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Confidential (FR) Class III FOMC

January 28, 1994

RECENT DEVELOPMENTS

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Real gross domestic product advanced at a 6 percent annual rate in the fourth quarter, with strong gains in outlays for consumer durables, business fixed investment, and residential construction. A number of leading indicators in these sectors ended the year pointing upward, suggesting good momentum for activity in the current quarter. Although the prices of some durable materials have reflected increased pressures on supply, broader measures of wages and prices show no signs of acceleration.

The Labor Market

The labor market continued to firm in December across a broad front. The unemployment rate edged down to 6.4 percent, almost a point less than the reading a year earlier. Nonfarm payroll employment increased 183,000 in December and, for 1993 as a whole, was up almost 2 million. Anecdotal reports indicate that the recent severe weather and the Los Angeles earthquake caused some transitory reductions in hours worked and in employment, but the recent levels of unemployment insurance claims suggest that the underlying rate of job growth has not changed greatly since the December labor market survey.

The December gains in nonfarm payroll employment were widespread, with the strongest increases in the private service-producing sector. Retail trade added 32,000 jobs, as sizable gains at eating and drinking establishments and at automobile dealerships more than offset less-than-seasonal hiring at general merchandise stores. Employment in services rose 68,000. The personnel supply component of this group, which is dominated by temporary-help firms, added 36,000 workers. Although personnel supply firms represent only 2 percent of total payroll employment, these firms accounted

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

			1993			1993		
	1992	1993	Q2	Q3	Q4	Oct.	Nov.	De
	------------Average monthly changes---------							
Nonfarm payroll employment[2]	80	164	179	134	182	162	202	183
Private	59	150	167	101	176	181	200	147
Manufacturing	-26	-15	-55	-24	13	11	26	2
Durable	-22	-9	-44	-12	18	14	25	14
Nondurable	-5	-6	-10	-12	-5	-3	1	-12
Construction	-5	17	31	6	23	37	34	-1
Trade	20	40	51	31	17	15	-7	42
Finance, insurance, real estate	-2	8	5	9	17	16	22	14
Services	78	100	140	86	95	101	117	68
Health services	29	25	26	24	23	28	23	18
Business services	31	39	41	31	55	88	41	35
Total government	22	15	12	33	6	-19	2	36
Private nonfarm production workers	74	135	156	94	142	202	155	70
Manufacturing production workers	-13	-5	-39	-14	17	17	34	0
Total employment[3]	127	209	208	127	364	373	391	329
Nonagricultural	120	219	231	106	363	445	298	347
Memo:								
Aggregate hours of private production workers (percent change)	.1	.2	.4	.0	.4	1.0	.2	
Average workweek (hours)	34.4	34.5	34.5	34.5	34.6	34.5	34.6	34
Manufacturing (hours)	41.1	41.5	41.4	41.4	41.7	41.6	41.7	41

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households.

SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data)

			1993			1993		
	1992	1993	Q2	Q3	Q4	Oct.	Nov.	Dec.
Civilian unemployment rate (16 years and older)	7.4	6.8	7.0	6.7	6.5	6.7	6.5	6.4
Teenagers	20.0	19.0	19.8	18.2	18.3	18.9	18.3	17.8
20-24 years old	11.3	10.5	10.7	10.4	9.7	9.9	9.9	9.5
Men, 25 years and older	6.4	5.8	5.8	5.8	5.5	5.7	5.3	5.4
Women, 25 years and older	5.7	5.4	5.4	5.3	5.3	5.4	5.3	5.2
Fulltime workers	7.1	6.5	6.6	6.5	6.2	6.4	6.1	6.1
Labor force participation rate	66.3	66.2	66.2	66.1	66.2	66.2	66.2	66.3
Teenagers	51.3	51.5	51.9	51.5	51.1	51.1	51.2	50.9
20-24 years old	77.1	77.1	77.3	77.0	76.7	76.9	76.5	76.7
Men, 25 years and older	76.6	76.2	76.2	76.2	76.2	76.3	76.1	76.2
Women, 25 years and older	57.0	57.1	56.9	57.1	57.5	57.3	57.5	57.6

for nearly one-fifth of the overall gain in total payroll employment last year.

Manufacturing employment was little changed in December, after an increase of more than 35,000 over the previous two months. The level of manufacturing employment at the end of last year was about 175,000 lower than a year earlier; however, this figure overstates the decline, because an increasing share of the individuals hired by temporary agencies (and thus counted as employees at personnel supply firms) reportedly worked in the manufacturing sector. After posting strong increases in the previous two months, construction payrolls were little changed in December. Employment in this sector rose 200,000 last year--its first annual gain since 1989.

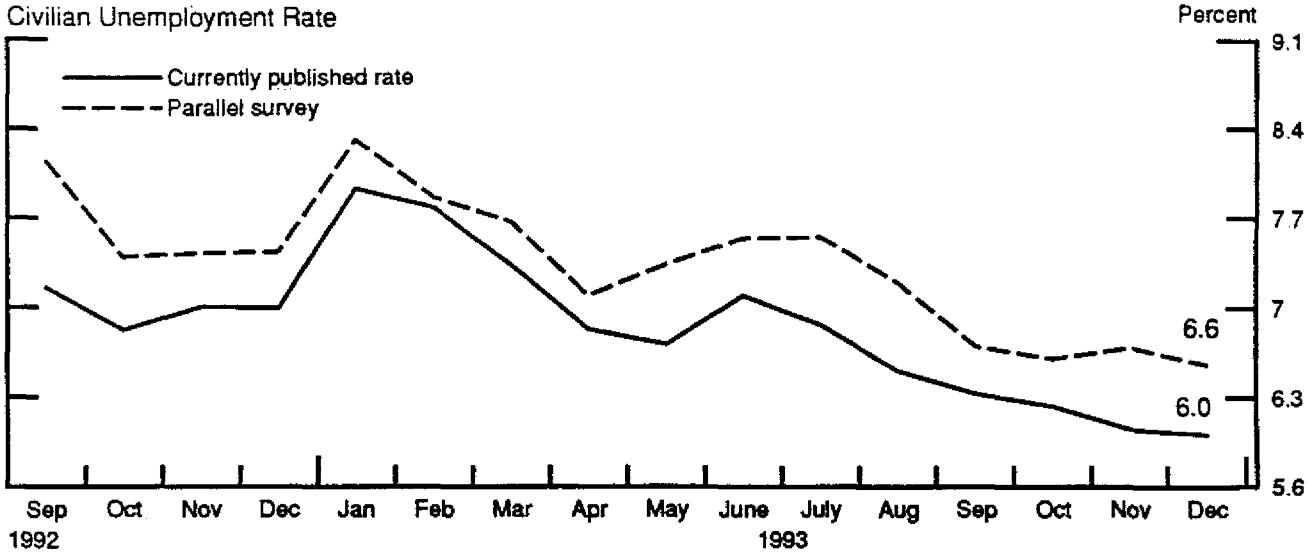
The average workweek of production or nonsupervisory workers stood at 34.6 hours in December, 1/2 hour above its cyclical trough. Typically, the workweek increases during the first year or two of an expansion and then recedes. In the current cycle, by contrast, the uptrend in the workweek continued into the third year of the expansion. Much of the overall increase has occurred in manufacturing, for which the December reading, at 41.7 hours, is the highest since World War II.

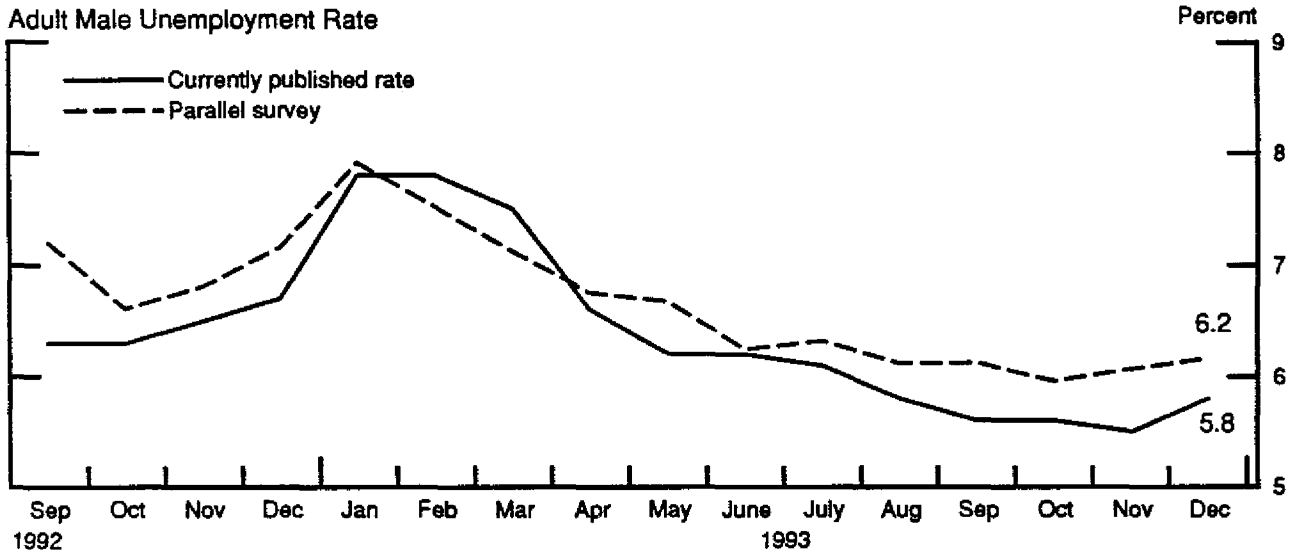
The employment measure from the household survey increased 330,000 in December; for 1993 as a whole this series showed an increase of 2-1/2 million, compared with a rise of about 2 million in the payroll series.[1] However, the strength in employment does not yet appear to have drawn a great many more workers into the labor force. The labor force participation rate, although up

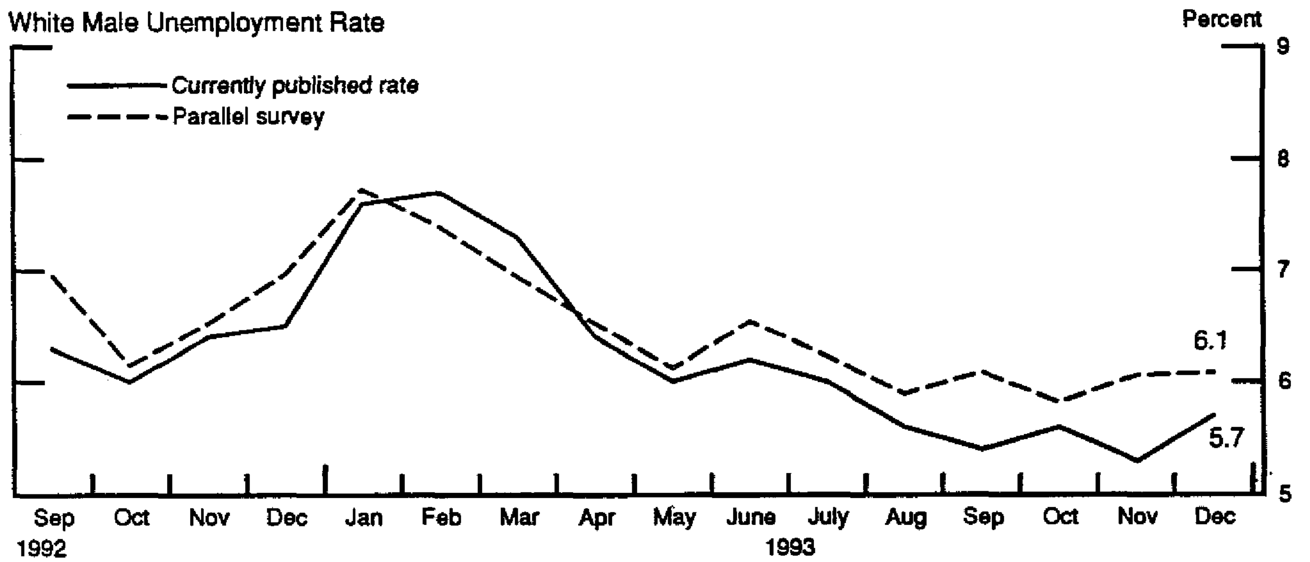
1. The source of the divergence is unclear. Among measured differences, a large increase in self-employed workers offset declines in private household workers and unpaid absences. These categories are included in the household series but not the payroll series.

COMPARISONS OF OFFICIAL CPS AND PARALLEL SURVEY

(Based on not seasonally adjusted data)







slightly during the last few months of 1993, has been essentially flat during the current expansion.

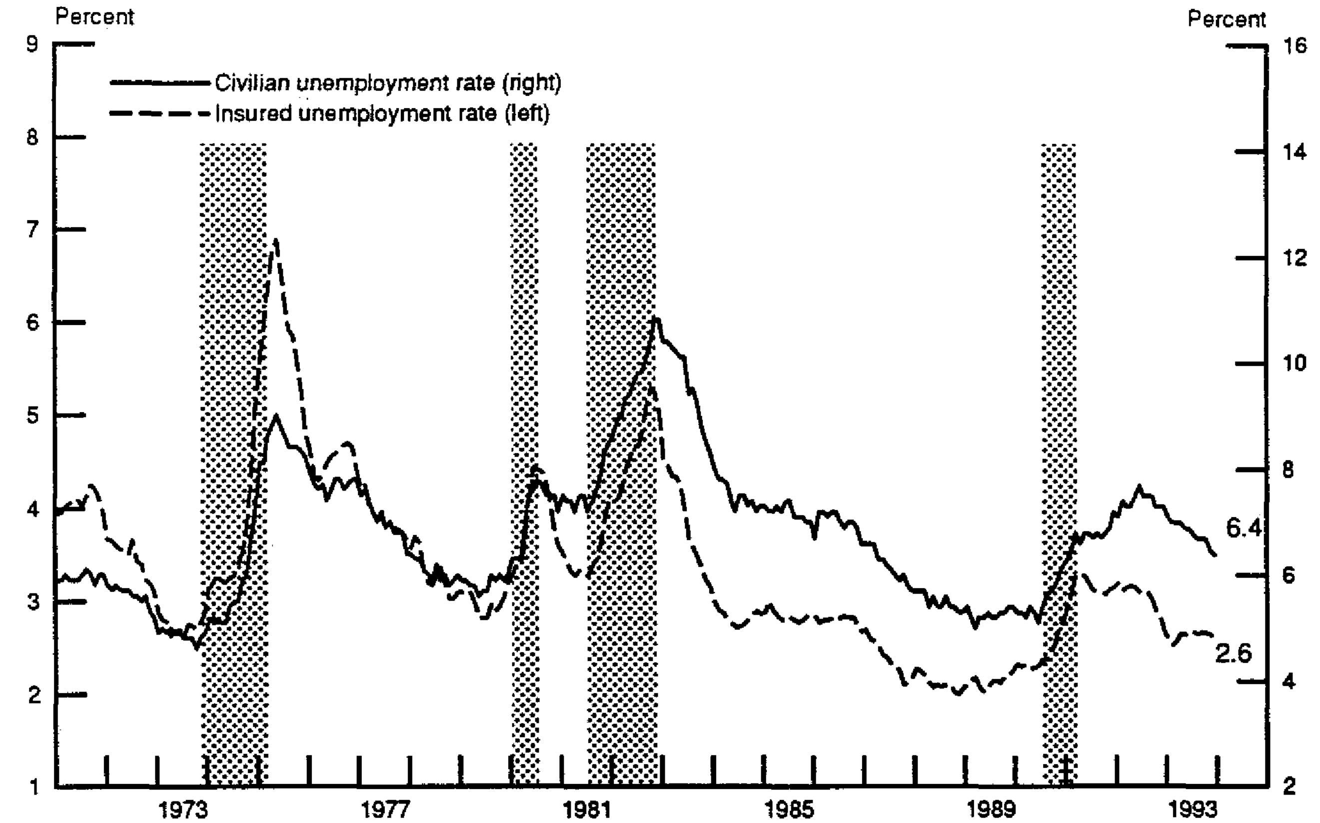
Beginning with the data for January 1994, statistics from the Current Population Survey (CPS) will be adjusted using population controls from the 1990 decennial census. If these controls had been applied to the 1993 statistics, the annual levels of employment and unemployment would have been 934,000 and 203,000 higher respectively, raising the unemployment rate 0.1 percentage point.

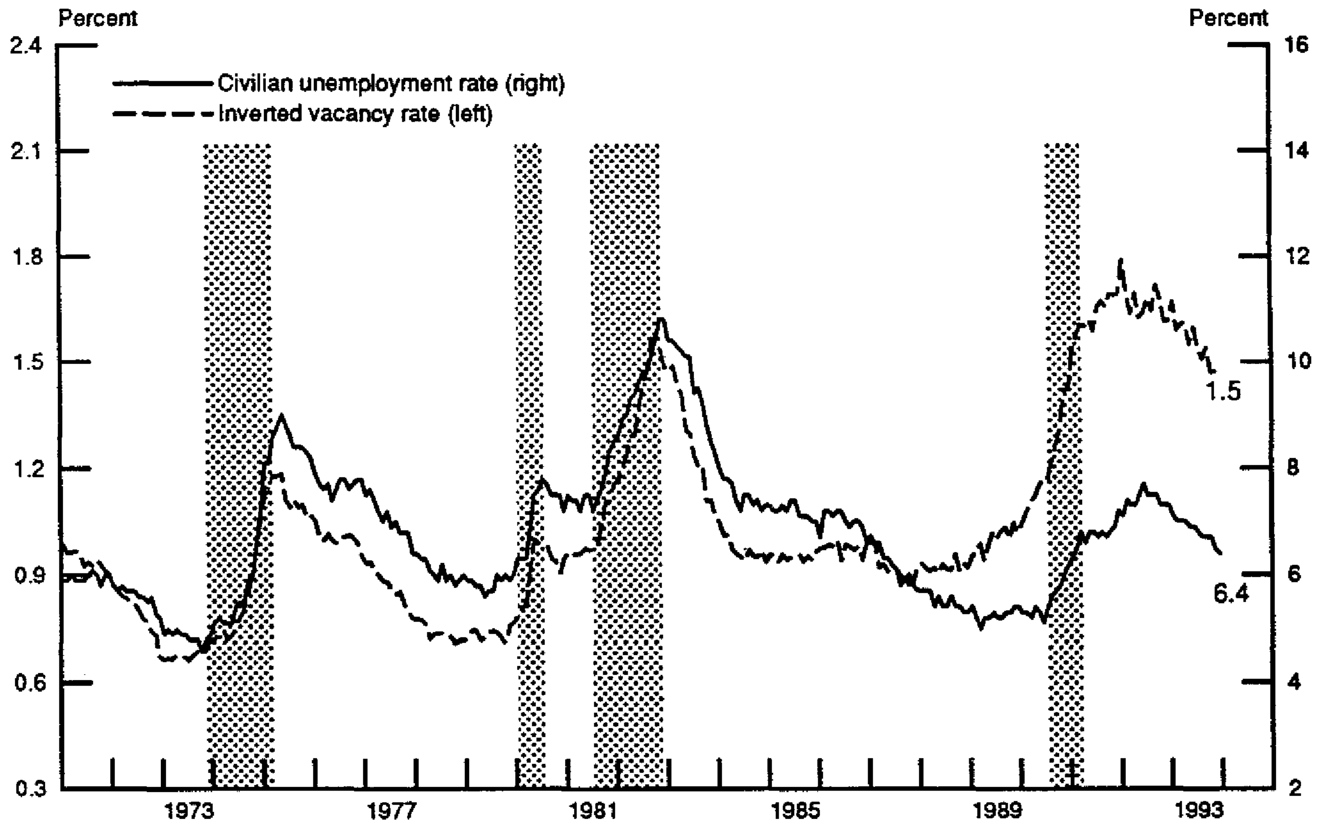
A more profound change will occur with the introduction of the redesigned CPS in January. The new survey should produce more accurate statistics on several aspects of labor market behavior, most notably the unemployment rate. However, the changeover will create a break in the official series beginning with the January data.

From July 1992 to December 1993, a separate, parallel survey was conducted using the redesigned questionnaire and procedures (but a much smaller sample). During 1993, the unemployment rate measured by the parallel survey was about 1/2 percentage point higher, on average, than the currently published data (chart, upper panel). One important reason for the difference is that, in the old survey, the wording of the initial questions on labor force activity caused some women to be misclassified as being "out of the labor force." This so-called gender bias has been corrected in the new survey. Other reasons for the difference include modified questions about layoff status and job-search activities, which, compared with the old survey, will probably result in an increase in workers classified as being on layoff as well as in those actively seeking jobs.

Because the new CPS will introduce a break in the civilian unemployment rate, looking at other indicators that offer a

ALTERNATIVE INDICATORS OF UNEMPLOYMENT
(Based on seasonally adjusted data)





continuous picture of labor market conditions between last year and this year will be useful. One approach is to identify subcategories of the civilian unemployment rate that are not expected to be materially affected by the survey redesign and that also show cyclical patterns similar to those of the overall unemployment rate. Until recently, data from the parallel survey indicated that the rates for white males and for adult males met these criteria. However, in recent months the movements of both series in the current CPS survey have diverged from their counterparts in the parallel survey, indicating that these unemployment rates may not be so immune from the survey redesign as the early data had suggested (middle and lower panels of the chart).

Two other indicators, neither of which is based on CPS data, are the state-insured unemployment rate and the labor-market vacancy rate. The state-insured unemployment rate (chart, upper panel) was closely aligned with the civilian jobless rate in the 1970s, but a tightening of state eligibility requirements in the early 1980s lowered the insured unemployment rate relative to the civilian series. Nonetheless, these series show broadly similar cyclical movements. The vacancy rate (lower panel), which is based on the Conference Board's help-wanted index, also moved in line with the unemployment rate in the 1970s and early 1980s; however, the relationship between the levels of these series has changed dramatically in recent years.[2] Still, as with the state unemployment rate, the cyclical patterns in these series appear to be quite similar.

2. The Conference Board's help-wanted index is adjusted using factors, estimated by Katharine Abraham (the current BLS Commissioner), that control for changes in advertising practices over time and for consolidation in the newspaper industry. The vacancy rate is equal to the adjusted help-wanted index divided by nonfarm payroll employment.

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

	Proportion in total IP 1993:4	1993[1]	1993 H1	1993 Q3	1993 Q4	1993 Oct.	1993 Nov.	1993 Dec.
			---Annual rate---			--Monthly rate---		
Total index	100.0	4.5	1.9	2.6	7.5	.7	.9	.7
Previous			1.9	2.6		.7	.9	
Manufacturing	85.2	5.2	2.4	2.3	8.7	.8	1.1	.7
Motor vehicles and parts	5.6	18.3	5.6	-18.5	93.3	7.9	6.6	4.9
Mining	6.9	-.1	-.7	-2.9	5.6	.6	-.8	.5
Utilities	7.9	.7	-.8	10.5	-3.7	-.6	.8	1.0
Manufacturing excl. motor vehicles and parts	79.6	4.4	2.2	3.7	4.7	.4	.7	.4
Consumer goods	21.3	1.0	.5	1.0	1.0	.5	.3	-.4
Durables	3.7	7.1	4.5	4.1	6.1	1.2	1.1	-.5
Nondurables	17.6	-.2	-.3	.3	.0	.3	.1	-.3
Business equipment	15.3	10.4	5.2	11.6	8.7	.2	.9	1.3
Office and computing	4.2	34.4	16.8	33.6	31.4	2.0	2.5	2.9
Industrial	4.1	6.3	3.3	8.0	3.7	-.1	.8	.8
Other	6.9	1.7	.9	3.0	.0	-.6	.2	.6
Defense and space equipment	3.0	-7.9	-4.2	-7.5	-7.5	-.8	-.4	-.6
Construction supplies	4.9	6.3	2.2	8.3	7.7	.6	.7	.8
Materials	28.6	5.7	3.1	3.7	6.7	.4	1.0	
Durables	19.4	6.9	3.3	6.0	8.1	.2	1.0	
Nondurables	9.0	3.5	2.8	.4	2.6	.6	1.0	

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.	1993 Avg.	1993 H1	1993 Q3	1993 Q4	1993 Oct.	1993 Nov.	1993 Dec.
Total industry	81.9	81.9	81.5	81.8	82.9	82.3	83.0	83.5
Manufacturing	81.2	81.1	80.6	80.8	82.2	81.5	82.3	82.7
Primary processing	82.2	84.6	84.1	84.5	85.5	84.8	85.7	86.0
Advanced processing	80.7	79.6	79.1	79.3	80.8	80.1	80.9	81.4

Industrial Production

The industrial production index rose 0.7 percent in December and, for the fourth quarter as a whole, posted a gain of 7-1/2 percent at an annual rate. Manufacturing output also grew 0.7 percent in December, led by motor vehicles and business equipment. With the continued rise in industrial production, the operating rate in manufacturing increased to 82.7 percent.[3]

In December, output of motor vehicles and parts directly contributed 0.3 percentage point to the growth of industrial production; total assemblies increased 1/2 million units at an annual rate to 12.5 million units, the highest level since the first quarter of 1979. Current schedules call for assemblies to move higher in January and February and then to ease a bit. The severe

ASSEMBLIES OF DOMESTIC AUTOS AND TRUCKS
(Millions of units at an annual rate; FRB seasonal basis)

	1993		1994	1993	1994	
	Q3	Q4	Q1[1]	Dec.	Jan.[1]	Feb.[1]
U.S. production	9.8	11.8	13.1	12.5	12.8	13.7
Autos	5.2	6.4	7.2	6.8	7.0	7.6
Trucks	4.5	5.4	5.9	5.7	5.9	6.2
Days' supply						
Autos	61.4	59.0	n.a.	59.8	n.a.	n.a.
Light trucks	67.9	56.7	n.a.	57.3	n.a.	n.a.

Note: Components may not add to totals due to rounding.
1. Scheduled production.

weather in mid-January disrupted production at more than half of the motor vehicle assembly plants in the United States. The staff estimates that, as a result, January assemblies were lowered 500,000

3. Revised indexes of industrial production and rates of capacity utilization will be issued on February 4 in a special press release. The revisions to production reflect primarily the incorporation of more comprehensive monthly source data, a review of productivity relationships, and updated seasonal factors. The revisions to capacity utilization reflect the incorporation of the Census Survey of Plant Capacity for 1991 and 1992 and improved estimates of capital stocks.

units relative to those that had been scheduled earlier in the month. Domestic producers have said that they plan to make up most of the lost output later this quarter.

Outside of the motor vehicle industry, manufacturing production grew 0.4 percent in December, after a 0.7 gain in November. Much of this advance was in motor vehicle-related industries, such as tires, steel, and metal stampings, and in business equipment other than aircraft and parts. Production of office and computing equipment posted another hefty increase, and output of other industrial and business equipment posted solid gains. Aircraft production, however, continued to shrink late last year; Boeing has scheduled further cuts in aircraft assemblies during the first half of this year.

Elsewhere, output growth was mixed in December. Production of consumer goods, excluding autos and trucks, decreased because output of nondurables remained sluggish and production of other durables reversed some of the large increases in the previous two months. For the year as a whole, output of consumer durables other than motor vehicles grew more than 7 percent, whereas production of nondurables declined a bit. Output of materials and of construction supplies continued to advance last month. Finally, utilities output increased 1 percent in December; part of the gain probably stemmed from unseasonably cold weather late in the month.

The staff's series for orders of real adjusted durable goods rose 1-3/4 percent in December and increased more than 6 percent for the fourth quarter as a whole. In particular, new orders for nondefense capital goods excluding aircraft have been running ahead of shipments; and, as a result, backlogs have risen.

However, in January, severe weather temporarily disrupted output in some parts of the country. In addition to the effect on

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

	Share 1993:H1	1993 Q3	1993 Q4	1993 Oct.	1993 Nov.	1993 Dec.
Total	100	1.2	6.5	2.6	2.3	2.2
Adj. durables[1]	65	3.7	5.5	2.6	.6	3.0
Computing equipment	5	4.9	13.3	7.7	12.2	-7.0
Nondef. cap. goods ex. aircraft and computers	16	3.2	10.7	2.1	1.3	11.0
Other	44	3.8	2.8	2.3	-1.0	1.2
Memo:						
Real adjusted durables		4.3	6.1	2.9	1.8	1.8

1. Excludes defense, aircraft, motor vehicle parts, and industries that do not report unfilled orders.

motor vehicles (noted above), production of steel appears to have been reduced considerably. Anecdotal information for other industries suggests that the severe weather had scattered adverse effects on January production.[4] These negative effects were offset, in part, by a surge in the output at utilities.

As production strengthened during the final three months of 1993, manufacturing capacity utilization jumped 1-3/4 percentage points to a level of 82.7 percent, about 1-1/2 percentage points above the average level during the previous 25 years. Utilization in both primary-processing and advanced-processing industries increased considerably last year.

Experience has shown that when manufacturing operating rates move above their long-term averages, prices for related goods and materials tend to accelerate. However, to date the pickup in these prices has been rather muted overall. One possible explanation is that ample worldwide capacity has limited the ability of U.S. producers to raise prices. Indeed, detailed industry data show that

4. This assessment is based on reports from most of the District Banks and on information from trade associations and individual companies.

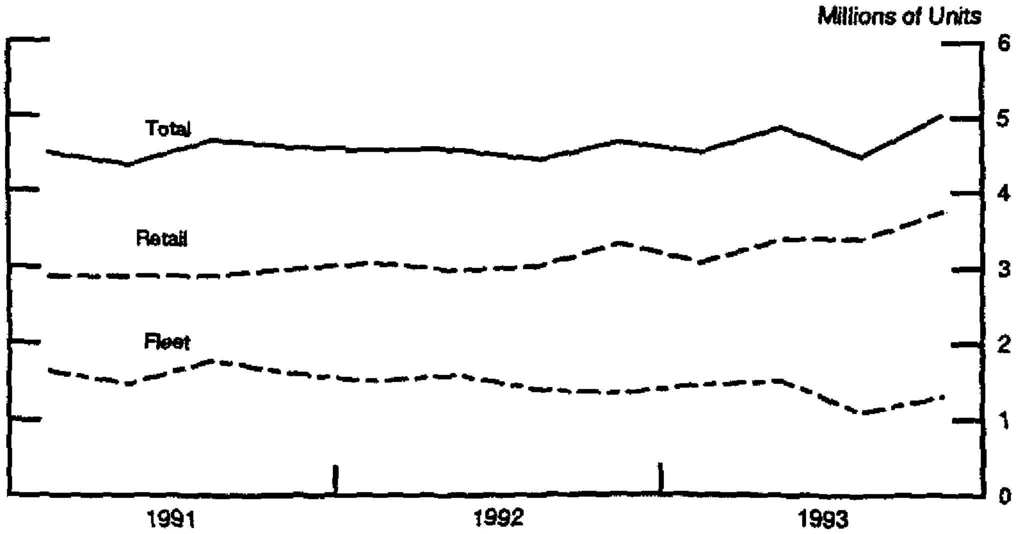
SALES OF AUTOMOBILES AND LIGHT TRUCKS[1]
(Millions of units at an annual rate: BEA seasonals)

			1993			1993		
	1992	1993	Q2	Q3	Q4	Oct.	Nov.	Dec.
Total	12.8	13.9	14.2	13.6	14.6	14.5	14.7	14.5
Autos	8.4	8.7	9.0	8.6	8.9	9.0	9.0	8.8
Light trucks	4.5	5.2	5.2	5.0	5.6	5.5	5.6	5.7
North American[2]	10.5	11.7	11.9	11.4	12.5	12.5	12.6	12.5
Autos	6.3	6.7	6.9	6.6	7.1	7.1	7.1	7.0
Big Three	5.1	5.5	5.7	5.1	5.7	5.8	5.7	5.6
Transplants	1.2	1.3	1.2	1.5	1.4	1.3	1.4	1.4
Light trucks	4.2	5.0	5.0	4.5	5.5	5.4	5.5	5.5
Foreign produced	2.3	2.2	2.3	2.2	2.0	2.0	2.0	2.0
Autos	2.1	2.0	2.1	2.0	1.9	1.9	1.9	1.8
Light trucks	.2	.2	.2	.2	.1	.1	.1	.1
Memo:								
Domestic nameplate								
Market share, total	.72	.74	.75	.71	.75	.75	.74	.75
Autos	.63	.65	.66	.62	.65	.66	.65	.64

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.

