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Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

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[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

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Confidential (FR) Class III FOMC

Part 2

March 21, 1996

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

Confidential (FR) Class III FOMC

March 21, 1996

RECENT DEVELOPMENTS

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DOMESTIC NONFINANCIAL DEVELOPMENTS

Despite storms, strikes, shutdowns--and inventory imbalances--the economic expansion evidently survived the winter. Employment and industrial production surged in February to levels that suggest that real GDP will post a decent gain in the first quarter after almost stalling out in the preceding quarter. Meanwhile, inflation has remained on a fairly steady trend, with the core CPI continuing to run in the vicinity of 3 percent on a twelve-month basis.

The General Motors Strike

The UAW has announced an end to the strike at Delphi Chassis Systems, which produces brake systems for General Motors. The strike, which began on March 5, forced GM to shut down virtually all of its North American assembly plants and severely curtail parts production. Outsourcing of parts production was the main issue in dispute. In total, GM had furloughed about 175,000 North American workers; layoffs at GM's suppliers were also beginning to mount but are difficult to estimate.[1] The union will vote on the agreement on March 23.

Confidential information from GM indicates that the strike reduced production about 2 million units at an annual rate. The staff forecast assumed that assembly line workers would be back on the job on March 25 and that production for the industry as a whole would total 9.7 million units in March, more than 2 million units below the industry's pre-strike schedules. (As the Greenbook was

1. About 38,000 workers were off their jobs for the entire pay period covered by the March employment survey and will show up as reduced employment in the report; another 40,000 to 50,000 workers were off for part of the period and thus will show up as having shortened workweeks. The strike was a key factor in the 32,000 increase in initial claims for unemployment insurance in the week ended March 16, but its full effect has not yet shown through to the claims data. Analysts at the Department of Labor suspect that some states have been slow to process the surge in claims and expect to see either a revision to data for the week ended March 16 or a bulge in claims this week.

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

	1994	1995	1995 Q2	1995 Q3	1995 Q4	1995 Dec.	1996 Jan.	1996 Feb.
	------------Average monthly changes---------							
Nonfarm payroll employment[2]	294	144	82	128	142	145	-188	705
Private	273	135	70	116	139	117	-159	663
Manufacturing	30	-14	-32	-35	-5	35	-75	26
Durable	25	3	-12	-8	12	54	-28	18
Nondurable	5	-17	-20	-27	-17	-19	-47	8
Construction	30	11	-9	11	12	2	17	121
Trade	75	32	24	42	44	14	-57	182
Finance, insurance, real estate	4	6	-3	9	15	10	2	25
Services	117	93	87	88	67	63	-44	287
Business services	46	26	6	52	19	34	-31	126
Total government	21	9	12	12	3	28	-29	42
Private nonfarm production workers	242	115	54	103	109	105	-184	618
Manufacturing production workers	31	-11	-31	-26	-3	34	-69	22
Total employment[3]	261	32	-180	157	-18	-81	245	437
Nonagricultural	225	51	-113	190	-15	-83	42	445
Memo:								
Aggregate hours of private production workers (percent change)	.4	.1	.0	.2	.0	-.3	-2.0	3.2
Average workweek (hours)	34.7	34.5	34.4	34.5	34.4	34.3	33.7	34.5
Manufacturing (hours)	42.0	41.6	41.5	41.5	41.4	41.2	39.9	41.6

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

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

	1994	1995	1995 Q2	1995 Q3	1995 Q4	1995 Dec.	1996 Jan.	1996 Feb.
Civilian unemployment rate (16 years and older)	6.1	5.6	5.7	5.6	5.5	5.6	5.8	5.5
Teenagers	17.6	17.3	17.2	17.7	17.6	18.0	18.2	16.6
20-24 years old	9.7	9.1	8.9	9.5	9.2	9.2	10.0	9.9
Men, 25 years and older	4.8	4.3	4.4	4.3	4.2	4.3	4.2	4.2
Women, 25 years and older	4.9	4.4	4.5	4.4	4.3	4.3	4.4	4.3
Full-time workers	6.1	5.5	5.5	5.5	5.5	5.5	5.7	5.4
Labor force participation rate	66.6	66.6	66.7	66.6	66.4	66.3	66.6	66.6
Teenagers	52.7	53.5	53.8	53.4	52.9	53.0	52.7	52.5
20-24 years old	77.0	76.6	76.9	76.2	76.1	76.0	76.2	76.7
Men, 25 years and older	76.0	76.0	76.0	75.9	75.6	75.5	75.8	76.0
Women, 25 years and older	58.1	58.3	58.2	58.4	58.5	58.4	58.4	58.3

going to press, we learned that the reopening of the GM plants may stretch over the coming week, which would shave another 1/4 to 1/2 million units from March production.)

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

		1996			
				Mar.	
	1995:Q4	Jan.	Feb.	Sched.	Est.[1]
U.S. production	11.7	11.2	11.9	11.9	9.7
Autos	6.1	5.7	6.1	5.7	4.6
Trucks	5.6	5.5	5.9	6.2	5.1

1. Staff estimate based on weekly production data through March 16 and latest industry schedules adjusted to reflect confidential GM estimate of production lost because of the strike.

In contrast to Chrysler and Ford, GM had fairly high inventories at the end of February--its dealers had a seventy-seven-day supply of cars and a sixty-eight-day supply of trucks, measured using a three-month average of sales. Thus, the strike is not likely to have much effect on sales in March. Rather, it allowed GM to accelerate an inventory adjustment that probably would have occurred in the second quarter in the absence of the strike.

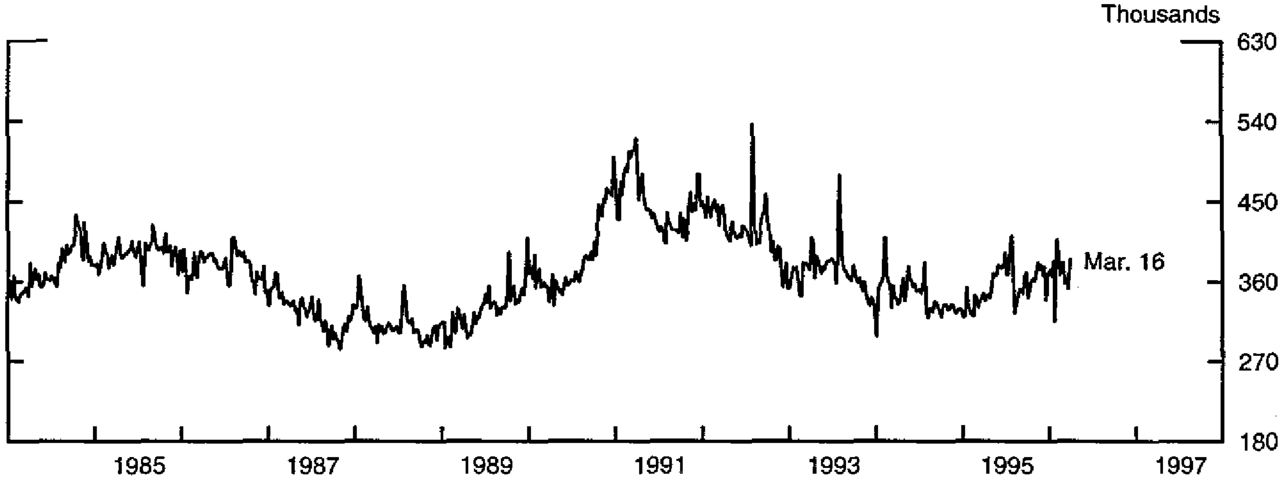
We estimate that the strike will subtract about a percentage point from the growth in industrial production in March. We also expect it to reduce real GDP growth about 3/4 percentage point at an annual rate in the first quarter.

Labor Market Developments

The labor market report for February was very strong: Payroll employment and aggregate hours soared, reaching levels substantially above those recorded in December, and the unemployment rate fell back to around its year-end level. However, it seems likely that the December-February movements overstate the underlying strength of labor demand. The resurgence in hiring by suppliers of

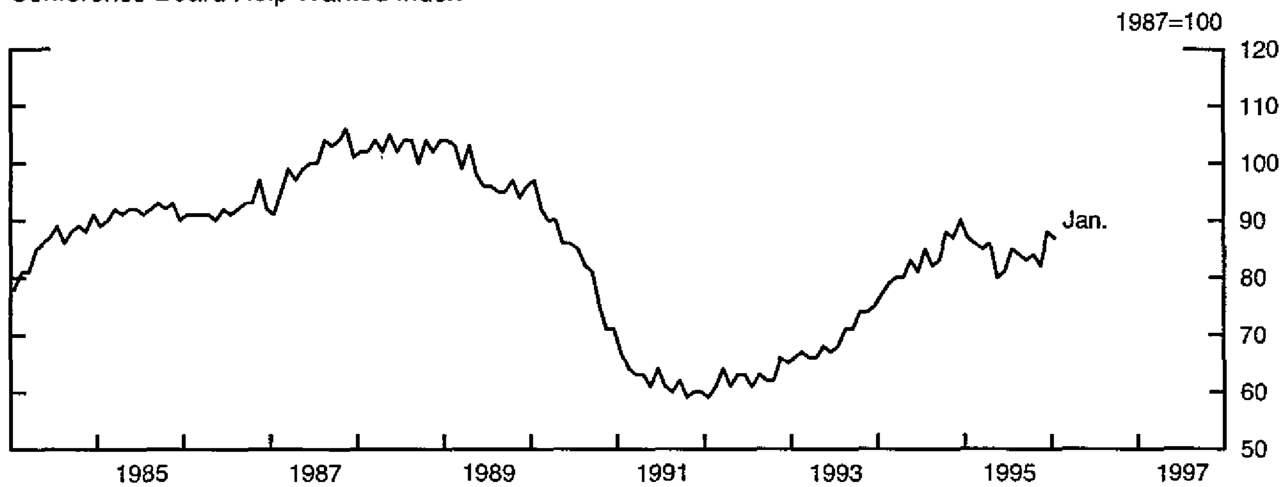
Labor Market Indicators

Initial Claims for Unemployment Insurance

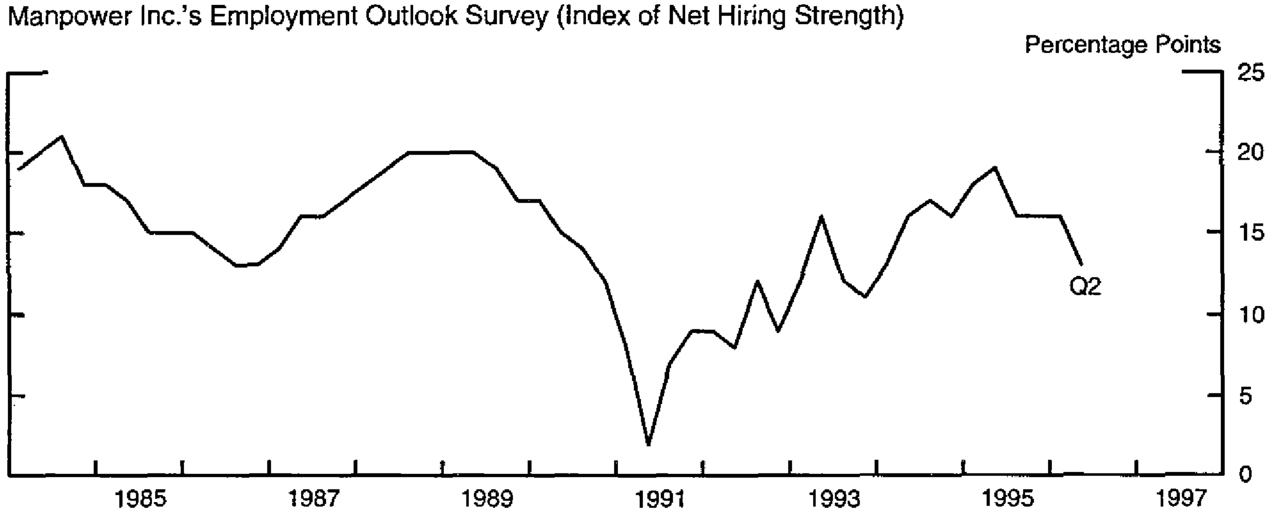


Note. State programs, includes EUC adjustment.

Conference Board Help Wanted Index



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



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

temporary help and by firms in some other categories may be driven in part by efforts to make up January's production losses, particularly in manufacturing. Furthermore, the BLS cites seasonal influences as contributing to the big gains in construction and retail trade jobs early this year.[2] Finally, although initial claims have been trending lower of late (abstracting from the GM strike), they still do not display the exceptional robustness indicated by the February employment report.

In contrast to the gains in most other sectors, manufacturing employment dropped 50,000 between December and February, in line with the average rate at which jobs have been shed since the most recent peak in factory employment in March 1995. The average factory workweek, which also weakened last year and was further depressed by the blizzard in January, rebounded sharply in February to the highest level since last September. The lengthening of the workweek likely reflected in part firms' efforts to recoup the production lost during the blizzard, but it may also be a precursor of strengthening activity in manufacturing. All told, aggregate hours of manufacturing production workers were 3/4 percent higher in February than in December.

In the nonfarm business sector as a whole, a February rise in the average workweek of production or nonsupervisory workers more than reversed a steep January decline. This swing in the workweek, together with the monthly changes in payroll employment, led aggregate hours to decline 2.0 percent in January and rise 3.2 percent in February. Although the average level of aggregate

2. According to the BLS, some of the increase in seasonally adjusted construction employment occurred because seasonal layoffs, which normally extend through February, were made earlier than usual, beginning in November. Similarly, employment growth in retail trade in early 1996 may have been exaggerated because the smaller-than-usual seasonal hiring last fall implied smaller-than-usual seasonal layoffs after the holidays.

hours for the two months was 0.7 percent below the fourth-quarter average, the actual labor input probably was greater than these data indicate because the January survey period included the week most affected by the blizzard. Making plausible adjustments to correct for the blizzard, we estimate that the average level of hours in January and February would have been up roughly 1/2 percent from the fourth quarter. Such a gain normally would indicate moderate growth in real GDP.

A similar message comes from application of the Okun's law model to the results of the household survey. After ticking up in January to 5.8 percent, the civilian unemployment rate fell 0.3 percentage point in February, to 5.5 percent. Using concurrent seasonal factors and taking into account the slight overstatement of the January unemployment rate because of the blizzard, we estimate that the unemployment rate in January and February was unchanged from its December level of 5.6 percent; this points to a gain in aggregate output roughly in line with long-run potential growth, which we put at about 2 percent per year.

Among other indicators of labor market activity, initial claims have improved a bit recently. Although claims under state programs jumped to 384,000 in the week ending on March 16, the increase probably was attributable to the strike at General Motors. In the three preceding weeks, claims had averaged 358,000 versus 374,000 between January and mid-February. Additionally, the Conference Board's index of help wanted held nearly steady in January after rising 6 points in December. On the other hand, the Manpower Employment Outlook Survey shows that expectations of net hiring (for the second quarter) have fallen to their lowest level in two years.

Industrial Production

Industrial production is estimated to have risen 1.2 percent in February after a 0.4 percent decline in January that was related in part to the blizzard. Roughly one-third of the 0.8 percent net rise in output from December to February reflected an upturn in aircraft production after the settlement of the strike at Boeing. In addition, output of office and computing machines continued to soar. And, in February, a surge in semiconductor production boosted the index for durable goods materials, and production of other business equipment picked up. Motor vehicles assemblies rose 3/4 million units to an 11.9 million unit annual rate in February, thus making a substantial contribution to IP growth that month, but this increase only reversed a decline in January, and motor vehicles had little net effect on overall output growth over the two months. Output of non-auto consumer goods dropped sharply in January, likely in response to the effects of the blizzard and firms' efforts to reduce inventories, and a February rebound carried production of these goods only back to about its December level. Output of construction supplies also showed little net change over the two months.

CHANGE IN SELECTED COMPONENTS OF INDUSTRIAL PRODUCTION
(Percent)

	Proportion, 1995:Q4	1995 Oct.	1995 Nov.	1995 Dec.	Dec. '95 to Feb. '96
Total index	100.0	-.5	.3	.1	.8
Manufacturing	86.5	-.4	.1	.2	1.1
Manufacturing excluding motor vehicles, aircraft, and parts	79.2	.0	.2	.1	.9
Consumer goods	23.1	-.4	.1	-.5	.1
Business equipment	13.6	.7	.6	.5	2.8
Construction supplies	5.3	-.1	.3	1.6	.0
Durable goods materials	20.4	-.2	1.3	-.2	1.7

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

	Proportion 1995:Q4	1994[1]	1995[1]	1995 Q3	1995 Q4	1995 Dec.	1996 Jan.	1996 Feb.
				-Annual rate-		--Monthly rate---		
Total index	100.0	6.6	1.5	3.2	.4	.1	-.4	1.2
Previous		6.6	1.5	3.2	.2	.2	-.6	
Manufacturing	86.5	7.6	1.4	2.6	1.3	.2	-.3	1.4
Motor veh. and parts	5.5	8.6	-2.6	.6	-.5	.4	-3.9	3.8
Aircraft and parts	1.7	-7.9	-17.1	-9.0	-43.2	4.2	10.4	3.0
Manufacturing excluding motor vehicles, aircraft, and parts	79.2	8.0	2.2	3.1	2.8	.1	-.3	1.2
Consumer goods	23.1	4.7	.0	2.7	-.4	-.5	-.9	1.0
Durables	3.7	6.4	-.4	4.4	3.9	.7	-4.3	2.0
Nondurables	19.4	4.4	.0	2.4	-1.2	-.8	-.3	.8
Business equipment	13.6	13.1	7.6	7.4	8.1	.5	1.1	1.7
Office and computing	3.1	29.6	36.1	23.9	45.0	3.3	3.4	2.8
Industrial	4.3	8.6	3.4	6.4	2.1	.0	.1	.9
Other	6.1	8.4	.7	2.2	-1.0	.1	.2	.8
Defense and space equipment	1.7	-10.5	-7.3	-2.6	-16.7	-1.5	-.6	.6
Construction supplies	5.3	8.0	-.4	1.1	6.0	1.6	-2.2	2.3
Materials	28.7	10.5	3.4	2.3	4.5	.0	-.2	1.3
Durables	20.4	12.1	6.3	8.2	8.1	-.2	.3	1.4
Nondurables	8.2	6.9	-2.8	-9.5	-3.0	.6	-1.5	.8
Mining	6.0	1.2	-1.9	-1.8	-8.2	-.6	-.4	1.5
Utilities	7.5	.2	6.1	14.2	-2.6	-.6	-1.1	-1.2
Memo:								
Information-related products[3]	11.2	20.7	21.4	21.0	22.6	.7	1.3	2.7

1. From the final quarter of the previous period to the final quarter of the period indicated.
2. Includes computer equipment, computer parts, semiconductors, communications equipment, and selected instruments.

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1988-89 High	1967-95 Avg.	1994 Q4	1995 Q3	1995 Q4	1995 Dec.	1996 Jan.	1996 Feb.
Total industry	84.9	82.1	84.7	83.6	82.8	82.7	82.1	82.9
Manufacturing	85.2	81.4	84.3	82.6	82.0	81.8	81.2	82.1
Primary processing	89.0	82.6	89.3	86.5	85.9	85.7	84.9	85.7
Advanced processing	83.5	80.7	82.1	80.9	80.3	80.1	79.6	80.6

Information on industrial activity in March is limited, but production will, of course, be depressed substantially by the strike at GM, which we expect to subtract about 1 percentage point from IP growth. Outside of motor vehicles and parts, the available information thus far suggests little change in output this month.

On net, manufacturing output has grown about in line with estimated capacity over the past few months, leaving the utilization rate at around 82 percent in February.[3] The overall factory utilization rate now stands about 1/2 percentage point above its 1967-95 average, buoyed by sustained high readings for industrial machinery and computer equipment, primary metals, and petroleum products. In contrast, operating rates for nondurables, notably textiles, apparel, and paper, have fallen sharply over the past year, a drop reflecting producers' efforts to adjust production to softer sales; operating rates for these nondurables now are well below their long-term averages.

Personal Income and Consumption

Consumer spending appears to have returned to a moderate growth path after hitting a lull in late 1995. Although readings on consumer sentiment from both the Michigan SRC and the Conference Board surveys sagged in early 1996, the most recent results in both surveys have been quite positive. In addition, data on motor vehicles and retail sales suggest that real outlays for goods in February were noticeably above their fourth-quarter levels.

Sales of new light vehicles averaged 15 million units at an annual rate in December and January and climbed to a hefty 15-3/4 million unit rate in February. The recent strength has been

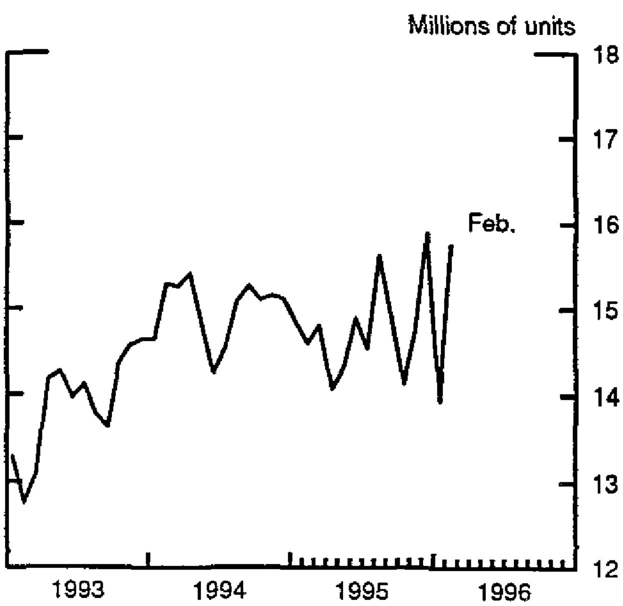
3. We estimate that overall manufacturing capacity is currently growing at an annual rate of 4.2 percent, a pace similar to that of 1995.

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

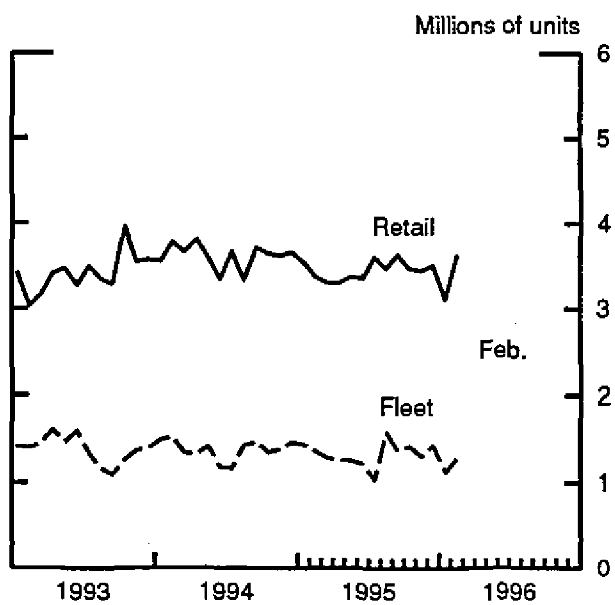
			1995			1995	1996	
	1994	1995	Q2	Q3	Q4	Dec.	Jan.	Feb.
Total	15.0	14.7	14.4	15.0	14.9	15.9	13.9	15.7
Autos	9.0	8.6	8.5	8.9	8.6	9.2	7.7	8.9
Light trucks	6.1	6.1	5.9	6.1	6.3	6.7	6.2	6.9
North American	12.9	12.8	12.5	13.2	13.1	14.0	12.4	14.1
Autos	7.3	7.1	6.9	7.5	7.3	7.7	6.6	7.6
Big Three	5.7	5.4	5.3	5.6	5.5	5.5	4.9	5.8
Transplants	1.5	1.7	1.6	1.9	1.8	2.2	1.6	1.8
Light trucks	5.7	5.7	5.5	5.7	5.9	6.3	5.9	6.5
Foreign produced	2.1	1.9	2.0	1.9	1.8	1.9	1.5	1.7
Autos	1.7	1.5	1.6	1.5	1.4	1.5	1.2	1.3
Light trucks	.4	.4	.4	.4	.4	.4	.3	.4

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.

Total Light Vehicle Sales



GM and Ford Fleet and Retail Sales



concentrated in the retail segment of the market--confidential data from Ford and GM indicate that their combined fleet sales have fallen below the fourth-quarter pace. Retail light vehicle purchases in the past few months have been bolstered by incentives from Ford and Chrysler, which were introduced around the turn of the year. The incentives also contributed to the more favorable readings of the Michigan index of car buying conditions in February and early March.

Spending at the "control" category of retail stores, which excludes automotive dealers and building materials and supply outlets, increased 0.4 percent in February after a flat January. Most major categories of retail sales turned upward in February. Nominal spending at furniture and appliance and "other" durable goods stores rose a little, although it remained noticeably below its level at the end of last year. Sales at apparel stores posted a sizable gain in February after a languid performance in 1995, and outlays at general merchandise stores surged after declining in the fourth quarter and edging up in January.

Official estimates of spending for services are available only through January, but outlays apparently remain on the moderate uptrend that has been evident over the past few years. Real spending on non-energy services, which had posted solid gains in November and December, edged up in January to a level roughly 1/2 percent (not at an annual rate) above its fourth-quarter average. In contrast, energy services declined in January, and data on weather for the nation as a whole suggest that spending on energy services may have declined a bit further in February; however, these declines were not large enough to put much of a dent in overall PCE.

Taking a longer view, consumer spending has fallen short of the gain in real disposable income over the past few quarters, and the

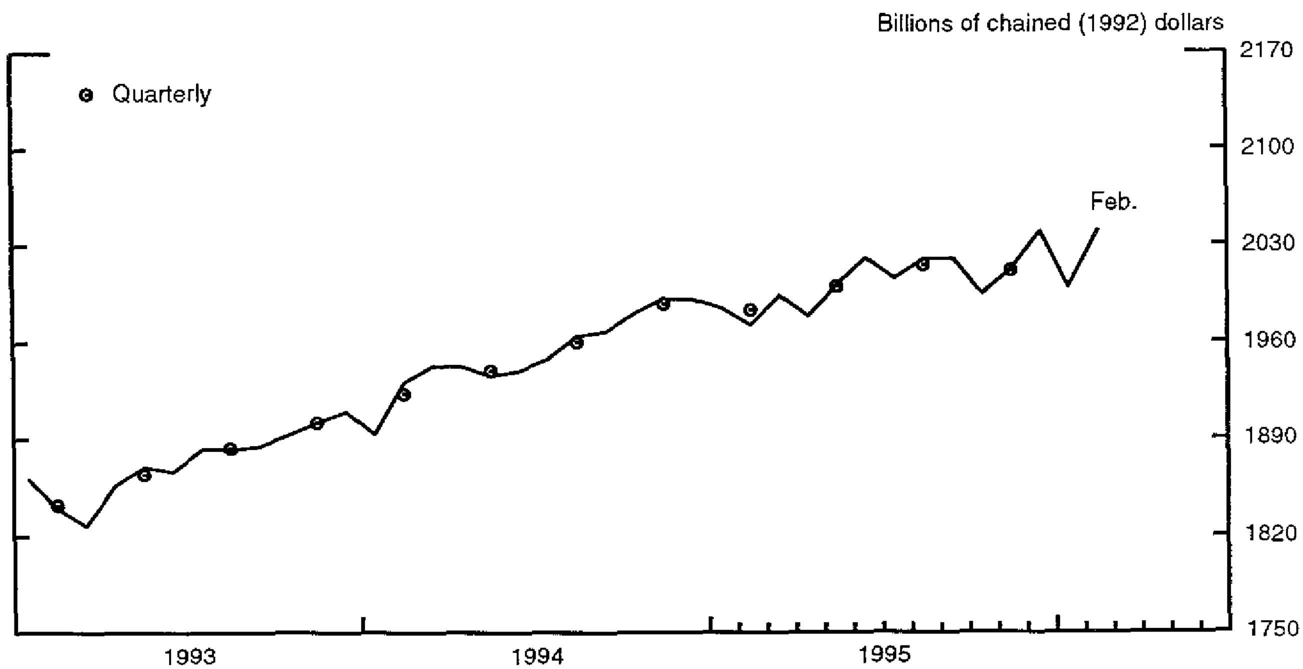
Retail Sales

(Percent change; seasonally adjusted)

	1995			1996	
	Q3	Q4	Dec.	Jan.	Feb.
Total sales	1.0	.7	.7	-.1	.8
Previous estimate		*.7*	*.6*	*-.3*	
Retail control[1]	.6	.5	.4	.0	.4
Previous estimate		*.4*	*.4*	*.0*	
Durables	1.8	1.9	-.3	-.9	.3
Furniture and appliances	3.6	2.5	-.6	-1.9	.3
Other durable goods	.2	1.3	-.1	.1	.3
Nondurables	.3	.2	.5	.2	.4
Apparel	-.0	.4	-1.1	.1	1.2
General merchandise	.7	-1.0	.0	.2	2.3
Other nondurable goods	.3	.5	.9	.2	-.2
Memo: Real PCE services	.6	.5	.3	.0	n.a.

1. Total retail sales excluding building material and supply stores and automotive dealers (but including auto and home supply stores).

PCE Goods

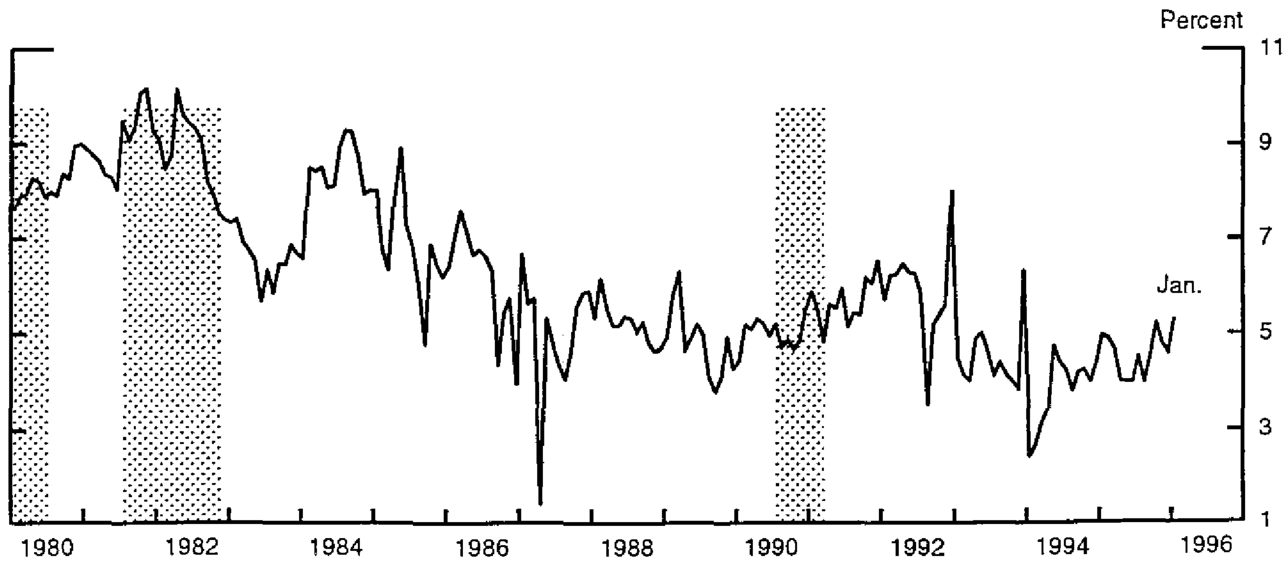


Note. Data for the fourth quarter, January, and February are staff estimates.

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

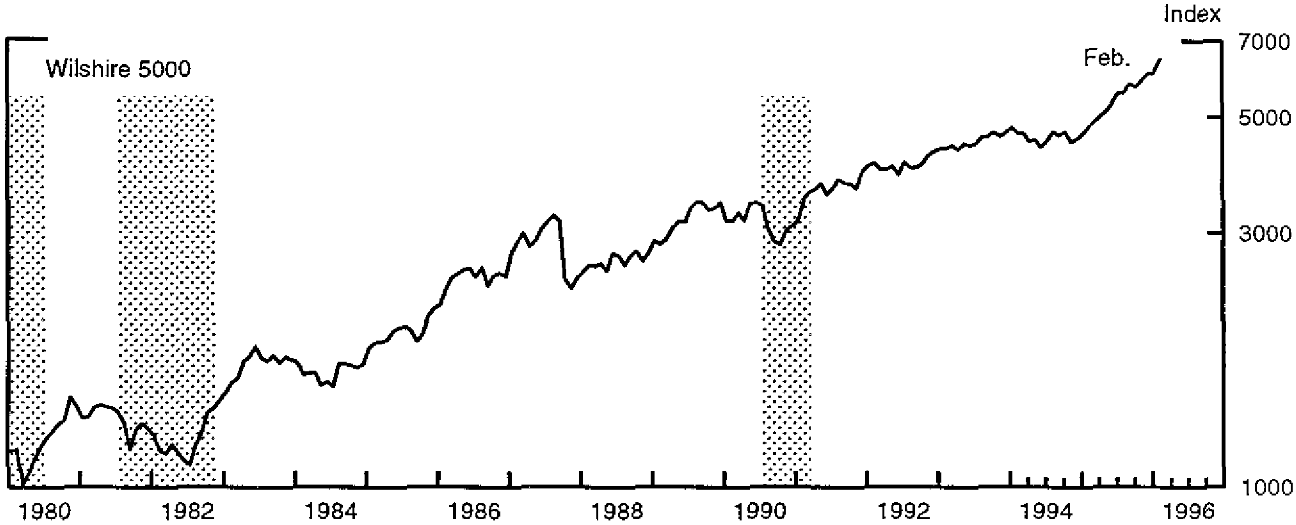
			1995		1995	1996
	1994	1995	Q3	Q4	Dec.	Jan.
Total personal income	15.9	26.7	24.1	28.1	38.4	7.5
Wages and salaries	2.4	13.6	16.3	13.1	19.5	-6.3
Private	0.6	12.1	15.1	12.1	18.3	-9.7
Other labor income	1.5	1.9	1.3	1.5	1.5	-4.3
Proprietors' income	2.8	1.3	1.9	1.7	2.8	1.2
Farm	-0.5	-0.0	0.5	0.8	0.7	1.8
Rent	1.4	0.6	-0.7	3.3	3.2	0.5
Dividend	1.4	1.3	1.5	2.1	1.9	1.5
Interest	3.8	3.7	0.6	3.1	3.4	2.6
Transfer payments	4.2	5.6	4.4	4.3	7.5	11.4
Less: Personal contributions for social insurance	1.5	1.3	1.2	1.0	1.4	-0.9
Less: Personal tax and nontax payments	1.6	4.7	3.6	2.9	3.3	-6.8
Equals: Disposable personal income	14.3	22.0	20.5	25.2	35.1	14.3
Memo:						
Personal saving rate (percent)	3.8	4.5	4.4	4.9	4.6	5.3

Personal Saving Rate
(Saving as a share of disposable personal income)

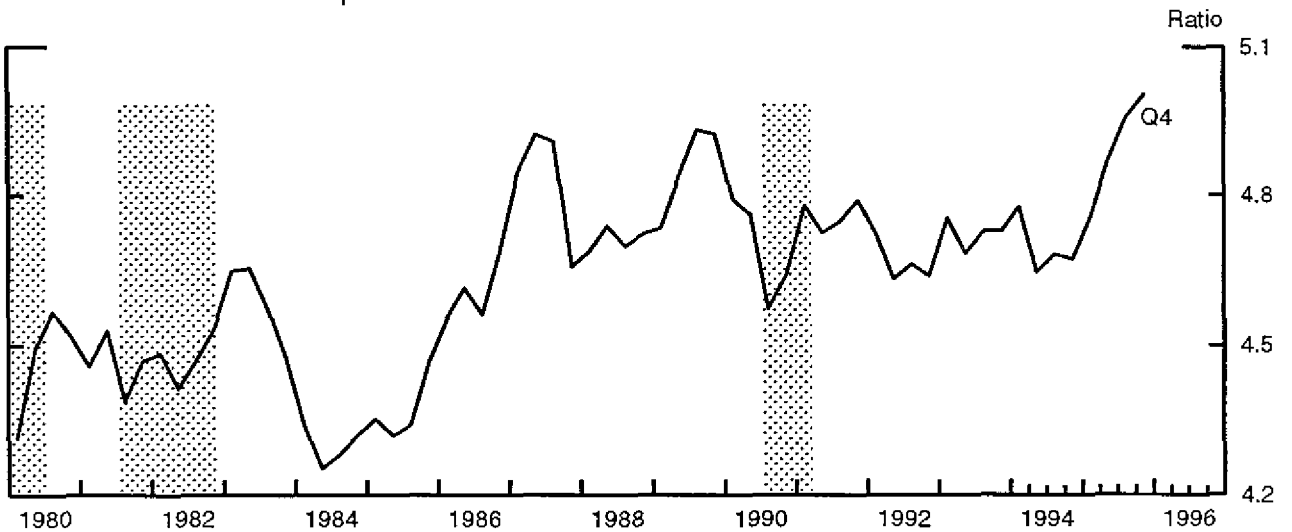


Household Balance Sheet Indicators

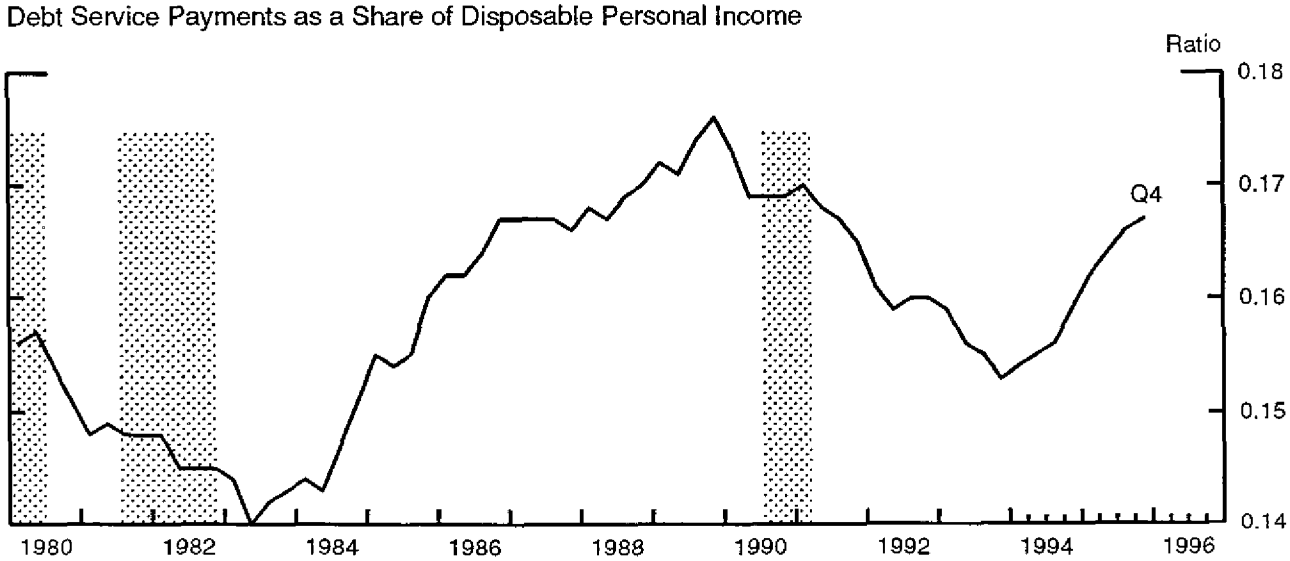
Stock Market



Net Worth as a Share of Disposable Personal Income



Debt Service Payments as a Share of Disposable Personal Income



personal saving rate has moved up--despite the large increase in household wealth since the end of 1994. This upturn may prove just to be short-term noise in the time series; it could even disappear in later NIPA revisions. But there are possible explanations for this seemingly anomalous pattern. First, it is important to note that econometric models that capture significant stock market wealth effects also suggest that the effects may take some time to play out; the effect on the saving rate of the recent rally would be small to this point, perhaps on the order of 1/4 percentage point (ceteris paribus). Second, other factors could be masking the stock market effect. For example, increased debt burdens may be hindering spending--the ratio of debt service payments to disposable income in the fourth quarter was 3/4 percentage point higher than its level one year earlier. Moreover, consumer delinquency rates have generally risen over the past year, suggesting that some households are having greater difficulty servicing their increased debt burdens. However, as long as income growth remains sound, these financial stresses are probably not widespread enough to be a significant deterrent to overall consumption.

