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Confidential (FR) Class II FOMC

May 12, 1982

RECENT DEVELOPMENTS

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

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	Apr.	5-7-82	109.6	3.3	2.8	.8
Unemployment rate (%) 1/	Apr.	5-7-82	9.4	9.0	8.5	7.3
Insured unemployment rate (%) 1/	Mar.	4-12-82	4.2	4.0	4.1	3.3
Nonfarm employment, payroll (mil.)	Apr.	5-7-82	90.6	-2.6	-1.4	-1.0
Manufacturing	Apr.	5-7-82	19.3	-5.1	-6.0	-5.3
Nonmanufacturing	Apr.	5-7-82	71.3	-2.0	-.1	.3
Private nonfarm:						
Average weekly hours (hr.) 1/	Apr.	5-7-82	34.8	34.9	34.2	35.4
Hourly earnings ($) 1/	Apr.	5-7-82	7.56	7.54	7.52	7.14
Manufacturing:						
Average weekly hours (hr.) 1/	Apr.	5-7-82	39.1	39.0	37.3	40.2
Unit labor cost (1967=100)	Mar.	4-29-82	230.1	4.2	10.3	12.2
Industrial production (1967=100)	Mar.	4-15-82	141.2	-9.3	-6.1	-7.2
Consumer goods	Mar.	4-15-82	141.4	-3.4	-1.7	-4.7
Business equipment	Mar.	4-15-82	170.6	-14.6	-18.8	-4.9
Defense & space equipment	Mar.	4-15-82	108.4	8.9	5.2	7.6
Materials	Mar.	4-15-82	137.1	-13.0	-5.5	-11.2
Consumer prices all items (1967=100)	Mar.	4-23-82	283.3	-3.4	1.0	6.7
All items, excluding food & energy	Mar.	4-23-82	270.1	.4	3.0	8.7
Food	Mar.	4-23-82	282.2	-4.2	3.9	3.9
Producer prices: (1967=100)						
Finished goods	Mar.	4-9-82	276.5	-1.7	.6	4.1
Intermediate materials, nonfood	Mar.	4-9-82	315.8	-3.4	-1.5	3.6
Crude foodstuffs & feedstuffs	Mar.	4-9-82	246.7	2.9	21.5	-5.4
Personal income ($ bil.) 2/	Mar.	4-20-82	2,524.8	5.0	5.3	7.9
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Mar.	4-30-82	80.1	.4	.5	-7.6
Capital goods industries	Mar.	4-30-82	30.0	.9	5.1	2.3
Nondefense	Mar.	4-30-82	22.1	4.8	-2.0	-9.8
Defense	Mar.	4-30-82	7.9	-8.5	31.4	63.6
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Feb.	5-6-82	1.48	1.52	1.49	1.39
Manufacturing	Mar.	4-30-82	1.73	1.73	1.71	1.61
Trade	Feb.	5-6-82	1.27	1.31	1.29	1.20
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	Mar.	4-30-82	.595	.598	.598	.564
Retail sales, total ($ bil.)	Mar.	4-12-82	87.2	-.5	.7	1.2
GAF 3/	Mar.	4-12-82	19.0	1.3	2.3	4.3
Auto sales, total (mil. units.) 2/	Apr.	5-4-82	7.2	-8.4	-9.3	-10.2
Domestic models	Apr.	5-4-82	5.5	-7.8	-2.9	-5.2
Foreign models	Apr.	5-4-82	1.8	-10.1	-24.4	-22.7
Housing starts, private (thous.) 2/	Mar.	4-16-82	.947	2.5	7.4	-28.1
Leading indicators (1967=100)	Mar.	4-29-82	124.4	-.5	-2.1	-8.4

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.

Industrial production and employment declined further in April, indicating continued weakness in economic activity. To a large extent this reflects a sharp decline in inventory investment. Additionally, spending for business fixed investment has weakened, and indicators of future business outlays point to further reductions. However, consumer demand has held up reasonably well, and inflation has continued to moderate. The reduction of the inventory overhang, which has proceeded at a rapid rate, will provide a base for a rebound in activity.

Employment and Industrial Production

Labor demand contracted again in April, and the overall unemployment rate reached a post-World War II high of 9.4 percent. Since last summer, the jobless rate has climbed more than 2 percentage points; the bulk of the increase in unemployment occurred among workers who lost their last job. In April, joblessness among adult women rose to 8.3 percent, close to the 8.5 percent posted during the 1974-75 recession, and the rate for men 25 years of age and over, 6.9 percent, now exceeds its 1975 high by 1-1/4 percentage points. In some hard-pressed industries such as autos, steel, and trucking, unemployment among union members has been close to 30 percent.

Nonfarm payroll employment fell 200,000 in April to a level 1-1/2 million below its peak last September. As has been the case since the recession began, job cutbacks in April were concentrated in durable goods manufacturing and construction. Employment in hardgoods industries fell 65,000, with layoffs at metals and machinery producers.

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

	1980	1981	1981 Q4	1982 Q1	1982 Feb.	1982 Mar.	1982 Apr.
	- - Average monthly changes - -						
Nonfarm payroll employment[2]	34	14	-307	-118	140	-259	-198
Strike adjusted	28	13	-318	-116	140	-257	-192
Manufacturing	-58	-37	-253	-132	-44	-166	-82
Durable	-47	-30	-199	-85	-37	-101	-65
Nondurable	-12	-6	-54	-47	-7	-65	-17
Construction	-12	-16	-26	-28	80	-55	-84
Trade	12	22	-46	52	85	-42	-70
Finance and services	79	61	27	14	53	5	59
Government	13	-26	8	-8	-14	22	-25
Private nonfarm production workers	-9	8	-337	-115	143	-267	-145
Manufacturing production workers	-67	-45	-256	-109	-26	-128	-75
Total employment[3]	-27	-2	-215	-40	9	-98	-152
Nonagricultural	-35	22	-165	-87	47	-73	-112

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 Q4	1982 Q1	1982 Feb.	1982 Mar.	1982 Apr.
Total, 16 years and older	7.1	7.6	8.3	8.8	8.8	9.0	9.4
Teenagers	17.8	19.6	21.1	21.9	22.3	21.9	23.0
20-24 years old	11.5	12.3	13.1	14.0	14.1	14.2	14.7
Men, 25 years and older	4.8	5.1	5.9	6.4	6.3	6.6	6.9
Women, 25 years and older	5.5	5.9	6.3	6.6	6.5	7.0	7.2
White	6.3	6.7	7.3	7.7	7.7	7.9	8.4
Black and other	13.1	14.2	15.4	15.9	15.9	16.6	16.9
Fulltime workers	6.9	7.3	8.1	8.6	8.5	8.9	9.2
White collar	3.7	4.0	4.3	4.5	4.6	4.8	4.9
Blue collar	10.0	10.3	11.8	12.6	12.5	12.9	13.7

At construction sites, employment also was cut back further to a level about 400,000 below its last peak, a year ago. Even employment in the private service-producing sector has registered little growth over the last seven months. Hiring at trade establishments has been especially weak this spring; after seasonal adjustment, retail trade employment fell in March and April.

Employment developments have closely paralleled production adjustments in recent months. The decline in industrial production in April probably approached the 3/4 percent drop initially estimated for March. Raw steel output was reduced more than 10 percent, and cutbacks occurred for other metals as well. Output of business equipment, which began to contract sharply early in 1982, declined further in April with an especially large drop associated with oil- and gas-well drilling. Some improvement occurred in auto production and home goods output, and defense-related output rose further. Although still depressed, auto assemblies rose 9 percent in April to a 5.1 million unit annual rate, and the industry currently plans to increase assemblies to a 5.6 million unit rate in May.

Personal Income and Consumer Spending

Nominal personal income grew at only a 4-1/4 percent annual rate in the first quarter. Continued weakness in labor demand and declines in proprietors' income have held down income growth this year. In contrast, because of the prolonged period of rising unemployment, transfer payments have begun to pick up; in March, unemployment insurance benefits added $4 billion at an annual rate to income growth. In real terms, disposable income has risen in recent months as prices stabilized.

PERSONAL INCOME
(Based on seasonally adjusted data)

	1980	1981	1981 Q3	1981 Q4	1982 Q1	1982 Jan.	1982 Feb.	1982 Mar.
	- - - - Percentage changes at annual rates[1] - - - -							
Total personal income	11.0	10.2	12.9	7.5	4.3	3.4	7.4	5.0
Wage and salary disbursements	9.0	8.9	8.9	6.6	4.4	7.1	8.5	.9
Private	9.2	9.2	9.5	5.1	4.1	7.0	9.6	.0
Disposable personal income								
Nominal	10.9	10.1	11.9	9.4	5.2	6.9	5.9	7.4
Real	.8	2.2	2.7	1.7	.2	-3.0	6.3	6.0
	- - - - - Changes in billions of dollars[2] - - - - -							
Total personal income	18.7	18.0	26.1	9.8	10.9	7.0	15.4	10.4
Wage and salary disbursements	9.8	9.3	12.1	4.0	7.0	9.0	10.8	1.1
Private	8.1	7.6	10.3	1.6	5.7	7.2	10.0	.0
Manufacturing	2.3	1.5	2.2	-2.7	1.2	.6	4.2	-1.2
her income	9.6	9.9	14.7	6.1	5.7	1.9	5.4	9.7
Transfer payments	4.1	2.9	5.5	2.3	2.9	1.3	1.5	5.8
ess: Personal contributions for social insurance	.8	1.2	.7	.4	1.7	3.9	1.0	.3
Memorandum:								
Personal saving rate[3]	5.6	5.3	5.2	6.1	5.3	5.3	5.3	n.a.

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.
3. Monthly saving rate equals the centered three-month moving average of personal saving as a percentage of the centered three-month moving average of disposable personal income.
n.a.--not available

Consumer spending held up fairly well in the first quarter, as the saving rate dropped back to 5-1/4 percent--about the same as its pre-tax level. According to the Commerce Department, personal consumption expenditures in real terms rose at a 4 percent annual rate. The increase was attributable to a rise in purchases of motor vehicles, supported by rebates, and in services. Apart from motor vehicles consumer spending for goods remained relatively sluggish. Nominal retail sales excluding autos and mainly nonconsumption items were essentially unchanged from December to March. Outlays for gasoline fell sharply due to price reductions, while spending on items in the GAF grouping increased.

At auto dealers, unit sales of domestic models fell back to a 5.5 million annual rate in April, after averaging nearly a 6 million unit rate in the first quarter. The end of many rebate plans in early April may have generated the decline. Sales of imported cars dropped to a 1.8 million unit rate in April, the lowest monthly sales pace since late 1977. The recent weakness in foreign car sales apparently stems from export restrictions on Japanese cars.

The slower tempo of retail sales in March and, according to reports, in April at large chain stores is consistent with the latest surveys of consumer attitudes toward purchases of durable goods. Both the University of Michigan and The Conference Board measures of buying plans for autos, homes, and major appliances were at extremely depressed levels in April. Increased pessimism reflected concerns about unemployment and high interest rates.

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

	1981			1982			
	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.
Total sales	1.8	1.2	-1.3	.1	-1.4	2.6	-.5
(Real)[1]	.5	-.5	-2.7	-.5	-2.1	2.8	-.1
Total, less autos and nonconsumption items	1.7	1.1	.4	.3	-.6	1.6	-1.1
Total, exc. auto group, gasoline, and nonconsumption items	1.9	1.2	.4	.7	-.9	2.2	-.2
GAF[2]	2.0	.5	-.1	.2	-3.5	4.7	1.3
Durable goods	1.5	1.6	-5.6	.1	-3.4	5.7	.9
Automotive	2.5	3.5	-7.3	.0	-5.7	7.6	3.2
Furniture & appliances	-.4	-.3	-.8	-3.3	-7.1	5.3	1.8
Nondurable goods	1.9	1.1	.7	.1	-.6	1.3	-1.1
Apparel	.8	1.5	-.9	4.3	-.9	8.8	-1.3
Food	2.5	1.8	1.7	-.1	-1.3	.9	.1
General merchandise[3]	3.3	.3	.5	-.1	-3.2	2.9	2.3
Gasoline	.5	.3	.4	-2.9	1.3	-2.4	-7.7

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				
	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Total	7.9	9.0	7.4	8.1	8.0	8.5	7.9	7.2
Foreign-made	2.3	2.1	2.2	2.2	2.4	2.3	2.0	1.8
U.S.-made	5.6	6.9	5.1	5.9	5.6	6.2	5.9	5.5
Small	2.9	3.5	2.6	3.0	2.7	3.3	3.1	2.4
Intermediate & standard	2.8	3.4	2.5	2.8	2.9	2.9	2.7	3.0

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

Inventory Investment

Production cutbacks in recent months have led to a widespread reduction of inventories. In constant dollar terms, manufacturing and trade stocks declined sharply between November and February, and probably fell further in March. This liquidation has eliminated about three-fourths of the large buildup from April through November of 1981. Inventories of new cars at domestic auto dealers have been reduced significantly, and stocks at the end of April represented a more comfortable 68 days' supply. In March, liquidation at manufacturers regained momentum, after slowing in February. Most manufacturers reported stock reductions, although sizable accumulations still occurred at steel mills and at producers of defense-related aircraft and parts. Although the constant-dollar inventory to sales ratio for total manufacturing and trade fell sharply in February from the record level of the preceding month, it remains high by historical standards, suggesting some further liquidation into the second quarter.

