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March 21, 1984

## **RECENT DEVELOPMENTS**

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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 rates)						
Civilian labor force	Feb.	03-09-84	112.7	5.1	2.3	1.8
Unemployment rate (%) <u>1/</u>	Feb.	03-09-84	7.8	8.0	8.4	10.4
Insured unemployment rate (%) <u>1/</u>	Dec.	02-29-84	3.2	3.3	3.4	5.0
Nonfarm employment, payroll (mil.)	Feb.	03-09-84	92.2	5.0	3.9	3.9
Manufacturing	Feb.	03-09-84	19.5	6.8	6.7	6.9
Nonmanufacturing	Feb.	03-09-84	72.8	4.6	3.2	3.2
Private nonfarm:						
Average weekly hours (hr.) <u>1/</u>	Feb.	03-09-84	35.4	35.5	35.2	34.5
Hourly earnings (\$) <u>1/</u>	Feb.	03-09-84	8.23	8.22	8.13	7.91
Manufacturing:						
Average weekly hours (hr.) <u>1/</u>	Feb.	03-09-84	41.0	41.0	40.6	39.2
Unit labor cost (1967=100)	Jan.	02-29-84	88.1	-6.8	-3.6	-9.4
Industrial production (1967=100)	Feb.	03-15-84	159.9	14.4	11.8	15.8
Consumer goods	Feb.	03-15-84	161.1	11.3	12.8	12.3
Business equipment	Feb.	03-15-84	169.2	7.9	12.4	18.6
Defense & space equipment	Feb.	03-15-84	129.2	16.0	16.8	11.3
Materials	Feb.	03-15-84	158.8	18.4	11.1	17.7
Consumer prices all items (1967=100)	Jan.	02-24-84	305.8	7.5	4.9	4.1
All items, excluding food & energy	Jan.	02-24-84	294.9	6.5	5.2	4.8
Food	Jan.	02-24-84	300.2	19.5	9.1	3.9
Producer prices: (1967=100)						
Finished goods	Feb.	03-16-84	290.2	4.6	4.6	2.3
Intermediate materials, nonfood	Feb.	03-16-84	322.0	1.9	1.1	2.2
Crude foodstuffs & feedstuffs	Feb.	03-16-84	261.3	-36.9	2.3	4.6
Personal income (\$ bil.) <u>2/</u>	Feb.	03-19-84	2,922.6	8.6	12.6	10.3
(Not at annual rates)						
Mfgs. new orders dur. goods (\$ bil.)	Jan.	03-02-84	100.9	2.7	8.0	22.5
Capital goods industries	Jan.	03-02-84	32.0	-5.1	1.4	6.3
Nondefense	Jan.	03-02-84	6.6	-25.8	18.7	-31.5
Defense	Jan.	03-02-84	25.4	2.3	-2.2	24.0
Inventories to sales ratio: <u>1/</u>						
Manufacturing and trade, total	Jan.	03-14-84	1.30	1.31	1.35	1.47
Manufacturing	Jan.	03-02-84	1.41	1.40	1.48	1.66
Trade	Jan.	03-14-84	1.21	1.24	1.24	1.31
Ratio: Mfgs.' durable goods inventories to unfilled orders <u>1/</u>	Jan.	03-02-84	.521	.530	.538	.582
Retail sales, total (\$ bil.)	Feb.	03-13-84	106.0	-.2	3.9	16.3
GAP <u>3/</u>	Feb.	03-13-84	22.3	.3	3.5	14.6
Auto sales, total (mil. units.) <u>2/</u>	Feb.	03-05-84	10.6	-3.2	10.0	25.9
Domestic models	Feb.	03-05-84	8.5	.5	20.0	39.7
Foreign models	Feb.	03-05-84	2.2	-15.2	-16.8	-8.7
Plant and equipment expen. <u>4/</u>						
Total nonfarm business	1984	03-12-84	343.57	—	—	13.6
Manufacturing	1984	03-12-84	129.72	—	—	16.3
Nonmanufacturing	1984	03-12-84	213.86	—	—	12.0
Capital Appropriations, Mfg.	1983-Q4	03-14-84	25,071	12.9	—	16.7
Housing starts, private (thous.) <u>2/</u>	Feb.	03-16-84	2,197	11.2	27.0	28.8
Leading indicators (1967=100)	Jan.	02-29-84	164.7	1.1	1.2	13.4

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.

## DOMESTIC NONFINANCIAL DEVELOPMENTS

The pace of activity picked up vigorously early this year. Housing activity surged, auto purchases and other retail sales rose strongly, and industrial production advanced rapidly in both January and February. The acceleration in output was reflected in stronger employment growth, and the unemployment rate declined 0.2 percentage point per month. Part of the growth in domestic expenditures for goods was met by imports, and the trade deficit reached record proportions. While wage and price inflation generally remained quite moderate, prices for food and some industrial goods began to advance more rapidly.

### Industrial Production

Following smaller increases in the closing months of 1983, industrial output expanded by 1-1/4 percent in both January and February. Gains were widespread among most product and material categories, with especially large increases evident in construction supplies and durable goods materials. Apart from autos, where large car production is bumping against capacity constraints, output of most major categories of consumer goods advanced sharply. Auto assemblies in February were unchanged at an annual rate of 8 million units--and March schedules are at the same level.<sup>1</sup> Production of business equipment increased moderately in February with especially large gains in manufacturing, power, commercial, and transit equipment; but these increases were partially offset by declines in mining equipment, as oil and gas well drilling dropped. Output of defense equipment recently has advanced 1-1/4 percent per month--faster than its average 1983 pace.

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1. Auto production is scheduled to decline in the second quarter because of some earlier-than-usual model changeovers.

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

	1983			1983	1984	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
	-----Annual rate-----			--Monthly rate--		
Total	18.4	21.8	10.0	.5	1.2	1.2
Final products	15.0	17.7	8.1	1.0	1.3	.9
Consumer goods	19.0	16.9	1.6	.8	1.5	.9
Durable	37.0	29.7	5.7	1.6	3.3	.7
Nondurable	12.9	12.3	0.8	.5	.7	1.0
Business equipment	11.4	23.2	21.4	1.5	.9	.7
Defense and space equipment	5.0	10.2	11.6	1.4	1.4	1.3
Construction supplies	30.8	31.3	8.3	-.1	2.2	1.9
Materials	22.0	25.2	12.5	.1	1.2	1.5
Durable goods	34.0	31.4	17.9	.5	1.9	2.0
Nondurable goods	20.9	18.3	11.3	-1.7	.6	1.2
Energy materials	-2.5	21.0	0.7	1.9	.2	.8

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

	1978-80	1982	1967-82	1983	1984	
	High	Low	Avg.	Dec.	Jan.	Feb.
Total industry	87.3	69.6	82.4	79.0	79.8	80.7
Manufacturing	87.5	68.8	81.8	78.9	80.0	81.0
Durable	89.4	64.8	80.5	77.4	78.8	80.1
Nondurable	87.2	73.8	83.9	80.9	81.5	82.2
Mining	90.4	69.6	86.5	74.7	75.1	74.7
Utilities <sup>1</sup>	86.8	79.0	88.6	84.5	83.0	82.2
Industrial materials	88.9	66.6	83.3	79.6	80.5	81.6
Metal materials	95.4	46.2	82.2	66.6	68.1	70.1
Paper materials	97.9	86.3	93.4	99.4	99.5	n.a.
Chemical materials	91.3	64.0	85.1	77.1	77.7	n.a.

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

Capacity utilization rose in February to 80.7 percent--about the same as the 1981 peak but still below the 1967-82 average. There is a wide dispersion of utilization rates among industries with a few, such as paper and electronic components, pressing against capacity. In others, such as steel, copper, and mining, operating rates are still very low.

#### Employment and Unemployment

Labor demand strengthened further in January and February and weekly data on unemployment insurance claims suggest continued improvement through early March. Payroll employment rose 385,000 in February--well above the 290,000 average monthly gain during the preceding six months. Service industries accounted for more than a third of the over-the-month gain. In manufacturing, employment growth continued at its recent pace, rising another 110,000, and the factory workweek, which jumped half an hour in January, held steady at its highest level since 1967. Some hardgoods industries, such as lumber, furniture, electrical equipment, and automobiles, have recovered all of their losses from the 1981-82 recession, but others, such as machinery and metals, have shown a relatively slow recovery in employment.

The civilian unemployment rate fell 0.2 percentage point in February for the third consecutive month. The household measure of employment, which has outpaced the payroll measure during the recovery, has grown faster than during any recovery since 1954. Unemployment rates have fallen for most demographic groups, and it appears that employers now are hiring increasing numbers of less experienced workers as the economy



CHANGES IN EMPLOYMENT<sup>1</sup>  
(Thousands of employees; based on seasonally adjusted data)

	1982	1983	1983				1984	
			Q2	Q3	Q4	Dec.	Jan.	Feb.
-Average monthly changes-								
Nonfarm payroll employment <sup>2</sup>	-172	245	343	336	249	244	264	386
Strike adjusted	-170	245	340	344	243	239	251	378
Manufacturing	-127	91	105	96	136	108	105	110
Durable	-99	71	76	79	108	86	68	101
Nondurable	-28	20	29	17	28	22	37	9
Construction	-20	23	59	35	17	-6	88	36
Trade	-18	44	48	39	56	63	65	68
Finance and services	31	86	124	98	69	87	31	156
Total government	-13	1	-1	47	-30	-6	-55	12
Private nonfarm production workers	-146	213	327	245	239	205	245	306
Manufacturing production workers	-108	82	97	81	124	83	91	97
Total employment <sup>3</sup>	-51	330	476	378	355	335	249	702
Nonagricultural	-67	336	445	435	339	236	333	578

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				1984	
			Q2	Q3	Q4	Dec.	Jan.	Feb.
Civilian, 16 years and older	9.7	9.6	10.1	9.4	8.5	8.2	8.0	7.8
Teenagers	23.2	22.4	23.3	22.4	20.6	20.1	19.4	19.3
20-24 years old	14.8	14.5	15.0	13.9	12.9	12.2	12.5	11.6
Men, 25 years and older	7.5	7.8	8.2	7.6	6.8	6.5	6.2	6.1
Women, 25 years and older	7.3	7.2	7.6	7.0	6.3	6.3	6.2	6.1
White	8.6	8.4	8.8	8.1	7.4	7.1	6.9	6.7
Black	18.9	19.5	20.4	19.4	17.9	17.8	16.7	16.2
Fulltime workers	9.6	9.5	10.0	9.3	8.3	8.0	7.8	7.5
Memo:								
Total national <sup>1</sup>	9.5	9.5	9.9	9.3	8.4	8.1	7.9	7.7

1. Includes resident Armed Forces as employed.

continues to expand. The number of long-term unemployed also declined significantly, resulting in a drop in the median duration of unemployment. In addition, the labor force, which had shown little growth in the first year of recovery, picked up in February as participation rose among both teenagers and adult females.

#### Personal Income and Consumption

Income growth was well maintained in January and February. Total personal income grew at an average \$32 billion annual rate in the first two months of the year--slightly more than the average monthly rate of \$25 billion in the fourth quarter. Gains in wages and salaries were associated with rising employment and a 3-1/2 percent COLA for government workers in January. In addition, the PIK program contributed substantially to farm income.

Bouyed by rising income and a willingness to use installment credit, personal consumption expenditures rose 1.9 percent in January before declining somewhat in February. February outlays are estimated to have been 2.2 percent above the fourth-quarter average. The gains in total consumption expenditures and in retail sales since late 1982 have been about average for a recovery period. In the last three months, however, spending on durable goods, the most credit-sensitive component of expenditures, has been strong. Retail sales in the GAF grouping of largely discretionary items was 3.8 percent above the advanced fourth-quarter level. The personal saving rate averaged about 5-1/2 percent in the first two months of the year--up slightly from the second half of 1983.

PERSONAL INCOME AND EXPENDITURES  
(Based on seasonally adjusted data)

	1982	1983	1983			1984	
			Q3	Q4	Dec.	Jan.	Feb.
- - Percentage changes at annual rates <sup>1</sup> - -							
Total Personal Income							
Nominal	4.6	7.7	7.3	11.0	11.1	17.7	8.6
Real <sup>2</sup>	- .3	4.2	3.0	8.2	8.2	11.0	—
Disposable Personal Income							
Nominal	5.1	8.8	11.0	10.9	11.1	18.7	8.9
Real	.2	5.2	6.5	8.0	8.5	11.7	—
Expenditures							
Nominal	7.5	8.9	6.5	9.4	13.5	22.7	-8.4
Real	2.5	5.4	2.2	6.5	10.8	15.7	—
- - Changes in billions of dollars <sup>3</sup> - -							
Total personal income	10.6	17.9	16.3	26.0	26.1	42.1	20.9
Wages and salaries	5.1	11.2	10.3	11.4	10.7	22.1	8.8
Private	3.4	9.7	8.8	9.9	9.1	18.1	7.2
Manufacturing	- .6	3.7	4.0	2.8	2.1	7.7	4.4
Other income	6.0	7.5	6.6	15.2	15.9	25.4	12.6
Disposable personal income	10.0	17.2	21.9	22.2	22.4	38.1	18.4
Expenditures	12.0	16.0	10.0	19.1	25.0	42.6	-16.1
Durables	2.5	4.3	- .3	9.7	18.3	10.2	-8.1
Nondurables	1.9	4.0	3.2	1.4	-6.1	28.4	-7.8
Services	7.6	7.8	7.1	8.1	12.9	3.9	- .3
Personal saving rate (percent)	5.8	4.9	4.9	5.2	5.1	4.8	6.1

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				Dec.	1984	
	Q1	Q2	Q3	Q4		Jan.	Feb.
Total sales	.3	5.9	1.2	3.1	.7	3.3	-.2
(Real) <sup>1</sup>	.3	4.9	.3	2.7	.5	2.8	--
Total, less automotive, gasoline and nonconsumer stores	1.3	2.9	2.0	1.8	-.7	4.1	-.5
GAF <sup>2</sup>	1.2	4.2	1.1	3.8	1.3	1.9	.3
Durable	.4	12.4	.1	7.3	3.4	2.8	1.0
Automotive group	-2.6	17.6	-2.2	9.8	4.5	2.9	.7
Furniture & appliances	3.2	4.0	4.3	4.2	5.3	.6	.4
Nondurable	.3	3.0	1.7	1.0	-.7	3.6	-.8
Apparel	-.4	7.2	-2.4	4.5	-2.1	1.0	1.6
Food	-.3	2.6	1.8	.0	-1.3	3.1	-.9
General merchandise <sup>3</sup>	1.2	3.1	1.4	3.4	1.2	2.7	-.3
Gasoline stations	-4.3	3.8	3.2	-.6	1.5	-1.1	-1.0

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 & PRODUCTION  
(Millions of units; seasonally adjusted annual rates)

	1983				1984		
	Q1	Q2	Q3	Q4	Jan.	Feb.	Mar.
Total Sales	8.5	9.1	9.2	9.9	11.0	10.6	--
Imports	2.4	2.3	2.3	2.7	2.6	2.2	--
Domestic	6.1	6.8	6.9	7.3	8.4	8.5	8.1 <sup>1</sup>
Small	2.5	3.0	2.8	3.2	3.8	3.8	--
Intermediate & standard	3.6	3.9	4.1	4.1	4.6	4.6	--
Domestic Production	5.9	6.3	7.6	7.6	8.1	8.0	8.1 <sup>2</sup>
Small	2.8	2.7	3.2	3.8	4.0	3.8	--
Intermediate & standard	3.1	3.6	4.4	3.8	4.1	4.2	--

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

1. First Ten Days.

2. Scheduled as of March 20, 1984.

Total auto sales were at a 10.6 million unit rate in February--off slightly from the 11.0 million rate of January. Sales for the two months were at the highest rate since early 1980. Domestic units sold at an 8.5 million annual rate last month, little changed from the 8.4 million rate in January. Strong sales in recent months continue to press production schedules as many of the large-car plants are operating near capacity. Foreign units sold at a 2.2 million unit annual rate, down from 2.6 million units in January as supplies of Japanese cars were extremely short; sales will continue to be restricted until the new export restraint year begins in April.

