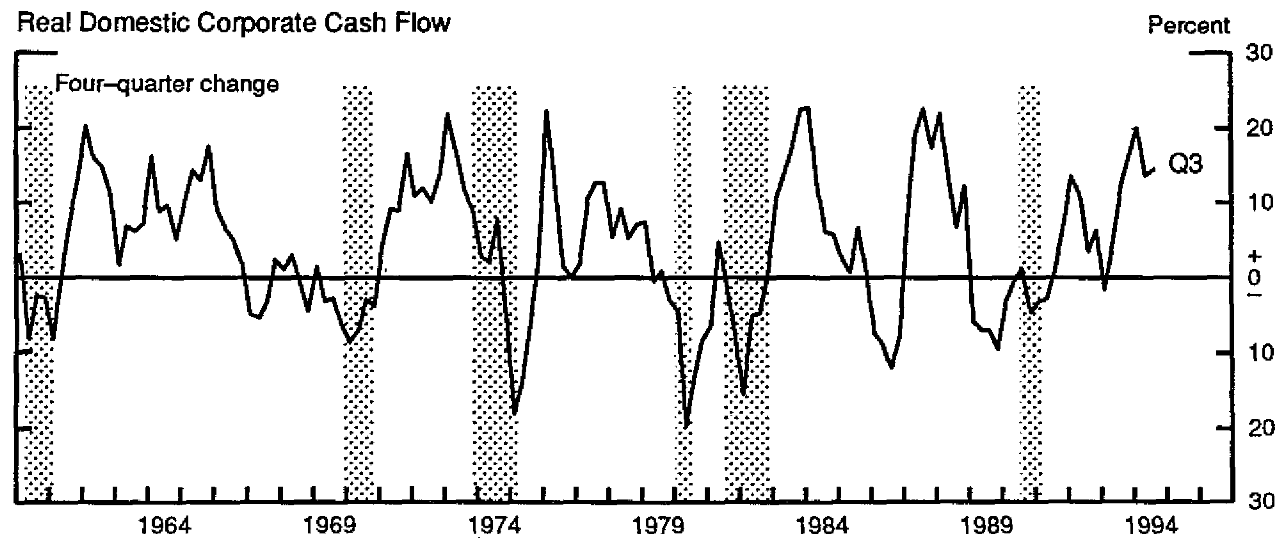
Millions of units, annual rate Index, March 16, 1990 = 100



Fundamental Determinants of Business Fixed Investment







constant-quality price indexes suggest that mix shifts might be holding down the recent average monthly transaction prices.

Other indicators of single-family activity generally weakened in February and early March. Consumer homebuying attitudes in the Michigan survey continued to decline, reaching their lowest level in four years, and builders' negative assessments of their sales returned to their downtrend in March after an uptick in February. However, applications for home purchase loans at mortgage bankers moved up in the most recent weekly reading, to the top end of the range of the past two months.

Multifamily housing construction fell back in February from the pace of 300,000 units recorded in January, but trends in permits hint at a rebound in March. Although these starts have about doubled from their thirty-five-year low reached in early 1993, they are still less than half the levels of the mid-1980s. Tightening in some local markets continues to be tempered by high vacancies and soft rents elsewhere.

Business Fixed Investment

Taken at face value, the investment indicators of recent months suggest that growth in business outlays for fixed capital might have slowed quite sharply from the robust pace of last year. However, much of the apparent slowdown is in the indicators of office and computing equipment and runs counter to all the industry anecdotal reports of ongoing strength. Elsewhere, business outlays for light vehicles have weakened, but investment in most other types of equipment is still surging ahead. Construction activity--outside of the public utility sector--was strong in January, and anecdotal reports continue to be consistent with a healthy uptrend in investment of nonresidential structures. The fundamental determinants of investment spending remain relatively favorable:

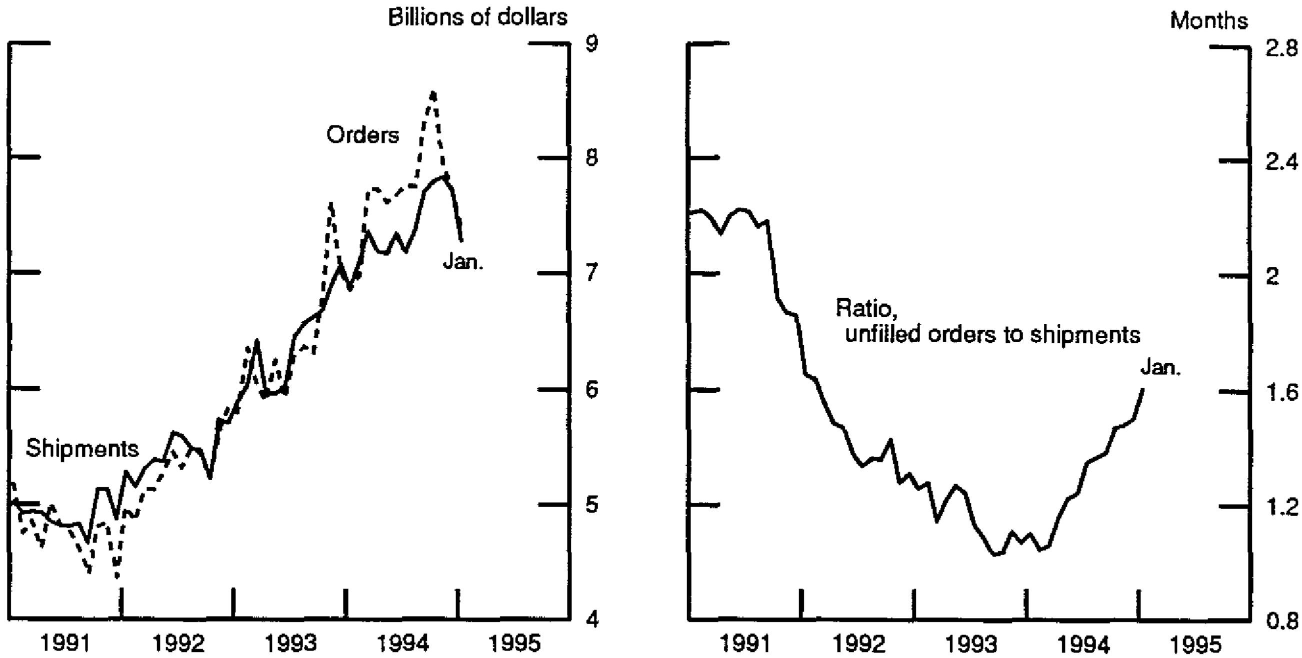
BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period;
based on seasonally adjusted data, in current dollars)

	1994			1994	1995	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
Producers' durable equipment						
Shipments of nondefense capital goods	2.3	3.4	2.7	.2	1.2	n.a.
Excluding aircraft and parts	4.6	3.2	3.3	.8	.4	n.a.
Office and computing	1.7	2.5	4.9	-1.5	-5.6	n.a.
All other categories	5.4	3.4	2.9	1.4	2.1	n.a.
Shipments of complete aircraft[1]	-33.1	n.a.	n.a.	.7	-14.4	n.a.
Sales of heavy trucks	5.3	1.3	8.2	-8.2	17.3	-5.0
Orders of nondefense capital goods	.2	3.3	3.4	-7.4	9.6	n.a.
Excluding aircraft and parts	4.2	3.4	2.7	-1.5	6.3	n.a.
Office and computing	6.7	3.3	2.0	-2.9	-4.2	n.a.
All other categories	3.5	3.5	2.9	-1.1	9.3	n.a.
Nonresidential structures						
Construction put-in-place	3.6	2.4	6.2	.1	-.7	n.a.
Office	3.7	2.8	9.3	.0	2.8	n.a.
Other commercial	11.9	1.9	4.2	4.0	2.0	n.a.
Institutional	7.4	-1.3	2.3	4.5	1.1	n.a.
Industrial	6.6	3.5	7.0	-7.4	3.6	n.a.
Public utilities	-4.5	5.4	8.8	-1.0	-9.8	n.a.
Lodging and miscellaneous	-.6	-4.6	7.1	2.8	9.0	n.a.
Rotary drilling rigs in use	2.3	-2.1	-5.3	-1.7	.1	2.2
Memo:						
Business fixed investment[2]	9.2	14.1	16.1	n.a.	n.a.	n.a.
Producers' durable equipment[2]	6.1	18.1	18.2	n.a.	n.a.	n.a.
Nonresidential structures[2]	20.6	1.6	9.3	n.a.	n.a.	n.a.

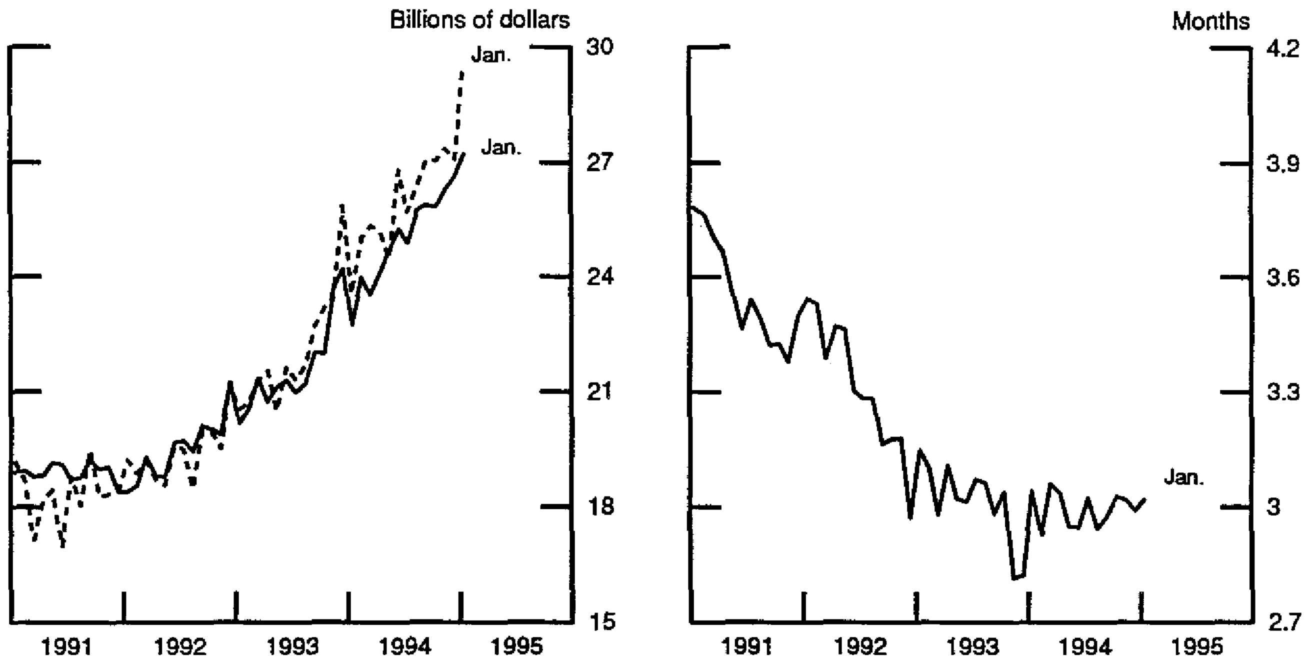
1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines." Monthly data are seasonally adjusted using FRB seasonal factors constrained to BEA quarterly seasonal factors. Quarterly data are seasonally adjusted using BEA seasonal factors.
2. Based on constant-dollar data; percent change, annual rate.
n.a. Not available.

Orders and Shipments of Nondefense Capital Goods

Office and Computing Equipment

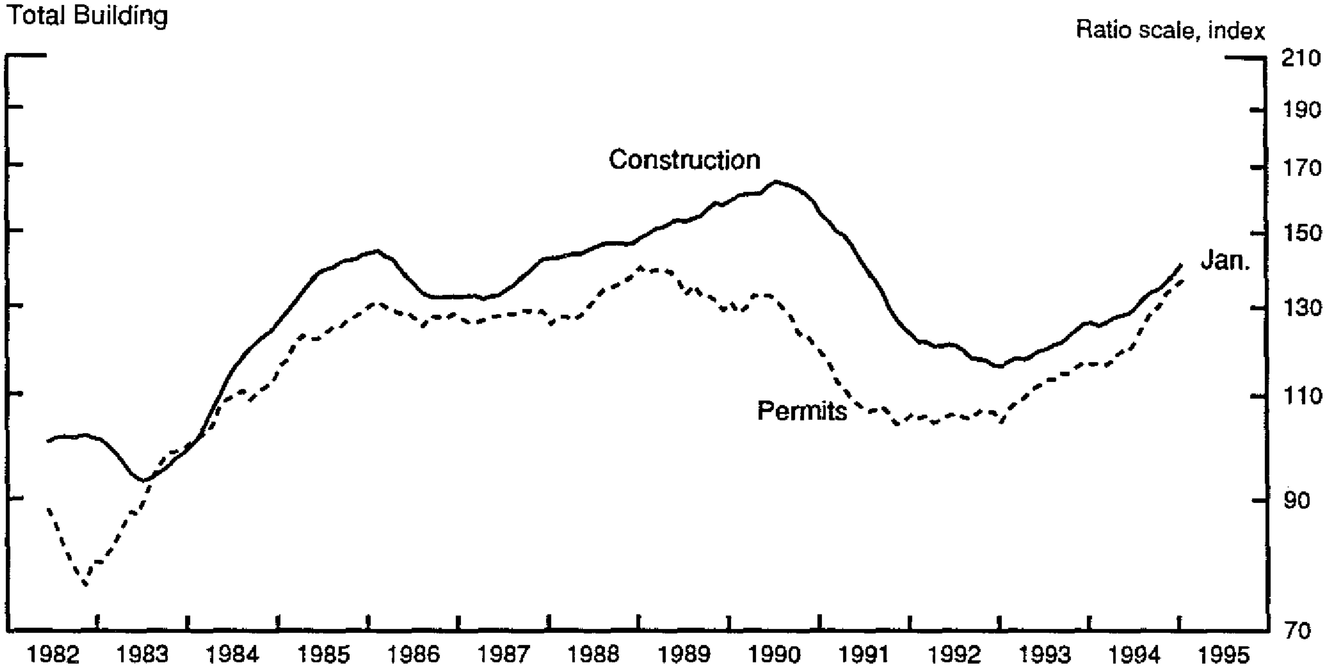


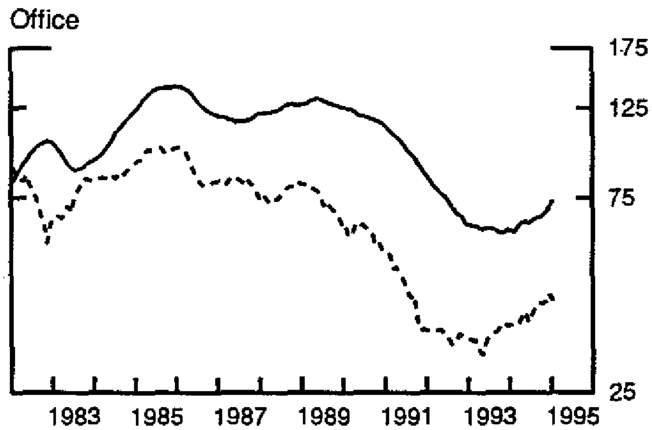
Other Equipment (Ex. Aircraft and Computing Equipment)

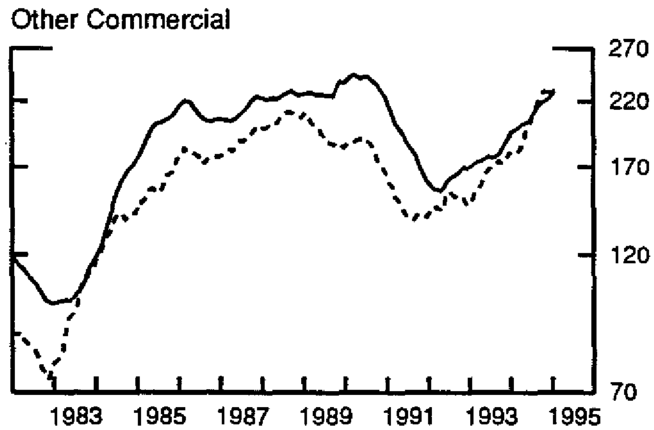


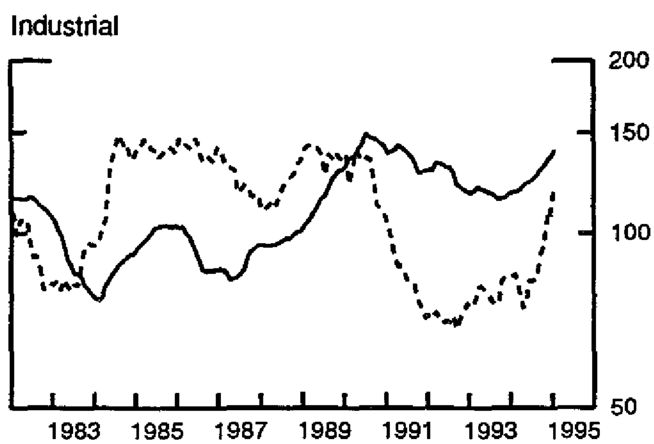
Nonresidential Construction and Permits

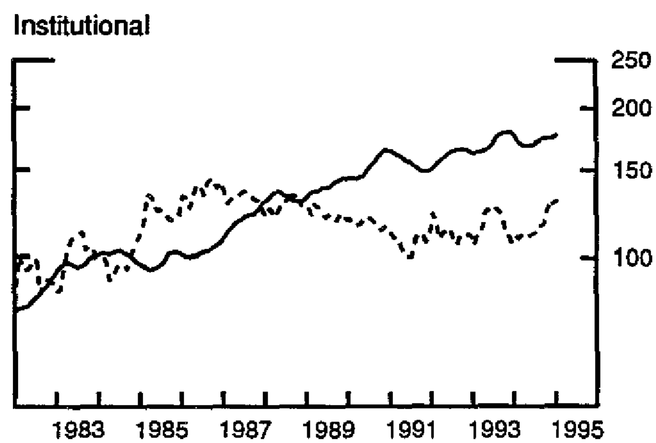
(Six-month moving average, Dec. 1982 = 100)











The cost of capital is being held down by declines in computer prices and, recently, by increases in stock and bond prices. In addition, the acceleration of business output continued to be a slightly positive influence through the end of 1994, and corporate cash flow has been much stronger than it was when the pace of economic growth was shifting down in early 1989.

For computing equipment, data on orders and shipments have been almost uniformly negative since mid-autumn. After flattening in November, shipments fell sharply in December and January, and orders plummeted almost 15 percent over those three months. In contrast, reports in the trade press suggest that the demand for PCs, workstations, and related equipment is growing rapidly, and the major computer manufacturers still appear to be relatively bullish. Moreover, the Census Bureau, the agency that prepares the orders and shipments series, has indicated that response rates for computer firms have been abysmal, providing still another reason for caution in interpretation of the recent orders and shipments data.

Excluding computers, the January data on orders and shipments were highly upbeat. Shipments of nondefense capital goods excluding aircraft and computers advanced solidly, and orders for these goods shot up dramatically. Bookings were especially strong in several categories with very long delivery times: engines and turbines, metalworking machinery, and ships.

Signals have been mixed for transportation equipment, a category that accounts for about 20 percent of total real equipment outlays. Business demand for light vehicles appears to have tailed off in January and February. Sales of both domestic and foreign vehicles declined noticeably over these two months. On the other hand, heavy truck sales surged 17.3 percent in January and fell back only a tad in February. With strong demand and large backlogs, the

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

	1994			1994		1995
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Total	75.6	70.6	57.3	60.1	32.3	99.5
Excluding wholesale and retail motor vehicles	58.9	53.4	54.9	55.9	28.1	60.5
Manufacturing	13.3	13.7	21.1	23.1	21.9	48.9
Computers	1.2	-3.0	-1.0	-.8	-4.8	10.5
Excluding computers	12.2	16.7	22.1	23.9	26.6	38.4
Wholesale	23.0	22.7	25.3	22.2	12.3	17.4
Excluding motor vehicles	16.6	23.0	25.8	24.4	17.5	8.1
Retail	39.4	34.2	10.9	14.7	-1.9	33.2
Automotive	10.4	17.5	2.9	6.3	9.4	29.7
Excluding auto dealers	29.0	16.7	8.0	8.5	-11.3	3.5
Constant-dollar basis						
Total	39.0	39.6	32.8	30.8	5.5	n.a.
Excluding motor vehicles	35.6	31.6	22.2	23.3	-6.3	n.a.
Manufacturing	.7	4.5	2.5	5.9	-1.6	n.a.
Wholesale	16.0	15.2	13.7	11.7	.7	n.a.
Excluding motor vehicles	10.8	15.9	14.4	13.9	5.3	n.a.
Retail	22.3	19.9	16.6	13.2	6.4	n.a.
Automotive	-1.9	7.9	11.2	9.3	15.7	n.a.
Excluding auto dealers	24.2	12.0	5.4	3.9	-9.3	n.a.

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

	1994			1994		1995
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Total	1.41	1.41	1.39	1.39	1.37	1.39
Excluding wholesale and retail motor vehicles	1.39	1.38	1.37	1.37	1.35	1.36
Manufacturing	1.39	1.36	1.35	1.34	1.32	1.33
Computers	1.66	1.51	1.41	1.45	1.42	1.62
Excluding computers	1.38	1.36	1.35	1.34	1.32	1.32
Wholesale	1.33	1.32	1.32	1.32	1.29	1.32
Excluding motor vehicles	1.30	1.30	1.30	1.30	1.28	1.29
Retail	1.54	1.55	1.53	1.53	1.53	1.53
Automotive	1.67	1.75	1.66	1.64	1.65	1.71
Excluding auto dealers	1.50	1.50	1.49	1.49	1.49	1.48
Constant-dollar basis						
Total	1.46	1.46	1.44	1.44	1.42	n.a.
Excluding motor vehicles	1.51	1.50	1.49	1.49	1.47	n.a.
Manufacturing	1.43	1.41	1.39	1.38	1.37	n.a.
Wholesale	1.41	1.40	1.40	1.40	1.39	n.a.
Excluding motor vehicles	1.39	1.40	1.39	1.39	1.38	n.a.
Retail	1.56	1.57	1.56	1.55	1.55	n.a.
Automotive	1.57	1.63	1.62	1.58	1.62	n.a.
Excluding auto dealers	1.55	1.55	1.54	1.54	1.53	n.a.

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

normal seasonal pause in heavy truck sales did not occur. Aircraft outlays were very weak in January, with shipments of complete aircraft dropping 14-1/2 percent from their December level. While this series is highly volatile, the drop more or less extends the downtrend of the past twelve months.

Outlays for nonresidential structures have advanced strongly of late, and the incoming construction data are consistent with a continuation of recent uptrends. Construction put-in-place fell 0.7 percent in January, but the decline was concentrated in spending by public utilities, which are experiencing a great deal of uncertainty about the regulatory environment.[5] Pending deregulation, which would result in increased competition, has apparently caused many utilities to adopt a "wait and see" attitude toward capacity expansion. The other categories of nonresidential construction--including office, other commercial, industrial, and lodging--all posted solid advances in January. Leading indicators--such as permits and contracts--while admittedly highly volatile, still appear to be trending up, albeit a little hesitantly of late.

Business Inventories

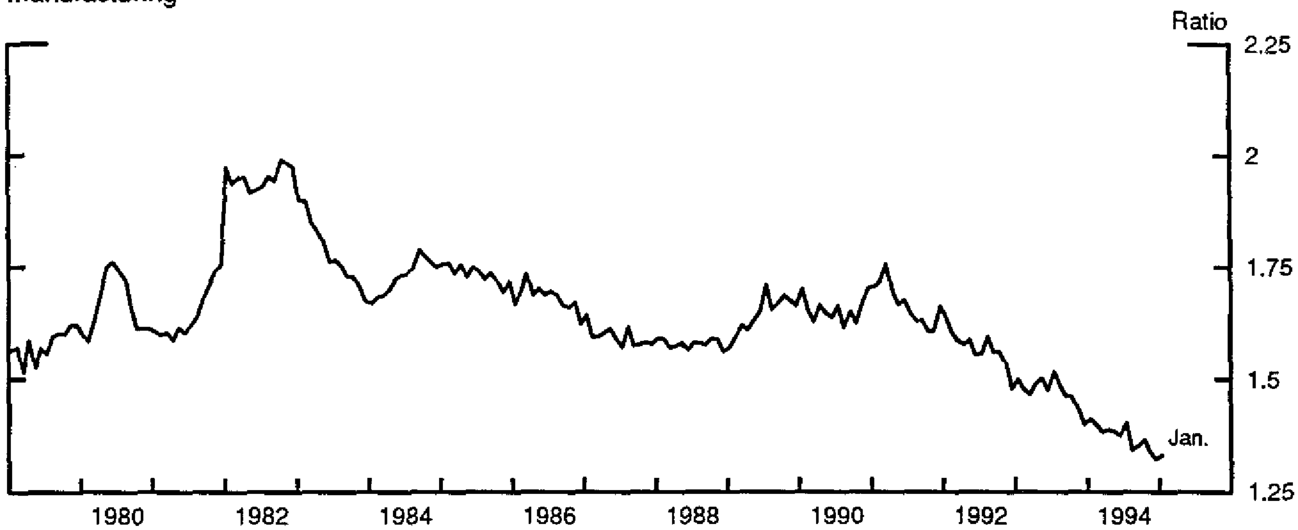
After slowing in December, accumulation of manufacturing and trade inventories surged at an annual rate of nearly $100 billion in January, the highest monthly figure since last May. Stocks of motor vehicles at the wholesale and retail levels accounted for nearly $40 billion of the January rise. Accumulation of non-vehicle stocks was just a touch larger than it had been, on average, over the final three quarters of 1994. The inventory-sales ratio for all manufacturing and trade establishments rose slightly in January but remained low by historical standards.

5. The BEA does not rely exclusively on the construction put-in-place data when preparing its measure of investment by public utilities.

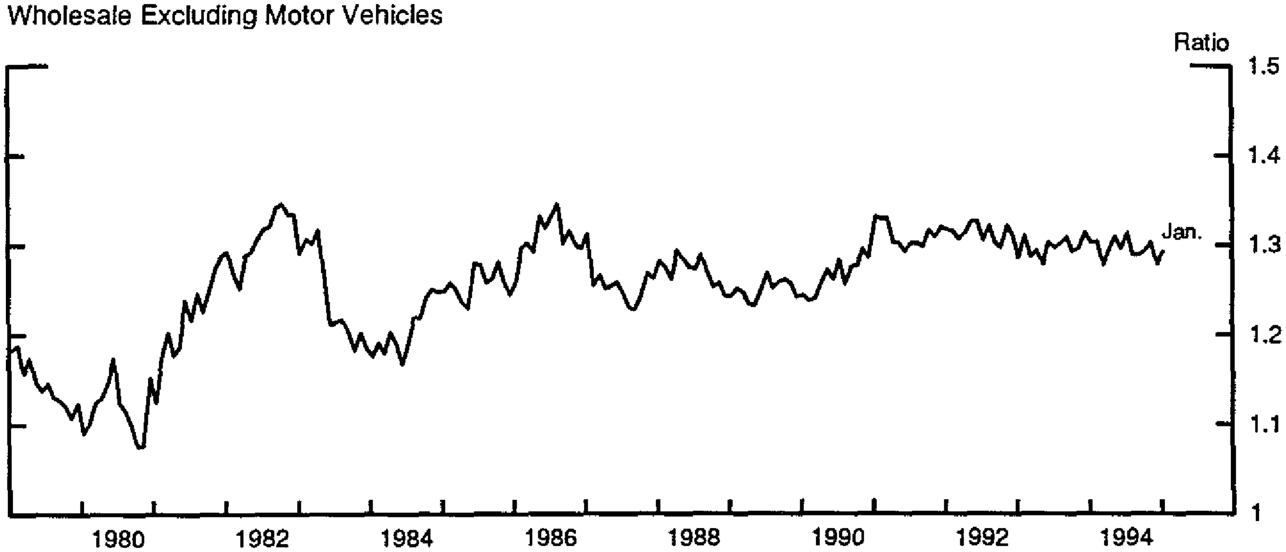
Inventory–Sales Ratio, by Major Sector

(Book value)

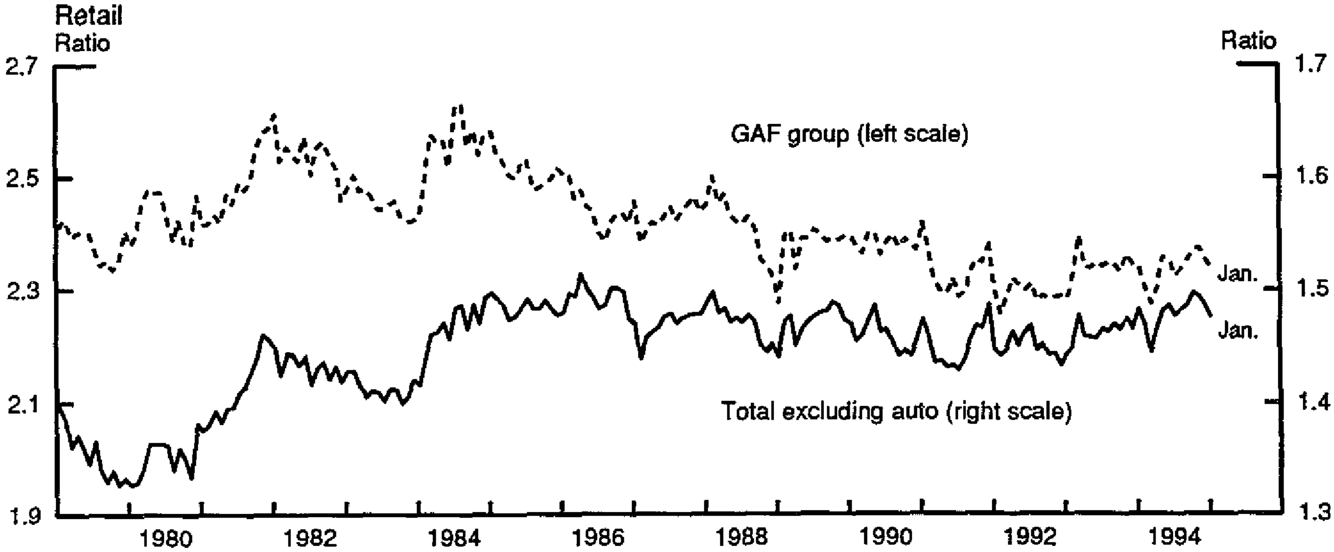
Manufacturing



Wholesale Excluding Motor Vehicles



Retail



In manufacturing, the published data for January showed a sizable pickup in the rate of inventory accumulation. However, the January estimate may be subject to more uncertainty than usual. In particular, accumulation of inventories among producers of office and computing equipment picked up considerably in January, but reporting problems that seemingly are distorting the orders and shipments data for that industry may also be affecting the data on inventories.[6] Elsewhere in manufacturing, producers of many types of capital goods (telecommunications equipment and special industrial machinery, in particular) added further to their stocks in January, maintaining, in most cases, patterns of accumulation that were evident through much of 1994. The inventory-sales ratio for all of manufacturing edged down, on net, around the turn of the year, with an uptick in January only partly offsetting a small decline in December.