GM and Ford Domestic Auto Sales
(Seasonally adjusted annual rate;FRB seasonals)



Note: Data are confidential. Retail includes consumer leasing.

industries with the highest utilization rates--such as lumber and wood products, cement, iron and steel, and nonferrous metals--have experienced a rise in import penetration, thus boosting supply to the U.S. market. The behavior of output prices for these industries has varied widely, however. Prices of nonferrous metals have declined dramatically. But producer prices for the other industries noted above have risen considerably--and in the case of lumber, quite considerably. For these industries, imports may have lessened the price impact of increases in demand but did not fully alleviate them.

Motor Vehicles

Light vehicle sales rose sharply in the fourth quarter to an annual rate of 14-1/2 million units, raising sales for 1993 as a whole to nearly 14 million units. At year-end, inventories of domestic makes were generally fairly lean.

According to confidential data supplied by GM and Ford, fleet sales were depressed last summer (chart, lower panel). In the face of supply disruptions, the automakers lowered sales to their business customers. When these problems were allayed last fall, light vehicle sales to businesses rebounded. Nonetheless, because the level of fleet sales at the end of last year was still at a relatively low level, and some further pickup would appear to be likely early this year. Indeed, according to sources at GM, the company has a substantial backlog of unfilled orders from rental companies that it intends to fill before the beginning of April. Light truck sales rose to a pace of 5.6 million units last quarter, one of the highest levels on record, as generous incentives associated with the sales contest between Ford and Chevrolet temporarily boosted deliveries.

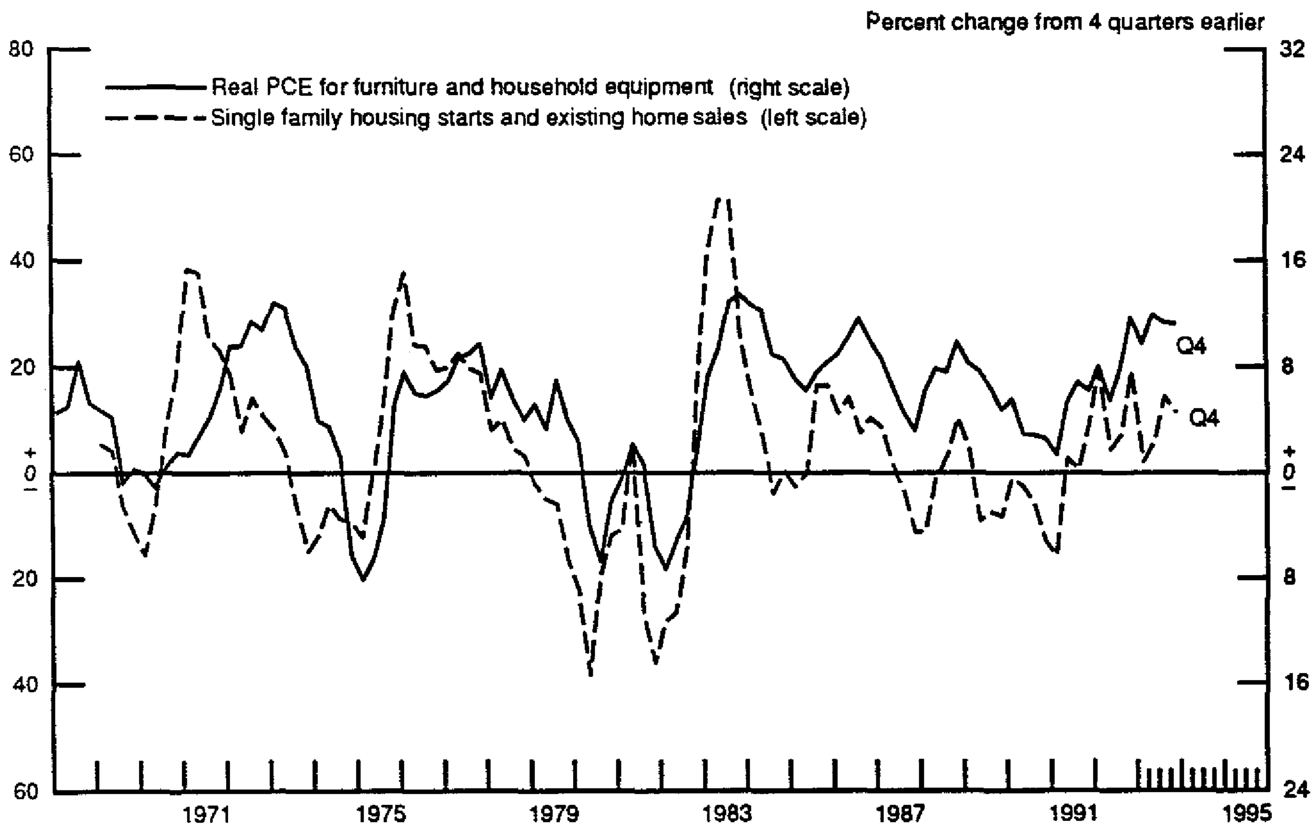
RETAIL SALES

(Percent change from preceding period, seasonally adjusted)

	1993 Q2	1993 Q3	1993 Q4	1993 Oct.	1993 Nov.	1993 Dec.
Total sales	1.8	1.6	2.9	2.0	.3	.8
(Previous)				*(1.8)*	*(.4)*	
Retail control [1]	1.0	1.0	1.4	.8	-.1	.5
(Previous)				*(.8)*	*(.5)*	
GAF	1.6	2.4	1.9	.9	.0	.1
General merchandise	1.7	2.6	.7	.8	-.9	-.3
Apparel	.3	.8	1.6	.3	.2	-.9
Furniture and appliances	2.5	3.6	4.9	1.7	1.9	1.8
Other	.8	.3	1.1	.7	-.1	.8

1. Total excluding auto dealers and building material and supply stores.

HOUSING ACTIVITY AND REAL PCE



Because automakers stopped releasing ten-day sales data at year-end, no direct indicators of light vehicle demand are yet available for January. However, the Michigan index on buying conditions for cars rose again in January to its highest level since 1986, suggesting that demand may have continued strong early this year.

Personal Income and Consumption

Consumer spending has continued to post solid gains: Real PCE advanced at a 4 percent annual rate in the fourth quarter, boosted by double-digit growth in spending on durable goods. Real outlays on motor vehicles are estimated to have jumped more than 20 percent at an annual rate in the fourth quarter. At the same time, real outlays for other durable goods increased at an annual rate of nearly 10 percent, led by further rapid gains in spending on furniture, appliances, and other household equipment. Historical correlations suggest that the strength in spending on these household durable goods likely stems, in large part, from increases in the volume of housing activity (chart).

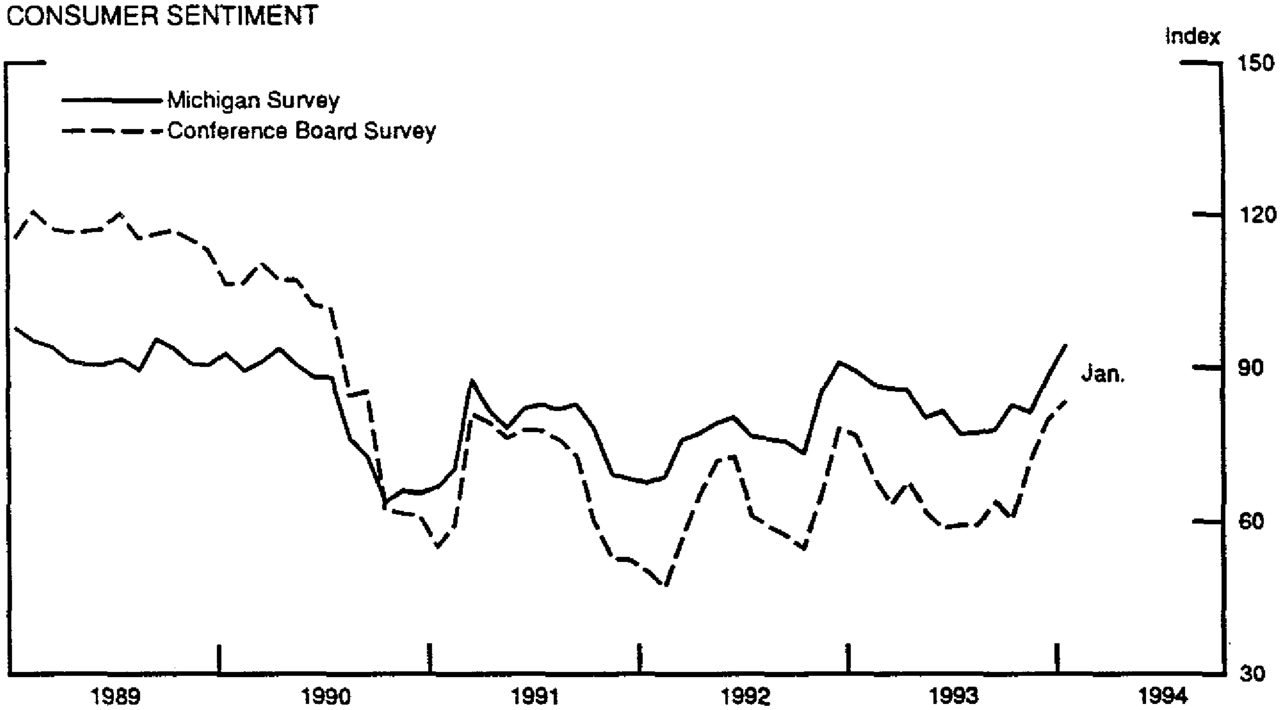
In contrast to the robust gains for durables, spending on nondurable goods and services rose only moderately in the fourth quarter. Real spending on nondurables climbed 2.6 percent at an annual rate, held back by lackluster holiday demand at apparel and general merchandise outlets. Spending on services grew at a 2.2 percent annual rate. Energy services declined in the fourth quarter after a weather-related surge in the third quarter, but spending on non-energy services was also anemic.[5]

5. Based on data for heating-degree days covering the January cold snap, the frigid weather appears likely to have boosted consumer spending on energy services $4 billion to $5 billion (at an annual rate) in January. An increase of this size would likely offset most, if not all, of the weather-related loss of retail sales during the month.

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

	1992	1993 Q1	1993 Q2	1993 Q3	Oct.	Nov.
Total personal income	44.2	-72.7	28.1	22.3	38.9	34.2
Wages and salaries	32.4	-96.0	36.7	11.5	16.3	11.7
Private	30.4	-98.6	35.0	9.0	17.5	10.7
Other labor income	2.0	2.7	2.7	2.7	2.7	2.8
Proprietors' income	2.9	12.1	-13.1	.8	13.7	15.5
Farm	.2	11.9	-15.3	-1.1	8.5	13.1
Rent	.5	2.8	1.3	2.0	1.3	1.3
Dividend	2.5	.6	.3	.4	.1	.0
Interest	-1.0	-.5	-1.1	1.9	2.5	2.5
Transfer payments	6.0	6.0	4.0	3.9	3.2	1.3
Less: Personal contributions for social insurance	1.1	.5	2.7	.7	1.2	.8
Less: Personal tax and nontax payments	6.0	-15.4	7.7	3.0	4.2	3.3
Equals: Disposable personal income	38.2	-57.4	20.5	19.4	34.7	31.0
Memo: Real disposable income	21.6	-56.2	10.3	11.7	12.5	19.0

CONSUMER SENTIMENT



Real disposable personal income rose at an annual rate of 5.2 percent in the fourth quarter. Much of the gain can be attributed to a rebound in farm income, which had been depressed by flood-related crop losses in the preceding quarter. Averaging the third and fourth quarters to remove this effect, real DPI increased at an annual rate of about 3-1/2 percent. This rate of income growth over the second half of 1993, although quite healthy, lagged somewhat behind the 4-1/4 percent rate of advance in real consumer spending over the period. As a result, the personal saving rate edged down somewhat further, to a level of 4.1 percent in the fourth quarter.

The pickup in consumer confidence that began last September continued early this year. Both the Conference Board and the Michigan indexes of consumer sentiment moved up further in December and January, reflecting improvements in consumers' expectations of future conditions and in their assessments of current conditions. The January level of the Conference Board index was the highest since September 1990, whereas the Michigan index reached the highest level since September 1989. In addition, the Michigan index of future employment conditions, which deteriorated over much of 1993, has revealed considerably less anxiety about job prospects in recent months.

Business Fixed Investment

Real business fixed investment advanced at an annual rate of 21 percent in the fourth quarter, as equipment spending moved up at a double-digit annual rate for the seventh straight quarter, and real outlays for nonresidential structures posted the largest quarterly rise in six years. Over 1993 as a whole, real business fixed investment increased nearly 15 percent, reflecting enormous

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

	1993			1993		
	Q2	Q3	Q4	Oct.	Nov.	Dec.
Producers' durable equipment						
Shipments of nondefense capital goods	1.0	.6	7.3	1.0	4.7	5.1
Excluding aircraft and parts	.8	3.4	8.1	.2	6.5	2.8
Office and computing	-2.2	9.4	5.5	.9	3.4	3.5
All other categories	1.7	1.7	8.9	.0	7.5	2.6
Orders of nondefense capital goods	4.1	-1.2	11.0	5.9	6.3	2.0
Excluding aircraft and parts	1.3	3.6	11.3	3.3	3.8	6.6
Office and computing	-.7	4.9	13.3	7.7	12.2	-7.0
All other categories	1.9	3.2	10.7	2.1	1.3	11.0
Shipments of complete aircraft[1]	31.2	19.1	n.a.	21.4	19.9	n.a.
Sales of heavy-weight trucks[2]	338.5	334.8	363.4	335.4	425.2	329.5
Nonresidential structures						
Construction put-in-place	2.7	1.2	n.a.	2.0	1.1	n.a.
Office	-.3	-1.8	n.a.	3.2	4.9	n.a.
Other commercial	3.4	-.8	n.a.	6.1	-1.0	n.a.
Institutional	6.4	2.9	n.a.	1.6	-1.3	n.a.
Industrial	-5.4	4.1	n.a.	-.5	4.2	n.a.
Public utilities	2.4	1.6	n.a.	.7	1.6	n.a.
Lodging and misc.	22.5	6.7	n.a.	.0	-2.1	n.a.
Rotary drilling rigs in use	692.1	795.3	790.8	809.4	783.5	779.6
Footage drilled[3]	11.0	11.6	n.a.	10.6	9.8	n.a.
Memo:						
Business fixed investment[4]	16.6	7.4	21.0	n.a.	n.a.	n.a.
Producers' durable equipment[4]	19.8	10.0	24.6	n.a.	n.a.	n.a.
Nonresidential structures[4]	8.1	.3	10.6	n.a.	n.a.	n.a.

1. Billions of dollars, annual rate. From the Current Industrial Report 'Civil Aircraft and Aircraft Engines.' Monthly data are seasonally adjusted by FRB staff; the monthly seasonals are constrained such that their quarterly averages equal the BEA seasonals (which only are available on a quarterly basis).
2. Thousands of units, annual rate. BEA seasonal factors.
3. From the Department of Energy.
4. Based on constant-dollar data; percent change, annual rate.

gains for computers, solid advances for most other equipment, and a turnaround in nonresidential construction.

Recent data on new orders for nondefense capital goods have been very strong and suggest further gains in shipments in early 1994. Bookings for office and computing equipment jumped more than 13 percent last quarter, and orders for other types of equipment (excluding aircraft) were up 10-3/4 percent, reflecting gains in most of the components.

In the transportation sector, as mentioned previously, business purchases of light motor vehicles bounced back in the fourth quarter. The demand for heavy trucks has also continued to be strong. The three major domestic manufacturers of heavy trucks are all operating at or near capacity, with backlogs stretching into midyear.[6] Elsewhere, spending on aircraft plunged in the fourth quarter and will likely continue to trend lower at least through the end of this year.

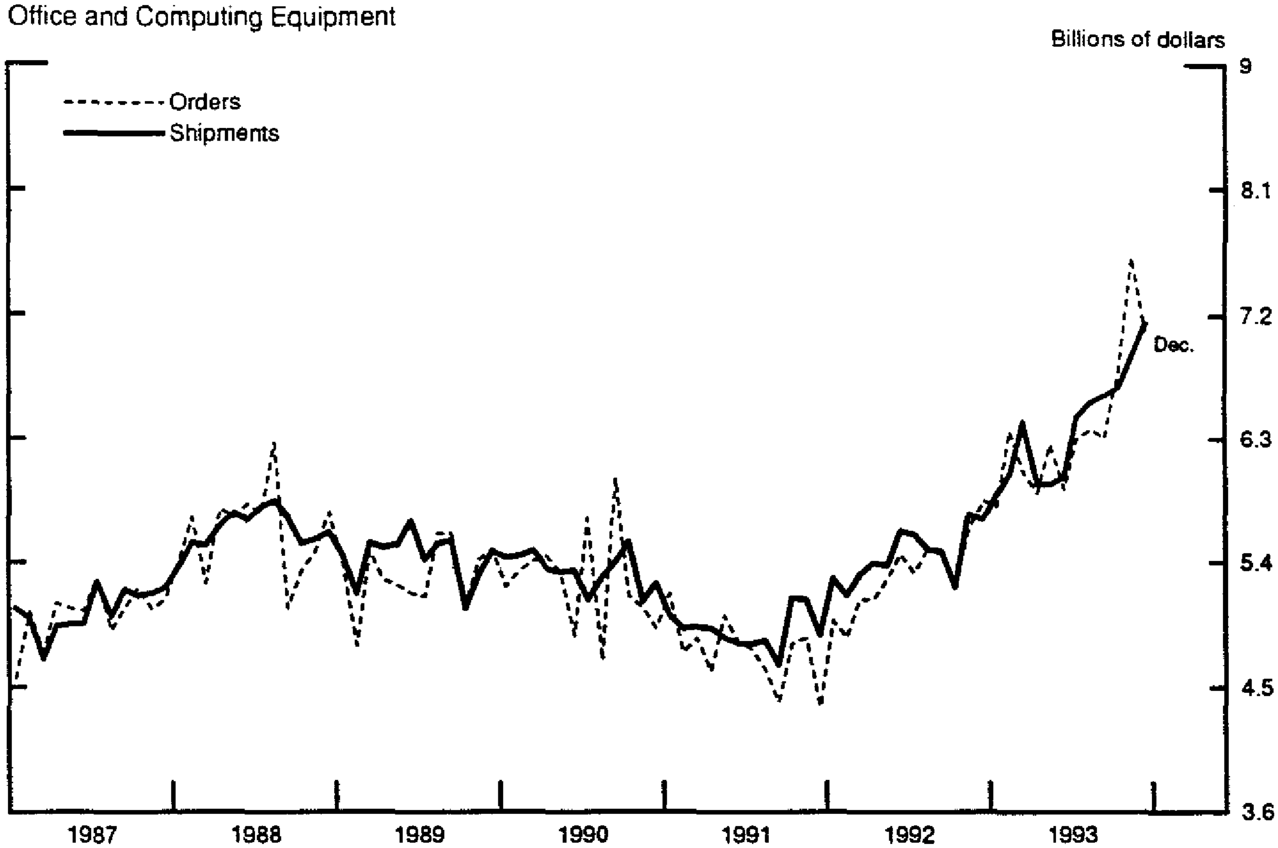
Real outlays in the fourth quarter for nonresidential structures jumped nearly 11 percent at an annual rate. Expenditures rose in a broad array of categories, with the largest increase for "other commercial" buildings, which consists mainly of retail stores. In contrast, office construction has yet to rebound from the precipitous decline of the late 1980s and early 1990s. Looking ahead, construction permits, which grew at a steady pace over the first three quarters of 1993, continued to rise in November and December, and are consistent with continued growth in structures investment in the near term.

Rotary drilling rigs in use jumped significantly over the first three quarters of last year but were about unchanged in the fourth

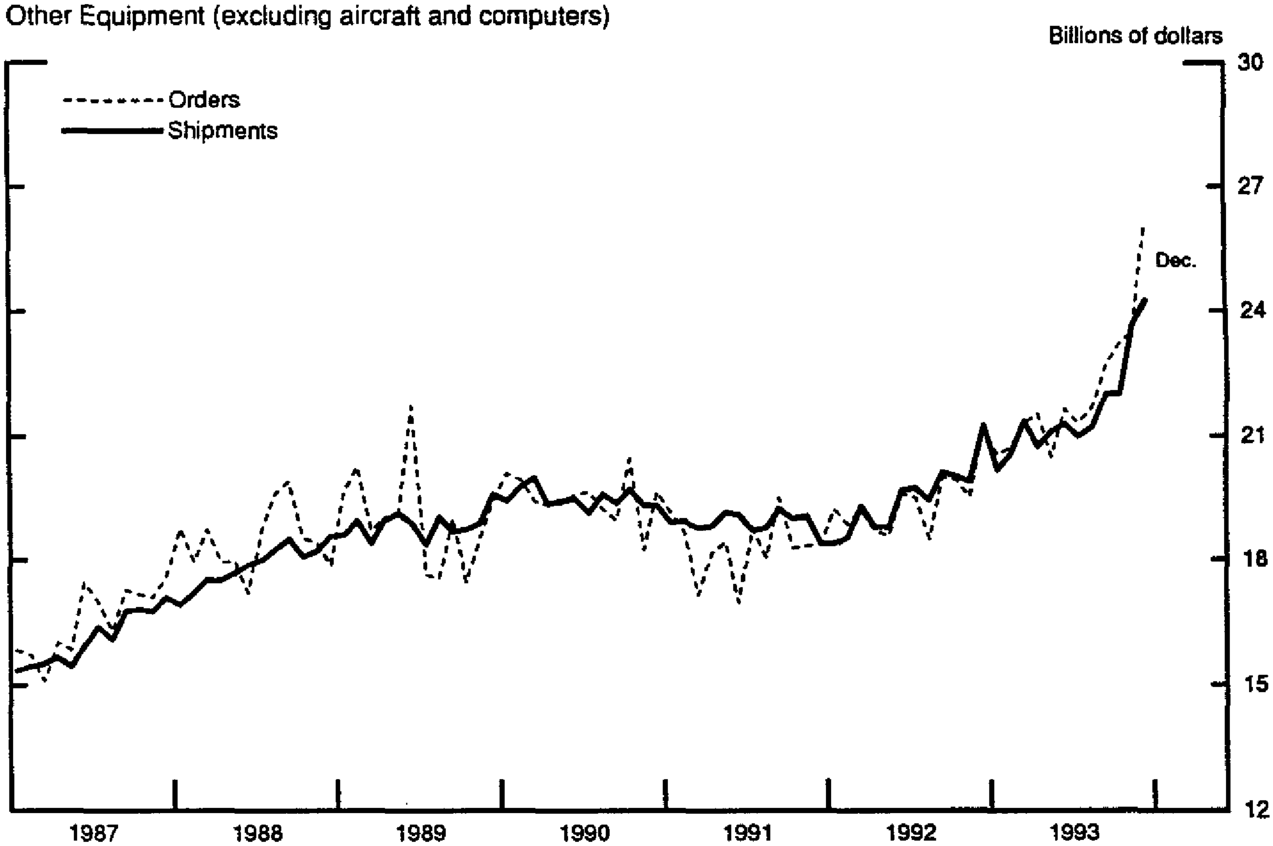
6. Before seasonal adjustment, sales have been flat since March; consequently, the month-to-month swings in these sales on a seasonally adjusted basis have been governed by movements in the seasonal factors.

RECENT DATA ON ORDERS AND SHIPMENTS

Office and Computing Equipment

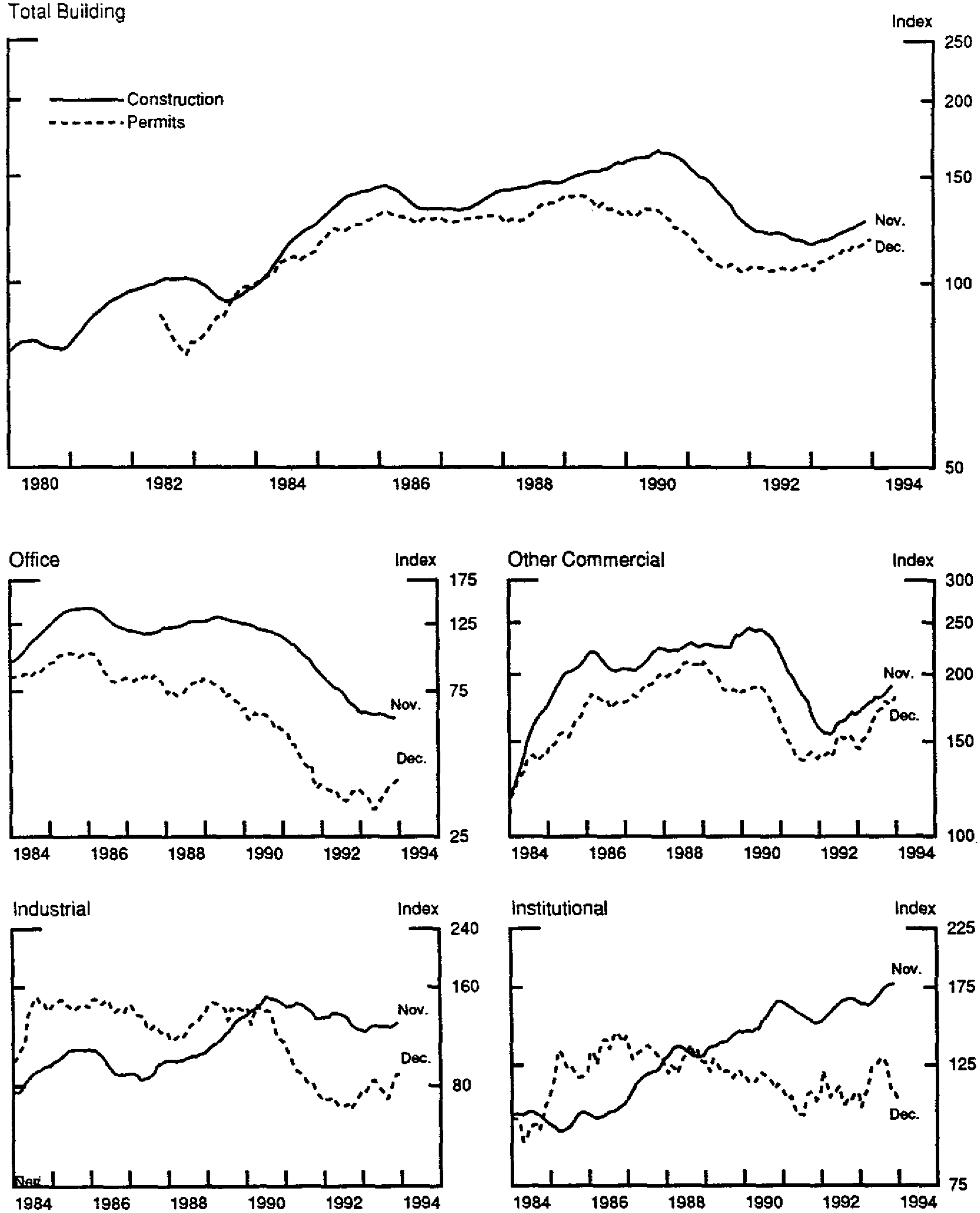


Other Equipment (excluding aircraft and computers)



NONRESIDENTIAL CONSTRUCTION AND PERMITS*

(Index, Dec. 1982 = 100, ratio scale)



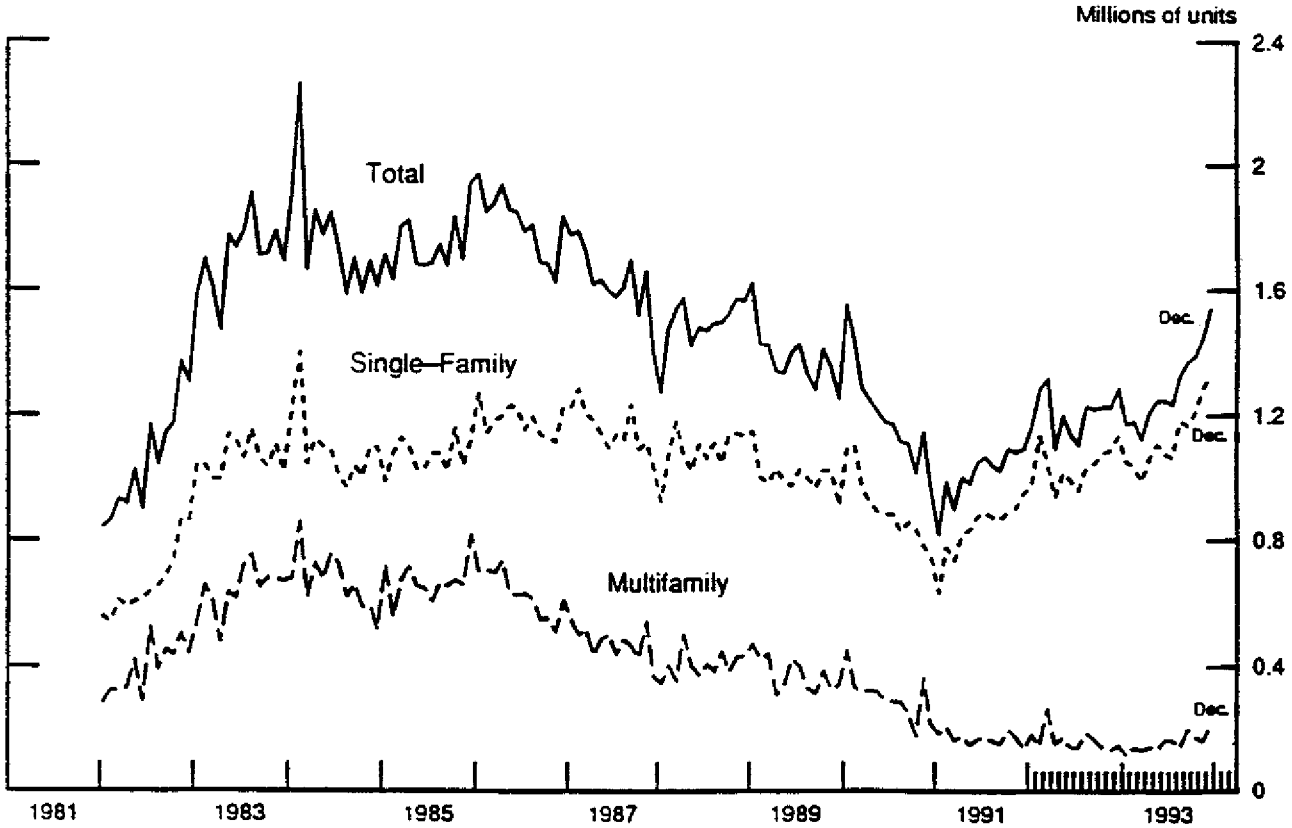
*Six-month moving average for all series.

