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Confidential (FR) Class II FOMC

March 24, 1982

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

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SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest data			Percent change from		
	Period	Release date	Data	Preceding period	Three periods earlier	Year earlier
					(At annual rate)	
Civilian labor force	Feb.	3-5-82	109.2	3.2	-.4	1.0
Unemployment rate (%) 1/	Feb.	3-5-82	8.8	8.5	8.3	7.4
Insured unemployment rate (%) 1/	Feb.	3-5-82	3.8	4.0	3.9	3.2
Nonfarm employment, payroll (mil.)	Feb.	3-5-82	90.9	1.3	-2.6	-.4
Manufacturing	Feb.	3-5-82	19.5	-2.8	-10.7	-3.4
Nonmanufacturing	Feb.	3-5-82	71.4	2.4	-.3	.5
Private nonfarm:						
Average weekly hours (hr.) 1/	Feb.	3-5-82	34.9	34.2	35.0	35.2
Hourly earnings ($) 1/	Feb.	3-5-82	7.52	7.51	7.45	7.04
Manufacturing:						
Average weekly hours (hr.) 1/	Feb.	3-5-82	39.1	37.3	39.3	39.8
Unit labor cost (1967=100)	Jan.	3-1-82	230.3	34.9	22.8	13.6
Industrial production (1967=100)	Feb.	3-16-82	141.8	18.9	-12.3	-6.6
Consumer goods	Feb.	3-16-82	140.9	19.9	-8.6	-4.7
Business equipment	Feb.	3-16-82	173.3	6.3	-12.7	-2.4
Defense & space equipment	Feb.	3-16-82	107.7	25.0	9.1	7.2
Materials	Feb.	3-16-82	138.1	22.1	-18.0	-10.5
Consumer prices all items (1967=100)	Feb.	3-23-82	284.1	3.0	3.7	7.7
All items, excluding food & energy	Feb.	3-23-82	270.0	4.5	4.9	9.2
Food	Feb.	3-23-82	283.2	7.2	5.6	4.5
Producer prices: (1967=100)						
Finished goods.	Feb.	3-12-82	276.9	-1.7	2.3	5.4
Intermediate materials, nonfood	Feb.	3-12-82	316.7	-4.2	.6	5.2
Crude foodstuffs & feedstuffs	Feb.	3-12-82	246.1	8.3	8.8	-7.1
Personal income ($ bil.) 2/	Feb.	3-18-82	2,509.9	5.9	2.8	8.3
					(Not at annual rates)	
Mfrs. new orders dur. goods ($ bil.)	Feb.	3-19-82	79.3	1.5	-.9	-7.2
Capital goods industries	Feb.	3-19-82	30.1	2.9	5.1	9.8
Nondefense	Feb.	3-19-82	21.6	-1.7	-9.3	2.0
Defense	Feb.	3-19-82	8.5	16.7	75.8	36.4
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Jan.	3-12-82	1.51	1.50	1.48	1.37
Manufacturing	Jan.	3-3-82	1.75	1.72	1.70	1.59
Trade	Jan.	3-12-82	1.30	1.30	1.29	1.17
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	Jan.	3-3-82	.596	.598	.597	.563
Retail sales, total ($ bil.)	Feb.	3-10-82	87.6	1.6	.4	1.9
GAF 3/	Feb.	3-10-82	18.4	1.2	-.5	.9
Auto sales, total (mil. units.) 2/	Feb.	3-3-82	8.5	5.9	10.6	-17.5
Domestic models	Feb.	3-3-82	6.2	10.1	14.8	-15.8
Foreign models	Feb.	3-3-82	2.3	-4.0	.5	-22.0
Plant & Equipment expen. ($ bil.)4/						
Total nonfarm business	1982	3-11-82	345.11	—	—	7.3
Manufacturing	1982	3-11-82	136.81	—	—	7.9
Nonmanufacturing	1982	3-11-82	208.30	—	—	7.0
Capital Appropriations, Mfg.	1981-Q4	3-8-82	22.6	-14.7	—	-13.5
Housing starts, private (thous.) 2/	Feb.	3-16-82	.95	6.5	10.8	-26.4
Leading indicators (1967=100)	Jan.	3-1-82	127.0	-.6	-1.2	-6.1

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned-Commerce January and February 1982 Survey.

Several key indicators suggest that the recent decline in economic activity has slowed. Production, employment, and consumer demand in February were only a little below their levels at the end of 1981, and housing activity has edged up for several months. Moreover, the volume and rapidity of the inventory liquidation suggest a near-term rebound in activity. At the same time, however, outlays for business fixed investment have continued to drop, and indicators of future business spending suggest further weakness in that sector. The price situation has continued to improve, particularly in the energy area.

Industrial Production

The index of industrial production increased 1.6 percent in February, reflecting some rebound in activity from the sharply curtailed output levels in January that resulted in part from severe weather. Following the February rebound, the index remained 1.0 percent below its level at the end of 1981. Although the overall picture is one of continuing production adjustments, the rate of output decline from December to February was notably smaller than during the preceding four months.

Output of consumer goods increased 1.7 percent in February, almost offsetting the January drop. Autos were assembled at a 4.1 million unit annual rate, still extremely weak, but up about 14 percent from the January pace. With dealer's stocks substantially reduced, industry schedules for March currently indicate a rise in the assembly rate to around 5.0 million units and a further increase in April. Output of durable home goods, such as furniture and appliances, also increased in

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

	1981			1981	1982		
	Q2	Q3	Q4	Dec.	Jan.	Feb.	Feb/Dec.
	---annual rate-----			---monthly rate---			
Total	1.9	1.4	-16.7	-2.1	-2.5	1.6	-1.0
Final products	7.1	.8	-10.0	-1.0	-2.4	1.3	-1.1
Consumer goods	6.3	-1.5	-13.7	-1.8	-2.0	1.7	-.4
Durable	14.5	-8.9	-32.5	-5.0	-3.5	3.9	.2
Nondurable	3.4	1.4	-5.7	-.7	-1.5	.9	-.6
Business equipment	9.4	3.9	-9.7	-.3	-3.4	.5	-2.9
Oil & Gas Well Dr.	39.6	6.4	10.8	1.4	-.6	-3.6	-4.2
Defense and space eq.	4.1	4.3	11.4	1.6	-1.4	2.1	.7
Construction supplies	-7.4	-8.6	-29.2	-2.2	-3.9	2.1	-1.8
Materials	-1.9	2.5	-24.1	-3.8	-2.5	1.8	-.7
Durable goods	3.7	1.2	-29.0	-4.9	-3.7	2.1	-1.6
Nondurable goods	-1.7	-5.7	-23.0	-3.6	-2.8	2.1	-.8
Energy materials	-16.6	22.4	-11.0	-.9	.9	.8	1.7
Cr. Oil & Nat. Gas	2.8	-2.4	-5.1	1.0	2.8	-2.2	.5

February, and was at a level slightly above that at the end of last year. For the materials group, production increased 1.8 percent in February, recovering much of the January decline; output of energy materials increased further, despite some drop in crude oil and natural gas extraction. However, production of business equipment continued weak in February, rising only 0.5 percent following a sharp drop in the preceding month; the February increase was damped in part by a slowing in oil and gas well drilling activity.

Employment

Production adjustments over the December-February period were mirrored in recent labor market developments. Total employment was virtually flat between December and February, following a period when mounting layoffs, especially among manufacturing workers, had driven the unemployment rate from 7.2 percent in July 1981 to 8.8 percent by the end of the year. By February, the adult male jobless rate had edged lower, but this was offset by further increases in joblessness among teenagers and minority groups, leaving the overall unemployment rate at 8.8 percent. Since mid-February initial claims for unemployment insurance remained high, suggesting that labor market conditions for experienced workers are still quite unfavorable.

Declines in total payroll employment also moderated early this year, although weakness persisted among many goods-producing industries. Between December and February, nonfarm employment fell 175,000; during the preceding three months job losses averaged 300,000 per month. Construction employment, while rising in February, regained only a portion of January's weather-related loss, leaving jobs in this sector

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

	1980	1981	1981 Q3	1981 Q4	1981 Dec.	1982 Jan.	1982 Feb.
			-- Average monthly changes --				
Nonfarm payroll employment[2]	34	14	139	-307	-409	-274	97
Strike adjusted	28	13	122	-318	-408	-271	97
Manufacturing	-58	-37	24	-253	-281	-208	-46
Durable	-47	-30	11	-199	-218	-136	-23
Nondurable	-12	-6	13	-54	-63	-72	-23
Construction	-12	-16	-4	-26	-36	-125	78
Trade	12	22	52	-46	-103	108	62
Finance and services	79	61	83	27	29	-12	54
Government	13	-26	-45	8	4	-28	-38
Private nonfarm production workers	-9	8	159	-337	-451	-250	127
Manufacturing production workers	-67	-45	12	-256	-283	-180	-2
Total employment[3]	-27	-2	-57	-215	-559	-32	9
Nonagricultural	-35	22	-61	-165	-396	-234	47

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments. Strike-adjusted data noted.
3. Survey of households.

SELECTED UNEMPLOYMENT RATES
(Percent; based on seasonally adjusted data)

	1980	1981	1981 Q3	1981 Q4	1981 Dec.	1982 Jan.	1982 Feb.
Total, 16 years and older	7.1	7.6	7.4	8.3	8.8	8.5	8.8
Teenagers	17.8	19.6	19.1	21.1	21.5	21.7	22.3
20-24 years old	11.5	12.3	12.0	13.1	13.5	13.5	14.1
Men, 25 years and older	4.8	5.1	4.8	5.9	6.5	6.3	6.3
Women, 25 years and older	5.5	5.9	5.7	6.3	6.4	6.3	6.5
White	6.3	6.7	6.4	7.3	7.7	7.5	7.7
Black and other	13.1	14.2	14.6	15.4	15.7	15.1	15.9
Fulltime workers	6.9	7.3	7.0	8.1	8.7	8.4	8.5
White collar	3.7	4.0	4.0	4.3	4.5	4.2	4.6
Blue collar	10.0	10.3	9.6	11.8	12.7	12.5	12.5

45,000 below the December level. At manufacturers, employment cutbacks continued in February, but the decline of 45,000 was small in comparison with an average monthly loss of 170,000 factory jobs between July and January. In the service-producing sector, employment rose 70,000 in February despite the falling number of government jobs. The manufactures' workweek also recovered last month from the effects of January's severe weather, rebounding to 39.1 hours, slightly above its December level. Nonetheless, the index of aggregate hours worked in the goods-producing sector, which reflects changes in employment as well as weekly hours of production workers, did not fully return to its December level.

Personal Income and Consumer Spending

Nominal personal income grew at only a 4-1/4 percent annual rate over the first two months of this year. Stagnant labor demand, declines in proprietors' incomes, and a sharp rise in personal contributions for social insurance, an item that is deducted in computing total personal income, held down income growth in this period. At the same time, disposable personal income was boosted by reductions in nonwithheld tax liabilities legislated last year. In real terms, disposable income in February appears to have recovered most of its January decline. The saving rate declined to 5.0 percent early this year--below its level prior to last fall's tax cut--as consumption expenditures increased more than disposable income.

February retail sales in real terms appear to be slightly below the December level. Outside the automotive area, sales of consumer items rose more than 1 percent in current dollars in February, offsetting the weather-related drop in January. At auto dealers, sales of domestic

PERSONAL INCOME
(Based on seasonally adjusted data)

	1979	1980	1981	1981 Q3	1981 Q4	1982 Jan.	1982 Feb.
	- - - - Percentage changes at annual rates[1] - - - -						
Total personal income	12.3	11.0	10.2	12.9	7.5	2.7	5.9
Wage and salary disbursements	10.8	9.0	8.9	8.9	6.6	5.2	6.0
Private	11.6	9.2	9.2	9.5	5.1	4.7	6.8
Disposable personal income							
Nominal	11.7	10.9	10.1	11.8	9.4	5.4	5.7
Real	2.0	0.8	2.2	2.6	1.6	-3.7	2.7
	- - - - - Changes in billions of dollars[2] - - - - -						
Total personal income	18.3	18.7	18.0	26.1	9.8	5.8	12.1
Wage and salary disbursements	10.3	9.8	9.3	12.1	4.0	6.6	7.7
Private	8.9	8.1	7.6	10.3	1.6	4.8	7.0
Manufacturing	2.0	2.3	1.5	2.2	-2.7	0.3	3.2
Other income	8.9	9.6	9.9	14.7	6.1	2.8	5.3
ransfer payments	2.8	4.1	2.9	5.5	2.3	1.2	1.9
Less: Personal contributions for social insurance	0.9	0.8	1.2	0.7	0.4	3.7	0.8
Memorandum:							
Personal saving rate	5.3	5.6	5.3	5.2	6.1	5.1	4.9

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly periods are compounded rates of change; monthly changes are not compounded.
2. Average monthly changes are from the final month of the preceding period to the final month of period indicated; monthly figures are changes from the preceding month.
n.a.--not available

RETAIL SALES
(Percent change from preceding period except where indicated; based on seasonally adjusted data)

	1981					1982		
	Q1	Q2	Q3	Q4	Dec.	Jan.	Feb.	Feb/Dec
Total sales	4.6	-.1	2.3	-1.3	.3	-1.5	1.6	.1
(Real)[1]	2.9	-1.7	.5	-2.6	.2	-1.6	n.a.	n.a.
Total, less autos and nonconsumption items	3.5	1.0	1.1	.7	.3	-.8	1.1	.3
Total, exc. auto group, gasoline, and nonconsumption items	3.3	1.1	1.3	.8	.4	-1.2	1.4	.1
GAF[2]	3.1	1.1	.6	.2	.2	-1.9	1.2	-.7
Durable goods	7.4	-3.1	5.2	-6.0	.8	-3.5	3.0	-.6
Automotive	8.1	-3.8	9.8	-8.3	1.3	-5.1	4.2	-1.0
Furniture & appliances	4.4	-2.6	.2	-.9	1.0	-3.9	1.7	-2.2
Nondurable goods	3.3	1.3	1.0	1.0	.0	-.6	1.0	.4
Apparel	5.1	-.5	2.3	-1.9	.6	.8	.1	.9
Food	2.1	2.2	2.1	1.8	.1	-2.0	1.2	-.9
General merchandise[3]	1.8	3.2	.1	1.3	-.2	-2.2	1.4	-.8
Gasoline	4.9	.1	-.1	.0	-.2	2.0	-.6	1.4

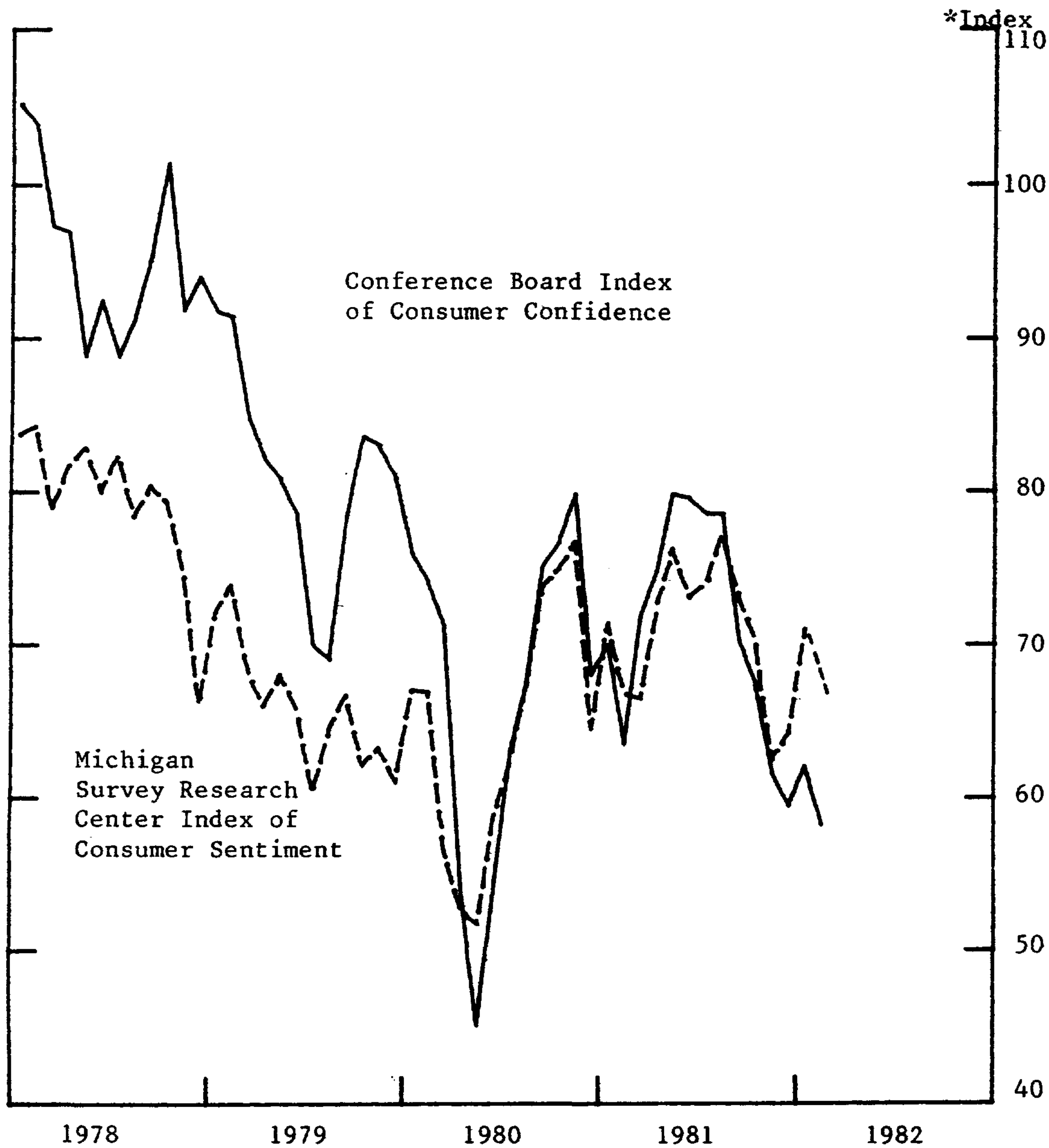
1. BCD series 59. Data are available approximately 3 weeks following the retail sales release.
2. General merchandise, apparel, and furniture and appliance stores.
3. General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

AUTO SALES
(Millions of units; seasonally adjusted annual rates)

	1981					1982	
	Q1	Q2	Q3	Q4	Dec.	Jan.	Feb.
Total	10.0	7.9	9.0	7.4	7.3	8.0	8.5
Foreign-made	2.7	2.3	2.1	2.2	2.4	2.4	2.3
U.S.-made	7.3	5.6	6.9	5.1	4.9	5.6	6.2
Small	3.9	2.9	3.5	2.6	2.3	2.7	3.3
Intermediate & standard	3.4	2.8	3.4	2.5	2.6	2.9	2.9

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

CONSUMER ATTITUDES



*Michigan Survey Research Center Index of Consumer Sentiment (1966 Q1=100) and Conference Board Index of Consumer Confidence (1969-1970=100). Bases of indexes are derived from responses (favorable minus pessimistic) to five equally weighted questions. Questions in the two indexes are different. Beginning May 1981 the sample includes all types of households, prior to that families only.

models rose to a 6.2 million unit annual rate, 600,000 units above the pace in January. February sales were boosted by fairly large rebates available from all U.S. manufacturers, primarily on a wide variety of compact and subcompact models. Sales of these smaller cars increased more than 20 percent in February, while sales of large and intermediate cars remained unchanged. Sales during the first 10 days of March were at a disappointing 5.9 million unit annual rate, despite the continuation of the rebate programs. Foreign car sales in February, at a 2.3 million unit annual rate, remained close to their recent sales pace.

