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Confidential (FR) Class II FOMC

February 2, 1983

RECENT DEVELOPMENTS

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

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SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest data			Percent change from		
	Period	Release date	Data	Preceding period	Three periods earlier	Year earlier
					(At annual rate)	
Civilian labor force	Dec.	1-7-83	111.1	.9	1.0	1.9
Unemployment rate (%) 1/	Dec.	1-7-83	10.8	10.7	10.2	8.6
Insured unemployment rate (%) 1/	Nov.	1-24-83	5.3	5.3	4.7	3.9
Nonfarm employment, payroll (mil.)	Dec.	1-7-83	88.5	-2.2	-3.4	-2.3
Manufacturing	Dec.	1-7-83	18.1	-3.2	-9.4	-7.8
Nonmanufacturing	Dec.	1-7-83	70.4	-2.0	-1.8	-.8
Private nonfarm:						
Average weekly hours (hr.) 1/	Dec.	1-7-83	34.6	34.7	34.8	35.0
Hourly earnings ($) 1/	Dec.	1-7-83	7.83	7.78	7.72	7.46
Manufacturing:						
Average weekly hours (hr.) 1/	Dec.	1-7-83	38.9	38.9	38.8	39.1
Unit labor cost (1967=100)	Dec.	1-28-83	231.4	-2.1	3.0	4.0
Industrial production (1967=100)	Dec.	1-14-83	134.7	-.9	-7.6	-6.1
Consumer goods	Dec.	1-14-83	141.4	2.6	-5.6	-.4
Business equipment	Dec.	1-14-83	144.1	-4.1	-17.0	-19.5
Defense & space equipment	Dec.	1-14-83	116.0	25.4	23.7	8.4
Materials	Dec.	1-14-83	128.4	-4.7	-10.9	-7.6
Consumer prices all items (1967=100)	Dec.	1-21-83	293.5	-3.3	1.1	3.9
All items, excluding food & energy	Dec.	1-21-83	280.2	-1.7	.1	4.5
Food	Dec.	1-21-83	288.0	-1.7	.6	3.0
Producer prices: (1967=100)						
Finished goods	Dec.	1-14-83	285.9	.8	4.7	3.5
Intermediate materials, nonfood	Dec.	1-14-83	317.6	.4	1.8	.2
Crude foodstuffs & feedstuffs	Dec.	1-14-83	237.3	-8.0	-6.6	1.4
Personal income ($ bil.) 2/	Dec.	1-18-83	2,636.8	7.1	6.1	5.6
					(Not at annual rates)	
Mfgrs. new orders dur. goods ($ bil.)	Dec.	2-1-83	78.7	11.5	7.5	3.0
Capital goods industries	Dec.	2-1-83	33.1	30.9	34.4	19.1
Nondefense	Dec.	2-1-83	12.5	145.5	188.3	121.4
Defense	Dec.	2-1-83	20.6	2.0	1.5	-7.0
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Nov.	1-12-83	1.51	1.55	1.52	1.51
Manufacturing	Dec.	2-1-83	1.76	1.77	1.71	1.77
Trade	Nov.	1-12-83	1.30	1.35	1.33	1.29
Ratio: Mfgrs.' durable goods inventories to unfilled orders 1/	Dec.	2-1-83	.617	.636	.638	.611
Retail sales, total ($ bil.)	Dec.	1-12-83	92.3	-.4	3.3	6.6
GAF 3/	Dec.	1-12-83	19.2	1.1	3.8	3.3
Auto sales, total (mil. units.) 2/	Dec.	1-4-83	8.7	-8.5	2.9	19.5
Domestic models	Dec.	1-4-83	6.1	-10.8	-1.7	25.2
Foreign models	Dec.	1-4-83	2.6	-2.4	15.8	7.8
Plant & Equipment expen. ($ bil.) 4/						
Total nonfarm business	1983	1-12-83	315.69	—	—	-1.3
Manufacturing	1983	1-12-83	119.52	—	—	-2.6
Nonmanufacturing	1983	1-12-83	196.16	—	—	-.6
Housing starts, private (thous.) 2/	Dec.	1-18-83	1,222	13.0	8.2	38.5
Leading indicators (1967=100)	Dec.	1-28-83	132.8	1.5	2.0	4.5

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

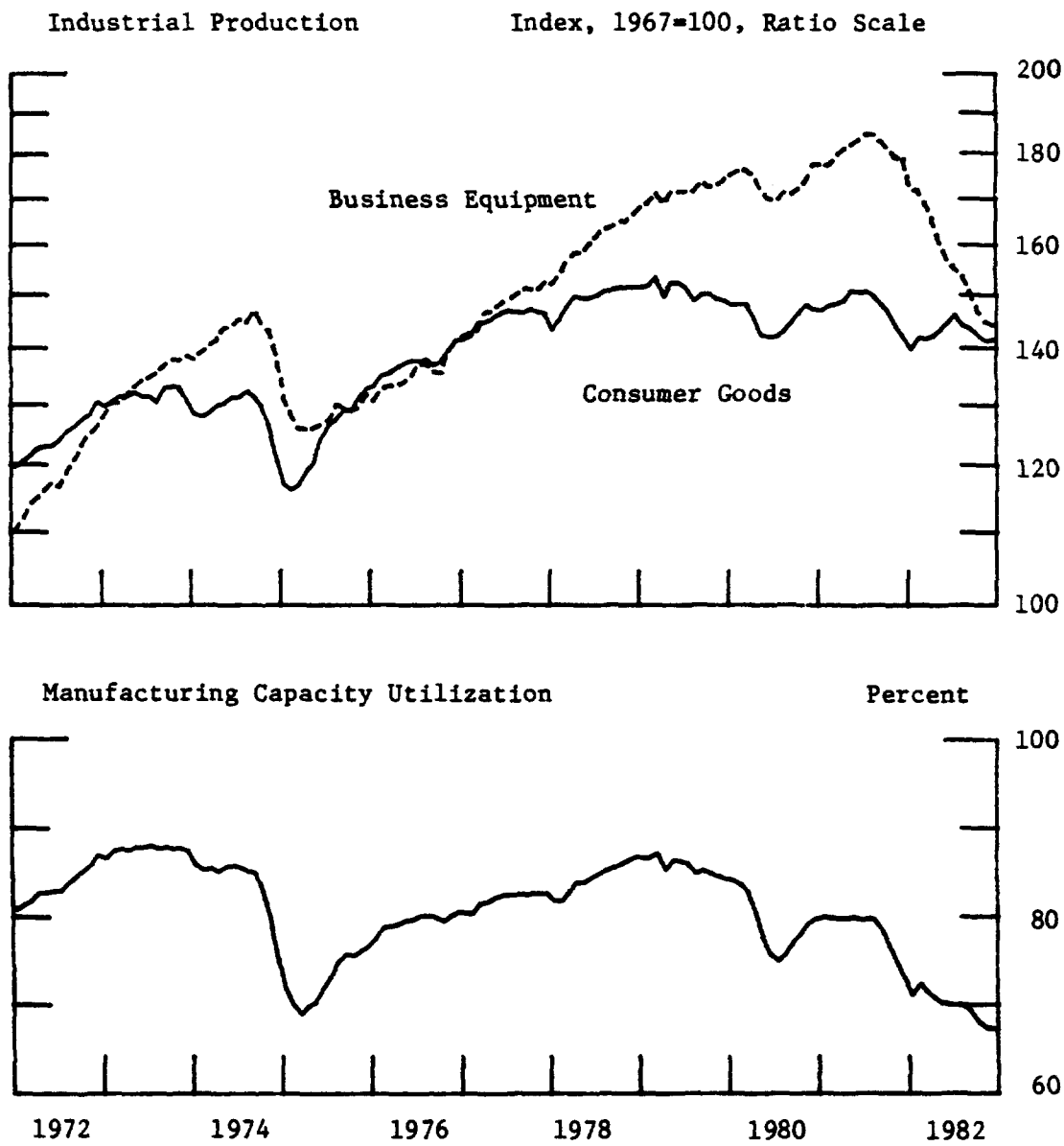
Economic activity declined in the fourth quarter, but appeared to be leveling off at year-end. Much of the drop in real GNP reflected a large inventory liquidation in November. However, industrial production stabilized in December, and recent data suggest that final demands have firmed: housing activity continued to improve, consumer spending picked up in late autumn, and the downward momentum in spending for capital equipment appeared to be easing. The rate of inflation continued to improve in December, and was below 5 percent in 1982 by virtually all measures.

Industrial Production and Employment

Industrial output edged down just 0.1 percent in December after average monthly declines of almost 1 percent during the autumn. Output of final products rose 0.3 percent. An upturn in auto assemblies and a rise in output of defense equipment as well as a sharp increase in oil- and gas-well drilling in December were offset by additional cutbacks in industries with burdensome inventories. Output of durable home goods, business equipment, and metals was curtailed further, although by a bit less than in preceding months.

Early indications suggest that industrial production may have turned up in January. The presumed improvement presumably was driven by auto assemblies, which increased 10 percent to a 5.6 million unit annual rate, as well as a sharp rise in raw steel production. Moreover, other indicators suggest that activity in the industrial sector has strengthened: new claims for unemployment insurance declined further during January, and automakers announced recalls of workers in anticipation of a further

INDUSTRIAL PRODUCTION AND CAPACITY UTILIZATION



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

	1982			1982		
	Q2	Q3	Q4	Oct.	Nov.	Dec.
	------annual rate-------			----monthly rate----		
Total	-6.5	-3.4	-8.6	-1.1	-.7	-.1
Final products	-3.0	-3.0	-8.5	-1.0	-.7	.3
Consumer goods	-7.3	2.6	-7.6	-.8	-.8	.2
Durable	27.9	3.6	-20.4	-3.4	-1.6	1.9
Nondurable	1.0	2.3	-2.6	.1	-.5	-.4
Business equipment	-22.3	-17.2	-19.5	-2.7	-1.2	-.3
Defense and space equipment	4.8	7.8	16.5	2.1	1.6	2.1
Construction supplies	-8.6	8.7	-7.9	-1.5	-.3	-.8
Materials	-11.1	-6.0	-10.0	-1.3	-1.1	-.4
Durable goods	-11.2	-7.3	-19.2	-3.0	-1.1	-.6
Nondurable goods	-10.0	-4.3	3.0	-.5	-1.4	.0
Energy materials	-12.5	-5.3	-5.6	1.4	-.6	-.5

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

	1975	1978-80	1982			
	Low	High	Average	Oct.	Nov.	Dec.
Manufacturing industries	69.0	87.2	69.8	68.0	67.4	67.3
Primary processing	68.2	90.1	66.5	65.1	64.1	63.8
Advanced processing	69.4	86.2	71.6	69.5	69.1	69.1
Motor vehicles & parts	51.3	94.5	53.0	49.6	48.9	52.3
Materials producers	69.4	88.8	69.0	66.7	65.9	65.5
Durable goods materials	63.6	88.4	63.4	60.0	59.3	58.8
Raw steel	68.0	100.7	48.7	41.1	39.0	37.8
Nondurable goods materials	67.2	91.6	72.6	72.2	71.1	70.9
Energy materials	84.8	88.8	79.6	77.7	77.1	76.7

scaling up of assemblies. In addition, the recent increases in spot and futures prices of industrial materials, particularly for copper and other nonferrous metals, have been associated with reports of increased demand. These positive signs were consistent with the survey of purchasing managers that reported a firming of activity during January.

Despite the leveling off of production, nonfarm payroll employment in December fell 165,000--about the same as the average decline so far in this recession--and the workweek was unchanged at a depressed level. However, job losses in manufacturing slowed to a third of the average monthly drop earlier in the year; rehiring at auto plants partly offset continued weakness in machinery, and cutbacks in the metals industries were not as severe as in recent months. Employment at retail stores fell another 65,000 in December; the cumulative loss of jobs since the 1981 peak is about the same in relative terms as during the 1974-75 contraction. Construction employment continued to fall, partly reflecting the decline in nonresidential building, which began last summer; however, the overall weakness in construction employment may be overstated because the establishment survey does not pick up new firms that often are formed as residential construction recovers.

The unemployment rate rose one-tenth of a percentage point in December to 10.8 percent, after revision to the seasonal adjustment factors. The overall jobless rate is now 1.8 percentage points higher than the 1975 peak rate, but the differential is larger for adult men and smaller for adult women. The particularly high jobless rate for adult men partially reflects the cumulative effect of the prolonged weakness in the industrial sector during the last three years. Since

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

	Peak to trough[2] 1975	Peak to present[2]	1982 Aug.	Sep.	Oct.	Nov.	Dec.
	—Percent—		—Average monthly changes—				
Nonfarm payroll employment[3]	-2.8	-3.1	-233	-45	-407	-176	-166
Strike adjusted	-2.8	-3.1	-226	-40	-410	-182	-169
Manufacturing	-11.6	-14.4	-141	-100	-247	-142	-49
Durable	-13.6	-18.1	-140	-93	-234	-111	-22
Nondurable	-10.0	-8.5	-1	-7	-13	-31	-27
Construction	-17.6	-17.1	-28	-16	-27	-8	-30
Trade	-1.5	-1.8	-65	-58	-51	-51	-93
Finance and services	n.a.	n.a.	7	43	-20	56	32
Total government	n.a.	-4.3	37	91	-21	-11	4
Private nonfarm production workers	-4.7	-4.3	-282	-85	-374	-190	-204
Manufacturing production workers	-14.7	-19.9	-113	-81	-231	-129	-33
Total employment[4]	-2.3	-1.6	95	-140	-367	-40	-43
Nonagricultural	-2.3	-1.8	111	-74	-417	-93	12

1. Average change from final month of preceding period to final month of period indicated.
2. Peak is specific to individual series.
3. Survey of establishments. Strike-adjusted data noted.
4. Survey of households.

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

	1975 peak[2]	1982 Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.
Total, 16 years and older	9.0	8.8	9.4	10.0	10.7	10.5	10.7	10.8
Teenagers	20.9	21.9	22.7	23.8	24.3	24.1	24.2	24.5
20-24 years old	15.5	13.9	14.5	15.1	16.1	15.8	16.3	16.0
Men, 25 years and older	5.8	6.5	7.1	7.8	8.6	8.5	8.6	8.8
Women, 25 years and older	7.5	6.6	7.2	7.3	7.9	7.6	7.9	8.2
White	8.4	7.7	8.3	8.8	9.5	9.3	9.6	9.7
Nonwhite	9.2	16.0	17.0	17.7	18.6	18.4	18.5	18.8
Fulltime workers	4.5	8.6	9.3	9.8	10.6	10.5	10.6	10.8

the beginning of the recession, the overall labor-force participation rate has remained relatively flat, in contrast to its earlier secular rise. The number of discouraged workers rose another 200,000 in the fourth quarter of 1982 and has climbed 800,000 since the second quarter of 1981.

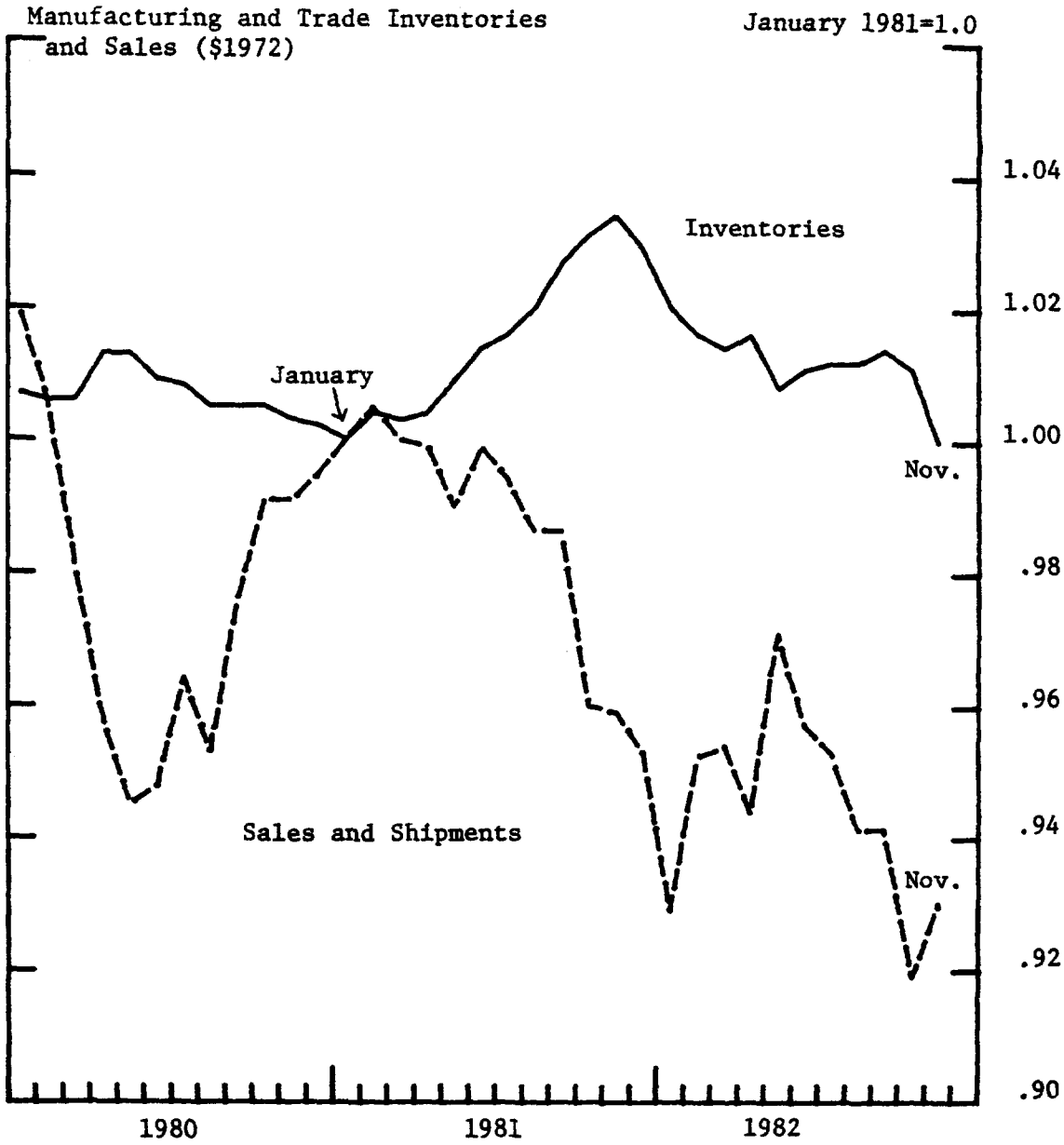
Inventory Investment

Recent adjustments in production and employment have reflected efforts by firms to liquidate inventories in the face of the low level of sales and high real credit costs. In November, these efforts were reinforced by an upturn in sales, and manufacturing and trade inventories were slashed at an annual rate of $35.4 billion in 1972 dollars. Nevertheless, even though inventory holdings at the end of November were no larger than in early 1981, sales had fallen to much lower levels, and the response to this situation will continue to be a critical factor in the near-term outlook for production.

