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## **Part 2**

May 16, 1996

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **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

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May 16, 1996

## **RECENT DEVELOPMENTS**

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**DOMESTIC NONFINANCIAL  
DEVELOPMENTS**

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DOMESTIC NONFINANCIAL DEVELOPMENTS

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Fueled by hefty gains in household and business expenditures, the economy turned in a solid growth performance in the first quarter. Progress in clearing up inventory overhangs--most notably in the auto industry--appears to have set the stage for further expansion of aggregate output in the current quarter. Although tight labor market conditions have aroused concerns about possible pay acceleration, incoming data have not revealed much movement to date; producer and consumer prices have registered larger increases in the past couple of months, but that development has mainly reflected a jump in crude oil prices that has already been largely reversed.

GDP Update

On May 2, the BEA issued its advance estimate of first-quarter GDP growth: 2.8 percent at an annual rate. Source data that have become available since that time have been somewhat weaker on balance than assumed--but the shortfall is the result of lower inventory investment, which might be interpreted as a plus for subsequent growth. Further changes to the estimate of first-quarter growth may still be forthcoming, of course, as additional source data trickle in over coming weeks. A potentially important item is the March report on international trade, which will be released on May 17.

STAFF ESTIMATES OF REVISIONS TO FIRST-QUARTER GDP  
(Billions of 1992 chained dollars)

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<u>Category</u>	<u>Revision</u>
Real GDP	-4.4
Change in business inventories	-8.7
Final sales	4.3
Personal consumption expenditures	5.5
Business fixed investment	-.3
Residential structures	.4
Federal purchases	.0
State and local purchases	.0
Net exports	-1.3

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Labor markets

On the surface, the labor market report for April showed moderating labor market activity after robust growth in the first

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

	1994	1995	1995		1996		1996	
			Q3	Q4	Q1	Feb.	Mar.	Apr.
	-----Average monthly changes-----							
Nonfarm payroll employment <sup>2</sup>	294	144	128	142	221	631	178	2
Private	273	135	116	139	206	588	139	0
Manufacturing	30	-14	-35	-5	-34	30	-61	-17
Durable	25	3	-8	12	-16	21	-44	15
Nondurable	5	-17	-27	-17	-18	9	-17	-32
Construction	30	11	11	12	45	112	5	-53
Trade	75	32	42	44	48	128	57	25
Finance, insurance, real estate	4	6	9	15	14	26	10	17
Services	117	93	88	67	125	273	117	20
Business services	46	26	52	19	44	124	27	7
Total government	21	9	12	3	15	43	39	2
Private nonfarm production workers	242	115	103	109	196	556	182	-33
Manufacturing production workers	31	-11	-26	-3	-33	24	-54	-10
Total employment	261	32	157	-18	390	437	488	-56
Nonagricultural	225	51	190	-15	336	445	521	62
Memo:								
Aggregate hours of private production workers (percent change)	.4	.1	.2	.0	.4	2.9	.1	-.5
Average workweek (hours)	34.7	34.5	34.5	34.4	34.3	34.5	34.5	34.3
Manufacturing (hours)	42.0	41.6	41.5	41.4	41.0	41.6	41.4	41.5

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**  
(Percent; based on seasonally adjusted data)

	1994	1995	1995		1996		1996	
			Q3	Q4	Q1	Feb.	Mar.	Apr.
Civilian unemployment rate (16 years and older)	6.1	5.6	5.6	5.5	5.6	5.5	5.6	5.4
Teenagers	17.6	17.3	17.7	17.6	17.4	16.6	17.5	16.7
20-24 years old	9.7	9.1	9.5	9.2	9.8	9.9	9.6	9.0
Men, 25 years and older	4.8	4.3	4.3	4.2	4.3	4.2	4.4	4.2
Women, 25 years and older	4.9	4.4	4.4	4.3	4.3	4.3	4.3	4.2
Full-time workers	6.1	5.5	5.5	5.5	5.5	5.4	5.5	5.4
Labor force participation rate	66.6	66.6	66.6	66.4	66.7	66.6	66.9	66.6
Teenagers	52.7	53.5	53.4	52.9	52.6	52.5	52.7	52.5
20-24 years old	77.0	76.6	76.2	76.1	76.9	76.7	77.7	77.2
Men, 25 years and older	76.0	76.0	75.9	75.6	76.0	76.0	76.2	76.0
Women, 25 years and older	58.1	58.3	58.4	58.5	58.4	58.3	58.6	58.4

quarter; payroll employment held steady, and aggregate hours of production and nonsupervisory workers declined. However, part of the slackening last month represented a reversal of special factors that had helped boost employment in the first quarter, and other indicators, most notably claims for unemployment compensation, do not suggest any recent softening in the growth of labor demand. For these reasons, we are inclined to think that the April reading understates the current trend of employment growth--just as the earlier reports seem to have overstated it to a considerable degree.

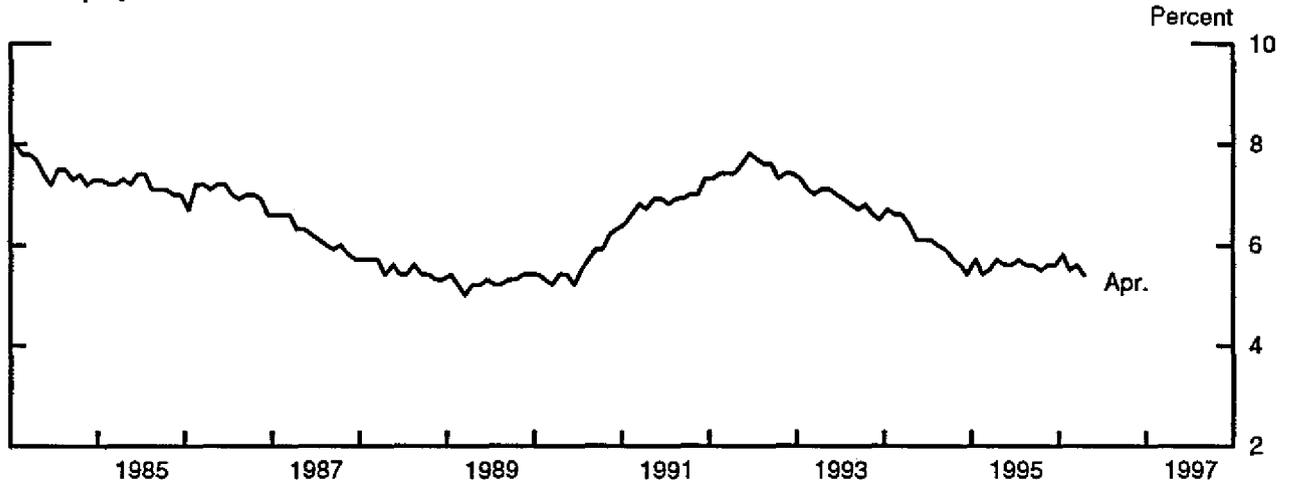
Increased hiring in the service-producing industries has more than accounted for the gains in payrolls this year. Employment in retail trade has moved up 30,000 a month for the year to date, while net job gains in service industries have averaged almost 100,000. In the goods-producing sector, construction employment fell sharply in April, reversing 40 percent of its first-quarter gain; the month-to-month variations in payrolls this year evidently have reflected the disruption of normal seasonal patterns by unusual weather. On average, employment in construction has risen 20,000 per month in 1996. In contrast, manufacturers have continued to shed jobs this year. After accounting for the return of GM workers from the strike in Dayton, Ohio and from strike-related furloughs, manufacturing employment dropped about 50,000 in April. Since the beginning of the year, it has fallen 120,000--a faster contraction than occurred in 1995. Nondurable goods industries have accounted for nearly 75 percent of this year's decline, with the textile and apparel industries being notably weak.

Aggregate hours of production or nonsupervisory workers in private industry fell 0.5 percent in April but have grown 0.8 percent--or about 2-1/2 percent at an annual rate--thus far in 1996. The official series on aggregate hours shows April's level about 1/2 percentage point above the average for the first quarter (not at an annual rate). However, the first-quarter average was depressed by the low reading on hours during the January reference week, which was the week of the blizzard and therefore not representative of the month as a whole. Making some reasonable guesses about what aggregate hours in January might really have been, we estimate that hours in April actually were a shade lower than the average for the first quarter.

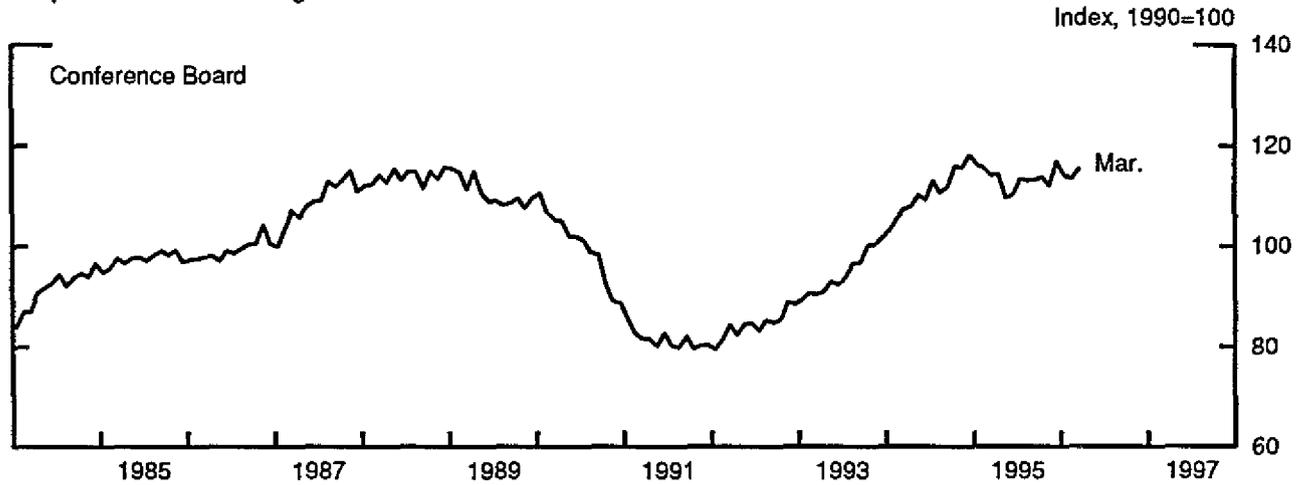
In the household survey, the unemployment rate fell 0.2 percentage point in April to 5.4 percent, touching once more the

### Labor Market Indicators

Unemployment Rate

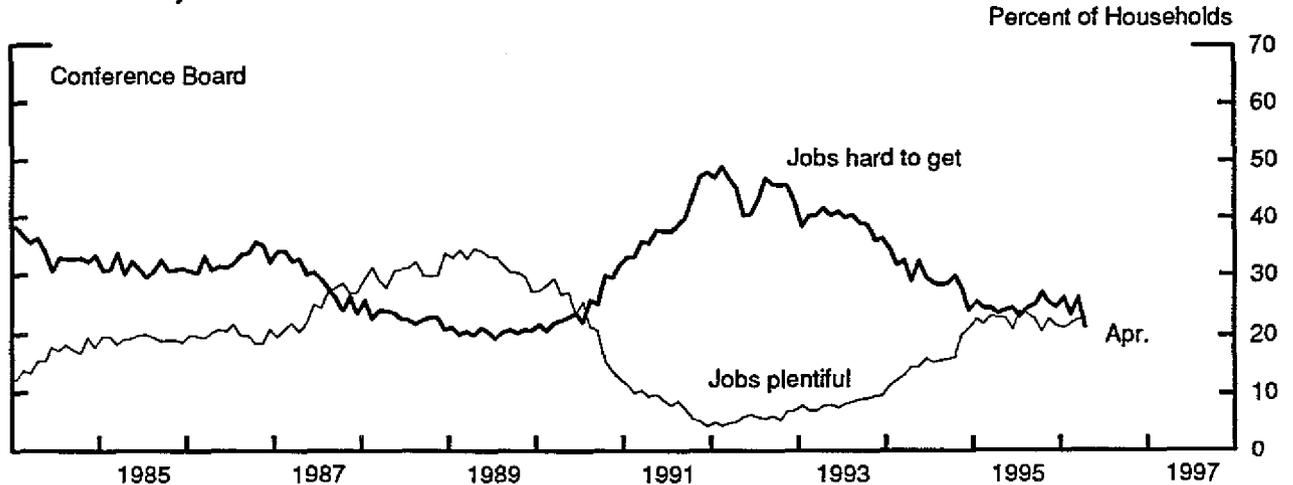


Help Wanted Advertising



Note. Series has been adjusted to take account of various structural and institutional changes, including consolidation of the newspaper industry and a tendency toward increased hiring through personnel supply agencies.

Job Availability



lower end of the range in which it has fluctuated since October 1994. The labor force participation rate, which has shown significant volatility recently, dropped 0.3 percentage point to 66.6 percent, its average level in both 1994 and 1995.<sup>1</sup>

Other labor market indicators seem to be holding on paths that are consistent with moderate economic expansion. Initial claims for unemployment insurance under state programs averaged 353,000 in the most recent four weeks, a level in the lower part of the range of the past year. The Conference Board Help Wanted Index showed a small uptick in March after falling in both January and February. In the Conference Board consumer confidence survey for April, respondents reported greater optimism about job availability; compared with the results of the March survey, fewer respondents perceived that jobs are hard to get, and more believed job opportunities to be plentiful.

#### Industrial Production

Monthly changes in industrial production were exceptionally volatile over the first several months of 1996, with the blizzard inducing sharp monthly swings in the data for January and February and the strike in the auto sector and its subsequent settlement causing a second swing in March and April. On balance, these monthly swings resulted in a rise in production of 1.4 percent from December to April--a net change that was elevated by a few tenths because of strike effects.

Most of the 0.9 percent increase in industrial production in April reflected the rebound in motor vehicle assemblies. The April level of assemblies--12.2 million units at an annual rate--was 0.5 million units above planned output at the beginning of the month; the upward adjustment occurred at GM as the firm tried to make up for some of the output that was lost during the strike. Effects of the strike, coupled with stronger-than-expected sales, helped reduce the days' supply of automobiles from the high levels prevailing during most of 1995 to levels a bit below those the industry normally considers comfortable. As a result, the industry's plans for second-quarter assemblies of automobiles were recently revised up; even so, production capacity limits are

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1. Using concurrent seasonal factors, which are updated each month rather than at the end of each year, the unemployment rate and participation rate each fell only 0.1 percentage point, to 5.5 percent and 66.6 percent respectively.

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

	Proportion 1995:Q4	1994 <sup>1</sup>	1995 <sup>1</sup>	1995	1996	1996		
				Q4	Q1	Feb.	Mar.	Apr.
				-Annual rate-		--Monthly rate--		
Total index	100.0	6.6	1.6	.6	2.5	1.2	-.5	.9
Previous		6.6	1.6	.6	2.7	1.3	-.5	
Manufacturing	86.5	7.6	1.4	1.4	2.3	1.3	-.8	1.3
Motor veh. and parts	5.5	8.6	-2.6	-.5	-20.5	4.2	-14.0	19.2
Aircraft and parts	1.7	-7.9	-17.1	-43.2	65.5	4.3	1.1	.8
Manufacturing excluding motor vehicles, aircraft, and parts	79.2	8.0	2.2	3.0	2.9	1.0	.0	.3
Consumer goods	23.1	4.7	.1	.0	-.4	1.0	.1	.0
Durables	3.7	6.4	-.4	4.0	-4.9	2.3	1.8	-.1
Nondurables	19.4	4.4	.2	-.7	.4	.8	-.2	.0
Business equipment	13.6	13.1	7.7	8.2	14.1	2.5	.1	.4
Office and computing	3.1	29.6	36.2	45.0	50.1	4.6	3.6	2.4
Industrial	4.3	8.6	3.5	2.6	4.1	1.3	-.7	-.5
Other	6.1	8.4	.8	-.5	4.7	1.3	-.6	-.2
Defense and space equipment	1.7	-10.5	-7.3	-16.7	-3.2	2.1	1.0	-.2
Construction supplies	5.3	8.0	-.4	6.0	-1.5	1.3	1.6	.9
Materials	28.7	10.5	3.4	4.5	3.6	.8	-.3	.3
Durables	20.3	12.1	6.3	8.0	7.2	.9	-.3	.4
Nondurables	8.2	6.9	-2.8	-2.9	-5.3	.3	-.3	-.1
Mining	6.0	1.2	-1.8	-7.7	.5	.5	2.8	-.8
Utilities	7.5	.2	6.2	-2.1	6.1	.1	.7	-1.8
Memo:								
Information-related products <sup>2</sup>	11.2	20.7	21.4	22.7	22.3	3.5	1.4	1.0

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	1967-95	1995	1996	1996		
	High	Avg.	Q4	Q1	Feb.	Mar.	Apr.
Total industry	84.9	82.1	82.9	82.7	83.1	82.5	83.0
Manufacturing	85.2	81.4	82.0	81.6	82.2	81.2	82.0
Primary processing	89.0	82.6	86.1	85.2	85.0	85.2	85.3
Advanced processing	83.5	80.7	80.3	80.1	81.0	79.6	80.6

preventing the companies from supplying as many of the more popular models as they might like.

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

	1996				
	Feb.	Mar.	Apr.	Q1	Q2
U.S. production	12.0	9.9	12.2	11.0	Sched. 12.2
Autos	6.1	4.7	6.3	5.5	6.4
Trucks	5.9	5.2	5.9	5.6	5.8
Days' supply					
Autos	62.8	54.4	60.3 <sup>e</sup>	...	...
Light trucks	64.6	66.3	70.7 <sup>e</sup>	...	...

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

Current and prospective indicators of industrial activity more broadly have been mixed; on the whole, however, they appear to point to sustained expansion of production. New orders for durable goods, adjusted for inflation and excluding orders that are not closely related to near-term activity, fell 0.9 percent in March, but this decline reversed only about half of the sizable rise reported over the two previous months. The orders and production components of the National Purchasing Managers' indexes firmed in April, though they were at levels suggesting only slow expansion of the manufacturing sector in the near term. An increasingly positive element in the outlook is that aircraft production is swinging back in a positive direction. Schedules for Boeing, which produces the vast majority of domestic commercial jet aircraft, suggest that total commercial jet aircraft production will increase about 40 percent over this year and the next, after posting large declines in 1994-95.

The 1995 estimates of capacity growth in manufacturing have been revised downward slightly and those for 1996 revised upward in response to new information from the *Investment Plans Survey* and more detailed, revised utilization rates from the *Census Survey of Plant Capacity* for 1993 and 1994. The revised estimates still show sizable gains in factory productive potential in 1995-96--on the order of 4 percent; increases have been particularly large in the computer and semiconductor industries. Utilization rates for the total industrial sector have been fluctuating with the monthly ups and downs in production; the rate in April, 83.0 percent, was

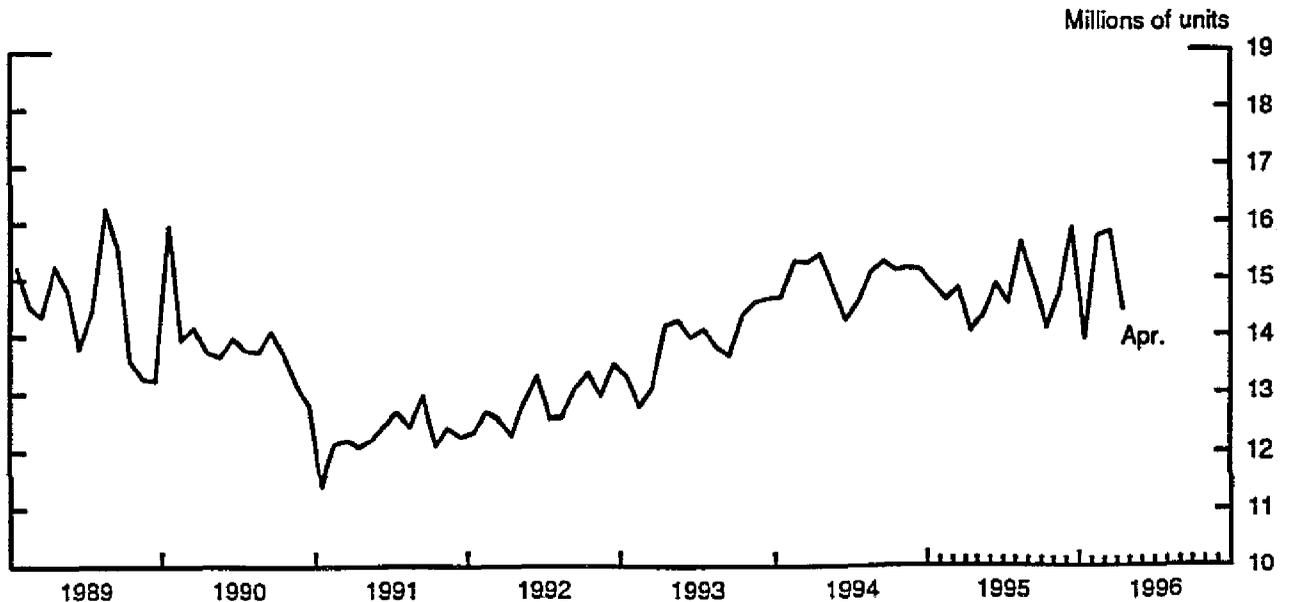
**SALES OF AUTOMOBILES AND LIGHT TRUCKS**  
(Millions of units at an annual rate; FRB and BEA seasonals)

	1994	1995	1995		1996		1996	
			Q3	Q4	Q1	Feb.	Mar.	Apr.
<b>Total</b>	15.0	14.7	15.0	14.9	15.2	15.7	15.8	14.5
Autos	9.0	8.6	8.9	8.6	8.6	8.9	9.3	8.3
Light trucks	6.1	6.1	6.1	6.3	6.5	6.9	6.5	6.2
<b>North American<sup>1</sup></b>	12.9	12.8	13.2	13.1	13.5	14.1	13.9	12.9
Autos	7.3	7.1	7.5	7.3	7.3	7.6	7.8	7.1
Big Three	5.7	5.4	5.6	5.5	5.4	5.8	5.6	5.3
Transplants	1.5	1.7	1.9	1.8	1.9	1.8	2.3	1.8
Light trucks	5.7	5.7	5.7	5.9	6.1	6.5	6.1	5.7
<b>Foreign produced</b>	2.1	1.9	1.9	1.8	1.7	1.7	1.9	1.6
Autos	1.7	1.5	1.5	1.4	1.3	1.3	1.5	1.1
Light trucks	.4	.4	.4	.4	.4	.4	.4	.4

Note. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision. Components may not add to totals because of rounding.

1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

Total Light Vehicle Sales



slightly to the high side of the long-run average. The rate in primary processing industries has continued to look stronger than that in the advanced processing industries.

#### Personal Income and Consumption

After a sluggish fourth quarter, consumer demand has displayed renewed vitality. Real expenditures rose briskly in the first quarter, income growth has been well-maintained, and sentiment is positive. Although loan delinquencies have become more numerous, households have remained willing and able to borrow--and many have enjoyed hefty gains in their stock portfolios.

The strong advance in real consumer expenditures in the first quarter was toward the upper end of the range of outcomes anticipated by various econometric models that the staff maintains, but this result follows a period in which actual spending tended, on average, to fall short of the models' predictions. Increases in wealth that seemingly failed to show through to consumption in 1995 are perhaps now translating into spending to a greater degree.

Sales of light vehicles closed out the first quarter on a strong note and, all things considered, sales held up well early in the second quarter. The reported figures for March and April show sales at annual rates of 15.8 million units and 14.5 million units respectively. We know, however, that Toyota, Honda, and Nissan kept their books open one or two extra days for the March sales reports, shifting into that month's tally some of the sales that occurred in April. As a consequence, reported March sales were boosted about 1/4 million units, and April sales were cut by the same amount. In addition, these firms had turned to heavy advertising and generous incentives to boost sales in March, and some payback in April was to be expected. For the industry, average sales for March and April amounted to 15.1 million units at an annual rate, the same as the average pace of the previous six months.

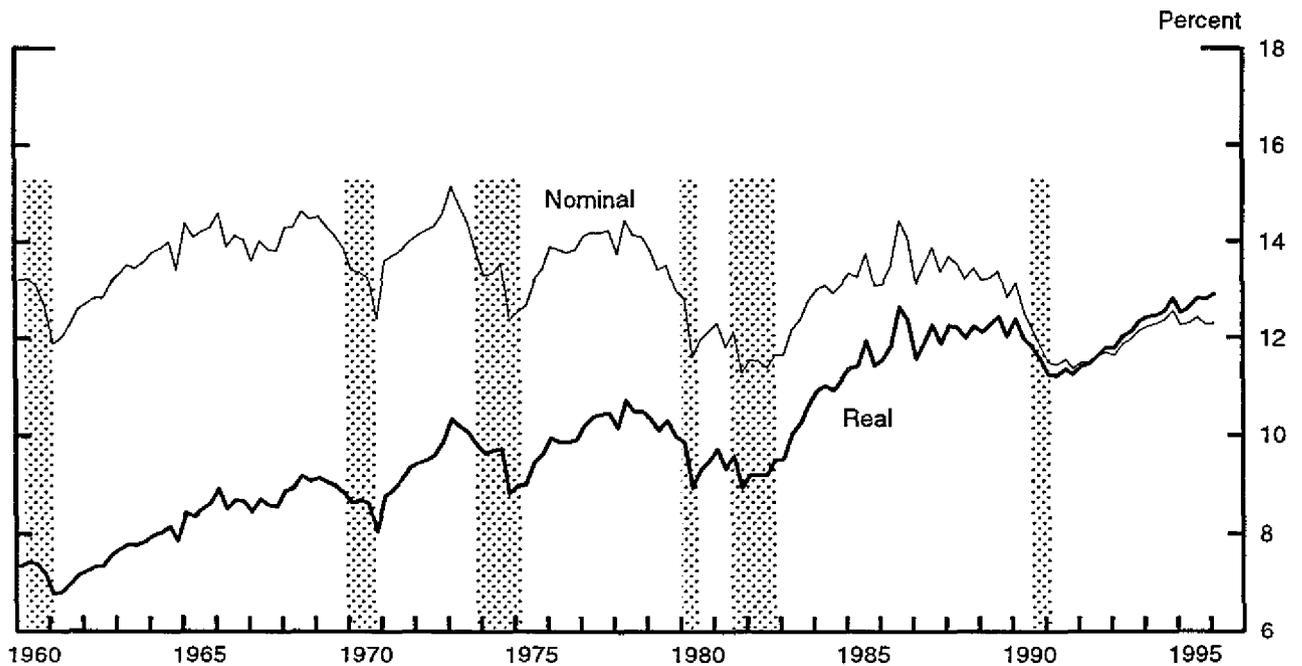
Real expenditures on durables other than motor vehicles were particularly strong in the first quarter, with gains spread over a wide range of goods. Outlays for nondurables were boosted by increases for food and apparel. The relatively strong growth in the durables category extended a long-term uptrend in their share of real PCE (see chart). Relative price movements have encouraged this movement. Indeed, on a nominal basis, the durables share has tended to edge down over time.

**Retail Sales**  
(Percent change; seasonally adjusted)

	1995	1996		
	Q4	Q1	Mar.	Apr.
Total sales	.7	2.3	.5	-.3
<i>Previous estimate</i>		2.0	.1	
Retail control <sup>1</sup>	.4	1.7	.5	.5
<i>Previous estimate</i>		1.4	.4	
Durables	2.0	1.7	2.8	-1.5
Furniture and appliances	2.4	-.3	1.9	-1.5
Other durable goods	1.6	3.3	3.5	-1.5
Nondurables	.1	1.7	.1	.9
Apparel	.3	2.5	-2.7	2.7
Food	1.2	.8	.3	.9
General merchandise	-1.1	2.1	-1.8	.7
Other nondurable goods	-.1	1.9	1.4	.8
Memo: Real PCE services	.5	.7	.5	n.a.

