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Part 2

January 25, 1984

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

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SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest data			Percent change from		
	Period	Release date	Data	Preceding period	Three periods earlier	Year earlier
				(At annual rate)		
Civilian labor force	Dec.	01-06-84	112.1	1.1	-.3	1.1
Unemployment rate (%) 1/	Dec.	01-06-84	8.2	8.4	9.2	10.7
Insured unemployment rate (%) 1/	Nov.	01-23-84	3.3	3.3	3.5	5.3
Nonfarm employment, payroll (mil.)	Dec.	01-06-84	91.6	3.0	3.5	3.4
Manufacturing	Dec.	01-06-84	19.3	5.6	8.5	5.9
Nonmanufacturing	Dec.	01-06-84	72.4	2.4	2.2	2.7
Private nonfarm:						
Average weekly hours (hr.) 1/	Dec.	01-06-84	35.2	35.2	35.2	34.8
Hourly earnings ($) 1/	Dec.	01-06-84	8.17	8.13	8.08	7.82
Manufacturing:						
Average weekly hours (hr.) 1/	Dec.	01-06-84	40.5	40.6	40.8	39.0
Unit labor cost (1967=100)	Nov.	12-29-83	88.1	-9.5	-10.2	-10.9
Industrial production (1967=100)	Dec.	01-13-84	156.9	6.1	8.1	16.1
Consumer goods	Dec.	01-13-84	158.7	6.8	3.6	11.8
Business equipment	Dec.	01-13-84	165.8	10.2	17.9	12.0
Defense & space equipment	Dec.	01-13-84	125.7	17.4	12.8	8.5
Materials	Dec.	01-13-84	155.3	3.1	8.1	21.5
Consumer prices all items (1967=100)	Dec.	01-24-84	304.4	3.2	4.0	3.8
All items, excluding food & energy	Dec.	01-24-84	293.4	3.3	4.8	4.8
Food	Dec.	01-24-84	295.5	4.9	4.1	2.6
Producer prices: (1967=100)						
Finished goods	Dec.	01-13-84	288.0	2.9	1.5	.6
Intermediate materials, nonfood	Dec.	01-13-84	322.1	.4	2.2	1.4
Crude foodstuffs & feedstuffs	Dec.	01-13-84	259.5	20.7	7.7	8.0
Personal income ($ bil.) 2/	Dec.	01-19-84	2,857.2	10.2	10.9	8.0
				(Not at annual rates)		
Mfgrs. new orders dur. goods ($ bil.)	Dec.	01-25-84	95.4	-1.1	4.9	25.3
Capital goods industries	Dec.	01-25-84	32.1	-1.2	6.5	4.0
Nondefense	Dec.	01-25-84	7.2	-10.3	46.3	-35.4
Defense	Dec.	01-25-84	24.9	1.8	-1.3	26.4
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Nov.	01-16-84	1.34	1.35	1.36	1.52
Manufacturing	Nov.	01-03-84	1.34	1.48	1.48	1.74
Trade	Nov.	01-10-84	1.25	1.24	1.26	1.33
Ratio: Mfgrs.' durable goods inventories to unfilled orders 1/	Nov.	01-03-84	.532	.538	.550	.613
Retail sales, total ($ bil.)	Dec.	01-13-84	102.1	.1	2.9	10.4
GAF 3/	Dec.	01-13-84	21.6	.8	4.2	8.7
Plant and equipment expen. 4/						
Total nonfarm business	1984	01-13-84	332.32	—	—	9.9
Manufacturing	1984	01-13-84	125.98	—	—	13.3
Nonmanufacturing	1984	01-13-84	207.34	—	—	8.0
Auto sales, total (mil. units.) 2/	Dec.	01-05-84	10.3	6.8	16.1	19.2
Domestic models	Dec.	01-05-84	7.7	9.4	12.4	26.0
Foreign models	Dec.	01-05-84	2.6	.2	28.4	3.1
Housing starts, private (thous.) 2/	Dec.	01-18-84	1,667	-5.0	.2	30.2
Leading indicators (1967=100)	Nov.	12-29-83	161.8	-.4	1.8	16.1

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

As the recovery entered its second year, the pace of economic expansion appeared to be settling down to the more moderate rate that is characteristic of this phase of an expansion. Increases in employment and industrial production in December were smaller than the rapid gains seen earlier in 1983. Consumption and business spending continued to show strength, but housing activity was flat and the trade deficit widened further. Overall, inflation remained moderate, although food prices have begun to pick up.

Gross National Product

Real GNP increased at a 4-1/2 percent annual rate in the fourth quarter, according to the Commerce Department's preliminary estimate, down from the 7.6 percent growth rate of the third quarter. For the four quarters of 1983 the increase in GNP was 6.1 percent, slightly short of the average gain for the first year of a recovery. Private domestic demand remained strong in the fourth quarter, with personal consumption expenditures growing at a 6-1/2 percent annual rate and business fixed investment rising at a 22 percent pace. However, more than one-third of the increase in private domestic final purchases (that is, consumption, housing, and business fixed investment) was met by additional imports.

Industrial Production

In December, industrial production increased an estimated 0.5 percent following gains of 0.8 and 0.7 percent in October and November, respectively. Production of durable consumer goods rose almost 2 percent in December as auto assemblies increased to an annual rate of 8.0 million

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

	1983			1983		
	Q2	Q3	Q4	Oct.	Nov.	Dec.
	-----Annual rate-----			--Monthly rate---		
Total	18.4	21.8	11.7	.8	.7	.5
Final products	15.0	17.7	9.8	.5	.9	.8
Consumer goods	19.0	16.9	4.5	-.1	.4	.6
Durable	37.0	29.7	7.9	-.3	-.3	1.9
Nondurable	12.9	12.3	3.2	-.1	.7	.1
Business equipment	11.4	23.2	21.2	1.8	1.8	.9
Defense and space equipment	5.0	10.2	11.5	.9	.8	1.5
Construction supplies	30.8	31.3	10.6	.6	.3	.0
Materials	22.0	25.2	13.5	1.1	.6	.3
Durable goods	34.0	31.4	18.8	1.4	.9	.0
Nondurable goods	20.9	18.3	13.8	1.5	.1	-.1
Energy materials	-2.5	21.0	0.7	-.2	.8	2.0

CAPACITY UTILIZATION IN INDUSTRY
(Percent of capacity, seasonally adjusted)

	1978-80	1982	1967-82	1983		
	High	Low	Avg.	Oct.	Nov.	Dec.
Total industry	87.3	69.6	82.4	78.7	79.1	79.4
Manufacturing	87.5	68.8	81.8	79.0	79.3	79.4
Durable	89.4	64.8	80.5	76.6	77.1	77.5
Nondurable	87.2	73.8	83.9	81.9	82.0	81.9
Mining	90.4	69.6	86.5	71.7	73.0	74.5
Utilities[1]	86.8	79.0	88.6	83.4	84.2	86.2
Industrial materials	88.9	66.6	83.3	79.4	79.8	80.1
Metal materials	95.4	46.2	82.2	68.1	66.6	66.1
Paper materials	97.9	86.3	93.4	100.1	99.9	n.a.
Chemical materials	91.3	.64.0	85.1	79.0	79.4	n.a.

1. The 1978-80 high is below the 1967-82 average because of the unusually slow growth in demand for electricity.

units, the highest level of car production since July 1979. For January, assemblies currently are scheduled at a rate of 8.4 million units. Output of business equipment continued to rise rapidly in December with a sizable gain occurring in oil and gas well drilling, which has rebounded from a very depressed level. Output of construction supplies remained unchanged toward year-end and was up less than 1 percent from its September level.

Materials output rose only 0.3 percent in December, partly reflecting the stiff foreign competition faced by domestic producers of basic metals, especially steel. Most of the December gain was attributable to a surge in electricity generation associated with the severe weather in the latter half of the month.

Capacity utilization in manufacturing, mining, and utilities advanced 0.3 percentage point in December to 79.4 percent, the highest rate since September 1981. The operating rate for manufacturing increased only slightly in December; within manufacturing, however, operating rates for auto assemblies and for the electrical machinery and paper industries advanced strongly.

Employment and Unemployment

The employment situation continued to improve in December, but not quite as rapidly as in earlier months. Payroll employment advanced 230,000 in December compared with average monthly increases of 325,000 in the preceding eight months. In manufacturing, employment rose 90,000 in December, led by the strong recovery in the electrical and transportation equipment industries. At the same time the factory workweek continued to edge down from its very high level in September. The growth rate of

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

	1982	1983	1983 Q1	1983 Q2	1983 Q3	1983 Q4	Nov.	Dec.
	-Average monthly changes-							
Nonfarm payroll employment[2]	-172	248	50	343	336	264	326	231
Strike adjusted	-170	248	52	340	344	258	300	226
Manufacturing	-127	90	25	105	96	133	118	89
Durable	-99	70	19	76	79	104	91	68
Nondurable	-28	20	5	29	17	29	27	21
Construction	-20	25	-19	59	35	24	36	14
Trade	-18	40	31	48	39	40	39	27
Finance and services	31	90	55	124	98	82	115	85
Total government	-13	3	-11	-1	47	-22	10	10
Private nonfarm production workers	-146	212	42	327	245	235	264	162
Manufacturing production workers	-108	82	27	97	81	123	107	79
Total employment[3]	-51	330	112	476	378	355	636	335
Nonagricultural	-67	336	127	445	435	339	619	236

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)

	1982	1983	1983 Q1	1983 Q2	1983 Q3	1983 Q4	Nov.	Dec.
Civilian, 16 years and older	9.7	9.6	10.4	10.1	9.4	8.5	8.4	8.2
Teenagers	23.2	22.4	23.1	23.3	22.4	20.6	20.2	20.1
20-24 years old	14.8	14.4	15.7	15.0	13.9	12.9	13.0	12.2
Men, 25 years and older	7.5	7.8	8.4	8.2	7.5	6.8	6.8	6.5
Women, 25 years and older	7.3	7.2	7.8	7.6	7.0	6.3	6.2	6.3
White	8.6	8.4	9.1	8.8	8.1	7.4	7.3	7.1
Black	18.9	19.5	20.2	20.4	19.4	17.9	17.7	17.8
Fulltime workers	.6	9.5	10.3	10.0	9.3	8.3	8.2	8.0
Memo:								
Total national[1]	.5	9.5	10.2	10.0	9.3	8.4	8.3	8.1

1. Includes resident Armed Forces as employed.

employment in manufacturing and in nonfarm business payrolls as a whole has been close to the average for the first year of post-war recoveries. Although the overall level of payroll employment now has surpassed its pre-recession high, in the manufacturing sector only half of the jobs lost in the last recession have been recovered.

The civilian unemployment rate fell another 0.2 percentage point in December to 8.2 percent. The rapid decline in the unemployment rate has occurred in part because total household employment growth, which has exceeded the rise in payroll jobs, has been faster than in most recent recoveries. At the same time, the labor force participation rate has been flat over the past year; most of the newly employed apparently have come from workers who had previously lost their jobs rather than from those outside the labor force.

Personal Income and Consumption

Personal income rose 0.9 percent in December and, for the fourth quarter as a whole, increased more rapidly than during the third quarter. Wage and salary disbursements increased at a $10 billion annual rate in December--about in line with the average gain during the preceding five months. But, owing to the PIK program and "reachback" aid to recipients of Federal Supplemental unemployment compensation, farm income and transfer payments contributed more to income growth than in previous quarters. Nominal consumer spending accelerated between the third and fourth quarters, but with the surge in income the saving rate edged up further to 5.1 percent.

Real personal consumption expenditures grew 6-1/2 percent at an annual rate in the fourth quarter, compared with 2.2 percent in the

PERSONAL INCOME AND EXPENDITURES
(Based on seasonally adjusted data)

	1982	1983	1983 Q1	1983 Q2	1983 Q3	1983 Q4	1983 Nov.	1983 Dec.
	- - Percentage changes at annual rates[1] - -							
Total Personal Income								
Nominal	4.6	7.7	4.0	8.7	7.3	10.9	8.7	10.2
Real[2]	-.3	4.1	1.8	3.8	3.0	7.6	7.0	6.9[e]
Disposable Personal Income								
Nominal	5.1	8.8	5.2	8.2	11.0	10.9	8.9	10.2
Real	.2	5.1	2.9	3.5	6.5	7.5	7.8	5.8[e]
Expenditures								
Nominal	7.5	9.1	5.2	15.1	6.5	9.9	9.5	15.4
Real	2.5	5.4	2.9	10.0	2.2	6.5	8.3	11.1[e]
	- - Changes in billions of dollars[3] - -							
Total personal income	10.6	17.7	8.4	20.8	16.3	25.2	20.3	24.1
Wages and salaries	5.1	11.1	8.3	14.7	10.3	11.0	4.3	9.9
Private	3.4	9.7	6.9	13.3	8.8	9.7	3.0	8.6
Manufacturing	-.6	3.7	3.7	4.4	4.0	2.4	3.3	1.2
Other income	6.0	7.4	1.3	7.0	6.6	14.7	16.2	14.2
Disposable personal income	10.0	17.0	9.1	15.3	21.9	21.7	17.9	20.5
Expenditures	12.0	16.5	8.2	26.7	10.0	21.1	17.6	28.6
Durables	2.5	3.7	-.5	8.2	-.3	7.5	3.6	13.8
Nondurables	1.9	4.2	2.1	9.2	3.2	2.1	2.4	-4.3
Services	7.6	8.6	6.6	9.4	7.1	11.5	11.7	19.1
Personal saving rate (percent)	5.8	4.8	5.4	4.0	4.9	5.1	5.2	4.8

e--staff estimate.
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.