Business Fixed Investment

Indicators of capital spending have weakened since late 1981. In the equipment area, shipments of nondefense capital goods in the first quarter of 1982 were 3.8 percent below their fourth-quarter level. Most types of equipment posted larger declines than that, but increased business spending was reported in a few areas--particularly office and store machinery. Businesses also accelerated purchases of cars and trucks in the first quarter, presumably to take advantage of price reductions. In the structures area, nominal outlays on new construction increased slightly during the first quarter. Spending for petroleum

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

	1979	1980	1981 Q3	1981 Q4	1982 Q1	1982 Jan.	1982 Feb.(r)	1982 Mar.(p)
Book Value Basis								
Total	48.2	31.9	53.3	11.8	n.a.	-26.3	-26.6	n.a.
Manufacturing	31.5	16.4	27.6	-3.0	-2.6	-8.4	12.4	-11.7
Durable	23.7	10.2	25.9	-1.8	-3.4	-7.6	5.0	-7.5
Nondurable	7.8	6.2	1.8	-1.2	.8	-.8	7.4	-4.2
Wholesale Trade	10.0	10.6	8.2	9.5	-15.2	-.3	-29.3	-16.2
Retail Trade	6.7	4.9	17.5	5.3	n.a.	-17.6	-9.7	n.a.
Constant Dollar Basis								
Total	7.2	-2.5	12.5	1.0	n.a.	-26.3	-17.3	n.a.
Manufacturing	6.8	-1.0	5.4	-2.4	n.a.	-12.1	-1.5	n.a.
Wholesale Trade	.4	.6	2.7	4.6	n.a.	-1.2	-8.0	n.a.
Retail Trade	-.1	-2.2	4.5	-1.1	n.a.	-13.1	-7.8	n.a.

INVENTORIES RELATIVE TO SALES[1]

	1974 Cyclical Peak[2]	1980 Cyclical Peak[2]	1981 Q3	1981 Q4	1982 Q1	1982 Jan.	1982 Feb.(r)	1982 Mar.(p)
Book Value Basis								
Total	1.64	1.52	1.44	1.49	n.a.	1.52	1.48	n.a.
Manufacturing	1.95	1.76	1.63	1.70	1.74	1.75	1.73	1.73
Durable	2.51	2.36	2.13	2.26	2.32	2.37	2.30	2.32
Nondurable	1.39	1.18	1.11	1.13	1.15	1.15	1.15	1.15
Wholesale Trade	1.24	1.19	1.12	1.16	1.12	1.18	1.13	1.10
Retail Trade	1.57	1.46	1.42	1.45	n.a.	1.46	1.41	n.a.
Constant Dollar Basis								
Total	1.76	1.76	1.69	1.76	n.a.	1.79	1.73	n.a.
Manufacturing	2.18	2.11	2.00	2.10	n.a.	2.17	2.11	n.a.
Wholesale Trade	1.40	1.45	1.43	1.46	n.a.	1.49	1.42	n.a.
Retail Trade	1.52	1.48	1.43	1.47	n.a.	1.46	1.41	n.a.

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.

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

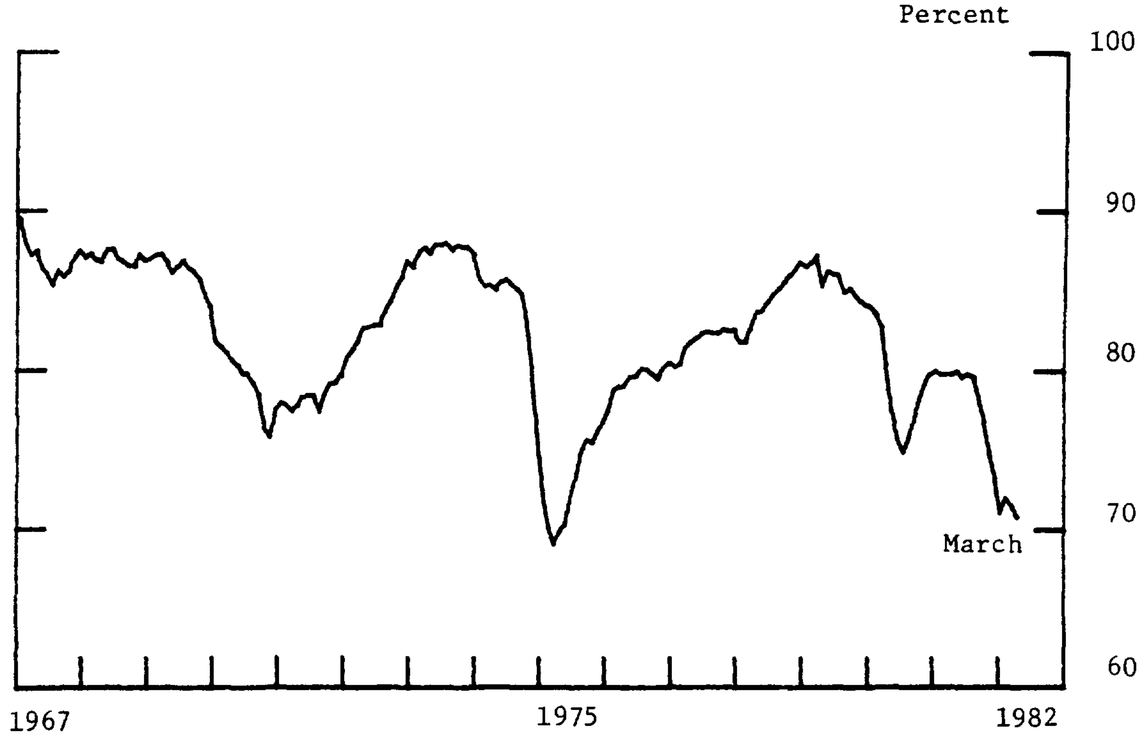
	1981		1982			
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Nondefense capital goods shipments						
Current dollars	.9	-.5	-3.8	-8.1	4.3	-1.0
Addendum: Sales of heavy-weight trucks (thousands)	232	201	217	248	210	193
Nonresidential construction						
Current dollars	5.1	2.3	1.6	-.2	2.3	-1.9

1. FRB staff estimate.

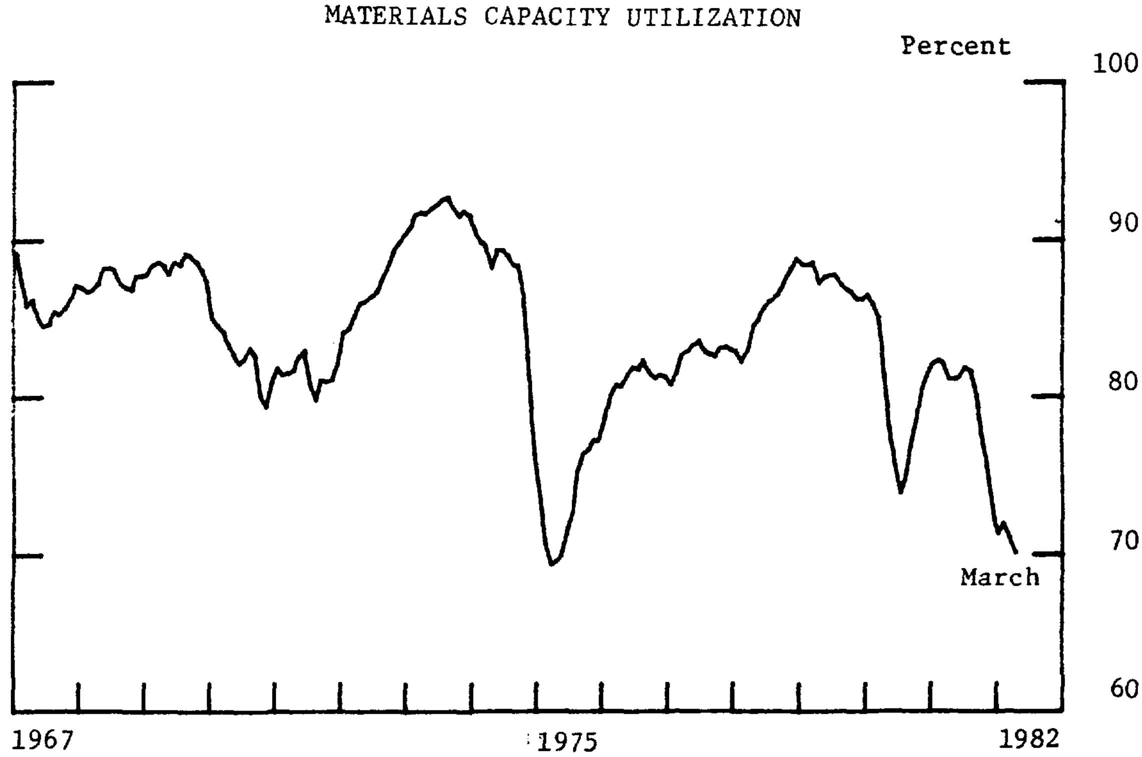
BUSINESS CAPITAL SPENDING COMMITMENTS
(Percentage change from preceding comparable period; based on seasonally adjusted data)

	1981		1981			
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Nondefense capital goods orders						
Current dollars	.2	-6.4	-3.9	-4.2	-2.4	4.8
Machinery						
Current dollars	.4	-1.3	-10.4	-12.0	-2.2	-1.3
Addendum: Ratio of current dollar unfilled orders to shipments						
Total	6.00	5.81	5.81	6.14	5.77	5.77
Machinery	4.50	4.44	4.29	4.66	4.34	4.23
Nonresidential building contracts						
Current dollars	-11.8	14.7	-2.5	-1.5	-27.5	4.8

MANUFACTURING CAPACITY UTILIZATION



MATERIALS CAPACITY UTILIZATION



drilling turned down after expanding considerably last year, while other categories of nonresidential building activity showed small increases.

Data on near-term commitments suggest a further deterioration in capital spending in the months ahead. Contracts and orders for plant and equipment have declined sharply over the last two quarters, as new orders for nondefense capital goods fell about 10 percent. The backlog of unfilled orders has been dwindling for almost a year. Both new contracts and permits for nonresidential construction moved lower as well during the first quarter. The McGraw-Hill spring survey of business plans found that fixed capital spending in 1982 will be down 4-1/2 percent in real terms from that in 1981--a downward revision of 2-1/4 percentage points from the February survey. In addition to these specific indicators, a number of factors suggest that firms' incentives and capabilities to expand capacity are being curtailed--including lower profits, reduced business liquidity, high interest rates, and the wide margin of currently unused capacity.

Capacity utilization rates have remained at very low levels since the end of last year. Operating rates in manufacturing probably averaged about 71 percent of capacity in April--just 2 percentage points above the 1975 monthly low. Capacity utilization rates for producers of industrial materials, in general, also have continued to be depressed, owing to weak demands and the desire of users to trim inventories

Housing

The severe slump in housing activity appears to have bottomed out. Total private housing starts have edged up steadily this year, as have the issuance of permits for residential building. The March building rate of 947,000 units per year was 11 percent above its October trough,

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

	1975[1]		1981			1982			
	Q1	Q2	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.
All units									
Permits	.72	.91	1.11	.88	.75	.83	.83	.80	.86
Northeast	.10	.13	.12	.11	.09	.08	.07	.09	.09
North Central	.18	.23	.14	.11	.10	.08	.08	.08	.09
South	.22	.29	.52	.44	.38	.49	.51	.47	.50
West	.21	.26	.32	.22	.17	.17	.18	.16	.18
Starts	.98	1.07	1.17	.96	.87	.92	.89	.92	.95
Northeast	.15	.14	.11	.12	.11	.10	.08	.11	.11
North Central	.26	.25	.18	.15	.13	.10	.12	.07	.10
South	.38	.41	.61	.48	.44	.56	.53	.59	.55
West	.20	.27	.27	.21	.19	.17	.16	.15	.19
Single-family units									
Permits	.53	.65	.64	.49	.42	.45	.46	.43	.46
Starts	.73	.85	.78	.64	.54	.59	.59	.56	.61
Sales									
New homes	.44	.56	.46	.37	.40	.37	.39	.37	.33
Existing homes	2.16	2.39	2.63	2.25	1.92	1.93	1.86	1.95	1.99
Multifamily units									
Permits	.19	.26	.47	.38	.33	.38	.37	.36	.40
Starts	.24	.22	.39	.32	.33	.33	.29	.37	.34
Mobile home shipments	.20	.20	.26	.25	.21	n.a.	.21	.25	n.a.

n.a.--not available
1. During the last major cycle, the trough in house sales occurred in 1974-Q4. Most measures of production bottomed out in 1975-Q1 and began to rise in the next quarter. Figures from that period are presented here for comparison with recent developments.

but this represents only an additional 100,000 units per year from the extremely depressed October level. The upturn in starts also has been narrow geographically, occurring entirely in the south.

Weakness in demand for housing is apparent in both sales and prices. Sales of new and existing houses during the first quarter remained close to their low levels of late last year. The average price of new houses sold in March was about the same as a year earlier and would likely be lower if it were adjusted for quality differences and interest rate "buy-downs" by builders. The Census Bureau's quality-adjusted index of new house prices in the first quarter stood 5-1/2 percent above its level one year earlier. For existing houses, the reported spread of mortgage "takebacks" by sellers probably has helped to support prices, but none-theless the average price of existing homes sold in March was only 4 percent above a year ago, and has actually declined since December.

Federal Government

The unified deficit for the first half of fiscal year 1982 totaled $71.9 billion, about 10 percent more than in the comparable period of fiscal year 1981. A number of factors point to faster growth in the deficit during the second half of FY1982. Receipts will be reduced by the scheduled cut in withholding taxes on July 1 and by the decline in windfall tax payments associated with tax rate cuts and lower oil prices. Lower profits also will reduce corporate income tax receipts. Meanwhile, the growth in outlays has remained strong as a result of the defense buildup and rising unemployment insurance payments.

In the negotiations between the administration and Congress, a figure of $182 billion is being used as the FY1983 "baseline" from which deficit-reducing measures will be taken. This estimate of the deficit is $26 billion higher than the comparable administration projection made in April. This higher estimate reflects weaker economic assumptions about economic activity and the higher technical estimates of disbursement rates that were made by the Congressional Budget Office. The Senate Budget Committee has approved a plan, which the administration has endorsed, to cut the FY1983 deficit to $106.1 billion. Under the plan, revenues would be raised $22 billion, outlays would be reduced $47.9 billion, and the social security trust fund would be strengthened by some unspecified combination of reduced outlays or increased revenues totaling $6 billion.