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

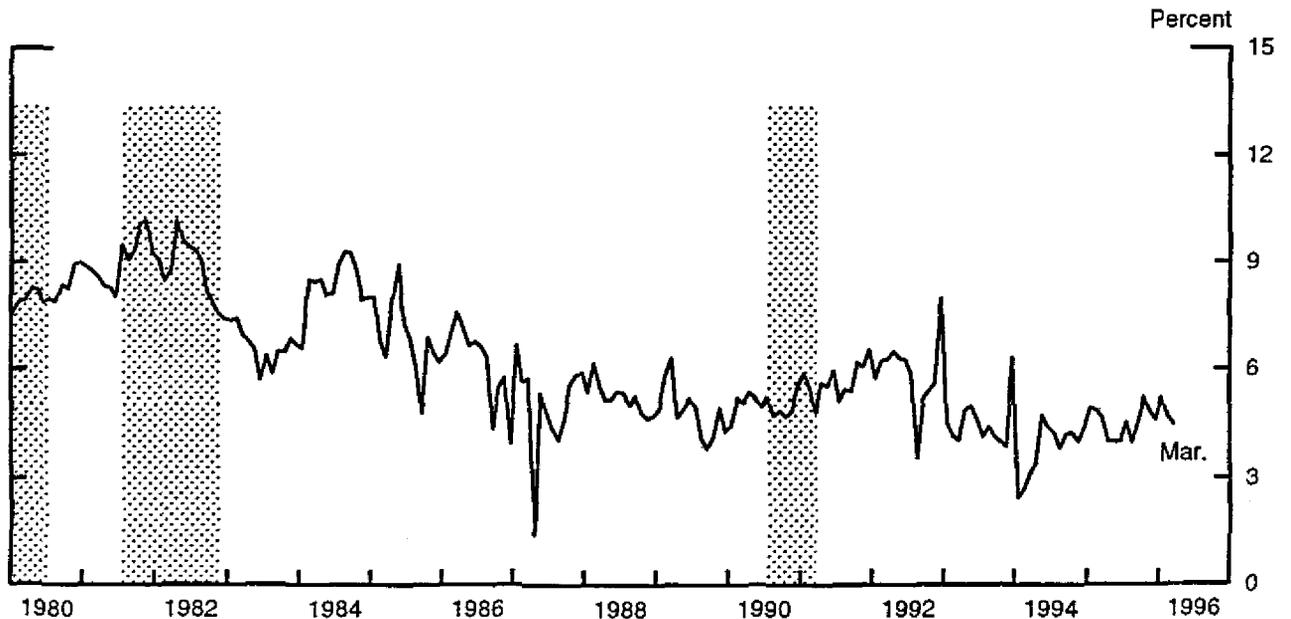
**Ratio of PCE Durables to Total PCE**



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

	1994	1995	1995		1996	1996	
			Q3	Q4	Q1	Feb.	Mar.
<b>Total personal income</b>	15.9	27.0	24.1	29.5	26.6	47.4	28.5
<b>Wages and salaries</b>	2.4	13.6	16.3	13.0	14.9	36.6	15.5
Private	.6	12.1	15.1	12.0	12.7	34.7	14.2
<b>Other labor income</b>	1.5	1.9	1.3	1.5	-.3	1.7	1.7
<b>Proprietors' income</b>	2.8	1.5	1.9	2.4	4.6	6.4	4.9
Farm	-.5	.1	.5	1.5	2.5	2.6	1.8
<b>Rent</b>	1.4	.7	-.7	3.5	-1.9	-2.4	-1.7
<b>Dividend</b>	1.4	1.3	1.5	2.1	1.4	1.2	1.4
<b>Interest</b>	3.8	3.8	.6	3.7	.8	.9	.9
<b>Transfer payments</b>	4.2	5.6	4.4	4.3	7.9	5.6	6.9
<b>Less: Personal contributions for social insurance</b>	1.5	1.3	1.2	.8	.9	2.6	1.1
<b>Less: Personal tax and nontax payments</b>	1.6	4.6	3.6	2.5	3.7	9.6	6.9
<b>Equals: Disposable personal income</b>	14.3	22.4	20.5	27.0	22.8	37.8	21.6
<b>Memo: Personal saving rate (percent)</b>	3.8	4.5	4.4	4.9	4.8	4.7	4.5

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



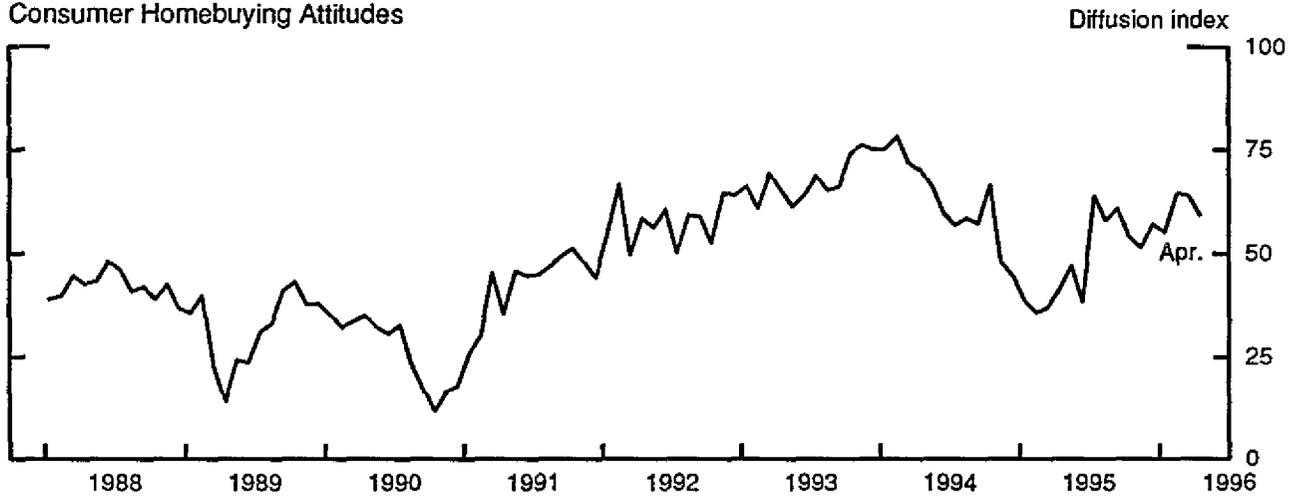
**Private Housing Activity**  
(Millions of units; seasonally adjusted annual rate)

	1994	1995 <sup>r</sup>	1995		1996		
			Q4 <sup>r</sup>	Q1 <sup>p</sup>	Feb. <sup>f</sup>	Mar. <sup>f</sup>	Apr. <sup>p</sup>
<i>All units</i>							
Starts	1.46	1.35	1.41	1.47	1.51	1.44	1.52
Permits	1.37	1.33	1.44	1.40	1.41	1.42	1.46
<i>Single-family units</i>							
Starts	1.20	1.08	1.13	1.17	1.18	1.17	1.21
Permits	1.07	1.00	1.08	1.08	1.08	1.09	1.12
New home sales	.67	.67	.68	.71	.73	.67	n.a.
Existing home sales	3.95	3.80	3.98	3.96	3.94	4.21	n.a.
<i>Multifamily units</i>							
Starts	.26	.28	.28	.30	.33	.27	.31
Permits	.31	.33	.36	.32	.33	.32	.34

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

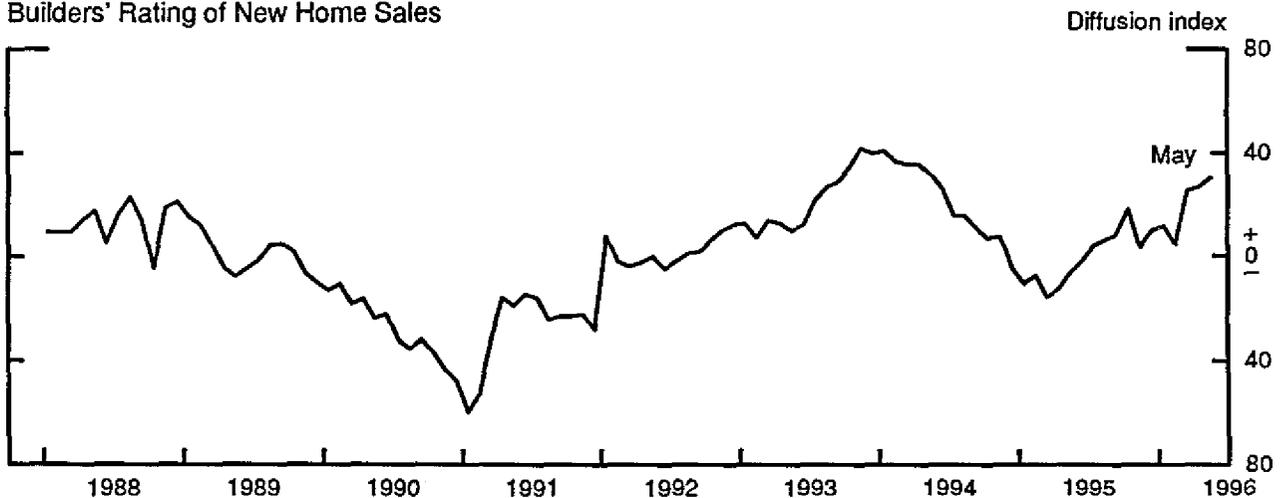
**Indicators of Housing Demand**  
(Seasonally adjusted; FRB seasonals)

Consumer Homebuying Attitudes



Note. The homebuying attitudes index is calculated from Survey Research Center data 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.

The advance report on April retail sales suggests that real PCE for goods excluding cars and trucks was little changed from March but was well above the average for the first quarter. Real spending for food and apparel likely continued to rise last month, offsetting declines in real purchases of gasoline and home durable goods. In the services category of PCE, the return of more normal seasonal temperatures probably led to a drop in purchases of energy services last month; spending in March had been boosted by colder-than-average temperatures.

Consumer sentiment remained upbeat in April. Although the Michigan SRC index dipped a bit, it remained in the middle of the favorable range that has prevailed since early 1994. Views on current conditions were quite positive. However, higher interest rates reportedly led to a less favorable opinion of future business and personal financial conditions. Meanwhile, the Conference Board's index of consumer confidence surged in April, to the highest level in this expansion. Views on current and expected economic and employment conditions improved markedly.<sup>2</sup>

Income growth remained strong in the first quarter. The staff estimates that revised real disposable personal income grew 2.7 percent at an annual rate and that the revised personal saving rate averaged 4.6 percent--a bit less than in the fourth quarter. The strike at General Motors in March lowered first-quarter labor income a touch, and "rental income" was held down by transactions costs associated with a pickup in mortgage refinancings.

#### Housing Markets

Housing activity has shown little sign of succumbing yet to the run-up in mortgage rates that began in February. Indeed, single-family housing starts jumped 4 percent in April, to 1.21 million units at an annual rate--the highest number since 1994. The solid gains seen this year in income and employment--and the associated bolstering of consumer confidence--may well have countered the early restraining effects of the rise in rates.

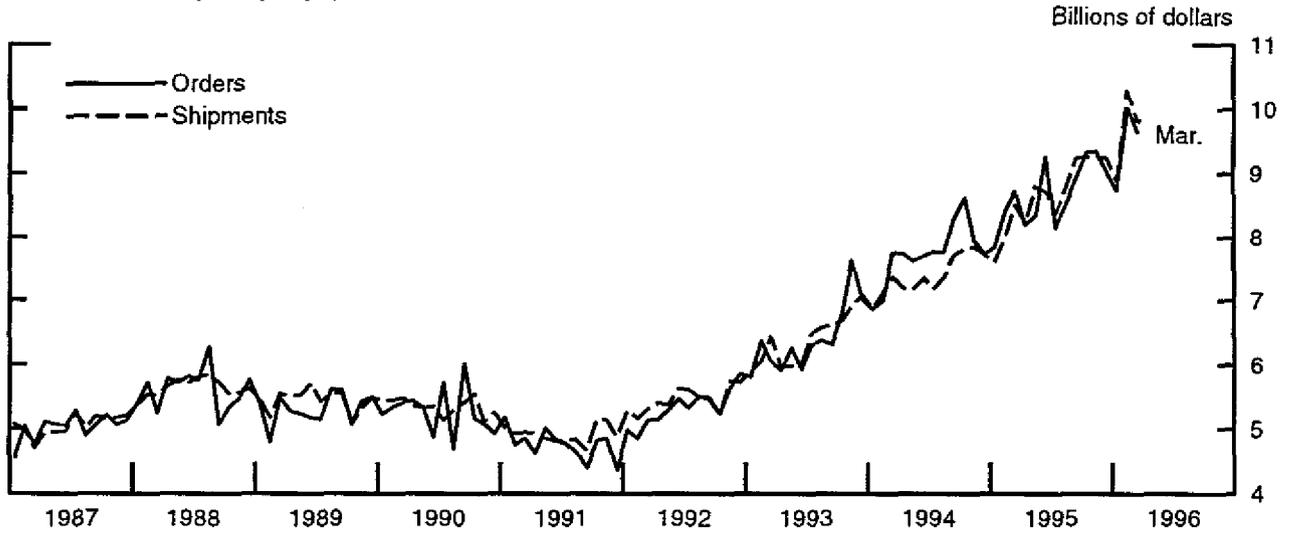
Households evidently have noticed the rise in interest rates: In the April Michigan SRC survey, assessments of homebuying conditions deteriorated, mainly in response to higher mortgage rates. Even so, through early May, home builders continued to

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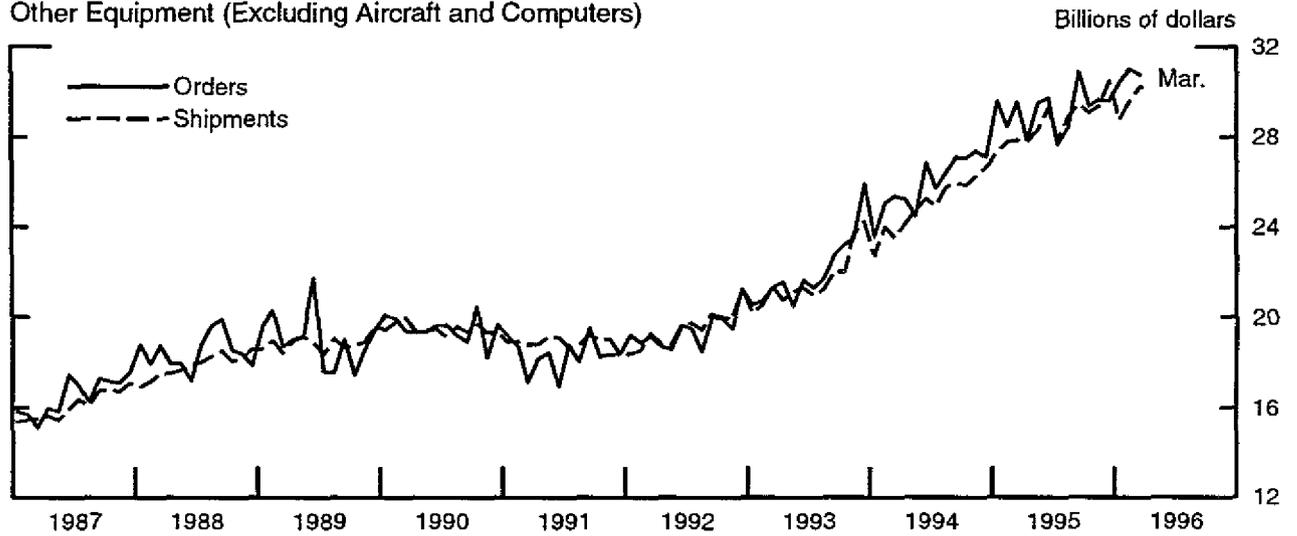
2. The Michigan SRC sentiment index excludes its question on expected unemployment, but the Conference Board confidence index includes its question on employment expectations.

## Monthly Indicators of Business Fixed Investment

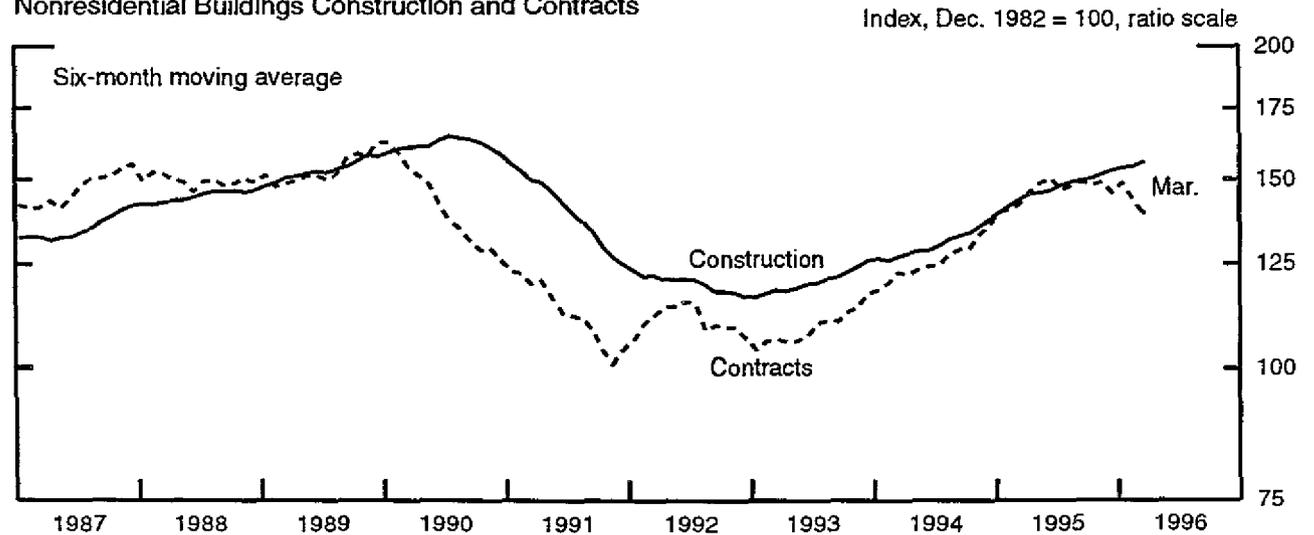
Office and Computing Equipment



Other Equipment (Excluding Aircraft and Computers)



Nonresidential Buildings Construction and Contracts



indicate that new home sales were strong, and applications for home financing at mortgage bankers remained fairly high.

In the multifamily housing sector, starts ticked back up in April to just above the 300,000 mark once again. This series has been moving sideways for about a year and a half, at a level that still is fairly low historically. Market conditions vary geographically, but the overall rental vacancy rate for multifamily housing seems to have tilted back up--the rate exceeded year-earlier levels in both the fourth quarter of last year and the first quarter of this year. Also, the absorption rate for rental apartments edged back down in 1995 after several years of increase.

#### Business Fixed Investment

After moderating in the middle and latter part of 1995, growth in real business fixed investment increased smartly in the first quarter of this year. The pickup was concentrated in spending for producers' durable equipment, which jumped 14-1/2 percent at an annual rate.

At least some of the fundamentals for investment would not lead one to expect such strength. The change in the rate of output growth (the "accelerator") and the growth in cash flow have been shifting down for some time. Econometric models that incorporate these variables generally were not surprised by the slowing in equipment outlays last year but failed to anticipate the first-quarter rebound. In contrast, a third determinant, the user cost of capital for equipment, fell substantially last year. Much of this decline was traceable to another sharp drop in the relative price of computing equipment, but the 1995 rallies in bond and stock markets also were a factor. A neoclassical investment model, in which the cost of capital is featured prominently, shows a mean lag from the cost of capital to investment of about three quarters. Owing in large part to a run-up in corporate borrowing rates in 1994, this model was not surprised by the slowdown in PDE growth last year. Over the first half of this year, the model is predicting a noticeable acceleration in PDE that reflects the lagged effects of last year's decline in the cost of capital. However, the recent backup in corporate borrowing rates has reduced the rate of decline in the cost of capital, and the model expects that this will exert a drag on equipment spending in the latter part of this year.

Turning to monthly indicators, new orders for nondefense capital goods excluding aircraft fell in March, but this drop came

on the heels of a strong February gain. These orders, which flattened out in the second and third quarters of last year, have since been rising. Orders for computing equipment, although quite erratic in recent months, have strengthened after a lull in mid-1995. Business spending for computers continued to advance at a robust pace in the first quarter, suggesting that anecdotal reports of weak demand from businesses were off the mark.

Business purchases of computing equipment are being spurred by at least a couple of factors. First, in all segments of the market--mainframes, servers, workstations, and PCs--intense competitive pressures continue to drive prices lower. The big players (such as IBM, Compaq, and Hewlett Packard) are pushing hard to boost market share and have shown a willingness to absorb some shrinkage in margins to accomplish this. Indeed, Compaq recently announced price cuts in the range of 25 percent for a number of its Pentium and Pentium Pro desktop machines. It also cut the prices on many of its servers an average of about 10 percent. In part, computer manufacturers are passing along to customers lower costs of components, most notably DRAM and microprocessors. A second factor that is boosting business demand is an apparent acceleration in the migration of computing systems at businesses to local area networks that run on software such as Windows NT. This software only runs smoothly on state-of-the art PCs; however, according to Intel, 80 percent of the installed base of PCs at U.S. corporations run on processors from the older 486 generation or one of its predecessors.

Among other capital goods (excluding aircraft), new orders flattened out, on net, during the first half of last year but have trended up since then. In the first quarter, these orders recorded a 3.7 percent gain, and backlogs rose substantially; as a consequence, shipments are likely to rise further in the current quarter.

Spending for nonresidential structures continued to advance in the first quarter, reflecting another huge increase in construction of hotels and motels. The "other commercial" sector, which has recorded strong gains during the past few years, slowed in the first quarter, and contracts--a forward-looking indicator of construction--have shown considerable weakness in recent months. Office construction, which had been trending up since early 1994, fell late last year and early this year; the contracts data signal continuing weakness down the road in this sector. Elsewhere,

outlays for industrial structures have decelerated during the past year or so, and weakness in contracts suggests further slowing in the coming months.

### Inventories

After a one-month blip in January--possibly reflecting disruptions related to the blizzard--inventory accumulation in manufacturing and trade proceeded at a slower pace in February, and stocks declined in March as auto inventories continued to contract. While stocks remained on the high side in a few areas in March, inventory-sales ratios for most types of firms apparently were in the acceptable range.

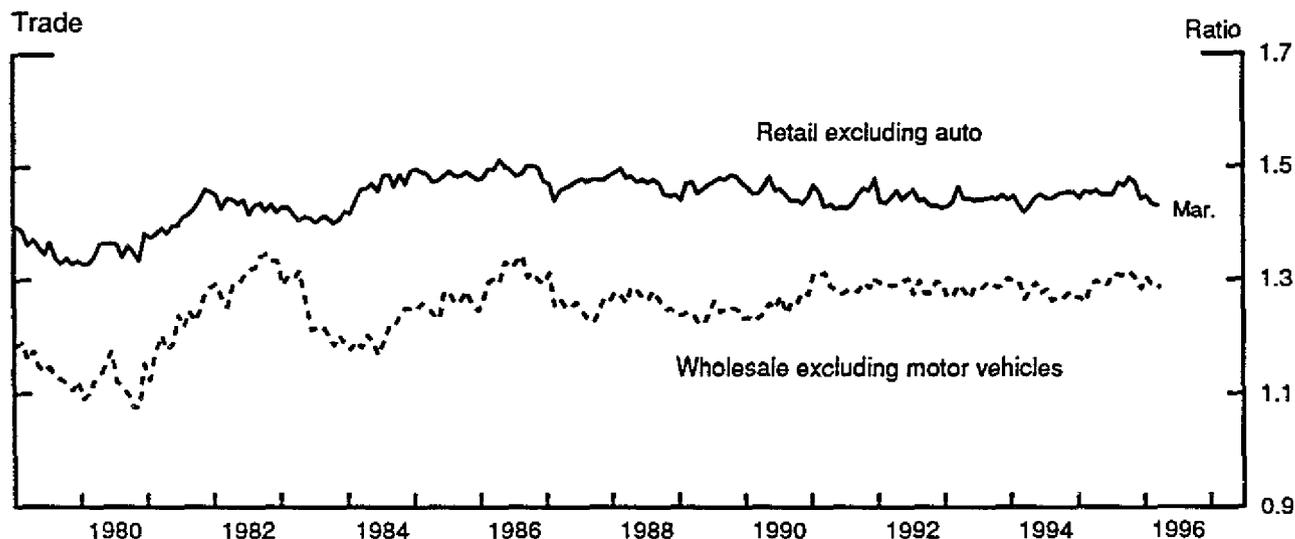
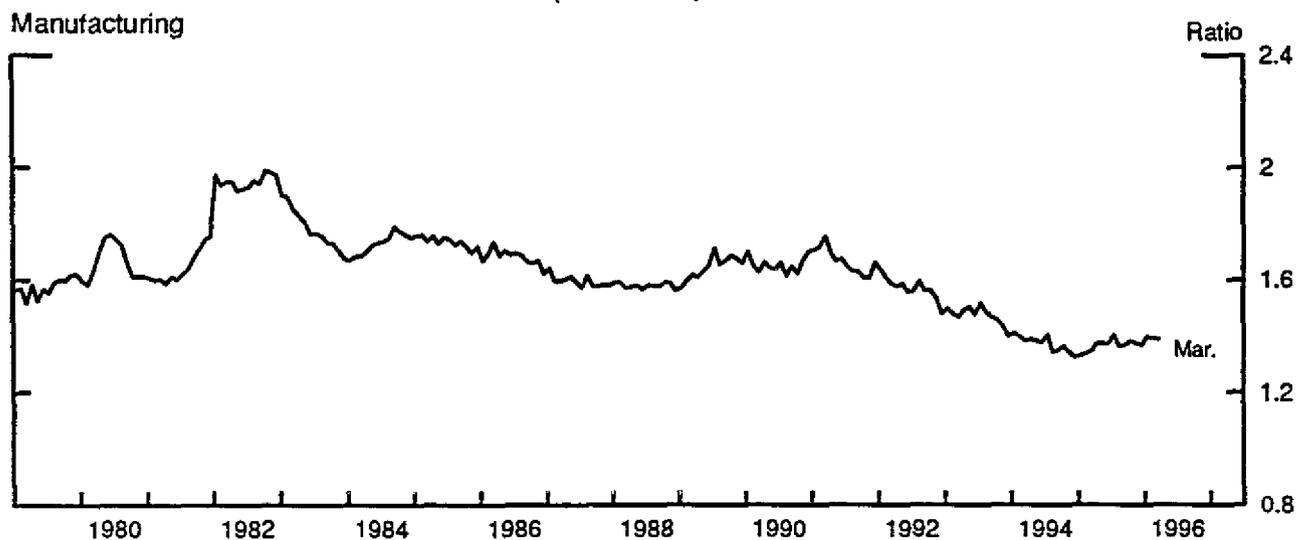
In manufacturing, inventories were little changed in March after a sharp run-up in January and a moderate increase in February. The slowing pace of accumulation over the first quarter apparently reflected manufacturers' ongoing inventory correction efforts. In a number of industries in which inventories were thought to be somewhat excessive earlier this year--for example, household durables, textiles, and printing and publishing--production adjustments and increased shipments helped to trim stocks in March, pushing down inventory-sales ratios considerably. In contrast, stocks at several materials-producing industries rose further in March, while shipments either declined or remained unchanged; further inventory adjustments at these industries appeared to be necessary, and this process seems to have been reflected in the April production patterns. For nondefense capital goods as a group, inventories declined in March after a period of accumulation during the past year. Unlike other industries, however, the March decline in stocks held at capital goods industries likely reflected only a momentary pause, as orders of producers' durable equipment have, in general, remained firm in recent months.

In wholesale and retail trade, inventories were trimmed further in March. Motor vehicle stocks were reduced sharply, and stocks at other wholesale and retail establishments showed only small net increases in the aggregate. Over the first quarter, wholesale inventories excluding motor vehicles expanded at a modest \$3.6 billion annual rate, well below the pace observed over the preceding year and a half. The stocks of non-auto retailers rose moderately in the first quarter, reversing the decline that had taken place in the final quarter of 1995. The first-quarter accumulations left most wholesalers and retailers with relatively

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

	1995		1996	1996		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Total	52.5	13.7	18.1	71.1	7.8	-24.6
Excluding wholesale and retail motor vehicles	57.0	9.7	26.1	52.4	11.8	14.2
Manufacturing	24.7	9.4	15.3	33.5	10.6	1.9
Wholesale	16.7	6.0	2.7	19.7	-8.3	-3.3
Excluding motor vehicles	19.4	8.4	3.6	14.6	-10.3	6.6
Retail	11.1	-1.7	.0	17.9	5.4	-23.2
Automotive	-1.8	6.4	-7.1	13.5	-6.0	-28.9
Excluding auto dealers	12.9	-8.1	7.2	4.3	11.5	5.7

Inventory-Sales Ratio, by Major Sector  
 (Book value)



comfortable inventory positions. With only a few exceptions, inventory-sales ratios at the end of March were well below their most recent peaks.

