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Confidential (FR) Class II FOMC

July 6, 1983

RECENT DEVELOPMENTS

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

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DOMESTIC NONFINANCIAL DEVELOPMENTS

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	May	6-03-83	110.7	-.4	.7	.3
Unemployment rate (%) 1/	May	6-03-83	10.1	10.2	10.4	9.4
Insured unemployment rate (%) 1/	Apr.	6-01-83	4.4	4.5	4.5	4.6
Nonfarm employment, payroll (mil.)	May	6-03-83	89.5	5.0	3.2	-.6
Manufacturing	May	6-03-83	18.5	6.8	5.1	-3.2
Nonmanufacturing	May	6-03-83	71.0	4.6	2.7	.1
Private nonfarm:						
Average weekly hours (hr.) 1/	May	6-03-83	35.1	34.9	34.5	35.0
Hourly earnings ($) 1/	May	6-03-83	7.99	7.95	7.91	7.65
Manufacturing:						
Average weekly hours (hr.) 1/	May	6-03-83	40.0	40.1	39.2	39.1
Unit labor cost (1967=100)	May	6-29-83	92.8	-10.3	-14.1	-9.4
Industrial production (1967=100)	May	6-15-83	144.3	13.5	18.0	3.7
Consumer goods	May	6-15-83	148.1	10.6	13.1	3.1
Business equipment	May	6-15-83	149.7	20.4	19.6	-6.4
Defense & space equipment	May	6-15-83	120.9	15.1	16.5	12.3
Materials	May	6-15-83	141.5	12.0	19.6	5.4
Consumer prices all items (1967=100)	May	6-22-83	296.9	6.5	5.0	3.5
All items, excluding food & energy	May	6-22-83	284.7	3.4	3.4	3.6
Food	May	6-22-83	292.2	3.7	5.4	2.4
Producer prices: (1967=100)						
Finished goods	May	6-10-83	283.7	3.8	.4	2.4
Intermediate materials, nonfood	May	6-10-83	313.7	5.4	-2.7	.1
Crude foodstuffs & feedstuffs	May	6-10-83	255.0	-14.0	10.0	-2.3
Personal income ($ bil.) 2/	May	6-20-83	2,710.9	14.5	10.1	6.1
					(Not at annual rates)	
Mfgrs. new orders dur. goods ($ bil.)	May	6-30-83	84.5	1.3	9.1	10.7
Capital goods industries	May	6-30-83	26.8	-9.7	9.4	5.8
Nondefense	May	6-30-83	4.7	-34.2	-12.4	-7.1
Defense	May	6-30-83	22.1	-2.0	15.4	9.0
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Apr.	6-13-83	1.44	1.45	1.47	1.52
Manufacturing	May	6-30-83	1.54	1.58	1.65	1.70
Trade	Apr.	6-13-83	1.33	1.32	1.31	1.32
Ratio: Mfgrs.' durable goods inventories to unfilled orders 1/	May	6-30-83	.568	.567	.580	.596
Retail sales, total ($ bil.)	May	6-10-83	96.9	2.1	6.3	6.7
GAF 3/	May	6-10-83	20.4	2.8	5.0	5.4
Auto sales, total (mil. units.) 2/	May	6-03-83	9.1	7.8	7.7	8.1
Domestic models	May	6-03-83	6.9	7.1	13.5	7.4
Foreign models	May	6-03-83	2.2	10.1	-7.1	10.3
Plant & Equipment expen. ($ bil.)4/						
Total nonfarm business	1983	6-09-83	305.53	..	..	-3.4
Manufacturing	1983	6-09-83	112.79	..	..	-5.8
Nonmanufacturing	1983	6-09-83	192.73	..	..	-2.0
Capital Appropriations, Mfg.	1983-Q1	6-01-83	20,965	-.4	..	-18.6
Housing starts, private (thous.) 2/	May	6-16-83	1,791	19.1	.4	74.2
Leading indicators (1967=100)	May	6-29-83	154.5	1.2	4.7	13.4

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned-Commerce April and May 1983 Survey.

The expansion in economic activity accelerated in the second quarter as industrial production and employment increased rapidly in April and May. Consumer expenditures rose substantially, led by gains in auto sales. Business spending for capital equipment also continued to strengthen as firms began to rebuild inventories. Although a turnaround in energy prices has boosted recent measures of inflation, price increases outside the energy area have continued to slow.

Industrial Production

Industrial production rose 1.1 percent in May, the sixth consecutive monthly increase, to a level 7 percent above the November trough. Gains over the past half year have been widespread, with particularly large advances occurring in durable consumer goods, construction supplies, and durable materials. Reflecting the growth in production, both manufacturing and materials capacity utilization rates increased to a revised level of about 73-1/2 percent in May. (See Appendix A for a description of the forthcoming revision to capacity utilization.)

Among consumer goods, auto assemblies climbed 5 percent in May to a 6.2 million unit annual rate, and preliminary data indicate an increase to a 6.9 million unit pace in June. Production of lightweight trucks for consumer use and of home goods such as appliances, carpeting, and furniture also has risen substantially in recent months. In addition, output of business equipment, which reached a trough in February, was up sharply in both April and May.

Growth in materials output, which had been an important stimulus to overall production in recent months, slowed somewhat in May. This is

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

	1982 Q3	1982 Q4	1983 Q1	1983 Mar.	1983 Apr.	1983 May
	-----Annual rate-----			----Monthly rate----		
Total	-3.4	-8.2	9.8	1.3	2.0	1.1
Final products	-3.0	-6.5	2.6	.8	1.9	1.2
Consumer goods	2.6	-6.9	5.8	.8	1.6	.9
Durable	3.6	-22.2	29.1	1.2	2.3	2.4
Nondurable	2.3	-.9	-1.6	.5	1.4	.3
Business equipment	-17.2	-14.5	-7.4	.8	2.3	1.7
Defense and space equipment	7.8	16.5	9.8	.9	2.0	1.3
Construction supplies	8.7	-8.0	25.2	3.1	2.5	1.9
Materials	-6.0	-11.3	20.0	1.7	2.1	1.0
Durable goods	-7.3	-22.2	30.3	2.5	3.0	1.4
Nondurable goods	-4.3	5.1	17.6	1.8	1.8	1.1
Energy materials	-5.3	-7.3	2.3	-.1	.4	-.1

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

	1982 low	1983 Q1	1983 Apr.	1983 May	Increase since 1982 low
Manufacturing, total	68.8	70.7	73.0	73.7	4.9
Advanced processing	70.0	71.1	72.6	73.3	3.3
Motor vehicles	46.1	62.0	65.0	67.5	21.4
Primary processing	66.2	70.5	73.4	74.3	8.1
Materials, total	66.6	70.0	72.7	73.4	6.8
Durable goods materials	59.8	64.1	67.6	68.6	8.8
Metal materials	46.2	55.9	59.0	60.2	14.0
Nondurable goods materials	70.7	75.1	77.8	78.5	7.8
Energy materials	78.5	79.4	79.3	79.1	.6

NOTE: Capacity measures have been revised back to 1967 and will be published with the next capacity utilization release on July 18. The numbers shown in the table are from this revision and have not yet been published.

a typical pattern in a recovery period; in the early months, gains in materials tend to exceed growth in intermediate and final products as manufacturers stop liquidating or start replenishing low stocks.

Employment and Unemployment

The demand for labor has strengthened further recently. During the first quarter, gains in production were achieved mainly through cyclical productivity growth and increases in the workweek. However, in April and May payroll employment gains were both large and widespread, with about 70 percent of the industries surveyed in May reporting increases compared with 55 percent in the first quarter. Gains were especially large in the services, durable goods manufacturing, and construction industries. In addition, the length of the factory workweek has increased about 2-1/2 percent since December, a considerably stronger advance than in previous recoveries.

Unemployment has continued to decline along with the expansion in economic activity. By May the civilian unemployment rate, at 10.1 percent, was 0.7 percentage point below the December peak. Most of this decline in joblessness occurred among white adult men and women, while unemployment rates for black workers remained near their recession highs. Since the mid-May reference week for the employment surveys, initial claims for unemployment insurance have fallen sharply. In the week ended June 18, new claims totaled about 400,000, the lowest figure since the summer of 1981.

Personal Income and Consumption

Reflecting the greater strength in labor demand, income growth has increased in recent months. Personal income rose 1.2 percent in May,

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

	1981	1982	1982 Q4	1983 Q1	1983 Mar.	1983 Apr.	1983 May
	--Average monthly changes--						
Nonfarm payroll employment[2]	-6	-172	-190	50	69	273	374
Strike adjusted	-7	-170	-195	52	69	273	361
Manufacturing	-40	-127	-121	25	22	106	104
Durable	-33	-99	-101	19	9	74	93
Nondurable	-8	-28	-20	5	13	32	11
Construction	-21	-20	-20	-19	-33	28	81
Trade	8	-18	-41	31	7	-33	27
Finance and services	59	31	32	55	101	154	120
Total government	-25	-13	-9	-11	-18	2	29
Private nonfarm production workers	-7	-146	-161	42	86	241	368
Manufacturing production workers	-47	-108	-100	27	20	113	115
Total employment[3]	2	-49	-150	3	40	355	99
Nonagricultural	25	-65	-166	16	59	359	102

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)

	1981	1982	1982 Q4	1983 Q1	1983 Mar.	1983 Apr.	1983 May
Civilian, 16 years and older	7.6	9.7	10.7	10.3	10.3	10.2	10.1
Teenagers	19.6	23.2	24.3	22.8	23.5	23.4	23.0
20-24 years old	12.2	14.8	16.1	15.9	15.4	15.4	15.6
Men, 25 years and older	5.1	7.5	8.6	8.4	8.4	8.5	8.2
Women, 25 years and older	5.9	7.3	7.9	7.8	7.7	7.4	7.6
White	6.7	8.6	9.5	9.1	9.0	8.9	8.9
Black and other	14.2	17.3	18.6	18.5	18.5	18.8	18.6
Fulltime workers	7.3	9.6	10.6	10.3	10.3	10.2	9.9
Memo:							
Total national[1]	7.5	9.5	10.5	10.2	10.1	10.1	10.0

1. Includes resident Armed Forces as employed.

the largest monthly advance since the beginning of the recovery, with much of the gain in the wage and salary component. With outlays for personal consumption rising rapidly in April and May, the personal saving rate dropped to an average of 5-1/2 percent for the first two months of the second quarter--down from 5.9 percent in the first quarter.