Both the Michigan Survey Research Center and the Conference Board found consumers very optimistic in February. However, a rising number of respondents thought interest rates would increase, and there was a bit less optimism about employment prospects. Nonetheless, households had very favorable evaluations of personal finances and the greatest willingness to use credit or draw down savings since the mid-1970s.

#### Business Fixed Investment

Business fixed investment is still expanding at a very vigorous pace although less rapidly than in the second half of 1983. Most indicators of future outlays are consistent with a continued rapid expansion of capital spending.

Although shipments of nondefense capital goods fell 5.6 percent in January, this followed sizable advances in the two preceding months. As a result, January shipments were little changed from their fourth-quarter level. However, imports of capital goods jumped sharply, indicating that domestic equipment demand is still increasing. In addition, new orders

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

	1983					1984
	Q2	Q3	Q4	Nov.	Dec.	Jan.
<u>Producers' durable equipment</u>						
Nondefense capital goods						
Shipments	5.3	2.2	6.3	5.1	6.5	-5.6
Excluding aircraft & parts	6.1	4.6	6.2	2.7	7.1	-4.0
Orders	15.7	1.0	8.0	-5.5	1.1	2.3
Excluding aircraft & parts	12.1	5.2	5.5	-4.9	2.8	0.9
Unfilled orders	1.5	.8	1.9	.3	- .8	.8
Excluding aircraft & parts	1.7	2.2	1.7	0.2	- .9	.5
<u>Addendum:</u>						
Sales of heavy-weight trucks (thousands of units, annual rate)	180	181	199	193	221	190
<u>Nonresidential structures</u>						
Nonresidential construction put in place	-2.5	2.7	3.7	4.8	2.7	.7
Nonresidential building permits	12.0	11.6	-2.1	-5.1	-2.4	10.4

for nondefense capital goods continue to trend upward, although at a much reduced pace from the end of the year. Orders in January were about 1 percent above the robust fourth-quarter average, as a substantial increase in the booming office and store machinery category offset declines for a number of types of heavy industrial equipment. Also, business spending for motor vehicles continues to increase at a rapid rate.

Business construction also has been strong in recent months. December construction spending was revised upward to show a 2.7 percent increase, which was followed by another 0.7 percent gain in January. A substantial part of the recent strength has been in the building of stores and restaurants, which increased 23 percent between October and January. Despite the continued rise in vacancy rates, construction of office buildings increased over the latest three-month period by a little more than 10 percent; meanwhile, industrial building began to show some pickup from its extremely depressed level in 1983. Near-term commitments data, both contracts and permits, are running well above their fourth-quarter levels.

The latest surveys report that investment plans for the year have been scaled up. The McGraw-Hill spending survey in February showed that business now expects to increase spending 17 percent in 1984, compared with about 10 percent reported in the fall survey. McGraw-Hill's respondents expect capital goods prices to rise 5-1/4 percent--the same expectation as in the fall survey. The February Commerce Department survey of planned 1984 spending increases also showed an upward revision from 10 percent last fall to 14 percent in March.

Business Inventories

Production appears to have been running only slightly above final demands, and inventory investment has been modest. Overall, manufacturing and trade inventories rose at an annual rate of \$5 billion in real terms in January--about half of the pace of the fourth quarter of 1983. The weakness in inventory investment has been concentrated in the factory sector, where stocks have been slowly liquidated, while trade inventories have expanded in recent months. With shipments and sales up sharply, the constant-dollar inventory-sales ratio fell further in January to 1.50, which was close to the record low of 1.47 in early 1965.

The total value of factory stocks has fallen since August of last year, and their level at the end of January was still 4 percent below that at the beginning of the current recovery. The backlog of unfilled orders has continued to rise, and firms seem to be directing their production to satisfy waiting customers rather than to rebuilding depleted stocks. For the last several months, managers have been reporting lengthening delivery lags. The inventory-to-shipments ratio for all manufacturing, at 1.70 in January, was more than 10 percent below the previous cyclical trough. By stage of processing, stocks were leaner in finished goods than in raw materials and work in process.

In contrast to the factory sector, stockbuilding has occurred at trade establishments over the past half-year. Except for auto dealers' stocks, trade inventories, relative to sales, are running close to their pre-recession levels.



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

	1982	1983	1983				1984	
			Q2	Q3	Q4	Nov.	Dec. <sup>r</sup>	Jan. <sup>p</sup>
<u>Book value basis</u>								
Total	-14.2	8.2	9.2	33.4	27.4	25.5	31.4	23.1
Manufacturing	-17.4	-4.1	.3	10.5	3.2	2.4	-2.2	1.0
Wholesale trade	1.8	1.6	-3.8	11.1	9.5	-5.1	16.0	6.4
Retail trade	1.4	10.7	12.7	11.8	14.7	28.2	17.6	15.7
Automotive	.1	4.3	2.7	5.9	11.7	15.5	18.6	-8.3
Ex. Auto	1.3	6.4	10.0	5.9	2.9	12.7	-1.0	23.9
<u>Constant dollar basis</u>								
Total	-8.2	.0	-2.1	9.0	9.4	10.0	11.9	5.0
Manufacturing	-8.4	-3.1	-.8	1.4	-.5	.1	.0	-4.1
Wholesale trade	.6	-.5	-2.9	3.8	3.6	1.3	4.9	2.6
Retail trade	-.5	3.6	1.7	3.8	6.3	8.6	7.1	6.5
Automotive	-.4	1.1	-1.6	2.3	4.1	4.0	4.6	1.0
Ex. Auto	.0	2.5	3.3	1.6	2.3	4.6	2.5	5.4

INVENTORIES RELATIVE TO SALES<sup>1</sup>

	Cyclical		1983				1984	
	Reference Points <sup>2</sup>		Q2	Q3	Q4	Nov.	Dec. <sup>r</sup>	Jan.
	1981 Low	1982 High <sup>p</sup>						
<u>Book value basis</u>								
Total	1.42	1.54	1.39	1.37	1.34	1.34	1.31	1.30
Manufacturing	1.59	1.78	1.53	1.48	1.44	1.44	1.40	1.41
Wholesale trade	1.07	1.31	1.19	1.17	1.15	1.15	1.13	1.10
Retail trade	1.37	1.45	1.36	1.37	1.37	1.35	1.35	1.32
Automotive	1.61	1.92	1.45	1.56	1.57	1.49	1.50	1.42
Ex. Auto	1.30	1.37	1.33	1.33	1.32	1.31	1.32	1.30
<u>Constant dollar basis</u>								
Total	1.62	1.77	1.60	1.57	1.55	1.54	1.52	1.50
Manufacturing	1.92	2.14	1.84	1.80	1.75	1.75	1.71	1.70
Wholesale trade	1.35	1.56	1.42	1.40	1.39	1.39	1.36	1.34
Retail trade	1.33	1.45	1.36	1.36	1.36	1.35	1.34	1.32
Automotive	1.44	1.79	1.34	1.37	1.40	.37	1.33	1.29
Ex. Auto	1.27	1.38	1.36	1.36	1.35	.34	1.35	1.3

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.

## Housing Markets

Housing market activity has strengthened considerably since the last Greenbook, as housing starts, permits, and home sales all have posted substantial and surprising increases. Private housing starts in February--typically a volatile month--jumped 11 percent to a 2.2 million unit annual rate, the highest in six years and 29 percent above the average for 1983 as a whole; newly issued building permits rose 7 percent further in February. The February strength in starts came on top of a January spurt of 17 percent. Multifamily starts were responsible for most of the February increase, whereas the strength in January was in the single-family sector.

Sales of new and existing homes have continued to rise, and of late have been the highest since 1980. New home sales climbed 17 percent in December before falling 8 percent in January; existing home sales posted a steady increase in each of the past two months--reversing a six-month downtrend in sales volume. Despite the surge in sales, prices of homes sold have shown only modest gains in recent months. New home prices (adjusted for quality differences) were up at a 3.5 percent annual rate during the last quarter of 1983, only slightly above the 2 percent average increase for all of 1983.

The strength in housing market activity in recent months apparently has reflected both rising family income and the increasing popularity of adjustable rate mortgages. Adjustable-rate mortgages (ARMs) have recently accounted for nearly 60 percent of all conventional home loan originations compared with about one-third a year earlier.

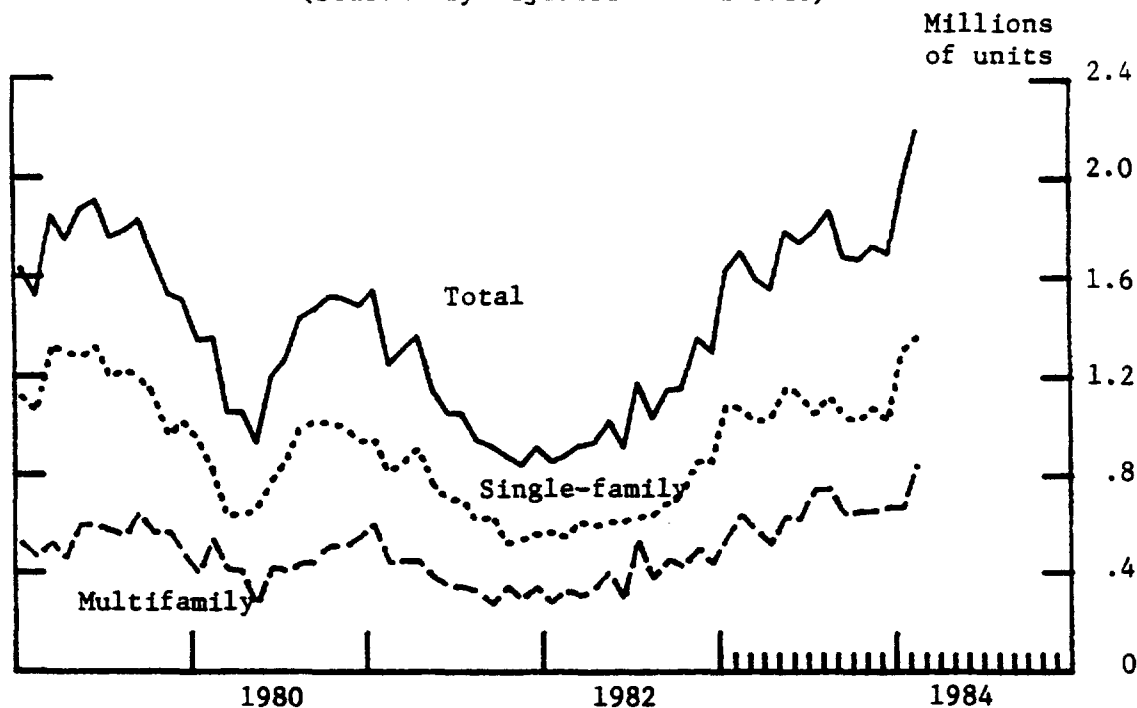
PRIVATE HOUSING ACTIVITY  
(Seasonally adjusted annual rates, millions of units)

	1983	1983			1984	
	annual	Q3	Q4	Dec.	Jan.	Feb. <sup>1</sup>
All units						
Permits	1.59	1.65	1.61	1.55	1.82	1.94
Starts	1.70	1.78	1.70	1.69	1.98	2.20
Single-family units						
Permits	.89	.88	.90	.90	1.00	1.11
Starts	1.07	1.07	1.04	1.02	1.31	1.36
Sales						
New homes	.62	.59	.67	.75	.69	n.a.
Existing homes	2.72	2.77	2.76	2.85	2.99	n.a.
Multifamily units						
Permits	.70	.77	.71	.65	.82	.83
Starts	.63	.71	.66	.67	.67	.84
Mobile home shipments	.30	.30	.31	.31	.31	n.a.

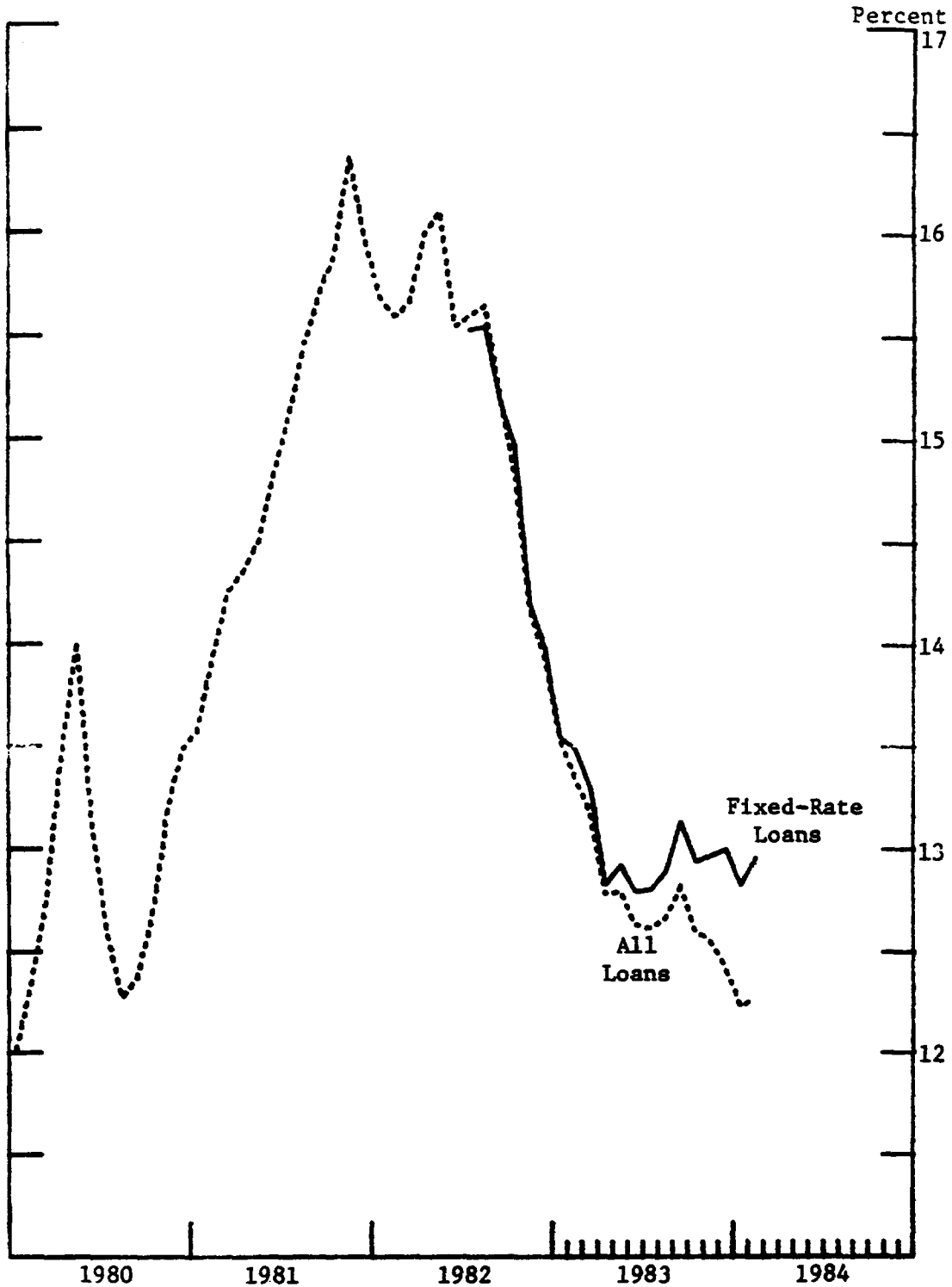
1. Preliminary estimates.

n.a.—not available.

PRIVATE HOUSING STARTS  
(Seasonally adjusted annual rate)



EFFECTIVE FIRST-YEAR INTEREST RATE  
ON CONVENTIONAL HOME LOANS CLOSED  
BY MAJOR LENDERS



Note: Separate fixed-rate loan series began in mid-1982.

