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Confidential (FR) Class II FOMC

November 10, 1982

RECENT DEVELOPMENTS

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

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SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest data			Percent change from		
	Period	Release date	Data	Preceding period	Three periods earlier	Year earlier
				(At annual rate)		
Civilian labor force	Oct.	11-5-82	110.6	-3.6	.4	1.5
Unemployment rate (%) 1/	Oct.	11-5-82	10.4	10.1	9.8	8.0
Insured unemployment rate (%) 1/	Sept.	10-25-82	5.0	4.7	4.7	3.5
Nonfarm employment, payroll (mil.)	Oct.	11-5-82	88.9	-3.5	-2.7	-2.5
Manufacturing	Oct.	11-5-82	18.3	-15.0	-9.9	-8.7
Nonmanufacturing	Oct.	11-5-82	70.6	-.5	-.8	-.8
Private nonfarm:						
Average weekly hours (hr.) 1/	Oct.	11-5-82	34.7	34.8	34.9	35.1
Hourly earnings ($) 1/	Oct.	11-5-82	7.75	7.72	7.71	7.40
Manufacturing:						
Average weekly hours (hr.) 1/	Oct.	11-5-82	38.7	38.7	39.2	39.5
Unit labor cost (1967=100)	Sept.	10-29-82	229.6	-2.6	-2.9	8.0
Industrial production (1967=100)	Sept.	10-15-82	137.3	-7.0	-3.9	-9.4
Consumer goods	Sept.	10-15-82	144.4	.0	-1.1	-2.3
Business equipment	Sept.	10-15-82	149.2	-19.0	-19.2	-18.3
Defense & space equipment	Sept.	10-15-82	110.2	9.9	9.6	7.0
Materials	Sept.	10-15-82	131.8	-9.9	-5.2	-13.6
Consumer prices all items (1967=100)	Sept.	10-26-82	292.7	2.1	4.1	4.9
All items, excluding food & energy	Sept.	10-26-82	280.1	.0	4.5	5.9
Food	Sept.	10-26-82	287.6	5.9	.6	3.3
ducer prices: (1967=100)						
Finished goods	Sept.	10-15-82	282.6	-1.7	4.1	3.7
Intermediate materials, nonfood	Sept.	10-15-82	316.2	1.5	2.3	.4
Crude foodstuffs & feedstuffs	Sept.	10-15-82	241.3	-45.5	-29.5	-4.2
Personal income ($ bil.) 2/	Sept.	10-19-82	2,604.7	3.5	6.0	5.1
				(Not at annual rates)		
Mfgrs. new orders dur. goods ($ bil.)	Sept.	11-2-82	72.9	-.1	-2.2	-13.6
Capital goods industries	Sept.	11-2-82	24.0	-.7	-2.8	-20.5
Nondefense	Sept.	11-2-82	4.2	-20.2	-22.0	-28.4
Defense	Sept.	11-2-82	19.8	4.7	2.7	-18.6
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Aug.	10-13-82	1.52	1.49	1.46	1.44
Manufacturing	Sept.	11-2-82	1.72	1.73	1.70	1.68
Trade	Aug.	10-13-82	1.33	1.30	1.24	1.25
Ratio: Mfgrs.' durable goods inventories to unfilled orders 1/	Sept.	11-2-82	.638	.633	.621	.592
Retail sales, total ($ bil.)	Sept.	10-12-82	89.5	1.0	1.6	1.9
GAF 3/	Sept.	10-12-82	18.7	.6	1.4	.7
Auto sales, total (mil. units.) 2/	Oct.	11-3-82	7.6	-10.3	2.8	5.7
Domestic models	Oct.	11-3-82	5.3	-15.1	2.9	3.1
Foreign models	Oct.	11-3-82	2.3	3.2	2.6	11.9
using starts, private (thous.) 2/	Sept.	10-19-82	1,146	14.4	26.2	27.5
ading indicators (1967=100)	Sept.	10-29-82	130.4	.5	1.6	-.2

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.

Economic activity remained weak in October, as both employment and industrial production continued to decline. Slow income growth has limited the gains in consumer spending; business capital outlays remain depressed; and despite extensive liquidation, inventories are still high relative to the current sales pace. Housing activity, however, has continued to improve; starts and new home sales rose in September. Both labor costs and prices have continued to decelerate.

Employment and Industrial Production

Nonfarm payroll employment fell 265,000 in October, slightly more than the average declines over the previous four months, with cutbacks widespread. In the manufacturing sector, employment fell an additional 230,000; the largest job losses occurred in metals, machinery, and transportation equipment--industries that are still struggling to bring production and inventories into line with weak sales. The factory workweek remained at an extremely low level in October after sharp declines in both August and September. Sizable reductions in employment also continued in mining and construction, and employment in retail trade declined for the third consecutive month as stores failed to hire the usual number of workers in anticipation of the seasonal pickup in sales.

The unemployment rate climbed a further three-tenths of a percentage point in October to 10.4 percent. Most of the recent rise in joblessness has been among workers who normally have a strong attachment to the labor force. The rate for adult men now stands at 8.5 percent, exceeding the 1975 peak by 2-1/2 percentage points.

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

	1980	1981	1981 Q4	1982 Q1	1982 Q2	1982 Q3	1982 Sept.	1982 Oct.
	- - - - - Average monthly changes - - - - -							
Nonfarm payroll employment[2]	14	-7	-240	-113	-155	-217	-124	-263
Strike adjusted	8	-8	-252	-111	-141	-221	-119	-265
Manufacturing	-62	-40	-197	-119	-130	-117	-92	-232
Durable	-46	-32	-153	-78	-96	-99	-87	-201
Nondurable	-16	-8	-44	-41	-34	-18	-5	-31
Construction	-19	-22	-33	-31	2	-20	-18	-14
Trade	0	16	-45	44	-20	-38	-70	-42
Finance and services	81	56	43	25	33	35	38	23
Total government	11	-26	4	-19	-9	-46	23	22
Private nonfarm production workers	-23	-8	-260	-90	-124	-153	-89	-279
Manufacturing production workers	-69	-48	-200	-103	-109	-92	-71	-194
Total employment[3]	-27	-2	-215	-40	91	-15	-119	-627
Nonagricultural	-35	22	-165	-87	87	-18	-52	-685

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments. Strike-adjusted data noted.
3. Survey of households.

SELECTED UNEMPLOYMENT RATES
(Percent; based on seasonally adjusted data)

	1980	1981	1981 Q4	1982 Q1	1982 Q2	1982 Q3	1982 Sept.	1982 Oct.
Total, 16 years and older	7.1	7.6	8.4	8.8	9.5	9.9	10.1	10.4
Teenagers	17.8	19.6	21.1	21.9	22.8	23.9	23.7	24.0
20-24 years old	11.5	12.2	13.1	14.0	14.5	15.0	15.3	15.9
Men, 25 years and older	4.8	5.1	5.9	6.4	7.1	7.7	8.2	8.5
Women, 25 years and older	5.5	5.9	6.3	6.6	7.2	7.3	7.4	7.5
White	6.3	6.7	7.4	7.7	8.4	8.8	9.0	9.3
Black	13.1	14.2	15.4	15.9	17.1	17.7	18.2	18.5
Fulltime workers	6.9	7.3	8.2	8.6	9.3	9.7	10.1	10.5
White-collar	3.7	4.0	4.3	4.5	4.9	4.8	4.8	5.1
Blue-collar	10.0	10.3	11.8	12.6	13.7	14.7	15.6	15.9

INDUSTRIAL PRODUCTION
(Percentage change from preceding period; based on seasonally adjusted data)

	1982 Q1	1982 Q2	1982 Q3	1982 July	1982 Aug.	1982 Sept.
	--------annual rate-------			-----monthly rate-----		
Total	-11.8	-6.5	-3.7	.1	-.5	-.6
Final products	-10.4	-3.0	-3.2	.2	-1.1	-.4
Consumer goods	-8.6	-7.3	4.0	.8	-1.0	.0
Durable	-14.5	27.9	4.4	1.9	-3.2	-.5
Nondurable	-6.5	1.0	3.9	.4	- .2	.1
Business equipment	-17.7	-22.3	-20.0	-1.3	-1.9	-1.6
Defense and space eq.	2.4	4.8	7.8	1.4	.2	.8
Construction supplies	-14.5	-8.6	6.0	.9	.6	.2
Materials	-14.1	-11.1	-6.2	-.5	.0	- .8
Durable goods	-24.0	-11.2	-7.6	-.5	- .6	-2.0
Nondurable goods	-8.3	-10.0	-6.9	-1.0	1.3	1.4
Energy materials	5.8	-12.5	-1.4	.6	- .5	-1.5

CAPACITY UTILIZATION RATES: MANUFACTURING AND MATERIALS
(Percent, seasonally adjusted)

	1975 Low	1978-80 High	1982 Average[1]	1982 Aug.	1982 Sept.
Manufacturing industries	69.0	87.2	70.5	69.6	69.1
Primary processing	68.2	90.1	67.0	65.5	65.5
Advanced processing	69.4	86.2	72.5	71.8	71.0
Motor vehicles & pts.	51.3	94.5	54.0	56.7	55.3
Materials producers	69.4	88.8	69.9	68.3	67.6
Durable goods mats.	63.6	88.4	64.7	63.1	61.8
Raw steel	68.0	100.7	51.8	43.0	42.3
Nondurable goods mats.	67.2	91.6	72.8	70.8	71.7
Energy materials	84.8	88.8	80.7	79.6	78.3

1. Average of Q1 through Q3.

Because a long period of economic slack has discouraged jobseeking, labor force participation rates have shown little net change over the past year. As a result, labor force entrants and reentrants have accounted for only a small portion of the increase in total joblessness; in contrast, the number of job losers has risen substantially in the past year and was still increasing rapidly in October. This is broadly consistent with the persistently high level of new claims for unemployment insurance and further reports of plant shutdowns. At the same time, with little rehiring, joblessness has lengthened for workers laid off earlier in the recession.

Industrial production in October is expected to fall somewhat more than September's 0.6 percent decline, as hours worked in manufacturing and mining dropped sharply. Auto assemblies were reduced 15 percent to a 4.7 million unit annual rate, and weekly data suggest that raw steel production dropped an additional 2 percent in October. Production of business equipment continued to drop, although for oil-well drilling the decline was smaller than in recent months.

Capacity utilization in manufacturing fell 0.5 of a percentage point in September to 69.1 percent and likely dropped below its 1975 low of 69.0 percent in October. Declines have been even more pronounced for materials producers whose capacity utilization stood at 67.6 percent in September--nearly 2 percentage points below its 1975 trough. The operating rate for raw steel appears to have declined to about 41 percent in October, a far deeper contraction than in the 1973-75 recession.

PERSONAL INCOME
(Based on seasonally adjusted data)

	1980	1981	1982 Q1	1982 Q2	1982 Q3	1982 July	1982 Aug.	1982 Sept.
	- - percentage changes at annual rates[1] - -							
Total personal income	11.1	10.4	2.6	6.9	7.3	11.8	2.5	3.5
Wage and salary disbursements	9.9	8.4	2.7	3.9	3.3	5.1	.0	-.3
Private	9.6	8.7	2.1	3.7	3.0	3.4	1.3	-1.0
Disposable personal income								
Nominal	11.0	10.4	3.0	6.7	9.8	23.7	1.5	3.8
Real	.5	2.6	-1.9	3.1	2.3	15.9	-3.0	n.a.
	- - changes in billions of dollars[2] - -							
Total personal income	19.2	17.9	7.0	15.9	12.8	25.3	5.4	7.7
Wage and salary disbursments	10.8	8.8	4.0	6.8	2.1	6.6	-.1	-.4
Private	8.5	7.1	2.7	5.6	1.3	3.6	1.4	-1.0
Manufacturing	2.4	1.1	-.2	0.9	-1.9	-.9	-1.7	-3.2
Other income	9.1	10.3	4.2	9.5	10.9	19.4	5.5	7.9
Transfer payments	4.3	2.9	1.3	3.1	5.2	12.8	.1	2.8
Less: personal contributions for social insurance	.7	1.2	1.3	.4	.2	.7	.0	-.1
Disposable personal income								
Nominal	16.1	15.2	7.1	10.4	17.4	42.5	2.8	6.9
Real	.6	1.7	.5	-.4	n.a.	13.9	-2.7	n.a.
Memorandum:								
Personal saving rate	5.8	6.4	6.6	6.7	6.9	7.5	7.0	6.4

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly periods are compounded rates of change; monthly changes are not compounded.
2. Average monthly changes are from the final month of the preceding period to the final month of period indicated; monthly figures are changes from the preceding month.

RETAIL SALES
(Percent change from preceding period except where indicated; based on seasonally adjusted data)

	1982			1982			
	Q1	Q2	Q3	June	July	Aug.	Sept.
Total sales	.1	2.8	.1	-3.1	1.6	-1.0	1.0
(Real)[1]	-.7	[illegible].4	1.1	-4.0	1.2	-1.2	.9
Total, less autos and nonconsumption items	.2	.7	1.8	-.9	1.8	-.1	.4
Total, exc. auto group, gasoline, and noncon sumption items	.5	1.5	1.6	-1.2	1.7	.0	.4
GAF[2]	-.3	1.3	.4	-3.7	2.7	-1.9	.6
Durable goods	.0	7.1	-4.0	-7.6	.8	-3.0	2.4
Automotive	.2	11.4	-6.1	-11.5	1.3	-4.5	4.0
Furniture & appliances	-4.7	2.6	-1.4	-2.2	2.1	-2.5	-1.4
Nondurable goods	.2	.9	2.0	-.9	1.9	-.1	.4
Apparel	4.3	-1.8	1.1	-5.5	4.3	-2.9	2.5
Food	-.2	2.0	1.7	-1.6	1.7	.9	-.6
General merchandise[3]	-.5	2.1	.7	-3.5	2.3	-1.3	.6
Gasoline	-2.1	-4.8	3.3	1.8	2.3	-.8	-.2

1. BCD series 59. Data are available approximately 3 weeks following the retail sales release.
2. General merchandise, apparel, and furniture and appliance stores.
3. General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

AUTO SALES
(Millions of units; seasonally adjusted annual rates)

	1982			1982		
	Q1	Q2	Q3	Aug.	Sept.	Oct.
Total	8.1	7.5	7.8	7.6	8.4.	7.5
Foreign-made	2.2	2.0	2.2	2.2	2.2	2.2
U.S.-made	5.9	5.5	5.6	5.3	6.2	5.3
Small	[illegible]0	2.5	2.6	2[illegible]	3.0	2.4
Intermediate & standard	2.8	3.0	2.9	[illegible]	3.[illegible]	3.0

Note: Components may not add to totals due to rounding.

Personal Income and Consumer Spending

Personal income gains slowed in August and September and undoubtedly remained weak in October, reflecting additional job losses and a continued moderation in wage increases. Nominal wage and salary disbursements, which make up about 60 percent of personal income, were unchanged in August and September after growing at a 4 percent annual rate in the second quarter; in October, private wage and salary disbursements were probably unchanged or lower. Without the mid-year tax cut and a July cost-of-living increase for social security recipients, nominal disposable income would have increased only slightly in the third quarter, and real disposable income would have declined. In addition, a longer extended benefits program for unemployment insurance began in September, further offsetting some of the weakness in labor income.