#### Federal Sector

On a unified budget basis, the Monthly Treasury Statement reported that the deficit for the first six months of the fiscal year, October through March, totaled \$128 billion. When adjusted for deposit insurance, spectrum auction proceeds, and shifts in the timing of payments, the deficit was \$140 billion, a drop of \$18 billion from the comparable period a year ago.

On this adjusted basis, outlays in the first six months of the fiscal year were only 1.7 percent above the level of a year earlier. Outlays have been restrained in part by this year's cuts in discretionary appropriations and the ongoing scaling back of defense spending. Growth of outlays for Medicaid also has slowed. Although trends in this category can be difficult to discern, some payoff may be emerging from states' efforts to gain better control of their Medicaid outlays through introduction of managed care.

Unified budget receipts have grown at a healthy pace this fiscal year. According to the Monthly Treasury Statement, receipts from individual and social insurance taxes were 5 percent higher in the first six months of fiscal year 1996 than in the comparable year-earlier period, roughly in line with the growth of personal income. Corporate tax receipts in the first half of the current fiscal year were up 13 percent from a year earlier, boosted by gains in corporate profits over that period.

More recent Treasury data indicate a substantial gain in net final settlements on 1995 tax liabilities, as payments of nonwithheld and self-employment taxes rose sharply while refunds to individuals increased only modestly. Federal receipts of individual nonwithheld and self-employment taxes totaled \$106 billion from April 1 through May 14, about \$20 billion above last year's level, based on Daily Treasury Statement data. The robust year-to-year gain in individual nonwithheld and self-employment tax payments so far this tax season is substantially larger than the growth in income from 1994 to 1995. The strength in these payments may be explained in part by strong performance in the capital markets last year that likely has boosted capital gains realizations. Indeed, capital gains distributions by mutual funds surged to \$55 billion in 1995 from \$30 billion in 1994. Daily Treasury Statement data show

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

	Feb. & Mar.		Fiscal year to date			
	1995	1996	1995	1996	Dollar change	Percent change
	Outlays	264.0	269.9	761.0	773.4	12.3
Deposit insurance (DI)	-3.6	-1.5	-10.6	-5.4	5.2	-48.7
Spectrum auction (SA)	.0	-.2	.0	-.2	-.2	n.a.
Other	265.4	271.6	771.6	779.0	7.4	1.0
Receipts	175.1	178.4	614.4	645.2	30.8	5.0
Deficit(+)	88.9	91.6	146.6	128.2	-18.4	-12.6
	Adjusted for payment timing shifts <sup>1</sup> and excluding DI and SA					
Outlays	262.0	271.6	771.6	784.9	13.3	1.7
National defense	46.3	44.2	136.7	132.1	-4.6	-3.4
Net interest	37.7	40.0	113.5	120.3	6.9	6.1
Social security	55.4	57.9	163.7	171.1	7.4	4.5
Medicare and health	46.8	48.1	133.4	140.8	7.4	5.5
Income security	43.6	49.8	112.4	121.2	8.8	7.8
Other	32.2	31.6	112.0	99.5	-12.6	-11.2
Receipts	175.1	178.4	614.4	645.2	30.8	5.0
Personal income and social insurance taxes	138.7	143.6	499.6	524.6	24.9	5.0
Corporate	16.9	17.2	56.6	64.2	7.5	13.4
Other	19.4	17.6	58.1	56.4	-1.7	-2.9
Deficit(+)	86.9	93.2	157.3	139.8	-17.5	-11.1

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.

CBO BUDGET AND ECONOMIC PROJECTIONS

	1996	1997	1998	1999	2000	2001	2002
Budget projections (Billions of dollars; fiscal years)							
Outlays	1572	1654	1737	1828	1925	2016	2125
Receipts	1428	1483	1544	1609	1681	1758	1840
Deficit	144	171	194	219	244	259	285
Economic projections assuming current policy (Calendar years)							
-----Percentage change, year over year-----							
Nominal GDP	4.6	4.7	4.8	4.9	4.9	4.9	4.9
Real GDP	2.0	1.9	2.0	2.1	2.1	2.1	2.1
CPI-U	2.8	3.1	3.0	2.9	2.9	2.9	3.0
-----Percent, annual average-----							
Unemployment rate	5.8	6.0	6.0	6.0	6.0	6.0	6.0
Yield on selected Treasuries							
Three-month	4.9	4.8	4.8	4.8	4.8	4.8	4.8
Ten-year	6.1	6.4	6.4	6.4	6.4	6.4	6.4

Note. The projections assume that revenues and outlays for major benefit programs evolve according to laws in effect at the time the projections are made. Discretionary spending is adjusted for inflation up to the statutory caps that are in effect through 1998. General purpose discretionary spending is assumed to equal the cap in 1998 and to grow from that level at the rate of inflation in later years. The projections include social security and the Postal Service, which are off-budget.

Source. The Economic and Budget Outlook, Fiscal Years 1997-2006. Congressional Budget Office, April 17, 1996.

refund payments totaling \$86 billion through the current week, a rise of \$9 billion from last year.<sup>3</sup> This figure, however, may overstate the gains for the tax season as a whole because last year's payment pattern was distorted by an IRS anti-fraud initiative that resulted in a surge of payments during the last week of May.

On April 17, CBO released revised budget estimates that show a fiscal 1996 baseline deficit totaling \$144 billion, an estimate similar to the projection released by OMB in March. The CBO estimate includes appropriations bills enacted through mid-April and assumes that spending levels for the remainder of the fiscal year will be very close to those contained in the recently passed appropriations bill, discussed below; however, the estimate does not take account of the surprising strength of revenues in April and early May. CBO's longer-term outlook is for deficits to rise to \$171 billion in fiscal 1997 and by about \$25 billion in each fiscal year thereafter.

Meanwhile, the President has signed an appropriations bill that completed fiscal 1996 funding for discretionary programs whose regular appropriations had not yet been enacted. He also has signed a farm bill, a debt-ceiling bill, and a bill providing for a limited Presidential line-item veto. The farm bill sets payments to farmers that would no longer be tightly linked to farmers' production decisions or to market prices. It is expected to increase outlays about \$3 billion this year but schedules a decline in payments over the next several years that is expected to save \$2 billion in total.

The debt-ceiling bill increases the statutory debt ceiling to \$5.5 trillion, a limit that is expected to allow the Treasury to fund its deficits through the end of fiscal 1997. In addition, the bill eased the social security earnings test; the budgetary impact of this change was offset by tightening eligibility rules for disability benefits and dependents' benefits.

#### State and Local Government Sector

Real outlays for state and local consumption and gross investment are estimated to have fallen 1.0 percent in the first quarter. Virtually all of the reduction reflects an adjustment BEA made to compensation to take account of days of work missed by

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3. Refunds shown in the Daily Treasury Statement are not directly comparable with those shown in the Monthly Treasury Statement. The Daily Treasury Statement figure for individual refunds includes the refundable portion of EITC payments, but the Monthly Treasury Statement records these payments as outlays.

government employees because of the severe winter weather. Notably, this is the first time BEA decided to make this type of adjustment to state and local spending, although the agency has routinely made weather-related, or furlough-related, adjustments to federal compensation. BEA assumed that education and noneducation employees affected by the blizzard were out two to three days during the quarter and that the teachers and support staff will be making up the days in the second quarter. The days for other government workers are assumed to be lost permanently. Overall, real state and local consumption spending fell 1.1 percent in the first quarter. Meanwhile, real gross investment also declined a little as construction spending edged down, the first decline in two years.

Despite the reduction in government consumption in the first quarter, the state and local surplus, excluding social insurance funds, appears to have fallen a little. A downward trend in this measure has been evident during the past few quarters, as growth in aggregate government expenditures has exceeded gains in revenues.

#### Prices

Incoming price data since the last Greenbook have been dominated by developments in energy and agriculture. A surge in energy prices in April accounted for more than half of the 0.4 percent rise in the total CPI. In agriculture, grain prices have climbed further in recent weeks, and although retail food prices have grown only moderately this year, recent developments seem to point to a greater risk of large food price increases down the road. Prices outside of food and energy rose just slightly in April, and core CPI inflation remained well below 3 percent on a twelve-month basis.

In the energy sector, spot prices of crude oil and some petroleum products have recently dropped back from earlier highs. The price of West Texas intermediate, for example, has averaged a little above \$21 per barrel in May after peaking at more than \$25 dollars per barrel in early April. In addition, survey data suggest that, on a seasonally adjusted basis, the retail price of gasoline should rise much less rapidly this month. Stocks remain tight for both crude oil and the major petroleum products, but futures prices continue to point to some further easing of oil and product prices over the remainder of the year.

In agricultural markets, the futures price of wheat for May delivery (Kansas City basis) has moved up about 40 percent since the

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

	Relative importance, Dec. 1995	1994	1995	1995		1996	1996	
				Q3	Q4	Q1	Mar.	Apr.
				-----Annual rate-----			-Monthly rate-	
All items <sup>1</sup>	100.0	2.7	2.5	1.6	2.4	4.0	.4	.4
Food	15.8	2.9	2.1	2.7	1.9	3.2	.6	.3
Energy	6.7	2.2	-1.3	-10.5	1.9	15.8	1.4	3.2
All items less food and energy	77.5	2.6	3.0	2.8	2.2	3.5	.3	.1
Commodities	23.9	1.4	1.7	2.0	1.7	2.6	.4	-.1
Services	53.6	3.2	3.6	3.0	2.5	3.4	.2	.3
Memo:								
CPI-W <sup>2</sup>	100.0	2.7	2.5	1.3	2.4	4.3	.5	.4

Note: Changes are from final month of preceding period to final month of period indicated.

1. Official index for all urban consumers.

2. Index for urban wage earners and clerical workers.

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

	Relative importance, Dec. 1995	1994	1995	1995		1996	1996	
				Q3	Q4	Q1	Mar.	Apr.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	1.7	2.3	1.6	4.4	2.5	.5	.4
Consumer foods	23.4	1.1	1.9	8.8	4.4	.3	.6	-.3
Consumer energy	13.4	3.5	1.1	-10.2	10.8	17.8	2.4	2.8
Other finished goods	62.2	1.6	2.6	2.0	3.2	.3	.1	.1
Consumer goods	38.5	1.4	2.8	2.3	3.4	.3	.1	.0
Capital equipment	24.7	2.0	2.2	1.8	2.9	-.3	-.1	.2
Intermediate materials <sup>1</sup>	95.1	4.8	3.0	-.6	-.6	-1.0	.1	.3
Excluding food and energy	81.4	5.2	3.2	1.5	-2.9	-3.2	-.2	-.2
Crude food materials	44.7	-9.4	12.9	34.8	20.8	-3.8	.1	4.0
Crude energy	33.7	-.1	3.7	-21.0	33.9	38.1	5.9	10.9
Other crude materials	23.9	17.3	-4.2	-17.6	-18.4	-10.2	-1.8	-.5

Note: Changes are from final month of preceding period to final month of period indicated.

1. Excludes materials for food manufacturing and animal feeds.

March Greenbook, and futures prices of corn for May delivery have advanced about 30 percent. This past year, both domestic users and foreign buyers have shown limited elasticity in their demand, with popular analyses noting the higher fixed costs of current American meat production technologies and rapidly growing food consumption in emerging economies. Inventories of both corn and wheat are extremely tight, and the prospects for rebuilding wheat stocks have been dimmed by drought in the central and southern plains. The corn crop is still being planted, and the critical growing months lie ahead. As of mid-May, futures prices for corn were considerably lower than spot prices, a reflection of traders' expectations of a somewhat better supply-demand balance following this year's harvest. In other farm markets, soybean prices have recently been pushed higher by spillover from the grain markets. Livestock prices have been mixed: The prices of hogs and poultry have been firming and are well above year-earlier levels, but cattle prices have been weak.

Price increases for food at the consumer level have been quite moderate in the face of surging grain prices. The CPI for food was up 0.3 percent in April and, on balance, rose only moderately over the first four months of the year; the twelve-month change was 2.6 percent. The index for fruit and vegetable prices rose 1.0 percent in April, capping the much larger increase of the previous month. However, increases in cereals prices remained small, and the price index for meats, poultry, fish, and eggs edged down. Clearer evidence of the pass-through of grain prices to the retail level probably will emerge in many of these categories over the course of the summer.

The consumer price index excluding food and energy increased 0.1 percent in April after three months of somewhat larger increases. Prices for goods turned down in April after jumping 0.4 percent in March. The swing was shaped largely by monthly ups and downs in the prices of apparel, tobacco, and used cars. New car prices increased 0.1 percent in both March and April. Prices for non-energy services posted a 0.3 percent gain last month after a 0.2 percent rise in March. Auto finance charges--which had dropped sharply earlier in the year in response to automaker incentives--edged up in both March and April.

At the producer level, the PPI for finished goods excluding food and energy rose a modest 0.1 percent in April; this index

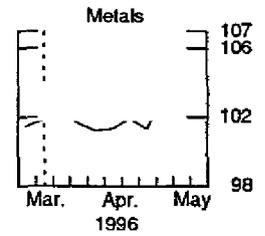
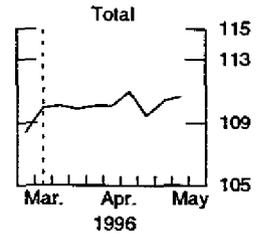
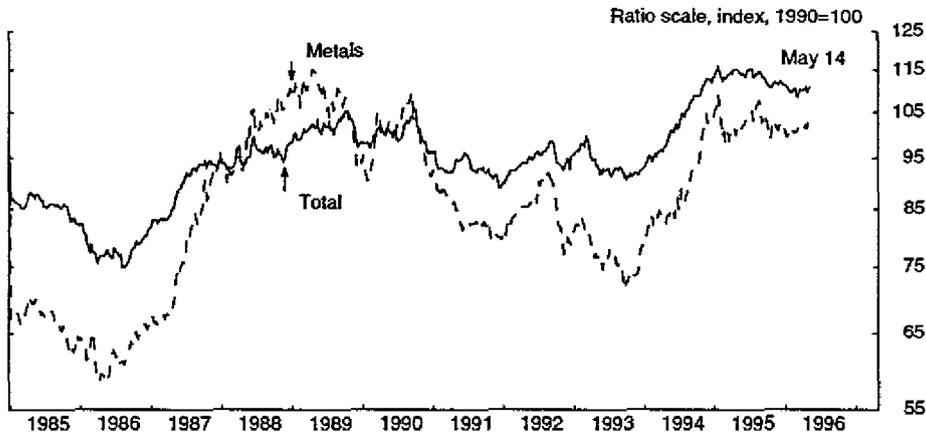
INFLATION RATES EXCLUDING FOOD AND ENERGY  
(Percentage change from twelve months earlier)

	Apr. 1994	Apr. 1995	Apr. 1996
CPI	2.8	3.1	2.7
Goods	0.9	1.8	1.6
Alcoholic beverages (2.0) <sup>1</sup>	1.3	1.3	2.8
New vehicles (6.6)	3.6	3.1	1.7
Apparel (6.6)	-0.6	-1.5	.0
House furnishings (4.5)	0.9	0.5	0.6
Housekeeping supplies (1.4)	0.7	3.3	4.0
Medical commodities (1.7)	3.1	2.0	2.9
Entertainment (2.5)	1.9	1.8	3.4
Tobacco (2.1)	-8.1	2.3	3.4
Used cars (1.7)	5.1	15.8	0.4
Services	3.7	3.7	3.2
Owners' equivalent rent (26.3)	3.2	3.2	3.4
Tenants' rent (7.5)	2.4	2.4	2.5
Other renters' costs (2.8)	2.8	4.4	4.9
Airline fares (1.3)	11.7	-0.6	-1.8
Medical care (7.7)	5.3	5.2	3.9
Entertainment (3.1)	4.1	2.9	3.4
Auto financing (0.8)	-1.9	31.9	-10.1
Tuition (3.4)	6.7	6.0	5.6
PPI finished goods	.0	2.0	1.8
Consumer goods	-1.1	2.0	1.9
Capital goods, excluding computers	2.3	2.1	1.8
Computers	-7.9	-9.3	-18.3
PPI intermediate materials	1.0	7.8	-1.0
PPI crude materials	9.0	18.3	-12.5
<u>Factors affecting price inflation</u>			
ECI hourly compensation <sup>2</sup>	3.3	2.9	3.0
Goods-producing	3.2	2.9	2.2
Service-producing	3.4	2.9	3.4
Civilian unemployment rate <sup>3</sup>	6.4	5.7	5.4
Capacity utilization <sup>3</sup> (manufacturing)	83.0	83.4	82.0
Inflation expectations <sup>4</sup>			
Michigan Survey	4.5	4.3	4.5
Conference Board	4.3	4.3	4.1
Non-oil import price <sup>5</sup>	2.0	4.5	0.6
Consumer goods, excluding autos, food, and beverages	1.0	1.5	1.3
Autos	4.1	3.2	1.5

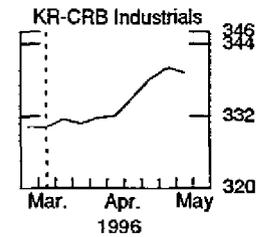
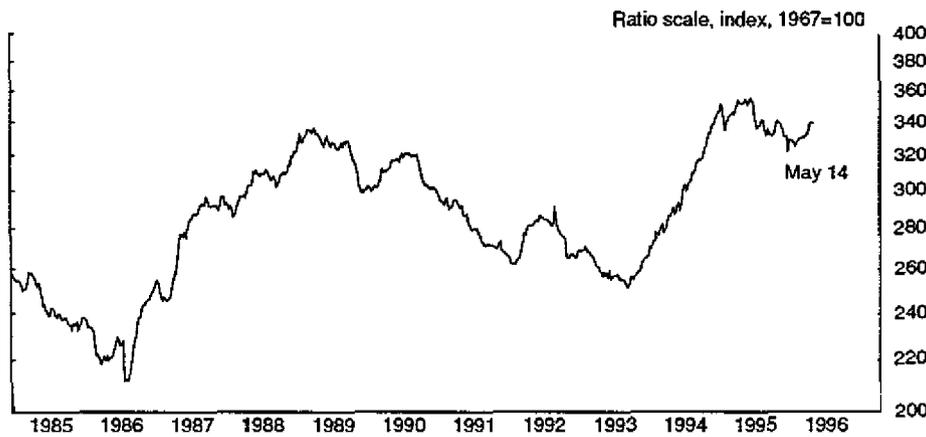
1. Relative importance weight in CPI excluding food and energy.
2. Private industry workers, periods ended in March.
3. End-of-period value.
4. One-year-ahead expectations.
5. BLS import price index (not seasonally adjusted), periods ended in March.

## Commodity Price Measures

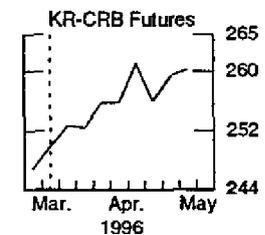
### Journal of Commerce Index



### KR-CRB Spot Industrials



### KR-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 KR-CRB spot price index consists entirely of industrial commodities, excluding energy. The KR-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 CIBC, 1994.

## SPOT PRICES OF SELECTED COMMODITIES

	Current price (\$)	-----Percent change <sup>1</sup> -----				Memo: Year earlier to date
		1994	1995	To Mar. 19 <sup>2</sup>	Mar. 19 <sup>2</sup> to May 14	
-----INDUSTRIAL COMMODITIES-----						
<b>Metals</b>						
Copper (lb.)	1.350	64.9	-3.5	-9.6	9.8	3.8
Steel scrap (ton)	142.500	2.9	-6.6	3.7	2.5	.0
Aluminum, London (lb.)	.735	73.5	-12.9	-3.8	1.0	-7.1
Lead (lb.)	.504	20.7	9.0	11.7	-.6	21.7
Zinc (lb.)	.510	23.6	-13.1	3.7	-1.9	-9.5
Tin (lb.)	4.343	21.4	5.1	-1.1	5.2	10.5
<b>Textiles and fibers</b>						
Cotton (lb.)	.829	38.5	-8.1	3.1	1.8	-18.9
Burlap (yd.)	.350	10.2	23.3	.0	-2.8	18.6
<b>Miscellaneous materials</b>						
Hides (lb.)	.878	14.2	-19.7	8.3	11.8	-11.4
Rubber (lb.)	.773	75.4	3.2	-3.1	-1.6	-15.1
-----OTHER COMMODITIES-----						
<b>Precious metals</b>						
Gold (oz.)	390.700	-1.7	1.7	2.0	-1.1	1.8
Silver (oz.)	5.375	-5.0	7.2	7.6	-2.7	-1.3
Platinum (oz.)	403.000	7.5	-2.3	1.5	-2.0	-6.7
<b>Forest products</b>						
Lumber (m. bdft.)	367.000	-37.1	-14.4	14.8	27.9	56.8
Plywood (m. sqft.)	322.000	1.5	-6.1	-5.5	9.9	-3.0
<b>Petroleum</b>						
Crude oil (barrel)	19.420	15.6	16.8	11.2	-4.1	3.5
Gasoline (gal.)	.683	32.4	7.7	15.5	11.9	2.8
Fuel oil (gal.)	.596	12.7	22.6	26.5	-22.0	18.5
<b>Livestock</b>						
Steers (cwt.)	60.500	-3.4	-5.7	-9.1	.8	-4.0
Hogs (cwt.)	59.500	-12.9	27.5	9.4	20.2	54.5
Broilers (lb.)	.635	-4.9	10.7	-5.9	24.2	20.1
<b>U.S. farm crops</b>						
Corn (bu.)	4.945	-23.2	57.4	11.8	27.4	100.6
Wheat (bu.)	7.235	11.4	24.0	-.4	34.4	74.0
Soybeans (bu.)	8.035	-19.6	29.0	-3.0	15.0	44.4
<b>Other foodstuffs</b>						
Coffee (lb.)	1.370	153.1	-39.1	26.4	8.9	-15.0
<b>Memo:</b>						
Exchange value of the dollar (March 1973=100)	88.268	-5.5	-6.0	2.1	2.2	5.5
Yield on Treasury bill, 3-month <sup>3</sup>	5.010	247	-67	19	-4	-68

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 March Greenbook.

3. Changes are in basis points.

showed little net change over the first four months of 1996 but is up 1.8 percent from a year earlier. The PPI for intermediate materials excluding food and energy continued to edge down in April, with few signs that indirect effects of the rise in energy prices might be affecting price setting for other products. Price indexes for industrial commodities have been mixed since the March Greenbook, with the *Journal of Commerce* index little changed and the KR-CRB spot price index for industrial products moving up somewhat.

Recent survey data on consumers' expectations of year-ahead inflation have been mixed. Mean expected inflation over the next twelve months jumped to 4.5 percent in April's Michigan Survey of consumers, 1/4 percentage point above the March level and 1/2 percentage point above the level at the beginning of the year. This series is quite volatile and has tended to be higher than actual inflation over the last five years--a period when inflation has been low and stable. Median expected inflation--which is influenced less by outliers in the sample and, thus, is less volatile--rose less in the April sample; the April reading of 3.0 percent was about where it has been over the past year.

#### Labor Costs

The trend in growth of hourly compensation appears to have held fairly steady through the first part of 1996. As measured by the employment cost index (ECI), hourly compensation of private industry workers increased at an annual rate of 2.9 percent in the first quarter, essentially the same rate of increase as over the previous twelve months. ECI compensation growth was held down by a small decline in benefit costs. In contrast, wages and salaries shot up at a 4.6 percent annual rate, up from a 2.8 percent rise in 1995 and the largest increase in five years. Wage growth in the first quarter was particularly rapid for white collar workers and employees in the retail trade and services industries. Sales workers, who account for approximately 11 percent of the ECI sample, had the sharpest acceleration in wages and salaries.

The reported decline in benefit costs in the first quarter seems to confirm our earlier suspicion that the fourth-quarter jump in benefits was caused, at least in part, by late collection of the data that resulted from the government shutdown. In completing their survey forms, companies are asked to indicate if any unscheduled changes have been made in benefits since the last quarterly survey, and some changes that normally would have been

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION  
FOR PRIVATE INDUSTRY WORKERS

	1995				1996
	Mar.	June	Sept.	Dec.	Mar.
-----Quarterly percent change----- (compound annual rate)					
Total hourly compensation: <sup>1</sup>	2.9	2.9	2.6	3.2	2.9
Wages and salaries	3.0	3.0	3.0	2.6	4.6
Benefit costs	0.6	2.4	2.4	4.2	-0.9
By industry:					
Construction	0.7	2.0	3.0	3.0	2.9
Manufacturing	2.3	2.2	2.2	3.5	0.6
Transportation and public utilities	4.3	3.3	4.2	4.2	1.3
Wholesale trade	5.7	3.6	5.2	2.9	2.2
Retail trade	2.7	1.0	2.7	2.6	6.3
FIRE	4.4	5.4	3.0	2.6	3.9
Services	2.2	2.9	1.9	2.8	5.3
By occupation:					
White-collar	2.9	2.9	2.9	3.5	4.1
Blue-collar	2.0	2.9	2.3	2.9	0.6
Service occupations	2.3	2.3	1.9	1.9	1.3
Memo:					
State and local governments	3.2	3.9	2.2	3.5	2.2
-----Twelve-month percent change-----					
Total hourly compensation:	2.9	2.8	2.6	2.8	3.0
Excluding sales workers	3.0	2.8	2.5	2.8	2.8
Wages and salaries	2.9	2.9	2.8	2.8	3.3
Benefit costs	2.9	2.6	2.1	2.7	2.0
By industry:					
Construction	2.1	1.5	1.4	2.2	2.7
Manufacturing	3.0	2.8	2.3	2.6	2.1
Transportation and public utilities	4.0	4.1	3.8	4.0	3.2
Wholesale trade	4.5	4.3	4.6	4.4	3.5
Retail trade	2.9	2.2	1.8	2.2	3.1
FIRE	2.1	3.5	3.5	3.9	3.7
Services	2.5	2.6	2.4	2.4	3.2
By occupation:					
White-collar	3.1	3.0	2.8	3.1	3.4
Blue-collar	2.7	2.6	2.3	2.5	2.2
Service occupations	2.3	2.5	2.4	2.0	2.2
Memo:					
State and local governments	3.1	3.1	3.0	3.0	2.8

1. Seasonally adjusted by the BLS.

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

	1995				1996
	Mar.	June	Sept.	Dec.	Mar.
Hourly wages and salaries	2.9	2.9	2.8	2.8	3.3
By industry:					
Construction	2.3	1.8	1.9	2.2	3.0
Manufacturing	3.3	3.3	2.9	2.9	2.7
Transportation and public utilities	4.1	4.1	3.4	3.4	2.7
Wholesale trade	4.0	3.7	4.2	4.3	4.3
Retail trade	3.0	2.2	2.1	2.4	3.5
FIRE	1.1	3.4	3.7	4.0	4.1
Services	2.6	2.6	2.5	2.5	3.5
By occupation:					
White-collar	2.9	2.8	2.8	3.0	3.7
Blue-collar	2.9	3.1	2.8	2.8	2.7
Service occupations	2.7	2.7	2.7	2.2	2.3
Memo:					
State and local governments	3.2	3.2	3.1	3.2	2.8

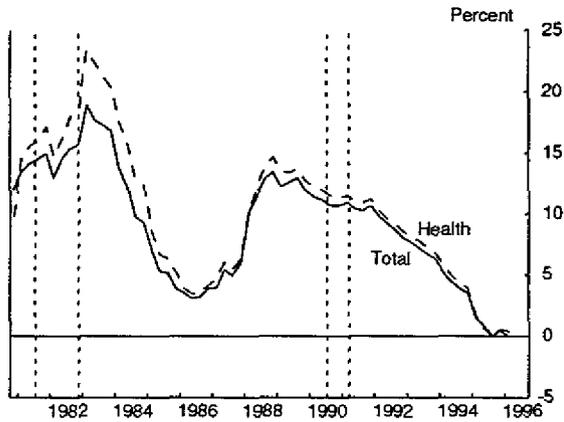
EMPLOYMENT COST INDEX OF HOURLY BENEFIT COSTS  
FOR PRIVATE INDUSTRY WORKERS  
(Twelve-month percent changes)

	1995				1996
	Mar.	June	Sept.	Dec.	Mar.
Hourly benefit costs <sup>1</sup>	2.9	2.6	2.1	2.7	2.0
Insurance costs	1.5	0.7	0.0	0.6	0.4
Health care	1.6	0.6	-0.1	0.5	-0.1
Supplemental pay	6.2	3.0	1.4	4.4	-0.6
Retirement and savings	6.1	8.4	7.8	7.2	6.5
Paid leave	3.7	3.6	3.3	3.6	3.7
Legally required	1.2	0.9	0.9	1.3	1.2
By industry:					
Goods-producing	2.4	1.5	1.0	2.0	1.0
Service-producing	3.3	3.4	2.7	3.1	2.6
By occupation:					
White-collar occupations	3.6	3.3	2.9	3.2	2.6
Blue-collar occupations	2.1	1.6	1.1	2.0	1.1
Service occupations	1.6	1.9	1.1	1.3	1.5
Memo:					
State and local governments	2.5	2.9	2.5	3.0	3.0

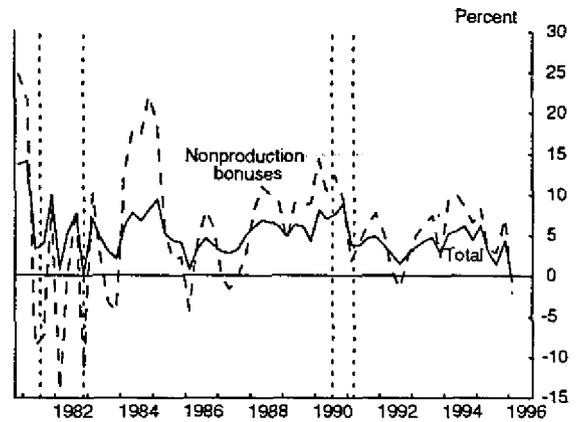
1. The detail on benefit costs is from unpublished data from the BLS.