Retail sales rose 2.1 percent in May following similar advances in March and April. Sharp increases in auto sales have been an important factor in the recent gains. During the last 10 days of May and the first 20 days of June, domestic automobiles sold at a 7.3 million unit annual rate, the strongest pace over any 30-day period since the summer of 1981. Purchases of large cars have increased in recent months, and interest rate concessions have been instrumental in boosting sales of small cars. Despite relatively low stocks of Japanese cars, sales of foreign units also increased in May to a 2.2 million unit rate.

Spending for consumer goods other than autos and gasoline rose 1.2 percent in May and was almost 2 percent above the first-quarter average. Gains were widespread: outlays for general merchandise increased 3.5 percent following several months of sluggish sales, while sales of furniture and appliances continued the upsurge evident since late last year.

The vigorous gains in consumer spending in May accompanied reports of sharply improved consumer confidence in both the Conference Board and Michigan Surveys. The Michigan survey also indicated an increase in the percentage of respondents believing that conditions are favorable for buying new cars, homes, and large consumer durables.

In addition, survey data indicate that inflation expectations are still relatively low, remaining below 5 percent so far this year compared with an average of 7.2 percent in 1981 and 5.7 percent in 1982.

PERSONAL INCOME
(Based on seasonally adjusted data)

	1981	1982	1982 Q4	1983 Q1	1983 Mar.	1983 Apr.	1983 May
	---Percentage changes at annual rates[1]---						
Total personal income	10.4	5.2	4.9	3.7	6.6	9.1	14.5
Wage and salary disbursements	8.4	2.8	1.2	5.9	6.0	10.5	19.1
Private	8.7	2.1	-.3	6.0	6.4	11.9	19.5
Disposable personal income							
Nominal	10.4	5.8	4.9	4.2	7.2	11.3	8.6
Real	2.6	.7	.3	2.3	5.8	3.1	--
	---Changes in billions of dollars[2]---						
Total personal income	17.9	11.5	12.6	7.8	14.6	20.1	32.3
Wage and salary disbursements	8.8	4.1	3.3	7.3	8.0	14.0	25.7
Private	7.1	2.7	.9	6.1	6.8	12.8	21.1
Manufacturing	1.1	-.9	-2.3	3.7	2.7	5.6	4.3
Other income	10.3	7.8	9.5	1.8	7.0	6.9	7.9
Transfer payments	2.9	4.0	6.0	-1.0	2.6	2.3	1.4
Less: personal contributions for social insurance	1.2	.5	.1	1.3	.4	.8	1.3
Disposable personal income							
Nominal	15.2	10.8	9.8	7.8	13.4	21.3	16.4
Real	1.7	1.2	2.2	1.7	5.1	2.8	--
Memorandum:							
Personal saving rate	6.4	6.5	6.0	5.9	6.0	5.9	5.3

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.

RETAIL SALES
(Percent change from previous period;
based on seasonally adjusted data)

	1982 Q3	1982 Q4	1983 Q1	1983 Apr.	1983 May
	-----Quarterly rate-----			---Monthly rate---	
Total sales	.2	2.8	.3	1.7	2.1
(Real)[1]	-1.1	2.4	.4	1.3	1.5
Total, less autos and nonconsumption items	1.4	1.0	.6	.3	1.3
Total, less autos, nonconsumption items, and gasoline	1.2	1.2	1.3	.0	1.2
GAF[2]	-.1	1.8	1.2	.8	2.8
Durable goods	-3.0	7.7	.4	4.5	3.9
Automotive	-4.3	11.8	-2.6	7.6	5.4
Furniture & appliances	-1.4	2.6	3.2	.9	2.3
Nondurable goods	1.6	.7	.3	.5	1.3
Apparel	.2	.2	-.4	3.6	1.3
Food	1.3	.6	-.3	.0	.8
General merchandise[3]	.3	2.1	1.2	-.2	3.5
Gasoline	2.6	-.7	-4.3	2.0	2.5

1. BCD series 59.
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)

	1982 Q3	1982 Q4	1983 Q1	1983 Apr.	1983 May	1983 June[1]
Total	7.8	8.6	8.4	8.4	9.1	n.a.
Foreign-made	2.2	2.5	2.4	2.0	2.2	n.a.
U.S.-made	5.6	6.1	6.1	6.4	6.9	7.3
Small	2.6	2.8	2.5	2.6	2.9	n.a.
Intermediate/Standard	2.9	3.3	3.6	3.8	4.0	n.a.

Note: Components may not add to totals due to rounding.
1. First 20 days.
n.a. - not available

Housing Markets

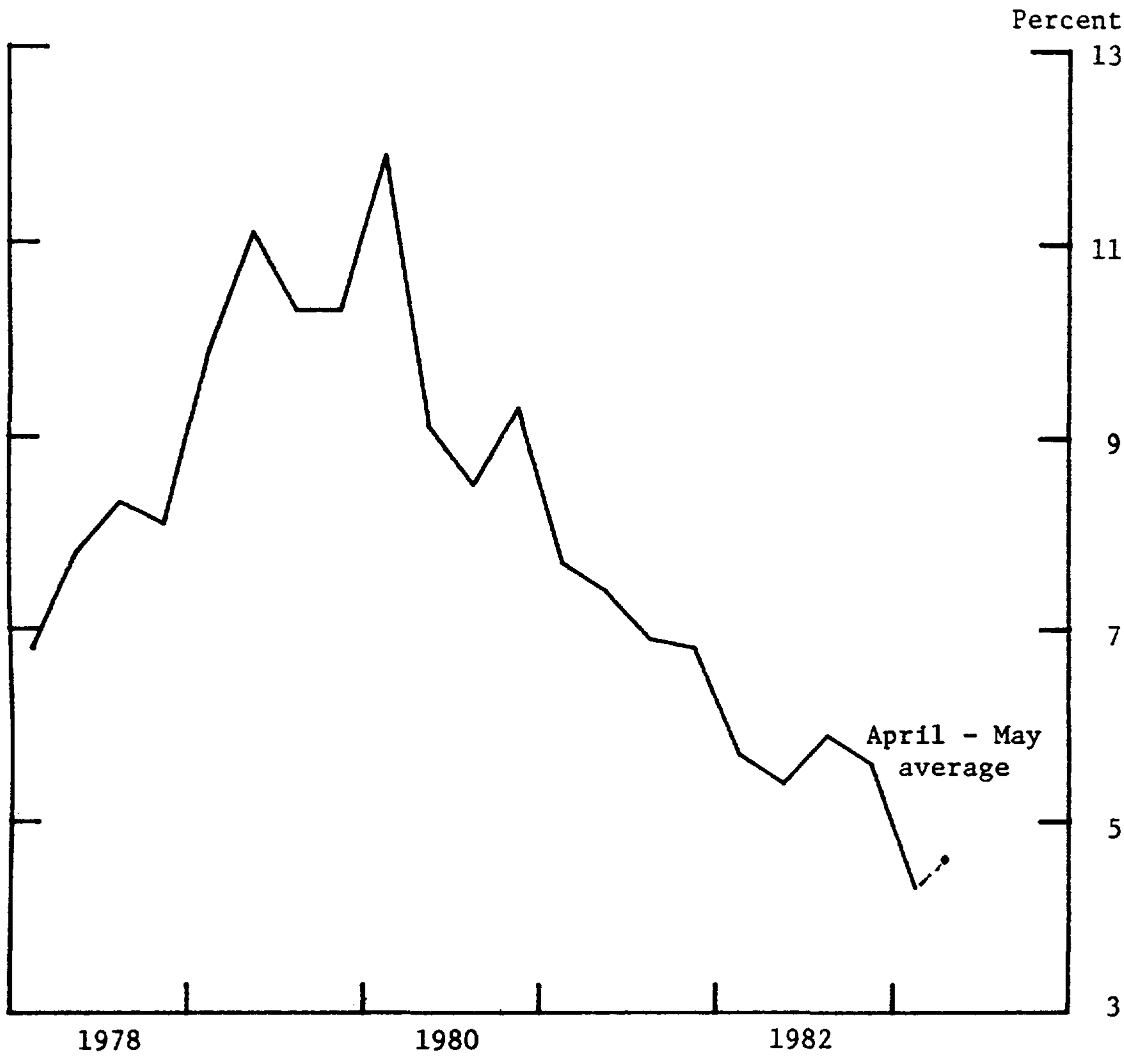
The strong performance of the housing sector continued in May, as total private housing starts rose to a 1.79 million unit annual rate. Since the turn of the year, starts have exhibited sizable month-to-month swings, probably reflecting unusual weather conditions in many parts of the country; on balance, however, starts in April and May were 30 percent above the level in the last quarter of 1982. The generally less volatile series of newly issued residential permits has trended upward fairly steadily since last autumn, and also stands about 30 percent above its level in the fourth quarter of last year.