The continued sluggishness in growth of household spending is consistent with the February surveys of consumer attitudes. Both the University of Michigan and Conference Board measures of confidence moved lower in February, following some improvement around the turn of the year. Opinions about market conditions for buying homes and automobiles, according to the Michigan survey, remained near the record lows of the last year. Pessimism about buying conditions centered on both high interest rates and high prices.

Housing

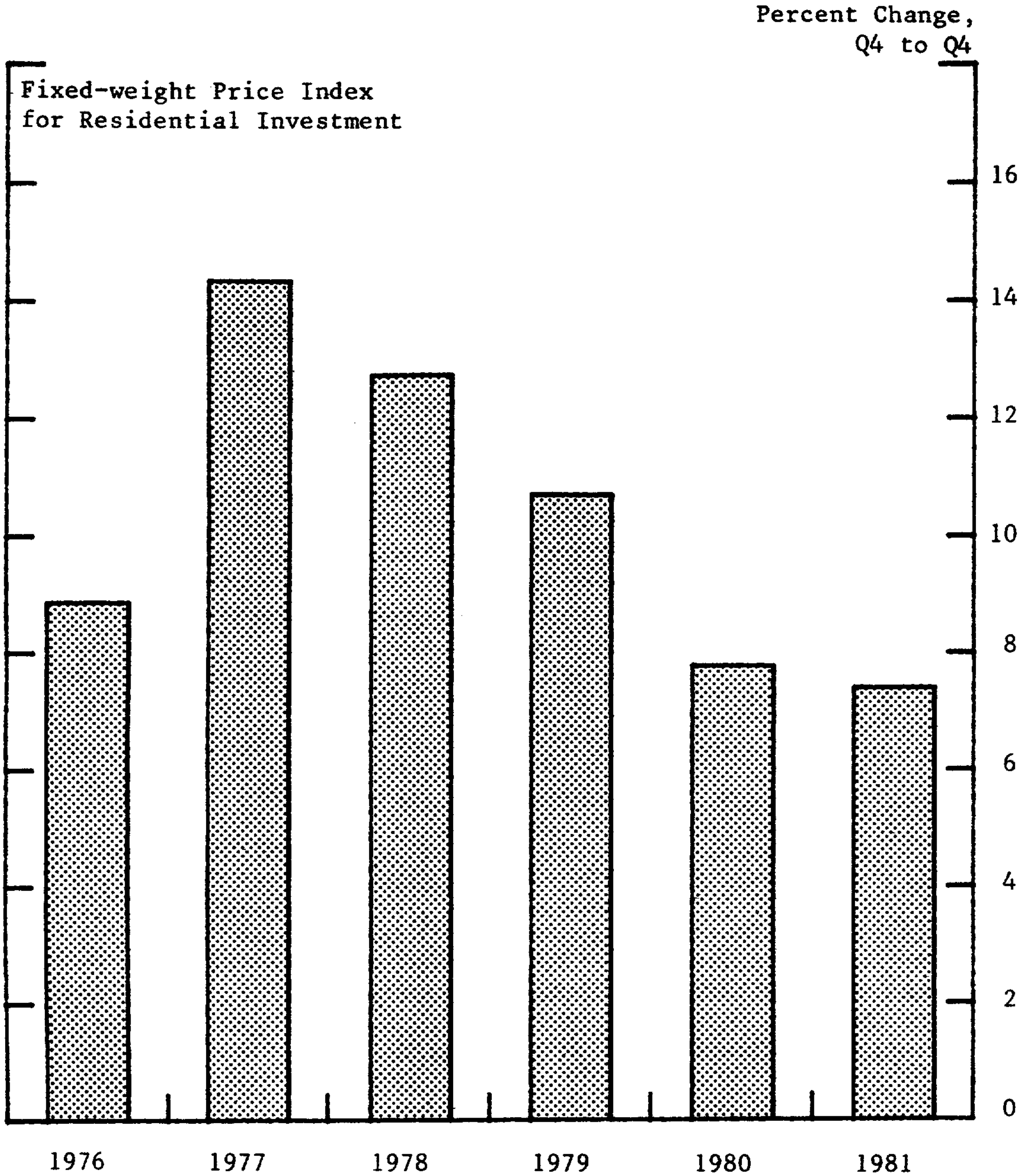
Total private housing starts rose 6-1/2 percent in February to an annual rate of 953,000 units. And newly-issued permits for residential building also were up slightly, the fourth consecutive monthly increase. Most of these advances since the end of last year were in the multi-family sector. For both of these indicators, the first two months of 1982 were above their recent lows registered in the final quarter of 1981, but housing activity has remained quite depressed. Housing starts in February were below the million unit annual rate for the seventh

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

	1981	1981				1982	
	Annual	Q2	Q3	Q4	Dec.	Jan.	Feb.[1]
All units							
Permits	0.97	1.11	0.88	0.75	0.79	0.83	0.84
Starts	1.08	1.17	0.96	0.87	0.88	0.90	0.95
Single-family units							
Permits	0.56	0.64	0.49	0.42	0.45	0.46	0.45
Starts	0.71	0.78	0.64	0.54	0.55	0.60	0.53
Sales							
New homes	0.44	0.46	0.37	0.40	0.46	0.35	n.a.
Existing homes	2.35	2.63	2.25	1.92	1.94	1.82	n.a.
Multifamily units							
Permits	0.41	0.47	0.38	0.33	0.34	0.37	0.39
Starts	0.38	0.39	0.32	0.33	0.33	0.30	0.42
Mobile home shipments	0.24	0.26	0.25	0.21	0.21	0.21	n.a.

1. Preliminary estimates.
n.a.--Not available.

CHANGES IN RESIDENTIAL CONSTRUCTION COSTS



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

	1981				1982	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
Nondefense capital goods shipments						
Current dollars	3.2	.9	-.5	1.3	-7.9	4.0
Addendum: Sales of heavy-weight trucks (thousands)	226	232	201	216	248	210
Nonresidential construction						
Current dollars	1.7	5.1	1.1	.6	.5	n.a.
Constant dollars	1.4	4.0	-.4	-.9	-.1	n.a.

n.a.--not available

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

	1981				1982	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
Nondefense capital goods orders						
Current dollars	1.9	.2	-6.4	-5.4	-2.4	-1.7
Machinery						
Current dollars	3.1	.4	-1.3	-.2	-12.0	.1
Addenda: Ratio of current dollar unfilled orders to shipments						
Total	6.10	6.00	5.81	5.69	6.14	5.81
Machinery	4.62	4.50	4.44	4.41	4.66	4.27
Nonresidential building permits						
Current dollars	.5	12.8	-16.9	19.2	-14.1	n.a.

n.a.--not available

straight month, by far the longest such period since World War II. Both new and existing home sales fell in January, reflecting bad weather in many areas of the country and high mortgage interest rates.

The severity of the downturn in housing activity has had a strong effect on house prices. The trend in measured prices of houses sold has been weakening for some time. In January 1982, the average sales prices of new houses and of existing houses sold were about 1 percent and 5-1/2 percent, respectively, above a year earlier; this compares with 11-1/2 percent increases for both measures over the preceding year. The recent moderation in house price increases reflects proportionately greater purchases of smaller, less expensive units along with traditional demand-induced price adjustments. Slack demand also has translated into a slowing in the growth of construction costs, which increased less than 7-1/2 percent during the four quarters of 1981 (see chart).

Business Fixed Investment

Capital spending has weakened further, following a moderate fourth quarter decline. In the equipment category, shipments of nondefense capital goods, a measure of about 80 percent of producers' durable equipment, rose 4 percent in February, offsetting only about half January's record decline. Shipments of these goods were more than 2 percent below their already low fourth quarter average. In addition, sales of heavy trucks in February fell back to the low levels that prevailed around the end of last year. In the structures category, overall expenditures on new construction held up fairly well through January.

SURVEY OF PLANT AND EQUIPMENT EXPENDITURES
(Percent change from prior year)

	1981[1] Survey (Actual)	Planned for 1982 Commerce Department Dec.	Feb.	McGraw-Hill[2] Fall 1981	Merrill Lynch[2] Fall 1981
All Business	8.7	7.4	7.3	9.6	7.5
Manufacturing	9.5	8.6	7.9	11.5	8.8
Durables	5.0	7.7	8.7	10.1	3.9
Nondurables	14.1	9.5	7.1	12.9	13.6
Nonmanufacturing	8.3	6.6	7.0	8.3	6.6
Mining	24.8	11.8	8.7	24.8	19.9
Transportation	-.3	10.9	12.3	18.6	-6.3
Utilities	8.3	5.1	4.7	5.2	3.6
Trade and Services	5.6	5.7	4.8	4.7[3]	n.a.
Communications and other	11.0	6.3	11.4	12.2	7.4[4]

1. Growth in actual expenditures reported in the January Commerce Survey.
2. Not strictly comparable to Commerce Survey.
3. Includes only commercial category.
4. Includes commercial category.

ERROR[1] HISTORY OF ANNUAL SURVEYS

Year	Commerce Department Dec.	Commerce Department Feb.	McGraw-Hill[2] Fall	Merrill Lynch[2] Fall
1970*	3.8	3.9	2.8	1.5
1971	-.5	3.3	.5	1.1
1972	.2	1.9	2.6	.1
1973	.1	-.5	-2.2	-2.8
1974*	-.7	-2.6	.9	-1.0
1975*	4.3	1.4	11.5	9.7
1976	-1.3	-.6	2.0	-3.9
1977	-1.4	-3.3	.3	.8
1978	-3.2	-4.3	-2.2	-3.1
1979	-3.9	-4.4	-5.2	-6.1
1980*	1.3	2.7	.2	-2.2
1981*	1.7	1.5	3.1	-1.8
Mean Absolute Error	1.9	2.5	3.1	3.1

1. Anticipated minus actual percent change.
2. Fall Survey taken in October and November of the preceding year.
* Recession year

CAPACITY UTILIZATION RATES: MANUFACTURING AND MATERIALS
(Percent, seasonally adjusted)

	1978-80 High	1980 Low	1981 Q3	1981 Q4	1982 Jan.	1982 Feb.
Manufacturing industries	87.2	74.9	79.3	74.7	70.6	71.8
Primary processing	90.1	71.0	79.4	72.7	67.0	67.9
Advanced processing	86.2	77.2	79.2	75.9	72.7	73.9
Motor vehicles & pts.	94.5	51.0	60.4	51.5	43.5	47.0
Materials producers	88.8	73.8	81.1	75.2	70.5	71.7
Durable goods mats.	88.4	68.2	78.7	71.8	65.9	67.2
Raw steel	100.7	55.3	81.4	70.7	64.9	63.9
Nondurable goods mats.	91.6	77.5	83.3	77.3	72.0	73.4
Energy materials	88.8	82.7	84.9	82.0	82.0	82.5

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

			1981					1982
	1979	1980	Q2	Q3	Q4	Nov.	Dec.(r)	Jan.(p)
Book Value Basis								
Total	49.0	31.0	35.0	55.6	14.5	41.8	-40.9	-18.0
Manufacturing	31.5	16.4	12.7	27.6	-.8	13.2	-37.6	-6.2
Durable	23.7	10.2	9.8	25.9	.3	6.7	-24.6	-5.4
Nondurable	7.8	6.2	3.0	1.8	-1.2	6.6	-13.0	-.8
Wholesale Trade	10.3	11.7	6.7	8.3	11.3	24.8	3.6	3.1
Retail Trade	7.2	2.9	15.6	19.6	4.0	3.8	-6.9	-14.9
Automotive	1.4	-2.3	12.2	7.3	-1.7	-2.1	-3.6	-4.5
Constant Dollar Basis								
Total	7.2	-2.5	11.0	12.5	1.0	8.2	-18.9	-27.8
Manufacturing	6.8	-1.0	.9	5.4	-2.4	.0	-12.5	-13.1
Wholesale Trade	.4	.6	3.2	2.7	4.6	9.6	1.6	-2.7
Retail Trade	-.1	-2.2	6.9	4.5	-1.1	-1.5	-8.0	-12.1
Automotive	-.3	-1.2	5.7	.0	-1.9	-3.0	-1.3	-8.7

INVENTORIES RELATIVE TO SALES[1]

	1974 Cyclical Peak[2]	1980 Cyclical Peak[2]	1981					1982
			Q2	Q3	Q4	Nov.	Dec.(r)	Jan.(p)
Book Value Basis								
Total	1.64	1.53	1.41	1.44	1.49	1.49	1.50	1.51
Manufacturing	1.95	1.76	1.60	1.63	1.70	1.73	1.72	1.75
Durable	2.51	2.36	2.05	2.13	2.26	2.29	2.28	2.37
Nondurable	1.39	1.18	1.12	1.11	1.13	1.15	1.14	1.15
Wholesale Trade	1.24	1.21	1.11	1.14	1.18	1.17	1.20	1.20
Retail Trade	1.57	1.44	1.36	1.39	1.42	1.42	1.41	1.42
Constant Dollar Basis								
Total	1.76	1.76	1.66	1.69	1.76	1.76	1.76	1.79
Manufacturing	2.18	2.11	1.95	2.00	2.10	2.12	2.12	2.17
Wholesale Trade	1.40	1.45	1.40	1.43	1.46	1.44	1.47	1.48
Retail Trade	1.52	1.48	1.42	1.43	1.47	1.48	1.46	1.47

1. Ratio of end-of-period inventories to average monthly sales for the period.
2. Highs are specific to each series and are not necessarily coincident.
r Revised estimates.
p Preliminary estimates.

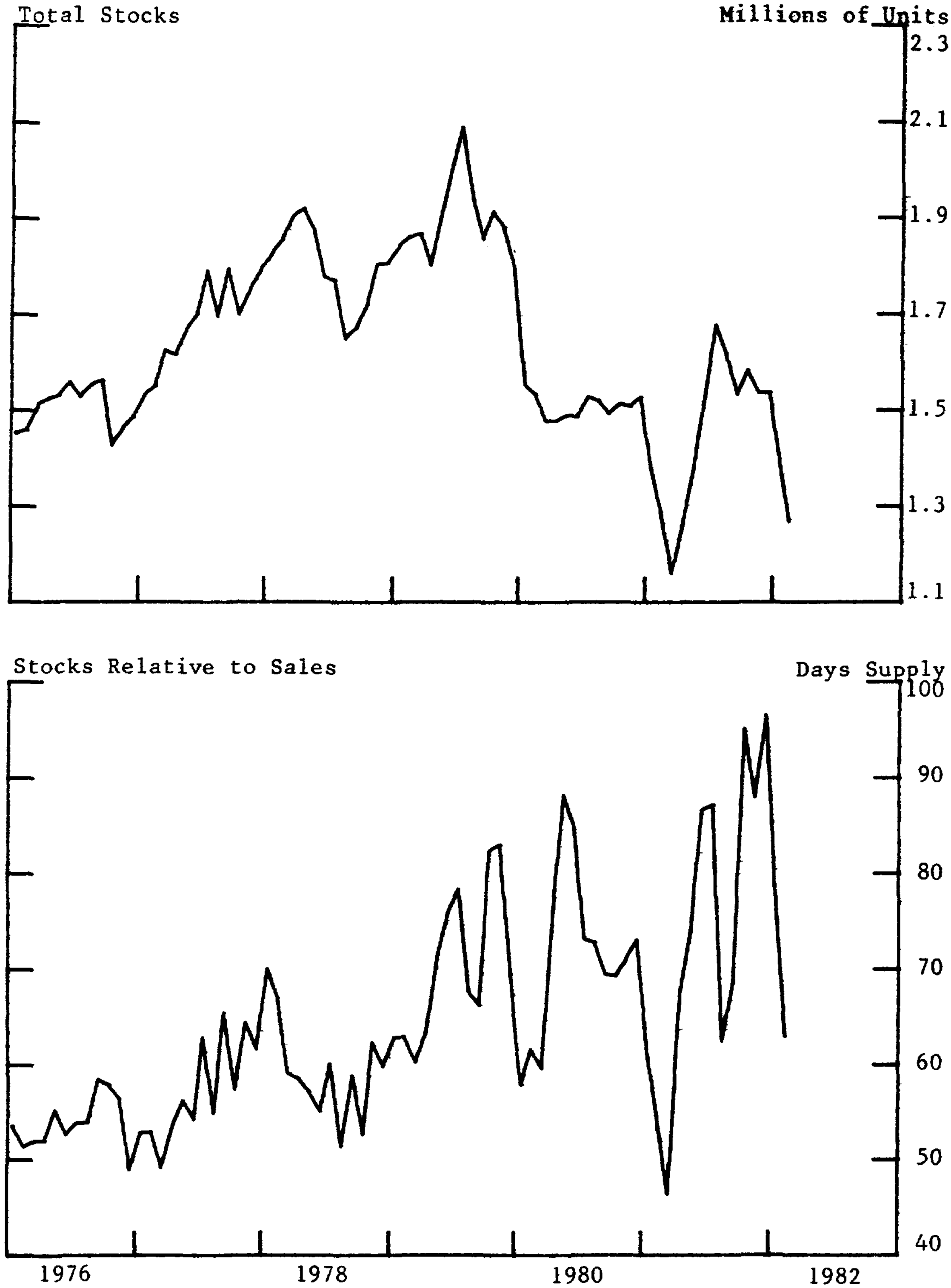
Commitments data indicate a further decline in capital expenditures in the near-term. Contracts and orders for plant and equipment, a leading indicator of overall capital spending, fell 2-1/4 percent in nominal terms in January. In the equipment category, orders for nondefense capital goods declined 1-3/4 percent in February, the third consecutive monthly decline. Additionally, contracts for nonresidential building declined somewhat in January, and permits for nonresidential construction dropped over 14 percent.

A number of longer-term indicators also suggest continued weakness. The Commerce Department's most recent survey of plant and equipment expenditures reports that business plans to increase capital outlays only 7.3 percent in 1982, implying a 1 percent decline in real terms. McGraw-Hill also reported in a recent "checkup" on capital spending that business plans to increase current dollar expenditures 6.9 percent in 1982, meaning a reduction in real terms. The Conference Board's survey of capital appropriations and expenditures reports that the nations' 1,000 largest manufacturers reduced their capital appropriations, net of cancellations, 22 percent in the fourth quarter of 1981, following a small reduction in the third quarter. In addition, capacity utilization in manufacturing in February, at only about 72 percent and extremely low on an historical basis, indicates the lack of immediate need for additional productive capacity.