The recent increases in the saving rate also could be part of a longer-run upward adjustment in response to demographic changes and heightened awareness of the need to provide for retirement and medical costs. In addition, the media focus on job insecurity may have contributed to a greater perceived need for precautionary saving.

Housing Markets

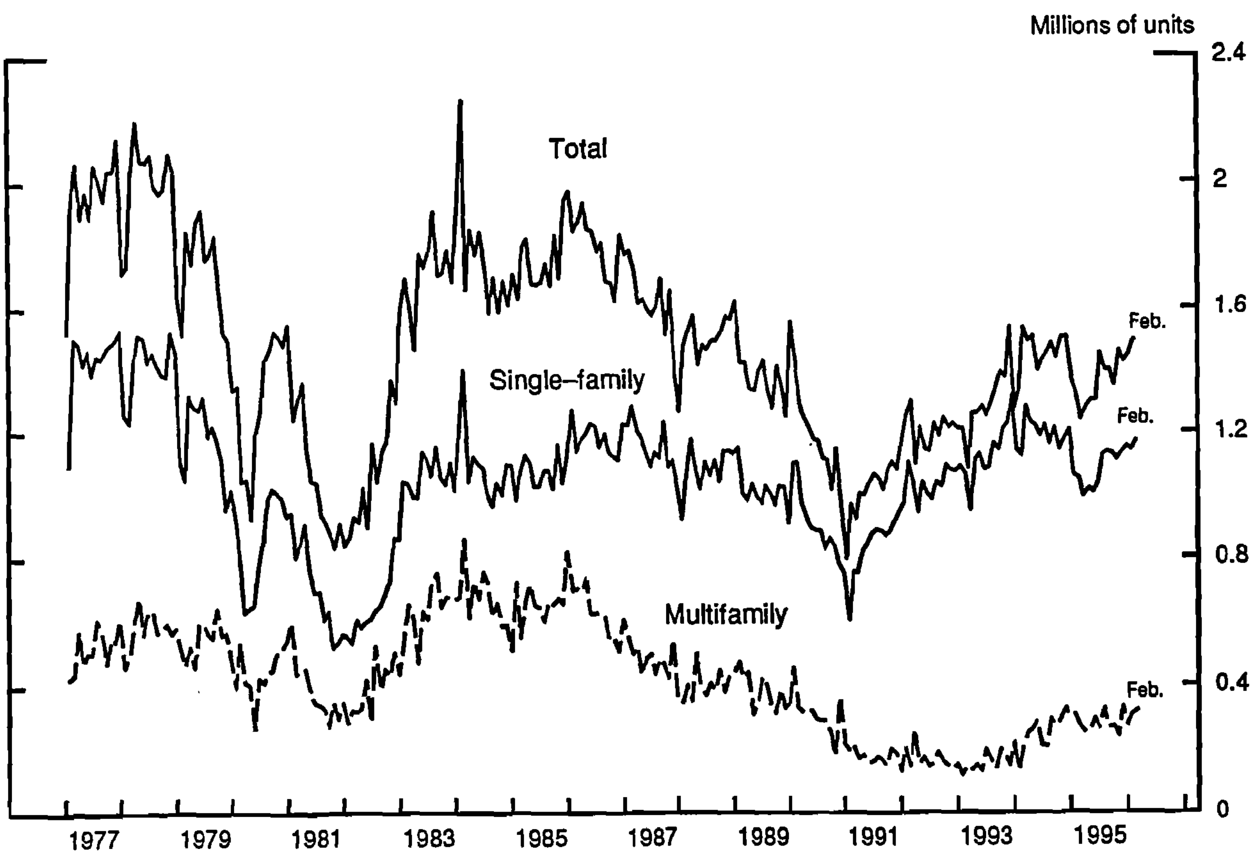
New housing construction edged up in January--despite the blizzard--and rose still further in February. Total housing starts last month, at 1.49 million units, were the highest since December 1994.

Private Housing Activity
(Millions of units; seasonally adjusted annual rate)

		1995				1996	
	1995r	Q2	Q3	Q4r	Dec.r	Jan.r	Feb.p
All units							
Starts	1.35	1.29	1.42	1.41	1.43	1.45	1.49
Permits	1.33	1.25	1.38	1.44	1.48	1.37	1.39
Single-family units							
Starts	1.08	1.02	1.13	1.13	1.15	1.14	1.17
Permits	1.00	0.93	1.04	1.08	1.11	1.05	1.07
New-home sales	0.66	0.67	0.72	0.67	0.67	0.69	n.a.
Existing-home sales	3.80	3.63	4.04	3.98	3.87	3.71	n.a.
Multifamily units							
Starts	0.28	0.27	0.29	0.28	0.28	0.31	0.32
Permits	0.33	0.32	0.33	0.36	0.37	0.32	0.33

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

Private Housing Starts
(Seasonally adjusted annual rate)



Single-family housing starts edged down in January and increased moderately in February; starts for the two months averaged 1.16 million units at an annual rate, about 2-1/2 percent above the fourth-quarter average. Permit issuance for single-family homes also edged up in February, after falling in January. Judging from historical relationships, starts in January and February were well in line with permit issuance.

Most other indicators of single-family housing activity have also shown signs of strengthening. New home sales rose 4.2 percent in January to 693,000 units, the most rapid pace since last August. Moreover, the March sampling of builders' opinions suggests that new home sales rose substantially in late February and early March. Consumer appraisals of homebuying conditions, as sampled by the Michigan survey, improved noticeably in February and early March, owing mainly to a more general perception that mortgage rates are low. Applications for home financing at mortgage bankers remained relatively strong through mid-March, although they are down a bit from the very high range of late 1995.

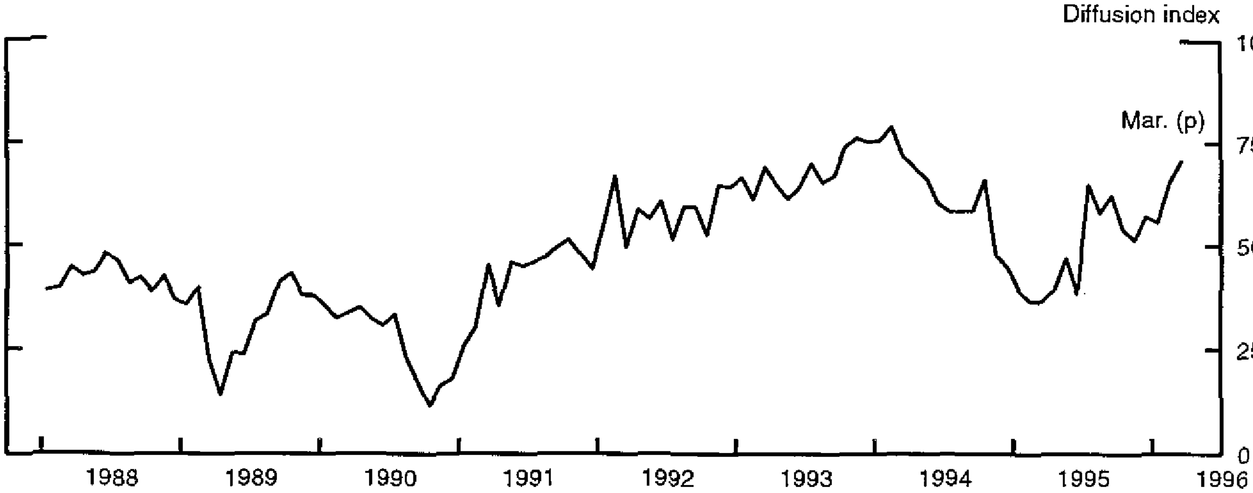
In contrast to the rise in new home sales, existing home sales declined for the fourth consecutive month in January. This series tends to be a lagging indicator of housing demand, however, because a substantial share of existing home sales are recorded at the closing, often months after a purchase contract has been signed. Thus, existing home sales may not reflect changes that are evident in more timely measures of demand for single-family housing.

In the multifamily housing sector, starts rose substantially in January and moderately in February, largely offsetting a decline in December. A step-up from the extremely low levels of multifamily construction seen in recent years is not surprising, but the vacancy

Indicators of Housing Demand

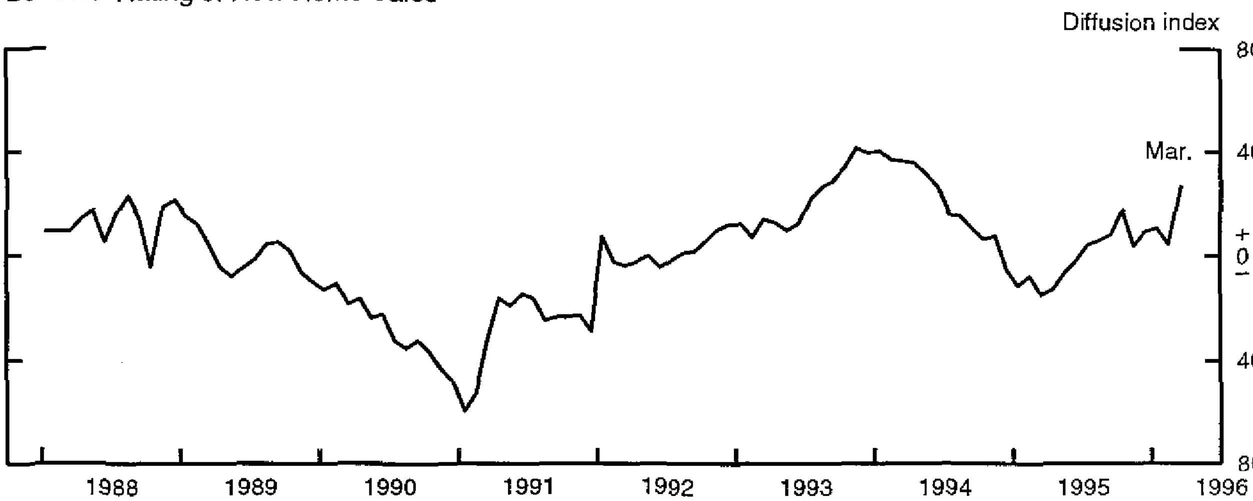
(Seasonally adjusted; FRB seasonals)

Consumer Homebuying Attitudes



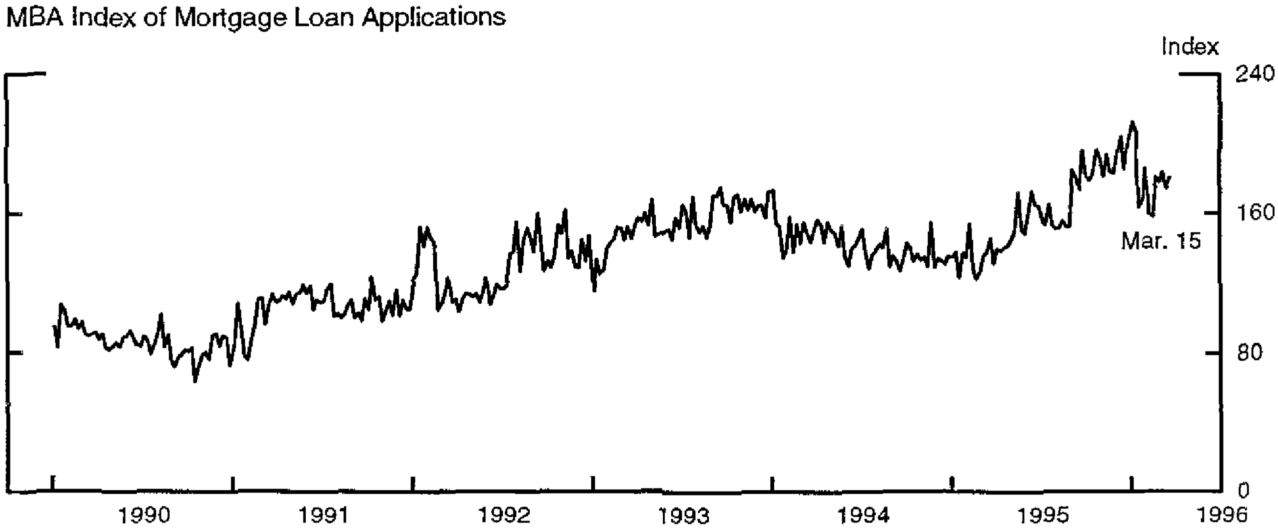
Note. The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

Builders' Rating of New Home Sales



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

MBA Index of Mortgage Loan Applications



Note. MBA purchase index equals 100 on March 16, 1990, for NSA series.

rate for multifamily rental units is still high--suggesting some limit on the near-term potential for further gains.

Business Fixed Investment

At the time of the last Greenbook, investment indicators were lagging to an unusual degree because of the government shutdown. The data releases, though back on schedule, are still not as current as one would like. However, they now suggest that equipment demand remained fairly robust into early 1996--indeed, surprisingly so--while construction spending decelerated somewhat.

New orders reported by U.S. manufacturers of business equipment were particularly strong in the office and computing category, rising 3 percent in January after surging in the fourth quarter. Shipments of these items also continued to post healthy gains. The sustained strength in computer spending seems at odds with the pounding that computer company stocks have taken in recent weeks: Our industry contacts' explanation is that competitive pressures have reduced margins and profitability, with the corresponding price competition helping to maintain demand.

Orders at producers of other nondefense capital goods, excluding aircraft and parts, were also quite positive through January, although shipments dropped back after rising moderately in the fourth quarter. Notably, much of the January drop in shipments was in two industries: communications equipment, for which shipments had soared in late 1995, and railroad equipment, which tends to gyrate wildly from month to month.

As for transportation equipment, business purchases of motor vehicles have been about flat so far this year despite the sharp decline in new orders for heavy trucks in 1995. Shipments of complete aircraft have been weak in recent months, in part because of the Boeing strike. However, the weakness in aircraft should be

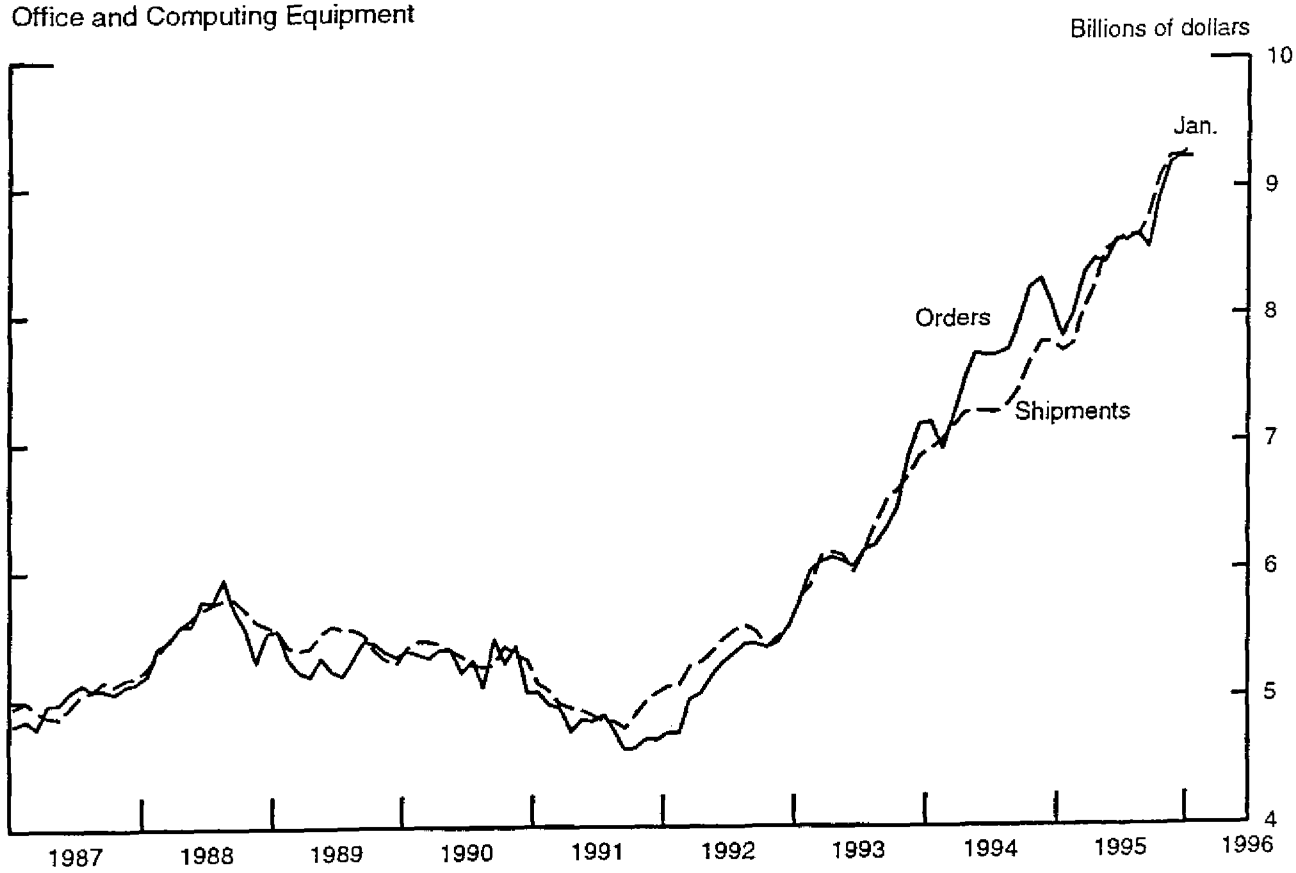
BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period;
based on seasonally adjusted data, in current dollars)

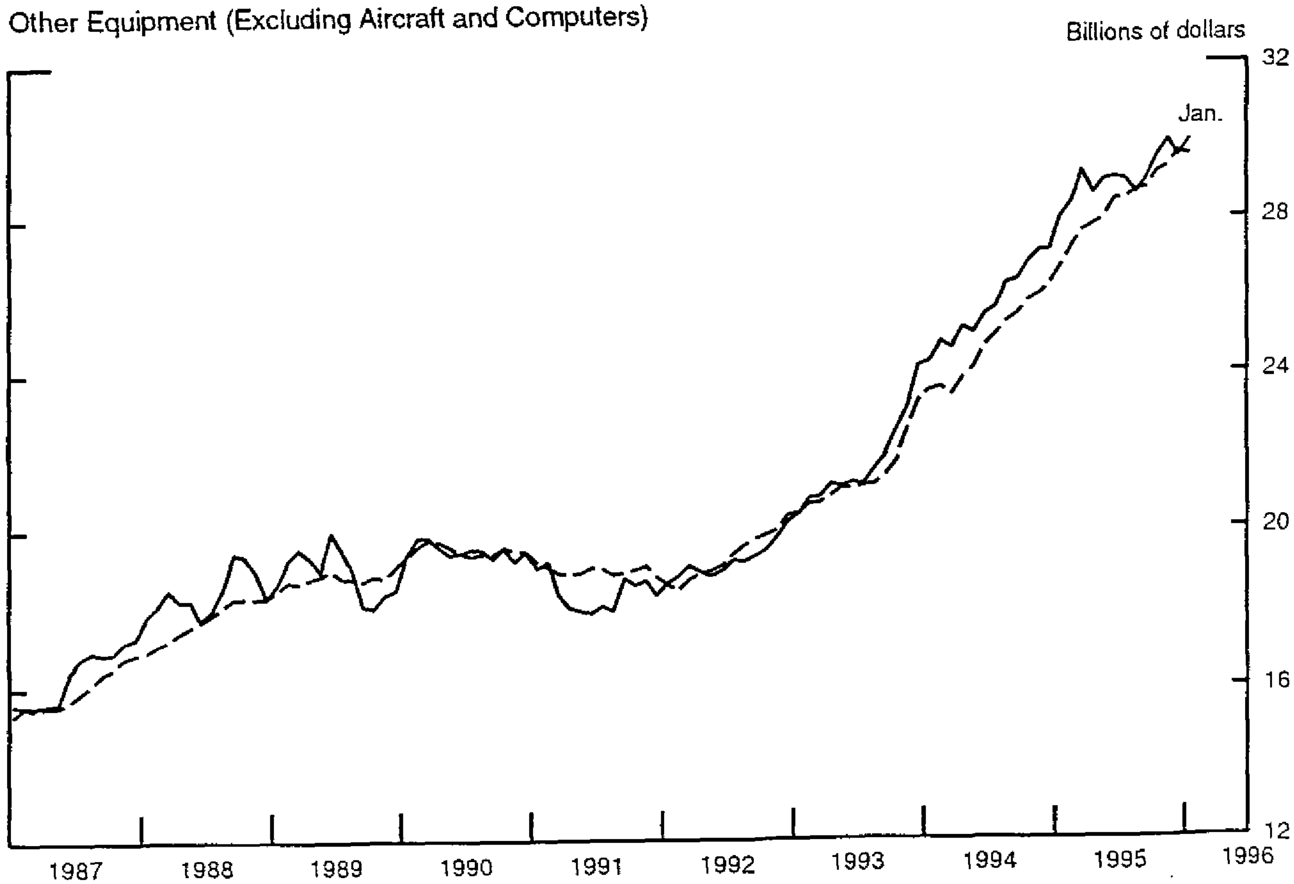
	1995			1995	1996	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
Producers' durable equipment						
Shipments of nondefense capital goods	3.3	.7	3.6	1.5	-5.2	n.a.
Excluding aircraft and parts	3.8	1.3	3.6	2.9	-3.6	n.a.
Office and computing	6.8	2.4	5.3	.0	1.9	n.a.
All other categories	2.9	1.0	3.1	3.9	-5.3	n.a.
Shipments of complete aircraft[1]	-5.0	-7.3	-9.6	-24.8	-35.3	n.a.
Sales of heavy trucks	-4.4	-7.6	6.4	-1.2	-2.2	7.4
Orders of nondefense capital goods	-.3	2.1	7.5	5.7	-.5	n.a.
Excluding aircraft and parts	.3	-.3	3.3	-.9	3.3	n.a.
Office and computing	3.3	-.7	8.3	-3.2	3.1	n.a.
All other categories	-.5	-.1	1.9	-.2	3.4	n.a.
Semiconductor book to bill ratio	1.17	1.17	1.14	1.12	.92	.90
Nonresidential structures						
Construction put-in-place	2.4	2.8	-1.4	.3	-.2	n.a.
Office	3.9	5.8	-8.5	5.8	-5.6	n.a.
Other commercial	-2.3	2.1	6.4	1.4	-.7	n.a.
Institutional	.3	1.0	-3.8	-.2	.5	n.a.
Industrial	5.6	-1.6	1.3	-1.7	2.8	n.a.
Public utilities	5.0	4.3	-10.7	-5.5	-.4	n.a.
Lodging and miscellaneous	1.5	12.0	16.6	8.4	3.0	n.a.
Rotary drilling rigs in use	.2	-.9	-5.4	-.1	1.1	n.a.
Memo:						
Business fixed investment[2]	3.6	5.2	6.3	n.a.	n.a.	n.a.
Producers' durable equipment[2]	3.7	4.8	6.9	n.a.	n.a.	n.a.
Nonresidential structures[2]	3.4	6.1	4.7	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 1992 chain-weighted data; percent change, annual rate.
n.a. Not available.

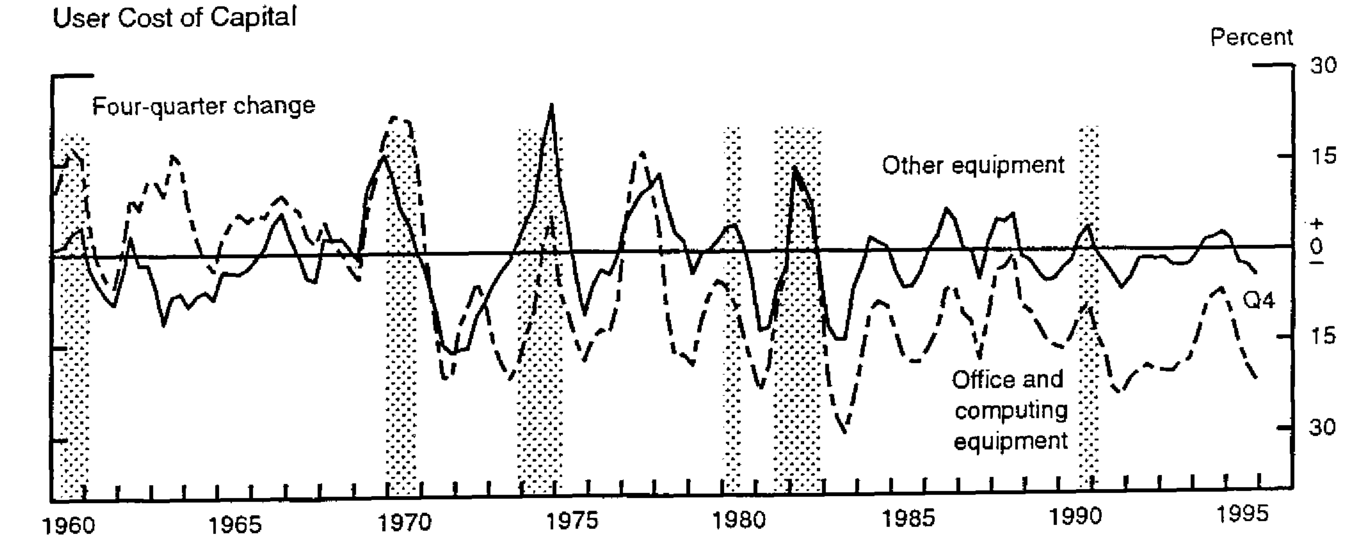
Recent Data on Orders and Shipments

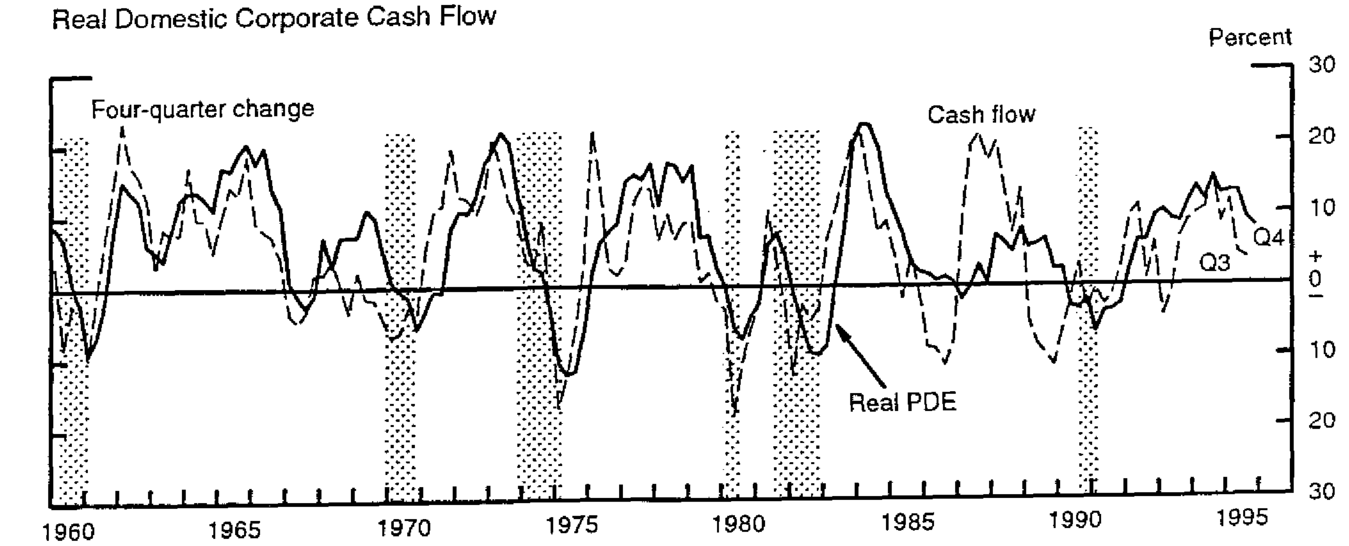
(Three-month moving average)



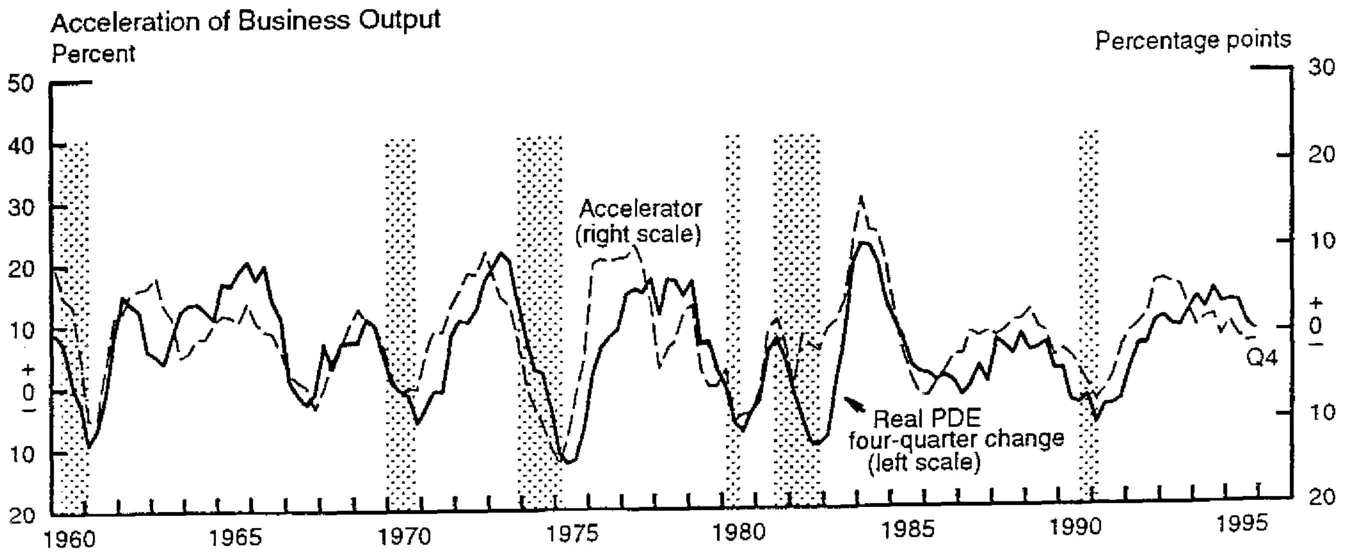


Fundamental Determinants of Equipment Spending





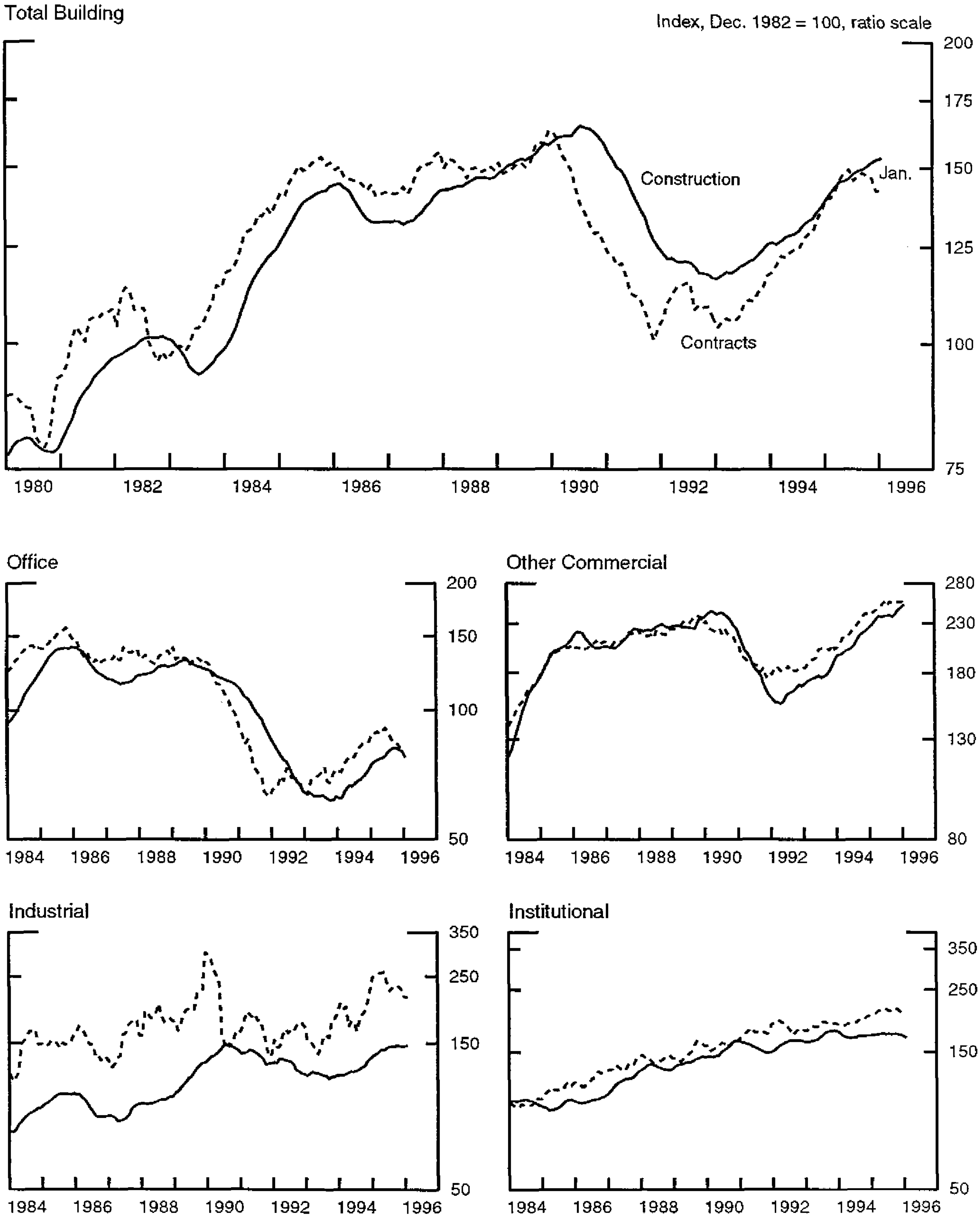
Note. Data on cash flow are historical only through the third quarter.



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

Nonresidential Construction and Contracts

(Six-month moving average)



Note. For contracts, total only includes private while individual sectors include public and private.

transitory: Airline profits are high, new products are coming on line, and orders are surging. Boeing has announced plans to hire additional workers and expand production, and the prospective improvement in activity is affecting many of its suppliers as well.

A glance at the chart showing the fundamental determinants suggests the sources of the continued expansion in equipment spending. While accelerator effects have been about neutral over the past year, recent movements in the user cost of capital and in cash flow have been favorable. The user cost of computers has continued to plummet because of falling prices, and this pattern is likely to be extended in the near term with, among other things, a sharp drop in semiconductor prices contributing to the trend.

Growth in outlays for nonresidential construction appears to have slowed recently after three years of progressively stronger increases. Although non-office commercial construction has continued to trend up, the data on construction put-in-place suggest that activity has slowed noticeably in recent months in the office, institutional building, and industrial sectors. Contracts for these sectors have also been softening over the past several months. Other indicators are more favorable: Senior examiners and asset managers at federal banking agencies remain fairly upbeat in their assessments of commercial real estate conditions (as compiled in the FDIC's January Survey of Real Estate Trends); vacancy rates in the commercial and industrial sectors are well below the levels of a few years ago; and prices, as measured by the NREI index, have continued to firm.

Inventories

Following only a modest increase in November and outright liquidation of stocks in December, business inventories expanded sharply in January. Excluding motor vehicles at trade establishments, book-value stocks in manufacturing and trade increased at an annual rate of more than $50 billion in January, after rising only about $10 billion in the fourth quarter. Interpretation of the January data is complicated by the winter storms, which caused delays in shipments and sales and thus may have caused inventories to back up at manufacturers and wholesalers. Retail stocks edged down, despite flat sales. In any event, firms apparently made considerable progress in rectifying inventory imbalances in late 1995, and recent trends in orders and production bode well for further improvement in early 1996.

MANUFACTURERS' INVENTORY INVESTMENT
(Book value, billions of dollars, annual rate)

	1994	1995					1996
	Q4	Q1	Q2	Q3	Q4	Dec.	Jan.
Total manufacturing	21.1	41.1	31.7	24.7	9.4	11.3	35.7
Capital equipment	12.2	17.2	10.9	11.2	10.4	4.7	20.0
Information-related	2.6	5.3	4.2	7.9	4.8	3.7	8.1
Transportation including aircraft	1.3	1.9	1.0	3.0	2.8	-.7	6.3
Industrial	4.3	7.7	3.6	.9	.8	.2	2.6
Other PDE	4.0	2.4	2.1	-.6	1.9	1.6	3.0
Other	8.9	23.9	20.8	13.5	-1.0	6.6	15.7

Sizable increases in manufacturing inventories in January were evident in both capital goods industries and elsewhere. Within capital goods, stocks of information-related equipment have continued to rise briskly in recent months, while stocks of industrial machinery and "other" producers' durable equipment have shown little net increase since mid-1995. The inventory-shipments ratio for manufacturing capital goods moved up in January, but the jump was largely due to a sharp drop in shipments, which the firmness of orders suggests was transitory. The picture for inventories outside of capital goods is less sanguine--for example,

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

	1995			1995		1996
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Total	69.7	53.3	15.1	5.2	-41.3	64.7
Excluding wholesale and retail motor vehicles	61.7	59.0	10.5	-3.3	-26.8	51.3
Manufacturing	31.7	24.7	9.4	1.8	11.3	35.7
Wholesale	25.4	17.0	6.3	-8.2	2.3	22.9
Excluding motor vehicles	19.1	19.9	8.7	-8.4	5.4	19.9
Retail	12.5	11.6	-.6	11.6	-54.9	6.1
Automotive	1.7	-2.8	7.0	8.3	-11.4	10.4
Excluding auto dealers	10.8	14.4	-7.6	3.3	-43.5	-4.3

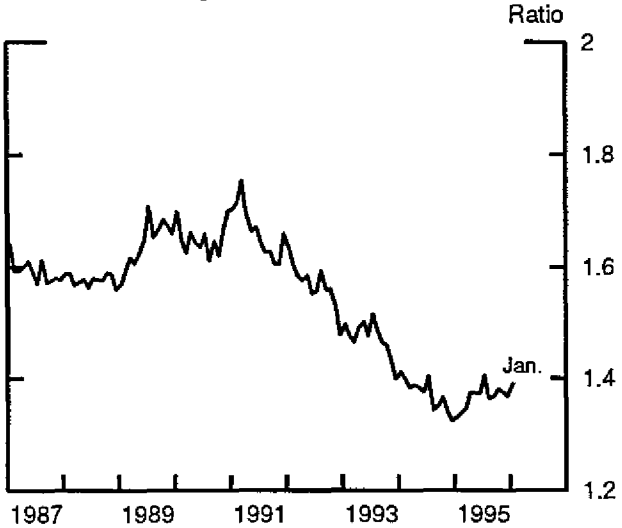
INVENTORIES RELATIVE TO SALES[1]
(Months' supply; based on seasonally adjusted data at book value)

	1995			1995		1996
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Total	1.42	1.42	1.41	1.42	1.40	1.41
Excluding wholesale and retail motor vehicles	1.38	1.39	1.38	1.38	1.37	1.39
Manufacturing	1.38	1.39	1.38	1.37	1.37	1.39
Wholesale	1.34	1.36	1.34	1.34	1.32	1.33
Excluding motor vehicles	1.32	1.33	1.32	1.32	1.30	1.32
Retail	1.54	1.54	1.53	1.55	1.52	1.52
Automotive	1.79	1.73	1.75	1.77	1.72	1.74
Excluding auto dealers	1.46	1.48	1.46	1.48	1.45	1.45

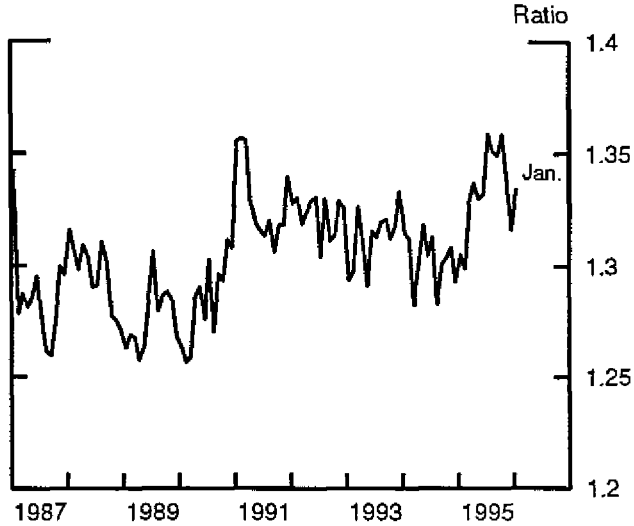
1. Ratio of end-of-period inventories to average monthly sales for the period.