Both single- and multifamily starts rose in May. Multifamily starts climbed to a 640,000 unit annual rate and have averaged close to a 600,000 unit rate during the first five months of 1983, about 50 percent above the average for 1982. Most of the recent strength in multifamily activity apparently has been in the unsubsidized rental sector. The Section 8 program of federal rent subsidies has been all but discontinued, while starts of condominium and co-op units fell to 30 percent of total multifamily starts in the first quarter of 1983, compared with 40 percent in late 1981. Single-family starts rose 14 percent in May, to a level 120 percent above their low point in 1981, and new house sales, at a 650,000 annual rate, were up 80 percent from their quarterly low last year. Inventories of unsold new units, which were reduced drastically during the recent downturn, have trended up slightly, but remain low relative to sales.

Business Fixed Investment

Business fixed investment continued to recover in the second quarter,

CONSUMER INFLATION EXPECTATIONS*



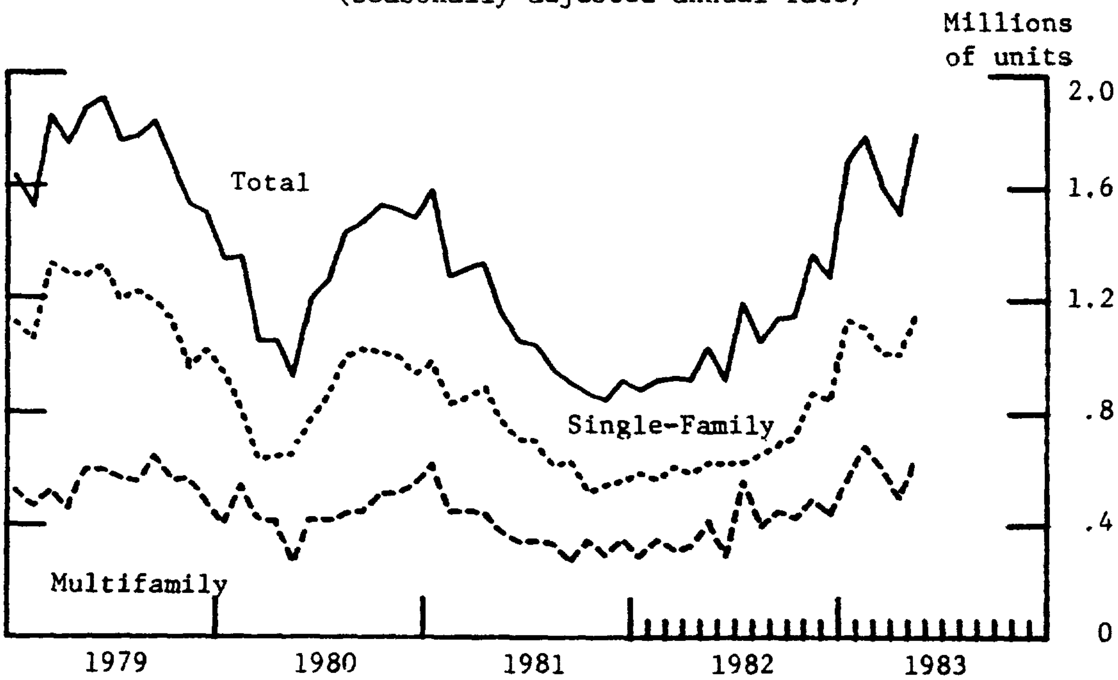
*Quarterly average of price inflation expected over the next 12 months, as reported by the Michigan Survey Research Center.

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

	1982	1982 Q4	1983 Q1	1983 Mar.	1983 Apr.	1983 May[1]
All units						
Permits	1.00	1.24	1.46	1.47	1.54	1.62
Starts	1.06	1.26	1.69	1.61	1.50	1.79
Single-family units						
Permits	.55	.72	.85	.86	.84	.93
Starts	.66	.81	1.08	1.01	1.01	1.15
Sales						
New homes	.41	.52	.61	.61	.62	.65
Existing homes	1.99	2.13	2.58	2.71	2.73	2.86
Multifamily units						
Permits	.45	.52	.61	.61	.70	.69
Starts	.40	.45	.62	.60	.50	.64
Mobile home shipments	.24	.24	.28	.28	.29	n.a.

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

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



following a first-quarter gain in real terms of nearly 4 percent at an annual rate. This strength has been confined to equipment spending. Shipments of nondefense capital goods excluding aircraft and parts were 4 percent above the first-quarter average in May, with sizable increases in both electrical and nonelectrical machinery. In addition, spending for motor vehicles, which picked up in the first quarter, has continued at a strong pace.

The recent behavior of new orders for nondefense capital goods signals further improvement of activity in coming months. Orders excluding aircraft and parts jumped almost 10 percent in March and were another 2-1/2 percent higher, on average, in April and May. Several fundamental determinants of business spending also have become more favorable in recent months. Business output, generally considered to be among the strongest influences on equipment spending, grew appreciably over the first half of the year, and the cash flow of firms has improved. Although capacity utilization rates remain low, they have been trending upward since February.

In contrast, the cyclical contraction in nonresidential structures is continuing. Construction spending was about 4 percent lower, on average, in April and May, than in the first quarter. The recent decline has been particularly sharp in the commercial and industrial building component, as both office and industrial vacancy rates remain high.

The most recent Commerce Department survey of plant and equipment spending plans showed a decline of 3.4 percent in nominal terms for 1983 compared with 1982. Much of the weakness was in reported first-quarter spending expenditures are expected to rise by about 9 percent over the remainder of the year.

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

	1982		1983			
	Q3	Q4	Q1	Mar.	Apr.	May
Producers' durable equipment						
Nondefense capital goods						
Shipments	-3.7	-3.8	.0	6.1	.4	-1.8
Excluding aircraft & parts	-3.4	-6.0	.2	5.9	.8	.2
Nondefense capital goods						
Orders	-6.6	1.5	-.1	4.5	12.8	-2.0
Excluding aircraft & parts	-6.1	-.7	3.7	9.7	3.3	-1.7
Addenda:						
Ratio of unfilled orders to shipments	5.73	5.77	5.56	5.38	5.38	5.43
Sales of heavy-weight trucks (thousands of units)	168	162	173	183	171	168
Nonresidential structures						
Nonresidential construction put-in-place	.4	-.3	-4.6	-2.0	-2.8	2.8

Inventories

The business inventory correction in the current cycle appears to be ending. Inventories were liquidated at a record pace late in 1982 and early this year, and are now at a comfortable level in most industries, even after rising in some sectors in April and May.

In manufacturing, the book value of inventories rose at a $12 billion annual rate in May, after edging up in April. These increases followed five consecutive quarterly declines. Total manufacturers shipments have been trending up since last October, and jumped 2-3/4 percent in May; as a result, the stock-sales ratio fell to 1.54, its lowest level in four years.

By the end of May, stocks of new domestic autos at dealers had fallen to a 51 day supply, quite low on a historical basis. Because June sales have so far been running ahead of assemblies, stocks have probably dipped even further.

Federal Government

The federal government deficit was a record $29.3 billion (not at an annual rate) in May. The deficit has been unusually large in recent months--after adjusting for seasonal patterns--due primarily to low net corporate income taxes, and small net settlements on individual income taxes in the recent annual tax return period. For both types of taxpayers, refunds have been large recently. In the case of corporations, this reflected carrybacks. For individuals, it partly reflected slow IRS processing of early returns, which resulted in a concentration of refunds in May.

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

	1981	1982	1982 Q4	1983 Q1	1983 Apr.[r]	1983 May[p]
Book value basis						
Total	33.3	-14.2	-36.2	-34.9	26.5	n.a.
Manufacturing	18.2	-17.4	-27.1	-30.4	1.1	12.0
Wholesale trade	4.6	1.8	-3.0	-8.8	18.2	n.a.
Retail trade	10.4	1.4	-6.2	4.3	7.2	n.a.
Automotive	2.1	.1	-10.2	1.5	6.6	n.a.
Nonautomotive	8.3	1.3	4.0	2.8	.6	n.a.
Constant dollar basis						
Total	7.1	-8.9	-20.1	-15.0	3.0	n.a.
Manufacturing	2.6	-8.7	-14.4	-11.4	1.7	n.a.
Wholesale trade	1.5	.0	-0.6	-4.8	2.4	n.a.
Retail trade	3.1	-.2	-5.2	1.3	-1.1	n.a.
Automotive	.7	-.3	-6.0	-.5	1.1	n.a.
Nonautomotive	2.3	.1	.9	1.8	-2.2	n.a.