Manufacturers reduced inventories at an annual rate of $18 billion in real terms during November, with liquidations reported for virtually all key durable goods industries. Preliminary reports indicate that manufacturers continued to liquidate inventories at a rapid rate in December. Factory stocks were 3-1/4 percent below early 1981 levels, but with shipments still 12 percent below the pace in the same period, inventory-sales ratios remained only slightly below the peak levels of last October. Producers of nonelectrical machinery and primary metals continued to face the most serious imbalances between sales and inventories.

In the wholesale trade sector, where inventory changes have been volatile, stocks were reduced in November at a $5.7 billion annual rate

THE RECENT BEHAVIOR OF
MANUFACTURING AND TRADE INVENTORIES AND SALES



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

	1980	1981	1982 Q2	1982 Q3	1982 Q4	1982 Oct.(r)	1982 Nov.(r)	1982 Dec.(p)
Book Value Basis								
Total	38.4	37.5	-.1	10.6	n.a.	-14.1	-68.1	n.a.
Manufacturing	23.0	19.1	-19.8	-10.6	-23.1	-9.2	-29.0	-31.3
Durable	14.1	13.8	-7.1	-6.0	-20.4	-11.4	-30.2	-19.7
Nondurable	8.9	5.4	-12.7	-4.6	-2.7	2.2	1.3	-11.6
Wholesale trade	10.6	6.7	15.7	2.3	n.a.	.4	-14.6	n.a.
Retail trade	4.9	11.6	4.1	18.9	n.a.	-5.3	-24.5	n.a.
Automotive	-2.0	3.5	1.4	14.1	n.a.	-11.1	-21.2	n.a.
Constant Dollar Basis								
Total	-1.7	7.1	-3.2	3.4	n.a.	-8.4	-35.4	n.a.
Manufacturing	.9	2.6	-7.3	-5.0	n.a.	-7.5	-18.0	n.a.
Wholesale trade	.5	1.5	2.8	1.3	n.a.	2.9	-5.7	n.a.
Retail trade	-3.0	3.1	1.3	7.1	n.a.	-3.8	-11.8	n.a.
Automotive	-2.6	.7	1.2	5.5	n.a.	-5.4	-9.9	n.a.

INVENTORIES RELATIVE TO SALES[1]

	1974-75 Cyclical Peak[2]	1982 Cyclical Peak[2]	1982 Q2	1982 Q3	1982 Q4(p)	1982 Oct.(r)	1982 Nov.(r)	1982 Dec.(p)
Book Value Basis								
Total	1.64	1.55	1.49	1.51	n.a.	1.55	1.51	n.a.
Manufacturing	1.95	1.81	1.73	1.71	1.75	1.78	1.77	1.76
Durable	2.51	2.52	2.35	2.36	2.45	2.51	2.47	2.45
Nondurable	1.39	1.18	1.12	1.09	1.12	1.12	1.13	1.13
Wholesale trade	1.24	1.27	1.18	1.23	n.a.	1.27	1.24	n.a.
Retail trade	1.57	1.46	1.40	1.45	n.a.	1.43	1.37	n.a.
Automotive	2.17	2.02	1.69	2.01	n.a.	1.86	1.56	n.a.
Constant Dollar Basis								
Total	1.76	1.81	1.73	1.76	n.a.	1.81	1.77	n.a.
Manufacturing	2.18	2.20	2.10	2.10	n.a.	2.20	2.17	n.a.
Wholesale trade	1.40	1.51	1.42	1.47	n.a.	1.51	1.47	n.a.
Retail trade	1.49	1.49	1.45	1.50	n.a.	1.48	1.43	n.a.
Automotive	2.05	2.01	1.79	2.01	n.a.	1.91	1.59	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.

in constant dollars. The stock-sales ratio fell a bit from October's cyclical peak, but still remained very high.

Liquidation of retail trade inventories increased sharply in November. A rapid runoff of stocks held by auto dealers accounted for most of the decline, as auto sales were buoyed by financing concessions. These concessions were extended to all domestic models at the beginning of 1983, and, with January's cautious production schedules, dealer inventories were apparently brought below 60 days supply, traditionally considered a comfortable level. Aside from autos, general merchandise stocks were reduced in November, but inventory holdings were still much out of line with sales.

Personal Income and Consumer Spending

Personal income grew somewhat faster in December than in the previous four months, reflecting a boost from farm support payments. In the private nonfarm sector, however, income growth remained very weak as payrolls were about unchanged for the fifth consecutive month. For the fourth quarter as a whole, personal income was supported by the growth of unemployment insurance payments as well as the increase in farm income; the number of claimants receiving regular unemployment insurance benefits rose through early November, and the new Federal Supplemental Compensation Program extended the period of eligibility for most claimants. Because of the sharp cutback in aggregate hours worked, private wages and salaries declined in the fourth quarter for the first time since the first quarter of 1975. In addition, falling interest rates reduced the growth of interest income.

PERSONAL INCOME
(Based on seasonally adjusted data)

	1981	1982	1982 Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.
	- - percentage changes at annual rates[1] - -								
Total personal income	10.4	5.2	2.6	6.9	6.4	4.8	6.6	4.5	7.1
Wage and salary disbursements	8.4	2.7	2.8	4.0	3.5	.6	1.1	.0	1.8
Private	8.7	2.0	2.1	3.7	3.2	-1.0	-2.4	-1.6	
Disposable personal income									
Nominal	10.4	5.8	3.0	6.7	9.0	4.7	5.9	4.5	
Real	2.6	.6	-1.9	3.1	1.3	-.2	-2.1	3.6	
	- - changes in billions of dollars[2] - -								
Total personal income	17.9	11.6	7.0	15.9	10.3	13.2	14.3	9.8	15.5
Wage and salary disbursements	8.8	3.6	4.0	6.8	2.4	1.3	1.4	.0	2.4
Private	7.1	2.2	2.7	5.6	1.6	-1.1	-2.5	-1.7	.9
Manufacturing	1.1	-.8	-.2	.9	-1.7	-2.3	-4.3	-1.6	-1.0
Other income	10.3	8.5	4.2	9.5	8.1	11.9	12.9	9.7	13.2
Transfer payments	2.9	3.9	1.3	3.1	5.5	5.7	9.4	6.0	1.6
Less: personal contributions for social insurance	1.2	.5	1.3	.4	.2	.0	.0	-.1	.1
Disposable personal income									
Nominal	15.2	11.0	7.1	10.4	15.7	10.8	10.8	8.3	13.3
Real	1.7	1.1	.5	-.4	2.4	1.9	-1.8	3.2	4.4
Memorandum:									
Personal saving rate	6.4	6.5	6.6	6.7	6.9	5.8	6.2	5.5	5.8

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

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

	1982					
	Q2	Q3	Q4	Oct.	Nov.	Dec.
	---quarterly rate---			---monthly rate---		
Total sales	2.8	.0	3.0	1.1	2.6	-.4
(Real)[1]	2.3	-1.2	2.4	.6	2.8	-.4
Total, less autos and nonconsumption items	.8	1.6	1.1	.7	.4	.7
Total, less autos, nonconsumption items, and gasoline	1.5	1.4	1.2	.7	.3	.8
GAF[2]	1.3	-.1	1.2	.5	2.2	1.1
Durable goods	7.1	-3.6	7.2	1.3	7.9	-1.8
Automotive	11.4	-5.3	12.1	2.9	12.5	-4.1
Furniture & appliances	2.6	-1.3	1.7	.9	1.9	2.2
Nondurable goods	.9	1.7	1.1	1.0	.2	.3
Apparel	-1.8	.1	-.4	.3	2.5	-1.2
Food	2.0	1.5	.4	.4	-.3	.1
General merchandise[3]	2.1	.3	1.7	.5	2.2	1.5
Gasoline	-4.8	3.1	.5	.4	.8	-.5

1. BCD series 59. Data are available approximately three 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						1983
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.[1]
Total	7.5	7.8	8.6	7.6	9.5	8.7	n.a.
Foreign-made	2.0	2.2	2.5	2.3	2.6	2.6	n.a.
U.S.-made	5.5	5.6	6.1	5.3	6.8	6.1	6.3
Small	2.5	2.6	2.8	2.3	3.3	2.9	n.a.
Intermediate & standard	3.0	2.9	3.3	2.9	3.6	3.3	n.a.

Note: Components may not add to totals due to rounding.
1. First 20-days.

Despite little income growth, consumer demand has been fairly robust in recent months. Domestic auto sales averaged 6-1/2 million units at an annual rate in November and December, benefiting from financing concessions on 1982 models. But 1983-model cars also have been selling at a fairly brisk pace, representing the bulk of the 6.3 million units sold in the first three weeks of January, as financing concessions were extended to cover 1983 models as well. Demand for imported automobiles remained at a high 2.6 million unit annual pace in December, capturing a record 29.6 percent share of all auto sales.

Outside the automotive area, retail sales for consumer goods increased 0.7 percent in December, and increased in real terms as well. Sales of general merchandise, furniture, and appliances advanced almost 2 percent in December; this was only partially offset by less spending at apparel outlets and gasoline stations. Recent spending patterns are consistent with the Michigan Survey that found an improvement in consumers' appraisals of buying conditions for automobiles, houses, and large consumer durables; more than half of the respondents thought it was a good time to buy a car within the next year, the highest positive response since 1978. Nevertheless, it is difficult to draw inferences on the underlying demand for autos, because respondents in the Michigan Survey often react positively to special price concessions.

With consumption perking up toward year-end and payroll income relatively flat, the personal saving rate dropped from an average of 6.7 percent in the first three quarters of the year to 5.8 percent in the fourth quarter. The saving rate averaged about 6 percent during the last 5 years.

Housing

Activity in the housing market generally continued to trend up as the cost of mortgage credit drifted lower. In December, private housing starts fell a bit following a surge in November, but for the fourth quarter as a whole, starts were nearly 45 percent above the cyclical low at the end of 1981. All of the fourth quarter rise was for single-family units, as starts of multifamily units edged down from the exceptional third-quarter rate. At the same time, the number of building permits issued for residential construction rose further in December, mostly for multifamily units; the advance in building permits has outpaced housing starts, as happens from time to time during the early phases of housing recoveries.

Sales and prices of both new and existing houses have trended up in recent months. Despite a decline in December, new home sales in the fourth quarter were 43 percent above the recent cyclical low; sales of existing homes were 12 percent higher. At the same time, the average price of new homes sold edged up 1 percent from a year earlier; existing home prices were up about 3 percent. However, both figures may be influenced by changes in mix, quality, and financing concessions.

Business Fixed Investment

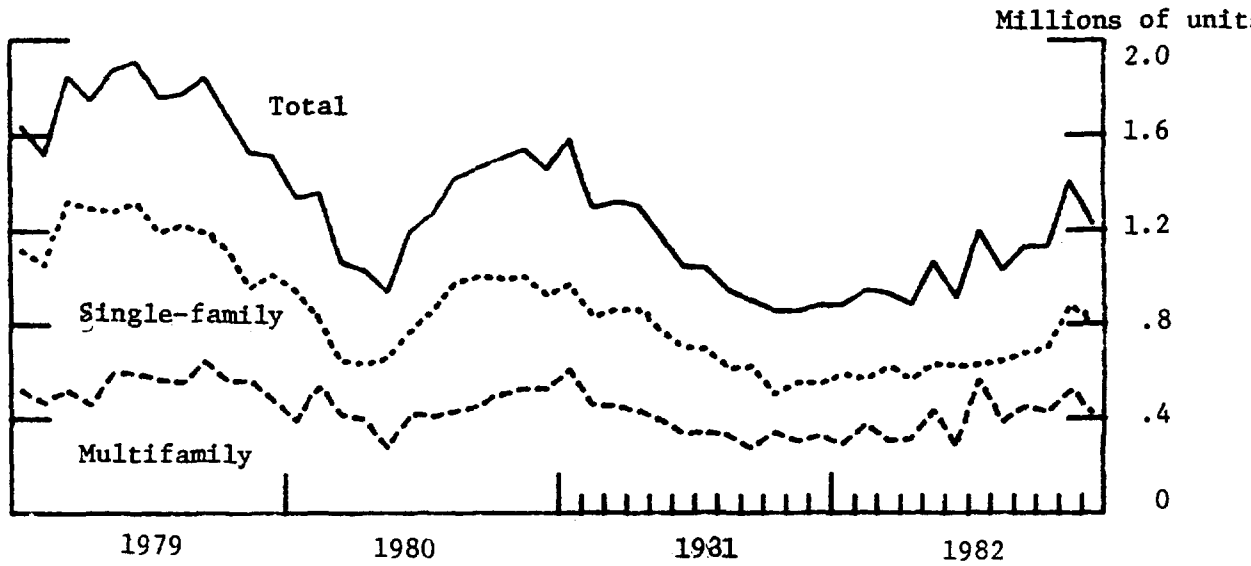
Real business fixed investment declined sharply again in the fourth quarter of 1982, bringing the rate of investment 8.4 percent below its peak attained in the fourth quarter of 1981. The decline was concentrated in producers' durable equipment, although the value of nonresidential construction fell a bit over the second half of last year and now appears to be in a downswing as well. This contraction

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

	Most Recent Trough[1]	1982 Q2	Q3	Q4	Oct.	Nov.	Dec.[2]
All units							
Permits	.76	.92	.98	1.22	1.17	1.19	1.29
Starts	.87	.95	1.12	1.25	1.13	1.40	1.22
Single-family units							
Permits	.42	.49	.52	.70	.65	.73	.73
Starts	.54	.61	.65	.80	.70	.88	.80
Sales							
New homes	.37	.37	.40	.53	.50	.56	.52
Existing homes	1.85	1.93	1.84	2.08	1.93	2.12	2.18
Prices[3]							
New homes	--	1.7	0.1	1.1	-3.3	4.3	4.0
Existing homes	--	2.8	2.0	3.1	3.5	3.7	2.0
Multifamily units							
Permits	.34	.43	.47	.51	.52	.46	.56
Starts	.32	.35	.47	.46	.43	.52	.42
Mobile home shipments	.18	.25	.23	n.a.	.22	.25	n.a.

1. Quarter of trough is specific to individual series.
2. Preliminary estimates.
3. Percent change, from year earlier, in average price of homes sold.
n.a.--Not available.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



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

	1982					
	Q2	Q3	Q4	Oct.	Nov.	Dec.
Nondefense capital goods shipments	-3.1	-3.5	-3.7	-4.0	.3	-1.0
Addendum: Sales of heavy-weight trucks (thousands)[1]	173	168	162	129	162	194
Nonresidential construction	1.8	.2	-1.0	-1.8	1.2	-1.2

1. Annual rate.

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

	1982					
	Q2	Q3	Q4	Oct.	Nov.	Dec.
Nondefense capital goods orders	4.9	-4.4	2.4	-.4	-.1	2.0
Machinery	-4.2	-5.1	2.9	-1.3	-3.3	7.3
Addenda: Ratio of current dollar unfilled orders to shipments						
Total	5.84	5.73	5.82	5.90	5.82	5.85
Machinery	4.25	4.04	4.18	4.35	4.11	4.16
Nonresidential building permits	-14.9	-10.5	n.a.	-23.0	10.7	n.a.

