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Confidential (FR) Class III FOMC

Part 2

August 16, 1995

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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

Although the economic indicators have remained mixed, the incoming data, on balance, point to a firming in activity early in the current quarter. Output in the manufacturing sector was restrained in July by ongoing efforts to pare inventories, particularly those of motor vehicles. But final demand looks to be continuing to grow moderately. With the exception of another dip in auto sales, consumer spending is moving along at a healthy clip. Moreover, housing demand appears to have rebounded sharply, and business investment remains on a distinct uptrend. The news on prices was favorable again in July.

Employment and Unemployment

July's employment figures suggest that labor demand remained soft, although aggregate production worker hours continued to move up and the retrenchment in initial claims in early August hints at some strengthening in job growth. Beginning with the employment data, nonfarm payroll employment was up only 55,000 in July. Payroll employment changes over the past several months have been buffeted by seasonal adjustment problems associated with the timing of survey weeks.[1] However, the average monthly gain over the past four months, which smooths through most of these problems, was only 63,000, well below the average pace of growth during the first quarter.

By industry, manufacturing employment fell 85,000 in July, a decline that brought total factory job losses over the past four months to 188,000. Declines were widespread across both durable and nondurable industries. In a few of these industries the declines

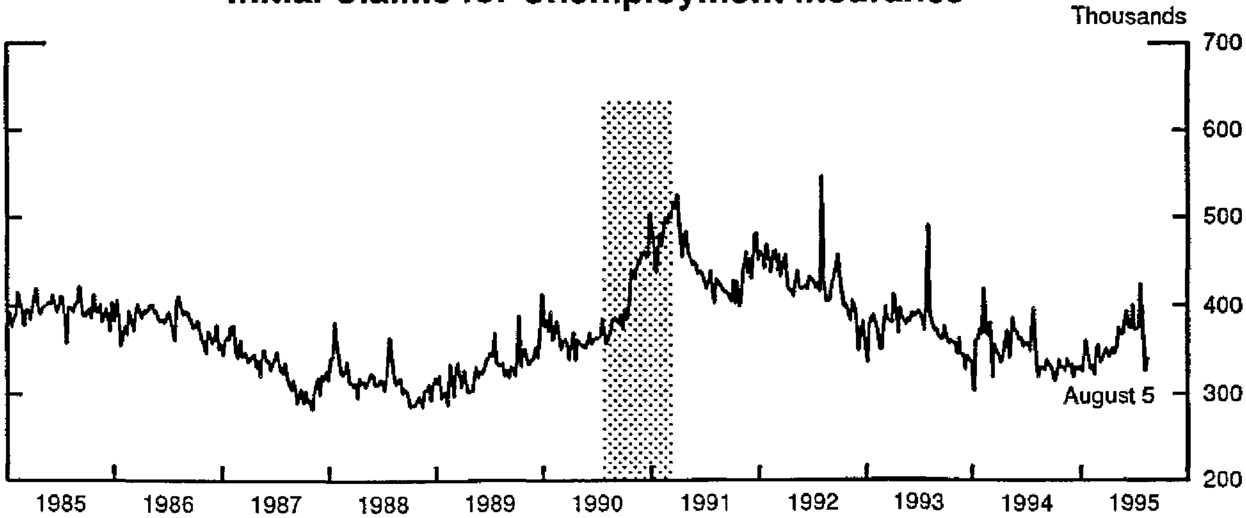
1. Specifically, although payroll employment rose 250,000 in June, that increase was overstated by seasonal adjustment problems associated with an early May and a late June survey week. The late June survey week likely also borrowed a bit from the July change in industries such as construction, hotels, and amusement services.

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

			1994	1995		1995		
	1993	1994	Q4	Q1	Q2	May	June	July
	-----------Average monthly changes[1]-----------							
Nonfarm payroll employment[2]	235	294	287	226	65	-62	250	55
Private	215	273	283	216	58	-44	224	57
Manufacturing	4	30	39	18	-34	-50	-34	-85
Durable	3	25	31	20	-13	-21	-17	-38
Nondurable	0	5	8	-2	-21	-29	-17	-47
Construction	24	30	30	30	-8	-52	41	0
Trade	57	75	81	20	23	-17	70	71
Finance, insurance, real estate	19	4	-4	2	-1	1	9	7
Services	100	117	115	130	77	82	126	60
Health services	21	21	22	25	18	12	27	15
Business services	36	46	43	28	8	29	26	19
Total government	20	21	4	10	7	-18	26	-2
Private nonfarm production workers	194	242	243	194	40	15	149	45
Manufacturing production workers	10	31	38	16	-32	-46	-36	-83
Civilian labor force	119	236	145	262	-214	-926	58	650
Total employment[3]	209	326	309	235	-263	-753	166	474
Nonagricultural	219	289	268	179	-181	-516	72	516
Unemployment	-90	-90	-164	27	49	-173	-108	175
	------------------Levels------------------							
Labor force participation rate	66.2	66.6	66.6	66.9	66.6	66.5	66.4	66.7
Unemployment rate	6.8	6.1	5.6	5.5	5.7	5.7	5.6	5.7
Average workweek (hours)[2]	34.5	34.7	34.7	34.7	34.4	34.2	34.5	34.6
Manufacturing (hours)	41.5	42.0	42.1	42.1	41.5	41.4	41.5	41.3
Manufacturing overtime (hours)	4.2	4.7	4.8	4.8	4.4	4.4	4.2	4.3
Memo:								
Aggregate hours of private production workers (percent change)	0.3	0.4	0.3	0.1	-0.0	-1.4	1.1	0.5

1. From final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households. Data after 1993 are not directly comparable with earlier years because of a redesign of the CPS in January 1994.

Initial Claims for Unemployment Insurance



Note. Includes EUC adjustment.

may have been exaggerated by seasonal adjustment difficulties. For example, many of the suppliers of parts to General Motors shifted their normal layoffs from the second half of July to the first two weeks of the month, in response to the change that GM made beginning last year to its summer vacation period. The effect of this shift evidently has not yet been fully picked up by the seasonal factors and likely contributed to the decline of 7,000 in motor vehicle employment last month. In addition, some producers of textiles and apparel may have extended their normal July 4 shutdown period into the second week of July for purposes of inventory control.

Outside manufacturing, employment continued to rise in July, but at a relatively slow pace. Excluding manufacturing, job gains averaged just 100,000 per month during the second quarter and totaled 140,000 in July. Over this four-month period, construction employment has, on net, trended lower. In the services industry, July's employment gain of 60,000 was a bit less than the average in the second quarter and well below the first-quarter pace. Job growth in services continued to be held down by relatively small increases in employment at business and health service establishments, the two industries that led employment gains in 1993 and 1994. In contrast, employment in wholesale and retail trade advanced 71,000 last month, the largest rise this year; about two-thirds of this increase was in eating and drinking places. The number of jobs in finance, insurance, and real estate rose 7,000 in July.

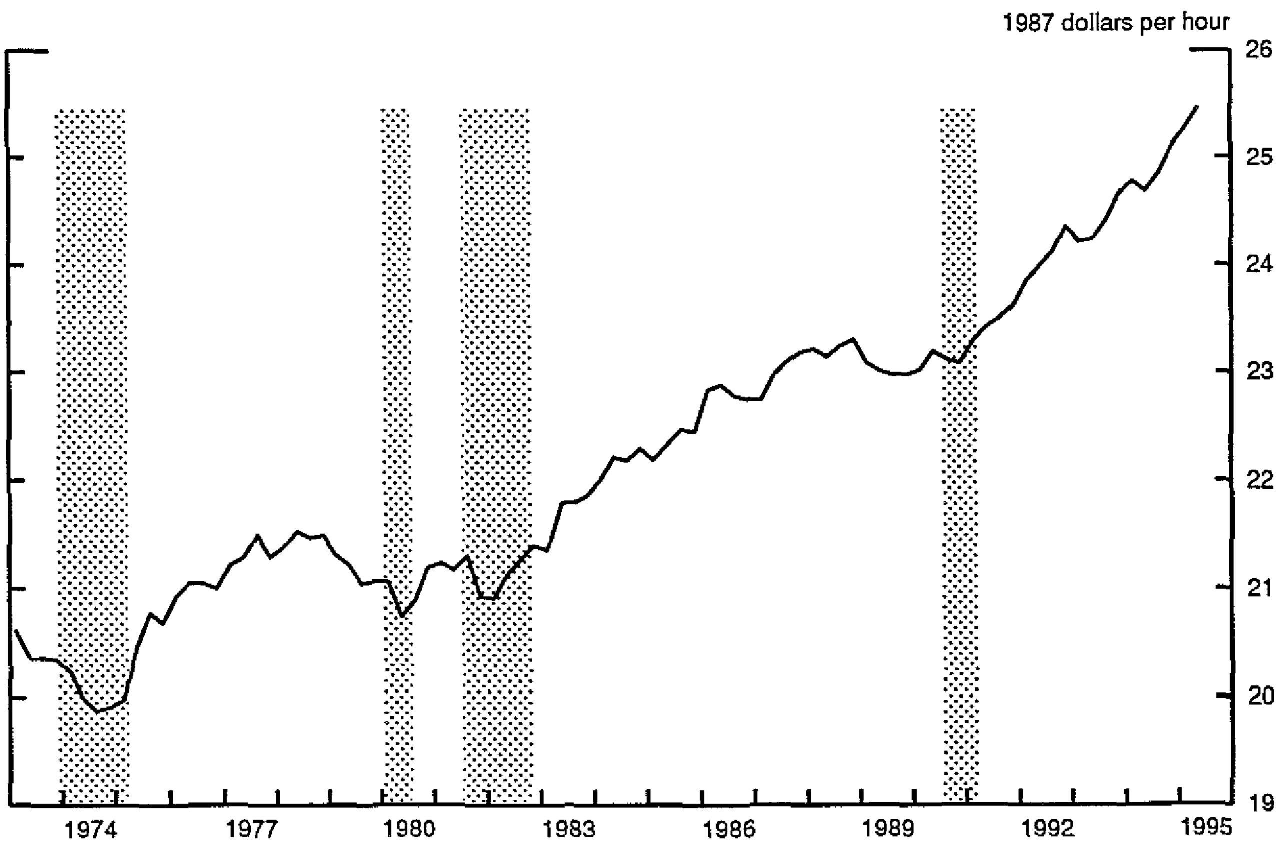
The average workweek of production or nonsupervisory workers edged up 0.1 hour last month, to 34.6 hours, lifting the index of aggregate production worker hours 1/2 percent, to a level 3/4 percentage point above the second-quarter average. The increase occurred even though the workweek in manufacturing dropped 0.2 hour,

LABOR PRODUCTIVITY AND COSTS
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

	1993[1]	1994[1]	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1994:Q2 to 1995:Q2
Output per hour							
Total business	1.4	2.0	3.2	4.3	2.1	3.0	3.1
Nonfarm business	1.3	1.8	2.7	4.3	2.5	3.0	3.1
Manufacturing	3.5	4.2	3.4	3.7	3.5	2.1	3.2
Nonfinancial corporations[2]	2.3	1.6	1.6	3.4	1.7	NA	NA

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, finance and insurance companies; the sector accounts for about two-thirds of business employment.

Productivity in the Nonfarm Business Sector



to 41.3 hours, bringing the cumulative decline in the factory workweek since the beginning of the year to nearly one hour. In combination with the decline in manufacturing employment, the drop in the workweek resulted in a 1-1/4 percent decline in factory hours last month.

In the household survey, employment jumped 474,000 in July, but the labor force rose even more, and the unemployment rate edged up 0.1 percentage point, to 5.7 percent, the same as the second-quarter average. The increases in both employment and the labor force were concentrated among women aged 25 and over; the participation rate for this group jumped to 58.6 percent, which, after allowing for the break in the CPS, may be a new high for this series.

The weekly pattern of initial claims for unemployment insurance was likely affected by the change in the timing of GM's vacation schedule, as well as by the temporary layoffs in several other industries. The result was a sharp spike in the first half of July that was offset in the second half. On average, the July pace of new claims held close to the average seen in June. However, the latest week's figure, which refers to the week ending August 5, was well below the July average. Because the seasonal adjustment problems should have worked themselves out over July, the latest figure may be a sign of a strengthening in the labor market.

Productivity in the nonfarm business sector rose 3 percent at an annual rate in the second quarter. Such a large increase in productivity seems at odds with the sluggish pace of output growth and is traceable largely to an unusually steep decline in hours. Much of the decline in aggregate hours owed to a low workweek in the second quarter, depressed by an unexplainably low estimate for May. In addition, hours were depressed by a steep decline last quarter in the number of self-employed workers, a series that is historically

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

	Proportion in total IP 1994:Q4	1994[1]	1995 Q1	1995 Q2	1995 May	1995 June	1995 July
			-Annual rate-		----Monthly rate----		
Total index	100.0	6.0	5.2	-2.7	.0	-.1	.1
Previous		6.0	5.2	-3.2	-.1	.1	
Manufacturing	86.8	6.9	5.1	-3.4	-.1	-.1	-.2
Motor vehicles and parts	5.7	7.9	13.0	-24.3	-3.3	.3	-3.2
Mining	6.1	.8	4.4	1.9	-.1	.3	1.0
Utilities	7.2	.2	6.8	3.3	1.9	-.9	3.6
Manufacturing excl. motor vehicles and parts	81.1	6.8	4.5	-1.8	.1	-.1	.0
Consumer goods	23.4	3.9	3.1	-2.0	-.2	.0	-.2
Durables	3.6	4.8	1.5	-10.1	-1.7	.0	-.6
Nondurables	19.8	3.7	3.5	-.5	.0	.0	-.2
Business equipment	13.8	10.1	7.8	4.9	.3	.7	.6
Office and computing	2.3	20.2	27.3	31.0	2.0	2.7	3.7
Industrial	4.2	8.7	6.3	-2.1	.6	.2	.2
Other	7.3	8.0	3.0	1.1	-.5	.3	-.3
Defense and space equipment	2.4	-9.4	-5.0	-6.4	.1	.1	-.8
Construction supplies	5.5	8.4	3.2	-11.9	-1.1	.1	-.8
Materials	28.9	9.3	6.4	-2.1	.1	-.4	.2
Durables	20.0	10.9	8.9	-.8	.1	.0	.2
Nondurables	8.6	5.5	1.2	-5.1	.4	-1.6	.1
Energy	0.2	16.3	-10.1	-10.2	-5.7	-.4	-.4

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

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1988-89 High	1967-94 Avg.	1995 Q1	1995 Q2	1995 Apr.	1995 May	1995 June	1995 July
Total industry	84.9	82.0	85.2	83.9	84.1	83.9	83.6	83.4
Manufacturing	85.2	81.3	84.7	83.1	83.5	83.1	82.8	82.3
Primary processing	89.0	82.5	89.5	87.3	88.0	87.5	86.5	85.8
Advanced processing	83.5	80.7	82.8	81.5	81.8	81.4	81.3	80.9

quite volatile; indeed, in July the number of self-employed workers rebounded to a level 3-1/2 percent above the second-quarter average.

Industrial Production

Industrial production was about unchanged again in July and was essentially flat over the May-to-July period. Given the weakness in total production since early this year and the rapid rate of capacity expansion, the capacity utilization rate has dropped 2 percentage points since December 1994, to 83.4 percent, only about 1-1/2 percentage points above the long-run average rate.

Output at utilities was boosted in July by the unusually hot weather; the number of cooling degree-days was the third highest July reading since that of 1980. Mining output was up as well, owing to increases in coal production and in oil and gas extraction. However, manufacturing production fell 0.2 percent. For two reasons, that decline is less than what might have been expected based on the sharp drop in factory employment reported in the payroll survey. First, incoming physical product data for appliances and paper were stronger than the corresponding hours data. In addition, some industries in which sharp drops in jobs were reported, such as textiles and apparel, have lower value-added weights in IP than their shares of employment while others, such as computers and semi-conductors, where hours rose, have higher value-added weights than their employment shares.

By industry, production of motor vehicles and parts dropped a sharp 3.2 percent. Assemblies fell 0.4 million units in July, to an annual rate of 11.2 million units, well below schedules in place at the beginning of the month, and suppliers of parts are estimated to have cut production by a comparable amount. Manufacturers' schedules show assemblies rising to 12.0 million units in August and 12.3 million units in September. These plans appear ambitious,

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

			1994	1995		1995		
	1993	1994	Q4	Q1	Q2	May	June	July
Total	13.9	15.0	15.3	14.9	14.3	14.8	14.9	14.2
(BEA Seasonals)	13.9	15.0	15.4	14.9	14.4	14.5	14.7	13.7
Autos	8.7	9.2	9.2	8.9	8.7	9.0	9.0	8.5
Light trucks	5.2	5.8	6.1	6.0	5.7	5.8	5.9	5.7
North American[2]	11.7	12.9	13.2	12.9	12.4	12.7	12.9	12.4
Autos	6.7	7.3	7.3	7.1	6.9	7.1	7.2	6.9
Big Three	5.5	5.7	5.8	5.6	5.3	5.5	5.5	5.1
Transplants	1.3	1.5	1.6	1.5	1.6	1.6	1.7	1.7
Light trucks	5.0	5.7	5.9	5.8	5.5	5.6	5.7	5.6
Foreign produced	2.1	2.1	2.0	2.0	2.0	2.1	2.0	1.8
Autos	2.0	2.0	1.8	1.8	1.8	2.0	1.8	1.6
Light trucks	.2	.2	.2	.2	.2	.2	.2	.1
Memo: domestic name-plate market share								
Total	.74	.73	.74	.74	.73	.73	.73	.73
Autos	.65	.63	.64	.63	.62	.62	.61	.61

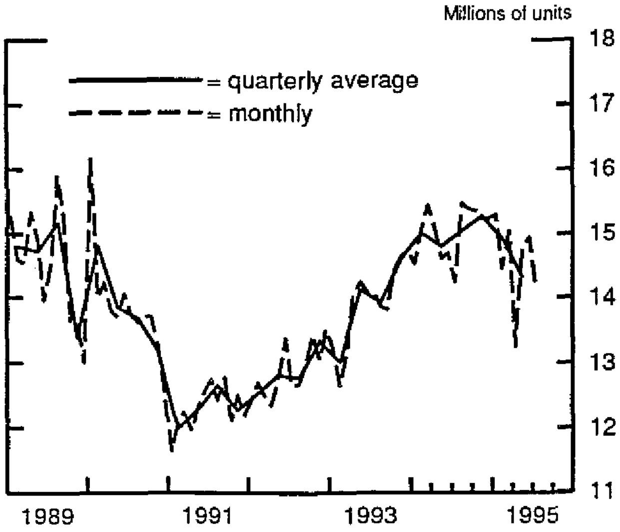
Note: Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

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

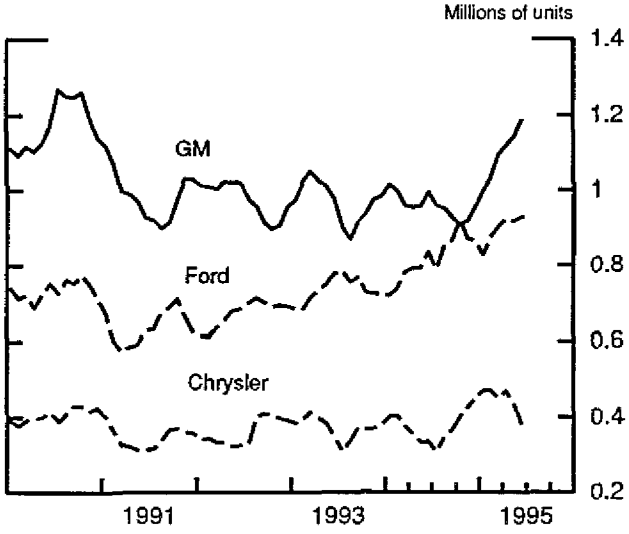
2. Excludes some vehicles produced in Canada that are classified as imports by the industry; before January 1994, some vehicles produced in Mexico were also excluded.

Light Vehicle Sales

(FRB Seasonals, annual rate)



Inventories of Domestic Light Vehicles



however, in view of the high levels of stocks at GM and Ford dealers.

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

	June	July	Aug.	Q2	Q3
			schd.		schd.
U.S. production	11.6	11.2	12.0	11.7	11.8
Autos	6.0	6.0	5.9	6.2	6.1
Trucks	5.6	5.2	6.1	5.6	5.8
Days' supply					
Autos	71.9	73.8[e]			
Light trucks	67.9	69.3[e]			

Note: Components may not sum to totals because of rounding.

Outside motor vehicles, manufacturing production was unchanged in July. As in the second quarter, business equipment production was the strongest component of this aggregate, with output gains led by another jump in production of office and computing equipment. Production of industrial equipment also posted another modest increase. The output of non-motor vehicle manufactured consumer goods fell 0.2 percent last month; weaker production of home furnishings offset a gain in output of appliances. Materials production turned up 0.2 percent.

Looking forward, other indicators of manufacturing activity are consistent with a firming in production over the next couple of months. Real new orders for goods in the adjusted durable goods grouping grew more than 2-1/2 percent in both May and June. And the purchasing managers indexes of new orders and production turned up in July; in both indexes more companies reported increases than decreases, a marked improvement from the readings in May and June.

Personal Income and Consumption

Overall consumer spending appears to have returned to a moderate growth path even though demand for motor vehicles has

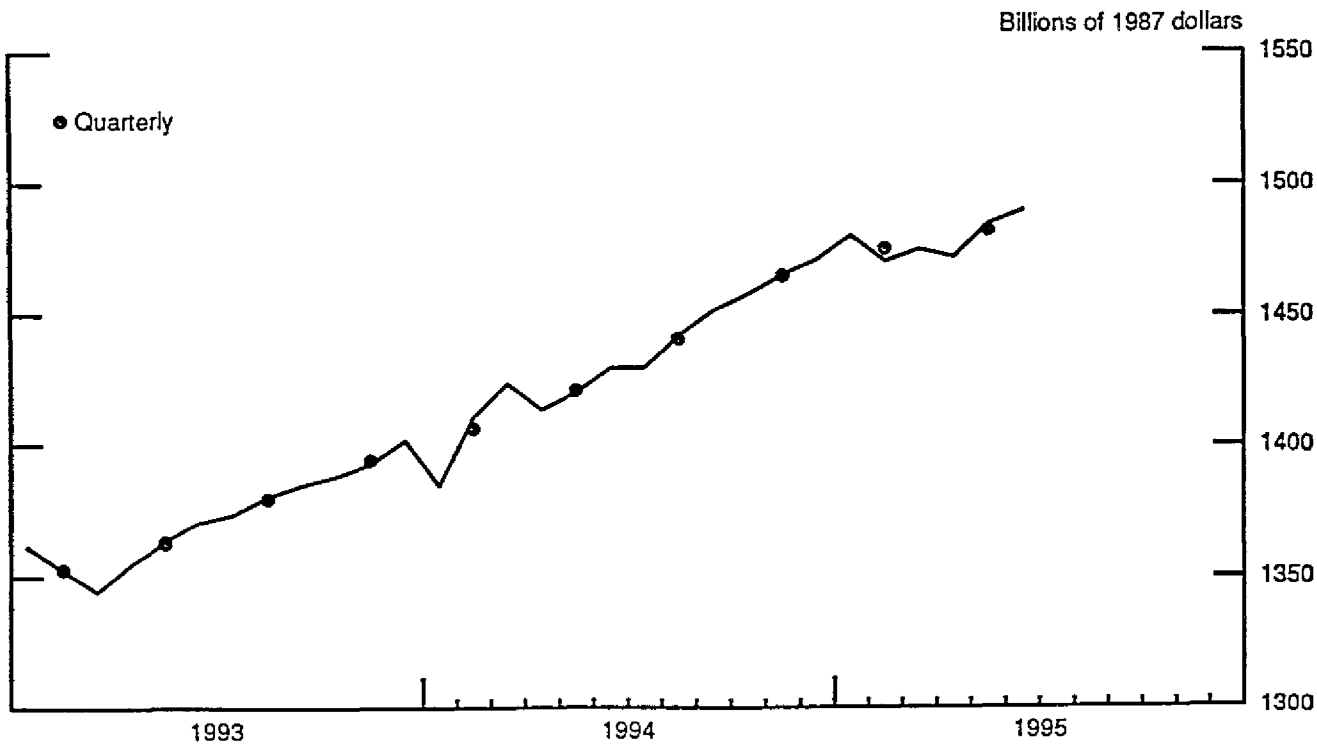
RETAIL SALES

(Percent change from preceding period, seasonally adjusted)

	1995		1995		
	Q1[1]	Q2 [1]	May	June	July
Total sales	.4	1.1	1.1	.8	-.1
(Previous)	*(.4)*	*(.9)*	*(.9)*	*(.7)*	
Building materials and supplies	-1.3	-2.2	-1.1	.6	.9
Automotive dealers	-.5	1.8	1.7	2.4	-1.7
Retail control [2]	.9	1.1	1.0	.3	.3
(Previous)	*(.9)*	*(.8)*	*(.7)*	*(.2)*	
Furniture and appliances	-.6	.2	1.9	1.0	.6
Other durables	.7	3.2	1.1	-1.3	1.7
Apparel	-1.1	-.5	2.9	1.0	1.2

1. Percent change of quarterly averages.
2. Total excluding auto dealers and building material and supply stores, except auto and home supply stores.

PCE Goods Excluding Motor Vehicles



Note. Data for May, June, and July of 1995 are staff estimates.

remained lackluster. Sales of new light vehicles dipped in July to a 14.2 million unit annual rate, and judging from the data so far this year, the trend in sales appears to have dropped back to 14.6 million units, about 1/2 million units below the 1994 pace. This year's relative weakness seems to indicate that the pent-up demand accumulated during the early 1990s was largely satisfied when sales reached a cyclical peak in the second half of 1994.

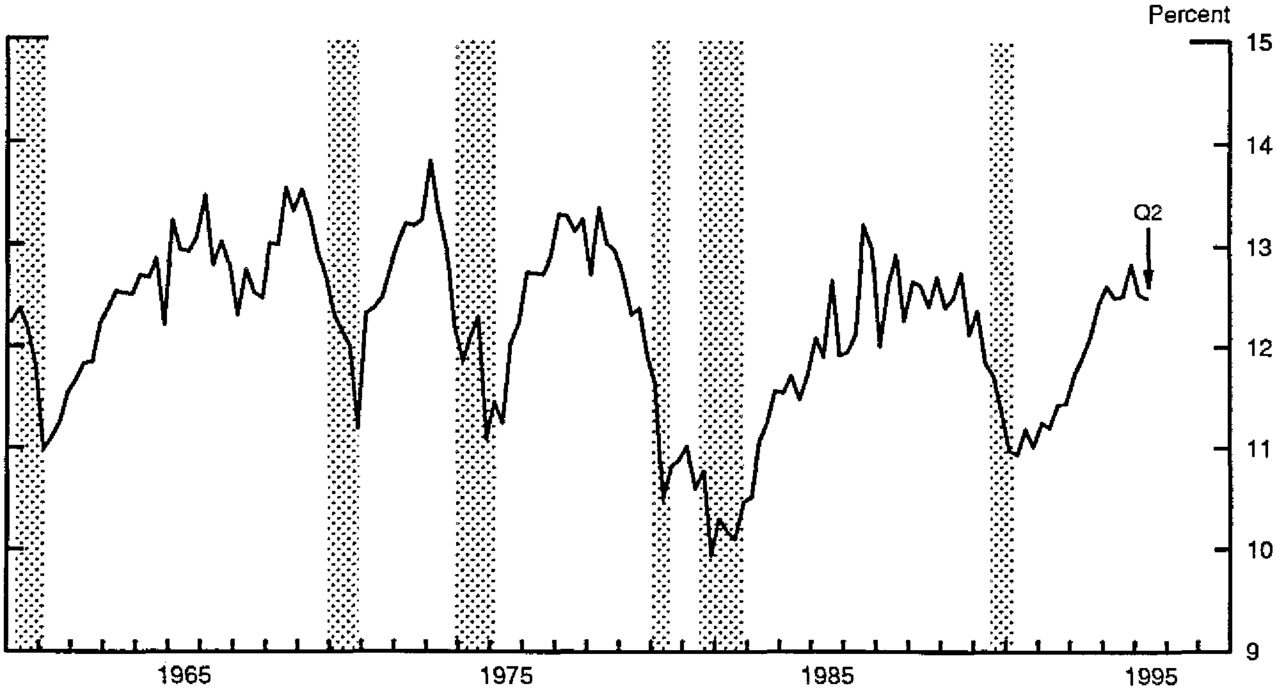
Sales in the control category of retail sales, which excludes automotive dealers and building materials and supply stores, increased 0.3 percent in July from a June level that was revised up substantially. Sales of furniture and appliances now appear to have firmed considerably over the past few months, likely reflecting, in part, the strengthening of home sales. Sales of apparel, which had also languished earlier in the year, have turned around. Given the revisions to the retail sales data, we estimate that real consumer spending rose at an annual rate of about 3 percent in the second quarter, 1/2 percentage point more than in the advance GDP release.

Although spending on goods has picked up in recent months, the gains are still well below those recorded over the preceding three years. The slowing in outlays for durables has been especially dramatic, but it is broadly consistent with the experience in most previous business cycles. The percentage of nominal income spent on durables typically shoots up in the early phase of an expansion as pent-up demands are worked off, but during the mature phase of the expansion, it tends to fluctuate around a level somewhat below the peak (chart). The resurgence of durable goods spending in the current cycle occurred much later than usual--probably because consumers remained pessimistic for so long--but the behavior of the ratio over the past year is in line with the norm for a typical mature expansion. Another notable feature of the current cycle is

Nominal Spending on Durable Goods as a Percentage of Nominal Disposable Income

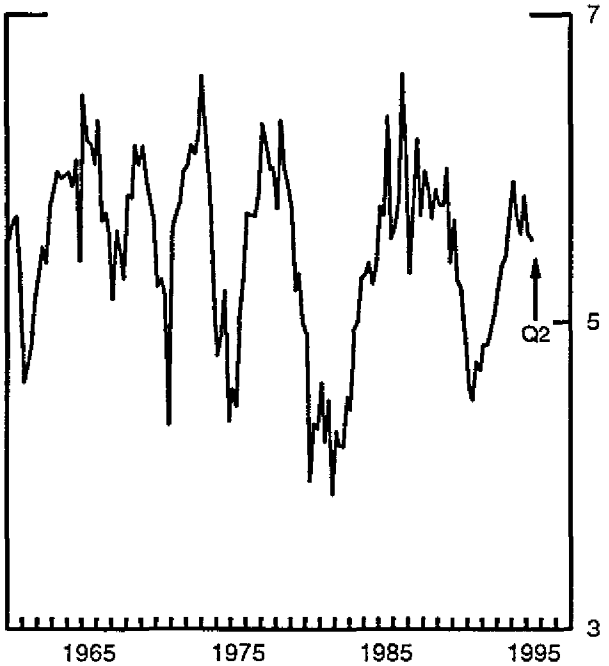
(1995:Q2 is staff estimate)

Total Durables Spending



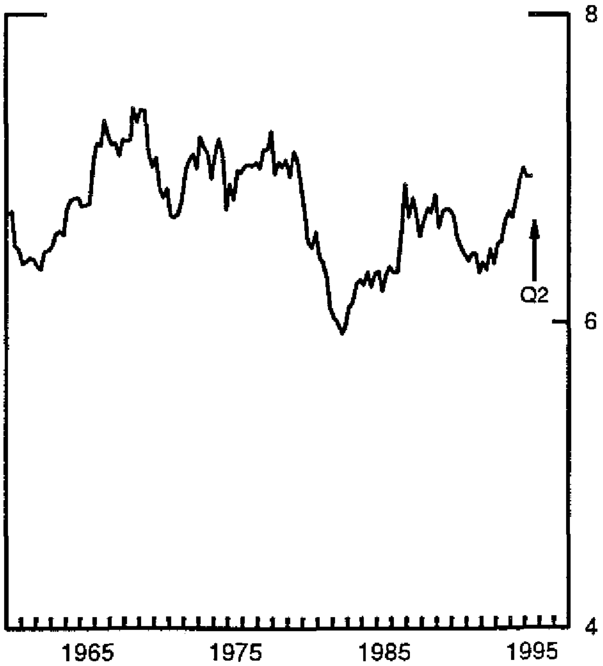
Note. Includes adjustment for leased automobiles.

Motor Vehicles



Note. Includes adjustment for leased automobiles.

All Other Durables



the marked divergence among the major components of durables. When measured relative to income, outlays for motor vehicles are at a level somewhat below those typical of previous expansions, while the boom in home electronics has pushed outlays for other durables to their highest level since the mid-1970s.

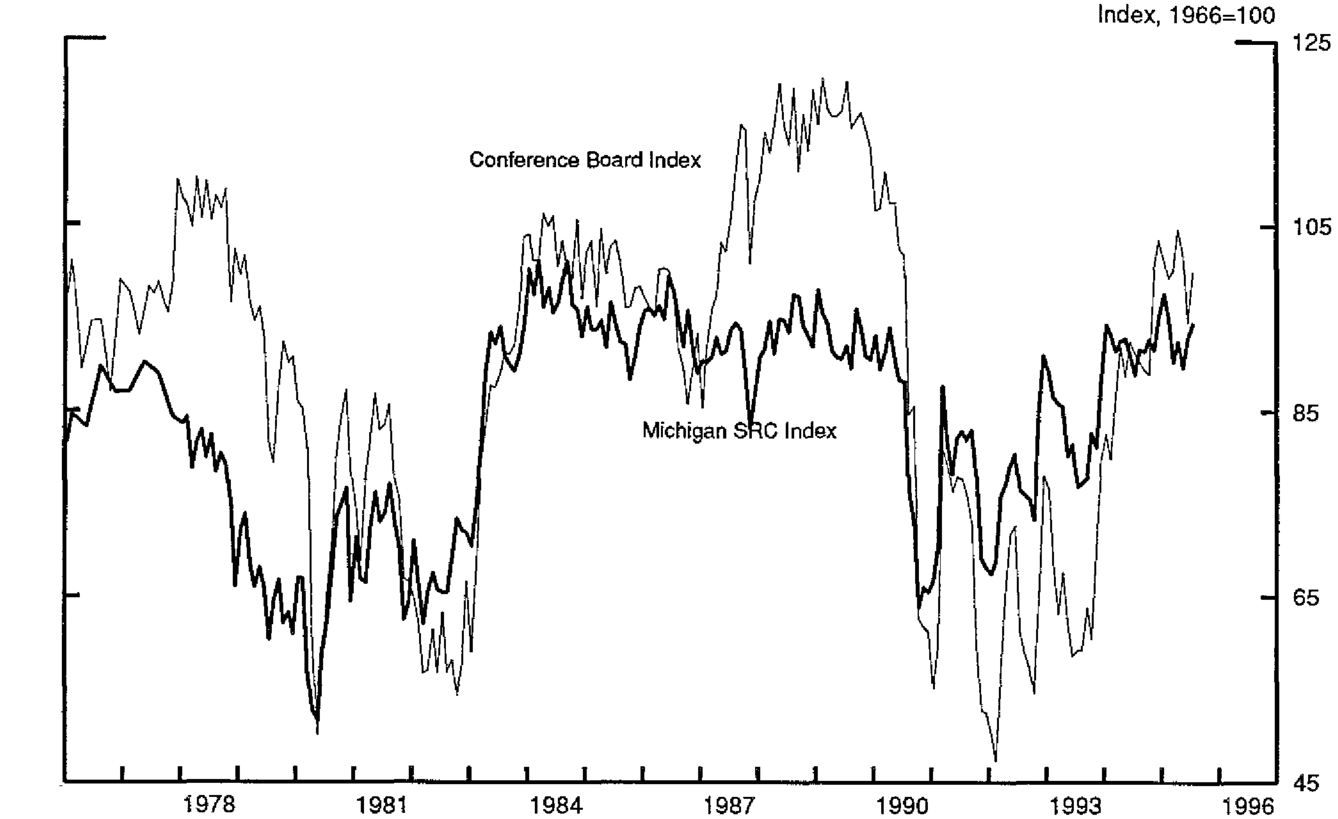
We have no hard information on services expenditures in July, but data on weather for the nation as a whole suggest that energy spending rose moderately from an already high second-quarter level. Real spending on services other than energy rose 2-3/4 percent at an annual rate in the second quarter, roughly in line with the increases recorded over the preceding several quarters.

Growth in household income has clearly slowed from the rapid pace of the past few years, although the deceleration in the underlying trend is not as great as suggested by the second-quarter data. The drop of 1-1/4 percent (annual rate) in real disposable income in the second quarter was exaggerated by a spike in tax payments in April as high-income households paid the second installment of the retroactive OBRA-93 tax increase. Wages and salaries were about flat in real terms for the quarter as a whole. Looking ahead, however, the sizable increases in hours worked and average hourly earnings in July, which come on the heels of a moderate rise in wages and salaries in June, should set the stage for a healthy gain in labor income in the current quarter. After adjusting for the retroactive tax payments and the anticipated revisions to the consumption data, the saving rate was about 4-1/2 percent in the second quarter, in line with the average over the preceding four quarters.

