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## **Part 2**

January 26, 1996

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

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

Confidential (FR) Class III FOMC

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January 26, 1996

## **RECENT DEVELOPMENTS**

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# **DOMESTIC NONFINANCIAL DEVELOPMENTS**

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## DOMESTIC NONFINANCIAL DEVELOPMENTS

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As 1996 began, the economy appeared to be expanding, but only slowly. Data are lagging because of the December and January government shutdowns, but the available information indicates fairly clearly that manufacturing activity has been on the soft side recently--owing in part, we suspect, to efforts by businesses in a number of sectors to curb inventory accumulation. Even so, the labor market remained fairly taut, at least through December, with growth in jobs continuing at a moderate clip; hourly earnings figures last year hinted at some firming in wages. Because of the delays in the PPI and CPI releases, we have no timely statistical information on broad price movements; apart from pressures in agricultural and energy markets, however, the price inflation picture still appears fairly calm.

### Labor Market Developments

Labor market conditions were little changed in December and remained in line with those generally prevailing over the second half of 1995. Nonfarm payroll employment expanded 150,000, and the unemployment rate stayed at 5.6 percent. Although aggregate hours of private production or nonsupervisory employees fell 0.2 percent last month, the increase in the quarterly average of this measure of labor input, 2.1 percent, was about the same as that in the third quarter.

Several statistical problems raise some uncertainty about the reliability of the estimated changes in payrolls for recent months. Because of the federal government shutdown, the BLS was unable to incorporate the additional responses to the November payroll survey into revised levels of employment, hours, and earnings for November. However, in estimating the change in employment from November to December, the BLS was able to match the expanded set of responses

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

	1994	1995	1995			1995		
			Q2	Q3	Q4	Oct.	Nov.	Dec.
	-----Average monthly changes-----							
Nonfarm payroll employment <sup>2</sup>	294	141	82	128	128	66	166	151
Private	273	132	70	116	126	73	183	122
Manufacturing	30	-12	-32	-35	0	-21	-30	52
Strike-adjusted	31	-13	-33	-34	-4	7	-29	11
Durable	25	3	-12	-8	14	-7	-16	65
Transportation Equipment	2	-3	-5	-5	-2	-25	-20	40
Nondurable	5	-16	-20	-27	-14	-14	-14	-13
Construction	30	11	-9	11	14	25	2	14
Trade	75	27	24	42	22	11	91	-37
Finance, insurance, real estate	4	6	-3	9	14	20	13	9
Services	117	92	87	88	64	29	94	69
Business services	46	25	6	52	14	7	6	30
Total government	21	9	12	12	2	-7	-17	29
Private nonfarm production workers	242	111	54	103	91	111	48	113
Manufacturing production workers	31	-10	-31	-26	3	-25	-13	46
Total employment	326	28	-263	218	-79	259	-389	-106
Nonagricultural	289	47	-181	278	-90	77	-210	-136
Memo:								
Aggregate hours of private production workers (percent change)	.4	.1	.0	.2	.0	.6	-.4	-.2
Average workweek (hours)	34.7	34.5	34.4	34.5	34.5	34.6	34.5	34.4
Manufacturing (hours)	42.0	41.6	41.5	41.5	41.5	41.5	41.5	41.4

1. Average change from final month of preceding period to final month of period indicated.

2. Survey of establishments.

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

	1994	1995	1995			1995		
			Q2	Q3	Q4	Oct.	Nov.	Dec.
Civilian unemployment rate (16 years and older)	6.1	5.6	5.7	5.6	5.6	5.5	5.6	5.6
Teenagers	17.6	17.4	17.2	17.8	17.8	17.1	17.9	18.3
Men, 20 years and older	5.4	4.8	4.9	4.8	4.8	4.5	4.9	4.9
Women, 20 years and older	5.4	4.9	5.0	5.0	4.8	5.0	4.8	4.6
Full-time workers	6.1	5.5	5.6	5.6	5.5	5.4	5.6	5.5
Labor force participation rate	66.6	66.6	66.6	66.6	66.4	66.6	66.4	66.3
Teenagers	52.7	53.6	54.0	53.6	52.8	53.0	52.7	52.8
Men, 20 years and older	76.8	76.7	76.8	76.5	76.3	76.4	76.3	76.2
Women, 20 years and older	59.3	59.4	59.3	59.6	59.5	59.7	59.6	59.3

for November with a relatively good initial set of December reports that the states had taken more time to collect and verify during the delay. Thus, the reported estimates of November-to-December changes in the payroll series may be more reliable than the levels reported for either month. Nonetheless, because the BLS had to deviate from its normal procedures in processing the data, we suggest interpreting all the recent payroll series with some caution, although we have no basis for thinking the alternative approach has biased the estimates either up or down.

On a different statistical issue, the BLS suggested that some seasonal hiring that would normally have been captured in December may have been picked up by the relatively late November survey, tending to inflate the October-to-November change in employment and to understate the November-to-December change. Although this effect is modest overall--perhaps 25,000--it is most significant for several series that are particularly sensitive to seasonal hiring, such as retail trade and amusement services; for these, the net change from October to December should provide a more reliable estimate of recent trends.

Although job growth in the private sector from November to December may have been understated, because of the timing of the November survey, it was also boosted by the return of 40,000 striking workers to Boeing and Caterpillar payrolls.<sup>1</sup> On net, private employment expanded in December roughly in line with the average monthly gain during the second half of 1995 of around 120,000. Factory employment edged up 11,000 (strike-adjusted) after having declined almost 30,000 per month (strike-adjusted) over the

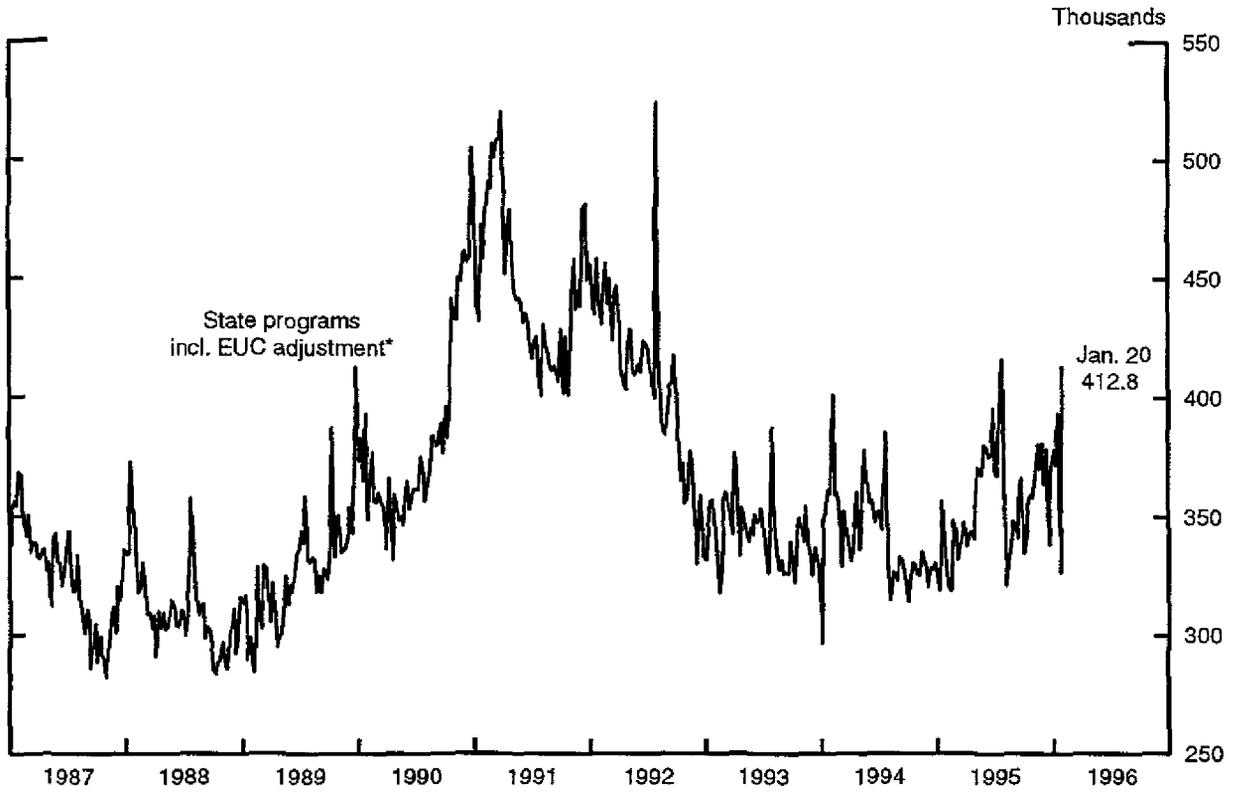
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1. Although 10,000 strikers returned to jobs at Caterpillar, we understand from our industry contact that these rehires are not intended to represent an expansion of the workforce. The gain in employment in December will be retraced as replacement workers who were temporarily employed during the prolonged labor dispute are laid off.

# Unemployment Insurance

(Weekly data; seasonally adjusted; BLS basis)

Initial Claims



Insured Unemployment



Note. Only the state program components of these series are seasonally adjusted.  
 \* Beginning July 18, 1992, includes initial claims filed under the emergency unemployment benefits program by individuals also eligible to file under regular programs. The EUC program ended on April 30, 1994.  
 \*\* Includes staff estimates of emergency benefits recipients who are also eligible to file under regular programs.

previous eight months. All of the gains occurred in durable goods industries, such as lumber, furniture, motor vehicles, fabricated metals, and electrical equipment; jobs in nondurables, such as apparel textiles, and chemicals, continued to contract. Elsewhere in the goods-producing sector employment in contract construction rose 14,000, despite reports of unfavorable weather, owing to gains in "indoor" special trades.

Employment in the services industry rose at a relatively moderate pace; excluding the seasonally sensitive amusement industry, which lost 44,000 jobs between October and December, employment in services rose about 100,000 per month in each of the past two months. Growth remained solid in health, engineering and management, and computer services, but employment in help supply services, which had expanded sharply in both 1993 and 1994, was little changed in December and posted a net gain of only 39,000 for all of 1995. Elsewhere, employment at retailers was up 34,000, on net, between October and December, although major job losses occurred at department stores (-55,000) and apparel and accessory outlets (-22,000)

In December, average weekly hours dropped to 34.4 hours, the low end of the range within which this measure has fluctuated since July 1995. The fall in hours was widespread. Both average weekly hours and average weekly overtime hours in manufacturing fell 0.1 hour in December, to 41.4 and 4.3 hours respectively. Over the year, the factory workweek dropped 0.8 hour from its exceptionally high level at the end of 1994.

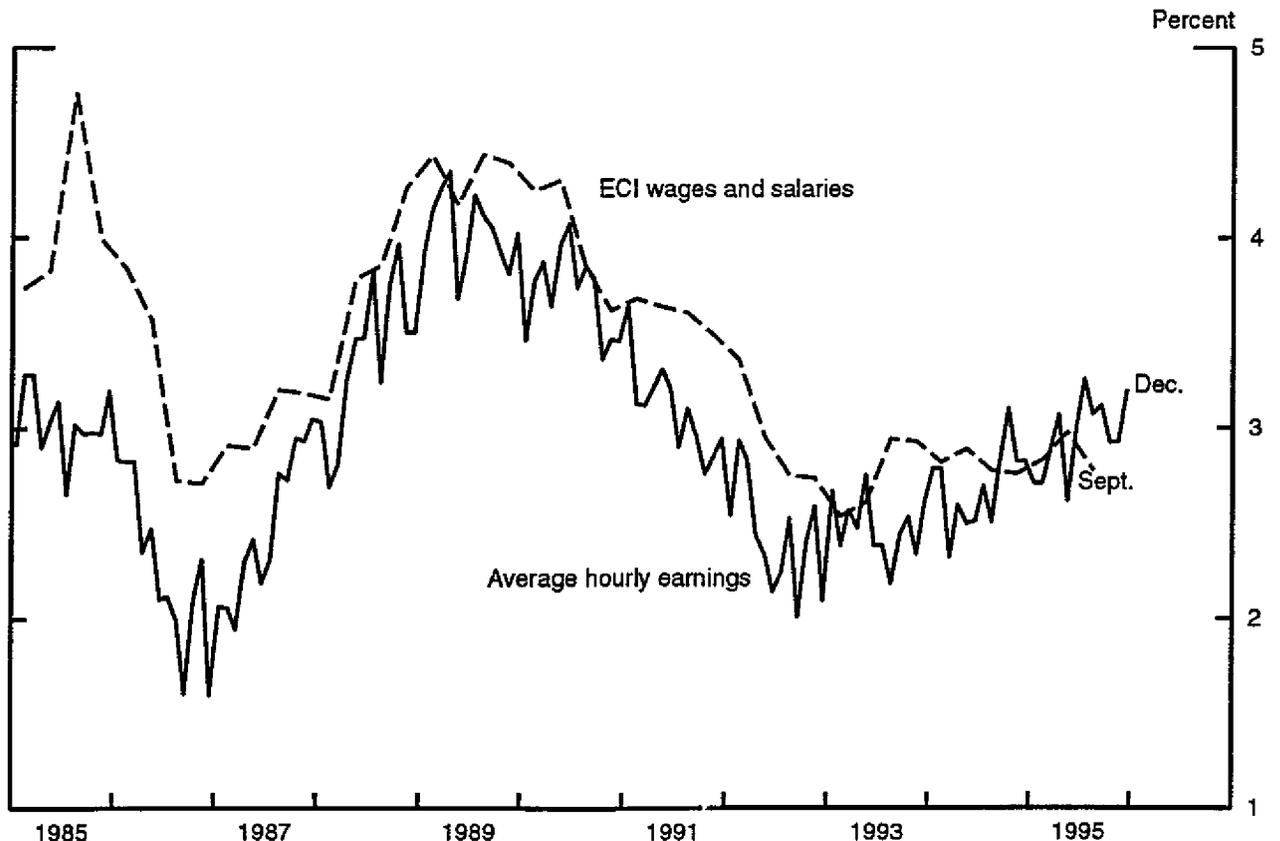
The household survey showed the aggregate unemployment rate holding steady, with employment and unemployment falling 106,000 and 32,000 respectively. Because of the government shutdown, the nonresponse rate in December's Current Population Survey was

**AVERAGE HOURLY EARNINGS**  
(Percentage change; based on seasonally adjusted data)<sup>1</sup>

	1994	1995	1995			1995		
			Q2	Q3	Q4	Oct.	Nov.	Dec.
			-Annual rate-			-Monthly rate-		
Total private nonfarm	2.8	3.2	3.2	3.9	3.2	.3	.0	.4
Manufacturing	2.2	2.9	2.3	3.6	2.9	.2	.2	.3
Durable	2.0	2.1	.3	4.1	1.9	.0	.1	.4
Nondurable	2.3	3.8	3.9	3.5	4.9	.6	.1	.5
Contract construction	2.4	1.9	5.5	1.1	-.8	.0	.3	-.5
Transportation and public utilities	2.3	2.9	4.6	2.8	2.8	.9	.1	-.3
Finance, insurance, and real estate	3.4	4.4	4.7	5.0	2.9	.9	-.6	.4
Total trade	3.0	3.3	3.2	4.5	4.0	.2	.0	.8
Services	2.9	3.5	2.9	3.6	4.6	.7	-.3	.7

1. Annual and quarterly changes are measured from the final month of the preceding period to the final month of the period indicated.

**Earnings of Production and Nonsupervisory Workers**  
(Twelve-month change)



somewhat above average--9.2 percent versus a norm of 6.2 percent to 7.2 percent. Although the estimates have greater sampling error than usual, BLS uncovered no signs that the quality of the data was significantly compromised. Unemployment rates for major demographic groups were little changed at 4.9 percent for adult men, 4.6 percent for adult women, and 18.3 percent for teenagers. The labor force participation rate edged down another 0.1 percentage point, to 66.3 percent, the lowest reading in 1995.

Recent data on unemployment insurance claims suggest little change in labor market conditions between mid-December and mid-January. The four-week moving average of state initial claims has fluctuated narrowly since the week ending December 9 between 362,750 and 378,500, and stood at 374,000 for the week ending January 20. Delayed filings in areas affected by the East Coast storm likely caused the wide fluctuations in initial claims during the latest two weeks. The number of beneficiaries reported as insured under state programs was less affected by the weather and, at 2.77 million for the week ending January 13, was up about 150,000 from its mid-December level.

Average hourly earnings increased 0.4 percent in December after having been unchanged in November. On a year-over-year basis, this wage measure was up 3.2 percent in December, compared with its 1994 rise of 2.8 percent. During the second half of 1995, the trend in average hourly earnings accelerated to a rate somewhat above the trend in the ECI for wages of nonproduction workers. (The ECI for December 1995, which was originally scheduled to be released on January 30, is now scheduled for release on February 13.)

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

	Proportion 1995:Q4	1994 <sup>1</sup>	1995 <sup>1</sup>	1995		1995		
				Q3	Q4	Oct.	Nov.	Dec.
				-Annual rate-		--Monthly rate---		
Total index	100.0	6.6	1.6					
Previous		6.6						
Manufacturing	86.5	7.6	1.5	2.6	1.7	-.4	.2	.1
Motor veh. and parts	5.5	8.6	-2.7	.6	-.8	-2.5	.6	.3
Aircraft and parts	1.7	-7.9	-17.2	-9.0	-43.6	-11.2	-4.5	4.1
Manufacturing excluding motor vehicles, aircraft, and parts	79.2	8.0	2.3	3.1	3.3	.1	.3	.0
Consumer goods	23.1	4.7	.0	2.7	-.3	-.3	-.1	-.4
Durables	3.7	6.4	-.2	4.4	4.6	-1.2	1.2	.9
Nondurables	19.4	4.4	.1	2.4	-1.1	-.1	-.3	-.7
Business equipment	13.7	13.1	7.9	7.4	9.3	.7	.9	.6
Office and computing	3.0	29.6	35.4	23.9	41.7	3.3	3.4	2.2
Industrial	4.3	8.6	3.4	6.4	2.4	-.1	.5	-.3
Other	6.1	8.4	.9	2.2	-.4	-.4	.4	-.1
Defense and space equipment	1.7	-10.5	-6.9	-2.6	-15.2	-1.5	-2.0	-1.0
Construction supplies	5.3	8.0	-.7	1.1	4.6	-.4	.6	.8
Materials	28.8	10.5	3.6	2.3	5.3	.2	.5	-.1
Durables	20.3	12.1	6.4	8.2	8.4	-.2	1.4	-.3
Nondurables	8.2	6.9	-2.4	-9.5	-1.3	1.1	-1.4	.3
Mining	6.0	1.2	-2.3	-1.8	-9.5	-2.0	-.3	-.2
Utilities	7.6	.2	6.7	14.2	-.3	.5	1.5	.4
Memo:								
Information-related products <sup>2</sup>	11.3	20.7	21.6	21.0	23.5	1.8	1.8	1.0

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

2. Includes computer equipment, computer parts, semiconductors, communications equipment, and selected instruments.

CAPACITY UTILIZATION  
(Percent of capacity; seasonally adjusted)

	1988-89	1967-95	1994	1995		1995		
	High	Avg.	Q4	Q3	Q4	Oct.	Nov.	Dec.
Total industry	84.9	82.1	84.7	83.6	82.9	83.0	83.0	82.8
Manufacturing	85.2	81.4	84.3	82.6	82.0	82.2	82.1	81.8
Primary processing	89.0	82.6	89.3	86.5	86.1	86.1	86.3	86.0
Advanced processing	83.5	80.7	82.1	80.9	80.3	80.5	80.3	80.1

Industrial Production

Industrial production is estimated to have edged up just 0.1 percent in December. The end of the strike at Boeing at mid-month and an increase in motor vehicle assemblies propped up the December index a bit. Excluding these factors, factory output was lackluster, on balance, at year-end. Production of nondurable consumer goods and industrial equipment declined last month, and the expansion of output of information-related products, mainly semiconductors, slowed.

The factory operating rate dropped to 81.8 percent in December, about 1/2 percentage point above its long-term average. Since the beginning of 1995, utilization rates for most major manufacturing industries have eased, the exception being the industrial machinery and computer equipment industry. However, utilization in primary processing industries remained at a relatively high 86.1 percent rate in the fourth quarter, with operating rates above 1988-89 highs for primary metals and petroleum products.

After increasing for a second consecutive month in December to 11.9 million units (annual rate), motor vehicle assemblies appear to have dropped back sharply in January. Weekly production data through January 26 suggest that assemblies are running at a 10.9 million unit rate, well below plans that stood at 11.7 million units earlier this month. While a small part of the downshift in output, about 200,000 units (annual rate) occurred during the blizzard, the bulk of the change in assemblies was the result of plant shutdowns later in the month to control inventories, which were uncomfortably high at the end of 1995.<sup>2</sup> Our contacts in

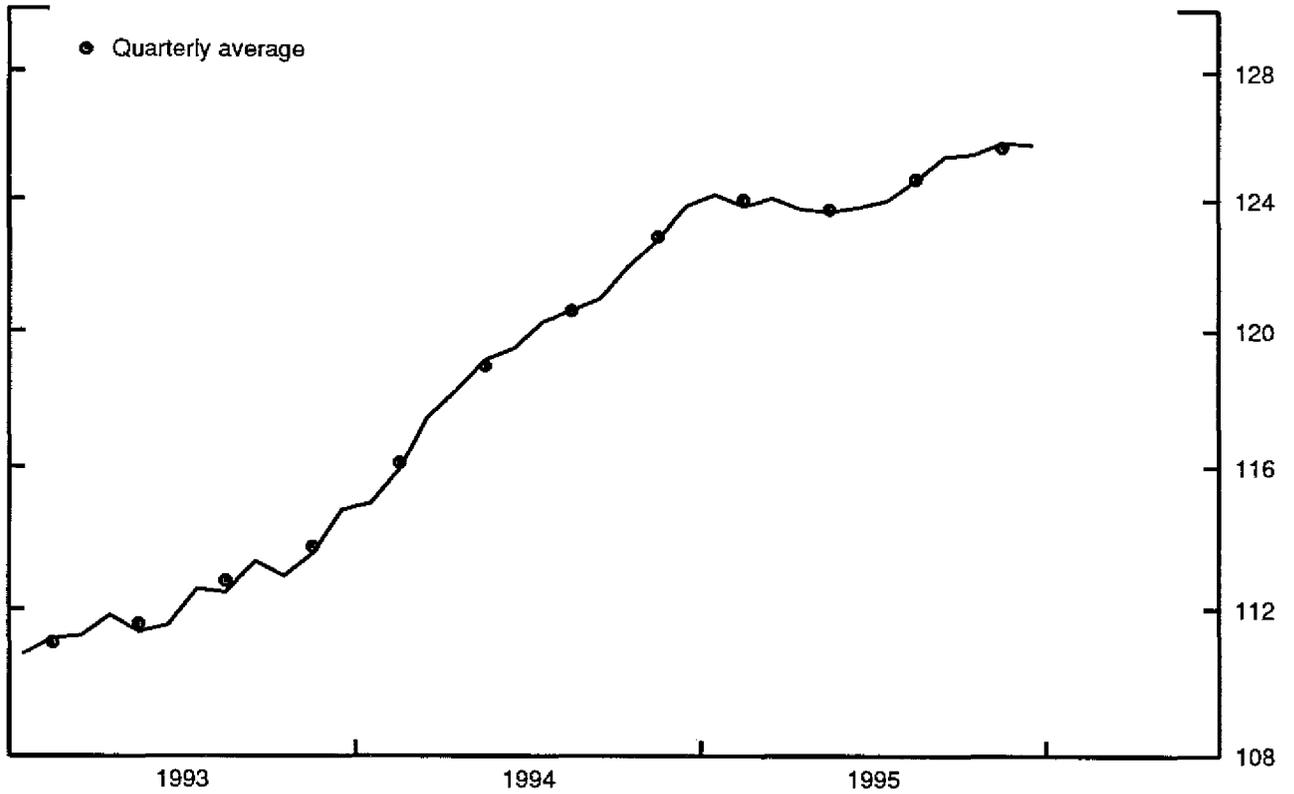
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2. Part of the December decrease in days' supply, shown in the table, is due to the use of sales reports that were inflated by extending the reporting period into January. In this instance, a more reasonable representation of the industry's inventory position at year-end is a comparison of end-of-period stocks to average sales for the quarter.

# Manufacturing Activity

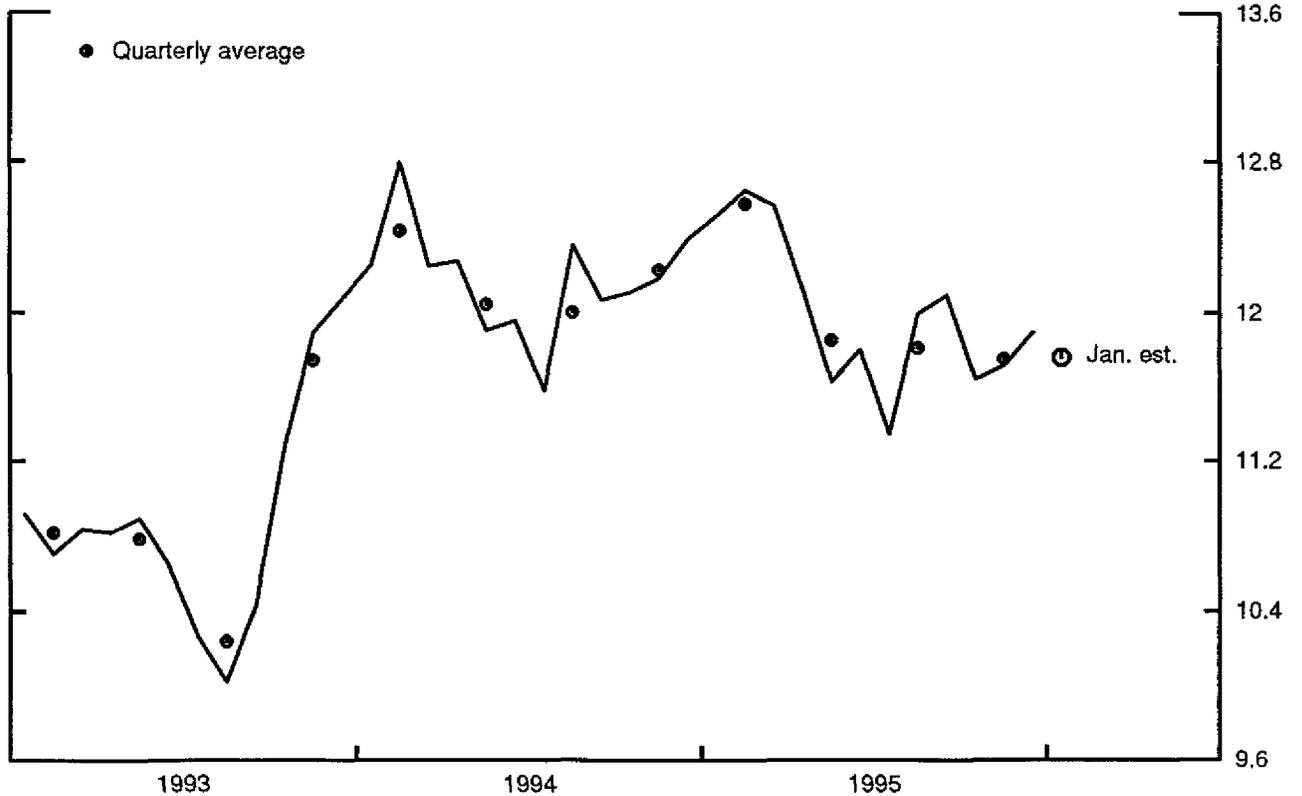
Manufacturing Industrial Production  
excluding Motor Vehicles, Aircraft and Parts

Ratio scale, 1987=100



Motor Vehicle Production  
FRB Seasonals

Millions of units



the motor vehicle industry indicate that scheduled production of 11.9 million units (annual rate) in February and March is being revised. At this point, we have only been able to confirm that Chrysler will shave 170,000 units (annual rate) from its February plan; Ford and GM have not yet provided official figures.

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

	1995			1996	
	Nov.	Dec.	Q4	Jan. <sup>e</sup>	Feb-Mar. <sup>s</sup>
U.S. production	11.7	11.9	11.7	10.9	11.9
Autos	6.1	6.1	6.1	5.5	6.0
Trucks	5.6	5.8	5.6	5.4	5.9
Days' supply					
Autos	71.7	65.5	69.3	n.a.	n.a.
Light trucks	72.2	66.7	71.8	n.a.	n.a.

Note: Components may not sum to totals because of rounding; figures for days supply for Q4 are end of year stocks relative to sales for the quarter.

e Staff estimate based on four weeks of data.

s Schedules as of January 19.

n.a. Not applicable.

Anecdotal reports and available statistical indicators suggest that industrial activity outside the motor vehicle sector remained sluggish in January. The forward-looking orders components of the national and regional purchasing managers indexes released early in the month pointed to a further slowing of the manufacturing sector early this year. With four weeks of estimates available for January, our weekly index of indicators of non-auto physical product, which covers about a sixth of the IP index, is likely to edge down; declines in electricity generation, coal, paper, lumber, and appliances appear to be offsetting increases in steel and petroleum products. Nevertheless, IP in January will be boosted

**SALES OF AUTOMOBILES AND LIGHT TRUCKS<sup>1</sup>**  
(Millions of units at an annual rate; FRB seasonals)

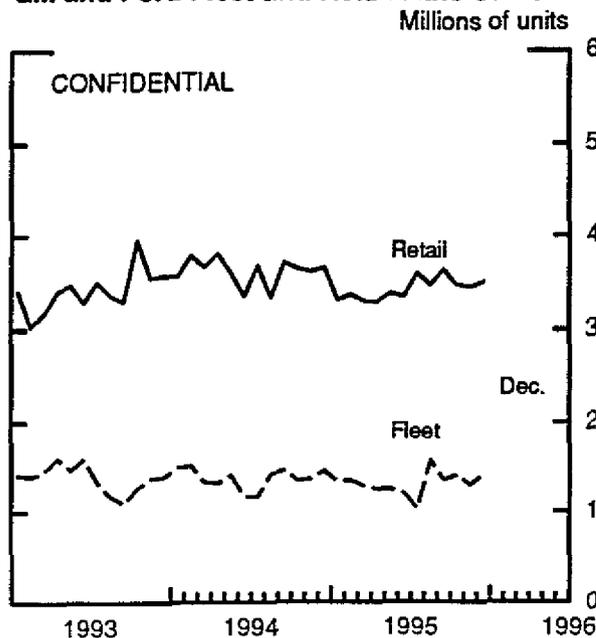
	1994	1995	1995			1995		
			Q2	Q3	Q4	Oct.	Nov.	Dec.
<b>Total</b>	15.0	14.7	14.4	15.0	15.0	14.1	14.8	15.9
(BEA seasonals)	15.0	14.7	14.4	14.7	15.0	14.4	14.7	16.0
<b>Autos</b>	9.2	8.8	8.7	9.2	8.9	8.6	8.7	9.4
<b>Light trucks</b>	5.8	5.9	5.7	5.9	6.0	5.6	6.0	6.5
<b>North American<sup>2</sup></b>	12.9	12.8	12.5	13.2	13.1	12.4	13.0	14.0
Autos	7.3	7.1	6.9	7.5	7.3	7.0	7.1	7.7
Big Three	5.7	5.4	5.3	5.6	5.5	5.5	5.4	5.5
Transplants	1.5	1.7	1.6	1.9	1.8	1.5	1.7	2.2
Light trucks	5.7	5.7	5.5	5.7	5.9	5.4	5.9	6.3
<b>Foreign produced</b>	2.1	1.9	2.0	1.9	1.8	1.7	1.8	1.9
Autos	2.0	1.7	1.8	1.7	1.7	1.6	1.6	1.8
Light trucks	.2	.2	.2	.1	.2	.2	.2	.2

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

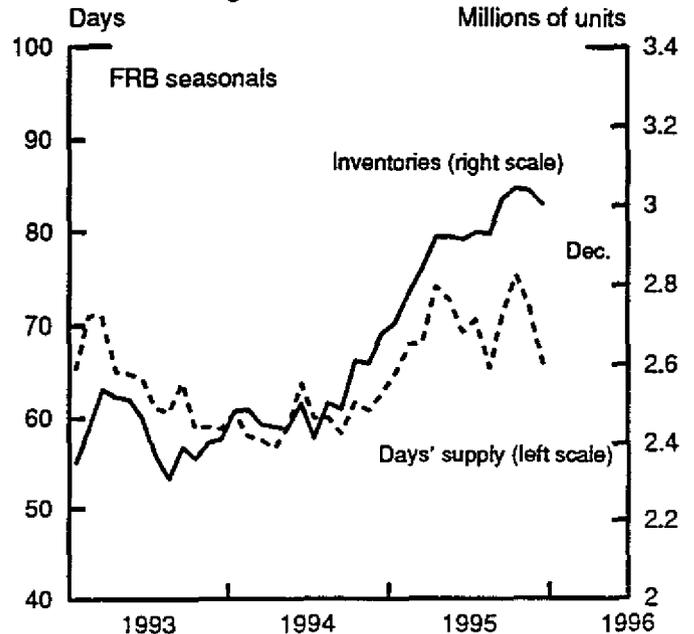
1. Components may not add to totals because of rounding.

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

**GM and Ford Fleet and Retail Auto Sales**



**Domestic Light Vehicle Inventories**



about 1/4 percentage point by the return to full production at Boeing.<sup>3</sup>

At this point, we do not believe that the blizzard that struck the East Coast at mid-month will seriously depress industrial production for January: Most businesses contacted by staff of the Board and the five Reserve Banks on the East Coast indicated that much of any weather-related downtime likely would be made up later in the month. Important exceptions were motor vehicle producers, as noted above, and makers of home appliances, televisions, and lighting and wiring products who do not intend to make up storm-induced output losses. In addition, and unrelated to the storm, industry contacts noted the persistence of outsized inventories for aluminum mill products and coated paper and softer demand for basic capital goods.

#### Motor Vehicles

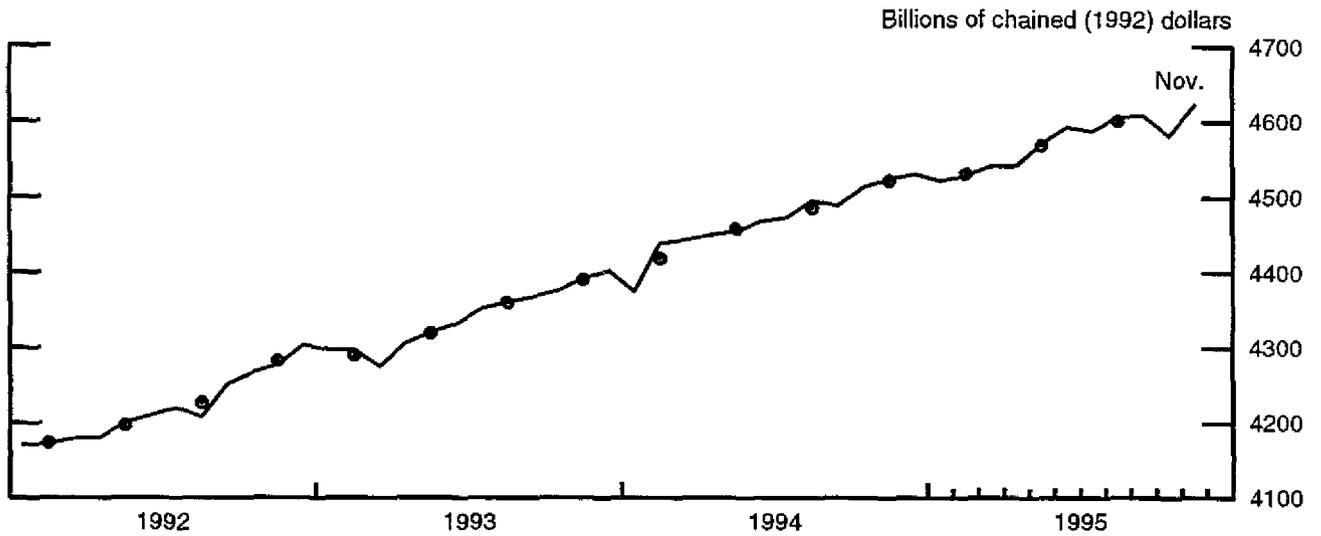
Sales of light vehicles reportedly surged in December to a 15.9 million unit annual rate, from the 14.8 million unit rate registered in November. The reported increase in total light vehicle sales last month was overstated by roughly 1/2 million units because major firms (except Ford) extended their December reporting periods by one or two days into January; reported January sales will be held down as a result. Even after adjustment of December sales for variations in reporting periods, the estimated pace of sales last month—closer to 15-1/4 million units—was relatively robust. Consumer incentives helped push up automobile and truck sales of General Motors, Chrysler, and Japanese models. Sales at Ford, whose incentives were less generous, fell a bit. Confidential data from automakers suggest that Ford relied on fleet sales last month to keep total sales from falling further, while GM experienced gains in

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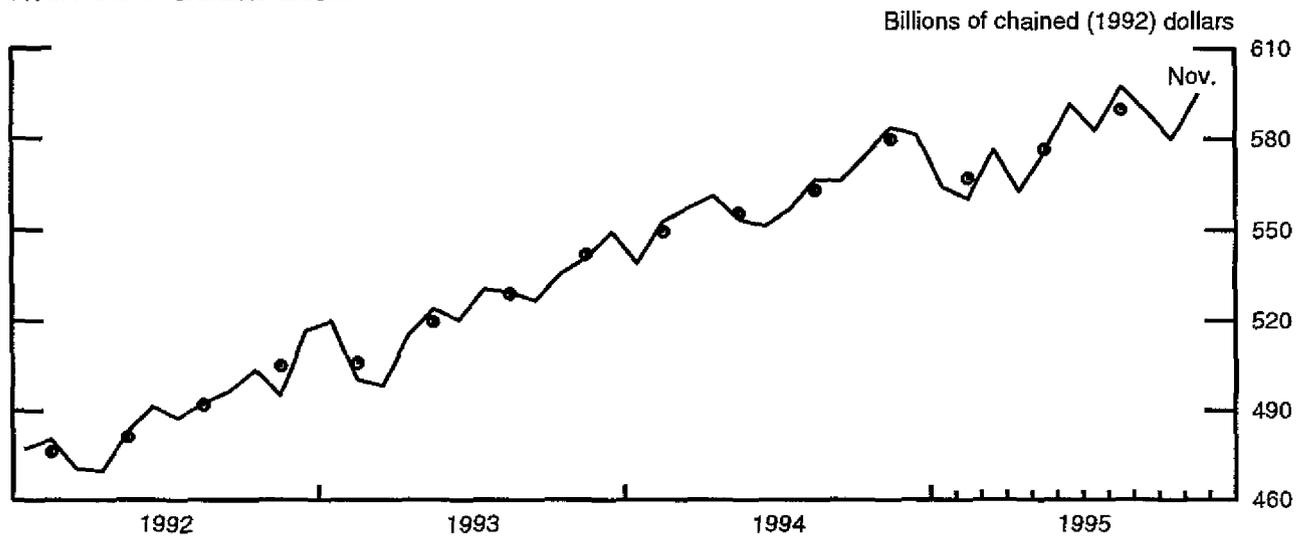
3. The level of production in December retraced only one-fourth of the cumulative drop during the strike that began last October.

## Personal Consumption Expenditures

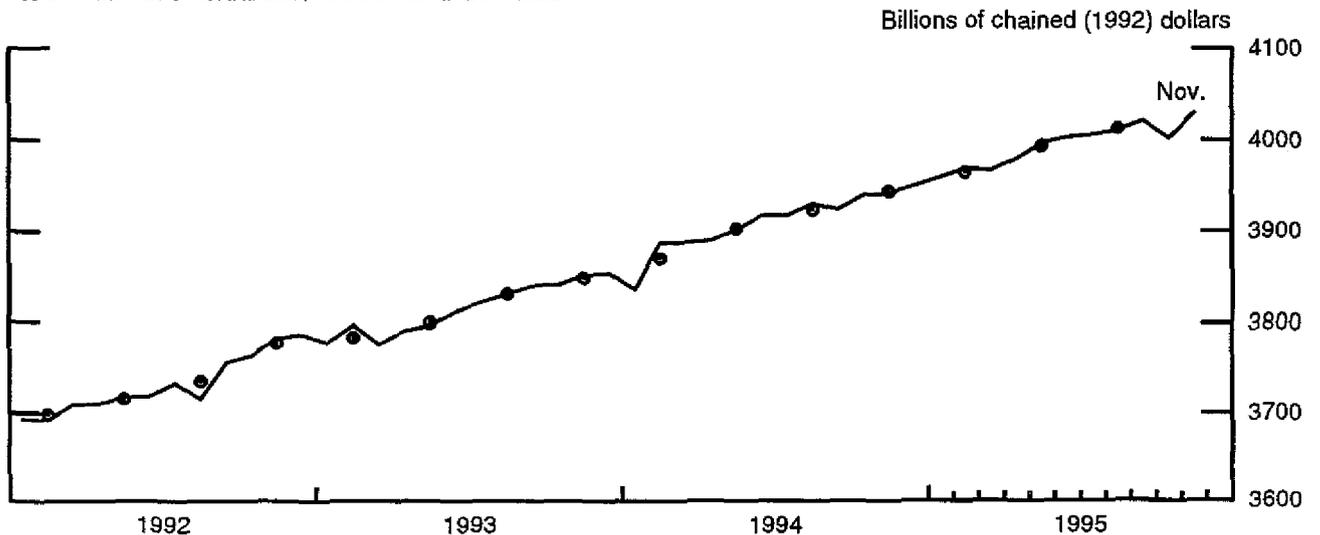
Total Real PCE



Real PCE for Durable Goods



Real PCE for Nondurable Goods and Services



both retail and fleet sales. Sales of light vehicles totaled 14.8 million units for all of 1995, compared with 15.0 million units in 1994.

Producers indicate that underlying demand weakened in January, mainly for autos rather than light trucks. Many firms are reluctant to abandon generous incentive packages. Ford has recently joined the others by offering a package of incentives on about 60 percent of its volume, including the 1996 Taurus; Chrysler is poised to sweeten its incentive package on autos to match Ford. The preliminary report from the January Michigan Survey bear out the producers' sense that demand has softened. Households' appraisals of buying conditions for cars plunged after having held in a reasonably favorable range throughout most of 1995. The survey's respondents cited less-favorable economic conditions among reasons for their sour views on car buying. In the December Conference Board Survey, the percentage of respondents planning to buy a new car remained unchanged.