The income gains that did occur in the third quarter appear to have been rapidly incorporated into consumers' spending, as the rise in personal outlays from June to September just matched the gains in disposable income. As a result, the personal saving rate, which increased to 7.5 percent in July, fell back in September to 6.4 percent, less than the second-quarter average.

Personal consumption expenditures, in 1972 dollars, rose moderately in the third quarter, but the gains were mainly confined to the service sector and to some nondurable goods industries. Real spending for consumer durables declined for the quarter as a whole, following moderate increases in the first half of 1982. Moreover, broad indicators of spending were still weak as the quarter ended; excluding the automotive group and those stores selling mainly nonconsumer goods, nominal retail sales were up just 0.4 percent in September. (October retail sales figures, to be released November 10, will be reported in the Supplement.)

Domestic auto sales increased to a 6.2 million unit annual rate in September, in response to special promotions aimed at reducing excessive inventories of 1982 models. However, with the end of many promotions, the sales of domestically produced units fell back to a 5.3 million unit annual rate in October. To encourage further clearance of 1982 models several producers have announced reductions in auto finance rates, as well as rebates, beginning in November. Sales of imported autos remained steady through the third quarter at a 2.2 million unit annual rate.

Business Fixed Investment

Capital spending continued to fall during the summer, and there appears little prospect of an upturn any time soon. Real business fixed investment dropped at a 13 percent annual rate in the third quarter; equipment spending declined substantially and spending on structures also fell following small gains through the first half of 1982. Spending for construction of offices and institutional buildings continued to increase, but those gains probably reflect commitments made some time ago.

Recent commitments data suggest further reductions in capital spending in the months ahead. Nondefense capital goods orders have been trending down for more than a year, and although orders increased in September, they were still 10-1/2 percent below shipments; the backlog of unfilled equipment orders therefore continued to dwindle. In addition, the volume of new construction contracts has not been sufficient to maintain building activity at recent levels. In the third quarter, contracts for commercial and industrial building were 35 percent below the peak year of 1979 and permits for nonresidential building (in current dollars) were down 22 percent from the 1979 average.

BUSINESS CAPITAL SPENDING INDICATORS
(Percentage change from preceding comparable period;
based on seasonally adjusted data)

	1982			1982		
	Q1	Q2	Q3	July	Aug.	Sept.
Nondefense capital goods shipments						
Current dollars	-5.6	-3.1	-3.8	-1.8	-3.1	1.5
Addendum: Sales of heavy-weight trucks (thousands)	217	173	168	158	183	162
Nonresidential construction						
Current dollars	1.5	1.8	-1.7	-3.1	-1.3	.0
Addendum: Oil and gas well drilling (millions of feet)[1]	34.9	40.8	31.5	35.6	29.4	29.5

1. These data are based on completions and tend to lag ongoing activity reported in the index of industrial production.

BUSINESS CAPITAL SPENDING COMMITMENTS
(Percentage change from preceding comparable period;
based on seasonally adjusted data)

	1982			1982		
	Q1	Q2	Q3	July	Aug.	Sept.
Nondefense capital goods orders						
Current dollars	-5.2	-4.9	-5.2	5.4	-7.0	4.7
Machinery						
Current dollars	-10.7	-4.2	-5.1	1.7	-.2	6.5
Addenda: Ratio of current dollar unfilled orders to shipments						
Total	5.94	5.84	5.73	5.87	5.93	5.74
Machinery	4.30	4.25	4.05	4.27	4.19	3.99
Contracts for commercial buildings (mil. sq. ft.)	-18.0	-1.9	-2.2	-18.7	11.9	-14.1

Private Surveys of Capital Spending for 1983
(percent change)

	McGraw-Hill	Merrill Lynch
Manufacturing	-2.5	-.1
Durable	-.7	-1.3
Nondurable	-4.1	1.1
Nonmanufacturing	-1.8	-2.8
Mining	-13.5	10.1
Railroads	7.0	10.9
Nonrail transportation	-29.7[1]	2.4
Electric utilities	-1.4	-5.6
Gas utilities	-12.5	-3.6
Trade and services	4.6[3]	-10.2[2]
Communications	-7.0	15.3
All business	-2.1	-1.7

1. Airlines Industry.
2. Commercial and Other category in the Merrill Lynch Survey.
3. Includes Other category.

Error[1] Histories of Private Surveys
(percentage points)

	McGraw-Hill	Merrill Lynch
1970	2.8	1.5
1971	.5	1.1
1972	-2.6	.1
1973	-2.2	-2.8
1974	.9	-1.0
1975	11.5	9.7
1976	2.0	-3.9
1977	.3	.8
1978	-2.2	-3.1
1979	-5.2	-6.1
1980	.2	-1.9
1981	3.2	-1.7
1982	8.9[2]	6.8[2]
Mean Error	1.39	-.05
Mean Absolute Error	3.27	3.12

1. Error is anticipated growth less actual growth in plant and equipment expenditure.
2. "Actual growth" for 1982 indicates anticipation reported in the August Commerce Survey.

Early indications of capital spending for 1983 are not promising. The McGraw-Hill survey of plant and equipment spending, taken in September and October, reported that businesses plan to reduce capital outlays by 2.1 percent in 1983 and expect inflation in capital goods prices to be 7 percent, thereby implying a reduction of 9 percent in real terms. Reductions in spending plans were widespread for both the manufacturing and nonmanufacturing sectors. Despite substantial differences by industry, the Merrill Lynch survey of capital spending plans reported an almost identical 1.7 percent decline in nominal spending for 1983. Although the direction of capital spending indicated by these surveys is consistent with other indicators, the precise results should be viewed with caution; since 1970, the absolute size of the errors of these two surveys has, on average, exceeded 3 percentage points.

Residential construction

Housing starts have been trending upward this year as mortgage interest rates have declined, but the upswing has continued to be less pronounced than in most previous housing recoveries. In September, private housing starts rebounded from an August decline, bringing starts in the third quarter to a 1.1 million unit annual rate, up 17 percent from the previous quarter.

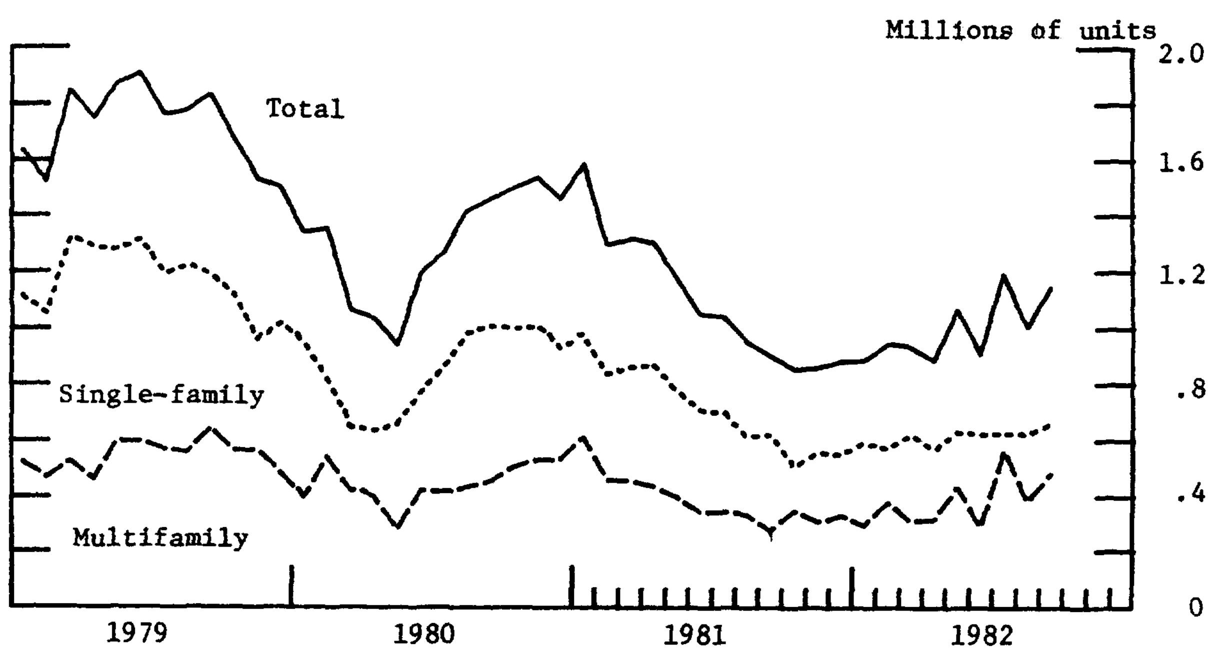
The third-quarter increase in starts occurred largely in the multifamily sector and was mainly attributable to a surge in federally subsidized rental units at the end of the fiscal year. However, starts of unsubsidized multifamily units--including condominiums and cooperatives--also appear to have picked up somewhat in the third quarter; two developments encouraging increased activity in this market are that the average

PRIVATE HOUSING ACTIVITY
(Seasonally adjusted annual rates, millions of units)

	1981	1982					
	Annual	Q1	Q2	Q3	July	Aug.	Sept.[1]
All units							
Permits	.99	.82	.92	1.00	1.06	.89	1.04
Starts	1.08	.92	.95	1.11	1.19	1.00	1.15
Single-family units							
Permits	.56	.45	.48	.52	.50	.50	.58
Starts	.71	.59	.61	.64	.63	.62	.66
Sales							
New homes	.44	.39	.37	.40	.35	.38	.46
Existing homes	2.35	1.93	1.93	1.84	1.89	1.82	1.82
Multifamily units							
Permits	.42	.37	.43	.47	.56	.39	.46
Starts	.38	.33	.35	.48	.57	.38	.48
Mobile home shipments	.24	.24	.25	n.a.	.25	.23	n.a.

1. Preliminary estimates.
n.a.--Not available.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



vacancy rate for rental units has remained low by historical standards and rents have apparently been rising faster than either residential construction costs or average prices of new homes. Starts of single-family homes increased almost 7 percent in September, and newly-issued permits for single-family units rose 16 percent, representing a continuation of the gradual uptrend since late 1981 for both series.

A September advance in new home sales--24 percent over the August pace--lifted sales above the 1981 average for the first time this year and led to a further reduction in the stock of unsold new homes. Given the low level of stocks, a sustained upturn in sales could translate fairly quickly into additional strengthening of new home construction. In contrast, sales of existing homes remain a weak factor in the housing recovery, staying unchanged in September from the new cyclical low set in August.

Inventory Investment

Production cutbacks have trimmed business inventories to their pre-recession levels, but because of weak sales, inventory-sales ratios at the end of September were still high in many sectors of the economy.

In manufacturing, the book value of inventories declined at an annual rate of $7.4 billion in August and $25.8 billion in September, with about two-thirds of the liquidation among nondurables. However, shipments fell in both months, and book value inventory-sales ratios at the end of the third quarter were no lower than at the beginning of the summer. Ratios remained particularly high at several durable goods industries including primary metals, nonelectrical machinery, and transportation equipment.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars at annual rates)

	1980	1981	1982 Q1	1982 Q2	1982 Q3(p)	1982 July	1982 Aug.	1982 Sept.(p)
Book Value Basis								
Total	38.4	37.5	-29.0	-.1	n.a.	7.6	13.5	n.a.
Manufacturing	23.0	19.1	-12.3	-19.8	-11.9	-2.4	-7.3	-25.8
Durable	14.1	13.8	-9.5	-7.1	-5.8	-5.9	-3.0	-8.6
Nondurable	8.9	5.4	-2.9	-12.7	-6.0	3.5	-4.4	-17.2
Wholesale trade	10.6	6.7	-7.2	15.7	3.1	3.0	-5.2	11.4
Retail trade	4.9	11.6	-9.4	4.1	n.a.	7.1	26.0	n.a.
Constant Dollar Basis								
Total	-1.7	7.1	-15.5	-3.2	n.a.	4.8	1.7	n.a.
Manufacturing	.9	2.6	-8.1	-7.3	n.a.	-2.3	-3.3	n.a.
Wholesale trade	.5	1.5	-3.4	2.8	n.a.	5.3	-5.1	n.a.
Retail trade	-3.0	3.1	-4.0	1.3	n.a.	1.8	10.1	n.a.

INVENTORIES RELATIVE TO SALES[1]

	1974-75 Cyclical Peak[2]	1982 Cyclical Peak[2]	1982 Q1	1982 Q2	1982 Q3(p)	1982 July	1982 Aug.(r)	1982 Sept.(p)
Book Value Basis								
Total	1.64	1.54	1.51	1.49	n.a.	1.49	1.52	n.a.
Manufacturing	1.95	1.81	1.79	1.73	1.71	1.71	1.73	1.72
Durable	2.51	2.48	2.41	2.35	2.36	2.36	2.38	2.40
Nondurable	1.39	1.18	1.18	1.12	1.09	1.09	1.12	1.08
Wholesale trade	1.24	1.26	1.14	1.18	1.24	1.21	1.22	1.26
Retail trade	1.57	1.46	1.42	1.40	n.a.	1.40	1.44	n.a.
Constant Dollar Basis								
Total	1.76	1.80	1.76	1.73	n.a.	1.74	1.77	n.a.
Manufacturing	2.18	2.19	2.15	2.10	n.a.	2.09	2.14	n.a.
Wholesale trade	1.40	1.48	1.43	1.41	n.a.	1.45	1.46	n.a.
Retail trade	1.52	1.49	1.46	1.45	n.a.	1.46	1.49	n.a.

1. Ratio of end-of-period inventories to average monthly sales for the period.
2. Highs are specific to each series and are not necessarily coincident.
(r) Revised estimates.
(p) Preliminary estimates.

Retail trade inventories rose very rapidly in August, with the bulk of the advance concentrated in the auto sector. In response to the build-up in auto inventories, the industry implemented dealer incentive programs in September and reduced fourth quarter production schedules. As a result, the level of dealer inventories declined in September and was reduced further in October as production was even lower than the depressed level of sales.

Inventory imbalances also appeared to prevail at many nonauto retail outlets in late summer. In August, the inventory-sales ratio for nonauto retail stores as a whole was almost back to its January peak. Liquidation seemed to have stalled at stores in the GAF grouping during the summer and, as real sales at these stores remained flat in September, their inventory overhang may well have continued undiminished.

For the third quarter as a whole, preliminary GNP estimates, based on partial data, showed a slight increase in constant dollar manufacturing and trade inventories. However, with more complete inventory data now available it appears that the preliminary inventory estimate will be revised down. As was true in the first half of 1982, third-quarter data on industrial production and physical stocks imply a faster rate of inventory liquidation than shown in the GNP accounts.

Government Spending

Federal expenditures, on a NIPA basis, increased at a 20 percent annual rate in the third quarter. In part, spending was boosted by rising defense outlays and by the July COLA in social security benefits. In addition, rising joblessness triggered increases in unemployment compensation payments, and low agricultural prices prompted a resumption of high outlays by the Commodity Credit Corporation. Net interest payments also rose sharply in response to the widening deficit. On the receipts side of the budget, personal tax payments declined because of slow income growth and the July cut in withholding taxes.

For the 1982 fiscal year as a whole, federal outlays on a unified basis totaled $728 billion. The increase in outlays--at 10.8 percent--was below the rate of growth in preceding years. Spending for defense was 17 percent greater than in the previous fiscal year. There was, however, a marked slowing in the growth rate of spending in the human resources category, owing primarily to cuts in employment and training programs and in grants for public assistance and medicaid.