INVENTORIES RELATIVE TO SALES[1]

	Cyclical reference points June 81	Cyclical reference points 1982 peak[2]	1982 Q4	1983 Q1	1983 Apr.[r]	1983 May[p]
Book value basis						
Total	1.42	1.54	1.52	1.46	1.44	n.a.
Manufacturing	1.59	1.78	1.72	1.61	1.58	1.54
Wholesale trade	1.14	1.31	1.30	1.25	1.28	n.a.
Retail trade	1.39	1.45	1.40	1.40	1.37	n.a.
Automotive	1.78	1.92	1.60	1.66	1.51	n.a.
Constant Dollar Basis						
Total	1.63	1.77	1.73	1.65	1.63	n.a.
Manufacturing	1.92	2.15	2.10	1.96	1.89	n.a.
Wholesale trade	1.35	1.50	1.47	1.39	1.43	n.a.
Retail trade	1.38	1.46	1.41	1.40	1.38	n.a.
Automotive	1.75	1.94	1.61	1.61	1.53	n.a.

1. Ratio of end-of-period inventories to average monthly sales for the perio
2. Cyclical highs are specific to each series and are not necessarily coinc
r--revised estimates.
p--preliminary estimates.

INDIVIDUAL AND CORPORATE NONWITHHELD TAX SETTLEMENTS[1]
(Unified budget, billions of dollars)

	1980	1981	1982	1983
		Individual income tax refunds		
January to March	-17.2	-17.3	-18.9	-16.5
April	-10.6	-12.6	-16.3	-18.6
May	-10.9	-12.2	-12.6	-17.0
		Corporate income tax refunds		
January to March	-1.9	-3.5	-4.0	-6.2
April	-1.1	-1.5	-1.7	-3.7
May	-.6	-.9	-1.0	-2.2
		Individual estimated and final payments		
January to March	13.3	15.0	18.0	18.8
April	24.9	30.8	35.3	32.0
May	2.1	2.5	1.2	1.1
		Corporate estimated and final payments		
January to March	15.1	14.8	14.7	11.5
April	10.2	10.9	9.0	8.4
May	1.9	1.9	2.2	1.9

Source: Monthly Treasury Statement.
1. Data from January to March are totals for three months. This period contains only one major tax-collecting month. April and May data are monthly totals.

Outlays in April and May declined slightly. A major factor in the expenditure reduction has been the relatively low spending in the last few months by the Commodity Credit Corporation, following record outlays with fall and winter. Unemployment outlays, in contrast, rose in April and May due to new federal supplemental benefits for the long-term unemployed. Net interest expenditures also increased in May; interest outlays had remained relatively stable during the first half of the fiscal year as the effects of declining interest rates offset the effects of the rising deficits.

Congress passed the First Concurrent Resolution on the Budget for Fiscal Year 1984 on June 23. The resolution implies a deficit of between $170 billion and $179 billion in FY1984, with the exact amount depending on the size of the Congressional authorization for recession relief programs. More detail on the resolution is provided in appendix B.

State and Local Government

Activity in the state and local government sector has shown little change in the last several months. Real compensation, the largest component of purchases, was unchanged in the first quarter, and appears to have grown only slightly in the second quarter. Stability in employment has now persisted for about a year, suggesting that the slow decline that begain in late 1980 has ended.

However, construction activity for the year to date continues to be weak. The average value of new construction spending in April and May was approximately 5 percent below the first quarter level, which in turn was down 5.4 percent from the fourth quarter of 1982. As the year progresses, this downward movement may be reversed because of increased federal highway aid, favorable construction costs, and some easing of state and local fiscal conditions accompanying the economic recovery.

The Farm Sector

In contrast to the upturn in the general economy, output in the farm sector is falling this year. On a value-added basis, real farm output in the first half of 1983 is estimated to have been down about 8 percent from its exceptionally high fourth-quarter level. Further output declines are expected in the second half, owing to government programs that have resulted in reduced plantings of a number of crops.

The accumulation of farm inventories, including CCC stocks, slowed toward mid-1983. Preliminary indications are that the stocks owned or financed by the government's Commodity Credit Corporation declined moderately in the second quarter, following a rapid buildup during the two preceding quarters. A more rapid liquidation of CCC inventories appears likely in the second half of the year, when these stocks will be returned to farmers as payment-in-kind (PIK) subsidies for idling cropland. The net reduction in CCC stocks, however, may be less than the PIK transfer, because of government purchases of this year's crops under the regular CCC program.[1]

The financial situation in farming appears to have steadied. Farm proprietors' income for the first five months of 1983 averaged about

1. Government programs to reduce crop production in the current year will act as a drag on real output growth. However, the PIK transfer itself will have no effect on GNP, because it consists of goods already produced. Owing to an accounting convention, the transfer will be recorded as a negative government purchase at the time the transfer is made. The transfer will thus tend to depress final sales, but this will be offset by an equivalent rise in farm product inventories.

$19 billion at an annual rate--still low, but up from a year earlier. Land prices in some farming regions turned up early this year, after steep declines in 1981 and 1982. Reports of financial stress seem to have diminished.

Farm product prices rose through the early part of 1983, the result both of bad weather and of the government's programs to reduce production and isolate crop inventories from the marketplace. Toward mid-year, however, prices began weakening in spot markets, and futures prices have declined as well.

Wages

Wage inflation moderated somewhat further on average during the first five months of 1983. The often-volatile hourly earnings index rose 0.5 percent in May, after registering very small increases during the previous two months. Despite the May increase, the index has risen at only a 4.5 percent annual rate so far this year, compared with a 6 percent increase in 1982. Wage increases have been especially moderate in the high unemployment sectors, manufacturing and construction, averaging just 2 to 3 percent at an annual rate. In part, this slow growth reflected concessions by union workers. The incidence of wage freezes and pay cuts in new union settlements appeared to remain about as great in the second quarter as during the preceding year. However, bargaining in the second half will be concentrated in industries such as telephone and aerospace where concessions seem less likely.

Wage inflation also has slowed outside of the industrial sector. For example, the hourly earnings index for the services industry has increased at a 5-1/4 percent annual rate this year, down from 6-3/4

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

	1981	1982	1982 Q4	1983 Q1	1983 Apr.	1983 May	Dec. 1982- May 1983
Total private nonfarm	8.3	6.0	4.8	5.3	3.9	6.3	4.5
Manufacturing	8.8	6.1	3.3	4.5	-.7	4.4	2.8
Contract construction	8.4	5.2	4.4	6.1	3.2	-5.8	2.0
Transportation and public utilities	8.5	6.1	7.0	8.3	-1.8	5.2	5.2
Total trade	7.0	4.8	5.1	4.6	7.2	7.1	5.3
Services	9.1	6.6	5.0	3.6	9.6	11.1	5.2

1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime hours 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 compounded annual rates; monthly changes are not compounded.

percent in 1982. Wage adjustments in the large trade sector, which appear to be quite sensitive to high unemployment, declined substantially early in the recession and have stayed close to 5 percent over the past year and a half.

Prices

Consumer prices rose at a 6-3/4 percent annual rate in April and May, after showing little change in the first quarter. However, much of the increase can be attributed to recent developments in energy markets, as inflation rates continued to moderate in other sectors. Excluding food and energy items, the CPI increased at an annual rate under 4 percent in April and May, somewhat less than the first-quarter pace and well below the 6 percent rate last year. Except for a few categories, notably used cars, the slowing this year has been widespread in both commodities and services.

Gasoline price hikes were the major factor in the recent rapid rise in consumer energy prices, increasing by about 4 percent (not an annual rate) in both April and May. About half of the rise was due to the passthrough of the five-cent per gallon federal excise tax imposed in April. According to recent survey data, however, retail gasoline price increases have slowed markedly since May.

Inflation in the food sector appears to be easing after a temporary spurt that was mainly weather-related. In May, the CPI food component rose at a 3-3/4 percent annual rate despite another large increase in prices of fresh fruits and vegetables, which have been less plentiful this spring owing to wet weather. At the farm level, prices turned down in May and, on net, futures prices for most crop and livestock products have declined in recent weeks.

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

	Relative Importance 1982 Dec.	1981	1982	1982 Q3	1982 Q4	1983 Q1	1983 Apr.	1983 May
All items[2]	100.0	8.9	3.9	4.1	.5	.4	6.9	6.5
Food	19.0	4.3	3.1	.6	.8	2.8	5.0	3.7
Energy	12.4	11.9	1.3	8.1	10.2	-25.1	23.9	29.9
All items less food and energy[3]	68.6	9.4	6.0	6.1	5.8	4.4	4.2	3.4
Commodities[3]	26.2	7.9	5.0	4.3	5.7	5.7	1.5	2.5
Services[3]	42.4	10.6	6.9	8.4	5.1	3.7	6.1	3.9
Memorandum:								
CPI-W[4]	100.0	8.7	3.9	4.2	.7	.3	7.0	5.3

1. Changes are from final month of preceding period to final month of period indicated; monthly changes are not compounded.
2. Official index for all urban consumers, based on a rental equivalence measure for owner-occupied housing after December 1982.
3. Data not strictly comparable. Before 1983, they are based on unofficial series that exclude the major components of homeownership; beginning in 1983, data include a rental equivalence measure of homeowners costs.
4. Index for urban wage earners and clerical workers.