Inventory Investment

Despite weakening final sales, production adjustments of the last few months have resulted in a considerable reduction of inventories. In December and January, manufacturing and trade inventories were cut at

DOMESTIC AUTOMOBILE INVENTORIES



annual rates of $18.9 and a record $27.8 billion 1972 dollars, respectively. However, the stock-sales ratio for total manufacturing and trade actually rose to 1.79 in January, reflecting the 2.3 percent decline in real shipments and sales.

In the manufacturing sector, constant dollar inventories fell at about a $12-1/2 billion annual rate in December after rising for five consecutive months. Liquidation in January was at a $13 billion annual rate, despite the sharp decline in shipments. Most key industries, especially those in the durable goods category, reported sizable reductions in stocks in both months.

Retailers' inventories fell at a $12 billion annual rate in real terms in January; this was the third consecutive monthly decline. Reductions in retailers' inventories of automobiles and parts made a major contribution to this liquidation as stocks of U.S.-made autos at dealers fell by about 300,000 units between October and February--a result of sharp production cutbacks and rebate programs. In February, stocks represented a 63 days supply.

Federal Government

The federal government deficit in January and February was smaller than expected, and the Treasury has cut about $10 billion from the $41 billion of financing that it had originally scheduled for the first quarter. The lower deficit can be traced mainly to a slowing in federal spending as well as somewhat earlier remittance of tax payments. Growth in defense spending was interrupted as outlays registered a substantial decline from the peak recorded in the fourth quarter of 1981; the decline was especially pronounced for operations and maintenance activities.

SELECTED MEASURES OF COMPENSATION, PRODUCTIVITY, AND COSTS IN THE NONFARM BUSINESS SECTOR
(Seasonally adjusted annual rates)

	1980	1981	1981 Q1	1981 Q2	1981 Q3	1981 Q4	1981-Q4 to Feb. 82
Wage rate measures:							
Hourly Earnings Index - production workers[1]							
Total private nonfarm	9.6	8.4	9.6	8.3	8.3	7.3	6.4
Manufacturing	10.9	8.8	9.3	9.7	8.5	7.6	8.6
Contract construction	7.6	8.0	9.2	4.9	8.9	9.1	4.9
Transportation and public utilities	9.4	8.6	9.4	11.0	6.8	7.4	7.8
Trade	8.8	7.2	9.6	7.1	8.0	4.2	4.0
Services	9.5	9.2	9.8	8.5	8.8	9.8	5.8
Employment Cost Index, wages and salaries - all persons[2]							
Total	9.0	8.8	10.9	8.8	8.5	6.9	n.a.
By Occupation:							
White collar	8.7	9.1	11.7	8.9	7.3	8.9	n.a.
Blue collar	9.6	8.6	8.8	9.3	9.5	6.3	n.a.
Service Workers	8.1	8.3	12.7	6.0	8.6	5.7	n.a.
By Bargaining Status:							
Union	10.9	9.6	8.6	10.8	10.4	8.5	n.a.
Nonunion	8.0	8.5	11.8	7.8	7.5	7.0	n.a.
Compensation measures:							
Employment Cost Index, compensation rates - all persons[3]							
Total	9.8	9.8	15.2	7.8	8.2	8.1	n.a.
Labor Productivity and Costs - all persons[1]							
Compensation per hour	10.1	9.2	11.7	9.6	9.5	6.2	n.a.
Output per hour	.2	-0.8	4.4	1.4	-1.7	-6.8	n.a.
Unit labor costs	9.9	10.1	7.0	8.1	11.5	14.0	n.a.

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Quarterly changes are at compound rates; monthly changes are not compounded.
2. Percent change from final month of previous period, compounded. Seasonal adjustment by FRB staff.
3. Percent change from final month of previous period, compounded. Not seasonally adjusted; series was introduced in 1980-Q1.

Commodity Credit Corporation loan activities also declined in February and early March, following exceptionally high levels in January and the fourth quarter of last year.

Outlays for a number of income assistance programs also have remained constant or declined. Cuts in benefit levels and tighter eligibility standards enacted in last year's Reconciliation Act have operated to offset the cyclical tendency for higher spending in these areas. However, unemployment compensation payments, which have by far the greatest cyclical sensitivity, did increase steadily in January and February, and daily Treasury data indicate additional increases in early March. The growth in these reflects the sharp increase in the number of individuals receiving extended unemployment benefits, from about 40,000 at the end of December to 277,000 for the week ending February 27. This rise can be attributed in large part to an increase in the number of states qualifying for extended benefits from 6 in late December to 29 by late-March.

On the receipts side of the budget, both corporate and nonwithheld individual income tax receipts were larger than expected early this year, probably in response to a rise in the interest rate that the IRS charges on late payments; this increase, from 12 to 20 percent, became effective February 1.

The Administration unveiled its FY1983 budget in early February; this indicated a FY1982 deficit of $99 billion and projected a deficit of $92 billion for 1983. The Budget is described in Appendix II-A, which also discusses Congressional Budget Office estimates and other recent budget proposals.

State and Local Government

Real purchases of goods and services by state and local governments appear to have fallen sharply since year end, after leveling off in the final months of 1981. Compensation for state and local employees, which accounts for more than one-half of state and local spending, probably declined in real terms in the first quarter, reflecting reductions in employment levels in the first two months of the year. State and local construction decreased 3-1/2 percent in real terms in January, as spending for water supply and sewer projects fell sharply.

The contraction in overall economic activity is causing budgetary problems for numerous states. Twenty-one states report that revenues during the current fiscal year have fallen short of official forecasts, which are generally on the conservative side. More than half the states expect to conclude the current fiscal year with deficits or only small surpluses, increasing the chances that taxes will be raised or expenditures reduced in the next few months.

Wages and Labor Costs

Wage inflation has moderated during the past year; in the first two months of 1982 the hourly earnings index for production workers was 8 percent above a year earlier, down from a peak twelve-month rise of nearly 10 percent from early 1980 to early 1981. In comparison, there was no appreciable slowing of wage increases in either the 1970 or 1980 recession. During the 1973-75 recession, the year-over-year rise in the earnings index moderated by about 2-1/4 percentage points, only slightly more than the deceleration seen in the past year. However, wage inflation for white-collar workers, which may be less cyclically sensitive, remained relatively rapid last year--rising more than 9 percent.

The recent wage concessions by union and nonunion workers at financially-troubled firms have not yet had a significant impact on aggregate wage series, but these new agreements should contribute to a further slowing of wage increases in the years ahead. The Teamsters' settlement provided for wage increases during the next three years that average less than inflation. In addition, nonunion employees at GM and Ford agreed to a pay freeze in 1982, and Ford's union workers agreed to defer each of three-cost-of-living increases due this year for 18 months and to eliminate usual annual improvement increases for the next two years. A tentative settlement containing wage and benefit provisions similar to those arranged at Ford appears likely to be accepted by UAW members at GM as well.

Hourly compensation, the measure of labor costs that most directly affects prices, also moderated during 1981, despite a large increase in Social Security taxes; compensation per hour rose 9.2 percent over the year compared with a 10.1 percent increase over 1980. However, there were no productivity gains last year to offset the rise in labor costs. Output per hour in the nonfarm business sector fell 3/4 percent in 1981, in large part due to a huge drop at the end of last year. The fourth quarter decline was typical of those occurring at early stages of a downturn when sharp production adjustments exceed cuts in employment.

Prices

Recent price reports indicate a further slowing of inflation despite a pickup in the rate of increase in food prices. The CPI rose only 0.3 percent in January and 0.2 percent in February, while the PPI for finished goods actually declined 0.1 percent in February after a

0.4 percent advance the previous month. Falling prices of petroleum and its products as well as rebates on motor vehicles have been important factors in the recent price deceleration. Nevertheless, the moderation in other sectors appears significant and quite widespread.

In the energy area, crude petroleum prices dropped 8-1/2 percent between their peak in February 1981 and January 1982. This decline, coupled with weakening demand for refined products, has led to large reductions in gasoline prices in both January and February, a trend which is likely to continue into the spring.

In contrast to energy, prices of farm products turned up early this year, following steep declines through most of 1981; retail food prices also have risen faster than in the fourth quarter. Consumer prices of fresh fruits and vegetables soared in January, as the freeze in Florida and smaller harvests of some California crops curtailed supplies; and rose further in February. Bad weather and planned production cutbacks have combined to push livestock prices up considerably in early 1982, and began to boost prices at the retail level in February. Even with the recent upturn, farm product prices remain substantially below their year-earlier levels.

Outside the food and energy categories, the CPI rise in February was held down by a drop in new car prices resulting from the widespread rebates. The rise in prices of consumer commodities excluding food, energy, and houses was 0.2 percent in February, following increases averaging about 0.5 percent in each of the preceding three months. Prices of consumer services excluding energy and home financing, which rose sharply throughout most of 1981, increased just 0.5 percent in February, with the slowing fairly widespread.

RECENT CHANGES IN CONSUMER PRICES[1]
(Percentage change at seasonally adjusted annual rates)[2]

	Relative importance Dec. 1981	1980	1981	1981 H1	1981 H2	1982 Jan.	1982 Feb.
All items	100.0	12.4	8.9	8.8	9.1	3.4	3.0
Food	16.6	10.2	4.3	3.8	4.7	8.6	7.2
Energy	11.1	18.1	11.9	24.9	.3	5.2	-9.8
Homeownership	26.1	16.5	10.1	9.7	10.4	-.7	4.2
All items less food, energy, and homeownership[3]	49.8	9.9	9.4	8.9	9.9	5.5	4.5
Used cars	3.3	18.3	20.3	8.3	33.0	3.4	6.3
Other commodities[3]	19.9	8.1	6.1	6.9	5.4	3.5	4.1
Other services[3]	26.6	10.3	10.6	9.9	11.2	8.3	6.5
Memorandum:							
Experimental CPI[4]	100.0	10.8	8.5	8.3	8.8	4.7	1.4

1. Based on index for all urban consumers (CPI-U).
2. Changes are from final month of preceding period to final month of period indicated; monthly changes at simple annual rates.
3. Includes the home maintenance and repair items of homeownership costs.
4. BLS experimental index for "All items"--CPI-U-X1--which uses a rent substitution measure for homeownership costs.

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

	Relative importance Dec. 1981	1980	1981	1981 H1	1981 H2	1982 Jan.	1982 Feb.
Finished goods	100.0	11.8	7.0	9.9	4.3	5.2	-1.7
Consumer food	21.9	7.5	1.5	4.3	-1.1	13.3	5.6
Consumer energy	12.7	27.8	14.3	27.3	2.8	-11.3	-21.8
Other consumer goods	44.5	10.4	6.9	8.1	5.9	6.4	2.1
Capital equipment	20.8	11.4	9.2	10.8	7.7	4.8	-4.8
Intermediate materials[2]	94.7	12.4	7.4	10.8	4.0	3.0	-4.2
Exc. energy	77.6	10.1	6.7	8.6	4.7	.8	.0
Crude Materials							
Food	50.6	8.6	-14.0	-5.2	-22.0	52.8	8.3
Energy	33.6	26.9	22.9	48.0	2.0	-1.5	-5.7
Other	15.8	7.5	-11.3	-9.4	-11.4	-40.6	-61.3

1. Changes are from final month of preceding period to final month of period indicated; monthly changes at simple annual rates.
2. Excludes materials for food manufacturing and animal feeds.

The homeownership component of the CPI has had little impact on the overall index in recent months. After dipping in January, the house price measure was up slightly in February. At the same time, the CPI measure of the mortgage rate has remained about unchanged since November.

At the producer level, the index for finished goods excluding food and energy items rose 0.5 percent in January and was unchanged in February. Lower prices for cars and light trucks cut the February rise by about one percentage point. Price increases for other items, notably capital equipment, have slowed from the 1981-Q4 pace. Prices of intermediate materials excluding food and energy items have practically leveled off over the last few months, as demand has weakened.

Appendix II-A*

THE FEDERAL BUDGET

I. Introduction

The Administration's federal budget proposals for fiscal years 1983, 1984, and 1985 were presented to Congress in February. Projected budget deficits under laws currently enacted are of unprecedented size. Consequently, the Administration has proposed substantial further deficit-reducing measures to supplement last year's nondefense program reductions. Several alternative budgetary measures have been proposed by members of Congress. In the following section, current services estimates of outlays, receipts, and the deficit, computed by the Administration and by the Congressional Budget Office (CBO), are presented. In the final section, Administration and Congressional proposals to reduce the current services deficit are discussed.

II. Current Services Budget

In order to provide a base against which budgetary alternatives may be assessed, it is useful to have a benchmark that represents what might happen to the budget if no changes in current laws or policies were made. The "current services" budget provides such a baseline. In the construction of this budget, the effects of projected inflation on receipts and outlays are generally taken into account. In the case of discretionary (non-entitlement) programs, as well as formally indexed programs, cost estimates are usually raised to provide maintenance of the program levels in real terms. In previous budget projections, the current services budget (in nominal terms) always showed a tendency to move quickly into surplus. Revenue growth due to the combination of relatively high tax rates and a progressive rate structure applied to nominal incomes outpaced growth of outlays even though these outlays were raised in pace with forecast inflation. In contrast, this year's estimates project rising current services deficits because the Economic Recovery Tax Act of 1981 will sharply reduce the growth of taxes relative to previous periods; additionally, the Administration has redefined current services outlays to include proposed increases in defense spending that are thought necessary to achieve "adequate" levels.

A comparison of current services budgets of the Administration and CBO is presented in Table 1; a comparison of the economic assumptions underlying these budgets is found in Table 2. Between FY1982 and FY1985, the Administration and CBO both show current service revenues and outlays falling as a percentage of GNP. In contrast, the current services deficit as a percent of GNP rises over the period. This increase results from an average annual growth in outlays of approximately 10 percent, which exceeds the average annual growth in revenues of 7 to 8 percent. In the absence of any subsequent policy changes, the 1983-1985 deficits would be the largest in post-war history, both in absolute terms and as a percentage of

*Prepared by Darrel Cohen, Economist, Government Finance Section, Division of Research and Statistics.

Table 1
COMPARISON OF CURRENT SERVICE BUDGETS
(fiscal years)

	1982		1983[1]		1984[1]		1985[1]	
	Admin.	CBO	Admin.	CBO	Admin.	CBO	Admin.	CBO
	Billions of dollars							
Revenues	626.4	631	653.3	652	703.8	701	778.3	763
Outlays	727.7	740	799	809	868.6	889	946.3	971
Deficit	101.3	109	145.7	157	164.8	188	168	208
	Percent of GNP							
Revenues	20.3	20.6	19.0	19.0	18.6	18.5	18.7	18.3
Outlays	23.6	24.2	23.3	23.6	22.9	23.5	22.7	23.3
Deficit	3.3	3.6	4.2	4.6	4.3	5.0	4.0	5.0

1. The Administration's estimates are for "current services with adequate defense"; the CBO estimates are a "baseline" that includes growth in defense outlays only to the extent that it is provided in existing authorizing legislation.

Sources: Budget of the United States Government, Fiscal Year 1983 and Congressional Budget Office, Baseline Budget Projections for Fiscal Years 1983-1987.

TABLE 2
PROJECTIONS OF ECONOMIC ACTIVITY[1]
(Calendar year)

	1982		1983		1984		1985	
	Admin.	CBO	Admin.	CBO	Admin.	CBO	Admin.	CBO
Gross National Product								
current dollars:								
Amount ($ billions)	3160	3140	3524	3515	3883	3882	4258	4259
Percent change (year over year)	8.1	7.5	11.5	11.9	10.2	10.4	9.7	9.7
constant dollars:								
Amount ($ billions)								
Percent change (year over year)	0.2	-0.1	5.2	4.4	5.0	3.6	4.7	3.5
Prices (percent change)								
GNP deflator (year over year)	7.9	7.5	6.0	7.3	5.0	6.6	4.7	6.0
CPI (year over year)	7.3	7.5	6.0	6.9	4.6	6.9	4.8	6.4
Unemployment rate (percent)								
Yearly average	8.9	8.9	7.9	8.0	7.1	7.4	6.4	7.2
Interest rate, 91-day Treas. (calendar average)	11.7	12.0	10.5	13.2	9.5	11.3	8.5	9.4

1. The Administration numbers for 1982 and 1983 represent forecasts for that period while those for 1984 and 1985 are not forecasts but projections consistent with economic policy objectives that assume steady progress in reducing unemployment, inflation, and interest rates. A similar caveat also applies to the CBO numbers.

GNP. As a result, the Administration and numerous Congressional members have proposed substantial deficit-reducing measures.

III. Alternative Budget Initiatives

The Administration's deficit reducing initiatives are summarized in Table 3. On the revenue side, taxes are increased primarily through proprosals such as a new corporate minimum tax and elimination of completed contract accounting (in which contractors may defer tax on income until the year that the contract is completed even when income is received throughout the term of the contract). In addition, there are proposals to tighten the collection and the enforcement of existing taxes, such as withholding on dividends and interest.

Outlay reductions (relative to a current services baseline) are three to four times larger than the tax increases. Major outlay savings are proposed through entitlement reform; this category includes sizable reductions in cash assistance for food stamps and AFDC, civil service and railroad retirement, and medicare reimbursements to physicians and hospitals. Management initiatives such as accelerated Outer Continental Shelf oil leasing and federal pay restraint also result in large outlay savings. Reductions in discretionary programs relating to transportation, job training, education, and energy research are another source of outlay savings.

The Administration's proposed budgets, which include the effects of these initiatives, are shown in Table 4. Outlays in nominal terms would grow at an average annual rate of over six percent between FY1982 and FY1985; this is roughly half the average annual rate of growth in outlays over the past decade. In addition, the composition of outlays is changed. Between FY1982 and FY1985, for example, defense spending rises from 25 to 33 percent of the budget, while the share of all programs other than defense, social security, medicaid, medicare, and interest falls. Budget receipts are projected to grow at an average annual rate of 8.0 percent between FY1982 and FY1985 in contrast to an annual rate of growth of 11.5 percent during the decade prior to 1982. This growth over the past decade has been associated with rising social insurance contributions and individual income taxes as a share of total receipts and with a declining share accounted for by corporate income taxes. In contrast, in the new proposals social insurance contributions and individual income taxes together are projected to fall as a share of total receipts (as personal income tax cuts outweigh the future increases in social insurance contributions) and corporate income taxes are projected to rise between FY1982 and FY1985 when corporate profits are projected to grow strongly.