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

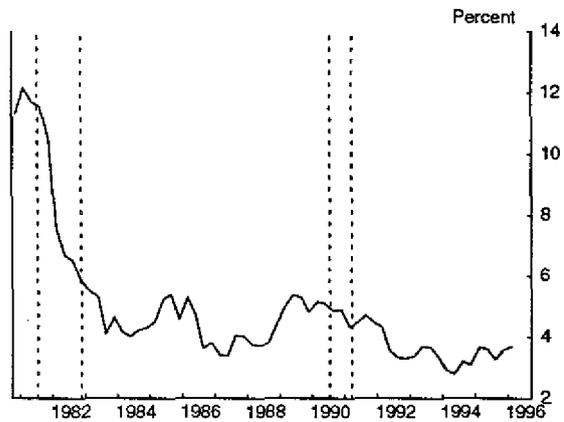
Insurance Costs



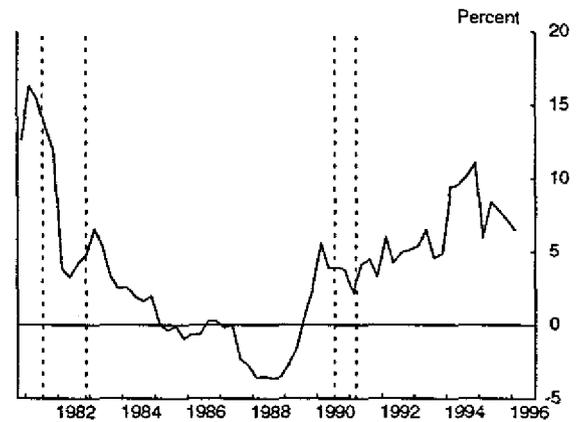
Supplemental Pay



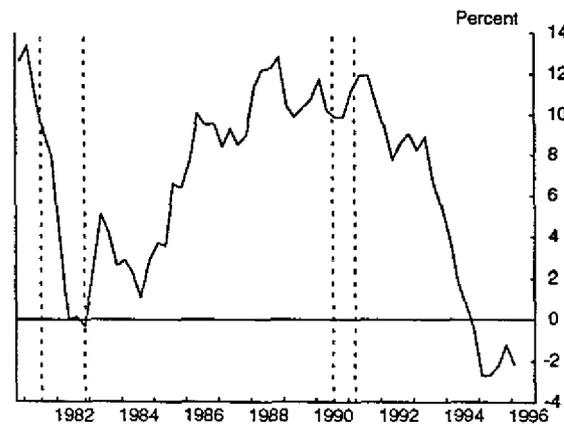
Paid Leave



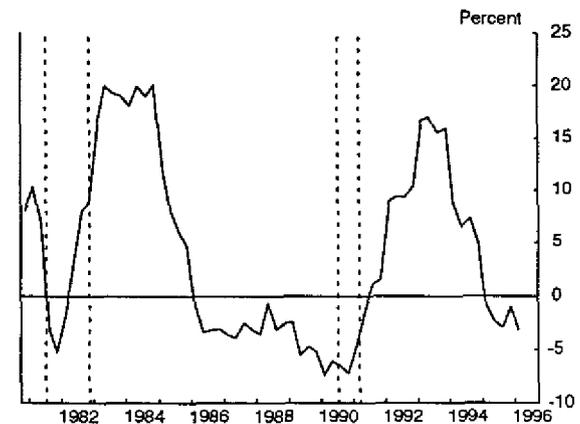
Retirement and Savings



Workers' Compensation Insurance



State Unemployment Insurance



reported for the first quarter may have been misallocated to the fourth quarter of last year.<sup>4</sup> The average rate of change in benefits over the two quarters was about 1-1/2 percent at an annual rate, suggesting that businesses are continuing to meet with considerable success in their efforts to gain control of this part of their labor costs.

In previous Greenbooks, we have also called attention to the possibility that with labor markets tight, workers might eventually start to gain back through faster increases in hourly wages some of the shortfall of compensation growth that has come about as a result of the restraint on benefit costs. Although the first-quarter jump in wages certainly is consistent with such an outcome, some caution in interpreting the data is also in order. The earnings of sales workers, which were an important element in the first-quarter step-up of wage growth, are quite volatile and perhaps should be discounted in assessing underlying trends. Moreover, separate data on average hourly earnings suggest that, at most, the pickup in wage growth is occurring quite gradually. For the twelve months ended in April, average hourly earnings of production or nonsupervisory workers on nonfarm payrolls moved up 3.1 percent, no faster than the rise during the previous twelve-month period.

Productivity in the nonfarm business sector increased sharply in the first quarter. The 2.6 percent rate of increase offset the surprising 1.0 percent decline in the fourth quarter and put the four-quarter change at 1.6 percent. BLS adjusted the growth of hours upward 3/4 percentage point from what a literal reading of the blizzard-affected numbers would have said, so the estimated productivity change is probably a reasonable approximation of reality--assuming, of course, that revisions to output growth are no larger than we currently are anticipating.

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4. Some of the detail on benefit costs provides further indication of possible misallocation between the two quarters. For example, health insurance costs, not seasonally adjusted, rose 3.1 percent in the fourth quarter of 1995 but declined 1.0 percent in the first quarter of 1996; by contrast, in most other years of the 1990s, health insurance costs increased particularly rapidly in the first quarter and quite slowly in the fourth quarter.

**AVERAGE HOURLY EARNINGS**  
(Percentage change; based on seasonally adjusted data)  
based on seasonally adjusted data)

	1994	1995	1995		1996	1996		
			Q3	Q4	Q1	Feb.	Mar.	Apr.
			-Annual rate-			-Monthly rate-		
Total private nonfarm	2.8	3.1	3.9	2.4	2.4	.1	.2	.6
Manufacturing	2.2	2.6	3.6	1.9	1.0	-.4	-.3	1.4
Durable	2.0	1.7	4.1	.3	.3	-.4	-.5	1.7
Nondurable	2.3	3.9	3.5	5.2	1.4	-.8	.2	.6
Contract construction	2.4	1.8	1.1	-1.3	1.9	-.7	-.1	.4
Transportation and public utilities	2.3	2.8	2.8	2.3	-.3	.2	-.1	.8
Finance, insurance, and real estate	3.4	4.3	5.0	2.6	5.5	.7	.7	.2
Total trade	3.0	3.2	4.5	3.1	3.1	-.2	.5	.2
Services	2.9	3.5	3.6	4.6	2.4	.2	.4	.3

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

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

	1994 <sup>1</sup>	1995 <sup>1</sup>	1995			1996	1995:Q1 to 1996:Q1
			Q2	Q3	Q4	Q1	
<u>Output per hour</u>							
Total business	.7	.6	3.0	1.6	-.5	2.8	1.7
Nonfarm business	.7	.7	3.0	1.7	-1.0	2.6	1.6
<u>Compensation per hour</u>							
Total business	2.3	4.1	5.6	4.3	3.1	3.0	4.0
Nonfarm business	2.5	4.1	5.4	4.3	2.8	3.3	4.0
<u>Unit labor costs</u>							
Total business	1.6	3.5	2.5	2.7	3.7	.2	2.3
Nonfarm business	1.8	3.4	2.3	2.5	3.8	.6	2.3

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

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# **DOMESTIC FINANCIAL DEVELOPMENTS**

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**Selected Financial Market Quotations<sup>1</sup>**  
(Percent except as noted)

Instrument	1994		1996		Change to May 15, from:			
	Feb. 3	High	FOMC, Mar. 26	May. 15	1994 Feb. 3	1994 high	FOMC, Mar. 26	
<b>Short-term Rates</b>								
Federal Funds <sup>2</sup>	3.07	5.66	5.36	5.26	2.19	-.40	-.10	
Treasury Bills <sup>3</sup>								
3-month	3.13	5.78	5.00	5.00	1.87	-.78	.00	
6-month	3.27	6.38	4.98	5.10	1.83	-1.28	.12	
1-year	3.52	6.84	5.09	5.27	1.75	-1.57	.18	
Commercial paper								
1-month	3.16	6.13	5.46	5.38	2.22	-.75	-.08	
3-month	3.25	6.32	5.36	5.38	2.13	-.94	.02	
Large negotiable CDs <sup>3</sup>								
1-month	3.11	6.10	5.35	5.31	2.20	-.79	-.04	
3-month	3.25	6.39	5.32	5.35	2.10	-1.04	.03	
6-month	3.41	6.89	5.34	5.43	2.02	-1.46	.09	
Eurodollar deposits <sup>4</sup>								
1-month	3.06	6.06	5.31	5.31	2.25	-.75	.00	
3-month	3.25	6.38	5.31	5.34	2.09	-1.04	.03	
Bank Prime Rate	6.00	8.50	8.25	8.25	2.25	-.25	.00	
<b>Intermediate- and Long-term Rates</b>								
U.S. Treasury (constant maturity)								
3-year	4.60	7.82	5.82	6.18	1.58	-1.64	.36	
10-year	5.81	8.04	6.25	6.65	.84	-1.39	.40	
30-year	6.31	8.16	6.59	6.84	.53	-1.32	.25	
Municipal revenue (Bond Buyer) <sup>5</sup>	5.49	7.37	6.10	6.32	.83	-1.05	.22	
Corporate-A Utility, recently offered	7.35	9.05	7.69	7.93	.58	-1.12	.24	
Home mortgages <sup>6</sup>								
FHLMC 30-yr fixed rate	6.97	9.25	7.81	8.24	1.27	-1.01	.43	
FHLMC 1-yr adjustable rate	4.12	6.79	5.60	5.80	1.68	-.99	.20	
<b>Stock Exchange Index</b>								
	Level	Record high Date	1989 Low, Jan. 3	1996 FOMC, Mar. 26	May. 15	Percentage change to May 15, from:		
						Record high	1989 low	FOMC, Mar. 26
Dow-Jones Industrial	5689.74	4/3/96	2144.64	5670.60	5625.44	-1.13	162.30	-.80
NYSE Composite	356.64	5/15/96	154.00	350.03	356.64	.00	131.58	1.89
NASDAQ (OTC)	1234.49	5/14/96	378.56	1088.35	1233.56	-.08	225.86	13.34
Wilshire	6641.44	5/15/96	2718.59	6398.30	6641.44	.00	144.30	3.80

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 May 22, 1996.

3. Secondary market.

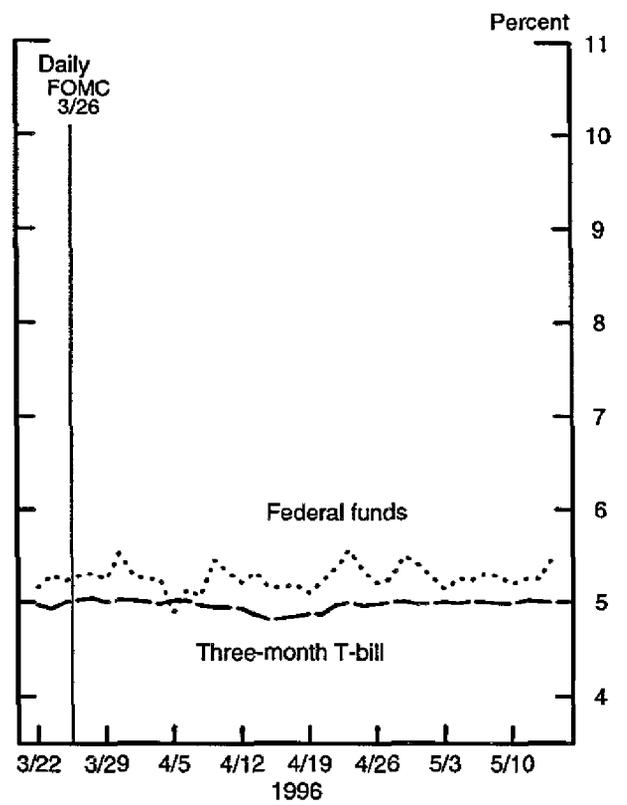
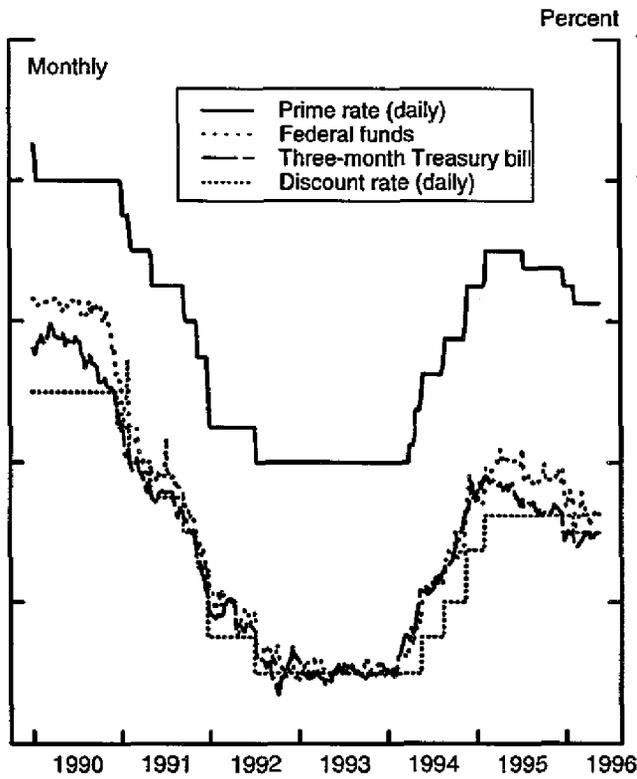
4. Bid rates for Eurodollar deposits at 11 a.m. London time.

5. Most recent observation based on one-day Thursday quote and futures market index changes.

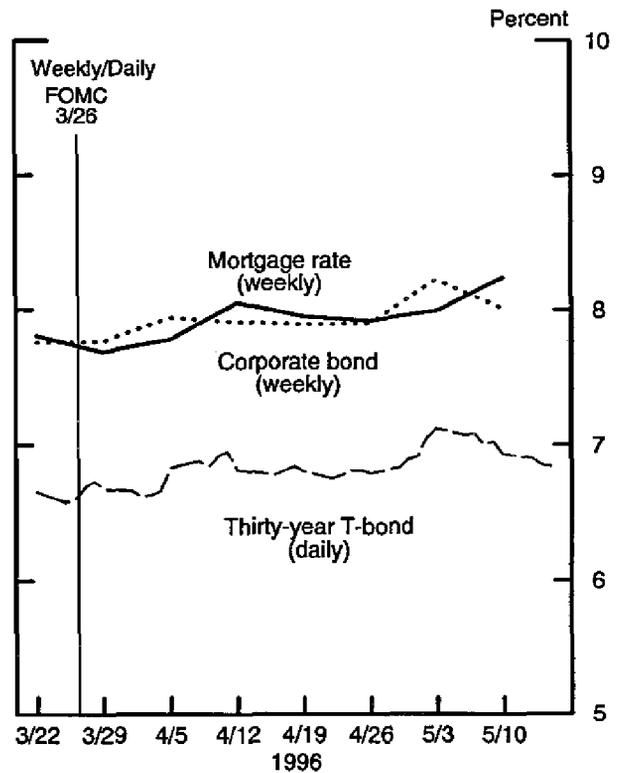
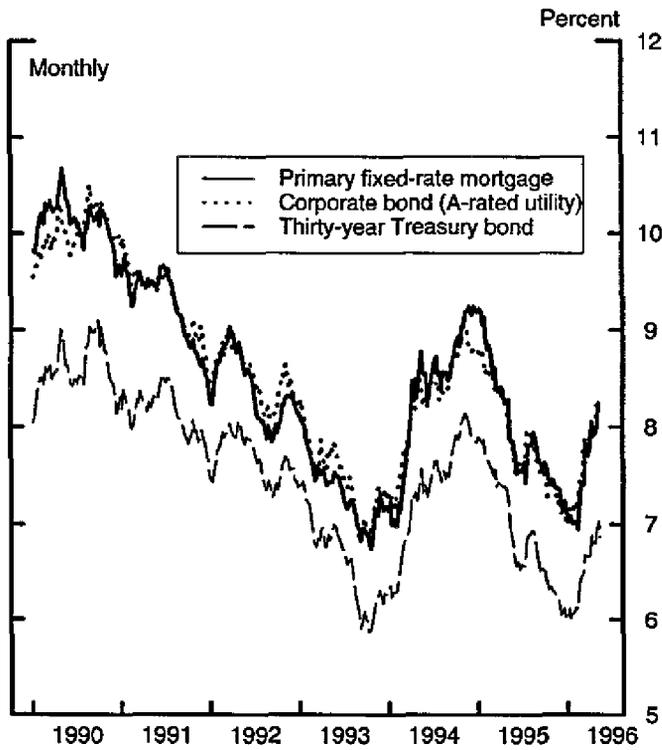
6. Quotes for week ending Friday previous to date shown.

# Selected Interest Rates

## Short-Term



## Long-Term



## DOMESTIC FINANCIAL DEVELOPMENTS

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The decision to leave short-term rates unchanged at the March FOMC meeting was widely anticipated and had little immediate market impact. Judging by quotes on federal funds futures at that time, market participants still expected that the next System policy move would be an easing. However, sentiment shifted with the accumulation of evidence showing the economy to have considerable forward momentum. At present, market expectations tilt in the direction of a modest tightening later this year.

The shift in outlook has pushed up intermediate- and long-term Treasury rates 25 to 40 basis points. The thirty-year Treasury yield crossed 7 percent for the first time in a year, before easing back in recent days. Most private-sector rates have moved up with Treasuries, although rates on lower-rated corporate bonds have risen less. Major stock price indexes, apart from the Dow, increased over the intermeeting period; the NYSE composite was up 2 percent, and the NASDAQ composite jumped about 13 percent, an increase reflecting renewed enthusiasm for technology stocks.

Total nonfederal debt growth appears to have remained moderate in recent months. In the household sector, consumer credit growth slowed a bit in the first quarter, while net mortgage borrowing probably continued near the pace of last year. Responding to higher long-term rates, gross bond issuance by nonfinancial corporations has fallen off recently, but this drop-off has been offset partly by greater short-term borrowing. Gross issuance of long-term debt by state and local governments also has edged off from late last year.

Federal borrowing, after a first-quarter pickup, has dropped back sharply in the current quarter and might have been weaker still had the Treasury anticipated the full dimension of recent tax receipts.

### Money and Bank Credit

M2 and M3 growth slowed sharply in April after an unusually strong increase in March (table). Both aggregates expanded at more than a 10 percent annual rate in March and then decelerated to a 2 percent rate in April. With the recent slowing, both aggregates have moved to around the upper bounds of their respective annual ranges.

III-2

MONETARY AGGREGATES  
(Based on seasonally adjusted data)

Aggregate or component	1995	1995	1995	1996			1995:Q4	Level
	1995	Q4	Q1	Feb.	Mar.	Apr. (pe)	to Apr. 96 (pe)	(bil. \$) Mar. 96
Aggregate	Percentage change (annual rate) <sup>1</sup>							
1. M1	-1.8	-5.1	-2.7	-2.0	10.0	-3	-1	1126.6
2. M2 <sup>2</sup>	4.0	3.9	5.6	5.0	11.2	2	5%	3724.8
3. M3	5.9	4.4	7.0	9.7	10.5	2	6%	4679.6
Selected components								
4. Currency	5.4	3.8	2.3	-1.0	6.1	2	2%	375.2
5. Demand deposits	1.4	-0.4	10.9	11.9	29.3	-2	11	407.1
6. Other checkable deposits	-11.1	-18.7	-22.7	-18.9	-8.5	-10	-17%	335.4
7. M2 minus M1 <sup>3</sup>	6.7	8.1	9.3	8.1	11.8	4	8%	2598.2
8. Savings deposits	-3.3	7.9	15.2	13.3	19.1	10	14%	1193.0
9. Small time deposits	14.9	4.2	-0.3	-2.2	-8.0	-4	-2%	927.6
10. Retail money market funds	20.1	16.5	14.7	15.6	32.6	4	15%	487.6
11. M3 minus M2 <sup>4</sup>	14.5	6.3	12.4	28.2	7.6	4	11%	954.8
12. Large time deposits, net <sup>5</sup>	15.4	17.4	8.3	16.7	20.7	13	11%	429.7
13. Institution-only money market mutual funds	23.1	10.2	27.9	69.2	21.6	-15	21%	248.3
14. RPs	4.5	-16.2	-3.0	2.6	-8.5	4	-2	182.2
15. Eurodollars	12.0	-0.9	9.1	7.6	-32.5	1	1%	93.3
Memo								
16. Monetary base	4.1	2.6	1.6	-4.1	8.9	-1	1%	436.9
17. Household M2 <sup>6</sup>	4.3	4.3	5.0	4.9	9.2	2	5	3318.6
Average monthly change (billions of dollars) <sup>7</sup>								
Memo								
Selected managed liabilities at commercial banks:								
18. Large time deposits, gross	5.5	4.9	2.9	8.7	8.5	6	. . .	452.3
19. Net due to related foreign institutions	3.5	5.8	2.6	6.4	-15.1	-3	. . .	261.3
20. U.S. government deposits at commercial banks	-0.1	-1.8	-1.3	-2.8	5.8	-1	. . .	18.2

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.

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.
- pe-Preliminary estimate. n.s.a.--Not seasonally adjusted.

The deceleration of the broad monetary aggregates in April may reflect the rise in market interest rates in recent months, which has increased the opportunity cost of holding deposits. Moreover, variability in the size and timing of tax payments is always a potential source of erratic M2 behavior in the spring. This year the weekly pattern of M2 suggests that growth may have been damped in April by unusually large personal tax payments, though in past years large payments have usually boosted M2 growth as deposits built up in advance of payments.

M1 continues to be pulled down by sweep activity. In addition, initial demand for the redesigned hundred dollar bill, introduced at the end of March, has proved to be less than expected, and currency growth has been sluggish.

After contracting in March, bank credit increased at a 6 percent rate in April on the strength of bank lending and a leveling off of securities holdings (table). The March decline--the first since July 1991--was due in part to the backup in interest rates, which reduced the market value of bank securities portfolios and off-balance-sheet positions in derivatives. Adjusted for this effect, bank credit was flat in March and rose at a 7-1/2 percent annual rate in April.

The April pickup in lending was paced by a turnaround in business loans, an increase that may have reflected a shift to short-term financing in response to the rise in long-term rates. On balance, however, business loans in the past two months have been somewhat weak even as lenders remain accommodative. According to the May Senior Loan Officer Opinion Survey, underwriting standards for business loans were unchanged from January, while lenders, on net, continued to ease terms a bit.

Real estate loan growth remained sluggish in April, likely because of the continued high fixed-rate share of new home mortgages, which banks tend to securitize. The tendency to sell off fixed-rate loans may well mask healthy underlying demand for mortgage loans to purchase homes; indeed, the May loan officer survey indicates that demand for such loans has been higher in the past three months than in the previous three months. In contrast, the demand for commercial real estate loans was little changed, on net, according to the survey.

While consumer lending appeared strong in April, much of the increase was due to a sizable acquisition of credit card receivables

**COMMERCIAL BANK CREDIT**  
(Percentage change; seasonally adjusted annual rate)<sup>1</sup>

Type of credit	1995	1995 Q4	1996 Q1	1996 Feb.	1996 Mar.	1996 Apr.	Level, Apr. 1996 (billions of \$)
1. Total loans and securities	8.6	5.1	4.8	3.2	-2.8	6.1	3,650.3
2. Securities	3.2	2.8	-2	5.6	-19.1	.1	977.8
3. U.S. government	-3.1	3.5	-2.8	21.9	-17.8	-3	704.9
4. Other <sup>2</sup>	24.5	1.0	6.4	-34.0	-22.5	1.3	272.9
5. Loans <sup>3</sup>	10.8	6.0	6.7	2.4	3.3	8.4	2,672.5
6. Business	11.5	6.3	6.1	5.1	-4.1	9.3	729.1
7. Real estate	8.5	3.8	4.3	3.1	5.5	1.6	1,095.0
8. Home equity	5.2	3.1	5.1	3.0	-1.5	3.0	80.0
9. Other	8.8	3.8	4.3	3.0	6.1	1.5	1,015.0
10. Consumer	10.7	6.3	7.2	.5	7.9	8.8	507.9
11. Adjusted <sup>4</sup>	16.6	15.5	14.1	5.9	12.7	13.7	645.2
12. Security	14.2	-.9	-2.8	9.9	-8.4	8.5	85.6
13. Other <sup>5</sup>	18.5	17.8	21.9	-8.7	11.2	33.9	254.9

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.

by one bank. Taking out this acquisition, consumer lending (adjusted for securitization) grew at an annual rate of only about 5 percent last month, down significantly from March. For the year to date, consumer lending at banks, with the adjustment for the April acquisition and securitizations, expanded at a 12 percent annual rate, down from the 16-1/2 percent advance recorded last year.

While we doubt that it was the major factor in the recent slowing in consumer loan growth, tighter lending standards may have played some role. On net, about 20 percent of the respondents to the May loan officer survey reported having tightened standards for approving credit card applications, and about 10 percent reported having tightened standards for other consumer installment loans.

#### Mutual Funds

Long-term mutual funds posted the largest quarterly inflow on record in the first quarter, with stock funds accounting for more than 80 percent of the total (table). Preliminary data for April suggest that heavy flows into stock funds continued, while flows into bond funds slowed markedly. Flows into bond funds have been primarily to the income and junk bond categories, funds for which returns are most closely linked to those on equities. Industry participants report that the strong mutual fund inflows this year have been mostly related to retirement accounts.

Although *dollar* inflows to stock funds are at record levels, net sales as a percentage of fund assets show more moderate growth (chart, middle panel). Moreover, mutual fund inflows may overstate household demand for equities. Flow of funds data indicate that, in 1995, sales by households of direct holdings of corporate equity exceeded purchases of mutual funds by \$50 billion. Preliminary data for the first quarter indicate that households continue to be net sellers of equity. A good share of the liquidation in direct holdings may have been driven by corporate repurchase and merger activity.

Holdings of cash and short-term securities in stock funds fell to 7 percent by the end of March from nearly 8 percent at the end of 1995 (chart, bottom panel). The lower liquidity ratio may reflect competitive pressures to be fully invested, as cash holdings have proved an impediment to performance in the ongoing bull market.