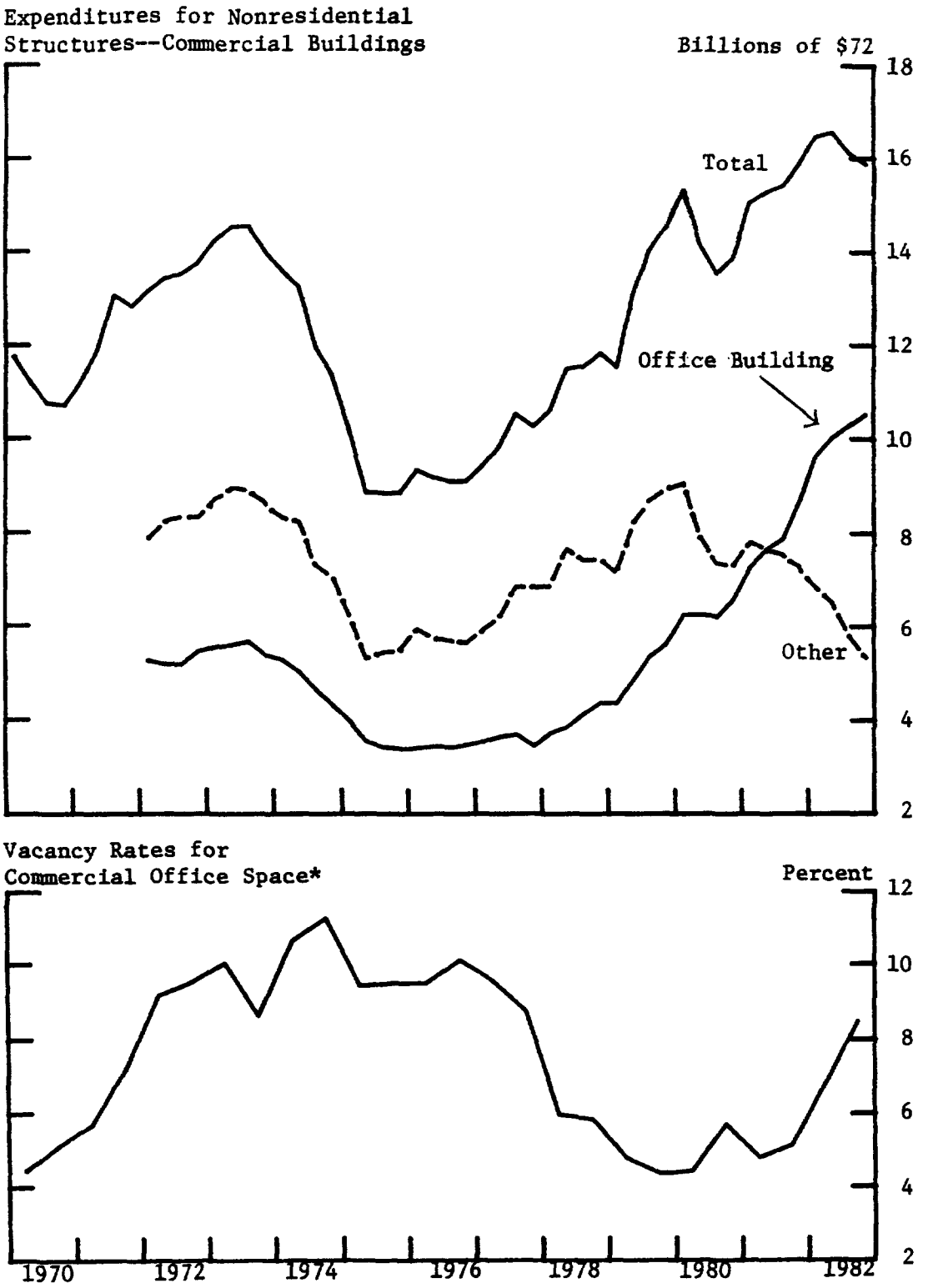
in construction has been fairly widespread, as spending for non-office commercial buildings, public utility structures (for example, generating plants), and oil- and gas-well drilling (GNP basis) all dropped somewhat.

Recent near-term indicators, while still depressed, have shown some signs of revival. Orders for nondefense capital goods rose 2 percent in December, and in the fourth quarter were almost 2.4 percent above the third-quarter pace. In December, orders were about 3 percent below shipments, a significant improvement from a gap that averaged 9 percent for the first 11 months of 1982. A narrowing of the gap is a positive sign because an increase in orders above the level of shipments will eventually lead to an upturn in shipments as well.

In contrast, near-term indicators of nonresidential structures suggest further declines in the months ahead. While construction of commercial office buildings--about one-fifth of nonresidential structures--continued to rise through most of 1982, it registered a decline in December. In addition, vacancy rates jumped to a high level in the second half of 1982 and permits for nonresidential construction remained very low, despite a 10.7 percent increase in November.

The annual Commerce Department Survey of plant and equipment spending plans for 1983, taken in November and December, points to continued weakness this year. Businesses intend to lower nominal capital spending by 1.3 percent in 1983. This translates into a 5.2 percent real decline, given the respondents' inflation expectations of around 4 percent for capital goods, and follows a 4.8 percent real decline in

NONRESIDENTIAL COMMERCIAL STRUCTURES
AND VACANCY RATES FOR COMMERCIAL OFFICE SPACE



* Source: Building Owners & Managers Association.

SURVEYS OF PLANT AND EQUIPMENT EXPENDITURES
(Percent change from prior year)

	1982[1] Survey (Actual)	Planned for 1983		
		Commerce Department Jan. 1983	McGraw-Hill[2] Fall 1982	Merrill-Lynch[2] Fall 1982
All Business	-.5	-1.3	-2.1	-1.7
Manufacturing	-3.3	-2.6	-2.5	-.1
Durables	-6.3	-1.0	-.7	-1.3
Nondurables	-.4	-3.9	-4.1	1.1
Nonmanufacturing	1.3	-.60	-1.8	-2.8
Mining	-4.8	2.5	-13.5	10.1
Transportation	-2.0	1.0	-10.4	-5.5
Utilities	8.4	-3.9	-3.8	-5.1
Trade and Services	.1	.5	4.6[3]	-10.2[4]
Communications and other	.9	-1.1	-7.0	15.3[5]

1. Growth in actual expenditures reported in the January Commerce Survey.
2. Not strictly comparable to Commerce Survey.
3. Includes only commercial category.
4. Includes commercial and other.
5. Includes communication only.

ERROR HISTORY OF ANNUAL SURVEYS[1]

Year	Commerce Department	McGraw-Hill[2]	Merrill-Lynch[2]
1970*	3.8	2.8	1.5
1971	-.5	.5	1.1
1972	.2	-2.6	.1
1973	.1	-2.2	-2.8
1974*	-.7	.9	-1.0
1975*	4.3	11.5	9.7
1976	-1.3	2.0	-3.9
1977	-1.4	.3	.8
1978	-3.2	-2.2	-3.1
1979	-3.9	-5.2	-6.1
1980*	1.3	.2	-1.9
1981*	1.7	3.2	-1.7
1982*	6.9	8.9	6.8
Mean Absolute Error	2.3	3.3	3.1

1. Anticipated less actual percent change.
2. Fall Survey taken in October and November of 1982.

* Recession year

1982. Both the Merrill-Lynch and McGraw-Hill fall surveys are roughly consistent with the Commerce survey. However, these capital spending surveys generally overstate the weakness in investment at business cycle troughs.

Federal Government

A sharp increase in federal purchases helped to boost the growth of real final sales in the last quarter of 1982. Despite a deceleration of defense spending from its rapid growth earlier in the year, total federal purchases rose 28 percent at an annual rate. Most of the increase reflected a further rise in Commodity Credit Corporation purchases to a record level.

The federal government budget deficit was about $68 billion in the final quarter of 1982, on a unified basis, compared with $48 billion a year earlier (quarterly rates, not seasonally adjusted). The larger deficit reflected a sharp rise of about $11 billion in expenditures and a falloff in revenues of about $9 billion over the four-quarter period. Almost half of the drop in revenues resulted from sagging corporate taxes. In addition to the record CCC purchases, outlays were boosted by sizable increases in defense and transfer payments.

In its "lame duck" session, Congress established basic funding levels for the federal government for all of fiscal year 1983, partially through appropriations bills and, for the remainder of government, through a second continuing resolution. In total, last minute Congressional actions appear to have raised outlays about $10 billion above levels consistent with the earlier Congressional Budget Resolution; about a third of this amount may be attributable to extended supplemental unemployment benefits and

the new highway program latter, of course, was offset by a tax increase).

The Administration submitted a FY1984 budget at the end of January. The document indicated that the Administration now anticipates a FY1983 deficit of $208 billion and projects a $189 billion deficit for 1984. Details of the budget will be provided in the supplement to this Greenbook.

Among other items, the budget requests an FY1984 freeze on cost-of-living adjustments in federal government pay and benefits and certain other programs and adopts the recommendations of the National Commission on Social Security Reform that were submitted January 20. To improve the ability of the social security system to meet its obligations over the remainder of the decade, this Commission recommended (1) a six-month deferral of the July 1983 cost-of-living adjustment, (2) partial taxation of benefits received by upper income households, (3) acceleration of payroll tax increases, and (4) a number of other changes, including coverage for new Federal workers. According to the Commission report, these recommendations are expected to inject about $170 billion into the trust fund from 1983 through 1989.

State and Local Government

Real purchases of goods and services by state and local governments rose slightly in the fourth quarter, remaining almost unchanged over the year as a whole. This contrasts with the steady decline in real purchases over 1981. The increase during the fourth quarter of 1982 was concentrated in construction, which rose 9.4 percent at an annual rate in real terms. In contrast, compensation, the largest

component of state and local government purchases, fell slightly in real terms.

Inflation and Labor Costs

The consumer price index was about unchanged near year-end, rising 0.1 percent in November and falling 0.3 percent in December. For the year as a whole, the CPI rose 3.9 percent, less than half the 1981 pace. Producer prices of finished goods rose even less rapidly, 3-1/2 percent in 1982. Sharp declines in mortgage rates held down the CPI last year, and weak markets for food and energy contributed to price deceleration. But the reduction in inflation also occurred in many other sectors. Prices of consumer commodities other than food, energy, houses, and used cars rose 4 percent last year, the smallest increase since 1972. Service prices, excluding energy items and homeownership costs, advanced 7 percent last year, about 3-1/2 percentage points less than their 1980-81 average.

In the investment sector, the easing of inflation also was striking. Producer prices of capital equipment rose 4 percent, the slowest pace since 1972. Construction prices, which are not reflected adequately in the PPI or CPI, also slowed dramatically last year; the price index for nonresidential structures advanced 3.4 percent over the four quarters of last year, down from about 7-1/2 percent in 1981, while prices for residential structures were actually flat for the first time in more than a decade.

Labor costs also slowed further last year as wage increases moderated in response to reduced inflation, high unemployment, and efforts

SELECTED MEASURES OF INFLATION
(Percentage cha e at annual rates; based on seasonally adjusted data)[1]

	Relative importance Dec. 1981	1980	1981	1982	1982 Q3	1982 Q4	1982 Nov.	1982 Dec.
BEA Fixed-Weighted Price Indexes								
GNP		10.3	8.9	5.0	5.9	5.2		
Personal consumption		10.9	8.4	5.3	7.3	5.7		
Fixed investment		9.3	7.9	2.7	2.8	1.7		
Business fixed investment		10.2	8.1	4.3	4.3	2.3		
Residential structures		7.7	7.5	.0	.1	.7		
Gross business product		10.3	8.9	4.8	5.9	4.7		
Consumer Price Index								
CPI, All items	100.0	12.4	8.9	3.9	4.2	1.1	.8	-3.3
Food	16.6	10.2	4.3	3.1	.6	.6	.8	-1.7
Energy	11.1	18.1	11.9	1.3	5.5	-4.0	-6.8	-7.7
Homeownership	26.1	16.5	10.1	1.4	.4	-9.9	-9.7	-20.5
All items less food, energy, and homeownership[2]	49.8	9.9	9.4	6.0	6.1	5.8	2.4	6.1
Used cars	3.3	18.3	20.3	10.9	16.0	19.6	24.4	17.8
Other commodities[2]	19.9	8.1	6.1	4.0	3.9	4.0	.6	3.9
Other services[2]	26.6	10.3	10.6	6.9	8.4	5.1	4.5	2.9
CPI, Experimental[3]	100.0	10.8	8.5	5.0	6.4	5.2	5.4	3.1
Producer Price Index								
PPI, Finished goods	100.0	11.8	7.1	3.5	4.2	4.8	7.6	.8
Consumer food	21.9	7.5	1.4	2.1	-7.4	-.9	-1.9	.9
Consumer energy	12.7	27.8	14.1	-.1	33.3	8.4	34.3	-8.9
Other consumer goods	44.6	10.4	7.1	5.0	3.3	7.0	6.6	.5
Capital equipment	20.8	11.4	9.2	4.0	3.8	4.3	3.4	6.8
PPI, Int. Materials[4]	94.7	12.4	7.3	.3	2.4	1.8	6.1	.4
PPI, Crude Materials								
Food	50.7	8.6	-14.0	1.4	-26.4	-6.5	11.7	-8.0
Energy	33.6	26.9	22.8	2.4	9.4	5.1	19.8	-14.6
Other	15.7	7.5	-11.4	-7.6	5.5	-8.6	-15.4	-11.0

1. Changes are from final month of preceding period to final month of period indicated, except BEA measures are from final quarter of preceding period to final quarter of period indicated; monthly changes at simple annual rates and quarterly changes at compound rates.
2. Includes the home maintenance and repair items of homeownership costs.
3. BLS experimental index for "All items"--CPI-U-X1--which uses a rental equivalence measure for homeownership costs.
4. Excludes materials for food manufacturing and animal feeds.

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

	1980	1981	1982	1982 Q2	1982 Q3	1982 Q4	Last Six Months
Hourly earnings index, wages of production workers[1]							June 1982-Dec. 1982
Total private nonfarm	9.6	8.4	5.9	6.4	6.2	4.5	5.2
Manufacturing	10.9	8.8	6.1	6.6	6.4	2.9	4.1
Contract construction	7.7	8.1	4.9	2.3	3.4	4.8	5.6
Transportation and public utilities	9.3	8.5	5.9	6.0	4.5	5.7	5.0
Trade	8.8	7.1	4.8	6.4	4.5	4.6	4.2
Services	9.5	9.1	6.5	7.6	8.5	5.0	6.3
Employment cost index, wages and salaries of all persons[2,3,4]							1982-Q3 to 1982-Q4
Total	9.0	8.8	6.5	4.8	7.2	n.a.	6.1
By occupation:							
White collar	8.7	9.1	6.9	5.3	8.0	n.a.	6.5
Blue collar	9.6	8.6	5.7	3.8	6.6	n.a.	5.2
Service workers	8.1	8.3	7.6	8.3	6.3	n.a.	7.3
By bargaining status:							
Union	10.9	9.6	7.2	5.8	8.2	n.a.	7.1
Nonunion	8.0	8.5	5.3	3.7	8.7	n.a.	6.2
Major collective bargaining settlements, first-year wage adjustments							
Contracts with COLAs	8.0	8.0	2.2				
Contracts without COLAs	11.7	10.6	7.0				
Labor costs and productivity, all persons[1]							1982-Q2 to 1982-Q4
Compensation per hour	10.6	8.8	6.6	6.1	6.6	6.0	6.3
Output per hour	.3	-.1	1.9	.8	3.4	2.7	3.0
Unit labor costs	10.2	8.9	4.6	5.2	3.1	3.2	3.2
Employment cost index, compensation[2,4,5]							1982-Q3 to 1982-Q4
Compensation per hour	9.8	9.8	6.9	5.4	8.1	n.a.	6.7

1. Changes are from final quarter of preceding period to final quarter of period indicated. Quarterly changes at compound rates.
2. Changes are from final month of preceding period to final month of period indicated. Quarterly changes at compound rates.
3. Seasonally adjusted by FRB staff.
4. Changes for 1982 are for year to date (1981-Q4 to 1982-Q3) at annual rates.
5. Not seasonally adjusted.

by employers to restore profits. Labor productivity posted a gain of 2.7 percent (annual rate) in the fourth quarter, and rose 1.9 percent over the four quarters of 1982. While advances in productivity often occur near cyclical troughs in overall activity, the recent increases in output per hour appear somewhat better than would have been expected given the anemic productivity performance of the 1970's and the drop in output last year.