The large absolute size of the Administration's prospective budget deficits has lead to the proposal of numerous alternative deficit-reducing measures by members of Congress. On the revenue side, there have been recommendations to change provisions of existing tax legislation perceived as "loop-holes" and to modify or roll back those of the recently-enacted Economic Recovery Tax Act of 1981. On the outlay side, proposals generally have focused on reducing the Administration's proposed rate of

TABLE 3

ADMINISTRATION BUDGET INITIATIVES[1]
(Effects on unified budget surplus in billions of dollars)

	1982	1983	1984	1985
I. REVENUE RAISING PROPOSALS IN 1983 BUDGET				
A. Tax Revisions	0	7.2	13.5	13.5
B. Improved collection and Enforcement	.2	5.5	5.5	4.7
C. Other Initiatives (net)	.1	.2	.4	.1
D. Total of Receipts proposals	.3	12.8	19.3	18.3
E. Memo: Effect of 1981 Tax Act	-38.3	-91.6	-139.0	-176.7
II. NONDEFENSE SPENDING INITIATIVES IN 1983 BUDGET				
A. Entitlement reforms	1.4	12.8	18.1	23.0
B. User fees (negative outlays)		1.2	2.1	2.2
C. Discretionary Programs	--	14.2	26.1	35.3
D. Management Initiatives	1.1	14.8	18.5	19.2
E. Proposed Spending Increases	-0.2	-1.8	-2.1	-2.7
F. Total Spending Initiatives	2.4	41.2	62.6	77.8
G. Memo: Outlays enacted in 1981	27.1	45.0	47.5	48.0
III. NET EFFECT OF NONDEFENSE INITIATIVES IN 1983 BUDGET				
A. 1983 Budget initiatives	2.7	54.0	81.9	96.0
B. 1983 initiatives plus those enacted in 1981	-8.5	+7.4	-9.6	-32.6

1. Changes from "current services with adequate defense" baseline. Minus sign denotes increase in the deficit; direct effects not taking into account any second round effects on either aggregate demand or supply.

NOTE: Details may not add to totals due to rounding.

Table 4
ADMINISTRATION UNIFIED BUDGET
(Billions of dollars)

	FY1982	FY1983	FY1984	FY1985
Outlays:				
Current services outlays	727.7	799.0	868.6	946.3
Proposed net savings	-2.4	-41.2	-62.6	-77.8
Total	725.3	757.6	805.9	868.5
Receipts:				
Current services receipts	626.4	653.3	703.8	778.3
Proposed net increases	0.3	12.8	19.3	18.3
Total	626.8	666.1	723.0	796.6
Deficit:				
Current services deficit	101.2	145.6	164.8	168.0
Net deficit-reducing proposals	-2.7	-54.0	-81.9	-96.1
Total	98.6	91.5	82.9	71.9

Source: Budget of the United States Government, Fiscal Year 1983.

increase in defense spending and limiting cost-of-living adjustments for entitlement programs. For example, Senators Domenici and Hollings both have proposed to suspend, for 1982, the cost-of-living adjustment for entitlement programs as well as to cap future inflation adjustments for social security. Both have also proposed to keep the growth rate of real defense outlays below that contained in the Administration's budget. On the receipts side, Senator Domenici has proposed the closing of tax loopholes, while Senator Hollings has focused on scaling back the tax cuts passed last year. Senator Dole has also suggested modifications to last year's tax bill as well as the tightening of several other features of the existing tax code. Debate on these and other proposals may crystalize in the next few months in light of April 15 deadline, imposed by the Budget Act, for the First Concurrent Congressional Budget Resolution and the expected May or June date for extension of the public debt ceiling.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1981 Highs	1981 Nov.-Dec. Lows	1982 FOMC Feb. 2	1982 Intermtg. Low	1982 Mar. 23	Change from: Nov.-Dec. Lows	Change from: FOMC Feb. 2
Short-term rates							
Federal funds[2]	20.06	12.04	14.77	13.86	14.66p	2.62	-.11
Treasury bills							
3-month	17.01	9.94	13.61	12.00	12.53	2.59	-1.08
6-month	15.93	10.34	13.59	12.20	12.63	2.29	-.96
1-year	15.21	10.42	13.10	11.99	12.40	1.98	-.70
Commercial paper							
1-month	18.63	11.17	14.91	13.30	13.81	2.64	-1.10
3-month	18.29	11.04	14.65	13.15	13.67	2.63	-.98
Large negotiable CDs[3]							
1-month	18.90	11.16	14.87	13.43	14.05	2.89	-.82
3-month	19.01	11.23	15.03	13.40	14.10	2.87	-.93
6-month	18.50	11.64	15.23	13.34	14.06	2.42	-1.17
Eurodollar deposits[2]							
1-month	19.80	11.86	14.84	14.34	14.88	3.02	.04
3-month	19.56	12.16	15.24	14.41	14.95	2.79	-.29
Bank prime rate	21.50	15.75	16.50	16.50	16.50	.75	0
Treasury bill futures							
June 1982 contract	14.46	10.58	13.86	12.03	12.41	1.83	-1.45
Dec. 1982 contract	14.20	11.07	13.93	12.43	12.75	1.68	-1.18
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	16.59	12.54	14.69	13.70	14.09	1.55	-.60
10-year	15.84	12.92	14.47	13.59	13.72	.80	-.75
30-year	15.20	12.76	14.26	13.35	13.36	.60	-.90
Municipal (Bond Buyer)	13.44	11.43	13.15[4]	12.53	12.99[4]	1.56	-.16
Corporate--Aaa utility							
Recently offered	17.72	14.52	15.78[e]	15.15	15.00[e]	.48	-.78
S&L fixed-rate mortgage commitment	18.63	16.90	17.59[5]	17.19	17.12[5]	.22	-.47

	1981 Highs	1982 FOMC Feb. 2	1982 Intermtg. Low	1982 Mar. 23	Percent change from: 1981 Highs	Percent change from: FOMC Feb. 2
Stock Prices						
Dow-Jones Industrial	1,024.05	852.55	795.47	826.67	-19.3	-3.0
NYSE Composite	79.14	68.17	62.03	65.30	-17.5	-4.2
AMEX Composite	380.36	288.98	244.66	262.15	-31.1	-9.3
NASDAQ (OTC)	223.47	187.46	167.92	174.95	-21.7	-6.7

1. One-day quotes except as noted.
2. Averages for statement week closest to date shown.
3. Secondary market.
4. One-day quotes for preceding Thursday.
5. One-day quotes for preceding Friday.

p--preliminary. e--estimated.

M1 declined somewhat in February, following three months of exceptional strength; growth in M2 and M3 slowed appreciably. The aggregates have firmed in early March, however, and depository institution reserve positions have eased only moderately on balance since the last FOMC meeting.

Over the intermeeting period, most short-term rates have fallen on net by 3/4 to slightly more 1 percentage point and most long-term rates by a little less. Even with these declines, short-term interest rates remain 2 to 3, and long-term rate 1/2 to 1-1/2, percentage points above the lows reached last fall. Market participants evidently remain concerned about the possibility that, especially as the economy begins to recover, money demands will press hard against supplies restrained by Federal Reserve policy. Meanwhile, concerns about the impact of prospective large federal deficits are weighing heavily on investor sentiment in the intermediate- and long-term debt markets.

Weak cash flows have sustained business financing requirements even as capital outlays--especially on inventories--have slackened. In response to continued high long-term rates, firms have concentrated their borrowing in short-term markets, primarily from commercial banks, and have not begun to repair their balance sheets as they typically do at this stage of an economic cycle. Federal borrowing has remained heavy in the first quarter but, owing to a smaller than projected deficit, has been less than anticipated earlier; state and local government borrowing has moderated a bit from the fourth quarter of last year. Consumer credit remained sluggish in January and probably again in February, but households may have stepped

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

	1981 Q2	1981 Q3	1981 Q4	1981 Dec.	1982 Jan.	1982 Feb.	QIV. '81 to Feb. '82
	--Percentage change at annual rates--						
Money stock measures							
1. M1	9.2	0.3	5.7	12.4	21.0	-3.7	9.6
2. M2	12.0	8.3	8.8	8.4	12.2	4.1	8.9
3. M3	12.2	11.2	9.2	7.3	8.8	5.6	7.9
Selected components							
4. Currency	7.9	4.7	4.3	12.8	6.8	7.8	8.2
5. Demand deposits	-11.0	-7.5	-0.2	3.6	14.7	-24.1	-2.4
6. Other checkable deposits	108.5	21.2	27.6	36.9	63.9	40.0	50.5
7. M2 minus M1 (8+9+10+13)	12.9	10.9	9.9	7.2	9.4	6.6	8.6
8. Overnight RPs and Eurodollars, NSA[2]	49.2	14.9	-44.1	35.7	163.8	-5.5	64.7
9. General purpose and broker/dealer money market mutual fund shares, NSA	125.7	91.2	74.0	51.5	28.6	7.8	31.1
10. Commercial banks	7.2	7.8	10.3	1.2	7.5	11.6	8.3
11. savings deposits	-8.9	-22.7	-11.9	4.6	14.5	0.8	7.2
12. small time deposits	16.2	24.3	20.8	-0.3	4.4	16.1	8.7
13. Thrift institutions	2.3	1.2	1.5	0.2	-0.7	3.2	1.3
14. savings deposits	-7.0	-22.9	-11.7	13.7	21.2	-2.5	9.5
15. small time deposits	6.3	11.4	6.6	-4.8	-8.9	5.3	-1.8
16. Large time deposits	11.1	30.6	3.6	-0.8	9.2	19.8	8.8
17. at commercial banks, net[3]	10.0	32.5	0.2	-4.4	5.9	19.4	6.3
18. at thrift institutions	16.3	22.2	19.5	20.8	24.3	21.6	20.1
19. Institutions-only money market mutual fund shares, NSA	64.0	69.0	132.8	63.8	-42.7	-73.8	-15.1
20. Term RPs, NSA	-1.1	-30.8	0.0	-6.7	-98.3	18.5	-20.7
	--Average monthly change in billions of dollars--						
MEMORANDA:							
21. Manged liabilities at commercial banks (22+23)	2.3	6.0	-7.2	-16.9	-8.8	1.1	-6.5
(Adjusted for shifts to IBFs)[4]			(0.2)	(5.7)	(-1.1)	(1.4)	(1.2)
22. Large time deposits, gross	0.7	7.4	-0.2	0.6	0.3	2.7	1.0
(Adjusted for shifts to IBFs)[4]			(-0.2)	(0.8)	(0.8)	(2.7)	(1.2)
23. Nondeposit funds	1.6	-1.4	-7.0	-17.5	-9.1	-1.6	-7.5
(Adjusted for shifts to IBFs)[4]			(0.4)	(4.9)	(-1.9)	(-1.3)	(0.0)
24 Net due to related foreign institutions, NSA	0.8	1.0	-9.1	21.8	-11.1	0.8	-8.4
(Adjusted for shifts to IBFS)[4]			(-2.2)	(-1.1)	(-4.6)	(1.1)	(-1.5)
25. Other[5]	0.8	-2.4	2.1	4.4	2.0	-2.4	1.0
(Adjusted for shifts to IBFs)[4]			(2.7)	(6.1)	(2.7)	(-2.4)	(1.6)
26. U.S. government deposits at commercial banks[6]	-0.2	-0.7	0.8	-0.3	1.7	6.3	2.7

1. Quarterly growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda for quarterly and year over year changes are calculated on an end-month-of-quarter basis.
2. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers. Excludes retail RPs, which are in the small time deposit components.
3. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
4. Numbers in parentheses have been adjusted to remove the effects of shifts of assets and liabilities to International Banking Facilities (IBFs).
5. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve and unaffiliated foreign banks), loans sold to affiliates, loan RPs and other minor items. Changes since October 1980 are partially estimated.
6. Consists of Treasury demand deposits at commercial banks and Treasury note balance.

up their borrowing slightly in the home mortgage market. Throughout the private financial markets, signs of further erosion of credit quality and financial strains continue to accumulate.

Monetary Aggregates and Bank Credit

M1 contracted in February at a 3-3/4 percent annual rate, offsetting a small part of the November-to-January surge. The decline last month was concentrated in demand deposits; indeed, such accounts ran off at an extraordinary 24 percent annual rate, more than erasing the gain of the preceding few months. A temporary draining of demand deposits may have occurred in connection with the large increase in the Treasury cash balance in late January and early February. Seasonally adjusted inflows to other checkable deposits slowed in February but showed no sign of reversing their recent strength.[1]

Data available for M1 through mid-March point toward small--but positive--growth for the month.[2] For the first quarter as a whole, M1 expansion is likely to be on the order of 10 percent at an annual rate, well above that suggested by historical relationships among narrow money, economic activity, and interest rates. The reasons for the recent gyration in M1 are not much clearer today than they were at the time of the last Greenbook; it still seems likely that demands for highly liquid balances were boosted for

1. The surge in other checkable deposits between November and February was not associated with an increase in the rate of new accounts opened; the number of accounts grew during that period at about the same moderate pace as in the preceding three months, according to survey data for commercial banks.
2. Recent weakness in narrow money does not appear to be related to increased use of deposit sweeps. A survey by Reserve Bank staff taken around mid-March suggests that as yet only a handful of institutions offer deposit sweeping arrangements, despite considerable publicity in trade publications. Many institutions have been approached by vendors of sweeping services and reportedly are considering the service very seriously.

a while by concerns that interest rates might retrace some of their earlier decline, and perhaps by other economic uncertainties.

M2 growth also slowed considerably in February, but data for early March suggest a substantial pickup. At 4 percent, the annual rate of M2 expansion last month was the weakest in more than a year. The slowdown reflected primarily the drop in M1; however, growth in the nontransaction component of M2 decelerated to a relatively sluggish 6-1/2 percent annual rate.

Inflows to general purpose and broker/dealer money market mutual funds decelerated further in February as average money fund yields remained below market rates. Normal lags in recorded funds returns explain this relationship in part; in addition, money funds have pursued a more cautious investment strategy since late last year, increasing relative holdings of Treasury securities at the expense primarily of higher-yielding commercial paper. There are, furthermore, indications that tax-exempt money funds (not included in the monetary aggregates) have been drawing cash from the taxable money funds, owing to favorable after-tax yield comparisons.

The overnight RP component of M2 leveled off in February, perhaps because of restrictions on available collateral associated with the run-up in U.S. government deposits; overnight Eurodollar deposits contracted.

Growth of savings and small time deposits speeded up after January. Savings deposits declined a bit in February after rising in the preceding three months when other liquid balances also were strong, but the decline in savings flows was more than offset by a jump in small time deposits. A good deal of the more rapid growth in small time deposits came from a resurgence in MMC inflows in February, when their ceilings reached a four-month peak. Inflows into ceiling-free IRA and Keogh accounts, which had attracted a considerable volume of funds in January when IRA eligibility was broadened, also remained sizable in February. These accounts totaled $5 billion at month-end, almost evenly divided between commercial banks and thrift institutions.[1]

Overall, however, commercial banks continued to post stronger retail deposit flows than thrift institutions. This trend emerged in 1979 after the differential on MMC ceiling rates was effectively removed, but the gap between bank and thrift retail deposit growth rates widened in 1981 when the thrifts' earnings difficulties became widely publicized.[2]

M3 growth also slowed in February, reflecting weakness in M2 only partially offset by an acceleration in its non-M2 component. While institution-only money fund balances ran off slightly faster in February than in the previous month, term RPs resumed growth and the large time deposit component of M3 strengthened considerably. As bank lending picked up and core deposit growth slowed, banks issued substantially more large time

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1. Commercial banks and MSBs on average have been pricing ceiling-free IRA/Keogh accounts about in line with open market yields on U.S. government obligations of comparable maturity. Very little information is available on S&L pricing of these accounts.

2. In 1981, FSLIC-insured S&Ls lost $4.7 billion after tax (-.74 percent of average assets). One S&L was liquidated and 100 mergers were supervised by the FSLIC; 23 of these mergers required financial assistance. Similarly, FDIC-insured MSBs lost an estimated $1.4 billion after tax in 1981 (-.91 percent of average assets). Because of the somewhat stronger capital position of MSBs, only 14 mutual savings banks were merged with stronger institutions in 1981.

In contrast, insured commercial banks in the aggregate posted continued strong profitability during 1981, with after-tax earnings of .76 percent of average assets. Like thrifts, small banks--with assets below $100 million--experienced a rapid increase in interest expense associated with their changing deposit mix; but in 1981 small banks acquired sufficient money-market and variable-rate assets to maintain after-tax returns in excess of one percent of average assets.

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

		1981				1982		QIV '81 to
		Q2	Q3	Q4	Dec.	Jan.	Feb.	Feb. '82
				--Commercial Bank Credit--				
1.	Total loans and investments at banks[2]	10.9	6.8	-.1	-9.2	4.3	10.5	3.2
	(Adjusted for shifts to IBFs)[3]			(6.7)	(11.0)	(10.5)	(11.5)	(10.2)
2.	Investments	7.2	.5	4.6	3.9	12.6	5.5	7.0
					(5.3)	(13.6)	(5.2)	(7.6)
3.	Treasury securities	13.5	-12.0	-8.1	6.5	35.7	10.5	14.4
4.	Other securities	4.0	7.2	10.8	2.6	1.6	3.1	3.6
				(11.5)	(4.7)	(3.1)	(2.6)	(4.3)
5.	Total loans[2]	12.2	9.1	-1.7	-13.7	1.2	12.5	1.9
	(Adjusted for shifts to IBFs)[3]			(7.2)	(12.9)	(9.5)	(13.7)	(11.1)
6.	Business loans[2]	16.6	17.9	-2.1	-15.8	8.3	17.2	4.8
	(Adjusted for shifts to IBFs)[3]			(9.7)	(19.4)	(17.4)	(17.5)	(16.0)
7.	Security loans	28.6	-36.2	58.6	51.4	-71.2	11.7	0.0
8.	Real estate loans	10.8	8.0	7.0	10.2	7.6	7.9	8.0
9.	Consumer loans	1.3	4.4	4.4	9.8	4.5	-1.3	3.5
				--Short- and Intermediate-Term Business Credit--				
10.	Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	20.2	23.3	6.5	-3.0	6.4	n.a.	n.a.
				(14.1)	(19.6)	(12.3)		
11.	usiness loans net of bankers acceptances	16.2	19.7	-2.4	-16.8	9.6	16.9	5.2
	(Adjusted for shifts to IBFs)[3]			(9.8)	(19.5)	(18.5)	(17.3)	(16.5)
12.	Commercial paper issued by non-financial firms[4]	47.6	57.9	21.3	25.3	2.3	47.2	26.9
13.	Sum of line 11 & 12	19.6	24.1	.6	-11.4	8.6	20.9	7.9
	(Adjusted for shifts to IBFs)[3]			(11.3)	(20.2)	(16.5)	(21.1)	(17.8)
4.	Line 13 plus loans at foreign branches[5]	19.3	25.9	4.1	-8.8	8.3	20.2	8.6
	(Adjusted for shifts to IBFs)[3]			(14.5)	(21.9)	(16.2)	(20.2)	(18.3)
5.	Finance company loans to business[6]	19.3	14.7	7.6	7.5	-1.5	n.a.	n.a.
6.	Total bankers acceptances outstanding[6]	26.6	16.6	20.9	19.6	1.8	n.a.	n.a.

1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.
2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.
3. Numbers in parentheses have been adjusted to remove the effects of shifts of assets and liabilities to International Banking Facilities (IBFs).
4. Average of Wednesdays.
5. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
6. Based on average of current and preceding ends of month.
n.a.--not available.

deposits; with Treasury balances having increased sharply, bank nondeposit managed liabilities contracted.

Faster growth in loans fueled the acceleration in bank credit, which expanded at an 11-1/2 percent annual rate after adjustment for the minor estimated shifts of assets from domestic banking offices to International Banking Facilities. Consumer loans contracted during the month, but real estate and security loans expanded. Business lending activity continued particularly brisk.

