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Confidential (FR) Class II FOMC

December 15, 1982

RECENT DEVELOPMENTS

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

TABLE OF CONTENTS

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	Nov.	12-3-82	111.0	4.1	1.4	1.6
Unemployment rate (%) 1/	Nov.	12-3-82	10.8	10.4	9.8	8.3
Insured unemployment rate (%) 1/	Oct.	12-8-82	5.3	5.0	4.5	3.7
Nonfarm employment, payroll (mil.)	Nov.	12-3-82	88.7	-2.2	-2.7	-2.5
Manufacturing	Nov.	12-3-82	18.2	-9.0	-10.4	-8.6
Nonmanufacturing	Nov.	12-3-82	70.5	-.4	-.6	-.8
Private nonfarm:						
Average weekly hours (hr.) 1/	Nov.	12-3-82	34.6	34.7	34.8	35.1
Hourly earnings ($) 1/	Nov.	12-3-82	7.78	7.76	7.74	7.45
Manufacturing:						
Average weekly hours (hr.) 1/	Nov.	12-3-82	38.9	38.8	39.0	39.3
Unit labor cost (1967=100)	Oct.	11-30-82	229.0	-1.6	-2.1	5.7
Industrial production (1967=100)	Nov.	12-15-82	135.6	-5.3	-8.1	-7.3
Consumer goods	Nov.	12-15-82	141.6	-5.9	-6.9	-1.7
Business equipment	Nov.	12-15-82	146.1	-6.5	-20.3	-18.4
Defense & space equipment	Nov.	12-15-82	112.1	9.7	9.5	6.5
Materials	Nov.	12-15-82	130.4	-7.3	-7.2	-9.8
Consumer prices all items (1967=100)	Oct.	11-23-82	294.1	5.7	3.7	5.0
All items, excluding food & energy	Oct.	11-23-82	281.2	4.7	3.6	5.8
Food	Oct.	11-23-82	288.2	2.5	1.7	3.3
Producer prices: (1967=100)						
Finished goods	Nov.	12-10-82	285.7	7.6	3.8	3.7
Intermediate materials, nonfood	Nov.	12-10-82	317.5	6.1	2.2	.4
Crude foodstuffs & feedstuffs	Nov.	12-10-82	238.9	11.7	-19.0	-.8
Personal income ($ bil.) 2/	Oct.	11-18-82	2,620.8	8.8	4.7	5.4
					(Not at annual rates)	
Mfgrs. new orders dur. goods ($ bil.)	Oct.	12-2-82	69.9	-4.7	-8.6	-9.5
Capital goods industries	Oct.	12-2-82	24.9	1.1	-.5	-6.6
Nondefense	Oct.	12-2-82	4.7	8.7	.6	14.7
Defense	Oct.	12-2-82	20.2	-.5	-.7	-10.4
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Oct.	12-13-82	1.55	1.52	1.49	1.50
Manufacturing	Oct.	12-2-82	1.78	1.71	1.70	1.73
Trade	Oct.	12-13-82	1.35	1.35	1.30	1.28
Ratio: Mfgrs.' durable goods inventories to unfilled orders 1/	Oct.	12-2-82	.642	.638	.625	.606
Retail sales, total ($ bil.)	Nov.	12-10-82	91.9	2.3	3.9	6.0
GAF 3/	Nov.	12-10-82	18.7	.8	.4	.8
Auto sales, total (mil. units.) 2/	Nov.	12-3-82	9.5	25.3	25.4	23.7
Domestic models	Nov.	12-3-82	6.8	29.8	28.3	27.1
Foreign models	Nov.	12-3-82	2.6	15.0	18.2	15.6
Plant & Equipment expen. ($ bil.) 4/						
Total nonfarm business	1982	12-9-82	319.99	---	---	-.5
Manufacturing	1982	12-9-82	122.67	---	---	-3.3
Nonmanufacturing	1982	12-9-82	197.32	---	---	1.3
Capital Appropriations, Mfg.	1982-Q3	12-1-82	18,709	-3.2	---	-30.5
Housing starts, private (thous.) 2/	Oct.	11-17-82	1,122	1.0	-6.0	31.4
Leading indicators (1967=100)	Oct.	11-30-82	131.4	.2	1.1	2.4

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned-Commerce October and November 1982 Survey.

Economic activity apparently continued to decline in the fourth quarter. Nonfarm payroll employment fell further in November and industrial production was also lower. Recent data indicate that business investment is still contracting, and weakness in final demand has hampered business efforts to reduce inventories. But housing activity has continued to improve gradually and retail sales posted a sizable gain in November. The general trend in wage and price inflation remains favorable.

Employment and Industrial Production

The demand for labor continued to weaken in November. The overall unemployment rate rose to 10.8 percent, and the relatively high level of initial claims during the last two weeks of the month suggests that a large number of layoffs were still occurring after the November labor market surveys were taken. The average duration of unemployment also has lengthened owing to the weak pace of rehiring--up from an average of 16.1 weeks in the third quarter to 17.2 weeks last month.

Nonfarm payroll employment dropped 165,000 last month, about the same as the average monthly decline so far this year. Much of the job loss in November occurred in manufacturing, as layoffs continued in the key durable goods industries--machinery, transportation equipment, and primary and fabricated metals--which have accounted for nearly half of the 2.7 million drop in payroll employment during the current recession. Several nondurable goods industries, including textiles, apparel, and rubber also reported lower employment last month. The factory workweek edged up only slightly from the very depressed level of the preceding

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

	1981	1982 H1	1982 Q3	1982 Sept.	1982 Oct.	1982 Nov.
	- - - Average monthly changes - - -					
Nonfarm payroll employment[2]	-7	-134	-191	-45	-389	-163
Strike adjusted	-8	-126	-195	-40	-392	-169
Manufacturing	-40	-124	-119	-100	-249	-138
Durable	-32	-87	-101	-93	-237	-100
Nondurable	-8	-38	-18	-7	-12	-38
Construction	-22	-14	-19	-16	-29	-4
Trade	16	12	-34	-58	-55	-49
Finance and services	56	29	37	43	-6	46
Total government	-26	-14	-23	91	-18	-4
Private nonfarm production workers	-8	-107	-152	-85	-368	-173
Manufacturing production workers	-48	-106	-95	-81	-226	-118
Total employment[3]	-2	25	-15	-119	-627	-61
Nonagricultural	22	0	-18	-52	-685	-104

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)

	1981	1982 H1	1982 Q3	1982 Sept.	1982 Oct.	1982 Nov.
Total, 16 years and older	7.6	9.1	9.9	10.1	10.4	10.8
Teenagers	19.6	22.4	23.9	23.7	24.0	24.2
20-24 years old	12.2	14.3	15.0	15.3	15.9	16.6
Men, 25 years and older	5.1	6.8	7.7	8.2	8.5	8.7
Women, 25 years and older	5.9	6.9	7.3	7.4	7.5	8.0
White	6.7	8.1	8.8	9.0	9.3	9.7
Black	14.2	16.5	17.7	18.2	18.5	18.6
Fulltime workers	7.3	8.9	9.7	10.1	10.5	10.7
White-collar	4.0	4.7	4.8	4.8	5.1	5.6
Blue-collar	10.3	13.2	14.7	15.6	15.9	16.5

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

	1982			1982		
	Q1	Q2	Q3	Sept.	Oct.	Nov.
	--------annual rate-------			-----monthly rate-----		
Total	-11.8	-6.5	-3.4	-.8	-.8	-.4
Final products	-10.4	-3.0	-3.2	-1.0	-.9	-.4
Consumer goods	-8.6	-7.3	2.6	-.6	-.7	-.5
Durable	-14.5	27.9	3.6	-1.2	-3.3	-.8
Nondurable	-6.5	1.0	2.3	-.3	.1	-.3
Business equipment	-17.7	-22.3	-17.5	-2.4	-2.2	-.5
Defense and space eq.	2.4	4.8	7.8	.0	1.6	.8
Construction supplies	-14.5	-8.6	8.5	-1.3	-1.0	-.1
Materials	-14.1	-11.1	-5.8	-.5	-.8	-.6
Durable goods	-24.0	-11.2	-7.0	-1.5	-2.3	-1.0
Nondurable goods	-8.3	-10.0	-4.5	2.5	.3	.0
Energy materials	5.8	-12.5	-4.7	-2.3	1.2	-.6

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

	1975	1978-80	1982			
	Low	High	Average[1]	Sept.	Oct.	Nov.
Manufacturing industries	69.0	87.2	70.5	69.2	68.3	67.8
Primary processing	68.2	90.1	67.2	66.5	65.9	65.4
Advanced processing	69.4	86.2	72.4	70.7	69.6	69.1
Motor vehicles & pts.	51.3	94.5	53.9	54.6	49.6	48.7
Materials producers	69.4	88.8	69.9	67.8	67.2	66.7
Durable goods mats.	63.6	88.4	64.7	62.1	60.6	59.8
Raw steel	68.0	100.7	51.9	42.7	41.1	38.2
Nondurable goods mats.	67.2	91.6	73.0	72.7	72.8	72.5
Energy materials	84.8	88.8	80.5	77.0	77.9	77.3

1. Average of Q1 through Q3.

two months. Outside of manufacturing, employment increased at finance and service establishments, while jobs in the trade sector were down for the fourth month in a row.

The index of industrial production declined 0.4 percent in November, half as much as in the previous two months. Curtailments in output were widespread, with continued sharp cutbacks in the durable goods industries. Assemblies of motor vehicles were further reduced from an already low level in October, reflecting continued efforts by manufacturers to trim inventories; but with stocks now reduced substantially, production is scheduled to move higher in December. Output of raw steel dropped another 7 percent to a level almost 60 percent below its peak in early 1981. Most components of the business equipment index continued to fall last month, but the number of oil and gas drilling rigs in operation posted a 3 percent gain after falling sharply over the first ten months of the year.

Reflecting the decline in industrial production, the rate of capacity utilization in manufacturing fell to 67.8 percent, a new postwar low. November was the fourth consecutive month in which less than 70 percent of manufacturing capacity was in use.

Personal Income and Consumer Spending

The weakness in labor and product markets has cut sharply into income gains in recent months. Growth of wage and salary disbursements slowed considerably in the third quarter and remained weak in October. The reduction in employment in November suggest that private wages and salaries probably remained sluggish last month as well. Total personal income in October rose appreciably, however, as a result of a sharp increase in transfer payments; unemployment insurance benefits were

PERSONAL INCOME
(Based on seasonally adjusted data)

	1981	1982 Q1	Q2	Q3	Aug.	Sept.	Oct.
	- - percentage changes at annual rates[1] - -						
Total personal income	10.4	2.6	6.9	7.0	2.5	2.7	8.8
Wage and salary disbursements	8.4	2.7	4.0	3.5	.6	-.4	1.4
Private	8.7	2.1	3.7	3.1	2.1	-1.2	-1.7
Disposable personal income							
Nominal	10.4	3.0	6.7	9.7	2.1	3.7	8.6
Real	2.6	-1.9	3.1	2.3	-1.8	-1.1	n.a.
	- - changes in billions of dollars[2] - -						
Total personal income	17.9	7.0	15.9	11.8	5.4	5.9	19.1
Wage and salary disbursements	8.8	4.0	6.8	2.3	.8	-.5	1.8
Private	7.1	2.7	5.6	1.5	2.2	-1.3	-1.8
Manufacturing	1.1	-.2	.9	-1.8	-1.8	-2.7	-4.4
Other income	10.3	4.2	9.5	9.7	4.7	6.3	17.3
Transfer payments	2.9	1.3	3.1	5.2	.4	2.4	10.8
Less: personal contributions for social insurance	1.2	1.3	.4	.2	.1	-.1	.0
Disposable personal income							
Nominal	15.2	7.1	10.4	17.3	3.8	6.7	15.8
Real	1.7	.5	-.4	3.6	-1.6	-1.0	n.a.
Memorandum:							
Personal saving rate	6.4	6.6	6.7	7.0	7.2	6.4	7.0

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes fc 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.

n.a. = Not available.

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

	1982			1982	1982		
	Q1	Q2	Q3	Nov/Q3	Sept.	Oct.	Nov.
	----quarterly rate----				---monthly rate--		
Total sales	.1	2.8	.0	3.2	.9	.6	2.3
(Real)[1]	-.7	2.4	-1.2	...	.8	.0	...
Total, less autos and nonconsumption items	.1	.8	1.6	.7	.1	.2	.6
Total, exc. auto group, gasoline, and nonconsumption items	.5	1.5	1.4	.7	.0	.3	.5
GAF[2]	-.3	1.3	-.1	.0	-.8	.3	.8
Durable goods	.0	7.1	-3.6	8.8	3.1	1.0	6.6
Automotive	.2	11.4	-5.3	15.6	5.1	2.4	10.6
Furniture & appliances	-4.7	2.6	-1.3	.1	-.4	.6	.6
Nondurable goods	.2	.9	1.7	.7	.0	.4	.4
Apparel	4.3	-1.8	.1	-.5	-1.8	.0	1.5
Food	-.2	2.0	1.5	1.0	.0	.2	.7
General merchandise[3]	-.5	2.1	.3	.2	-.5	.4	.6
Gasoline	-2.1	-4.8	3.1	.7	.5	-.4	1.3

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	Sept.	Oct.	Nov.	Dec.[1]
Total	8.1	7.5	7.8	8.4.	7.5	9.5	n.a.
Foreign-made	2.2	2.0	2.2	2.2	2.2	2.6	n.a.
U.S.-made	5.9	5.5	5.6	6.2	5.2	6.8	5.8
Small	3.0	2.5	2.6	3.0	2.3	3.3	n.a.
Intermediate & standard	2.8	3.0	2.9	3.4	2.9	3.6	n.a.

Note: Components may not add to totals due to rounding.
1. First 10-days.

extended for up to an additional 10 weeks, and cost-of-living adjustments were made under several other programs.

Total retail sales rose 2.3 percent in November; gains were concentrated in sales at automotive outlets. Purchase of domestic autos rose to a 6-3/4 million unit annual rate in November as buyers responded to special interest rate concessions and other sales promotions offered primarily, on 1982 cars. However, sales dropped back to a 5-3/4 million unit rate in the first ten days of December. Sales of foreign cars--at a 2.6 million unit annual rate in November--were the strongest since early 1981.

Excluding autos and nonconsumer items, retail sales rose 0.6 percent in November, following three months of virtually no change. Outlays at the GAF group of stores increased 0.8 percent last month, after a protracted period of weakness. Sales at apparel stores were up noticeably, while spending at general merchandisers and furniture and appliance dealers posted small gains for the second month in a row. In real terms, outlays excluding autos in November probably were no higher than the third-quarter average.

The November increase in retail sales is consistent with the improvement evident recently in consumer surveys. During the past two months, the Michigan index of sentiment recovered somewhat with reduced prices and expectations of lower interest rates cited as the main reasons for the improvement. In addition, the Conference Board index of consumer confidence rose 10 percent last month.

Residential Construction

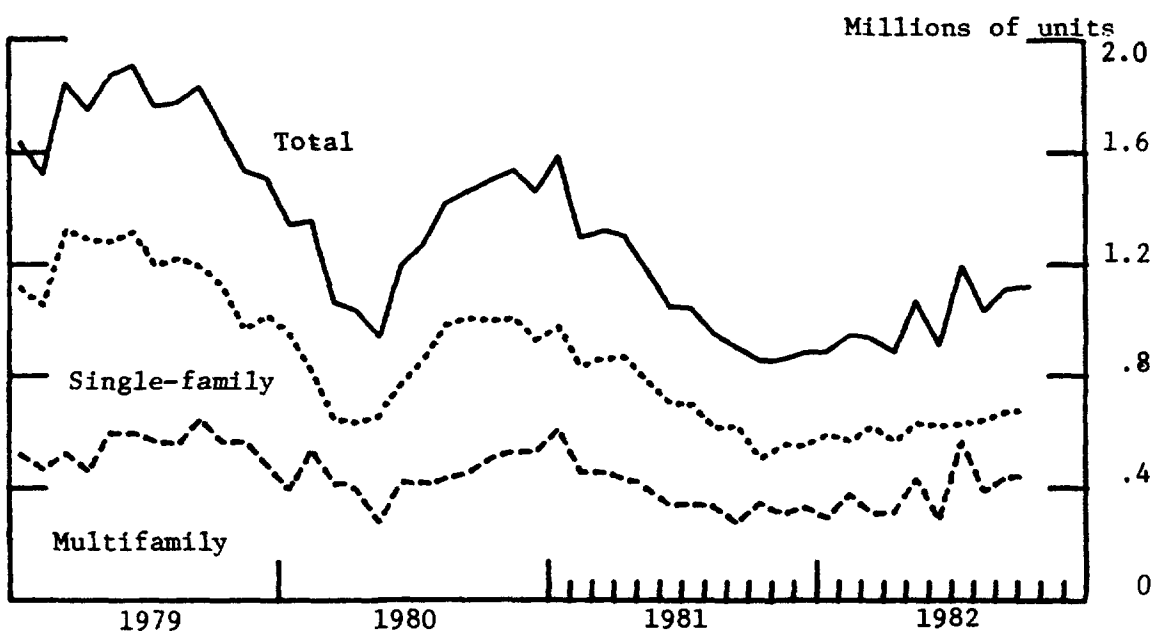
Residential construction activity has continued to rise, reflecting the further easing of financial conditions in recent months. In October both starts and permits for single-family houses were above their already-

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

	1981	1982					
	Annual	Q1	Q2	Q3	Aug.	Sept.	Oct.[1]
All units							
Permits	.99	.82	.92	.98	.89	1.00	1.18
Starts	1.08	.92	.95	1.11	1.03	1.11	1.12
Single-family units							
Permits	.56	.45	.49	.52	.50	.56	.63
Starts	.71	.59	.61	.65	.65	.67	.68
Sales							
New homes	.44	.39	.37	.41	.38	.49	.49
Existing homes	2.35	1.93	1.93	1.85	1.82	1.84	1.92
Multifamily units							
Permits	.42	.37	.43	.47	.39	.44	.55
Starts	.38	.33	.35	.47	.39	.44	.44
Mobile home shipments	.24	.24	.25	.23	.23	.22	n.a.