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

	1983						
	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.
Total sales	.3	5.9	1.2	2.8	1.7	1.1	.1
(Real)[1]	.3	4.9	.3	—	2.0	.4	—
Total, less automotive, gasoline and nonconsumer stores	1.3	2.9	2.0	1.9	1.3	.3	-.2
GAF[2]	1.2	4.2	1.1	3.3	1.5	1.9	.8
Durable	.4	12.4	.1	6.6	3.0	3.1	1.6
Automotive Group	-2.6	17.6	-2.2	9.0	3.8	4.7	2.9
Furniture & appliances	3.2	4.0	4.3	2.5	1.6	-.9	3.4
Nondurable	.3	3.0	1.7	1.0	1.0	.2	-.7
Apparel	-.4	7.2	-2.4	4.6	3.5	2.7	-.4
Food	-.3	2.6	1.8	.3	.8	.0	-1.5
General merchandise[3]	1.2	3.1	1.4	3.1	.8	2.5	.2
Gasoline stations	-4.3	3.8	3.2	-1.8	.2	-1.5	-1.9

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							1984
	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Total	8.5	9.1	9.2	9.9	9.8	9.7	10.3	
Imports	2.4	2.3	2.3	2.7	2.7	2.6	2.6	
Domestic	6.1	6.8	6.9	7.3	7.1	7.0	7.7	7.9[1]
Small	2.5	3.0	2.8	3.2	2.9	3.2	3.6	
Intermediate & standard	3.6	3.9	4.1	4.1	4.2	3.9	4.0	

1. First Twenty Days
Note—Components may not add to totals due to rounding.

preceding period. The gain reflected higher outlays for durables (especially autos) and services (particularly for home heating in December).

Automobile sales were at a 10.3 million unit annual rate in December, the highest selling pace since early 1981. Sales of domestic autos picked up at year-end, and purchases of imported cars, particularly European models, remained at a high rate. For the last 20 days of December, sales of domestic autos averaged 7.9 million units at an annual rate. This selling pace was sustained through the first 20 days of January.

Holiday-season buying of general merchandise, apparel, and furniture at retailers was strong, although December's 0.8 percent gain was not as spectacular as might have been expected from earlier qualitative reports. For the fourth quarter as a whole, sales in this category climbed 3.3 percent, compared with a 1.1 percent increase in the third quarter. However, weak food sales and a decline in nominal outlays at gasoline stations held the overall quarterly gain in retail sales excluding autos to 1.4 percent.

Consumer confidence reached very high levels in December according to both the Michigan Survey Research Center and the Conference Board. The Michigan measure of sentiment was about the same as the preceding peak in 1972. The Conference Board index of confidence was the highest in five years after an advance of more than 4 percent.

Business Fixed Investment

Capital spending continued to climb rapidly in the fourth quarter. Business investment has been much stronger than average during this recovery, and survey evidence points to continued growth this year.

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

	1983						
	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.
<u>Producers' durable equipment</u>							
Nondefense capital goods							
Shipments	.0	5.3	2.2	5.9	-2.6	5.1	5.4
Excluding aircraft & parts	.3	6.1	4.6	6.0	-1.4	2.7	6.7
Orders	-.1	15.7	1.0	7.9	3.1	-6.0	1.8
Excluding aircraft & parts	2.5	12.1	5.2	6.2	-1.9	-5.5	6.2
Unfilled orders	-3.5	1.5	.8	3.3	2.4	.1	-.5
Excluding aircraft & parts	-4.3	1.7	2.2	2.4	2.4	.1	.0
Addendum:							
Sales of heavy-weight trucks (thousands of units, annual rate)	173	180	181	199	184	193	221
<u>Nonresidential structures</u>							
Nonresidential construction put in place	-4.6	-2.5	2.7	--	-2.1	3.6	--
Nonresidential building permits	-2.4	17.9	11.4	--	-7.0	-7.1	--

Real expenditures on equipment rose 28 percent at an annual rate last quarter, one of the largest increases of the postwar period. The fourth quarter gain was particularly strong in heavy industrial machinery, communications equipment, and trucks. During 1983 as a whole the investment recovery was broadly based, with such diverse items as office, computer and communication equipment, heavy industrial machinery, and autos and trucks all scoring impressive gains. Recent data on new orders for nondefense capital goods point to continued strength this year. After rising 1.8 percent in December, the level of new orders stood about 8 percent above that of the third quarter.

In the structures category, real spending grew 10.1 percent (annual rate) last quarter, about the same rate as in the third quarter. Public utilities construction expanded sharply, but industrial building continued to fall. Although vacancy rates reached a record high of 12.8 percent in October, office building activity has remained at a relatively high level.

The annual Commerce Department survey of plant and equipment spending, taken late in 1983, reported that business plans to increase nominal capital outlays 9.9 percent in 1984, following a 4.2 percent decline in 1983. This finding is comparable with those of private surveys; however, such surveys tend to underpredict investment during a recovery, partly because of technical differences between measures of investment spending and plant and equipment spending and partly because capital spending tend to be revised up as the recovery proceeds.

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

	1981	1982	1983 Q1	1983 Q2	1983 Q3	1983 Sept.	1983 Oct.[r]	1983 Nov.[p]
Book value basis								
Total	33.3	-14.2	-34.9	9.2	33.4	41.4	25.4	27.5
Manufacturing	18.2	-17.4	-30.4	.3	10.5	2.2	9.5	2.1
Wholesale trade	4.6	1.8	-8.8	-3.8	11.1	19.2	17.7	-3.9
Retail trade	10.4	1.4	4.3	12.7	11.8	20.0	-1.8	29.4
Automotive	2.1	.1	1.5	2.7	5.9	17.5	1.1	15.5
Constant dollar basis								
Total	5.3	-8.2	-14.5	-2.1	9.0	14.9	3.6	9.8
Manufacturing	2.0	-8.4	-12.3	-.8	1.4	-.9	-.9	-.3
Wholesale trade	.9	.6	-5.3	-2.9	3.8	5.7	4.5	1.4
Retail trade	2.4	-.5	3.1	1.7	3.8	10.1	-.1	8.8
Automotive	-.2	-.4	.2	-1.6	2.3	10.2	.2	3.9

INVENTORIES RELATIVE TO SALES[1]

	Cyclical Reference points[2] 1981 Low	Cyclical Reference points[2] 1982 High	1983 Q1	1983 Q2	1983 Q3	1983 Sept.	1983 Oct.[r]	1983 Nov.[p]
Book value basis								
Total	1.42	1.54	1.46	1.39	1.37	1.35	1.35	1.34
Manufacturing	1.59	1.78	1.61	1.53	1.48	1.46	1.48	1.44
Wholesale trade	1.07	1.31	1.25	1.19	1.17	1.15	1.15	1.15
Retail trade	1.37	1.45	1.40	1.36	1.37	1.37	1.34	1.35
Automotive	1.61	1.92	1.66	1.45	1.56	1.55	1.50	1.49
Constant dollar basis								
Total	1.62	1.77	1.66	1.60	1.57	1.56	1.56	1.54
Manufacturing	1.92	2.14	1.93	1.84	1.80	1.78	1.80	1.75
Wholesale trade	1.35	1.56	1.48	1.42	1.40	1.39	1.39	1.39
Retail trade	1.33	1.45	1.40	1.36	1.36	1.36	1.34	1.34
Automotive	1.44	1.79	1.50	1.34	1.37	1.35	1.40	1.38

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.

Business Inventories

Business inventory rebuilding continued in the fourth quarter, but at a moderate pace. In November, manufacturing and trade inventories rose at an annual rate of $10 billion in real terms, about the same pace as in the third quarter. However, the rise in stocks was not sufficient to match the 2 percent increase in shipments and sales, and the ratio of inventories to sales for all manufacturing and trade fell further to 1.54. The ratio has remained around this low level since June.

In November, manufacturers' real inventories remained at their extremely lean October level. Since the recovery began, manufacturers have rebuilt almost none of the $13 billion of stocks (1972 dollars, not annualized) that were liquidated during the contraction phase of this inventory cycle.

In contrast, much greater stock rebuilding has taken place at trade establishments. Stocks held by merchant wholesalers at the end of November were almost back to the previous peak recorded in October 1982. In the retail sector, inventories expanded briskly by $8.8 billion in November, putting stocks nearly $2 billion above their pre-liquidation peak. While close to half of the retailers' stock buildup in November was in autos, accumulation also took place at nonauto outlets, especially food, furniture, appliances, and general merchandise stores.

Housing Markets

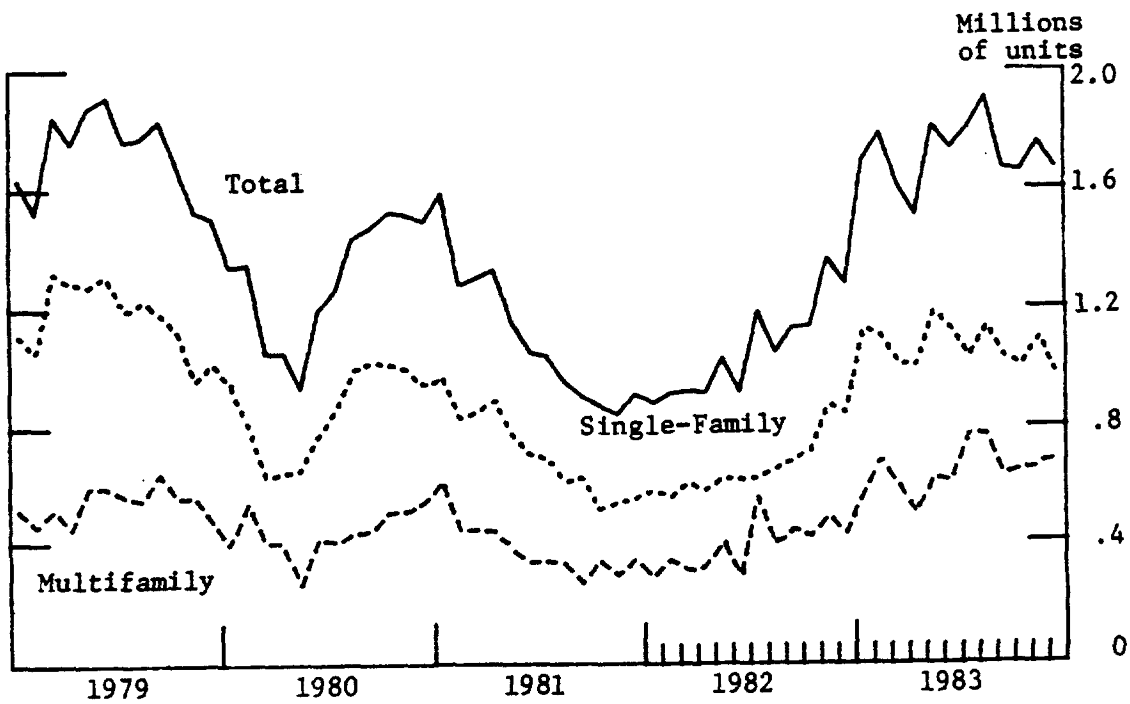
Housing market activity has settled back to a level somewhat below its mid-year peak. Housing starts in December declined to 1.67 million units at an annual rate, remaining in the range that has pre-

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

	1983 annual	1983 Q3	Q4	Oct.	Nov.	Dec.[1]
All units						
Permits	1.59	1.65	1.63	1.63	1.64	1.61
Starts	1.70	1.79	1.69	1.65	1.76	1.67
Single-family units						
Permits	.88	.88	.90	.88	.91	.91
Starts	1.07	1.07	1.02	1.00	1.10	.97
Sales						
New homes	n.a.	.58	n.a.	.64	.64	n.a.
Existing homes	2.72	2.74	2.68	2.61	2.60	2.82
Multifamily units						
Permits	.71	.77	.72	.75	.73	.69
Starts	.64	.73	.67	.65	.66	.70
Mobile home shipments	n.a.	.30	n.a.	.29	.31	n.a.

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

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



vailed since September. New home sales were flat in October and November at a level 4 percent lower than the May peak. Existing home sales rebounded in December; in the fourth quarter, they averaged 2.68 million at an annual rate, 6 percent less than the high in the second quarter. Home prices recently have been posting only modest year-over-year increases.

Housing starts in the fourth quarter were at an annual rate of 1.69 million units, down from the 1.79 million unit pace registered in the third quarter. The fourth quarter decline in starts was broadly based in terms of both region and type of structure. Single-family residences were started at an annual rate of 1.02 million units, and multifamily starts were at .67 million annually. Nevertheless, for the multifamily sector, the last two quarters of starts had the highest rates since early 1974. The recent growth in real-estate syndicates, spurred largely by the 1981 tax law changes, appears to be bidding up property prices and increasing the profitability of rental construction.