Increases in non-auto trade inventories slowed around the turn of the year. At wholesale establishments, the average accumulation of nonvehicle stocks in December and January was only about half the pace seen over the preceding few months. All of the January accumulation was in stocks of durable goods, extending the fourth-quarter buildups. Inventories of nondurable goods were unchanged, on net, as a run-up in apparel stocks was offset by drawdowns in inventories of other products. The inventory-sales ratio for wholesale distributors of apparel jumped in January to its highest level in the past year, consistent with anecdotal stories that warm

6. Just as we have not been able to confirm, through industry contacts, the reported weakness in orders and shipments of office and computing equipment, we have not been able to find independent evidence of a buildup in computer inventories. Although a recent news article said that two major producers are planning to introduce new lines of personal computers in the near future--a development that could be prompting some intended stockpiling--most reports indicate that demand is strong, production is rising, and inventories are lean.

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

	Fiscal year to date (February)				
				Percent change	
	FY1994	FY1995 Actual	FY1995 Adjusted	Actual	Adjusted
Outlays	601.1	615.9	621.6	2.9	3.4
Deposit insurance (DI)	-5.9	-9.7	-9.7		
Outlays excluding DI	607.0	625.6	631.3	3.1	4.0
National defense	115.3	107.5	110.1	-6.7	-4.5
Net interest	82.5	93.8	93.8	13.7	13.7
Social security	129.5	135.9	135.9	5.0	5.0
Medicare and health	99.9	107.4	107.4	7.5	7.5
Income security	92.5	87.7	89.4	-5.3	-3.4
Other	87.4	93.3	94.7	6.8	8.4
Receipts	483.3	521.9	521.9	8.0	8.0
Personal income taxes	232.1	248.0	248.0	6.9	6.9
Social insurance taxes	172.4	185.5	185.5	7.6	7.6
Corporate income taxes	38.1	42.2	42.2	10.7	10.7
Other	40.8	46.6	46.6	14.3	14.3
Deficit(+)	117.8	94.1	99.8	-20.2	-15.3
Excluding DI	123.7	103.7	109.4	-16.2	-11.6

Note. Actual outlays and receipts are reported in the Monthly Treasury Statement. Adjusted outlays include the military active duty pay, veterans benefits, and supplemental security income payments scheduled for October 1, 1994 but accelerated into September because October 1st fell on a Saturday. This adjustment makes the FY1994 and FY1995 fiscal-year-to-date totals more comparable.

Components may not sum due to rounding.

weather caused a backup of winter clothing at the retail level. However, most other types of wholesale inventories appeared to be in line with sales at the end of January.

In retail trade, non-auto inventories rose at just a $3.5 billion rate in January after falling $11.3 billion in December; the average pace of accumulation over the preceding eight months had been more than $20 billion at an annual rate. Inventories at general merchandisers accounted for all of the January increase, but sales were strong, and the stock-sales ratio moved down from its November-December high. Outside of general merchandise, retail inventories were unchanged. For non-auto retailers as a whole, the stock-sales ratio has been edging down since October.

Federal Sector

The unified federal budget deficit for the first five months of fiscal year 1995 was $94 billion. Adjusting for differences in payroll and benefit payment schedules, the deficit for this five-month period was 15 percent less than for the same period in fiscal 1994.[7] The improvement was attributable to developments in both receipts and outlays. Tax receipts outpaced GDP growth, while the growth in outlays was more restrained.

Relatively strong growth has been evident across all major categories of taxes. For the fiscal year to date, individual and social insurance taxes were 7 percent higher than in the comparable year-earlier period, and corporate income taxes increased 11 percent, as both personal income and corporate profits posted

7. Military active duty pay, veterans benefits, and supplemental security income payments scheduled for the first day of fiscal 1995--October 1, 1994, which fell on a Saturday--were accelerated into September. No such payment shift occurred at the beginning of fiscal 1994.

ADMINISTRATION BUDGET PROJECTIONS

	Fiscal years					
	1995	1996	1997	1998	1999	2000
	-------Billions of dollars-----------					
Baseline deficit[1]	193	201	218	209	221	229
President's proposals(net)	0	-5	-5	-13	-24	-35
Deficit including President's proposals	193	197	213	196	197	194
	--------Percent of GDP ------------					
Baseline deficit	2.7	2.7	2.8	2.5	2.5	2.5
Deficit including President's proposals	2.7	2.7	2.7	2.4	2.3	2.1

ADMINISTRATION ECONOMIC ASSUMPTIONS

	Calendar years					
	1995	1996	1997	1998	1999	2000
	------Percent change, Q4 over Q4------					
Real GDP	2.4	2.5	2.5	2.5	2.5	2.5
GDP deflator	2.9	2.9	3.0	3.0	3.0	2.9
CPI-U	3.1	3.2	3.2	3.2	3.1	3.1
	--------Percent, annual average-------					
Civilian unemployment rate	5.8	5.9	5.8	5.8	5.8	5.8
Interest rates						
3-month Treasury bills	5.9	5.5	5.5	5.5	5.5	5.5
10-year Treasury notes	7.9	7.2	7.0	7.0	7.0	7.0

1. The baseline assumes that revenues and outlays for major benefit programs evolve according to laws in effect at the time the projections are made, and that appropriations for other programs are consistent with the discretionary spending caps through FY98 and rise at the rate of inflation thereafter. The projections include social security and the Postal Service, which are off-budget.

Source. Office of Management and Budget, The Budget of the United States Government: Fiscal Year 1996, February 1995.

healthy gains. Other receipts were up 14 percent, paced by strong excise tax receipts and Federal Reserve Bank earnings.

As noted above, a major anti-fraud effort by the IRS has slowed significantly the payments of individual tax refunds in February and March. Individual income tax refunds paid as of March 10 were $5-1/2 billion (more than 20 percent) lower than over the same period a year ago. Most returns flagged by the IRS were those that both claimed the Earned Income Tax Credit or other credits and were filed electronically.[8] Nonetheless, the staff still expects greater individual refunds to be paid this year compared with last, and the current refund shortfall should be made up in April and May.

Excluding deposit insurance and adjusting for differences in payroll and benefit payment schedules, outlays have risen about 4 percent so far this fiscal year, with restraint evident in some key programs. Defense spending (adjusted for changes in the timing of military pay) has dropped 4-1/2 percent in nominal terms. Total outlays for income security programs (adjusted for the supplemental security income payment schedule) have also fallen, because of earned incoEe tax Iredit TlaiCs and reductions in unemployment benefits. Health-related spending is up about 8 percent in the current fiscal year, on the low side of recent trends. By contrast, net interest payments have increased about 14 percent for the current fiscal year owing to rising debt levels and higher interest rates.

On February 6, the Clinton Administration released its fiscal year 1996 budget, which contains a set of proposals to cut taxes and reduce spending by modest amounts. The Administration estimates that if its proposals are accepted, the deficit will be $193 billion

8. Under unified budget accounting about half of the refund payment shortfall is assigned to the receipts side of the budget; the remainder--the refundable portion of the EITC--is counted under outlays for income security.

CBO BUDGET PROJECTIONS

	Fiscal years					
	1995	1996	1997	1998	1999	2000
	Billions of dollars					
Baseline deficit[1]	175	210	230	232	266	299
President's proposals(net)	2	1	2	-1	-11	-23
Deficit including President's proposals	177	211	232	231	256	276
	Percent of GDP					
Baseline deficit	2.5	2.9	3.0	2.8	3.1	3.3
Deficit including President's proposals	2.5	2.9	3.0	2.8	3.0	3.1

CBO ECONOMIC ASSUMPTIONS

	Calendar years					
	1995	1996	1997	1998	1999	2000
	Percent change, year over year					
Real GDP	3.1	1.8	2.4	2.3	2.3	2.3
GDP deflator	2.6	2.8	2.8	2.8	2.8	2.8
CPI-U	3.1	3.4	3.4	3.4	3.4	3.4
	Percent, annual average					
Civilian unemployment rate	5.5	5.7	5.8	5.9	6.0	6.0
Interest rates						
Treasury bills	6.2	5.7	5.3	5.1	5.1	5.1
Treasury notes	7.7	7.0	6.7	6.7	6.7	6.7

1. The baseline assumes that revenues and outlays for major benefit programs evolve according to laws in effect at the time the projections are made, and that appropriations for other programs are consistent with the discretionary spending caps through FY98 and rise at the rate of inflation thereafter. The projections include social security and the Postal Service, which are off-budget.

Source. Congressional Budget Office, Preliminary Analysis of The President's Budget Proposals For Fiscal Year 1996, March 1995.

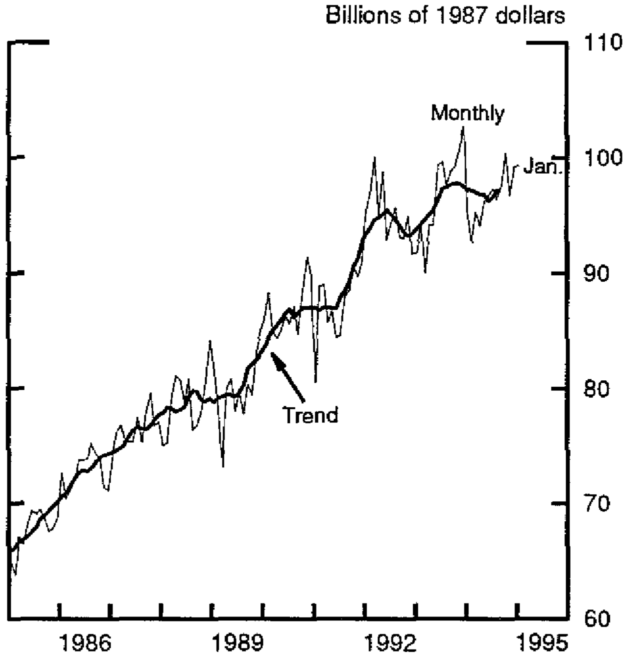
in fiscal 1995 and edge up to $197 billion in fiscal 1996; the estimate for fiscal 1996 includes proposed deficit reductions of about $5 billion. The most recent baseline projection of the Congressional Budget Office, which assumes no policy changes, shows deficits of $175 billion in fiscal 1995 and $210 billion in fiscal 1996.

In the absence of policy changes, the deficit is likely to increase over the next several years. OMB projects that the baseline deficit would rise from $193 billion in fiscal 1995 to $229 billion in fiscal 2000, while the updated baseline in CBO's preliminary analysis of the President's budget shows the baseline deficit reaching $299 billion in fiscal 2000. The gap between the OMB and CBO baseline projections largely reflects OMB's more favorable economic assumptions and its greater optimism about the longer-term trends in outlays on health-related entitlements. The two agencies also differ in their assessments of the amount of deficit reduction implied by the President's proposals. OMB estimates that the package would lower the deficit, on net, by $81 billion over fiscal 1995-2000, but CBO sees the proposals as having essentially no effect on the deficit through 1998 and generating only modest savings in 1999 and 2000.

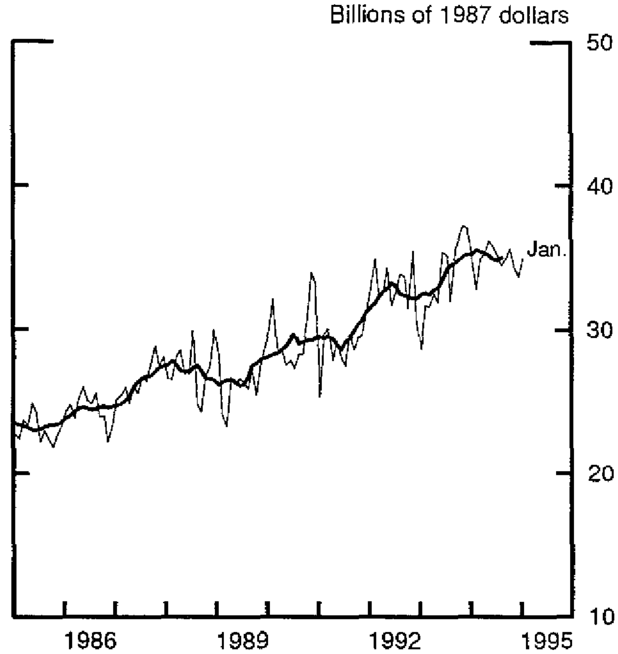
The Congress is working on the Contract with America and other key elements of the Republican agenda. The tax provisions in the contract have been passed by the House Ways and Means Committee; they include middle-class tax cuts, saving and investment incentives, and tax breaks for senior citizens; these changes are estimated to result in a cumulative revenue loss of nearly $200 billion over five years. In addition, the House has passed a package of rescissions that would cut $17 billion from the appropriations approved by the previous Congress for fiscal 1995;

State and Local Construction

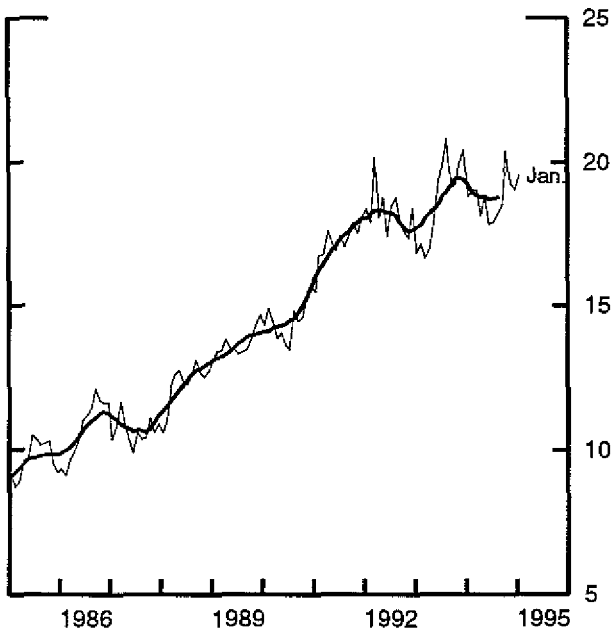
Total



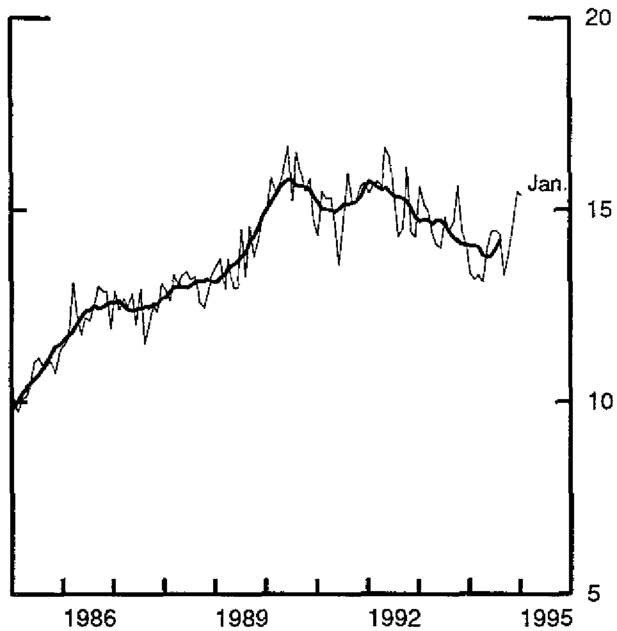
Highways



Education



Other Buildings



Note. Trend is the eleven–month moving average, centered.

according to preliminary CBO estimates, the package would lower actual outlays in fiscal 1995 about $2 billion, with the remainder of the spending cuts spilling over into subsequent years. Detailed proposals for reductions in outlays in fiscal 1996 and beyond are only now beginning to take shape. For example, House Budget Committee Chairman Kasich recently provided a sketch of a five-year plan and a menu of potential cuts in discretionary spending. Chairman Kasich has promised to release the remainder of his plan to balance the budget in fiscal 2002 in May.[9]

State and Local Government Sector

State and local government purchases still appear to be expanding at only a modest pace. Employment increased 25,000, on average, for the first two months of the year, fractionally above the average for all of 1994. Gains were concentrated among education workers at local governments during both January and February. Real state and local construction spending was essentially unchanged in January. These construction series are very volatile, but they appear to show a leveling off of public investment in structures in recent years after strong increases between the mid-1980s and early 1990s (chart). Among the categories accounting for the greatest share of outlays, spending for highways has trended down a bit for the past year, while outlays for

9. Congressional committees are scheduled to report their budget estimates to the House and Senate Budget Committees by the end of March, and the budget resolution is scheduled to be completed by April 15. However, this deadline is rarely met, and budget leaders do not expect the resolution to be adopted until May. If the resolution has not been adopted by May 15, the House can start to pass fiscal 1996 appropriations anyway and is expected to approve its versions of the thirteen appropriations bills by June 30. Budget reconciliation is scheduled to be completed by June 15, but this deadline is also likely to be missed. Given the complexity of this year's budget decisions, the debate will undoubtedly be contentious and will probably extend at least through late summer. fiscal 1996 starts on October 1.

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

	Relative importance, Dec. 1994	1993	1994	1994 Q2	1994 Q3	1994 Q4	1995 Jan.	1995 Feb.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	2.7	2.7	2.7	3.6	1.9	.3	.3
Food	15.8	2.9	2.9	2.8	5.1	3.9	-.3	.3
Energy	7.0	-1.4	2.2	-3.0	9.2	.4	.3	-.1
All items less food and energy	77.2	3.2	2.6	3.1	2.6	2.0	.4	.3
Commodities	24.1	1.6	1.4	3.9	.9	.3	.4	.1
Services	53.1	3.9	3.2	2.7	3.6	2.6	.5	.4
Memo:								
CPI-W[3]	100.0	2.5	2.7	2.5	3.9	2.2	.3	.3

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)[1]

	Relative importance, Dec. 1994	1993	1994	1994 Q2	1994 Q3	1994 Q4	1995 Jan.	1995 Feb.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	.2	1.7	.0	1.9	2.2	.3	.3
Consumer foods	22.8	2.4	1.0	-5.5	1.9	9.2	-.6	.3
Consumer energy	13.6	-4.1	3.4	-2.6	3.2	.0	2.3	.4
Other finished goods	63.7	.4	1.6	2.4	1.8	.3	.2	.3
Consumer goods	40.2	-.4	1.4	2.0	1.7	.6	.1	.3
Capital equipment	23.5	1.8	2.0	3.0	2.1	.0	.3	.3
Intermediate materials[2]	95.6	.8	4.8	2.8	6.2	7.6	1.0	1.0
Excluding food and energy	82.9	1.6	5.1	3.9	6.8	8.3	1.0	1.0
Crude food materials	40.4	7.2	-9.3	-18.0	-13.5	-.8	-.1	1.2
Crude energy	34.5	-12.3	-1.9	21.0	-19.2	-13.8	-.1	1.7
Other crude materials	25.1	10.7	17.0	-.8	20.3	26.7	3.0	1.4

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

educational facilities and for other buildings (which include prisons)[10] have seen little upward movement for more than a year.

Incoming data on the fiscal positions of state and local governments have been mixed. Most state governments have been reporting higher revenues and a rosier budgetary outlook. However, according to recent surveys, the direction of city and county economic and fiscal conditions is not so clear. Although most cities report that economic conditions have improved over the past year, 38 percent of them also say that their fiscal situations have deteriorated, up from 26 percent in 1993 and the second highest percentage in the past eight years. Moreover, preliminary figures from a recent survey of counties indicate that most of these jurisdictions are experiencing some erosion in their fiscal health: 60 percent of the respondents either are having difficulty maintaining services or are reducing discretionary programs, while 10 percent report that they are experiencing fiscal crisis. By far, the most important concerns of cities and counties center on crime and the impact of unfunded state and federal mandates.

CITIES REPORTING WORSENED ECONOMIC AND FISCAL CONDITIONS
(Percent)

	1987	1988	1989	1990	1991	1992	1993	1994
Economic conditions	22	17	14	36	51	47	23	21
Fiscal conditions	33	30	17	30	35	42	26	38

Source: National League of Cities.

Prices

Incoming data on prices early this year have been consistent with the notion expressed by many private and government forecasters that inflation will be somewhat higher this year than in 1994.

10. Correctional facilities and police and fire stations compose nearly half of the "other building" category. A more detailed breakdown is not available.

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Feb. 1993	Feb. 1994	Feb. 1995
CPI	3.6	2.8	3.0
Goods	2.8	0.8	1.9
Alcoholic beverages	2.3	1.3	0.9
New vehicles	2.4	3.4	3.1
Apparel	2.5	-1.1	-1.4
House furnishings	0.2	1.5	0.5
Housekeeping supplies	1.0	0.8	2.2
Medical commodities	4.4	2.8	2.4
Entertainment	2.1	1.2	2.2
Tobacco	10.4	-7.7	2.4
Services	4.0	3.7	3.4
Owners' equivalent rent	3.3	3.3	3.1
Tenants' rent	2.4	2.5	2.4
Other renters' costs	3.1	3.5	2.3
Airline fares	12.7	10.0	-5.4
Medical care	6.8	5.4	5.5
Entertainment	3.3	4.9	2.3
Auto financing	-8.4	-5.4	29.3
Tuition	8.8	6.8	6.2
PPI finished goods	2.0	0.4	1.7
Consumer goods	2.2	-0.5	1.5
Capital goods, excluding computers	2.7	2.3	2.1
Computers	-14.8	-11.9	-7.1
PPI intermediate materials	1.7	1.1	7.0
PPI crude materials	9.7	10.6	16.4
Factors affecting price inflation			
ECI hourly compensation[1]	3.5	3.6	3.1
Goods-producing	3.8	3.9	3.1
Service-producing	3.2	3.6	2.9
Civilian unemployment rate[2,3]	7.0	6.6	5.4
Capacity utilization[2] (manufacturing)	80.9	82.2	85.1
Inflation expectations[4]			
Michigan Survey	4.6	3.7	4.0
Conference Board	4.7	4.4	4.2
Non-oil import price[5]	0.8	1.5	3.9
Consumer goods, excluding autos, food, and beverages	2.2	1.0	1.0
Autos	0.4	3.9	3.0

1. Private industry workers, periods ended in December.
2. End-of-period value.
3. Data for 1994 are not directly comparable with earlier values because of a redesign of the CPS in January 1994.
4. One-year-ahead expectations.
5. BLS import price index (not seasonally adjusted), periods ended in December.

Increases in materials prices, which picked up sharply in the second half of last year, accelerated further in the first two months of 1995, and monthly increases of 0.3 percent in the CPI in both January and February were slightly larger than the average monthly increases in 1994. Excluding food and energy, consumer prices jumped 0.4 percent in January and 0.3 percent in February. The producer price index for finished goods has also picked up a bit.

The CPI for commodities excluding food and energy moved up 0.4 percent in January, but data for February showed a price rise of only 0.1 percent. Used car prices, which had advanced nearly 9 percent in 1994, continued to climb rapidly in the first two months of this year. Elsewhere, however, increases in the retail prices of commodities have been more subdued. Prices of apparel commodities rose 0.7 percent in January but reversed that gain last month. Prices of cars and light trucks posted only small increases, on balance, in the first two months of 1995. Tobacco prices fell, on net, over the two months.

The CPI for non-energy services rose 0.5 percent in January and 0.4 percent in February; the average for the two months was more than one-tenth of 1 percent larger than the average monthly increase during 1994. Postal rates jumped in January, and auto finance charges continued to rise sharply in early 1995. Airfares, which had declined sharply over the course of 1994, took a couple of steps back up in the first two months of this year. The price indexes for owners' equivalent rent and residential rent accelerated in January, but the February increases in those categories were small (0.2 percent for each series).

Energy prices changed little in the CPI in early 1995, as a January rise of 0.3 percent was partially reversed by a small

SPOT PRICES OF SELECTED COMMODITIES

	Current price ($)	Percent change[1]: 1993	1994	To Jan. 24[2]	Jan. 24[2] to Mar. 21	Memo: Year earlier to date
		INDUSTRIAL COMMODITIES				
Metals						
Copper (lb.)	1.440	-19.0	64.9	5.7	-3.4	50.0
Steel scrap (ton)	137.500	46.8	2.9	2.4	-6.5	-1.4
Aluminum, London (lb.)	.791	-10.7	73.5	12.2	-18.8	32.8
Lead (lb.)	.414	3.0	20.7	2.9	-3.4	20.0
Zinc (lb.)	.536	-7.5	23.6	10.4	-15.9	18.3
Tin (lb.)	3.775	-14.1	21.4	8.3	-12.2	2.7
Textiles and fibers						
Cotton (lb.)	1.058	19.6	38.5	3.5	18.9	47.8
Burlap (yd.)	.294	8.2	10.2	.0	.7	6.9
Miscellaneous materials						
Hides (lb.)	.980	1.3	14.2	-.7	9.3	24.1
Rubber (lb.)	.943	-7.3	75.4	14.0	5.4	83.8
		OTHER COMMODITIES				
Precious metals						
Gold (oz.)	382.900	16.6	-1.7	.0	.4	-1.6
Silver (oz.)	4.685	38.8	-5.0	.7	-2.9	-15.7
Platinum (oz.)	416.000	8.0	7.5	.7	-.4	3.0
Forest products						
Lumber (m. bdft.)	274.000	75.8	-37.1	-3.4	-2.8	-28.8
Plywood (m. sqft.)	337.000	-6.3	1.5	-1.2	3.4	11.6
Petroleum						
Crude oil (barrel)	16.890	-25.0	15.6	15.4	-6.2	14.5
Gasoline (gal.)	.517	-31.0	32.4	3.2	2.2	13.6
Fuel oil (gal.)	.458	-22.4	12.7	-3.2	-3.9	-6.5
Livestock						
Steers (cwt.)	71.000	-7.3	-3.4	7.1	-5.3	-5.0
Hogs (cwt.)	37.500	.6	-12.9	12.7	-6.3	-13.8
Broilers (lb.)	.473	6.1	-4.9	-1.9	-1.7	-9.7
U.S. farm crops						
Corn (bu.)	2.355	41.7	-23.2	.9	5.8	-14.2
Wheat (bu.)	3.895	5.8	11.4	-9.1	-1.7	13.9
Soybeans (bu.)	5.650	24.5	-19.6	-2.3	3.7	-17.0
Other foodstuffs						
Coffee (lb.)	1.645	-2.3	153.1	-3.2	4.1	117.9
Memo:						
Exchange value of the dollar (March 1973=100)	83.948	3.4	-5.5	-2.8	-4.1	-11.1
Yield on Treasury bill, 3-month[3]	5.740	-14	247	28	-7	222

1. Changes, if not specified, are to the last week of the year indicated and from the last week of the preceding year.
2. Week of the January Greenbook.
3. Changes are in basis points.

decline in February. Gasoline prices were unchanged over the two-month period, and small declines were reported, on net, in the prices of fuel oil and natural gas. Electricity prices jumped 0.7 percent in January and edged up slightly further last month. In the PPI, the prices of finished energy products increased 2.3 percent in January, driven largely by a steep rise in the price of gasoline; the February increase in PPI energy prices was much smaller--only about 0.4 percent. Crude oil prices, as measured by the price of West Texas intermediate, have risen moderately, on net, since the start of the year.