State and Local Government

Widespread revenue shortfalls apparently are constraining activity at state and local governments. Nominal outlays for new construction in first quarter were off $2-1/2 billion (annual rate terms)--about 6 percent--from the already depressed 1981 level. Employment at state and local governments also has been cut back steadily since federal support for the public service jobs component of the CETA program ended last October.

The recession has restrained revenue growth at a time when state and local governments are faced with increased demands for social services. This may account for the increase in short-term general obligation bond issues in the first four months of this year, as well as the numerous tax increases that were passed by state legislatures this spring. Excise tax hikes on gasoline, alcohol, or cigarettes were passed in 17 states, and similar proposals are currently pending in 18 other states. A number of states also have enacted increases in income, corporate, or sales taxes. Moreover, a recent survey indicates that of the 45 states having income tax laws linked to federal tax laws 17 have "decoupled" in order to prevent further erosion of revenues due to tax cuts at the federal level. Similar measures are being considered in 11 other states.

Prices

Inflation has continued to moderate in recent months. Aggregate measures of both consumer prices and producer prices for finished goods, which declined in March, rose at annual rates of 1 percent or less over the first three months of 1982. Sizable reductions in the costs of gasoline, homeownership, and motor vehicles were the major contributors to the recent slowing. Outside these areas, a broadly-based easing of increases in consumer and producer prices has resulted in smaller advances than those in the fourth quarter of last year.

Consumer energy prices fell sharply last quarter, as retail gasoline prices dropped 8 percent (not at an annual rate). Gasoline prices probably moved lower again in April, but the recent firming in wholesale markets for petroleum products suggests that prices will stabilize in the months ahead. By contrast, natural gas and electricity rates rose rapidly over the first quarter.

Homeownership costs as measured in the CPI dropped sharply in March, after increasing very moderately earlier in the year. Lower mortgage rates and house prices both contributed to the March decline.

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

	Relative importance Dec. 1981	1980	1981	1981 H2	1982 Q1	1982 Feb.	1982 Mar.
All items	100.0	12.4	8.9	9.1	1.0	3.0	-3.4
Food	16.6	10.2	4.3	4.7	3.9	7.2	-4.2
Energy	11.1	18.1	11.9	.3	-8.0	-9.8	-20.0
Homeownership	26.1	16.5	10.1	10.4	-2.4	4.2	-10.7
All items less food, energy, and homeownership[3]	49.8	9.9	9.4	9.9	5.4	4.5	5.9
Used cars	3.3	18.3	20.3	33.0	5.5	6.3	6.3
Other commodities[3]	19.9	8.1	6.1	5.4	4.8	4.1	6.4
Other services[3]	26.6	10.3	10.6	11.2	6.3	6.5	3.5
Memorandum:							
Experimental CPI[4]	100.0	10.8	8.5	8.8	2.7	1.4	1.9

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 H2	1982 Q1	1982 Feb.	1982 Mar.
Finished goods	100.0	11.8	7.0	4.3	0.6	-1.7	-1.7
Consumer food	21.9	7.5	1.5	1.1	5.8	5.6	-1.9
Consumer energy	12.7	27.8	14.3	2.8	-18.5	-21.8	-27.8
Other consumer goods	44.5	10.4	6.9	5.9	3.6	2.1	2.1
Capital equipment	20.8	11.4	9.2	7.7	2.1	-4.8	6.1
Intermediate materials[2]	94.7	12.4	7.4	4.0	-1.5	-4.2	-3.4
Exc. energy	77.6	10.1	6.7	4.7	0.3	.0	.0
Crude Materials							
Food	50.6	8.6	-14.0	-22.0	23.3	8.3	2.9
Energy	33.6	26.9	22.9	2.0	-6.5	-5.7	-13.0
Other	15.8	7.5	-11.3	-11.4	-40.3	-61.3	-49.3

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 fall in mortgage rates mainly reflected a reduction in FHA/VA ceiling rates from 16-1/2 to 15-1/2 percent.

Food prices declined in March and had a moderating influence on the overall price level. A brief run-up in prices of fruits and vegetables in January and February due to severe winter weather was partially reversed in March. Retail prices of meat and poultry have been little changed so far this year, but recently at the farm level cattle and hog prices have risen appreciably as supplies have fallen below year-earlier levels.

Excluding food, energy, and homeownership items, consumer prices rose at a 5-1/2 percent annual rate in the first quarter compared with increases of nearly 9-1/2 percent or more over 1980 and 1981. New car prices were reduced by extensive rebates early in the year and then leveled off in March. Aside from motor vehicles, food, and energy items, most finished goods at the producer level, including capital equipment, also have registered smaller price increases over the first quarter.

Wages and Labor Costs

Rising unemployment and the substantial improvement in inflation since early 1981 have significantly reduced the rate of wage inflation. Increases in straight-time wage rates as measured by the hourly earnings index have declined from 9-1/2 percent in 1980 to a 7 percent annual rate in 1982-Q1. Similarly, the increase in hourly compensation, which covers nonwage supplements as well as wages, has slowed significantly during the past year--from the 10-1/2 percent rise over the four quarters ended in 1981-Q1 to an 8-1/2 percent annual rate in the first quarter of this year. A legislated hike in social security taxes effective

HOURLY EARNINGS INDEX[1]
(Percentage change at annual rates; based on seasonally adjusted data)[2]

	1980	1981	1981 Q4	1982 Q1	1982 Feb.	1982 Mar.	1982 Apr.
Total private nonfarm	9.6	8.4	7.3	7.1	1.3	3.6	5.4
Manufacturing	10.9	8.8	7.6	8.5	1.3	5.6	8.3
Durable	11.6	8.8	7.8	8.9	1.3	4.2	6.7
Nondurable	9.8	8.6	7.1	7.9	1.2	8 0	11.1
Contract construction	7.6	8.0	9.1	11.7	-22.6	1.1	-4.0
Transportation and public utilities	9.4	8.6	7.4	8.6	5.8	5.4	-.7
Total trade	8.8	7.2	4.2	4.4	6.4	1.6	6.2
Services	9.5	9.2	9.8	5.6	2.8	1.6	8.2

1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2. 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 at simple annual rates.

NEGOTIATED WAGE RATE CHANGES
UNDER MAJOR COLLECTIVE BARGAINING SETTLEMENTS[1]

	1980	1981	Same parties as during 1982 under prior settlements	1982 1st quarter
All industries				
First-year adjustments	9.5	9.8	7.8	2.2
Average over life of contract	7.1	7.9	5.5	2.0
Workers affected (in thousands)	3775	2382		645
Contracts with escalator provisions				
First-year adjustments	8.0	8.0		.5
Average over life of contract	5.0	5.5		.3
Workers affected (in thousands)	2286	659		496
Contracts without escalator provisions				
First-year adjustments	11.7	10.6		7.9
Average over life of contract	10.3	9.1		7.5
Workers affected (in thousands)	1489	1723		149

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

LABOR PRODUCTIVITY AND COSTS
(Percent change from preceding period at compound annual rates; based on seasonally adjusted data)

	1973-Q4 to 1980-Q1[1]	1980-Q1 to 1981-Q1	1981-Q1 to 1982-Q1	1981 Q3	1981 Q4	1982 Q1
Output per hour						
Total private business	.8	.8	-1.4	-1.1	-6.6	-1.0
Nonfarm business	.7	1.2	-1.8	-1.7	-6.9	.3
Manufacturing	1.8	1.5	-3.0	1.2	-10.8	-5.8
Compensation per hour						
Total private business	9.1	10.6	8.3	9.3	5.5	8.1
Nonfarm business	9.0	10.5	8.4	9.5	6.3	8.4
Manufacturing	9.5	12.5	9.6	9.3	7.6	10.9
Unit labor costs						
Total private business	8.2	9.7	9.8	10.6	13.0	9.1
Nonfarm business	8.3	9.2	10.4	11.5	14.1	8.1
Manufacturing	7.6	10.9	13.0	7.9	20.7	17.8

1. 1973-Q4 and 1980-Q1 were business cycle peaks.

January 1 accounted for 3/4 percentage point of this first-quarter figure.

Several key union settlements have been reached this year that will build in very moderate wage increases over the next several years. In agreements reached with the Teamsters, auto workers at Ford and General Motors, and rubber workers at B.F. Goodrich all scheduled wage increases were eliminated leaving only cost-of-living adjustments over the life of these contracts. Other major labor settlements negotiated early this year also provided smaller wage increases than in recent years. First-year adjustments under new contracts without escalator clauses averaged less than 8 percent during the first quarter compared with 10-1/2 percent for those reached in 1981.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1981		1982		Change from:	
	Highs	Nov.-Dec. Lows	FOMC Mar. 30	May 11	Nov.-Dec. Lows	FOMC Mar. 30
Short-term rates						
Federal funds[2]	20.06	12.04	14.99	14.91p	2.87	-.08
Treasury bills						
3-month	17.01	9.94	13.43	12.30	2.36	-1.13
6-month	15.93	10.34	13.31	12.24	1.90	-1.07
1-year	15.21	10.42	12.87	12.03	1.61	-.84
Commercial paper						
1-month	18.63	11.17	14.51	13.94	2.77	-.57
3-month	18.29	11.04	14.30	13.44	2.40	-.86
Large negotiable CDs[3]						
1-month	18.90	11.16	14.65	14.14	2.98	-.51
3-month	19.01	11.23	14.69	13.86	2.63	-.83
6-month	18.50	11.64	14.70	13.80	2.16	-.90
Eurodollar deposits[2]						
1-month	19.80	11.86	15.15	14.73	2.87	-.42
3-month	19.56	12.16	15.31	14.43	2.27	-.88
Bank prime rate	21.50	15.75	16.50	16.50	.75	0
Treasury bill futures						
June 1982 contract	14.46	10.58	13.49	11.64	1.06	-1.85
Dec. 1982 contract	14.20	11.07	13.68	12.11	1.04	-1.57
Intermediate- and long-term rates						
U.S. Treasury (constant maturity)						
3-year	16.59	12.54	14.51	13.65	1.11	-.86
10-year	15.84	12.92	14.19	13.46	.54	-.73
30-year	15.20	12.76	13.81	13.08	.32	-.73
Municipal (Bond Buyer)	13.44	11.43	13.04[4]	12.04[4]	.61	-1.00
Corporate--Aaa utility Recently offered	17.72	14.52	15.35e	15.23e	.71	-.12
S&L fixed-rate mortgage commitment	18.63	16.90	17.04[5]	16.78[5]	-.12	-.26

	1981	1982		Percent change from:	
	Highs	FOMC Mar. 30	May 11	1981 Highs	FOMC Mar. 30
Stock Prices					
Dow-Jones Industrial	1,024.05	824.49	865.87	-15.4	5.0
NYSE Composite	79.14	64.65	68.80	-13.1	6.4
AMEX Composite	380.36	261.35	280.94	-26.1	7.5
NASDAQ (OTC)	223.47	175.42	188.19	-15.8	7.3

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.

All of the monetary aggregates registered sizable increases in April, paced by a surge in M1. The run-up in M1 occurred prior to the mid-month tax date, however, and most of the rise had been retraced by month-end. As M1 weakened, earlier pressures on bank reserve positions subsided, and money market interest rates--which had firmed in the latter part of April--eased somewhat in early May. Most short- and long-term market yields have declined 1/2 to 1 percentage point on balance since the March 30 meeting of the FOMC.

The high level of interest rates in April continued to restrain the aggregate volume of credit demanded and to encourage emphasis on short-term borrowing. In the first quarter, total funds raised in credit markets by nonfinancial sectors rose only slightly from the pace of the final quarter of last year. Borrowing by the U.S. government slowed somewhat in the first quarter, but it still accounted for just under 30 percent of all funds raised. Other domestic nonfinancial sectors took down an increased volume of credit in U.S. markets, reflecting an apparent step-up in mortgage borrowing by households from the deeply depressed level of the preceding quarter. Aggregate business borrowing is estimated to have remained near the reduced fourth-quarter pace.

The intermeeting period was marked by three large filings under Chapter 11 of the federal bankruptcy statute, and business failures in general continued to mount. Despite seemingly intensified concerns about the ability of many domestic and foreign borrowers to deal with their indebtedness, the financial markets remained orderly. If there was any increased tendency toward a "flight to quality" by investors, it was not readily apparent in the structure of market interest rates.

FUNDS RAISED IN U.S. CREDIT MARKETS BY NONFINANCIAL SECTORS

				Private Domestic			
	Total	U.S. Govt.	Foreign	Total	Households	Business	State & Local Govts.
			--Net flows, billions of dollars, SAAR--				
1979	394	37	20	336	171	147	18
1980	357	79	27	251	102	124	25
1981	400	87	31	282	107	153	22
1981-Q3	370	58	16	296	117	168	12
Q4	385	120	37	228	63	140	26
1982-Q1[e]	390	110	24	256	86	146	24
			--Percent change in outstandings during period--				
1979	11.7	6.0	12.4	13.0	14.7	12.9	6.7
1980	9.5	11.9	14.9	8.6	7.8	9.3	8.6
1981	9.7	11.8	14.7	8.9	7.4	10.9	7.0
1981-Q3	8.6	7.4	7.1	8.9	7.8	11.3	3.6
Q4	8.7	14.9	15.8	6.8	4.1	9.2	7.7
1982-Q1[e]	8.6	13.3	10.0	7.4	5.6	9.4	7.0

Quarterly percent changes are based on seasonally adjusted data and are at annual rates. Funds raised by business do not include corporate equities.
e--estimate.

Monetary Aggregates and Bank Credit

M1 grew at an 11-3/4 percent annual rate in April, following a small net decline during the previous two months. Growth in M1 in April may be overstated because seasonal factors may not fully capture the effects of deposit-churning around the mid-April tax dates. All components of M1 strengthened in April, with other checkable deposits again posting a substantial increase. Since October of last year, OCDs have accounted for more than 85 percent of M1 growth. Like the other components of M1, however, the level of OCDs declined appreciably in late April.