#### Personal Income and Consumption

One notable casualty of the government shutdown is the availability of timely data on non-auto consumer spending. Real personal consumption expenditures increased 0.9 percent in November after a 0.6 percent decline in October, and estimates of total PCE growth in August and September were revised downward. The level of total real PCE in November was about 1/2 percent above the third-quarter average. After two months of decline, spending on durable goods jumped sharply in November owing to large increases in spending on both motor vehicles and other durable goods. Real spending on nondurables, although up in November, was only fractionally above its third-quarter level. However, spending on services moved noticeably above the recent trend because of the

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

	Nov. 93	Nov. 94	1995		1995	
	to Nov. 94	to Nov. 95	Q2	Q3	Oct.	Nov.
Total personal income	27.1	27.3	23.2	22.5	45.2	11.5
Wages and salaries	13.8	14.2	12.2	15.3	30.1	-3.3
Private	12.2	12.7	11.0	14.1	30.0	-3.8
Other labor income	1.7	1.9	1.4	1.3	1.5	1.5
Proprietors' income	2.8	1.6	1.6	1.9	4.6	1.1
Farm	-.3	-.2	-.1	.1	1.6	.6
Rent	1.4	.2	1.1	-2.0	3.7	3.5
Dividend	1.2	1.2	.8	1.5	2.1	2.4
Interest	3.3	3.7	2.9	1.4	1.0	.9
Transfer payments	4.3	5.9	4.2	4.4	4.0	5.3
Less: Personal contributions for social insurance	1.5	1.4	.9	1.2	1.9	-.1
Less: Personal tax and nontax payments	3.5	5.2	5.5	4.6	4.4	-1.0
Equals: Disposable personal income	23.6	22.1	17.7	17.9	40.7	12.5

**REAL PERSONAL CONSUMPTION EXPENDITURES**  
(Percent change from the preceding period)

	1994	1995			1995	
		Q1	Q2	Q3	Oct.	Nov.
		-----Annual rate-----			Monthly rate	
Personal consumption expenditures	3.0	.8	3.4	2.9	-.6	.9
Durable goods	7.0	-8.7	7.0	9.5	-1.6	2.5
Nondurable goods	3.6	2.4	1.9	.5	-.9	.7
Services	1.9	2.1	3.4	2.7	-.2	.7
Memo:						
Personal saving rate (percent)	3.8	4.8	4.0	4.1	5.2	4.5
Real disposable income	2.6	3.6	.0	3.6	.5	.2

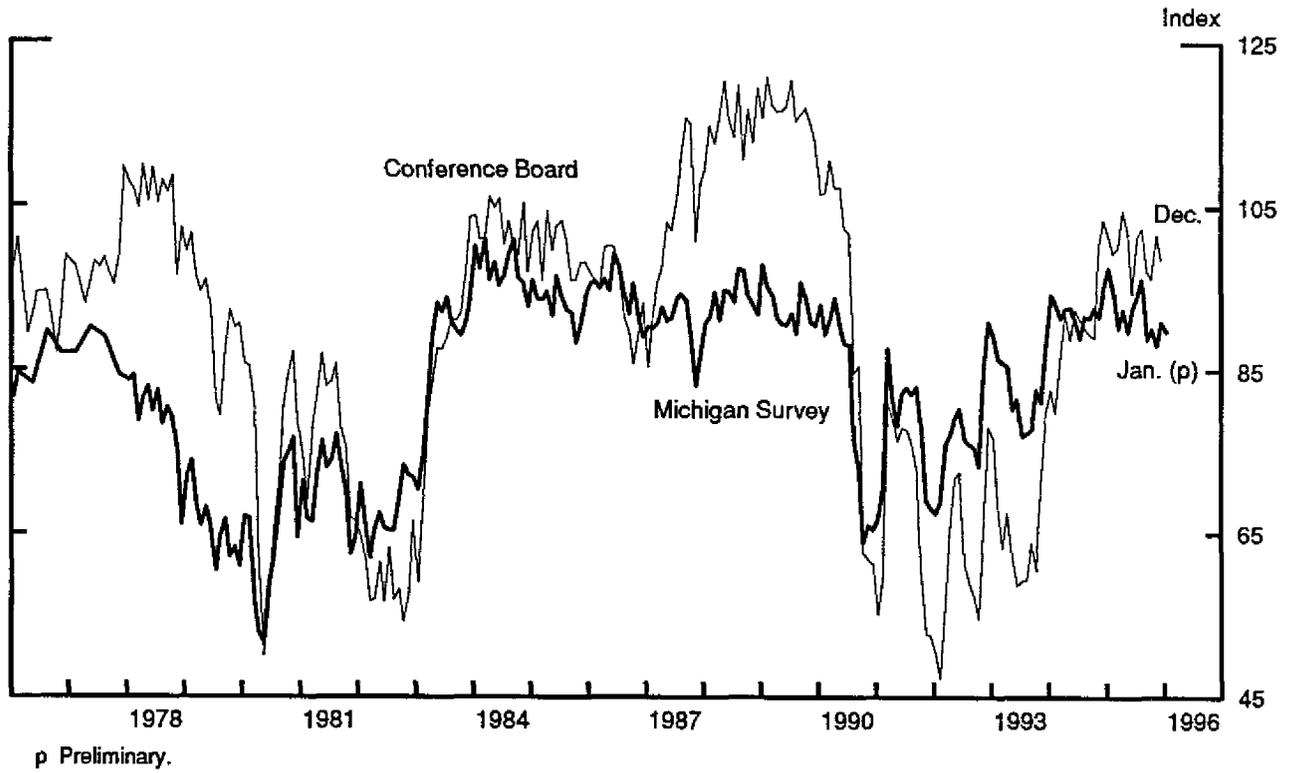
effect of somewhat colder than average temperatures on outlays for electricity and natural gas.

Anecdotal reports and statistical indicators from private sources available for December indicate that the strength of holiday spending varied appreciably among types of goods, with electronic goods moving well but purchases of apparel sluggish. Reports of same-store sales at the major retail chains generally pointed to weak holiday sales, but estimates of total chain store sales suggested reasonably healthy spending. However, no measure of chain store sales has proved a very reliable indicator of the official census estimates of retail sales in the past. These indexes are plagued by a variety of problems, including data collection errors, inconsistencies in definitions, and seasonal adjustment difficulties. In addition, many tend to focus on only certain types of stores or certain categories of merchandise.

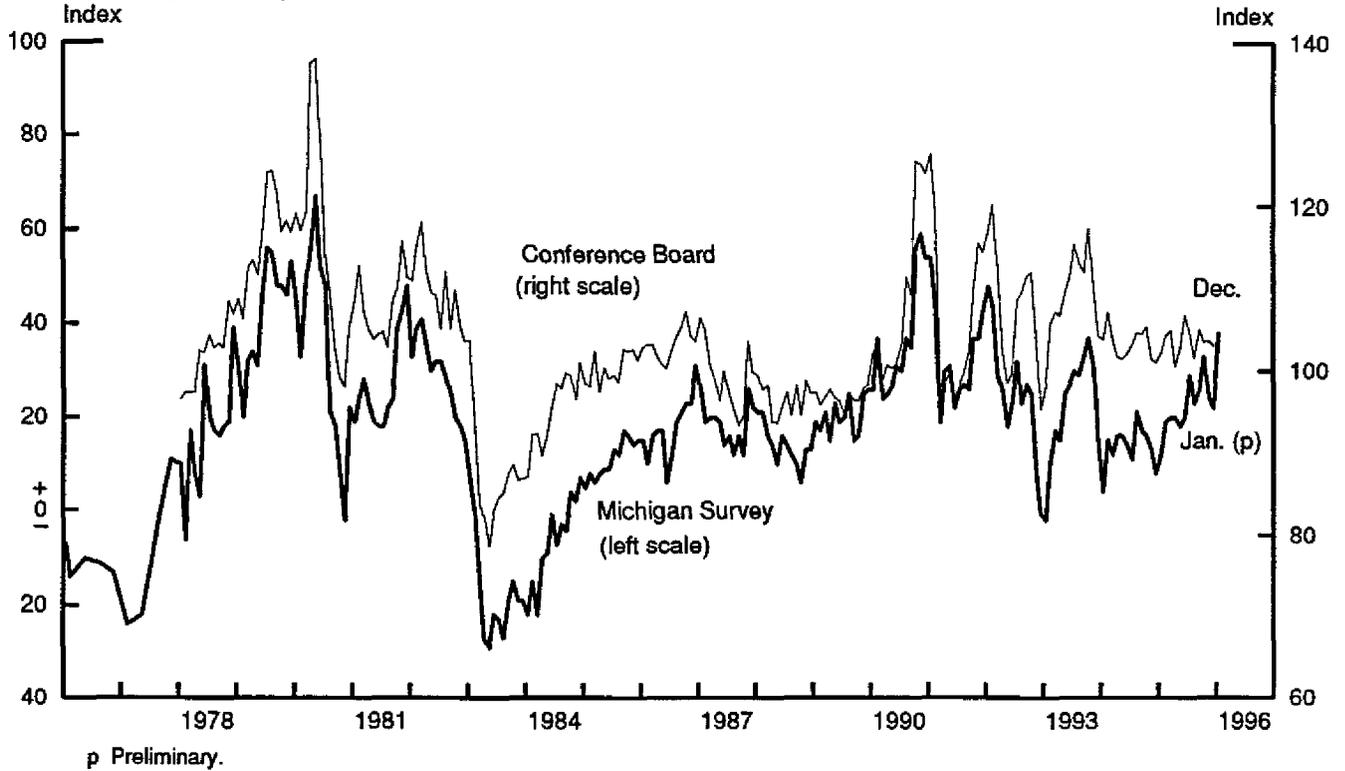
Wages and salaries fell 0.1 percent in November, retracing only a small part of their enormous October gain and leaving the November level of real disposable income well above its third-quarter average. Among sources of nonlabor income, rental income rose appreciably in October and November after having declined in the third quarter. Most other categories of personal income posted small to moderate gains in October and November. Nominal personal income likely continued to trend upward in December, with the most recent employment report indicating further gains in average hourly earnings that more than offset the decline in aggregate hours. Altogether, the available evidence on income and spending suggests that the fourth-quarter saving rate was considerably above its 4.1 percent third-quarter average.

# Consumer Surveys

## Consumer Sentiment



## Unemployment Expectations Indexes



The most recent data on consumer sentiment suggest mixed prospects for spending. According to the preliminary, partial sample report, the Michigan SRC index of consumer sentiment declined 1.1 points in early January, with less optimistic appraisals of future business conditions offsetting more favorable assessments of current and future personal financial situations and current appliance-buying conditions. Although the overall Michigan index is now a few points below its strong readings of the past summer, it remains in a range that has historically been accompanied by solid gains in consumer spending. However, results not included in the overall index pointed to somewhat greater pessimism in early January, with unemployment expectations jumping sharply and consumers expressing substantially less willingness to use credit. The SRC identified the winter storms as a possible contributor to the concerns about joblessness and the recent news of major corporate restructurings, especially at AT&T, may have affected public perceptions. The shift in attitudes toward use of credit could indicate that increased debt burdens and perhaps the publicity given them may have made respondents more sensitive about credit use; but this series is particularly erratic and several times in the past few years has registered dramatic declines followed by sharp recoveries.

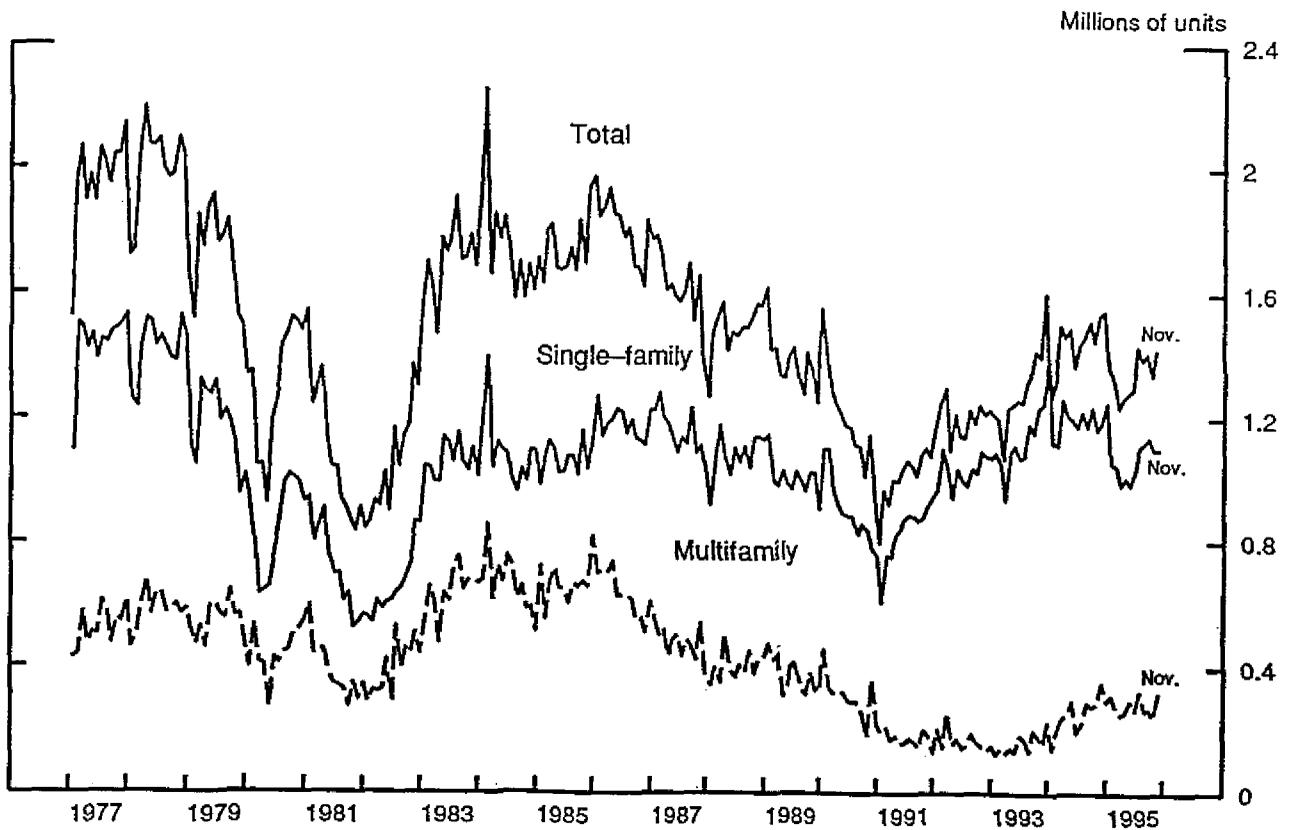
The most recent Conference Board data point to a small deterioration in confidence in December. Nonetheless, the level of the Conference Board index remained in the narrow, generally optimistic range that has prevailed over the past year. Likewise, an index based on the separate questions about employment expectations held at a fairly positive level last month.

**Private Housing Activity**  
(Millions of units; seasonally adjusted annual rate)

	1995						
	Annual <sup>P</sup>	Q2	Q3 <sup>r</sup>	Q4 <sup>P</sup>	Oct. <sup>r</sup>	Nov. <sup>r</sup>	Dec. <sup>P</sup>
<i>All units</i>							
Starts	n.a.	1.28	1.41	n.a.	1.34	1.42	n.a.
Permits	n.a.	1.25	1.38	n.a.	1.38	1.43	n.a.
<i>Single-family units</i>							
Starts	n.a.	1.01	1.12	n.a.	1.10	1.10	n.a.
Permits	n.a.	.93	1.04	n.a.	1.05	1.07	n.a.
New-home sales	n.a.	.67	.72	n.a.	.66	.65	n.a.
Existing-home sales	3.81	3.58	4.09	4.02	4.11	4.04	3.91
<i>Multifamily units</i>							
Starts	n.a.	.27	.29	n.a.	.24	.32	n.a.
Permits	n.a.	.32	.33	n.a.	.33	.36	n.a.

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

**Private Housing Starts**  
(Seasonally adjusted annual rate)



Housing Markets

Recent data on housing demand and building activity have been mixed. Total housing starts rebounded in November to 1.42 million units at an annual rate, owing to a rise in multifamily construction.<sup>4</sup> Single-family housing starts were unchanged in November, but permits, which are measured more reliably than starts, bounced back to their relatively strong September level. Judging from historical relationships, this volume of permits suggests that the estimate of single-family starts may understate the actual trend in construction activity.

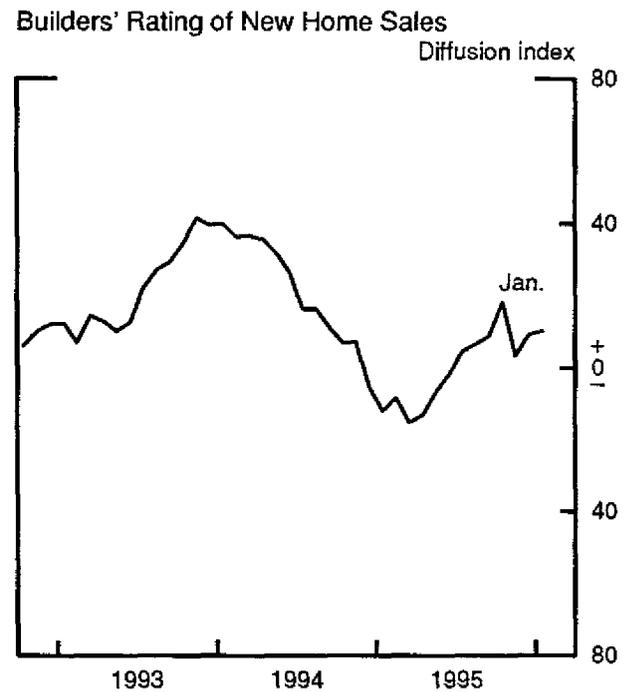
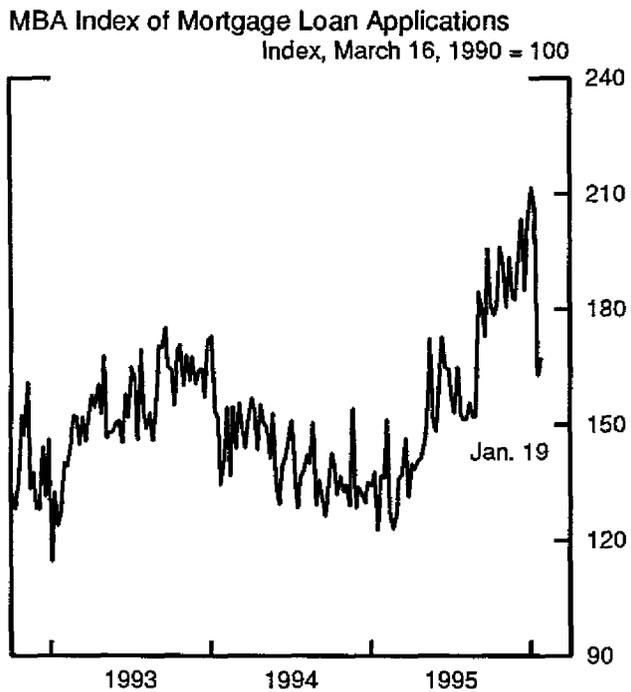
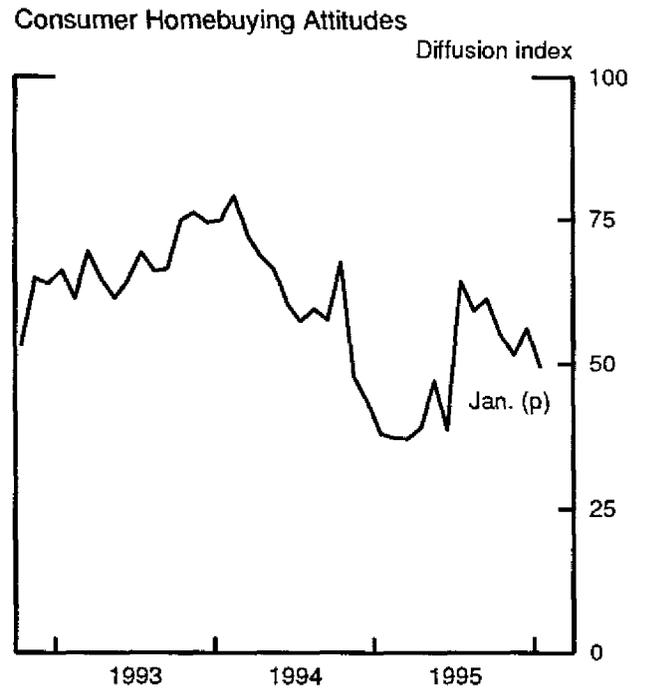
On the other hand, sales of new and existing homes slipped a bit at the end of last year after having surged in the summer. New home sales fell in November, and existing home sales fell a noticeable 3 percent in December. However, because most of the latter transactions are recorded at closing, they do not really represent a more current indicator of demand than new home sales, which are counted primarily at the time the contract is signed.

The basic determinants of housing demand appear to favor continued strength in home construction. Rates on fixed-rate mortgages in the first three weeks of January averaged more than 200 basis points lower than in the same period a year earlier, and our estimate of the debt-service burden of home ownership in the current quarter is just above the 1993 low. Moreover, the most recent indicators suggest that, on balance, demand for single-family homes may have strengthened a bit again in the past two months. In particular, builders' ratings of new home sales turned more positive in December and January, and applications for home purchase financing have been on the rise (apart from storm effects). The

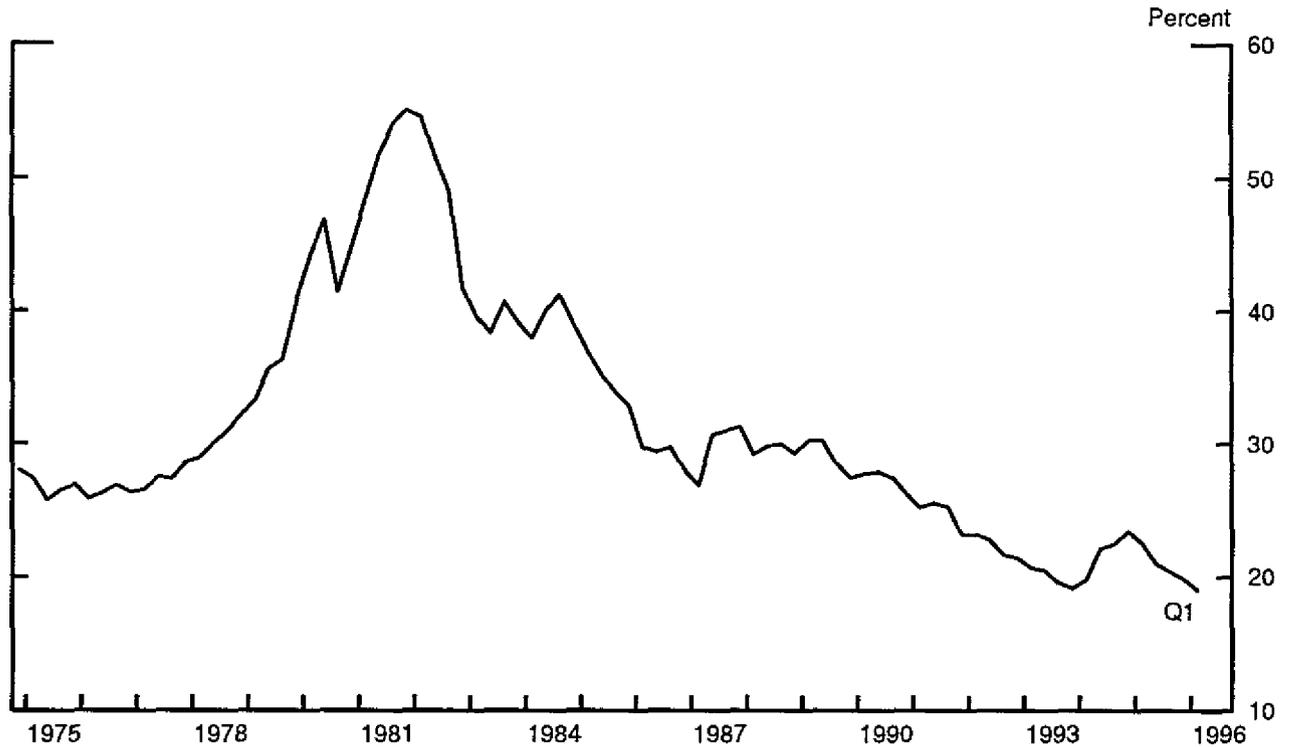
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4. According to analysts at the Census Bureau, the processing of data on starts and permits was completed before the shutdown, making these estimates fully consistent with earlier observations in the series.

### Indicators of Housing Demand (Seasonally adjusted; FRB seasonals except sales)



### Cash-Flow Burden of Homeownership Fixed Rate Mortgages



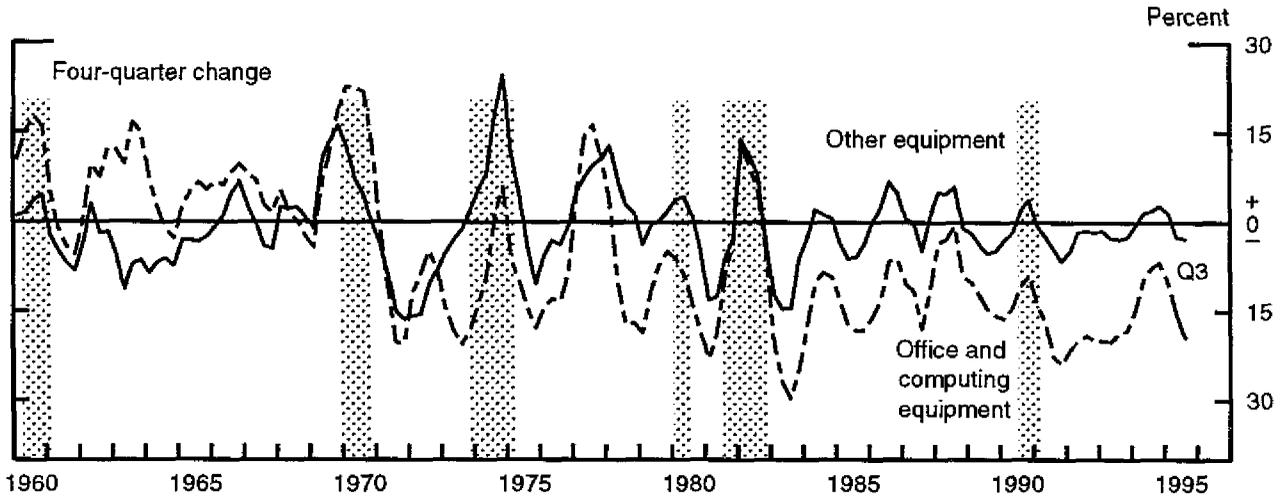
Note. Cash-flow burden is defined as the financing cost of a constant quality new home as a percentage of average household disposable income. Data for 1996:Q1 is a projection.

### Multifamily Rental Vacancy Rate (Seasonally adjusted)

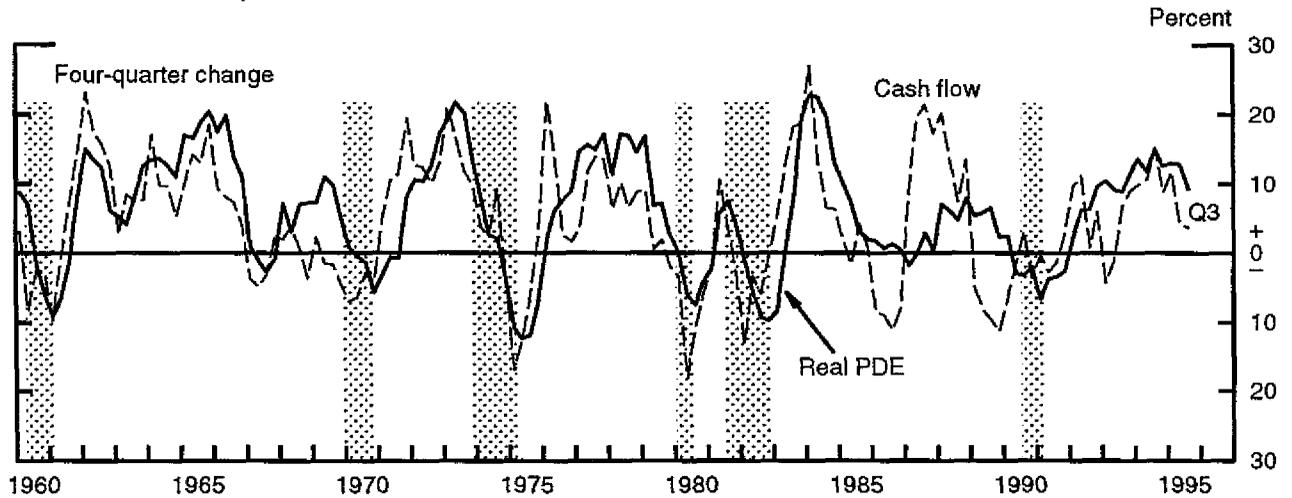


## Fundamental Determinants of Equipment Spending

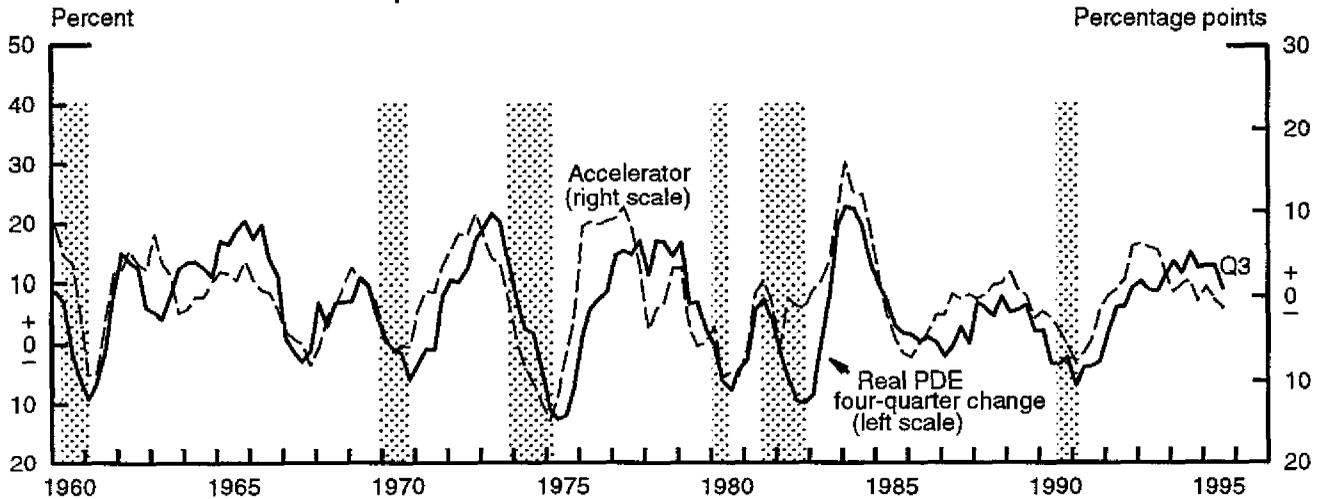
User Cost of Capital



Real Domestic Corporate Cash Flow



Acceleration of Business Output



Note. The accelerator is the eight-quarter percent change in business output less the year-earlier eight-quarter percent change.

exception is the decline in consumer assessments of homebuying conditions in January, as measured by the preliminary Michigan Survey - extending a downtrend that began in midsummer; less favorable views of business conditions have played a role in this slippage.

Multifamily housing starts rose sharply in November. However, a continuation of starts at the November level seems far from assured. Although the rental vacancy rate has edged down a bit during the past several years, progress in working down the excess stock of apartments has been extremely slow, and real rents for apartments have been stagnant for the past three years.

#### Business Fixed Investment

As is the case for other economic indicators, the publication of data relating to business fixed investment is behind schedule. On net, both the limited data received since the December Greenbook and anecdotal reports suggest that demand for capital goods - especially equipment - may have slackened somewhat recently.

In particular, growth of business investment in computers is expected to slow from the very rapid pace earlier in the expansion, but still to remain at double-digit rates. Our contacts in the computer industry were generally disappointed by sales in November and December, but we believe that some of the earnings squeeze they experienced may reflect lower margins rather than reduced output. The Semiconductor Industry Association's book-to-bill ratio - which provides some leading information on computer shipments - also dropped sharply in November and December, but it remains in a range that historically has coincided with positive growth in nominal computer shipments. Given the rapid technical change in this sector - and accompanying steep price declines - modest growth in

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

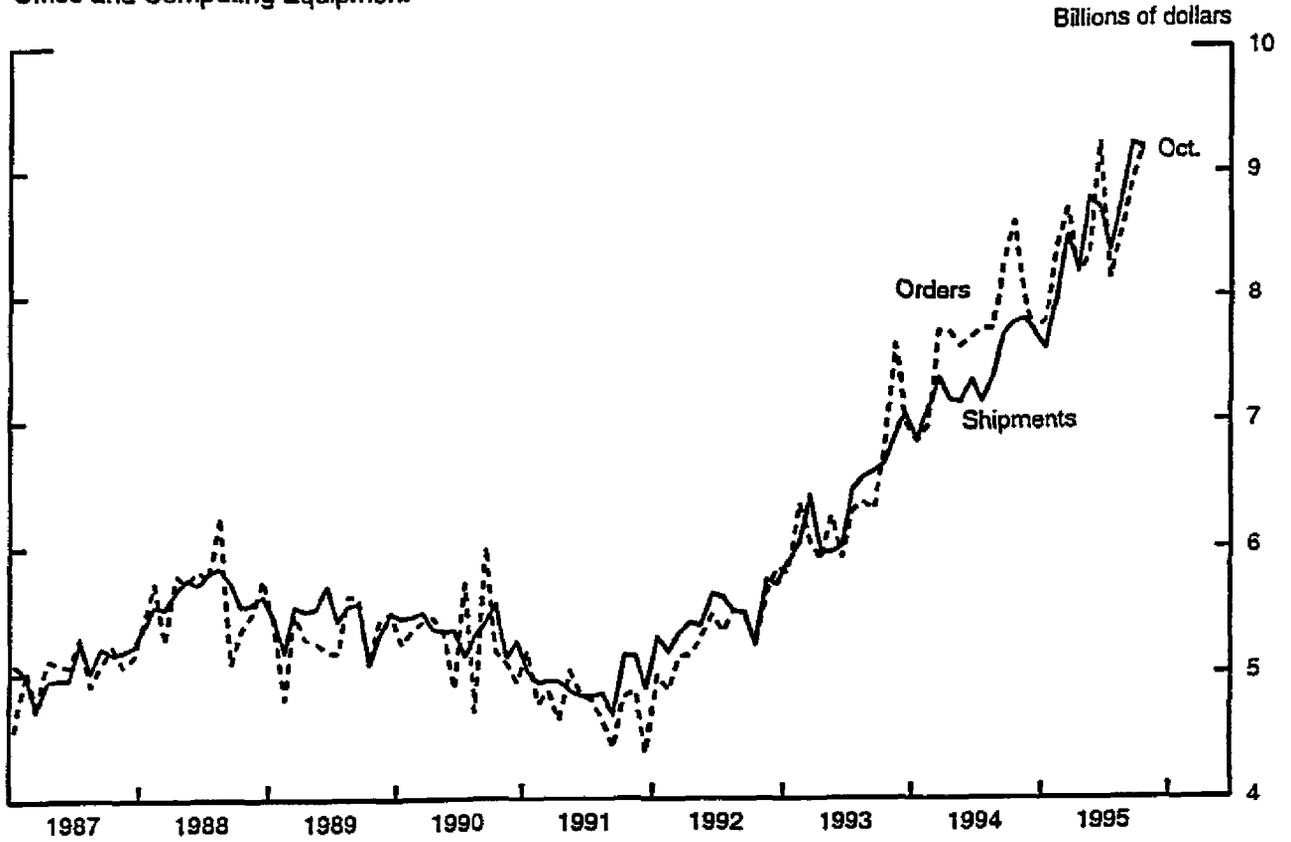
	1995			1995		
	Q2	Q3	Q4	Oct.	Nov.	Dec.
<u>Producers' durable equipment</u>						
Shipments of nondefense capital goods	3.3	.7	n.a.	-1.5	n.a.	n.a.
Excluding aircraft and parts	3.8	1.3	n.a.	-1.0	n.a.	n.a.
Office and computing	6.8	2.4	n.a.	-.3	n.a.	n.a.
All other categories	2.9	1.0	n.a.	-1.2	n.a.	n.a.
Shipments of complete aircraft <sup>1</sup>	-5.0	-7.3	n.a.	-41.2	77.6	n.a.
Sales of heavy trucks	-3.6	-9.5	5.4	2.0	5.4	-4.8
Orders of nondefense capital goods	-.3	2.1	n.a.	-7.4	n.a.	n.a.
Excluding aircraft and parts	.3	-.3	n.a.	-3.6	n.a.	n.a.
Office and computing	3.3	-.7	n.a.	3.1	n.a.	n.a.
All other categories	-.5	-.1	n.a.	-5.5	n.a.	n.a.
<u>Nonresidential structures</u>						
Construction put-in-place	2.4	2.6	n.a.	2.8	n.a.	n.a.
Office	3.9	6.0	n.a.	3.5	n.a.	n.a.
Other commercial	-2.3	2.0	n.a.	4.7	n.a.	n.a.
Institutional	.3	.9	n.a.	.6	n.a.	n.a.
Industrial	5.6	-1.6	n.a.	5.2	n.a.	n.a.
Public utilities	15.0	3.6	n.a.	-2.8	n.a.	n.a.
Lodging and miscellaneous	1.5	11.9	n.a.	14.1	n.a.	n.a.
Rotary drilling rigs in use	1.3	.8	-7.5	-5.3	-2.8	-.8
Memo:						
Business fixed investment <sup>2</sup>	3.6	5.3	n.a.	n.a.	n.a.	n.a.
Producers' durable equipment <sup>2</sup>	3.7	5.2	n.a.	n.a.	n.a.	n.a.
Nonresidential structures <sup>2</sup>	3.4	5.4	n.a.	n.a.	n.a.	n.a.

1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines." Monthly data are seasonally adjusted using FRB seasonal factors constrained to BEA quarterly seasonal factors. Quarterly data are seasonally adjusted using BEA seasonal factors.

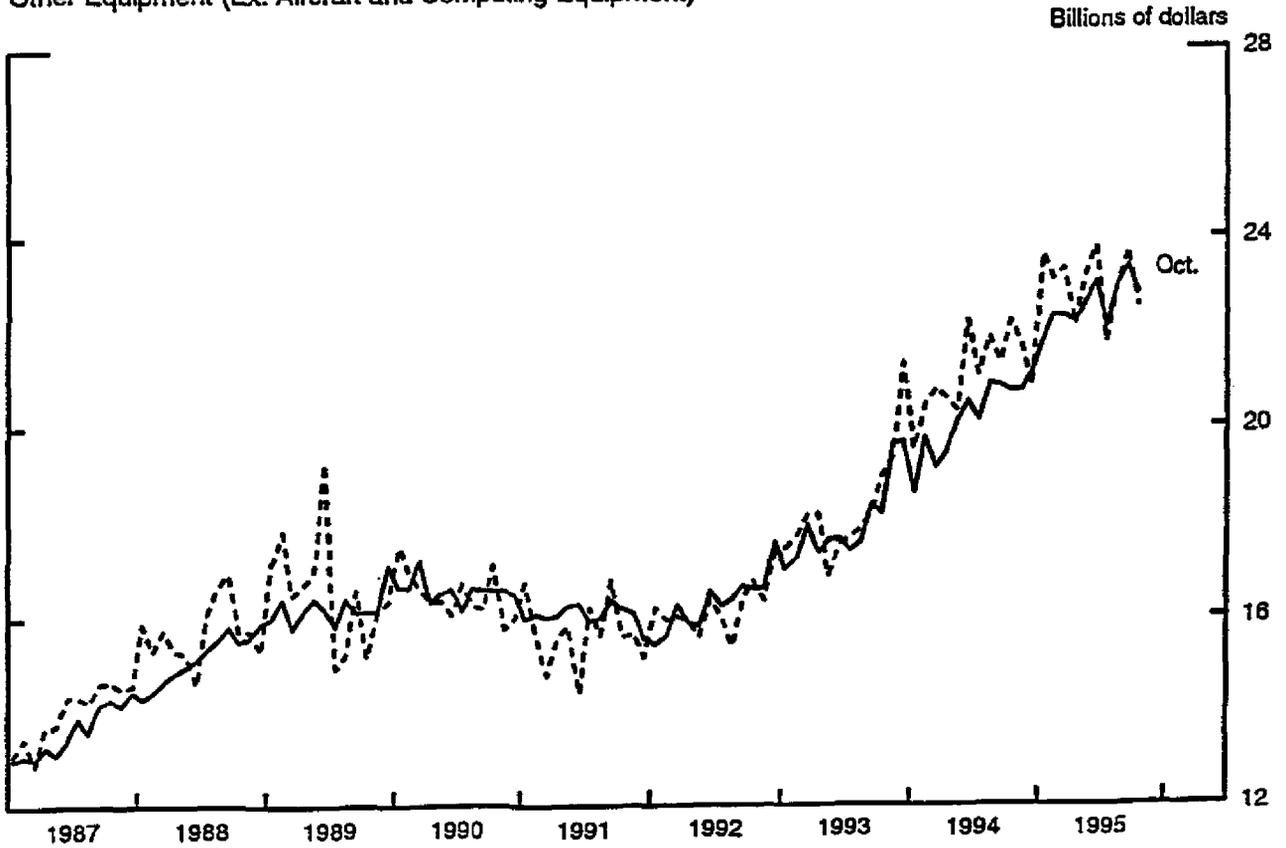
2. Based on 1992 chain-weighted data; percent change, annual rate.  
n.a. Not available.