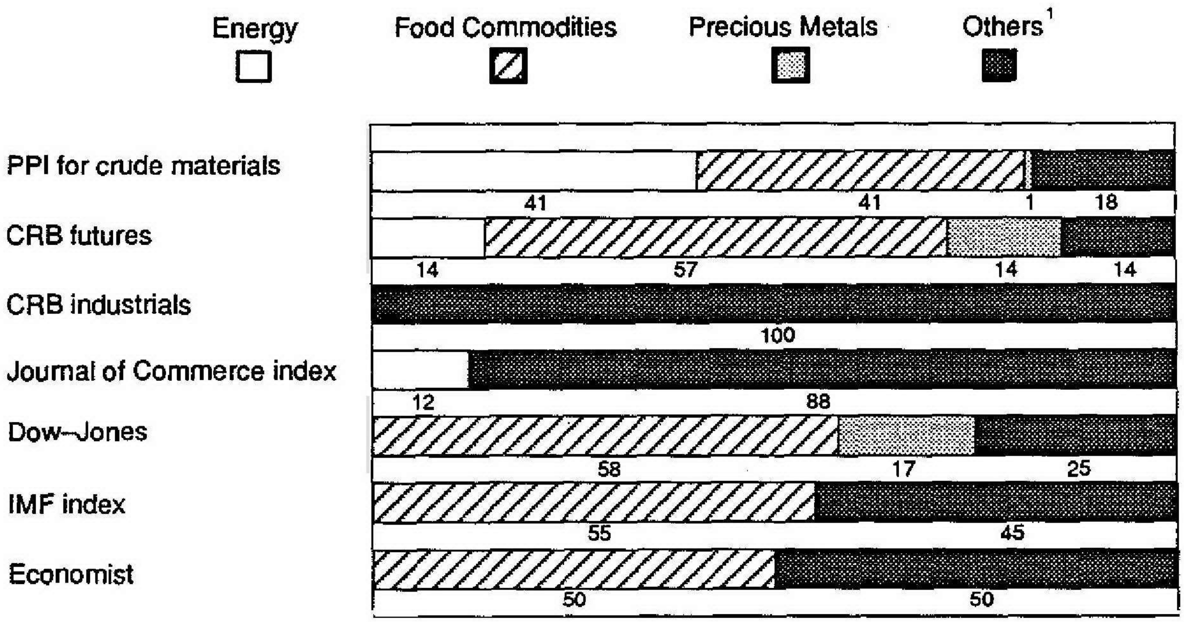
Food prices have exhibited their characteristic volatility in recent months, influenced chiefly by fluctuations in the prices of fruits and vegetables. After shooting up in December, the CPI for food fell 0.3 percent in January; fruit and vegetable prices dropped 2.6 percent in January, reversing about half of their December gain, which seems to have been caused by Tropical Storm Gordon. In February, food prices rose 0.3 percent in total. The prices of fruits and vegetables turned back up last month, and the price index for meats, poultry, fish, and eggs moved up somewhat faster than in January. Prices of other foods, which account for about two-thirds of total food in the CPI, were essentially flat, on average, over the first two months of the year. Looking ahead, another surge in fruit and vegetable prices could emerge in coming months, as effects of the recent flooding in California begin to show through to retail prices. In farming, the spot prices of a number of commodities have moved up in recent months from the low levels of last fall, driven in part by actual and expected increases in agricultural exports, especially to China; however, farm prices in total still are well below the levels of a year ago and do not seem to be a source of much inflation pressure at the moment.

COMMODITY PRICE INDEXES

	Last observ-ation	Percent change[1]: 1993	1994	Dec. 94 to Jan. 24[2]	Jan. 24 to date	Memo: Year earlier to date
PPI for crude materials[3]	Feb.	0.1	-1.1	1.0	1.8	0.9
Foods and feeds	Feb.	7.2	-9.3	0.4	1.9	-8.0
Energy	Feb.	-12.3	-1.9	-0.1	1.7	2.2
Excluding food and energy	Feb.	10.7	17.0	3.4	1.9	16.4
Excluding food and energy, seasonally adjusted	Feb.	10.5	17.3	3.0	1.4	16.4
Commodity Research Bureau						
Futures prices	Mar. 21	11.6	4.8	-0.2	-0.5	2.2
Industrial spot prices	Mar. 14	-0.0	29.1	2.5	-1.9	23.6
Journal of Commerce industrials	Mar. 21	-2.9	22.1	2.5	-1.7	18.4
Metals	Mar. 21	-1.8	31.9	5.3	-9.3	16.9
Dow-Jones Spot	Mar. 21	5.1	14.8	1.3	2.0	14.8
IMF commodity index[3]	Jan.	2.4	15.2	0.8	n.a.	14.4
Metals	Jan.	-14.4	39.1	4.2	n.a.	42.6
Nonfood agricultural	Jan.	0.2	14.8	2.4	n.a.	15.8
Economist (U.S. dollar index)	Mar. 14	9.1	31.0	3.7	-1.1	27.5
Industrials	Mar. 14	4.4	38.6	8.2	-5.6	30.3

Note. Not seasonally adjusted. Copyright for Journal of Commerce data is held by CIBCR, 1994.
1. Change is measured to end of period, from last observation of previous period.
2. Week of the January Greenbook.
3. Monthly observations. IMF index includes items not shown separately.
n.a. Not available.

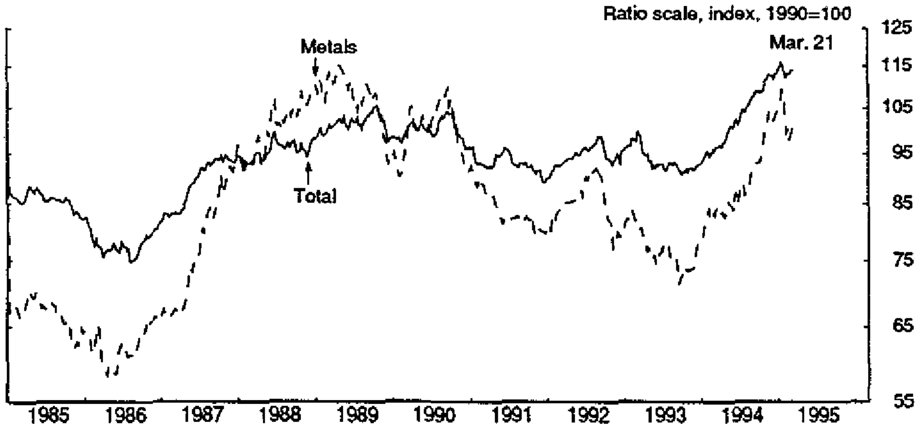
INDEX WEIGHTS

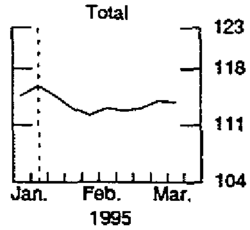


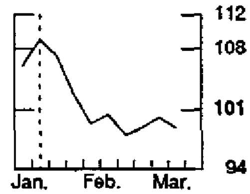
1. Forest products, industrial metals, and other industrial materials.

Commodity Price Measures

Journal of Commerce Index







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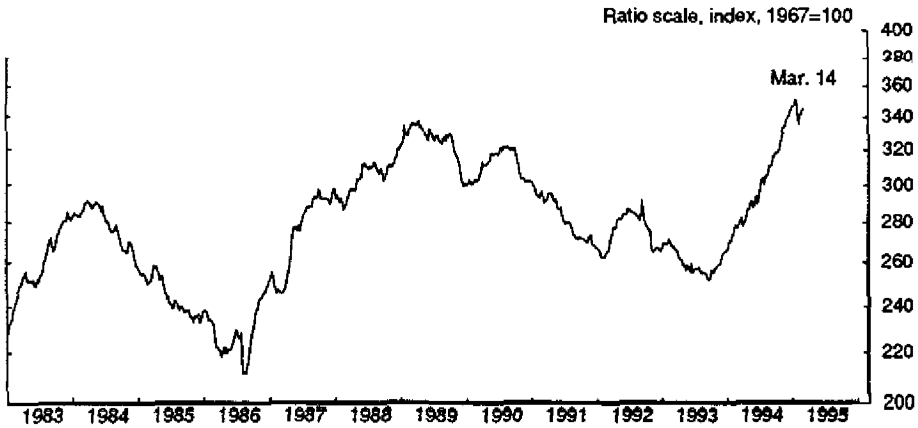
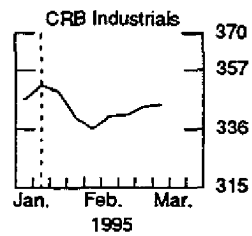
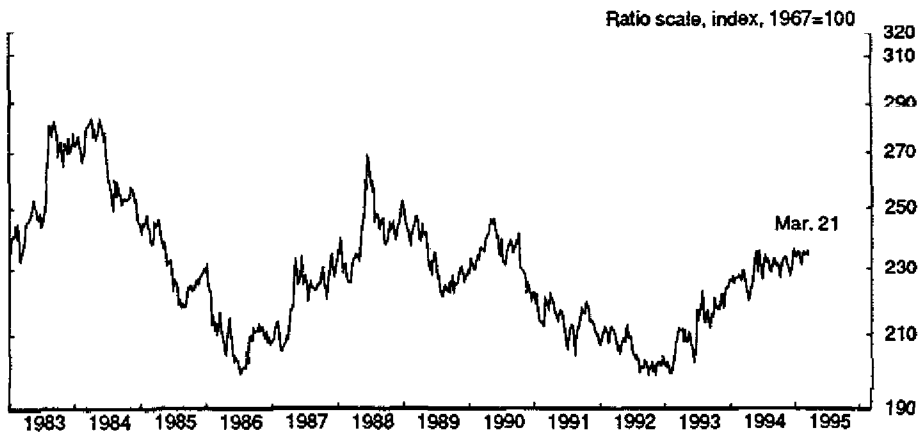
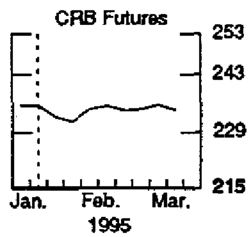




CRB Futures





Note. Weekly data, Tuesdays. Vertical lines on small panels indicate week of last Greenbook. The Journal of Commerce index is based almost entirely on industrial commodities, with a small weight given to energy commodities, and the CRB spot price index consists entirely of industrial commodities, excluding energy. The CRB futures index gives about a 60 percent weight to food commodities and splits the remaining weight roughly equally among energy commodities, industrial commodities, and precious metals. Copyright for Journal of Commerce data is held by CIBCR, 1994.

After accelerating sharply in the second half of 1994, the producer price index for intermediate materials, supplies, and components rose sharply further in the first two months of this year. Excluding food and energy, prices of these intermediate products were up 1.0 percent in both January and February. The prices of materials for manufacturing of durables rose about 3 percent over the first two months of 1995; those for nondurables moved up almost 4 percent. Prices of containers, responding to tight supplies of woodpulp and paperboard, climbed about 6 percent in the first two months of the year, to a level nearly 15 percent above that of a year earlier. Prices for crude materials excluding food and energy also continued to move up rapidly in the first two months of the year; declines in February in the prices of some metals were more than offset by substantial increases in the prices of other primary inputs, such as cotton, hides, and wastepaper.

Breaking ranks with the recent trends in materials prices, some indexes of spot commodity prices fell sharply in late January and the first half of February. The *Journal of Commerce* index of industrial materials prices plunged about 3-1/4 percent in a three-week stretch, pulled down, in large part, by sharp declines in the prices of primary metals. Since mid-February, however, the index has turned back up and has retraced more than half the earlier drop. Other indexes of spot commodity prices also have been moving up in recent weeks, although, like the *Journal of Commerce* index, some of these measures still show net declines for the period between the January and March Greenbooks.[11]

11. Price changes for individual commodities spanned a wide range in the intra-Greenbook period. Declines in the spot prices of aluminum, tin, and zinc ranged from 12 percent to 19 percent over that period. Prices of copper and steel scrap also fell somewhat. Apart from metals, prices of many spot commodities have continued to rise; cotton prices, in particular, have chalked up a huge advance (Footnote continues on next page)

Labor Costs

Most indicators of labor costs remained on favorable trends through the final quarter of 1994, and the few data available for the first quarter of 1995 do not suggest any marked departure from those trends in the past couple of months.

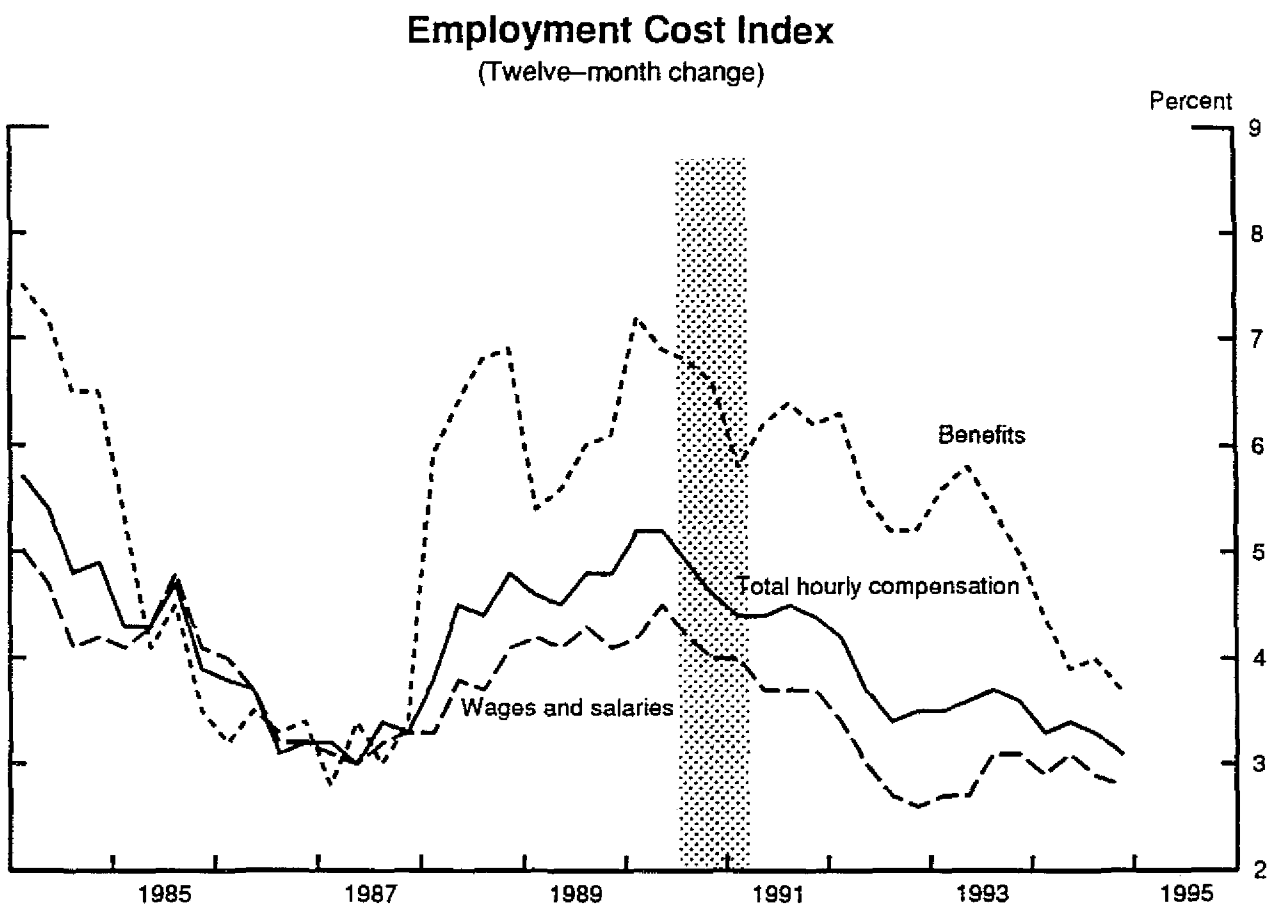
In the fourth quarter of last year, hourly compensation, as measured by the ECI for private industry workers, rose at an annual rate of only 2.6 percent, down from 3.3 percent in the previous quarter. Over the twelve months of 1994, the ECI rose 3.1 percent--half a percentage point less than the increase recorded in 1993 and, by a slight margin, the smallest annual increase on record in a series that goes back to 1980. Growth in the ECI for wages and salaries slowed from 3.1 percent over the twelve months of 1993 to 2.8 percent over 1994, while growth in benefits slowed from 5.0 percent to 3.7 percent.

Much of the slowing in benefits during 1994 can be attributed to smaller increases in health insurance and workers' compensation costs, which together make up about one-third of hourly benefits costs. Health insurance costs presumably were slowed by reduced inflation in the health sector, increased use of managed care plans, and ongoing efforts of employers to shift a greater proportion of health care costs to employees. Costs for workers' compensation

(Footnote continued from previous page)

since late January, nearly 20 percent in total, as the market for that product tightened further.

Supply developments appear to have played a part both in the price declines and the price advances. Aluminum production, for example, picked up in early 1995, as a "memorandum of understanding" between aluminum producing countries--an agreement to reduce world production in the face of excess supply--began to unravel. Similarly, high prices for copper are said to have enticed increased quantities of scrap into the markets in the United States and Europe. In the cotton market, upward price pressures associated with rising demand have been compounded recently by production shortfalls in China, Pakistan, and India, three of the world's major cotton producing countries.



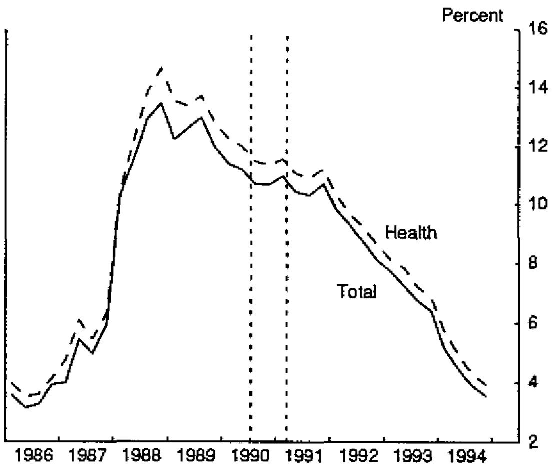
EMPLOYMENT COST INDEX OF HOURLY COMPENSATION

(Percent, twelve-month change)

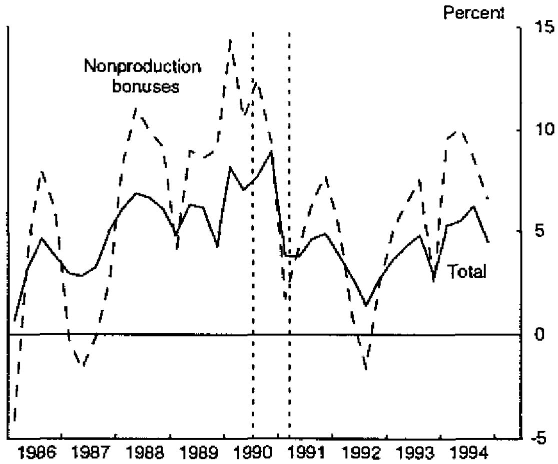
	1992	1993	1994
Total hourly compensation	3.5	3.6	3.1
Wages and salaries	2.6	3.1	2.8
Benefit costs	5.2	5.0	3.7
Insurance plans	8.1	6.4	3.6
Health insurance	8.6	6.9	3.9
Retirement and savings	5.2	4.9	11.1
Pensions and retirement	5.6	4.4	13.1
Legally required	4.8	4.4	2.3
State unemployment	10.4	15.9	4.9
Workers' compensation	9.1	5.6	-0.5

Components of ECI Benefit Costs
(Private industry workers; twelve-month change)

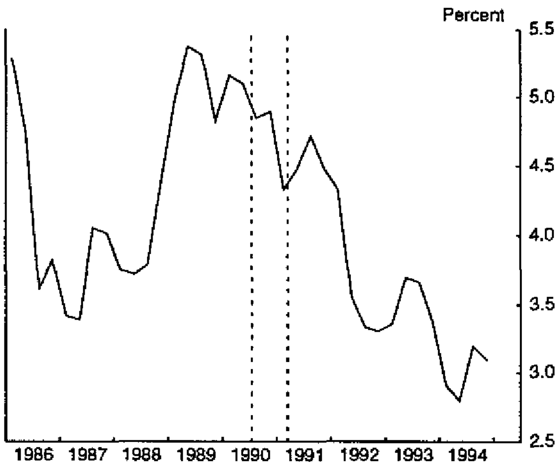
Insurance Costs



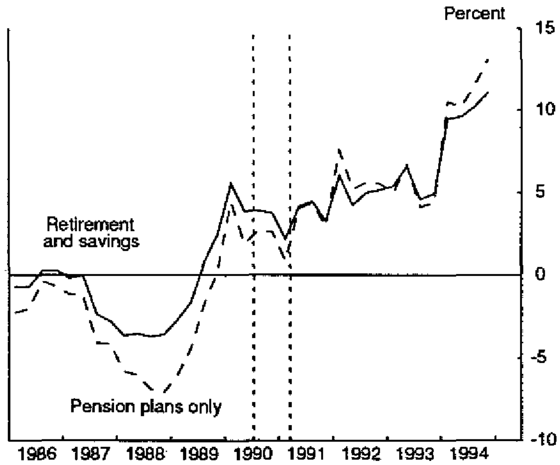
Supplemental Pay



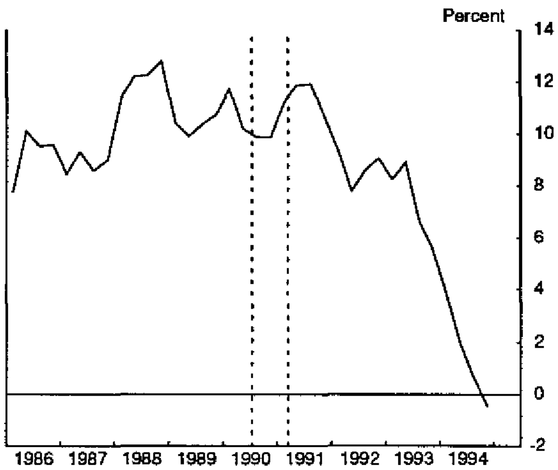
Paid Leave



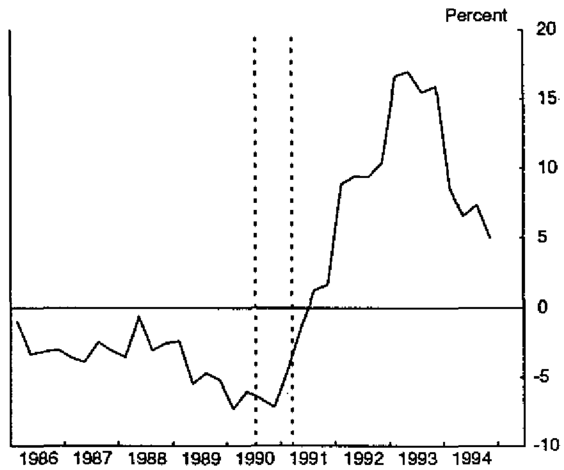
Savings and Pension Plans



Workers' Compensation Insurance



State Unemployment Insurance



ECI HOURLY COMPENSATION BY OCCUPATION
(Percent, twelve-month change)

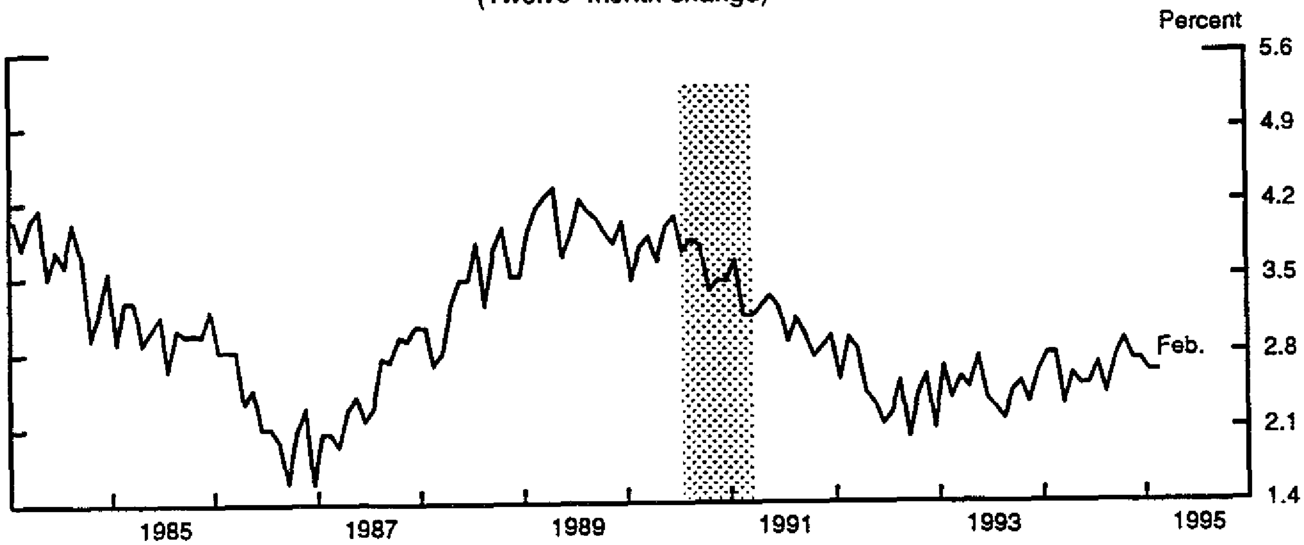
	1993	1994
White collar	3.7	3.2
Professional, specialty, technical	3.3	3.2
Executive, administrative, managerial	3.8	3.7
Sales	3.5	2.7
Administrative support, incl. clerical	4.1	3.2
Blue collar	3.7	2.8
Precision production, craft, repair	3.4	3.0
Machine operators, assemblers, inspectors	4.3	2.2
Transportation and material moving	3.5	3.1
Handlers, cleaners, helpers, laborers	3.3	3.2
Service occupations	3.1	2.8

AVERAGE HOURLY EARNINGS
(Percentage change; based on seasonally adjusted data)[1]

		1994			1994		1995	
	1994	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
		-Annual rate-			-Monthly rate-			
Total private nonfarm	2.7	2.2	3.3	2.9	-.2	.2	.5	.0
Manufacturing	2.2	1.0	3.0	2.3	.2	.2	.2	.3
Contract construction	2.4	5.6	4.2	-1.3	-.6	-.3	-.3	1.6
Transportation and public utilities	2.5	-.3	3.2	4.4	.4	-.4	.4	-.8
Finance, insurance and real estate	3.2	1.7	5.2	3.4	-.7	.1	1.0	-.3
Total trade	2.8	2.3	2.3	4.2	-.2	.5	.2	.2
Services	2.9	3.0	3.3	3.6	-.4	.4	.7	-.2

1. Annual changes are measured from December of the preceding year to December of the year indicated.

Average Hourly Earnings
(Twelve-month change)



are, to some degree, linked to health care costs; the slowing in workers' compensation this past year also reflected shifts in some states toward rules that reduce the contributions required from businesses. Costs for state unemployment insurance also decelerated in 1994, as would be expected as an economic expansion lengthens and the experience ratings of firms improve. Pension costs, on the other hand, accelerated markedly last year, largely reflecting attempts by many firms to reduce the underfunding of their plans.

Scattered reports that workers with some types of skills are in short supply began to appear in 1994 and have continued to surface in recent months. However, at least through year-end, these shortages do not seem to have shown through in any major way in the ECI data on compensation across various occupational groups. Between the four quarters ended December 1993 and the four quarters ended December 1994, compensation growth declined 0.5 percentage point for white-collar workers, 0.9 percentage point for blue-collar workers, and 0.3 percentage point for service occupations. Even for more disaggregated categories, unusually large increases have not been evident in the ECI. Thus, shortages of skilled workers, to the extent that they do exist, probably have been confined to fairly narrow occupational specialties at a finer level of detail than is reported in the ECI or other available indicators of labor costs.

According to revised data on productivity and costs, compensation per hour in the nonfarm business sector rose at an annual rate of 3.4 percent in the final quarter of 1994. Although this rate of increase was substantially larger than that reported in the ECI, the two series often have diverged considerably on a quarterly basis.[12] Over all of 1994, nonfarm compensation per

12. The fourth-quarter gap between the rates of increase in nonfarm compensation and ECI compensation was more than accounted for by a faster rate of rise in the wages and salaries component of (Footnote continues on next page)

hour rose 3.3 percent, just a touch more than the increase in ECI compensation over the year. With a further rise in productivity offsetting nearly half of the 1994 rise in hourly compensation, unit labor costs in the nonfarm business sector increased 1.9 percent over the four quarters of the year, after an increase of only 0.6 percent in 1993. In the four-year stretch since 1990, increases in labor costs per unit of nonfarm output have averaged just 1-3/4 percent per year.

Wage data for 1995 are quite limited at this juncture. Average hourly earnings of private production or nonsupervisory workers rose at an average monthly rate of 0.3 percent over the first two months of the year, with increases coming in all major industries except transportation and public utilities. Over the twelve months ended in February, average hourly earnings increased 2.5 percent, down somewhat from the 2.8 percent increase in the year-earlier period.

(Footnote continued from previous page)

nonfarm compensation. This difference, in turn, seems to be traceable to two factors: First, the ECI is computed on an end-of-quarter basis; in contrast, nonfarm compensation is measured on a quarterly-average basis. Second, the ECI captures changes in the rate of pay for overtime but is not affected by changes in the number of overtime hours (relative to straight-time hours); by contrast, the series on nonfarm wages and salaries is affected by both changes in overtime pay and overtime hours in manufacturing.

