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CONFIDENTIAL (FR)
CLASS III - FOMC

December 13, 1985

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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THE DOMESTIC NONFINANCIAL ECONOMY

Retail sales

Retail sales rose 1.1 percent in November, with gains at most major types of stores. More complete sample counts reduced the previous estimates of sales in October by 1 percentage point to show a 4.2 percent drop. The November data indicate a 0.9 percent increase in sales of the automotive group, which had dropped more than 17 percent in October. Sales of the retail control group (total sales less autos, gasoline, and mainly nonconsumer items) increased 1.4 percent in November to a level 2-1/4 percent above the third-quarter average. Outlays for general merchandise were up 1.7 percent after two month-to-month declines, while spending for the "other durable group"--which includes toys, jewelry, and sports equipment---rose sharply for the second month in a row. Spending for furniture and appliances edged down after strong gains earlier in the autumn.

Industrial production

The index of industrial production increased an estimated 0.4 percent in November after a downward revised 0.4 percent drop in October. (The initial estimate for October had indicated no change in production.) On balance over the past three months, the total index has shown little net change. In November, output of consumer goods increased 0.4 percent reflecting a rebound in production of light trucks and further advances for appliances and other home goods. Output of business equipment rose 0.5 percent, but the gain retraced less than half of the declines posted in the

preceding two months. The index for production of defense equipment continued rising at a brisk pace.

Producer price index

The producer price index for finished goods rose 0.8 percent in November, reflecting large increases in food and energy prices. Although this measure of inflation has been volatile in recent months, over the past year it has risen only 1.5 percent.

Finished food prices were up 1.6 percent in November, reflecting higher prices for meat, fish, and fresh fruits. Prices for other food items were little changed. At the farm level, the index for crude foods rose 5.8 percent. This was accounted for in large part by increases in livestock prices, which reversed the declines seen in the first three quarters of 1985. Information from spot commodity markets suggest that further, but less substantial, increases in crude food prices will be seen in the coming months.

Producer prices of finished energy goods climbed 3.1 percent in November -- the first advance in this group since May. Fuel oil prices continue to increase in response to the lean inventory situation, and gasoline prices have turned sharply upward due to increases in the price of crude oil. Data from spot markets since the mid-November PPI pricing date indicate that prices for gasoline may be expected to level off due to developments at the recent OPEC meeting.

Outside the food and energy sectors, price increases were small. Prices of both consumer goods excluding food and energy and capital equipment edged up only 0.1 percent in November.

Business Inventories

The book value of retail inventories rose sharply in October, at a $48 billion annual rate, after a $23 billion accumulation in September. As indicated by data on physical units, inventories at auto dealers rose at a substantial rate in October, accounting for $27 billion of the overall increase. However, sizable accumulations also were fairly widespread at other retail outlets. In particular, stockbuilding at general merchandise, apparel, and furniture stores, which had been minimal this year through September, totaled $12 billion in October, after a $9 billion accumulation a month earlier.

The rise in trade stocks brought the overall increase in the book-value of manufacturing and trade inventories to $37.4 billion (annual rate) in October.

December 13, 1985

RETAIL SALES
(Seasonally adjusted percentage change)

	1985			1985		
	Q1	Q2	Q3	Nov./Q3	Oct.	Nov.
Total sales	1.6	2.7	2.0	-1.0	-4.2	1.1
(REAL)[1]	1.1	2.3	1.9	--	-4.5	--
Total less automotive group, nonconsumer stores, and gasoline stations	1.1	1.3	1.0	2.2	.0	1.4
GAF[2]	1.1	1.5	1.0	2.1	.1	.8
Durable	2.5	4.3	4.2	-4.9	-10.1	.9
Automotive group	4.4	5.6	6.2	-10.4	-17.2	.9
Furniture and appliances	1.1	2.0	1.6	4.6	2.3	-.4
Nondurable	1.1	1.7	.7	1.4	-.4	1.3
Apparel	1.1	3.3	1.0	1.1	-.2	.0
Food	1.3	1.4	.9	1.3	-1.6	1.6
General merchandise[3]	1.0	.6	.7	1.4	-.7	1.7
Gasoline stations	-.6	5.1	-1.5	.2	.1	.8