Government Spending -- Federal, State, and Local

The federal deficit (unified basis) declined $2.6 bi. .ion in November from its year-earlier level, as the growth of federal spending slowed. In part, the slowdown reflects the deferral to January of increases in federal pay levels and in social security benefits. In addition, unemployment benefits and cash farm price support payments remained below year-earlier levels. For the 1984 fiscal year through November, outlays were only 3.8 percent above year-earlier levels. However, for fiscal year 1984 as a whole, the Congressional Budget Office and the Administration recently have projected an increase in total outlays of about 7 percent.

Receipts have grown 11 prcent from year-earlier levels during the first two months of this fiscal year, in line with the rate of increase for the entire fiscal year recently projected by CBO and the Administration. Most of the gain in receipts has come from the corporate income tax and social insurance taxes. Withheld personal income taxes are roughly unchanged, as recent tax cuts have about offset the effect on receipts of the strong recovery of personal income.

On a NIPA basis, real total federal purchases fell 7 percent at an annual rate in the fourth quarter, primarily as a result of transfers that took place under the Payment-in-Kind agriculture program, which are recorded as a negative purchase by the Commodity Corporation (CCC). Real nondefense purchases excluding those by CCC increased slightly, while defense spending rose at a 7 percent rate.

Growth of state and local sector activity slowed in recent months following its rapid third quarter advance. Real outlays for goods and services were unchanged in the fourth quarter, following a 4-1/4 percent rise in the previous three-month period. The recent slowing reflected a drop in construction spending that reversed about one-third of the sharp advance in the third quarter.

Exports and Imports

Imports have continued to grow faster than exports in recent months, reflecting the strength of the recovery in the United States, sluggish economic activity abroad, and the persistent high level of the exchange value of the dollar. For October-November combined, the merchandise trade deficit was at a record $87 billion annual rate.

The value of merchandise exports was little changed from the third-quarter average, or from levels recorded during the previous four quarters. Merchandise imports in October-November rose to a level 5 percent above the third-quarter average, despite a decline in oil imports; the increase in nonoil imports (9 percent) was widespread across commodity groups.

The foreign sector continues to exert a drag on real GNP growth. The Commerce Department estimated, based on incomplete data, that real exports of goods and services increased only slightly in the fourth quarter, while imports climbed by 34 percent at an annual rate. At the same time, import prices were fairly stable, as they have been throughout the year, helping to damp domestic price inflation. (A more complete discussion of international economic development may be found in Part IV.)

Prices

Inflation appeared to be holding steady toward the end of 1983. The consumer price index rose 0.3 percent in both November and December, similar to the average monthly increases during the year as a whole. The producer price index for finished goods showed no net change over the last two months of 1983 and was up a total of only 0.6 percent during the year.

The rise in consumer prices during 1983 was similar to the increase during 1982 and was less than one-third of the peak inflation rates of 1979 and 1980. The increase in the producer price index this past year was the smallest since 1964. These favorable price developments during 1983 reflected the high levels of slack that had built up earlier in labor and product markets, softness in food and energy markets, and the persistent strength of the dollar in foreign exchange markets.

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

	Relative Importance Dec. 1982	1982	1983	1983 H1	1983 Q3	1983 Q4	1983 Nov.	1983 Dec.
All items[2]	100.0	3.9	3.8	2.9	5.3	4.0	3.6	3.2
Food	19.0	3.1	2.6	2.2	1.7	4.2	1.6	4.9
Energy	12.4	1.3	-.5	-4.8	7.1	-1.0	.0	1.4
All items less food and energy[3]	68.6	6.0	4.9	4.1	6.2	4.9	4.9	3.3
Commodities[3]	26.2	5.0	5.0	4.3	7.1	4.5	3.4	2.9
Services[3]	42.4	7.0	4.8	4.2	5.3	5.3	6.0	3.5
Memorandum:								
CPI-W[4]	100.0	3.9	3.3	2.5	5.2	2.7	1.6	2.0

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	1982	1983	1983 H1	1983 Q3	1983 Q4	1983 Nov.	1983 Dec.
Finished goods	100.0	3.7	.6	-.9	2.5	1.5	-2.1	2.9
Consumer foods	23.7	2.1	2.2	2.0	1.5	3.4	-11.8	8.7
Consumer energy	13.2	-.1	-9.0	-15.2	3.7	-8.2	-12.5	-11.5
Other consumer goods	40.6	5.3	1.8	.5	2.9	3.2	5.5	4.0
Capital equipment	22.5	3.9	2.0	1.8	2.5	1.8	.0	2.1
Intermediate materials[2]	95.2	.3	1.4	-.8	5.3	2.3	1.9	.4
Exc. energy	78.7	.6	2.8	1.9	4.0	3.3	4.0	3.6
Crude food materials	51.2	1.5	8.1	9.1	5.9	7.9	-.5	20.7
Crude energy	34.4	2.6	-4.6	-7.2	-1.5	-2.3	2.6	2.9
Other crude materials	14.4	-7.6	15.8	16.5	20.2	8.5	20.3	8.0

1. Changes are from final month of preceding period to final month.

As in 1982, favorable developments in the energy sector contributed to the general easing of inflation in 1983. Though volatile from quarter to quarter, consumer energy prices registered a decline of about 1/2 percent over the course of the year. Moreover, except for some recent weather-related increases in the prices of heating fuels, energy prices appeared to be holding steady around the turn of the year.

Retail food prices rose only 2.7 percent during 1983, the smallest advance since 1976. However, unlike energy, pressures on retail food prices seemed to be developing at year end. Thus, producer price index for crude foods rose 1.7 percent in December and, because of rising livestock prices, appears likely to rise sharply again in January. Many livestock producers are trimming their herds in response to high feed costs; in addition, severe cold in the Midwest and disease-related losses of poultry are adding to the current price pressures for livestock products. Fruit and vegetable crops in Texas and Florida were damaged considerably during the cold wave of late December; typically, such events lead to sharp, but temporary, increases in the prices of fresh fruits and vegetables.

The consumer price index for items other than food and energy rose 4.9 percent during 1983; about 1 percentage point less than in 1982. Price advances slowed especially for services. The fastest increases for items other than food and energy occurred during the summer and early autumn, reflecting steep hikes in the prices of used cars and, to a lesser extent, for new cars and tobacco. However, in November and December, car prices rose less rapidly than in previous months; and, overall, the index for items other than food and energy settled back to about the average rate of increase shown for the year as a whole.

Wages and Labor Costs

Wage increases for production workers, as measured by the volatile hourly earnings index, rose from their very low 2-3/4 percent rate of increase in the middle of the year to a 4-1/2 percent annual rate in the fourth quarter. This pattern in part reflected the collective bargaining calendar: negotiations took place in many of the weaker industries in the first half of the year (primary metals, lumber, and construction) while many of the stronger industries settled during the second half (telephones, longshoring, and aerospace). Concession bargaining continues, however, especially in the airline industry. For 1983 as a whole, the increase in the hourly earnings index slowed to 4 percent from 6 percent in 1982.

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

	1982	1983	1983 Q2	1983 Q3	1983 Q4	1983 Oct.	1983 Nov.	1983 Dec.
Total private nonfarm	6.0	3.9	3.4	2.3	4.4	6.9	.4	5.5
Manufacturing	6.1	2.7	1.3	1.8	3.3	4.2	5.4	2.7
Durable	6.1	2.1	.3	1.5	2.6	2.2	4.8	3.5
Nondurable	6.3	3.8	3.1	2.3	4.6	7.6	6.2	1.4
Contract construction	5.2	1.4	-.2	-1.2	1.3	-3.1	-5.9	8.6
Transportation and public utilities	6.1	4.5	3.4	.9	5.7	9.4	2.9	7.6
Total trade	4.8	4.5	5.1	3.7	4.7	8.2	-.2	4.2
Services	6.6	4.9	6.4	3.7	5.9	9.9	-3.6	8.8

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.

DOMESTIC FINANCIAL DEVELOPMENTS

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1982		1983			1984	Change from:	
	Highs	FOMC Dec. 21	Spring lows	FOMC Nov. 15	FOMC Dec. 20	Jan. 24	Spring lows	FOMC Dec. 20
Short-term rates								
Federal funds[2]	15.61	8.69	8.48	9.42	9.62	9.55p	1.07	-.07
Treasury bills								
3-month	14.57	7.90	7.96	8.78	9.04	8.92	.96	-.12
6-month	14.36	8.01	7.97	8.94	9.24	9.01	1.04	-.23
1-year	13.55	8.11	7.95	9.06	9.27	9.06	1.11	-.21
Commercial paper								
1-month	15.73	8.48	8.17	9.14	9.83	9.24	1.07	-.59
3-month	15.61	8.43	8.13	9.14	9.78	9.21	1.08	-.57
Large negotiable CDs[3]								
1-month	15.94	8.59	8.26	9.25	9.97	9.29	1.03	-.68
3-month	16.14	8.62	8.26	9.42	9.86	9.40	1.14	-.46
6-month	16.18	8.78	8.29	9.59	9.95	9.55	1.26	-.40
Eurodollar deposits[2]								
1-month	16.36	9.44	8.68	9.45	10.39	9.54	.86	-.85
3-month	16.53	9.56	8.71	9.75	10.36	9.75	1.04	-.61
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	9.30	9.52	9.00	.63	-.52
Sept. 1984 contract	11.48	9.80	8.71	9.88	10.05	9.61	.90	-.44
ntermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	15.16	9.87	9.36	10.96	11.14	10.90	1.54	-.24
10-year	14.95	10.54	10.12	11.70	11.86	11.64	1.52	-.22
30-year	14.80	10.53	10.27	11.72	11.94	11.69	1.42	-.25
Municipal revenue (Bond Buyer index)	14.32	10.81[4]	9.21	10.18[4]	10.56[4]	9.98[4]	.77	-.58
Corporate--A utility Recently offered	17.47	12.90e	11.64	13.13e	13.45e	12.91e	1.27	-.54
Home mortgage rates								
S&L fixed-rate	17.66	13.63[5]	12.55	13.47[5]	13.42[5]	13.35[5]	.80	-.07
FNMA ARM, 1-yr.	17.41	11.13[5]	10.54	11.40[5]	11.60[5]	11.40[5]	.86	-.20

	1982	1983			1984	Percent change from	
	Lows	Highs	FOMC Nov. 15	FOMC Dec. 20	Jan. 24	1983 highs	FOMC Dec. 20
Stock prices							
Dow-Jones Industrial	776.92	1248.30	1247.97	1241.97	1242.88	-.4	.1
NYSE Composite	58.80	99.01	95.49	93.64	95.86	-3.2	2.4
AMEX Composite	118.65	246.38	219.38	217.40	224.31	-9.0	3.2
NASDAQ (OTC)	159.14	328.91	278.92	274.51	278.82	-15.2	1.6

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

M1 growth picked up during December and continued its more rapid expansion in early January. Growth in the broader monetary aggregates has been quite moderate, however, and there has been no material change in reserve market conditions since the December FOMC meeting. Apart from a year-end spike, federal funds generally have traded in the vicinity of 9-1/2 percent.

The stability of the funds rate, and incoming data pointing to slower economic expansion and subdued inflation, have eased earlier concerns about potential tightening actions by the System. Interest rates have declined across the maturity spectrum generally, in some cases by more than 1/2 percentage point over the intermeeting period.

The effects thus far of the recent decline in rates on financial flows appear limited. Corporate bond offerings have picked up, but issuance by nonfinancial firms has risen only moderately from the extremely low fourth-quarter pace; meanwhile, short-term business borrowing evidently has continued substantial, although it probably has tapered off from December's strong rate. Limited information on household borrowing suggests that consumer installment credit continued to rise briskly thorugh early January while mortgage flows probably diminished slightly -- at least in the fourth quarter. Tax-exempt bond issuance has slowed noticeably in recent weeks, owing largely to the termination of mortgage revenue bond authority and the lack of action on industrial development bond legislation. Meanwhile, the federal government's cash needs have remained large, absorbing an extraordianry share of overall credit flows.