Business Finance

The total volume of funds raised from external sources by nonfinancial businesses has continued to be sizable thus far this year, though it appears to be somewhat smaller than in the second half of 1981. During January and February the bulk of funds was raised in short-term markets--primarily through borrowing at commercial banks and sales of commercial paper--as domestic bond issuance was depressed by the high level of long-term interest rates and equity issuance slowed in response to falling stock prices.[1] In early March, however, public bond offerings picked up as bond rates fell, and borrowing from large banks appeared to have moderated. Although the most common domestic public corporate offering continues to be intermediate-maturity fixed-rate debt, several financial corporations recently have sold variable-rate issues in the public market. Variable-rate obligations had been out of favor among most potential public issuers since 1979, but they represented 10 percent of all direct placement commitments made by life insurance companies during 1981.

1. U.S. corporations issued an average of about $1 billion per month in Euro-market bonds this quarter, primarily in the form of zero-coupon obligations marketed in January and early February. Fourth quarter Euro-market borrowing averaged $.7 billion per month.

GROSS OFFERINGS OF CORPORATE SECURITIES IN DOMESTIC MARKETS
(Monthly totals or monthly averages, millions of dollars)

	1981			1982		
	Year	Q3	Q4	Jan.	Feb.[p]	Mar.[f]
	Seasonally adjusted					
Corporate securities--total	5,758	4,252	7,544	2,634	2,910	4,775
Publicly offered bonds[1]	3,134	1,791	5,645	690	1,500	3,300
Privately placed bonds	582	628	235	333	500	500
Stocks	2,042	1,833	1,664	1,611	910	975
	Not seasonally adjusted					
Publicly offered bonds--total[1]	3,134	1,676	4,223	561	1,000	3,500
By industry						
Utility	1,079	960	958	159	300	--
Industrial	1,192	345	1,751	317	200	--
Financial	863	371	1,514	85	500	--
By quality[2]						
Aaa and Aa	1,182	685	1,882	30	300	--
A and Baa	1,448	627	1,772	261	500	--
Less than Baa[3]	504	364	569	270	200	--
Memo items:						
Convertible bonds	357	150	349	150	0	--
Original discount bonds						
Par value	808	410	1,478	0	125	--
Gross proceeds	358	191	677	0	47	--
Stocks--total	2,042	1,679	1,730	1,511	1,000	900
By industry						
Utility	660	577	540	532	700	--
Industrial	1,018	700	754	703	200	--
Financial	364	402	436	276	100	--

p--preliminary. f--forecast.
1. Total reflects gross proceeds rather than par value of original discount bonds.
2. Bonds categorized according to Moody's bond ratings.
3. Includes issues not rated by Moody's.

In late March, the Board's series on recently offered Aaa utility bonds stood at 15.00 percent, down 78 basis points from early February and less than 3 percentage points from its all-time high last September. In view of the persistence of historically high rates, the extent of debt funding in long-term markets has been light relative to comparable stages of previous economic contractions. Businesses have preferred short maturities or flexible terms in their loan agreements. At large domestically chartered commercial banks, term loans have declined as a share of total business loans. Recent survey results link this decline to greater use of revolving credit arrangements, largely reflecting bank accommodation of borrowers seeking assured financing terms while maintaining the flexibility to shift to the long-term markets when condtions improve.[1]

The major composite stock indexes have fallen 4 to 9 percent since early February and recently reached their lowest levels since the spring of 1980. The erosion in common stock values has been widespread, but the fall in prices has been especially steep for oil-related companies. Owing to the weakness of the equity market, stock issuance remained depressed in February and so far in March. In the first quarter, gross new offerings are expected to average little more than half the average monthly pace of 1981. Net stock issuance was negative for the fourth quarter in a row as merger-related retirements continued to be large.

Evidence of financial stress in the corporate sector continues to accumulate. Preliminary data for early 1982 suggest that business failures

1. The results of the February Senior Loan Officer Opinion Survey are discussed in more detail in the appendix.

FEDERAL GOVERNMENT AND SPONSORED AGENCY FINANCING[1]
(Total for period; billions of dollars)

	FY81	1981 Q4	1982 Feb.[e]	1982 Mar.[f]	1982 Q1[f]	1982 Q2[f]
Treasury financing						
Combined surplus/deficit(-)	-78.9	-51.8	-15.0	-19.1	-26.0	-7.4
Means of financing deficit:						
(1) Net cash borrowing from the public	79.4	35.6	10.7	10.1	30.6	12.6
Marketable borrowings/ repayments(-)	89.5	37.4	11.1	9.8	31.3	15.2
Bills	23.5	21.6	3.5	2.1	11.1	-2.4
Coupons	66.0	15.8	7.6	7.7	20.2	17.6
Nonmarketable	-10.1	-1.8	-.4	.3	-.7	-2.6
(2) Decrease in the cash balance	2.3	6.7	4.0	9.2	.5	-3.5
(3) Other means of finance[2]	-2.8	9.5	.3	-.2	-5.1	-1.7
Federally sponsored credit agencies net cash borrowing[3]	37.5	2.9	.6	1.7	1.9	6.5

e--estimated. f--forecast.
1. Numbers reported on a not seasonally adjusted, payment basis.
2. Includes checks issued less checks paid, accrued items and other transactions.
3. Includes debt of Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, the Federal Farm Credit Bank System, and the Student Loan Marketing Administration.

adjusted for business population may well exceed the postwar peak reached in 1961. The number of downgradings of corporate bonds has increased and in recent weeks some major U.S. corporations have been affected.[1] There also have been more downgradings of commercial paper issuers, some of whom recently have utilized their commercial bank lines of credit.[2] Many corporations have cut dividend rates in order to conserve cash resources. Yield spreads between higher- and lower-rated corporate bonds, which have been above normal for some time, have not widened recently; however, that stability may simply reflect the promptness of changes by the rating agencies.

Commercial banks report a further weakening in the financial condition of their business loan customers. More than two-thirds of large banks surveyed in February indicated a deterioration since November in the financial condition of businesses to which they had loans outstanding. National banks--particularly those on the west coast and in the Chicago district--showed an increase in the fraction of their domestic-office business loans "past due" in their year-end reports of condition.

Government Finance

Federal Sector. The Treasury's first-quarter combined deficit is expected to be about $26 billion. This is somewhat below the Treasury's

1. Dow Chemical, Ford Motor, Ford Motor Credit, Gulf States Utilities, Phelps Dodge, AMAX, American Motors, Montgomery Ward, and Carter Hawley Hale Stores have suffered meaningful reductions in bond ratings by major rating agencies. All of the affected nonfinancial firms recently have reported either significantly lower profits or continuing large losses. In addition, BankAmerica, Chase Manhattan, Chemical Bank, Citicorp, Continental Illinois, First Bank System, Manufacturers Hanover, Mellon, National City Corporation and Northwestern Bancorporation all had their senior debt downgraded to Aa by Moody's; their commercial paper ratings were unaffected.
2. Ford Motor Credit Company is the most prominent issuer to have been downgraded.

earlier estimate because tax receipts have been higher than expected and expenditures have slowed temporarily. By the end of the month, the Treasury will have borrowed about $31 billion in the market in order to finance its first-quarter deficit, $10 billion less than had been announced late in January. As of the end of February, the Treasury had already borrowed nearly $22 billion--$9 billion in bills and $12.5 billion in coupon issues. In March the Treasury is expected to borrow another $2 billion in bills and almost $8 billion in coupons.

Additional bond financing may not be possible soon, since the Treasury has exhausted its exemption from the 4-1/4 percent ceiling on coupon issues over 10 years and Congress is not expected to authorize another exemption until later in the spring. As a result, the Treasury increased the amount of new cash raised at its mid-March auctions of 2- and 4-year notes.

Federally sponsored credit agencies are expected to borrow only about $2 billion in the first quarter as borrowing by the major agencies continues to be weak. FNMA's borrowing dropped to about $700 million. The Federal Farm Credit Banks are expected to borrow only about $500 million in the first quarter, as farmers have turned to Commodity Credit Corporation loans carrying more favorable interest-rate terms (in addition to the price-support feature) than loans from Farm Credit Banks. Although the Federal Home Loan Banks raised less than $300 million in the first quarter, this borrowing occurred in a period in which this agency usually pays down its outstanding debt. Finally, the Student Loan Marketing Administration, which no longer will borrow from the Federal Financing Bank, is estimated to have borrowed $450 million in the first quarter.

State and Local Sector. Gross issuance of long-term municipal securities in March is estimated at $3-3/4 billion (s.a.), which is below the volume sold in January and February. Revenue securities continued to account for about 70 percent of this total; most of the proceeds were used by utilities and by hospitals. In the short-term sector, the net volume to date this year is about equal to the brisk pace in 1981, but the gross volume has increased largely because maturities on H.U.D. project notes have been shortened.

STATE & LOCAL GOVERNMENT SECURITY OFFERINGS
(Monthly averages, billions of dollars)

	1981			1982		
	Year	Q3	Q4[e]	Jan.[e]	Feb.[e]	Mar.[f]
	Seasonally adjusted					
Total	6.70	6.40	8.30	8.20	8.20	6.90
Long-term	3.90	3.50	4.30	5.00	4.90	3.70
Short-term	2.80	2.90	4.00	3.20	3.30	3.20
	Not seasonally adjusted					
Total	6.70	6.40	7.50	6.10	6.20	6.80
Long-term	3.90	3.40	4.50	3.70	3.30	4.20
Housing bonds	.40	.25	.60	.10	.15	.50
Short-term	2.80	3.00	3.00	2.40	2.90	2.60

e--estimate. f--forecast.

Rates on long-term municipal obligations receded during February and early March, but have risen in the past couple of weeks. The Bond Buyer general obligation index--at 12.99 percent--is only fractionally below its level at the time of the last FOMC meeting. Short-term rates have remained essentially constant at 7-1/2 percent over the intermeeting period. In contrast to the taxable market, the yield curve continues to be steeply upward sloping, reflecting strong preferences for short maturities by insti-

NET CHANGE IN MORTGAGE DEBT OUTSTANDING
(Seasonally adjusted annual rates, in billions of dollars)

Mortgage debt	1980 Q1	1980 Q2	1980 Q3	1980 Q4	1981 Q1	1981 Q2	1981 Q3	1981 Q4[e]
By type of debt								
Total	146	77	119	134	113	112	91	71
Residential	106	52	97	103	80	75	59	44
Other[1]	41	25	22	31	33	37	33	28
By type of holder								
Commercial banks	26	10	14	24	21	28	25	16
Savings and loans	28	3	41	41	33	25	10	-5
Mutual savings banks	1	*	-1	1	1	-1	-1	-2
Life insurance companies	17	13	11	9	10	9	8	5
FNMA and GNMA	11	7	3	7	*	1	8	6
GNMA mortgage pools	20	17	18	15	15	17	10	6
FHLMC and FHLMC pools	3	2	4	2	2	3	1	6
Other[2]	40	24	29	35	31	30	30	36

1. Includes commercial and other nonresidential as well as farm properties.
2. Includes mortgage companies, real estate investment trusts, state and local government credit agencies, state and local government retirement funds, non-insured pension funds, credit unions, Farmers Home Administration and Farmers Home pools, Federal Land Banks, Federal Housing Administration, Veterans Administration, and individuals.
e--Partially estimated. *--Between $0.5 billion and $-0.5 billion.

tutional investors, including commercial banks and the rapidly expanding tax-exempt money funds.

Most measures of quality spreads in the tax-exempt market place risk premiums between prime- and medium-grade general obligations at around 100 basis points--about the same as the relatively wide monthly average of the second half of 1981 but well below the records set in 1976. Depressed economic activity and decreased revenues have prompted downgradings on general obligations of two states and one major city thus far in 1982. Since the beginning of 1980 there have been 17 such downgradings, representing a significant deterioration in the standing of major issuers of general obligation debt.

Mortgage Markets

Mortgage lending activity remains weak but probably has increased from the depressed fourth quarter pace. Mortgage holdings of S&Ls increased slightly in January after three months of attrition, and those of commercial banks increased faster in January and February than in the fall.

Creative financing techniques--not fully captured in the reported data--have become more commonplace in recent months. On the basis of a January survey of its members, the National Association of Realtors (NAR) estimates that creative financing techniques were used in about 70 percent of existing-home sales, up from 60 percent in October and 50 percent last April. Assumptions of seasoned first mortgages combined with seller-financed second mortgages continued to be the most frequently used creative technique in existing-home sales.[1]

1. The NAR for the first time asked its members to describe the terms on second mortgages in their most recent transactions involving such financing. For second mortgages provided by sellers, NAR members (contd.)

Activity in secondary markets for mortgage loans has strengthened a bit since the last FOMC meeting, and may account for reports by mortgage bankers that the supply of funds for both conventional and FHA/VA mortgage lending appeared to be loosening in late February and early March. FHLMC auction-based commitment activity increased in late February and early March, with the agency continuing to accept all of the limited volume of offerings of conventional mortgages. However, activity slackened again in mid-March. Issuance of FHLMC-guaranteed mortgage passthrough securities stepped up in January to its fastest monthly pace ever; issuance of GNMA-guaranteed passthroughs grew slightly in February. A considerable portion of FHLMC activity apparently consisted of recently introduced swaps of agency securities for low-rate mortgages.[1] These swaps reduce the level of mortgage holdings reported by the participating lenders and thus cause an understatement of the net volume of lending actually accomplished by these institutions.

Primary market mortgage interest rates declined in late February through mid-March. The average contract interest rate on new commitments for fixed-rate, level-payment conventional home loans at a sample

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(contd.) reported a median interest rate of 11-3/4 percent--more than 5 percentage points below prevailing market commitment rates--a median term of five years, an average loan-to-value ratio of 21 percent, and balloon payments at maturity in more than three-fourths of the mortgages. Just 7 percent of home sellers planned to sell the second mortgages, according to NAR respondents.

1. Since late last year, S&Ls and certain other mortgage investors have swapped a large volume of low-rate conventional home mortgage loans for somewhat lower-yielding securities backed up by the mortgages and underwritten by FHLMC or FNMA. These securities can be used by S&Ls as collateral for borrowing via repurchase agreements. The amount of swaps arranged under these new programs has thus far exceeded $15 billion--more than $10 billion by FHLMC and about $5 billion by FNMA. Additional swap volume seems likely, especially as FHLMC liberalized operating procedures, effective March 1, for its so-called "guarantor program."

of S&Ls was 17.12 percent around mid-March, 47 basis points lower than at the last FOMC meeting. As the decline in market rates trimmed discounts on FHA/VA home mortgages, the ceiling rate on such fixed-rate loans was reduced a full percentage point to 15-1/2 percent, effective March 2.

In early February, as in January, almost 40 percent of the limited number of conventional home mortgages closed by major institutional lenders bore adjustable rate features. For this yield flexibility, lenders reportedly were willing to forgo initially around 50 basis points relative to yields on fixed-rate level-payment loans.

Consumer Credit

Consumer installment credit expanded in January at a 1-1/2 percent seasonally adjusted annual rate following a slight contraction in December. The entire gain was in personal cash loans and sales finance contracts; automobile, revolving, and mobile home credit all declined. Credit held by finance companies declined for the second consecutive month, while loans held by credit unions grew sharply, buoyed by their sizable deposit inflows. Some contraction in consumer credit may have occurred in February, judging from weakness already estimated for retailer-held credit and for large commercial banks.

The slowdown in consumer credit growth since September is consistent with the pattern typical during a recession. Credit growth usually tapers off prior to cyclical peaks in economic activity, and becomes negative a few months into a recession (see chart on page III-20). Unlike prior cyclical peaks, however, the ratio of debt repayments to disposable income was very low--rather than near a peak--when the current contraction

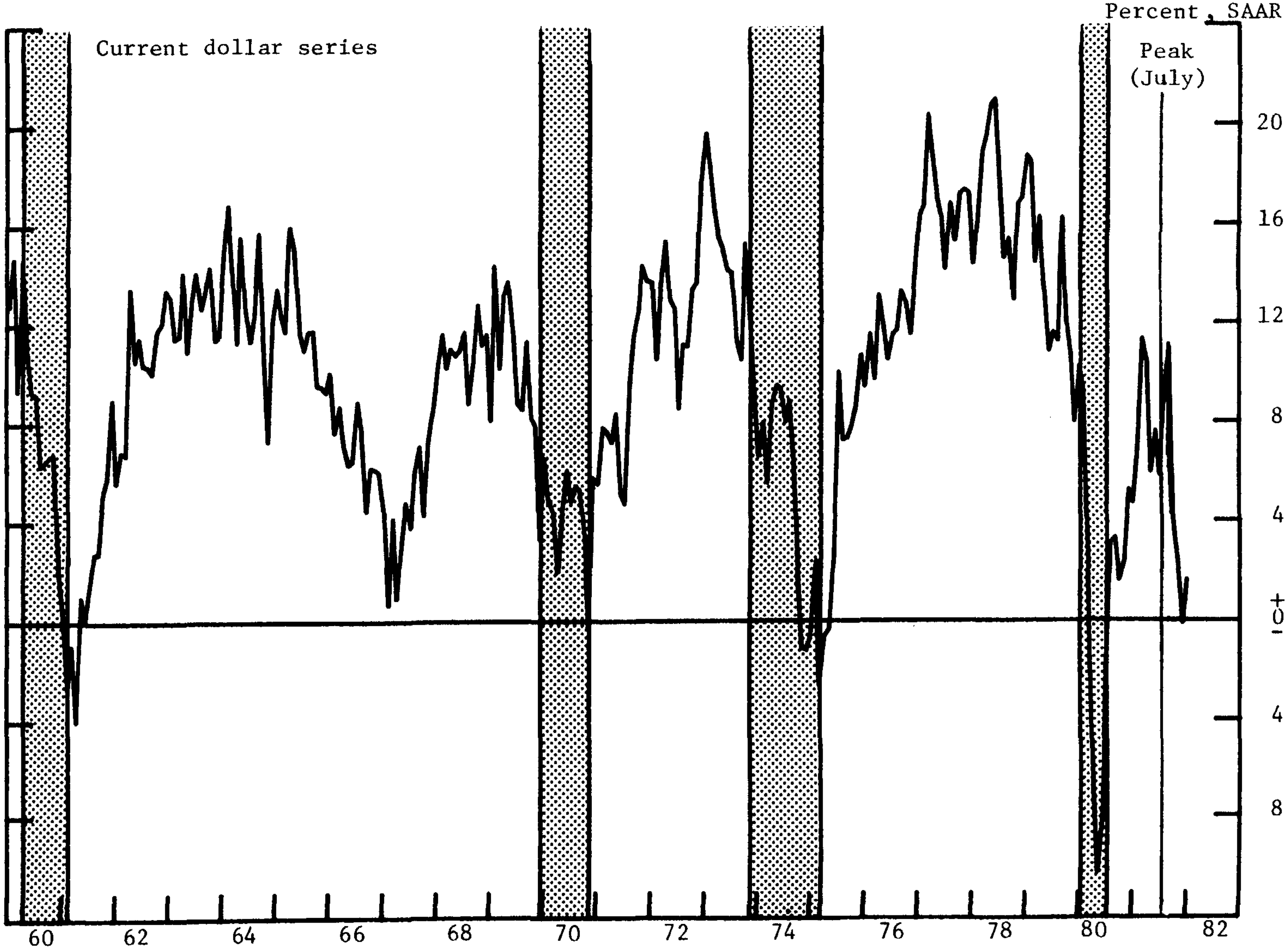
CONSUMER INSTALLMENT CREDIT
(Seasonally adjusted annual rates)

	1980	1981	1981 Q3	1981 Q4	1981 Dec.	1982 Jan.
	- - - - Percent rate of growth - - - - -					
Change in outstandings -- total	0.5	6.4	8.7	1.9	-0.1	1.6
By type:						
Automobile credit	0.4	8.2	16.7	5.3	0.7	-1.2
Revolving credit	2.5	8.1	5.8	2.8	1.2	-4.0
All other	-0.3	4.1	3.0	1.3	-1.3	6.4
	- - - - - Billions of dollars - - - - -					
Change in outstandings -- total	1.4	19.9	27.8	6.3	-0.4	5.3
By type:						
Automobile credit	0.5	9.6	20.0	6.6	0.8	-1.5
Revolving credit	1.4	4.7	3.5	1.6	0.7	-2.4
All other	-0.4	5.6	4.3	-1.9	-1.9	9.2
By major holder:						
Commercial banks	-7.2	2.3	0.8	6.1	13.9	0.1
Finance companies	8.4	13.1	24.1	5.0	-5.0	-7.2
All other	0.2	4.5	2.9	-4.8	-9.3	12.4
Extensions -- total	306.1	336.3	344.1	323.5	319.9	322.7
By type:						
Automobile credit	83.5	94.4	101.8	91.7	88.2	89.7
Revolving credit	128.1	140.1	142.5	138.9	139.1	132.8
All other	94.5	101.8	99.8	92.9	92.6	100.2
Liquidations -- total	304.6	316.5	316.3	317.2	320.3	317.3
Memo: Ratio of liquidations to disposable income (percent)	16.7	15.7	15.5	15.2	15.3	15.1

began, because consumer credit growth had been sluggish for the preceding year.

