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Confidential (FR) Class III FOMC

March 17, 1993

RECENT DEVELOPMENTS

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

CONTENTS

II DOMESTIC NONFINANCIAL DEVELOPMENTS

III DOMESTIC FINANCIAL DEVELOPMENTS

Tables

Charts

IV INTERNATIONAL DEVELOPMENTS

Tables

Charts

DOMESTIC NONFINANCIAL DEVELOPMENTS

Available data suggest that the economy has expanded significantly further in the current quarter, but less rapidly than in the final quarter of 1992. Nonfarm payroll employment rose sharply in February after a modest gain in January, and the unemployment rate has moved down further. Industrial production has continued to advance at a fairly brisk pace. However, consumer spending and homebuilding have been less robust of late than they were in the latter part of last year. Meanwhile, recent inflation indicators have been less favorable than those of late 1992.

Labor Markets

Nonfarm payroll employment rose 365,000 in February, the largest monthly rise in four years, and the civilian unemployment rate edged down further to 7.0 percent. To some extent, the February gain reflects a reversal of special factors that, in prior months, had depressed job growth, especially in construction, services, and retail trade.[1] Since the February survey week, initial claims for unemployment insurance (adjusted for the emergency unemployment program) have averaged around 380,000, a level consistent with further modest employment growth. The most recent Employment Outlook Survey conducted by Manpower, Inc., is more optimistic. It shows hiring plans for the second quarter strengthening sharply. This is the most positive reading since the first half of 1990.

1. Adverse weather, especially in the West, held down construction employment in December and January. The February gain in services followed an unusual decline in January. In the retail sector, less-than-usual seasonal hiring at general merchandisers in November and December may have resulted in larger gains on a seasonally adjusted basis in January and February.

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

	1991	1992	1992 Q3	1992 Q4	1992 Dec.	1993 Jan.	1993 Feb.
	---------- Average monthly changes ----------						
Nonfarm payroll employment[2]	-79	50	25	85	106	44	365
Private	-91	30	-13	73	106	84	364
Manufacturing	-36	-22	-45	-13	-6	29	10
Durable	-33	-19	-33	-11	-9	25	3
Defense-related[3]	- 8	-12	-13	-13	-10	-18	-8
Nondurable	-3	-3	-11	-2	3	4	7
Construction	-26	-1	-9	3	-8	-24	96
Retail trade	-35	4	-11	13	46	59	131
Finance, insurance, real estate	-3	1	-1	3	8	7	-4
Services	30	58	70	63	65	-23	131
Health services	29	20	20	25	19	11	27
Business services	3	27	10	45	31	-20	46
Total government	12	20	37	12	0	-40	1
Private nonfarm production workers	-76	47	-16	98	139	139	307
Manufacturing production workers	-23	-10	-36	5	10	52	2
Total employment[4]	-62	130	71	196	247	-240	380
Nonagricultural	-53	122	79	182	194	-170	456
Memo:							
Aggregate hours of private production workers (percent change)	-.1	0	-.1	.2	-.7	.5	.5
Average workweek (hours)	34.3	34.4	34.4	34.5	34.3	34.5	34.
Manufacturing (hours)	40.7	41.1	41.0	41.2	41.2	41.4	41.

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Industries that are dependent on defense expenditures for at least 50 percent of their output.
4. Survey of households.

UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; seasonally adjusted)

	1991	1992	1992 Q3	1992 Q4	1992 Dec.	1993 Jan.	1993 Feb.
Civilian unemployment rate (16 years and older)	6.7	7.4	7.5	7.3	7.3	7.1	7.0
Teenagers	18.7	20.0	20.3	19.4	19.2	19.7	19.6
20-24 years old	10.8	11.3	11.5	11.1	11.3	11.1	11.2
Men, 25 years and older	5.7	6.4	6.5	6.3	6.2	5.8	5.9
Women, 25 years and older	5.1	5.7	5.8	5.8	5.8	5.8	5.3
Labor force participation rate	66.0	66.3	66.4	66.2	66.3	66.0	66.0
Teenagers	51.7	51.3	51.6	51.2	51.6	51.0	52.1
20-24 years old	76.8	77.1	77.4	77.0	77.5	77.3	77.4
Men, 25 years and older	76.7	76.7	76.7	76.4	76.3	76.1	76.2
Women, 25 years and older	56.5	57.0	57.1	57.1	57.1	56.8	56.8

In the household survey, too, employment was up sharply in February. The 380,000 gain more than offset a 240,000 drop in the preceding month, and the level of household employment at last regained its pre-recession peak. Further, the number of unemployed fell another 137,000 in February. The number of persons working part-time for economic reasons was up nearly as much as household employment, but this measure is quite volatile from month to month. Since last June, involuntary part-time employment has been about flat, while total household-survey employment has increased nearly 1 million.

The recent pickup in employment contrasts with the continuing announcements of layoffs by major corporations. However, these phenomena may be reconciled by reference to the oft-noted importance of small businesses in job creation, although the contribution is difficult to pin down precisely. The SBA publishes data that estimates employment growth in industries dominated by small firms--defined as industries in which at least 60 percent of employment is in firms having fewer than 500 employees. According to these data,

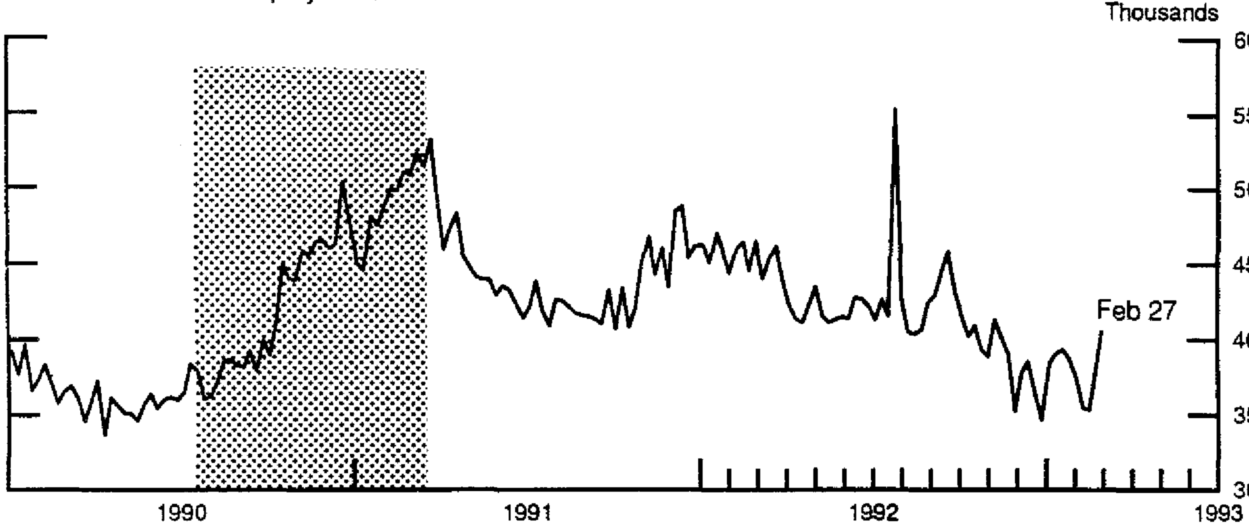
PRIVATE NONFARM EMPLOYMENT IN SMALL-BUSINESS-DOMINATED, LARGE-BUSINESS-DOMINATED, AND INDETERMINATE INDUSTRIES[1]
(December-to-December change, percent)

Year	Small-business-dominated industries	Large-business-dominated industries	Indeterminate industries	Total
1990	1.1	-.6	-2.2	.3
1991	-.5	-1.4	-1.7	-.9
1992[2]	.5	-.7	-.3	-.1

1. Source: Small Business Administration. Small- (large-) business-dominated industries are those in which at least 60 percent of employment is in firms with fewer (more) than 500 employees. Indeterminate industries are the remainder. About 0.5 percent of employment could not be allocated to one of these categories.
2. Change from December to September, not at an annual rate.

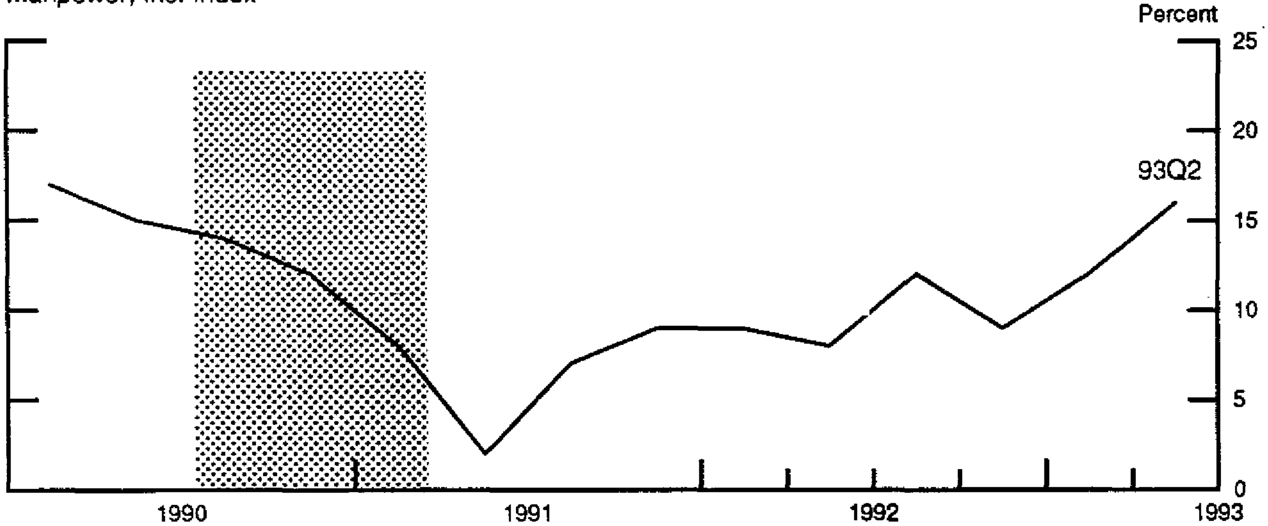
LABOR MARKET INDICATORS

Initial Claims for Unemployment Insurance *



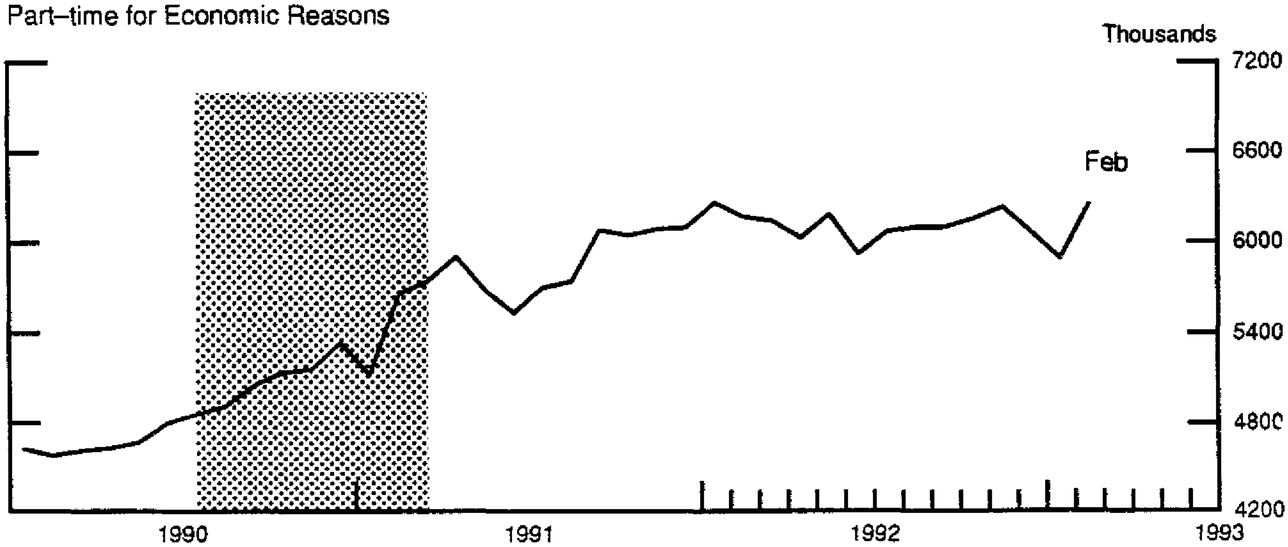
* Adjusted for EUC program.

Manpower, Inc. Index *



* Proportion of firms planning to increase employment minus proportion planning to reduce employment.

Part–time for Economic Reasons



industries dominated by small businesses have outperformed other industries during both the recession and the recovery.[2] Unfortunately, the SBA data do not extend past September of 1992; at that point, however, the industries dominated by small business had boosted their employment by 1/2 percentage point in 1992, while the industries in which large firms are more prominent had continued to contract.

According to revised figures, productivity in the nonfarm business sector soared in the fourth quarter, rising 4.8 percent at an annual rate. The gain reflected a 5.7 percent increase in output and a 0.9 percent gain in hours. The increase in hours, although still far from robust, was the strongest quarterly reading since the early-1991 trough. Over the four quarters of 1992, total hours worked were unchanged, while productivity increased 3.2 percent. Relative to prior trends, productivity growth last year appears to have been particularly impressive outside of manufacturing, perhaps the best in many years.

PRODUCTIVITY IN THE NONFARM BUSINESS SECTOR
(Percent change, annual rate)

	1990	1991	1992	1992 Q1	1992 Q2	1992 Q3	1992 Q4
	-------	Q4/Q4	------				
Output	-.9	-.6	3.3	2.3	1.7	3.5	5.7
Hours	-1.0	-1.9	.0	-1.3	.1	.6	.9
Output per hour	.1	1.3	3.2	3.7	1.7	2.9	4.8

Little new information on labor costs has become available since the last Greenbook. Average hourly earnings of production or nonsupervisory workers increased 0.2 percent in February after a 0.4 percent rise in January. Over the past twelve months, average

2. A bit more then 50 percent of nonfarm payroll employment is in industries dominated by firms of fewer then 500 employees.

GROWTH IN SELECTED COMPONENTS OF INDUSTRIAL PRODUCTION
(Percent change from preceding comparable period)

	Proportion in total IP 1992:4	1992[1]	1992 Q3	1992 Q4	1992 Dec.	1993 Jan.	1993 Feb.
			-Annual rate-		----Monthly rate-----		
Total index	100.0	2.2	2.3	4.4	.4	.5	.4
Previous	99.9	2.1	2.3	3.9	.2	.4	
Manufacturing	85.1	2.4	2.1	4.2	.3	.8	.3
Motor vehicles and parts	4.4	6.9	-9.3	24.6	4.9	4.6	-1.2
Other	80.7	2.2	2.7	3.2	.1	.6	.4
Mining	7.1	-.7	1.3	-1.1	-.8	-.3	-2.1
Utilities	7.8	2.8	7.7	11.5	1.7	-1.8	3.7
EXCLUDING MOTOR VEHICLES AND PARTS AND UTILITIES							
Total index	87.8	1.9	2.4	2.9	.0	.4	.2
Products, total	54.7	1.9	2.1	4.3	.2	.2	.3
Final products	42.0	2.0	2.5	4.4	.2	.2	.3
Consumer goods	22.7	2.5	2.7	4.7	.1	.2	.6
Durables	3.7	1.3	.9	-7.3	.4	.5	2.1
Nondurables	19.0	2.8	3.1	7.2	.0	.1	.3
Business equipment	14.9	4.4	5.8	6.1	.5	.8	.5
Office and computing	3.3	20.7	26.7	21.2	3.0	2.8	2.0
Industrial	3.8	-1.7	-.3	.4	-.3	.4	.3
Other	7.7	1.4	1.4	3.2	-.2	-.1	.0
Defense and space equipment	3.9	-10.0	-10.6	-9.5	-.7	-1.1	-.9
Intermediate products	12.6	1.7	.7	3.8	.3	.2	.2
Construction supplies	5.4	3.2	3.7	1.6	-.8	.3	.7
Materials	33.2	1.8	3.1	.7	-.3	.9	.1
Durables	18.4	3.0	3.7	3.9	.0	1.4	.4
Nondurables	9.0	1.8	3.7	-2.7	-.6	.5	.5
Energy	5.9	-1.0	.4	-.9	-.8	-1.5	-1.6

1. From the final quarter of the previous period to the final quarter of the period indicated.

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1967-92 Avg.	1992 Avg.	1992 Q3	1992 Q4	1992 Dec.	1993 Jan.	1993 Feb.
Total industry	82.0	78.8	78.8	79.3	79.5	79.7	79.9
Manufacturing	81.3	77.8	77.8	78.2	78.4	78.8	78.9
Primary processing	82.3	81.5	81.9	82.2	82.2	82.8	83.0
Advanced processing	80.8	76.3	76.2	76.6	76.8	77.2	77.2

hourly earnings have increased 2.5 percent, about 1/2 percentage point less than in the preceding twelve-month period.

AVERAGE HOURLY EARNINGS
(Percent change; based on seasonally adjusted data)

	12 months ending in February			1992	1993	
	1991	1992	1993	Dec.	Jan.	Feb.
				--Monthly rate--		
Total private nonfarm	3.1	3.0	2.5	-.2	.4	.2
Manufacturing	3.3	2.8	2.6	.3	.2	.4
Services	4.1	4.1	2.7	-.2	.6	.2
Finance, insurance, real estate	4.3	5.2	3.8	-.8	.9	.3

Industrial Production

Industrial production rose 0.5 percent in January and 0.4 percent in February, making it likely that growth in the industrial sector during the first quarter will outpace the 4.4 percent annual rate of increase posted for the final quarter of 1992. In manufacturing, increases have been fairly widespread this year. Changes in mining and utilities output in January and February were mixed and about offsetting, on balance.

Motor vehicle assemblies fell to 11.1 million units (annual rate) in February, from the relatively high January level of 11.6 million units. Truck production, after reaching near-record levels in January, declined to 4.9 million units in February. The rate of increase in light truck sales slowed in February, leaving the days' supply of light trucks little changed. Auto assemblies, at 6.3 million units, were about unchanged in February but days' supply moved up noticeably. Manufacturers' announced plans call for car assemblies to increase slightly in March, but a substantial underbuild from the scheduled rate seems likely. Despite the drop in motor vehicle assemblies in February, production of automotive parts and related equipment and materials increased in that month;

gains in these areas contributed substantially to industrial production growth in February.

PRODUCTION OF DOMESTIC AUTOS AND TRUCKS
(Millions of units at an annual rate: FRB seasonal basis)[1]

	1992		1993			
	Nov.	Dec.	Jan.	Feb.	Mar.	Q2
					---scheduled---	
U.S. production	10.0	10.8	11.6	11.1	11.1	10.9
Autos	5.6	6.1	6.4	6.2	6.4	6.3
Trucks	4.5	4.8	5.2	4.9	4.8	4.6
Days' supply[2]						
Autos	66.3	65.1	68.3	80.3	n.a.	n.a.
Light Trucks	66.9	73.4	73.2	75.8	n.a.	n.a.

1. Components may not sum to totals because of rounding.
2. BEA seasonal basis, end of month.

Outside of motor vehicles, manufacturing output rose, on average, 1/2 percent in January and February, boosted by sharp gains in consumer durables and computers, as well as by increases in a number of other categories, including non-energy materials and construction supplies. Production of non-energy materials had substantially lagged the growth in output of final products in the fourth quarter of 1992, but it seems to have made up ground in the first quarter. Surveys suggest that new orders continued to increase through February, and the lean factory inventories early in the year--together with reports of lengthening delivery times--also point to further gains in production in coming months.

Output in the mining and utilities sectors has been volatile in recent months. Unusually cold weather in February, which followed unusually warm weather in January, caused utility output to surge nearly 4 percent; that gain contributed 0.3 percentage point to the overall February rise in industrial production. Partially offsetting this increase was a sharp decline in mining, reflecting a coal miners' strike and reductions in drilling activity.

NEW ORDERS FOR DURABLE GOODS
(Percent change from preceding period; seasonally adjusted)

	Share 1992: H2	1992 Q3	1992 Q4	1992 Nov.	1992 Dec.	1993 Jan.
Total durable goods	100	-1.7	6.9	-1.6	9.7	-2.2
Adjusted durable goods[1]	66	1.3	3.2	.4	5.1	-.3
Office and computing	5	2.0	1.9	9.5	3.1	3.7
Nondefense capital goods[2]	16	2.6	5.0	-2.1	8.8	-2.4
Other	45	.8	2.7	.4	4.0	.0
Memo:						
Real adjusted durable goods		2.0	3.3	1.0	4.7	-.2

1. Orders excluding defense capital goods, nondefense aircraft, motor vehicle parts, and those not reporting unfilled orders.
2. Excludes aircraft and computers.

Personal Income and Consumption

Consumer spending appears to be advancing at a solid pace in the early part of 1993, although not so rapidly as at the end of last year. Retail sales of items other than autos were strong in February after a weak January, but auto sales fell in February and consumer confidence has retreated somewhat from the high levels registered toward the end of last year.

Total nominal retail sales increased 0.3 percent in February after no change in January. The acceleration in the retail control category, which excludes auto sales and sales at building material and supply stores, was larger, as sales rose 0.8 percent in February after staying flat in January. The January-February average of nominal sales in the retail control category was up 1.1 percent from the fourth-quarter average, not at an annual rate.

Real disposable personal income was unchanged in January, after rising an average of 0.5 percent per month during the fourth quarter of 1992. Although a number of special factors affected January

RETAIL SALES
(Seasonally adjusted percentage change)

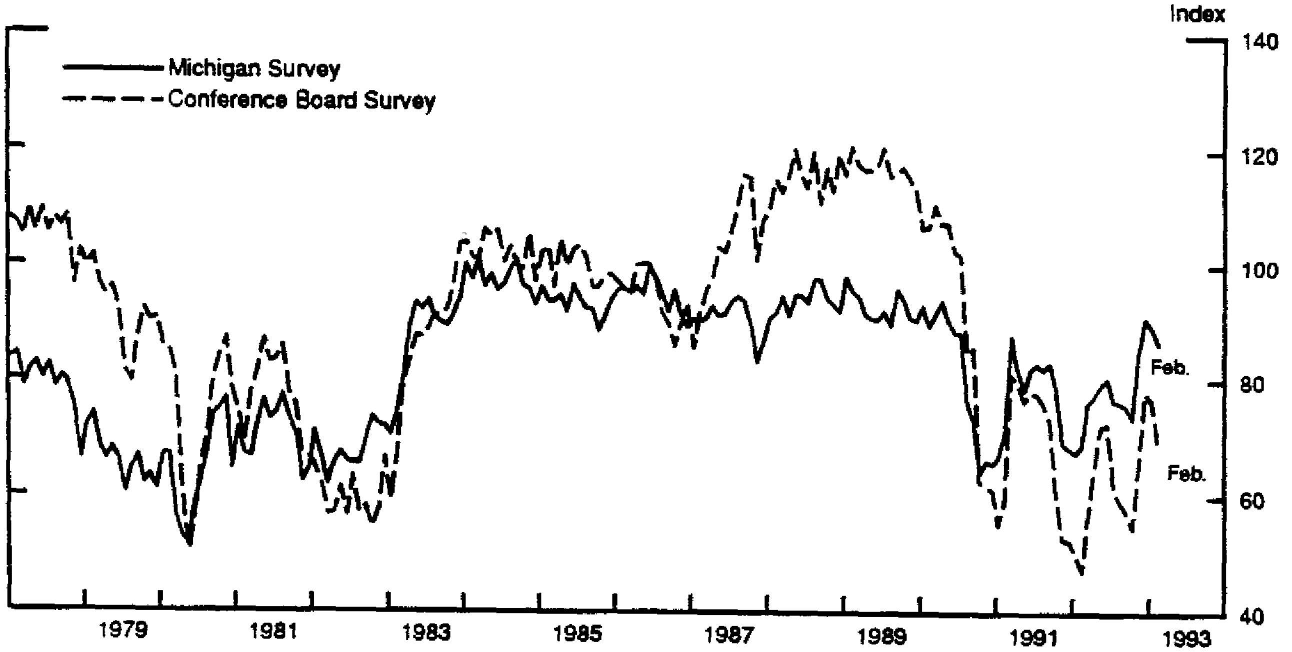
	1992			1992	1993	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
Total sales	.5	1.6	3.0	1.1	.0	.3
Previous estimate			2.9	.8	.3	
Retail control[1]	.5	1.7	2.1	.9	.0	.8
Previous estimate			2.0	.7	.1	
Total excl. automotive group	.6	1.5	2.2	1.1	-.1	.9
Previous estimate			2.1	.9	.1	
GAF[2]	.0	3.4	2.4	.9	1.0	-.3
Previous estimate			2.3	.8	1.1	
Durable goods stores	.7	1.9	4.5	2.1	.5	-.5
Previous estimate			4.2	1.2	1.1	
Bldg. material and supply	.6	-.7	3.7	5.1	-1.5	3.3
Automotive dealers	.2	1.7	6.1	1.0	.4	-2.2
Furniture and appliances	-.3	3.2	3.8	4.4	-.1	-.5
Other durable goods	3.9	4.6	-.6	1.0	4.0	2.2
Nondurable goods stores	.4	1.4	2.1	.6	-.3	.7
Previous estimate			2.2	.6	-.1	
Apparel	1.7	3.7	2.6	.5	-.3	-1.7
Food	.6	.8	1.2	1.1	-.1	1.3
General merchandise[3]	-.5	3.4	1.7	-.3	2.0	.3
Gasoline stations	2.1	.4	-.5	-.2	1.1	1.6
Other nondurables[4]	-.2	.4	4.1	.9	-2.2	.8

1. Total retail sales less building material and supply stores and automotive dealers, except auto and home supply stores.
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.
4. Includes sales at eating and drinking places, drug and proprietary stores.

PERSONAL INCOME
(Average monthly change at an annual rate; billions of dollars)

	1992	1992 Q2	1992 Q3	1992 Q4	1992 Dec.	Jan.
Total personal income	20.7	9.6	14.1	37.3	48.9	24.5
Wages and salaries	10.6	3.6	7.5	20.2	21.1	19.1
Private	8.7	.9	7.5	18.0	18.7	7.7
Other labor income	1.4	1.4	1.4	1.4	1.4	1.5
Proprietors' income	4.2	-4.2	5.3	8.5	15.1	-6.6
Farm	.5	-5.9	2.6	3.5	10.2	-10.1
Rent	1.4	3.7	-.6	2.8	.7	1.2
Dividend	1.2	1.2	1.5	2.0	2.9	1.4
Interest	-3.7	-.8	-5.5	.0	.1	-.1
Transfer payments	6.7	5.3	5.3	3.9	9.0	12.0
Less: Personal contributions for social insurance	1.1	.6	.7	1.4	1.5	3.9
Less: Personal tax and nontax payments	2.0	3.3	4.4	5.3	4.9	10.6
Equals: Disposable personal income	18.7	6.3	9.7	32.0	44.0	13.8
Memo: Real disposable income	7.3	-1.9	1.9	19.5	36.6	-1.2

CONSUMER SENTIMENT



SALES OF AUTOMOBILES AND LIGHT TRUCK[1]
(Millions of units at an annual rate; BEA seasonals)

			1992			1993		
	1991	1992	Q2	Q3	Q4	Jan.	Feb.	Mar. 1-10
Total	12.30	12.85	12.99	12.59	13.24	13.42	12.85	
Autos	8.39	8.38	8.50	8.21	8.38	8.64	7.95	
Light trucks	3.91	4.46	4.49	4.38	4.86	4.79	4.89	
North American[2]	9.73	10.51	10.57	10.41	11.02	11.21	10.61	10.38
Autos	6.14	6.28	6.32	6.24	6.38	6.65	5.96	5.97
Big Three	4.99	5.10	5.17	4.94	5.18	5.56	4.96	5.04
Transplants	1.14	1.18	1.15	1.30	1.20	1.09	1.00	.93
Light trucks	3.59	4.23	4.25	4.17	4.64	4.56	4.65	4.41
Foreign produced	2.57	2.34	2.43	2.18	2.22	2.21	2.24	
Autos	2.25	2.11	2.18	1.97	2.01	1.99	1.99	
Light trucks	.32	.23	.24	.20	.21	.22	.24	
Memo:								
Domestic nameplate								
Market share, total	.70	.72	.72	.71	.73	.75	.74	
Autos	.63	.63	.63	.63	.64	.67	.65	

Note: Data on sales of trucks and imported autos for the current month are preliminary and subject to revision.