Federal receipts--at $618 billion--increased only 3.1 percent in FY1982, substantially below the pace recorded in recent years. The growth of personal and corporate income taxes was cut by last year's tax reductions, the slow growth of personal income, and declines in corporate profits. Excise taxes declined primarily due to the effect of lower oil prices on the windfall profits tax. The federal deficit was a record $110.7 billion.

State and local governments continued to trim outlays in the third quarter; spending, in real terms, fell at a 0.7 percent annual rate. The decline was entirely in the labor compensation category, and reflected a sharp cutback in state and local government employment. Preliminary data showed employment up 33,000 in October, but still 166,000 below October of 1981. In contrast, real construction spending rose a little in the third quarter, but remains weak, having fallen 14 percent in real terms over the past two years.

UNIFIED BUDGET TRENDS

	Percentage Change from prior fiscal year 1980	1981	1982	(Billions of dollars) 1982
Receipts				
Individual income tax	12.0	17.1	4.3	298.1
Corporate income tax	-1.6	-5.4	-19.5	49.2
Social insurance taxes	13.6	15.8	10.1	201.1
Excise taxes	29.8	67.9	-11.1	36.3
Other	19.0	8.9	15.2	33.0
Total receipts	11.6	15.9	3.1	617.8
Outlays				
National defense	15.4	17.6	17.3	187.4
Human resources	17.0	14.9	7.9	372.2
Physical resources	16.6	4.2	-3.0	64.6
Net interest	23.1	31.1	23.2	84.8
General revenue sharing	-.3	-24.8	-11.1	4.6
Other	40.7	-31.4	24.8	14.9
Total outlays	17.4	14.0	10.8	728.4
Deficit (-)	115.1	-2.8	91.0	-110.7

Wages and Prices

A wide variety of labor cost measures suggest that wage inflation has slowed about 2-1/2 percentage points in 1982. While some slowing was evident in the unionized blue collar sector as early as 1981, the employment cost index shows that the deceleration in wages is now affecting white-collar and service workers as well. The most up-to-date wage measure, the hourly earnings index for production workers, shows a 6.0 percent annual rate of wage increase over the first 10 months of 1982--down 2-1/2 percentage points from last year. In the unionized sector, relatively rapid wage increases are still being passed through from older agreements, but new settlements and smaller COLAs have lowered the average rise in wages by about 3 percentage points from that of 1981. New settlements have taken on increased importance in this heavy bargaining year, and, in 1982, have averaged 3 percentage points less than when these same parties last bargained.

Hourly compensation, a more comprehensive labor cost measure includes fringe benefits, has also slowed considerably in 1982. O the first three quarters of the year, compensation rose at a 6-3/4 percent annual rate, 2 percentage points less than in 1981. As a result of the slowdown in compensation and recent increases in productivity, unit labor costs have risen just over 5 percent at an annual rate thus far this year; this is considerably below the 8.9 percent advance in 1981.

As the slowdown in wage increases has become more pervasive this year, the easing of price inflation has become more durable and broadly-based than in 1981. By most measures, prices increased at an annual

SELECTED MEASURES OF LABOR COSTS
IN THE NONFARM BUSINESS SECTOR
(Percentage change at annual rates; quarterly changes based on seasonally adjusted data)

	1980	1981	1981 Q4	1982 Q1	1982 Q2	1982 Q3	Year-to-date
Hourly Earnings Index, wages - production workers[1]							Dec. 1981-Oct. 1982
Total private nonfarm	9.6	8.4	7.3	6.5	6.4	6.2	6.0
Manufacturing	10.9	8.8	7.7	8.7	6.6	6.3	6.4
Contract construction	7.7	8.1	8.8	9.0	2.3	3.5	4.8
Transportation and public utilities	9.3	8.5	7.7	7.4	6.0	4.3	5.7
Trade	8.8	7.1	4.3	3.8	6.4	4.5	4.8
Services	9.5	9.1	9.2	5.1	7.6	8.4	6.5
Employment Cost Index, wages and salaries - all persons[2]							1981-Q4 to 1982-Q3
Total	9.0	8.8	7.9	7.6	4.8	7.2	6.5
By occupation:							
White collar	8.7	9.1	9.1	7.5	5.3	8.0	6.9
Blue collar	9.6	8.6	7.3	6.6	3.8	6.6	5.7
Service workers	8.1	8.3	6.8	8.2	8.3	6.3	7.6
By bargaining status:							
Union	10.9	9.6	9.1	7.6	5.8	8.2	7.2
Nonunion	8.0	8.5	7.6	7.3	3.7	8.7	5.3
Major Collective Bargaining Settlements (First-year adjustments)							First 9 mo. 1982
Contracts with COLAs	8.0	8.0					2.2
Contracts without COLAs	11.7	10.6					7.1
Labor Costs and Productivity - all persons[1]							1981-Q4 to 1982-Q3
Compensation per hour	10.6	8.8	7.3	7.7	6.1	6.6	6.7
Output per hour	.3	-.1	-3.5	.6	.8	3.6	1.6
Unit labor costs	10.2	8.9	11.2	7.1	5.2	2.9	5.0
Employment Cost Index, Compensation[3]							1981-Q4 to 1982-Q3
Compensation per hour	9.8	9.8	8.1	7.1	5.4	7.3	6.5

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Quarterly changes are at compound rates.
2. Percent change from final month of preceding period to final month of period indicated. Quarterly changes are compounded; seasonal adjustment by FRB staff.
3. Not seasonally adjusted.

RECENT CHANGES IN CONSUMER PRICES[1]
(Percentage change at annual rates: based on seasonally adjusted data)[2]

	Relative importance Dec. 1981	1980	1981	1982 Q1	1982 Q2	1982 Q3	1982 Aug.	1982 Sept.
All items	100.0	12.4	8.9	1.0	9.3	4.2	3.3	2.1
Food	16.6	10.2	4.3	3.9	7.3	0.6	-3.3	5.9
Energy	11.1	18.1	11.9	-8.0	12.9	5.5	0.0	-0.8
Homeownership	26.1	16.5	10.1	-2.4	19.8	0.4	4.7	-8.7
All items less food, energy, and homeownership[3]	49.8	9.9	9.4	5.4	6.9	6.1	4.8	5.3
Used cars	3.3	18.3	20.3	5.5	3.5	16.0	11.4	14.1
Other commodities[3]	19.9	8.1	6.1	4.8	3.7	3.9	1.1	2.8
Other services[3]	26.6	10.3	10.6	6.3	8.0	8.4	6.7	8.4
Memorandum:								
Experimental CPI[4]	100.0	10.8	8.5	2.7	5.8	6.4	3.2	5.9

1. Based on index for all urban consumers (CPI-U).
2. Changes are from final month of preceding period to final month of period indicated; monthly changes at simple annual rates.
3. Includes the home maintenance and repair items of homeownership costs.
4. BLS experimental index for "All items"--CPI-U-X1--which uses a rental equivalence measure for homeownership costs.

RECENT CHANGES IN PRODUCER PRICES
(Percentage change at annual rates; based on seasonally adjusted data)[1]

	Relative importance Dec. 1981	1980	1981	1982 Q1	1982 Q2	1982 Q3	1982 Aug.	1982 Sept.
Finished goods	100.0	11.8	7.1	.9	4.1	4.2	7.3	-1.7
Consumer food	21.9	7.5	1.4	6.1	11.5	-7.4	1.4	-6.5
Consumer energy	12.7	27.8	14.1	-18.5	-15.7	33.4	14.6	4.7
Other consumer goods	44.6	10.4	7.1	3.9	5.3	3.7	7.7	-.5
Capital equipment	20.8	11.4	9.2	2.4	6.2	3.2	8.1	-4.2
Intermediate materials[2]	94.7	12.4	7.3	-1.8	-1.4	2.3	-.8	1.5
Excluding energy	77.6	10.1	6.6	.1	.4	.8	-1.2	5.0
Crude Materials								
Food	50.7	8.6	-14.0	23.3	24.3	-26.4	-12.3	-45.5
Energy	33.6	26.9	22.8	-5.8	2.0	9.0	2.4	12.1
Other	15.7	7.5	-11.4	-40.3	24.9	5.8	-7.5	12.0

1. Changes are from final month of preceding period to final month of period indicated; monthly changes at simple annual rates.
2. Excludes materials for food manufacturing and animal feeds.

rate of 5 percent or less over the first nine months of the year. In September the consumer price index rose 0.2 percent, benefitting from lower homeownership costs and relatively small increases for most other items; the experimental CPI, which uses rents as a measure of homeownership costs, rose 0.5 percent and has increased at a 5 percent annual rate so far this year. Prices for producer finished goods declined in September.

Inflation in the food and energy sectors was relatively mild again in September. Food prices increased 0.5 percent following declines in both July and August; excluding the food items that are volatile from month to month--fruits and vegetables and meats--the increase in food prices was 0.3 percent in September, near the 1982 average monthly rise. In the energy sector, gasoline prices declined for the second consecutive month, partially offsetting the effect of the ongoing decontrol of natural gas prices that boosted these prices 20 percent in the 12 months ended in September.

Homeownership costs declined sharply in September, reflecting a drop in home prices and steep declines in mortgage rates. The CPI measure of mortgage rates has been trending down all year, and the lowering of FHA/VA ceiling rates from 15 to 14 percent in early September pushed the index down further. The recent data on settlement and commitment rates, as well as a further reduction in the FHA/VA ceiling during October suggest that the mortgage rate index will depress monthly increases in the overall CPI for the remainder of the year.

Excluding food, energy, and homeownership, consumer prices again rose less than 0.5 percent in September. Price increases were small for most commodities and even in the service sector, where inflation has been a bit higher, price increases remained well below last year's double-digit rates. Notable exceptions have been sharp price increases for hospital services, tuition costs, tobacco products, and used cars.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1981	1982			Change from:	
		Early summer	FOMC		Early summer	FOMC
	Highs	Highs	Oct. 5	Nov. 9	Highs	Oct. 5
Short-term rates						
Federal funds[2]	20.06	14.81	10.77	9.42p	-5.39	-1.35
Treasury bills						
3-month	17.01	13.19	8.14	8.00	-5.19	-.14
6-month	15.93	13.40	9.18	8.33	-5.07	-.85
1-year	15.21	13.12	9.66	8.42	-4.70	-1.24
Commercial paper						
1-month	18.63	14.89	10.23	8.71	-6.18	-1.52
3-month	18.29	15.00	10.42	8.71	-6.29	-1.71
Large negotiable CDs[3]						
1-month	18.90	14.99	10.33	8.88	-6.11	-1.45
3-month	19.01	15.58	10.72	8.97	-6.61	-1.75
6-month	18.50	15.70	10.98	9.14	-6.56	-1.84
Eurodollar deposits[2]						
1-month	19.80	15.66	11.23	9.55p	-6.11	-1.68
3-month	19.56	16.28	11.59	9.73p	-6.55	-1.86
Bank prime rate	21.50	16.50	13.50	12.00	-4.50	-1.50
Treasury bill futures						
Dec. 1982 contract	14.20	13.69	8.93	7.70	-5.99	-1.23
June 1983 contract	14.07	13.67	10.56	8.76	-4.91	-1.80
Intermediate- and long-term rates						
U.S. Treasury (constant maturity)						
3-year	16.59	14.98	11.62	9.92	-5.06	-1.70
10-year	15.84	14.73	11.69	10.51	-4.22	-1.18
30-year	15.20	14.26	11.81	10.44	-3.82	-1.37
Municipal (Bond Buyer)	13.30	12.63	10.48[4]	9.96[4]	-2.67	-.52
Corporate--Aaa utility						
Recently offered	17.72	16.19	13.27e	11.93p	-4.26	-1.34
S&L fixed-rate mortgage commitment	18.63	16.93	15.13[5]	13.91[5]	-3.02	-1.22

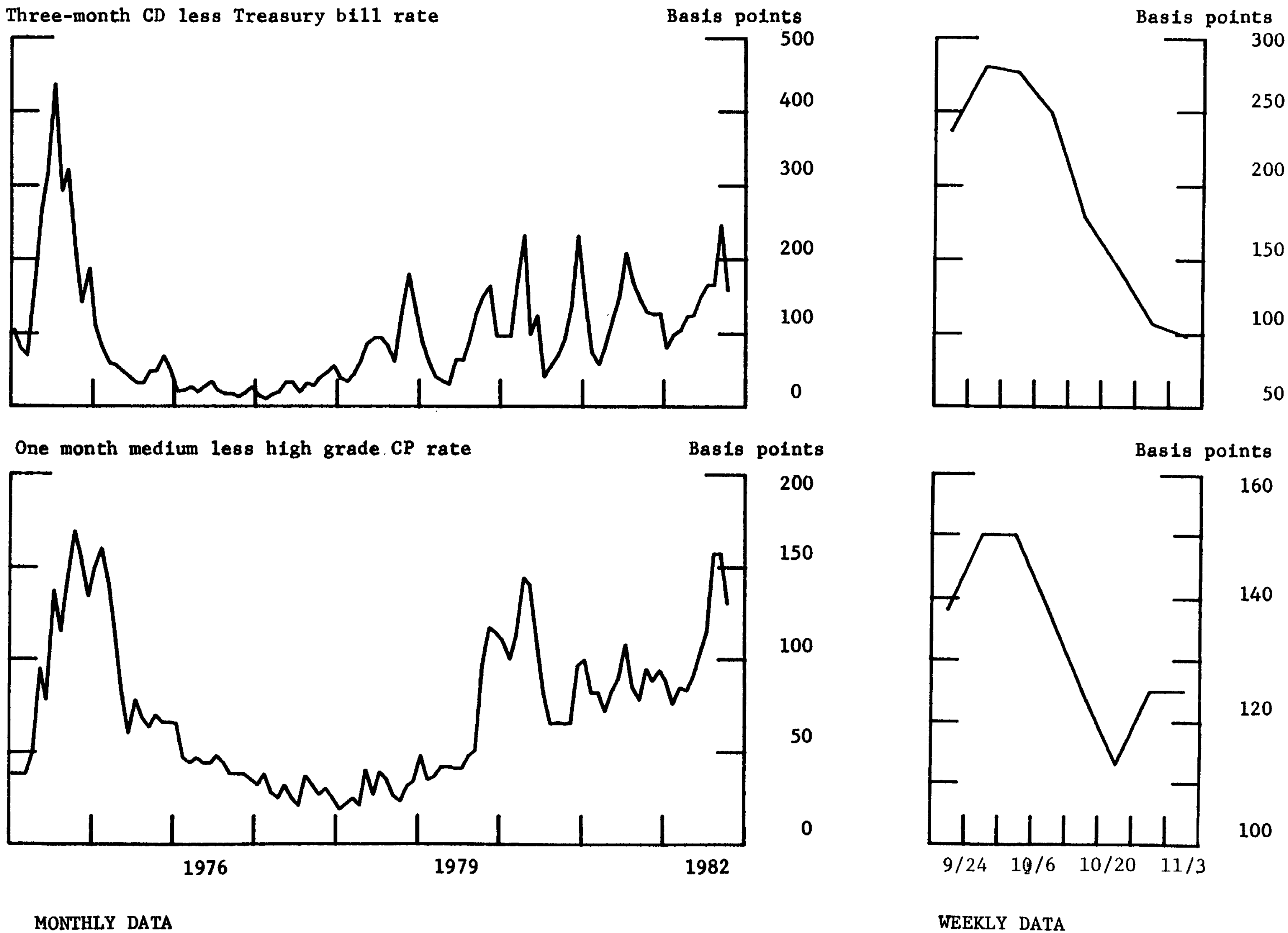
	1981	1982		Percent change from:	
		FOMC		1981	FOMC
	Highs	Oct. 5	Nov. 9	Highs	Oct. 5
Stock Prices					
Dow-Jones Industrial	1,024.05	907.19	1060.25	3.5	16.9
NYSE Composite	79.14	70.06	82.35	4.1	17.5
AMEX Composite	380.36	283.14	341.32	-10.3	20.5
NASDAQ (OTC)	223.47	188.77	230.19	3.0	21.9

1. One-day quotes except as noted.
2. Averages for statement week closest to date shown.
3. Secondary market.
4. One-day quotes for preceding Thursday.
5. One-day quotes for preceding Friday.
p--preliminary. e--estimated.