DOMESTIC FINANCIAL DEVELOPMENTS

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent except as noted)

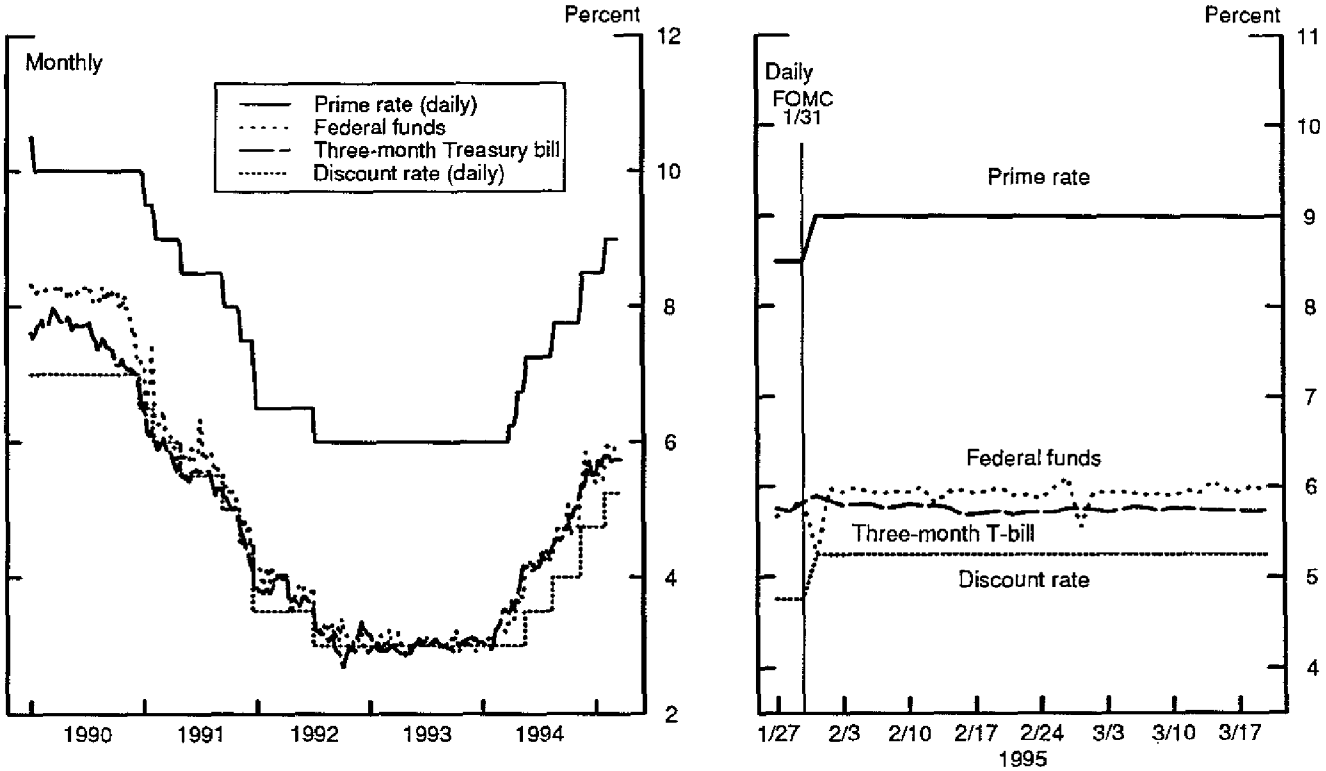
Instrument	1993 Oct lows	1994 Feb 3	1995 FOMC.* Feb 1	1995 Mar 21	Change to Mar 21, 1995: From Oct 93 lows	From 1994 Feb 3	From FOMC.* Feb 1
SHORT-TERM RATES							
Federal funds[2]	3.07	3.07	5.55	5.97	2.90	2.90	.42
Treasury bills[3]							
3-month	3.01	3.13	5.83	5.74	2.73	2.61	-.09
6-month	3.09	3.27	6.13	5.89	2.80	2.62	-.24
1-year	3.23	3.52	6.41	5.99	2.76	2.47	-.42
Commercial paper							
1-month	3.13	3.16	6.09	6.05	2.92	2.89	-.04
3-month	3.23	3.25	6.24	6.14	2.91	2.89	-.10
Large negotiable CDs[3]							
1-month	3.08	3.11	6.03	6.02	2.94	2.91	-.01
3-month	3.22	3.25	6.23	6.13	2.91	2.88	-.10
6-month	3.23	3.41	6.59	6.31	3.08	2.90	-.28
Eurodollar deposits[4]							
1-month	3.06	3.06	6.00	6.00	2.94	2.94	.00
3-month	3.25	3.25	6.19	6.13	2.88	2.88	-.06
Bank prime rate	6.00	6.00	8.50	9.00	3.00	3.00	.50
INTERMEDIATE- AND LONG-TERM RATES							
U.S. Treasury (constant maturity)							
3-year	4.06	4.60	7.39	6.84	2.78	2.24	-.55
10-year	5.19	5.81	7.60	7.16	1.97	1.35	-.44
30-year	5.78	6.31	7.71	7 43	1.65	1.12	-.28
Municipal revenue[5] (Bond Buyer)	5.41	5.49	6.78	6.25	.84	.76	-.53
Corporate--A utility, recently offered	6.79	7.35	8.69	8.39	1.60	1.04	-.30
Home mortgages[6]							
FHLMC 30-yr. fixed rate	6.74	6.97	9.13	8.38	1.64	1.41	-.75
FHLMC 1-yr. adjustable rate	4.14	4.12	6.75	6.44	2.30	2.32	-.31

Stock exchange index	Record high Level	Record high Date	1989 Low, Jan. 3	1995 FOMC,* Feb 1	1995 Mar 21	Percentage change to Mar 21: From record high	From 1989 low	From FOMC,* Feb 1
Dow-Jones Industrial	4083.68	3/20/95	2144.64	3843.86	4072.61	-.27	89.90	5.95
NYSE Composite	268.05	3/20/95	154.00	255.93	267.58	- 18	73.75	4.55
NASDAQ (OTC)	810.49	3/20/95	378.56	755.20	809.78	-.09	113.91	7.23
Wilshire	4868.95	3/20/95	2718.59	4631.40	4860.90	-.17	78.80	4.96

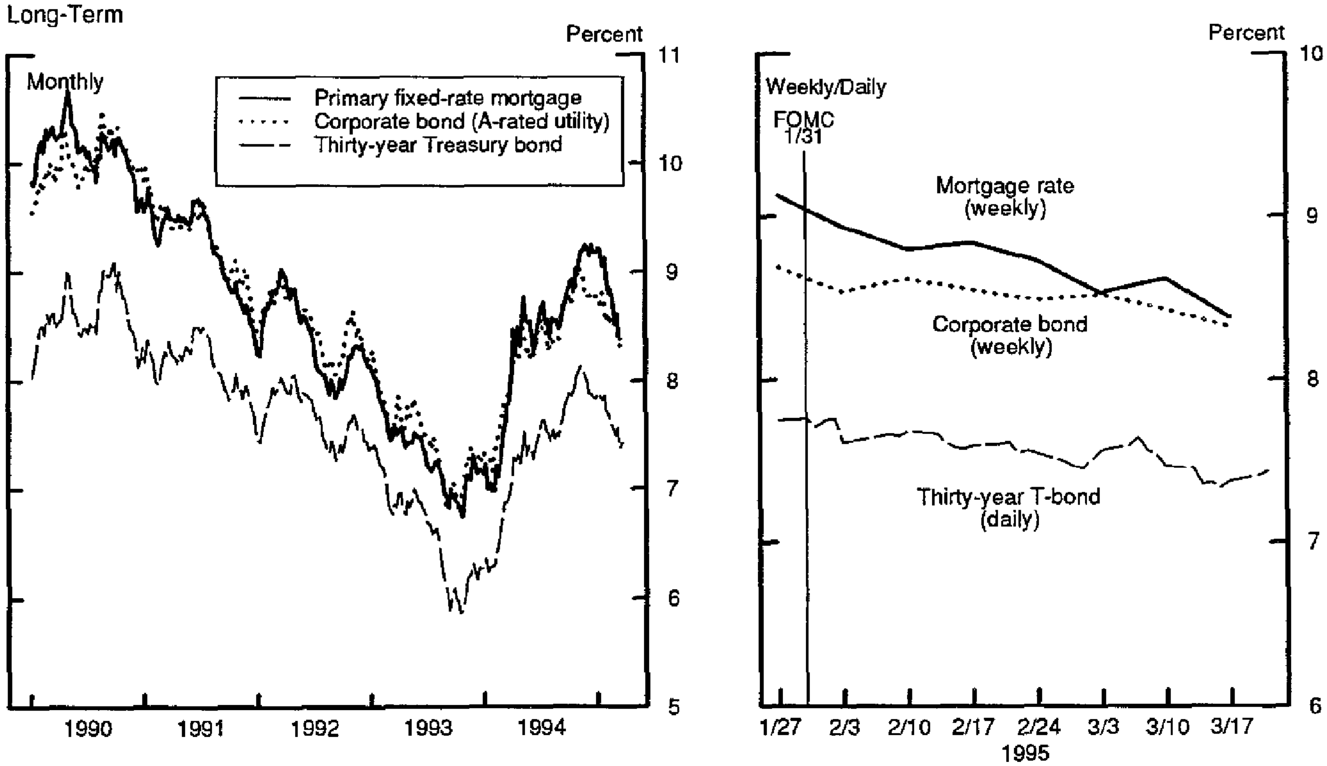
1. One-day quotes except as noted.
2. Average for two-week reserve maintenance period closest to date shown. Last observation is average to date for maintenance period ending Mar 29, 1995.
3. Secondary market.
* Figures are as of the close on Jan 31, 1995.
4. Bid rates for Eurodollar deposits at 11 a.m. London time.
5. Most recent observation based on one-day Thursday quote and futures market index changes.
6. Quotes for week ending Friday previous to date shown.

Selected Interest Rates

Short-Term



Long-Term



Market interest rates beyond the very shortest term have declined appreciably since January 31, despite the half-point increase in the discount and federal funds rates implemented immediately after the last FOMC meeting. The initial market reaction was limited because the System action was fairly widely anticipated. But the yield curve flattened subsequently as incoming economic data were interpreted as indicating that the monetary policy tightening over the past year was beginning to bite--to a greater degree than had been foreseen--and thus that further policy action might be of lesser dimension than had been anticipated. In this context, market sentiment was further bolstered by remarks by System officials recognizing the softer tone of the data and suggesting that further tightening was less likely. The change in interest rate outlook contributed to downward pressures on the dollar against the yen and mark and buoyed bond prices, even though they slipped temporarily in early March when the dollar declined especially sharply.

Thus far in the intermeeting period, yields on Treasury coupon issues have fallen 30 to 55 basis points, with the largest declines posted at intermediate maturities. The thirty-year fixed rate mortgage rate shed 75 basis points and, at 8-3/8 percent, is at its lowest level since August. The growing confidence that policy tightening has largely run its course, coupled with surprisingly strong corporate earnings reports, boosted major equity indexes 4-1/2 percent or more during the period.

Overall credit growth appears to have been well maintained in early 1995, although its composition may have shifted slightly. Consumer loan growth has slowed a bit, as consumer spending has flattened and as changes in IRS practices have curtailed the usual

MONETARY AGGREGATES
(Based on seasonally adjusted data)

Aggregate or component	1994	1994 Q3	1994 Q4	1994 Dec.	1995 Jan.	1995 Feb. (p)	1994:Q4 to Feb. 95 (p)	Level (bil. $) Feb. 95 (p)
Aggregate	Percentage change (annual rate)[1]							
1. M1	2.3	2.4	-1.2	0.3	1.0	-1.8	-0.2	1147.1
2. M2	0.9	0.7	-0.4	1.4	4.3	-1.0	1.5	3621.7
3. M3	1.4	1.9	1.7	3.3	6.9	2.9	4.3	4336.5
Selected components								
4. Currency	10.2	9.1	8.7	5.1	10.8	3.7	7.1	358.8
5. Demand deposits	0.4	0.3	-4.2	-0.9	4.7	1.9	1.3	384.1
6. Other checkable deposits	-2.1	-1.4	-6.7	-2.7	-11.0	-10.2	-8.1	395.8
7. M2 minus M1	0.3	-0.1	0.0	1.8	5.8	-0.6	2.3	2474.6
8. Savings deposits	-4.5	-7.1	-11.7	-14.2	-15.1	-18.8	-15.8	1111.8
9. Small time deposits	2.0	5.0	13.1	14.6	22.6	29.4	22.8	852.4
10. Retail money market funds	7.5	5.0	8.8	17.2	8.9	-1.2	8.0	392.2
11. Overnight RPs, n.s.a.	13.9	15.7	7.3	17.4	62.8	-9.5	20.6	87.8
12. Overnight Eurodollars, n.s.a.	41.3	80.3	29.3	92.3	134.2	-150.8	6.5	31.3
13. M3 minus M2	3.6	8.6	13.1	13.6	21.1	23.1	19.1	714.8
14. Large time deposits, net[2]	7.0	11.9	18.0	15.4	3.0	32.4	17.1	373.0
15. Institution-only money market mutual funds	-8.2	-4.5	7.2	2.0	36.5	-38.0	-0.7	180.4
16. Term RPs, n.s.a.	7.0	9.6	5.9	23.2	44.4	35.1	33.9	112.5
17. Term Eurodollars, n.s.a.	16.1	26.6	20.2	-34.7	26.8	61.2	27.4	57.7
Memo								
18. Monetary base	8.4	7.5	6.9	4.0	8.0	3.7	5.8	422.3
19. Household M2[3]	0.4	-0.2	0.0	1.1	0.8	0.1	0.7	3110.8
	Average monthly change (billions of dollars)[4]							
Memo								
20. Managed liabilities at commercial banks (lines 22 + 23)	14.4	13.0	11.3	25.1	47.7	23.0	. . .	1098.4
21. Large time deposits, gross	2.1	3.2	5.1	4.5	-0.3	10.0	. . .	382.6
22. Nondeposit funds	12.3	9.8	6.2	20.6	48.0	13.0	. . .	715.8
23. Net due to related foreign institutions	7.8	8.6	4.6	12.3	19.2	7.7	. . .	252.2
24. Other[5]	4.5	1.3	1.5	8.3	28.8	5.2	. . .	463.5
25. U.S. government deposits at commercial banks	0.0	-2.7	0.7	1.0	-2.4	0.2	. . .	18.8

1. For the years shown, fourth quarter-to-fourth quarter percent change. For the quarters shown, based on quarterly averages.
2. Net of holdings of depository institutions, money market mutual funds, U.S. government, and foreign banks and official institutions.
3. Sum of seasonally adjusted currency, retail money funds, and other checkable, savings, and small time deposits.
4. For the years shown, 'average monthly change' is the fourth quarter-to-fourth quarter dollar change, divided by 12. For the quarters shown, it is the quarter-to-quarter dollar change, divided by 3.
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.
p Preliminary. n.s.a. Not seasonally adjusted.

burst of tax-refund anticipation loans. Business borrowing, in contrast, has been buoyant; bank loans to businesses have been expanding at an annual pace of more than 20 percent so far this year, and commercial paper issuance has remained robust. Longer-term debt issuance by nonfinancial firms has revived somewhat in the past two months as firms have moved to take advantage of the widespread rally in capital markets, partly to pay down merger-related commercial paper. Municipal bond issuance has been notably sluggish, and, with sizable retirements extending the contraction in outstanding supply, the ratio of tax-exempt to taxable yields has declined sharply.

Monetary Aggregates and Bank Credit

The growth in the broad monetary aggregates slowed in February. M2 contracted at a 1 percent annual rate, and M3 grew at a 3 percent pace.[1] In January, these aggregates posted gains of 4-1/4 and 7 percent, respectively. M2 growth fell off in February, in part because of a reversal of the volatile components that had boosted the aggregate in January: demand deposits, overnight RPs, and overnight Eurodollars. The continued decline in OCDs and savings deposits also showed through to pull down growth in the aggregate. On the plus side, small time deposits grew at a 29 percent annual rate in February, accelerating from a 23 percent growth rate in January. Early March data suggest some pickup in the growth rates of M2 and M3.

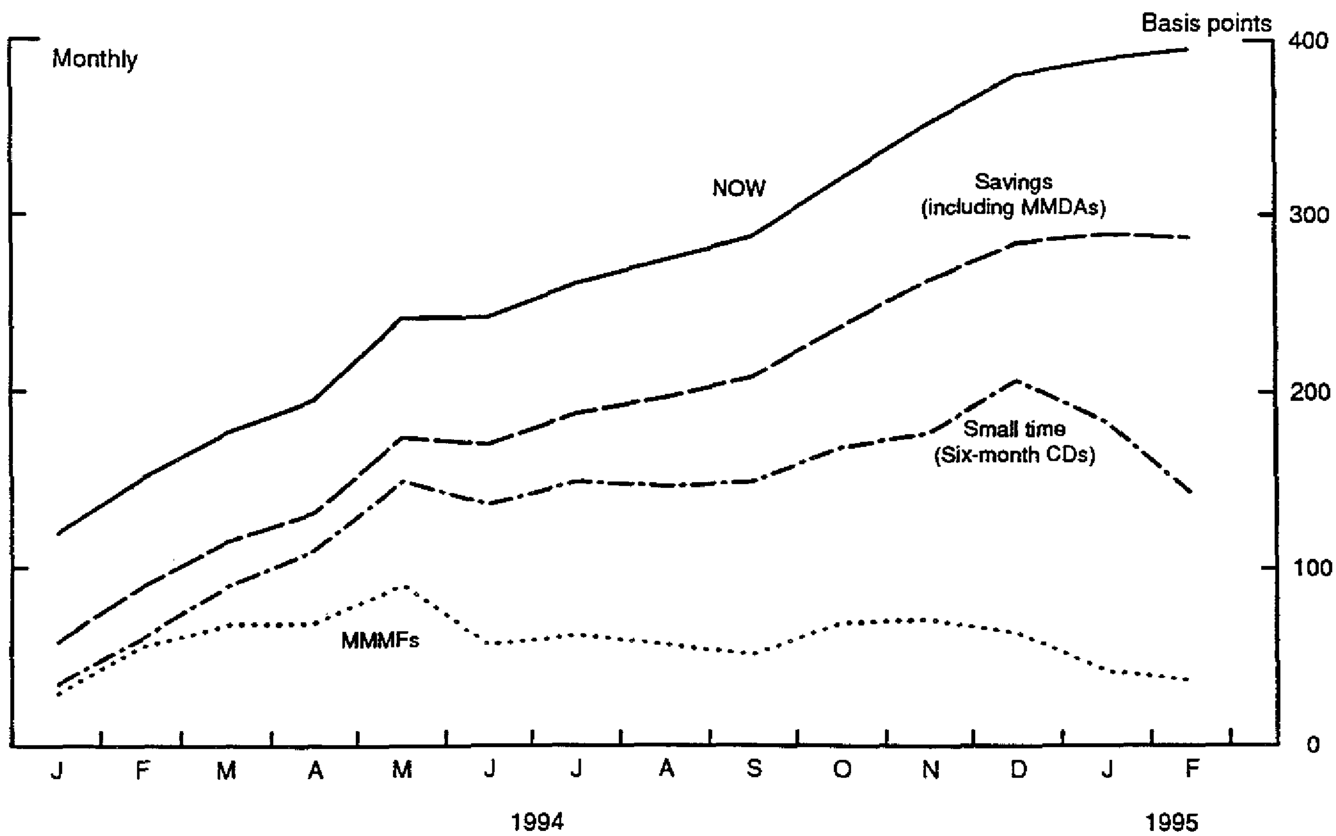
The disparate behavior of the components of M2 largely reflects relative movements in opportunity costs (chart). The costs of holding NOW accounts and savings accounts increased throughout 1994, and for NOW accounts has widened further this year. In contrast,

1. From the fourth quarter of 1994 to February, M2 has grown at a 1-1/2 percent annual rate, putting it a little above the lower edge of its annual range. Over the same period, M3 has grown at a 4-1/4 percent rate, leaving it slightly above its annual range.

the cost of holding small time deposits has dropped substantially this year because of both increased retail CD rates and declines in intermediate-term Treasury rates. In addition to high opportunity costs, growth in OCD and savings accounts may have been damped a bit by slower-than-usual tax refunds.

Except for the highly interest-sensitive institution-only money market mutual funds, which contracted after the System's tightening move, the non-M2 components of M3 were up sharply in February. Banks continue to rely heavily on managed liabilities, rather than retail deposits, to fund the recent run-up in bank lending, and this has been reflected in the strength of the large time deposit, term RP, and term Eurodollar components of M3.

Measures of Opportunity Costs
(Treasury rates less rates on selected M2 components)



Bank credit growth cooled appreciably in February, as run-offs of U.S. government securities resumed and loan growth slowed from its torrid January pace. Bank lending in February was pulled down by a marked deceleration of consumer loans, which expanded at only a 2-1/2 percent annual rate after a year of double-digit growth. Several percentage points of this deceleration likely owed to a major cutback of tax-refund loans this year. The amount of lending against future income tax refunds has been reduced by the unwillingness of the IRS to send checks directly to lenders in certain cases or to confirm in advance that a tax-refund claim is valid. The slowdown in consumer lending is also consistent with weakness in spending on durable goods in January and February, which may have been partly related to delayed tax refunds but also to sharp increases in interest rates on consumer loans.

Business loans expanded at an annual rate of more than 20 percent in January and February. Checks with a few banks confirmed the reasons given in the January Senior Loan Officer survey for the strength in lending--primarily financing of inventories and plant and equipment expenditures. Merger financing was also mentioned, although the bulk of short-term merger financing apparently has been through commercial paper, which has continued to trend higher. The Survey of Terms of Bank Lending to Business conducted in the second week of February found that loan spreads over market rates had narrowed slightly from the November survey--suggesting continued bank aggressiveness in making loans, though it is possible that the adjustment of loan rates to the System tightening was still incomplete at the time of the survey.

Real estate loans at banks grew in February at a 9 percent annual rate, below the January pace but in line with growth rates of last year. The strength likely owes in part to a growing share of

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage change; seasonally adjusted annual rate)[1]

Type of credit	1994	1994 Q3	1994 Q4	1994 Dec	1995 Jan	1995 Feb	Level, Feb 1995 (billions of $)
	Commercial bank credit						
1. Total loans and securities	6.8	7.2	4.3	7.0	11.6	4.3	3,364.2
2. Securities	4.9	1.3	-7.2	-5.0	-2.0	-10.8	938.2
3. U.S. government	0.0	-4.0	-11.3	-7.0	1.8	-8.0	715.8
4. Other	24.5	20.0	6.4	.5	-14.2	-19.6	222.4
5. Loans	7.7	9.7	9.1	11.9	17.0	10.2	2,426.0
6. Business	9.5	10.7	10.9	9.9	23.8	22.2	671.1
7 Real estate	6.3	8.7	7.6	9.4	17.9	8.9	1,021.0
8. Consumer	14.7	16.5	14.7	14.3	13.1	2.6	455.6
9. Security	-15.0	-19.5	-9.7	30.1	-32.6	-16.8	70.6
10. Other	4.0	9.1	5.4	17.9	17.1	4.6	207.7
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	9.6	10.8	11.5	10.1	24.7	23.8	663.3
12. Loans at foreign branches[2]	5.1	12.6	-3.5	15.9	26.2	20.5	23.8
13. Sum of lines 11 and 12	9.4	10.9	10.9	10.3	24.9	23.5	687.1
14. Commercial paper issued by nonfinancial firms	1.2	4.5	25.0	37.3	12.3	20.1	170.3
15. Sum of lines 13 and 14	7.7	9.7	13.7	15.5	22.4	22.8	857.4
16. Bankers acceptances, U.S. trade-related[3,4]	-8.3	-11.5	-25.7	-50.5	-26.4	n.a.	17.8[5]
17. Loans at finance companies[4]	12.2	5.2	17.0	20.0	22.7	n.a.	360.7[5]
18. Total (sum of lines 15, 16, and 17)	8.7	8.0	13.9	15.8	21.7	n.a.	1,219.9[5]

1. Except as noted, levels are averages of Wednesday data and percentage changes are based on averages of Wednesday data. For years, "percentage change" is percentage change in quarterly average from fourth quarter of preceding year to fourth quarter of specified year. For quarters, it is the percentage change in quarterly average from preceding quarter to specified quarter, annualized. Data are adjusted for breaks caused by reclassification.
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. Levels and changes are based on averages of month-end data.
5. January 1995.
n.a. Not available.

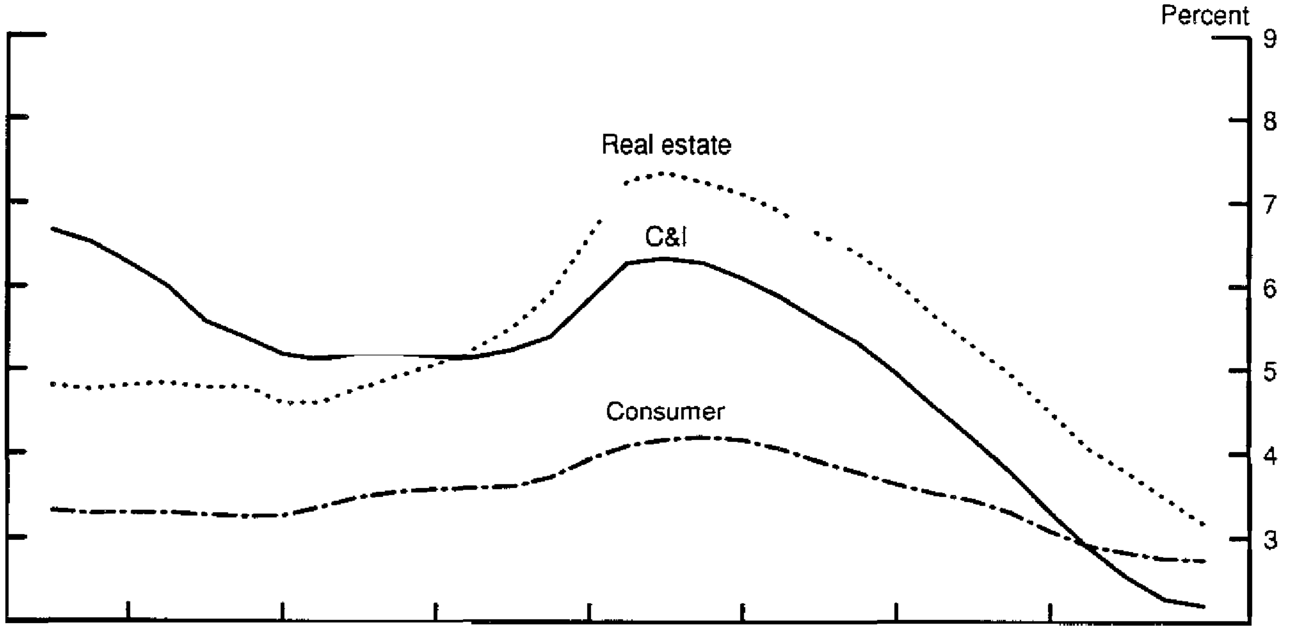
loans originated at adjustable rates. Banks tend to keep a larger share of adjustable rate mortgages than fixed rate mortgages on their books because of their access to funds with similar durations. Some of the strength may also reflect increased commercial real estate lending, which accelerated through 1994 after declining from 1991 through mid-1993. Banks' commercial real estate loans in the fourth quarter (the most current data available) grew at a 7 percent annual rate.

The quality of bank loan portfolios continued to improve through year-end. Fourth-quarter Call Report data show that delinquency and charge-off rates on real estate and business loans fell again and are now at their lowest levels in recent history (chart). Consumer loan quality appears about unchanged in the fourth quarter but remains much improved over the early 1990s.

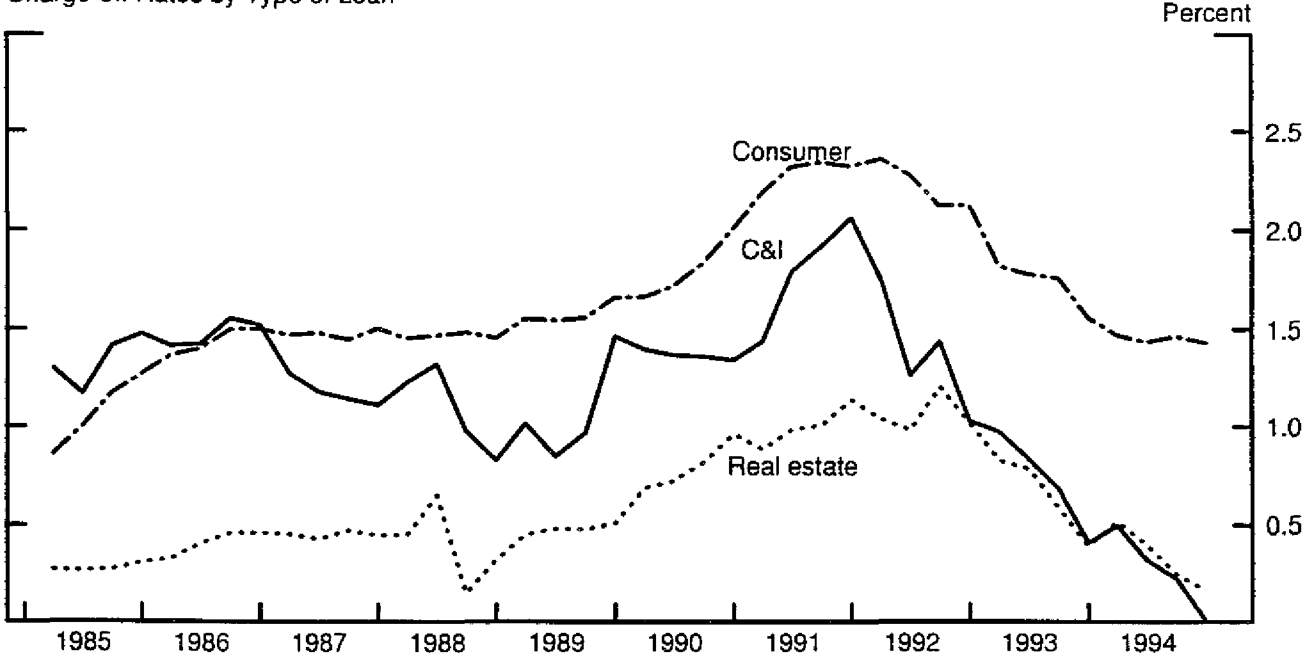
Recently available data for 1994 on the thrift sector--savings and loans, savings banks, and credit unions--show that the assets of those institutions were little changed from the previous year, standing at a level of roughly $1.36 trillion. This steady asset level balances two offsetting trends: the robust growth of mortgage-related assets at individual thrifts and the continuing decline in the number of thrifts due to commercial bank purchases of savings and loans. This year, however, a significant cloud hangs over the SAIF-insured thrift institutions, because of a likely, and substantial, difference between BIF and SAIF deposit premiums. If no action is taken by Congress, SAIF-insured thrifts will pay about 20 basis points more than BIF-insured institutions, and a significant flow of deposits from SAIF to BIF may develop as institutions seek to avoid the higher premium.