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

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



improved third quarter pace. Multifamily starts nearly matched the third-quarter level, which had been inflated by a push to begin construction on HUD-subsidized rental units before the end of the fiscal year. Moreover, building permits for multifamily units--a measure that is not distorted by government subsidy programs--continued to advance in October, to a level almost 20 percent above the third-quarter average. Residential construction expenditures also improved in October, continuing the upward trend that began in early 1982. In real terms, these outlays were 14 percent above the low reached last February.

In October, new home sales remained at the improved level seen in September, and were 35 percent above the rate a year earlier. Although sales of existing homes have not yet recovered significantly, modest gains were registered in both September and October. Real estate activity has now strengthened appreciably in all major regions of the country.

Business Fixed Investment

Business equipment spending has continued on the downtrend that began in mid-1981. Shipments of nondefense capital goods dropped 4-1/2 percent in October, and were nearly 16 percent below their pre-recession peak. All of the decline occurred in machinery, with reductions widespread by category. Sales of heavy-weight trucks, already at low levels in recent months, reached a new trough in October. In contrast, construction expenditures on new buildings rose in September and October, after falling sharply in the two preceding months.

Data on commitments for new capital spending show no signs of a near-term improvement in activity. Orders for nondefense capital goods

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

	1982			1982		
	Q1	Q2	Q3	Aug.	Sept.	Oct.
Nondefense capital goods shipments	-5.6	-3.1	-3.5	-3.1	2.3	-4.5
Machinery	-4.9	-4.5	-3.1	-1.0	3.1	-9.8
Nonresidential construction expenditures	1.5	1.8	-1.0	-1.3	1.9	.5
Sales of heavyweight trucks (thousands)	217	173	168	183	162	129

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

	1982			1982		
	Q1	Q2	Q3	Aug.	Sept.	Oct.
Nondefense capital goods orders	-5.2	-4.9	-4.4	-7.0	7.3	-.5
Machinery	-10.7	-4.2	-5.1	-.2	6.3	-2.3
Nondefense capital goods unfilled orders	-4.1	-3.8	-6.0	-2.2	-1.6	-.8
Contracts for commercial and industrial buildings (mil. sq. ft.)	-19.3	-1.9	-2.2	11.9	-14.1	1.9

were about unchanged in October, but were still 5 percent below shipments. Although volatile from one month to the next, these orders have been declining, on balance, for over a year. Contracts for commercial and industrial buildings increased a bit in October, but have been on a substantial downtrend since late 1979. With vacancy rates rising, it is likely that office construction will fall sharply, once current projects are completed.

A number of indicators of business spending intentions also suggest further reductions in coming quarters. The Commerce Department's survey of plant and equipment spending plans, taken in late October and November, reported that nonfarm business expenditures for plant and equipment are expected to be only 2 percent higher (at an annual rate) in the first half of 1983 than in the second half of this year, suggesting a decline of more than 2 percent in real terms. Even larger reductions were implied by the McGraw-Hill and Merrill Lynch surveys taken in October. In addition, the Conference Board reported that the nation's 1,000 largest manufacturers reduced capital appropriations 11 percent in the third quarter to a level 40 percent below a year earlier.

Inventory Investment

Weak shipments and sales continued to frustrate efforts by businesses to pare unwanted inventories. At the end of October, the inventory-sales ratio for all manufacturing and trade rose to 1.55 based on book value data, slightly higher than the previous peak of 1.54 in January.

Manufacturers continued cutting inventories in October. The book value of manufacturers' stocks fell at an annual rate of $2.2 billion, the tenth monthly decline since November 1981. This string of cutbacks

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

	1981	1982 Q2	Q3(r)	Aug.	Sept.(r)	Oct.(p)
Book Value Basis						
Total	37.5	-.1	10.6	14.0	10.2	-4.1
Manufacturing	19.1	-19.8	-10.6	-7.3	-21.9	-2.2
Durable	13.8	-7.1	-6.0	-3.0	-9.1	-5.3
Nondurable	5.4	-12.7	-4.6	-4.4	-12.9	3.2
Wholesale trade	6.7	15.7	2.3	-5.2	9.0	2.3
Retail trade	11.6	4.1	18.9	26.5	23.1	-4.2
Automotive	3.5	1.4	14.1	17.6	13.5	-10.8
Constant Dollar Basis						
Total	7.1	-3.2	3.0	-1.3	5.5	n.a.
Manufacturing	2.6	-7.3	-5.4	-4.8	-9.1	n.a.
Wholesale trade	1.5	2.8	1.4	-7.4	6.3	n.a.
Retail trade	3.1	1.3	7.0	10.9	8.4	n.a.
Automotive	.7	1.2	5.6	7.0	5.6	n.a.

INVENTORIES RELATIVE TO SALES[1]

	1974-75 Cyclical Peak[2]	1982 Cyclical Peak[2]	1982 Q2	Q3(r)	Aug.	Sept.(r)	Oct.(p)
Book Value Basis							
Total	1.64	1.55	1.49	1.51	1.52	1.52	1.55
Manufacturing	1.95	1.81	1.73	1.71	1.73	1.71	1.78
Durable	2.51	2.52	2.35	2.36	2.38	2.39	2.52
Nondurable	1.39	1.18	1.12	1.09	1.12	1.08	1.12
Wholesale trade	1.24	1.27	1.18	1.23	1.22	1.25	1.27
Retail trade	1.57	1.46	1.40	1.45	1.44	1.44	1.43
Automotive	2.17	2.02	1.69	2.02	2.00	1.97	1.87
Constant Dollar Basis							
Total	1.76	1.80	1.73	1.76	1.77	1.77	n.a.
Manufacturing	2.18	2.19	2.10	2.10	2.12	2.11	n.a.
Wholesale trade	1.40	1.49	1.42	1.47	1.45	1.49	n.a.
Retail trade	1.49	1.49	1.45	1.50	1.49	1.49	n.a.
Automotive	2.05	2.01	1.79	2.02	2.01	1.95	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.

has reduced manufacturers' inventories $2.3 billion, or 0.8 percent, below their prerecession level. However, shipments have fallen more than 10 percent during the same period, causing the stock-sales positions of many industries to deteriorate. In particular, metals and machinery inventories are still very much out of line with sales.

The book value of trade inventories fell slightly in October following several months of large increases, but the October reduction was entirely the result of successful efforts to pare auto stocks; automotive inventories fell $11 billion at an annual rate. Dealers continued this liquidation into November, as car production was reduced further and sales were boosted sharply by low-interest financing programs. By the end of November, stocks of new domestic autos were down to about 1.2 million units--one of the lowest levels in the last two years.

In contrast, nonauto retail inventories have been rising since late summer. Imbalances have reappeared at many types of outlets, particularly general merchandise, apparel, and furniture stores. In October, the inventory-sales ratio for these stores reached 2.43, not far below the January peak of 2.45.

Federal Government

The federal unified budget deficit in October was a record $26.5 billion. However, after adjusting for seasonal factors, the October deficit was only $1 billion higher than the average monthly deficit of $13 billion (seasonally adjusted) in the third quarter.

On the receipts side, withheld tax collections slowed markedly in October, reflecting weak wage and salary performance as well as delayed

adjustments by taxpayers to last July's cut in withholding rates. Corporate refunds also continued at a very high level. October outlays were increased by strong growth in agricultural payments, which apparently continued into November. Outlays for Social Security were boosted in October by lump sum retroactive payments based on recomputations of benefits for many recipients, while federal employee compensation also rose, reflecting the recent pay increase.

By the end of the current "lame duck" session, Congress is expected to pass a 5-cent-per-gallon increase in the federal motor fuels excise tax. The proceeds will be used to finance increases in highway and mass transit construction. At the same time, action on FY 1983 appropriations bills continues to lag. With significant work remaining on more than half of these bills, the focus of Congressional action has shifted toward the passage of a continuing resolution that will extend funding through March 15.

The strong growth of real defense purchases continued in the third quarter. However, in spite of the buildup, the implicit deflator for defense purchases has started to decelerate in recent quarters, albeit less than the GNP deflator. This slowing of price increases for defense has been most pronounced in nondurables (primarily fuel) and services other than compensation. The compensation deflator also will begin to slow in the current quarter as both military and civilian defense pay raises were limited to 4 percent this October (the pay raises in October 1981 were 14.4 percent for military personnel and 4.8 percent for civilian employees). The rate of increase in the defense durable goods deflator

REAL DEFENSE PURCHASES
(Percent change from year earlier)

	1980 Q4	1981 Q4	1982 Q3
Total Defense	2.1	9.3	8.3
Durable goods	-3.2	10.4	6.9
Services	3.5	9.1	8.3

DEFENSE AND RELATED PRICE DEFLATORS
(Pecentage change from year earlier)

	1980 Q4	1981 Q4	1982 Q3
Total Defense	13.6	10.6	8.9
Total Defense less compensation	14.8	9.4	6.7
Defense durables	11.4	12.0	10.9
Addenda: Other deflators			
Total GNP	10.2	8.9	5.6
Personal Consumption Expenditures	10.4	7.7	5.7
Business Fixed Investment	8.1	8.4	3.8

has remained fairly constant, suggesting the presence of some demand pressure on prices from defense procurement activities.

State and Local Government

Activity in the state and local sector remains at the plateau that has prevailed since late last year. Preliminary November data indicate that state and local government employment has been virtually flat since September at a level slightly below the average in the first half of the year. However, the decline in construction has abated in recent months. Preliminary data showed that real construction outlays rose almost 1 percent in October, bringing the increase since July to about 5 percent. Even so, these outlays remain almost 20 percent below the recent peak in the first quarter of 1981.

Labor Costs and Prices

Wage inflation has continued to slow in recent months. Wage rates for production workers rose at a 6-1/2 percent annual rate over the first half of 1982, but for the last five months the rate of increase dropped to a 4-1/2 percent annual rate. The deceleration has been particularly striking in services and manufacturing, where wages have risen at about a 3 percent annual rate over the last three months, compared with a 7-1/2 percent rate earlier this year. Concessions negotiated in the auto industry last spring contributed to the reduced wage increases in manufacturing--auto workers usually receive annual wage adjustments as well as COLAs in the fall, but these increases were eliminated this year. However, the new 13-month Chrysler contract provided its workers with an initial increase of 6-1/4 percent and restores quarterly COLAs beginning in December.

HOURLY EARNINGS INDEX[1]
(Percentage change at annual rates;
based on seasonally adjusted data)[2]

	1980	1981	1982 Q1	Q2	Q3	Sept.	Oct.	Nov.
Total private nonfarm	9.6	8.4	6.5	6.4	6.2	1.9	5.4	1.6
Manufacturing	10.9	8.8	8.7	6.6	6.4	4.6	-1.0	5.5
Durable	11.5	8.8	9.0	6.2	7.5	2.8	-2.2	4.2
Nondurable	9.7	8.7	8.2	7.3	4.3	7.9	.9	8.1
Contract construction	7.7	8.1	9.0	2.3	3.4	-2.4	14.4	-14.0
Transportation and public utilities	9.3	8.5	7.4	6.0	4.5	-3.8	8.4	2.1
Total trade	8.8	7.1	3.8	6.4	4.5	1.9	6.7	2.6
Services	9.5	9.1	5.1	7.6	8.5	.5	8.4	.2

1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime hours in manufacturing.
2. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Quarterly changes are compounded annual rates; monthly changes are not compounded.

While the length and depth of the recession clearly have cut into wage inflation, the recent rebound in productivity has been an additional important factor in holding down labor costs. Productivity in the nonfarm business sector advanced at a 4 percent annual rate in the third quarter, following small increases in the first half. Moreover, the sharp cutbacks in hours worked in October and November imply another sizable productivity gain in the fourth quarter. Higher output per hour, coupled with a moderate rise in hourly compensation, lowered the advance in unit labor costs to a 2-1/2 percent annual rate in the third quarter and to a 5 percent rate so far this year.

The reduction in labor cost pressures has been accompanied by a widespread slowing in inflation. Most measures of consumer prices have risen at about a 5 percent annual rate since last December, compared with inflation rates of about 9 percent in 1981. Increases for producer prices of finished goods have been even lower--less than a 4 percent rate over the first 11 months of this year. Producer prices did rise somewhat more rapidly than this average rate in November. But a jump in heating oil prices contributed importantly to the overall increase, and these prices have receded in recent weeks.

In October, the CPI rose at a 5-3/4 percent annual rate, a little faster than in recent months. Small price increases for food and energy as well as declining homeownership costs helped to hold down the overall pace of inflation. Prices for consumer commodities other than food, energy, and homeownership have decelerated sharply this year, although in October there were some large increases for several commodities, including

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	Q2	Q3	Oct.
All items	100.0	12.4	8.9	1.0	9.3	4.2	5.7
Food	16.6	10.2	4.3	3.9	7.3	.6	2.5
Energy	11.1	18.1	11.9	-8.0	12.9	5.5	2.3
Homeownership	26.1	16.5	10.1	-2.4	19.8	.4	-.9
All items less food, energy, and homeownership[3]	49.8	9.9	9.4	5.4	6.9	6.1	8.6
Used cars	3.3	18.3	20.3	5.5	3.5	16.0	11.9
Other commodities[3]	19.9	8.1	6.1	4.8	3.7	3.9	7.4
Other services[3]	26.6	10.3	10.6	6.3	8.0	8.4	7.5
Memorandum:							
Experimental CPI[4]	100.0	10.8	8.5	2.7	5.8	6.4	6.8

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	Q2	Q3	Oct.	Nov.
Finished goods	100.0	11.8	7.1	.9	4.1	4.2	5.5	7.6
Consumer food	21.9	7.5	1.4	6.1	11.5	-7.4	-1.9	-1.9
Consumer energy	12.7	27.8	14.1	-18.5	-15.7	33.3	-.7	34.3
Other consumer goods	44.6	10.4	7.1	3.9	5.7	3.3	13.3	6.6
Capital equipment	20.8	11.4	9.2	2.4	5.6	3.8	2.6	3.4
Intermediate materials[2]	94.7	12.4	7.3	-1.8	-1.5	2.4	-1.1	6.1
Excluding energy	77.6	10.1	6.6	.1	.3	1.0	-1.7	2.9
Crude Materials								
Food	50.7	8.6	-14.0	23.3	24.3	-26.4	-23.4	11.7
Energy	33.6	26.9	22.8	-5.8	1.6	9.4	9.9	19.8
Other	15.7	7.5	-11.4	-40.3	25.3	5.5	-.5	-15.4

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.

cigarettes and magazines. Inflation for services (other than energy and homeownership) in October remained near this year's average rate of 7-1/2 percent, well below the 10-1/2 percent climb in 1981.

Outside the consumer sector, price increases for capital equipment have slowed significantly, reflecting the spreading weakness in the investment sector. Prices of capital equipment were up at an average annual rate of about 3 percent in October and November, and have risen at only a 4 percent annual rate since last December. The improvement this year has been impressive, with small increases or even some declines in such categories as generators, transformers, many types of machinery and equipment, and trucks. Perhaps even more notable, prices for intermediate materials (other than food) have been virtually flat in 1982--for the first time in 15 years--reflecting slack markets as well as a strong dollar.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1981	1982			Change from:	
		Early summer	FOMC		Early summer	FOMC
	Highs	Highs	Nov. 16	Dec. 14	Highs	Nov. 16
Short-term rates						
Federal funds[2]	20.06	14.81	9.61	8.81P	-6.00	-.80
Treasury bills						
3-month	17.01	13.19	8.40	7.68	-5.51	-.72
6-month	15.93	13.40	8.47	7.91	-5.49	-.56
1-year	15.21	13.12	8.51	8.05	-5.07	-.46
Commercial paper						
1-month	18.63	14.89	9.13	8.29	-6.60	-.84
3-month	18.29	15.00	9.11	8.33	-6.67	-.78
Large negotiable CDs[3]						
1-month	18.90	14.99	9.21	8.55	-6.44	-.66
3-month	19.01	15.58	9.38	8.58	-7.00	-.80
6-month	18.50	15.70	9.51	8.60	-7.10	-.91
Eurodollar deposits[2]						
1-month	19.80	15.66	9.73	9.33	-6.33	-.40
3-month	19.56	16.28	9.93	9.56	-6.72	-.37
Bank prime rate	21.50	16.50	12.00	11.50	-5.00	-.50
Treasury bill futures						
Mar. 1983 contract	14.20	13.69	8.75	7.83	-5.86	-.92
Sept. 1983 contract	14.07	13.67	9.36	8.89	-4.78	-.47
Intermediate- and long-term rates						
U.S. Treasury (constant maturity)						
3-year	16.59	14.98	10.10	9.73	-5.25	-.37
10-year	15.84	14.74	10.67	10.46	-4.28	-.21
30-year	15.21	14.26	10.60	10.48	-3.78	-.12
Municipal (Bond Buyer)	13.30	12.63	9.92[4]	10.13[4]	-2.50	.21
Corporate--Aaa utility						
Recently offered	17.72	16.19	11.86e	11.85P	-4.34	-.01
S&L fixed-rate mortgage commitment	18.63	16.93	13.84[5]	13.66[5]	-3.27	-.18

	1981	1982		Percent change from:	
		FOMC		1981	FOMC
	Highs	Nov. 16	Dec. 14	Highs	Nov. 16
Stock Prices					
Dow-Jones Industrial	1,024.05	1008.00	1009.38	-1.4	.1
NYSE Composite	79.14	78.30	79.32	.2	1.3
AMEX Composite	380.36	328.19	330.63	-13.1	.7
NASDAQ (OTC)	223.47	224.97	231.33	3.5	2.8

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.