## Orders and Shipments of Nondefense Capital Goods

Office and Computing Equipment



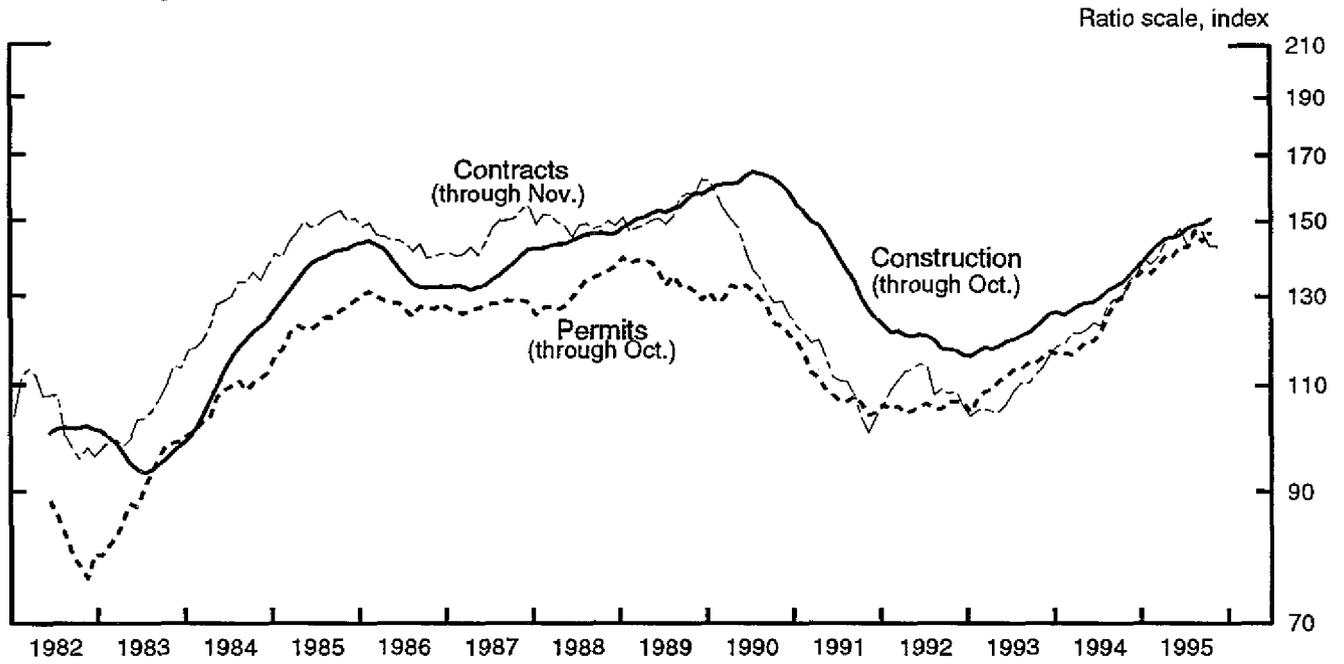
Other Equipment (Ex. Aircraft and Computing Equipment)



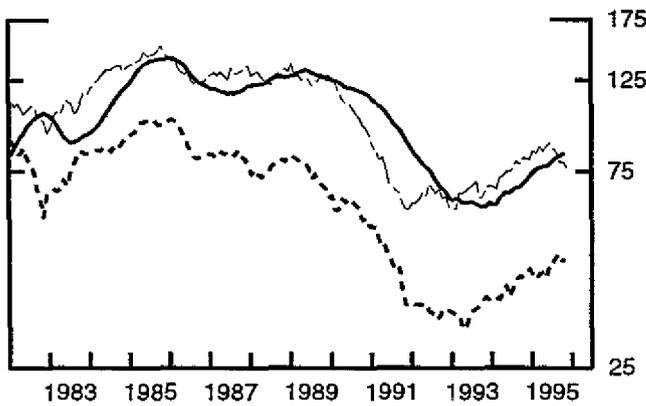
## Nonresidential Construction, Permits, and Contracts

(Six-month moving average)

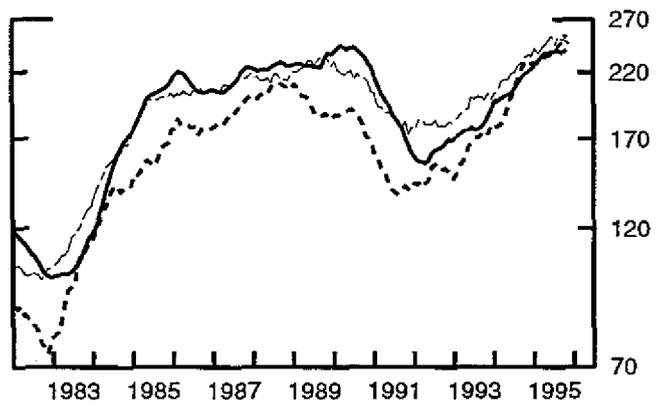
Total Building



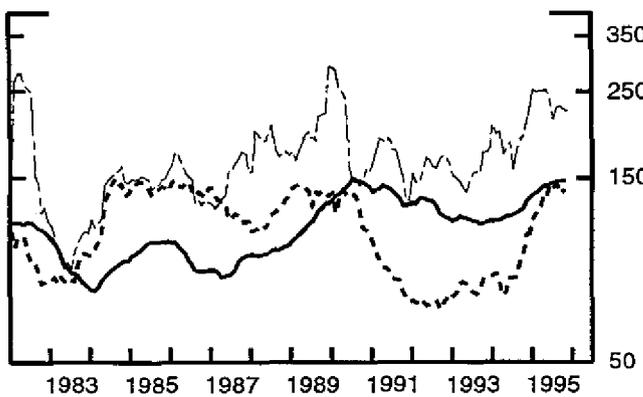
Office



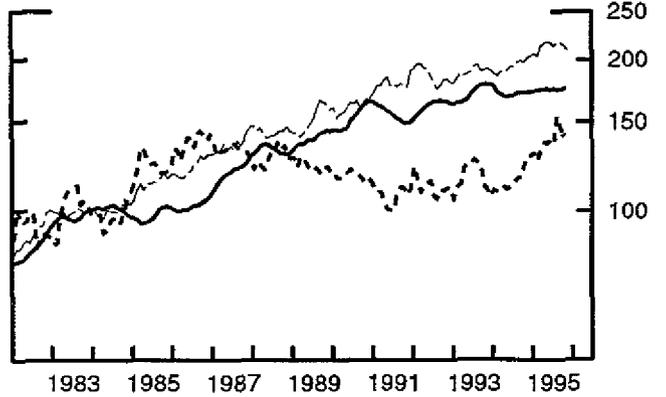
Other Commercial



Industrial



Institutional



Note. The underlying monthly data were indexed to Dec. 1982 = 100; a six-month moving average was applied to the indexed data.

nominal shipments would be consistent with healthy growth in real outlays.

Business purchases of transportation equipment held up well in the fourth quarter. The confidential information on light-vehicle fleet sales for GM and Ford showed an increase of roughly 5 percent. Although new orders for heavy trucks plunged, sales in the fourth quarter were about 5 percent above their third-quarter average, as producers continued to work on a large backlog of orders.

Looking ahead, Boeing's bookings surged dramatically in December, with orders for 52 of their new 777s and for 21 747s; orders rose further in January. These bookings, which were placed largely by foreign buyers but include some domestic orders, will begin to affect deliveries in 1997.

Data on contracts received since the December Greenbook suggest that growth in construction expenditures is dropping back a bit from the rapid pace in most of 1995. Contracts increased significantly in November, boosted by healthy advances in the office and industrial sectors, and this rise roughly offset the October decline.

#### Business Inventories

The only incoming statistics on business inventories, outside of those held by motor vehicle dealers, since the December Greenbook are the book-value figures for wholesale trade inventories in November. They show that stocks held by wholesalers were drawn down at an \$11.9 billion annual rate after having risen at a \$24.9 billion rate in October; stocks expanded at a \$17 billion rate during the third quarter. The bulk of the November decline was in nondurables, particularly groceries, farm products, and the miscellaneous category. Among durables, distributors of machinery

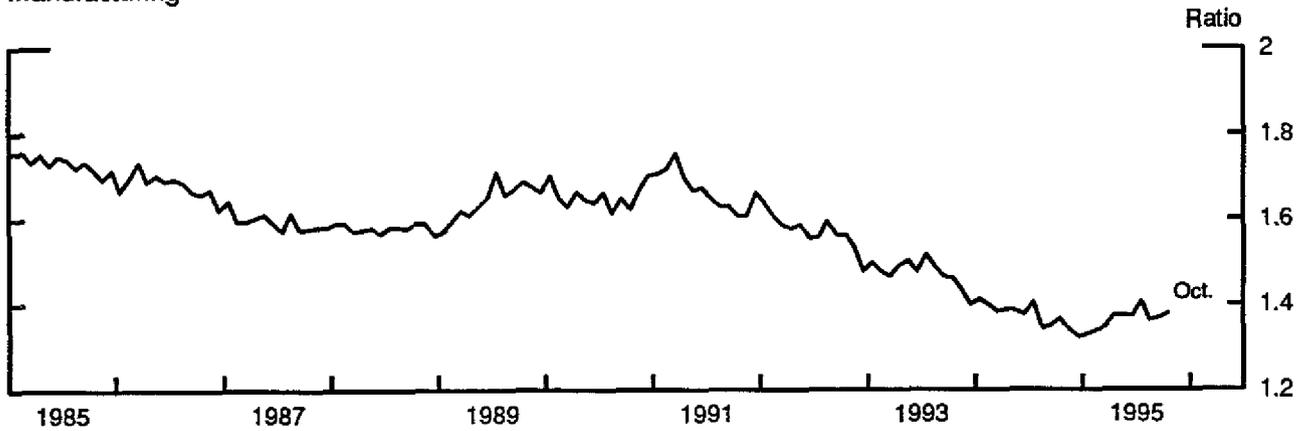
**BUSINESS INVENTORIES**  
 (Change at annual rates in seasonally  
 adjusted current cost; billions of dollars)

	1995			1995			
	Q1	Q2	Q3	Aug.	Sept.	Oct.	Nov.
Manufacturing and trade	104.8	69.7	53.3	45.2	57.9	76.3	n.a.
Excluding wholesale and retail motor vehicles	75.2	61.7	59.0	46.3	62.0	63.4	n.a.
Manufacturing	41.1	31.7	24.7	8.7	36.4	19.7	n.a.
Trade, total	63.7	37.9	28.6	36.5	21.5	56.6	n.a.
Wholesale	35.0	25.4	17.0	-.5	12.6	24.9	-11.9
Ex. motor vehicles	28.9	19.1	19.9	1.8	17.7	29.3	-9.9
Retail	28.7	12.5	11.6	37.0	9.0	31.8	n.a.
Ex. auto dealers	5.3	10.8	14.4	35.8	7.9	14.5	n.a.

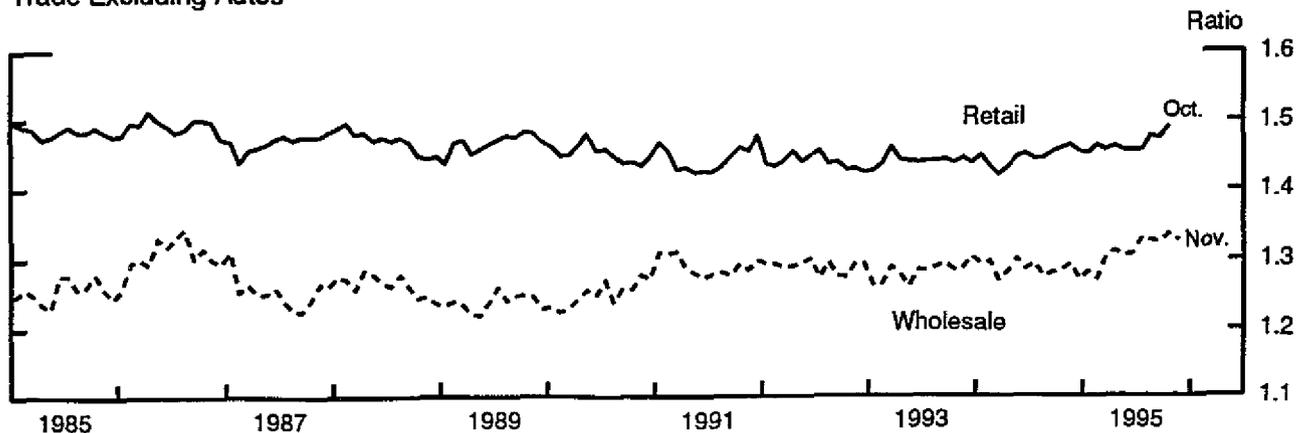
Totals may not add because of rounding.

**Inventory-Sales Ratios**

Manufacturing



Trade Excluding Autos



also reported a sizable liquidation, but that was more than offset by a sizable accumulation of stocks at distributors of electrical goods, which include household appliances.

#### Federal Sector

The federal unified budget deficit in November was \$38 billion.<sup>5</sup> This figure brought the total deficit for the first two months of fiscal year 1996 to \$61 billion, a drop of about \$7 billion from the comparable period in fiscal year 1995. Outlays increased about \$2 billion, while receipts grew about \$9 billion, or about 5 percent.

Outlays for the fiscal year through November were up only slightly from the comparable period of fiscal 1995. Outlays for Medicare and health continued to rise at about their recent trends. However, defense outlays continued to decline, and nondefense outlays other than for major entitlement programs and net interest fell sharply. These "other" outlays were restrained in part by the lack of appropriations and the stringent funding levels in the continuing resolutions. In addition, agricultural spending was held down by a drop in crop subsidies this year.

BEA estimates that real federal consumption and investment expenditures (the category that replaces "purchases" in the NIPAs) declined at an annual rate of 5-1/2 percent in the third quarter of 1995, compared with an increase of about 5 percent for purchases in the advance release. This marked change is largely attributable to data received over the past several months and the switch to the chain-type measures of price changes; the redefinition of government accounts appears to have had a negligible effect.<sup>6</sup> BEA's

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5. The December Monthly Treasury Statement, originally scheduled for release on January 23, will be published on January 30.

6. The definitional changes in the comprehensive revision are discussed in the appendix. They also imply revisions to the estimated budget deficits for both the federal and the state and local sectors.

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

	Fiscal year to date					
	November		FY1995	FY1996	Dollar change	Percent change
	1995	1996				
<b>Outlays</b>	124.9	128.5	245.3	246.8	1.5	.6
Deposit insurance (DI)	-1.3	-.8	-2.0	-2.0	.0	2.1
<b>Outlays excluding DI</b>	126.2	129.3	247.3	248.8	1.6	.6
National defense	22.4	21.2	41.2	39.6	-1.7	-4.0
Net interest	18.2	19.1	36.9	39.6	2.7	7.3
Social security	26.6	27.9	53.3	56.0	2.6	4.9
Medicare and health	22.2	24.2	41.9	46.6	4.6	11.0
Income security	16.2	18.1	31.4	32.7	1.2	3.9
Other	20.6	18.7	42.4	34.4	-8.0	-18.8
<b>Receipts</b>	87.7	90.0	176.7	185.6	8.9	5.0
Personal income and social insurance taxes						
Withheld	71.4	74.5	142.3	151.7	9.4	6.6
Nonwithheld	1.9	2.1	6.2	7.9	1.6	26.3
Other	1.5	1.1	2.1	2.1	-.1	-4.1
Corporate income taxes	1.5	1.7	5.0	3.9	-1.1	-22.0
Other	11.4	10.6	21.0	20.1	-.9	-4.5
<b>Deficit(+)</b>	37.2	38.5	68.6	61.2	-7.4	-10.8
Excluding DI	38.5	39.3	70.6	63.2	-7.3	-10.4

Note. Components may not sum to totals because of rounding.

revision also contained sizable changes to data for other recent quarters; nonetheless, on balance, they still show a substantial decline in real defense spending over the past few years and little net change in other real consumption and investment expenditures.

The two shutdowns of the government and the January blizzard are likely to have noticeable effects on real government consumption and investment expenditures in the NIPA in the fourth and first quarters. The effect comes primarily in real compensation, which BEA derives mainly from estimates of hours worked. For the fourth quarter we estimate that the mid-November furlough and the first two weeks of the second furlough lowered the level of real compensation (and thus expenditures) nearly \$5-1/2 billion at an annual rate. For the first quarter the level of real expenditures was lowered about \$1 billion during the last week of the second furlough and about \$2 billion because of the "Blizzard of '96." In contrast, these developments have little effect on nominal compensation in the NIPAs: According to BEA's convention, wages are measured on an accrual basis and the drop in real compensation is offset by a corresponding rise in the government deflator. For the unified budget, which measures wages on a disbursement basis, the second shutdown shifted some payments from December to January but is expected to have little effect on fiscal year totals.

The Administration and congressional leaders have acknowledged that prospects for major deficit reduction are slim, but they are now considering enactment of a package of reductions on which they previously agreed and a modest tax cut. On January 25, the House passed a fourth continuing resolution that would fund federal agencies lacking appropriations through March 15. Detailed cost estimates for the bill are not yet available, but the implied level of outlays appears to be broadly similar to that in the previous

continuing resolution. The Senate will consider the measure on January 26, and the President is expected to sign it.

#### State and Local Governments

State and local government employment rose substantially in December, but this followed two months of essentially no change, and the average monthly increase for the fourth quarter was only about 10,000. Over 1995 as a whole, employment growth averaged just 14,000 per month, the smallest rise since 1991.

The fiscal position of most states is quite good, and many would like to cut taxes a bit this year. However, they are being cautious in light of the uncertainty about federal welfare and Medicaid reform, the size and structure of other grants programs, and changes in federal tax laws. Notably, most states appear to be basing decisions on programs that depend heavily on federal funding (such as highways, waste treatment, community development, and educational programs) on the lowest likely level of federal aid.

Moreover, although most states are in good fiscal shape, some are not. In a survey by the National Conference of State Legislatures of the fiscal situation as of mid-fiscal year 1996, ten states reported revenues coming in below projections, compared with just two states last year. Several states indicated that the weakness was due to lower-than-expected sales and excise taxes, while a few blamed smaller personal income tax collections. The states reporting problems are generally less populous: Idaho, Hawaii, Maine, Maryland, Nebraska, New Mexico, Rhode Island, South Dakota, Vermont, and Wyoming.

#### Prices

No data on consumer or producer prices have been released since the December Greenbook. Commodity market developments have been mixed and do not indicate that strong inflationary pressures are

present in the economy. Weather-related tightness in oil and gas markets could lead to some near-term volatility in energy prices, but the potential increases do not appear significant enough to push overall inflation in the next several months to alarming levels.

Turning to prices for industrial commodities, the Journal of Commerce commodity price index has edged down since the last Greenbook, owing in part to a fall in the metals component, which is about 2-1/2 percent lower than in mid-December. The CRB spot index, which gives substantial weight to foodstuffs, dropped somewhat over the same period. Prices for aluminum have fallen 6 percent in the weeks since the December Greenbook, and copper prices have plunged roughly 15 percent. Large shipments of copper into London Metal Exchange warehouses appear to have eased traders' fears of a short-term supply squeeze. Prices for lead and tin have posted modest declines. The one exception to the general weakness in metals prices is the price of steel scrap, which has risen about 8 percent since mid-December; the price of steel scrap is slightly above the average that prevailed in 1995.

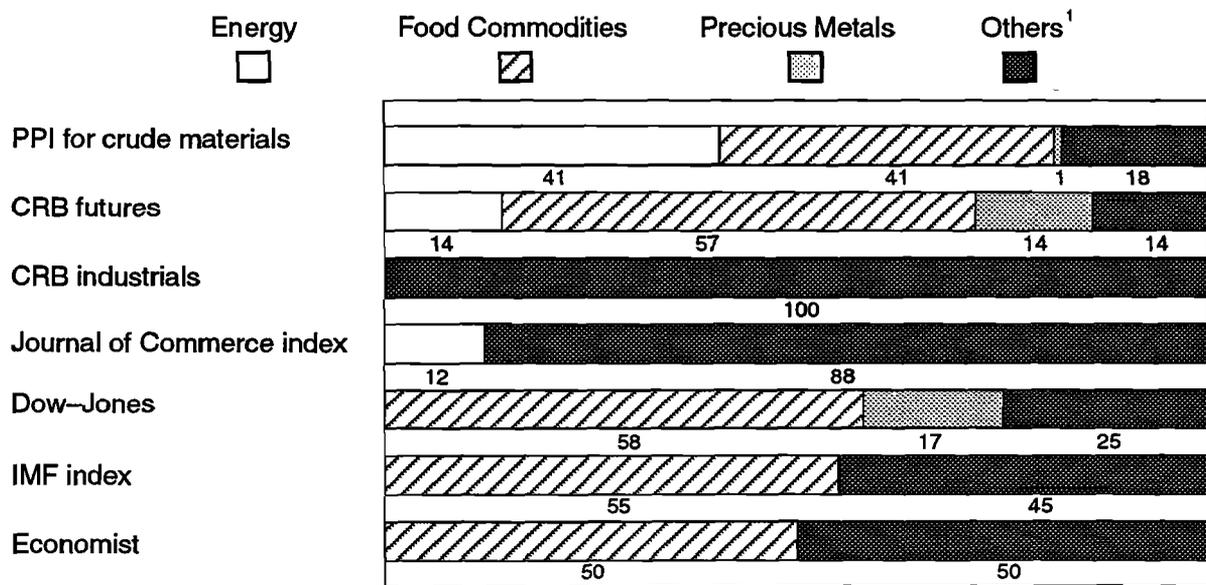
Energy markets have been dominated by the below-normal temperatures in recent weeks. Weather-induced price increases for natural gas were magnified by the relatively low levels of working gas storage and by pipeline constraints; in some parts of the country, spot wellhead prices in early January were nearly double the levels observed in the fall. Sharp increases in natural gas prices spilled over to the petroleum market as some utility power plants with dual-fuel capabilities switched to the less expensive residual fuel oil for boiler fuel, boosting petroleum demand. Prices for home heating oil also rose to new highs in early January. Stronger-than-expected demand for motor fuels has bolstered gasoline prices as well.

COMMODITY PRICE INDEXES

	Last observ- ation	-----Percent change <sup>1</sup> -----				Memo: Year earlier to date
		1993	1994	Dec. 94 to Dec. 12 <sup>2</sup>	Dec. 12 <sup>2</sup> to date	
PPI for crude materials <sup>3</sup>	Nov.	0.1	-0.5	n.a.	n.a.	4.5
Foods and feeds	Nov.	7.2	-9.4	n.a.	n.a.	13.4
Energy	Nov.	-12.3	-0.1	n.a.	n.a.	-1.4
Excluding food and energy	Nov.	10.7	17.3	n.a.	n.a.	-1.5
Excluding food and energy, seasonally adjusted	Nov.	10.5	17.6	n.a.	n.a.	-1.5
Commodity Research Bureau						
Futures prices	Jan. 23	11.6	4.8	3.3	-0.8	2.7
Industrial spot prices	Jan. 16	-0.0	29.1	-2.3	-1.6	-4.9
Journal of Commerce industrials	Jan. 23	-2.9	22.1	-0.6	-1.9	-4.8
Metals	Jan. 23	-1.8	31.9	-0.9	-2.4	-8.2
Dow-Jones spot	Jan. 23	5.1	14.8	-0.3	-1.2	-2.8
IMF commodity index <sup>3</sup>	Dec.	2.4	15.2	19.3	n.a.	19.3
Metals	Dec.	-14.4	39.1	-8.1	n.a.	-8.1
Nonfood agricultural	Dec.	0.2	14.8	3.7	n.a.	3.7
Economist (U.S. dollar index)	Jan. 16	9.1	31.0	-6.2	-3.7	-11.3
Industrials	Jan. 16	4.4	38.6	-5.1	-5.5	-14.6

Note. Not seasonally adjusted. Copyright for Journal of Commerce data is held by CIBCR, 1994.  
 1. Change is measured to end of period, from last observation of previous period.  
 2. Week of the December Greenbook.  
 3. Monthly observations. IMF index includes items not shown separately.  
 n.a. Not available.

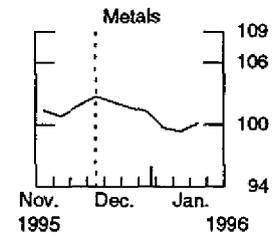
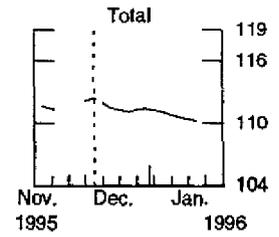
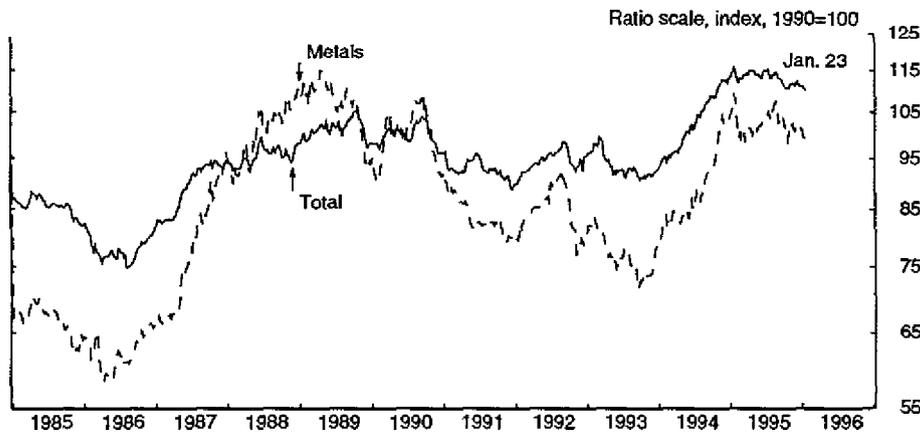
Index Weights



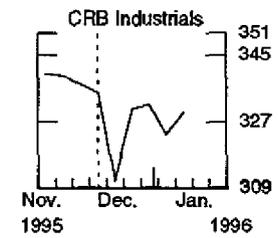
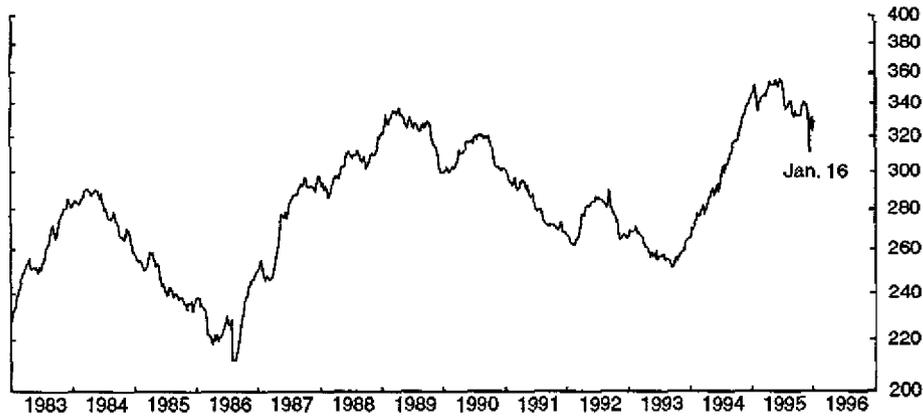
1. Forest products, industrial metals, and other industrial materials.

## Commodity Price Measures

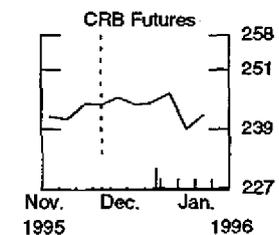
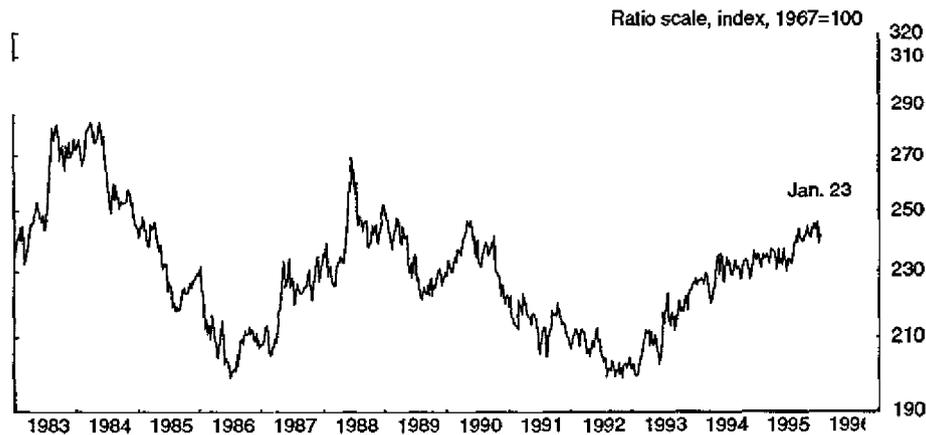
Journal of Commerce Index



CRB Spot Industrials



CRB Futures



Note. Weekly data, Tuesdays. Vertical lines on small panels indicate week of last Greenbook. The Journal of Commerce index is based almost entirely on industrial commodities, with a small weight given to energy commodities, and the CRB spot price index consists entirely of industrial commodities, excluding energy. The CRB futures index gives about a 60 percent weight to food commodities and splits the remaining weight roughly equally among energy commodities, industrial commodities, and precious metals. Copyright for Journal of Commerce data is held by CIBCR, 1994.

## SPOT PRICES OF SELECTED COMMODITIES

	Current price (\$)	-----Percent change <sup>1</sup> -----				Memo: Year earlier to date
		1993	1994	To Dec. 12 <sup>2</sup>	Dec. 12 <sup>2</sup> to Jan. 23	
-----INDUSTRIAL COMMODITIES-----						
<b>Metals</b>						
Copper (lb.)	1.190	-19.0	64.9	-.7	-15.0	-20.1
Steel scrap (ton)	144.500	46.8	2.9	-6.6	7.8	-1.7
Aluminum, London (lb.)	.702	-10.7	73.5	-14.1	-6.0	-28.0
Lead (lb.)	.454	3.0	20.7	9.5	-.5	5.9
Zinc (lb.)	.515	-7.5	23.6	-11.7	1.0	-19.2
Tin (lb.)	4.186	-14.1	21.4	7.6	-2.0	-2.6
<b>Textiles and fibers</b>						
Cotton (lb.)	.816	19.6	38.5	-3.0	-2.2	-8.3
Burlap (yd.)	.365	8.2	10.2	19.9	4.3	25.0
<b>Miscellaneous materials</b>						
Hides (lb.)	.738	1.3	14.2	-19.7	1.7	-17.7
Rubber (lb.)	.785	-7.3	75.4	10.8	-9.8	-12.3
-----OTHER COMMODITIES-----						
<b>Precious metals</b>						
Gold (oz.)	403.650	16.6	-1.7	2.0	3.8	5.9
Silver (oz.)	5.545	38.8	-5.0	8.1	7.0	14.9
Platinum (oz.)	423.000	8.0	7.5	-.4	2.4	1.3
<b>Forest products</b>						
Lumber (m. bdft.)	254.000	75.8	-37.1	-14.7	2.0	-9.9
Plywood (m. sqft.)	297.000	-6.3	1.5	-7.0	-3.3	-8.9
<b>Petroleum</b>						
Crude oil (barrel)	17.360	-25.0	15.6	11.7	-.4	-3.6
Gasoline (gal.)	.488	-31.0	32.4	8.2	-8.1	-3.6
Fuel oil (gal.)	.532	-22.4	12.7	16.0	-6.8	11.7
<b>Livestock</b>						
Steers (cwt.)	64.000	-7.3	-3.4	-4.3	-4.5	-14.7
Hogs (cwt.)	42.000	.6	-12.9	28.2	-7.7	5.0
Broilers (lb.)	.582	6.1	-4.9	8.9	8.9	20.8
<b>U.S. farm crops</b>						
Corn (bu.)	3.525	41.7	-23.2	51.0	5.9	58.4
Wheat (bu.)	5.365	5.8	11.4	25.9	-2.2	35.4
Soybeans (bu.)	7.230	24.5	-19.6	26.3	2.6	32.7
<b>Other foodstuffs</b>						
Coffee (lb.)	1.130	-2.3	153.1	-35.4	7.1	-28.5
<b>Memo:</b>						
Exchange value of the dollar (March 1973=100)	87.039	3.4	-5.5	-5.0	1.7	-.5
Yield on Treasury bill, 3-month <sup>3</sup>	4.970	-14	247	-28	-28	-84

1. Changes, if not specified, are to the last week of the year indicated and from the last week of the preceding year.

2. Week of the December Greenbook.

3. Changes are in basis points.

Prices for crude oil continued to move up in the weeks following the December Greenbook, and the spot price for WTI crude broke the \$20 per barrel barrier during the recent snowstorms for the first time since early May. Although the recent oil price increases were largely weather related, several other factors--the current low levels of inventories, the illness of Saudi King Fahd, and the possibility of a U.S. sanction against Nigerian oil exports--may have intensified price pressures. In recent weeks, oil prices have dropped somewhat, in part owing to concern that Iraqi oil might begin flowing into the market soon. The WTI spot price has retreated to the \$18.00 to \$19.00 range, a price we believe is more in line with market fundamentals.

In agriculture, prices of wheat have been running at twenty-year highs; corn and soybean prices are at the highest level in several years. U.S. production of major agricultural crops--corn, wheat, and soybeans--dropped sharply in 1995; corn production was down about 25 percent, soybean production dropped 15 percent, and wheat production fell about 6 percent. But weak U.S. production is only part of the story: World production fell last year while world demand rose, bolstered by rising incomes in the developing world. Prospective stocks-to-use ratios at the end of the 1995 crop marketing year--about the time of the 1996 harvest--are at twenty-year lows, indicating that supplies going into the 1996 crop marketing year will be tight. The markets are likely to respond fairly strongly to any news about crop output, as they did in recent weeks when the South American soybean crop seemed to be headed for trouble and when the U.S. livestock herd was reported to be bigger than traders had thought.<sup>7</sup>

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7. Livestock feed is a major source of demand for corn and soybeans, and a somewhat less important source of demand for wheat.

RECENT CHANGES IN CONSUMER PRICES  
(Percent change; based on seasonally adjusted data)<sup>1</sup>

	Relative importance, Dec. 1994	1993	1994	1995			1995	
				Q1	Q2	Q3	Oct.	Nov.
				-----Annual rate-----			-Monthly rate-	
All items <sup>2</sup>	100.0	2.7	2.7	3.2	3.2	1.8	.3	.0
Food	15.8	2.9	2.9	.0	3.6	3.6	.3	-.1
Energy	7.0	-1.4	2.2	-1.1	5.4	-11.5	.4	-.9
All items less food and energy	77.2	3.2	2.6	4.1	3.0	2.8	.3	.1
Commodities	24.1	1.6	1.4	2.6	.6	2.3	.2	.0
Services	53.1	3.9	3.2	4.8	4.3	3.0	.3	.2
Memo:								
CPI-W <sup>3</sup>	100.0	2.5	2.7	3.6	2.7	1.6	.3	.0

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)<sup>1</sup>

	Relative importance, Dec. 1994	1993	1994	1995			1995	
				Q1	Q2	Q3	Oct.	Nov.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	.2	1.7	3.2	.6	1.3	-.1	.5
Consumer foods	22.8	2.4	1.1	-1.2	-4.6	8.8	.0	1.2
Consumer energy	13.6	-4.1	3.5	11.3	1.5	-14.3	-.9	-.5
Other finished goods	63.7	.4	1.6	2.9	2.6	2.3	.0	.4
Consumer goods	40.2	-.4	1.4	2.9	3.2	2.3	.1	.4
Capital equipment	23.5	1.8	2.0	3.0	1.8	2.1	-.1	.4
Intermediate materials <sup>2</sup>	95.6	.8	4.8	10.6	3.9	-.6	-.4	-.1
Excluding food and energy	82.9	1.6	5.2	10.5	4.2	1.8	-.3	-.2
Crude food materials	40.4	7.2	-9.4	-4.6	-.8	42.3	2.1	3.6
Crude energy	34.5	-12.3	-.1	-4.5	14.6	-22.0	-.4	2.1
Other crude materials	25.1	10.7	17.3	21.9	4.6	-18.2	-2.6	-2.1

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

Looking forward, futures contracts for corn and soybeans with maturities in late 1996 have moved up somewhat since the December Greenbook. At the same time, futures contracts for livestock have fallen a little, with futures prices for hogs down sharply in 1996 relative to 1995. However, this favorable development in near-term prices, if it holds up, will likely lead to higher prices for meats in 1997 because farmers are likely to respond to lower prices by liquidating part of the breeding herd.

INFLATION RATES EXCLUDING FOOD AND ENERGY  
(Percentage change from twelve months earlier)

	Nov. 1993	Nov. 1994	Nov. 1995
CPI	3.1	2.8	3.0
Goods	1.6	1.5	1.7
Alcoholic beverages (2.0) <sup>1</sup>	1.2	1.3	2.2
New vehicles (6.6)	3.2	3.4	2.0
Apparel (6.6)	1.1	-1.8	-0.4
House furnishings (4.5)	1.2	0.4	0.2
Housekeeping supplies (1.4)	1.3	0.5	5.4
Medical commodities (1.7)	3.3	3.1	1.8
Entertainment (2.5)	1.6	2.2	2.4
Tobacco (2.1)	-4.7	3.2	3.4
Used cars (1.7)	8.3	6.7	5.1
Services	3.7	3.5	3.6
Owners' equivalent rent (26.3)	3.0	3.6	3.4
Tenants' rent (7.5)	2.0	2.6	2.4
Other renters' costs (2.8)	3.1	2.9	4.4
Airline fares (1.3)	14.5	-5.6	7.7
Medical care (7.7)	5.9	5.2	4.6
Entertainment (3.1)	3.7	3.0	3.4
Auto financing (0.8)	-5.7	17.5	6.6
Tuition (3.4)	7.3	5.9	5.6
PPI finished goods	0.3	1.6	2.7
Consumer goods	-0.5	1.5	2.8
Capital goods, excluding computers	2.3	1.9	2.6
Computers	-12.6	-7.0	-12.3
PPI intermediate materials	1.6	4.8	4.1
PPI crude materials	11.6	15.7	-1.5
<u>Factors affecting price inflation</u>			
ECI hourly compensation <sup>2</sup>	3.7	3.3	2.6
Goods-producing	4.0	3.3	2.1
Service-producing	3.6	3.2	2.9
Civilian unemployment rate <sup>3,4,5</sup>	6.4	5.4	5.6
Capacity utilization <sup>3,4</sup> (manufacturing)	81.7	84.7	81.8
Inflation expectations <sup>6,7</sup>			
Michigan Survey	3.5	3.7	4.1
Conference Board	4.2	4.2	5.0
Non-oil import price <sup>8</sup>	0.3	3.2	3.5
Consumer goods, excluding autos, food, and beverages	0.6	0.7	1.7
Autos	1.6	3.5	3.3

1. Relative importance weight in CPI excluding food and energy.
2. Private industry workers, periods ended in September.
3. End-of-period value.
4. Latest reported value: December.
5. Data after 1993 are not directly comparable with earlier values because of a redesign of the CPS in January 1994.
6. One-year-ahead expectations.
7. Latest reported value: January for the Michigan Survey; December for the Conference Board Survey.
8. BLS import price index (not seasonally adjusted), periods ended in September.

## APPENDIX A

### COMPREHENSIVE REVISIONS TO THE NIPA

#### Overview

On January 19, BEA released a comprehensive revision to the national income and product accounts. The revision, which covers data back to 1959, involved: (1) the replacement of constant-dollar figures with chain-type indexes as the featured measures of real GDP and its components; (2) the separation of government purchases into consumption expenditures and investment and a new definition of government consumption; (3) improved statistical methods for estimating depreciation, motor vehicle expenditures, and contributions to private pensions; and (4) the incorporation of more reliable and comprehensive source data.

The new source data include items generally incorporated only with comprehensive revisions, most notably the 1987 input-output tables, the 1991 Residential Finance Survey, and the 1992 economic censuses. The data for more recent years also were affected by items that generally are incorporated in the NIPA at the time of the regular annual revisions, such as IRS tabulations of business tax returns for 1992 and 1993, Census annual surveys of businesses and government for 1992, 1993, and 1994, and BLS tabulations of wages and salaries for 1994.

#### Revisions to Real GDP Growth

Over the 1960-94 period, growth of real GDP is now estimated to have averaged 3.2 percent per year, 0.2 percentage point higher than previously estimated. Revisions to current-dollar GDP had little net effect on average growth rates (see table). The move from a fixed-weight to a chain-type formula for real GDP raised average growth 0.2 percentage point over 1960-94; average growth was boosted 0.3 percentage point before 1988 and was lowered 0.2 percentage point during 1988-94.<sup>1</sup> By sector, the move to the chain index had the largest effects on growth in business fixed investment, exports, and imports, a reflection of the large share of spending on computers and related items in those sectors.

The cyclical timing of contractions and expansions in real GDP were little changed by the revision.<sup>2</sup> However, the 1990-91 recession now shows a 2 percent peak-to-trough decline in real output as opposed to the 1-1/2 percent drop previously estimated using 1987 dollars. And average growth between the first quarter of 1991 and the third quarter of 1995 is now estimated at 2.5 percent, 0.6 percentage point less than in the previously published 1987-dollar estimates.

With regard to these most recent years, real GDP growth was unchanged at 3.7 percent in 1992 but was revised down nearly

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1. These effects are calculated as the difference between the growth rates in constant 1987-dollar GDP and the previously published chain-weighted GDP index.

2. Two minor changes are the following: (1) The trough in real GDP during the 1969-70 recession now occurs in the first quarter of 1970 instead of the second quarter of 1970, and (2) the trough in real GDP during the 1980 recession occurs in the third quarter instead of the second quarter.

1 percentage point, to 2.2 percent, in 1993 and down 0.6 percentage point, to 3.5 percent, in 1994. Over the first three quarters of 1995, real GDP growth was revised down 1.3 percentage points, to a 1.4 percent annual rate. The move to chain weighting accounted for 0.8 percentage point of the downward revision to growth in 1993, 0.4 percentage point of the revision in 1994, and 0.9 percentage point of the lower growth estimate during the first three quarters of 1995.

#### Revisions to current-dollar GDP

Annual levels of current-dollar GDP were revised up between 2-1/4 percent and 3-3/4 percent over the revision period. Between 1990 and 1994, the upward revisions averaged about \$200 billion. Definitional and classification changes--as opposed to new source data--accounted for about 60 percent of these recent revisions and for an even greater proportion of the changes further back in history.

Among the components of current-dollar GDP, the largest revisions occurred in the government sector and for the most part reflect the definitional change of government consumption to include the flow of services provided by government-owned structures and equipment (including military). These flows are set equal to the estimates of the depreciation of government-owned assets; this depreciation is now also<sup>3</sup> included in the consumption of fixed capital for the economy. Accordingly, while the redefinition in the government accounts results in higher gross domestic product, the offset in consumption of capital implies that the new system has no effect on net domestic product.

Personal consumption expenditures also were revised up. Much of the revision begins to take place in the early 1980s and in large part reflects the wedging in of new estimates of owner-occupied housing services based on information from the 1991 Residential Finance Survey. Spending on nondurables was revised up beginning in the late 1960s, primarily because of higher spending on restaurant meals. Outlays for durable goods were revised down starting in 1991, in part because of more accurate measures of average prices paid for new cars. These revisions to motor vehicle purchases also reduced outlays for producers' durable equipment, as did new estimates of spending on communications equipment.

