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Confidential (FR) Class II FOMC

December 14, 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	Nov.	12-02-83	112.0	2.4	-.8	.9
Unemployment rate (%) 1/	Nov.	12-02-83	8.4	8.8	9.5	10.7
Insured unemployment rate (%) 1/	Oct.	12-12-83	3.3	3.4	3.6	5.3
Nonfarm employment, payroll (mil.)	Nov.	12-02-83	91.4	4.9	7.5	3.0
Manufacturing	Nov.	12-02-83	19.2	7.2	8.1	5.2
Nonmanufacturing	Nov.	12-02-83	72.3	4.3	7.3	2.4
Private nonfarm:						
Average weekly hours (hr.) 1/	Nov.	12-02-83	35.2	35.3	35.0	34.7
Hourly earnings ($) 1/	Nov.	12-02-83	8.11	8.12	7.98	7.78
Manufacturing:						
Average weekly hours (hr.) 1/	Nov.	12-02-83	40.5	40.6	40.3	39.0
Unit labor cost (1967=100)	Oct.	11-30-83	88.8	-10.7	-12.2	-10.6
Industrial production (1967=100)	Oct.	11-15-83	154.8	9.4	13.6	14.1
Consumer goods	Oct.	11-15-83	158.2	3.0	8.8	11.3
Business equipment	Oct.	11-15-83	162.3	26.4	23.5	10.3
Defense & space equipment	Oct.	11-15-83	123.5	14.8	10.3	10.4
Materials	Oct.	11-15-83	153.0	10.3	14.1	17.7
Consumer prices all items (1967=100)	Oct.	11-23-83	302.7	5.2	5.4	2.9
All items, excluding food & energy	Oct.	11-23-83	291.4	6.2	5.8	3.8
Food	Oct.	11-23-83	293.9	5.7	4.0	2.0
Producer prices: (1967=100)						
Finished goods	Oct.	11-10-83	287.8	3.8	3.5	1.4
Intermediate materials, nonfood	Oct.	11-10-83	321.5	4.5	5.2	1.5
Crude foodstuffs & feedstuffs	Oct.	11-10-83	255.2	2.8	17.3	7.7
Personal income ($ bil.) 2/	Oct.	11-21-83	2,818.9	14.1	10.5	7.7
				(Not at annual rates)		
Mfgrs. new orders dur. goods ($ bil.)	Oct.	12-02-83	93.8	3.1	6.3	32.6
Capital goods industries	Oct.	12-02-83	32.2	6.7	12.9	24.9
Nondefense	Oct.	12-02-83	5.6	14.1	-18.2	.4
Defense	Oct.	12-02-83	26.5	5.2	22.9	31.8
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Oct.	12-14-83	1.35	1.35	1.36	1.54
Manufacturing	Oct.	12-02-83	1.48	1.46	1.50	1.76
Trade	Oct.	12-08-83	1.24	1.26	1.24	1.36
Ratio: Mfgrs.' durable goods inventories to unfilled orders 1/	Oct.	12-02-83	.537	.546	.551	.617
Retail sales, total ($ bil.)	Nov.	12-13-83	102.5	1.9	4.8	10.8
GAF 3/	Nov.	12-13-83	21.3	1.6	3.1	10.4
Auto sales, total (mil. units.) 2/	Nov.	12-05-83	9.7	-1.0	8.1	2.2
Domestic models	Nov.	12-05-83	7.0	-1.1	6.1	2.8
Foreign models	Nov.	12-05-83	2.6	-.8	13.8	.5
Plant & Equipment expen. ($ bil.) 4/						
Total nonfarm business	1983	12-06-83	303.20	- -	- -	-4.2
Manufacturing	1983	12-06-83	111.18	- -	- -	-7.1
Nonmanufacturing	1983	12-06-83	192.01	- -	- -	-2.4
Capital Appropriations, Mfg	1983-Q3	12-09-83	22,587	9.5	- -	22.5
Housing starts, private (thous.) 2/	Oct.	11-17-83	1,608	-3.8	-10.9	40.8
Leading indicators (1967=100)	Oct.	11-30-83	161.8	.8	2.3	16.7

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned-Commerce October and November 1983 Survey.

Economic activity has continued to expand strongly in the fourth quarter, although less rapidly than in the spring and summer. Industrial production and employment posted further gains in November, and the unemployment rate fell to its lowest level in two years. Retail sales rose briskly in October and November, and investment spending is still trending up; housing activity, however, has slipped back in recent months. Recent price advances have been larger than the exceptionally small increases recorded early in the year.

Industrial Production

Industrial production increased 0.8 percent in November, the same as the October advance. Output of business equipment and materials continued to rise rapidly in November. However, production of consumer goods was up only slightly last month, as output of home goods (mainly appliances) declined and auto assemblies, at a 7.5 million unit annual rate, were unchanged from October. Output of construction supplies also was little changed from the October level. With data now available through November, it appears that industrial production for the fourth quarter as a whole is rising almost two-thirds as fast as in the two preceding quarters.

The capacity utilization rate for manufacturing rose to 78.9 percent in October and increased about 1/2 percentage point further in November. The utilization rate has risen about 10 percentage points from the recession low of last November, but is still below the 1967-82 average. An exception to the general pattern is the paper industry, in which capacity utilization rates are already close to their pre-recession peaks. Rates in the electrical machinery industry also are above their longer-run averages.

Employment and Unemployment

Nonfarm payroll employment rose another 370,000 in November; the advance was spread across most sectors, with particularly large increases in manufacturing and services. Since the cyclical trough late last year, employment growth rates in both the nonfarm sector as a whole and in manufacturing have been close to the average for the first year of previous postwar recoveries.

In manufacturing, the recent data show that firms, in boosting output, are beginning to rely somewhat more heavily on increased hiring or rehiring and less on lengthened work schedules. Employment gains in manufacturing averaged about 150,000 in the past two months, more than in most previous months of the recovery; the factory workweek, meanwhile, has edged down in each of the past two months, retracing a bit of its earlier steep climb. These patterns of change in hours and employment are fairly common as the economy moves beyond its initial recovery phase and as firms become more convinced that sales gains are likely to be sustained.

As measured by the household survey, employment increased 740,000 in November after showing little change in October, and the unemployment rate dropped another 0.4 percentage point to 8.4 percent--nearly 2-1/2 percentage points below its peak of last December. So far, the strengthening

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

			1983					
	1981	1982	Q1	Q2	Q3	Sept.	Oct.	Nov.
	-Average monthly changes-							
Nonfarm payroll employment[2]	-6	-172	50	343	336	1103	204	370
Strike adjusted	-7	-170	52	340	344	425	217	344
Manufacturing	-40	-127	25	105	96	78	189	114
Durable	-33	-99	19	76	79	59	150	81
Nondurable	-8	-28	5	29	17	19	39	33
Construction	-21	-20	-19	59	35	24	23	38
Trade	8	-18	31	48	39	32	44	9
Finance and services	59	31	55	124	98	89	64	167
Total government	-25	-13	-11	-1	47	187	-122	51
Private nonfarm production workers	-7	-146	42	327	245	856	290	246
Manufacturing production workers	-47	-108	27	97	81	56	184	107
Total employment[3]	2	-49	3	561	386	382	-17	743
Nonagricultural	25	-65	16	512	464	581	71	714

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

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

			1983					
	1981	1982	Q1	Q2	Q3	Sept.	Oct.	Nov.
Civilian, 16 years and older	7.6	9.7	10.4	10.1	9.4	9.3	8.8	8.4
Teenagers	19.6	23.2	22.8	23.3	22.5	21.8	21.6	19.9
20-24 years old	12.2	14.8	15.9	15.1	14.0	13.8	13.7	12.9
Men, 25 years and older	5.1	7.5	8.4	8.2	7.6	7.6	7.0	6.7
Women, 25 years and older	5.9	7.3	7.8	7.6	7.0	6.8	6.4	6.1
White	6.7	8.6	9.1	8.8	8.2	8.1	7.7	7.3
Black	15.6	18.9	20.1	20.7	19.5	19.0	18.1	17.3
Fulltime workers	7.3	9.6	10.3	9.9	9.3	9.2	8.7	8.2
Memo:								
Total national[1]	7.5	9.5	10.2	10.0	9.3	9.1	8.7	8.2

1. Includes resident Armed Forces as employed.

of labor demand in this recovery has not prompted a major influx of new jobseekers to the labor force; indeed, the labor force participation rate in November was slightly below its year-earlier level. Consequently, the rise in employment this year has been accompanied by a rapid decline in the number of unemployed workers, with jobless rates down sharply for almost all worker groups.

Consumer Spending and Personal Income

The growth in consumer spending, which slowed during the summer, has shown renewed vigor recently. Retail sales rose 1.9 percent in November, following increases of 1.4 percent in each of the two previous months. Most major types of stores contributed to the November advance; outlays for largely discretionary items such as general merchandise and apparel were particularly strong. November sales for the GAF grouping--general merchandise, apparel, and furniture and appliances--were about 3-1/2 percent above the third-quarter average.

Total auto sales were at a 9.7 million unit annual rate in November, little changed from October but about a half million units above the third-quarter selling pace. Sales of domestic units, at just over a 7 million unit rate in the past two months, were up only slightly from the third-quarter average; however, sales of imported cars in October and November averaged more than 2.6 million units at an annual rate, the strongest selling pace since early 1981. Sales of Japanese cars in November fell back somewhat from the October level, with the decline about offset by a substantial increase in European car sales. Since the beginning of the Japanese quota year in April, the sales rate of Japanese cars has been

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

	1983						
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Total sales	.3	5.9	1.2	-1.7	1.4	1.4	1.9
(Real)[1]	.3	4.9	.3	-2.1	1.2	1.1	--
Total, less automotive group, nonconsumer stores, and gasoline stations	1.3	2.9	2.0	.1	.7	.9	1.2
GAF[2]	1.2	4.2	1.1	.0	.4	1.1	1.6
Durable	.4	12.4	.1	5.1	4.0	3.0	4.0
Automotive Group	-2.6	17.6	-2.2	-9.1	6.2	3.8	5.4
Furniture & appliances	3.2	4.0	4.3	1.0	.0	.9	-1.9
Nondurable	.3	3.0	1.7	-.1	.3	.6	.9
Apparel	-.4	7.2	-2.4	-1.3	-.2	2.5	1.8
Food	-.3	2.6	1.8	-.7	.2	.4	.6
General merchandise[3]	1.2	3.1	1.4	.2	.7	.6	2.8
Gasoline stations	-4.3	3.8	3.2	1.3	-1.1	.0	-.5

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

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

	1983						
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Total	8.5	9.1	9.2	9.0	8.9	9.8	9.7
Imports	2.4	2.3	2.3	2.3	2.1	2.7	2.6
Domestic	6.1	6.8	6.9	6.6	6.9	7.1	7.0
Small	2.5	3.0	2.8	2.6	2.7	2.9	3.2
Intermediate & standard	3.6	3.9	4.1	4.1	4.2	4.3	3.9

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

running ahead of Japan's annual limitation on exports to the United States, implying a future slowing of such sales.

Growth in nominal personal income was well maintained in October, at about a 14 percent annual rate. A rapid advance in wages and salaries partly reflected an increase in payrolls associated with the ending of the telephone strike; however, even adjusting for strike effects, the October rise in private payrolls was slightly greater than in most recent months. Real disposable income rose about 5 percent from October 1982 to October 1983; in contrast, gains in real income over the three previous years had averaged only 1-1/4 percent per year. Growth in nominal private wages and salaries appears to have slowed in November, as a small decline in the average workweek and unchanged hourly earnings offset the continued growth in employment.

Consumers continue to report optimistic views of their own financial situations and of the economy in general, according to November surveys conducted by the Michigan Survey Research Center and the Conference Board. The latest figures show that consumer confidence remains in the same high range reported since last spring; measures of consumer spending intentions, though down slightly from a few months ago, remain at favorable levels. The Michigan survey also indicates that consumers expect prices to rise 5.2 percent over the next 12 months, in line with the October survey but up about 1/2 percentage point from the expectations expressed around midyear.

PERSONAL INCOME AND EXPENDITURES
(Based on seasonally adjusted data)

	1981	1982	1983 Q1	1983 Q2	1983 Q3	1983 Aug.	1983 Sept.	1983 Oct.
	--- Percentage changes at annual rates[1] ---							
Total Personal Income								
Nominal	11.1	4.6	4.0	8.7	7.5	4.2	12.8	14.1
Real[2]	3.3	-.3	1.8	3.8	3.6	-1.5	8.4	9.1[e]
Disposable Personal Income								
Nominal	11.1	5.1	5.1	8.2	11.2	3.2	13.4	13.9
Real	3.4	.2	2.9	3.5	7.2	-2.5	9.0	8.8[e]
Expenditures								
Nominal	9.3	7.5	5.2	15.1	6.9	-1.3	15.8	6.4
Real	1.7	2.5	2.9	10.0	3.0	-6.8	11.4	1.4[e]
	--- Changes in billions of dollars[3] ---							
Total personal income	18.9	10.6	8.4	20.8	17.8	9.5	29.5	32.8
Wages and salaries	8.8	5.1	8.3	14.7	10.4	7.0	11.5	20.0
Private	7.0	3.4	6.9	13.3	8.9	2.0	13.4	18.7
Manufacturing	1.0	-.6	3.7	4.4	3.9	2.7	4.5	2.6
Other income	11.3	6.0	1.3	7.0	8.0	2.7	18.8	14.0
Disposable personal income	15.8	10.0	9.1	15.3	23.5	6.2	26.4	27.6
Expenditures	12.8	12.0	8.2	26.7	12.1	-2.3	28.6	11.7
Durables	.5	2.5	-.5	8.2	1.4	-8.9	10.0	5.4
Nondurables	4.1	1.9	2.1	9.2	3.2	-.7	4.2	3.1
Services	8.2	7.6	6.6	9.4	7.6	7.3	14.5	3.2
Personal saving rate (percent)	6.6	5.8	5.4	4.0	4.9	5.1	4.9	5.5

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. Total personal income is deflated by the personal consumption expenditure deflator.
3. 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.
e--staff estimate

Business Fixed Investment

Although some indicators of current investment spending weakened in October, the cumulative data of recent months still point to a strong uptrend in capital spending in the near-term.

In the equipment sector, new orders for nondefense capital goods recorded strong gains in September and October, and the backlog of unfilled orders rose sharply in both months. Shipments of nondefense capital goods fell 3 percent in October to a level just a little above the third-quarter average; however, in light of the continued strength in new orders, the drop in shipments is probably transitory. Sales of heavy trucks rebounded in October to a level slightly above their third-quarter average.

Spending for nonresidential construction fell 2 percent in October, reversing the previous month's gain. The decline was concentrated in industrial building, which fell 20 percent; spending for other types of construction was little changed from September. After falling significantly through the first half of the year, nonresidential construction has stabilized since June, and an uptrend in permits for new private nonresidential buildings in the past two quarters portends some support for construction activity in coming months. Two investment sectors that had remained weak in the early stages of the recovery--oil drilling and nonoffice commercial building--have both strengthened significantly in recent months.

The most recent Commerce Department survey of capital spending anticipations indicates that nonfarm businesses plan to increase nominal outlays for plant and equipment at a 7 percent annual rate in the first

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

	1983					
	Q1	Q2	Q3	Aug.	Sept.	Oct.
Producers' durable equipment						
Nondefense capital goods						
Shipments	.0	5.3	2.2	.0	5.0	-2.9
Excluding aircraft & parts	.3	6.1	4.6	-2.7	6.4	-1.6
Orders	-.1	15.7	1.0	6.7	9.5	5.2
Excluding aircraft & parts	2.5	12.1	5.2	2.7	14.5	-2.3
Unfilled orders	-3.5	1.5	.8	.4	1.3	2.9
Excluding aircraft & parts	-2.4	1.7	2.2	.5	2.6	2.3
Addendum:						
Sales of heavy-weight trucks (thousands of units, annual rate)	173	180	181	204	155	184
Nonresidential structures						
Nonresidential construction	-4.6	-2.5	2.5	.9	2.0	-2.2
Nonresidential building permits	-2.4	17.9	11.4	1.9	10.4	-7.0

half of 1984, about half the pace planned for the second half of this year. The Commerce Department results are slightly weaker than the spending intentions implied in private surveys conducted earlier this fall; the November Commerce survey, however, usually has not been a very reliable indicator of actual investment outlays.

Inventory Investment

After an unusually long period of liquidation, nonfarm businesses expanded inventories somewhat in the third quarter, and further inventory accumulation has been evident in the current quarter. Nevertheless, the rise in inventories has been generally in line with shipments, and inventory-sales ratios in most industries have remained stable in recent months, at or below their pre-recession levels. Compared with other postwar business cycles, the liquidation of stocks persisted longer into the expansion phase of the current cycle, and thus far, the rebuilding of stocks has not proceeded as rapidly as in most previous recoveries.

In the manufacturing sector, producers reduced the constant dollar value of their inventories more than 7 percent from mid-1981 to mid-1983, and the rebuilding of stocks during the third quarter retraced less than one-tenth of that liquidation. Real inventories probably remained quite lean through the end of October, as the book value of factory stocks was up at only a $4-1/2 billion annual rate.