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

	1983 Q2	1983 Q3	1983 Q4	1983 Oct.	1983 Nov.	1983 Dec.	Growth from base period to Q4 1983[2]
	——— Percentage change at annual rates ———						
1. M1	12.2	8.9	2.1	1.9	0.9	6.5	5.5
2. (M1)[3]	(12.6)	(6.6)	(3.9)	(4.7)	(7.0)	(0.9)	(5.3)
3. M2	10.1	7.8	7.0	9.1	7.2	5.6	7.8
4. M3	8.1	8.3	8.7	8.3	11.5	6.5	9.1
Selected components							Levels in billions of dollars Dec. 1983
5. Currency	10.6	7.8	9.3	10.1	9.2	5.8	146.0
6. Demand deposits	4.0	4.6	-3.4	-2.5	-6.4	7.5	243.1
7. Other checkable deposits	30.6	19.4	4.2	0.0	4.8	6.6	127.2
8. M2 minus M1 (9+10+11+14)	9.4	7.5	8.6	11.3	9.2	5.3	1663.6
9. Overnight RPs and Eurodollars, NSA[4]	46.4	-9.6	25.1	77.0	-25.5	19.6	56.1
10. General purpose and broker/dealer money market mutual fund shares, NSA	-4.0	-11.2	-1.2	1.7	7.8	-6.9	137.9
11. Commercial banks	16.5	12.3	12.0	13.1	14.9	7.9	714.8
12. Savings deposits, SA, plus MMDAs, NSA[5]	62.4	10.1	4.4	3.4	8.4	7.0	362.5
13. Small time deposits	-24.1	14.9	20.1	23.1	21.7	9.3	352.4
14. Thrift institutions	12.4	8.0	6.0	7.0	6.5	3.5	762.1
15. Savings deposits, SA, plus MMDAs, NSA[5]	56.8	2.8	-9.1	-8.7	-11.7	-10.0	322.4
16. Small time deposits	-18.0	12.3	18.2	19.4	20.2	13.8	439.7
17. M3 minus M2 (18+21+22)	-2.4	10.6	17.8	4.2	34.5	11.1	415.1
18. Large time deposits	-0.5	13.8	16.7	8.3	18.8	15.5	329.1
19. At commercial banks, net[6]	-15.6	-4.4	0.5	-12.7	11.8	11.1	228.7
20. At thrift institutions	55.4	71.9	60.0	63.4	35.1	24.4	100.4
21. Institution-only money market mutual fund shares, NSA	-41.9	-14.9	15.5	24.6	21.1	-11.8	40.2
22. Term RPs, NSA	31.2	0.0	27.1	-37.3	137.3	14.8	49.3
	— Average monthly change in billions of dollars —						
MEMORANDA:							
23. Managed liabilities at commercial banks (24+25)	-0.2	-2.9	5.5	-8.8	19.6	5.7	383.0
24. Large time deposits, gross	-4.3	-1.2	0.3	-5.1	2.6	3.3	284.1
25. Nondeposit funds	4.1	-1.7	5.2	-3.7	17.0	2.4	98.9
26. Net due to related foreign institutions, NSA	2.4	1.2	2.9	-4.3	8.8	4.3	-42.7
27. Other[7]	1.7	-2.9	2.3	0.7	8.1	-1.9	141.6
28. U.S. government deposits at commercial banks[8]	0.2	1.2	-1.6	5.2	-10.4	0.3	11.6

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 Q2 1983. The base period for M2 is February/March 1983. The base period for M3 is Q4 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 October, November, and December at rates of 10.5, 7.9 and 10.7 respectively. At thrift institutions, savings deposits excluding MMDAs declined during October, November, and December at rates of 3.9, 10.5 and 17.9 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.

Monetary Aggregates and Bank Credit

Note on the monetary data: Regular benchmark and seasonal factor revisions are in process. The data reported herein are on an unrevised basis. A discussion of revisions to the monetary aggregates will be included in the Bluebook.

M1 accelerated in December to a 6-1/2 percent annual rate of growth, the first substantial pickup since July. The buildup was concentrated in demand deposits, which grew at a 7-1/2 percent rate after declining in each month since July. A further sizable gain in M1 was registered in the first two weeks of January.

Despite the acceleration in narrow money, growth in M2 slowed further in December, to a 5-1/2 percent annual rate. Outflows from savings deposits increased, while growth in small time deposits moderated; as in November, time accounts with maturities of six months or less actually declined, in part because such accounts bear lower interest rates than longer-maturity deposits. In contrast to the overall deceleration of interest-earning deposits, MMDA inflows doubled in December. Virtually all of the MMDA growth was at commercial banks, with most of the increase occurring in nonpersonal accounts.

M3 growth slowed considerably in December from its robust November pace as a sharp slowdown in its non-M2 component combined with the fall-off of M2. At thrifts, issuance of large time deposits moderated further from the heavy pace of the second and third quarters; but large CDs at commercial banks increased in November and December for the first time since MMDAs were introduced at the end of 1982. Overall, commercial bank needs for purchased funds were smaller in December than in November

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

	1983 Q2	Q3	Q4p	Oct.	Nov.	Dec.p	Leve bil. of Dec.
	Commercial Bank Credit						
1. Total loans and securities at banks[2]	9.9	8.6	12.0	9.9	13.7	12.9	1569.0
2. Securities	23.9	6.3	10.5	13.8	12.3	5.0	435.0
3. Treasury securities	53.5	13.3	24.6	36.6	25.7	10.3	187.8
4. Other securities	5.8	1.3	0.3	-2.9	2.9	1.0	247.2
5. Total loans[2]	4.8	9.5	12.7	8.5	14.1	16.0	1134.0
6. Business loans[2]	-1.3	7.6	9.0	6.9	8.0	12.7	414.8
7. Security loans	-5.3	25.1	60.8	75.9	47.6	50.4	27.3
8. Real estate loans	9.7	11.6	11.3	11.0	10.6	11.9	335.4
9. Consumer loans	10.3	15.8	22.7	24.8	19.2	22.8	219.5
	Short- and Intermediate-Term Business Credit						
10. Business loans net of bankers acceptances	-0.4	7.4	9.2	5.2	9.0	14.1	406.6
11. Commercial paper issued by nonfinancial firms[3]	-23.5	5.4	24.7	21.1	5.2	46.6	48.2
12. Sum of lines 10 & 11	-2.8	7.1	11.0	7.1	8.4	17.4	454.8
13. Line 12 plus loans at foreign branches[4]	-2.2	6.9	11.0	9.9	8.3	15.2	
14. Finance company loans to business[5]	7.8	17.8	n.a.	34.5	18.8	n.a.	n.a.
15. Total bankers acceptances outstanding[5]	-7.3	20.5	n.a.	-17.8	41.2	n.a.	n.a.
16. Total short- and intermediate-term business credit (sum of lines 13, 14 and 15)	-1.5	9.9	n.a.	9.8	14.6	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.

because the U.S. government stopped drawing down its cash balance. Inflows from foreign branches, though reduced, nonetheless remained substantial.

Growth in bank credit was strong again in December as additional lending activity offset a reduced pace of securities acquisitions. The three principal loan groups--business, consumer, and real estate--all registered more rapid gains in December; preliminary data for large banks in early January point to continued rapid growth in those loan groups. Growth in business loans at commercial banks (net of bankers acceptances) advanced to a 14 percent rate in December, the most rapid pace of the year. Some of this pickup, however, reflected a substitution of domestically booked loans for loans booked at foreign branches; in mid- to late December the LIBOR rate rose, temporarily narrowing the prime-LIBOR spread.

Business Finance

Spending by nonfinancial corporations for inventories and fixed capital exceeded internally generated funds during the fourth quarter for the first time in a year. Nevertheless, total business indebtedness continued to grow slowly, while, despite some decrease in the fourth quarter, issuance of stocks remained high by historical standards.

The volume of public bond offerings by nonfinancial corporations fell to a five-year low in the fourth quarter. Such issues were particularly slack in December, as long-term bond rates rose during the month to their highest levels of the year. Rates have moved back down in early January and overall bond volume has risen, although nonfinancial issues--especially industrials--have picked up only moderately.

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

	1983					1984
	H1	Q3	Q4P	Nov.P	Dec.P	Jan.[f]
	Seasonally adjusted					
Corporate securities--total	11,937	9,141	8,504	9,400	7,386	8,500
Securities sold in U.S.	11,152	8,511	7,734	8,000	7,186	8,000
Publicly offered bonds[1]	4,798	2,649	3,503	4,300	3,186	4,500
Privately placed bonds	1,467	1,760[e]	1,500[e]	1,500[e]	1,500[e]	1,500[e]
Stocks[2]	4,887	4,102	2,731	2,200	2,500	2,000
Securities sold abroad[3]	785	630	770	1,400	200	500
	Domestic offerings, not seasonally adjusted					
Publicly offered bonds--total[1]	4,833	2,654	3,452	4,100	3,200	4,500
By industry						
Utility	1,185	871	602	1,020	225	--
Industrial	1,796	527	359	45	550	--
Financial	1,852	1,256	2,491	3,035	2,425	--
Mortgage-backed	161	322	839	1,293	527	--
By quality[4]						
Aaa and Aa	1,478	889	1,597	2,655	1,020	--
A and Baa	2,051	1,141	947	1,110	910	--
Less than Baa	694	242	405	165	825	--
No rating (or unknown)	610	382	503	170	445	--
Memo items:						
Equity based bonds[5]	1,068	693	323	113	494	--
Original discount bonds						
Par value	302	117	132	129	100	--
Gross proceeds	250	100	114	113	88	--
Stocks--total[2]	4,842	3,674	3,012	2,300	3,200	2,000
By industry						
Utility	948	479	702	685	500	--
Industrial	2,606	2,147	1,686	1,240	2,200	--
Financial	1,288	1,048	624	375	500	--

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.

The comparatively high level of long-term rates has encouraged continued reliance on short-term borrowing. Commercial paper issued by nonfinancial businesses rose sharply during the fourth quarter; the December increase was the highest in almost two years. The growth of nonfinancial commercial paper plus business loans--including loans to U.S. firms by foreign branches of U.S. banks--nearly doubled in December, reaching 15-1/4 percent at an annual rate. The proportion of total external business financing raised through short-term borrowing has been unusually high over the past two quarters in comparison with corresponding periods in earlier economic upswings. Commercial paper ran off in early January, however, suggesting that short-term borrowing may be slackening somewhat from the December pace.

In contrast to nonfinancial firms, financial corporations have been selling large amounts of long-term debt; indeed, the fourth-quarter total exceeded the previous peak set in the first quarter of 1983. Although mortgage-backed bonds have accounted for much of the strength in financial issues, banks and finance companies have been increasingly heavy issuers.

Prices of common stock have risen on balance since the last FOMC meeting. By contrast, preferred stock prices have been weak in anticipation of legislation that would reduce the incentive for insurance companies to use such issues to shelter income from taxes. Initial public offerings of common stock remained strong in December.

Government Finance

Federal sector. The Treasury borrowed about $15 billion (net) in the market during December, to help finance a combined (on- and off-budget) deficit in that month estimated at nearly $15 billion and an

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

	1983p		1984f	
	Dec.	Q4	Jan.	Q1
Treasury financing				
Combined surplus/deficit(-)	-14.7	-60.6	-9.3	-57.6
Means of financing deficit:				
Net cash borrowing from the public	15.9	36.5	23.0	52.8
Marketable borrowings/ repayments(-)	14.7	34.9	22.8	51.6
Bills	8.5	3.0	3.2	10.9
Coupons	6.2	31.9	19.6	40.7
Nonmarketable	1.2	1.6	.2	1.2
Decrease in the cash balance	-6.6	25.3	-16.7	-1.2
Memo: Cash balance at end of period	11.8	11.8	28.5	13.0
Other[2]	5.4	-1.2	3.0	6.0
Federally sponsored credit agencies net cash borrowing[3]	-.7	2.5	.7	3.6
FHLB	-.3	-.1	-.4	.4
FNMA	.6	2.9	.6	2.3
Farm Credit Banks	-1.1	-1.2	0	0
FHLMC	.1	1.0	.5	.7
SLMA	0	-.1	0	.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.

addition of $6-1/2 billion to its cash balance, which had fallen to an unusually low level prior to passage by the Congress in late November of an increase in the federal debt ceiling. The cash balance fell by $25-1/4 billion during the fourth quarter from the record high third-quarter level, leaving an end-of-year balance of about $12 billion.

The staff is projecting a combined deficit of almost $58 billion in the current quarter. Net marketable borrowing is expected to total about $52 billion, in line with the Treasury's mid-November estimate of first-quarter financing needs. Continuing the pattern of recent quarters, most of the borrowing is likely to be obtained from coupon issues.

In December, federally sponsored credit agencies ran off about $700 million in debt, after raising more than $3 billion in the first two months of the quarter. FNMA increased its debt by $600 million in December, primarily to increase its liquid assets. The FHLBs, however, paid down debt for the second consecutive month, and the Federal Farm Credit Banks reduced outstanding debt by $1 billion.

State and local sector. Gross offerings of long-term tax-exempt securities totaled just under $8 billion (seasonally adjusted) in December, a considerably higher volume than in other recent months; for the fourth quarter as a whole, the volume of such securities was slightly above the third-quarter pace. Volume was boosted in December as issuers sought to market debt before year-end, owing to uncertainty about the tax-exempt status of some private-purpose issues after January 1.

In particular, pending legislation (the Tax Reform Act of 1983) would limit the issuance of private-purpose tax-exempt borrowing (other than financing for single-family housing), effective retroactively to January 1, 1984. In addition, the authority to issue tax-exempt bonds for single-family housing lapsed at year-end; although the proposed legislation likely will extend this authority, the rules that will govern such issues remain uncertain. Thus far in January, offerings of long-term municipal bonds have dropped substantially below December levels. No sales of new private-purpose bonds are expected until the fate of the pending legislation becomes clear.