On balance, the revisions to exports and imports were relatively small. Estimates of current-dollar inventory stocks generally were revised down somewhat, which, along with the higher figures for final sales, resulted in a lower level of the inventory-to-sales ratio. The current-dollar inventory-to-sales ratio moves in the same general pattern as it did before the revision. However, the revised ratio of real inventories to real final sales shows less

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3. Measuring the service flows from government-owned assets with the assets' depreciation implicitly assumes that the net rate of return on these items is zero. BEA recognizes this conceptual problem. However, they felt their estimates were the best they could construct for now, especially given the lack of consensus on the best way to measure the rate of return on government-owned capital. And, overall, BEA believes that the improvements to the NIPA from the changes in government accounting more than outweigh the potential mismeasurement problems arising from the zero net return assumption.

of a downtrend in the early 1990s and a more noticeable upward movement in 1994-95 than did the previously published data (chart)

#### Revisions to the Income Side of the Accounts

A major revision to the income side of the accounts occurred in the calculation of depreciation of equipment and structures. In computing equipment and motor vehicles, BEA is now using prices of used equipment to estimate depreciation. Elsewhere, BEA replaced their previous straight-line-type depreciation methodology with geometric- or constant percentage- depreciation.<sup>4</sup> For long-lived assets, such as housing, the new method tends to lower average depreciation. For short-lived assets, such as many types of business equipment, average depreciation is increased.

Because rental income is net of the depreciation of the housing stock, the new depreciation measures (and the higher estimates for space rent) boosted rental income significantly. Personal income also was raised in the 1980s and 1990s by higher estimates of other labor income, reflecting new estimates of employer contributions to health insurance and pension plans.<sup>5</sup> BEA also recognized that their prior estimates had not adequately captured voluntary pre-tax contributions by employees to thrift savings plans. Revised estimates of these contributions boosted wage and salary income beginning in 1979, with the increases tapering off in recent years. In 1994, however, wages and salaries were revised down significantly on net, as a result of revised compilations from unemployment insurance data. With the exception of 1988-90, personal income also was reduced by lower estimates of nonfarm proprietors' income.<sup>6</sup>

All told, the new estimates of income and outlays resulted in upward revisions to the personal saving rate of roughly 3/4 percentage point between 1987 and 1991 and 0.4 percentage point in 1992 and 1993, but they lowered the saving rate by 0.3 percentage point in 1994 (chart). On balance, the saving rate was not revised much over the first three quarters of 1995. In contrast, the increases in depreciation and other revisions lowered economic profits over the bulk of the revision period (chart)

The changes in government sector accounting also affected the NIPA definitions of the federal government's and the state and local governments' surpluses and deficits. These concepts now explicitly are defined on a current-account basis and are measured by the difference between receipts and government consumption expenditures, transfers, net interest, and other current expenditures. Relative to the previously published deficit calculations, expenditures no

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4. Studies of used equipment prices generally find that the dollar value lost in the first year of operation exceeds the loss during the second year, the loss in the second year of operation exceeds that in the third year, and so on. The patterns of these dollar losses generally are well described by a geometric- or constant percentage- loss in value.

5. The higher estimates of health insurance contributions come from revised estimates from the Health Financing Administration. The new estimates of employer contributions to pension plans largely result from BEA changing their source of pension contributions from corporate tax returns to IRS Form 5500.

6. The revisions reflect the changes in depreciation, incorporation of new tax return data, and updated estimates of tax compliance.

longer include gross investment, but now include the depreciation of government-owned capital. The changes were especially large for the state and local sector, where gross investment generally exceeds depreciation by a wide margin. After accounting for these and other revisions, the state and local sector is now estimated to be showing surpluses (excluding social insurance funds) equal to about 1/2 percent of GDP in recent years; earlier estimates had shown deficits equal to about 1/2 percent of GDP (chart).

#### Revisions to Productivity

BLS will be releasing revised productivity figures based on BEA's new estimates of output. The Board staff estimates that the revised data will show that the growth of output per hour in the nonfarm business sector (excluding housing) averaged 1.8 percent per year during the 1960-94 period, 0.2 percentage point higher than previously reported in the 1987-dollar-based series. We estimate that labor productivity growth over 1988-94 will be 0.9 percent at an annual rate, 0.3 percentage point below the earlier estimates. On balance, the lower growth reflects the switch from measuring nonfarm business output from the income side of the accounts using constant 1987 dollars to measuring output from the spending side of the accounts using chain-weighted data.

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7. These figures are calculated using the currently published data for hours worked in the nonfarm business sector. The hours worked data are scheduled to be revised in June.

Revisions to Real GDP Growth  
(Percentage points, annual rate)

	<u>Previously published</u>		Revised	<u>Revision from previously published</u>	
	<u>1987-dollar</u>	<u>Chain-type</u>		<u>1987-dollar</u>	<u>Chain-type</u>
1960-94	3.0	3.2	3.2	2	.0
1960-87	3.1	3.4	3.4	3	.0
1988-94	2.3	2.1	2.2	1	1
1990	.2	3	2	.4	.5
1991	3	1	.4	1	.3
1992	3.7	3.4	3.7	.0	3
1993	3.1	2.3	2.2	.9	.1
1994	4.1	3.7	3.5	.6	.2
1995 <sup>1</sup>	2.7	1.8	1.4	-1.3	-.4

1. Growth between 1994:Q4 and 1995:Q3, annual rate.

Sources of Revisions to Real GDP Growth  
(Percentage points, annual rate)

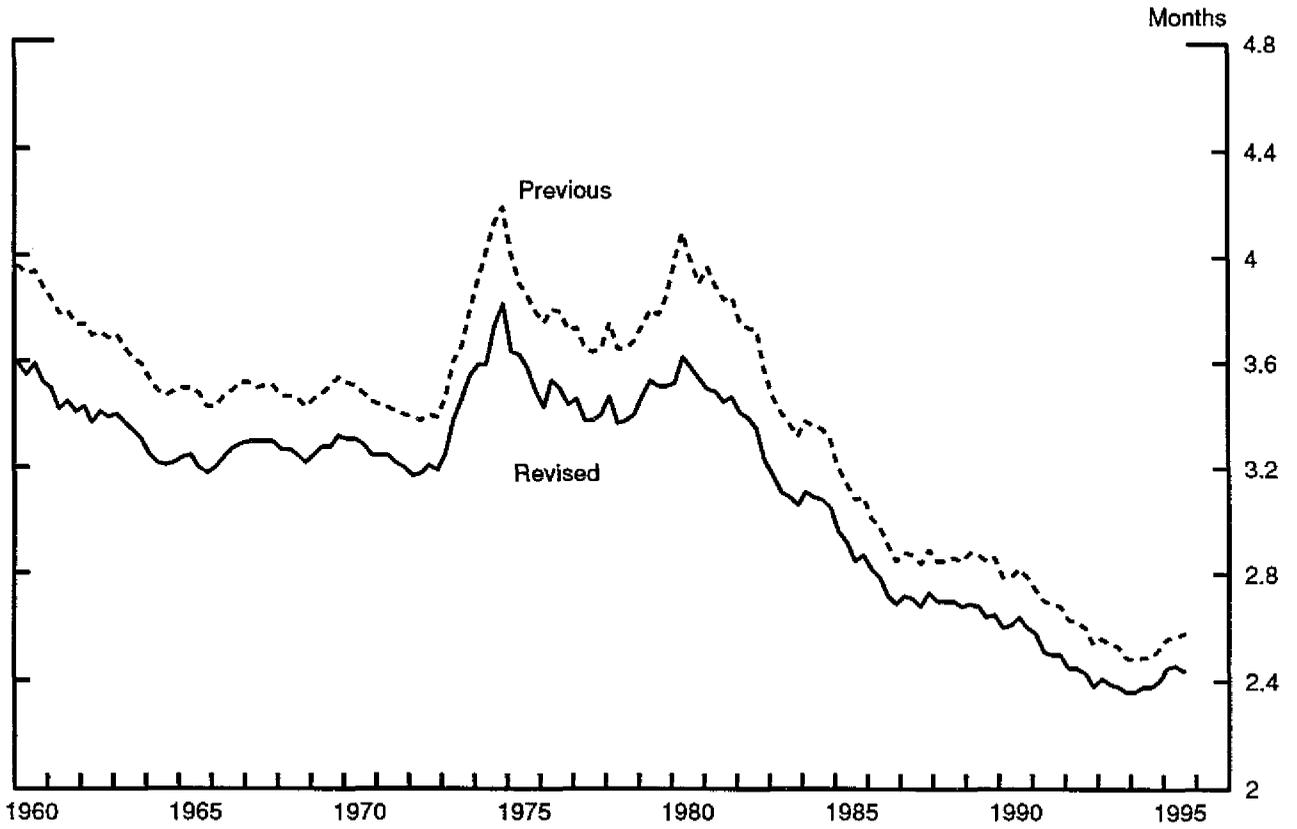
	<u>Revision from</u>	<u>Current-dollar</u>	<u>Change in</u>	<u>Other<sup>1</sup></u>
	<u>1987-dollar</u>	<u>revision</u>	<u>featured index</u>	
1960-94	.2	.0	.2	.0
1960-87	3	.0	.3	.0
1988-94	.1	1	.2	.2
1990	.4	.3	.0	.1
1991	1	.3	.2	.0
1992	.0	1	.3	.4
1993	.9	.3	.8	.2
1994	.6	.5	.4	.3
1995 <sup>2</sup>	-1.3	-.1	-.9	-.3

1 Largely reflects revisions to prices.

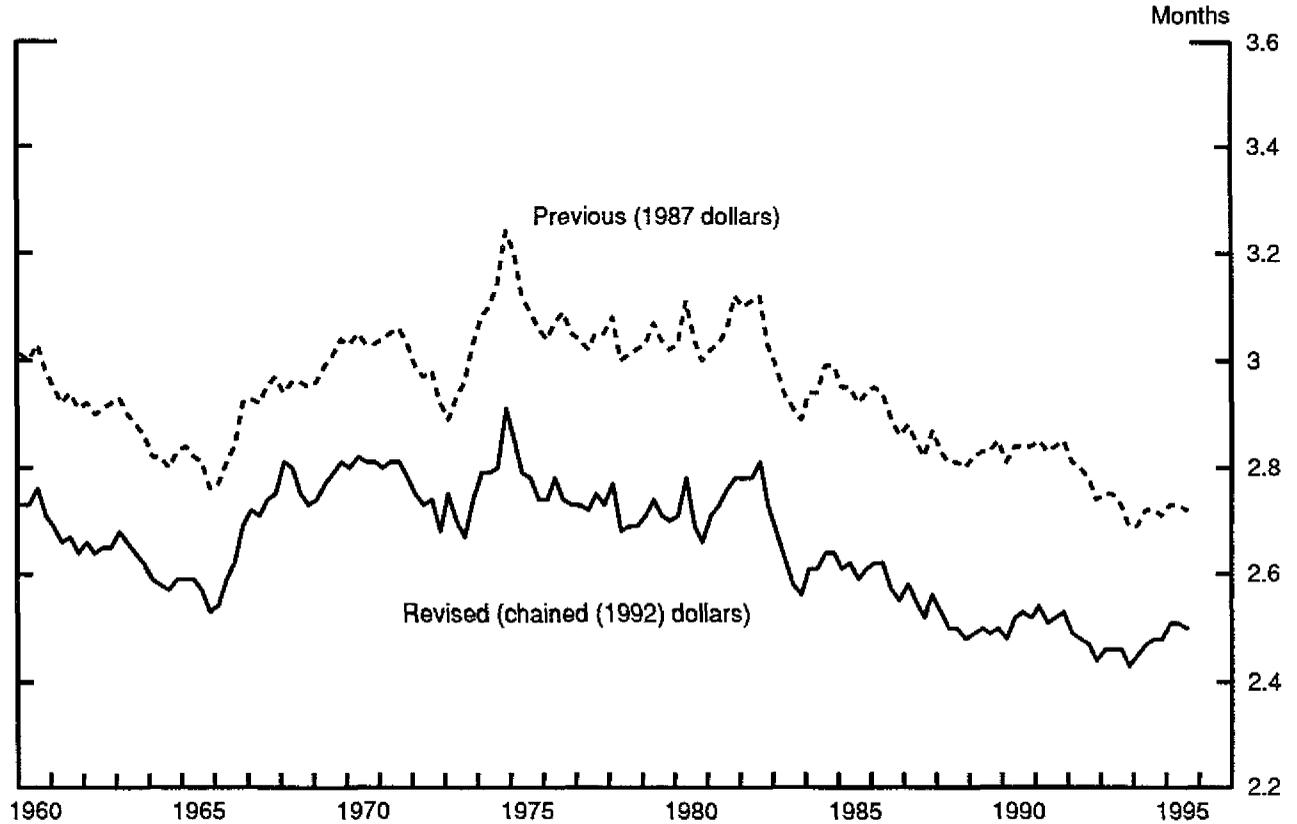
2. Growth between 1994:Q4 and 1995:Q3, annual rate.

### Ratio of Total Inventories to Final Sales

Current Dollars

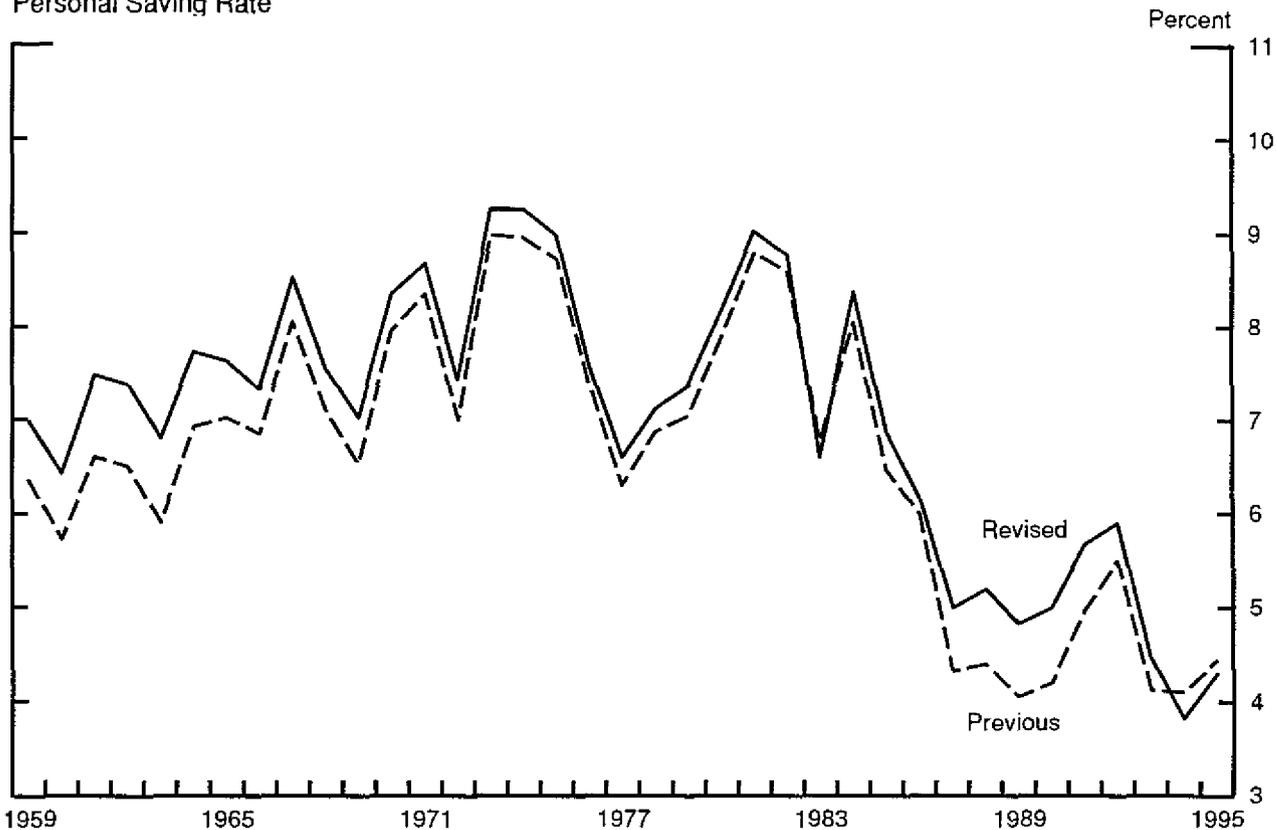


Constant Dollars

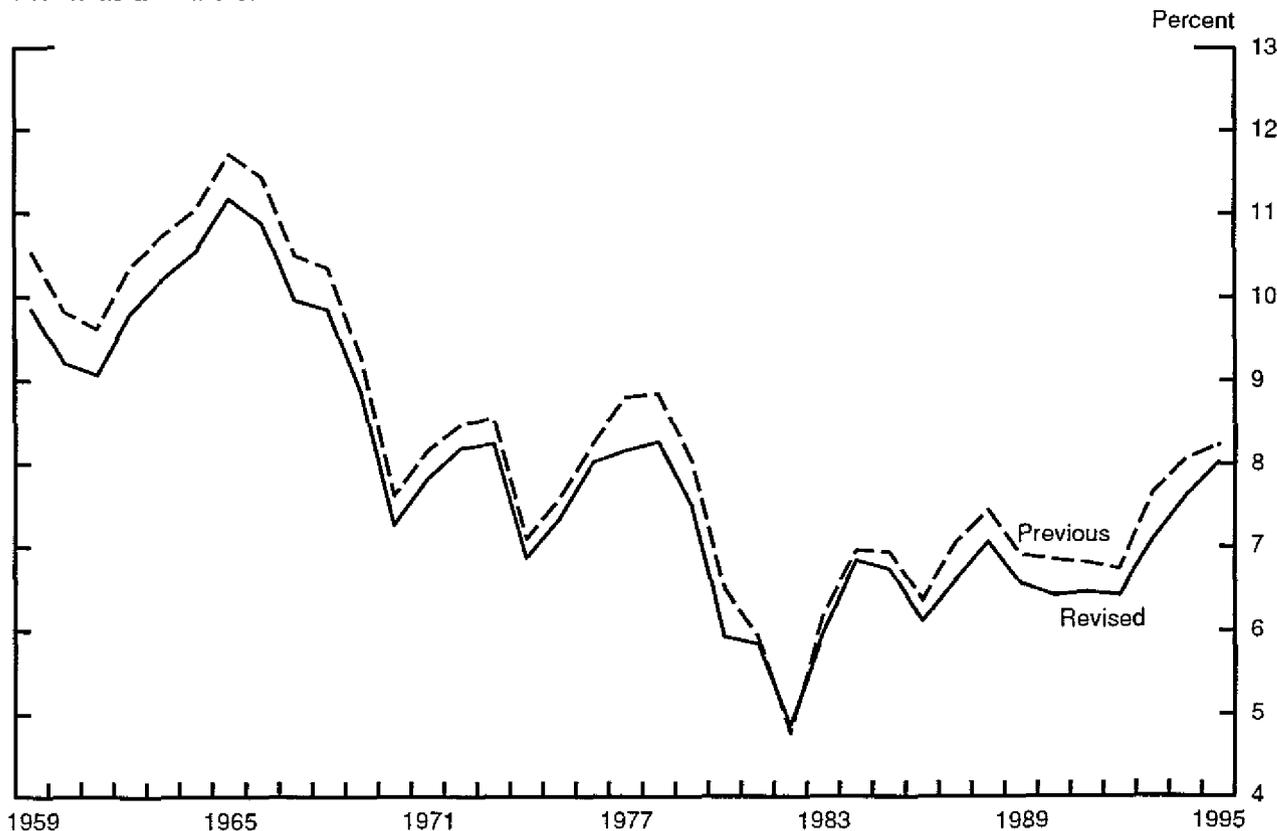


### Revisions to Personal Saving Rate and Profit Share

Personal Saving Rate

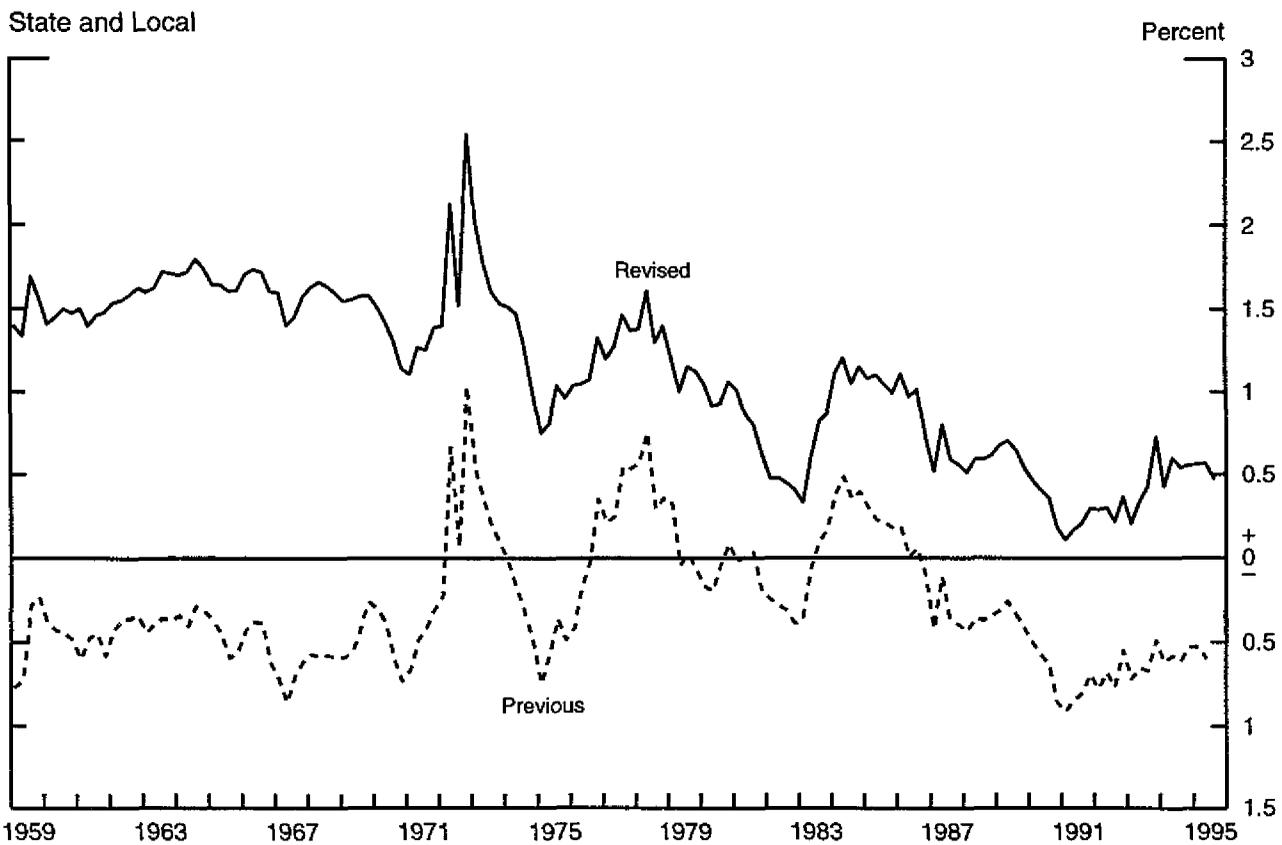
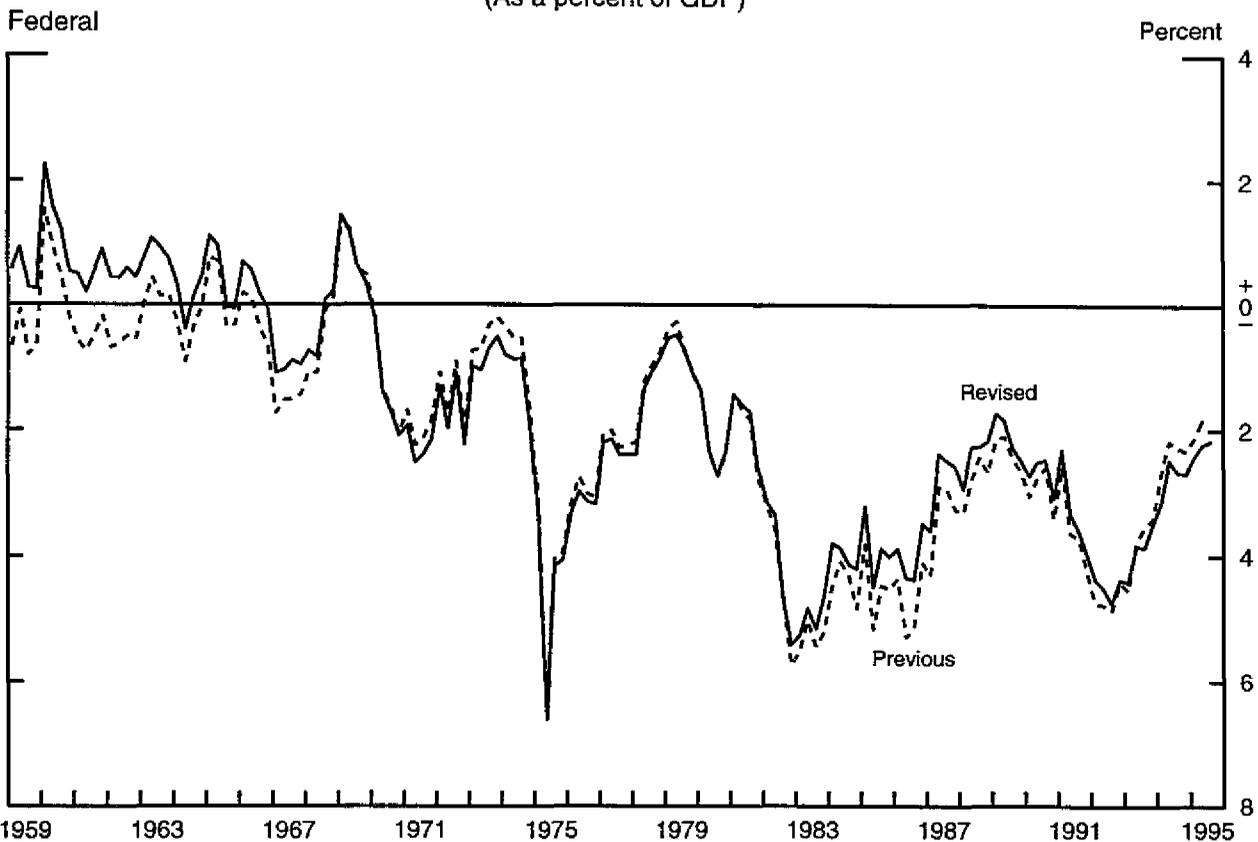


Profits as a Share of GNP



### Government Current Account Surplus

(As a percent of GDP)



Note. Previous is the surplus of operating and capital accounts. The state and local surplus excludes social insurance funds.

## APPENDIX B

### EFFECTS OF THE GOVERNMENT SHUTDOWN AND EAST COAST BLIZZARD ON DATA QUALITY

#### Summary

We have been querying the staffs at the Census Bureau and the Bureau of Labor Statistics concerning the effects of the government shutdowns and the East Coast snowstorm on the agencies' statistical releases. Most releases will be published several weeks late because of delayed surveys and lost processing time. (The attached table contains the current tentative release schedule.)

The delays ought to allow Census and BLS to process enough data so that survey coverage and data quality will not be severely compromised. However, a problem may arise with the GPI, PPI, and housing data: Their monthly percent changes could be distorted because some source data are being gathered at different times of the month than they usually are.

#### Retail Sales

Data on retail sales for November (preliminary) and December (advance) are scheduled to be released January 30, and the January advance report is planned for February 28. Both releases are a bit more than two weeks later in the month than originally scheduled. Our contact at Census indicated that normal procedures are being followed and that the data will be in good shape.<sup>1</sup> Indeed, our contact indicated that the advance data might be a bit better than usual: Because of the delay in collecting the data, Census should be able to pick up some late reporters that otherwise would not have been incorporated until the second estimate.

#### Business Fixed Investment

The reports on manufacturers' orders and shipments of durable goods for November and December will be released together on February 15.

About one-third of the respondents to the M-3 survey provide their data using touchtone phones, and these responses were unaffected by the government shutdowns and the snowstorm. The other respondents fill in surveys mailed to them by the Census Bureau. The November survey was mailed on time, and Census feels the month-and-a-half delay in publication will enable them to process sufficient information to allow the November report to be the "final" data for the month. The December survey was mailed January 11, about two weeks later than normal. Census feels the three-week delay in publication of these data will enable them to process about as many responses as they usually do for a "preliminary" report.

Data on construction put-in-place for November and December also will be published together on February 15. These data are based on surveys of builders. Construction permits for November are scheduled to be released January 25, and permits for December likely

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<sup>1</sup> Our contact indicated that a report in the *Washington Post* suggesting that Census lacked retail sales data for December was incorrect

will follow about two weeks after that. These data are based on surveys of permit-issuing offices. The November surveys for both construction-put-in-place and permits were mailed on their normal schedule, but the December questionnaires went out about two weeks late.

### Inventories

Manufacturing inventories for November and December will be released on February 15 in conjunction with the manufacturers' orders and shipments data. The wholesale inventory data for November were released on January 26, and the retail inventory data for November are scheduled to be published during the week of February 12. Trade sector inventory data are collected in the same surveys as those that gather the monthly sales data.<sup>2</sup> Our contacts did not anticipate any problems affecting data quality. Although the November retail surveys were mailed late, the publication delay ought to allow Census to maintain at least the usual survey coverage; in fact, our contacts felt the delays might result in improved response rates. However, our contacts indicated that they are far enough behind in processing data that the wholesale and retail reports for December, January, and possibly February also will be delayed.

### Housing

Housing starts and permits for both December and January are scheduled to be released on February 23.

The principal housing data stem from field samples of permit offices (in permit-issuing places) and of housing starts (in non-permit areas) by the Census Bureau. These surveys were delayed in January by the government shutdown. Furthermore, the snowstorm may have prevented some site visits in non-permit-issuing areas. The storm also may have blocked some site interviews in permit-issuing places that are used to augment the regular telephone follow-ups that identify when construction on units with permits is started and when units for sale are sold.

These delays and the missed sampling can cause a variety of problems. First, smaller samples increase statistical noise. Second, some permit offices have very poor recordkeeping, and our Census contacts are concerned that the delays may make it more difficult than usual to correctly allocate permits from these offices between December and January. Finally, Census uses the reported permit and start data to impute values for late responses and for starts that occur before permit issuance. Similar imputations are made for sales of units that occur before permit issuance. When sampling is delayed--as it was in January--Census may receive more responses than usual, so that automatic application of the regular imputation factors would result in an overestimate of starts and sales. Census does not plan to change its imputation methods to account for this possibility.

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2. In retailing, this survey is the one that also produces the preliminary retail sales report. Response rates for inventories generally are not as high as those for sales, however.

International Trade

The international trade data for November, originally scheduled for publication on January 19, are now scheduled to be released the week of February 5. Customs agents were at work during both government shutdowns, and all import and export documents were collected as usual. Pushing back the publication date will allow for full compilation of all statistics (including late reporters) with no reduction in data quality.

Prices

The December PPI will be released on January 31 and the December CPI on February 1; these publication dates are about two weeks later than usual. The January PPI is scheduled for release, as originally scheduled, on February 14, but the January CPI likely will be delayed about two weeks, to February 28.

Our CPI contact at BLS estimated that the number of price quotes incorporated in the December CPI will have been only about 2 percent less than the number used in last December's index. Our contact would not venture a guess on what the sample coverage would be in the January index. To get as large a sample as possible, BLS is allowing more than the usual amount of telephone interviewing in place of on-site data collection when needed--for example, when snow prevented site visits. Still, smaller sample sizes could increase the statistical noise in the CPI.

The CPI also will be affected by changes in the timing of data collection. In anticipation of the government shutdown, BLS accelerated its data collection last month; in contrast, the shutdown is delaying data collection in January.<sup>3</sup> All else equal, these timing perturbations will trim the monthly percent change in the CPI in December and February but boost the change in January; however, given underlying inflation rates, the Board staff estimates that the distortions ought to be less than 0.1 percentage point per month. BLS will not make any statistical adjustments to account for the timing problems, but it plans to include an explanation of the procedural changes in the CPI press release.

Our PPI contact did not see any problems with the quality of the December data: The forms went out on the usual schedule, and since then, responses have "just been piling up in the mail room." Some problems may occur in January, however. Normally, the forms would have been in respondents' hands by the January 9 pricing date for the PPI; instead the forms were mailed out between January 11 and January 19. This delay means that prices for the 9th will be based on memory, which risks errors in recall or the substitution of prices from later in the month. On the other hand, BLS does not expect any sample attrition due to the late mailings or the snowstorm.

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3. Ordinarily, the CPI price quotes for January through October are collected during the first eighteen working days of the month; due to the extra holidays, data for November and December usually are collected during the first fifteen working days of the month. After accounting for weekends and holidays, without the shutdown, last month's price quotes would have been collected by December 21, and this month's data would be in by January 26. Instead, the December data probably were collected by the 15th, and the January price quotes will be gathered between the 8th and the 31st.

Labor Markets

As noted in the labor market section, the government shutdown prevented BLS from providing its usual revisions to the November establishment survey. As a result, the levels of employment, hours, and earnings in November and December may contain more statistical noise than usual. The December establishment survey data were transmitted late to the BLS by the state offices. This delay resulted in larger-than-usual response rates, which may have improved the estimates of the change in employment between November and December. On the other hand, the survey may have been affected by the compressed time available to process the data by BLS staff. Indeed, Board staff observed some anomalies in the four-digit SIC manufacturing data used in the construction of the industrial production index, and we are concerned that similar aberrations may exist in the data outside of manufacturing.

The January establishment survey also was collected late, but the follow-ups are on schedule. With short time, the process used to review revisions to data in December will be slightly less complete than usual. Otherwise, in the absence of another shutdown, processing should proceed according to normal procedures. The January labor market report is scheduled to be released on February 2, its regular publication date.

The December household survey was collected according to the usual schedule, and the follow-ups were completed on time. Although the response rate was lower than usual, BLS considers the sample coverage to be adequate.<sup>5</sup> However, the introduction of new seasonal factors, which usually takes place in December, has been postponed. The January household survey is being conducted this week according to the regular schedule.

The employment cost index for the fourth quarter will be delayed from January 30 to February 13. However, because the data are drawn from permanent payroll records, data quality should be unaffected.

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4. Because the data are based on permanent payroll records, BLS does not expect the late transmission to result in response errors such as those that might plague the PPI.

5. The household survey was collected during the week of December 5, but BLS ordinarily collects the December household survey a week early to avoid reporting problems around the holidays. Still, the response rate to the December survey was somewhat lower than usual; responses were unavailable from 9.2 percent of the households in the CPS sample, as compared with the 6.2 percent to 7.2 percent nonresponse rate usually experienced.

## Statistical Release Schedule (Tentative)

Release	Reference Date	Release Dates	
		Old	New
Housing starts	November	12/19	1/16
Internat'l trade	October	12/20	1/17
Employment situation	December	1/5	1/19
GDP	1995:Q3 (prelim.)	12/19	1/19
NIPAs	Historical revisions	12/19	1/19
Personal income	October	12/21	1/23
and consumption	November	12/21	1/23
New home sales	November	1/3	1/24
Wholesale trade	November	1/9	1/26
Retail sales	December (adv.)	1/12	1/30
PPI	December	1/11	1/31
CPI	December	1/12	2/1
Employment situation	January	2/2	2/2
Internat'l trade	November	1/19	week of 2/5
Retail inventories	November	1/17	week of 2/12
ECI	1995:Q4	1/30	2/13
PPI	January	2/14	2/14
Manufacturers'	November (final)	1/4	2/15
shipments, orders	December (prelim.)	1/25	2/15
and inventories			
Construction put-	November	1/2	2/15
in-place	December	2/1	2/15
Wholesale trade	December	2/7	2/15
GDP	1995:Q4 (adv.)	1/26	2/23
Housing starts	December	1/18	2/23
	January	2/16	2/23
Personal income	December	1/29	2/26
and consumption			
CPI	January	2/14	2/28
Retail sales	January (adv.)	2/13	2/28
Retail inventories	December	2/14	2/29
Investment plans			
survey	1996	2/23	week of 3/25

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# **DOMESTIC FINANCIAL DEVELOPMENTS**

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Selected Financial Market Quotations<sup>1</sup>

(Percent except as noted)

Instrument	1994		1995	1996	Change to Jan. 25, 1996 from:			
	Feb. 3	High	FOMC, Dec. 18	Jan. 25	1994 Feb. 3	1994 high	FOMC, Dec. 18	
<b>Short-term Rates</b>								
Federal Funds <sup>2</sup>	3.07	5.66	5.75	5.46	2.39	-.20	-.29	
<b>Treasury Bills<sup>3</sup></b>								
3-month	3.13	5.78	5.20	4.97	1.84	-.81	-.23	
6-month	3.27	6.38	5.18	4.91	1.64	-1.47	-.27	
1-year	3.52	6.84	5.09	4.80	1.28	-2.04	-.29	
<b>Commercial paper</b>								
1-month	3.16	6.13	5.92	5.50	2.34	-.63	-.42	
3-month	3.25	6.32	5.66	5.34	2.09	-.98	-.32	
<b>Large negotiable CDs<sup>3</sup></b>								
1-month	3.11	6.10	5.82	5.43	2.32	-.67	-.39	
3-month	3.25	6.39	5.67	5.34	2.09	-1.05	-.33	
6-month	3.41	6.89	5.52	5.20	1.79	-1.69	-.32	
<b>Eurodollar deposits<sup>4</sup></b>								
1-month	3.06	6.06	5.78	5.44	2.38	-.62	-.34	
3-month	3.25	6.38	5.69	5.31	2.06	-1.07	-.38	
Bank Prime Rate	6.00	8.50	8.75	8.50	2.50	.00	-.25	
<b>Intermediate- and Long-term Rates</b>								
<b>U.S. Treasury (constant maturity)</b>								
3-year	4.60	7.82	5.51	5.23	.63	-2.59	-.28	
10-year	5.81	8.04	5.85	5.70	-.11	-2.34	-.15	
30-year	6.31	8.16	6.20	6.11	-.20	-2.05	-.09	
Municipal revenue (Bond Buyer) <sup>5</sup>	5.49	7.37	5.79	5.77	.28	-1.60	-.02	
Corporate-A Utility, recently offered	7.35	9.05	7.17	7.13	-.22	-1.92	-.04	
<b>Home mortgages<sup>6</sup></b>								
FHLMC 30-yr fixed rate	6.97	9.25	7.15	7.00	.03	-2.25	-.15	
FHLMC 1-yr adjustable rate	4.12	6.79	5.55	5.37	1.25	-1.42	-.18	
<b>Stock Exchange Index</b>								
	Level	Record high Date	1989 Low, Jan. 3	1995 FOMC, Dec. 18	1996 Jan. 25	Percentage change to Jan. 25 from:		
						Record high	1989 low	FOMC, Dec. 18
Dow-Jones Industrial	5242.84	1/24/96	2144.64	5075.21	5216.83	-.50	143.25	2.79
NYSE Composite	332.63	1/12/96	154.00	323.66	330.55	-.63	114.64	2.13
NASDAQ (OTC)	1069.79	12/4/95	378.56	1002.56	1035.95	-3.16	173.66	3.33
Wilshire	6096.11	1/12/96	2718.59	5915.97	6043.66	-.86	122.31	2.16

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 maintenance period ending January 31, 1996.

3. Secondary market.

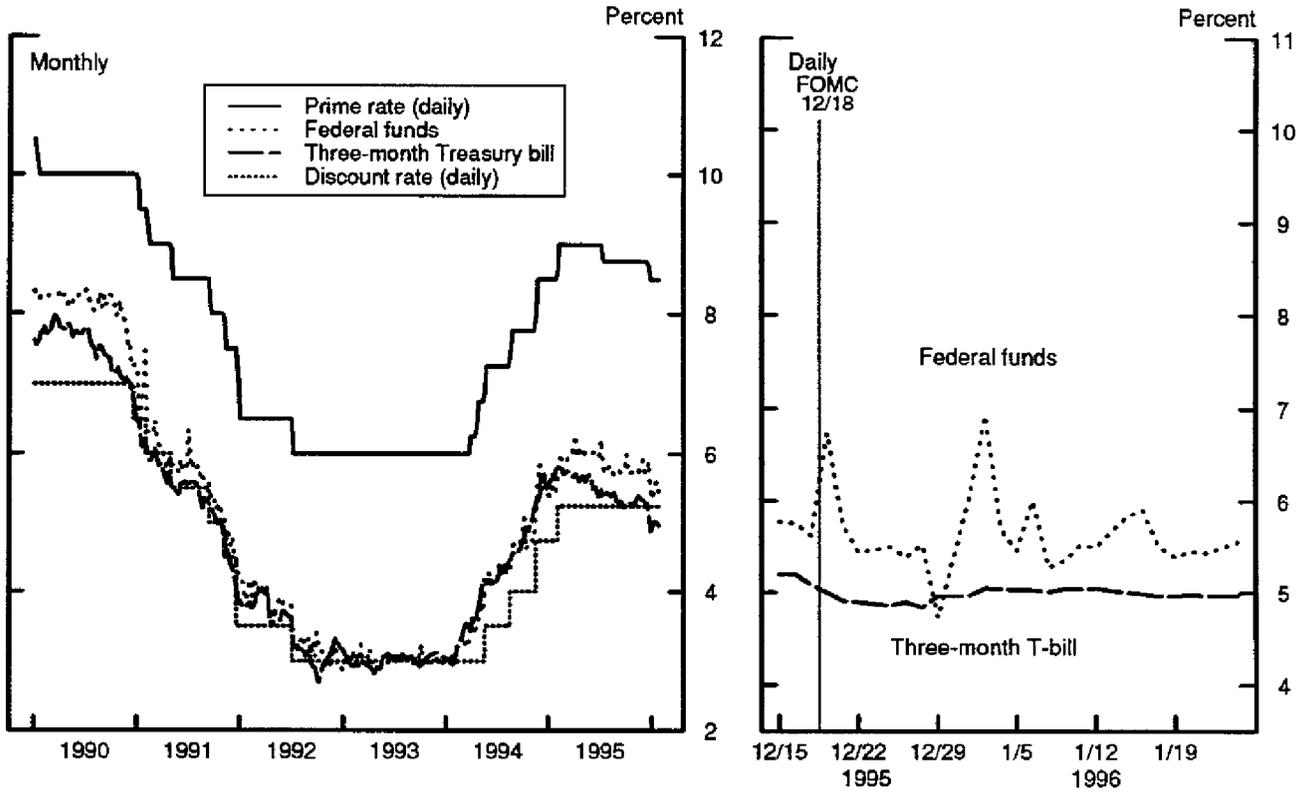
4. Bid rates for Eurodollar deposits at 11 a.m. London time.