ARMs have been offering a substantial first-year rate advantage relative to fixed-rate loans. Given this rate difference and the increasing prevalence of ARMs, the average effective first-year rate paid by mortgage borrowers has continued to decline--even while the average for fixed-rate mortgages has held constant for several months (see chart). Some of the recent surge in ARM activity apparently has resulted from lender practices of computing qualifying requirements based only on first-year payments which are lower than payments based on the higher rates of fixed-rate mortgages. (See the domestic financial section for further discussion.)

Government: Federal, State, and Local

Over the first four months of fiscal year 1984, the federal budget deficit totaled \$69 billion (unified basis--not at an annual rate), \$9 billion less than for the same period a year earlier. In part, the strength of economic activity is contributing to the narrowing of the deficit. In addition, defense outlay growth continues to be below the Administration's earlier projections. However, a number of transitory factors have exaggerated the decline in the deficit thus far. These include the delay of federal pay hikes from October until January and the postponement of cost-of-living increases for social security and other indexed programs from last July to January. On the receipts side, personal refund payments have been unusually slow during this tax-filing season.

Work on the FY1985 budget in Congress has begun to provide some specific spending and tax targets, and the House and Senate Budget Committees may report budget resolutions and reconciliation instructions by late March. The House Ways and Means Committee has reported a tax reform bill that would raise receipts about \$9 billion in FY1985 and substantially more in

subsequent years. Meanwhile, Senate leaders and the administration have agreed on a deficit reduction package totaling \$150 billion over the 1985-87 period (relative to current services) with roughly equal contributions from defense spending, domestic programs, and taxes; in addition, the package assumes smaller debt service payments owing to smaller deficits. More recently the House leadership has endorsed a slightly larger plan (\$185 billion) that includes greater cuts in defense expenditures. Both packages envision tax measures similar to those reported by the House Ways and Means Committee and being considered in the Senate Finance Committee.

Activity in the state and local sector remained little changed early in the first quarter. Employment and real outlays for construction are close to their recession lows. Nonetheless, revenues of state and local governments have been growing as a result of the rapid economic recovery, and increases in federal grants for highways and environmental projects are likely. These factors, combined with the pressing need for infrastructure repair and construction, suggest growth in outlays in the near term.

#### Exports and Imports

Domestic spending has continued to outstrip domestic production, and the merchandise trade balance reached a record \$96 billion (annual rate) in January. Non-oil imports rose 8 percent (not at an annual rate) in the fourth quarter and in January jumped substantially further. The increase in imports in recent months largely reflects the strength of demand in the United States as well as the high exchange value of the dollar. Meanwhile, merchandise exports increased moderately in the

fourth quarter as economic activity in major trading-partner countries strengthened somewhat towards the end of last year. In recent months, particularly December and January, exports picked up somewhat more strongly, especially shipments to Canada and to the EEC. (A more complete discussion of international economic developments is included in Part IV.)

### Prices

Inflation rates moved higher in early 1984, with the pickup mainly in the food sector. For most other finished goods and services, inflation has continued at approximately the same pace as in 1983. At the intermediate stage of processing, prices of materials other than food and energy--a broad grouping of manufactured inputs to the economy--continued to rise very moderately, on average. However, sharp increases have occurred for products such as paper and gypsum that are in short supply. In addition, the general tightening in resource utilization, as well as the dollar depreciation, is raising the potential for some buildup of underlying price pressures.

Producer prices for finished goods rose about 1/2 percent per month in January and February. Items other than food and energy increased just 1/4 percent, however--about the same monthly rate as during last year. Food price increases, along with a 5-1/2 percent increase in telephone charges, contributed to a 0.6 percent rise in the CPI in January.

In the food sector, a combination of severe winter weather, avian flu, and the lagged effects of last summer's surge in the price of grain caused prices to advance steeply in early 1984. The producer price index for finished foods rose 2.7 percent in January, and the consumer price

RECENT CHANGES IN PRODUCER PRICES  
(Percentage change at annual rates; based on seasonally adjusted data)<sup>1</sup>

	Relative Importance Dec. 1983	1982	1983	1983			1984	
				H1	Q3	Q4	Jan.	Feb.
Finished goods	100.0	3.7	.6	-.3	2.0	1.0	7.5	4.6
Consumer foods	24.0	2.1	2.2	.7	2.5	5.5	32.1	7.9
Consumer energy	12.0	-.1	-9.0	-12.6	-1.3	-9.5	-14.3	4.3
Other consumer goods	41.8	5.3	1.8	1.6	2.7	1.2	2.0	2.5
Capital equipment	22.2	3.9	2.0	1.9	2.1	2.1	1.7	6.2
Intermediate materials <sup>2</sup>	94.8	.3	1.5	-.3	4.0	2.7	-.4	1.9
Exc. energy	79.3	.6	2.8	2.1	3.6	3.3	2.8	2.8
Crude food materials	52.8	1.5	8.1	3.3	15.6	12.4	26.4	-36.9
Crude energy	31.3	2.6	-4.6	-7.2	-1.7	-2.1	4.6	.3
Other crude materials	15.9	-7.6	15.8	21.2	16.6	3.4	-43.0	9.3

1. Changes are from final month of preceding period to final month of period indicated; monthly changes are not compounded.

2. Excludes materials for food manufacturing and animal feeds.

RECENT CHANGES IN CONSUMER PRICES  
(Percentage change at annual rates; based on seasonally adjusted data)<sup>1</sup>

	Relative Importance Dec. 1983	1982	1983	1983			1984
				H1	Q3	Q4	Jan.
All items <sup>2</sup>	100.0	3.9	3.8	3.3	4.5	4.0	7.5
Food	18.7	3.1	2.6	2.4	1.1	4.3	19.5
Energy	11.9	1.3	-0.5	-4.4	3.4	-1.7	-4.5
All items less food and energy <sup>3</sup>	69.4	6.0	4.9	4.2	5.9	4.9	6.5
Commodities	26.5	5.0	5.0	4.4	6.8	4.6	2.9
Services	42.9	7.0	4.8	4.5	5.2	5.3	8.0
Memorandum: CPI-W <sup>4</sup>	100.0	3.9	3.3	2.9	4.7	2.6	5.6

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.



index for food increased 1.6 percent. Price advances were particularly steep for fresh fruits and vegetables and for meat and poultry products. The PPI for finished foods did slow in February, and prices of crude foods fell sharply. However, recent data on spot prices suggest that crude food prices will rebound in the March PPI. Futures prices for farm crops currently are trading below spot prices, reflecting anticipations of good harvests this year. Nevertheless, a number of other factors including cutbacks in livestock herds, low inventories of some key crops, rising consumer spending, and a depreciating dollar provide some potential for continuing price pressures in the food sector.

Weather conditions also contributed to a surge in prices of heating fuel, up about 2-1/2 percent (not annual rate) at the retail level in January. Although spot prices of fuel oil came down rapidly in February, these declines may affect retail prices with some lag. The overall energy component in the CPI actually fell in January because declines for gasoline and natural gas more than offset the increase in the heating fuel price.

#### Wages and Labor Costs

Available information suggests that wage inflation remained steady early in 1984. The hourly earnings index--a measure of straight-time wage rates paid to production and nonsupervisory workers in the private nonfarm sector--was essentially unchanged in February and has risen at just a 3-1/4 percent annual rate over the past three months. In 1983, this wage measure increased about 4 percent. Recently, wages in manufacturing have been rising a bit faster than during 1983, when extensive concessions by some major unions held the manufacturing index to an

increase of less than 3 percent. However, in the trade and service sectors, wage indexes have risen slowly in recent months.

Rising profits generally have damped demands for wage cuts and freezes, but concession bargaining continues in a number of troubled industries--notably airlines, meatpacking, and construction. Recent settlements at oil refineries and some western coal mines also were very moderate, providing wage increases of only 2 percent annually. Both of these industries are experiencing sluggish demand, and their expiring contracts had been extremely generous.

Hourly compensation, which includes fringe benefits and employers' payroll tax contributions as well as wages, rose at a 4-1/2 percent annual rate in the fourth quarter. Although wage increases may remain moderate, legislated changes in payroll taxes for social security, effective January 1, will add perhaps 2 percentage points (annual rate) to the hourly compensation figures this quarter. Meanwhile, productivity growth slowed to a 1 percent rate in the fourth quarter from higher growth rates earlier in the year.

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

	1981	1982	1983	1983			Latest 3 months November- February
				Q2	Q3	Q4	
<u>Hourly earnings index, wages of production workers<sup>1</sup></u>							
Total private nonfarm	8.3	6.0	3.9	3.4	2.3	4.5	3.3
Manufacturing	8.8	6.1	2.8	1.3	1.8	3.5	3.9
Contract construction	8.4	5.2	1.4	-.2	-1.2	1.2	2.5
Transportation and public utilities	8.5	6.1	4.3	3.4	.9	4.8	2.1
Trade	7.0	4.8	4.6	5.1	3.7	4.8	1.7
Services	9.1	6.6	5.0	6.4	3.7	6.2	3.5
<u>Employment cost index, wages and salaries of all persons<sup>2</sup></u>							
Total	8.8	6.3	5.0	5.4	5.5	5.0	
By occupation:							
White collar	9.1	6.5	6.0	6.7	7.7	5.0	
Blue collar	8.6	5.6	3.8	4.1	2.6	4.3	
Service workers	8.3	8.5	4.6	5.7	2.3	11.4	
By bargaining status:							
Union	9.6	6.5	4.6	4.8	4.7	2.8	
Nonunion	8.5	6.1	5.2	5.7	5.9	6.2	
<u>Major collective bargaining settlements, first-year wage adjustments<sup>3</sup></u>							
All private industries	9.8	3.8	2.6	--	--	--	
Contracts with COLAs	8.0	2.2	2.0	--	--	--	
Contracts without COLAs	10.6	7.0	3.3	--	--	--	
<u>Labor costs and productivity, all persons</u>							
Compensation per hour	9.0	7.2	4.8	4.3	3.8	4.4	
Output per hour	1.2	.8	3.5	7.1	2.3	.9	
Unit labor costs	7.7	6.3	1.3	-2.6	1.5	3.5	
<u>Employment cost index, compensation<sup>4</sup></u>							
Compensation per hour	9.8	6.4	5.7	4.7	6.1	4.9	

1. Changes are from final quarter of preceding period to final quarter of period indicated. Quarterly changes at compound rates.

2. Seasonally adjusted by the Board staff.

3. Data are for contracts covering 1,000 or more workers.

4. Not seasonally adjusted.

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SELECTED FINANCIAL MARKET QUOTATIONS<sup>1</sup>  
(Percent)

	1982		1983		1984		Change from:	
	Highs	FOMC Dec. 21	Spring lows	FOMC Dec. 20	FOMC Jan. 30	FOMC Mar. 20	Spring lows	FOMC Jan. 30
<b>Short-term rates</b>								
Federal funds <sup>2</sup>	15.61	8.69	8.48	9.62	9.41	9.99p	1.51	.58
Treasury bills								
3-month	14.57	7.90	7.96	9.04	8.89	9.80	1.84	.91
6-month	14.36	8.01	7.97	9.24	8.97	9.88	1.91	.91
1-year	13.55	8.11	7.95	9.27	9.00	9.87	1.92	.87
Commercial paper								
1-month	15.73	8.48	8.17	9.83	9.14	10.00	1.83	.86
3-month	15.61	8.43	8.13	9.78	9.13	10.03	1.90	.90
Large negotiable CDs <sup>3</sup>								
1-month	15.94	8.59	8.26	9.97	9.23	10.08	1.82	.85
3-month	16.14	8.62	8.26	9.86	9.31	10.33	2.07	1.02
6-month	16.18	8.78	8.29	9.95	9.43	10.61	2.32	1.18
Eurodollar deposits <sup>2</sup>								
1-month	16.36	9.44	8.68	10.39	9.53	10.24	1.56	.71
3-month	16.53	9.56	8.71	10.36	9.70	10.48	1.77	.78
Bank prime rate	17.00	11.50	10.50	11.00	11.00	11.50	1.00	.50
Treasury bill futures								
June 1984 contract	13.50	8.25	8.49	9.83	9.27	10.07	1.58	.80
Dec. 1984 contract	9.78	8.98	8.89	10.25	9.85	10.68	1.79	.83
<b>Intermediate- and long-term rates</b>								
U.S. Treasury (constant maturity)								
3-year	15.16	9.87	9.36	11.44	10.88	11.73	2.37	.85
10-year	14.95	10.54	10.12	11.86	11.66	12.44	2.32	.78
30-year	14.80	10.53	10.27	11.94	11.74	12.51	2.24	.77
Municipal revenue (Bond Buyer index)	14.32	10.81 <sup>4</sup>	9.21	10.56 <sup>4</sup>	9.95 <sup>4</sup>	10.41 <sup>4</sup>	1.20	.46
Corporate--A utility Recently offered	17.47	12.90 <sup>e</sup>	11.64	13.45 <sup>e</sup>	12.90 <sup>e</sup>	13.70 <sup>e</sup>	2.06	.80
Home mortgage rates								
S&L fixed-rate	17.66	13.63 <sup>5</sup>	12.55	13.42 <sup>5</sup>	13.29 <sup>5</sup>	13.37 <sup>5</sup>	.82	.08
FNMA ARM, 1-yr.	17.41	11.13 <sup>5</sup>	10.54	11.60 <sup>5</sup>	11.40 <sup>5</sup>	11.80 <sup>5</sup>	1.26	.40
	1982		1983		1984		Percent change from:	
			FOMC	FOMC			1983	FOMC
	Lows	Highs	Dec. 20	Jan. 30	Mar. 20		highs	Jan. 30
<b>Stock prices</b>								
Dow-Jones Industrial	776.92	1248.30	1241.97	1221.52	1175.77		-5.8	-3.7
NYSE Composite	58.80	99.01	93.64	94.12	91.40		-7.7	-2.9
AMEX Composite	118.65	246.38	217.40	217.53	211.30		-14.2	-2.9
NASDAQ (OTC)	159.14	328.91	274.51	269.23	252.74		-23.2	-6.1

1. One-day quotes except as noted.

2. Averages for statement week closest to date shown.

3. Secondary market.

4. One-day quotes for preceding Thursday.

5. One-day quotes for preceding Friday.

e--estimated. p--preliminary.

## DOMESTIC FINANCIAL DEVELOPMENTS

The monetary aggregates exhibited a mixed pattern of growth in the opening months of 1984. M1 growth in January and February was up noticeably from the slack pace of last fall leaving it high in the FOMC's 1984 range; on the other hand, M2 grew relatively slowly during the period, placing it near the midpoint of the 1984 range. M3 registered stronger gains than M2 as thrift institutions continued to fund lending through heavy CD issuance, and its growth through February put it close to the top of its range.

The mounting evidence of strong economic growth and a heightening of concerns about the federal budget deficit have contributed to upward rate movements across the maturity spectrum. Reserve market conditions have tightened a bit, with federal funds trading during most of the intermeeting period in a range of 9-1/2 to 9-3/4 percent, and more recently at around 10 percent. At least in the earlier weeks of the period, the pressure on the funds rate appears in part to have reflected a tendency among depository institutions to conserve their discount window privileges as they accustom themselves to the new reserve requirement regime.

Yields on most taxable market instruments are about 75 to 100 basis points higher than at the time of the January FOMC meeting, and commercial banks raised the prevailing prime rate to 11-1/2 percent on March 19. On home mortgages, secondary market yields have risen 40 to 60 basis points since early February, while rates in the less sensitive primary market are up by smaller amounts.