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

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

	1985		1985		
	Q2	Q3	SEP	OCT	NOV
	--Annual rate--		--Monthly rate--		
Total Index	1.3	1.9	-0.1	-0.4	.4
Products	4.3	4.0	.1	-0.4	.4
Final products	3.1	3.9	.0	-0.5	.5
Consumer goods	2.4	3.8	.2	-0.5	.4
Durable	-4.5	3.6	-1.0	-1.2	1.4
Nondurable	4.9	3.8	.6	-0.2	.1
Equipment	3.9	4.0	-0.3	-0.6	.5
Business equipment	3.8	1.7	-0.6	-0.7	.5
Defense and space equipment	10.9	9.8	1.1	.7	1.6
Intermediate products	8.4	4.4	.4	.0	.1
Construction supplies	6.9	9.0	.0	-0.4	-0.2
Materials	-3.2	-1.3	-0.4	-0.4	.5
Durable goods	-7.0	-2.2	-1.3	-0.2	.7
Nondurable goods	1.1	9.1	.9	-0.4	.2
Energy materials	.9	-8.3	.2	-0.7	.3

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

	Relative Importance Dec. 1984	1984	1985 Q1	1985 Q2	1985 Q3	1985 Oct.	1985 Nov.
			-Annual rate-			-Monthly rate-	
Finished goods	100.0	1.7	.5	1.7	-2.4	.9	.8
Consumer foods	24.4	3.5	-3.0	-8.1	-1.6	1.4	1.6
Consumer energy	11.5	-4.1	-21.3	27.3	-12.8	-.2	3.1
Other consumer goods	42.4	2.2	6.5	1.4	-.2	.8	.1
Capital equipment	21.6	1.8	6.2	1.6	-1.2	1.0	.1
Intermediate materials[2]	95.1	1.7	-2.5	1.1	-1.2	.0	.2
Exc. energy	80.1	2.1	-1.0	1.2	-1.2	.0	.0
Crude food materials	53.0	-1.2	-24.9	-20.4	-19.9	6.3	5.8
Crude energy	31.7	-1.3	-13.1	4.4	-4.7	-.3	-.1
Other crude materials	15.4	-3.4	-13.3	3.1	-4.2	.5	-.2

1. Changes are from final month of preceding period to final month of period indicated.
2. Excludes materials for food manufacturing and animal feeds.

BUSINESS INVENTORIES
(Change at annual rates in seasonally adjusted book value; billions of dollars)

	1984	1985			1985			
	Q4	Q1	Q2	Q3	July	Aug.	Sept.r	Oct.p
Manufacturing and trade	31.8	21.3	3.6	-3.0	5.4	-23.2	8.8	37.4
Manufacturing	4.7	1.8	-2.0	-6.6	-7.7	-4.2	-7.9	-23.5
Trade, total	27.1	19.5	5.6	3.6	13.1	-19.0	16.7	60.9
Wholesale	6.4	6.6	6.5	-2.0	4.3	-4.1	-6.4	12.9
Retail	20.7	12.9	-.9	5.7	8.8	-14.9	23.1	48.0
Durable	15.1	11.3	-.2	-2.3	-5.4	-12.9	11.4	37.4
Auto	11.7	8.7	-1.3	-6.5	-10.8	-17.3	8.5	27.8
Nondurable	5.6	1.6	-.7	7.9	14.2	-2.1	11.8	10.6

r--Revised.
p--Preliminary.
Totals may not add because of rounding.

INVENTORY/SALES RATIOS

	1984	1985			1985			
	Q4	Q1	Q2	Q3	July	Aug.	Sept.r	Oct.p
Manufacturing and trade	1.37	1.38	1.37	1.35	1.37	1.34	1.35	1.37
Manufacturing	1.48	1.48	1.47	1.46	1.47	1.45	1.46	1.43
Trade, total	1.28	1.29	1.28	1.27	1.29	1.26	1.26	1.31
Wholesale	1.16	1.17	1.17	1.17	1.19	1.16	1.17	1.19
Retail	1.41	1.42	1.38	1.37	1.39	1.35	1.34	1.43

r--Revised.
p--Preliminary.