5. Most recent observation based on one-day Thursday quote and futures market index changes.

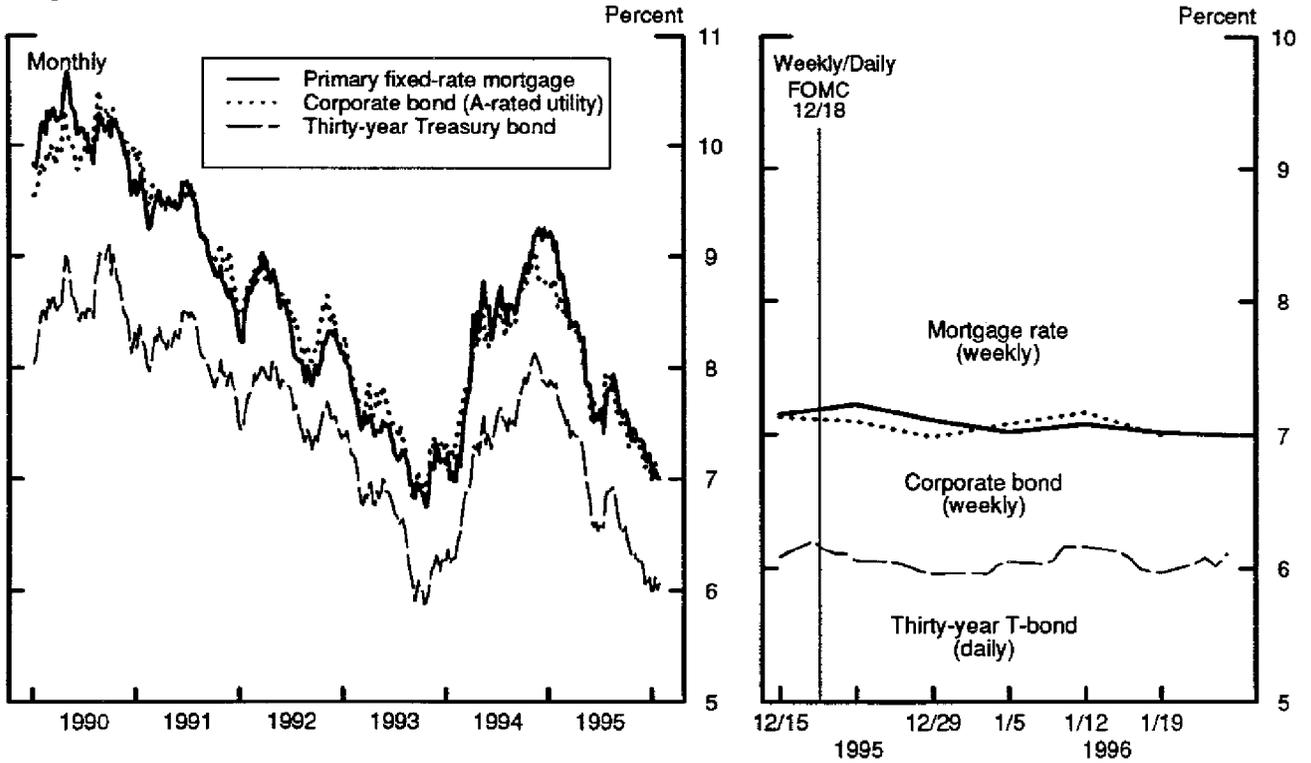
6. Quotes for week ending Friday previous to date shown.

# Selected Interest Rates

## Short-Term



## Long-Term



## DOMESTIC FINANCIAL DEVELOPMENTS

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Most market interest rates declined slightly in the wake of the System's announcement at the close of the December FOMC meeting of a 25 basis point easing in the intended federal funds rate. Major commercial banks followed the System's action by lowering the prime rate a quarter point, to 8-1/2 percent.

After this initial reaction, interest rates have fluctuated widely in response to incoming news about the economy and the federal budget. On balance, market participants seem to anticipate at least a near-term dose of federal expenditure restraint and have interpreted incoming data as suggesting only modest economic growth. Consequently, they have built in greater likelihood for a further easing in System policy, and interest rates have declined somewhat. Treasury note and bond yields are currently down about 10 basis points to 30 basis points. Interest rate declines have helped bolster stock prices; major equity indexes are up about 2 percent to 3-1/2 percent from their levels at the time of the December FOMC meeting.

Gross public issuance of bonds by nonfinancial corporations dropped off in late December but has bounced back in January. With long-term interest rates remaining close to their recent lows, corporations have continued to favor longer-term financing. In the household sector survey data on loan applications point to a pickup in home mortgage borrowing; however growth of consumer credit in November was somewhat less robust than in earlier months. In the state and local sector, the volume of outstanding tax-exempt bonds contracted about \$11 billion in the fourth quarter. Federal borrowing was relatively weak last quarter; spending was constrained

MONETARY AGGREGATES  
(Based on seasonally adjusted data)

Aggregate or component	1995	1995		1995			1994:Q4 to Dec. 95 (p)	Level (bil. \$) Dec. 95 (p)
		Q3	Q4 (p)	Oct.	Nov.	Dec. (p)		
<u>Aggregate</u>		<u>Percentage change (annual rate)<sup>1</sup></u>						
1. M1	-1.8	-1.5	-5.1	-8.8	-2.9	-4.5	-1.9	1124.8
2. M2 <sup>2</sup>	4.2	7.0	4.0	2.4	3.7	5.7	4.3	3670.8
3. M3	6.1	8.0	4.4	3.9	2.8	4.3	6.0	4584.4
<u>Selected components</u>								
4. Currency	5.4	2.1	3.7	4.2	2.3	5.2	5.3	373.1
5. Demand deposits	1.4	5.7	-0.3	-4.0	0.6	4.9	1.6	389.9
6. Other checkable deposits	-11.2	-11.7	-18.8	-27.1	-12.2	-24.6	-11.7	352.9
7. M2 minus M1 <sup>3</sup>	7.2	11.0	8.2	7.5	6.7	10.2	7.4	2546.0
8. Savings deposits	-3.3	3.5	7.9	8.4	4.8	15.0	-2.2	1134.7
9. Small time deposits	14.9	8.4	4.3	3.8	5.4	2.7	14.1	936.2
10. Retail money market funds	22.6	36.5	16.9	12.8	14.0	13.8	22.2	475.1
11. M3 minus M2 <sup>4</sup>	14.4	12.1	6.2	9.9	-0.8	-1.4	13.2	913.6
12. Large time deposits, net <sup>5</sup>	15.7	13.3	18.2	28.4	17.5	8.9	15.6	419.4
13. Institution-only money market mutual funds	22.9	27.7	9.3	10.3	2.1	12.9	22.0	226.4
14. RPs	4.9	-5.6	-14.2	-8.7	-38.3	-47.3	0.9	177.8
15. Eurodollars	9.9	12.9	-7.8	-9.0	-32.2	-17.2	7.2	89.3
<u>Memo</u>								
16. Monetary base	4.1	1.0	2.4	3.1	0.8	4.7	4.0	434.4
17. Household M2 <sup>6</sup>	4.6	7.1	4.4	3.0	4.1	5.7	4.6	3280.2
		<u>Average monthly change (billions of dollars)<sup>7</sup></u>						
<u>Memo</u>								
Selected managed liabilities at commercial banks:								
18. Large time deposits, gross	5.5	6.4	4.9	6.4	3.2	-0.8	. . .	435.5
19. Net due to related foreign institutions	3.5	2.5	4.7	5.1	3.9	-4.7	. . .	258.3
20. U.S. government deposits at commercial banks	-0.1	1.5	-1.8	-1.9	-0.6	4.2	. . .	21.7

1. For the years shown, fourth quarter-to-fourth quarter percent change. For the quarters shown, based on quarterly averages.

2. Sum of seasonally adjusted M1, retail money market funds, savings deposits, and small time deposits.

3. Sum of retail money funds, savings deposits, and small time deposits, each seasonally adjusted separately.

4. Sum of large time deposits, institutional money funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees, each seasonally adjusted separately.

5. Net of holdings of depository institutions, money market mutual funds, U.S. government, and foreign banks and official institutions.

6. M2 less demand deposits

7. For the years shown, 'average monthly change' is the fourth quarter-to-fourth quarter dollar change, divided by 12. For the quarters shown, it is the quarter-to-quarter dollar change, divided by 3.

p--Preliminary. n.s.a.--Not seasonally adjusted.

Note: Data incorporate revisions from the annual benchmark and seasonal review, as well as a redefinition of the M2 aggregate, involving a shift of overnight RPs and Eurodollars to non-M2 M3.

by the federal budget impasse, and the Treasury placed greater-than-usual reliance on its cash balance because of the debt ceiling constraint

Monetary Aggregates and Bank Credit<sup>1</sup>

The growth rates of the broad monetary aggregates picked up in December but they remained below the levels posted in the spring. M2 expanded at about a 5-3/4 percent annual pace in December, buoyed by strong growth in savings deposits (table)<sup>2</sup> Part of the surge in savings deposits reflected a shift of funds from OCDs (other checkable deposits) resulting from new sweep programs at nine additional bank holding companies. Still adjusted for sweeps, savings deposits grew at a 5-1/2 percent annual rate. Growth of retail money market funds remained strong in December as the spread of rates on money market instruments over those on money funds narrowed, and the continued flatness of the yield curve provided little incentive for investors to turn to longer maturity instruments. Growth in M2 appears to have increased a bit further in January.

M1 fell at a 4-1/2 percent annual rate in December, as the OCD sweep programs cut 10 percentage points from the growth rate of this aggregate. The decline in OCDs offset increased strength in other M1 components. Demand deposits grew at a 5 percent pace, boosted in part by an increase in mortgage refinancings (associated prepayments of securitized mortgages are temporarily held in liquid deposits)

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1 The monetary data in the Greenbook incorporate new benchmarks and seasonal adjustments. In addition, the M2 data reflect a minor revision of the definition of the aggregate, which involves a shift of overnight Eurodollars and overnight wholesale RPs from M2 to non-M2 M3. These data are scheduled to be published in mid-February and are strictly confidential until that time.

2. On a fourth-quarter to fourth-quarter basis, M2 expanded 4-1/4 percent during 1995, using either the old or the new definition.

**COMMERCIAL BANK CREDIT**  
(Percentage change; seasonally adjusted annual rate)<sup>1</sup>

Type of credit	1995	1995 Q3	1995 Q4	1995 Oct	1995 Nov	1995 Dec	Level, Dec 1995 (billions of \$)
1. Total loans and securities	8.0	6.0	2.8	.9	1.5	1.2	3,573.9
2. Securities	2.9	-3.0	.7	-1.3	-4.6	1.5	983.3
3. U.S. government	-3.1	-2.0	1.9	8.1	0.0	-6.6	708.7
4. Other <sup>2</sup>	22.6	-5.6	-2.2	-25.4	-16.7	22.7	274.6
5. Loans <sup>3</sup>	10.1	9.6	3.6	1.8	3.8	1.2	2,590.6
6. Business	10.9	7.3	4.3	.9	8.4	4.1	711.0
7. Real estate	8.3	9.1	2.7	3.1	1.7	-3.0	1,073.4
8. Home equity	5.5	6.7	3.6	0.0	6.1	4.6	79.4
9. Other	8.5	9.3	2.6	3.4	1.2	-3.5	994.0
10. Consumer	10.1	9.6	4.5	-2	5.2	3.9	492.8
11. Adjusted <sup>4</sup>	16.1	15.4	13.9	10.3	15.2	13.6	615.9
12. Security	12.0	5.6	-18.4	-33.0	-11.3	-54.3	80.2
13. Other <sup>5</sup>	15.9	21.4	12.4	16.6	2.6	26.3	233.2

1. Monthly levels are *pro rata* averages of Wednesday data. Quarterly and annual levels (not shown) are simple averages of monthly levels and levels for the fourth quarter respectively. Growth rates shown are percentage changes in consecutive levels, annualized but not compounded.

2. Includes municipal securities, foreign government securities, corporate bonds, equities, and trading account assets.

3. Excludes interbank loans.

4. Includes estimates of consumer loans that have been securitized by banks and are still outstanding.

5. Includes loans to nonbank financial institutions, farmers, state and local governments, banks abroad, foreign governments, and all others not elsewhere classified. Also includes lease financing receivables.

Currency growth also has picked up in recent months, after slow expansion in the summer and early fall

M3 expanded slightly more than 6 percent during 1995, just above the upper limit of its annual growth cone. Growth was more modest last month, however, at about a 4-1/4 percent annual pace, reflecting a drop in its non-M2 components. Growth of large time deposits slowed further largely because of a drop at agencies and branches of foreign banks, whose assets continued contracting in December. M3 in January appears to have accelerated, boosted by strong inflows to institution-only money funds. Large time deposits also appear to have picked up, and RPs have turned around.

Bank credit expanded quite sluggishly in December for the third consecutive month (table). Securities holdings increased, but the gains were the result of revaluations rather than purchases. Indeed, banks sold securities on net, likely reflecting in part a temporary easing of the accounting rules regarding sales of securities categorized as held-to-maturity.<sup>3</sup> Weakness in all major categories reduced loan growth in December to a sluggish 1-1/4 percent annual pace. Growth of business loans late last year likely was held down in part by some substitution toward capital market financing by nonfinancial businesses. Nonetheless, preliminary data for January suggest that business loan growth has strengthened noticeably. Growth of real estate loans also appears to have picked up in early January after having fallen at a 3 percent annual rate in December; the strength in January is largely attributable to bank acquisitions of thrifts.

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3. The Financial Accounting Standards Board allowed banks to make a one-time reallocation of their investment account securities from the held-to-maturity classification to the available-for-sale category between November 15 and December 31, 1995.

In the January Senior Loan Officer Opinion Survey, banks indicated no change, on net, in standards for approving home mortgages and a slight increase in demand for these loans. Nevertheless, a third of the domestic respondents indicated they had experienced a slowdown in recent months in the growth of residential mortgages on their books. Banks indicating such a slowdown placed equal importance on reduced originations--reflecting partly a seasonally weaker housing market--and increased securitization of real estate loans as reasons for the slowing.

Despite some market fears that declining asset quality could constrain bank profitability, earnings at large bank holding companies were strong last quarter. Bank profits were buoyed by loan growth, reduced deposit insurance premiums, and industry efforts to cut costs. The increase in loans helped support net interest margins last year, as banks shifted their portfolios away from securities, which generally carry lower yields. Although margins at the large holding companies narrowed some from the year-earlier quarter, average margins remained high by historical standards. Trading results were mixed but evidently improved on balance. On the down side, provisions for loan losses and charge-offs of nonperforming loans increased at many banks, but the rises were generally modest.

#### Mutual Funds

Net sales of long-term mutual funds increased in November and December, largely reflecting continued strong inflows into equity funds (table). Investor demand for domestic equity funds held firm, and interest in international equity funds picked up. Although a sizable portion of the recent inflows is attributable to reinvested distributions, mutual fund complexes report that net new sales of stock funds also remained strong, despite the potential tax

liability from capital gains distributions. Spurred by the highest total returns since 1991, net sales of stock funds for all of 1995 totaled a record \$144 billion, surpassing the previous high reached in 1993. Preliminary data indicate that stock fund inflows remained heavy through mid-January.

NET SALES OF MUTUAL FUNDS CLASSIFIED BY TYPE  
(Billions of dollars, monthly rate, not seasonally adjusted)

	1994	1995 <sup>e</sup>	1995				Memo: Nov. Assets
			Q3	Q4 <sup>e</sup>	Nov.	Dec. <sup>e</sup>	
Total stock	11.0	12.3	14.1	17.0	15.0	26.3	1,243.5
International	3.8	1.2	1.3	1.7	1.2	3.6	190.5
Domestic	7.2	11.2	12.8	15.2	13.7	22.6	1,053.0
Total bond	-1.4	1.8	2.5	3.5	4.1	2.9	790.1
GNMA	-1.3	-.3	-.2	-.2	-.2	-.3	55.3
Government	-1.5	-.4	-.2	-.2	-.1	-.6	87.9
High-yield	.2	.9	.9	1.0	.8	.8	58.3
Tax-exempt	-.7	.1	.1	.4	.9	.1	252.4
Income	2.2	1.5	1.8	2.3	2.3	2.6	272.1
Other	-.3	-.1	.0	.2	.4	.2	64.0
Total money fund	3.6	11.3	11.3	9.5	15.9	.3	762.4
Taxable	3.1	10.4	10.3	8.3	13.7	1.2	635.5
Tax-exempt	.5	1.0	1.0	1.2	2.2	-.9	126.9

<sup>e</sup> Staff estimate.

Source. Investment Company Institute.

Income and high-yield bond funds accounted for virtually all of the net sales of bond funds last year, and they continued to post inflows in December and early January. Funds in the income category contain some equity exposure, which partly accounts for the strong investor interest in such funds. For the past year as a whole, bond funds registered positive net sales, reversing the outflows in 1994 but falling far short of the record pace in 1993.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS<sup>1</sup>  
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1994	1995 <sup>P</sup>	1995				
			Q3	Q4 <sup>P</sup>	Oct. <sup>P</sup>	Nov. <sup>P</sup>	Dec. <sup>P</sup>
All U.S. corporations	40.62	45.59	46.26	48.35	50.71	55.42	38.94
Stocks <sup>2</sup>	5.50	6.03	6.41	7.59	9.57	7.63	5.57
Bonds	35.11	39.56	39.86	40.77	41.14	47.79	33.37
<u>Nonfinancial corporations</u>							
Stocks <sup>2</sup>	3.13	4.37	4.60	5.67	7.33	5.46	4.23
Sold in U.S.	2.92	4.03	4.31	5.24	6.47	5.18	4.07
Utility	.37	.31	.24	.40	.10	.39	.71
Industrial	2.54	3.72	4.07	4.84	6.37	4.78	3.36
Sold abroad	.22	.34	.29	.43	.86	.28	.16
Memo:							
Initial public offerings <sup>3</sup>	1.14	1.70	1.26	2.56	3.69	2.17	1.81
Bonds	7.35	9.50	8.79	10.57	10.50	12.30	8.90
Sold in U.S.	6.44	8.25	7.31	9.43	9.10	10.90	8.30
Utility	2.19	2.84	2.89	3.36	3.87	4.00	2.21
Industrial	4.26	5.41	4.42	6.07	5.23	6.90	6.09
Sold abroad	.90	1.25	1.47	1.13	1.40	1.40	.60
By quality <sup>4</sup>							
Aaa and Aa	.58	1.14	.66	1.65	1.74	1.69	1.53
A and Baa	3.82	5.12	4.43	5.58	4.84	6.60	5.31
Less than Baa	2.01	1.95	2.12	2.16	2.51	2.62	1.35
Unrated or rating unknown	.01	.04	.05	.04	.00	.00	.11
<u>Financial corporations</u>							
Stocks <sup>2</sup>	2.37	1.66	1.80	1.91	2.24	2.17	1.34
Sold in U.S.	2.11	1.64	1.77	1.87	2.16	2.13	1.34
Sold abroad	.25	.02	.03	.04	.08	.04	.00
Bonds	27.77	30.06	31.07	30.20	30.64	35.49	24.47
Sold in U.S.	23.98	24.91	25.52	26.37	25.64	30.99	22.47
Sold abroad	3.78	5.16	5.55	3.83	5.00	4.50	2.00
By quality <sup>4</sup>							
Aaa and Aa	3.72	3.90	4.50	2.92	2.45	2.82	3.49
A and Baa	9.02	9.60	8.54	8.65	11.64	7.40	6.91
Less than Baa	.31	.09	.12	.03	.10	.00	.00
Unrated or rating unknown	.10	.25	.11	.38	.20	.43	.49

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. Included in lines for stocks above.

4. 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.

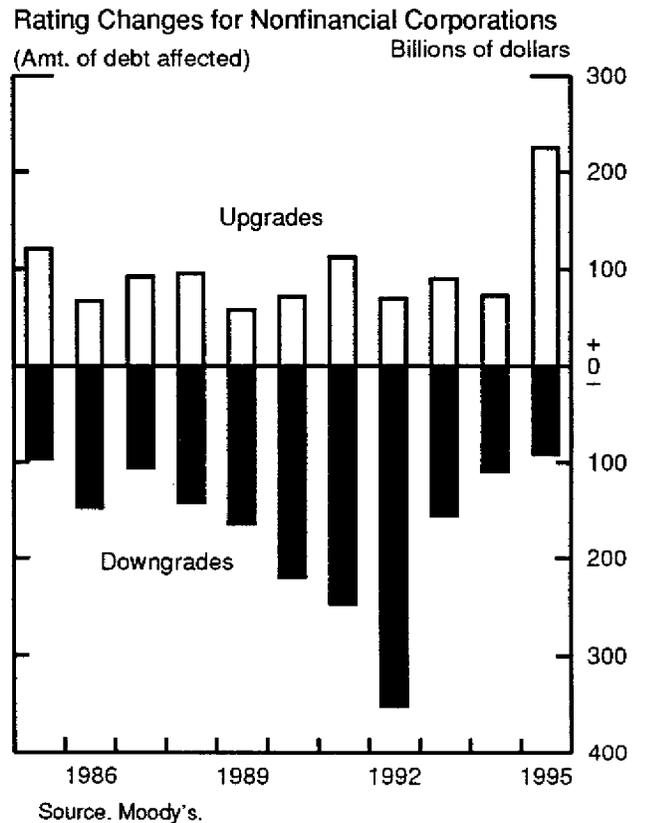
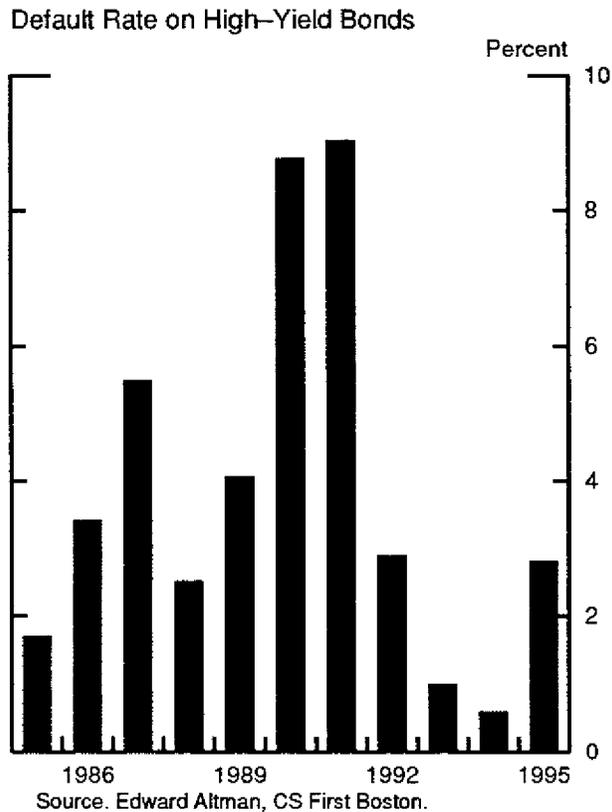
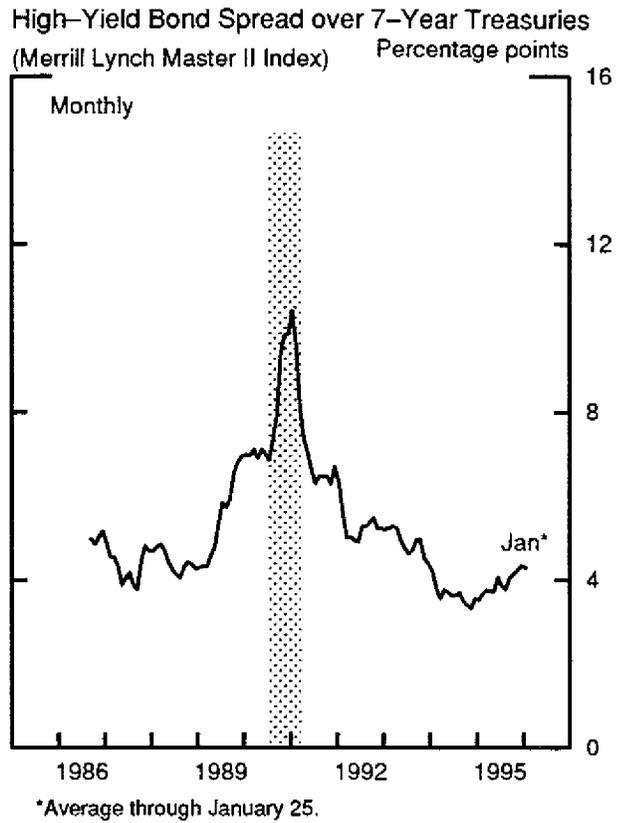
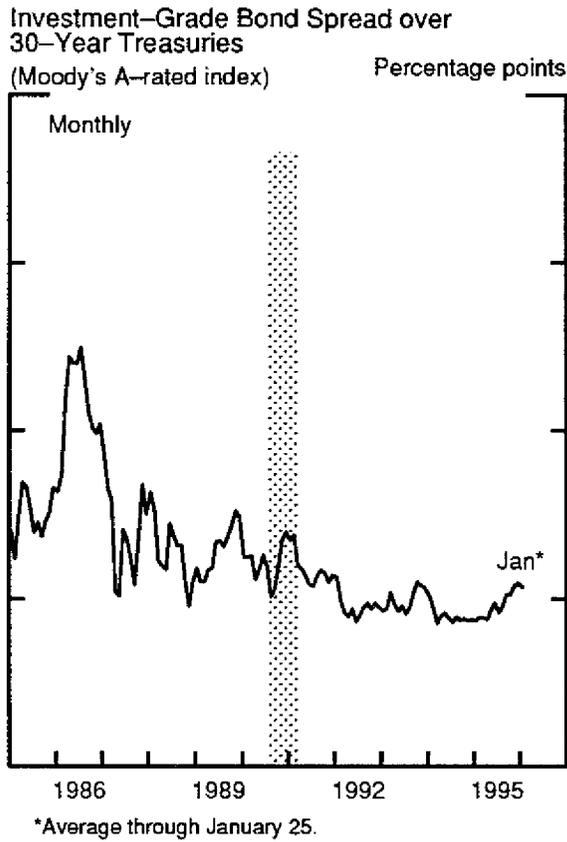
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Business Finance

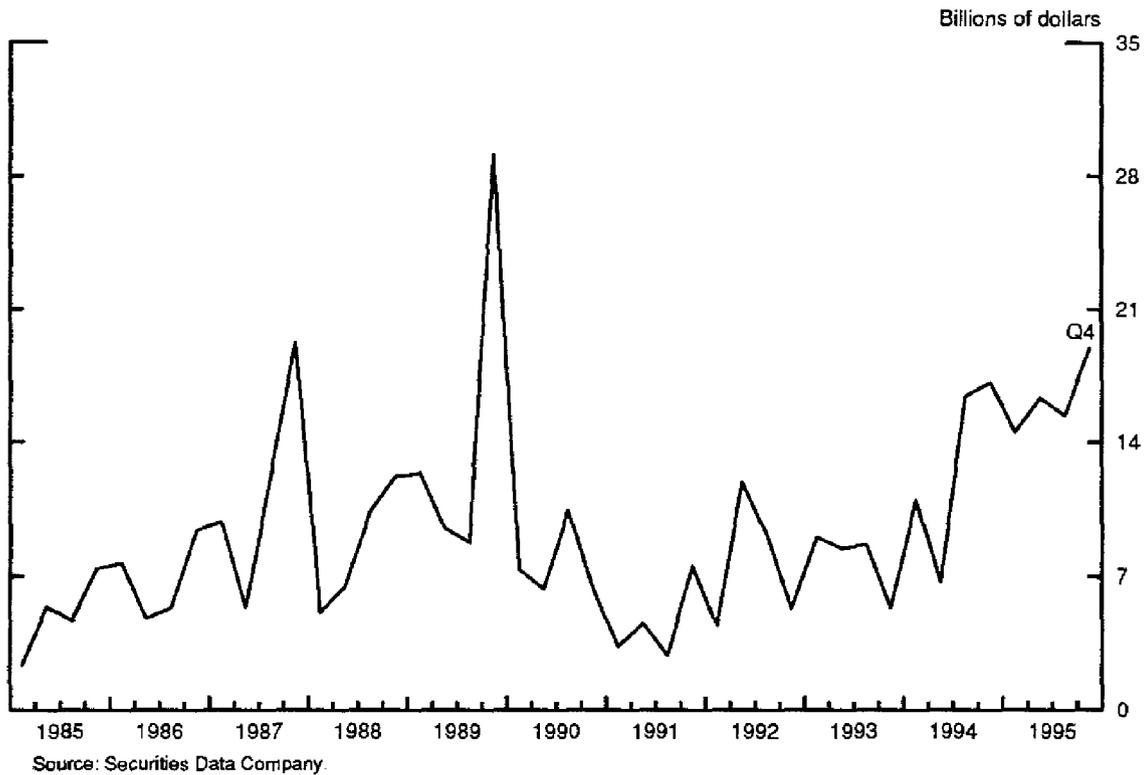
Gross public bond offerings by nonfinancial corporations were light in the second half of December, reflecting the seasonal slowdown in activity around the holidays (table). This lull followed a spurt of issuance during the fall, when companies took advantage of the decline in bond rates to lock in favorable long-term funding and to repay short-term debt. The incentive to pursue this strategy remains strong, and the pace of offerings has picked up in recent weeks; moreover, the calendar of prospective issues is quite heavy.

Credit quality in the nonfinancial corporate sector appears to remain strong although there are a few signs of deterioration. Interest rate spreads on both investment-grade and high-yield bonds have crept up since early 1995, but they remain relatively low by historical standards (chart, upper panels). The default rate on high-yield bonds increased in 1995 to 2.7 percent of face value, but that rate is below the average over the past decade (chart, lower left panel). Balance sheets at nonfinancial corporations appear to remain healthy on the whole; interest-coverage ratios and debt-to-asset ratios remain in good condition. In addition, 1995 was the first year since the mid-1980s in which the value of debt upgraded exceeded the value downgraded (chart, lower right panel). That said, rating changes in the fourth quarter alone were not as favorable as those earlier in the year, as Moody's upgraded only \$15 billion of nonfinancial debt while downgrading \$27 billion. Moreover, banks reported some small move toward tighter underwriting standards for business loans in the January Senior Loan Officer Opinion Survey, owing to concerns about the economy. [See the appendix for a more detailed discussion of the survey results.]

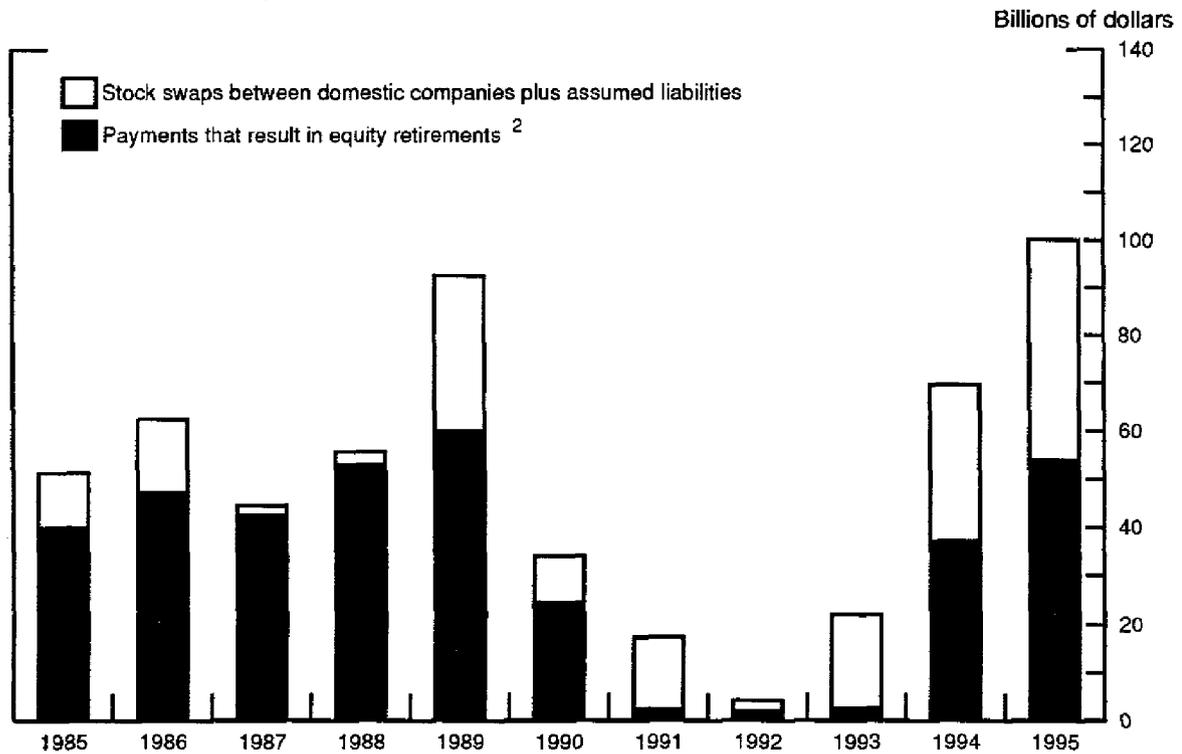
## Corporate Credit Quality



### Announced Stock Repurchase Programs at Nonfinancial Corporations



### Megamerger Activity of U.S. Nonfinancial Corporations<sup>1</sup>



1. Deals in which the value of the target is \$1 billion or greater. Excludes acquisitions in which the target company remains an independent entity after the transaction.

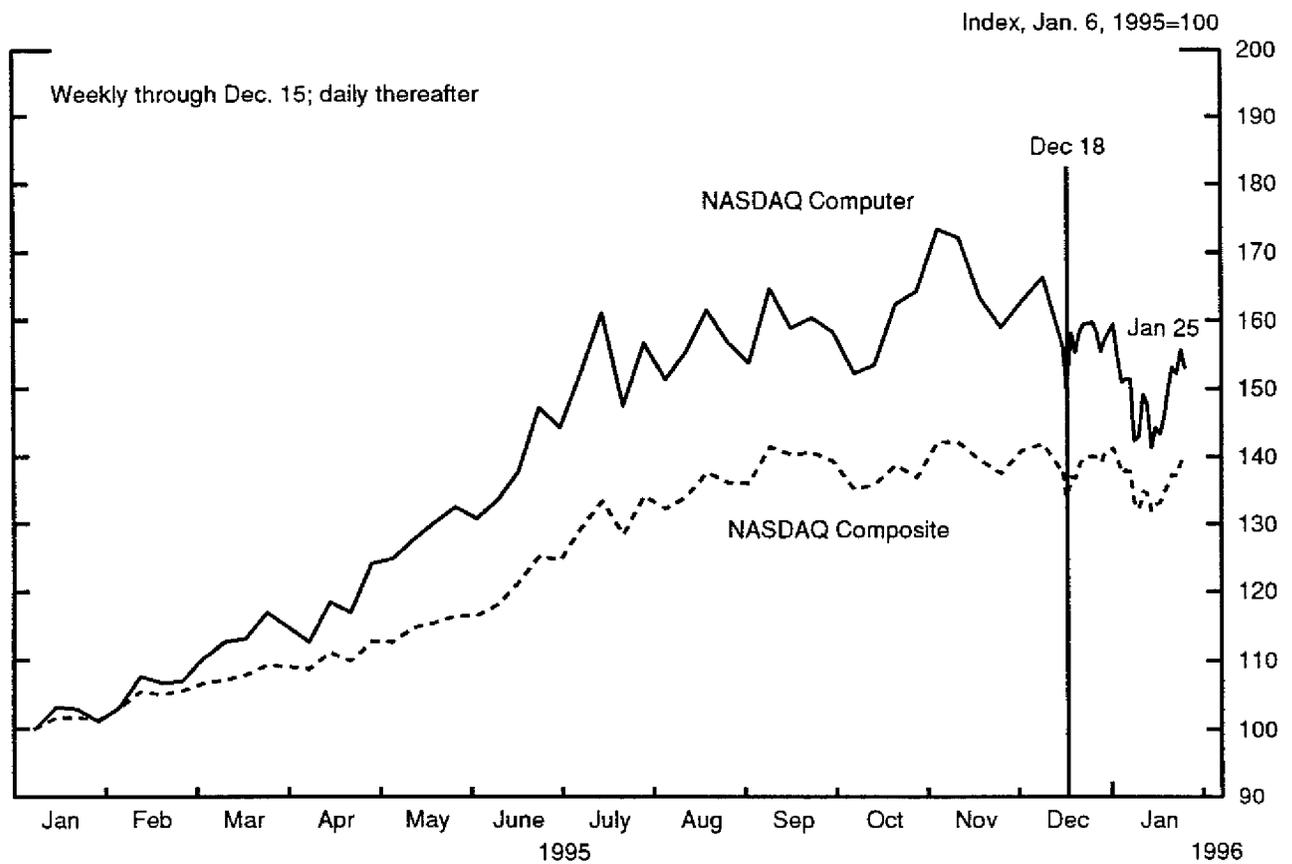
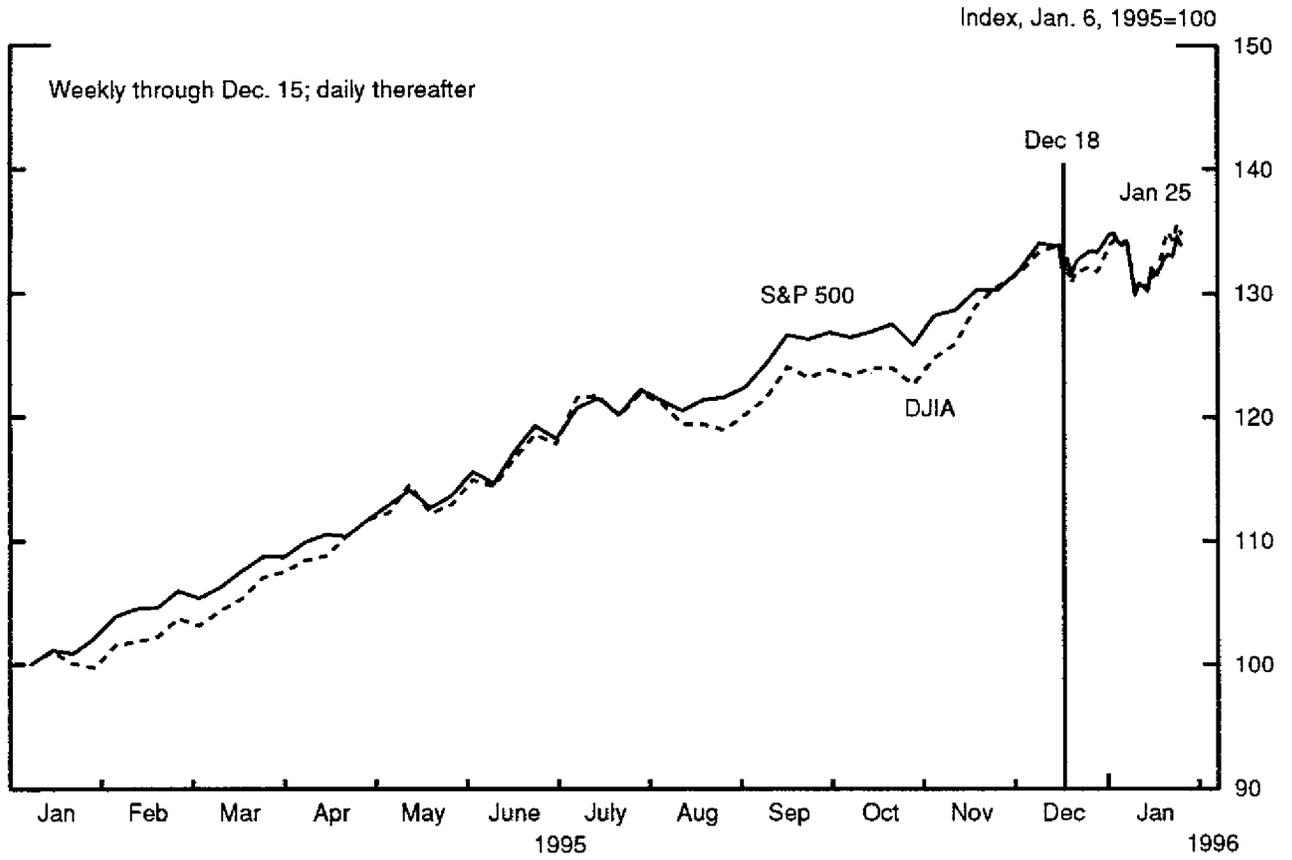
2. Includes payments to target company's shareholders in the form of cash or debt, as well as stock swaps between a foreign acquirer and a U.S. target.

Gross equity issuance by nonfinancial firms slowed in December from the fast pace in October and November. Issuance during the first half of January also was modest, likely reflecting the slowdown that typically occurs as underwriters wait to obtain year-end financial data from prospective issuers. The pace of issuance has picked up some of late, and market sources anticipate a substantial flow of offerings in the near term.

The numerous stock repurchase programs under way, along with share retirements through mergers, have continued to overwhelm gross equity issuance. Nonfinancial corporations announced repurchase programs totaling nearly \$70 billion in 1995, with \$19 billion of planned repurchases announced during the fourth quarter alone (chart, upper panel). Repurchases have been concentrated among successful industrial companies whose profits continue to exceed their needs for cash. Indeed, in the fourth quarter, just four companies together accounted for about one-third of the announced repurchase volume.

Merger-related stock retirements have also continued to be substantial (chart, lower panel). In 1995, megamergers (deals in which the target's equity is valued at \$1 billion or more) resulted in equity retirements at nonfinancial firms totaling almost \$55 billion. (All told, megamergers accounted for about 60 percent of merger-related equity retirements last year.) Another \$2 billion in equity was retired during the first weeks of 1996, and recently proposed megamergers would retire another \$25 billion in equity. Most of the recent deals have not sparked concerns about a slippage in credit quality, reflecting both the limited amount of debt financing and the potential for increased profits at the newly combined firms. Of approximately \$100 billion in completed megamergers last year, more than two-thirds of the combinations

### Stock Price Indexes



occurred in just three industries that are undergoing structural change--telecommunications and media, health care and pharmaceuticals, and defense.

Most broad indexes of stock prices have risen 2 percent to 3-1/2 percent on net from their levels just before the December FOMC meeting, boosted by the decline in long-term interest rates (chart, top panel). Stock prices sagged temporarily because of worries about the strength of corporate earnings. A number of companies, mostly in the computer sector, warned analysts that earnings were likely to be disappointing, and the warnings prompted some analysts to revise down their estimates of fourth-quarter earnings ahead of the formal announcements. However, on balance, earnings reports to date have come in somewhat above the revised forecasts. Notable positive surprises include IBM, Intel, and Microsoft; the latter two helped the Nasdaq computer index to retrace part of its sharp decline around year-end (chart, lower panel).

#### Treasury and Agency Financing

The staff expects the federal budget deficit to total close to \$100 billion in the first quarter. The Treasury is expected to finance the shortfall by borrowing a roughly equivalent amount in the market, raising about one quarter of the amount in coupon auctions and the remainder in bills. The Treasury announced reductions in the sizes of its weekly bill auctions for the third and fourth weeks of January to make room under the debt ceiling for the two-year and five-year notes that settle January 31. However, the staff expects that the Treasury will need to raise weekly bill auction sizes by quarter-end to make up for the earlier paydown. In addition, the Treasury is expected to auction a sizable amount of cash management bills. The staff's assumptions for Treasury

financing are contingent upon some resolution of the debt ceiling problem.