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MONETARY AGGREGATES  
(Based on seasonally adjusted data unless otherwise noted)<sup>1</sup>

	1983				1984		Growth from Q4 1983 to Feb. 1984
	Q1	Q2	Q3	Q4	Jan.	Feb.	
----- Percentage change at annual rates -----							
1. M1	12.8	11.6	9.5	4.8	10.7	6.6	7.3
2. (M1) <sup>2</sup>	(13.2)	(12.7)	(7.9)	(4.6)	(10.3)	(9.5)	(8.2)
3. M2	20.5	10.6	6.9	8.5	5.6	8.4	7.4
4. M3	10.8	9.3	7.4	10.0	6.0	10.0	8.8
Levels in billions of dollars Feb. 1984							
<b>Selected components</b>							
5. Currency	11.1	10.2	9.1	9.7	15.4	2.4	150.2
6. Demand deposits	1.7	4.2	4.0	-0.5	3.9	-3.4	243.8
7. Other checkable deposits	42.3	28.5	21.2	9.6	17.7	29.4	133.9
8. M2 minus M1 <sup>3</sup>	23.0	10.2	6.1	9.6	4.0	9.0	1689.0
9. Overnight RPs and Eurodollars, NSA <sup>4</sup>	30.3	48.0	-8.1	23.4	40.6	10.3	58.6
10. General purpose and broker/dealer money market mutual fund shares, NSA	-56.3	-44.4	-13.1	-1.2	-2.6	37.4	142.2
11. Commercial banks	56.5	18.4	12.2	12.4	2.3	3.5	721.3
12. Savings deposits, SA, plus MMDAs, NSA <sup>5</sup>	290.9	62.8	11.0	5.9	5.3	7.2	368.5
13. Small time deposits	-48.7	-21.2	13.7	19.3	-0.7	-0.3	352.8
14. Thrift institutions	15.6	11.9	7.3	7.3	6.1	6.6	772.3
15. Savings deposits, SA, plus MMDAs, NSA <sup>5</sup>	175.4	53.8	1.0	-7.0	-0.7	0.7	324.2
16. Small time deposits	-51.5	-17.0	12.3	18.8	11.2	10.8	448.1
17. M3 minus M2 <sup>6</sup>	-27.1	3.8	9.8	16.6	7.7	16.8	521.9
18. Large time deposits	-39.2	-0.3	11.9	15.5	25.8	23.4	339.4
19. At commercial banks, net <sup>7</sup>	-48.8	-14.6	-4.6	-0.4	6.4	5.3	227.8
20. At thrift institutions	0.6	51.2	63.5	57.6	69.4	63.3	111.7
21. Institution-only money market mutual fund shares, NSA	-32.6	-41.7	-17.8	16.6	8.9	29.6	41.6
22. Term RPs, NSA	12.2	40.4	15.2	50.9	-61.9	27.0	54.5
23. Term Eurodollars, NSA	15.5	28.9	-1.7	-0.4	-24.5	6.6	91.5
— Average monthly change in billions of dollars —							
<b>MEMORANDA:</b>							
24. Managed liabilities at commercial banks (25+26)	-19.0	-0.2	-2.9	6.0	-4.4	5.1	385.8
25. Large time deposits, gross	-16.7	-4.3	-1.2	0.4	-1.5	-1.7	281.9
26. Nondeposit funds	-2.3	4.1	-1.7	5.6	-2.9	6.8	103.9
27. Net due to related foreign institutions, NSA	-4.8	2.4	1.2	2.9	-0.7	1.9	-41.5
28. Other <sup>8</sup>	2.5	1.7	-2.9	2.7	-2.3	4.9	145.4
29. U.S. government deposits at commercial banks <sup>9</sup>	0.0	0.3	1.0	-1.2	3.4	4.1	20.6

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. M1 seasonally adjusted using an experimental model-based procedure applied to weekly data.

3. Nontransactions M2 is seasonally adjusted as a whole.

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. 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 December, January, and February at rates of 13.2, 22.3 and 17.3 percent respectively. At thrift institutions, savings deposits excluding MMDAs declined during December, January, and February at rates of 6.7; 3.4 and 8.8 percent respectively.

6. The non-M2 component of M3 is seasonally adjusted as a whole.

7. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.

8. 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.

9. Consists of Treasury demand deposits at commercial banks and Treasury note balances.

So far in 1984, the Treasury has issued a large volume of debt, reflecting the substantial first-quarter deficit. Issuance of tax-exempt securities, however, has slowed as a result of the expiration at year-end of authority to issue single-family housing bonds and of pending legislative curbs on certain other private-purpose obligations. Nonfinancial corporations continued to borrow heavily in short-term markets during the first two months of 1984. Public bond offerings picked up slightly, but redemptions of stock in mergers exceeded by far the gross issuance of new equity shares. Growth in consumer installment debt in January tapered off somewhat from its robust fourth-quarter pace while mortgage debt formation continued strong.

#### Monetary Aggregates and Bank Credit

M1 grew in February at a 6-1/2 percent annual rate, well below the advanced 10-3/4 percent pace of the preceding month but still above the moderate rate of expansion that had been apparent since midsummer. The recent strength in M1 has been concentrated in its OCD component which accelerated to nearly a 30 percent rate of growth in February, almost twice the already brisk January pace. The expansion in OCD is by far the most rapid since early 1983, when prior substantial declines in interest rates and the introduction of Super NOWs contributed to very strong inflows.

It appears likely that M1 velocity will show a significant gain this quarter. The Board's econometric models of M1 demand suggest that the pickup in velocity is in line with what would be expected on the basis of faster GNP growth and rising interest rates.

M2 growth moved up to an 8-1/2 percent annual rate in February from January's 5-1/2 percent pace. Growth in nontransactions M2 slowed in the first two months of this year as its small time deposit component decelerated sharply, particularly at commercial banks.<sup>1</sup> The more liquid components of nontransactions M2, on the other hand, have grown rapidly over this period, accompanying the recent strength in OCDs. MMDA inflows amounted to \$4-1/2 and \$6 billion in January and February, respectively, and were accounted for entirely by personal accounts; the small gain in MMDAs over the second half of last year was concentrated in nonpersonal accounts. General purpose and broker/dealer money market mutual funds expanded \$4 billion in February, by far the biggest monthly increase since the introduction of MMDAs. Reports indicate that investors have been moving toward more liquid assets, reflecting in part positioning in anticipation of interest rate increases as well as some shifting out of the stock market and equity mutual funds, although some of this strength may also be a seasonal anticipation of tax payments.

After slowing in January, M3 expanded at its fourth-quarter pace last month. Term RPs and term Eurodollars resumed growing in February and institution-only MMMFs surged. Issuance of large time deposits

<sup>1</sup> Although slowing from the rapid fourth-quarter pace, growth in small time deposits at thrifts exceeded that at commercial banks in January and February. This comparatively stable growth may reflect the more aggressive pricing by thrifts of small time deposits, particularly in the longer maturities. While the rates offered by thrifts on short-term accounts in January were 20 to 30 basis points higher than those offered by banks, the rates offered on longer-term accounts were 70 to 90 basis points higher. It is into these longer-term accounts that thrifts have been attracting the strongest inflows of funds.



remained robust during the first two months of the year; the strength in these deposits was again concentrated at thrift institutions evidently in association with continued strong growth in mortgage assets.

Growth in commercial bank credit has maintained the rapid pace of late last year. Both loans and investments rose briskly in January, but in February a surge in loans was accompanied by a modest decline in security holdings. The pickup in loans reflected a ballooning of security loans, likely related to the substantial midquarter Treasury refinancing, and an acceleration in business loans, in part boosted by merger-related borrowing. Although slowing from the elevated January pace, consumer and real estate loan growth remained vigorous.

#### Business Finance

The external financing needs of nonfinancial corporations evidently have risen considerably in the first quarter. Expenditures for inventories and fixed capital appear to be running above internally generated funds. Moreover, business demands on credit markets have been magnified by the swing to net redemptions of equity shares associated with merger activity.

Nonfinancial firms have continued to do a large portion of their borrowing in short-term credit markets. The combined growth of business loans at commercial banks and commercial paper moderated in January as companies reduced their outstanding commercial paper. But growth in total short-term financing picked up sharply in February, with most of this gain attributable to Texaco's borrowing to acquire Getty Oil. Still, excluding the estimated impact of the Texaco acquisition,

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT  
(Percentage changes at annual rates, based on seasonally adjusted data)<sup>1</sup>

	1983			Dec.	1984		Levels in bil. of dollars Feb. 1984P
	Q2	Q3	Q4		Jan. <sup>P</sup>	Feb. <sup>P</sup>	
----- Commercial Bank Credit -----							
					(rounded) <sup>2</sup>	(rounded) <sup>2</sup>	
1. Total loans and securities at banks <sup>3</sup>	9.9	8.6	12.4	13.7	11	15	1603.9
2. Securities	23.9	6.3	10.2	6.4	14	-3	439.4
3. Treasury securities	53.5	13.3	25.1	11.6	8	-1	189.1
4. Other securities	5.8	1.3	0.6	1.9	18	-4	250.3
5. Total loans <sup>3</sup>	4.8	9.5	12.9	16.4	10	22	1164.4
6. Business loans <sup>3</sup>	-1.3	7.6	9.2	12.7	11	17	425.5
7. Security loans	-5.3	25.1	60.8	50.4	9	148	30.9
8. Real estate loans	9.7	11.6	11.5	12.6	18	13	344.3
9. Consumer loans	10.3	15.8	23.1	24.0	25	20	228.0
----- Short- and Intermediate-Term Business Credit -----							
10. Business loans net of bankers acceptances	-0.4	7.4	9.5	14.1	11	16	417.0
11. Commercial paper issued by non-financial firms <sup>4</sup>	-22.6	-2.7	25.9	41.6	-20.1	30.7	48.1
12. Sum of lines 10 & 11	-3.7	6.2	11.9	16.6	8	18	465.1
13. Line 12 plus loans at foreign branches <sup>5</sup>	-1.7	6.1	11.3	14.5	10	18	484.0
14. Finance company loans to business <sup>6</sup>	7.8	17.8	29.0	31.7	n.a.	n.a.	n.a.
15. Total bankers acceptances outstanding <sup>6</sup>	-7.3	20.5	18.9	33.4	-43.4	n.a.	n.a.
16. Total short- and intermediate-term business credit (sum of lines 13, 14 and 15)	-1.5	9.3	14.7	19.3	n.a.	n.a.	n.a.

p--preliminary

n.a.--not available.

1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.

2. Growth rates for January and February 1984 have been estimated after adjusting for major changes in reporting panels and definitions that caused breaks in series at the beginning of January. Data should be regarded as highly preliminary.

3. 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.

4. Average of Wednesdays.

5. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.

6. Based on average of current and preceding ends of month.

commercial bank business loan growth in February was roughly 11 percent, commercial paper expanded at an 8 percent rate, and the sum of commercial paper and business loans at banks (including those booked offshore) rose an estimated rate of 10 percent, about unchanged from the pace of other recent months.

As the prospects for near-term interest rate declines began to fade, nonfinancial corporations increased their gross public bond issuance from the meager pace of late last year. Although longer-term bonds were not uncommon, most of the volume in early 1984 was accounted for by intermediate-term maturities. The overall level of corporate bonds sold in the U.S. market strengthened considerably in early 1984 with financial firms continuing to account for the bulk of public offerings. Commercial banks and finance companies were heavy issuers, while mortgage-related issues, at about 35 percent of the total, remained the largest category. In addition to domestic offerings, U.S. corporations have increased sharply their bond issuance in foreign markets. In a recent innovation, a savings and loan sold Eurobonds collateralized by GNMA securities, thus further linking the mortgage markets to the broader capital markets.

Declining stock prices, meanwhile, discouraged equity financings in January and February, and gross stock issuance by nonfinancial firms in the first quarter probably will be the lowest since 1979. The major stock price indexes have declined about 3 to 6 percent since the last FOMC meeting and about 7 to 12 percent from their most recent peaks in January.

#### Government Finance

Federal sector. The staff is projecting a combined deficit of

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

	1983			1984			
	Year	Q3	Q4	Q1 <sup>f</sup>	Jan.P	Feb.P	Mar. <sup>f</sup>
	----- Seasonally adjusted -----						
Corporate securities--total	10.54	9.14	9.12	9.49	11.01	8.56	8.90
Securities sold in U.S.	9.84	8.51	8.54	7.97	9.40	7.60	6.90
Publicly offered bonds <sup>1</sup>	3.94	2.65	3.50	4.97	6.10	4.90	3.90
Privately placed bonds	1.55 <sup>e</sup>	1.76 <sup>e</sup>	1.50 <sup>e</sup>	1.50 <sup>e</sup>	1.50 <sup>e</sup>	1.50 <sup>e</sup>	1.50 <sup>e</sup>
Stocks <sup>2</sup>	4.35	4.10	3.54	1.50	1.80	1.20	1.50
Securities sold abroad <sup>3</sup>	.70	.63	.58	1.52	1.61	.96	2.00
	--- Domestic offerings, not seasonally adjusted ---						
Publicly offered bonds--total <sup>1</sup>	3.94	2.65	3.43	4.93	5.80	5.00	4.00
By industry							
Utility	.96	.87	.60	--	.60	.46	--
Industrial	1.13	.53	.38	--	1.20	1.10	--
Financial	1.85	1.26	2.45	--	4.00	3.44	--
By quality <sup>4</sup>							
Aaa and Aa	1.36	.89	1.59	--	2.85	2.15	--
A and Baa	1.55	1.14	.96	--	2.30	.86	--
Less than Baa	.53	.24	.49	--	.25	.80	--
No rating (or unknown)	.50	.38	.39	--	.40	1.19	--
Memo items:							
Equity based bonds <sup>5</sup>	.75	.60	.32	--	.36	.31	--
Original discount bonds							
Par value	.38	.15	.53	--	.27	1.48	--
Gross proceeds	.31	.13	.41	--	.20	1.04	--
Stocks--total <sup>2</sup>	4.30	3.67	3.84	1.53	1.80	1.30	1.50
By industry							
Utility	.80	.48	.81	--	.40	.10	--
Industrial	2.27	2.15	1.73	--	1.00	.50	--
Financial	1.23	1.05	1.31	--	.40	.70	--

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.

about \$52 billion in the first quarter. This figure is somewhat below previous estimates and reflects higher revenues, owing to faster than anticipated economic growth and a slower than normal processing of tax refunds, along with a lag in spending, primarily for defense. These developments induced the Treasury to reduce the gross size of its weekly bill auctions from the \$12.8 billion level that had been maintained since mid-December to \$12.4 billion beginning in early March. Only a small share of Treasury net borrowing has, in any event, been done outside the coupon sector. The stripping of coupon issues to create zero-coupon securities has been a growing business and a significant factor in dealer demands for some new offerings.

Net cash borrowings of federally sponsored credit agencies are expected to total about \$2-1/2 billion in the first quarter of this year, off slightly from the fourth quarter of 1983. FNMA has issued about \$1-3/4 billion of notes and debentures to finance mortgage purchases so far this quarter while the Federal Home Loan Banks have run off \$1-1/4 billion in securities, partly reflecting a decline in advances. Farm Credit Banks are raising about \$1 billion this quarter to finance mortgage purchases and farm loans, and the Federal Home Loan Mortgage Corporation has issued its third Collateralized Mortgage Obligation, totaling \$525 million.

State and local sector. Issuance of long-term tax-exempt securities has slowed after a year-end surge. Gross offerings averaged \$5-1/4 billion (seasonally adjusted) during the first two months of 1984, down from an \$8-1/2 billion volume in December, and likely will be still lighter in March.

TREASURY AND AGENCY FINANCING<sup>1</sup>  
(Total for period; billions of dollars)

	1983	1984			
	Q4	Q1 <sup>e</sup>	Jan.	Feb. <sup>p</sup>	Mar. <sup>e</sup>
<u>Treasury financing</u>					
Combined surplus/deficit(-)	-62.5	-51.8	-5.8	-22.4	-23.6
Means of financing deficit:					
Net cash borrowing from the public	36.2	49.3	23.6	18.2	7.5
Marketable borrowings/ repayments(-)	34.9	47.8	22.8	18.2	6.8
Bills	3.0	6.5	3.1	2.6	.8
Coupons	31.9	41.3	19.7	15.6	6.0
Nonmarketable	1.3	1.5	.8	.0	.7
Decrease in the cash balance	25.3	-4.2	-16.7	4.7	7.8
Memo: Cash balance at end of period	11.8	16.0	28.5	23.8	16.0
Other <sup>2</sup>	1.0	6.7	-1.1	-.5	8.3
<u>Federally sponsored credit agencies net cash borrowing<sup>3</sup></u>					
FHLB	-.4	-1.2	-.6	-.2	-.4
FNMA	3.3	1.8	.1	1.2	.5
Farm Credit Banks	-.6	1.1	.6	.2	.3
FHLMC	.7	.5	.5	.0	.0
SLMA	-.1	.4	.2	.1	.1

p--preliminary. e--estimate.