In the trade sector, recent inventory movements have been roughly in line with sales, and overall inventory-sales ratios have remained at levels near their prerecession lows. Although the number of cars held

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

	1981	1982	1983 Q1	1983 Q2	1983 Q3	1983 Aug.	1983 Sept.r	1983 Oct.p
Book value basis								
Total	33.3	-14.2	-34.9	9.2	33.4	55.2	41.4	26.0
Manufacturing	18.2	-17.4	-30.4	.3	10.5	19.9	2.2	4.6
Wholesale trade	4.6	1.8	-8.8	-3.8	11.1	12.8	19.2	24.8
Retail trade	10.4	1.4	4.3	12.7	11.8	22.5	20.0	-3.3
Automotive	2.1	.1	1.5	2.7	5.9	10.1	17.5	.5
Constant dollar basis								
Total	5.3	-8.2	-14.5	-2.1	8.9	12.9	14.9	--
Manufacturing	2.0	-8.4	-12.3	-0.8	3.1	4.4	4.2	--
Wholesale trade	.9	.6	-5.3	-2.9	2.3	2.8	1.3	--
Retail trade	2.4	-.5	3.1	1.7	3.5	5.7	9.4	--
Automotive	-.2	-.4	.2	-1.6	2.2	.6	10.1	--

INVENTORIES RELATIVE TO SALES[1]

	Cyclical Reference points[2] 1981 Low	Cyclical Reference points[2] 1982 High	1983 Q1	1983 Q2	1983 Q3	1983 Aug.	1983 Sept.r	1983 Oct.p
Book value basis								
Total	1.42	1.54	1.46	1.39	1.37	1.36	1.35	1.35
Manufacturing	1.59	1.78	1.61	1.53	1.48	1.48	1.46	1.48
Wholesale trade	1.07	1.31	1.25	1.19	1.17	1.16	1.15	1.15
Retail trade	1.37	1.45	1.40	1.36	1.37	1.37	1.37	1.34
Automotive	1.61	1.92	1.66	1.45	1.57	1.56	1.56	1.49
Ex. Auto	1.30	1.37	1.35	1.33	1.32	1.33	1.32	1.31
Constant dollar basis								
Total	1.62	1.77	1.66	1.60	1.57	1.57	1.56	--
Manufacturing	1.92	2.14	1.93	1.84	1.80	1.79	1.78	--
Wholesale trade	1.35	1.56	1.48	1.42	1.40	1.40	1.39	--
Retail trade	1.33	1.45	1.40	1.36	1.36	1.36	1.36	--
Automotive	1.44	1.79	1.50	1.34	1.37	1.33	1.35	--
Ex. Auto	1.27	1.38	1.37	1.36	1.36	1.36	1.36	--

1. Ratio of end-of-period inventories to average sales for the period.
2. Highs and lows are specific to each series and are not necessarily coincident.
r--revised estimates.
p--preliminary estimates.

by auto dealers has been rising since midyear, total dealer stocks at the end of November are not excessive, and inventories of the larger, currently more popular models were still relatively low. Nonauto trade establishments appeared to be well stocked, a situation consistent with the reportedly high sales expectations. In October, total nonauto trade inventories rose at an annual rate of $21.5 billion in book value terms, as a sharp accumulation in wholesale stocks was partially offset by a drawdown in nonauto retail inventories.

Housing Markets

Housing activity has weakened in recent months. Total private housing starts fell 4 percent during October to a 1.6 million unit annual rate--down from a 1.8 million unit average for the third quarter. Starts of single-family units in October were at the lowest rate since early 1983, and multifamily starts in the past two months have been down considerably from the exceptionally high levels of the summer. However, there are indications that activity may be stabilizing around the current, lower level; in particular, issuance of building permits firmed in October, and new homes sales have increased in each of the past two months.

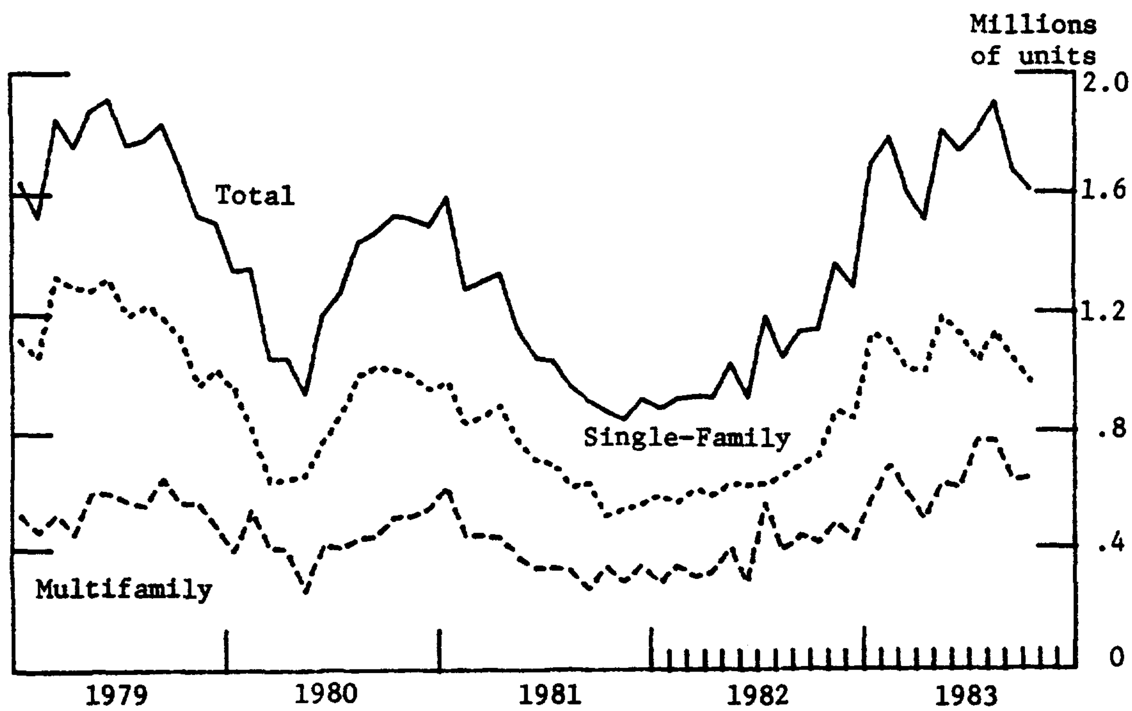
Despite the recent downturn in new construction and the persistence of high real interest rates, housing activity still is well above the depressed levels of 1982. This strength can be attributed in part to the availability of mortgage credit below the market rate for long-term home loans; heavy issuance of mortgage revenue bonds has provided many home buyers with subsidized credit, and "creative-financing" techniques designed to reduce monthly payments are still common in real estate markets.

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

	1982	1983 Q1	1983 Q2	1983 Q3	1983 Sept.	1983 Oct.[1]
All units						
Permits	1.00	1.46	1.64	1.65	1.51	1.57
Starts	1.06	1.69	1.68	1.79	1.67	1.61
Single-family units						
Permits	.55	.85	.93	.88	.84	.87
Starts	.66	1.08	1.10	1.07	1.04	.96
Sales						
New homes	.41	.61	.65	.59	.61	.66
Existing homes	1.99	2.58	2.86	2.74	2.72	2.59
Multifamily units						
Permits	.45	.61	.71	.77	.67	.70
Starts	.40	.62	.58	.73	.63	.64
Mobile home shipments	.24	.28	.30	.30	.30	--

1. Preliminary estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rates)



In addition, the increased use of adjustable rate mortgages--now typically discounted up to nearly 200 basis points over comparable fixed-rate credit--also has helped to contain initial mortgage costs for many homebuyers.

Government Spending--Federal, State, and Local

Because of slower growth in outlays and stronger growth in receipts, federal budget deficits in September and October were slightly below year-earlier levels. Spending for unemployment insurance and other income support programs has slowed substantially during the recovery, and CCC inventory accumulation has been curtailed by reductions in farm output and increases in farm crop prices. Defense spending, which had been expected to grow very rapidly this year, has risen only slightly faster than outlays in general. In contrast, spending has risen especially rapidly for health programs, transportation (as mandated by the Jobs Bill and Surface Transportation Act), and interest payments on the federal debt.

Federal receipts in October were 11-1/2 percent above a year earlier. The effect of a rise in personal incomes over the past twelve months of the recovery has more than offset the impact of the midyear cut in individual withholding rates; corporate profits taxes also have shown a strong cyclical rebound.

Congress adjourned in November with action on 1984 appropriation bills almost completed. Of 13 regular bills, 10 have been enacted, and a continuing resolution is providing funding for the remaining agencies and programs. However, action on reconciliation instructions in the first

SELECTED COMPONENTS OF THE FEDERAL UNIFIED BUDGET
(Billions of dollars at an annual rate, not seasonally adjusted)

	CY 1982	CY 1983			
	Oct.	Q1	Q2	Q3	Oct.
Total outlays[1]	800.5	803.1	782.8	796.0	842.7
Selected components:					
Unemployment	29.5	37.4	34.4	26.2	17.9
Commodity credit corporation[1]	21.8	19.0	11.6	3.2	15.2
Defense	190.8	202.2	207.6	210.3	203.4
Health	76.8	80.4	84.4	80.0	95.1[2]
Transportation	21.0	20.2	19.5	24.5	36.6
Net interest	105.4	109.1	113.1	119.0	117.7
Total receipts[1]	486.5	599.3	666.0	629.1	541.9
Selected components:					
Individual[1]	250.0	281.4	296.8	304.6	278.7
Social insurance[1]	181.9	195.2	246.9	214.8	188.5
Corporate[1]	-5.5[3]	35.1	20.7	41.2	5.6
Excise	31.5	33.0	34.6	35.1	37.7
Deficit[1]	314.0	243.8	116.7	147.5	300.8

1. Within-year changes tend to be heavily influenced by seasonal as well as cyclical factors. October tends to be a seasonally low month for receipts and a somewhat high month for outlays other than interest.
2. September outlays were decreased and October outlays increased due to a change in the timing of some medicare payments.
3. Refunds in excess of declarations and final payments.

budget resolution, which called for tax increases and cuts in entitlement spending, was not completed.

Purchases of goods and services by state and local governments, in real terms, rose at nearly a 5 percent annual rate in the third quarter, with about three-fourths of that gain representing increased outlays for structures. However, construction spending declined in October, reversing part of the gains of earlier months, and employment at state and local governments, though up in November, is only slightly above the second-quarter average.

Exports and Imports

A slow expansion in exports is still exerting a drag on real growth, but at the same time, stable import prices are helping to damp domestic price inflation.

Imports have continued to grow faster than exports in recent months, reflecting the strong recovery in the United States, sluggish activity abroad, and the persistent high level of the exchange value of the dollar. The merchandise trade deficit reached a new record high in October--$95 billion at an annual rate. The rise in imports, to a level nearly 10 percent above the third quarter average, was widespread across commodity groups. Exports in October were at about the third-quarter average.

The average price of nonoil imports, which declined steadily from the second quarter of 1982 through the second quarter of 1983, rose only fractionally in the third quarter. Oil import prices, also up slightly in the third quarter, have retraced only part of a second quarter decline. (A more complete discussion of international economic developments is included in Part IV.)

Prices

Recent price increases, overall, have continued to be above the exceptionally low rates of early 1983. The consumer price index rose at a 5-1/4 percent annual rate in October, about in line with advances of the three previous months; increases in producer prices in recent months, though still quite moderate, also have tended to be somewhat larger than in the early part of the year.

Excluding food and energy, the CPI has been rising at about a 6 percent annual rate in recent months, reflecting some pickup in inflation rates for both commodities and services. Among these items, recent increases in consumer prices have been especially large for new and used cars. The price advances for new cars--about 0.8 percent per month during the past three months--have been associated with the accelerated introduction of new models this year. Price hikes for used cars--at about a 20 percent annual rate over the past six months--have been concentrated among the popular larger models that apparently have been in short supply.

Consumer food prices accelerated further in October to a 5-3/4 percent annual rate, mainly reflecting large price hikes for fresh vegetables and oilseed products--supplies of which were adversely affected by the summer drought. At the farm level, prices were relatively stable through most of the autumn; however, the prices of cattle and hogs, which were depressed in recent months by high levels of marketings, have turned up sharply in early December.

An easing of consumer energy prices in October helped offset some of the price increases in other sectors. Gasoline prices turned down after rising in each of the preceding six months, and natural gas prices also declined. Fuel oil price increases slowed, reflecting mild weather during the autumn and higher levels of stocks.

Wages and Labor Costs

Wage increases for production workers have, on balance, remained relatively moderate in recent months. The hourly earnings index, which covers wages paid to four-fifths of the workers on private nonfarm payrolls,

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

	Relative Importance Dec. 1982	1981	1982	1983 Q1	1983 Q2	1983 Q3	1983 Sept.	1983 Oct.
All items[2]	100.0	8.9	3.9	.4	5.4	5.3	5.6	5.2
Food	19.0	4.3	3.1	2.8	1.7	1.7	3.7	5.7
Energy	12.4	11.9	1.3	-25.1	21.0	7.1	7.9	-4.5
All items less food and energy[3]	68.6	9.4	6.0	4.4	3.9	6.2	5.8	6.2
Commodities[3]	26.2	7.9	5.0	5.7	2.9	7.1	6.9	6.8
Services[3]	42.4	10.6	7.0	3.7	4.6	5.3	5.3	6.0
Memorandum:								
CPI-W[4]	100.0	8.7	3.9	.3	4.9	5.2	5.2	4.4

1. Changes are from final month of preceding period to final month of period indicated; monthly changes are not compounded.
2. Official index for all urban consumers, based on a rental equivalence measure for owner-occupied housing after December 1982.
3. Data not strictly comparable. Before 1983, they are based on unofficial series that exclude the major components of homeownership; beginning in 1983, data include a rental equivalence measure of homeowners costs.
4. Index for urban wage earners and clerical workers.

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

	Relative Importance Dec. 1982	1981	1982	1983 Q1	1983 Q2	1983 Q3	1983 Sept.	1983 Oct.
Finished goods	100.0	7.1	3.7	-4.7	3.0	2.5	2.1	3.8
Consumer foods	23.7	1.4	2.1	4.1	.0	1.5	7.8	13.3
Consumer energy	13.2	14.1	-.1	-35.5	11.4	3.7	3.0	-1.7
Other consumer goods	40.5	7.1	5.3	-2.0	3.1	2.9	1.5	.0
Capital equipment	22.5	9.2	3.9	2.0	1.7	2.5	-3.3	3.3
Intermediate materials[2]	95.2	7.3	.3	-4.7	3.2	5.3	5.6	4.5
Exc. energy	78.8	6.6	.6	.8	2.9	4.0	3.2	2.0
Crude food materials	51.2	-14.0	1.5	18.1	.8	5.9	1.9	2.8
Crude energy	34.4	22.8	2.6	-9.2	-5.1	-1.5	3.4	-12.3
Other crude materials	14.4	-11.4	-7.6	-16.2	61.9	20.2	21.5	-3.6

1. Changes are from final month of preceding period to final month of period indicated; monthly changes are not compounded.
2. Excludes materials for food manufacturing and animal feeds.

was unchanged in November after rising about 1/2 percent in October. Thus, on average, wage increases this fall have been about the same as the 3-1/2 percent annual rate posted over the first 11 months of the year. Recent wage changes have been especially small in manufacturing and construction--industries in which wage freezes and pay cuts were numerous earlier in the year. Concession bargaining this fall has occurred primarily in airlines, shipbuilding, and intercity bus transportation. Nonsupervisory workers in trade, services, and finance have received increases averaging around 4 percent this year.

Revised data indicate that labor productivity rose at about a 3 percent annual rate in the third quarter, somewhat less than the average gain in the first two quarters but still well above the estimated long-run rate of growth. The strong productivity rebound, coupled with a slowdown in wage inflation, has held the rise in unit labor costs to just 1-1/2 percent over the past year.

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

	1981	1982	1983 Q1	1983 Q2	1983 Q3	1983 Sept.	1983 Oct.	1983 Nov.	Year to date[3]
Total private nonfarm	8.3	6.0	5.3	3.4	2.3	7.1	6.4	-.5	3.4
Manufacturing	8.8	6.1	4.5	1.3	1.8	2.1	3.6	5.2	2.6
Durable	8.8	6.1	4.1	.3	1.5	2.4	1.5	4.7	2.0
Nondurable	8.7	6.3	5.2	3.1	2.3	1.5	7.2	6.2	3.6
Contract construction	8.4	5.2	6.1	-.2	-1.2	11.4	-5.2	-6.7	.1
Transportation and public utilities	8.5	6.1	8.3	3.4	.9	14.1	10.2	-1.9	3.7
Total trade	7.0	4.8	4.6	5.1	3.7	6.2	6.8	.6	4.3
Services	9.1	6.6	3.6	6.4	3.7	8.9	10.8	-6.1	4.1

1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime hours in manufacturing.
2. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Quarterly changes are compounded annual rates; monthly changes are not compounded.
3. Changes from December 1982 to November 1983 at compound annual rates.