On January 22, Secretary Rubin notified the Congress that the Treasury would take further steps to make room under the current \$4.9 trillion debt ceiling. These steps include replacing securities that are subject to the limit and currently held in the Exchange Stabilization Fund (about \$4 billion) with obligations that are not subject to the limit. Additionally, about \$9 billion of securities of the Federal Financing Bank will replace Treasury obligations held by various government trust funds. The Secretary also made the determination that the debt ceiling problem will last somewhat longer than was projected in mid-November, which permits him to disinvest an additional \$6-1/2 billion of Treasury debt held by the Civil Service Retirement and Disability Fund. All told, these actions lower debt outstanding subject to limit \$19-1/2 billion, making room for a like amount of issuance of marketable debt.

The Treasury's need to borrow in the first quarter, however, outstrips this additional scope for borrowing. Absent further steps, which Secretary Rubin has told the Congress are of questionable legality, or an increase in the debt ceiling, the Treasury has indicated that it will likely deplete its cash balances and exhaust room under the current debt ceiling at the end of February or early March. It appears that the markets are expecting that the debt ceiling will be raised or that the Treasury will turn to other measures to avoid default, as Treasury prices do not appear to contain a default premium.

Debt issuance by federal agencies appears to have increased in early January from the moderate pace of the latter half of 1995. Much of the new debt is intended to refinance securities that have

been called. New issues have been primarily noncallable debentures, including the first-ever noncallable bond offering by the Tennessee Valley Authority, but offerings of callable debt remain sizable. Despite the pickup in issuance, spreads in the primary market for noncallable debentures have remained stable.

NET CASH BORROWING OF GOVERNMENT-SPONSORED ENTERPRISES  
(Billions of dollars)

Agency	1995				
	Q3	Q4	Oct.	Nov.	Dec.
FHLBs	13.8	6.3	-2.7	4.8	4.2
FHLMC	3.1	8.4	4.0	.0	4.4
FNMA	6.3	22.0	3.4	9.2	9.4
Farm Credit Banks	1.9	1.6	.7	.2	.7
SLMA	.4	n.a.	.2	-1.4	-3.0

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

n.a. Not available.

State and Local Government Finance

Low long-term interest rates continued to boost gross offerings of municipal securities in December (table). For the fourth quarter as a whole, both new capital issuance and refundings were at the highest quarterly levels in roughly two years. Market activity was slow in early January, consistent with the usual seasonal pattern, but issuance has picked up of late.

Gross issuance of tax-exempt bonds over all of 1995, was down slightly from its 1994 level. In contrast, retirements increased last year, as a large volume of advance-refunded debt became eligible to be called. With the bulge in retirements, outstanding long-term debt is estimated to have fallen more than \$50 billion in

1995. The downtrend in outstandings will probably persist for some time, as a considerable amount of pre-refunded debt has not yet been retired. Market analysts expect that gross debt retirements this year will again outpace gross offerings, with the range of estimates centering on a decline in outstanding debt of about \$30 billion.

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

	1994	1995	1995				
			Q2	Q3	Q4	Nov.	Dec.
Total tax-exempt	16.1	14.9	16.3	15.3	17.2	17.5	18.6
Long-term	12.8	12.1	12.7	11.2	15.5	16.5	16.7
Refundings <sup>1</sup>	4.0	3.6	3.4	3.9	5.3	5.1	5.2
New capital	8.8	8.5	9.3	7.3	10.2	11.4	11.5
Short-term	3.3	2.8	3.6	4.1	1.7	1.0	1.9
Total taxable	.7	.7	.7	.6	1.3	1.5	1.3

Note. Includes issues for public and private purposes.

1. Includes all refunding bonds, not just advance refundings.

Recent declines in municipal bond yields have about matched those on Treasuries, leaving the long-term tax-exempt to taxable ratio little changed from the elevated level that generally has prevailed since last spring. In contrast, the one-year yield ratio has increased quite a bit since early December and now hovers around 0.71, compared with a low of 0.62 reached last fall. Trade reports indicate that most of this increase reflects concerns over the Administration's budget proposal to eliminate a tax advantage for corporations that typically buy short-term tax-exempt debt.<sup>4</sup> If the proposal is enacted, many corporations will reduce their demand

<sup>4</sup> The Administration would eliminate a rule that currently allows corporations to deduct interest expenses on funds borrowed to buy tax-exempt paper as long as their holdings of municipals are no more than 2 percent of total assets.

for short-term paper, much as the 1986 tax reform reduced commercial bank demand for municipal debt.

Credit spreads on long-term municipal bonds have changed little on balance since the beginning of 1995. The spread between the Baa-rated general obligation bond and a comparable AAA-rated bond stood at about 60 basis points in mid-January, about the same as in December.

#### Mortgage Markets

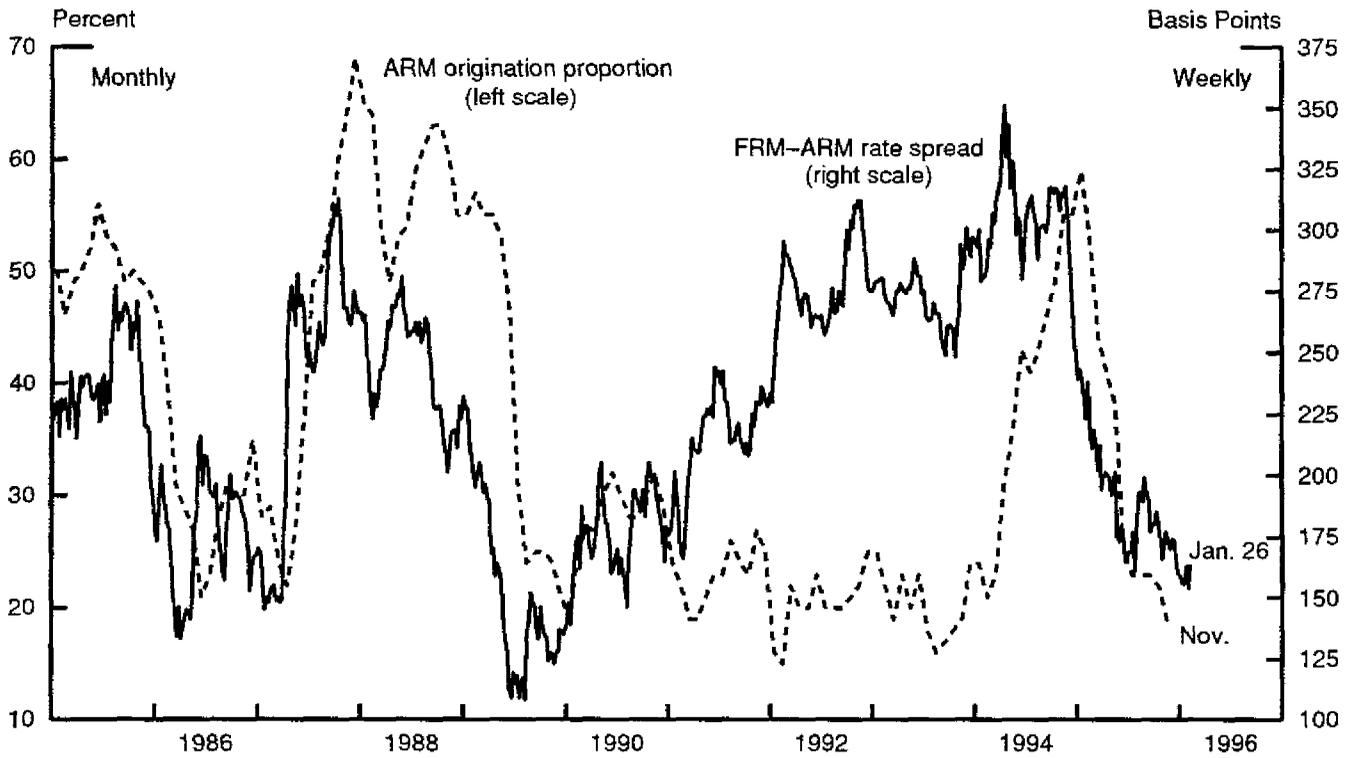
Interest rates on home mortgages declined on net over the intermeeting period. The average contract rate on conventional thirty-year fixed-rate mortgages dropped roughly 15 basis points, while the average initial rate on adjustable-rate mortgages indexed to the one-year Treasury constant maturity yield declined about 18 basis points. The FRM-ARM initial rate spread remains near its lowest level since August 1990 (chart, upper panel).

The flatness in the mortgage yield curve and the low absolute level of FRM rates have contributed to a sizable FRM share of conventional mortgage originations. The Federal Housing Finance Board reported last month that the FRM share climbed to 81 percent in November, the highest since November 1993. Signs that homebuyers may be responding to lower rates are evident in the Mortgage Bankers Association's (MBA) index of applications for loans to purchase new and existing homes. Apart from a weather-related drop in mid-January, the MBA's purchase index (seasonally adjusted by Board staff) has fluctuated over much of the intermeeting period at the highest levels in its six-year history (chart). Refinancing activity also appears to have increased, but it remains well below the record levels reached in 1993.

In secondary mortgage markets, gross issuance of agency-backed pass-through securities is estimated to have increased further in

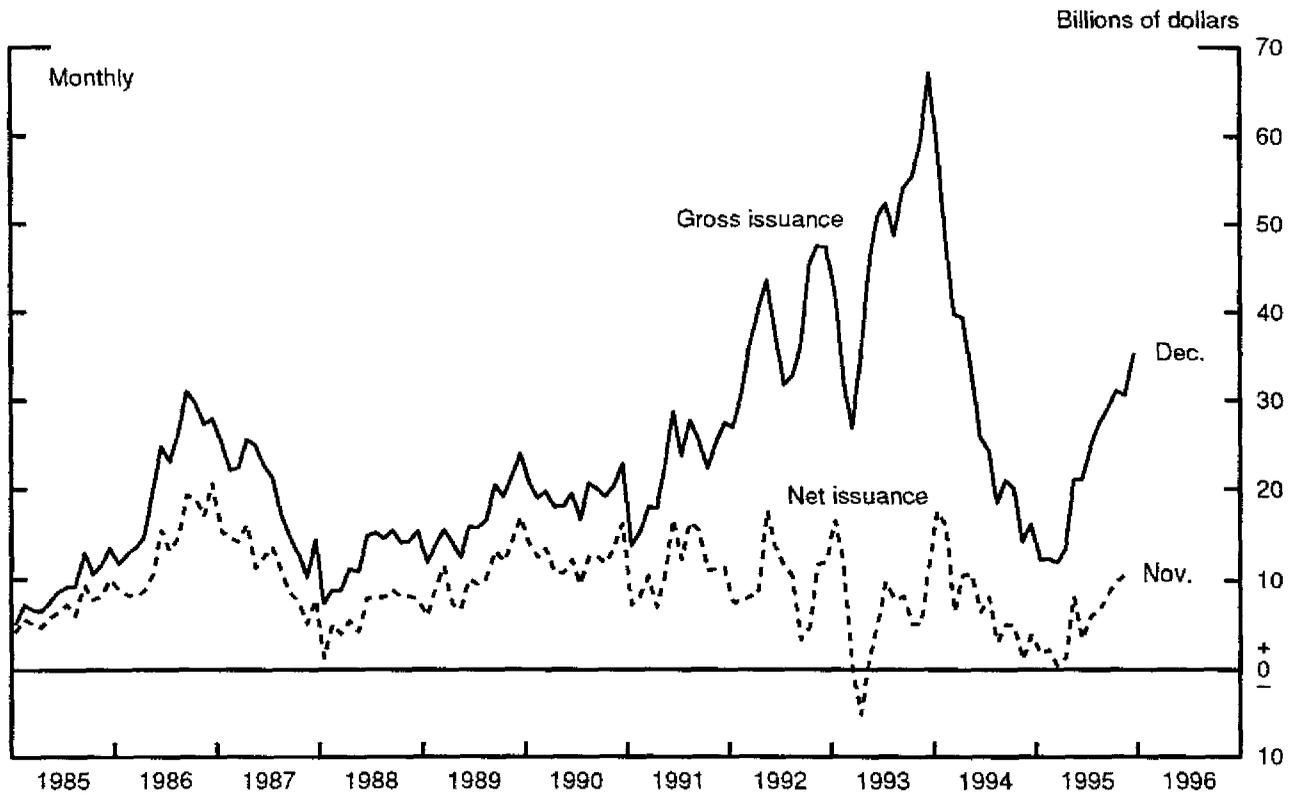
### ARM Origination Proportion and FRM-ARM Spread

(Not seasonally adjusted)



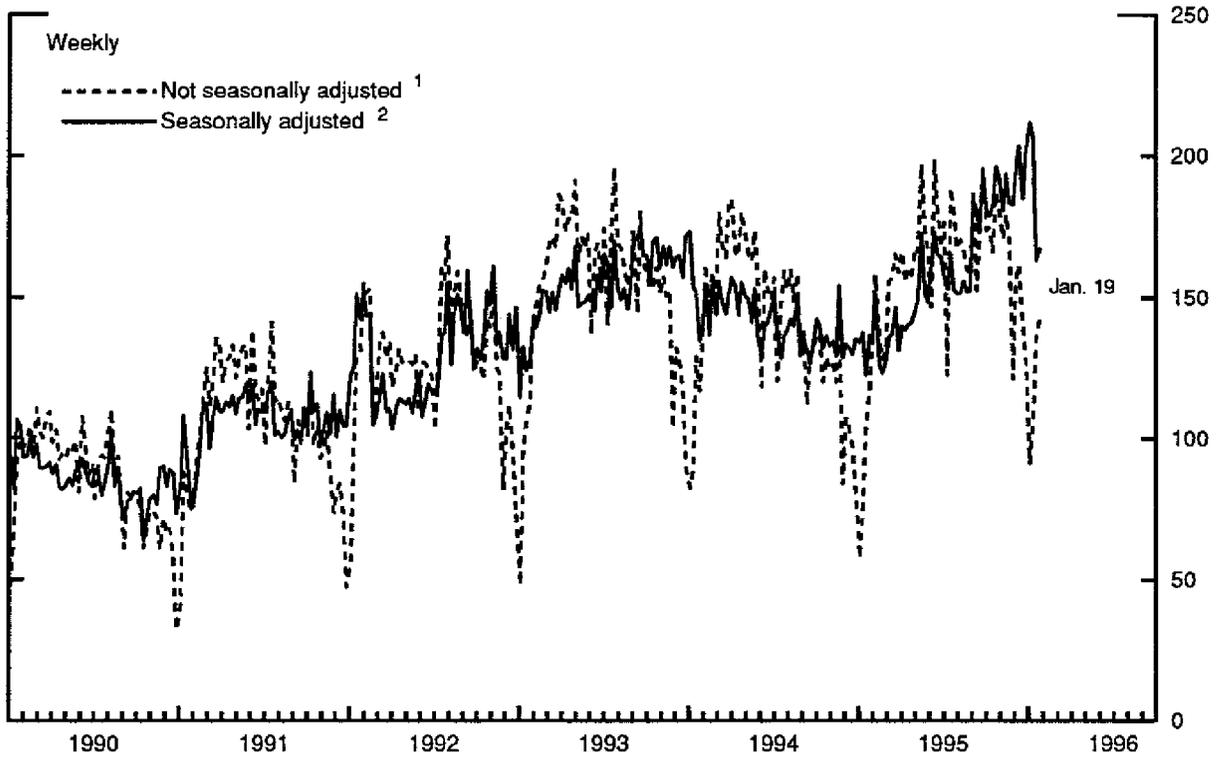
### Issuance of Agency Mortgage Pass-Through Securities

(Not Seasonally Adjusted)



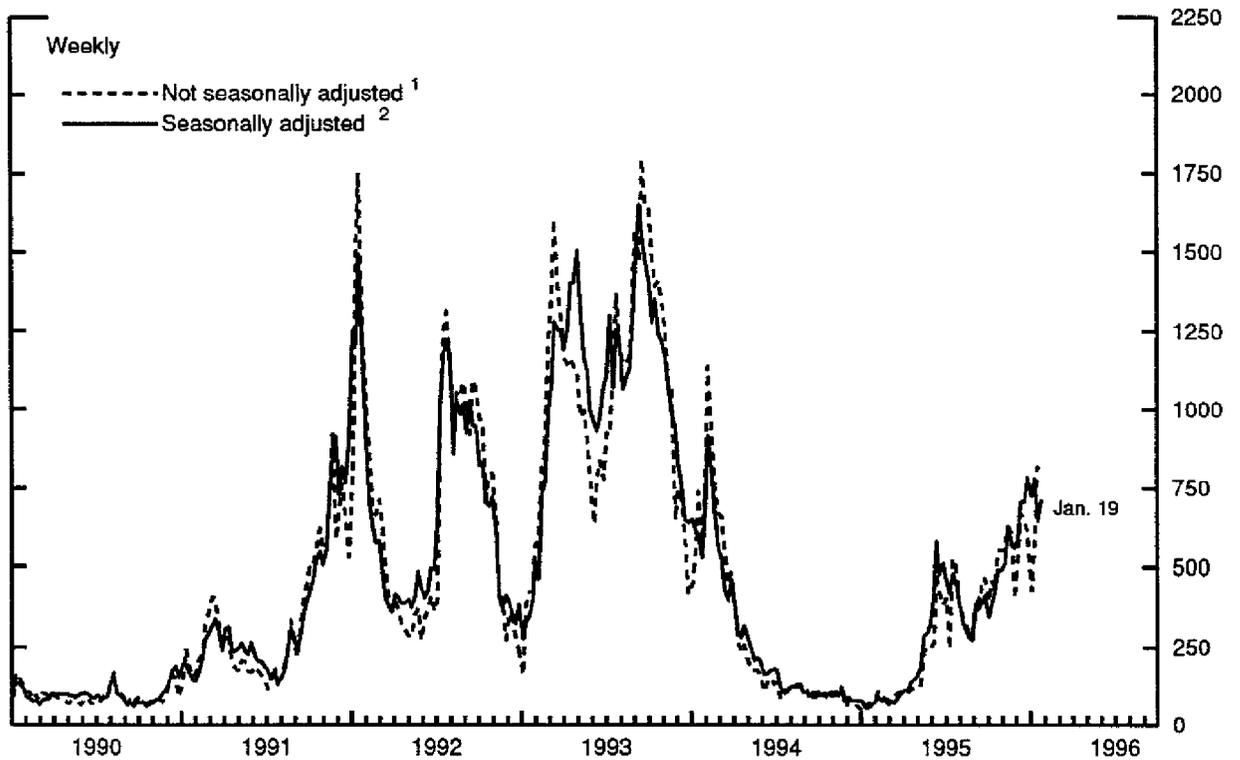
### MBA Indexes of Mortgage Loan Applications

Purchase Index



1. March 16, 1990 = 100.
2. Seasonally adjusted by FRB staff.

Refinancing Index



1. March 16, 1990 = 100.
2. Seasonally adjusted by FRB staff.

December boosting total offerings in the fourth quarter to the highest quarterly figure in more than a year. Still gross issuance remained well below the average quarterly pace of \$142 billion in 1993. For 1995 as a whole, gross issuance of agency pass-throughs totaled \$269 billion, owing largely to the historically low volumes registered in the first two quarters of the year. Issuance of agency-backed CMO (collateralized mortgage obligation) and REMIC (real estate mortgage investment conduit) securities totaled \$23 billion last year, just a fraction of the roughly \$120 billion issued in 1994.

#### Consumer Credit

Consumer installment credit outstanding grew at a seasonally adjusted annual rate of 10-1/2 percent in November, down from 13-3/4 percent in October (table). While fluctuating from month to month, growth of consumer credit appears to have slowed noticeably since earlier in 1995. This slowing reflects a sharp deceleration in revolving credit from rates above 20 percent earlier in the year to under 12 percent in the second half. Some drop-off in revolving credit was expected, given rising debt burdens and softness in retail sales. Auto credit, in contrast, grew a bit more rapidly in recent months than earlier last year, as manufacturers' incentives (lower financing rates and rebates) apparently induced some consumers to switch from leasing to outright purchase of autos. The January survey of loan officers indicated that banks, on net, have not changed the terms on auto loans or credit cards over recent months. But some respondents reportedly had tightened standards for approving such loans (appendix).

Interest rates on new cars and personal loans at commercial banks were unchanged between August and November, while the average new-car rate at "captive" finance companies edged down slightly.

GROWTH OF CONSUMER CREDIT  
(Percent change; seasonally adjusted annual rate)

Type of credit	1993	1994	1995			1995		Memo: Outstanding Nov. 1995 (billions of dollars)
			H1	H2 *	Q3	Oct. <sup>r</sup>	Nov. <sup>p</sup>	
Installment	8.1	14.2	15.0	10.7	9.6	13.7	10.4	1,013.8
Auto	9.0	13.1	8.5	12.5	12.6	12.4	11.2	347.9
Revolving	11.0	16.7	22.6	11.5	10.5	16.0	9.2	390.1
Other	3.7	12.5	13.1	7.4	4.6	12.1	10.9	275.8
Noninstallment	-4.7	10.1	11.7	9.3	26.4	-41.0	-5.2	63.2
Total	7.2	14.0	14.8	10.4	10.6	10.3	9.4	1,077.1

\* Through November.  
r Revised.  
p Preliminary.

INTEREST RATES ON CONSUMER LOANS  
(Annual percentage rate)

Type of loan	1993	1994	1995				
			Feb.	May	Aug.	Oct.	Nov.
At commercial banks <sup>1</sup>							
New cars (48 mos.)	8.1	8.1	9.7	9.8	9.4	n.a.	9.4
Personal (24 mos.)	13.5	13.2	14.1	14.0	13.8	n.a.	13.8
Credit cards	16.8	16.2	n.a.	n.a.	n.a.	n.a.	n.a.
Credit cards <sup>2</sup>							
All accounts	n.a.	n.a.	16.1	16.2	16.0	n.a.	15.8
Accounts assessed interest	n.a.	n.a.	15.3	16.2	15.9	n.a.	15.7
At auto finance companies <sup>3</sup>							
New cars	9.5	9.8	11.9	11.4	10.9	10.9	10.8
Used cars	12.8	13.5	15.1	14.8	14.2	14.1	14.0

Note. Annual data are averages of quarterly data for commercial bank rates and of monthly data for auto finance company rates.

1. Average of "most common" rate charged for specified type and maturity during the first week of the middle month of each quarter.

2. The rate for all accounts is the stated APR averaged across all credit card accounts at all reporting banks. The rate for accounts assessed interest is the annualized ratio of total finance charges at all reporting banks to the total average daily balances against which the finance charges were assessed (excludes accounts for which no finance charges were assessed).

3. For monthly data, rate for all loans of each type made during the month regardless of maturity.

n.a. Not available.

Over the full year, loan rates declined much less than did yields on Treasury securities of comparable maturities, so rate spreads rose substantially from very low levels to above-average levels (chart). Still, new-car loan rates, at about 9-1/2 percent at banks, are in a historically low range, at least in nominal terms. From 1972, when the series began, until 1993, rates had never broken below 10 percent.

Preliminary data suggest that securitization of consumer loans continued apace in the final quarter of 1995. Fourth-quarter issuance of credit card, auto, and "other" asset-backed securities is estimated at about \$25 billion, bringing the total for the past year as a whole to \$81 billion--well above the previous record total of \$51 billion in 1994.

Despite statistical and anecdotal evidence of rising delinquency rates for credit card accounts, investors do not appear greatly concerned about the risk of holding such securities.<sup>5</sup> Rate spreads on credit-card-backed securities were at historically low levels late last year (chart), notwithstanding a large volume of supply. The current market reaction is in contrast to that in 1991, when rising delinquency rates contributed to a steep rise in rate spreads.

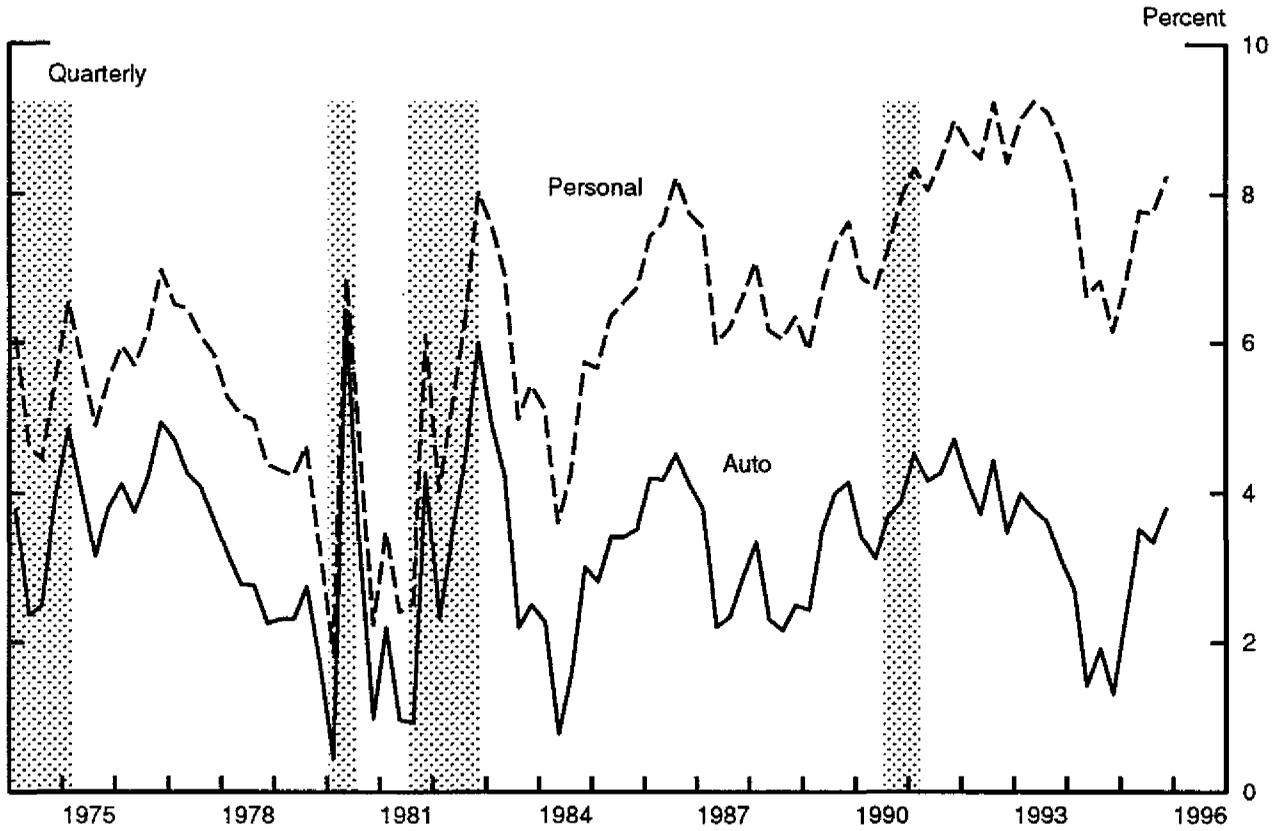
Several factors may help explain the market's limited concern about credit quality. One is that although credit card delinquencies have risen considerably in anecdotal reports and some statistical measures, Moody's delinquency rate series on securitized credit card receivables was quite low in October (latest available reading), although up a little from its lowest point (chart).

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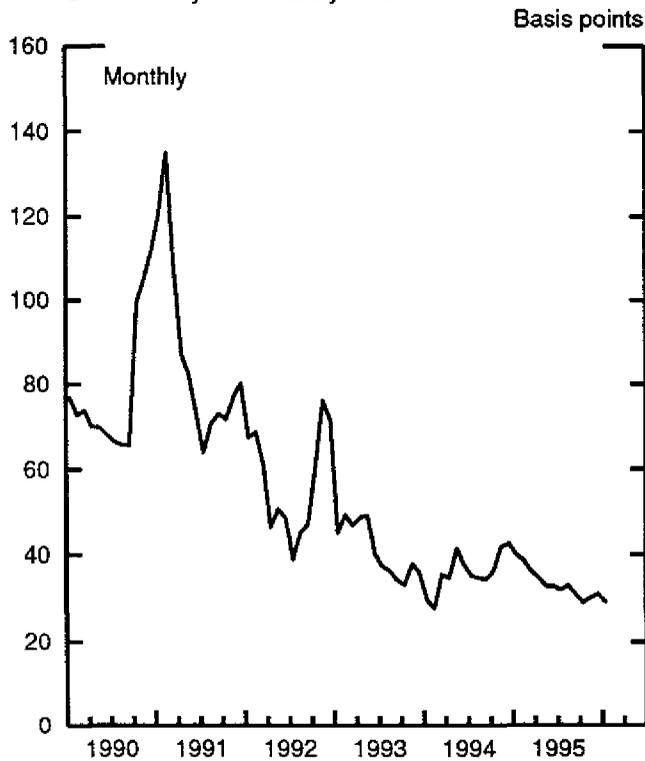
5. The only securities currently of concern seem to be those associated with certain troubled specialty retailers, which account for only about \$1 billion of a nearly \$130 billion market.

### Rate Spread on Consumer Loans at Commercial Banks

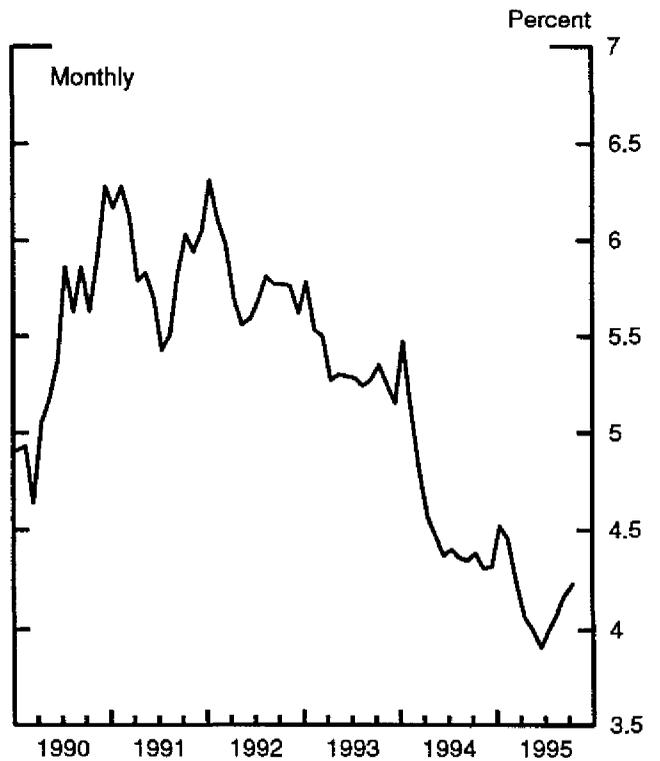
(Consumer rate less yield on three-year Treasury notes)



Spread on Credit-Card Backed Securities  
Over three-year Treasury notes



Delinquency Rate on Securitized Cards



Also, experience in the 1990-91 recession, when virtually every credit-card-backed security survived without a mishap, may have made investors more comfortable with holding such securities when delinquency rates are rising. Moreover by comparison with some other possible investment vehicles, card-backed securities may look quite attractive. Investor disaffection with CMOs, for instance, after several well-publicized cases of large investment losses in 1994, is likely boosting demand for card-backed securities. Demand by foreign investors reportedly has been particularly strong.

## APPENDIX

### THE JANUARY SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES

The January 1996 Senior Loan Officer Opinion Survey on Bank Lending Practices posed questions about changes in bank lending standards and terms, changes in loan demand by businesses and households, the recent weakness in home mortgage lending, and the response of the banks to a temporary opportunity to reclassify their investment account securities. Fifty-eight domestic commercial banks and twenty-two U.S. branches and agencies of foreign banks participated in the survey.

The survey results are consistent with a slight firming of credit standards over the past three months. Small net fractions of banks indicated that they had tightened lending standards for commercial and industrial firms of all sizes. Standards for commercial real estate loans were also tightened, while standards on home mortgage loans were unchanged, on net. In response to new questions, banks indicated that they had tightened standards for credit card accounts and auto lending, even though they indicated a slightly increased willingness to make consumer installment loans.

While standards for most types of loans firmed a bit, a few banks indicated that they had eased some loan terms. Banks eased terms on business loans slightly, on net, although the shares that reported having done so were the smallest in several years. There was little change in terms on credit card debt or auto loans.

The change in demand for credit over the past three months was mixed across loan types. Banks reported that demand for business loans from large and middle-market firms was little changed, on net, but demand from small businesses had increased. Banks also reported increased demand for commercial and residential real estate loans. Demand for consumer installment loans weakened, however.

#### Commercial and Industrial Loans

The January survey found a modest tightening of standards for approving business loans other than for mergers over the past three months. Between 5 and 10 percent of domestic and foreign banks indicated that they had tightened standards for loans to large, middle-market, and small businesses. This is the first survey to report a net tightening of standards on business loans in the past 3 years.

Significant fractions of banks reported an easing of terms on these loans. A quarter of the domestic respondents reported a decrease in the spreads of loan rates over market rates for loans to large and middle-market firms, while fewer than 10 percent reported a decrease in spreads on loans to small businesses. As has been the case for some time, smaller fractions of respondents eased other terms, including the cost of credit lines, the size of credit lines, loan covenants, and collateralization requirements. The pace at which banks are easing terms appears to be slowing: This is the third consecutive survey in which the share of banks reporting easier terms has fallen. Indeed, for collateralization requirements for small and middle-market borrowers, more banks tightened than

eased standards, the first such net tightening since 1993. Foreign branches and agencies indicated no change, on net, in terms.

Those banks that tightened their lending standards or terms on business loans attributed this foremost to a less favorable economic outlook. Those that eased standards or terms did so because of increased competition from other banks and, to a lesser extent, from nonbank lenders.

Banks reported little change in demand for loans from large and middle-market firms, but an increase in demand from small businesses. Many of the banks that experienced an increase or decrease in demand for business loans attributed it, in part, to changes in the financing needs of their customers for inventory and equipment investment. However, banks that experienced increased demand from large firms attributed much of the increase to merger and acquisition financing.

#### Commercial Real Estate

Small fractions of both domestic and foreign respondents reported tightening standards on loans for commercial offices and for industrial structures, while about 20 percent indicated they had tightened standards on construction and land development loans and on other nonfarm nonresidential real estate loans. On balance, standards for commercial real estate loans were tightened by a net share of banks that was larger than at any time since the beginning of 1992. Demand for these loans likely increased over the past three months, as a few more banks indicated an increase than a decrease in demand for commercial real estate loans. However, the net share of banks reporting an increase in demand was below the levels reported since May, when this question was added to the survey.

#### Lending to Households

About a quarter of the banks, on net, indicated they had tightened standards over the past three months for approving new credit card accounts, and a sixth tightened standards on auto loans. Banks attributed the tightening to many factors including, in decreasing order of importance, increased delinquency rates, an increased willingness of households to declare bankruptcy, increased household debt burdens, and a less favorable economic outlook. On net, about 5 percent of banks indicated a greater willingness to make consumer installment loans. Although this result seems at odds with the tightening of standards reported for these loans, the fraction of banks reporting increased willingness, while up slightly from last quarter, remains relatively low. Terms on credit card loans were little changed: A couple of banks reduced credit limits, but a similar number reduced spreads over market rates and reduced the minimum fraction of outstanding balances required to be repaid each month. Banks reported essentially no change in terms on auto loans. On net, respondents reported a small decline in demand for consumer installment loans.

Banks indicated no change in standards for approving home mortgages, and about 15 percent, on net, experienced an increase in demand for these loans. A series of special questions explored the reasons for the recent slowing of the growth in real estate loans on banks' books. A third of the domestic respondents indicated they had experienced such a slowdown. Those banks that had encountered a

slowdown attributed it to an increased rate at which they were securitizing these loans, reduced loan originations, and increased repayments of loans refinanced elsewhere. Respondents attributed the increased rate of securitization to demand from households for fixed rate mortgages, which are more likely to be securitized, and to a need for funds by their bank. They attributed the slowdown in originations of these loans to a weaker housing market in their region.

#### Investment Account Securities

Several questions asked the domestic and foreign respondents about the recent SFAS 115 reassessment, which allowed banks to reallocate, on one occasion between November 15 and December 31 1995, their investment account securities between "available for sale" and "held to maturity" without penalty.<sup>1</sup> A large proportion of the domestic respondents reported a substantial shift of securities into the available-for-sale category. Three-quarters of the respondents indicated that the resulting shift increased the share of their investment account securities that are available for sale by 20 percentage points or more. In most cases the banks held, rather than immediately sold, the securities that were reclassified. Those banks that reclassified securities did so because of a desire for increased liquidity and flexibility, and also because gains and losses on available-for-sale securities are not reflected in equity for regulatory purposes.<sup>2</sup>

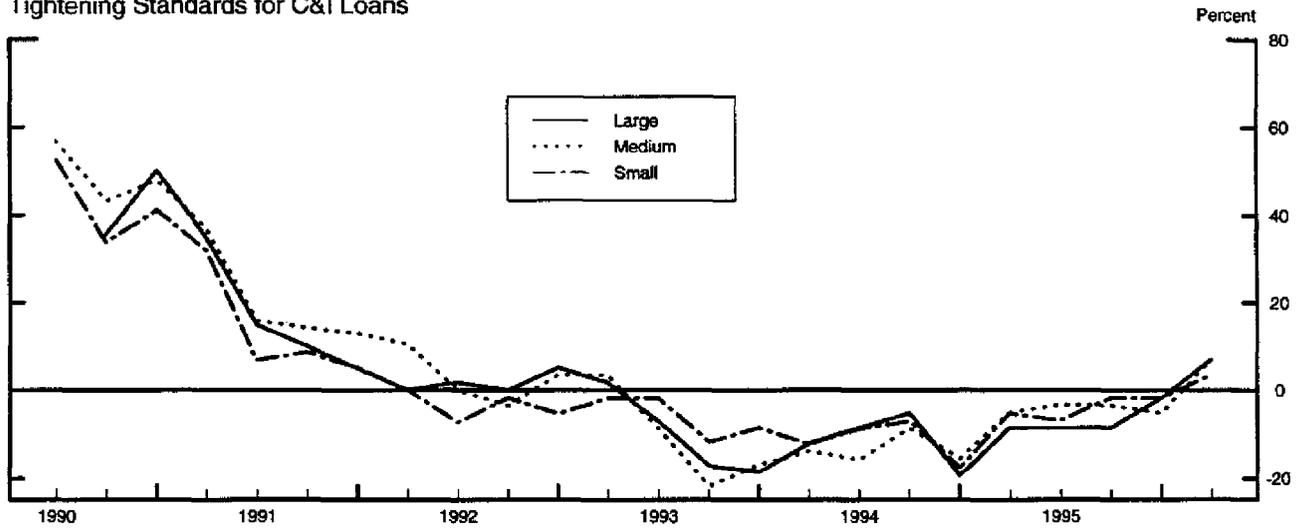
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1 The Financial Accounting Standards Board's Statement of Financial Accounting Standards 115 requires banks, effective January 1, 1994, to classify securities held outside of trading accounts as "available for sale" or "held to maturity." The former are marked to market while the latter are evaluated at amortized cost. Those securities classified as held to maturity cannot be sold without penalty.

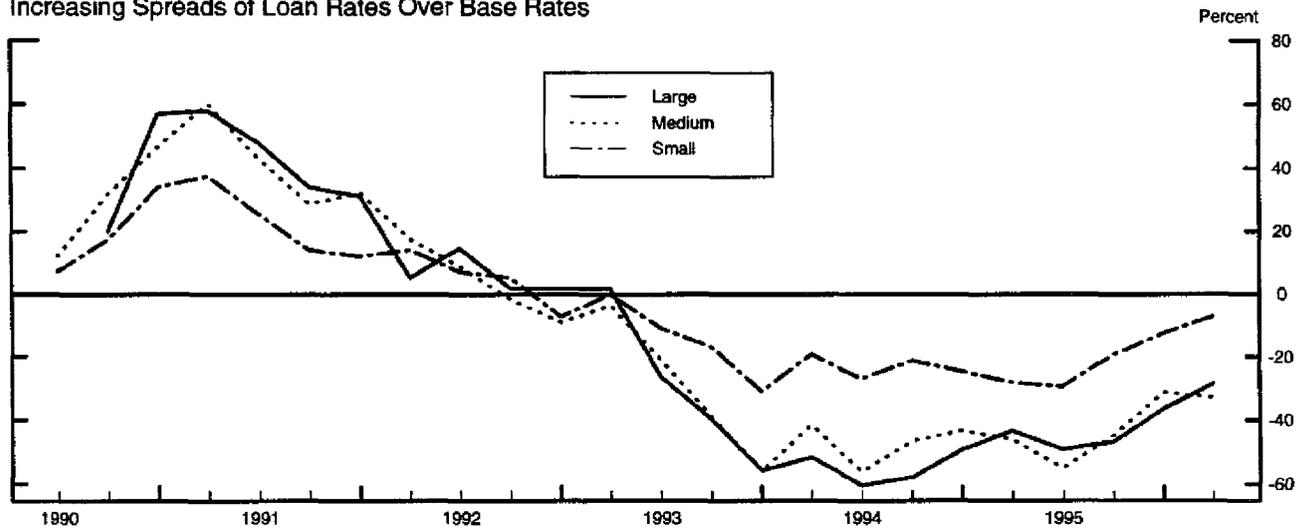
2. The decision to exclude these gains and losses from regulatory capital was announced after banks were required to declare which securities in their portfolio would be held to maturity.