Inventory–Sales Ratios
Manufacturing and Wholesale Trade

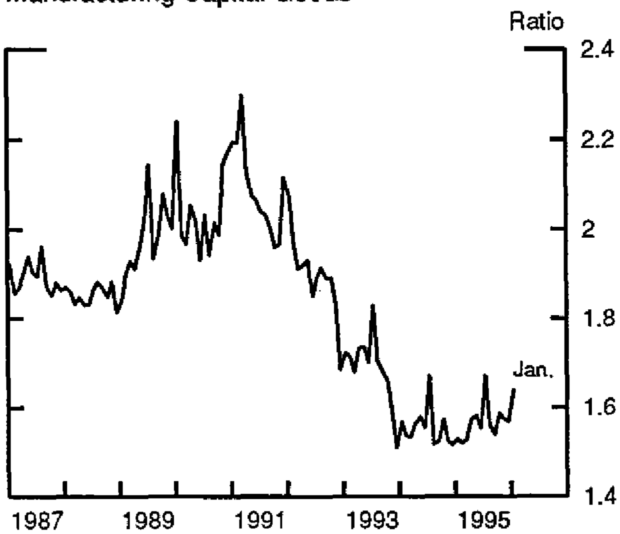
All Manufacturing



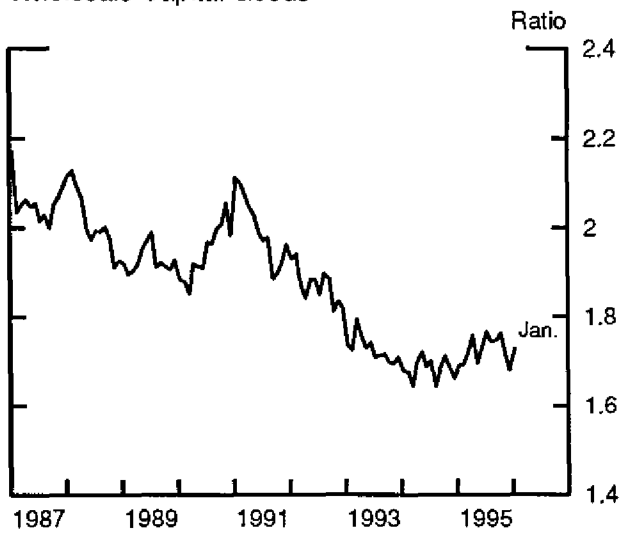
Wholesale



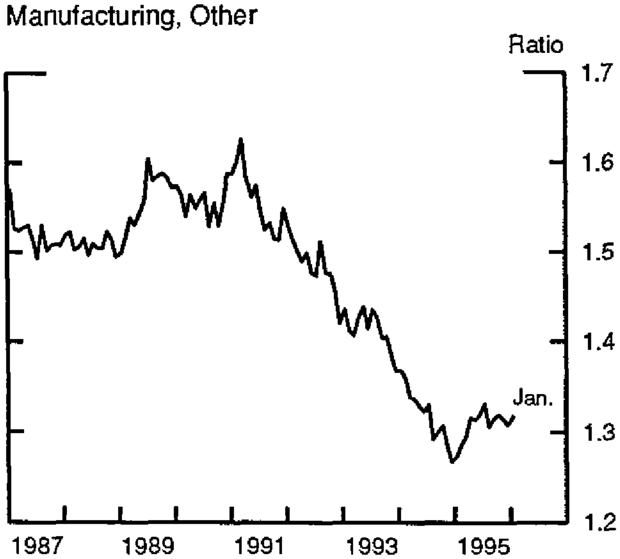
Manufacturing Capital Goods



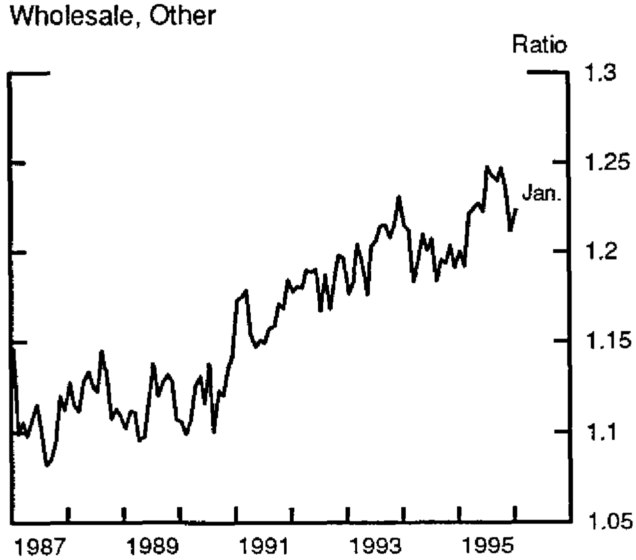
Wholesale Capital Goods



Manufacturing, Other

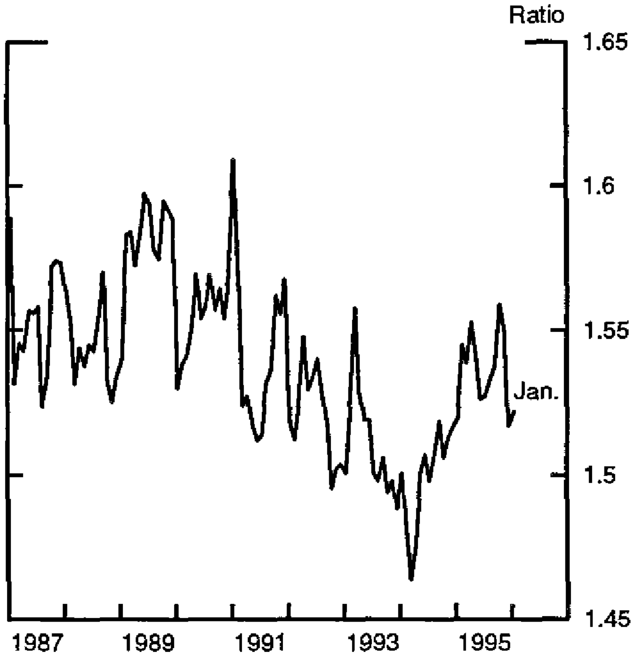


Wholesale, Other

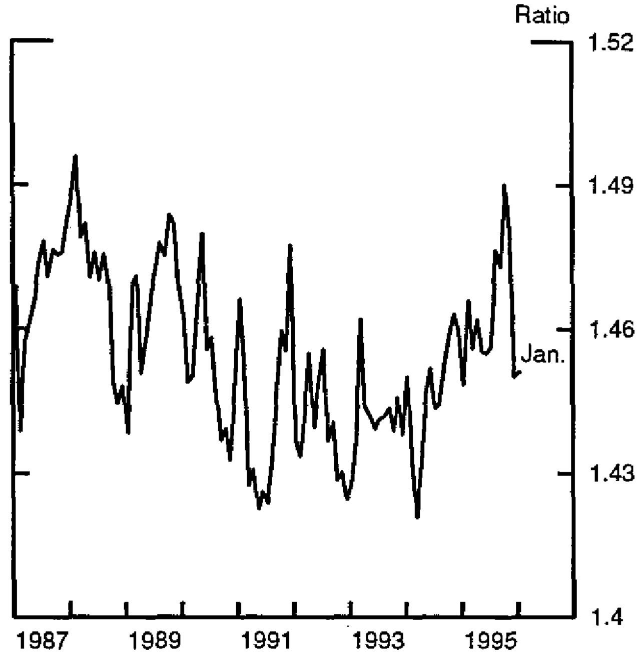


Inventory–Sales Ratios
Retail Trade

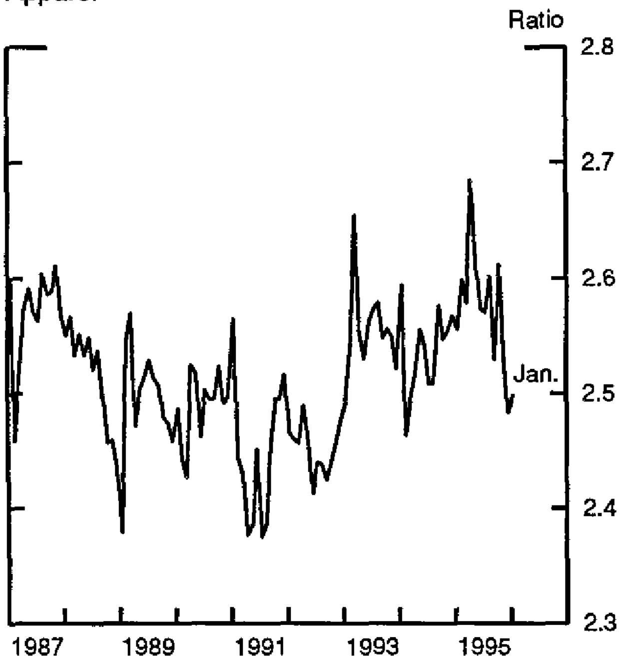
Total Retail



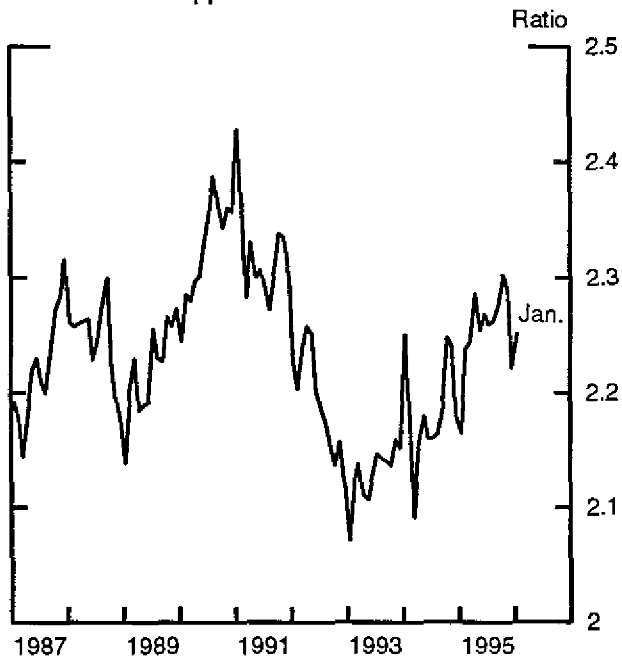
Excluding Autos



Apparel



Furniture and Appliances



manufacturers' stocks of home goods and apparel, as well as some materials, probably remain above desired levels--and the inventory-sales ratio for this group as a whole has changed little, on net, in recent months, after rising sharply over the first half of 1995.

In wholesale trade, inventories also expanded substantially in January. In addition, the wholesalers' December inventory change was revised up to show a small accumulation instead of the sharp drawdown indicated in the preliminary report. As in manufacturing, stocks of capital goods have continued to rise at a rapid pace in recent months, and the inventory-sales ratio has fluctuated in a fairly narrow range. Elsewhere in wholesale trade, changes in stocks have been small in the aggregate in recent months, and although the inventory-sales ratio edged up in January, it remained well below the highs of last fall.

In the retail sector, nonvehicle inventories fell a bit further in January, after plunging in December. The January decrease may have been related in part to the blizzard disruptions and the backup of goods at earlier stages of the distribution channel. Stores selling apparel and furniture recorded sizable net liquidations over the two months; as a result, the inventory-sales ratio for apparel stores has fallen well below the levels that prevailed over much of 1995, while the ratio for furniture stores has also dropped somewhat. In contrast, the inventory-sales ratio for general merchandisers remained at the elevated level that has been evident since late fall; the strong gain in general merchandise sales in February should have helped restore stocks to more comfortable levels.

Federal Sector

The BEA estimates that real federal consumption expenditures and gross investment in the NIPA fell at an annual rate of

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

	Dec. & Jan.		Fiscal year to date			
	1995	1996	1995	1996	Dollar change	Percent change
Outlays	251.8	256.6	497.1	503.4	6.4	1.3
Deposit insurance (DI)	-5.0	-2.0	-7.0	-4.0	3.0	-42.9
Spectrum auction (SA)	.0	.0	.0	.0	.0	n.a.
Other	253.7	258.6	504.0	507.4	3.4	.7
Receipts	262.6	281.2	439.3	466.8	27.5	6.3
Deficit(+)	-10.8	-24.6	57.8	36.6	-21.1	-36.5
	Adjusted for payment timing shifts[1] and excluding DI and SA					
Outlays	256.8	258.6	509.6	513.3	3.7	.7
National defense	46.5	45.6	90.4	87.9	-2.4	-2.7
Net interest	38.9	40.7	75.8	80.3	4.5	6.0
Social security	55.0	57.2	108.3	113.2	4.9	4.5
Medicare and health	44.7	46.1	86.6	92.7	6.1	7.0
Income security	35.7	36.9	68.8	71.4	2.6	3.8
Other	36.1	32.0	84.1	67.9	-16.3	-19.3
Receipts	262.6	281.2	439.3	466.8	27.5	6.3
Personal income and social insurance taxes	210.3	219.3	361.0	381.0	20.0	5.5
Corporate	35.2	43.2	40.1	47.1	6.9	17.2
Other	17.6	18.7	38.6	38.7	.1	.3
Deficit(+)	-5.9	-22.6	70.3	46.5	-23.8	-33.8

n.a. Not applicable.
1. A shift in payment timing occurs when the first of the month falls on a weekend or holiday. The monthly and fiscal year to date outlays for defense, income security, and "other" have been adjusted to account for this shift.
Components may not sum to totals because of rounding.

12 percent in the fourth quarter of 1995, with double-digit declines for both nondefense and defense purchases. The drop in defense outlays was much sharper than the underlying trend as a consequence of a plunge in deliveries of aircraft and other military equipment. Nondefense spending was depressed by the reduction in real employee compensation during the two government shutdowns and the restraint implied by the appropriations and continuing resolutions for fiscal 1996.

In the unified budget, receipts have grown at a solid pace this fiscal year, and outlays have risen only a little. Thus, the deficit for the first four months of fiscal 1996 was just $37 billion, $21 billion below that recorded during the comparable period one year earlier.[4]

The Congress has made only slight progress on appropriations since the last Greenbook, and programs covered by the five unpassed appropriations bills are being funded by the latest in a string of continuing resolutions. In the aggregate, the current funding levels for discretionary programs are more generous than those in the continuing resolutions in place during the first few months of fiscal 1996. Moreover, some agencies are now in a position to make certain large annual payments, normally disbursed in the fall, that were delayed by the difficulties in the appropriations process; for example, the annual foreign aid payment to Israel, which totals about $3 billion, was not remitted in its entirety until February.

On March 15 the President signed a one-week extension of the continuing resolution, and he is expected to sign a further

4. After adjusting for shifts in the timing of certain federal payments and excluding deposit insurance, the deficit for the first four months of fiscal 1996 was $46 billion, $24 billion less than during the comparable period one year earlier. (Timing adjustments take account of the shifting of scheduled outlays for payroll and some benefits into the preceding month when the first of the month occurs on a weekend or holiday.)

ADMINISTRATION BUDGET AND ECONOMIC PROJECTIONS[1]

	1995	1996	1997	1998	1999	2000	2001	2002
				Budget projections (Billions of dollars: fiscal years)				
Receipts	1355	1427	1495	1578	1653	1734	1820	1912
Outlays	1519	1572	1635	1676	1717	1761	1812	1868
Deficit	164	146	140	98	64	28	-8	-44
				Economic assumptions[2] (Calendar years)				
				-Percentage change, Q4 to Q4-				
Real GDP	1.5	2.2	2.3	2.3	2.3	2.3	2.3	2.3
GDP deflator	2.5	2.8	2.7	2.7	2.7	2.7	2.7	2.7
CPI-U	2.7	3.1	2.9	2.8	2.8	2.8	2.8	2.8
				-Percent, annual average-				
Unemployment rate	5.6	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Yield on selected Treasuries								
Three-month	5.5	4.9	4.5	4.3	4.2	4.0	4.0	4.0
Ten-year	6.6	5.6	5.3	5.0	5.0	5.0	5.0	5.0

1. The projections assume that the President's tax and spending proposals are enacted.
2. Based on information available as of mid-January 1996.
Source. The Budget of the United States Government, Office of Management and Budget, March 19, 1996.

extension by tomorrow, March 22. These extensions are designed to give the President and the Congress more time for negotiations on an omnibus appropriations bill for the remainder of the fiscal year. The bill is expected to set overall spending at the levels specified in the budget resolution, with any increases for particular programs offset by reductions in spending for other programs or increases in receipts. In other recent legislation, the President signed a bill providing for a short-term increase in the debt ceiling, now set to expire on March 29.

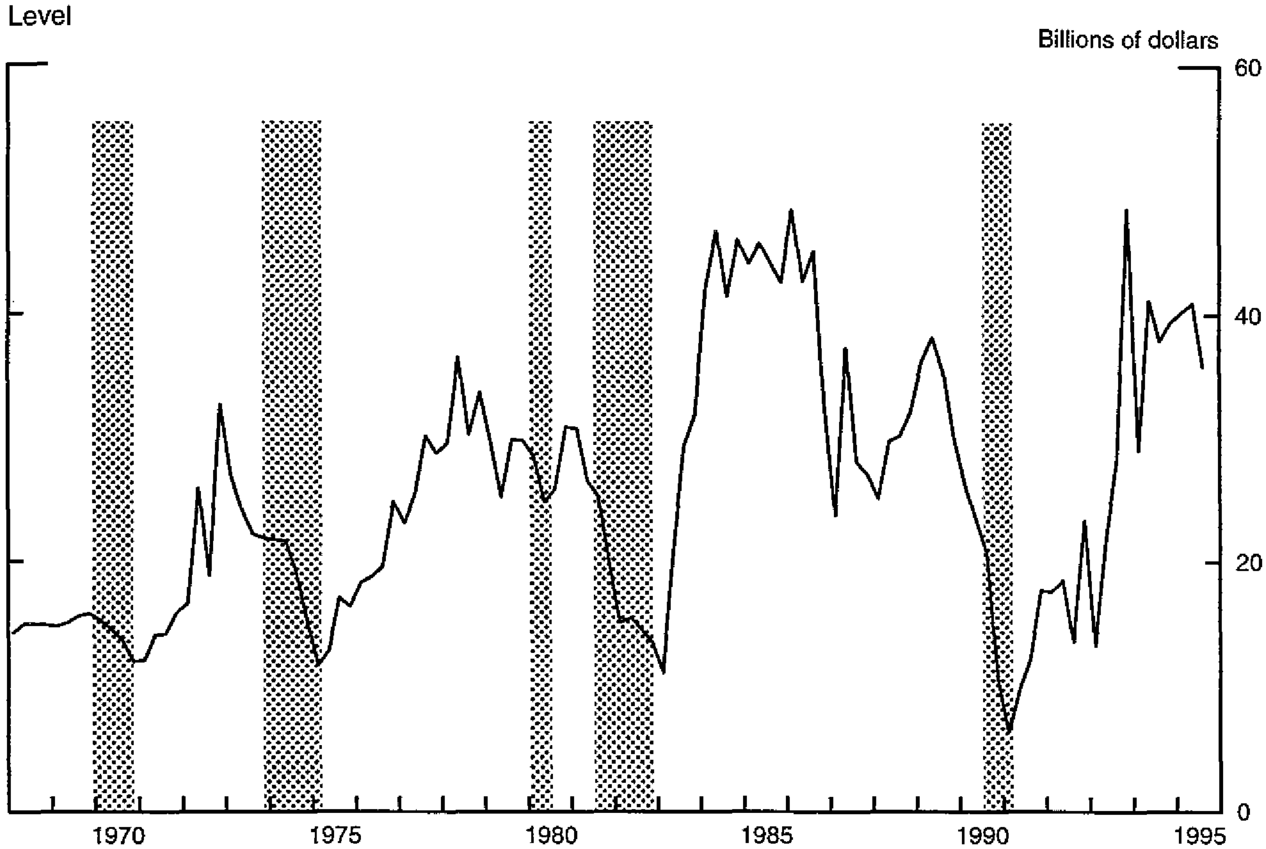
On March 19 the Administration released its fiscal year 1997 budget. The President's policy proposals are similar to those incorporated in the preliminary budget document issued in February. However, in contrast to the budget projections in the February document, the Administration's new projections are based on a full set of updated economic and technical assumptions. According to OMB, if the President's plan were enacted, the deficit would drop to $146 billion in fiscal 1996 and edge down to $140 billion in fiscal 1997; the budget position would improve steadily thereafter, showing a sizable surplus by fiscal 2002. Under CBO's December economic and technical assumptions (with adjustments by OMB), the budget would also show a surplus in fiscal 2002, but it would be much smaller than OMB's estimate. CBO will revise its assumptions this spring; if the President's budget shows a deficit in fiscal 2002 under the revised assumptions, the President will reduce his proposals for discretionary spending by the amount needed to eliminate the deficit.

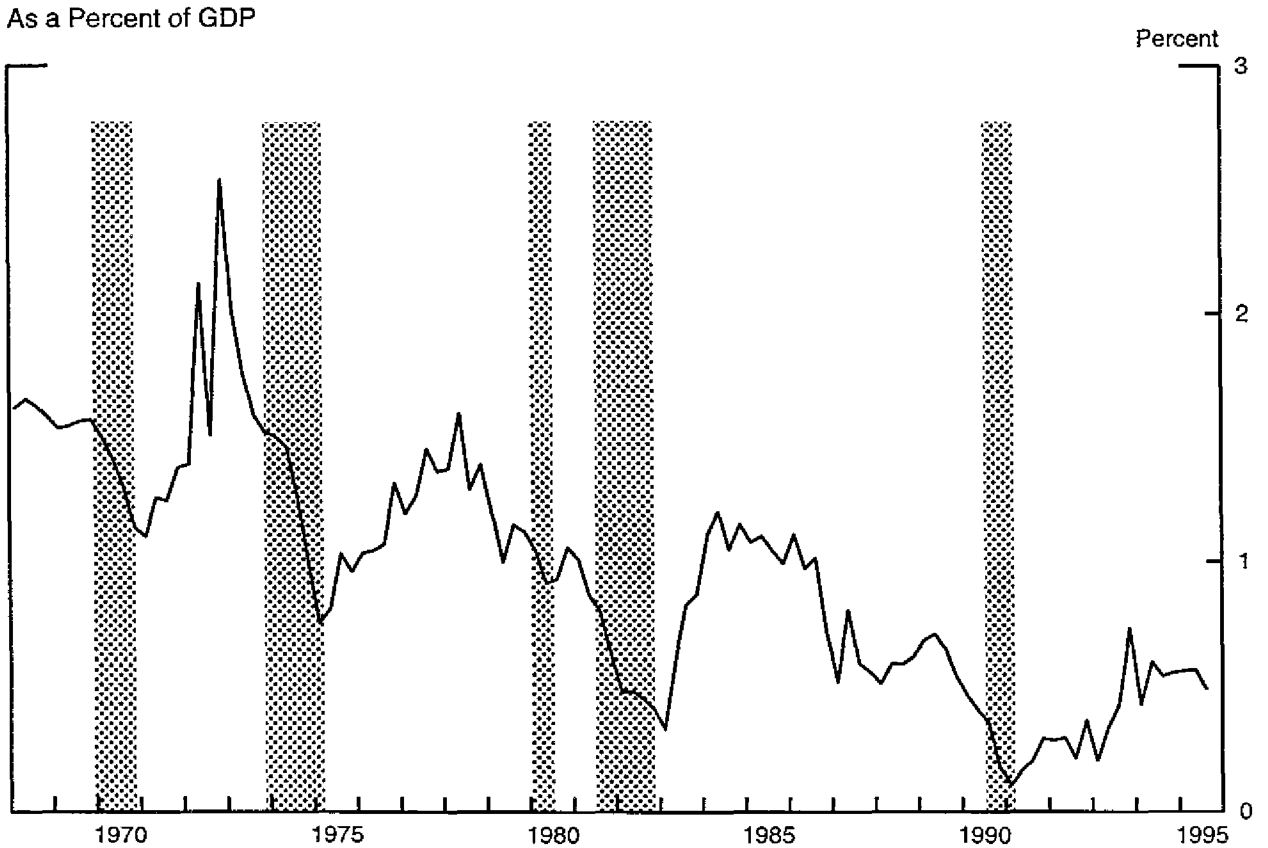
<u>State and Local Government Sector</u>

Total real consumption and gross investment spending by state and local governments has remained on the moderate uptrend that has been evident since 1992. The 1-1/2 percent annual rate increase in

State and Local Sector Current Account Surplus

(NIPA basis, excludes social insurance funds)





real spending in the fourth quarter was a bit below trend, but much of the slowing reflected developments in the volatile construction category. A noticeable upturn in outlays seems to be under way in the current quarter, mainly because of a 1.6 percent jump in real construction spending in January. The increase in construction in January was broadly based and followed average gains of 0.3 percent per month in the second half of last year. Employment grew 15,000 per month, on average, in January and February, about the same as the pace over 1995 as a whole.

The fiscal position of the state and local sector remains sound in the aggregate. The NIPA surplus of current operating accounts, excluding social insurance funds, probably remained in the area of $35 billion to $40 billion in the fourth quarter, a level similar to the readings for the past two years and considerably above those of the early 1990s. As fiscal positions have improved, many states have cut taxes, in most cases by small amounts. This year again, governors of many states are proposing fairly limited tax cuts.

Prices

Although data collection problems related to the government shutdown and the January blizzard have created some uncertainty about the reliability of the statistics, inflation appears to have remained relatively stable over the past few months. Notably, the core CPI increased an average of 0.2 percent per month over the past three months, and the twelve-month change has held steady at around 3 percent. Prices have also remained in check at the producer level; on net, the PPI for items other than food and energy was flat between December and February.

Consumer energy prices increased 0.4 percent in February after having posted much larger increases in December and January. Most of the rise in February reflected a surge in natural gas prices as

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

	Relative importance, Dec. 1995	1994	1995	1995 Q2	1995 Q3	1995 Q4	1996 Jan.	1996 Feb.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	2.7	2.5	3.5	1.6	2.4	.4	.2
Food	15.8	2.9	2.1	3.6	2.7	1.9	.1	.1
Energy	6.7	2.2	-1.3	5.8	-10.5	1.9	1.9	.4
All items less food and energy	77.5	2.6	3.0	3.0	2.8	2.2	.3	.2
Commodities	23.9	1.4	1.7	.9	2.0	1.7	.4	-.1
Services	53.6	3.2	3.6	4.3	3.0	2.5	.3	.3
Memo:								
CPI-W[3]	100.0	2.7	2.5	3.3	1.3	2.4	.4	.2

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. 1995	1994	1995	1995 Q2	1995 Q3	1995 Q4	1996 Jan.	1996 Feb.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	1.7	2.2	1.3	1.6	4.1	.3	-.2
Consumer foods	23.4	1.1	1.9	-2.5	8.8	4.4	.2	-.3
Consumer energy	13.4	3.5	.9	1.5	-10.2	10.3	2.7	.7
Other finished goods	62.2	1.6	2.5	2.3	2.0	2.9	.1	.1
Consumer goods	38.5	1.4	2.7	2.9	2.3	3.1	.1	.1
Capital equipment	24.7	2.0	2.2	1.8	1.8	2.7	-.1	.1
Intermediate materials[2]	95.1	4.8	3.0	3.9	-.6	-.9	.1	-.3
Excluding food and energy	81.4	5.2	3.1	4.2	1.5	-3.2	-.3	-.2
Crude food materials	44.7	-9.4	12.9	4.0	34.8	20.4	-.4	-.5
Crude energy	33.7	-.1	.0	14.6	-21.0	15.7	7.3	-1.1
Other crude materials	23.9	17.3	-4.6	3.9	-17.6	-19.6	.0	.5

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

the unusually cold winter depleted natural gas stocks in many parts of the country. In contrast, prices of gasoline and heating oil were little changed in February; these prices had soared around the turn of the year as increases in crude oil prices in late 1995 fed through the system. However, the lull in prices of petroleum-based products may be short-lived: Stocks of both gasoline and crude oil remain low, and prices for crude oil surged in mid-March.

Food prices edged up just 0.1 percent in February and have increased just a little more than 2 percent over the past twelve months. Prices for fruits and vegetables dropped a bit further in February, while prices of meats, poultry, fish, and eggs were little changed for a second month. In recent months, price increases in grain markets seem to have shown through in some components of the CPI for food, notably cereal and bakery products and dairy products, but those increases have been offset by favorable developments in other categories. Grain stocks at the end of the summer still are projected to be tight, and the markets remain sensitive to changes in conditions for the 1996 crop, as shown most recently by market perceptions of changing weather conditions in the southern and central plains, a major wheat-producing area.[5]

The CPI for commodities other than food and energy slipped 0.1 percent in February after having risen 0.4 percent in January. In part, this pattern reflects the one-week delay in the January survey period because of the government shutdown. The effect was especially pronounced for merchandise for which the delayed survey missed the usual post-holiday markdowns. Notably, apparel prices fell 1 percent in February after spurting 0.7 percent in January.

5. The high grain prices have come at a particularly bad time for livestock producers because cattle prices are the lowest in several years and feeders' margins are being squeezed. The low prices for slaughter cattle have been reflected in retail prices for beef, which have edged down over the past three months.

INFLATION RATES EXCLUDING FOOD AND ENERGY
(Percentage change from twelve months earlier)

	Feb. 1994	Feb. 1995	Feb. 1996
CPI	2.8	3.0	2.9
Goods	0.8	1.9	1.7
Alcoholic beverages (2.0)[1]	1.3	0.9	2.8
New vehicles (6.6)	3.4	3.1	2.0
Apparel (6.6)	-1.1	-1.4	0.1
House furnishings (4.5)	1.5	0.5	0.3
Housekeeping supplies (1.4)	0.8	2.2	4.3
Medical commodities (1.7)	2.8	2.4	2.5
Entertainment (2.5)	1.2	2.2	3.7
Tobacco (2.1)	-7.7	2.4	3.2
Used cars (1.7)	6.4	14.3	2.7
Services	3.7	3.4	3.4
Owners' equivalent rent (26.3)	3.3	3.1	3.5
Tenants' rent (7.5)	2.5	2.4	2.6
Other renters' costs (2.8)	3.5	2.3	5.5
Airline fares (1.3)	10.0	-5.4	3.9
Medical care (7.7)	5.4	5.5	4.1
Entertainment (3.1)	4.9	2.3	4.0
Auto financing (0.8)	-5.4	29.3	-6.9
Tuition (3.4)	6.8	6.2	5.3
PPI finished goods	0.4	1.7	2.1
Consumer goods	-0.5	1.5	2.3
Capital goods, excluding computers	2.3	2.1	1.9
Computers	-11.9	-8.4	-14.4
PPI intermediate materials	1.1	7.1	0.4
PPI crude materials	10.6	16.4	-8.7
Factors affecting price inflation			
ECI hourly compensation[2]	3.6	3.1	2.8
Goods-producing	3.9	3.1	2.5
Service-producing	3.6	2.9	3.0
Civilian unemployment rate[3]	6.6	5.4	5.5
Capacity utilization[3] (manufacturing)	82.2	84.2	82.1
Inflation expectations[4,5]			
Michigan Survey	4.4	4.6	4.1
Conference Board	4.4	4.2	4.0
Non-oil import price[6]	1.5	3.8	2.3
Consumer goods, excluding autos, food, and beverages	1.0	1.0	1.8
Autos	3.9	3.0	2.3

1. Relative importance weight in CPI excluding food and energy.
2. Private industry workers, periods ended in December.
3. End-of-period value.
4. One-year-ahead expectations.
5. Latest reported value: March for the Michigan Survey; February for the Conference Board Survey.
6. BLS import price index (not seasonally adjusted), periods ended in December.

Elsewhere, prices for new cars and trucks rose moderately in February after having remained essentially unchanged over December and January. Prices of vehicles have been held down in recent months by price-based incentives introduced by Ford and Chrysler in order to reduce bloated stocks; these incentive programs have also included generous financing options, which have contributed to the sharp drop in the auto-finance component of the CPI for services in recent months.

The CPI for non-energy services rose 0.3 percent in February, a rise identical to that in January and similar to the trend for the past two years. The February increase was fueled by a turnaround in airfares, which had fallen sharply over the preceding several months. On the other hand, the increase for shelter costs (which account for about half of non-energy services) was a bit below trend, and the CPI for medical services rose a relatively modest 0.2 percent. Taking a longer perspective, the twelve-month change in the CPI for medical services has dropped to around 4 percent after having increased about 5-1/2 percent per year over the previous two years.[6]

At the producer level, prices for finished goods excluding food and energy rose 0.1 percent in February after falling a bit in January; these prices have risen about 2 percent in the past twelve months. Prices for intermediate materials excluding food and energy

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6. The inadequacies of the medical care component of the CPI have received much attention. The BLS now surveys medical prices as part of the producer price index program, and the PPI's methodology is better than the CPI's in several respects. In particular, unlike the CPI, which measures only the "list" prices set by hospitals and doctors, the PPI attempts to capture transactions prices, in part by following contracts between medical providers and insurance companies. Thus, if a new contract with an insurance company leads to a greater discount relative to the list price than in the past, it would be captured by the PPI, but not the CPI. Analysis of the PPI data suggests that the CPI may be overstating the annual increase in medical service prices by about 2-1/2 percentage points. Nonetheless, the PPI provides no evidence that the CPI is understating the <u>deceleration</u> in medical costs in recent years.

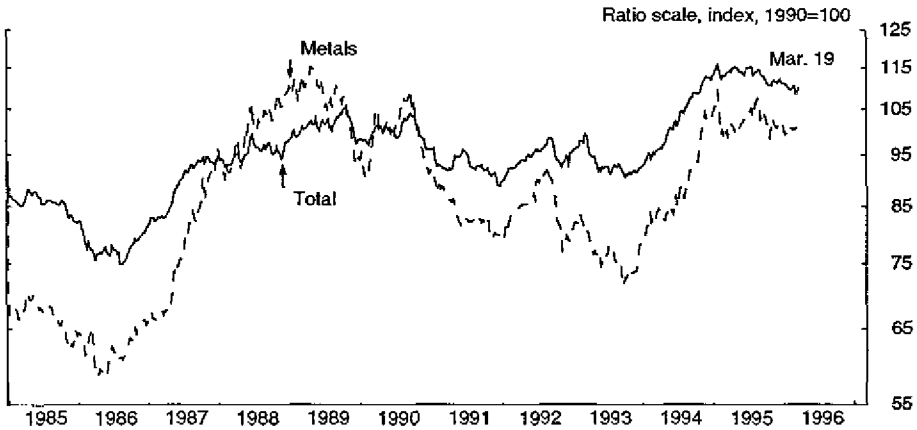
SPOT PRICES OF SELECTED COMMODITIES

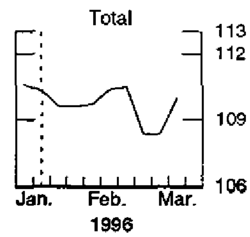
	Current price ($)	Percent change[1]: 1994	1995	To Jan. 23[2]	Jan. 23[2] to Mar. 19	Memo: Year earlier to date
	INDUSTRIAL COMMODITIES					
Metals						
Copper (lb.)	1.230	64.9	-3.5	-12.5	3.4	-14.6
Steel scrap (ton)	139.000	2.9	-6.6	7.8	-3.8	1.1
Aluminum, London (lb.)	.728	73.5	-12.9	-7.3	3.7	-8.0
Lead (lb.)	.507	20.7	9.0	.0	11.8	22.4
Zinc (lb.)	.520	23.6	-13.1	2.7	1.0	-3.0
Tin (lb.)	4.128	21.4	5.1	.3	-1.4	9.3
Textiles and fibers						
Cotton (lb.)	.815	38.5	-8.1	3.3	-.1	-23.0
Burlap (yd.)	.360	10.2	23.3	1.4	-1.4	22.4
Miscellaneous materials						
Hides (lb.)	.785	14.2	-19.7	1.7	6.4	-19.9
Rubber (lb.)	.785	75.4	3.2	-3.1	.0	-16.8
	OTHER COMMODITIES					
Precious metals						
Gold (oz.)	395.100	-1.7	1.7	4.2	-2.1	3.2
Silver (oz.)	5.525	-5.0	7.2	8.0	-.4	17.9
Platinum (oz.)	411.250	7.5	-2.3	4.4	-2.8	-1.1
Forest products						
Lumber (m. bdft.)	287.000	-37.1	-14.4	1.6	13.0	4.7
Plywood (m. sqft.)	293.000	1.5	-6.1	-4.2	-1.3	-13.1
Petroleum						
Crude oil (barrel)	20.260	15.6	16.8	-4.7	16.7	20.0
Gasoline (gal.)	.610	32.4	7.7	-7.6	25.1	18.0
Fuel oil (gal.)	.764	12.7	22.6	-11.8	43.5	66.8
Livestock						
Steers (cwt.)	60.000	-3.4	-5.7	-3.0	-6.3	-15.5
Hogs (cwt.)	49.500	-12.9	27.5	-7.2	17.9	32.0
Broilers (lb.)	.511	-4.9	10.7	7.1	-12.2	8.0
U.S. farm crops						
Corn (bu.)	3.880	-23.2	57.4	1.6	10.1	64.8
Wheat (bu.)	5.385	11.4	24.0	-.8	.4	38.3
Soybeans (bu.)	6.985	-19.6	29.0	.4	-3.4	23.6
Other foodstuffs						
Coffee (lb.)	1.258	153.1	-39.1	13.6	11.3	-23.6
Memo:						
Exchange value of the dollar (March 1973=100)	86.393	-5.5	-6.0	2.8	-.7	2.9
Yield on Treasury bill, 3-month[3]	5.050	247	-67	11	8	-69

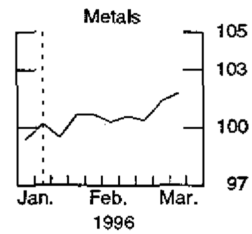
1. Changes, if not specified, are to the last week of the year indicated and from the last week of the preceding year.
2. Week of the January Greenbook.
3. Changes are in basis points.