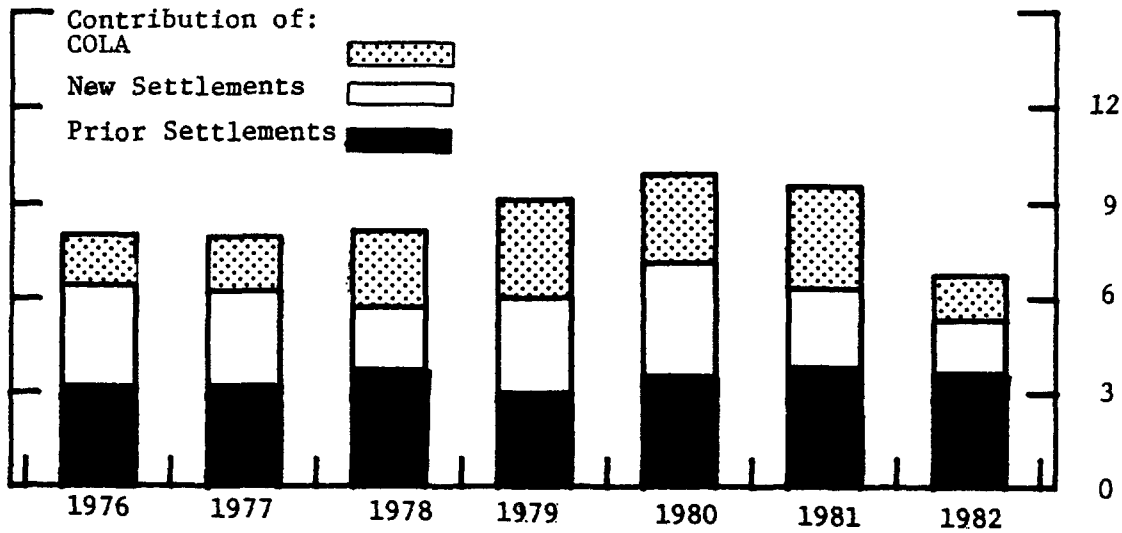
Virtually all wage measures slowed to around 6 percent in 1982, compared with 8 to 10 percent in the preceding year. Wages for production workers, as measured by the hourly earnings index, decelerated to 4-1/2 percent in the fourth quarter, following a 6-1/2 percent pace earlier in the year. The slowing was especially noticeable in manufacturing where concessions in some industries, such as autos, had eliminated annual improvement factors and some cost-of-living adjustments. Earnings of white-collar workers also began to slow in 1982. Hourly compensation--which includes fringe benefits as well as wages and salaries--rose at a 6 percent annual rate in the fourth quarter, bringing the four-quarter increase in 1982, at 6-1/2 percent, to the lowest rate since the period of wage and price controls in 1972.

Recent trends in collective bargaining point to further improvement in wage trends this year. The slowing last year in overall wage increases for the 8-1/2 million workers covered by major union contracts involving 1,000 or more workers, from 9.5 percent in 1981 to 6.7 percent, was attributable to both reduced COLAs and to smaller new settlements.

New settlements in 1982 were dominated by wage concessions made early in the year. For the year as a whole, unionized workers negotiated

wage increases that averaged 3.8 percent in the first contract year; when they last bargained almost 3 years ago, the same parties received first-year wage adjustments of 7.9 percent. Much of the deceleration in union wages last year occurred because almost half of bargaining workers received no scheduled wage increases, although most will receive COLAs. In addition, many workers--particularly auto workers and truckers--who reached agreements in 1982 will receive no annual improvement factor over the life of their contracts; this should moderate union wage change over the next two years.

EFFECTIVE WAGE CHANGE IN MAJOR UNION CONTRACTS
(Percent)



NEGOTIATED FIRST-YEAR WAGE RATE ADJUSTMENTS UNDER
NEW MAJOR COLLECTIVE BARGAINING SETTLEMENTS[1]
(Percent change)

	1980	1981	1982
All Industries	9.5	9.8	3.8[2]
Number of workers (thousands)	3,791	2,382	3,257
Contracts with COLAs	8.0	8.0	2.2
Number of workers	2,295	659	2,162
Contracts without COLAs	11.7	10.6	7.0
Number of workers	1,496	1,723	1,095
Distribution (percent)			
Decreases	0	5	2
No wage changes	0	3	43
0-4 percent	4	3	7
4-8 percent	25	9	23
8-12 percent	52	55	21
12 percent and over	18	26	3

1. Contracts covering 1,000 or more workers; estimates exclude potential gains under cost-of-living clauses.
2. These same parties received first-year increases of 7.9 percent in prior settlements.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1981 highs	1982 FOMC Oct. 5	1982 FOMC Dec. 21	1983 Feb. 1	Change from: FOMC Oct. 5	Change from: FOMC Dec. 21
Short-term rates						
Federal funds[2]	20.06	10.77	8.69	8.47p	-2.30	-.22
Treasury bills						
3-month	17.01	8.14	7.90	8.16	.02	.26
6-month	15.93	9.18	8.01	8.26	-.92	.25
1-year	15.21	9.66	8.11	8.30	-1.36	.19
Commercial paper						
1-month	18.63	10.23	8.48	8.35	-1.88	-.13
3-month	18.29	10.42	8.43	8.43	-1.99	0
Large negotiable CDs[3]						
1-month	18.90	10.33	8.59	8.48	-1.85	-.11
3-month	19.01	10.72	8.62	8.68	-2.04	.06
6-month	18.50	10.98	8.78	9.02	-1.96	.24
Eurodollar deposits[2]						
1-month	19.80	11.23	9.44	9.05p	-2.18	-.39
3-month	19.56	11.59	9.56	9.33p	-2.26	-.23
Bank prime rate	21.50	13.50	11.50	11.00	-2.50	-.50
Treasury bill futures						
Mar. 1983 contract	14.20	8.93	7.85	8.28	-.65	.43
Sept. 1983 contract	14.07	10.56	8.63	8.86	-1.70	.23
Intermediate- and long-term rates						
U.S. Treasury (constant maturity)						
3-year	16.59	11.62	9.87	9.94	-1.68	.07
10-year	15.84	11.69	10.54	10.78	-.91	.24
30-year	15.21	11.81	10.53	10.95	-.86	.42
Municipal (Bond Buyer)	13.30	10.48[4]	10.05[4]	9.66[4]	-.82	-.39
Corporate--Aaa utility						
Recently offered	17.72	13.27e	11.96e	12.12p	-1.15	.16
S&L fixed-rate mortgage commitment	18.63	15.13[5]	13.63[5]	13.10[5]	-2.03	-.53

	1981 highs	1982 FOMC Dec. 21	1983 Feb.1	Percent change from: 1981 highs	Percent change from: FOMC Dec. 21
Stock Prices					
Dow-Jones Industrial	1,024.05	1030.26	1059.79	3.5	2.9
NYSE Composite	79.14	79.74	82.61	4.4	3.6
AMEX Composite	380.36	328.48	359.78	-5.4	9.5
NASDAQ (OTC)	223.47	228.52	248.15	11.0	8.6

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.

DOMESTIC FINANCIAL DEVELOPMENTS

Growth in the monetary aggregates was exceptionally rapid in January, with expansion in M2 surpassing previous records by a wide margin. Movements in the aggregates were distorted by shifts into the newly authorized money market deposit accounts and, to a lesser extent, super NOW accounts. The heavily promoted MMDAs, in many cases offered at yields far above market interest rates, prompted large shifts among the components of M2, and evidently attracted substantial amounts of funds from large time deposits and other market instruments.

Market interest rates have changed relatively little on balance since the December FOMC meeting. After moving down at first, rates more recently have firmed as market expectations of a further cut in the discount rate were damped by the rapid growth in the aggregates, increased focus on federal financing requirements, and some signs of strengthening in the economy. Lagging behind other rates, both the bank prime lending rate to business and the mortgage commitment rate at S&Ls dropped about 50 basis points. In consumer credit markets, the automobile finance companies extended their reduced-rate lending programs to cover all 1983 models as well as leftover 1982 vehicles.

The Treasury has continued to raise large amounts of funds, as federal cash needs in the current quarter rival the record fourth-quarter volume. Borrowing by state and municipal units slackened somewhat in January with the passing of certain year-end borrowing deadlines, but has remained strong by pre-1982 standards. Nonfinancial businesses continued to lengthen the maturity structure of their debt last month, issuing new bonds in the domestic and Euro- markets while repaying part of their shorter-term debt. In

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

	1982					1983	QIV '81 to	Jan. '82 to
	Q2	Q3	Q4	Nov.	Dec.	Jan.[p]	QIV '82	Jan. '83[p]
	--Percentage change at annual rates--							
Money stock measures								
1. M1	3.3	3.5	16.1	16.9	8.8	12.0	8.5	7.7
2. (M1)[2]	(4.5)	(4.6)	(14.4)	(17.5)	(9.1)	(4.8)	(8.4)	(7.6)
3. M2	9.5	9.8	8.8	11.6	7.3	31.0	9.8	11.4
4. M3	10.7	12.1	8.3	9.6	1.3	13.1	10.3	10.2
Selected components								
5. Currency	9.3	6.9	6.8	3.7	10.0	10.9	7.9	8.2
6. Demand deposits	-5.8	-1.4	11.9	10.7	10.1	-3.5	1.0	0.1
7. Other checkable deposits	19.6	11.4	41.2	52.2	8.3	48.5	33.7	30.1
8. M2 minus M1 (9+10+11+14)	11.5	11.7	6.6	9.9	6.8	37.0	10.2	12.6
9. Overnight RPs and Eurodollars, NSA[3]	-8.4	15.2	23.8	31.3	-40.7	78.9	24.8	12.5
10. General purpose and broker/dealer money market mutual fund shares, NSA	21.4	31.7	9.9	16.3	-58.5	-112.9	26.4	3.8
11. Commercial banks	17.2	12.2	8.5	9.1	32.6	103.7	12.3	23.2
12. savings deposits, SA, plus MMDAs, NSA[4]	2.0	-9.7	35.0	35.4	169.8	482.7	9.0	65.2
13. small time deposits	23.8	21.3	-1.8	-0.9	-23.0	-73.6	13.8	4.6
14. Thrift institutions	6.0	6.4	3.6	7.4	6.6	17.6	4.5	6.5
15. savings deposits, SA, plus MMDAs, NSA[4]	0.6	-7.8	32.6	31.0	89.6	241.6	8.9	61.1
16. small time deposits	8.1	11.7	-6.8	-1.4	-25.1	-77.3	2.8	-4.3
17. M3 minus M2 (18+21+22)	16.9	23.8	5.6	0.0	-27.2	-75.3	12.9	4.5
18. Large time deposits	19.1	19.6	0.4	-7.4	-27.5	-82.6	12.5	2.3
19. at commercial banks, net[5]	19.9	21.4	-6.2	-20.2	-35.0	-91.4	10.6	-0.4
20. at thrift institutions	15.5	11.5	30.4	49.2	5.5	-48.9	21.2	14.6
21. Institution-only money market mutual fund shares, NSA	15.2	104.0	31.1	13.4	-58.3	-52.9	40.1	26.8
22. Term RPs, NSA	6.2	-25.7	28.8	84.3	3.6	-3.6	-5.7	3.1
	--Average monthly change in billions of dollars--							
MEMORANDA:								
23. Managed liabilities at commercial banks[5] (24+25)	6.3	1.6	-4.1	-4.0	-13.8	n.a.	2.3	n.a.
24. Large time deposits, gross[6]	5.8	5.7	-6.5	-7.0	-13.4	-28.2	2.9	-5.5
25. Nondeposit funds[6]	0.5	-4.1	2.4	3.0	-0.4	n.a.	-0.6	n.a.
26. Net due to related foreign institutions, NSA[6]	0.4	-4.4	-0.7	3.1	-2.9	n.a.	-1.7	n.a.
27. Other[6,7]	0.1	0.3	3.2	-0.1	2.5	n.a.	1.1	n.a.
28. U.S. government deposits at commercial banks[8]	-2.5	0.2	0.3	-3.8	1.7	4.0	0.0	2.1

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 component.
4. Beginning December, 1982, growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Savings deposits excluding MMDAs declined at commercial banks at annual rates of 20.5 percent in December and 28.3 percent in January. At thrift institutions, savings deposits excluding MMDAs declined during December and January at annual rates of 12.1 percent and 62.4 percent, respectively.
5. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
6. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to September 1982.
7. 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.
8. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
p--Preliminary.
n.a.--not available.

the closing months of 1982, households stepped up their installment borrowing and arrangement of commitments for home mortgage loans; with this momentum and the further decline in credit costs, it seems likely that net credit flows to this sector continued to expand moderately in January.

Monetary Aggregates and Bank Credit

Recent money stock behavior has been influenced greatly by the introduction of the MMDA in mid-December and the super NOW account in early January.[1] Owing to heavy promotional activity and above-market offering rates that have dropped moderately from initial levels, depository institutions have received massive inflows to MMDAs, which by late January reached $200 billion in total. Commercial banks have garnered about 60 percent of these deposits.

Super NOW accounts--introduced on January 5 with less fanfare and substantially lower interest rates than MMDAs, as well as hefty fees on small or medium-sized accounts--appear to have attracted smaller, though still significant, inflows. Super NOWs totaled about $16 billion in the second statement week after their introduction. This buildup partly reflected reallocations within M1, and inflows to super NOWs from outside M1 were roughly offset by outflows from M1 balances into MMDAs. Still, M1 expansion picked up to an estimated 12 percent annual rate in January after a dip in December to just below the double-digit pace of the preceding four months, a rebound which suggests that the underlying demand for M1 remains strong.

M2 growth soared to a record 31 percent annual rate in January as a result of sizable inflows to MMDAs from non-M2 sources. Nevertheless,

1. MMDA and super NOW account developments are discussed in greater detail in Appendix A.

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

	1982						QIV '81 to QIV '82
	Q2	Q3	Q4	Oct.	Nov.	Dec.	
	--Commercial Bank Credit--						
1. Total loans and investments at banks[2,3]	8.0	5.8	6.3	6.8	1.5	10.5	7.8[4]
2. Investments[3]	4.7	4.8	15.9	12.1	9.0	26.1	6.5
3. Treasury securities	4.9	8.3	43.0	41.6	40.2	42.7	13.5
4. Other securities[3]	4.8	3.0	2.5	-2.5	-7.1	17.3	3.1
5. Total loans[2,3]	9.1	6.2	3.0	4.9	-1.0	5.1	8.2
6. Business loans[2,3]	15.0	9.0	-.2	6.7	-7.3	.0	11.7
7. Security loans	-26.8	63.6	37.2	85.0	-39.7	66.7	15.9
8. Real estate loans	6.6	2.8	4.9	3.6	4.4	6.4	5.9
9. Consumer loans	2.8	3.0	4.6	2.5	1.9	9.5	3.3
	--Short- and Intermediate-Term Business Credit--						
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)[3]	13.2	9.2	n.a.	-1.5	-9.9	n.a.	n.a.
11. Business loans net of bankers acceptances[3]	15.9	9.0	.6	6.6	-4.5	-.3	12.1
12. Commercial paper issued by non-financial firms[5]	16.8	-6.0	-59.9	-71.4	-69.4	-48.4	1.0
13. Sum of lines 11 & 12[3]	16.0	7.0	-7.1	-3.4	-12.6	-5.6	10.7
14. Line 13 plus loans at foreign branches[3,6]	15.8	8.3	-7.3	-3.5	-12.9	-5.6	11.3
15. Finance company loans to business[7]	1.5	15.8	n.a.	-5.7	-24.4	n.a.	n.a.
16. Total bankers acceptances outstanding[7]	10.2	6.6	n.a.	14.7	27.4	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 the fourth quarter of 1982, not adjusted for shifts of assets from domestic offices to IBFs, was at an annual rate of 7.1 percent. Adjusted for such shifts after January, growth over this period was 7.6 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.

inflows to MMDAs from outside M2 were small relative to shifts originating within the nontransactions component of M2. Substantial amounts were transferred from retail RPs and 7- to 31-day deposits that had been widely used as "bridge" accounts for MMDAs, but other small time deposits, passbook savings accounts, and shares in money market mutual funds all declined markedly as well. Outflows from the M2-type money funds amounted to about $25 billion between the mid-December introduction of MMDAs and late January.

M3 growth, though projected to have picked up to a 13 percent annual rate in January from the weak December pace, was well below M2 growth in both months, as large time deposits and shares in institution-only MMMFs contracted sharply. Declines in large time deposits partly reflected direct shifting to MMDAs and partly curtailment of CD issuance by depository institutions in response to the surge in "core" deposits.[1] Some of the decline in institutional MMMFs may also have resulted from transfers to MMDAs, but it seems more likely that investors were reacting primarily to the higher returns available on competing market instruments, particularly during late December. More recently, with money fund yields improving again relative to other market rates, institution-only funds have realized a moderate net inflow.

Growth in bank credit rebounded in December to a 10-1/2 percent annual rate, as banks increased their lending and made substantial purchases of securities. Although business lending remained weak in December, security loans expanded sharply and real estate and consumer loans picked up. Early

1. Large banks also appear to have adjusted to soaring inflows to core deposits by making record advances to their foreign branches. A portion of these advances likely replenished losses of funds arising from liquidation of Eurodollar CDs held by MMMFs.