1. Components may not add to totals because of rounding.

2. Excludes some vehicles produced in Canada and Mexico that are classified as imports by the industry.

income growth, they were roughly offsetting in total.[3] Personal income growth should pick up in February, as labor market data suggest that private wages and salaries grew substantially in that month.

Sales of new cars and light trucks fell to a 12.8 million unit annual rate in February from a 13.4 million unit annual rate in January. The February decline in sales was concentrated in domestically produced cars. Sales of domestically produced light trucks rose a bit further last month, to a 4.7 million unit annual rate. Light vehicles sales averaged a bit higher during the first twenty days of February than in January but then plunged during the last reporting period, when several regions were affected by severe winter weather. In the first ten days of March, sales rebounded but remained below the average for February.

Consumer sentiment registered a moderate decline in February as measured by both the Michigan and Conference Board surveys. The Michigan index had risen 15 points between the third quarter of 1992 and December; it now stands 5 points below that December peak. Among the components of the index, respondents' assessments of their current financial situation and of business conditions over the next year both worsened notably in February. Some analysts have attributed the drop in sentiment in February to reaction to President Clinton's economic policy speeches on February 15 and 17.[4] However, it is interesting to note that, while people

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3. During December, an increase in farm subsidies, bonus payments in the motor vehicle industry, and retroactive social security benefit payments all pushed up personal income growth; these factors then depressed January growth by an equivalent amount. Higher final tax payments associated with last year's change in withholding payments also lowered January growth, while cost-of-living adjustments in federal transfer payments and pay increases for Federal workers boosted January growth.

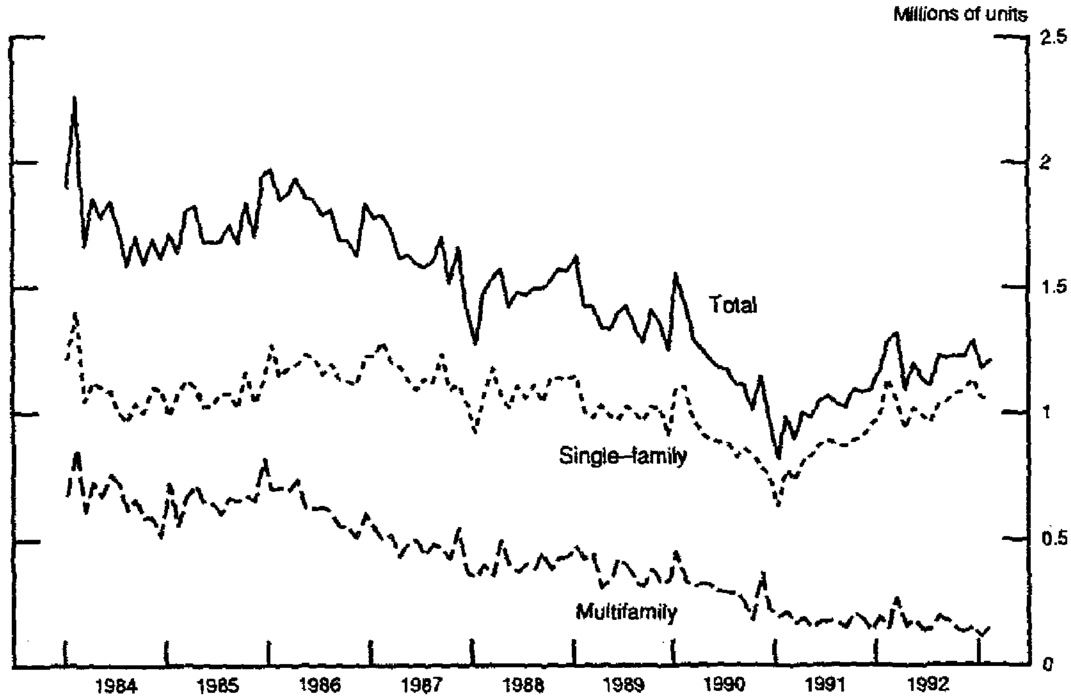
4. The timing of the drop within the month lends some weight to this argument, as comparison of the preliminary and final readings for February indicates that consumers were more confident in the (Footnote continues on next page)

PRIVATE HOUSING ACTIVITY
(Millions of units; seasonally adjusted annual rates)

	1992 Annual r	1992 Q2 r	1992 Q3 r	1992 Q4 r	1992 Dec. r	1993 Jan. r	1993 Feb. p
All units							
Starts	1.20	1.14	1.18	1.25	1.29	1.18	1.21
Permits	1.11	1.05	1.09	1.16	1.20	1.18	1.14
Single-family units							
Starts	1.03	.98	1.02	1.10	1.13	1.06	1.05
Permits	.92	.88	.89	.99	1.04	1.00	.96
Sales							
New homes	.61	.56	.64	.64	.65	.56	n.a.
Existing homes	3.52	3.42	3.37	3.87	4.04	3.78	n.a.
Multifamily units							
Starts	.17	.16	.17	.15	.15	.12	.16
Permits	.19	.17	.20	.17	.16	.18	.19

p Preliminary. r Revised estimates. n.a. Not available.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



may have viewed the medicine he prescribed as a little bitter, responses to a separate question on confidence in government policy improved in February.

Housing Markets

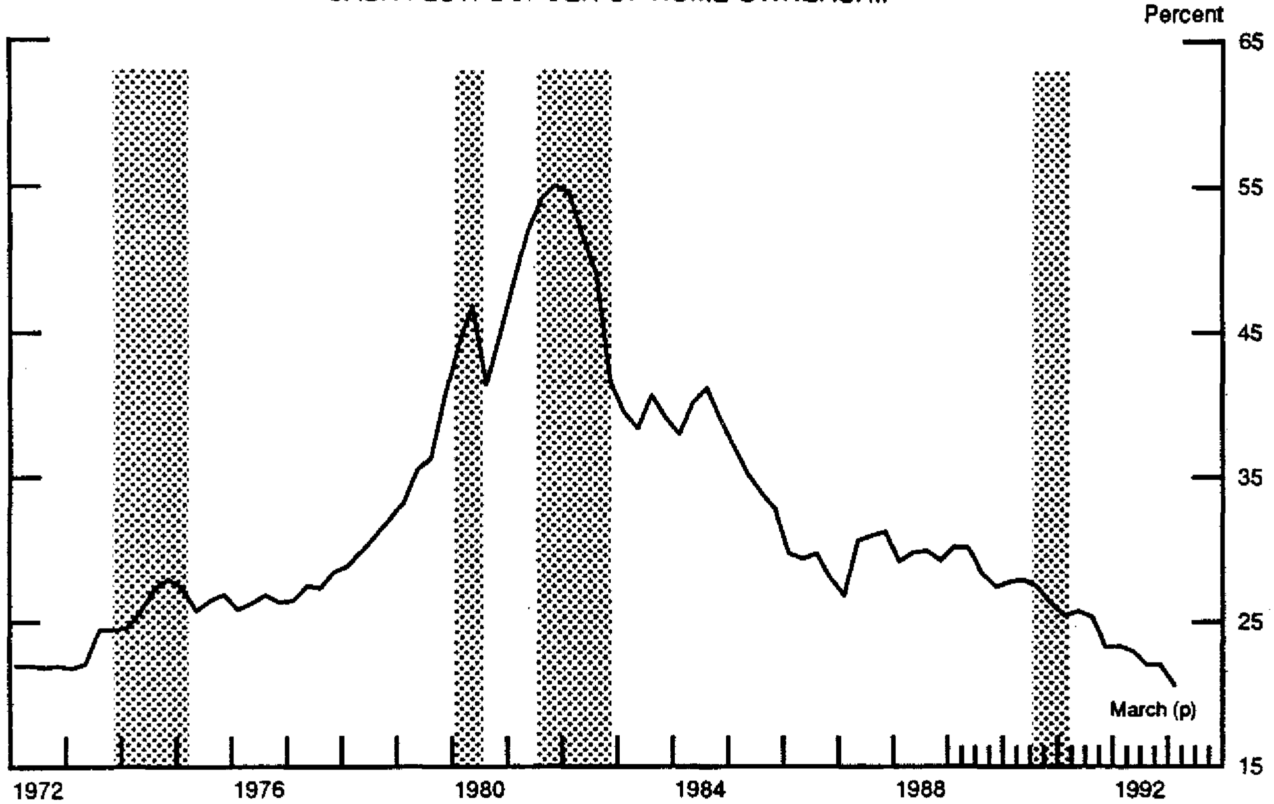
Housing activity have been surprisingly soft in the early part of 1993. Housing starts fell sharply in January and retraced only part of that decline in February; the average for the two months was about 4-1/4 percent below the average for the fourth quarter. Permit issuance also has declined. The slowing in activity has been concentrated in the single-family segment of the market. Multifamily starts are still bumping along the bottom, although they did move up in February from a historically low January reading.

Other indicators of single-family housing demand also turned down in January, from high December levels. Sales of new homes fell particularly sharply. Unlike last year, when problems in imputing some sales led repeatedly to sharp upward revisions of the preliminary estimates, new procedures at the Census Bureau make it unlikely that the January sales figure will be substantially revised. Sales of existing homes also fell in January, but nonetheless remained near the thirteen-year peak recorded in December. Sales prices for both new and existing homes were soft relative to a year earlier. At least part of the softness in prices may have been the result of a shift in the composition of sales toward starter homes: Recovery in the trade-up market has lagged that for first-time buyers, as many current owners apparently remain reluctant to sell for what they perceive as temporarily low prices.

(Footnote continued from previous page)

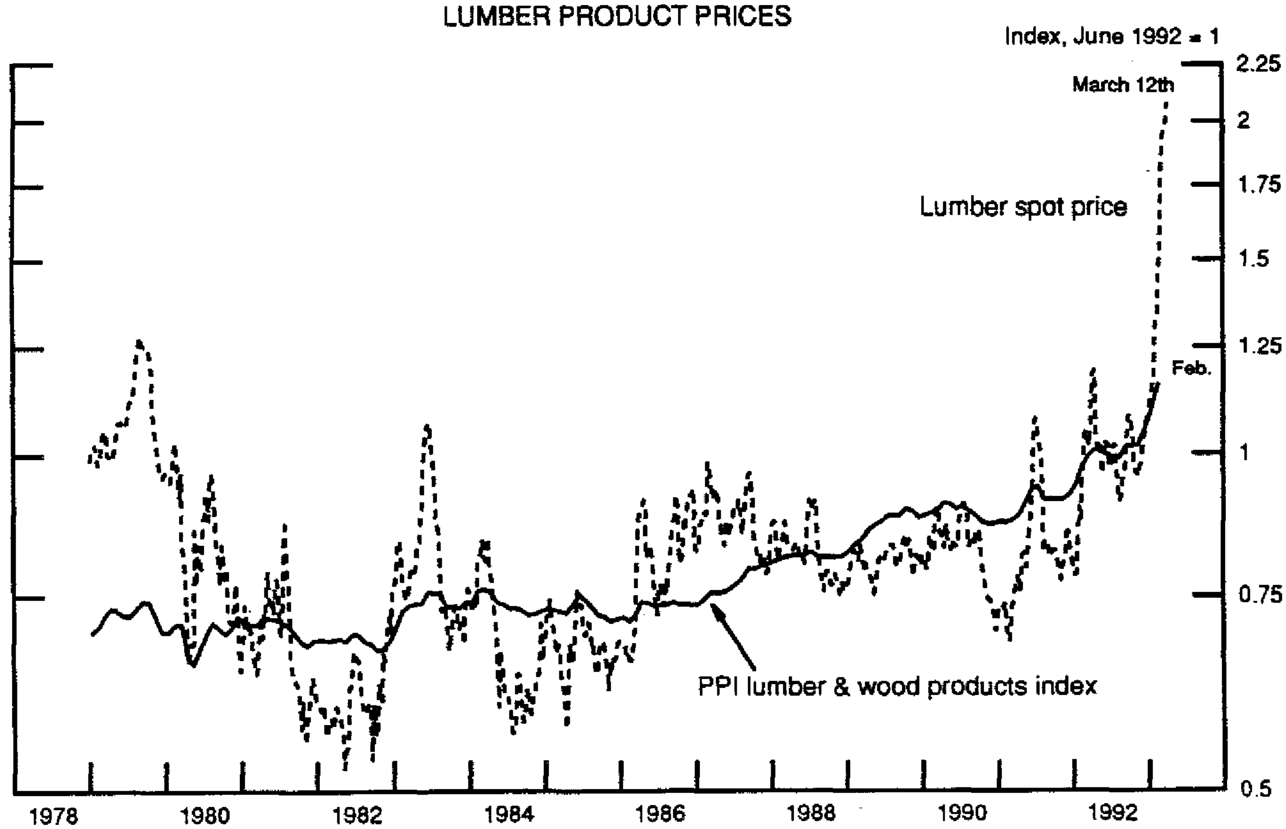
first half of the month than in the second half. However, the Survey Research Center at the University of Michigan cautions that too few interviews are conducted in the second half of the month for the intra-month readings to be a reliable gauge of changes in sentiment.

CASH FLOW BURDEN OF HOME OWNERSHIP*



* Financing cost of a constant-quality new home, as a percentage of average household income. Financing cost calculated as scheduled payment of principal and interest on a fixed-rate mortgage for 80% of the purchase price.

LUMBER PRODUCT PRICES



The softness in the recent indicators is at odds with the continued improvement that has been apparent in key determinants of housing activity. In particular, the continued downtrend in mortgage interest rates has brought rates down to the lowest levels in decades, and the standard measures of affordability indicate that the cost of homeownership has moved down further in 1993, after substantial improvement in 1991 and 1992 (chart). The recent pickup in employment should also be a plus for housing markets.

Nonetheless, some negatives are evident on the supply side of the market and may be exerting drag on activity. Lumber prices have moved up dramatically in recent months, with quotes in some spot markets up more than 90 percent since September. If passed through to homebuyers, a cost increase of this size would boost the price of a typical new home roughly 4 percent and offset about half the gain in cash flow affordability resulting from declines in mortgage rates since last fall. However, the volume of lumber sales that has actually occurred at these spot prices is unclear, as an index of producer prices of variety of lumber products used in homebuilding has risen by a much smaller amount--14 percent--since September. Indeed, the absence of any firming in house prices suggests the rise in lumber prices probably does not explain much of the recent softness in activity. It is possible, however, that higher lumber prices are making speculative builders more cautious, and custom builders may be facing resistance from buyers unwilling to absorb the higher costs of lumber prices. Builders have also reported some shortages of lots ready for construction, but again, in the absence of home price increases, these shortages probably have not been, at least yet, of major importance. Weather in January and February does not appear to have been unusually adverse for housing; March

BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period; based on seasonally adjusted data, in current dollars)

	1992			1992	1993	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
Producers' durable equipment						
Shipments of nondefense capital goods	1.4	.8	3.8	4.4	-3.4	n.a.
Excluding aircraft and parts	2.6	3.0	2.8	5.4	-2.1	n.a.
Office and computing	3.8	.2	.8	-.5	5.6	n.a.
All other categories	2.3	3.9	3.4	7.2	-4.3	n.a.
Shipments of complete aircraft[1]	-12.7	-18.1	-11.9	4.5	36.5	n.a.
Sales of heavy weight trucks	5.9	2.0	6.8	-1.3	-.9	6.0
Orders of nondefense capital goods	-.4	-3.6	7.1	19.0	-10.1	n.a.
Excluding aircraft and parts	.5	2.5	4.3	7.5	-1.1	n.a.
Office and computing	4.4	2.0	1.9	3.1	3.7	n.a.
All other categories	-.6	2.6	5.0	8.8	-2.4	n.a.
Nonresidential structures						
Construction put-in-place	.6	-3.7	.8	-.8	-1.5	n.a.
Office	-6.7	-11.2	-2.3	-6.5	-5.0	n.a.
Other commercial	3.8	-2.0	4.9	-4.6	2.5	n.a.
Industrial	-6.0	-8.2	-2.3	-2.3	-4.6	n.a.
Public utilities	2.5	-2.1	1.8	4.8	-.2	n.a.
All other	6.2	.9	.2	-.1	-2.6	n.a.
Rotary drilling rigs in use	-2.5	2.6	14.5	5.6	-1.8	-13.0
Footage drilled[2]	-3.7	3.1	17.9	20.1	-5.6	n.a.
Memo:						
Business fixed investment[3]	16.1	3.1	9.9	n.a.	n.a.	n.a.
Producers' durable equipment[3]	24.1	9.5	14.4	n.a.	n.a.	n.a.
Nonresidential structures[3]	-.8	-11.3	-1.1	n.a.	n.a.	n.a.

1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines." Monthly data are seasonally adjusted using FRB seasonal factors constrained to BEA quarterly seasonal factors. Quarterly data are seasonally adjusted using BEA seasonal factors.
2. From Department of Energy. Not seasonally adjusted.
3. Based on constant-dollar data; percent change, annual rate.
n.a. Not available.

may be a different story, however, owing, especially, to the severe blizzard in mid-March.

Business Fixed Investment

Real business fixed investment, which posted a strong gain in the fourth quarter of last year, appears likely to repeat that performance in the current quarter, led by a jump in outlays for producers durable equipment.

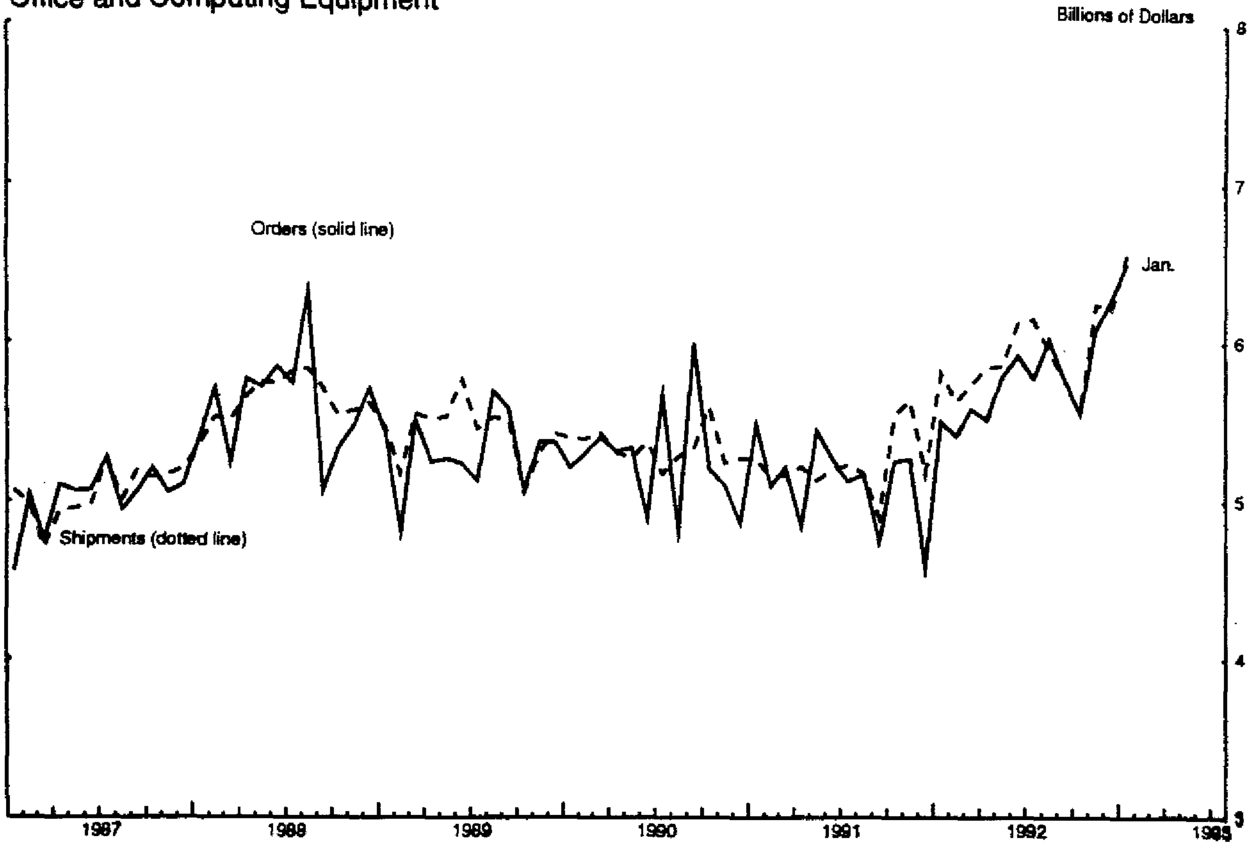
Shipments of computing equipment shot up in January to a level substantially above the fourth-quarter average. As has been the case for the past year or two, demand for computing machines appears to be strongest for products in the middle and at the low end of the market, such as workstations and PCs. Part of this strength reflects upgrades from older machines with 286 processors to new machines with 386 and 486 chips.[5] In the mainframe segment of the market, industry sources indicate that demand for large, high-performance mainframes is doing fairly well; however, demand for other types of mainframes reportedly is still weak, in part because of competition from less-expensive, but increasingly powerful, products such as workstations.

Shipments of complete civilian aircraft also posted a solid gain in January, but the demand seems to be coming from abroad. Domestic shipments appear to be flat or down slightly so far this quarter, and the long-term picture for domestic aircraft purchases remains bleak. American Airlines has indicated that, to bolster its balance sheet, it will take as many as twenty-five planes out of

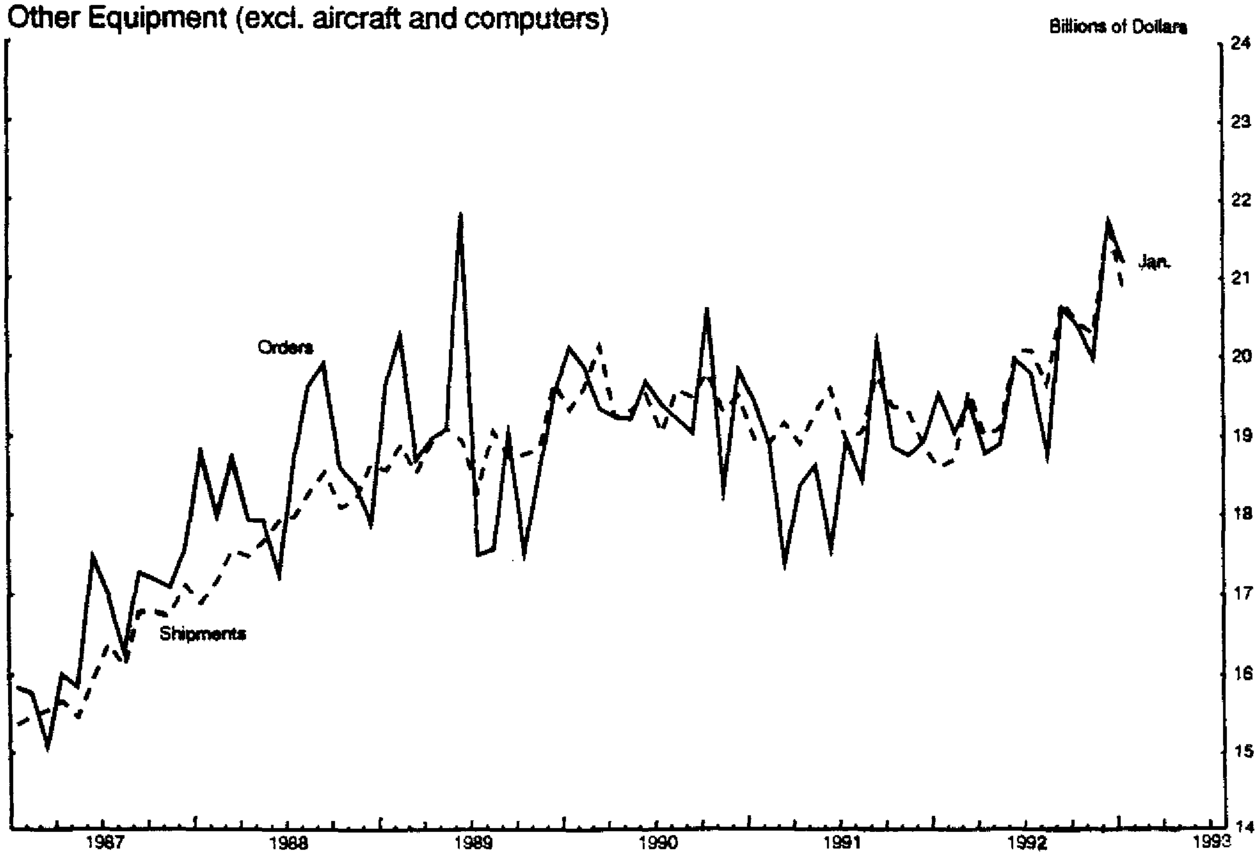
5. Industry analysts expressed some concern late in 1992 that clients would delay purchases in order to upgrade to the Pentium processor, which Intel was to have introduced early in the first quarter of 1993. Intel has since delayed the introduction of the chip, both because of technical problems and because the company is concerned that the Pentium chip would reduce the product life of the current-model 386 and 486 processors. Release of the chip is now scheduled for March 22, 1993, but our contacts report that supplies will be limited. It now appears that very few Pentium-based machines will be sold in 1993.

RECENT DATA ON ORDERS AND SHIPMENTS

Office and Computing Equipment



Other Equipment (excl. aircraft and computers)



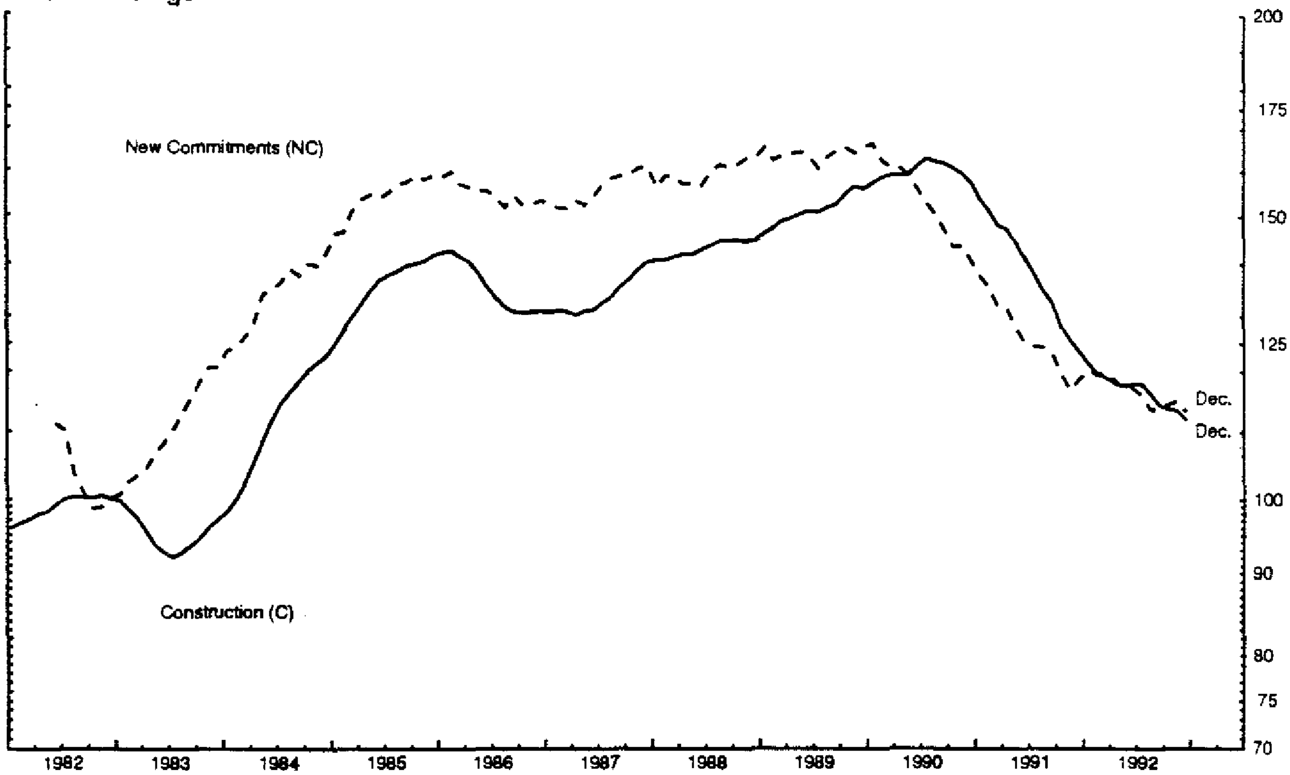
service by eliminating unprofitable routes. As a result, American is expected to defer or cancel some existing orders. More generally, competition in the airline industry remains fierce and continues to put strain on the financial positions of the major carriers. However, not everyone is cutting back. Non-airline firms, such as United Parcel Service and International Leasing Finance Corporation, are in healthier financial condition than the airlines and have stepped up orders for planes to be delivered after 1994. In part, this increase in orders stems from price discounts offered by producers in the face of slack demand overall.