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

	Relative importance 1982 Dec.	1981	1982	1982 Q3	1982 Q4	1983 Q1	1983 Apr.	1983 May
Finished goods	100.0	7.1	3.7	4.2	5.2	-4.7	-.8	3.8
Consumer foods	23.7	1.4	2.1	-7.7	.8	3.6	14.2	-5.9
Consumer energy	13.2	14.1	-.1	30.9	7.0	-34.3	-34.1	26.5
Other consumer goods	40.5	7.1	5.3	4.2	7.9	-2.3	2.0	1.0
Capital equipment	22.5	9.2	3.9	3.5	3.6	3.3	-3.3	2.9
Intermediate materials[2]	95.2	7.3	.3	2.3	1.5	-5.1	-4.2	5.4
Exc. energy	78.8	6.6	.6	1.0	1.0	1.1	-2.1	4.5
Crude food materials	51.2	-14.0	1.5	-26.4	1.3	18.1	35.9	-14.0
Crude energy	34.4	22.8	2.6	8.7	6.4	-7.6	-16.4	-4.1
Other crude materials	14.4	-11.4	-7.6	2.9	-8.0	-15.7	23.9	62.4

1. Changes are from final month of preceding period to final month of period indicated; monthly changes are not compounded.
2. Excludes materials for food manufacturing and animal feeds.

At the producer level, the rate of increase in capital equipment prices has averaged about 2 percent at an annual rate so far this year, compared with about 4 percent last year and 9-1/4 percent in 1981. The index for intermediate materials less food and energy, a fairly comprehensive measure of production inputs, rose in May, but remains little changed from its year-earlier level.

APPENDIX A*

REVISION OF CAPACITY UTILIZATION

The Federal Reserve's capacity indexes and capacity utilization rates for manufacturing and materials have been revised. The results of the revision are to be published on July 18, 1983, together with the new monthly estimate for June and are confidential until that release. All component series have been re-estimated from 1967 to the present, and estimates of capacity growth since 1979 generally have been lowered. Apart from the needs for periodic revisions of the capacity series, this revision was prompted by the concern that during the period of prolonged economic stagnation since early 1979, capacity growth may have been slower than previously estimated and even may have declined for some industries. Over the 1979-82 period, manufacturing capacity growth has been reduced from an annual rate of 3.0 percent to 2.4 percent, and materials capacity growth lowered from a 2.5 percent annual rate to 2.0 percent. In accordance with the lower capacity estimates, manufacturing and materials operating rates were revised upward: the December 1982 operating rate for manufacturing became 68.9 percent rather than 67.5 percent, and for materials the rate was raised from 65.2 percent to 66.6 percent. Even though the revised estimates have resulted in only moderately higher aggregate manufacturing and materials utilization rates, capacity estimates and utilization rates for some industries have been changed more substantially.

Over the 1979-82 period capacity growth has become negative for the petroleum refining and the motor vehicles and parts industries, and a large capacity shrinkage occurred in the iron and steel industry. For several industries--fabricated metals, machinery, aerospace, and stone, clay and glass--estimated capacity growth since 1979 remains positive but has been cut back considerably relative to previous estimates. For textiles and nonferrous metals earlier estimates of capacity growth already were low over this period, and the new estimates are still lower--under 0.5 percent per year. In rubber and plastics the review of capacity growth has substantiated the earlier estimates of a sharp deceleration of capacity. Only for the food industry was capacity growth since 1979 revised up.

Various industry and survey sources were used to derive these estimates. As before, we made extensive use of the McGraw-Hill capacity and capacity utilization survey; the latest was for 1982.

The attached table contains revised and previous data on capacity growth and utilization rates.

* Prepared by Ronald F. Rost, Economist in the Business Conditions Section of the Division of Research and Statistics.

Table 1

REVISED AND PREVIOUS FEDERAL RESERVE ESTIMATES OF CAPACITY GROWTH AND CAPACITY UTILIZATION

	Capacity Growth Rates (Percent, annual rate of change)		Capacity Utilization (Percent)		
	1973-79	1979-82	Mar. 1979	Dec. 1982	May 1983
Total manufacturing					
Revised	3.1	2.4	87.5	68.9	73.7
Previous	3.2	3.0	87.2	67.5	72.0
Food					
Revised	3.4	3.3	85.1	77.9	77.5
Previous	3.0	2.8	87.1	81.0	80.9
Textiles					
Revised	.8	.1	88.2	74.6	84.7
Previous	1.1	1.0	86.5	71.3	80.3
Paper					
Revised	2.0	1.9	91.3	86.1	90.6
Previous	2.2	2.8	91.1	82.8	86.8
Chemicals					
Revised	5.7	4.9	83.5	64.8	69.3
Previous	5.7	5.0	83.5	64.9	69.3
Petroleum refining					
Revised	3.7	-.7	87.6	72.2	75.5
Previous	3.7	1.8	87.6	67.3	69.2
Rubber & plastics					
Revised	7.6	1.9	90.5	74.5	84.4
Previous	7.6	1.9	90.5	74.5	84.2
Stone, clay & glass					
Revised	3.2	1.7	87.8	63.0	69.8
Previous	3.9	2.8	86.0	58.6	64.9
Iron & steel					
Revised	.3	-1.7	89.9	38.8	57.0
Previous	.9	-.2	87.8	35.5	52.2
Nonferrous metals					
Revised	.8	.2	93.4	63.0	72.8
Previous	.8	.6	92.8	60.9	71.4

Table 1--continued

	Capacity Growth Rates (Percent, annual rate of change)		Capacity Utilization (Percent)		
	1973-79	1979-82	Mar. 1979	Dec. 1982	May 1983
Fabricated metals					
Revised	2.0	1.4	89.5	60.8	65.8
Previous	3.2	2.7	85.3	54.8	59.1
Nonelectrical machinery					
Revised	4.3	3.3	83.1	61.6	64.2
Previous	4.4	4.0	83.1	60.4	62.8
Electrical machinery					
Revised	2.9	3.3	90.0	74.7	80.4
Previous	3.0	4.4	90.0	72.5	77.7
Motor vehicles & parts					
Revised	3.5	-.3	92.7	56.0	67.5
Previous	4.0	1.0	92.1	52.3	62.4
Aerospace					
Revised	.8	4.0	89.6	69.4	68.4
Previous	1.2	4.7	87.4	67.0	66.0
Instruments					
Revised	3.3	2.6	92.3	73.1	73.2
Previous	4.0	2.7	89.4	70.3	70.2
Total materials					
Revised	3.3	2.0	88.7	66.6	73.4
Previous	3.4	2.5	88.6	65.2	71.7
Durable goods materials					
Revised	3.4	1.5	87.6	59.6	68.6
Previous	3.4	2.3	87.6	58.2	66.7
Nondurable goods materials					
Revised	4.1	3.1	90.7	71.8	78.5
Previous	4.2	3.4	90.6	71.1	77.6
Energy materials					
Revised	1.9	1.2	88.5	78.8	79.1
Previous	2.3	1.7	87.9	76.4	76.6

APPENDIX B*

FIRST CONCURRENT RESOLUTION ON THE BUDGET--FISCAL YEAR 1984

Overview

The Congress adopted the first FY1984 budget resolution on June 23. The resolution establishes congressional tax, spending, and deficit targets for the next three fiscal years and revises the limits that were previously set for FY1983. As Table 1 shows, the Congressional plan calls for a deficit which drops from $203 billion in FY1983 to $127 billion in FY1986. These deficit targets may be increased, however--by as much as $9 billion in FY1984--if legislation authorizing programs included in a special anti-recession reserve fund is enacted.

The Congressional budget sets spending priorities that differ from those proposed by the Administration last February by slowing the growth of defense spending advocated by the Administration and rejecting most of the nondefense cuts that were proposed in the Administration's budget. Congress does call for small cuts in some entitlement programs but these are about offset by small increases in other nondefense programs. In addition, the reserve fund provides for anti-recession programs that are not included in Administration budget plans. Finally, the Congressional budget calls for larger tax increases than the Administration.

Congressional Baseline and Economic Assumptions

In its budget deliberations, Congress gauges its actions against a baseline projection of the revenues and outlays that would occur if current laws and policies were to continue unchanged. The baseline deficit used for the Congressional budget is shown in line (d) of Table 2. It is derived from the January estimate by the Congressional Budget Office of program costs and tax receipts under current policy. These estimates (shown in line (a)) were adjusted for subsequently enacted legislation (primarily the Social Security Amendments and Jobs bill), technical reestimates based on incoming spending and tax patterns, and revised economic assumptions.

The new economic assumptions show a higher rate of growth of real GNP during 1983, bringing the projection more into line with the recent concensus of forecasts, and corresponding adjustments were made to the unemployment projection. Interest rates were adjusted to allow for the actual rates that have been recorded since January. Although the recovery now being assumed by Congress is stronger than that projected by the Administration in its April budget update, it has been reported that the Administration will assume even higher near-term real growth in its July mid-session budget review. The economic projections adopted by Congress are compared to earlier CBO and Administration projections in Table 3.

* Prepared by Wolf Ramm, Economist, Government Finance Section, Division of Research and Statistics.

Congressional Budget Initiatives

The budget resolution proposes significant reductions in the baseline deficit by cutting defense and increasing taxes (see Table 2). The anti-recession reserve would increase the deficit. Other nondefense changes are small and, on balance, tend to leave nondefense spending at about its baseline level.

The Congressional defense plan limits the growth of real budget authority to five percent per year during the 1984 to 1986 period. This limit results in cumulative savings, in the FY1984 to FY1986 period, of $30 billion relative to previous congressional plans--due to the difficulty of defining "current policy" defense spending the CBO took the defense spending plan adopted in the FY1983 budget resulution as the defense baseline--and a saving of $53 billion relative to the Administration's February budget proposal.