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

	1982	1983					1984
	Year	QI	QII	QIII	QIV[e]	Dec.[e]	Jan.[f]
	Seasonally adjusted						
Total	10.29	10.33	11.13	9.29	9.36	10.82	7.89
Long-term	6.58	7.24	8.24	5.98	6.42	7.85	5.19
Short-term[1]	3.71	3.09	2.89	3.31	2.94	2.97	2.70
	Not seasonally adjusted						
Total	10.29	8.68	13.38	8.84	9.15	10.20	6.10
Long-term	6.58	6.26	9.38	5.54	6.75	8.10	4.10
Refundings	.27	.94	2.02	.90	.76	.41	n.a.
Mortgage revenue[2]	1.24	1.09	1.29	1.62	1.69	1.70	n.a.
Short-term[1]	3.71	2.42	4.00	3.30	2.40	2.10	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. n.a.--not available.
Note: Figures may not add due to rounding.

Approximately $3 billion of student loan bonds and securities issued by trust territories were scheduled to come to market in December, but eventually were cancelled. The Department of Education was not convinced that the proposed student loan bonds were needed and therefore refused to grant the necessary approval for a special subsidy. With regard to the territory bonds, the Treasury Department felt that the size of the proposed issues was abusive of tax-exempt authority and threatened to block the offerings by asking the Congress to make the Tax Reform Act prohibition of such issues effective as of December 20.

In mid-December, as the volume of tax-exempt issues increased, interest rates on such securities rose to their highest level since the end of 1982; however, rates fell back rapidly later in the month as cancellations reduced the supply of offerings. With volume declining substantially in January, interest rates have continued to drop. By mid-January, the Bond Buyer revenue bond index was 58 basis points below its recent peak immediately prior to the December FOMC meeting, and the 20-bond general obligation index was 44 basis points below its mid-December level.

Mortgage Markets

Interest rates and effective yields in primary markets for fixed-rate conventional home mortgages have declined slightly since the last FOMC meeting, although both negotiated yields on government-underwritten loans and secondary market yields of all types have receded more substantially. On fixed-rate conventional home mortgage loans at S&Ls, the average contract rate on new commitments edged down 7 basis points to its lowest level in six months. The most prevalent contract rate on regular FHA-insured loans at mortgage companies has been 12-1/2 percent since

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
Mar.	13.3	38.0	5.5	1.3	4.2
Apr.	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.	15.1	48.2	7.7	5.2	2.4
Oct. r	13.1	49.5	6.1	3.2	2.8
Nov. p	15.0	53.4	6.0	5.3	0.7

1. Insured S&Ls account for approximately 98 percent of the assets of all operating S&Ls. Net changes 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	GNMAs	FHLMCs	FNMAs	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	2203
Q2	7459	4930	1392	1136	1793
Q3	7711	4927	1544	1240	2115
Q4	5987	3605	1724	657	1972
Oct.	7385	3877	2758	750	3131
Nov.	5641	4121	1139	381	1295
Dec. p	4934	2818	1275	841	1491

p--preliminary.

early November, although the effective rate (incorporating points) has fallen 25 basis points. Discounts on current-coupon GNMA-guaranteed securities have declined from 5 to 3 points since mid-December, easing pressure to raise the 12-1/2 percent VA ceiling rate.[1]

Adjustable-rate mortgages (ARMs) have continued to increase in importance in the market for conventional loans. In December, a record 55 percent of conventional loans closed at all major lenders, and 63 percent at S&Ls, contained adjustable-rate features.[2] Spreads between interest rates on conventional fixed-rate and adjustable-rate contracts have widened slightly since the last FOMC meeting, restoring the relatively large initial rate advantages to ARM borrowers that had prevailed in early December. On one-year ARMs, the rate advantage has returned to around 2 percentage points. This spread is still somewhat smaller than the prevailing spread between rates on short- and long-term Treasury securities.

New mortgage commitments picked up by nearly $2 billion at federally insured S&Ls in November; furthermore, the stock of outstanding commitments soared to a new high nearly twice its year-earlier value. The strength of commitment activity in the face of relatively high interest rates may partly reflect the large volume of single-family mortgage revenue bonds floated by states and municipalities during the

1. Discounts on GNMAs issued against pools of FHA/VA loans have been used as a major factor in determining when ceiling rates on government underwritten loans should be changed by administrative action.
2. FHA/VA loans, which accounted for about one fourth of home mortgage originations in 1983, are all fixed-rate contracts. A new FHA program to insure ARM loans, authorized by the Housing and Urban-Rural Recovery Act of 1983, is not yet in effect.

CONSUMER INSTALLMENT CREDIT

	1981	1982	1983 Q2	1983 Q3	1983 Oct.	1983 Nov.
	---- Percent rate of growth, SAAR ------					
Change in outstandings--total	5.8	4.0	10.9	12.0	16.1	15.1
By type:						
Automobile credit	7.3	3.9	12.1	15.4	15.1	10.4
Revolving credit	7.7	7.0	16.5	9.7	20.2	22.5
All other[1]	4.5	2.6	7.4	9.9	15.1	16.2
	------- Billions of dollars, SAAR -------					
Change in outstandings--total	18.2	13.1	37.5	42.4	58.6	56.1
By type:						
Automobile credit	8.5	4.9	15.9	20.9	21.3	14.9
Revolving credit	4.5	4.4	10.6	6.5	13.7	15.6
All other[1]	5.3	3.8	11.0	15.1	23.6	25.6
By major holder:						
Commercial banks	0.6	4.8	20.6	27.7	31.6	33.0
Finance companies	13.1	4.6	1.3	1.7	7.4	2.5
All other	4.5	3.9	15.7	13.1	19.6	20.6
	-------- Annual percentage rate --------					
Interest rates						
At commercial banks[2]						
New cars, 48 mos.[3]	16.54	16.83	13.90	13.50	n.a.	13.46
Personal, 24 mos.	18.09	18.65	16.57	16.28	n.a.	16.39
Credit cards	17.78	18.51	18.79	18.75	n.a.	18.75
At auto finance companies[4]						
New cars	16.17	16.15	11.80	12.74	13.54	13.50
Used cars	20.00	20.75	18.75	18.25	18.15	18.16

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 1981 and 1982 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.
n.a.--not available.

period from August to October.[1] The net increase in S&L total mortgage assets actually edged off in November, marking the fourth consecutive month of slowing. Within this total, the net increase in holdings of mortgage-backed securities was $2.1 billion less than in the previous month owing partly to a sale by American Savings and Loan Association of $1.1 billion in such securities to pension funds.

Issuance of federally guaranteed pass-through securities reached a 1983 low (NSA) in December. The decline from November reflected a sharp drop in GNMAs. GNMA issue volume had been extraordinarily strong during most of 1983 as the decline in mortgage rates from the 1981-82 highs encouraged widespread refinancing of FHA and VA loans as well as home sales. December's decline apparently reflected the backup of mortgage rates in late summer--a factor that also was largely responsible for the decline in FHLMC and FNMA securities activity in the last two months of the year.

Consumer Credit

Consumer installment debt increased at an annual rate of 15 percent in November after rising 16 percent in October. Robust consumer lending activity at commercial banks and retailers during December and a sizable gain in unit auto sales suggest that installment credit growth in December may have exceeded the October-November average. In any case, fourth-quarter growth appears to have been up substantially from the 12 percent rate of increase in the third quarter.

1. Two fifths of the single-family mortgage revenue bonds issued in 1983 were floated during the August-October period. Large proportions of bond proceeds ordinarily are channeled into the mortgage market, through financial institutions, three to four months after the bonds are issued.

Commercial banks have led the surge in consumer lending during the economic upswing. The commercial bank share of the overall increase in October and November was 56 percent, up from 38 percent in the fourth quarter of 1982. By contrast, finance company lending to consumers has slowed sharply, mainly because of the phasing-out of interest rate concessions offered by the auto manufacturers. The finance company share of net consumer lending dropped from 40 percent in late 1982 to 9 percent in October-November of 1983.

On balance, consumer credit expanded by 11-1/4 percent during the first 12 months of the current economic recovery, compared with an average increase of 7-1/2 percent during the first year of six earlier post-Korean War recoveries. The surge follows a long interval of slow growth in consumer borrowing associated with two economic recessions and a period of credit controls. The strong upturn in 1983 raised the ratio of consumer debt outstanding relative to disposable income by 0.4 percentage point--in contrast to a typical one-fourth point decline in the first year of recovery; even so, this measure remains about 2-1/2 percentage points below its 1979 peak. Delinquency rates on consumer loans are at 10-year low.

INTERNATIONAL DEVELOPMENTS

Foreign Exchange Markets

On balance since the last Greenbook, the foreign exchange value of the dollar has appreciated nearly 1-1/4 percent on a trade-weighted average basis, rising in value 1-2/3 percent against the mark but depreciating by about 3/4 percent against the yen. Most of this net change occurred during the first three weeks of the period.

In the two weeks from the last Greenbook through the end of the year, the weighted-average dollar, shown in the upper panel of Chart 1, declined 1-1/2 percent. This depreciation occurred in the absence of any significant shifts in economic or political factors and was apparently attributable to technical factors affecting year-end trading. The advent of the new year coincided with an abrupt reversal of the dollar's slide. By the second week of 1984, the dollar had appreciated over 3-1/2 percent from its year-end trough, touching new record levels for the floating rate period on a weighted-average basis and vis-a-vis a number of currencies. This sharp rise was also not apparently related to any significant new developments in fundamental economic factors.

The announcement in mid-January that U.S. retail sales had risen only 0.1 percent in December, with its implications of slower U.S. growth and possibly lower interest rates, stemmed the dollar's earlier rapid climb. The news marked the commencement of a period over which the dollar dropped back from its record levels and then fluctuated over a fairly wide band. There was little net change in the dollar's value for the final two weeks of the period, while market participants were reportedly reassessing the outlook for U.S. growth and interest rates.

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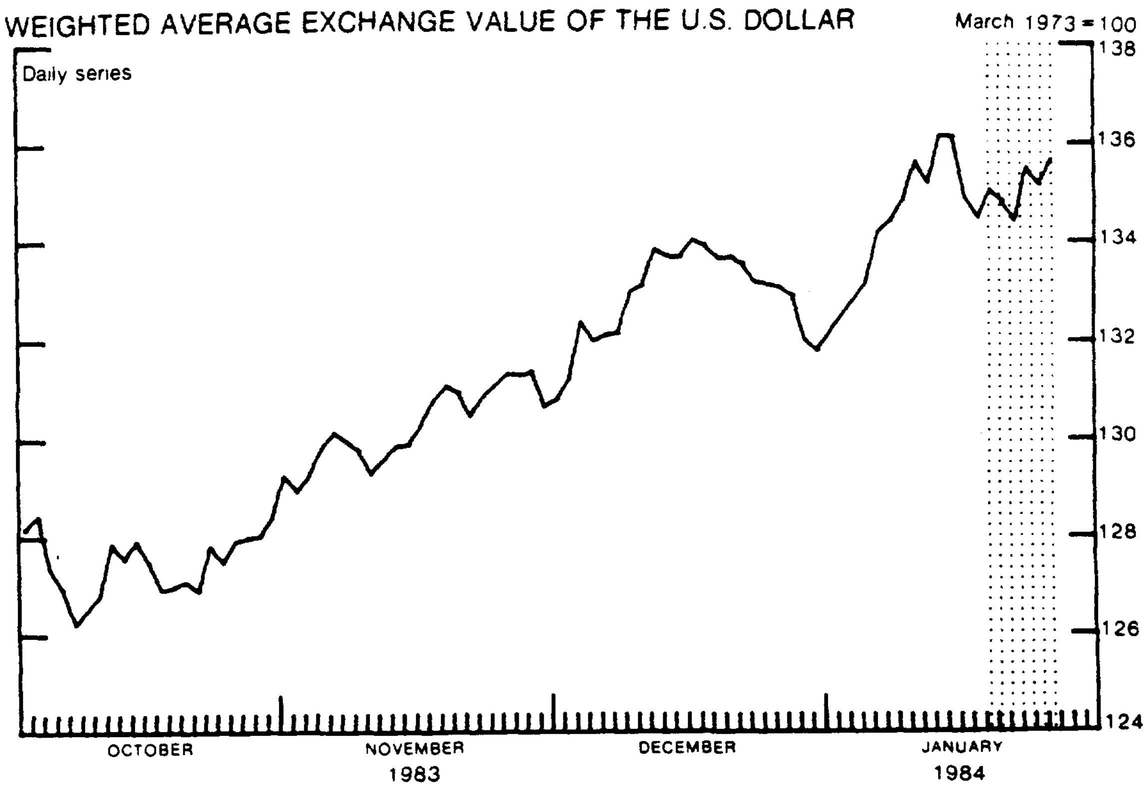

The most recent two weeks have been characterized by sharp and irregular jumps in the dollar's value, which frequently occurred without changes in fundamental economic factors. Intra-day exchange rate volatility, measured as the percentage difference between high and low values for the dollar in world-wide trading over a 24-hour period, regularly exceeded the average daily range for recent months. The daily range for the dollar/mark rate, for example, exceeded 1 percent on about half the days of the last two weeks, whereas the average daily range for the final quarter of 1983 was 2/3 percent.

. On two occasions during the same period, the New York Trading Desk intervened, selling a total of $143.4 million. The sales were equally divided between the accounts of the Federal Reserve System and Treasury.