1. Data reported on a not seasonally adjusted, payment basis.

2. Includes checks issued less checks paid, accrued items and other transactions.

3. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

The reduction in long-term municipal offerings so far this year can be attributed to the near cessation in issuance of industrial development bonds and mortgage revenue bonds for single-family housing. Issuance of these and other types of private-purpose bonds has been stalled by congressional inaction on legislation intended to reduce the extent of tax-exempt financing for private use.

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

	1983	1983		1984			
	Year	Q3	Q4	Q1 <sup>f</sup>	Jan. <sup>e</sup>	Feb. <sup>e</sup>	Mar. <sup>f</sup>
----- Seasonally adjusted -----							
Total	10.28	9.33	10.52	7.83	8.20	7.70	7.60
Long-term	7.09	6.01	6.77	4.83	5.40	5.00	4.10
Short-term <sup>1</sup>	3.19	3.32	3.75	3.00	2.80	2.70	3.50
----- Not seasonally adjusted -----							
Total	10.28	9.33	9.77	6.50	6.70	5.80	7.00
Long-term	7.09	6.01	6.77	4.17	4.50	3.80	4.20
Refundings	1.16	.91	.79	--	.76	.72	--
Total housing <sup>2</sup>	1.45	1.62	1.79	--	.19	.18	--
Short-term <sup>1</sup>	3.19	3.32	3.00	2.33	2.20	2.00	2.80

1. These figures do not include tax-exempt commercial paper.

2. Primarily mortgage revenue bonds for home ownership and multifamily rental structures.

e--estimate. f--staff forecast.

Note--figures may not add due to rounding.

Partly offsetting the reduction in offerings of private-purpose bonds in the tax-exempt market has been an increase in the volume of electric utility revenue-bond issues to finance continued construction of both coal-fired and nuclear power plants. The recent utility offerings appear to have been well received by the market, in spite of the WPPSS default last summer and publicized problems of nuclear projects under construction.

Mortgage Markets

Residential mortgage interest rates generally attained their recent lows in early February and have risen since then. In the primary market for conventional fixed-rate home loans, the effective yield on new commitments at large mortgage companies has increased 35 basis points since the last FOMC meeting. The average contract interest rate on new commitments at a sample of S&Ls, responding to secondary market signals with a relatively long lag, declined through mid-February before backing up; on balance, this series has risen only 8 basis points since the last FOMC meeting. Secondary market yields on fixed-rate instruments have moved up about 1/2 percentage point during this period. As a consequence, price discounts on GNMA-guaranteed securities issued against pools of FHA/VA loans climbed above 5 points, and the Administration raised the VA ceiling rate to 13 percent effective March 21.<sup>1</sup>

Adjustable-rate mortgages (ARMs) have continued to represent a majority of the conventional home loans made at financial institutions. In early February, 57 percent of conventional loans closed at major lenders contained adjustable-rate features, down only slightly from the record proportion of a month earlier.<sup>2</sup> The wide acceptance of ARMs by consumers apparently is attributable to large initial rate advantages

1. The ceiling rate on FHA-insured loans was eliminated December 1, 1983.

2. Among the lenders surveyed, thrifts, at 63 percent, reported the highest proportion of conventional loans with adjustable-rate features while commercial banks, at 30 percent, reported the lowest proportion. Commercial banks apparently sell a large share of their fixed-rate mortgages; according to a February survey of senior loan officers at large banks, these institutions intended to sell roughly three fourths of their fixed-rate mortgages originated that month.



vis-a-vis fixed-rate mortgages along with widespread use of caps that limit borrower exposure to payment increases, at least for several years.<sup>1</sup> Nearly two fifths of the ARMs closed at major lenders in February carried an initial interest rate below 11 percent, and one seventh had an initial rate below 10 percent.<sup>2</sup> The lower current rate on ARMs is not only a result of formulas tying these rates to yields on short-term market instruments, but is also due to special discounts on the initial rates being offered by lenders in order to help overcome remaining buyer resistance to this type of loan. In a recent survey of senior loan officers at large commercial banks, for example, roughly half of the institutions that originated ARMs in February reported offering borrowers special discounts on the initial interest rate, with an average discount of nearly 140 basis points below the formula rate.

The large initial rate advantages on some ARMs, particularly those with incentive discounts, have raised questions about the underwriting standards employed by ARM lenders.<sup>3</sup> If the deeply discounted ARMs do not contain payment caps, borrowers are vulnerable to severe payment shocks in the future, which increase the likelihood of delinquency;

1. The ARM purchase programs of both FNMA and FHLMC, for example, incorporate a 7-1/2 percent cap on annual payment increases that remains in effect unless negative amortization raises the principal balance of the loan beyond 125 percent of the original loan amount.

2. The average spread between fixed-rate loans and adjustable-rate loans with unlimited rate change was 147 basis points in February at all major lenders.

3. According to the February 28 Senior Loan Officer Opinion Survey, in determining borrower qualifications for ARMs, one half of those institutions originating such mortgages report considering payment-to-income ratios based only on the initial interest rate; of these respondents, only one third report applying more stringent payment-to-income requirements on ARMs than are being used for fixed-rate mortgage contracts.

MORTGAGE ACTIVITY AT FEDERALLY INSURED SAVINGS AND LOAN ASSOCIATIONS<sup>1</sup>  
(Billions of dollars, seasonally adjusted)

	Mortgage commitments		Net change in mortgage assets		
	New	Outstanding <sup>2</sup>	Total	Mortgage	Mortgage-backed
	(1)	(2)		loans	securities
	(1)	(2)	(3)	(4)	(5)
1983-Jan.	10.5	31.9	2.2	0.2	2.0
Feb.	11.8	34.7	5.5	2.4	3.2
Mar.	12.3	37.4	5.2	1.4	3.9
Apr.	11.9	39.9	4.0	2.7	1.2
May	12.9	42.3	4.0	2.1	1.9
June	14.6	44.4	6.7	3.8	3.0
July	16.2	46.6	8.2	5.5	2.7
Aug.	15.3	48.5	8.8	5.6	3.2
Sept.	15.8	49.8	8.0	5.5	2.5
Oct.	14.0	51.0	6.4	3.7	2.7
Nov.	15.2	53.8	6.5	5.6	1.0
Dec.	15.0	56.5	6.0	5.7	0.3
1984-Jan. p	17.1	58.1	6.5	6.4	0.2

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.

p--preliminary.

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

Period	All	GNMAs	FHLMCs	FNMA's	Memo: FNMA and
	issues				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	5831	3501	1673	657	1954
1984 Jan.	4016	2784	981	251	988
Feb.	4445	2507	812	1126	1311

if payment caps are incorporated, negative amortization can occur, increasing the probability of eventual default and foreclosure. The prospects for payment and default problems have led the largest private mortgage insurance company to specify more stringent payment-to-income requirements and to set limits on initial-period rate discounts for ARMs that it insures.<sup>1</sup> Furthermore, trade reports indicate that secondary market investors have become more wary of deeply discounted ARMs with negative amortization features; a recent industry survey suggests that this type of ARM has been quite common at mortgage companies, which typically sell all their loan production.

Mortgage commitment activity at federally insured S&Ls has been quite strong in recent months, presaging strong mortgage acquisitions during coming months. New mortgage commitments picked up by about \$2 billion in January as commitments to originate new loans and commitments outstanding both reached new highs. The strength in commitment activity apparently reflects the effect on fixed-rate loans of the somewhat lower interest rates that prevailed in January and the successful marketing of ARMs. A large volume of single-family mortgage revenue bonds issued by state and local authorities during the latter part of 1983 also may have been a contributing factor.<sup>2</sup> The net increase in S&L

<sup>1</sup>. New rules established by Mortgage Guaranty Insurance Corporation (MGIC) include a maximum initial payment-to-income ratio on ARMs of 28 percent (compared with 33 percent on fixed-rate loans) and a maximum special discount of 100 basis points on 1-year ARMs containing no limits on payment increases. On payment-capped loans, MGIC will allow negative amortization up to 125 percent of the original loan size.

<sup>2</sup>. Between August and October, \$4.5 billion of these tax-exempt bonds were sold. The authority of state and local governments to issue single-family tax-exempt mortgage revenue bonds expired December 31, 1983.

CONSUMER INSTALLMENT CREDIT

	1982	1983	1983		Dec.	1984
			Q3	Q4		Jan.
----- Percent rate of growth, SAAR -----						
Change in outstandings--total	4.0	12.7	12.0	17.7	21.2	13.7
By type:						
Automobile credit	3.9	12.7	15.4	14.3	16.8	21.0
Revolving credit	7.0	15.5	9.7	24.5	29.3	8.1
All other <sup>1</sup>	2.6	11.5	9.9	17.9	21.5	9.6
----- Billions of dollars, SAAR -----						
Change in outstandings--total	13.1	43.7	42.4	64.7	79.4	52.1
By type:						
Automobile credit	4.9	16.5	20.9	20.1	24.2	30.7
Revolving credit	4.4	10.4	6.5	16.7	20.7	5.8
All other <sup>1</sup>	3.8	17.0	15.1	27.9	34.5	15.6
By major holder:						
Commercial banks	4.8	25.9	27.7	40.3	56.3	31.9
Finance companies	4.6	3.1	1.7	3.2	-0.3	1.1
All other	3.9	14.7	13.1	21.2	23.4	19.2
----- Annual percentage rate -----						
Interest rates						
At commercial banks <sup>2</sup>						
New cars, 48 mos. <sup>3</sup>	16.83	13.92	13.50	13.46	n.a.	13.32 <sup>5</sup>
Personal, 24 mos.	18.65	16.68	16.28	16.39	n.a.	16.16 <sup>5</sup>
Credit cards	18.51	18.78	18.75	18.75	n.a.	18.73 <sup>5</sup>
At auto finance companies <sup>4</sup>						
New cars	16.15	12.58	12.74	13.65	13.92	14.18
Used cars	20.75	18.74	18.25	18.12	18.06	17.54

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 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.

5. Data are for February 1984.

n.a.--not available.

mortgage loan holdings rose to a new high of \$6.4 billion although continued small net increases in holdings of mortgage-backed securities left the net increase in total mortgage assets at around the \$6.5 billion level that had prevailed in the fourth quarter.

The increased volume of ARM loans closed in recent months apparently has stunted new issues of federally related mortgage pass-through securities, which are issued against pools of fixed-rate mortgages.<sup>1</sup> February's new issue volume was only slightly above the previous month's figure and in both months the volume was the smallest in a year and a half.

#### Consumer Credit

Consumer installment credit expanded at a 13-3/4 percent annual rate in January, down somewhat from the robust 17-3/4 percent fourth-quarter rate. Nevertheless, January's increase still appeared consistent with the recent pattern of stronger than typical growth for the current stage of the business cycle. During the first four quarters of the current economic recovery (i.e., through November) consumer credit advanced 11-1/4 percent; the largest first-year consumer credit gains of the previous five cycles were 9 percent and 7 percent following troughs in 1970 and 1975 respectively. Based on December and January data, growth during the fifth quarter of the current recovery appears on track for an increase well in excess of the 10-1/4 percent average rate for fifth quarters of the previous cycles. The comparatively strong growth in

<sup>1</sup> FHLMC and FNMA currently have purchase programs for conventional ARMs but neither offers an ARM pass-through security. GNMA's are issued only against pools of FHA/VA loans, all of which have been fixed-rate contracts.

consumer debt has likely reflected a combination of an increase in new loans made, associated with buoyant retail sales, and a relatively small stream of repayments, reflecting quite moderate borrowing activity for the entire 1980-to-1982 period.<sup>1</sup>

Heavier household demands for credit have coincided with an increased willingness of banks to grant consumer loans. After three years during which commercial banks expanded their consumer loan portfolios by less than one percent per year, bank-held consumer debt grew by 17 percent in 1983 and continues strong in early 1984.

The greater willingness of banks to make consumer loans has been clearly underscored by recent Surveys of Senior Loan Officer Opinion. In February, more than a fourth of the banks responding said they had become more willing to make installment loans since November, even though large proportions had already expressed greater willingness to lend in the November and August surveys. As reasons for increased willingness to lend, respondents cited heavy deposit inflows and more favorable margins with about equal frequency (some mentioned both factors). Several respondents also mentioned improved collection experience. Banks were asked also about measures taken to expand consumer loan volume during the previous six months. Of those that answered the question, two thirds mentioned offering new types of loans, most frequently a "home equity" loan or a plan involving a

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1. Certain credit-oriented components of retail sales--those at auto dealers, department stores, and furniture and appliance stores--were particularly strong in the December-January period.

line of credit.<sup>1</sup> Forty percent had lowered finance rates and a few had liberalized nonrate loan terms.

Despite the recent rebuilding of debt obligations, consumers appear to remain in reasonably sound financial condition, judging from the amount of installment debt outstanding relative to disposable income, and statistics on delinquent loans. At 15.7 percent, the aggregate debt-to-income ratio stands much closer to its cyclical low of 15.2 percent than to its high of 17.9 percent recorded in the fourth quarter of 1979. The delinquency rate on consumer loans at banks edged down a bit more in the fourth quarter of 1983 to 1.9 percent, the lowest level in more than 10 years. Auto loan delinquencies at major finance companies were at a record low of 1.33 percent in January. Personal bankruptcies also have been on the downtrend, dropping last year for the first time since 1977, by almost 8 percent.

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1. The responses indicating increased use of "home equity" loans suggest there may be some misreporting of loan categories at commercial banks; loans secured by real estate should be so classified. As a result, recent bank consumer loan figures may be swollen somewhat while real estate loans may be understated.

Foreign Exchange Markets

For the first five weeks after the last FOMC meeting, the dollar depreciated fairly steadily and by early March it was seven percent lower in value, on a weighted-average basis, than it had been in late January. More recently, an upturn in the dollar's value has retraced nearly half of the earlier movement, as shown in the top panel of the chart.