Delinquency and Charge-Off Rates at All Banks

(Seasonally adjusted)



Charge-off Rates by Type of Loan



Note: Data are from FFIEC's quarterly Reports of Condition. Delinquent loans include those past due 30 days or more and still accruing interest, as well as those on nonaccrual status. Charge-off rates are annualized, net of recoveries. Before 1987, the data on delinquency rates are for domestic loans only.

NET SALES OF MUTUAL FUNDS CLASSIFIED BY TYPE
(Billions of dollars, monthly rate, NSA)

	1994			1995		Memo: Jan.
	Q3	Q4	Dec.	Jan.	Feb.[e]	Assets
Total stock	11.2	8.1	11.6	6.8	7.6	869.9
International	3.9	2.0	2.1	.3	.6	154.9
Domestic	7.3	6.1	9.5	6.5	7.0	715.0
Total bond	-1.3	-7.1	-6.3	-1.3	2.4	724.5
GNMA	-1.0	-1.2	-1.2	-1.3	-.7	53.2
Government	-1.5	-2.0	-1.9	-.4	-.5	86.0
High-yield	.1	.0	.7	.7	1.4	45.9
Tax-exempt	-.1	-3.2	-3.7	.5	2.6	233.1
Income	1.7	.2	.6	.1	.3	216.8
Other	-.6	-.9	-.9	-.9	-.7	57.5
Total money fund	3.2	8.3	3.6	29.7	-1.0	640.7
Taxable	3.4	8.2	7.1	23.6	-.9	524.0
Tax-exempt	-.2	.1	-3.5	6.1	-.1	116.7

e Estimate.
Source: Investment Company Institute.

Mutual Funds

Strong inflows into tax-exempt and high-yield bond funds in February more than offset further withdrawals from government and GNMA bond funds, leaving net flows into bond funds positive for the first time since June of last year. However, data through mid-March on the tax-exempt funds point to some resumed weakness in that sector. As the stock market rallied, inflows into domestic stock funds edged up in February and early March from the subdued pace of January.[2] Although much weaker than last year, net flows into international stock funds also picked up, despite the increased uncertainty associated with plummeting stock prices and weakening currencies in some emerging markets. Trade reports indicate that

2. The strong inflows into stock funds in December largely reflected the purchase of additional shares with year-end distributions. Adjusting for reinvested distributions, net sales of international and domestic stock funds combined were $5.3 billion, less than half the reported figure.

GROWTH OF CONSUMER CREDIT
(Percent change; seasonally adjusted annual rate)

Type of credit	1993	1994	1994 Q3	1994 Q4[r]	1994 Dec.[r]	1995 Jan.[p]	Memo: Outstanding Jan. 1995 (billions of dollars)
Installment	8.6	14.7	15.2	14.3	8.7	10.1	919.0
Auto	9.5	15.1	15.3	11.9	4.0	-1.1	324.2
Revolving	11.9	17.3	17.3	18.4	10.2	16.7	342.4
Other	3.8	11.0	12.4	11.8	12.8	15.5	252.3
Noninstallment	-4.9	-4.9	-8.7	-7.7	27.0	52.2	52.7
Total	7.7	13.5	13.8	13.2	9.6	12.3	971.7

r Revised.
p Preliminary.

INTEREST RATES ON CONSUMER LOANS
(Annual percentage rate)

Type of loan	1992	1993	1994	1994 Aug.	1994 Nov.	1995 Jan.	1995 Feb.
At commercial banks[1]							
New cars (48 mo.)	9.3	8.1	8.1	8.4	8.8	n.a.	9.7
Personal (24 mo.)	14.0	13.5	13.2	13.3	13.6	n.a.	14.1
Credit cards[2]							
All accounts	n.a.	n.a.	n.a.	n.a.	15.9	n.a.	n.a.
Accounts assessed interest	n.a.	n.a.	n.a.	n.a.	15.7	n.a.	n.a.
At auto finance cos.[3]							
New cars	9.9	9.5	9.8	10.3	10.5	11.4	11.9
Used cars	13.8	12.8	13.5	13.9	14.2	14.6	15.1

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

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

2. The rate for *all accounts* is the stated APR averaged across all credit card accounts at all reporting banks. The rate for *accounts assessed interest* is the annualized ratio of total finance charges at all reporting banks to the total average daily balances against which the finance charges were assessed (excludes accounts for which no finance charges were assessed).

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

n.a. Not available.

some investors are seeing the weakness in these markets and other international markets as a buying opportunity; however, those funds investing primarily in Latin America have faced modest net redemptions.

This spring, the Securities and Exchange Commission will issue final amendments to Rule 2a-7 to tighten investment standards for tax-exempt money funds. A key provision would extend a diversification test--currently in effect for taxable funds--to national tax-exempt funds, by prohibiting a money fund from investing more than 5 percent of its assets in any one issuer. However, single-state tax-exempt funds would not be subject to the 5 percent diversification test. They would, instead, be limited to purchases of investment-grade securities.

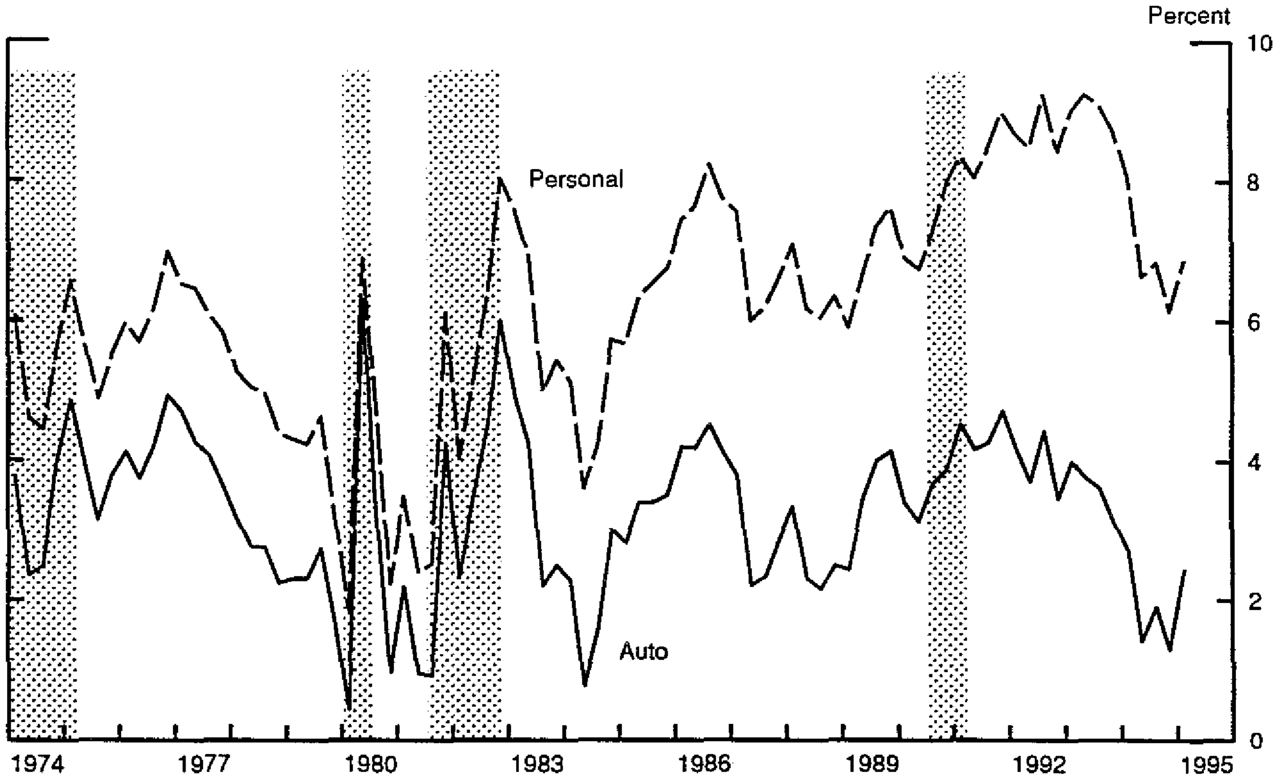
Consumer Credit

Growth in consumer installment credit, while relatively strong in January, was down from the more rapid pace set for all of 1994. Automobile credit declined in January--the first drop since January 1993. Revolving credit expanded at about its average pace over the past year, while "other" loans outstanding posted a sizable increase. Total consumer credit (installment plus noninstallment) rose at a 12-1/4 percent rate in January, near the fourth-quarter average.

Substantially higher interest rates may have contributed some to the slowing in auto loan growth in recent months. Interest rates on automobile loans at commercial banks jumped almost 1 percentage point from November to February, the sharpest increase in the more than twenty-year history of the series. Rates on two-year personal loans at commercial banks also rose significantly. Nonetheless, spreads of consumer rates over Treasuries remain relatively low by

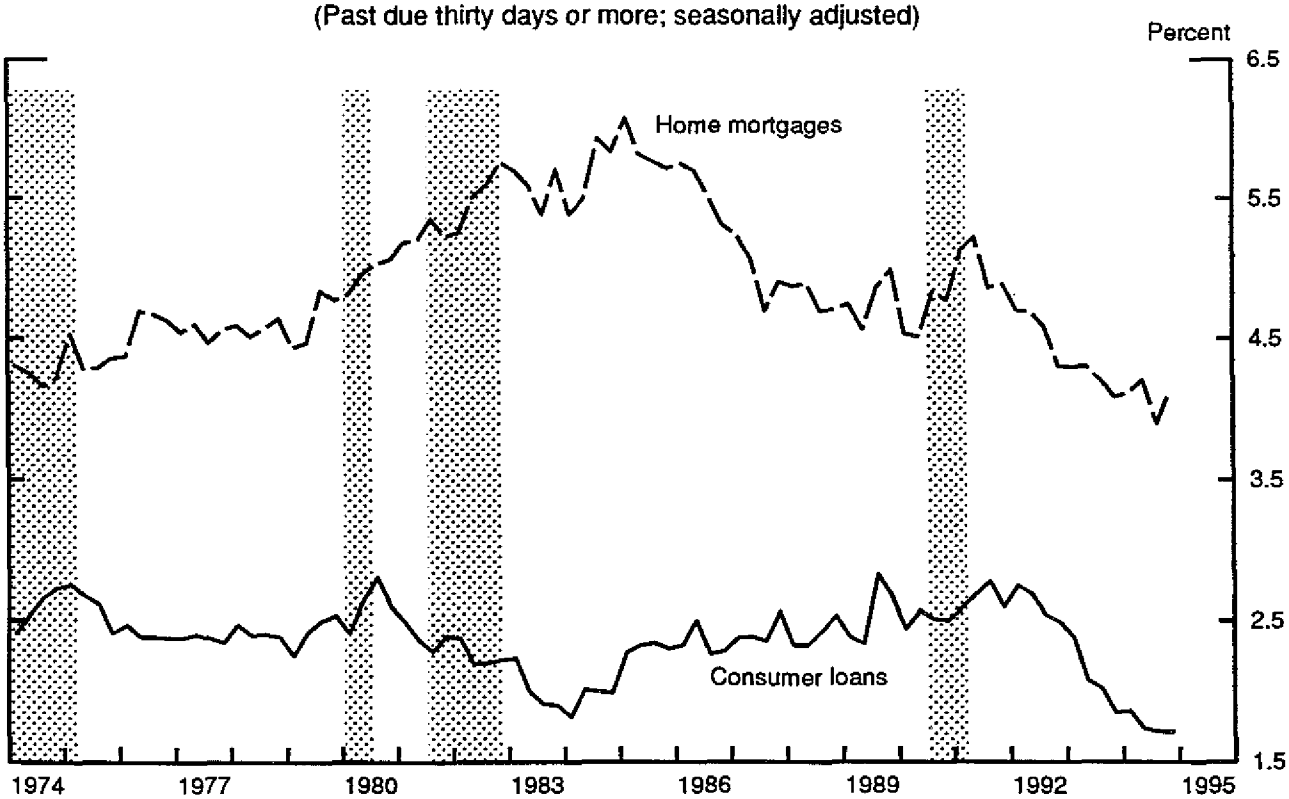
Rate Spread on Consumer Loans at Commercial Banks

(Consumer rate less yield on three-year Treasury notes)



Loan Delinquency Rates for Households

(Past due thirty days or more; seasonally adjusted)



Source. American Bankers Association and Mortgage Bankers Association.

historical standards, having recovered only to about the levels of a year earlier (chart, top panel).

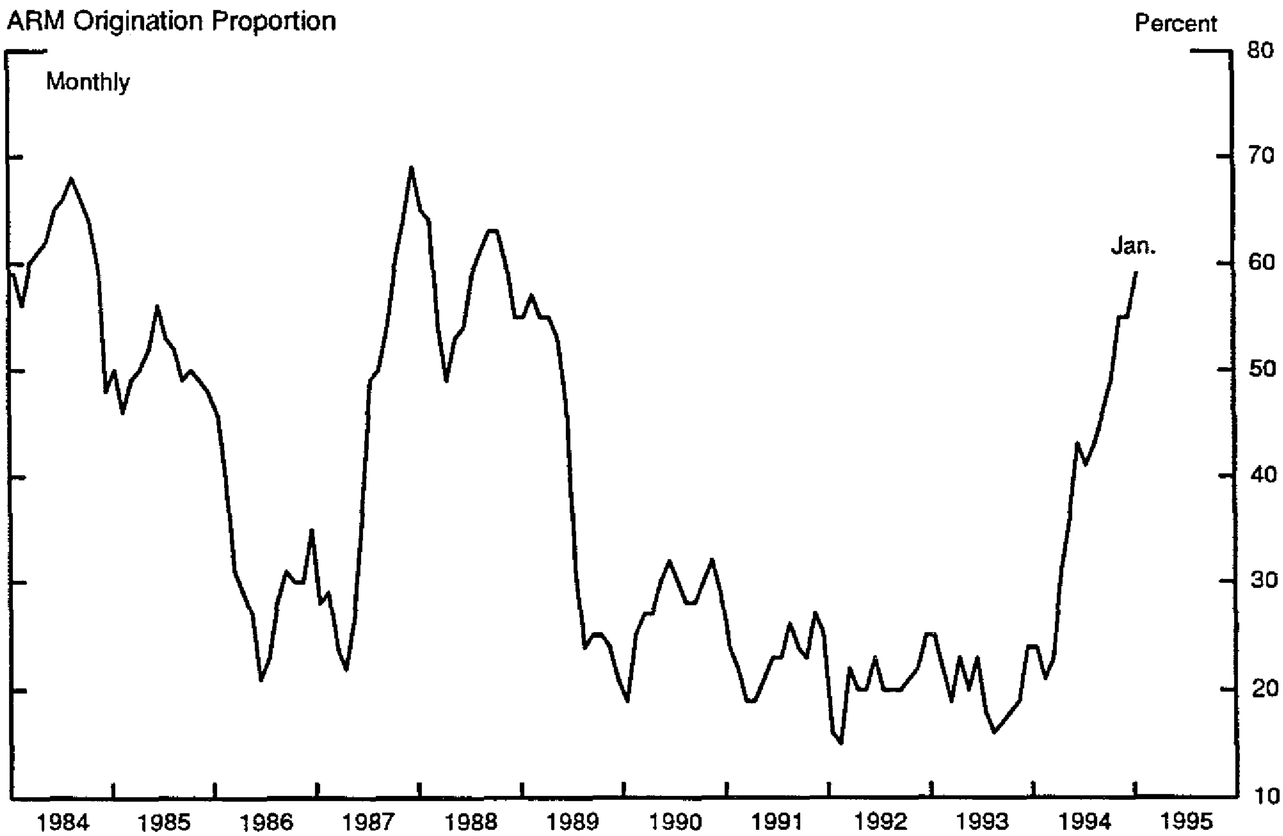
The substantial growth in consumer indebtedness over the past two years, both in nominal terms and relative to growth in personal incomes, does not yet appear to have greatly affected the ability of the household sector to service its debt. Staff estimates of scheduled principal and interest payments on consumer and mortgage loans rose only slightly in the fourth quarter, to a level still significantly below the 1989-90 peak. Further, data on consumer- and mortgage-loan delinquency rates remained at relatively low levels in the fourth quarter (chart, bottom panel), although some series recorded increases. For instance, the American Bankers Association reported a substantial rise in bank credit card delinquencies (in contrast to evidence from the bank Call Report), and the auto finance companies reported higher auto loan delinquencies. Most other available series registered small mixed changes. The seasoning of the large volume of loans originated over the past two years and the pickup in delinquencies usually associated with such seasoning suggest that many of these series may be bottoming out.

Mortgage Markets

Apart from the data on real estate lending at commercial banks, information on mortgage lending activity in the current quarter is scant. Total issuance of mortgage pass-through securities continues to slow, with the January data showing a decline to a seasonally adjusted monthly rate of about $12 billion, well below the average monthly pace of the past few years. Weak demand for mortgage derivative securities continues to affect the REMIC market. Trade reports indicate that the dollar volume of CMOs/REMICs outstanding

Adjustable Rate and Fixed Rate Mortgages

(Not seasonally adjusted)



actually declined for the first time ever last year, and issuance in 1995 remains quite low.

Although total issuance of pass-through securities slowed sharply last year, reflecting the drop-off in overall mortgage originations, the dollar volume of newly issued securities backed by adjustable rate mortgages (ARMs) remained strong. Nearly 40 percent of the issuance of ARM securities in 1994 came from GNMA, whose record volume reflected the increased popularity of FHA and VA ARMs in the primary market. The spread of the average contract rate on conventional fixed rate mortgages over the average initial rate on one-year Treasury-indexed ARMs reached a record high early in 1994 (chart), leaving ARMs with a wide rate advantage relative to fixed rate mortgages. According to the Federal Housing Finance Board's survey of major lenders, the ARM share of conventional loans closed rose from 24 percent a year ago to 59 percent in January, the highest share since November 1988.

But the rate advantage for ARMs began diminishing rapidly late in 1994 and shrank further during the intermeeting period. With the ARM rate down only about 25 basis points since the beginning of February--one-third the size of the decline in the rate on conventional fixed rate mortgages--the spread contracted to about 195 basis points, close to levels last seen in March 1991. The sharp fall in the spread--and the lower level of rates on fixed rate mortgages--is expected to boost originations of fixed rate mortgages relative to ARMs in coming months.

Business Finance

The recent declines in interest rates, coupled with continuing merger activity, have led to some restructuring of corporate liabilities. Gross offerings of bonds by nonfinancial corporations jumped in February to $8-1/2 billion--the highest monthly total in

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS[1]
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1993	1994	1994 Q3	1994 Q4	1994 Dec.	1995 Jan.[p]	1995 Feb.[p]
All U.S. corporations	52.89	40.62	33.07	32.34	23.14	31.40	31.25
Stocks[2]	9.12	5.52	4.19	4.13	2.65	3.40	4.45
Bonds	43.77	35.10	28.88	28.21	20.49	28.00	26.80
Nonfinancial corporations							
Stocks[2]	5.04	3.13	1.78	2.99	2.31	2.40	3.22
Sold in U.S.	4.64	2.92	1.64	2.76	2.16	2.12	3.02
Utility	1.05	.38	.20	.23	.19	.70	.27
Industrial	3.82	2.54	1.43	2.53	1.98	1.42	2.75
Sold abroad	.40	.22	.14	.23	.15	.27	.20
Bonds	16.19	7.35	5.87	5.40	4.94	6.12	8.60
Sold in U.S.	15.55	6.44	5.06	4.30	4.09	4.50	7.50
Utility	7.34	2.19	1.17	1.09	.96	2.00	1.70
Industrial	8.21	4.26	3.90	3.21	3.13	2.50	5.80
Sold abroad	.64	.90	.81	1.11	.85	1.62	1.10
By quality[3]							
Aaa and Aa	2.56	.58	.37	.58	.31	.87	1.67
A and Baa	8.70	3.82	3.64	2.59	2.37	2.95	3.67
Less than Baa	4.17	2.01	.98	1.13	1.41	.68	2.14
Unrated or rating unknown	.09	.00	.01	.00	.00	.00	.02
Financial corporations							
Stocks[2]	4.08	2.39	2.41	1.15	.34	1.00	1.22
Sold in U.S.	3.83	2.13	1.85	1.11	.34	1.00	1.21
Sold abroad	.25	.25	.56	.04	.00	.00	.02
Bonds	27.58	27.76	23.01	22.80	15.56	21.89	18.20
Sold in U.S.	25.02	23.97	20.02	19.10	13.72	15.50	14.50
Sold abroad	2.56	3.78	2.98	3.70	1.83	6.39	3.70
By quality[3]							
Aaa and Aa	1.78	3.72	2.53	2.69	1.19	2.38	.95
A and Baa	9.01	9.01	7.28	7.71	5.00	7.87	8.23
Less than Baa	.49	.28	.14	.13	.20	.00	.00
Unrated or rating unknown	.08	.08	.01	.09	.28	.10	.06

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 & Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
p Preliminary.

nearly a year--although the pace of issuance moderated in the first half of March. Interest rate spreads over comparable Treasuries generally remained narrow across the quality spectrum, but spreads on lower-quality junk bonds have widened a bit further.

Bond issuance in February was boosted as two investment-grade companies--American Home Products and Rockwell--took advantage of the decline in bond rates to issue longer-term debt to pay down $2.5 billion of commercial paper that had been used to finance acquisitions last fall. Speculative-grade issuance was also very strong in February, with more than half of the roughly $2 billion total reflecting an offering from National Medical Enterprises to prefund a planned acquisition. Junk issuance was characterized by a pickup at the lower end of the quality spectrum, as issues were placed that had not been marketed successfully last year. A contributing factor to the spurt in junk issuance may have been investors' renewed appetite for junk bond mutual funds; these funds have posted steady inflows from late December through February, although they appear to have shown a small outflow on balance in the first half of March.

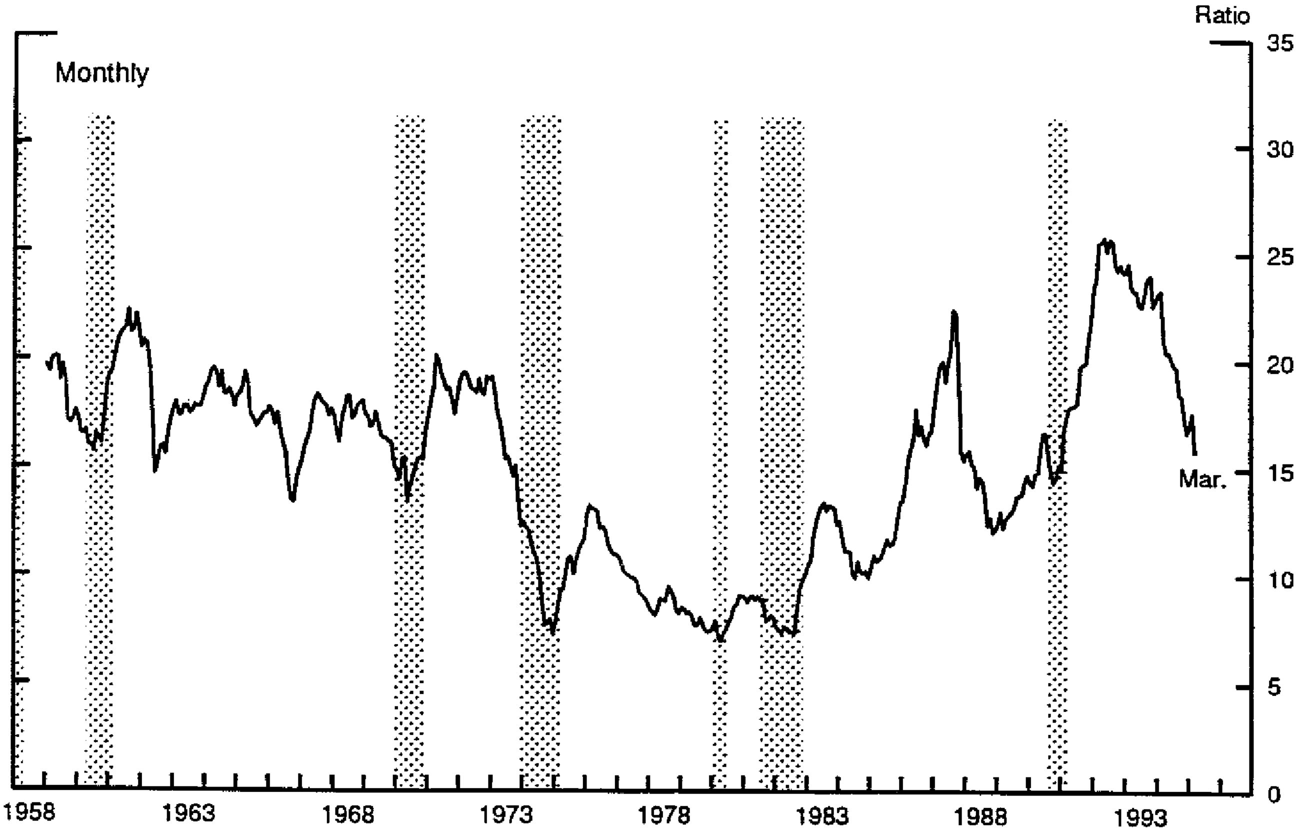
Gross issuance of equity by nonfinancial corporations also picked up some in February and is expected to run at about the same pace in March. For the first quarter as a whole, gross equity issuance should about match the $3 billion monthly pace of the previous quarter. Net equity issuance, however, is likely to remain negative in the first quarter, owing to sizable merger-related share retirements.

Merger activity among nonfinancial firms has continued at a strong pace in the first quarter. Consistent with the recent pattern, large mergers are being financed about equally by stock swaps and cash payments. Several of the recently announced deals have been proposed by European firms--fueled by their strong cash positions and the weak dollar--pointing to a potential new source of buying power in the current merger wave.

Outstanding commercial paper issuance by nonfinancial corporations continued to expand in February, although it appears to have decelerated from the very robust pace registered in the fourth quarter. Even though new merger-related issues have continued to reach the market, their effect on total outstandings has been partly offset by the substantial paydowns, noted above, by American Home Products and Rockwell.

Fourth-quarter earnings reports for both nonfinancial and financial corporations were quite strong, with positive earnings surprises outnumbering negative surprises by nearly two to one. For an aggregate of more than 3,000 companies, operating income was about 20 percent higher than in the fourth quarter of 1993, and about 3 to 4 percent above analysts' most recent predictions. The technology sector, transportation (particularly airlines), and some basic materials industries (paper and nonferrous metals) generated the largest positive surprises. Reflecting the strong fourth-quarter profits, the price-earnings ratio on the S&P 500 dropped to a four-year low (chart), even as share prices have touched new highs. Since early December, when the current rally began, stock prices in most industry groups have moved up between 9 to 12 percent, with basic materials, technology, and financial issues leading the pack. A notable exception in the financial category is Bankers Trust, whose stock price declined 16 percent on news of trading losses in the first quarter. News of financial distress abroad--the bankruptcy of Barings Brothers and the difficulties in Latin American financial markets--seemed to have little effect on the equity prices of major U.S. financial institutions.

S&P 500 Price-Earnings Ratio



Municipal Securities

Gross issuance of long-term tax-exempt debt fell to anemic rates in January and February. The $7 billion of issuance in February was the lowest rate in four years. Refunding activity has remained light, and new capital issuance--which was fairly well maintained in 1994--has weakened. With gross issuance outpaced by heavy retirements, the outstanding level of long-term municipal debt fell an estimated $18 billion over the first two months of the year. In addition, the amount of short-term tax-exempt debt outstanding fell $2-1/4 billion during the same time period, to roughly $32-1/2 billion--its lowest level since May 1991. As the outstanding supply of municipal bonds declined, the ratio of long-term tax-exempt to Treasury yields dropped to 85 percent, down from 91 percent at the onset of the Orange County crisis and 87 percent at the time of the previous FOMC meeting.

The financial condition of Washington, D.C., has continued to deteriorate. In mid-February, Moody's downgraded the District's bonds to junk status, and S&P dropped the District's debt to its lowest investment-grade rating. The District is likely to run out of cash in May and will need federal assistance if it is to make $250 million in payments to bondholders in June. Federal assistance could take the form of a Treasury loan or a loan guarantee. However, before providing assistance, Congress will most certainly mandate that a financial control board be put in place that has the authority to enforce major cuts in spending.

Orange County began to make significant budget cuts in response to the losses incurred by its ill-fated investment pool. The biggest cost-cutting measure thus far has been the dismissal of

GROSS OFFERINGS OF MUNICIPAL SECURITIES[1]
(Monthly rates, not seasonally adjusted, billions of dollars)

			1994			1995	
	1993	1994	Q3	Q4	Dec.	Jan.	Feb.
Total tax-exempt	27.2	16.4	16.4	14.3	11.2	8.9	8.3
Long-term	23.3	12.8	11.2	10.8	9.5	7.3	7.1
Refundings[2]	15.7	3.9	2.0	1.7	1.1	1.8	1.5
New capital	7.6	8.9	9.2	9.1	8.4	5.5	5.6
Short-term	3.9	3.6	5.2	3.5	1.7	1.6	1.2
Total taxable	.7	.7	.3	1.1	.4	.3	.2

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

1,600 employees on March 7. The county is also considering a 1 percentage point increase in the sales tax along with asset sales and is making arrangements to extend the maturity of the $1 billion of its debt obligations due this summer.