LABOR PRODUCTIVITY AND COSTS, NONFARM BUSINESS SECTOR
(Percent change from preceding period at compound annual
rates; based on seasonally adjusted data)[1]

	1981	1982	1983 Q1	1983 Q2	1983 Q3	1982-Q3 to 1983-Q3
Output per hour	1.2	.8	3.7	6.6	3.1	3.6
Compensation per hour	9.0	7.2	6.8	4.3	4.2	5.3
Unit labor costs	7.7	6.3	3.0	-2.1	1.1	1.6

1. Changes are from final quarter of preceding period to final quarter of period indicated.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1982 Highs	1982 FOMC Dec. 21	1983 Spring lows	1983 FOMC Oct. 4	1983 FOMC Nov. 15	1983 Dec. 13	Change from: Spring lows	Change from: FOMC Nov. 15
Short-term rates								
Federal funds[2]	15.61	8.69	8.48	10.00	9.42	9.48p	1.00	.06
Treasury bills								
3-month	14.57	7.90	7.96	8.65	8.78	9.09	1.13	.31
6-month	14.36	8.01	7.97	8.86	8.94	9.26	1.29	.32
1-year	13.55	8.11	7.95	9.00	9.06	9.30	1.35	.24
Commercial paper								
1-month	15.73	8.48	8.17	9.05	9.14	9.57	1.40	.43
3-month	15.61	8.43	8.13	9.02	9.14	9.56	1.43	.42
Large negotiable CDs[3]								
1-month	15.94	8.59	8.26	9.13	9.25	9.68	1.42	.43
3-month	16.14	8.62	8.26	9.18	9.42	9.76	1.50	.34
6-month	16.18	8.78	8.29	9.36	9.59	10.01	1.72	.42
Eurodollar deposits[2]								
1-month	16.36	9.44	8.68	9.38	9.45	10.03p	1.35	.58
3-month	16.53	9.56	8.71	9.48	9.75	10.13p	1.42	.38
Bank prime rate	17.00	11.50	10.50	11.00	11.00	11.00	.50	0
Treasury bill futures								
Mar. 1984 contract	13.55	9.32	8.37	9.29	9.30	9.58	1.21	.28
Sept. 1984 contract	11.48	9.80	8.71	9.77	9.88	10.12	1.41	.24
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	15.16	9.87	9.36	10.82	10.96	11.23	1.87	.27
10-year	14.95	10.54	11.12	11.46	11.70	11.95	1.83	.25
30-year	14.80	10.53	10.27	11.47	11.72	12.00	1.73	.28
Municipal revenue (Bond Buyer index)	14.32	10.81[4]	9.21	10.00[4]	10.18[4]	10.45[4]	1.24	.27
Corporate--Aaa utility Recently offered	16.34	11.96e	11.03	12.38e	12.60e	12.93e	1.90	.33
S&L fixed-rate mortgage commitment	17.66	13.63[5]	12.55	13.65[5]	13.47[5]	13.38[5]	.83	-.09

	1982 Lows	1983 Highs	1983 FOMC Oct. 4	1983 FOMC Nov. 15	1983 Dec. 13	Percent change from: 1983 highs	Percent change from: FOMC Nov. 15
Stock prices							
Dow-Jones Industrial	776.92	1248.30	1236.69	1247.97	1255.89	.6	.6
NYSE Composite	58.80	99.01	96.24	95.49	95.28	-3.8	-.2
AMEX Composite	118.65	246.38	229.41	219.38	212.53	-10.1	1.0
NASDAQ (OTC)	159.14	328.91	294.81	278.92	278.92	-15.2	0

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.
e--estimated. p--preliminary.

M1 was little changed again in November, as demands for liquid deposits in general continued light. M2 growth, at a 7-3/4 percent annual rate, was sustained by further strong inflows to its less liquid small time deposit component. M3 meanwhile accelerated sharply, as banks expanded managed liabilities to offset a massive runoff of government deposits. The monetary aggregates all remained within their long-run ranges in November, but M1 and M3 were within fractions of a point of the lower and upper ends, respectively, of their ranges.

During the intermeeting period, the federal funds rate generally continued to fluctuate within or close to the 9-1/4 to 9-1/2 percent range that has prevailed since August. Other short-term interest rates increased about 30 to 40 basis points, on balance, as evidence of continued strength of the recovery exerted a negative influence on market expectations. Although long-term bond rates increased somewhat less than short-term rates, the yield curve remains quite steep.

The aggregate debt of domestic nonfinancial sectors is estimated to have grown at a relatively moderate pace in November, owing in part to delays in Treasury borrowing occasioned by the federal debt ceiling battle. With the passage of a higher ceiling, federal government borrowing has picked up again in December. Faster debt growth this month has been prompted also by congressional inaction on legislation relating to various types of tax-exempt financing; led by a surge in mortgage revenue bond issues, tax-exempt bond offerings in December have hit a torrid pace and have pushed up rates in this market. Although it appears that business cash flows may now be rising less rapidly than outlays, external

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

	1983 Q1	Q2	Q3	Sept.	Oct.	Nov.	Growth from base period to Nov. 1983[2]
	------- Percentage change at annual rates ------						
Money stock measures							
1. M1	14.1	12.2	8.9	0.9	1.9	0.5	5.1
2. (M1)[3]	(13.8)	(12.6)	(6.6)	(-0.5)	(4.7)	(6.5)	(5.6)
3. M2	20.3	10.1	7.8	4.8	9.3	7.8	7.9
4. M3	10.2	8.1	8.3	7.4	8.5	12.5	9.4
Selected components							Levels in billions of dollars November 1983
5. Currency	10.9	10.6	7.8	10.2	10.1	9.2	145.3
6. Demand deposits	2.7	4.0	4.6	-5.4	-2.5	-6.4	241.6
7. Other checkable deposits	46.2	30.6	19.4	1.9	0.0	3.8	126.4
8. M2 minus M1 (9+10+11+14)	22.4	9.4	7.5	6.0	11.6	10.0	1657.9
9. Overnight RPs and Eurodollars, NSA[4]	34.2	47.3	-9.6	23.1	83.8	-19.0	55.8
10. General purpose and broker/dealer money market mutual fund shares, NSA	-57.5	-44.0	-11.2	-12.9	1.7	7.8	138.7
11. Commercial banks	57.8	16.5	12.3	10.1	13.1	14.4	709.8
12. Savings deposits, SA, plus MMDAs, NSA[5]	296.1	62.4	10.1	4.0	3.4	8.0	360.3
13. Small time deposits	-48.5	-24.1	14.9	17.3	23.1	21.0	349.5
14. Thrift institutions	14.7	12.4	8.0	5.0	7.0	8.6	761.2
15. Savings deposits, SA plus MMDAs, NSA[5]	171.0	56.8	2.8	-6.9	-8.7	-11.7	325.1
16. Small time deposits	-51.0	-18.0	12.3	14.4	19.7	23.9	436.1
17. M3 minus M2 (18+21+22)	-36.5	-2.3	10.6	21.8	4.5	38.1	412.7
18. Large time deposits	-43.0	-0.5	13.8	23.5	8.3	21.0	325.5
19. At commercial banks, net[6]	-49.9	-15.6	-4.4	2.1	-12.7	14.4	227.1
20. At thrift institutions	-14.6	55.4	71.9	80.4	63.4	35.1	98.4
21. Institution-only money market mutual fund shares, NSA	-32.7	-41.9	-14.9	21.9	24.6	21.1	40.6
22. Term RPs, NSA	19.4	31.2	0.0	8.0	-31.9	150.3	49.4
	— Average monthly change in billions of dollars —						
MEMORANDA:							
23. Managed liabilities at commercial banks (24+25)	-18.8	-0.2	-2.9	0.7	-8.8	19.8	377.5
24. Large time deposits, gross	-16.5	-4.3	-1.2	-0.9	-5.1	2.6	280.8
25. Nondeposit funds	-2.3	4.1	-1.7	1.6	-3.7	17.2	96.7
26. Net due to related foreign institutions, NSA	-4.8	2.4	1.2	0.4	-4.4	9.0	-46.9
27. Other[7]	2.5	1.7	-2.9	1.4	0.6	8.2	143.6
28. U.S. government deposits at commercial banks[8]	0.2	0.2	1.2	-4.1	5.2	-10.4	11.3

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. The base period for M1 is the second quarter of 1983. The base period for M2 is Feb./Mar. of 1983. The base period for M3 is the fourth quarter of 1982.
3. M1 seasonally adjusted using an experimental model-based procedure applied to weekly data.
4. Overnight and continuing contract RPs issued to the nonbank public by commercial banks plus overnight Eurodollar deposits issued by branches of U.S. banks to U.S. nonbank customers, both net of amounts held by money market mutual funds. Excludes retail RPs, which are in the small time deposit component.
5. Beginning December 1982, growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs declined during September, October, and November at rates of 8.7, 10.5 and 7.9 respectively. At thrift institutions, savings deposits excluding MMDAs declined during September, October, and November at rates of 3.3, 3.9 and 10.5 respectively.
6. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
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.

financing by firms has remained light. Net extensions of consumer credit rebounded early in the fourth quarter, but the rate of mortgage formation appears to be continuing to slow, with interest rates on new commitments registering little change.

Monetary Aggregates and Bank Credit

M1 barely expanded in November, marking the fourth consecutive month of sluggishness in that aggregate. M1 has risen at slightly more than a 5 percent annual rate from its second-quarter 1983 target base, leaving its November average just above the lower boundary of its monitoring range. The weakness in M1 in November again was concentrated in checkable deposits. Demand deposits fell for the fourth consecutive month, leaving the level of this component about $4 billion below the monthly average peak reached in July, while other checkable deposits showed only moderate gains in November. Currency growth remained relatively rapid, dropping just below its recent 10 percent rate; growth in currency has averaged more than 10 percent since the fourth quarter of last year, a bit above econometric model predictions.

M1 velocity will show a sharp increase in the current quarter, following small increases in the previous two quarters. Even though this increase in velocity probably will exceed the average for the fourth quarter of a recovery, growth of velocity over the four quarters since the November 1982 trough will remain substantially below the postwar average for the first year of business cycle expansions.[1]

Growth of M2 slowed somewhat in November, leaving the aggregate in

1. A perspective on growth of money and credit and changes in velocity during 1983 is contained in appendix A.

the lower half of its target range. Expansion of M2 in November continued to be driven by rapid growth in small time deposits; since July, growth in such deposits has been at more than a 20 percent annual rate and has exceeded the expansion in M2. Overnight RPs and Eurodollars fell in November after a sharp October advance, in part reflecting the reclassification of such instruments from overnight to term over two non-national holidays in November. MMDAs declined again at thrifts but continued their moderate growth at commercial banks.

Limited evidence continues to suggest that M2 was not substantially boosted by the removal on October 1 of most remaining restrictions on small time deposits. Growth of these deposits in October and November was not appreciably greater than in the June-September period. Although significant increases in small time deposits did occur in districts where the deregulated accounts were promoted heavily (specifically, New York and San Francisco), these inflows were associated with outflows of a similar magnitude from MMDAs and savings accounts. Available data do not yet permit a breakdown of flows into individual types of deposits, but a review of nationwide promotional activity indicates that six-month certificates were advertised heavily in New York.

M3 accelerated to a 12-1/2 percent rate in November, as the non-M2 components of M3 moved up strongly. Much of the increase in M3 growth resulted from a dramatic drop in government deposits and a consequent heavier reliance by depository institutions on managed liabilities. An increase in term RPs in November substantially exceeded the holiday-related fall in overnight RPs and Eurodollars, included in M2. Commercial banks also boosted outstanding large CDs for the first time in a year, while thrift institutions continued to issue CDs at a brisk, albeit slower, pace. Finally, banks tapped their foreign branches for $9 billion of funds not included in M3.

Growth of commercial bank credit strengthened in November to a 13-1/2 percent annual rate, the most rapid pace since January.[1] Acquisitions of U.S. government securities remained relatively sizable while other investments stayed about flat. Consumer loans continued to expand briskly in November but fell short of the extraordinary October pace. Growth in real estate loans about matched the 11 percent rate of October, and business lending at domestic offices picked up, while loans booked at foreign branches fell after a couple of months of strong increases.[2]

Business Finance

The staff's forecast for the current quarter suggests that, for the first time in the economic recovery, outlays of nonfinancial corporations on inventories and fixed capital are exceeding internal cash flows. Nonetheless, available data suggest no pickup in external financing, implying an abatement of liquid asset accumulation. At the same time, business borrowing has continued to be concentrated in the short-term area. The sum of business loans (excluding acceptances) at commercial banks and their foreign branches and commercial paper of nonfinancial business grew at about a 9 percent rate in October and November following smaller increases in the third quarter and a net decline during the first half of the year. Meanwhile, the volume of funds raised by nonfinancial

1. A portion of the acceleration in total loans and, thus, bank credit reflects an abnormally large end-of-month increase in the "other loan" category at branches and agencies of foreign banks.
2. Results of the November Senior Loan Officer Opinion Survey and the Survey of Terms of Bank Lending are discussed in appendix B.

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

	1983 Q1	1983 Q2	1983 Q3	1983 Sept.	1983 Oct.p	1983 Nov.p	Levels in bil. of dollars Nov. 1983p
	Commercial Bank Credit						
1. Total loans and securities at banks[2]	10.7	9.9	8.6	4.9	9.9	13.6	1551.3
2. Securities	25.6	23.9	6.3	4.8	13.8	12.0	433.1
3. Treasury securities	61.1	53.5	13.3	17.2	36.6	26.3	186.3
4. Other securities	5.3	5.8	1.3	-3.4	-2.9	1.5	246.8
5. Total loans[2]	5.7	4.8	9.5	4.9	8.3	14.1	1118.2
6. Business loans[2]	3.9	-1.3	7.6	0.3	6.9	8.0	409.7
7. Security loans	-34.0	-5.3	25.1	36.5	75.9	47.6	26.2
8. Real estate loans	7.1	9.7	11.6	13.8	11.0	10.6	332.1
9. Consumer loans	6.3	10.3	15.8	12.8	24.8	18.7	215.3
	Short- and Intermediate-Term Business Credit						
10. Business loans net of bankers acceptances	3.6	-0.4	7.4	0.9	5.2	9.3	401.1
11. Commercial paper issued by nonfinancial firms[3]	-33.1	-23.5	5.4	18.8	21.1	15.2	46.4
12. Sum of lines 10 & 11	-0.4	-2.8	7.1	2.6	7.1	8.6	447.5
13. Line 12 plus loans at foreign branches[4]	0.3	-2.2	6.9	3.8	9.9	8.5	465.8
14. Finance company loans to business[5]	4.0	7.8	n.a.	31.2	n.a.	n.a.	n.a.
15. Total bankers acceptances outstanding[5]	-30.9	-7.3	n.a.	12.9	n.a.	n.a.	n.a.
16. Total short- and intermediate-term business credit (sum of lines 13, 14 and 15)	-3.1	-1.5	n.a.	8.7	n.a.	n.a.	n.a.

p--preliminary
n.a.--not available.
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. Average of Wednesdays.
4. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
5. Based on average of current and preceding ends of month.

firms in long-term markets has remained low. Industrial firms offered a total of only $400 million of bonds in the domestic public market in October and November combined, compared with an average monthly pace of $1.8 billion in the first half of the year. Despite relatively high levels of share prices, equity offerings by nonfinancial firms also have slackened in comparison with the record pace earlier in 1983.

New-issue activity in the corporate bond market has been dominated by financial firms. During October and November, such firms accounted for nearly three quarters of total issuance. Sales of GNMA- and mortgage-collateralized bonds continued to soar, bringing such offerings this year, through November, to $4 billion. These securities are liabilities either of finance subsidiaries of residential construction companies or of large securities firms; many include different classes of issues distinguished by the speed with which repayment is likely to occur, thus reducing investors' uncertainty with regard to the duration and actual yield of the security.

Corporate bond yields have increased by about the same amount as yields on Treasury securities since the November FOMC meeting. Spreads of Aaa-rated utility bonds over Treasuries have remained near the lower end of the range experienced during recent years, as have quality spreads within the corporate bond and commercial paper markets. Stock prices are about unchanged, on balance, since the last FOMC meeting. However, the NYSE composite is 4 percent below its 1983 high, and the AMEX and NASDAQ composites are down still more (10 and 15 percent, respectively), reflecting the relatively weaker performance in recent months of shares in smaller or more speculative companies.

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

	1982	1983				
	Year	H1	Q3	Oct.p	Nov.p	Dec.f
	Seasonally adjusted					
Corporate securities--total	8,773	11,937	9,141	8,410	9,400	7,100
Securities sold in U.S.	7,637	11,152	8,511	7,700	8,000	6,300
Publicly offered bonds[1]	3,653	4,798	2,649	3,100	4,300	3,000
Privately placed bonds	1,437	1,467	1,760e	1,500e	1,500e	1,500
Stocks[2]	2,547	4,887	4,102	3,100	2,200	1,800
Securities sold abroad[3]	1,136	785	630	710	1,400	800
	Domestic offerings, not seasonally adjusted					
Publicly offered bonds--total[1]	3,653	4,833	2,654	3,100	4,100	3,000
By industry						
Utility	976	1,185	871	560	1,020	--
Industrial	1,236	1,796	527	350	45	--
Financial	1,441	1,852	1,256	2,190	3,035	--
Mortgage-backed	82	161	322	920	1,293	--
By quality[4]						
Aaa and Aa	1,370	1,478	889	1,115	2,655	--
A and Baa	1,505	2,051	1,141	765	1,110	--
Less than Baa	286	694	242	225	165	--
No rating (or unknown)	492	610	382	995	170	--
Memo items:						
Equity based bonds[5]	302	1,068	693	360	113	--
Original discount bonds						
Par value	952	302	117	200	129	--
Gross proceeds	281	250	100	171	113	--
Stocks--total[2]	2,547	4,842	3,674	3,100	2,300	2,300
By industry						
Utility	871	948	479	900	685	--
Industrial	1,119	2,606	2,147	1,600	1,240	--
Financial	557	1,288	1,048	600	375	--

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.
5. Includes bonds convertible into equity and bonds with warrants attached where the warrants entitle the holder to purchase equity in the future.

p--preliminary. f--staff forecast. e--estimate.