Business purchases of equipment excluding aircraft and computers posted a solid increase in the fourth quarter, after having been on a plateau for the previous couple of years. Manufacturers' shipments surged in December but fell back in January to about the level of the fourth quarter. Nonetheless, the January level of new orders for these goods was 2-1/2 percent above the average last quarter, suggesting further advances in shipments in coming months. Among components, new bookings for communications equipment appear to have cooled off in recent months, but orders for various other types of equipment have picked up noticeably.

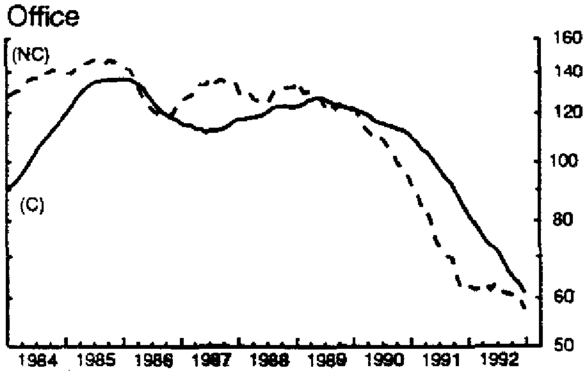
Outlays for structures were down slightly in the fourth quarter, as continued declines in industrial and office construction more than offset a spurt in the drilling sector and a further advance at utilities. Drilling activity was boosted late last year by the expiration of a tax credit at yearend. Since the beginning of this year, drilling rigs in use have declined appreciably. Elsewhere, data on construction put in place through January indicate continued weakness in a number of sectors. Industrial construction, which fell in both 1991 and 1992, dropped further in January of this year. Construction of office buildings, where

NONRESIDENTIAL CONSTRUCTION AND NEW COMMITMENTS *
(Index,Dec. 1982 = 100, ratio scale)

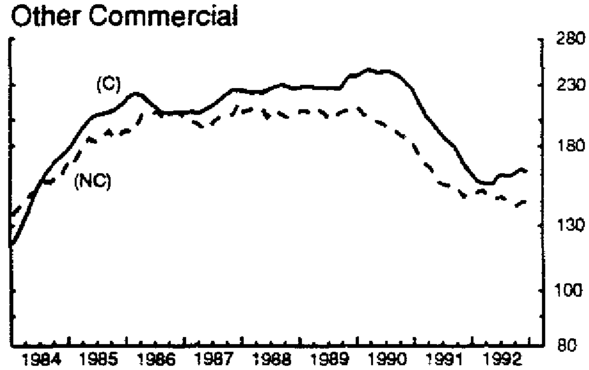
Total Buildings



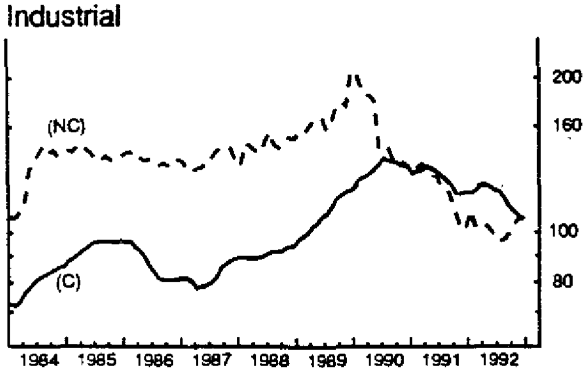
Office



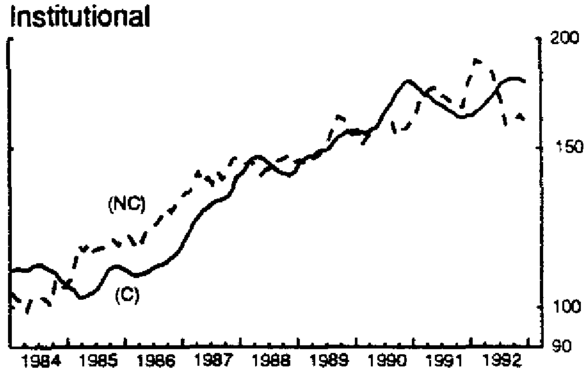
Other Commercial



Industrial



Institutional



* Six-month moving average for all series shown.
New commitments equal the sum of contracts and building permits.

excess supply still appears to be a major problem, also declined further in January. Construction in the other commercial sector, which consists mainly of retail and warehouse properties, advanced early in the fourth quarter but dropped back on net over December and January.

Commercial real estate prices are still declining, but perhaps at a slower pace than before. In the FDIC's latest Survey of Real Estate Trends, the proportion of respondents reporting lower prices continues to exceed those reporting higher prices, but the margin has been shrinking. In addition, the margin of respondents reporting better conditions in the commercial market over those reporting worse conditions widened in the first quarter; possibly, however, respondents are merely saying that conditions are less bad than before. Meanwhile, the Russell-NCREIF index of appraised values of commercial properties continues to exhibit marked weakness: The national average value of office buildings fell 7 percent in the fourth quarter of 1992, while the average value of retail properties dropped 4 percent and that of warehouses dropped roughly 5 percent. Because of its reliance on appraised values, the Russell-NCREIF index may tend to lag a little behind the course of transactions prices.

FDIC SURVEY OF REAL ESTATE TRENDS
(Index)

	1991	1992				1993
	Q4	Q1	Q2	Q3	Q4	Q1
General direction of commercial market[1]	-4	-5	18	7	2	16
Direction of commercial real estate prices[1]	-41	-39	-27	-31	-29	-23

1. Percentage of respondents expecting better conditions less percentage expecting worse conditions.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars at annual rates; based on seasonally adjusted data)

	1992			1992		1993
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Current-cost basis						
Total	22.7	14.3	20.9	16.5	30.3	-3.9
Excluding auto dealers	16.1	16.7	12.0	8.6	3.9	-14.1
Manufacturing	-1.5	6.1	-21.9	-29.3	-28.1	-10.7
Defense aircraft	-4.4	-9.5	-1.7	-9.8	1.3	-3.8
Nondefense aircraft	-3.5	3.6	-3.5	-3.2	-5.5	-3.2
Excluding aircraft	6.3	12.1	-16.7	-16.3	-23.8	-3.7
Wholesale	6.1	-1.1	19.5	25.4	11.8	-2.5
Retail	18.1	9.3	23.2	20.4	46.6	9.3
Automotive	6.6	-2.3	8.9	8.0	26.4	10.2
Excluding auto dealers	11.5	11.7	14.3	12.5	20.2	-.9
Constant-dollar basis						
Total	7.4	10.1	6.9	6.2	22.4	n.a.
Excluding auto dealers	1.9	8.5	4.8	4.8	-3.3	n.a.
Manufacturing	-6.5	3.9	-16.7	-21.3	-24.1	n.a.
Wholesale	2.1	-3.5	12.0	18.1	6.0	n.a.
Retail	11.8	9.7	11.5	9.3	40.5	n.a.
Automotive	5.5	1.6	2.1	1.3	25.6	n.a.
Excluding auto dealers	6.3	8.1	9.5	8.0	14.8	n.a.

n.a. Not available.

INVENTORIES RELATIVE TO SALES[1]
(Months supply; based on seasonally adjusted data)

	1992			1992		1993
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Current-cost basis						
Total	1.51	1.50	1.48	1.48	1.46	1.46
Excluding auto dealers	1.49	1.48	1.46	1.47	1.43	1.44
Manufacturing	1.57	1.57	1.52	1.54	1.47	1.49
Defense aircraft	5.86	5.37	5.41	5.47	5.34	5.48
Nondefense aircraft	4.60	5.19	4.64	4.61	4.52	4.92
Excluding aircraft	1.41	1.41	1.37	1.39	1.33	1.35
Wholesale	1.36	1.32	1.35	1.35	1.34	1.32
Retail	1.57	1.56	1.55	1.53	1.54	1.54
Automotive	1.90	1.86	1.81	1.76	1.81	1.82
Excluding auto dealers	1.48	1.48	1.47	1.47	1.46	1.46
Constant-dollar basis						
Total	1.61	1.59	1.57	1.57	1.55	n.a.
Excluding auto dealers	1.58	1.56	1.54	1.55	1.52	n.a.
Manufacturing	1.68	1.68	1.63	1.64	1.59	n.a.
Wholesale	1.44	1.39	1.41	1.41	1.40	n.a.
Retail	1.64	1.64	1.62	1.60	1.61	n.a.
Automotive	2.00	2.00	1.92	1.87	1.93	n.a.
Excluding auto dealers	1.54	1.54	1.53	1.52	1.52	n.a.

1. Ratio of end-of-period inventories to average monthly sales for the period.
n.a. Not available.

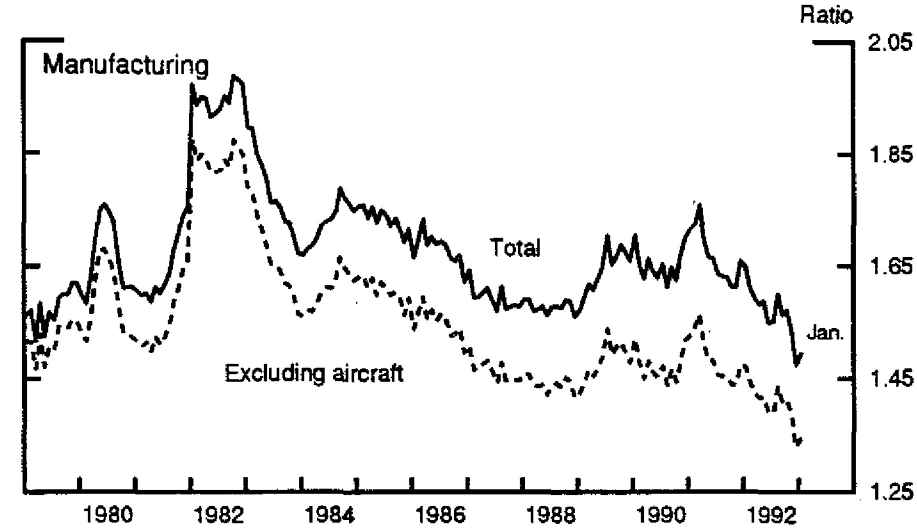
Business Inventories

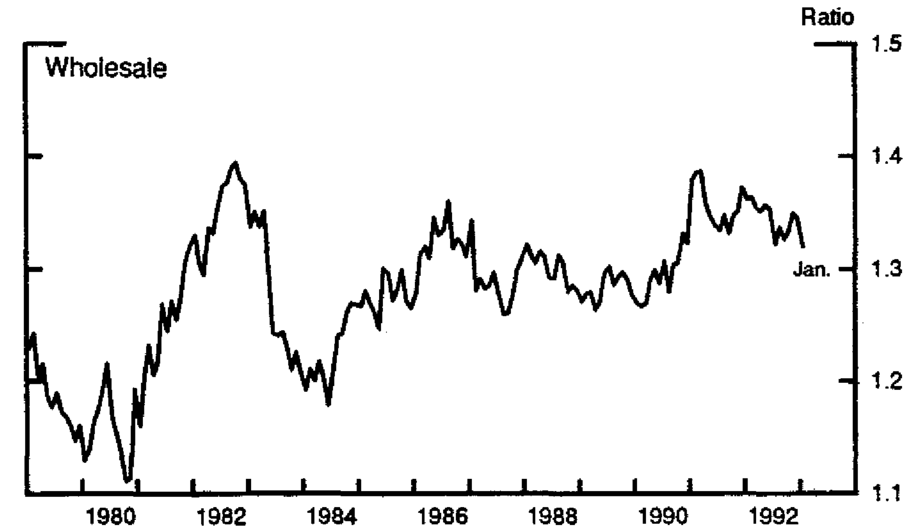
Business inventories appear to have declined slightly in early 1993. For all manufacturing and trade, current-cost inventories were reduced at an annual rate of about $4 billion in January, and the corresponding inventory-sales ratio held steady at its low December level. Stocks in January appear to have been at satisfactory levels in most sectors and were quite lean in some.

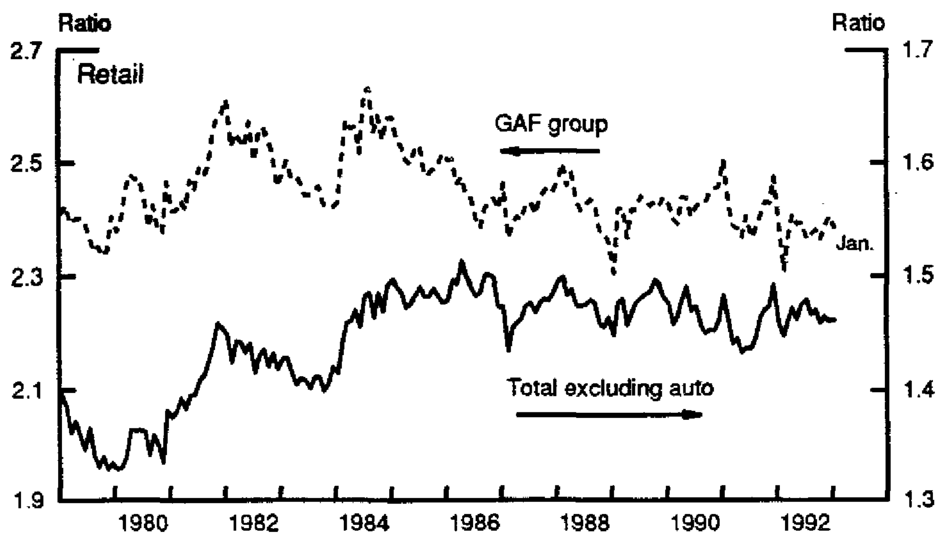
In manufacturing, sharp drawdowns of factory stocks during the fourth quarter left most industries with relatively low inventory-sales ratios, and although the ratio for the sector as a whole rose slightly in January, its level in that month still was relatively low. Given the leanness of stocks early in the year and the strength in recent indicators of demand for manufactured goods, some producers may well be in a position in which inventory cuts will start to give way to moderate restocking. A notable exception is the aircraft industry: Inventories of aircraft and parts have been declining sharply for more than a year as prospects for the industry have deteriorated, and an end to the contraction may still be some way off. Excluding aircraft and parts, the January reduction in manufacturers' stocks was the smallest since last summer.

In the trade sector, the inventory situation of merchant wholesalers improved further in January. Strong January sales drew down stocks at many types of wholesale establishments, in many cases reversing the large accumulation of the fourth quarter. For the sector as a whole, the inventory-sales ratio in January was near the bottom of the range seen over the past two years, and no serious overhangs were evident for any of the major groupings. In retail trade, inventories increased by a small amount in January after a large rise in December. Increases in auto dealers' stocks accounted for more than half the accumulation over the two-month period.

RATIO OF INVENTORIES TO SALES
(Current-cost data)







Excluding autos, retail stocks edged down in January, and the inventory-sales ratio for non-auto stores held steady at a point within the relatively narrow range observed over the past year. Ratios for furniture stores and stores selling general merchandise turned back down in January; the ratio for apparel stores edged up a bit further, however, and apparel sales fell in February according to the advance report on retail sales.

Federal Sector

The unified budget deficit amounted to about $90 billion in the first four months of fiscal year 1993 (FY93); this figure was about $9 billion less than the deficit in the first four months of the previous fiscal year. The smaller deficit is in large part a reflection of increased receipts from individual nonwithheld taxes, which for the fiscal year to date are up nearly a third from the level of a year earlier. The strength of these collections is traceable to the pickup of economic activity over the year, a tightening of the requirements on estimated tax payments, and last March's withholding change, which left some taxpayers having to make up a gap later on.

The change in withholding schedules also is expected to hold down refunds significantly this tax season. As of March 5, however, refunds were running only slightly below the pace of last year, because greater use of electronic filing is speeding up the refund process.

Outlays during the first four months of fiscal 1993 were about 2 percent greater than during the similar period of fiscal 1992, held down in part by a pickup in sales of RTC assets, which resulted in a reduction in net outlays for deposit insurance. In addition, defense expenditures have fallen more than 5 percent this year, and

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Unified basis, billions of dollars, except where otherwise noted)

	Fiscal year to date			
			Change	
	FY1992	FY1993	$Billions	Percent
Outlays	458.5	468.7	10.2	2.2
Deposit insurance (DI)	-.9	-9.0	-8.2	932.5
Defense Cooperation account (DCA)	-4.0	.0	3.9	-99.0
Outlays excluding DI and DCA	463.3	477.8	14.4	3.1
National defense	103.6	98.0	-5.6	-5.4
Net interest	67.2	67.0	-.1	-.2
Social security	92.2	98.2	6.0	6.5
Medicare and health	67.3	72.2	4.9	7.2
Income security	63.1	67.4	4.3	6.8
Other	70.0	75.0	5.1	7.2
Receipts	359.0	378.0	19.0	5.3
Personal income taxes	174.8	195.3	20.5	11.7
Social insurance taxes	122.8	123.8	1.1	.9
Corporate income taxes	26.4	29.7	3.3	12.5
Other	35.1	29.2	-5.9	-16.7
Deficit(+)	99.5	90.7	-8.8	-8.9
excluding DI and DCA	104.3	99.7	-4.6	-4.4

Note: Details may not sum to totals because of rounding.

net interest outlays are essentially flat. Other categories of spending show increases of about 7 percent on average.

The Clinton Administration released a preliminary description of its economic program on February 17.[6] The program aims to provide short-term stimulus to the economy, expand various programs with the objective of raising long-term growth, and reduce the deficit substantially over the next few years. The short-term stimulus package includes an extension of emergency unemployment benefits, provision of a temporary incremental investment tax credit, and increases in grants to state and local governments for investment in infrastructure. The longer-run initiatives include a variety of proposals to increase training, research, and education and to encourage investment in real estate and small business plant and equipment.

According to the Administration, the proposed deficit reduction measures would cut $473 billion from the cumulative deficit over the five-year period FY1994-FY1998. The reduction would be accomplished through a combination of tax increases and spending cuts. Tax rates would be increased for individuals with high incomes and for large corporations, and a new energy tax would be levied on the BTU content of fuels. Spending cuts would be largely borne by defense and Medicare. The Administration projects that, under the program, the deficit will fall to around $200 billion in FY1996 and FY1997. In FY1998, however, the deficit is expected to move back up to about $240 billion as a result of a projected continuation of the runaway growth in the Medicare and Medicaid programs, a leveling out of the deficit reductions in the President's program, and an assumed slowing in the baseline path of economic growth.

6. A more detailed discussion of the Administration's program is provided in an appendix to Part 2 of the Greenbook.

CBO has released a preliminary analysis of the President's program. According to CBO, his proposals would reduce the deficit by $406 billion over the FY1994-FY1998 period, $67 billion less than estimated by the Administration. The budget committees in the Congress have taken account of the CBO assessment in shaping their budget resolutions for FY1994. Accordingly, they have altered the President's program by enough to produce the full amount of deficit reduction he had targeted, largely through bigger reductions in spending.

The budget resolutions will be considered by the full House and Senate this week. The Administration has targeted August for passage of a budget reconciliation bill that would implement the longer-run deficit reduction and economic plan; passage of the individual appropriations bills should take place shortly thereafter. A portion of the short-term stimulus package has already been passed; the President has signed a bill further extending emergency unemployment insurance benefits, which had been due to expire March 6 and will now expire October 2. The Administration also plans to submit a major proposal for health care reform by May.

State and Local Government Sector

Real purchases by state and local governments appear to have dipped early this year after a small increase during 1992. Employment in January and February was about equal to the fourth-quarter level, while real construction spending fell 4 percent at a monthly rate in January to its lowest level since mid-1991. The weakness in construction was widespread, with much of the reduction concentrated in the areas of educational facilities and highways and bridges. On a monthly basis, of course, these data are highly volatile and are subject to substantial revision.

Many governments continue to face severe fiscal problems. The combined deficit of operating and capital accounts, excluding social insurance funds, as reported in the national income accounts, has exceeded $40 billion in each of the last two years. However, preliminary data for the fourth quarter showed moderate improvement. Also, recent data from the Center for the Study of the States suggest that state tax revenue in the fourth quarter of 1992, excluding the effects of legislated changes and adjusted for inflation, was up nearly 3 percent from the same period a year earlier, the largest gain since mid-1990.

Recent survey information from the National Association of Counties provides additional perspective on budgetary problems at the county level.[7] The projections for both revenue and expenditures by most counties were off target in 1992, and most have had to take a variety of actions to balance their budgets. On the receipts side, 91 percent of the counties reported lower-than-expected tax receipts despite a stronger economy in 1992; counties depend largely on property taxes which do not necessarily respond to movements in aggregate economic activity and may respond to changes in real estate values only after a substantial lag. In addition, 94 percent of the counties stated that they received less state aid than they had anticipated.

Among budget-balancing measures taken by these counties, the most common were increases in taxes and fees. In addition, many dipped into reserve funds, and 77 percent cut programs or services. Outlay reductions most frequently cited were in the area of capital projects. The counties surveyed reported a backlog in

7. The survey, taken between November 1992 and January 1993, covered 66 urban counties, representing one-third of the nation's population. Most counties answered the survey in terms of fiscal year 1992, which ended in June for some and December for others.

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

	Relative importance, Dec. 1992	1991	1992	1992 Q2	1992 Q3	1992 Q4	1993 Jan.	1993 Feb.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	-.1	1.6	3.3	1.3	-.3	.2	.4
Consumer foods	22.4	-1.5	1.5	-.6	4.3	2.9	-.9	-.1
Consumer energy	13.9	-9.6	-.1	16.6	-3.5	-9.8	.9	1.7
Other finished goods	63.7	3.1	1.9	1.8	1.2	.9	.4	.3
Consumer goods	40.6	3.4	2.1	2.4	1.5	.9	.4	.3
Capital equipment	23.1	2.5	1.6	.9	1.2	.3	.3	.5
Intermediate materials[2]	95.4	-2.7	1.2	5.0	.7	-1.4	.3	.5
Excluding food and energy	81.8	-.8	1.1	1.7	1.3	-.3	.3	.5
Crude food materials	41.2	-5.8	2.8	2.7	-4.8	4.3	.3	.1
Crude energy	39.5	-16.6	1.5	51.5	19.8	-20.2	.0	-2.5
Other crude materials	19.3	-7.6	5.6	4.8	2.2	1.5	3.1	2.2

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

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

	Relative importance, Dec. 1992	1991	1992	1992 Q2	1992 Q3	1992 Q4	1993 Jan.	1993 Feb.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	3.1	2.9	2.6	2.6	3.2	.5	.3
Food	15.8	1.9	1.5	-1.2	3.2	1.4	.4	.1
Energy	7.3	-7.4	2.0	8.6	1.2	1.9	.5	-.4
All items less food and energy	76.9	4.4	3.3	2.8	2.5	3.8	.5	.5
Commodities	24.7	4.0	2.5	2.5	1.8	1.5	.5	.5
Services	52.2	4.6	3.7	3.1	2.9	4.7	.4	.4
Memo:								
CPI-W[3]	100.0	2.8	2.9	2.7	2.3	3.2	.4	.4

1. Changes are from final month of preceding period to final month of period indicated.
2. Official index for all urban consumers.
3. Index for urban wage earners and clerical workers.

infrastructure projects waiting for funding valued at $10 billion and covering a wide range of areas.

The counties do not expect their fiscal situation to improve much in the year ahead. As the assessment cycle for real property is gradual, many counties fear that the full impact of declining property values on tax collections has not yet been felt. And many counties anticipate still further reductions in state aid.

Prices

After favorable reports on consumer prices in November and December, the most recent figures for the CPI have come in on the high side of the past year's trends. A jump of 0.5 percent in the total CPI in January was followed by a further rise of 0.3 percent in February. The CPI excluding food and energy rose a half percentage point in both months; its change over the twelve-month period ending in February was 3.6 percent, up from the low of 3.3 percent that was reached at the end of 1992, but still a little below the reading of a year ago.

On the whole, the recent data would seem to suggest that the underlying inflation picture is not quite as favorable as it previously had appeared. At the same time, though, there has been little evidence of deterioration in the underlying determinants of price change. Despite recent gains in output and employment, substantial slack remains in labor and product markets. In addition, non-oil import prices have remained subdued. The signals on inflation expectations have been mixed in recent months, but there is as yet no evidence of a significant upward shift in price expectations. Nor has deterioration been evident in the recent qualitative reports on price- and wage-setting behavior in the business sector.

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Feb. 1991	Feb. 1992	Feb. 1993
CPI	5.6	3.8	3.6
Goods	4.2	2.9	2.8
Alcoholic beverages	11.6	2.9	2.3
New vehicles	3.0	2.4	2.4
Apparel	4.7	3.1	2.5
House furnishings	.4	1.3	.2
Housekeeping supplies	4.0	.6	1.0
Entertainment	3.7	2.5	2.1
Services	6.5	4.1	4.0
Owners' equivalent rent	5.2	3.5	3.3
Tenants' rent	4.0	2.9	2.4
Other renters' costs	17.4	6.0	3.1
Airline fares	19.6	-7.6	12.7
Medical care	9.9	7.9	6.8
Entertainment	5.2	4.0	3.3
PPI finished goods	4.0	2.5	2.0
Consumer goods	4.2	2.8	2.2
Capital equipment, excluding computers	3.8	2.8	2.3
Computers	n.a.	-18.8	-13.4
PPI intermediate materials	1.8	-.7	1.7
PPI crude materials	1.6	-6.1	9.7
Factors affecting price inflation			
ECI hourly compensation[1]	4.6	4.4	3.5
Goods-producing	4.8	4.6	3.8
Service-producing	4.6	4.3	3.2
Civilian unemployment rate[2]	6.5	7.3	7.0
Capacity utilization[2] (manufacturing)	78.0	77.4	78.9
Inflation expections[2,3]			
Mean of responses	4.8	3.5	4.6
Median, bias-adjusted[4]	4.3	3.5	4.1
Non-oil import price[5]	3.1	.2	.6
Consumer goods, excluding autos, food, and beverages	4.3	.9	2.0
Autos	2.5	2.7	.4

1. Private industry workers, periods ended in December of previous year.
2. End-of-period value.
3. Michigan Survey.
4. Median adjusted for average downward bias of 0.9 percentage points since 1978.
5. BLS import price index (not seasonally adjusted), periods ended in December of previous year.
n.a. Not available.

Consumer food prices rose only 0.1 percent in February, after a jump of 0.4 percent in January. Vegetable prices, which had surged in January, dropped back a little last month; however, more recent information suggests that renewed increases may be in train, owing to planting delays in California early in the year and more recent flooding in certain regions of Arizona--areas that are important suppliers at this time of year. But, despite these--and other--short-run supply problems that continue to arise in the food sector, the underlying trend in food price increases remains quite low; the cumulative increase over the twelve months ended in February amounted to just 1.7 percent.

Consumer energy prices fell 0.4 percent in February, pulled down by declines for natural gas and electricity, the latter of which reportedly was a reflection of sizable rebates to customers in Virginia. Gasoline prices moved up somewhat further in February, after a large January rise. However, private survey data for early March suggest that retail gasoline prices may since have edged off a bit.

For goods other than food and energy, retail prices increased 0.5 percent in February, the same as in January. Tobacco prices rose further last month, largely reflecting an increase in federal excise taxes.[8] In addition, apparel prices surged for a second month. Fairly sharp price increases also were reported in January and February for other nondurables. By contrast, the prices of durable goods turned down 0.1 percent last month, reversing part of January's rise. Car prices were unchanged in February, as increases in manufacturers' list prices apparently did not feed through to transactions prices at retail.