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

	1993	1993			1993		
	Annual[p]	Q2	Q3[r]	Q4[p]	Oct.[r]	Nov.[r]	Dec
All units							
Starts	1.29	1.23	1.31	1.46	1.39	1.45	1.54
Permits	1.21	1.11	1.23	1.38	1.30	1.37	1.48
Single-family units							
Starts	1.12	1.08	1.14	1.28	1.21	1.29	1.33
Permits	1.00	.92	1.01	1.15	1.10	1.15	1.19
Sales							
New homes	n.a.	.65	.68	n.a.	.73	.81	n.a.
Existing homes	3.80	3.58	3.87	4.26	4.09	4.21	4.49
Multifamily units							
Starts	.16	.15	.17	.19	.18	.17	.21
Permits	.21	.19	.21	.24	.21	.23	.28

p--preliminary
r--revised estimates
n.a.--not available

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



quarter. Despite the relatively low price for crude oil now prevailing, most industry analysts expect increasing demand for natural gas, both from consumers and utilities, to boost exploration activity in 1994.

The Commerce Department's fall survey of capital spending plans, taken in October and November, indicated that firms expect to increase nominal outlays for plants and equipment 5-1/2 percent in 1994.[7] If realized, this increase would be a deceleration from the 7 percent rise now anticipated for 1993. However, spending plans are often revised significantly over the course of the year: for the fall survey, the mean absolute error between the predicted and actual yearly change in plant and equipment spending is about 2-1/2 percentage points. The survey taken in the autumn of 1992, for example, anticipated a 5-1/4 percent increase in 1993 plant and equipment spending, almost 2 percentage points less than the latest reading for that year.

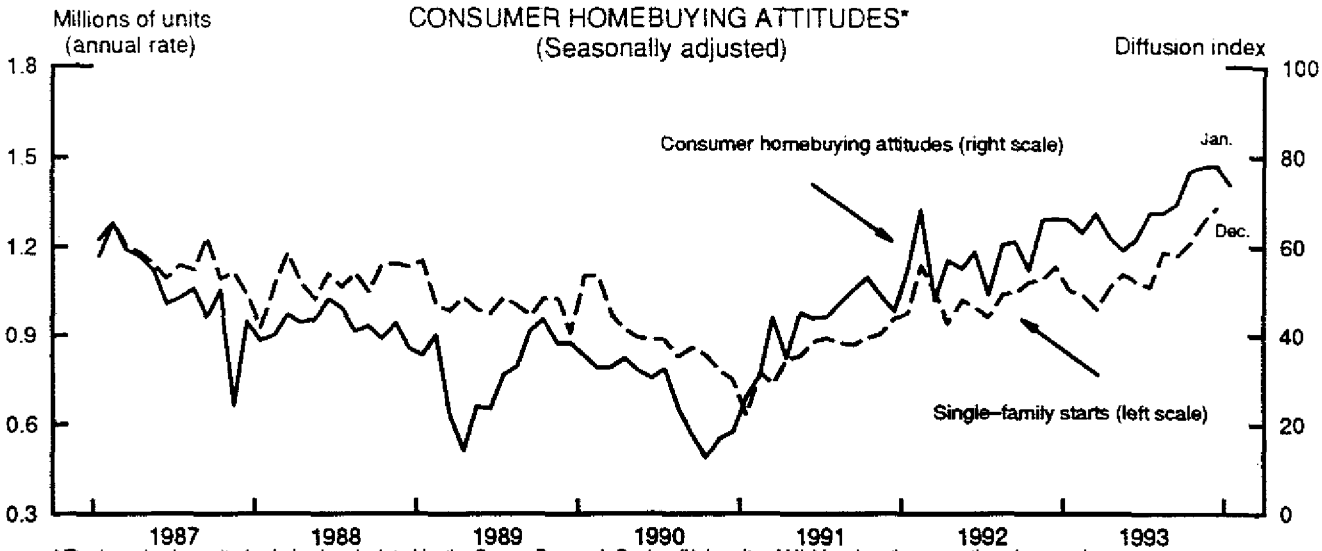
Housing Markets

Housing activity strengthened substantially in the fourth quarter. Total housing starts jumped 6-1/4 percent in December to 1.54 million units, their highest level since January 1990. Issuance of building permits also recorded a strong gain late last year. For 1993 as a whole, starts increased 7 percent to the highest annual total in four years.

In the single-family sector, starts rose 3.5 percent in December to 1.33 million units. The strength of single-family home construction late last year was consistent with the improved demand

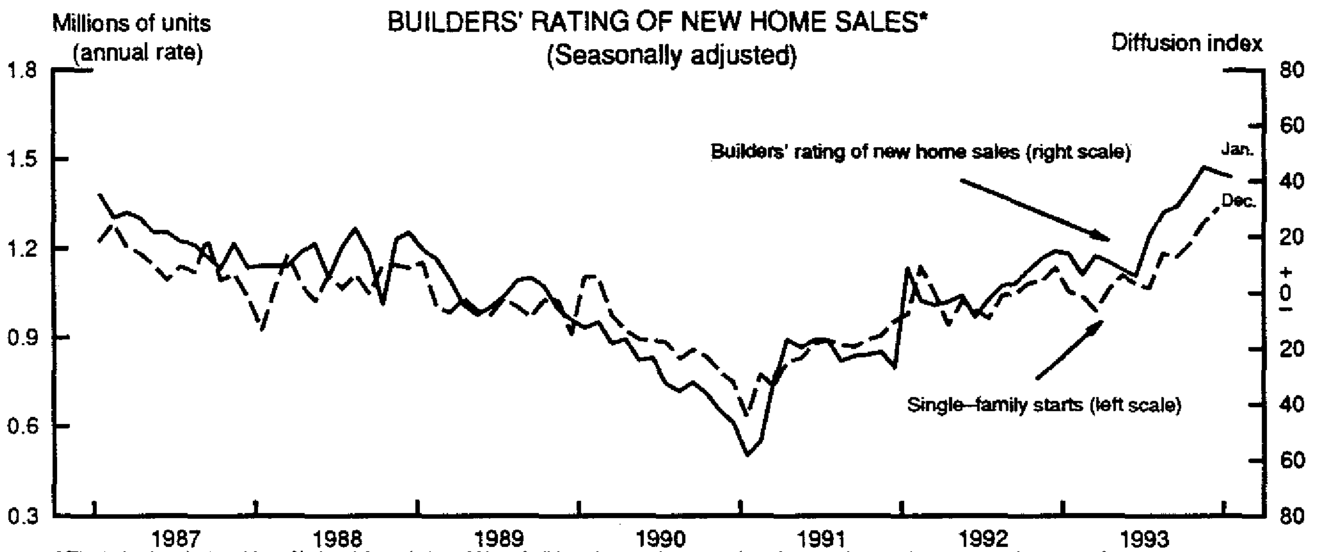
7. Although plans for plant and equipment (P&E) spending often are used to forecast BFI, the two series are independent measures of capital outlays. P&E spending is estimated from survey data on capital spending plans; in contrast, BFI is estimated, in large part, from monthly data on shipments of capital goods and construction put in place. In addition, the two series differ in the breadth of expenditures covered; for example, investment by the farm sector is included in BFI but not in the P&E data.

CONSUMER HOMEBUYING ATTITUDES*
(Seasonally adjusted)



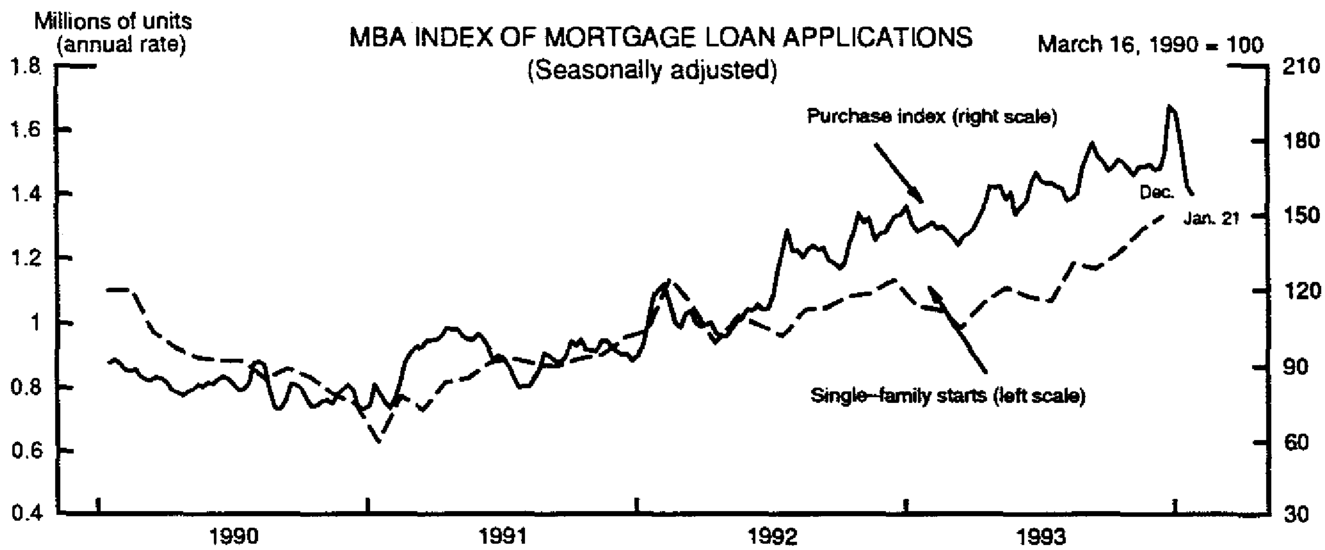
* The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

BUILDERS' RATING OF NEW HOME SALES*
(Seasonally adjusted)



* The index is calculated from National Association of Homebuilders data as the proportion of respondents rating current sales as good to excellent minus the proportion rating them as poor.

MBA INDEX OF MORTGAGE LOAN APPLICATIONS
(Seasonally adjusted)



for new homes, whose sales jumped more than 11 percent in November to 807,000 units at a seasonally adjusted annual rate. Existing home sales also rose during the fourth quarter, ending the year at the highest level in the twenty-five-year history of this series.[8]

The January readings from surveys of households and home builders suggest that single-family housing activity is likely to be maintained at the elevated December pace. Consumer attitudes toward homebuying in January were only fractionally below the series high recorded in December (chart, upper panel). Similarly, the home builders' rating of new home sales edged down in January but was still at a high level (middle panel). The index of applications for mortgages to finance a home purchase spurted in late December but dropped back in the first three weeks of January (lower panel).

Nonetheless, the severe weather in January likely disrupted construction temporarily. Data for the first three weeks of the month showed temperatures running well below normal in the Midwest and the East; in addition, precipitation was above normal in these areas. Empirical relationships indicate that deviations of this sort from seasonal norms tend to have a negative, albeit transitory, effect on home construction. Indeed, a number of anecdotal reports indicate that construction activity was significantly reduced in some parts of the country.

Reports from the National Association of Home Builders and the Beige Book have cited price increases for some building materials and shortages of skilled construction labor as factors that could

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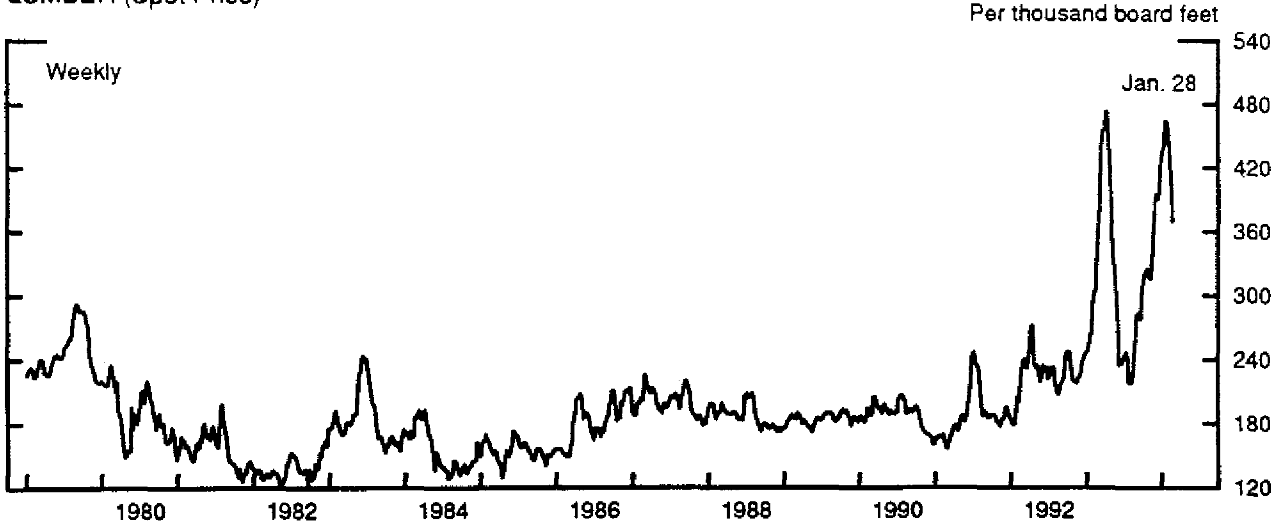
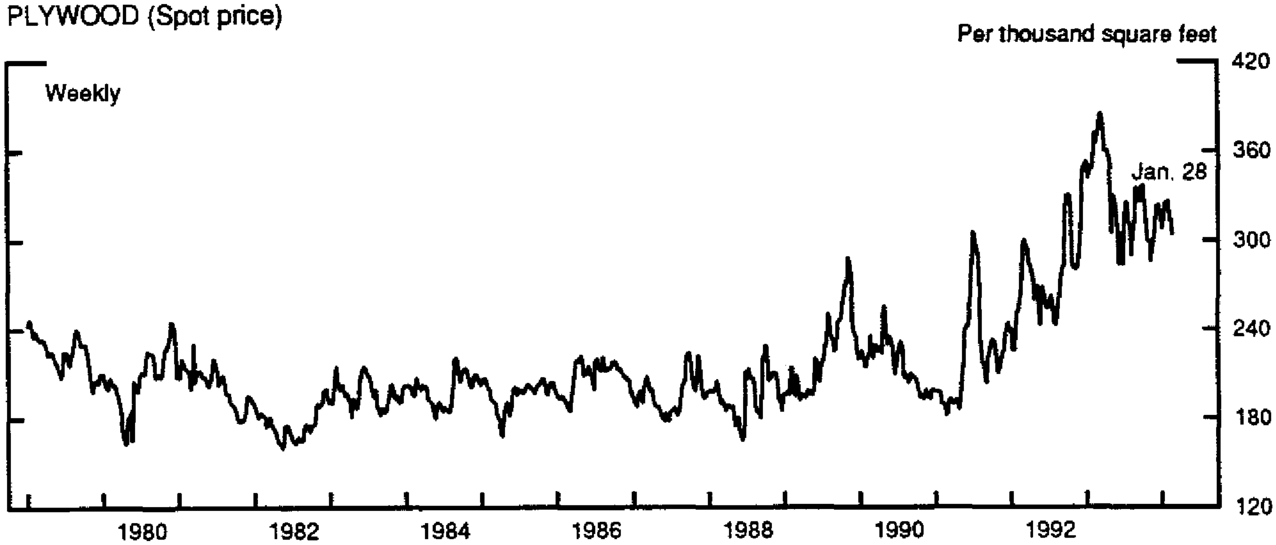
8. Some analysts have interpreted the further strengthening of home sales in recent months as a temporary response by home buyers to an uptick in mortgage rates in November and December. They argue that some buyers accelerate their commitment to a home purchase when they see mortgage rates rise for fear of losing the opportunity to lock in a relatively low rate. However, an examination of the response of new home sales to rate upturns since the early 1980s provides little evidence that an upturn in rates spurs home sales.

CONSTRUCTION MATERIAL PRICES

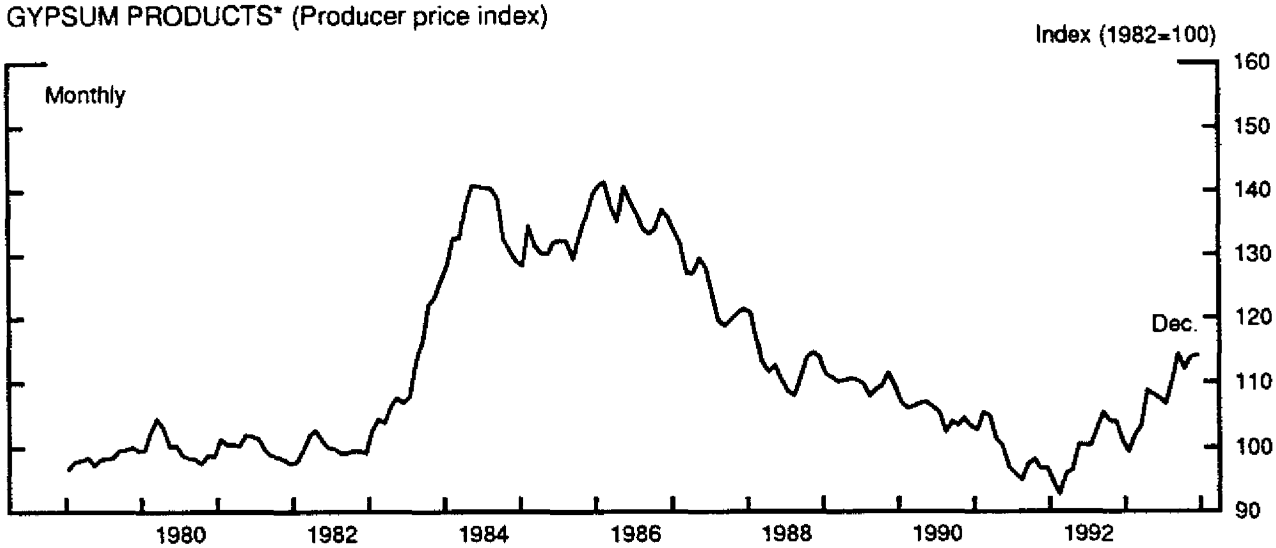
LUMBER (Spot Price)



PLYWOOD (Spot price)



GYPSUM PRODUCTS* (Producer price index)



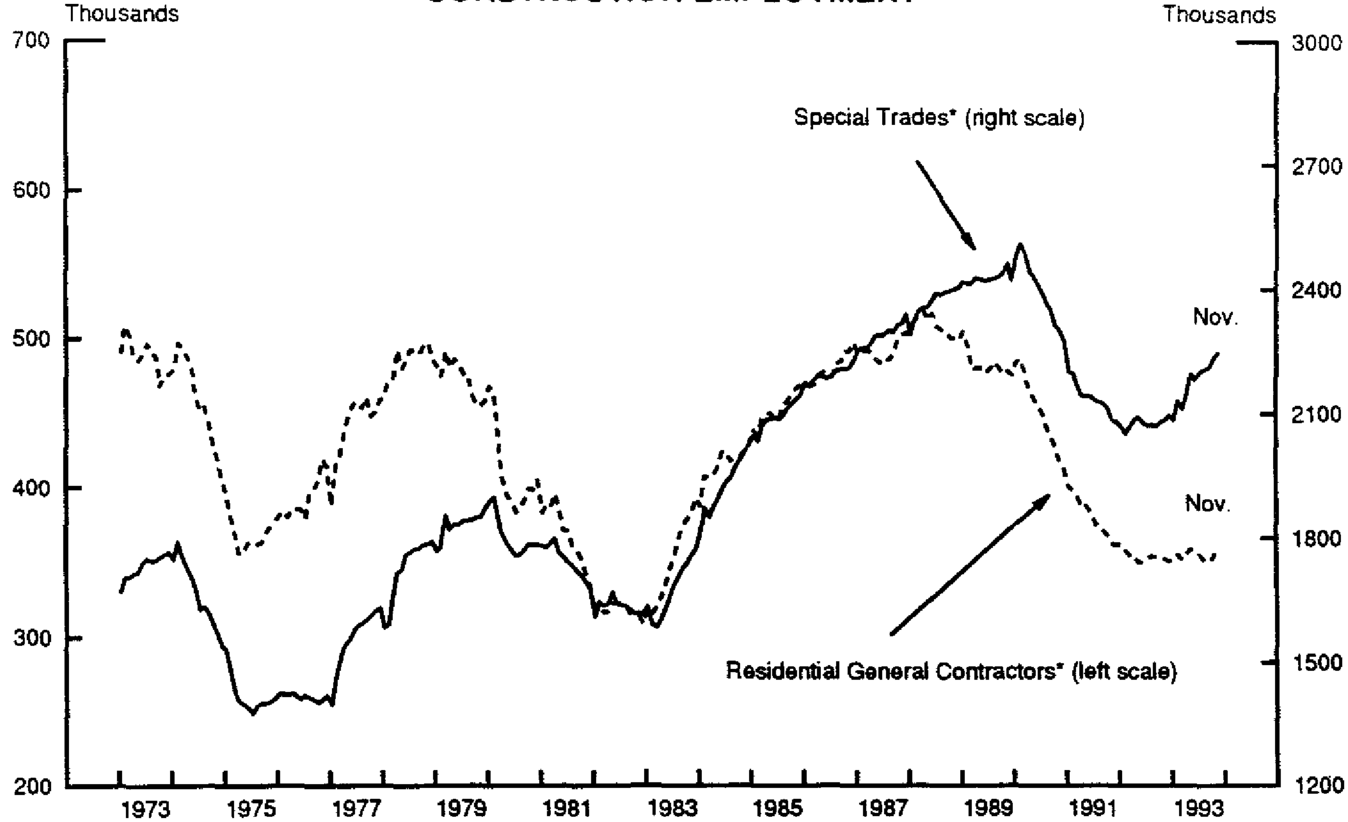
* Gypsum building materials account for about four-fifths of gypsum products.

exert upward pressure on home prices. Indeed, lumber prices rose from a low of $218 per thousand board feet last July to $464 per thousand in late December, before receding to $370 in the week ended January 28 (chart, upper panel). The recent runup appears to reflect growing demand for wood products both for construction and for other uses, such as shipping containers and palettes. Uncertainty about the amount of timber that will be permitted to be harvested from federally owned land in the Northwest has also been a factor. The increase in the mill price of lumber from July to the present, if sustained, could add as much as $2,400, or about 2 percent, to the average cost of a new home.[9] This price increase would have the same effect on monthly payments as an increase of about 20 basis points in the interest rate on a thirty-year, fixed-rate mortgage. Prices of some other building materials, including gypsum products (mainly wallboard), also have been trending higher, but these increases have been moderate relative to those seen for lumber. On the other hand, the plywood price has changed little, on net, during the past year.

Reports of shortages of construction workers have cropped up in some locales where building has been especially strong. At the national level, however, such shortages are difficult to confirm. Employment of construction workers (excluding supervisors) by residential contractors has not changed much during the past year, and it is still low relative to the levels seen in the late 1980s (chart, upper panel). Employment of skilled workers in special trades has increased more noticeably, but it also remains low compared with levels seen a few years ago.[10] Regarding labor costs (lower panel), the data on hourly earnings for employees of

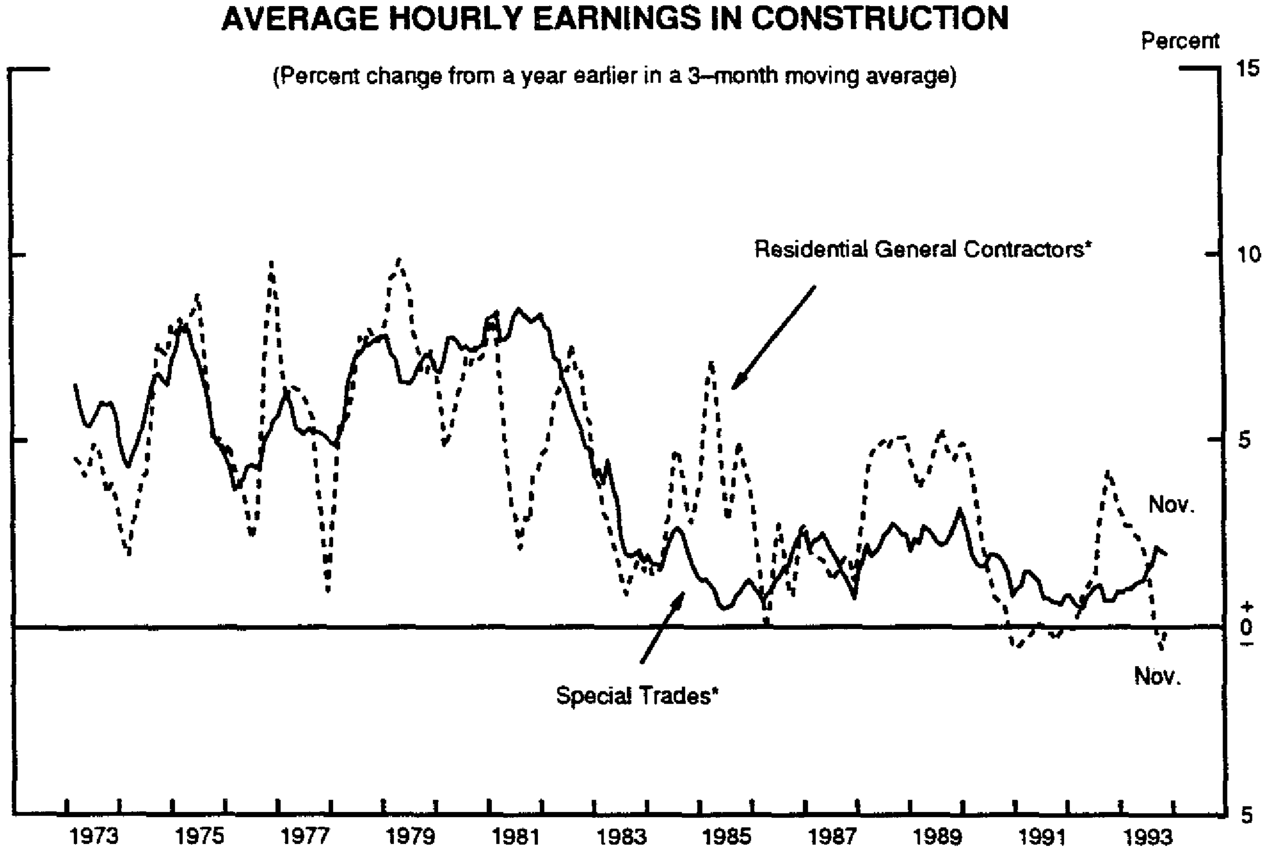
9. This estimate is based on the amount of lumber used in building a typical home.
10. The data for special trades employment are not specific to residential construction.

CONSTRUCTION EMPLOYMENT



* Seasonally adjusted by Board staff.

AVERAGE HOURLY EARNINGS IN CONSTRUCTION



* Wage data seasonally adjusted by Board staff.

general contractors do not show any indication of a tight market Hourly wages for workers in special trades did accelerate last year, but the rate of increase has remained moderate.

Inventories

For the most part, business inventories remained fairly well aligned with sales through November, the most recent month for which data have been published. However, some retail businesses, notably general merchandise stores, experienced inventory runups amid weak sales last fall.[11]

In manufacturing, inventories were little changed in November after three months of drawdowns. With brisk gains in shipments, the inventory-shipments ratio for most manufacturing industries fell further in November, from levels already low by historical standards.

In the trade sector, merchant wholesalers' inventories rose moderately in November after little change in the preceding two months. About half of the November stockbuilding was in farm products, and the further runup in grain prices in that month likely explains much of the accumulation (at current cost). On balance, the inventory-sales ratio for the wholesale sector has been virtually unchanged since May.

In contrast to the moderate accumulations in manufacturing and wholesale stocks, retail inventories expanded substantially toward the end of last year. Excluding auto dealers, retail inventory investment in September, October, and November averaged $25 billion at an annual rate, well above the increases of $4 billion to $7 billion in the preceding four months. Retailers may have allowed that buildup to occur in anticipation of robust holiday sales. At

11. In putting together its estimate of inventory investment for the fourth quarter, BEA assumed a sizable liquidation in December of stocks other than motor vehicles.

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

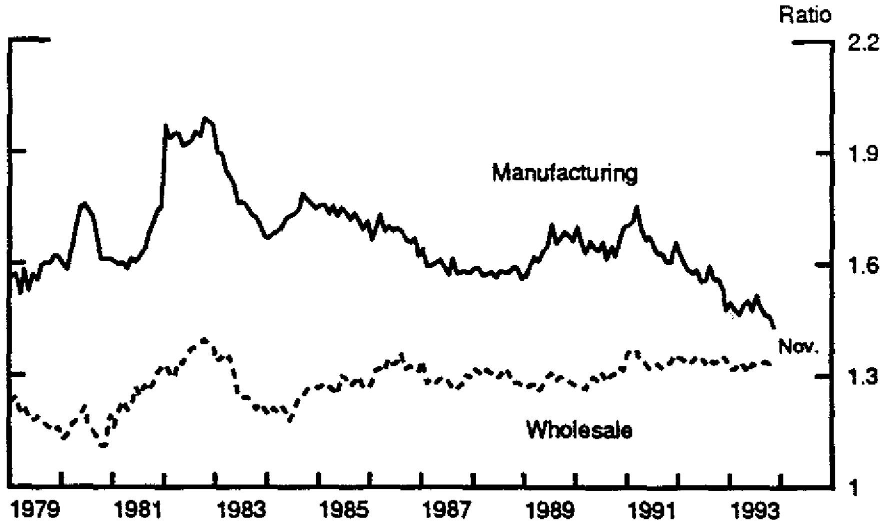
	1993			1993		
	Q1	Q2	Q3	Sep.	Oct.	Nov.
Current-cost basis						
Total	39.9	20.5	12.7	17.5	27.8	59.2
Excluding auto dealers	20.6	20.9	22.3	15.6	16.5	40.9
Manufacturing	1.2	7.1	-2.5	-8.4	-4.7	.7
Excluding aircraft	5.6	10.5	1.5	-9.8	6.0	-4.0
Wholesale	5.1	6.2	12.2	-1.2	-1.3	13.2
Retail	33.6	7.2	3.0	27.1	33.8	45.3
Automotive	19.3	-.3	-9.6	1.9	11.3	18.3
Excluding auto dealers	14.3	7.5	12.7	25.2	22.5	27.0
Constant-dollar basis						
Total	23.0	14.0	16.4	33.7	-1.1	n.a.
Excluding auto dealers	6.4	14.4	23.5	13.0	-5.3	n.a.
Manufacturing	-.8	5.0	3.1	-4.1	-2.2	n.a.
Wholesale	-.1	5.9	8.5	-4.6	-14.1	n.a.
Retail	24.0	3.0	4.8	42.4	15.3	n.a.
Automotive	16.6	-.5	-7.1	20.7	4.2	n.a.
Excluding auto dealers	7.4	3.5	11.8	21.6	11.1	n.a.