Government Finance

Federal sector. The staff projects a fourth-quarter combined federal deficit of about $63 billion. However, marketable borrowing is expected to total only $35 billion, as the Treasury has run down its cash balance sharply from the outsized end-of-September level. Nearly all of this borrowing has been conducted in the coupon sector. Contrary to the expectations of many market analysts, the Treasury only recently increased the gross size of its weekly auctions of three- and six-month bills beyond the $12.4 billion level reached months ago. These actions, though, are consistent with the Treasury's stated intention to extend the average maturity of its debt.

Congressional delays in raising the debt ceiling disrupted Treasury financial management in November. The Treasury was forced to postpone or cancel a number of debt auctions and to suspend sales of nonmarketable issues, and its cash balance was drawn down to precariously low levels. A new statutory debt ceiling was set at $1.49 trillion effective November 21, 1983, and the Treasury subsequently raised $20.7 billion of new cash in less than ten days through issuance of marketable debt and resumed sales of nonmarketable debt. The staff estimates that the new debt limit will be reached in mid-April.[1]

Federally sponsored credit agencies raised $400 million of new

1. The Treasury recently announced that securities to be acquired through noncompetitive tenders could not be traded in the pre-auction market, in order to reinforce its limit on the maximum award to any one noncompetitive bidder. In the past, institutions have bypassed the stated maximum, obtaining securities through noncompetitive tenders submitted by several of their branches or employees. Since the change in policy, the volume of noncompetitive tenders submitted in most Treasury auctions has dropped sharply.

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

	1983				1984
	FY83	Nov.p	Dec.f	Q4f	Q1f
Treasury financing					
Combined surplus/deficit(-)	-207.7	-23.8	-15.8	-63.2	-57.8
Means of financing deficit:					
Net cash borrowing from the public	212.3	8.7	15.1	35.5	53.0
Marketable borrowings/ repayments(-)	200.5	9.0	14.4	34.6	51.8
Bills	62.8	-4.7	8.2	2.7	11.4
Coupons	137.7	13.7	6.2	31.9	40.4
Nonmarketable	11.8	-.3	.7	.9	1.2
Decrease in the cash balance	-7.7	21.9	-4.1	27.8	-.7
Memo: Cash balance at end of period	37.1	5.2	9.3	9.3	10.0
Other[2]	3.1	-6.8	4.8	-.1	5.5
Federally sponsored credit agencies net cash borrowing[3]	-2.7	.4	0	2.1	3.7
FHLB	-8.6	-.7	-.5	-.5	1.0
FNMA	3.9	1.0	.3	2.0	2.1
Farm Credit Banks	-.8	0	-.1	-.2	0
FHLMC	1.2	.1	.1	.7	.4
SLMA	1.6	0	.2	.1	.2

1. Data 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 National Mortgage Association, the Federal Farm Credit Bank System, the Federal Home Loan Mortgage Corporation, and the Student Loan Marketing Association. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
p--preliminary. f--staff forecast.

funds, in the aggregate, in November. FNMA issued about $1 billion, net of debentures in that month to finance portfolio purchases of mortgages thus remaining the major borrower in the agency market. The FHLBs paid down about $700 million of debt, reflecting a similar reduction in advances.

State and local sector. Gross offerings of long-term tax-exempt bonds totaled $4.6 billion (seasonally adjusted) in November, somewhat below the October volume. The lower volume of offerings resulted in part from a falloff in refunding issues in November, reflecting the unavailability for much of the month of nonmarketable Treasury state and local government securities, which are used by the issuing entities as temporary investments until the securities being refunded mature. Sales of tax-exempt mortgage revenue bonds also dropped below October's pace, but

GROSS OFFERINGS OF SECURITIES BY STATE AND LOCAL GOVERNMENTS
(Monthly totals or monthly averages; billions of dollars)

	Q1	Q2	Q3	Oct.[e]	Nov.[e]	Dec.[f]
	--------------Seasonally adjusted-----------					
Total	10.32	11.11	9.17	10.30	6.50	11.50
Long-term	7.23	8.22	5.86	6.40	4.60	8.70
Short-term[1]	3.09	2.89	3.31	3.90	1.90	2.80
	------------Not seasonally adjusted---------					
Total	8.66	13.36	8.73	9.70	7.00	11.00
Long-term	6.24	9.36	5.43	6.40	5.20	9.00
Refundings	.94	2.02	.89	.94	.41	--
Mortgage revenue[2]	1.07	1.28	1.58	2.16	1.03	--
Short-term[1]	2.42	4.00	3.30	3.30	1.80	2.00

1. These figures do not include tax-exempt commercial paper.
2. Includes mortgages for home ownership as well as multifamily rental structures.
e--estimate. f--staff forecast.
NOTE: Figures may not add due to rounding.

offerings of these bonds have picked up sharply in December. Statutory authority to offer them expires at the end of 1983. Although it is widely expected that mortgage revenue bond issuance will be reauthorized by Congress when it reconvenes next year, such action is not guaranteed; thus, borrowers are rushing to market this month to ensure the tax-exempt status of their offerings.

It is also anticipated that next year Congress will impose new restrictions on the issuance of most private-purpose tax-exempt bonds, including industrial development and student loan bonds. State-by-state volume caps on issuance of private-purpose bonds might be set; in addition, restrictions relating to arbitrage, depreciation methods, and uses of funds might be imposed. Even though the legislation would not be enacted until sometime in 1984, the restrictions could be imposed retroactively, applying to the entire calendar year. Thus, many issuers are striving to bring such debt to market this month while legislative authority remains most favorable.

Increases in yields on municipal revenue bonds have matched those on corporate bonds since the last FOMC meeting, as dealer inventories and visible supply have built to unusually high levels. In early December (latest available), the Bond Buyer revenue bond index stood at 10.45 percent, up 27 basis points from its level at the time of the November FOMC meeting; the Bond Buyer general obligation index rose only 16 basis points over the same period, to 9.91 percent.

Mortgage Markets

Interest rates in both primary and secondary mortgage markets have changed little since the last FOMC meeting, ending the downtrend in rates that occurred during late summer and early autumn. For 30-year, fixed-rate conventional home mortgages at S&Ls, the average contract rate on new commitments dipped 9 basis points to 13.38 percent, and has remained in a narrow band near 13.4 percent for six weeks. Price discounts on current-coupon GNMA-guaranteed securities edged downward to 4-3/4 points, and the VA ceiling rate remained at the 12-1/2 percent level set on November 1. As a result of recent legislation, FHA ceiling rates, as well as limits on the number of points borrowers may pay on FHA loans, were eliminated effective December 1.[1] In early December, HUD's regular weekly survey of mortgage companies indicated that the contract rate being negotiated most often on FHA-insured loans was 12-1/2 percent.

The yield differential between current-coupon GNMAs and 10-year Treasury securities has narrowed significantly since August, dropping from 152 basis points to 112 basis points in early December--the lowest spread in nearly three years. The narrowing of the GNMA spread apparently reflects both reduced market uncertainty about the timing of prepayments--and thus reduced uncertainty of realized yield--in response to lower interest rate variability, and increased use of GNMAs as collateral for bonds issued by builders and securities firms.

The greater stability of interest rates may have helped alleviate some of the aversion borrowers have had toward adjustable-rate home mortgages (ARMs). The Federal Home Loan Bank Board's monthly survey indicates that a record 59 percent of conventional loans closed at S&Ls in early November, and 50 percent at all lenders, had adjustable-rate features.

1. These changes, authorized by the Housing and Urban-Rural Recovery Act of 1983, eliminated all rate ceilings on FHA-insured mortgages except for the section 235 subsidy program.

MORTGAGE ACTIVITY AT FEDERALLY INSURED SAVINGS AND LOAN ASSOCIATIONS[1]
(Billions of dollars, seasonally adjusted)

	Mortgage commitments		Net change in mortgage assets		
	New (1)	Outstanding[2] (2)	Total (3)	Mortgage loans (4)	Mortgage-backed securities (5)
1983-Jan.	10.7	32.2	2.4	0.5	1.9
Feb.	12.6	35.2	5.9	2.5	3.4
March	13.3	38.0	5.5	1.3	4.2
April	12.1	40.8	4.5	3.2	1.3
May	12.9	43.1	3.5	2.2	1.3
June	14.8	44.9	7.2	3.8	3.4
July	15.9	46.7	8.7	5.9	2.8
Aug.	14.5	47.6	8.3	5.1	3.2
Sept.[r]	15.1	48.2	7.7	5.2	2.4
Oct.[p]	12.4	49.4	5.5	2.8	2.7

1. Insured S&Ls account for approximately 98 percent of the assets of all operating S&Ls. Net change in mortgage assets reflect adjustments to account for conversions of S&Ls to savings banks.
2. Includes loans in process.
r--revised. p--preliminary.

NEW ISSUES OF FEDERALLY GUARANTEED MORTGAGE PASS-THROUGH SECURITIES
(Monthly averages, millions of dollars, n.s.a.)

Period	All issues	GNMA	FHLMC	FNMA	Memo: FNMA and FHLMC swap issues
1982-Q1	3194	1067	1436	692	1963
Q2	3432	1187	1644	600	2013
Q3	4773	1305	2249	1218	3149
Q4	6653	1779	2727	2147	3795
1983-Q1	7091	3810	1955	1326	2204
Q2	7459	4930	1392	1136	1793
Q3	7711	4927	1544	1240	2115
Oct.	7439	3877	2812	750	3194
Nov.[e]	5494	3633	1138	723	1396

e--estimated.

The greater use of ARMs may also be related to increased aggressiveness on the part of lenders in pricing such loans, which may in turn reflect both thrifts' efforts to restructure balance sheets and FNMA's and FHLMC's recent changes in pricing terms and increased promotional activity.

Mortgage commitment activity at S&Ls slowed noticeably in October, perhaps as a result of earlier increases in rates. Net acquisitions of mortgage assets also dropped substantially below the elevated summer pace but remained relatively strong; all of this decline represents a falloff in net mortgage acquisitions, as holdings of mortgage-backed securities increased by the same amount as in September. Be that as it may, mortgage commitments outstanding at S&Ls were at a record high at the end of October, indicating that S&L mortgage acquisitions should be fairly well maintained in the near term even without a further decline in mortgage rates.

Issuance of federally guaranteed pass-through securities reached a 1983 low in November. The decline was associated with reductions in both GNMA issues and mortgage/securities swaps under FNMA and FHLMC programs. GNMA issue volume was swollen in early and mid-1983 by refinancings of FHA/VA mortgages prompted by the large decline in mortgage rates that extended from mid-1982 until May of this year. Since then, the net backup of rates has discouraged refinancings as well as home sales.

Consumer Credit

Growth in consumer installment credit outstanding rebounded in October, following two months in which it had slackened from the rapid pace of early summer. The 16 percent annualized rate of expansion in October was double the September advance, and well ahead of the 12 percent growth rate for the full third quarter. Judging from continued heavy

CONSUMER INSTALLMENT CREDIT

	1981	1982	1983 Q2	1983 Q3	1983 Aug.	1983 Sept.	1983 Oct.
	----------- Percent rate of growth, SAAR ----------						
Change in outstandings--total	5.8	4.0	10.9	12.0	11.3	7.9	16.1
By type:							
Automobile credit	7.3	3.9	12.1	15.4	21.9	2.4	15.1
Revolving credit	7.7	7.0	16.5	9.7	5.6	8.5	20.2
All other[1]	4.5	2.6	7.4	9.9	4.3	12.5	15.1
	------------ Billions of dollars, SAAR ------------						
Change in outstandings--total	18.2	13.1	37.5	42.4	40.7	28.5	58.6
By type:							
Automobile credit	8.5	4.9	15.9	20.9	30.3	3.4	21.3
Revolving credit	4.5	4.4	10.6	6.5	3.8	5.8	13.7
All other[1]	5.3	3.8	11.0	15.1	6.6	19.3	23.6
By major holder:							
Commercial banks	-0.1	4.8	20.6	27.7	27.8	22.0	31.6
Finance companies	13.4	4.6	1.3	1.7	2.9	-8.7	7.4
All other	5.4	3.9	15.7	13.1	10.0	15.2	19.6
	-------------- Annual percentage rate -------------						
Interest rates							
At commercial banks[2]							
New cars, 48 mos.[3]	16.54	16.83	13.90	13.50	13.50	n.a.	13.46[5]
Personal, 24 mos.	18.09	18.65	16.57	16.28	16.28	n.a.	16.39[5]
Credit cards	17.78	18.51	18.79	18.75	18.75	n.a.	18.75[5]
At auto finance companies[4]							
New cars	16.17	16.15	11.80	12.74	12.77	13.62	13.54
Used cars	20.00	20.75	18.75	18.25	18.25	18.21	18.15

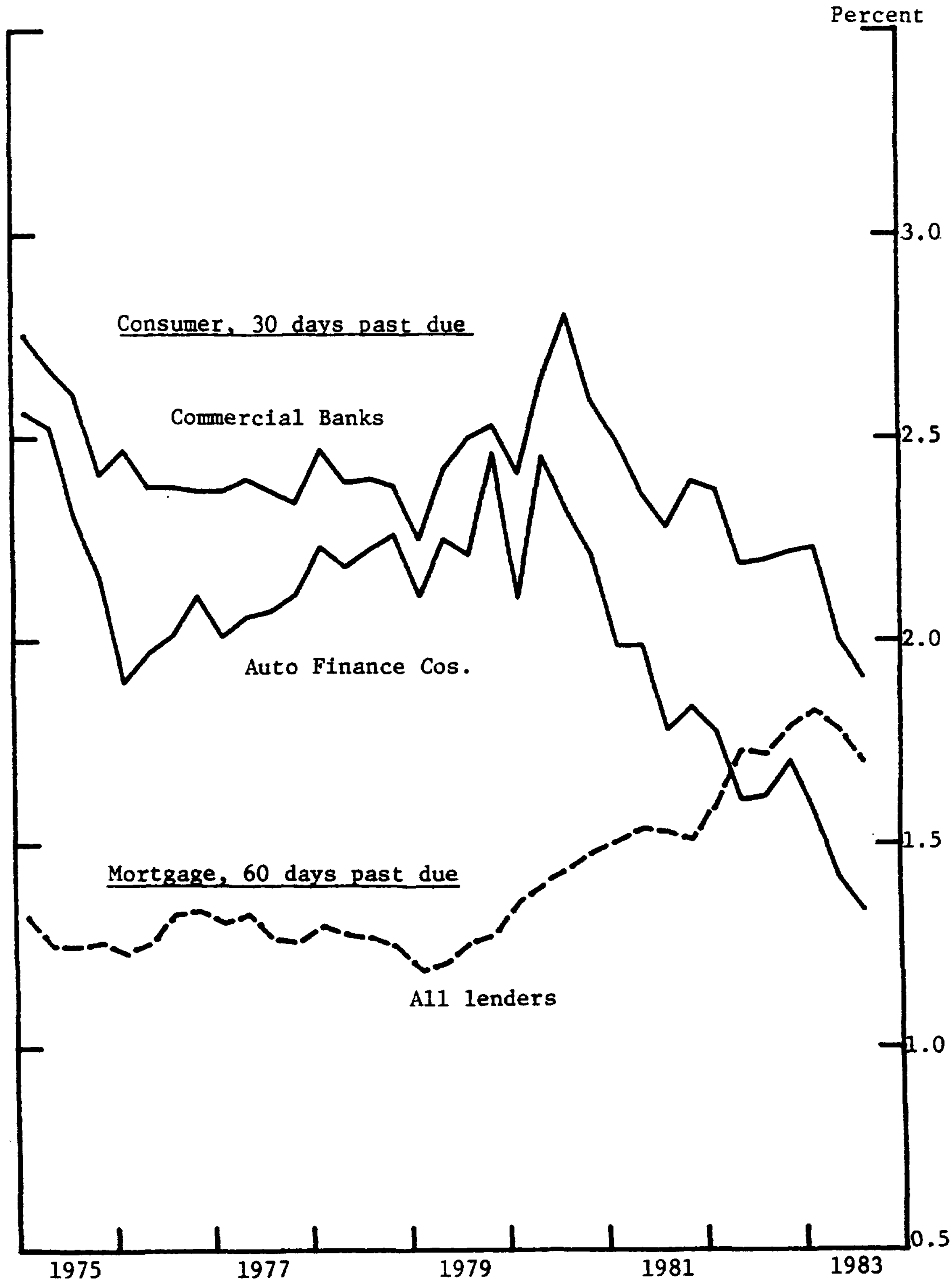
1. Includes primarily personal cash loans, home improvement loans, and sales finance contracts for non-automotive consumer durable goods.
2. Average of "most common" rates charged, on loans of specified type and maturity, during the first week in the middle month of each quarter.
3. Data for periods prior to 1983-Q1 are for new-car loans at a 36-month maturity.
4. Average rate for all loans of each type made during the period, regardless of maturity.
5. Data shown are for November 1983.
n.a.--not available.

consumer borrowing at commercial banks in November, large increases in retail store credit, and maintenance of a relatively strong auto sales pace, it appears likely that consumer credit experienced a further sharp gain in November.