With the atypical behavior of the ratio of debt repayments to disposable income has come a smaller-than-normal increase in consumer loan delinquency rates for this stage of a business cycle. Delinquencies on auto loans at major finance companies remained at an all-time low in the fourth quarter. Delinquency rates on closed-end consumer loans at commercial banks rose in the fourth quarter of 1981, but remained near the lower readings of the past eight years. However, many large banks responding to the February Senior Loan Officer Opinion Survey reported that mortgage and consumer loan delinquency rates were higher than in November, and some reported having taken actions to repossess collateral and to restructure terms of original loan agreements. The mortgage delinquency rate at S&Ls set a record high in January.

GROWTH RATE OF CONSUMER INSTALLMENT CREDIT



Shaded areas indicate periods of cyclical contraction as determined by the NBER.

Appendix III-A*

SENIOR LOAN OFFICER OPINION SURVEY

Of the 60 large commercial banks responding to the February 15, 1982 Survey of Senior Loan Officer Opinion on Bank Lending Practices, two-thirds expressed the view that business loan demand during the next three months would not ease. These expectations came at a time when business loans at all large commercial banks were growing at more than a 20 percent annual rate for the third consecutive month. In the survey taken last November, when large bank loan growth had been weak, only about half of the participating banks expected business loan demand at their banks to at least maintain its then-current strength.

Most respondents indicated that they were maintaining the standards they had established last November for business borrowers to qualify for the prime rate or for a given spread above prime. At that time, there was some indication of an easing in standards to qualify for the prime. At the time of the February survey, the spread of the prime rate over the commercial paper rate was as low as it had been in many months.

Compensating balance or fee requirements for commercial and industrial loans were eased by about the same fraction of respondents--one-fourth--as in November. Almost two-thirds had not altered their standards over the three months ended February. Nearly all respondents were maintaining standards that prevailed in the three months prior to the February survey for lending to new and nonlocal commercial and industrial firms.

As in the November survey, more than 70 percent of respondents indicated no change in their willingness to make installment loans to individuals. In contrast to the previous survey, however, the number reporting less willingness in February exceeded that reporting greater willingness. Of the two large banks indicating greater willingness to make consumer installment loans, one had recently initiated variable interest rate consumer loans.

The three supplemental questions retained from the previous two surveys indicate further deterioration by February in the credit quality of outstanding loans. More than two-thirds of the respondents reported a weakening in the financial condition of businesses to which they had loans outstanding, up somewhat from November. Increases in mortgage and consumer installment loan delinquency rates were reported by two-fifths of the respondents, double the proportion in the November survey.

Surveyed banks took a variety of measures in response to deterioration in the quality of their business, mortgage, and consumer installment loan portfolios. For the majority of cases involving business borrowers, payments were restructured either alone or in combination with increases in collateral, as in November. In the case of consumer installment loans,

* Prepared by Barbara Negri Opper, Economist, Banking Section.

about the same number of banks as in November indicated that they were repossessing collateral, restructuring payments, or both. In November, no banks reported repossession of real estate as the sole response to mortgage loan delinquencies, but in February a few of those with increased delinquency rates indicated having done so. Another one-third of the respondents with increased mortgage delinquencies in February were repossessing real estate and restructuring payments.

There was little change from November in the number of respondents observing a decline in the financial condition of new business loan applicants. At both times, about one-third of the banks--and over two-fifths of the large banks--reported observing a deterioration.

Autos and auto dealers were the most frequently cited sector where financial deterioration had been perceived, in the case of both existing borrowers and new applicants. The housing, construction and real estate sector was mentioned nearly as often, and these two sectors combined accounted for half of the industries in which credit weakening had been detected. There seemed to be little difference in experience among local, regional, or national firms overall, although certain of the most frequently named industries undergoing strains are local by nature.

Earlier this year, term business loans at all large banks as a group fell in relation to total business loans. However, only two-fifths of the surveyed banks indicated, in answer to a supplemental question, that they had experienced a similar maturity shift. Those banks that had seen a relative increase in shorter maturities attributed greater use of revolving credit arrangements as the predominant source of increase in short-term business loans. Most of the banks reporting increased use of revolving credit loans indicated that they were accommodating borrowers who were seeking assured financing terms that offered them the flexibility to shift to the long-term bond market if conditions there improved. Some banks indicated that they viewed revolving credit loans as tantamount to variable rate term loans--even though the borrower had great flexibility to vary the actual outstanding balance--and some further indicated that the revolving credit agreements carried options available to the borrowers to convert to term loans after a specified period. A few banks reported actively inducing enlarged use of revolving credit arrangements by offering especially favorable terms; they did this either as a way to manage interest sensitivity for assets relative to that for liabilities or as a way to minimize fixed-rate term loans.

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES AT SELECTED LARGE BANKS IN THE U.S.

(Status of policy on February 15, 1982 compared to three months earlier)
(Number of banks and percent of total banks answering question)
(By size of total ~~domestic~~ assets, in billions[1])

CORE QUESTIONS

	Much Stronger		Moderately Stronger		Essentially Unchanged		Moderately Easier		Much Easier		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
1. Strength of demand for commercial and industrial loans anticipated in next 3 months (after allowance for usual seasonal variation):											
All respondents	1	1.7	14	23.3	26	43.3	19	31.7	0	0.0	60
$5 and over	1	4.0	5	22.0	11	44.0	8	32.0	0	0.0	25
under $5	0	0.0	9	25.7	15	42.9	11	31.4	0	0.0	35

	Much Firmer		Moderately Firmer		Essentially Unchanged		Moderately Easier		Much Easier		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
2. Standards to qualify for prime rate:											
All respondents	0	0.0	7	11.7	48	80.0	5	8.3	0	0.0	60
$5 and over	0	0.0	2	8.0	22	88.0	1	4.0	0	0.0	25
under $5	0	0.0	5	14.3	26	74.3	4	11.4	0	0.0	35
3. Standards to qualify for spread above prime:											
All respondents	0	0.0	6	10.0	47	78.3	7	11.7	0	0.0	60
$5 and over	0	0.0	3	12.0	21	84.0	1	4.0	0	0.0	25
under $5	0	0.0	3	8.6	26	74.3	6	17.1	0	0.0	35
4. Stance on C&I lending to new and nonlocal customers:											
All respondents	0	0.0	6	10.0	53	88.3	0	0.0	1	1.7	60
$5 and over	0	0.0	1	4.0	24	96.0	0	0.0	0	0.0	25
under $5	0	0.0	5	14.3	29	82.9	0	0.0	1	2.9	35
5. Compensating balance or fee requirements for C&I loans:											
All respondents	0	0.0	9	15.0	37	61.7	14	23.3	0	0.0	60
$5 and over	0	0.0	3	12.0	16	64.0	6	24.0	0	0.0	25
under $5	0	0.0	6	17.1	21	60.0	8	22.9	0	0.0	35

	Considerably Greater		Moderately Greater		Essentially Unchanged		Moderately Less		Much Less		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
6. Willingness to make installment loans to individuals:											
All respondents	0	0.0	5	8.5	44	74.6	10	16.9	0	0.0	59
$5 and over	0	0.0	2	8.3	20	83.3	2	8.3	0	0.0	24
under $5	0	0.0	3	8.6	24	68.6	8	22.9	0	0.0	35

1. As of June 31, 1981, there were 25 banks having domestic assets of $5 billion or more. Their combined assets totalled $463 billion compared to $562 billion for the entire panel and $1.6 trillion for all insured commercial banks.

SUPPLEMENTAL QUESTIONS

S.1.a With regard to commercial and industrial lending, has there been a change over the last three months in the financial condition of customers to whom your bank has loans outstanding?

	No Change Banks	No Change Pct	Improvement Banks	Improvement Pct	Deterioration Banks	Deterioration Pct	Total Banks Answering
All respondents	18	30.0	0	0.0	42	70.0	60
$5 and over	9	36.0	0	0.0	16	64.0	25
under $5	9	25.7	0	0.0	26	74.3	35

S.1.b If there has been deterioration, how has your bank responded?

	Add Collateral Banks	Add Collateral Pct	Restructure Payments Banks	Restructure Payments Pct	Other Banks	Other Pct	Add Collateral and Restructure Banks	Add Collateral and Restructure Pct	Add Collateral and Other Banks	Add Collateral and Other Pct	Add Collateral, Restructure Payments, and Other Banks	Add Collateral, Restructure Payments, and Other Pct	Total Banks Answering
All respondents	2	4.8	7	16.7	3	7.1	15	35.7	6	14.3	9	21.4	42
$5 and over	2	12.5	3	18.8	1	6.3	5	31.3	2	12.5	3	18.8	16
under $5	0	0.0	4	15.4	2	7.7	10	38.5	4	15.4	6	23.1	26

S.1.c If there has been deterioration, in which industries has the above-normal deterioration been concentrated?

	Across the Board Banks[2]	Across the Board Pct	Housing, Real Estate and Construction Banks	Housing, Real Estate and Construction Pct	Autos and Auto Dealers Banks	Autos and Auto Dealers Pct	Retail Banks	Retail Pct	Agribusiness Banks	Agribusiness Pct	Finance Banks	Finance Pct	Manufacturing Banks	Manufacturing Pct	Total Industry Citations
All respondents	8	10.8	19	25.7	22	29.7	5	6.8	12	16.2	1	1.4	7	9.6	74
$5 and over	5	19.2	6	23.1	8	30.8	2	7.7	1	3.8	1	3.8	3	11.5	
under $5	3	6.3	13	27.1	14	29.2	3	6.3	11	22.9	0	0.0	4	8.3	

S.2.a With regard to commercial and industrial lending, has there been a change over the last three months in the average financial condition of applicants for new loan extensions from your bank?

	No Change Banks	No Change Pct	Improvement Banks	Improvement Pct	Deterioration Banks	Deterioration Pct	Total Banks Answering
All respondents	39	66.1	1	1.7	19	32.2	59
$5 and over	13	54.2	0	0.0	11	45.8	24
under $5	26	74.3	1	2.9	8	22.9	35

S.2.b If there has been deterioration, how has your bank responded?

	Increased Rejections Banks	Increased Rejections Pct	Other Banks	Other Pct	Total Banks Answering
All respondents	14	73.7	5	26.3	19
$5 and over	7	63.6	4	36.4	11
under $5	7	87.5	1	12.5	8

S.2.c If there has been deterioration, in which industries has it been concentrated?

	Across the Board Banks[2]	Across the Board Pct	Housing, Real Estate and Construction Banks	Housing, Real Estate and Construction Pct	Autos and Auto Dealers Banks	Autos and Auto Dealers Pct	Retail Banks	Retail Pct	Agribusiness Banks	Agribusiness Pct	Finance Banks	Finance Pct	Manufacturing Banks	Manufacturing Pct	Total Industry Citations
All respondents	5	16.7	8	26.7	9	30.0	4	13.3	1	3.3	0	0.0	3	10.0	30
$5 and over	5	27.8	5	27.8	5	27.8	1	5.6	0	0.0	0	0.0	2	11.1	18
under $5	0	0.0	3	25.0	4	33.3	3	25.0	1	8.3	0	0.0	1	8.3	12

2. The number of times an industry was cited is shown under the heading "Banks". This number as a percent of total industry citations is shown under the heading "Pct". Both farming and forest products are included in agribusiness.

S.3.a. With regard to mortgage and installment loans to individuals, have there been increases over the last three months in the delinquency rates at your bank?

	No Change		Improvement		Deterioration		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	
Mortgages							
All respondents	25	45.5	6	10.9	24	43.6	55
$5 and over	9	37.5	4	16.7	11	45.8	24
under $5	16	51.6	2	6.5	13	41.9	31
Installment Loans							
All respondents	21	36.8	11	19.3	25	43.9	57
$5 and over	9	39.1	7	30.4	7	30.4	23
under $5	12	35.3	4	11.8	18	52.9	34

S.3.b If there has been deterioration, how has your bank responded?

	Repossess Collateral		Restructure Payments		Repossess and Restructure		Other		No Response		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
Mortgages											
All respondents	3	12.5	2	8.3	8	33.3	2	8.3	9	37.5	24
$5 and over	2	18.2	2	18.2	3	27.3	1	9.1	3	27.3	11
under $5	1	7.7	0	0.0	5	38.5	1	7.7	6	46.2	13
Installment Loans											
All respondents	2	8.0	1	4.0	8	32.0	6	24.0	8	32.0	25
$5 and over	0	0.0	1	14.3	3	42.9	1	14.3	2	28.6	7
under $5	2	11.1	0	0.0	5	27.8	5	27.8	6	33.3	18

S.4. Recently, for all banks, C&I carrying original maturities one year or longer have accounted for a falling share of all C&I loans. Number of banks reporting:

	Decline in Share of Long-Term C&I Loans		Total Banks Answering
	Banks	Pct	
All respondents	23	38.3	60
$5 and over	9	36.0	25
under $5	14	40.0	35

S.5. If there has been a decline at your bank, does it reflect a greater use of revolving credit arrangements?

	(a) Greater Use of Revolving Credits		(b) Greater Use of Short-term Loans		Total Banks Answering
	Banks	Pct	Banks	Pct	
All respondents	18	78.3	5	21.7	23
$5 and over	7	77.8	2	22.2	9
under $5	11	78.6	3	21.4	14

S.5.a What are the main reasons that borrowers are substituting revolving credit for longer-term loans?

	Expect Long-Term Rates to Fall Soon		Flexibility of Revolving Credit		Bank-Induced		Other		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	6	33.3	5	27.8	4	22.2	3	16.7	18
$5 and over	1	14.3	3	42.9	2	28.6	1	14.3	7
under $5	5	45.5	2	18.2	2	18.2	2	18.2	11

S.5.b Has the growing use of revolving credit facilities affected your bank's ability to maintain a desired balance between the average maturity of assets relative to the average maturity of liabilities?

	No Answer		Change Encouraged by Bank for This Reason		No Impact		Total Banks Answering
	Banks	Pct	Banks	Pct	Banks	Pct	
All respondents	1	5.6	2	11.1	15	83.3	18
$5 and over	1	14.3	0	0.0	6	85.7	7
under $5	0	0.0	2	18.2	9	81.8	11

Foreign Exchange Markets

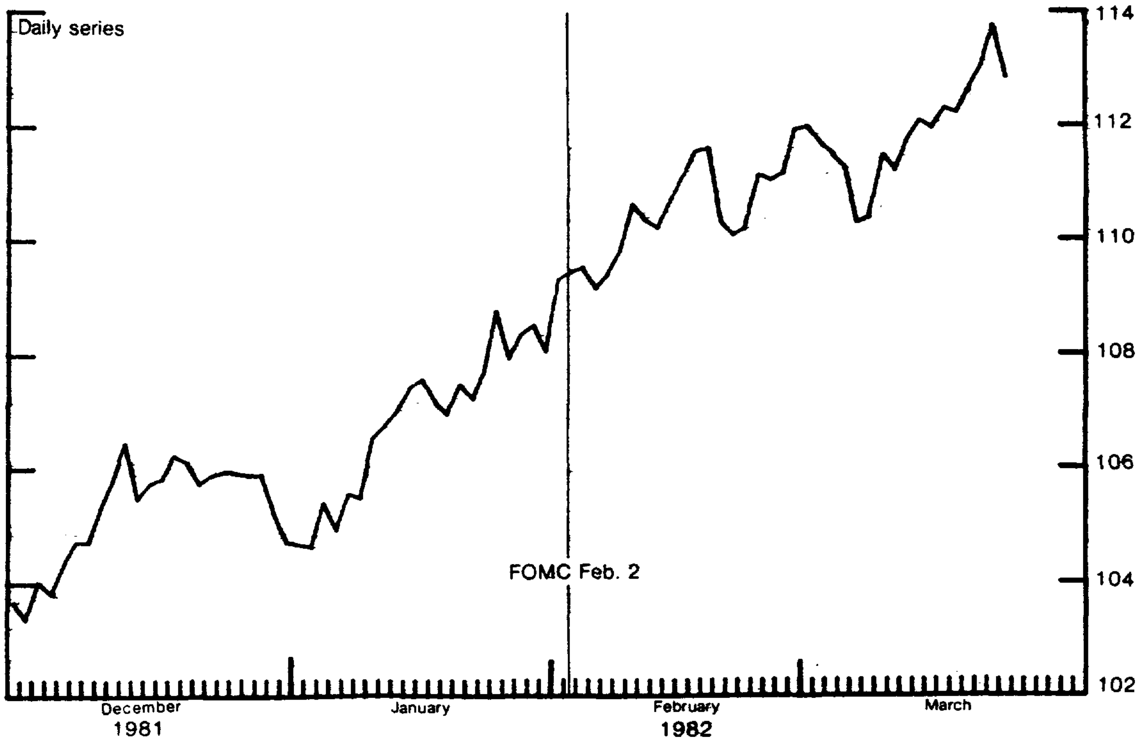
The dollar's foreign-exchange value has been under considerable upward pressure for most of the period since the last FOMC meeting. On a weighted-average basis it has risen three percent, as indicated in the chart on the next page.

Movements in the dollar's value over the last two months have been influenced particularly by developments affecting current and prospective interest rates on assets denominated in dollars and other major foreign currencies. Dollar yields, which had come to exceed a weighted-average of comparable foreign interest rates by two percentage points at the time of the last FOMC meeting, are now nearly three percentage points higher than their counterparts, having risen in the interim to a differential of close to 4-1/2 points. Movements in U.S. rates accounted for most of the changes in such differentials; foreign interest rates have continued fairly steadily along the declining path they have been on since mid-December.