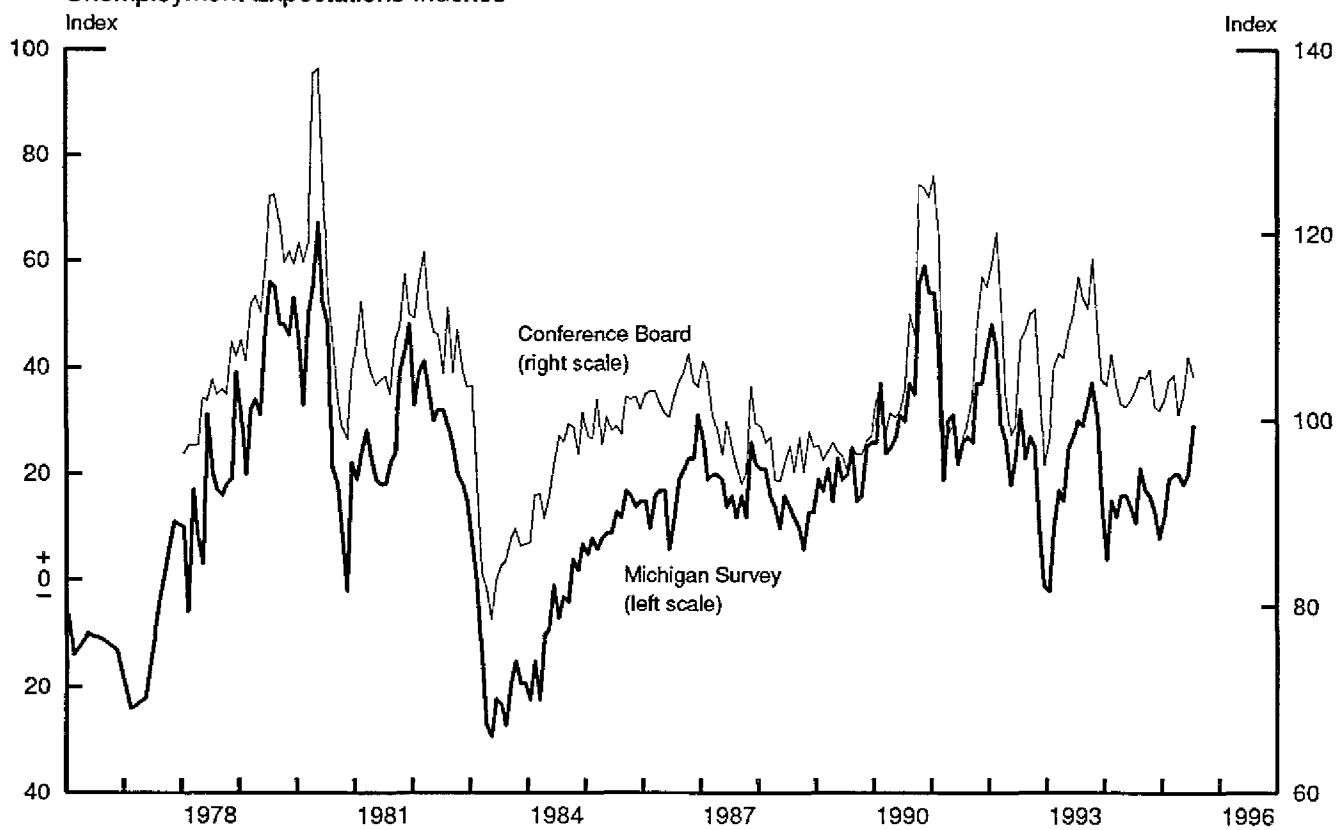
Other key determinants of consumption remain sound. The July readings on consumer sentiment from both the Michigan and the Conference Board surveys held in the favorable ranges that have

Consumer Surveys

Consumer Sentiment



Unemployment Expectations Indexes



prevailed since late last year (chart, top panel). Survey respondents' expectations about unemployment also held steady through June (chart, bottom panel), and the Conference Board reported little change in expected labor market conditions in July. By contrast, the Michigan survey showed an increase in unemployment fears last month, but the sample is small and the July reading--even if taken at face value--was still in a range generally associated with moderate growth in consumption. In addition, the rallies in the stock and bond markets this year have added appreciably to the net worth of households, which should provide some impetus to spending in coming quarters.

Housing Markets

Single-family housing production has strengthened appreciably since May. Starts rose 4 percent in June and an additional 7 percent in July, reaching their highest level since last December. Permit issuance for these projects has been on a similar uptrend, further evidence of firming in this sector.

The increase in production is a response to stronger housing demand. New home sales in May and June averaged 16 percent above their pace during the first four months of the year. Sales of existing homes also moved up significantly in May and June. House prices, meanwhile, continued to increase at an annual rate of 2 percent to 4 percent in the second quarter, judging from the constant-quality price indexes for new and existing homes. Average transaction prices, which reflect changes in the mix of sales, have been rising less rapidly.

Survey data through early August suggest that single-family housing remains robust. Home builders reported continued improvements in their assessments of current and expected sales, and applications for home purchase loans remain well above the level

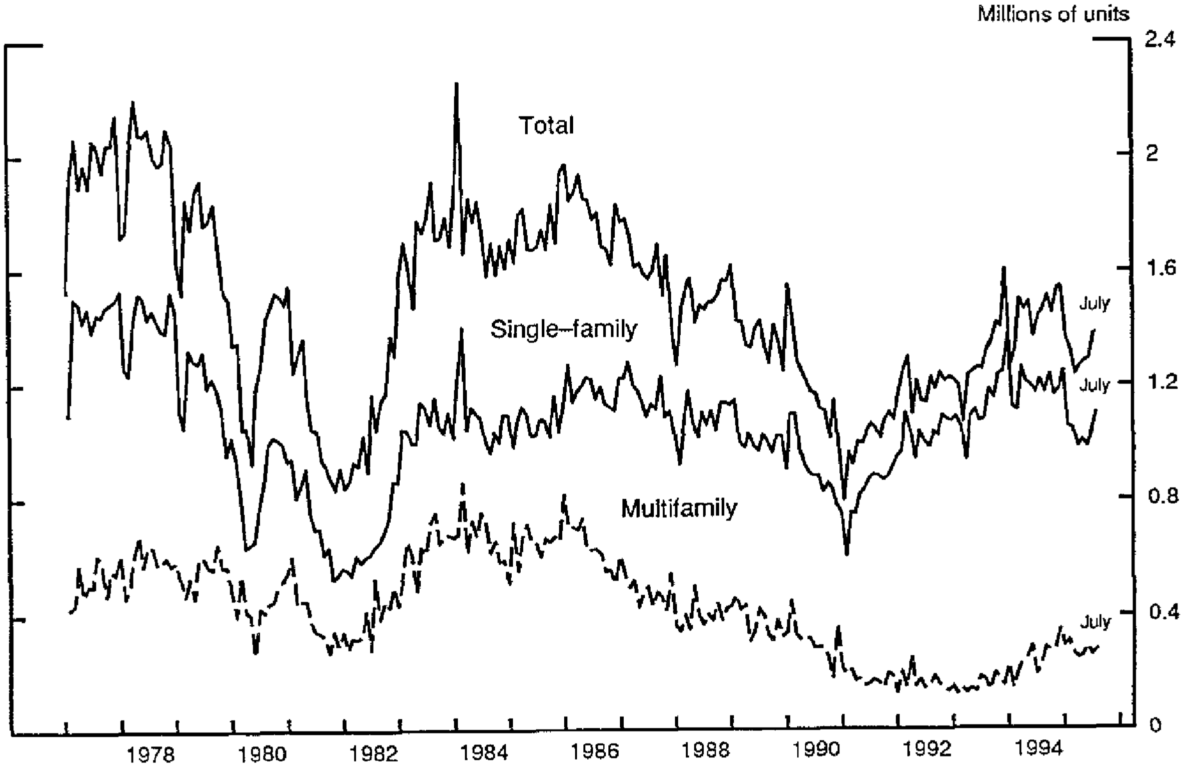
PRIVATE HOUSING ACTIVITY
(Millions of units; seasonally adjusted annual rate)

	1994			1995		1995		
	Annual	Q3	Q4	Q1	Q2[r]	May[r]	June[r]	July[p]
<u>All units</u>								
Starts	1.46	1.47	1.51	1.31	1.28	1.28	1.29	1.38
Permits	1.37	1.39	1.39	1.27	1.25	1.24	1.28	1.34
<u>Single-family units</u>								
Starts	1.20	1.21	1.20	1.03	1.01	.99	1.03	1.10
Permits	1.07	1.06	1.06	.94	.93	.93	.96	1.00
New-home sales	.67	.66	.66	.61	.68	.69	.73	n.a.
Existing-home sales	3.95	3.91	3.76	3.55	3.57	3.55	3.78	n.a.
<u>Multifamily units</u>								
Starts	.26	.26	.31	.28	.27	.29	.26	.28
Permits	.31	.33	.33	.33	.32	.31	.32	.34

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

Private Housing Starts

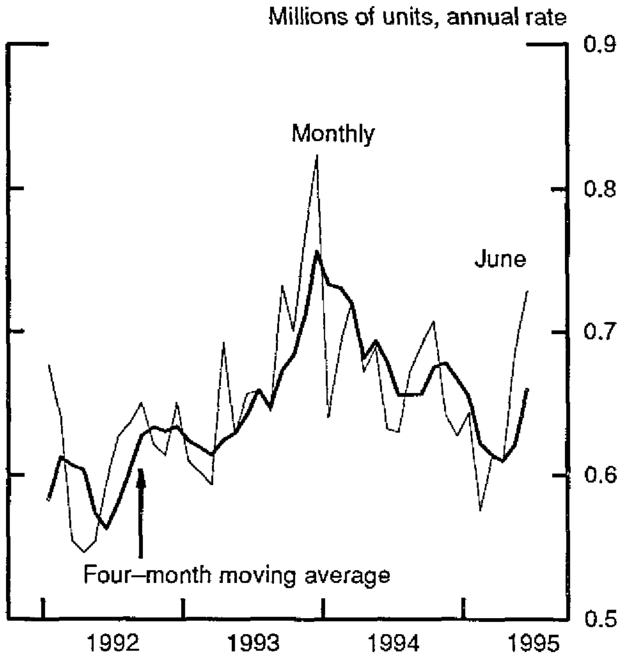
(Seasonally adjusted annual rate)



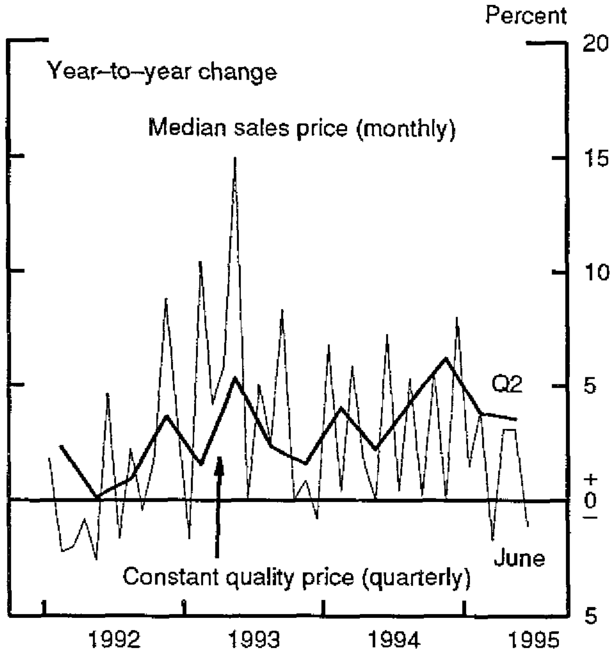
Single–Family Homes

New Homes

Sales

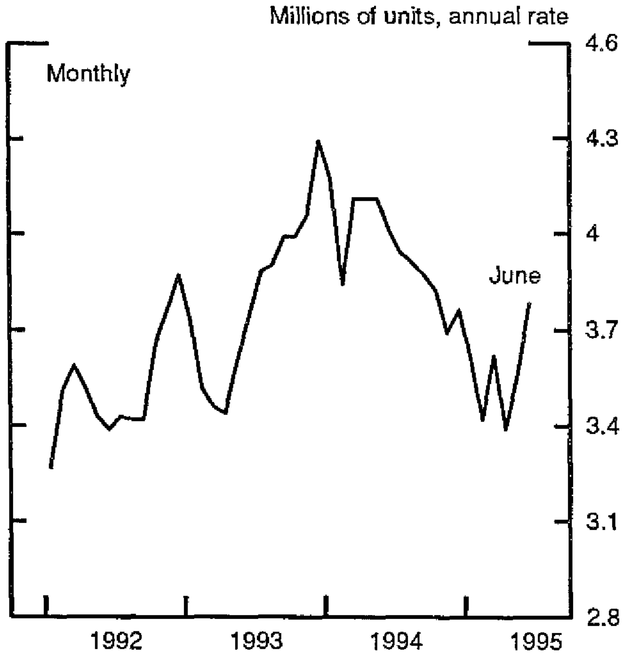


Prices

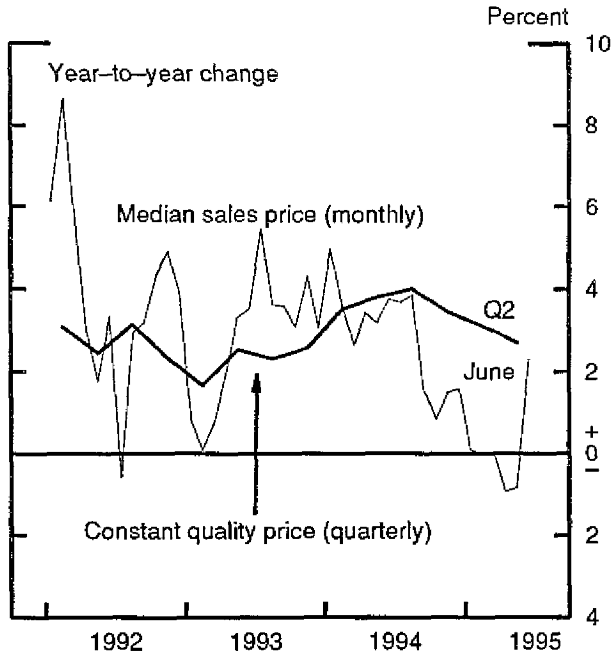


Existing Homes

Sales

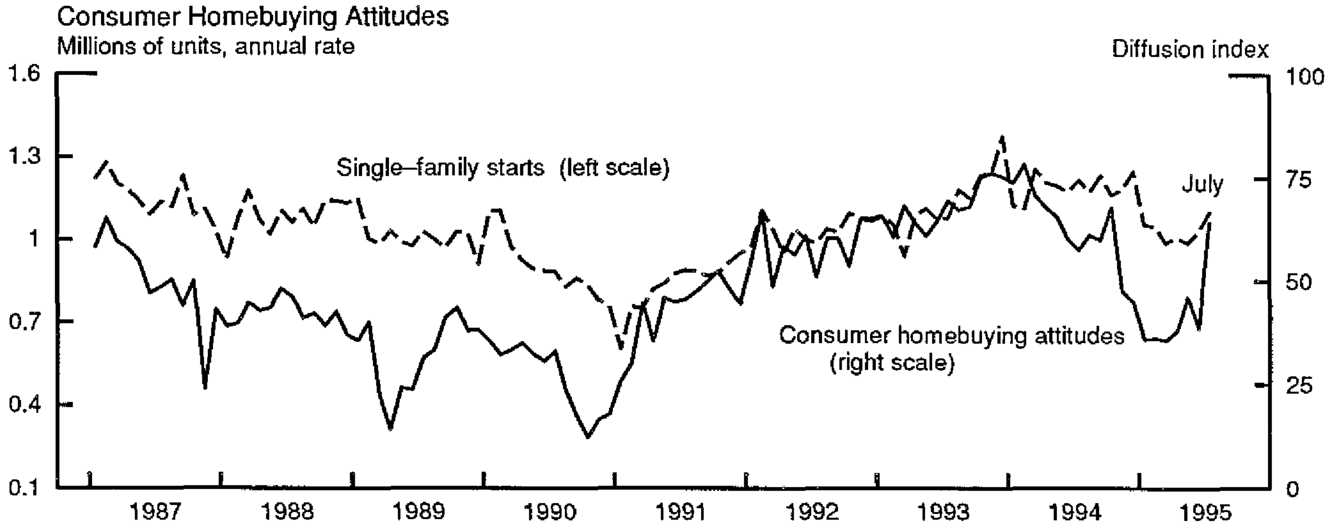


Prices

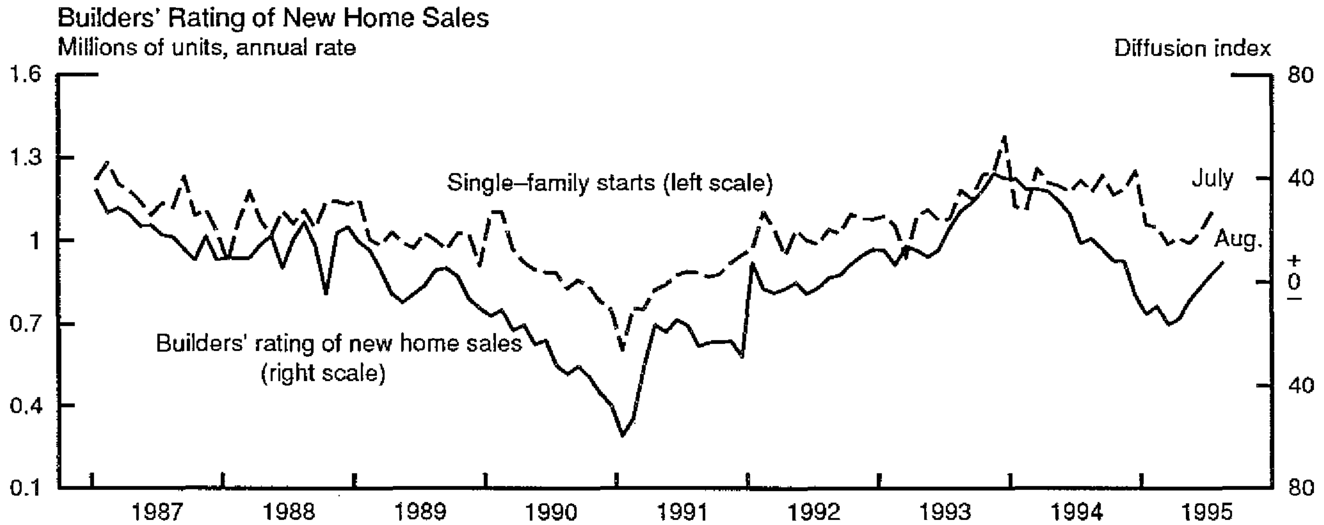


Indicators of Housing Demand

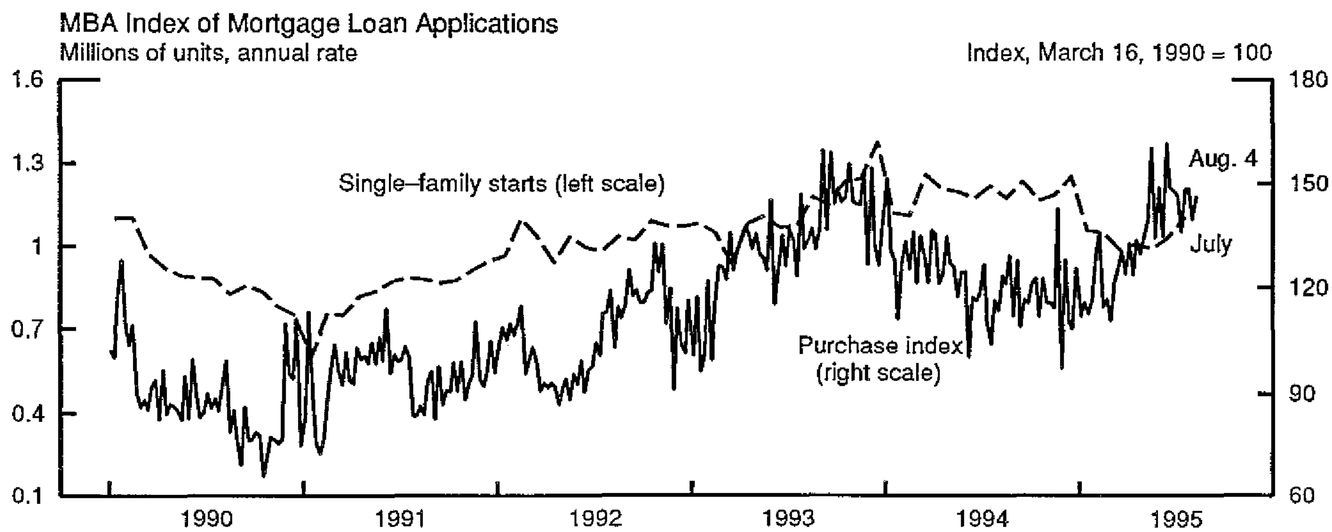
(Seasonally adjusted; FRB seasonals except starts)



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.

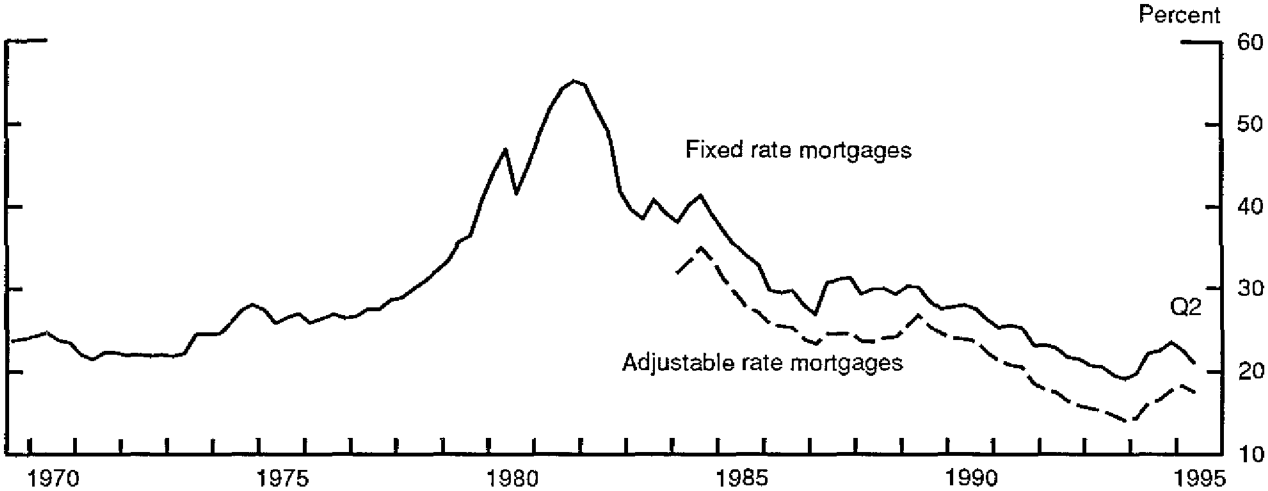


Note. The index is calculated from National Association of Homebuilders data as the proportion of respondents rating current sales as good to excellent minus the proportion rating them as poor.



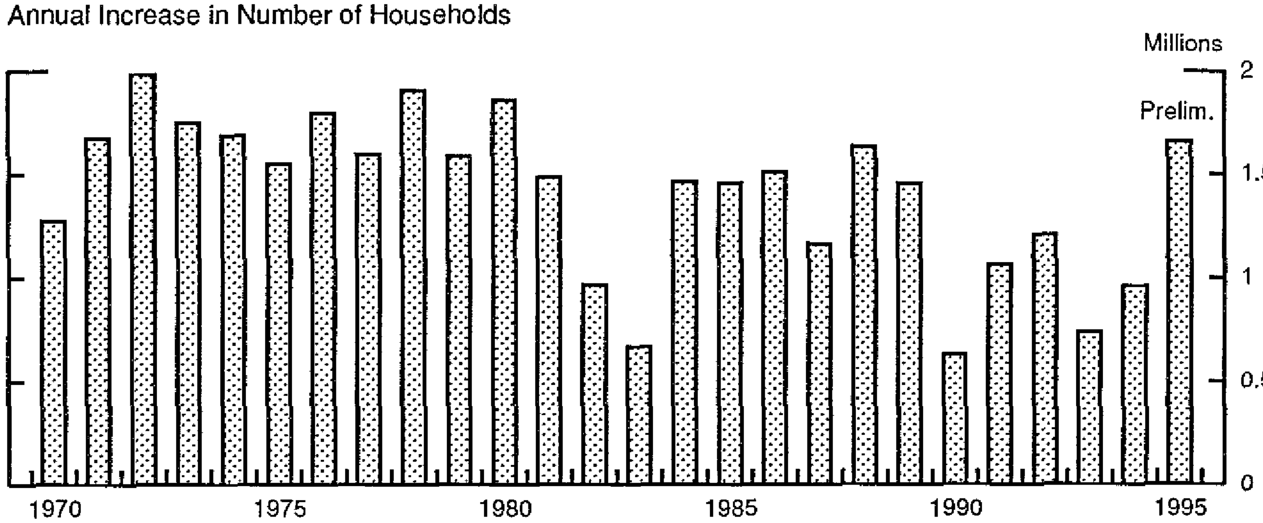
Housing Market Conditions

Cash-Flow Burden of Homeownership



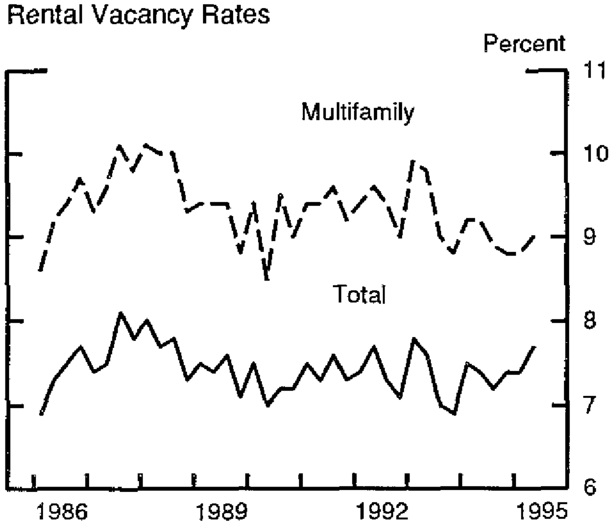
Note. Cash-flow burden is defined as the financing cost of a constant-quality new home as a percentage of average household disposable income.

Annual Increase in Number of Households

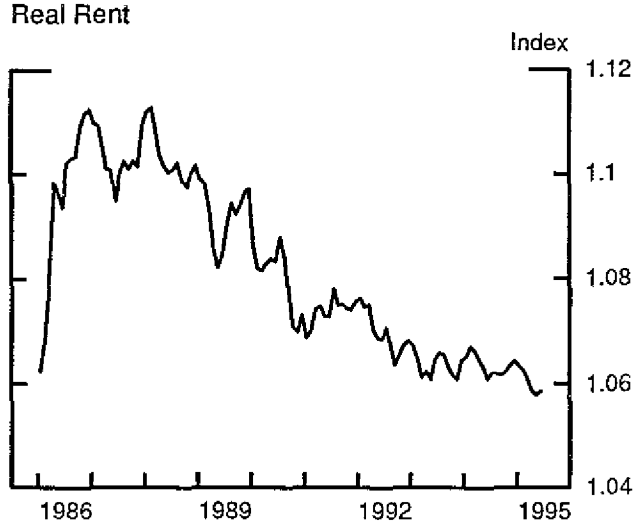


Note. Change is calculated from Q2 to Q2. Break adjusted.

Rental Vacancy Rates



Real Rent



Note. Ratio of CPI rent to the CPI ex. housing, NSA.

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

	1994	1995		1995		
	Q4	Q1	Q2	May	June	July
<u>Producers' durable equipment</u>						
Shipments of nondefense capital goods	2.7	5.3	3.2	1.3	2.3	n.a.
Excluding aircraft and parts	3.3	4.8	3.7	3.0	1.9	n.a.
Office and computing	4.9	3.1	7.2	7.0	.1	n.a.
All other categories	2.9	5.2	2.6	1.9	2.5	n.a.
Shipments of complete aircraft[1]	-12.8	12.5	-5.0	-27.3	41.9	n.a.
Sales of heavy trucks	8.2	8.8	-3.6	3.7	2.1	-17.0
Orders of nondefense capital goods	3.4	8.3	-.4	7.6	-.8	n.a.
Excluding aircraft and parts	2.7	6.4	.2	5.0	2.6	n.a.
Office and computing	2.0	2.8	3.9	1.8	12.7	n.a.
All other categories	2.9	7.4	-.9	5.9	-.3	n.a.
<u>Nonresidential structures</u>						
Construction put-in-place	2.4	.5	2.5	-2.4	3.4	n.a.
Office	10.2	.1	3.2	3.2	-.5	n.a.
Other commercial	4.0	5.7	-2.3	-10.8	10.4	n.a.
Institutional	1.5	-.1	.8	1.2	-1.6	n.a.
Industrial	10.0	.4	7.2	-.3	.9	n.a.
Public utilities	-6.6	-28.7	5.6	-1.0	4.5	n.a.
Lodging and miscellaneous	8.7	9.1	2.1	2.0	5.7	n.a.
Rotary drilling rigs in use	-5.3	-1.7	1.3	.2	-6.2	3.9
Memo:						
Business fixed investment[2]	17.6	21.5	11.8	n.a.	n.a.	n.a.
Producers' durable equipment[2]	19.6	24.5	12.7	n.a.	n.a.	n.a.
Nonresidential structures[2]	11.0	11.5	8.5	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.

earlier this year. Availability of favorable terms on fixed-rate mortgages has continued to boost demand, according to consumer surveys. The cash-flow affordability of new homes in the second quarter approached the twenty-five-year record set in late 1993.

Demand has also received a boost from demographics. After running well below trend for several years, household formations jumped in the year ending in the second quarter. This spurt may help explain the surprising resilience of housing construction to higher interest rates in the second half of last year. Most of the increase in demand has been for owner-occupied housing. The overall homeownership rate--that is, the percentage of households that own their residence--rose to 64.7 percent in the second quarter, the highest rate since 1983.

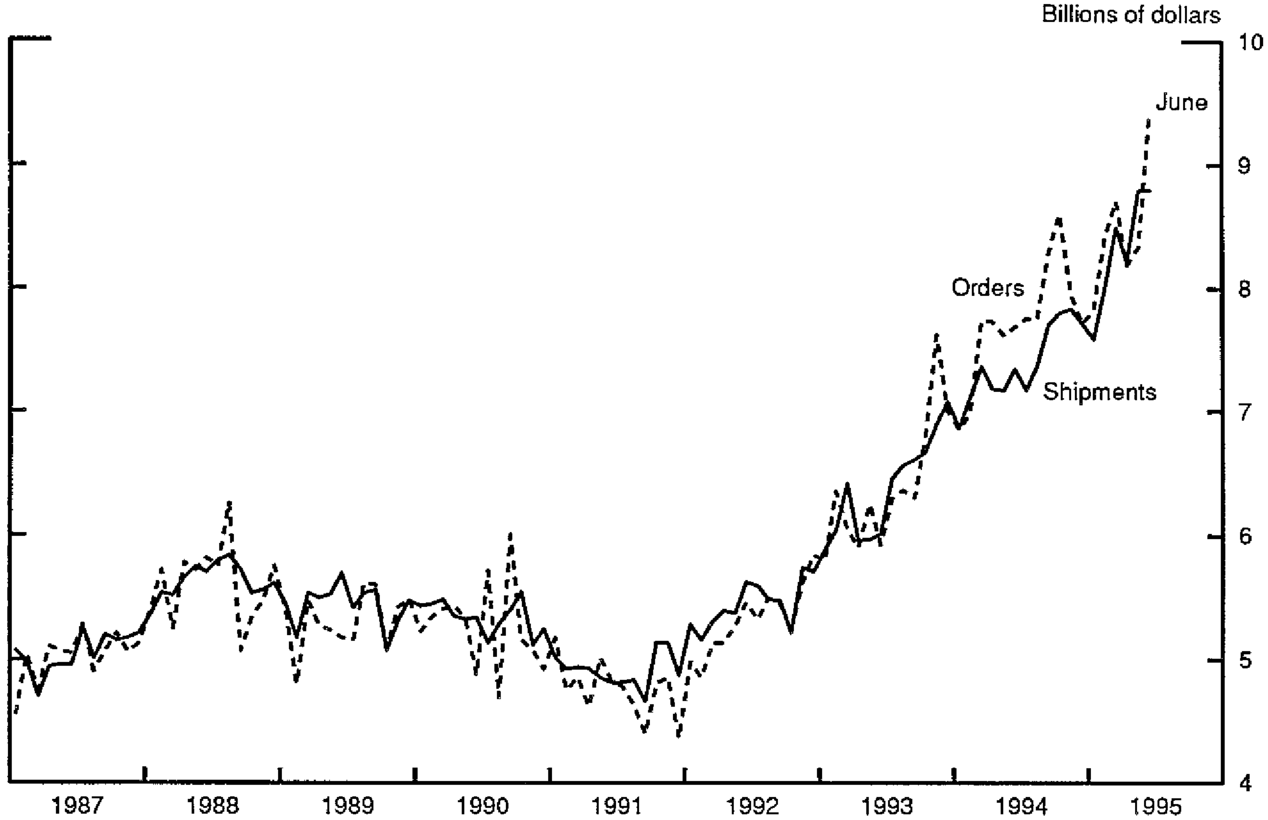
In contrast to the recent strength in the single-family market, construction of multifamily housing has flagged. Starts of these units in the past several months have been trendless at a level about 15 percent below the five-year high recorded in the fourth quarter of last year. Despite firming in some local markets, vacancy rates for rental housing (two-thirds of which are apartments) have not fallen much nationwide, nor have real rents risen appreciably. Indeed, in the second quarter these two variables hint of some softening in market conditions.

Business Fixed Investment

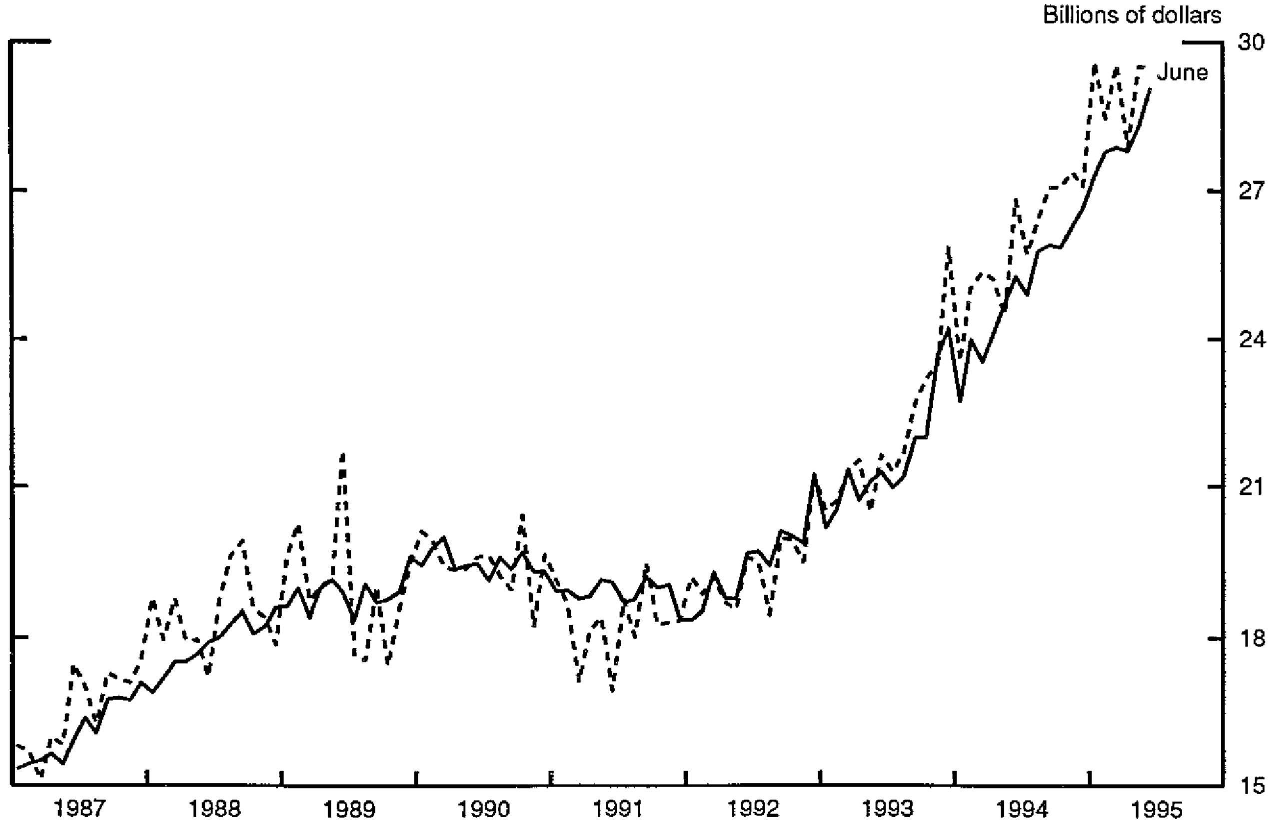
Real business fixed investment increased at an annual rate of 12 percent in the second quarter after three quarters of even larger gains. Equipment spending once again was boosted by surging computer purchases, and construction of nonresidential structures posted another substantial gain. However, looking ahead, growth of investment seems likely to slow: Near-term indicators have been mixed, and market fundamentals suggest some moderation as well.

Orders and Shipments of Nondefense Capital Goods

Office and Computing Equipment



Other Equipment (Ex. Aircraft and Computing Equipment)



Real equipment expenditures grew 13 percent at an annual rate in the second quarter, even though spending for motor vehicles and aircraft dropped sharply. Business spending for computers is continuing on its strong upward trajectory, reflecting dramatic improvements in performance for a wide variety of machines and peripherals, aggressive pricing, and considerable upgrades in the quality of software.[2] Real outlays for computers rose at an annual rate of 60 percent in the second quarter, and the recent trend in shipments points to a sizable gain in the third quarter.