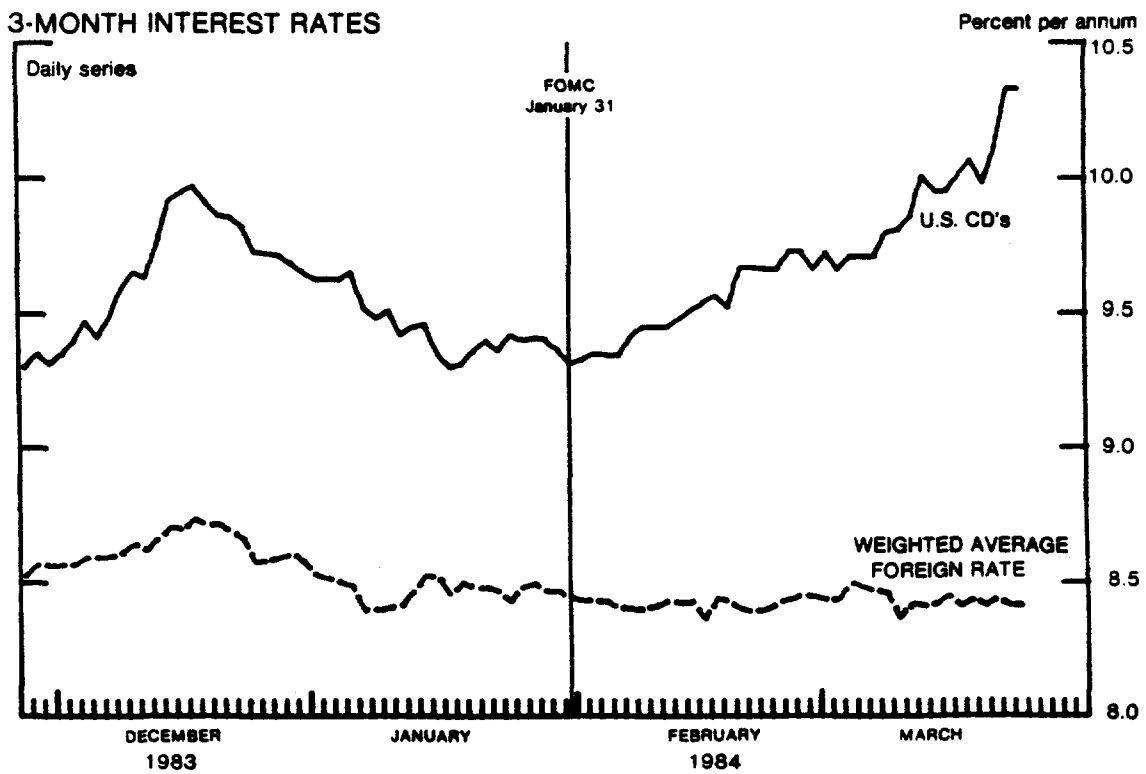
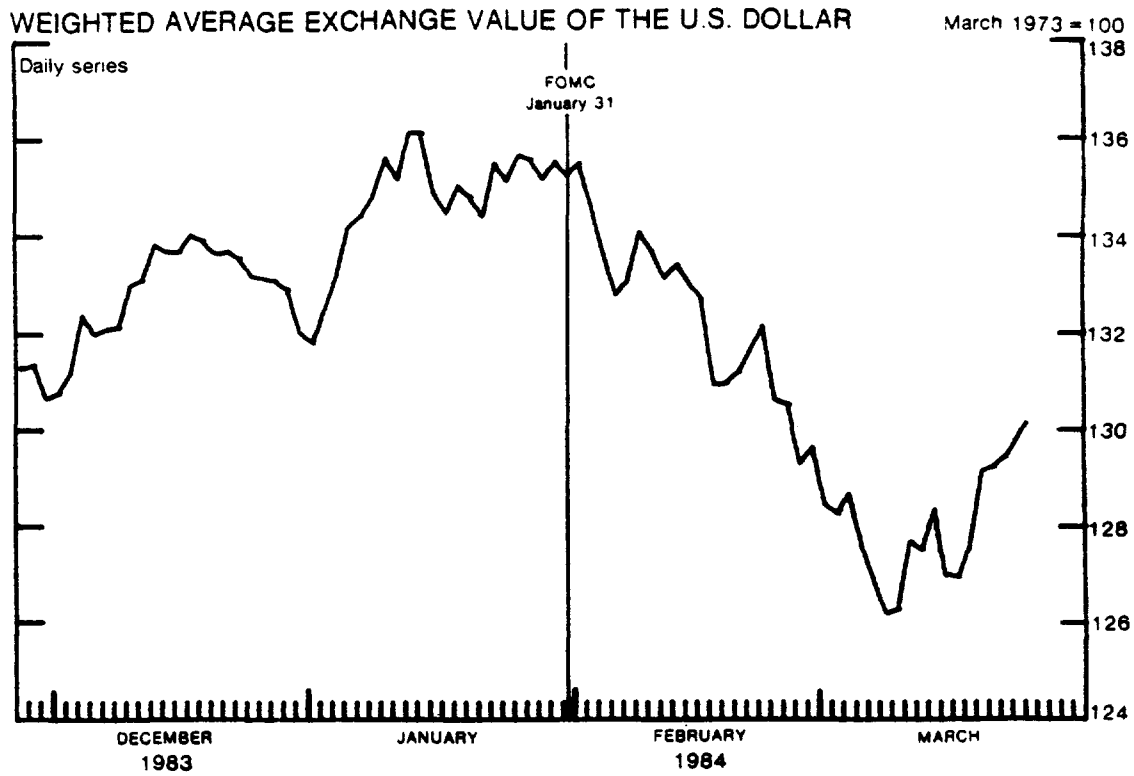
Initially, the dollar's decline in value was part of a general upward revaluation of the mark, which took the German currency to the top of its agreed EMS range and,

, moved the entire band up two-to-three percent in terms of all major currencies outside the EMS during the first two weeks of February. Traders' reassessment of the mark and, to a lesser extent, other continental European currencies seemed to be based primarily on improved prospects for economic recovery in Europe, which suggested continued improvement in returns on financial assets there. In addition, the better economic prospect and a shift of attention away from Europe's vulnerability to East-West conflict lessened concern about the durability of the German government and the safety of assets held in Europe.

The mark's continued widespread appreciation in late February contributed to the dollar's further decline in average value and also put more strain on the EMS arrangement,

. But the dollar began to decline in value more noticeably in terms of other major currencies too, except the yen and the Canadian dollar. This broad dollar depreciation,





which occurred against the background of ongoing increases in absolute and relative dollar interest rates (shown in the bottom panel of the chart), suggested rising concerns among market participants about U.S. inflation prospects as surprisingly strong U.S. economic activity was revealed. Congressional action to reduce prospective U.S. budget deficits during the election year came to be regarded as more unlikely as time passed, and concerns surfaced about Federal Reserve adherence to its anti-inflation policies in that environment.

The dollar dropped suddenly vis-a-vis the yen in early March for reasons that were not so clear. A large Japanese trade surplus and a record U.S. deficit in international trade during January had been announced a few days earlier, but this contrasting pattern in trade developments had been evident for some time.

In the last two weeks, signs of initial steps towards a budget compromise and renewed indications of Federal Reserve determination to maintain anti-inflation policies appear to have prompted some reassessment of prospects for the dollar's value. In association with further increases in dollar interest rates, the dollar has appreciated three-to-four percent in terms of most major currencies and about 1-1/2 percent versus the yen and Canadian dollar.

Foreign lending by U.S.-chartered banks. U.S.-chartered banks' claims on non-OPEC developing countries increased \$2.3 billion in the fourth quarter of 1983, somewhat more than the very small quarterly increases in the first three quarters of the year. (See table.) For 1983 as a whole claims rose \$4.1 billion, compared with \$10.7 billion in 1982 and about \$19 billion in 1981.

In the fourth quarter, claims on most individual non-OPEC developing countries changed only slightly. The largest increase was \$0.5 billion in claims on Korea; there were no decreases in claims on any major borrowers. At the end of November Brazil drew the remaining \$1.8 billion on the \$4.4 billion bank loan of February 1983 (U.S. banks' share about \$0.7 billion) but the proceeds were almost entirely used up in repayment of the remaining \$1.2 billion balance on the late-1982 bridge loans (about half for U.S. banks) and in paying off interest and other arrears. U.S. banks' claims on Mexico increased only slightly. In November and December Mexico drew the remaining \$1.6 billion balance available from the \$5 billion loan of March 1983 (U.S. banks' share about \$0.6 billion) but Mexico repaid the balance of private interest arrears accumulated by January 31, 1983, amounting to \$280 million (to both U.S. and non-U.S. banks) and some other amounts to U.S. banks. Claims on the Philippines were unchanged after declining \$0.4 billion in the previous two quarters.

Among other country groups, U.S. banks' claims on OPEC countries, Eastern Europe, and the smaller developed countries increased somewhat in the fourth quarter following decreases in one or both of the previous quarters. Claims on G-10 countries again declined but less than in the

second and third quarters. The slower drop, together with a shift from decrease to increase in claims on offshore banking centers, largely concerned interbank placements and seasonal factors. For all areas combined there was a larger increase in claims in the fourth quarter than in preceding quarters of the year, but for the year as a whole there was a net reduction in claims on foreigners.

TABLE 1. CLAIMS ON FOREIGNERS OF U.S.-CHARTERED BANKS  
(Billions of dollars)

Claims on:	Change (no sign = increase)						Outstanding 12/31/83
	1982	1983					
	Year	Year	Q1	Q2	Q3	Q4	
<u>Total, all countries</u>	23.4	-2.9	2.0	-4.1	-11.0	10.2	435.7
Non-OPEC developing countries	10.7	4.1	0.6	0.6	0.6	2.3	111.1
OPEC countries	2.6	1.7	1.1	-0.3	-1.0	1.9	29.1
Eastern Europe	-1.6	-0.5	-0.4	-0.1	-0.4	0.1	5.4
Smaller developed countries	5.3	1.9	0.2	0.5	-0.3	1.5	35.6
G-10 countries and Switzerland	4.2	-12.2	2.4	-5.4	-8.9	-0.6	167.5
Offshore banking centers	3.1	3.4	-0.7	1.2	-1.8	4.7	70.2
Miscellaneous	-0.9	-1.1	-1.2	-0.6	0.7	..	16.8

TABLE 2. CLAIMS OF U.S.-CHARTERED BANKS ON NON-OPEC DEVELOPING COUNTRIES  
(Billions of dollars)

Claims on:	Change (no sign = increase)						Outstanding 12/31/83
	1982	1983					
	Year	Year	Q1	Q2	Q3	Q4	
<u>Latin America</u>	7.7	2.8	0.4	0.3	1.2	0.9	75.1
Argentina	-0.5	0.7	0.1	0.4	0.1	0.1	9.6
Brazil	3.8	0.1	0.2	-0.6	0.4	0.1	23.0
Chile	0.5	0.2	-0.3	-0.2	0.4	0.3	6.5
Colombia	0.5	0.1	-0.2	0.3	..	..	3.2
Mexico	2.9	1.6	0.6	0.1	0.6	0.3	26.1
Peru	0.6	-0.2	-0.2	0.2	-0.2	..	2.4
Others	-0.1	0.3	0.2	0.1	-0.1	0.1	4.3
<u>Asia and Africa</u>	3.0	1.3	0.2	0.3	-0.6	1.4	36.0
Korea	1.4	0.5	..	..	..	0.5	11.3
Philippines	0.3	-0.1	0.3	-0.2	-0.2	..	6.2
Taiwan	0.1	0.1	-0.1	..	0.1	0.1	5.3
Others	1.2	0.8	..	0.5	-0.5	0.8	13.2
<u>Total</u>	10.7	4.1	0.6	0.6	0.6	2.3	111.1

U.S. International Financial Transactions

The U.S. merchandise trade deficit increased sharply in January, but the capital account data currently available do not give a full picture of how that deficit was financed. Banks in the United States did not increase their borrowing from their own foreign offices and IBFs in January, although in February the trend of increased inflows from their own foreign offices resumed. (See line 3 of International Banking Data table.)

Data on banks' transactions with unaffiliated foreigners are still incomplete for January, due to unusually large late revisions. While the overall magnitudes are uncertain, it is clear that there was a reduction in U.S. banks' claims on unrelated nonbank foreigners. Part of this was associated with a \$4 billion rundown in bankers acceptances financing third country trade.

Apart from bank flows, other capital flows in January were small. (See U.S. International Transactions table.) Official reserve assets in the United States fell by \$1.9 billion in January. Partial information for February indicates that G-11 official assets in the United States increased by about \$2.8 billion,

. OPEC assets at the FRBNY continued to decline in February.

INTERNATIONAL BANKING DATA  
(Billions of dollars)

	1981	1982	1983			1984		
	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.
1. Net Claims of U.S. Banking Offices (excluding IBFs) on Own Foreign Offices	8.2	33.2	49.2	43.7	42.3	38.8	37.0	35.6
2. Net Claims of U.S. Banking Offices on Own IBFs <u>1/</u>	11.8	16.2	14.6	12.8	10.5	5.2	7.8	7.0
3. Sum of lines 1 and 2	20.0	49.4	63.8	56.5	52.8	44.0	44.7	42.6
of which:								
(a) U.S.-chartered banks	22.5	40.3	53.7	50.0	47.1	40.4	39.4	38.2
(b) Foreign-chartered banks	2.4	9.1	10.0	6.5	5.7	3.6	5.3	4.4
4. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	13.2	15.7	16.4	16.8	16.8	18.6	18.7	19.4
5. Eurodollar Holdings of U.S. Nonbank Residents <u>2/</u>	95.5	112.6	116.4	120.4	121.3	126.7	123.4	123.7

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.

Note: These data differ in coverage and timing from the overall banking data incorporated in the international transactions accounts. Line 1 is an estimate constructed as the residual of line 3 minus line 2. Line 2 is data for the last Wednesday of the month for the sample of monthly IBF reporters. Line 3 is an average of daily data reported to the Federal Reserve by U.S. banking offices. Line 4 is an average of daily data. Line 5 is the month-end value for data through September 1983. For dates after September 1983, the overnight portion is an average of daily data and the term portion is an average of Wednesday data.

Foreign private purchases of U.S. Treasury securities were \$1.6 billion in January. More than \$.6 billion was accounted for by the World Bank, whose holdings of Treasury securities tend to be volatile. Foreign official institutions also added \$1.5 billion to their holdings of U.S. Treasuries, while reducing their holdings of other assets in the United States in January.

Although balance of payments data on direct investment capital flows are not yet available for the first quarter of 1984, it is likely that there were sizeable inflows from Netherlands Antilles finance affiliates. Estimated borrowing by U.S. corporations in the Eurobond markets surged to about \$4.5 billion in the first quarter of 1984, double the rates for the last three quarters of 1983. Some of these issues were not intended to raise funds for use in the United States. For example, several DM issues were used to raise funds to reinvest in German government securities yielding higher returns. The firms intended to defease the issues, reaping arbitrage profit and certain tax advantages, but the Financial Accounting Standards Board has ruled against the use of defeasance in these cases. Nevertheless, these mark-denominated issues underline the increasing internationalization of world financial markets: U.S. firms were performing arbitrage between two DM markets.



The March balance of payments press release provides more complete information on certain capital flows in 1983. U.S. direct investment abroad resulted in an outflow of \$7.6 billion during the year, in contrast to the inflow of \$3.0 billion recorded in 1982. The reversal of the unusual inflow in 1982 was the result of several factors. Inflows into the United States from Netherlands Antilles finance affiliates dropped from a record \$9.5 billion to \$4.8 billion, because U.S. corporations chose to rely less on Eurobond issues as a way to raise funds in 1983. In addition, increased economic activity abroad raised profits, much of which were reinvested. Foreign direct investment inflows into the United States were down somewhat in 1983, but would rise substantially in 1984 if plans proceed to make Shell Oil Corporation a wholly owned subsidiary of its Netherlands parent.

The statistical discrepancy in the balance of payments accounts fell sharply in 1983 to only \$7 billion from over \$40 billion in 1982. Presumably this swing reflects shifts in the capital accounts, since large changes in the accuracy of reporting current account transactions seem unlikely.

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

	1982	1983	1983			1984		
	Year	Year	Q2	Q3	Q4	Nov.	Dec.	Jan.
<b>Private Capital</b>								
<b>Banks</b>								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	-39.5	15.9	1.5	13.4	10.3	10.2	-0.7	n.a.
a) with own foreign offices	-8.9	9.2	0.9	11.1	9.5	13.4	0.9	n.a.
b) all other	-30.6	6.7	2.5	2.3	0.7	-3.3	-1.6	n.a.
<b>Securities</b>								
2. Private securities transactions, net	-1.6	1.1	-0.6	0.3	0.2	0.5	-0.4	0.6
a) foreign net purchases (+) of U.S. corporate bonds	2.8	2.2	0.9	0.5	0.7	0.4	0.1	0.1
b) foreign net purchases (+) of U.S. corporate stocks	3.6	6.4	1.7	1.4	0.4	*	0.3	*
c) U.S. net purchases (-) of foreign securities	-8.0	-7.5	-3.2	-1.5	-0.9	0.1	-0.9	0.5
3. Foreign net purchases (+) of U.S. Treasury obligations <sup>1/</sup>	6.5	8.1	2.9	0.9	1.5	-0.6	-0.2	1.6
<b>Official Capital</b>								
4. Changes in foreign official reserve assets in U.S. (+ = increase)	2.9	5.5	1.3	-2.8	6.6	-0.6	4.3	-1.9
a) By area								
G-10 countries and Switzerland	-12.7	6.4	1.1	0.8	1.8	-0.7	0.9	0.4
OPEC	6.9	-8.6	-3.6	-2.1	-1.5	-0.7	*	-0.2
All other countries	8.8	7.6	3.8	-1.6	6.3	2.1	3.4	-2.1
b) By type								
U.S. Treasury securities	5.7	7.2	2.0	-0.5	2.7	-0.5	1.5	1.5
Other <sup>2/</sup>	-2.7	-1.7	-0.6	-2.3	3.9	1.2	2.7	-3.4
5. Changes in U.S. official reserve assets (+ = decrease) <sup>3/</sup>	-5.0	-1.2	*	0.5	-1.0	-0.6	-0.2	-0.5
<b>Other transactions (Quarterly data)</b>								
6. U.S. direct investment (-) abroad	3.0	-7.6	-0.9	-4.5	-2.4	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	10.4	9.5	2.2	3.2	2.1	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) <sup>4/ 5/</sup>	-6.9	2.4	3.9	-0.6	-4.9	n.a.	n.a.	n.a.
9. U.S. current account balance <sup>5/</sup>	-11.2	-40.8	-9.7	-12.1	-15.3	n.a.	n.a.	n.a.
10. Statistical discrepancy <sup>5/</sup>	41.4	7.1	-0.6	1.7	-2.9	n.a.	n.a.	n.a.