Appendix

Debt Ceiling Increase and Gramm-Rudman Amendment

On December 11, the Congress passed a bill that increases the federal debt ceiling to $2.1 trillion, a level that will accomodate additional federal borrowing through most of the current fiscal year. The debt ceiling bill also contains provisions, titled the Balanced Budget and Deficit Control Act of 1985, that have been referred to frequently as the Gramm-Rudman amendment, in recognition of the original Senate sponsors.

The Gramm-Rudman Act amends the Budget Act of 1974 in order to incorporate formally some practices that have emerged in recent years and to provide for an accelerated timetable for the budget process. Among the practices codified in the Act are the provision for only one annual Congressional Budget Resolution, which should be completed by April 15 of each year, and for "reconciliation" legislation to be called for in that Budget Resolution, if necessary, to change existing laws to bring spending and receipts into conformity with the Resolution targets. The Act also puts existing off-budget agencies into the unified budget totals and expands the application of the Budget Act to cover federal credit programs. The parliamentary procedures used to enforce the budget process are strengthened, including the requirement of a three-fifths majority vote to waive certain requirements.

The most controversial and potentially significant elements of the Gramm-Rudman Act are a set of annual budget deficit targets that extend to fiscal year 1991, reaching zero by that time, and a new procedure called sequestration that could be implemented to reach them. The targets are shown in the table below:

Federal Budget Deficit Targets in the Gramm-Rudman Act
(Fiscal years, billions of dollars)

1986	1987	1988	1989	1990	1991
171.9	144	108	72	36	zero

The new procedure that could be triggered to reach these targets requires the President to sequester spending for a fiscal year if a report by the General Accounting Office (based on reports to it by the Office of Management and Budget and the Congressional Budget Office) finds that the budget deficit for the fiscal year about to begin would exceed the deficit target (by more than $10 billion except in FY 1986 and FY 1991), given the spending authority and tax laws then in effect.

For fiscal year 1986, the maximum amount of spending that could be sequested is set at $11.7 billion. It is generally thought that the FY 1986 deficit will exceed the target by at least $20 billion. Since the fiscal year is already underway, however, the law provides that the sequester order for FY 1986 begin on March 1 and the maximum amount to be sequestered is seven-twelfths of $20 billion.

The amount to be sequestered is intended to be spread as uniformly as possible across budget programs and accounts as they exist under law when the sequester order goes into effect. The basic guidelines provide for the amount to be sequestered to be split with half to come from defense spending and half from nondefense spending. The reduction in defense spending can be achieved by reducing outlays from new budget authority and from unobligated balances of previously enacted budget authority. For FY 1986 alone, the President is given additional lattitude to make reductions in particular defense spending accounts that are not strictly proportional to each other.

In the nondefense category, there are numerous exemptions and special rules for specific programs. The basic retirement and disability programs under Social Security are entirely exempted, as are such antipoverty programs as Medicaid, Aid to Families with Dependent Children, Supplemental Security Income and Food Stamps. Veterans Compensation and Pensions are also exempted. Reductions in certain health programs, most importantly Medicare, are limited to one percent in 1986 and two percent thereafter. Interest payments on the federal debt are exempted and special technical rules apply to a number of programs, such as guaranteed student loans and the Commodity Credit Corporation, because of contractual commitments. Similarly, contractual commitments under federal insurance and loan guarantee programs are exempted but the administrative expenses of the agencies in charge of these programs can be cut. Automatic, cost-of-living, increases in federal employee pensions and a few other non-exempt programs would be suspended to the extent necessary before other reductions would be made in the defense and nondefense categories. After taking reductions in pension outlays into account, spending for the remaining nondefense programs would be reduced by a uniform percentage sufficient to achieve one-half of the total amount to be sequestered.

The nature of the exemptions from the automatic sequestering process imply that, in terms of the national income and product accounts, transfer payments would be affected relatively little while both defense and nondefense purchases would be reduced by a larger proportion. Grants to state and local governments, except for certain exempted poverty programs, would also be reduced and could lead to further reduction in spending at those levels of government.