## Stock and Bond Mutual Funds

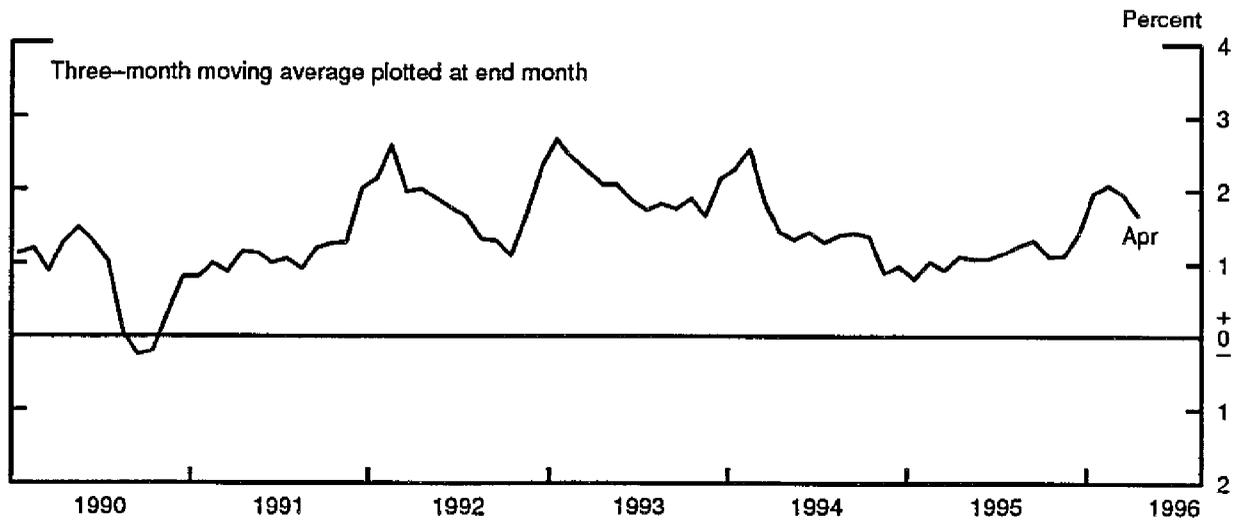
NET SALES OF MUTUAL FUNDS  
(Billions of dollars, monthly rate, not seasonally adjusted)

Type of Fund	1995		1996			Memo: Mar. Assets
	Q4	Q1	Feb.	Mar.	Apr. <sup>e</sup>	
Total stock	16.8	24.6	22.1	22.4	21.6	1,409.2
International	1.7	5.2	4.4	3.1	4.6	224.9
Domestic	15.1	19.4	17.7	19.3	17.0	1,184.3
Total bond	4.3	5.0	4.1	4.6	1.6	804.0
GNMA	-.1	-.1	-.1	-.1	-.2	53.6
Government	-.2	-.2	-.2	-.2	-.7	84.8
High-yield	1.0	.8	.6	.5	1.3	62.4
Tax-exempt	.3	.1	-.3	.1	-1.2	246.2
Income	2.8	3.6	3.4	3.8	2.2	289.8
Other	.5	.8	.7	.4	.2	67.2

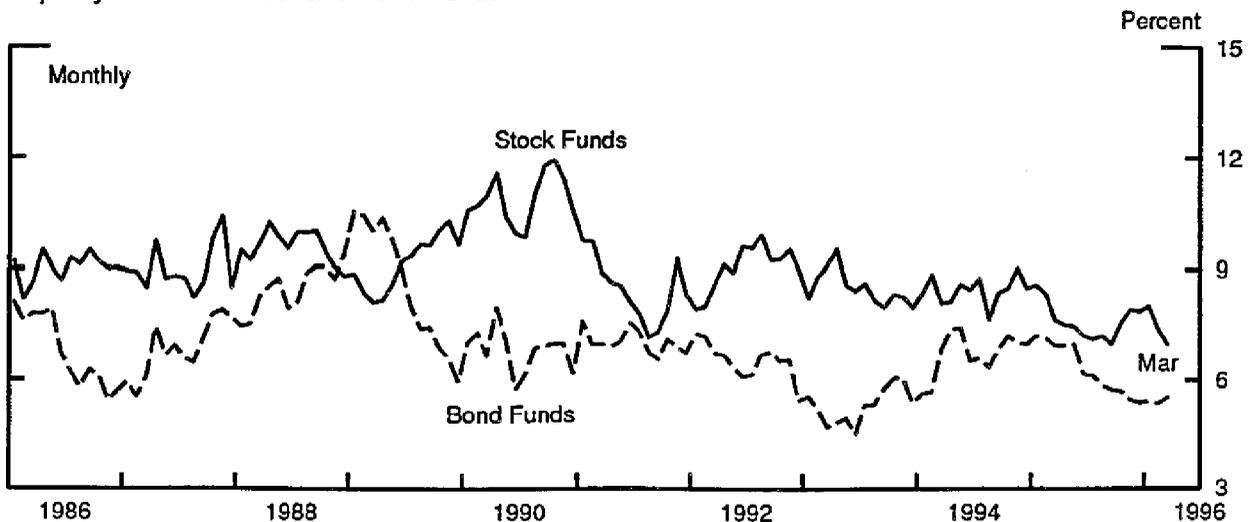
<sup>e</sup> Staff estimate.

Source. Investment Company Institute.

### Net Sales of Stock Mutual Funds as a Percent of Fund Assets



### Liquidity Ratios\* of Stock and Bond Funds



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

Business Finance

The increase in long-term rates has continued to damp bond issuance by nonfinancial corporations (table and chart). Gross public issuance in April and early May was about a third below the first-quarter pace, with the most pronounced falloff at investment-grade firms; lower-rated firms eased back their issuance in April but still found the market a fairly attractive source of funding. With the backup in rates, short-term financing has gained some favor, and the volume of nonfinancial commercial paper outstanding has moved up briskly--bolstered by merger financing.

Boosted by a spike in initial public offerings, equity issuance by nonfinancial corporations jumped in April to a record level (table). Rising stock prices and strong investor demand has increased the pace of gross equity offerings (chart). Issuance in May should remain healthy, judging from the steady flow of registrations of new offerings with the SEC.

On net, however, nonfinancial corporations have continued to retire equity. Announced stock buybacks by nonfinancial firms in the first quarter jumped to \$28 billion, the highest quarterly pace since the late 1980s. Unlike the buybacks at that time, current activity is concentrated at profitable companies with excess cash on their balance sheets and is not being financed by borrowing. Based on the announcements, completed repurchases in the first quarter, at an annual rate, are estimated to have been about a third above the high volume for the year 1995.

The ongoing merger wave also resulted in substantial share retirements in the first quarter. In addition, several blockbuster deals were announced over the intermeeting period, the two largest involving the consolidation of some "Baby Bell" telephone companies permitted by the recently approved telecommunication bill. However, virtually all of the recently announced megamergers are structured as stock swaps and thus will not result in equity retirements.

Since the last FOMC meeting, the NASDAQ composite index has risen more than 13 percent, as investor enthusiasm for technology and small-cap stocks resurfaced (chart). Other broad equity indexes have risen by much less--about 2 percent, but still have significantly outperformed bonds. Stock prices received some support from the strong first-quarter earnings reports which pointed to a small uptick in the four-quarter growth rate (chart, middle left panel). However, analysts do not expect particularly robust

GROSS ISSUANCE OF SECURITIES BY U.S. CORPORATIONS<sup>1</sup>  
 (Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1994	1995	1995		1996		
			Q4	Q1	Feb.	Mar.	Apr. P
All U.S. corporations	40.66	46.58	49.70	54.24	60.73	54.74	45.35
Stocks <sup>2</sup>	5.49	6.10	7.82	7.32	9.40	7.67	12.85
Bonds	35.16	40.48	41.88	46.91	51.33	47.07	32.50
<b>Nonfinancial corporations</b>							
Stocks <sup>2</sup>	3.10	4.39	5.77	5.16	5.64	6.54	8.81
Initial public offerings	1.14	1.70	2.52	2.10	2.69	2.40	5.76
Seasoned offerings	1.96	2.69	3.25	3.06	2.95	4.15	3.05
Bonds	7.35	9.66	10.62	9.29	9.07	9.67	6.40
By rating, bonds sold in U.S. <sup>3</sup>							
Investment grade	4.41	6.45	7.23	5.52	4.81	4.42	3.27
Speculative grade	2.01	1.95	2.19	2.67	3.91	2.93	2.23
Unrated or rating unknown	.01	.06	.11	.07	.08	.09	.00
Memo:							
Net issuance of commercial paper <sup>4</sup>	1.87	1.59	1.01	2.44	.75	7.79	4.33
<b>Financial corporations</b>							
Stocks <sup>2</sup>	2.64	1.71	2.05	2.16	3.76	1.13	4.04
Bonds	27.81	30.81	31.26	37.62	42.26	37.40	26.10

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.

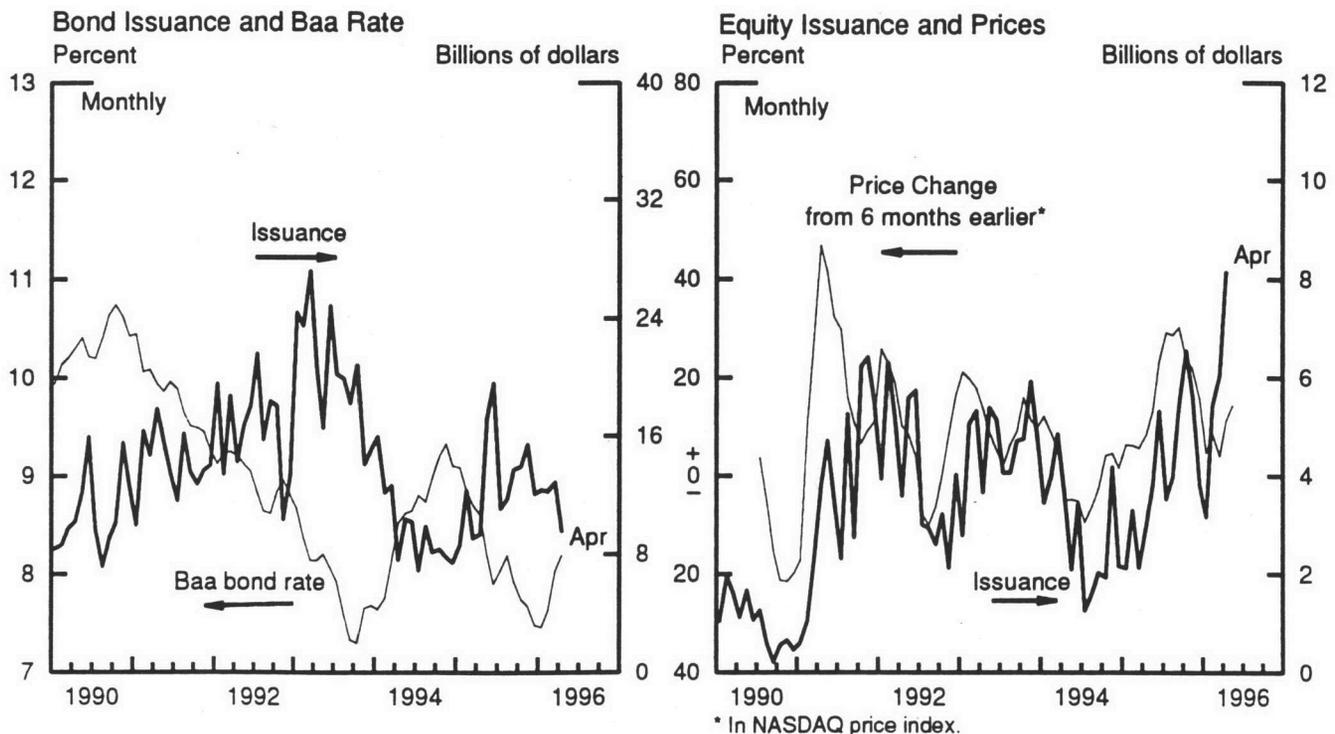
2. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.

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.

4. Seasonally adjusted.

p Preliminary.

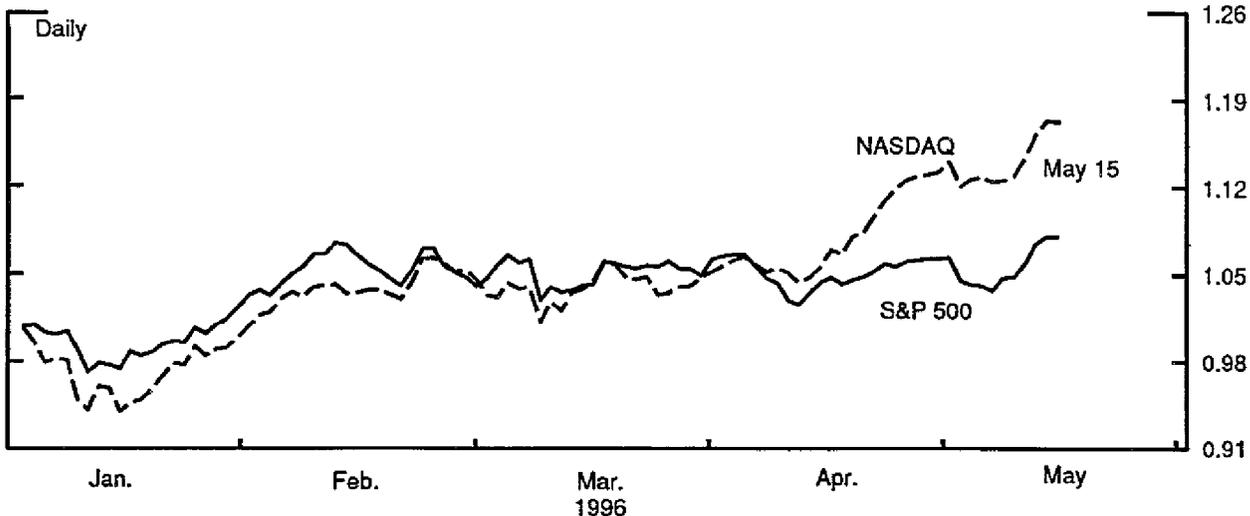
### Bond and Stock Issuance by U.S. Nonfinancial Corporations



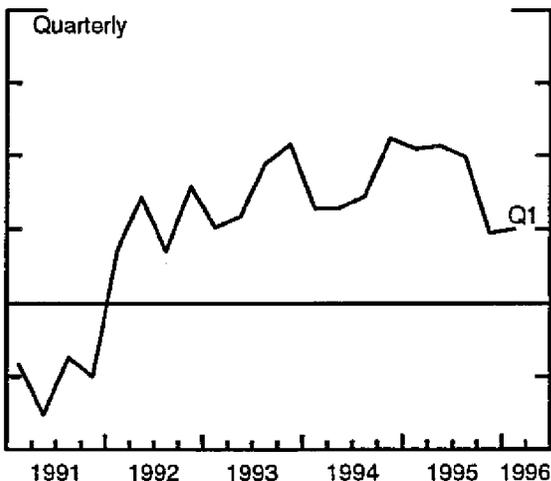
### Stock Prices and Earnings

Selected Stock Indexes

Index, Dec 29, 1995=1

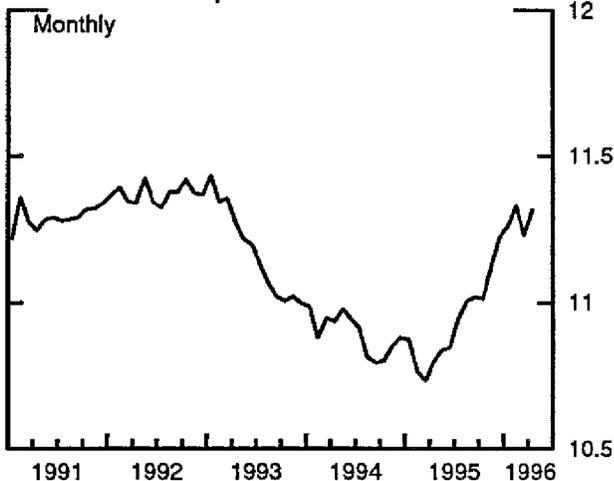


Four-Quarter Growth in S&P 500 Earnings Per Share



Source: Goldman Sachs

Expected Long-term Earnings Growth for S&P 500 Companies

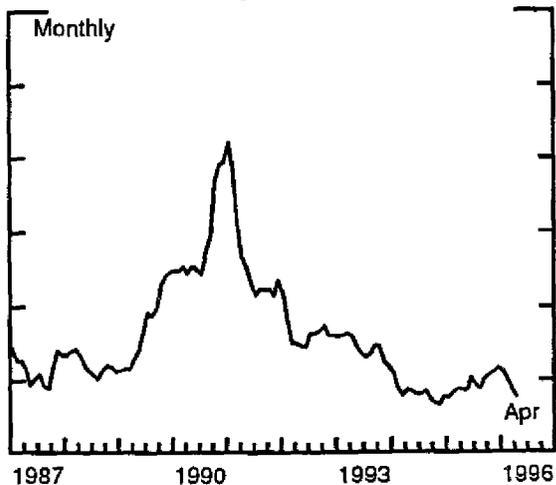


Source: IBES

### Corporate Bond Spreads

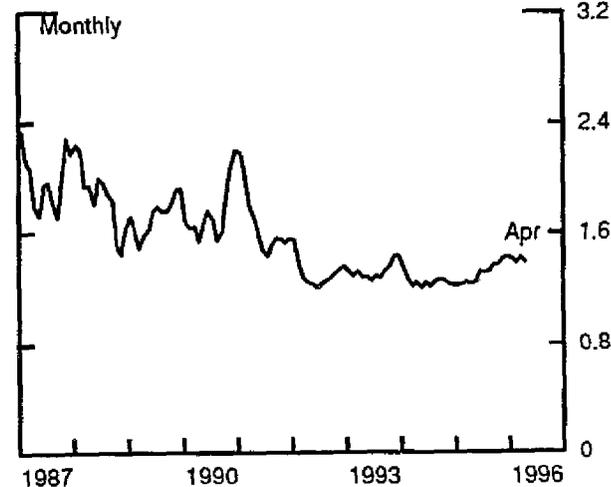
High-Yield Bond Less Seven-Year Treasury Note

Percentage Points



Baa Corporate Less Thirty-Year Treasury Bond

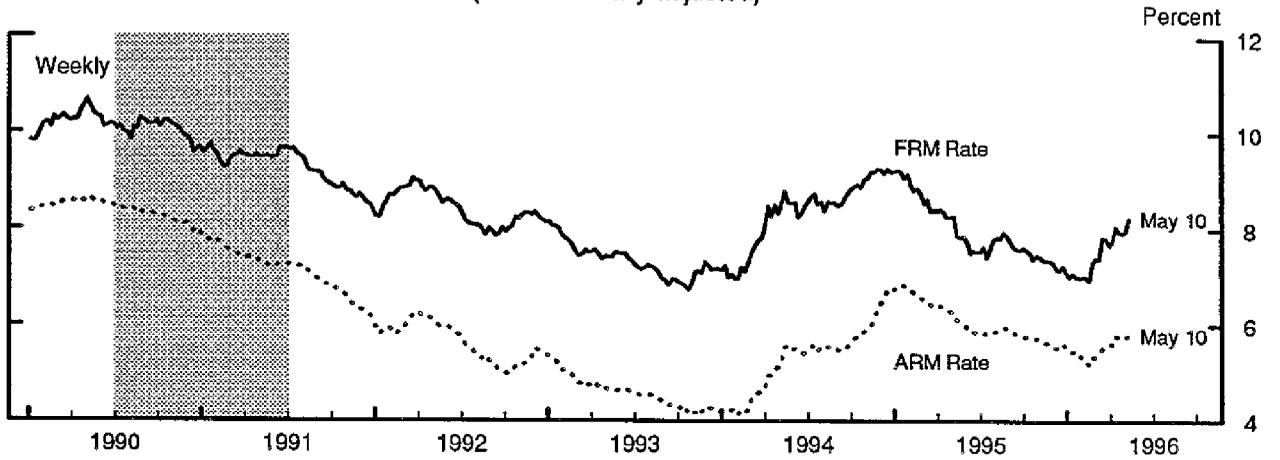
Percentage Points



### Mortgage Market Indicators

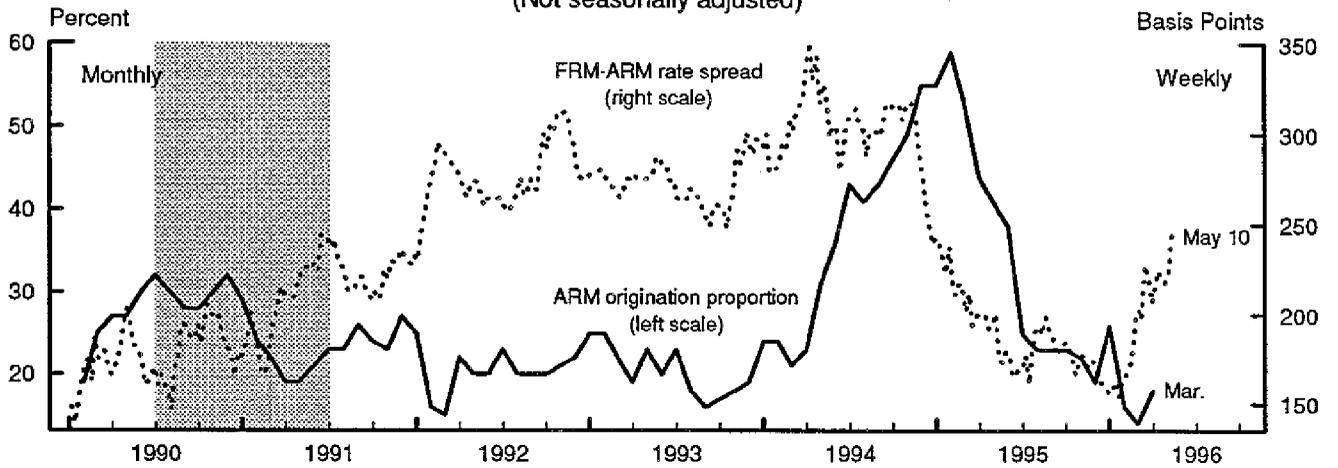
#### Freddie Mac FRM Rate and ARM Rate

(Not seasonally adjusted)



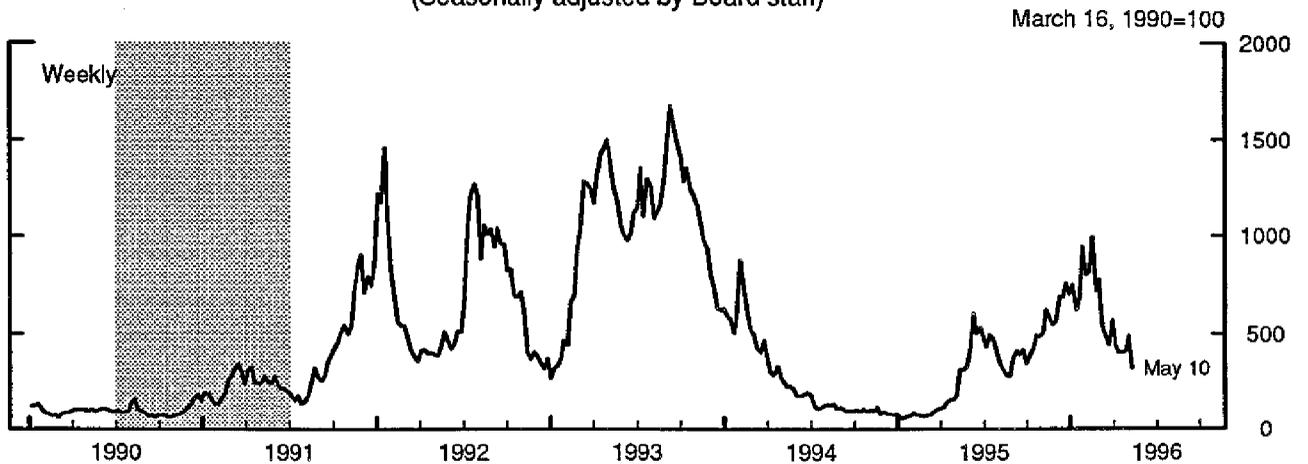
#### Freddie Mac FRM-ARM Spread and FHFB ARM Origination Proportion

(Not seasonally adjusted)



#### MBA Mortgage Refinancing Application Index

(Seasonally adjusted by Board staff)



earnings growth in the near term, and the ratio of current price to expected year-ahead S&P 500 earnings remains high. Looking out further, analysts have been raising their estimates of longer-term profit growth, likely buoying stock prices (chart, middle right panel).

With earnings continuing to be strong, various indicators show that the credit quality of nonfinancial firms has remained solid, except for some slippage in the retail sector. In the first quarter, Moody's downgraded somewhat more nonfinancial debt than it upgraded, but K Mart and WalMart accounted for most of the net downgrade; at quarter-end, nonfinancial debt on review at Moody's for a possible downgrade about equalled that on review for an upgrade. In addition, first-quarter data indicate that the default rate of junk bonds fell below one percent, less than half the rate in 1995. The small losses seemed to reassure investors, as spreads on high-yield debt over Treasuries have now retraced the entire rise posted last year (chart); spreads on investment-grade bonds have edged lower since the last FOMC meeting. Business failures, a broader measure of stress that also covers firms with no public debt outstanding, fell about a third in the first quarter after a fourth-quarter spike, and are only slightly above levels in 1994 and 1995.

#### Household Sector Finance

Home mortgage rates have increased substantially over the intermeeting period. In line with the overall movement of the yield curve, the average contract rates on thirty-year, fixed rate mortgages rose more than 40 basis points, to 8-1/4 percent, and ARMs indexed to the one-year Treasury constant maturity rose 20 basis points (chart, upper panel). Thus, the FRM-ARM initial rate spread moved up to 244 basis points, the widest spread since the end of 1994. Nevertheless, data through March indicate borrowers continue to favor fixed-rate financing (chart, middle panel).

Despite the rise in rates, mortgage purchase applications for home purchases remained relatively elevated. The refinancing index, however, declined further, on net, over the period and is now less than half the peak level reached in mid-February (chart, lower panel).

Consumer installment credit grew at an annual rate of 7-1/4 percent in March, about half the rate of increase in February (table). For the first quarter as a whole, consumer installment credit advanced at an 11-1/2 percent annual rate, off about

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

Type of credit	1994	1995	1995	1996	1996		Memo: Outstanding Mar. 1996 (billions of dollars)
			Q4	Q1 <sup>p</sup>	Feb. <sup>r</sup>	Mar. <sup>p</sup>	
Installment	14.2	13.5	12.5	11.5	14.1	7.3	1,054.2
Auto	13.1	11.4	14.3	7.6	12.6	0.2	360.0
Revolving	16.7	18.2	13.8	15.9	15.9	14.1	410.9
Other	12.5	10.0	8.4	10.1	13.5	6.5	283.2
Noninstallment	10.1	8.5	-15.2	23.1	-35.8	100.3	66.9
Total	14.0	13.2	10.7	12.1	11.2	12.5	1,121.1

r Revised.  
p Preliminary.

INTEREST RATES ON CONSUMER LOANS  
(Annual percentage rate)

Type of loan	1994	1995	1995			1996		
			Feb.	Aug.	Nov.	Jan.	Feb.	Mar.
At commercial banks <sup>1</sup>								
New cars (48 mo.)	8.1	9.6	n.a.	9.4	9.4	n.a.	9.1	n.a.
Personal (24 mo.)	13.2	13.9	n.a.	13.8	13.8	n.a.	13.6	n.a.
Credit cards	16.2	n.a.						
Credit cards <sup>2</sup>								
All accounts	n.a.	16.0	n.a.	16.0	15.8	n.a.	15.8	n.a.
Accounts assessed interest	n.a.	15.8	n.a.	15.9	15.7	n.a.	15.4	n.a.
At auto finance cos. <sup>3</sup>								
New cars	9.8	9.8	11.9	10.9	10.8	9.7	9.9	9.8
Used cars	13.5	13.5	15.1	14.2	14.0	13.3	13.3	13.2

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.

1 percentage point from the fourth-quarter pace and 2 percentage points from the rise for all of 1995. The slowing of growth last quarter was concentrated in the auto credit component; growth of revolving credit picked up to a 16 percent rate in the first quarter but remained below the average pace last year. As noted, commercial bank data for April point to subdued consumer credit growth last month.

Only limited information about consumer loan quality has become available since the last Greenbook. Delinquencies on auto loans at captive finance companies in the first quarter moved down slightly--the first decline in two years--from historically high levels. The Moody's monthly index of delinquencies on credit card loans in securitized pools increased in both January and February, reaching a two-year high, although it is still well below the peak in the early 1990s. In the May loan officer survey, more than a quarter of the banks, on net, noted that consumer loan delinquency rates in the past six months were higher than they had expected. On balance, respondents to the survey expect a further rise in delinquencies over the coming year.

Despite some concern about rising household debt levels, issuance of credit-card-backed securities remained quite strong this year. Concerns in the asset-backed market have centered on the credit card programs of a few, relatively small private-label retailers, which account for a minuscule proportion of the \$150 billion market. Bank issuers continue to obtain the highest ratings. Even with the vastly increased supply of credit-card-backed paper in 1995 and 1996, spreads against comparable maturity Treasuries have remained at or near historic lows.