Another trouble spot is New York City. On March 8, the New York City comptroller estimated that the city's budget deficit for fiscal 1996 will total $3.2 billion, up $500 million from the previous estimate. At this point, Mayor Giuliani is seeking $600 million in union concessions, service cutbacks, and asset sales, although further cuts are likely to be needed. S&P rates New York City's general obligation bonds A-, but this debt remains on CreditWatch with negative implications.

Not all the news on municipal debt has been bad. Both Philadelphia and Bridgeport, Connecticut, have received debt upgrades from Moody's.

Treasury and Sponsored Agency Financing

The staff anticipates that the Treasury will finance the bulk of the projected $68 billion first-quarter fiscal deficit (not seasonally adjusted) by borrowing $63 billion from the public and, as is normal in this quarter, by drawing down its cash balance. Because the midquarter refunding included a thirty-year bond issue, borrowing has tilted toward coupon issues and away from bills. New cash raised in the bill market should total only $18-3/4 billion this quarter, down from $36-1/2 billion in the previous quarter.

The Mexican assistance package will not have a major effect on Treasury borrowing this quarter, though over time much of the $20 billion in U.S. assistance will need to be financed by an increase in U.S. Treasury obligations in the hands of the public, and some of the foreign contributions are likely to entail sales of

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

Item	1994 Q4	1995 Q1 p	1995 Jan. p	1995 Feb. p	1995 Mar. p
Total surplus/deficit (-)	-74.0	-68.0	16.6	-38.0	-46.6
Means of financing deficit:					
Net cash borrowing/repayments (-)	59.7	62.7	13.3	39.0	10.3
Nonmarketable	-2.9	-7.0	-7.1	0.3	-0.2
Marketable	62.5	69.7	20.4	38.7	10.6
Bills	36.4	18.8	8.0	14.6	-3.7
Coupons	26.1	50.9	12.5	24.1	14.3
Decrease in the cash balance	9.4	12.4	-23.3	14.0	21.7
Other[2]	4.9	-7.1	-6.7	15.0	14.6
Memo:					
Cash balance, end of period	26.6	14.1	49.8	35.8	14.1

Note: Details may not add to totals because of rounding.
1. Data reported on a payment basis.
2. Includes checks issued less checks paid, accrued items, and other transactions.
p Projected.

NET CASH BORROWING OF GOVERNMENT-SPONSORED ENTERPRISES[1]
(Billions of dollars)

Agency	1994 Q3	1994 Q4	1994 Nov.	1994 Dec.	1995 Jan.
FHLBs	13.6	34.5	8.0	15.0	...
FHLMC	10.6	9.3	2.0	2.6	1.8
FNMA	11.4	17.9	5.2	9.5	-6.8
Farm Credit Banks	.6	-1.2	1.2	-1.6	2.4
SLMA	1.8	.3	...	1.3	...

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

Treasury securities. Of the $20 billion being offered by the United States, only $5 billion, on net, is expected to be taken down by Mexico during this quarter. Of that net amount, the Federal Reserve is expected to have only $1 billion outstanding by quarter-end, supplied through an expanded swap line with the Bank of Mexico. (Of course, to offset the effect on reserves, the Federal Reserve will hold $1 billion less in Treasury securities.) The remaining $4 billion is being arranged through the Treasury's Exchange Stabilization Fund in transactions that are expected to result in a reduction in the Treasury's cash balance this quarter, although ultimately the cash balance is likely to be replenished by borrowing from the public.[3] The Mexican assistance package may also have an indirect supply effect in the Treasury market, as the international institutions and foreign countries that have offered the $30 billion or so of additional support begin to liquidate dollar securities--the bulk of which may be short-term Treasury securities--to raise cash for Mexico.

Overall borrowing by government-sponsored agencies appears to have slowed in 1995, although at this point data for January are still incomplete. To hedge the prepayment risk embedded in their assets, agencies have been issuing mostly callable paper, especially at medium-length maturities. The recent declines in interest rates have increased the likelihood that previously issued securities will be called, prompting a widening of spreads on existing callable issues over Treasuries to more than 50 basis points. Only a small amount of noncallable debt has been issued beyond the short end of the yield curve, and spreads on such issues in secondary markets have remained around 20 basis points.

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3. The Treasury cash balance falls as an immediate result of redemptions by the Exchange Stabilization Fund of its holdings of nonmarketable Treasury securities.

INTERNATIONAL DEVELOPMENTS

U.S. International Trade in Goods and Services

In January, the U.S. trade deficit in goods and services widened sharply from its December level as exports fell while imports expanded. The deficit in January at an annual rate was significantly larger than for any quarter of 1994.

NET TRADE IN GOODS & SERVICES
(Billions of dollars, seasonally adjusted)

	Year 1993	Year 1994	Quarters 94Q3	Quarters 94Q4	Months Nov	Months Dec	Months Jan
			(annual rates)		(monthly rates)		
Real NIPA 1/							
Net Exports of G&S	-73.9	-110.6	-117.0	-109.6	--	--	--
Nominal BOP							
Net Exports of G&S	-75.7	-106.6	-114.9	-107.5	-9.6	-7.3	-12.2
Goods, net	-132.6	-166.6	-178.5	-172.7	-15.2	-12.9	-17.2
Services, net	56.8	60.0	63.5	65.2	5.5	5.6	5.0

1/ In billions of 1987 dollars, SAAR.
Source: U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census.

Exports of goods and services declined 5 percent in January after increasing strongly in the preceding two months. The decline in January was primarily in aircraft and machinery. The increase in the fourth quarter was spread over most major trade categories and was largely in quantity, with the exception of exported industrial supplies (where virtually all of the increase was in price). By area, the sharpest increases in exports in the fourth quarter were to Western Europe and Canada.

Imports of goods and services rose 3 percent in January; the increase was widespread among most trade categories. Imports also rose strongly in the fourth quarter, as a 16 percent drop in the value of imported oil (mostly quantity) was more than offset by increases in most other trade categories. The fourth-quarter

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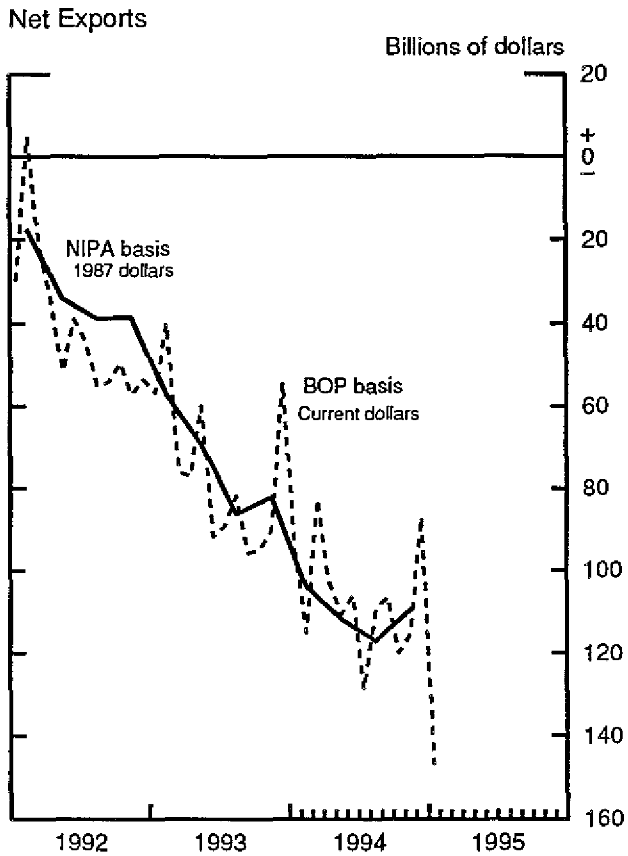
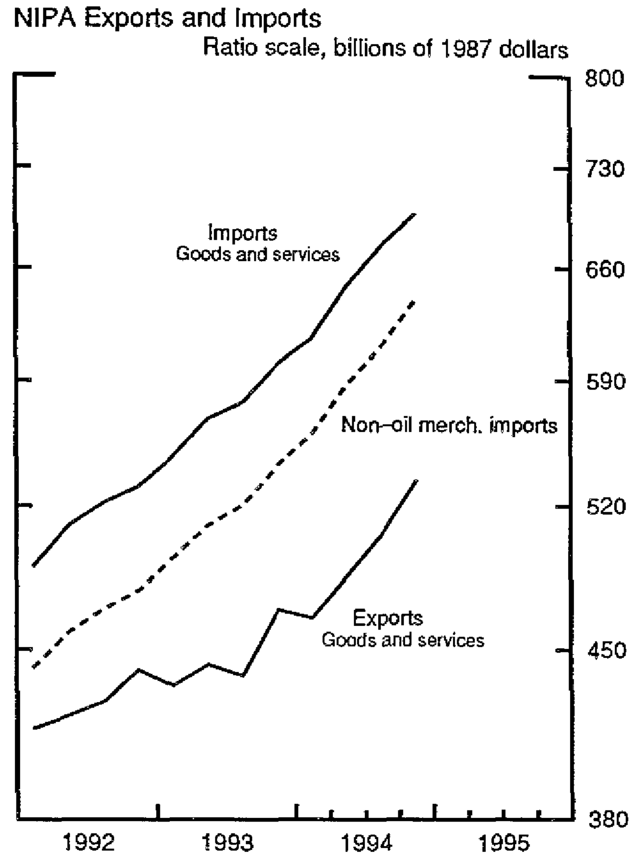
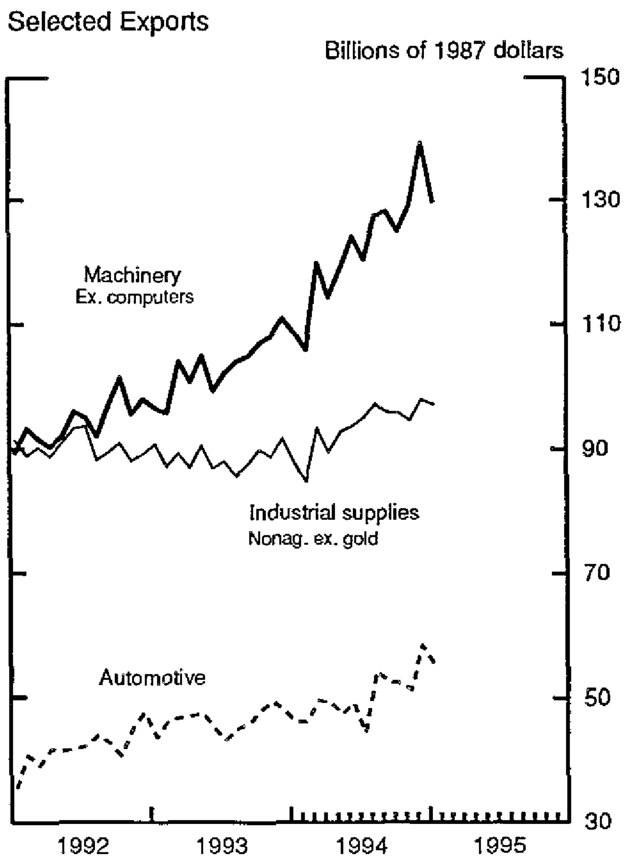
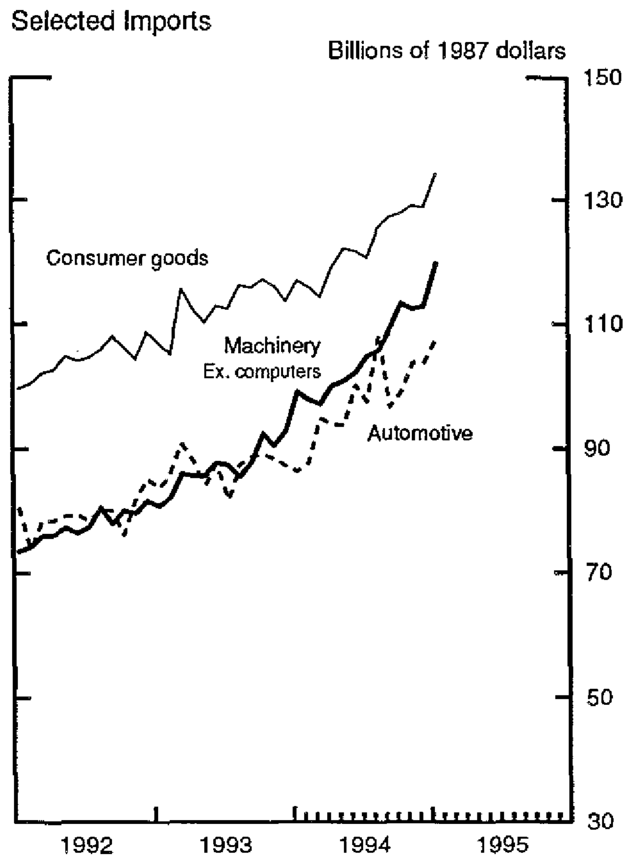
U.S. International Trade in Goods and Services

(Seasonally adjusted annual rate)









U.S. EXPORTS AND IMPORTS OF GOODS AND SERVICES
(Billions of dollars, SAAR, BOP basis)

	Levels				Amount Change 1/			
	Quarters		Months		Quarters		Months	
	94Q3	94Q4	Dec	Jan	94Q3	94Q4	Dec	Jan
Exports of G&S	709.2	741.6	763.3	728.4	27.5	32.4	20.4	-35.0
Goods Exports	510.6	538.4	557.9	527.7	20.5	27.8	20.1	-30.1
Agricultural	46.7	54.4	56.8	52.4	2.9	7.7	3.1	-4.4
Gold	4.6	3.4	3.8	3.4	-1.1	-1.2	1.1	-0.4
Computers	33.9	36.0	36.6	35.3	1.8	2.2	0.2	-1.3
Other Goods	425.3	444.5	460.7	436.6	16.8	19.2	15.7	-24.1
Aircraft & Pts	28.6	29.5	31.0	17.7	-5.5	1.0	-1.8	-13.3
Semiconductors	25.2	28.2	30.2	27.5	1.3	2.9	2.6	-2.7
Other Cap Gds	119.4	121.8	129.2	121.5	5.4	2.4	9.2	-7.6
Automotive	57.6	61.8	67.0	64.0	2.1	4.2	8.3	-2.9
to Canada	31.0	34.6	36.9	39.9	0.5	3.6	3.1	3.0
to Mexico	7.6	8.5	8.1	6.4	-0.8	0.9	-0.3	-1.7
to ROW	19.1	18.7	21.9	17.7	2.4	-0.3	5.5	-4.2
Ind Supplies	111.6	116.6	120.2	122.1	9.4	5.1	4.9	1.9
Consumer Goods	61.4	64.8	63.7	59.1	3.1	3.4	-2.1	-4.6
All Other	21.6	21.8	18.5	24.7	1.1	0.3	-0.1	6.2
Services Exports	198.7	203.2	205.5	200.6	7.0	4.5	0.3	-4.8
Imports of G&S	824.2	849.1	850.5	875.1	35.9	25.0	-8.0	24.6
Goods Imports	689.0	711.1	712.6	734.0	32.1	22.1	-7.2	21.4
Petroleum	60.6	51.1	49.1	49.3	9.2	-9.5	-5.8	0.2
Gold	2.8	2.7	2.2	1.8	-1.9	-0.2	-0.3	-0.4
Computers	47.3	51.3	50.6	51.6	2.8	4.1	-2.5	0.9
Other Goods	578.3	606.0	610.8	631.3	21.9	27.7	1.4	20.5
Aircraft & Pts	9.8	11.9	12.9	9.4	-2.5	2.1	0.3	-3.5
Semiconductors	27.0	30.7	30.4	33.6	3.3	3.7	-0.1	3.2
Other Cap Gds	103.7	107.4	107.5	112.0	5.3	3.7	0.2	4.5
Automotive	123.4	126.8	128.8	133.5	6.9	3.5	-0.2	4.8
from Canada	44.4	47.7	49.0	51.0	3.0	3.3	-0.7	2.0
from Mexico	13.9	17.1	16.6	16.9	-0.3	3.2	-1.3	0.3
from ROW	65.1	62.0	63.2	65.7	4.2	-3.1	1.9	2.4
Ind Supplies	110.7	117.1	118.9	123.2	4.3	6.4	1.6	4.3
Consumer Goods	148.5	154.4	154.7	161.2	4.1	5.8	-0.3	6.5
FFB	32.1	31.9	31.9	34.1	1.7	-0.3	0.2	2.3
All Other	23.1	25.9	25.7	24.3	-1.1	2.8	-0.4	-1.4
Services Imports	135.2	138.0	137.8	141.1	3.8	2.9	-0.8	3.2
Memo:								
Oil Qty (mb/d)	10.23	9.08	8.86	8.44	0.65	-1.15	-0.68	-0.42

1/ Change from previous quarter or month.
Source: U.S. Dept. of Commerce, Bureaus of Econ. Analysis and Census

increase in non-oil imports reflected sharp increases in the real expenditures by households and businesses.

In January, the quantity of oil imports declined 5 percent from the level in December reflecting lower consumption (because of unseasonally mild weather) and inventory decumulation. Preliminary Department of Energy statistics indicate that imports should rise marginally in February, despite a rise in production, largely because of higher domestic consumption. For the first quarter, imports are expected to average about 8.7 mb/d. This compares with imports of 9.0 mb/d in the fourth quarter of 1994, when seasonal stock draw-downs and increased domestic production reversed the dramatic rise in imports seen during the third quarter.

After averaging about $15.25 per barrel in December, the price of imported oil rose moderately in January reflecting a tighter market for lighter-end products (in response to increased Asian demand coupled with somewhat leaner U.S. inventories) and periodic weather-related problems (largely in Europe). We anticipate an additional price rise in February for similar reasons as spot oil prices (West Texas Intermediate (WTI)) remained firm throughout the month. Currently, spot WTI is trading at $18.65 per barrel compared with $18.00 in January.

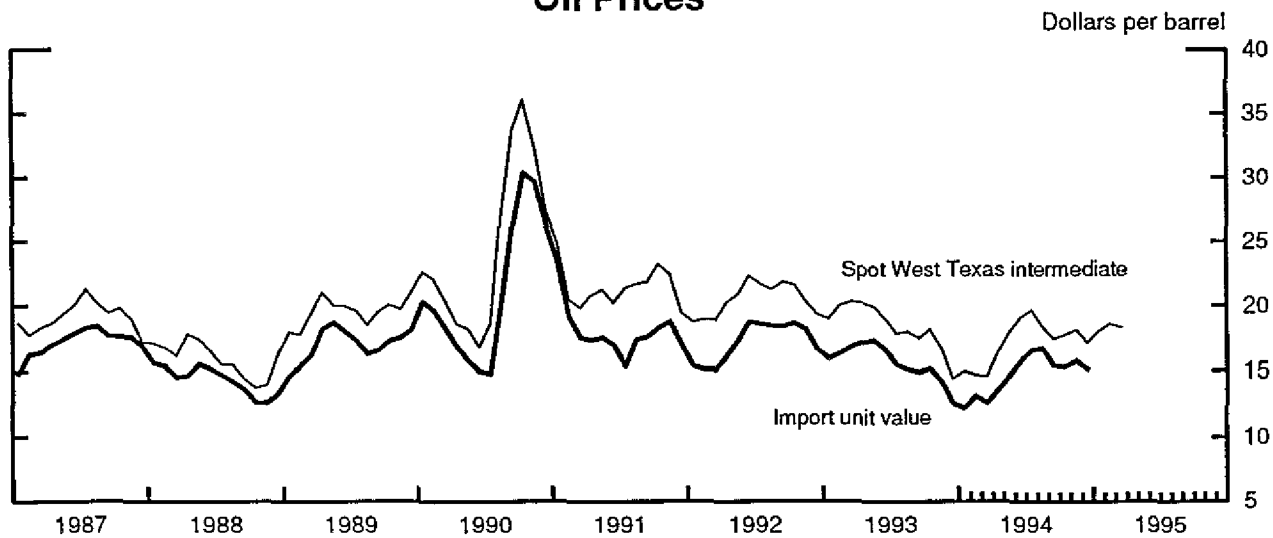
<u>Prices of Merchandise Non-oil Imports and Exports</u>

Prices of U.S. non-oil imports in January showed the smallest rise in many months. Increases were recorded in prices of imported non-oil industrial supplies and foods; over the past twelve months these commodities have recorded gains of 9.9 and 15.0 percent respectively. In contrast, prices of the major imported finished goods declined in January. Of the cumulative 3.8 percent increase in non-oil import prices over the past twelve months, most of the rise occurred in the July-October period.

PRICES OF U.S. IMPORTS AND EXPORTS
(percent change from previous period)

	Quarters			Months		
	94Q2	94Q3	94Q4	Nov	Dec	Jan
	(annual rates)			(monthly rates)		
	BLS Prices					
Merchandise Imports	7.6	7.7	3.9	0.7	0.0	0.2
Oil	67.6	36.1	-10.5	4.3	-2.1	1.2
Non-Oil	3.0	5.3	5.6	0.3	0.2	0.1
Foods, Feeds, Bev.	16.0	38.4	8.0	-1.4	0.2	0.7
Ind Supp Ex Oil	4.6	8.5	15.5	1.7	0.9	1.3
Computers	-6.8	-8.7	-6.2	-1.6	0.4	-0.4
Capital Goods Ex Comp	2.8	4.3	2.6	0.2	-0.2	-0.2
Automotive Products	2.3	2.4	6.2	0.3	-0.2	-0.2
Consumer Goods	1.3	1.0	1.6	0.2	0.0	-0.1
Memo:						
Oil Imports ($/bbl)	14.65	16.24	15.40	15.75	15.17	--
Merchandise Exports	1.6	2.1	5.9	0.7	0.7	0.9
Agricultural	-7.4	-14.4	6.9	1.6	2.3	0.0
Nonagricultural	2.6	4.5	5.9	0.6	0.5	0.9
Ind Supp Ex Ag	9.4	17.1	18.8	1.8	1.6	2.3
Computers	-6.1	-11.3	-6.2	-0.1	-0.3	-0.8
Capital Goods Ex Comp	-0.2	0.4	0.0	0.1	-0.1	0.6
Automotive Products	0.9	1.0	2.3	0.0	0.1	0.1
Consumer Goods	0.4	-0.6	1.2	0.1	-0.1	0.1
	Prices in the NIPA Accounts					
Fixed-Weight						
Imports of Gds & Serv.	7.8	9.1	3.2	--	--	--
Non-oil Merch Ex Comp	3.6	6.2	5.8	--	--	--
Exports of Gds & Serv.	2.2	2.9	6.9	--	--	--
Nonag Merch Ex Comp	3.5	6.1	7.1	--	--	--

Oil Prices



Export price increases were strong for the fourth consecutive month; prices rose 2.8 percent over the past four months and 4.0 percent over the twelve months ending in January. Almost all of the rise in January (and during the past year) was attributable to prices of nonagricultural industrial supplies which gained 2.3 percent in January and 16.4 percent over the past twelve months.

Data for February will be released on March 31.

U.S. Current Account in 1994 -- Q4 and year

In the fourth quarter, the U.S. current account deficit was $16 billion SAAR larger than in the third quarter. Increased payments of net investment income and a seasonal jump in unilateral transfers were partly offset by a narrowing in the deficit in trade in goods and services (exports grew more than imports rose).

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

	Goods & Services Balance	Investment Income, net	Transfers net	Current Acct Balance
Years				
1992	-40.4	4.5	-32.0	-67.9
1993	-75.7	3.9	-32.1	-103.9
1994	-106.4	-15.1	-34.1	-155.5
Quarters				
1993-1	-57.7	7.4	-29.1	-79.4
2	-76.3	2.7	-28.8	-102.4
3	-89.0	8.1	-30.5	-111.4
4	-79.9	-2.4	-40.1	-122.3
1994-1-r	-97.3	-3.3	-28.4	-129.0
2-r	-106.5	-11.3	-33.5	-151.3
3-r	-115.0	-15.6	-32.3	-162.9
4	-106.7	-30.0	-42.3	-179.0
Memo:				
$ Change				
Q2-Q1	-9.3	-8.0	-5.1	-22.4
Q3-Q2	-8.4	-4.4	1.2	-11.6
Q4-Q3	8.4	-14.4	-10.0	-16.6

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

Increased net payments of investment income were attributable to both portfolio and direct investment income. Net portfolio payments increased as a result of growing U.S. portfolio indebtedness and higher interest rates. Net direct investment income payments grew as earnings on foreign direct investments in the United States continued to recover from very low levels and receipt of income on U.S. direct investments abroad was about unchanged.

The quantity of exported goods and services grew 12 percent (Q4/Q4); two-thirds of the rise was in capital goods reflecting the strength of economic expansion abroad. The quantity of imports rose 14 percent (Q4/Q4), with double-digit increases recorded in capital goods, industrial supplies (other than oil), automotive products, and consumer goods. The growth of imports in 1994 reflected the vigorous growth of U.S. income during the year. Prices of non-oil imports increased nearly 4 percent in 1994 largely because of rising prices of non-oil industrial supplies and foods (coffee).

For the year, the current account deficit widened $52 billion. About two-thirds of the increase was in net trade in goods and services, and most of the rest reflected increased net payments of investment income.

U.S. International Financial Transactions

Net banking inflows were very large in December, capping a record year where net inflows through banks reached about $100 billion (line 3 of the Summary of International Transactions table). Large inflows through banks continued in January; the total in line 3, however, is only about a third of the banking inflow because large RP transactions by securities dealers are also reported on this line. These robust banking inflows helped finance the large

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS[1]
(Billions of dollars, not seasonally adjusted except as noted)

	Year		Quarter				Month		
			1994				1994		1995
	1993	1994	Q1	Q2	Q3	Q4	Nov.	Dec.	Jan.
Official capital									
1. Changes in foreign official reserve assets in U.S. (+ = increase)	**70.2**	**36.6**	**10.3**	**8.6**	**18.8**	**-1.2**	**-7.5**	**-4.1**	**-3.1**
a. G-10 countries	29.9	29.4	10.8	15.7	9.1	-6.2	-3.4	-3.9	2.7
b. OPEC countries	-5.1	-3.2	-2.3	-4.7	3.3	.4	1.0	-1.0	*
c. All other countries	45.5	10.3	1.9	-2.4	6.3	4.6	-5.1	.8	-5.9
2. Changes in U.S. official reserve assets (+ = decrease)	**-1.4**	**5.3**	**-.1**	**3.5**	**-.2**	**2.0**	**2.4**	**-.2**	**-1.0**
Private capital									
Banks									
3. Change in net foreign positions of banking offices in the U.S.[2]	**14.1**	**99.4**	**33.8**	**37.5**	**8.7**	**19.4**	**4.0**	**13.1**	**5.3**
Securities[3]									
4. Foreign net purchases of U.S. securities (+)	**105.7**	**93.5**	**31.1**	**6.3**	**19.7**	**36.4**	**17.4**	**10.3**	**13.7**
a. Treasury securities[4]	24.7	33.6	9.5	-7.3	5.3	26.1	9.8	8.2	8.0
b. Corporate and other bonds[5]	61.3	54.8	13.7	14.9	13.3	13.0	6.5	4.1	6.5
c. Corporate stocks	19.6	5.0	8.0	-1.3	1.1	-2.7	1.1	-2.0	-.8
5. U.S. net purchases (-) of foreign securities	**-133.4**	**-67.3**	**-24.4**	**-18.1**	**-9.6**	**-15.2**	**-5.2**	**-1.0**	**1.0**
a. Bonds	-70.1	-20.1	-6.0	-5.4	-2.6	-6.1	-2.6	1.1	1.2
b. Stocks	-63.3	-47.2	-18.5	-12.7	-7.0	-9.0	-2.6	-2.1	-.2
Other flows (quarterly data, s.a.)									
6. U.S. direct investment (-) abroad	-57.9	-58.4	-25.0	-8.2	-11.2	-14.0	n.a.	n.a.	n.a.
7. Foreign direct investment in U.S.	21.4	60.1	12.0	5.5	14.7	27.9	n.a.	n.a.	n.a.
8. Other (+ = inflow)[6]	64.1	19.8	8.9	6.9	13.5	-9.5	n.a.	n.a	n.a.
U.S. current account balance (s.a.)	-103.9	-155.7	-32.2	-37.8	-40.8	-44.8	n.a.	n.a.	n.a.
Statistical discrepancy (s.a.)	21.1	-33.3	-14.4	-4.2	-13.6	-1.0	n.a.	n.a.	n.a.

1. The sum of official capital, private capital, the current account balance, and the statistical discrepancy is zero. Details may not sum to totals becuse of rounding.

2. Changes in dollar-denominated positions of all depository institutions and bank holding companies plus certain transactions between broker-dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements). Includes changes in custody liabilities other than U.S. Treasury bills.

3. Includes commissions on securities transactions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

4. Includes Treasury bills.

5. Includes U.S. government agency bonds.

6. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.

n.a. Not available. * Less than $50 million.