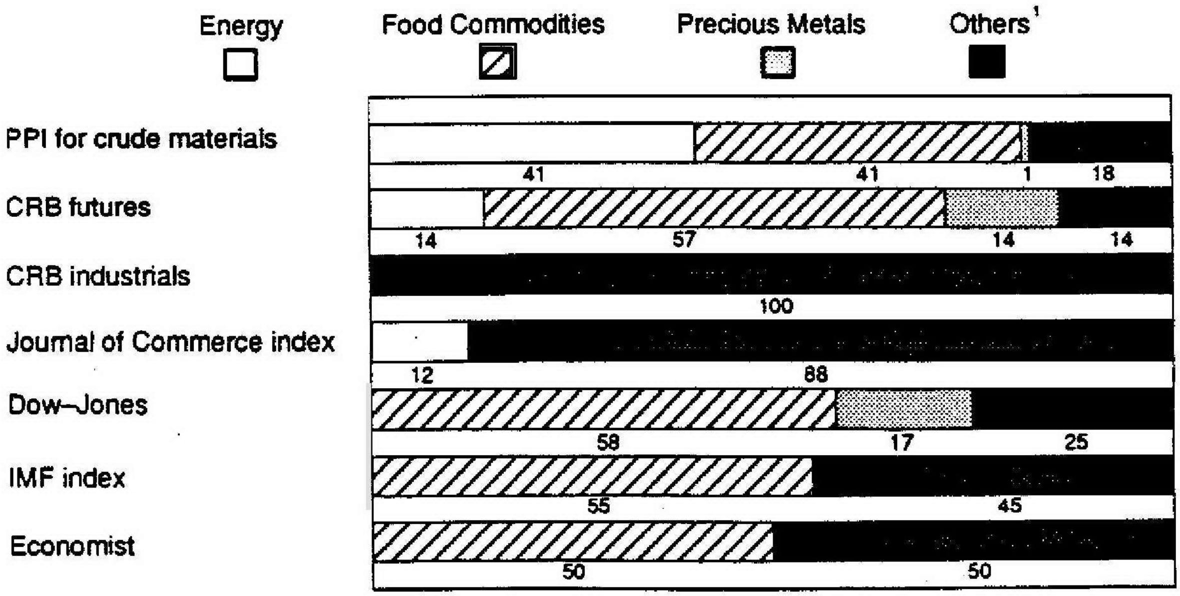
8. Federal excise taxes on cigarettes rose 4 cents per pack at the beginning of the year. Because prices in most cities are sampled every other month for the CPI, the tax increase shows up in both January and February.

PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

	Last observation	Percent change[2] 1991	1992	Dec. 92 to Jan. 26[3]	Jan. 26[3] to date	Memo: Year earlier to date
1. PPI for crude materials[4]	Feb.	-11.6	2.9	.9	-.3	2.5
1a. Foods and feeds	Feb.	-5.8	2.8	.8	.4	-.4
1b. Energy	Feb.	-16.6	1.5	.0	-2.5	2.3
1c. Excluding food and energy	Feb.	-7.6	5.6	3.3	2.5	9.7
1d. Excluding food and energy, seasonally adjusted	Feb.	-7.7	5.9	3.1	2.2	9.6
2. Commodity Research Bureau						
2a. Futures prices	Mar. 16	-6.5	-2.9	-1.2	4.9	-1.0
2b. Industrial spot prices	Mar. 16	-11.3	-.7	1.1	-.6	-.2
3. *Journal of Commerce* industrials	Mar. 16	-7.2	5.0	.9	2.3	5.0
3a. Metals	Mar. 16	-7.1	1.9	.8	-1.1	-1.8
4. Dow-Jones Spot	Mar. 16	-12.1	10.4	.4	3.1	7.2
5. IMF commodity index[4]	Feb.	.7	-2.6	.7	-.4	-4.0
5a. Metals	Feb.	-8.9	-3.1	-2.1	-.8	-7.2
5b. Nonfood agriculture	Feb.	1.3	2.4	2.1	2.2	5.7
6. *Economist* (U.S. dollar index)	Mar. 9	-9.1	1.6	-.5	5.0	3.7
6a. Industrials	Mar. 9	-14.9	4.5	.5	7.1	6.2

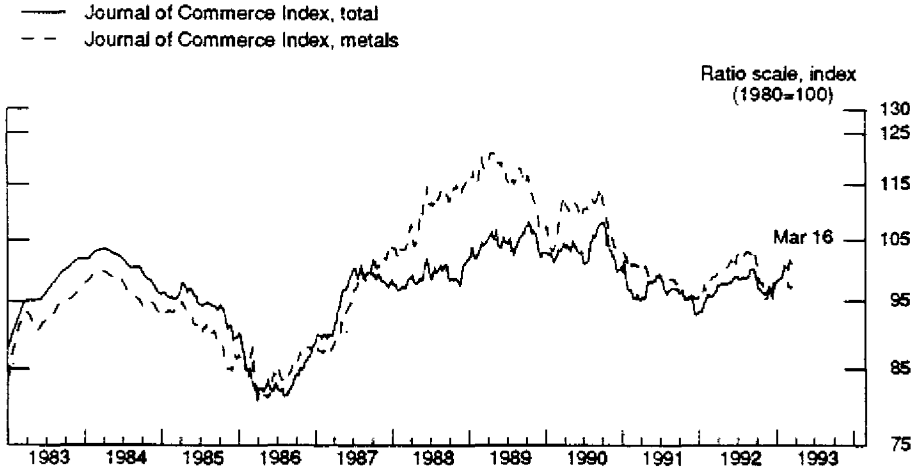
1. Not seasonally adjusted.
2. Change is measured to end of period, from last observation of previous period
3. Week of the January Greenbook.
4. Monthly observations. IMF index includes items not shown separately.
n.a. Not available

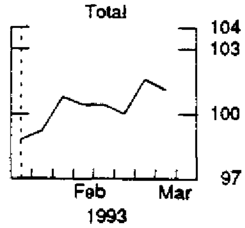
Index Weights

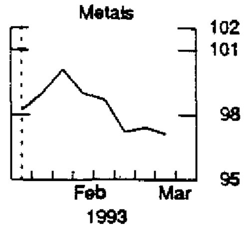


1. Forest products, industrial metals, and other industrial materials.

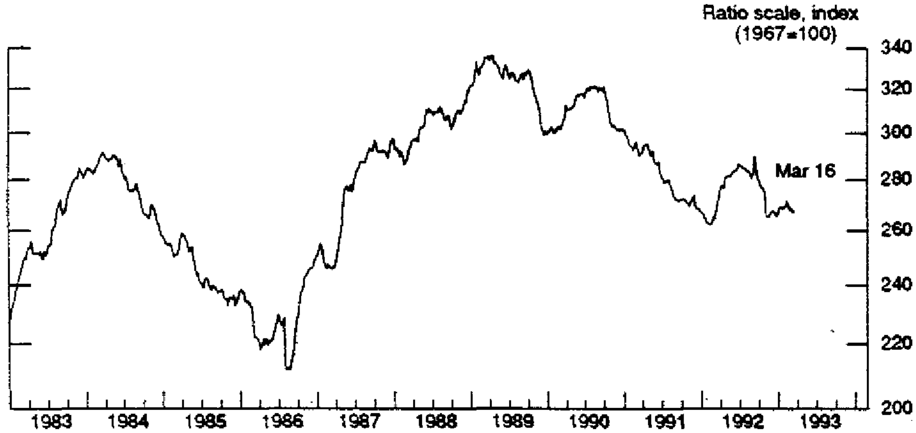
COMMODITY PRICE MEASURES *

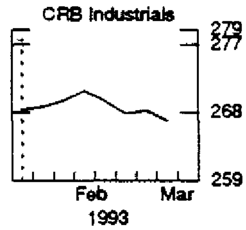




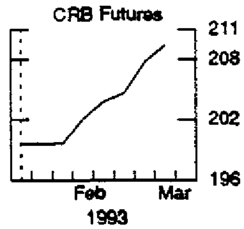


CRB Spot Industrials





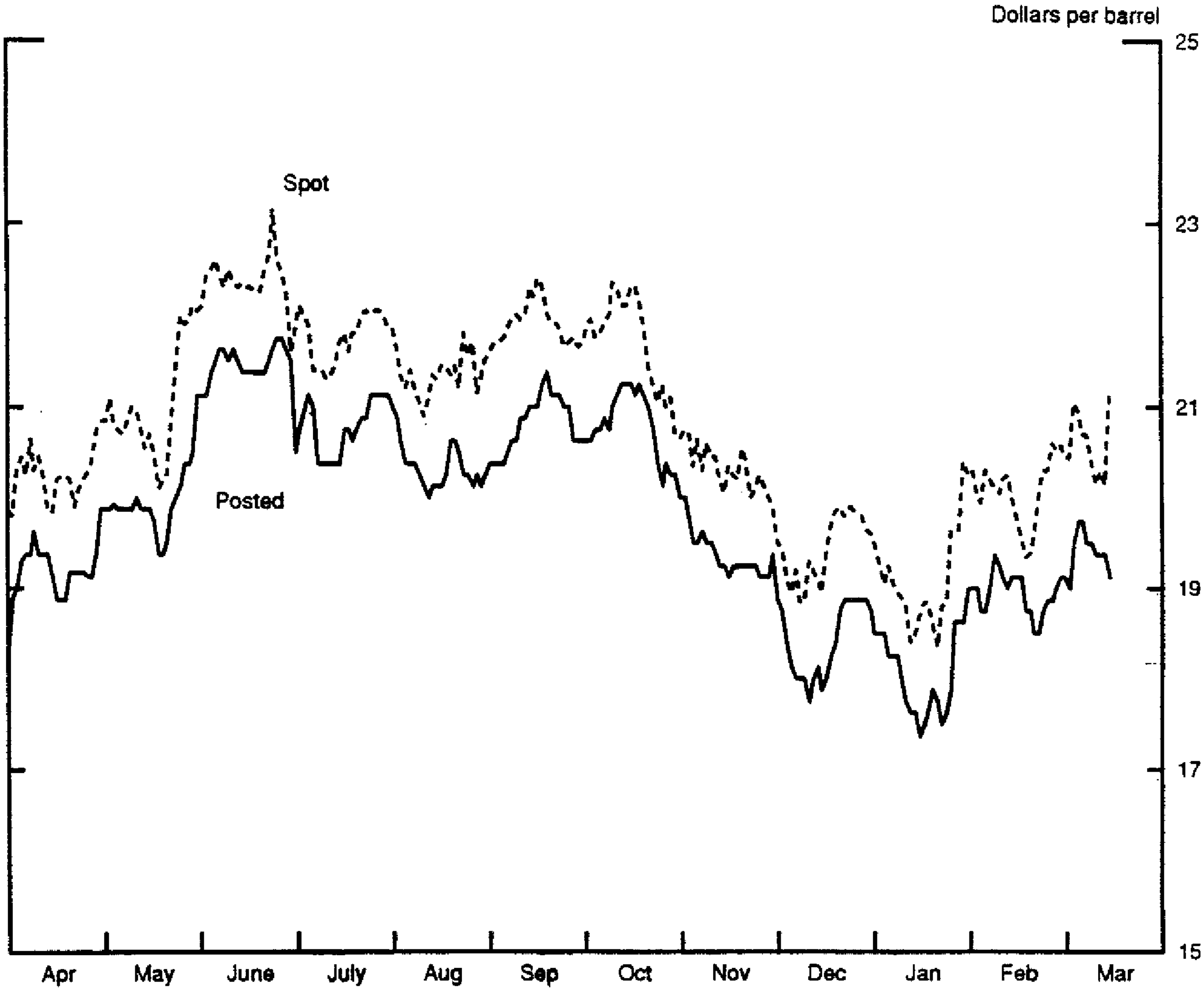
CRB Futures



* Weekly data, Tuesdays; Journal of Commerce data monthly before 1985

Dotted lines indicate week of last Greenbook.

Daily Spot and Posted Prices of West Texas Intermediate [1]



1. Posted prices are evaluated as the mean of the range listed in the Wall Street Journal.

MONTHLY AVERAGE PRICES--WEST TEXAS INTERMEDIATE

Year and Month	Posted	Spot
1992		
April	19.20	20.24
May	19.90	20.94
June	21.46	22.38
July	20.77	21.76
August	20.32	21.35
September	20.83	21.90
October	20.77	21.69
November	19.38	20.34
December	18.40	19.41
1993		
January	18.01	19.08
February	18.92	20.05
March [1]	19.38	20.59

1. Price through March 16.

Prices of non-energy services rose 0.4 percent in both January and February, after a stretch of several months in which the monthly changes had averaged about 0.3 percent. The indexes for both residential and owners' equivalent rent appear to have firmed a little, after very modest increases around the middle of last year. In addition, the index for airfares climbed by more than 5 percent over the first two months of the year, as some discounts that previously had been in place were scaled back or ended; recent reports appear to suggest that discounting of fares may have picked up again in March, however.

In the past year, prices of capital goods have remained subdued, on balance. For the year ending in February, the PPI for capital goods was held down by computer prices, which dropped 13-1/2 percent during the preceding twelve months. Prices of other capital goods also continued to slow, rising just 2-1/4 percent in the twelve months ending in February, about 1/2 percentage point below the year-earlier pace. Although modest price increases for motor vehicles last year contributed to this slowing, the February PPI indicates that passenger car and light truck prices are accelerating at the manufacturers' level.

Spot prices of industrial materials have risen, on balance, since the last Greenbook, consistent with the pickup in industrial activity. The Journal of Commerce index of industrial materials prices has increased about 2 percent since the end of January, and other indexes have moved up as well. To a considerable degree, the indexes are being driven by very large increases for a few products, rather than widespread price hikes. For example, the metals subcomponent of the Journal of Commerce index actually has fallen about 1 percent since the last Greenbook; higher prices for steel have been offset by declines for other metals. Elsewhere, lumber and plywood prices have rocketed this year, but the surge appears to have slowed a little in March.

Turning to broader measures of materials prices, the PPI for intermediate materials continued to move up in February. The twelve-month change in that price measure has risen over the past year, but only to a rate of 1-3/4 percent.

APPENDIX

PRESIDENT CLINTON'S ECONOMIC PROGRAM

President Clinton presented his economic program to the Congress in mid-February. In early April, he will deliver a formal budget containing detailed and revised budget proposals and updated budget estimates.[1] Meanwhile, the Congress is considering the President's proposals in the context of developing a budget resolution for FY1994.

The President's Program and the Budget Outlook

Some of the President's proposals are aimed at stimulating economic activity over the near term, while others are geared to the achievement of longer-run economic and budgetary objectives. The Office of Management and Budget (OMB) projects that the proposed changes, on net, would increase the budget deficit $13 billion in FY1993 but reduce it significantly in subsequent years (table 1). By FY1998, the program is projected to lower the deficit, on net, by $148 billion ($53 billion from net reductions in spending on items other than interest, $73 billion from net increases in taxes, and

Table 1

PRESIDENT CLINTON'S BUDGET PROJECTIONS
(Fiscal years)

	1993	1994	1995	1996	1997	1998
	Billions of dollars					
Current services deficit	319	306	306	314	369	419
Less:						
"Bush" defense cuts[1]	--	5	11	16	23	29
Equals:						
Baseline deficit	319	301	296	297	346	390
Less:						
Spending reductions (net)	-9	2	12	27	52	53
Revenue increases (net)	-4	36	39	58	74	73
Debt service savings	0	0	3	7	14	22
Subtotal	-13	39	54	92	140	148
Equals:						
Proposed deficit	332	262	242	205	206	241
	Percent of GDP					
Baseline deficit	5.2	4.6	4.3	4.1	4.6	5.0
Proposed deficit	5.4	4.0	3.5	2.9	2.7	3.1

1. Includes related debt service ($4 billion in FY1998).

1. Estimates presented here are drawn from the Administration document *A Vision of Change for America*.

$22 billion from savings on debt service).[2] The savings are measured relative to a baseline that already incorporates the reductions in defense spending (with certain adjustments) proposed by President Bush in his January 1992 budget request but holds the rest of the budget at "current services" levels.[3]

Assuming enactment of the President's program, the deficit is projected to expand from $290 billion in FY1992 to $332 billion in FY1993; it then narrows to the area of $200 billion in FY1996 and FY1997 before moving back up to $241 billion in FY1998.[4] By comparison, the baseline deficit in FY1998 is estimated at $390 billion. The budget projections are based on essentially the same "technical" assumptions as were used in OMB's January budget document (with updated estimates for deposit insurance). In a break from convention, however, the Administration draws the economic assumptions underlying the budget projections from CBO's January *Report* (table 2). Consequently, neither the economic assumptions

Table 2

ECONOMIC ASSUMPTIONS UNDERLYING THE PRESIDENT'S BUDGET
(Calendar years)

	1993	1994	1995	1996	1997	1998
	Percent change, Q4-to-Q4					
Real GDP	2.8	3.0	2.8	2.6	2.2	1.8
GDP deflator	2.5	2.4	2.3	2.2	2.2	2.2
Consumer price index	2.8	2.7	2.7	2.7	2.7	2.7
	Percent, annual average					
Civilian unemployment rate	7.1	6.6	6.2	6.0	5.8	5.7
Interest rates						
Treasury bills	3.2	3.7	4.3	4.7	4.8	4.9
Treasury notes	6.7	6.6	6.6	6.5	6.5	6.4

2. Unlike the President, we classify the proposed rise in the share of social security benefits subject to income tax as a tax increase. Also note that savings from actions to shorten the maturity structure of the debt are included in the "spending reductions" line in table 1; the debt service savings are attributable entirely to the reduced size of the debt.

3. In contrast, when the Congressional Budget Office (CBO) constructs a baseline, it assumes full compliance with the Budget Enforcement Act (BEA) of 1990, which established limits on discretionary spending through FY1995. For years after 1995, CBO assumes that discretionary spending will grow in line with inflation.

4. The effects of the President's health care plan were not included in the economic program. However, he apparently expects savings from health care reform to help keep the budget deficit on a downward track after the mid-1990s.

nor the projected deficits incorporate the effects of the President's program.[5]

Spending Provisions

According to OMB estimates, the President's proposals will bring about a significant shift in the composition of federal spending while lowering appreciably its overall rate of growth (table 3). All told, enactment of the President's proposals would increase spending $9 billion, on net, in FY1993. However, by the late 1990s, outlays would be more than $50 billion below baseline levels. When interest savings are added in, the net reduction in spending grows to $75 billion in FY1998.

The President would provide appreciable new funding for so-called investment items (notably, human capital and public infrastructure). Such outlays are key elements of both the stimulus package and the longer-run economic plan.[6] In the near term, they would go primarily for highways, mass transit, and airports and would be channeled through state and local governments. Over the longer run, the President would also direct money to furthering technology (for example, high-performance computing), expanding education and training programs, achieving environmental objectives, and improving public health programs.

Meanwhile, outlays for other programs would be reduced nearly $100 billion below the President's baseline by FY1998. The largest cuts would be in national defense and in health care entitlements, but many smaller programs would be scaled back as well. With respect to defense, the Administration's proposals would reduce spending by FY1998 to a level $36 billion (more than 12 percent) below that proposed by President Bush in 1992. President Clinton's proposals would require further cuts in military and civilian DoD personnel, as well as in procurement and other aspects of the military budget. If the proposals are implemented, the resulting level of defense spending in FY1998 would be nearly 20 percent below that needed to maintain 1993's real funding level. (By FY1998, military personnel would be down to 1.4 million, and civilian DoD personnel to 832,000.)

As for the health entitlement programs, the President's proposed reductions are essentially stopgap measures pending release of a comprehensive health care reform plan in May. The savings in Medicare would come primarily from restraints on payments to health care providers and, after 1995, from higher premiums for Supplementary Medical Insurance. If enacted into law, these changes would lower the level of Medicare spending more than 8 percent ($20 billion) by FY1998, but the program still would grow about

5. In *A Vision of Change for America*, the Administration provides an alternative economic forecast that is conditional on enactment of its program: It shows both larger increases in real output (notably, real GDP growth slows only to 2-1/2 percent per year in the late 1990s) and more inflation. When the more favorable economic assumptions are used, the Administration expects the deficit to shrink a bit more rapidly over the next few years and to remain essentially unchanged as a percent of GDP after the mid-1990s.

6. The other major spending increase in the stimulus package is a further extension of the extended unemployment benefits program. It was passed by the Congress and signed into law in early March.

Table 3

KEY SPENDING PROPOSALS
(Change from baseline in billions of dollars, fiscal years)

	1993	1994	1995	1996	1997	1998
Net change (excluding interest saving from change in debt service)	9	-2	-12	-27	-52	-53
Increases	8	15	22	33	39	45
Stimulus proposals	8	6	2	1	0	0
UI extension	4	0	0	0	0	0
Summer programs	1	1	0	0	0	0
Other[1]	3	5	2	1	0	0
Investment proposals	0	9	20	32	39	45
UI extension	0	2	0	0	0	0
Infrastructure	0	2	7	11	14	16
Education and training	0	2	6	10	13	15
Health and nutrition	0	2	6	9	11	12
Reductions	1	-17	-34	-59	-91	-98
Defense spending	0	-7	-12	-20	-37	-36
Nondefense discretionary spending	1	-4	-10	-15	-20	-23
Eliminate programs	0	0	-1	-2	-3	-3
Higher user fees, lower subsidies	0	-1	-1	-2	-2	-2
Cuts to federal employment, pay	0	-2	-4	-5	-5	-6
Other	1	-1	-4	-6	-10	-12
Mandatory spending	0	-6	-12	-25	-35	-40
Medicare	0	-3	-5	-10	-15	-20
Higher SMI premiums	0	0	0	-1	-4	-7
Medicaid	0	0	-1	-2	-2	-3
Fees and subsidies	0	-1	-2	-5	-7	-5
Federal retirees	0	0	0	-2	-3	-3
Other transfers	0	0	-1	-3	-4	-4
Shorten maturity of debt	0	-2	-3	-3	-4	-5
Net interest (due to change in debt levels)	0	0	-3	-7	-14	-22

1. Consists largely of grants for transportation, housing, and community development.

10 percent per year, on average, between FY1992 and FY1998. The Medicaid program also would see some cuts, largely through a suspension of the federal requirement that states pay for at-home personal care services.

Revenue Proposals

A major theme of the President's economic program is a shift in the distribution of tax burdens: Upper-income individuals and businesses generally would face higher liabilities, while many middle- and low-income individuals would see little change in their overall tax payments. On net, the proposed changes to the tax laws would add slightly to the deficit in FY1993 but are expected to narrow it appreciably thereafter--by almost $75 billion in both FY1997 and FY1998 (table 4). In addition to new initiatives, the package contains the extension of several expiring provisions, but these would have only a small effect on the deficit.

Table 4

KEY REVENUE PROPOSALS
(Change from baseline in billions of dollars, fiscal years)

	1993	1994	1995	1996	1997	1998
Net change	-4	36	39	58	74	73
Personal taxes						
Higher taxes on upper incomes	2	28	20	23	26	28
Tax 85 percent of social security benefits	0	3	6	6	7	8
Expansion of EITC	0	-1	-6	-6	-7	-7
Repeal of Medicare wage cap	0	3	6	6	7	7
Business taxes						
Higher tax rate on large corps.	0	8	5	6	6	6
Smaller deducts. for meals, etc.	0	2	3	3	4	4
Investment tax credit	-5	-9	-7	-3	-2	-3
Extension of R&E credit	-1	-1	-2	-2	-2	-2
Compliance initiatives	0	0	1	2	3	3
Energy taxes						
BTU tax	0	2	9	16	22	22
Extension of gasoline tax	0	0	0	3	3	3
Memo:						
Extensions of expiring provisions	-2	-2	-3	2	8	7
New provisions	-2	38	42	55	65	65

Upper-income individuals would pay higher income and social insurance taxes under the President's plan. The increase in income taxes would be accomplished through (1) the addition of a fourth (36 percent) bracket for taxable incomes over $140,000 (joint returns) and $115,000 (single returns), (2) the imposition of a 10 percent surtax on taxpayers as their taxable incomes exceed $250,000 (on both joint and single returns), (3) the permanent extension of provisions that limit the itemized deductions and phase out the personal exemptions claimed by high-income taxpayers, and (4) adjustments to the provisions concerning the alternative minimum tax. However, the maximum marginal rate on capital gains would remain at 28 percent. Liabilities would be higher for calendar year 1993, but the additional payments would not be required until 1994. Also, beginning in 1994, the share of social security benefits (of well-to-do retirees) subject to income tax would be raised from 50 percent to 85 percent, and the wage base cap on Medicare taxes (currently at $135,000) would be repealed.

Meanwhile, low-income families would benefit from an expansion of the earned income tax credit (EITC). The EITC, which provides a subsidy to low-income working Americans with children, would be expanded in 1994 to cover families with incomes of up to $30,000 per year (currently, the credit, which is indexed, is fully phased out when either adjusted gross income or earned income exceeds $23,050); the President also wants to increase the size of the credit. The expansion of the EITC, along with additional funding for food stamps and for energy assistance, will help offset the effects of the proposed energy tax on many lower-income households.

On the business side, the largest revenue gains would come from an increase in the corporate tax rate, from 34 percent to 36 percent, on taxable incomes above $10 million; liabilities would be higher for calendar year 1993, but payments would not be required until 1994. In addition, deductions for business meals and entertainment would be reduced.

On the other hand, businesses would be able to claim an investment tax credit (ITC) on outlays for producers' durable equipment made after December 3, 1992. Large businesses would get a temporary incremental ITC on investments made before the end of 1994; the credit would be worth up to 7 percent of outlays above a firm's fixed base, with the percentage depending on the service lives of the equipment purchased and the base related to the firm's previous level of spending.[7] Small businesses would receive a permanent ITC applicable to all new investment; the credit would be up to 7 percent in the first two years and up to 5 percent thereafter.

Among other key revenue provisions, a broad-based energy tax would be introduced. The tax would be implemented in equal annual installments over a three-year period beginning July 1, 1994, and would be based in part on a fuel's energy content as measured in BTUs. When fully phased in, the tax would raise $22 billion per year (the figure for both FY1997 and FY1998).[8] Also, the current

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7. Large businesses are those with annual gross receipts of at least $5 million; such firms account for about 85 percent of total outlays on producers' durable equipment. With respect to the base for the incremental credit, companies would have the option of averaging investments made during 1989-91 or during 1987-91.

8. The tax is specified as a dollar amount per million BTUs, is indexed to the GDP deflator, and is higher for oil than for other energy sources. The higher tax for oil is meant to improve air quality (oil burns dirtier than other fuels) and to discourage dependence on foreign energy sources. At current prices, the proposed BTU tax translates to ad valorem tax rates of 5 percent for gasoline, 4 percent for residential natural gas, 3 percent for residential electricity, and 8 percent for home heating oil.

gasoline tax would be extended beyond its September 30, 1995, expiration date.

CBO Re-Estimates

On March 3, CBO released its preliminary analysis of the President's budget program (table 5). CBO expects the program to generate somewhat less deficit reduction than does the Administration; for example, CBO foresees savings of $132 billion in FY1998, compared with OMB's estimate of $148 billion. Nonetheless, the five-year budget projections of the two agencies are quite similar. The differences in the estimated effects of the President's proposals are not large, and they are roughly offset by differences in the CBO and OMB baselines (adjusted for conceptual differences).

Table 5

CBO RE-ESTIMATES OF THE PRESIDENT'S PROPOSED BUDGET
(Billions of dollars, fiscal years)

	1993	1994	1995	1996	1997	1998
OMB deficit estimate	332	262	242	205	206	241
CBO re-estimates of the OMB baseline						
Revenues[1]	5	0	-6	-6	-16	-28
Deposit insurance	-14	-3	14	13	-2	-2
Other outlays	-9	-2	-2	-4	-2	0
Subtotal	-17	-5	6	4	-19	-29
CBO re-estimates of the President's plan						
Revenues[1]	-4	9	4	6	7	6
Debt management	0	2	3	3	4	5
Medicare	0	1	1	0	1	2
Pay offsets (defense)	0	1	1	1	2	2
Debt service	0	0	0	1	2	2
Other outlays	-2	-1	0	1	3	-1
Subtotal	-6	11	10	13	18	16
President's budget as estimated by CBO	308	268	257	222	205	229

1. Increases in revenues are shown with a negative sign because they reduce the deficit.

Several factors contribute to the differences in the estimates of the President's proposals. About one-third of the discrepancy is on the revenue side ($6 billion in F1998), where CBO adopts the Joint Committee on Taxation's view that the Administration is overstating the likely revenue gains from the proposed tax rate increases for high-income individuals and from compliance and enforcement efforts. On the outlay side, CBO identifies inadvertent errors in OMB's estimates of the savings in Medicare and defense ($4 billion combined in FY1998); also, because of the lack of specificity in the Administration's proposed changes in debt management policies, CBO chooses not to recognize the claimed savings. Finally, the smaller amount of deficit reduction estimated by CBO tempers the projected savings in debt service.