On average, short-term interest rates abroad have fallen about 75 basis points since early February. Rates in the Netherlands and Switzerland have been lowered or allowed to fall by two and a half percent or more, and U.K., Belgian, Swedish, and Italian rates have come down by about one percentage point. German rates have also been allowed to ease, and the Bundesbank Council last week announced another half-percent reduction in its special Lombard rate. The German move was co-ordinated with actions by Swiss and Dutch authorities to lower their official rates by the same amount. Authorities in France have

WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR

March 1973=100



have recently moved to reverse the downward trend in interest rates; only there and in Canada, among major industrial countries, have rates moved upward on balance over the last two months.

While interest rates still have center stage in explanations of recent exchange-rate movements, a number of other developments have tended to depress the value of one or another foreign currency and have thereby helped account for some of the apparent upward pressure on the dollar's value. Announcements in late February of significant reductions in oil prices by Iran and Mexico brought downward pressure to bear on sterling and to a lesser extent the Canadian dollar. Around the same time and again this week, the mark weakened as centrifugal forces operating on the political coalition governing Germany intensified. Unfavorable by-election outcomes and accusations of fund-raising improprieties by two Cabinet ministers have raised the level of political stress in Germany over recent months. Finally, the yen has been under fairly steady downward pressure throughout the period, though the cause is not clear. One explanation offered is that threats against Japanese trade from Europe and the United States might cut into the trade surplus, and domestic and foreign pressures might induce the Japanese government to stimulate economic activity.

On February 21 a realignment of currency values in the European Monetary System was announced. The central rates of the Belgian and Luxembourg francs were lowered by 8-1/2 percent and the Danish crown's central rate was moved down by 3 percent. Unlike most other EMS realignments, these changes meant that prevailing market exchange rates for the Belgian and Luxembourg currencies were above the range of permissible deviations from the new central rate,

. Including additional downward movement since the realignment, the Belgian franc is now 11 percent lower in dollar terms than at the time of the last FOMC meeting.

In mid-February, the Mexican government announced temporary withdrawal of support for the peso. The Mexican currency's dollar value immediately fell about 30 percent and has since declined further to a level about 40 percent below its pre-devaluation level. The change in the peso's value offsets most of the rise in Mexican prices relative to those in the United States since the last devaluation in 1976.

. The apparent divergence between current and prospective French and German economic policies has led to widespread expectations that another adjustment in EMS currency relationships will be required.

The price of gold has fallen more than 12 percent since the last FOMC meeting. The likelihood that the Soviet Union is selling and will need to sell large quantities of gold over the foreseeable future has increased because of potential retrenchments in the willingness of official and private Western lenders to supply credit on a large scale. Gold sales by Iran have also been foreseen as needed to finance war efforts, and the extent of other Middle Eastern demand for gold may have been decreased by recent oil-price developments.

<u>Foreign lending by U.S. banks</u>. Claims on foreigners held by domestic offices and foreign branches of U.S.-chartered banks rose $28 billion in the second half of 1981, slightly less than in the first half of the year. (See accompanying table.) Claims on the other G-10 countries and Switzerland continued to slow down, as did claims on offshore banking centers, while net lending to the smaller industrial countries and to the non-OPEC developing countries continued to intensify.

The increase in total foreign claims in the second half of 1981 was at an annual rate of about 15 percent, and thus was again within the rather narrow range of 14-17 percent annual rate of increase shown in all four half-yearly periods in 1980-81. However, while the rate of overall net lending has been quite steady for two years, the trends in lending to various groups of borrowers have diverged. Increases in claims on the other G-10 countries and Switzerland, the largest borrowing groups, have become progressively smaller, the increase in claims on this group accounting for only one-sixth of the increase in total foreign claims in the second half of 1981. This slowing has probably reflected the sluggishness of economic activity in the major industrial countries abroad and the consequent weakening of credit demands there relative to other areas of the world. In contrast, the rate of increase in claims on the smaller industrial countries has accelerated in the past two years, reaching $3.7 billion in the second half of 1981, although outstandings remain relatively small. Major factors in this development have been the growing role of Australia as a borrower in the Eurocurrency markets, the resumption of U.S. bank lending to South Africa after several years of decline, and the increasing share of U.S. banks in total foreign bank lending to Spain as well as Australia.

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

Claims on	Increase						Outstanding
	Yearly		Half-Yearly				
			1980		1981		
	1980	1981	1st H	2nd H	1st H	2nd H	Dec. 1981
Total, all countries	48.1	57.8	24.9	23.2	29.9	27.9	409.8
G-10 and Switzerland	23.7	10.2	15.8	7.9	5.7	4.5	172.3
Smaller industrial countries	1.7	6.9	.4	1.3	3.2	3.7	28.5
OPEC countries of which:	-.2	1.7	-2.0	1.8	-.5	2.2	24.4
Venezuela	.4	.5	-.8	1.2	-.3	.9	9.6
Others	-.8	1.2	-1.2	.6	-.2	1.3	14.8
Non-OPEC developing countries of which:	14.4	18.6	4.7	9.7	7.2	11.4	96.0
Mexico	3.9	5.6	1.6	2.3	2.3	3.3	21.5
Brazil	1.0	2.8	.1	.9	1.1	1.7	19.0
Korea	1.7	2.3	1.7	0	1.6	.7	9.4
Argentina	2.9	1.4	.6	2.3	.6	.8	9.3
Philippines	.9	.9	.4	.5	0	.9	6.0
Chile	1.2	2.1	.2	1.0	1.1	1.0	5.8
Taiwan	.8	.9	.4	.4	.4	.5	5.1
Others	2.0	2.6	-.3	2.3	.1	2.5	19.9
Eastern Europe of which:	.1	.5	-.1	.2	.3	.2	7.9
Bulgaria	.1	-.2	*/	-.1	-.1	-.2	.3
Czechoslavakia	-.1	.1	-.1	*/	.1	*/	.2
East Germany	*/	*/	*/	.1	-.1	.1	1.1
Hungary	-.1	.1	-.1	*/	*/	.1	.9
Poland	.1	.3	*/	.1	.3	*/	2.0
Romania	*/	*/	*/	*/	*/	*/	.4
USSR	-.2	.1	-.2	-.1	*/	.1	.6
Yugoslavia	.5	.2	.3	.2	.1	*/	2.5
Offshore banking centers	6.6	15.3	3.9	2.7	12.0	3.3	62.3
Miscellaneous and unclassified	2.3	4.4	2.6	-.3	1.7	2.7	18.4

*/ Change of less than $0.1 or -$0.1.

Claims on the non-OPEC developing countries rose $11.4 billion in the final six months of 1981, the sixth consecutive half-yearly period in which net lending substantially exceeded the year-earlier level. The increases in claims on Mexico, Brazil, and Korea were markedly larger than a year earlier, and for 1981 as a whole the increases in claims on those countries and Chile were 35 to 180 percent greater than in 1980. Much higher spreads were an incentive to banks to increase their lending to Brazil, despite already high exposure. Argentina, whose credit standing dropped in 1981 and which experienced a rise in spreads late in the year, was the only major borrower in this group to which net lending was smaller in 1981 than in 1980.

Claims on OPEC countries rose $1.7 billion in 1981 compared with a slight absolute decline in 1980. Net lending to Indonesia and Middle East oil-exporting countries became positive again in 1981, after being negative in 1980 when repayments exceeded new drawings. Claims on Venezuela rose further in 1981 and reached $9.6 billion by year-end, the third largest amount of U.S. bank claims on any OPEC or non-OPEC developing country (after Mexico and Brazil). U.S. banks' claims on Eastern Europe rose $0.5 billion in 1981, of which $0.3 billion was in the first quarter of the year. After the first quarter, net new lending to Eastern Europe was confined largely to Hungary and the Soviet Union.

U.S. International Transactions

The U.S. merchandise trade deficit in January returned to the very large deficit rate recorded in October and November of last year. In six of the past seven months there have been substantial swings in the trade balance.

Exports in January were slightly less than the fourth-quarter rate. The value of agricultural exports continued at about the same low rate as was recorded during the second half of last year. While the volume of wheat and soybeans turned up in January after months of declines (and prices of both rose somewhat as well), these increases were offset by declines in a broad range of commodities, particularly feedgrains (corn).

U.S. Merchandise Trade*

	Year 1981	1981 Q1	Q2	Q3	Q4	Months Dec.81	Jan.82
Value (Bil. $, SAAR)							
Exports	236.3	244.0	241.5	231.7	228.0	221.7	223.7
Agricultural	44.3	50.8	44.2	40.1	42.0	40.1	39.4
Nonagricultural	192.0	193.2	197.3	191.7	186.0	181.6	184.3
Imports	264.1	262.6	269.1	259.8	265.0	233.4	272.5
Petroleum	77.6	83.1	84.7	71.6	70.9	58.4	79.7
Nonpetroleum	186.5	179.5	184.4	188.2	194.1	174.9	192.9
Trade Balance	-27.8	-18.6	-27.6	-28.1	-36.9	-11.7	-48.9
Volume (Bil. 72$, SAAR)							
Exports - Agric.	18.1	19.5	17.4	16.8	18.4	17.7	n.a.
- Nonagric.	70.3	73.1	73.2	69.5	65.9	64.2	n.a.
Imports - Petroleum	5.9	6.3	6.2	5.6	5.6	4.6	n.a.
- Nonpetrol.	71.9	67.6	70.6	73.4	76.1	68.2	n.a.

*/ International Transactions and GNP basis. Monthly data are estimated.

The volume of corn exports, which rose in the fourth quarter of 1981, dropped back in January to the low third-quarter rate; corn export prices continued to fall.

Nonagricultural exports in January also declined slightly in value from the fourth-quarter rate. The level of exports was held up by sharp increases in civilian aircraft deliveries and in petroleum exports. Aircraft exports fluctuate widely from month to month and January exports were unusually strong on a seasonally adjusted basis. The sharp rise in petroleum exports in January continued the increase begun last fall as a result of the lifting (October 2, 1981) of restrictions on product exports. The additional exports consisted largely on high-sulphur residual fuel oil, of which surplus quantities had been accumulating on the West and Gulf coasts. Restrictions on exports of crude petroleum remain in effect. Excluding aircraft and petroleum, the value of nonagricultural exports declined in January as it did in almost every month since last summer. These declines occurred in a broad range of commodity categories.

The sharp rise in imports in January from the fourth-quarter rate was entirely the result of a rise in oil imports to 6.7 million barrels per day (seasonally adjusted), well above the low December rate and the average for the fourth quarter. However, monthly oil import figures tend to swing sharply and it is not expected that imports will remain at

	1981 U.S. Oil Imports						1982
	1Q	2Q	3Q	4Q	Nov.	Dec.	Jan.
Volume (mbd, SA)	6.58	6.52	5.90	5.99	6.82	4.94	6.70
Price ($/BBL)	34.63	35.62	33.27	32.42	32.48	32.39	32.58
Value (Bil. $, SAAR)	83.1	84.7	71.6	70.9	79.3	58.4	79.7

this high level. The average price of oil imports in January was little changed from the average price recorded during the fourth quarter.

Several oil producers have lowered oil prices in recent weeks. The United Kingdom and Norway cut their prices by $5.50 per barrel, and Mexico, Venezuela and Iran have also made price cuts. Spot prices have remained $5 per barrel below the official prices of most OPEC producers. Last weekend OPEC formalized a production allocation program to try to reverse the decline of spot market prices and preserve an effective price of $34 per barrel of Saudi marker crude.

The value of nonoil imports in January was at about the same rate as in the fourth quarter of 1981; increases in steel and smaller rises in consumer goods and foreign passenger cars and trucks were offset by declines in imports of food (largely sugar and coffee) and in other industrial supplies.

U.S. International Capital Transactions. Bank-reported private capital transactions in December resulted in a lrage net outflow of $13 billion, bringing the cumulative net outflow for 1981 to $33 billion excluding custody accounts -- $3 billion more than in 1980. See line 1 in the table on the next page. The December outflow is partially accounted for by the borrowings of several Latin American and Asian countries to bolster their end-of-year reserve positions. Reserve holdings in the United States of these countries rose $3.5 billion in December, compared with a cumulative increase of $0.7 billion for the first 11 months of the year.

Summary of U.S. International Transactions
(in billions of dollars)

	1981 Year	1981 Q-1	Q-2	Q-3	Q-4	Nov.	Dec.	1982 Jan.
Banks								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow) 1/	-33.0	-11.8	-5.9	3.8	-19.0	-5.1	-13.0	3.3
Securities								
2. Private securities transactions, net	1.6	1.9	1.7	.4	-2.5	-1.9	-.4	.6
a) Foreign net purchases (+) of U.S. corp. bonds	2.1	.7	.6	.6	.2	*	.1	.2
b) Foreign net purchases (+) of U.S. corp. stocks	4.7	1.7	2.6	.1	.2	.1	.2	.2
c) U.S. net purchases (-) of foreign securities	-5.2	.5	-1.5	-.4	-2.9	-2.0	-.7	.1
3. Foreign net purchases (+) of U.S. Treasury obligations 2/	2.5	1.5	.7	-.8	1.1	-.2	1.2	.3
Official								
4. Changes in foreign official reserves assets in U.S. (+ = increase)	5.0	5.4	-2.9	-5.5	8.0	4.9	4.9	1.7
a) By area								
G-10 countries and Switzerland	-10.7	1.8	-7.9	-5.6	.9	2.2	1.9	-1.1
OPEC	12.7	5.7	2.5	2.5	1.9	1.2	-.9	1
All other countries	3.0	-2.1	2.4	-2.4	5.1	1.4	4.0	-
b) By type								
U.S. Treasury securities	5.1	7.2	-2.1	-4.6	4.6	2.5	2.0	.8
Other 3/	-.1	-1.8	-.9	-.9	3.4	2.4	3.0	-2.5
5. Changes in U.S. official reserve assets (+ = decrease) 4/	-3.3	-3.7	.8	.1	-.4	-.8	-.9	*
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	-7.0	-1.6	-5.0	-1.0	0.5	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	18.7	2.5	3.8	4.1	8.2	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 5/ 6/	-15.7	-8.3	-2.3	-2.0	-2.9	n.a.	n.a.	n.a.
9. U.S. current account balance 6/	6.6	3.3	1.2	2.1	-0.1	n.a.	n.a.	n.a.
10. Statistical Discrepancy 6/	24.6	10.8	7.9	-1.3	7.1	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-27.8	-4.7	-6.9	-7.0	-9.2	-3.6	-1.0	-4.1

1/ Excludes liabilities to foreign official institutions.
2/ Includes U.S. Treasury notes publicly issued to private foreign residents.
3/ Includes deposits in banks, commercial paper, acceptances, & borrowing under repurchase agreements.
4/ Includes newly allocated SDR's of $1.1 billion in January 1979; $1.2 billion in January 1980,; and $1.1 billion in January 1981.
5/ Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, and allocations of SDRs, and other banking and official transactions not shown elsewhere.
6/ Includes seasonal adjustment for quarterly data.
*/ Less than $50 million.

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

Most of the large December bank-reported outflow can not be linked at this time to any specific factors. Two possible explanations were examined but neither appears to account for the outflow. The introduction in December of IBFs should have had no net effect on bank-reported U.S. international capital transactions. A staff review of Federal Reserve and Treasury reports focusing on IBF-related items found no evidence of misreporting. The introduction of IBFs, therefore, is not the source of the large December net bank-reported capital outflow. The second possible explanation was the timing of acquisition-related drawings by Marathon, Mobil and U.S. Steel on their Eurocredit loan facilities, but there were no drawings on these loans in December.

A separate data source on banks' international position shows that during January and February U.S. banks brought in about $5 billion from their foreign offices (see line 1.a in the table on the next page which shows positions vis-a-vis own foreign offices). Loans to U.S. nonbank residents from the foreign branches of U.S. banks, shown in line 2 of the table, changed little from November through February and then rose somewhat in March. This rise in offshore borrowings reflects not only current interest rate differentials but also may imply a somewhat stronger anticipation of higher short-term rates in the near term than was previously anticipated. That is, by borrowing on LIBOR terms (a fixed rate) rather than at the prime rate (a daily floating rate) the borrower is protected against rising interest rates in the near term.

Eurobond offerings of U.S. corporations rose to $3 billion in the first quarter of 1982, twice the quarterly average for 1981. More than half the value of such offerings were about 24 zero-coupon Eurobonds

International Banking Data
(billions of dollars)

	1980	1981			1982 3/		
	Dec.	Sept.	Nov.	Dec.	Jan.	Feb.	Mar.
1. U.S. Offices' Banking Positions Vis-a-vis Own Foreign Offices 1/							
(a) Total	6.5	7.3	2.4	8.9	12.5	14.1	n.a.
(b) U.S.-Chartered Banks	-15.2	-12.5	-14.8	-10.2	-4.3	-2.1	n.a.
(c) Foreign-Chartered Banks	21.7	19.8	17.2	19.1	16.8	16.2	n.a.
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. banks 2/	4.2	9.2	12.0	13.2	12.9	12.9	13.5
3. Eurodollar Holdings of U.S. Nonbank Residents 4/	60.8	87.1	93.0	92.7	n.a.	n.a.	n.a.

1/ Averages of Wednesday, net due to own foreign office = (+)
2/ Daily Averages.
3/ Through March 10.
4/ End of month.

of U.S. corporate issuers, which were reportedly particularly attractive to Japanese investors. No zero-coupon Eurobonds have been offered since authorities in Japan acted to discourage acquisition by Japanese of zero-coupon Eurobonds during the past several weeks. Overall Eurobond offerings, including a $400 million issue by AT&T, accounted for about one third the total of U.S. corporate bond offerings in the first quarter of 1982. This was AT&T's first public issue in the Eurobond market -- AT&T has previously borrowed privately from OPEC investors.

Total Eurodollar holdings of U.S. nonbanks rose by $6 billion in the fourth quarter, reaching $93 billion at the end-of-the year. Money-market-mutual funds, which held one fifth of these Eurodollars, increased their holdings by more than $1.5 billion over the January-February period. This raised the share of Eurodollars in their portfolios to more than 12 percent, as compared with 11.5 percent at the end of 1981 and 9.5 percent at the end of 1980.

Foreign official holdings of assets in the United States fell by $1.7 billion in January,

. Data for changes in February holdings of foreign official institutions at the Federal Reserve Bank of New York show a $1.6 billion decrease in the holdings of G-10 countries and a $2.7 billion increase in holdings by OPEC countries.

<u>U.S. Current Account in 1981</u>. For 1981 the U.S. current account surplus was $6.6 billion, somewhat larger than in the preceding two years. Higher net interest receipts from portfolio investments than in 1980 more than offset a larger U.S. trade deficit and reduced net income from direct investments abroad.