The decline in interest rates on consumer loans that occurred earlier this year evidently has sustained households' willingness to incur additional debt. Recent vigor in consumer borrowing, of course, also has reflected the improvement in personal income and employment which has stimulated consumer spending. Borrowing has been supported, too, by a relatively healthy household sector balance sheet, a result of substantial additions to assets since early 1982, increased equity values, and only limited debt buildup during the three years prior to 1983.

Recent data for delinquency rates on consumer loans (see chart on page III-18) confirm that households have been handling payments on this type of debt remarkably well. The delinquency rate on closed-end consumer loans at banks declined to a 10-year low in the third quarter, while delinquencies at the automobile finance companies were at their lowest rate since reporting was begun in 1967. Delinquency rates on home mortgage loans--which had remained around record highs earlier this year--also showed declines in the third quarter. Moreover, personal bankruptcies, though quite volatile on a monthly basis, have traced an unmistakable downward trend since the end of last year. The total number of filings in the third quarter was down 1-1/2 percent from the previous quarter and was 9 percent below the year-ago total.

DELINQUENCY RATES ON
HOME MORTGAGE AND CONSUMER INSTALLMENT LOANS



APPENDIX A*

MONETARY AGGREGATES AND DOMESTIC NONFINANCIAL DEBT IN 1983

Growth in the monetary aggregates was uneven over 1983, with expansion of both M1 and M2 surging to record rates in the first half of the year before slowing later in the year. M3 expanded more steadily, in part reflecting adjustments by banks of their managed liabilities to accommodate the more stable pace of bank credit. However, even M3 appears to have been strengthened early in the year by massive MMDA inflows, the major factor behind the rapid growth in M2 at that time.

M1 expanded at a 13-3/4 percent annual rate from the last quarter of 1982 through June. Growth then slowed to a 3 percent annual rate over the next five months. As was the case in 1982, M1 behavior this year has been dominated by its OCD component. Through November, OCDs had expanded at nearly a 30 percent annual rate, just below their 1982 pace, but most of this growth took place in the first half of the year. Indeed, in the September-November period this component slowed to a 2 percent annual rate--the first instance of sustained weakness since these deposits were authorized nationwide at the end of 1980. Demand deposits actually contracted in each of the four months ending with November and over the first 11 months of the year increased at only a 1-1/2 percent rate. Currency growth over this period was comparatively steady and averaged 10 percent.

Growth in OCDs this year was more than accounted for by inflows to Super NOWS. These accounts were authorized in early January, and by November they had attracted $36-1/2 billion, predominately from regular NOW accounts.[1] As of November, Super NOWs constituted more than 25 percent of OCDs, while the share of M1 accounted for by total OCDs rose by about 3 percent this year to just under 25 percent.

M1 growth in the first three quarters of 1983 exceeded predictions of econometric models of money demand, even those specified to incorporate the lagged impact of the very large percentage decline in the opportunity cost of regular NOW accounts that accompanied market rate declines in the second half of 1982. In recent months, however, actual M1 growth has fallen below predicted rates, as expansion in its deposit components has stagnated. M1 velocity, which had exhibited unusual weakness in 1982, continued to decline in the first quarter but increased slightly in the second quarter and grew further further in the third. However, even with a strong acceleration in the current

1. To some small degree, M1 growth in early 1982 was boosted by non-M1 funds attracted to Super NOW accounts; however, this impact is believed to have been about offset by M1 funds shifted to MMDAs.
* Prepared by Thomas F. Brady, Economist, Banking Section, Division of Research and Statistics.

quarter, M1 velocity growth in the full year since the fourth quarter of 1982 business cycle trough will be well below the typical recovery experience: about 1-1/4 percent versus a median of 6-1/2 percent during the first year of upturns since 1949.

Although earlier interest rate declines are estimated to have strongly influenced M1 growth in the first part of 1983, the back-up in rates during the year helped to slow expansion in the second half and, on balance, rate movements contributed somewhat less to money growth in 1983 than in 1982. The declining inflation rate, too, suggested a deceleration in M1 in 1983, and the Board's quarterly model attributes the pickup in M1 growth this year almost entirely to the swing from economic contraction to strong real economic growth between 1982 and 1983. In addition, the acceleration of predicted M1 was a bit faster than that of actual M1, reducing somewhat the prediction error this year relative to last, as predicted growth fell short of actual growth in both years.

Monetary flows in 1983 were dominated by MMDAs, authorized as of mid-December 1982. With initial offering rates well above the market, the response to this innovation was dramatic; inflows in January alone totalled about $146 billion and by March oustandings had reached $320 billion. Depositories rapidly reduced offering rates in the wake of this response. Since June, MMDAs have remained roughly unchanged at around $367 billion, or about 17 percent of M2. In addition to profoundly rearranging M2--by June savings, small time deposits and general purpose/broker dealer MMMFs had declined from November 1982 levels by, respectively, 11-1/4, 17-1/2 and 27 percent--this new instrument also attracted substantial funds from non-M2 sources. About 85 percent of MMDAs are personal. At banks, which hold about 60 percent of MMDAs, the proportion of personal accounts is lower, about 75 percent.

After being swollen by MMDA inflows in the first quarter, non-transactions M2 decelerated markedly in the second and third quarters. Growth in non-transactions M2 since June has been concentrated in the small time deposit component, reflecting a steepening of the yield curve as well as the reduction in offering rates on MMDAs from their promotional levels. With deposit rates already substantially deregulated, there was little noticeable change in deposit flows following the removal on October 1 of all remaining restrictions on small time deposits with original maturities or notice periods greater than 31 days. Overnight RPs and Eurodollars grew 29 percent through November, about the pace of 1982. By September, the share of M2 featuring market-related yields had risen to over 57 percent, up from 52-1/2 percent in December 1982.

Reflecting MMDA inflows, M2 grew from the fourth quarter of 1982 through November at a 12 percent annual rate; however, from the February-March period used by the FOMC as the base for its target growth range, expansion through November was 8 percent. M2 velocity, after declining at a record rate in the first quarter, rose over the rest of the year; over the year as a whole, velocity fell by 1 percent. However, adjusting for the estimated impact of non-M2 funds attracted by MMDAs in the first quarter, M2 velocity rose 4 percent, a bit more than the average for the first year of earlier recoveries. Indeed, the growth in adjusted M2 velocity exceeded that of any year since 1978, the year rate deregulation began, suggesting that boosts to M2 growth stemming from the progressive removal of rate ceilings may be over.

Despite an annual rate of decline in its large time component exceeding 40 percent, M3 growth during the first quarter picked up a bit from the last quarter of 1982 before settling down to a more moderate pace in the second and third quarters. In the July through October period, the level of M3 was held down by unusually high levels of Treasury note balances at depositories. However, M3 growth picked up sharply in November when these accounts were reduced to more normal levels. Reliance on term RPs through November was quite strong compared with 1982, perhaps reflecting abundant collateral. However, the impact of term RP expansion on M3 was about offset by outflows from institution-only MMMFs. Overall, the non-M2 component of M3 contracted from the fourth quarter of 1982 through November, and M3 growth, at 9-1/2 percent, fell below that of M2 after exceeding it in the previous four years. (On an MMDA-adjusted basis, M2 growth was below that of M3--in roughly the average relationship of recent years). M3 velocity rose on balance over 1983, but by less than the average of previous recoveries.

The runoff of large time deposits was entirely at commercial banks, where the cumulative decline from the fourth quarter of 1982 through November was $45 billion, or 16-1/2 percent. By contrast, thrift institutions continued to issue large time deposits--$32-1/2 billion over this period. The thrifts' reliance on large time deposits reflected a combination of a rate incentive to pay down FHLBB advances and mortgage demands that exceeded core deposit inflows, particularly on the West Coast.

The decline in the non-M2 component of M3 in 1983 reflected in part a $1 billion increase in net borrowing by commercial banks from their foreign branches in the first 11 months of the year. These borrowings, which were preceded by several years of net advances, included a cumulative repatriation of funds from foreign branches since April of $15-1/2 billion, following $14-1/2 billion in advances that occurred in January-March period, when MMDA inflows were strongest. Banks also increased their reliance on domestic nondeposit sources, particularly in November as Treasury balances fell sharply, and total nondeposit funds rose on balance over the first 11 months of the year.

Domestic nonfinancial debt expanded by 10-1/4 percent through November, only a bit above the pace of last year. Reflecting the impact of MMDA inflows, as well as the effect on thrift institutions of a considerable pickup in mortgage demands, the share of this debt intermediated by depository institutions grew substantially, rising from just over one-third in 1982 to over fifty percent during the first three quarters of this year. Similar increases have occurred following earlier cyclical troughs, with the depositories' share often rising above recent levels. The pace of federal government debt issuance remained at about the nearly 20 percent rate of last year. The pickup in other debt reflected a more than doubling in the growth rate of consumer and mortgage credit. This strength more than offset a deceleration in nonfinancial business debt, whose growth slowed from 6 percent in 1982 to 3-3/4 percent through November of this year.

Table 1
Velocity Growth Over the First Year of Recoveries
(4th quarter of recovery over cyclical trough quarter)

Trough	Velocity of M1	M2	M3
1949 Oct. (Q4)[1]	14.2	14.5	14.5
1954 May (Q2)[1]	5.4	3.1	3.0
1958 Apr. (Q2)[1]	6.6	4.3	4.2
1961 Feb. (Q1)	5.9	1.4	0.8
1970 Nov. (Q4)	2.7	-3.5	-4.5
1975 May (Q1)	6.9	-0.5	2.7
1980 July (Q3)	6.7	4.3	1.9
Average	6.9	3.4	3.2
1982 Nov. (Q4)	1.2	-0.9	1.5

NOTE: Monetary measures for the fourth quarter of the current recovery are represented by November 1983 levels.
1. Before 1959, M1 is measured by the old definition of M1; M2 and M3 are both measured with the old definition of M3. For each aggregate, a level adjustment has been made before 1959 based on ratios of the old and new aggregates in 1959.

Table 2
MONETARY AGGREGATES AND BANK CREDIT
(Q4 to Q4 averages, seasonally adjusted unless noted otherwise)

Growth rates or flows	1979	1980	1981	1982	1983[1]	Levels in billions of dollars Nov. 1983
Growth rates (percent)						
M1	7.4	7.2	5.1[2]	8.5	9.3	518.1
M2	8.1	9.0	9.4	9.3	11.9	2176.0
M3	9.6	9.7	11.7	10.1	9.4	2588.7
Domestic nonfinancial credit[3]	12.0	9.5	9.6	9.2	10.2	5149.2
Bank credit[4]	12.5	8.0	8.8	7.8	10.2	1551.3
Flows ($ billions)						
M1	26.8	27.9	21.3	37.1	44.4	
Currency	9.2	9.7	6.6	9.9	13.3	145.3
Demand deposits	7.4	8.2	-33.6	2.1	3.8	241.6
Other checkable deposits	9.9	9.7	47.9	25.2	26.9	126.4
M2	112.3	134.1	153.2	165.0	231.3	
Nontransactions-M2	85.5	106.2	131.9	128.0	186.8	1657.9
MMDAs (NSA)[5]				14.4	354.7	225.1
Savings deposits	-56.7	-18.9	-67.5	17.3	-44.9	316.3
Small time deposits	114.2	89.2	111.3	43.7	-85.1	785.6
General purpose and broker/dealer money market mutual fund assets (NSA)	24.8	31.1	82.4	42.9	-48.3	138.7
Overnight RPs and Eurodollars (NSA)	3.9	5.8	5.7	10.3	11.4	55.8
M3	153.7	170.6	225.4	217.9	222.1	
Non-M2 component	41.4	36.5	72.2	52.9	-9.2	412.7
Institution-only money market mutual fund assets (NSA)	5.7	6.0	17.0	12.7	-8.1	36.3
Large time deposits (NSA)	30.1	28.1	53.0	35.9	-12.4	280.8
Term RPs (NSA)	5.9	2.5	2.5	2.9	10.3	49.4

1. Monetary aggregates and bank credit data for 1983 are through November.
2. The rate of M1 growth in 1981 adjusted for shifts of non-M1 funds into NOW accounts was 2.5 percent.
3. Based on end of period data. November 1983 is preliminary.
4. Bank credit data for 1981 and after are adjusted for shifts of assets into IBFs.
5. MMDAs were authorized on December 14, 1982.

Table 3
RELATIONSHIP OF CHANGES IN M3 AND BANK CREDIT

			1982*	1983*
1.		M3	217.9	222.1
2.	-	MMMF assets (NSA)	58.1	-56.7
3.	-	Thrift liabilities	43.2	119.8
4.	-	Other nonbank assets in M3	5.9	21.6
5.	=	Commercial bank component of M3	110.7	137.4
6.	+	Non-M3 sources of funds for banks	-22.9	-19.7
7.	=	Total bank sources of funds	87.8	117.7
8.		Demand and savings deposits	79.4	182.9
9.		Large time deposits (gross)[1]	34.1	-76.9
10.		Nondeposit sources[1]	-25.3	12.5
11.		Net Eurodollar borrowing (NSA)[1]	-43.7	-0.1
12.		Other borrowing[1]	18.4	12.6
13.		Discrepancy	-0.4	-0.8
14.	-	Bank Credit[1]	80.3	145.7
15.	=	Discrepancy plus other assets less other liabilities[2]	7.5	-28.0

* Data for 1982 reflect the Q4-1981 to Q4-1982 net dollar flows and for 1983 reflect the flows from Q4-1982 through November.
1. Adjusted to include shifts of assets and liabilities from U.S. banking offices to IBFs.
2. Includes such items as cash assets not included in M3, accrual accounts, net due from foreign branches, accrued expenses and capital accounts.

APPENDIX B*

NOVEMBER SURVEYS OF BANK LENDING PRACTICES AND TERMS OF BANK LENDING

Commercial and industrial lending by large commercial banks remained sluggish in the three months prior to the November 15, 1983 Senior Loan Officer Opinion Survey on Bank Lending Practices, as overall financing requirements were weak and firms turned more to other short-term sources of credit. Half of the 60 banks participating in the survey expected loan demand to strengthen moderately over the next three months in response to economic expansion nationwide and in their local areas; only three institutions expected further weakening in loan demand. In the November survey, larger respondents tended to be somewhat less optimistic than smaller institutions about a near-term strengthening in loan demand, the reverse of the situation that had prevailed at the time of the August survey.

Short-term market rates declined somewhat from mid-August to mid-November, but the prime rate remained at 11 percent. Other aspects of lending terms also appear to have changed little from mid-August; 85 percent of the panel reported no change over the past three months in standards of creditworthiness to qualify for their lowest lending rate, and about the same proportion reported no change in standards to qualify for given spreads above their lowest lending rates. Similarly, 85 percent of the responding banks reported unchanged policies towards lending to new and nonlocal business customers, while 75 percent indicated no change in compensating balance and fee requirements on business loans.

Continuing the pattern evident since the November 1982 survey, nearly one third of the respondents to the latest survey indicated an increased willingness to make installment loans to individuals compared with three months ago. Several institutions reporting no change since mid-August in willingness to make consumer installment loans noted that they were still actively promoting existing consumer loan products. Interest rate spreads on consumer loans continue to be favorable, and delinquency rates on consumer installment loans declined to a ten-year low of 1.91 percent in the third quarter of 1983.

The first set of supplemental questions to the November survey examined the extent to which business customers of banks had turned to the commercial paper market as an alternative source of short-term credit. Two thirds of all respondents, and an even higher proportion of larger banks, indicated that some of their customers had raised new funds through the commercial paper market during the three months

* Prepared by Gary P. Gillum, Economist, and Alan L. Boyce, Research Assistant, Banking Section, Division of Research and Statistics.

preceding the survey. Among institutions noting this development, four fifths cited favorable rate spreads as the primary reason why their customers chose this method of financing. In addition, some respondents noted that improving profitability and stronger balance sheets had boosted the credit ratings of some firms in recent months, enabling them to borrow at more favorable rates in the commercial paper market. A few respondents indicated that some customers issued commercial paper in order to avoid certain restrictive terms and covenants placed on borrowers by banks or to maintain a presence in the commercial paper market. Only about one quarter of responding banks indicated that those customers having access to the commercial paper market had a greater need for short-term financing over the past three months than customers without such access.

Just over one fifth of respondents felt that the competitive position of their bank relative to the commercial paper market had deteriorated over the prior three months. Nearly three fourths of those indicating a deterioration cited an increase in their bank's cost of funds relative to commercial paper rates while only one respondent cited an increased markup over the bank's cost of funds in pricing loans.