The budget committees in the Congress have taken account of the CBO assessment in shaping their budget resolutions for FY1994. Accordingly, they have altered the President's program by enough to produce the full amount of deficit reduction he had targeted, largely through bigger reductions in spending. President Clinton has indicated his willingness to consider spending cuts in excess of those he proposed in February.

Budget Process

President Clinton wants to extend the Budget Enforcement Act (BEA), with limited modifications, beyond its scheduled expiration in 1995; he is expected to release detailed proposals shortly. In general, he would extend the caps on discretionary spending through 1998, carry the pay-as-you-go (PAYGO) provisions governing mandatory spending and taxes through 2003, support the use of sequestration to enforce compliance, and enhance the President's rescission authority.

The President's program would lift nondefense discretionary spending in FY1993 above its BEA cap (as estimated by the staff). However, given the reductions in defense funding already in place, total discretionary spending would remain below the level implied by combining the defense and nondefense caps (table 6).[9] In FY1994, when the separate caps disappear, total discretionary spending would exceed the aggregate cap by about $10 billion; a similar discrepancy would be present in FY1995. In any event, the overruns for discretionary programs in those two years would be more than offset by the proposed changes to mandatory spending and taxes, holding the deficits well below the levels implied by the BEA caps on discretionary spending.

Table 6

THE PRESIDENT'S PROPOSED BUDGET AND THE BUDGET ENFORCEMENT ACT[1]
(Billions of dollars, fiscal years)

	1993	1994	1995
Total discretionary spending			
Proposed by President	556	548	555
BEA caps	560	538	543
Deficit			
Proposed by President	332	262	242
Implied by BEA caps	332	292	279

1. BEA caps are staff estimates. Official caps will be released with the Budget in April.

9. The additional funding for extended unemployment benefits was given the "emergency" designation and thus did not require the adjustments to other mandatory spending or taxes normally required by the PAYGO rules. The Congress is expected to apply the emergency designation to the rest of the stimulus package as well. Under the BEA rules, when discretionary funding is considered to be for emergency purposes, the caps are adjusted to accommodate it.

DOMESTIC FINANCIAL DEVELOPMENTS

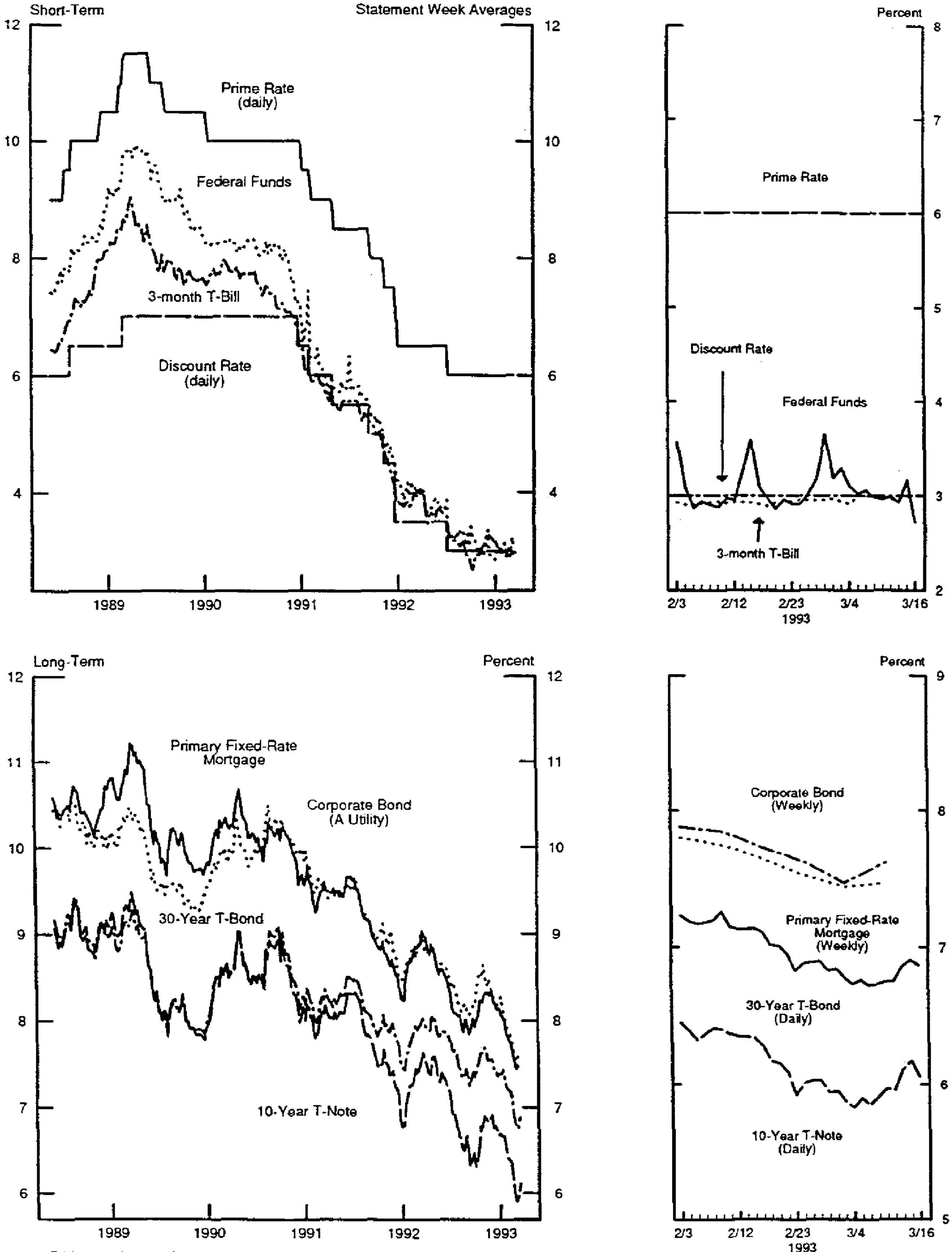
SELECTED FINANCIAL MARKET QUOTATIONS[1]
(percent)

	1992	1993		Change from:	
	Sept 4	FOMC Feb 3	Mar 16	Sept 4	FOMC Feb 3
Short-term rates					
Federal funds[2]	3.19	3.04	2.99	-.20	-.05
Treasury bills[3]					
3-month	2.92	2.93	2.98	.06	.05
6-month	2.96	3.12	3.10	.14	-.02
1-year	3.06	3.28	3.24	.18	-.04
Commercial paper					
1-month	3.22	3.19	3.17	-.05	-.02
3-month	3.22	3.23	3.19	-.03	-.04
Large negotiable CDs[3]					
1-month	3.06	3.10	3.11	.05	.01
3-month	3.06	3.16	3.12	.06	-.04
6-month	3.11	3.30	3.23	.12	-.07
Eurodollar deposits[4]					
1-month	3.31	3.06	3.06	-.25	.00
3-month	3.31	3.19	3.13	-.18	-.06
Bank prime rate	6.00	6.00	6.00	.00	.00
Intermediate- and long-term rates					
U.S. Treasury (constant maturity)					
3-year	4.38	4.77	4.50	.12	-.27
10-year	6.40	6.45	6.06	-.34	-.39
30-year	7.29	7.23	6.87	-.42	-.36
Municipal revenue[5] (Bond Buyer)	6.31	6.36	5.98	-.33	-.38
Corporate--A utility recently offered	8.06	7.96	7.64	-.42	-.32
Home mortgage rates[6]					
FHLMC 30-yr. FRM	7.84	7.86	7.47	-.37	-.39
FHLMC 1-yr. ARM	5.15	5.06	4.78	-.37	-.28

	Record highs	Date	1989 Lows Jan 3	1993 FOMC Feb 3	1993 Mar 16	Percent change from: Record highs	1989 lows	FOMC Feb 3
Stock prices								
Dow-Jones Industrial	3478.34	3/10/93	2144.64	3373.79	3442.95	-1.02	60.54	2.05
NYSE Composite	251.36	3/10/93	154.00	246.45	248.81	-1.01	61.56	.96
AMEX Composite	423.08	3/16/93	305.24	414.89	423.08	.00	38.61	1.97
NASDAQ (OTC)	708.85	2/4/93	378.56	708.67	695.47	-1.89	83.71	-1.86
Wilshire	4475.25	3/10/93	2718.59	4419.76	4440.21	-.78	63.33	.46

1/ One-day quotes except as noted.
2/ Average for two-week reserve maintenance period closest to date shown. Last observation is average to date for maintenance period ending March 17, 1993.
3/ Secondary market.
4/ Bid rates for Eurodollar deposits at 11 a.m. London time.
5/ Based on one-day Thursday quotes and futures market index changes.
6/ Quotes for week ending Friday previous to date shown.

Selected Interest Rates*



* Friday weeks are plotted through March 12 statement weeks through March 10, 1993.

Money market conditions have been stable since the February FOMC meeting. Bond yields trended downward over much of the intermeeting period, however, responding to the prospect of a significant reduction in the federal deficit; heightening of concerns about inflation prompted some backup this month, but rates remain appreciably below their early February levels. Despite the possibility that fiscal restraint might lead to a weaker economy, yields on nonfederal securities have dropped as much as Treasury rates, maintaining the relatively narrow risk premia. Stock prices moved up on a broad front. All major indexes, except the NASDAQ, posted new highs before retreating slightly recently. The NASDAQ index reached a record high shortly after the last FOMC meeting, but it lately has been dragged down by weakness in share prices of health-related firms.

The rally in the capital markets has sparked a heavy volume of bond issuance by businesses and state and local governments and also mortgage borrowing by households--a great share of which is for the repayment of existing debt. Corporations also have tapped the equity market in volume, in many instances using those proceeds to repay bank loans and other short-term debt. Growth of total domestic nonfinancial debt appears to be moderate this quarter--probably around the 5 percent pace observed on average in 1992.

Weakness in the monetary aggregates persisted in February. M1 turned down 1/4 percent at an annual rate, and M2 dropped 3-3/4 percent. The contraction in M3 slowed but still was at a 1-3/4 percent rate in February. Seasonal adjustment problems may have accentuated the latest declines, but underlying monetary growth has been weak at best, and the apparent large increase in M2 velocity is a significant departure from past patterns.

Interest Rates

The rally in the bond market pushed long-term Treasury rates in early March to their lowest levels in twenty years. Most private long-term rates also moved to near twenty-year lows; the thirty-year fixed-rate conventional mortgage, for example, recently dropped below 7-1/2 percent, the lowest level since April 1973. Spreads on fixed-rate mortgages, however, have widened about 10 basis points since mid-February because of a reassessment of prepayment risk and because of increased interest rate volatility. Rates on securities having shorter maturities have fallen less: The three-year Treasury rate is now at 4.50 percent--still 12 basis points above its low last September.

The interest rate declines over the past year or so have translated into substantial reductions in costs for both businesses and households. According to one estimate, nonfinancial corporations saved $2-1/2 billion in interest expense in 1991 and 1992 by calling high-coupon bonds. This saving, however, was dwarfed by the direct effect of lower short-term rates, which produced a total estimated reduction in interest expenses, net of interest earned on short-term assets, of $27 billion in the two-year period. For households, the estimated savings on fixed- and variable-rate mortgage loans has amounted to more than $27 billion over the past two years. Neither of these estimates includes savings from debt refinancings taking place in 1993.

Monetary Aggregates and Bank Credit

M2 contracted in February at an annual rate of 3-3/4 percent, following declines of 1/2 percent and 3-1/2 percent in December and January, respectively. The weakness in February appears to have

MONETARY AGGREGATES
(based on seasonally adjusted data unless otherwise noted)

	1992[1]	1992 Q3	1992 Q4	1992 Dec	1993 Jan	1993 Feb p	Growth Q4 92- Feb 93p
	------------Percent change at annual rates------------						
1. M1	14.3	11.6	16.8	8.8	7.7	-0.2	6.2
2. M2	2.0	0.8	3.1	-0.5	-3.4	-3.8	-2.2
3. M3	0.5	0.1	0.1	-3.5	-6.6	-1.8	-3.5
	------------Percent change at annual rates------------						Levels bil. $ Feb 93p
Selected components							
4. M1-A	13.7	12.2	15.3	7.3	6.2	3.9	646.8
5. Currency	9.1	11.1	10.3	10.4	10.3	8.5	296.9
6. Demand deposits	18.0	13.3	19.6	4.9	3.9	0.0	342.0
7. Other checkable deposits	15.4	10.8	19.3	11.3	10.3	-7.1	386.2
8. M2 minus M1[2]	-2.4	-3.2	-2.3	-4.3	-8.0	-5.4	2449.9
9. Overnight RPs and Eurodollars, NSA	2.0	15.1	3.8	-20.7	-22.7	16.5	73.7
10. General purpose and broker/dealer money market mutual fund shares	-3.4	-7.3	-1.0	-7.2	-10.0	-20.5	340.0
11. Commercial banks	-0.1	-1.6	0.2	-1.2	-6.0	2.4	1259.2
12. Savings deposits (including MMDAs)	14.5	10.9	12.9	5.7	-3.2	2.5	755.7
13. Small time deposits	-15.8	-17.4	-17.2	-11.5	-10.7	2.1	503.4
14. Thrift institutions	-5.5	-4.7	-5.9	-6.6	-6.7	-16.0	778.6
15. Savings deposits (including MMDAs)	14.8	9.2	8.7	5.6	1.1	-9.8	426.8
16. Small time deposits	-21.5	-18.5	-21.7	-21.1	-15.5	-23.4	351.8
17. M3 minus M2[3]	-6.6	-3.6	-14.3	-18.7	-23.3	9.1	661.8
18. Large time deposits	-16.3	-17.9	-17.1	-12.6	-22.5	-10.9	347.6
19. At commercial banks, net[4]	-15.4	-18.6	-18.3	-10.7	-26.9	-6.8	282.1
20. At thrift institutions	-19.6	-14.7	-11.3	-21.0	-3.6	-28.6	65.5
21. Institution-only money market mutual fund shares	18.2	32.8	-19.3	-39.6	-27.3	25.5	201.9
22. Term RPs, NSA	7.8	2.6	23.1	-10.3	-10.4	40.6	82.6
23. Term Eurodollars, NSA	-22.6	-19.5	-28.5	-33.1	-60.1	55.0	45.6
	-----Average monthly change in billions of dollars----						
MEMORANDA:[5]							
24. Managed liabilities at commercial banks (25+26)	-2.0	1.1	-4.3	-1.7	-6.6	-4.9	668.0
25. Large time deposits, gross	-4.6	-3.4	-5.5	-4.7	-6.7	-1.9	358.0
26. Nondeposit funds	2.6	4.4	1.2	3.0	0.1	-3.0	310.0
27. Net due to related foreign institutions	2.7	0.9	2.4	2.3	3.1	-2.0	72.2
28. Other[6]	-0.1	3.5	-1.2	0.5	-2.9	-1.0	237.8
29. U.S. government deposits at commercial banks[7]	-0.5	-0.2	-1.2	-0.3	5.2	-2.0	23.6

1. Amounts shown are from fourth quarter to fourth quarter.
2. Nontransactions M2 is seasonally adjusted as a whole.
3. The non-M2 component of M3 is seasonally adjusted as a whole.
4. Net of large denomination time deposits held by money market mutual funds and thrift institutions.
5. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis.
6. Consists of borrowing 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 borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estimated.
7. Consists of Treasury demand deposits and note balances at commercial banks.
p - preliminary

been magnified by the use of seasonal adjustment factors that now reflect nonseasonal movements in the aggregate in 1991 and 1992. In each of those years, M2 growth was buoyed in February by the lagged effects of earlier monetary easings, a factor not present in 1993. In addition, reflecting the pause in applications in late 1992, settlements of mortgage refinancing transactions have dropped off, thereby depressing liquid deposit holdings. The current wave of refinancing applications should result in a rebound in the spring. These phenomena especially affected M1, which contracted at a 1/4 percent annual rate in February, a result of declines in both demand deposits and other checkable deposits. M1 would actually have posted a healthy gain, had the seasonal factors not reflected the unusual movements of the past two years. Similarly, the weakness in some of the more liquid nontransaction components of M2, such as savings accounts (including money market deposit accounts) and retail money market mutual funds, may have been overstated. Although an undistorted M2 as a whole might have grown a little in February, it would still be below the lower bound of its 1993 growth cone. Preliminary data for early March suggest only a small advance in M2.

M2 velocity in the final quarter likely will rise well in excess of the 3-1/2 percent to 4 percent increases recorded through much of last year, even after adjusting for the special factors that have depressed the aggregate recently. In addition, staff money-demand models, embodying historical patterns of M2, income, and opportunity costs, have continued to overpredict M2 growth.

The rechanneling of credit flows outside the depository system continues to be responsible, at least in part, for the increases in M2 and M3 velocity. Indeed, stock and bond mutual funds posted additional strong inflows in January, and net sales of long-term funds reportedly remained robust in February.

Also damping money growth in recent quarters has been heavy reliance by banks on funds not in the broad monetary aggregates. Deposit inflows at commercial banks fell well short of the increase in bank credit in 1992--even more so than average in the 1990-91 period (table). Bank borrowing from abroad has been strong for some time now, and banks have also been relying more heavily on subordinated debt and equity.

CHANGES IN BANK CREDIT AND DEPOSITS
(Billions of dollars, Q4 to Q4)

	Bank credit	Bank deposits[1]
1990	144.9	111.3
1991	95.0	99.0
1992	107.2	35.2
1993[2]	0.1	-9.3

1. Demand deposits + OCDs + savings deposits + MMDAs + small time deposits + large time deposits.
2. Change on a seasonally adjusted basis from December 1992 to February 1993.

M3, which contracted at a 6-1/2 percent annual rate in January, fell 1-3/4 percent in February, reflecting a rebound in institution-only money market mutual funds. Preliminary data suggest further weakness in M3 in March.

Bank credit edged up in February after decreasing in the previous month, though the turnaround was more than accounted for by a bank acquisition of a large thrift institution in a private transaction. The effect of the acquisition was particularly evident in bank holdings of securities, which surged last month after a rare contraction in January. Consumer loans strengthened as well, partly reflecting tax-refund-anticipation loans. Business and real estate loans, by contrast, declined.

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

Category	1991 Dec. to 1992 Dec.	1992 Q 3	1992 Q 4	1992 Dec.	1993 Jan.	1993 Feb. p	Level, bil.$ 1993 Feb. p
	Commercial bank credit						
1. Total loans and securities at banks	3.6	4.7	3.1	2.5	-1.6	1.6	2,940.1
2. Securities	13.1	16.2	7.9	6.9	-3.2	14.4	843.4
3. U.S. government	17.7	19.2	11.7	11.4	0.2	15.3	667.8
4. Other	-1.1	5.7	-5.6	-9.5	-15.7	11.7	175.7
5. Loans	0.2	0.5	1.3	0.7	-1.0	-3.4	2,096.7
6. Business	-3.1	-1.9	-1.6	-4.2	3.8	-2.0	597.4
7. Real estate	2.1	2.0	2.4	-0.3	-5.0	-2.4	887.2
8. Consumer	-2.0	-1.9	-1.8	0.0	9.1	10.1	360.8
9. Security	19.0	3.1	6.3	11.2	-33.2	-22.8	62.0
10. Other	1.0	4.4	8.4	17.5	-4.9	-30.9	189.2
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-3.1	-2.0	-2.3	-3.7	4.5	-4.7	589.7
12. Loans at foreign branches[2]	2.0	0.0	11.4	24.2	4.7	-56.7	24.2
13. Sum of lines 11 and 12	-2.9	-2.0	-1.6	-2.1	4.3	-6.8	613.9
14. Commercial paper issued by nonfinancial firms	9.1	7.6	15.2	-9.5	-6.4	-3.2	149.2
15. Sum of lines 13 and 14	-0.8	-0.2	1.6	-3.6	2.2	-6.1	763.1
16. Bankers acceptances, U.S. trade-related[3,4]	-16.9	-21.0	-6.8	0.0	-15.6	n.a.	22.8[5]
17. Finance company loans to business[4]	1.4	8.6	0.5	2.8	-8.2	n.a.	303.4[5]
18. Total (sum of lines 15, 16, and 17)	-0.6	1.7	1.1	-1.8	-1.1	n.a.	1,093.2[5]

1. Average of Wednesdays. Data are adjusted for breaks caused by reclassifications.
2. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
3. Consists of acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.
4. Based on average of data for current and preceding ends of month.
5. January 1993.
p--Preliminary.
n.a.--Not available.

Evidence on credit availability to businesses has been mixed of late. Information from the Survey of the Terms of Bank Lending conducted in early February showed that nonprice lending terms had remained fairly restrictive and that spreads had remained wide, particularly for small prime-based loans.[1] However, surveys of overall credit conditions for small businesses conducted by the National Federation of Independent Business have generally reported less tightness over the past year, although some backtracking was seen in the February survey. Business loans at small banks, which are thought to go mainly to small and medium-sized firms, rose in February for the second consecutive month after steady declines over the previous two years. To improve credit availability to small businesses, federal bank and thrift regulators announced on March 10 a program that would, among other things, lower the documentation required for small business loans made by strong and well-managed institutions and reduce the appraisal burden on small business loans secured by real estate.

Business Finance

The weakness in commercial and industrial loans and a further contraction in February in outstanding commercial paper of nonfinancial corporations are consistent with efforts by firms to extend the maturity of their debt in response to lower long-term interest rates. Nonfinancial firms publicly issued an estimated $19 billion of corporate bonds in February, only slightly less than the record $19.8 billion issued in January; volume in the first half of March also appears to be running close to a record pace. Nearly

1. These spreads, however, could be somewhat misleading. To the degree that banks may have become more accommodative toward marginal borrowers, such new borrowers would qualify for loans at larger spreads than others who had been receiving credit, tending to raise the average. A few banks responding to the Senior Loan Officer Survey in late January indicated a tilt toward accommodation, especially for smaller borrowers.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly rates, not seasonally adjusted, billions of dollars)

	1991	1992p	1992 Q3	1992 Q4p	1992 Decp	1993 Janp	1993 Febp
Corporate securities - total[1]	32.15	40.81	42.28	38.34	39.78	51.29	57.07
Public offerings in U.S.	29.37	38.01	39.88	36.14	37.95	47.73	54.59
Stocks--total[2]	5.44	6.54	5.69	5.84	6.05	5.23	10.09
Nonfinancial	3.72	4.03	2.86	3.13	4.03	2.80	5.08
Utility	0.42	0.87	1.06	0.44	0.34	0.38	0.41
Industrial	3.30	3.16	1.80	2.69	3.69	2.42	4.67
Financial	1.72	2.51	2.83	2.71	2.02	2.44	5.01
Bonds	23.93	31.47	34.19	30.31	31.90	42.50	44.50
Nonfinancial	9.52	12.82	14.96	10.46	10.20	19.80	19.00
Utility	2.99	5.33	7.53	3.36	4.00	7.80	9.00
Industrial	6.54	7.48	7.43	7.10	6.20	12.00	10.00
Financial	14.40	18.66	19.23	19.84	21.70	22.70	25.50
By quality[3]							
Aaa and Aa	3.72	3.73	4.63	3.26	3.25	5.10	8.30
A and Baa	12.09	14.52	15.20	11.95	11.42	19.93	19.97
Less than Baa	1.03	3.10	3.11	3.24	3.85	6.50	3.78
No rating (or unknown)	0.02	0.07	0.04	0.16	0.07	0.02	0.00
Memo items:							
Equity-based bonds[4]	0.63	0.62	0.28	0.68	1.31	0.69	0.20
Mortgage-backed bonds	2.99	6.07	6.76	6.05	5.80	7.41	7.52
Other asset-backed	4.08	3.99	4.45	5.64	7.52	3.55	4.93
Variable-rate notes	0.84	1.89	2.00	2.47	4.42	0.20	3.72
Bonds sold abroad - total	2.33	2.30	2.18	1.95	1.54	3.20	1.80
Nonfinancial	1.00	0.84	0.71	0.63	0.35	0.60	0.70
Financial	1.33	1.46	1.47	1.32	1.19	2.60	1.10
Stocks sold abroad - total	0.46	0.50	0.22	0.25	0.29	0.36	0.68
Nonfinancial	0.38	0.39	0.17	0.19	0.29	0.23	0.49
Financial	0.08	0.12	0.04	0.09	0.00	0.14	0.19

1. Securities issued in the private placement market are not included. Total reflects gross proceeds rather than par value of original discount bonds.
2. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings. Such swaps totaled $15 billion in 1991.
3. Bonds categorized according to Moody's bond ratings, or to Standard and Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.
p-Preliminary.

40 percent of nonfinancial bond offerings thus far in 1993 carry maturities of more than fifteen years, the highest proportion since 1986, when 46 percent of offerings had maturities that long. The same measure averaged only about 17 percent over the 1987-91 period. In March, Texaco marketed a fifty-year bond, the first such issue by an industrial firm in fifteen years.

Corporations have been refunding many bonds that were originally issued in the 1960s and 1970s. In the recent round of refinancing, firms also have called some bonds issued in 1986, when the last trough in rates occurred. Bond calls by nonfinancial corporations through early March have amounted to $23 billion; if interest rates hold near current levels, calls in 1993 could surpass last year's record $78 billion.

With no widening in quality spreads, more than $12 billion of junk bonds have been issued thus far in 1993, compared with $37 billion in all of 1992. Two companies--Time Warner and News America--account for $5 billion of this year's volume. Time Warner used the proceeds to redeem preferred stock issued in its 1990 merger, while News America is paying down bank debt. Other below-investment-grade companies that have earmarked their 1993 bond offerings proceeds to pay off bank debt include Bally's Health & Tennis, Kaiser Aluminum and Chemical, Overhead Door, Cablevision Systems, Dial Page, Di Giorgio, BE Aerospace, Standard Pacific, and Weirton Steel.

Net equity issuance by nonfinancial corporations appears so far in 1993 to be nearly matching the $27 billion pace of 1992. In February, gross issuance soared to $5 billion, the largest volume since last June. February's offerings included $1 billion of initial public offerings, mostly by small and medium-sized firms, and a $2 billion issue by Chrysler Corporation. Chrysler will reportedly use more than $1 billion of the proceeds to shore up its underfunded pension plan. Sears raised $800 million by spinning off 20 percent of Dean Witter. In March, equity issuance has remained strong, with initial public offerings already above the level of each of the previous two months.

Recently, several prominent nonfinancial firms have sold large issues of convertible preferred stock in the private placement market. AMR Corp, UAL Corp, and Occidental Petroleum, for example, have raised $2 billion with private placements sold under SEC Rule 144A. In 1992, U.S. companies raised an estimated $25 billion in the 144A market (both debt and equity), up from $10 billion in 1991. Securities sold under Rule 144A are similar in many respects to those sold in the public bond and equity markets. As the private market has become more liquid, the yield difference between private and public securities has shrunk. Consequently, issuers have become more willing to place in the private market, where they can avoid the costs and delays of the SEC registration process.

Banking firms have continued to improve their capital ratios in 1993 by issuing securities in the public markets--more than $500 million each of common and preferred stock, and more than $3 billion of subordinated notes. As the profitability of the banking industry has improved, rating upgrades have outnumbered downgrades, and yield spreads on subordinated notes, at about 100 basis points over comparable Treasury notes, have declined to their narrowest levels since early 1989. Over the intermeeting period, bank stock price indexes have risen about 6 percent.

In contrast, the finance company subsidiaries of the Big Three auto companies have been downgraded, prompting them to fund assets with off-balance-sheet securitizations instead of unsecured commercial paper and medium-term notes. In 1993, the auto finance companies have already securitized almost $6 billion in auto loans, compared with a record $19 billion in 1992. To appeal to money market mutual funds, some of these securities have been structured with short maturity tranches. Asset-backed securities with floating interest rates have also become more common. In contrast to the auto companies, banks have securitized less than $1 billion in assets thus far in 1993.