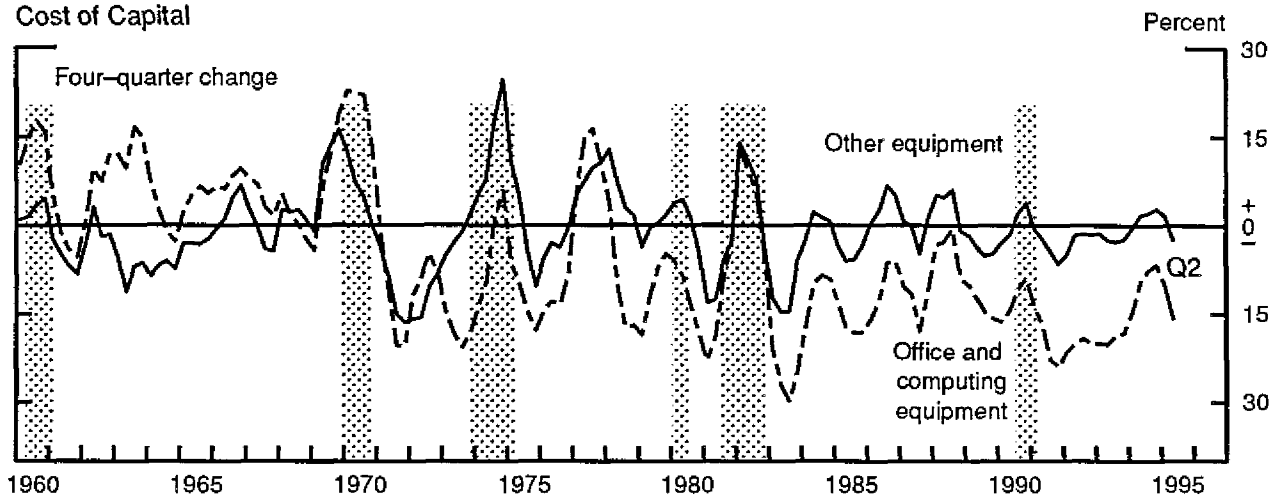
Near-term prospects for other types of equipment are less upbeat. Notably, orders for nondefense capital goods other than aircraft and computers were about flat in the second quarter after rising sharply early this year. In the motor vehicles sector, purchases of cars and light trucks have been lackluster; sales of heavy trucks, which had been robust through June, fell sharply in July, and new orders have weakened considerably in recent months. Purchases of aircraft, which had spurted in the first quarter, have since fallen back to a level more in line with the average pace of the past couple of years, and the continued paucity of orders from domestic carriers suggests that improvement is not imminent.

The fundamentals for equipment investment are mixed but, on balance, point to a moderation in spending growth over the next several quarters. On the plus side, the cost of capital fell during the first half of this year as a result of the rallies in bond and equity markets and, even with the recent backup in long-term interest rates, remains well below its level in the fourth quarter

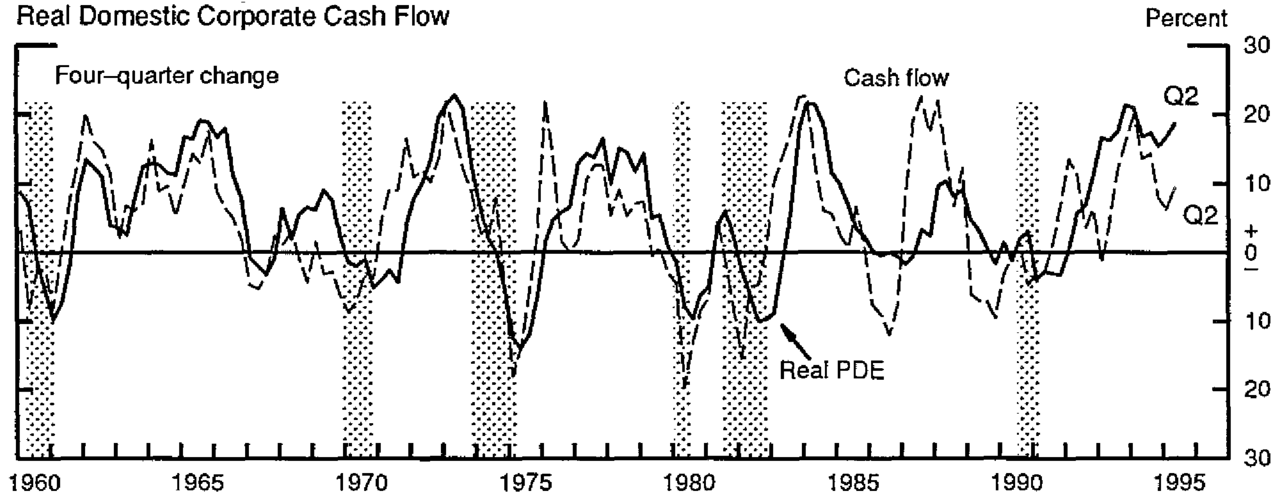
2. The introduction of Windows 95 is unlikely to boost PDE appreciably in the near term because business outlays on stand-alone software are not counted as investment in the national income and product accounts; rather, they are scored as intermediate inputs. Over the longer run, however, many of the businesses that adopt new software like Windows 95 (or "Cairo," which is the next version of Windows NT and will be released in 1996) will upgrade their existing machines or buy new ones to take full advantage of these programs.

Fundamental Determinants of Equipment Spending

Cost of Capital

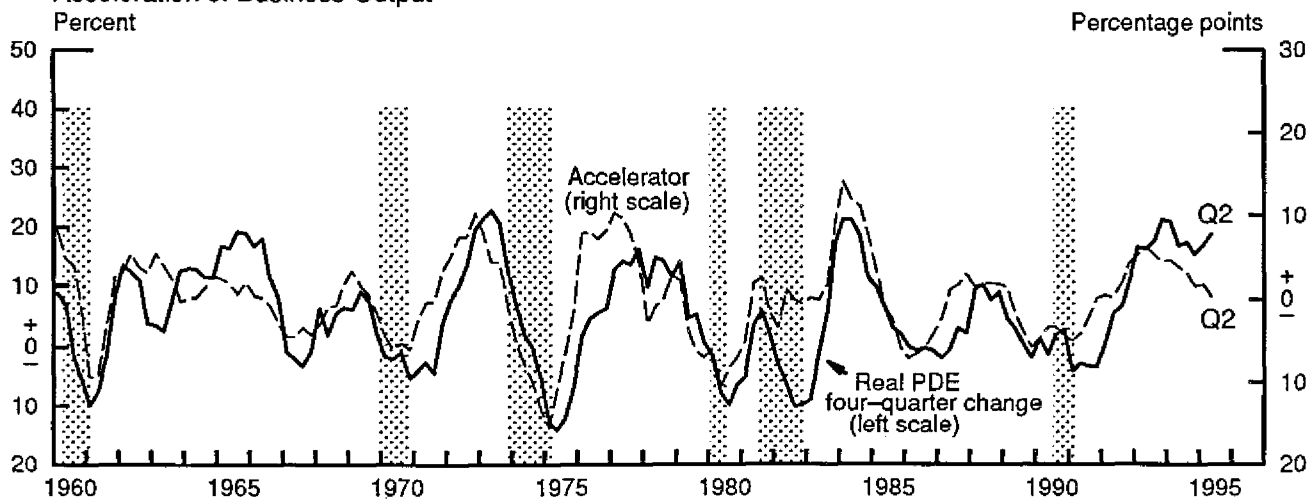


Real Domestic Corporate Cash Flow



Note. Data on cash flow for the second quarter are a staff estimate.

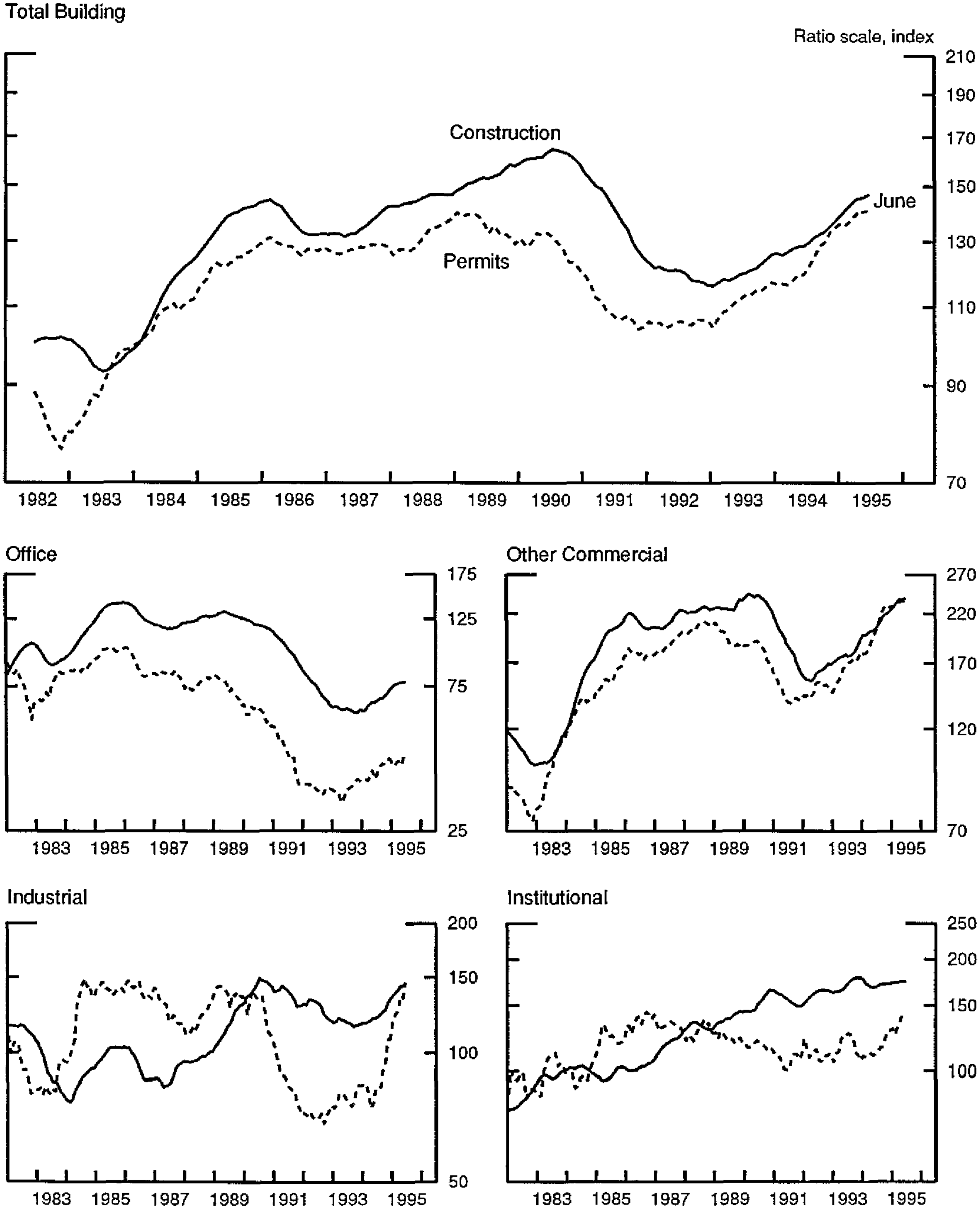
Acceleration of Business Output



Note. The accelerator is the eight–quarter percent change in business output less the year–earlier eight–quarter percent change.

Nonresidential Construction and Permits

(Six–month moving average)



Note. The underlying monthly data were indexed to Dec. 1982 = 100; a six–month moving average was applied to the indexed data.

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

	1994	1995		1995		
	Q4	Q1	Q2	Apr.	May	June
Total	57.7	104.8	62.9	113.9	51.4	23.3
Excluding wholesale and retail motor vehicles	55.2	75.2	53.4	89.0	43.7	27.7
Manufacturing	21.1	41.1	27.4	43.2	31.3	7.8
Wholesale	25.5	35.0	21.6	40.9	10.0	14.0
Excluding motor vehicles	25.9	28.9	13.9	31.1	1.7	8.9
Retail	11.1	28.7	13.8	29.9	10.0	1.4
Automotive	2.9	23.4	1.7	15.2	-.6	-9.5
Excluding auto dealers	8.2	5.3	12.1	14.7	10.7	11.0
Constant-dollar basis						
Total	33.8	43.2	n.a.	50.2	1.7	n.a.
Excluding motor vehicles	22.7	29.0	n.a.	41.4	10.3	n.a.
Manufacturing	4.1	12.0	n.a.	17.8	14.4	n.a.
Wholesale	14.1	21.5	n.a.	25.2	-5.6	n.a.
Excluding motor vehicles	14.9	16.4	n.a.	17.2	-8.8	n.a.
Retail	15.6	9.7	n.a.	7.2	-7.2	n.a.
Automotive	11.8	8.9	n.a.	.8	-10.7	n.a.
Excluding auto dealers	3.8	.8	n.a.	6.4	3.6	n.a.

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

	1994	1995		1995		
	Q4	Q1	Q2	Apr.	May	June
Total	1.38	1.40	1.41	1.42	1.41	1.40
Excluding wholesale and retail motor vehicles	1.36	1.36	1.38	1.38	1.37	1.37
Manufacturing	1.35	1.35	1.38	1.37	1.37	1.37
Wholesale	1.31	1.33	1.34	1.34	1.33	1.33
Excluding motor vehicles	1.29	1.30	1.31	1.31	1.31	1.30
Retail	1.51	1.54	1.54	1.55	1.54	1.53
Automotive	1.68	1.81	1.79	1.84	1.81	1.75
Excluding auto dealers	1.46	1.46	1.46	1.46	1.46	1.46
Constant-dollar basis						
Total	1.44	1.44	n.a.	1.47	1.46	n.a.
Excluding motor vehicles	1.42	1.42	n.a.	1.44	1.43	n.a.
Manufacturing	1.39	1.38	n.a.	1.41	1.41	n.a.
Wholesale	1.40	1.42	n.a.	1.45	1.45	n.a.
Excluding motor vehicles	1.39	1.40	n.a.	1.43	1.42	n.a.
Retail	1.55	1.57	n.a.	1.58	1.56	n.a.
Automotive	1.62	1.72	n.a.	1.74	1.68	n.a.
Excluding auto dealers	1.53	1.53	n.a.	1.53	1.53	n.a.

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

of last year. In contrast, real cash flow has decelerated considerably over the past year. Moreover, the accelerator effect, which is based on long lags of changes in business output, has been waning gradually during the past couple of years and is no longer providing any impetus to growth in equipment outlays.

Construction of nonresidential structures posted another substantial increase in the second quarter, with solid growth in all major sectors but "other commercial." Permits in the aggregate also continued to move up through June and imply a further robust gain in construction in the current quarter. Nonetheless, the recent increases in permits have been smaller than those recorded in 1994. The tapering off of permits has been concentrated in the office and other commercial sectors, the latter likely reflecting in part an abundance of unrented retail space. By contrast, permits for industrial structures have remained on a steep uptrend despite the decreases in overall factory operating rates over the past several months.

Inventories

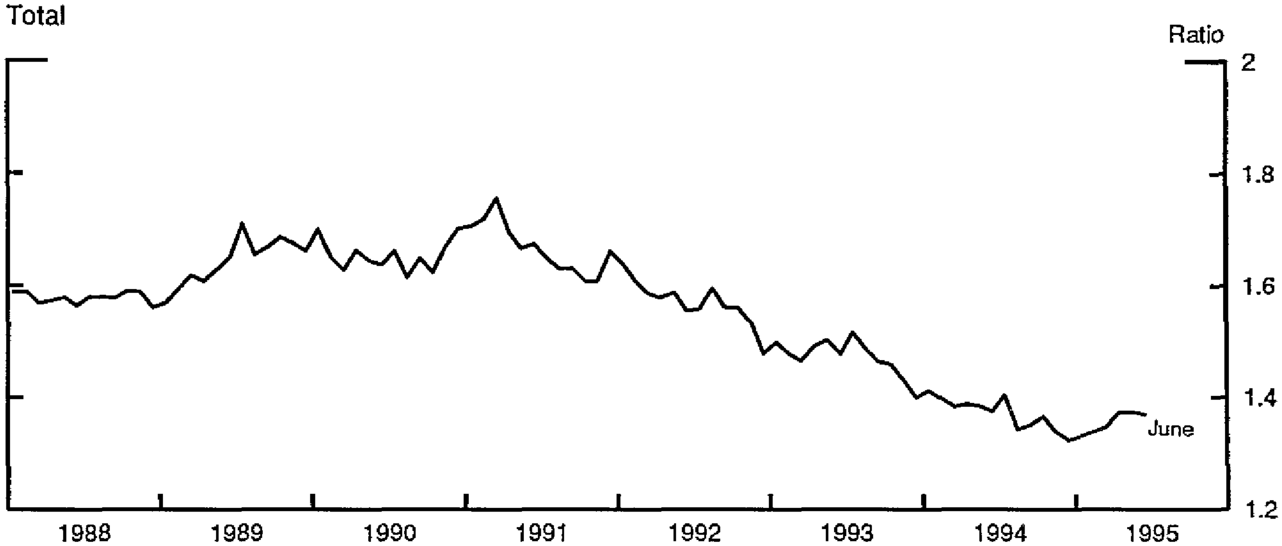
Business inventory accumulation slowed markedly in June, and inventories in many industries appear to be at, or approaching, desired levels. Excluding motor vehicles, inventories in all manufacturing and trade rose at a $28 billion annual rate (book value) in June, little more than one-third of the average accumulation from January to May.[3] At the end of June, inventory-sales ratios for most types of business establishments were within their ranges of the previous twelve months and in some instances were well below their recent peaks observed in spring. In

3. In real terms, non-auto inventories in manufacturing and trade are estimated by the staff to have increased at an annual rate of $11 billion in June and $20 billion over the second quarter as a whole. The second-quarter accumulation is $7-1/2 billion below BEA's assumption in the advance GDP estimate.

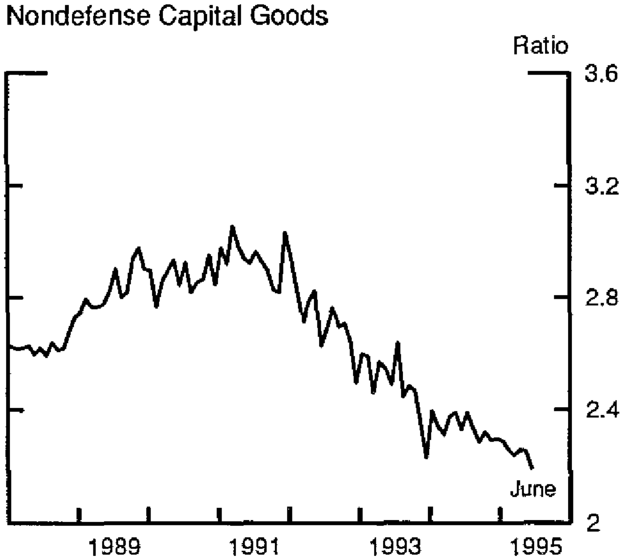
Inventory–Sales Ratios in Manufacturing, by Market Category

(Book value)

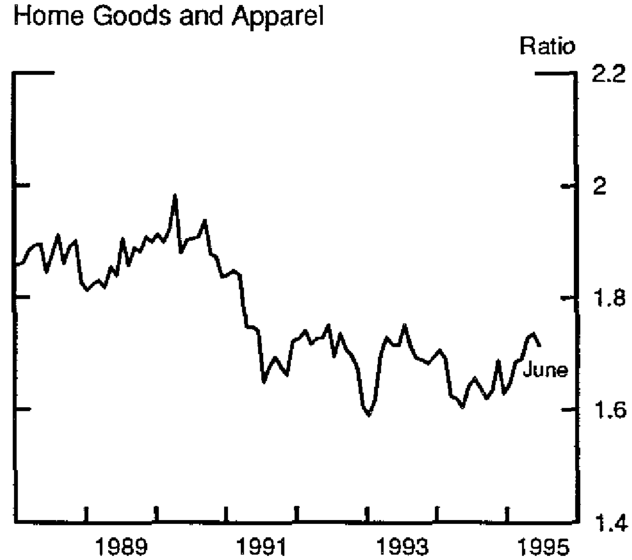
Total



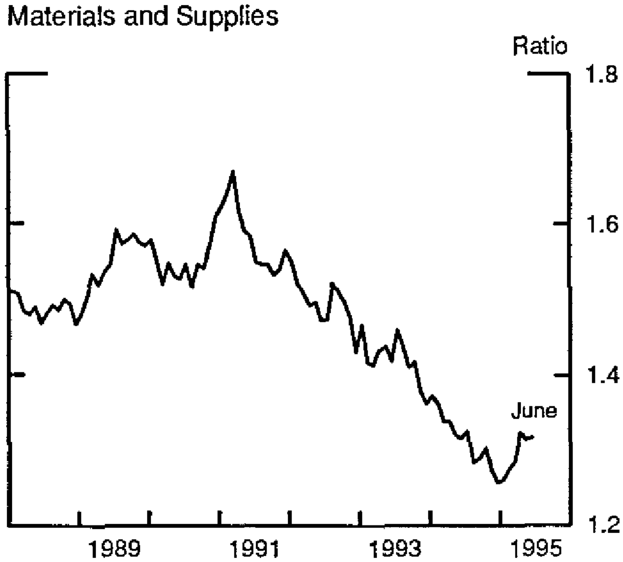
Nondefense Capital Goods



Home Goods and Apparel



Materials and Supplies



Defense Products, Consumer Staples, and Miscellaneous Goods

fact, in the July survey of the National Purchasing Managers' Association, most respondents indicated that they feel both their organization's inventories and their customers' inventories are at about the right level for their expected sales.

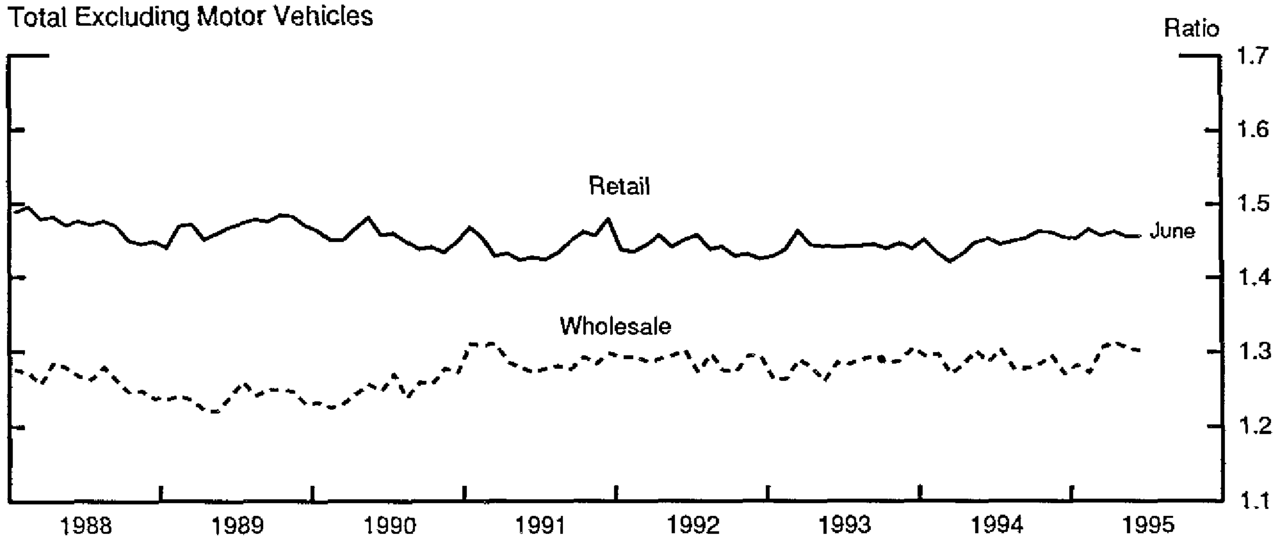
Inventory investment in the manufacturing sector slowed to an $8 billion annual rate in June, in contrast to the massive run-ups earlier this year. Producers in many industries trimmed their stocks, especially stocks of in-process goods that had backed up in the preceding several months when output was reduced.

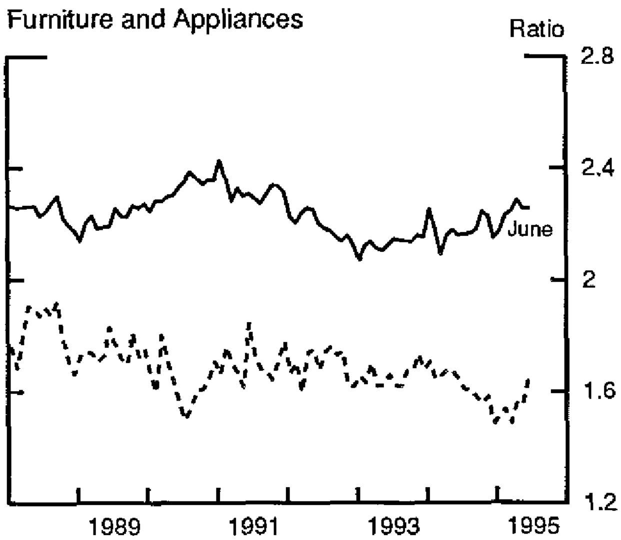
Downstream in wholesale trade, the inventory situation is mixed. The accumulation of wholesale inventories became more moderate and less widespread during the latter part of the second quarter, although sales performances have been uneven, especially among consumer goods. Apparel inventories, which had backed up throughout the distribution chain earlier in the spring, were run off by wholesalers in May and June, reducing the inventory-sales ratio somewhat. In contrast, wholesale stocks of some consumer durables, such as furniture and electrical goods, continued to grow in June, and their stock-sales ratios remained high at mid-year.

In the retail sector, non-auto inventories expanded at an $11 billion annual rate in June in book-value terms--roughly the same as in the preceding two months. The bulk of the June accumulation was in stocks at general merchandise and furniture and appliance stores, where sales have also improved noticeably in recent months. As in wholesale trade, retail apparel inventories were reduced in June; the June liquidation followed two months of little change, and the inventory-sales ratio has fallen significantly as a result. On the whole, non-auto retail inventories seem to be generally in line with the current pace of sales.

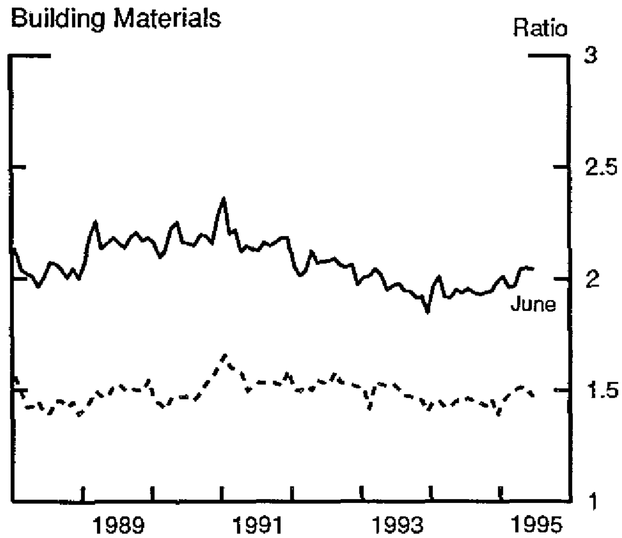
Inventory–Sales Ratios in the Non–Auto Trade Sector

(Book value)

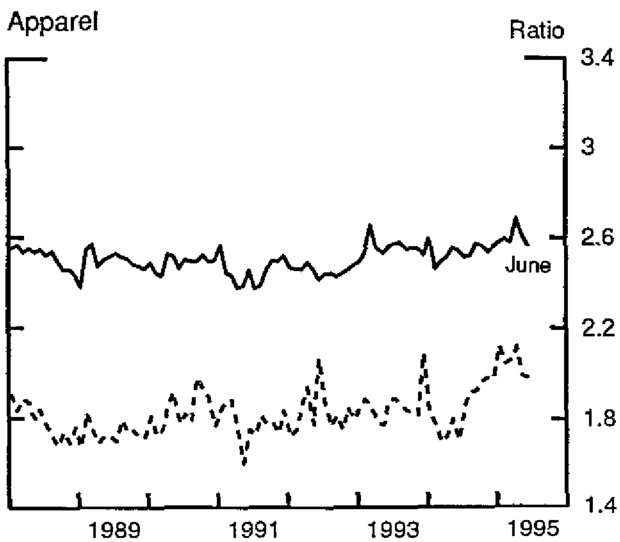


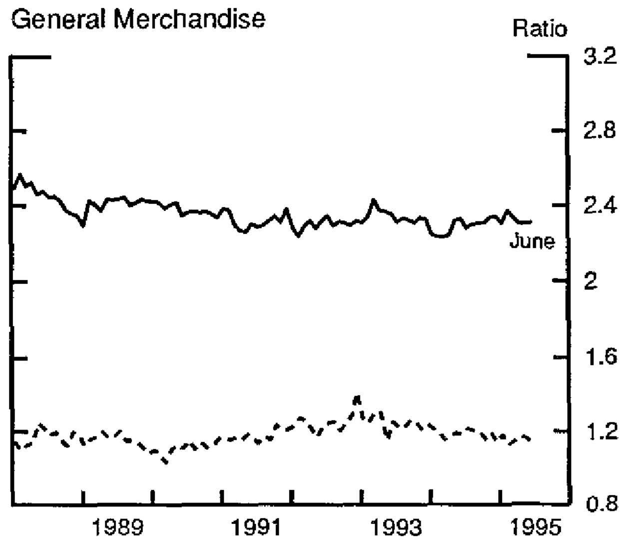


Note. Wholesale series is for furniture only.



Note. Wholesale series is for lumber, hardware, and plumbing only.





Note. Wholesale series is for miscellaneous nondurable goods only.

Federal Sector

The incoming news on the budget for fiscal year 1995 continues to be favorable, yet the longer-term uncertainties surrounding the budget remain sizable. The deficit for the first nine months of fiscal 1995 was 20 percent lower than it was during the comparable period of fiscal 1994 (12 percent lower excluding deposit insurance). Accordingly, both OMB and CBO have revised down their deficit estimates for fiscal 1995 as a whole: OMB's projection in The Mid-Session Review of the Budget is $160 billion (compared with its February estimate of $193 billion), whereas CBO's upcoming report will show a deficit in the range of $160 billion to $165 billion (compared with the March estimate of $175 billion).[4]

Monthly Treasury Statements through June show that receipts are about 8 percent above the same period last fiscal year, with growth in all major categories. Individual income and social insurance taxes combined were 8 percent higher than during the first nine months of fiscal 1994. Corporate income taxes were especially strong in June and have risen 12 percent so far this fiscal year; the June surge may reflect corporations' attempts to comply with the more stringent safe-harbor provisions instituted last year and thus avoid underpayment penalties. Federal Reserve earnings have also been robust, as interest rates have been higher than they were a year earlier.

Excluding deposit insurance, outlays have been about 5-1/2 percent higher than during the comparable period of fiscal 1994. The main restraint continues to come from defense, which is

4. CBO is expected to release its summer update of the economic and budget outlook in late August. This deficit estimate is taken from CBO Director O'Neill's statement to the House Budget Committee on August 3. She also indicated that CBO is lowering its projection of the baseline deficit for 1996 but does not anticipate significant changes in the projections for subsequent years.

ADJUSTED FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Unified basis; billions of dollars except as noted)

	June		Fiscal years through June			
	1994	1995	1994	1995	Dollar change	Percent change
Outlays	123.3	128.4	1089.3	1137.7	48.4	4.4
Deposit insurance (DI)	1.2	-3.4	-3.8	-15.8	-11.9	313.0
Outlays excluding DI	122.0	131.8	1093.1	1153.5	60.4	5.5
National defense	24.2	23.4	207.9	200.2	-7.8	-3.7
Net interest	15.9	18.6	149.7	172.4	22.6	15.1
Social security	30.1	32.1	239.2	251.7	12.5	5.2
Medicare and health	23.0	26.2	186.7	204.7	18.1	9.7
Income security	13.1	14.6	163.0	168.4	5.4	3.3
Other	15.7	16.8	146.6	156.1	9.5	6.5
Receipts	138.1	147.9	939.4	1018.0	78.6	8.4
Personal income	58.1	61.5	404.5	442.5	37.9	9.4
Withheld	37.7	40.9	348.7	380.4	31.8	9.1
Nonwithheld	21.7	23.1	127.5	141.5	14.0	11.0
Refunds	1.3	2.5	71.6	80.0	8.4	11.7
Social insurance	41.5	41.3	347.8	368.3	20.5	5.9
Corporate	29.1	35.9	106.2	118.6	12.4	11.7
Other	9.3	9.2	80.9	89.2	8.3	10.3
Deficit(+)	-14.8	-19.5	149.9	119.7	-30.2	-20.2
Excluding DI	-16.1	-16.1	153.7	135.4	-18.3	-11.9

Note. Monthly and fiscal year to date outlays for defense, income security, and "other outlays" are adjusted to account for the shifting of scheduled payroll and benefit payments when the 1st of the month falls on a weekend or holiday. Components may not sum to totals because of rounding.

down nearly 4 percent in nominal terms.[5] By contrast, outlays for Medicare and Medicaid, which had appeared to be slowing earlier in the year, have picked up in recent months, and they now show a year-to-date increase of 10 percent, similar to trend over the past couple of years. In addition, net interest outlays were 15 percent higher than over the comparable period of fiscal 1994.

Looking ahead, the Administration now expects the deficit to edge up to $163 billion in fiscal 1996 and $179 billion in fiscal 1997 but to fall thereafter as the President's proposals push the budget toward balance in fiscal 2004. This projection also incorporates the fiscal 1995 rescissions package, other legislation enacted since February, and revised economic and technical assumptions.[6] The main change to the economic assumptions is in interest rates, which have been lowered considerably in the near term in response to recent developments in financial markets. In addition, OMB assumes that adoption of the President's plan would result in a sizable decrease in interest rates over the next ten years; this reduction in interest rates, in turn, results in substantially lower outlays for debt service--this is similar to the "fiscal dividend" that plays a key role in financing the tax cuts in the congressional budget plan.

The Administration expects to achieve a balanced budget by early next century with a much smaller package of budget cuts than the one proposed in the congressional budget resolution. That

5. Real defense purchases in the NIPA fell at only a 2 percent annual rate in the second quarter, compared with an average decline of about 6 percent over the preceding three years. Real nondefense purchases, which are also somewhat erratic on a quarterly basis, have been essentially flat over the past year.

6. The fiscal 1995 rescissions bill, which the President signed into law on July 27 after initially vetoing it, cancelled budget authority of about $16 billion, whereas it increased emergency and other supplemental budget authority by about $8 billion. CBO estimates that the net reduction in budget authority translates into lower outlays of about $3 billion in fiscal 1996 and $1 billion in fiscal 1997.

ADMINISTRATION BUDGET AND ECONOMIC PROJECTIONS

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	Budget projections (billions of dollars; fiscal years)										
Baseline deficit	160	186	197	194	202	208	206	215	222	235	248
Net reduction	0	23	18	33	56	83	115	157	200	242	289
Policy	0	21	12	22	38	54	74	102	129	154	183
Interest	-	2	6	11	18	29	41	55	71	88	106
Fiscal div.[1]	-	2	5	9	14	21	28	35	42	49	55
Other	-	0	1	3	5	8	13	20	28	39	51
Proposed deficit	160	163	179	161	146	125	91	58	23	-7	-41
Memo: CBO baseline deficit	-	210	230	232	265	296	310	340	372	408	454
	Economic assumptions (calendar years)										
	Percentage change, Q4 to Q4										
Real GDP	1.9	2.5	2.5	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.4
GDP deflator	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
CPI-U	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1
	Percent, annual average										
Unemployment rate	5.8	5.9	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Yield on selected Treasuries											
Three-month	5.7	5.4	5.2	5.0	4.8	4.6	4.6	4.4	4.4	4.4	4.4
Ten-year	6.6	6.5	6.6	6.4	6.2	6.0	5.8	5.6	5.4	5.3	5.3

1. The fiscal dividend is the reduction in interest outlays that OMB estimates would result from the adoption of the President's budget plan.