M2 growth slowed in April to an annual rate of 9-1/2 percent from 11-1/4 percent in March. Contributing to a deceleration in its nontransaction component was a slowing of inflows to general purpose and broker/dealer money market mutual funds, probably reflecting withdrawals for income tax payments. (Money fund flows are not seasonally adjusted.) M2 growth in April was understated by a reporting difficulty that caused many overnight RPs issued over the extended Easter weekend to be classified as term RPs.

A small contraction in savings deposits in April also contributed to slowing in the rate of growth of the nontransaction component of M2. While the April weakness followed substantial growth in the first quarter of 1982, incoming data indicate no resumption--at least as yet--of run-offs of the magnitude experienced from April to October 1981. The relative strengthening in savings deposits since last October has occurred despite highly unfavorable rate spreads. Recent econometric research by the Board staff suggests that the demand for savings deposits tends to rise with the unemployment rate, supporting the view that the behavior of savings deposits--and by inference, OCDs--is partly attributable to enhanced liquidity preference in light of uncertain income and employment prospects.

Small time deposits accelerated in April. Nevertheless, thrift institutions continued to receive only small net inflows, as growth of their SSCs was partly offset by outflows from MMCs. Growth at commercial banks remained more robust; since the end of 1980, commercial banks have garnered all of the net inflows to MMCs. These patterns reflect, at least in part, the uniformity of MMC ceiling rates across institutions and the differential favoring thrifts on SSCs. Total savings and small time deposit

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

	1981 Q3	1981 Q4	1982 Q1	1982 Feb.	1982 Mar.	1982 Apr.	QIV. '81 to Apr. '82
	—Percentage change at annual rates—						
Money stock measures							
1. M1	0.3	5.7	10.4	-3.5	2.4	11.8	8.7
2. M2	8.3	8.8	9.7	4.3	11.2	9.6	9.6
3. M3	11.2	9.2	8.6	5.8	11.3	11.3	9.4
Selected components							
4. Currency	4.7	4.3	7.9	7.8	4.8	12.5	8.5
5. Demand deposits	-7.5	-0.2	-0.5	-24.1	-7.7	0.5	-2.8
6. Other checkable deposits	21.2	27.6	48.9	40.0	27.2	40.6	45.8
7. M2 minus M1 (8+9+10+13)	10.9	9.9	9.5	6.8	14.0	8.9	9.9
8. Overnight RPs and Eurodollars, NSA[2]	14.9	-44.1	65.8	-5.5	5.6	-72.1	23.3
9. General purpose and broker/dealer money market mutual fund shares, NSA	91.2	74.0	33.0	7.8	23.2	17.4	27.5
10. Commercial banks	7.8	10.3	9.4	11.4	21.4	19.9	13.4
11. savings deposits	-22.7	-11.9	8.7	0.8	13.6	-1.5	6.8
12. small time deposits	24.3	20.8	9.7	15.7	25.1	28.8	16.3
13. Thrift institutions	1.2	1.5	1.7	3.7	5.9	3.7	2.8
14. savings deposits	-22.9	-11.7	10.2	-1.9	2.5	-1.3	6.1
15. small time deposits	11.4	6.6	-1.4	5.8	7.3	5.5	1.6
16. M3 minus M2 (17+20+21)	26.1	11.2	3.2	13.2	12.1	19.7	8.4
17. Large time deposits	30.6	3.6	8.6	21.0	16.4	13.8	11.7
18. at commercial banks, net[3]	32.5	0.2	5.8	20.4	13.4	13.7	9.5
19. at thrift institutions	22.2	19.5	21.6	23.8	29.7	14.5	21.9
20. Institution-only money market mutual fund shares, NSA	69.0	132.8	-2.5	-73.8	39.3	0.0	-1.5
21. Term RPs, NSA	-30.8	0.0	-28.7	0.0	-25.8	101.9	-2.1
	—Average monthly change in billions of dollars—						
MEMORANDA:							
22. Managed liabilities at commercial banks[4] (23+24)	6.0	0.3	0.4	1.9	0.9	2.4	1.4
23. Large time deposits, gross[4]	7.4	-0.1	2.7	2.9	4.7	2.4	2.1
24. Nondeposit funds[4]	-1.4	0.4	-2.3	-1.0	-3.8	0.0	-0.7
25 Net due to related foreign institutions, NSA[4]	1.0	-2.2	-2.2	1.6	-3.6	0.4	-1.5
26. Other[4,5]	-2.4	2.7	-0.1	-2.6	-0.2	-0.4	0.8
27. U.S. government deposits at commercial banks[6]	-0.7	0.8	1.9	8.7	-4.7	-4.0	0.4

1. Quarterly growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda for quarterly changes are calculated on an end-month-of-quarter basis.
2. 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. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to February 1982.
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.

growth at commercial banks in April also was quite strong relative to thrift institutions. The recent widening in the margin of growth favoring banks may reflect greater concern about the soundness of thrifts.

M3 grew at an 11-1/4 percent annual rate in April--the same as in March. Holiday-related expansion in term RPs was accompanied by no change in institution-only money market mutual funds. Gross issuance of large time deposits moderated in April at both thrift institutions and banks. However, issuance by banks net of acquisitions by money market funds accelerated slightly in April, reflecting substantial run-offs of such instruments by money funds. The slower growth of large time deposits at banks occurred as core deposits picked up.

While bank credit growth--at a 7-3/4 percent rate--was unchanged from March, banks added appreciably to their holdings of Treasury securities. Total loans slowed, owing largely to a marked decline in business loan expansion. A pickup in business lending at large domestically chartered banks was partly offset by a halt in small-bank lending and a faster run-off in business loans at foreign-related institutions. Consumer loans were about flat in April, extending the weakness of recent months. Real estate lending--at a 7-1/2 percent rate--approximated the pace of the past three quarters.

Business Finance

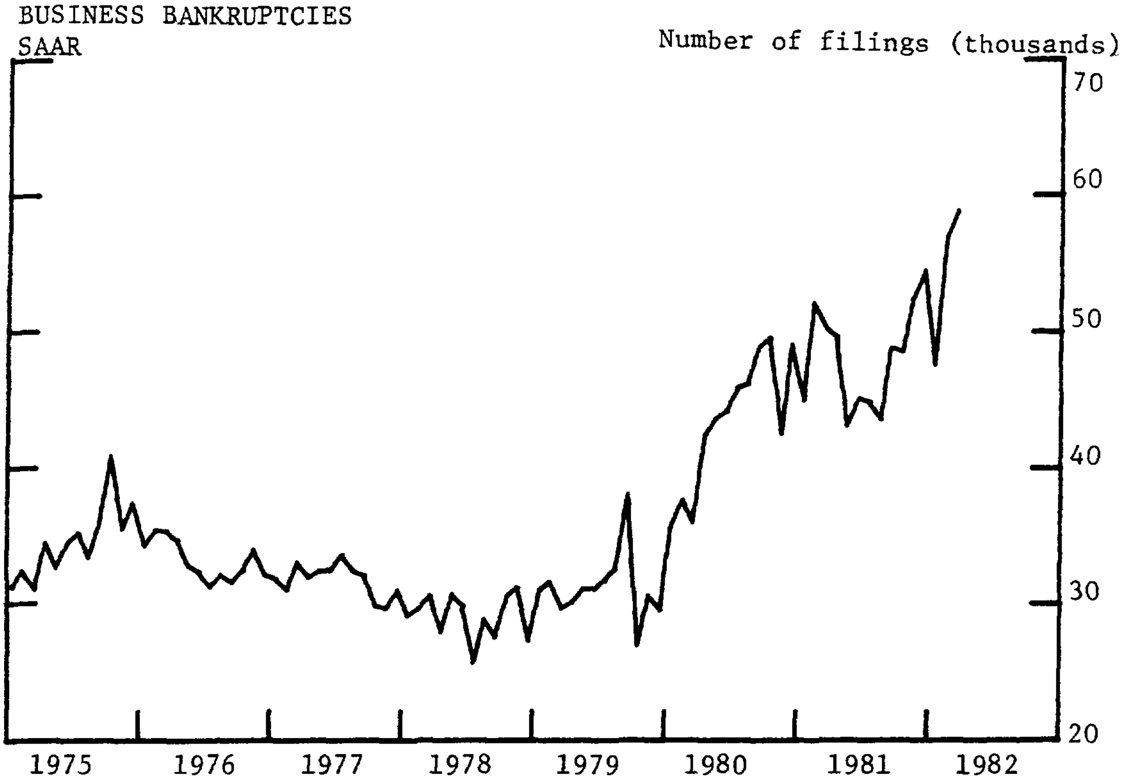
Weak economic activity and high interest rates have continued to put severe strains on many businesses. Bankruptcy filings rose to a record in the first quarter, averaging a seasonally adjusted annual rate of more than 54,000 (see chart on page III-7). The filing of Wickes Companies in late April was second in terms of liabilities involved only to

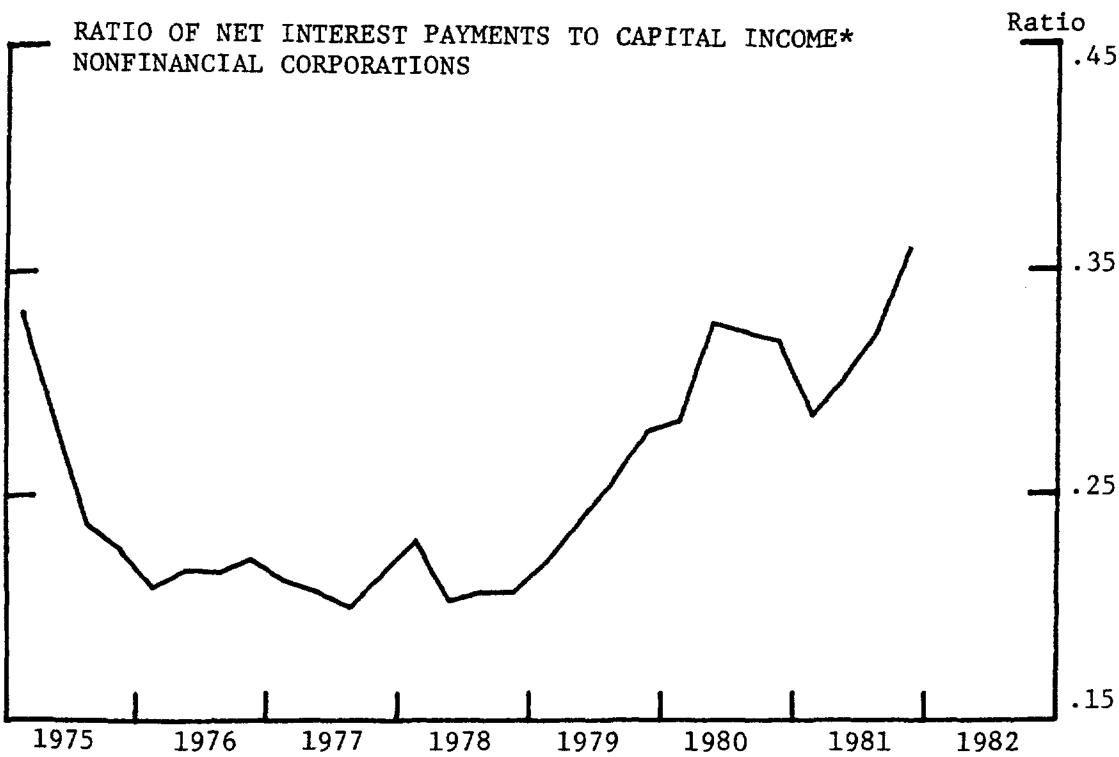
COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)[1]

	1981		1982				QIV '81
	Q3	Q4	Q1	Feb.	Mar.	Apr.	to Apr. '82
			—Commercial Bank Credit—				
1. Total loans and investments at banks[2,3]	6.8	6.6	10.1	11.9	7.7	7.7	9.3
2. Investments	.5	5.1	6.5	5.2	.7	7.9	6.3
3. Treasury securities	-12.0	-7.8	12.2	10.5	-9.4	19.9	10.8
4. Other securities	7.2	11.3	3.4	3.1	4.6	2.6	4.2
5. Total loans[2,3]	9.1	7.1	11.3	14.2	10.4	7.6	10.4
6. Business loans[2,3]	17.9	9.7	16.0	16.2	13.7	7.0	13.9
7. Security loans	-36.2	58.6	-18.3	11.7	5.8	5.7	2.3
8. Real estate loans	8.0	7.3	8.1	9.6	7.4	7.4	8.3
9. Consumer loans	4.4	4.1	3.2	.6	3.2	.6	3.4
			--Short- and Intermediate-Term Business Credit--				
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	23.3	14.3	14.7	16.9	14.3	n.a.	n.a.
11. Business loans net of bankers acceptances[3]	19.7	9.8	15.7	16.0	11.7	6.3	13.4
12. Commercial paper issued by nonfinancial firms[4]	57.9	21.3	30.0	47.2	38.9	14.7	27.7
13. Sum of line 11 & 12	24.1	11.3	17.5	19.9	14.8	7.4	15.2
14. Line 13 plus loans at foreign branches[5]	25.9	14.4	17.9	19.3	17.4	7.5	15.9
15. Finance company loans to business[6]	14.7	7.6	1.0	4.5	.0	n.a.	n.a.
16. Total bankers acceptances outstanding[6]	16.6	20.9	11.7	17.5	15.5	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. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to February 1982.
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.

MEASURES OF CORPORATE STRESS





*Economic profits before taxes and interest.

the Penn Central filing in 1970; AM International and Saxon Industries also filed in April. Together these three Chapter 11 bankruptcies--which permit the firms to continue as on-going concerns--reportedly involved nearly $3 billion in liabilities owed to more than 25,000 creditors.

Business failures also have been quite high.[1] If the estimated faster pace of recent months should continue throughout 1982, failures would reach the highest level since the early 1930s. With the tremendous postwar growth in the number of businesses in operation, failures as a proportion of total firms have risen less steeply. Nevertheless, Dun and Bradstreet's index of failures per 10,000 concerns seems certain at this point to be above its postwar high in 1961.