The resolution also calls on authorizing committees to save $12.3 billion over 3 years by cutting existing nondefense entitlement programs--primarily medicare and federal retirement--and saves an additional $3.7 billion over this period by limiting federal civilian agency pay. These savings are in large measure offset, however, by higher funding levels for other nondefense entitlement programs (line (g) in Table 2 is the net effect of initiatives) and increased domestic discretionary spending (line (h) in Table 2). Resulting nondefense funding levels--excluding the anti-recession fund--are slightly above baseline levels in FY1984 and FY1985 and slightly below in FY1986. The congressional spending levels are, however, substantially above Administration nondefense spending proposals which had called for cuts of $14.8 billion in FY1984 and $37.8 billion in FY1986.

A novel feature of the budget resolution is the segregation of new anti-recession programs in a reserve fund (shown in line (f) of Table 2). Spending ceilings will become effective to provide for these programs only when they are specifically authorized in legislation enacted by Congress. The reserve fund was established so that funds contemplated for these programs would not become available for other domestic spending if Congress fails to enact the authorizing legislation. Included in the reserve fund are loan and mortgage foreclosure relief programs for homeowners and farmers, a physical infrastructure program, jobs and training programs for the long-term unemployed, a health insurance program for the unemployed and extension of the federal supplemental unemployment compensation program into FY1984. The reserve would allow as much as $19.3 billion in additional spending during the FY1983 to FY1986 period.

On the revenue side of the budget, the Congressional plan calls on the tax writing committees of the House and Senate to propose changes in tax law that will increase revenues by $12 billion in FY1984, $15 billion in FY1985 and $46 billion in FY1986. Even larger tax increases would be required if, as now appears almost certain, the dividend and interest withholding scheduled to begin this summer is repealed. The revenue increases proposed for FY1984 and FY1985 are substantially larger than the $8.5 billion increase requested by the Administration for these two years combined. The FY1986 increase is about the same as Administration proposals including the contingency tax plan.

The Congressional budget plan is compared to the Administration's April budget projections in Table 4.

<u>Reconciliation and Enforcement</u>

The resolution includes reconciliation instructions which call on Senate and House authorizing committees to report to the Budget committees program changes that will reduce outlays by $2.8 billion in FY1984, $3.9 billion in FY1985 and $5.5 billion in FY1986 (the entitlement savings noted above). The tax increases called for in the budget resolution are also covered by the reconciliation instructions which call on the affected committees to report recommended changes by July 22. The changes covered by the reconciliation instructions can then be packaged into a single bill by the Budget committees.

As was the case last year, the first resolution will be automatically converted to the second (binding) budget resolution if Congress does not enact a second resolution by October 1, 1983. Enforcement is, however, weaker than in last year's congressional budget in one important respect. The FY1983 budget resolution provided that an appropriation bill that exceeded total spending targets could not be sent to the President for signature before the second budget resolution had been adopted. This provision, known as deferred enrollment, is not included in this year's budget.

<u>Monetary Policy</u>

The resolution also contains language that requests House and Senate Banking committees to report a resolution expressing the sense of the Congress as to the coordination of fiscal and monetary policy--including information regarding the economic assumptions and goals of the Federal Reserve System and information about the effects of the Federal Reserve's monetary policy on the economy.

Table 1

CONGRESSIONAL BUDGET PLAN--FISCAL YEAR 1984
(Unified budget, fiscal years, billions of dollars)

	1983	1984	1985	1986
Revenues	604.3	679.6	750.5	835.8
Outlays				
Excluding anti-recession reserve	807.4	849.5	906.8	963.0
Including anti-recession reserve	812.9	858.9	911.6	966.6
Deficit				
Excluding anti-recession reserve	-203.1	-169.9	-156.3	-127.2
Including anti-recession reserve	-208.6	-179.3	-161.1	-130.8

Table 2
CONGRESSIONAL BUDGET INITIATIVES
(Unified budget, fiscal years, billions of dollars)

	1983	1984	1985	1986
a) CBO baseline deficit[1]	-194.6	-200.9	-210.5	-226.7
b) Enacted legislation[2]	-2.4	5.6	9.6	13.8
c) Economic assumptions and technical reestimates	-4.9	12.3	17.1	16.7
d) Congressional baseline deficit	-201.9	-183.0	-183.8	-196.2
Policy initiatives:[3]				
e) National defense cuts	--	2.1	12.4	15.0
f) Anti-recession reserve	-5.4	-8.5	-3.4	-2.0
g) Entitlements and other mandatory spending	--	-.5	-.5	1.2
h) Nondefense discretionary spending	-1.0	-2.3	-2.4	*
i) Civilian agency pay raises	--	.9	1.2	1.6
j) Net interest	.1	-.6	.4	3.5
k) Offsetting receipts	--	.6	.1	.1
l) Revenues	-.1	12.0	15.0	46.0
m) Congressional deficit	-208.6	-179.3	-161.1	-130.8
Memo:				
n) Congressional deficit excluding reserve[4]	-203.1	-169.9	-156.3	-127.2

*--Less than $50 million.
1. The CBO's Baseline Budget Projections (February 1983) with minor technical revisions. This is the baseline that was used by the House and Senate budget committees in their deliberations.
2. The Social Security Amendments of 1983; the jobs bill and other minor legislation.
3. Initiative that increase the deficit are shown with a minus sign.
4. The deficit declines by more than the amount shown for the reserve fund due to saving of interest costs on a lower debt.
Note: Details may not add to totals due to rounding.

Table 3
COMPARISON OF ECONOMIC ASSUMPTIONS[1]
(Calendar years, percent)

	1983	1984	1985	1986
Real GNP (year-over-year)				
Congressional Budget Resolution	2.8	5.1	4.1	3.7
CBO	2.1	4.7	4.1	3.7
Administration	2.9	4.3	4.0	4.0
GNP Deflator (year-over-year)				
Congressional Budget Resolution	4.7	4.6	4.7	4.3
CBO	4.6	4.7	4.7	4.3
Administration	4.4	4.8	4.9	4.6
Unemployment Rate (annual average)				
Congressional Budget Resolution	10.1	9.3	8.5	7.9
CBO	10.6	9.8	9.0	8.4
Administration	10.0	9.1	8.4	7.7
Treasury Bill Rate (annual average)				
Congressional Budget Resolution	7.8	7.4	7.2	6.6
CBO	6.8	7.4	7.2	6.6
Administration	8.0	7.9	7.4	6.8

1. Economic assumptions underlying the Congressional Budget Resolution are from the Conference Report, First Concurrent Resolution on the Budget-Fiscal Year 1984, (June 21, 1983). The CBO assumptions are from The Outlook for Economic Recovery (February 1983), and the Administration's assumptions are from the April Update, Fiscal Year 1984 Budget, (April 12, 1983).

Table 4

ALTERNATIVE BUDGET PLANS[1]
(Unified budget, fiscal years, billions of dollars)

	1983	1984	1985	1986
Receipts				
Congressional Budget	604.3	679.6	750.5	835.8
President's Budget	598.3	653.7	732.4	843.8
Outlays				
Congressional Budget excluding Reserve	807.4	849.5	906.8	963.0
Congressional Budget including Reserve	812.9	858.9	911.6	966.6
President's Budget	808.5	843.9	917.0	988.4
Deficit				
Congressional Budget excluding Reserve	-203.1	-169.9	-156.3	-127.2
Congressional Budget including Reserve	-208.6	-179.3	-161.1	-130.8
President's Budget	-210.2	-190.2	-184.6	-144.6

1. The Congressional Budget was passed as the First Concurrent Resolution on the Budget--Fiscal Year 1984 on June 23, 1983. The President's budget is the April update of the FY1984 budget.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1982 highs	1982 FOMC Dec. 21	1983 Recent low	1983 FOMC May 24	1983 July 5	Change from: Recent low	Change from: FOMC May 24
Short-term rates							
Federal funds[2]	15.61	8.69	8.48	8.72	9.42p	.94	.70
Treasury bills							
3-month	14.57	7.90	7.96	8.47	9.02	1.06	.55
6-month	14.36	8.01	7.97	8.48	9.20	1.23	.72
1-year	13.55	8.11	7.95	8.47	9.19	1.24	.72
Commercial paper							
1-month	15.73	8.48	8.17	8.48	9.12	.95	.64
3-month	15.61	8.43	8.13	8.52	9.18	1.05	.66
Large negotiable CDs[3]							
1-month	15.94	8.59	8.26	8.64	9.33	1.07	.69
3-month	16.14	8.62	8.26	8.73	9.44	1.18	.71
6-month	16.18	8.78	8.29	8.95	9.72	1.43	.77
Eurodollar deposits[2]							
1-month	16.36	9.44	8.68	8.96	9.56p	.88	.60
3-month	16.53	9.56	8.71	9.14	9.77p	1.06	.63
ank prime rate	17.00	11.50	10.50	10.50	10.50	0	0
easury bill futures							
Sept. 1983 contract	13.97	8.63	7.99	8.72	9.38	1.39	.66
Mar. 1984 contract	13.55	9.32	8.37	9.15	9.76	1.39	.61
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	15.16	9.87	9.36	9.91	10.74	1.38	.83
10-year	14.95	10.54	10.12	10.56	11.21	1.09	.65
30-year	14.80	10.53	10.27	10.69	11.25	.98	.56
Municipal (Bond Buyer)	13.44	10.05[4]	8.78	9.29[4]	9.36[4]	.58	.07
Corporate--Aaa utility							
Recently offered	16.34	11.96e	11.03	11.55e	12.14e	1.11	.59
S&L fixed-rate mortgage commitment	17.66	13.63[5]	12.55	12.55[5]	13.08[5]	.53	.53

	1982 lows	1983 FOMC May 24	1983 July 5	Percent change from: 1982 lows	Percent change from: FOMC May 24
Stock prices					
Dow-Jones Industrial	776.92	1219.04	1208.53	55.6	-.9
NYSE Composite	58.80	95.58	96.65	64.4	1.1
AMEX Composite	118.65r	229.30r	242.48	104.4	5.7
NASDAQ (OTC)	159.14	307.36	317.15	99.3	3.2

1. One-day quotes except as noted.
verages for statement week closest to date shown.
econdary market.
4. One-day quotes for preceding Thursday.
5. One-day quotes for preceding Friday.
p--preliminary. e--estimated. r--revised.