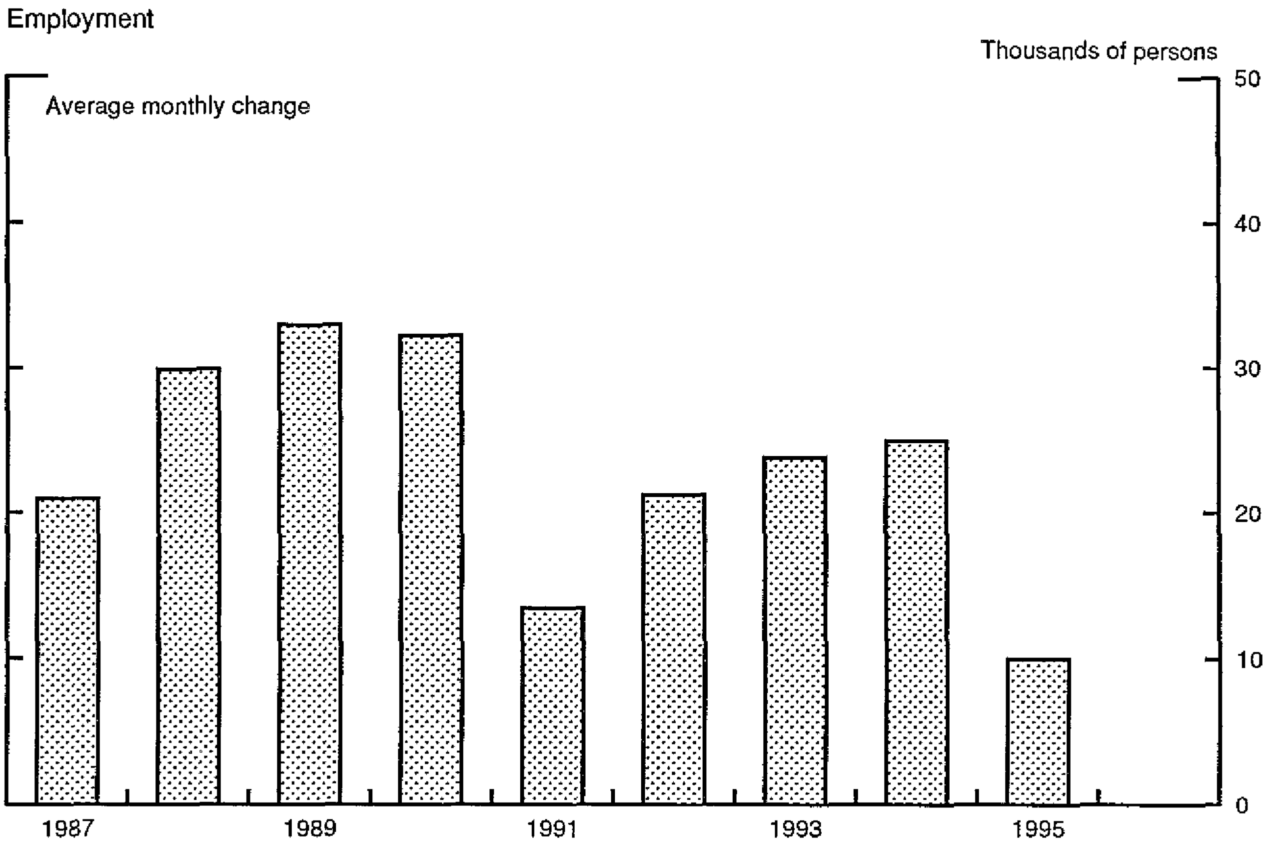
Source. Administration estimates are from the Mid-Session Review of the 1996 Budget, July 28, 1995. CBO estimates are the March baseline (adjusted for the rebenchmarking of the CPI) reported in the statement of June E. O'Neill before the Committee on the Budget, U.S. House of Representatives, August 3, 1995.

expectation hinges importantly on OMB's more optimistic path for the deficit in the absence of policy changes. In particular, OMB projects that the baseline deficit will rise only gradually over the next several years and will reach a level of only about $235 billion in fiscal 2004, whereas CBO's projected baseline deficit, which underlies the budget resolution, exceeds $400 billion in that year.

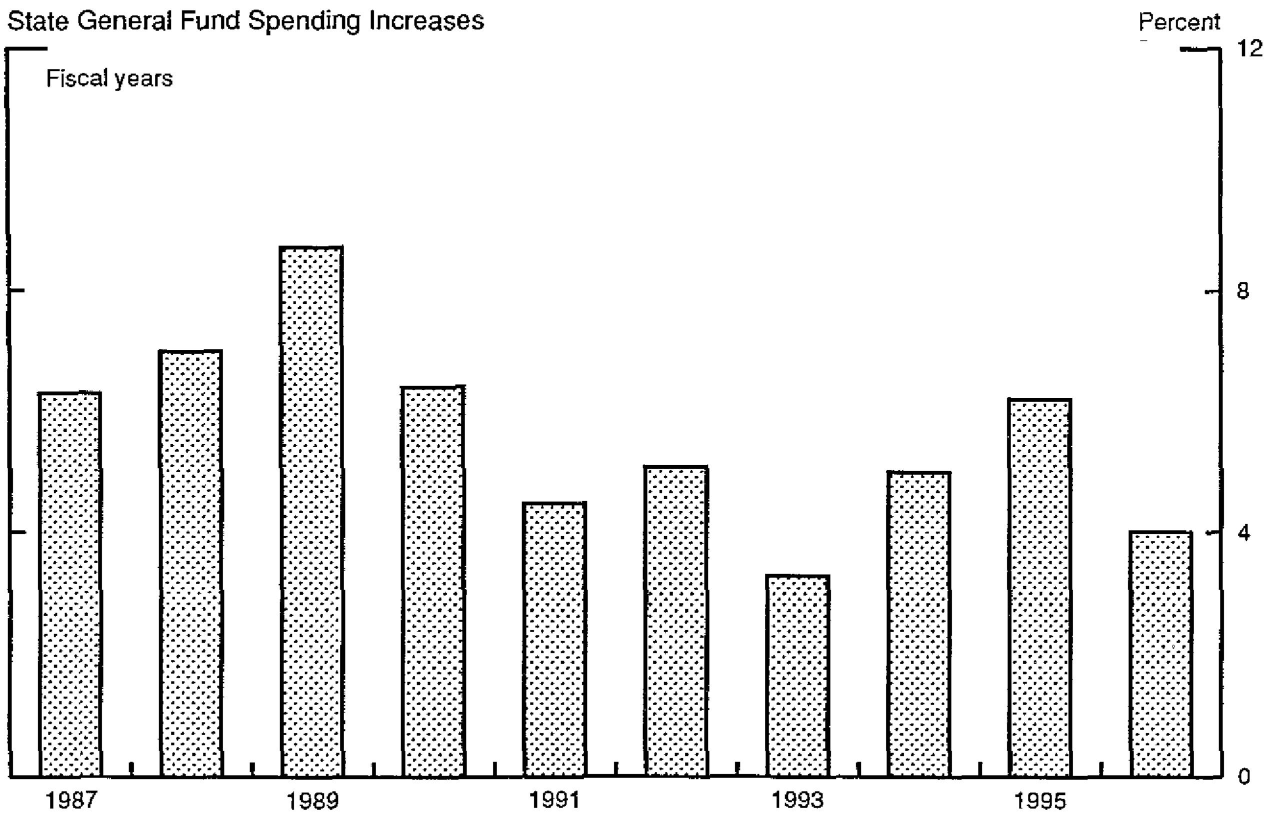
The divergence between the OMB and CBO baselines arises for several reasons. First, OMB's economic assumptions are more favorable than CBO's. In particular, OMB projects marginally faster real GDP growth, and it projects that the gap between the increases in the CPI and the GDP deflator will be noticeably smaller than in the past few years. (All else equal, a smaller gap between the two inflation measures will hold down the deficit because the CPI is used to index benefit programs and tax brackets, whereas the GDP deflator affects estimates of nominal income and hence the tax base.) In addition, OMB is slightly more optimistic about the outlook for health spending and other mandatory outlays under current policies, and its smaller projected deficits help to hold down outlays for net interest. The individual differences in the assumptions underlying the two baselines are not large, but they are sufficient to produce marked discrepancies in the longer-run budget projections.

The 1996 budget process is likely to extend well into the fourth quarter. Although the House has passed eleven of the thirteen appropriations bills that provide funding for discretionary spending programs, the Senate has passed only six, and a House-Senate conference has completed action on only one. In addition, the reconciliation instructions in the budget resolution do not require the committees responsible for mandatory spending programs to submit recommendations to the budget committees until

State and Local Government Sector



Note. Value for 1995 is through July.



Note. 1995, preliminary estimate; 1996, preliminary forecast from National Conference of State Legislatures.
Source. National Association of State Budget Officers.

September 22, and the budget committee chairmen have hinted at the prospect of a delay.

State and Local Government Sector

Growth in purchases of goods and services by state and local governments remained moderate in the second quarter. Real employee compensation rose only 0.4 percent at an annual rate, checked by tepid growth in employment. State and local employment edged down in July and rose just 10,000 per month, on average, over the first seven months of the year, compared with an average gain of about 25,000 per month in 1993 and 1994. After taking into account the construction data for May and June (which were not available for the advance GDP estimate), real construction spending appears to have risen at about a 5 percent annual rate in the second quarter; these outlays have bounced around from quarter to quarter but have shown little net change over the past couple of years.

Based on early reports from thirty-four states, the National Conference of State Legislatures indicates that state fiscal conditions continued strong in fiscal 1995. General fund revenues of these states increased 6-1/2 percent for the year ending in June, about twice the rise anticipated at the start of the fiscal year. General fund spending increased 6-1/4 percent in fiscal 1995, also above the original forecast of 4-1/2 percent and the largest gain since 1990. Last year, states spent more than they had planned on primary and secondary education, corrections, Medicaid, and AFDC, but less than had been budgeted on higher education.

The states do not expect strong revenue gains to continue. They forecast that general fund collections will rise just 3 percent in fiscal 1996. In addition, they anticipate that spending will grow 4 percent. About half the states expect to cover the spending growth entirely with current revenues and half expect to use some

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

	1994			1995	
	June	Sept.	Dec.	Mar.	June
	-----Quarterly percent change------- (compound annual rate)				
Total hourly compensation:[1]	3.4	3.3	2.6	2.3	2.9
Wages and salaries	3.5	2.7	2.4	2.7	3.0
Benefit costs	4.1	4.0	3.0	0.6	2.1
By industry:					
Construction	4.5	4.1	-0.3	0.3	2.0
Manufacturing	3.6	3.6	2.9	1.9	2.9
Transportation and public utilities	2.0	5.5	3.7	4.7	2.9
Wholesale trade	4.5	4.8	2.0	6.8	3.6
Retail trade	3.8	4.4	0.3	3.0	1.0
FIRE	0.0	2.7	1.4	4.4	5.4
Services	2.9	2.3	2.9	1.9	3.5
By occupation:					
White-collar	3.7	3.0	2.9	2.9	3.2
Blue-collar	3.0	3.7	2.3	1.6	2.9
Service occupations	2.0	2.7	3.7	1.0	2.6
Memo:					
State and local governments	3.3	2.6	2.6	2.9	3.9
	-----Twelve-month percent change----				
Total hourly compensation:	3.4	3.3	3.1	2.9	2.8
Excluding sales workers	3.2	3.3	3.1	3.0	2.8
Wages and salaries	3.1	2.9	2.8	2.9	2.9
Benefit costs	3.9	4.0	3.7	2.9	2.6
By industry:					
Construction	3.6	3.9	3.7	2.1	1.5
Manufacturing	3.2	3.2	3.1	3.0	2.8
Transportation and public utilities	3.3	3.9	3.9	4.0	4.1
Wholesale trade	2.8	3.4	3.1	4.5	4.3
Retail trade	3.1	3.6	2.8	2.9	2.2
FIRE	4.1	2.4	2.1	2.1	3.5
Services	3.3	2.9	2.8	2.5	2.6
By occupation:					
White-collar	3.6	3.4	3.2	3.1	3.0
Blue-collar	3.0	3.0	2.8	2.7	2.6
Service occupations	2.5	2.4	2.8	2.3	2.5
Memo:					
State and local governments	2.9	3.0	3.0	3.1	3.1

1. Seasonally adjusted by the BLS.

reserves. The largest budgeted increase is for corrections, on which spending is expected to increase 13 percent compared with an 11 percent rise in fiscal 1995.

Labor Costs

Labor costs have remained generally well contained in recent months despite the relatively low level of the unemployment rate. The employment cost index (ECI) for private industry workers rose at a 2.9 percent annual rate from March to June, bringing the rise in hourly compensation costs over the past year to 2.8 percent, down from 3.4 percent over the previous twelve-month period. The deceleration in hourly compensation has occurred mainly in the benefits component, for which growth slowed to 2.6 percent for the twelve months ended in June from 3.9 percent over the previous twelve months. Growth in wages and salaries has held steady at about 3 percent for nearly two years.

Continued decelerations in health insurance costs and in a number of legally required benefits have contributed significantly to the moderation in overall benefit cost growth. Health insurance costs slowed to a 0.6 percent rate of increase over the twelve-month period ended in June from 5 percent over the previous twelve months; as recently as 1991, increases in insurance costs were running in excess of 10 percent annually. Among legally required benefits, the slower rate of increase in health care costs along with changes in many state programs led to a rare decline, of 2-3/4 percent, in employer costs for workers' compensation over the past year. Employer contributions to state unemployment insurance funds also have fallen in recent quarters, reflecting the effects of fewer layoffs on UI experience ratings.

Among other benefit components, supplemental pay dropped back in the second quarter after a first-quarter surge that reflected

EMPLOYMENT COST INDEX OF HOURLY WAGES AND SALARIES
FOR PRIVATE INDUSTRY WORKERS
(Twelve-month percent changes)

	1994			1995	
	June	Sept.	Dec.	Mar.	June
Hourly wages and salaries	3.1	2.9	2.8	2.9	2.9
By industry:					
Construction	2.9	3.0	3.2	2.3	1.8
Manufacturing	3.0	3.2	3.0	3.3	3.3
Transportation and public utilities	2.8	3.7	3.6	4.1	4.1
Wholesale trade	2.8	3.3	3.0	4.0	3.7
Retail trade	2.8	3.1	2.4	3.0	2.2
FIRE	3.6	1.3	1.2	1.1	3.4
Services	3.1	2.8	2.8	2.6	2.6
By occupation:					
White-collar	3.3	3.0	2.8	2.9	2.8
Blue-collar	2.9	3.0	2.8	2.9	3.1
Service occupations	2.4	2.3	3.0	2.7	2.7
Memo:					
State and local governments	2.8	2.9	3.1	3.2	3.2

EMPLOYMENT COST INDEX OF HOURLY BENEFIT COSTS
FOR PRIVATE INDUSTRY WORKERS
(Twelve-month percent changes)

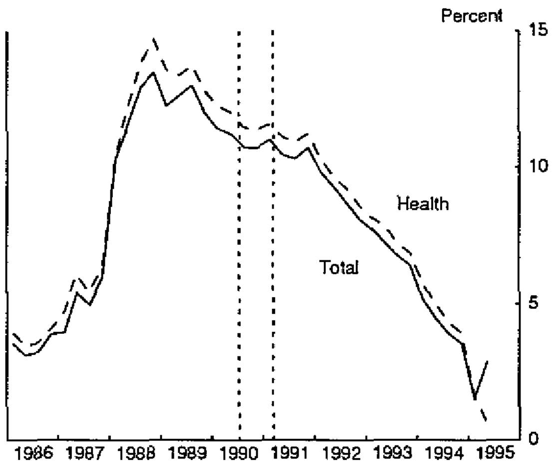
	1994			1995	
	June	Sept.	Dec.	Mar.	June
Hourly benefit costs[1]	3.9	4.0	3.7	2.9	2.6
Insurance costs	4.4	3.9	3.6	1.5	0.7
Health care	5.0	4.3	3.9	1.6	0.6
Supplemental pay	5.5	6.2	4.5	6.2	3.0
Retirement and savings	9.6	10.2	11.1	6.1	8.4
Paid leave	2.8	3.2	3.1	3.7	3.6
Legally required	3.1	2.9	2.3	1.2	0.9
By industry:					
Goods-producing	3.8	3.7	3.5	2.4	1.5
Service-producing	4.1	4.4	3.8	3.3	3.4
By occupation:					
White-collar occupations	4.5	4.7	4.5	3.6	3.3
Blue-collar occupations	3.3	3.3	2.8	2.1	1.6
Service occupations	2.9	2.8	2.4	1.6	1.9
Memo:					
State and local governments	3.2	3.2	2.8	2.5	2.9

1. The detail on benefit costs is from unpublished data from the BLS.

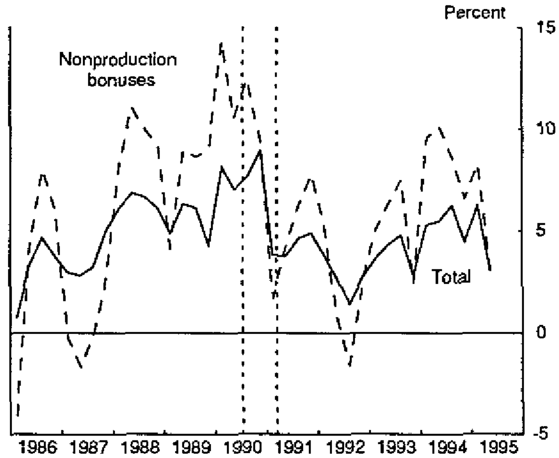
Components of ECI Benefits Costs

(Private industry workers; twelve-month percent change)

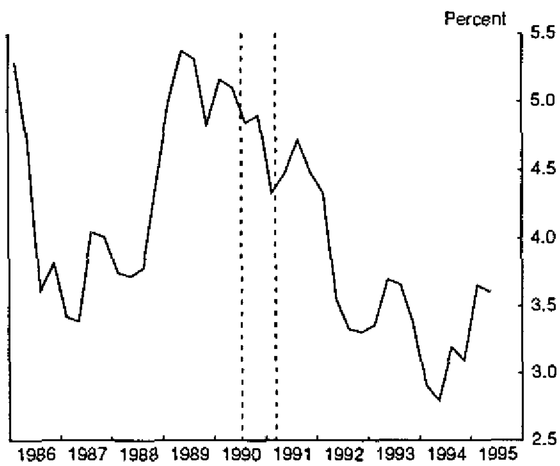
Insurance Costs



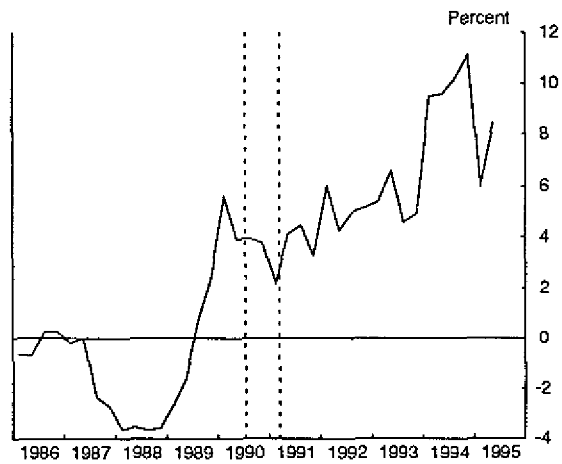
Supplemental Pay



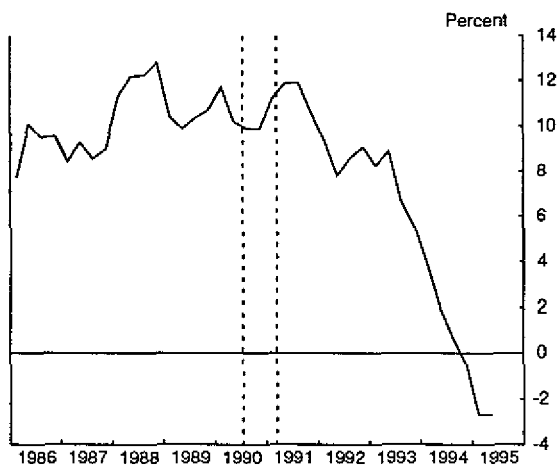
Paid Leave



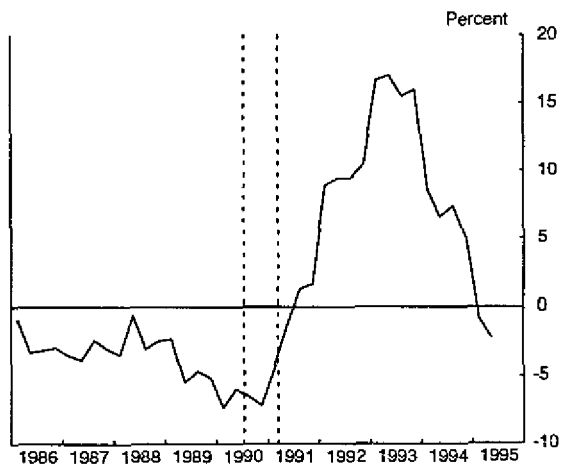
Retirement and Savings



Workers' Compensation Insurance



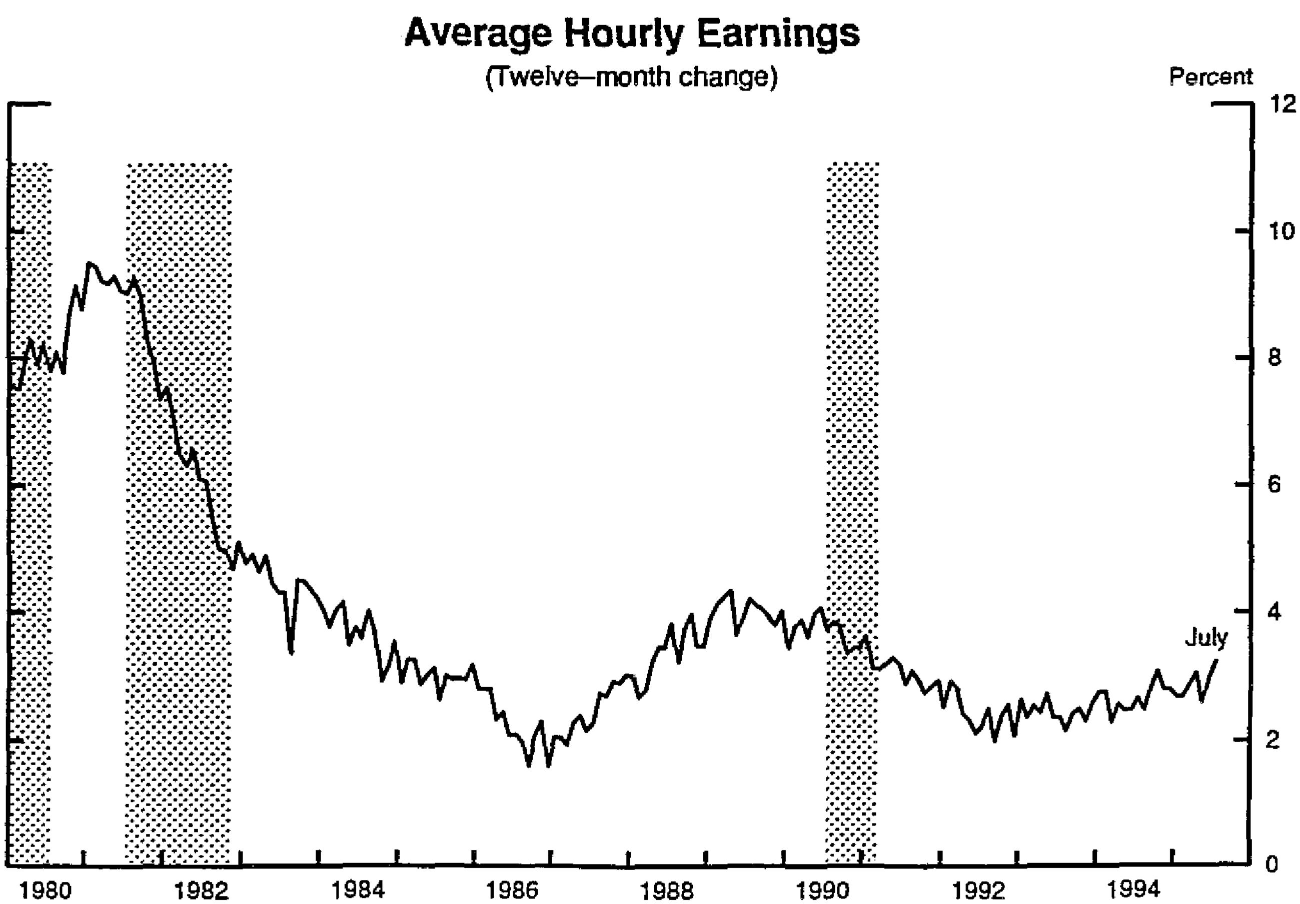
State Unemployment Insurance



LABOR PRODUCTIVITY AND COSTS
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

	1993[1]	1994[1]	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1994:Q2 to 1995:Q2
Compensation per hour							
Total business	2.3	3.2	3.1	3.6	3.8	3.8	3.6
Nonfarm business	1.9	3.2	2.7	3.8	4.1	3.6	3.6
Manufacturing	1.7	1.7	2.4	3.8	4.7	.3	2.8
Nonfinancial corporations[2]	1.3	2.6	2.9	3.2	3.4	NA	NA
Unit labor costs							
Total business	.8	1.2	-.1	-.7	1.7	.8	.4
Nonfarm business	.5	1.4	.0	-.4	1.6	.6	.4
Manufacturing	-.9	-2.4	-1.0	.1	1.1	-1.8	-.4
Nonfinancial corporations[2]	-1.0	1.0	1.2	-.3	1.8	NA	NA

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, finance and insurance companies; the sector accounts for about two-thirds of business employment.



bonus payments to auto workers. In contrast, employer contributions to retirement and saving plans rose 8-1/2 percent over the past year, apparently boosted by continued efforts to raise the funding levels of defined benefit pension plans.

The deceleration in compensation costs over the past year has been widespread across occupations and industries. Nearly every major occupational category within the white-collar and blue-collar classifications showed some slowing, while compensation growth in service occupations held steady at about 2-1/2 percent. Among the major industry categories, there were sharp decelerations in compensation costs in construction, nondurable manufacturing, and retail trade, and a more gradual slowing in a number of other industry sectors. Only transportation and public utilities and wholesale trade have seen a pickup in compensation growth over the past year.

A separate measure of hourly compensation available from the productivity and cost data rose 3.6 percent at an annual rate in the second quarter and 3.8 percent over the first half of this year, more than 1 percentage point faster than the ECI. Most of the gap owes to differences in the growth of benefits; the rise in wages and salaries per hour is a bit larger when based on the productivity and cost data, but not strikingly so. The ECI data on benefits tend to be more reliable in the near term because they are based on an actual survey of firms whereas benefits in the productivity and cost data are largely extrapolated from recent trends.

The only information available for the third quarter is the July reading on average hourly earnings for production or nonsupervisory workers, which was up 0.6 percent after a 0.4 percent increase in June. This series has tended to show a larger increase in the first month of the quarter than in subsequent months for the

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

	Relative importance, Dec. 1994	1993	1994	1994 Q4	1995 Q1	1995 Q2	1995 June	1995 July
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	2.7	2.7	1.9	3.2	3.2	.1	.2
Food	15.8	2.9	2.9	3.9	.0	3.6	.1	.2
Energy	7.0	-1.4	2.2	.4	-1.1	5.4	.5	-.8
All items less food and energy	77.2	3.2	2.6	2.0	4.1	3.0	.2	.2
Commodities	24.1	1.6	1.4	.3	2.6	.6	-.1	.1
Services	53.1	3.9	3.2	2.6	4.8	4.3	.3	.3
Memo:								
CPI-W[3]	100.0	2.5	2.7	2.2	3.6	2.7	.1	.1

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

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

	Relative importance, Dec. 1994	1993	1994	1994 Q4	1995 Q1	1995 Q2	1995 June	1995 July
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	.2	1.7	2.2	3.2	.9	-.1	.0
Consumer foods	22.8	2.4	1.1	9.2	-1.2	-4.9	-.3	1.2
Consumer energy	13.6	-4.1	3.5	.0	11.3	2.0	-1.0	-2.5
Other finished goods	63.7	.4	1.6	.3	2.9	2.9	.2	.2
Consumer goods	40.2	-.4	1.4	.6	2.9	3.2	.2	.2
Capital equipment	23.5	1.8	2.0	-.3	3.0	2.4	.2	.1
Intermediate materials[2]	95.6	.8	4.8	7.2	10.6	3.9	.0	.0
Excluding food and energy	82.9	1.6	5.2	8.3	10.5	4.2	.2	.3
Crude food materials	40.4	7.2	-9.4	-1.2	-4.6	-.4	4.0	4.1
Crude energy	34.5	-12.3	-.1	-7.6	-4.5	15.3	-3.4	-5.4
Other crude materials	25.1	10.7	17.3	27.9	21.9	4.1	.6	-1.8

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

last few quarters, and this pattern seems to be continuing into the third quarter. Nonetheless, over the past twelve months, average hourly earnings rose 3-1/4 percent, about 1/2 percent more than during the preceding twelve-month period.

Prices

The incoming news on inflation has continued to be favorable. The consumer price index rose 0.2 percent in July, and the core CPI increased just 0.2 percent per month in each of the past three months--down somewhat from the pace earlier in the year. Falling used car prices and auto finance charges account for most of this slowing. For the past three years the rate of increase in the core CPI has been stable at around a 3 percent annual rate. Price pressures at earlier stages of processing are now abating as producer price increases for intermediate goods and crude materials have dropped back from the rapid pace of earlier this year.

Consumer energy prices dropped 0.8 percent in July after three months of sizable increases. Both the July decline and the earlier increases reflected movements of crude oil prices. A further drop in retail prices is likely in August based on the Lundberg survey of gasoline prices and the net decline in the spot price of West Texas intermediate since May. Natural gas prices rose 0.4 percent in July after falling considerably in the first half of the year partly in response to mild weather.

Food prices increased 0.2 percent in July after tiny increases in May and June. In July, the food index was held down by declines in prices for fresh fruits and vegetables. In particular, lettuce prices fell sharply for the third consecutive month and have completely reversed the sharp jump in April caused by the California floods. Among the other grocery store items, prices were little changed for meats, poultry, and fish but rose 4 percent for eggs in

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	July 1993	July 1994	July 1995
CPI	3.2	2.9	3.0
Goods	1.8	1.8	1.1
Alcoholic beverages (2.0)[1]	1.3	1.3	1.5
New vehicles (6.6)	2.8	3.9	2.1
Apparel (6.6)	-0.1	0.9	-2.2
House furnishings (4.5)	-0.4	2.6	-0.6
Housekeeping supplies (1.4)	-0.3	1.9	3.9
Medical commodities (1.7)	3.8	2.9	1.5
Entertainment (2.5)	1.1	2.6	1.5
Tobacco (2.1)	6.9	-6.1	2.2
Used cars (1.7)	9.1	4.8	10.4
Services	3.9	3.4	3.8
Owners' equivalent rent (26.3)	3.1	3.1	3.6
Tenants' rent (7.5)	2.3	2.3	2.6
Other renters' costs (2.8)	2.8	3.0	5.1
Airline fares (1.3)	19.7	2.8	7.9
Medical care (7.7)	6.6	4.9	5.1
Entertainment (3.1)	2.9	4.1	2.8
Auto financing (0.8)	-10.4	9.4	15.5
Tuition (3.4)	8.4	6.6	5.7
PPI finished goods	1.6	0.5	2.1
Consumer goods	1.5	-0.4	2.2
Capital goods, excluding computers	2.5	2.4	2.0
Computers	-12.9	-6.3	-9.1
PPI intermediate materials	1.2	2.5	7.4
PPI crude materials	9.7	9.1	13.6
Factors affecting price inflation			
ECI hourly compensation[2]	3.6	3.4	2.8
Goods-producing	4.2	3.3	2.4
Service-producing	3.3	3.3	3.1
Civilian unemployment rate[3,4]	6.8	6.1	5.7
Capacity utilization[3] (manufacturing)	80.7	83.3	82.3
Inflation expectations[5]			
Michigan Survey	4.4	4.2	3.8
Conference Board	4.6	4.3	4.0
Non-oil import price[6]	1.1	2.0	4.8
Consumer goods, excluding autos, food, and beverages	1.5	0.7	2.1
Autos	2.1	3.3	3.8

1. Relative importance weight in CPI excluding food and energy.
2. Private industry workers, periods ended in June.
3. End-of-period value.
4. Data after 1993 are not directly comparable with earlier values because of a redesign of the CPS in January 1994.
5. One-year-ahead expectations.
6. BLS import price index (not seasonally adjusted).

July. Prices of food away from home, the largest part of the food index, increased 2.4 percent in the past twelve months--a bit faster than its year-earlier increase. Over the past twelve months, the food index increased 2.7 percent--about the same as during the year-earlier period.

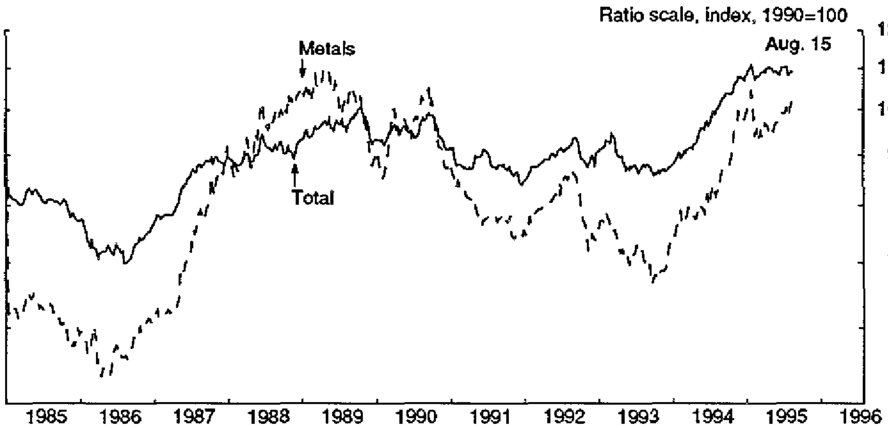
Prices of consumer goods other than food and energy increased only 0.1 percent in July and have been unchanged, on balance, over the past three months. Rapid increases in used car prices boosted the increase in the consumer goods index early this year, and falling used car prices have held it down more recently. Under pressure from high inventories, prices of new motor vehicles were little changed in the past three months. Another industry that has been under pressure from excess inventories is apparel, where prices in July were 2-1/4 percent below year-earlier levels.

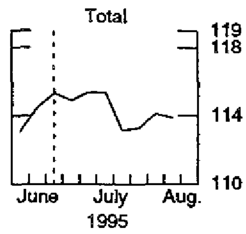
The prices of non-energy services have been buffeted by sharp movements in airfares and automobile finance charges. Airline fares dropped in July but are still 8 percent above their year-ago level because of a succession of large increases over the first half of 1995. Auto finance charges have generally followed the path of interest rates--rising 32 percent over the year ending in April before falling 6 percent in the past three months. Excluding air fares and auto finance, inflation of non-energy services has been stable at about 0.3 percent per month since the beginning of the year.

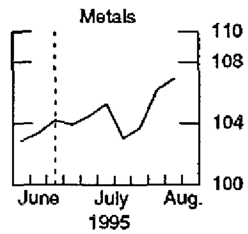
In the PPI, price increases among intermediate goods excluding food and energy have slowed to about 0.2 percent per month, on average, for the past three months, after rising 8 percent over the previous twelve months. The PPI for finished goods excluding food and energy has risen 2.1 percent over the past twelve months, up from 0.5 percent during the year-earlier period.

Commodity Price Measures

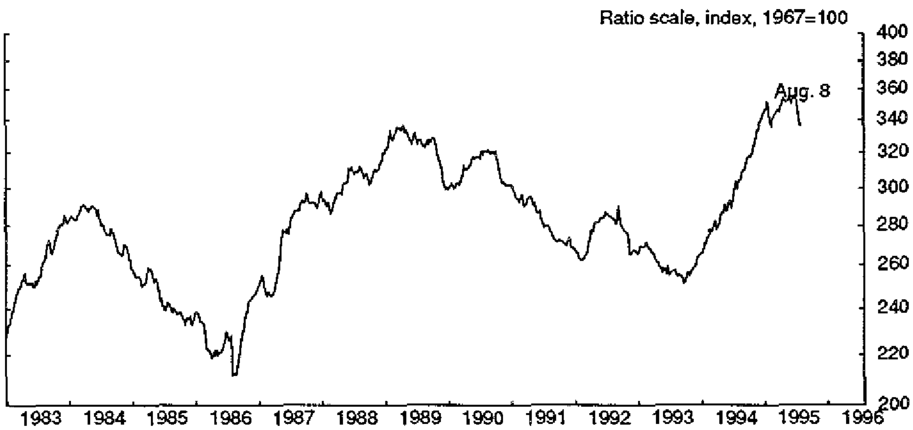
Journal of Commerce Index

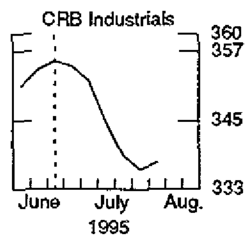




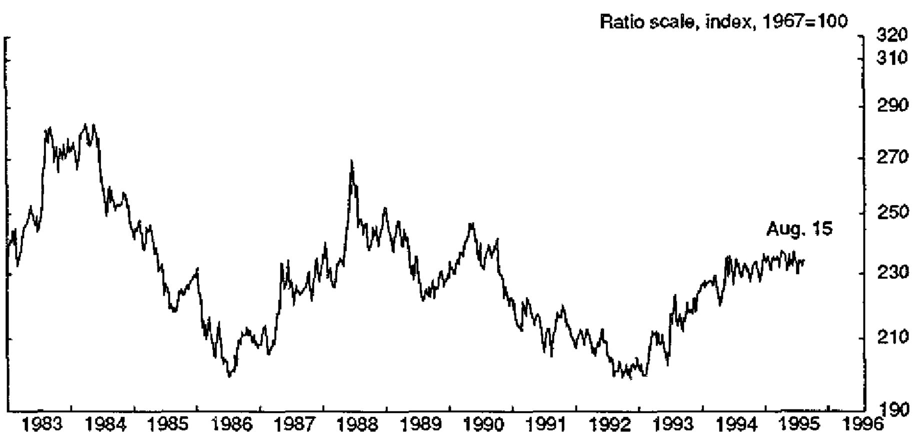


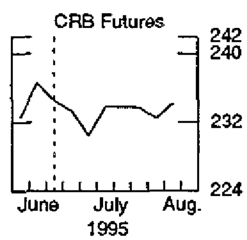
CRB Spot Industrials





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.

Price changes for industrial commodities have been mixed in recent weeks. Overall, the Journal of Commerce Industrial Price Index has fallen about 1 percent since the June Greenbook, largely because of a 3.7 percent drop in its textiles component; the Journal of Commerce Metals Index increased roughly 2-1/2 percent in the same period. Aluminum prices rose 8 percent, as stocks in LME warehouses fell and the stronger ruble pushed up the price of exports from Russia. Prices for steel scrap are also up from their level at the time of the last Greenbook: Reports in the trade press indicate that overseas demand for scrap, especially from South Korea and Japan, remains strong, and further price increases could be forthcoming. On the other hand, copper prices, which had surged earlier this year, have softened a bit recently. Prices for lumber have increased more than 7 percent since June, although prices are still relatively low compared with levels seen in the past couple of years.