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

	1982					1983
	H1	Q3	Q4[p]	Nov.[p]	Dec.[p]	Jan.[f]
	----------Seasonally adjusted----------					
Corporate securities--total	6,247	9,436	10,879	11,515	11,012	9,900
Securities sold in U.S.	4,867	8,410	10,120	10,350	10,875	7,900
Publicly offered bonds[1]	2,184	5,008	6,610	6,550	6,875	4,700
Privately placed bonds	593	917	600	700	700	700
Stocks[2]	2,090	2,485	2,910	3,100	3,300	2,500
Securities sold abroad[3]	1,380	1,026	759	1,165	137	2,000
	----Domestic offerings, not seasonally adjusted----					
Publicly offered bonds--total[1]	2,348	4,574	5,140	5,000	4,000	3,800
By industry						
Utility	816	970	1,360	1,230	1,030	--
Industrial	520	1,971	1,940	2,410	1,205	--
Financial	1,012	1,633	1,840	1,360	1,765	--
By quality[4]						
Aaa and Aa	825	1,835	1,900	1,510	1,580	--
A and Baa	937	1,836	2,265	2,340	1,625	--
Less than Baa	173	235	550	620	465	--
No rating (or unknown)	413	668	425	530	330	--
Memo items:						
Convertible bonds	113	199	649	560	775	--
Original discount bonds						
Par value	1,020	650	1,094	235	2,800	--
Gross proceeds	345	229	184	209	124	--
Stocks--total[2]	2,040	2,251	3,045	2,800	3,800	2,300
By industry						
Utility	610	728	1,080	700	1,800	--
Industrial	967	969	1,465	1,600	1,700	--
Financial	463	554	500	500	300	--

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.

indications are that bank credit growth remained strong in January, led by further large acquisitions of securities, especially Treasuries.

Business Finance

Net funds raised in markets by nonfinancial corporations plunged in the fourth quarter of 1982, according to preliminary estimates, as firms curtailed expenditures for fixed capital and liquidated inventories at a brisk pace. With yields in stock and bond markets down considerably from mid-1982, businesses concentrated their fund-raising in the longer-term securities markets, issuing large amounts of long-term debt and equity. At the same time, business loans at banks contracted during the final two months of 1982, and outstanding commercial paper, which had begun to decline in August, continued to run off sharply through year-end.

SOURCES AND USES OF FUNDS BY NONFINANCIAL CORPORATIONS
(Billions of dollars, seasonally adjusted annual rates)

			1980	1981	1982p	1982 Q1	1982 Q2	1982 Q3	1982 Q4p
1.		Capital expenditures	220.5	260.9	244	240.9	247.5	263.2	232
2.	less	U.S. internal funds & IVA[1/]	185.6	222.6	231	228.5	227.5	234.8	233
3.	equals	Financing Gap	34.9	38.3	13	12.3	20.0	28.3	-1
4.	plus	Other uses of funds, net[1/]	60.8	54.3	77	95.7	73.9	69.6	39
5.	equals	External financing needs	95.7	92.6	90	108.0	94.0	98.0	38
6.		Net funds raised in markets	95.7	92.6	90	108.0	94.0	98.0	38
		Net equity issues	12.9	-11.5	4	-5.3	5.0	0.0	15
		Bonds	42.7	35.7	49	33.9	29.4	59.4	58
		Mortgages	2.0	-1.1	*	-.3	-.7	-.1	1
		Loans & short-term paper	38.1	69.6	37	79.7	60.3	38.7	-36

* Rounds to 0. p--preliminary.
1. Excludes net foreign earnings retained abroad.

In January, flotation of long-term securities remained relatively strong and growth in bank loans appears to have resumed, while borrowing in the commercial paper market continued to decline.

Domestic bond offerings dropped off in January, but a sharp increase in bonds sold abroad appears to have left total issuance for the month about unchanged from December. Fewer domestic issues in January carried maturities of 20 years or longer; a relatively large number of issues had maturities under 10 years, suggesting that both borrowers and lenders remain cautious about the longer term. Part of the shortening of maturities reflected a larger proportion of offerings by financial firms, which typically rely more on intermediate-term instruments. In addition, maturities in the Eurobond market typically are less than 10 years.

Many of the issues sold abroad recently have permitted buyers to defer a significant portion of the payment for six to eight months.[1] Initial payments for such bonds have ranged in most cases between 10 and 30 percent of their face value. The value placed by investors on the deferral privilege has been reflected in lower yields than could be obtained on regular issues in the U.S. market. Recent reports in the financial press, indicating that several partly paid bond offerings have sold quite slowly, suggest that their popularity may be limited, however.

Major indexes of stock prices have moved up 3 to 10 percent since the December meeting of the FOMC, with several reaching record highs during the intermeeting period. Since the start of the recent bull market in mid-August, stock averages have climbed 40 to 55 percent. Gross offerings of stocks in December reached $3.3 billion on a seasonally adjusted basis, before subsiding a bit in January. Higher stock prices have also continued

1. Because buyers of partly paid bonds can walk away from the obligation by forfeiting their initial payment, the issuers of these bonds might have to refinance the deferred portion in the next few months, but only if interest rates rise substantially.

to encourage convertible bond offerings, especially by lower-rated firms seeking to minimize financing costs.

Government Finance

Federal sector. Treasury net marketable borrowing during the fourth quarter totaled almost $59 billion to help meet a combined budget deficit of $69 billion. An anticipated first-quarter deficit of $66 billion is expected to generate another $52 billion of marketable borrowing, with the remainder likely to be financed by about $1-1/2 billion of nonmarketable issues and a reduction of about $9-1/2 billion in the Treasury's cash balance. The staff's estimate of marketable borrowing for the first quarter is about $7 billion below the Treasury's estimate because of differences in forecasts of the unified budget deficit.

Nonmarketable borrowing has increased significantly in recent months. It had declined more than $6 billion in the first three quarters of 1982, but rose $3-1/2 billion in the fourth quarter. Much of the unusually large volume of nonmarketable borrowing has come from special issues in which state and local governments temporarily invest receipts from refinancing operations. These operations picked up significantly in the fourth quarter, primarily because interest rates declined sufficiently to make refinancing more attractive to state and local governments. At current municipal interest rate levels, refinancings are expected to be strong again in the first quarter.

In the fourth quarter, the Treasury also raised $700 million in new cash through savings bonds, and a like amount is expected in the first quarter. The renewed growth of savings bonds appears to be attributable

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

	1982		1983	
	Dec.	Q4	Jan.p	Q1f
Treasury financing				
Combined surplus/deficit(-)	-18.1	-69.4	-12.1	-65.7
Means of financing deficit:				
(1) Net cash borrowing from the public	29.9	62.0	7.9	53.6
Marketable borrowings/ repayments(-)	29.1	58.6	7.2	52.2
Bills	18.3	33.9	-3.5	18.5
Coupons	10.8	24.7	10.7	33.7
Nonmarketable	.8	3.4	.7	1.4
(2) Decrease in the cash balance	-14.6	9.6	2.3	9.6
Memo: Cash balance at end of period	19.8	19.8	17.5	10.2
(3) Other[2]	2.8	-2.2	1.9	2.5
Federally sponsored credit agencies net cash borrowing[3]	1.3	-.1	-.9	.7
FHLB	-1.1	-1.6	-1.4	-2.5
FNMA	3.2	2.8	1.0	2.5
Farm Credit Banks	-.8	-1.4	-.5	.5
Other	*	.1	*	.2

p--preliminary.
f--forecast.
*--less than 100 million.
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.

to the new program under which rates paid on savings bonds held to maturity are linked to the average yield on 5-year Treasury notes.

In December, federally sponsored credit agencies borrowed an estimated $1.3 billion, after running off debt in October and November. FNMA borrowed over $3 billion in December, using about $1.7 billion to finance new mortgage purchases and the remainder to increase its liquid assets. The FHLBs, in contrast, again paid down debt in December as thrift institutions continued to repay outstanding advances. Lending by the Federal Farm Credit Banks remained weak in the final month of the year, and these agencies also reduced their outstanding debt. This pattern of agency activity appears to have continued in January, with only FNMA raising new money and with the FHLBs likely paying off about $1.5 billion in debt.

State and local sector. Prompted by declining interest rates and approaching deadlines on issuance of certain types of securities, borrowing by state and local governments was extraordinarily heavy in the fourth quarter of 1982. Flotation of long-term securities crested to a record $9.8 billion in December as many issuers rushed to the market in anticipation of the scheduled January 1 date for a federal requirement that all municipal bonds be issued in registered form. In mid-December this date was postponed for six months, and borrowing slackened in the weeks immediately following. Gross issuance during January as a whole was still estimated to be quite strong at $5.3 billion, seasonally adjusted, as the fundamental factors of lower interest rates and weakness in revenues asserted themselves. In recent weeks, there have been a number of reports of bigger-than-expected budget deficits of state and local governments. Nonetheless, market access evidently has not been impaired, and yield spreads have remained moderate.

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

	1981	1982				1983
	Year	Year	Q4	Nov.	Dec.[e]	Jan.[e]
	Seasonally adjusted					
Total	6.45	9.70	12.30	11.90	13.50	9.30
Long-term	3.65	6.35	8.70	8.30	9.80*	5.30
Short-term[1]	2.80	3.35	3.60	3.60	3.70	4.00
	Not seasonally adjusted					
Total	6.45	9.70	12.15	12.95	12.10	7.00
Long-term	3.65	6.35	9.15	9.65*	9.40	4.00
Refundings	.10	.35	.80	.70	.50	.20
Mortgage revenue	.53	1.00	1.00	.75	1.00	.40
Short-term[1]	2.80	3.35	3.00	3.30	2.70	3.00

e--estimate *--record volume
1. These numbers do not include tax-exempt commercial paper.

Revenue issues continued to dominate activity in the tax-exempt market, accounting for about three fourths of total volume in December and January, a proportion very near the average for the past three years. The largest single category in December was mortgage revenue bonds. Issuers of these obligations were anxious to use up their annual volume limitations which cannot be carried over into the next calendar year. Issues to finance hospitals and public utilities also were sizable. Taken together, these three revenue bond categories made up about 45 percent of total tax-exempt securities volume in 1982.

Individuals remain the main category of purchasers of new municipal issues. Net new purchases of long-term securities by individuals through bond funds--unit investment trusts (UITs) and open-end mutual funds--came to about $2-1/4 billion in December. Sales of UITs were a record $13-1/4 billion in 1982, almost three times the previous $5.3 billion record set in

1981. By contrast, commercial banks and property/casualty insurance companies--the traditional institutional investors in tax-exempts--have shown little interest in such investments over the past two years.

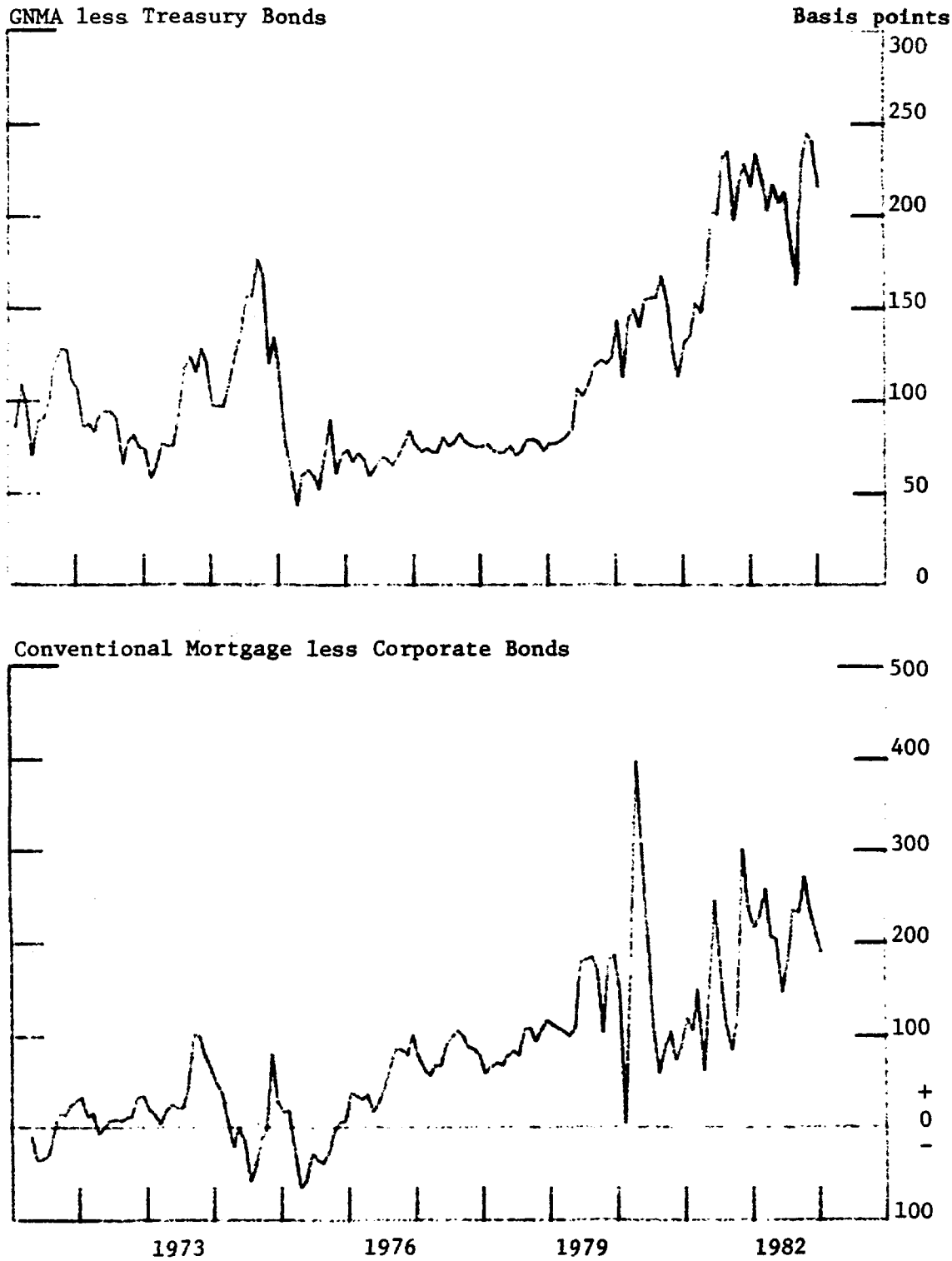
Mortgage Markets

Despite quite recent reports of an upturn in rates in several regions, the average interest rate on new commitments for long-term, fixed-rate conventional home mortgages at S&Ls has fallen by about 1/2 percentage point since the December FOMC meeting to 13.10 percent--nearly 4 percentage points below the recent high last July and 5-1/2 points below the cyclical peak in the fall of 1981.

As rates have declined, the volume of applications for federally underwritten as well as conventional home loans generally has risen. New mortgage commitments issued by S&Ls rose to $8.9 billion in December, after seasonal adjustment, and the stock of commitments outstanding climbed to $29.5 billion--the highest since late 1979. The surge in activity, of course, reflects refinancing of outstanding high-rate loans as well as funding of real estate construction and home sales transactions. On a net basis, mortgage-related assets at S&Ls (mortgage loans and mortgage pass-through securities combined) increased $1.5 billion in December, and the rise for the fourth quarter as a whole was nearly double that of the previous quarter.

The past several months saw a substantial narrowing of the gap between average commitment and closing rates on conventional home loans at institutional lenders. This gap had reached unprecedented proportions in 1981 and early last year, reflecting not only time lags between commitment and closing, but also the inclusion in the closing rate series of adjustable-rate

MORTGAGE-BOND YIELD SPREADS



loans (generally with initial rates below those on fixed-rate contracts) and fixed-rate loans made at below-market rates--such as builder buy-downs, "blends," and loans made from the proceeds of tax-exempt mortgage revenue bonds. The recent narrowing of the gap reflects timing to some degree, but also signals a decline in the importance of adjustable-rate mortgages and presumably also of below-market-rate financing. The proportion of adjustable-rate loans among loans closed at institutional lenders fell in December for the fourth consecutive month. Moreover, as market rates have plummeted, the need for blended-rate arrangements and builder buy-downs has weakened and the competitive advantage of funds raised earlier by municipalities through mortgage revenue bonds has dwindled.

Although yields have declined sharply since late 1981 on long-term, fixed-rate mortgages and on mortgage pass-through securities, they have come down less than yields on bonds of similar quality and maturity, and spreads between mortgage rates and bond rates have widened accordingly. In fact, the spread between yields on new issues of GNMAs and 10-year Treasury bonds has trended upward since 1978; over the same period, the spread between rates on new commitments for conventional home mortgages and yields on recently offered corporate bonds has widened by roughly the same amount.