The combination of high interest rates and heavy reliance on short-term or floating-rate financing has exacerbated the cash flow problems of many companies. The fraction of corporate earnings (before interest and taxes) being devoted to net interest payments rose from 21 percent in 1979 to a postwar record of 36 percent in the fourth quarter of 1981. Given the apparent weakness in corporate earnings during the first quarter of 1982, this ratio probably rose still further.

Despite the slump in profits, the financing gap of nonfinancial corporations (the difference between capital expenditures and internal funds) is estimated to have narrowed markedly in the first quarter of the year, as inventories were slashed. The staff forecast for the current quarter

1. Business failure data, collected by Dun and Bradstreet, Inc., includes only commercial and industrial businesses that have ceased operations or are involved in court actions that are likely to lead to a loss to creditors. Data on bankruptcies represent the number of nonpersonal filings for protection from creditors under provisions of the U.S. Bankruptcy Code as reported by the U.S. Courts.

suggests that the gap may shrink further. The reduced gap in the first quarter was accompanied by a diminution in total long-term funds raised by business firms, but borrowing remained heavy in shorter-term markets. Of the $108 billion raised by nonfinancial corporations in the first quarter, $72 billion was in loans and short-term paper. In April, however, nonfinancial businesses reduced their issuance of commercial paper while also cutting back their net borrowing at commercial banks.

SOURCES AND USES OF FUNDS BY NONFINANCIAL CORPORATIONS
(Billions of dollars, seasonally adjusted annual rates)

	1981			1982
	Year	QIII	QIV	QI[e]
1. Gross internal funds & IVA	221.8	227.6	226.4	209.2
2. Capital expenditures	259.6	281.8	260.0	226.6
Fixed capital	240.1	244.2	248.8	253.6
Inventories & IVA	13.3	22.5	3.7	-36.0
Oil leases	6.2	15.1	7.5	9.0
3. Financing gap (2)-(1)	37.8	54.2	33.6	17.4
4. Net funds raised in markets	112.1	115.1	110.5	108.2
Net equity issues	-6.9	-24.6	-4.8	-4.8
Bonds	29.0	10.2	41.2	20.0
Mortgages	18.5	16.2	11.6	16.0
Loans & short-term paper	71.5	113.3	62.5	72.1

e--estimate.

Considerations of quality appear to have posed no particular problem in commercial paper markets. While spreads between commercial paper and Treasury bills widened somewhat in April, the differential between medium-grade and high-grade paper remained within the relatively narrow range experienced during much of the past year. Despite many recent reports of greater selectivity by money market fund managers in their commercial paper investments, dealers continue to find no difficulty in placing paper.

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

	1981		1982			
	Year	Q4	Q1 p	Mar. p	Apr. p	May f
	Seasonally adjusted					
Corporate securities--total	5,774	7,613	3,774	4,900	3,400	3,500
Publicly offered bonds[1]	3,138	5,673	2,035	3,300	1,600	2,000
Privately placed bonds	582	235	323	300	300	300
Stocks	2,054	1,705	1,416	1,300	1,500	1,200
	Not seasonally adjusted					
Publicly offered bonds--total[1]	3,138	4,240	1,826	3,500	2,000	2,000
By industry						
Utility	1,079	958	691	1,325	790	--
Industrial	1,192	1,751	522	1,175	410	--
Financial	867	1,531	613	1,000	800	--
By quality[2]						
Aaa and Aa	1,182	1,882	528	1,255	1,040	--
A and Baa	1,448	1,772	908	1,970	730	--
Less than Baa[3]	508	586	390	275	230	--
Memo items:						
Convertible bonds	357	349	48	0	0	--
Original discount bonds						
Par value	808	1,478	862	2,586	910	--
Gross proceeds	358	677	297	828	288	--
Stocks--total	2,054	1,777	1,393	1,200	1,100	1,300
By industry						
Utility	667	565	620	550	700	--
Industrial	1,023	775	595	500	225	--
Financial	364	437	178	150	175	--

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.

According to informal contacts with dealers, the volume of paper rated A-2, P-2, or lower is not substantially higher (10 percent of the total) than a year or two ago. However, a large number of issuers reportedly have obtained standby letters of credit to support their paper, thereby retaining their A-1, P-1 ratings. Dealers indicate that the relative volume of such paper is also in the 10 percent range.

Historically high interest rates have continued to discourage long-term corporate borrowing; the volume of public corporate bond offerings fell in April to a seasonally adjusted $1.6 billion. The recent weakness in public offerings by U.S. corporations in domestic bond markets has been accompanied by a sizable increase in the Eurobond offerings. Very favorable rates in European markets apparently spurred an estimated monthly average of $1.4 billion of such borrowing during the first quarter of 1982 and $1.8 billion in April.

Most measures of corporate bond yields declined marginally in April; specifically, both the Salomon Brothers new-issue index for Aaa utilities and Moody's seasoned, Aaa corporate bond index declined by about 10 basis points.[1] Rate spreads between high- and low-quality bonds--like spreads in the paper market--showed little change in recent weeks. Moreover, the number of rating reductions of corporate bonds slackened in April.

Share prices rose gradually throughout April as interest rates on Treasury securities fell; most major composite indexes are now 6 to 8 percent higher than at the time of the last FOMC meeting. Equity offerings in April totaled $1-1/2 billion--mostly by utilities.

1. In contrast, the Federal Reserve recently-offered series increased in April before declining in early May. Technical difficulties apparently caused this index to be artifically depressed in March.

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

	FY81	1982 Mar.	Apr.[e]	May[f]	Q1	Q2[f]
Treasury financing						
Combined surplus/deficit(-)	-78.9	-18.8	9.4	-21.1	-25.6	-7.9
Means of financing deficit:						
(1) Net cash borrowing from the public	79.4	12.3	2.9	3.5	32.8	15.1
Marketable borrowings/ repayments(-)	89.5	10.8	3.2	4.0	32.3	16.3
Bills	23.5	2.2	-1.4	1.1	11.2	0
Coupons	66.0	8.6	4.6	2.9	21.1	16.3
Nonmarketable	-10.1	1.5	-.3	-.5	.5	-1.2
(2) Decrease in the cash balance	2.3	7.7	-15.7	21.7	-1.0	-5.0
(3) Other[2]	-2.8	-1.2	3.4	-4.1	-6.1	-2.2
Federally sponsored credit agencies net cash borrowing[3]	35.7	1.6	2.3	3.0	1.8	7.7

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

Government Finance

Federal Sector. The Treasury's combined deficit is expected to total about $8 billion during the second quarter--a period of the year when the Treasury usually runs a substantial surplus. As a consequence, net marketable borrowing may be around $16 billion for the April-June period.[1] This would be the largest second-quarter figure since 1975. Of this total, $3.2 billion was raised during April. The Treasury raised $4.6 billion of new cash last month through sales of 2- and 7-year notes, but these funds were partly offset by a net run-off of bills. The Treasury also raised about $3 billion of new money in the May mid-quarter refunding through the sale of 3- and 10-year notes. Having reached the statutory limit on issuance of bonds with coupons greater than 4-1/4 percent, the Treasury was unable to offer long-term bonds in May as it typically does in quarterly refundings.[2]

The federally sponsored credit agencies are estimated to have borrowed $2.3 billion in April--compared with $1.8 billion in the entire first quarter. So far this year, the Federal Home Loan Bank System has accounted for the largest share of agency borrowing, with much of the rest attributable to the Federal Farm Credit Banks. In addition, FNMA borrowed $500 million in the first quarter to finance slightly over $1 billion in net mortgage purchases. FNMA also issued $2.1 billion in securities backed by conventional mortgages during the first quarter, most of which were issued to mortgage lenders under the swap program that FNMA initiated late in 1981

1. The Treasury has announced that it expects to borrow $15-1/2 billion during the current quarter, slightly below the Board staff estimate.
2. The ceiling on bond issues also forced the Treasury to cancel the scheduled sale of 20-year bonds in early April. Unless Congress takes action in the next five weeks, the ceiling will prevent a similar auction scheduled for late June.

for low-rate seasoned mortgages. In mid-March, FNMA opened the program to new mortgages.[1]

State and Local Sector. Since the last FOMC meeting, municipal bond markets have experienced both a massive volume of issuance and a marked decline in yields from near-record levels. Gross funds raised in the long-term tax-exempt market were a record $6.0 billion (seasonally adjusted) in April.[2]

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

	1981		1982		
	Year	Q4[e]	Q1[e]	April[e]	May[f]
	Seasonally adjusted				
Total	6.80	8.60	8.30	7.30	11.70
Long-term	4.00	4.60	5.00	6.00	4.30
Short-term	2.80	4.00	3.30	1.30	7.40
	Not seasonally adjusted				
Total	6.80	7.70	6.90	9.50	10.50
Long-term	4.00	4.70	4.20	6.50	4.50
General obligations	1.00	.90	1.50	2.30	1.60
Revenues	3.00	3.80	2.70	4.20	2.90
Short-term	2.80	3.00	2.70	3.00	6.00

e--estimate. f--forecast.

The heavy demand for funds--despite declining spending by state and local governments and high interest rates--may reflect shortfalls in revenues associated with depressed economic activity and cuts in aid from the

1. The FHLMC also started a similar swap program in mid-1981, opening the program to new mortgages in March. Through December 1981, FHLMC had issued $2.3 billion of participation certificates under the swap program and another $4 billion had been issued by the end of March.
2. In the short-term tax-exempt market, gross sales--measured on a seasonally adjusted basis--declined substantially in April, owing to postponement of a $3.5 billion sale of New York State notes that typically are brought to market during April. The sale, for which approval of a state budget is a prerequisite, is now tentatively slated for May.

federal government. General obligation issues have accounted for an increased share of bond offerings this year, and sales of housing revenue bonds have picked up recently.

Despite the distinct shift toward long-term offerings, the yield curve for municipal obligations flattened noticeably during the intermeeting period. Also, risk premiums--as measured by the ratio of municipal to Treasury rates or the yield spread between prime- and medium-grade general obligations--declined during April, notwithstanding the fiscal pressures facing many states and localities.

In recent weeks, dealers have attributed the improved performance of the municipal bond market to an increase in demand for these securities by property/liability insurance companies and bank trust departments. The profitability of the insurance companies has not changed in a way that would explain a renewed interest in tax-exempt income; however, one plausible interpretation of dealers' comments is that insurance companies have decided that now is a propitious time to lengthen maturities.

Mortgage Markets

Net mortgage lending in the first quarter of 1982 rose nearly a third from the depressed fourth-quarter volume to an estimated seasonally adjusted annual rate of $92 billion. The total, nevertheless, was slightly less than half the peak volume recorded three years earlier. Except for mutual savings banks, all major types of mortgage lenders are estimated to have expanded their holdings of mortgages. Savings and loan associations--which as a group in the final quarter of 1981 registered the first seasonally adjusted run-off in mortgage holdings since data collection began in 1955--registered a small gain in the first quarter.

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

	1980		1981				1982
	Q3	Q4	Q1	Q2	Q3	Q4	Q1[e]
By type of debt							
Total	119	132	116	117	92	70	92
Residential	94	102	82	78	58	42	64
Other[1]	25	30	34	39	34	28	28
By type of holder							
Commercial banks	14	24	21	28	25	16	25
Savings and loans	41	41	33	25	10	-5	2
Mutual savings banks	-1	1	1	-1	-1	-2	-2
Life insurance companies	11	9	10	9	8	5	6
FNMA and GNMA	3	7	*	1	8	8	1
GNMA mortgage pools	18	15	15	17	10	6	14
FHLMC and FHLMC pools	4	2	2	3	1	6	18
Other[2]	29	33	34	35	31	36	28

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, noninsured 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.

Moreover, recently initiated programs in which lenders swap seasoned loans for FHLMC or FNMA securities have had down the recorded net expansion in mortgage lending by selling institutions. For instance, S&Ls reportedly removed more than $4 billion of seasoned mortgages from their books (not at an annual rate) in the first quarter through swaps, compared with $2.3 billion during the eight preceding months. After allowing for these swaps, S&Ls apparently increased their holdings of mortgages by a sizable amount in the first quarter of the year.

Regarding future lending activity, new mortgage commitments at S&Ls fell somewhat in March to $4.5 billion, but remained well above the recent lows registered last fall. In addition, purchase commitments in secondary markets have picked up noticeably. At the end of March, commitments outstanding at federal and related credit agencies to buy new mortgages were at the highest level since September 1980.

Mortgage interest rates have continued to drift lower. By early May, the average contract interest rate for fixed-rate, level-payment conventional home mortgages at S&Ls had declined about 25 basis points since the last FOMC meeting to nearly 16-3/4 percent--the lowest level since last summer. In early April, closing rates on conventional home loans--which reflect some types of creative financing techniques commonly used to lower mortgage interest costs to home buyers--slightly exceeded 15 percent for both new and existing homes.

Adjustable-rate mortgage instruments have been growing in relative importance. In March, 45 percent of conventional first mortgage loans closed carried an adjustable-rate feature of some sort. The use of such instruments by commercial banks and mortgage bankers has increased sharply

PROPORTION OF CONVENTIONAL HOME MORTGAGE LOANS CLOSED WITH ADJUSTABLE-RATE FEATURES
(Percent)

Period	Total	Type of Lender: Savings and Loans	Mutual Savings Banks	Commercial Banks	Mortgage Bankers
1981					
Sept.	28.7	31.9	53.1	14.4	12.4
Oct.	30.0	35.1	53.8	17.5	5.8
Nov.	31.7	37.7	50.3	22.1	1.7
Dec.	37.5	40.5	61.8	28.7	6.0
1982					
Jan.	37.8	45.3	43.6	21.2	3.6
Feb.	38.9	46.0	53.8	13.7	37.5
Mar.	45.3	46.5	55.0	43.9	29.1

Source: FHLBB unpublished data for first mortgage loans, used to finance home purchases, that were closed during the first five full working days of the month.