As expected, deposit flows were distorted in October by the maturation of more than $30 billion of all savers certificates. Although depository institutions have thus far retained most of the maturing funds, large amounts have shifted into various highly liquid accounts. As a result, M1 has continued to surge, recording in October its third straight double-digit advance. Growth in M2 and M3 picked up from the relatively sluggish September rates, but remained below the brisk pace of earlier in the year.

Security market developments since the October FOMC meeting have reflected the continuing weakness of the economy, an accommodative reserve supplying posture by the System, and a widespread view that the Federal Reserve would for a while be pursuing a less "monetarist" course aimed at easing credit conditions to promote an economic recovery. The federal funds rate has declined more than 1-1/4 percentage points, reflecting a 1/2 point cut in the discount rate and some easing in reserve positions. Other private short-term interest rates have fallen 1-1/2 to 1-3/4 percentage points, while declines in Treasury bills have been much less. As interest rates have dropped, concerns about major financial dislocations have diminished; quality spreads in the money markets have narrowed, and tiering within rating categories in domestic and Euro-CD markets reportedly has become less pronounced. In the long-term capital markets, taxable long-term bond yields have fallen about 1-1/4 percentage points, and common stocks have appreciated around 18 to 22 percent, with many indexes touching new highs in early November.

SELECTED INTEREST RATE SPREADS



The rally in the bond markets has brought a surge in corporate offerings. A good part of the proceeds of these bond issues has been used to repay short-term debt; commercial paper has contracted, and borrowing from banks has moderated. Tax-exempt borrowers, too, have responded to lower interest rates, offering a record volume of bond issues. Treasury borrowing in October was on the light side because of the acceleration of offerings in late September; however, in November the Treasury has had to return to the task of financing the government's massive deficit. Household borrowing in the mortgage and consumer installment credit markets remains depressed, but there are signs of an uptick in mortgage activity.

Monetary Aggregates and Bank Credit

Available data indicate that only a small fraction of maturing all savers certificate (ASC) funds have been rolled over into new certificates. Much of the remainder appears to have been shifted into demand deposits, OCDs, and savings accounts. Although households likely have placed the funds in such liquid accounts only temporarily, there is as yet no sign of a reallocation of assets. The sharp decline of market interest rates in recent months not only has reduced the opportunity cost of holding the more liquid instruments, but evidently has left many savers uncertain about what investment decisions to make. Reflecting these circumstances, and perhaps the record volume of stock market activity, M1 surged at nearly a 20 percent rate of growth in October (somewhat less with the new experimental seasonal factors).

M2 advanced at an 8 percent annual rate in October, up from 4-3/4 percent in September. Part of the acceleration in M2 reflected a pickup in growth of its nontransactions component. Within this category, a

MONETARY AGGREGATES
(Based on seasonally adjusted data unless otherwise noted)[1]

	1982						QIV. '81 to Oct. '82P
	Q1	Q2	Q3	Aug.	Sept.	Oct.P	
	--Percentage change at annual rates--						
Money stock measures							
1. M1	10.4	3.3	3.5	10.4	14.0	19.5	7.8
2. (M1)[2]	(9.5)	(3.6)	(4.3)	(13.9)	(17.1)	(13.8)	(7.7)
3. M2	9.8	9.5	9.7	14.3	4.8	8.1	9.7
4. M3	8.7	10.7	12.0	18.4	3.4	8.8	10.5
Selected components							
5. Currency	7.9	9.3	6.9	6.5	9.3	7.4	8.2
6. Demand deposits	-0.5	-5.8	-1.4	2.6	7.8	17.0	0.0
7. Other checkable deposits	49.5	19.6	11.4	38.4	37.3	43.9	32.3
8. M2 minus M1 (9+10+11+14)	9.5	11.5	11.7	15.5	2.1	4.6	10.2
9. Overnight RPs and Eurodollars, NSA[3]	63.6	-8.4	14.3	30.4	-40.4	83.7	26.2
10. General purpose and broker/dealer money market mutual fund shares, NSA	33.8	20.9	31.0	60.9	12.7	9.9	29.4
11. Commercial banks	9.4	17.2	12.2	12.5	7.7	0.4	11.9
12. savings deposits	8.7	2.0	-9.7	-8.4	4.6	21.5	2.2
13. small time deposits	9.7	23.8	21.3	20.3	8.8	-7.6	16.1
14. Thrift institutions	1.6	6.0	6.4	5.3	-1.9	2.4	4.1
15. savings deposits	10.2	0.6	-7.8	-5.8	-1.3	45.8	4.7
16. small time deposits	-1.5	8.1	11.7	9.3	-2.3	-13.3	3.9
17. M3 minus M2 (18+21+22)	3.3	16.9	23.4	38.1	-3.5	12.1	14.5
18. Large time deposits	8.9	19.1	19.5	13.6	-2.1	11.7	15.0
19. at commercial banks, net[4]	6.1	19.9	21.3	12.6	-6.5	6.9	14.1
20. at thrift institutions	21.6	15.5	11.5	18.1	17.8	35.1	19.3
21. Institutions-only money market mutual fund shares, NSA	-2.5	15.2	104.0	209.3	22.3	24.6	45.1
22. Term RPs, NSA	-29.9	6.2	-28.1	110.6	-78.8	0.0	-15.4
	--Average monthly change in billions of dollars--						
MEMORANDA:							
23. Managed liabilities at commercial banks[4] (24+25)	0.6	6.3	1.6	5.3	-6.7	4.6	3.0
24. Large time deposits, gross[5]	2.7	5.8	5.6	6.8	-0.5	0.7	3.9
25. Nondeposit funds[5]	-2.1	0.5	-4.0	-1.5	-6.2	3.9	-0.9
26. Net due to related foreign institutions, NSA[5]	-2.1	0.4	-4.3	-3.9	-4.4	-3.0	-2.0
27. Other[5,6]	0.0	0.1	0.3	2.4	-1.8	6.9	1.1
28. U.S. government deposits at commercial banks[7]	1.9	-2.5	0.2	0.8	1.4	3.1	0.2

1. Quarterly growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda for quarterly changes are calculated on an end-month-of-quarter basis.
2. M1 seasonally adjusted using alternative model-based procedure applied to weekly data.
3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers. Excludes retail RPs, which are in the small time deposit components.
4. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
5. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to September 1982.
6. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve and unaffiliated foreign banks), loans sold to affiliates, loan RPs and other minor items. Data are partially estimated.
7. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
p--Preliminary.

resurgence of overnight RPs at large banks, which accompanied a sizable buildup in Treasury security holdings, more than offset slower growth in the total savings and small time deposit component and smaller inflows to general purpose and broker/dealer money funds. As ASCs matured, small time deposits contracted, while savings deposits registered record inflows. Although some maturing funds likely were shifted out of M2, available evidence suggests that such shifts have been quite moderate: non-M2 investments thought to be attractive outlets for maturing ASC funds--tax-exempt mutual funds and unit investment trusts as well as noncompetitive tenders for Treasury securities--showed little, if any, step-up in flows last month.

M3 also grew more rapidly in October than in September, owing not only to stronger M2 but also to a resumption of commercial bank issuance of large CDs, increased CD growth at thrifts, and an abatement in runoffs of term RPs. The turnaround in commercial bank issuance of large CDs was accompanied by a narrowing of spreads of bank CD rates over Treasury bill yields and reportedly less tiering of domestic and Euro-CD rates, including a reduction in premiums paid by certain institutions with widely publicized problem loans. In reaction to earlier funding difficulties, these banks reportedly had become more restrictive in their lending practices; by late September, loan portfolios at these institutions had weakened noticeably relative to those of other large banks, as some customers switched to other institutions for loans as well as standby letters of credit to back commercial paper. During October, one of these institutions recovered some of its standing in the market and resumed lending, while lending at the other publicized institutions continued to be sluggish.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)[1]

	1982						QIV '81 to
	Q1	Q2	Q3	Aug.	Sept.	Oct.p	Oct. '82p
	--Commercial Bank Credit--						
1. Total loans and investments at banks[2,3]	10.1	8.0	5.8	6.6	4.5	6.6	8.0[4]
2. Investments[3]	5.7	4.7	4.8	8.5	3.4	10.8	5.6
3. Treasury securities	11.5	4.9	8.3	13.4	4.1	39.6	10.4
4. Other securities[3]	2.8	4.8	2.9	6.1	2.5	-2.5	3.3
5. Total loans[2,3]	11.5	9.1	6.2	6.0	4.8	5.2	8.9
6. Business loans[2,3]	16.7	15.0	9.0	3.9	13.0	8.2	13.4
7. Security loans	-18.3	-26.8	63.6	22.9	67.3	74.3	16.8
8. Real estate loans	7.8	6.6	2.8	4.0	3.6	4.0	6.1
9. Consumer loans	2.8	2.8	3.0	1.9	0.6	2.5	3.1
	--Short- and Intermediate-Term Business Credit--						
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)[3]	15.2	13.2	n.a.	7.9	n.a.	n.a.	n.a.
11. Business loans net of bankers acceptances[3]	16.5	15.9	9.0	2.7	12.7	7.8	13.7
12. Commercial paper issued by nonfinancial firms[5]	30.0	16.8	-6.0	-1.9	-52.7	-69.4	7.1
13. Sum of line 11 & 12[3]	18.2	16.0	7.0	2.1	3.9	-2.1	12.8
14. Line 13 plus loans at foreign branches[3,6]	18.5	15.8	8.3	5.9	3.8	-2.3	13.5
15. Finance company loans to business[7]	1.0	1.5	15.8	16.1	13.0	n.a.	n.a.
16. Total bankers acceptances outstanding[7]	11.7	10.2	n.a.	13.3	n.a.	n.a.	n.a.

1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.
2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.
3. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to September 1982.
4. Growth of bank credit from the FOMC's December-January base through October 1982, not adjusted for shifts of assets from domestic offices to IBFs, was at an annual rate of 7.4 percent. Adjusted for such shifts after January, growth over this period was 7.9 percent.
5. Average of Wednesdays.
6. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
7. Based on average of current and preceding ends of month.
n.a--Not available.
p--Preliminary

Bank credit in the aggregate expanded at a somewhat faster pace in October than in the previous month, reflecting primarily sizable acquisitions of Treasury securities for investment accounts. The buildup of Treasury securities was the largest since January of this year and occurred mainly at large banks, which acquired mostly one- to five-year maturities. Business loan growth slowed in October, especially at large banks, whose customers probably shifted some of their financing to the bond market. Real estate and consumer loans at commercial banks remained weak. Security loans continued to grow rapidly, likely reflecting the brisk pace of underwriting and trading activity in the capital markets.

Business Finance

Preliminary data indicate that a modest improvement in profits did little to ease corporate financing needs in the third quarter, as capital expenditures continued to exceed internally generated funds by a considerable margin. Consequently, total external financing by nonfinancial corporations during the third quarter likely remained close to the high levels recorded in the first half of 1982. Available data, however, suggest that total funds raised by businesses in debt and equity markets have ebbed thus far in the current quarter.

Continuing the trend that emerged in the summer, corporate financing in October appears to have been concentrated in bond markets; $6.6 billion in publicly offered bonds were sold in October, the largest monthly slate since November 1981, and issuance of Euro-bonds by U.S. firms remained strong. Declining long-term interest rates have encouraged many firms to fund short-term indebtedness, as nonfinancial corporations paid down even

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly totals or monthly averages, millions of dollars)

	1981	1982					
	Year	Q1	Q2	Q3 p	Sept. p	Oct. p	Nov. f
	Seasonally adjusted						
Corporate securities--total	6,348	6,102	6,392	8,468	9,335	10,480	10,900
Securities sold in U.S.	5,833	4,720	5,015	7,451	7,800	9,230	9,600
Publicly offered bonds[1]	3,138	2,088	2,279	4,606	5,600	6,600	6,500
Privately placed bonds	582	725	461	669	600	600	600
Stocks[2]	2,113	1,907	2,275	2,176	1,600	2,030	2,500
Securities sold abroad[3]	515	1,382	1,377	1,017	1,535	1,250	1,300
	Domestic offerings, not seasonally adjusted						
Publicly offered bonds--total[1]	3,138	1,873	2,824	4,242	4,500	6,600	5,000
By industry							
Utility	1,079	693	938	924	1,015	1,670	--
Industrial	1,192	464	576	1,701	1,235	2,415	--
Financial	867	716	1,310	1,617	2,250	2,515	--
By quality[4]							
Aaa and Aa	1,182	694	956	1,835	1,865	2,775	--
A and Baa	1,448	809	1,065	1,754	1,740	2,840	--
Less than Baa	226	151	196	235	545	530	--
No rating (or unknown)	282	219	607	418	350	455	--
Memo items:							
Convertible bonds	357	47	178	167	220	550	--
Original discount bonds							
Par value	808	910	1,129	650	370	248	--
Gross proceeds	358	297	394	229	315	219	--
Stocks--total[2]	2,112	1,866	2,214	1,954	1,800	2,200	2,300
By industry							
Utility	676	660	559	665	900	500	--
Industrial	1,054	965	969	790	600	1,200	--
Financial	382	241	686	499	300	500	--

p--preliminary. f--forecast.
1. Total reflects gross proceeds rather than par value of original discount bonds.
2. Includes equity issues associated with debt/equity swaps.
3. Notes and bonds, not seasonally adjusted.
4. Bonds categorized according to Moody's bond ratings.

larger amounts of commercial paper in October than in September and non-merger related borrowings at banks contracted.

Industrial corporations accounted for about 40 percent of gross bond issuance in October, close to their share in the third quarter and roughly twice their share in the first half of the year. The major part of the October volume consisted of straight debt issues rated Baa or above. As interest rates have fallen, firms with good credit ratings apparently have felt little need to employ the innovative or "gimmicky" financing techniques used extensively in the first half of the year. A substantial fraction of bond issuance by lower-rated firms took the form of convertible debentures.