Both M1 and M2 grew rapidly in November, as the public continued to expand its holdings of the most liquid types of assets. Thus far there has been no indication of an unwinding of the October buildup in demand deposits, other checkable deposits, and savings accounts that had been associated with maturing all savers certificates (ASCs). Expansion in M3 moderated slightly in November, as weak loan demand allowed commercial banks to reduce their reliance on large CDs.

Interest rates have fallen somewhat further since the November FOMC meeting in response to two half-point cuts in the discount rate and continued signs of weakness in the economy. Federal funds are now trading near 8-1/2 percent, compared with 9-1/2 percent at the time of the last FOMC meeting; most other short-term rates have fallen between one-half and one percentage point. In long-term markets yields have shown less tendency to decline in the face of substantial borrowing activity. Corporate and Treasury yields are unchanged or down 20 basis points on balance over the intermeeting period. As of early December, yields in the heavily congested municipal securities market were up about 20 basis points, but they likely have moved lower with the latest cut in the discount rate. Most mortgage commitment rates have continued to edge downward.

The public sectors have tapped financial markets for an extraordinarily large volume of funds in recent weeks. The Treasury has raised close to $50 billion thus far in the fourth quarter to finance a record quarterly deficit, and the volume of tax-exempt offerings has soared to record levels as many municipal borrowers have rushed to market bonds before January 1, the date when new registration requirements for municipal

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

	1982						QIV. '81 to Nov. 82P
	Q1	Q2	Q3	Sept.	Oct.	Nov.P	
	—Percentage change at annual rates—						
Money stock measures							
1. M1	10.4	3.3	3.5	14.0	20.3	16.1	8.7
2. (M1)[2]	(9.5)	(3.6)	(4.4)	(17.4)	(14.5)	(17.7)	(8.7)
3. M2	9.8	9.5	9.7	5.0	8.2	11.2	9.9
4. M3	8.7	10.7	12.1	3.9	9.1	8.9	10.5
Selected components							
5. Currency	7.9	9.3	6.9	9.3	6.4	3.7	7.8
6. Demand deposits	-0.5	-5.8	-1.4	7.8	18.1	9.7	0.9
7. Other checkable deposits	49.5	19.6	11.4	37.3	45.2	49.7	35.1
8. M2 minus M1 (9+10+11+14)	9.6	11.5	11.7	2.3	4.4	9.7	10.3
9. Overnight RPs and Eurodollars, NSA[3]	63.6	-8.4	15.2	-32.4	83.1	41.5	29.1
10. General purpose and broker/dealer money market mutual fund shares, NSA	33.8	20.9	31.0	12.7	9.9	15.7	28.6
11. Commercial banks	9.4	17.2	12.2	7.7	-1.1	8.5	11.5
12. savings deposits	8.7	2.0	-9.7	4.6	21.5	34.7	4.9
13. small time deposits	9.7	23.8	21.3	8.8	-9.6	-1.8	14.4
14. Thrift institutions	1.6	6.0	6.4	-2.0	3.2	7.1	4.5
15. savings deposits	10.2	0.6	-7.8	-1.3	47.8	31.0	7.1
16. small time deposits	-1.5	8.1	11.7	-2.3	-12.7	-1.9	3.5
17. M3 minus M2 (18+21+22)	3.3	16.9	23.8	-1.5	13.8	-2.3	13.5
18. Large time deposits	8.9	19.1	19.6	-1.1	12.7	-8.7	13.1
19. at commercial banks, net[4]	6.1	19.9	21.4	-5.6	7.8	-21.5	11.0
20. at thrift institutions	21.6	15.5	11.5	19.8	35.1	49.2	22.7
21. Institutions-only money market mutual fund shares, NSA	-2.5	15.2	104.0	22.3	24.6	13.4	42.9
22. Term RPs, NSA	-29.9	6.2	-25.7	-59.8	11.8	77.9	-5.7
	—Average monthly change in billions of dollars—						
MEMORANDA:							
23. Managed liabilities at commercial banks[4] (24+25)	0.6	6.3	1.7	-6.7	5.3	-3.8	2.5
24. Large time deposits, gross[5]	2.7	5.8	5.7	-0.5	0.8	-7.0	3.0
25. Nondeposit funds[5]	-2.1	0.5	-4.0	-6.2	4.5	3.2	-0.5
26. Net due to related foreign institutions, NSA[5]	-2.1	0.4	-4.3	-4.4	-2.6	3.1	-1.6
27. Other[5,6]	0.0	0.1	0.3	-1.8	7.1	0.1	1.1
28. U.S. government deposits at commercial banks[7]	1.9	-2.5	0.2	1.4	3.0	-3.9	-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.

securities go into effect. In contrast, total borrowing by nonfinancial businesses appears to have dropped a bit, though firms are continuing to borrow heavily in long-term markets to pay down short-term liabilities. In the household sector, consumer installment credit remains depressed, but there are some signs that residential mortgage borrowing may be reviving.

Monetary Aggregates and Bank Credit

M1 expanded at a 16 percent annual rate in November, down from October's 20 percent clip. Although demand deposit growth moderated, other checkable deposits continued to rise at an exceptionally rapid rate. The fast growth in M1 in recent months, despite weakness in economic activity, in part reflects a lagged response to rate declines that began last summer.[1] Apart from such "normal" interest elasticity of M1 demand, lower interest rates probably have slowed the readjustment of portfolios occasioned by the maturation of ASCs, especially in view of the new, attractive deposit instruments which will become available in December and January.

The slower growth of M1 in November was more than offset by faster expansion in nontransaction accounts; consequently, M2 accelerated to an 11-1/4 percent annual growth rate for the month. The pickup in the nontransaction component of M2 was accounted for by a sharp reduction in net outflows from small time deposits which, in part, may be attributed to much smaller amounts of maturing ASCs in November.

Total inflows to savings accounts at depository institutions in November were only slightly below the record October pace. The continued

1. A longer-run perspective on growth in the aggregates is contained in Appendix A.

strength of savings deposits, as well as that of some short-maturity time deposits, may in part represent a tendency of depositors to use such accounts as a temporary repository for funds while awaiting the money market deposit account (MMDA), scheduled for introduction on December 14.[1] A number of institutions, for example, have actively marketed arrangements using passbooks, 7- to 31-day accounts, and especially retail RPs as vehicles for attracting and holding funds in anticipation of the new account.[2]

Among other nontransaction components of M2, overnight RPs at commercial banks continued to grow at a robust pace in November, accompanying a substantial buildup in holdings of Treasury securities and a runoff in Treasury deposits. Although the increase in assets of general purpose and broker/dealer money market mutual funds was somewhat higher on a monthly average basis in November than in October, inflows remained well below the pace of the first three quarters. Moreover, fund assets actually declined in late November and early December, as the returns on money funds moved into closer alignment with rates of interest on other short-term instruments and possibly as funds were moved to MMDA bridge accounts.

Despite the acceleration in M2, M3 growth was a bit less rapid in November than in October, because of a substantial decline in large time deposits at commercial banks and, to a lesser extent, a deceleration in

1. On December 6 the DIDC also authorized a "Super NOW" account that has many of the features of an MMDA, including payment of an unregulated rate of interest whenever the balance exceeds $2,500. This account becomes available to individuals, governmental units and certain non-profit organizations on January 5, 1983, and could prolong the period during which depositors are choosing where to place their funds.
2. Information available from the Reserve Bank Contact Group indicates that such "bridge" accounts were common in about half of the Federal Reserve districts. Most institutions offering bridge accounts were paying rates in the 10 to 12 percent range, with reported rates varying from 9 to as much as 25 percent.

institution-only money market funds. Issuance of domestic CDs fell sharply as banks evidently were able to satisfy weak loan demand through core deposit growth. In contrast, thrift institutions, particularly S&Ls, stepped up their reliance on large CDs and other managed liabilities, using some of these funds to repay more costly Federal Home Loan Bank advances.

Growth in overall bank credit in November registered its slowest rate in 2-1/2 years, reflecting primarily a sharp contraction in business loans. The weakness in business loans, which was most pronounced at large banks, was indicative of both a general decline in overall external financing by firms and efforts by businesses to fund short-term debt. Security loans also contracted in November, following rapid expansion beginning in the summer, while real estate and consumer loan expansion remained sluggish. Both large and small banks continued to acquire Treasury securities at a rapid pace; judging from data from the large banks, most of these acquisitions continued to be in the one- to five-year maturity range.

Business Finance

Total external financing by nonfinancial businesses appears to have moderated further in November from the reduced pace of October; the smaller volume of borrowing likely reflects continued declines in capital spending, a resumption of inventory liquidation in the fourth quarter, and perhaps some increase in firms' cash flow. As in recent months, businesses continued to pay off short-term debt with money raised in the capital markets. In both October and November, the sum of business loans and commercial paper of nonfinancial corporations contracted for the first time since the 1975-76 period, when corporations last undertook a major restructuring

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

	1982						QIV '82 to Nov. '
	Q1	Q2	Q3	Sept.	Oct.	Nov.	
			—Commercial Bank Credit—				
1. Total loans and investments at banks[2,3]	10.1	8.0	5.8	4.4	6.8	1.5	7.5[4]
2. Investments[3]	5.7	4.7	4.8	3.4	12.1	9.3	6.0
3. Treasury securities	11.5	4.9	8.3	4.1	41.6	40.2	13.4
4. Other securities[3]	2.8	4.8	3.0	3.0	-2.5	-7.1	2.4
5. Total loans[2,3]	11.5	9.1	6.2	4.8	4.9	-1.0	8.0
6. Business loans[2,3]	16.7	15.0	9.0	13.0	6.7	-7.9	11.5
7. Security loans	-18.3	-26.8	63.6	67.3	85.0	-39.7	12.5
8. Real estate loans	7.8	6.6	2.8	3.6	3.6	4.4	5.9
9. Consumer loans	2.8	2.8	3.0	0.6	2.5	3.2	3.2
			--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	9.2	5.3	-1.5	n.a.	n.a.
11. Business loans net of bankers acceptances[3]	16.5	15.9	9.0	12.7	6.6	-4.8	12.0
12. Commercial paper issued by non-financial firms[5]	30.0	16.8	-6.0	-52.7	-71.4	-69.4	.2
13. Sum of line 11 & 12[3]	18.2	16.0	7.0	3.9	-3.4	-12.8	10.5
14. Line 13 plus loans at foreign branches[3,6]	18.5	15.8	8.3	3.8	-3.5	-13.4	11.0
15. Finance company loans to business [7]	1.0	1.5	15.8	13.0	-5.7	n.a.	n.a.
16. Total bankers acceptances outstanding[7]	11.7	10.2	6.6	6.6	14.7	n.a.	n.a.

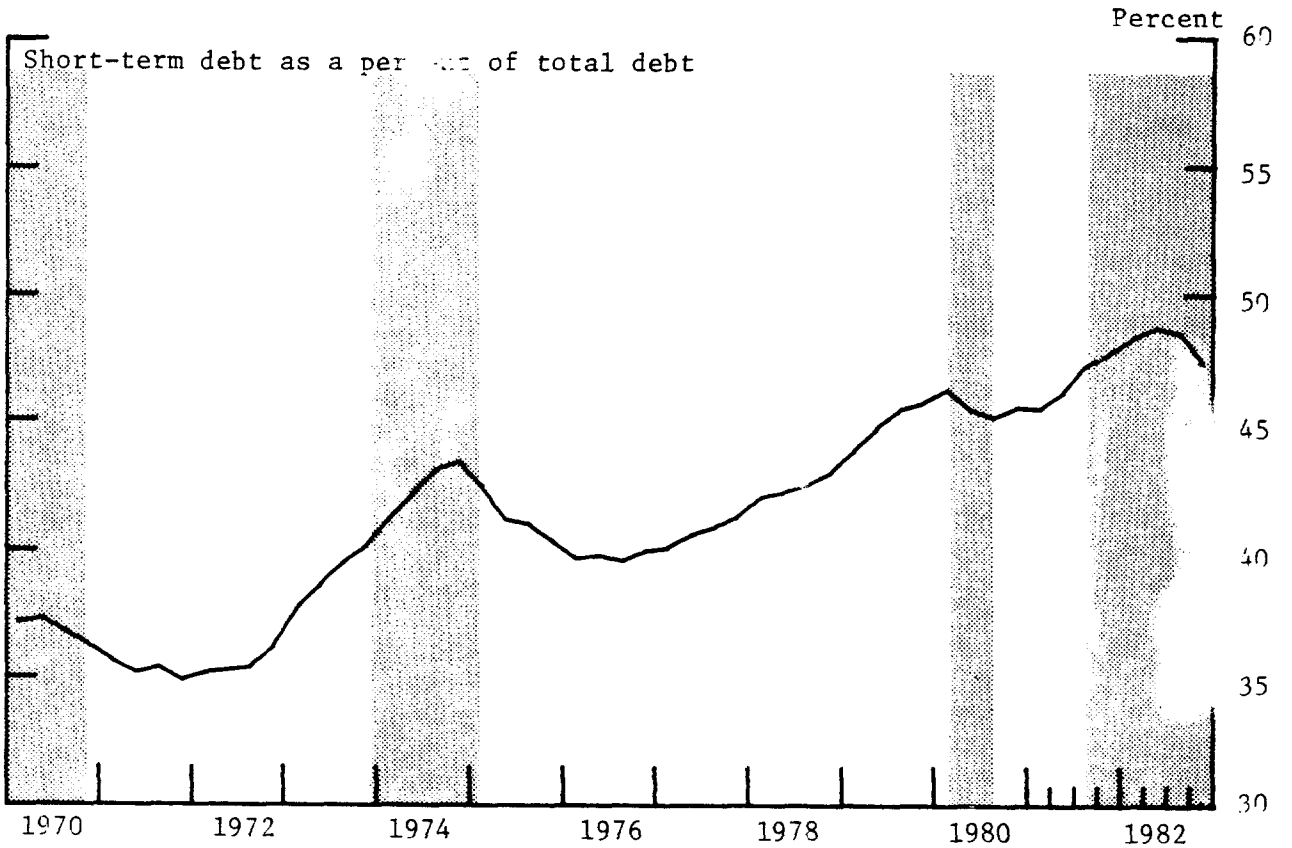
1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.
2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the 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 November 1982, not adjusted for shifts of assets from domestic offices to IBFs, was at an annual rate of 6.8 percent. Adjusted for such shifts after January, growth over this period was 7.3 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.

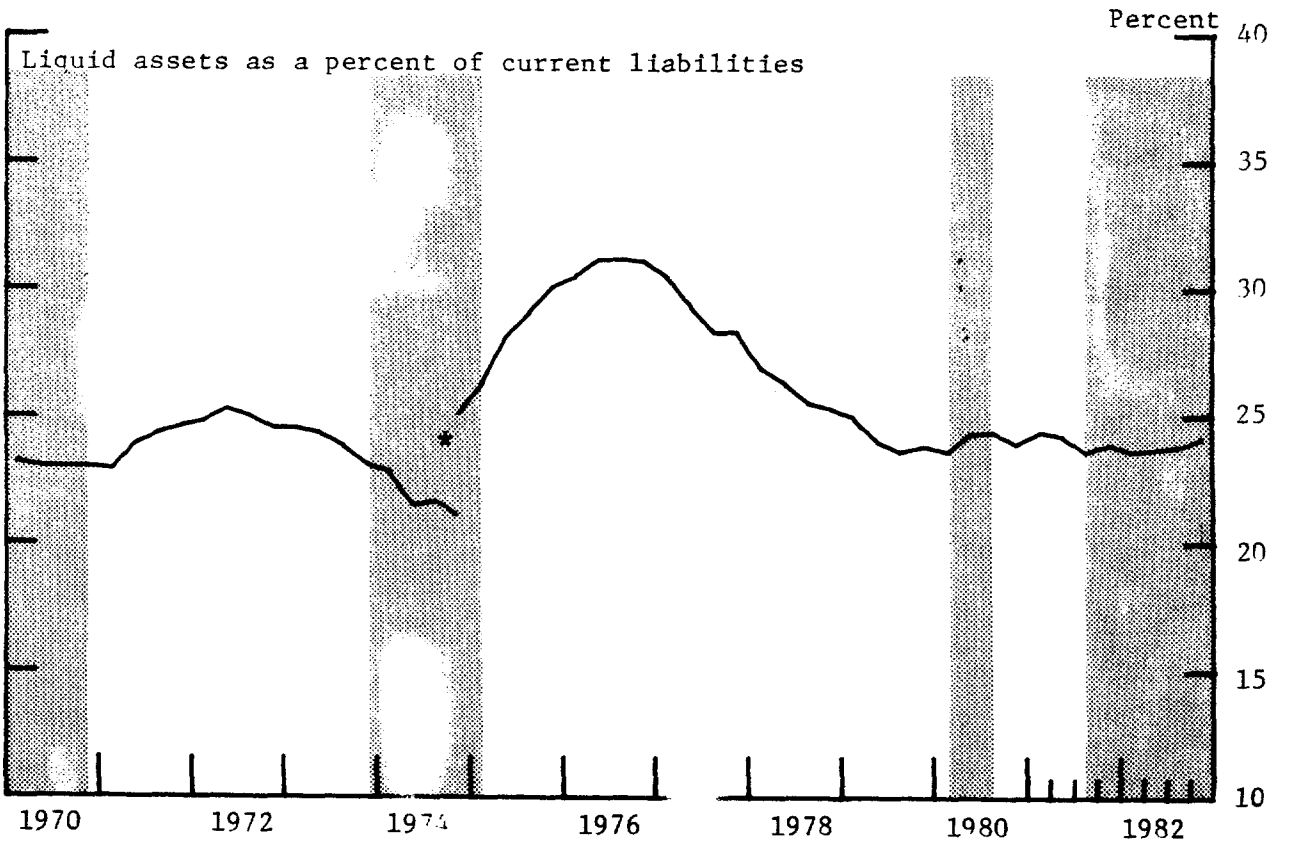
of their balance sheets. Gross public offerings of corporate bonds and notes, meanwhile, have run at a seasonally adjusted monthly pace near $6.5 billion since September, and more recently the volume of new equity offerings also has accelerated.