Commodity Price Measures

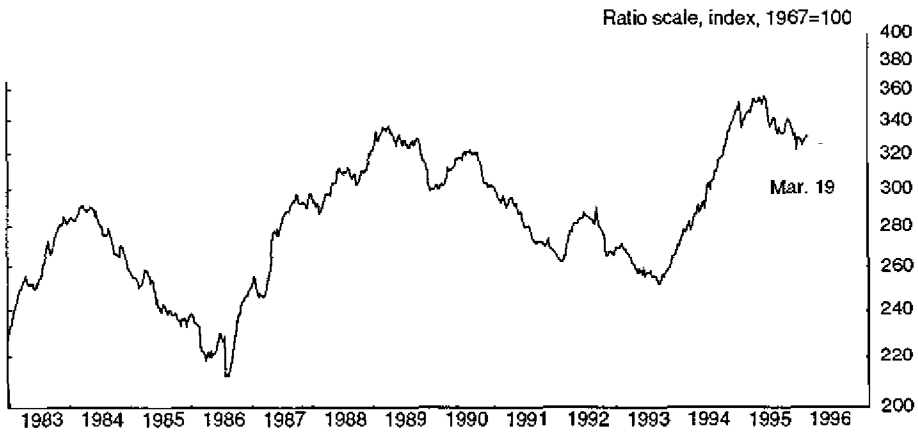
Journal of Commerce Index

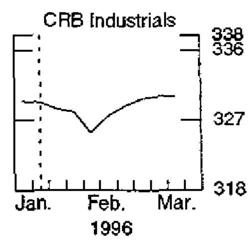




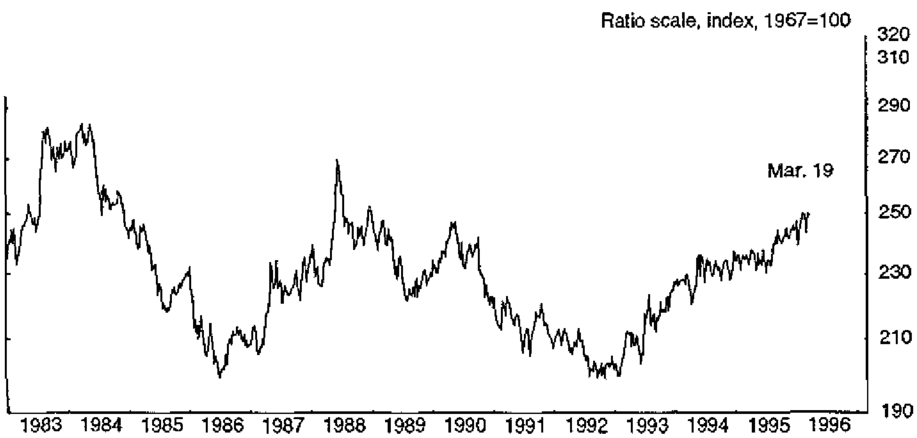


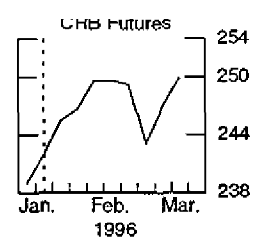
CRB Spot Industrials





CRB Futures





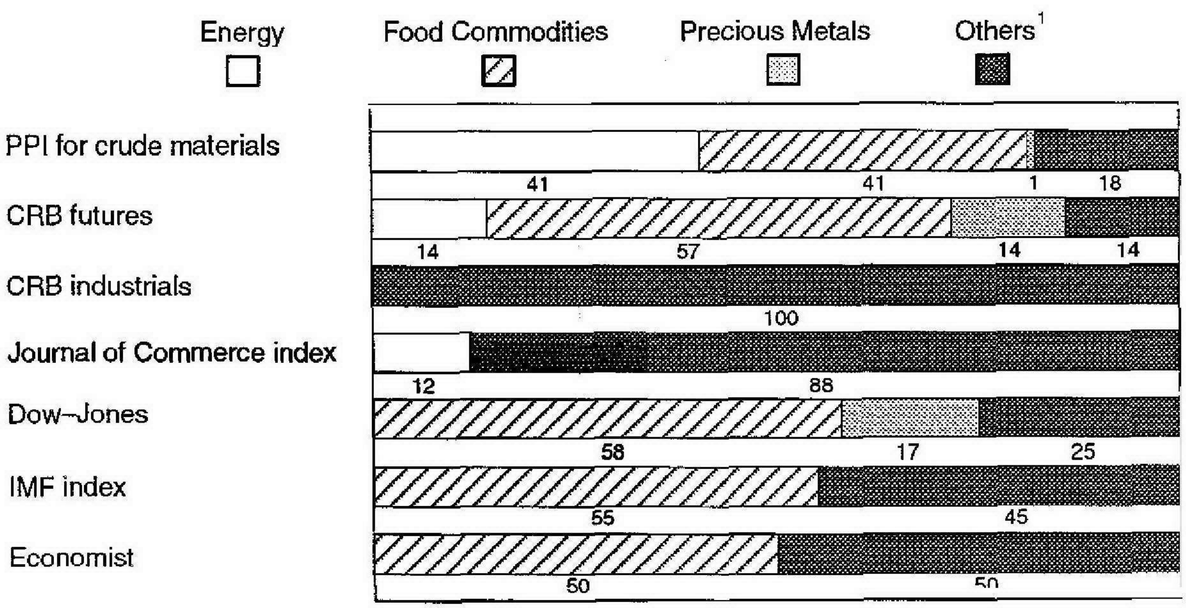
Note. Weekly data, Tuesdays. Vertical lines on small panels indicate week of last Greenbook. The Journal of Commerce index is based almost entirely on industrial commodities, with a small weight given to energy commodities, and the CRB spot price index consists entirely of industrial commodities, excluding 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.

COMMODITY PRICE INDEXES

	Last observ-ation	1994	1995	Dec. 95 to Jan. 23[2]	Jan. 23[2] to date	Memo: Year earlier to date
		Percent change[1]				
PPI for crude materials[3]	Feb.	-0.5	4.1	2.4	-0.2	4.2
Foods and feeds	Feb.	-9.4	12.9	-0.1	0.4	10.6
Energy	Feb.	-0.1	0.0	7.3	-1.1	6.6
Excluding food and energy	Feb.	17.3	-4.6	0.6	-0.1	-8.7
Excluding food and energy, seasonally adjusted	Feb.	17.8	-4.6	0.0	-0.5	-8.6
Commodity Research Bureau						
Futures prices	Mar. 19	4.8	3.3	-0.8	3.3	6.6
Industrial spot prices	Mar. 19	29.1	-3.5	-0.4	0.2	-4.4
Journal of Commerce industrials	Mar. 19	22.1	-1.7	-0.8	-0.3	-3.4
Metals	Mar. 19	31.9	-1.8	-1.5	1.6	2.9
Dow-Jones spot	Mar. 19	14.8	-1.8	0.3	1.9	-2.9
IMF commodity index[3]	Feb.	15.2	19.3	-0.7	2.7	1.9
Metals	Feb.	39.1	-8.1	-4.2	0.0	-8.5
Nonfood agricultural	Feb.	14.8	3.7	-0.4	3.8	-0.8
Economist (U.S. dollar index)	Mar. 12	31.0	-7.3	-1.2	0.6	-10.4
Industrials	Mar. 12	38.6	-6.6	-3.4	0.7	-11.6

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

Index Weights



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

fell 0.2 percent in February, declining for the fifth consecutive month.

Prices of industrial commodities have eased a bit since the last Greenbook. The *Journal of Commerce* index of industrial commodity prices has changed little on net since late January, with a sharp decline in its textile component mostly offset by a run-up in the petroleum index. The JOC metals index has risen about 1-1/2 percent since the last Greenbook. Copper prices, volatile in recent weeks, were pushed down earlier this year by weaker economic activity and, to some extent, by weak export demand, but they appear to have recovered and now stand about 3-1/2 percent above their level in late January. Prices for aluminum, also volatile recently, are about 4 percent higher than at the time of the last Greenbook. Lead prices soared 7-1/2 percent this week, as supplies became very tight in U.S. markets. In contrast, steel scrap prices have fallen about 4 percent since the last Greenbook, but they remain at about the average level for 1995.

Labor Costs

As measured by the employment cost index (ECI), the hourly compensation of private industry workers increased at an annual rate of 3-1/2 percent over the three months ended in December 1995, up from a 2-1/2 percent annual rate over the first nine months of the year. The uptick in compensation growth was widespread across industrial and occupational groups and largely reflected an acceleration in payments for health insurance benefits. Wages and salaries increased 2-1/2 percent at a seasonally adjusted annual rate in the fourth quarter, a bit less than over the first nine months of the year, and costs of most nonhealth benefits--such as

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

	1994	1995			
	Dec.	Mar.	June	Sept.	Dec.
	-----Quarterly percent change------- (compound annual rate)				
Total hourly compensation:[1]	2.6	2.3	2.9	2.3	3.5
Wages and salaries	2.4	2.7	3.0	2.7	2.6
Benefit costs	3.0	0.6	2.1	2.1	5.4
By industry:					
Construction	-0.3	0.3	2.0	3.3	3.0
Manufacturing	2.9	1.9	2.9	1.6	3.8
Transportation and public utilities	3.7	4.7	2.9	3.9	4.5
Wholesale trade	2.0	6.8	3.6	5.9	1.3
Retail trade	0.3	3.0	1.0	3.0	2.0
FIRE	1.4	4.4	5.4	3.0	2.6
Services	2.9	1.9	3.5	1.3	3.1
By occupation:					
White-collar	2.9	2.9	3.2	2.2	3.8
Blue-collar	2.3	1.6	2.9	2.3	3.2
Service occupations	3.7	1.0	2.6	1.9	2.3
Memo:					
State and local governments	2.6	2.9	3.9	1.9	3.2
	-----Twelve-month percent change----				
Total hourly compensation:	3.1	2.9	2.8	2.6	2.8
Excluding sales workers	3.1	3.0	2.8	2.5	2.8
Wages and salaries	2.8	2.9	2.9	2.8	2.8
Benefit costs	3.7	2.9	2.6	2.1	2.7
By industry:					
Construction	3.7	2.1	1.5	1.4	2.2
Manufacturing	3.1	3.0	2.8	2.3	2.6
Transportation and public utilities	3.9	4.0	4.1	3.8	4.0
Wholesale trade	3.1	4.5	4.3	4.6	4.4
Retail trade	2.8	2.9	2.2	1.8	2.2
FIRE	2.1	2.1	3.5	3.5	3.9
Services	2.8	2.5	2.6	2.4	2.4
By occupation:					
White-collar	3.2	3.1	3.0	2.8	3.1
Blue-collar	2.8	2.7	2.6	2.3	2.5
Service occupations	2.8	2.3	2.5	2.4	2.0
Memo:					
State and local governments	3.0	3.1	3.1	3.0	3.0

1. Seasonally adjusted by the BLS.

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

	1994	1995			
	Dec.	Mar.	June	Sept.	Dec.
Hourly wages and salaries	2.8	2.9	2.9	2.8	2.8
By industry:					
Construction	3.2	2.3	1.8	1.9	2.2
Manufacturing	3.0	3.3	3.3	2.9	2.9
Transportation and public utilities	3.6	4.1	4.1	3.4	3.4
Wholesale trade	3.0	4.0	3.7	4.2	4.3
Retail trade	2.4	3.0	2.2	2.1	2.4
FIRE	1.2	1.1	3.4	3.7	4.0
Services	2.8	2.6	2.6	2.5	2.5
By occupation:					
White-collar	2.8	2.9	2.8	2.8	3.0
Blue-collar	2.8	2.9	3.1	2.8	2.8
Service occupations	3.0	2.7	2.7	2.7	2.2
Memo:					
State and local governments	3.1	3.2	3.2	3.1	3.2

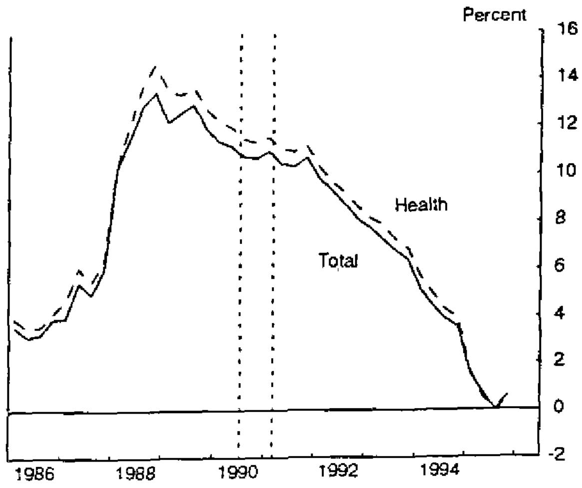
EMPLOYMENT COST INDEX OF HOURLY BENEFIT COSTS
FOR PRIVATE INDUSTRY WORKERS
(Twelve-month percent changes)

	1994	1995			
	Dec.	Mar.	June	Sept.	Dec.
Hourly benefit costs[1]	3.7	2.9	2.6	2.1	2.7
Insurance costs	3.6	1.5	0.7	0.0	0.6
Health care	3.9	1.6	0.6	-0.1	0.5
Supplemental pay	4.5	6.2	3.0	1.4	4.4
Retirement and savings	11.1	6.1	8.4	7.8	7.2
Paid leave	3.1	3.7	3.6	3.3	3.6
Legally required	2.3	1.2	0.9	0.9	1.3
By industry:					
Goods-producing	3.5	2.4	1.5	1.0	2.0
Service-producing	3.8	3.3	3.4	2.7	3.1
By occupation:					
White-collar occupations	4.5	3.6	3.3	2.9	3.2
Blue-collar occupations	2.8	2.1	1.6	1.1	2.0
Service occupations	2.4	1.6	1.9	1.1	1.3
Memo:					
State and local governments	2.8	2.5	2.9	2.5	3.0

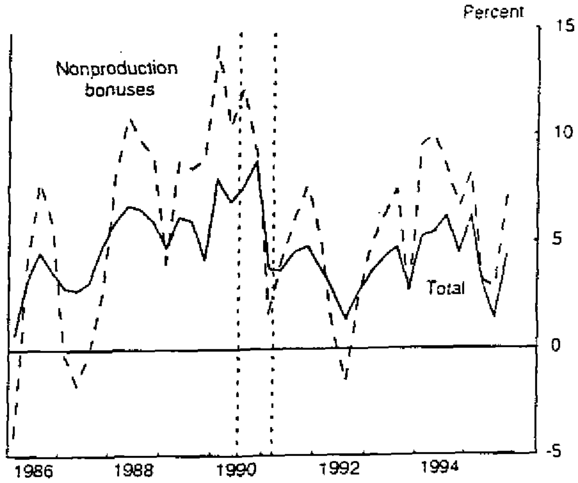
1. The detail on benefit costs is from unpublished data from the BLS.

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

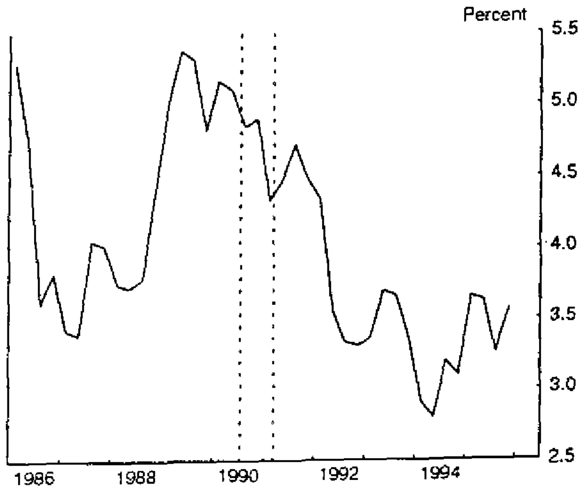
Insurance Costs



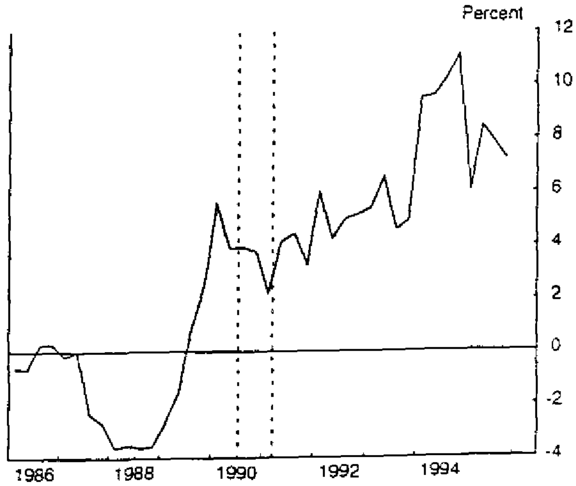
Supplemental Pay



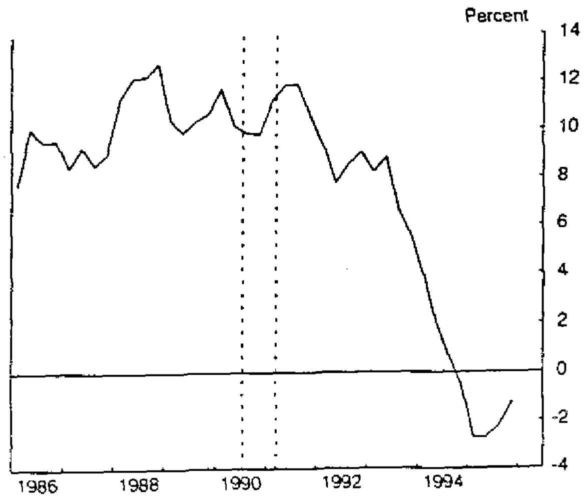
Paid Leave



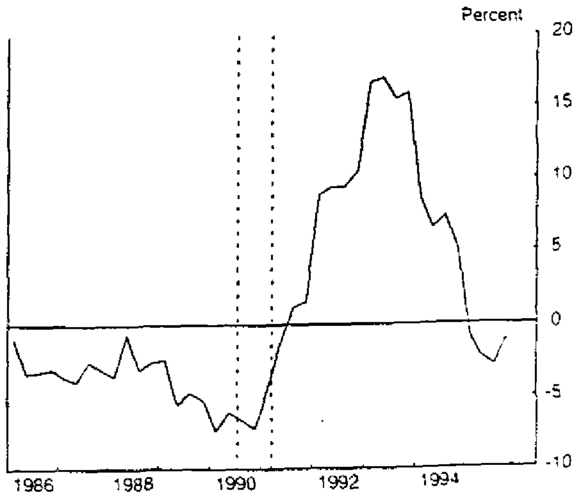
Retirement and Savings



Workers' Compensation Insurance



State Unemployment Insurance



paid leave, retirement and savings, and legally required benefits--also continued to increase in line with their recent trends.[7] Over 1995 as a whole, the ECI rose only 2-3/4 percent, the smallest increase since the series began in 1981.

Despite the step-up in the cost of health insurance in the fourth quarter, the decelerating trend in these benefits remained intact through 1995. Over the year as a whole, health costs rose only 1/2 percent, compared with an increase of 4 percent in 1994 and a high of about 14 percent in the late 1980s. In addition to the slowing in medical care costs, the switch in insurance arrangements from traditional indemnity plans to HMOs and other managed care plans and changes in the provisions of the health plans (including greater sharing of health care costs with employees) may also have contributed to the slowdown in employer-paid health benefits.[8] Analysts remain uncertain about how much of the slowing is sustainable and how much is a one-time saving associated mainly with the shift from traditional insurance plans to lower-cost alternatives. On one hand, the recent CPI and PPI data suggest that the trends in underlying medical costs remain favorable; these should affect insurance premiums with a lag. On the other hand, some experts, who note that insurance premiums have decelerated more over the past few years than have underlying medical costs, see some catch-up in the offing.

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7. Nonproduction bonuses, which are only a small part of benefit costs in the ECI, increased sharply in the fourth quarter, likely in reflection of the 10 percent lump-sum payment to Boeing workers that followed the December 1995 resolution of their strike.

8. According to the *1995 Hay/Huggins Benefits Report*, 69 percent of firms had a fee-for-service plan as its "primary medical plan" in 1991, while 9 percent had a preferred provider plan and 22 percent had an HMO or point-of-service plan. In 1995, only 34 percent of firms had a fee-for-service plan as its primary plan, while 29 percent had a preferred provider plan and 37 percent had an HMO or point-of-service plan.

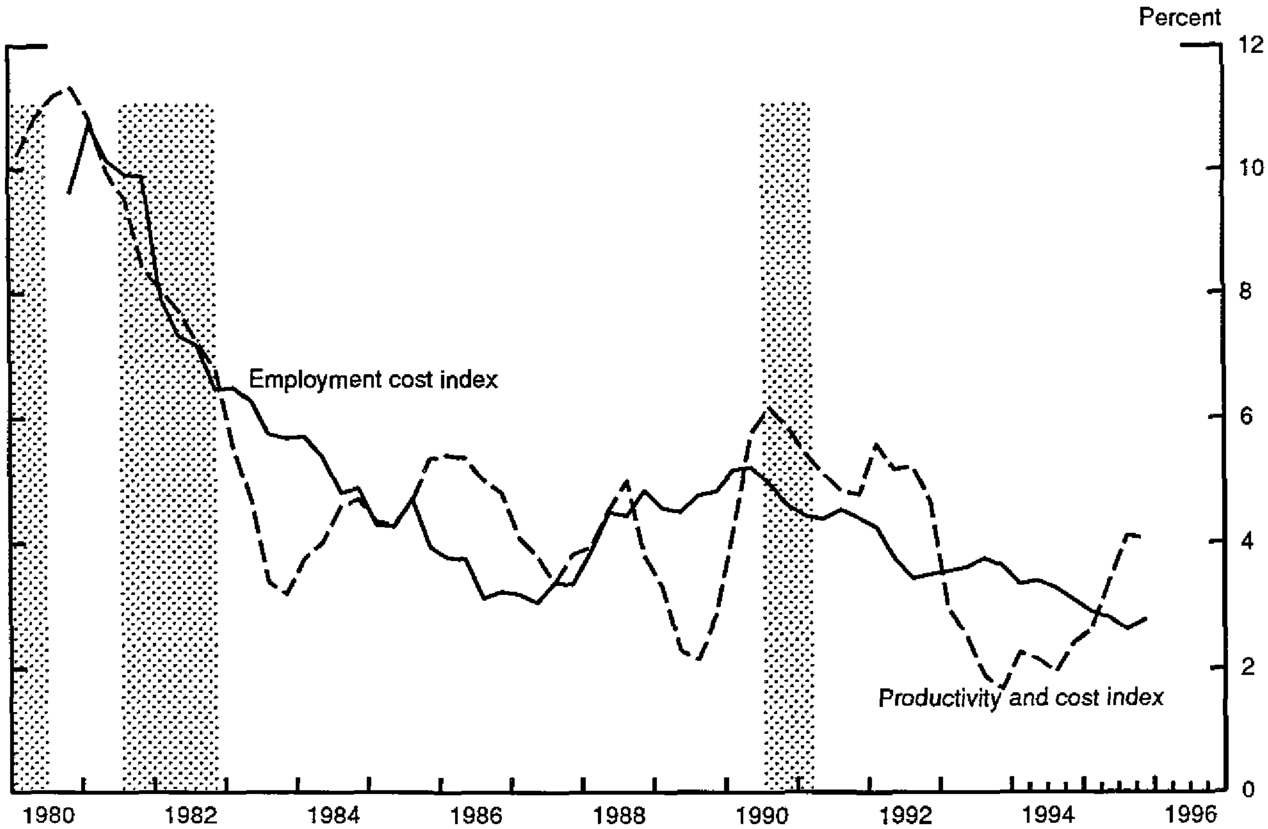
LABOR PRODUCTIVITY AND COSTS
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

	1994[1]	1995[1]	1995 Q1	Q2	Q3	Q4
Output per hour						
Total business	0.7	0.7	-1.6	3.0	1.6	0.0
Nonfarm business	0.7	0.8	-1.1	3.0	1.7	-0.5
Compensation per hour						
Total business	2.3	4.1	3.4	5.6	4.3	3.3
Nonfarm business	2.5	4.1	3.7	5.4	4.3	3.0
Unit labor costs						
Total business	1.6	3.4	5.0	2.5	2.7	3.3
Nonfarm business	1.8	3.3	4.9	2.3	2.5	3.5

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.

Compensation per Hour

(Change from comparable period one year earlier)



Nonfarm hourly compensation, from the productivity and cost data, rose 3 percent at a seasonally adjusted annual rate in the fourth quarter; for all of 1995, nonfarm hourly compensation increased about 4 percent, after rising 2-1/2 percent in 1994. Because this pattern differs so dramatically from that in the ECI, it is useful to note that although the two compensation measures show fairly similar long-run patterns, they often diverge substantially over shorter periods--especially in recent years, when the NIPA compensation data have not yet been benchmarked to comprehensive source data. Much of the discrepancy arises simply because the data are collected from different sources. In addition, because nonfarm hourly compensation does not use fixed weights as does the ECI, it can be affected by changes in the composition of employment.[9] Also, the ECI explicitly incorporates current information on benefit costs, whereas the hourly compensation measure tends to extrapolate recent trends in benefits.

Productivity in the nonfarm business sector apparently fell in the fourth quarter as output decelerated sharply.[10] The decline followed strong gains over the preceding two quarters; nonetheless, over 1995 as a whole, productivity growth fell short of its long-term trend, which we estimate at about 1 percent per year.

Labor cost data for 1996 are sparse. Average hourly earnings of production or nonsupervisory workers in private nonagricultural

9. The wage and salary portion of nonfarm hourly compensation for 1995 is based largely on average hourly earnings (AHE). Whereas the ECI holds the mix of industries and occupations in its sample constant, the AHE does not. The 0.3 percentage point acceleration of the AHE between 1994 and 1995 is largely attributable to changes in the industrial composition of employment; a chain-weighted version of the AHE, which has been available since January 1994 and holds the industry mix constant, shows an increase of 2.8 percent in each year.

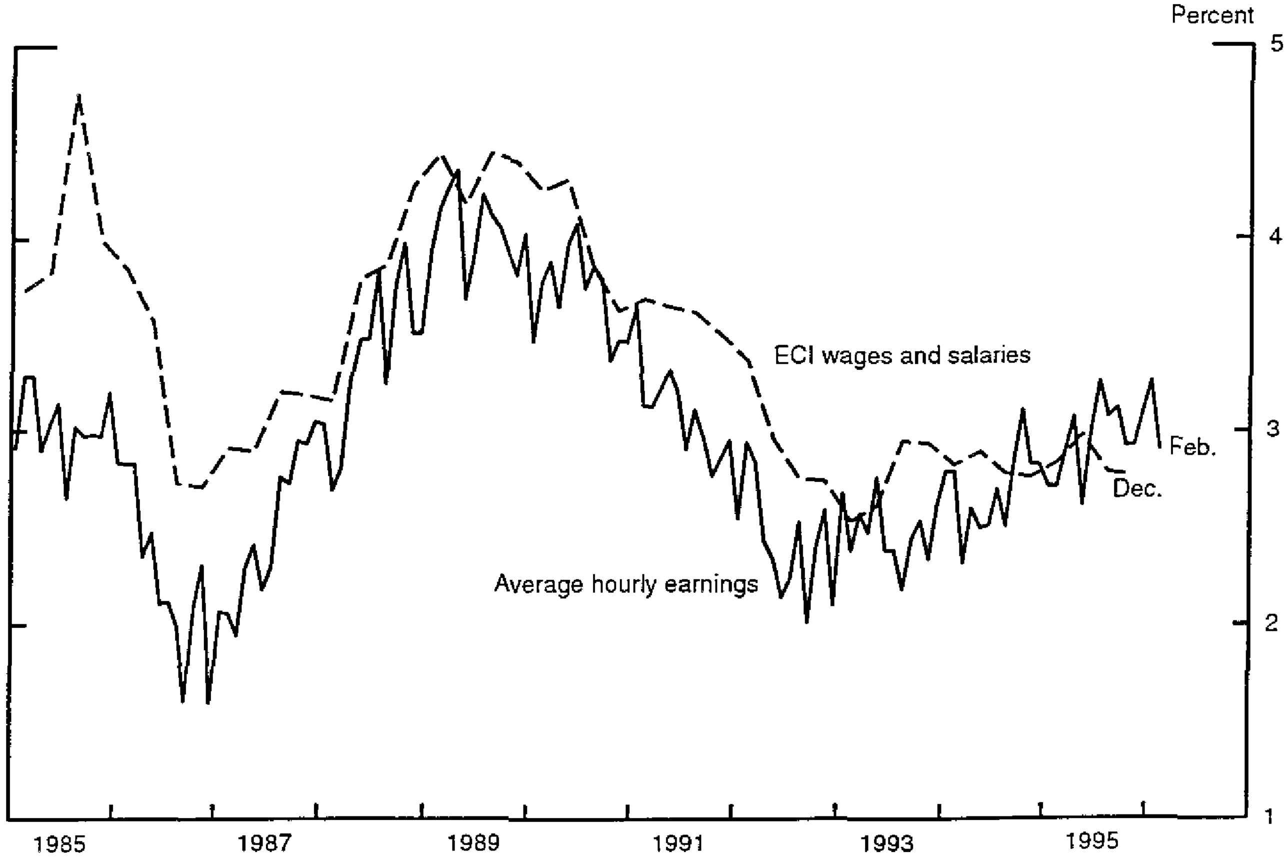
10. The fourth-quarter report on productivity and costs showed output per hour dropping 1/2 percent at an annual rate. However, given the likely revisions to output, we expect the decline in productivity to be revised to about 1 percent.

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

	1994	1995	1995 Q2	1995 Q3	1995 Q4	1995 Dec.	1996 Jan.	1996 Feb.
			-Annual rate-			-Monthly rate-		
Total private nonfarm	2.8	3.1	3.2	3.9	2.4	.3	.4	-.1
Manufacturing	2.2	2.6	2.3	3.6	1.9	.2	1.1	-.4
Durable	2.0	1.7	.3	4.1	.3	.1	1.1	-.2
Nondurable	2.3	3.9	3.9	3.5	5.2	.5	1.0	-.8
Contract construction	2.4	1.8	5.5	1.1	-1.3	-.5	1.9	-.6
Transportation and public utilities	2.3	2.8	4.6	2.8	2.3	-.1	.1	-.1
Finance, insurance, and real estate	3.4	4.3	4.7	5.0	2.6	.2	-.1	.6
Total trade	3.0	3.2	3.2	4.5	3.1	.6	.4	-.9
Services	2.9	3.5	2.9	3.6	4.6	.5	.1	.2

1. Annual and quarterly changes are measured from the final month of the preceding period to the final month of the period indicated.

Earnings of Production and Nonsupervisory Workers
(Twelve-month change)



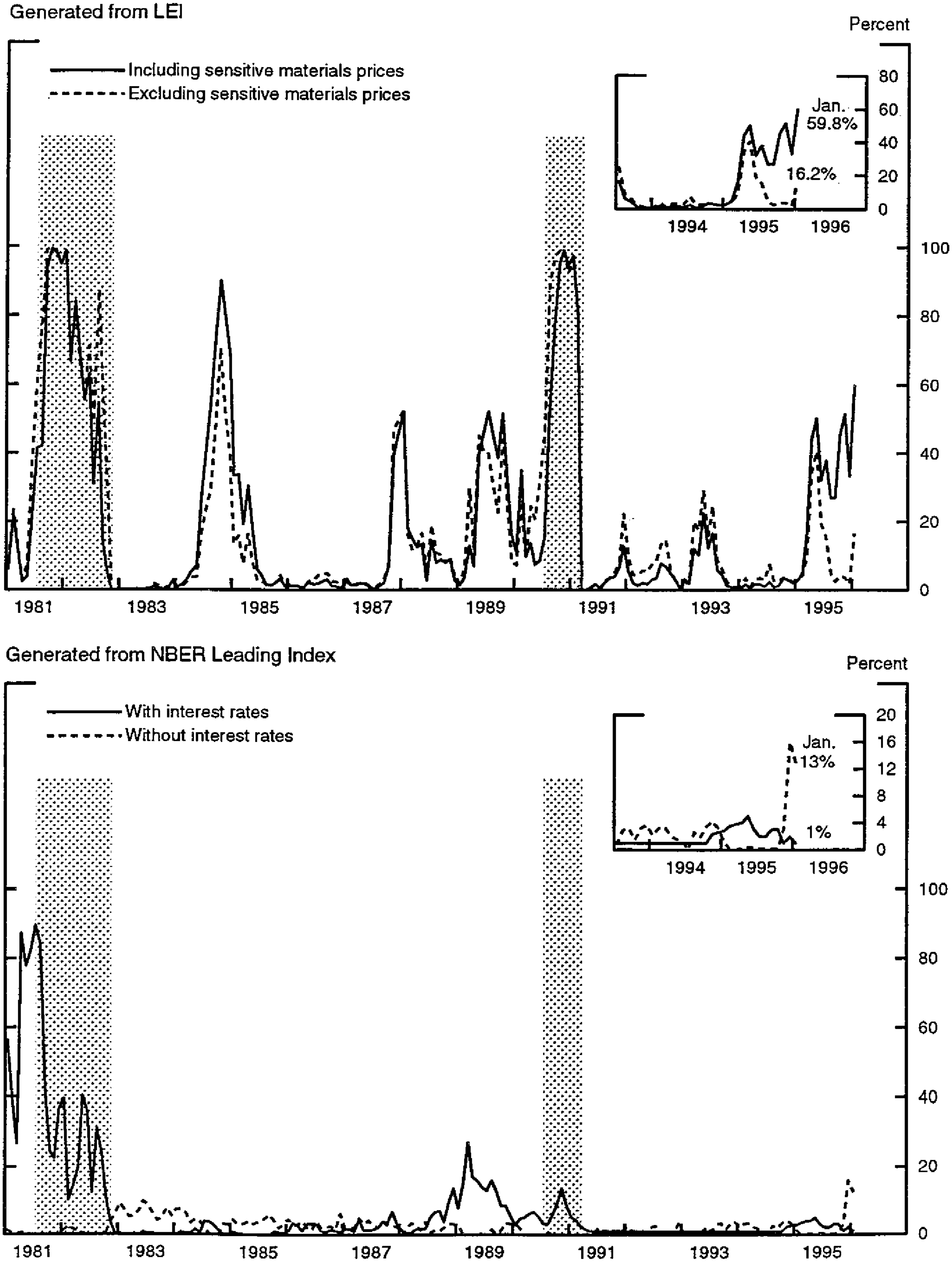
establishments edged down in February after jumping 0.4 percent in January. For the twelve-month period ended in February, average hourly earnings grew 2.9 percent--in the middle of the range observed since late 1994.

Recession Probabilities

The recession probability measures based on the indexes of leading economic indicators continue to diverge. According to a measure based on the Conference Board's index of leading economic indicators (LEI), the probability of a recession starting within six months was 60 percent in January, after readings in the range of 30 percent to 50 percent since the spring of 1995. These relatively high probabilities reflect the sizable decline in sensitive materials prices, which make up about 40 percent of the index, since mid-1995. It is difficult to interpret the declines in sensitive materials prices because they have been largely concentrated in wastepaper, where prices have reversed the huge run-up between mid-1994 and mid-1995. The probability of recession from a version of the LEI that excludes materials prices was just 16 percent in January. The recession probability was also boosted substantially in January by the decline in the manufacturing workweek (which was more than reversed in February).

The January reading of the National Bureau of Economic Research (NBER) measure, which places a heavier weight on financial variables, puts the probability of recession at only 1 percent. An alternative version of the NBER index that excludes interest rates and interest rate spreads puts the probability of recession at 13 percent. The NBER indexes do not include the manufacturing workweek, but they do include part-time employment due to slack work; this variable declined in January, possibly because of the blizzard, making a positive contribution to the indexes.

Probability of a Recession



Note. Each probability represents the likelihood that a recession will begin during the next six months.