The monetary aggregates continued to grow rapidly in June. M1 expansion remained in double-digits, keeping the aggregate well above the FOMC's 1983 growth range. Expansion in M2 and M3 in June was just below the advanced May rate, and was strong enough to boost them to levels around the upper ends of their long-run target ranges. Against this backdrop--and with incoming data pointing to a stronger economy--interest rates, which began to firm in early May, have moved up further since the last FOMC meeting--in most cases by 1/2 to 3/4 of a percentage point.

In credit markets, the debt of nonfinancial sectors is estimated to have grown at an annual rate of about 12 percent in June, somewhat faster than on average in earlier months. The acceleration was attributable to stepped-up federal government borrowing as the Treasury built its cash balance in a month of a small budget surplus. For other sectors, overall credit demands were moderate and tended to be focused somewhat less on long-term markets than in recent months. Owing in part to the backup in rates, bond offerings by both businesses and state and local governments moderated significantly in June, while the total of business borrowing from banks and in the commercial paper market increased for the first time in four months. Consumer installment loan growth picked up a bit in April from its first-quarter pace and partial data for May and June suggest a further acceleration. Mortgage activity has remained strong, although perhaps slowing somewhat recently from earlier in the year.

Monetary Aggregates and Bank Credit

M1 growth continued strong in June, though well below the record pace of May. For the second quarter as a whole, M1 growth slowed only moderately

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

	1982 Q4	1983 Q1	1983 Q2P	1983 Apr.	1983 May	1983 JuneP	Growth from base period to June 1983[2]
	------- Percentage change at annual rates ------						
Money stock measures							
1. M1	13.1	14.1	12.4	-2.7	26.3	12.5	14.2
2. (M1)[3]	(14.5)	(13.8)	(13.0)	(0.0)	(21.4)	(9.7)	(13.7)
3. M2	9.3	20.3	10.3	3.0	12.8	11.1	9.4
4. M3	9.5	10.2	8.3	3.5	11.3	11.1	9.7
Selected components							Level in billions of dollars June 1983
5. Currency	7.4	10.9	10.6	8.8	11.3	9.5	140.4
6. Demand deposits	8.4	2.7	4.3	-6.0	18.1	10.9	244.7
7. Other checkable deposits	34.0	46.2	31.0	-10.3	61.6	19.9	122.9
8. M2 minus M1 (9+10+11+14)	8.1	22.4	9.7	4.7	8.6	10.6	1604.0
9. Overnight RPs and Eurodollars, NSA[4]	23.9	34.2	53.1	46.8	132.8	14.9	56.9
10. General purpose and broker/dealer money market mutual fund shares, NSA	15.3	-57.5	-44.5	-56.9	-47.4	-12.8	139.4
11. Commercial banks	9.9	57.8	16.5	9.5	12.5	15.3	675.6
12. Savings deposits, SA, plus MMDAs, NSA[5]	35.5	296.1	62.7	38.4	34.4	26.9	356.2
13. Small time deposits	-0.5	-48.5	-24.1	-19.5	-10.5	2.6	319.4
14. Thrift institutions	4.1	14.7	12.7	10.8	7.6	10.3	739.5
15. Savings deposits, SA, plus MMDAs, NSA[5]	30.3	171.2	57.2	35.0	27.8	18.4	336.9
16. Small time deposits	-6.0	-51.0	-18.0	-8.3	-8.3	3.6	402.6
17. M3 minus M2 (18+21+22)	10.4	-36.4	-2.4	6.7	2.8	11.0	383.8
18. Large time deposits	4.2	-43.0	-0.4	16.6	-4.8	20.5	304.3
19. At commercial banks, net[6]	-1.5	-49.7	-15.4	-2.6	-23.4	12.7	229.1
20. At thrift institutions	29.3	-14.6	55.4	85.4	57.2	44.7	75.2
21. Institution-only money market mutual fund shares, NSA	32.7	-32.7	-41.9	-69.0	-17.6	-35.6	39.2
22. Term RPs, NSA	34.4	19.4	28.3	28.8	64.6	-29.3	43.9
	— Average monthly change in billions of dollars —						
MEMORANDA:							
23. Managed liabilities at commercial banks (24+25)	-5.3	-19.2	1.5	4.4	1.3	-1.2	376.4
24. Large time deposits, gross	-6.5	-17.1	-2.8	0.2	-9.3	0.8	287.7
25. Nondeposit funds	1.2	-2.1	4.3	4.2	10.6	-2.0	88.7
26. Net due to related foreign institutions, NSA	-0.7	-4.5	2.3	-0.2	4.8	2.3	-54.9
27. Other[7]	2.0	2.4	2.0	4.5	5.8	-4.3	143.6
28. U.S. government deposits at commercial banks[8]	0.3	0.2	0.3	1.0	-2.2	2.1	13.4

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. The base for M1 and M3 targets is the fourth-quarter 1982 average. The base period for the M2 target is the February-March 1983 average.
3. M1 seasonally adjusted using an experimental model-based procedure applied to weekly data.
4. Overnight and continuing contract RPs issued to the nonbank public by commercial banks plus overnight Eurodollar deposits issued by branches of U.S. banks to U.S. nonbank customers, both net of amounts held by money market mutual funds. Excludes retail RPs, which are in the small time deposit component.
5. Beginning December, 1982, growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Savings deposits excluding MMDAs declined at commercial banks at annual rates of 12.7 percent in April, remained unchanged in May, and increased 1.7 in June. At thrift institutions, saving deposits excluding MMDAs increased during April, May and June at rates of 4.0 percent, 9.9 percent, and 12.5 percent.
6. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
7. 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. Data are partially estimated.
8. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
p--preliminary.

from its rapid first-quarter pace, and from the fourth quarter of 1982 through June, M1 expanded at a 14-1/4 percent annual rate.

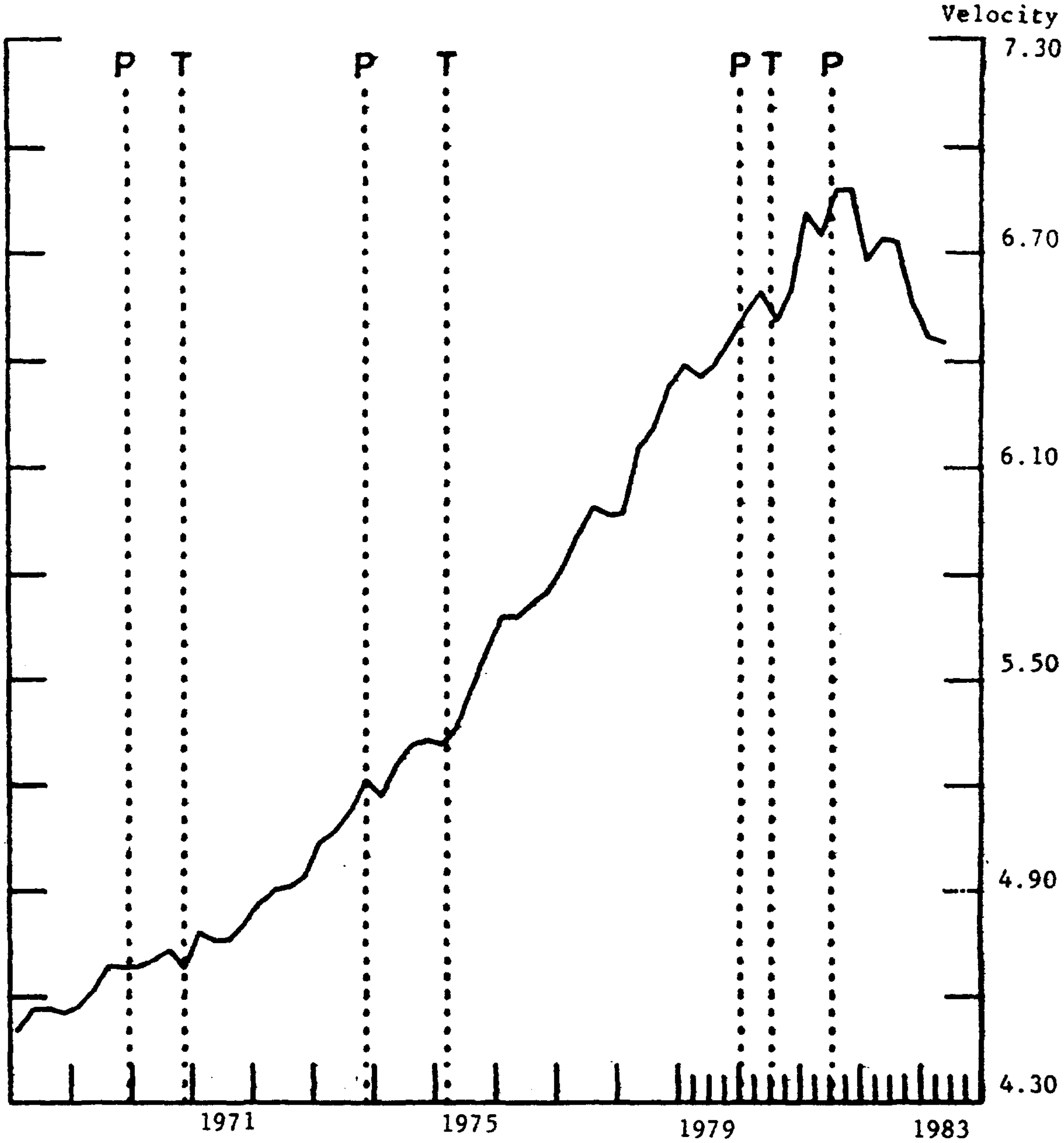
The strength in M1 in recent months has been evident in all of its components. Growth in currency remained rapid throughout the second quarter. Demand deposits--which had contracted on balance over the first four months of the year--grew rapidly in May and June, reflecting in part slowing of shifts to Super NOWs and MMDAs.