These long-run changes in yield spreads occurred as net investment in mortgage-related assets by thrift institutions fell to historically low levels, in both absolute terms and as a share of the market. While the persistence of such large yield spreads might suggest a mortgage credit "availability" problem, the rise in both the GNMA-Treasury and the mortgage-corporate bond yield spreads more likely has been associated with increases in the price charged by investors for the prepayment (call) option owned

CONSUMER INSTALLMENT CREDIT

	1980	1981	1982				
			Q2	Q3	Oct.	Nov.	Dec.[p]
	- - - - - - Percent rate of growth, SAAR - - - -						
Change in outstandings -- total	0.5	6.4	4.8	2.1	-1.2	9.1	10.5
By type:							
Automobile credit	0.4	8.2	5.8	0.5	-0.7	17.1	--
Revolving credit	2.5	8.1	10.4	6.4	2.1	2.1	--
All other[1]	-0.3	4.1	1.5	1.7	-2.9	5.0	--
	- - - - - - - - Billions of dollars, SAAR - - - - -						
Change in outstandings -- total	1.4	19.1	15.7	6.9	-3.9	30.3	35.3
By type:							
Automobile credit	0.5	9.6	7.4	0.7	-0.9	21.8	--
Revolving credit	1.4	4.7	6.2	3.9	1.3	1.3	--
All other[1]	-0.4	5.6	2.1	2.4	-4.2	7.2	--
By major holder:							
Commercial banks	-7.2	2.3	-0.1	0.6	-0.6	10.8	13.2
Finance companies	8.4	13.1	10.2	0.7	-4.7	13.6	--
All other	0.2	4.5	5.6	5.6	1.4	5.8	--
	- - - - - - - - - - Percent, NSA - - - - - - - - - -						
Interest rates							
At commercial banks[2]							
New cars, 36 mos.	14.30	16.54	17.20	17.08	n.a.	15.97	n.a.
Personal, 24 mos.	15.47	18.09	18.90	18.93	n.a.	17.99	n.a.
Credit cards	17.31	17.78	18.41	18.73	n.a.	18.75	n.a.
At auto finance cos.[3]							
New cars	14.83	16.17	15.19	17.68	16.66	12.82	12.57
Used cars	19.10	20.00	20.83	20.93	20.76	20.68	20.63

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; November figure is for first week of the month.
3. Average rate for all loans of each type made during the period, regardless of maturity.
n.a.--not available.
p--preliminary.

by mortgage borrowers--an option that had grown in value as interest rate uncertainty increased. The prices that investors will pay for prepayable (FHA/VA and conventional) and assumable (FHA/VA) fixed-rate mortgages reportedly have declined relative to prices they will pay for investments with greater yield certainty--as evidenced by preferences of pension funds and life insurance companies for deep-discount mortgage securities that have a relatively low probability of early refinancing.

Consumer Credit

Consumer installment credit outstanding rose during November at an annual rate of 9 percent, by far the fastest pace in more than a year. Automobile credit, which increased at a 17 percent annual rate on the strength of price reductions and special financing concessions offered by auto manufacturers, accounted for over two thirds of the expansion. Incoming information suggests that consumer installment lending may have strengthened a bit further in December. Commercial banks maintained their more vigorous pace of lending, and auto finance companies broadened their below-market financing programs begun a month or two earlier. A spot check on February 1 of commercial banks by five Federal Reserve banks indicated that average interest rates on most types of consumer loans (except credit card borrowings) have fallen as much as 1 percentage point since the last full survey in early November.

In early January, all four U.S. auto manufacturers announced new special programs lasting through the end of March that offer financing at 11.9 percent to buyers of almost all 1982 and 1983 models. The special rate is about 5 percentage points below typical rates prior to the program. General Motors is offering financing through GMAC while Chrysler,

Ford and AMC--in addition to providing credit through finance subsidiaries--are subsidizing customer financing at participating creditors. Under the latter arrangement, customers pay an 11.9 percent finance charge; the auto company makes up the difference, in a lump sum payment to the creditor, between the reduced customer rate and a standard finance rate for automobile credit.[1]

Despite continued high unemployment rates and only modest increases in disposable personal income, indicators of repayment difficulties on consumer installment debt have remained little changed from previous low levels. During the fourth quarter, on average, and for 1982 as a whole, 1.67 percent of automobile credit contracts at finance companies were delinquent by 30 days or more. This was the lowest delinquency rate at these firms for any year on record, and compared with 1.90 percent in 1981. Other installment loan delinquency series are not yet available for the fourth quarter. Personal bankruptcy cases filed during the fourth quarter of 1982 rose by only about 1 percent from the third quarter pace, continuing the trendless performance of the past two years. Delinquency rates on mortgage loans, however, remain in a marked uptrend.

1. Automobile dealers also participate in the finance rate subsidy by forgoing some or all of the share of finance charge revenue they normally obtain for arranging financing with banks or finance companies. One likely consequence of requiring dealers to give up finance charge income is less flexibility in price bargaining with customers who wish to obtain 11.9 percent financing. Thus, the favorable effect of lower financing costs on auto demand may be offset somewhat by less accommodative pricing of cars.

Appendix A*

MONEY MARKET DEPOSIT ACCOUNT AND SUPER NOW ACCOUNT DEVELOPMENTS

The growth and composition of the monetary aggregates have been profoundly influenced by the introduction of the money market deposit account (MMDA) and the super NOW account. Both of these instruments are ceiling free for accounts that maintain an average balance of $2,500.[1] The MMDA has limited transaction capabilities allowing up to six automatic, preauthorized or telephone transfers per month (three of the six transfers can be by draft).[2] The super NOW account is fully transactional and is available to individuals, governmental units, and certain not-for-profit organizations.[3] For both of the new accounts institutions can guarantee a rate for up to a month, and the MMDA can even be issued with a specific term to maturity of up to 30 days.

Commercial banks and thrift institutions have marketed the MMDA aggressively. As early as November of last year many institutions were offering high yielding "bridge" accounts to attract deposits before the official introduction of the MMDA on December 14.[4] With the shifting of balances from "bridge" accounts and the heavy promotion of the MMDA itself, the new accounts grew rapidly in December and inflows continued to be robust through late January. As shown in the upper panel of table A-1, balances in MMDAs averaged $190 billion in the week ending January 19.

One factor obviously contributing to the buildup in MMDAs has been the relatively high interest rates offered on these accounts. Based on data collected from a sample of institutions, it is estimated that the average effective yield on MMDAs was about 10-1/2 percent at commercial banks and around 11 percent at thrifts as of the end of December. These rates were about 2 to 2-1/2 percentage points above the average yield posted by money market mutual funds at that time. Information available as of late January indicates that average yields on MMDAs had fallen by about one percentage point, but the differential

1. At the discretion of the institution, the average balance can be determined over any period up to one month.
2. There is no limit on the number of withdrawals made in person.
3. On March 1, 1983, the Depository Institutions Deregulation Committee will consider a proposal to make available to all businesses a fully transactional account that pays explicit interest.
4. Retail RPs and 7- to 31-day accounts were the most popular "bridge" accounts.

* Prepared by Frederick T. Furlong, Economist, Banking Section, Division of Research and Statistics.

between commercial banks and thrift institutions continued, and both types of institutions were paying in excess of money market mutual fund yields.

Despite the somewhat higher average rate on MMDAs at thrift institutions, commercial banks appear to have attracted a relatively large proportion of the MMDA market when compared to their share of combined savings, small time deposits and MMDAs. The lower panel of table A-1 indicates that in early January 60 percent of the MMDA balances were held at commercial banks, even though these depositories accounted for less than half of savings, small time, and MMDA balances.[1] A comparison of the first two columns of the lower panel of table A-1 also suggests that larger institutions as a group had a disproportionately large share of MMDAs. However, given that MMDAs can be issued in large denominations and to business customers, it also may be useful to compare MMDA shares with total deposit shares, including large CDs, shown in the third column. In light of this comparison, it is less clear that banks had an advantage over thrifts or that large institutions systematically outperformed smaller institutions.[2]

The growth in super NOWs, which were introduced on January 5, has been dwarfed by the flows into MMDAs. For the week of January 19, super NOWs averaged about $15-1/2 billion (see table A-2), with over half of the increase occurring in the first two days that the account was offered. Based on information from the Reserve Bank Contact Group and other sources, it appears that interest rates on super NOWs averaged one to two percentage points below rates on MMDAs. Such a differential is in line with what would be expected given the difference in reserve requirements on a transaction account and the MMDA. As with the MMDA, thrifts apparently were offering higher rates than commercial banks on super NOWs in January.

The attractiveness of the super NOW for many depositors likely is limited by hefty service charges that many institutions are applying to the new account. Such fees can take the form of monthly maintenance charges that can be $20 or more (though are typically less), charges per transaction, or a combination of the two. In many cases, these service charges are waived if account balances are above some threshold

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1. Figures on table A-1 exclude credit union deposits; these institutions have only a small fraction of deposits classified as MMDAs.
2. It should be noted that in January there was quite a large difference in the growth rates of combined savings, small time deposits, and MMDAs at commercial banks and thrifts. Part of this difference could be due to commercial banks getting a large share of the large-denomination time deposits that may have been converted into MMDAs. However, it also is possible that commercial banks captured the bulk of the nondeposit funds that were shifted to MMDAs.

level, such as $5,000 or $10,000. Given the size of some of these service charges and the fact that individuals generally cannot deduct the fees for income tax purposes, it is possible that an ordinary NOW account with no fees would be preferred by many depositors.

As in the case of MMDAs, commercial banks account for most of the super NOW balances. However, the commercial bank share of super NOWs may be less than would be expected given the concentration of transaction balances at these institutions. As indicated in table A-2, the ratio of super NOWs to total OCD in the week of January 12 was only about 8 percent at banks, compared with 18 percent at thrift institutions. The proportion of OCD held in super NOWs also was quite different among thrift institutions. The rather high ratio for credit unions most likely reflects the ability of these institutions to offer ceiling-free share draft accounts even prior to the Depository Institutions Deregulation Committee's decision to authorize a super NOW. As a result, many credit unions already were paying more than 5-1/4 percent on transaction deposits and these balances automatically would be reported as super NOWs. Some of the growth in super NOWs at S&Ls, on the other hand, could be related to the relatively large volume of funds that these institutions maintained in sweep arrangements involving ordinary NOWs and retail RPs or money market mutual funds.[1] Reports from the Reserve Bank Contact Group indicate that some institutions did not plan to continue offering sweeps for transaction accounts, while some others were encouraging customers with sweep arrangements to convert to a super NOW.

1. The Federal Home Loan Bank Board estimates that funds in sweep arrangements linking NOW accounts to retail RPs or to money market funds amounted to about $5-1/2 billion in November, 1982. About $1 billion of the total was in NOW accounts and the remaining $4-1/2 billion primarily was in retail RPs.

Table A-1

Money Market Deposit Accounts
($ billions, weekly average,
not seasonally adjusted)

Date	Commercial banks	Thrift institutions	All institutions
1982 Dec. 15	4.6	4.2	8.8
22	35.5	23.5	59.0
29	54.2p	33.3p	87.5p
1983 Jan. 5	73.3p	46.7p	120.0p
12	97.5p	62.7p	160.2p
19	n.a.	n.a.	190.0p

n.a.--Not available.
p--preliminary.

MMDA Market Shares as of
the week of January 12, 1983[1]
(percent)

	Percent of total MMDAs	Percent of savings, small time, and MMDAs at CBs and thrifts	Percent of total deposits at CBs and thrifts
Commercial banks	60.9	48.9	65.1
Banks with deposits of:			
less than $100 million	11.5	15.8	16.1
$100 million to $500 million	13.1	11.4	13.2
$500 million to $1 billion	5.2	4.0	5.4
greater than $1 billion	31.1	17.7	30.3
Thrift institutions	38.7[2]	51.1	34.9
Thrifts with deposits of:			
less than $100 million	3.5	7.1	4.7
$100 million to $500 million	11.3	16.0	10.7
$500 million to $1 billion	5.7	7.4	5.0
greater than $1 billion	18.2	20.6	14.5

1. Excludes credit unions and foreign branches and agencies.
2. Credit unions are estimated to have accounted for .4 percent of MMDAs, which would bring the thrift share to 39.1 percent.

Table A-2

Super NOW Accounts[1]

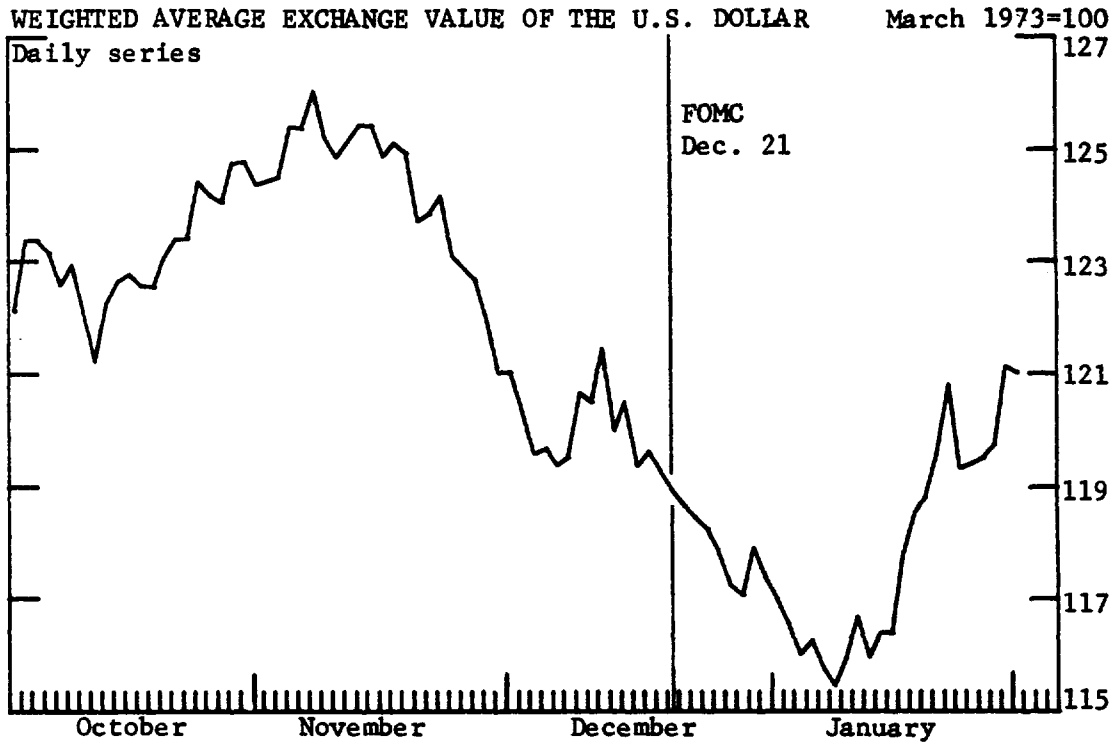
	Commercial banks	Thrift institutions				All institutions
		S&Ls	MSBs	CUs	Total	
Weekly average level ($ billions, NSA)						
1983-Jan. 12	6.8	2.6	0.4	1.9	4.9	11.7
19	n.a.	n.a.	n.a.	n.a.	n.a.	15.6
Percent of OCD[2]						
1983-Jan. 12	8.1	15.6	7.8	34.0	18.0	10.5
19	n.a.	n.a.	n.a.	n.a.	n.a.	14.1

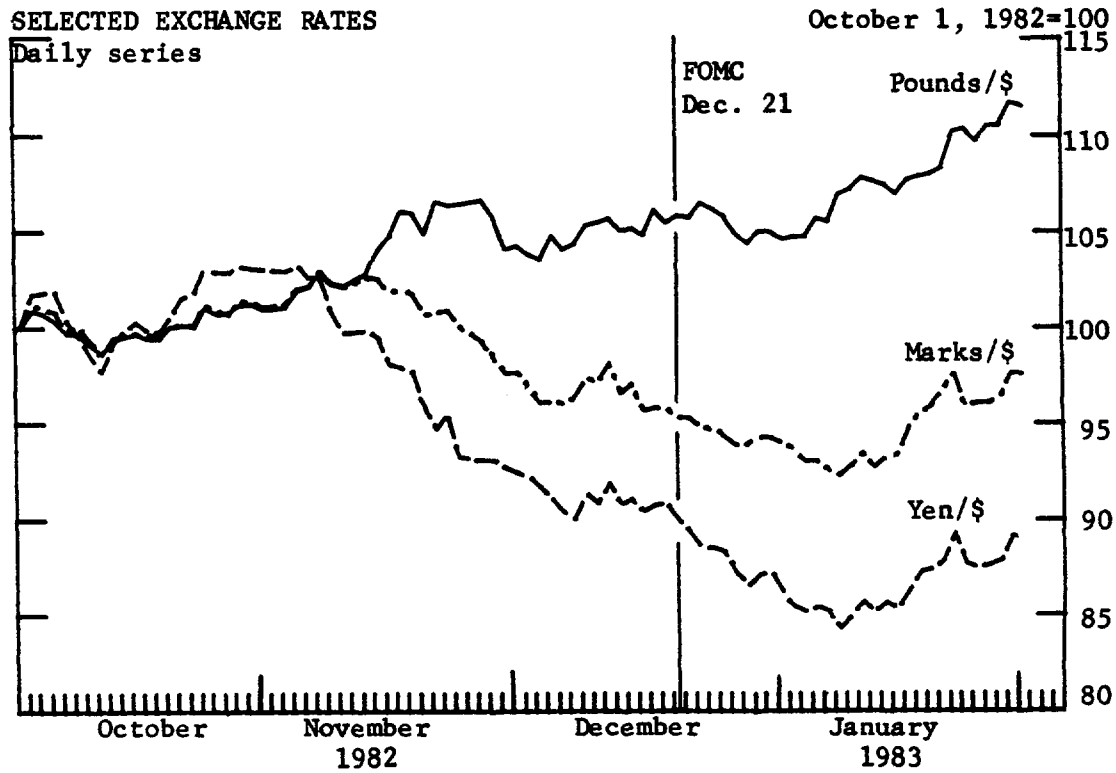
n.a.—not available.
1. All data are preliminary.
2. Thrift OCD are measured on a gross basis.