The rally in share prices elicited only a moderately increased gross volume of stock issues in October. In early November, however, there has been a noticeable increase in the volume of new stock registrations, and most market analysts expect a near-term pickup in equity issuance, barring a major reversal of the recent price gains. Thus far, many firms reportedly have taken advantage of improved share prices by funding pension liabilities with issuance of new stock to their own pension plans (not included in gross offerings).[1]

Government Finance

Federal Sector. A record $61.7 billion combined Treasury deficit is projected by the Board staff for the fourth quarter. Of this amount, the staff estimates that $49 billion will be financed through marketable

1. These transactions do not involve a transfer of cash between the parent company and the pension fund; stock is issued by the former to the latter and becomes an asset of the pension fund with no corresponding reduction in cash or increase in liabilities. Under Section 407 of the Employee Retirement Income Security Act (ERISA), a defined benefit pension plan can hold up to 10 percent of its total assets in the form of stock or other marketable securities issued by the parent company.

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

	1982				
	Q3	Q4[f]	Sept.	Oct.[e]	Nov.[f]
Treasury financing					
Combined surplus/deficit(-)	-42.3	-61.7	-4.6	-23.8	-21.0
Means of financing deficit:					
(1) Net cash borrowing from the public	57.5	49.5	22.1	5.3	21.5
Marketable borrowings/ repayments(-)	60.3	49.0	23.0	4.9	21.2
Bills	22.2	28.7	4.9	6.0	5.8
Coupons	38.1	20.3	18.1	-1.1	15.4
Nonmarketable	-2.8	.5	-.9	.4	.3
(2) Decrease in the cash balance	-18.4	14.4	-21.2	15.3	6.0
Memo: Cash balance at end of period	29.4	15.0	29.4	14.1	2.0
(3) Other[2]	3.2	-2.2	3.7	3.2	-6.5
Federally sponsored credit agencies net cash borrowing[3]	5.8	1.1	1.9	-0.2	0.5
FHLB	-0.6	-0.6	-0.5	-0.1	-0.3
FNMA	5.5	1.0	2.4	-0.2	0.5
Farm Credit Banks	0.4	0.4	-0.1	0.1	0.1
Other	0.6	0.3	0.1	0.0	0.2

e--estimated.
f--forecast.
1. Numbers reported on a not seasonally adjusted, payment basis.
2. Includes checks issued less checks paid, accrued items and other transactions.
3. Includes debt of Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, the Federal Farm Credit Bank System, and the Student Loan Marketing Association. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

borrowings,[1] with the remainder financed largely by a reduction in the Treasury's cash balance.

Through mid-November, the Treasury has raised $26 billion of its fourth-quarter needs, comprising $14.4 billion in bills and $11.6 billion in coupons. In its mid-quarter refunding, the Treasury raised $8.4 billion (net) from the sale of 3- and 10-year notes and a 30-year bond. To increase bidding interest for longer-term issues not sold at the mid-quarter refunding, the Treasury announced that in early December it will hold another "mini-refunding" by compressing the auction dates of 4- and 7-year notes and the 20-year bond into three consecutive days; in earlier years the 7-year note and 20-year bond had been auctioned later in December or in early January.

Federally sponsored credit agencies repaid about $200 million in debt in October. Owing to a fall-off in net mortgage purchases and unusually high liquid balances at the end of September, FNMA--which had borrowed substantial amounts in previous months--paid down about $200 million in October. The Farm Credit Banks raised less than $100 million, while the Federal Home Loan Banks trimmed their outstanding debt slightly as thrift institutions repaid advances for the fourth consecutive month. In recent months, the FHLBs had built up liquidity in anticipation of large demands for advances to offset outflows related to maturing ASCs. With these outflows proving less than feared, the FHLBs are expected to satisfy a substantial part of their financing needs over the next few months by drawing down their liquid assets.

1. This borrowing projection is above the Treasury's estimate of $46.5 billion.

State and Local Sector. Yields quoted in the long-term municipal securities market dropped as much as 125 basis points immediately following the October FOMC meeting, but backed up late in the month as investors resisted the aggressive pricing by underwriters on a flood of new bond issues. Last week, the Bond Buyer index of rates on general obligation bonds stood at 9.96 percent, about 50 basis points below its October FOMC level; the index of rates on revenue bonds--at 10.66 percent--declined about 30 basis points.

STATE & LOCAL GOVERNMENT SECURITY OFFERINGS
(Monthly averages, billions of dollars)

	1981	1982				
	Year	H1	Q3	Sept.	Oct.[e]	Nov.[f]
	------ Seasonally adjusted ------					
Total	6.40	9.00	9.80	9.60	12.80	10.80
Long-term	3.60	5.30	6.30	6.50	7.90	7.50
Short-term[1]	2.80	3.70	3.50	3.10	4.90	3.30
	------ Not seasonally adjusted ------					
Total	6.40	8.65	9.50	9.80	11.50	12.00
Long-term	3.60	5.20	6.10	6.30	8.00	8.50
Mortgage revenue	.60	.60	1.50	1.30	1.40	1.50
Short-term[1]	2.80	3.45	3.40	3.50	3.50	3.50

e--estimate. f--forecast.
1. These figures do not include small amounts of debt issued in the form of tax-exempt commercial paper.

The gross volume of municipal bond offerings was a record $7.9 billion in October, and the November volume is expected to be almost as large.[1] Apart from the attraction of lower rates, some of the recent pickup in tax-exempt bond issuance may reflect issuers' desires to market bonds before

1. Through the first ten months of 1982, the gross volume of tax-exempt bonds totaled $56 billion (NSA), already $8 billion above the record annual volume sold in 1978.

January 1, the effective date of a new federal law requiring registration of all municipal securities maturing in one year or more. Revenue bonds continued to make up the bulk of tax-exempt offerings, accounting for nearly 75 percent of such issuance in October. Sales of mortgage revenue bonds amounted to $1.4 billion, approximately the average pace of recent months.

As has been true for most of the year, individuals remain the major purchasers of new tax-exempt issues, either through direct investment or indirectly through bond funds. Traditional institutional investors--property and casualty insurance companies and commercial banks--remain, for the most part, on the sidelines. Record underwriting losses of property and casualty insurance companies are expected to continue until late 1983, and prospects for significant tax-exempt investments by these institutions therefore remain dim. Commercial banks, on the other hand, have an incentive to increase purchases of municipal securities before December 31; only 85 percent of the interest expenses and other carrying costs of municipal securities purchased after this date, rather than the current 100 percent, will be deductible by these institutions for federal income tax purposes.

Mortgage Markets

The average interest rate on new commitments for fixed-rate, level-payment conventional home mortgages at S&Ls has declined by more than a percentage point since the October FOMC meeting to 13.91 percent, the lowest reading since October 1980. Falling rates on GNMA-guaranteed securities prompted a cut of a full percentage point, on October 13, in the ceiling rate for FHA/VA home loans to 12-1/2 percent, the lowest level since August 1980. Average effective rates on level-payment loans and graduatedpayment FHA-insured home loans currently are around 12.9 percent and 13.2 percent, respectively.

In the secondary market, yields on FNMA and FHLMC commitments to acquire fixed- and adjustable-rate home loans generally have fallen by a percentage point or more since early October. Gross yields available on fixed-rate conventional home loans through mandatory delivery purchase programs of these two agencies recently have been around 13-1/2 percent.

As mortgage rates have receded in recent months, the volume of residential lending activity appears to have begun to pick up. Issuance of new commitments by S&Ls increased slightly in September for the second straight month, rising somewhat above the range that had prevailed since late last year. In addition, HUD surveys of large mortgage companies--available through October--suggest that demands for conventional and government underwritten home mortgage credit have been strengthening.[1] HUD also reports that applications for FHA home mortgage insurance increased substantially during the September-October period. As yet, it is unclear how much of the above activity reflects financing of home purchases and how much is refinancing of outstanding higher-rate or short-term loans.

Reflecting slack commitment activity during previous months, mortgage assets held by S&Ls rose only $900 million in September, as a $3 billion increase in holdings of pass-through securities more than offset a near-record $2.1 billion reduction in directly held mortgage loans. This shift in portfolio composition reflected primarily swaps of conventional home loans for pass-through securities guaranteed by FHLMC or FNMA.

1. These surveys also suggest some shift in borrower demands away from adjustable-rate to fixed-rate contracts as interest rates have dropped.

Swap transactions continued to dominate the mortgage securities activity of FNMA and FHLMC in September, accounting for 95 percent of all new issues guaranteed by these agencies. Mortgages held in portfolio by FNMA increased by more than $1 billion for the fourth consecutive month; in contrast, the mortgage portfolios of both FHLMC and GNMA have changed little, on balance, throughout the year.

The delinquency rate on mortgages held by federally insured S&Ls (dollar volume of loans delinquent 60 days or longer, as a percent of total amount outstanding) increased to a record 2.02 percent (SA) in September, more than double the rate at the cyclical low in the second half of 1979. This deterioration likely mirrors slack overall economic activity and weakening home prices. To date, the maturation of balloon second mortgages appears not to have caused widespread problems for homeowners.

Consumer Credit

Growth in consumer installment credit edged up in September to an annual rate of 4 percent after virtually no gain in August. For the third quarter as a whole, consumer credit increased at only a 2 percent annual rate, down from the 4-3/4 percent pace of the second quarter.

Recent decreases in the cost of funds to commercial banks apparently are beginning to carry over into lower interest rates on consumer loans. According to the Board series, auto loan interest rates at banks averaged 17.08 percent in the first week of August. Although the next observation (covering the first week of November) is not yet available, an informal survey of several banks around the country indicates that interest rates

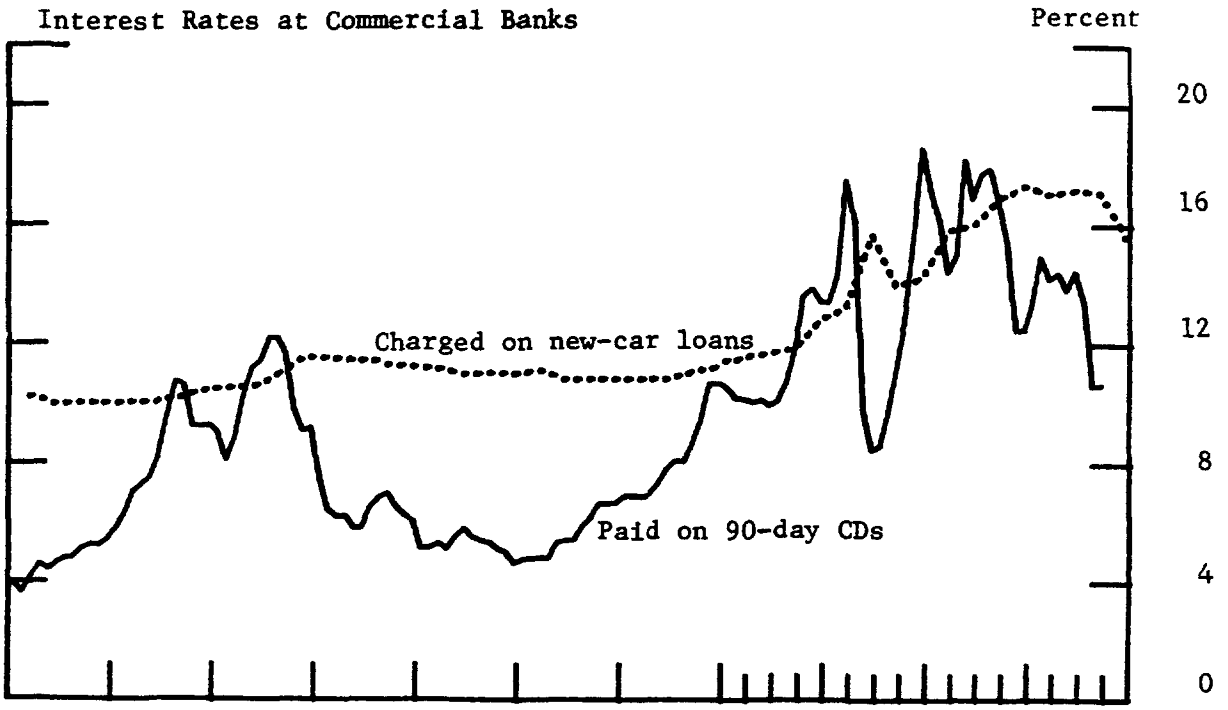
CONSUMER INSTALLMENT CREDIT
(Seasonally adjusted at annual rates)

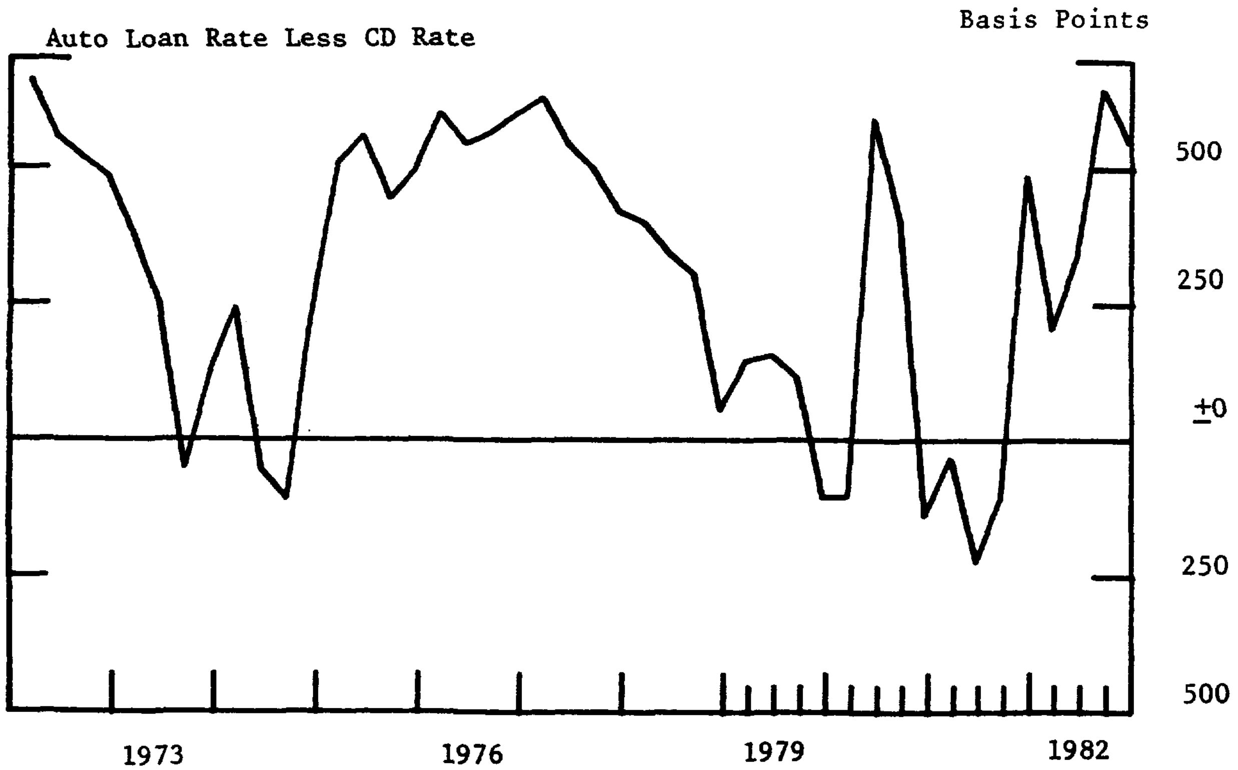
	1980	1981	1982			
			Q2	Q3	Aug.	Sept.
	------ Percent rate of growth -----					
Change in outstandings -- total	0.5	6.4	4.8	2.1	0.2	3.9
By type:						
Automobile credit	0.4	8.2	5.8	0.5	-3.8	4.8
Revolving credit	2.5	8.1	10.4	6.4	2.8	4.1
All other	-0.3	4.1	1.5	1.7	2.7	3.1
	------ -Billions of dollars- -----					
Change in outstandings -- total	1.4	19.1	15.7	6.9	0.8	13.1
By type:						
Automobile credit	0.5	9.6	7.4	0.7	-4.8	6.1
Revolving credit	1.4	4.7	6.2	3.9	1.7	2.5
All other	-0.4	5.6	2.1	2.4	3.9	4.5
By major holder:						
Commercial banks	-7.2	2.3	-0.1	0.6	-3.0	5.8
Finance companies	8.4	13.1	10.2	0.7	-1.7	1.4
All other	0.2	4.5	5.6	5.6	5.5	5.9

for auto loans have declined 150 to 200 basis points since August.[1] Still, the spread between the finance rate at banks and the yield on 90-day bank CDs has remained on the large side by historical standards.