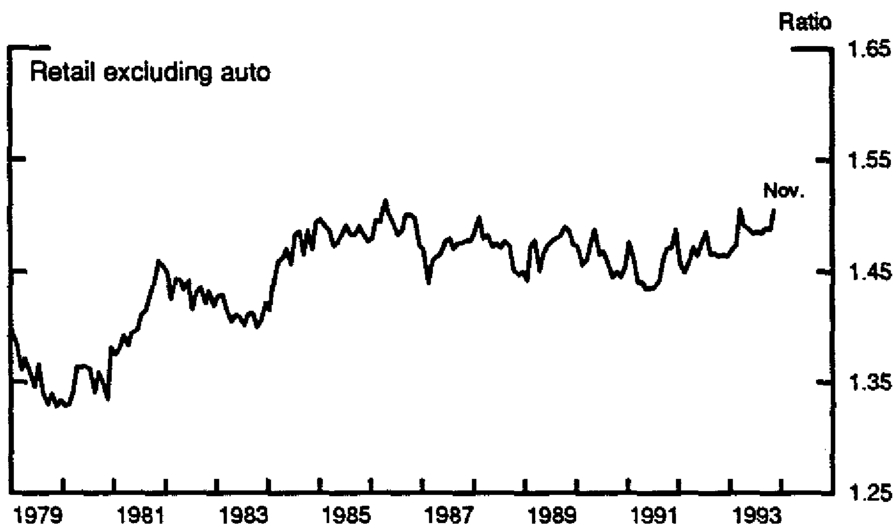
INVENTORIES RELATIVE TO SALES[1]
(Months supply; based on seasonally adjusted data)

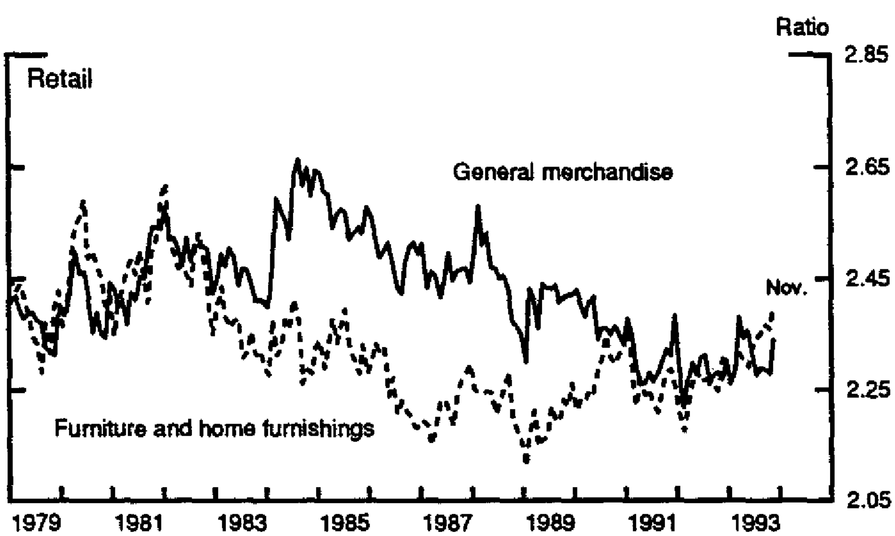
	1993			1993		
	Q1	Q2	Q3	Sep.	Oct.	Nov.
Current-cost basis						
Total	1.47	1.47	1.47	1.46	1.45	1.44
Excluding auto dealers	1.44	1.44	1.45	1.43	1.43	1.42
Manufacturing	1.48	1.49	1.49	1.46	1.46	1.43
Excluding aircraft	1.34	1.35	1.35	1.32	1.33	1.29
Wholesale	1.33	1.32	1.34	1.34	1.33	1.33
Retail	1.60	1.58	1.56	1.55	1.54	1.55
Automotive	1.99	1.90	1.78	1.78	1.71	1.72
Excluding auto dealers	1.49	1.49	1.50	1.49	1.49	1.51
Constant-dollar basis						
Total	1.56	1.56	1.55	1.54	1.53	n.a.
Excluding auto dealers	1.53	1.54	1.54	1.52	1.52	n.a.
Manufacturing	1.59	1.60	1.60	1.57	1.57	n.a.
Wholesale	1.42	1.42	1.42	1.42	1.43	n.a.
Retail	1.64	1.62	1.60	1.59	1.58	n.a.
Automotive	1.91	1.85	1.76	1.77	1.70	n.a.
Excluding auto dealers	1.56	1.55	1.55	1.54	1.54	n.a.

1. Ratio of end-of-period inventories to average monthly sales for the period.

RATIO OF INVENTORIES TO SALES
(Current–cost data)







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

	Fiscal year to December			
	FY1993	FY1994	Dollar change	Percent change
Outlays	385.6	379.2	-6.4	-1.6
Deposit insurance (DI)	-7.8	-.3	7.6	-96.6
Outlays excluding DI	393.4	379.5	-13.9	-3.5
National defense	78.0	74.1	-3.9	-5.0
Net interest	49.2	49.9	.7	1.5
Social security	97.4	77.0	-20.4	-21.0
Medicare and health	54.7	62.9	8.2	15.0
Income security	50.9	53.9	3.0	5.8
Other	63.3	61.7	-1.5	-2.4
Receipts	265.1	287.2	22.1	8.3
Personal income and social insurance taxes				
Withheld	210.2	222.8	12.6	6.0
Nonwithheld	9.0	9.5	.5	5.3
Refunds	3.3	3.3	.0	1.1
Corporate income taxes	26.5	32.6	6.1	22.9
Other	22.6	25.6	3.0	13.1
Deficit(+)	120.5	92.1	-28.4	-23.6
Excluding DI	128.3	92.3	-36.0	-28.0
Memo:				
Outlays ex DI & Soc. Sec. shift	369.5	379.5	10.0	2.7
Deficit ex DI & Soc. Sec. shift	104.3	92.3	-12.0	-11.5

Details may not add to totals because of rounding.

outlets for furniture, appliances, and home furnishings, sales were brisk through year-end. In contrast, the large runup of general merchandise stocks in November accompanied a decline in sales; the inventory-sales ratio rose sharply for the first time since March of last year, when blizzards and extremely cold weather in many parts of the country reduced store traffic. According to the advance report, general merchandise sales fell a bit further in December, and the inventory-sales ratio for stores in this category may have remained relatively high at year-end.

Federal Government

Real federal purchases fell an an annual rate of 4-1/4 percent in the fourth quarter, pushed down by declines in both defense and nondefense outlays. Over the four quarters of 1993, total real federal purchases dropped almost 6-1/2 percent, the largest annual decline since the early 1970s.

Turning to the unified accounts, the federal budget deficit for the October-December quarter of FY1994 was $92.1 billion, down from the $120.5 billion deficit recorded during the same period in FY1993. Excluding outlays for deposit insurance, the drop in the deficit was even larger, from $128.3 billion in the fall quarter of FY1993 to $92.3 billion in the same quarter of FY1994. However, these comparisons exaggerate the decline in the underlying deficit. In particular, Social Security payments of $24 billion were pushed forward from January 1993 into December 1992 because the January payment date fell on a holiday. This timing shift boosted the deficit in the fall quarter of FY1993. No such timing shift occurred this year.[12]

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12. As discussed below, the quarterly pattern of tax receipts has also been distorted since late 1992. However, these timing shifts appear to have had a much smaller effect on the change in the deficit between the first quarters of FY1993 and FY1994 than did the shift of Social Security payments.

Excluding the shift in Social Security payment dates, as well as expenditures for deposit insurance, unified outlays rose only 2.7 percent in nominal terms between the fall quarter of FY1993 and the same quarter of FY1994. The small size of this increase reflects spending restraint across most categories other than the major transfer programs (Social Security, other income security, and health-related programs). After accounting for the shift in payment dates, Social Security outlays rose about 5 percent from a year earlier, and other income security payments increased nearly 6 percent. The growth in health-related outlays picked up late last year after several quarters of moderation, and the 15 percent increase over the year ended in the fall quarter of FY1994 was not appreciably below the growth rates experienced from 1990 through 1992.

Receipts for the fall quarter of FY1994 were strong, running 8.3 percent above the year-earlier level. Roughly 30 percent of this increase represents a jump in corporate tax payments, which have been boosted by robust corporate profits and by provisions in the 1993 Budget Act that raised the effective corporate tax rate last year.[13] Among other revenue sources, withholdings for personal income and social insurance taxes rose 6 percent in the fall quarter of FY1994 from the artificially high level of a year earlier. At the end of 1992, withheld tax payments jumped because individuals shifted taxable income into December in anticipation of tax increases on 1993 income. The ceiling on the wage base for Medicare taxes was removed at the beginning of 1994, providing an incentive for high-income taxpayers to shift wages and salaries (but not capital income) into late 1993. The substantial rise in

13. These provisions include the rise in the maximum corporate tax rate from 34 percent to 35 percent and an acceleration in the required payments on the corporation's tax liability for the year.

CBO BUDGET PROJECTIONS[1]
(Billions of dollars, except where noted)

	Fiscal years					
	1994	1995	1996	1997	1998	1999
Outlays	1474	1509	1577	1661	1736	1834
Receipts	1251	1338	1411	1479	1556	1630
Deficit	223	171	166	182	180	204
Deficit (percent of GDP)						
Total	3.4	2.4	2.2	2.3	2.2	2.4
Excluding deposit insurance	3.4	2.6	2.4	2.4	2.2	2.4

CBO ECONOMIC ASSUMPTIONS

	Calendar years					
	1994	1995	1996	1997	1998	1999
	-------Percent change, year over year-----					
Real GDP	2.9	2.7	2.7	2.7	2.6	2.5
GDP deflator	2.7	2.7	2.6	2.5	2.5	2.5
CPI-U	2.7	3.0	3.1	3.1	3.1	3.1
	----------Percent, annual average--------					
Civilian unemployment rate	6.4	6.1	5.9	5.8	5.7	5.7
Interest rates						
Treasury bills	3.5	4.3	4.6	4.6	4.7	4.7
Treasury notes	5.8	6.0	6.1	6.2	6.2	6.2

Source: CBO, The Economic and Budget Outlook, January 1994.

1. The projections assume that revenues and outlays for major benefit programs evolve according to laws in effect at the time the projections are made, and that appropriations through FY1998 for other programs are consistent with the discretionary spending caps. The projections include Social Security and the Postal Service, which are off-budget.

withholdings from the year-ago level suggests that such shifting may have occurred again. Preliminary data on nonwithheld taxes in January, which reflect mainly final estimated payments on 1993 income, are also consistent with some degree of income shifting.[14]

In its recently released Budget Outlook, the CBO reduced its estimate of the FY1994 deficit to $223 billion from last September's estimate of $253 billion. This reduction stems from economic growth slightly higher than expected earlier, as well as from changes in some technical assumptions. Looking further ahead, CBO now projects the deficit to be about $170 billion in both FY1995 and FY1996, a figure about $25 billion below that projected last September. Statements from the administration indicate that OMB's deficit projections (to be released by February 7) will be similar to CBO's.

In response to the California earthquake, the administration has proposed additional outlays of $7-1/2 billion, most of which would be spent by the end of FY1995. About $1 billion would be financed by already-enacted contingency funds. The remaining $6-1/2 billion would be designated as emergency funds, which would not require offsetting changes in outlays or revenues.

State and Local Governments

Real purchases by state and local governments rose at an annual rate of 1-1/2 percent in the fourth quarter, well below the average 5 percent rate of advance in the preceding two quarters. The slowdown was concentrated in construction spending, which increased at a 1-3/4 percent annual rate in the fourth quarter after rising at a double-digit pace in both of the preceding quarters. Highway construction had been quite strong, reflecting in part a burst of spending in the Midwest following the floods last summer; however,

14. However, BEA's estimate of personal income for the fourth quarter did not incorporate an adjustment for income shifting. Following their usual practice, BEA concluded that evidence from tax receipts alone was not sufficient to warrant such an adjustment.

preliminary data and anecdotal reports indicate that the flood-related highway repairs were largely completed by November. Construction of educational facilities, which also rose rapidly in the second and third quarters, appears to have decelerated in the fourth quarter. Meanwhile, state and local purchases excluding construction outlays increased at about a 1-1/2 percent annual rate in the fourth quarter, similar to the pace at which these outlays moved up over the preceding year.

According to a recent survey of FY1994 developments conducted by the National Conference of State Legislatures, general fund revenues in most states were at or above target for the fiscal year so far, owing both to conservative revenue forecasts when budgets were drawn up and to improving economic conditions. The survey also indicated that many states expect expenditures to come in close to budgeted levels. However, other states continued to report overruns in spending on Medicaid, AFDC, and corrections, which could prompt midyear actions to bolster their fiscal positions. At this point, however, these actions appear likely to be less widespread than they were last year, when a total of thirty-seven states either cut spending or raised taxes or did both, after the start of the fiscal year.

Prices

The GDP fixed-weight price index, the most comprehensive measure of inflation for domestically produced goods and services, rose at an annual rate of only 2.2 percent in the fourth quarter. However, a few identifiable transitory factors held down the fourth-quarter increase. First, declining energy prices directly reduced the price indexes for personal consumption and government purchases. In addition, the price index for defense purchases was reduced by the smaller number of early-retirement buyouts accepted in the

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

	Relative importance, Dec. 1992	1992	1993	1993 Q2	1993 Q3	1993 Q4	1993 Nov.	1993 Dec.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	2.9	2.7	2.2	1.4	3.4	.2	.2
Food	15.8	1.5	2.9	1.4	1.7	5.8	.4	.5
Energy	7.3	2.0	-1.4	-3.8	-3.4	-1.9	-1.3	-1.1
All items less food and energy	76.9	3.3	3.2	2.9	1.9	3.4	.3	.3
Commodities	24.7	2.5	1.6	.6	-.3	1.5	.2	-.1
Services	52.2	3.7	3.9	4.1	2.7	4.2	.3	.4
Memo:								
CPI-W[3]	100.0	2.9	2.5	2.0	.8	3.1	.1	.1

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.

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

	Relative importance, Dec. 1992	1992	1993	1993 Q2	1993 Q3	1993 Q4	1993 Nov.	1993 Dec.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	1.6	.2	.0	-1.9	-1.3	.0	-.1
Consumer foods	22.4	1.6	2.4	1.6	4.2	5.8	.8	1.1
Consumer energy	13.9	-.3	-3.8	-3.0	-7.4	-18.2	-2.7	-3.5
Other finished goods	63.7	2.0	.4	.3	-2.9	.3	.4	.2
Consumer goods	40.6	2.1	-.6	.6	-5.9	.3	.3	.3
Capital equipment	23.1	1.7	1.9	.3	2.2	.6	.2	.3
Intermediate materials[2]	95.4	1.1	.6	.3	-.3	-2.4	-.3	-.3
Excluding food and energy	81.8	1.2	1.6	.0	.6	1.3	.1	.2
Crude food materials	41.2	3.0	6.6	-1.9	12.6	15.1	3.8	1.3
Crude energy	39.5	2.3	-13.7	17.5	-26.5	-28.4	-3.8	-8.9
Other crude materials	19.3	5.7	11.6	11.5	-8.5	21.8	1.7	2.4

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

fourth quarter by civilian employees. Finally, the indexes for residential investment and government purchases were lowered by an unusual drop in the CPI for home maintenance and repair, which is used to measure price changes for renovation and repair activity in both sectors. The fourth-quarter rise in the implicit price deflator, only 1.4 percent at an annual rate, was held down by all these factors and by a jump in purchases of computing equipment. The resulting shift in the compositon of GDP toward computing equipment, which has a particularly low deflator, reduces the aggregate deflator for GDP but not the GDP fixed-weight index.

Consumer price increases picked up a little in the closing months of 1993 after having been quite subdued during the summer. The broad trends continued to point in a mildly disinflationary direction. Over the twelve months of 1993, CPI increases--2.7 percent for the overall index and 3.2 percent excluding food and energy--were a shade below those in 1992. However, prices for some industrial materials have firmed with the recent surge in activity.

At the retail level, food prices rose again in December, mainly reflecting another very sharp increase in fruit and vegetable prices. For the year as a whole, food prices were up 2.9 percent. Because surges in fruit and vegetable prices are usually short lived, the recent runup in these prices will likely be reversed in coming months. However, upward pressures may emerge elsewhere. At the commodity level, spot and futures prices of farm products have moved up further in recent weeks in response to another round of downward revisions to estimated 1993 production; these increases probably will be filtering through to retail prices over the next few months. In addition, stocks of several commodities--most notably, corn--are unusually low, which may lead to more volatility than usual in spot commodity markets in coming months.

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Dec 1991	Dec 1992	Dec 1993
CPI, exc. food and energy	4.4	3.3	3.2
Goods	4.0	2.5	1.6
Alcoholic beverages	9.9	2.9	1.5
New vehicles	3.2	2.3	3.3
Apparel	3.4	1.2	0.8
House furnishings	0.9	1.5	1.5
Housekeeping supplies	1.8	-0.2	1.9
Medical commodities	7.5	5.2	3.1
Entertainment	3.5	1.8	1.9
Tobacco	11.1	8.1	-5.9
Services	4.6	3.7	3.9
Owners' equivalent rent	3.7	3.0	3.2
Tenants' rent	2.9	2.3	2.2
Other renters' costs	8.1	4.1	3.7
Airline fares	-6.0	6.6	17.0
Medical care	8.0	7.0	5.9
Entertainment	4.4	3.7	3.5
Auto financing	-7.1	-13.9	-5.6
Tuition	9.8	8.5	7.1
PPI finished goods, exc. food and energy	3.1	2.0	0.4
Consumer goods	3.4	2.1	-0.6
Capital goods, excluding computers	3.3	2.6	2.5
Computers	-19.4	-14.9	-13.4
PPI intermediate materials, exc. food and energy	-0.8	1.2	1.6
PPI crude materials, exc. food and energy	-7.6	5.7	11.6
<u>Factors affecting price inflation</u>			
ECI hourly compensation[1]	4.4	3.5	3.6
Goods-producing	4.6	3.8	3.9
Service-producing	4.3	3.2	3.6
Civilian unemployment rate[2]	7.2	7.3	6.4
Capacity utilization[2] (manufacturing)	77.9	79.8	82.7
Inflation expectations[3,4]			
Mean of responses	3.5	3.5	3.5
Median, bias-adjusted[5]	3.7	3.8	3.8
Non-oil import price[6]	0.2	0.8	1.5
Consumer goods, excluding autos, food, and beverages	1.0	2.2	1.0
Autos	2.8	0.4	4.1

1. Private industry workers.
2. End-of-period value.
3. Michigan Survey one-year ahead expectations.
4. Latest reported value: January.
5. Median adjusted for average downward bias of 0.9 percentage points, relative to actual inflation, since 1978.
6. BLS import price index.
n.a. Not available.

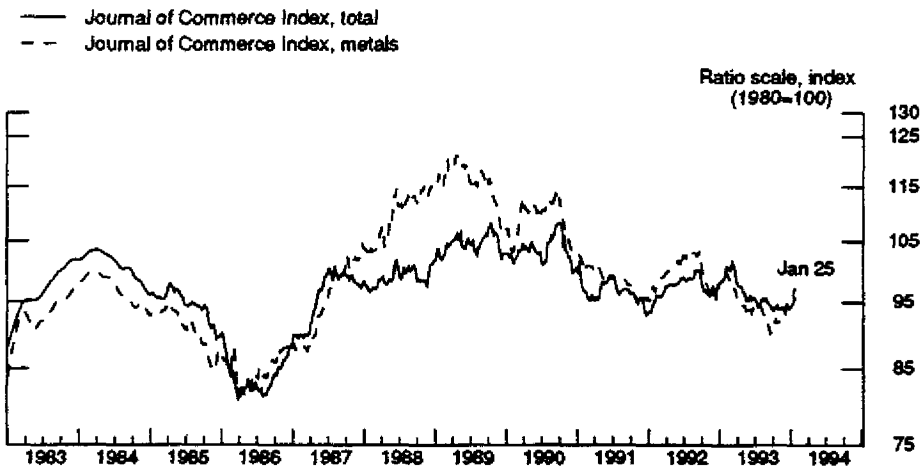
Energy prices at the consumer level fell 1.1 percent in December, reflecting mainly continued passthrough of last autumn's decline in the world price of crude oil. However, oil prices began to turn up in mid-December, and the cold weather in mid-January pushed up spot prices of both heating oil and natural gas. This firming in spot prices points to increases in energy prices at the consumer level in the coming months.

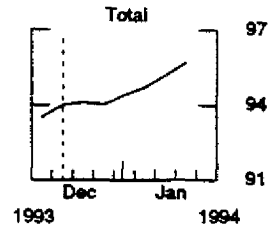
Excluding food and energy, the CPI moved up 0.3 percent in December, after a similar increase a month earlier. Among nonfood nonenergy goods, consumer prices rose only 1.6 percent during 1993, nearly a full percentage point less than the 1992 increase. Tobacco prices--which declined 6 percent in 1993--fully accounted for this deceleration. Apparel prices fell in December and rose less than 1 percent over the year; these prices have been held down, in part, by the effect of the strong dollar on import prices.

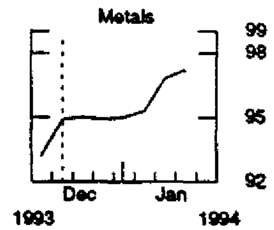
Unlike goods prices, service price inflation picked up a bit last year. Rent of shelter (which constitutes more than a third of the CPI excluding food and energy) rose 3 percent over the year, a bit above the 1992 increase. Airline fares increased 17 percent last year, with the surviving carriers boosting ticket prices to stem their losses. The sharp decline in auto finance charges also slowed in 1993. Nevertheless, some service industries showed significant decelerations from 1992. The twelve-month change in prices of medical care services declined a full percentage point last year, although it still is running at nearly double the core rate of inflation. Tuition increases slowed more than a percentage point.

Surveys of consumer price expectations have come down in recent months. The Michigan survey's year-ahead inflation expectation, which averaged 4-3/4 percent last summer, has declined substantially

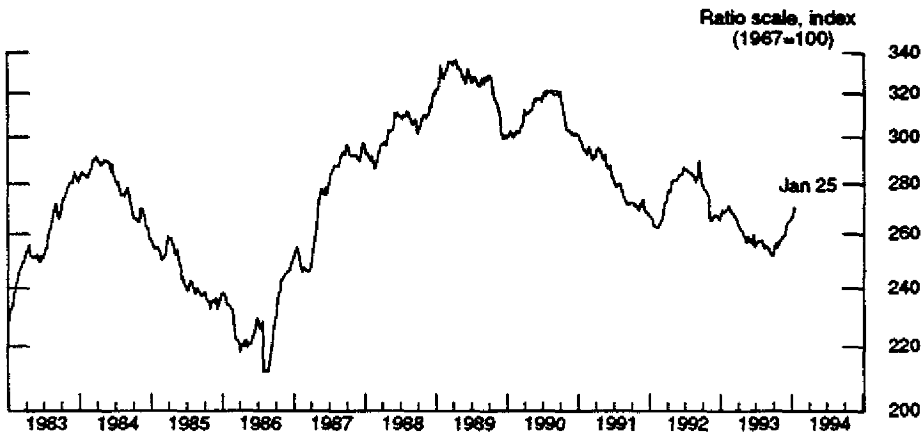
COMMODITY PRICE MEASURES *

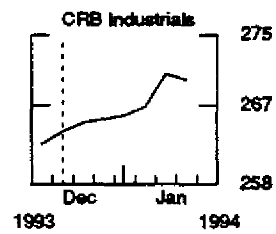




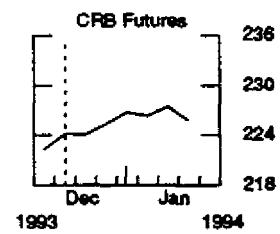


CRB Spot Industrials





CRB Futures



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

Dotted lines indicate week of last Greenbook.

of late, to an average of about 3-1/2 percent over the three months ended in January. The Conference Board survey also showed expectations declining, although less dramatically, from 4-3/4 percent last summer to 4-1/4 percent over the three months ended in January.

Turning to producer prices, recent data generally have continued to show moderate increases, especially for finished goods, despite strong gains in output. The PPI for finished goods edged down in December to a level that was essentially unchanged from a year earlier. Excluding food and energy, the PPI rose 0.2 percent in December and was up 1/2 percent over the year. New light vehicles accounted for more than half of this December increase, rising 0.6 percent on a seasonally adjusted basis. Over the past twelve months, new car prices increased 3.3 percent, and light truck prices rose 4.2 percent. Producer prices of most capital goods other than motor vehicles increased less than 2 percent last year.

At earlier stages of processing, the index for intermediate goods excluding food and energy was up 0.2 percent in December, bringing the increase over the year to 1-1/2 percent. The December increase in this index was concentrated in materials for durable manufacturing, especially metals, and for construction materials. The index for crude materials other than food and energy was up 2.4 percent in December after a 1.7 percent increase in November; the recent runup in metals prices also accounted for a good part of this increase.

Commodity prices have increased, on balance, since the last Greenbook. The Journal of Commerce index of industrial prices (in which metals have a substantial weight) has increased in recent weeks, though its current level is about 3 percent less than a year earlier. As noted above, farm commodity prices have continued to

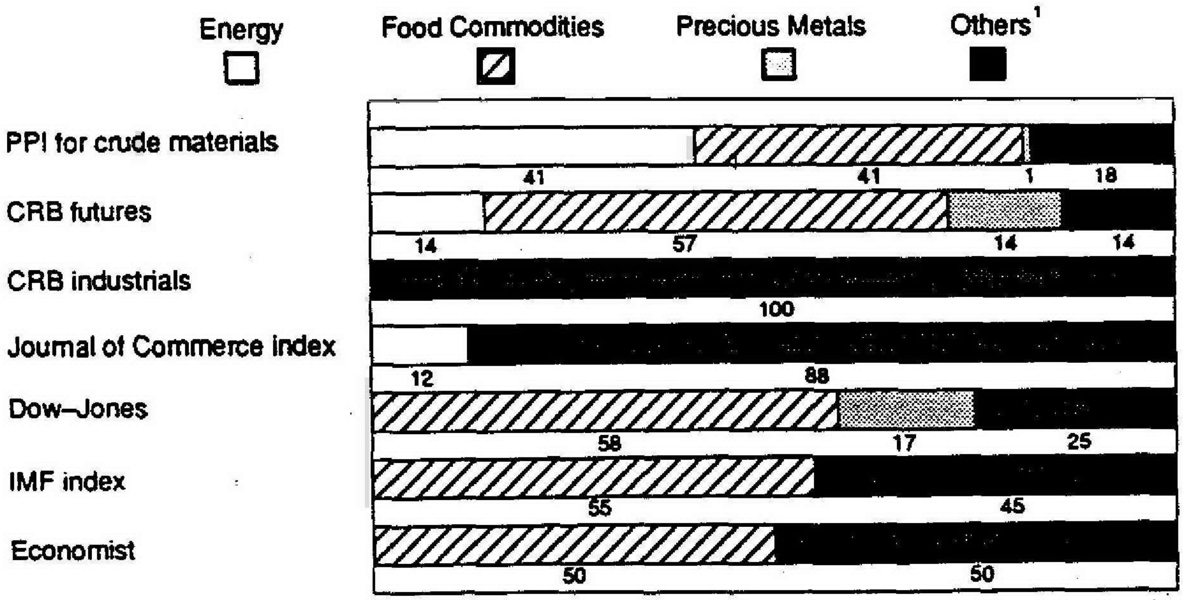
SPOT PRICES OF SELECTED COMMODITIES

	Last observ-ation	1991	1992	Dec 92 to Dec 14[3]	Dec 14[3] to date	Year earlier to date
		Percent change[2]				
1. PPI for crude materials	Dec	-11.6	3.3	-0.5	n.a.	-0.5
1a. Foods and feeds	Dec	-5.8	3.0	6.6	n.a.	6.6
1b. Energy	Dec	-16.6	2.3	-13.7	n.a.	-13.7
1c. Excluding food and energy	Dec	-7.6	5.7	11.6	n.a.	11.6
1d. Excluding food and energy, seasonally adjusted	Dec	-7.7	6.0	11.5	n.a.	11.5
2. Commodity Research Bureau						
2a. Futures prices	Jan 25	-6.5	-2.9	11.0	0.7	13.1
2b. Industrial spot prices	Jan 25	-11.3	-0.7	-0.5	2.2	0.5
3. Journal of Commerce industrials	Jan 25	-7.2	5.0	-4.0	1.8	-3.1
3a. Metals	Jan 25	-7.1	1.9	-2.6	2.4	-1.0
4. Dow-Jones Spot	Jan 25	-12.1	10.4	3.0	3.7	6.5
5. IMF commodity index[4]	Dec	0.7	-2.6	2.1	n.a.	2.1
5a. Metals	Dec	-8.9	-3.1	-14.4	n.a.	-14.4
5b. Nonfood agricultural	Dec	1.3	2.4	-0.7	n.a.	-0.7
6. Economist (U.S. dollar index)	Jan 11	-9.1	1.6	7.2	-0.4	6.2
6a. Industrials	Jan 11	-14.9	4.5	1.0	1.6	2.2

1. Not seasonally adjusted.
2. Change is measured to end of period, from last observation of previous period.
3. Week of the December 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.

rise in recent weeks, with the largest increases for corn and cotton. Crude oil prices turned up in mid-December after their sizable declines last autumn, and spot prices of gasoline and fuel oil have shot up during the past month. In contrast, lumber prices have receded during the past few weeks after a substantial runup during the second half of last year. In addition, precious metals prices have edged off after their sizable gains in December.

Labor Costs

The rate of increase in labor costs held steady in late 1993. As measured by the employment cost index, hourly compensation for private industry workers increased at a seasonally adjusted annual rate of 3.4 percent in the quarter ended December 1993, the same as the previous quarter's pace. For the year ended in December, hourly compensation increased 3.6 percent, virtually unchanged from the rise in the preceding year. Wages and salaries rose 3.1 percent in 1993, up from the 2.6 percent increase recorded in 1992, while benefit costs increased 5 percent, a bit below the 5.2 percent rise in the preceding year.

By industry, compensation in manufacturing accelerated about 1/4 percentage point last year to 4.1 percent, as larger gains for workers at producers of durable goods more than offset smaller increases in nondurables. Compensation growth also slowed in construction, with the 2.4 percent rise last year almost a full percentage point below that in 1992. In the service-producing sector, compensation growth picked up last year, largely reflecting a jump in commissions for workers in finance, insurance, and real estate. Elsewhere in the service-producing sector, compensation growth generally held steady or slowed. Hourly compensation in the state and local government sector increased 2.8 percent last year, down from the 3.7 percent rise in 1992.