During 1981 the current account balance swung from surpluses in the first three quarters to a small deficit in the fourth quarter. This elimination of the current account surplus largely resulted from the rising U.S. merchandise trade deficit. Exports declined through most of the year in response to sluggish economic growth abroad and the effect of the appreciation of the dollar between 1980 and 1981 that reduced price competitiveness of U.S. goods on world markets. In addition, the value of agricultural exports declined, primarily as world market prices fell. Imports, which rose steadily during the first half of the year and remained at fairly high levels through the end of the year, were sustained by strong domestic demand at the beginning of the year and the appreciation of the dollar. Total imports remained strong in the second half of the year even though oil imports fell (both price and volume).

U.S. Current Account
(billions of dollars, SAAR)

	Year 1981	1981 Q1	1981 Q2	1981 Q3	1981 Q4	$ Change Yr. 81-80	$ Change Q4-Q3
U.S. Current Account Balance	6.6	13.3	4.8	8.5	-0.3	2.9	-8.8
Merchandise trade, net	-27.8	-18.6	-27.6	-28.1	-36.9	-2.5	-8.8
Exports	236.3	244.0	241.5	231.7	228.0	12.3	-3.
Imports	264.1	262.6	269.1	259.8	265.0	14.8	5.
Investment Income, net	36.8	36.3	35.1	37.0	38.6	4.1	1.6
Direct, net	22.5	25.1	24.1	21.8	18.9	-5.0	-2.9
Portfolio, net	14.3	11.2	11.0	15.2	19.7	9.0	4.5
Other Service Trans., net	4.4	1.7	3.4	6.9	5.5	1.0	-1.4
Unilateral Transfers	-6.8	-6.1	-6.1	-7.3	-7.5	0.3	-0.2

SOURCE: U.S. Department of Commerce Press Release, March 18, 1982.

Other (non-trade) current account transactions were dominated by investment income flows. Total net investment income receipts were 12 percent higher in 1981 than the year before, and rose slightly throughout the year. U.S. portfolio investment income, net, rose fairly sharply, particularly in the second half of the year as a result of rising net U.S. claims on foreigners and the high level of interest rates. Income from U.S. direct investment abroad declined steadily during the year as foreign economies weakened, which depressed the earnings of manufacturing and other businesses, and as overseas earnings of U.S. oil companies fell as a result of declining demand for petroleum products while the cost of crude oil remained high.

Other Capital Flows in 1981. There was a striking reduction in 1981 in net outflows for U.S. direct investments abroad. U.S. direct investments abroad were unusually small, reflecting in part borrowing in the Eurobond market by U.S. parent companies via offshore finance affiliates. (Borrowings by offshore financial subsidiaries rose sharply to about $3 billion in the first quarter of this year.) Foreign direct investments in the United States were very large in 1981, particularly in the fourth quarter. Two examples of sizable foreign acquisitions of U.S. companies were Santa Fe Industries by Kuwaiti interests and Texas Gulf by Elf Aquitaine. See line 7 in Summary table above.

<u>Foreign Economic Developments.</u> Real GNP fell slightly in the fourth quarter of 1981 in the six major foreign countries. Following slow growth in 1980, growth in 1981 (fourth quarter over fourth quarter) was about 1/2 percent. Fourth-quarter unemployment in each of the six countries was higher than in the previous quarter, and has continued to increase this year in Germany, and France.

Inflation (CPI) in the fourth quarter of 1981 was lower abroad than in the previous three quarters, except in Japan and Italy. A comparison of inflation in the most recent two months with that in the previous two months indicate further improvement, with slight setbacks in Germany and France.

The estimated current-account deficit in the foreign G-10 countries plus Switzerland in 1981 declined by about $30 billion to about $20 billion. Strong improvements occurred in Japan, Germany, and the United Kingdom, while significiant deterioration occurred in the Canadian balance.

Moderate fiscal stimulation is planned in Germany, Japan and the United Kingdom. France has indicated that fiscal policy may become tighter than expected previously. Central banks generally have been lowering official interest rates since the first of the year. On March 3, the Belgian National Bank announced a one point decrease in its official rate to 13 percent. On March 18, Germany, Switzerland, and the Netherlands, in a coordinated move, lowered rates by 1/2 percent. Exchange market pressures have forced the Bank of France to reverse the trend for the quarter and to raise its rate.

The EMS has been strained in the last several months; one realignment was required and another is probable. The Mexican authorities withdrew support from the peso on February 17, and it depreciated by about 40 percent over the next few days.

Individual Country Notes. Newly released data on fourth-quarter real growth in Japan show that GNP fell by almost 4 percent (s.a.a.r.) in the quarter. This decline, which was the first such fall in almost seven years, followed the previous quarter's 2.8 percent growth, and stemmed largely from a rapid weakening of the external sector. Growth in domestic demand improved slightly but failed to offset fully a more than 16 percent (s.a.a.r.) decline in real exports. Private consumption advanced in the fourth quarter by about 2 percent (a.r.).

Recent price developments have been generally favorable. Consumer prices rose only marginally in February -- the fifth consecutive month in which the month-to-month change was below 2-1/2 percent at an annual rate. Wholesale prices recorded an abrupt 6 percent (a.r.) gain in February, primarily because of the weakening of the yen last month. However, the February WPI was still less than 3 percent above its year-previous level.

The Japanese current-account position improved strongly in January to a surplus of over $1 billion (s.a.) from December's roughly balanced position, largely on the strength of a 13 percent increase in exports. Also in January, outward portfolio investment by Japanese residents moderated only slightly from December's level and was still about $1-1/2 billion. Reacting to continued outflows in February -- in particular, to heavy Japanese purchases of zero-coupon bonds issued by

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

				1980			1981				1981			1982
		1980	1981	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Canada:	GNP	0.0	3.0	-1.0	0.2	2.3	1.0	1.4	-0.9	-0.5	*	*	*	*
	IP	-2.0	1.5	-2.5	0.0	2.2	1.0	2.6	-3.0	-3.8	-1.4	-0.9	-0.5	n.a.
France:	GDP	1.5	0.7	-0.6	0.2	-0.1	-0.4	1.3	0.2	0.4	*	*	*	*
	IP	-1.2	-2.2	-2.0	-0.8	-1.0	-1.5	0.8	0.0	1.5	0.0	0.0	1.5	-3.0
Germany:	GNP	1.7	-0.5	-2.0	0.0	-0.4	0.4	-0.7	0.9	-0.2	*	*	*	*
	IP	-0.1	-1.8	-2.4	-1.8	-1.2	1.2	-0.6	0.0	-0.6	0.0	-0.9	-1.9	1.9
Italy:	GDP	4.0	n.a.	-0.9	-2.7	2.0	0.6	-1.2	-1.6	n.a.	*	*	*	*
	IP	5.6	-2.9	-2.7	-7.6	5.3	0.7	-2.5	-4.3	5.5	-2.5	7.2	-6.0	n.a.
Japan:	GNP	4.2	3.0	0.2	1.2	0.7	0.7	1.2	0.7	-0.9	*	*	*	*
	IP	7.1	3.0	0.2	-2.3	1.6	1.7	-0.3	1.6	2.6	1.5	-0.3	-0.7	-0.1
United Kingdom:	GDP	-2.3	-2.1	-1.4	-1.5	-0.4	-0.8	-0.4	0.4	0.4	*	*	*	*
	IP	-6.6	-5.3	-3.0	-3.0	-2.4	-1.4	-0.5	0.9	0.5	1.7	-1.7	-1.3	-0.4
United States:	GNP	-0.2	2.0	-2.6	0.6	0.9	2.1	-0.4	0.4	-1.1	*	*	*	*
	IP	-3.6	2.6	-5.3	-1.5	4.5	2.0	0.5	0.3	-4.5	-1.6	-1.9	-2.1	-2.5
														(Feb) 1.6

* GNP data are not published on monthly basis.

TRADE AND CURRENT-ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES[a]
(Billions of U.S. dollars; seasonally adjusted)

		1980		1981				1981	1982	
	1981	Q3	Q4	Q1	Q2	Q3	Q4	Dec.	Jan.	Feb.
Canada: Trade	5.1	2.0	2.4	1.4	0.8	0.6	2.8	0.6	1.1	n.a.
Current Account	-5.6	-0.2	0.3	-1.2	-1.8	-2.1	-0.5	*	*	*
France: Trade[b]	-9.6	-4.0	-3.2	-2.4	-1.9	-1.9	-3.1	-1.2	-1.2	-0.9
Current Account[b]	-8.5	-2.1	-2.0	-2.6	-0.5	-2.3	-2.9	*	*	*
Germany: Trade	11.9	1.1	0.9	0.2	3.1	3.1	5.5	1.9	0.0	n.a.
Current Account (NSA)	-7.7	-7.1	-3.3	-4.4	-2.3	-4.9	4.0	2.2	-1.3	-0.3
Italy: Trade	-16.0	-8.6	-5.5	-4.5	-4.8	-4.4	-2.3	-0.7	-1.3	n.a.
Current Account (NSA)	n.a.	-1.0	-2.9	-5.8	-2.3	0.3	n.a	*	*	*
Japan: Trade[b]	20.1	1.4	2.9	3.3	5.5	6.3	5.0	1.0	2.1	n.a.
Current Account[b]	4.6	-1.8	-0.2	-1.0	2.0	2.5	1.1	-0.1	1.1	n.a.
United Kingdom: Trade	n.a.	1.5	3.0	n.a.	n.a.	n.a.	1.4	0.6	n.a.	n.a.
Current Account[b]	n.a.	2.1	4.5	n.a.	n.a.	n.a.	2.3	0.9	n.a.	n.a.
United States: Trade	-27.8	-2.9	-5.6	-4.7	-6.9	-7.0	-9.0	-1.0	-4.1	n.a.
Current Account	6.6	5.0	1.4	3.3	1.2	2.1	-0.1	*	*	*

a The current account includes goods, services, and private and official transfers.
b Quarterly data are subject to revision and are not consistent with annual data.
* Comparable monthly current account data are not published.

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

		1980		1981				1981		1982		MEMO: Latest 3 Months from Year Ago
		Q3	Q4	Q1	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.	
Canada:	CPI	2.8	2.8	3.2	3.1	3.0	2.5	0.9	0.4	0.7	1.2	11.7
	WPI	2.8	3.2	2.5	2.1	1.3	2.1	-0.1	0.4	n.a.	n.a	8.3
France:	CPI	3.2	2.8	3.0	3.3	3.9	3.2	0.9	0.6	1.0	1.0	13.9
	WPI	0.6	3.6	1.4	4.3	4.3	1.9	-0.4	1.3	0.6	n.a.	12.6
Germany:	CPI	0.7	0.8	2.2	1.8	1.2	1.2	0.5	0.3	0.9	0.2	6.1
	WPI	-0.2	0.7	3.9	2.3	2.1	1.8	0.5	0.0	1.8	-0.2	9.1
Italy:	CPI	4.2	5.3	5.2	4.4	3.0	4.6	1.8	0.9	1.3	1.3	17.2
	WPI	2.2	3.8	5.0	5.1	3.5	4.0	1.7	0.9	1.3	n.a.	18.2
Japan:	CPI	1.1	1.2	1.1	1.5	0.0	1.3	0.2	0.0	0.2	0.1	3.7
	WPI	0.7	-0.7	-0.7	1.1	1.4	-0.1	-0.1	-0.1	0.0	0.5	2.2
United Kingdom:	CPI	2.2	1.9	2.4	4.9	1.7	2.5	1.1	0.6	0.6	0.0	11.7
	WPI	2.3	1.2	3.0	3.4	2.1	2.3	0.6	0.6	1.0	0.7	11.0
United States:	CPI(SA)	1.9	3.1	2.6	1.9	2.8	1.9	0.5	0.4	0.3	n.a.	9.0
	WPI(SA)	3.3	2.2	2.5	2.3	1.1	1.2	0.4	0.3	0.4	-0.1	6.3

U.S. corporations in the Euro-bond market -- in early March, the authorities banned the sales of these bonds by Japanese securities houses.

On March 9, the Japanese Diet approved the FY1982 budget, which calls for a nominal expenditure increase of only 6.2 percent, one of the smallest rates of increase in many years. However, the Japanese plan to take several measures, including advancing government expenditure to stimulate the domestic economy.

German real GNP declined by 0.5 percent last year, and by 0.8 percent (s.a.a.r.) in the fourth quarter. From the data available so far this year, there are no indications of strong revival. Industrial production in January, while up by 2 percent from December, was not higher than its fourth-quarter average of last year. The January volume of orders was unchanged from its December level and also only barely higher than the fourth-quarter average of last year. The rate of unemployment continued to climb through February, when it reached 6.8 percent (s.a.), and is expected to rise further. The German Federal Labor Office estimates that real GNP would have to grow by 3 percent (twice the officially forecast rate) in order to keep the rate of unemployment from rising further. The recently announced job creation program of DM 12.5 billion (less than 1 percent of 1981 GNP) over the next three years, financed by tax increases and off-budget borrowing, is not expected to have a major impact on employment.

Inflation in the first two months of 1982, due in part to ignificant seasonal factors, was about 6-1/2 percent (a.r.) compared with 6 percent for all of 1981 and 4.8 percent for the fourth quarter.

On March 8, the first major wage settlement of this year's round was concluded with a 4.2 percent wage increase for metal workers, down from 4.9 percent in 1981. This settlement, which suggests a reduction in real wages of about 1 percent, is expected to set the pace for the remaining negotiations.

The German current account deficit declined from $16.5 billion in 1980 to $7.7 billion in 1981. In the fourth quarter of last year, the current account was in surplus. In January, a deficit of $1.3 billion (n.s.a.) was recorded, some of which -- according to the Bundesbank -- was due to seasonal and technical factors. The February deficit was only $0.2 billion.

In the United Kingdom, real GNP increased 1-1/2 percent (s.a.a.r.) in the fourth quarter of 1981. The average level of industrial production (s.a.) also increased in the final quarter of last year, but the declines in industrial production recorded in November, December, and January indicate the weakness of the recovery in U.K. economic activity. Consumer prices in February were unchanged from their January level. During the six months to February 1982, consumer prices rose some 8 percent (a.r.); during the same period, wholesale-price inflation was 9-1/2 percent.

On March 9, Chancellor of the Exchequer Sir Geoffrey Howe presented the Thatcher government's budget for the fiscal year beginning in April. In his budget speech, Chancellor Howe announced new monetary growth targets as well as several fiscal measures. The tax changes announced include a reduction in payroll taxes paid by employers, increases in personal income tax allowances and brackets, and increases in various months (a.r.). Hourly wages in France rose by 15-1/2 percent from October to October, giving a worker a gain in purchasing power of about 1 percent. However, minimum wage earners' purchasing power increased by over 4 percent, indicating a relative improvement in the position of the lowest paid. When the government announced its objective of increasing the real wage of the poorest, there was considerable doubt about the likelihood of being able to constrain the increase in the minimum wage from spreading. Apparently some success has been achieved.

Since the last Greenbook, nationalization has finally been approved and new heads appointed for the nationalized industries (full transfer of control occurs on July 1, 1982).

President Mitterand has asked the government to hold the budget deficit in the 1983 budget below 3 percent of GDP; nearly the same ratio is expected for this year. The government will be required to increase its spending in 1983 by $10-15 billion less than some earlier expectations.

In the fourth quarter of 1981, Italian IP rose by over 5 percent to a level about 1 percent below that of the same quarter of the previous year. Business surveys suggest an upturn in the first part of this year as orders are up, especially for investment and intermediate goods. Consumer prices during the 3 months ending in February rose at an annual rate of about 17 percent, down slightly in comparison with the previous three-month period. Wholesale price inflation has remained high, with an increase in the 12 months ending in December of over 18 percent.

The trade account improved markedly in the final quarter of last year, with deficit of $2-1/4 billion, compared with a $5-1/2 billion deficit in the final quarter of 1980. Strong export growth and weak domestic economic activity accounted for this improvement.

The government's budget proposals, which call for a real reduction in current government expenditure, remain stalled in Parliament. The shakiness of the present coalition government has also hindered its effort to alter the wage indexation system. This system accounted for much of the 23 percent rise in industrial wages in 1981.

In Canada, real GNP declined 2 percent (s.a.a.r.) in the fourth quarter of 1981 after having declined 3.4 percent in the third quarter. This yields an increase of 1 percent in real GNP from 1980-Q4 to 1981--Q4. The pace of inventory accumulation and residential investment slowed considerably in the fourth quarter. At the present, there are no clear signs that the Canadian economy is near the bottom of the recession.

There is some evidence, however, that prices have begun to moderate somewhat. Inflation as measured by the CPI has eased during the three-month period ending in January 1982, as the increase in the CPI slowed to 2.3 percent from 2.7 percent the previous three months.

The current-account deficit fell to $0.5 billion in the fourth quarter from $2.1 billion in the third quarter of last year. For 1981 as a whole the deficit was almost $5.6 billion compared with about $1.6 billion in 1980.

In Belgium the continued weak pace of economic activity was reflected in a further rise of the unemployment rate. In December the rate reached 15.4 percent (n.s.a.) of the insured labor force, compared with 13.7 percent one year earlier. Although inflation has not accelerated further, it remains high. In January and February the consumer price index averaged 8 percent above the year earlier level. The trade deficit similarly has not worsened recently, but remains high. Through November, the trade deficit totaled $6.3 billion. In response to these current macroeconomic problems, the government has recently adopted a major policy program. In early February, Parliament approved a measure whereby the government was authorized to rule by decree for one year on certain economic matters. On February 22 the Belgian franc was devalued by 8.5 percent within the EMS. At the same time the government announced a wage and price freeze. Wages are frozen until the end of May for all but the lowest paid workers. From June until the end of 1982, cost-of-living adjustments will take the form of a flat-rate increase which will only partly cover inflation. Prices are frozen until the end of March, after which time increases will be allowed only if necessary (primarily to meet increased costs of imported inputs). In addition, tax changes were announced that encourage investment in Belgian equities.

On February 17, the Bank of Mexico announced that it was temporarily withdrawing from the foreign exchange market in order to let the quotation of the peso vis-a-vis other currencies find a level correspinding to current economic conditions. In the next few days, the peso's value in dollar terms fell about 40 percent (from about 3.74 cents to about 2.20 cents) and since then has remained near this rate. Since the peso was last devalued, by 45 percent in 1976, Mexico has followed generally expansionary policies. As a result, economic growth was more than 8 percent in each of the past four years, and employment grew by more than 3 million, but inflation averaged over

20 percent annually in 1977-80, and 28 percent in 1981. This policy resulted in a widening of the current-account deficit from about $2 billion in 1977 to about $12 billion last year, even though crude oil exports increased from less than $1 billion in 1977 to about $14 billion.

Fears of a possible large peso devaluation emerged last year as public awareness of the deterioration in the current-account position increased. Capital flight developed in early summer when the government attempted to resist the downward trend in world oil prices and, for two months, sold only obout half as much oil as it had been selling. While capital flight abated somewhat after Mexican oil prices were brought back into line with world quotations in August, it picked up momentum once again late last eyar after the 1982 budget was announced, making it clear that the expansionary policies would be continued. The potential current-account deficit for 1982 widely forecast before the devaluation greatly exceeded the amount of external finance thought likely to be available from foreign and international lenders, pointing to the inevitability of a crisis. When the outflow intensified early in February, and reserves ran down rapidly, the authorities concluded that it would be too costly, if not impossible, to put off action.