Both the General Motors Acceptance Corporation and the Ford Motor Credit Company have recently established low-rate (10.9 percent) financing programs for purchases of remaining 1982 models. Prior to these programs, loan rates at auto finance companies averaged close to 18 percent on 1982 cars (and still do on 1983 models). The rate-subsidy programs are expected to reduce typical monthly payments by $28 to $35 (on a 48-month loan in the $8,000 to $10,000 range). In contrast, the estimated decline in finance rates at banks likely would reduce monthly payments only about $6 to $10 on average.

1. Interest rates on unsecured loans appear to have fallen by somewhat smaller amounts.





Auto loan rate and difference between rates is for the mid-month of quarter. Auto rate for November 1982 is estimated.

Foreign Exchange Markets

As shown by the chart on the next page, the weighted average value of the dollar has appreciated by about 1 percent on balance since the October FOMC meeting. Dollar interest rates have declined somewhat more than foreign-currency interest rates on average since the FOMC meeting, but any depressing effects on dollar exchange rates may have been countered by growing expectations that foreign interest rates will continue to decline as a policy response to the continuing weakness of economic activity abroad. The announcement that September data had resulted in a U.S. third-quarter trade deficit of $52 billion (annual rate) had little apparent impact on exchange rates. On a bilateral basis the dollar has appreciated by more than 1 percent since early October against most European currencies, while depreciating by several percent against the yen and the Canadian dollar.

. The United States intervened on three days in early October, selling less than $100 million total against yen and marks.

. Pressures on the lira were attributed to increasing market concerns about Italy's large public borrowing requirements and about the prospect of major strikes if labor and employer groups are unsuccessful in renegotiating the scala-mobile wage-indexation arrangement, which expires at the

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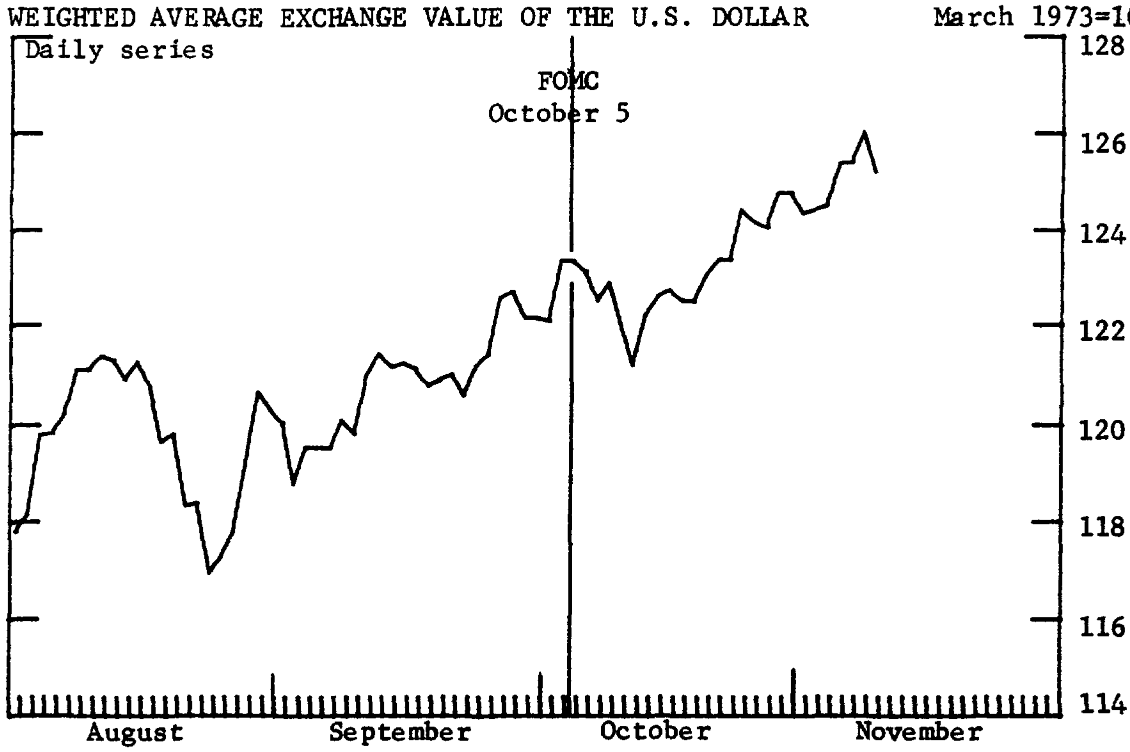
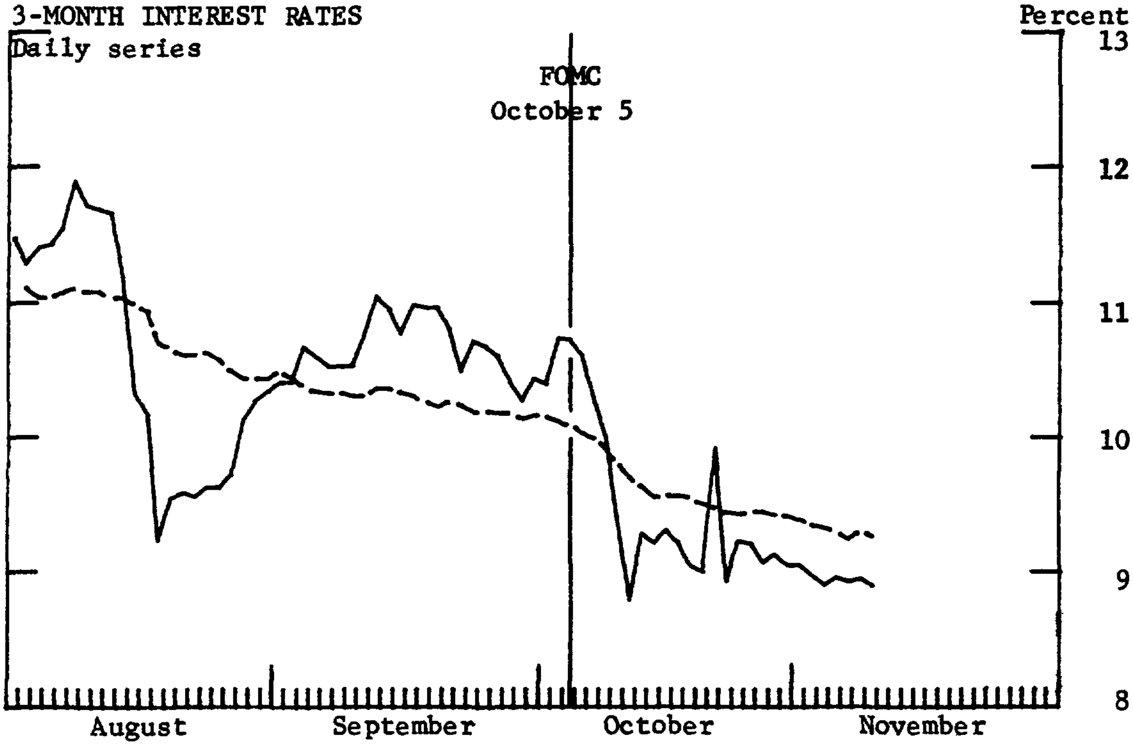
WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR March 1973=100



3-MONTH INTEREST RATES Percent



end of January.

. The weakening of the yen appeared to have been associated with the sluggishness of Japanese exports and domestic activity, and with domestic political strains over the selection of a new leader for the ruling Liberal Democratic Party. Early in November market sentiment toward the yen reversed for reasons that are not clear, and the yen appreciated sharply to a dollar value about 2 percent higher than its level at the time of the last FOMC.

The Swedish krona was devalued by 16 percent in early October following the transition to the new Socialist government. Around the same time Finland devalued its currency by 10 percent in two steps,

.

In early November the Mexican authorities acted to ease the particularly-severe economic dislocations that have occurred in border areas by permitting the opening of special exchange houses in cities bordering the United States. These houses must observe limits on dollar sales to individuals and must not be net sellers of dollars to all customers combined.

Bank lending to Latin America and Eastern Europe. The Mexican debt problem, on top of large arrears on Argentina's external debt, has helped bring on a sharply reduced flow of credit for Latin American borrowers. Collectively, this shift by banks toward caution increases the risk that additional countries will encounter difficulties in servicing their external debts. Another major international banking "troublespot" is Eastern Europe, where a two-year decline in new medium-term lending set in motion by the Polish and Romanian debt problems may yet force other countries to reschedule their external debts.

The stock of claims of U.S. and other international banks on Latin America and Eastern Europe in June 1982 is shown in the top of the table on the next page. U.S. bank claims on Latin America were $75 billion of which more than one-half were claims on Mexico and Brazil alone. U.S. banks' claims on Latin America were 18 percent of their total claims on foreigners, while for non-U.S. banks, with $120 billion of claims on Latin America in June, this percentage was 10 percent (including claims on U.S. borrowers). Claims on Eastern Europe were smaller than on Latin America for both groups of banks, amounting to only 1-1/2 percent of total foreign claims for U.S. banks and 5 percent for non-U.S. banks.

The volume of new medium-term Eurocredits arranged by Latin American borrowers -- shown in the lower part of the table -- declined to only $4.3 billion in the third quarter of 1982, one-half the quarterly rate in the first half of this year and also well down from the year-earlier level. The largest reduction was for Mexico, which was unable to borrow after mid-August. Argentina had already been closed out of the market since April. Brazilian borrowing declined in the third quarter. Negotiated

CROSS BORDER CLAIMS OF BIS REPORTING BANKS, JUNE 1982
(Billions of dollars)

	All BIS Banks	U.S. Banks (BIS basis)	Non-U.S. Banks
I. Developing countries	317	119	198
A. Latin America	195	75	120
of which: Argentina	23	8	15
Brazil	52	20	32
Chile	11	6	5
Mexico	62	24	38
Venezuela	23	9	14
Others	35	14	21
B. Others	122	14	78
of which: OPEC	48	14	34
Non-OPEC	74	30	44
II. Eastern Europe	63	6	57
of which: Poland	13	2	11
Yugoslavia	9	2	7
Others	41	2	39
III. Other countries (excl. U.S.)	1,027	299	707
Total (excl. United States)	1,407	424	983

ANNOUNCED MEDIUM-TERM EUROCURRENCY BANK CREDITS
(Billions of dollars)

	1981			1982		
	Year	1st H	Q-3	1st H	Q-3	Oct.
I. Developing countries	45.3	21.7	10.4	25.3	8.3	1.6
A. Latin America	28.9	12.6	6.8	16.7	4.3	1.0
of which: Argentina	2.5	1.0	.8	.5	0	0
Brazil	5.8	2.5	1.5	3.0	1.3	.5
Chile	2.2	1.0	.8	.5	.4	0
Mexico	7.5	5.0	1.4	7.3	.2	0
Venezuela	7.6	2.4	1.4	3.9	1.9	.5
Others	3.3	1.7	.9	1.5	.5	0
B. Others	16.4	9.1	3.6	4.8	3.9	.5
of which: OPEC	3.4	1.4	1.2	1.7	1.9	.3
Non-OPEC	13.0	7.7	2.4	3.1	2.0	.2
II. Eastern Europe	1.8	1.2	.2	.4	.3	0
III. Other countries	86.3*	16.0	54.6*	21.1	14.7	2.6
Total	133.4*	38.9	65.2*	46.8	23.3	4.2

* Includes $46 billion of credits arranged by U.S. companies in the third quarter of 1981 in connection with oil industry takeover bids.

credits for Latin America continued low in October, amounting to only about $1 billion. New Eurocredits for Eastern Europe in the first nine months of 1982 were only one-third the 1980 rate and one-half the 1981 rate, and were exclusively to Yugoslavia (second quarter) and Hungary (September).

In Latin America, negotiations between Mexico and creditor banks on principal repayments of public sector debt and the possibility of new credits are currently marking time pending conclusion of an adjustment program supported by the IMF, which is expected shortly. Drawings on the IMF would be almost $4 billion over three years. Argentina has held talks with 10 large (mostly U.S.) banks on a $1.1 billion short-term loan and is seeking $750 million of short-term official assistance from the BIS. The purpose of this proposed financing, likewise contingent on agreement on an adjustment program with the IMF, is to clean up about $1.8 billion of debt arrears, and this financing would be additional to Argentina's need to roll over or refinance nearly $4 billion of debt falling due in November-December. The proposed bridge financing would be intended to tide Argentina over until it can (1) draw on the IMF ($800 million in January 1983 and perhaps a further $1.2 billion by March 1984); (2) reduce its current-account deficit from about $2 billion in 1982 to a planned $1/2 billion or less in 1983; and (3) get past the bunching of newly maturing debts over the next few months.

Brazil found it more difficult to borrow in September and October. Brazil's large current account deficit (estimated at $14 billion for 1982) and low level of reserves have led to the adoption of tighter domestic monetary conditions and intensified restrictions on imports in September, and the introduction of an exchange risk guarantee system to encourage the private sector to seek foreign loans. In October the Brazilian authorities decided to take restrictive fiscal measures and to try to reduce the current-account deficit to $7 billion next year, partly by further slashing imports.

Chile, facing large maturing short-term debts, is completing negotiatons for a standby credit of $860 million from the IMF, and expects some further improvement in its current account balance in 1983.

Venezuela does not face a debt repayment problem, but is trying to refinance at longer term a substantial portion of its $8.8 billion of short-term public-sector external debt. To do this it has recognized the need to pay higher spreads than it was previously willing to pay. Refinancing of $2.5-3.0 billion of short-term debt due by April 1983 commenced in October.

U.S. International Financial Transactions.

Over the period from July to early October the increased uncertainty in financial markets, particularly in the market for bank-related commercial paper and Euro-CDs, led to a fall in both domestic and foreign investor demand for these particular bank liabilities, thereby altering the funding practices of the nine largest U.S. banks. The changed funding environment appears to have prompted a large net placement of funds by domestic offices in foreign branches.