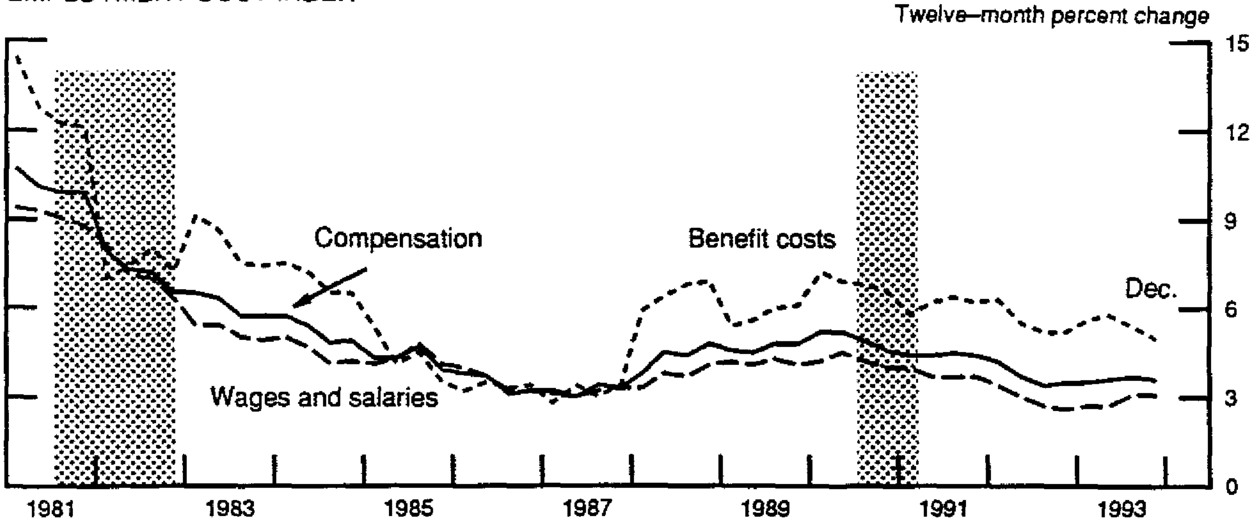
EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

	1992	1993			
	Dec.	Mar.	June	Sep.	Dec.
	-----Quarterly percent change------- (compound annual rate)				
Total hourly compensation:[1]	3.5	3.9	3.8	3.4	3.4
Wages and salaries	3.3	3.2	2.5	3.5	3.2
Benefit costs	5.4	6.0	5.6	4.2	4.5
By industry:					
Construction	2.5	3.9	3.9	2.8	-1.0
Manufacturing	4.2	4.9	4.5	3.4	3.7
Transportation and public utilities	3.6	3.6	3.5	3.1	3.8
Wholesale trade	4.7	2.5	2.8	2.1	4.5
Retail trade	3.2	3.9	2.1	2.8	3.1
FIRE	0.7	4.8	1.8	9.5	2.4
Services	4.5	3.8	3.7	3.7	3.0
By occupation:					
White-collar	2.8	5.3	3.1	3.8	2.7
Blue-collar	3.5	4.2	3.8	3.4	3.4
Service occupations	2.5	4.2	3.1	2.4	2.7
Memo:					
State and local governments	3.8	2.7	3.4	2.0	2.7
	-----Twelve-month percent change----				
Total hourly compensation:	3.5	3.5	3.6	3.7	3.6
Excluding sales workers	3.5	3.7	3.9	3.8	3.7
Wages and salaries	2.6	2.7	2.7	3.1	3.1
Benefit costs	5.2	5.6	5.8	5.4	5.0
By industry:					
Construction	3.5	3.9	3.8	3.3	2.4
Manufacturing	3.8	4.0	4.4	4.2	4.1
Transportation and public utilities	3.5	3.3	3.7	3.5	3.5
Wholesale trade	3.0	2.5	2.6	3.0	3.0
Retail trade	2.6	3.3	3.1	2.9	3.0
FIRE	1.2	0.8	2.1	4.1	4.6
Services	4.3	4.2	3.9	3.8	3.5
By occupation:					
White-collar	3.3	3.5	3.6	3.7	3.7
Blue-collar	3.6	3.6	3.8	3.8	3.7
Service occupations	3.1	3.3	3.3	3.0	3.1
Memo:					
State and local governments	3.7	3.6	3.4	3.0	2.8

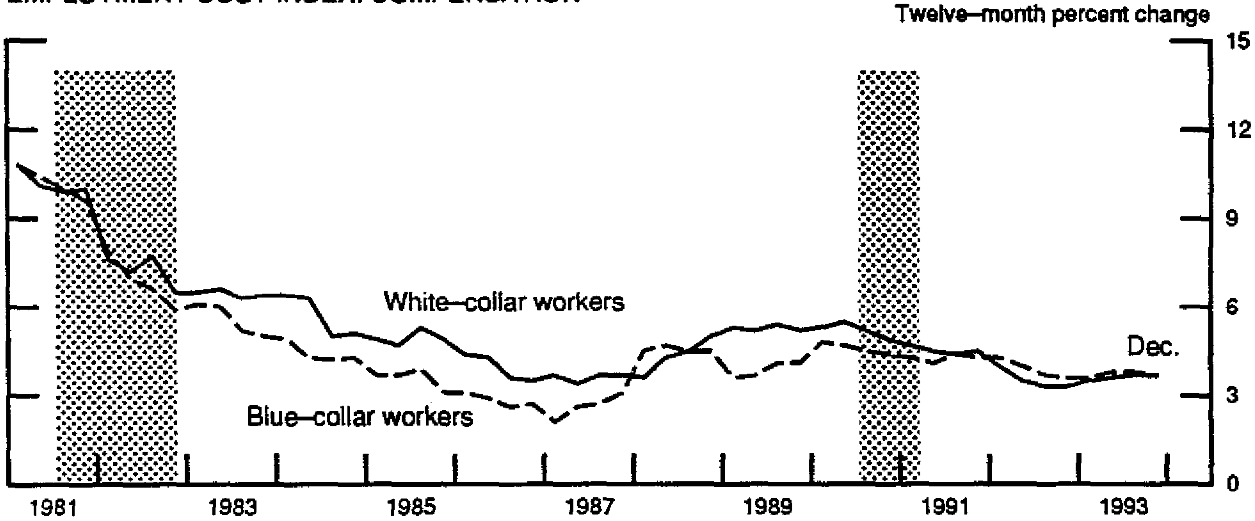
1. Seasonally adjusted by the BLS.

LABOR COST MEASURES
(Private industry workers; quarterly data)

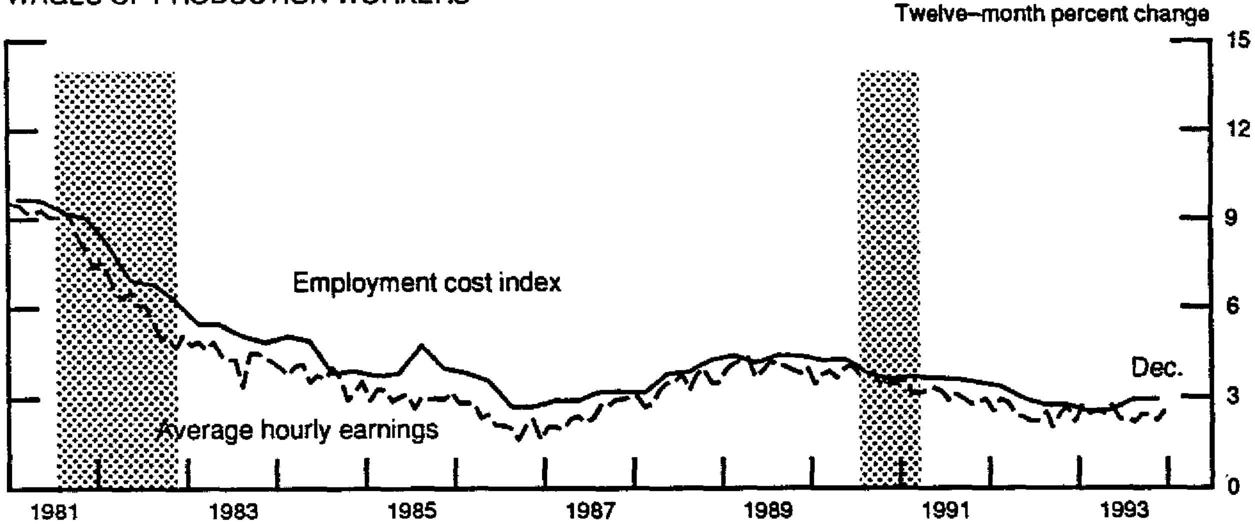
EMPLOYMENT COST INDEX



EMPLOYMENT COST INDEX: COMPENSATION



WAGES OF PRODUCTION WORKERS



EMPLOYMENT COST INDEX OF HOURLY BENEFIT COSTS
FOR PRIVATE INDUSTRY WORKERS
(Twelve-month percent changes)

	1992	1993			
	Dec.	Mar.	June	Sep.	Dec.
Hourly benefit costs[1]	5.2	5.6	5.8	5.4	5.0
Insurance costs	8.1	7.7	7.2	6.8	6.4
Health care	8.6	8.1	7.8	7.2	6.9
Supplemental pay	2.7	3.6	4.3	4.8	2.8
Retirement and savings	5.2	5.4	6.6	4.6	4.9
Paid leave	3.3	3.4	3.7	3.7	3.4
Legally required	4.8	4.9	5.3	4.6	4.4
By industry:					
Goods-producing	5.7	6.3	7.0	6.3	5.6
Service-producing	4.8	4.8	4.9	4.4	4.5
By occupation:					
White-collar occupations	4.8	5.3	5.4	4.8	4.6
Blue-collar occupations	5.6	5.7	6.3	5.9	5.5
Service occupations	5.8	6.4	6.3	5.5	5.5
Memo:					
State and local governments	5.4	4.8	4.4	3.2	2.9

1. The detail on benefit costs is from unpublished data from the BLS.

Among the components of benefit costs, employer expenditures for health insurance continued to decelerate, posting a 6.9 percent rise in 1993 after an 8.6 percent increase in 1992. Spending for workers' compensation, which also reflects underlying health care costs, decelerated even more sharply. For most other components of benefit costs, the increases in 1993 differed relatively little from those in 1992. However, employer contributions for state unemployment insurance rose almost 16 percent in 1993, likely because of higher experience ratings and further increases in state UI tax rates.

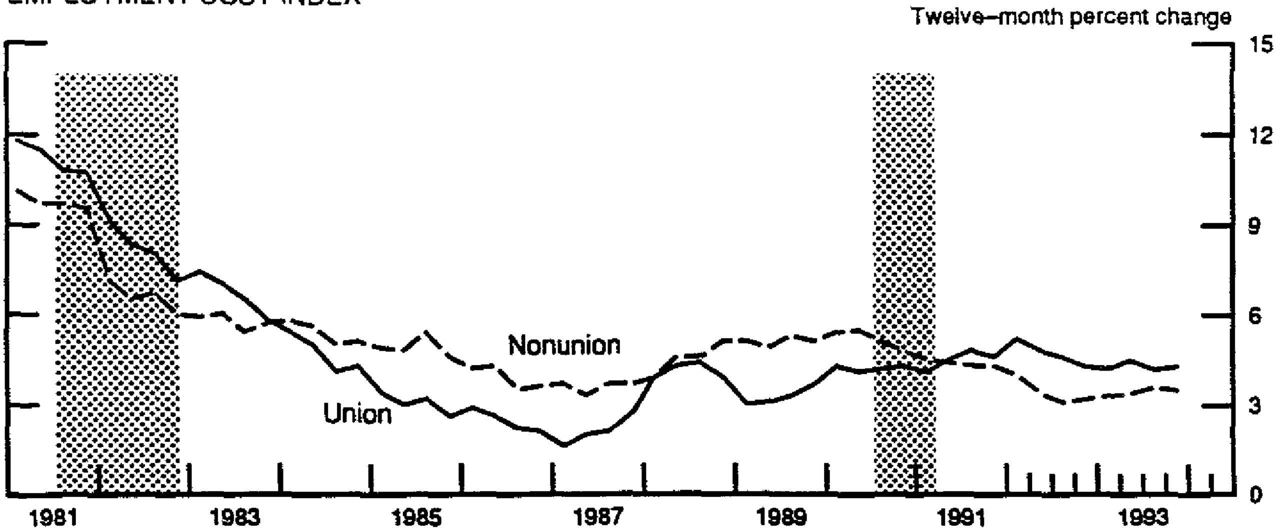
According to the ECI, hourly compensation for workers in unionized jobs held steady last year at 4.3 percent, compared with the 3.4 percent rise for nonunion workers. The difference reflects the more rapid growth in benefit costs for unionized workers; wages for both groups increased about 3 percent last year. Separate data on major collective bargaining settlements paint a similar picture for union wages. The total effective wage change of unionized workers was 3 percent in 1993, virtually the same as the rise in 1992.

The contribution of COLAs to the effective wage change dropped in 1993 for the third straight year. Last year, only 24 percent of the workers covered by major agreements had any form of COLA, down from 28 percent in 1992 and a peak of 61 percent in 1977. For those workers still covered by COLAs, the COLA-related wage increases were considerably smaller, on average, in 1993 than in 1992; indeed, the small rise in the CPI last year failed to trigger any COLA adjustment for 25 percent of workers eligible to receive one, up from 14 percent in 1992.

Although the effective wage change for union workers decelerated only slightly last year, the first-year wage adjustment

COMPENSATION IN THE UNION SECTOR

EMPLOYMENT COST INDEX



NEGOTIATED WAGE RATE CHANGES
UNDER MAJOR COLLECTIVE BARGAINING SETTLEMENTS[1]
(Percent change)

	1991	1992	1993
All industries			
First-year changes	3.6	2.7	2.3
Average over life of contract	3.2	3.0	2.1
Workers affected (in thousands)	1790	1608	2058

1. Contracts covering 1,000 or more workers; estimates exclude lump sum payments and potential gains under cost-of-living clauses.

EFFECTIVE WAGE CHANGE IN MAJOR UNION CONTRACTS AND ITS COMPONENTS

	Total Effective Wage Change	Contribution of: Prior Settlements	New Settlements	COLAS
1991	3.6	1.9	1.1	.5
1992	3.1	1.9	.8	.4
1993	3.0	1.8	.9	
1992:Q4[1]	3.1	1.9	.8	.4
1993:Q1[1]	3.0	1.8	.8	.4
Q2[1]	2.9	1.8	.7	.4
Q3[1]	2.6	1.8	.5	.3
Q4[1]	3.0	1.9	.5	.2

1. Changes over the four quarters ended this period.

in new contracts slowed to 2.3 percent in 1993 from 2.7 percent in the preceding year. Over the life of the contract, settlements last year provided for wage increases of 2.1 percent, down from the 3 percent increase in 1992 contracts.

DOMESTIC FINANCIAL DEVELOPMENTS

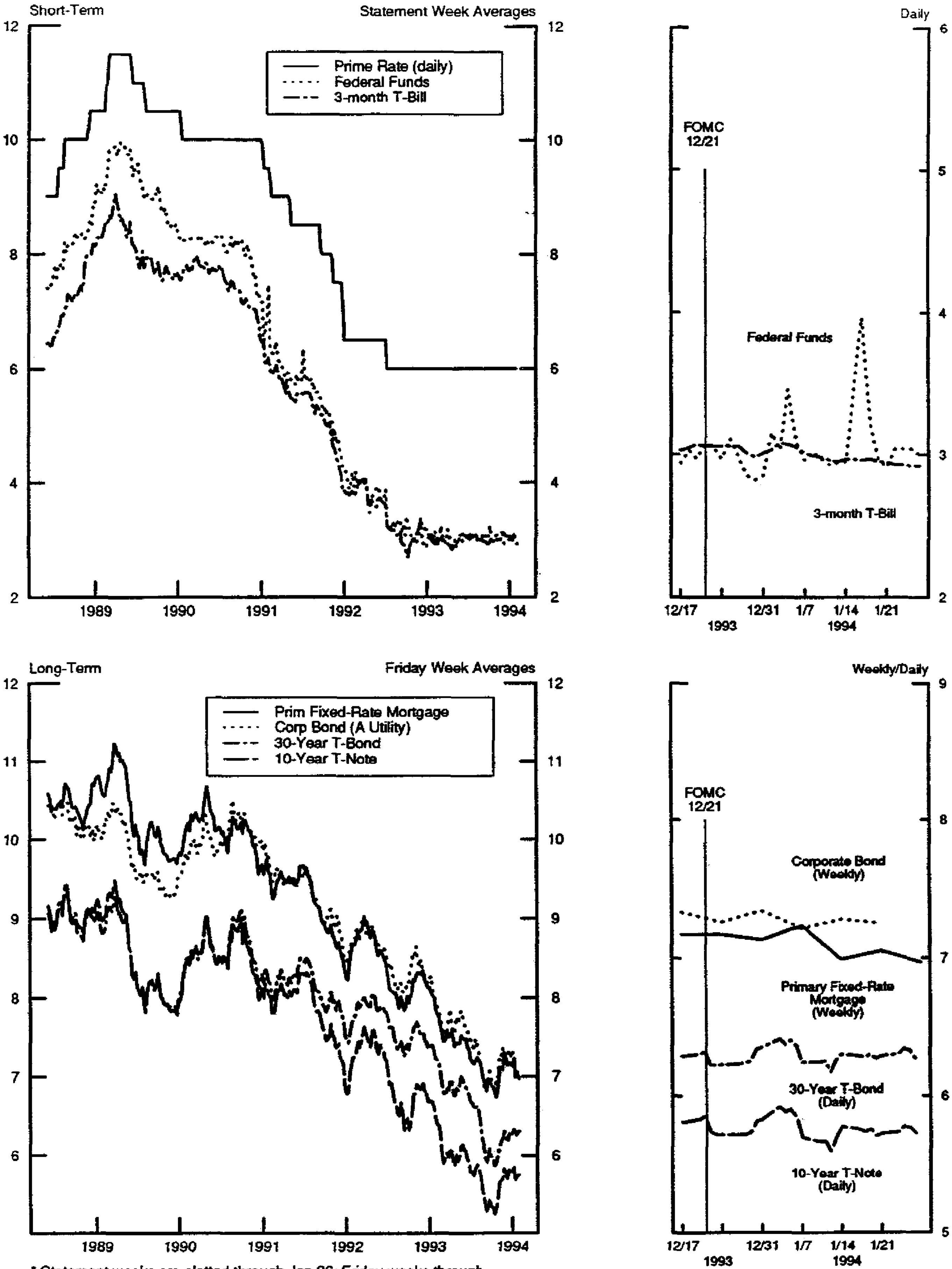
SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent except as noted)

Instrument	1989 Mar highs	1993 Mid-Oct lows	1993 FOMC, Dec 21	1994 Jan 27	Change to Jan 27, 1994: From Mid-Oct lows	Change to Jan 27, 1994: From FOMC, Dec 21
SHORT-TERM RATES						
Federal funds[2]	9.85	3.07	2.96	2.98	-.09	02
Treasury bills[3]						
3-month	9.10	3.01	3.07	2.92	-.09	-.15
6-month	9.12	3.09	3.24	3.13	.04	-.11
1-year	9.05	3.23	3.47	3.36	.13	-.11
Commercial paper						
1-month	10.05	3.13	3.31	3.10	-.03	-.21
3-month	10.15	3.23	3.30	3.14	-.09	-.16
Large negotiable CDs[3]						
1-month	10.07	3.08	3.16	3.06	-.02	-.10
3-month	10.32	3.22	3.19	3.12	-.10	-.07
6-month	10.68	3.23	3.34	3.25	.02	-.09
Eurodollar deposits[4]						
1-month	10.19	3.06	3.06	3.00	-.06	-.06
3-month	10.50	3.25	3.19	3.13	-.12	-.06
Bank prime rate	11.50	6.00	6.00	6.00	.00	.00
INTERMEDIATE- AND LONG-TERM RATES						
U.S. Treasury (constant maturity)						
3-year	9.88	4.06	4.58	4.45	.39	-.13
10-year	9.53	5.19	5.85	5.73	.54	-.12
30-year	9.31	5.78	6.32	6.27	.49	-.05
Municipal revenue (Bond Buyer)	7.95	5.41	5.62	5.50	.09	-.12
Corporate--A utility, recently offered	10.47	6.79	7.35	7.23	.44	-.12
Home mortgages						
FHLMC 30-yr. fixed rate	11.22	6.74	7.17	6.97	.23	-.20
FHLMC 1-yr. adjustable rate	9.31	4.14	4.20	4.16	.02	-.04

Stock exchange index	Record high: Level	Record high: Date	1989 Low, Jan. 3	1993 FOMC, Dec 21	1994 Jan 27	Percentage change to Jan 27: From record high	From 1989 low	From FOMC, Dec 21
Dow-Jones Industrial	3926.30	1/27/94	2144.64	3745.15	3926.30	.00	83.08	4.84
NYSE Composite	264.38	1/27/94	154.00	257.14	264.38	.00	71.68	2.82
NASDAQ (OTC)	794.28	1/21/94	378.56	755.63	792.88	-.18	109.45	4.93
Wilshire	4747.47	1/27/94	2718.59	4610.31	4747.47	.00	74.63	2.98

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 February 2, 1994.
3. Secondary market.
4. Bid rates for Eurodollar deposit at 11 a.m London time.

Selected Interest Rates*
(percent)



* Statement weeks are plotted through Jan 26; Friday weeks through Jan 21, 1994.

Interest rates on Treasury securities have declined since the December FOMC meeting. Market participants have generally pushed back the expected timing of an anticipated modest firming of Federal Reserve policy, often citing a lack of clear signs of a pickup in inflation and a view that it will take such indications to prompt System action. Spreads on corporate bonds, especially high-yield bonds, narrowed significantly; inflows to junk bond mutual funds strengthened in December and January. A slowdown in refinancing activity helped to tighten spreads on fixed-rate home loans in both the primary and secondary markets.

Stock prices moved to higher ground in response to reports of economic strength and, in some cases, better-than-expected fourth-quarter earnings reports. All major indexes posted record highs, but prices of cyclically sensitive stocks were especially strong, as seen in the increase of more than 4-3/4 percent in the Dow Jones Industrial index.

Growth in M2 and M3 moderated in December from the relatively brisk November pace. In January, M2 growth remained near its December rate, while that of M3 slowed still further. M2 and M3 finished 1993 somewhat above the lower bounds of their annual ranges. (The monetary data reflect annual benchmark adjustments and revised seasonal factors; these revised data are confidential until publication, scheduled for early February.)

Net borrowing by the domestic nonfinancial sectors is estimated to have strengthened in the fourth quarter, partly in reflection of a sharp jump in borrowing by the federal sector. In addition, debt growth in the household sector continued strong, propelled in part by a stronger housing market and robust auto sales. Businesses also

MONETARY AGGREGATES
(Based on newly benchmarked and seasonally adjusted data)

Aggregate or component	1993[1]	1993 Q3[2]	1993 Q4[2]	1993 Nov.	1993 Dec.	1994 Jan. (pe)	1992:Q4 to Jan 94 (pe)	Lev bil $ Dec 93
Aggregate	Percentage change (annual rate)							
1. M1	10.5	12.0	9.4	9.7	6.4	5	10	1128.4
2 M2	1.4	2.7	2.0	3.6	2 2	2	1½	3565.3
3. M3	0.6	1.3	2.4	3.6	3.1	1	¼	4229.0
Selected components								
4. M1-A	11.7	13.2	10.6	11.6	5.9	12	11½	714.2
5. Currency	10.3	10.5	9.0	7.2	6.8	13	10½	321.3
6 Demand deposits	13.4	15.9	12.2	14.9	5.3	11	13	384 9
7. Other checkable deposits	8.3	10.0	7.2	6.4	7.6	-6	7¾	414.3
8. M2 minus M1[3]	-2.3	-1.3	-1.3	0.8	0.2	0	-2	2436.9
9. Overnight RPs and Eurodollars, n.s.a.	8.5	31.2	24.6	1.4	-1.4	15	8½	88.1
10. General-purpose and broker-dealer money market funds	-1.8	-1.8	2.1	10.4	7.2	-2	-1¼	349.9
11. Commercial banks	-1.0	-1.2	-0.5	1.1	2.2	2	-½	1254.2
12. Savings deposits	4.2	4.9	3.6	6.2	4.4	8	4½	785.3
13. Small time deposits	-8.6	-10.6	-7.3	-7.4	-1.5	-8	-8	468.9
14 Thrift institutions	-5.7	-3.9	-5.1	-5.3	-5.1	-2	-5½	747.5
15. Savings deposits	0.6	2.3	-0.4	-2.8	2.0	3	¾	430.1
16. Small time deposits	-13.0	-11.8	-11.0	-9.3	-14.2	-8	-12½	317.4
17. M3 minus M2[3]	-3.3	-6.3	4.5	3.8	8.2	-3	-2½	663.
18. Large time deposits	-6.9	-7.0	-1.5	-7.4	-2.8	9	-5½	339.0
19. At commercial banks[4]	-6.5	-7.5	-0.3	-7.8	3.9	10	-5	277.3
20. At thrift institutions	-8.2	-4.3	-6.9	-3.8	-34.0	6	-8¾	61.7
21 Institution-only money market mutual funds	-5.4	-10.4	8.8	3.1	13.6	-26	-5¾	197.0
22. Term RPs, n.s.a.	17.4	26.5	-6.2	-7.6	10.2	-52	11	95.3
23. Term Eurodollars, n.s.a.	1.5	-32.8	36.6	121.6	-52.8	-33	-1	47.8
	Average monthly change (billions of dollars)							
Memo								
24 Managed liabilities at com'l. banks (lines 25 + 26)	2.7	8.1	0.0	-7.9	3.3	-2	. . .	715.2
25. Large time deposits, gross	-2.3	-5.9	2.1	1.4	4.4	2	. . .	343.6
26. Nondeposit funds	5.0	14.0	-2.1	-9.3	-1.1	-4	. . .	371.6
27. Net due to related foreign institutions	4.0	11.3	0.2	-2.9	-1.3	2	. . .	119.4
28. Other[5]	0.9	2.8	-2.3	-6.5	0.3	-6	. . .	252.2
29. U.S. government deposits at commercial banks[6]	0.2	-0.5	-0.3	-0.1	4.7	0	. . .	22.5

1. "Percentage change" is percentage change in quarterly average from fourth quarter of preceding year to fourth quarter of specified year. "Average monthly change" is dollar change from December to December, divided by 12.
2. "Percentage change" is percentage change in quarterly average from preceding quarter to specified quarter. "Average monthly change" is dollar change from the last month of the preceding quarter to the last month of the specified quarter, divided by 3.
3. Seasonally adjusted as a whole.
4. Net of holdings of money market mutual funds, depository institutions, U.S. government, and foreign b and official institutions.
5. 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.
6. Treasury demand deposits and note balances at commercial banks.

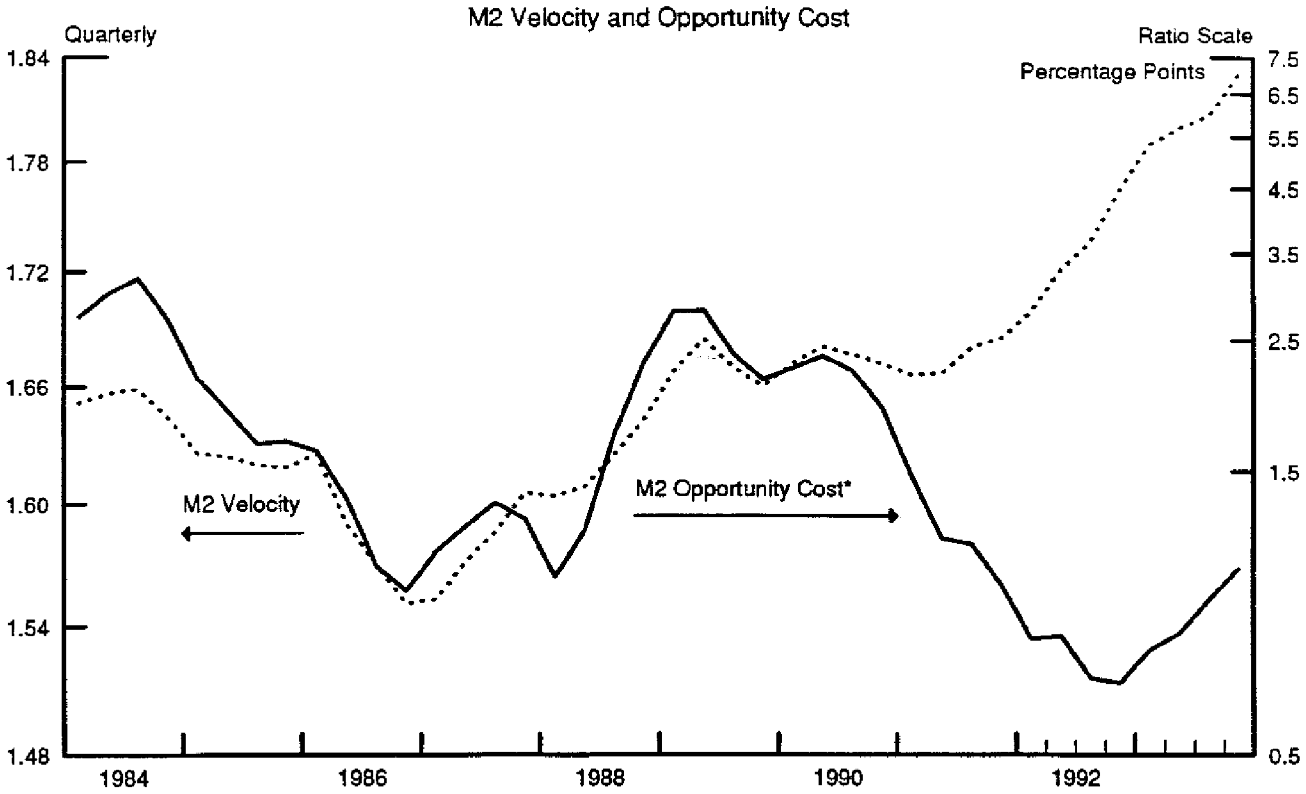
were more active borrowers, although the overall level of their borrowing remained weak. Finally, state and local governments raised a bit more funds in credit markets, but debt growth in this sector should subside in coming quarters as the boom in advance refundings has nearly run its course.

Monetary Aggregates and Bank Credit

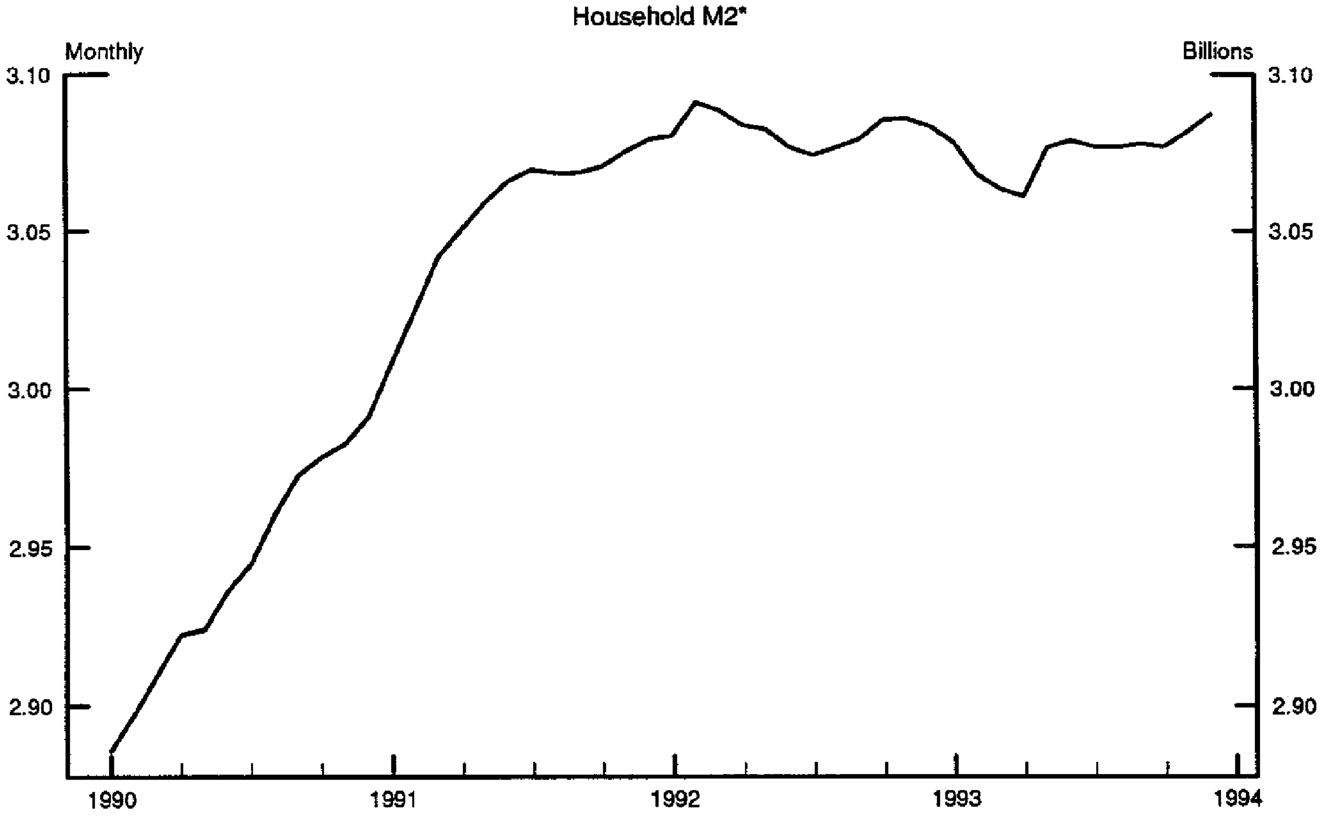
M2 growth declined to an average 2 percent in December and January. December's slowdown in M2 was owing primarily to a slackening in M1 growth as the expansion of demand deposits fell off sharply. Despite a rebound in demand deposits in January, M1 growth decelerated further, in part because introduced a deposit product that sweeps excess funds from customers' NOW accounts into MMDAs. While this product boosted savings deposits, a heavier runoff of small time deposits left the nontransactions component of M2 unchanged.