Despite these shifts away from short-term debt in favor of longer-term securities, corporate balance sheet measures still remain weak by historical standards. The ratio of short-term to total debt for non-financial corporations has moved down only slightly from its recent peak, and the ratio of liquid assets to short-term liabilities is quite low (see chart on page III-8). Data from other sources also indicate that corporations remain under considerable stress in the current environment: businesses continue to petition for bankruptcy in record numbers; and rating agencies have been downgrading long-term debt obligations this year at double the then-record pace of 1981. Nonetheless, spreads between yields on short-term private paper and U.S. Treasury bills, and between market yields on lower- and higher-grade commercial paper, have narrowed appreciably from late-summer levels, suggesting that market concerns about financial distress have been abating. Declining interest rates and actions to deal with international loan problems have helped to allay such fears.

Over the past two months bond markets have been marked by the absence of the innovative financing techniques that were so widely used earlier in the year. Rather, most new bond issues have borne market coupons, and slightly more than half of November's domestic issues--measured both in numbers and dollars--had maturities of 20 years or more. For weaker firms, convertible bond issues have continued to offer an attractive vehicle for

FINANCIAL RATIOS OF NONFINANCIAL CORPORATIONS





* Break in series.

Data for 1982-Q4 are based on flow of funds projections.

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

	1981	1982					
	Year	Q1	Q2	Q3	Oct.[p]	Nov.[p]	Dec.[f]
	Seasonally adjusted						
Corporate securities--total	6,348	6,102	6,391	9,436	10,274	11,515	10,800
Securities sold in U.S.	5,833	4,720	5,014	8,410	9,300	10,350	9,800
Publicly offered bonds[1]	3,138	2,088	2,279	5,008	6,600	6,550	6,000
Privately placed bonds	582	725	461	917	700	700	700
Stocks[2]	2,113	1,907	2,274	2,485	2,000	3,100	3,100
Securities sold abroad[3]	515	1,382	1,377	1,026	974	1,165	1,000
	Domestic offerings, not seasonally adjusted						
Publicly offered bonds--total[1]	3,138	1,873	2,824	4,574	6,600	5,000	3,500
By industry							
Utility	1,079	693	938	970	1,670	1,230	--
Industrial	1,192	464	576	1,971	2,415	2,410	--
Financial	867	716	1,310	1,633	2,515	1,360	--
By quality[4]							
Aaa and Aa	1,182	694	956	1,835	2,775	1,425	--
A and Baa	1,448	809	1,065	1,836	2,840	2,120	--
Less than Baa	226	151	196	235	529	625	--
No rating (or unknown)	282	219	607	668	456	830	--
Memo items:							
Convertible bonds	357	47	178	199	550	560	--
Original discount bonds							
Par value	808	910	1,129	650	248	235	--
Gross proceeds	358	297	394	229	219	209	--
Stocks--total[2]	2,112	1,866	2,213	2,251	2,200	2,800	3,500
By industry							
Utility	676	660	558	728	500	700	--
Industrial	1,054	965	969	969	1,200	1,600	--
Financial	382	241	686	554	500	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.

obtaining financing; nearly all of the recent convertible issues have had less than A ratings.

One noteworthy change in domestic bond issuance in November was a slackening in the volume of higher-rated offerings. This dropoff may reflect the belief among some issuers that long-term interest rates will resume their descent in the not-too-distant future. The overall volume of longer-term straight-debt issues, however, suggests that this view is not held universally, or perhaps that lesser-rated firms have a more immediate need for long-term financing.

Stock prices have exhibited fairly volatile movements since mid-November, and currently are only a little higher than at the time of the last meeting of the FOMC. The rise in stock prices since the summer has induced some increase in the pace of new equity offerings, especially by industrial firms, and in early December AT&T sold a record $1.1 billion issue of new common stock.

Government Finance

Federal sector. The Treasury borrowed heavily in November and early December to help finance a record combined deficit of $72 billion in the fourth quarter. Of this amount, the Treasury is expected to raise $53 billion in the market,[1] and to obtain most of the rest by reducing its cash balance. As of mid-December, the Treasury had raised $48 billion of its fourth-quarter needs, with the rest to be borrowed in regular bill auctions. The Treasury also announced a number of coupon auctions to be held in December for settlement early next year; borrowing in the first quarter of 1983 is expected to be even greater than in the current quarter.

1. This borrowing projection is well above the Treasury's estimate of $46.5 billion announced at the time of the mid-quarter financing.

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

	FY 82	1982 Nov.p	1982 Dec.f	1982 Q4f	1983 Q1f
Treasury financing					
Combined surplus/deficit(-)	-128.0	-25.7	-19.6	-71.8	-59.8
Means of financing deficit:					
(1) Net cash borrowing from the public	134.9	24.9	24.6	55.7	59.8
Marketable borrowings/ repayments(-)	142.2	23.2	24.0	53.0	58.4
Bills	54.6	9.6	18.5	34.1	19.3
Coupons	87.6	13.6	5.5	18.9	39.1
Nonmarketable	-7.3	1.7	.6	2.7	1.4
(2) Decrease in the cash balance	-10.7	8.9	-10.1	14.1	5.2
Memo: Cash balance at end of period	29.4	5.2	15.3	15.3	10.1
(3) Other[2]	3.8	-8.1	5.1	2.0	-5.2
Federally sponsored credit agencies net cash borrowing[3]	20.5	-1.1	-.3	-1.8	1.0
FHLB	3.2	-.3	-.6	-1.2	-2.5
FNMA	11.4	-.2	.6	.2	1.8
Farm Credit Banks	4.0	-.7	-.3	-.9	1.3
Other	1.8	0	0	.2	.4

p--preliminary.
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. Data for fiscal year 1982, as well as November, are preliminary.

Federally sponsored credit agencies repaid an estimated $1.1 billion in debt during November, following a paydown of about $350 million the previous month. Federal Home Loan Banks reduced their debt by about $300 million in November, as thrifts repaid FHLB advances for the fifth straight month. Although gross mortgage purchases by FNMA were quite large, FNMA cut its debt by about $200 million in November. Mortgage purchases apparently were financed by a reduction in the agency's liquid assets and by mortgage sales through the issuance of pass-through securities. The Federal Farm Credit Banks pared their outstanding liabilities by an estimated $660 million in November, reflecting generally depressed loan demand by farmers and perhaps some shift in agricultural credit demands to other sources. For example, loans by the Commodity Credit Corporation are estimated to have increased sharply in the past two months.

State and local sector. Municipal securities markets continued to experience a deluge of new long-term bond issues in November and early December. Gross offerings of tax-exempt bonds were a record $8.0 billion (seasonally adjusted) in November, exceeding by a slight margin the heavy October volume. Even more borrowing is expected for December. Some of the stepped-up issuance may well reflect the decline in rates over the past few months, but in addition there has been a rush to sell bonds before January 1, the effective date of a new federal law requiring all municipal securities maturing in one year or more to be sold in registered form, with the owner's name on record.[1]

1. In mid-December an amendment was passed in the House of Representatives that would postpone for a year the effective date of the registration requirement for municipal bonds. This proposal has yet to be taken up by the Senate, however.

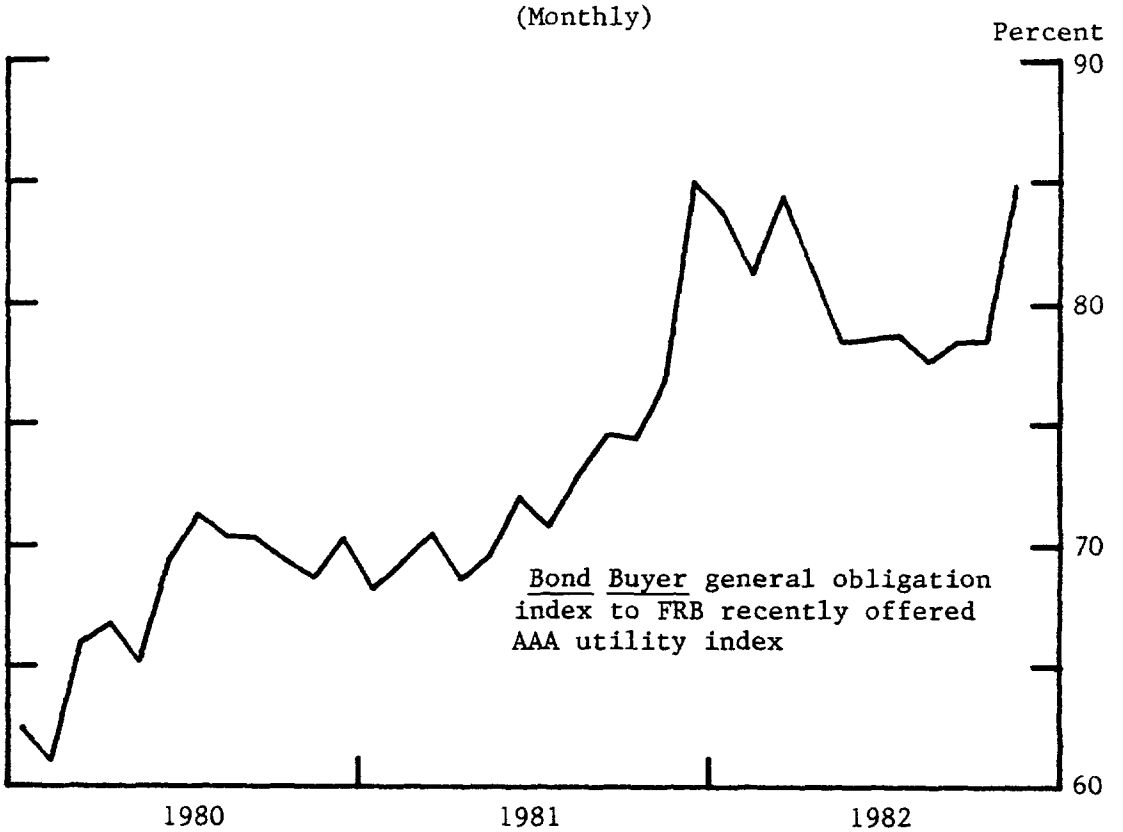
Municipal dealers report that the heavy bond volume has been absorbed largely by individuals, either directly or through purchases of shares in open-end bond funds and unit investment trusts. Available data suggest that commercial banks have remained on the sidelines. However, acquisitions of tax-exempts by property and casualty insurance companies reportedly have picked up somewhat in the last few weeks, even though continued record underwriting losses discourage their participation on a large scale.

Reflecting the heavy volume of new issues and still weak demand by major institutional investors, yields on long-term municipal bonds rose about 20 basis points between the last FOMC meeting and early December. As of December 9 (latest available), the Bond Buyer indexes were 10.13 percent for general obligations and 10.79 percent for revenue bonds. The ratio of tax-exempt to taxable yields rose in November to near its high levels of earlier in the year (see chart on page III-14).

Mortgage Markets

In the primary mortgage market, interest rates on conventional home loans have edged down a bit further since the November FOMC meeting; the average rate on new commitments at S&Ls for fixed-rate, level-payment home mortgages was 13.66 percent in early December, about 18 basis points lower than at the time of the last meeting. In the more sensitive secondary markets, rates as of early December had backed up about 10 to 50 basis points but have retraced most of this rise since then. In mid-November, when yields on GNMA-guaranteed securities were falling, the administration reduced ceiling rates on standard FHA and VA home mortgages one-half percentage point to 12 percent; since then, however, average effective rates on commitments for FHA-insured level-payment mortgages have remained near

RATIO OF TAX-EXEMPT TO TAXABLE YIELDS
(Monthly)



STATE AND LOCAL GOVERNMENT SECURITIES OFFERINGS
(Monthly totals or monthly averages, billions of dollars)

	1981	1982				
	Year	H1	Q3	Oct.	Nov.[e]	Dec.[f]
	Seasonally adjusted					
Total	6.45	8.93	9.95	12.25	12.20	15.90
Long-term	3.65	5.25	6.40	7.90	8.00	11.00
Short-term[1]	2.80	3.68	3.55	4.35	4.20	4.90
	Not seasonally adjusted					
Total	6.45	8.65	9.70	11.10	13.00	13.50
Long-term	3.65	5.20	6.15	8.00	9.20	10.00
Mortgage revenue	.53	.62	1.65	1.40	.90	1.00
Short-term[1]	2.80	3.45	3.55	3.10	3.80	3.50

e--estimate. f--forecast.
1. These figures do not include tax-exempt commercial paper.

13 percent as rates in other long-term markets have shown no discernible trend.

Although various indicators suggest that mortgage lending activity may be picking up, hard evidence confirming this remains scanty. For example, balance sheet data for S&Ls indicate that overall mortgage lending by these institutions was very weak in October as $931 million in net acquisitions of mortgage-backed securities offset only a small portion of a $3.8 billion decline in outright mortgage holdings.[1] Nevertheless, new mortgage commitments at S&Ls were $5.8 billion in October, the same as in September, but above the $4-1/2 to $5 billion range that prevailed during the first seven months of the year. Other evidence suggesting a revival of mortgage activity has been more indirect. For example, respondents to the mid-November Survey of Senior Loan Officer Opinion reported that demand for mortgage credit at commercial banks had risen, on balance, over the previous three months.[2] Moreover, the flow of applications for FHA insurance and VA guarantees continued to increase through November; for the month as a whole, the number of applications for FHA home mortgages rose to a record 1.2 million seasonally adjusted annual rate. Some of the apparent increase in mortgage activity reportedly has been for the purpose of refinancing, but the aggregate volume of this activity is unknown. In

1. There is some doubt about the quality of the October figures. The balance sheet data include the effects of a regulatory accounting change that permitted associations, beginning in September, to reclassify as "contra-assets" (that is, deductions from asset accounts) certain items formerly reported as liabilities. This change will reduce the reported level of mortgage loans on an institution's balance sheet, impairing the comparability of recent mortgage data with those for earlier periods. In addition, the change may have caused confusion among S&Ls and, as a result, may have led to reporting errors on the preliminary October balance sheet.
2. An analysis of the mid-November survey is contained in Appendix B.

NEW ISSUES OF FEDERALLY GUARANTEED MORTGAGE
PASS-THROUGH SECURITIES
(Millions of dollars, not seasonally adjusted)

Period	Total	GNMA	FHLMC		FNMA	
			Swap	Other	Swap	Other
1980	23,175	20,648	n.a.	2,527	n.a.	n.a.
1981	19,351	14,256	2,305	2,072	468	250
1982						
Q1	9,583	3,200	4,065	243	1,824	251
Q2	10,295	3,561	4,592	341	1,549	252
Jul.	5,073	1,011	2,148	56	1,858	0
Aug.	4,792	1,384	2,485	134	789	0
Sep.	4,454	1,521	1,703	222	1,008	0
Oct.	5,936	1,441	1,864	464	1,767	400
Nov.	--	1,564	1,600e	800e	--	--

n.a.--Not applicable.
e - estimate.

addition, home buyers likely are relying less on creative financing arrangements and channeling a greater portion of their mortgage borrowing through institutional lenders.

In the secondary market, total agency issuance of mortgage pass-through securities reached a new high of $5.9 billion in October, boosted by a surge in new issues of mortgage pass-through securities by FNMA. Although swap transactions by FNMA and FHLMC continued to account for the bulk of pass-through volume, an increased share consisted of nonswap issues designed to channel funds to the primary mortgage market. In November, issuance of pass-through securities guaranteed by GNMA and by FHLMC picked up a bit.

Consumer Credit

Consumer installment credit contracted slightly in October, the first decline since December 1981. All major categories of such credit weakened appreciably, with particularly large declines registered in both the automobile and the large "other" categories. Some strengthening in auto credit is anticipated for November, however, in light of the rebound in new car sales.