Treasury and Sponsored Agency Financing

The $63 billion federal deficit in the first quarter is being financed with $53 billion of marketable borrowing and a $6 billion rundown in the Treasury's cash balance. Nonmarketable borrowing has remained weak, in part because of heavy redemptions of state and local government series debt (SLGs) issued by the Treasury to municipalities, as state and local governments have used marketable Treasury securities recently for defeasance of advance refunded bonds.[2]

Gross auction sizes have been pared back over the first quarter because tax receipts have been stronger than anticipated. So far, the Treasury has cut the size of the weekly bill auction from $24.4 billion to $22.4 billion, while the size of the coupon auction has been trimmed $250 million for two-year notes and $1 billion for thirty-year bonds. Despite all this, the staff anticipates that the Treasury will run into the debt ceiling in early April.

2. In an advance refunding, an issuer refinances an outstanding bond before its first call date by selling a new issue (the refunding bonds) and using the proceeds to defease the outstanding bonds through the purchase of Treasury securities. The cash flows of the Treasury securities are used to make the interest and principal payments on the outstanding bonds until they are redeemed on the call date. The municipal issuer is not allowed to earn a positive spread between the yield on the Treasury securities and the refunding bonds; a negative spread, however, can be incurred, as has been the case in recent months. The current steep Treasury yield curve means that interest rates on long-term refunding bonds generally exceed yields on shorter-term Treasury securities used for defeasance.

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

	1992	1993			
	Q4	Q1^p	Jan.	Feb.^{p}	Mar.^{p}
Treasury financing					
Total surplus/deficit (-)	-120.5	-63.4	29.8	-51.3	-41.9
Means of financing deficit:					
Net cash borrowing from the public	81.4	56.7	-8.4	30.2	34.8
Marketable borrowings/ repayments (-)	76.7	52.5	-7.0	27.3	32.1
Bills	23.4	2.3	-10.6	1.4	11.6
Coupons	53.3	50.1	3.7	25.9	20.6
Nonmarketable	4.7	4.2	-1.4	2.9	2.7
Decrease in the cash balance	28.9	5.7	-16.4	27.2	-5.1
Memo: Cash balance at end of period	29.9	24.2	46.3	19.1	24.2
Other[2]	10.1	1.0	-5.0	-6.2	12.2
Government sponsored enterprises, net cash borrowing[3]	7.9	--	--	--	--
FHLBs	3.9	--	--	--	--
FHLMC	-7.1	--	4.8	--	--
FNMA	11.1	--	-0.3	--	--
Farm Credit Banks	-0.8	--	0.4	--	--
SLMA	-0.8	--	--	--	--
FAMC[4]	.0	--	.0	--	--

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.
4. Federal Agricultural Mortgage Corporation.
p-projected.
Note: Components may not sum to totals because of rounding.

Remarks made early-on by the Administration about projected savings from shifting the emphasis of borrowing away from the long bond initially were interpreted by market participants as suggesting the likelihood of drastic reductions in long bond supplies. However, more recent statements from the Treasury indicate that the matter is still under review. Nevertheless, the anticipation that the Treasury may cut back further on long-bond supplies appears to be a factor buoying prices at that end of the market.

New debt issues of government-sponsored enterprises continue to be well received; spreads over Treasuries have remained narrow, ranging from 5 basis points for short maturities to 20 basis points for ten-year issues. The price of Sallie Mae's stock has declined about one-third since the Clinton Adminstration in February announced plans to shift funding of student loans from private capital lending to direct lending by the Treasury in order to reduce costs to the government.

Municipal Securities

The rally in the bond market has favored long-term tax-exempt securities, on which yields have fallen nearly 40 basis points since the February FOMC meeting. In the first several weeks after the President's State of the Union address, municipal bond yields fell relative to long-term Treasury rates, as high-income individuals and municipal bond funds stepped up purchases of tax-exempt securities from an already rapid pace.

Offerings for new capital have fallen off sharply in the past two months, but refunding volume has surged with the decline in municipal bond yields. Refundings averaged about $11 billion per month over the past three months, compared with a record average of $8 billion per month in 1992. At current interest rates, refunding activity is likely to remain brisk, with many of the long-term bonds issued between January 1988 and June 1992 as likely candidates for refinancing.[3] The heavy calendar of bonds scheduled for sale over the remainder of March could swell long-term offerings this month to well over $20 billion, up from $16 billion in February.

GROSS OFFERINGS OF MUNICIPAL SECURITIES
(Monthly rates, not seasonally adjusted, billions of dollars)

	1991	1992p	1992 Q3	1992 Q4p	1992 Dec.p	1993 Jan.p	1993 Feb.p
Total offerings[1]	16.68	21.78	25.09	19.88	20.92	18.88	17.87
Total tax-exempt	16.26	21.22	24.65	19.34	20.35	18.60	17.63
Long-term	12.87	17.93	18.62	18.27	19.58	17.58	16.13
Refundings[2]	3.12	7.91	8.60	8.34	11.57	10.65	11.25
New capital	9.75	10.02	10.02	9.93	8.01	6.93	4.88
Short-term	3.39	3.28	6.03	1.07	.77	1.02	1.50
Total taxable	.42	.57	.44	.54	.57	.28	.24

p-Preliminary.
1. Includes issues for public and private purposes.
2. Includes all refunding bonds, not just advance refundings.

Mortgage Markets

In addition to the drop in rates on conventional fixed-rate mortgages (FRMs), initial rates on adjustable-rate mortgages (ARMs) have declined about 30 basis points, to 4.78 percent, the lowest on record. However, with the yield curve flattening, the initial rate advantage of ARMs has narrowed slightly to around 270 basis points, and weekly survey data show that ARMs now account for only about 15 percent of the volume of all mortgage loan applications at mortgage banking companies, down from the 21 percent share recorded at the end of 1992.

3. Market observers suggest that refunding an outstanding issue is economically feasible when the difference between the coupon rate and the market rate exceeds 100 basis points. At current interest rates, refunding is feasible for an estimated $225 billion of outstanding bonds.

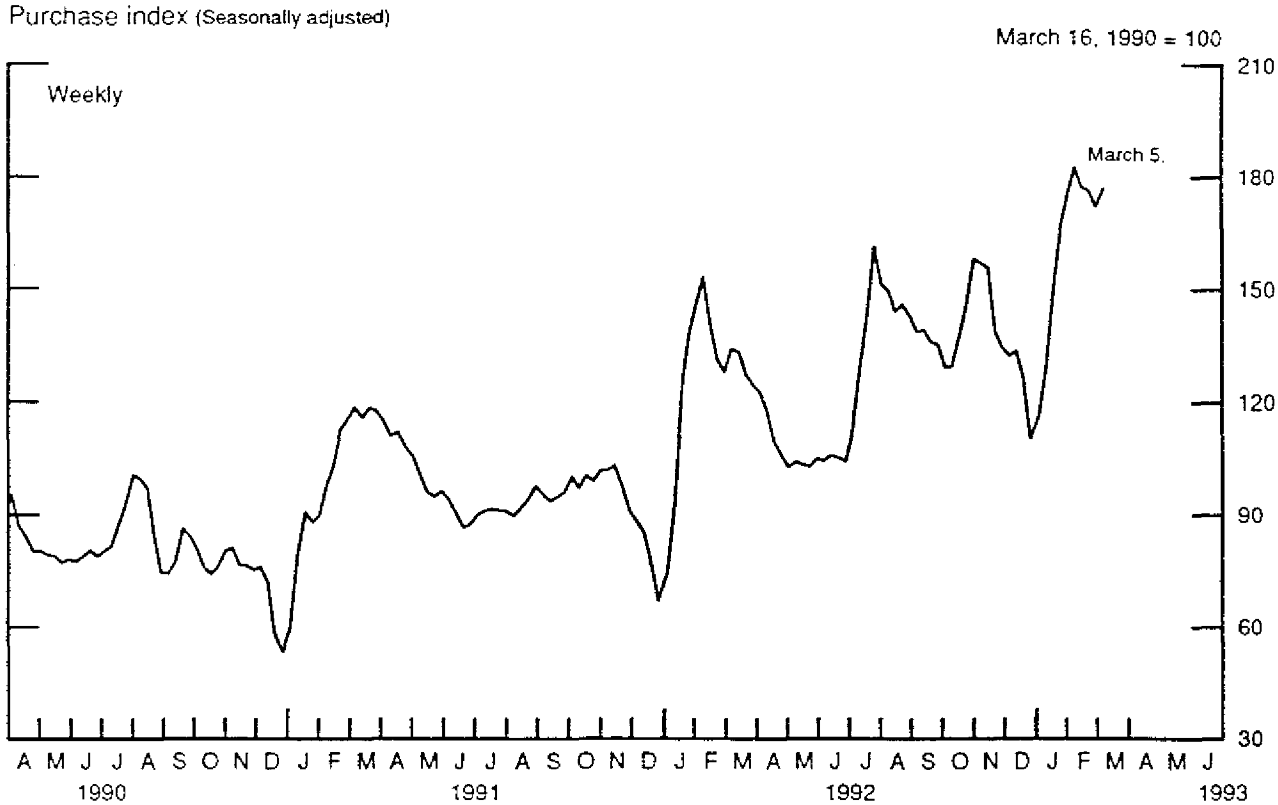
Applications in February for home purchase loans at mortgage bankers were at the highest pace recorded in the Mortgage Bankers Association's (MBA) three-year-old series (chart), pointing to increases in residential mortgage credit this spring. In addition, the MBA index of refinancing applications has nearly tripled since year-end and stands close to the level reached last July.

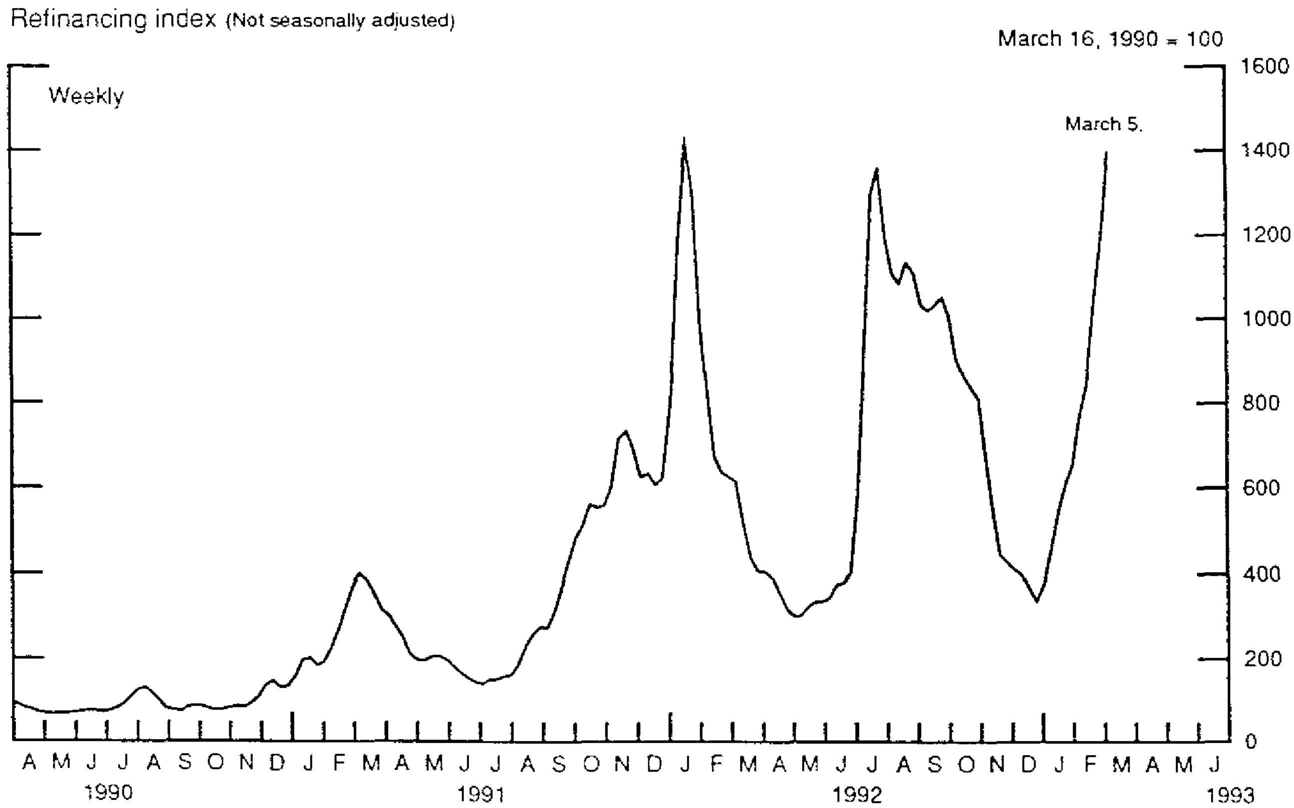
Most loans underlying outstanding mortgage-backed securities have coupon rates above current mortgage rates. Indeed, according to industry estimates, almost a third of outstanding mortgage securities in the conventional market are backed by loans with rates two percentage points or more above current rates. An additional third have rates between one and two percentage points above current rates. Consequently, prepayment rates are expected to increase significantly this spring, and mortgage yield spreads in the secondary market have widened a bit in anticipation. In turn, the spread between initial rates on FRMs and Treasuries also has widened somewhat over the past month but remained well below levels experienced during the refinancing frenzy of 1986 (chart).

The demand for home loans continues to be satisfied largely through issuance of mortgage-backed securities. Gross issuance of federally related pass-throughs slowed a bit in January from the rapid pace in November and December (table). However, issuance of total agency pass-throughs remained above the 1992 monthly average of $38 billion. In addition, issuance of total nonagency pass-throughs in January remained near the record $7-1/2 billion monthly rate of 1992. Data for February indicate that issuance abated somewhat from the January pace.

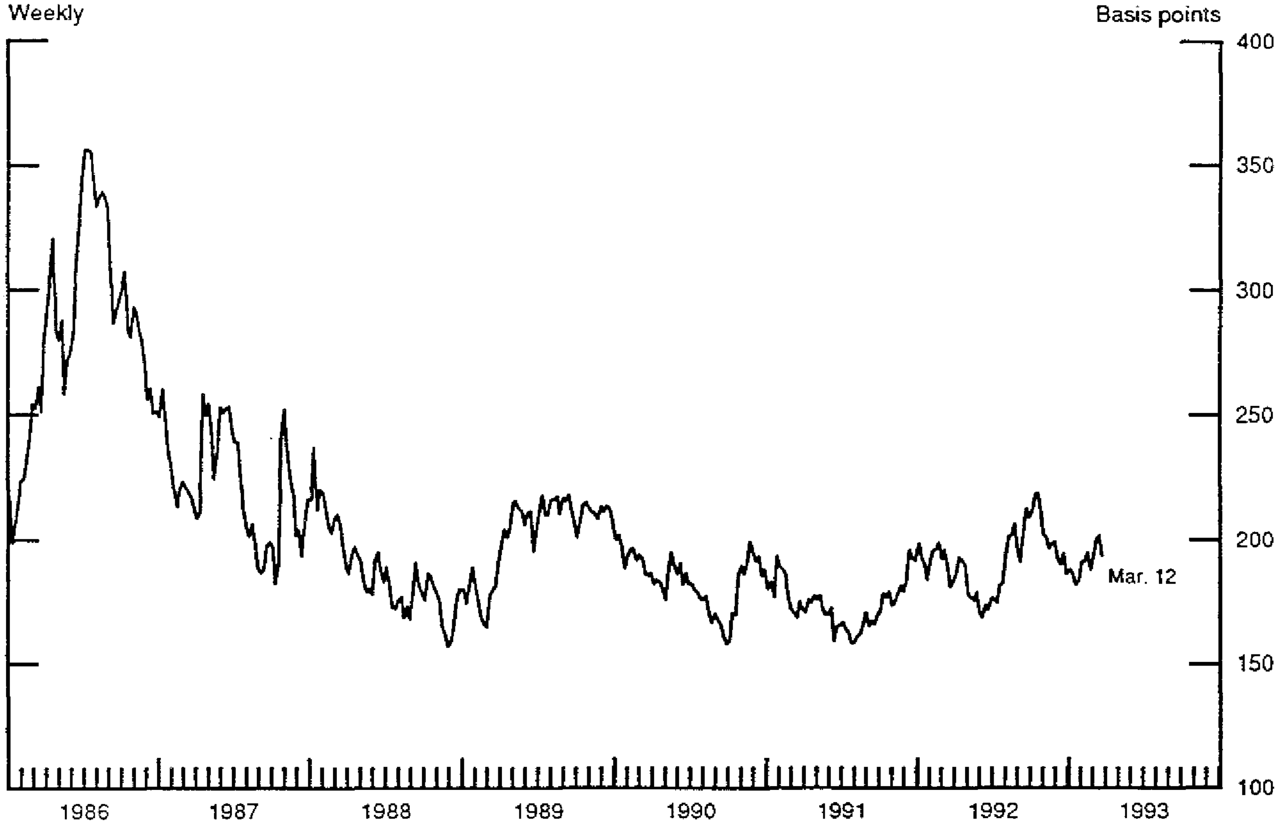
Rated securities backed exclusively by nonperforming residential mortgages were brought to market for the first time in February, enhancing liquidity of mortgage assets further. EMC

MBA Indexes of Mortgage Loan Applications





Yield Spread between Fixed-Rate Mortgage and Seven-Year Treasury Note



MORTGAGE-BACKED SECURITY ISSUANCE
(Monthly averages, billions of dollars, NSA unless noted)

	Pass-through securities					Multiclass securities				
		Agency		Non-agency						
	Total (SA)	FRM (SA)	ARM	FRM	ARM	Total	Private issues[1]	FNMA REMICs	FHLMC REMICs	Agency strips
1989 r	17.9	14.0	2.7	.5	.7	8.4	1.6	3.1	3.2	.3
1990 r	21.6	17.2	2.4	1.4	.6	11.5	2.4	5.1	3.4	.6
1991 r	26.5	20.4	2.0	2.6	1.6	18.4	3.0	8.5	6.0	.9
1992 r	45.4	34.7	3.2	5.3	2.2	30.8	6.1	12.9	11.0	.8
1992-Q1 r	38.0	29.1	2.0	4.9	2.0	23.5	4.8	11.1	7.0	.6
Q2 r	47.4	36.8	3.6	5.4	1.6	33.9	6.6	13.9	12.4	.9
Q3 r	41.9	30.3	3.2	6.1	2.3	36.1	6.8	16.7	11.5	1.1
Q4 r	54.2	42.8	4.0	4.6	2.8	29.7	6.1	9.9	12.9	.8
1992-Aug. r	41.3	29.8	3.0	6.0	2.5	36.7	8.0	15.0	12.9	.8
Sep. r	46.1	32.5	3.5	7.5	2.7	32.4	6.1	15.4	9.9	1.1
Oct. r	52.2	41.9	3.5	4.4	2.4	34.3	6.0	14.5	13.5	.3
Nov. r	54.7	43.7	3.8	5.4	1.8	31.4	6.4	10.7	13.2	1.1
Dec. r	55.4	42.8	4.6	4.0	4.0	23.3	5.8	4.6	11.9	1.0
1993-Jan. p	49.1	38.2	3.9	6.1	.9	25.5	5.4	13.6	5.4	1.1

1. Excludes pass-through securities with senior/subordinated structures.
p-Preliminary. r-Revised.

19st, a subsidiary of Bear Stearns, sold a $131 million issue carrying a AA rating from Fitch. The AA rating was based on credit enhancement in the form of over-collateralization. Separately, the RTC privately placed $52 million of securities carrying a BBB rating from Fitch; the package relied on a cash reserve fund for credit enhancement.

Consumer installment credit

Consumer installment credit outstanding increased at a 1-1/2 percent seasonally adjusted annual rate in January, after a 5-1/4 percent gain in December. The January advance was entirely in the revolving credit category. Auto loans declined in January, after posting a sizable increase in December. Despite the increases over the past few months, total installment credit remains below the year-ago level.

Interest rates for consumer auto and personal loans at commercial banks were little changed in the first week of February from three months earlier. Even so, the average "most common" rate on a forty-eight month new car loan edged down 3 basis points to 8.57 percent in February, the lowest in the twenty-year history of the series. The average rate on credit card plans at commercial banks declined 12 basis points to 17.26 percent, the lowest rate since early 1980. The survey data may understate the decline in credit card rates, as the "most common" rate reported by banks does not reflect the lower rates made available over the past year to selected subsets of cardholders. At the captive auto finance companies, new car loan rates increased in January, in part reflecting the end of some incentive plans; used car rates also rose during the month.

Data on consumer credit quality for the fourth quarter show further improvement. Delinquency rates on all closed-end loans at

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (Annual rate)							Memo: Outstandings[1] (billions of dollars)
				1992			1993	1993
	1990	1991	1992	Q3	Q4	Dec.[r]	Jan.[p]	Jan.[p]
Installment	2.6	-1.0	-.2	-.5	2.5	5.3	1.5	727.6
Auto	-2.4	-7.6	-1.1	.1	4.2	11.0	-2.5	259.5
Revolving	11.9	8.9	3.5	4.2	2.0	3.1	9.4	253.2
Other	.8	-2.3	-3.0	-6.3	1.1	1.2	-2.9	214.7
Noninstallment	-3.5	-10.0	5.7	8.2	-11.1	-10.5	70.2	59.0
Total	2.1	-1.7	.2	.2	1.5	4.2	6.4	786.6

1. Components may not sum to totals because of rounding.
r-Revised. p-Preliminary.

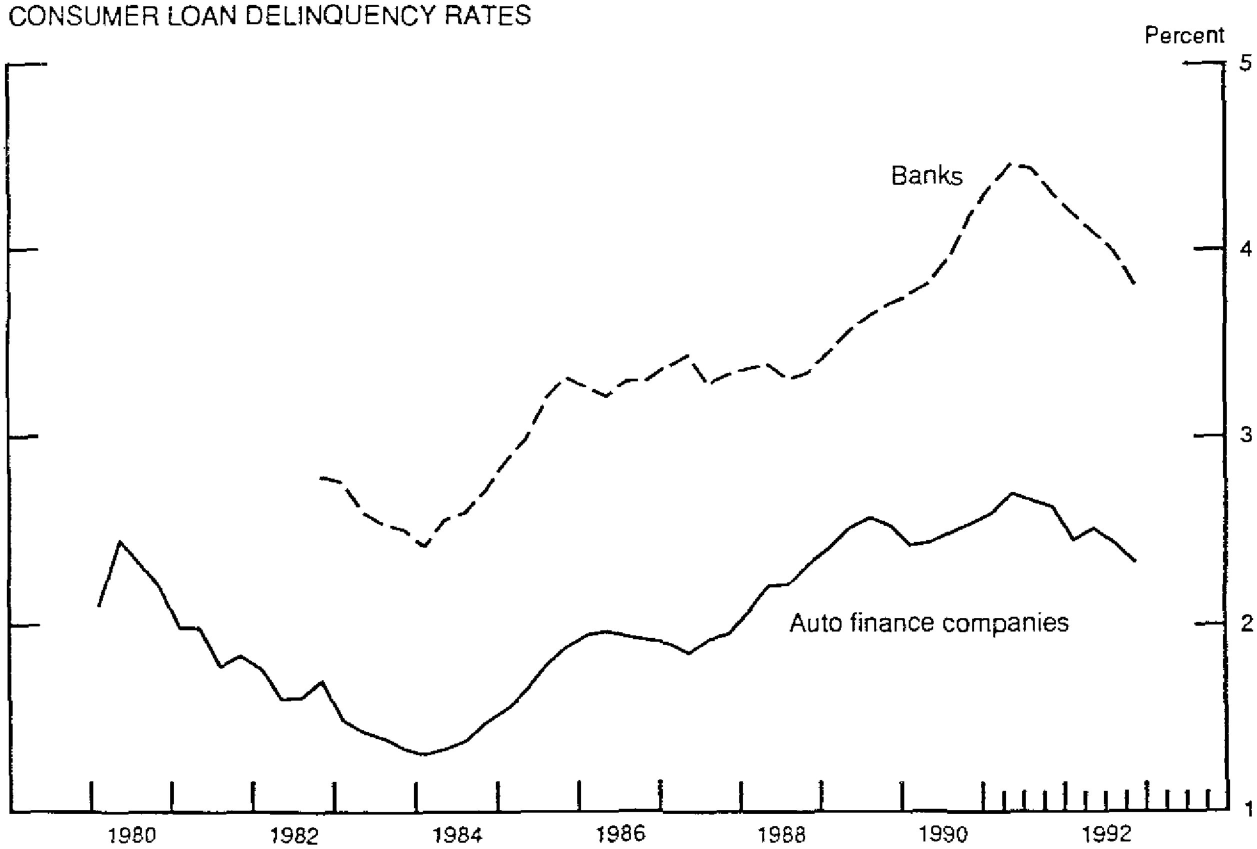
CONSUMER INTEREST RATES
(Annual percentage rate)

				1992			1993	
	1990	1991	1992	Aug.	Nov.	Dec.	Jan.	Feb.
At commercial banks[1]								
New cars (48 mo.)	11.78	11.14	9.29	9.15	8.60	...	...	8.57
Personal (24 mo.)	15.46	15.18	14.04	13.94	13.55	...	...	13.57
Credit cards	18.17	18.23	17.78	17.66	17.38	...	...	17.26
At auto finance cos.[2]								
New cars	12.54	12.41	9.93	8.88	9.65	9.65	10.08	...
Used cars	15.99	15.60	13.79	13.49	13.37	13.53	13.72	...

1. Average of "most common" rate charged for specified type and maturity during the first week of the middle month of each quarter.
2. For monthly data, rate for all loans of each type made during the month regardless of maturity.
Note: Annual data are averages of quarterly data for commercial bank rates and of monthly data for auto finance company rates.

commercial banks declined 0.05 percentage point in the fourth quarter to 2.49 percent, according to the American Bankers Association (ABA). (Precise comparisons with data prior to 1992 are not possible because definitions have changed, but the ABA delinquency rates declined throughout 1992.) The ABA credit card delinquency rate fell 0.07 percentage point in the fourth quarter to 3.02 percent. The captive auto finance companies reported a 0.10 percentage point decline in past-due auto loans for the fourth quarter, bringing the delinquency rate to 2.35 percent, the lowest since the end of 1988. Call Reports for commercial banks also showed a 0.20 percentage point decline in delinquent consumer loans in the fourth quarter, lowering the rate to 3.81 percent (chart).

CONSUMER LOAN DELINQUENCY RATES



Source: Call Report (banks), Federal Reserve (finance companies).

Delinquency rates on home mortgages declined to the lowest level in more than a decade, according to the Mortgage Bankers Association. The rate for loans delinquent sixty days or more, at 1.40 percent in the fourth quarter, matched the ten-year low that occurred in the second quarter of 1990. Call Reports also showed significant improvement in mortgage delinquency rates. Real estate loan delinquency rates at commercial banks dropped to 6.02 percent, the lowest since the third quarter of 1990. Loan delinquency rates on both one- to four-family and commercial real estate dropped nearly 25 basis points in the fourth quarter; loan delinquency rates on multifamily properties registered a small decline.

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

The U.S. merchandise trade deficit narrowed slightly in December to $7.0 billion (seasonally adjusted, Census basis) from a revised November deficit of $7.3 billion. Exports increased 3.9 percent while imports increased 2.6 percent in December. The gain in exports was primarily in capital goods (aircraft and machinery). The rise in imports was spread among most trade categories, with the exception of oil. Data for January 1993 will be released on March 18 and will be included in the Greenbook supplement.

U.S. MERCHANDISE TRADE: MONTHLY DATA
(Billions of dollars, seasonally adjusted, Census basis)

	Exports			Imports			
	Total	Ag.	NonAg.	Total	Oil	NonOil	Balance
1992-Jan	35.5	3.6	31.9	41.4	3.7	37.7	-5.9
Feb	37.7	3.7	33.9	41.1	3.3	37.7	-3.4
Mar	37.1	3.5	33.6	42.8	3.5	39.4	-5.7
Apr	36.4	3.8	32.7	43.5	4.0	39.5	-7.1
May	35.7	3.3	32.4	42.9	4.2	38.7	-7.2
Jun	38.2	3.5	34.7	45.0	4.8	40.1	-6.8
Jul	37.8	3.9	33.9	45.2	4.8	40.3	-7.4
Aug	35.8	3.6	32.2	45.0	4.6	40.3	-9.2
Sep	37.9	4.0	33.9	46.6	4.8	41.8	-8.7
Oct	39.1	4.1	35.0	46.3	5.0	41.3	-7.3
Nov	38.2	3.7	34.5	45.5	4.5	41.0	-7.3
Dec	39.7	3.7	36.0	46.7	4.2	42.5	-7.0

Source: U.S. Department of Commerce, Bureau of the Census.