The priorities imposed by the Act on the automatic sequestering process need not apply, of course, to the normal budget process. The Gramm-Rudman Act requires the President to submit a budget that conforms to the deficit targets in the Act but, within that constraint, the level and composition of outlays and tax receipts can be proposed as the President finds appropriate. These priorities can then be modified within the normal budget process as the Congress and the President agree on specific legislation. The automatic sequestering procedures would only be invoked if projections of the budget deficit made just before the fiscal year began (on the basis of laws in effect and current economic forecasts at that time) indicated that the deficit target would be exceeded. The sequestering procedures would not apply if a declaration of war was in effect. They could be waived if two quarters of declining real GNP are forecast or if actual growth of real GNP was less than one percent in each of the most recent two quarters.

MONETARY AGGREGATES

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

December [illegible]

	1983:Q4 to 1984:Q4	1985 Q2	Q3	Sept.	Oct.	Nov.p	Growth from Q4 1984 to Nov. 1985P
	------- Percentage change at annual rates ------						
1. M1	5.2	10.2	15.0	11.9	-1.6	13.0	11.6 (12.0)[2]
2. M2	7.7	5.3	10.2	7.1	2.1	6.6	8.6
3. M3	10.4	5.2	8.1	10.1	3.9	5.0	7.8
							Levels in billions of dollars Nov. 1985P
Selected components							
4. Currency	7.2	6.7	9.1	5.7	6.4	7.8	169.9
5. Demand deposits	1.1	8.6	11.9	12.3	-12.6	10.0	266.2
6. Other checkable deposits	10.5	16.1	26.1	17.1	7.7	23.0	175.7
7. M2 minus M1[3]	8.6	3.8	8.7	5.6	3.3	4.5	1929.5
8. Overnight RPs and Eurodollars, NSA	7.3	-28.7	19.3	9.1	18.0	33.7	69.5
9. General purpose and broker/dealer money market mutual fund shares, NSA	17.0	-0.7	4.1	-0.7	1.4	-3.4	176.4
10. Commercial banks	8.1	9.3	7.8	3.6	3.8	6.9	836.0
11. Savings deposits, SA, plus MMDAs, NSA[4]	5.2	11.8	19.2	10.6	9.7	13.6	454.5
12. Small time deposits	11.1	6.5	-4.4	-4.1	-3.1	-0.6	381.6
13. Thrift institutions	7.3	6.5	3.9	-0.7	2.4	2.4	847.6
14. Savings deposits, SA, plus MMDAs, NSA[4]	-3.6	10.4	16.7	7.2	11.6	5.7	357.7
15. Small time deposits	15.5	4.0	-4.6	-6.6	-4.1	0.0	489.9
16. M3 minus M2[5]	22.1	4.8	-0.1	22.2	10.9	-1.1	643.3
Large time deposits	26.0	6.3	-3.0	20.5	13.4	11.6	437.5
18. At commercial banks, net[6]	16.0	8.3	-3.2	23.8	18.9	12.1	280.0
19. At thrift institutions	48.8	2.6	-2.8	15.6	3.1	11.5	157.6
20. Institution-only money market mutual fund shares, NSA	33.6	7.7	1.3	-24.5	19.3	22.7	64.5
21. Term RPs, NSA	45.6	16.2	-9.2	51.6	0.0	44.4	72.9
22. Term Eurodollars, NSA	-8.3	-12.1	-8.5	7.7	-12.2	-15.4	77.0
	-- Average monthly change in billions of dollars --						
MEMORANDA:							
23. Managed liabilities at commercial banks (24+25)	4.7	-2.4	2.4	8.4	6.8	4.0	457.2
24. Large time deposits, gross	3.2	-1.0	1.2	5.2	4.1	2.1	336.5
25. Nondeposit funds	1.5	-1.4	1.2	3.2	2.7	1.9	120.7
26. Net due to related foreign institutions, NSA	0.9	-1.3	1.3	1.0	3.6	-1.7	-28.3
27. Other[7]	0.5	-0.2	-0.1	2.2	-0.9	3.6	149.0
28. U.S. government deposits at commercial banks[8]	0.2	1.9	-0.7	-1.4	-11.5	9.6	13.4