Interest rates on new car and personal loans at commercial banks have come down about one percentage point since early August. Although these rates remain high, responses to the Senior Loan Officer Survey indicated a greater willingness by banks to make such loans. Indeed, bank data show a moderate increase in consumer loans at these institutions in November. Since November 1, each of the three major domestic auto makers has introduced or expanded a low-rate car loan program through its finance company subsidiary. The Ford and GM programs apply to sales of 1982-model

CONSUMER INSTALLMENT CREDIT

	1980	1981	1982			
			Q2	Q3	Sept.	Oct.
	- - - - Percent rate of growth, SAAR - - - -					
Change in outstandings -- total	0.5	6.4	4.8	2.1	3.9	-1.2
By type:						
Automobile credit	0.4	8.2	5.8	0.5	4.8	-0.7
Revolving credit	2.5	8.1	10.4	6.4	4.1	2.1
All other[1]	-0.3	4.1	1.5	1.7	3.1	-2.9
	- - - - Billions of dollars, SAAR - - - -					
Change in outstandings -- total	1.4	19.1	15.7	6.9	13.1	-3.9
By type:						
Automobile credit	0.5	9.6	7.4	0.7	6.1	-0.9
Revolving credit	1.4	4.7	6.2	3.9	2.5	1.3
All other[1]	-0.4	5.6	2.1	2.4	4.5	-4.2
By major holder:						
Commercial banks	-7.2	2.3	-0.1	0.6	5.8	-0.6
Finance companies	8.4	13.1	10.2	0.7	1.4	-4.7
All other	0.2	4.5	5.6	5.6	5.9	1.4
	- - - - - - - Percent, NSA - - - - - - - -					
Interest rates						
At commercial banks[2]						
New cars, 36 mos.	14.30	16.54	17.20	17.08	n.a.	15.97
Personal, 24 mos.	15.47	18.09	18.90	18.93	n.a.	17.99
Credit cards	17.31	17.78	18.41	18.73	n.a.	18.75
At auto finance cos.[3]						
New cars	14.83	16.17	15.19	17.68	17.35	16.66
Used cars	19.10	20.00	20.83	20.93	20.89	20.78

1. Includes primarily personal cash loans, home improvement loans and sales finance contracts for non-automotive consumer durable goods.
2. Second quarter figure represents average of "most common" rates charged during the first week of May; third quarter figure is for first week of August; October figure is for first week of November.
3. Average rates are for all loans of each type made during the period, regardless of maturity.

cars, while the Chrysler program covers selected 1983 models as well. The reduced finance rates are under 11 percent at each company, compared with an average close to 18 percent prior to the reductions.

Delinquency rates on consumer installment loans remained very low during the third quarter. At the same time, however, mortgage delinquencies continued to worsen, according to survey data from commercial banks and FHLBB reports of mortgage delinquency rates at S&Ls. The FHLBB series reached a new high in October of 2.21 percent, seasonally adjusted; two years ago it was around 1 percent.

CONSUMER AND MORTGAGE LOAN DELINQUENCY RATES

	1980	1981	1982			
			Q2	Q3	Sept.	Oct.
	- - - - Percent, seasonally adjusted - - - -					
Installment loans 30 days or more past due						
Commercial banks	2.61	2.38	2.19	2.20	2.19	n.a.
Auto finance companies	2.27	1.89	1.61	1.62	1.68	1.75
Home mortgages 60 days or more past due						
Savings and loans	1.03	1.28	1.79	1.96	2.02	2.21
All lenders	1.43	1.52	1.73	1.72	n.a.	n.a.

Sources: American Bankers Association, Federal Reserve Board, Federal Home Loan Bank Board, Mortgage Bankers Association.

Note: Mortgage delinquency rate at S&Ls is dollar amount of loans past due as a percent of the total dollar amount of outstanding principal. All other series represent the number of loans past due as a percent of the total number of loans outstanding.

Appendix A*

MONETARY AGGREGATES AND BANK CREDIT IN 1982

M1 is expected to increase 8-1/2 percent in 1982 (see Table 1), the most rapid fourth quarter-to-fourth quarter rate of expansion since 1977, and well above the 2-1/4 percent rate of increase posted in 1981 (after adjusting for shifts to NOW accounts). This surge in narrow money has occurred despite the sharp reduction in income growth. M1 growth this year has been approximately 2-1/2 percentage points greater than that implied by the Board's quarterly money demand equation--given the actual course over the year of income and interest rates--and has been associated with roughly a 4-1/2 percent drop in M1 velocity, the largest drop in any four-quarter span since World War II.

As shown in Table 1, the bulk of the growth in narrow money in 1982 was accounted for by OCDs, which increased more than 34 percent. The sizable inflows to OCDs coincided with a broad buildup in liquid assets by the public, including savings deposits, which may have been attributable to declining open market interest rates and mounting concerns about future employment and income prospects. Although the sharp interest rate declines after mid-year boosted demand deposits in the second half of 1982, it appears that such accounts will increase by less than $2 billion on net over the year as a whole.

M2 growth in 1982, at a 9-3/4 percent rate, was a bit faster than the 9-1/2 percent rate in 1981. However, the 5-1/2 percent drop in M2 velocity over the year was the biggest four-quarter drop on record. Much of the expansion in nontransactions-M2 comprised inflows to its most liquid components: savings deposits, overnight RPs and Eurodollars, general purpose and broker/dealer money market mutual fund shares, and retail RPs jointly grew at a 14 percent rate.

Overall expansion in nontransactions-M2, however, increased only slightly in 1982. Growth in small time deposits moderated as considerably weaker inflows to less liquid deposit accounts--particularly 6-month money market certificates and all savers certificates (which began maturing in October)--more than offset rapid accumulation of balances in newly authorized 91-day and 7-to 31-day small-denomination time accounts. Over the year, inflows to both small time deposits and money market funds were damped by an appreciable narrowing of interest rate differentials between these assets and fixed-ceiling instruments. Inflows to general purpose and broker/dealer money market funds dropped to less than half of their 1981 pace--probably reflecting as well some flattening of the publics' learning curve about this instrument--while inflows to small time deposits were off

* Prepared by David S. Jones, Economist, Banking Section, Division of Research and Statistics.

more than 40 percent. Small time deposits were especially weak in the fourth quarter, declining on net for the first time since 1960, as sharply lower open market rates after mid-year evidently encouraged many investors to place substantial amounts of maturing ASC funds in OCDs and savings deposits.

Despite significantly smaller spreads between interest rates on open market instruments and yields on fixed-ceiling deposit accounts, the fraction of M2 assets bearing indexed-ceiling or ceiling-free rates of return increased further in 1982. At the end of October 1982 the proportion of M2 bearing market-related yields was about 52 percent, up five percentage points from a year earlier.

M3 growth ebbed to a 10-1/2 percent rate in 1982--from 11-1/2 percent in 1981--as the pickup in M2 growth and a turnaround in term RPs failed to offset markedly slower growth of both institution-only money fund assets and large-denomination time deposits. Reflecting strength in core deposits at commercial banks and somewhat slower growth in bank credit, gross issuance of large time deposits by commercial banks in 1982 has declined sharply (see Table 2). Expansion of large time deposits net of amounts held by non-money stock holders, however, is expected to contract by less than the cutback in gross issuance owing to appreciable runoffs of bank CDs held by money market mutual funds. Over the year, commercial banks advanced a substantial volume of funds raised in domestic markets to their foreign offices as lower interest costs on domestic liabilities relative to Eurodollar rates favored domestic funding of bank assets.

Growth of commercial bank credit in 1982 was distorted by an estimated $33 billion of loans and investments shifted from domestic offices to IBFs, mostly in December of last year and January of this year. Allowing for these shifts by using a December 1981/January 1982 base, bank credit expanded at a 6-3/4 percent annual rate through November 1982, 1-1/4 percentage points below that of a year ago (measured on a fourth quarter-to-fourth quarter basis). Much of the deceleration from 1981 occurred in business loans, reflecting weak economic activity and, in the second half of the year, sharply falling interest rates that encouraged many firms to refinance short-term indebtedness. Real estate lending also slowed noticeably in the second half of 1982. Banks responded to falling loan demand in the face of continued strong core deposit inflows partly by restricting managed liabilities and partly by adding to investments--mainly Treasury securities.

Table 1

MONETARY AGGREGATES AND BANK CREDIT
(Q4 to Q4 averages, seasonally adjusted unless noted otherwise)

Annualized Growth Rates or Flows	1978	1979	1980	1981	1982[1]
Growth rates (annualized percent)					
M1	8.3	7.4	7.3	5.0 (2.3)[2]	8.4
M2	8.2	8.4	9.2	9.5	9.8
M3	11.3	9.8	10.0	11.4	10.4
Bank credit	13.5	12.6	9.1	7.9	6.8[3]
Annual flows ($ billions)					
M1	27.5	26.7	28.3	20.9	36.9
Currency	8.8	9.1	9.9	6.5	9.4
Demand deposits	15.5	7.6	8.4	-34.0	1.7
Other checkable deposits	2.8	9.7	9.7	48.2	25.5
M2	106.2	117.5	138.5	156.6	176.3
Nontransactions-M2	78.8	90.8	110.2	135.7	139.4
Savings deposits	-2.8	-57.1	-19.7	-66.4	19.6
Small time deposits	73.6	119.0	93.1	117.4	69.1
General purpose, and broker/dealer money market mutual fund assets (NSA)	3.6	25.1	30.5	82.4	40.2
Overnight RPs and Eurodollars (NSA)	4.7	4.6	7.2	2.5	11.1
M3	163.7	157.9	176.6	222.5	225.3
Non-M2 component	57.5	40.4	38.1	65.9	49.0
Institution-only money market mutual fund assets (NSA)	2.2	5.7	6.0	17.0	13.2
Large time deposits (NSA)	49.6	30.3	27.9	52.1	40.2
Term RPs (NSA)	5.8	4.9	5.4	-1.6	2.9

1. Monetary aggregates data for 1982 reflect December projections. Bank credit data are through November 1982.
2. Number in parenthesis is rate of M1 growth adjusted for shifts into NOW accounts.
3. Growth rate for bank credit is calculated from a December 1981/January 1982 base.

Table 2

RELATIONSHIP OF CHANGES IN M3 AND BANK CREDIT
(Billions of dollars)

		1981*	1982*
	M3	222.5	227.7
-	MMMF assets (NSA)	99.3	51.8
-	Thrift liabilities	30.9	55.0
-	Other nonbank assets in M3	8.5	10.1
=	Commercial bank component of M3	83.8	110.8
+	Nonbank-M3 sources of funds for banks	26.5	-7.8
=	Total bank sources of funds	110.3	103.0
	Core deposits	46.2	74.2
	Large time deposits (gross)[1]	66.7	37.5
	Nondeposit sources[1]	-1.4	-6.5
	Net Eurodollar borrowing (NSA)[1]	-6.2	-19.6
	Other borrowing[1]	4.8	12.9
	Discrepancy	0.2	4.5
-	Bank Credit[1]	107.7	100.3
=	Discrepancy plus other assets less other liabilities[2]	2.6	2.7

* Data for 1981 reflect the Q4-1980 to Q4-1981 net dollar flows and for 1982 reflect the flows from Q4-1981 through November.

1. Adjusted to include shifts of assets and liabilities from U.S. banking offices to IBFs.

2. Includes such items as cash assets not included in M3, accrual accounts, net due from foreign branches, accrued expenses and capital accounts.

Appendix B*

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES

Against the backdrop of a weak economy and continued funding by firms of short-term indebtedness, business loans at large commercial banks contracted in November. Moreover, nearly nine tenths of the 60 large commercial banks participating in the November 15, 1982, Survey of Senior Loan Officer Opinion on Bank Lending Practices expected business loan demand not to strengthen through mid-February. Indeed, almost one third of the sampled banks anticipated loan demand to weaken further in the coming months, the same fraction as in the previous (mid-August) survey.

As loan demand on balance has fallen off in recent months, banks have continued to cut their prime rate, bringing it into closer alignment with short-term open market rates. At the time of the November survey, the spread between the prime and one-month commercial paper rates was about 315 basis points, down from 460 basis points in mid-August. Other aspects of lending terms, however, appear largely unaltered. Eighty percent of the respondents reported no change in compensating balance or fee requirements for business loans compared with three months earlier, and almost as many banks indicated no change in standards to qualify for the prime.[1] About 70 percent of the sample reported essentially unchanged standards to qualify for given spreads above prime.

Continuing the trend that became evident in the February 1982 survey, respondents reporting a more restrictive stance on lending to new and nonlocal business customers greatly outnumbered those indicating an easier stance. By contrast, almost half of the sample expressed greater willingness to make consumer installment loans to individuals, three times the fraction so reporting in August, while no respondents indicated reduced willingness. Factors cited by banks for this change in willingness included wider spreads between interest rates on consumer loans and banks' cost of funds and, for Michigan banks, the removal of usury ceilings in that state.

Responses to the first supplemental question dealing with changes in credit quality revealed continued deterioration in the financial condition of existing business loan customers at surveyed banks. For the third consecutive survey, more than 85 percent of the

* Prepared by David S. Jones, Economist, Banking Section, Division of Research and Statistics.

1. Several very large banks noted that, although standards to qualify for the prime rate had remained essentially unchanged, standards to qualify for below-prime loans had firmed.

panel perceived an erosion during the past three months in the average financial condition of customers to whom they had business loans outstanding (see table below). In addition, about 40 percent

FINANCIAL DETERIORATION OF BUSINESS LOAN CUSTOMERS

	Fraction of Panel Reporting Deterioration in Average Financial Condition of Selected Customers	
Survey Date	Customers Having Outstanding Loans (percent)	New Loan Applicants (percent)
November 1981	56.7	38.3
February 1982	70.0	32.2
May 1982	88.3	39.7
August 1982	88.3	56.7
November 1982	86.7	41.7

of the respondents indicated a deterioration in the average financial condition of new loan applicants. More than 40 percent of the sample reported increases in delinquency rates on home mortgages--double the fraction so reporting in August--while 25 percent of the banks noted deteriorations in delinquency rates on consumer installment loans, about the same fraction as reported improvements.[1]

The housing, real estate, and construction industries continued to be the most frequently cited business sector where financial deterioration has occurred, both for existing borrowers and for new loan applicants. Also cited heavily were the agricultural machinery, energy, manufacturing, capital equipment, and automotive-related industries. About one third of the respondents reported financial deterioration across the board.

As in previous surveys, the majority of affected banks reacted to deterioration in the credit quality of new applicants for business loans by increasing rejection rates, while banks noting deterioration in the financial condition of existing borrowers responded by requiring additional collateral or restructuring payments, often in combination with other measures.[2] Banks responded to delinquencies on home mortgages and consumer installment loans primarily by repossessing collateral, restructuring payments, or some of each.

1. Since delinquency rates on home mortgage loans typically rise near year-end, part of the deterioration in delinquency rates on these loans from August to November may reflect seasonal influences. However, the Federal Home Loan Bank Board series on mortgage delinquency rates at S&Ls (available through October), which is seasonally-adjusted, also has shown a rise since August.
2. Other measures cited by banks include the waiving or removal of covenants, and closer monitoring of existing credits.

Reflecting the substantial drop in mortgage rates in recent months, there are signs of a pickup in home mortgage activity at surveyed banks. In response to a second set of supplemental questions dealing with home mortgage activity, more than 40 percent of the respondents offering home mortgages reported stronger demand for commitments to make first mortgage loans compared with three months earlier, roughly three times the fraction noting weaker demand for commitments. Forty percent of the panel noted a shift in the composition of demand for home mortgage credit toward fixed-rate loans, perhaps reflecting borrowers' concerns about a future backup in interest rates. In contrast, less than 20 percent of the sample--mainly banks with under $5 billion in assets--expressed a greater willingness to make such loans, while the great majority of banks indicated no change in policy.

In making new home mortgage commitments, sampled banks appeared to some extent to specialize in either fixed- or adjustable-rate loans; about one third of the panel reported that the share of new commitments made in October comprising fixed-rate loans was between 0 and 25 percent, and around half reported that the share was between 76 and 100 percent.[1] Even though most respondents reported that the bulk of their new home mortgage commitments were for fixed-rate loans, however, only one fourth of the panel reported that the fraction of commitments accounted for by fixed-rate loans in October was higher than in August. Nearly 85 percent of those banks offering fixed-rate home mortgages, but less than 40 percent of those offering adjustable-rate mortgages, indicated they did so with the intent to sell the loans in the secondary market.

Respondents indicated on average that about 90 percent of their current home mortgage lending was for the purchase of a home, with the remainder used chiefly to refinance existing mortgages.[2] At certain institutions, however, the share attributable to refinancings deviated markedly from the average, ranging from near zero to as much as 60 percent of total mortgage lending. About one fourth of the panel reported that refinancings accounted for a larger proportion of new home mortgage loans than three months ago.

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1. Several banks that cited proportions in the lower range noted that most of their fixed-rate commitments were to finance sales of foreclosed properties, to help beleaguered home builders, or to assist corporate clients that relocate personnel.
2. On average, respondents reported that mortgage loans for other purposes--such as for home improvements, or other expenditures--made up less than two percent of their total mortgage lending. At some banks, however, this share was as large as 20 percent.