DOMESTIC FINANCIAL DEVELOPMENTS

Selected Financial Market Quotations[1]

(Percent except as noted)

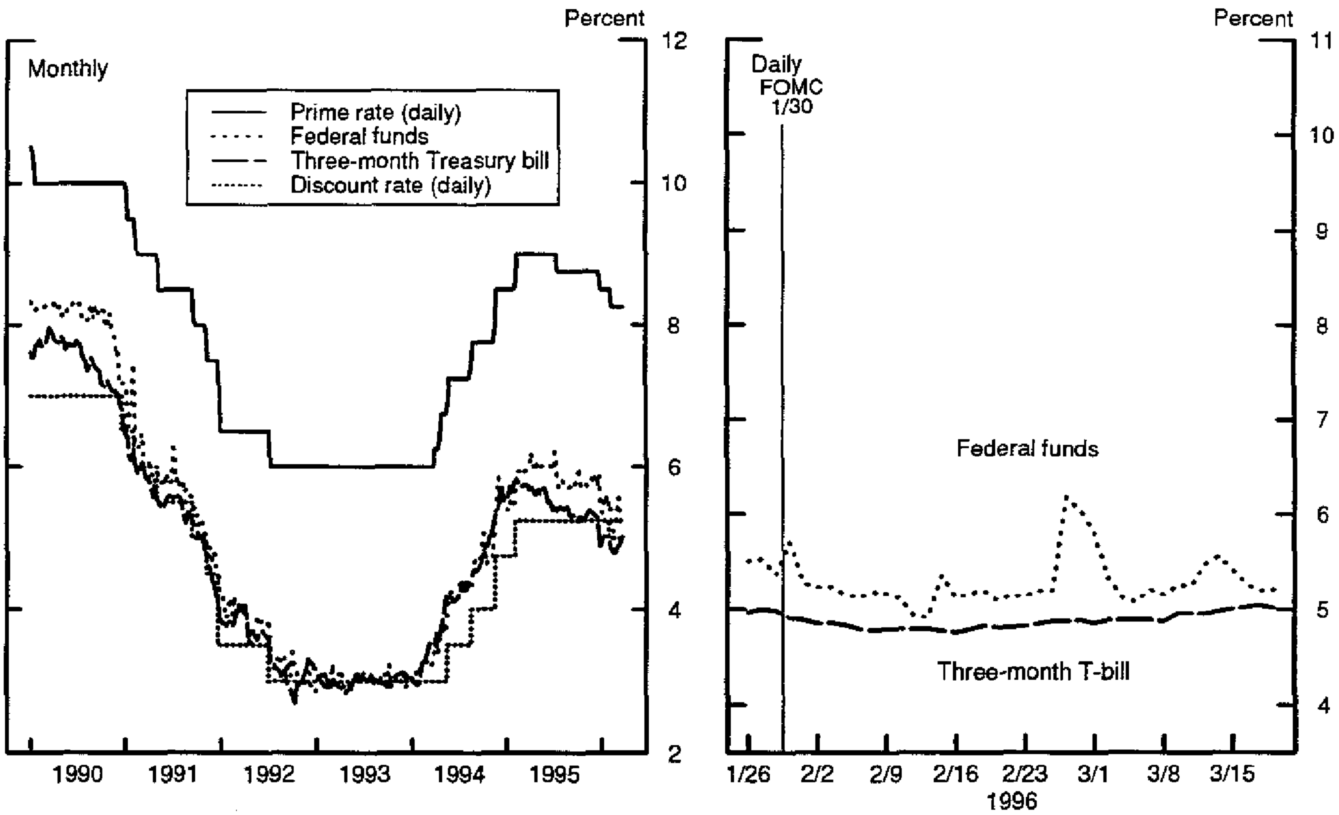
Instrument	1994		1996		Change to Mar. 20,1996 from:		
	Feb. 3	High	FOMC, Jan. 30	Mar. 20	1994 Feb. 3	1994 high	FOMC, Jan. 30
Short-term Rates							
Federal Funds[2]	3.07	5.66	5.46	5.36	2.29	-.30	-.10
Treasury Bills[3]							
3-month	3.13	5.78	5.00	5.02	1.89	.76	.02
6-month	3.27	6.38	4.93	5.02	1.75	-1.36	.09
1-year	3.52	6.84	4.79	5.12	1.60	-1.72	.33
Commercial paper							
1-month	3.16	6.13	5.51	5.44	2.28	-.69	-.07
3-month	3.25	6.32	5.32	5.36	2.11	-.96	.04
Large negotiable CDs[3]							
1-month	3.11	6.10	5.42	5.35	2.24	-.75	-.07
3-month	3.25	6.39	5.33	5.33	2.08	-1.06	.00
6-month	3.41	6.89	5.22	5.37	1.96	-1.52	.15
Eurodollar deposits[4]							
1-month	3.06	6.06	5.38	5.31	2.25	.75	-.07
3-month	3.25	6.38	5.28	5.31	2.06	-1.07	.03
Bank Prime Rate	6.00	8.50	8.50	8.25	2.25	-.25	-.25
Intermediate- and Long-term Rates							
U.S. Treasury (constant maturity)							
3-year	4.60	7.82	5.21	5.86	1.26	-1.96	.65
10-year	5.81	8.04	5.69	6.34	.53	-1.70	.65
30-year	6.31	8.16	6.09	6.65	.34	-1.51	.56
Municipal revenue (Bond Buyer)[5]	5.49	7.37	5.77	6.13	.64	-1.24	.36
Corporate-A Utility, recently offered	7.35	9.05	7.16	7.75	.40	-1.30	.59
Home mortgages[6]							
FHLMC 30-yr fixed rate	6.97	9.25	7.00	7.83	.86	-1.42	.83
FHLMC 1-yr adjustable rate	4.12	6.79	5.37	5.55	1.43	-1.24	.18

Stock Exchange Index	Record high		1989	1996		Percentage change to Mar. 20 from:		
	Level	Date	Low, Jan. 3	FOMC, Jan. 30	Mar. 20	Record high	1989 low	FOMC, Jan. 30
Dow-Jones Industrial	5683.60	3/18/96	2144.64	5381.21	5655.42	-.50	163.70	5.10
NYSE Composite	351.70	3/6/96	154.00	337.28	348.20	-1.00	126.10	3.24
NASDAQ (OTC)	1117.79	3/6/96	378.56	1051.30	1101.82	-1.43	191.06	4.81
Wilshire	6449.34	3/6/96	2718.59	6161.64	6389.24	-.93	135.02	3.69

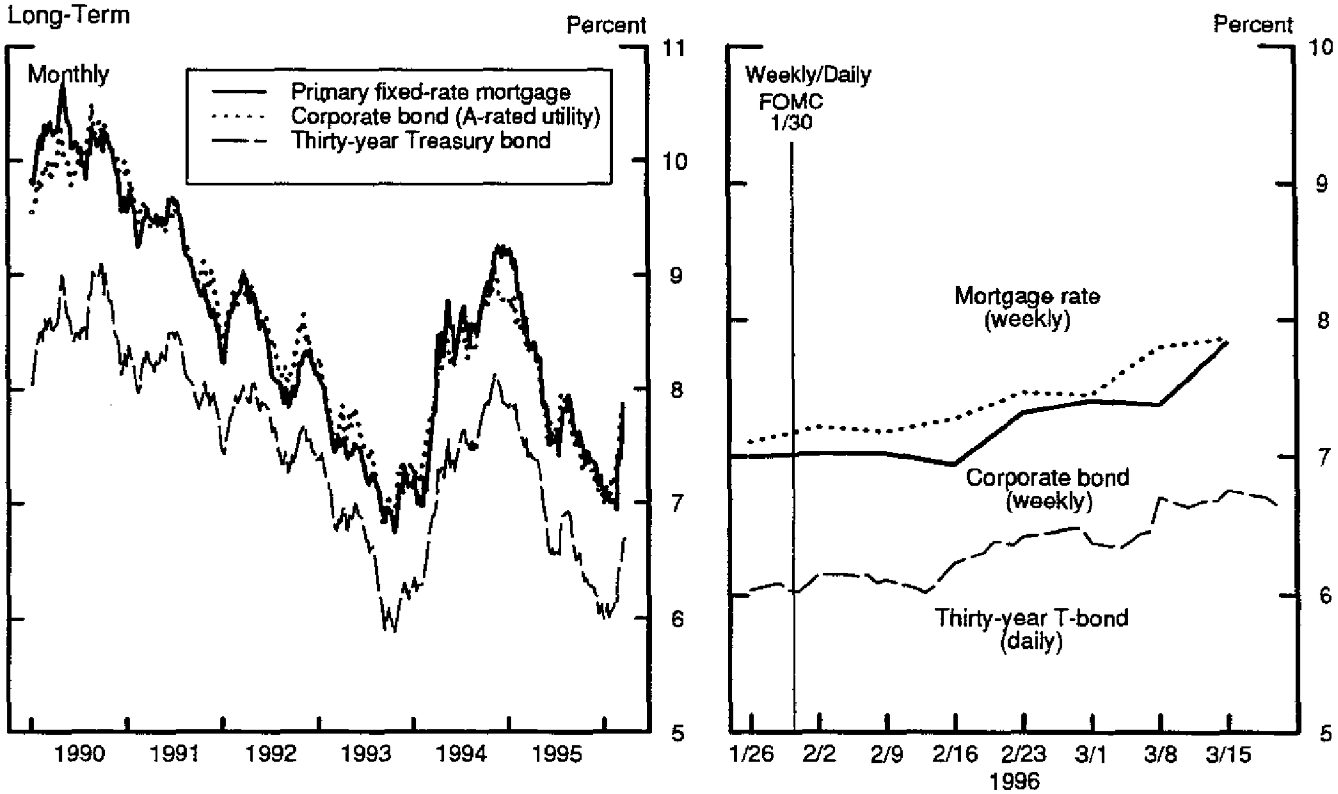
1. One-day quotes except as noted.
2. Average for two-week reserve maintenance period closest to date shown. Last observation is average maintenance period to date ending March 27, 1996.
3. Secondary market.
4. Bid rates for Eurodollar deposits at 11 a.m. London time.
5. Most recent observation based 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



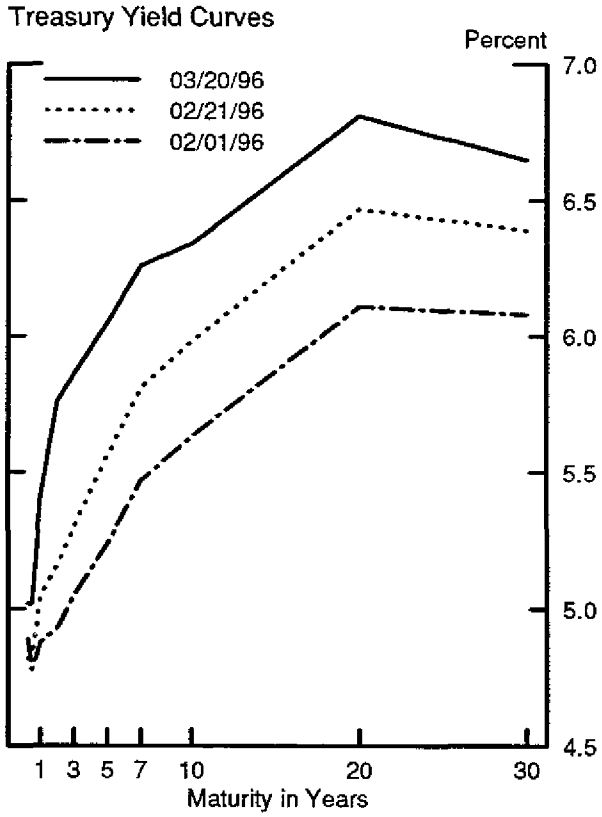
Long-Term

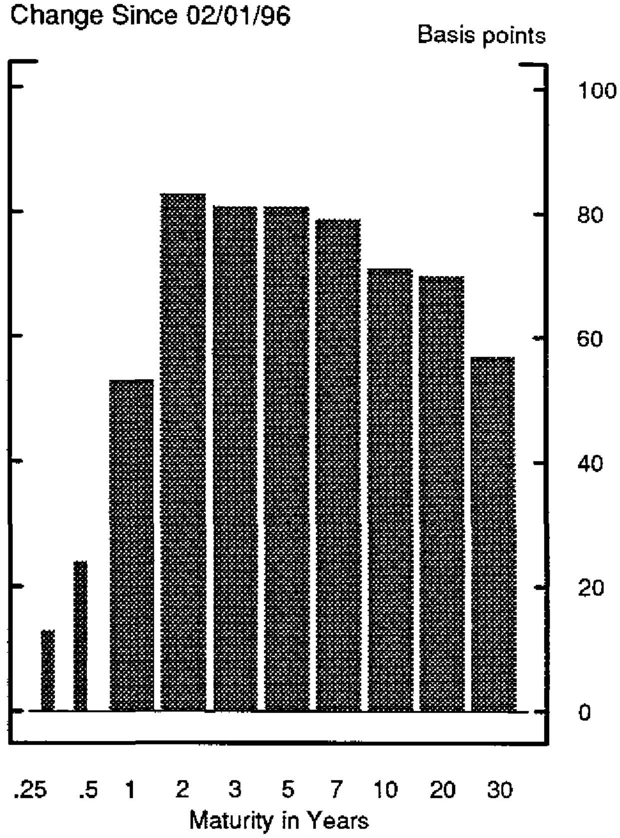


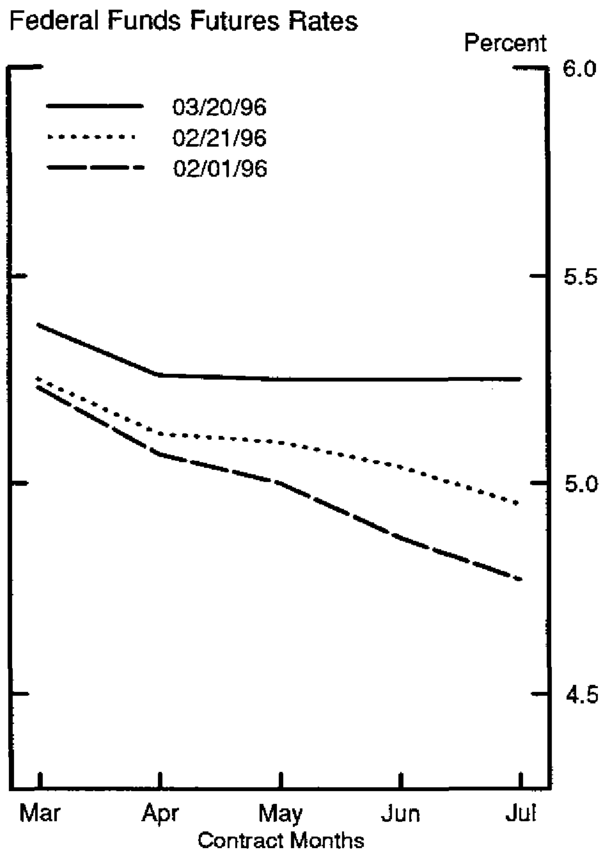
Intermediate- and long-term interest rates have backed up about 55 to 65 basis points since the beginning of February, primarily on stronger economic data. Short-term interest rates fluctuated during the period, but now stand near their levels at the January FOMC meeting. Short-term interest rates initially had edged down about 1/4 percentage point following the System policy change at the January meeting and, judging from federal funds futures data in early February, market participants appeared to place high odds on a further 25 basis point cut in the funds rate at the March FOMC meeting with additional easing by early summer (chart). However, Chairman Greenspan's testimony before the Congress regarding the FOMC's forecasts of moderate economic growth along with the subsequent release of stunningly strong employment data in early March were seen as largely erasing any possibility of near-term System easing and as raising questions about the direction of monetary policy down the road. Moreover, election-year rhetoric suggested that agreement on a major deficit-reduction plan was an even more remote probability. Despite the rise in interest rates, major stock-price indexes advanced between 3 and 5-1/2 percent over the intermeeting period.

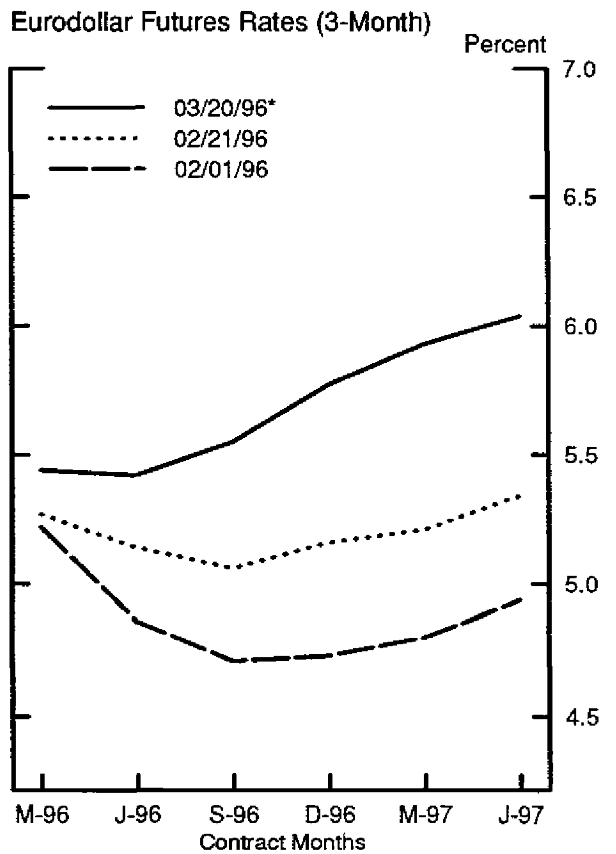
The growth of aggregate nonfederal debt has not deviated appreciably from the moderate pace of the past two years. Although some recent signs point to a slowing in household borrowing, consumer credit has continued to climb relative to disposable income. Corporate bond issuance has slackened with the backup in rates; overall business borrowing this quarter will be buoyed, however, by the completion of large merger transactions. New issuance of state and local government securities also dipped with

Selected Financial Market Quotations









* Last day of trading for the March 1996 contract was March 18.

the rise in yields in late February; on balance, tax-exempt debt has continued to contract with heavy retirements of pre-refunded debt.

The federal government's borrowing has picked up after the disruptions of the fourth quarter. The Treasury's plans have been complicated to a small degree by the continuing dispute over the debt ceiling, but regular monthly two- and five-year note auctions proceeded on schedule.

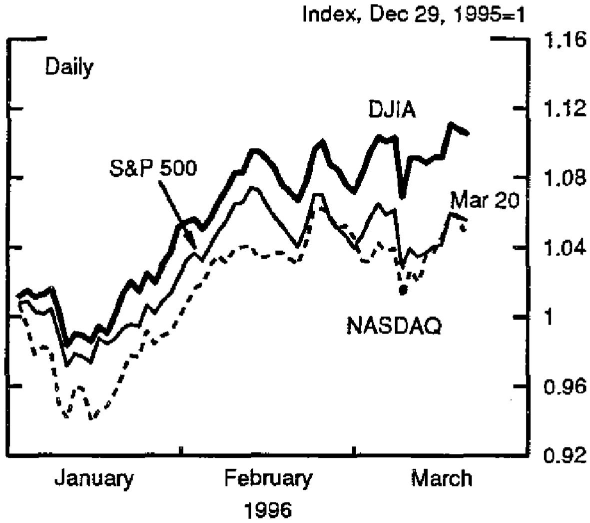
Equity Price Developments

Although share prices posted strong gains over the intermeeting period, broad measures of stock prices declined sharply on Friday, March 8, after the release of unexpectedly strong employment data for February. At one point that day, the Dow Jones Industrial average had declined 215 points--approaching the 250 point trigger that would have suspended trading on the NYSE for one hour. However, prices recovered, finishing down 171 points, and most broad indexes have since recouped that day's decline; indeed, some, including the DJI, have proceeded to register new highs (chart). At the same time, the markets have been quite volatile (chart).

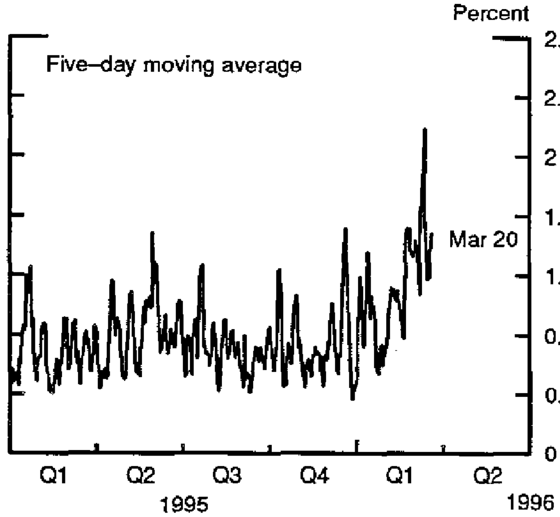
The run-up in stock prices this year seems hard to reconcile with higher interest rates and with reports that securities analysts have, if anything, lowered their earnings forecasts for 1996. Based on some benchmarks for equity valuation, stock prices appear somewhat overvalued. For example, the expected earnings yield for the S&P 500--the ratio of security analysts' expectations for year-ahead earnings to current price--moved roughly in parallel with long-term bond yields during 1994 and 1995, but has fallen appreciably this year to a rather low level (chart, middle panel). This decline, viewed against the recent backup in long-term yields, implies a considerable decline of the so-called equity premium, which some have asserted was already unsustainably narrow.

Stock Market

Selected Stock Indexes

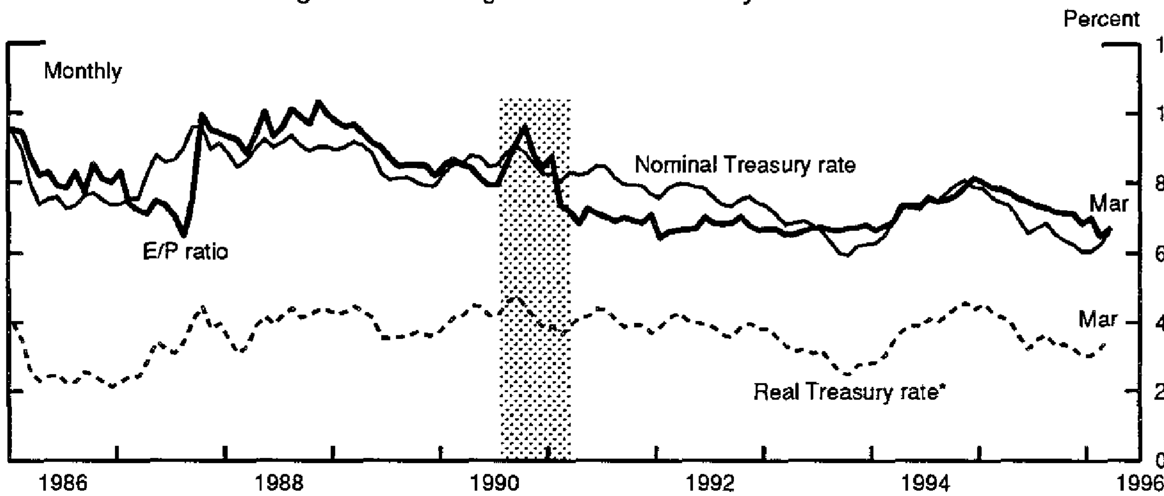


Volatility of the S&P 500*



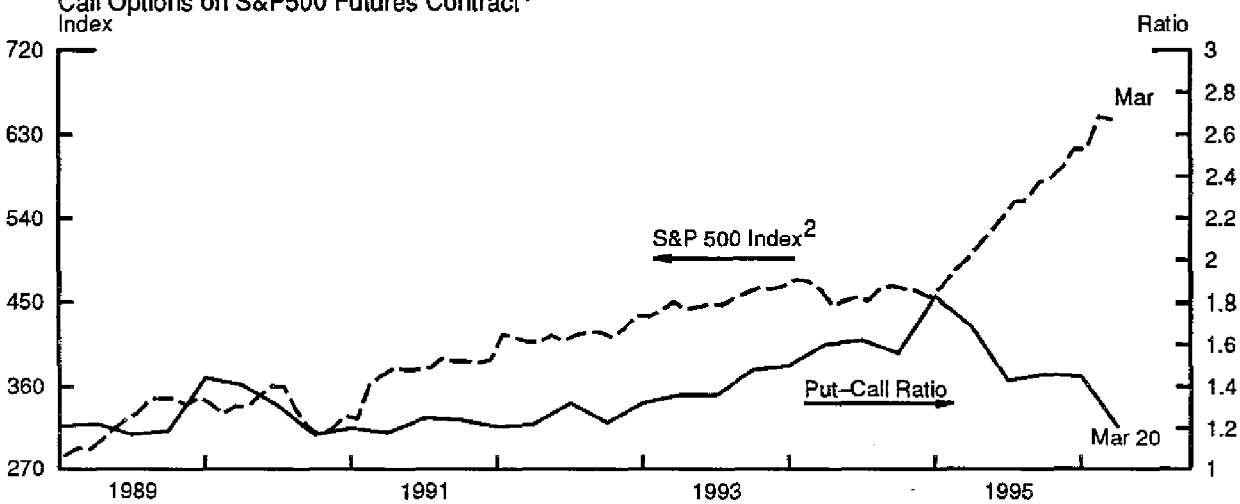
* Calculated as the difference between the daily high price and daily low price as a percent of the daily low.

12–Month Forward Earnings–Price Ratio Against 30–Year Treasury Rate



* Nominal rate less expected 10–year inflation rate.

Ratio of Price of Put Options to Price of Call Options on S&P500 Futures Contract[1]



1. Options are 3 percent out–of–the–money. All observations except the last one are closing prices on Thursday of the first full week of the first month of the quarter.

2. Monthly average of daily closing levels of the S&P 500 Index. March value is average of daily closing levels for March 1 through March 20.

Nonetheless, at least one indicator suggests that confidence in the prospects for a continuation of the bull market has not been weakening. On certain assumptions, the ratio of prices on out-of-the-money put and call options on stock price indexes can help to gauge the market's assessment of risks associated with prevailing stock prices. A put-to-call price ratio greater than 1, for example, can be interpreted as implying a greater likelihood of a downward movement in stock prices. For futures contracts on the S&P 500 stock index, the put-call ratio has fallen considerably on balance since the end of 1994, suggesting that investors have become less concerned about the prospects for a significant drop in stock prices. Indeed, the historical record of sharp sizable stock price declines over the past forty years--declines on the order of 10 percent or more over a two-month period--reveals little precedent for such market breaks in the absence of a significant Federal Reserve tightening or a jump in oil prices. The only instance in which stock prices fell in the absence of at least one of these factors was in 1962, when the Kennedy administration pressured the major steel producers to roll back large price increases, setting off fears that the administration would pursue anti-business policies.

Mutual Funds

Stock mutual funds continued to experience sizable inflows through early March, although the recent volatility in the market may have diminished somewhat the enthusiasm for equity investment. Preliminary weekly data suggest that stock fund inflows, though still positive, moderated during the week ended March 13--the week including the sharp one-day market decline. Inflows to bond funds, which had trended down over February and early March, turned negative that week.

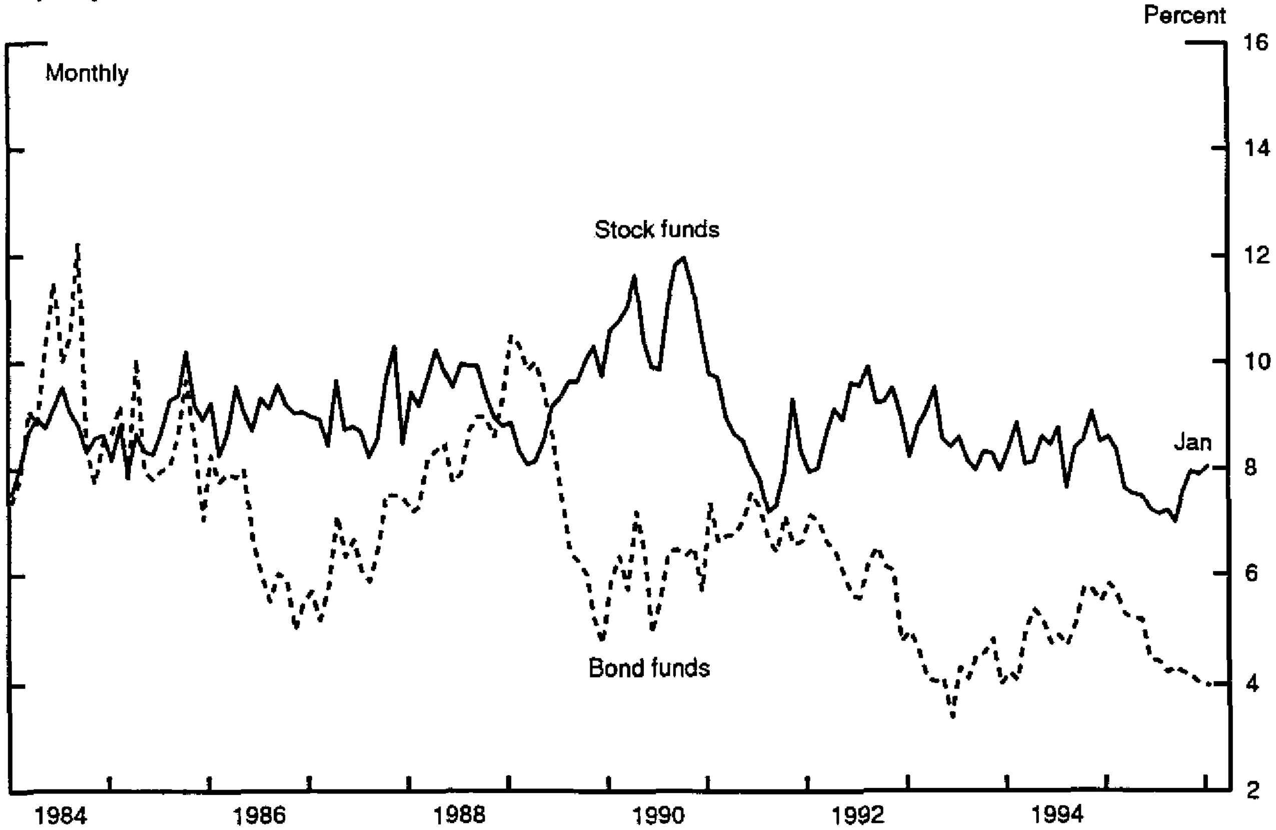
Recent Developments in the Mutual Fund Industry

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

	1995			1996		Memo:
	Q3	Q4	Dec.	Jan.	Feb.[e]	Jan. Assets
Total stock	14.1	16.8	25.9	29.6	20.8	1,332.3
International	1.3	1.7	3.7	8.1	4.1	212.3
Domestic	12.8	15.1	22.2	21.4	16.7	1,119.9
Total bond	2.5	4.3	5.2	6.6	3.6	811.1
GNMA	-.2	-.1	-.2	-.3	.0	55.2
Government	-.2	-.2	-.6	-.2	-.3	87.8
High-yield	.9	1.0	1.1	1.3	.6	61.9
Tax-exempt	.1	.3	-.2	.6	-.5	253.9
Income	1.8	2.8	4.2	3.7	3.1	285.5
Other	.0	.5	.9	1.4	.6	66.9
Total money fund	11.3	9.5	1.0	12.2	32.5	775.6
Taxable	10.3	8.3	.1	8.7	29.3	644.3
Tax-exempt	1.0	1.2	.9	3.5	3.2	131.4

e Staff estimate.
Source. Investment Company Institute.

Liquidity Ratios*



* Cash and short-term securities as a percent of total assets.

Various industry reports suggest that mutual fund investors generally have long investment horizons. For their part, mutual fund managers have been holding relatively small cash and short-term securities positions, suggesting that they do not perceive themselves to be particularly vulnerable to a surge in redemptions (chart).[1] Indeed, in the weeks following the October 1987 stock market break, investors redeemed less than 4 percent of their stock fund holdings, and net outflows have been far smaller during other periods of falling prices.

Money and Depository Credit

The strength in mutual fund inflows early this year does not appear to have come at the expense of the broad monetary aggregates. Spurred by the policy easings at the December and January FOMC meetings, M2 and M3 growth picked up over the first two months of the year. Moreover, preliminary data for March suggest a considerable further acceleration of M2 and continued robust growth in M3, placing them both further above the upper bounds of their respective annual ranges. Much of the recent advance of the broad aggregates has been fueled by growth in retail and institution-only money funds. Money fund yields lag changes in short-term market interest rates, thus making them particularly attractive investments in the wake of System policy easings.

In contrast to the broad aggregates, M1 continued to contract over the first two months of the year, with the impact of new retail OCD "sweep" accounts far outweighing the impetus from narrowing opportunity costs. More than $25 billion of OCD balances have been swept just this year. Partial data suggest positive M1 growth in

1. Mutual fund managers face considerable competition from index funds and so may be quite reluctant to sacrifice yield by holding liquid assets--at least until the bull market trend is perceived to have reversed. Another factor holding down liquidity ratios is that many mutual funds maintain backup credit lines with banks to cover emergency liquidity needs.

MONETARY AGGREGATES
(Based on seasonally adjusted data)

Aggregate or component	1995	1995 Q3	1995 Q4	1995 Dec.	1996 Jan.	1996 Feb. (p)	1995:Q4 to Feb. 96 (p)	Level (bil. $) Feb. 96 (p)
Aggregate	Percentage change (annual rate)[1]							
1. M1	-1.8	-1.5	-5.1	-4.5	-6.2	-2.1	-4.1	1117.0
2. M2[2]	4.0	6.9	3.9	5.5	4.7	5.3	5.0	3690.8
3. M3	5.9	8.0	4.2	3.3	7.2	10.0	6.8	4636.1
Selected components								
4. Currency	5.4	2.1	3.8	5.2	1.3	-1.0	1.5	373.3
5. Demand deposits	1.4	5.7	-0.4	4.9	11.4	11.9	9.0	397.4
6. Other checkable deposits	-11.2	-11.7	-18.8	-24.3	-34.0	-19.2	-24.1	337.5
7. M2 minus M1[3]	6.7	10.9	8.1	9.9	9.5	8.6	9.0	2573.8
8. Savings deposits	-3.4	3.5	7.8	14.9	18.3	14.3	14.9	1165.5
9. Small time deposits	14.9	8.4	4.2	2.4	-0.9	-1.8	0.2	933.6
10. Retail money market funds	20.1	36.9	16.5	13.0	9.0	15.6	12.7	474.7
11. M3 minus M2[4]	14.2	12.2	5.4	-5.1	17.3	28.9	14.1	945.3
12. Large time deposits, net[5]	15.4	13.2	17.2	5.5	-2.6	15.3	7.3	421.8
13. Institution-only money market mutual funds	22.9	27.7	9.3	12.9	17.5	70.0	32.8	243.1
14. RPs	4.5	-5.1	-16.2	-60.3	51.2	8.5	0.7	184.6
15. Eurodollars	10.3	13.3	-6.9	-15.8	33.4	5.2	5.7	92.6
Memo								
16. Monetary base	4.1	1.7	2.6	5.0	0.6	-4.1	0.1	433.7
17. Household M2[6]	4.3	7.1	4.3	5.4	3.6	5.3	4.6	3293.9
	Average monthly change (billions of dollars)[7]							
Memo								
Selected managed liabilities at commercial banks:								
18. Large time deposits, gross	5.5	6.4	4.9	-0.8	-0.4	8.6		443.7
19. Net due to related foreign institutions	3.6	1.3	5.8	-0.3	6.8	6.6		276.8
20. U.S. government deposits at commercial banks	-0.1	1.5	-1.8	4.3	-6.5	-2.7		12.5

1. For the years shown, fourth quarter-to-fourth quarter percent change. For the quarters shown, based on quarterly averages.
2. Sum of seasonally adjusted M1, retail money market funds, savings deposits, and small time deposits.
3. Sum of retail money funds, savings deposits, and small time deposits, each seasonally adjusted separately.
4. Sum of large time deposits, institutional money funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees, each seasonally adjusted separately.
5. Net of holdings of depository institutions, money market mutual funds, U.S. government, and foreign banks and official institutions.
6. M2 less demand deposits
7. 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.

Note: Data incorporate revisions from the annual benchmark and seasonal review, as well as a redefinition of the M2 aggregate, involving a shift of overnight RPs and Eurodollars to non-M2 M3.

March, largely propelled by a surge in demand deposits. M1 could get could get a further boost at the end of March with the introduction of the new $100 bill: Overseas demand for the current $100 bill reportedly has been weak in anticipation of the new bill.

The growth of bank credit slowed to a tepid 3-1/2 percent rate in February (table) with a deceleration in loans more than offsetting an uptick in securities. All major categories of bank lending weakened in February, and preliminary data point toward continued sluggish growth in March. Bank securities portfolios expanded considerably in February, with much of the increase concentrated at branches and agencies of foreign banks.

To an extent, the weakening in consumer lending in February probably reflected a rapid pace of securitizations. Even adjusting for securitizations, however, bank consumer loans expanded at a pace well below that over much of last year. Although delinquency and chargeoff rates for consumer loans have turned up in recent months, the January Senior Loan Officer Opinion Survey indicated only a slight tightening in lending standards for consumer loans.

Business loans expanded at a 6 percent pace in February--down considerably from the previous month, but about in line with the average growth over the final months of last year. The deceleration in business loans has likely reflected moderation in demand, as banks reportedly remain willing lenders and have been pricing loans attractively. Indeed, the February Survey of Terms of Bank Lending shows a narrowing of spreads over the federal funds rate on loans larger than $100,000. The average spread on business loans has now fallen to levels not seen since the mid-1980s (chart). Call Report data for the fourth quarter of 1995 indicate that delinquency and charge-off rates for C&I loans are at or near their lows for the series (chart).

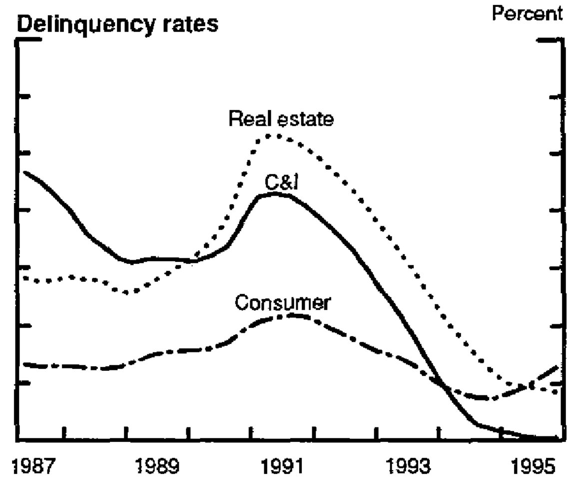
COMMERCIAL BANK CREDIT

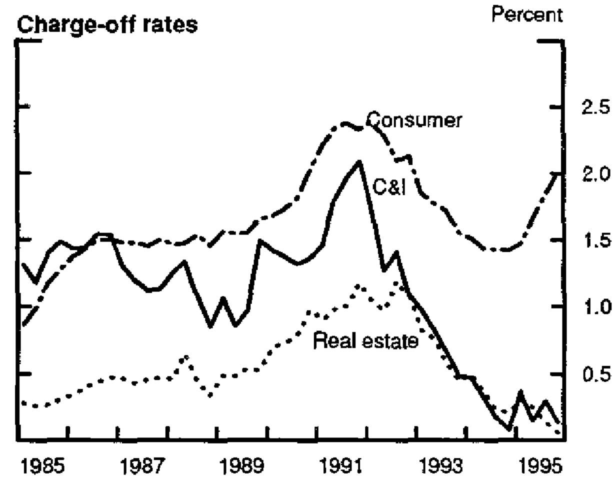
(Percentage change; seasonally adjusted annual rate)[1]

Type of credit	1995	1995 Q3	1995 Q4	1995 Dec	1996 Jan	1996 Feb	Level, Feb 1996 (billions of $)
1. Total loans and securities	8.5	6.0	4.8	3.6	8.5	3.4	3,635.2
2. Securities	3.4	-4.2	3.4	3.0	-1.0	6.4	995.9
3. U.S. government	-2.9	-1.6	4.1	-5.0	-14.0	21.5	717.1
4. Other[2]	24.8	-10.7	1.6	24.2	31.9	-30.2	278.8
5. Loans[3]	10.6	10.0	5.4	3.9	12.1	2.2	2,639.3
6. Business	11.8	9.2	6.8	5.7	10.9	6.0	728.6
7. Real estate	8.4	8.8	3.4	.4	7.4	3.2	1,086.7
8. Home equity	5.2	5.2	3.1	6.1	7.6	3.0	79.9
9. Other	8.7	9.1	3.4	.2	7.2	3.2	1,006.8
10. Consumer	10.3	9.7	4.8	4.9	10.7	.0	497.6
11. Adjusted[4]	16.2	15.5	14.3	14.6	11.9	8.7	627.1
12. Security	13.4	6.1	-3.7	-48.7	17.4	8.6	84.5
13. Other[5]	17.4	20.9	15.0	32.3	38.6	-10.8	241.9

1. Monthly levels are *pro rata* averages of Wednesday data. Quarterly and annual levels (not shown) are simple averages of monthly levels and levels for the fourth quarter respectively. Growth rates shown are percentage changes in consecutive levels, annualized but not compounded.
2. Includes municipal securities, foreign government securities, corporate bonds, equities, and trading account assets.
3. Excludes interbank loans.
4. Includes estimates of consumer loans that have been securitized by banks and are still outstanding.
5. Includes loans to nonbank financial institutions, farmers, state and local governments, banks abroad, foreign governments, and all others not elsewhere classified. Also includes lease financing receivables.

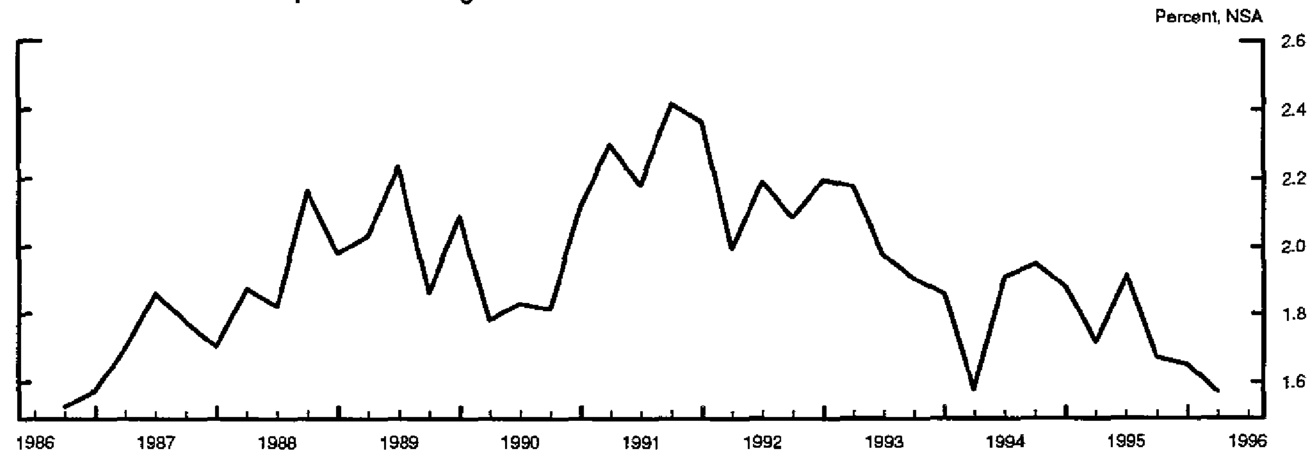
Loan Performance at Commercial Banks
(Quarterly,seasonally adjusted)



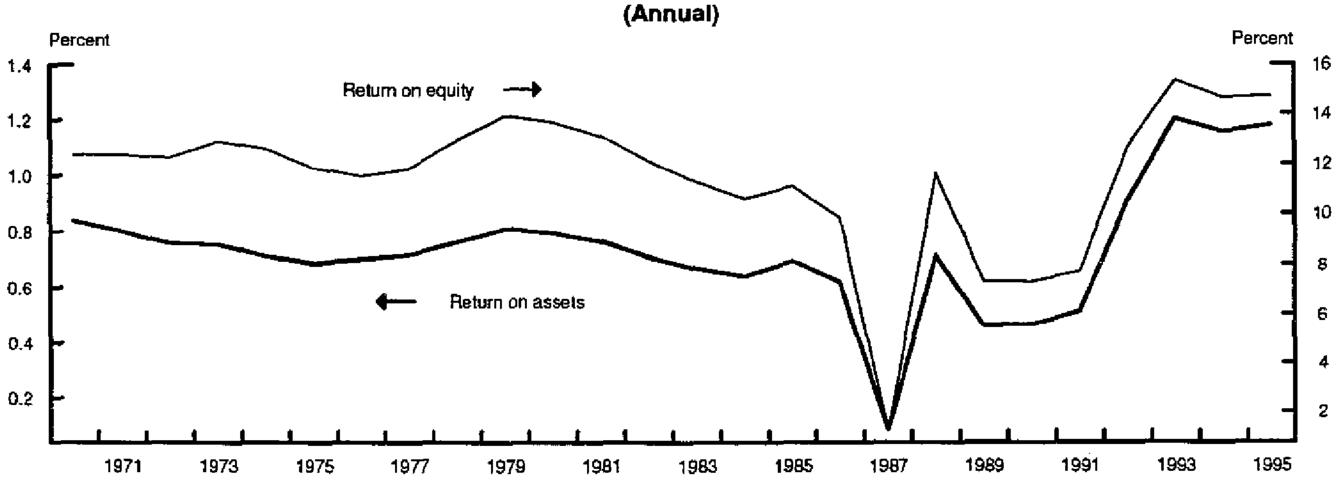


Note: Data are from FFIEC's quarterly Reports of Condition. Delinquent loans include those past due 30 days or more and still accruing interest, as well as those on nonaccrual status.Charge-off rates are annualized, net of recoveries. Before 1987, the data on delinquency rates are for domestic loans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

Quarterly Survey of Terms of Bank Lending
Spread of Average Loan Rate Over Intended Federal Funds Rate



Measures of Profitability at U.S. Commercial Banks
(Annual)



Growth of real estate loans dropped off in February, perhaps slowed by securitizations of fixed rate mortgages originated in recent months. Delinquency and charge-off rates on bank real estate loans fell to record lows. The decline in the overall delinquency rate of bank real estate loans was largely associated with improvements in commercial mortgage loan performance. In contrast, delinquency rates on single-family residential loans at banks edged up over 1995.