M2 increased 1-1/2 percent over 1993, and its velocity posted sharp growth for the second consecutive year, rising about 3-3/4 percent over the year (chart). The velocity increase coincided with a rise in the traditional measure of M2 opportunity cost as banks continued to reduce deposit interest rates even as money-market rates stabilized. Nevertheless, M2 remained weak relative to historical relationships with income and opportunity costs. The sluggish growth in M2 again was most apparent in "household M2" (M2 excluding demand deposits and overnight RPs and Eurodollars), which has been flat for almost three years (chart).

M3 growth moderated to a 3 percent pace in December, bringing its increase to 1/2 percent over the year. The aggregate decelerated further in January, despite an increase in large time deposits, which expanded at the most rapid rate since last spring. Sizable runoffs of other components served to slow M3 on balance.



* M2 opportunity cost is a two-quarter moving average of the spread between the three-month T-bill rate and the average rate paid on M2 components.



* Household M2 is the sum of savings deposits, M2-type money market mutual funds, OCDs, small time deposits, and currency.

Bank credit grew at a 5-3/4 percent rate in December, and preliminary data suggest a somewhat slower expansion in January. The securities component advanced strongly in December, as acquisitions of Treasury and agency securities surged, but it slowed in January even though the other securities component was boosted by a change in accounting rules.[1] The expansion of other securities at large banks also reflected another increase in holdings of municipal securities. Municipal securities began to expand at banks nationwide in the second quarter of 1993, after six years of contraction induced by the 1986 tax code revision that eliminated the deduction of interest expense for all but small-sized tax-exempt securities. According to responses to the January Senior Loan Officer Opinion Survey, the new holdings of municipal securities consist primarily of the small tax-favored issues, although some of the growth also reflected standard tax-exempt instruments.

Loan growth was held down in December and January as security loans contracted sharply, reversing some of their very rapid expansion over most of 1993.[2] Growth of business loans surged in January, with strength evident at large and small domestic banks and especially at foreign banks. Responses to the Senior Loan Officer Opinion Survey indicated a further pickup in business loan demand among all sizes of customers. The strength was attributed to increased inventory accumulation and capital expenditures. Surveyed

1. New accounting rules for off-balance-sheet items such as swaps and options, the cash value of which must be reported on the balance sheet, increased the other securities component of bank credit in early January. Beginning this year, Financial Accounting Standards Board rules limit the ability of banks to net off-balance-sheet items for reporting purposes. One of the on-balance-sheet items affected is other trading account assets, a component of other securities.

2. According to respondents to the Senior Loan Officer Opinion Survey, the surge in security loans in 1993 was related primarily to increased funding needs of dealers, although a few banks indicated dealers had shifted their funding from other sources, in part owing to an easing of terms on this type of credit.

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

Type of credit	Dec. 1992 to Dec. 1993	1993 Q3	1993 Q4	1993 Nov.	1993 Dec.	1994 Jan. p	Level, Jan. 1994 p ($billions)
	Commercial bank credit						
1. Total loans and securities at banks	5.0	5.5	4.1	6.4	5.8	3.8	3,096.9
2. Securities	8.8	8.4	2.7	2.7	11.2	6.2	913.7
3. U.S. government	9.9	8.8	3.2	2.2	11.5	1.7	728.2
4. Other	4.8	6.5	1.1	4.7	10.6	23.7	185.5
5. Loans	3.5	4.4	4.6	7.9	3.6	2.8	2,183.2
6. Business	-1.3	-2.4	-.2	.8	-1.4	13.4	590.7
7. Real estate	3.5	3.7	5.6	4.8	7.0	-.1	927.1
8. Consumer	8.6	8.8	9.8	8.8	7.5	9.3	388.6
9. Security	32.5	63.3	16.0	113.2	-13.8	-115.8	77.7
10. Other	-.8	-2.0	-.6	-1.2	1.8	24.6	199.2
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-1.5	-2.6	-.1	2.1	-1.2	12.7	581.9
12. Loans at foreign branches[2]	-12.6	-31.3	18.9	22.5	27.6	27.0	22.7
13. Sum of lines 11 and 12	-1.9	-3.7	.5	3.0	-.2	13.0	604.5
14. Commercial paper issued by nonfinancial firms	4.5	22.5	-10.1	1.5	-23.1	-1.5	157.5
15. Sum of lines 13 and 14	-.7	1.7	-1.7	2.7	-5.1	10.0	762.0
16. Bankers acceptances, U.S. trade-related[3,4]	-12.1	-11.1	-15.2	-28.6	-11.7	n.a.	20.3[5]
17. Finance company loans to business[4]	n.a.	3.4	n.a.	2.7	n.a.	n.a.	306.6[6]
18. Total (sum of lines 15, 16, and 17)	n.a.	1.9	n.a.	2.0	n.a.	n.a.	1,086.0[6]

1. Except as noted, levels are averages of Wednesday data and percentage changes are based on averages of Wednesday data; data are adjusted for breaks caused by reclassification; changes are measured from preceding period to period indicated.
2. Loans to U.S. firms made by foreign branches of domestically chartered banks.
3. Acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.
4. Changes are based on averages of month-end data.
5. December 1993.
6. November 1993.
p Preliminary.
n.a. Not available.

banks also indicated they had further eased underwriting standards and lending terms in the three months ending with January.

Real estate loans, which were boosted in December by a substantial acquisition of thrift assets, were flat in January. Consumer loans continued to expand briskly in both months. The Senior Loan Officer Opinion Survey indicated a significant increase in the demand for consumer installment loans and more modest increases in the demand for home equity loans and residential mortgages for the purpose of purchasing a home. A number of banks reported increased willingness to make consumer loans, and a few banks eased standards for residential mortgages.

Bank profits continued strong in the fourth quarter of 1993, according to a number of recently released earnings reports. Although net interest margins appeared to have narrowed a bit, lower loan-loss provisions boosted profits at many banks. A few large banks also reported strong trading profits. At some banks, profits were bolstered by a pickup in loan growth and higher fee income. Bank stock prices are up nearly 2 percent since the December FOMC meeting, and spreads on bank bonds narrowed 5 to 10 basis points in January.

Corporate Securities Market

Available data suggest that short- and intermediate-term credit raised by nonfinancial firms slowed toward the end of 1993, with both business loans at banks and nonfinancial commercial paper falling in December. In January, however, preliminary data suggest that the runoff in commercial paper eased and that business loans increased substantially. Finance company business loans rose at an annual rate of more than 2-1/2 percent in November, the most recent month for which data are available. Finance company lending has

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS[1]
(Billions of dollars; monthly rates, not seasonally adjusted)

	1992	1993^p	1993 Q3	1993 Q4^p	1993 NOV^p	1993 DEC^p	1994 JAN^e
All U.S. corporations	40.82	54.39	57.89	53.34	56.09	46.81	43.50
Stocks[2]	7.04	10.25	11.89	11.82	12.49	10.31	6.00
Bonds	33.79	44.14	46.00	41.52	43.60	36.50	37.50
Nonfinancial corporations							
Stocks[2]	4.42	5.64	6.21	6.59	7.43	6.12	4.20
Sold in U.S.	4.03	5.04	5.11	5.92	6.86	5.70	4.20
Utility	0.87	1.06	1.02	1.60	1.62	1.94	n.a.
Industrial	3.16	3.98	4.09	4.32	5.24	3.77	n.a.
Sold abroad	0.39	0.60	1.10	0.67	0.57	0.42	n.a.
Bonds	13.66	16.25	15.38	12.74	10.74	11.37	13.10
Sold in U.S.	12.81	15.53	14.45	12.40	10.50	11.00	12.50
Utility	5.33	7.37	7.66	5.39	4.10	5.50	n.a.
Industrial	7.48	8.16	6.79	7.02	6.40	5.50	n.a.
Sold abroad	0.84	0.72	0.92	0.34	0.24	0.37	0.60
By quality[3]							
Aaa and Aa	2.18	2.71	1.86	2.44	1.58	2.01	n.a.
A and Baa	7.74	8.64	8.74	5.88	6.13	4.33	n.a.
Less than Baa	2.85	4.15	3.62	4.36	2.74	4.41	n.a.
Unrated or rating unknown	0.09	0.11	0.14	0.16	0.06	0.25	n.a.
Financial corporations							
Stocks[2]	2.62	4.56	5.61	5.12	4.80	4.17	1.80
Sold in U.S.	2.51	4.11	4.73	4.55	4.43	3.94	1.80
Sold abroad	0.11	0.45	0.89	0.57	0.37	0.23	n.a.
Bonds	20.13	27.89	30.62	28.78	32.87	25.13	24.40
Sold in U.S.	18.67	25.14	27.76	26.54	29.50	24.00	22.50
Sold abroad	1.46	2.75	2.87	2.24	3.37	1.13	1.90
By quality[3]							
Aaa and Aa	1.55	2.10	3.04	1.90	1.59	1.63	n.a.
A and Baa	6.77	8.81	8.52	9.00	8.39	7.68	n.a.
Less than Baa	0.31	0.50	0.55	0.71	1.08	0.45	n.a.
Unrated or rating unknown	0.04	0.10	0.08	0.18	0.08	0.43	n.a.

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.
3. Bonds categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
p Preliminary. e Staff estimate.
n.a. Not available.

been the most robust element of the short- and intermediate-term credit aggregates since mid-summer, with the strength concentrated primarily in leasing and equipment loans.

Pressures in the commercial paper market diminished significantly as December 31 approached, with the premium for funding into the new year falling to the unusually low range of 100 to 150 basis points (earlier in the quarter, the premium had been between 300 and 400 basis points). Many issuers apparently shortened maturities in December to fund just through year-end, as the average maturity of outstanding paper declined over the month from forty days to thirty-one days. Since year-end, issuers have begun to lengthen maturities, and the average by late January had risen to thirty-eight days.

Gross public issuance of bonds by nonfinancial corporations picked up in December and January but remained below the intense pace seen earlier in 1993. Junk bond issuance has remained strong at about $1 billion a week, on average, as quality spreads continued to narrow throughout December and into January. Demand for below-investment-grade issues has been driven primarily by strong flows into junk bond mutual funds, which firmed some in December from an already high level in November and reportedly picked up more steam in January.[3]

Corporate bond ratings improved markedly in the fourth quarter, based on Moody's ratings. Industrial corporations recorded more upgrades than downgrades for the first time since Moody's began tabulating quarterly figures by sector seven years ago. During the past few years, most changes in ratings of investment-grade industrial firms have been downward, but last quarter the positive

3. Inflows to bond and stock mutual funds soared in December to a record $31 billion. However, after adjusting for reinvestment of year-end dividend distributions, inflows were $20 billion, in line with the average of previous months in 1993.

ratings actions for these firms were as numerous as the negative actions, while the ratings of speculative-grade industrials also improved. Downgrades of nonfinancial firms still outnumbered upgrades, however, because of weakness in the utilities sector. Moody's and S&P have expressed concern about recent unfavorable actions by electric utility regulators, generally slow growth in demand for services of electric and telephone utilities, and increased competition facing the electric and telephone utilities as their industries are deregulated.

Moody's also noted that positive dividend actions have been occurring with greater frequency, and in November, the latest month for which Moody's data are available, the number of dividend cuts and omissions dropped sharply. November registered the highest monthly ratio of positive to negative dividend actions since September 1989.

Gross public issuance of equity by nonfinancial firms slowed in January from the record pace in the final quarter of 1993. In December, issuance totaled more than $5-1/2 billion, buoyed by $3-1/2 billion of IPOs, the highest monthly volume for the year. The slower start in the new year is unlikely to persist, as many issues are reported in the wings. Despite record gross equity issuance in the fourth quarter, net equity issuance fell $2 billion from the $30 billion annual pace in the third quarter, the decline reflecting retirements arising from Merck's acquisition of Medco. Merger activity involving share retirements has been increasing steadily over the last several quarters--for example, the proposed acquisition of Paramount is expected to reduce net equity issuance by more than $20 billion at an annual rate this quarter.

Several highly rated mutual life insurance companies increased their capital levels by privately issuing surplus notes on the Rule-144A market just before the end of the year. A surplus note is an unsecured debt security that has principal and interest payments linked to the insurer's reported capital surplus. The note is subordinated to all present and future indebtedness, and the insurance commissioner in the issuer's state of domicile must approve all payments to bondholders. Thus, for these mutual insurance companies, issuance of the notes essentially mimics a public equity offering. The primary motivation for the recent batch of issues has been a desire to boost ratios of risk-adjusted capital, which insurers are required to report for the first time in their 1993 statutory statements of financial condition.

Major stock indexes rose between 3 percent and 5 percent over the intermeeting period, responding to incoming signs of greater economic strength and generally favorable profit reports. Most of the major indexes are at or just below record levels set in late January. Utilities' stock prices, however, slumped 1-1/2 percent over the intermeeting period. The S&P price-earnings ratio has edged up to 23-1/4 since the last FOMC meeting, still somewhat below its record high of 26.1 reached in May 1992.

Municipal Securities Market

Gross issuance of long-term, tax-exempt securities fell off in January to an estimated $16-1/2 billion, down from a robust $24-1/2 billion in December. December's issuance helped to make 1993 a record year: Gross offerings totaled $280 billion, a 30 percent increase over the volume in 1992, the previous high. The surge in 1993 was attributable to refinancing activity, as state and local governmental units took advantage of the lowest bond rates in twenty years to issue a record volume of refunding bonds. In contrast, bond issuance for raising new capital tumbled nearly 25 percent. For the third year running, New York City was the largest single issuer, and California issuers topped the list for the largest volume by state.

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

			1993				
	1992	1993	Q3	Q4	Nov.[p]	Dec.[p]	Jan.[e]
Total offerings[1]	21.78	27.88	29.43	24.43	19.75	28.39	17.60
Total tax-exempt	21.21	27.17	28.87	23.60	19.19	27.51	17.35
Long-term	17.93	23.33	24.01	21.50	18.09	24.52	16.50
Refundings[2]	7.91	15.71	15.51	13.66	11.36	14.98	9.50
New capital	10.02	7.62	8.50	7.84	6.73	9.54	7.00
Short-term	3.28	3.84	4.86	2.10	1.10	2.99	.85
Total taxable	.57	.71	.56	.83	.56	.88	.25

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

Most analysts and market participants expect the volume of long-term offerings to fall substantially in 1994 as a result of a slowing of refinancing activity: Outstanding issues can be refunded no more than twice in advance of their call; and, with the decline in interest rates over the past three years, most issues that would benefit from another refunding have already been advance-refunded to their limit.

In 1993, for the first time since 1986, S&P upgraded more tax-exempt issuers than it downgraded, albeit by a slim margin. During the fourth quarter, upgrades outpaced downgrades by a five-to-one margin. General obligation issues improved the most last year, which S&P attributed to the favorable effects of the economic expansion and to efforts by state and local governments to curb spending. The municipal utility sector also showed improvement, marking the third straight year in which upgrades exceeded downgrades. S&P noted that electric utilities in this sector have adjusted much better to competitive pressures than have their counterparts in the private sector. Credit quality continued to deteriorate among housing and health care issuers. Looking forward, S&P officials feel that overall credit quality this year is more likely to remain stable rather than to improve, as many governments face pressure to boost spending on welfare and corrections while others must contend with depressed revenues associated with cutbacks in defense spending.

In the aftermath of the Los Angeles earthquake, the rating agencies have begun to review the financial condition of issuers located in the affected areas. Based on preliminary information, rating agency officials do not expect widespread downgrades; they point to the availability of disaster relief funds from federal, state, and local agencies to help cushion the blow. In addition, most issuers in the area appear to have adequate reserve funds to withstand any adverse affects.[4] Dealers report that trading in securities of California issuers has been light since the earthquake and that some yields have backed up about 5 to 15 basis points. In addition, sales of several Los Angeles area issues scheduled for January were postponed to allow time for damage assessment and disclosure to potential investors.

4. The only source of concern appears to be certificates of participation, which are debt obligations serviced by lease payments from municipalities to the owners of private structures. The municipalities have the right to terminate these leases and might opt to do so if the leased facilities were to become unusable because of structural damage caused by the earthquake.

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

	1993	1994			
	Q4	Q1^p	Jan.^p	Feb.^p	Mar.^p
Treasury financing					
Total surplus/deficit (-)	-92.0	-79.8	8.1	-49.4	-38.6
Means of financing deficit:					
Net cash borrowing from the public	89.3	44.8	-6.6	29.1	22.2
Marketable borrowings/ repayments (-)	84.8	45.6	-2.9	28.2	20.2
Bills	56.2	-1.0	-12.4	-3.0	14.5
Coupons	28.5	46.5	9.6	31.3	5.7
Nonmarketable	4.5	-.8	-3.7	.9	2.0
Decrease in the cash balance	2.8	28.7	-8.7	28.3	9.1
Memo: Cash balance at end of period	49.7	21.0	58.4	30.1	21.0
Other[2]	-.1	6.4	7.1	-8.0	7.3

1. Data reported on a not seasonally adjusted, payment basis.
2. Includes checks issued less checks paid, accrued items and other transactions.
p-Projected.
NOTE: Details may not add to totals due to rounding.

FEDERALLY SPONSORED CREDIT AGENCIES
Net Cash Borrowing[1]
(billions of dollars)

	1993					
	Q2	Q3	Q4	Oct.	Nov.	Dec.
FHLBs	12.0	5.3	n.a.	0.7	n.a.	n.a.
FHLMC	-5.6	17.1	-2.7	n.a.	n.a.	n.a.
FNMA	10.7	19.3	5.3	-1.8	1.2	5.9
Farm Credit Banks	0.1	0.0	1.5	0.1	0.1	1.3
SLMA	0.1	-0.1	n.a.	n.a.	n.a.	n.a.
FAMC[2]	0.0	0.0	0.1	0.0	0.0	0.0

1. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
2. Federal Agricultural Mortgage Corporation.
n.a. Not available.

On the regulatory front, a group of municipal market participants, formed at the urging of the chairman of the SEC, has recommended a number of steps to improve issuer disclosure. Municipal bond issuers are exempt by law from the reporting requirements imposed on corporations that issue publicly traded securities. Although many large and frequent issuers of tax-exempt securities currently provide ongoing information, the SEC has indicated that it would like to expand disclosure more generally. To this end, the group recommended that the SEC permit dealers to underwrite the debt only of issuers that agree to provide in a timely manner annual reports and information on significant developments. The group also recommended that dealers be required to inform investors in secondary market transactions about whether the issuer has agreed to make ongoing disclosures and to report credit ratings of issuers to investors.

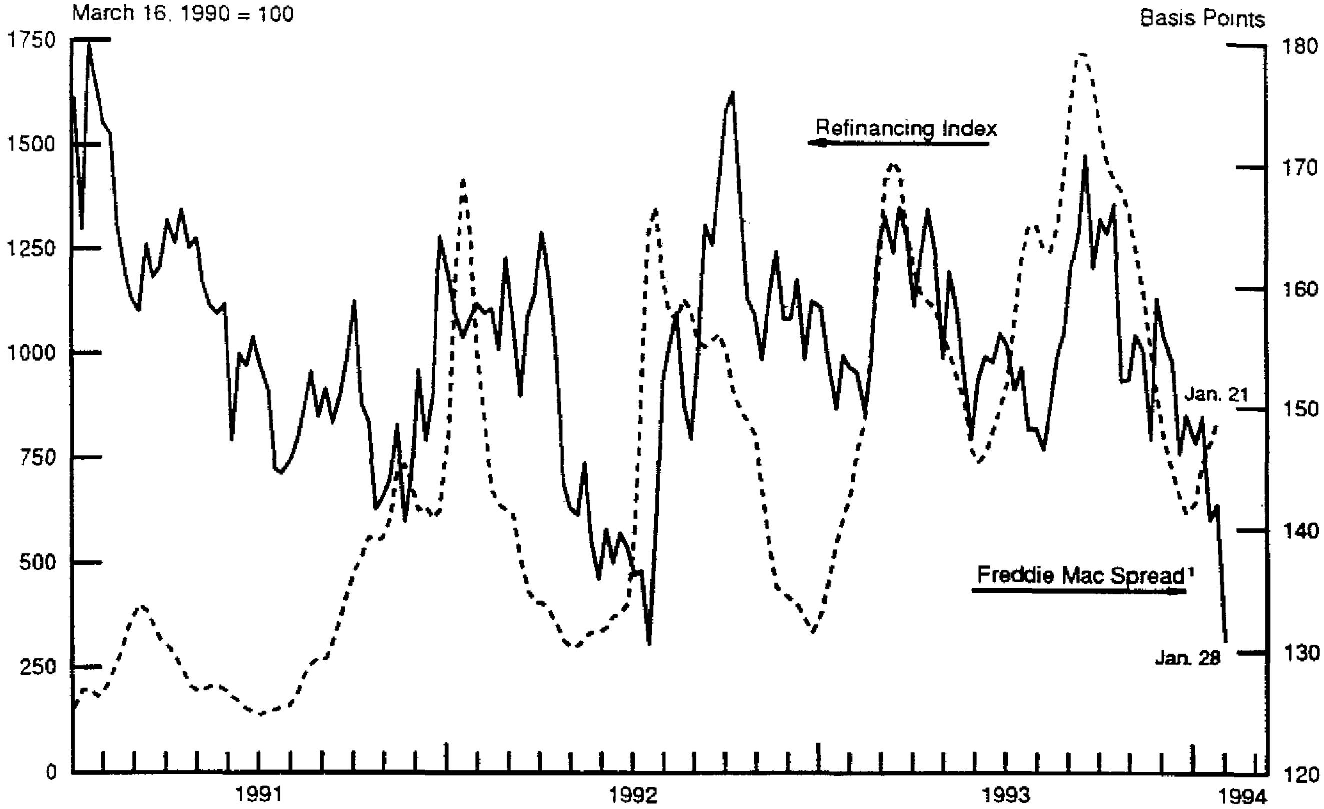
Treasury Financing

The staff anticipates that the $80 billion fiscal deficit for the first quarter will be financed by $46 billion of marketable borrowing and a drawdown of the cash balance. The Treasury likely will raise no cash in bills, and coupon auction sizes are expected to be about unchanged.

With the upcoming midquarter refunding including a thirty-year bond, the Treasury may choose to reopen the current on-the-run bond rather than to issue an entirely new bond. The on-the-run and currently trades about 12 basis points below the yield of the previously issued bond, down from 27 basis points in early November, and is close to par.

The Treasury announced in mid-January that it would call an outstanding bond that has five years to maturity. By replacing the security with a new five-year issue, the Treasury will be able to

Freddie Mac Thirty–Year Fixed–Rate Mortgage Spread vs.
Mortgage Bankers Association's Refinancing Index
(Weekly; nsa)



1 Freddie Mac spread relative to ten–year Treasury rate

ISSUANCE OF RESIDENTIAL MORTGAGE SECURITIES
(Billions of dollars)

Year	Mortgage Pass-Through Securities: Total	GNMA	FNMA	FHLMC	Nonagency[1]	Agency CMOs	Memo: Gross Originations of residential mortgage loans
1985	110	46	24	39	2	16	244
1986	269	101	61	100	7	48	455
1987	244	95	63	75	11	60	450
1988	165	55	55	40	15	79	376
1989	215	57	70	74	14	98	353
1990	259	64	97	74	24	112	439
1991	317	63	113	93	49	195	588
1992	545	82	194	179	90	279	918
1993	666	137	221	209	99	323	1,040 p

1. Includes nonagency CMOs.
p--preliminary

save about 300 basis points on the roughly $960 million of the security held by private investors. Possible future calls would have little effect on Treasury borrowing costs because callable issues represent only a tiny proportion of the par value of outstanding bonds.

On December 17, the President signed the Government Securities Reform Act of 1993, which permanently reauthorizes the Treasury's rule-writing power for the government securities market. Under the law, all government securities brokers and dealers must provide, upon request by the SEC, transactions records needed to reconstitute trading activity. The law also enables the Treasury to prescribe rules requiring reporting of large positions in when-issued and recently issued securities, although the Secretary of the Treasury is directed to be mindful of the burden on the market when writing these rules. The law mandates that an automated auction system be in place by the end of 1995.

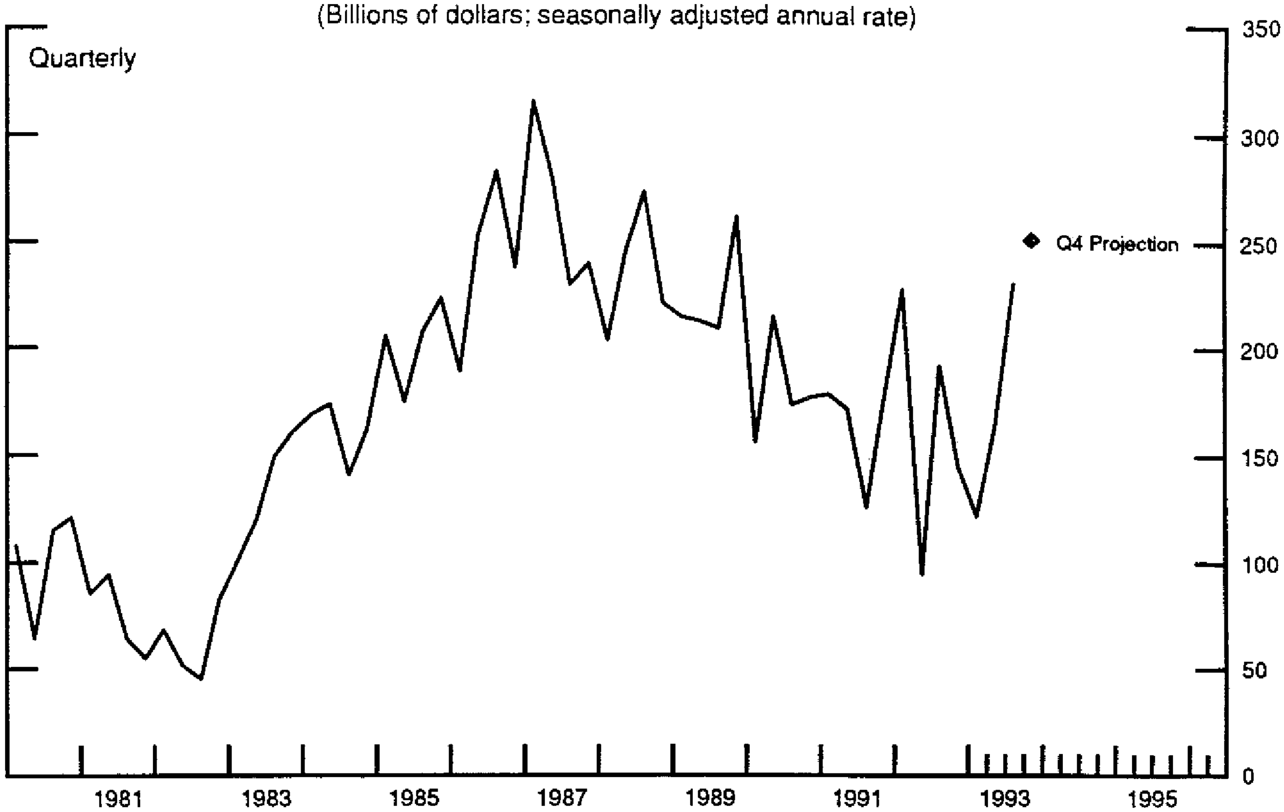
Mortgage Markets

Interest rates on conventional thirty-year, fixed-rate mortgages have declined 20 basis points to 6.97 percent since the December FOMC meeting. A tightening of secondary market yield spreads accounted for most of the decline in the primary market (chart). The narrower spreads reflected partly the slowing of refinancing rates, which has increased investor confidence that the most recent wave of refinancings has topped. Rates on adjustable-rate mortgages declined 4 basis points to 4.16 percent over the intermeeting period.

As mortgage rates declined last fall to their lowest levels in twenty years and housing market activity picked up, gross originations of residential mortgage loans in 1993 are estimated to have reached a record of $1.04 trillion, surpassing the previous

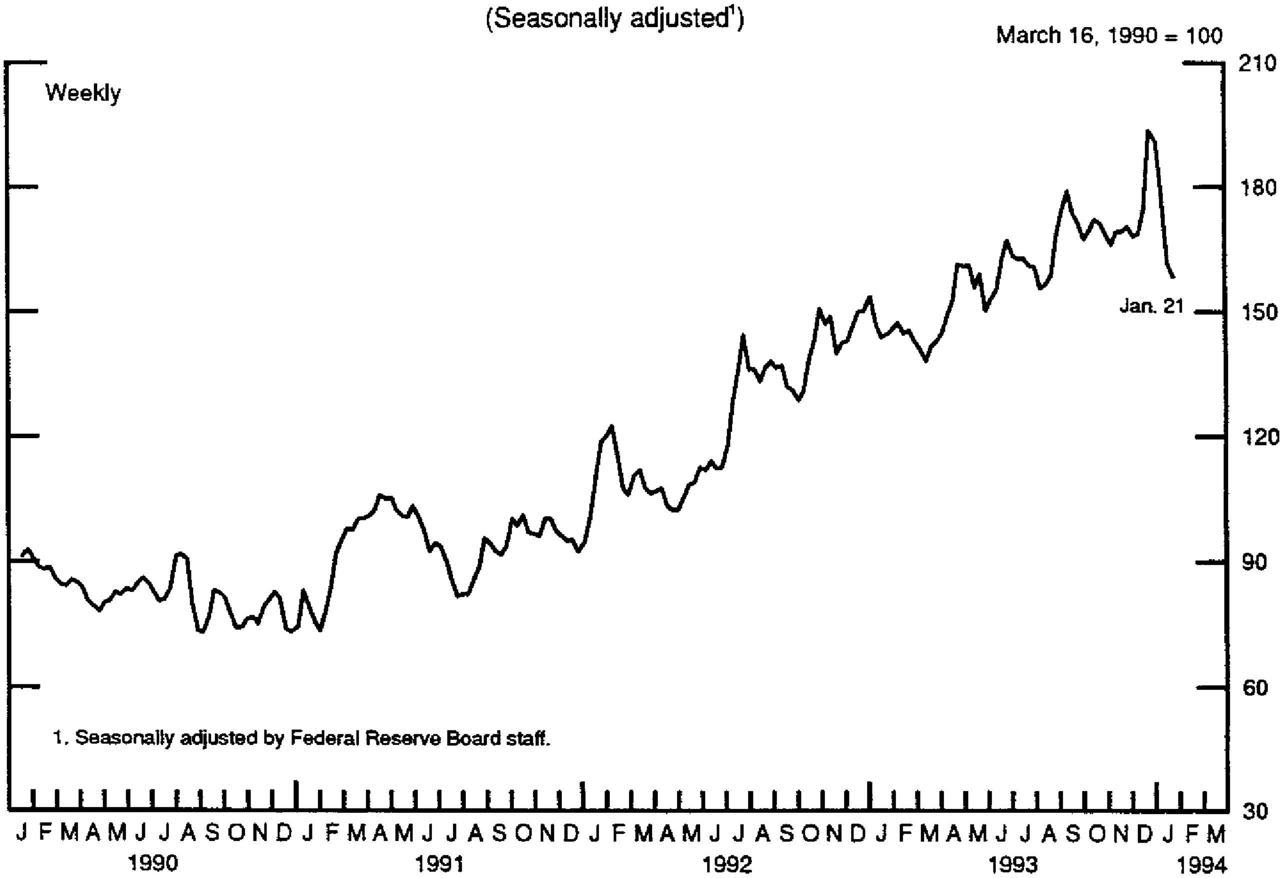
Change in Residential Mortgage Debt Outstanding

(Billions of dollars; seasonally adjusted annual rate)



MBA Index of Mortgage Loan Purchase Applications

(Seasonally adjusted[1])



1. Seasonally adjusted by Federal Reserve Board staff.

year's record of $918 billion (table). Originations in 1994 are expected to fall below 1993's pace, primarily reflecting a slowing of refinancing activity. Most market estimates place 1994 gross originations around $800 billion to $850 billion, still a high level.