#### Treasury and Agency Financing

The debt ceiling impasse came to an end in March after Congress raised the national debt limit by \$600 billion to \$5.5 trillion. This increase is expected to sustain normal deficit financing and trust fund issues through at least the third quarter of 1997, perhaps a few months more. The six-month impasse resulted in some disruptions to the timing and size of auctions but, on balance, probably did not add substantially to issuance costs as market participants apparently discounted the possibility of debt default.

During the current quarter, the stronger-than-expected inflow of federal tax receipts is projected to result in a budget surplus of \$52 billion (table). The surplus likely will generate the

TREASURY FINANCING  
(Billions of dollars; total for period)

Item	1996				
	Q1	Q2 <sup>P</sup>	Apr. <sup>e</sup>	May <sup>P</sup>	Jun. <sup>P</sup>
Total surplus/deficit (-)	-72.3	52.3	67.5	-48.9	33.7
Means of financing deficit					
Net cash borrowing and repayments (-)	80.5	-37.0	-39.2	17.3	-15.1
Nonmarketable	2.6	1.6	0.6	1.8	-0.8
Marketable	77.9	-38.6	-39.8	15.5	-14.3
Bills	51.8	-50.8	-45.9	9.4	-14.3
Coupons	26.1	12.2	6.1	6.1	0.0
Decrease in cash balance	-1.4	-14.5	-26.4	39.7	-27.7
Other <sup>1</sup>	-6.8	-0.8	-1.9	-8.0	9.1
Memo:					
Cash balance, end of period	21.9	36.4	48.3	8.6	36.4

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	1996			
	Q4	Q1	Jan.	Feb.	Mar.
FHLBs	6.3	-3.9	-8.5	-1.3	5.8
FHLMC	8.4	4.3	0.9	2.9	0.5
FNMA	22.0	7.6	-1.5	6.5	2.7
Farm Credit Banks	1.6	2.0	1.3	-1.1	1.9
SLMA	-4.1	-1.8	0.1	1.8	-3.8

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

n.a. Not available.

first quarterly paydown of marketable Treasury debt since 1981, and at the same time, will enable the Treasury to replenish its cash balance.

At its midquarter refunding, the Treasury announced a new auction schedule to better align its longer-term borrowing with its greater seasonal borrowing requirements in the second half of the year. The new schedule includes two extra auctions of the ten-year note and one extra auction of the thirty-year bond. Because the Treasury intends to decrease the size of the ten-year and thirty-year securities auctions somewhat, it does not expect the average maturity of the outstanding debt to increase. There appeared to be little market reaction to the announcement.

The Treasury also announced that it intends to issue inflation-indexed bonds in a multiyear experiment that could reduce Treasury financing costs. Precise terms of the new bonds have not yet been set, and the Treasury is seeking comments from potential investors. These bonds will be issued in small denominations and are expected to be purchased largely for retirement accounts by buyers who want to hedge against inflation.

Agency financing slowed considerably in the first quarter, and preliminary indications are that net borrowing remained light over the intermeeting period (table). Higher rates have reduced new issues and virtually halted refinancing as agencies have less incentive to call outstanding debt. Spreads on primary debt and in secondary markets remained stable.

#### Municipal Bonds

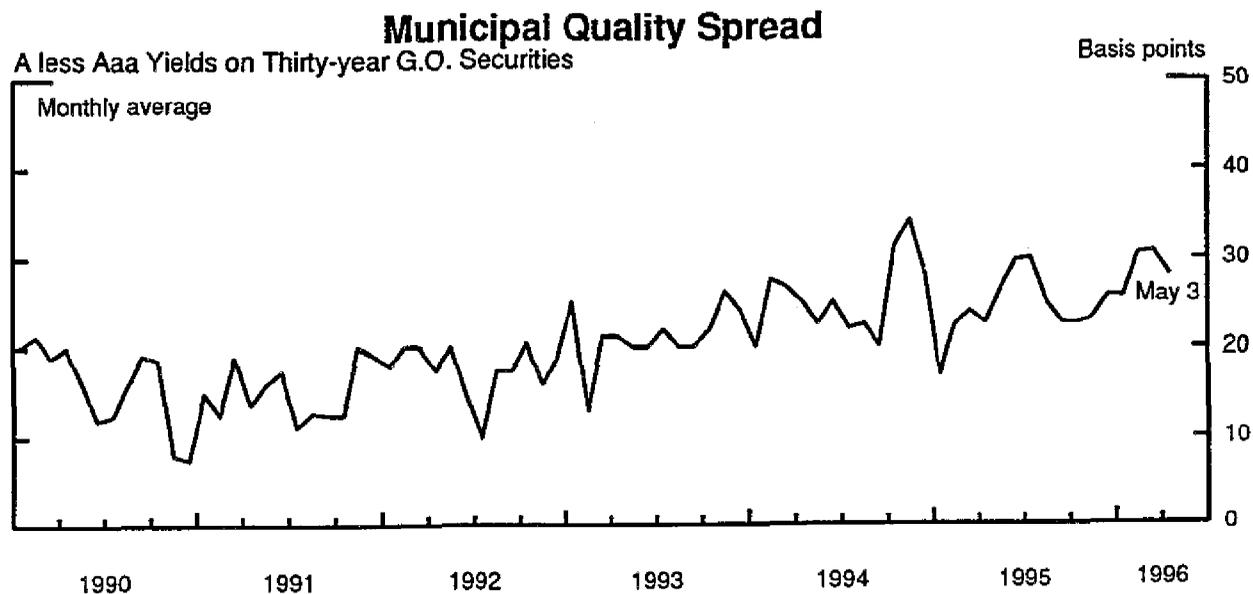
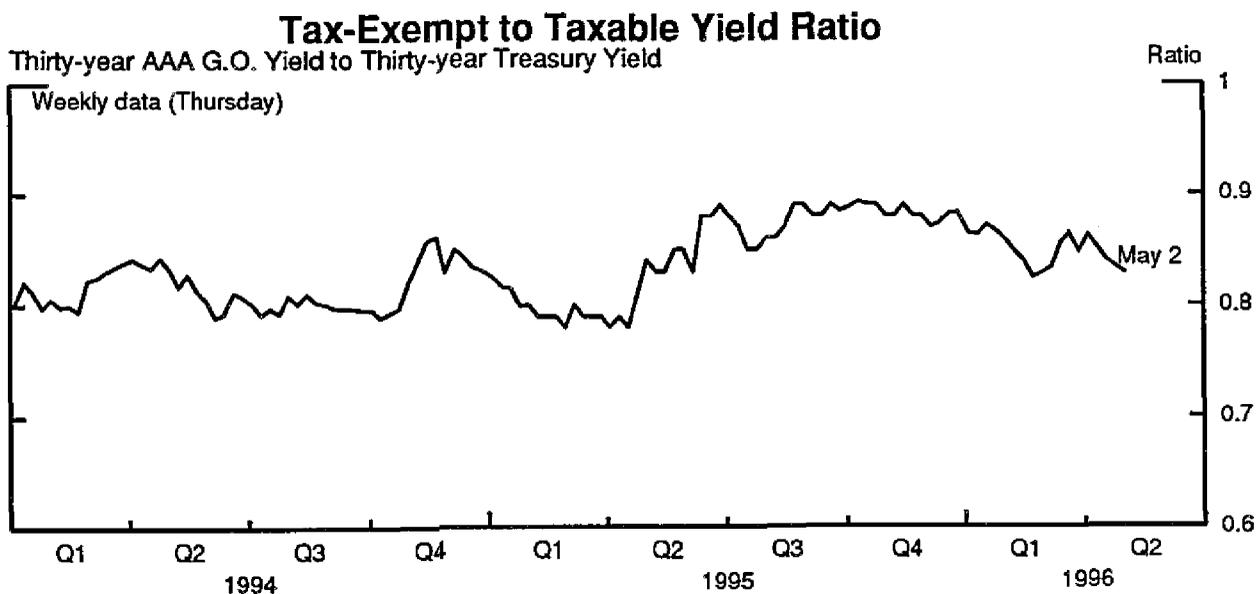
Long-term municipal debt offerings in April about matched the first-quarter pace but were off from the fourth-quarter rate when issuers took advantage of nearly two-year lows in long-term rates (table). With retirements continuing to outpace new offerings, the volume of tax-exempt debt has remained on a downward path. The forward calendar of new issues looks weak, which may help explain why yields on long-term municipal bonds have risen less than proportionately to those on comparable Treasuries since the beginning of April (chart, middle panel).

Quality spreads on long-term municipal bonds have changed little on net since 1994, though the spreads remain a bit wider than over the preceding few years (chart, bottom panel). Greater demand for the highest-quality debt--as evidenced in the rising portion of

**GROSS OFFERINGS OF MUNICIPAL SECURITIES**  
(Billions of dollars; monthly rates, not seasonally adjusted)

	1993	1994	1995	1995 Q4	1996 Q1	1996 Mar.	1996 Apr.
Total tax-exempt	27.2	16.1	14.9	17.2	14.3	16.4	15.7
Long-term	23.3	12.8	12.1	15.5	12.7	15.2	13.0
Refundings <sup>1</sup>	15.7	4.0	3.6	5.3	4.9	4.6	3.5
New capital	7.6	8.8	8.5	10.2	7.8	10.6	9.5
Short-term	3.9	3.3	2.8	1.7	1.6	1.2	2.7
Total taxable	.7	.7	.7	.3	.5	.8	.5

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



insured debt to total debt over the past few years--may have contributed to somewhat wider spreads.

## APPENDIX

### THE MAY SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES

The May 1996 Senior Loan Officer Opinion Survey on Bank Lending Practices posed questions about changes in bank lending standards and terms, changes in loan demand by businesses and households, and delinquency rates on consumer loans.

The survey results show that bank lending standards were generally unchanged to a bit tighter compared with three months ago. Lending standards for business loans to customers of all sizes were about unchanged, on net. Standards for residential mortgages were also little changed, while those for commercial real estate loans were tightened by a modest number of respondents. Standards for credit card accounts and other consumer installment loans were tightened on net, although banks reported no change in their willingness to make consumer loans.

On the whole, banks were less stringent with respect to loan terms than lending standards. The respondents continued to ease business loan terms, on net, while terms on consumer loans were little changed.

Demand for bank loans by households and firms was generally reported to be stronger than it had been three months earlier. Demand for business loans was stronger for customers of all sizes, although more banks noted an increase in demand by small and medium-sized firms than by large firms. Demand for commercial real estate loans changed little, on net. Household credit demands increased, with a significant share of banks reporting stronger demand for residential mortgages and a smaller fraction noting a pickup in demand for consumer installment loans.

Responses to special questions on consumer loan delinquencies suggest that a significant number of banks have been surprised by the size of the recent run-up in consumer loan delinquencies. A large share of the respondents expect a further rise in delinquencies over the coming year.

#### Commercial and Industrial Loans

The May survey found that standards for approving commercial and industrial loans other than those for mergers and acquisitions were about unchanged over the previous three months for borrowers of all sizes. Lending standards had tightened, on net, in the January survey, the first net tightening in three years.

Despite the stability in lending standards, both the domestic and foreign respondents reported some net easing of business loan terms. The largest number of banks reported having cut spreads of loan rates over base rates. Other terms, including maximum credit line sizes, credit line costs, loan covenants, and collateralization requirements, were also eased by some banks. A bigger fraction of the domestic respondents generally reported having eased loan terms for large corporate customers than reported doing so for small and middle-market firms.

The institutions that reported having eased standards or terms attributed the easing to increased competition from other banks and,

to a lesser extent, from nonbank lenders. The domestic respondents that had tightened either standards or terms attributed the move primarily to a reduction in their banks' tolerance for risk. In addition, both the domestic and foreign respondents that tightened standards or terms pointed to a less favorable economic outlook and a worsening of industry-specific problems.

A significant number of domestic respondents, on net, reported stronger demand for business loans by small and middle-market businesses, while a considerably smaller net number reported stronger demand by large corporate firms. Branches and agencies of foreign banks reported little net change in demand. Changes in demand were generally attributed to fluctuations in customers' investment in inventories and in plant and equipment or, in the case of larger firms, to fluctuations in merger and acquisition funding needs. In addition, a number of banks noted that demand weakened as customers shifted funding to other sources.

#### Commercial Real Estate

Several domestic banks, on net, reported having tightened standards for commercial real estate lending, while the foreign respondents reported no changes in such standards. The domestic responses indicated little net change in the demand for commercial real estate loans, although a few more of the foreign respondents reported a pickup than reported a decline.

#### Lending to Households

Standards for approving residential mortgage applications were little changed, on net, in the May survey. Demand for such loans had increased at a significant share of respondents, however, likely reflecting the strength in the housing market.

On balance, about 20 percent of the respondents indicated that they had tightened standards for approving new credit card applications. A smaller share, about 10 percent, had tightened standards for non-credit-card installment loans. These shares are a little smaller than those reported in the January survey. As in January, however, consumer loan terms were little changed, on balance. In the May survey a few banks reported having tightened credit limits on credit card accounts and maximum maturities on non-credit-card installment loans, but a few also cut spreads over market rates on non-credit-card loans. On net, the banks' willingness to make consumer installment loans was unchanged in the latest survey, the first time since 1991 that the respondents did not report a net increase in willingness to make such loans. Nonetheless, following several years of efforts to boost consumer lending, banks' consumer lending policies likely remain accommodative.

The respondents reported a small net increase in demand for consumer installment loans in the last three months relative to the previous three months. This increase follows a small net decline in the January survey.

The tightening of lending standards for consumer loans may reflect, in part, a response to the rise in delinquency rates on such loans in recent quarters. The responses to special questions on the May survey dealing with consumer loan delinquencies indicate that more than a quarter of the respondents, on net, were surprised

by the size of the increase in delinquency rates. By contrast, last November, when a similar question was included in the survey, only about 10 percent of the respondents, on net, indicated that the rise in delinquency rates had been worse than expected. About half of the respondents on the May survey expected a further increase in delinquencies over the coming year, while only a sixth expected a decrease. The banks attributed their concern about future delinquency rates to increased household debt burdens and a greater willingness of households to declare bankruptcy.

A final special question asked for the reasons for the recent increase in the pace of consumer loan securitizations. The respondents attributed the rise to a higher level of demand for consumer loans than their bank was willing to hold on its books and to their bank's improved ability to do securitizations. To a lesser degree, the banks also attributed the rise to the capital markets becoming more receptive to securities backed by consumer loans and to the increased cost of funding consumer loans on their bank's balance sheet.

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# **INTERNATIONAL DEVELOPMENTS**

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INTERNATIONAL DEVELOPMENTS

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U.S. International Trade in Goods and Services

For January-February combined, the U.S. international trade deficit in goods and services widened considerably, nearly reversing the gains made in the fourth quarter of 1995. Imports rose by more than 2 percent, while exports were about flat. Data for March are scheduled to be released on May 17 and will be included in the Greenbook supplement.

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

	1995	Annual rates			Monthly rates		
		1995		1996	1995		1996
		Q3	Q4	Q1e/	Dec	Jan	Feb
<u>Real NIPA 1/</u>							
Net exports of G&S	-114.2	-114.3	-96.6	-111.0	...	...	...
<u>Nominal BOP</u>							
Net exports of G&S	-111.5	-109.2	-87.8	-108.4	-7.0	-9.9	-8.2
Goods, net	-174.6	-173.3	-152.5	-173.2	-12.3	-15.1	-13.8
Services, net	63.1	64.1	64.7	64.7	5.3	5.2	5.6

1. In billions of chained (1992) dollars.

e. BOP data are two months at an annual rate.

Source. U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census.

The level of exports of goods and services in January-February was about the same as in the fourth quarter of 1995. Sizeable increases in exports of services, computers, agricultural products (mostly grains), and automotive products (other than to Mexico) were about offset by declines in exports of industrial supplies and machinery.

In January-February, imports grew by more than 2 percent, after declining 1 percent in the previous quarter. Imports of automotive products and consumer goods rebounded in the first two months of the year from depressed levels in the second half of last year. Imports of non-oil industrial supplies and capital goods (other than computers and semiconductors) posted modest gains in January-February after slumping last year.

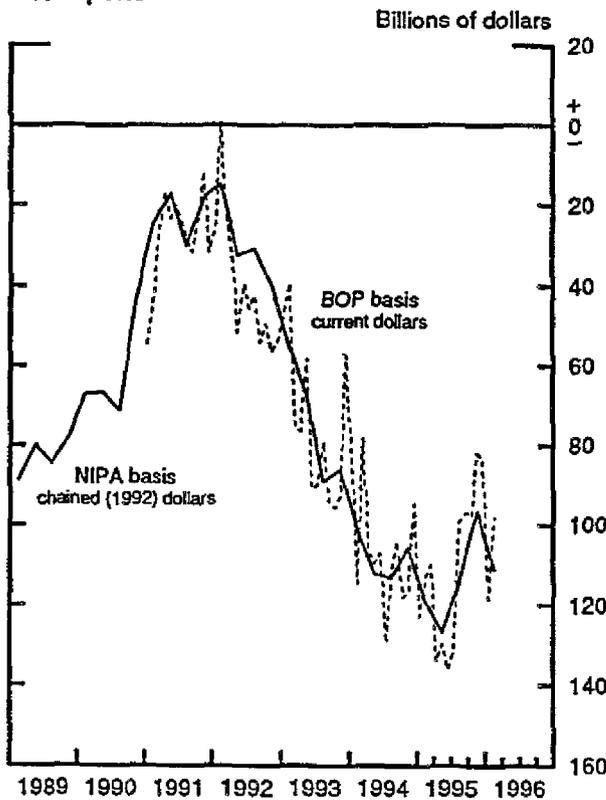
Oil Imports

The quantity of imported oil in the first quarter is estimated to have been about the same as the fourth-quarter level, as a strong increase in oil consumption was offset by a larger-than-normal seasonal drawdown in oil inventories. Preliminary Department of

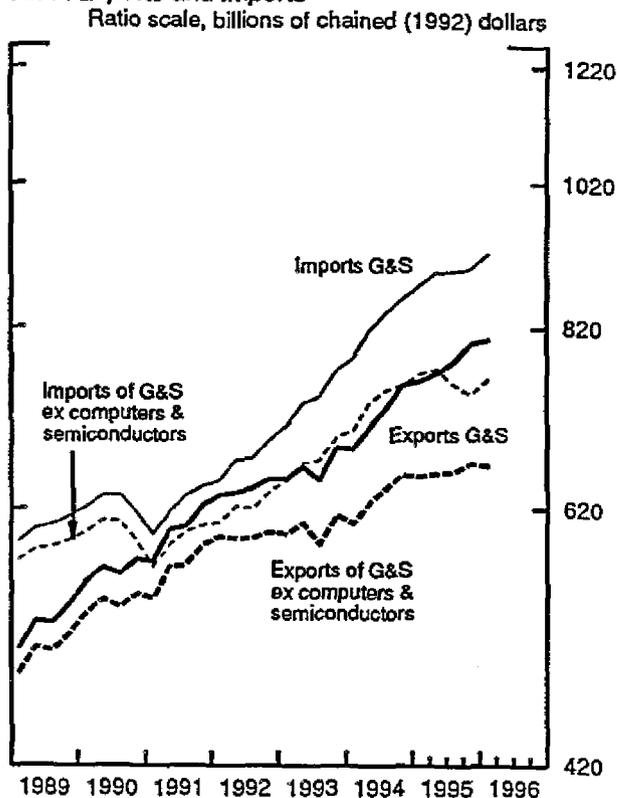
# U.S. International Trade in Goods and Services

(Seasonally adjusted annual rate)

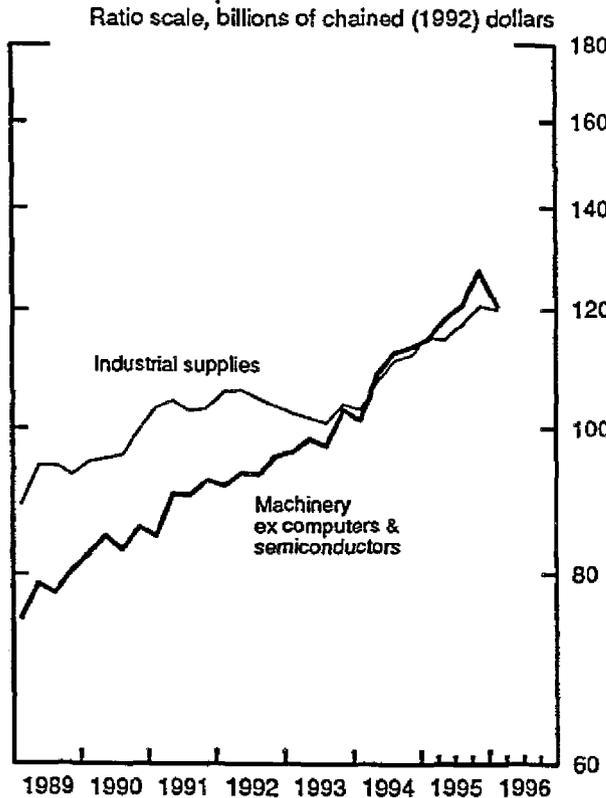
Net Exports



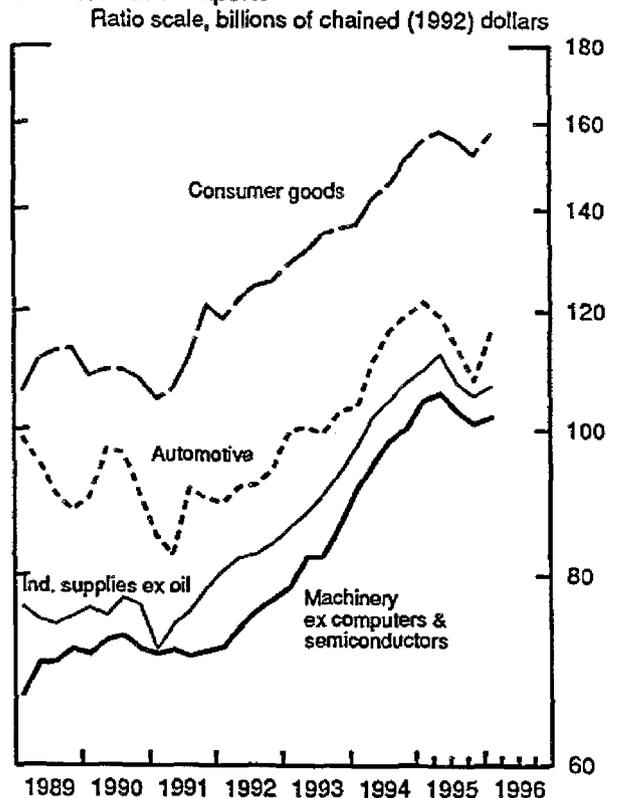
NIPA Exports and imports



Selected NIPA Exports



Selected NIPA Imports



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

	Levels				Amount Change 1/			
	1995	1996	1996		1995	1996	1996	
	Q4	Q1e/	Jan	Feb	Q4	Q1e/	Jan	Feb
<u>Exports of G&amp;S</u>	808.6	809.3	801.5	817.2	17.4	0.7	-15.8	15.6
Goods exports	595.4	592.4	588.1	596.7	15.2	-3.0	-16.6	8.5
Agricultural	60.8	63.4	64.9	62.0	2.1	2.6	3.1	-2.9
Gold	3.7	3.8	3.4	4.3	0.4	0.1	0.6	0.9
Computers	43.7	46.1	46.1	46.2	2.3	2.5	2.3	0.0
Other goods	487.2	479.0	473.7	484.3	10.4	-8.2	-22.7	10.6
Aircraft & pts	24.9	25.3	20.8	29.8	1.3	0.4	-7.3	9.0
Semiconductors	38.0	36.6	38.4	34.8	2.4	-1.4	0.7	-3.6
Other cap gds	142.7	135.9	134.5	137.4	8.3	-6.8	-10.7	2.8
Automotive	59.8	64.4	64.8	64.0	-0.9	4.6	1.0	-0.8
to Canada	33.7	35.6	35.6	35.5	1.6	1.9	-0.3	-0.1
to Mexico	7.0	7.1	6.8	7.4	0.3	0.1	0.1	0.5
to ROW	19.2	21.7	22.3	21.1	-2.7	2.6	1.2	-1.2
Ind supplies	130.4	127.0	127.3	126.7	-2.5	-3.4	-3.6	-0.6
Consumer goods	65.8	67.2	65.5	68.9	1.1	1.4	-1.1	3.4
All other	25.4	22.5	22.3	22.7	0.8	-2.9	-5.1	0.4
Services exports	213.3	216.9	213.4	220.5	2.2	3.7	0.9	7.1
<u>Imports of G&amp;S</u>	896.5	917.8	920.1	915.5	-4.0	21.3	19.2	-4.6
Goods imports	747.9	765.6	769.0	762.1	-5.7	17.7	16.6	-6.9
Petroleum	53.6	57.0	61.4	52.7	-2.6	3.4	6.4	-8.7
Gold	3.4	3.2	2.8	3.5	0.9	-0.2	0.6	0.7
Computers	62.6	62.6	61.9	63.3	3.7	0.0	-1.3	1.3
Other goods	628.2	642.7	642.9	642.6	-7.7	14.5	10.8	-0.3
Aircraft & pts	10.6	10.4	10.2	10.6	0.2	-0.2	0.9	0.4
Semiconductors	45.4	41.3	42.3	40.4	3.4	-4.1	-3.9	-1.9
Other cap gds	114.8	115.7	116.3	115.0	-2.1	0.9	2.4	-1.3
Automotive	117.3	129.2	129.3	129.0	-5.8	11.8	5.5	-0.3
from Canada	45.5	50.0	49.5	50.5	1.8	4.5	2.8	0.9
from Mexico	21.1	23.2	23.4	23.0	2.9	2.1	4.4	-0.4
from ROW	50.8	56.0	56.4	55.6	-10.4	5.2	-1.7	-0.8
Ind supplies	121.0	122.4	122.9	121.8	-1.9	1.4	3.0	-1.1
Consumer goods	157.4	163.4	161.9	164.9	-3.8	6.0	4.2	3.0
Foods	32.9	33.5	33.5	33.5	-0.2	0.5	0.8	-0.0
All other	28.7	26.9	26.5	27.3	2.5	-1.9	-2.0	0.8
Services imports	148.6	152.2	151.0	153.4	1.7	3.6	2.7	2.4
Memo:								
Oil qty (mb/d)	9.16	9.09	9.71	8.46	-0.45	-0.08	0.60	-1.26
Oil price (\$/bbl)	16.02	17.18	17.30	17.06	0.02	1.16	0.79	-0.24

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

Energy statistics indicate that April imports are likely to have increased due to a buildup in oil inventories.

The price of imported oil increased substantially in the first quarter, owing mostly to a hefty jump in the March import price--the largest monthly increase since May 1994. Spot WTI rose more than \$2.00 per barrel in April, averaging \$23.57 per barrel. Prices have fallen back somewhat and are trading near \$21.00 per barrel. Prices have been kept firm this year because of unusually cold weather in North America and Japan, weather-related production disruptions in the North Sea and Australia, and several disruptions in refinery production. Prices have also been unusually volatile because inventories are reportedly at very low levels--on April 15, the spot WTI jumped to more than \$25 per barrel in intraday trading. Refiners have been reluctant to build inventories because of concerns that future oil prices could decline sharply 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 Non-oil Imports and Exports

Prices of U.S. non-oil imports decreased 1 percent in the first quarter of 1996, following a similar decline in the fourth quarter of 1995. The largest declines were in the prices of imported computers, while food prices also posted sharp declines, owing mostly to a drop in beverage prices.

Prices of exports increased modestly in the first quarter, with sharp increases in agricultural export prices (primarily grain prices) more than accounting for the increase; agricultural export prices have risen substantially since early 1995 in response to robust world demand, disappointing harvests abroad last year, and poor prospects for U.S. harvests in 1996. Prices of non-agricultural exports continued to fall, reflecting continued declines in prices of industrial supplies and computers.