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International lending by BIS-reporting banks. In the third quarter of 1983, the claims of BIS-reporting banks on the non-OPEC developing countries increased only $2 billion after adjustment for the effects of exchange rate changes on the stock of such claims. This rate of net new lending was less than one-fourth of the quarterly average in 1981 and the first half of 1982, and also was below that of the first half of 1983 because of the halt, beginning end-May, in further loan disbursements to Brazil.

The BIS banks' claims on all borrowers rose $29 billion in the third quarter of 1983 (after adjustment for exchange rate changes), a rate more than twice as fast as the $11 billion quarterly average in the first half of the year. About two thirds of this acceleration reflected a pick-up in interbank lending within the reporting area and to offshore centers. While there also were increases in the third quarter in the rate of net new lending to nonbanks in the reporting area, and to borrowers in the smaller developed countries and in OPEC countries, the amount of new lending to these borrowers remained small. Claims on Eastern Europe declined for the sixth time in seven quarters.

The small increase in claims on non-OPEC developing countries was entirely in claims on Latin America. Claims (not adjusted for valuation effects) increased $1.1 billion vis-a-vis Mexico, reflecting further drawings on the $5 billion loan of last March, and increased $0.9 billion vis-a-vis Chile, which drew on a loan received from its creditors in July. Claims on Argentina and Brazil were virtually unchanged. The absence of any increase in claims on non-OPEC developing countries

EXTERNAL CLAIMS OF BIS-REPORTING BANKS
(Billions of dollars)

Claims on	Change (no sign = increase)[1] 1981 Year	1982 Year	1982 H1	1982 H2	1983 H1	1983 Q3	Outstanding 9/30/83
Countries in reporting area and offshore centers	192	126	45	81	11	19	899
(nonbanks)	(32)	(18)	(8)	(11)	(2)	(3)	(178)
(banks)	(160)	(108)	(37)	(71)	(10)	(16)	(976)
Other developed countries	17	16	9	7	1	1	112
Eastern Europe	5	-5	-3	-2	-1	-1	49
OPEC countries	4	8	5	3	1	1	80
Non-OPEC developing countries	40	20	15	5	7	2	253
(Latin America)	(30)	(12)	(12)	...	(4)	(2)	(174)
(Others)	(10)	(8)	(3)	(5)	(3)	...	(79)
Unallocated	7	10	3	7	3	7	38
Total	265	175	74	101	22	29	1,707

1. Adjusted for statistical effects of exchange rate changes.

outside Latin America, following a $3 billion rise in the first half, in particular reflected run-offs of $1.1 billion in claims on Israel and $0.5 billion in claims on the Philippines (mostly in claims of U.S.-chartered banks). These declines offset increases in claims on a number of other countries, including Korea, Malaysia, and Thailand.

The small but positive net lending to non-OPEC developing countries by the aggregate of BIS-reporting banks in the third quarter contrasted with a decline in claims by U.S.-chartered banks alone of $1 billion on a BIS basis. The U.S.-chartered banks' share of total outstanding bank claims on this group of countries declined to 39-1/2 percent in September, from 40-1/2 percent in December 1982.

U.S. International Financial Transactions

The current account deficit reached $12 billion in the third quarter, bringing the cumulative deficit for the first three quarters of 1983 to about $25 billion. For the year as a whole the deficit is estimated to have totaled a record $40 billion, nearly three times as large as the previous peak deficits recorded in 1977 and 1978. In 1977 and 1978 the current account deficits were financed by official capital inflows, as G-10 countries directly invested the proceeds of intervention purchases in support of a weak dollar in the United States. In contrast, in 1983 the deficit was financed almost entirely by private capital inflows as a strong dollar and OPEC current account deficits kept net foreign official inflows around $5 billion.

Private capital inflows in 1983 included substantial increases in holdings of U.S. Treasury securities, deposits at U.S. banking offices, and U.S. corporate stocks, along with a decline in net claims by U.S. banking offices on their related foreign offices. Through November, net acquisitions of U.S. Treasury securities by private foreigners totaled $8.5 billion (line 3 of the summary table on the next page), up from the $6.5 billion total for 1982, while net acquisitions of U.S. corporate stocks (line 2c) totaled $6 billion, compared with about $3.5 billion the previous year. Holdings of time and savings deposits at U.S. banking offices by private foreign nonbanks increased by about $9 billion through November (included in line 1b), of which about half were placed with IBFs.[1/] A large portion of the increase in time and savings deposits may

1/ At the end of November, foreign nonbanks held $20 billion of time deposits at IBFs and $21 billion of time and savings deposits at other U.S. banking offices. Deposits held by foreign nonbanks at U.S. banking offices other than IBFs are included in the monetary aggregates.

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

	1981 Year	1982 Year	1983 Q1	1983 Q2	1983 Q3	1983 Oct.	1983 Nov.	1983 11-months
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	12.8	-1.7	11.5	15.5
a) with own foreign offices	-2.7	-9.1	-10.4	-0.8	11.0	-7.6	11.4	3.7
b) all other	-31.7	-30.5	1.0	3.0	1.7	5.9	*	11.7
Securities								
2. Private securities transactions, net	1.2	-1.4	1.2	-0.6	0.3	0.1	0.9	1.9
a) foreign net purchases (+) of U.S. corporate bonds	2.1	2.8	0.1	0.9	0.5	0.2	0.4	2.1
b) foreign net purchases (+) of U.S. corporate stocks	4.8	3.6	2.9	1.7	1.4	0.1	*	6.1
c) U.S. net purchases (-) of foreign securities	-5.7	-7.9	-1.8	-3.2	-1.5	-0.2	0.5	-6.2
3. Foreign net purchases (+) of U.S. Treasury obligations 1/	2.5	6.5	2.8	2.9	0.9	2.3	-0.4	8.5
Official Capital								
4. Changes in foreign official reserve assets in U.S. (+ = increase)	5.3	2.9	0.3	1.6	-3.1	1.8	0.6	1.2
a) By area								
G-10 countries and Switzerland	-10.8	-12.7	2.7	1.4	0.6	1.6	-0.6	5.7
OPEC	12.5	6.9	-1.4	-3.6	-2.1	-0.7	-0.7	-8.5
All other countries	3.6	8.8	-1.0	3.8	-1.6	0.9	1.9	4.0
b) By type								
U.S. Treasury securities	5.0	5.7	3.0	1.9	-0.5	1.8	-0.4	5.8
Other 2/	0.5	-2.7	-2.7	-0.3	-2.6	*	1.1	-4.5
5. Changes in U.S. official reserve assets (+ = decrease) 3/	-5.2	-5.0	-0.8	*	0.5	-0.2	-0.6	-1.1
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	-9.7	3.0	0.3	-1.0	-4.1	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	22.0	10.4	2.0	2.2	2.4	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 4/ 5/	-10.4	-7.0	-1.6	2.9	2.4	n.a.	n.a.	n.a.
9. U.S. current account balance 5/	4.6	-11.2	-3.6	-9.7	-12.0	n.a.	n.a.	n.a.
10. Statistical discrepancy 5/	24.2	41.4	8.8	-0.6	-0.1	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	-18.2	-8.2	-6.3	-56.2

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.

reflect capital flight -- $4.6 billion was accounted for by Latin American countries, and an additional $600 billion by Hong Kong and the Philippines. The remainder largely was accounted for by residents of Canada ($3.4 billion).

Net claims by U.S. banking offices (including IBFs) on their own offices abroad declined, on balance, by about $4 billion through the end of November. Such net claims increased sharply in the first quarter as banks placed a significant share of inflows to the newly-introduced MMDAS in placements with foreign banks. However, between the end of the first quarter and the end of November banks repatriated about $15 billion from their foreign offices as domestic loan demand strengthened and Eurodollar rates declined relative to U.S. domestic rates.[1/] Partial data for December suggest that inflows from own foreign offices slowed (line 1 of the International Banking Data Table). However, this slowing largely reflected substitution by U.S. agencies and branches of foreign banks of borrowing from unrelated foreign banks for funding from own foreign offices (line 2).

Foreign official capital inflows totaled only about $1 billion through the first eleven months of the year, as an $8.5 billion reduction in OPEC holdings of official reserve assets in the United States about offset increases in holdings of G-10 and several Pacific Basin countries. Partial data for December, based on holdings at the Federal Reserve Bank of New York, indicate an additional net official inflow of about $3 billion, which was largely attributable to Australia and Singapore and some

1. The differential between the 3-month LIBOR and the 3-month domestic CD rate declined from a peak of 110 basis points in September 1982 to about 40 basis points in December 1983.

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1981	1982				1983				
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Nov.	Dec.
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	38.2	38.8
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	10.1	5.2
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	48.3	44.0
(a) U.S.-chartered banks	22.5	29.0	29.9	39.6	40.3	53.7	50.0	47.1	43.6	40.4
(b) Foreign-chartered banks	2.4	5.1	4.1	7.5	9.1	10.0	6.5	5.7	4.7	3.6
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	18.6	18.0
5. Eurodollar Holdings of U.S. Nonbank Residents 2/	95.5	106.3	118.2	113.8	112.6	116.4	120.3	121.3	123.3e/	125.2e/

1. Corresponds to net claims of international banking facilities (IBFs) on all foreign residents, including all banks whether related or not, and all nonbanks.
2. Includes term and overnight Eurodollars held by money market mutual funds. Data through September 1983 are month-end values. For dates after September 1983 data are average of Wednesday values. Data for September 1983 and earlier dates have been revised since the last publication of this table.
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.

some special, probably temporary, increases in holdings by a few industralized countries and certain developing countries that occurred at year-end.

U.S. official reserve assets increased by about $1 billion in 1983, as shown in the table below. The U.S. reserve position in the IMF increased by $4 billion, reflecting the Fund's provision of dollars in connection with members' drawings along with a $1.4 billion U.S. reserve-asset subscription in connection with the increase in IMF quotas. The increase in the reserve position in the Fund was partially offset by decreases in holdings of foreign currencies and SDRs. Half the $1.4 billion quota increase was paid for in SDRs and half from Treasury holdings of marks and yen. Holdings of foreign currencies also fell as a result of the repayment of swap drawings by Mexico and Brazil. In addition the rise in the dollar's value during the year lowered the valuation of U.S. foreign currency and other reserve assets. Finally, during the year the last $1.3 billion in outstanding Carter notes was redeemed, reducing U.S. official reserve assets and Treasury debt denominated in foreign currencies by equal amounts (see footnote 2 of the table).

SELECTED U.S. OFFICIAL RESERVE ASSETS 1/ 2/
(Billions of dollars; increase in assets (+))

	Holdings 3/			Transactions 4/								
				1982			1983			Oct.	Nov.	Dec. e/
	Dec. 1981	Dec. 1982	Dec. 1983	1st Half	Q3	Q4	Q1	Q2	Q3			
Total 4/	15.9	21.5	22.6	2.6	1.7	2.5	1.2	.5	-.1	.2	.6	.2
SDRs	4.1	5.2	5.0	.6	.4	.3	.1	.3	.2	0	.1	-.7
Reserve Position in the I.M.F.	5.1	7.3	11.3	1.4	.5	.7	2.1	.2	.1	.1	.4	1.5
Foreign Currency 4/	6.8	8.9	6.3	.6	.8	1.4	-1.1	.0	-.4	*	.1	-.6
G10 + Switzerland 4/	6.8	6.8	6.3	.4	.2	.1	.1	.1	.4	*	.1	-.6
Other	—	2.1	*	.2	.6	1.3	-1.2	-.2	-.8	0	0	*

1. Excludes holdings of gold.
2. Holdings are net of foreign exchange held in anticipation of redemption of Treasury debt denominated in foreign currencies (Carter bonds); transactions are net of use of foreign exchange for such redemptions. Carter bond redemptions for the period indicated totaled $354 million for the 1st half 1982, $902 million for 1982 Q3, $519 million for 1982 Q4, $386 million for January 1983, $490 million for May 1983, and $400 million for July 1983.
3. Valued at market exchange rates.
4. Net flows on a balance-of-payments basis excluding valuation changes.

*/ Less than $50 million.
e/ Estimate.
NOTE: Categories may not add to totals, due to rounding.

U.S. Merchandise Trade

While the U.S. merchandise trade deficit in November was less than in the previous month, for the two months combined the deficit was a record $87 billion annual rate. In October-November, exports were at about the same rate as in the third quarter while imports rose by 5 percent.

The essentially unchanged level of exports in October-November reflects the effects of the sluggish economic recovery in most major trading-partner countries and the persistent high level of the exchange value of the dollar which continues to affect adversely the price

U.S. MERCHANDISE TRADE[1/]

	1983					
	11 months	Q2	Q3	O/N	Oct.	Nov.
Value (Bil. $, SAAR)						
Exports	199.4	195.7	202.3	202.7	200.2	205.2
Agricultural	36.5	35.3	37.8	37.2	37.7	36.7
Nonagricultural	162.9	160.3	164.6	165.5	162.5	168.4
Imports	260.7	254.3	275.0	289.9	298.8	281.0
Oil	55.0	52.1	66.3	61.7	66.8	56.6
Non-oil	205.7	202.2	208.7	228.1	231.9	224.3
Trade Balance	-61.3	-58.6	-72.7	-87.2	-98.6	-75.8
Volume (Bil 72$, SAAR)						
Exports						
Agricultural	16.3	16.1	16.5	15.5	15.7	15.2
Nonagricultural	56.8	56.1	57.7	57.8	56.7	58.9
Imports						
Oil	5.0	4.8	6.1	5.6	6.1	5.2
Non-oil	81.2	79.9	82.4	89.6	91.4	87.9

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

competitiveness of U.S. goods. Nonagricultural exports were at about third-quarter levels. Small increases in exports of machinery (particularly business machines), chemicals, and automotive parts to Canada were offset by declines in other commodity categories. By area, non-agricultural exports to industrial countries increased somewhat in October-November (largely to Canada) while exports to developing countries declined a bit.