A second set of supplemental questions examined the various interest rates to which outstanding short-term commercial and industrial loans are tied. In order to meet competition from the commercial paper market and other sources of credit--including U.S. offices of foreign banks--domestically chartered banks now offer several types of short-term loans. Traditional short-term commercial and industrial loans, with interest rates tied to prime, now are utilized principally by middle-sized and smaller commercial and industrial firms. The largest firms, and a growing number of middle-sized firms, are obtaining loan commitment agreements that contain a "menu" of pricing options for their loans. Typically, these borrowers may choose a loan rate tied to prime, the London Interbank Offering Rate (LIBOR), a domestic money market rate (such as a bank CD rate), or a "blend" of market rates.[1] Moreover, the agreement usually permits the borrower considerable flexibility in switching from one pricing option to another over the term of a loan.[2] The biggest corporations also have access to very large short-term loans, with maturities ranging from overnight to perhaps two weeks, that are priced at a markup over a domestic money market rate such as the federal funds rate.

1. The mix of pricing options often is custom-tailored to the borrower's wishes.
2. Usually, a loan may be switched from prime-rate pricing on very short notice, in many cases within 24 hours or so. A customer electing to have the loan priced off LIBOR or a domestic market rate often can switch out of these options only at certain intervals--such as 90 days--specified in the commitment agreement.

Responses to these supplemental questions indicated that the proportion of outstanding short-term loans tied to any given interest rate varies widely across banks. For example, the percent of outstanding short-term loans linked to the prime rate ranged from 10 to 95 percent, the largest banks tending to lie at the lower end of the range. Several respondents commented that the proportion of their institutions' outstanding short-term loans tied to prime continues to decline over time. When weighted by the size of the commercial and industrial loan portfolios at each responding bank, the responses suggest that roughly half of respondents' outstanding short-term C&I loans are tied to prime.[1] Similar calculations revealed that roughly 18 percent of respondents' short-term C&I loans were tied to LIBOR, about 10 percent were tied to a domestic CD rate, and about 20 percent were tied to other rates, including "blends" of interest rates which in some cases represent a bank's internal cost of funds. About 4 percent of outstanding short-term C&I loans were tied to the federal funds rate.

Preliminary data from the recent Survey of Terms of Bank Lending (STBL) are consistent with these results. This survey, taken during early November, indicates that 89 percent of that week's gross short-term commercial and industrial loan extensions by 48 large banks were made at interest rates below prime, up from the 72 percent level reported in the August survey. At the smaller banks surveyed, the percent of gross short-term loans extended at rates below prime rose to 45 percent. Loans priced at markups over a short-term market rate may carry rates above or below prime, depending upon whether or not the size of the markup exceeds the spread of the prime rate over the market rate. When the spread between the prime rate and market rates widens, as it did between the August and November surveys, the proportion of short-term loan extensions counted as below-prime lending increases. After adjustment for this effect, however, STBL data show a secular upward trend in the proportion of below-prime lending--confirming comments from loan officers that prime-rate pricing continues to decline.

The proportion of short-term loan extensions made below prime, as reported in the STBL, is well above the proportion of outstanding short-term loans priced off money market rates, as estimated from responses received from the supplemental loan officer questions on loan pricing. However, shorter term loans turn over more frequently and thus loom much larger in the STBL data than in banks' portfolios of outstanding short-term C&I loans. Because the bulk of very short maturity loans are made at rates below prime, the percent of gross loan extensions at rates below prime substantially exceeds the percent of outstanding short-term loans priced below prime.

1. When respondents indicated that the reported proportions applied to the total amount of domestic C&I loans plus loans to U.S. residents booked at foreign branches, the weights were adjusted accordingly.

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S.
(Status of policy on November 15, 1983 compared to three months earlier)
(Number of banks and percent of total banks answering question)
(By size of total domestic assets, in billions[1])

CORE QUESTIONS

	Much Stronger		Moderately Stronger		Essentially Unchanged		Moderately Weaker		Much Weaker		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
1. Strength of demand for commercial and industrial loans anticipated in next 3 months (after allowance for usual seasonal variation):											
All respondents	0	0.0	30	50.0	27	45.0	3	5.0	0	0.0	60
$5 and over	0	0.0	13	41.9	17	54.8	1	3.2	0	0.0	31
under $5	0	0.0	17	58.6	10	34.5	2	6.9	0	0.0	29
	Much Firmer		Moderately Firmer		Essentially Unchanged		Moderately Easier		Much Easier		
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
2. Standards to qualify for lowest lending rate:											
All respondents	0	0.0	2	3.3	51	85.0	7	11.7	0	0.0	60
$5 and over	0	0.0	1	3.2	24	77.4	6	19.4	0	0.0	31
under $5	0	0.0	1	3.4	27	93.1	1	3.4	0	0.0	29
3. Standards to qualify for spreads above lowest lending rate:											
All respondents	0	0.0	4	6.7	49	81.7	7	11.7	0	0.0	60
$5 and over	0	0.0	2	6.5	25	80.6	4	12.9	0	0.0	31
under $5	0	0.0	2	6.9	24	82.8	3	10.3	0	0.0	29
4. Stance on C&I lending to new and nonlocal customers:											
All respondents	0	0.0	3	5.0	51	85.0	6	10.0	0	0.0	60
$5 and over	0	0.0	1	3.2	28	90.3	2	6.5	0	0.0	31
under $5	0	0.0	2	6.9	23	79.3	4	13.8	0	0.0	29
5. Compensating balance or fee requirements for C&I loans:											
All respondents	1	1.7	2	6.5	45	75.0	12	20.0	0	0.0	60
$5 and over	0	0.0	1	3.2	26	83.9	4	12.9	0	0.0	31
under $5	1	3.4	1	3.4	19	65.5	8	27.6	0	0.0	29
	Considerably Greater		Moderately Greater		Essentially Unchanged		Moderately Less		Much Less		
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
6. Willingness to make installment loans to individuals:											
All respondents	3	5.2	15	25.9	38	65.5	2	3.4	0	0.0	58
$5 and over	2	6.9	7	24.1	19	65.5	1	3.4	0	0.0	29
under $5	1	3.4	8	27.6	19	65.5	1	3.4	0	0.0	29

1. As of March 31, 1983, 31 of the surveyed banks had domestic assets of $5 billion or more. Combined assets for these institutions totalled $563 billion, compared to $652 billion for the entire panel and $1.87 trillion for all federally-insured commercial banks.

SUPPLEMENTAL QUESTIONS

S.1.a. During the past three months, have any customers of your bank raised new funds through the commercial paper market?

	Yes		No		NA		Total
	Bank	Pct	Bank	Pct	Bank	Pct	Banks
All Banks	40	66.7	17	28.3	3	5.0	60
$5 and over	24	77.4	6	19.4	1	3.2	31
under $5	16	55.2	11	37.9	2	6.9	29

S.1.b. If yes, what was the major reason why these customers chose to finance through commercial paper rather than through bank loans:

	Rate Spreads Favor Commercial Paper		Desire to maintain a market presence		Fewer restrictive terms and covenants		Other		Total
	Bank	Pct	Bank	Pct	Bank	Pct	Bank	Pct	Citations
All Banks	40	83.3	3	6.3	3	6.3	2	4.2	48
$5 and over	24	80.0	2	6.7	2	6.7	2	6.7	30
under $5	16	88.9	1	5.6	1	5.6	0	0.0	18

S.1.c. Over the past three months, have the business customers of your bank with access to the commercial paper market had a greater need for short-term financing than customers without such access?

	Yes		No		NA		Total
	Bank	Pct	Bank	Pct	Bank	Pct	Banks
All Banks	11	18.3	37	61.7	12	20.0	60
$5 and over	5	16.1	20	64.5	6	19.4	31
under $5	6	20.7	17	58.6	6	20.7	29

S.1.d. Over the past three months, has the competitive position of your bank relative to the commercial paper market deteriorated?

	Yes		No		NA		Total
	Bank	Pct	Bank	Pct	Bank	Pct	Banks
All Banks	13	21.7	44	73.3	3	5.0	60
$5 and over	6	19.4	23	74.2	2	6.5	31
under $5	7	24.1	21	72.4	1	3.4	29

S.1.e. If yes, what was the major reason?

	Increased Cost of Funds for Bank		Increased Markup over Cost of Funds		Increased Competition from Commercial Paper Market		Total
	Bank	Pct	Bank	Pct	Bank	Pct	Citations
All Banks	10	71.4	1	7.1	3	21.4	14
$5 and over	6	85.7	1	14.3	0	0.0	7
under $5	4	57.1	0	0.0	3	42.9	7

S.2.a. What is the approximate proportion of total outstanding short-term loans tied to various interest rates?

	Unweighted Average Responses(%)	Weighted Average Responses(%)[1]	Range(%)	Number of Banks citing rate
PRIME				
All Banks	63.2	47.9	10-95	51
$5 and over	54.5	44.9	10-90	25
under $5	71.7	69.5	21-95	26
LIBOR				
All Banks	12.3	17.9	1-44	46
$5 and over	17.0	19.1	5-44	24
under $5	7.8	8.4	1-29	22
C.D. Rate				
All Banks	6.9	9.8	2-50	27
$5 and over	9.6	10.5	2-25	16
under $5	4.4	4.2	4.5-50	11
Federal Funds Rate				
All Banks	5.7	3.9	1-36.1	31
$5 and over	5.2	3.4	1-30	16
under $5	6.2	7.6	1-36.1	15
Other Rates				
All Banks	11.4	19.9	1-75	29
$5 and over	12.8	21.2	1-75	14
under $5	10.0	10.4	1-50	15

S.2.b. Do results include loans booked to U.S. residents by foreign branches?

	Yes	No	NA	Total
All Banks	18	9	33	60
$5 and over	13	5	13	31
under $5	5	4	20	29

1. Responses weighted by total domestically booked C&I loans outstanding as reported in the June 29, 1983 Report of Condition and Income. It should be noted that for institutions which included loans booked to U.S. residents by foreign branches, the weights _include_ loans made by their foreign branches to U.S. domiciled businesses.

SELECTED CHARACTERISTICS OF SHORT-TERM COMMERCIAL AND INDUSTRIAL LOAN EXTENSIONS
(Survey of Terms of Bank Lending, November 7-11, 1983)

	1981		1982				1983			
	Aug. 3-7	Nov. 2-6	Feb. 1-5	May 3-7	Aug. 2-6	Nov. 1-5	Feb. 7-11	May 2-6	Aug. 1-5	Nov.p 7-11
48 Large Banks										
Percent of gross loan extensions made at rates below prime	75.0	85.0	62.3	78.6	91.0	92.2	93.7	89.2	72.0	88.8
Spread between reported prime rate and weighted average nominal rate on loans made below prime (basis points)	136	218	61	84	337	187	174	121	37	107
Other Banks										
Percent of gross loan extensions made at rates below prime	27.5	30.5	36.6	39.7	38.0	40.4	44.6	43.6	40.7	45.3
Spread between reported prime rate and weighted average nominal rate on loans made below prime (basis points)	176	213	98	102	303	197	176	141	56	111
Memo: Prevailing prime rate less 1-month commercial paper rate (basis points)	234	347	132	208	441	325	257	157	100	176

p--preliminary.

Foreign Exchange Markets

The increase of nearly three percent in the weighted-average exchange value of the dollar since mid-November (see chart) seems surprisingly high in light of developments over the period. For example, while dollar interest rates have increased about a quarter of a percentage point at both short and long maturities, foreign interest rates have also tended to rise. Thus, the differential between interest rates on U.S. three-month CDs and a weighted-average of foreign three-month interest rates has increased by only about one-eighth of a percentage point.

Increasing tensions in Lebanon have apparently led to additional demand for dollar assets by heightening concerns about security of financial assets located in some parts of the world. The bombing of the U.S. embassy in Kuwait also appeared, at least initially, to be a factor putting upward pressure on the dollar's value. And recent financial and political instability in Germany might have contributed to the dollar's rise, not only in terms of marks, but also vis-a-vis the other EMS currencies, which have moved largely in parallel with the mark over the period. The likely importance of these "safe-haven" factors in explaining the behavior of market participants seems greater when one observes that the price of gold has risen nearly two percent in dollar terms since November 14, and has therefore increased about 4-1/2 percent on average in terms of major foreign currencies.

Certain other developments since mid-November probably exerted some downward pressure on the dollar's value. These factors include new data

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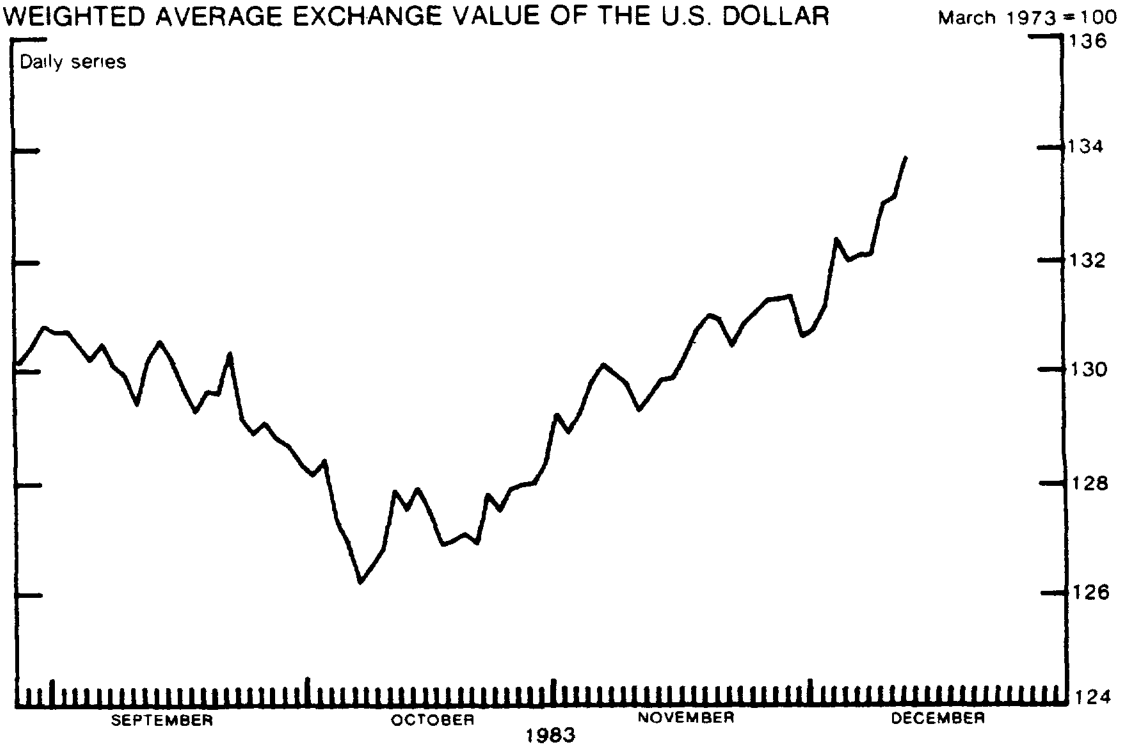
WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR



confirming the large and growing U.S. trade and current-account deficits (discussed elsewhere in the Greenbook) and the notable shift in foreign official dollar intervention

. (The Federal Reserve and the U.S. Treasury together purchased $50 million equivalent of marks during the period.)

.

The mark and its EMS partner currencies declined in value about 3-1/2 percent in dollar terms over the review period, and sterling declined nearly 5 percent vis-a-vis the dollar. The depreciation in sterling seemed to be associated with weakness in oil prices and the OPEC ministers meeting in early December. By contrast, the yen's value declined less than one percent in dollar terms. Differential movement in the yen's value, which has been evident during most of 1983, is perhaps most directly attributable to the sizable surplus in the Japanese current account.

U.S. International Financial Transactions

Data on U.S. international financial transactions during October show a partial reversal of the large third-quarter net inflow through U.S. banking offices. (See the Summary Table on the next page.) Private foreigners purchased, net, $2.3 billion of U.S. Treasury securities during October, a relatively large sum, but added little to their holdings of U.S. corporate bonds and stocks. U.S. net purchases of foreign securities declined slightly from their average rate in recent months.

Foreign official reserve holdings in the United States increased by $1.7 billion in October; partial data, based on holdings at the New York Federal Reserve Bank, indicate little change in aggregate holdings during November. Reserve holdings of G-10 countries increased by $1.5 billion in October and, at the NYFRB, declined by about $1 billion during November. OPEC holdings declined by about $3/4 billion in each month, while dollar holdings in the United States increased in each month for several Pacific Basin countries, including Australia, which allowed its currency to float in early December in the face of sustained capital inflows.