In agriculture, the prices of crops have been volatile since the last Greenbook, moving up and down with changes in traders' perceptions of weather developments and crop conditions. Prices of grains and soybeans strengthened through much of July in response to unusually hot weather in several agricultural regions. Toward the end of July, however, cooler temperatures and timely rains appeared to translate into some improvement in the condition of these crops, and prices weakened.[7] The price swings for corn and soybeans resulted in small net increases from late June to mid-August; wheat prices fell about 4 percent on net over that same period. Cotton

7. On balance, crop conditions seem to have improved during July. Based on conditions as of August 1, the USDA raised its forecast of corn production to 8.12 billion bushels, up about 0.3 billion bushels from the forecast of a month earlier. The agency's production estimates for wheat and cotton also were raised somewhat, and the forecast of soybean output was little changed. Nonetheless, crop production overall still is expected to be down considerably from the level of 1994.

SPOT PRICES OF SELECTED COMMODITIES

	Current price ($)	Percent change[1]: 1993	1994	To June 27[2]	June 27[2] to Aug. 15	Memo: Year earlier to date
	INDUSTRIAL COMMODITIES					
Metals						
Copper (lb.)	1.420	-19.0	64.9	4.3	-3.4	25.7
Steel scrap (ton)	146.500	46.8	2.9	-2.1	4.3	8.9
Aluminum, London (lb.)	.869	-10.7	73.5	-7.4	8.0	33.0
Lead (lb.)	.419	3.0	20.7	.1	.6	10.4
Zinc (lb.)	.510	-7.5	23.6	-10.7	-1.0	9.7
Tin (lb.)	4.578	-14.1	21.4	11.8	3.1	29.7
Textiles and fibers						
Cotton (lb.)	.839	19.6	38.5	22.8	-20.5	9.7
Burlap (yd.)	.315	8.2	10.2	3.6	4.1	14.5
Miscellaneous materials						
Hides (lb.)	.820	1.3	14.2	-1.4	-7.9	-8.9
Rubber (lb.)	.670	-7.3	75.4	.3	-14.9	.0
	OTHER COMMODITIES					
Precious metals						
Gold (oz.)	386.350	16.6	-1.7	2.2	-.8	2.7
Silver (oz.)	5.400	38.8	-5.0	11.1	1.5	6.6
Platinum (oz.)	420.750	8.0	7.5	6.8	-4.9	1.9
Forest products						
Lumber (m. bdft.)	230.000	75.8	-37.1	-26.7	7.5	-30.9
Plywood (m. sqft.)	363.000	-6.3	1.5	4.5	5.2	-.3
Petroleum						
Crude oil (barrel)	15.730	-25.0	15.6	8.4	-7.0	-6.4
Gasoline (gal.)	.537	-31.0	32.4	11.6	-1.9	-3.2
Fuel oil (gal.)	.483	-22.4	12.7	-4.5	2.7	4.5
Livestock						
Steers (cwt.)	61.500	-7.3	-3.4	-10.0	-2.4	-9.9
Hogs (cwt.)	50.000	.6	-12.9	29.6	8.7	17.6
Broilers (lb.)	.616	6.1	-4.9	14.0	10.1	13.8
U.S. farm crops						
Corn (bu.)	2.650	41.7	-23.2	17.2	2.5	25.0
Wheat (bu.)	4.700	5.8	11.4	12.4	-4.1	26.9
Soybeans (bu.)	5.765	24.5	-19.6	2.8	.5	3.7
Other foodstuffs						
Coffee (lb.)	1.515	-2.3	153.1	-13.3	7.1	-18.8
Memo:						
Exchange value of the dollar (March 1973=100)	85.912	3.4	-5.5	-9.3	5.2	-3.4
Yield on Treasury bill, 3-month[3]	5.450	-14	247	-11	3	83

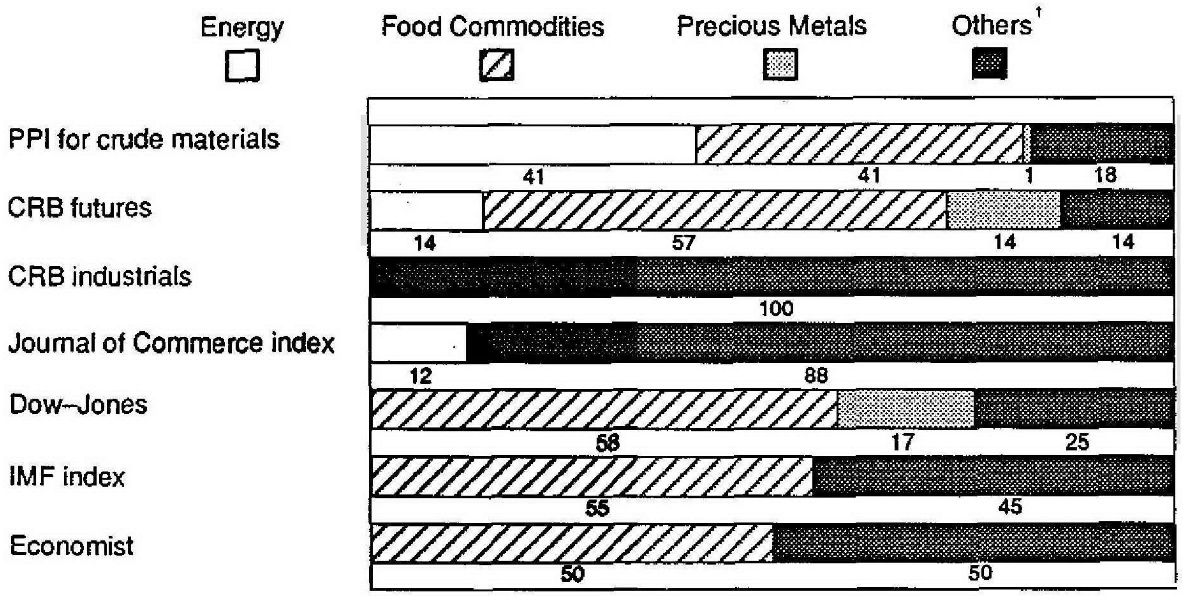
1. Changes, if not specified, are to the last week of the year indicated and from the last week of the preceding year.
2. Week of the June Greenbook.
3. Changes are in basis points.

COMMODITY PRICE INDEXES

	Last observ-ation	Percent change[1]: 1993	1994	Dec. 94 to June 27[2]	June 27[2] to date	Year earlier to date
PPI for crude materials[3]	Jul.	0.1	-0.5	2.9	-1.5	-0.3
Foods and feeds	Jul.	7.2	-9.4	0.6	2.4	1.1
Energy	Jul.	-12.3	-0.1	2.4	-5.4	-10.1
Excluding food and energy	Jul.	10.7	17.3	7.1	-2.1	13.6
Excluding food and energy, seasonally adjusted	Jul.	10.5	17.6	6.1	-1.8	13.5
Commodity Research Bureau						
Futures prices	Aug. 15	11.6	4.8	-0.7	-0.1	2.2
Industrial spot prices	Aug. 08	-0.0	29.1	3.7	-4.9	11.0
Journal of Commerce industrials	Aug. 15	-2.9	22.1	1.9	-1.2	8.1
Metals	Aug. 15	-1.8	31.9	0.6	2.6	20.9
Dow-Jones Spot	Aug. 15	5.1	14.8	4.4	-1.1	5.5
IMF commodity index[3]	Jul.	2.4	15.2	20.9	n.a.	6.6
Metals	Jul.	-14.4	39.1	-4.9	n.a.	14.2
Nonfood agricultural	Jul.	0.2	14.8	14.8	n.a.	11.8
Economist (U.S. dollar index)	Aug. 08	9.1	31.0	-3.9	-1.7	1.4
Industrials	Aug. 08	4.4	38.6	-2.5	-1.0	13.7

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 June 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

U.S. CROP PRODUCTION[1]

	1992	1993	1994	USDA Projections for 1995, as of July 12	Aug. 11
	- - - - - - - billions of bushels - - - - - - -				
Corn	9.48	6.34	10.10	7.79	8.12
Soybeans	2.19	1.87	2.56	2.24	2.25
Wheat	2.47	2.40	2.32	2.19	2.23
Sorghum	.88	.53	.66	.58	.54
Oats	.29	.21	.23	.18	.19
Barley	.46	.40	.38	.38	.39
	- - - - billions of hundredweight - - - - - -				
Rice	.18	.16	.20	.18	.19
	- - - - - - - billions of pounds - - - - - - - -				
Peanuts	4.28	3.39	4.25	n.a.	3.88
Tobacco	1.72	1.61	1.58	n.a.	1.41
	- - - - - - - millions of bales - - - - - - -				
Cotton	16.22	16.13	19.73	21.50	21.81
	- - - - - - - - millions of tons - - - - - - - -				
Sugar beets	29.14	26.25	31.99	n.a.	28.89
Sugar cane	30.36	31.10	30.93	n.a.	29.19
Memo:					
	- - - - - - billions of 1987 dollars - - - - - -				
Value, 12 crops[2]	47.03	38.62	49.64	44.12	44.42

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

prices declined more substantially--about 20 percent in all--as the size of that crop continued to progress toward a record high. In the livestock sector, cattle prices dipped further, on net, from late June to mid-August, but the prices of hogs continued to rise. Prices of broilers and eggs were pushed sharply higher by the hot weather of July, which led to reports of increased death losses in the flocks of some producers; by mid-August, the runup in egg prices had been largely reversed, but the higher level of broiler prices was persisting.

Surveys of expected inflation in consumer prices have been roughly stable over the past two years--a pattern that echoes the path of the total CPI. But whereas the CPI has fluctuated around 3 percent, the inflation surveys have been stable at higher expected rates. Both the University of Michigan and the Conference Board surveys of one-year expectations are hovering around 4 percent, while the Livingston survey (of one-year expectations) and the professional forecasters survey (of ten-year expectations) are holding at 3-1/2 percent.

SURVEY OF (CPI) INFLATION EXPECTATIONS
(Percent)

	Actual Inflation[1]	University of Michigan Mean (1-year)[2]	University of Michigan Median (1-year)[3]	Livingston (1-year)[4]	Conference Board (1-year)	Professional Forecasters (10-year)[5]	Michigan (5- to 10-year)[6]
1991-Q1	5.3	4.8	3.7		5.1	4.4	5.9
Q2	4.8	4.6	3.3	3.8	4.7	4.1	5.5
Q3	3.9	3.9	3.3		4.7	4.1	5.2
Q4	3.0	4.4	3.1	3.4	4.7	4.0	5.1
1992-Q1	2.9	3.4	2.7		4.6	3.7	4.8
Q2	3.1	3.8	3.1	3.6	4.6	3.9	5.0
Q3	3.1	4.0	3.0		4.5	3.8	4.9
Q4	3.1	3.8	2.9	3.4	4.5	3.6	5.3
1993-Q1	3.2	4.3	3.1		4.6	3.5	5.2
Q2	3.1	4.4	3.3	3.4	4.8	3.7	5.2
Q3	2.7	4.7	3.1		4.6	3.5	4.7
Q4	2.7	3.8	3.2	3.2	4.4	3.5	4.7
1994-Q1	2.5	3.9	2.9		4.3	3.5	5.0
Q2	2.4	4.2	3.0	2.9	4.2	3.5	4.8
Q3	2.9	4.5	3.2		4.3	3.5	5.0
Q4	2.7	4.1	3.1	3.5	4.2	3.5	4.3
1995-Q1	2.8	4.1	3.1		4.2	3.3	4.1
Q2	3.1	4.1	3.1	3.2	4.2	3.4	4.3
1994-Jul	2.8	4.2	2.9		4.3		4.7
Aug	2.9	4.6	3.1		4.3		5.5
Sep	3.0	4.6	3.5		4.2	3.5	4.9
Oct	2.6	3.9	3.0		4.3		4.6
Nov	2.7	4.5	3.4		4.2		4.2
Dec	2.7	4.0	3.0	3.5	4.2	3.5	4.2
1995-Jan	2.8	3.7	3.0		4.3		3.9
Feb	2.9	4.0	3.0		4.2		4.1
Mar	2.9	4.6	3.4		4.2	3.3	4.4
Apr	3.1	4.3	3.4		4.3		4.4
May	3.2	4.0	2.9		4.2		4.1
Jun	3.0	4.0	2.9	3.2	4.2	3.4	4.3
Jul	2.8	3.8	2.9		4.0		4.3

1. CPI; percent change from the same period in the prior year.
2. Average increase for responses to the question: By about what percent do you expect prices (CPI) to go up, on the average, during the next 12 months?
3. Median increase for responses to the question above.
4. Average 12-month ahead forecast of the CPI by 'informed' business economists. Constructed by the Federal Reserve Bank of Philadelphia from disaggregated Livingston data; data are for the last month of the period indicated.
5. Compiled by the Federal Reserve Bank of Philadelphia.
6. Average increase for responses to the question: By about what percent per year do you expect prices (CPI) to go up, on the average, during the next 5 to 10 years?

DOMESTIC FINANCIAL DEVELOPMENTS

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

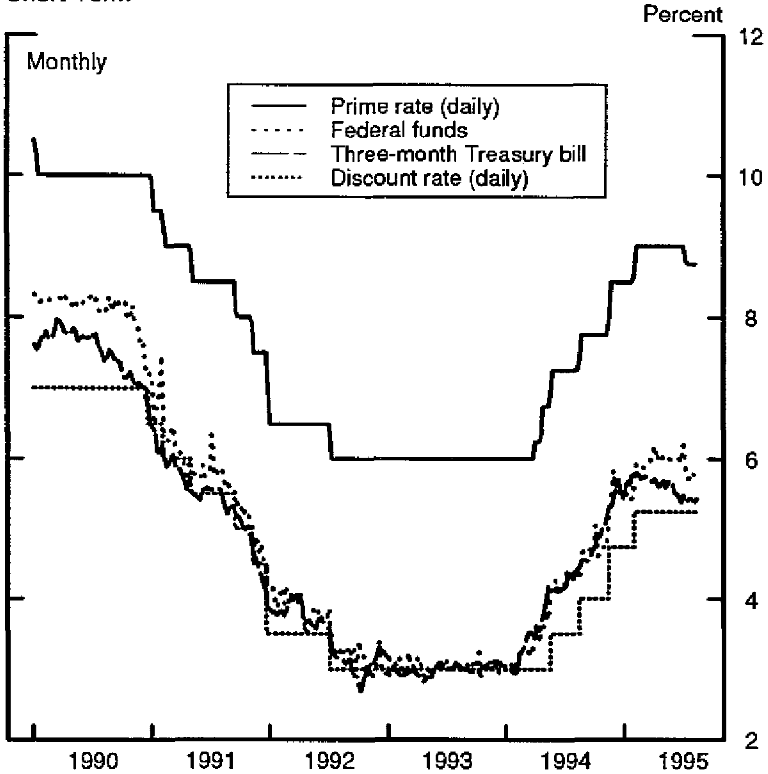
Instrument	1994 Feb. 3	1994 High	1995 FOMC, July 5	1995 Aug.15	Change to Aug. 15, 1995: From 1994 Feb. 3	From 1994 high	From FOMC, July 5
SHORT-TERM RATES							
Federal funds[2]	3.07	5.66	6.08	5.72	2.65	.06	-.36
Treasury bills[3]							
3-month	3.13	5.78	5.51	5.45	2.32	-.33	-.06
6-month	3.27	6.38	5.44	5.47	2.20	-.91	.03
1-year	3.52	6.84	5.31	5.52	2.00	-1.32	.21
Commercial paper							
1-month	3.16	6.13	6.06	5.87	2.71	-.26	-.19
3-month	3.25	6.32	5.91	5.85	2.60	-.47	-.06
Large negotiable CDs[3]							
1-month	3.11	6.10	5.97	5.82	2.71	-.28	-.15
3-month	3.25	6.39	5.88	5.82	2.57	-.57	-.06
6-month	3.41	6.89	5.82	5.84	2.43	-1.05	.02
Eurodollar deposits[4]							
1-month	3.06	6.06	5.97	5.81	2.75	-.25	-.16
3-month	3.25	6.38	5.88	5.81	2.56	-.57	-.07
Bank prime rate	6.00	8.50	9.00	9.00	3.00	.50	.00
INTERMEDIATE- AND LONG-TERM RATES							
U.S. Treasury (constant maturity)							
3-year	4.60	7.82	5.84	6.21	1.61	-1.61	.37
10-year	5.81	8.04	6.19	6.57	0.76	-1.47	.38
30-year	6.31	8.16	6.61	6.92	0.61	-1.24	.31
Municipal revenue[5] (Bond Buyer)	5.49	7.37	6.28	6.40	.91	-.97	.12
Corporate--A utility, recently offered	7.35	9.05	7.83	7.91	.56	-1.14	.08
Home mortgages[6]							
FHLMC 30-yr. fixed rate	6.97	9.25	7.53	7.80	.83	-1.45	.27
FHLMC 1-yr. adjustable rate	4.12	6.79	5.84	5.91	1.79	-.88	.07

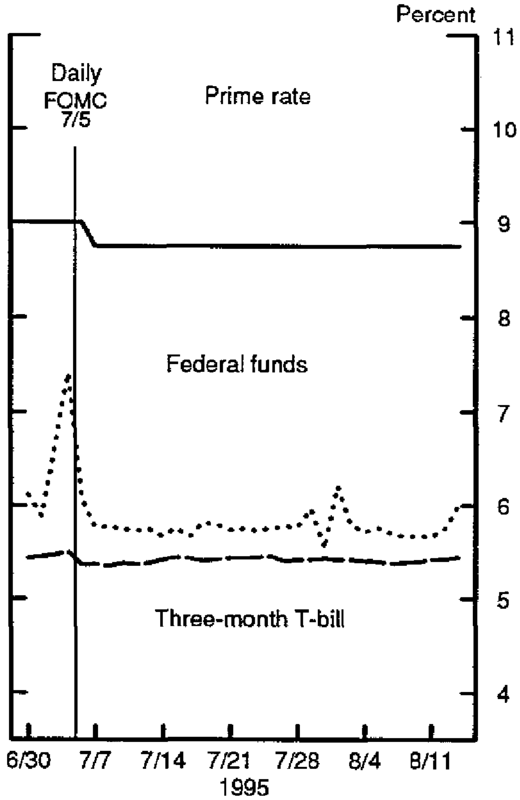
Stock exchange index	Record high Level	Record high Date	1989 Low, Jan. 3	1995 FOMC, July 5	1995 Aug. 15	Percentage change to Aug. 15: From record high	From 1989 low	From FOMC, July 5
Dow-Jones Industrial	4736.29	7/17/95	2144.64	4615.23	4640.84	-2.02	116.39	.55
NYSE Composite	302.13	8/03/95	154.00	293.21	299.23	-.96	94.31	2.05
NASDAQ (OTC)	1012.44	8/14/95	378.56	941.82	1012.37	-.01	167.43	7.49
Wilshire	5579.87	8/03/95	2718.59	5376.49	5548.81	-.56	104.11	3.21

1. One-day quotes except as noted.
2. Average for two-week reserve maintenance period closest to date shown. Last observation is average for maintenance period ending August 2, 1995.
3. Secondary market.
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.

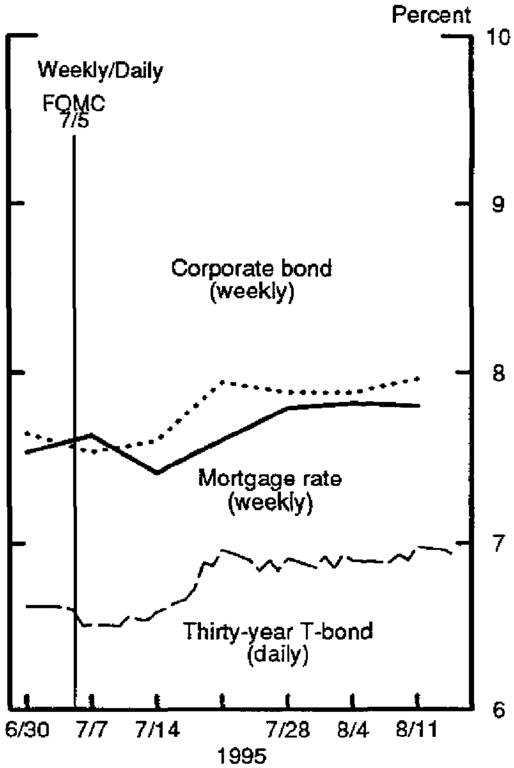
Selected Interest Rates

Short-Term





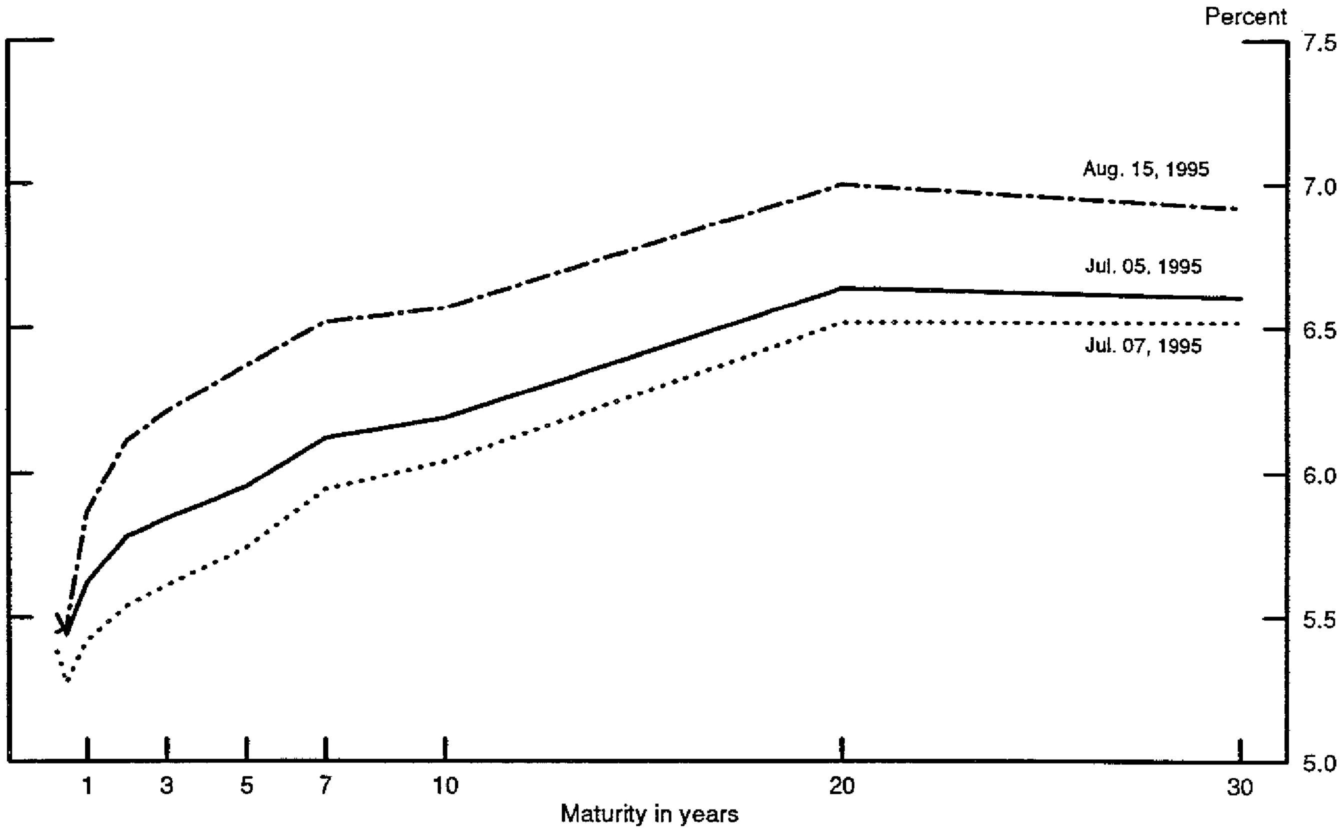
Long-Term



The announcement on July 6 of the FOMC's decision to trim the intended federal funds rate 1/4 percentage point, to 5-3/4 percent, pushed Treasury yields down that day about 15 basis points at the short end and nearly as much at long maturities. Subsequently, however, economic reports began to show a stronger cast to economic activity, evidently leading market participants to project a pickup in credit demands and much less chance for further near-term policy easing by the Federal Reserve. These perceptions seemed to be reinforced by the Chairman's Humphrey-Hawkins testimony in mid-July, which was widely seen as suggesting that the Federal Reserve saw economic conditions firming faster than many had anticipated. On balance, the Treasury yield curve shifted up over the intermeeting period, with bill yields beyond the three-month maturity up as much as 21 basis points and longer-term yields up 30 to 40 basis points. Despite higher interest rates, favorable corporate earnings surprises pushed most broad indexes of stock prices moderately higher. Small company indexes, led by technology issues, climbed as much as 7-1/2 percent.

Aggregate credit demands appear to have eased a bit recently. The flurry of corporate bond issuance during May and June was cut short last month by the backup in long-term bond yields. Short-term borrowing by businesses strengthened in July but was considerably below the pace recorded earlier in the year. Household borrowing appears to have maintained its recent rate, while the debt of state and local governments continued to decline, primarily reflecting retirements of bonds that had been refunded in advance. Treasury borrowing needs in the third quarter are sizable, and funding late in the quarter may well be complicated by potential debt-ceiling limitations.

The Treasury Yield Curve on Selected Dates over the Intermeeting Period



Credit supply conditions have generally remained favorable. Spreads on corporate debt over Treasuries narrowed over the intermeeting period, and banks report that they remained quite willing lenders. Indeed, although total bank credit growth was weak, reflecting run-offs of securities, bank loans expanded briskly.

The broad monetary aggregates continued to register strong growth in July, led by increases in money funds and time deposits. M1 growth, however, remained weak and likely will come under continued downward pressure as more banks introduce OCD sweep programs.

Depository Credit and Monetary Aggregates

Bank credit growth slowed to a 3-3/4 percent pace last month, as strong loan growth was partly offset by a decline in trading account securities. On balance, bank securities holdings have been about flat this year. As a result, the ratio of bank securities to total assets has declined but remains at a relatively high level (chart, page 6).

The pickup in bank lending last month was concentrated largely in real estate and business lending. Banks evidently continue to seek new lending opportunities: Although the August Senior Loan Officer Opinion Survey showed little further easing of standards, a substantial number of banks reported narrower spreads of loan rates over base rates for loans to middle-market and large firms. Few banks reported increased willingness to make consumer loans, but this stability followed an extended period of aggressive pursuit of such loans. Consumer loan growth--at 8-1/4 percent in July--was off somewhat from the pace earlier in the year. Adjusted for securitizations, however, consumer lending remained brisk at 14-1/2 percent.

Assets at thrift institutions are estimated to have edged up over the first half of the year. The expansion of thrift credit going forward, however, could be affected by the FDIC's recent decision to cut deposit insurance premiums for BIF-insured institutions from an average of 23.2 basis points to an average of 4.4 basis points--a move expected to reduce the banking industry's costs by an estimated $4-1/2 billion annually.[1] Deposit

1. Under the previous risk-based deposit insurance premium schedule, premiums had ranged from 23 to 31 basis points depending on the financial condition of the institution. With a large proportion of banks now quite well capitalized, most institutions were paying 23 basis points. The new premium schedule will range from 4 to 31 basis points, with most institutions again expected to fall in the lowest premium category.

Commecial Bank Credit and Short- and Intermediate-Term Business Credit

(Percentage change; seasonally adjusted annual rate)[1]

Type of credit	1994	1995 Q1	1995 Q2	1995 May	1995 Jun	1995 Jul	Level, Jul 1995 (billions of $)
	Commercial bank credit						
1. Total loans and securities	6.8	7.7	12.6	9.0	4.8	3.7	3,500.6
2. Securities	4.9	-5.0	14.7	-3.9	-1.4	-13.3	963.5
3. U.S. government	0.0	-6.0	-4.7	4.6	-1.7	-12.9	698.9
4. Other	24.0	-1.8	75.6	-25.9	-.4	-14.3	264.6
5. Loans	7.5	12.9	11.8	14.1	7.2	10.4	2,537.2
6. Business	9.2	16.8	12.3	14.1	4.4	7.0	694.6
7. Real estate	6.5	11.9	7.4	4.9	8.4	11.0	1,056.9
8. Consumer	15.2	12.8	11.6	4.6	12.9	8.3	481.5
9. Security	-17.2	-9.1	71.0	185.5	11.4	-26.8	83.3
10. Other	3.5	13.2	12.2	21.6	-3.9	38.7	220.9
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	9.4	17.8	12.7	15.7	3.3	6.5	687.3
12. Loans at foreign branches[2]	5.1	17.6	21.9	14.6	9.6	14.3	25.5
13. Sum of lines 11 and 12	9.2	17.7	13.0	15.7	3.6	6.6	712.7
14. Commercial paper issued by nonfinancial firms	1.2	22.1	20.7	20.8	-29.1	27.8	181.3
15. Sum of lines 13 and 14	7.5	18.6	14.5	16.7	-3.0	10.7	894.0
16. Bankers acceptances, U.S. trade-related[3,4]	-8.3	-21.2	-4.5	-26.7	-13.6	n.a.	17.4[5]
17. Loans at finance companies[4]	12.6	20.3	n.a.	9.5	n.a.	n.a.	381.1[6]
18. Total (sum of lines 15, 16, and 17)	8.7	18.5	n.a.	14.0	n.a.	n.a.	1,287.0[6]

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. June 1995.
6. May 1995.
n.a. Not available.

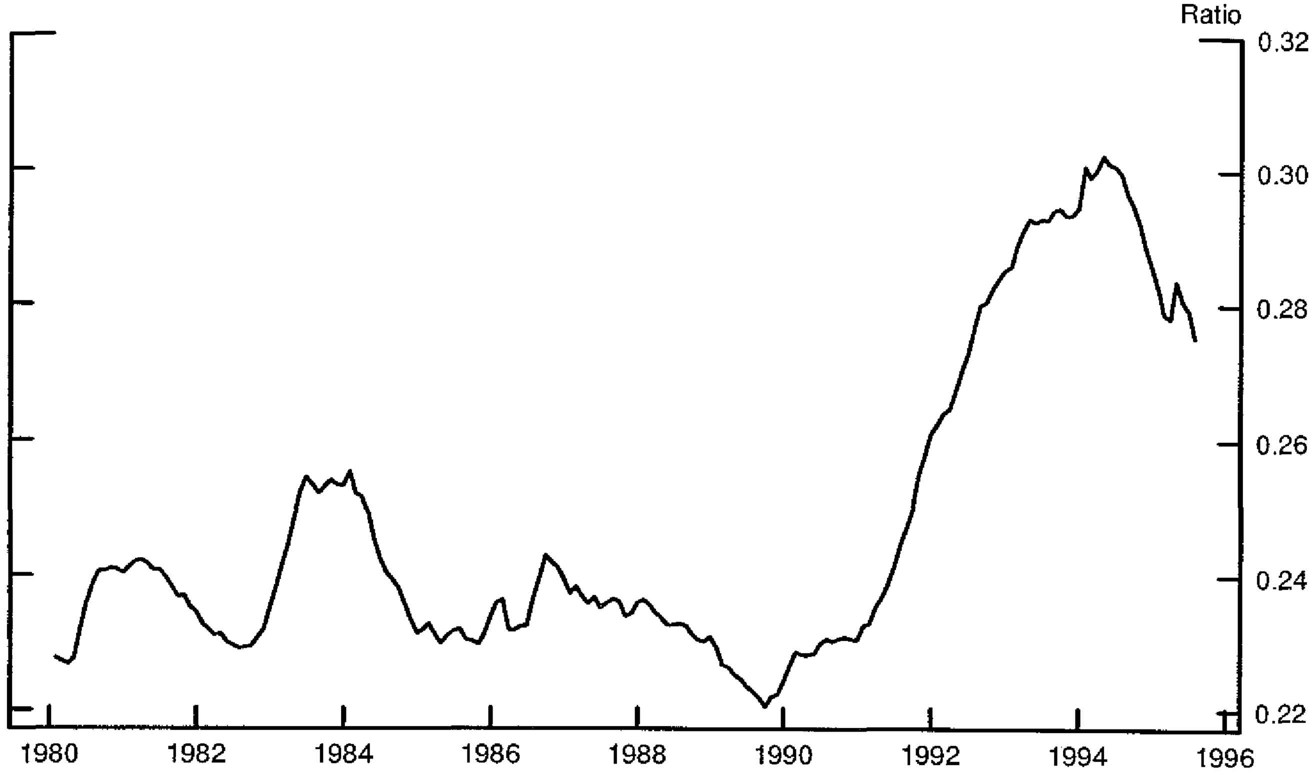
insurance premiums for SAIF-insured institutions (mostly savings and loans, and savings banks) were not changed, and industry representatives have argued that the BIF-SAIF premium disparity will put SAIF-insured institutions at a significant disadvantage in competition with banks.[2] Indeed, the market rendered its assessment of the situation shortly after the FDIC's announcement: Bank stock prices climbed appreciably while share prices for many thrifts edged lower.

Despite the sluggish advance of bank credit in July, the broad monetary aggregates registered continued strong growth. M3 expanded at an 8-1/2 percent pace last month, placing its level well above the upper bound of its revised annual range of 2 percent to 6 percent. Moreover, preliminary data available for August suggest that M3 growth is continuing at about the pace in July. Increases in large time deposits and institution-only money funds were especially notable. Yields on institution-only money funds tend to lag changes in money market interest rates and so became quite attractive to investors following the easing of policy in July. The rise in large time deposits appeared to be associated with stronger loan growth at banks and a decline in banks' reliance on borrowing from their overseas branches last month.

M2 increased at a 5-3/4 percent rate in July, down considerably from its torrid growth in June but still quite brisk. Early data for the month of August suggest that M2 continues to expand rapidly, perhaps at a rate somewhat above that of July. A very large portion of the recent rise in M2 has been associated with a steep climb in retail money funds (chart). As money fund yields have become more

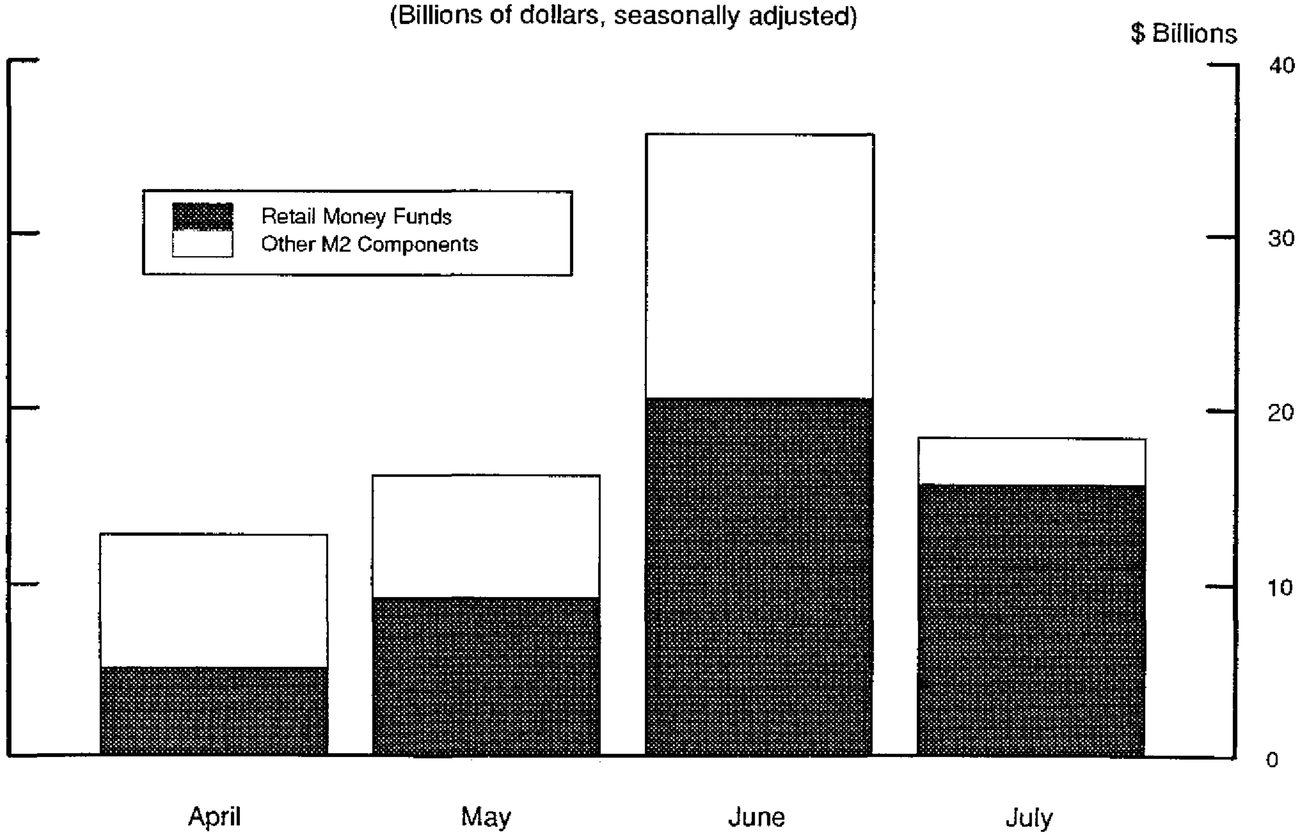
2. At recent congressional hearings on the insurance premium issue, the Treasury, FDIC, and OTS proposed a joint plan to merge the BIF and SAIF funds and to assess a one-time charge on SAIF-insured institutions. In his testimony, Chairman Greenspan supported a merger of BIF and SAIF.