#### U.S. International Financial Transactions

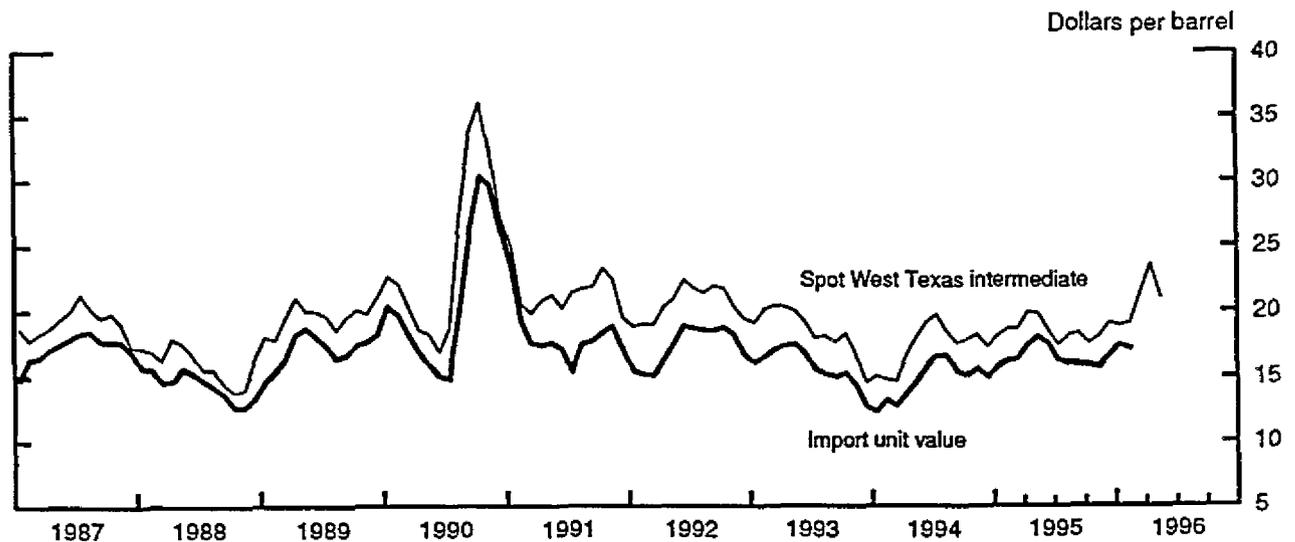
At almost \$52 billion, the first-quarter accumulation of foreign official reserve assets in the United States was almost half of the record total in 1995. (See line 1 of the Summary of U.S. International Transactions table.) The large increase was divided almost equally between the G-10 and other, non-OPEC countries, with

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

	Annual rates			Monthly rates		
	1995		1996	1996		
	Q3	Q4	Q1	Jan	Feb	Mar
	-----BLS prices (1990=100)-----					
<u>Merchandise imports</u>	-1.7	-1.1	2.4	0.2	-0.1	0.5
Oil	-29.7	0.4	45.1	4.7	-1.1	7.1
Non-oil	1.8	-1.1	-1.1	-0.3	0.1	-0.4
Foods, feeds, bev.	0.8	-7.4	-4.5	-2.3	2.9	-1.2
Ind supp ex oil	5.5	0.2	-3.1	-0.4	-0.4	-0.1
Computers	-1.9	-7.5	-7.6	-0.4	-0.7	-2.0
Capital goods ex comp	0.1	-2.5	-0.1	0.0	-0.2	-0.3
Automotive products	1.6	1.6	-0.9	-0.3	0.1	-0.1
Consumer goods	1.2	-0.0	1.6	0.0	0.1	-0.1
<u>Merchandise exports</u>	1.0	0.0	0.5	0.4	-0.3	-0.1
Agricultural	21.7	23.0	13.7	1.7	-0.2	1.3
Nonagricultural	-1.5	-2.7	-1.2	0.2	-0.3	-0.3
Ind supp ex ag	-6.8	-11.0	-3.9	0.4	-1.1	-0.9
Computers	-6.9	-7.4	-9.4	-1.9	-0.3	-0.4
Capital goods ex comp	2.3	1.8	1.9	0.4	0.1	0.0
Automotive products	0.9	5.0	-0.1	0.0	0.0	-0.1
Consumer goods	0.7	0.4	2.1	0.4	0.2	0.1
	---Prices in the NIPA accounts (1992=100)---					
<u>Fixed-weight</u>						
Imports of gds & serv.	-2.3	-1.5	0.4	...	...	...
Non-oil merchandise	-1.2	-1.5	-0.4	...	...	...
Exports of gds & serv.	0.8	-0.8	0.4	...	...	...
Nonag merchandise	-1.2	-3.5	-2.0	...	...	...

5-15-96

### Oil Prices



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

	1994	1995	1995			1996		
			Q2	Q3	Q4	Q1	Feb	Mar
<u>Official capital</u>								
1. Change in foreign official reserve assets in U.S. (increase, +)	38.0	109.6	37.0	39.5	10.6	51.8	25.7	12.2
a. G-10 countries	28.9	32.9	14.3	5.6	-3.8	28.7	14.2	10.9
b. OPEC countries	-3.3	4.3	-.2	6.2	-2.1	-1.0	.1	.9
c. All other countries	12.4	72.3	22.8	27.6	16.5	24.1	11.3	.4
2. Change in U.S. official reserve assets (decrease, +)	5.3	-9.7	-2.7	-1.9	.2	*	-.6	-.6
<u>Private capital</u>								
Banks								
3. Change in net foreign positions of banking offices in the U.S. <sup>1</sup>	102.6	-30.4	-23.3	-7.1	9.5	-25.3	-9.5	-15.1
Securities <sup>2</sup>								
4. Foreign net purchases of U.S. securities (+)	92.8	190.9	51.3	69.6	23.3	47.8	19.4	15.3
a. Treasury securities <sup>3</sup>	34.6	99.9	30.5	37.3	2.1	11.9	9.4	.3
b. Corporate and other bonds <sup>4</sup>	53.9	82.1	18.5	27.0	17.3	32.1	8.8	14.2
c. Corporate stocks	4.3	8.1	2.4	5.3	3.9	3.9	1.1	.8
5. U.S. net purchases (-) of foreign securities	-57.3	-97.9	-22.8	-35.4	-32.1	-33.6	-6.8	-15.9
a. Bonds	-9.2	-47.2	-12.5	-13.3	-17.7	-11.3	-1.3	-5.6
b. Stocks	-48.1	-50.8	-10.2	-22.1	-14.3	-22.2	-5.5	-10.3
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-49.4	-96.9	-17.2	-16.2	-40.9	n.a	n.a	n.a
7. Foreign direct investment in U.S.	49.4	74.7	12.9	23.7	20.9	n.a	n.a	n.a
8. Other (inflow, +) <sup>5</sup>	-15.9	6.8	-11.3	16.9	22.4	n.a	n.a	n.a
<u>U.S. current account balance (s.a.)</u>	-151.2	-152.9	-43.1	-40.3	-31.1	n.a	n.a	n.a
<u>Statistical discrepancy (s.a.)</u>	-14.3	6.6	19.2	-48.8	17.2	n.a	n.a	n.a

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

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

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

3. Includes Treasury bills.

4. Includes U.S. government 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.

most of the G-10 change associated with exchange market intervention. Countries outside the G-10 showing significant increases in the first quarter were Spain, Brazil, Singapore and Thailand. Information on foreign official holdings at the FRBNY suggest that changes in April were small for the G-10 countries, but continued to be sizable for Spain.

Foreign net purchases of U.S. securities (line 4) and U.S. net purchases of foreign securities (line 5) continued in the first quarter at or above 1995's high rates. Although private net purchases of U.S. Treasury securities were small (line 4a), there were large increases in the holdings of U.S. agency bonds (\$14 billion, included in line 4b). New Eurobond issues continued to be an important component of line 4b in the first quarter, with approximately a third of these issues denominated in foreign currencies. In April, new Eurobond issues declined somewhat from the very strong first quarter pace and the foreign currency percentage rose to 45 percent of the total volume.

U.S. net purchases of both foreign stocks and bonds were strong in the first quarter, with purchases of foreign stocks especially heavy (lines 5a and 5b). Almost \$12 billion of net stock purchases were from Asian residents, with \$8 billion from Japan. Aside from \$1 billion of net bond purchases from Mexico, there were only minimal changes in U.S. holdings in Latin America (outside the Caribbean).

Banks showed substantial net capital outflows in the first quarter on an end-of-month basis (line 3). Monthly average data, however, showed little change in the net claims of U.S. banks on their own foreign offices and IBFs in the first quarter, and a modest net outflow in April (line 1 of the International Banking Data table).

1  
INTERNATIONAL BANKING DATA  
(Billions of dollars)

	1992	1993	1994	1995		1996		
	Dec.	Dec.	Dec.	Sep.	Dec.	Feb.	Mar.	Apr.
1. Net claims of U.S. banking offices (excluding IBFs) on own foreign offices and IBFs	-71.6	-122.1	-224.0	-244.3	-260.0	-272.1	-260.1	-253.5
a. U.S.-chartered banks	17.0	4.2	-70.1	-86.1	-86.1	-88.1	-84.1	-82.2
b. Foreign-chartered banks	-88.6	-126.3	-153.9	-158.2	-173.9	-184.0	-176.0	-171.3
2. Credit extended to U.S. nonbank residents								
a. By foreign branches of U.S. banks	24.8	21.8	23.1	25.7	26.5	27.8	27.3	27.4
b. By Caribbean offices of foreign-chartered banks	n.a.	90.9	78.4	86.3	86.3	n.a.	n.a.	n.a.
3. Eurodollar holdings of U.S. nonbank residents								
a. At all U.S.-chartered banks and foreign-chartered banks in Canada and the United Kingdom	90.0	77.8	85.6	94.6	91.2	94.9	95.7	96
b. At the Caribbean offices of foreign-chartered banks	n.a.	79.2	86.0	89.9	92.3	n.a.	n.a.	n.a.
MEMO: Data as recorded in the U.S. international transactions accounts								
4. Credit extended to U.S. nonbank residents	188	195	190	215	n.a.	n.a.	n.a.	n.a.
5. Eurodeposits of U.S. nonbank residents	236	231	262	279	n.a.	n.a.	n.a.	n.a.

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

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

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

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

Lines 4 and 5 are end-of-period data estimated by BEA on the basis of data provided by the BIS, the Bank of England, and the FR 2502 and FFIEC 002s. It includes some foreign-currency denominated deposits and loans. Source: SCB

Foreign Exchange Markets

The weighted-average value of the dollar in terms of the other G-10 currencies has risen 2 percent since the March 26 FOMC meeting. The dollar strengthened 4 percent against the mark, and by lesser amounts against most other European currencies. Against the yen, the dollar appreciated 1/4 percent on balance.

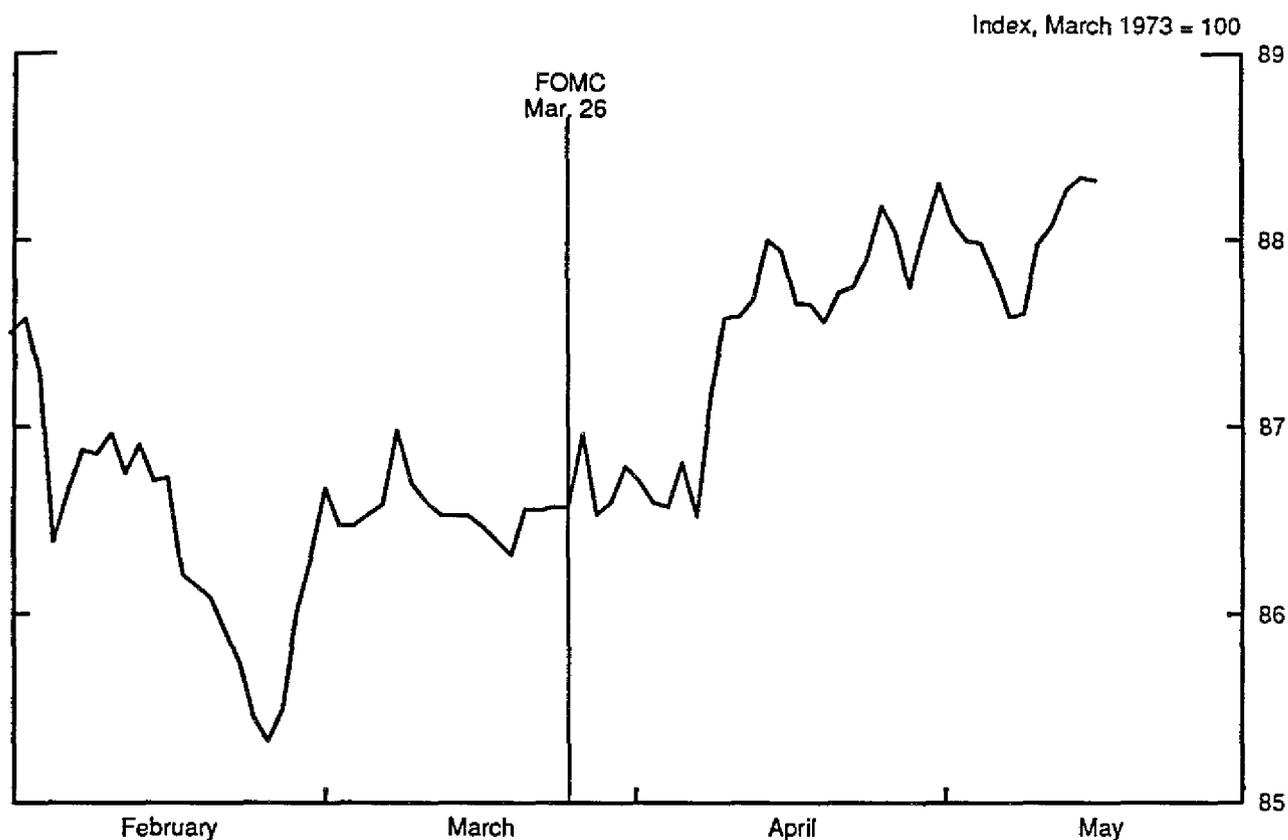
The dollar strengthened against the mark amid signs of renewed economic strength in the United States that may have been seen by some market participants as increasing the likelihood of tighter U.S. monetary policy in the near term. In contrast, continued weak growth in Germany heightened market expectations of further German monetary easing. The Bundesbank reinforced these expectations by reducing its official rates by 1/2 percentage point on April 18. However, it refrained from reducing its repo rate which remained fixed at 3.30 percent, the rate that has prevailed since February 7. In addition, statements in April by various Bundesbank officials, who said that they would not be displeased if the mark weakened further, were seen as supporting the dollar against the mark.

The dollar declined against the yen in April against the backdrop of strengthening economic activity in Japan and market commentary that Japanese monetary authorities would tighten monetary policy in the near-term. However, the dollar rebounded against the yen in mid-May following statements by Japanese officials that Japanese monetary policy would need to remain accommodative to insure that the fledgling economic recovery in Japan becomes self-sustaining.

In most G-10 countries, 3-month interest rates declined or changed little over the intermeeting period. In Italy, short-term interest rates fell significantly as lira strength, which followed in the wake of the center-left victory in the general elections on April 21, allowed the Bank of Italy to guide short-term market rates lower. Short-term interest rates declined in Canada, France, the Netherlands, and Sweden following reductions in policy rates in those countries. In Japan, 3-month interest rates were essentially unchanged as Japanese monetary authorities remained accommodative in their money market operations. The Japanese call-money rate

## Weighted Average Exchange Value of the Dollar

(Daily data)



## Interest Rates in Major Industrial Countries

	Three-month rates			Ten-year bond yields		
	Mar. 26	May 16	Change	Mar. 26	May 16	Change
Germany	3.25	3.18	-0.07	6.43	6.43	0.00
Japan	0.59	0.62	0.03	3.23	3.28	0.05
United Kingdom	6.00	6.13	0.13	8.13	8.05	-0.08
Canada	5.12	4.80	-0.32	7.57	7.76	0.19
France	4.15	3.79	-0.36	6.66	6.48	-0.18
Italy	9.88	8.88	-1.00	10.80	9.79	-1.01
Belgium	3.26	3.18	-0.08	6.82	6.68	-0.14
Netherlands	3.10	2.53	-0.57	6.44	6.32	-0.12
Switzerland	1.75	1.88	0.13	4.06	4.04	-0.02
Sweden	6.62	6.10	-0.52	8.44	8.38	-0.06
Weighted-average foreign	4.15	3.92	-0.23	6.73	6.61	-0.12
United States	5.32	5.36	0.04	6.25	6.71	0.46

Note. Change is in percentage points.

continued to trade at 1/2 percent, the rate that has prevailed since September when the Bank of Japan reduced its discount rate to 1/2 percent.

Long-term interest rates were little changed in most European countries, where economic growth remained anemic. The yield on the 10-year government bellwether bond in Italy dropped 1 percentage point due largely to diminished political uncertainty following the general elections. Long-term Canadian interest rates rose, though by less than U.S. long-term rates, as economic prospects in Canada appeared to have brightened.

Since the March 26 FOMC meeting, the Mexican peso has appreciated 1-1/2 percent against the dollar as inflationary fears in Mexico have receded. On May 1, Mexican authorities placed \$1.75 billion of a 30-year global bond that was exchanged for a face value of \$2.4 billion of Brady bonds that would have expired in 23 years. At the time of issue, the yield spread of the global bond over the 30-year U.S. Treasury bond was 5-1/2 percentage points. (On a stripped basis, the Brady bonds yielded 6 percentage points more than comparable U.S. Treasury securities.) By retiring the Brady bonds, the Mexican government obtained access to collateral valued at more than \$500 million.

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

#### Developments in Foreign Industrial Countries

The pace of economic activity in continental Europe remains generally weak, with Germany sluggish after probably having contracted further in the first quarter, Italy stagnant, and France showing signs of only modest recovery from a fourth-quarter decline. The United Kingdom and Canada appear to be extending modest rates of expansion, and recent data for Japan suggest a continuation of growth somewhat in excess of the potential rate.

Inflationary pressures remain subdued. Recent consumer price inflation has averaged close to 2 percent or less in Germany, France, and Canada, and just under 3 percent in the United Kingdom. Italian inflation is higher but has slowed considerably since January. In Japan, prices rose slightly after falling for more than a year.

Individual country notes. Available indicators in Japan for the first quarter, including industrial production, machinery orders, and housing starts, point to further economic recovery. After reaching a postwar high of 3.4 percent in January, the unemployment rate declined to 3.1 percent in March.

Following more than a year of deflation, both wholesale prices and the CPI for the Tokyo area moved up in April from their levels 12 months earlier. This increase was entirely due to the effect of yen depreciation on import prices, as wholesale prices of domestically produced goods fell 1.0 percent in the 12 months through April. The Japan Real Estate Institute announced that land prices in six major urban areas declined a further 5.4 percent in the six months through March. This was the ninth consecutive six-month decline in land prices. Land prices have fallen about 50 percent since their peak in 1991.

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

	1995		1996				
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Industrial Production	-2.3	2.3	1.3	0.0	2.6	-4.3	n.a.
Housing Starts	-1.2	11.5	1.6	2.8	-8.3	4.7	n.a.
Machinery Orders	0.7	5.9	5.9	5.7	1.2	-8.6	n.a.
New Car Registrations	5.1	2.4	0.2	3.2	1.6	-7.7	-2.9
Unemployment Rate (%)	3.2	3.3	3.3	3.4	3.3	3.1	n.a.
Job Offers Ratio <sup>1</sup>	0.61	0.63	0.67	0.67	0.67	0.67	n.a.
Business Sentiment <sup>2</sup>	-18	-14	-12	...	...	...	...
CPI (Tokyo area) <sup>3</sup>	-0.2	-0.8	-0.3	-0.5	-0.3	-0.1	0.3
Wholesale Prices <sup>3</sup>	-0.9	-0.1	0.0	-0.2	-0.1	0.4	1.3

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.

The merchandise trade surplus declined to a five-year low of \$66 billion (SAAR) in the first quarter, down from \$90 billion in the previous quarter and \$107 billion for 1995 as a whole. The current account surplus was \$62 billion (SAAR) in the first quarter, down from \$94 billion in the previous quarter and \$111 billion for 1995 as a whole.

On May 10, the Diet formally approved the budget for the fiscal year that began on April 1. Central government expenditures are projected to be nearly 8 percent lower than the final outcome for FY1995. (Published reports have focused on a measure of spending that includes redemptions of national bonds, which implies expenditures that are only 4 percent lower than the final total for FY1995.)

It appears likely that real activity in Germany contracted in the first quarter. The unemployment rate (SA) rose sharply to average 10.3 percent, and remained at that level in April. Although industrial production experienced a modest rise in March, it was still below its level in January and at any time in 1995. The six German research institutes and the Council of Economic Experts (the "Five Wise Men") lowered earlier projections for real growth this year to a range of 1/2 to 3/4 percent, about in line with the government's revised official assessment. Despite the downward revisions, forecasts continue to project a pick-up in real economic activity in the near term. A jump in output is expected in the second quarter, as construction and other weather-sensitive sectors experience a rebound after the unseasonably cold winter.

On April 26, Chancellor Kohl presented a package of budget measures designed to reduce spending in 1997 by DM 70 billion (\$47 billion), divided about equally among cuts at the federal level, at the state and local level, and in the social security system. The budget's proposed two-year wage freeze for public sector workers and reduction in paid sick leave has prompted the union of public sector workers to threaten strike action and warning strikes have erupted. The announcement of the program also has provoked strong opposition from the Social Democrats, who still hold a majority of the seats in the upper house of the federal parliament and must ratify any measures that affect the states.

The outcome of state parliamentary elections on March 24 in three German states was generally favorable to Chancellor Kohl's ruling coalition and unfavorable to the opposition Social Democrats

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

	1995		1996				
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Industrial Production	-0.5	-1.5	-1.1	0.3	-2.8	2.1	n.a.
Orders	-0.6	-3.0	-0.7	0.1	-1.3	1.2	n.a.
Unemployment Rate (%)	9.4	9.7	10.3	10.1	10.3	10.4	10.3
Western Germany	8.4	8.5	8.9	8.7	8.9	9.0	8.9
Eastern Germany	14.0	14.7	16.2	15.7	16.4	16.4	15.8
Capacity Utilization <sup>1</sup>	85.3	84.4	83.0	...	...	...	...
Business Climate <sup>1,2</sup>	-4.3	-10.3	-15.3	-13.0	-14.0	-19.0	n.a.
Retail Sales <sup>3</sup>	-2.7	-2.3	-2.0	-1.0	0.0	-3.0	n.a.
Consumer Prices <sup>1,3</sup>	1.7	1.5	1.4	1.4	1.4	1.4	1.3

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.

(SPD). A strengthening in support for the Free Democratic Party was coupled with a loss of support for the SPD, weakening the SPD majority in the upper house of federal parliament.

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

	1995		1996				
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Industrial Production	0.1	-1.8	n.a.	0.2	0.2	n.a.	n.a.
Capacity Utilization	84.2	83.6	83.3	...	...	...	...
Unemployment Rate (%)	11.5	11.6	11.8	11.8	11.8	11.9	n.a.
Consumption of Manufactured Products	-1.0	-2.0	4.9	4.8	-0.5	-1.2	n.a.
Consumer Prices <sup>1</sup>	1.8	1.9	2.1	2.0	2.0	2.3	2.4

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

In France, monthly indicators suggest that economic activity grew only moderately in the first quarter after factoring in some bounceback in production following the public sector strikes late last year. Industrial production rose in January and February, but not enough to keep the unemployment rate from rising further in the

first quarter. First-quarter business confidence surveys suggest that output was weak amid continued inventory correction, although confidence about future output has begun to strengthen. Real consumption of manufactured products in February and March fell back from the sharp rise of January that in part reflected a strike-rebound effect. Consumer confidence dipped in April after remaining unchanged throughout the first quarter at a very low level. Consumer price inflation accelerated slightly in March and April largely due to higher food and energy prices and a pick-up in the prices of manufactured products.

In the United Kingdom, preliminary data show that real GDP rose 1.6 percent (SAAR) in the first quarter. Available data on activity to date in 1996 are mixed. Industrial output picked up in February and March, reversing January's decline. However, according to the April Purchasing Managers' Survey, indexes for manufacturing output and new orders continued to decline. Interest-sensitive sectors are showing more positive signs. The same April survey showed robust growth in the consumer durable manufacturing sector. The housing market also appears to be strengthening as mortgage approvals in the first quarter were the highest since early 1991.

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

	1995		1996				
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Real GDP	1.8	2.1	1.6	...	...	...	...
Non-oil GDP	1.5	2.0	1.6	...	...	...	...
Industrial Production	0.7	-0.2	0.3	-0.5	0.4	0.3	n.a.
Retail Sales	0.1	0.7	0.4	-0.7	0.8	0.2	n.a.
Unemployment Rate (%)	8.2	8.0	7.9	7.9	7.9	7.8	7.8
Consumer Prices <sup>1</sup>	2.9	2.9	2.9	2.8	2.9	2.9	2.9
Producer Input Prices <sup>2</sup>	9.5	6.4	2.8	3.2	2.5	2.8	3.1
Average Earnings <sup>2</sup>	3.3	3.3	3.7	3.5	3.8	3.8	n.a.

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

2. Percent change from previous year.

Targeted inflation, measured as the change from a year earlier in retail prices excluding mortgage interest payments, has been little changed through April from the fourth-quarter average of 2.9 percent. April producer input prices edged up due to a rise in oil and food prices.

Newly revised and rebased GDP data for Italy show that business fixed investment expanded 7.7 percent last year and contributed more to GDP growth than had been indicated in earlier statistics. The new data also show that GDP growth for the year as a whole was about 2.3 percent (Q4/Q4), but GDP declined 3.6 percent (SAAR) in the fourth quarter largely due to a sharp drop in exports and reduced government expenditure. The slow performance at the end of last year appears to have continued into the first quarter. Following a sharp drop in January, industrial production declined again in February.

On balance, news on Italian inflation has been encouraging. The 12-month CPI inflation rate declined in three successive months before plateauing in April. Inflation in both wholesale prices and producer prices slowed in February, and the 12-month rate of increase of wages in January declined to 4 percent, down about 1/2 percentage point from the increase recorded in December.

The victory of the center-left "Olive Tree" coalition in general elections on April 21 put the left in power for the first time in fifty years. Because the election resulted in only a plurality (albeit a strong one) in both parliamentary houses, the coalition is likely to need support from the hard-core Communist Refoundation party, with which it had an election alliance. Romano Prodi, a Bologna economics professor, is expected to be confirmed as prime minister-designate by the end of May. Following the election, Prodi declared that one of his first priorities is to put the Italian lira back into the ERM. Prodi also has indicated that he has plans for more rigorous budget cuts.

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

	1995		1994		1995	
	Q4/Q4	Q4	Q1	Q2	Q3	Q4
GDP	2.3	-0.1	5.6	-0.2	7.6	-3.6
Private Consumption	1.3	1.3	1.7	2.4	1.4	-0.4
Investment	7.7	-0.4	12.2	10.5	1.0	7.2
Government Consumption	-0.9	-0.3	-0.6	-0.6	-0.2	-2.0
Exports	6.2	7.3	21.1	17.7	-2.3	-8.8
Imports	6.1	15.5	4.7	11.9	8.0	0.8
Total Domestic Demand	2.1	1.3	1.9	-1.9	10.4	-1.4
Net Exports (contribution)	0.2	-1.3	3.7	1.7	-2.3	-2.3
Inv. Change (contribution)	0.1	0.6	-1.1	-14.9	98.9	-2.1

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

	1995		1996				
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Industrial Production	3.0	-0.9	n.a.	-4.8	-1.7	n.a.	n.a.
Cap. Utilization (%)	77.5	78.5	n.a.	...	...	...	...
Unemployment Rate (%)	12.1	11.9	12.0	...	...	...	...
Consumer Confidence <sup>1</sup>	116.1	110.0	107.7	109.7	107.2	106.1	108.8
Bus. Sentiment <sup>2</sup> (%)	17.3	11.3	n.a.	21.0	16.0	n.a.	n.a.
Consumer Prices <sup>3</sup>	5.8	5.9	5.0	5.6	5.0	4.5	4.5
Wholesale Prices <sup>3</sup>	11.3	10.5	n.a.	9.4	8.2	n.a.	n.a.

1. Level of index, NSA.

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

3. Percent change from previous year.

In Canada, economic activity appears to have expanded at a moderate pace in the first quarter. Most indicators increased in January to levels above their fourth-quarter average, but then declined in February. In March, manufacturing shipments declined further, in part reflecting the closure of Canadian motor vehicle plants affected by the GM strike. Employment growth through April has been robust, although the unemployment rate has been little changed as increased labor force participation has accompanied job gains. Consumer and business confidence picked up in the first

quarter, but both indices remain at levels well below their recent peaks. Consumer price inflation continues to be subdued and industrial product price inflation has slowed further.