As shown on the next page, in the fourth quarter of 1992 the trade deficit narrowed for the first time in three quarters (balance of payments basis). A 4 percent increase in exports was led by increased shipments of capital goods, both aircraft and machinery. There was also an increase in exports of automotive vehicles (especially to Saudi Arabia, Kuwait, and developing countries in

MAJOR TRADE CATEGORIES
(Billions of dollars, BOP basis, SAAR)

	Year		1992				$ Change	
	1991	1992	Q1	Q2	Q3	Q4	Q4-Q4	Q4-Q3
Trade Balance	-73.4	-96.3	-70.7	-100.0	-110.5	-103.9	-29.7	6.6
Total U.S. Exports	416.0	439.3	430.5	428.6	440.5	457.5	26.1	17.0
Agric. Exports	40.1	43.9	42.9	41.4	45.9	45.6	2.4	-0.3
Nonagric. Exports	375.8	395.3	387.7	387.2	394.6	411.9	23.7	17.3
Industrial Suppl.	101.8	101.6	99.6	100.1	102.4	104.4	4.4	2.0
Gold	3.6	4.5	3.8	3.5	3.6	7.2	3.6	3.6
Fuels	14.3	13.4	13.8	13.4	13.3	13.3	-1.4	-0.0
Other Ind. Suppl.	83.9	83.7	82.0	83.3	85.5	84.0	2.2	-1.6
Capital Goods	167.0	176.8	176.3	173.9	173.7	183.5	7.2	9.8
Aircraft & Parts	36.4	37.8	42.6	37.7	33.3	37.7	-3.1	4.4
Computers & Parts	27.3	28.8	27.4	28.6	28.9	30.2	2.2	1.2
Other Machinery	103.3	110.2	106.3	107.5	111.5	115.6	8.1	4.1
Automotive Goods	40.0	46.7	42.4	45.7	48.4	50.2	8.5	1.8
To Canada	22.5	23.4	20.7	23.5	24.3	25.3	2.2	1.0
To Other	17.5	23.2	21.8	22.2	24.1	24.9	6.3	0.8
Consumer Goods	45.9	50.4	47.9	48.5	51.2	53.9	5.7	2.6
Other Nonagric.	21.0	19.8	21.5	19.0	18.8	19.9	-2.2	1.1
Total U.S. Imports	489.4	535.5	501.2	528.6	551.0	561.4	55.8	10.4
Oil Imports	51.2	51.4	41.6	51.9	57.1	55.0	6.2	-2.1
Non-Oil Imports	438.2	484.2	459.6	476.8	493.9	506.4	49.6	12.5
Industrial Suppl.	80.9	88.4	84.3	88.2	87.8	93.2	9.9	5.4
Gold	2.9	3.8	2.3	3.6	2.7	6.7	3.7	4.0
Other Fuels	3.9	4.3	4.3	4.5	4.3	4.2	-0.7	-0.1
Other Ind. Suppl.	74.0	80.2	77.7	80.2	80.8	82.3	6.9	1.5
Capital Goods	120.7	134.4	125.5	131.8	138.4	142.0	19.9	3.6
Aircraft & Parts	11.7	12.7	12.1	13.5	12.3	13.1	1.6	0.8
Computers & Parts	26.1	31.8	27.9	30.9	34.0	34.5	7.7	0.4
Other Machinery	82.9	89.9	85.5	87.4	92.1	94.5	10.7	2.4
Automotive Goods	84.9	91.2	87.7	89.4	92.2	95.7	7.1	3.5
From Canada	28.8	32.2	30.8	31.5	34.0	32.4	2.3	-1.6
From Other	56.2	59.1	56.9	57.9	58.2	63.3	4.8	5.1
Consumer Goods	108.0	123.0	116.4	119.5	128.8	127.3	8.6	-1.5
Foods	26.5	27.9	26.7	29.0	28.2	27.6	1.3	-0.6
All Other	17.2	19.2	19.0	18.9	18.5	20.6	2.8	2.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Asia). Exports and imports of gold both increased sharply in the fourth quarter, largely reflecting transfers of gold from the Federal Reserve Bank of New York out of the United States. Imports rose 2 percent in the fourth quarter as increases in imports of capital goods were partially offset by declines in imports of oil and consumer goods.

By area, the largest gains in nonagricultural exports were in shipments to Asia (particularly China and Taiwan). Exports to these two areas increased 14 percent in the fourth quarter. By contrast, nonagricultural exports to industrial countries increased only 2 percent in the fourth quarter. Non-oil imports from industrial countries rose 7 percent in the fourth quarter, including a surge in imports from Germany. Non-oil imports from Asia eased slightly in the fourth quarter, after jumping sharply in the third quarter. Nonetheless, these were 18 percent greater in the second half of the year than in the first half of the year.

The value of oil imports fell in December, almost entirely the result of a decline in price brought about by mild weather late in the year and strong OPEC production. The quantity of oil imported was essentially unchanged. For the fourth quarter, prices were down slightly, the lagged response to the decline in spot oil prices that began in mid-October. The quantity of oil imported was just below the third-quarter pace.

Since the February FOMC meeting, spot West Texas Intermediate (WTI) has fluctuated between $19 and $21 per barrel as market

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1992			Months			
	Q2	Q3	Q4	Sep	Oct	Nov	Dec
Value (Bil. $)	51.86	57.11	54.97	57.40	60.12	54.71	50.08
Price ($/BBL)	17.48	18.56	17.94	18.48	18.74	18.23	16.75
Quantity (mb/d)	8.12	8.42	8.39	8.48	8.78	8.19	8.16

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

perceptions of OPEC's willingness and ability to cut production have shifted. Initial disappointment with the mid-February OPEC accord pushed spot WTI to just above $19 per barrel, although prices climbed shortly thereafter on indications of actual production cuts. WTI now stands just below $20 per barrel.

Prices of Exports and Non-oil Imports

Prices of non-oil imports increased 0.2 percent in January. The largest increase was in the price of imported agricultural products. Prices of capital goods and automotive products edged up slightly after two consecutive months of declines. The increases were partially offset, however, by a decrease in the price of imported consumer goods.

For the fourth quarter, on average, prices of U.S. non-oil imports increased 1.4 percent at an annual rate according to BLS data; this rise was substantially smaller than that recorded in the third quarter. The largest increases for the fourth quarter were in consumer goods and automotive products; prices of imported industrial supplies and capital goods declined slightly.

Prices of U.S. nonagricultural exports edged up in January, as all major trade categories except capital goods posted price increases. These increases were almost offset by a 1.7 percent decrease in prices of computers, peripherals, and semi-conductors. Prices of U.S. agricultural exports rose 0.8 percent in January, with a large increase in the price of soybeans.

In the fourth quarter, prices of U.S. exports declined 1.0 percent at an annual rate. Prices of nonagricultural products fell at an annual rate of 0.8 percent. Prices of agricultural products declined for the fourth consecutive quarter.

IMPORT AND EXPORT PRICE MEASURES
(percent change from previous period, annual rate)

	Year 1992-Q4 / 1991-Q4	Quarters 1992 Q2	Q3	Q4	Months 1992 Dec	1993 Jan
		(Quarterly Average, AR)			(Monthly Rates)	
	---------BLS Prices---------					
Imports, Total	1.5	0.7	6.3	0.6	-1.5	-0.3
Foods, Feeds, Bev.	-1.7	-14.8	-1.9	1.5	-2.0	2.2
Industrial Supplies	0.3	11.8	9.8	-3.0	-2.6	-1.5
Ind Supp Ex Oil*	1.4	-0.7	2.3	-0.5	-0.6	-0.1
Capital Goods	2.3	-3.5	8.2	0.0	-0.9	0.1
Automotive Products	1.2	-2.6	3.9	3.0	-1.1	0.1
Consumer Goods	3.7	0.2	5.3	2.9	-1.0	-0.1
Memo:						
Oil	-2.3	44.5	25.5	-8.3	-6.6	-3.7
Non-oil	1.9	-2.5	4.5	1.4	-1.0	0.2
Exports, Total	-0.1	2.1	-0.1	-1.0	0.1	0.2
Foods, Feeds, Bev.	-5.2	-2.1	-13.3	-3.7	1.0	0.8
Industrial Supplies	0.3	5.4	5.6	-2.7	0.1	0.3
Capital Goods*	0.7	1.2	1.4	-0.8	0.1	-0.2
Automotive Products	1.6	1.2	1.4	2.5	-0.3	0.4
Consumer Goods	2.8	1.4	0.7	3.3	0.1	0.4
Memo:						
Agricultural	-3.5	-0.7	-7.1	-2.6	1.4	0.8
Nonagricultural	0.8	2.4	2.3	-0.8	-0.1	0.1
	---------Prices in the NIPA Accounts---------					
Fixed-Weight						
Imports, Total	1.4	4.8	6.3	-0.7	--	--
Oil	-0.3	72.1	28.6	-12.7	--	--
Non-oil	1.7	0.0	4.3	0.7	--	--
Exports, Total	0.3	1.5	0.4	0.0	--	--
Ag	-3.8	-1.1	-8.2	-1.4	--	--
Nonag	0.6	1.8	1.8	-0.7	--	--
Deflators						
Imports, Total	-1.0	2.3	2.2	-1.5	--	--
Oil	-0.9	70.7	26.9	-13.4	--	--
Non-oil	-1.1	-2.3	-0.3	-0.1	--	--
Exports, Total	-1.4	-1.8	-1.5	-1.1	--	--
Ag	-2.2	-1.6	-6.0	4.2	--	--
Nonag	-1.3	-1.8	-1.3	-1.5	--	--

*/ Months not for publication.

U.S. Current Account

The U.S. current account balance recorded a deficit of $88 billion (annual rate) in the fourth quarter of 1992, compared with a $63 billion deficit (revised) in the third quarter of 1992. For the year 1992, the balance was a deficit of $62 billion.

U.S. Current Account
(Billions of dollars, seasonally adjusted annual rates)

	Trade Balance	Services net	Investment Income, net	Transfers net	Current Acct.Bal. Pub.	Current Acct.Bal. Ex Special Grants 1/
Year						
1989	-115.7	25.8	14.4	-25.6	-101.1	-101.1
1990	-108.9	32.1	19.3	-32.9	-90.4	-87.5
1991	-73.4	45.3	16.4	8.0	-3.7	-41.0
1992	-96.3	55.1	10.1	-31.4	-62.4	-63.6
Quarters						
1991-1	-73.3	37.4	27.9	56.8	48.8	-37.1
2	-65.6	43.1	15.7	16.5	9.7	-36.3
3	-80.7	48.1	12.3	-24.0	-44.3	-47.1
4	-74.2	52.5	9.8	-17.1	-28.9	-43.5
1992-1-r	-70.7	55.3	17.6	-27.7	-25.5	-27.3
2-r	-100.0	50.5	7.4	-31.0	-73.1	-76.1
3-r	-110.5	62.9	11.9	-27.4	-63.1	-63.1
4	-103.9	51.8	3.4	-39.3	-88.1	-88.2

1/ Excludes foreign cash grants to the United States to cover costs of the war in the Persian Gulf. These grants amounted to $4.3 billion in 1990, $42.6 billion in 1991, and $1.3 billion in 1992; they are shown in the accounts as positive unilateral transfers. Also excludes special U.S. grants to foreign countries amounting to $7.2 billion in 1990, $5.2 billion in 1991, and $0.1 billion in 1992.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The widening of the deficit in the fourth quarter primarily reflected declines in net service receipts (from an unusually strong third-quarter level) and net investment income receipts. In addition, payments of U.S. government grants (part of unilateral transfers) increased, largely reflecting payments made to Israel.

Net receipts from services had been boosted more than $11 billion at an annual rate in the third quarter by insurance payments recovered from foreign reinsurers for damage caused by hurricanes

Andrew and Iniki. Net insurance payments fell to normal levels in the fourth quarter. For other services, increases in receipts from foreigners traveling in the United States were offset by small declines in other categories.

Investment income receipts fell at an annual rate of $7 billion in the fourth quarter. Direct investment receipts accounted for two-thirds of this decline as the earnings of U.S. companies abroad continued to fall in depressed foreign markets. A fall in U.S. government receipts from unusually strong third-quarter levels accounted for the remainder of the decline in investment income receipts. The rescheduling of Peruvian arrears had boosted third-quarter government receipts; there was also a decline in income from military loans. Portfolio investment payments picked up in the fourth quarter as semi-annual coupon payments were made on a large amount of U.S. bonds purchased in the second quarter of 1992.

For 1992 as a whole, the U.S. current account deficit was nearly $60 billion larger than in 1991. Cash contributions from coalition partners in Operation Desert Storm amounting to $43 billion held down the current account deficit in 1991. Excluding special grants, the current account deficit widened $23 billion between 1991 and 1992. The merchandise trade deficit weakened and net investment income receipts declined; an increase in net receipts from service transactions only partly offset these movements.

U.S. International Financial Transactions

U.S. international financial transactions in December and January were marked by continued outflows through banking transactions and U.S. purchases of foreign securities. Private foreign purchases of U.S. securities slowed in January, but this slowing was offset by large inflows of official reserves.

Banks in the United States reported a $4 billion outflow in December, which accelerated to $8-1/2 billion in January. (See line 1 of the Summary of U.S. International Transactions table.) The outflow in December was entirely attributable to U.S. chartered banks, which increased claims on their own foreign offices. Foreign chartered banks on net borrowed from their affiliates abroad during December to finance asset growth near year-end. In early January, however, foreign chartered banks began reducing their assets in the United States and by mid-month began reducing their net liabilities to affiliates abroad. Assets and net liabilities to affiliates continued to decline through February. (See line 1b of the International Banking Table.)

Private foreigners continued to add to their holdings of U.S. Treasury securities in December and January, despite very large purchases at November's mid-quarter refunding (line 3). For the fourth quarter, net purchases totaled $21-1/2 billion. Foreign purchases of U.S. government agency bonds were also brisk in the fourth quarter, more than $6 billion, bringing net purchases of corporate and agency bonds to $8-1/2 billion (line 2a). The pace of net corporate and agency bond purchases fell off a bit in January, but still remained near $2 billion, as new issue activity in general, and Eurobond issuance in particular, remained at high levels. Foreign net purchases of U.S. stocks also increased in December, bringing total net purchases for the quarter to $4 billion (line 2b). Small net sales were recorded for January.

U.S. residents' purchases of foreign stocks and bonds accelerated to $7 billion in December and remained near that level in January (line 2c). Stocks, in both Europe and Asia, accounted for most of the net purchases in December. In January, stocks in Asia and bonds in Europe accounted for most of the purchases.

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS

(Billions of dollars)

	1991 Year	1992 Year	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1992 Nov.	1992 Dec.	1993 Jan.
Private Capital									
Banks									
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)[1]	-18.8	36.1	4.6	-2.4	34.5	-0.9	21.4	-3.9	-8.5
Securities									
2. Private securities transactions, net[2]	-10.9	-20.1	-4.3	1.7	-11.7	-5.3	-1.8	-0.8	-4.4
a) foreign net purchases (+) of U.S. corporate bonds[3]	25.7	34.7	7.7	11.8	6.8	8.6	1.2	3.9	1.8
b) foreign net purchases (+) of U.S. corporate stocks	10.1	-3.7	-2.8	-1.2	-3.8	4.2	1.3	2.4	-0.1
c) U.S. net purchases (-) of foreign securities	-46.8	-50.7	-9.1	-8.9	-14.6	-18.1	-4.4	-7.0	-6.0
3. Foreign net purchases (+) of U.S. Treasury obligations	19.3	37.5	0.8	10.3	5.0	21.4	16.3	2.0	2.7
Official Capital									
4. Changes in foreign official reserves assets in U.S. (+ = increase)	16.0	37.8	21.0	20.4	-8.2	4.6	-10.4	3.4	13.3
a) By area									
G-10 countries	-17.6	4.8	2.4	3.4	3.8	-4.4	-5.4	3.9	4.9
OPEC	-5.8	4.6	2.7	-2.5	2.9	1.4	-0.3	1.0	-0.3
All other countries	39.3	28.4	15.9	19.6	-14.9	7.7	-4.7	-1.5	8.7
b) By type									
U.S. Treasury securities	14.8	18.5	14.9	11.2	-0.3	-7.4	-4.2	3.2	4.0
Other[4]	1.2	19.4	6.1	9.2	-7.9	12.0	-6.3	0.2	9.3
5. Changes in U.S. official reserve assets (+ = decrease)	5.8	3.9	-1.1	1.5	2.0	1.5	0.6	0.4	-0.5
Other transactions (Quarterly data)[5]									
6. U.S. direct investment (-) abroad	-27.1	-35.3	-15.5	-7.5	-3.5	-8.8	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	11.5	-3.9	-3.8	5.4	-2.6	-3.0	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow)[6]	9.0	19.5	12.2	17.7	-14.7	4.3	n.a.	n.a.	n.a.
9. U.S. current account balance	-3.7	-62.4	-6.4	-18.3	-15.8	-22.0	n.a.	n.a.	n.a.
10. Statistical discrepancy	-1.1	-13.1	-7.5	-28.8	15.0	8.2	n.a.	n.a.	n.a.
MEMO:									
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-73.4	-96.3	-17.7	-25.0	-27.6	-26.0	n.a.	n.a.	n.a.

1. Includes changes in positions of all depository institutions, bank-holding companies, and certain transactions between brokers/dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements.)
2. These data have not been adjusted to exclude commissions on securities transactions and, therefore, do not match exactly the data on U.S. international transactions as published by the Department of Commerce.
3. Includes all U.S. bonds other than Treasury obligations.
4. Includes deposits in banks, commercial paper, acceptances, borrowing under repurchase agreements, and other securities.
5. Seasonally adjusted.
6. Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, and other banking and official transactions not shown elsewhere. In addition, it includes amounts resulting from adjustments to the data made by the Department of Commerce and revisions to the data in lines 1 through 5 since publication of the quarterly data in the *Survey of Current Business*.

*--Less than $50 million.

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

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1991				1992					1993	
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Nov.	Dec.	Jan.	Feb.
1. Net Claims of U.S. Banking Offices (excluding IBFS) on Own Foreign Offices and IBFS	-23.8	-13.7	-14.1	-35.8	-41.4	-56.8	-58.0	-66.5	-71.6	-73.1	-71.5
(a) U.S.-chartered banks	7.6	5.4	11.0	12.4	3.2	8.3	12.7	13.5	17.0	17.8	12.4
(b) Foreign-chartered banks	-31.3	-19.2	-25.2	-48.3	-44.6	-65.1	-70.9	-80.0	-88.6	-90.9	-83.8
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	26.0	23.9	23.7	23.9	23.3	24.5	24.8	25.1	24.8	24.6	24.0
3. *Eurodollar Holdings of* U.S. Nonbank Residents 1/	114.6	105.8	100.8	102.9	100.3	91.2	86.3	88.6	90.5	89.4	89.4

1. 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 average of daily data reported to the Federal Reserve by U.S. banking offices. Line 2 is an average of daily data. Line 3 is an average of daily data for the overnight component and an average of Wednesday data for the term component.

Foreign official reserve holdings in the United States rose $3-1/2 billion in December and another $13 billion in January (line 4). In December, large increases by Germany, Switzerland, and Canada were partially offset by declines in reserve holdings by the United Kingdom, Italy, and Taiwan. In January, large increases were recorded for Germany, Spain, and Singapore. The increase in German dollar reserves likely reflects the repayment of loans made during September and October under the Very Short Term Financing Facility of the European Monetary Cooperation Fund. These loans are due forty-five days after the end of the month in which they are drawn and can be repaid in currencies other than that in which they are drawn. Partial data from the FRBNY indicate official reserves held in the United States rose $5-1/2 billion in February. Reserves held by Germany fell while those held by the Netherlands, Spain, Singapore, and Argentina rose.

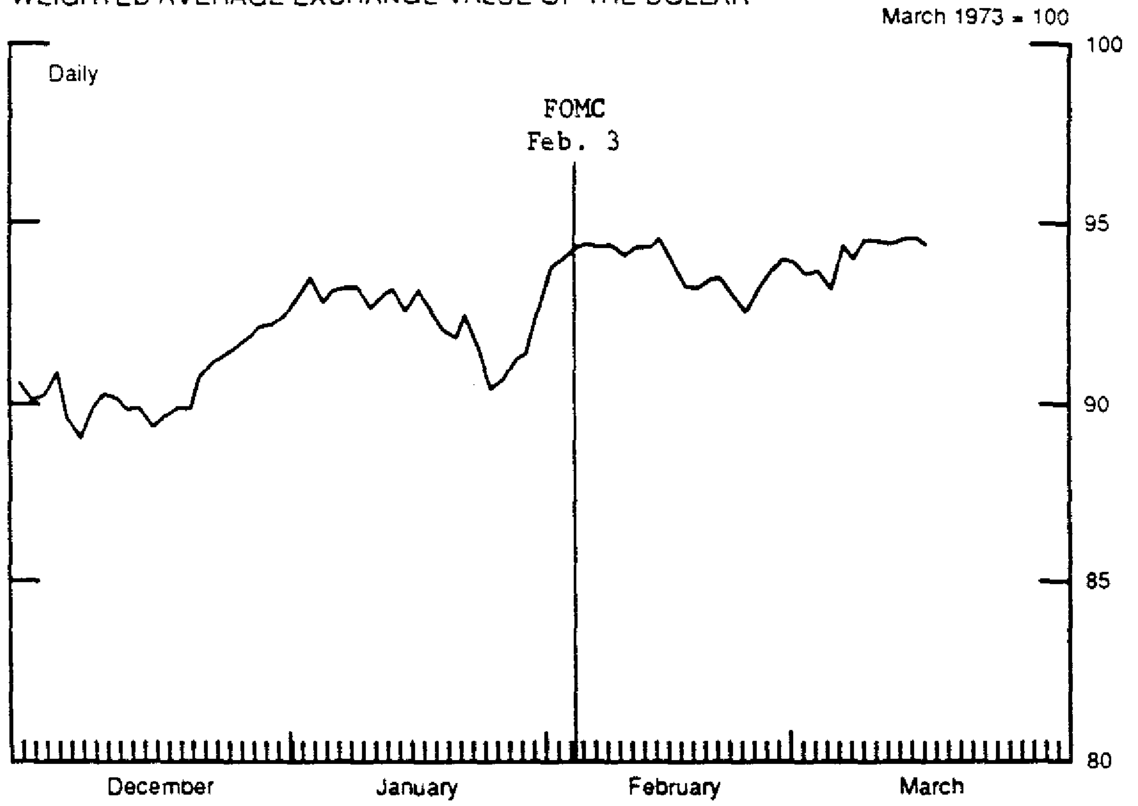
Data for direct investment capital flows in the fourth quarter indicate a $9 billion increase in U.S. direct investment abroad (line 6). Most of the outflow was to Canada, Latin America, and Asia. Foreign direct investors reduced their position in the United States by $3 billion in the quarter (line 7). Substantial new equity inflows were more than offset by negative reinvested earnings and net outflows through intercompany debt transactions.

The statistical discrepancy was a positive $8 billion in the fourth quarter, down substantially from the $15 billion recorded in the third quarter (line 10). Reduced net currency shipments to foreigners accounted for part of this decline.

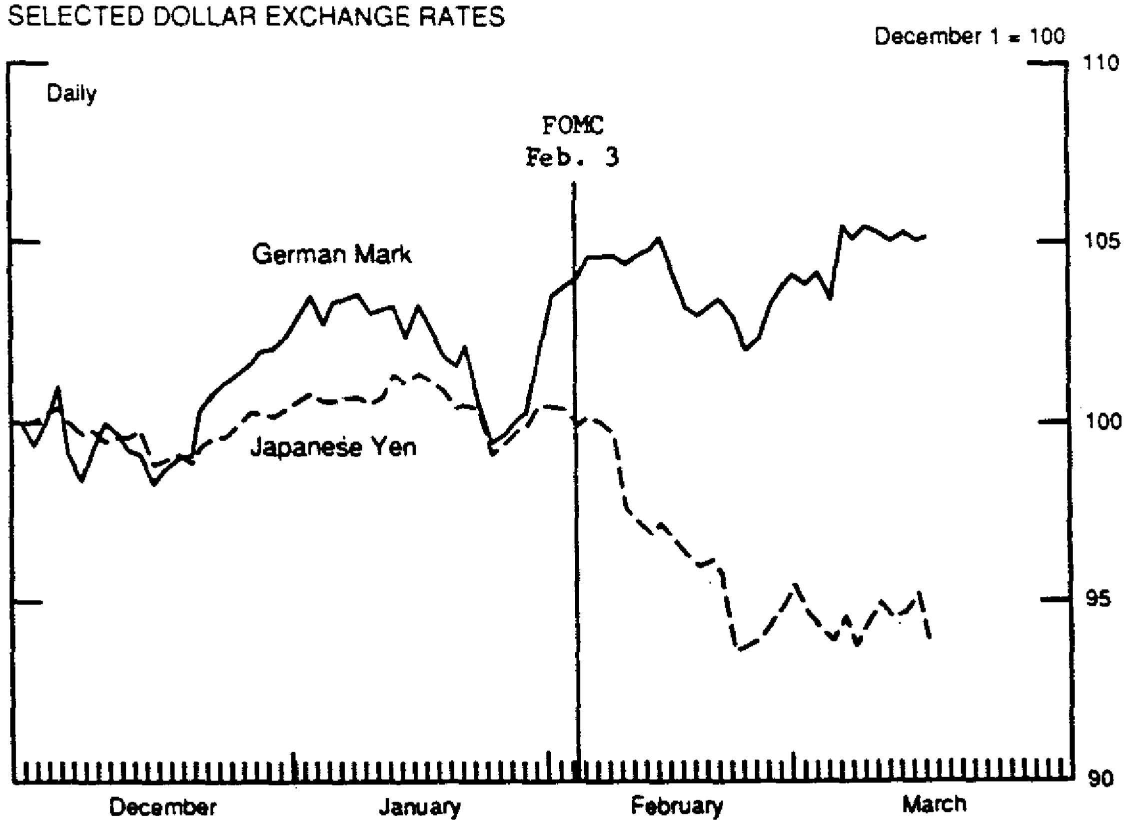
Foreign Exchange Markets

The dollar's weighted average exchange value, shown in the accompanying chart, was about unchanged, on balance, during the

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



SELECTED DOLLAR EXCHANGE RATES



intermeeting period. The dollar declined from mid-February, partly in response to data suggesting some slowing in the pace of U.S. economic expansion, and partly in response to the decline in long-term interest rates associated with the Clinton Administration's fiscal program. In early March, however, the release of labor market statistics that were far stronger than expected and the release of disappointing inflation data, provided the dollar with a substantial boost.

The dollar posted a net gain of 1-1/4 percent against the mark over the intermeeting period. The dollar's fluctuations against the mark and other European currencies were mostly driven by changes in expectations about the pace of future Bundesbank easing. Early in February, the Bundesbank surprised the market by cutting the discount rate 25 basis points to 8 percent and the Lombard rate 50 basis points to 9 percent. The dollar initially rose following this action, but the mark rebounded in mid-February as it became apparent that the Bundesbank would only allow market rates to slip slightly following its cut in official rates. In late February, the mark began to decline on the perception that the Bundesbank would yield to pressures from the United States and Europe to allow rates to fall further. In early March the Bundesbank announced that its regular two-week RP on March 10 would be at a fixed rate, 1/4 percentage point below the rate of its previous two-week RP. Market participants interpreted this as a signal of an easier monetary stance by the Bundesbank. Three-month interest rates in Germany declined 70 basis points during the period. Three-month rates in other major European countries declined 30 to 100 basis points.

Challenges to Boris Yeltsin's power by the Congress of People's Deputies, and the prospect of further political instability in

Russia, appeared to contribute modestly to the dollar's appreciation against the mark towards the end of the period.

Between early February and mid-March, the dollar reached a new all-time low against the yen before recovering somewhat to post a net decline of 6-1/4 percent. The main focus of attention for the yen was whether Japan's trading partners would push for yen appreciation in an effort to limit Japan's trade surplus. Several remarks by prominent U.S. and European officials that advocated yen strengthening contributed to the yen's rise and led some market participants to expect that the G-7 would reach an agreement to strengthen the yen. In the period around the G-7 meeting on February 28, the dollar rebounded from its lows against the yen as U.S. and Japanese officials reiterated that exchange rate policy would not be used to reduce Japan's trade surplus.