Foreign Exchange Markets

Since the December FOMC meeting the weighted average value of the dollar has appreciated by roughly 2-1/2 percent on balance, as shown by the chart on the next page. The dollar declined by several percent through early January to a trough 8-1/2 percent below its peak in early November. Most of the depreciation over that two-month period was attributed to upward revisions in market expectations about the size of prospective U.S. trade and current account deficits. By the beginning of January, however, market expectations that the Federal Reserve would allow monetary conditions to ease further appeared also to be contributing to the dollar's slide. During the second half of January the dollar appreciated by more than 5 percent as the absence of a discount rate reduction and the focus of attention on large prospective U.S. budget deficits led to a sharp rise in market perceptions of the probability that dollar interest rates would not decline further in the near term.

On a bilateral basis, the dollar has appreciated by more than 5 percent against the pound since the December FOMC meeting, while rising 3 percent against the mark and changing little on balance against the yen. Since early-November the dollar has declined by nearly 15 percent against the yen and 5 percent against the mark, while rising nearly 10 percent against the pound. The pound has been weakened by the failure of the OPEC countries to reach a production agreement that might have arrested the downward pressure on oil prices. Part of the recent weakening of the mark relative to the yen has been associated with a growing sense that


WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR
March 1973=100
Daily series
FOMC
Dec. 21
127
125
123
121
119
117
115
October
November
December
January


SELECTED EXCHANGE RATES
October 1, 1982=100
Daily series
FOMC
Dec. 21
Pounds/$
Marks/$
Yen/$
115
110
105
100
95
90
85
80
October
November
1982
December
January
1983

the German general elections on March 6 may not give a clear majority vote to the current conservative government.

Except in the United Kingdom, interest rates abroad have declined or remained steady since the December FOMC meeting. Official lending rates have been lowered by 1 percentage point in Sweden and 1/2 percentage point in the Netherlands. The depreciation of the mark and the yen against the dollar during the second half of January dampened market expectations of imminent reductions in the German and Japanese discount rates. The depreciation of the pound led the Bank of England to tighten monetary conditions, pushing sterling interest rates up by about 1 percentage point since mid-December. Gold prices have risen from around $440 an ounce in mid-December to around $500 an ounce at the beginning of February.

. The Irish pound has joined the Belgian franc at the bottom of the EMS, with both currencies presently trading around their lower intervention limits against the Netherlands guilder. The weakening of the Irish pound has been related to the decline of sterling, reflecting the close trading links between the Irish and British economies.

On January 26 the Treasury repaid at maturity the balance of its Swiss-franc denominated Carter notes. The remaining mark-denominated Carter notes will mature in May and July.

U.S. International Financial Transactions

Over the period from December to mid-January U.S. banking offices (including IBFs) have made net advances to their foreign offices of about $13 billion (see line 1a below), more than reversing the inflow in October and November. Over 75 percent of this large outflow was reported by U.S. chartered banks (line 1b below), and more than fifty percent of the total outflow of funds by U.S. chartered banks was attributable to the nine largest money center banks.

International Banking Data
(billions of dollars)
Monthly Averages 1/

	1980	1981	1982					1983
	Dec.	Dec.	Mar.	June	Sept	Nov.	Dec.	Jan. 4/
1. U.S. Offices' Banking Positions Vis-a-vis Own Foreign Offices								
(a) Total	6.5	9.2	10.7	16.6	5.9	10.7	8.1	-5.2
(b) U.S.-Chartered Banks	-15.2	-8.9	-2.8	2.8	-5.0	-1.8	-3.1	-13.5
(c) Foreign-Chartered Banks	21.7	18.1	13.5	13.8	10.9	12.6	11.2	8.3
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	15.7	15.7	16.2
(b) New York Banks Only	2.7	8.8	9.1	9.7	11.4	11.0	11.2	11.8
3. Eurodollar Holdings of U.S. Nonbank Residents 3/	60.8	93.6	104.1	116.0	111.5	116.5	p/ n.a	n.a.

1/ Average of Wednesdays, net due to own foreign office = (+)
2/ Daily Averages.
3/ End of month.
4/ Through January 19.
p/ Preliminary estimate based on reports by foreign branches of U.S. Banks.

Changes in the pattern of financial flows related to the introduction of the new money market deposit accounts (MMDAs) in mid-December probably are reflected in the recent outflow. Part of the flow was probably caused by investors directly or indirectly substituting these new accounts for part of their holdings of foreign branch Eurodollar liabilities (such as Eurodollar CDs), inducing U.S. banks to replace these funds at their foreign offices. Available data indicate that some indirect substitution has occurred: about one-fourth of the 13 percent decline in the assets of money market mutual funds over the period from December to mid-January reflected a $6.5 billion drop in their holdings of Eurodollar assets. In addition, although the new account does not appear to have been structured to be directly competitive with Eurodollar instruments, there may have been some direct shifts of Eurodollar deposits to MMDAs. In addition, several banks have indicated that they have placed the proceeds of MMDA related inflows in the Eurodollar interbank market. Such placements currently offer more attractive yields than domestic liquid assets such as Treasury securities or overnight Federal Funds. This increase in the use of the Euro-interbank market, after a period of noted hesitancy, may also reflect an increased concern at these banks about earnings rather than financial ratios, such as the return on assets.

Transactions on a balance of payments basis in U.S. official reserve assets (net of Carter Bonds) generated an increase of $6.8 billion in 1982, a slight decrease relative to 1981. Such increases in U.S. official reserve assets add to the Treasury's borrowing requirements from the public. During 1982 the rise in official reserve assets was primarily due to an increase of $2.6 billion in the U.S. reserve position at the I.M.F. and to a $2.8 billion increase in foreign currency holdings. Virtually, the entire increase in net transactions in foreign currency during 1982 reflected U.S. swap credits to Brazil and Mexico (see the line "Other" in the Table below).

U.S. Official Reserve
Assets 1/
(billions of dollars; increase in assets (+))

	Outstanding as of		Net Transactions in 1982 2/		
	Dec. 1981	Dec. 1982	1st Half	Q3	Q4
Total 3/	15.9	21.5	2.6	1.7	2.5
SDRs	4.1	5.1	.6	.4	.3
Reserve Position in the I.M.F.	5.1	7.3	1.4	.5	.7
Foreign Currency 3/	6.8	8.9	.6	.8	1.4
G10 + Switzerland 3/	6.8	6.8	.4	.2	.1
Other	-	2.1	.2	.6	1.3

1/ Excludes holdings of gold.
2/ Net flows on a balance-of-payments basis excluding valuation changes.
3/ Net of certain outstanding Treasury debt in foreign currencies (Carter Bonds).

In November private foreign net purchases of U.S. corporate stocks and bonds were only about $400 million (see lines 2a and 2b of the attached Table). These relatively small foreign net purchases perhaps reflected investor expectations that the dollar would weaken against other currencies, as occurred during November. However, U.S. Eurodollar bond issues were substantial in November and January. Over 60 percent of the dollar amount of such issues have been offered on a partial payment basis, enabling investors to take a position on U.S. dollar exchange rate and interest rate movements. Such issues usually specify that the investor pay a portion of the purchase price initially (from 15 to 25 percent) with the balance due in six months or more at the original purchase price and coupon. The issuer pays interest on the initial payment for the six month period only if the purchaser completes payment on the bond at the end of this period. News accounts have reported that Japanese investors have been particularly heavy buyers of these securities, perhaps because of the restrictions on their participation in trading in organized futures exchanges. Net proceeds of these issues in November and January amounted to $450 million with about $1.3 billion still to be raised if investors buy the rest of these issues. It is important to note that interest rates would hve to rise by a substantial amount relative to their current levels (i.e. 15 to 20 percent) for investors not to excersise the option of buying the remainder of a bond offered on a partial payment basis.

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

	1981	1981	1982			1982		
	Year	Q-4	Q-1	Q-2	Q3	Sept.	Oct.	Nov.
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	-13.1	-7.2	.7	8.3
a) with own foreign offices	-3.3	.8	6.9	-3.7	-10.1	-3.3	5.0	6.4
b) all other	-31.3	-20.8	-8.2	-10.9	-3.0	-3.9	-4.3	1.8
Securities								
2. Private securities transactions, net	1.4	-2.5	.8	2.1	-3.0	-1.7	-1.1	-.8
a) Foreign net purchases (+) of U.S. corp. bonds	2.1	.2	.6	1.7	-.1	-.2	.2	.1
b) Foreign net purchases (+) of U.S. corp. stocks	4.7	.2	.7	.8	.3	-.3	.3	.3
c) U.S. net purchases (-) of foreign securities	-5.5	-2.9	-.5	-.4	-3.2	-1.2	-1.6	-1.2
3. Foreign net purchases (+) of U.S. Treasury obligations 1/	2.5	1.1	1.3	2.0	1.0	1.7	3.4	.4
Official Capital								
4. Changes in foreign official reserve assets in U.S. (+ = increase)	5.1	8.1	-3.0	1.6	2.7	1.9	*	-2.4
a) By area								
G-10 countries and Switzerland	-10.8	.8	-6.8	-4.7	1.6	.1	-2.1	-2.6
OPEC	12.7	1.9	5.0	2.7	*	.2	.5	-.3
All other countries	3.3	5.4	-1.1	3.6	1.2	1.6	1.6	.5
b) By type								
U.S. Treasury securities	5.0	4.4	-1.3	-2.1	4.8	1.8	.1	-1.4
Other 2/	.1	3.7	-1.6	3.7	-2.1	.1	*	-1.1
5. Changes in U.S. official reserve assets (+ = decrease) 3/	-5.2	-.3	-1.1	-1.1	-.8	*	-1.0	-1.7
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	-8.7	-1.0	-0.1	2.6	1.0	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	21.3	9.3	1.2	2.8	2.3	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 4/ 5/	-12.0	-4.0	-4.0	-3.5	-0.4	n.a.	n.a.	n.a.
9. U.S. current account balance 5/	4.5	-0.9	1.1	2.2	-4.2	n.a.	n.a.	n.a.
10. Statistical Discrepancy 5/	25.8	9.5	5.0	5.9	14.5	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	-5.7	-12.5	-3.0	-5.4	-3.7

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

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

U.S. Merchandise Trade

In December, the U.S. merchandise trade deficit was smaller than in November or October, but for the quarter as a whole the deficit was nearly the same as the large third quarter deficit. In the fourth quarter both exports and imports declined moderately.

Only a small part of the export decline in the fourth quarter was in agricultural shipments. A pickup in corn exports (primarily to the U.S.S.R.) partly offset sharp declines in shipments of wheat and soybeans (to China and Japan respectively). Agricultural export prices turned up slightly in December. Most of the decline in the fourth quarter in nonagricultural exports was in response to sluggish economic

U.S.Merchandise Trade*

	Years		1 9 8 2				
	1981 Year	1982 Year	2Q	3Q	4Q	Nov.	Dec.
Value (Bil. $, SAAR)							
Exports	236.3	211.2	220.0	209.3	192.9	186.5	193.5
Agricultural	44.3	37.4	42.2	33.6	32.1	33.1	30.5
Nonagricultural	192.0	173.8	177.8	175.7	160.9	153.4	163.0
Imports	264.1	247.3	243.1	259.3	240.5	231.3	227.0
Oil	77.6	61.2	53.6	65.8	62.8	59.3	61.7
Nonoil	186.6	186.1	189.4	193.5	177.7	172.0	165.3
Trade Balance	-27.9	-36.1	-23.0	-50.0	-47.6	-44.8	-33.5
Volume (Bil. $, SAAR)							
Exports - Agric.	18.1	17.2	19.1	15.9	15.6	16.1	n.a.
- Nonagric.	70.5	60.8	62.2	62.0	56.5	53.9	n.a.
Imports - Oil	5.9	5.1	4.5	5.5	5.3	4.9	n.a.
Nonoil	71.9	71.8	72.6	75.4	69.5	68.1	n.a.

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

activity in major trading partner countries and the high exchange value of the dollar. Substantial declines have occurred in manufactured goods such as machinery, chemicals, aircraft, and automotive exports to Canada. By area, 35 percent of the decline in nonagricultural exports since mid-1982 was in shipments to Mexico; 42 percent of the change was to industrial countries, particularly Canada and Australia/New Zealand.

Oil imports declined marginally in the fourth quarter; in fact, in the second half of the year the volume of oil imports was 10 percent above the first-half rate. The increase appears to be largely refined products from Western Europe and Latin America (other than Mexico) which contributed to a small build-up in inventories. U.S. domestic oil consumption dropped markedly in the fourth quarter. Average import prices declined by about 25 cents per barrel in the fourth quarter.

	Years		1 9 8 2				
Oil Imports	1981 Year	1982 Year	2Q	3Q	4Q	Nov.	Dec.
Volume (mbd, SA)	6.25	5.37	4.82	5.78	5.56	5.21	5.20
Price ($/BBL)	34.00	31.23	30.53	31.23	30.98	31.20	30.82
Value (Bil$ SAAR)	77.6	61.2	53.6	65.8	62.8	59.3	61.7

The volume of nonoil imports declined sharply in the fourth quarter in response to declining U.S. economic activity, with decreases spread among most major commodity categories -- particularly industrial supplies (steel), machinery, automotive imports from Canada (and to a lesser extent from Japan and Europe), and consumer goods.

For the year 1982 as a whole, there was a distinct shift in the trade balance at mid-year; from quarterly deficits of less than $25 billion annual rate in the first two quarters, the deficits rose to about a $50 billion annual rate beginning in the third quarter. Exports dropped sharply in the second half of the year -- agricultural exports declined from relatively strong levels recorded during the past several years and nonagricultural exports continued declines begun in mid-1981. Imports, however, were only marginally higher in the second half of this year than in the first. There were several major influences on these trade developments. The decrease in exports reflected a decline in foreign demand for U.S. goods (a combined effect of slow economic growth abroad, loss of price competitiveness of U.S. goods because of the high exchange value of the dollar, and, in the case of U.S. grain, ample alternative supplies); in addition constrained financial conditions in some developing countries, i.e. Mexico, also held down exports. For imports, the effect of sluggish U.S. economic activity was partly offset by the increased price competitiveness of foreign goods.

Foreign Economic Developments. Real GNP in major foreign industrial countries declined on average in the third quarter of last year. Only one major country, Japan, recorded positive growth in that quarter. This weakness abroad continued into the fourth quarter with industrial production generally declining to November. The level of industrial production in November was below its year-earlier level in all countries. For some major countries, such as the United Kingdom, Canada and Germany, industrial production has fallen to levels not seen since 1975-76. The rate of unemployment abroad has risen further in the fourth quarter, reaching nearly 13 percent in December in Canada and the United Kingdom and about 9 percent in Germany, France and Italy.

While these data show continued weakness in the foreign economies, there have been some as yet tentative indications that activity could strengthen soon in several countries. Residential construction has been quite strong in Germany for about two quarters and more recently also in Canada. The volume of orders rose in November-December in Germany for the first time in a year. Survey results in Canada, France and Germany have recently shown less pessimism than previously by consumers as well as producers. In the United Kingdom the seasonally adjusted volume of retail sales rose strongly in December.

Despite weak economic activity, fiscal policy remains tight in most foreign countries as concerns over rising budget deficits limit anticyclical responses. Monetary policy, on the other hand, may be characterized as continuing to ease cautiously. Real interest rates abroad appear to have declined further in recent months to a level below a year ago in most countries.

In Japan, industrial production declined slightly in December after a strong gain in November. As a result, fourth-quarter production was below its third-quarter level. Wholesale price and consumer price indices have shown little tendency to rise and in some cases fell in the last quarter of 1982. Japan's exports rose slightly in December after an eight month decline to November. Imports fell strongly in December. As a result, Japan's trade surplus (s.a.) rose to $1.4 billion in December from $1.0 billion in November. The current account showed a surplus of $7.3 billion in 1982, compared to a surplus of $4.6 billion in the previous year.

The preliminary budget for fiscal 1983 has been announced by the new government formed by Prime Minister Nakasone Yasuhiro. Proposed nominal expenditures are only 1.4 percent larger than expenditures under the 1982 budget. This is the first Japanese budget since 1955 to plan a decline in real terms. It is most likely that government expenditures in 1983 will not be stimulatory. Monetary policy remains fairly restrictive. The monetary authorities continue to hew to the line of modest monetary growth and hestitate to undertake a reduction in the official discount rate despite an almost 13 percent appreciation of the yen against the dollar by the end of January over its November average value.

In Germany, third-quarter real GNP fell at an annual rate of over 5 percent, and preliminary reports, which put the year-over-year decline of 1982 GNP at 1.1 percent, imply a further decline in the fourth quarter. Industrial production continued to fall in December to a level 6 percent below the beginning of last year. The rate of

unemployment reached 8.5 percent (s.a.) in December, which represents about 2.1 million unemployed.

While these data leave no doubt about the severity of the current recession, there are some signs that the worst may be over. The volume of orders, having fallen steadily through October last year, rose strongly in November and December. Part of this rise is probably due to the end-of-year deadline for last year's investment credit program, and orders of investment goods indeed show the strongest gains. But other sectors, such as consumer goods and primary goods, especially in terms of foreign orders, have also shown strength. The latest survey findings judge the business climate less pessimistically than previously.

Consumer price inflation has declined by about 2 percentage points during 1982 with a year-over-year result of 5.3 percent. The marked slowdown of inflation toward the end of last year came just in time to provide a favorable input into this year's wage bargaining. Although no major contracts have yet been signed, indications are that an average outcome of below 4 percent may be expected. Last year's contractual wages rose by 4.3 percent.