Data for November on international banking transactions that are reported to the Federal Reserve (see the International Banking Data Table) show a $5.5 billion net inflow to U.S. banking offices from their own foreign offices (line 1) plus a net inflow of $3.3 billion from all foreign sources channeled through IBFs (line 2). For October and November combined the net inflow through these channels amounted to $4.5 billion. These inflows were associated with the strong expansion of credit demands in the United States relative to foreign countries, which

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS
(Billions of dollars)

	1981 Year	1982 Year	1983 Q1	Q2	Q3	Aug.	Sept.	Oct.
Private Capital								
Banks								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	-34.5	-39.6	-9.4	2.3	17.9	0.2	7.6	-5.9
a) with own foreign offices	-2.7	-9.1	-10.4	-0.8	12.6	-0.3	2.1	-8.5
b) all other	-31.7	-30.5	1.0	3.0	5.3	0.4	5.5	2.5
Securities								
2. Private securities transactions, net	1.2	-1.4	1.2	-0.6	0.3	-0.3	0.5	-0.1
a) foreign net purchases (+) of U.S. corporate bonds	2.1	2.8	0.1	0.9	0.5	0.3	0.1	0.2
b) foreign net purchases (+) of U.S. corporate stocks	4.8	3.6	2.9	1.7	1.4	0.2	0.6	0.1
c) U.S. net purchases (-) of foreign securities	-5.7	-7.9	-1.8	-3.2	-1.5	-0.7	-0.2	-0.4
3. Foreign net purchases (+) of U.S. Treasury obligations 1/	2.5	6.5	2.8	2.9	0.9	0.8	2.0	2.3
Official Capital								
4. Changes in foreign official reserve assets in U.S. (+ = increase)	5.3	2.9	0.3	1.6	-3.1	-2.9	-1.5	1.7
a) By area								
G-10 countries and Switzerland	-10.8	-12.7	2.7	1.4	0.6	-1.9	-1.3	1.6
OPEC	12.5	6.9	-1.4	-3.6	-2.1	-1.6	-0.4	-0.7
All other countries	3.6	8.8	-1.0	3.8	-1.6	0.6	0.2	0.8
b) By type								
U.S. Treasury securities	5.0	5.7	3.0	1.9	-0.5	-3.4	-0.6	1.8
Other 2/	0.5	-2.7	-2.7	-0.3	-2.6	-0.4	-0.9	-0.1
5. Changes in U.S. official reserve assets (+ = decrease) 3/	-5.2	-5.0	-0.8	*	0.5	0.5	-0.1	-0.2
Other transactions (Quarterly data)								
6. U.S. direct investment (+) abroad	-9.7	3.0	0.3	-0.6	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (=) in U.S.	22.0	10.4	2.0	1.5	n.a.	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 4/ 5/	-10.4	-7.0	-1.6	2.2	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance 5/	4.6	-11.2	-3.6	-9.7	n.a.	n.a.	n.a.	n.a.
10. Statistical discrepancy 5/	24.2	41.4	8.8	0.4	n.a.	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-28.1	-36.4	-8.8	-14.7	-17.9	-6.7	-5.4	-7.9

1. Includes U.S. Treasury notes publicly issued to private foreign residents.
2. Includes deposits in banks, commercial paper, acceptances, & borrowing under repurchases 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.

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1981	1982				1983				
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Oct.	Nov.
1. Net Claims of U.S. Banking Offices (excluding IBFs) on Own Foreign Offices	8.2	24.2	23.8	35.6	33.2	49.2	43.7	42.3	43.7	38.2
2. Net Claims of U.S. Banking Offices on Own IBFs 1/	11.8	9.9	10.2	11.5	16.2	14.6	12.8	10.5	13.4	10.1
3. Sum of lines 1 and 2 of which:	20.0	34.1	34.0	47.1	49.4	63.8	56.5	52.8	57.1	48.3
(a) U.S.-chartered banks	22.5	29.0	29.9	39.6	40.3	53.7	50.0	47.1	49.2	43.7
(b) Foreign-chartered banks	2.4	5.1	4.1	7.5	9.1	10.0	6.5	5.7	7.9	4.6
4. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	13.2	13.8	14.1	16.1	15.7	16.4	16.8	16.8	18.2	18.6
5. Eurodollar Holdings of U.S. Nonbank Residents	93.4	104.2	116.0	111.5	110.4	114.1	117.9	119.0	n.a.	n.a.

1. Corresponds to net claims of international banking facilities (IBFs) on all foreign residents, including all banks whether related or not, and all nonbanks.

Note: These data differ in coverage and timing from the overall banking data incorporated in the international transactions accounts. Line 3 is an average of daily data reported to the Federal Reserve by U.S. banking offices. Line 2 is data for the last Wednesday of the month for the sample of monthly IBF reporters. Line 1 is an estimate constructed as the residual of line 3 minus line 2. Line 4 is an average of daily data. Line 5 is end-of-month data.

has been accompanied by an expansion in U.S. banking offices' holdings of U.S. Treasury securities and loans to private nonbanks, and which in turn has required these banks to increase their liabilities to domestic residents or to draw down their net claims on foreigners. Agencies and branches of Japanese banks have been particularly active since mid-year in expanding their loans to U.S. residents with funds from their own offices abroad. In addition, foreign branches of U.S. banks extended $1.8 billion of credit directly to U.S. nonbank residents during October and November combined (line 4), as the decline in LIBOR rates relative to prime rates since last summer apparently induced firms to shift to LIBOR borrowing, which was booked at offshore offices.

The expansion of the Eurodollar holdings of U.S. nonbanks slowed to $1 billion in the third quarter from $7.5 billion in the first half of this year and $17 billion during 1982. The slowdown has accompanied a decline in the differential between Eurodollar CD rates and domestic CD rates, which in turn has reflected the phase-in of reserve requirements on Eurocurrency liabilities (currently 2.625 percent for member banks) and the decline since mid-1982 in the general level of dollar interest rates.

Data covering foreign lending by U.S.-chartered banks (including their foreign branches) in the third quarter show a drop of $1/2 billion in claims on non-OPEC developing countries. Total claims decreased more than $14 billion. The small drop in claims on non-OPEC developing countries brought the outstanding amount in September back to the March level. Claims on Brazil rose $100 million, including additions from interest arrears. Claims on Mexico rose $500 million, reflecting *inter alia* the U.S. banks' share of about $700 million in further Mexican drawings on the $5 billion loan signed in March. Among other developing countries, claims on Chile increased $300 million, claims on Israel fell $600 million, and claims on Peru, Korea, and the Philippines each fell by almost $300 million. The decline vis-a-vis the Philippines is consistent with reports that banks generally were reducing their exposure to that country in the third quarter. A decrease of $11 billion in claims on other G-10 countries and Switzerland was widespread and largely involved interbank placements.

U.S. Merchandise Trade

The U.S. merchandise trade deficit in October reached a new record level as imports rose sharply and exports were about unchanged.

The rise in imports, to a level nearly 10 percent above the third-quarter average, was widespread across commodity categories and in part reflected the recent pick-up in U.S. economic activity. Particularly large increases were recorded in consumer goods and machinery; increases in imports of automotive products (from both Canada and Japan) and of industrial supplies were almost as large. The average price of nonoil imports, which had declined steadily from the second quarter of 1982

U.S. MERCHANDISE TRADE[1/]

	1982	1983				
	Year	Q1	Q2	Q3	Sept.	Oct.
Value (Bil. $, SAAR)						
Exports	211.2	198.0	195.7	203.1	205.1	204.2
Agricultural	37.2	36.0	35.3	37.8	39.8	37.7
Nonagricultural	174.0	162.0	160.3	165.3	165.3	166.5
Imports	247.6	233.3	254.3	274.6	269.9	299.2
Oil	61.2	42.0	52.1	66.3	67.4	66.8
Non-oil	186.4	191.3	202.2	208.3	202.5	232.4
Trade Balance	-36.4	-35.2	-58.6	-71.6	-64.8	-95.0
Volume (Bil 72$, SAAR)						
Exports						
Agricultural	17.1	16.9	16.1	16.5	16.9	15.7
Nonagricultural	61.2	56.0	56.1	57.9	58.2	58.1
Imports						
Oil	5.0	3.6	4.8	6.1	6.2	6.1
Non-oil	71.8	75.6	79.9	82.2	79.5	91.5

1. International transactions and GNP basis. Monthly data are estimated.

through the second quarter of 1983, increased fractionally in the third quarter (by about one-half percent at an annual rate) and in October was close to the third-quarter level. The appreciating value of the dollar during the past year importantly affected these import price developments.

The value of oil imports in October was about the same as in September and in the third quarter on average -- an increase in price was offset by a small decline in volume. Oil import prices increased by about 25 cents per barrel in October, reflecting in part price increases in the spot market that occurred during the summer and higher contract prices announced in August by several producers, particularly Mexico and Venezuela. However, oil consumption in the United States and in other countries has declined in recent months and as a result, spot market prices which rose through mid-August have eased since then. Recent OPEC production rates reflect these downward price pressures; it is estimated that OPEC production averaged 17.8-18.0 million barrels per day (mbd) in November, down from 19.0 mbd in September and 18.5-19.0 mbd in October. OPEC oil ministers announced at their December 7-9 meeting their intention to maintain their official benchmark price at $29 per barrel and their quarterly production ceiling at 17.5 mbd.

OIL IMPORTS

	1982	1983				
	Year	Q1	Q2	Q3	Sept.	Oct.
Volume (mbd, SA)	5.36	3.91	5.16	6.42	6.45	6.38
Price ($/BBL)	31.26	29.41	27.69	28.29	28.42	28.69
Value (Bil. $, SAAR)	61.20	41.99	52.11	66.34	67.40	66.84

Exports in October were at about the third-quarter rate. Agricultural exports declined from September levels, largely because soybean exports dropped back from temporarily strong rates. Prices of agricultural exports rose sharply during the third quarter and again in October; between July and October there was an 8 percent rise, with much of the impetus coming from soybeans (which account for about one-third of U.S. agricultural exports). The soybean crop was lower than expected this fall; it ended up one-third lower than normal. In addition, U.S. stocks before the harvest were extremely low. The combination of low stocks and poor harvests caused the price to move up sharply. In response to these factors, various U.S. customers bought soybeans earlier than usual (especially Japan) causing a bunching of shipments in the third quarter.

Nonagricultural exports in October were marginally above the third-quarter rate. In October and in recent months, the increases have come largely in machinery (particularly business machines); increases have also been recorded in industrial supplies since the summer. Despite the recent increases in nonagricultural exports, in October the volume was only 3 percent above levels recorded in the fourth quarter of 1982 and was still 14 percent <u>less</u> than the volume exported in the fourth quarter of 1981; Mexico accounted for about one-quarter of the decline since the fourth quarter of 1981 and about one-half of the increase since the fourth quarter of 1982. The economic recovery in major trading-partner countries continues to be sluggish and the persistent high level of the exchange value of the dollar continues to adversely affect the price competitiveness of U.S. goods.

Foreign Economic Developments. The general upturn in economic activity in the major foreign industrial countries which became evident early this year has, on balance, continued in recent months. However, the pace of this recovery has remained weak in most countries. Only in Canada, where real income increased at an annual rate of more than 7 percent in the first three quarters, could growth be described as robust. A resumption of real income growth in Italy in the third quarter appears to have signaled the end of a three-year recession. In Japan, there are indications that the pace of the recovery may be increasing. In both Germany and the United Kingdom recovery in 1983 has been weak, with no signs in recent months of accelerating growth. Economic activity in France has also been relatively flat recently and may well weaken further in coming months as the government's austerity measures are increasingly felt. Unemployment rates in the major foreign industrial economies have remained stable or declined slightly in recent months, but -- with the exception of Canada -- remain above levels of one year ago.

Inflation rates abroad have, in general, remained moderate in recent months relative to their levels of 1982. However, recent data have not indicated any further reduction in overall inflationary pressures. In Italy the rate of inflation has moved higher in the last several months, while a movement in the opposite direction has taken place in Germany. French inflation has failed to stay below double-digit rates despite government forecasts of moderating price pressures.

Trade and current account balances in France have continued to swing sharply from deficit toward surplus in recent months, in part because weak domestic demand has helped to hold down imports. In

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

	Q4/Q4 1981	Q4/Q4 1982	1982 Q4	1983 Q1	Q2	Q3	1983 JUNE	JULY	AUG.	SEP.	OCT.	LATEST 3 MONTHS FROM YEAR AGO+
CANADA												
GNP	1.5	-5.0	-.7	1.6	1.8	2.0	*	*	*	*	*	4.8
IP	-3.4	-11.8	-3.1	5.2	3.0	4.4	2.2	1.2	1.1	1.8	N.A.	9.5
FRANCE												
GDP	1.8	1.3	.9	-.2	.5	-.3	*	*	*	*	*	.9
IP	-.5	-2.6	.8	.5	1.3	.8	-1.5	1.6	.0	-1.5	N.A.	3.4
GERMANY												
GNP	.5	-2.0	-.2	.6	1.1	N.A.	*	*	*	*	*	.7
IP	-.3	-4.5	-1.6	.8	2.2	.3	4.1	-2.9	.2	1.1	-.2	2.6
ITALY												
GDP	.5	-2.4	-.2	.6	-1.7	.9	*	*	*	*	*	-.4
IP	-.1	-6.1	-1.7	.6	-4.7	1.7	-3.0	3.7	-2.3	2.2	N.A.	-4.1
JAPAN												
GNP	2.7	3.7	.4	.2	.9	N.A.	*	*	*	*	*	2.5
IP	5.7	-1.7	-.8	.5	1.6	3.4	1.0	.2	2.7	1.8	-.6	6.8
UNITED KINGDOM												
GDP	1.7	1.1	.8	1.9	-.9	N.A.	*	*	*	*	*	2.3
IP	2.7	.2	-.5	1.3	-.5	1.7	-1.7	3.0	-.9	.7	-.5	1.5
UNITED STATES												
GNP	2.0	-1.7	-.3	.6	2.3	1.9	*	*	*	*	*	4.6
IP	-1.7	-7.5	-2.1	2.4	4.3	5.0	1.4	2.3	1.3	1.3	.8	11.8

* DATA NOT AVAILABLE ON A MONTHLY OR QUARTERLY BASIS.

+ IF QUARTERLY DATA, LATEST QUARTER FROM YEAR AGO.

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

	Q4/Q4 1981	Q4/Q4 1982	1982 Q2	1982 Q3	1982 Q4	1983 Q1	1983 Q2	1983 Q3	1983 AUG.	1983 SEP.	1983 OCT.	1983 NOV.	LATEST 3 MONTHS FROM YEAR AGO
CANADA													
CPI	12.3	9.7	3.1	2.2	1.6	.6	1.4	1.6	.5	.0	.6	N.A.	5.1
WPI	8.5	4.5	1.9	.8	.3	.7	1.5	.9	.3	-.1	.2	N.A.	3.3
FRANCE													
CPI	14.1	9.5	3.1	1.4	1.9	2.6	2.9	2.1	.6	.8	.8	.5	10.2
WPI	12.7	8.5	2.6	1.9	1.0	2.4	4.0	3.8	2.2	1.1	.6	N.A.	12.9
GERMANY													
CPI	6.5	4.7	1.4	1.1	.7	.5	.6	1.0	.3	.2	.0	.2	2.7
WPI	10.4	3.1	1.3	.0	.0	-2.0	.8	.9	.8	.6	-.1	N.A.	.4
ITALY													
CPI	18.4	16.6	3.0	4.1	4.5	3.6	2.9	2.3	.5	1.3	1.7	1.0	13.2
WPI	18.7	12.4	2.0	3.2	3.3	1.6	1.6	2.3	.8	1.8	1.0	N.A.	9.2
JAPAN													
CPI	-.1	2.9	1.1	.5	1.9	-.1	.9	2.3	-.5	1.2	.9	-.1	1.5
WPI	-1.9	1.3	.2	.9	-.1	-1.9	-1.0	.2	-.2	.1	-.7	.1	-3.6
UNITED KINGDOM													
CPI	11.9	6.2	3.2	.5	.7	.5	2.0	1.3	.4	.4	.4	N.A.	4.9
WPI	9.6	6.5	1.6	1.0	1.2	1.4	2.0	.7	.2	.6	.6	.4	5.5
UNITED STATES													
CPI (SA)	9.6	4.5	1.3	1.9	.5	-.1	1.0	1.2	.4	.5	.4	N.A.	2.8
WPI (SA)	7.3	3.7	.3	1.5	1.1	-.7	.2	.8	.4	.2	.3	N.A.	1.4

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TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES 1/
(BILLIONS OF U.S. DOLLARS; SEASONALLY ADJUSTED)

			1982			1983			1983			
	1981	1982	Q2	Q3	Q4	Q1	Q2	Q3	JULY	AUG.	SEP.	OCT.
CANADA												
TRADE	5.8	14.9	3.8	4.0	4.1	3.3	4.0	3.3	1.2	1.2	.9	.9
CURRENT ACCOUNT	-4.8	2.4	.8	.9	.9	.2	.9	-.2	*	*	*	*
FRANCE												
TRADE 2/	-9.3	-14.0	-4.0	-4.2	-2.9	-3.5	-1.7	-.4	-.4	-.0	.0	-.1
CURRENT ACCOUNT 2/	-4.7	-12.0	-4.4	-3.2	-2.3	-3.8	-1.0	.3	*	*	*	*
GERMANY												
TRADE	11.9	20.6	5.3	5.2	5.1	5.6	4.0	N.A.	1.2	1.5	N.A.	N.A.
CURRENT ACCOUNT (NSA)	-7.3	3.6	.9	-1.6	4.7	1.7	.8	-2.6	-1.2	-1.1	-.3	1.1
ITALY												
TRADE	-15.9	-14.6	-2.8	-3.2	-2.4	-1.5	-1.9	-2.4	-.4	-1.1	-.9	-.5
CURRENT ACCOUNT (NSA)	-8.6	-5.8	-.9	.4	-.7	-2.0	.2	N.A.	*	*	*	*
JAPAN												
TRADE 2/	20.1	18.8	5.5	5.1	4.0	6.5	8.1	8.8	3.0	3.1	2.6	2.4
CURRENT ACCOUNT	4.8	6.9	2.8	2.3	1.6	3.5	6.0	6.1	2.1	2.1	2.0	1.6
UNITED KINGDOM												
TRADE	6.5	3.6	.2	1.0	2.0	-.3	-1.1	-.5	-.5	-.2	.2	-.6
CURRENT ACCOUNT 2/	13.8	9.3	1.6	2.2	4.0	1.2	-.5	.3	-.2	.1	.5	-.4
UNITED STATES												
TRADE	-28.1	-36.4	-5.9	-13.1	-11.4	-8.8	-14.7	-18.2	-5.8	-6.8	-5.7	-7.9
CURRENT ACCOUNT	4.6	-11.2	1.4	-6.6	-6.6	-3.6	-9.7	N.A.	*	*	*	*

1/ THE CURRENT ACCOUNT INCLUDES GOODS, SERVICES AND PRIVATE AND OFFICIAL TRANSFERS.
2/ QUARTERLY DATA ARE SUBJECT TO REVISION AND ARE NOT CONSISTENT WITH ANNUAL DATA.