FNMA COMMITMENTS TO PURCHASE NEWLY ORIGINATED HOME MORTGAGES
(Millions of dollars)

1982	Total	Fixed-Rate	Adjustable-Rate	Percent Adjustable-Rate
Jan.	575	250	325	57
Feb.	894	197	697	80
Mar.	1397	469	928	66

Source: FNMA. Does not include commitments to buy second mortgages or originations under the Resale/Refinance program.

in recent months. Growth in the popularity of ARMs with mortgage bankers no doubt reflects an increased ability of originators to sell such mortgages. New commitments by FNMA to purchase adjustable-rate mortgages--a program initiated only last summer--rose in March to almost a billion dollars and constituted two-thirds of total new commitments during the month. Finally, a recent survey of home builders shows that adjustable-rate mortgages were the most common means of financing new homes sold, just edging out traditional fixed-rate loans without buy-downs.

Thrift Institutions

While mortgage lending by thrift institutions picked up in the first quarter, the industry's support of mortgage markets has remained limited by generally weak deposit flows and profitability problems. Savings and small time deposits at all S&Ls grew at a modest 3 percent annual rate in April. S&Ls have relied on managed liabilities to supplement deposit growth in recent months, with FHLB advances increasing substantially in March for the third month in a row. Uncertainties have induced thrifts to continue to increase holdings of cash and liquid assets; in March the industry's aggregate liquidity ratio rose to its highest level in more than a year.

The net worth of insured S&Ls declined $671 million in March, bringing industry losses in the first three months of this year close to $1.8 billion. Thirty mergers of thrifts have been arranged so far in 1982 with financial assistance from the FSLIC and FDIC, compared with 33 all last year. Five of the recent mergers have been so-called "phoenix" mergers, in which two or more weak institutions have been merged with federal financial assistance. The FSLIC exercises more stringent management

CONSUMER INSTALLMENT CREDIT
(Seasonally adjusted annual rates)

	1980	1981	1981 Q4	1982 Q1	1982 Feb.	1982 Mar.
	- - - - Percent rate of growth - - - - - -					
Change in outstandings -- total	0.5	6.4	1.9	1.8	0.3	3.6
By type:						
Automobile credit	0.4	8.2	5.3	-0.7	-0.5	-0.3
Revolving credit	2.5	8.1	2.8	-0.3	-3.2	6.3
All other	-0.3	4.1	1.3	4.9	2.4	0.9
	- - - - - Billions of dollars - - - - - -					
Change in outstandings -- total	1.4	19.9	6.3	6.0	0.9	11.9
By type:						
Automobile credit	0.5	9.6	6.6	-0.8	-0.7	-0.3
Revolving credit	1.4	4.7	1.6	-0.2	-1.9	3.7
All other	-0.4	5.6	-1.9	7.0	3.4	8.5
By major holder:						
Commercial banks	-7.2	2.3	6.1	0.0	-2.1	2.0
Finance companies	8.4	13.1	5.0	1.5	3.7	8.1
All other	0.2	4.5	-4.8	4.5	-0.7	1.8
Extensions -- total	306.1	336.3	323.5	326.0	325.8	329.5
By type:						
Automobile credit	83.5	94.4	91.7	87.8	87.4	86.2
Revolving credit	128.1	140.1	138.9	139.8	140.8	145.7
All other	94.5	101.8	92.9	98.4	97.6	97.6
Liquidations -- total	304.6	316.5	317.2	320.0	324.9	317.7
Memo: Ratio of liquidations to disposable income (percent)	16.7	15.7	15.2	15.1	15.4	14.9

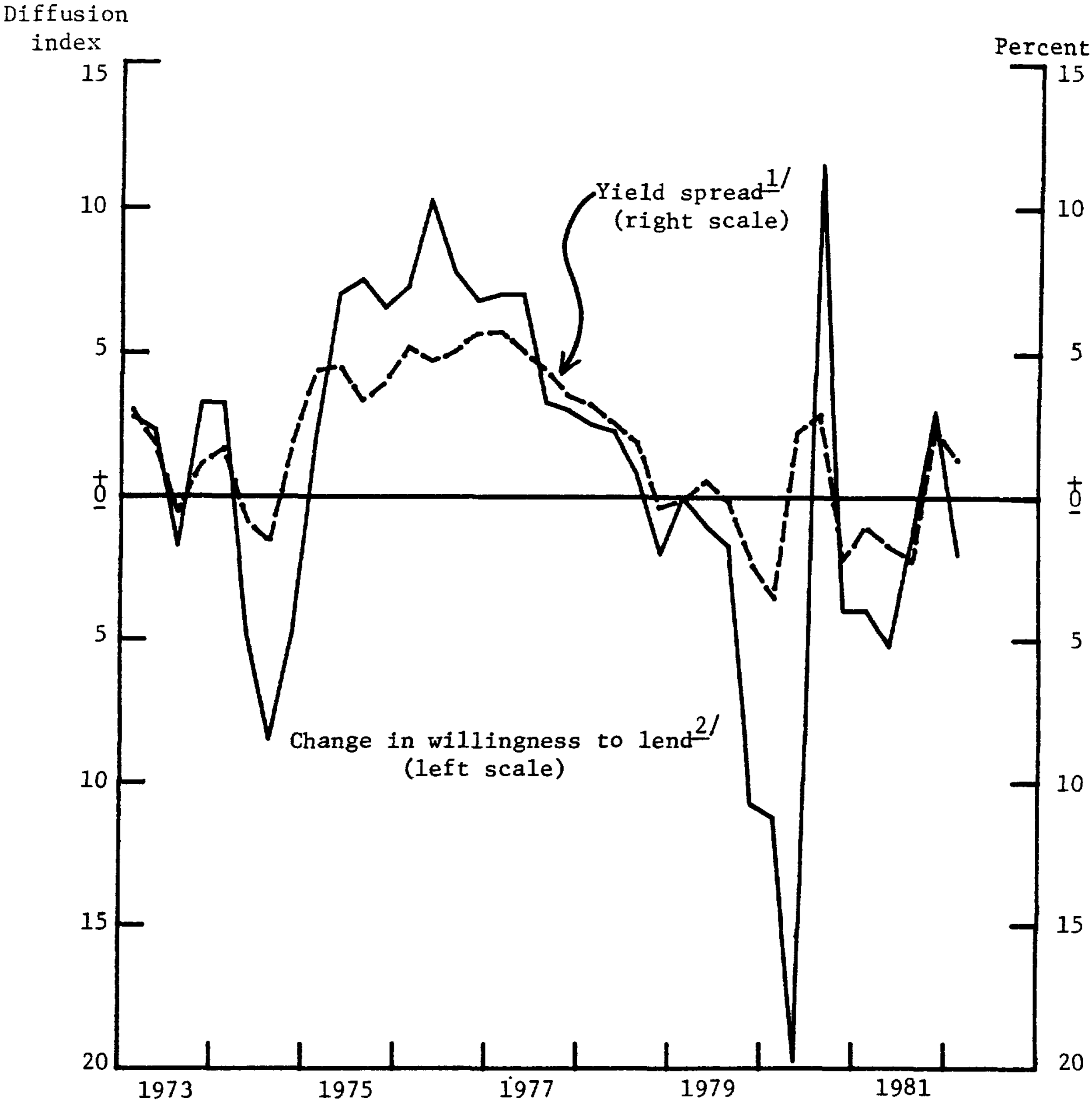
control than in a normally assisted merger of a weak institution into a strong one, but the new institution enjoys an improvement in reported earnings from the use of favorable accounting techniques.

Consumer Installment Credit

Consumer installment credit outstanding rose in March at a 3-1/2 percent annual rate; this contrasted with virtually no net growth in February. During the first quarter, reductions in amounts outstanding of automobile credit, revolving credit, and mobile home financing were offset by an increase in non-auto consumer goods financing and personal loans--a reversal of general patterns observed in the fourth quarter of 1981.

Low relative profitability of consumer loans has played a key role in the recent sluggishness of consumer installment lending. The yield spread between consumer loan rates and the cost of deposit funds--which has tracked well historically against changes in the willingness of large commercial banks to commit funds to consumer credit--has remained relatively narrow (see chart on page III-22). With a view toward improving profits, suppliers of consumer credit have been marketing variable-rate loan contracts that tie revenues more closely to the cost of funds. Household surveys indicate that about 10 percent of closed-end installment credit contracts outstanding have rates that can vary during the term of the loan. Lenders also have been turning to second mortgage financing as a more profitable substitute for traditional forms of closed-end consumer installment credit. This trend, along with high interest rates and availability constraints in many areas, helps to explain the decline in the proportion of households that owe money on fixed-maturity consumer installment

YIELD SPREAD ON CONSUMER INSTALLMENT CREDIT COMPARED TO
CHANGE IN WILLINGNESS TO MAKE CONSUMER INSTALLMENT LOANS



1/ Average most common finance rate on 36-month automobile direct financing at commercial banks minus the yield on 6-month negotiable CDs in the secondary market (adjusted for reserve requirements).

2/ Weighted average of survey responses by senior loan officers of large commercial banks as to the change during the past three months in their institution's willingness to extend consumer installment credit.

credit contracts from about one-half in 1977 to about one-third in recent months.

Despite an increasingly adverse economic environment, the first-quarter evidence on household debt difficulties does not suggest markedly increased distress. Delinquency rates on mortgage loans at savings and loan associations reached a new high, but foreclosure rates have remained well below 1 percent.[1] Personal bankruptcy filings rose to a record high during the quarter. At the same time, delinquency rates on automobile loans at finance companies declined to a 13-year low.

1. No data are available on second-mortgage, balloon-payment loans. Qualitative reports suggest that no widespread difficulties in refinancing such loans at maturity have emerged to date.

Foreign Exchange Markets

As shown by the chart on the next page, the dollar continued under upward pressure during the three weeks following the last FOMC meeting, appreciating by about 1/2 percent on a weighted-average basis

. A major factor underlying the dollar's strength was market sentiment that the Federal Reserve's reaction to an anticipated April money-supply bulge would push dollar interest rates higher in the near term. That sentiment began to erode when dollar interest rates did not move higher following the April 16 announcement of a $7.1 billion increase in M1. During the subsequent 3-1/2 weeks the dollar depreciated by about 5 percent as the view that dollar interest rates might decline in the near term was supported by continued indications of weak U.S. economic activity and the announcement of a March decline in the consumer price index, together with the prospect that continuing negotiations between the Administration and Congress would eventually lead to significant reductions in projected U.S. budget deficits. The announcement of the German trade and current-account surplusses for March also contributed to the dollar's decline against the continental European currencies.

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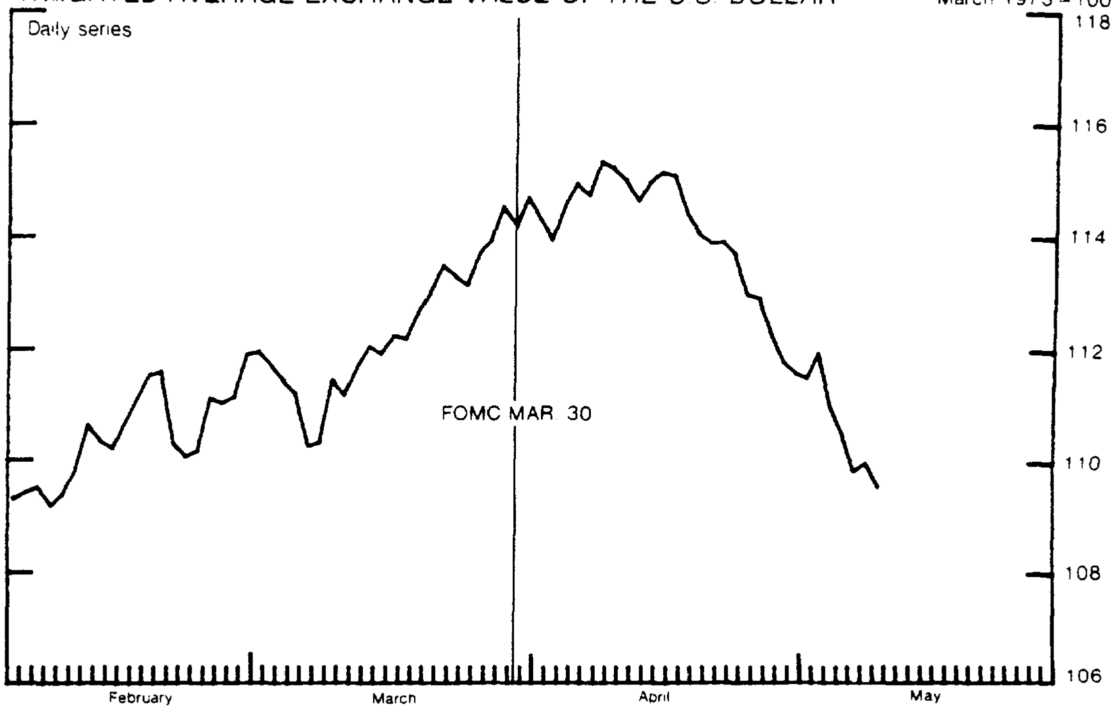
5/12/82

WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR

March 1973=100



Italian exchange controls were tightened in mid-April by reducing the lead times that are permitted in purchasing foreign exchange to meet import payments and the lag times for converting foreign-exchange receipts from exports into lira.

Mexico announced a new austerity program in April, as previous actions taken shortly after the February devaluation -- in particular, the granting of large wage increases -- had contributed to renewed downward pressure on the spot value of the Mexican currency and substantial forward discounts on the peso. The austerity program announced in April envisions substantial further reductions in government spending, increases in public sector prices, lower imports, and a reduction in public-sector external borrowing.

The most substantial changes in foreign short-term interest rates since the last FOMC meeting are the declines of more than 2-1/2 percentage points in Swiss interbank rates and about 1/2 percentage point in rates paid for interbank sterling and mark deposits, along with an increase of 3/4 percentage point in Belgian interest rates.