U.S. banking offices (including IBFs) made net advances of $8 billion to their own foreign offices between July and October, as shown in line 1(a) below. Over eighty percent of this large outflow was reported by U.S. chartered banks (see line 1(b) below), and approxi-

International Banking Data
(billions of dollars)

	1980	1981	1982					
	Dec.	Dec.	Mar.	June	July	Aug.	Sept.	Oct.4/
1. U.S. Offices' Banking Positions Vis-a-vis Own Foreign Offices 1/								
(a) Total	6.5	9.2	10.7	16.6	14.6	10.3	5.9	6.7
(b) U.S.-Chartered Banks	-15.2	-8.9	-2.8	2.8	1.7	-1.0	-5.0	-5.2
(c) Foreign-Chartered Banks	21.7	18.1	13.5	13.8	12.9	11.3	10.9	11.9
2. Credit Extended to U.S. Non-bank Residents by Foreign Branches of U.S. banks 2/								
(a) Total	4.2	13.2	13.8	14.2	14.4	15.9	16.1	16.1
(b) New York Banks Only	2.7	8.8	9.1	9.7	10.1	11.0	11.4	11.4
3. Eurodollar Holdings of U.S. Nonbank Residents 3/	60.8	93.6	104.1	116.0	114.7 e/	113.2 e/	n.a.	n.a.

1/ Average of Wednesdays, net due to own foreign office = (+).
2/ Daily Averages.
3/ End of month.
4/ Through October 27.
e/ Estimated

mately fifty percent of this outflow took place at the nine major money center banks (see line 1 of the Table on the Positions of U.S. Chartered Banks). U.S. regional banks, which had made net advances of over $4 billion to their own foreign offices in the first seven months of the year, contributed an additional $2.5 billion in the July-October period (see line 3 of the Table on the Positions of U.S. Chartered Banks).

The outflow of funds from the nine largest U.S. banks appears, in part, to reflect the problems their affiliated holding companies have had in issuing commercial paper, and the difficulties that their foreign branches had experienced in issuing Euro CDs during the summer months. Holding companies are an important source of deposits for the Caribbean branches of these banks. Proceeds from domestic commercial paper sales made by the holding companies are normally deposited in these branches, rather than at U.S. offices, because Eurodollar deposits are not subject to reserve requirements. In part because of investor concern about bank credit quality, outstanding commercial

Positions of U.S. Chartered Banks
Vis-a-vis Own Foreign Offices 1/

	1980	1981	1982					
	Dec.	Dec.	Mar.	June	July	Aug.	Sept.	Oct. 2/
Total	-15.2	-8.9	-2.8	2.8	1.7	-1.0	-5.0	-5.2
1. Top 9	-4.9	-1.6	6.0	12.9	10.7	10.0	7.5	6.9
2. Next 15	-1.1	3.0	3.3	5.0	5.9	5.6	4.5	5.3
3. All Other	-9.2	-10.3	-12.1	-15.1	-14.9	-16.6	-17.0	-17.4

1/ Average of Wednesdays, net due to own foreign office = (+).
2/ Through Oct. 27, 1982.

paper issued by the affiliated holding companies of these nine banks declined by $4.2 billion between July and mid-October. As outstanding paper matured and was not rolled over, the holding companies responded by withdrawing their deposits in their affiliated foreign branches. Data for the period from July through the end of September indicate that such deposits declined from $13.4 billion to $11.2 billion.

Another important source of funds for foreign branches of U.S. banks is the London market for negotiable CDs. Recent evidence based on interviews with particular banks within the top nine indicate that a few of these banks had difficulties in issuing Euro-CD's during the summer months and were subject to tiering in the Euro-CD market. Over the period from July to September CDs outstanding at London branches of U.S. banks fell by about $2 billion. That decline, in conjunction with the fall in the commercial paper issued by the holding companies of the nine large banks, may have induced the direct funding of foreign offices by domestic offices. In the later half of October the problems experienced by some banks in issuing Euro-CDs and commercial paper eased, perhaps explaining the large inflow of funds from foreign offices to domestic offices within the last two weeks of October.

Recent evidence suggests that foreign investors' net purchases of dollar-denominated assets both in the United States and in the Eurobond market have increased since mid-summer. This increase may reflect two factors. First, private foreign investors may have come to view dollar-denominated assets as a "safe haven" for their funds. Second, these foreign investors may be buying dollar-denominated assets (particularly Treasury bonds and Eurobonds) expecting that the dollar will remain strong and that U.S. interest rates will fall, yielding capital gains on their assets. Data so far available for September indicate net purchases of Treasury bonds and notes by private foreigners amounting to $2 billion, after only $0.5 billion in net purchases in August. (See line 3 in the Summary Table of U.S. International Transactions.) U.S. corporations issued $2.9 billion of Eurobonds between August and mid-October, an increase in such issues over the months of June and July. Overall, net foreign private purchases of both short and long term Treasury obligations and U.S. corporate securities were about $3 billion in September.

Foreign official holdings of the G-10 countries and Switzerland increased by only $0.2 billion (line 4a in the Summary Table of U.S. International Transactions) in August,

. OPEC holdings decreased by $0.7 billion. Partial data, based on foreign official holdings of major industralized countries at the FRBNY, indicate no appreciable change from the beginning of September to mid-October.

. Finally, OPEC official holdings at the FRBNY increased by $1.7 billion from September to mid-October.

Summary of U.S. International Transactions
(in billions of dollars)

	1981 Year	1981 Q-3	1981 Q-4	1982 Q-1	1982 Q-2	1982 June	1982 July	1982 Aug.
Private Capital								
Banks								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	-34.7	3.3	-19.9	-1.0	-14.9	-5.9	-9.6	5.7
a) with own foreign offices	-3.3	5.1	.8	6.6	-2.6	-.9	-6.3	1.3
b) all other	-31.3	-1.7	-20.8	-7.5	-11.5	-5.0	-3.4	4.4
Securities								
2. Private securities transactions, net	1.4	.1	-2.5	.8	2.1	-.2	-.2	-.9
a) Foreign net purchases (+) of U.S. corp. bonds	2.1	.6	.1	.6	1.7	-.2	.2	-.1
b) Foreign net purchases (+) of U.S. corp. stocks	4.7	.1	.2	.7	.8	.3	.1	.4
c) U.S. net purchases (-) of foreign securities	-5.5	-.6	-2.9	-.5	-.4	-.7	-.5	-1.2
3. Foreign net purchases (+) of U.S. Treasury obligations 1/	2.5	-.8	1.1	1.3	2.0	1.6	-1.3	.5
Official Capital								
4. Changes in foreign official reserve assets in U.S. (+ = increase)	5.1	-5.5	8.1	-2.9	1.6	1.4	1.5	-.7
a) By area								
G-10 countries and Switzerland	-10.8	-5.5	.9	-6.8	-4.7	.4	1.3	.2
OPEC	12.7	2.5	1.9	5.0	2.7	.7	.5	-.7
All other countries	3.3	-2.5	5.4	-1.1	3.6	.3	-.2	-.2
b) By type								
U.S. Treasury securities	5.0	-4.6	4.4	-1.3	-2.1	.5	4.7	-1.7
Other 2/	.1	-.9	3.7	-1.6	3.7	.9	-3.1	1.0
5. Changes in U.S. official reserve assets (+ = decrease) 3/	-3.3	-.1	-.4	.1	-.7	.2	-.5	*
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	-8.7	-1.0	-1.0	-0.1	2.3	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	21.3	4.5	9.3	1.2	2.7	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 4/ 5/	-13.9	-1.6	-3.3	-5.5	1.4	n.a.	n.a.	n.a.
9. U.S. current account balance 5/	4.5	0.8	-0.9	1.1	2.1	n.a.	n.a.	n.a.
10. Statistical Discrepancy 5/	25.8	-0.4	9.5	5.0	1.4	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-27.9	-7.8	-9.2	-5.9	-5.8	-3.0	-3.0	-5.9

1/ Includes U.S. Treasury notes publicly issued to private foreign residents.
2/ Includes deposits in banks, commercial paper, acceptances, & borrowing under repurchase agreements.
3/ Includes newly allocated SDR's of $1.1 billion in January 1981.
4/ Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, allocations of SDRs, and other banking and official transactions not shown elsewhere.
5/ Includes seasonal adjustment for quarterly data.
*/ Less than $50 million.

NOTE: Details may not add to total because of rounding.

U.S. Merchandise Trade. In September the U.S. merchandise trade deficit was considerably smaller than the very large August deficit. For the third quarter as a whole, the trade deficit was more than twice the size of the deficit in the second quarter. Third-quarter exports declined by 6 percent, making the sixth consecutive quarterly decline; imports rose 7 percent from the second-quarter rate.

A drop in agricultural exports accounted for two-thirds of the total decrease in exports in the third quarter. Export prices weakened throughout the quarter in response to good crops world-wide and sluggish demand; in addition some traditional purchasers of U.S. wheat and corn turned to other suppliers who offered either lower prices or easier credit terms. There were substantial declines in the volume of wheat and corn exports.

U.S. Merchandise Trade*

	1981		1982					
	Year	Q4	Q1	Q2	Q3	July	Aug.	Sept.
Value (Bil. $, SAAR)								
Exports	236.3	230.4	223.1	220.4	207.1	206.7	206.9	207.7
Agricultural	44.3	42.4	42.0	42.7	33.8	33.9	34.8	32.9
Nonagricultural	192.0	188.0	181.1	177.7	173.2	172.8	172.2	174.8
Imports	264.1	267.1	246.6	243.5	259.6	243.7	283.9	251.1
Petroleum	77.6	72.4	62.6	53.7	65.7	69.9	70.1	57.2
Nonpetroleum	186.5	194.7	184.0	189.8	193.8	173.8	213.8	193.9
Trade Balance	-27.8	-36.7	-23.5	-23.1	-52.8	-37.1	-76.9	-43.5
Volume (Bil, 72$, SAAR)								
Exports - Agric.	18.1	18.6	18.5	19.3	16.0	15.7	16.5	15.7
- Nonagric.	70.5	66.6	62.8	62.1	61.1	60.5	60.9	62.1
Imports - Petroleum	5.9	5.8	5.0	4.5	5.5	5.8	5.8	4.8
- Nonpetrol.	72.1	76.3	69.8	72.7	75.6	66.8	83.6	76.3

*/ International Transactions and GNP basis. Monthly data are estimated.

Nonagricultural exports continue to be adversely affected by sluggish demand from major trading partners and the current and lagged effects of the decreasing price competitiveness of U.S. goods caused by the appreciation of the dollar. Between the fourth quarter of 1980 and the third quarter of 1982, the dollar appreciated by 35 percent on a weighted average basis. In the third quarter both the value and the volume of nonagricultural exports declined, as they have each quarter since mid-1981. Much of the third-quarter decline was in industrial supplies (particularly coal and fertilizer) which declined steadily throughout 1982. Another area of considerable weakness has been civilian aircraft exports. The volume of machinery exports (one-third of nonagricultural exports) was little changed during the first three quarters of the year as steady increases in electrical and electronic machinery exports offset declines in other types of machinery. By area, vitually all of the decline in nonagricultural exports in the third quarter (and since the beginning of the year) was in shipments to the developing countries (with one-third of that decline to Mexico alone).

About three-fourths of the rise in imports in the third quarter was in oil. The volume of third-quarter imports was 5.8 million barrels per day (mb/d), 20 percent higher than in the second quarter. While U.S. oil consumption was somewhat lower in the third quarter than in the second, there was some buildup in crude and product inventories (on a seasonally adjusted basis) particularly in July and August.

Oil import prices were about 70 cents per barrel higher than in the second quarter, reflecting the lagged impact of an increase in spot prices during late spring. Since June spot prices for crude oil have been somewhat lower, and in September import prices declined from August levels.

Oil Imports	1981 4Q	1982 1Q	1982 2Q	1982 3Q	1982 July	1982 Aug.	1982 Sept.
Volume (mbd, SA)	5.99	5.37	4.82	5.77	6.26	6.21	5.19
Price ($/BBL)	34.42	32.17	30.53	31.22	31.25	31.54	30.80
Value (Bil. $, SAAR)	72.4	62.6	53.7	65.7	69.9	70.1	57.2

The volume of nonoil imports increased in the third quarter as it has during most quarters during the past year despite U.S. real GNP declining 1-1/2 percent over the same period (3Q82/3Q82). Nonoil import prices declined in the third quarter, as they have in 5 of the past 6 quarters. To a large extent the decline in import prices reflects effects of the dollar appreciation that began early in 1981. In value terms, the third-quarter increase was spread among consumer goods, foods (particularly coffee), industrial supplies (other than steel), and automotive vehicles and parts imported from Japan and Europe. Imports of steel dropped sharply in the third quarter at least in part because of U.S. trade policy actions.

<u>Foreign Economic Developments</u>. There continue to be few signs of a recovery in economic activity in the major foreign industrial economies. Indeed, available signs point to a further weakening of activity in the third quarter. Among the six major foreign industrial economies, only Japan registered any net increase in industrial production in the three-month period that ended in August. Industrial production registered particularly notable declines in recent months in Germany and France. Unemployment rates in the major industrial economies continued a general upward movement in the third quarter, with Japan again proving the exception to this pattern. Despite evidence of continued economic weakness, budget proposals, recently outlined in a number of countries, have indicated in general no shift in policy, reflecting continued widespread concern with the need to control large budget deficits. On the monetary front, foreign interest rates eased to varying degrees in part in response to the downturn in U.S. interest rates.

Price inflation in major foreign countries has continued to moderate on balance. Compared both to the previous quarter and the corresponding quarter last year, both consumer and wholesale prices in the third quarter increased more slowly in the United Kingdom, Canada, France and Germany. The sharpest slowing of consumer price inflation in the third quarter was in the United Kingdom and France, the latter situation reflecting mainly the government-imposed price freeze in effect through October. The major exceptions to the slowdown in inflation in recent months have been Japan and Italy. Japanese wholesale price increases accelerated somewhat in the third quarter -- while remaining at a low level absolutely -- due largely to the relative weakness of the yen's exchange rate.

Italian consumer price inflation rose in recent months, in part reflecting indirect tax increases, while wholesale prices and wages in Italy continued the trend of moderation shown over the past year.

The trade and current account positions of several of the major foreign industrial economies have continued to show significant improvements relative to their positions of last year. Only in France, where a trade deficit of more than $4 billion (s.a.) was recorded in the third quarter, has there been significant deterioration in 1982. More representative has been the situation in Germany where the cumulative current account deficit in the first three quarters of 1982 was only $2.4 billion, down sharply from the $11.6 billion deficit in the corresponding period of 1981. Despite the shift toward surplus of the major foreign industrial economies, there remains little evidence of buoyant export sales which could serve as a stimulus to domestic growth.

Individual Country Notes. Unemployment in Germany was over 2 million (s.a.) in October, almost twice the level of unemployment at its peak during the 1975 recession. The rate of unemployment jumped from 7.9 percent in August to 8.3 percent in October. The industrial production index for the three months through September was almost 5 percent below both the corresponding period of last year and the first half of this year. The latest available surveys of business climate are pessimistic and bankruptcies are continuing at a very high rate. Consumer price inflation has slowed in recent months, and in August, the CPI registered its first monthly decline since September 1978. The annual rate of consumer price inflation for the third quarter was 4.3 percent. A marked deceleration of inflation at the wholesale level in recent months suggests that the slowdown of consumer price inflation will continue.

The current account showed a deficit of $0.2 billion (n.s.a.) in September, which brings the cumulative deficit so far this year to $2.4 billion, compared with a deficit of $11.6 billion for the same period last year. The smaller deficit reflects the strong increase in the trade surplus, which earlier this year was based both on gains in export volume and a favorable shift in the terms of trade. In recent months, however, the volume of exports has been declining faster than the volume of imports.