Germany's current account, which was in deficit by $7.6 billion in 1981, showed a surplus of $2 billion last year. This $9.6 billion improvement is essentially to be found in the trade balance, which improved in volume terms as a lagged result of the past weakness of the D-mark and in unit value terms -- especially later during the year -- as the D-mark appreciated on an effective basis.

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The economic policy mix continues in its atypical constellation of an easing monetary policy and a very tight fiscal policy. The conservative government came to office with its fiscal agenda having a high priority and has used its probation period before the March 6 elections to legislate a host of cuts in social services. The Bundesbank. on the other hand, has continued its policy of cautious easing. Central Bank money grew by 6.2 percent between the fourth quarters of 1981 and 1982, which is in the upper half of the 4 to 7 percent target.

In Canada, the consumer price index was virtually unchanged in December and the average monthly change over the last six months of 1982 was under 1/2 percent, providing further evidence of sustained slowing in this measure. From a year earlier, the CPI was up 9.3 percent in December. More sensitive prices, such as industry selling prices and home prices, have been weak for some time, with year-over-year increases in November of, respectively, 4-1/2 percent and minus 3-1/2 percent.

Solid signs of economic recovery remain limited to the residential construction sector, with housing starts up markedly in both October and November. By contrast, industrial production, after falling sharply in October, rose only marginally in November to a level 19 percent below its most recent peak, reached in June 1981.

Announcement in early January of a record trade surplus for the first 11 months of 1982 of $13 billion -- a rate more than twice that of the previous two years -- contributed to upward pressure on the Canadian dollar. Along with lower interest rates in the United States, this allowed the Canadian authorities some leeway to reduce interest rates, and the bank rate fell to below 10 percent for the first time in four years.

French GDP fell 0.9 percent in the third quarter of 1982 but was still nearly one percent above the level it reached in the third quarter of 1981. The main source of strength was in the export sector which revived from a poor performance in the first half of the year. This reversal probably reflects an unwinding of previously delayed exports in anticipation of the June devaluation of the franc. Also, imports were down strongly. A decline in investment continued to weaken the French economy. Although industrial production in October and November was nearly 2-1/2 percent (s.a.) above the second quarter performance, it was below the level attained in the fourth quarter of 1982. Recent surveys indicate that stocks are approaching normal levels, but orders and overall demand remain weak. General production prospects, judging from survey results, appear improved.

After the June devaluation of the franc, the government instituted a price freeze which is being slowly lifted by industry-government negotiation. During the period of the freeze, mainly the third quarter, consumer prices rose by only 5.6 percent (a.r.), a considerable improvement over recent French experience. Although fourth-quarter inflation accelerated to 7.6 percent when the controls were loosened,

the French did manage to keep inflation to about 9-1/2 percent in 1982, below their 10 percent target. The 1983 target remains 8 percent.

The current account showed a deficit of $12-1/2 billion in 1982, though the rate of deficit declined in the third and fourth quarters from the record second-quarter rate.

The 1983 budget seeks to limit the deficit to 3 percent of GNP. Nevertheless, real expenditure will rise by over 4 percent while real revenue will increase only marginally. This spending increase is less than the 17 percent increase in 1982 and emphasizes investment and subsidies in contrast to last year's emphasis on consumption.

M2 growth is targeted to be 10 percent in 1983, a considerable reduction from the 12-1/2 to 13-1/2 percent range for 1982 which may be slightly surpassed. Credit controls are to be tightened while housing loans and exports will continue to be favored. Personal loans will be frozen at the 1982 level.

In the United Kingdom indicators of economic activity continue to be mixed, with the recovery that appears to have started at the end of 1981 still remaining very weak. Real GDP in the third quarter of 1982 was unchanged from its level in the second quarter, but was 1.1 percent above its year-earlier level at the trough of the recent recession. Retail sales (volume, s.a.) were exceptionally strong in December, reaching the second highest level ever. The index in the fourth quarter of 1982 was 4.5 percent above its year-earlier level. However, industrial production fell in November, as it had in October, and in those two months averaged 0.5 percent below its level for the comparable period in 1981. Unemployment rose further in December to 12. percent 7 (s.a.) from 12.5 percent in November.

Retail prices actually fell in December, producing an inflation rate over the previous twelve months of 5.4 percent. Consumer price inflation in the twelve months to December 1981 was 12 percent. The December 1982 rate was the lowest U.K. inflation rate for a twelve month interval in over a decade.

The U.K. current account was again in surplus in December. The 1982 total of $8 billion compares to a $12.9 billion surplus for 1981.

Italian economic activity remains depressed with little sign of an upturn. Industrial production in November was over 4 percent below its level of a year earlier. The official unemployment rate held steady at 9.2 percent in the last two quarters of 1982. Inflation, as measured by the consumer price index, abated somewhat last year, while wholesale price inflation slowed significantly. Most of the difference in the behavior of these two indices is explained by the sharp increases in indirect taxes last year. Industrial wages rose by 16-1/2 percent in the year ending in October, compared with a 24 percent rise in the year ending in October 1981. On January 24, the government announced a wage pact between the major labor unions and employer groups. The pact includes a 15 percent reduction in the cost of living payments made under the scala mobile.

The trade deficit in the first eleven months of last year was $11-1/2 billion, over $4 billion lower than the deficit of the previous year. Much of this improvement reflects the depreciation of the weighted average lira by 12-1/2 percent in 1981. Last year, the lira declined further by over 5 percent.

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

					1981			1982				1982			
		1980	1981	1982	Q2	Q3	Q4	Q1	Q2	Q3	Q4	SEP.	OCT.	NOV.	DEC.
CANADA	GNP	5	3.1	N.A.	1.6	-1.1	-.9	-2.2	-1.9	-1.0	N.A.	*	*	*	*
	IP	-1.7	1.7	N.A	3.0	-2.7	-4.4	-2.8	-2.7	-2.7	N.A.	-3.4	-3.6	3	N.A.
FRANCE:	GDP	1.1	1	N.A	1.3	.1	1.1	-.3	1.1	-.9	N.A.	*	*	*	*
	IP	-1.1	-2.3	N.A	5	.3	1.3	-2.5	1.3	-3.9	N.A.	1.6	1.6	.0	N.A.
GERMANY:	GNP	1.8	-.2	N.A	-.8	.7	2	-.4	-.3	-1.3	N.A.	*	*	*	*
	IP	-.1	-2.1	-2.6	-.3	.0	-1.2	1.3	-.9	-3.4	-1.9	-1.0	-1.9	0	-1.0
ITALY:	GDP	4.0	-.2	N.A.	-1.1	-1.7	2.6	1.2	-1.5	-3.0	N.A.	*	*	*	*
	IP	4.5	-2.4	N.A	1.5	-4.9	4.7	.8	-1.4	-7.6	N.A.	20.3	-3.9	3.0	N.A.
JAPAN:	GNP	4.8	3.9	N.A	1.2	.9	-.3	.4	1.9	6	N.A.	*	*	*	*
	IP	7.1	3.0	1.2	-.3	1.6	2.6	-.9	-1.7	1.7	-.6	1.2	-3.1	3.0	-.1
UNITED KINGDOM:	GDP	-2.4	-2.4	N.A.	-.7	-.3	1.0	.1	.1	.0	N.A.	*	*	*	*
	IP	-6.1	-5.1	N.A.	-.2	.6	.4	-.3	.4	.6	N.A.	.4	-.5	-1.2	N.A.
UNITED STATES:	GNP	-.4	1.9	-1.8	-.4	.5	-1.3	-1.3	.5	.2	-.6	*	*	*	*
	IP	-3.6	2.6	-8.1	.5	.3	-4.4	-3.1	-1.7	-.9	-2.2	-.8	-1.1	-.7	-.1

*GNP DATA ARE NOT PUBLISHED ON MONTHLY BASIS.

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

		1981		1982				1982			1983	MEMO: LATEST 3 MONTHS FROM YEAR AGO
		Q3	Q4	Q1	Q2	Q3	Q4	OCT.	NOV.	DEC.	JAN.	
CANADA:	CPI	3.0	2.5	2.5	3.1	2.2	1.6	.6	.7	.0	N.A.	9.7
	WPI	2.1	1.3	1.4	1.9	.8	.2	-.2	-.3	.4	N.A.	4.4
FRANCE:	CPI	3.9	3.2	2.8	3.1	1.4	1.9	.5	1.0	.9	N.A.	9.5
	WPI	4.1	2.3	2.7	2.6	1.9	.9	.1	.7	.2	N.A.	8.4
GERMANY:	CPI	1.2	1.2	1.5	1.4	1.1	.7	.3	.2	.2	.2	4.4
	WPI	2.1	1.8	1.8	1.3	.0	.0	.6	.2	-.6	N.A.	3.1
ITALY:	CPI	3.0	4.6	4.0	3.0	4.1	4.5	1.7	1.4	.7	N.A.	16.6
	WPI	3.5	4.0	3.3	2.0	3.2	N.A.	1.0	1.4	N.A.	N.A.	12.7
JAPAN:	CPI	.0	1.4	.3	1.1	.5	1.0	.3	-1.2	.1	.2	2.5
	WPI	1.4	-.1	.2	.2	.9	-.1	.2	-.3	-1.3	N.A.	1.3
UNITED KINGDOM:	CPI	1.7	2.5	1.7	3.2	.5	.7	.5	.5	-.2	N.A.	6.2
	WPI	2.1	2.3	2.2	1.7	1.6	2.0	.8	.5	1.0	N.A.	7.7
UNITED STATES:	CPI (SA)	2.8	1.9	.8	1.1	1.8	.6	.5	.1	-.3	N.A.	4.5
	WPI (SA)	1.1	1.2	.7	.2	1.6	1.0	.5	.6	.1	N.A.	3.6

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

				1981		1982				1982		
		1981	1982	Q3	Q4	Q1	Q2	Q3	Q4	OCT.	NOV.	DEC.
CANADA:	TRADE	5.3	N.A.	.7	2.3	2.9	3.7	3.7	N.A.	1.4	1.3	N.A.
	CURRENT ACCOUNT	-4.4	N.A.	-1.9	-.2	-.1	.4	.8	N.A.	*	*	*
FRANCE:	TRADE+	-9.4	-14.0	-1.9	-3.1	-2.8	-4.2	-4.3	-2.7	-.9	-1.0	-.9
	CURRENT ACCOUNT+	-4.7	-12.4	-1.4	-2.0	-2.0	-4.4	-3.7	-2.3	*	*	*
GERMANY:	TRADE	11.9	N.A.	3.1	5.5	5.0	5.3	5.2	N.A.	1.1	1.8	N.A.
	CURRENT ACCOUNT (NSA)	-7.6	2.0	-4.9	4.1	-.8	.6	-2.0	4.2	.3	1.8	2.2
ITALY:	TRADE	-16.0	N.A.	-4.0	-2.5	-6.0	-1.8	-2.5	N.A.	-.4	-.8	N.A.
	CURRENT ACCOUNT (NSA)	-8.7	N.A.	.3	-.9	-3.7	N.A.	N.A.	N.A.	*	*	*
JAPAN:	TRADE+	20.1	18.8	6.3	5.0	4.4	5.3	5.1	4.0	1.6	1.0	1.4
	CURRENT ACCOUNT	4.6	7.3	2.5	1.1	.9	2.5	2.2	1.6	1.0	-.1	.7
UNITED KINGDOM:	TRADE	6.6	3.6	-.6	.9	.6	.2	.7	N.A.	.4	.8	1.0
	CURRENT ACCOUNT+	12.9	8.0	.4	2.8	1.4	1.6	1.7	3.3	.8	1.1	1.3
UNITED STATES:	TRADE	-27.9	-36.0	-7.8	-9.2	-5.9	-5.7	-12.5	-11.9	-5.4	-3.7	-2.8
	CURRENT ACCOUNT	4.5	N.A.	.8	-.9	1.1	2.2	-4.2	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.

In early January the Fanfani government proposed an austerity package designed to keep the budget deficit at 70 trillion lire, or 15 percent of GNP. Passage of this budget is likely to be difficult. In a separate move, the government proposed a one-year emergency loan of 8 trillion lire at a 5-1/2 percent rate of interest from the Bank of Italy to the Treasury. The Treasury has been unable to sell enough securities in recent months at current interest rates to finance its deficit.

Update on Major Debt Situations

The IMF Executive Board approved on December 23 a three-year $3.9 billion Extended Fund Facility (EFF) arrangement for Mexico. One-third of the amount is to be disbursed each year, subject to performance on the agreed stabilization program. Since mid-December, the Mexican government has introduced a dual exchange rate system, with flexibility in both rates, eliminated most price controls, increased interest rates on bank deposits, though they remain negative in real terms, and raised the minimum wage by 25 percent, substantially less than the 100 percent rate of inflation in 1982 or the prospective rate for 1983. The new minimum wage is to apply only until mid-year. To gain acceptance of such moderate wage increase, the authorities granted some tax concessions for the lower income groups and postponed expected increases in the heavily subsidized urban transport fares.

One of the two exchange rates, which applies mainly to trade and to the servicing of the external public debt, was initially set at 95 pesos per dollar, replacing the two fixed rates of 50 and 70 pesos per dollar in effect since September 1. This rate is being depreciated daily at an annual rate of 50 percent. The other exchange rate, which is nominally

"free", was initially set at 148.5 (buying)-150.0 (selling) pesos per dollar. This rate has been appreciated three times by small amounts. Since January 24, it has been held at 147.9-149.4 pesos per dollar.

Efforts to raise $5 billion in loans from foreign banks are continuing, with about $4.7 billion committed to date. The plan to capitalize and convert to public sector debt private sector interest payments due to foreign banks accruing between August 1, 1982, and January 31, 1983, has been put in motion. But preliminary indications are that only about half of the estimated $1.3 billion in overdue interest potentially eligible has qualified for the plan, as debtors had difficulty coming up with the required peso deposits. Mexico has taken steps to promote the restructuring of private sector external debts along lines that would parallel the proposed restructuring of the public sector debt. The request for a restructuring of the public sector external debt owed to foreign banks remains pending.

On January 24 the IMF Executive Board approved a $1.65 billion 14-month standby arrangement for Argentina and a separate drawing of about $555 million on the Compensatory Financing Facility for export shortfalls (CFF). Under an agreement reached with the committee of banks, international banks have begun making disbursements to Argentina under a $1.1 billion bridging loan and are close to an agreement on $1.5 billion in new medium-term credits. Argentina and the bank committee have also reached agreement in principle on refinancing or rescheduling by June 30, 1983, $4.5-$5.5 billion in public and publicly-guaranteed short and long-term debt coming due in 1983. On January 27, the BIS also

announced the conclusion of a $500 million bridging loan to the central bank backed by a number of BIS members and the U.S. monetary authorities.

Brazil received $550 million from the IMF under a CFF in December 1982. Negotiations on a $5 billion EFF program and on a request for $660 million from the CFF and buffer stock facilities are likely to result in initial disbursements in February or March of 1983. Brazil in the fourth quarter of 1982 obtained $2.3 billion in bridge loans with an average maturity of 90 days from several commercial banks. The Brazilians have advanced four proposals to meet their projected financial needs for 1983. The key elements are a request for: $4.4 billion in new funding, rollover into long-term credits of $4 billion in amortization payments on medium-term debt due in 1983, maintenance of $8.8 billion trade credits, and restoration of money market lines to Brazilian banks to the level outstanding on June 30, 1982. A recent $1.23 billion official short-term borrowing from the United States has been disbursed and $780 million repaid. In addition, a $1.45 billion loan was made available to Brazil through the BIS, including $250 million from Saudi Arabia.

Chile's request for a $535 million 2-year standby arrangement was approved by the IMF Executive Board on January 10, 1983. Also approved was a separate drawing of about $315 million under the CFF. Chilean authorities have also asked a group of private foreign commercial banks, including both U.S. and non U.S. banks, for a 90 day suspension of repayment on principal of medium- and long-term debt, continued rollover of short-term debt, a rescheduling of as much as $3.8 billion in payments falling due on public and private debt in 1983 and 1984 and $1 billion in new medium-term credits. A large portion of the debt to be rescheduled

is payable by private Chilean banks that are experiencing a severe liquidity crisis. In mid-January, the Chilean authorities felt compelled to take action with respect to 10 domestic banks, accounting for half the assets of the Chilean banking system and about $4 billion in external loans. Three of the affected banks were liquidated, five are under temporary government management, and two are under continuous government surveillance.

Venezuela has suffered a setback in its program, which began last October, to refinance $8.8 billion in short-term government debt. In January, one of the state agencies was late in making several payments on debt which it holds or guarantees, leading to a legal action and the withdrawal of several banks from participation in one of the refinancing loans. Short-term debt of $3 billion had been scheduled for refinancing in the first quarter of 1983, about half in January. The Finance Minister has indicated that the central government will make the payments for the agency. Recent weakness in the oil market increases Venezuela's difficulties in refinancing the short-term debt. The Finance Minister has indicated that IMF assistance might be sought if the refinancing effort falls short; he plans to visit New York banks to discuss the refinancing problems and arrange for a team of advisors from major banks.