The reduction in German interest rates was associated with the closing of the special Lombard facility on May 6, which had been granting loans at 9-1/2 percent, and the reopening of the regular Lombard window at 9 percent. The relative decline in Swiss interest rates weakened the franc to a cross rate of around .84 francs per mark, compared with .80 francs per mark at the time of the last FOMC meeting.

The outbreak of the Falkland Islands hostilities contributed to a sharp rise in gold prices from around $320 an ounce at the end of March to more than $365 an ounce in mid-April. Subsequently, the price of gold has declined to around $335 an ounce.

U.S. International Transactions

U.S. Merchandise Trade. The U.S. merchandise trade deficit for the first quarter of 1982 was about $13 billion smaller at a seasonally adjusted annual rate than the deficit recorded in the fourth quarter of last year, and was also slightly lower than the deficit for the year 1981 as a whole. Weakening economic activity in the United States and in its major trading partners, an appreciating dollar, and falling world prices of various major commodities (particularly oil and agricultural products) significantly affected first quarter exports and imports. As a result, the value of both imports and exports fell in the first quarter.

U.S. Merchandise Trade*

	Year	1981		1982		
	1981	Q3	Q4	Q1	Feb.	March
Value (Bil. $, SAAR)						
Exports	236.3	230.7	230.4	223.2	225.4	221.0
Agricultural	44.3	39.7	42.5	41.8	44.1	41.8
Nonagricultural	192.0	191.0	187.9	181.4	181.3	179.2
Imports	264.1	262.2	267.0	247.0	227.1	243.9
Petroleum	77.6	72.6	72.4	62.9	53.7	55.7
Nonpetroleum	186.5	189.5	194.6	184.2	173.4	188.2
Trade Balance	-27.8	-31.4	-36.6	-23.8	-1.6	-22.9
Volume (Bil, 72$, SAAR)						
Exports - Agric.	18.1	16.7	18.6	n.a.	19.4	n.a.
- Nonagric.	70.5	69.3	66.5	n.a.	62.8	n.a.
Imports - Petroleum	5.9	5.7	5.8	n.a.	4.2	n.a.
- Nonpetrol.	72.1	73.9	76.3	n.a.	65.5	n.a.

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

The decline in imports brought the value in the first quarter below the level in any quarter last year. The decrease from the fourth quarter was about evenly split between oil and nonoil commodity categories. The value of oil imports declined 13 percent in the first quarter, most of which was accounted for by a drop in volume. (See the table below.) Oil import prices declined somewhat in the first quarter, but it now seems likely that oil exporting countries will be able to prevent a further drop. Spot prices, although still below official

Oil Imports

	1981		1982	1981	1982		
	3Q	4Q	1Q	Dec.	Jan.	Feb.	March
Volume (mbd, SA)	5.90	5.99	5.35	4.94	6.70	4.58	4.89
Price ($/BBL)	35.63	33.27	32.42	32.39	32.58	32.30	31.53
Value (Bil. $, SAAR)	72.6	72.4	62.9	58.4	79.2	53.7	55.7

OPEC prices, have firmed by $3 to $5 per barrel during the last month. Total OPEC oil production appears to be keeping within OPEC's desired limits (17.5 million barrels per day).

The first quarter decline in nonoil imports was concentrated in industrial supplies (especially building materials, metals, and paper), machinery, civilian aircraft, and sugar. The declines reflected in large part weak U.S. economic activity at the end of last year and the beginning of this year. The large decline in the value of sugar imports resulted from falling prices as well as falling volume. Sugar prices have dropped because of extremely large worldwide sugar supplies including a big EC sugar beet crop. No further drop in U.S. import prices is expected because the President has imposed sugar quotas without raising the tariff or import fee. Foreign producers assigned a quota are likely to reap a windfall. The value of steel imports was up 10 percent for the first quarter as a whole, but March imports dropped sharply, presumably reflecting the lagged impact of the steel industry's dumping suits. The value of foreign automotive imports was little changed from fourth-quarter levels; a small increase in the value of vehicles was offset by a decline in parts.

Most of the export decline in the first quarter was in manufactured goods, particularly metals, machinery and consumer goods, to levels lower than in any quarter of 1981. One offset to the general weakening export picture was sharply rising exports of petroleum products. Since restrictions were lifted in October 1981, product exports have risen from an average annual rate of $3.4 billion during the first three quarters of 1981 to an annual rate of $7.0 billion in the first quarter of this year. Export restrictions are still in effect for crude oil exports.

Only a small part of the export decline in the first quarter was due to agricultural exports. Many commodities recorded decreases, particularly feedgrains (both prices and volume of corn), but a very strong increase in wheat exports offset most of the decline. The increase in wheat exports was largely in volume, especially shipments to the U.S.S.R. As of mid-April, the U.S.S.R. had bought 6 million metric tons of wheat and 7.8 million metric tons of corn. Under the U.S./U.S.S.R. Grain Agreement, the U.S.S.R. may buy 8 million metric

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

	1981 Year	1981 Q-2	1981 Q-3	1981 Q-4	1982 Q-1	1982 Jan.	1982 Feb.	1982 March
Banks								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow) 1/	-33.9	-6.2	3.8	-19.7	-1.7	5.0	-2.0	-4.6
Securities								
2. Private securities transactions, net	2.4	1.8	.1	-2.4	1.2	.6	.6	*
a) Foreign net purchases (+) of U.S. corp. bonds	1.2	.6	.6	.1	.6	.2	.2	.1
b) Foreign net purchases (+) of U.S. corp. stocks	4.3	2.7	.1	.2	.7	.2	.4	.1
c) U.S. net purchases (-) of foreign securities	-3.1	-1.5	-.6	-2.8	-.2	.1	-.1	-.3
3. Foreign net purchases (+) of U.S. Treasury obligations 2/	2.5	.7	-.8	1.1	1.1	.3	.1	.7
Official								
4. Changes in foreign official reserves assets in U.S. (+ = increase)	4.9	-2.9	-5.5	7.8	-2.9	-1.5	-1.8	.4
a) By area								
G-10 countries and Switzerland	-10.7	-7.9	-5.6	.9	-6.7	-1.1	-2.3	-3.3
OPEC	12.7	2.5	2.6	1.9	5.0	1.9	1.1	1.9
All other countries	2.9	2.4	-2.5	5.0	-1.2	-2.4	-.7	1.9
b) By type								
U.S. Treasury securities	5.0	-2.1	-4.6	4.4	-2.1	.8	-2.1	*
Other 3/	-.1	-.9	-.9	3.4	-.8	-2.2	.3	.4
5. Changes in U.S. official reserve assets (+ = decrease) 4/	-3.3	.8	.1	-.4	.1	*	*	.1
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	-7.0	-5.0	-1.0	0.5	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	18.7	3.8	4.1	8.2	n.a.	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 5/ 6/	-15.5	-2.1	1.6	-2.1	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance 6/	6.6	1.2	2.1	-0.1	n.a.	n.a.	n.a.	n.a.
10. Statistical Discrepancy 6/	24.6	7.9	-1.3	7.1	n.a.	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance — part of line 9 (Balance of payments basis, seasonally adjusted)	-27.9	-6.6	-7.8	-9.1	n.a.	-3.9	-.1	-1.9

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.

tons each of wheat and corn this crop year (October 1981 to September 1982). For any amount above that, the Soviets must consult with the U.S. government. (Consultations are expected to take place this month.)

U.S. International Capital Transactions. The sharp appreciation of the U.S. dollar in the first quarter of 1982 was associated with large intervention sales of dollars by the G-10 countries and Switzerland and with a $6.7 billion reduction in their official reserve assets in the United States. Partial information from the FRBNY indicates a further decline of $3 billion in G-10 holdings of official reserve assets in the United States in April. In contrast, OPEC official reserve assets in the United States increased by $5.0 billion in the first quarter, and partial information indicates an additional $0.5 billion increase in April. Overall, the net reduction in foreign official assets in the United States in the first quarter of 1982 resulted in a $2.1 billion decline in their holdings of U.S. Treasury securities.

Bank reported private capital transactions in the first quarter of 1982 showed a small net outflow. Claims on nonbanks in foreign countries grew rapidly as did liabilities to private nonbanks in foreign countries, partly reflecting the growth of IBF's.

The growing involvement of U.S. residents in offshore financial markets continued to be evident in early 1982. Credit extended to U.S. residents by foreign branches of U.S. banks increased in March and

April, continuing the trend evident since the end of 1980. (See line 2 of the table below.) Credit arrangements providing the borrower with the option of choosing between a LIBOR or prime-based rate have continued to become more widespread and banks have generally booked LIBOR-based loans offshore. Because choice of the LIBOR option implies fixing the interest rate for an agreed term, the choice between the two options hinges on interest rate expectations as well as the current differential between the two rates. In March and April the differential between prime and LIBOR widened only marginally compared to the previous two months.

International Banking Data
(billions of dollars)

	1980	1981		1982			
	Dec.	June	Dec.	Jan.	Feb.	Mar.	Apr.3/
1. U.S. Offices' Banking Positions Vis-a-vis Own Foreign Offices 1/							
(a) Total	6.5	3.0	8.9	12.5	14.1	10.4	12.6
(b) U.S.-Chartered Banks	-15.2	-14.9	-10.2	-4.3	-2.1	-4.8	-3.2
(c) Foreign-Chartered Banks	21.7	17.9	19.1	16.8	16.2	15.2	15.8
2. Credit Extended to U.S. Non-bank Residents by Foreign Branches of U.S. banks 2/	4.2	7.1	13.2	12.9	12.9	13.8	14.1
3. Eurodollar Holdings of U.S. Nonbank Residents 4/	60.8	76.8	92.7	100.6 e/	99.6 e/	n.a.	n.a.

1/ Average of Wednesday, net due to own foreign office = (+).
2/ Daily Averages.
3/ Through April 28.
4/ End of month.

The Eurodollar holdings of U.S. nonbank residents reached approximately $100 billion in January and remained there in February. (See line 3 of the table.) One component of these holdings, overnight Eurodollar deposits, has averaged about $2 billion lower in March and April than in January and February. Possible explanations for this decline include reduced liquidity for major corporations associated with lower profits (e.g., oil companies) or decisions to lengthen the term of investments.

U.S. corporations have also been heavy borrowers in the Eurobond markets. In the first four months of 1982, U.S. companies raised $6.1 billion through Eurobond issues, compared with only $1.5 billion in the same period last year. During the same four months of 1982, U.S. domestic bond issues (public and private) raised $8.5 billion. U.S. activity in the Eurobond markets has been notable not only because of its size, but also because of the participation of firms that are domestic rather than multinational in character. For example, in 1980 U.S. public utilities raised $50 million in the Eurobond market, while in the first and second halves of 1981 they raised $165 and $625 million respectively, and in January through April of 1982 they raised over $900 million. Apparently many firms find it to their advantage to issue bonds in the Euromarkets. Precise comparisons of costs to borrowers and returns to investors are difficult to make because distribution practices in the Euromarkets are less transparent than practices in the U.S. domestic bond market.

Several factors may be important in explaining the rapid recent growth in Eurobond issues by U.S. corporations. First, U.S. corporations recently have found it in their interest to tailor their issues to coincide with the asset preferences of foreigners. Maturities in the Eurobond markets are commonly medium term (around 10 years) rather than long term. Zero coupon issues were very attractive to Japanese investors until sales of such bonds in Japan were banned. (There have been only two zero coupon issues in the Euromarket since the end of February.) Second, because of interest rate and exchange rate expectations, foreign demand for dollar denominated assets, including bonds, has been strong. Some foreigners may be deterred from buying bonds on the U.S. domestic market because of withholding tax or because domestically issued bonds are generally not bearer bonds. On the other hand,the withholding tax rate applied depends on a series of bilateral tax treaties; many foreigners are subject to a zero rate. It would not be very difficult for many foreign investors to circumvent the withholding tax. While many foreigners in principle could be attracted to purchase new issues in the domestic U.S. bond market rather than the Eurobond market, it is probably less costly to attract foreign investors by using existing channels to distribute bonds to foreigners — the Eurobond market.

Foreign Economic Developments. The general pattern of economic developments in the major foreign industrial countries is one of weak economic activity and moderating inflation. Following a decline in real GNP in the final quarter of last year, Japanese economic activity has remained weak; in March industrial production (s.a.) fell for the fifth consecutive month. In Germany, industrial production (s.a.) in the first quarter of this year was below the depressed level registered in the fourth quarter of last year. In France and Italy, increases in real GDP (s.a.) were recorded in the final quarter of 1981, but other evidence indicates that activity in both countries remains weak. In Canada, industrial production (s.a.) fell in February, marking the eighth consecutive month in which this index has declined. In the United Kingdom, industrial production (s.a.) resumed the upward path that began in the middle of last year but which was interrupted by declines in November and December. Nevertheless, U.K. activity remains at depressed levels, with industrial production in February below the level reached in October 1981.

In Japan, the April consumer price index was 3-1/2 percent above the level recorded a year earlier; at the end of last year this inflation measure stood at 4-1/2 percent. Similarly, in Germany, the April figure was 5 percent compared to a December 1981 rate of 6-1/2 percent. April data for the other major foreign industrial countries are not yet available, but data for earlier months in 1982 indicate a similar moderation in price advances. An exception to this trend is France, where consumer prices in March were just over 14 percent above their March 1981 level -- a rate of inflation equal to that recorded in December of last year.

The Japanese, German, French, and Canadian trade balances (s.a.) so far this year are little changed from the levels recorded in the fourth quarter of 1981. The German trade surplus in the fourth quarter of 1981 and the first quarter of this year represents a marked strengthening of the German trade account. The U.K.'s external accounts weakened in January, but in February the trade account registered a positive swing of over $500 million (s.a.). Data for 1982 indicate a substantial weakening in the Italian trade balance (s.a.).