Monetary policy has continued to ease. On October 21, the Bundesbank reduced both its discount and Lombard rates by one percentage point to 6 and 7 percent respectively. The growth of Central Bank Money was near the upper limit of its 4 to 7 percent target range in September.

One month after taking office, the new German government submitted a supplemental budget for the current year, and a draft budget for 1983. Both budgets project larger deficits than had the budgets of the previous government. The fiscal policy plans of the new conservative government center around establishing a longer-run trend toward reduction of the federal deficit, while at the same time providing some short-run countercyclical support to the economy, with emphasis on stimulating investment. Specific new measures announced so far are: an increase in the VAT from 13 to 14 percent as of July next year, a compulsory interest-free loan (5 percent of an individual's tax liability) to the government from upper income earners, decreased unemployment payments, increased private contributions to social insurance, cuts in child benefits, public sector wage restraints, and cuts in education and housing subsidies. These measures are intended to finance cuts in taxes on business and owner-occupied housing, and subsidies for urban development and newly founded companies.

In the wake of Japanese Premier Suzuki's surprise resignation announcement, the formulation of a new economic stimulus policy has been delayed. After declining in the first half of 1982, industrial production (s.a.) appears to have turned up in the third quarter. Preliminary figures for September show all industries posting a 1.1 percent gain in production over August levels. August leading economic indicators recently released also show improvement in the outlook for production, shipments and employment.

Trade statistics indicate that exports are unlikely to provide the stimulus for recovery in the near term. August saw a decline in exports (s.a.) for the fifth straight month while imports remained level after eight straight months of decline. September exports rose less than 0.2 percent over August's levels, while imports resumed their decline.

Inflation has risen somewhat in the third quarter. In contrast to an annualized rate of wholesale price inflation in the first half of 1982 of less than 2 percent (n.s.a.), the third-quarter rate of wholesale price inflation was over 4 percent. The CPI jumped by more than 2 percent (n.s.a.) in September after remaining nearly unchanged since the first quarter. The yen's sharp depreciation in the third quarter caused an 8.5 percent annual rate of increase in import prices and was a major contributing factor to the rise in the inflation rate.

On November 25 a successor to Prime Minister Suzuki as president of the ruling Liberal Democratic Party will be chosen. Only later will the new president be elected prime minister and form a cabinet that can give formal approval to this fiscal year's supplementary budget and deal with policy issues for the next fiscal year.

The recovery of real economic activity in the United Kingdom continues to be weak while the rate of inflation has declined sharply. Industrial production (s.a.) in August was unchanged from both its July level and its level six months earlier and was only 0.6 percent above its August 1981 level. The unemployment rate rose slightly in September and October. The 12.8 percent (s.a.) rate for October was one full percentage point above the level in January of this year despite the fact that the economy has been expanding slightly in real terms.

Consumer prices in September actually declined. The retail price index in the month (n.s.a.) was unchanged from its level three months earlier and 7.3 percent above its level in September 1981. By comparison, in January consumer prices were 12 percent above year-earlier levels. In the three months to October, wholesale prices (n.s.a.) rose at an annual rate of 6 percent. U.K. coal miners recently voted to reject the union leadership's recommendation to strike, thereby accepting the National Coal Board's offer of 8.2 to 9.1 percent wage increases.

The U.K. trade balance returned to surplus in September, and the trade surplus rose to $1.4 billion (s.a.) for the first three quarters of the year. The current account surplus increased as well, to $4½ billion (s.a.) for the same period.

Nominal interest rates declined further in October in the United Kingdom. The London clearing banks reduced their base rates in one-half percentage point steps from 10½ percent at the start of October to 9 percent in early November. Through September, growth of each of the three aggregates targeted by the Bank of England remained within the 8-12 percent target range.

French economic activity, as measured by both real GDP and industrial production, rose by one percent (s.a.) in the second quarter of 1982. Investment was the strongest component, while exports were particularly weak, declining by 4 percent. In the first two months of the third quarter, however, industrial production fell by over 3 percent from the previous quarter. September surveys indicate that demand remains weak and output is not expected to improve in the next several months.

Consumer prices, under the influence of a price freeze, rose at an annual rate of less than 6 percent in the third quarter compared with an annual rate over 12 percent in the previous quarter. The freeze was replaced at the beginning of this month by a system of controls resulting from negotiations between government and industry for some sectors, outright decree for some sectors, and by a reduction in permitted retail margins by 2-3 percent. The goal of the government is to hold inflation to 10 percent this year and to 8 percent next year.

The continuing deterioration in the French trade balance is a source of concern to French authorities. Deficits in each of the second and third quarters of this year were over $4 billion, compared with deficits under $2 billion in the same quarters of 1981. Exports in the second quarter were 6½ percent below their level in the final quarter of last year. In the past several weeks, the French have announced a tax break to stimulate exports as well as language and labeling restrictions to impede imports. The French intend to commence negotiations soon with the countries with which they have large bilateral trade deficits: the United States, the Soviet Union, Japan, and Germany.

Italian industrial production (s.a.) fell sharply in August. While much of this monthly decline appears to represent a recently emerging seasonal pattern, longer-term comparisons also show sluggish activity, with industrial production showing no growth from its level of a year ago and down 5 percent from its level in August 1980. In the three-month period ending in October, consumer price inflation accelerated, in part as a result of indirect tax hikes. Wholesale price inflation has decelerated substantially in the past 12 month period. Part of this decline is due to the 6 percentage point drop in the rate of wage increases over the past year to about a 16 percent year-over-year increase in July. Wage negotiations have been temporarily delayed while the scala mobile is renegotiated. However, when new contracts are signed, wage increases retroactive to early this year may be included, possibly leading to renewed upward pressure on prices.

Following a vote of confidence in October, the Spadolini government won passage of indirect tax increases designed to reduce the deficit for this year and next. The enlarged public sector deficit this year is expected to be about 14 percent of GDP, and the government would like to reduce this figure to 13 percent next year. Further tax increases and/or spending cuts will be necessary to achieve this goal.

Economic activity in Canada apparently remained very weak in the third quarter, although there were signs that the rapid economic contraction that characterized the first half of the year is over. Manufacturers' shipments, partly supplied out of inventories, were up strongly in August as were new orders. Industrial production rose in August, but remained below the depressed second quarter rate. Housing starts, after falling by 21 percent in August, slipped further in September to a 22-year low. The unemployment rate rose to 12.7 percent in October, up from 12.2 percent in September.

The government has felt constrained in responding to the poor economic performance by a much greater-than-expected budget deficit, now offically forecast to be C$23½ billion for 1982 (about 6½ percent of GNP), up from C$19½ billion projected in June. On October 27, a job creation program was announced, to be funded by cutbacks on expenditures for energy exploration, defense and foreign aid.

Despite the severe economic weakness in Canada, short-term interest rate declines on balance have lagged somewhat behind those in the United States. Partly as a result, the exchange value of the Canadian dollar relative to the U.S. dollar has risen by about 4 percent from June to October, allowing the Canadian government to bolster its international reserves even as it paid down borrowings. Even with the slower declines, however, short-term interest rates in Canada are down almost 500 basis points from their mid-summer highs, with long-term rates down by about 350 basis points.

Economic weakness in Canada has had only a limited impact thus far on consumer prices and wage rates. Rates of increase of more sensitive prices have dropped sharply, however. For example, industry selling prices in the third quarter advanced by 3½ percent (a.r.), less than half of the year-earlier rate. These relative price developments have put downward pressures on corporate profits, which on a pre-tax basis in the second quarter were down 9.3 percent from the previous quarter and 41 percent from a year earlier.

In Sweden the newly elected Social Democratic government of Prime Minister Palme instituted a 16 percent devaluation of the krona's value against a basket of currencies in early October. The announced aims of the measure were to relieve speculative exchange market pressure on the krona, restore the international competitiveness of Swedish goods, and provide a stimulus to Swedish industry. The government promised that fiscal austerity measures would be introduced in the future to accompany the devaluation. However, the only specific measures implemented or announced were a temporary wage and price freeze and a two percentage point increase in VAT. Several of Sweden's major trading partners have suggested that the size of the devaluation may have been excessive, constituting a "competitive" devaluation.

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(PERCENTAGE CHANGE FROM PREVIOUS PERIOD, SEASONALLY ADJUSTED)

					1981				1982			1982			
		1979	1980	1981	Q1	Q2	Q3	Q4	Q1	Q2	Q3	JUN.	JUL.	AUG.	SEP.
CANADA:	GNP	2.9	.5	3.1	1.2	1.6	-1.1	-.9	-2.3	-2.1	N.A.	*	*	*	*
	IP	5.3	-2.0	1.3	1.0	2.6	-3.1	-4.6	-2.9	-2.3	N.A.	-2.7	-3.0	2.5	N.A.
FRANCE:	GDP	3.7	1.1	.2	-.6	1.2	.2	.7	-.2	1.0	N.A.	*	*	*	*
	IP	4.5	-1.1	-2.3	-1.5	.5	.3	1.3	-2.5	1.0	N.A.	-.8	-3.1	.0	N.A.
GERMANY:	GNP	4.0	1.8	-.2	.5	-.8	.7	.2	-.2	-.4	N.A.	*	*	*	*
	IP	5.3	-.1	-2.1	.9	-.3	.0	-1.2	1.3	-.9	-4.1	-2.8	-2.9	3.0	-2.9
ITALY:	GDP	5.0	4.0	-.2	.8	-1.1	-1.7	2.6	1.2	-1.5	N.A.	*	*	*	*
	IP	6.9	4.5	-2.5	-.7	1.5	-4.9	4.5	1.0	-1.4	N.A.	-4.0	3.0	-19.6	N.A.
JAPAN:	GNP	5.2	4.2	3.0	.7	1.2	.7	-.7	1.0	1.3	N.A.	*	*	*	*
	IP	8.3	7.1	3.0	1.7	-.3	1.6	2.6	-.9	-1.7	1.7	2.4	.6	-.5	1.1
UNITED	GDP	2.1	-2.5	-2.4	-.3	-.8	.1	.8	.2	.1	N.A.	*	*	*	*
KINGDOM:	IP	2.7	-6.6	-4.7	-1.4	.3	.9	.5	-.5	.2	N.A.	-1.6	.8	.0	N.A.
UNITED	GNP	2.8	-.4	1.9	1.9	-.4	.5	-1.3	-1.3	.5	.2	*	*	*	*
STATES:	IP	4.4	-3.6	2.6	2.0	.5	.3	-4.4	-3.1	-1.7	-.9	-.4	.1	-.5	-.6

*GNP DATA ARE NOT PUBLISHED ON MONTHLY BASIS.

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(PERCENTAGE CHANGE FROM PREVIOUS PERIOD)

		1981			1982			1982				MEMO:
		Q2	Q3	Q4	Q1	Q2	Q3	JUL.	AUG.	SEP.	OCT.	LATEST 3 MONTHS FROM YEAR AGO
CANADA:	CPI	3.1	3.0	2.5	2.5	3.1	2.2	.5	.5	.5	N.A.	10.6
	WPI	2.2	2.1	1.2	1.4	2.0	.8	.2	-.1	.8	N.A.	5.5
FRANCE:	CPI	3.3	3.9	3.2	2.8	3.1	1.4	.3	.3	.4	N.A.	10.9
	WPI	4.3	4.1	2.3	2.7	2.6	1.8	1.0	.3	.1	N.A.	9.8
GERMANY:	CPI	1.8	1.2	1.2	1.5	1.4	1.1	.2	-.2	.3	.3	5.0
	WPI	2.3	2.1	1.8	1.8	1.3	.0	.2	-1.3	-.2	N.A.	4.9
ITALY:	CPI	4.4	3.0	4.6	4.0	3.0	4.1	1.3	1.8	1.4	2.0	17.1
	WPI	5.1	3.5	4.0	3.3	2.0	3.2	1.5	1.4	1.1	N.A.	13.0
JAPAN:	CPI	1.5	.0	1.3	.5	1.0	.5	-.8	.8	2.1	N.A.	3.4
	WPI	1.1	1.4	-.1	.2	.2	.9	.6	.3	.4	N.A.	1.2
UNITED	CPI	4.9	1.7	2.5	1.7	3.2	.5	.0	.0	-.1	N.A.	8.0
KINGDOM:	WPI	3.4	2.1	2.3	2.2	1.7	1.6	.8	.3	.6	.6	7.6
UNITED	CPI (SA)	1.9	2.8	1.9	.8	1.1	1.8	.6	.3	.2	N.A.	5.8
STATES:	WPI (SA)	2.3	1.1	1.2	.7	.2	1.6	.6	.6	-.1	N.A.	3.8

TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES#
(BILLIONS OF U.S. DOLLARS; SEASONALLY ADJUSTED)

				1981			1982			1982		
		1980	1981	Q2	Q3	Q4	Q1	Q2	Q3	JUL.	AUG.	SEP.
CANADA:	TRADE	6.7	5.3	.8	.7	2.3	2.9	3.7	3.7	1.2	1.1	1.4
	CURRENT ACCOUNT	-.9	-4.4	-1.3	-1.9	-.2	.2	.5	N.A.	*	*	*
FRANCE:	TRADE+	-14.2	-10.7	-1.9	-1.9	-3.1	-2.8	-4.3	4.3	-1.3	-1.3	-1.7
	CURRENT ACCOUNT+	-4.2	-4.2	-.9	-1.1	-1.3	-2.1	-4.4	N.A.	*	*	*
GERMANY:	TRADE	4.9	11.9	3.1	3.1	5.5	5.0	5.3	N.A.	1.8	1.7	N.A.
	CURRENT ACCOUNT (NSA)	-16.5	-7.6	-2.3	-4.9	4.1	-.8	.6	-2.2	-.7	-1.3	-.2
ITALY:	TRADE	-22.3	-16.0	-5.0	-4.0	-2.5	-6.0	-1.8	-2.5	-.4	-.5	-1.5
	CURRENT ACCOUNT (NSA)	-9.8	-8.7	-2.3	.3	-.9	-3.7	N.A.	N.A.	*	*	*
JAPAN:	TRADE+	2.1	20.1	5.5	6.3	5.0	4.4	5.3	5.2	1.7	1.6	1.8
	CURRENT ACCOUNT	-10.7	4.6	2.0	2.5	1.1	.9	2.5	2.2	.8	.6	.8
UNITED	TRADE	2.6	N.A.	2.4	N.A.	.9	.6	.2	.6	.3	-.1	.4
KINGDOM:	CURRENT ACCOUNT+	7.4	12.7	4.0	.3	2.8	1.3	1.6	1.7	.6	.3	.8
UNITED	TRADE	-25.3	-27.9	-6.5	-7.8	-9.2	-5.9	-5.8	-13.1	-3.1	-6.4	-3.6
STATES:	CURRENT ACCOUNT	1.5	4.5	1.4	.8	-.9	1.1	2.1	N.A.	*	*	*

THE CURRENT ACCOUNT INCLUDES GOODS, SERVICES, AND PRIVATE AND OFFICIAL TRANSFERS.
+ QUARTERLY DATA ARE SUBJECT TO REVISION AND ARE NOT CONSISTENT WITH ANNUAL DATA.
* COMPARABLE MONTHLY CURRENT ACCOUNT DATA ARE NOT PUBLISHED.