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S.
(Status of policy on November 15, 1982 compared to three months earlier)
(Number of banks and percent of total banks answering question)
(By size of total domestic assets, in billions[1])

CORE QUESTIONS

	Much Stronger		Moderately Stronger		Essentially Unchanged		Moderately Weaker		Much Weaker		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
1. Strength of demand for commercial and industrial loans anticipated in next 3 months (after allowance for usual seasonal variation):											
All respondents	0	0.0	8	13.3	33	55.0	18	30.0	1	1.7	60
$5 and over	0	0.0	3	11.1	16	59.3	7	25.9	1	3.7	27
under $5	0	0.0	5	15.2	17	51.5	11	33.3	0	0.0	33

	Much Firmer		Moderately Firmer		Essentially Unchanged		Moderately Easier		Much Easier		
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
2. Standards to qualify for prime rate:											
All respondents	1	1.7	8	13.3	46	76.7	5	8.3	0	0.0	60
$5 and over	1	3.7	2	7.4	20	74.1	4	14.8	0	0.0	27
under $5	0	0.0	6	18.2	26	78.8	1	3.0	0	0.0	33
3. Standards to qualify for spread above prime:											
All respondents	0	0.0	11	18.3	41	68.3	8	13.3	0	0.0	60
$5 and over	0	0.0	4	14.8	21	77.8	2	7.4	0	0.0	27
under $5	0	0.0	7	21.2	20	60.6	6	18.2	0	0.0	33
4. Stance on C&I lending to new and nonlocal customers:											
All respondents	1	1.7	12	20.0	46	76.7	1	1.7	0	0.0	60
$5 and over	0	0.0	7	25.9	20	74.1	0	0.0	0	0.0	27
under $5	1	3.0	5	15.2	26	78.8	1	3.0	0	0.0	33
5. Compensating balance or fee requirements for C&I loans:											
All respondents	1	1.7	5	8.3	48	80.0	6	10.0	0	0.0	60
$5 and over	0	0.0	4	14.8	22	81.5	1	3.7	0	0.0	27
under $5	1	3.0	1	3.0	26	78.8	5	15.2	0	0.0	33

	Considerably Greater		Moderately Greater		Essentially Unchanged		Moderately Less		Much Less		
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
6. Willingness to make installment loans to individuals:											
All respondents	7	12.1	20	34.5	31	53.4	0	0.0	0	0.0	58
$5 and over	1	4.0	7	28.0	17	68.0	0	0.0	0	0.0	25
under $5	6	18.2	13	39.4	14	42.4	0	0.0	0	0.0	33

1. As of June 30, 1982, there were 27 banks having domestic assets of $5 billion or more. Their combined assets totalled $506 billion compared to $602 billion for the entire panel and $1.72 trillion for all insured commercial banks.

SUPPLEMENTAL QUESTIONS

S.1.a With regard to commercial and industrial lending, has there been a change over the last three months in the financi condition of customers to whom your bank has loans outstanding?

	No Change		Improvement		Deterioration		Total Ba Answerir
	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	8	13.3	0	0.0	52	86.7	60
$5 and over	1	3.7	0	0.0	26	96.3	27
under $5	7	21.2	0	0.0	26	78.8	33

S.1.b If there has been deterioration, how has your bank responded?

	Increase Collateral		Restructure Payments		Other		Increase Collateral and Restructure		Restructure and Other		Add Collateral, Restructure Payments, and Other		Total Ban Answerin
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	3	5.8	5	8.8	2	3.8	24	46.2	0	0.0	19	33.3	52
$5 and over	2	7.7	3	11.5	1	3.8	12	46.2	0	0.0	8	30.7	26
under $5	1	3.8	2	7.7	1	3.8	12	46.2	0	0.0	10	38.4	26

S.1.c If there has been deterioration, in which industries has the above-normal deterioration been concentrated?

	Across the Board		Housing, Real Estate and Construction		Autos and Related Industries		Retail		Agricultural Machinery		Manufacturing	
	Banks[2]	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct
All respondents	18	13.8	17	13.1	12	9.2	4	3.1	16	12.3	13	10.0
$5 and over	11	14.4	8	10.5	7	9.2	3	3.9	9	11.8	7	9.2
under $5	7	13.0	9	16.7	5	9.2	1	1.9	7	13.0	6	11.1

	Transportation		Energy and Related		International Credits		Mining		Wholesale		Capital Equipment	
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct
All respondents	9	6.9	15	11.5	5	3.8	3	2.3	1	0.8	12	9.2
$5 and over	6	7.9	10	13.2	1	1.3	2	2.6	0	0.0	8	10.5
under $5	3	5.6	5	9.3	4	7.4	1	1.9	1	1.9	4	7.4

	Building Materials		Total Industry Citations
	Banks	Pct	
All respondents	5	3.8	130
$5 and over	4	5.3	76
under $5	1	1.9	54

2. The number of times an industry was cited is shown under the heading "Banks". This number as a percent of total industry citations is shown under the heading "Pct".

5.2.a With regard to commercial and industrial lending, has there been a change over the last three months in the average financial condition of applicants for new loan extensions from your bank?

	No Change		Improvement		Deterioration		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	35	58.3	0	0.0	25	41.7	60
$5 and over	15	55.6	0	0.0	12	44.4	27
under $5	20	60.6	0	0.0	13	39.4	33

5.2.b If there has been deterioration, how has your bank responded?

	Higher Rejection Rate		Other		Higher Rejection Rate and Other		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	14	56.0	3	12.0	8	32.0	25
$5 and over	6	50.0	2	16.7	4	33.3	12
under $5	8	61.5	1	7.7	4	30.8	13

5.2.c If there has been deterioration, in which industries has it been concentrated?

	Across the Board		Housing, Real Estate and Construction		Autos and Related Industries		Retail		Agricultural Machinery		Manufacturing	
	Banks[2]	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct
All respondents	9	14.8	10	16.4	7	11.5	2	3.3	6	9.8	5	8.2
$5 and over	5	14.3	4	11.4	4	11.4	0	0.0	4	11.4	2	5.7
under $5	4	15.4	6	23.1	3	11.5	2	7.7	2	7.7	3	11.5

	Transportation		Energy and Related		International Credits		Mining		Wholesale		Capital Equipment	
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct
All respondents	2	3.3	6	9.8	3	4.9	1	1.6	0	0.0	7	11.5
$5 and over	2	5.7	5	14.3	2	5.7	1	2.9	0	0.0	3	8.6
under $5	0	0.0	1	3.8	1	3.8	0	0.0	0	0.0	4	15.4

	Building Materials		Total Industry Citations
	Banks	Pct	
All respondents	3	4.9	61
$5 and over	3	8.6	35
under $5	0	0.0	26

S.3.a With regard to mortgage and installment loans to individuals, have there been increases over the last three months in the delinquency rates at your bank?

	No Change		Improvement		Deterioration		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	
Mortgages							
All respondents	25	43.9	7	12.3	25	43.9	57
$5 and over	11	44.0	4	16.0	10	40.0	25
under $5	14	43.8	3	9.4	15	46.9	32
Installment Loans							
All respondents	32	56.1	12	21.1	13	22.8	57
$5 and over	14	56.0	6	24.0	5	20.0	25
under $5	18	56.2	6	18.8	8	25.0	32

S.3.b If there has been deterioration, how has your bank responded?

	Repossess Collateral		Restructure Payments		Repossess Collateral and Restructure		Other		Repossess Restructure and Other		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
Mortgages											
All respondents	4	16.0	3	12.0	10	40.0	7	28.0	1	4.0	25
$5 and over	0	0.0	2	20.0	5	50.0	2	20.0	1	10.0	10
under $5	4	26.7	1	6.7	5	33.3	5	33.3	0	0.0	15
Installment Loans											
All respondents	0	0.0	2	15.4	4	30.8	6	46.1	1	7.7	13
$5 and over	0	0.0	2	40.0	1	20.0	1	20.0	1	20.0	5
under $5	0	0.0	0	0.0	3	37.5	5	62.5	0	0.0	8

S.4.a Abstracting from normal seasonal patterns, please indicate how the current demand at your bank for commitments to make first mortgage loans on homes compares with the demand three months ago?

	Much Stronger		Moderately Stronger		Essentially Unchanged		Moderately Weaker		Much Weaker		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	11	23.4	9	19.1	21	44.7	5	10.6	1	2.1	47
$5 and over	2	9.5	5	23.8	10	47.6	4	19.0	0	0.0	21
under $5	9	33.3	4	14.8	11	40.7	1	3.7	1	3.7	27

S.4.b Currently, what percentage of total home mortgage lending at your bank is for the purpose of:

A. Purchasing a home?

	0 - 25%		26 - 50%		51 - 75%		76 - 100%		Average Response	Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct		
All respondents	0	0.0	3	7.0	3	7.0	37	86.0	87.6%	43
$5 and over	0	0.0	3	15.0	1	5.0	16	80.0	83.1%	20
under $5	0	0.0	0	0.0	2	8.7	21	91.3	91.5%	23

B. Refinancing an existing mortgatge?

	0 - 25%		26 - 50%		51 - 75%		76 - 100%		Average Response	Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct		
All respondents	38	88.4	5	11.6	1	2.3	0	0.0	10.9%	43
$5 and over	16	80.0	4	20.0	1	5.0	0	0.0	15.5%	20
under $5	22	95.7	1	4.3	0	0.0	0	0.0	6.9%	23

C. Other?

	0 - 25%		26 - 50%		51 - 75%		76 - 100%		Average Response	Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct		
All respondents	42	97.7	1	2.3	0	0.0	0	0.0	1.5%	43
$5 and over	19	95.0	1	5.0	0	0.0	0	0.0	1.4%	20
under $5	23	100.0	0	0.0	0	0.0	0	0.0	1.6%	23

S.4.c How does the percentage accounted for by refinancing compare with three months ago?

	Much Greater		Moderately Greater		Essentially Unchanged		Moderately Smaller		Much Smaller		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	8	18.6	3	7.0	30	70.0	2	4.7	0	0.0	43
$5 and over	3	15.0	3	15.0	13	65.0	1	5.0	0	0.0	20
under $5	5	21.7	0	0.0	17	73.9	1	4.3	0	0.0	23

S.5.a Compare your bank's willingness to make fixed-rate home mortgages with its stance three months ago?

	Much Greater		Moderately Greater		Essentially Unchanged		Moderately Less		Much Less		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	5	11.1	3	6.7	33	73.3	4	8.9	0	0.0	45
$5 and over	1	4.8	2	9.5	14	66.7	4	19.0	0	0.0	21
under $5	4	16.7	1	4.2	19	79.2	0	0.0	0	0.0	24

.5.b During the past three months, as interest rates have fallen, has there been a noticeable shift in the composition of demand for home mortgage loans toward (or away from) fixed-rate mortgages?

	Considerable Toward		Moderate Toward		Essentially Unchanged		Moderate Away		Considerable Away		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	8	17.8	10	22.2	26	57.8	1	2.2	0	0.0	45
$5 and over	4	19.0	5	23.8	11	52.4	1	4.8	0	0.0	21
under $5	4	16.7	5	20.8	15	62.5	0	0.0	0	0.0	24

S.5.c Approximately what percentage of your total new commitments made in October for home mortgage loans comprised fixed-rate loans?

	0 - 25%		26 - 50%		51 - 75%		76 - 100%		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	14	31.1	3	6.7	5	11.1	23	51.1	45
$5 and over	6	28.6	2	9.5	1	4.8	12	57.1	21
under $5	8	33.3	1	4.2	4	16.7	11	45.8	24

S.5.d How does this percentage compare with the percentage for August?

	Much Greater		Moderately Greater		Essentially Unchanged		Moderately Smaller		Much Smaller		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	4	9.8	6	14.6	30	73.2	1	2.4	0	0.0	41
$5 and over	1	4.8	3	14.3	16	76.2	1	4.8	0	0.0	21
under $5	3	15.0	3	15.0	14	70.0	0	0.0	0	0.0	20

S.5.e Do you generally make fixed-rate home mortgage loans with the intent to hold them or, rather, to sell them?

	Hold		Sell		Other		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	5	12.2	35	85.4	1	2.4	41
$5 and over	2	9.5	18	85.7	1	4.8	21
under $5	3	15.0	17	85.0	0	0.0	20

S.5.f Do you generally make adjustable-rate home mortgages loans with the intent to hold them or, rather, to sell them?

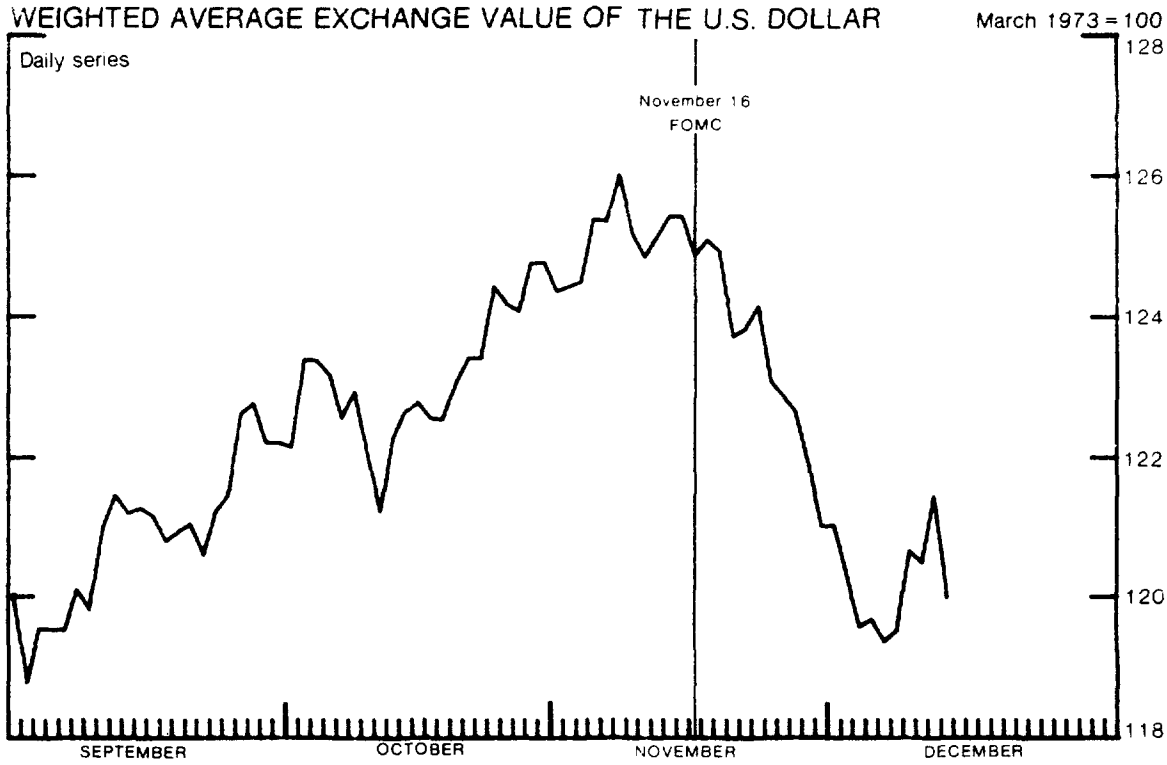
	Hold		Sell		Other		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	18	56.3	12	37.5	2	6.3	32
$5 and over	8	53.3	6	40.0	1	6.7	15
under $5	10	58.8	6	35.3	1	5.9	17

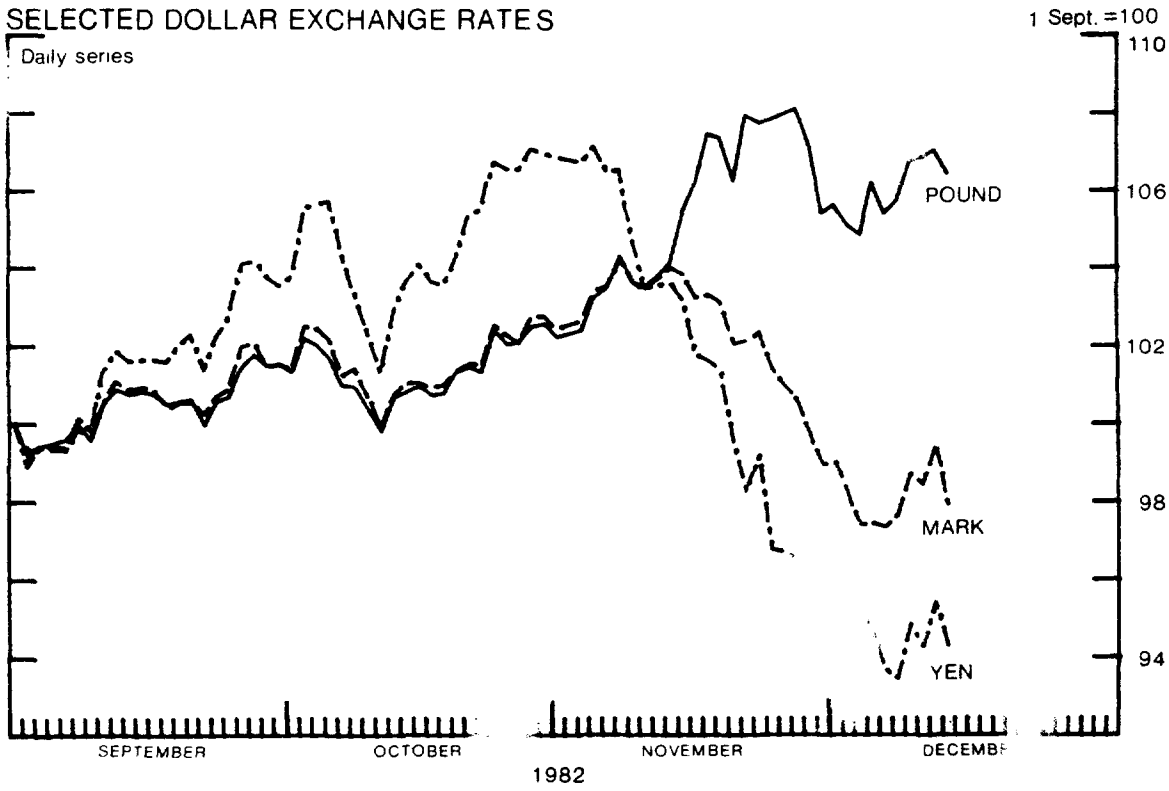
Foreign Exchange Markets

Since the November FOMC meeting, the dollar has depreciated by 4 percent on a weighted average basis. Most of the dollar's decline has been against the yen and Continental European currencies. The chart in the lower panel on the next page shows the substantial bilateral rate changes among the major currencies. Since the beginning of November, the dollar has depreciated by 12 percent against the yen, 6 percent versus the mark, and has appreciated by 4 percent against the pound.