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. Figure in parentheses calculated from Q2 1985 base.
3. Nontransactions M2 is seasonally adjusted as a whole.
4. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs increased during October and November 1985 at rates of 4.8 percent and 1.9 percent respectively. At thrift institutions, savings deposits excluding MMDAs increased during October and November 1985 at rates of 14.9 percent and 7.4 percent respectively.
5. The non-M2 component of M3 is seasonally adjusted as a whole.
6. [illegible]t of large-denomination time deposits held by money market mutual funds and thrift institutions.
7. [illegible]nsists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold [illegible]er agreements to repurchase, and other liabilities for borrowed money (including borrowings from the Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estimated.
8. Consists of Treasury demand deposits and note balances at commercial banks.

p—preliminary

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

	1985						Levels in bil. of dollars
	Q1	Q2	Q3	Sept.	Oct.	Nov.P	Nov.P
	Commercial Bank Credit						
1. Total loans and securities at banks	10.4	9.3	8.6	8.2	2.0	16.3	1869.4
2. Securities	5.7	5.5	12.4	13.7	1.1	29.9	435.4
3. U.S. government securities	10.4	0.0	9.0	7.5	-13.6	22.2	275.0
4. Other securities	-3.1	16.1	18.8	25.1	27.8	43.4	160.4
5. Total loans	11.9	10.4	7.4	6.6	2.4	12.1	1434.0
6. Business loans	10.1	2.6	2.4	3.7	-0.5	9.4	490.8
7. Security loans	17.8	87.8	-19.0	45.8	-6.3	-12.7	37.5
8. Real estate loans	11.2	12.4	11.2	8.3	13.5	13.6	419.2
9. Consumer loans	18.1	14.9	11.1	7.8	4.3	10.7	283.8
	Short- and Intermediate-Term Business Credit						
10. Business loans net of bankers acceptances	9.4	3.6	2.2	4.7	-0.7	8.9	487.1
11. Loans at foreign branches[2]	-46.9	17.0	-4.1	38.3	-18.6	6.3	19.2
12. Sum of lines 10 & 11	7.0	4.0	2.0	6.0	-1.2	8.6	506.3
13. Commercial paper issued by nonfinancial firms[3]	-6.0	33.8	-1.5	-45.9	58.5	64.6	86.1
14. Sums of lines 12 & 13	5.1	7.9	1.5	-1.2	6.8	16.4	592.4
15. Bankers acceptances: U.S. trade related[4,5]	-5.5	-12.2	-1.1	21.0	-20.6	n.a.	34.3 (Oct)
16. Line 14 plus bankers acceptances: U.S. trade related	4.5	6.7	1.4	0.2	5.1	n.a.	618.7 (Oct)
17. Finance company loans to business[4]	21.4	8.0	3.1	-1.7	10.0	n.a.	145.1 (Oct)
18. Total short- and intermediate-term business credit (sum of lines 16 & 17)	7.6	6.9	1.5	-0.6	5.8	n.a.	763.7 (Oct)

n.a.—not available.
p—preliminary
1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.
2. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
3. Average of Wednesdays.
4. Based on average of current and preceding ends of month.
5. Consists of acceptances that finance U.S. imports, U.S. exports and domestic shipment and storage of goods.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1982/1983 Cyclical low	1984 Highs	1985 March highs	1985 June lows	1985 FOMC Nov.	1985 Dec. 12	Change from: 1984 highs	Change from: FOMC Nov.
Short-term rates								
Federal funds[2]	8.46	11.63	8.58	7.38	8.09	8.01	-3.62	-.08
Treasury bills[3]								
3-month	7.08	10.67	8.80	6.66	7.24	7.08	-3.59	-.16
6-month	7.62	10.77	9.13	6.81	7.32	7.07	-3.70	-.25
1-year	7.73	11.13	9.25	6.98	7.38	7.10	-4.03	-.28
Commercial paper								
1-month	8.00	11.42	8.94	6.95	7.88	7.80	-3.62	-.08
3-month	7.97	11.35	9.12	7.01	7.78	7.70	-3.65	-.08
Large negotiable CDs[3]								
1-month	8.08	11.52	8.89	7.09	7.80	7.76	-3.76	-.04
3-month	8.12	11.79	9.29	7.18	7.80	7.74	-4.05	-.06
6-month	8.20	12.30	9.92	7.30	7.81	7.73	-4.57	-.08
Eurodollar deposits[4]								
1-month	8.68	11.89	8.89	7.45	7.96	8.20	-3.69	.24
3-month	8.71	12.20	9.58	7.50	8.00	8.09	-4.11	.09
Bank prime rate	10.50	13.00	10.50	9.50	9.50	9.50	-3.50	--
Treasury bill futures								
Dec. 1985 contract			10.30	7.12	7.06	7.02	--	-.04
Mar. 1986 contract			10.58	7.47	7.20	6.77	--	-.43
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	9.33	13.49	11.22	8.73	9.02	8.38	-5.11	-.64
10-year	10.12	13.99	12.02	9.83	9.93	9.27	-4.72	-.66
30-year	10.27	13.94	11.97	10.23	10.18	9.58	-4.36	-.60
Municipal revenue (Bond Buyer index)	9.21	11.44	10.25	9.10	9.40	8.96[5]	-2.48	-.44
Corporate--A utility Recently offered	11.64	15.30	13.23	11.50	11.47e	11.03e	-4.27	-.44
Home mortgage rates								
S&L fixed-rate	12.55	14.68	13.29	12.05	12.01	11.50[6]	-3.18	-.51
S&L ARM, 1-yr.	n.a.	12.31	11.14	9.83	9.30	9.30[6]	-3.01	--