With most measures of loan performance quite favorable, banks remained highly profitable in the fourth quarter, pushing their return on assets for the year to a level just short of the record set in 1993 (chart). Low provisioning for loan losses, cuts in deposit insurance premiums, and strong fee income helped buoy bank profits last year. Given the ongoing cost cutting and consolidation efforts in the industry, market participants appear to be looking for another strong earnings year for banks in 1996. Overall, bank stock prices have climbed substantially this year, generally outpacing broad market averages.

Preliminary Call Report data for the fourth quarter indicate savings associations expanded assets, albeit slightly, last year for the first time since 1988 while their return on assets was essentially unchanged from the previous year. Clouding the outlook somewhat for thrifts is the gap in deposit insurance premiums between BIF- and SAIF-insured institutions, which industry representatives say is impairing their competitive position and encouraging them to pursue nondeposit funding more aggressively.[2] Both the FDIC and the Treasury have expressed concern that if legislation to restructure SAIF is not enacted soon, large declines

2. Only slight evidence of these effects is evident in fourth-quarter Call Report data. The incentives to pursue nondeposit funding may have been held in check to some extent last year by the expectation that Congress would resolve the premium disparity issue.

in the SAIF deposit base might ensue--leaving SAIF insurance premiums insufficient to cover the interest on Financing Corporation (FICO) bonds.

Business Finance

Public bond issuance by nonfinancial corporations remained strong through mid-February as many firms took advantage of low rates to lock in favorable long-term funding and pay down higher cost debt. However, the backup in long-term rates since mid-February has greatly depressed bond offerings. At the same time, nonfinancial commercial paper has increased quite a bit in recent weeks, fueled primarily by merger financing.

Gross equity issuance by nonfinancial firms picked up in February and remained substantial through mid-March. Data on registrations point to a continued hefty pace of issuance in the near term. Initial public offerings have accounted for nearly one-half of total nonfinancial equity issuance since the fourth quarter of last year--an unusually high share--as many rapidly growing companies have taken advantage of the funding opportunities provided by the ebullient stock market.

Even with the pickup in total gross issuance, net issuance has remained negative because of the continuing wave of equity retirements. In addition to merger activity, share repurchase programs have been a significant factor driving retirements of equity shares. Firms undertaking repurchase programs have generally been quite profitable, and they generate cash flow well in excess of that needed to fund current capital expenditures and dividends (chart). Many firms that have implemented repurchase programs have also deployed excess funds to pare debt outstanding, leaving their leverage ratios little changed on balance (chart).

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

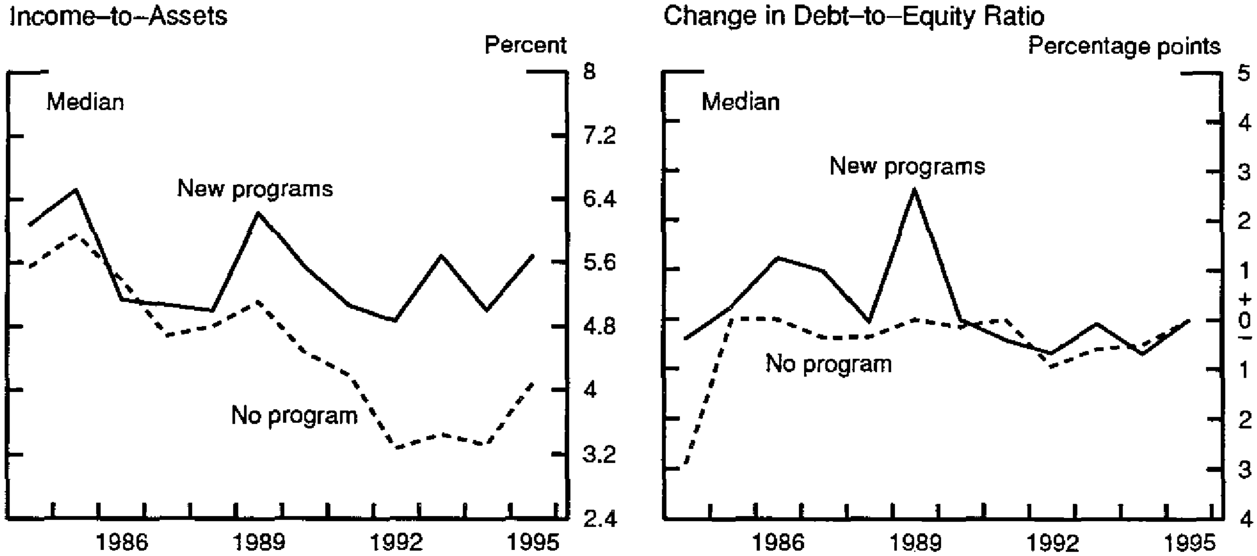
Type of security	1994	1995	1995 Q3	1995 Q4	1995 Dec.	1996 Jan.[p]	1996 Feb.[p]
All U.S. corporations	40.61	46.52	48.19	49.65	40.24	43.34	52.58
Stocks[2]	5.49	6.10	6.42	7.80	5.70	4.84	8.58
Bonds	35.12	40.42	41.77	41.85	34.54	38.50	44.00
Nonfinancial corporations							
Stocks[2]	3.10	4.39	4.61	5.75	3.98	3.25	4.78
Sold in U.S.	2.89	4.04	4.32	5.30	3.78	3.11	4.60
Utility	.38	.29	.22	.33	.47	.35	.89
Industrial	2.51	3.75	4.11	4.97	3.31	2.76	3.70
Sold abroad	.22	35	.29	.45	.20	.14	18
Initial public offerings	1.14	1.70	1.29	2.51	1.86	1.20	2.25
Seasoned equity offerings	1.96	2.68	3.32	3.24	2.12	2.06	2.53
Bonds	7.35	9.66	9.01	10.62	8.88	9.95	10.45
Sold in U.S.	6.45	8.44	7.69	9.46	8.24	9.20	9.70
Utility	2.19	2.83	2.89	3.26	2.37	3.75	4.30
Industrial	4.26	5.61	4.81	6.20	5.87	5.45	5.40
Sold abroad	.90	1.22	1.32	1.16	.64	.75	.75
By quality[3]							
Aaa and Aa	.58	1.07	.66	1.29	1.13	1.38	.75
A and Baa	3.82	5.38	4.82	5.94	5.64	5.84	5.19
Less than Baa	2.01	1.95	2.12	2.19	1.36	1.90	3.74
Unrated or rating unknown	.01	.04	.08	.04	.11	.08	.02
Financial corporations							
Stocks[2]	2.64	1.73	1.84	2.09	1.72	1.58	3.84
Sold in U.S.	2.38	1.71	1.80	2.04	1.72	1.58	3.80
Sold abroad	.25	.02	.03	.04	.00	.00	.04
Bonds	27.77	30.76	32.76	31.23	25.66	28.55	33.55
Sold in U.S.	23.98	25.63	26.72	27.96	23.98	20.80	28.30
Sold abroad	3.78	5.14	6.03	3.27	1.68	7.75	5.25
By quality[3]							
Aaa and Aa	3.72	3.86	4.42	2.56	2.83	2.75	2.15
A and Baa	9.02	10.37	9.83	10.46	8.69	9.35	10.41
Less than Baa	.31	.11	.13	.07	.04	.10	.10
Unrated or rating unknown	.10	.23	.11	.30	.39	.28	.03

Note. Components may not add due to rounding.

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.

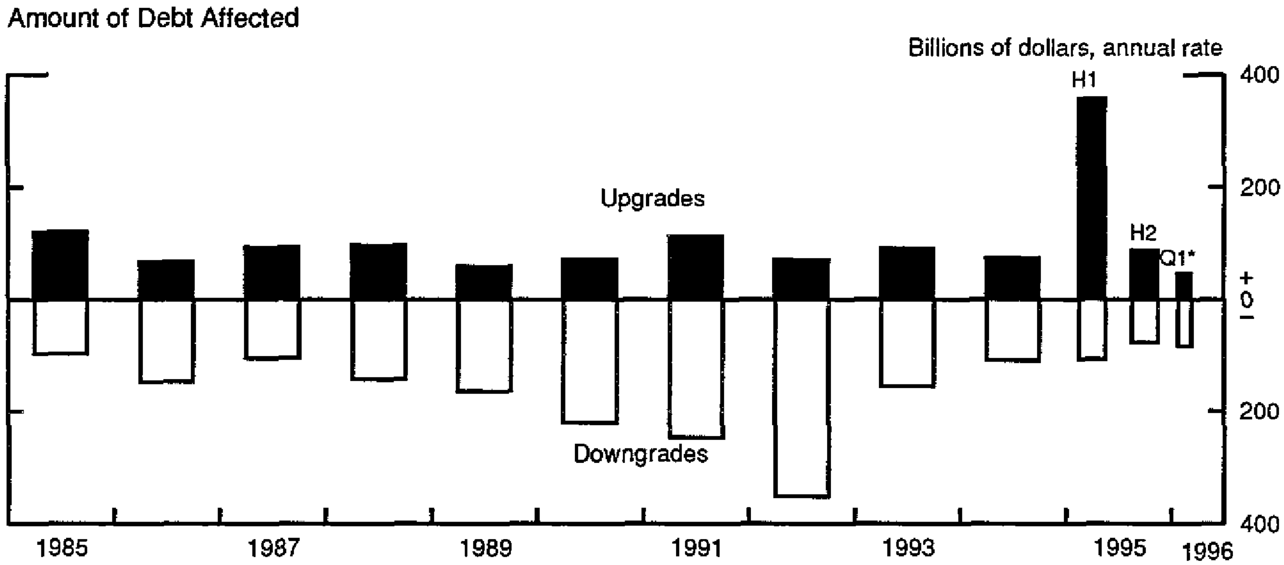
p Preliminary.

Companies with New Repurchase Programs



Source. Staff estimates from Compustat. 1995 figures are based on data through the third quarter.

Rating Changes for Nonfinancial Corporations



Source. Moody's Investor Service.
* Through March 5.

Rating Activity in 1996

(Amount of debt affected, billions of dollars)

	Total	Utility	Retail	Merger	Other
	— Net Downgrades* —				
Rating Changes (through March 5)	6.6	4.1	2.9	–0.5	0.2
Watchlist (as of March 5)	46.6	3.1	26.6	7.7	9.2

* Volume of debt downgraded less volume upgraded.
Source. Moody's Investor Service.

TREASURY FINANCING
(Billions of dollars; total for period)

Item	1995 Q4	1996 Q1[p]	1996 Jan.	1996 Feb.[e]	1996 Mar.[p]
Total surplus/deficit (-)	-55.9	-81.2	19.3	-47.5	-53.0
Means of financing deficit					
Net cash borrowing and repayments (-)	33.3	58.8	-4.7	49.9	13.6
Nonmarketable	-14.9	11.3	10.6	-0.5	-0.1
Marketable	48.2	70.0	5.9	50.4	13.7
Bills	18.2	45.0	-3.4	34.8	13.7
Coupons	30.0	25.0	9.3	15.7	0.0
Decrease in cash balance	17.5	5.6	-17.0	6.3	16.3
Other[1]	5.1	16.9	2.4	-8.7	23.1
Memo:					
Cash balance, end of period	20.5	14.9	37.5	31.2	14.9

Note. Data reported on a payment basis. Details may not sum to totals because of rounding.
p Projection.
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 Q3	1995 Q4	1995 Dec.	1996 Jan.	1996 Feb.
FHLBs	13.8	6.3	4.2	-8.5	1.3
FHLMC	3.1	8.4	4.4	0.9	2.9
FNMA	6.3	22.0	9.4	-1.5	6.5
Farm Credit Banks	1.9	1.6	0.7	1.3	1.1
SLMA	0.4	-4.1	-3.0	n.a.	n.a.

Note. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
n.a. Not available.

Overall, nonfinancial business credit quality this year appears to have slipped just a bit. The volume of credit rating downgrades has exceeded upgrades by a small margin, and Moody's Watchlist of potential actions includes many more new potential downgrades than upgrades (chart). Utilities, facing changes in regulation and new competition, and retailers, facing market saturation, have accounted for all of the volume of downgraded debt and for nearly two-thirds of the debt under review for a downgrade. In addition, ratings actions this year have reflected the agencies' growing concern with the debt service obligations implicit in some recent merger transactions. Still, signs of deteriorating credit quality in the nonfinancial business sector have not produced any notable market reaction. Spreads of investment-grade bond yields over Treasuries have changed little since year-end, while spreads in the junk bond market, where defaults have been running below last year's pace, have narrowed.

Treasury Finance

Secretary Rubin's decision to disinvest several government trust funds for up to $19.9 billion, along with congressional approval a $29 billion increase in the debt ceiling until March 15, allowed the Treasury to hold normal coupon auctions in January and February and to cover social security payments in early March. A further temporary increase in the debt ceiling enacted earlier this month allowed the Treasury to continue borrowing until March 29. Longer-term solutions to the debt ceiling problem are currently being considered by the Congress; one proposal recently approved by both houses contains a longer-lasting debt limit extension tied to provisions for a line item veto.

<u>State and Local Government Finance</u>

The general pattern of tax-exempt borrowing has paralleled that in the nonfinancial business sector. Until mid-February, state and local governments had been issuing substantial gross volumes of long-term debt targeted, in part, to refund existing higher cost debt. With the backup in long-term interest rates, refunding volumes have diminished substantially. On net, debt continues to contract as heavy retirements outpace new issues.

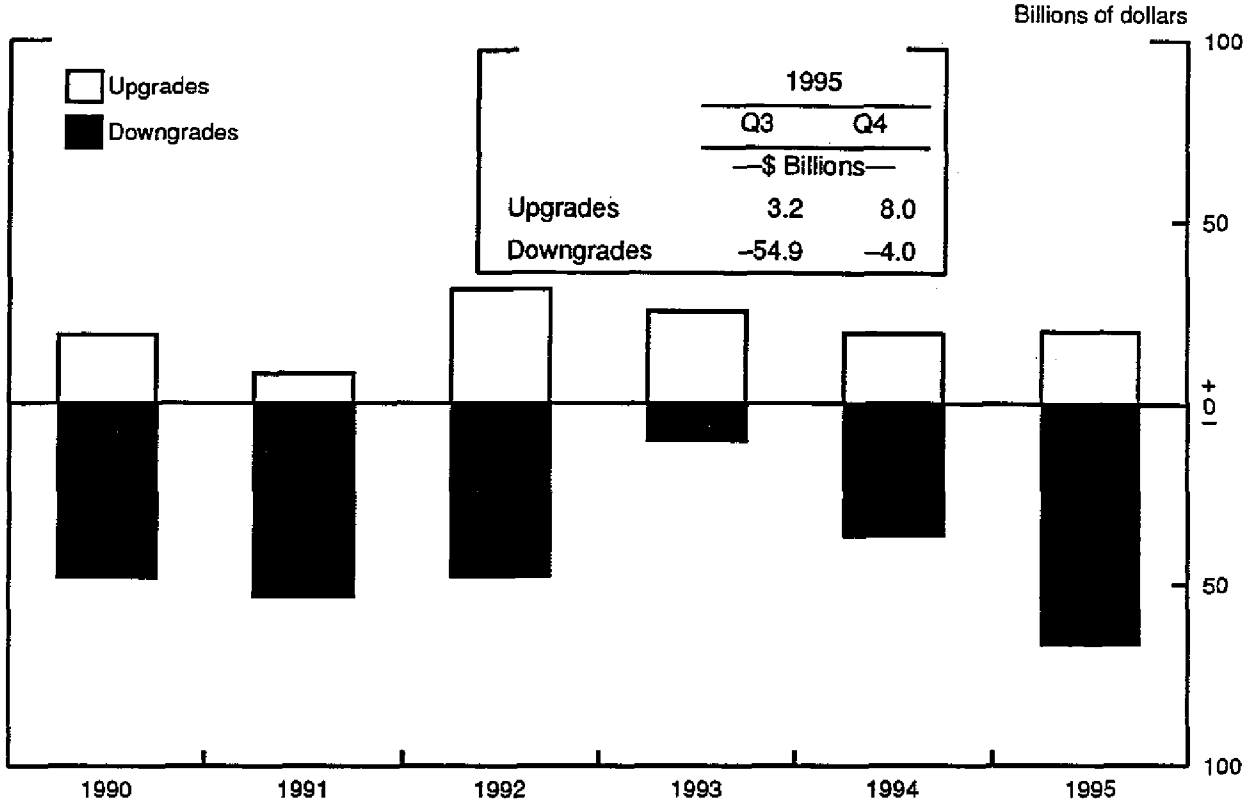
GROSS OFFERINGS OF MUNICIPAL SECURITIES
(Monthly rates, not seasonally adjusted, billions of dollars)

			1995		1996	
	1994	1995	Q3	Q4	Jan.	Feb.
1. Total tax-exempt	16.1	14.9	15.3	17.2	11.9	13.1
2. Long-term	12.8	12.1	11.2	15.5	11.1	11.0
3. Refundings[1]	4.0	3.6	3.9	5.3	5.1	5.2
4. New capital	8.8	8.5	7.3	10.2	6.0	5.8
5. Short-term	3.3	2.8	4.1	1.7	.8	2.1
6. Total taxable	.7	.7	.6	1.3	.4	.3

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

Yields on municipal bonds rose less than those on comparable Treasuries between year-end and late February, apparently reflecting fading concerns over prospective "flat tax" reforms that might affect the value of the tax-exemption for interest on municipal bonds. In recent weeks, the ratio of tax-exempt to Treasury yields on longer-term securities has backed up, possibly in response to the growing backlog of issues that have been postponed since rates climbed (chart).

Value of Municipal Long-Term Debt Rating Changes



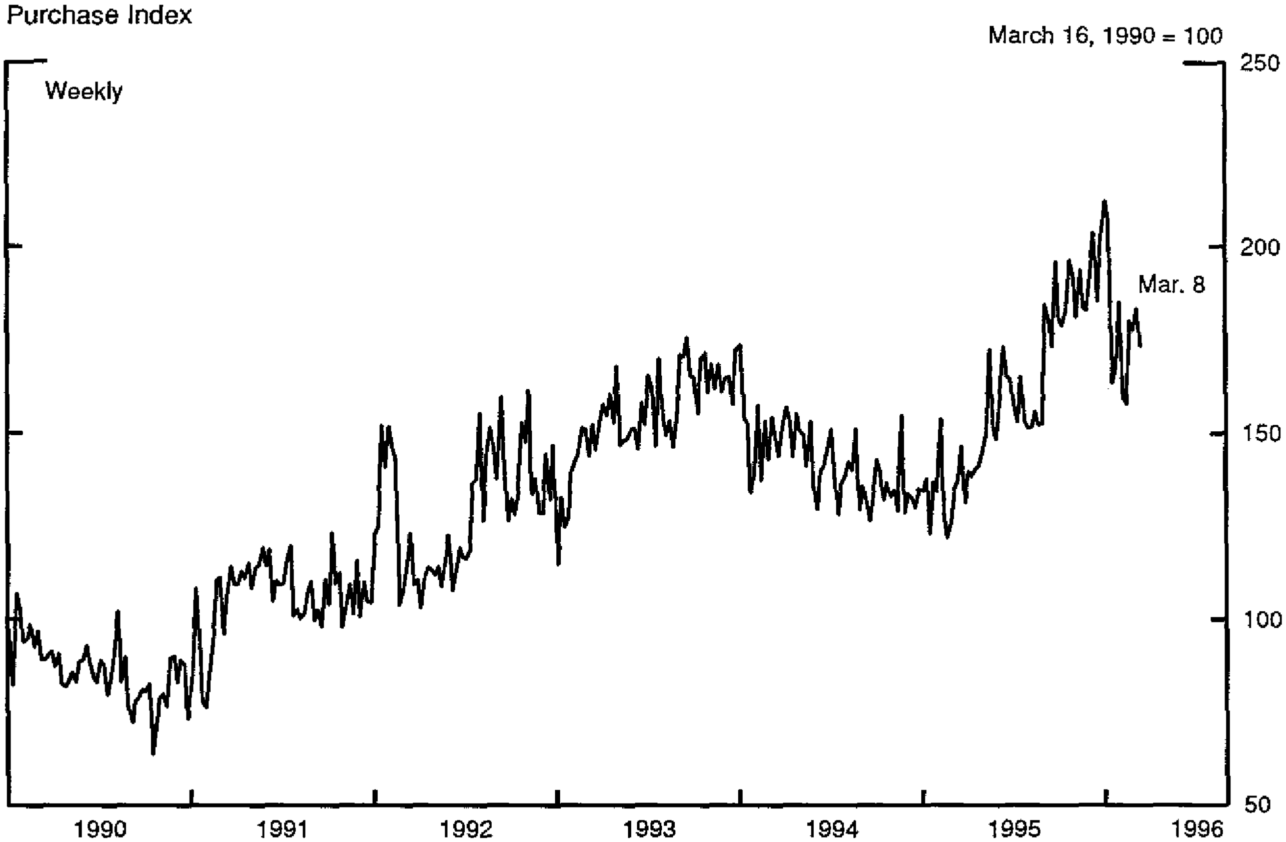
Source: Standard & Poor's

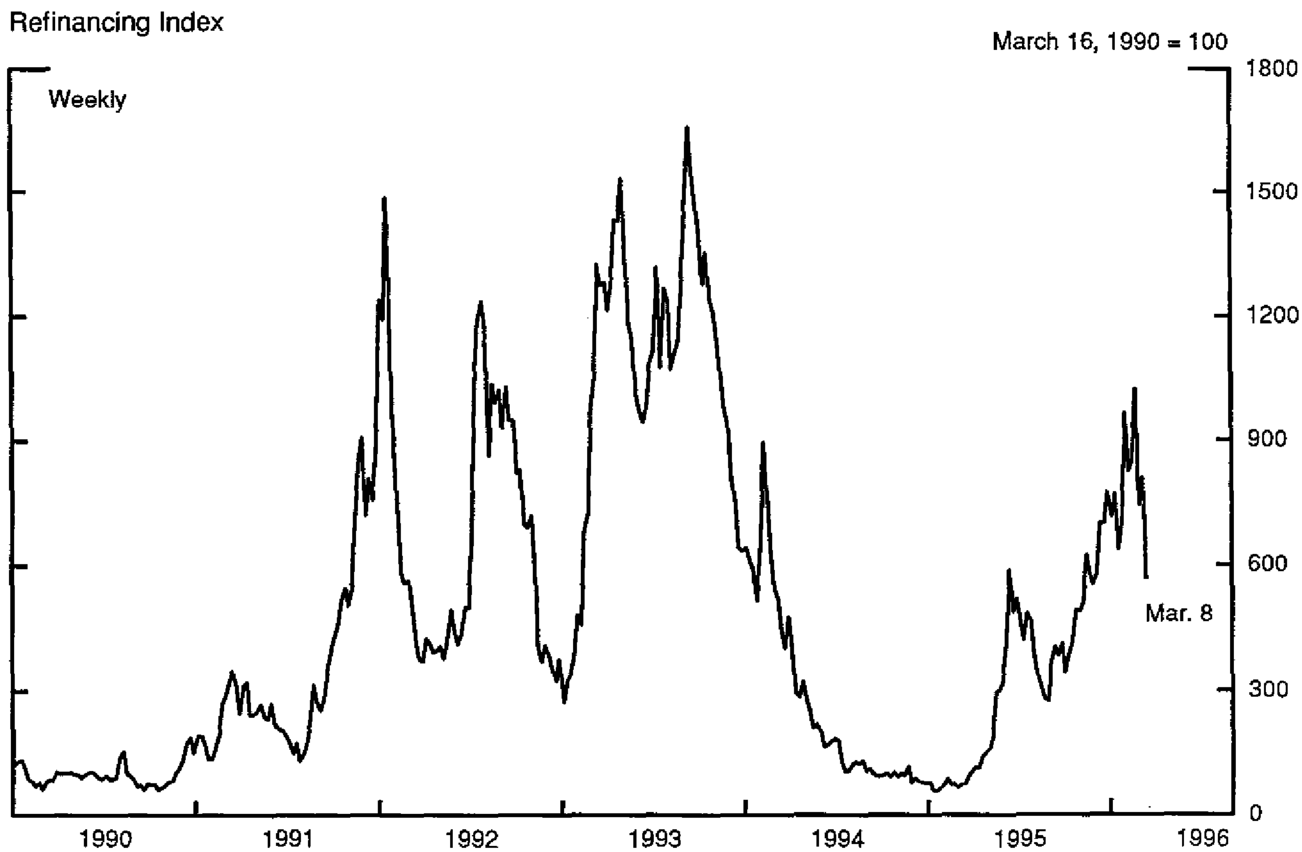
Tax-Exempt to Taxable Ratio

Note. Bloomberg's 30-year and 1-year AAA G.O. yields relative to comparable maturity Treasury yields.

MBA Indexes of Mortgage Loan Applications

(Seasonally adjusted by Board staff)





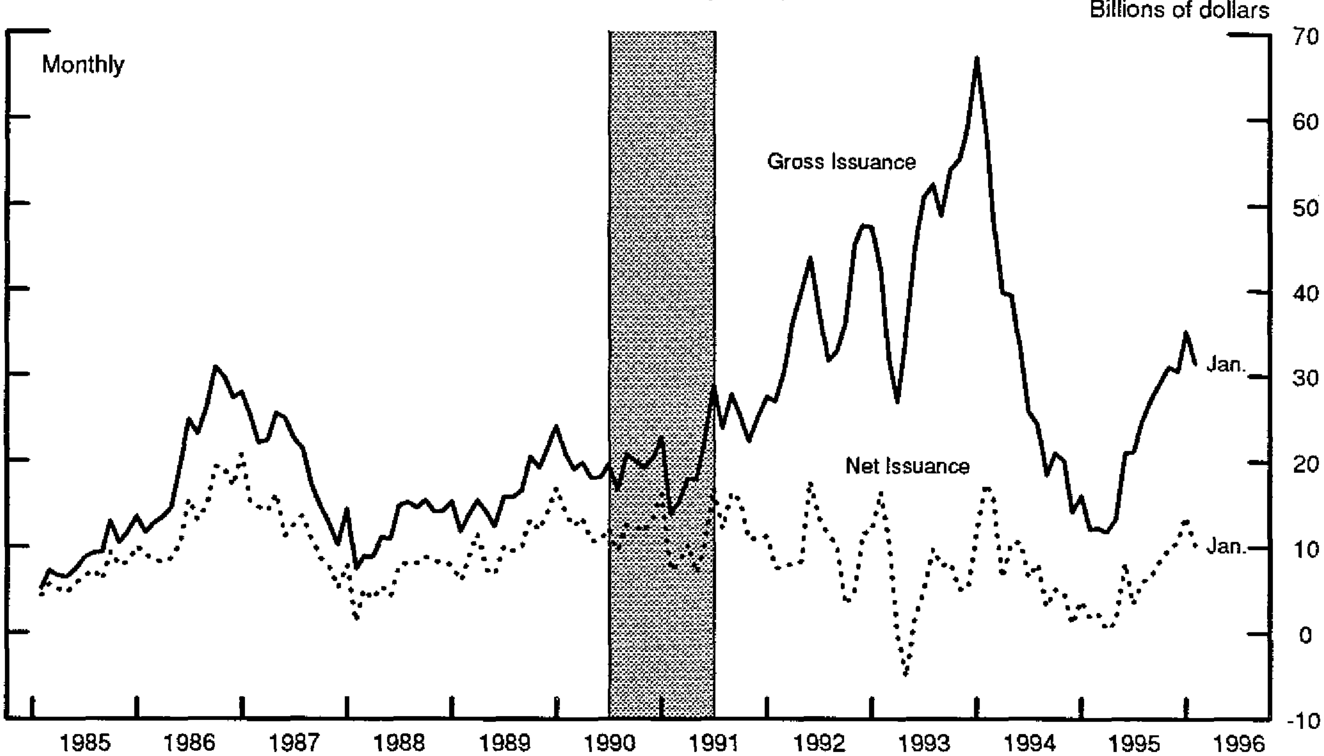
In the fourth quarter, Standard and Poor's upgraded about $8 billion of debt and downgraded about $4 billion (chart), but for the year as a whole, the dollar volume of downgrades exceeded upgrades by a sizable margin. These rating actions reflected problems for a few large cities and counties and the utility sector, but have not affected the bulk of state and local issuers. Quality spreads on long-term municipal debt have remained rather narrow since the beginning of 1995.

Mortgage Markets

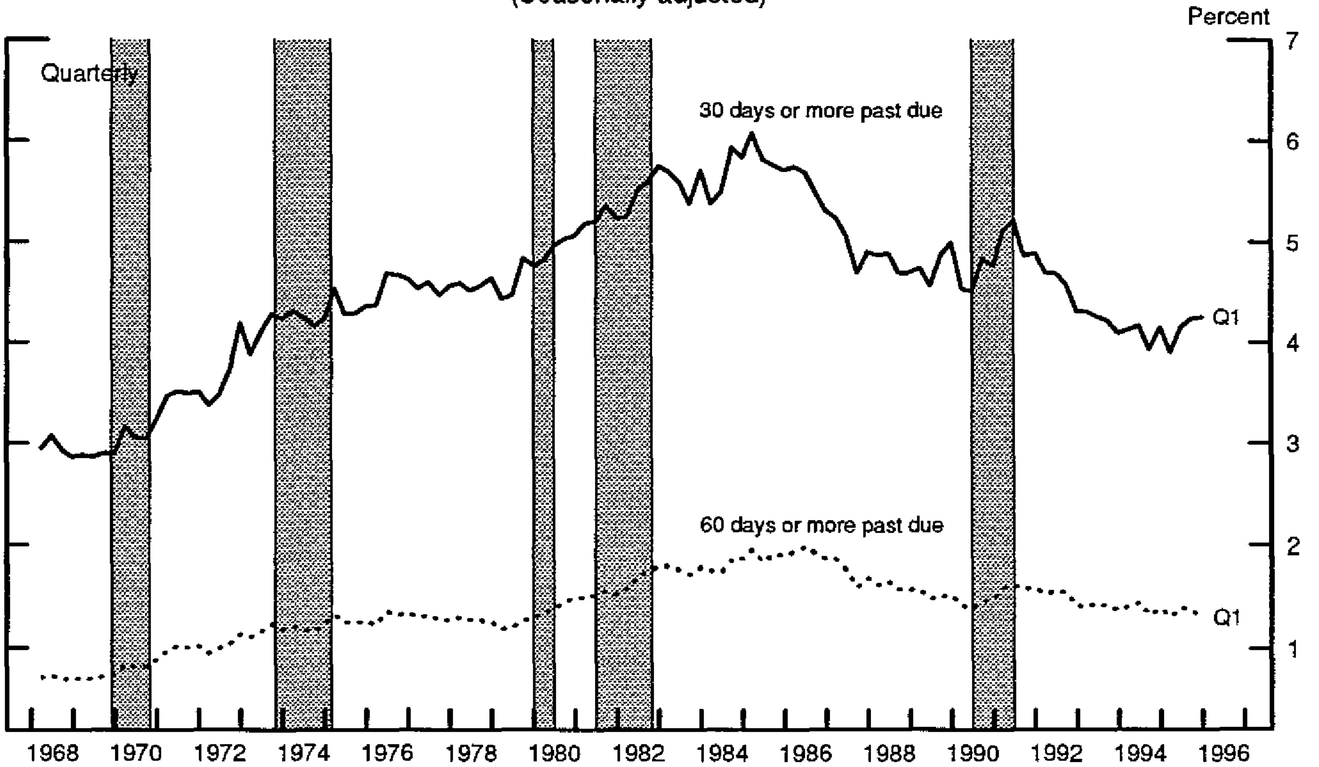
Data on mortgage lending in the current quarter suggest that credit growth may have slowed a little. Consistent with the backup in mortgage rates, the Mortgage Bankers Association's index of loan applications for home purchases in the first quarter is running about 8 percent below the fourth quarter of last year (chart). The refinancing index also has declined sharply and is likely to show further weakness in coming reports. Partial first-quarter data for securitized mortgage credit reveal a continued climb in gross issuance of mortgage-backed securities, evidently fueled by the large share of fixed rate mortgage originations in recent months (chart). Most new issuance has been in the form of pass-through securities, but the CMO market--which had been moribund until very recently--has shown some stirrings with an appreciable pickup in issuance this year.

The MBA's broadest measure of home mortgage delinquency rates was about unchanged in the fourth quarter at 4.25 percent. The average delinquency rate on loans thirty days or more past due rose 9 basis points, to 2.95 percent (chart). By contrast, the average delinquency rate on mortgages sixty days or more past due was unchanged last quarter, while delinquency rates on loans ninety days or more past due moved down 8 basis points.

Issuance of Agency Mortgage Pass-Through Securities
(Not seasonally adjusted)



Home Mortgage Loan Credit Performance
(Seasonally adjusted)



Source: Mortgage Bankers Association

Several trade reports indicate that mortgage credit quality problems have been concentrated in loans originated in recent years. For example, an analysis of 25 million to 30 million loans across thirty-five states by Mortgage Research Group--a New Jersey-based market research firm--indicates that mortgages originated in 1994 and 1995 are experiencing much higher rates of foreclosure than more seasoned loans. Moreover, compared with loans originated in 1992 and 1993, default rates on the newer mortgages have reached levels in only a few months after closing that typically are not observed until after a few years of seasoning. The upward trend in default rates and foreclosures is evident in all regions of the country, but the incidence is greatest in the West, where real estate prices in many states have remained depressed.

To some extent, the poorer performance of recently originated loans is consistent with the reported easings of lending standards by mortgage bankers in recent years. Not surprisingly, for example, both lenders and mortgage insurers have begun to report that loans originated in the past two years under special "affordable" home loan programs have performed especially poorly.[3]

Consumer Credit

Consumer installment credit continued to exhibit brisk growth in January, increasing at a 12 percent seasonally adjusted annual rate after an upward-revised 11-1/2 percent gain in December (table). Nevertheless, over the past few months, the pace of consumer credit growth appears to have slowed a notch from that reached in 1994 and early last year (chart). Slowing growth in February at commercial banks, which account for nearly half of total

3. Affordable housing loans refer to those loans underwritten using more lenient standards for certain key risk factors, including loan-to-value ratios, required cash reserves, debt-to-income ratios, and credit histories.

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

Type of credit	1994	1995[r]	1995 Q3	1995 Q4[r]	1995 Dec.[r]	1996 Jan.[p]	Memo: Outstanding Jan. 1996 (billions of dollars)
Installment	14.2	13.5	9.6	12.5	11.6	12.1	1,035.1
Auto	13.1	11.4	12.6	14.3	14.4	9.3	356.1
Revolving	16.7	18.2	10.5	13.8	15.7	16.1	400.5
Other	12.5	10.0	4.6	8.4	2.1	9.8	278.5
Noninstallment	10.1	8.5	26.4	-15.2	.4	7.3	63.6
Total	14.0	13.2	10.6	10.7	10.9	11.8	1,098.8

r Revised.
p Preliminary.

INTEREST RATES ON CONSUMER LOANS
(Annual percentage rate)

Type of loan	1994	1995	1995 Aug.	1995 Nov.	1995 Dec.	1996 Jan.	1996 Feb.
At commercial banks[1]							
New cars (48 month)	8.1	9.6	9.4	9.4	n.a.	n.a.	9.1
Personal (24 month)	13.2	13.9	13.8	13.8	n.a.	n.a.	13.6
Credit cards	16.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Credit cards[2]							
All accounts	n.a.	16.0	16.0	15.8	n.a.	n.a.	n.a.
Accounts assessed interest	n.a.	15.8	15.9	15.7	n.a.	n.a.	n.a.
At auto finance cos.[3]							
New cars	9.8	9.8	10.9	10.8	10.5	9.7	n.a.
Used cars	13.5	13.5	14.2	14.0	13.8	13.3	n.a.

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.

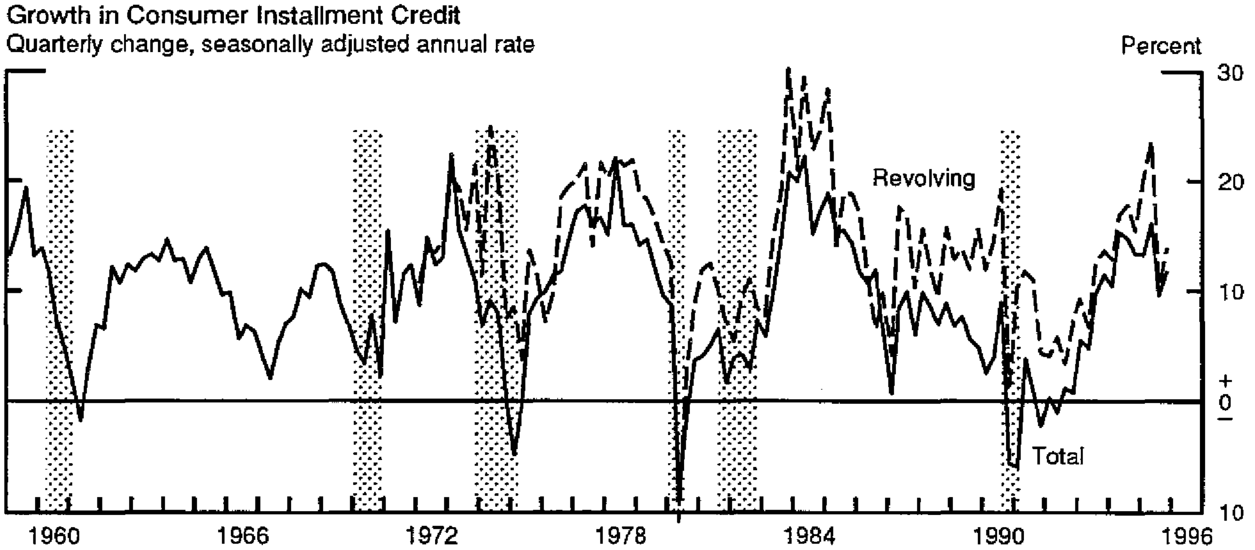
outstandings, suggests that the gradual deceleration may have continued in February as well.