The overall depreciation of the dollar seems largely attributable to market reassessment of the trade and current account prospects for the United States. Statements by several U.S. government officials and private forecasters suggesting a substantial widening of the trade deficit next year, in addition to a large monthly deficit reported in October, helped to heighten market awareness of the long run effects on trade of the dollar's appreciation over the last two years.

The dollar recent depreciation against Continental European currencies has not been associated with a relative decline in dollar interest rates. Although short term dollar interest rates have fallen slightly over the last month, rate declines have been larger in several European countries. The Bundesbank reduced its Lombard and discount rates by one percentage point, and official lending rates were also lowered 1 percentage point in Denmark and Austria. Official rates were lowered by 1/2 percent in Switzerland and the Netherlands, while the Bank of France lowered its money market intervention rate by 1/4 percent. Market rates in Japan have not changed, and this has been a factor


WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR
March 1973 = 100
Daily series
November 16
FOMC
128
126
124
122
120
118
SEPTEMBER
OCTOBER
NOVEMBER
DECEMBER


SELECTED DOLLAR EXCHANGE RATES
1 Sept. =100
Daily series
110
106
102
98
94
POUND
MARK
YEN
SEPTEMBER
OCTOBER
NOVEMBER
DECEMBER
1982

contributing to the yen's strength against European currencies as well as against the dollar.

The decline of the pound has been largely attributed to the current weakness in world oil markets. Sterling interest rates increased by one and a half percentage points following actions by the Bank of England to tighten liquidity,

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• French officials announced that they have decided to draw down the entire $4 billion credit arranged in October to help defend the franc.

•

The new President of Mexico was inaugurated two weeks ago, and has announced some of the details of an economic reorganization program. Some controls on foreign exchange trading in Mexico will be lifted as of next Monday, which will effectively reinstate a freely floating foreign exchange market. In addition, a controlled foreign exchange market will be maintained, at rates fixed daily by the Bank of Mexico, for the purpose of subsidizing certain imports and debt payments. At the same time, Mexico has requested a rescheduling of $20 billion of principal payments on public sector loans maturing before the end of 1984, and has also asked to borrow an additional $5 billion from private foreign banks during 1983.

U.S. International Financial Transactions

U.S. banking offices (including IBFs) brought in $5 billion from their own foreign offices between September and November, as shown in line 1 (a) below. The inflow of funds to the domestic offices of U.S. banks appears, in part, to reflect the easing of the financing problems faced by a number of major banks during the summer, when their non-U.S. offices were having difficulties raising funds. One manifestation of these problems was the $4.5 billion third-quarter fall in the Eurodollar holdings of U.S. nonbanks -- see line 3. However, it appears likely that growth in such holdings has resumed in the fourth quarter and this

International Banking Data
(billions of dollars)

	1980	1981	1982				
	Dec.	Dec.	Mar.	June	Sept.	Oct.	Nov.
1. U.S. Offices' Banking Positions vis-a-vis Own Foreign Offices 1/							
(a) Total	6.5	9.2	10.7	16.6	5.9	7.1	10.9
(b) U.S.-Chartered Banks	-15.2	-8.9	-2.8	2.8	-5.0	-4.9	-1.8
(c) Foreign-Chartered Banks	21.7	18.1	13.5	13.8	10.9	12.0	12.7
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. banks 2/							
(a) Total	4.2	13.2	13.8	14.2	16.1	16.0	15.7
(b) New York Banks Only	2.7	8.8	9.1	9.7	11.4	11.4	11.1
3. Eurodollar Holdings of U.S. Nonbank Residents 3/	60.8	93.6	104.1	116.0	111.5	n.a.	n.a.

1/ Average of Wednesday, net due to own foreign office = (+).
2/ Daily Averages.
3/ End of month.

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

	1981 Year	1981 Q-4	1982 Q-1	1982 Q-2	1982 Q-3	1982 Aug.	1982 Sept.	1982 Oct.
Private Capital								
Banks								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	-34.7	-19.9	-1.2	-14.6	-14.7	-3.6	-8.8	2.2
a) with own foreign offices	-3.3	.8	6.9	-3.7	-11.0	-.5	-4.3	6.1
b) all other	-31.3	-20.8	-8.2	-10.9	-3.7	4.1	-4.5	-3.9
Securities								
2. Private securities transactions, net	1.4	-2.5	.8	2.1	-3.0	-1.1	-1.7	-1.1
a) Foreign net purchases (+) of U.S. corp. bonds	2.1	.2	.6	1.7	-.1	-.1	-.2	.2
b) Foreign net purchases (+) of U.S. corp. stocks	4.7	.2	.7	.8	.3	.4	-.3	.3
c) U.S. net purchases (-) of foreign securities	-5.5	-2.9	-.5	-.4	-3.1	-1.3	-1.2	-1.6
3. Foreign net purchases (+) of U.S. Treasury obligations 1/	2.5	1.1	1.3	2.0	1.0	.5	1.7	3.3
Official Capital								
4. Changes in foreign official reserve assets in U.S. (+ = increase)	5.1	8.1	-3.0	1.6	2.6	-.6	1.8	.2
a) By area								
G-10 countries and Switzerland	-10.8	.8	-6.8	-4.7	1.5	.2	*	-2.1
OPEC	12.7	1.9	5.0	2.7	*	-.6	.2	.6
All other countries	3.3	5.4	-1.1	3.6	1.1	-.2	1.4	1.7
b) By type								
U.S. Treasury securities	5.0	4.4	-1.3	-2.1	4.9	-1.7	1.8	.2
Other 2/	.1	3.7	-1.6	3.7	-2.3	1.0	-.1	
5. Changes in U.S. official reserve assets (+ = decrease) 3/	-5.2	.3	-1.1	-1.1	-.8	-.2	*	-1.0
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	-8.7	-1.0	-0.1	2.3	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	21.3	9.3	1.2	2.7	n.a.	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 4/ 5/	-12.0	-4.0	-4.0	1.5	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance 5/	4.5	-0.9	1.1	2.1	n.a.	n.a.	n.a.	n.a.
10. Statistical Discrepancy 5/	25.8	9.5	5.0	1.4	n.a.	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-27.9	-9.2	-5.9	-5.8	-12.4	-6.4	-2.9	-5.5

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.

resurgence is refected in the strong $3 billion addition to the Eurodollar holdings of money market mutual funds during the October-November period.

The recent pace of Eurobond issuance of U.S. corporate borrowers has weakened considerably from the $1 billion average monthly rate for the August-November period. There has not been a single Eurobond issue since late November. Moreover, payments for Eurobonds placed by U.S. corporate borrowers in November were only a fraction of the $1 billion volume issued, because much of the activity was in so-called delayed-payment offerings. Under such arrangements, Eurobond investors only have to pay for part of their purchases initially (typically 25 per cent) and have several months to pay the balance.

U.S. official reserve assets rose by over $3 billion in October and November as the Treasury and Federal Reserve made short-term advances to Brazil and Mexico, and the U.S. reserve position with the IMF also increased as the Fund advanced dollars to member countries. This jump in U.S. official reserve assets added to the Treasury's borrowing requirement from the public in those months.

U.S. Merchandise Trade

In October, the U.S. merchandise trade deficit was $65 billion at an annual rate. Thus far in the second half of the year the deficit has increased substantially from first-half average rates. For the July-October period the deficit was $30 billion annual rate larger than in the first half of the year; the decline in exports was about equal to the rise in imports.

Both agricultural and nonagricultural shipments contributed to the drop in total exports. About 60 percent of the drop since mid-year was in the value of agricultural exports. Sharp declines in the volume shipped (particularly wheat and corn) accounted for two-thirds of the value decrease. The decrease was in response to good crops world-wide and sluggish demand from the developing countries, Western Europe, and Eastern Europe. Grain exports to the U.S.S.R. dropped from 3.4 million metric tons in the first half to close to zero in July-October.

The decline in nonagricultural exports since mid-year was largely in industrial supplies (especially coal and fertilizer), civilian aircraft, and automotive exports to Canada. The value of machinery exports (one-third of nonagricultural exports) was about the same in July-October as in the first half of the year. Nonagricultural exports

U.S.Merchandise Trade*

	1981	1982					
	Year	1 Half	July-Oct.	2Q	3Q	Sept.	Oct.
Value (Bil. $, SAAR)							
Exports	236.3	221.8	206.5	220.4	209.7	215.6	196.9
Agricultural	44.3	42.3	33.3	42.7	33.6	32.2	32.3
Nonagricultural	192.0	179.4	173.2	177.7	176.1	183.4	164.6
Imports	264.1	245.1	260.3	243.5	259.6	250.8	262.4
Oil	77.6	58.1	66.2	53.7	65.9	57.3	67.4
Nonoil	186.6	186.9	194.0	189.8	193.7	193.5	195.0
Trade Balance	-27.9	-23.3	-53.8	-23.1	-49.8	-35.2	-65.5
Volume (Bil. $, SAAR)							
Exports - Agric.	18.1	18.9	15.8	19.3	15.9	15.4	15.6
- Nonagric.	70.5	62.5	61.1	62.1	62.2	65.2	57.8
Imports - Oil	5.9	4.8	5.5	4.5	5.5	4.8	5.6
Nonoil	71.9	71.2	75.6	72.7	75.5	76.2	75.6

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

continued to be adversely affected by weak economic conditions in major trading partners and decreasing price competitiveness caused by the appreciation of the dollar. By area, most of the decline in non-agricultural exports was in shipments to the developing countries (with about one-third of that decline to Mexico alone).

The increase in imports since mid-year was evenly split between the value of oil and nonoil imports. Oil imports in July-October were nearly 1 million barrels per day greater than the first-half average (partly a result of a large inventory draw-down in the first-half and some inventory buildup in July and August). On average, oil import prices were slightly higher in July-October, reflecting the delayed impact of a temporary increase in spot market prices during late spring. In September and October oil import prices moved slightly under $31 per barrel.

The increase in nonoil imports since mid-year was in foods (particularly coffee), industrial supplies (other than steel), consumer goods, and automotive products from Japan and Europe. Steel imports fell sharply since mid-year with both price and volume declining primarily in response to weak U.S. demand. In the case of steel imports from the European Community (the source of one-third of steel imports) the decline can also be partly attributed to the threat of countervailing duties becoming effective October 21 unless agreement was reached the same day, October 21.) By area, much of the import increase was from the developing countries. The volume of nonoil imports increased, despite sluggish U.S. economic activity, at least partly in

response to declining import prices as the exchange value of the dollar appreciated.

	1981	1982					
Oil Imports	Year	1 Half	July-Oct.	2Q	3Q	Sept.	Oct.
Volume (mbd, SA)	6.25	5.07	5.91	4.82	5.78	5.20	5.97
Price ($/BBL)	34.00	30.87	31.14	30.53	31.23	30.82	30.95
Value (Bil$ SAAR)	77.6	58.1	66.2	53.7	65.9	57.3	67.4

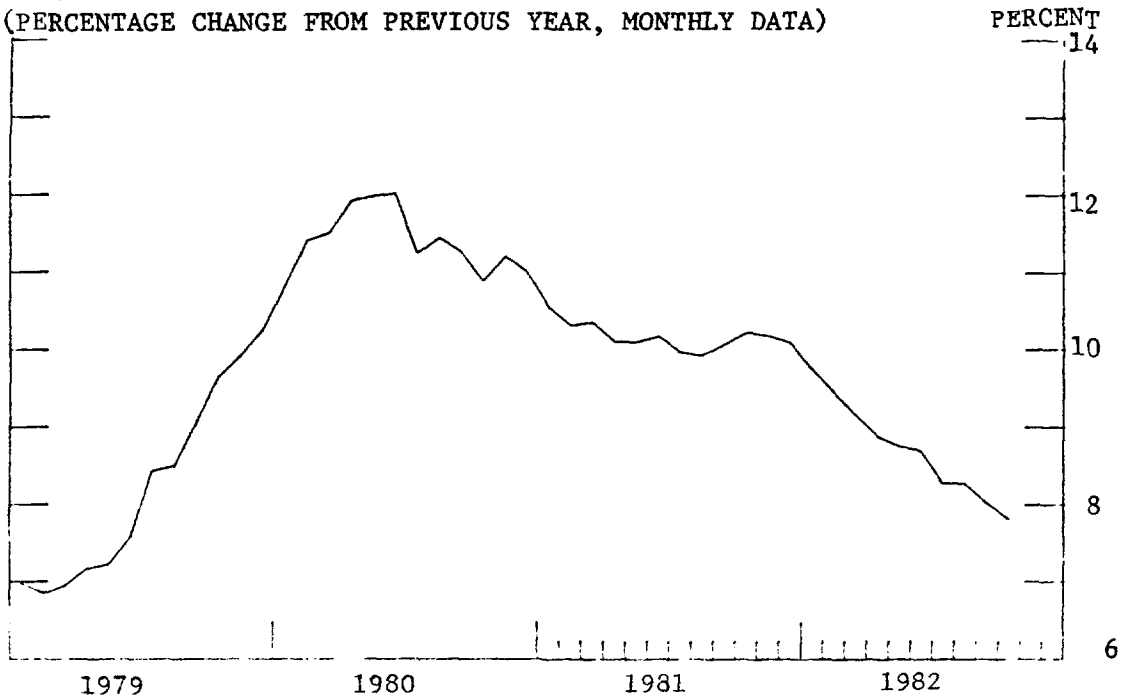
Foreign Economic Developments. Economic activity in the major industrial countries continued to contract on balance during the third quarter. Real output declined in Italy, Canada and France while it rose weakly in the United Kingdom and Japan. In Canada, real output last quarter had fallen to a level almost 6 percent below that of a year earlier and only in Japan was there a significant year-over-year increase in the third quarter. As shown in the chart, industrial production in the six major foreign industrial countries has fallen to early 1979 levels. The unemployment rate in October was unchanged at post-war highs in France and Canada and continued to rise in Germany.

The deceleration of consumer prices that began in the major industrial countries late last year continued into October, when the year-over-year increase in this measure of inflation fell below 8 percent for the first time in over three years (see chart). The abatement of wholesale price increases in these countries generally has been even more pronounced. Double digit inflation, which a year ago characterized both wholesale and retail price indexes in several countries, by October persisted only in Italy.

Monetary conditions abroad have continued to ease, as the German Bundesbank lowered its official rates by a full percentage point and the Swiss National Bank reduced its lending rate by 1/2 percentage point on December 2. In response, lending rates were also reduced by the central banks of the Netherlands and Austria. In the United Kingdom and Canada, however, the authorities have acted to resist recent declines in market rates in light of downward pressures on their currencies. Money growth continues to be near or above the upper end of target ranges in Germany, France, and,

INDUSTRIAL PRODUCTION IN 6 MAJOR COUNTRIES* (MONTHLY) 1973 = 100

RATES OF CHANGE OF CONSUMER PRICES IN 6 MAJOR COUNTRIES*
(PERCENTAGE CHANGE FROM PREVIOUS YEAR, MONTHLY DATA)



*Trade-weighted average of Canada, France, Germany, Italy, Japan, U.K.

for sterling M3, in the United Kingdom. In Canada, where the effects of financial innovation have helped to keep M1 persistently below its target range for an extended period of time, monetary aggregate targeting was officially abandoned in November.

Individual Country Notes. Following an especially steep decline in the third quarter, industrial production in Germany fell again in October to a level no higher than that of end-1976. German steel production in October was reported to be almost 30 percent below its year-ago level, and more than one-half of the industry's workers are employed on a part time basis. The rate of unemployment has continued to rise, reaching 8.4 percent in October and probably climbing higher in November. Survey information gathered in September indicated a further worsening of the business climate generally. The volume of orders in that month was about 13 percent below September 1981, with weakness about evenly distributed between domestic and foreign demands.

The rate of consumer price inflation has continued to slow, with the index for November rising 0.2 percent from the previous month and 4.7 percent from November 1981. The performances of the producers' price and wholesale price indexes over the last year have been even better.

The current account (n.s.a.) through October showed a deficit of only $2.1 billion, compared with a deficit of $10.3 billion for the same period last year.

German monetary policy has continued to ease. On December 2 the Lombard and discount rates were lowered by one percentage point each to 6 and 5 percent, respectively. This was the sixth reduction of the Lombard rate since the beginning of this year, when it stood at 10.5 percent. Short-term money market rates have followed the Lombard rate down.

In Japan, real GNP rose by .6 percent in the third quarter, somewhat less than expected. In October, industrial production declined sharply to more than three percent below the year-earlier level. The unemployment rate rose slightly in October to 2.5 percent of the workforce, the highest level since 1980. Both wholesale and consumer price indexes declined in November following very moderate increases in October.

The decline in Japan's trade with the rest of the world that began in January of this year continued into October. October's exports fell more than $400 million, the largest monthly decline in over two years, while imports fell $200 million. Japan's trade surplus through October averaged $1.6 billion per month, very close to the 1981 performance recorded on a larger trade volume.

Ending more than a month of political uncertainty, the Liberal Democratic Party chose Nakasone Yasuhiro as the new prime minister of Japan. Although the outgoing Suzuki Cabinet had completed a preliminary budget for fiscal year 1983 with nominal expenditures approximately six percent greater than in 1982, Nakasone stated that there was little likelihood of an enlarged budget in 1983 or for the increased defense spending that the United States has requested.

Preliminary data for the third quarter indicate continued but very slow growth in real GDP in the United Kingdom. Industrial production in September was unchanged and, on a provisional basis, declined slightly in October. The September index matched its level six months earlier and was slightly below that of September 1981. The number of unemployed rose further in November. However, a change in the procedure by which the United Kingdom unemployment rate is calculated makes a comparison of November's figure (12.5 percent) with

those for earlier periods difficult.