Ratio of Total Securities to Total Bank Credit



M2 and Retail Money Fund Flows

(Billions of dollars, seasonally adjusted)



MONETARY AGGREGATES
(Based on seasonally adjusted data)

Aggregate or component	1994	1995 Q1	1995 Q2	1995 May	1995 June	1995 July (p)	1994:Q4 to July 95 (p)	Level (bil. $) July 95 (p)
Aggregate	Percentage change (annual rate)[1]							
1. M1	2.4	0.1	-0.9	-7.0	0.8	1.4	-0.4	1145.1
2. M2	1.0	1.6	4.2	5.1	11.5	5.8	4.1	3710.8
3. M3	1.4	4.3	6.8	7.7	12.1	8.4	6.6	4482.6
Selected components								
4. Currency	10.2	8.2	8.2	7.9	-2.3	-1.0	6.2	367.1
5. Demand deposits	0.5	0.6	-0.8	-2.2	19.5	8.7	2.5	389.6
6. Other checkable deposits	-2.1	-7.7	-9.9	-26.2	-13.7	-3.5	-9.1	379.5
7. M2 minus M1	0.4	2.4	6.5	10.7	16.3	7.8	6.2	2565.7
8. Savings deposits	-4.5	-15.7	-9.8	-1.1	10.8	0.1	-8.6	1091.2
9. Small time deposits	2.5	22.8	24.2	18.6	9.0	5.1	20.6	921.0
10. Retail money market funds	7.3	7.9	18.0	28.2	61.0	44.0	22.5	441.5
11. Overnight RPs, n.s.a.	14.1	14.4	-7.9	5.7	2.8	-42.3	-2.5	82.2
12. Overnight Eurodollars, n.s.a.	42.2	24.5	-35.3	-4.0	-8.0	-16.1	-7.7	29.4
13. M3 minus M2	3.4	18.2	20.2	20.5	15.4	21.0	20.0	771.8
14. Large time deposits, net[2]	7.0	14.7	15.8	18.0	9.9	26.8	17.0	397.9
15. Institution-only money market mutual funds	-8.2	10.0	27.2	11.8	66.5	39.7	26.3	212.4
16. Term RPs, n.s.a.	6.6	31.4	23.7	52.0	-21.9	-49.7	14.5	113.3
17. Term Eurodollars, n.s.a.	14.4	20.3	34.3	14.0	19.8	27.3	27.6	63.0
Memo								
18. Monetary base	8.4	6.3	6.2	7.3	-2.8	-0.3	4.8	429.6
19. Household M2[3]	0.5	1.0	5.1	5.5	12.3	6.9	4.4	3200.1
	Average monthly change (billions of dollars)[4]							
Memo								
Selected managed liabilities at commercial banks:								
20. Large time deposits, gross	2.1	5.1	5.5	8.7	4.7	5.7	. . .	411.4
21. Net due to related foreign institutions	7.5	9.4	-2.1	4.8	5.9	-5.9	. . .	239.2
22. U.S. government deposits at commercial banks	0.0	-0.8	0.8	2.4	1.2	12.7	. . .	34.5

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.
p Preliminary. n.s.a. Not seasonally adjusted.

attractive relative to both short- and long-term yields, money funds appear to have drawn flows that in earlier months were directed to market instruments outside M2. Indeed, net noncompetitive tenders for Treasury bills and bonds at recent auctions have slowed to a trickle from the very high levels recorded earlier in the year.

The strength of M2 in June and July does not appear to have come at the expense of bond and stock mutual funds. The growth of M2 plus stock and bond funds in both months, for example, is estimated to have exceeded M2 growth by a considerable margin. Flows into stock mutual funds were quite strong in July, and net sales of bond mutual funds picked up as well (table).

In contrast to the broader aggregates, M1 remained rather weak--expanding at a 1-1/2 percent rate in July--with declines in currency and other checkable deposits largely offsetting considerable growth in demand deposits. The sudden weakness in

NET SALES OF MUTUAL FUNDS CLASSIFIED BY TYPE
(Billions of dollars, monthly rate, not seasonally adjusted)

	1995					Memo: June
	Q1	Q2	May	June	July[e]	Assets
Total stock	8.2	10.1	9.0	10.4	15.9	1,066.7
International	.4	1.3	1.3	.4	1.8	177.2
Domestic	7.8	8.8	7.7	10.0	14.1	889.5
Total bond	.2	.9	2.5	-.4	2.9	773.7
GNMA	-.7	.0	-.1	.0	-.2	54.5
Government	-.6	-.6	-.5	-.8	-.5	87.0
High-yield	1.0	.7	.9	.3	1.4	52.9
Tax-exempt	.3	-.5	.9	-1.7	.3	240.9
Income	.8	1.2	1.2	1.6	1.9	244.3
Other	-.6	.1	.1	.2	.0	61.3
Total money fund	8.4	16.2	20.0	25.4	23.5	701.1
Taxable	7.4	15.5	17.8	22.8	20.4	579.6
Tax-exempt	1.0	.7	2.2	2.6	3.1	121.4

e Staff estimate.
Source: Investment Company Institute.

currency growth over the last two months appears to have been associated with a drop in overseas demands for U.S. currency, as financial conditions in some key countries where dollars are widely used have become more stable. In particular, currency reflows from Argentina and softer demand for dollars in Russia are thought to account for much of the currency weakness. OCDs have been declining for some time, reflecting both the wide opportunity costs of holding OCD balances and the introduction of sweep-account arrangements by some large banks. Recently, two more large institutions have introduced OCD sweep programs, and it seems likely that others will follow. These accounts have no impact on M2 because OCD balances are swept into MMDAs. However, they do lower the level of transaction balances in M1 and required reserves. The sweep accounts introduced this year have dropped the level of OCD by about $15 billion and required reserves by about $1.5 billion.

Business Finance

Borrowing by nonfinancial corporations in July slowed from a brisk second-quarter pace (chart), perhaps reflecting some reduction in overall borrowing needs and a lull in long-term borrowing after the surge in bond issuance in May and June. Corporate bond issuance fell in July in concert with the backup in long-term interest rates. In contrast, commercial paper outstanding moved up further over the intermeeting period, but most of the increase reflected a single large transaction: ITT issued $3 billion of commercial paper late in July associated with its split into three separate operating units.

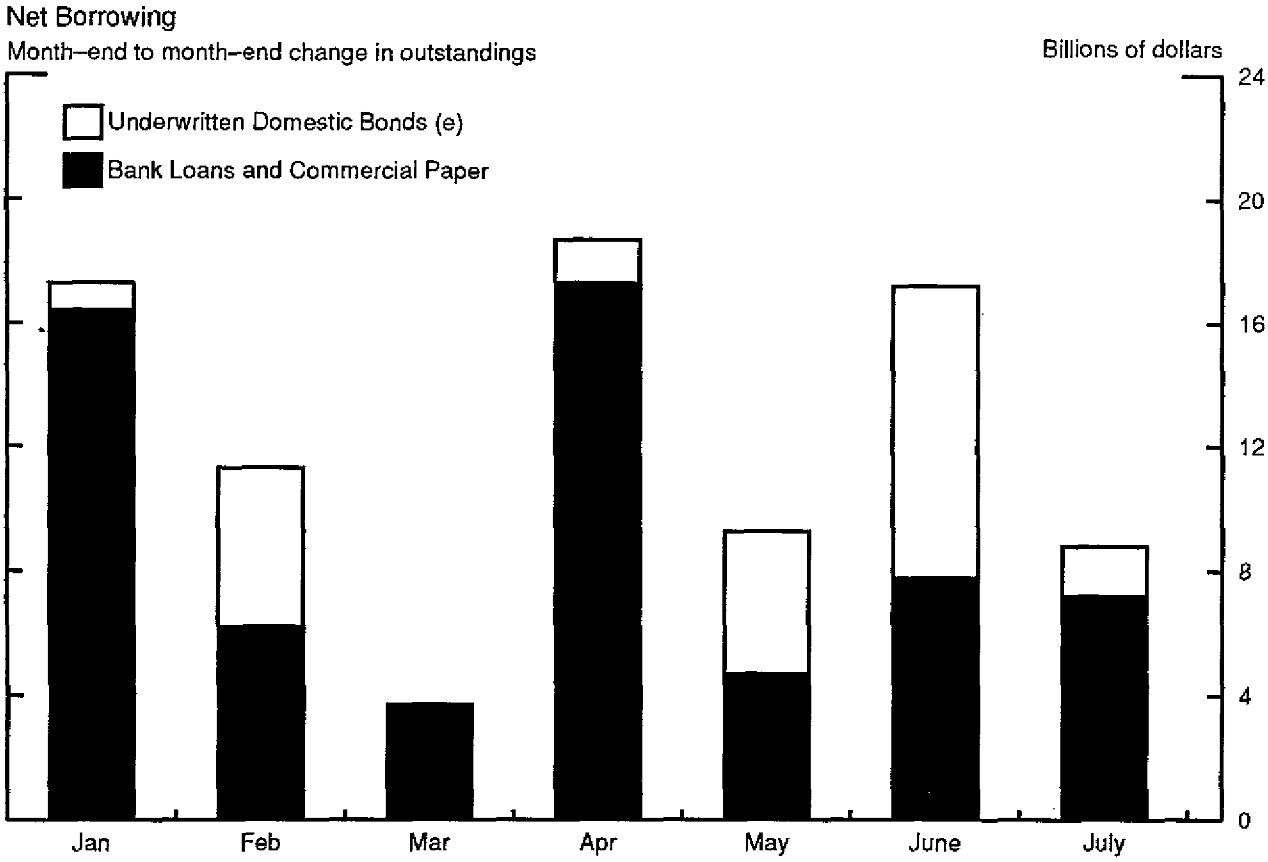
To date, there are few signs of financial stress in the nonfinancial business sector. Measures of business debt service burdens (chart) have risen this year but remain well below the peak

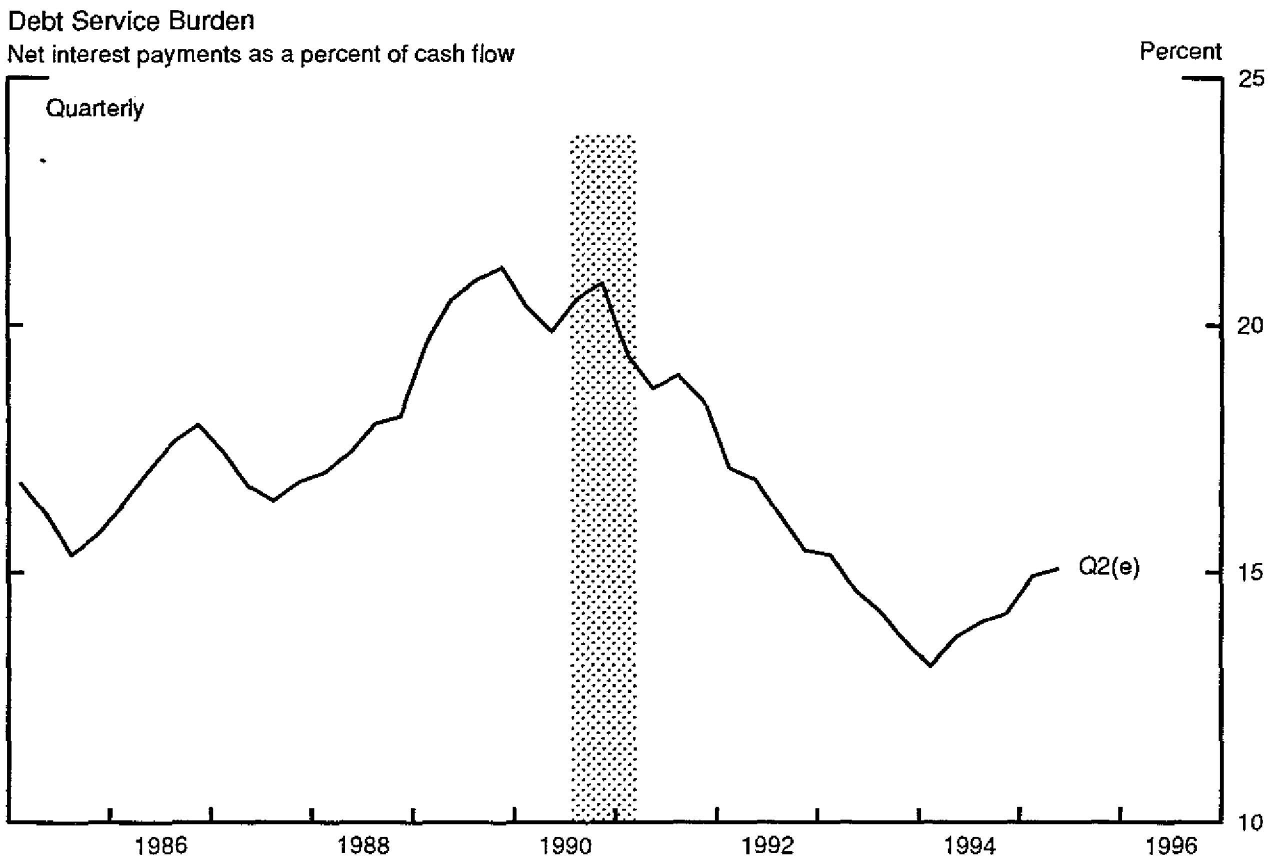
GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS[1]
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1993	1994	1995 Q1	1995 Q2[p]	1995 May[p]	1995 June[p]	1995 July[p]
All U.S. corporations	52.89	40.61	39.91	45.98	51.28	55.68	35.67
Stocks[2]	9.12	5.50	3.83	5.77	6.34	7.34	4.53
Bonds	43.77	35.11	36.08	40.21	44.94	48.34	31.14
Nonfinancial corporations							
Stocks[2]	5.04	3.14	2.78	3.97	4.09	5.08	3.45
Sold in U.S.	4.64	2.92	2.51	3.75	3.77	4.84	3.27
Utility	1.05	.37	.38	.24	.36	.18	.19
Industrial	3.82	2.55	2.13	3.50	3.41	4.66	3.08
Sold abroad	.40	.22	.27	.22	.33	.24	.19
Bonds	16.19	7.35	6.63	11.91	13.01	16.18	8.07
Sold in U.S.	15.55	6.44	5.33	10.92	11.30	15.72	7.21
Utility	7.34	2.19	1.31	3.83	4.91	5.17	2.24
Industrial	8.21	4.26	4.02	7.09	6.39	10.55	4.97
Sold abroad	.64	.90	1.30	.99	1.71	.46	.87
By quality[3]							
Aaa and Aa	2.56	.58	.69	1.69	1.84	2.59	1.39
A and Baa	8.70	3.82	3.37	6.96	6.55	10.19	5.93
Less than Baa	4.17	2.01	1.24	2.26	2.92	2.94	.84
Unrated or rating unknown	.09	.01	.02	.00	.00	.00	.14
Financial corporations							
Stocks[2]	4.08	2.36	1.05	1.80	2.24	2.26	1.08
Sold in U.S.	3.83	2.11	1.04	1.79	2.23	2.26	1.08
Sold abroad	.25	.25	.01	.00	.01	.00	.00
Bonds	27.58	27.76	29.45	28.40	31.94	32.16	23.07
Sold in U.S.	25.02	23.98	23.47	24.87	27.37	28.07	19.64
Sold abroad	2.56	3.78	5.98	3.53	4.57	4.08	3.43
By quality[3]							
Aaa and Aa	1.78	3.72	4.29	3.93	4.30	3.85	2.39
A and Baa	9.01	9.02	10.81	11.19	13.26	11.58	10.20
Less than Baa	.49	.31	.04	.13	.00	.26	.10
Unrated or rating unknown	.08	.10	.07	.30	.58	.00	.58

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.

Debt of Nonfinancial Corporations





Source: National Income and Product Accounts.
e Staff estimate.

levels attained in the late 1980s. Rating agencies have seemed generally optimistic about corporations' financial health. Indeed, boosted by upgrades of Ford and General Motors, the value of debt upgraded by Moody's this year has greatly exceeded the value downgraded. Financial markets also have appeared to recognize the generally solid financial condition of businesses: Spreads on corporate debt securities relative to Treasuries narrowed over the intermeeting period for both investment-grade and below-investment-grade securities. Spreads of junk bond yields over Treasuries narrowed considerably, returning to the vicinity of spreads early in the year.

The largest corporate merger announced over the intermeeting period--Disney's $19 billion merger with Capital Cities/ABC--appeared to take the market by surprise. The Disney deal, which remains subject to approval by stockholders and the Justice Department, would be the largest merger transaction since RJR Nabisco in 1989. The day after the Disney announcement, Westinghouse announced its long-rumored acquisition of CBS for $5.2 billion. Both deals will entail significant borrowing, likely beginning early next year. Board staff expect Disney to raise about $10 billion in the commercial paper and bond markets to complete its merger; the remainder of the deal will be structured as a stock swap. Disney also reportedly plans to repurchase about $5 billion in stock to reduce the dilution of its shares caused by the merger, ultimately entailing more borrowing. Bank involvement likely will be limited to supplying backup lines for Disney's commercial paper program. In contrast, the Westinghouse/CBS acquisition probably will be funded through a mixture of asset sales and bank borrowing. Westinghouse reportedly already has bank commitments for some of the necessary funding. The firm is rated speculative-grade and therefore cannot feasibly access the commercial paper market.

With merger activity expected to result in further sizable share retirements, the outstanding stock of equity likely will decline in the third quarter. Gross equity issuance by nonfinancial corporations declined in July to $3.5 billion, from about $5 billion in June, but nonetheless remained above the weak pace in 1994 and early this year. Technology companies continued to take advantage of their buoyant share prices to raise funds. In July, their equity issues accounted for more than a third of all funds raised in equity markets, up significantly from their average over the past eighteen months. The pace of initial public offerings continued to be strong in July.

Despite weak economic growth over the second quarter, corporate earnings reports for the quarter have been a little stronger than expected, on balance. With about 60 percent of all companies now having reported, somewhat more than half showed earnings that exceeded analysts' expectations, while about a third came in below expectations. Analysts now expect corporate profits (at book value) to increase 12 percent this year and about 4 percent in 1996.

Municipal Securities

Through July, gross issuance of tax-exempt securities ran considerably below that of the comparable period last year. The falloff is largely attributable to a drop in refunding volume from the elevated pace in early 1994. On net, state and local debt has continued to contract as many local government units have called debt that had been refunded in advance. Retirement of advance-refunded issues is expected to keep the stock of long-term municipal debt on a downward track for some time to come.

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

	1993	1994	1995 Q1	1995 Q2	1995 May	1995 June	1995 July
Total tax-exempt	27.2	16.1	10.9	16.4	12.6	26.9	13.8
Long-term	23.3	12.8	9.0	12.8	11.8	18.0	9.8
Refundings[1]	15.7	4.0	1.7	3.2	3.4	4.2	1.4
New capital	7.6	8.8	7.3	9.6	8.4	13.8	8.4
Short-term	3.9	3.3	1.9	3.6	.8	8.9	4.0
Total taxable	.7	.7	.4	.7	.4	1.1	.4

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

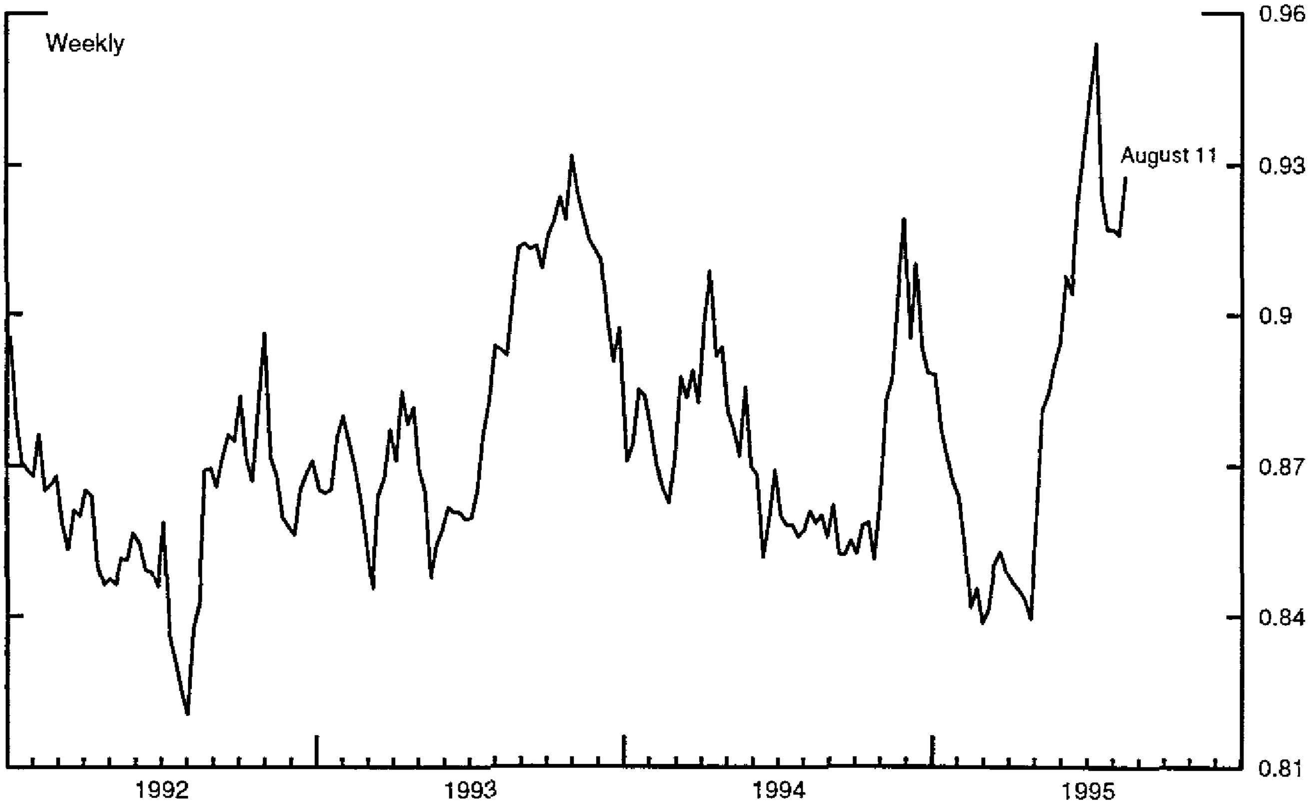
Tax-exempt yields declined relative to Treasury yields over the intermeeting period, apparently reflecting the relatively light supply of new bonds and somewhat stronger demand for tax-exempt debt. Still, from a longer perspective, the yield ratio remains high, perhaps as a result of continuing concerns that Congress might enact tax reforms that would reduce or eliminate tax advantages for municipal debt (chart). In addition, the financial difficulties of Orange County, California, have probably boosted tax-exempt yields.

As expected, Orange County technically defaulted on $800 million of bonds that were scheduled to mature in July and early August. With no other feasible options at hand, bondholders and the bankruptcy court allowed the county to extend the bonds' maturity until next summer; rating agencies responded by declaring the debt in default.

Spillover effects from the Orange County situation have been most notable for other California issuers. Before the Orange County bankruptcy, California issuers paid an average rate premium

Ratio of Tax-Exempt to Treasury Yields

(Bond Buyer municipal thirty-year revenue bond yield relative to thirty-year Treasury bond yield)



YIELD SPREAD BETWEEN LOWER-RATED TAX-EXEMPT BONDS
AND INSURED TAX-EXEMPT BONDS ON SELECTED DATES

	Sept. 30	Nov. 25	Dec. 9	July 5	Aug. 11
A	11	14	15	17	19
BAA1	34	52	44	44	57

Source: Bloomberg

of approximately 10 basis points at the five-year maturity relative to a national benchmark for A1-rated issuers. After jumping to 28 basis points last December at the outset of the Orange County debacle, the premium has retreated somewhat, averaging about 15 basis points this year.

Beyond California, the bankruptcy appears to have heightened the market's perception of the risks of investing in the tax-exempt market. Indeed, the average rate spread of noninsured bonds over similar insured bonds has widened nationally. For example, the yield spread of single-A general obligation twenty-year debt to similar insured offerings has widened considerably over the past year, from 11 to 19 basis points (table). As the required premium on noninsured bonds has risen, issuers have responded by increasing their use of credit enhancements; over the first seven months of this year, insured bonds represented 55 percent of the volume of long-term municipal issuance, up from 52 percent for all of 1994, and 47 percent for the period between 1990 and 1993.

Treasury and Agency Finance

The Treasury's financing needs are projected to be sizable in the third quarter; funding to cover the anticipated $44.7 billion deficit is expected to involve both a $21.3 billion drawdown of the Treasury's cash balances and $17.5 billion additional net borrowing.

The composition of the Treasury's borrowing during the third quarter is expected to tilt toward longer maturities. The size of weekly bill auctions was trimmed in July. While the Treasury may trim the size of bill auctions a bit further to hold debt outstanding below the statutory debt ceiling, it will have to raise sufficient funds to bridge a low point in its cash balance just before mid-September tax inflows.

TREASURY FINANCING
(Billions of dollars; total for period)

Item	1995 Q2[e]	Q3[p]	Jul.[e]	Aug[e]	Sept.[p]
Total surplus/deficit (-)	24.3	-44.7	-22.5	-32.2	10.0
Means of financing deficit					
Net cash borrowing and repayments (-)	25.6	17.5	7.4	13.2	-3.1
Nonmarketable	-2.7	-8.1	-7.4	0.5	-1.2
Marketable	28.3	25.6	14.8	12.7	-1.9
Bills	-8.3	-5.5	7.6	-11.2	-1.9
Coupons	36.6	31.0	7.2	23.8	0.0
Decrease in cash balance	-42.4	21.3	11.6	31.0	-21.3
Other[1]	-7.5	5.8	3.5	-12.0	14.4
Memo:					
Cash balance, end of period	60.5	39.2	48.9	17.9	39.2

Note. Data reported on a payment basis. Details may not sum to totals because of rounding.
p Projected.
e Estimate.
1. Accrued items, checks issued less checks paid, and other transactions.

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

Agency	1995 Q1	Q2	Apr.	May	June
FHLBs	4.4	13.7	1.8	6.2	5.8
FHLMC	8.4	6.8	4.8	1.3	0.8
FNMA	1.4	12.3	-0.5	4.8	7.9
Farm Credit Banks	0.8	0.0	-0.3	0.4	-0.1
SLMA	1.2	-0.3	-0.8	-0.8	1.3

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

Considerable market attention was focused on the Treasury's midquarter refunding, which involved the record sale of $42-1/2 billion of three-, ten-, and thirty-year securities. A previous announcement by the Japanese Ministry of Finance of accounting changes that seemed designed to encourage Japanese investors to purchase securities abroad led to widespread speculation about the likely participation of Japanese bidders in the auction. In the event, the three-year note auction was generally perceived to go rather poorly, but the subsequent sale of ten-year notes and thirty-year bonds generated considerably more investor interest.

After the issuance of the midquarter refunding securities, the Treasury's debt subject to statutory limit stood just $31 billion below the current debt ceiling of $4.9 trillion. A looming budget impasse between Congress and the Administration combined with a binding debt ceiling has raised the prospect of a Treasury financing disruption. Staff projections suggest that under the current ceiling, the Treasury would not have sufficient cash to meet obligations beyond mid-November, when a large coupon payment is due. As yet, market prices for Treasury securities maturing in November do not suggest that market participants are concerned that the federal government will default.

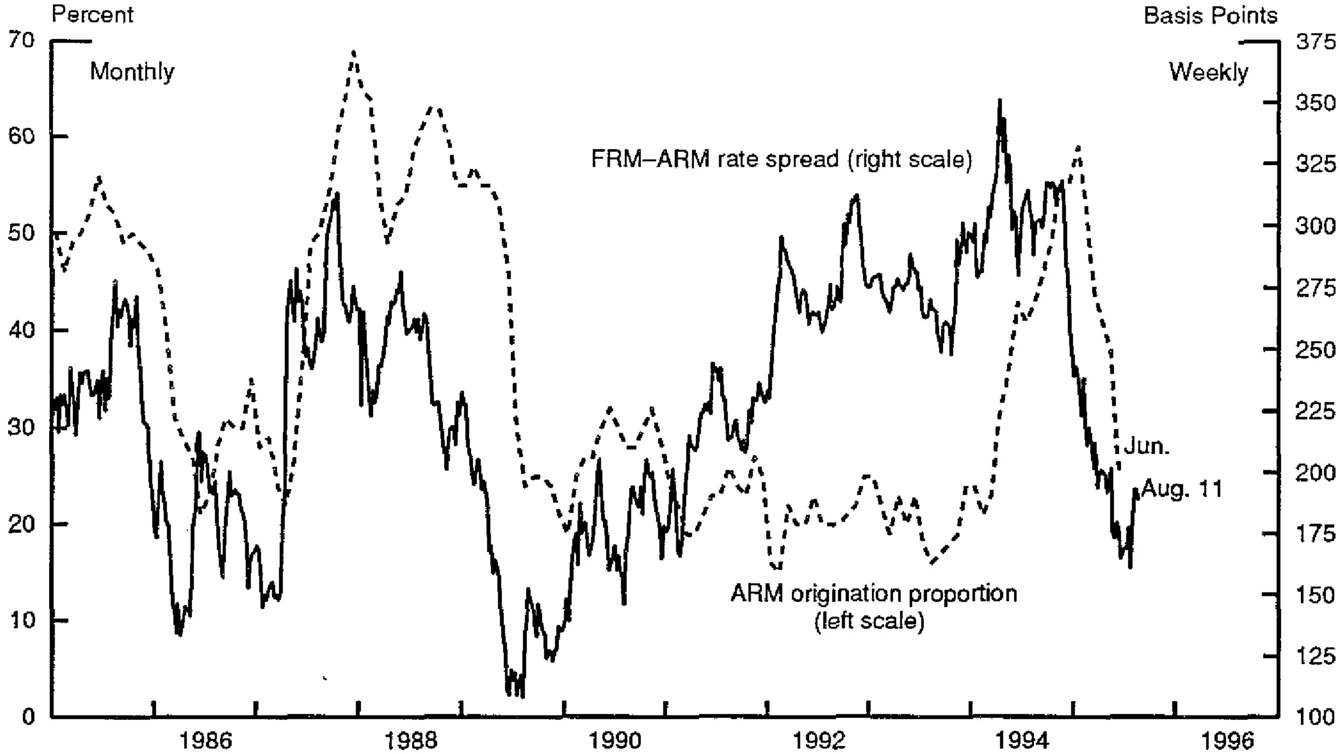
Net cash borrowing by government sponsored enterprises (GSEs) is off last year's pace but still quite strong--$97 billion at an annual rate compared with $176 billion of net borrowing last year. Gross issuance of agency securities, however, has been very heavy this year. With long-term interest rates declining over much of the first half, GSEs called large blocks of existing debt and refinanced with new lower-cost debt. In meeting their funding requirements, GSEs continue to explore new approaches to tapping world capital markets. For example, recent foreign exchange volatility reportedly has strengthened investor demand for assets denominated in German marks. Following the lead of the World Bank, both FNMA and the Federal Home Loan Bank System announced in early August that they would each issue DM 1 billion ($717 million) of mark-denominated five-year noncallable global bonds.

Mortgage Markets

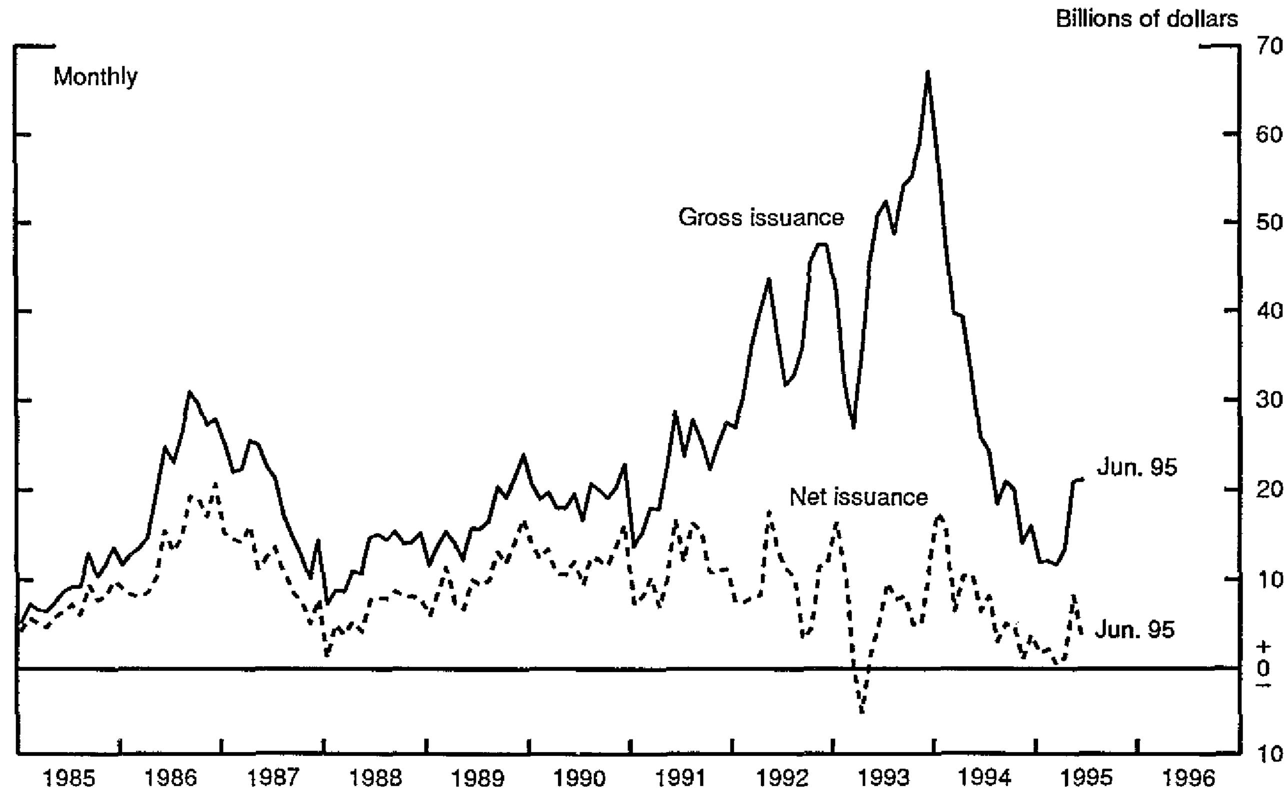
Mortgage interest rates tracked the general pattern of other market interest rates over the intermeeting period. On balance, the average initial rate on fixed rate mortgages (FRMs) moved up about 20 basis points while contract rates on adjustable-rate mortgages (ARMs) indexed to one-year Treasuries edged up 5 basis points. Although the FRM-ARM initial rate spread has widened a little since early July, it remains quite narrow by historical standards (chart). Surveys of conventional mortgage applications conducted in the latter half of July by the Mortgage Bankers Association and by J.P. Morgan indicate a slight increase in ARM applications as a share of total home loan applications in recent weeks, but a major shift in borrower preferences away from FRMs seems unlikely.

With FRMs accounting for the bulk of new mortgage originations, gross issuance of agency-backed pass-through securities edged up further in June (chart). Issuance of private-label mortgage-backed securities picked up in the second quarter but has remained considerably below the pace of recent years. The volume of agency collateralized mortgage obligations (CMOs) outstanding continued weak in the second quarter. Demand for these securities has remained subdued after the losses investors incurred on such instruments during 1994--especially in the highly volatile tranches. Banks, in particular, have scaled back their holdings of CMOs, and bank regulators have introduced certain tests for depositories and

ARM Origination Proportion and FRM–ARM Spread
(Not seasonally adjusted)



Issuance of Agency Mortgage Pass–Through Securities
(Not Seasonally Adjusted)



others to employ in identifying and screening CMOs with highly volatile structures.

Broad measures of home mortgage credit quality in the second quarter are not yet available. Anecdotal reports do not suggest much deterioration in mortgage loan performance generally, although one niche of the market has experienced rising delinquency rates. Delinquencies have moved up for loans originated through various affordable housing programs that employ more lenient underwriting guidelines to qualify low- and moderate-income households. To date, lenders have not taken steps to scale back the affordable housing loan programs introduced in recent years. However, some industry participants have recommended that the expanded underwriting guidelines of these programs be supplemented with additional credit review techniques, including credit scoring.

Consumer Credit

Total consumer installment credit advanced at about a 12 percent seasonally adjusted annual rate in June--a little below the pace over much of the first half of the year. Growth of auto loans slowed a bit from May but remained above the first-quarter pace, evidently reflecting sales incentives offered by many dealers trying to pare inventories. Growth of revolving credit moved down in June but remained quite brisk at close to a 20 percent annual rate.

On average for the second quarter, the growth rate of installment credit moderately exceeded the first-quarter pace but stayed within the rather narrow range of 13 percent to 15 percent prevailing since the second quarter of last year. On the whole, installment credit has expanded less vigorously during the current economic upswing than is typical in this stage of the business cycle (chart). In the past, consumer credit growth generally began to climb sharply in the earliest stages of the economic upturn and at

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

Type of credit	1993	1994	1995 Q1	1995 Q2[p]	1995 May[r]	1995 June[p]	Memo: Outstanding June 1995 (billions of dollars)
Installment	8.1	14.2	13.7	14.7	16.6	12.0	967.9
Auto	9.0	13.1	7.9	10.6	14.4	10.9	332.1
Revolving	11.0	16.7	21.8	23.1	24.9	19.7	373.1
Other	3.7	12.5	10.1	8.1	7.9	2.8	262.7
Noninstallment	-4.7	10.1	22.9	.8	-2.3	17.4	61.7
Total	7.2	14.0	14.2	13.8	15.5	12.4	1,029.7

p Preliminary.
r Revised.