INTERNATIONAL BANKING DATA 1/
(Billions of dollars)

	1991	1992	1993	1994			1995	
	Dec.	Dec.	Dec.	Mar.	June	Dec.	Jan.	Feb.
1. Net claims of U.S. banking offices (excluding IBFs) on own foreign offices and IBFS	-35.8	-71.6	-122.1	-157.5	-175.4	-224.0	-249.0	-249.2
a. U.S.-chartered banks	12.4	17.0	4.2	-15.1	-29.9	-70.1	-88.5	-89.7
b. Foreign-chartered banks	-48.3	-88.6	-126.3	-142.4	-145.6	-153.9	-160.6	-159.4
2. Credit extended to U.S. nonbank residents								
a. By foreign branches of U.S. banks	23.9	24.8	21.8	21.4	22.2	23.1	23.7	23.7
b. By Caribbean offices of foreign-chartered banks	n.a.	n.a.	90.9	88.6	83.9	n.a.	n.a.	n.a.
3. Eurodollar holdings of U.S. nonbank residents								
a. At all U.S.-chartered banks and foreign-chartered banks in Canada and the United Kingdom	102.9	90.0	77.8	75.1	73.6	86.0	92.1	89.7
b. At the Caribbean offices of foreign-chartered banks	n.a.	n.a.	79.2	84.2	82.1	85.7	n.a.	n.a.
MEMO: Data as recorded in the U.S. international transactions accounts								
4. Credit extended to U.S. nonbank residents	178	191	202	207	211	221	n.a.	n.a.
5. Eurodeposits of U.S. nonbank residents	241	239	237	236	240	247	n.a.	n.a.

1. Data on lines 1 through 3 are from Federal Reserve sources and sometimes differ in timing from the banking data incorporated in the U.S. international transactions accounts.

Lines 1a, 1b, and 2a are averages of daily data reported on the FR 2950 and FR 2951.

Lines 2b and 3b are end-of-period data reported quarterly on the FFIEC 002s.

Line 3a is an average of daily data (FR 2050) supplemented by the FR 2502 and end of quarter data supplied by the Bank of Canada and the Bank of England. There is a break in the series in April 1994.

Lines 4 and 5 are end-of-period data estimated by BEA on the basis of data provided by the BIS, the Bank of England, and the FR 2502 and FFIEC 002s. It includes some foreign-currency denominated deposits and loans. Source: SCB increases in domestic bank credit registered in December and January. For February, however, monthly average data reported in the International Banking Data Table indicate the cessation of net banking inflows from own offices and IBFs (lines 1 and 2a).

Foreigners purchased large amounts of both Treasury securities and corporate and other bonds in December and January (lines 4a and 4b of the Summary table). Transactions with Canada, Japan and the British West Indies accounted for most of January's foreign net purchases of Treasury securities. Large placements of U.S. corporate bonds in the Euromarket in January are reflected in line 4b; foreign currency denominated issues accounted for over half of the total, although a number of these were later swapped into dollars. Sales of Eurobonds appear to have continued at a somewhat reduced, but still robust, rate in February. On the other hand, private foreigners reduced their holdings of U.S. corporate stocks in both December and January (line 4c).

U.S. net purchases of foreign stocks remained small in December and fell to virtually zero in January (line 5b). Despite the turmoil after the Mexican devaluation, U.S. net purchases of Mexican and Latin American stocks remained positive, but very small, in both December and January. During the same months, U.S. residents sold foreign bonds net (line 5a). However, small net purchases from Latin America were recorded (excluding the Caribbean financial centers).

Foreign official assets held in the United States fell moderately in both December and January. The major item in the December figure was Germany's sale of troop dollars; in January, Argentine holdings fell significantly, as well as those of the Bank for International Settlements.

Recently released data on direct investment in the fourth quarter show both continued heavy outflows on the part of U.S. businesses (line 6) and a surprisingly large rebound of direct investment inflows into the United States (line 7). The inflow was more than accounted for by an upsurge of foreign acquisitions of U.S. firms, which has continued into the present quarter.

For the year, direct investment outflows and inflows were in approximate balance at very high levels. At $58 billion, outflows reached a new high; the year's inflow was close to the high reached in 1989. Geographically, approximately one-third of the direct investment outflow in 1994 went to each of Western Europe and Latin America. Within Latin America, for the year as a whole, outflows to Argentina, Brazil, and Mexico were at or above the levels for 1993. Only for Argentina was there any indication of a fall-off in the second half of the year. Outflows to Japan more than doubled in 1994 to $3.7 billion.

The statistical discrepancy for the year indicated unrecorded net outflows of $33 billion, more than reversing the unrecorded inflow registered in 1993. The statistical discrepancy would have been even larger had the known, but unrecorded, currency outflow of over $20 billion been correctly included as a capital inflow.

Foreign Exchange Markets

Since the February 1 FOMC meeting, the dollar's multilateral trade-weighted average value against the currencies of the other G-10 countries has declined 5 percent. Because of the dollar's nearly 30 percent nominal appreciation against the Mexican peso, its decline using a broader 18 country bilateral trade-weighted index has been only about half as large in nominal terms. (In due course, as the Mexican price level adjusts, the dollar's nominal appreciation against the peso will translate into a much smaller real appreciation.)

There appear to have been several factors contributing to the dollar's weakness against other industrial countries' currencies over this period. Probably the most important factor has been a growing market perception that the Federal Reserve is unlikely to increase interest rates further in the near term. In addition, some spillover from the ongoing financial crisis in Mexico may have contributed to pressure on the dollar. As background factors, market commentary has also mentioned the large U.S. trade and government budget deficits, with attention on the latter possibly receiving added attention following the defeat of the balanced budget amendment in the Senate at the beginning of March.

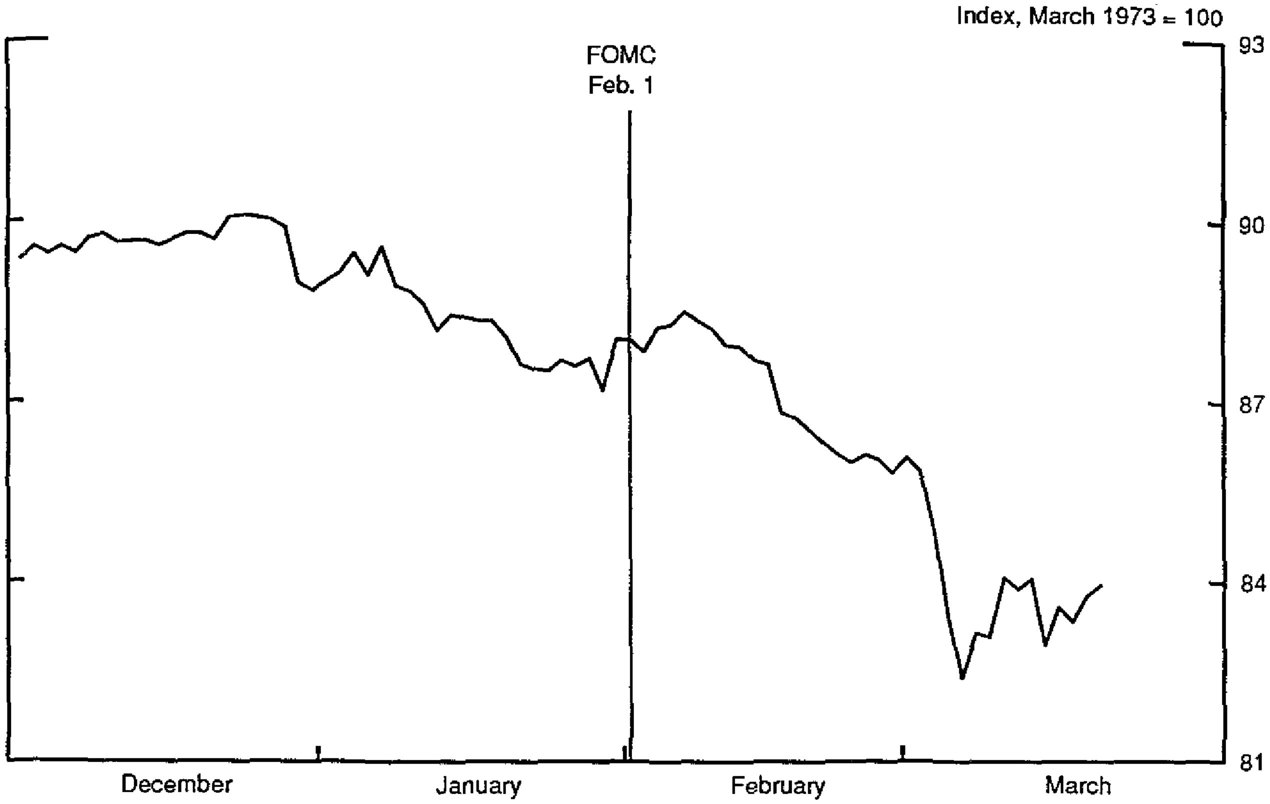
With the dollar under strong selling pressure, U.S. authorities intervened to support the dollar on March 2 and 3, purchasing a total of $750 million against marks and $670 million against yen, split equally between the accounts of the Treasury and the Federal Reserve.

. Despite this intervention, the dollar continued to move lower, reaching post-war record lows below 89 yen per dollar and 1.35 marks per dollar on March 8. The dollar recovered partially against the mark later in the period, but revisited its record low against the yen on March 21.

The dollar's recent decline against other industrial-country currencies has not been uniform. The dollar has been weakest relative to the yen and mark, depreciating 10 percent and 7 percent, respectively, since the last FOMC meeting. Spillover from financial and political unrest in Europe may have boosted the mark against the dollar. In Japan, investors' repatriation of funds in advance of

Weighted Average Exchange Value of the Dollar

(Daily data)



Interest Rates in Major Industrial Countries

	Three-month rates			Ten-year bond yields		
	Feb. 1	Mar. 18	Change	Feb. 1	Mar. 18	Change
Germany	5.00	4.95	-0.05	7.41	7.12	-0.29
Japan	2.27	2.10	-0.17	4.60	4.03	-0.57
United Kingdom	6.63	6.56	-0.07	8.58	8.39	-0.19
Canada	8.15	8.35	0.20	9.18	8.67	-0.51
France	5.67	8.25	2.58	8.07	7.91	-0.16
Italy	8.94	11.75	2.81	12.36	13.55	1.19
Belgium	5.30	6.57	1.27	8.32	8.04	-0.28
Netherlands	5.03	5.03	0.00	7.59	7.32	-0.27
Switzerland	3.88	3.56	-0.32	5.28	5.04	-0.24
Sweden	8.40	9.04	0.64	10.90	11.18	0.28
Weighted-average foreign	5.29	5.71	0.42	7.73	7.51	-0.22
United States	6.23	6.13	-0.10	7.66	7.16	-0.50

Note. Change is in percentage points.

the Japanese fiscal year end may have raised the yen relative to the dollar. In contrast to the dollar's weakness against the mark and the yen, the dollar has shown almost no net change relative to the Canadian dollar over this period. A report that Moody's was considering a possible downgrading of Canadian government debt contributed to the Canadian currency's relative weakness. The February 16 announcement of the new Canadian government budget, designed to reduce the deficit through expenditure reductions and increased taxes, gave only a temporary boost to the Canadian dollar on exchange markets.

The mark has been strong recently against other European currencies, having appreciated by amounts ranging from about 2 percent against the French franc to 14 percent relative to the Italian lira since the beginning of February. Political uncertainties in some European countries--particularly Italy, Spain, and France--have contributed to the downward pressures on their currencies against the mark. These pressures have created strains within the European exchange rate mechanism. On March 5, it was announced that the Spanish peseta and Portuguese escudo were being devalued by 7 percent and 3-1/2 percent, respectively, within the ERM.

. Short-term interest rates have also risen sharply in several European countries as their currencies have come under downward pressure against the mark. The largest increases have been in France and Italy, where three-month interest rates have increased on the order of 250 basis points since the beginning of February.

On a weighted average basis, foreign short-term interest rates have risen about 40 basis points since the last FOMC meeting while comparable rates in the United States have declined about 10 basis points. Three-month rates have declined on balance by about 5 basis points in Germany and about 15 basis points in Japan over this period. The U.S. 10-year government bond rate has fallen about 50 basis points since the last FOMC meeting, about twice the decline in the weighted-average of foreign long-term rates over this period. The German long-term rate has moved down about 30 basis points and that in Japan has declined about 60 basis points.

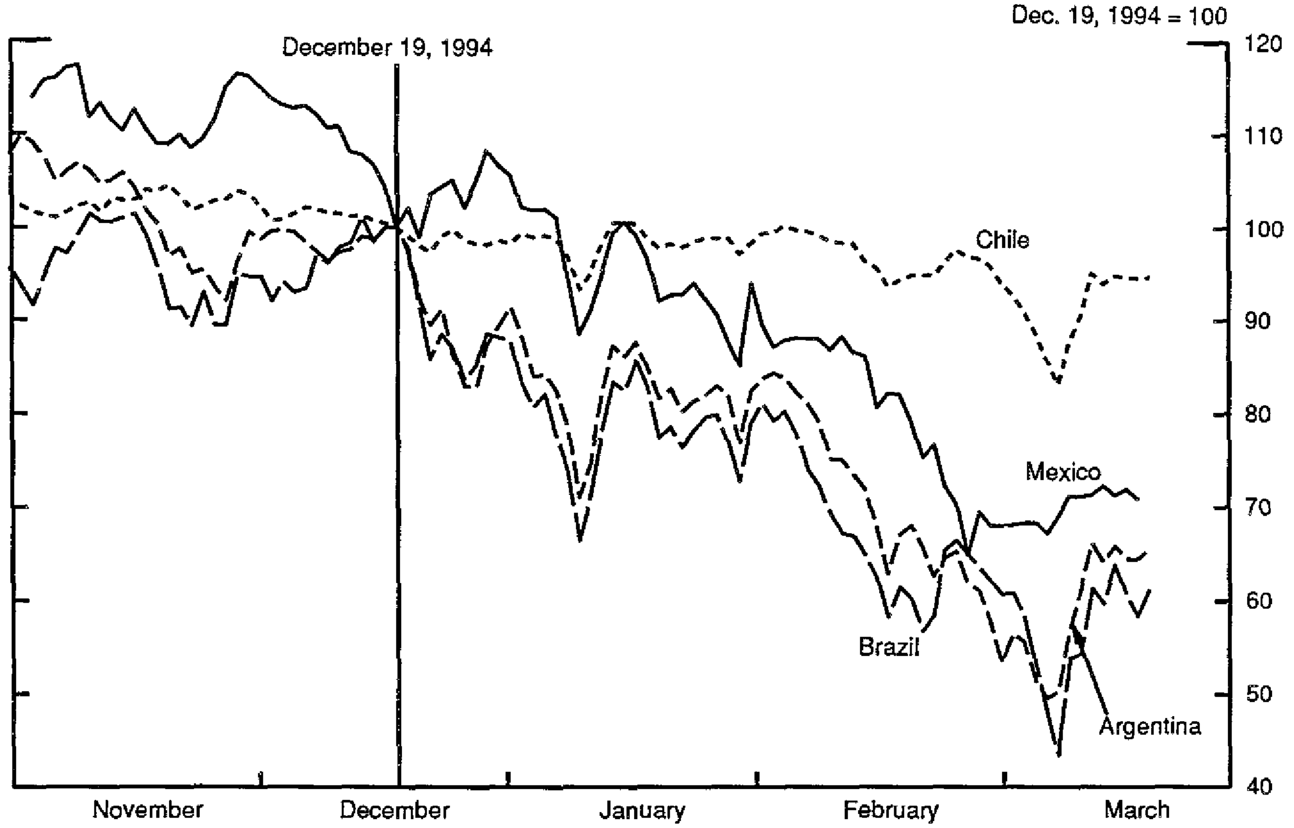
The Mexican peso has depreciated about 25 percent on balance against the dollar since the last FOMC meeting. The peso-per-dollar rate has moved from below 5-1/2 at the beginning of February to a peak near 8 in early March before falling back to about 7 later in the period. The announcements of agreement on terms of the $20 billion U.S. support package for Mexico and the Mexican government's new economic stabilization program gave the peso a temporary boost, but in each case selling pressures on the peso reemerged. Market participants appear to have been concerned over the health of Mexican industry, particularly financial institutions, in an environment of reduced domestic demand and sharply higher interest rates, as well as ongoing political unrest.

On February 2, Mexico drew $1 billion each from its swap lines with the System and the Treasury's ESF. Later in the period, Mexico repaid to the System and the ESF $500 million of swap drawings made in January, and made drawings totaling $3 billion from the ESF's medium-term swap facility.

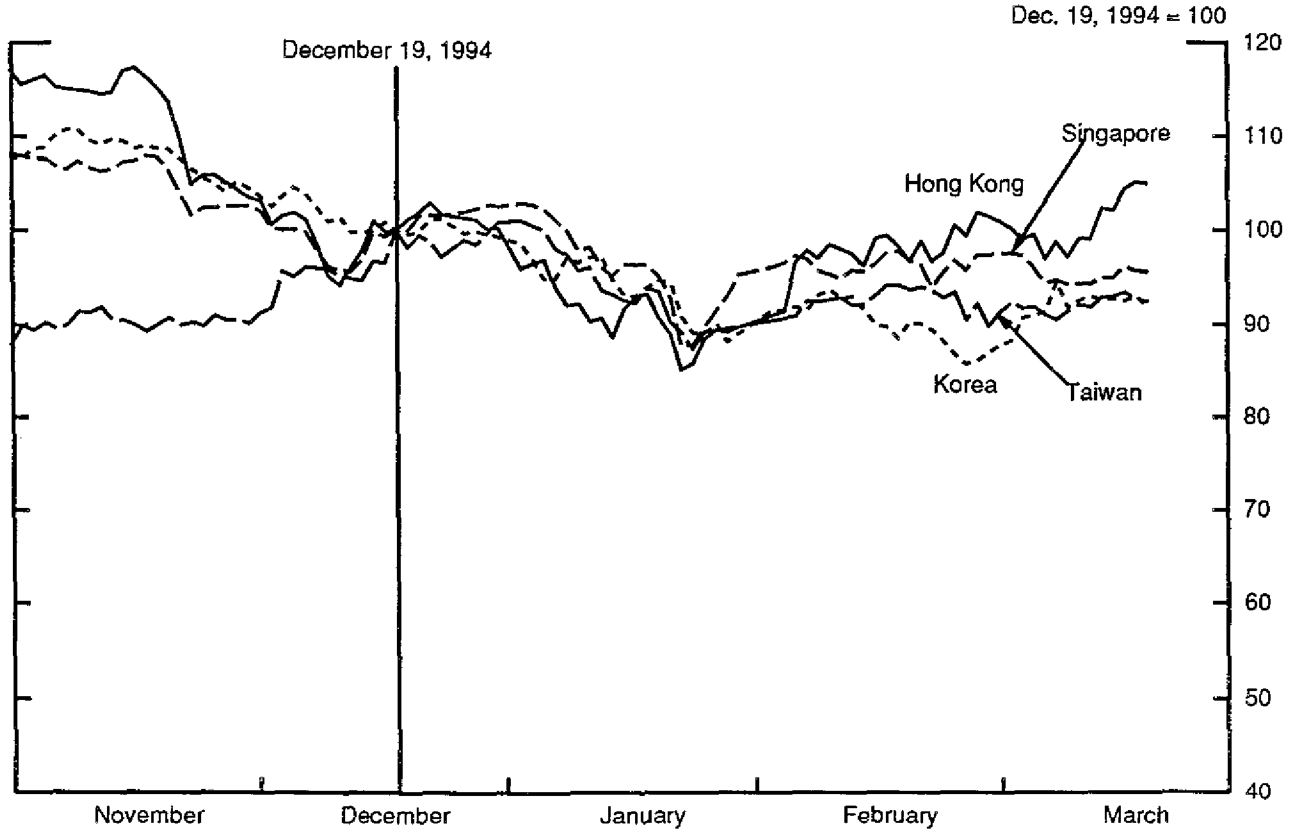
The Mexican stock market has also experienced periodic strong selling pressure over this period. Since the beginning of February, Mexican stock prices have fallen 21 percent on balance. Stock prices in some other Latin American markets have also fallen sharply on balance over this period, including declines of 25 percent in Brazil and 22 percent in Argentina.

Selected Foreign Stock Market Indexes
(Daily data)

Latin America



Asia



Developments in Foreign Industrial Countries

The pace of economic recovery in the major foreign industrial economies appears to have moderated in recent months. In Japan, GDP declined 3.4 percent (SAAR) in the fourth quarter, while growth slowed in most other foreign G-7 countries. Only in Canada did GDP growth rise in the fourth quarter. Moreover, recent monthly indicators point to a deceleration of growth in the first quarter in all countries except Japan. In Germany, the imposition of a 7-1/2 percent income tax surcharge in January likely slowed consumption spending. In Japan, the decline in output due to the Kobe earthquake in January is expected to be reversed by the end of the quarter.

Consumer price inflation has remained subdued in foreign industrial countries with the exception of Italy where it has picked up over the last few months. Inflation has been held in check in part by moderate increases in labor costs. However, there are indications lately of a pickup of inflationary pressures in several countries including, Germany, Canada, and the United Kingdom.

Individual country notes. In Japan, real GDP decreased in the fourth quarter. Large declines in personal consumption and housing investment accounted for much of the drop, although government investment also declined as the impact of fiscal stimulus measures enacted earlier in the year wore off. Net exports fell, as strong growth in exports was more than offset by even faster growth in imports. The only component registering a significant increase was private investment.

JAPANESE REAL GDP
(percent change from previous period, SAAR)

	1993 Q4/Q4	1994 Q4/Q4	1994 Q1	Q2	Q3	Q4
GDP	-0.5	0.9	3.2	0.7	3.5	-3.4
Total Domestic Demand	0.5	1.0	2.1	0.5	4.1	-2.4
Consumption	1.8	1.5	5.3	-1.2	4.6	-2.5
Private Investment	-9.2	-6.1	-17.9	-8.0	1.1	1.9
Government Consumption	0.9	2.6	4.4	0.1	6.0	0.2
Government Investment	14.0	4.0	10.1	5.4	3.2	-2.1
Exports	-2.3	10.1	15.3	14.2	2.0	9.4
Imports	5.0	10.9	7.0	13.6	5.9	17.3
Net Exports (contribution)	-1.0	-0.1	1.2	0.1	-0.6	-1.0

On balance, recent data point to a modest recovery of growth in the first quarter. While industrial production fell in January reflecting the effects of the Kobe earthquake on January 17th, companies are expected to make up the production losses by the end of this quarter. Moreover, the reconstruction effort, which could take several years, should also contribute to the recovery in production. Damage from the earthquake is now estimated at more than $100 billion (2 percent of GDP). Positive indicators for the first quarter include rises in new car registrations and housing starts. Also, recent stability in the unemployment rate and in the job offers/applicants ratio suggests that the deterioration in labor market conditions has come to an end. In the Bank of Japan's February "Tankan" economic survey, the index of business sentiment of major manufacturing firms rose relative to the previous survey taken in November, the fourth consecutive increase.

The combined effects of recession and yen appreciation are apparent in recent inflation performance. In February, the Japanese consumer price index for the Tokyo area was unchanged from its year-earlier level while the wholesale price index declined 0.6 percent.

JAPANESE ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1994					1995		
	Q2	Q3	Q4	Nov.	Dec.	Q1	Jan.	Feb.
Industrial Production	1.1	1.7	1.6	3.0	-0.5	--	-1.4	n.a.
Housing Starts	1.6	-2.6	-0.1	3.4	-3.8	--	1.6	n.a.
Machinery Orders	-16.5	19.3	-1.7	0.3	11.0	--	-6.5	n.a.
New Car Registrations	-4.8	6.0	-4.0	2.5	-1.7	--	5.6	3.6
Unemployment Rate (%)	2.8	3.0	2.9	2.9	2.8	--	n.a.	n.a.
Job Offers Ratio*	0.64	0.63	0.64	0.64	0.64	--	n.a.	n.a
Business Sentiment**	-50	-39	-29	--	--	-21	--	--

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

In western Germany, real GDP growth of 3 percent in the fourth quarter was supported by a surge in exports and strong growth in fixed investment. Nevertheless, GDP slowed relative to its third-quarter pace due to a fall in consumption and slower inventory accumulation.

WEST GERMAN REAL GDP
(percent change from previous period, SAAR)

	1993	1994	1994			
	Q4/Q4	Q4/Q4	Q1	Q2	Q3	Q4
GDP	-0.5	3.3	2.5	3.6	4.2	3.0
Total Domestic Demand	-2.2	2.9	3.0	2.2	6.6	-0.1
Consumption	-0.7	0.1	0.6	-2.6	3.3	-1.0
Investment	-8.3	7.0	15.2	-2.7	6.4	10.1
Government Consumption	-2.3	2.4	0.3	0.0	3.7	5.7
Inventories (contribution)	0.4	0.9	-0.4	4.1	2.4	-2.4
Exports	0.3	11.7	6.0	22.1	-0.2	20.4
Imports	-5.4	12.4	8.8	21.5	6.6	13.4
Net Exports (contribution)	1.6	0.6	-0.3	1.6	-1.9	3.1

Prospects for growth in the first quarter are mixed. Some recent forward-looking indicators have been positive. The share of firms planning to increase production in the next three months doubled in December and remained near that level in January and firms' assessment of their inventory situation continued to improve. Also, unemployment declined in February. However, other considerations point to a slowing of growth in the first quarter.

The reimposition of the 7-1/2 percent solidarity income tax surcharge in January should restrain consumption, and unusually cold winter weather is expected to have reduced construction spending. Strikes in the engineering industry also may have had some effect on output, although the impact will be limited if the wage contract negotiated in Bavaria is accepted by the rest of the industry as expected. The recent sharp appreciation of the DM probably will not affect foreign demand immediately, since export contracts typically are made several months in advance, but it could begin to have an impact on production later this year if the strength of the DM is sustained.

WEST GERMAN ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1994						1995	
	Q1	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial Production	0.4	2.6	1.1	2.1	0.6	2.4	n.a.	n.a.
Manufacturing Orders	2.5	3.9	1.9	2.7	0.3	2.7	n.a.	n.a.
Capacity Utilization	79.5	81.4	82.9	84.2	--	--	--	--
Retail Sales Volume	1.5	-3.3	1.2	-1.5	-1.5	2.1	n.a.	n.a.
Unemployment Rate (%)*	8.2	8.3	8.3	8.2	8.2	8.2	8.2	8.1
Production Plans**	3.3	7.7	8.7	15.3	11.0	22.0	20.0	n.a.
Addendum:								
Unemployment rates (%)								
Eastern Germany	17.0	15.5	14.5	13.3	13.0	13.3	14.7	14.7
All-Germany	10.3	9.6	9.4	9.0	8.9	9.2	10.0	9.9

* Total labor force, including the self-employed.
** Percent of manufacturing firms planning to increase production in the next three months less those planning to decrease production.

Although the western German unemployment rate has been fairly stable at about 8-1/4 percent over the past year wage growth shows signs of accelerating. The 4 percent wage increase in the engineering industry's contract and the reduction in the workweek scheduled for later this year will bring the increase in hourly wage costs to about 5 percent. Several other industries have also recently negotiated wage settlements on the order of 4 percent.

This contrasts with average settlements of a little over 2 percent last year.

West German inflation has been stable. Consumer prices in February were 2.4 percent above their year-earlier level, up slightly from the 2.3 percent increase registered in January. However, signs of inflationary pressure have begun to appear in other measures. Wholesale prices in February were 3.4 percent above their year-earlier level, the largest annual increase since December 1989. Import prices also have begun to accelerate in recent months, although DM appreciation should help mitigate this increase.

German M3 in February was 3.8 percent (SAAR) below its level in the fourth quarter of 1994, compared with a decline of 5.6 percent registered in January. However, M3 was 3.7 percent above its level in the fourth quarter of 1993.

<u>Eastern German</u> GDP grew 9 percent in 1994 from its average level in 1993. This growth was largely due to investment, particularly in construction.

In <u>France</u>, GDP growth of 2.4 percent (SAAR) in the fourth quarter resulted from rapid investment growth, especially in the business sector, and strong contributions from inventories and net exports. Growth slowed from its strong third-quarter pace due to weak consumption that was depressed by special factors.

Monthly indicators are mixed for the first quarter. The February business survey by INSEE suggests that production increased moderately and is expected to continue to increase but at a slower pace. Foreign orders registered a strong gain in January but weakened in February along with domestic orders. INSEE's January survey of investment intentions showed that industrialists intend to increase real investment 12 percent in 1995, a substantial improvement compared with the previous survey in October 1994. The number of unemployed declined sharply in January, but this only reduced the unemployment rate to 12.3 percent from 12.4 percent. Consumption of manufactured products, equal to one-third of total consumption, declined 1.9 percent (SA) in January, suggesting that consumption will continue to be weak in the first quarter. INSEE's survey of consumer confidence stabilized in February after declining in January.

FRENCH REAL GDP
(percent change from previous period, SAAR)

	1992 Q4/Q4	1993 Q4/Q4	1994 Q4/Q4	1994 Q1	Q2	Q3	Q4
GDP	0.2	-0.6	3.6	3.5	5.1	3.3	2.4
Total Domestic Demand	0.0	-2.1	4.5	7.5	4.3	4.8	1.4
Consumption	1.3	0.3	1.7	-0.2	5.0	3.2	-1.0
Investment	-3.0	-4.8	4.3	1.2	5.8	5.6	4.7
Government Consumption	2.3	0.3	2.2	2.1	1.8	2.7	2.0
Inventories (contribution)	-0.5	-1.3	2.1	6.8	-0.3	1.2	0.6
Exports	1.9	2.7	6.6	-1.9	13.3	-3.2	19.9
Imports	1.1	-2.8	9.9	12.8	10.0	2.0	15.2
Net Exports (contribution)	0.2	1.5	-0.9	-3.9	0.8	-1.5	1.1

Consumer prices in January and February were 1.7 percent above their year-earlier levels, up slightly from the record low of 1.6 percent registered in December. This good inflation performance is partly due to a slowing of wage inflation. Hourly wage increases slowed in the fourth quarter, and wages stood 2.4 percent above their year-earlier level.