After a small decline in September, the retail price index rose in October to about 7 percent above its year-earlier level, but has risen at only a 3 percent rate since April. Wholesale prices in October were 7.4 percent above year-earlier levels.

The cumulative United Kingdom trade surplus for the year to October was $1.8 billion and the current account was $5-1/4 billion for the same period. In each case, however, the surplus is running well below that registered in 1981. Severe pressures on the pound in foreign exchange markets emerged at the end of November. The Bank of England increased its short-term intervention rate to 10 percent and London clearing banks raised their base rates from 9 percent to between 10 and 10-1/4 percent. Reported growth of the monetary aggregates was substantial in October, but was distorted by technical factors.

French GDP decreased by nearly one percent in the third quarter, about reversing the second quarter's gain and bringing growth over the last four quarters to one percent. After a three percent fall in the summer months, industrial production rose by almost one percent in September. However, recent surveys by the Bank of France and the Statistics Institute indicate continuing and prospective weakness in economic activity.

Price controls, which were put in place in June, contributed significantly to the measured reduction in the rate of inflation between June and October to about 4.5 percent (a.r.) for both consumer and wholesale prices. Following some easing of controls on November 1 consumer prices jumped by one percent in that month.

Large trade deficits of over $4 billion were recorded for both the second and third quarters. However, the October trade deficit, which was only about one-half that in the previous month, may mark the first

sign that the French current account will improve following the June devaluation. The French have recently tightened language and labeling requirements for imports and added export inducements in an attempt to improve their foreign balances. Their European trade partners and Japan have unsuccessfully protested the new French protectionism.

M2 growth in France has slowed recently but is still above the 12-1/2 to 13-1/2 percent target range by about one percentage point. An official target range for 1983 is expected to be announced by year-end.

In Italy, real GDP declined by three percent from the second quarter rate and was one percent below the same quarter of last year. A major contributing factor to the poor performance was a seven percent drop in exports from the second quarter level. Industrial production was also weak: its level during the first 10 months of the year was almost two percent below the corresponding period last year. Despite the depressed economic activity, consumer price inflation picked up in the July-October period, in part because of increases in indirect taxes. With the impact of this effect declining in November, prices rose by 1.3 percent to about 17 percent above their year-earlier level. The acceleration of consumer prices has stiffened labor's resistance to a cap on cost of living increases and negotiations over the scala mobile have stalled.

Measured in dollars, the cumulative trade deficit through October of this year was about $11 billion, or about $4 billion below last year's deficit.

On December 1, Amintore Fanfani's cabinet, representing a coalition of four parties, was sworn into power. Fanfani's economic program calls for cuts of 15 billion lire ($10 billion) in the public sector deficit and

a strict ceiling of zero on real wage increases for the next two years. It is unclear whether these measures will be passed by Parliament. In order to gain the approval of left-wing parties, Fanfani had to abandon proposals to put a ceiling on pension increases and to reduce public health spending.

Real economic activity in Canada declined in the third quarter by one percent, the fifth consecutive quarterly contraction. Although weakness in consumption and business investment intensified somewhat in the third quarter, the effect on real GNP was cushioned by a slowing in the rate of business inventory runoffs and a $1 billion improvement in the current account.

While remaining at high levels, most measures of inflation continue to show some improvement. For example, third quarter wage settlements, exclusive of those with cost-of-living provisions, called for average annual increases over the term of the agreement of 10.9 percent, down from 14.3 percent a year earlier.

Canada's balance of payments position strengthened considerably in the third quarter as lower interest rates led to a reduced deficit on service transactions, moving the current account further into surplus, while the capital account (n.s.a.) swung from an outflow of $3.2 billion in the second quarter to an inflow of $2.4 billion. This sharp change in the capital account was mainly the result of increased sales of bonds abroad to take advantage of a more rapid decline in U.S. interest rates. In addition, there was positive net direct investment in Canada in the third quarter, following five consecutive quarters of outflows.

As a result of these developments, the Canadian dollar came under strong upward pressure in the third quarter, allowing authorities to bolster Canada's international reverves even as they reduced the government's borrowings under a revolving credit agreement with international banks.

On November 29 the Governor of the Bank of Canada announced that the Bank had ceased using M1 as a monetary target. The Bank's action recognized that downward shifts in money demand, stemming from the growing use of cash management techniques that were difficult to quantify, had reduced the usefulness of M1 as a monetary target. The Governor indicated that the Bank of Canada continued to search for a monetary measure that was reliably related to interest rates and levels of spending.

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	JUL.	AUG.	SEP.	OCT.
CANADA:	GNP	2.9	.5	3.1	1.2	1.6	-1.1	-.9	-2.2	-1.9	-1.0	*	*	*	*
	IP	5.3	-2.0	1.3	1.0	2.6	-3.1	-4.6	-2.9	-2.3	N.A.	-3.0	2.5	N.A.	N.A.
FRANCE:	GDP	3.7	1.1	.1	-.6	1.1	.2	1.0	-.2	1.1	-.9	*	*	*	*
	IP	4.5	-1.1	-2.3	-1.5	.5	.3	1.3	-2.5	1.3	-3.3	-3.8	.0	.8	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	-3.4	-2.9	3.0	-1.0	-1.9
ITALY:	GDP	5.0	4.0	-.2	.8	-1.1	-1.7	2.6	1.2	-1.5	-3.0	*	*	*	*
	IP	6.9	4.5	-2.4	-.7	1.5	-4.9	4.7	.8	-1.4	-7.5	3.0	-19.6	20.5	-4.1
JAPAN:	GNP	5.2	4.8	3.9	.9	1.2	.9	-.3	.4	1.9	.6	*	*	*	*
	IP	8.3	7.1	3.0	1.7	-.3	1.6	2.6	-.9	-1.7	1.7	.6	-.5	1.2	-2.5
UNITED KINGDOM:	GDP	1.7	-2.4	-2.4	-.3	-.8	.1	.8	.2	.1	N.A.	*	*	*	*
	IP	2.7	-6.6	-4.7	-1.4	.3	.8	.5	-.5	.2	.1	.9	.1	.0	N.A.
UNITED STATES:	GNP	2.8	-.4	1.9	1.9	-.4	.5	-1.3	-1.3	.5	.0	*	*	*	*
	IP	4.4	-3.6	2.6	2.0	.5	.3	-4.4	-3.1	-1.7	-.9	.1	-.3	-.8	-.8

*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: LATEST 3 MONTHS FROM YEAR AGO
		Q2	Q3	Q4	Q1	Q2	Q3	AUG.	SEP.	OCT.	NOV.	
CANADA:	CPI	3.1	3.0	2.5	2.5	3.1	2.2	.5	.5	.6	N.A.	10.3
	WPI	2.2	2.1	1.2	1.4	2.0	.8	-.1	.8	-.2	N.A.	5.1
FRANCE:	CPI	3.3	3.9	3.2	2.8	3.1	1.4	.3	.4	.5	1.0	9.6
	WPI	4.3	4.1	2.3	2.7	2.6	1.9	.3	.2	.1	N.A.	8.8
GERMANY:	CPI	1.8	1.2	1.2	1.5	1.4	1.1	-.2	.3	.3	.2	4.8
	WPI	2.3	2.1	1.8	1.8	1.3	.0	-1.3	-.2	.6	.2	3.3
ITALY:	CPI	4.4	3.0	4.6	4.0	3.0	4.1	1.8	1.4	2.0	1.3	17.0
	WPI	5.1	3.5	4.0	3.3	2.0	3.2	1.4	1.1	1.0	N.A.	13.0
JAPAN:	CPI	1.5	.0	1.3	.5	1.0	.5	.8	2.1	.3	-1.4	3.7
	WPI	1.1	1.4	-.1	.2	.2	.9	.3	.4	.2	-.2	1.6
UNITED KINGDOM:	CPI	4.9	1.7	2.5	1.7	3.2	.5	.0	-.1	.5	N.A.	7.4
	WPI	3.4	2.1	2.3	2.2	1.7	1.6	.3	.6	.8	.5	7.6
UNITED STATES:	CPI (SA)	1.9	2.8	1.9	.8	1.1	1.8	.3	.2	.5	N.A.	5.3
	WPI (SA)	2.3	1.1	1.2	.7	.2	1.6	.6	-.1	.5	.6	3.6

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	AUG.	SEP.	OCT.
CANADA:	TRADE	6.7	5.3	.8	.7	2.3	2.9	3.7	3.7	1.1	1.4	N.A.
	CURRENT ACCOUNT	-.9	-4.4	-1.3	-1.9	-.2	-.1	.4	.8	*	*	*
FRANCE:	TRADE+	-14.2	-9.4	-1.9	-1.9	-3.1	-2.8	-4.2	-4.3	-1.3	-1.7	-.9
	CURRENT ACCOUNT+	-4.2	-4.7	.2	-1.4	-2.0	-2.1	-4.4	N.A.	*	*	*
GERMANY:	TRADE	4.9	11.9	3.1	3.1	5.5	5.0	5.3	5.2	1.7	1.7	1.1
	CURRENT ACCOUNT (NSA)	-16.5	-7.6	-2.3	-4.9	4.1	-.8	.6	-2.2	-1.3	-.2	.3
ITALY:	TRADE	-22.3	-16.0	-5.0	-4.0	-2.5	-6.0	-1.8	-2.5	-.5	-1.5	-.4
	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	5.1	1.6	1.8	1.6
	CURRENT ACCOUNT	-10.7	4.6	2.0	2.5	1.1	.9	2.5	2.2	.6	.8	1.0
UNITED KINGDOM:	TRADE	2.6	N.A.	2.4	N.A.	.9	.6	.2	.6	-.1	.4	.4
	CURRENT ACCOUNT+	7.4	12.7	4.0	.3	2.8	1.3	1.6	1.7	.3	.8	.8
UNITED STATES:	TRADE	-25.3	-27.9	-6.5	-7.8	-9.2	-5.9	-5.8	-12.5	-6.4	-2.9	-5.5
	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.

GROWTH OF TARGETED MONETARY AGGREGATES
(PERCENTAGE CHANGE)

COUNTRY	TARGETED AGGREGATE	TARGET PERIOD	TARGET	FROM TARGET BASE PERIOD	OVER LAST 12 MONTHS	OVER LAST 6 MONTHS	OVER LAST 3 MONTHS	LAST OBSERVATION
CANADA*	M1	PRESENT / AUG.-OCT. 1980	4-8%	.8	4.9	-9.8	-1.5	NOVEMBER
FRANCE	M2	DEC. 1982 / DEC. 1981	12.5-13.5%	15.0	12.2	13.6	10.8	SEPTEMBER
GERMANY**	CBM	Q4 1982 / Q4 1981	4-7%	6.6	6.0	5.7	6.0	OCTOBER
JAPAN	M2***	Q4 1982 / Q4 1981	8%	10.3	9.2	11.9	12.3	OCTOBER
SWITZERLAND	ADJUSTED CBM	1982 / 1981	3%	1.3	6.2	6.2	5.0	SEPTEMBER
UNITED KINGDOM	M1	APR. 1983 / FEB. 1982	8-12%	12.8	10.9	19.0	24.0	OCTOBER
	£M3	APR. 1983 / FEB. 1982	8-12%	12.7	10.8	14.7	18.1	OCTOBER
	PSL2	APR. 1983 / FEB. 1982	8-12%	9.6	9.2	9.4	14.0	OCTOBER
UNITED STATES	M1	Q4 1982 / Q4 1981	2.5-5.5%	8.7	8.7	10.5	18.1	NOVEMBER
	M2	Q4 1982 / Q4 1981	6-9%	9.9	9.7	9.6	8.4	NOVEMBER

*THE BANK OF CANADA CEASED TARGETING M1 AS OF DECEMBER 1982.
**THE TARGET GROWTH RANGE FOR GERMAN CENTRAL BANK MONEY IN 1983 IS 4-7%.
***FORECAST GROWTH OF M2. TARGETS ARE NOT SET.

ALL DATA SEASONALLY ADJUSTED EXCEPT FOR SWITZERLAND.
ALL GROWTH RATES COMPOUNDED AND ANNUALIZED.

Economic Activity in Developing Countries. The debt problems of several developing countries--most notably Argentina, Mexico, and Brazil--have become acute. LDC imports and economic growth have declined sharply as a result of the combined effects of reduced demand for LDC exports and the cutback in new bank lending to major developing countries.

GNP-weighted average growth in all non-OPEC developing countries was probably less than 1-1/2 percent in 1982, following 2-1/2 percent growth in 1981--both record lows for this series which goes back to 1965. From 1974 to 1980 annual growth in these developing countries averaged 5-1/4 percent, only slightly below the 1965-73 average rate of 5-3/4 percent. Throughout the 1965-1980 period, developing countries in Asia and Latin America grew faster than those in other regions.

OUTPUT GROWTH IN NON-OPEC DEVELOPING COUNTRIES*

	Share of Total Output	Average			
	1979-1981	1974 - 1980	1980	1981	1982p
Countries in:	(percent)	(percent per year)			
Africa	9	3.6	2.6	1.7	3.0
Asia	32	5.8	3.3	6.0	4.5
Middle East	6	5.1	5.8	4.9	5.8
Western Hemisphere	53	5.5	5.9	0.5	-1.5
(Mexico)	(25)[1]	(6.4)	(8.3)	(8.1)	(-2.0)
(Brazil)	(36)[1]	(7.1)	(7.9)	(-1.9)	(0)
(Argentina)	(10)[1]	(1.6)	(0.6)	(-6.1)	(-4.0)
All Non-OPEC LDCs	100	5.3	4.7	2.5	1.5

p - Projection.
* - Weighted by three-year moving average share in nominal Gross Domestic Product, converted to dollars.
1. Share in Western Hemisphere output.

Growth in Latin America was negative in 1982. Of the nine leading non-OPEC developing country borrowers from BIS-reporting banks, six are in Latin America: Mexico, Brazil, Argentina, Chile, Colombia, and Peru. These six countries account for 65 percent of total non-OPEC LDC borrowing from BIS-reporting banks and 80 percent of Latin American GNP. All but Colombia have faced debt problems of varying severity this year. Of the remaining five, only Peru is estimated to have had a positive rate of economic growth in 1982. The sharpest drop is likely to be in Chile, where output is estimated to be down by 13 percent.

Borrowers in Asia have been less affected by the slowdown in bank lending and the recession in the developed world. The top two Asian borrowers, Korea and the Philippines, probably grew by about 5 and 3 percent respectively in 1982.

The volume of imports of non-OPEC developing countries in 1982, down as much as 6 percent from 1981, is lower than their rate of growth of income might imply. Exchange rate changes--sometimes extreme as in the cases of Mexico and Argentina--and administrative controls on imports have shifted demand to domestic goods. Major investment projects are cut sharply when income growth slows and they have a very high import content. The direct effects of lower imports of productive inputs on growth are delayed as inventories of imported goods are run down, but the 1982 import decline, plus a further decline in 1983, will significantly reduce LDC growth next year.

The combined current account deficit of non-OPEC developing countries, about $75 billion in 1981, is expected to decline by about $15 billion in 1982. The sharp fall in imports will more than offset higher

interest payments and a decline in the value of exports. Commodity export prices appear to have bottomed out in the third quarter at their lowest level since mid-1976. Relative to manufactured goods prices, commodity prices are at their lowest level since the 1930's.

The countries which are most beset with financial problems are heavily concentrated in Latin America and are traditional trading partners of the United States. Hence, the United States absorbed a large share of the decline in non-OPEC developing country imports in 1982. Indeed, between the last quarter of 1981 and the third quarter of this year, U.S. exports to Latin America, normally about 17 percent of U.S. exports, declined by $7 billion at an annual rate, one third of the total decline in U.S. exports in this period.

Update on Major Debt Negotiations

The IMF Executive Board is scheduled to approve on December 23 a three-year $3.8 billion extended fund facility (EFF) drawing for Mexico. One third of the amount would be disbursed each year. In partial fulfillment of its commitments to the Fund, the Mexican government has already taken several steps. Some public sector prices have been raised. Exchange controls are to be partially lifted on December 20. The public sector budget presented to the Mexican congress calls for a deficit of 1.5 trillion pesos, or 8.5 percent of GDP, the level specified in the IMF agreement. The Mexican government plans to raise the value added tax, impose a special income tax on upper-bracket incomes, more than double the tax on dividends, and cut expenditures. Mexico has asked international banks to restructure about $20 billion in public sector debts falling due between August 23, 1982 and the end of 1984 and has proposed

to capitalize and convert to public sector debt private sector interest payments due to foreign banks through January 1983. These payments may amount to as much as $1.3 billion, of which about $900 million was overdue as of early December.

Argentina has reached a tentative agreement with the IMF. Final approval of the Argentinian $1.65 billion 14-month standby and a separate drawing of $500-600 million on the compensatory financing facility for export shortfalls (CFF) is expected in mid-January. Under an agreement reached with a bank steering committee, international banks will provide Argentina with a $1.1 billion bridging loan and $1.5 billion in new credits.

Brazil is expected to receive $550 million from the IMF under a CFF later this month. Negotiations on a $5 billion EFF drawing are likely to result in initial disbursements in February or March of 1982. Brazil recently obtained $760 million in 90-day bridge loans from several commercial banks and is urgently seeking other short-term credits from private and official sources. A $3 billion jumbo club loan for the first quarter of 1983 is under negotiation. In addition, a recent $1.2 billion official short-term borrowing from the United States has been disbursed.