**MEMO:**

U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)

1982	1983	Q2	Q3	Q4	Nov.	Dec.	Jan.
-36.4	-60.6	-14.7	-18.2	-18.8	-6.3	-4.4	-8.1

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.

U.S. Merchandise Trade

The January merchandise trade deficit was a record; it followed a month in which the deficit was unexpectedly small. The level of both exports and imports rose in January. While exports increased to a rate 7 percent higher than recorded in the fourth quarter as a whole, imports in January rose faster and were 13 percent above the fourth-quarter average.

Part of the increase in exports in January came in agricultural goods. While there were increases in wheat and soybeans (primarily volume), half of the export rise appears to result from higher prices of items such as citrus fruits, poultry, eggs, and meat.

Most of the January increase in exports was in nonagricultural manufactured goods, especially machinery (business machines),

U.S. MERCHANDISE TRADE<sup>1/</sup>

	1983		1983		1984	
	Year	Q2	Q3	Q4	Dec.	Jan.
<u>Value (Bil. \$, SAAR)</u>						
Exports	200.2	195.0	201.7	206.7	214.9	221.1
Agricultural	36.6	34.9	37.4	38.7	39.1	42.7
Nonagricultural	163.6	160.1	164.4	168.0	175.8	178.4
Imports	260.8	253.8	274.4	281.9	267.9	318.0
Oil	53.8	51.6	65.8	56.3	46.9	51.6
Non-oil	206.9	202.2	208.6	225.7	220.9	266.4
Trade Balance	-60.6	-58.8	-72.7	-75.2	-53.0	-96.9
<u>Volume (Bil 72\$, SAAR)</u>						
Exports						
Agricultural	16.3	15.9	16.3	16.0	16.1	n.a.
Nonagricultural	57.3	56.0	57.6	58.8	61.9	n.a.
Imports						
Oil	4.9	4.8	6.0	5.2	4.3	n.a.
Non-oil	81.7	80.0	82.3	88.3	85.5	n.a.

1. International transactions and GNP basis.

automotive products shipped to Canada, and chemicals. By area, most of the increase in total exports seems to have gone to Canada and to the EEC.

All of the rise in imports in January from the fourth quarter average was in items other than oil. While the volume of oil imports increased to 5.1 million barrels per day (mbd) in January (seasonally adjusted) from an unusually low December level, the January rate was still somewhat less than the 5.5 mbd rate imported during the fourth quarter as a whole. The sharp increase in U.S. domestic oil consumption in January -- in part a result of unseasonably cold weather -- came primarily from a large stock drawdown. For the third consecutive month, oil import prices declined somewhat in January. Preliminary data for February suggest oil imports continued at the low December-January rate as consumption dropped back to more average levels (reflecting a return to normal weather conditions).

## OIL IMPORTS

	1983		1983		1984	
	Year	Q2	Q3	Q4	Dec.	Jan.
Volume (mbd, SA)	5.20	5.11	6.37	5.45	4.63	5.08
Price (\$/BBL)	28.42	27.69	28.29	28.29	27.91	27.75
Value (Bil. \$, SAAR)	53.80	51.62	65.85	56.26	46.91	51.59

The increase in nonoil imports in January (from both December and fourth-quarter levels) was in a wide range of manufactured goods, ranging from industrial materials to such finished goods as machinery, automotive products from Canada, and consumer goods.

U.S. Current Account in 1983

The U.S. current account deficit was a record \$61 billion (annual rate) in the fourth quarter, an increase of \$13 billion (annual rate) from the rate recorded in the third quarter. The change from the third quarter was largely in services and unilateral transfers. In particular, receipts from U.S. direct investments abroad declined (partly because there were large capital losses and other write-offs), payments by U.S. travelers abroad rose 13 percent, and unilateral government transfers increased sharply (as Israel drew its entire fiscal-year appropriation in the fourth quarter).

For the year 1983, the current account deficit was \$41 billion, up from a deficit of \$11 billion in 1982. On a year-to-year basis, most of the swing in the deficit was in merchandise trade, about

U.S. CURRENT ACCOUNT  
(billions of dollars, SAAR)

	Year	1983				Change	
		Q1	Q2	Q3	Q4	1983	4Q83
						-1982	-3Q83
<u>Current Account Balance</u>	<u>-40.8</u>	<u>-14.7</u>	<u>-39.0</u>	<u>-48.3</u>	<u>-61.2</u>	<u>29.6</u>	<u>-12.9</u>
Trade balance	-60.6	-35.4	-58.8	-72.7	-75.2	-24.2	-2.5
Exports	200.2	197.4	195.0	201.7	206.7	-11.0	5.0
Imports	260.8	232.8	253.8	274.4	281.9	-13.2	7.5
Investment income, net	23.6	20.1	22.5	27.5	24.1	-3.7	-3.4
Direct, net	15.0	10.7	14.0	18.9	16.4	-3.0	-2.5
Portfolio, net	8.6	9.5	8.5	8.6	7.7	-0.7	-0.9
Military, net	0.5	2.1	0.5	-0.5	-0.1	0.3	0.4
Other services, net	4.3	4.8	4.1	5.9	2.4	-1.4	-3.5
Unilateral transfers	-8.6	-6.2	-7.3	-8.5	-12.4	-0.6	-3.9
<hr/>							
Memo Item:							
Statistical Discrepancy in the BOP account	7.1	35.4	-2.5	7.0	-11.6	-34.3	-18.

equally divided between lower exports and higher imports. The lower export figure reflects the effects of the sluggish economic recovery in most major trading-partner countries during the year, and the reduced price competitiveness of U.S. goods which resulted from the persistent high level of the exchange value of the dollar. Exports began to pick up in the second half of the year. The increase in imports was entirely in nonoil items and largely reflected the strength of U.S. economic activity plus, to a lesser extent, the enhanced price competitiveness of foreign goods.

Foreign Economic Developments. Recovery abroad has continued and gathered some strength in several major foreign industrial countries. Real GNP rose in the fourth quarter in all major countries. (Data for Italy are not yet available.) The weighted average of fourth-quarter industrial production in the six major foreign countries was about 5 percent higher than early last year, when recovery started in most of these countries. January data point toward further improvement. Japan, Germany and the United Kingdom are showing the strongest improvement, while Canada slowed somewhat from strong previous performance and France and Italy remained weak. The unemployment picture abroad remains bleak despite recovering production. Several countries (France, Japan) are presently reporting record unemployment rates, and others (Germany, United Kingdom) have shown only slight improvement from the recent peaks of unemployment.

Inflation abroad on a year-over-year basis had reached its lowest level since the early seventies by the fourth quarter of last year. Data for January and February suggest some renewed upward pressure resulting in part from the delayed effects of the strong dollar on import prices.

Recent policy actions have tended to confirm the generally restraining stance of foreign governments. The U.K. government budget for FY 1984/85 contains no net fiscal stimulus and a lowered monetary target. In France and Italy the governments' attempted tightening of cost-of-living provisions has resulted in increased labor unrest. The Belgian government raised the discount rate and announced plans for expenditure cuts and tax increases.

Individual Country Notes. The Japanese economy has continued to

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

	Q4/Q4 1982	Q4/Q4 1983	1983				1983			1984		LATEST 3 MONTHS FROM YEAR AGO+
			Q1	Q2	Q3	Q4	OCT.	NOV.	DEC.	JAN.	FEB.	
<b>CANADA</b>												
GNP	-5.0	6.6	1.7	1.9	2.0	.9	*	*	*	*	*	6.6
IP	-11.8	16.8	5.1	3.1	4.3	3.3	.3	1.1	1.0	N.A.	N.A.	16.8
<b>FRANCE</b>												
GDP	1.2	.5	-.3	.5	-.3	.6	*	*	*	*	*	.5
IP	-1.8	1.8	.0	1.0	.8	.0	-.8	3.1	-.8	.8	N.A.	2.9
<b>GERMANY</b>												
GNP	-2.0	3.2	.6	1.1	.2	1.3	*	*	*	*	*	3.2
IP	-5.4	5.9	1.0	2.1	.4	2.3	-.1	2.0	.2	.8	N.A.	6.4
<b>ITALY</b>												
GDP	-2.4	N.A.	.6	-1.7	.9	N.A.	*	*	*	*	*	-.4
IP	-6.1	-1.0	.6	-4.7	1.8	1.4	-1.6	6.8	-6.8	N.A.	N.A.	-1.0
<b>JAPAN</b>												
GNP	3.8	3.6	.2	1.1	1.5	.8	*	*	*	*	*	3.6
IP	-2.7	8.5	.9	1.6	3.3	2.5	-1.2	2.1	.5	.7	N.A.	9.1
<b>UNITED KINGDOM</b>												
GDP	1.6	3.1	1.6	-.7	.6	1.6	*	*	*	*	*	3.1
IP	.2	3.9	1.2	.1	1.7	.8	-.1	.2	1.1	.7	N.A.	4.3
<b>UNITED STATES</b>												
GNP	-1.7	6.2	.6	2.3	1.9	1.2	*	*	*	*	*	6.2
IP	-7.5	14.9	2.4	4.3	5.1	2.4	.8	.2	.5	1.2	1.2	15.4

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\* DATA NOT AVAILABLE ON A MONTHLY OR QUARTERLY BASIS.

+ IF QUARTERLY DATA, LATEST QUARTER FROM YEAR AGO.



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

	Q4/Q4 1982	Q4/Q4 1983	1982		1983				1983		1984		LATEST 3 MONTHS FROM YEAR AGO
			Q3	Q4	Q1	Q2	Q3	Q4	NOV.	DEC.	JAN.	FEB.	
<b>CANADA</b>													
CPI	9.7	4.6	2.2	1.6	.6	1.4	1.6	.9	.0	.3	.5	.6	5.1
WPI	4.5	3.4	.8	.3	.7	1.5	.8	.4	.1	.3	.6	N.A.	3.7
<b>FRANCE</b>													
CPI	9.5	9.8	1.4	1.8	2.7	2.8	2.1	1.9	.4	.3	.7	.7	9.1
WPI	8.5	14.5	1.9	1.0	2.5	4.0	3.7	3.5	1.9	.8	1.4	N.A.	15.4
<b>GERMANY</b>													
CPI	4.7	2.6	1.1	.7	.5	.6	1.0	.5	.2	.2	.5	.3	2.8
WPI	3.1	.9	.0	.0	-2.0	.8	.9	1.2	.8	.4	.7	.7	3.3
<b>ITALY</b>													
CPI	16.6	13.0	4.1	4.5	3.6	2.9	2.3	3.6	1.0	.5	1.2	N.A.	12.7
WPI	12.4	9.1	3.2	3.3	1.6	1.6	2.3	3.3	.7	.9	1.4	N.A.	9.4
<b>JAPAN</b>													
CPI	.9	1.9	.5	1.0	2.7	.9	-.2	3.6	-.2	-.5	.3	1.3	2.4
WPI	-1.0	-3.3	1.0	-.1	-1.9	-1.0	.2	-.6	.1	.1	.0	.2	-1.6
<b>UNITED KINGDOM</b>													
CPI	6.2	5.1	.5	.7	.5	2.0	1.3	1.1	.4	.3	-.1	.4	5.2
WPI	6.5	5.5	1.0	1.2	1.4	2.0	.8	1.3	.4	.4	.7	.6	5.7
<b>UNITED STATES</b>													
CPI (SA)	4.4	3.2	1.9	.4	-.0	1.1	1.0	1.1	.4	.2	.6	N.A.	3.7
WPI (SA)	3.6	.8	1.3	.9	-.4	.2	.6	.4	-.1	.1	.6	.4	1.6

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

	1982	1983	1982		1983				1983		1984	
			Q3	Q4	Q1	Q2	Q3	Q4	NOV.	DEC.	JAN.	FEB.
<b>CANADA</b>												
TRADE	14.8	14.6	4.0	4.1	3.3	4.3	3.3	3.7	1.5	1.3	1.7	N.A.
CURRENT ACCOUNT	2.4	1.3	.9	.9	.2	1.0	-.2	.3	*	*	*	*
<b>FRANCE</b>												
TRADE 2/	-14.0	-5.9	-4.2	-2.9	-3.5	-1.7	-.4	-.3	-.2	.0	-.6	-.6
CURRENT ACCOUNT 2/	-12.1	-4.7	-3.2	-2.4	-4.0	-1.0	.3	.0	*	*	*	*
<b>GERMANY</b>												
TRADE	20.9	16.4	5.3	5.0	5.1	4.1	3.7	3.4	1.1	1.0	1.3	N.A.
CURRENT ACCOUNT (NSA)	3.6	3.3	-1.6	4.7	1.7	.8	-2.6	3.4	.2	2.0	-.2	N.A.
<b>ITALY</b>												
TRADE	-12.8	-7.8	-3.0	-2.6	-3.0	-1.4	-2.1	-1.3	-.1	-.8	-.4	N.A.
CURRENT ACCOUNT (NSA)	-5.8	N.A.	.4	-.7	-2.0	.6	1.0	N.A.	*	*	*	*
<b>JAPAN</b>												
TRADE 2/	18.8	31.5	5.1	4.0	6.5	8.1	8.8	8.1	3.0	2.8	3.7	N.A.
CURRENT ACCOUNT	6.9	21.0	2.3	1.6	3.5	6.0	6.1	5.5	1.7	2.2	2.9	N.A.
<b>UNITED KINGDOM</b>												
TRADE	3.6	-.8	1.0	2.0	.3	-.7	-.4	-.0	.1	.5	-.5	N.A.
CURRENT ACCOUNT 2/	9.1	3.7	2.2	3.7	1.8	.1	1.0	.9	.4	.8	-.2	N.A.
<b>UNITED STATES</b>												
TRADE	-36.4	-60.5	-13.1	-11.4	-8.9	-14.7	-18.2	-18.8	-6.3	-4.4	-8.1	N.A.
CURRENT ACCOUNT	-11.2	N.A.	-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.

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

move ahead in recent months amid indications that the recovery in domestic demand is gaining strength. GNP growth slowed to 3.1 percent (s.a.a.r.) in the fourth quarter, following 6 percent growth in the previous quarter, but the relatively strong showing of private fixed investment and consumption are positive signs. Industrial production recorded an increase of 0.7 percent (s.a.) in January and has been advancing lately at a pace of almost 10 percent (s.a.a.r.). Recent surveys by the Economic Planning Agency and the Bank of Japan report both a firming of domestic demand -- particularly in private fixed investment -- and continuing export strength. Despite the improved outlook, unemployment, which was at a record level in January, remains a persistent problem. Bankruptcies also have been numerous in recent months, mainly among smaller firms, but last month they included the family-owned Osawa trading firm. This was one of the largest business failures in recent years, and Osawa counted several foreign banks among its important creditors.