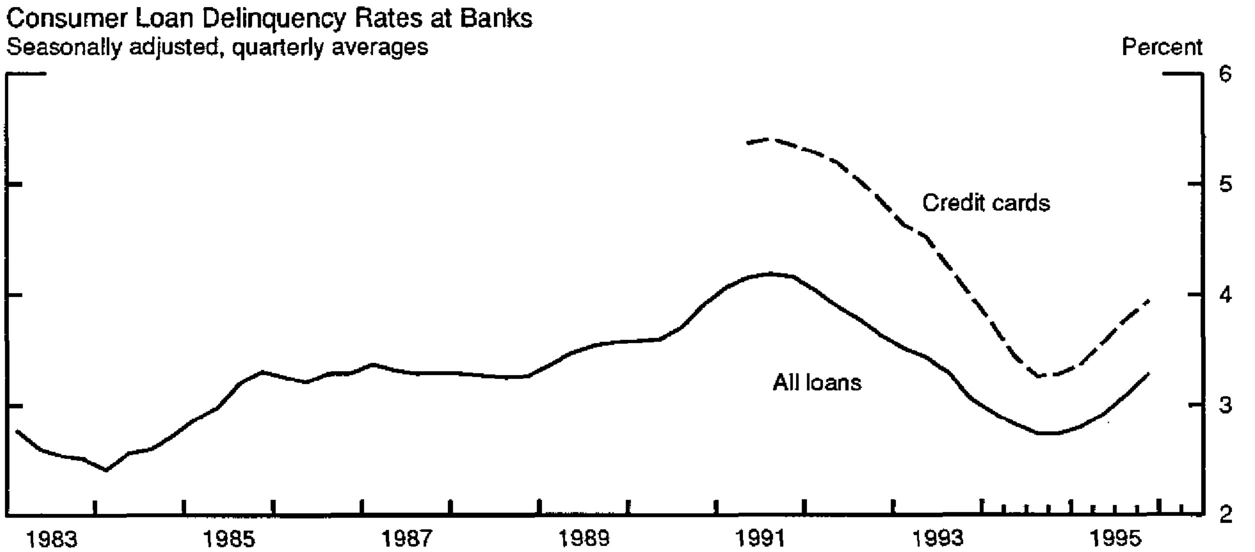
A broad-based but modest rise in delinquency rates on consumer loans occurred in the fourth quarter. Credit card delinquency rates--calculated from the Call Report data--rose each quarter in 1995, approaching 4 percent in the fourth quarter from a low of 3.3 percent in the second half of 1994 (chart). Even at 4 percent, however, credit card delinquency rates were still well below the most recent peaks in 1991. The American Bankers Association (ABA) reported a small increase in credit card delinquencies for the fourth quarter. After rising sharply in the final quarter of 1994 and the first quarter of 1995, this series rose only marginally over the rest of last year. The ABA recorded moderate increases in delinquencies on closed end loans throughout the year; nevertheless, this series is still much closer to its lows than its highs of the past twenty years.

Delinquencies on auto loans at the captive finance companies are at historically levels, but may be leveling off after rising steadily for two years. (Readings on delinquency rates in January and February are at about the same level as in the fourth quarter of last year.) According to a credit manager at one company, the climb in delinquency rates was an expected side-effect of efforts to sell cars by liberalizing lending standards. Delinquency rates at captive finance companies have also been boosted a bit by the shift away from loans toward leasing in recent years; performance data for leases are not included in the loan delinquency rate and lease customers have tended to be better-than-average credit risks.

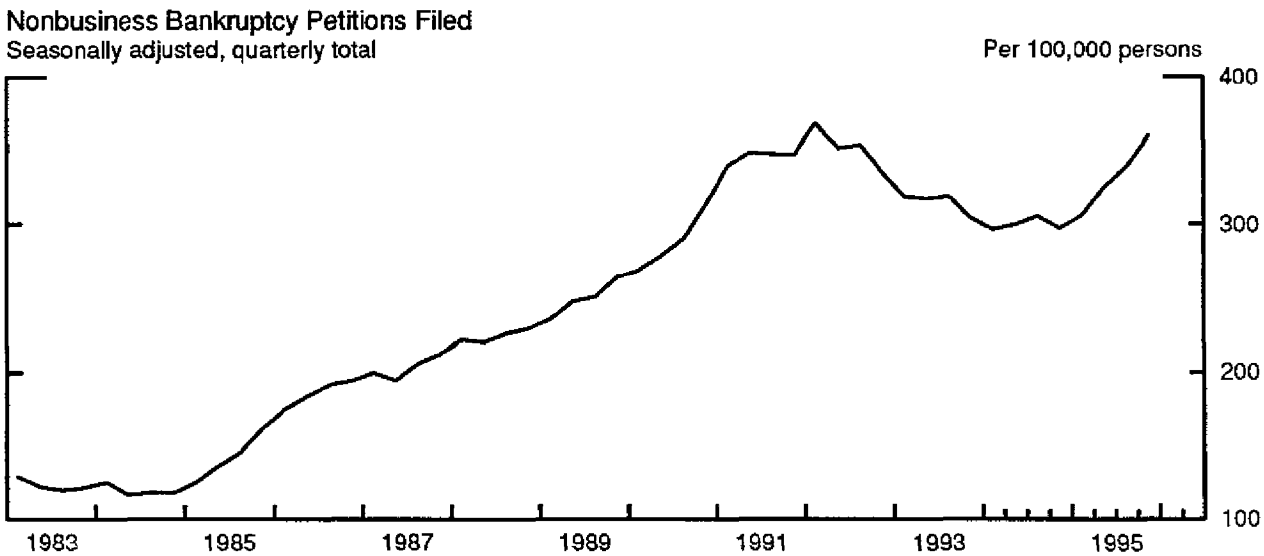
The upturn in consumer loan delinquency rates is consistent with the recent climb in personal bankruptcies over the past few quarters (chart). This increase no doubt reflects in part the rise

Household Borrowing Experience





Source: Call report.



Source: Administrative Office of the U.S. Courts; seasonally adjusted at the Federal Reserve Board.

in debt payment problems but also importantly an increased likelihood for individuals to declare bankruptcy as a means of dealing with financial strains. Some changes in federal bankruptcy law effective last year--principally an increase in the dollar amount of assets that can be exempted from liquidation--likely made bankruptcy more attractive to troubled debtors.

Despite these signs of deterioration in consumer creditworthiness, interest rates on consumer loans declined in the opening months of this year. The average most common rate on a forty-eight-month new-car loan at banks was 9.1 percent in the Board's quarterly survey taken in early February, down from 9.4 percent in November and the recent high of 9.8 percent last May. Average new-car rates have dropped more sharply at the auto finance companies, from 12 percent last March to 9.7 percent in January. This drop stems partly from the effect of special reduced-rate financing programs subsidized by the manufacturing parent companies.

INTERNATIONAL DEVELOPMENTS

U.S. International Trade in Goods and Services

In December, the deficit in U.S. international trade in goods and services remained at about the same level as in November. Both exports and imports rose 1 percent between November and December. Data for January are now scheduled to be released on March 29.

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

	1995	Annual rates 1995 Q2	Q3	Q4	Monthly rates 1995 Oct	Nov	Dec
Real NIPA 1/							
Net exports of G&S	-113.6	-126.8	-114.3	-94.1	--	--	--
Nominal BOP							
Net exports of G&S	-111.4	-133.4	-109.2	-87.5	-8.2	-6.8	-6.9
Goods, net	-174.5	-194.6	-173.3	-152.1	-13.7	-12.1	-12.2
Services, net	63.0	61.3	64.1	64.6	5.5	5.3	5.4

1. In billions of chained (1992) dollars.
Source. U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census.

In the fourth quarter, the deficit narrowed to a level last recorded in the first quarter of 1994. Exports were 2.2 percent higher than in the third quarter with the largest increases recorded in machinery (a wide range of products) and services (particularly receipts from foreigners' travel and transportation expenditures in the United States). Imports declined 0.5 percent, with decreases recorded largely in automotive products, consumer goods, and oil. Imports of non-oil industrial supplies and machinery other than computers and semiconductors declined as well.

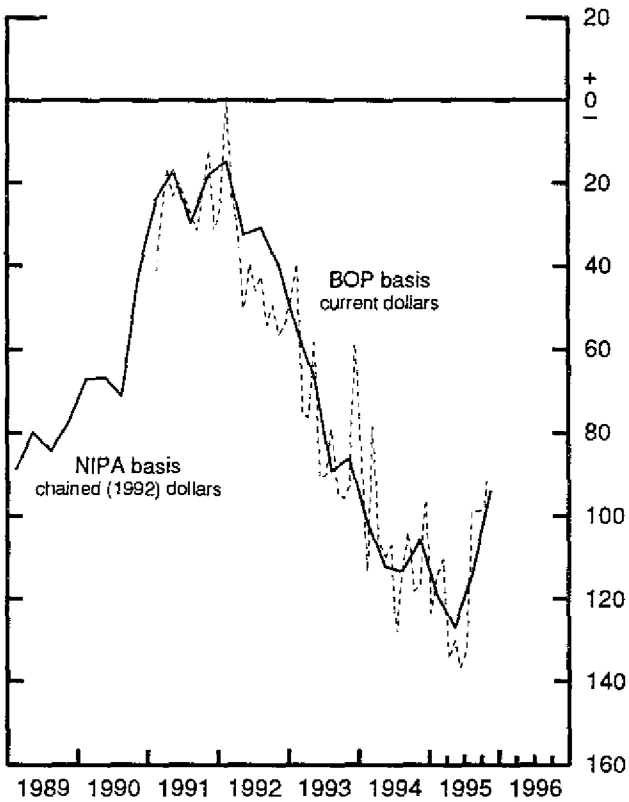
The trade deficit for 1995 was only slightly larger than in the previous year. This followed two years of substantial increases in the deficit. In price-adjusted dollars, a distinct downturn appeared during the second half of 1995 in imports of consumer goods, automotive products, non-oil industrial supplies (especially

U.S. International Trade in Goods and Services

(Seasonally adjusted annual rate)

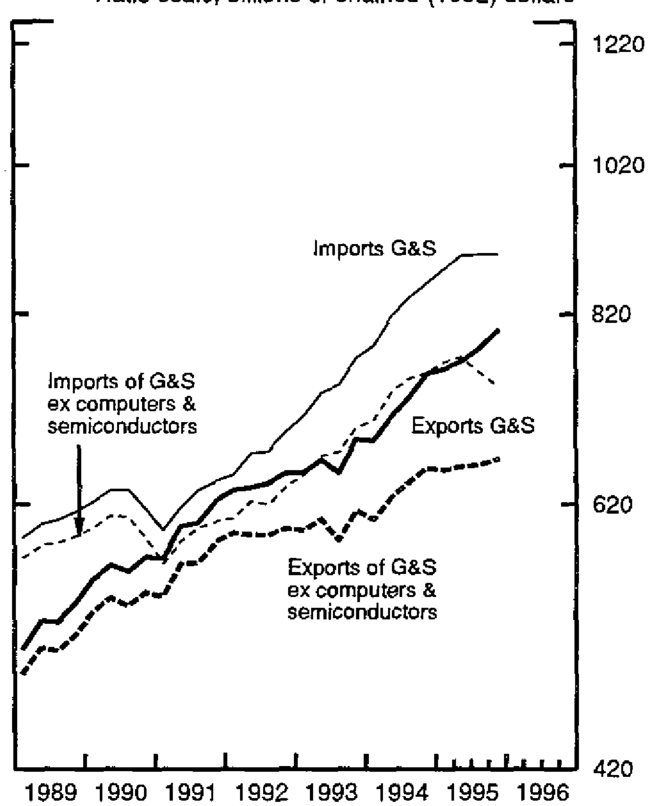
Net Exports

Billions of dollars



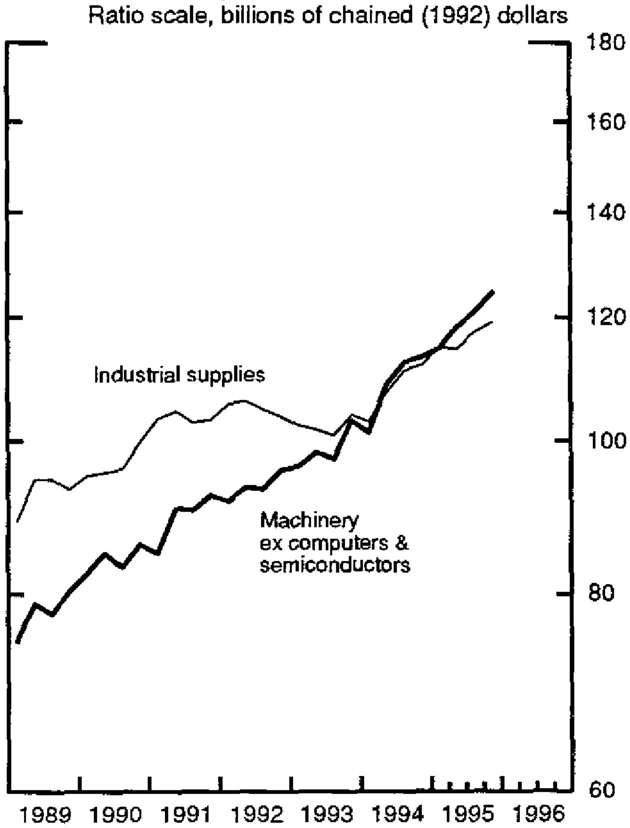
NIPA Exports and Imports

Ratio scale, billions of chained (1992) dollars



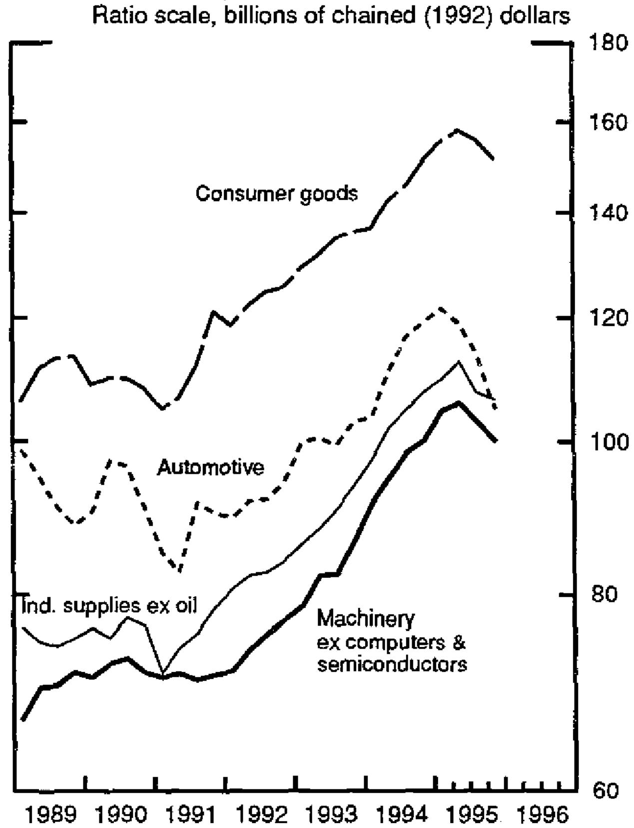
Selected NIPA Exports

Ratio scale, billions of chained (1992) dollars



Selected NIPA Imports

Ratio scale, billions of chained (1992) dollars



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

	Levels				Amount Change 1/			
	1995		1995		1995		1995	
	Q3	Q4	Nov	Dec	Q3	Q4	Nov	Dec
Exports of G&S	791.2	808.6	811.0	819.9	13.8	17.4	10.2	8.9
Goods exports	580.2	595.3	595.0	605.5	9.5	15.2	7.2	10.5
Agricultural	58.7	60.8	60.4	61.7	5.2	2.1	0.2	1.3
Gold	3.4	3.7	3.2	2.8	-4.4	0.4	-2.0	-0.5
Computers	41.4	43.7	44.1	43.8	4.3	2.3	1.1	-0.3
Other goods	476.7	487.1	487.3	497.2	4.4	10.4	7.9	10.0
Aircraft & pts	23.6	24.9	24.2	28.1	-7.5	1.3	1.8	3.9
Semiconductors	35.7	38.0	39.4	37.7	3.0	2.3	2.5	-1.7
Other cap gds	134.5	142.9	141.5	145.6	4.6	8.4	-0.1	4.1
Automotive	61.0	60.2	59.2	64.1	2.2	-0.9	1.9	5.0
to Canada	32.3	33.9	33.4	36.1	1.0	1.6	1.3	2.6
to Mexico	6.7	7.0	6.3	6.7	0.2	0.3	-1.7	0.5
to ROW	22.1	19.3	19.5	21.3	1.1	-2.7	2.2	1.9
Ind supplies	133.2	130.6	127.3	131.2	1.4	-2.5	-6.1	3.9
Consumer goods	64.8	66.0	65.5	66.8	0.3	1.1	-0.2	1.3
All other	23.9	24.5	30.2	23.8	0.5	0.6	1.2	-6.4
Services exports	211.0	213.2	216.0	214.4	4.2	2.2	2.9	-1.6
Imports of G&S	900.4	896.1	891.6	901.3	-10.4	-4.3	-7.2	9.7
Goods imports	753.5	747.5	741.1	752.7	-11.8	-6.0	-11.6	11.6
Petroleum	56.2	53.5	54.8	54.5	-2.1	-2.7	3.6	-0.3
Gold	2.5	3.4	3.1	2.2	-8.3	0.9	-1.8	-0.9
Computers	58.9	62.6	60.8	63.2	5.8	3.7	-2.7	2.4
Other goods	635.9	628.0	622.4	632.8	-7.2	-7.9	-10.7	10.4
Aircraft & pts	10.4	10.6	9.3	9.5	-0.8	0.3	-3.8	0.2
Semiconductors	42.0	45.4	45.3	46.2	4.8	3.4	0.4	0.9
Other cap gds	117.0	114.8	115.7	113.9	-0.9	-2.2	0.7	-1.8
Automotive	123.5	117.7	114.8	124.1	-5.0	-5.8	0.6	9.2
from Canada	43.7	45.4	44.8	46.7	0.9	1.8	-0.0	1.9
from Mexico	18.2	21.1	21.3	19.0	0.6	2.9	-1.7	-2.3
from ROW	61.7	51.2	48.8	58.4	-6.5	-10.5	2.4	9.7
Ind supplies	123.2	121.2	121.2	120.0	-4.4	-2.0	-1.3	-1.2
Consumer goods	161.5	157.7	155.2	157.7	-1.6	-3.8	-5.0	2.6
Foods	33.3	33.0	32.7	32.8	0.5	-0.2	-0.9	0.1
All other	25.0	27.6	28.2	28.6	0.1	2.6	-1.5	0.5
Services imports	146.9	148.6	150.4	148.6	1.4	1.7	4.3	-1.9
Memo:								
Oil qty (mb/d)	9.61	9.14	9.55	9.05	0.52	-0.47	0.71	-0.50
Oil price ($/bbl)	16.00	16.02	15.71	16.49	-1.55	0.01	-0.13	0.78

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

metals), and capital goods (other than computers and semiconductors). All of these categories had been on an upward trajectory through early 1995. Exports trended upward during the year (although at a slower rate than a year earlier). Most of the increase was in capital goods (even when computers and semiconductors are excluded) and industrial supplies. Capital goods and industrial supplies together account for nearly 70 percent of the nominal value of merchandise exports.

Oil Imports

The quantity of oil imported during November-December declined slightly from October rates. The large seasonal inventory drawdown offset increases in oil consumption. Preliminary Department of Energy statistics indicate that in January-February imports should fall due to a continued drawdown in oil inventories.

The price of imported oil rose slightly in November, and then accelerated in December and January resulting in a price level 10 percent above that of January 1995. Spot WTI rose nearly $0.20 per barrel in February, averaging $19.07 per barrel, roughly unchanged from its average in December. Prices have risen during March and are trading in the $20.00 per barrel range. Unusually cold weather in North America and Japan as well as weather-related production disruptions in the North Sea and Australia helped keep prices firm. Prices have also been more volatile -- spot WTI jumped to $23 per barrel in intraday trading on February 20 -- with inventories reported to be at very low levels. Refiners have been reluctant to build inventories because of the fear of a sharp price decline if negotiations between Iraq and the United Nations for a limited oil sale result in an additional 700,000 barrels per day of oil on world markets.

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

	Annual rates			Monthly rates		
	1995			1995		1996
	Q2	Q3	Q4	Nov	Dec	Jan
	-BLS prices (1990=100)-					
Merchandise imports	8.5	-1 7	-1 1	0.2	0.4	0.3
Oil	36.3	-29.7	0.2	0.5	4.4	5.5
Non-oil	5.8	1.8	-1 1	0.2	0.0	-0.3
Foods, feeds, bev	-3.8	0.8	-7.5	0.8	-0.9	-2.3
Ind supp ex oil	10.4	5.5	0.1	-0.2	0.0	0.1
Computers	-4.4	-1.9	-7.3	0.3	-0.7	-0.5
Capital goods ex comp	9.5	0.1	-2.5	0.5	0.0	-0.2
Automotive products	5.2	1.6	1.6	0.0	0.0	-0.3
Consumer goods	3.4	1.2	-0.0	0.2	0.5	-0.1
Merchandise exports	7.1	1.0	0.0	-0.1	0.0	0.5
Agricultural	17.0	21 7	23.0	2.2	0.8	1.8
Nonagricultural	6.0	-1.5	-2.8	-0.4	-0.1	0.2
Ind supp ex ag	13.8	-6.8	-11.0	-1.4	0.1	0.5
Computers	-2.4	-6.9	-7.4	-0.6	0.0	-2.2
Capital goods ex comp	3.9	2.3	1.9	0.3	-0.1	0.4
Automotive products	-0.2	0.9	5.0	0.2	-0.1	0.0
Consumer goods	2.9	0.7	0.4	0.2	-0.1	0.3
	-Prices in the NIPA accounts (1992=100)					
Fixed-weight						
Imports of gds & serv.	9.0	-2.3	-1.5			
Non-oil merchandise	4.8	-1.2	-1.5			
Exports of gds & serv	5.5	0.8	-0.4			
Nonag merchandise	4.8	-1.2	-3.1			

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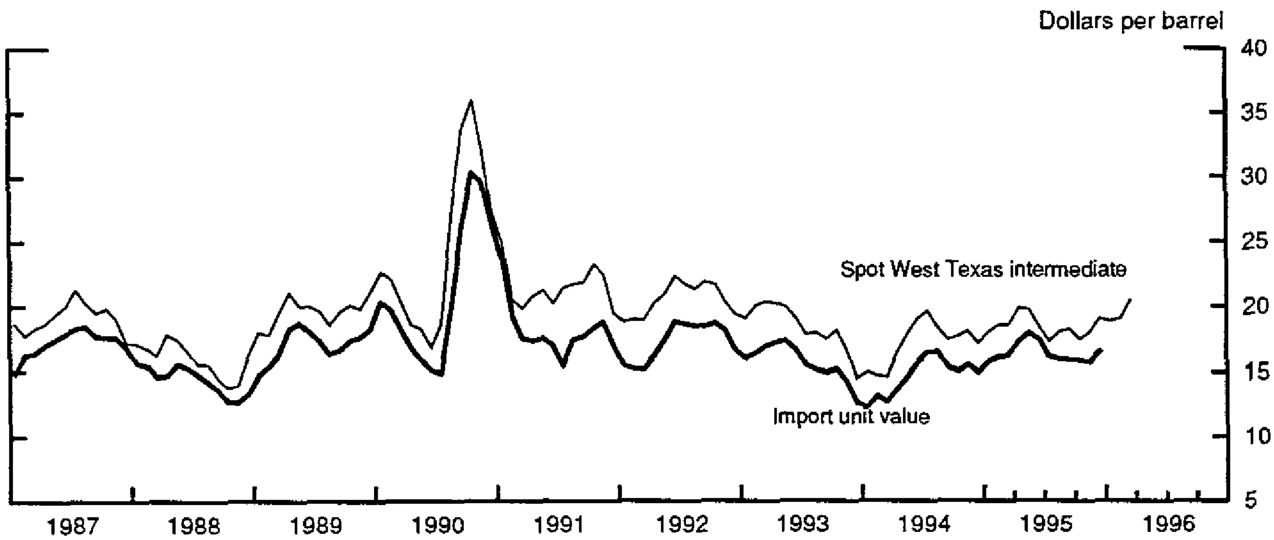
Oil Prices



Prices of Non-oil Imports and Exports

Prices of U.S. non-oil imports decreased in January. The largest declines were in food prices. In addition, there were smaller price decreases in most other major trade categories. For the fourth quarter compared with the third quarter, prices of non-oil imports declined 1 percent at an annual rate; this followed ten consecutive quarters of price increases. The largest declines were in capital goods and foods. In addition, the rate of increase in prices of imported industrial supplies slowed to near zero in Q4 from double-digit rates in the first two quarters of the year. Data for February are scheduled to be released on March 26.

Prices of exports increased in January, the largest rise since April 1995. Overall, prices of exports have changed very little since mid-1995; prices of exported agricultural products have risen sharply and (until January) prices of other exported products have declined. Much of the increase in the price of total exports in January was accounted for by agricultural commodities; agricultural export prices have risen at double-digit annual rates since the first quarter of 1995 in response to disappointing harvests abroad last year and robust world demand. The price of nonagricultural exports rose moderately in January--the first monthly increase since last June. Since mid-1994, movements in nonagricultural export prices have been dominated by sharp swings in the prices of exported industrial supplies, including a runup through mid-1995, a reversal during the third and fourth quarters of last year, and a pickup in January.

U.S. Current Account

The U.S. current account deficit narrowed $36.7 billion SAAR in the fourth quarter. The largest changes were reductions in the deficits in trade (discussed above) and in investment income.

The deficit on investment income narrowed $14.5 billion SAAR in the fourth quarter. This change was more than accounted for by the increase in net direct investment income. Earnings of U.S. direct investors abroad improved dramatically, by over $10 billion SAAR, lead by the performance of the computer industry; profits of foreign direct investors in the United States fell marginally, in line with anecdotal reports of a weakening of corporate profits in the U.S. domestic economy.

For the year 1995, the current account deficit was virtually unchanged from 1994.

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

	Goods & services balance	Investment income, net	Transfers, net	Current acct balance
Years				
1994	-106.2	-9.3	-35.8	-151.2
1995	-111.4	-11.4	-30.1	-152.9
Quarters				
1994-1	-92.1	0.5	-29.5	-121.1
2	-107.7	-9.1	-35.1	-151.9
3	-115.2	-10.1	-33.5	-158.9
4	-109.9	-18.3	-45.0	-173.1
1995-1	-115.6	-8.1	-30.1	-153.8
2	-133.4	-10.7	-28.5	-172.6
3	-109.2	-20.7	-31.1	-161.0
4	-87.5	-6.1	-30.7	-124.3
Memo:				
$ Change				
Q3-Q2	24.1	-9.9	-2.7	11.6
Q4-Q3	21.8	14.5	0.4	36.7

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

U.S. International Financial Transactions

Foreign official reserve assets in the United States continued to increase sharply in January, after a record $109 billion increase in 1995. (See line 1 of the Summary of U.S. International Transactions table.) Much of the increase in January was accounted for by a wide range of developing countries in Asia and Latin America. Partial data for February from FRBNY indicate continued increases by developing countries as well as large increases by G-10 countries associated with foreign exchange market intervention.

Net purchases of U.S. corporate and government agency bonds by private foreigners were strong in January (see line 4b). Both U.S. financial corporations and government agencies have been actively issuing bonds in global markets in the first quarter. Some of these issues have been in exotic currencies (for example, South African rand, Egyptian pound, Polish zloty, and Portuguese escudo), probably to hedge exposure or to take advantage of swap opportunities.

Net purchases of U.S. Treasury securities by private foreigners were modest in January, held down by very large net sales by financial institutions located in the Caribbean (line 4a). For 1995, Caribbean financial centers accounted for almost 40 percent of the record $100 billion in foreign private net purchases of U.S. Treasury securities. Part of the funding to finance these purchases appears to have come from RP transactions with nonbank securities dealers located in the United States, contributing to the outflow reported in line 3. Net purchases of Treasury securities by residents of Japan directly from the United States were also substantial in 1995 and in January 1996.

Foreigners continued to add to their holdings of U.S. corporate stock in January (line 4c). For the fourth quarter of 1995, BEA has added an estimate of stock acquired through a merger-

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

	1994	1995	1995					1996
			Q1	Q2	Q3	Q4	Dec	Jan
Official capital								
1. Change in foreign official reserve assets in U.S. (increase, +)	37.9	108.8	22.2	37.2	39.4	10.1	-2.8	14.2
a. G-10 countries	28.9	32.9	16.9	14.1	5.6	-3.8	-2.4	3.2
b. OPEC countries	-3.3	4.3	.4	.2	6.2	-2.1	.5	-2.1
c. All other countries	12.3	71.6	4.8	23.2	27.5	16.1	.2	13.0
2. Change in U.S. official reserve assets (decrease, +)	5.3	-9.7	-5.3	-2.7	-1.9	.2	.1	1.2
Private capital								
Banks								
3. Change in net foreign positions of banking offices in the U.S.[1]	103.4	-30.7	-8.6	24.9	-6.7	9.6	5.1	.2
Securities[2]								
4. Foreign net purchases of U.S. securities (+)	92.8	188.9	45.9	51.3	68.6	23.0	-11.8	13.4
a. Treasury securities[3]	34.6	99.6	30.1	30.5	37.3	1.8	-14.1	2.4
b. Corporate and other bonds[4]	53.9	81.0	19.3	18.5	26.0	17.3	.2	9.1
c. Corporate stocks	4.3	8.1	-3.5	2.4	5.3	3.9	2.1	2.0
5. U.S. net purchases (-) of foreign securities	-57.3	-97.6	-7.7	-22.8	-35.1	-32.1	-10.8	-10.8
a. Bonds	-9.2	-46.9	-3.5	-12.5	-13.0	-17.8	-4.0	-4.4
b. Stocks	-48.1	-50.7	-4.1	-10.2	-22.1	-14.3	-6.8	-6.4
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-49.4	-96.9	-22.6	-17.2	-16.2	-40.9	n.a	n.a
7. Foreign direct investment in U.S.	49.4	74.7	17.2	12.9	23.7	20.9	n.a	n.a
8. Other (inflow, +)[5]	-16.6	8.7	-21.7	-59.7	17.3	23.1	n.a	n.a
U.S. current account balance (s.a.)	-151.2	-152.9	-38.5	-43.1	-40.3	-31.1	n.a	n.a
Statistical discrepancy (s.a.)	-14.3	6.6	19.1	19.2	-48.8	17.2	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.

related stock swap (discussed below) to the reported data, bringing BEA's published total for the year 1995 to $12.8 billion.

After a weak first quarter in 1995, U.S. net purchases of foreign securities were very strong; that strength continued in January 1996 (line 5). Stock purchases were concentrated in the industrial countries. Net purchases of stocks in Japan were particularly strong in January, accounting for 57 percent of the total, up from 40 percent for 1995. In contrast, since the Mexican crisis U.S. investors have shown limited interest in adding to their holdings of stocks or bonds from developing countries in Latin America. Interest in stocks from developing countries in Asia was better maintained.

Data recently released by the Department of Commerce indicate that direct investment inflows and outflows rose to record levels in 1995 (lines 6 and 7). Large mergers and acquisitions added substantially to the flows in both directions; examples include the takeover of Marion Merrell Dow by Hoechst and the merger of Pharmacia and Upjohn. The latter deal, because of the way it was structured (a stock swap with the new merged firm incorporated in Delaware), increased U.S. direct investment abroad, but this increase was balanced by an increase in foreign holdings of U.S. stock and an increase in foreign direct investment in the United States. In addition, privatizations abroad attracted large investments by U.S. firms. In contrast to U.S. portfolio investment, direct investment outflows to Latin America continued to grow in 1995, as did U.S. direct investment flows to developing countries in Asia.

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1992	1993	1994	1995			1996	
	Dec.	Dec.	Dec.	June	Sep.	Dec.	Jan.	Feb.
1. Net claims of U.S. banking offices (excluding IBFs) on own foreign offices and IBFS	-71.6	-122.1	-224.0	-235.3	-244.3	-260.0	-273:6	-272.1
a. U.S.-chartered banks	17.0	4.2	-70.1	-88.7	-86.1	-86.1	-90.5	-88.1
b. Foreign-chartered banks	-88.6	-126.3	-153.9	-147.6	-158.2	-173.9	-183.1	-184.0
2. Credit extended to U.S. nonbank residents								
a. By foreign branches of U.S. banks	24.8	21.8	23.1	25.2	25.7	26.5	27.6	-27.8
b. By Caribbean offices of foreign-chartered banks	n.a.	90.9	78.4	85.3	86.3	86.3	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	85.6	92.3	94.6	91.2	94.4	94.9
b. At the Caribbean offices of foreign-chartered banks	n.a.	79.2	86.0	109.2	89.9	92.3	n.a.	n.a.
MEMO: Data as recorded in the U.S. international transactions accounts								
4. Credit extended to U.S. nonbank residents	188	195	190	209	215	n.a.	n.a.	n.a.
5. Eurodeposits of U.S. nonbank residents	236	231	262	289	279	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

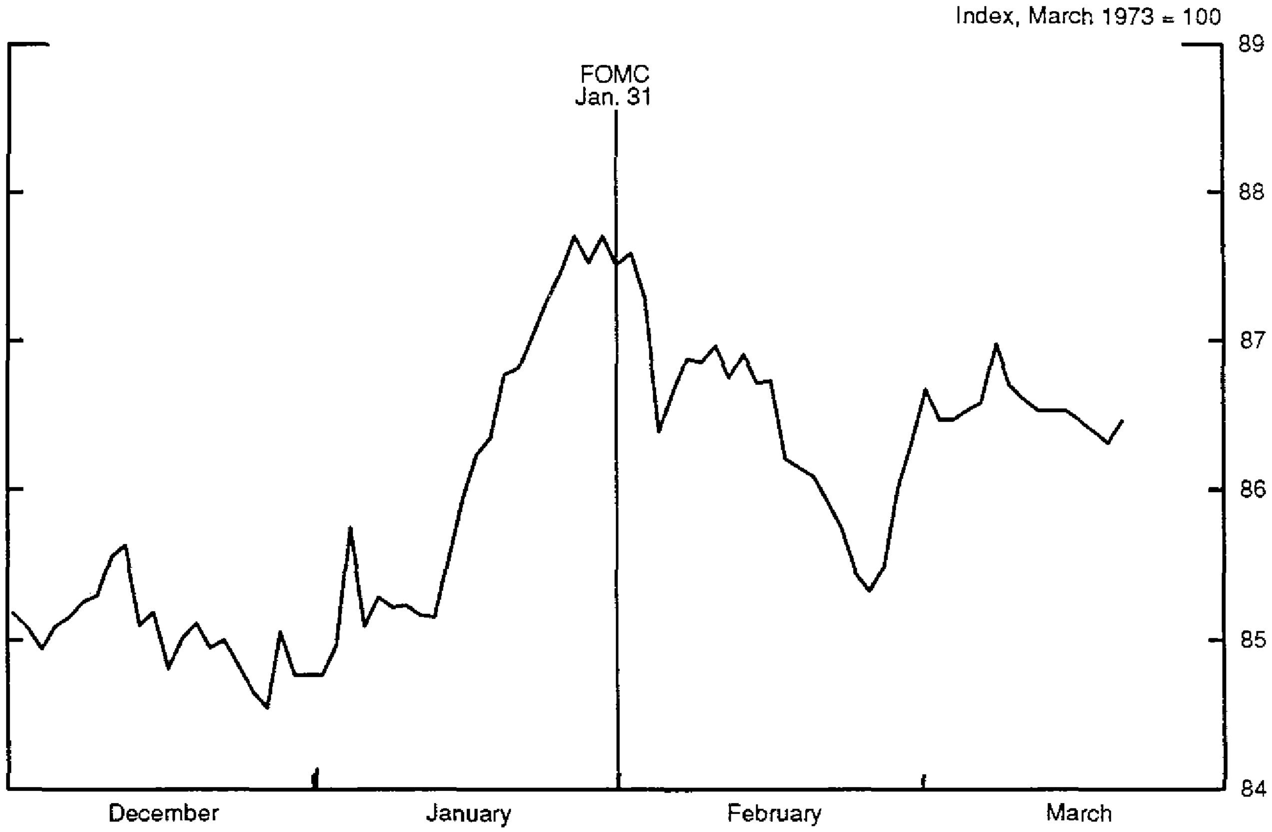
Foreign Exchange Markets

Since the FOMC meeting on January 31, the exchange value of the dollar depreciated 1/4 percent against the yen, 3/4 percent against the mark, and 1-3/4 percent against sterling. On a weighted-average basis, the dollar declined 1-1/4 percent.

In the first half of the intermeeting period the dollar declined amid changing market expectations about the future course of German and Japanese monetary policies. In Germany, stronger-than-expected growth in the M3 money supply and in industrial production may have led some market participants to conclude that the Bundesbank's easing cycle had ended. This perception was reinforced by the Bundesbank's announcement on February 1 that it would conduct repurchase operations at a fixed rate of 3.30 percent at the tenders on February 7 and 14. (The Bundesbank announced on March 14 that the repo rate will remain fixed at 3.30 percent through March 27.) In Japan, data releases that generally were stronger than expected suggested that monetary tightening by the Bank of Japan may soon be at hand. This perception was reinforced by ill-timed official comments that pensioners were suffering from low interest rates.

However, in late February, the dollar rebounded due to a number of factors. First, incoming data suggested that economic prospects in Germany and Japan were not as rosy as earlier data had indicated, while economic data in the United States generally were stronger than expected. In Germany, business confidence dipped in January, and the strong growth in industrial production that was registered in December was revised sharply downward. Although the Japanese Tankan survey continued to climb from lows recorded in late 1993, the rise in February was not as strong as the market had expected. Second, accommodative money market operations by the Bank of Japan have signalled that monetary tightening is not imminent.

Weighted Average Exchange Value of the Dollar
(Daily data)



Interest Rates in Major Industrial Countries

	Three-month rates			Ten-year bond yields		
	Jan. 31	Mar. 21	Change	Jan. 31	Mar. 21	Change
Germany	3.30	3.25	-0.05	5.88	6.48	0.60
Japan	0.56	0.59	0.03	3.14	3.18	0.04
United Kingdom	6.19	6.00	-0.19	7.42	8.04	0.62
Canada	5.30	5.19	-0.11	7.04	7.69	0.65
France	4.25	4.12	-0.13	6.35	6.69	0.34
Italy	9.81	9.81	0.00	10.19	10.64	0.45
Belgium	3.30	3.24	-0.06	6.34	6.82	0.48
Netherlands	2.98	3.12	0.14	5.90	6.51	0.61
Switzerland	1.69	1.75	0.06	4.11	4.12	0.01
Sweden	7.67	6.80	-0.87	8.22	8.66	0.44
Weighted-average foreign	4.23	4.15	-0.08	6.30	6.74	0.44
United States	5.24	5.32	0.08	5.60	6.28[p]	0.68

Note. Change is in percentage points. p. Preliminary

Third, the dollar may have been supported by very heavy intervention purchases by the Bank of Japan.

Except in France, the United Kingdom, and Sweden, short-term interest rates are little changed on net since the last FOMC meeting as monetary policy has remained on hold in most G-10 countries. The Bank of France reduced its intervention rate, the effective floor for short-term market interest rates, by a cumulative amount of 40 basis points as the French franc strengthened somewhat against the mark. Citing subdued inflation pressure and below-trend growth, the Bank of England reduced official rates by 1/4 percentage point on March 8. In Sweden, the Riksbank lowered its repo rate by 85 basis points cumulatively as downward pressure on the krona, which followed market concerns that the government was wavering in its commitment to fiscal austerity, has subsided, and incoming inflation data was quite favorable. On March 21, the Riksbank reduced its official interest rates by 3/4 percentage point, and the Bank of Canada lowered its target range for the overnight rate by 1/4 percentage point to 4-3/4 to 5-1/4 percent.

Long-term interest rates in most G-10 countries rose over the intermeeting period. Although the increase in U.S. long-term rates is consistent with stronger-than-expected data, the backup in long-term rates in some other G-10 countries, particularly in most European countries where recent data releases generally have been weaker than expected, is more difficult to explain. The rise in long-term rates in most European countries may reflect market perceptions that monetary easing in Germany, and by extension in most other European countries, has, or will soon, come to an end as faster growth in the United States and Canada may herald strength in other countries. Higher European long-term rates may also reflect market concerns that relaxation of the Maastricht fiscal convergence criteria, in order to begin EMU as scheduled in 1999, may lead to higher long-run debt positions and, perhaps, inflation in those countries. In Japan, long-term interest rates rose earlier in the intermeeting period, but declined after the release of the weaker-than-expected Tankan survey on March 1, and are about unchanged on balance.