INTEREST RATES ON CONSUMER LOANS
(Annual percentage rate)

Type of loan	1993	1994	1994 Nov.	1995 Feb.	1995 April	1995 May	1995 June
At commercial banks[1]							
New cars (48 mo.)	8.1	8.1	8.8	9.7	n.a.	9.8	n.a.
Personal (24 mo.)	13.5	13.2	13.6	14.1	n.a.	14.0	n.a.
Credit cards	16.8	16.2	n.a.	n.a.	n.a.	n.a.	n.a.
Credit cards[2]							
All accounts	n.a.	n.a.	15.7	16.1	n.a.	16.2	n.a.
Accounts assessed interest	n.a.	n.a.	15.8	15.3	n.a.	16.2	n.a.
At auto finance cos.[3]							
New cars	9.5	9.8	10.5	11.9	11.7	11.4	11.1
Used cars	12.8	13.5	14.2	15.1	15.0	14.8	14.6

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).

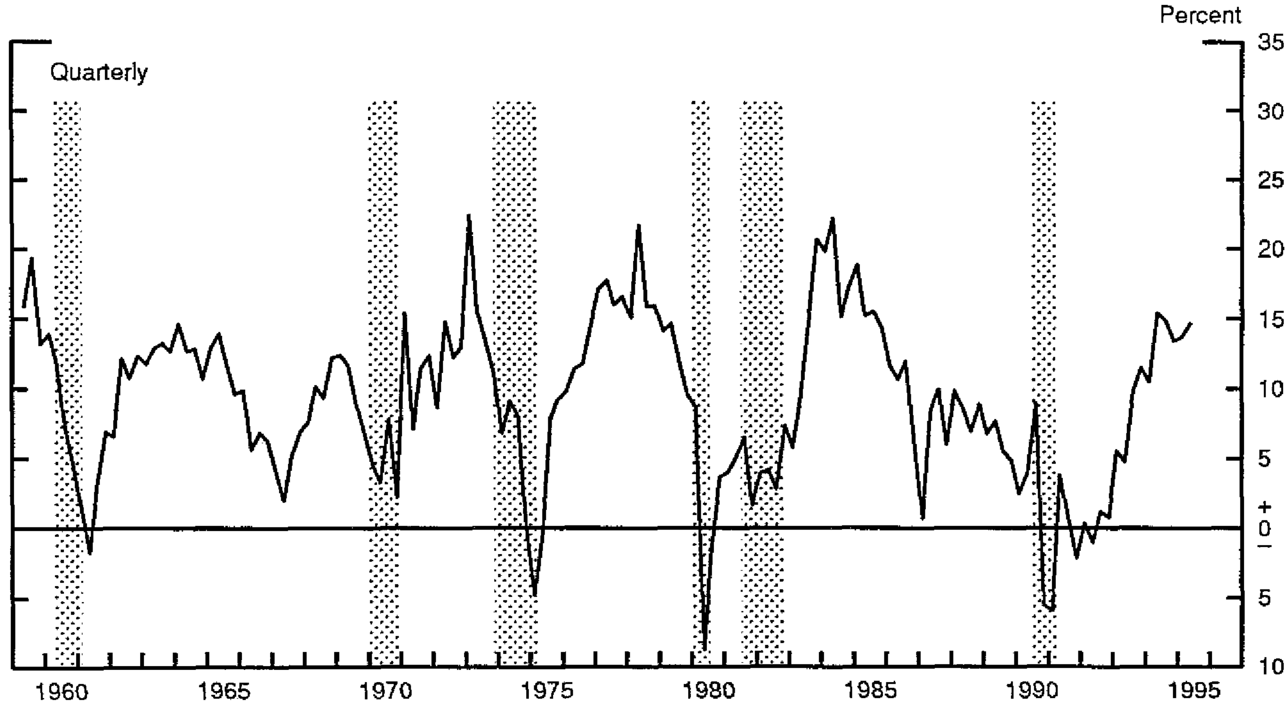
3. For monthly data, rate for all loans of each type made during the month regardless of maturity.

n.a. Not available.

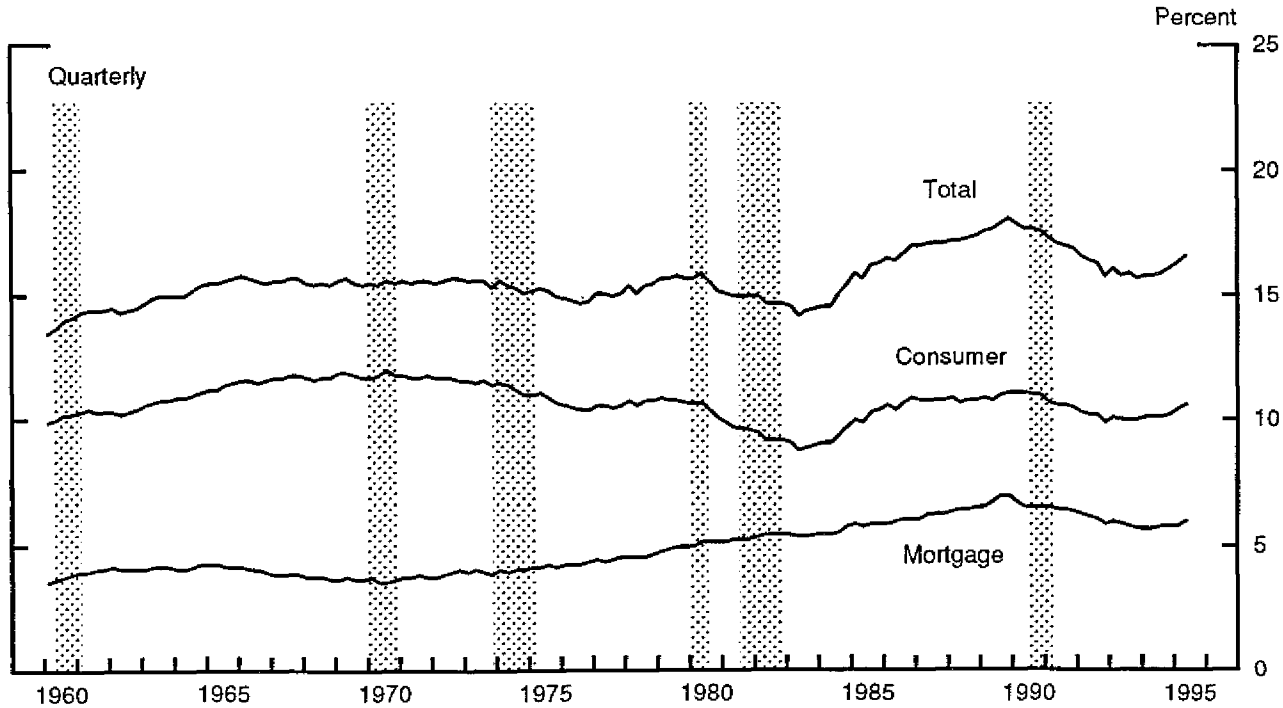
some point reached peak rates of close to 20 percent. In the current expansion, consumer credit growth remained sluggish for several quarters after the upturn began, primarily reflecting an unusually slow pickup in spending on durable goods. When spending strengthened in late 1993 and into 1994, consumer borrowing picked up substantially as well, though not quite reaching the highest growth rates of past periods. Further increases in durables expenditures have been limited this year, but spending levels apparently are high enough to generate loan originations still well in excess of loan repayments, so that the stock of consumer debt has continued to grow relatively rapidly.

Preliminary data indicate that household debt service burdens edged higher in the second quarter (chart) but remain below the peak recorded in the fourth quarter of 1989. Scheduled payments of principal and interest on the stock of outstanding home mortgage debt have climbed a bit relative to income, reflecting somewhat higher rates last year on fixed-rate mortgages and upward adjustments this year to rates on adjustable-rate loans. Debt service payments for consumer credit relative to income have risen more sharply, consistent with the substantial increases in consumer credit recorded over the past several quarters and, more recently, some increase in the average interest rates paid on the stock of consumer debt.

Growth in Consumer Installment Credit
(Change, seasonally adjusted annual rate)



Household Debt Burden
(Debt service payments relative to disposable personal income)



INTERNATIONAL DEVELOPMENTS

U.S. International Trade in Goods and Services

In May, the U.S. trade deficit in goods and services was the same as the revised April deficit. Exports rebounded sharply from their fall in April. Imports rose again in May at about the same rate as in April. For April-May combined, the deficit (at an annual rate) was significantly larger than in the first quarter. Data for June will be released August 17 and reported in the Greenbook supplement.

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

		Annual Rates			Monthly Rates		
	1994	1994	1995		1995		
		Q4	Q1	Q2e/	Mar	Apr	May
Real NIPA 1. Net Exports of G&S	-110.0	-107.1	-118.5	-125.0	--	--	--
Nominal BOP Net Exports of G&S	-106.2	-109.9	-120.1	-137.1	-9.8	-11.4	-11.4
Goods, net	-166.1	-174.0	-180.2	-198.2	-14.7	-16.5	-16.5
Services, net	59.9	64.1	60.1	61.1	4.9	5.1	5.1

1. In billions of 1987 dollars, SAAR.
e/ BOP data are two months at an annual rate.
Source: U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census.

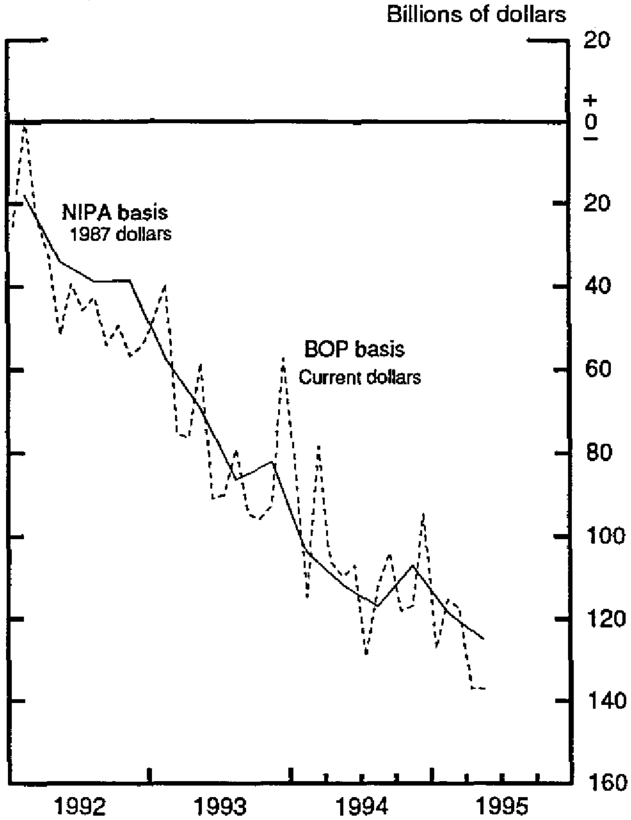
The level of exports of goods and services for April-May combined was higher on average than in the first quarter. Increases in exports of aircraft, machinery excluding computers, and industrial supplies more than offset the decline in exported agricultural products and automotive products. The change in exports was largely in quantity; the exception was exports of industrial supplies, where virtually all of the increase was in price. By area, the rise in merchandise exports in April-May combined was led by exports to Western Europe and Canada.

Imports of goods and services in April-May combined grew 4 percent from their level in the first quarter, somewhat above the rate of increase recorded in the first quarter. Imports rose in all major import categories, except foods. By area, the rise in

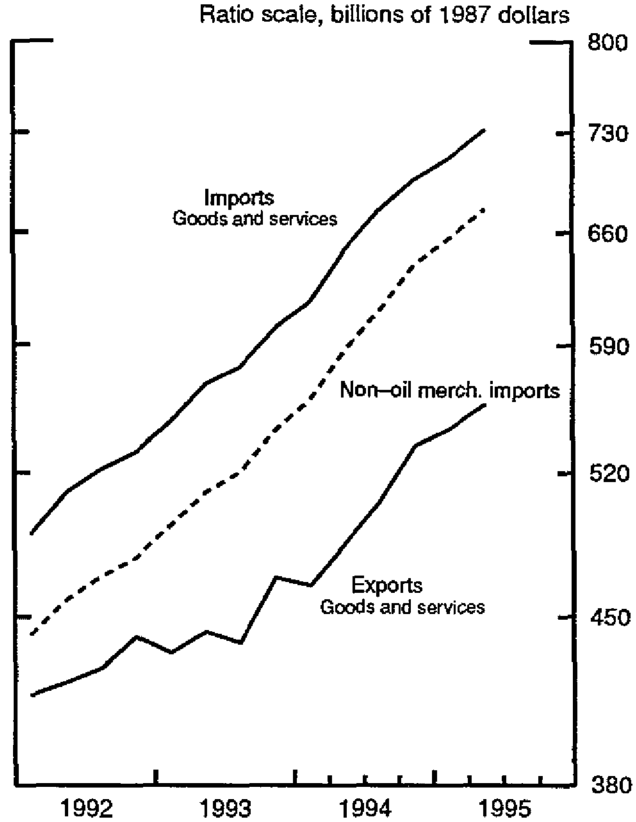
U.S. International Trade in Goods and Services

(Seasonally adjusted annual rate)

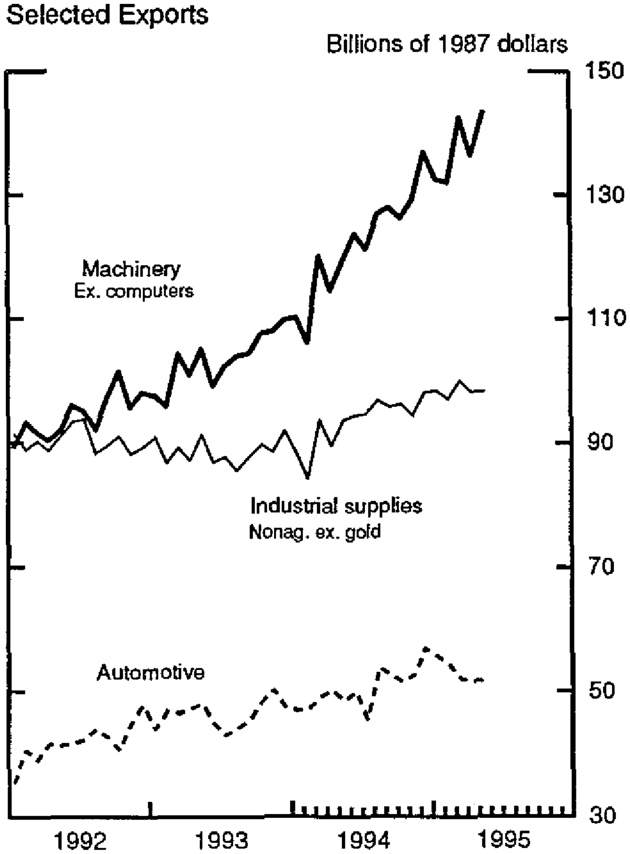
Net Exports



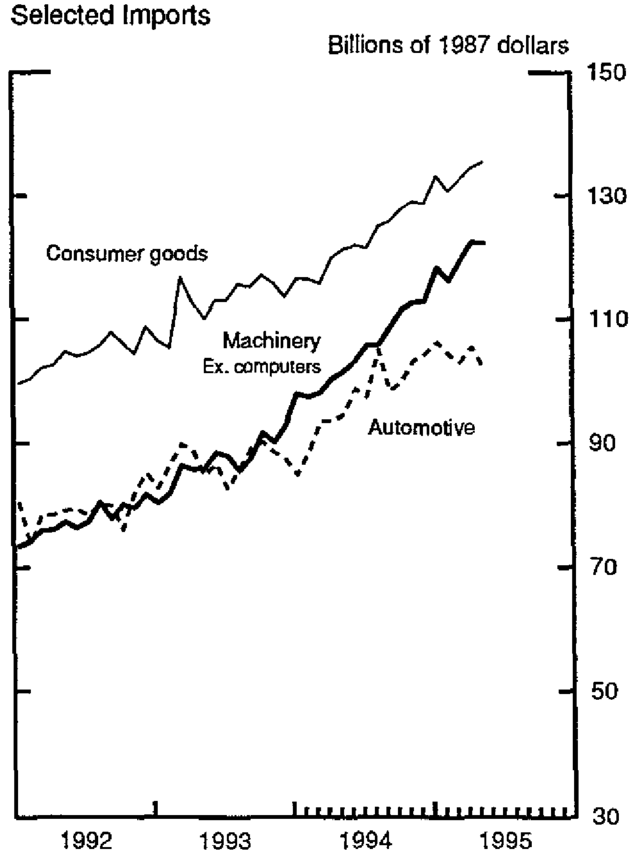
NIPA Exports and Imports



Selected Exports



Selected Imports



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

	Levels				Amount Change 1/			
	1995		1995		1995		1995	
	Q1	Q2e/	Apr	May	Q1	Q2e/	Apr	May
Exports of G&S	755.6	772.8	767.9	777.7	16.1	17.2	-9.9	9.8
Goods Exports	552.2	568.2	563.4	573.1	16.5	16.0	-10.3	9.7
Agricultural	56.1	55.0	56.3	53.8	1.9	-1.0	-1.6	-2.5
Gold	5.6	7.3	6.8	7.8	2.2	1.7	-3.4	1.0
Computers	36.3	36.6	35.9	37.2	0.5	0.2	-0.7	1.3
Other Goods	454.2	469.3	464.4	474.3	11.9	15.2	-4.5	9.9
Aircraft & Pts	25.2	31.1	32.1	30.1	-4.2	5.9	1.8	-2.0
Semiconductors	30.0	31.6	30.4	32.8	2.3	1.6	-2.0	2.4
Other Cap Gds	125.0	129.4	127.0	131.9	3.0	4.4	-3.7	4.9
Automotive	62.1	59.6	59.5	59.6	0.4	-2.6	-0.3	0.2
to Canada	35.8	32.4	32.7	32.0	0.9	-3.4	0.5	-0.7
to Mexico	6.0	5.1	4.7	5.6	-2.5	-0.8	-0.9	0.8
to ROW	20.4	22.0	22.0	22.1	2.1	1.7	0.2	0.0
Ind Supplies	125.6	130.0	129.3	130.6	8.9	4.4	0.8	1.2
Consumer Goods	63.1	64.5	63.3	65.7	-0.6	1.4	-1.0	2.4
All Other	23.2	23.2	22.7	23.6	2.1	-0.0	-0.6	0.9
Services Exports	203.4	204.6	204.6	204.6	-0.4	1.2	0.4	0.0
Imports of G&S	875.7	909.9	905.0	914.8	26.3	34.2	9.6	9.8
Goods Imports	732.4	766.4	761.9	770.9	22.8	34.0	12.1	9.0
Petroleum	52.3	56.9	53.5	60.2	1.2	4.5	-2.0	6.7
Gold	4.4	11.0	9.6	12.4	1.7	6.6	-0.1	2.8
Computers	50.8	51.9	51.9	51.9	0.2	1.1	0.6	0.0
Other Goods	624.9	646.7	647.0	646.4	19.7	21.8	13.6	-0.6
Aircraft & Pts	10.5	11.3	11.4	11.3	-1.3	0.8	-0.9	-0.1
Semiconductors	32.0	35.9	34.4	37.5	1.8	4.0	1.7	3.1
Other Cap Gds	112.5	117.3	118.1	116.4	5.4	4.8	3.7	-1.7
Automotive	129.8	130.5	132.4	128.6	2.7	0.7	4.3	-3.8
from Canada	48.3	43.6	42.9	44.3	0.8	-4.7	-3.7	1.5
from Mexico	17.8	17.3	16.6	18.0	0.6	-0.4	-2.7	1.4
from ROW	63.8	69.6	72.9	66.3	1.3	5.8	10.7	-6.6
Ind Supplies	122.8	129.1	130.4	127.7	5.7	6.3	3.9	-2.7
Consumer Goods	159.1	164.2	163.1	165.3	4.9	5.0	3.3	2.2
Foods	34.1	32.5	32.8	32.3	2.2	-1.5	-2.0	-0.6
All Other	24.0	25.8	24.4	27.3	-1.7	1.8	-0.3	2.9
Services Imports	143.2	143.5	143.1	143.9	3.5	0.3	-2.5	0.9
Memo:								
Oil Qty (mb/d)	8.95	8.84	8.48	9.19	-0.26	-0.11	-0.89	0.71

1. Change from previous quarter or month. e/ Average of two months.
Source: U.S. Dept. of Commerce, Bureau of Econ. Analysis and Census

merchandise imports was concentrated in Western Europe, Canada, Japan, and Asian LDCs.

The total quantity of oil imported in May rose sharply, despite a fall in consumption, due to seasonal inventory accumulation. Preliminary Department of Energy statistics indicate that in June imports posted another substantial rise as a result of a pick-up in consumption. Thus, while the quantity of imports for April-May combined was a bit below that in the first quarter, we expect second-quarter imports to have posted a modest gain.

The price of imported oil rose about $0.70 per barrel in May, mostly reflecting the influence of a tight gasoline market in the United States and the Brazilian oil workers' strike. However, oil prices worldwide fell sharply in June as the strike in Brazil was called off, as statements by OPEC officials implied higher impending OPEC production, and as fear of lower U.S. oil demand increased. Spot WTI continued to fall in July on perceptions of abundant supply, averaging $17.30 per barrel, compared with the second-quarter average of $19.35 per barrel. Currently, spot WTI is trading around $17.35 per barrel.

Prices of Merchandise Non-oil Imports and Exports

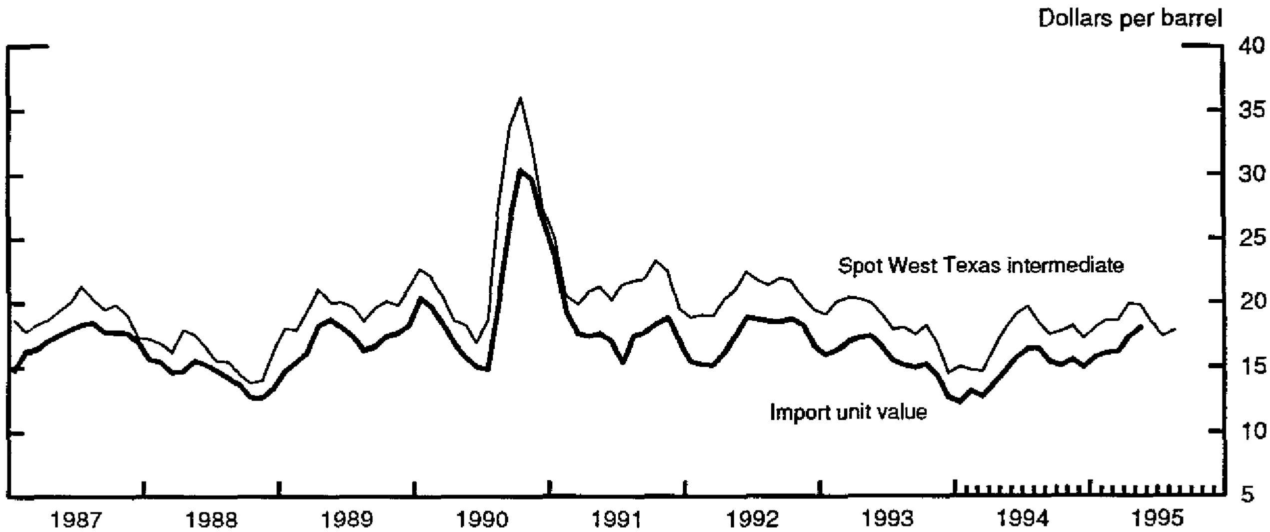
The prices of U.S. non-oil imports fell 0.1 percent in June, led by a decline in the prices for foods and industrial supplies. During the second quarter as a whole, the rate of increase in import prices rose above the first-quarter rate, returning to the pace seen in the second half of last year. Higher prices for imports in other categories were partially offset by lower prices for imported foods and computers.

The prices of U.S. exports in June rose modestly, as higher prices for exported agricultural products overwhelmed the fall in prices of exported industrial supplies and computers. In the second quarter, the prices of exported goods rose almost as sharply as in

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

	Annual Rates			Monthly Rates		
	1994	1995		1995		
	Q4	Q1	Q2	Apr	May	Jun
	-----------------BLS Prices-----------------					
Merchandise Imports	3.8	4.4	8.5	0.9	0.9	-0.4
Oil	-10.9	15.2	35.9	4.5	3.5	-3.4
Non-Oil	5.5	3.3	5.6	0.5	0.7	-0.1
Foods, Feeds, Bev.	7.9	-0.4	-3.8	-2.5	1.2	-0.8
Ind Supp Ex Oil	15.2	15.3	9.8	1.0	0.8	-0.3
Computers	-6.2	-3.5	-5.2	-0.1	-0.8	0.0
Capital Goods Ex Comp	2.6	0.6	9.5	1.2	1.0	0.1
Automotive Products	6.2	0.7	5.4	0.6	0.5	0.1
Consumer Goods	1.6	1.3	3.5	0.3	0.5	0.2
Memo:						
Oil Imports ($/bbl)	15.19	16.01	17.60	17.26	17.94	--
Merchandise Exports	5.9	8.6	7.1	0.9	0.3	0.2
Agricultural	7.0	11.8	16.6	2.0	0.5	1.4
Nonagricultural	5.9	8.3	6.0	0.8	0.2	0.1
Ind Supp Ex Ag	18.8	23.5	14.2	1.8	0.8	-0.3
Computers	-6.3	-5.6	-2.8	0.1	-0.4	-0.4
Capital Goods Ex Comp	0.0	3.0	3.4	0.5	0.1	0.3
Automotive Products	2.3	1.0	-0.1	0.0	0.0	0.2
Consumer Goods	1.2	1.9	2.6	0.2	0.2	0.0
	--------Prices in the NIPA Accounts--------					
Fixed-Weight						
Imports of Gds & Serv.	3.2	4.5	8.4	--	--	--
Non-oil Merch Ex Comp	5.4	3.6	5.9	--	--	--
Exports of Gds & Serv.	6.9	9.3	7.7	--	--	--
Nonag Merch Ex Comp	7.1	9.7	6.7	--	--	--

Oil Prices



the first quarter. Most of the increase was associated with prices of exported agricultural products and industrial supplies.

U.S. International Financial Transactions

Increases in foreign official assets in the United States were very large in the second quarter, as were private foreign purchases of U.S. securities, particularly Treasury securities. These capital inflows were partially offset by strong growth in U.S. net purchases of foreign securities and large outflows reported by banks.

Foreign official inflows increased substantially during the second quarter (line 1 of the Summary of U.S. International Transactions table), and partial data from the FRBNY indicate that substantial inflows continued in July. Early in the second quarter, G-10 intervention in the foreign exchange market (by Japan in particular) accounted for most of the increase in foreign official holdings in the United States. Subsequently, the marked increase in official holdings in May and June was concentrated in Russia and non-OPEC developing countries in Asia and Latin America. Throughout the quarter, Russian official dollar holdings in the United States rose as Russia purchased dollars to stem the appreciation of the ruble and received IMF disbursements. Despite press reports to the contrary, the U.S. data do not suggest that Asian nations diversified their foreign official holdings away from U.S. dollars in either the first or second quarters of 1995. Moreover, one Asian country added more than $3 billion to its holdings of U.S. corporate equities during the second quarter.

Foreign private net purchases of U.S. securities were very strong in the second quarter, particularly in May and June (line 4). Net private foreign purchases of U.S. Treasuries continued at the rapid first-quarter rate (line 4a). Japan accounted for almost half of these net purchases, but sizeable purchases were also recorded by the United Kingdom and Caribbean financial centers. During the

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

	1993	1994	1994		1995			
			Q3	Q4	Q1	Q2	May	June
Official capital								
1. Change in foreign official reserve assets in U.S. (increase, +)	70.4	37.3	19.2	-1.1	22.5	37.2	7.8	19.8
a. G-10 countries	30.1	28.9	8.9	-6.1	16.9	14.4	1.9	4.1
b. OPEC countries	-5.1	-3.3	3.3	.4	.4	-.2	-.9	.3
c. All other countries	45.5	11.7	7.0	4.6	5.2	23.0	6.7	15.4
2. Change in U.S. official reserve assets (decrease, +)	-1.4	5.3	3.5	-.2	-5.3	-2.7	-2.3	.8
Private capital								
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	17.2	105.3	10.7	18.9	-14.2	-20.5	-1.7	-28.8
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	105.8	94.5	20.6	36.5	46.1	50.8	21.6	20.4
a. Treasury securities[3]	24.8	34.6	5.6	26.0	30.1	30.2	14.7	11.5
b. Corporate and other bonds[4]	61.4	55.5	14.0	12.9	19.6	18.2	6.0	8.2
c. Corporate stocks	19.6	4.4	1.0	-2.4	-3.5	2.4	.9	.6
5. U.S. net purchases (-) of foreign securities	-143.1	-56.6	-10.0	-17.9	-7.9	-22.1	-7.9	-11.2
a. Bonds	-80.4	-9.3	-3.0	-8.5	-3.8	-12.2	-4.3	-7.1
b. Stocks	-62.7	-47.2	-7.0	-9.3	-4.1	-9.9	-3.6	-4.1
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-72.6	-49.4	-10.1	-11.9	-18.4	n.a.	n.a.	n.a.
7. Foreign direct investment in U.S.	41.1	49.4	19.7	19.6	9.8	n.a.	n.a.	n.a.
8. Other (inflow, +)[5]	46.5	-20.3	-1.6	-14.3	-10.9	n.a.	n.a.	n.a.
U.S. current account balance (s.a.)	-99.9	-151.2	-39.7	-43.3	-40.5	n.a.	n.a.	n.a.
Statistical discrepancy (s.a.)	36.0	-14.3	-12.1	13.7	19.4	n.a.	n.a.	n.a.

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

1. 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.
2. Includes commissions on securities transactions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.
3. Includes Treasury bills.
4. Includes U.S. goverment agency bonds.
5. 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.

second quarter, foreign private net purchases of U.S. corporate and agency bonds were most pronounced in May and June. New Eurobond issues by U.S. corporations remained strong in July. Foreign net purchases of U.S. stocks in the second quarter were positive, in contrast with net sales of U.S. equities by foreigners in the previous two quarters.

U.S. private net purchases of foreign securities (line 5) rose dramatically in June, continuing the strong rise recorded in May. U.S. interest in both foreign stocks and bonds was markedly greater than during the weak first quarter. U.S. net purchases of foreign bonds were concentrated in Europe and Canada, while purchases of foreign equities were concentrated in Europe and Japan. U.S. investors continued to show only limited interest in securities of most emerging markets.

Banks and securities dealers reported a large net capital outflow again in the second quarter (line 3). About one-third of the outflow was accounted for by RP transactions by securities dealers and may have contributed to the financing of large purchases of U.S. Treasury securities by foreigners during this period. Most of the remainder of the net capital outflow was concentrated on the books of foreign-based banks. Monthly average data on the net claims of U.S. banking offices on their own foreign offices and IBFs (line 1 of the International Banking Data table) show a smaller net outflow in the second quarter, but also indicate that banks in the United States stopped financing their asset expansion through borrowing from abroad.

INTERNATIONAL BANKING DATA[1]
(Billions of dollars)

	1992	1993	1994		1995			
	Dec.	Dec.	June	Dec.	Mar.	Apr.	May	June
1. Net claims of U.S. banking offices (excluding IBFs) on own foreign offices and IBFS	-71.6	-122.1	-175.4	-224.0	-242.7	-239.0	-243.2	-235.3
a. U.S.-chartered banks	17.0	4.2	-29.9	-70.1	-88.6	-85.5	-89.7	-88.7
b. Foreign-chartered banks	-88.6	-126.3	-145.5	-153.9	-154.1	-153.5	-153.6	-147.6
2. Credit extended to U.S. nonbank residents								
a. By foreign branches of U.S. banks	24.8	21.8	22.2	23.1	23.5	24.3	25.2	25.2
b. By Caribbean offices of foreign-chartered banks	n.a.	90.9	81.0	78.4	80.3	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	90.0	77.8	77.5	85.6	90.5	91.0	92.7	92.3
b. At the Caribbean offices of foreign-chartered banks	n.a.	79.2	81.1	86.0	96.2	n.a.	n.a.	n.a.
MEMO: Data as recorded in the U.S. international transactions accounts								
4. Credit extended to U.S. nonbank residents	195	202	202	198	n.a.	n.a.	n.a.	n.a.
5. Eurodeposits of U.S. nonbank residents	235	230	242	260	n.a.	n.a.	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

Foreign Exchange Markets

The weighted-average dollar has risen more than 5 percent, on net, since the July FOMC meeting. The dollar rose as economic data showed stronger U.S. economic activity than had been expected, U.S. long-term interest rates rose relative to European interest rates, and central banks bought dollars in several episodes of concerted intervention.

The dollar rose most sharply against the yen, gaining about 15 percent. In part, the dollar's rise against the yen may be seen as a reversal of the sharp yen rise during the first half of the year that seemed much greater than could be justified by fundamental factors. The dollar's recent rise against the yen centered on three days. On July 7, the Bank of Japan lowered its call money rate nearly 50 basis points to just above 3/4 percent, below the official discount rate of 1 percent. On August 2, the Japanese government announced regulatory changes designed to encourage capital outflow from Japan. On both days, the Bank of Japan purchased dollars in Tokyo (extremely heavily on August 2) and the FRBNY Foreign Exchange Desk intervened in New York for U.S. accounts

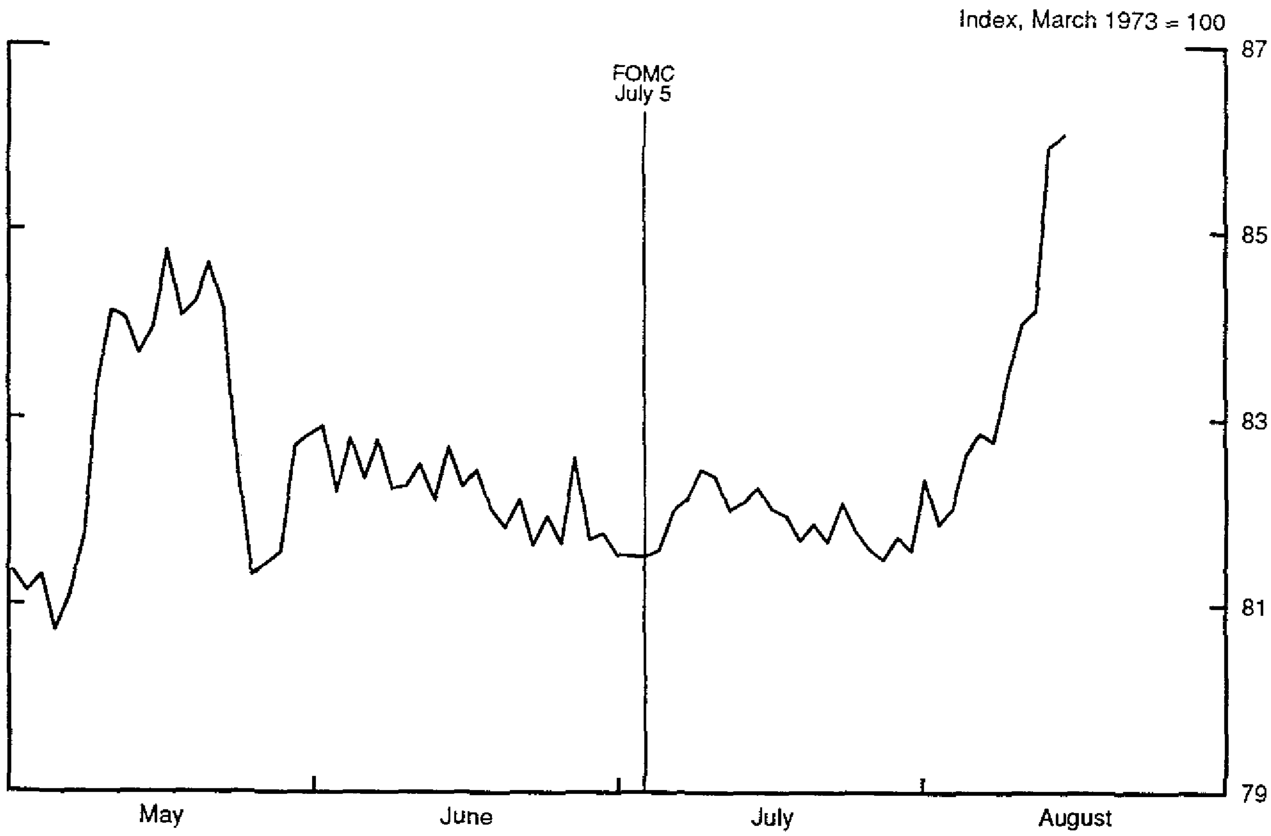
. On August 15

the Desk

intervened to buy dollars against both marks and yen

. The Japanese policy actions, together with the concerted intervention, may have been taken as a signal that the Japanese government is committed to a weaker yen and that it is prepared to take more substantial monetary policy measures to lower the yen's value if these measures do not succeed. However, the yen's recent decline has contributed to a 65 basis point rise in Japanese bond yields and an erosion of expectations for further monetary easing as embodied in Euroyen futures rates. Japanese stock price indexes rose about 20 percent during the intermeeting period, boosted by the depreciation of the yen.

Weighted Average Exchange Value of the Dollar
(Daily data)



Interest Rates in Major Industrial Countries

	Three-month rates			Ten-year bond yields		
	July 5	Aug.16	Change	July 5	Aug. 16	Change
			0.00			
Germany	4.50	4.40	-0.10	6.87	6.80	-0.07
Japan	1.17	0.90	-0.27	2.75	3.41	0.66
United Kingdom	6.81	6.78	-0.03	8.30	8.16	-0.14
Canada	6.81	6.95	0.14	7.98	8.38	0.40
France	6.49	5.85	-0.64	7.55	7.34	-0.21
Italy	10.94	10.44	-0.50	12.36	11.54	-0.82
Belgium	4.59	4.45	-0.14	7.50	7.26	-0.24
Netherlands	4.20	4.08	-0.12	6.96	6.84	-0.12
Switzerland	3.00	2.94	-0.06	4.65	4.54	-0.11
Sweden	9.57	9.36	-0.21	10.80	10.20	-0.60
United States	5.88	5.80	-0.08	6.19	6.57	0.38

Note. Change is in percentage points. p Preliminary

The dollar has gained nearly 7 percent against the German mark since the July FOMC meeting as German bond yields declined and Euromark futures came to imply a small further easing in the Bundesbank's RP rate beyond the 5 basis point reduction that took place last week. Subdued German inflation data for July made June's uptick look more like an aberration while money supply growth has remained below target.