Fueled by the record level of loan originations and household preferences for long-term fixed-rate mortgages, issuance of mortgage-backed, pass-through securities also set a record in 1993. Total volume was $666 billion, up 21 percent for the year. Issuance by GNMA was exceptionally strong, owing to lower refinancing costs and the elimination at the end of 1992 of higher downpayment requirements on loans insured by the Federal Housing Administration.

Available data on mortgage credit for the fourth quarter suggest that net residential mortgage debt outstanding continued to expand sharply (chart). Total real estate loans at banks grew 5-1/2 percent in the fourth quarter, the fastest quarterly pace for all of 1993. Mortgages held in portfolio by Fannie Mae and Freddie Mac also rose. The Mortgage Bankers Association's index of applications for loans to purchase homes continued to trend up through year-end, although it has dropped in recent weeks below its late-year highs (chart).

In the commercial mortgage sector, interest rates on high-quality loans with ten-year maturities remain around 7-1/2 to 7-3/4 percent. However, commercial mortgage investment bankers report that lenders have returned to making these loans at loan-to-value ratios of 75 percent, compared with more restrictive 65 percent LTVs only six months ago. These sources also report that some commercial banks have re-entered the commercial mortgage

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (Annual rate)							Memo: Outstandings[1] (Billions of dollars)
				1993				1993
	1991	1992	1993[2]	Q3	Q4[2]	Nov.p	Dec.	Nov.p
Installment	-.7	1.0	6.2	8.6	11.4	10.6	n.a.	783.1
Auto	-8.4	-.5	7.5	7.9	15.4	13.0	n.a.	277.6
Revolving	9.5	4.4	10.7	15.7	12.2	9.3	n.a.	279.3
Other	-1.0	-.8	-.4	.9	5.5	9.4	n.a.	226.3
Noninstallment	-15.1	3.0	-3.7	-13.7	-13.1	-17.9	n.a.	50.3
Total	1.8	1.2	5.5	7.1	9.8	8.9	n.a.	833.4

1. Components may not sum to totals because of rounding.
2. Data through November.
p--preliminary
n.a.--not available

CONSUMER INTEREST RATES
(Annual percentage rate)

	1991	1992	1993	1993 Feb.	May	Aug.	Nov.	Dec.
At commercial banks[1]								
New cars (48 mo.)	11.1	9.3	8.1	8.6	8.2	8.0	7.6	...
Personal (24 mo.)	15.2	14.0	13.5	13.6	13.6	13.5	13.2	...
Credit cards	18.2	17.8	16.8	17.3	17.2	16.6	16.3	...
At auto finance cos.[2]								
New cars	12.4	9.9	9.5	10.3	9.5	9.2	8.9	8.8
Used cars	15.6	13.8	12.8	13.9	12.6	12.5	12.4	12.3

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.

business and are beginning to offer seven- to ten-year fixed-rate loans in direct competition with pension funds and insurance companies.

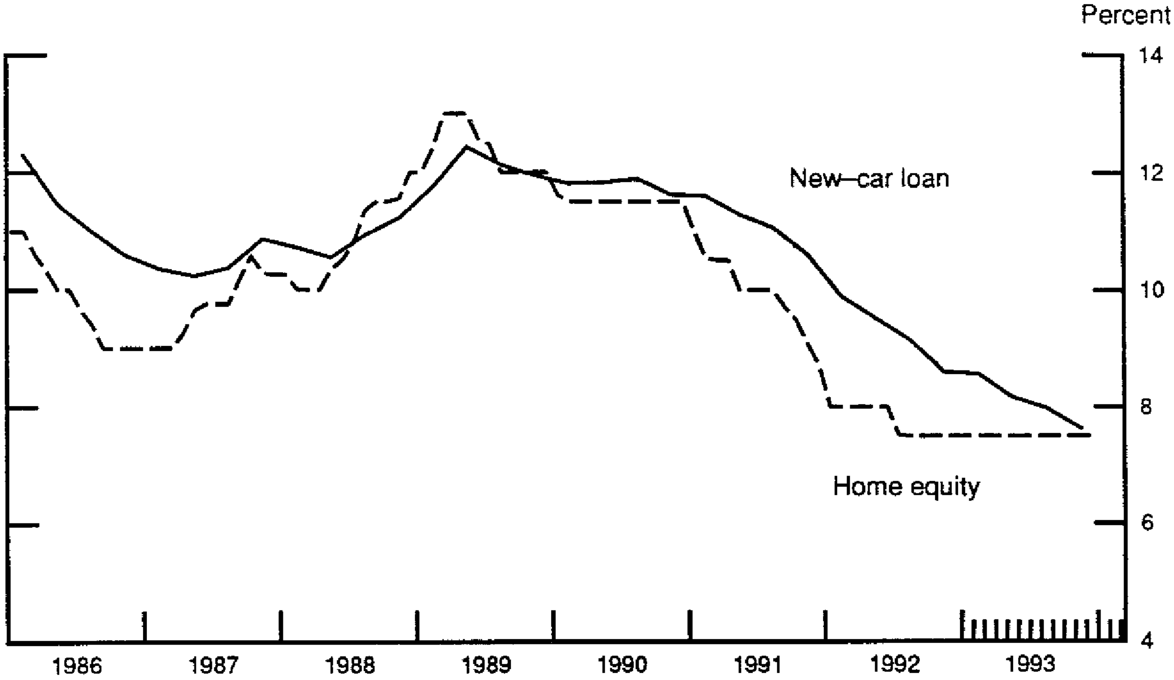
Consumer Credit

With partial data for December indicating another robust increase, consumer installment credit is expected to have grown at a double-digit pace in the fourth quarter of 1993 for the first time since the third quarter of 1986 (table). Data through November suggest that installment credit likely grew 11-1/2 percent in the fourth quarter and 6-1/4 percent for the year as a whole, which contrasts with annual gains of 2 percent or less over the previous three years.

Revolving credit was the fastest growing component last year, but auto credit showed renewed vigor and even outstripped the growth in revolving credit during the fourth quarter. The main factor underlying the rise in auto credit last year was the revival of automobile sales. Retail sales at auto dealers, which largely reflect sales of new and used automobiles, increased about 12-3/4 percent in 1993, with much of the growth occurring in the fourth quarter.

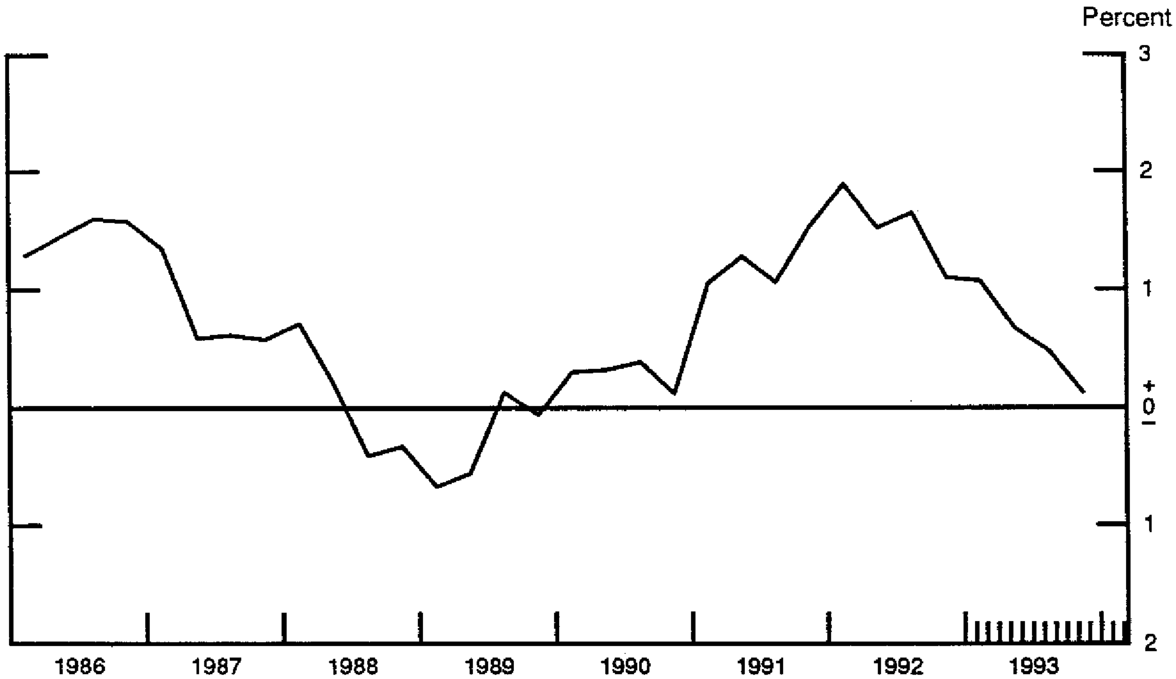
In addition, sharply lower interest rates on car loans in recent quarters reduced the incentive for car buyers to use alternative means of financing their purchases, and falling delinquency rates on auto loans likely encouraged lenders to book more auto loans. Rates on 48-month, new-car loans at banks were reported down to 7-5/8 percent in November, narrowing the gap between new-car loan rates and those on home equity lines of credit (chart). In November 1991, the auto loan rate had exceeded the pre-tax rate on home equity lines by about 150 basis points. Although little current information is available on leasing terms, the

Interest Rates on Auto Loans and Home Equity Lines of Credit



1. Rate on home equity lines estimated as prime rate plus 1.5 percentage points.

Auto Loan Rate Less Rate on Home Equity Line of Credit



captive finance companies have reportedly cut back some on their special lease promotions, so the drop in loan rates has probably helped to restore some of the comparative appeal of auto loans.

Over the past several years, the use of leasing has increased substantially as an alternative to auto credit. For example, according to industry statistics, one in four new passenger cars delivered to consumers in 1993 was on lease, about double the proportion in 1986. Moreover, in most years since 1986, leasing depressed auto credit growth by up to 2 percentage points (table), except for last year when, with the auto market gaining strength and with leasing gaining market share, leasing may have shaved about 4 percentage points off the growth rate of auto loans. Adjusted for leasing, auto credit would have grown 12 percent last year rather than 8 percent.

Auto credit also has been damped somewhat in recent years by the use of home equity loans, which have increased in popularity since the mid-1980s. Outstanding debt against home equity lines of credit is estimated to have grown by as much as $100 billion between 1986 and the end of 1993, although only a small part of that amount seems to have substituted for auto credit. In various surveys of households, by far the largest uses cited for home equity loans have been outlays for home improvements; automobile purchases have generally been further down the list of uses, with about 5 to 20 percent of households with credit lines having purchased a car by that means at any time. The use of home equity lines of credit declined in the second half of 1993, reducing the negative effect on the growth rate of auto credit.

NEW PASSENGER CAR SALES AND LEASES

	1986	1987	1988	1989	1990	1991	1992	1993
	millions of units							
Total new-car sales	11.4	10.2	10.6	9.9	9.5	8.4	8.4	8.7
Deliveries to consumers[1]	7.4	8.0	7.5	6.1	5.5	5.7	5.8	6.5
Consumer leases[1]	.9	1.1	1.3	1.2	1.0	1.1	1.3	1.6
	percent							
Leases as percent of:								
Total sales	7.6	11.0	11.9	11.6	10.3	13.3	15.9	18.1
Consumer deliveries	11.8	14.1	16.9	18.9	17.8	19.6	22.9	24.3

1. Source: LeaseTrak Reports, CNW Marketing/Research.

EFFECT OF AUTO LEASING ON AUTOMOBILE CREDIT

	1987	1988	1989	1990	1991	1992	1993[p]
	billions of dollars						
Debt outstanding	266.3	285.4	292.5	284.7	260.9	259.6	280.0
Net flow	18.5	19.1	7.1	-7.8	-23.8	-1.3	20.4
Lost net flow to leasing	5.9	6.3	2.4	-1.7	.8	6.1	10.6
	percent						
Growth of auto debt							
Actual	7.5	7.2	2.5	-2.7	-8.4	-.5	7.9
Adjusted for leasing	9.8	9.5	3.3	-3.2	-8.1	1.8	11.9

p Preliminary.

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

In November, the merchandise trade deficit was $10.2 billion (seasonally adjusted, Census basis), about the same as in each of the previous four months. Exports remained at the high level recorded in October and imports declined somewhat. For October-November combined, both exports and imports were well above third-quarter levels. While the two-month deficit was not significantly different from what was recorded in either the second or third quarters, the deficit for 1993 (11 months at an annual rate) was the largest recorded since 1987. Data for December will be released on February 17.

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

	Exports			Imports			
	Total	Ag.	NonAg.	Total	Oil	NonOil	Balance
1993-Jan	37.5	3.5	34.0	45.2	4.2	40.9	-7.7
Feb	36.9	3.7	33.3	44.8	4.1	40.8	-7.9
Mar	38.9	3.6	35.3	49.3	4.5	44.9	-10.5
Apr	38.5	3.7	34.7	48.7	4.9	43.7	-10.2
May	38.9	3.6	35.3	47.3	4.6	42.7	-8.4
Jun	37.6	3.4	34.2	49.7	4.8	44.9	-12.1
Jul	37.1	3.6	33.5	47.5	4.4	43.2	-10.4
Aug	38.1	3.4	34.6	48.1	4.0	44.1	-10.0
Sep	38.9	3.6	35.3	49.5	4.2	45.3	-10.6
Oct	40.1	3.7	36.4	51.0	4.4	46.6	-10.9
Nov	40.1	3.7	36.4	50.2	4.1	46.1	-10.2

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

Exports rose 5-1/2 percent in October-November from the third quarter, but declines earlier in the year meant that the level of exports was only 4 percent higher than a year earlier with most of the increase going largely to Canada and developing countries in Asia (especially Malaysia and Thailand). The increase in October-

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

	Year		1993				$ Change	
	1992	1993-e	Q1	Q2	Q3	Q4-e	Q4e-Q4	Q4e-Q3
Trade Balance	-96.1	-136.7	-117.2	-137.5	-145.1	-146.8	-43.0	-1.7
Total U.S. Exports	440.1	454.6	446.1	452.5	447.6	472.1	16.2	24.5
Agric. Exports	44.0	43.3	43.4	43.1	42.4	44.2	-1.3	1.8
Nonagric. Exports	396.1	411.3	402.7	409.4	405.2	427.9	17.5	22.7
Industrial Suppl.	101.8	105.2	102.6	103.5	104.6	110.1	5.6	5.5
Gold	4.5	9.3	6.4	7.5	9.2	13.9	6.7	4.7
Fuels	13.6	11.7	12.6	12.5	10.5	11.1	-2.4	0.6
Other Ind. Suppl.	83.7	84.2	83.6	83.4	84.8	85.0	1.2	0.2
Capital Goods	176.9	181.9	177.8	183.3	178.6	187.7	5.7	9.1
Aircraft & Parts	37.7	31.8	33.1	36.4	27.1	30.6	-6.4	3.5
Computers & Parts	28.8	29.0	28.8	28.0	29.6	29.5	-0.5	-0.0
Other Machinery	110.4	121.1	115.9	118.8	122.0	127.6	12.6	5.6
Automotive Goods	47.1	51.6	51.2	51.3	48.4	55.6	4.6	7.2
To Canada	23.8	27.4	26.4	27.1	25.9	30.0	4.4	4.1
To Other	23.2	24.3	24.8	24.2	22.4	25.5	0.2	3.1
Consumer Goods	50.4	53.5	51.5	52.2	54.3	56.0	2.8	1.7
Other Nonagric.	20.0	19.2	19.6	19.1	19.4	18.5	-1.2	-0.8
Total U.S. Imports	536.3	591.3	563.4	590.0	592.8	619.0	59.2	26.2
Oil Imports	51.6	52.4	51.0	57.3	50.3	51.0	-3.9	0.6
Non-Oil Imports	484.7	538.9	512.3	532.7	542.4	568.0	63.1	25.6
Industrial Suppl.	88.6	100.7	94.1	98.8	103.4	106.6	13.1	3.2
Gold	3.8	9.2	5.3	8.4	11.6	11.3	4.6	-0.2
Other Fuels	4.6	4.9	4.5	4.8	5.5	4.7	-0.1	-0.8
Other Ind. Suppl.	80.3	86.7	84.2	85.6	86.4	90.6	8.5	4.2
Capital Goods	134.2	152.4	142.6	150.7	152.7	163.6	21.8	10.9
Aircraft & Parts	12.6	11.0	10.5	11.8	10.5	11.2	-1.8	0.7
Computers & Parts	31.8	38.2	35.9	37.2	39.1	40.6	6.1	1.5
Other Machinery	89.8	103.2	96.2	101.7	103.1	111.8	17.6	8.7
Automotive Goods	91.8	102.4	100.5	102.1	100.1	106.9	11.8	6.8
From Canada	31.7	37.4	36.8	36.9	37.0	39.0	6.7	2.0
From Other	60.1	65.0	63.7	65.2	63.1	67.9	5.1	4.8
Consumer Goods	123.0	135.0	128.9	132.9	138.3	139.9	13.4	1.6
Foods	27.9	28.2	27.4	27.5	28.4	29.4	1.9	1.1
All Other	19.3	20.1	18.9	20.6	19.4	21.6	1.0	2.1

e--For quarter, average of first 2 months at an annual rate.
For year, average of first 11 months at an annual rate.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

November was largely in exported machinery, automotive products, aircraft, and gold. Two-thirds of the rise in exported machinery was in telecommunications equipment and semiconductors; since the fourth quarter of the previous year, exports of these items expanded 20 percent. The value of exported computers was about the same in October-November as in the third quarter (and also a year earlier). Unusually strong quarter-to-quarter swings have characterized exports (and imports) of automotive products since last spring, with an unusually sharp increase recorded in October-November. While aircraft exports jumped up in October-November, declines earlier in the year meant that the level of shipments was about 15 percent less than a year earlier.

Imports rose 4-1/2 percent from the third quarter to October-November; when combined with increases recorded earlier in the year, the level of imports was 10 percent higher than in the fourth quarter a year earlier. Most of the rise in October-November, and throughout the year, was in imported machinery, automotive products, and consumer goods. The value of imported machinery jumped 7 percent between the third quarter and October-November: about half of the increase was oil-field equipment and another 20 percent of the rise was semiconductors. The value of imported computers accounted for only about 15 percent of the increase in machinery in October-November.

Oil Imports.

Most of the decline in the value of oil imports in November resulted from a drop in price. For October-November relative to the third quarter, there was little change in the value of oil imports, as lower prices were offset by higher quantities, which boosted domestic stocks. For December, preliminary data from the

Department of Energy indicate that there was an easing in import volume (perhaps to a rate below 8.5 mb/d) as stocks were worked off.

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1993			Months			
	Q2	Q3	Q4-e	Aug	Sep	Oct	Nov
Value (Bil. $)	57.28	50.34	50.95	47.57	51.22	52.89	49.02
Price ($/BBL)	17.07	15.23	14.69	15.17	14.91	15.19	14.19
Quantity (mb/d)	9.19	9.05	9.49	8.59	9.41	9.53	9.46

e--Average of first 2 months of quarter at an annual rate.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

After falling for almost the entire second half of 1993, the near term West Texas Intermediate (WTI) contract has moved unevenly in the $14-$15 range in January. Most recently, the near-term contract price has moved near $15.50 per barrel as inventories have fallen in the face of frigid weather. Prospects for an emergency OPEC meeting in early February appear to have diminished, while crude oil demand remains dormant and non-OPEC production continues strong. Oil import prices have mirrored the decline in futures prices. The price of oil imports in December is estimated to have been near $12.75 per barrel, with January's price likely to fall further to just above $12.00 per barrel.

Prices of Exports and Non-oil Imports

Prices of U.S. non-petroleum imports rose 0.1 percent in December, as increases in prices of foods, automotive products, and industrial supplies were about offset by declines in prices of capital goods and consumer goods. For the fourth quarter on average, prices of non-oil imports rose 2 percent at an annual rate, the third consecutive quarterly price rise for non-oil imports; the largest increases were for prices of passenger cars (a new model year began in October) and foods.

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

	Year 1993-Q4 / 1992-Q4	Quarters 1993 Q2	Q3	Q4	Months 1993 Nov	Dec
		(Quarterly Average, AR)			(Monthly Rates)	
	BLS Prices					
Imports, Total	-1.4	3.3	-3.0	-0.6	-0.5	-0.9
Foods, Feeds, Bev.	3.0	3.2	8.7	6.2	-1.1	0.4
Industrial Supplies	-8.0	4.5	-16.2	-9.7	-1.9	-3.2
Ind Supp Ex Oil	-1.4	0.1	-2.4	-1.5	-0.6	0.9
Capital Goods	0.1	1.9	2.5	0.8	-0.3	-0.3
Automotive Products	2.9	5.1	2.2	7.4	0.6	0.2
Consumer Goods	0.3	2.3	1.0	0.9	-0.2	-0.1
Memo:						
Oil	-19.0	12.3	-35.2	-22.8	-4.5	-10.7
Non-oil	0.6	2.5	1.5	2.0	-0.2	0.1
Exports, Total	0.8	1.6	0.2	0.2	0.2	0.4
Foods, Feeds, Bev.	7.5	0.7	15.1	9.2	2.5	3.0
Industrial Supplies	-0.1	4.7	-3.0	-3.7	-0.2	0.2
Ind Supp Ex Ag	-0.0	5.6	-2.9	-4.1	-0.2	0.0
Capital Goods	-0.2	0.1	-0.4	0.2	0.0	0.0
Automotive Products	0.6	0.5	-0.7	1.3	-0.2	0.1
Consumer Goods	1.0	0.3	-0.5	1.0	0.0	0.1
Memo:						
Agricultural	6.6	-1.4	14.8	8.2	2.3	3.0
Nonagricultural	0.1	1.9	-1.5	-0.7	0.0	0.0
	Prices in the NIPA Accounts					
Fixed-Weight						
Imports, Total	-1.1	4.0	-3.2	0.4	--	--
Oil	-20.9	16.0	-36.4	-25.2	--	--
Non-oil	1.0	3.2	0.4	3.2	--	--
Exports, Total	1.1	1.8	0.0	1.5	--	--
Ag	6.8	-2.1	17.3	8.2	--	--
Nonag	0.3	2.6	-2.2	0.4	--	--
Deflators						
Imports, Total	-3.7	1.6	-6.7	-1.6	--	--
Oil	-20.9	16.1	-36.4	-25.5	--	--
Non-oil	-2.0	0.4	-3.2	0.5	--	--
Exports, Total	-1.3	0.8	-5.1	0.6	--	--
Ag	5.3	-3.7	9.7	10.8	--	--
Nonag	-1.8	1.2	-6.4	-0.3	--	--

Prices of U.S. agricultural exports in December rose sharply for the second consecutive month, bringing the increase in the fourth quarter to 8.2 percent at an annual rate; the largest increase was reported for feedstuff. Nonagricultural export prices held steady in December, as in November; for the fourth quarter on average, nonagricultural export prices declined less than 1 percent at an annual rate, about half the rate of decline recorded in the third quarter.

U.S. International Financial Transactions

Recorded capital flows for November were characterized by large inflows from both official and private sources, the latter through purchases of U.S. securities. Net inflows through banks declined markedly in November. Outflows through the U.S. purchase of foreign securities declined somewhat, but were still substantial.

Foreign official assets in the United States rose more than $12 billion in November after declining slightly in October (line 1 of the Summary of U.S. International Transactions Table). Of the $7-3/4 billion inflow from G-10 countries (line 1.a), $3 billion is attributable to Germany. German dollar reserves rose after French authorities sold francs for dollars in the market and used the proceeds to repay loans made during the ERM crisis. Other large increases in November were recorded by the BIS and Singapore, the latter a result of the partial privatization of Singapore Telecom. Partially offsetting these inflows in November was a $3-1/2 billion decline in Mexican reserves in the United States. Mexican authorities intervened to support the peso in the early days of November after prospects for the NAFTA took a temporary dip. Partial data for December, from the FRBNY, record further official inflows on the order of $6 billion. The BIS and Spain account for much of this inflow.

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS[1]
(Billions of dollars, not seasonally adjusted except as noted)

	Year		Quarter				Month		
			1992	1993			1993		
	1991	1992	Q4	Q1	Q2	Q3	Sept.	Oct.	Nov.
Official capital									
1. Changes in foreign official reserve assets in U.S. (+ = increase)	16.0	38.3	5.0	11.4	17.3	18.1	8.7	-1.5	12.5
a. G-10 countries	-17.6	4.8	-4.7	-1.9	17.8	9.1	5.8	.7	7.8
b. OPEC countries	-5.8	4.9	1.7	.5	-1.7	-3.1	-.2	-1.5	*
c. All other countries	39.4	28.6	7.9	12.7	1.2	12.1	3.1	-.8	4.7
2. Changes in U.S. official reserve assets (+ = decrease)	5.8	3.9	1.5	-1.0	1.5	-.5	*	-.1	-.3
Private capital									
Banks									
3. Change in net foreign positions of banking offices in the U.S.[2]	-18.8	35.6	-1.2	-3.2	.6	23.9	-5.2	16.7	6.9
Securities[3]									
4. Foreign net purchases of U.S. securities (+)	55.1	68.0	34.1	24.1	14.8	21.2	-5.5	14.1	20.4
a. Treasury securities[4]	19.3	37.4	21.4	14.2	-.5	3.6	-13.9	.6	10.0
b. Corporate and other bonds[5]	25.7	34.3	8.5	5.7	14.8	14.8	7.6	9.1	7.2
c. Corporate stocks	10.1	-3.7	4.2	4.2	.5	2.8	.8	4.4	3.2
5. U.S. net purchases (-) of foreign securities	-46.8	-47.9	-19.2	-25.8	-26.1	-47.0	-15.1	-9.7	-6.9
a. Bonds	-14.8	-15.6	-6.9	-17.3	-11.8	-21.6	-9.9	-2.4	*
b. Stocks	-32.0	-32.3	-12.3	-8.4	-14.3	-25.4	-5.2	-7.2	-6.9
Other flows (quarterly data, s.a.)									
6. U.S. direct investment (-) abroad	-29.1	-34.8	-11.5	-8.3	-11.5	-5.6	n.a.	n.a.	n.a.
7. Foreign direct investment in U.S.	24.0	2.4	3.1	8.6	10.3	1.9	n.a.	n.a.	n.a.
8. Other (+ = inflow)[6]	-17.2	13.1	-3.4	7.6	6.2	10.5	n.a.	n.a.	n.a.
U.S. current account balance (s.a.)	-8.3	-66.4	-23.7	-22.3	-27.2	-28.0	n.a.	n.a.	n.a.
Statistical discrepancy (s.a.)	-15.1	-12.2	15.3	8.9	14.1	5.5	n.a.	n.a.	n.a.

1. The sum of official capital, private capital, the current account balance, and the statistical discrepancy is zero. Details may not sum to totals becuse of rounding.

2. Changes in dollar-denominated positions of all depository institutions and bank holding companies plus certain transactions between broker-dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements). Includes changes in custody liabilities other than U.S. Treasury bills.

3. Includes commissions on securities transactions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

4. Includes Treasury bills.

5. Includes U.S. government agency bonds.

6. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.

n.a. Not available. * Less than $50 million.

In the first eleven months of 1993 foreign official reserves in the United States increased by almost $60 billion. This increase is roughly $20 billion larger than that recorded in all of 1992. Japan's reserves in the United States increased by $23 billion in 1993, compared with a decrease of $2 billion in 1992. This increase in Japan's reserves coincided in magnitude and timing with that country's exchange market intervention in support of the yen.

Private capital inflows through securities transactions increased sharply in November to $20 billion (line 4). The increase was concentrated in foreign purchases of U.S. Treasury securities (line 4.a). Over half of the Treasury purchases were attributed to Japan and the Netherlands Antilles. These purchases may reflect the normal activity of dealers in response to the large issuance in the month rather than an increase in demand by their customers. Singapore residents also acquired more than $1-1/4 billion in Treasuries in November.

Net foreign purchases of other bonds, especially agency bonds, remained strong in November (line 4.b), as Japan, the United Kingdom, offshore financial centers, and Singapore recorded significant net purchases. Foreign purchases of U.S. equities remained brisk (line 4.c). The United Kingdom, Japan, and offshore financial centers accounted for the net purchases.

U.S. net purchases of foreign securities slowed to $7 billion in November. Although substantial, this was significantly less than the $11 billion average monthly pace recorded earlier in the year. Net bond purchases dropped to near zero in November as sales in Japan and the offshore financial centers offset purchases in Germany, the United Kingdom, Mexico, and Hong Kong. Net purchases of stocks in November were slightly above their earlier pace with

INTERNATIONAL BANKING DATA 1/
(Billions of dollars)

	1991	1992			1993					
	Dec.	June	Sept.	Dec.	Mar.	June	Sept	Oct.	Nov.	Dec.
1. Net claims of U.S. banking offices (excluding IBFS) on own foreign offices and IBFS	-35.8	-56.8	-58.1	-71.6	-77.1	-80.4	-114.6	-123.1	-120.6	-122.0
a. U.S.-chartered banks	12.4	8.3	12.8	17.0	8.9	16.8	12.5	6.7	6.4	4.2
b. Foreign-chartered banks	-48.3	-65.1	-70.9	-88.6	-86.0	-97.2	-127.1	-129.8	-127.0	-126.2
2. Credit extended to U.S. nonbank residents by foreign branches of U.S. banks	23.9	24.5	24.8	24.8	23.5	23.1	21.4	21.6	21.9	21.8
3. Eurodollar holdings of U.S. nonbank residents 2/	102.9	91.2	86.3	90.0	89.5	86.1	77.0	79.3	82.2	80.6

1/ 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.

2/ Includes term and overnight Eurodollars held by money market mutual funds.

flows to Germany, the United Kingdom, Mexico, and Japan accounting for most of the net purchases.

Private inflows through banking slowed considerably in November from nearly $17 billion in October (line 3). Most of the inflow recorded for November reflects better reporting of loans made by the offshore offices of foreign-based banks to U.S. non-banks (from a new Call Report supplement), rather than a capital inflow. Partial data on transactions with related foreign offices for December indicate a small inflow, on a monthly average basis (line 1 of the International Banking Data Table).