Individual Country Notes. In Japan, signs of continued stagnation in the domestic economy are evident, while debate over possible measures to stimulate demand has intensified. February industrial production (s.a.) was revised downward sharply to show now a slight decline from the January level, and in March industrial production fell by an additional 1 percent, making this the fifth consecutive monthly decline. The mid-April assessments by both the Japanese Economic Planning Agency and the Bank of Japan pointed to the slowdown in exports as a key factor in the stagnation of demand, but recognized that domestic demand remains sluggish as well. Leading indicators of household consumption have been erratic in recent months but suggest continued weakness, and housing starts remain at a low level.

The softness in demand has been reflected in recent price developments. Although consumer prices increased slightly more rapidly in April than in previous months, the average level in the three months ending in April was less than 3 percent (a.r.) above the previous three month's level. Wholesale price pressures have been even milder, despite the yen's weakness in recent months; the WPI rose at a less than 1 percent annual rate in the first quarter.

May 12, 1982

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

				1980	1981				1982	1981	1982		
		1980	1981	Q4	Q1	Q2	Q3	Q4	Q1	Dec.	Jan.	Feb.	March
Canada:	GNP	0.0	3.0	2.3	1.0	1.4	-0.9	-0.5	n.a.	*	*	*	*
	IP	-2.0	1.3	2.2	1.0	2.6	-3.1	-4.5	n.a.	-0.9	-1.8	-0.3	n.a.
France:	GDP	1.2	0.9	-0.3	-0.4	1.4	0.2	1.1	n.a.	*	*	*	*
	IP	-1.1	-2.2	-1.0	-1.5	0.8	0.0	1.5	n.a.	1.5	-3.8	-0.8	n.a.
Germany:	GNP	1.7	-0.5	-0.4	0.4	-0.7	0.9	-0.2	n.a.	*	*	*	*
	IP	-0.1	-1.8	-1.2	1.2	-0.5	0.3	-0.9	-0.3	-1.9	1.0	0.9	-0.9
Italy:	GDP	4.0	-0.2	2.0	0.8	-1.1	-1.7	2.6	n.a.	*	*	*	*
	IP	5.6	-2.3	5.3	1.2	-2.4	-4.3	5.1	n.a.	-5.9	0.5	7.6	n.a.
Japan:	GNP	4.2	3.0	0.7	0.7	1.2	0.7	-0.9	n.a.	*	*	*	*
	IP	7.1	3.0	1.6	1.7	-0.3	1.6	2.6	-1.0	-0.7	-0.1	-0.1	-0.9
United Kingdom:	GDP	-2.4	-2.2	-0.9	-0.6	-0.2	0.4	0.7	n.a.	*	*	*	*
	IP	-6.6	-5.3	-2.4	-1.4	-0.5	0.9	0.5	n.a.	-0.9	0.1	0.6	n.a.
United States:	GNP	-0.2	2.0	0.9	2.1	-0.4	0.4	-1.1	-1.0	*	*	*	*
	IP	-3.6	2.6	4.5	2.0	0.5	0.3	-4.4	-3.3	-2.0	-2.0	1.2	-0.8

* GNP data are not published on monthly basis.

May 12, 1982

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

	1981				1982	1982				MEMO: Latest 3 Months from Year Ago
	Q1	Q2	Q3	Q4	Q1	Jan.	Feb.	March	April	
Canada: CPI	3.2	3.1	3.0	2.5	2.5	0.7	1.2	1.3	n.a.	11.2
WPI	2.7	2.2	2.1	1.2	1.3	0.5	0.8	0.3	n.a.	7.0
France: CPI	3.0	3.3	3.9	3.2	2.8	1.0	1.0	1.2	n.a.	14.0
WPI	1.4	4.3	4.3	1.9	2.5	1.1	0.5	1.2	n.a.	13.7
Germany: CPI	2.2	1.8	1.2	1.2	1.5	0.9	0.2	0.2	0.5	5.4
WPI	3.9	2.3	2.1	1.8	1.8	1.8	-0.2	-0.2	n.a.	8.2
Italy: CPI	5.2	4.4	3.0	4.6	4.1	1.4	1.5	0.9	n.a.	17.1
WPI	5.0	5.1	3.5	4.0	3.3	1.3	0.9	1.0	n.a.	16.8
Japan: CPI	1.1	1.5	0.0	1.3	0.5	0.2	0.1	0.4	0.7	3.4
WPI	-0.7	1.1	1.4	-0.1	0.2	0.0	0.5	0.2	n.a.	2.6
United Kingdom: CPI	2.4	4.9	1.7	2.5	1.7	0.6	0.0	0.9	n.a.	11.1
WPI	3.0	3.4	2.1	2.3	2.3	1.1	0.7	0.4	0.7	9.7
United States: CPI(SA)	2.6	1.9	2.8	1.9	0.8	0.3	0.2	-0.3	n.a.	7.6
WPI(SA)	2.5	2.3	1.1	1.2	0.6	0.4	-0.1	-0.1	n.a.	5.2

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

		1980		1981				1982	1982		
	1981	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Jan.	Feb.	March
Canada: Trade	5.7	2.0	2.4	1.4	0.8	0.6	2.8	2.8	1.1	0.8	1.0
Current Account	-5.5	-0.2	0.3	-1.2	-1.8	-2.1	-0.5	n.a.	*	*	*
France: Trade[b]	-10.7	-4.0	-3.2	-2.5	-3.2	-1.9	-3.1	-2.8	-1.2	-0.9	-0.7
Current Account[b]	-7.6	-2.1	-2.0	-2.3	0.4	-2.1	-2.8	n.a.	*	*	*
Germany: Trade	11.9	1.1	0.9	0.2	3.1	3.1	5.5	5.0	1.3	1.7	2.0
Current Account (NSA)	-7.6	-7.1	-3.3	-4.4	-2.3	-4.9	4.1	-0.9	-1.5	-0.3	0.8
Italy: Trade	-16.0	-8.6	-5.5	-4.5	-4.8	-4.4	-2.3	-4.0	-1.3	-2.3	-0.4
Current Account (NSA)	-9.3.	-1.0	-2.9	-5.8	-2.3	0.3	-1.6	n.a.	*	*	*
Japan: Trade[b]	20.1	1.4	2.9	3.3	5.5	6.3	5.0	4.4	2.1	1.0	1.2
Current Account[b]	4.6	-1.8	-0.2	-1.0	2.0	2.5	1.1	0.9	1.1	-0.2	0.1
United Kingdom: Trade	n.a.	1.5	3.0	n.a.	n.a.	n.a.	1.0	n.a.	-0.2	0.3	n.a.
Current Account[b]	n.a.	2.1	4.5	n.a.	n.a.	n.a.	2.3	n.a.	0.7	1.2	n.a.
United States: Trade	-27.8	-2.9	-5.6	-4.7	-6.9	-7.0	-9.0	-5.9	-3.9	-0.1	-1.9
Current Account	6.6	5.0	1.4	3.3	1.2	2.1	-0.1	n.a.	*	*	*

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.

The Japanese current account (s.a.) moved back into small surplus in March, as a decline in exports was more than matched by reduced imports. With the exception of an abnormally high level in January, export volume has declined in recent months to a level some 5 percent below mid-1981 levels, while export prices have remained essentially unchanged in dollar terms. Recently released figures show that vehicle exports from Japan fell in FY 1981 (which ended in March) by nearly 5 percent, a shift largely attributable to restraints on exports to the United States and several West European countries.

Continuation of the slowdown has added to mounting pressures to take steps to stimulate the economy. In April, it was announced that more than three-quarters of public-works spending would be made in the first half of the fiscal year -- an unusually heavy degree of frontloading. A package of additional measures designed both to stimulate domestic demand and reduce the external surplus is expected to be announced later this month. A slowdown in tax collections in recent months makes it almost certain that the Suzuki government will have to give way on its program to eliminate the issuance of government-deficit bonds by FY 1984. In April, the Bank of Japan announced its projection for M2 growth in the April-June quarter of 10 percent (on a year-over-year basis), down slightly from an estimated 10-3/4 percent growth in the first quarter. A strengthening of the yen in recent weeks, however, may provide the authorities with scope for a more expansionary monetary stance.

Economic activity in Germany remains weak and available data do not point to an impending broadly based recovery. Industrial production (s.a.)

fell in March, and the first quarter level was below that recorded in the fourth quarter of last year. The total volume of orders as of March does not indicate new strength. Domestic orders for investment goods are particularly weak, and orders from abroad declined in March. Unemployment has continued to rise this year, reaching a post-war record of 7.3 percent (s.a.) in April.

The consumer price index rose 1/2 percent in April to a level 5 percent above April of last year. The downward trend of inflation is visible in seasonally adjusted data, according to which the rate of inflation in the first quarter of this year was down to just over 3 percent (s.a.a.r.) from 6-1/2 percent in the fourth quarter of last year. This year's wage round is substantially complete, with settlements averaging about 4-1/2 percent. A notable exception is the public employees' union, which is holding out for a larger wage increase.

German monetary policy has continued to ease slightly. On March 19, the Special Lombard rate, which had reached a peak last year of 12 percent, was reduced from 10 to 9-1/2 percent. On May 6, the Special Lombard facility was discontinued altogether and the Bundesbank returned to its regular Lombard facility at the rate (9 percent) prevailing when it left the regular facility on February 19 of last year.

French GDP grew by over 5 percent (s.a.a.r.) in the fourth quarter of 1981, after a stagnant third quarter. However, in the first two months of 1982, industrial production fell and was 3 percent below the fourth quarter's level. Recent surveys indicate that the pace of economic activity is slowing; an investment survey indicates that real industrial investment may fall by 7 percent this year. Consumer price inflation declined slightly in the first quarter of this year, perhaps in part because of the limited price controls in effect during the quarter.

M2 growth was nearly stagnant in the final quarter of last year but grew by over 20 percent (s.a.a.r.) between December and February. In April, the French government acted to reduce the burdens on firms of recent government decisions. The measures taken include: a reduction in payroll taxes of FF 11 billion over two years, freezing employer social security contributions until mid-1983, suspension of any additional government mandated reductions in the work week until 1984, and increased access to low interest loans.

In the United Kingdom, revised industrial production (s.a.) data for January indicate a slight increase over the December 1981 level, and between January and February a further 1/2 percent increase was recorded. Thus the weakness in industrial production exhibited at the end of last year seems to have been only a temporary interruption of the recovery in economic activity that began in mid-1981. Nevertheless, because of the declines registered in November and December of last year, industrial production in February was 2 percent below the level reached in October 1981 and equal to the level prevailing in February 1981. The U.K. unemployment rate resumed its climb in April, reaching 11.9 percent (s.a.).

Consumer prices in March were 10-1/2 percent higher than their year-earlier level. In the six-month period to March, consumer prices increased only 8-1/2 percent (a.r.). The twelve-month rate of wholesale price inflation was in single digits (9 percent) in April; between October 1981 and April wholesale prices rose 8-1/2 percent (a.r.).

British wages have continued to decelerate. In the six months to February 1982, average wage earnings increased only 7-1/2 percent (s.a.a.r.) compared to a rate of increase of 15-1/2 percent in the previous six-month period.

The U.K.'s current account in 1981 is estimated to have been in surplus by about $16 billion -- more than twice the surplus recorded in 1980. However, because of last year's civil service labor dispute, trade data for 1981 are not complete. In the first two months of this year, the average current-account surplus was about $900 million (s.a.).

In his budget speech of March 9, Chancellor of the Exchequer Sir Geoffrey Howe estimated that the U.K.'s public sector borrowing requirement (PSBR) for the fiscal year ending that month (fiscal year 1981-82) was £ 10-1/2 billion, 4-1/4 percent of GDP. On April 22, the British government announced that the PSBR for fiscal 1981-82 had turned out to be only £ 8-1/2 billion, 3-1/2 percent of GDP. The U.K. authorities have not yet revised their PSBR forecast of £ 9-1/2 billion (3-1/2 percent of GDP) for fiscal 1982-83.

In Canada, there are no signs that the recession that started in the middle of last year has begun to bottom out. In February, the index of industrial production (s.a.) fell slightly -- this represents the eighth consecutive monthly decline in this index. The unemployment rate (s.a.) rose to a post-war record 9.6 percent in April from 9 percent in March. Employment (s.a.) fell for the eighth consecutive month in April.

Associated with the downturn in real economic activity has been a slowing of inflation. Inflation, as measured by the percentage change in the CPI from a year earlier, peaked at 13 percent in July 1981 and trended downwards to roughly 11-1/2 percent in March.

The Canadian trade balance (s.a.) for the first quarter of this year posted a $2.8 billion surplus, twice the surplus registered in the same quarter a year ago. The cyclical downturn of the Canadian economy was primarily responsible for the larger trade surplus this year relative to 1981.

Revised data indicate a slight fall (-1/4 percent) in Italian real GDP in 1981 on a year-over-year basis and a slight rise (1/2 percent) between the fourth quarters of 1980 and 1981. These data show very rapid real growth during the fourth quarter -- almost 11 percent (s.a.a.r.) -- but this growth rate is believed to reflect faulty seasonal adjustment rather than the beginning of a strong recovery. In February, industrial production was 1-1/2 percent above its February 1981 level.

Inflation has continued to subside as a result of the weakness of demand. Consumer prices in March were 16-1/2 percent above their year-earlier level, compared with a 20 percent rise in the twelve months ending in March 1981. After rising during most of last year, wholesale price inflation decelerated to less than 16 percent in the twelve months to March.

The trade deficit in the first quarter of this year was larger than that in the fourth quarter of last year, reflecting in part the unwinding of the import deposit scheme. In response to the widening trade deficit, the authorities tightened exchange controls.

The Italian government's budget proposals were passed by Parliament on April 29, six months after being submitted. As reported in the press, compromises by the government will result in a deficit of about 60 trillion lire (13 percent of GDP) this year, compared with the government's original 1982 target of 50 trillion lire and an actual deficit of 55 trillion lire (14 percent of GDP) in 1981. Supplementary proposals are being considered, but the weakness of the present coalition suggests that a consensus on such proposals will be difficult to attain. In another policy move, the Bank of Italy increased the penalty for bank lending in lire in excess of existing ceilings, to be effective at the end of May.