On February 4, the Bank of Japan lowered its official discount rate 3/4 of a percentage point to 2-1/2 percent. A rate decline of this magnitude had already been anticipated by the market, and the cut had virtually no effect on financial markets during the intermeeting period.

Bond and equity markets rallied in most of Europe and Japan during the intermeeting period. The perception that interest rates in Germany are likely to come down sooner and by more than had been previously expected contributed to the bond market rally in Europe. In Japan and in most European countries long-term interest rates came down 30 to 70 basis points. During the period equity markets rose 3 to 8 percent in many European countries, and rose by more in France and Sweden.

Exchange rate pressures reemerged for the Spanish and Portuguese currencies during the period on the perception that the existing parity arrangements may not be sustainable in light of continued economic weakness in Spain, and high interest rates in Germany. The pressures on these currencies were reduced, but not eliminated, by the declines in German interest rates during the period. The French franc came under intermittent pressure during the period; this pressure increased towards the end of the period ahead of the upcoming French election on March 21. The Belgian franc also encountered moderate exchange rate pressure during the period as a result of political uncertainty surrounding the Belgian parliament's vote to reorganize Belgium as a federal state.

The Italian lira declined about 4 percent against the mark during the period. A widening government corruption scandal, which has called the viability of the current governing coalition into question, has contributed to the lira's decline.

Developments in Foreign Industrial Countries

The level of activity in the major foreign industrialized economies slowed further in the fourth quarter, and domestic demand remained weak. GDP contracted in Japan, western Germany, and France, and it grew slowly in the United Kingdom. An acceleration in activity in Canada was entirely export driven. Available data for the current quarter have been generally negative for Japan and France, but more mixed for western Germany. There have been more positive signs in the United Kingdom and Canada that suggest recovery may be taking hold.

Special factors have increased measured inflation rates in some countries, although they have generally remained low. Pass-through effects from last year's currency depreciation have affected some price measures in Italy, Canada, and the United Kingdom. Recent tax increases are boosting west German and French inflation in early 1993.

National elections will be held in France on Sunday, March 21, with run-off elections to follow on March 28. In Canada, the Progressive Conservative Party will choose a new Prime Minister on June 13 to lead the party in a general election that must be called by November.

Individual Country Notes. In Japan, real GDP slipped 0.3 percent (s.a.a.r.) in the fourth quarter, its third consecutive quarterly decline. Private final domestic demand dropped 5.6 percent (s.a.a.r.), as consumption decreased 2.2 percent and private investment expenditure plummeted. However, net exports, public infrastructure spending, and inventory investment made positive contributions to growth.

Preliminary indicators of activity in the first quarter suggest further weakness. In January, industrial production (s.a.) decreased 0.3 percent, housing starts (s.a.) dropped 1.2 percent, and retail sales registered a 12-month decline of 3 percent. New passenger car registrations (s.a.) rose 1.5 percent in February, but were still 5.4 percent below their year-earlier level. Although machinery orders (s.a.) increased for the third consecutive month in January, they were down 10.4 percent from January 1992.

The Bank of Japan's Tankan survey of major manufacturing firms reported a further deterioration in business sentiment in the current quarter. The percent balance having a favorable view of business conditions declined from -44 to -49, the lowest level since August 1975. On average, firms predicted a 5.9 percent drop in investment in the current fiscal year and a further 4.2 percent decline in investment in the fiscal year that begins April 1.

REAL GDP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period, seasonally adjusted) [1]

	Q4/Q4	Q4/Q4	1992				1992			1993		
	1991	1992	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.	Feb.	Latest 3 months from year ago [2]
Canada												
GDP	-.0	1.3	.1	.1	.3	.9	*	*	*	*	*	1.3
IP	-1.4	2.4	-.2	.4	.8	1.4	.1	.5	.8	n.a.	n.a.	2.4
France												
GDP	1.6	1.0	.7	.3	.4	-.3	*	*	*	*	*	1.0
IP	1.8	-2.3	.3	-.0	.1	-2.6	.5	-4.5	-1.0	n.a.	n.a.	-2.3
WEST GERMANY												
GDP	2.0	.2	1.6	-.2	-.4	-.8	*	*	*	*	*	.2
IP	.1	-4.7	2.7	-1.9	-1.3	-4.2	-2.1	-1.8	-2.8	2.9	n.a.	-5.7
Italy												
GDP	1.7	n.a.	.6	.2	-.6	n.a.	*	*	*	*	*	.8
IP	-.5	n.a.	2.5	-2.8	-2.5	n.a.	2.9	.9	n.a.	n.a.	n.a.	-3.4
JAPAN												
GDP	3.0	.2	1.0	-.2	-.5	-.1	*	*	*	*	*	.2
IP	-1.6	-7.7	-3.1	-2.3	.3	-2.9	-2.9	-2.2	-1.3	-.3	n.a.	-8.1
United Kingdom												
GDP	-1.6	.1	-.3	-.1	.3	.2	*	*	*	*	*	.1
IP	-.7	.5	-.8	-.4	.8	1.0	1.0	-.3	-.2	-.4	n.a.	.8
UNITED STATES												
GDP	.1	3.2	.7	.4	.8	1.2	*	*	*	*	*	3.2
IP	-.5	2.2	-.7	1.3	.6	1.1	.7	.6	.4	.5	.4	4.0

1. Asterisk indicates that monthly data are not available.
2. For quarterly data, latest quarter from year ago.

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period) 1

	Q4/Q4 1991	Q4/Q4 1992	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1992 Nov.	1992 Dec.	1993 Jan.	1993 Feb.	Latest 3 months from year ago
Canada													
CPI	4.1	1.8	.6	-.1	.4	.5	.4	.4	.5	.0	.3	n.a.	1.9
WPI	-3.2	3.1	-.9	-.4	.5	.6	.8	1.2	.2	.4	.4	n.a.	3.5
France													
CPI	2.9	2.2	.8	.8	.7	.7	.5	.3	.0	.0	.4	.3	2.1
WPI	-3.6	n.a.	-.7	-1.0	.2	.4	-.5	n.a.	*	*	*	*	-.9
West Germany													
CPI	3.9	3.7	1.5	.7	1.2	1.1	.5	.9	.5	.1	1.1	.4	4.1
WPI	1.6	-1.9	.7	.2	.4	.5	-2.0	-.8	.0	-.4	.7	.2	-1.7
Italy													
CPI	6.1	4.8	1.0	1.7	1.4	1.2	.7	1.3	.6	.2	.3	.4	4.4
WPI	1.1	3.0	.5	1.4	.0	.8	-.5	2.8	.9	.5	n.a.	n.a.	3.0
Japan													
CPI	3.2	.9	.4	1.1	-.3	1.3	-.1	.0	-.3	-.2	.0	.1	1.1
WPI	-1.3	-1.4	-.4	-.7	-.4	.0	-.1	-.9	-.1	.0	-.1	-.5	-1.3
United Kingdom													
CPI	4.2	3.1	.4	1.0	.5	2.2	-.1	.4	-.1	-.4	-.9	n.a.	2.4
WPI	4.9	3.4	.6	.5	1.4	1.1	.4	.5	.4	.2	.9	.4	3.6
United States													
CPI (SA)	3.0	3.1	.7	.8	.8	.8	.7	.8	.2	.1	.5	n.a.	3.1
WPI (SA)	-.1	1.4	.0	.4	.1	.8	.4	.1	-.2	.1	.2	.4	1.7

1. Asterisk indicates that monthly data are not available.

TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES [1]
(Billions of U.S. dollars, seasonally adjusted except where otherwise noted)

	1991	1992	1991		1992				1992		1993	
			Q3	Q4	Q1	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Canada												
Trade	5.0	7.8	.9	1.0	1.7	1.7	1.7	2.7	.8	.8	n.a.	n.a.
Current account	-25.5	-23.7	-6.6	-7.3	-6.2	-6.1	-6.3	-5.2	*	*	*	*
France												
Trade	-5.3	5.6	-1.5	.4	1.1	1.9	1.3	1.4	.1	1.1	n.a.	n.a.
Current account	-5.8	n.a.	-.9	.8	n.a.	n.a.	n.a.	n.a.	*	*	*	*
Germany [2]												
Trade (NSA)	13.6	21.4	2.9	6.9	4.4	3.4	8.6	5.0	1.1	.3	n.a.	n.a.
Current Account (NSA)	-19.5	-25.3	-5.9	-2.2	-5.6	-6.1	-9.0	-4.6	-.4	-3.2	n.a.	n.a.
Italy												
Trade	-13.0	n.a.	-4.4	-3.3	-2.2	-4.3	-2.4	n.a.	-.8	n.a.	n.a.	n.a.
Current account (NSA)	-21.4	n.a.	-3.7	-5.0	-9.2	-5.9	-6.5	n.a.	*	*	*	*
Japan												
Trade	78.5	107.3	21.0	21.2	28.0	24.5	26.2	28.6	8.7	9.5	9.8	10.2
Current account	73.1	117.2	19.5	22.9	28.6	28.8	28.1	31.7	11.6	9.6	8.9	n.a.
United Kingdom												
Trade	-18.3	-24.1	-4.0	-4.7	-5.4	-5.7	-6.2	-6.8	-2.2	-2.7	n.a.	n.a.
Current account	-10.0	-20.6	-2.1	-3.1	-5.1	-5.6	-4.2	-5.8	-1.8	-2.4	n.a.	n.a.
United States												
Trade	-73.4	-96.3	-20.2	-18.5	-17.7	-25.0	-27.6	-26.0	-8.7	-8.4	n.a.	n.a.
Current account	-3.7	n.a.	-11.1	-7.2	-5.9	-17.8	-14.2	n.a.	*	*	*	*

1. The current account includes goods, services, and private and official transfers. Asterisk indicates that monthly data are not available.
2. Before July 1990, West Germany only.

JAPANESE ECONOMIC INDICATORS
(percent change from previous period except where noted, s.a.)

	1992				1993		
	Q2	Q3	Q4	Dec.	Q1	Jan.	Feb.
Machinery Orders	-14.3	11.4	-17.2	5.4	--	7.1	--
New Car Registrations	-6.6	-1.8	-5.6	-2.2	--	8.4	1.5
Job Offers Ratio	-9.6	-9.4	-8.5	-1.1	--	1.1	--
Business Sentiment* (%)	-24	-37	-44	--	-49	--	--

* Percent of manufacturing firms having a favorable view of business conditions minus those with an unfavorable outlook.

Inflation pressures have remained low. Consumer prices in the Tokyo area (n.s.a.) rose 0.1 percent in February, and their twelve-month increase was only 1.2 percent. Excluding perishable food prices, the CPI was up 1.5 percent over this period.

The trade surplus (s.a.a.r.) for January and February combined was $120 billion, about unchanged from the fourth quarter.

On March 6, the lower house of the parliament approved the government's proposed budget for the fiscal year that begins next month. The new budget provides no fiscal stimulus, but a supplementary fiscal package containing significant spending increases is widely expected.

Real GDP in western Germany dropped 3.3 percent (s.a.a.r.) in the fourth quarter, its third consecutive quarterly decrease. However, total domestic demand (s.a.a.r.) reversed a two-quarter decline, expanding 3.2 percent, as a sharp drop in equipment investment was more than offset by a 5.6 percent surge in consumption induced by the January increase in the value-added tax. The external sector made a large negative contribution to growth. Exports (including exports to eastern Germany) declined and imports increased.

Other recent indicators are consistent with continued weakness in west German activity. Industrial production (s.a.) has trended down since early last year, but increased 0.4 percent in January relative to the fourth quarter. After plunging 7-1/2 percent in the fourth quarter, manufacturing orders (s.a.) increased almost 1 percent in January from their fourth-quarter average. In February, the unemployment rate rose from 7.5 percent to 7.7 percent, but it is still low by historical standards. Business confidence in January remained at a level typical of recessions.

WESTERN GERMAN ECONOMIC INDICATORS
(percent change from previous period except where noted, s.a.)

	1992					1993	
	Q1	Q2	Q3	Q4	Dec.	Jan.	Feb.
Machinery Orders	2.1	-4	-2.1	-7.4	-3.7	5.7	--
Capacity Utilization	-0.6	-1.4	-2.2	-3.2	--	--	--
Unemployment Rate (%)	6.2	6.5	6.7	7.2	7.3	7.5	7.7
Production Plans* (%)	-3.7	-6	-12	-33.3	-30	-25	--

* Percent of mining and manufacturing firms that expect to increase production minus those who expect to decrease it.

Activity growth has been somewhat stronger in eastern Germany. Industrial production expanded in September and October, but declined slightly in November to a level 0.4 percent below where it stood a year ago. Preliminary GDP estimates indicate that east German output grew 6.8 percent in 1992.

Decreasing inflationary pressures in western Germany have been partially masked by a 1 percentage point increase in the value-added tax that was implemented January 1. Consumer prices increased 4.2 percent in February on a year/year basis, up from the 4 percent inflation registered in 1992. However, wholesale prices dropped 1.8 percent in the twelve months to February. Recent collective bargaining settlements have led to wage increases in the 3 to 3-1/2 percent range. Engineering employers in the regions of Saxony and Berlin-Brandenberg in eastern Germany recently abrogated contracts negotiated last year that called for a 26 percent increase in nominal wages on April 1 and equalization of wages with those in western Germany by 1994. East German workers have held public demonstrations in protest of this move, and a strike appears imminent.

The pan-German current account deficit (s.a.) widened somewhat in the fourth quarter, and it totalled $25.3 billion for the year, about $6 billion larger than the 1991 deficit.

In January, German M3 fell far short of the Bundesbank's 1993 target growth range of 4-1/2 to 6-1/2 percent, declining 2.3 percent (s.a.a.r.) relative to its base in the fourth quarter of 1992. However, M3 increased 7.3 percent on a 12-month basis.

On March 14, the German federal government achieved an agreement with state and local governments on fiscal policy as part of Germany's "solidarity pact". The agreement proposes measures for sharing the burden of financing annual transfers of about $70 billion to eastern Germany, and it includes the reinstatement of a 7-1/2 percent income surcharge in 1995. Another feature of the "solidarity pact" is the recent moderation in wage increases.

France appears to be following Germany into recession. In the fourth quarter, GDP (s.a.a.r.) fell 1.2 percent, as exports dropped 5.6 percent, fixed investment slipped 4.4 percent, and inventory accumulation decelerated. Consumption (s.a.a.r.) rose 2.8 percent, but in January, consumption of manufactured products (s.a.), about one third of total consumption, fell slightly below the fourth-quarter average. Unemployment remained steady in January at 10.5 percent (s.a.).

The Bank of France's January business survey pointed to a further decline in industrial production and a decrease in factory orders, but a February survey suggested that production may have stabilized. An INSEE survey of capital expenditure intentions indicated that firms plan to reduce investment 3 percent this year.

Inflation continues to be moderate. The 12-month increase in consumer prices in February was 2.1 percent, the same as in January. Hourly wages in January stood 3.6 percent above their year-earlier level, down from a 3.8 percent increase in October.

National elections scheduled for March 21 are expected to result in the accession of a center-right coalition. The leaders of this bloc -- Jacques Chirac of the Gaullist party and Giscard d'Estaing of the UDF -- have announced a platform that includes significant expansionary fiscal measures that would be phased in over several years. Although the package would be financed in part by expenditure cuts of roughly 1/2 percent of GDP and revenues from privatization, it would increase the 1993 budget deficit significantly above last year's shortfall of 3.2 percent of GDP.

Italy has been in recession since last summer, and recent indicators suggest continued weakness. A preliminary estimate of industrial production in the fourth quarter is about 3 percent below its 1991-Q4 level. In November, new orders dropped from their year-earlier level for the fifth consecutive month. The consumer confidence index (n.s.a.) declined 1.2 percent in December and registered a cumulative drop of 14.4 percent during 1992.

The effects of last year's depreciation of the lira have begun to show up in prices. The twelve-month change in the consumer price index rose slightly to 4.4 percent in February, the first increase in this measure of inflation since May 1992. In December, the wholesale price index stood 4.3 percent above its year-earlier level, after a 2.4 percent rise in November.

Since February 10, three cabinet members, including Finance Minister Giovanni Goria, have resigned because of the fallout from the *tangentopoli* scandal. The scandal is related to kickbacks paid by business to the parties in return for public contracts. A national referendum will be held on April 18 if the Italian Parliament has not enacted electoral reform legislation by that time.

On balance, recent data indicate that a mild recovery is underway in the United Kingdom. Real GDP grew 0.7 percent (s.a.a.r.) in the fourth quarter of 1992, after rising 1.1 percent in the third quarter. Total domestic demand fell 1.3 percent (s.a.a.r.), as fixed investment dropped 3.3 percent and inventory destocking accelerated. However, consumption increased 1.0 percent, and the external sector made a positive contribution to growth. Exports were up 3.0 percent, and imports dropped 4.5 percent.

Available indicators for the first quarter show some promise for further growth. In January, a sharp drop in oil output took industrial production (s.a.) 0.6 percent below its fourth quarter average. However, manufacturing production rose 0.8 percent. Aggressive discounting helped retail sales (s.a.) in January and February, taken together, to surge 1.4 percent from their fourth quarter level. However, total unemployment (s.a.) rose for the 33rd month in a row in January, and stood at 10.6 percent of the labor force.

Soft demand and lower interest rates have contributed to recent reductions in measured inflation. Retail prices (n.s.a.) fell 0.9 percent in January to a level 1.7 percent above a year earlier. Excluding mortgage interest payments, retail prices (n.s.a.) decreased 0.5 percent in January, lowering the twelve-month increase from 3.7 percent to 3.2 percent. Sterling depreciation has contributed to recent rises in the prices of firms' inputs and outputs. In February, the cost of materials and fuel (n.s.a.) stood

6.9 percent above the level of a year ago. Producers' prices (n.s.a.) rose 0.4 percent in February and were up 3.7 percent from February 1992.

Despite continued weakness in domestic demand, the trade deficit (s.a.) has widened considerably in recent months. The cumulative current account deficit for 1992 was $20.6 billion, compared with a deficit of $10 billion in 1991.

On March 16, Chancellor Norman Lamont presented the 1993-94 budget to Parliament. The public sector borrowing requirement (PSBR) is expected to rise to 50 billion pounds (8 percent of GDP) from 35 billion pounds in the fiscal year that ends March 31. Several tax increases were announced that will gradually reduce the PSBR to 6 percent of GDP in the 1996-97 fiscal year. Lamont also reiterated the government's pledge to keep underlying inflation between 1 and 4 percent per year.

In Canada, strong external demand caused GDP to rise 3.5 percent (s.a.a.r.) in the fourth quarter, its seventh consecutive quarterly increase. Merchandise exports to the United States jumped 21 percent (s.a.a.r.), and total imports contracted sharply from their record high in the third quarter. However, final domestic demand slipped 0.8 percent. GDP is still 1.0 percent below the cyclical peak it reached in the first quarter of 1990.

Most available indicators for the first quarter point to further growth, although the construction sector has weakened recently. Housing starts (s.a.) in January-February plunged 13.9 percent from their fourth-quarter average. However, total employment (s.a.) increased 0.5 percent over the same period, causing the unemployment rate (s.a.) to drop to 10.8 percent in February from its peak of 11.8 percent in November. In January, department store sales stood 3.4 percent above their year-earlier level, factory shipments (s.a.) increased 0.7 percent from their fourth-quarter average, and new orders (s.a.) rose 1.2 percent over the same period.

Recent price data show that inflation has remained moderate. The targeted 12-month change in the CPI excluding food and energy (n.s.a.) increased from 2.0 percent to 2.2 percent in January. The all-items CPI was up 2.0 percent over this period, and wholesale prices rose 3.9 percent. Wage settlements increased 2.1 percent in 1992, compared with 3.6 percent in 1991 and 5.6 percent in 1990.

The current account deficit (s.a.) narrowed in the fourth quarter to $5.2 billion, as strong export growth helped boost Canada's merchandise trade surplus to its highest level since early 1989. At $23.7 billion, the current account deficit for the year was down slightly from a record high in 1991.

On February 24, Prime Minister Brian Mulroney announced that he will step down later this year. On June 13, Mulroney's Progressive Conservative party will choose a new leader who will take over as Prime Minister on July 1. A national election must be called by November.

On February 25, Trade Minister Michael Wilson introduced implementing legislation for the North American Free Trade Agreement (NAFTA) into the House of Commons.

After a surge of inflation at the end of December and the beginning of January, price increases in Russia appear to have stabilized at a monthly rate of 25-30 percent. Consumer prices (n.s.a.) rose 27 percent in January and 29 percent in February.

On February 26 press reports suggested that the Central Bank of Russia (CBR) was considering fixing the exchange rate. The ruble had appreciated slightly in the first three weeks of February, but it has since fallen about 16 percent from its February peak.

In response to its worsening balance of payments deficit. Russia has announced that it will impose new import tariffs. effective April 1.

President Boris Yeltsin and the anti-reform Congress of People's Deputies (the highest political body) have been engaged in a bitter power struggle. On March 12, the Congress activated three constitutional amendments that undermine Yeltsin's authority. The Congress also cancelled a referendum, previously scheduled for April 11, on the division of powers between the executive and legislative branches of the Russian government. Yeltsin has vowed to poll Russian voters, independently of the Congress, on how they wish to be governed, but this poll would have no legal validity.

In Poland the lower house of parliament passed the 1993 budget on February 12, enabling the IMF Executive Board to proceed with consideration of a new stand-by credit arrangement. A $655 million loan program was approved by the IMF on March 8. Poland has resumed negotiations with commercial bank creditors to reschedule approximately $13 billion of debt. Poland ceased interest payments on long-term commercial debt in 1989, and interest arrears now total $2.6 billion. In February, Poland unilaterally reduced interest payments on short-term revolving trade credits that had previously been serviced in full.

In February, the unemployment rate rose 0.2 percentage points to 14.2 percent.

The Czech and Slovak Republics began using separate currencies on February 8, following the collapse of the monetary union that was established when the CSFR split on January 1. Although the official exchange rate between the two currencies remains 1:1 and Slovak officials have refused to devalue the Slovak crown, Czech banks have begun trading the Slovak currency at a discount of about 20 percent.

Economic Situation in Other Countries

Mexico recorded a trade deficit of $15.8 billion in 1992 compared with a deficit of $6.9 billion in 1991. Interest rates have apparently been high enough to induce capital inflows and allow the peso/dollar exchange rate to remain roughly stable since early January. Economic activity in Korea and Taiwan has continued to slow and industrial output in Argentina experienced no growth over the second half of 1992. Inflation declined in Korea, Mexico, and Argentina, and remained low and stable in Taiwan. In Brazil, economic activity remains depressed, and inflation has been high, reflecting deepening pessimism about the prospects for fiscal and monetary reform. Disputes between the economic team and President Franco over economic policies resulted in the resignation of the finance minister and central bank president in early March.

Individual country notes. Mexico's merchandise trade deficit in 1992 was $15.8 billion, up from $6.9 billion in 1991. The growth of manufactured exports slowed while import growth increased; imports were 26 percent higher, while manufactured exports, which accounted for about two-thirds of total exports, were only 7 percent higher. Petroleum exports were less than 2 percent higher, and other exports were lower. The current account deficit is estimated to have been roughly $23 billion (9 percent of GDP) in 1992, up from $13.3 billion (5.4 percent of GDP) in 1991.

Interest rates have apparently been high enough to induce capital inflows and allow the peso/dollar exchange rate to remain roughly stable since early January. On March 16, the exchange rate was 3.1175 new pesos per dollar, 3.1 percent above the gradually depreciating lower limit of its fluctuation band. In response to an unexpectedly high increase in the CPI for the first half of January, the Bank of Mexico tightened policy in mid-January. As a result, interest rates, which had been declining since mid-October, turned up through early March. However, after the monthly increase in the CPI declined from 1.3 percent in January to 0.8 percent in February, monetary policy eased: at the March 16 auction, the twenty-eight-day Treasury-bill rate was 17.3 percent, down 70 basis points from two weeks earlier but still 79 basis points above the mid-January low. The February CPI was 10.9 percent higher than a year earlier. This compares with a 17.2 percent increase in the previous twelve months.

Real GNP growth in Taiwan fell to 6.1 percent in 1992 from 7.3 percent in 1991, as recovering domestic investment failed to compensate fully for declining net exports. Both private and public investment grew by roughly 17.5 percent in 1992. Although government investment grew faster last year than it had in four years, growth was below initial targets and reflected delays in implementing Taiwan's six-year, $300 billion infrastructure program.

The cumulative merchandise trade surplus through February was $500 million, down from the trade surplus of $1.3 billion over the same period in 1992. Cumulative exports through February were 4.5 percent higher than a year earlier, and imports through February were 12.6 percent higher than a year earlier.

Consumer price inflation in January was 3.6 percent (year-over-year), consistent with recent trends once price increases from past weather shocks are accounted for.

After more than a month of negotiations, Taiwan's President Lee Teng-hui secured approval from the ruling Kuomintang Party for a new Premier and cabinet in late February. The move further consolidates executive power into the hands of politicians with ethnic roots in Taiwan, rather than from mainland China. Taiwan's stock market reacted to the nomination of a new Premier by rising 28 percent through March 12, more than making up for losses that followed December's legislative elections.

In Korea, economic activity has continued to slow. Consequently, inflation has declined, and the trade deficit has fallen. Industrial production fell 6.4 percent in January 1993 from a year earlier, the largest decline in over 12 years. Some of this decline was due to business closings for the Lunar New Year, which fell in January this year, but in February last year. Consumer prices were 4.6 percent higher in February than a year earlier, down from a 7 percent increase in the previous twelve months. Korea's cumulative trade deficit (on a customs clearance basis) for January and February 1993 was $1.5 billion, down from a surplus of $3.1 billion over the same period last year. Cumulative exports through February were 7 percent higher than a year earlier, and imports through February were nearly 7 percent lower than a year earlier.

In Brazil, economic conditions remain depressed and inflation has remained high. Real GDP fell by 0.9 percent in 1992, compared with an increase of 0.9 percent in 1991, and would have declined further had stimulative measures not been introduced in the fourth quarter. Monthly inflation had been in the 20 to 25 percent range since early 1992 and is expected to be 26 percent in March. The trade surplus in January 1993 was $1.1 billion compared with a surplus of $0.9 billion in January 1992.

Between late January and end-February, Brazil and the Bank Advisory Committee (BAC) presented the $44 billion Brady-style commercial bank restructuring package to bank creditors. On March 16, Brazil announced that over 95 percent of the banks had indicated their selections among the options, with a large portion of the debt being allocated toward the par bonds. However, implementation of the bank package is not expected until Brazil either agrees to finance the full amount of the collateral needed for the par and discount bonds or qualifies for financing from the IMF and other multilateral institutions. Brazil is in non-compliance with the fiscal targets contained in its January 1992 IMF stand-by arrangement.

The dim prospects for fiscal and monetary reform were underscored in early March, when Finance Minister Paulo Haddad and Central Bank President Gustavo Loyola resigned, citing their opposition to President Franco's selection of political appointees to technical posts at the central bank. Franco advocates reducing interest rates to stimulate the economy and had criticized the economic team for not moving more quickly to put an end to high inflation, which he blames on "oligopolistic forces." Franco selected Eliseu Resende to be the new finance minister and Paulo Cesar Ximenes to be the new central bank president. (Ximenes' nomination must be confirmed by the senate.) Speculation has intensified over the past few months that a new program will be implemented that will include wage and price freezes and a forced conversion of short-term internal debt into long-term debt.

In Argentina, April 1st marks the second anniversary of the Convertibility Law, which established a fixed one-to-one exchange rate between the peso and the U.S. dollar. The CPI rose by 0.7 percent during February, with a cumulative increase of 4.5 percent over the past six months compared with an increase of 9.4 percent over the six months ending in February 1992. The real exchange rate against the dollar has appreciated by about 25 percent over the past two years. After rapid growth during the first half of 1992, the industrial sector has experienced no growth during the past eight months. The official unemployment rate has risen slightly over the period and was 6.7 percent in the fourth quarter of 1992. Preliminary data indicate that merchandise imports fell to $900 million per month during January and February 1993, compared with a peak of $1.3 billion in October 1992. (Data on export revenues in 1993 are not available yet.)

Argentina and its bank advisory committee have announced that the Brady-style debt restructuring agreement will be implemented on April 7. More than 99 percent of Argentina's commercial bank creditors have agreed to the restructuring package.