### Measures of Supply and Demand For C&I Loans, by Size of Firm Seeking Loans

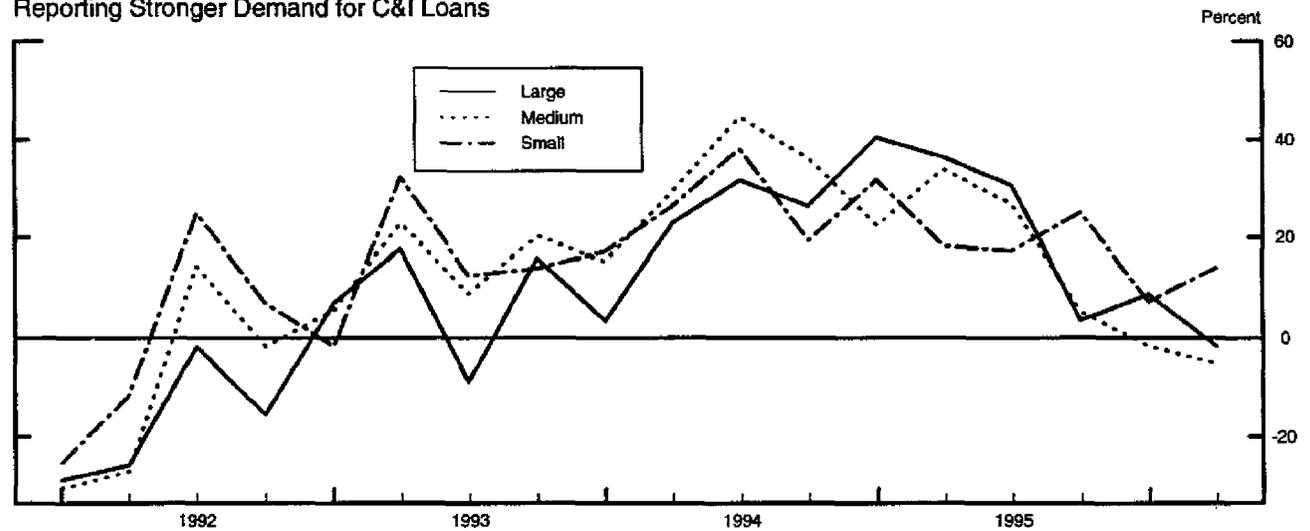
Net Percentage of Domestic Respondents  
Tightening Standards for C&I Loans



Net Percentage of Domestic Respondents  
Increasing Spreads of Loan Rates Over Base Rates

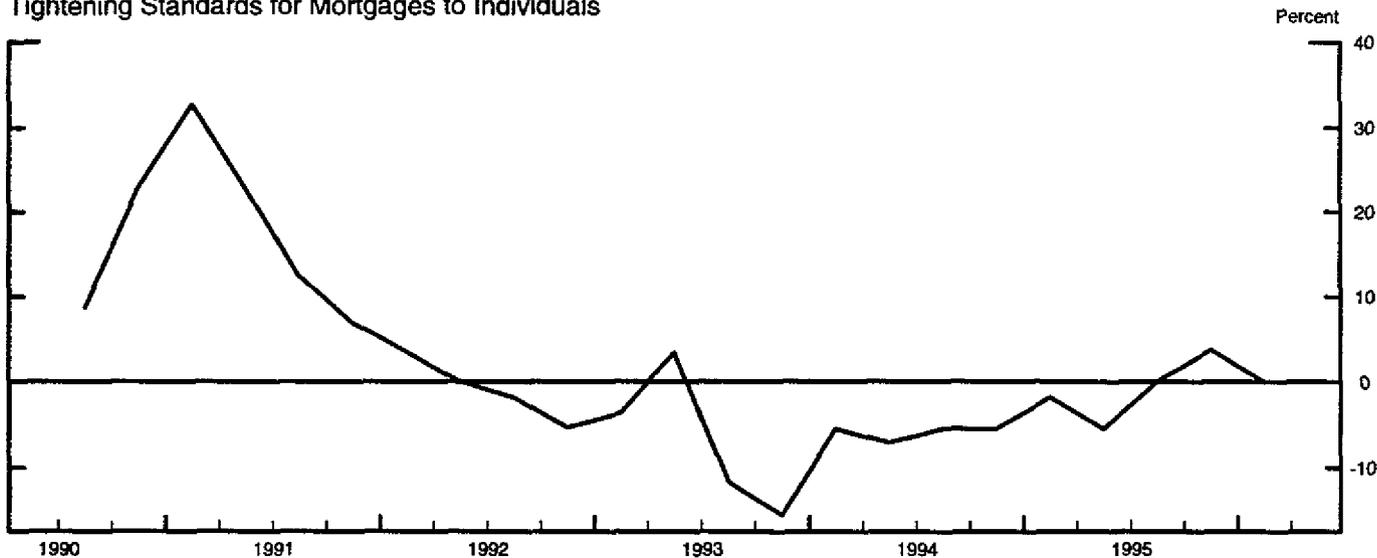


Net Percentage of Domestic Respondents  
Reporting Stronger Demand for C&I Loans

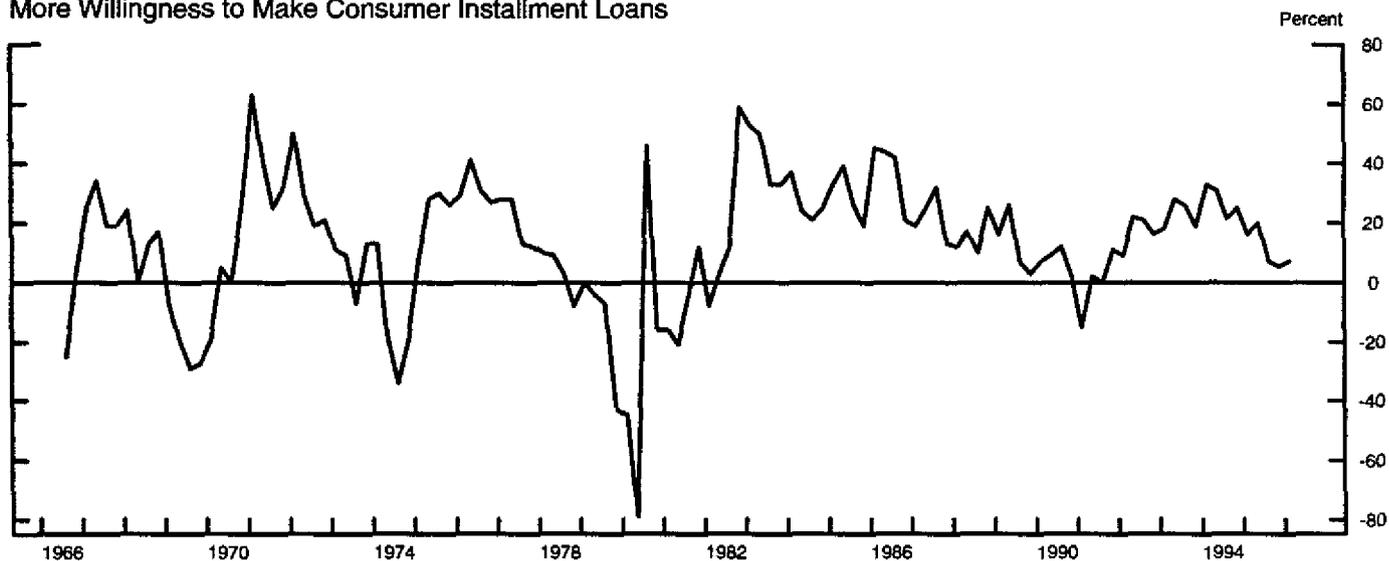


### Measures of Supply and Demand For Loans to Households

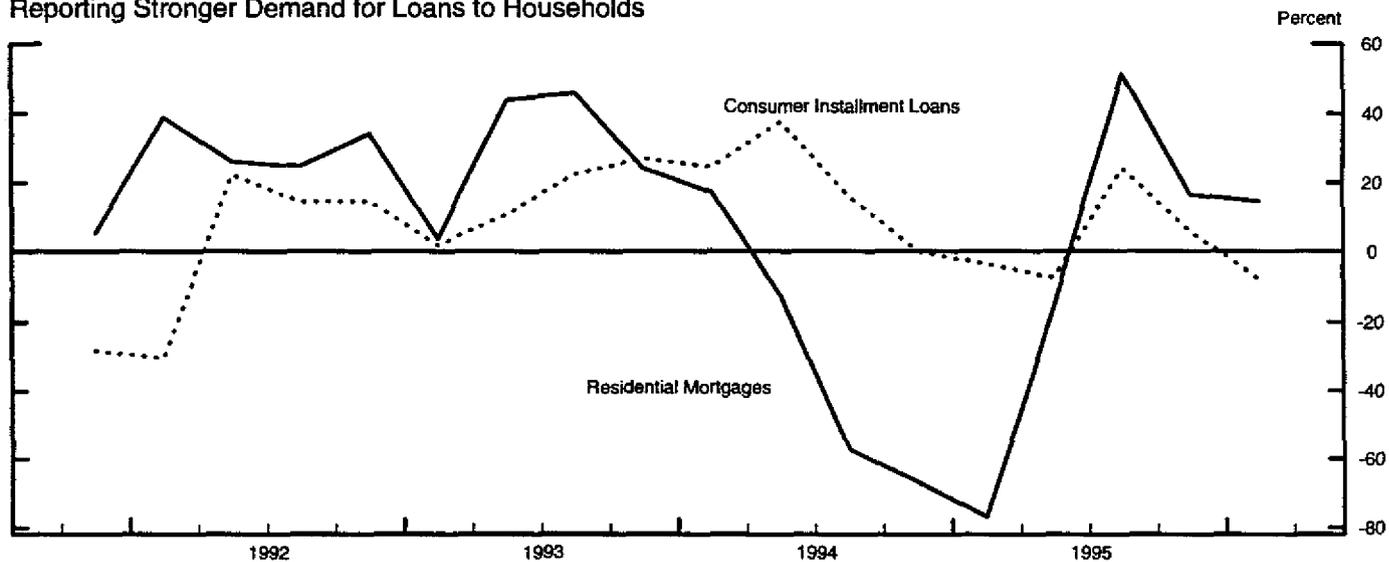
Net Percentage of Domestic Respondents  
Tightening Standards for Mortgages to Individuals



Net Percentage of Domestic Respondents Indicating  
More Willingness to Make Consumer Instalment Loans



Net Percentage of Domestic Respondents  
Reporting Stronger Demand for Loans to Households



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# **INTERNATIONAL DEVELOPMENTS**

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INTERNATIONAL DEVELOPMENTS

U.S. International Trade in Goods and Services

The deficit for U.S. international trade in goods and services was \$8.0 billion in October, slightly smaller than in the previous two months, and less than averages recorded in the second and third quarters. Imports declined a bit more in October than exports declined. The 1 percent decrease in imports was largely in oil (especially quantity) and automotive products. Computer imports, however, recorded another strong rise. For exports, a drop in agricultural and automotive shipments from relatively strong levels was partly offset by an increase to record levels in machinery exports. Data for November are now scheduled to be released during the week of February 5.

NET TRADE IN GOODS & SERVICES  
(Billions of dollars, seasonally adjusted)

	1994	Annual rates			Monthly rates		
		1995			1995		
		Q1	Q2	Q3	Aug	Sep	Oct
<u>Real NIPA 1/</u>							
Net exports of G&S	-108.1	-119.0	-126.8	-114.1	--	--	--
<u>Nominal BOP</u>							
Net exports of G&S	-106.2	-116.0	-133.7	-110.3	-8.2	-8.2	-8.0
Goods, net	-166.1	-178.4	-195.2	-173.9	-13.5	-13.7	-13.7
Services, net	59.9	62.4	61.5	63.7	5.3	5.5	5.6

1. In billions of chained (1992) dollars.

Source. U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census.

In the third quarter, the deficit was significantly less than in the second quarter. Exports of goods and services rose 1 percent with increases recorded in most major categories of trade. Imports declined 1 percent, with most of the decrease occurring in categories of trade that had increased sharply in the second quarter.

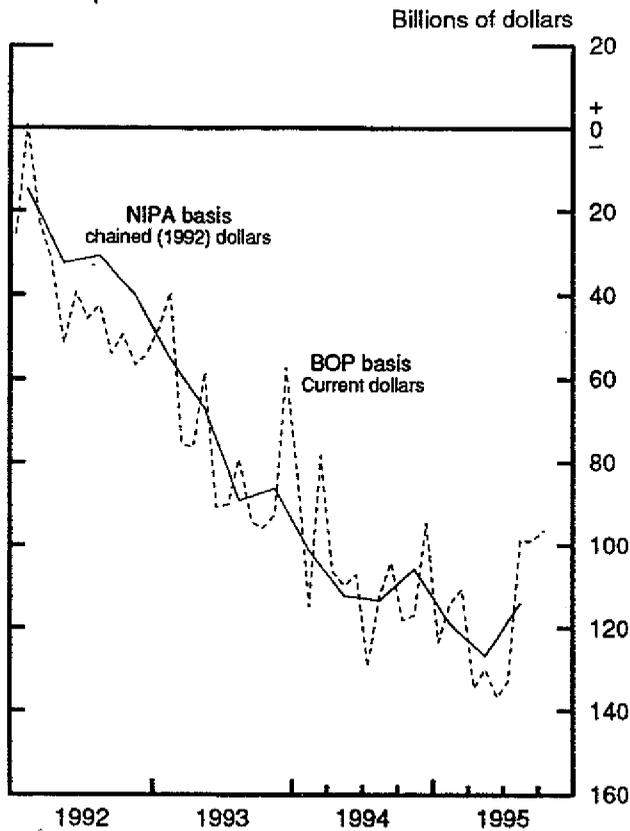
Oil Imports

The quantity of oil imported in October declined due to lower oil consumption and to a seasonal inventory drawdown. The amount

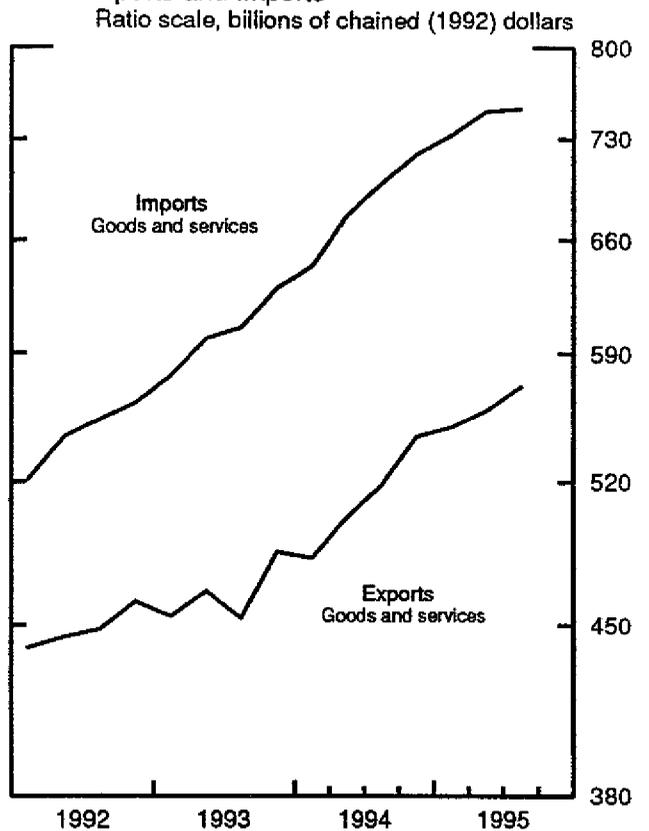
# U.S. International Trade in Goods and Services

(Seasonally adjusted annual rate)

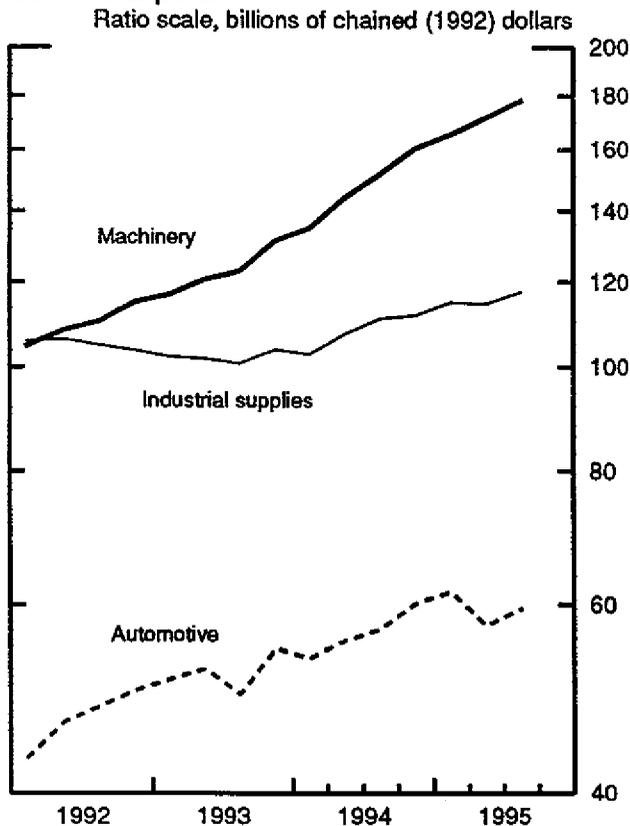
Net Exports



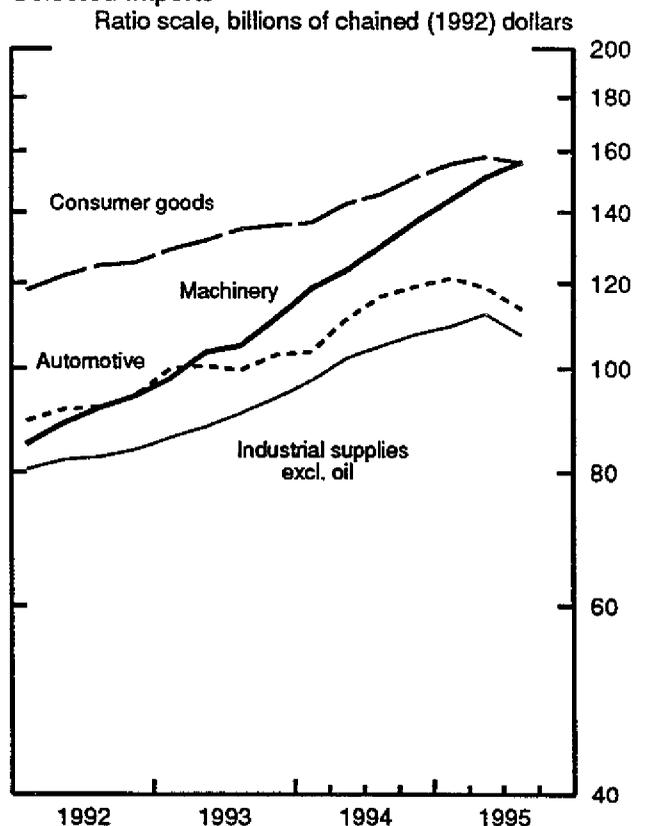
NIPA Exports and Imports



Selected Exports



Selected Imports



U.S. EXPORTS AND IMPORTS OF GOODS AND SERVICES  
(Billions of dollars, SAAR, BOP basis)

	Levels				Amount Change 1/			
	1995		1995		1995		1995	
	Q2	Q3	Sep	Oct	Q2	Q3	Sep	Oct
<u>Exports of G&amp;S</u>	778.4	790.1	809.5	801.0	19.9	11.7	12.6	-8.6
Goods exports	571.4	580.9	597.3	588.0	17.4	9.5	8.3	-9.3
Agricultural	53.6	58.8	62.4	60.4	-2.5	5.2	2.6	-2.0
Gold	7.7	3.4	3.6	5.2	2.1	-4.4	1.0	1.6
Computers	37.1	41.4	41.5	43.0	0.7	4.3	-1.2	1.5
Other goods	473.0	477.4	489.9	479.4	17.0	4.4	5.9	-10.5
Aircraft & pts	31.1	23.6	20.8	22.4	5.9	-7.5	-6.7	1.6
Semiconductors	32.6	35.6	37.0	36.9	2.6	3.0	1.4	-0.1
Other cap gds	129.9	134.5	137.4	141.6	4.7	4.6	2.9	4.2
Automotive	58.8	61.0	67.2	57.2	-4.7	2.2	4.0	-10.0
to Canada	31.3	32.3	32.2	32.1	-4.5	1.0	-4.6	-0.1
to Mexico	6.5	6.7	6.9	7.9	-0.7	0.2	-0.7	1.0
to ROW	21.0	22.1	28.1	17.2	0.5	1.1	9.3	-10.9
Ind supplies	131.8	133.2	135.7	133.5	6.1	1.4	1.5	-2.1
Consumer goods	64.5	64.8	65.9	65.6	1.4	0.3	-0.3	-0.3
All other	24.2	24.7	26.0	22.3	1.0	0.5	5.0	-3.7
Services exports	207.0	209.1	212.2	212.9	2.5	2.1	4.3	0.8
<u>Imports of G&amp;S</u>	912.1	900.3	908.5	897.5	37.6	-11.8	12.6	-11.0
Goods imports	766.6	754.8	762.3	751.8	34.2	-11.8	11.2	-10.5
Petroleum	58.3	56.2	57.4	51.0	6.0	-2.1	2.8	-6.4
Gold	10.8	2.5	3.3	4.9	6.4	-8.3	0.9	1.7
Computers	53.0	58.8	62.0	63.5	2.2	5.8	2.9	1.5
Other goods	644.5	637.3	639.6	632.4	19.6	-7.2	4.6	-7.2
Aircraft & pts	11.2	10.4	10.7	12.0	0.6	-0.8	0.2	1.3
Semiconductors	37.2	42.1	43.5	44.8	5.3	4.9	1.7	1.3
Other cap gds	117.9	117.0	115.8	114.9	5.4	-0.9	0.6	-0.9
Automotive	128.6	123.5	125.1	114.1	-1.3	-5.0	-0.2	-11.0
from Canada	42.8	43.7	45.0	44.8	-5.5	0.9	-6.7	-0.2
from Mexico	17.6	18.2	20.0	23.0	-0.2	0.6	1.7	3.0
from ROW	68.2	61.7	60.0	46.3	4.4	-6.5	4.8	-13.7
Ind supplies	127.6	123.2	122.6	123.3	4.8	-4.4	0.8	0.6
Consumer goods	163.1	161.5	161.5	160.2	4.0	-1.6	0.1	-1.3
Foods	32.7	33.3	33.8	34.0	-1.4	0.5	0.7	0.2
All other	26.2	26.3	26.6	29.1	2.1	0.1	0.7	2.5
Services imports	145.5	145.5	146.2	145.6	3.4	-0.1	1.3	-0.5
<b>Memo:</b>								
Oil qty (mb/d)	9.10	9.61	9.90	8.81	0.15	0.51	0.51	-1.09
Oil price (\$/bbl)	17.55	16.01	15.88	15.84	1.55	-1.54	-0.06	-0.04

1. Change from previous quarter or month.

Source. U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census.

imported in October was less than in any month since last April. Preliminary Department of Energy statistics indicate that in November imports should move back up reflecting a build-up in oil inventories.

The price of imported oil increased slightly in November after declining in October. The general decline in prices from May through October reflected concern in world spot markets about an over-abundant world oil supply. In November, prices increased because of loss of output in Mexico from late hurricanes, fear of oil workers' strikes in Venezuela and Brazil, and the decision by OPEC to maintain existing production quotas. Spot WTI prices rose sharply in December (by over \$1.00 per barrel to average \$18.77 per barrel) because of colder than normal weather in North America, Japan, and Europe, and uncertainty about Saudi Arabian oil policies given the poor health of King Fahd. Spot WTI rose above \$20.00 per barrel in early January as the cold weather persisted and King Fahd temporarily turned over power to Crown Prince Abdullah. Spot WTI fell back below \$18.00 per barrel when Iraq requested a reopening of negotiations with the United Nations for a limited sale of oil, and when the temperatures in the Northern Hemisphere appeared to be returning to normal.

#### Prices of Non-oil Imports and Exports

Prices of U.S. non-oil imports increased slightly in November after falling during the previous two months. Increases in prices of imported capital goods and foods (both following two months of sizable declines) were partly offset by a drop in the price of imported industrial supplies (primarily metals and selected building supplies).

For October-November combined, compared with the third quarter, prices of non-oil imports declined 1-1/2 percent at an

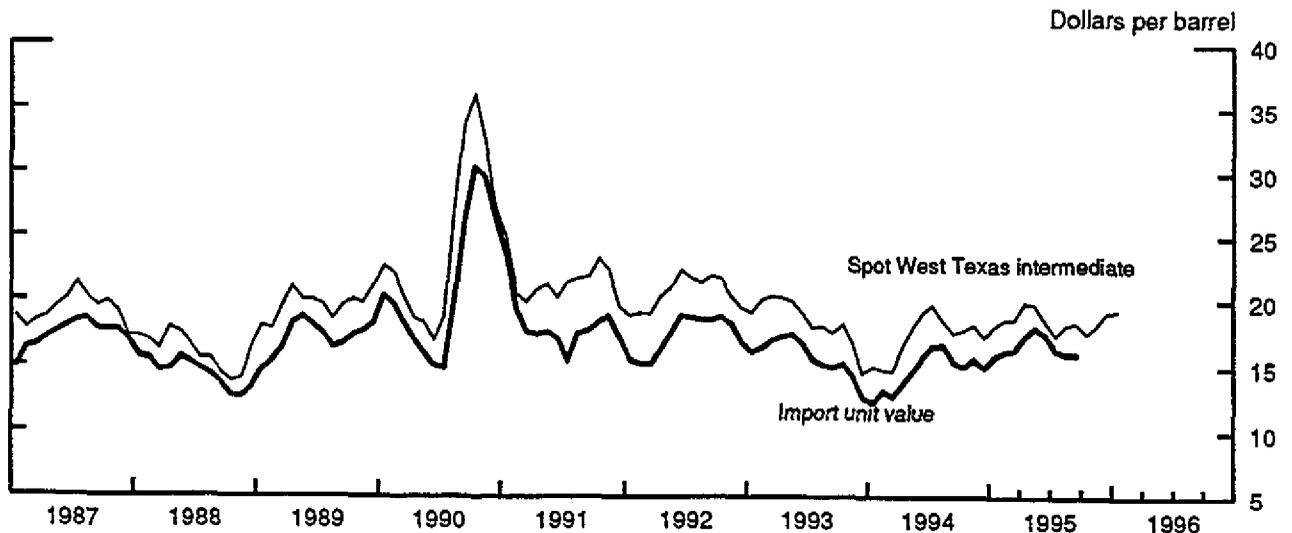
PRICES OF U.S. IMPORTS AND EXPORTS  
(Percentage change from previous period)

	Annual rates			Monthly rates		
	1995			1995		
	Q2	Q3	Q4e/	Sep	Oct	Nov
-----BLS prices (1990=100)-----						
<u>Merchandise imports</u>	8.5	-1.7	-1.4	0.0	-0.4	0.2
Oil	36.3	-29.7	-3.0	1.9	-1.6	0.9
Non-oil	5.8	1.8	-1.4	-0.2	-0.3	0.1
Foods, feeds, bev.	-3.8	0.8	-7.6	-1.3	-1.3	0.3
Ind supp ex oil	10.4	5.5	0.2	0.4	-0.1	-0.4
Computers	-4.4	-1.9	-6.7	-0.8	-1.5	0.5
Capital goods ex comp	9.5	0.1	-2.6	-0.6	-0.4	0.4
Automotive products	5.2	1.8	1.9	0.3	0.3	0.0
Consumer goods	3.4	1.2	-0.9	-0.2	-0.2	0.1
<u>Merchandise exports</u>	7.1	0.9	-0.4	0.1	0.1	-0.2
Agricultural	17.0	21.7	19.7	3.0	1.9	2.2
Nonagricultural	6.0	-1.6	-2.9	-0.3	-0.2	-0.5
Ind supp ex ag	13.8	-6.8	-10.4	-1.0	-1.0	-1.5
Computers	-2.4	-6.9	-7.0	-0.4	-0.8	-0.6
Capital goods ex comp	3.9	2.2	0.9	0.1	0.1	0.1
Automotive products	-0.2	0.9	5.0	0.2	1.0	0.2
Consumer goods	2.9	0.7	0.7	0.0	0.1	0.2
---Prices in the NIPA accounts (1992=100)---						
<u>Chain-type index</u>						
Imports of gds & serv.	9.0	-2.3	--	--	--	--
Non-oil merchandise	4.8	0.8	--	--	--	--
Exports of gds & serv.	5.5	0.8	--	--	--	--
Nonag merchandise	4.8	-1.2	--	--	--	--

e. Average of two months.

1-24-96

### Oil Prices



annual rate; this follows 10 consecutive quarters of price increases. The largest declines were in capital goods and foods. Prices of imported industrial supplies were little changed on average.

Prices of exports decreased slightly in November following two months of very small increases. The decline was attributable to a drop (for the sixth consecutive month) in prices of exported industrial supplies. As in the preceding two months, prices of agricultural exports rose strongly (especially grains).

For October-November combined, compared with the third quarter, prices of nonagricultural exports declined and prices of agricultural exports increased sharply. As was the case in the third quarter, prices of nonagricultural exports declined as prices of exported industrial supplies dropped sharply following double-digit increases from mid-1994 through mid-1995. Quarterly prices of exported capital goods and consumer goods rose at annual rates of 3 percent or less in 1995.

Data for prices in December are now scheduled to be released on February 14.

#### U.S. International Financial Transactions

Foreign private net purchases of U.S. securities rebounded strongly in November, to resume the heady pace set earlier in the year (line 4 of the Summary of U.S. International Transactions table). Private security purchases were dampened in October by large sales of Treasuries in the United Kingdom and Japan, which totaled more than \$14 billion. In November these countries recorded purchases of almost \$2 billion. In both months the offshore centers associated with U.S.-based hedge funds recorded large purchases of Treasuries--in the \$15 billion range. This pattern is broadly consistent with press reports stating that foreigners less closely associated with the U.S. markets were particularly concerned about

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

	1993	1994	1994		1995			
			Q4	Q1	Q2	Q3	Oct	Nov
<u>Official capital</u>								
1. Change in foreign official reserve assets in U.S. (increase, +)	70.3	37.7	- .8	22.4	37.2	39.4	-1.1	12.5
a. G-10 countries	30.1	28.9	-6.1	16.9	14.1	5.6	-1.6	.3
b. OPEC countries	-5.1	-3.3	.4	.4	-.2	6.2	-1.0	-.6
c. All other countries	45.4	12.1	4.9	5.1	23.2	27.5	1.6	12.8
2. Change in U.S. official reserve assets (decrease, +)	-1.4	5.3	-.2	-5.3	-2.7	-1.9	.5	-.2
<u>Private capital</u>								
Banks								
3. Change in net foreign positions of banking offices in the U.S. <sup>1</sup>	15.5	103.1	10.6	-11.7	-24.8	-6.6	23.3	-20.9
Securities <sup>2</sup>								
4. Foreign net purchases of U.S. securities (+)	105.8	92.8	36.4	45.9	51.3	68.6	5.8	31.3
a. Treasury securities <sup>3</sup>	24.8	34.6	26.0	30.1	30.5	37.3	.4	18.0
b. Corporate and other bonds <sup>4</sup>	61.4	53.9	12.9	19.3	18.5	26.0	6.6	10.2
c. Corporate stocks	19.6	4.4	-2.4	-3.5	2.4	5.3	-1.3	3.1
5. U.S. net purchases (-) of foreign securities	-143.1	-56.6	-17.9	-7.7	-22.8	-35.1	-12.5	-8.1
a. Bonds	-80.4	-9.3	-8.5	-3.5	-12.5	-13.0	-7.0	-4.6
b. Stocks	-62.7	-47.2	-9.3	-4.1	-10.2	-22.1	-5.5	-3.5
Other flows (quarterly data, s.a.)								
6. U.S. direct investment (-) abroad	-72.6	-49.4	-11.9	-22.5	-17.1	-21.7	n.a	n.a
7. Foreign direct investment in U.S.	41.1	49.4	19.6	17.2	12.9	19.3	n.a	n.a
8. Other (inflow, +) <sup>5</sup>	48.3	-16.8	-6.2	-18.8	-10.0	-.8	n.a	n.a
<u>U.S. current account balance (s.a.)</u>	-99.9	-151.2	-43.3	-39.0	-43.2	-39.5	n.a	n.a
<u>Statistical discrepancy (s.a.)</u>	36.0	-14.3	13.7	19.5	19.2	-23.3	n.a	n.a

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

1. 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.

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

3. Includes Treasury bills.

4. Includes U.S. government agency bonds.

5. 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.

the possibility that the U.S. Treasury might not meet its mid-November obligations.

Foreign net purchases of corporate and agency bonds also picked up in November, after a modest slowing in October (line 4b). Nearly all of the net purchases were in Europe; Japan recorded net sales of almost \$1 billion. Foreign transactions in U.S. stocks swung from modest net sales in October to net purchases in November.

Foreign official reserve assets in the United States increased by \$12-1/2 billion in November after a small reduction in October (line 1). The increase is attributable to countries outside the G-10, with particularly large increases coming from China and Thailand. Partial data for December from the FRBNY indicate a small reduction in official reserves in the United States.

The large inflows through official transactions and private purchases of U.S. securities were partially offset by large outflows through banking transactions and U.S. purchases of foreign securities. U.S. net purchases of foreign stocks and bonds both declined between October and November, but the total remained above \$8 billion (line 5). Bond purchases were concentrated in the United Kingdom, providing little information about the residence of the issuer. Stock purchases were widespread with net purchases in Japan totaling about \$1/2 billion.

Banks and securities dealers reported large net capital outflows in November (line 3). About \$7 billion, or one-third, of this outflow is attributable to securities dealers' lending associated with RP transactions. The remaining \$14 billion outflow is attributable primarily to transactions between banks and their related foreign offices. The large outflow reported on an end-of-month basis in the Summary table is largely consistent with daily data reported on the FR 2950/51. However, the FR data indicate that this outflow was an end-of-month phenomenon and does not reflect the

general pattern of funding. On a monthly-average basis, U.S.-chartered banks reported a relatively modest, \$4 billion, net outflow vis-a-vis own foreign offices in November while foreign-chartered banks reported a \$9 billion inflow (lines 1a and 1b of the International Banking Data table). Bank positions vis-a-vis own foreign offices changed little in December, on a monthly-average basis.

1  
INTERNATIONAL BANKING DATA  
(Billions of dollars)

	1992	1993	1994	1995				
	Dec.	Dec.	Dec.	June	Sep.	Oct.	Nov.	Dec.
1. Net claims of U.S. banking offices (excluding IBFs) on own foreign offices and IBFS	-71.6	-122.1	-224.0	-235.3	-244.3	-254.4	-259.0	-260.0
a. U.S.-chartered banks	17.0	4.2	-70.1	-88.7	-86.1	-89.7	-86.0	-86.1
b. Foreign-chartered banks	-88.6	-126.3	-153.9	-147.6	-158.2	-164.8	-173.0	-173.9
2. Credit extended to U.S. nonbank residents								
a. By foreign branches of U.S. banks	24.8	21.8	23.1	25.2	25.7	26.2	26.0	26.5
b. By Caribbean offices of foreign-chartered banks	n.a.	90.9	78.4	85.3	86.4	n.a.	n.a.	n.a.
3. Eurodollar holdings of U.S. nonbank residents								
a. At all U.S.-chartered banks and foreign-chartered banks in Canada and the United Kingdom	90.0	77.8	85.6	92.3	94.6	93.8	92.2	91.2
b. At the Caribbean offices of foreign-chartered banks	n.a.	79.2	86.0	108.9	n.a.	n.a.	n.a.	n.a.
MEMO: Data as recorded in the U.S. international transactions accounts								
4. Credit extended to U.S. nonbank residents	184	191	187	205	n.a.	n.a.	n.a.	n.a.
5. Eurodeposits of U.S. nonbank residents	235	230	261	288	n.a.	n.a.	n.a.	n.a.

1. Data on lines 1 through 3 are from Federal Reserve sources and sometimes differ in timing from the banking data incorporated in the U.S. international transactions accounts.

Lines 1a, 1b, and 2a are averages of daily data reported on the FR 2950 and FR 2951.

Lines 2b and 3b are end-of-period data reported quarterly on the FFIEC 002s.

Line 3a is an average of daily data (FR 2050) supplemented by the FR 2502 and end of quarter data supplied by the Bank of Canada and the Bank of England. There is a break in the series in April 1994.

Lines 4 and 5 are end-of-period data estimated by BEA on the basis of data provided by the BIS, the Bank of England, and the FR 2502 and FFIEC 002s. It includes some foreign-currency denominated deposits and loans. Source: SCB

Foreign Exchange Markets

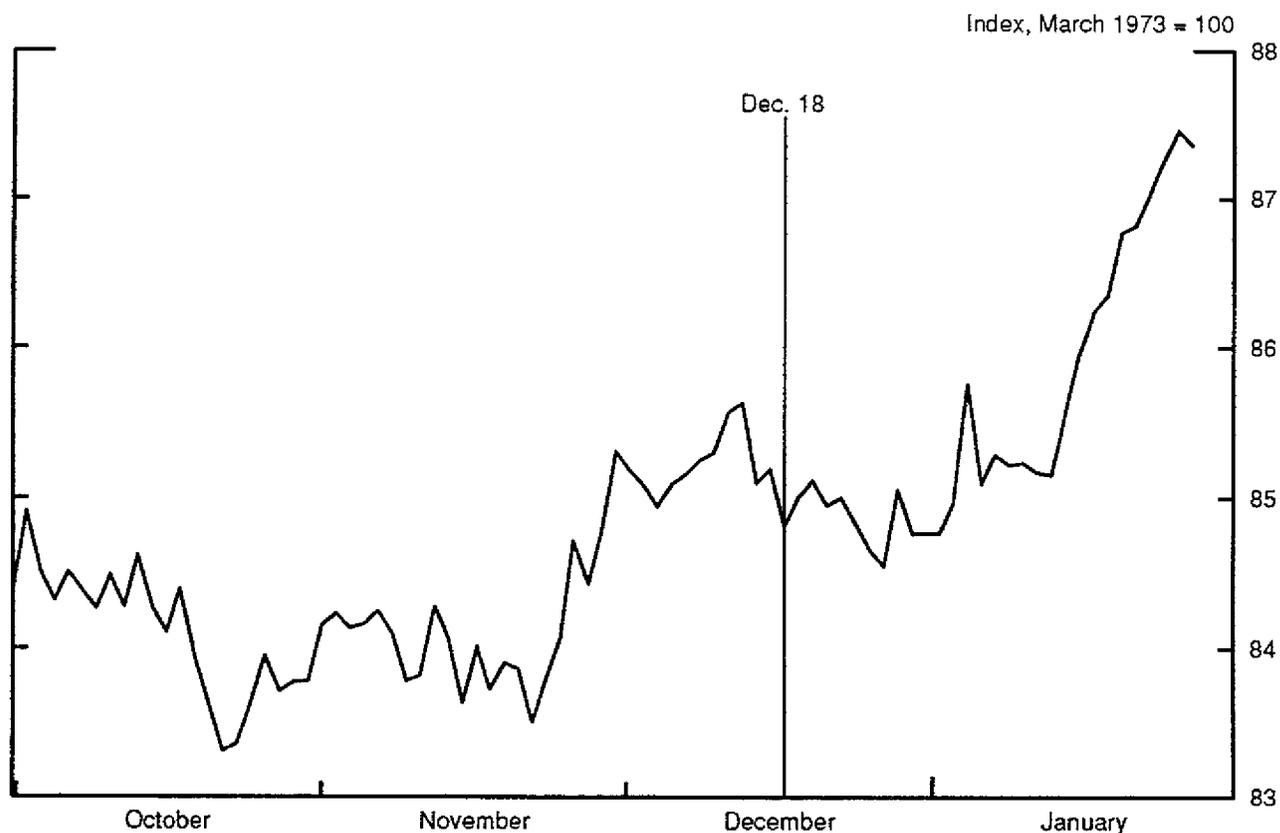
The weighted-average value of the dollar has risen about 3 percent since just before the December 19 FOMC meeting. Over this period, the dollar has appreciated over 4 percent against the yen and the mark while showing little net change against the Canadian dollar.

One factor contributing to the dollar's strength against the mark and other European currencies over this period appears to have been market perceptions of a slowing of economic activity in most European countries, leading to heightened expectations of further moves toward monetary easing by European central banks. The same explanation cannot account for the dollar's strength against the yen, since prospects for Japanese growth appear, if anything, to have increased recently. Some market commentary has focused on the recent decline in Japan's external surpluses to explain the yen's weakness. The breakdown of U.S. budget negotiations early this month put temporary downward pressure on the dollar, but this pressure did not seem to be either intense or prolonged.

The most notable feature of industrial-country financial markets since mid-December has been a general move by central banks to reduce short-term interest rates. Since the Bundesbank's December 14 announcement of 50 basis point reductions in its discount and Lombard rates and a 23 basis point reduction in its repo rate, the German repo rate has declined an additional 20 basis points in subsequent repo auctions, to a current level of 3.55 percent. One reason for the Bundesbank's easing has been the slow growth of the targeted M3 monetary aggregate. In the fourth quarter of last year, M3 was only 2.1 percent above its year-earlier level, well below its 4 to 6 percent target range for this period. After a general initial rush to follow the Bundesbank's December 14 interest

## Weighted Average Exchange Value of the Dollar

(Daily data)



## Interest Rates in Major Industrial Countries

	Three-month rates			Ten-year bond yields		
	Dec. 18	Jan. 26	Change	Dec. 18	Jan. 26	Change
Germany	3.80	3.35	-0.45	6.03	5.91	-0.12
Japan	0.50	0.55	0.05	2.80	3.10	0.30
United Kingdom	6.41	6.19	-0.22	7.40	7.43	0.03
Canada	6.00	5.42	-0.58	7.37	7.24	-0.13
France	5.08	4.50	-0.58	6.69	6.43	-0.26
Italy	10.63	9.94	-0.69	11.16	10.48	-0.68
Belgium	3.70	3.36	-0.34	6.67	6.40	-0.27
Netherlands	3.55	2.90	-0.65	6.06	5.91	-0.15
Switzerland	1.69	1.63	-0.06	3.73	4.09	0.36
Sweden	8.39	8.11	-0.28	8.56	8.49	-0.07
Weighted-average foreign	4.70	4.31	-0.39	6.47	6.37	-0.10
United States	5.67	5.34	-0.33	5.85	5.72 <sup>P</sup>	-0.13

Note. Change is in percentage points.

p. Preliminary

rate reductions, several other European central banks have continued to move down money market intervention rates in recent weeks, including the Bank of England, which lowered its minimum lending rate by 25 basis points to 6.25 percent on January 18. On December 19, soon after the FOMC's announcement of a 25 basis point reduction in the federal funds rate, the Bank Of Canada indicated that it was reducing its target range for the overnight rate by 25 basis points. Another 25 basis point reduction was announced on January 25, lowering the target range to 5.25 percent to 5.75 percent.

Consistent with this general move to monetary easing, short-term market interest rates have declined since mid-December in all of the major industrial countries except Japan, where the short-term rate has edged up slightly. The largest decline has been in Italy, 70 basis points. The German short-term rate has declined about 45 basis points over the intermeeting period, about 10 basis points more than the reduction in the U.S. 3-month rate.

Long-term rates have also decreased in nearly all of the foreign industrial countries over the past month, with the major exception again being Japan, where the long-term rate has risen about 30 basis points. The largest decline in long-term rates, 70 basis points, has been in Italy, where apparently reduced prospects for early elections may have reduced political uncertainty somewhat. The long-term rate in Germany has declined about 10 basis points on balance, about the same as the reduction in the comparable U.S. long-term rate over this period.

Since the December FOMC meeting, the Mexican peso has appreciated about 4 percent against the dollar. Over this period, Mexican short-term interest rates have declined over 10 percentage points to below 40 percent, and Mexican stock prices have risen over 10 percent.