In Mexican financial markets, the peso declined 1-1/2 percent against the dollar over the intermeeting period. The Mexican stock market declined by as much as 7 percent as interest rates on peso-denominated cetes obligations rose early in the intermeeting period due to heightened inflationary concerns. However, in recent days, interest rates have reversed direction, and the stock market has rallied. On balance, one-month interest rates are up 2 percentage points, but 1-year interest rates are down 1/2 percentage point, since the last FOMC meeting. The Mexican stock market is 1 percent lower on balance since January 31.

The Desk did not intervene in foreign exchange markets over the intermeeting period.

Developments in Foreign Industrial Countries

Economic activity remained sluggish late last year on balance, as real GDP contracted or registered little growth in many major foreign industrial countries. An exception was Japan, where growth picked up significantly, and a moderate recovery appears underway. Indicators for the current quarter are limited, but point to continued moderate growth in Japan, and incoming data suggest that activity has picked up in Canada. In contrast, activity still appears to be weak in Germany and France, while indicators for the United Kingdom and Italy have been mixed.

Inflationary pressures remain subdued. Prices have fallen further in Japan, and recent consumer price inflation has averaged

2 percent or less in Germany, France, and Canada. Italian inflation remains high but has slowed considerably in the past couple of months. U.K. consumer price inflation has been moderate, while producer price inflation has trended downward.

Individual country notes. In **Japan**, recently released fourth-quarter data and revised third-quarter data show sustained moderate output growth. This growth has been led by large increases in public and private investment and moderate increases in private consumption. In the fourth quarter, government investment accounted for half of the increase in total fixed investment. Net exports have been a significant drag on growth, reflecting the lagged effect of yen appreciation in early 1995.

JAPANESE REAL GDP
(Percent change from previous period, SAAR)[1]

	1994	1995	1995			
			Q1	Q2	Q3	Q4
GDP	0.4	2.2	0.5	2.6	2.3	3.6
Total Domestic Demand	0.4	3.6	1.3	2.4	4.6	6.1
Consumption	1.1	2.4	0.4	2.9	4.7	1.8
Investment	-1.4	5.8	-2.1	4.8	4.3	16.9
Government Consumption	0.6	2.8	17.8	-4.6	1.0	-1.5
Inventories (contribution)	0.2	0.1	0.2	-0.3	0.3	0.3
Exports	9.0	3.7	-0.2	17.9	-6.3	4.7
Imports	11.3	16.5	8.0	18.1	12.6	28.4
Net Exports (contribution)	-0.0	-1.3	-0.8	0.2	-2.1	-2.3

1. Annual changes are Q4/Q4.

Prices have continued to fall. The February CPI for the Tokyo area was 0.2 percent below year-earlier levels, while wholesale prices were down 0.1 percent over the same period. The GDP deflator in the fourth quarter was 0.5 percent below its level four quarters earlier.

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

	1995		1996	1995		1996	
	Q3	Q4	Q1	Nov	Dec	Jan	Feb
Industrial Production	-2.3	2.3	n.a.	1.5	0.8	0.0	n.a.
Housing Starts	-1.2	11.5	n.a.	4.5	2.4	2.8	n.a.
Machinery Orders	0.7	5.9	n.a.	4.9	1.1	5.7	n.a.
New Car Registrations	5.1	2.4	n.a.	-1.4	-1.6	3.3	1.7
Unemployment Rate (%)	3.2	3.3	n.a.	3.4	3.4	3.4	n.a.
Job Offers Ratio[1]	0.61	0.63	n.a.	0.63	0.64	0.67	n.a.
Business Sentiment[2]	-18	-14	-12	--	--	--	--
CPI (Tokyo area)[3]	-0.2	-0.8	n.a.	-0.9	-0.5	-0.5	-0.2
Wholesale Prices[3]	-0.9	-0.1	n.a.	0.0	-0.3	-0.2	-0.1

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

In the Bank of Japan's February survey (Tankan), the index of business sentiment of major manufacturing firms (the percentage having a favorable view of business conditions minus the percentage with an unfavorable outlook) registered -12, slightly less negative than the previous survey taken in November.

The current account surplus has continued to decline, registering about $110 billion for the year 1995, down about $19 billion from the previous year. The current account surplus declined again in January, and trade data for February show a further decline in the merchandise trade surplus.

For nearly three weeks, the opposition New Frontier Party has blockaded the entrance to the Budget Committee room and prevented the Diet from considering the FY1996 budget. This blockade is in protest to the budget's allocation of ¥685 billion ($6.4 billion) of public funds to help resolve the problem of insolvent housing loan companies (jusen). The government plans to introduce a provisional budget for the first few weeks of the fiscal year that does not include money for the jusen while it tries to negotiate with the opposition parties on the regular budget.

In **Germany**, real GDP contracted 1.6 percent (SAAR) during the final quarter of 1995. The softening of the economy in 1995 reflects a slowdown in domestic demand, despite a pickup in private consumption spending (to rates slightly below those typical of an expansion). Growth in investment declined in 1995, as construction dropped sharply with the expiration of assorted tax incentives at the end of 1994 that had accelerated building plans and, more recently, from the very cold winter, while spending on machinery and equipment was little changed. Data for the fourth quarter indicate a sizable inventory correction, which could bode well for current quarter production. However, since inventories are not measured independently in the German statistics but are the residual in the national accounts, inferences from the fourth quarter inventory drawdown could be misleading.

GERMAN REAL GDP
(Percent change from previous period, SAAR)[1]

	1994	1995	1995			
			Q1	Q2	Q3	Q4
GDP	3.7	1.0	1.0	4.4	0.4	-1.6
Total Domestic Demand	4.0	-0.1	0.1	3.8	0.3	-4.2
Consumption	0.3	2.9	4.0	2.7	-1.1	1.8
Investment	8.8	-2.1	-5.9	4.3	-0.9	-5.5
Government Consumption	1.2	3.3	5.6	3.8	1.6	2.2
Inventories (contribution)	1.6	-1.3	-1.8	0.5	0.8	-4.5
Exports	8.9	5.5	-6.6	15.3	0.8	14.2
Imports	9.9	1.2	-9.7	12.4	0.4	2.9
Net Exports (contribution)	-0.3	1.1	0.9	0.6	0.1	2.7

1. Annual changes are Q4/Q4.

Data for the first quarter are generally consistent with continued weakness. Unemployment has increased further, rising by 107,000 persons (seasonally adjusted) in February to bring the total number of unemployment to nearly 4 million. Rising uncertainty about job prospects may be causing consumers to save the court-mandated tax cuts that went into effect on January 1 and were widely expected to generate a pickup in private consumption. A survey of current and expected conditions in the construction sector showed further declines. However, industrial output was up sharply in January, and export expectations of manufacturing firms rose strongly.

Price pressures remain modest. Over the 12 months ending in February, consumer prices in the western states rose 1.4 percent. Producer and import prices continue to evidence no sign of inflationary pressures, with the most recent monthly data showing declines on a 12-month basis.

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

	1995					1996	
	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Industrial Production	0.7	-0.5	-1.8	0.9	-1.0	1.6	n.a.
Orders	0.3	-0.6	-2.7	1.6	-1.6	-0.4	n.a.
Unemployment Rate (%)	9.3	9.4	9.7	9.7	9.9	10.1	10.3
Western Germany	8.2	8.4	8.5	8.5	8.6	8.7	8.9
Eastern Germany	13.7	14.0	14.7	14.7	15.2	15.7	16.4
Capacity Utilization[1]	85.9	85.3	84.4	--	--	--	--
Business Climate[1,2]	3.0	-4.3	-10.3	-9.0	-12.0	-13.0	n.a.
Retail Sales[3]	-3.0	-2.7	-2.3	1.0	-3.0	-1.0	n.a.
Consumer Prices[1,3]	1.9	1.7	1.5	1.5	1.4	1.4	1.4

1. Western Germany.
2. Percent of firms (in manufacturing, construction, wholesale, and retail) citing an improvement in business conditions (current and expected over the next six months) less those citing a deterioration in conditions.
3. Percent change from previous year.

As of March 15, the Finance Ministry began requiring special approval for large federal expenditures, in hopes of reducing the 1996 deficit overrun now estimated to be in the range of DM 15-20 billion. A similar measure was instituted last October when it became clear that tax revenues were likely to fall short of expectations. This emergency measure does not rule out a supplementary budget later this year or the possible institution of additional tax measures in order to meet the federal deficit target of DM 60 billion.

In **France**, real GDP contracted 1.3 percent (SAAR) in the fourth quarter. This contraction was in line with expectations, and was attributed in part to the public sector strikes in late November and December. During the fourth quarter, private consumption declined and inventories fell sharply while investment, government spending, and net exports contributed positively to growth.

FRENCH REAL GDP
(Percent change from previous period, SAAR)[1]

	1994	1995	1995			
			Q1	Q2	Q3	Q4
GDP	4.3	0.7	2.8	0.6	0.7	-1.3
Total Domestic Demand	5.0	0.6	0.9	0.3	3.0	-1.8
Consumption	1.7	1.2	1.2	5.3	-0.7	-1.0
Investment	4.5	1.1	4.7	-5.5	3.7	1.7
Government Consumption	0.9	2.8	2.1	2.5	4.0	2.4
Inventories (contribution)	2.8	-0.9	-1.2	-2.1	1.8	-2.0
Exports	7.6	0.7	10.9	-0.4	-1.5	-5.6
Imports	10.4	0.3	4.0	-1.6	6.6	-7.3
Net Exports (contribution)	-0.7	0.1	1.9	0.3	-2.3	0.5

1. Annual changes are Q4/Q4.

Monthly indicators suggest that economic activity will remain subdued in the current quarter, after factoring in some bounceback in production following the strike. Although business surveys suggest that confidence has stabilized early this year, output is expected to remain weak through the first quarter. The surveys also suggest that inventories remain above normal, pointing to a continued inventory correction in the near-term, and the unemployment rate rose further in January to 11.8 percent. Real consumption of manufactured products rose sharply in January from its fourth-quarter average, but at least part of this pickup stems from a strike-rebound effect. Consumer confidence in January and February improved modestly from December but remains far below last summer's levels. Consumer price inflation remained moderate through February.

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

	1995					1996	
	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Industrial Production	-0.1	0.8	2.8	0.5	-0.7	n.a.	n.a.
Capacity Utilization	84.8	84.2	83.5	--	--	--	--
Unemployment Rate (%)	11.6	11.5	11.6	11.6	11.7	11.8	n.a.
Consumption of Manufactured Products	2.7	-1.0	-1.9	4.8	-0.8	5.0	n.a.
Consumer Prices[1]	1.6	1.8	1.9	1.9	2.1	2.0	2.0

1. Percent change from previous year. Includes the increase in the VAT on August 1, 1995

In the **United Kingdom**, real GDP rose 2.1 percent (SAAR) in the fourth quarter of 1995, mainly the result of robust growth in consumption and a modest pickup in investment. At the same time, inventory accumulation slowed noticeably compared to the two previous quarters.

UNITED KINGDOM REAL GDP
(Percent change from previous period, SAAR)[1]

	1994	1995	1995 Q1	Q2	Q3	Q4
GDP	4.2	1.9	2.2	1.6	1.8	2.1
Total Domestic Demand	3.5	1.0	-2.8	3.9	2.0	0.8
Consumption	2.7	2.2	0.1	3.1	2.5	3.0
Investment	1.8	1.9	5.2	2.5	-4.4	4.4
Government Consumption	1.5	0.8	-0.7	2.1	0.9	0.8
Inventories (contribution)	1.2	-0.8	-3.7	1.2	1.1	-1.9
Exports	10.6	n.a.	2.4	-1.1	8.6	n.a.
Imports	6.8	n.a.	-11.5	7.5	9.8	n.a.
Net Exports (contribution)	0.9	n.a.	4.2	-2.4	-0.4	n.a.
Non-oil GDP	4.1	1.8	1.5	2.3	1.5	2.0

1. Annual changes are Q4/Q4.

Available data for the current quarter are mixed. While manufacturing output increased 0.3 percent in January, overall industrial production contracted, reflecting weather-related weakness in the utility sector. In February, manufacturing employment declined somewhat. However, retail sales rebounded in February, and the February Confederation of British Industry survey showed the balance of firms expecting to increase output versus those expecting to decrease output rose to +20 from the December low of +2.

Targeted inflation, measured as the year-on-year change in retail prices excluding mortgage interest payments, has been little changed through February from the fourth quarter average of 2.9 percent. A declining trend in price pressures has been more visible in producer price indexes. Growth in average earnings continues to be modest despite a gradually falling unemployment rate. Surveys on pay settlements show that most were settled in the 3 to 4 percent range in the fourth quarter, slightly higher than in the first half of 1995.

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

	1995					1996	
	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Industrial Production	0.0	0.7	-0.1	0.4	0.5	-0.4	n.a.
Retail Sales	0.9	0.1	0.7	0.9	0.4	-0.6	0.6
Unemployment Rate (%)	8.3	8.2	8.0	8.0	8.0	7.9	7.9
Consumer Prices[1]	2.7	2.9	2.9	2.9	3.0	2.8	2.9
Producer Input Prices[2]	10.9	9.5	6.4	6.1	5.4	3.3	3.0
Average Earnings[2]	3.6	3.3	3.3	3.3	3.3	3.3	n.a.

1. Retail prices excluding mortgage interest payments. Percent change from previous year.
2. Percent change from previous year.

In **Italy**, the advance GDP release stated that real economic activity declined 4 percent (SAAR) in the fourth quarter, following an 8 percent gain in the third quarter. Large swings in inventory investment have been primarily responsible for quarter-to-quarter movements in GDP this year. The preliminary Q4 release implies that for 1995 as a whole, real GDP expanded 2.4 percent on a Q4/Q4 basis, largely the result of strong export growth. Forward-looking indicators are limited. Business sentiment picked up considerably in December and January, but consumer confidence edged down in February and remains below levels registered in mid-1995.

Inflation has continued to decline. In February, the consumer price index was 5 percent above its year-earlier level, down from a peak of 6.1 percent in December. Wholesale price inflation has also slowed somewhat.

On February 16, President Scalfaro dissolved the parliament and called for elections on April 21, three years ahead of schedule. On February 27, Prime Minister Dini announced that his fledgling political party will support the center-left coalition in the upcoming elections. Current opinion polls suggest that neither the center-left nor the center-right has sufficient support for a strong majority. If the election does not produce a strong majority, prospects for further fiscal reform could be jeopardized.

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

	1995					1996	
	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Industrial Production	1.1	3.0	-0.9	-0.5	3.1	n.a.	n.a.
Cap. Utilization (%)	78.6	77.5	78.5	--	--	--	--
Unemployment Rate (%)	12.0	12.1	11.9	--	--	--	--
Consumer Confidence[1]	113.2	116.1	110.0	110.9	108.4	109.7	107.2
Bus. Sentiment[2] (%)	18	17.3	11.3	8.0	18.0	21.0	n.a.
Consumer Prices[3]	5.5	5.8	5.9	5.9	6.1	5.6	5.0
Wholesale Prices[3]	11.4	11.3	10.8	10.8	10.4	9.1	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. Percent change from previous year.

Economic activity in **Canada** remained weak in the fourth quarter of 1995, as real GDP expanded 0.8 percent (SAAR). Machinery and equipment investment picked up sharply, reversing a drop in the third quarter, but this increase was partially offset by further declines in residential and non-residential construction. Net exports contributed positively to growth, despite the weak pace of activity in the United States. A drop in consumption expenditures, a reduced pace of inventory investment, and lower government spending also contributed to the quarter's sluggish pace.

CANADIAN REAL GDP
(Percent change from previous period, SAAR)[1]

	1994	1995	1995 Q1	1995 Q2	1995 Q3	1995 Q4
GDP	5.4	0.6	1.1	-0.8	1.2	0.8
Total Domestic Demand	2.7	-0.2	2.0	0.8	-2.8	-0.7
Consumption	3.3	0.6	-0.6	1.2	2.4	-0.4
Investment	6.1	-1.4	-5.9	0.5	-7.4	7.8
Government Consumption	-1.8	-1.6	2.7	-1.0	-6.0	-2.0
Inventories (contribution)	-0.2	0.1	3.2	0.2	-1.4	-1.7
Exports	20.4	5.4	8.1	-11.1	12.8	13.9
Imports	13.0	4.1	10.7	-6.0	2.5	10.1
Net Exports (contribution)	2.4	0.5	-1.0	-2.2	3.9	1.5

1. Annual changes are Q4/Q4.

Recent indicators are limited but suggest a pickup in economic activity. In January, retail sales rose and manufacturing shipments edged up, while new factory orders through January have posted three consecutive monthly increases. Conditions in the labor market have also improved recently. Between November 1995 and February 1996, employment has grown 1 percent, more than three times the increase over the previous twelve months. However, the unemployment rate remained high at 9.6 percent in February, as recent job growth has led to increased labor force participation.

After rising to near the top of the Bank of Canada's 1-3 percent target band in the first half of last year, consumer price inflation has been subdued recently, reflecting the excess supply in the economy, stabilization of the Canadian dollar, and moderation in industrial product price inflation.

The Chrétien government's new budget, released on March 6, calls for continued significant reductions in government spending to reduce the deficit from 4 percent of GDP for the fiscal year ending March 31, to 3 percent of GDP in 1996-97 and to 2 percent of GDP in

1997-98. A sizable operating surplus will continue to be offset by rising debt service costs. The federal government net debt-to-GDP ratio is expected to peak at nearly 75 percent of GDP this year.

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

	1995					1996	
	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Industrial Production	-0.6	0.3	-0.2	0.3	-0.6	n.a.	n.a.
Manufacturing Survey:							
Shipments	-1.3	1.1	0.1	1.1	0.9	0.1	n.a.
New Orders	-2.9	1.2	0.2	1.3	2.0	0.4	n.a.
Retail Sales	0.2	0.4	-0.9	0.1	0.1	0.3	n.a.
Housing Starts	-14.9	-3.3	5.9	8.1	4.6	-17.4	13.3
Employment	0.1	0.1	0.3	-0.3	0.4	0.3	0.3
Unemployment Rate (%)	9.5	9.5	9.4	9.4	9.4	9.6	9.6
Consumer Prices[1]	2.7	2.4	2.1	2.1	1.7	1.6	1.3

1. Percent change from year earlier.

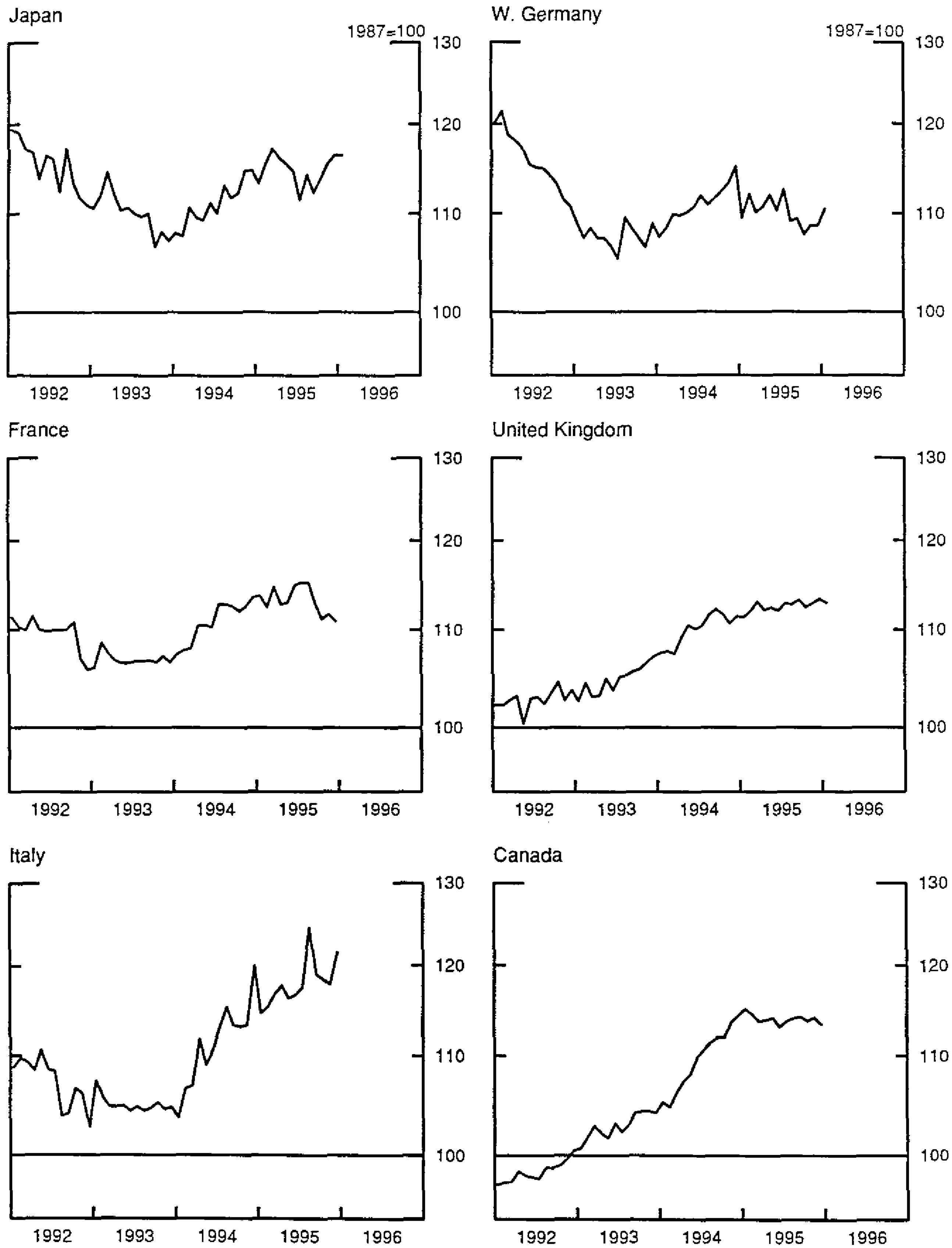
EXTERNAL BALANCES
(Billions of U.S. dollars, seasonally adjusted)

	1995	1995					1996	
		Q1	Q2	Q3	Q4	Dec	Jan	Feb
Japan: trade	106.6	27.2	31.5	25.5	27.5	8.1	5.0	4.6
current account[1]	110.5	28.8	30.9	29.6	22.4	8.5	5.6	n.a.
Germany: trade[2]	65.2	14.1	17.7	15.3	18.0	4.9	n.a.	n.a.
current account[2]	n.a.	-3.5	-0.8	-9.4	n.a.	n.a.	n.a.	n.a.
France: trade	20.8	5.6	5.9	3.8	5.4	1.4	n.a.	n.a.
current account[2]	17.2	7.0	4.9	1.1	4.0	--	--	--
U.K.: trade	-17.8	-3.0	-5.1	-5.3	-4.4	-0.9	n.a.	n.a.
current account	n.a.	-1.4	-1.9	-2.1	n.a.	--	--	--
Italy: trade	n.a.	7.2	7.0	7.5	n.a.	n.a.	n.a.	n.a.
current account[2]	n.a.	2.6	7.7	9.2	n.a.	n.a.	n.a.	n.a.
Canada: trade	20.6	4.3	4.3	5.6	6.5	2.3	n.a.	n.a.
current account	-9.5	-3.2	-3.4	-1.9	-0.9	--	--	--

1. The definition of the Japanese current account balance was revised in January 1996.
2. Not seasonally adjusted.
-- Data not available on a monthly basis.

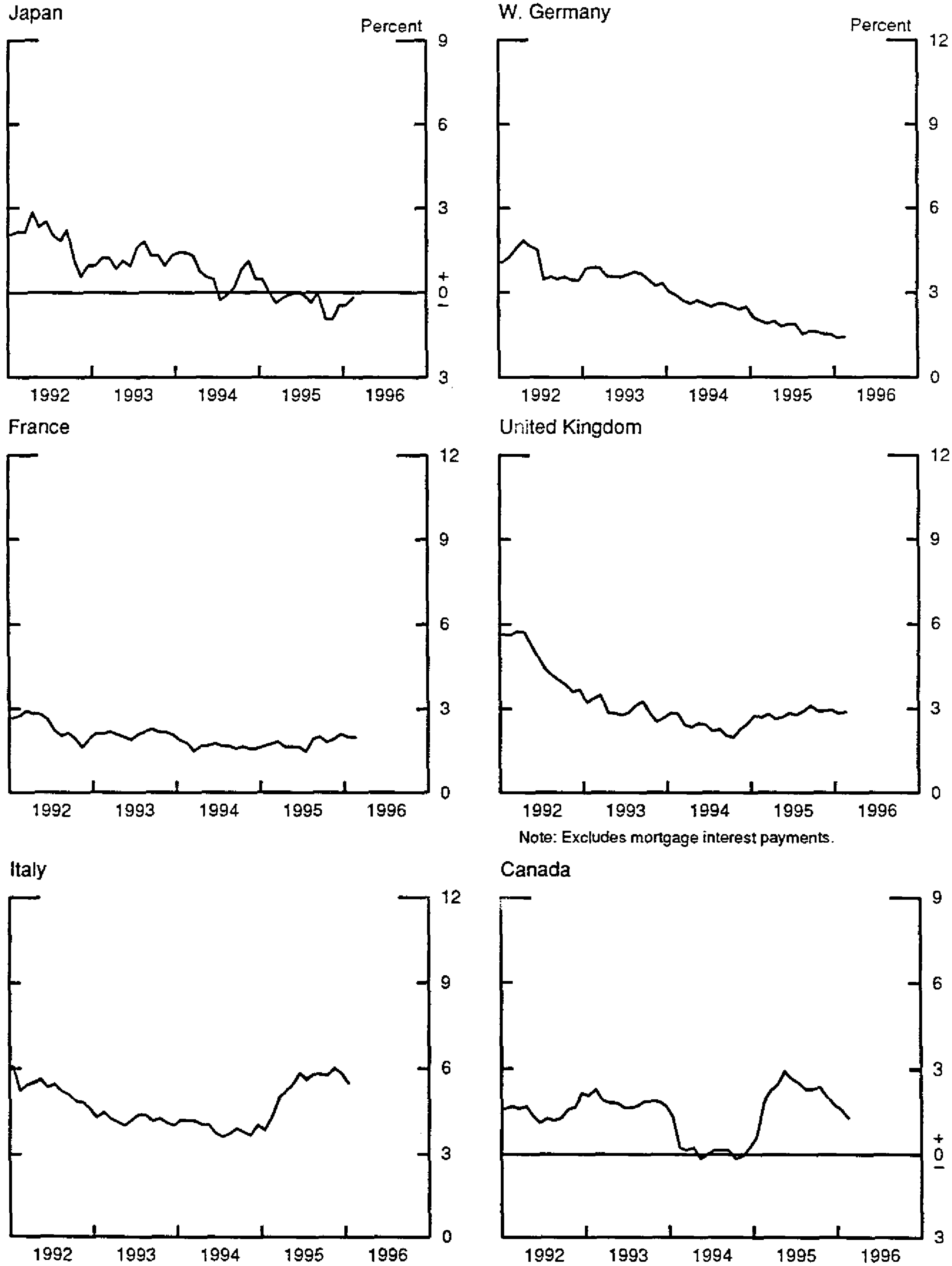
Industrial Production in Selected Industrial Countries

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



Consumer Price Inflation in Selected Industrial Countries

(12-month change)



Economic Situation in Other Countries

In Latin America, real GDP growth rebounded moderately in the fourth quarter of 1995 from generally sharp declines earlier in the year, while inflation continued to move lower, except in Venezuela. Asian real GDP growth slowed a bit to more sustainable rates. Trade performance continued to be stronger in Latin America compared with a year earlier. In contrast, the Chinese trade balance moved toward a deficit.

Individual country notes. In **Mexico**, recent data suggest that the recession bottomed out in mid-1995. Fourth-quarter real GDP declined 6.6 percent from its year-earlier level, bringing GDP for all of 1995 to 6.9 percent below its 1994 level, the steepest decline in the post-war period. However, on a seasonally adjusted basis, GDP is estimated to have increased about 3.7 percent (not at an annual rate) in the fourth quarter after rising 1.3 percent in the third quarter. The fourth-quarter increase was considerably greater than expected and, in contrast to previous quarters, reflected a rebound in domestic demand while net exports weakened. However, much of the increase in domestic demand was attributable to a reduced pace of inventory decumulation rather than a rebound in final demand. The rebound in GDP was mirrored in a strengthening of industrial production in November and December, as well as in the steady decline in the unemployment rate. On a seasonally adjusted basis, the unemployment rate is estimated to have declined further in January and February, suggesting that economic activity may have continued to expand early this year.

Seasonal factors help to explain the rise in December and January inflation rates. The reduction in the inflation rate to 2.3 percent in February, as well as the recent stabilization of the peso and an easing of seasonal price pressures, suggest that inflation will decline on balance in the coming months.

Largely as a result of an improved trade performance, the current account deficit declined to only about $650 million in 1995 compared with a $29 billion deficit in 1994. More recently, the merchandise trade surplus rose sharply in January, in part reversing monthly declines registered in the fourth quarter of last year.

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

	1994	1995	1995		1996	
			Q3	Q4	Jan	Feb
Real GDP	3.5	-6.9	-9.6	-6.6	--	--
Industrial Production (s.a.)	3.8	-7.7	-11.3	-8.3	--	--
Unemployment Rate (%)	3.2	6.3	7.5	5.9	6.4	6.3
Consumer Prices[1]	7.1	52.1	5.9	8.0	3.6	2.3
Trade Balance[2]	-18.5	7.4	2.2	1.7	0.7	--
Imports[2]	79.4	72.5	17.9	19.4	6.7	--
Exports[2]	60.8	79.9	20.1	21.0	7.4	--
Current Account[2]	-28.9	-0.7	0.5	-0.5	--	--

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

Partly as a result of the intensification of financial market pressures late last year, past-due loans as a share of total loans rose from 9 percent at end-1994 to about 18 percent in December. In February, it was announced that the Bank of Montreal would be purchasing a significant ownership share in Bancomer, Mexico's second largest bank, while the Bank of Nova Scotia would be acquiring a majority stake in Inverlat. The recapitalization of these banks will be supported by government purchases of their loan portfolios.

In **Brazil**, real GDP in the fourth quarter of 1995 rebounded partially from its steep decline in the second and third quarters, bringing growth for the year as a whole to 4.2 percent (largely reflecting very strong growth in the fourth quarter of 1994 and the first quarter of 1995). Indications are that economic activity continued its recovery in the first quarter of 1996. By Brazilian standards, inflation remains relatively low.

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

	1994	1995	1995 Q3	1995 Q4	1996 Jan	1996 Feb
Real GDP	5.7	4.2	0.9	0.2	--	--
Industrial Production (s.a.)[1]	7.8	2.0	-3.5	1.7	--	--
Open Unemployment Rate (%)	3.4	4.4	5.2	4.4	5.3	--
Consumer Prices[1]	929.0	22.0	3.1	4.7	1.5	0.8
Trade Balance[2]	10.4	-3.6	0.8	0.3	0.0	0.0
Current Account[2]	-1.5	--	-2.2	--	--	--

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

Despite the pickup in economic activity, Brazil recorded balanced trade in January and February 1996, as it did in the fourth quarter of 1995. Strong net capital inflows prompted the central bank in early February to tighten capital controls. The inflows occurred as domestic interest rates remained high relative to the rate of depreciation allowed by the central bank under the crawling peg. In January 1996, international reserves were an estimated $54 billion (liquidity definition), up considerably from a low of $32 billion in early 1995.

Top central bank and government officials have come under fire from Congress over revelations that a large private bank, which ran into financial trouble in late 1995 and was rescued by the central bank at a heavy cost, had hidden its losses by engaging in fraudulent banking practices for a decade. Some observers have expressed concerns that a Senate inquiry into the matter could reveal more evidence of banking irregularities and further weaken confidence in the banking system.

In **Argentina**, real GDP contracted by an estimated 3.5 percent in 1995, while inflation remained low. Consumer prices rose

0.4 percent in February from a year earlier. In 1995, exports rose by 31 percent over a year earlier, while imports declined almost 9 percent. However, the trade surplus peaked in June. Gross international reserves have increased somewhat in the last month and stood at $19 billion at end-February. Of the $19 billion, $2.6 billion are in dollar-denominated Bonex bonds and $3.4 billion are in net repurchase agreements. The monetary base was $12 billion, leaving $7 billion in excess reserves.

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

	1994	1995	1995		1996	
			Q3	Q4	Jan	Feb
Real GDP	7.4	--	-7.7	--	--	--
Industrial Production (s.a.)	3.7	-10.4	-12.0	-10.4	-9.8	--
Unemployment Rate (%)[2]	11.7	17.4	--	16.4	--	--
Consumer Prices[1]	3.9	1.7	0.5	0.2	0.3	-0.3
Trade Balance[3]	-4.0	2.7	0.7	0.3	-0.1	--
Current Account[3]	-9.9	--	--	--	--	--

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 current Extended Fund Facility arrangement with the IMF expires on March 30, 1996. In mid-February, Argentina reached a preliminary agreement on a new 21-month stand-by arrangement with the IMF, with the amount due to be fixed in the first half of April, although it is likely to be for about $1 billion. The package of laws intended to give President Menem power for one year to raise taxes and cut some spending without Congressional approval was passed, slightly amended, by the Senate on February 29. The "Reform of the State II" law, as it is called, is expected to be passed shortly by the lower house of Congress.

In **Venezuela**, real GDP grew an estimated 2 percent in 1995, due to the strong performance of the oil sector, which grew

6 percent. Economic activity in the non-oil sector continued to decline, contributing to rising unemployment, which was above 10 percent at the end of 1995. Consumer price inflation picked up in December due to the devaluation of the bolivar that month and has reached 8 percent a month in both January and February. Venezuela registered a merchandise (non-oil) trade deficit of $5.6 billion for the first eleven months of 1995, versus a deficit of $3.6 billion during the same period in 1994, reflecting a 37 percent increase in imports and a 16 percent increase in exports.

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

	1994	1995	1995		1996	
			Q3	Q4	Jan	Feb
Real GDP	-2.8	2.2	--	--	--	--
Unemployment Rate (%)	8.5	10.8	--	10.7	--	--
Consumer Prices[1]	71	56.6	9.5	17.1	8.0	8.0
Trade Balance[2]	-3.6	--	-2.0	--	--	--
Current Account[2]	2.5	--	--	--	--	--

1. Percentage change from previous period.
2. Billions of U.S. dollars, n.s.a., non-oil trade balance.

In **China**, strong import growth and negative export growth have shifted the trade balance towards deficit in recent months. China's trade deficit of $0.5 billion in the January-February period compares with a surplus of $4.5 billion in the same period of 1995. The dollar value of exports fell 2 percent from a year earlier, while imports rose 34 percent. Inflation continues to moderate.

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

	1994	1995	1995		1996	
			Q3	Q4	Jan	Feb
Real GDP[1]	11.8	10.2	9.8	10.2	--	--
Industrial Production	22.0	15.8	14.6	15.9	--	--
Consumer Prices	25.5	10.1	13.2	10.1	9.0	9.3
Trade Balance[2]	5.2	17.2	3.2	0.8	-1.0	0.5

1. Cumulative from the beginning of the year
2. Billions of U.S. dollars, n.s.a.

In February 1996, China announced plans to liberalize access to the interbank foreign exchange market. The new regulations, effective April 1, 1996, eliminate the existing segmented markets for Chinese and foreign enterprises. Chinese officials suggest that full current-account convertibility will be achieved by the year 2000. China has no plans, however, to ease restrictions on capital-account transactions.

In **Taiwan**, real GDP growth slowed to 4.9 percent in the fourth quarter of 1995 from the year-earlier period, in part reflecting sluggish consumption growth. For 1995 overall, real GDP grew at its lowest rate since 1990 and its second lowest rate since 1984. M2 rose 8 percent in the twelve-months ending in January 1996, the lowest annual growth rate since Taiwan began recording monetary statistics. The slow growth in monetary aggregates in part reflects capital outflows, as foreign exchange reserves fell to $90 billion at the end of 1995 from its high of $100 billion in June 1995, reflecting increased tensions with China. Reserves fell further in early 1996, to an estimated $85 billion in early March.

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

	1994	1995	1995		1996	
			Q3	Q4	Jan	Feb
Real GDP	6.5	6.1	6.0	4.9	--	--
Industrial Production	6.6	4.3	5.6	-0.6	2.6	3.1
Consumer Prices	2.6	4.6	2.0	4.6	2.3	2.7
Trade Balance[1]	12.0	8.3	2.4	4.1	1.1	0.6
Current Account[1]	6.0	5.0	0.6	3.6	--	--

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

The approach of Taiwan's first direct presidential election on March 23 has led to rising tension with mainland China, which in turn has been reflected in financial markets. Taiwan's stock market fell 28 percent in 1995 and has fallen 5 percent so far this year. In an attempt to support the stock market, Taiwan in February announced a new $7 billion stock-market stabilization fund, using contributions from banks, insurance companies, postal funds, and pension funds. In addition, Taiwan announced that it was opening the stock market to foreign individual investors; previously, only foreign institutional investors were permitted.

In **Korea**, activity appears to have slowed somewhat in recent months, compared with the nearly double-digit growth experienced in the first three quarters of 1995. However, it is difficult to gauge the magnitude of the slowdown. An abrupt deceleration in capital goods imports since the middle of last year suggests that investment demand has slowed markedly. On the other hand, industrial production increased sharply in January (on a year-over-year basis), after decelerating significantly in the fourth quarter of 1995. Consumer price inflation was 5.1 percent in February 1996 (on a year-over-year basis).

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

	1994	1995	1995		1996	
			Q3	Q4	Jan	Feb
Real GDP	8.4	--	9.9	--	--	--
Industrial Production	10.7	11.7	11.4	7.1	12.4	--
Consumer Prices	5.6	4.7	4.7	4.5	5.1	5.1
Trade Balance[1]	-3.1	-4.5	-0.8	0.4	-1.0	--
Current Account[1]	-4.7	-8.8	-2.1	-0.5	-1.5	--

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

Korea recently announced that it will raise the ceiling on foreign participation in its stock market from its present limit of 15 percent of market capitalization to 20 percent by the second half of this year. It also announced measures that will allow increased foreign competition in the provision of financial services, including allowing foreign securities firms to conduct brokerage operations on outbound portfolio investment. These steps were announced to enhance Korea's prospects of gaining admission to the OECD. Korea's application will be reviewed formally in April.

In **Russia**, monthly inflation fell to a post-reform low of 2.8 percent in February, down from 4.1 percent in January. The ruble has continued to depreciate slowly against the dollar, remaining comfortably within its 4550-5150 rubles per dollar band. During February, real GDP was down 3 percent from a year earlier, and industrial production declined by 4 percent. Russia's trade surplus increased to $17.9 billion in 1995, as exports increased by 13 percent and imports grew by 10 percent.

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

	1994	1995	1995		1996	
			Q3	Q4	Jan	Feb
Real GDP	-15	-4	-1	-4	-3	-3
Industrial Production	-21	-3	1	-5	-5	-4
Consumer Prices[1]	10	7	5	4	4	3
Ruble Depreciation[1]	9	2	0	1	2	2
Trade Balance[2]	14.4	17.9	--	--	--	--
Current Account[2]	3.4	4.7	--	--	--	--

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

In late February, the IMF and the Russian government reached agreement on a three-year $10.2 billion equivalent Extended Fund Facility (EFF), as a successor to the stand-by arrangement that Russia successfully completed in early February. The conditions of the EFF focus on increased fiscal discipline, including a pledge to reduce the budget deficit from 5 percent of GDP in 1995 to 4 percent of GDP in 1996 and 2 percent of GDP in 1998. The structural reforms outlined in the agreement include tax reform (particularly improved revenue collection), trade liberalization, further privatization, and intensified efforts to strengthen bank supervision and regulation.