Agricultural exports were marginally less than in the third quarter as a large increase in corn exports was offset by declines in other commodities (particularly soybeans). The increase in corn exports was partly in price but also in volume as some customers (i.e. Mexico and Japan) made earlier than usual purchases when the effect of the drought on supplies began to be apparent; in addition, the U.S.S.R. resumed buying corn and deliveries to them began in October-November. The decline in soybean exports in October-November was from an unusually strong third-quarter level.

The rise in imports in October-November was entirely in non-oil items, which together rose to a level 10 percent-above the third-quarter rate. The increase was widespread across commodity categories and in general reflected the strong pick-up in U.S. economic activity. Particularly large increases were recorded in machinery, automotive imports from Japan and Europe, and consumer goods.

Oil imports declined in November following three months of relatively strong import rates. U.S. domestic oil consumption in October-November was about 1/2 million barrels per day (mbd) below the third-quarter rate on a seasonally adjusted basis. This reduction in consumption is latgely attributable to the decreased sale of fuel oil (relatively mild weather in October and early November). There were only small changes in total private stocks over the period. Oil import prices declined in November to average $28.16 per barrel; the decline reflects spot market developments. Spot prices eased from mid-August through mid-December and stabilized after OPEC and British announcements of intentions to maintain current contract prices.

OIL IMPORTS

	1983					
	11 months	Q2	Q3	O/N	Oct	Nov.
Volume (mbd, SA)	5.30	5.16	6.42	5.95	6.38	5.51
Price ($/BBL)	28.42	27.69	28.29	28.43	28.69	28.16
Value (Bil. $, SAAR)	54.97	52.11	66.34	61.73	66.84	56.63

Foreign Economic Developments. Economic activity in the major industrial countries has, on balance, continued to rise in recent months. The pace of the recovery is weakest in Europe. The Canadian recovery has been the most robust although it is now showing some signs of moderation. In contrast, the strong rise in Japanese industrial production in November provides another indication of increasing economic strength in that country. Recent data on real income and industrial production in Germany and the United Kingdom suggest continued mild recoveries. Third quarter figures may signal the beginning of a recovery in Italy. Economic activity in France has been weak in recent months as the government's austerity measures are increasingly felt.

Inflation in 1983 was below 1982 levels for most countries. Recent data generally do not indicate any increase in inflationary pressures. Inflation slowed during the last two months in France, holding the Q4/Q4 inflation rate for 1983 to under 10 percent. The rate of inflation in Japan, as measured by the consumer price index, rose in the fourth quarter, but the wholesale price index fell. Italian consumer prices also accelerated somewhat in the fourth quarter, but this may represent seasonal influences.

The Japanese current account surplus is expected to top $20 billion for 1983. The German current account balance is expected to equal its 1982 surplus of $3-1/2 billion. The trade and current account deficits in France for 1983 have been sharply reduced compared with the record deficits of the previous year. Trade and current account balances for the United Kingdom, however, remain substantially weaker than 1982 levels.

January 25, 1984

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES

(PERCENTAGE CHANGE FROM PREVIOUS PERIOD, SEASONALLY ADJUSTED)

	Q4/Q4 1981	Q4/Q4 1982	1983 Q1	Q2	Q3	Q4	1983 AUG.	SEP.	OCT.	NOV.	DEC.	LATEST 3 MONTHS FROM YEAR AGO+
CANADA												
GNP	1.5	-5.0	1.6	1.8	2.0	N.A.	*	*	*	*	*	4.8
IP	-3.4	-11.8	5.2	3.0	4.6	N.A.	1.2	2.0	.5	N.A.	N.A.	11.5
FRANCE												
GDP	1.8	1.3	-.3	.5	-.5	N.A.	*	*	*	*	*	.6
IP	-.5	-2.0	.3	1.0	.8	N.A.	.0	-1.5	-.8	2.3	N.A.	1.3
GERMANY												
GNP	.5	-2.0	.6	1.1	.2	N.A.	*	*	*	*	*	1.7
IP	-.3	-5.4	.8	2.2	.5	N.A.	.3	1.2	.0	1.4	N.A.	4.1
ITALY												
GDP	.5	-2.4	.6	-1.7	.9	N.A.	*	*	*	*	*	-.4
IP	-.1	-6.1	.6	-4.7	1.8	N.A.	-2.3	2.6	-1.8	N.A.	N.A.	-2.4
JAPAN												
GNP	2.7	3.7	.2	1.1	1.5	N.A.	*	*	*	*	*	3.3
IP	5.7	-1.7	.5	1.6	3.4	N.A.	2.7	1.8	-1.2	2.0	N.A.	7.1
UNITED KINGDOM												
GDP	1.7	1.6	1.6	-.9	.8	N.A.	*	*	*	*	*	2.8
IP	2.7	.2	1.3	-.5	1.9	N.A.	-.9	1.3	-.5	.4	N.A.	2.9
UNITED STATES												
GNP	2.0	-1.7	.6	2.3	1.9	1.1	*	*	*	*	*	6.1
IP	-1.7	-7.5	2.4	4.3	5.1	2.8	1.4	1.3	.8	.7	.5	15.3

* DATA NOT AVAILABLE ON A MONTHLY OR QUARTERLY BASIS.

+ IF QUA   LY DATA, LATEST QUARTER FROM YEAR AGO.

January 25, 1984

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

	Q4/Q4 1982	Q4/Q4 1983	1982 Q3	1982 Q4	1983 Q1	1983 Q2	1983 Q3	1983 Q4	1983 SEP.	1983 OCT.	1983 NOV.	1983 DEC.	LATEST 3 MONTHS FROM YEAR AGO
CANADA													
CPI	9.7	4.6	2.2	1.6	.6	1.4	1.6	.9	.0	.6	.0	.3	4.6
WPI	4.5	N.A.	.8	.3	.7	1.5	.8	N.A.	-.1	.2	.0	N.A.	3.2
FRANCE													
CPI	9.5	9.9	1.4	1.9	2.6	2.9	2.1	1.9	.8	.8	.4	.3	9.9
WPI	8.5	N.A.	1.9	1.0	2.4	4.0	3.8	N.A.	1.1	.6	N.A.	N.A.	12.9
GERMANY													
CPI	4.7	2.6	1.1	.7	.5	.6	1.0	.5	.2	.0	.2	.2	2.6
WPI	3.1	.9	.0	.0	-2.0	.8	.9	1.2	.6	-.1	.8	.4	.9
ITALY													
CPI	16.6	13.0	4.1	4.5	3.6	2.9	2.3	3.6	1.3	1.7	1.0	.5	13.0
WPI	12.4	N.A.	3.2	3.3	1.6	1.6	2.3	N.A.	1.8	1.0	.7	N.A.	9.2
JAPAN													
CPI	.9	1.9	.5	1.0	2.6	.9	-.2	3.6	1.1	1.0	-.2	-.5	1.9
WPI	-1.0	-3.3	.9	-.1	-1.9	-1.0	.2	-.6	.1	-.7	.1	.1	-3.3
UNITED KINGDOM													
CPI	6.2	5.1	.5	.7	.5	2.0	1.3	1.1	.4	.4	.4	.3	5.1
WPI	6.5	5.6	1.0	1.2	1.4	2.0	.7	1.4	.6	.6	.4	.3	5.6
UNITED STATES													
CPI (SA)	4.5	3.3	1.9	.5	-.1	1.0	1.2	1.2	.5	.4	.3	.3	3.3
WPI (SA)	3.7	.9	1.5	1.1	-.7	.2	.8	.5	.2	.3	-.2	.2	.9

January 25, 1984

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

	1981	1982	1982 Q3	1982 Q4	1983 Q1	1983 Q2	1983 Q3	1983 Q4	1983 SEP.	1983 OCT.	1983 NOV.	1983 DEC.
CANADA												
TRADE	5.8	14.8	4.0	4.0	3.3	4.0	3.3	N.A.	.9	.9	1.4	N.A.
CURRENT ACCOUNT	-4.8	N.A.	.9	.9	.2	.9	-.2	N.A.	*	*	*	*
FRANCE												
TRADE 2/	-9.3	-14.0	-4.2	-2.9	-3.5	-1.7	-.4	-.3	.0	-.1	-.2	.0
CURRENT ACCOUNT 2/	-4.7	N.A.	-3.2	-2.4	-4.0	-1.0	.3	.0	*	*	*	*
GERMANY												
TRADE	11.9	20.6	5.2	5.1	5.6	4.0	3.7	N.A.	1.0	1.3	N.A.	N.A.
CURRENT ACCOUNT (NSA)	-7.3	N.A.	-1.6	4.7	1.7	.8	-2.6	N.A.	-.3	1.1	.2	N.A.
ITALY												
TRADE	-15.9	-12.6	-3.2	-2.7	-1.5	-1.9	-2.4	N.A.	-.9	-.5	.4	N.A.
CURRENT ACCOUNT (NSA)	-8.6	N.A.	.4	-.7	-1.4	.6	N.A.	N.A.	*	*	*	*
JAPAN												
TRADE 2/	20.1	18.8	5.1	4.0	6.5	8.1	8.8	N.A.	2.6	2.4	3.0	N.A.
CURRENT ACCOUNT	4.8	6.9	2.3	1.6	3.5	6.0	6.1	N.A.	2.0	1.6	1.7	N.A.
UNITED KINGDOM												
TRADE	6.5	3.6	1.0	2.0	-.3	-1.0	-.5	N.A.	.2	-.6	.2	N.A.
CURRENT ACCOUNT 2/	13.8	N.A.	2.2	3.9	1.2	-.3	.9	N.A.	.7	-.3	.5	N.A.
UNITED STATES												
TRADE	-28.1	-36.4	-13.1	-11.4	-8.8	-14.7	-18.2	N.A.	-5.7	-8.2	-6.3	N.A.
CURRENT ACCOUNT	4.6	-11.2	-6.6	-6.6	-3.6	-9.7	-12.0	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.

* COMPARA ONTHLY OR QUARTERLY CURRENT ACCOUNT DATA ARE UBLISHED.

The December summit meeting of the heads of government of the European Community (EC) ended with no agreement on the EC budget crisis. At the end of last year, expenditures hit the revenue ceiling which is determined by tariff receipts plus the first 1 percent of Value Added Tax (VAT) proceeds. In order to avert a crisis this year, EC members must agree on an increase in VAT revenue contributed to the EC and/or a restructuring of the Common Agricultural Policy (CAP), which accounts for two-thirds of EC spending. This dispute is complicated by the dissatisfaction of the British concerning their large net contribution to the EC, the disinclination of some member states to pay for the accumulation of even larger surpluses of certain products, and the proposed entry into the EC of Spain and Portugal, which would further strain EC resources.

Individual Country Notes. Economic activity in Japan has continued to show signs of increasing strength. Third-quarter GNP advanced at a robust 6 percent rate (s.a.a.r.), following a revised second-quarter increase of 4-1/2 percent. Although the external sector was still an important source of strength, as real export demand accelerated to a rate of growth of over 20 percent (s.a.a.r.) in the third quarter, the pace of private domestic demand picked up significantly as well. Consumption grew at a 4 percent rate, and private investment in plant and equipment advanced at a rate nearly double that figure. Housing investment, which has been a conspicuous weak spot during the past three years, also experienced a quarter of strong growth. Imports pick-up significantly, reflecting the increased pace of domestic activity. The marked quickening of economic activity appears to have continued into the fourth quarter. The November industrial production index rose by 2 percent (s.a.); in the three months ending in November, IP has been advancing at a nearly 15 percent (s.a.a.r.) pace.

Despite the upturn in activity, price pressures continue to be very mild. Wholesale prices rose slightly at the end of the fourth quarter, but average fourth-quarter WPI remained about .6 percent below its third-quarter level. The CPI declined by 0.5 percent in December. Although consumer prices have moved ahead somewhat more rapidly in recent months than earlier. the fourth-quarter average is still only 2 percent above its year-previous level.

The current account surplus expanded in November by $200 million (s.a.) in spite of a $400 million expansion in the invisibles deficit. November's export total was the largest in almost two years. The current-account surplus is now virtually certain to exceed $20 billion for all of 1983, while the trade surplus will top $30 billion.

The proposed FY 1984 government budget, announced in January, allows for an expenditure increase of only 1/2 percent over the previous year -- the smallest such increase in almost 30 years. In domestic political developments, the Liberal Democratic Party, after sustaining large losses in the December 18 general election, continues to control the Lower House of the Diet by a slender margin through alliances with independent members.