Since mid-December, the gold price has risen 5 percent, moving above the \$400 level. It is hard to explain the recent strength of the gold price in terms of new fundamental factors. Possibly the lower interest rate atmosphere has contributed to the rise.

There has been no U.S. intervention during the intermeeting period.

#### Developments in Foreign Industrial Countries

Recent data on real economic activity in major foreign industrialized countries indicate that the pace of economic growth has generally remained sluggish. While the Japanese economy has begun to show signs of a modest pickup, activity in Germany and France has slowed further. Only in Italy has growth been fairly strong, although there too, recent monthly indicators point to some deceleration.

Inflation pressures have remained generally subdued. Prices have fallen further in Japan, while consumer price inflation in Canada has continued to decline from its peak in the first half of last year. In the United Kingdom inflation has fallen slightly after being pushed up by temporary factors last summer. Italian inflation remains high but it is slowing after reaching a year-on-year peak of 6 percent in November.

Financial and economic uncertainties continue to be of concern in some countries. In Germany, the consolidated general budget deficit widened to more than 3-1/2 percent in 1995, raising questions about Germany's ability to meet the Maastricht deficit criterion. In Japan, worries about the health of the banking sector persist, although the funding premium for Japanese banks in Eurocurrency markets remains at a modest level. In Canada, another

referendum on Quebec sovereignty is unlikely before mid-1997. Nonetheless, uncertainty remains about the future of the Canadian federal structure.

Individual country notes. In Japan, available indicators suggest that the long-stalled economy showed some improvement in the fourth quarter. Industrial production turned up and housing starts and machinery orders were particularly strong in October and November.

Prices have continued to fall. The December CPI for the Tokyo area was 0.5 percent below year-earlier levels, while wholesale prices were down 0.3 percent over the same period. The GDP deflator in the third quarter was 0.2 percent below its level four quarters earlier.

JAPANESE ECONOMIC INDICATORS  
(Percent change from previous period except where noted, SA)

	1995						
	Q2	Q3	Q4	Sept	Oct	Nov	Dec
Industrial Production	0.0	-2.3	n.a.	-1.7	1.3	1.5	n.a.
Housing Starts	-7.7	-1.2	n.a.	7.7	4.4	5.7	n.a.
Machinery Orders	-3.8	0.7	n.a.	-12.6	9.8	4.9	n.a.
New Car Registrations	-4.5	5.1	2.4	1.3	1.8	-1.4	-1.6
Unemployment Rate (%)	3.1	3.2	n.a.	3.2	3.2	3.4	n.a.
Job Offers Ratio <sup>1</sup>	0.63	0.60	n.a.	0.60	0.61	0.63	n.a.
Business Sentiment <sup>2</sup>	-16	-18	-14				
CPI (Tokyo area) <sup>3</sup>	-0.1	-0.2	-0.8	-0.0	-0.9	-0.9	-0.5
Wholesale Prices <sup>3</sup>	-1.7	-0.6	-0.1	-0.2	-0.1	0.0	-0.3

1. Level of indicator.

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

3. Percent change from previous year.

In the Bank of Japan's November survey (Tankan) the index of business sentiment of major manufacturing firms (the percentage having a favorable view of business conditions minus the percentage

with an unfavorable outlook) registered -14, slightly less negative than the previous survey taken in August.

The current account surplus has continued to decline, registering \$112 billion (SAAR) in the year through November, down about \$17 billion from the same period the previous year. In the year 1995 the merchandise trade surplus (SAAR) was \$107 billion, down almost \$14 billion from 1994.

On January 11 the Diet elected Liberal Democratic Party (LDP) leader Ryutaro Hashimoto as Prime Minister to succeed Tomiichi Murayama of the Social Democratic Party (SDP). The ruling coalition consists of the conservative LDP, the left-leaning Sakigake Party, and the formerly socialist SDP. The party leaders have stated that they intend to keep the three-party coalition intact. The change of Prime Ministers is not expected to cause a major shift in policies. Many observers are expecting a new election for the lower house of the Diet around next summer.

In Germany, the "flash" estimate for real GDP shows growth of only 1.9 percent in 1995, considerably less than the 3 percent recorded in 1994. Although the economic expansion held up in the first half of last year, at a rate of roughly 2-1/2 percent (SAAR), growth stalled in the second half. Reliable data for fourth-quarter real GDP and its components will not be available until early March, but it now appears likely based on the weakness of industrial production and business confidence that real GDP declined in the final quarter of 1995.

Concern about Germany's ability to meet the Maastricht deficit criterion emerged with the announcement that the deficit of the consolidated general government widened from 2.6 percent of GDP in

GERMAN ECONOMIC INDICATORS  
(Percent change from previous period except where noted, SA)

	1995						
	Q2	Q3	Q4	Sept	Oct	Nov	Dec
Industrial Production	1.0	-0.5	n.a.	0.1	-1.4	0.1	n.a.
Orders	0.3	-0.4	n.a.	1.5	-3.1	0.8	n.a.
Unemployment Rate (%)	9.3	9.4	9.7	9.5	9.6	9.7	9.9
Western Germany	8.2	8.4	8.5	8.4	8.4	8.5	8.6
Eastern Germany	13.7	14.0	14.7	14.3	14.3	14.7	15.2
Capacity Utilization <sup>1</sup>	85.9	85.4	n.a.	--	--	--	--
Business Confidence <sup>1,2</sup>	3.0	-4.3	n.a.	-5.0	-10.0	-9.0	n.a.
Retail Sales <sup>3</sup>	-3.0	-2.7	n.a.	-2.0	-5.0	1.0	n.a.
Consumer Prices <sup>1,3</sup>	1.9	1.7	1.5	1.6	1.6	1.5	1.4

1. Western Germany.

2. Percent of firms expecting an improvement in business conditions during the next six months less those expecting a deterioration in conditions.

3. Percent change from previous year.

1994 to 3.6 percent in 1995. While the deficit had been expected to increase somewhat in 1995 when Treuhandanstalt debt was brought onto the books of the general government, additional fiscal slippage was attributable to lower-than-expected tax revenues and higher-than-expected social security expenditures.

Political tensions have been heightened by a public controversy in the ruling coalition, with the Federal Democrats (FDP) calling for the removal of the 7-1/2 percent solidarity surcharge on income beginning of 1997. Chancellor Kohl's Christian Democrats (CDU) and the Bavarian Christian Socialists (CSU) argue that the surcharge cannot be removed until 1998 at the earliest. This public debate has increased the likelihood of the dissolution of the ruling coalition should the FDP receive little support in three upcoming state elections in late March.

In France, monthly indicators available for the fourth quarter point to slower growth, even excluding the impact of the public sector strikes. Industrial production in October-November fell 2.6 percent compared with the third-quarter average, and the December

business survey by INSEE indicated that output growth remained weak. The survey suggested that business confidence had deteriorated and that inventories were above normal, pointing to a very weak fourth quarter. The unemployment rate remained unchanged in October after having risen slightly in September.

Real consumption of manufactured products (equal to one-third of total consumption) in the fourth quarter was down 1.8 percent from its third-quarter average. While such consumption rebounded in November from its sharp decline in October (when it registered its largest drop since January 1993), the 24-day public sector strikes that extended through the first half of December reduced consumer spending further. According to INSEE (the French statistical institute), consumer confidence in December fell to its lowest level since January 1987.

Consumer prices in December were 2.1 percent above their year-earlier level. A modest pick-up in inflation since August has been due largely to a 2 percentage point increase in the VAT rate to 20.6 percent on August 1.

The French merchandise trade balance (SA) registered a record surplus in November of \$2.9 billion, compared with \$1.3 billion in October, on a sharp decline in imports. During the first eleven months of 1995, France's cumulative trade surplus registered \$20 billion, almost \$5 billion greater than the same period last year, with about equal growth in both exports and imports.

FRENCH ECONOMIC INDICATORS  
(Percent change from previous period except where noted, SA)

	1995						
	Q2	Q3	Q4	Sept	Oct	Nov	Dec
Industrial Production	-0.1	1.0	n.a.	-1.9	-1.6	0.6	n.a.
Capacity Utilization	84.8	84.9	n.a.	--	--	--	--
Unemployment Rate (%)	11.6	11.4	n.a.	11.5	11.5	n.a.	n.a.
Consumption of Manufactured Product	2.7	-1.0	-1.8	-0.4	-4.4	5.2	-1.1
Consumer Prices <sup>1</sup>	1.6	1.8	1.9	2.0	1.8	1.9	2.1

1. Percent change from previous year. Includes the increase in the VAT on August 1, 1995

In the **United Kingdom**, real GDP rose a preliminary 1.6 percent (SAAR) in the fourth quarter. Industrial production was little changed on average in October and November relative to the third-quarter level, partly as a result of a sharp contraction in output in the energy sector in October due to unusually warm weather. Manufacturing output continued to be sluggish as inventories were being worked off.

UNITED KINGDOM ECONOMIC INDICATORS  
(Percent change from previous period except where noted, SA)

	1995						
	Q1	Q2	Q3	Q4	Oct	Nov	Dec
Real GDP (a.r.)	1.9	1.9	1.5	1.6	--	--	--
Non-oil GDP (a.r.)	1.5	2.3	1.5	1.1	--	--	--
Industrial Production	0.8	0.3	0.5	n.a.	-0.7	0.5	n.a.
Retail Sales	-0.7	0.9	0.1	0.8	0.1	0.9	0.5
Unemployment Rate (%)	8.5	8.3	8.2	8.0	8.1	8.0	8.0
Consumer Prices <sup>1</sup>	2.8	2.7	2.9	2.9	2.9	2.9	3.0
Producer Input Prices <sup>2</sup>	11.1	10.9	9.5	6.4	7.8	6.1	5.4
Average Earnings <sup>2</sup>	3.6	3.6	3.3	n.a.	3.3	3.3	n.a.

1. Retail prices excluding mortgage interest payments. Percent change from previous year.

2. Percent change from previous year.

Targeted inflation, measured as the year-on-year change in retail prices excluding mortgage interest payments, remained at 2.9 percent in the fourth quarter. However, as suggested by the slowing of 12-month producer price inflation during the fourth quarter, upward pressure from earlier depreciation of the pound and this summer's drought might be moderating. Inflationary expectations plus an inflation risk premium which can be interpreted as the yield differential between regular and index-linked gilts, has declined about 1/2 percentage point from its October level to just under 4 percent at the end of December. The pace of the growth in average earnings continues to be modest.

In Italy, third-quarter data (which are likely to be revised substantially--as has occurred in past quarters) indicate that GDP (SAAR) soared as a result of a large inventory build-up and a rise in fixed investment following a slight decline in the second quarter. In recent quarters, Italian GDP growth and total domestic demand have been subject to large fluctuations from changes in inventories. Nonetheless, final domestic demand growth at about 2-1/2 percent has been relatively strong in the second and third quarters. Unlike the first two quarters of 1995, net exports made a negative contribution to growth in the third quarter, as exports declined and imports increased. Government expenditures continued to fall.

Available monthly indicators point to a slowdown of growth in the fourth quarter. Both consumer confidence fell; industrial production declined while the unemployment rate remained high; and producers likely partially worked off the large stock of inventories in the fourth quarter.

ITALIAN REAL GDP  
(percent change from previous period, SAAR)

	1994		1994		1995	
	Q4/Q4	Q3	Q4	Q1	Q2	Q3
GDP	2.9	6.5	0.1	6.3	-0.4	8.0
Private Consumption	1.7	1.6	0.2	1.1	2.0	1.5
Investment	2.2	-2.5	6.1	11.6	11.4	4.0
Government Consumption	0.5	1.0	0.3	-1.8	-2.1	-0.5
Exports	10.0	19.6	1.7	32.9	17.3	-1.5
Imports	15.0	17.5	13.8	8.6	10.6	6.7
Total Domestic Demand	4.0	5.9	2.9	0.4	-2.4	7.4
Net Exports (contribution)	-1.3	0.6	-3.3	6.5	2.0	-2.6
Inv. Change (contribution)	2.4	5.2	1.6	-2.1	-5.3	5.6

Inflation in Italy has stabilized but remains high. In December, the consumer price index was 5.8 percent above its year-earlier level, down from 6.0 percent in November. Wage inflation in October remained relatively moderate at 3.9 percent on a year-over-year basis, the same as the increase in September. Wholesale prices in November were 10.4 percent above their year-earlier level, down from 10.8 percent in October.

On December 22, the Italian Parliament approved the 1996 budget. It includes a \$20 billion deficit reduction package that is split between tax rises and reductions in public expenditure. The 1996 budget deficit is projected to be 5.8 percent of GDP, down from 7.4 percent in 1995.

On January 11, Prime Minister Dini submitted his resignation. Currently, President Scalfaro is meeting with political party leaders to determine if an interim bipartisan government can be formed or if early general elections need to be held. Since the end of December, interest rates declined by about 90 basis points probably due to the passage of the 1996 budget and renewed optimism that Dini will be given a second mandate.

ITALIAN ECONOMIC INDICATORS  
(Percent change from previous period except where noted, SA)

	1995						
	Q2	Q3	Q4	Sept	Oct	Nov	Dec
Industrial Production	1.1	3.0	n.a.	-4.4	-0.5	-0.5	n.a.
Cap. Utilization (%)	78.6	77.5	n.a.	--	--	--	--
Unemployment Rate (%)	11.9	11.7	12.1	--	--	--	--
Consumer Confidence <sup>1</sup>	113.2	116.1	110.0	114.1	110.7	110.9	108.4
Bus. Sentiment <sup>2</sup> (%)	18	17.3	n.a.	13	8	n.a.	n.a.
Consumer Prices <sup>3</sup>	5.5	5.7	5.9	5.8	5.8	6.0	5.8
Wholesale Prices <sup>3</sup>	11.7	11.3	n.a.	11.6	10.8	10.4	n.a.

1. Level of index, NSA.

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

3. Percent change from previous year.

Preliminary indicators suggest that economic activity in **Canada** remained sluggish in the fourth quarter of 1995. Although employment in December retraced November's decline, employment for the fourth quarter as a whole was flat, and consequently the unemployment rate was little changed at 9.4 percent. After declining the previous two months, manufacturing shipments and new factory orders increased in November, but the average for October and November remained below the second-quarter average. Retail sales in October-November also remained below the average level in the second quarter. After rising to near the top of the Bank of Canada's inflation target band of 1 to 3 percent in mid-1995, consumer price inflation declined to below the mid-point of the band in December.

Lucien Bouchard resigned from Parliament and will be sworn in as Premier of Quebec on January 29. He has said that another referendum on Quebec sovereignty is not likely until after a conference between the federal and provincial governments in April 1997.

CANADIAN ECONOMIC INDICATORS  
(Percent change from previous period except where noted, SA)

	1995						
	Q2	Q3	Q4	Sept	Oct	Nov	Dec
Industrial Production	-0.6	0.4	n.a.	0.1	-0.4	n.a.	n.a.
Manufacturing Survey:							
Shipments	-1.3	1.1	n.a.	-0.2	-1.7	1.3	n.a.
New Orders	-2.9	1.2	n.a.	-0.5	-0.9	1.5	n.a.
Retail Sales	0.2	0.6	n.a.	-0.0	-0.9	0.2	n.a.
Housing Starts	-14.9	-3.3	-0.5	1.4	-10.7	7.5	6.6
Employment	0.1	0.1	0.2	0.2	0.1	-0.3	0.4
Unemployment Rate (%)	9.5	9.5	9.4	9.2	9.4	9.4	9.4
Consumer Prices <sup>1</sup>	2.7	2.4	2.1	2.3	2.4	2.1	1.7

1. Percent change from year earlier.

EXTERNAL BALANCES  
(Billions of U.S. dollars, seasonally adjusted)

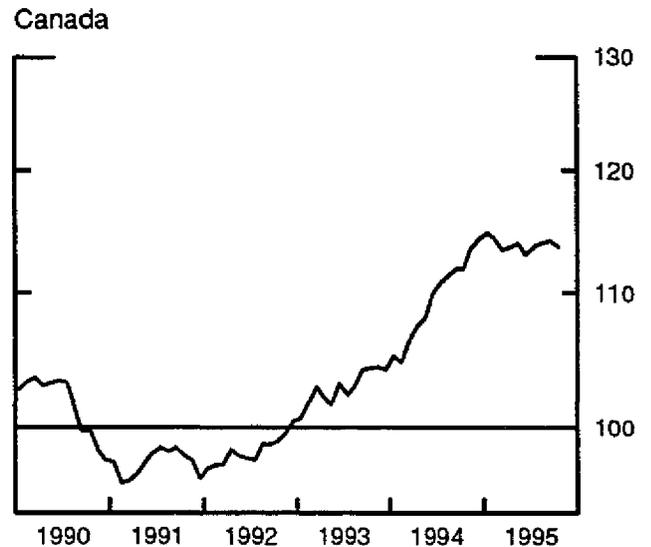
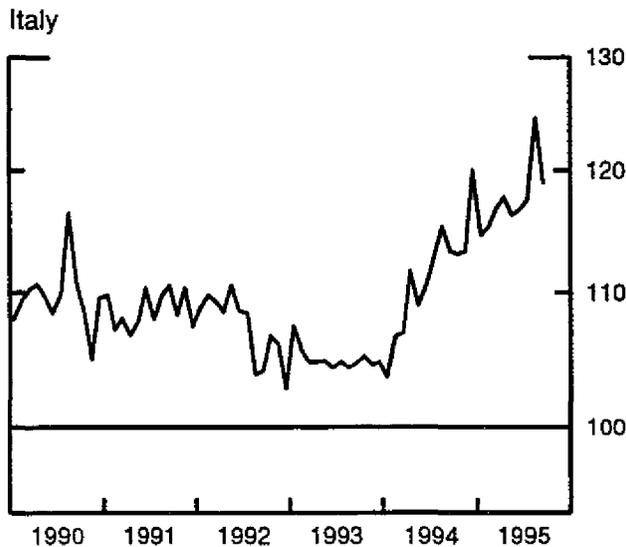
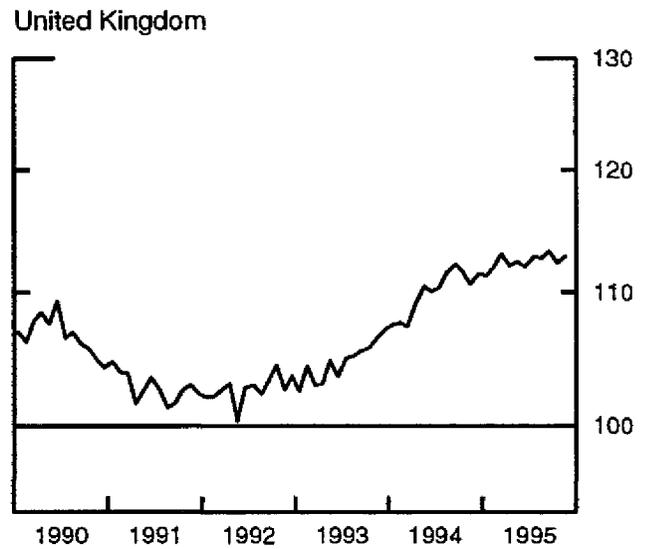
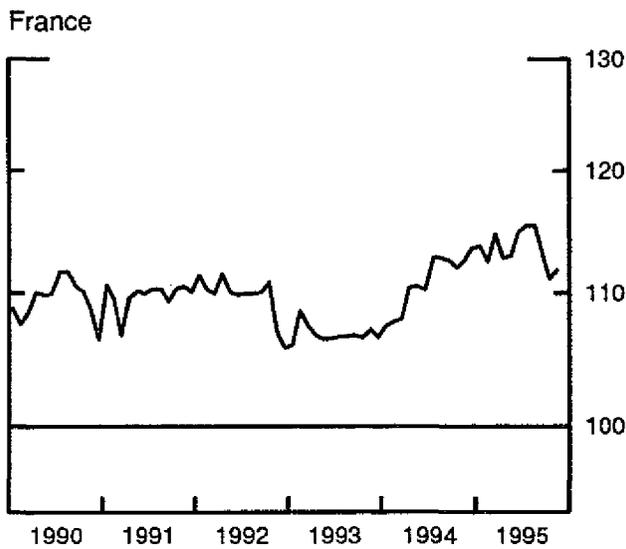
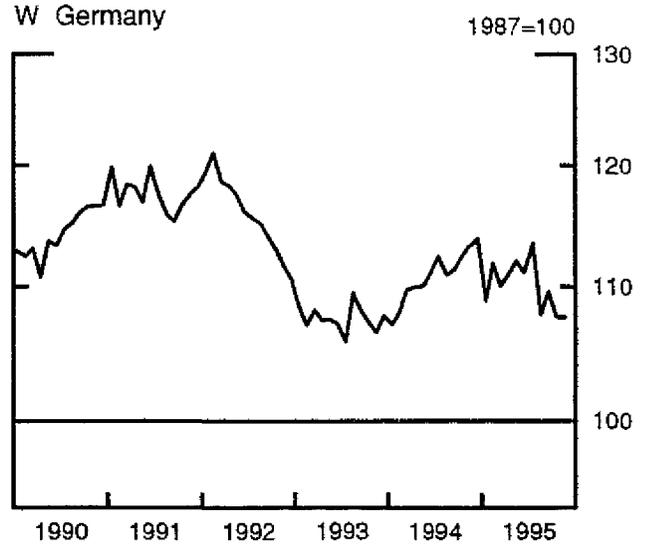
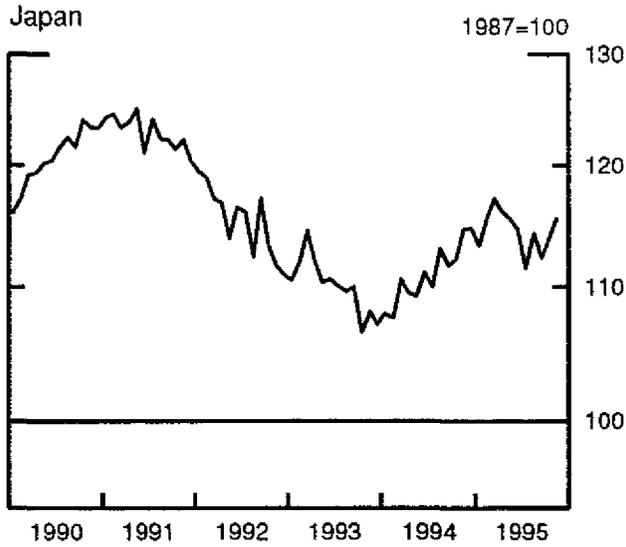
	1994	1995	1995					
			Q1	Q2	Q3	Oct	Nov	Dec
Japan: trade	120.7	107.1	27.3	32.7	25.3	4.8	8.8	8.2
current account	129.1	n.a.	28.8	30.9	29.6	5.4	8.4	n.a.
Germany: trade <sup>1</sup>	45.4	n.a.	14.1	17.7	15.3	6.0	n.a.	n.a.
current account <sup>1</sup>	-21.7	n.a.	-3.5	-0.8	-9.3	-2.9	n.a.	n.a.
France: trade	15.1	n.a.	5.7	6.0	4.1	1.3	2.9	n.a.
current account <sup>1</sup>	8.1	n.a.	7.0	4.9	1.8	--	--	--
U.K.: trade	-16.4	n.a.	-3.0	-5.1	-5.3	-2.6	n.a.	n.a.
current account	-3.0	n.a.	-1.9	-3.7	-2.1	--	--	--
Italy: trade	21.8	n.a.	7.2	7.0	7.5	2.4	n.a.	n.a.
current account <sup>1</sup>	15.6	n.a.	2.6	7.7	9.2	n.a.	n.a.	n.a.
Canada: trade	11.0	n.a.	4.2	4.1	5.3	2.0	n.a.	n.a.
current account	-16.3	n.a.	-3.4	-3.5	-2.5	--	--	--

1. Not seasonally adjusted.

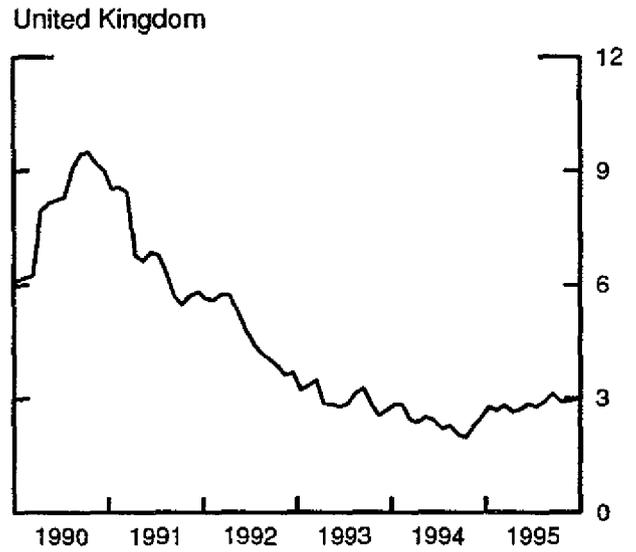
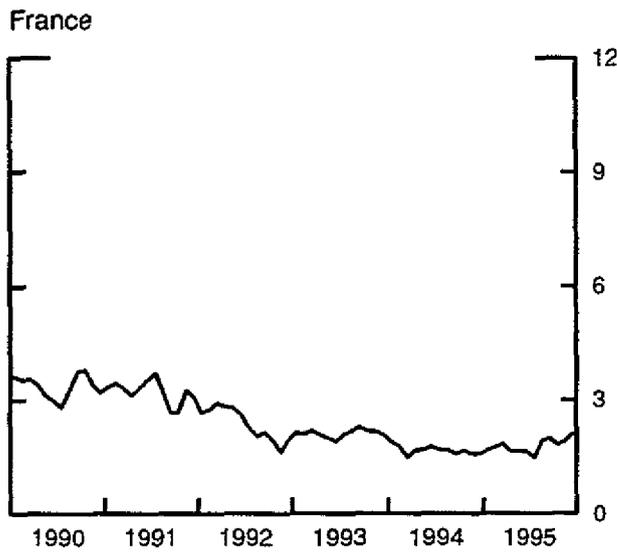
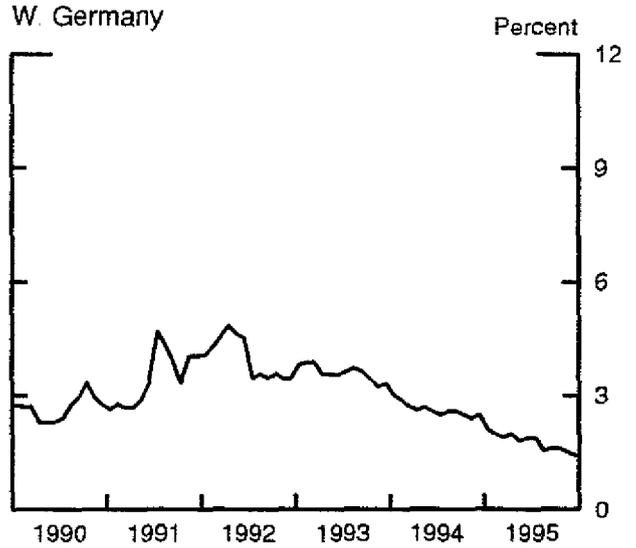
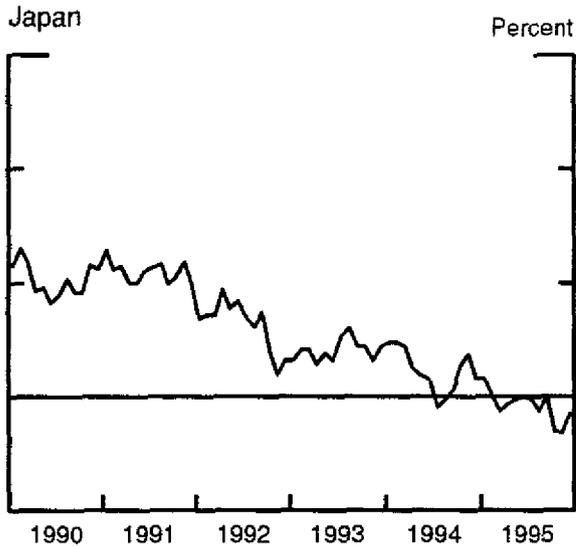
-- Data not available on a monthly basis.

### Industrial Production in Selected Industrial Countries

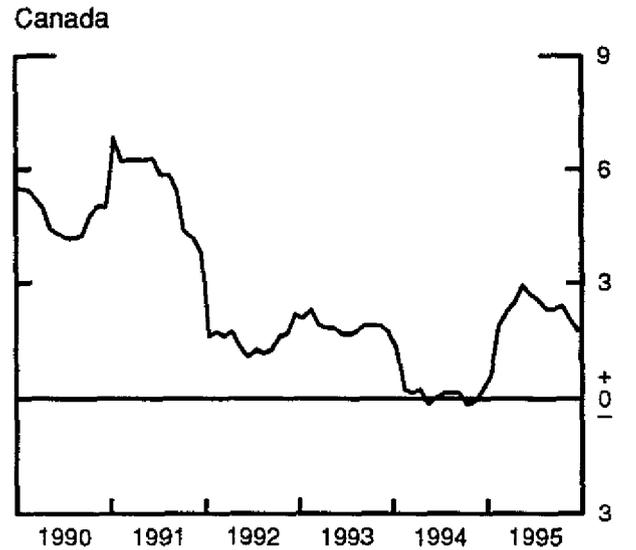
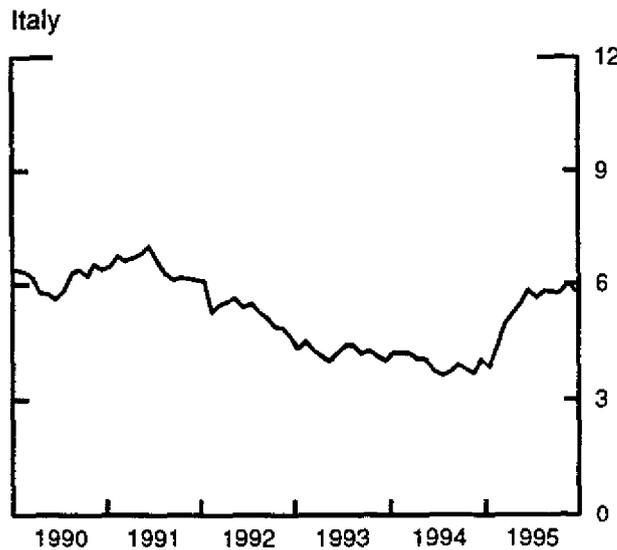
(Monthly data; seasonally adjusted; ratio scale, index)



### Consumer Price Inflation in Selected Industrial Countries (12-month change)



Note: Excludes mortgage interest payments.



Economic Situation in Other Countries

Real GDP growth has been relatively weak in Latin America, and may be slowing to more sustainable rates in Asia. In Russia, the rate of decline in GDP in 1995 was the smallest since reform began. Latin American countries generally had strong trade performances in 1995 relative to 1994, with the exception of Brazil; in Asia, both exports and imports surged, with trade balances improving in China but falling in Taiwan and Korea.

Individual country notes. In Mexico, monthly indicators suggest that output may have grown marginally in the fourth quarter. Real GDP increased about 1-1/2 percent in the third quarter on a seasonally adjusted basis (not an annual rate), but for statistical reasons, that increase was somewhat overstated. The year-over-year decline in industrial production was about 12 percent in October. The unemployment rate (n.s.a.) fell steadily from September through December, although this decline in part reflects seasonal factors. Seasonal factors also account for much of the increase in consumer price inflation from 2.5 percent in November to 3.3 percent in December. The November decline in the peso and December increases in public sector prices also contributed to inflationary pressures.

In part reflecting the continued weakness of the economy, Mexico's trade performance remains strong. Mexico registered a trade surplus of \$7.4 billion in 1995, compared with an \$18.5 billion deficit for the same period in 1994; exports rose 31 percent, while imports fell 9 percent.

In mid-December, the Bank of Mexico announced its monetary program for 1996. The Bank anticipates that the monetary base will grow by nearly 29 percent this year compared with expected nominal income growth of about 24 percent. The projected rise in the demand for monetary base relative to nominal income is expected to reflect a decline in inflation from 52 percent (December/December) in 1995

MEXICAN ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q3	Q4	Oct	Nov	Dec
Real GDP	3.5	-9.6	--	--	--	--
Industrial Production (s.a.)	3.8	-11.7	--	-11.8	--	--
Unemployment Rate (%)	3.2	7.5	5.9	6.7	5.8	5.2
Consumer Prices <sup>1</sup>	7.1	5.9	8.0	2.1	2.5	3.3
Trade Balance <sup>2</sup>	-18.5	2.3	2.0	0.8	0.7	0.5
Imports <sup>2</sup>	79.4	17.9	19.4	6.6	6.5	6.3
Exports <sup>2</sup>	60.8	20.2	21.4	7.5	7.1	6.8
Current Account <sup>2</sup>	-28.9	0.5	--	--	--	--

1. Percentage change from previous period.

2. Billions of U.S. dollars, n.s.a.

to a targeted 21 percent in 1996. Under the program, net domestic credit creation will be limited to about 24 percent of the end-1995 monetary base, so that increases in money demand beyond that level must be satisfied through balance-of-payments inflows.

In Brazil, economic activity may have begun to recover from a decline in the second and third quarters of 1995, when real GDP fell on a seasonally adjusted basis (though it remained positive on a year-over-year basis). Inflation remains relatively low.

Brazil recorded a small trade surplus in the fourth quarter, resulting in a cumulative deficit of \$3.1 billion for 1995. International reserves stood at \$52 billion at the end of December (liquidity definition), up substantially from its recent low of \$34 billion in March 1995.

BRAZILIAN ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q3	Q4	Oct	Nov	Dec
Real GDP	5.7	0.9	--	--	--	--
Industrial Production (s.a.) <sup>1</sup>	7.8	-3.5	--	1.1	-0.2	--
Open Unemployment Rate (%)	5.1	4.8	--	5.1	4.8	--
Consumer Prices <sup>1</sup>	929.0	3.1	4.7	1.4	1.5	1.7
Trade Balance <sup>2</sup>	10.5	0.8	0.3	0.3	0.0	0.0
Current Account <sup>2</sup>	-1.5	-2.2	--	--	--	--

1. Percentage change from previous period.

2. Billions of U.S. dollars, n.s.a.

In Argentina, real GDP fell an estimated 3.5 percent in 1995, while inflation remained low: Consumer prices rose 1.7 percent in December from a year earlier. The unemployment rate fell slightly in October 1995 to 16.4 percent, down from the record 18.4 percent in May. However, this fall resulted mostly from a fall in the participation rate, not an increase in employment. In the first eleven months of 1995, exports rose 31 percent from the year-earlier period, while imports declined almost 9 percent. However, the monthly trade surplus peaked in June. Gross international reserves increased slightly in the last month and stood at \$18.5 billion on December 28. This increase in reserves is due to a disbursement from the IMF and the proceeds of bond placements, as well as to a change in the definition of international reserves, which now include repurchase and reverse repurchase agreements. Of the \$18.5 billion, \$2.6 billion are in dollar-denominated Bonex bonds and \$1.9 are in net repurchase agreements. The monetary base was \$13.1 billion, leaving \$5.4 billion in excess reserves.

ARGENTINE ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q3	Q4	Oct	Nov	Dec
Real GDP	7.4	-7.7	--	--	--	--
Industrial Production (sa)	4.3	-11.1	--	-10.1	--	--
Unemployment Rate (%) <sup>2</sup>	11.7	--	16.4	16.4	--	--
Consumer Prices <sup>1</sup>	3.9	0.5	0.2	0.3	-0.2	0.1
Trade Balance <sup>3</sup>	-4.0	0.7	--	0.0	0.0	--
Current Account <sup>3</sup>	-9.9	--	--	--	--	--

1. Percentage change from previous period.

2. Unemployment figures available only in May and October of each year. The figure for 1994 is the average of the two surveys.

3. Billions of U.S. dollars, n.s.a., current account under Q2 is for the first half of 1995.

Argentina met the fiscal and monetary targets under its IMF program for 1995, which allowed the government to receive about \$400 million in December. However, real tax revenues fell nine percent in 1995 from a year earlier. The government is currently

negotiating with the IMF for a new one-year \$1 billion stand-by program; the current program runs out in March.

In Venezuela, real GDP grew an estimated 2 percent in 1995. However, this performance resulted from the strong performance of the oil sector, which grew 6 percent. Economic activity in the non-oil sector continued to decline, contributing to rising unemployment in 1995. Consumer price inflation picked up in the fourth quarter, but the 57 percent rise in prices during 1995 was below the 71 percent rise for 1994. Venezuela registered a merchandise (non-oil) trade deficit of \$4.8 billion for the first ten months of 1995, up from a deficit of \$3.1 billion during the year-earlier period, reflecting an 18 percent increase in exports and a 34 percent increase in imports.

Discussions with the IMF to establish a program are scheduled to resume in late January. Substantial disagreements remain between the Venezuelan government and the IMF regarding increases in gasoline prices and taxes.

VENEZUELAN ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q3	Q4	Oct	Nov	Dec
Real GDP	-2.8	--	--	--	--	--
Unemployment Rate (%)	8.5	--	10.7	--	--	--
Consumer Prices <sup>1</sup>	70.8	9.5	17.0	4.5	5.5	6.0
Trade Balance <sup>2</sup>	-3.8	-1.9	--	-0.2	--	--
Current Account <sup>2</sup>	3.6	--	--	--	--	--

1. Percentage change from previous period.

2. Billions of U.S. dollars, n.s.a., non-oil trade balance.

In China, authorities announced in late December that real GDP rose 10.2 percent in 1995 from a year earlier. China ran a trade surplus of \$17 billion in 1995, well above its surplus of \$5 billion a year earlier. Exports rose 23 percent from a year earlier, reflecting a surge in exports in early 1995; in the fourth quarter,

exports were unchanged from the year-earlier period. Import growth, by contrast, was relatively steady over the year, with growth of 14 percent from a year earlier. Foreign direct investment into China was \$37 billion in 1995, up 10 percent from 1994.

CHINESE ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q3	Q4	Oct	Nov	Dec
Real GDP <sup>1</sup>	11.8	9.8	10.2	--	--	--
Industrial Production	22.0	14.6	--	15.4	14.4	--
Consumer Prices	25.5	13.2	10.1	12.1	11.2	10.1
Trade Balance <sup>2</sup>	5.2	3.2	0.8	1.4	0.6	-1.2

1. Cumulative from the beginning of the year

2. Billions of U.S. dollars, n.s.a.

In Taiwan, industrial production declined slightly in the fourth quarter of 1995 from a year earlier, while consumer prices edged up. The trade surplus declined in 1995 to \$8 billion, down from \$12 billion in 1994; the value of exports rose 20 percent while imports rose 21 percent.

TAIWAN ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q3	Q4	Oct	Nov	Dec
Real GDP	6.5	6.0	--	--	--	--
Industrial Production	6.6	5.6	-0.6	0.3	0.1	--
Consumer Prices	2.6	2.0	4.6	2.9	4.2	4.6
Trade Balance <sup>1</sup>	12.0	2.4	4.1	1.4	1.4	1.3
Current Account <sup>1</sup>	6.0	0.6	--	--	--	--

1. Billions of U.S. dollars, n.s.a.

In Korea, growth in economic activity appears to be slowing to a more sustainable rate, following two years of extremely rapid growth. Industrial production growth fell markedly in October and November, and a substantial deceleration in imports of capital goods during the second half of last year suggests that the investment boom of 1994-95 is tapering off. Export growth, although strong,

also declined somewhat in the last quarter of 1995, in part because of the substantial appreciation of the Korean won against the yen that occurred since mid-summer. Consumer price inflation has remained stable during the past year, and low compared with past cyclical expansions: Consumer prices were 4.7 percent higher in December 1995 than their year-earlier level.

Both merchandise imports and exports increased by 35 percent during the first eleven months of 1995 from their year-earlier level. Because imports began from a higher base, this contributed to a widening of Korea's current account deficit to \$8.5 billion (2 percent of GDP) during the first eleven months of the year, up from \$4.6 billion over the same period a year earlier.

KOREAN ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q3	Q4	Oct	Nov	Dec
Real GDP	8.4	9.9	--	--	--	--
Industrial Production	10.7	13.0	--	9.7	7.9	--
Consumer Prices	5.6	4.7	4.5	4.4	4.3	4.7
Trade Balance <sup>1</sup>	-3.1	-0.8	--	0.0	0.2	--
Current Account <sup>1</sup>	-4.7	-2.1	--	-0.1	-0.1	--

1. Billions of U.S. dollars, n.s.a.

In Russia, monthly consumer price inflation during December fell to 3 percent, a post-reform low. Real GDP during 1995 declined by 4 percent from a year earlier and industrial production was down 3 percent, following double-digit declines during the three previous years. In recent weeks, the ruble has remained relatively stable within its 4550-5150 rubles per dollar band.

Russia has successfully completed two quarterly reviews and eight monthly reviews under its IMF stand-by arrangement, satisfying

RUSSIAN ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q2	Q3	Q4	Nov	Dec
Real GDP	-15	-2	-1	-4	-4	-6
Industrial Production	-21	-2	1	-5	-5	-8
Consumer Prices <sup>1</sup>	10	8	5	4	5	3
Ruble Depreciation <sup>1</sup>	9	-3	0	1	2	1
Trade Balance <sup>2</sup>	11.9	2.0	--	--	--	--
Current Account <sup>2</sup>	0.6	-0.8	--	--	--	--

1. Monthly Rate.

2. Billions of U.S. dollars, excludes intra-FSU transactions.

all of the program's performance criteria and quantitative indicative targets through end-November. The fiscal deficit during October and November was larger than in previous months, reflecting spending pressures as December's parliamentary election approached, but the cumulative 1995 deficit remained below the program's requirement. The Russian government and the IMF are in the final stages of negotiating a three-year Extended Fund Facility, as a successor agreement to the stand-by that expires in the first quarter of 1996.

The December parliamentary election resulted in a significantly more conservative Duma. The Communist Party and its allies won 42 percent of the seats, almost twice their representation in the old Duma. Reformist parties won about a quarter of the seats, while ultra-nationalist Vladimir Zhirinovskiy's party won 11 percent. The remaining seats were split between small parties and independent candidates. In mid-January, the Duma elected Communist Gennady Seleznyov as its Chairman, replacing moderate Ivan Rybkin.

On January 16, First Deputy Prime Minister Chubais resigned, after he was sharply criticized by President Yeltsin. Chubais, the chief engineer of Russia's 1995 stabilization program and the 1993-94 voucher privatization campaign, was the government's leading

economic reformer. Analysts believe that Yeltsin is attempting to strike a more conservative stance in preparation for June's Presidential election. This said, both Yeltsin and Prime Minister Chernomyrdin have publicly stated that they intend to continue economic reforms.