Other European currencies have recovered against the mark, so that the dollar has risen less than 5 percent against the French franc, less than 3 percent against sterling, and less than 1 percent against the Italian lira. The gains of the peripheral European currencies relative to the mark are in part a recovery from earlier declines that were linked to political uncertainty or a general defensive shift into the mark. The French franc has now recovered what it lost in the runup to the French presidential election, even as French three-month interest rates were allowed to decline 65 basis points. The Italian lira has been helped by the passage of legislation to reform the pension system and by speculation that the Italian government may push for re-entry of the lira into the exchange rate mechanism as early as October.

. The lira had fallen as low as 1260 per mark in April.

The Mexican peso is about unchanged on net since the July FOMC meeting, and has settled into a narrow range of 6.10 to 6.20 for the past several weeks. Short-term cetes interest rates have declined about 5 percentage points to 35 percent. The ability of Mexican banks to raise funds at progressively lower interest rates has led to the repayment of most of the dollars borrowed by banks through the Bank of Mexico's

FOBAPROA window. Repayments of more than $1 billion since the July meeting have reduced outstanding FOBAPROA loans to about $200 million, down from an April peak of nearly $4 billion.

Developments in Foreign Industrial Countries

Economic activity in the major foreign industrial countries appears to be proceeding at a fairly sluggish pace, particularly in Japan, where monthly data on industrial production, housing starts, and machinery orders all fell during the second quarter. In Canada, recent data suggest that economic activity stagnated in the second quarter, and July marked the eighth consecutive month in which the level of employment remained relatively unchanged. Economic activity in the major European economies seems to be advancing a bit faster. Reliable German economic indicators are sparse, but on balance, point to continued moderate expansion. In France, recent production data are weak, but consumption expenditures surged in the second quarter owing to temporary subsidies on automobile purchases. Italian industrial production expanded in the second quarter, but overall growth probably moderated from its very strong first-quarter pace. In the United Kingdom, real GDP growth slowed a bit in the second quarter owing to weaker oil production.

Consumer price inflation has slowed in most of the major foreign industrial countries, in part as a result of lower oil prices. In July, consumer prices fell in Japan to a level about 1/4 percent below their year-earlier level. Consumer prices also fell in western Germany and France, bringing 12-month inflation rates to 2-1/4 percent and 1-1/2 percent, respectively. Inflation remained low in Germany and even lower in France. Consumer price inflation continued to edge up in the United Kingdom in June to about 2-3/4 percent, but moderated somewhat in Canada. Owing to lower prices for food and energy, Italian consumer price inflation receded somewhat in July, but remained above 5-1/2 percent.

Individual country notes. Second-quarter indicators for **Japan** point to continued weakness in private-sector activity. Industrial production, housing starts, and new machinery orders all fell in May, although new machinery orders were 10 percent above their year-ago level. In June, industrial production contracted again. The unemployment rate has remained at its post-war high of 3.2 percent since April, but the job offers/applicants ratio continued to decline in June, suggesting further deterioration in the labor market. One positive indicator is the number of new car registrations, which continued to recover in June.

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

	1994		1995				
	Q3	Q4	Q1	Q2	May	June	July
Industrial Production	1.7	1.6	1.6	0.0	-0.5	-0.7	n.a.
Housing Starts	-2.6	-0.1	-1.9	n.a.	-2.0	n.a.	n.a.
Machinery Orders	19.3	-1.7	5.1	n.a.	-9.5	n.a.	n.a.
New Car Registrations	6.0	-4.0	10.9	-8.9	5.9	3.8	n.a.
Unemployment Rate (%)	3.0	2.9	3.0	3.2	3.2	3.2	n.a.
Job Offers Ratio[1]	0.63	0.64	0.66	0.63	0.63	0.61	n.a.
Business Sentiment[2]	-39	-29	-21	-16	--	--	--
Consumer Prices[3]	-0.1	0.8	0.0	-0.1	-0.1	0.0	-0.2
Wholesale Prices[3]	-1.5	-1.2	-0.9	-1.7	-1.8	-1.8	-1.4

1. Level of indicator.
2. Percent of manufacturing firms having a favorable view of business conditions minus those with an unfavorable outlook.
3. NSA; percent change from previous year.

Japanese consumer prices fell in July to a level 0.2 percent below year-earlier levels. After falling for 5 consecutive months, wholesale prices rose 0.2 percent in July. Wholesale prices of domestic goods were flat, but imported goods prices rose 0.4 percent, partly as a result of the recent reversal of some of yen's depreciation over the past year.

Despite a sharp increase in the merchandise trade surplus, the Japanese current account balance declined slightly in June to just under $11 billion. For the first six months of 1995 the current account surplus was $61 billion (SAAR), down from $68 billion last year. In

July, the merchandise trade surplus dropped sharply to $8.1 billion, compared to $11.1 billion in July 1994.

Prime Minister Murayama's cabinet recently endorsed an increase of up to 4.2 percent in general budget expenditures for the upcoming fiscal year that is designed to spur economic recovery. Finance Minister Takemura also reaffirmed the government's intention to pass a second supplementary budget for the current fiscal year.

Failure of a large Tokyo credit union (Cosmo Shinyo Kumiai) created potential for a major financial market disturbance. However, efforts by the Ministry of Finance, the Bank of Japan, and the Tokyo government to provide funding and assurances that authorities were dealing effectively with problems in Japanese financial markets were received well and appear to have contained the crisis.

In **Germany**, limited available evidence suggests that the expansion is continuing, although at a slower pace than last year. Industrial production rose 1.3 percent in the second quarter following a sharp first-quarter decline that in part was a result of a recent change-over in statistical methods. Almost all of the second-quarter increase in production occurred in April; production was flat in May and declined in June. Retail sales also showed a mild improvement this spring after weakness in the first quarter, when demand probably was depressed by the reimposition of the solidarity income tax. However, sales stalled in May and dropped in June. The labor market remains stagnant; the west German unemployment rate edged back up to 8.3 percent in June and remained at that level in July. Improvement in the labor market in eastern Germany appears to have stalled as well, as the unemployment rate has been little changed since late last year. In contrast, capacity utilization in the west German manufacturing sector has continued to increase, and is now almost 3 percentage points above its previous fifteen-year average.

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

	1995						
	Q1	Q2	Mar	Apr	May	June	July
Industrial Production	-3.9	1.3	-3.4	2.5	0.1	-0.5	n.a.
Orders	-4.2	n.a.	0.0	-0.8	2.9	n.a.	n.a.
Unemployment Rate (%)[1]	9.3	9.3	9.3	9.3	9.3	9.4	9.4
Western Germany	8.2	8.2	8.2	8.2	8.2	8.3	8.3
Eastern Germany[1]	13.8	13.7	13.7	13.7	13.7	13.9	13.8
Capacity Utilization[2]	85.2	86.1	--	--	--	--	--
Production Plans[2,3]	16.3	1.3	14.0	1.0	4.0	-1.0	n.a.
Retail Sales[4]	-2.3	n.a.	-7.0	1.0	0.0	-3.0	n.a.
Consumer Prices[2,4]	2.3	2.3	2.3	2.3	2.2	2.4	2.3

1. Seasonally adjusted by the staff.
2. Western Germany.
3. Percent of manufacturing firms planning to increase production in the next three months less those planning to decrease production.
4. NSA; percent change from previous year.

Forward-looking indicators are mixed. Data on new orders for manufactured goods were a little more than 1 percent above the first-quarter level on average in April and May. The improvement was more than accounted for by domestic orders, as foreign orders fell. At the same time, firms have become noticeably less optimistic about future prospects since the beginning of the year, with the net percentage of firms expecting to increase production in the next three months turning slightly negative in June for the first time since the end of 1993.

Consumer price inflation on a year-over-year basis averaged 2.3 percent in the first and second quarter, and after a slight uptick in June, returned to that level in July. The appreciation of the DM earlier this year had a beneficial impact on import prices that has helped to offset the impact of wage acceleration.

The German cabinet approved a draft of the 1996 budget on July 5 that includes a 5-1/2 percent reduction in expenditures, largely as a result of the partial transfer of family assistance programs to states and municipalities. On balance, however, the draft budget entails an increase in the budget deficit because of court-ordered tax cuts that are also included.

In **France**, available monthly indicators for the second and third quarters are mixed. The average level of industrial production in April and May was roughly unchanged from the level in the first quarter. Capacity utilization remained constant in the second quarter, at a level well below its recent cyclical peak. However, employment continued to increase in the second quarter, contributing to a decline in the unemployment rate. Surveys of business confidence taken in July and August suggest output growth has been modest this summer.

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

	1994	1995					
	Q4	Q1	Q2	Apr	May	June	July
Industrial Production	-0.0	1.2	n.a.	-2.0	2.1	n.a.	n.a.
Capacity Utilization	84.2	84.8	84.8	--	--	--	--
Unemployment Rate (%)[1]	12.0	11.8	11.6	11.6	11.6	11.5	n.a.
Consumption of Manufactured Product	-0.1	-0.1	2.8	0.7	1.6	4.0	n.a.
Consumer Prices[2]	1.6	1.7	1.6	1.6	1.6	1.6	1.5

1. Break in series starting in March due to annual benchmark revision. Historical data are not yet available.
2. NSA; percent change from previous year.

Consumption of manufactured products rose sharply in the second quarter, but this increase was entirely due to a surge in automobile purchases before the end-of-June expiration of government incentives to purchase cars.

Consumer prices fell in July, causing a slight decline in the 12-month rate of inflation. However, the rise in the VAT that took effect August 1 is expected to boost the consumer price index by 0.9 percent. Hourly wages in the second quarter were 2.8 percent above their year-earlier level after rising 2.6 percent in the first quarter. Moreover, the 4 percent rise in the French minimum wage on July 1 is likely to contribute to a further pick up in wage inflation in the third quarter.

Second-quarter data for **the United Kingdom** suggest a continued moderate pace of growth. Real GDP rose a preliminary 2.3 percent (SAAR), while GDP excluding oil and gas extraction rose 2.7 percent. Industrial production was little changed due to the decline in oil and gas extraction, although manufacturing output expanded 0.4 percent. Retail sales rose 0.3 percent after falling in the first quarter, and were up 0.6 percent from their second-quarter average level in July. Unemployment stabilized during the second quarter at 8.3 percent and remained at that rate in July. Production plans (revealed in business surveys) have fallen from their first-quarter peak but were fairly strong in July. Consumer confidence (NSA) dropped to its lowest level in 2-1/2 years in the second quarter but improved somewhat in July.

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

	1994	1995					
	Q4	Q1	Q2	Apr	May	June	July
Real GDP, AR	2.8	2.7	2.3	--	--	--	--
Non-oil Real GDP, AR	2.7	2.3	2.7	--	--	--	--
Industrial Production	-0.1	0.8	0.1	-0.6	0.1	-0.4	n.a.
Retail Sales	0.2	-0.2	0.3	-0.1	0.0	0.4	0.4
Unemployment Rate (%)	8.8	8.5	8.3	8.3	8.3	8.3	8.3
Consumer Prices[1]	2.2	2.7	2.7	2.6	2.7	2.8	n.a.
Producer Input Prices[2]	8.4	11.6	11.0	12.0	10.8	10.4	10.3

1. Retail prices excluding mortgage interest payments. NSA; percent change from previous year.
2. NSA; percent change from previous year.

After rising rapidly from a low of 2 percent in October 1994, consumer price inflation has remained fairly stable this year. In June, targeted inflation, measured as the 12-month change in retail prices excluding mortgage interest payments, was 2.8 percent. Although producer input prices have risen considerably this year, their growth has slowed somewhat recently, while average earnings inflation has remained steady. In addition, expectations of price increases in the CBI survey have fallen back considerably since their peak in January.

In **Italy**, first-quarter GDP rose 6.1 percent (SAAR) as a result of an exceptionally large rise in exports of goods and services. Final domestic demand was about flat and inventories made a large negative contribution. These data should be regarded as preliminary and are likely to be revised substantially--as has occurred in past quarters. The new system for collecting data on intra-EU trade, in which data are derived from VAT forms rather than custom posts, has made export and import data much less reliable.

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

	1993	1994	1994			1995
	Q4/Q4	Q4/Q4	Q2	Q3	Q4	Q1
GDP	-0.3	2.9	3.6	5.7	0.8	6.1
Private Consumption	-1.2	2.1	2.2	2.0	1.7	0.4
Investment	-11.0	2.9	2.2	-0.9	6.3	3.0
Government Consumption	0.0	0.5	0.7	1.1	0.5	-2.1
Exports	11.1	10.0	6.4	20.4	-2.1	34.2
Imports	-5.0	15.1	7.6	19.7	14.8	5.9
Total Domestic Demand	-4.3	4.2	3.8	5.4	5.7	-1.5
Net Exports (contribution)	4.2	-1.3	-0.3	0.3	-4.8	7.5

In the second quarter, monthly indicators suggest that growth is continuing, although probably at a more moderate pace. Industrial production rose 1.2 percent on average in the second quarter, but fell in May and rose only slightly in June. Consumer confidence increased over the course of the second quarter while the unemployment rate fell.

ITALIAN ECONOMIC INDICATORS
(Percent change from previous period except where noted, SA)

	1994	1995					
	Q4	Q1	Q2	Apr	May	June	July
Industrial Production	1.4	0.1	1.2	0.8	-1.1	0.2	n.a.
Cap. Utilization (%)	77.6	78.2	78.6	--	--	--	--
Unemployment Rate (%)	11.9	12.2	11.9	--	--	--	--
Consumer Confidence[1]	112.7	112.2	113.2	109.7	114.8	115.2	116.5
Bus. Sentiment[2] (%)	20	30	n.a.	23	16	n.a.	n.a.
Consumer Prices[3]	3.8	4.4	5.5	5.2	5.5	5.8	5.6
Wholesale Prices[3]	4.6	7.5	n.a.	11.3	11.4	n.a.	n.a.

1. Level of index, NSA.
2. Percent of manufacturing firms having a favorable view of business conditions minus those with an unfavorable outlook.
3. NSA; percent change from previous year.

Year-over-year inflation slowed in July owing to declines in food and gasoline prices following a sharp acceleration in the second quarter. However, the 12-month rise in consumer prices excluding food and energy was 5.8 percent in July. The second-quarter increase in inflation reflects the large increases in intermediate goods prices that resulted from the dip in the value of the lira earlier this year. Wage inflation has not increased significantly and was 2.8 percent on a year-over-year basis in the second quarter.

On August 4, the Italian parliament approved a reform of the Italian pension system that is projected to save $60 billion over 10 years. The reform gradually shifts the system from one in which pensions are based on earnings to one in which they are based on contributions. It also gradually increases to 40 the number of years that a person must work to retire on a full pension.

After a sharp deceleration in the first quarter, economic activity in **Canada** remained weak. Industrial production and retail sales picked up in April and May, but on average were little changed from the first quarter. Manufacturing shipments and new orders fell in June, reversing slight gains made in May; second-quarter average levels were below their first-quarter levels. Housing starts fell again in July to their lowest level since September 1982. Employment declined slightly in July, the eighth consecutive month with little change in employment. Business confidence declined sharply in the second quarter, while the index of consumer attitudes remained well below pre-recession levels. Consumer price inflation fell in June, in part as a result of lower prices for durable goods and gasoline.

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

	1994	1995					
	Q4	Q1	Q2	Apr	May	June	July
Industrial Production	1.9	0.8	n.a.	0.3	0.4	n.a.	n.a.
Manufacturing Survey:							
Shipments	4.9	3.6	-1.3	-0.8	0.7	-0.4	n.a.
New Orders	4.3	3.4	-0.3	-0.9	0.1	-1.9	n.a.
Retail Sales	2.1	-0.1	n.a.	0.3	0.6	n.a.	n.a.
Housing Starts	-8.7	-10.0	-14.9	3.0	-10.1	13.1	-15.5
Employment	0.7	0.3	0.1	0.0	0.0	0.1	-0.1
Unemployment Rate (%)	9.7	9.7	9.5	9.4	9.5	9.6	9.8
Consumer Prices[1]	0.0	1.6	2.7	2.5	2.9	2.7	n.a.
Consumer Attitudes	-1.3	-11.1	0.4	--	--	--	--
Business Confidence[2]	2.4	-0.7	-12.3	--	--	--	--

1. Percent change from year earlier.
2. NSA.

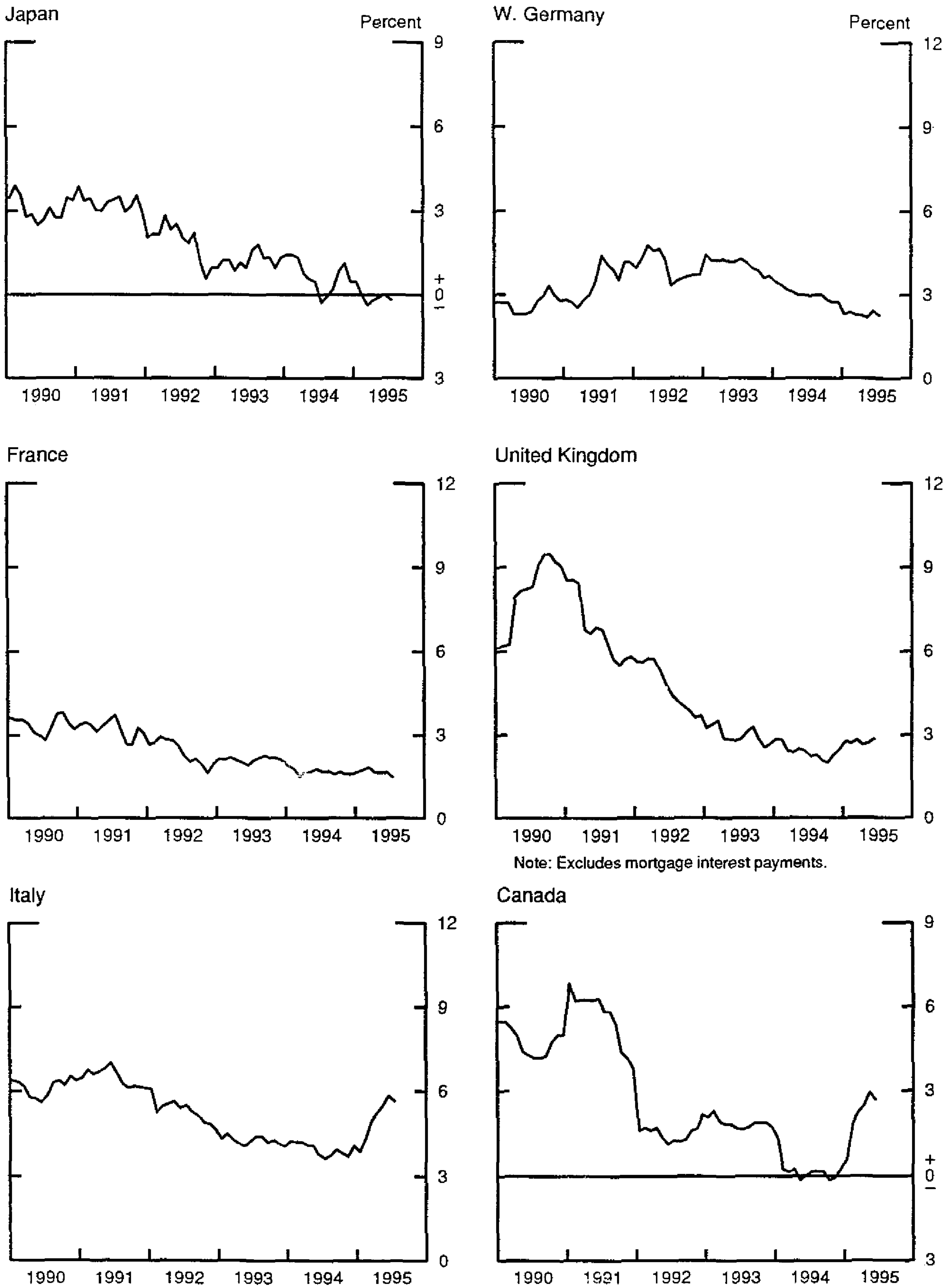
EXTERNAL BALANCES
(Billions of U.S. dollars, seasonally adjusted)

	1994	1994	1995					
		Q4	Q1	Q2	Apr	May	June	July
Japan: trade	121.0	31.4	27.4	32.6	11.1	10.4	11.1	8.1
current account	129.5	29.5	29.6	n.a.	8.2	10.6	n.a.	n.a.
Germany: trade	45.0	11.6	14.8	n.a.	5.5	5.3	n.a.	n.a.
current account[1]	-21.1	-5.4	-2.5	n.a.	-1.2	-0.1	n.a.	n.a.
France: trade	15.4	5.1	6.0	n.a.	2.5	n.a.	n.a.	n.a.
current account[1]	0.8	3.4	n.a.	n.a.	--	--	n.a.	n.a.
U.K.: trade	-16.2	-4.7	-3.1	n.a.	2.1	-1.4	n.a.	n.a.
current account	-2.5	-0.8	-0.6	n.a.	--	--	--	--
Italy: trade	21.8	3.4	7.4	n.a.	2.2	n.a.	n.a.	n.a.
current account[1]	15.6	4.8	2.6	7.8	1.7	3.2	2.9	n.a.
Canada: trade	11.0	4.0	4.1	n.a.	1.3	0.7	n.a.	n.a.
current account	-16.3	-2.9	-2.8	n.a.	--	--	--	--

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

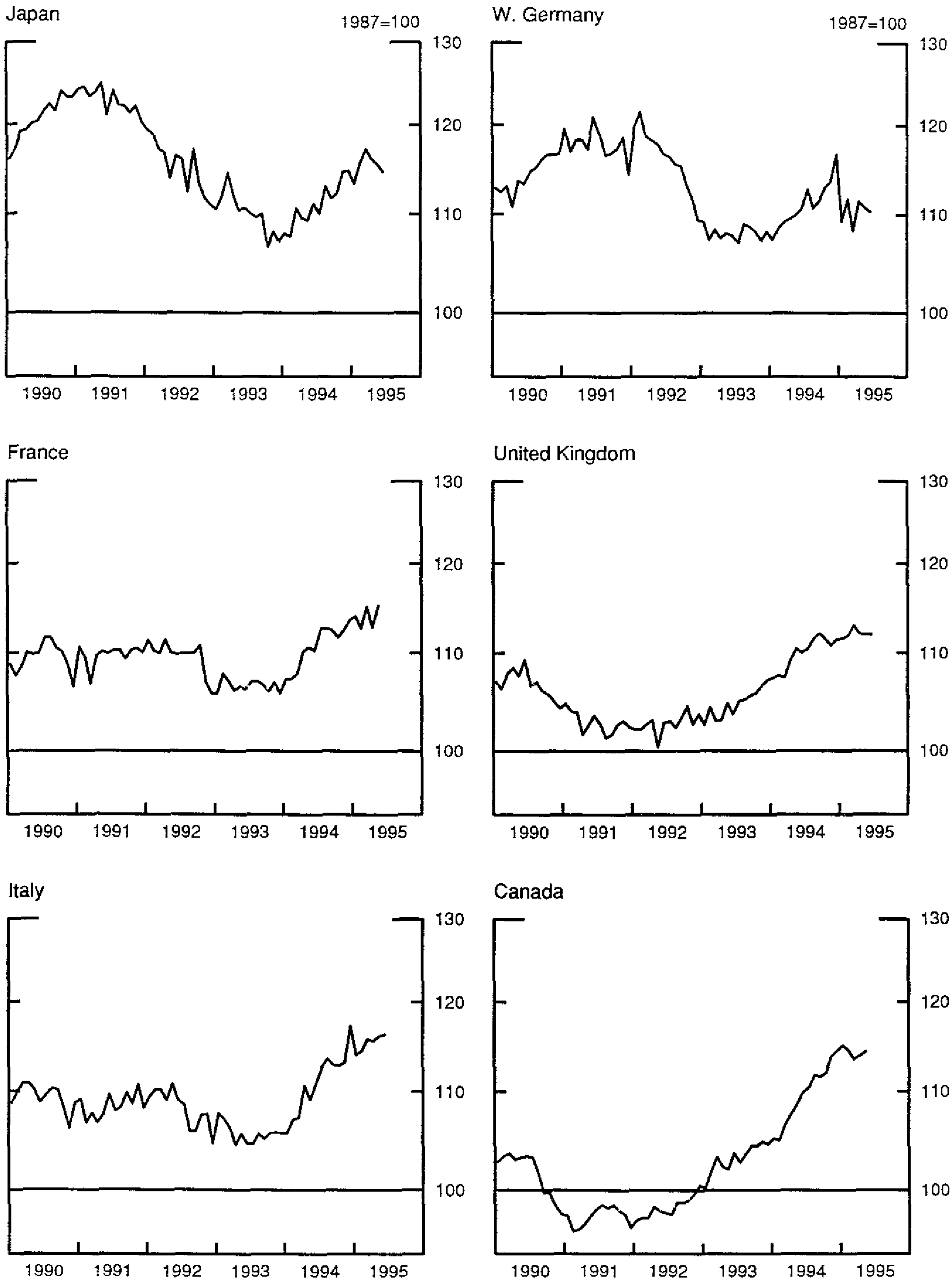
Consumer Price Inflation in Selected Industrial Countries

(12-month change)



Industrial Production in Selected Industrial Countries

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



Economic Situation in Other Countries

Economic activity in Mexico and Argentina contracted considerably in the second quarter, and growth appears to have slowed in Brazil. Growth has remained strong in the major Asian developing countries, although the pace has moderated recently in some cases. In Russia, the decline in economic activity continued to abate.

In Mexico and Argentina, strong export growth during the first half of 1995 partly offset the contraction in domestic demand. In Brazil, import growth was extremely high, reflecting purchases in anticipation of a possible collapse of the fixed exchange rate policy. Both exports and imports grew rapidly in the Asian developing countries.

Over the intermeeting period, financial conditions improved in Mexico, Argentina, and Brazil, perhaps reflecting reduced concerns in the latter two countries about the sustainability of their fixed exchange rate policies. Stock market prices rose 20 percent in Argentina and 10 percent in Brazil. In Mexico, stock prices rose 14 percent in local currency, and 20 percent in dollar terms. Stripped spreads on Brady par bonds decreased about 80 basis points in Argentina, 100 basis points in Mexico, and 160 basis points in Brazil.

Individual country notes. In **Mexico**, economic activity contracted significantly in the second quarter. Late August 15, the Mexican government announced that real GDP fell 10.5 percent in the second quarter on a year-over-year basis, a steeper decline than what the government had previously indicated. The components of Q2 real GDP have not yet been released. The weakening of economic activity, along with the recent stability of the peso in foreign exchange markets, has supported the continued decline of monthly consumer price inflation.

Mexico's net export performance has remained strong. Over the first half of 1995, exports were 33 percent above their year-earlier level, while imports were down 6 1/2 percent.

MEXICAN ECONOMIC INDICATORS
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	May	Jun	Jul
Real GDP	3.5	-0.6	-10.5	--	--	--
Industrial Production (s.a.)	3.8	-0.7	-1.1	-8.9	--	--
Unemployment Rate (%)	3.2	5.2	--	6.6	6.6	--
Consumer Prices[1]	7.1	14.5	16.1	4.2	3.2	2.0
Current Account[2]	-28.9	-1.2	--	--	--	--
Trade Balance[2]	-18.5	0.6	2.4	0.9	0.6	--
Imports[2]	79.4	18.2	17.0	6.0	6.0	--
Exports[2]	60.8	18.8	19.5	7.0	6.6	--

1. Percentage change from previous period.
2. Billions of U.S. dollars, n.s.a.

On July 10, Mexico sold $1 billion in United Mexican States (UMS) two-year notes, the first offering by Mexico's central government since the devaluation. The notes carry a floating interest rate of 5-3/8 percent over LIBOR and are exchangeable for capital in Mexican banks seeking recapitalization or for shares in companies being privatized. The amount of the offering initially was set at $500 million, but was doubled in response to heavy demand. Mexico subsequently issued about $570 million in yen-denominated UMS three-year notes on July 26.

Mexico violated its end-June performance criteria under its IMF program for both net international reserves (NIR) and net domestic assets (NDA). However, these violations reflected the use of reserves--including drawings on the IMF--to retire Tesobonos rather than stimulatory domestic credit expansion. Therefore, on June 30 the IMF's Executive Board agreed to grant Mexico a waiver, clearing the way for a $2 billion IMF disbursement in the first week of July, along with a $2.5 billion drawing on the U.S. Treasury's ESF. In mid-August, Mexico became eligible for a further $1.7 billion disbursement from the IMF, based on successful compliance with new end-July criteria for NDA and NIR approved by the Executive Board on June 30. As a result of drawings on official lines of credit, improved access to private capital markets, and strong trade performance, Mexico's gross international reserves rose from $6.9 billion at end-March 1995 to $13.3 billion as of August 4.

In **Brazil**, mounting evidence suggests that economic activity has slowed in recent months. Industrial output (s.a.) fell sharply in May 1995, owing mostly to temporary disruptions accompanying the oil workers' strike, but anecdotal accounts suggest that activity has not fully recovered since then. Monthly inflation has remained relatively low. In late July and early August, the Central Bank reduced the overnight interest rate from 61 percent to 57 percent and eased credit controls in response to the slowdown in economic activity.

BRAZILIAN ECONOMIC INDICATORS
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	April	May	Jun
Real GDP	5.7	10.5	--	--	--	--
Industrial Production (s.a.)[1]	7.8	-1.2	--	-1.7	-11.7	--
Open Unemployment Rate (%)	5.1	4.0	4.5	4.4	4.5	4.6
Consumer Prices[1]	929	4.1	6.9	2.5	2.1	2.2
Current Account[2]	-1.5	--	--	--	--	--
Trade Balance[2]	10.5	-2.3	-2.0	-0.5	-0.7	-0.8

1. Percentage change from previous period.
2. Billions of U.S. dollars, n.s.a.

Brazil continued to record trade deficits through June. Over the first half of 1995, exports rose by 5 percent while imports nearly doubled.

In June and July, large net private capital inflows and the issuance of $1.6 billion in Central Bank Euroyen and Euromark bonds raised international reserves substantially, reaching $41 billion (liquidity concept) at the end of July. Strong net capital inflows prompted the Central Bank in August to reimpose several restrictions on capital inflows.

On August 11, the Central Bank took over Banco Economico, Brazil's eighth largest commercial bank, and two other banks. This brings the number of banks taken over since the start of the stabilization program to 21 out of a total of 250 banks. The Central Bank stated that Banco Economico's takeover was aimed at ensuring the liquidity of the financial system. However, the takeovers are symptomatic of underlying problems in the banking system. When Banco Economico reopens for business on August 18, withdrawals will be limited to $5,300.

Some progress towards economic reform was made with the privatizations of Esclesa, a power distributor, in July, and Copene, a petrochemical producer, in August. Also, in early August, the Senate approved constitutional amendments opening the transportation and natural gas sectors to direct foreign investment and ending the government's monopoly on telecommunications.

In **Argentina**, economic activity contracted in the second quarter. The unemployment rate reached a record level in May 1995. The fall in economic activity contributed to a rapid turnaround in Argentina's trade deficit. In the first half of 1995, exports rose by 44.5 percent over a year earlier while imports declined by 6.5 percent. Consumer price inflation remained low.

ARGENTINE ECONOMIC INDICATORS
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	Apr	May	Jun
Real GDP	7.1	2.6	--	--	--	--
Industrial Production	2.7	3.5	-4.0	-3.7	-3.4	-5.1
Unemployment Rate (%)[2]	11.7	--	--	--	18.6	--
Consumer Prices[1]	3.9	0.8	0.3	0.5	0.1	-0.2
Current Account3	-9.9	--	--	--	--	--
Trade Balance3	-4.0	0.0	1.9	0.4	0.8	0.7

1. Percentage change from previous period.
2. Unemployment figures available only in May and October of each year. The figure for 1994 is the average of the two surveys.
3. Billions of U.S. dollars, n.s.a.

Argentina's fiscal situation remains difficult, particularly in some provinces, where fiscal austerity measures and delays in salary and pension payments to public employees led to riots in late June. In early August, the Menem administration announced a package aimed at reducing unemployment that includes controversial cuts in employers' contributions to social security programs.

Almost half of the roughly $8 billion in deposits that fled the Argentine banking system in the aftermath of the Mexican peso crisis has returned. Of the twelve financial institutions that were forced to suspend operations, five are undergoing liquidation, and the rest have been acquired by other banks. Argentina returned to international capital markets in July, for the first time since the Mexican peso crisis, when it issued a DM 1 billion five-year Eurobond at a 9.25 percent coupon rate. The money will be used to buy back public debt. Gross international reserves stood at $15 billion as of August 2, of which $2 billion are in dollar-denominated Bonex bonds. The monetary base was $12 billion, leaving $3 billion in excess reserves.

In **China**, real GDP growth slowed somewhat, and consumer price inflation continued a downward trend. Analysts attribute the fall in inflation to good weather, leading to smaller increases in food prices, and to price controls; all money and credit aggregates showed rapid growth.

CHINESE ECONOMIC INDICATORS
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	May	Jun	Jul
Real GDP[1]	11.8	11.2	10.3	--	--	--
Industrial Production	22.0	19.5	--	15.6	--	--
Consumer Prices	25.5	21.3	18.3	20.3	18.2	16.7
Current Account[2]	7.7	--	--	--	--	--
Trade Balance[2,3]	5.2	7.1	6.1	1.3	3.1	--

1. Cumulative from the beginning of the year
2. Billions of U.S. dollars, n.s.a.
3. Customs basis, with exports f.o.b. and imports c.i.f.

China's trade surplus widened in the first half of 1995, as exports rose 44 percent and imports rose 15 percent relative to the first half of 1994. Foreign direct investment in China was $16 billion, up slightly from the year earlier. Foreign-exchange reserves rose considerably in the first half of 1995, reaching $62 billion at the end of June.

In **Taiwan**, the growth of industrial production slowed in the second quarter from a rapid rate in the first quarter. In the first seven months of 1995, the trade surplus was down slightly from the same period in 1994; exports rose 23 percent from a year earlier, while imports rose 26 percent.

TAIWAN ECONOMIC INDICATORS
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	May	June	Jul
Real GDP	6.5	7.0	--	--	--	--
Industrial Production	6.6	8.3	2.8	3.5	3.5	--
Consumer Prices[1]	2.6	3.9	4.7	3.3	4.7	3.8
Current Account[2]	6.0	1.2	--	--	--	--
Trade Balance[2]	12.0	1.5	0.3	0.8	-0.5	0.7

1. Percentage change from previous period.
2. Billions of U.S. dollars, n.s.a.

Two banking scandals hit Taiwan in early August, shaking financial markets. The currency depreciated 3 percent against the dollar, and the stock market fell 14 percent during the first week of August. Since then, however, financial markets appear to have stabilized.

Real economic activity in **Korea** continued to expand briskly during the second quarter of 1995, while consumer price inflation remained relatively low. Rapid growth has been accompanied by a substantial deterioration in Korea's external balance. Although exports increased by 35 percent during the first half of 1995 from a year earlier, buoyed in part by a real depreciation of the won, imports increased by 38 percent. As a result, the current account deficit widened in the first half of 1995 to 3 percent of GDP.

Korea began implementing the third phase of its interest rate deregulation plan in late July. Interest rates on short-term time deposits have been deregulated, and financial institutions are now allowed greater latitude in determining the maturity and duration of money market instruments.

KOREAN ECONOMIC INDICATORS
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	Apr	May	Jun
Real GDP	8.4	9.9	--	--	--	--
Industrial Production	10.7	14.0	13.0	14.1	12.1	10.0
Consumer Prices	5.6	4.7	4.3	5.1	5.1	4.3
Current Account[1]	-4.7	-3.8	-2.0	-0.8	-0.9	-0.3
Trade Balance[1]	-3.1	-2.6	--	-0.6	-0.6	--

1. Billions of U.S. dollars, n.s.a.

In **Russia**, the rate of decline in economic activity continued to abate, and monthly consumer price inflation fell in July. Monetary aggregates, however, have grown rapidly in recent months, generating fears of a resurgence in inflation. The monetary base expanded at an average rate of 13 percent a month during the second quarter, reflecting the Central Bank's dollar purchases to stem upward pressures on the ruble. Official net international reserves were $7.3 billion in June, more than twice their March level.

RUSSIAN ECONOMIC INDICATORS
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	May	Jun	Jul
Real GDP	-15	-5	-2	1	-1	--
Industrial Production	-21	-5	-3	-1	0	2.0
Consumer Prices[1]	10	13	8	8	7	5
Ruble Depreciation[1]	9	10	-3	-3	-10	-3
Current Account[2]	-3.5	--	--	--	--	--
Trade Balance[2]	8.9	--	--	--	--	--

1. Monthly Rate.
2. Billions of U.S. dollars, excludes intra-FSU transactions.

In early July, an exchange rate band was introduced to slow the ruble's rapid appreciation. On August 15, the ruble-dollar exchange rate closed at 4405, near the "upper" (most appreciated) limit. Since late April 1995, the ruble has appreciated against the dollar about 40 percent in real terms, but is still considered to be substantially undervalued. The Russian authorities have indicated that the exchange rate band will remain in place until October 1.

Russia has successfully completed three monthly reviews under its IMF stand-by arrangement, as all of the program's quantitative indicative targets were satisfied, although money growth has been faster than anticipated under the program. Notably, the fiscal deficit for the first half was 3.5 percent of GDP, well below the program ceiling.