	1983 Highs	1984 Lows	1985 Highs	1985 FOMC Nov.	1985 Dec. 12	Percent change from: 1984 lows	Percent change from: FOMC Nov.
Stock prices							
Dow-Jones Industrial	1287.20	1086.57	1511.70	1396.67	1511.24	39.1	8.2
NYSE Composite	99.63	85.13	119.12	111.07	119.12	39.9	7.2
AMEX Composite	249.03	187.16	249.03	230.24	241.78	29.2	5.0
NASDAQ (OTC)	328.91	225.30	328.91	295.25	320.58	42.3	8.6

1. One-day quotes except as noted.
2. Averages for two-week reserve maintenance period closest to date shown. Last observation is the average-to-date for the maintenance period ending December 18, 1985.
3. Secondary market.
4. Averages for statement week closest to date shown.
5. One-day quotes for preceding Thursday.
6. One-day quotes for preceding Friday.

e--estimated

U.S. Merchandise Trade

On a revised basis, the merchandise trade deficit increased to $133 billion at an annual rate in the third quarter of 1985. Imports rose throughout 1985 to reach, in the third quarter, the same average value recorded during the second half of last year. Exports declined steadily, and in the third quarter were 7 percent below the average value of late last year.

The volume of nonoil imports increased in the third quarter in line with a pick-up in economic activity. Much of the strength in imports was in consumer goods (particularly textiles), capital goods, and in automotive products. The increase in capital goods occurred even though imports of business and office machines were well below last

U.S. MERCHANDISE TRADE[1]/

	Year 1984	9 Months 1985	1984 Q3	1984 Q4	1985 Q1	1985 Q2	1985 Q3
Value (Bil. $, SAAR)							
Exports	219.9	215.0	222.6	225.0	221.1	214.5	209.2
Agricultural	38.3	29.1	36.6	38.9	32.7	28.5	26.1
Nonagricultural	181.6	185.9	186.0	186.1	188.5	186.0	183.2
Imports	334.0	328.6	338.5	348.5	315.0	328.8	341.8
Oil	57.5	48.1	57.0	57.8	41.9	52.3	50.2
Nonoil	276.5	280.4	281.5	290.7	273.1	276.6	291.6
Trade Balance	-114.1	-113.6	-115.9	-123.5	-93.8	-114.3	-132.6
Volume (Bil 72$, SAAR)							
Exports							
Agricultural	16.3	13.5	15.6	17.4	15.0	13.1	12.5
Nonagricultural	63.2	63.5	64.6	64.4	64.2	63.3	62.9
Imports							
Oil	5.3	4.7	5.3	5.4	4.0	5.0	5.0
Nonoil	106.3	110.1	107.5	111.1	107.0	109.0	114.4

1/ International transactions basis. All data were revised December 11, 1985.

year's value. The volume of industrial supplies changed very little; the value of steel imports in the third quarter increased slightly from first and second quarter averages but was still 10 percent less than in 1985-Q4.

Nonoil import prices turned up fractionally, on average, in the third quarter following three quarters of declines. The increase in import prices was in the manufactured goods categories showing the greatest strength in imports -- consumer goods, capital goods, and automotive products. Prices of imported fuel and industrial supplies continued to decline.