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

	1995		1996				
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Industrial Production	0.3	-0.4	n.a.	1.0	-0.3	n.a.	n.a.
Manufacturing Survey:							
Shipments	1.1	-0.2	-0.8	-0.1	-1.4	-1.2	n.a.
New Orders	1.2	-0.2	-0.2	0.5	-1.6	-3.1	n.a.
Retail Sales	1.0	-0.7	n.a.	0.6	0.1	n.a.	n.a.
Employment	0.1	0.3	0.7	0.3	0.3	-0.1	0.3
Unemployment Rate (%)	9.5	9.4	9.5	9.6	9.6	9.3	9.4
Consumer Prices <sup>1</sup>	2.4	2.1	1.4	1.6	1.3	1.4	1.4
Industrial Prices <sup>1</sup>	7.7	5.8	1.7	2.6	1.9	0.6	n.a.
Consumer Attitudes <sup>2</sup>	97.9	87.9	95.4	...	...	...	...
Business Confidence <sup>3</sup>	135.1	135.3	137.6	...	...	...	...

1. Percent change from year earlier.

2. Level of index, 1991 = 100.

3. Level of index, 1977 = 100.

In its May Monetary Policy Report, the Bank of Canada noted that, although the pace of economic expansion should pick up over the remainder of 1996, it is unlikely that slack in the economy will be taken up until late in the year, and that downward pressure on inflation should persist throughout the year.

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

	1995	1995			1996			
		Q2	Q3	Q4	Q1	Jan	Feb	Mar
Japan: trade	106.6	31.5	25.5	22.5	16.6	5.0	4.6	7.0
current account <sup>1</sup>	110.5	30.8	28.5	23.5	15.5	5.6	4.1	5.7
Germany: trade <sup>2</sup>	63.6	17.3	14.9	17.8	n.a.	3.6	6.0	n.a.
current account <sup>2</sup>	-17.4	-0.9	-8.7	-5.3	n.a.	-2.4	n.a.	n.a.
France: trade	20.7	5.8	4.3	5.6	n.a.	1.6	2.0	n.a.
current account	16.7	4.7	0.6	3.0	n.a.	2.9	2.2	n.a.
U.K.: trade	-18.3	-5.3	-5.6	-4.3	n.a.	-2.2	-2.4	n.a.
current account	-10.5	-3.0	-3.4	-2.9	n.a.	...	...	...
Italy: trade	27.6	7.3	7.8	6.8	n.a.	n.a.	n.a.	n.a.
current account <sup>2</sup>	27.4	7.3	8.9	7.4	n.a.	-1.1	n.a.	n.a.
Canada: trade	20.6	4.3	5.6	6.5	n.a.	1.9	1.4	n.a.
current account	-9.5	-3.4	-1.9	-0.9	n.a.	...	...	...

1. The definition of the Japanese current account balance was revised in January 1996.

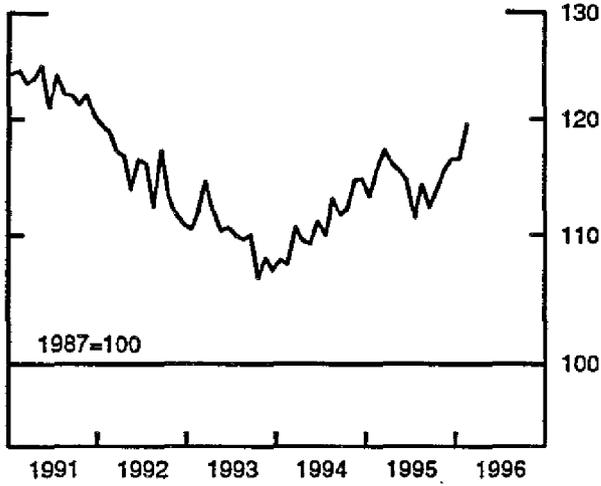
2. Not seasonally adjusted.

-- Data not available on a monthly basis.

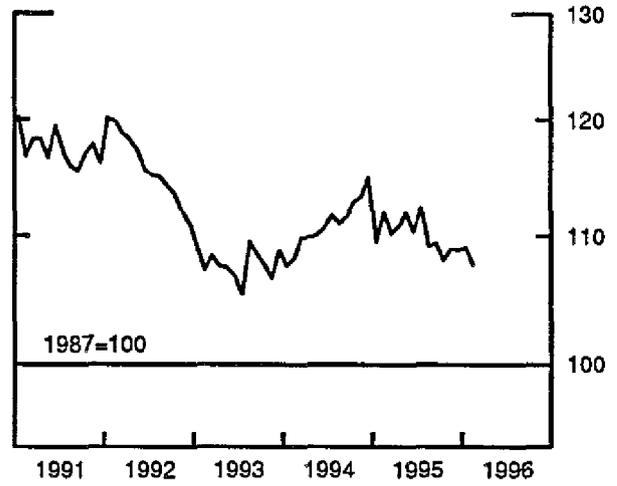
### Industrial Production in Selected Industrial Countries

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

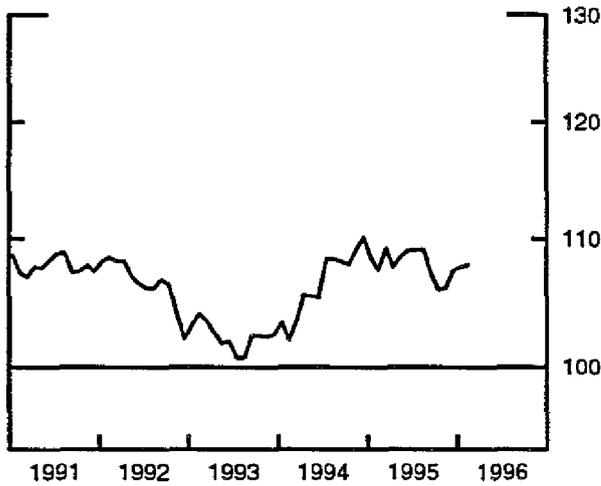
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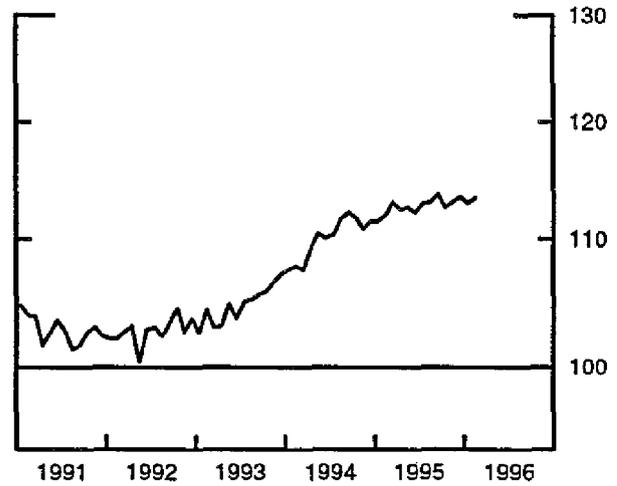
W. Germany



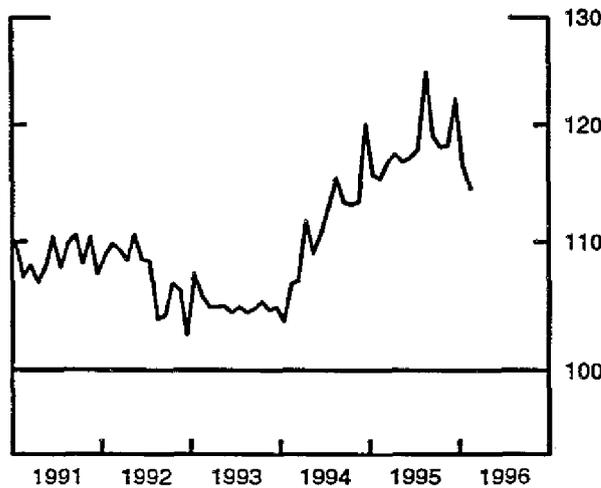
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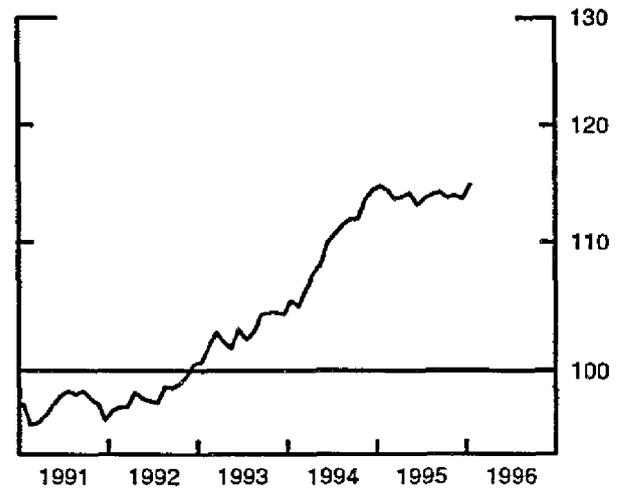
United Kingdom



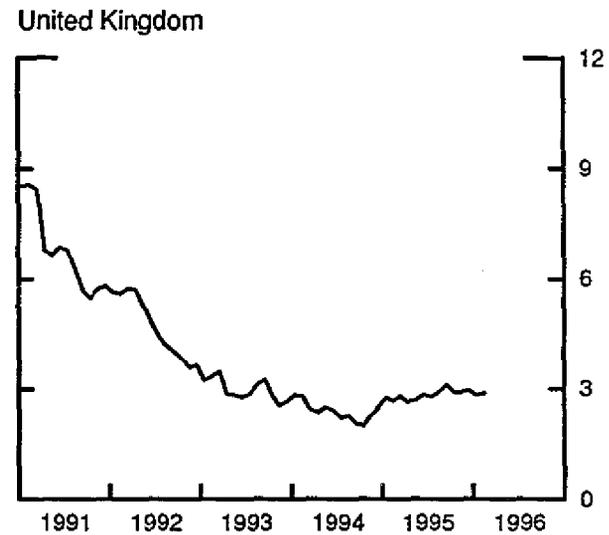
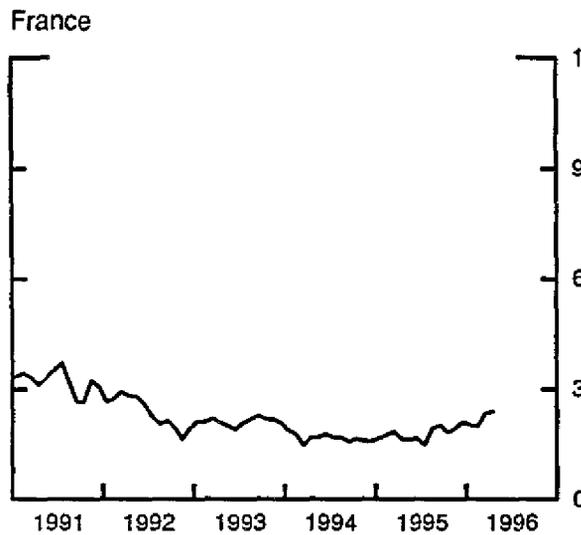
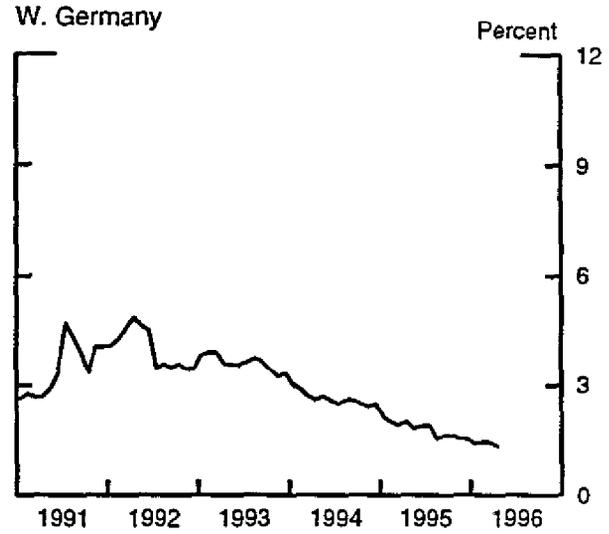
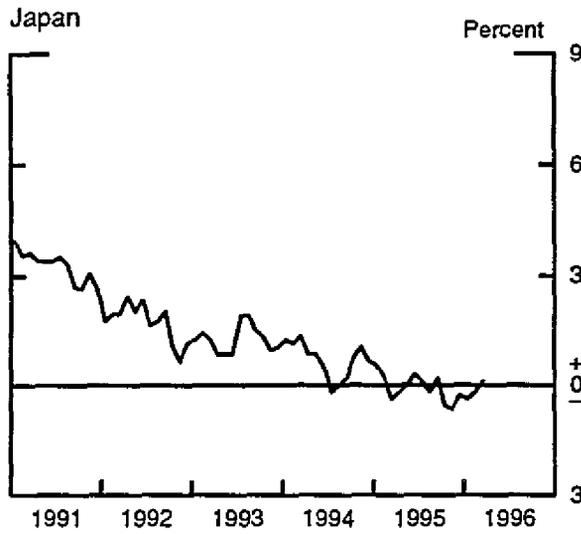
Italy



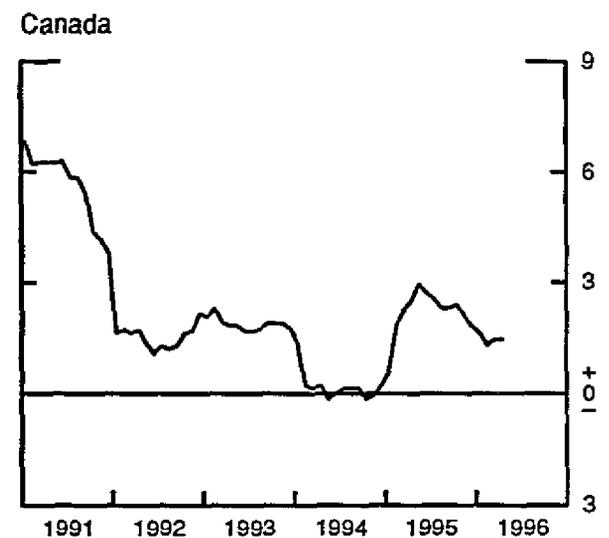
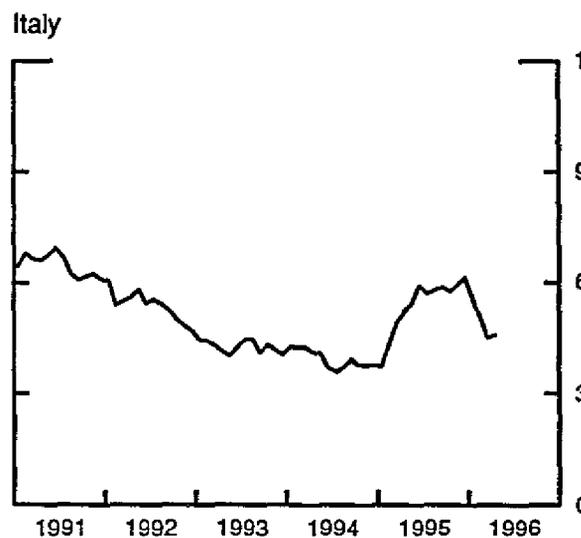
Canada



### Consumer Price Inflation in Selected Industrial Countries (12-month change)



Note: Excludes mortgage interest payments.



Economic Situation in Other Countries

Real GDP growth stagnated in the first quarter of 1996 in several major Latin American developing countries, except in Mexico. Inflation in these countries edged upward in April. Asian real GDP growth slowed a bit to more sustainable rates, and inflation remained relatively flat. In Russia, real GDP fell further, and inflation continued to decline. 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 economic activity continued to recover briskly in early 1996 following the estimated seasonally adjusted 3.7 percent jump (not at an annual rate) in real GDP in the fourth quarter of 1995. The average level of industrial production in January and February was roughly 2 percent above its year-earlier level, compared with a 7.4 percent decline for the fourth quarter. While the improvement in year-over-year growth rates in part reflected the decline in activity in early 1995, the average seasonally adjusted level of industrial output in January and February was about 6 percent above its average level in the fourth quarter of 1995. The unemployment rate remained essentially unchanged from the fourth quarter of 1995 to the first quarter of 1996, but this took place in spite of strong seasonal factors working to increase the unemployment rate. The seasonally adjusted unemployment rate is estimated to have dropped from about 6.7 percent to 6.1 percent. Finally, imports continued to advance in early 1996, also pointing to a recovery of domestic demand. Because increased imports were matched by continued export growth, the trade balance remained essentially unchanged in the first quarter of 1996 compared with the fourth quarter of 1995.

The CPI inflation rate rose to 2.8 percent in April, in large part reflecting a scheduled 12 percent rise in the minimum wage and a roughly 7 percent increase in some public sector prices. Inflation is expected to decline in the coming months as the effects of these increases on the economy wane and as downward seasonal pressures come into play.

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

	1994	1995	1995	1996	1996	
			Q4	Q1	Mar	Apr
Real GDP	3.5	-6.9	-6.6	n.a.	...	...
Industrial Production (SA)	3.9	-7.3	-7.4	n.a.	n.a.	n.a.
Unemployment Rate (%)	3.2	6.3	6.0	6.2	6.0	n.a.
Consumer Prices <sup>1</sup>	7.1	52.1	8.0	8.3	2.2	2.8
Trade Balance <sup>2</sup>	-18.5	7.4	1.7	1.8	0.7	n.a.
Imports <sup>2</sup>	79.4	72.5	19.4	19.9	6.8	n.a.
Exports <sup>2</sup>	60.8	79.9	21.0	21.8	7.5	n.a.
Current Account <sup>2</sup>	-29.5	-0.7	-0.5	n.a.	...	...

1. Percentage change from previous period.

2. Billions of U.S. dollars, NSA

In Brazil, indications are that economic activity contracted in the first quarter of 1996, as industrial production fell. Inflation has remained low by Brazilian standards. The CPI inflation rate rose in April from March, reflecting in large part an increase in some public sector prices.

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

	1994	1995	1995	1996	1996	
			Q4	Q1	Mar	Apr
Real GDP	5.7	4.1	0.2	n.a.	...	...
Industrial Production (SA) <sup>1</sup>	7.8	2.0	1.7	-2.4	-0.8	n.a.
Open Unemployment Rate (%)	3.4	4.4	4.4	6.4	6.4	n.a.
Consumer Prices <sup>1</sup>	929.0	22.0	4.7	2.5	0.3	0.9
Trade Balance <sup>2</sup>	10.4	-3.6	0.3	-0.1	-0.1	n.a.
Current Account <sup>2</sup>	-1.5	-17.8	-4.0	n.a.	...	...

1. Percentage change from previous period.

2. Billions of U.S. dollars, NSA

Owing to depressed aggregate demand, Brazil recorded only a small trade deficit in the first quarter of 1996. This compares with the sizeable trade deficit recorded at the height of a consumption boom a year ago. Net capital inflows have slowed considerably since early February, possibly due to the tightening of capital controls, but also to disappointing news concerning the economy and prospects for the government's economic reform program. International reserves at the end of March 1996 totalled \$56 billion (liquidity concept), up considerably from a low of \$32 billion a year ago.

In Argentina, real GDP contracted by 4.4 percent in 1995, and industrial production fell further in the first quarter. Consumer prices fell in the first quarter, the first time since W.W.II. The trade balance turned to a surplus in February and March, due to a 30 percent increase in exports and a 7.6 percent fall in imports from a year earlier. International reserves less gold and securities have recovered from last year's drain and were \$13.8 billion at end-April, compared with \$14.3 at the end of 1994. Of the \$18 billion in gross reserves, \$2.7 billion are in dollar-denominated Bonex bonds. The monetary base was \$12 billion, leaving \$6 billion in excess reserves.

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

	1994	1995	1995	1996	1996	
			Q4	Q1	Mar	Apr
Real GDP	7.4	-4.4	-7.7	n.a.	...	...
Industrial Production (SA)	3.8	-11.2	-11.2	-7.8	-7.8	n.a.
Unemployment Rate (%) <sup>2</sup>	11.7	17.4	16.4	...	...	...
Consumer Prices <sup>1</sup>	3.9	1.5	0.0	-0.4	-0.5	0.0
Trade Balance <sup>3</sup>	-4.0	2.7	0.3	0.2	0.3	n.a.
Current Account <sup>3</sup>	-9.9	-2.9	...	...	...	...

1. Percentage change from previous period.

2. Unemployment figures available only in May and October of each year. The annual figure is the average of the two surveys.

3. Billions of U.S. dollars, NSA

Argentina's Extended Fund Facility arrangement with the IMF expired on March 30, 1996. In early April, the IMF approved a new 21-month stand-by arrangement for \$1.04 billion equivalent. Argentina met its first-quarter fiscal target with the IMF by a small margin, which calls for a \$2.5 billion budget deficit without privatizations in 1996. On April 16, Argentina resumed auctioning 91-day Treasury instruments renamed LETES. The first in a series of planned auctions for the year was for \$271 million at 6.9 percent and was almost 8 times oversubscribed. The government plans to issue net \$2 billion in LETES in 1996, \$750 million of which will be auctioned in the first half of the year. The initial tenor of 3 months will gradually be lengthened during the course of the year to include 6- and 12-month maturities.

In Venezuela, consumer price inflation picked up in April due to the liberalization of exchange controls and the depreciation of

the bolivar. Venezuela registered a merchandise (non-oil) trade deficit of \$6 billion in 1995, reflecting a 34 percent increase in imports and an 8 percent increase in exports. However, the overall trade balance, including oil exports, showed a \$7.8 billion surplus.

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

	1994	1995	1995	1996	1996	
			Q4	Q1	Mar	Apr
Real GDP	-2.8	2.2	...	...	...	...
Unemployment Rate (%)	8.8	10.8	10.2	...	...	...
Consumer Prices <sup>1</sup>	71	56.6	17.1	24.0	6.2	8.5
Trade Balance <sup>2</sup>	-3.6	-6.0	-1.5	n.a.	n.a.	n.a.
Current Account <sup>2</sup>	2.5	2.7	...	...	...	...

1. Percentage change from previous period.

2. Billions of U.S. dollars, NSA, non-oil trade balance.

In April, Venezuela introduced a new macroeconomic stabilization program put together with the IMF. The reforms included a comprehensive liberalization of exchange, price, and interest rate controls as well as an increase in gasoline prices by an average of 467 percent and an increase in the wholesale tax from 12.5 to 16.5 percent. The bolivar was allowed to float on April 22 and immediately went from a fixed rate of 290 per dollar to about 500 per dollar. Over the next few days, as the Central Bank intervened in the money market, the currency appreciated slightly, and as of May 16, was about 475 per dollar. Interest rates have also increased significantly from the previous floor of 23 percent for deposits and ceiling of 47 percent for loans to around 50-55 percent for deposits and 75-85 percent for loans.

On the same day that the reforms were announced, the IMF declared that it had reached an agreement on all the main policies with Venezuela for a \$1.4 billion equivalent 12-month stand-by arrangement. A letter of intent has been completed. The IMF loan will be part of an estimated \$3.3 billion multilateral support package for Venezuela, with contributions from the World Bank (\$900 million) and the IDB (about \$1 billion).

In China, real GDP growth remained strong in the first quarter, while inflation was relatively flat at nearly 10 percent. Strong import growth and negative export growth have shifted the trade balance into a deficit in recent months. China's trade

deficit of \$0.7 billion in the January-April period compares with a surplus of \$8.8 billion in the same period of 1995. The dollar value of exports fell 8 percent from a year earlier, while imports rose 18 percent.

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

	1994	1995	1995	1996	1996	
			Q4	Q1	Mar	Apr
Real GDP <sup>1</sup>	11.8	10.2	10.2	10.2	10.2	...
Industrial Production	22.0	15.8	15.9	n.a.	n.a.	n.a.
Consumer Prices	25.5	10.1	10.1	9.9	9.9	n.a.
Trade Balance <sup>2</sup>	5.2	17.2	0.3	-1.2	-0.8	-0.4

1. Cumulative from the beginning of the year

2. Billions of U.S. dollars, NSA

In early April, China began open market operations. However, given the limited quantity of tradeable treasury bills on the market as well as the continuing system of credit quotas and mandated interest rates, these open market operations are likely to remain small and largely experimental for some time to come.

In Taiwan, political events have substantially affected economic and financial market developments. Chinese missile tests near Taiwan in February and March led to substantial capital outflows; foreign exchange reserves, which fell \$8 billion in March 1996 alone, stood at \$85 billion at the end of April, down from a high of \$100 billion in June 1995. Industrial production stagnated and inflation declined somewhat in the first quarter.

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

	1994	1995	1995	1996	1996	
			Q4	Q1	Mar	Apr
Real GDP	6.5	6.1	4.9	n.a.	...	...
Industrial Production	6.6	4.2	-1.1	0.1	-4.8	n.a.
Consumer Prices	2.6	4.6	4.6	3.0	3.0	2.8
Trade Balance <sup>1</sup>	12.0	8.3	4.1	2.5	0.9	0.9
Current Account <sup>1</sup>	6.0	5.0	3.6	n.a.	...	...

1. Billions of U.S. dollars, NSA

Following Taiwan's presidential election March 23, tensions with China have lessened, and downward pressure on the currency has abated. Taiwan's stock market, which fell 10 percent from the

beginning of 1996 to its low point in early March, has surged. As of May 16, the stock market was up 18 percent for the year.

In Korea, there is clear evidence that economic growth is slowing. Industrial production has decelerated markedly since the third quarter of last year. Slow growth in capital goods imports-- which increased by only 4 percent on a year-over-year basis in March--suggests a particularly sharp deceleration in investment demand. Given that inflation has remained moderate by historical standards, the Bank of Korea has eased monetary policy progressively since the middle of last year. Short-term interest rates have fallen by around 500 basis points since the end of June, with about one third of the decline occurring in the past two months.

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

	1994	1995	1995	1996	1996	
			Q4	Q1	Mar	Apr
Real GDP	8.4	9.0	6.8	n.a.	...	...
Industrial Production	10.7	11.7	7.1	8.7	5.8	n.a.
Consumer Prices	5.6	4.7	4.5	4.9	4.5	4.6
Trade Balance <sup>1</sup>	-3.1	-4.5	0.4	-2.2	-0.1	n.a.
Current Account <sup>1</sup>	-4.7	-8.8	-0.5	-4.1	-0.8	n.a.

1. Billions of U.S. dollars, NSA

An initial review of Korea's OECD application by the Committees on Capital Movements and Invisibles Transactions (CMIT) and on International Investment and Multinational Enterprises (CIME)--the committees responsible for assessing Korea's adherence to OECD standards with regard to capital account openness and trade in services--was held on April 11-12. These committees indicated that Korea must commit to significantly more financial liberalization before they can recommend that Korea be admitted to the OECD. The CMIT/CIME review noted that Korea continues to maintain substantial barriers to foreign direct investment, to foreign competition in the provision of financial services, and to capital inflows.

In Russia, monthly inflation continued to decline. The ruble depreciated against the dollar by 2 percent during April, similar to its performance in recent months, remaining comfortably within its 4550-5150 rubles per dollar band. In mid-May, the government

announced that, effective July 1, the current band will be replaced by a crawling band. Both the ceiling and the floor of the new band will depreciate by about 1.5 percent a month. During the first four months of 1996, real GDP and industrial production were both down 3 percent from their year-earlier levels. Russian officials have linked the continued decline in economic activity to "under investment," reflecting concerns about the June 16 presidential election.

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

	1994	1995	1995	1996	1996	
			Q4	Q1	Mar	Apr
Real GDP	-15	-4	-4	-3	-4	-1
Industrial Production	-21	-3	-5	-4	-4	0
Consumer Prices <sup>1</sup>	10	7	4	3	3	2
Ruble Depreciation <sup>1</sup>	9	2	1	2	1	2
Trade Balance <sup>2</sup>	14.4	17.9	3.2	n.a.	...	...
Current Account <sup>2</sup>	3.4	4.7	0.2	n.a.	...	...

1. Monthly Rate.

2. Billions of U.S. dollars.

Russia successfully completed its first monthly review under its IMF Extended Fund Facility (EFF), satisfying all the quantitative indicative targets for end-March. In particular, the fiscal deficit during the first quarter was 5 percent of GDP, just under the program ceiling, despite unexpectedly poor revenue performance and pressures to increase expenditures as the election approaches. Delays in implementing some of the program's prior actions were resolved to the Fund's satisfaction by end-April.

In late April, the Russian government signed an agreement with the Paris Club of official creditors restructuring \$40 billion of the roughly \$45 billion in official debt that Russia inherited from the Soviet Union. The implementation of the rescheduling agreement is explicitly contingent on Russia satisfying the conditions of the EFF.