* COMPARABLE MONTHLY OR QUARTERLY CURRENT ACCOUNT DATA ARE NOT PUBLISHED.

contrast, the Canadian current account moved into deficit in the third quarter as rapid domestic growth stimulated continued sharp rises in imports. The Japanese current account surplus contracted somewhat in October, but a record high yearly surplus of over $20 billion for 1983 appears likely.

Recent economic news from Japan indicates that the prospects for a more rapid recovery have brightened somewhat in the aftermath of the October policy package. (After some delays, the tax cuts in the new policy package were approved by the Diet.) October's industrial production index fell by 0.7 percent (s.a.) from September's high level, but the average level for the most recent three months was more than 4 percent above that for the previous three months. Labor market conditions in October also eased somewhat as shown by the decline from the record unemployment level seen in September. Recent monthly assessments by both the Bank of Japan and the Japanese Economic Planning Agency have noted signs of an increased pace of consumption -- including stronger sales of durables -- as well as ongoing strength in exports. The long decline in housing appears to have tapered off, and some large corporations have revised their investment plans upward.

Both wholesale and consumer prices continue to give no indication of significant upward pressure. The wholesale price index in November was essentially unchanged from the October level; the November consumer price index was slightly below its October level and about only 2 percent above its level of a year ago.

Although the current-account surplus contracted in October by $400 million (s.a.) to $1.6 billion, the current account still is headed for a record annual total of more than $20 billion for all of 1983. The decline in the surplus in October was due primarily to an increase in imports by more than $500 million. Net long-term capital outflows were $2.4 billion, about the same as in September, bringing the cumulative long-term capital account deficit to almost $15 billion for the first ten months.

General elections for the Lower House of the Japanese Diet have been set for December 18.

Real economic activity in Germany has remained relatively weak in recent months. Industrial production decreased by 0.2 percent (s.a.) in October, but remained 4 percent above its recessionary trough level reached late last year. The unemployment rate in both October and November was 9.3 percent (s.a.), down slightly from the level of previous months.

The inflation rate, which had moved higher during the summer, has moderated in recent months. Consumer prices in November increased by only 0.2 percent (n.s.a.) after remaining unchanged in October, bringing the year-over-year consumer price inflation rate down to 2.6 percent. Wholesale prices declined by 0.1 percent (n.s.a.) in October and were virtually unchanged from their year-earlier level.

The current account swung into surplus by $1.1 billion (n.s.a.) in October following three consecutive months of deficits. For the first ten months of this year, the current account was in surplus by $1 billion compared with a deficit of $700 million in the corresponding period last year. The trade surplus in October increased to $1.6 billion (n.s.a.). The cumulative trade surplus in the first ten months of 1983 totaled $13.8 billion, slightly less than the $16.5 billion surplus recorded in this period during 1982.

The growth of central bank money (CBM) has continued to slow. October's 0.2 percent (s.a.) increase was the smallest monthly rise of the year and lowered the rate of monetary growth from the fourth quarter of last year to 7.5 percent (s.a.a.r.), only slightly above the upper end of the Bundesbank's 4 to 7 percent target range for CBM growth between the fourth quarters of 1982 and 1983.

In France, economic activity has shown little trend in recent months, as the stimulative effect of increased exports has tended to offset the contractionary impact of the government's restrictive macroeconomic policies. Industrial production decreased by 1.5 percent (s.a.) in September, but remained 2.4 percent above its year-earlier level. Unemployment in October continued at the 8.8 percent (s.a.) level for the sixth consecutive month.

The inflation rate has given little indication of moderating in recent months. In November, consumer prices increased by 0.5 percent (n.s.a.), bringing the year-over-year consumer price inflation rate to 10 percent. Wholesale prices increased by 13.6 percent in the twelve months to October. Annual wage negotiations in the private sector are about to begin. The government has stated that wage agreements reached must be consistent with its official inflation target of limiting the increase in consumer prices to 5 percent in 1984.

The trade and current account balances have swung sharply from deficit toward surplus in recent months. In the third quarter, the current account was in surplus by $300 million (s.a.), the first quarterly surplus in two years. For the first nine months of 1983, the current account was in deficit at a rate of $6 billion (s.a.a.r.), half the deficit rate of the previous year. The trade deficit rate was also cut nearly in half over the same period. The main goal of the government's austerity program -- elimination of the trade deficit by the end of 1984 -- appears increasingly likely to be achieved.

In the United Kingdom recent data appear to indicate a continued recovery, although some signs of possible weakness remain. In September the industrial production index rose almost enough to offset its decline in August, but then fell slightly again in October. The average of the index for the three months ending October was 1.5 percent above its level in the same period in 1982. After a sharp rise in September the volume of retail sales (s.a.) fell in October, but most of this decline was reversed in November. The November unemployment rate of 12.3 percent (s.a.) was unchanged from that of October. The rate of inflation remained essentially unchanged in October, with the retail price index 5 percent above its level one year earlier.

In October, the trade balance and the current account balance returned to deficit, following surpluses in both figures in September. The cumulative trade account now shows a deficit of $2.6 billion, compared with a surplus of $3.6 billion for all of 1982.

The rate of growth of the three targeted monetary aggregates has slowed somewhat in recent months. Through November, £M3 has grown at an annual rate of 10.5 percent from the target base of February. This rate is just within the target range of 7-11 percent set last March for all three aggregates. M1 and PSL2 remained slightly above target in November. In recent weeks U.K. authorities have announced their intention of using the monetary base, M-zero (M0), as an additional variable conveying information about monetary conditions. Notes and coin outstanding in the hands of the public and the banks comprise over 95 percent of M0. Banks' discretionary operational deposits -- but not their compulsory deposits -- at the Bank of England are the other component of M0. In his autumn budget statement Chancellor of the Exchequor Nigel Lawson reaffirmed his intention to restrain the public sector borrowing requirement next fiscal year to £8 billion (approximately 2.5 percent of GDP) as set out in the Medium-Term Financial Strategy. The Chancellor stated that achieving this target may require some small increases in taxes in 1984.

In Italy the recession that commenced in 1980 appears to have ended. In the third quarter, real GDP rose by 3.7 percent (s.a.a.r.) and, although data on the components of domestic demand are not yet available, indications are that private consumption spending and stock building account for much of the growth. Exports rose slightly while imports increased sharply. The recovery was also reflected in industrial production data, with industrial production in the third quarter rising at an annual rate of over 6 percent (s.a.). In the three months ending in November, consumer prices rose at an annual rate of 14 percent compared with a 9 percent rate of increase during the summer months. However, inflation remains below that seen in 1982. The year-over-year consumer price increase in November of 12.7 percent was 4 percentage points less than the increase during the year ending in November 1982. The trade deficit during the first ten months of this year was less than $8 billion (s.a.a.r.), compared with a $16 billion deficit rate in the corresponding period of 1982.

On November 24 the Senate passed and sent to the Chamber of Deputies a slightly modified version of the Craxi government's 1984 budget package. Even if this legislation is approved by the lower house, recent estimates show that further substantial budget savings will be needed to achieve the government's target of no increase in the enlarged public sector deficit in nominal terms. This year the deficit is likely to exceed 16 percent of GDP.

The <u>Canadian</u> economy continued its robust expansion in the third quarter posting an 8.3 percent seasonally adjusted annual rate of growth of real GNP. This follows real growth of approximately 7 percent over the first half of this year. Inventory accumulation was partly responsible for the high rate of growth recorded in the third quarter. In contrast, the value of inventories declined in each of the seven previous quarters. Real private consumption increased in the third quarter while investment declined slightly in the aggregate, largely as a result of declines in residential and non-residential construction. However, real investment in machinery and equipment increased for the second consecutive quarter after falling sharply over the previous year and a half. The unemployment rate remained unchanged at 11.1 percent in November after falling for ten consecutive months.

Inflation remains well below the double digit rates of the previous three years. Consumer prices rose 4.9 percent in the twelve months ending in October while producer prices grew at an even slower 2.8 percent rate.

The seasonally adjusted current account deficit of $150 million in the third quarter was the first quarterly deficit recorded in over a year. The cumulative current account for the year to date remains in surplus by $1 billion. The trade surplus has been reduced over the course of the year despite strong growth of exports, particularly to the United States, as the growth in imports has been even more rapid.

The Debt Problem Situation in Important Developing Countries

Concern about Brazil's debt situation has eased somewhat over the last month, as Brazil and the IMF reached agreement on a revised program and progress was made on official and private bank financing arrangements for 1984. While Mexico and Chile continue to perform well under their IMF programs, both are concerned about depressed internal economic conditions. Peru, Argentina and the Philippines are out of compliance with their 1983 IMF programs and have not yet reached agreement with the IMF on stabilization programs for 1984. Venezuela's new government appears to be as reluctant as its predecessor to negotiate with the IMF.

On November 22, Brazil received approval from the IMF Executive Board of its request for a waiver and modification of the performance criteria under its three-year Extended Fund Facility program. Brazil was then able to draw from the Fund $1.2 billion, consisting of the scheduled

November drawing and two earlier quarterly drawings that had been delayed because of Brazil's non-compliance with its original Fund program. Brazil also drew $68 million in November from the IMF Buffer Stock Facility to finance the holdings of sugar stocks in connection with the International Sugar Agreement. Brazil repaid the remaining $1.05 billion outstanding on its BIS bridge loan out of these drawings. Brazil's IMF drawing triggered the release of $1.8 billion of old Project I funds from banks. These funds were used to repay the principal of a bank bridge loan made in late 1982 and to pay part of the accumulated interest arrears. Total Brazilian arrears have reportedly dropped below $2 billion. With regard to the external financing plan designed to fill an estimated $11 billion 1983-84 financing gap, banks have committed about $6.2 billion to the $6.5 billion Phase II "new money" facility. The efforts to raise $2.5 billion in new foreign official assistance in the form of export guarantees are well advanced. (The U.S. portion has already been committed, in the form of a special program of up to $1.5 billion in Eximbank guarantees, subject to commitments from other governments). Brazil's August 1983 to December 1984 payments to official creditors of about $3.8 billion were rescheduled at a Paris Club meeting.

Brazil recorded a trade surplus of $566 million in November, bringing the surplus for January-November to $6.05 billion, surpassing the IMF projection of $6 billion for the entire year. (The trade surplus in all of 1982 was less than $1 billion.) Prices rose 8.4 percent in November; over the 11 months through November, prices rose at an annual rate of 218 percent. Under its IMF program Brazil has promised to reduce its inflation rate to 75-100 percent in 1984. While this is only a target, failure to reduce the rate of inflation would jeopardize Brazil's achievement of program performance criteria, especially the public sector borrowing requirement.

Mexico recorded a current account surplus of $3.5 billion in the first nine months of 1983 and seems likely to end the year with a surplus of at least $4 billion. A reserve gain of about $3 billion is in prospect. These results, made possible by a 45 percent contraction in imports, are being achieved at the cost of a 4 percent decline in real GDP. In 1984, Mexican strategy calls for real GDP to rise by 1 percent. In consequence, the current account surplus is expected to shrink to no more than $2.5 billion. Faced with debt amortization payments of $4.5 billion (after the 1983 debt restructuring) and a desire to continue to rebuild reserves, Mexico has begun discussions with foreign commercial banks regarding a new credit for 1984. Mexico is asking for easier terms than those of the $5 billion credit signed last March. After declining fairly steadily for most of the year, the monthly rate of increase in the CPI jumped to 5.9 percent in November, in response to substantial increases in public sector prices. This was more than two percentage points higher than the average of the previous three months.

The debt restructuring negotiations for Argentina's 1983 maturities, totalling in excess of $5.5 billion, were halted in late September when controversy arose regarding the terms of a model debt restructuring agreement for Argentine Airlines. The new Argentine leaders, who took office December 10, have indicated that they intend to seek easier terms. Argentina did not make the August and November drawings (of $315 million each) under the IMF stand-by arrangement because it failed to settle at least a portion of its arrears and because it would have needed IMF waivers on the temporary use of a subsidy on automobile exports--a multiple currency practice--and on the use of exchange controls since September 30. The IMF was reluctant to grant the waivers in view of the growing likelihood of non-compliance with the agreement's quantitative performance criteria related to public sector expenditures and monetary expansion. The new Argentine leaders are exploring the possibility of reinstating the current stand-by, which runs until April 1984, and are interested in developing a follow-on program. The initial $500 million disbursement on the $1.5 billion medium-term bank loan signed in August was finally made on December 1 after several postponements. The disbursement was used, along with $30 million of reserves, to make an overdue $350 million payment on the bridge loan of a year ago and to eliminate interest arrears for September and early October. The country's new leaders are facing a depressed economy on the threshhold of hyperinflation. (In November, the CPI rose by 19.2 percent and stood more than 400 percent above the year-earlier level.) International reserves are virtually exhausted, arrears on current payments are likely to exceed $2 billion by January 1, a current account deficit of about $2 billion is in prospect for 1984, and an estimated $5 billion of public sector debts falls due in the next twelve months. As one of its first actions, the new government imposed extensive price controls.

Peru's central bank now estimates that 1983 real GDP will show a decline of at least 12 percent, as the effects of this year's natural disasters spread. As the economic slide steepens, it becomes more difficult to bring the IMF-approved stabilization program back on track.

The fiscal deficit, originally targetted to be 4.1 percent of GDP, is now likely to exceed 9 percent of GDP. The results of municipal elections held in November are being interpreted as a vote against further austerity measures. Nevertheless, the government continues to work with the IMF in the hope of reaching an agreement on a new program by early January.

Chile continues to meet the targets of its IMF-approved stabilization program and drew $57 million under its stand-by arrangement in mid-November. Banks expect to make the final $230 million disbursement of Chile's $1.3 billion new credit at the end of December as scheduled, but the disbursement could be delayed if efforts to reach final agreement on the rescheduling of $3.4 billion of debt due in 1983-84 are not successful. Chilean authorites are concerned about persistently high unemployment (18 percent in recent months) and the fact that 1983 real GDP growth will probably be zero. They are proposing to apply more fiscal stimulus in 1984, which would induce faster growth, a larger current account deficit and, hence, larger financing needs. It is not clear that the IMF would approve such a policy course; the IMF is skeptical of Chile's ability to obtain the $900 million or so in new credits that would be required.

Venezuela has been granted a fourth moratorium, this one through January 31, 1984, on public sector principal payments to banks. The banks granted the extension after the Venezuelan President issued a decree allowing interest payments on private, non-commercial foreign debt at the preferential exchange rate of 4.3 bolivars per dollar until December 31, 1983. Despite this decree, arrears on private sector interest payments continue to grow and are currently estimated to be $700 million, as the central bank refuses to authorize the release of foreign exchange for this purpose. Presidential elections were held in Venezuela on December 4. The new administration, which takes office on February 2, 1984, has shown the same resistance to an IMF program as the previous administration. Banks continue to demand an IMF program as a precondition to the rescheduling of Venezuela's bank debts, although some banks are reportedly wavering.

In mid-November the Philippines signed an IMF Letter of Intent for a new 18-month $650 million stand-by arrangement. However, the Managing Director has not yet accepted the proposal and has now sent another IMF mission to Manila to check on reports of a jump in money growth, a $400 million increase in the Philippine central bank estimate of arrears, and a $200 million underestimate of interest obligations through 1984. In light of these developments, the 12-member Commercial Bank Advisory Committee for the Philippines, which had reached a tentative agreement to recommend the the extension of $1.65 billion in new bank credits to the Philippines through the end of next year, decided to adjourn until early in January. The proposed bank package also included the refinancing of about $2 billion in principal payments falling due between mid-October 1983 and June 1985 and the maintenance of about $3.5 billion in revolving trade credits to the Philippines. Besides the new commercial bank credits the Philippines was also seeking an additional $1.65 billion from foreign governments and the multilateral development banks. A Paris Club meeting to reschedule official bilateral debt has been tentatively set for January 1984.