GNP growth in Germany was flat in the third quarter, but there have been some encouraging signs more recently. Average industrial production in October and November was more than 1 percent higher than in August and September and more than 5 percent above last year's average. The rate of unemployment continued its gradual decline from 9.5 percent (s.a.) in June to 9 percent in December. The volume of orders showed new strength toward the end of last year. These data suggest that the stagnation of GNP in the third quarter may have been a temporary halt in the ongoing mild recovery. Preliminary GNP data for the fourth quarter shows a resumption of growth at a 4 percent annual rate, bringing year-to-year growth for 1983 to 1.2 percent.

Inflation continued at its previous slow pace through December, when the consumer price index reached a level 2.6 percent above December 1982. Producers prices and wholesale prices at the end of 1983 all were only slightly above their year-earlier levels.

The current account showed a small surplus in November, bringing the cumulative result for 1983 to a surplus of about $1 billion. Taking seasonal factors into account, the data suggest that the current account surplus for 1983 will be of similar magnitude ($3-1/2 billion) as the 1982 surplus. The trade surplus from January through November last year was significantly smaller than a year earlier.

On December 15, the Bundesbank announced that its target range of Central Bank Money (CBM) growth for 1984 would be 4 to 6 percent growth between 1983-Q4 and 1984-Q4. Last year's target had been 4 to 7 percent, and the outcome was just below the upper limit. Since last summer, however, CBM growth has been about 5 percent (s.a.a.r.). The new target, thus, allows the continuation of the recent course of monetary policy.

In France, the effects of the austerity measures initiated by the government last March have become more evident. Unemployment increased to 9 percent (s.a.) in November and rose further to 9.1 percent in December after holding steady at 8.8 percent for six months. Government programs promoting early retirement and job training have kept the recorded unemployment rate from rising even more over the past year. Industrial production declined substantially in September and October but this decline was reversed in November when it increased by 2.3 percent (s.a.).

Consumer prices increased 0.3 percent (s.a.) in December. This brought the 1983 December-over-December consumer price inflation rate to 9.3 percent, exceeding the government's goal of 8 percent. The official target inflation rate for the corresponding period in 1984 remains 5 percent.

The trade deficit has continued to shrink. In December, the trade account was in balance. For 1983, the trade deficit was $5.9 billion, less than half of the record $14 billion deficit recorded in 1982. The current account deficit in 1983 fell to $4.7 billion from $12.1 billion the previous year.

Last month, Finance Minister Delors announced a M2 monetary growth target range for 1984 of 5.5 percent to 6.5 percent. This is well below the 1983 target of 9 percent growth, and reflects the government's announced intention of achieving a significant reduction in inflation in 1984. Actual M2 growth in 1983 has been close to its targeted level; as of October 1983, M2 had grown at an annual rate of 8.7 percent compared with its three-month base period centered on December 1982.

In the United Kingdom, real GDP rose at an annual rate of 3.2 percent during the third quarter, as the recovery in activity continued at a moderate pace. Industrial production increased 5 percent (s.a.a.r.) in November. For the three months ending November, IP was 3 percent above its level for the corresponding period in 1982. Retail sales figures (s.a.) for November also indicated continued expansion. The unemployment rate in December remained at 12.3 percent (s.a.); it has been essentially unchanged throughout the last half of 1983.

The rate of inflation, when measured as the twelve month percentage change in the retail price index, was slightly above 5 percent in December, approximately the same rate as in September - November. The rate of increase of wholesale prices was slightly above that for consumer prices throughout 1983. In the fourth quarter the WPI was 5-1/2 percent above its year-earlier level.

In November both the trade balance and the current account registered surpluses. Nevertheless, both balances have declined sharply from 1982 levels. Through November the cumulative current account surplus was $1.9 billion compared with $7.8 billion for the corresponding period in 1982. The cumulative trade balance for November was a deficit of $2.3 billion compared with the $2.8 billion surplus for the first eleven months of 1982.

Nothwithstanding a small decline in Italian industrial production in October, most observers continue to view the 7.3 percent (s.a.a.r.) rise in IP in the third quarter as the beginnning of a recovery.

Increased energy consumption in the second half of last year and a continued improvement in consumer surveys support this view. Reflecting in part seasonal influences, inflation picked up in the closing months of 1983. Consumer prices in the fourth quarter rose at an annual rate of 15 percent, compared with a 9-1/2 percent rate of increase in the previous quarter; wholesale price inflation behaved similarly. The official unemployment rate in October rose by 1/2 point to 10.2 percent; the inclusion of those in "temporary" layoff would raise the rate to 12-1/2 percent.

In late December the Parliament approved a modified version of the Craxi government's 1984 budget. Further budget savings will be needed to attain the government's goal of preventing the enlarged public sector deficit this year from exceeding last year's estimated 90 trillion lire deficit (about 16-3/4 percent of GDP). On December 30 the Bank of Italy announced a 12.5 percent target for the growth banking sector credit in 1984, compared with a 14 percent target last year. At the same time, the Bank announced that it was ending its 10-year old system of ceilings on individual bank's lending.

The Canadian economy continued to grow in the fourth quarter. Industrial production posted a 0.5 percent (s.a.) increase in October, and reached a level 16 percent above its year-earlier level. Nevertheless, there are emerging signs of a moderation in the rate of economic expansion. Retail sales increased only fractionally in October - November, while housing starts declined in October. The unemployment rate remained unchanged at 11.1 percent during November -

December after falling 1.5 percent from its March peak. Although employment expanded in the fourth quarter, increases in labor participation rates prevented a further decline in the unemployment rate. Consumer confidence, as measured by the Conference Board's survey, dropped sharply in the fourth quarter from its 18-year peak though it remains substantially above its average for the past decade.

The inflation rate as measured by the CPI has come down to 4.5 percent in December on a year-over-year basis, less than half the double digit rates recorded in each of the previous two years. Non-indexed wage settlements rose 5.8 percent (a.r.) in the third quarter, fractionally below the first and second quarter increases.

Canada's trade surplus expanded in November to $1.4 billion after falling each month since April. The cumulative trade surplus through November was $13 billion, approximately 2-1/2 percent below the corresponding total in 1982. However, trade in transportation equipment with the United States registered a $1.7 billion surplus over the first nine months of 1983, an increase of approximately 12 percent over the corresponding period in 1982.

A wage earner fund system has been adopted in Sweden. Five investment funds will be created early this year to invest in Swedish equities. The funds will be financed by a new 20 percent tax on "real" corporate profits and by a 0.2 percent increase in the payroll tax. Contributions to the funds will cease in 1990 by which time the funds will have received $2 billion, equivalent to seven percent of the current total value of Swedish equities.

Each of the five funds will be able to purchase up to eight percent of an individual corporation's equities. Together with the existing state national pension fund, they could control up to fifty percent of the stock of any large Swedish corporation. The nine-member fund boards, appointed by the government, will include at least five union representatives.

This controversial measure was passed by a margin of only six votes in parliament. The most recent surveys show only 27 percent of the electorate in favor of the proposal. The Conservative, Liberal, and Centre parties have all promised to abolish the funds if returned to power.

The Debt Situation in Selected Developing Countries

Banks have committed essentially all of the $6.5 billion Brazilian "Phase II" new money facility and the signing is scheduled to begin on January 27. Mexico has paid off all private sector interest arrears and has reached agreement with its bank advisory committee on a new loan of $3.8 billion. 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, though agreement with Peru is close. The new Venezuelan administration remains cool to the establishment of an IMF stabilization program. Chile, which has lowered its inflation rate substantially, expects to complete about half of its 1983 loan reschedulings by the end of this month.

Brazil recorded a trade surplus of $6.5 billion in 1983, which surpassed the IMF projection of $6 billion and was well above the $1 billion surplus in 1982. The current account deficit was $7.5 billion in 1983, $200 million better than the IMF projection. Prices rose over 200 percent in 1983 on a year-over-year basis, as compared with 100 percent in 1982. However, the inflation rate in the last two months of 1983 was substantially less than in the first ten months. The current IMF program calls for monetary growth of only 50 percent during 1984 and a slight surplus in the public sector deficit adjusted for inflation. It appears that the Brazilians have met the net domestic asset and public sector deficit targets for the end of December 1983. The balance of payments target (i.e., zero change in net reserves) was not met primarily because of the delay in signing the bank "new money" facility. Banks have committed essentially all of the $6.5 billion Phase II "new money" facility and the signing is scheduled to being on January 27.

Mexico and its Bank Advisory Committee have agreed on a new $3.8 billion credit. The loan is for 10 years with 5-1/2 years of grace, interest at 1-1/2 percent over LIBOR or 1-1/8 percent over prime, and a facility fee of 5/8 percent. These terms are easier than those of the $5 billion bank loan of 1983 and reflect Mexico's improved performance in 1983. In the first ten months of 1983, Mexico had a current account surplus of $4 billion, in contrast with a $3.8 billion deficit for all of 1982. Gross international reserves rose by $2.5 billion; net reserves increased by about $5 billion as central bank debts were repaid. Imports were cut almost in half in 1983, resulting in a trade surplus estimated at $14 billion. Private sector interest arrears, which totalled nearly $900 million a year ago, have been eliminated. About $23 billion in public sector debts to banks maturing between August 1982 and December 1984 have been restructured, with an eight-year repayment term, including four years of grace. More than $11 billion in private sector debts have been restructured on terms of at least six years, including a grace period of at least three years. The annualized rate of increase in the CPI in the fourth quarter of 1983 was less than 70 percent, in contrast with nearly 125 percent in the same quarter of 1982. The public sector deficit has been reduced, and the authorities hope that real GDP, which declined by about 4 percent in 1983, will begin to recover in 1984.

The new economic team in Argentina has begun discussions with the IMF and the banks, aimed at arranging financing for a 1984 gap estimated at more than $7 billion, not including some $18 billion in external debt falling due from the end of 1982 through 1984 that Argentina hopes to restructure. Payments arrears on current transactions were substantially reduced during the first nine months of 1983, but rose sharply to more than $2.9 billion at year-end, about as high as a year earlier. Interest payments are current only through early October. A $350 million payment on the 1982 bank bridge loan, due January 15, has been postponed to February 15. In office since December 10, the new government has linked changes in wages, interest rates, and the exchange rate to the projected rate of inflation and announced on December 30 that it was projecting a monthly rate of 10 percent for January. Notwithstanding a monthly inflation rate of 18 percent in December, the government decreed an across-the-board increase in take-home pay of 12 percent for January, lowered the monthly interest rates on 30-day loans and deposits by three percentage points to 12.5 and 11.5 percent, respectively, and slowed the daily depreciation of the official exchange rate by about one-third. Over the course of 1984, the government proposes to reduce the ratio of the public sector deficit to GDP from 14 to 4 percent by reducing expenditures by 2 percent of GDP and increasing revenues by 8 percent of GDP.

Peru continues to negotiate with the IMF to replace its three-year extended arrangement with a new 18-month standby arrangement. Since last September it has been out of compliance with the arrangement. A Letter of Intent is expected to be signed soon, but before the signing the IMF would like to see the elimination of controls on food prices and an end to the practice of pre-announcing exchange rate devaluations. These matters are considered very sensitive politically by the Peruvian authorities, who are also concerned about adding to the rate inflation, which reached about 125 percent in December 1983 over December 1982.

Chile's monthly inflation rate has fallen from a peak of 2.7 percent in August to 0.6 percent in December. The consumer price index in December was 23 percent higher than in the same month a year earlier, well within the government's target of 25 percent. The last disbursement of Chile's $1.3 billion new credit from commercial banks was made at the end of December. This disbursement required a waiver by the banks of the condition in the loan agreement that "substantially all" of the rescheduling agreements be complete by the time of the final disbursement. Final ratification of the first half of the reschedulings took place on January 25.

Venezuela will--in all likelihood--be granted a fifth moratorium on public sector principal payments owed to banks after the current moratorium expires at the end of this month. The banks are expected to grant this extension as a sign of good faith in the newly-elected Venezuelan government. Because the central bank refuses to authorize the release of foreign exchange for the payment of private sector external debts, arrears on private sector interest payments have continued to grow and are currently estimated to be $750 million, while international reserves have reached a level of $11 billion. The new administration, which takes office on February 2, continues to show the same resistance as the previous administration to establishing an IMF-approved stabilization program.

Philippine officials are continuing to negotiate a new stabilization program with the IMF, but final agreement on a Letter of Intent does not appear likely until mid-February, with Executive Board approval at the earliest a month later. On January 11 Governor Laya, tainted by the revelation that Philippine official reserves had been overstated substantially during much of 1982 and 1983, resigned from the central bank. Jose Fernandez, formerly head of the Far East Bank, was sworn in on January 18 as the new Governor. Earlier, on January 12, the 12-bank advisory committee agreed to extend the moratorium on the repayment of principal on non-trade external debt to commercial banks for another 90 days from January 16. Philippine officials are scheduled to hold their first Paris Club meeting with official creditors on February 8. Prime Minister Virata and Governor Fernandez are currently in Washington and an attempt will be made to reach agreement on the timing for the establishment of an IMF-approved stabilization program.