FRENCH ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1994 Q1	Q2	Q3	Q4	Nov.	Dec.	1995 Jan.	Feb.
Industrial Production	1.2	2.7	2.0	-0.1	0.7	0.9	n.a	n.a.
Unemployment Rate (%)	12.4	12.5	12.5	12.4	12.4	12.4	12.3	n.a.
Consumption of Manufactured Products	0.7	1.5	1.6	-0.2	1.6	1.2	-1.9	n.a.
Consumer Prices (NSA)	0.4	0.6	0.1	0.4	0.0	-0.1	0.3	0.4

In the <u>United Kingdom</u>, growth of non-oil GDP slowed in the fourth quarter as the negative contribution of net exports more than offset the effects of stronger investment and inventory accumulation. However, GDP inclusive of oil production grew more strongly, increasing at roughly its third-quarter pace, due to a surge in oil production.

UNITED KINGDOM REAL GDP
(percent change from previous period, SAAR)

	1993 Q4/Q4	1994 Q4/Q4	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4
Non-oil GDP	2.4	3.7	2.4	3.7	5.3	3.2	2.4
GDP	2.7	3.9	3.5	4.0	5.4	3.1	3.1
Total Domestic Demand	2.9	1.8	4.0	4.2	1.9	-1.3	4.7
Consumption	3.1	2.0	3.7	1.4	1.9	1.9	2.6
Fixed Investment	1.7	1.4	9.1	9.4	-6.3	-2.4	5.9
Government Consumption	1.9	1.4	0.8	1.2	1.6	1.3	1.4
Inventories (contribution)	0.3	0.6	0.0	1.5	1.6	-2.4	1.8
Exports	4.3	11.8	9.2	7.6	9.5	15.4	15.0
Imports	3.9	5.8	12.1	8.6	-4.2	-1.2	22.1
Net Exports (contribution)	0.0	1.4	-1.0	-0.4	3.7	4.2	-1.8

Indicators for the first quarter have been mixed. In January, industrial production declined. Also, retail sales were flat on average in January and February and consumer confidence weakened in the first quarter. The purchasing managers' survey reported a pickup in output and a surge in new orders while producer sentiment increased sharply in February. In February, the unemployment rate fell slightly to 8.4 percent.

UNITED KINGDOM ECONOMIC INDICATORS
(percent change from previous period, SA, except where noted)

	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1994 Nov.	1994 Dec.	1995 Jan.	1995 Feb.
Industrial Production	1.0	2.1	1.4	0.5	-1.6	0.7	-0.5	n.a.
Retail Sales	1.3	0.5	0.7	0.3	-0.1	0.6	-1.2	1.2
Unemployment Rate (%)	9.8	9.4	9.2	8.8	8.8	8.6	8.5	8.4
RPI excluding mortgage interest payments *	2.7	2.4	2.2	2.2	2.3	2.5	2.8	n.a.
Producer Prices *	3.3	2.2	2.1	2.5	2.6	2.8	3.5	3.6

* NSA; percent change from preceding year.

The impact of rapid increases in manufacturers' input prices over the past year on inflation were offset in large part by falling unit labor costs. Unit labor costs have stabilized in recent months, however, and both producer-price inflation and underlying retail-price inflation have begun to increase.

In Italy, monthly indicators point to some slowing of growth in the fourth quarter and the first quarter of 1995 from the robust pace registered earlier in 1994. Industrial production rose 0.9 percent (SA) in the fourth quarter of 1994, down from the 3.7 percent rise registered in the third quarter. The slowdown partly reflects a general strike in October and serious floods in November. The unemployment rate jumped to over 12 percent (NSA) in the fourth quarter as employment in all sectors of the economy declined. The ISCO business survey, conducted in late January, revealed a slight improvement in business confidence and pointed towards a modest rise in output in the first quarter.

ITALIAN ECONOMIC INDICATORS
(non-seasonally adjusted except where noted)

	1994					1995	
	Q1	Q2	Q3	Q4	Dec.	Jan.	Feb.
Industrial Production*	0.1	4.6	3.7	0.9	5.5	--	--
Capacity Utilization (%)	74.5	76.0	75.8	77.6	--	--	--
Unemployment Rate (%)	11.3	11.6	11.0	12.1	--	--	--
Consumer Confidence	100.6	112.8	117.1	112.7	113.2	115.0	115.2
Business Sentiment** (%)	19	17	19	20	27	30	--

* Percent change from earlier period (seasonally adjusted).
** Percent of manufacturing firms having a favorable view of business conditions minus those with an unfavorable outlook.

Inflation in Italy has begun to rise. In February, the consumer price index was 4.3 percent above its year-earlier level, up from 3.8 percent in January. Signs of inflationary pressure were also evident in wages, which in January were 2.7 percent above their year-earlier level after registering an increase of 1.9 percent in

December. Wholesale and producer price inflation have also increased sharply in recent months.

On March 22, the Italian parliament completed approval of the supplemental 1995 budget. This supplemental budget, which reduces the budget deficit by 1 percent of GDP, is intended to allow the government to reach its 1995 deficit target of 8 percent of GDP. Roughly three-quarters of the deficit reduction results from tax increases. Increases in the VAT and excise tax on gasoline are expected to increase consumer prices by 0.7 percent this year.

Economic activity in Canada expanded at an unexpectedly vigorous pace in the fourth quarter of 1994, with strong growth in both domestic demand and exports.

CANADIAN REAL GDP
(percent change from previous period, SAAR)

	1993	1994	1994			
	Q4/Q4	Q4/Q4	Q1	Q2	Q3	Q4
GDP	3.2	5.6	4.4	6.6	5.6	5.9
Total Domestic Demand	3.4	2.5	2.2	4.4	0.7	2.7
Consumption	2.2	3.6	5.2	2.6	2.0	4.6
Fixed Investment	4.5	5.4	1.7	9.4	4.0	6.6
Government Consumption	-0.1	-2.8	-3.6	-2.5	-3.0	-2.3
Inventories (contribution)	1.3	-0.2	-0.4	1.5	-0.8	-0.9
Exports	10.9	20.6	3.9	23.6	24.9	31.8
Imports	11.2	12.3	-0.2	16.2	10.9	23.5
Net Exports (contribution)	-0.3	2.2	1.5	2.1	4.5	2.7

Preliminary data for the first quarter are mixed. Employment and the unemployment rate have been flat since the end of 1994. However, in January, the manufacturing survey showed another surge in factory shipments and retail sales increased.

Signs of inflationary pressure are evident in recent price data. Industrial product prices rose sharply in January, reflecting both recovery in world commodity prices and the depreciation of the Canadian dollar. In January, consumer prices excluding the effects of recent excise tax cuts were 2 percent above their year-earlier level, up from 1.6 percent in December. Inflation remains well within the Bank of Canada's 1-3 percent target range.

CANADIAN ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1994						1995	
	Q1	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Industrial Production	0.8	3.1	2.4	2.0	1.6	0.8	n.a.	n.a.
Manufacturing Shipments	1.0	6.2	4.7	5.2	3.8	1.7	3.0	n.a.
Manufacturing New Orders	0.1	5.9	5.9	4.2	2.1	4.1	1.5	n.a.
Retail Sales	3.3	1.3	0.4	2.4	-0.1	0.6	0.8	n.a.
Employment	0.4	0.8	0.9	0.7	0.7	-0.0	0.1	-0.1
Unemployment Rate (%)	11.0	10.6	10.2	9.7	9.6	9.6	9.7	9.6
Consumer Prices**	0.6	0.0	0.2	0.0	-0.1	0.2	0.6	n.a.
Industrial Product Prices*,**	3.4	5.3	6.7	7.4	7.5	7.9	9.4	n.a.
Unit Labor Costs in Manufacturing**	0.4	-0.4	-3.2	-2.9	--	--	--	--

* NSA.
** Percent change from year earlier.

On February 28, Finance Minister Paul Martin presented the budget for the current fiscal year and the 1995-96 fiscal year. The budget calls for the deficit to fall to 4.2 percent of GDP in the 1995-96 fiscal year, and to 3 percent of GDP in the 1996-97 fiscal year. These targets had been questioned in light of the sharp increase in debt-service costs that resulted from the recent increase in interest rates. The budget projections are based on conservative economic assumptions and involve a mix of deep spending cuts and moderate tax increases.

EXTERNAL BALANCES
(Billions of U.S. dollars, seasonally adjusted)

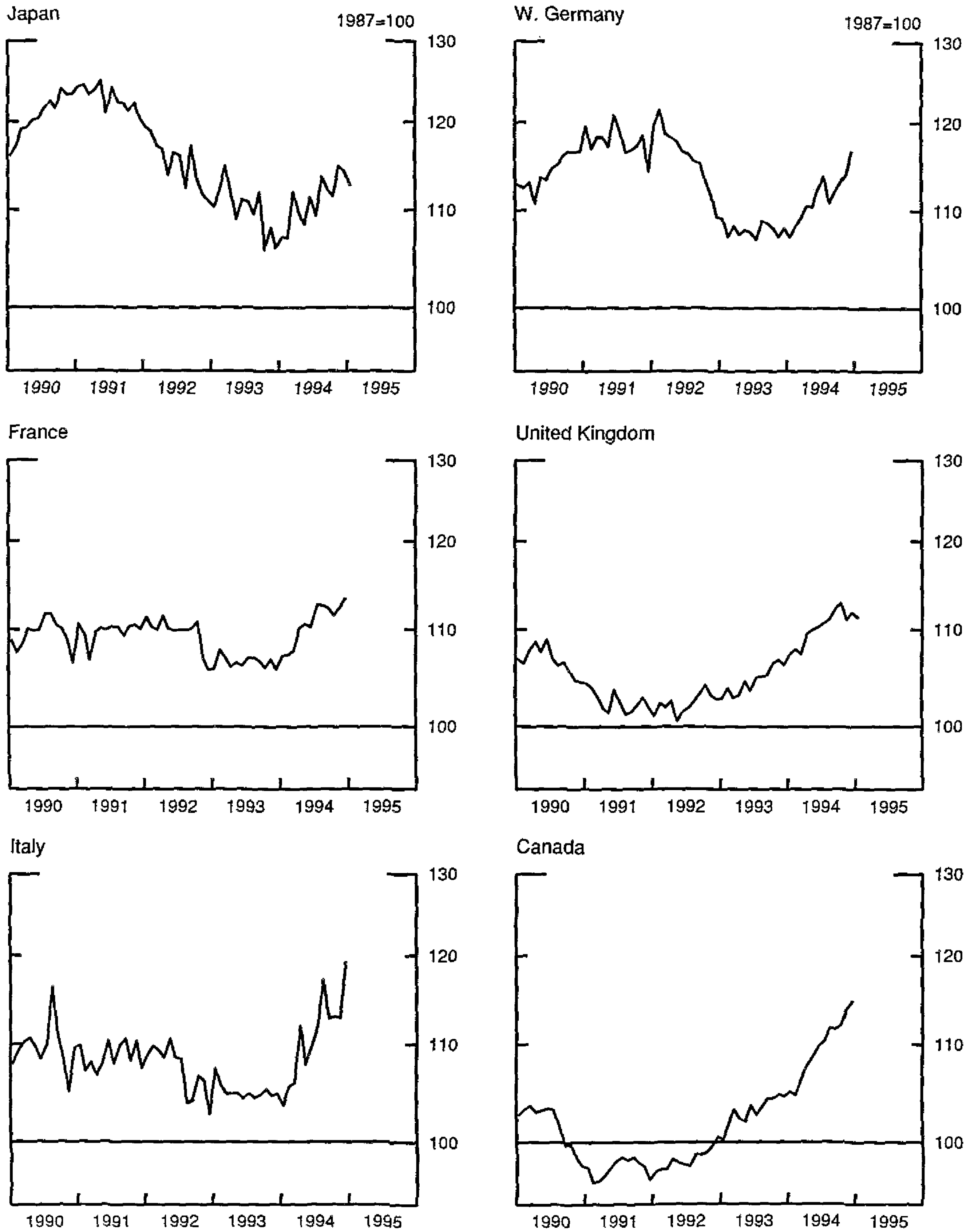
	1994	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1994 Dec.	1995 Jan.	1995 Feb.
Japan: trade	120.9	31.3	30.9	28.4	30.3	10.6	7.5	10.6
current account	129.5	33.8	34.2	32.0	29.5	10.6	9.7	n.a.
Germany: trade	45.8	8.6	12.8	10.2	14.3	3.9	n.a.	n.a.
current account*	-35.0	-6.6	-3.1	-16.3	-8.9	-4.6	n.a.	n.a.
France: trade	15.9	2.6	3.7	3.8	5.8	2.3	n.a.	n.a.
current account	n.a.	3.5	n.a.	n.a.	n.a.	--	--	--
U.K.: trade	-15.9	-4.4	-3.7	-2.9	-4.9	-2.6	n.a.	n.a.
current account	n.a.	-2.2	-1.7	0.8	n.a.	--	--	--
Italy: trade	n.a.	6.8	6.0	5.6	n.a.	n.a.	n.a.	n.a.
current account*	13.8	1.3	3.5	4.8	4.3	2.6	-2.5	n.a.
Canada: trade	12.5	1.8	2.4	3.8	4.5	1.5	1.7	n.a.
current account	-18.1	-5.3	-5.3	-3.6	3.9	--	--	--

* Not seasonally adjusted.
-- Data not available on a monthly basis.

3-22-95

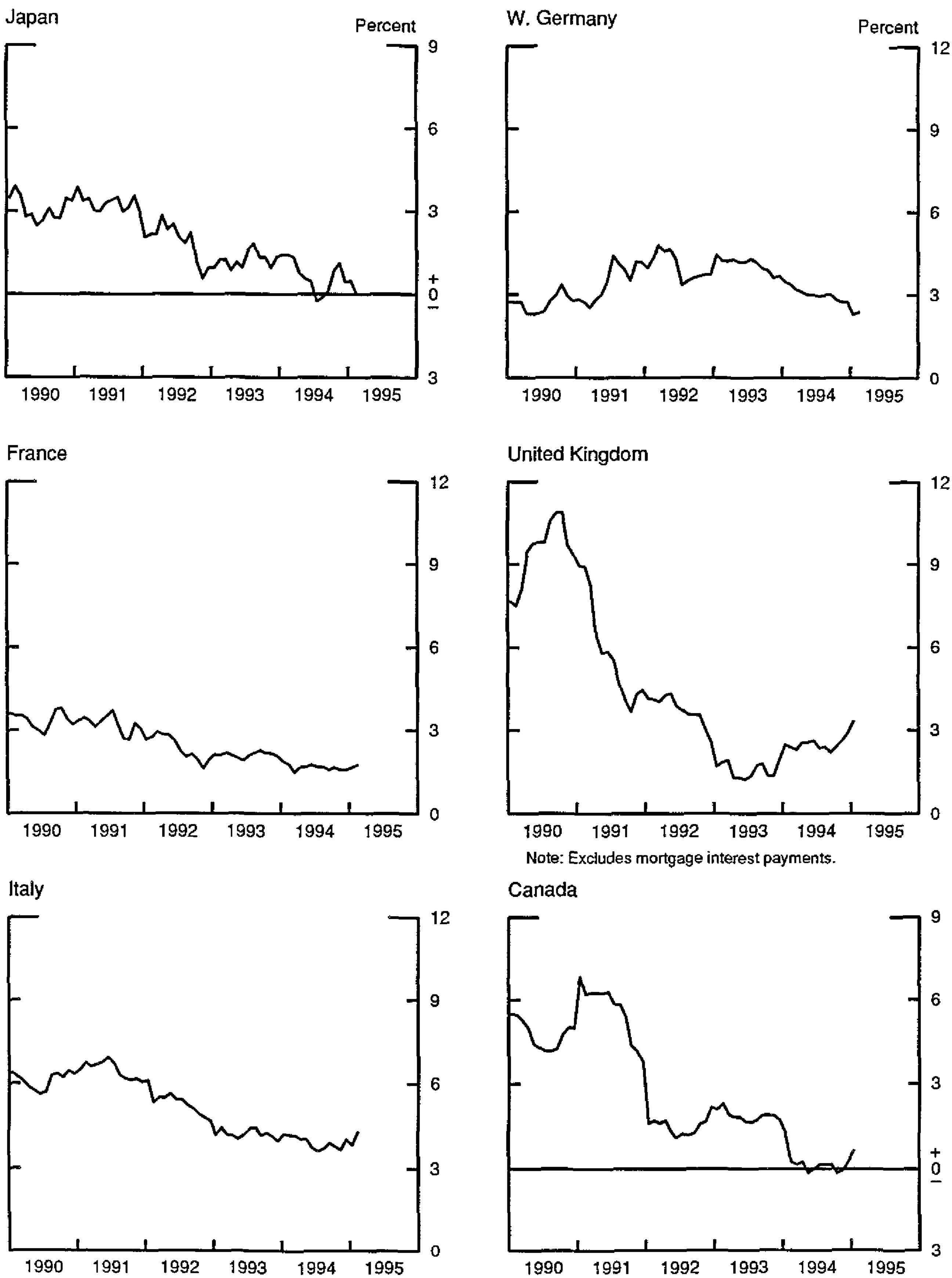
Industrial Production in Selected Industrial Countries

(Monthly data; seasonally adjusted; ratio scale, index)



Consumer Price Inflation in Selected Industrial Countries

(Twelve-month change)



Economic Situation in Other Countries

Policymakers in Mexico and other Latin American countries continued to struggle with emerging or potential crises. On March 9, the Mexican government announced a strengthened stabilization program aimed at improving the fiscal situation and the condition of its banking system. Argentina also put together an economic package with the assistance of the IMF and other multilateral agencies. In Brazil, a run on the currency was halted by a substantial increase in overnight call money rates and a further modification of the exchange rate regime.

Russia and the IMF agreed to a $6.4 billion stand-by arrangement. China and the United States reached an agreement on enforcement of intellectual property rights, thus defusing trade frictions.

Individual country notes. On February 1, the IMF approved a 18-month stand-by arrangement for Mexico of SDR 12.1 billion (about $18 billion, including an originally programmed $7.8 billion plus supplemental support of $10 billion). It called for a moderate further tightening of monetary and fiscal policy beyond that included in the emergency economic plan announced by Mexico on January 3.

On January 31, the Clinton Administration announced that, as a result of heavy Congressional opposition, it was dropping its initial proposal to provide Mexico $40 billion in securities guarantees. Instead, the United States would provide $20 billion in the form of short-term swaps, three- to five-year swaps, and securities guarantees maturing in five to ten years. Most of these funds would be provided through the Exchange Stabilization Fund, while the Federal Reserve would participate in short-term swaps of up to $6 billion.

The Administration also announced that the BIS would consider doubling its commitment from $5 billion to $10 billion. Simultaneously, the IMF announced plans to supplement this support with an additional $10 billion to be provided by central banks and governments outside the BIS. In the event that the resources provided by central banks and government fell short of the targeted $10 billion, the difference would be committed by the IMF itself.

In the wake of these announcements of support for Mexico, both the peso and the Mexican stock market initially strengthened sharply. However, financial markets soon weakened in response to uncertainties concerning the timing and implementation of the support package. The signing of the support package agreement with the U.S. Government on February 21, as well as a 10 percentage point increase in interest rates on peso-denominated Treasury instruments on the eve of the signing, failed to restore investor confidence. Delays in the announcement of new stabilization measures, along with political turmoil associated with the arrest of former president Salinas' brother, who was accused of having masterminded the assassination of PRI Secretary General Ruiz Massieu last September, contributed to further downward pressures in financial markets.

The government's strengthened stabilization program, which was finally announced on March 9, includes the following elements:

- A minimum wage increase of 10 percent, effective April 1, bringing the total projected minimum wage increase for 1995 to almost 18 percent.
- Elimination of the pacto between government, business, and labor, and its provisions for wage and price guidelines.
- Increases in the public sector revenues totalling 0.7 percent of GDP, reflecting substantial increases in public sector energy prices, and an increase in the value-added tax rate from 10 percent to 15 percent for most goods, except at border locations.
- A reduction in non-interest government expenditures equal to 0.3 percent of GDP, primarily reflecting reduced wages and salaries.
- As a result of these measures, the primary (non-interest) fiscal surplus in 1995 is projected by the Mexican authorities to rise

from 3.4 percent of GDP under the January program to 4.4 percent of GDP under the March 9 program. However, because public sector interest costs are projected to be 1.1 percent of GDP higher under the March program, the overall balance of the non-financial public sector is projected to decline slightly from 0.6 percent of GDP under the January program to 0.5 percent of GDP under the March 9 program.

o Establishment of new rules on reserve requirements allowing banks to hold a zero balance with the Bank of Mexico, on average, over the period of a month. Under the previous system, banks were required to hold a zero balance on a daily basis.

o Measures to support the banking system, including:

--A voluntary program for banks to restructure loans and deposits by indexing the value of the principal to the level of a "Unit of Investment" based on the CPI. This measure is intended to help firms faced with paying the very high inflationary premia embedded in nominal rates of interest.

--Strengthened commitment to provide liquidity to solvent banks through the purchase from banks of subordinated debt.

--Development of a program, in conjunction with the Mexican Association of Bankers, to restructure the debt of small- and medium-sized firms whose repayment capacity has been adversely affected by the macroeconomic situation.

o Maintenance of the current floating exchange rate regime, at least for the near future.

o Continued adherence to the limit on net domestic credit creation by the Bank of Mexico, established under the IMF stand-by arrangement, of 10 billion new pesos in 1995, consistent with monetary base growth of about 17 percent, well below the 29 percent increase in nominal GDP projected to occur under the March 9 program.

Reflecting response to the depreciation of the peso, consumer prices rose 4.2 percent in February following increases of 3.8 percent in January and 0.9 percent in December; February prices were 14.3 percent above their year-earlier level, compared with 7 percent inflation for 1994. The merchandise trade balance registered a surplus of $0.45 billion in February 1995, after deficits of $0.5 billion in January, and $1.7 billion in December 1994. Exports rose 31 percent from year-earlier levels in the first two months of 1995, while imports fell by about 2 percent. Real GDP grew 3.5 percent in 1994, up from only 0.6 percent in 1993, with output rising 5.2 percent over its year-earlier level in the fourth quarter. However, industrial production was only 0.1 percent above its year-earlier level in December after showing a 6.5 percent rise in November. The weak December 1994 performance reflects exceptionally high industrial production in December 1993.

In Argentina, consumer prices rose 4.8 percent in February from a year earlier. Gross international reserves stood at $12.8 billion as of March 17, of which $2.1 billion are in Bonex bonds. The monetary base was $11 billion, leaving only $1.8 billion in excess reserves.

Mexico's crisis has prompted a shortage of liquidity in Argentina's banking sector. In response, the central bank has lowered its minimum reserve requirements, allowed banks to use 50 percent of their vault cash as reserves, extended the period that the central bank can lend to financial institutions in need from a maximum of 60 days to an indefinite period, and used approximately $800 million in excess reserves to help ailing banks.

In an effort to stem the confidence crisis affecting Argentina, the government has announced several fiscal austerity measures. The latest fiscal package, announced on March 13, augments the spending cuts announced in previous packages with a proposed increase in the VAT tax rate from 18 to 21 percent and increases in tariff rates. The package also includes a reactivated Extended Fund Facility (EFF) arrangement from the IMF of $2.4 billion, including roughly $400 million available under the original three-year program, and about $2 billion made available by extending the program to a fourth year. The program is likely to be approved in early April. New World Bank and IDB loans of $2.6 billion in total ($1.3 billion each) are also expected.

In addition, the government in conjunction with private domestic corporations and foreign banks will place a bond, called the "Bono Argentino," for a total amount of $2 billion. These bonds will have a three-year maturity with quarterly coupons that can be used at 100 percent of face value to cancel future tax liabilities with the Argentine government. Overall, the new package involves $7 billion from international organizations and the "Bono Argentino," about $2.4 billion in domestic sources of financing such as receipts from privatizations and sales of government shares in privatized companies, and $2 billion in expenditure cuts. The government expects that the package will be sufficient to cover the $5.2 billion in amortization payments and about $4.1 billion in interest payments on foreign debt needed in 1995.

Consumer price inflation in Venezuela was 2.4 percent in February, down from 3.1 percent in January. The central bank's official reserves have fallen recently; as of February 17, reserves, excluding gold, stood at an estimated $7.6 billion, down from $8.5 billion at the end of December 1994.

In early February, the authorities closed three banks that had been subject to government-monitored recapitalization plans since August 1994. This brings the total number of banks that either have been closed or nationalized, or are currently subject to a recapitalization plan, to 18. These banks accounted for over 60 percent of total banking system deposits at end-1993, but for only about 35 percent by end-January 1995, reflecting the "flight to quality" of deposits. The government has announced the reorganization of the Emergency Financial Board (JEF), which oversees the handling of Venezuela's banking crisis, and has stripped the Depositor's Guarantee Fund (FOGADE) and the Superintendency of Banks of any authority on the JEF.

In Brazil, real GDP growth in 1994 was revised upward from 5.3 to 5.7 percent. Inflation has remained relatively low by Brazilian standards; monthly inflation has been 1-2 percent since December 1994. Economic activity appears to have remained strong in January and February 1995; production in several sectors has been at near capacity.

Brazil registered a trade deficit of $0.3 billion in January 1995, and unofficial reports indicate that the deficit was as high as $1 billion in February. The Brazilian government has maintained that the country will have a trade surplus of $5 billion in 1995.

During the week of March 6, a run on the real, the new currency introduced in July 1994, was precipitated by a 2.3 percent devaluation of the _de facto_ band within which the real has been allowed to float against the dollar, and by the announcement that the lower limit of the band would be devalued by a further 9 percent in early May. To support the real, the overnight call money rate was raised from 40 to 70 percent on March 10, the lower limit was devalued a further 3 percent, and exchange and capital controls on outward flows of capital were tightened. These measures stabilized the real, and calmed the stock market. The central bank has subsequently intervened to keep the exchange rate within the upper limit of the new band (0.88-0.93 reais/dollar). As of March 21, the exchange rate was 6 percent below its level on March 6. The central bank's foreign reserves have fallen from $41 billion in November 1994 to an estimated $32 billion as of mid-March 1995.

In _China_, industrial value added rose 14 percent in the first two months of 1995 from a year earlier, down from 18 percent growth for 1994 as a whole. Consumer prices were reported to be 22 percent higher in February than a year earlier. Strong export growth led to a trade surplus of $4.5 billion in the first two months of 1995. Exports rose 70 percent from the year-earlier period, while imports rose 17 percent.

Inflation continues to be a major concern of policymakers. At the annual meeting of the National People's Congress (NPC) in early March, Premier Li Peng pledged to bring inflation under control by slowing output growth from double-digit levels to 8-9 percent in 1995, and by forgoing any new price reforms. The NPC also approved a new law that codifies the role of the central bank in formulating and implementing monetary policy. However, the central bank's ability to conduct monetary policy remains dependent on the political will of the State Council, China's Cabinet.

In late February, the United States and China defused serious trade frictions by reaching agreement on the enforcement of intellectual property rights in China. In mid-March, the United States and China announced that negotiations for China's accession to the WTO would reopen in April.

In <u>Taiwan</u>, real GDP rose 6.5 percent in 1994. Strong import growth reduced the current account surplus from $6.7 billion in 1993 to $6 billion in 1994. This was the smallest surplus since 1984. Taiwan's foreign exchange reserves rose to $93 billion at the end of 1994, up $9 billion from the end of 1993.

Consumer prices rose 4.3 percent in the first two months of 1995 from the year-earlier period. In the first two months, Taiwan's trade surplus was $0.8 billion, with exports up 21 percent and imports up 17 percent over the year-earlier period.

Real GDP in <u>Korea</u> increased by 9.3 percent during the fourth quarter of 1994 from its level a year earlier. The manufacturing sector expanded at a particularly strong pace. Despite robust growth, inflation remains quite low and has even decreased somewhat over the past year. Consumer prices increased by 4.2 percent in February from a year earlier.

Merchandise exports increased by about 16 percent in 1994. However, merchandise imports grew by 22 percent over the same period, in part because of very strong investment demand. This import growth contributed to a current account deficit of $4.8 billion in 1994, compared with a surplus of $0.4 billion in 1993.

On March 10, Russia and the IMF signed a joint policy statement outlining conditions for a one-year $6.4 billion stand-by arrangement. Russia aims to reduce monthly inflation to one percent by December 1995 and has agreed to limit the 1995 fiscal deficit to 5.5 percent of GDP, down from 10 percent of GDP in 1994. Russia took a number of actions to qualify for this agreement, including implementing a restrictive monetary policy during the first quarter of 1995 and liberalizing the export sector. The stand-by arrangement calls for monthly performance reviews (rather than the usual quarterly reviews), which will govern access to monthly disbursements.

During the first two months of 1995, monthly inflation has remained in double digits, reaching 17.8 percent in January (a 12-month high) and 11 percent in February. The ruble continues to depreciate rapidly against the dollar, falling by 12 percent during January, 10 percent during February, and 6 percent during the first three weeks of March.

Industrial production during January and February was only 3 percent lower than a year earlier, compared with a 26 percent (year/year) drop during the first two months of 1994. The IMF estimates that Russian exports during 1994 totalled $63.5 billion, 6 percent higher than in 1993. Imports during 1994 were $50.3 billion, up 11 percent from the previous year.