Oil in the third quarter was imported at about the same rate as in the second quarter. The decline in value resulted from a drop in the price of oil imports by nearly $1.25 per barrel.

OIL IMPORTS[1]

	Year 1984	9 months 1985	1984 Q3	1984 Q4	1985 Q1	1985 Q2	1985 Q3
Volume (mbd, SA)	5.62	4.99	5.66	5.62	4.34	5.30	5.34
Price ($/BBL)	27.95	26.42	27.91	27.59	26.43	27.01	25.78
Value (Bil. $, SAAR)	57.52	48.12	56.96	57.81	41.91	52.25	50.21

1/ International transactions basis. All data were revised December 11, 1985.

Exports in the third quarter declined for the third quarter in a row. While the decrease in agricultural exports from the second to the third quarter was relatively moderate, the value of agricultural exports has dropped about 30 percent since the fourth quarter of 1984. About one-third of the decline was in price and two-thirds in volume. Ample foreign supplies and the effect of the high exchange value of the dollar on prices have seriously affected the ability of U.S. farmers to market their goods abroad.

The volume of nonagricultural exports has inched down each quarter during the past year as the effect of the strong dollar on prices offset the effect of a moderate rate of economic expansion abroad. Much of the decline in nonagricultural exports was in machinery (particularly computers and other electronic items) and chemicals.

U.S. bank lending to foreigners in the third quarter. Claims on foreigners of U.S.-chartered banks rose a slight $1.3 billion in the third quarter. However, after adjustment for the effect of a 9 percent decline in the weighted average value of the dollar against other G-10 currencies on the value of nondollar claims ($105 billion in June), it appears that claims fell about $10 billion. In nominal terms, in the first three quarters of 1985 claims were reduced by $5.3 billion; on an exchange-rate-adjusted basis, the drop appears to be on the order of $20 billion. The decrease in dollar exchange rates has principally raised the dollar value of claims on the G-10, smaller developed, and East European countries.

Claims on non-OPEC developing countries were virtually unchanged, on an unadjusted basis, in the third quarter. In this group, claims on Latin America as a whole declined slightly as decreases in claims on several countries, notably Brazil and Mexico, exceeded an increase of $0.7 billion in claims on Argentina that reflected the effect of the U.S. banks' share of Argentina's September drawing of $2.2 billion on the $4.2 billion of new money loans (from U.S. and non-U.S. banks) signed in the third quarter. Claims on non-OPEC developing countries in Asia and Africa rose slightly because of an increase of $0.8 billion in claims on China, which stepped up its foreign borrowing again this year. For the first three quarters of 1985, claims on all non-OPEC developing countries fell $1.8 billion, of which $1.5 billion was in claims on Latin America.

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

	Changes (no sign=increase)				
	1984	1985			Outstanding
	Year	Q-1	Q-2	Q-3	9/30/85
Total, all countries	-28.1	1.8	-8.4	1.3	403.9
Non-OPEC developing countries	1.3	-1.1	-0.8	0.1	111.1
(Latin America)	2.1	-0.6	-0.3	-0.6	75.5
(Asia and Africa)	-0.8	-0.5	-0.5	0.7	35.6
OPEC countries	-3.1	-0.4	-1.6	0.3	24.1
Eastern Europe	-0.9	-0.1	0	0.3	4.6
Smaller developed countries	-2.2	-0.9	-0.5	-0.2	32.3
G-10 countries	-20.0	4.8	-6.0	6.4	153.2
Offshore banking centers	-3.5	-0.4	0.2	-5.6	61.2
Miscellaneous	0.3	-0.2	0.3	0.4	17.8

Among other country groups, a long series of declines in claims on OPEC countries was followed by a small rise in the third quarter, while claims on Eastern Europe rose slightly for the first time in several years in reflection of net new lending to Yugoslavia. Claims on the smaller developed countries, which have been dropping since mid-1984, fell again in the third quarter as claims on South Africa were reduced a further $0.6 billion. This brought claims on South Africa to $3.3 billion outstanding in September, compared with a peak of $5 billion a year earlier. An increase in claims on G-10 countries was largely offset by a fall in claims on offshore banking centers.