Consumer prices moved upward sharply in January. The 1.3 percent increase was the largest monthly rise in almost 2-1/2 years and was a marked deviation from the roughly 2 percent annual rate of advance of recent months. Wholesale prices also moved ahead, but very slowly; the wholesale price level in Japan gained 0.2 percent in February but was still more than 1 percent below the level of a year ago.

On a seasonally adjusted basis the current account in January was in surplus by a record \$2.9 billion. The main factor behind the large surplus was a 5 percent increase in exports (s.a.).

At the end of February, shortly after the meeting in Tokyo of the bilateral yen-dollar discussion group, the Cabinet approved an omnibus bill to implement several measures to liberalize Japanese capital imports including the issuance abroad of foreign-currency government bonds, the elimination of the "designated company" system that limits direct investment, and liberalization of foreign investment in Japanese real estate.

Industrial production in Germany rose 0.8 percent in January to a level 5.5 percent above a year ago. The volume of orders increased 2 percent in January, suggesting a favorable outlook for the near future. The rate of unemployment was 8.8 percent (s.a.) in February, compared to a 9.5 percent peak last summer. Most other indicators of economic activity, such as capacity utilization, inventory surveys and business climate measures have continued to reflect improvement on balance. There is, however, some concern about possible labor problems as annual contract negotiations are approaching their deadlines. The national union association's demand for a 35 hour work week with no reduction in pay has so far been flatly rejected by management. There has been one minor strike and the Economics Minister has called for a labor-management conference.

The consumer price index rose 0.3 percent in February. On a seasonally adjusted annual basis, the rate of inflation over the last three months has been about 2-1/2 percent. The strong acceleration of import prices in the last three months is likely to exert some upward pressure on the CPI in the months to come.

In the United Kingdom recovery of real economic activity continues and is being more consistently reflected in the various measures. Provisional real GDP in the fourth quarter shows growth of about 6 percent (s.a.a.r.) from the third quarter level. In January, industrial production rose 0.7 percent (s.a.) over an upward revised December figure to reach a level 4 percent above that of January 1983. Orders in January were reported at their highest level since the onset of recession in 1979, and all leading indicators point to continued recovery in 1984. Unemployment did, however, rise slightly in February to 12.6 percent (s.a.), equal to its level one year earlier, but still close to the peak unemployment rate for this recession. The rate of inflation of consumer prices has remained very steady over the past six months. In February, the retail price index was 5 percent above its level one year earlier.

The deterioration in the U.K. external balance, which occurred during 1983, has continued into January. In that month both the trade and current account balances were in deficit. A decline in exports and a small rise in imports produced a trade deficit of \$480 million. The current account showed a deficit of \$180 million.

On March 13 Chancellor of the Exchequer Nigel Lawson presented to Parliament the U.K. government's budget for the fiscal year 1984/85. Proposed expenditure totals imply no growth in the level of real government spending. Numerous tax changes were announced which, on balance, by themselves are neutral for this coming fiscal year. Nevertheless, because of expected income growth, the public sector borrowing requirement is forecast to decline from £10 billion (3-1/4

percent of GDP) in the present fiscal year to £7.25 billion (2-1/4 percent of GDP) in 1984/85.

The tax provisions included steady reductions in the rate of tax on corporate profits from 50 percent in 1983/84 to 35 percent by 1986/87 and elimination of the 1 percent employer's national insurance surcharge (on wage payments) as of October 1984.

The Chancellor also announced the new monetary targets to April 1985. They call for 6-10 percent growth of £M3 and 4-8 percent growth of M-zero (M0), the monetary base. The current target calls for 7-11 percent growth of M1, £M3, and PSL2. Through February M1 and £M3 were within the target range while PSL2 was somewhat above the range. Although no target was set for M1 or PSL2 for 1984/85, the authorities have stated that they will continue to observe these variables as indicators of monetary conditions.

In France, recent evidence as to the direction of economic activity has been mixed. Real GDP increased by 0.6 percent in the fourth quarter and was 0.5 percent above its year-earlier level. Industrial production rose by 0.8 percent in January and was 3.1 percent above its level of January 1985. The unemployment rate, after holding steady through most of last year, has risen steadily in recent months. February's unemployment rate was 9.5 percent (s.a.), up from 8.8 percent last October.

Consumer prices rose by 0.7 percent (s.a.) in February, leaving the year-over-year inflation rate at 9 percent. Negotiations over 1984 wage increases for public employees have been under way since January.

Holding down labor costs is a key element of the government's program for limiting inflation to 5 percent in 1984. Union demands for a return to full indexation and compensation of real income losses in 1983 resulted in a widespread strike by government workers on March 8.

After reaching near balance late last year, French trade swung back into deficit by nearly \$600 million (s.a.) in both January and February.

In Italy industrial production rose in the second half of last year from the trough in the second quarter; the IP index for the fourth quarter was about 1 percent below that of a year earlier and 12 percent below the peak of 1980 Q1. The official unemployment rate in January was 9.9 percent (n.s.a.), virtually unchanged from a year ago.

Consumer price inflation remains moderate by Italian standards. In the twelve month period ending in February, consumer prices rose by about 12 percent; the last time a lower rate was observed was February 1976. The trade deficit last year of nearly \$8 billion represents a decline of over \$5 billion from the year earlier, which in turn was \$5 billion below the deficit for 1981.

In an effort to reduce inflation in 1984 to 10 percent, the Craxi government on February 15 decreed a reduction in cost-of-living wage adjustments (the scala mobile) for 1984, imposed a 10 percent limit on increases of administered prices and public sector tariffs, and froze rent increases on properties subject to rent control. This decree law must be approved by Parliament within 60 days. The government action followed the breakdown of talks between the employe association and the three largest unions. In the past, scala mobile changes were decided by

labor and management negotiations. Strike activity has increased in the wake of the government's action.

The Canadian recovery slowed in the fourth quarter of 1983. Real GNP grew at an annual rate of 3.5 percent in the fourth quarter, less than half the average rate of increase over the first three quarters. The slowing of the recovery in Canada in the fourth quarter was largely attributable to weak final domestic demand. Business fixed investment fell at a quarterly rate of 4.3 percent, including a 12 percent drop in residential construction. (Nevertheless, residential construction remained 16 percent above the fourth quarter of 1982.) Consumption expenditures grew at an annual rate of 3-1/4 percent in the fourth quarter, down from a 4.8 percent average increase over the first three quarters. The unemployment rate rose for the second consecutive month to 11.3 percent in February after falling throughout most of 1983. Other leading indicators pointed toward a slowing of the recovery including a December seasonally adjusted drop in new orders and unfilled orders as well as a substantial decline in the latest Conference Board's index of consumer confidence.

The inflation rate continues to remain well below the double digit rates experienced prior to the recent recession. Consumer prices increased at a rate of 4-1/2 percent during 1983. In February, the CPI rose by 0.6 percent.

The major source of growth in real activity in the fourth quarter was the strong performance of merchandise exports, which were up, in volume, 8.5 percent at a quarterly rate. The current account showed a



\$1.3 billion surplus last year about half of the 1982 surplus. Canada registered a \$14.6 billion merchandise trade surplus in 1983 of which U.S. trade accounted for 80 percent.

Pierre Trudeau, Prime Minister and leader of the Liberal Party for almost 16 years, announced his intention to retire after the Liberals choose a new leader, a process which is expected to take about three months. Federal elections are likely to be held this Fall. The candidate for the progressive Conservative party and opposition leader, Brian Mulroney, holds a large lead in the opinion polls over a number of possible liberal candidates.

On March 15, the Belgian government announced its plans to reduce its budget deficit from over 12 percent of GDP in 1983 to 7 percent in 1987. The proposed measures, which include a 2 percent reduction in unemployment benefits and public sector wages, are expected to provide up to \$5 billion in annual savings. These measures were taken as part of an effort to restore confidence in the Belgian franc. Pressure on the Belgian franc had forced the Belgian National Bank to increase its discount rate from 10 percent to 11 percent on February 15.

The Debt Situation in Selected Developing Countries

Foreign banks have completed signing a \$6.5 billion "new money" facility for Brazil, and \$3 billion is scheduled to be disbursed by March 23. After a waiver of some performance criteria, Brazil made another drawing on its IMF Extended Fund Facility. The negotiations that Argentina is conducting with the IMF and its bank creditors are proceeding slowly. Mexico's \$3.8 billion bank loan is over-subscribed in amount but still under-subscribed in the number of participating banks. The 1983 external accounts were better than projected, and economic activity is still depressed. Chile and Peru have both reached agreements with the IMF, and both have completed negotiations with bank creditors for financing in 1984 on better terms than their 1983 financing packages. The new Venezuelan administration remains reluctant to negotiate with the IMF, but it has implemented an austerity program of its own aimed at reducing arrears and improving the current account. The Philippines continues to negotiate with the IMF on a new stabilization program, and bank creditors will be asked to approve a third 90-day moratorium on debt repayments starting April 16.

Brazil's current account deficit was \$6.2 billion in 1983, substantially less than the IMF projection of \$7.5 billion for the year, primarily because of lower than expected service payments. After decelerating in the last two months of last year, prices rose by about 10 percent in January and by more than 12 percent in February. However, the trade surpluses of \$580 million and more than \$800 million in January and February were very encouraging in light of the fact that exports are usually at seasonal lows in these months. The monetary base, which grew

by over 5 percent in January, was reduced by one percent in February as the Brazilians restrained extensions of credit by both the central bank and the Banco do Brasil, particularly towards the end of the month. Under the present IMF program, the monetary base is to grow by only 2 percent in the first quarter if the net domestic assets target is to be achieved. Gross liquid reserves (primarily cash) were estimated to be \$1 to \$1.5 billion as of February 15. On March 9, the IMF granted Brazil's request for a waiver and modification of certain December 1983 performance criteria. The waiver was granted primarily because Brazil's failure to meet performance criteria was traced to the slowness in completing various aspects of the Phase II Brazilian/foreign bank financing plan. The Brazilians drew \$396 million under their IMF Extended Fund Facility arrangement on March 15 and foreign banks have completed the signing of the \$6.5 billion "new money" facility. Of this total, \$3 billion is being disbursed by March 23. At present it is expected that the Brazilians will clear all interest arrears to private creditors (\$2.3 billion) by the end of March. In addition, the monetary authorities have announced that the current system of foreign exchange controls will be abolished by the end of March.

The negotiations that Argentina is conducting separately with the IMF and with foreign commercial banks are proceeding slowly. The 1983 IMF stand-by arrangement was cancelled at Argentine request late in January after large deviations from the agreement's quantitative performance tests in the fourth quarter made reinstatement of the agreement impractical. An IMF staff mission visited Argentina in February as a preliminary step in developing a possible new IMF program. Some

Argentine officials have expressed the hope that a letter of intent may be drafted and approved by the IMF management by late-March, but this is unlikely. An undisbursed balance of \$1 billion remains under the 1983 commercial bank medium-term loan. Discussions are under way with the banks on proposals to release part of the balance upon completion of the IMF letter of intent. These funds would be used to help pay interest arrears to banks, which date back to early October and may exceed \$1.2 billion. (Since year-end the Central Bank has been rebuilding its reserves, which were nearly exhausted, in preference to reducing arrears.) The \$350 million bridge loan payment originally due in January has again been postponed and is now due on April 16, the date on which the final \$400 million payment on this loan is also due. The government is continuing to set wages, interest rates, and exchange rate changes in relation to the projected rate of inflation. When inflation exceeded the projected rate in January and February, additional retroactive wage increases were granted at the end of these months to restore a small increase in real wages. The free market premium for the dollar, which was only about 10 percent in December, increased again in January and February and was about 59 percent on March 8.

The 1984 foreign commercial bank loan for Mexico is now in syndication and subscriptions are more than the \$3.8 billion goal. However, about 100 banks around the world have not yet indicated their participation. The Mexican current account surplus for 1983 turned out to be \$5-1/2 billion, about \$1 billion more than previously anticipated, and the trade surplus was about \$14-1/2 billion, about \$1/2 billion more than estimated in the last Greenbook. On March 7, Mexico repaid \$450 million

of the overdue private sector debts to foreign suppliers for which the debtors made peso deposits in the Bank of Mexico between March 1, 1983, and January 19, 1984. To attract private foreign direct investment, new guidelines have been announced, relaxing the prohibition against majority ownership in many lines of activity. There are no signs of a turn-around in economic activity: in the first ten months of 1983, industrial production was 9.4 percent lower than in the same period of 1982. The government hopes to limit inflation in 1984 to 40 percent. However, monthly increases in the CPI since November have been somewhat larger than in the previous five months, as a result of lumpy increases in controlled prices and the 30 percent increase in the minimum wage on January 1. In February, the CPI was 5.3 percent higher than in January and 73 percent higher than in February 1983.

Chile has agreed with the IMF on a program for the second year of its stand-by arrangement, and it is expected to be approved by the IMF Executive Board in early April. The program allows for some fiscal easing in 1984, reflecting the Chilean authorities' concerns about sluggish economic activity, and reflecting the IMF staff's view that Chile's basic economic policies are in the right direction and that most of the necessary wage, price and exchange rate adjustments have been made. Inflation in January was only 0.1 percent, and the inflation rate this year is expected to be kept under 20 percent. In early February, Chile agreed in principle with its bank creditors on a new loan of \$780 million, to be disbursed in four equal installments over 1984. The loan will be for nine years with five years' grace, at LIBOR plus 1-3/4 percent or U.S. prime plus 1-1/2. The terms are a significant improvement

over Chile's 1983 credit of \$1.3 billion. Since Chile's 1984 maturities were rescheduled as part of the 1983 financing package, this year's agreement with the banks is for new money only.

Peru has signed a letter of intent with the IMF on a new, eighteen-month stand-by arrangement to replace the Extended Fund Facility arrangement that Peru has failed to comply with since last September. The centerpiece of the program is a reduction of the fiscal deficit from 10 percent of GDP in 1983 to just under 4 percent this year. The arrangement is scheduled to go to the IMF Executive Board for approval in April. However, political opposition to the adjustment measures is growing and led to the March 19 resignation of Finance Minister Carlos Rodriguez Pastor, so the future of Peru's relations with the IMF is now uncertain. The signing of the letter of intent triggered the disbursement on March 8 of another \$100 million of the \$450 million credit from banks signed last year. Disbursements of that credit were suspended last fall since they were contingent on compliance with the IMF program. The final \$100 million is expected to be disbursed when the new IMF program receives Executive Board approval. Peru has also agreed in principle with its bank creditors on rescheduling \$610 million in medium and long-term debt maturing between April 1984 and July 1985, and \$955 million in short-term working capital credits. The payments will be rolled into a 9 year loan, with 5 years' grace, at LIBOR plus 1-3/4% or U.S. prime plus 1-1/2%. The terms are a significant improvement over Peru's 1983 rescheduling.

Venezuela's newly-elected government has announced an austerity program aimed both at eliminating the \$750 million in private-sector interest arrears in the near term and at reducing the overall level (\$34

billion) of external debt. Central to the success of the program to eliminate interest arrears was the removal from office of the President of the Central Bank, Mr. Diaz Bruzual, who had blocked these payments under the previous administration. The official exchange rate has been devalued by 40 percent. International reserves are currently \$11.2 billion, and this cushion reduces the incentive to agree to an IMF program.

The Philippines and the IMF are continuing their negotiations aimed at reaching agreement on a new economic stabilization program. An IMF team was in Manila for two weeks in mid-February, but was unable to reach complete agreement on a program. The team will return to Manila again in April to examine the progress being made toward reducing the budget deficit and the amount of liquidity in the economy. Recent data indicate that the absolute level of the money supply was reduced 5-1/2 percent during January, although the 12-month rate of increase (38 percent) remains high. The inflation rate continued to accelerate through January, with consumer prices up 33 percent over the level a year earlier. Preliminary data indicate that the 1983 current account deficit--at \$3.3 billion--was little changed from 1982. Prime Minister Virata stated on March 13 that the Philippines will ask its creditor banks for a third 90-day moratorium on the repayment of principal on non-trade external debt before the current moratorium expires on April 16. Although the Philippine authorities plan to prepare a letter of intent in April for the IMF, it appears unlikely the IMF Board will approve a program before late June.