Foreign Exchange Markets

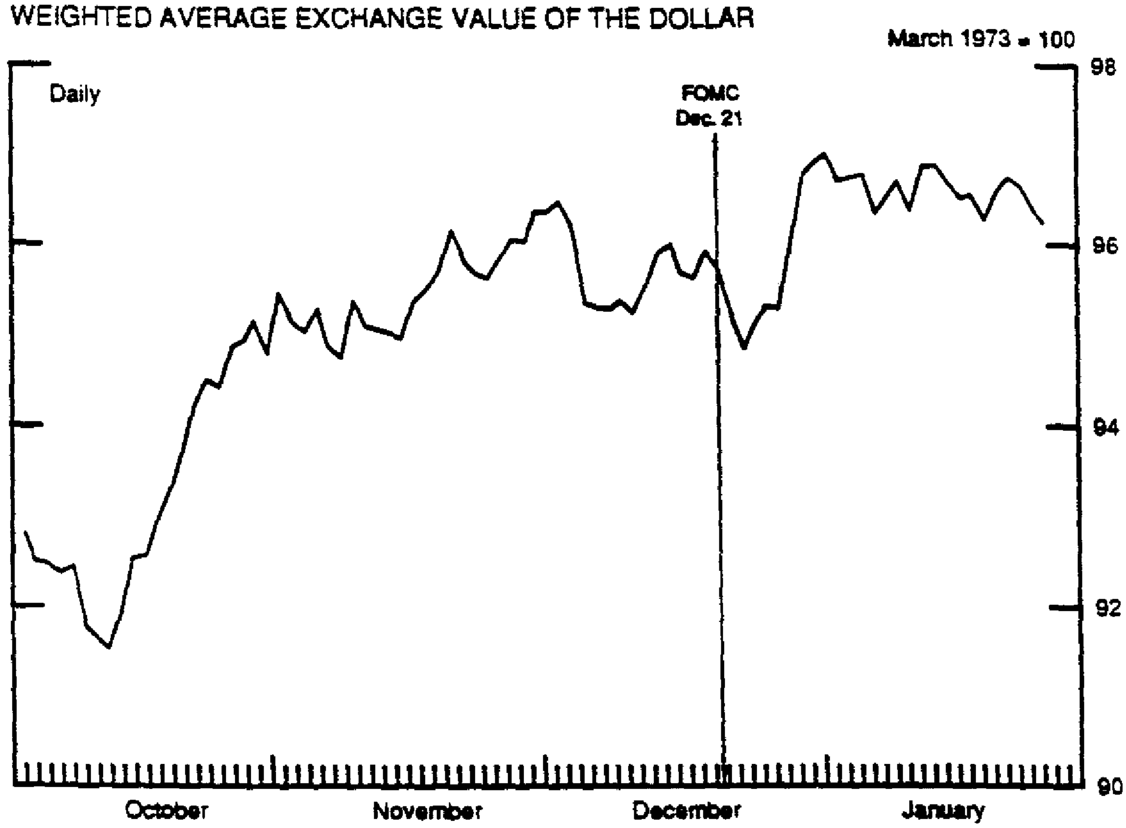
The weighted average foreign exchange value of the dollar, shown in the chart, was unchanged on balance during the intermeeting period. The dollar rose 1-1/4 percent on balance against the mark, but declined 1-3/4 percent on balance against the yen and 1-1/2 percent against the Canadian dollar.

The dollar rose against the mark during the first half of the period on the release of favorable data on U.S. real economic activity in December, and on hopes that the Bundesbank would allow its two-week RP rates to decline below the fixed rate of 6.0 percent that the Bundesbank has maintained since December 8. On January 20, the Bundesbank disappointed market participants by announcing that the RP rate will stay fixed at 6.0 percent for the next two weekly tenders. This caused the market to revise upward the expected path of future short-term German interest rates and contributed to the mark's appreciation towards the end of the period. As shown in the table, between December 21 and January 27, the expected path of German three-month interest rates, as reflected in three-month Euro-mark futures rates, rose approximately 10 to 35 basis points through December 1994. Over the same period three-month spot Euro-mark rates declined 20 basis points and the bellwether bond yield rose 5 basis points.

The dollar's fluctuations against the yen were driven by changing expectations for Bank of Japan easing, political developments within Japan, and trade frictions between Japan and the United States. In the last half of December, the dollar appreciated against the yen in anticipation of an imminent cut in the Bank of Japan's official discount rate. However, as it became apparent that the Bank of Japan did not intend to cut rates immediately, the dollar began to depreciate against the yen.

On Friday January 21 Japan's upper house of parliament defeated Prime Minister Hosokawa's political reform package. If a compromise political reform package is not passed by January 29, Prime Minister Hosokawa has threatened to resign and call new elections. The political uncertainty created by these events boosted the dollar against the yen on January 21 and the following Monday. The Nikkei 225 Index also responded to the political uncertainty by declining sharply on Monday. A secondary factor supporting the dollar at the time was the belief that the defeat of political reform could substantially delay passage of additional government fiscal stimulus, thus increasing the impetus for Bank of Japan easing.

At the end of the period the yen rose on statements by U.S. government officials that were interpreted to imply that if efforts to reduce Japan's trade surplus fail, then reducing Japan's trade surplus would require a strengthening of the yen. Shortly before greenbook part II went to press, wire reports indicated that Prime Minister Hosokawa and the Liberal Democratic Party had agreed on a compromise political reform package for consideration by the



3-MONTH SPOT AND FUTURES EURO-CURRENCY DEPOSIT RATES

	Japan			Germany		
	12/21/93	1/27/94	Change	12/21/93	1/27/94	Change
Spot	2.06	2.07	0.01	6.02	5.79	-0.23
March 1994	1.80	2.08	0.28	5.52	5.63	0.11
June 1994	1.68	2.03	0.35	5.01	5.18	0.17
September 1994	1.67	2.05	0.38	4.61	4.86	0.25
December 1994	1.68	2.13	0.45	4.32	4.68	0.36

parliament. Market participants apparently interpreted this news as providing Prime Minister Hosokawa with leeway to make concessions in trade talks with the United States; this helped the dollar rebound against the yen at the end of the period.

Interest rate developments in Japan are consistent with market disappointment over the Bank of Japan's failure to cut the official discount rate in January. Three-month Euro-yen futures rates, shown in the table, have risen about 30 to 45 basis points through December 1994. Three-month spot Euro-yen rates finished the period about unchanged on balance while the bellwether bond yield rose 35 basis points.

The Canadian dollar's rise during the intermeeting period occurred in part on reduced uncertainty over the course of Canadian monetary policy. In the weeks prior to the beginning of the period, the Canadian dollar had declined on worries that the new Prime Minister would replace John Crow as governor of the Bank of Canada. When it was announced that governor Crow would be replaced by Gordon Thiessen, and that the new government would continue to pursue a policy of low inflation, the Canadian dollar rebounded.

In Europe, most currencies appreciated against the mark during the intermeeting period. For countries within the ERM, this appreciation occurred as these countries refrained from utilizing the scope to ease monetary policy provided by the widening of the exchange rate bands in August. The three-month interest rate spread between France and Germany was about unchanged during the period; while the spread between Spain and Belgium vis-a-vis Germany narrowed 5 and 40 basis points respectively. Sterling appreciated against the mark on additional data suggesting that the economic recovery in the United Kingdom is well established. The hesitance of U.K. monetary authorities to ease rates further also contributed to sterling's rise. During the period, the differential between U.K. and German three-month interest rates rose 20 basis points.

In equity markets during the intermeeting period, the Nikkei Index appreciated 8 percent on balance. Stock prices rose in most other major markets during the period with the exception of Germany, where prices declined about 1.75 percent.

Developments in Foreign Industrial Countries

Economic activity in the major foreign industrial countries appears to have diverged further in the fourth quarter. In Japan, most indicators are weaker, suggesting a slowdown or possible downturn in the fourth quarter, after positive real GDP growth in the third quarter. Data for western Germany and France suggest that real economic activity was flat or declined in the fourth quarter, after recording positive growth in the previous two quarters. In Italy, real GDP fell in the third quarter, offsetting most of second-quarter gains. In contrast, moderate economic growth recorded recently in Canada and the United Kingdom appears to have continued. Unemployment rates in most major foreign industrial countries edged up in the fourth quarter, but they declined slightly in the United Kingdom and Canada. Inflation was little changed in the last months of the year.

On January 27, the new Monetary Policy Council of the Bank of France, authorized by recent legislation granting independence to the Bank of France, announced a new monetary target. In December, the Bank of Canada announced that Senior Deputy Governor Gordon Thiessen will become Governor when John Crow's term expires on January 31.

Individual Country Notes. In Japan, the economy appears to have weakened on balance in the fourth quarter of 1993 following a 2.0 percent increase in real GDP (s.a.a.r.) in the third quarter. Moderate gains in industrial production, housing starts, machinery orders, and new car registrations in November only partially offset much larger declines in October, while industrial production and new car registrations slid further in December. The index of leading indicators edged up slightly in November, but remained well below its boom/bust demarcation line of 50. Labor market conditions deteriorated further, as the unemployment rate (s.a.) rose to 2.9 percent in December, the highest since June 1987.

Consumer price inflation in the Tokyo area (n.s.a.) increased somewhat to 1.4 percent on a 12-month basis in January, reflecting higher fresh food prices. Appreciation of the yen contributed to a continued decline in wholesale prices, which in December were 3.3 percent below their year-earlier level.

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

	1993						
	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.
Machinery Orders	16.1	-9.5	2.3	--	-15.2	1.3	--
New Car Registrations	10.7	-11.8	2.1	-5.3	-11.7	5.6	-3.7
Job Offers Ratio*	0.91	0.80	0.70	--	0.67	0.65	--
Index Leading Ind.*	75.6	46.2	42.9	--	27.3	30.0	--
Business Sentiment**	-49	-49	-51	-56	--	--	--

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

The trade surplus (customs basis, s.a.) rose to $ 11.1 billion in December, bringing the surplus for the year to $119.6 billion compared with $107.2 billion in 1992. The November current account surplus (s.a.) declined to $9.2 billion from $10.4 billion in

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

	1992	1993	1993				1993					Latest three months from year ago 2/
			Q1	Q2	Q3	Q4	AUG	SEP	OCT	NOV	DEC	
JAPAN												
GDP	-0.3	NA	0.9	-0.5	0.5	NA	*	*	*	*	*	0.5
IP	-7.7	-4.7	0.4	-1.5	0.1	-3.7	-1.2	2.2	-5.5	2.2	-1.7	-4.7
WEST GERMANY												
GDP	0.0	NA	-1.6	0.6	0.6	NA	*	*	*	*	*	-1.4
IP	-4.6	NA	-2.9	-0.0	0.7	NA	2.2	0.0	-0.7	-2.1	NA	-4.7
FRANCE												
GDP	0.6	NA	-0.7	0.2	0.2	NA	*	*	*	*	*	-0.7
IP	-2.5	NA	-1.0	-0.6	0.5	NA	0.0	-0.4	-0.6	0.6	NA	-3.1
UNITED KINGDOM												
GDP	0.2	2.5	0.6	0.5	0.6	0.7	*	*	*	*	*	2.5
IP	-0.5	NA	0.1	1.0	1.0	NA	-0.1	0.1	1.0	0.5	NA	2.8
ITALY												
GDP	-0.2	NA	-0.2	0.7	-0.5	NA	*	*	*	*	*	-0.5
IP	-3.1	NA	-0.3	-1.0	0.6	NA	1.2	-1.4	0.5	NA	NA	-1.4
CANADA												
GDP	0.8	NA	0.8	0.9	0.6	NA	*	*	*	*	*	3.0
IP	1.9	NA	1.9	0.8	0.9	NA	0.7	0.8	-0.1	NA	NA	4.9
UNITED STATES												
GDP	3.9	NA	0.2	0.5	0.7	NA	*	*	*	*	*	2.8
IP	3.2	4.5	1.4	0.6	0.6	1.8	0.2	0.3	0.7	0.9	0.7	4.5

* Data not available on a monthly or quarterly basis.
1/ Yearly data are Q4 to Q4 percent change.
2/ For quarterly data, latest quarter from a year ago.

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

	1992	1993	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1993 OCT	1993 NOV	1993 DEC	1994 JAN	Latest month from year ago 2/
JAPAN													
CPI	0.9	1.2	-0.1	0.0	0.0	1.1	0.5	-0.4	-0.1	-0.7	0.2	0.1	1.4
WPI	-1.5	-3.3	-0.2	-0.9	-0.5	-1.4	-1.0	-0.5	-0.2	-0.1	0.1	NA	-3.3
WEST GERMANY													
CPI	3.7	3.7	0.5	0.9	1.8	1.0	0.4	0.5	0.2	0.2	0.2	0.8	3.4
WPI	-1.9	-0.3	-2.0	-0.8	0.7	0.1	-0.6	-0.5	-0.2	0.3	0.0	NA	0.1
FRANCE													
CPI	1.8	2.1	0.0	0.5	0.8	0.6	0.2	0.5	0.2	0.1	-0.1	NA	2.1
WPI	-2.1	NA	-0.4	-2.3	0.0	-0.8	-0.3	NA	*	*	*	*	-3.4
UNITED KINGDOM													
CPI	3.1	1.6	-0.1	0.4	-0.7	1.6	0.3	0.3	-0.1	-0.1	0.2	NA	1.9
WPI	3.1	3.9	0.1	0.7	1.4	1.7	0.3	0.4	0.2	0.0	0.5	NA	4.0
ITALY													
CPI	4.8	4.1	0.7	1.3	1.0	1.1	0.9	1.1	0.7	0.5	0.0	NA	4.0
WPI	3.0	NA	-0.5	2.8	1.6	1.3	0.5	NA	0.7	0.0	NA	NA	4.3
CANADA													
CPI	1.8	1.8	0.4	0.4	0.7	0.2	0.4	0.5	0.2	0.5	-0.2	NA	1.7
WPI	3.3	2.9	0.8	1.2	1.2	-0.0	0.5	1.2	0.5	0.3	0.5	NA	3.1
UNITED STATES													
CPI (SA)	3.1	2.7	0.7	0.8	0.9	0.7	0.3	0.7	0.4	0.2	0.2	NA	2.7
WPI (SA)	1.5	0.2	0.4	0.2	0.6	0.7	-0.7	-0.4	-0.2	0.0	-0.1	NA	0.2

* Data not available on a monthly or quarterly basis.
1/ Yearly data are Q4 to Q4 percent change.
2/ For quarterly data, latest quarter from year ago.

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

	1992	1993	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1993 SEP	1993 OCT	1993 NOV	1993 DEC
JAPAN												
TRADE	107.3	119.6	26.2	28.6	29.7	29.9	29.5	30.5	9.4	10.5	8.8	11.1
CURRENT ACCOUNT	117.2	NA	28.1	31.7	36.0	31.8	32.0	NA	11.2	10.4	9.2	NA
GERMANY												
TRADE (NSA)	21.4	NA	8.6	5.0	5.9	7.9	8.1	NA	3.5	5.0	4.8	NA
CURRENT ACCOUNT (NSA)	-25.5	NA	-8.6	-5.2	-4.8	-3.6	-9.8	NA	-1.6	-2.8	0.8	NA
FRANCE												
TRADE	5.6	NA	1.3	1.3	2.5	3.9	5.0	NA	2.4	1.6	1.1	NA
CURRENT ACCOUNT	3.5	NA	-0.5	2.8	1.8	3.7	NA	NA	*	*	*	*
UNITED KINGDOM												
TRADE	-23.4	NA	-6.1	-6.8	-6.1	-4.7	-3.7	NA	-1.7	-0.9	NA	NA
CURRENT ACCOUNT	-15.1	NA	-3.1	-3.9	-5.3	-3.7	NA	NA	*	*	*	*
ITALY												
TRADE	-10.5	NA	-1.9	-1.9	4.6	5.3	5.3	NA	2.1	2.4	NA	NA
CURRENT ACCOUNT (NSA)	-26.8	NA	-6.8	-4.8	-2.9	2.8	3.9	NA	0.3	-2.3	-0.6	NA
CANADA												
TRADE	7.4	NA	1.7	2.9	2.5	2.3	2.3	NA	0.9	1.2	0.6	NA
CURRENT ACCOUNT	-23.0	NA	-5.6	-4.6	-5.2	-5.1	-4.8	NA	*	*	*	*
UNITED STATES												
TRADE	-96.1	NA	-27.6	-26.0	-29.3	-34.4	-36.3	NA	-13.0	-12.6	-11.8	NA
CURRENT ACCOUNT	-66.4	NA	-17.8	-23.7	-22.3	-27.2	-28.0	NA	*	*	*	*

* Data not available on a monthly or quarterly basis.
1/ The current account includes goods, services, and private and official transfers.

October; the cumulative surplus for the first eleven months of 1993 was $130 billion (a.r.), up from $117 billion for 1992 as a whole.

On January 21, Prime Minister Hosokawa's political reform package, which had been passed by the lower house of the Diet in November, was defeated in the upper house, clouding prospects for the Hosokawa government and its plans to implement economic stimulus policies. On January 28, an apparent compromise on the reform package was reached with the opposition Liberal Democratic Party, improving prospects for the formulation of economic stimulus measures -- including an income tax cut and a third supplemental budget for the 1993 fiscal year -- that had been postponed, pending passage of the political reforms. However, no firm timetable for implementation of the stimulus measures has been set.

Real economic activity faltered in western Germany in the fourth quarter after two quarters of positive growth. Industrial production (s.a.) fell in both October and November. The average level of industrial production in the two months was 1 percent below the third-quarter average and 4.5 percent below the year-earlier level. Bad weather in November reduced construction output, but weakness was pervasive in most industrial sectors. The volume of retail sales fell sharply in October and November, as did the volume of new orders for west German manufactured goods. Preliminary government estimates indicate that total German GDP contracted 1.3 percent in 1993. West German real GDP is estimated to have fallen 1.9 percent. In December, unemployment (s.a.) was unchanged from November at 9 percent of the dependent labor force (excluding the self-employed) in western Germany, while the unemployment rate (n.s.a.) in eastern Germany rose to 15.4 percent.

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

	1993						
	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.
Manufacturing Orders	-0.9	0.5	1.5	--	-0.6	-0.8	--
Capacity Utilization	-2.4	-0.3	-0.5	--	--	--	--
Unemployment Rate (%)	7.6	8.0	8.5	9.0	8.9	9.0	9.0
Production Plans* (%)	-25.7	-21.7	-15	--	-11	-9	--

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

In October, industrial production (n.s.a., excluding construction) surged in eastern Germany and was 11.2 percent above its level in October 1992, while construction output was up 24.6 percent. Manufacturing output was up 10.1 percent (year/year) in October, led by increases in capital and consumer goods. East German real GDP is estimated to have expanded 6.3 percent in 1993.

Despite significant increases in administrative prices and taxes at the beginning of the year, preliminary estimates indicate that the 12-month increase in consumer prices (n.s.a.) was 3.4 percent in January, down from 3.7 percent in December. Moderation of input prices has helped lower consumer price inflation. Wholesale prices (n.s.a.) were up 0.1 percent on a year/year basis. West German import prices (n.s.a.) edged down in December, and were 1.0 percent below their December 1992 level. The first agreements in the 1994 wage round have been quite moderate. In January, the roughly 700,000 employees in the chemical industry accepted a 2 percent pay increase, a freeze in bonus payments, and a flexible work week.

Consumer prices (n.s.a.) in eastern Germany were unchanged in December, and the 12-month rate of inflation was 8.7 percent, down slightly from the rate registered for the previous five months, and well below the average rate of 11.2 percent in 1992.

In November, M3 registered growth of 7.2 percent (s.a.a.r) over the average of the fourth quarter of 1992, somewhat above its target range of 4-1/2 to 6-1/2 percent. On December 16, the Bundesbank set the 1994 target for M3 growth at 4-6 percent.

According to preliminary figures, the pan-German current account deficit (n.s.a.) in the first eleven months of 1993 was $20.3 billion, down slightly from the $22.4 billion deficit recorded in the same period of 1992, reflecting a large increase in the trade surplus over this period.

French GDP rose 0.8 percent (s.a.a.r.) in the third quarter of 1993, with growth mostly due to continued strength in consumption. Recent monthly indicators point to a weaker fourth quarter on balance. On the expenditure side, consumption of manufactured products (s.a.) was flat in December but fell 2.3 percent in the fourth quarter. Industrial production (s.a.) rose 0.6 percent in November, reversing an October decline. The unemployment rate (s.a.) stabilized at 12 percent in November. A December survey by INSEE, the French statistics institute, showed further improvement in business confidence.

Inflationary pressures remain subdued. The consumer price index in December was 2.1 percent (n.s.a.) above its year-earlier level. Inflation is likely to rise slightly in January with scheduled increases in excise taxes. This good inflation performance has been supported by continued moderate wage growth. The October wage survey showed that hourly wages in the third quarter were 2.8 percent (n.s.a.) above their year-earlier level, the same as the increase registered in the July survey.

The French trade balance continued to record large surpluses. The cumulative surplus registered over the first 11 months of 1993 was $14.0 billion, roughly triple the surplus for the same period a year earlier.

On January 7, the Monetary Policy Council of the Bank of France held its first meeting after its members were announced. The Council will meet twice a month on the Thursdays when the Bundesbank Council does not meet. The nine-member Monetary Policy Council is composed of the Governor of the Bank of France, his two deputies, and six independent members with diverse professional backgrounds. Following a meeting of the Monetary Policy Council on January 27, Governor Trichet announced that the Bank would target M3 growth of around 5 percent over a four year period. Trichet explained that an annual target range was not set because M3 growth is likely to continue to be highly unstable. He also reaffirmed the Bank's goal of keeping the French franc at a level close to its central ERM parity.

The United Kingdom's modest recovery appears to have continued into the fourth quarter. Preliminary estimates indicate real GDP accelerated 2.8 percent (s.a.a.r.) in the fourth quarter on the strength of oil production. Non-oil production increased at the same rate as in the third quarter. The unemployment rate (s.a.) edged down further to 9.8 percent in December, and the Purchasing Managers' Index registered a sharp increase in new orders. In January, indicators of consumer and business confidence picked up.

In December, consumer prices (n.s.a.) were 1.9 percent above year-earlier levels; excluding mortgage interest rates, consumer price inflation was 2.7 percent on a 12-month basis. Producers' input prices in December were lower than a year earlier. Pressures from labor costs have moderated further over the last year. In November, the underlying rate of inflation in earnings remained at 3 percent, the lowest rate in over 25 years; it was down from 5 percent in November 1992.

In October, the trade deficit (s.a.) improved considerably to $868 million from $1.7 billion in September. The cumulative deficit for the first ten months of 1993 was $15.4 billion, down from $18.5 billion in the same period last year.

Economic activity in Italy remains weak. Real GDP fell 1.9 percent (s.a.a.r.) in the third quarter, as domestic demand dropped 3.3 percent. More recent indicators are mixed. Industrial production in October edged up from September's level but remained flat compared with the third-quarter average. The unemployment rate (n.s.a.) rose sharply in the fourth quarter to 14.3 percent, its highest level since unemployment statistics were first reported in 1959. Real retail sales remain flat. On the brighter side, consumer and business confidence are strengthening from depressed levels and the outlook for prospective orders is improving.

Despite depreciation of the lira that occurred in the wake of Italy's exit from the ERM in September 1992, weakness in economic activity has restrained inflation. The CPI inflation rate (Q4/Q4 basis) in 1993 was 4.1 percent, the lowest rate in 24 years.

The low lira and weak economic activity continue to contribute to improvement in Italy's external accounts. Another trade surplus, the ninth in 10 months, was registered in October, bringing the trade surplus for the year to $17.6 billion (s.a.). During the same period in 1992, Italy recorded a $8.9 billion trade deficit. The current account has experienced a similar dramatic turnaround.

On December 22, Parliament approved the 1994 budget in which fiscal consolidation will continue. If the target is met, the deficit as a percent of GDP will drop 1 percentage point from its expected 1993 outturn to 8.7 percent.

On January 16, President Scalfaro dissolved Parliament but rejected the resignation of Prime Minister Ciampi, who will continue in office until new parliamentary elections are held March 27-28.

Recent economic indicators for Canada suggest continued moderate economic growth in the fourth quarter. The index of composite leading indicators strengthened in November and December. Real GDP at factor cost (s.a.) rose 0.1 percent in October, as an increase in service sector output offset a slight-decline in industrial production. After a large increase in October, the merchandise trade surplus narrowed in November. The unemployment rate (s.a.) edged up in December to 11.2 percent, largely from an increase in the labor force. The average unemployment rate for the fourth quarter was 11.1 percent, down from 11.4 percent in the third quarter and 11.5 percent in the fourth quarter of 1992.

Continued slack in the labor market held down average wage settlements for the first three quarters of the year to 0.6 percent, well below the 2.1 percent average in 1992. Slower growth in labor income combined with increases in productivity contributed to a 0.4 percent decline in unit labor costs for the 12 months ending in the third quarter, the first year-over-year decline since 1962. This also represented an improvement in unit labor costs relative to the United States.

Inflation remains modest. The 12-month increase in the consumer price index (n.s.a.) was 1.7 percent in December, below the Bank of Canada's inflation target. The December 12-month increase in the industrial product price index was 3.1 percent.

On December 23, the Bank of Canada announced that Senior Deputy Governor Gordon Thiessen will take over as Governor when John Crow's term expires on January 31. The Bank and the Minster of Finance issued a joint statement on the objectives of monetary policy, including an extension of the inflation targets through 1998 with a 1 to 3 percent range.

Economic Situation in Other Countries

Civil unrest and political transitions have generated economic uncertainty in several of the major developing countries. An armed rebellion temporarily disturbed financial markets in Mexico, while violent demonstrations generated pressure for higher social spending in Argentina. New political scandals and the launch of election campaigns diminished the near-term prospects for significant monetary and fiscal reforms in Brazil. Several key market-oriented ministers resigned from the Russian government, causing a plunge in the ruble due to market expectations of rising inflation.

In China, retail sales and urban prices accelerated sharply in December. On January 1, the Chinese authorities unified the exchange rate system, thereby eliminating a large implicit subsidy to state enterprises. In Taiwan, economic activity has been boosted recently by higher exports to the United States. In Korea, capital inflows and temporary liquidity injections by the central bank have produced a small surge in inflation.

Individual country notes. In Mexico, the cumulative trade deficit for the first eleven months of 1993 was $12.3 billion, about $2 billion less than in the same period of 1992. Exports grew by 12 percent, while imports rose by 5.4 percent. Over the same period, Mexico's bilateral trade deficit with the United States fell to $700 million (at annual rates), from $4.9 billion in 1992.

In the first three quarters of 1993, the current account deficit narrowed by $1 billion relative to the same period of 1992, while the capital account surplus widened by $3.6 billion. Falling interest rates and rising stock prices indicate that capital inflows have accelerated in the wake of ratification of NAFTA by the U.S.

Congress. At the auction of January 26, the twenty-eight day Treasury-bill rate was 10.48 percent, 236 basis points lower than in late November. The Mexico City stock index rose steadily until early January, when an armed uprising in the southern state of Chiapas temporarily depressed the stock market. Stock prices recovered after the government adopted a conciliatory stance toward the rebels. On January 27, the stock index reached an all-time high, more than 25 percent above its level in late November.

Consumer prices in December were 8 percent higher than a year earlier, the lowest annual increase in 22 years. The exchange rate has remained steady since late November.

In Brazil, growth in industrial output slowed to 8 percent in November (year-over-year), down from a recent peak of 17 percent in March. Brazil recorded a trade surplus of $13.1 billion in 1993, down from a surplus of $15.3 billion in 1992. Export growth of 8.1 percent was outpaced by import growth of 25 percent, due to strong internal demand and a real appreciation of the cruzeiro.

In December, creditors holding over 95 percent of Brazil's foreign bank debt agreed to the terms of the $35 billion restructuring package. As a result, Brazil made a payment of $160 million on its interest arrears. Substantial uncertainty remains about the prospects for an agreement with the IMF, which would facilitate the implementation of the debt restructuring package by the April 15 deadline. Congress is presently considering budgetary cuts proposed by Finance Minister Cardoso in December. However, in the wake of new political scandals and the launching of campaigns for general elections in late 1994, the Brazilian government appears unlikely to enact significant fiscal and monetary reforms this year.

Reflecting the current political impasse, Brazil continues to experience high and rising inflation. Consumer prices rose 37.7

percent in December, up from November's inflation rate of 36 percent. At the end of 1993, consumer prices were more than 2,500 percent higher than a year earlier.

In Argentina, the cumulative trade deficit through October was $1.3 billion, up slightly from $1.1 billion over the same period of 1992. Exports grew by 7.2 percent over this period, spurred by higher automobile and oil shipments to Brazil, while imports rose by 7.7 percent. The consumer price index was unchanged in December, and stood 7.4 percent higher than a year earlier.

The semi-annual household survey reported unemployment at 9.3 percent in October, down from 9.9 percent in May, but still much higher than the 6.6 percent rate of October 1992. Provincial governments have been forced to slash payrolls in recent months under a new fiscal arrangement with the federal government. These payroll reductions, combined with a generally weak labor market, contributed to the outbreak of violent demonstrations in two rural provinces in mid-December.

In late December, the Menem administration announced a package of payroll tax reductions to stimulate the labor market and enhance Argentina's external competitiveness. The current payroll tax rate of 33 percent (including pension, health, and unemployment insurance) will be reduced to less than 10 percent in the poorest rural provinces and to about 22 percent in the wealthiest urban provinces. The recent civil unrest has also generated pressure to improve the social safety net. However, under the final year of its IMF program, the government has agreed to target the primary fiscal surplus at 2 percent of GDP in 1994, up from 1.7 percent in 1993. Thus, the authorities are working to increase the efficiency rather than the volume of social welfare expenditures.

China's economy is estimated to have grown by 13 percent in 1993, almost the same pace as in 1992. Urban prices rose by 19.6 percent in 1993, up from 10.9 percent in 1992. Boosted by panic buying, retail sales in December were up 30 percent from the previous month, and were 35 percent higher than in December 1992. The government has announced its intention to restrain growth to less than 10 percent this year, with a tighter rein on inflation, but such plans have routinely been contravened in the recent past.

The Chinese authorities unified the official and swap market exchange rates on January 1, thereby eliminating a 33 percent implicit import subsidy. Since many state enterprises depend heavily on imported inputs such as energy, the unified exchange rates will intensify competitive pressures on these enterprises. The spot market exchange rate has remained steady at about 8.7 yuan per dollar since last autumn, despite the ongoing rise in inflation.

The Chinese government resolved a dispute with the United States over textiles transshipment by agreeing to slow Chinese deliveries under textile quotas. The government also released two prominent Tibetan political prisoners and agreed to permit prison inspections, as U.S. officials have publicly questioned whether lack of Chinese progress on human rights issues will prevent President Clinton from renewing China's MFN status in June. Secretary Bentsen's recent visit to China focussed on encouraging the Chinese authorities to pursue policies that will yield stable and sustainable growth and to maintain open markets for goods and services.

Taiwan's GNP grew by 6 percent in 1993, down slightly from 6.5 percent in 1992. Weak exports and lower infrastructure spending contributed to the growth slowdown, but economic activity has been boosted recently by higher exports to the United States. The merchandise trade surplus shrank to $7.9 billion in 1993, its lowest level in ten years, as exports grew by 4 percent and imports grew by 7 percent. Consumer prices rose by 2.9 percent during 1993.

In Korea, strong capital inflows from abroad coupled with large-scale injections of liquidity by the central bank have rekindled fears of inflation. Consumer prices in December were 5.8 percent higher than a year earlier, up from 4.6 percent in September. Meanwhile, the composite stock price index has risen by more than 20 percent since June. The Seoul bourse received $5.7 billion in foreign funds in 1993, with most of the inflow occurring in the last four months of the year.

Merchandise exports through the first 11 months of 1993 were 7.3 percent higher than in the same period of 1992, while imports were only 1.6 percent higher. The current account deficit through November 1993 narrowed to $330 million, down from $4.4 billion over the same period of 1992.

Korea recently announced plans to privatize numerous state-owned companies and banks over the next five years. The privatization effort is expected to generate about $8.7 billion in revenue, which will primarily be directed toward infrastructure development.

In Russia, a run on the ruble was sparked by the resignations of Economy Minister Yegor Gaidar, Finance Minister Boris Fyodorov, and other market-oriented officials. Gaidar and Fyodorov expressed concern that the government would reverse the economic stabilization and reform measures enacted last year. The new Economy Minister, Alexander Shokhin, has stated his support of tight monetary policy but has also indicated support for higher import tariffs and restrictions to protect the domestic banking industry. Viktor Gerashchenko is expected to continue as head of the Central Bank of Russia.

In response to these developments, the ruble plunged from 1247 per dollar on January 1 to 1542 per dollar on January 27, reflecting fears of market participants that the government would increase its reliance on money finance. Over the three weeks ending on January 27, the Central Bank of Russia defended the ruble by injecting about $1 billion into the exchange market, comprising nearly 25 percent of its foreign exchange reserves. Monthly inflation declined significantly to 12 percent in December, but early reports indicate that inflation has increased substantially in January.