The pickup in the economy likely has given some impetus to M1 demand in recent months.[1] Growth of M1, however, was only a bit above that of nominal GNP in the second quarter, and the decline in M1 velocity thus was relatively small (see chart on page III-4). Nevertheless, the drop in M1 velocity in the early stages of a cyclical upturn is unprecedented during the postwar period, at least in part reflecting the changing composition of this aggregate.

M2 growth slackened only a little in June as the slowdown in M1 growth was partially offset by an acceleration in the nontransactions component of M2. The increase in M2 during the second quarter, at a 10-1/4 percent annual rate, was only one half that for the first quarter largely because of lessened shifting to money market deposit accounts. Growth of MMDAs continued to slow in recent months--indeed, a small outflow occurred in late

1. Growth of the narrow money stock in the second quarter was once again faster than predicted by the Board's econometric models. However, according to an experimental version of the quarterly model that includes OCDs explicitly, the excess of actual over predicted growth was only about 2-1/2 percentage points at an annual rate. This excess is considerably less than that of the standard version of the quarterly model, as the experimental model suggests a greater impact in the second quarter of previous interest rate declines and a further impact of the availability of Super NOWS with market-determined yields. Both versions suggest that stronger economic activity thus far in 1983 has boosted M1 growth a few percentage points.

III-4
M1 VELOCITY



	M1 velocity	Rate of change (annualized %)
1981 Q1	6.81	13.3
Q2	6.75	-3.7
Q3	6.88	7.8
Q4	6.88	-.2
1982 Q1	6.68	-11.3
Q2	6.74	3.4
Q3	6.73	-.5
Q4	6.56	-10.2
1983 Q1	6.47	-5.8
Q2P	6.44	-1.4

p--preliminary.

June--and for the second quarter as a whole shifts from outside M2 probably boosted growth in this aggregate by 3 to 4 percentage points, compared with roughly 10 percentage points in the first quarter. After making allowance for the effects of these shifts, M2 appears to have increased somewhat less than nominal income in the second quarter, possibly signaling a reduced desire to hold liquid assets as the economic recovery strengthened. Relative to the February-March base period, M2 is estimated to have grown at a 9-1/2 percent annual rate through June, near the top of its target range of 7 to 10 percent.

The recent behavior of other components of M2 appears to reflect the waning of the public's adjustment to MMDAs. Net outflows from general purpose and broker/dealer money market mutual funds abated considerably during the second quarter; savings deposits increased at a moderate rate in May and June, and small time deposits turned upward in June. The overnight RP component of M2 rose sharply in May, as RP collateral at commercial banks was augmented by a surge in acquisitions of Treasury securities and a drop in Treasury balances, but its growth slowed in June.

M3 growth in June about matched the rapid May pace. On a quarterly average basis, however, it decelerated in the second quarter to an 8-1/4 percent annual rate. Since the fourth quarter of 1982, M3 has grown at a 9-3/4 percent annual rate, putting this aggregate just above its target range of 6-1/2 to 9-1/2 percent. Large time deposits at commercial banks, which had declined earlier in the year as core deposits were enlarged by MMDAs, increased in June. Thrift institutions continued to augment their core deposits with large time deposits in June; meanwhile, advances from FHLBs leveled off, after contracting over the previous three months.

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

	1982 Q4	1983 Q1	1983 Q2p	1983 Apr.	1983 May	1983 Junep	Levels in bil. of dollars June 1983p
	Commercial Bank Credit						
1. Total loans and securities at banks[2]	6.3	10.7	9.9	8.7	10.7	10.0	1490.8
2. Securities	15.9	25.1	24.5	22.2	29.6	20.4	418.1
3. Treasury securities	43.0	61.1	54.3	54.0	63.1	39.0	171.5
4. Other securities	2.5	5.7	6.1	2.5	7.9	7.8	246.6
5. Total loans[2]	3.0	5.7	4.6	3.8	3.7	6.1	1072.7
6. Business loans[2]	-.2	3.9	-0.4	-11.3	0.9	9.4	397.8
7. Security loans	37.2	-34.0	-12.4	15.9	26.2	-76.9	21.9
8. Real estate loans	4.9	7.2	9.7	7.4	8.5	13.0	317.0
9. Consumer loans	4.6	6.5	9.9	7.4	11.6	10.3	199.6
	Short- and Intermediate-Term Business Credit						
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	-2.9	-3.3	n.a.	-10.4	n.a.	n.a.	n.a.
11. Business loans net of bankers acceptances	.6	3.5	0.7	-11.3	3.0	10.5	389.9
12. Commercial paper issued by nonfinancial firms[3]	-39.6	-33.1	-21.8	-27.7	-46.5	8.1	45.0
13. Sum of lines 11 & 12	-4.5	-0.5	-1.8	-13.3	-1.9	10.2	434.9
14. Line 13 plus loans at foreign branches[4]	-4.8	0.2	-1.3	-13.6	0.0	9.8	451.7
15. Finance company loans to business[5]	-15.2	4.0	n.a.	5.9	n.a.	n.a.	n.a.
16. Total bankers acceptances outstanding[5]	22.9	-30.9	n.a.	-8.4	n.a.	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. Average of Wednesdays.
4. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
5. Based on average of current and preceding ends of month.
n.a.--not available.
p--Preliminary, based on data through June 22 for large banks and U.S. branches and agencies of foreign banks, and data through June 15 for other banks.

Growth in total loans and investments at commercial banks in June evidently nearly matched the strong May pace, leaving the expansion in bank credit for the second quarter only a bit below that of the first quarter. A drop in the rate of accumulation of U.S. Treasury securities in June was offset by an acceleration in loan growth. Real estate loans picked up--boosting their quarterly growth to its most rapid rate in two years--and business lending strengthened considerably as well. Consumer loan growth remained strong in June, although off a bit from May; the second-quarter growth rate was the highest since the third quarter of 1979. The pickup in business loans at commercial banks in June appears to have been part of a rise in the demand for short- and intermediate-term credit, largely reflecting a shifting of demands with the backup in long-term interest rates. Commercial paper issuance by nonfinancial businesses also increased in June, after a sharp contraction throughout the earlier part of the year.

Business Finance

Nonfinancial corporations appear to have raised slightly more funds in credit and equity markets in the second quarter than in the first. Although the heavy inventory liquidation that occurred in the first quarter appears to have ended, business financing needs still were fairly light, as cash flow improved and fixed capital outlays rose only slightly. Equity issuance has been strong, and corporate bond issuance proceeded at a rapid pace in April and May before falling off in June when corporate bond rates rose.

Since the last FOMC meeting, the Board's index of recently offered corporate bond yields has risen 60 basis points, reaching 12.14 percent.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly totals or monthly averages, millions of dollars)

	1982		1983			
	Year	Q4	Q1	Apr.[p]	May[p]	June[p]
	---------- Seasonally adjusted ----------					
Corporate securities--total	8,118	11,548	10,792	12,024	11,233	8,000
Securities sold in U.S.	6,982	10,789	9,855	11,200	10,700	7,600
Publicly offered bonds[1]	3,619	6,720	4,565	6,200	7,000	1,700
Privately placed bonds	816	720	700[e]	700[e]	700[e]	700[e]
Stocks[2]	2,547	3,349	4,590	4,300	3,000	5,200
Securities sold abroad[3]	1,136	759	937	824	533	400
	--- Domestic offerings, not seasonally adjusted ---					
Publicly offered bonds--total[1]	3,619	5,205	4,519	6,100	6,900	2,300
By industry						
Utility	976	1,304	1,003	1,655	1,775	730
Industrial	1,252	1,998	1,340	2,545	3,250	1,150
Financial	1,391	1,903	2,176	1,900	1,875	420
By quality[4]						
Aaa and Aa	1,357	1,943	1,724	1,200	1,815	355
A and Baa	1,505	2,311	1,869	2,715	3,050	895
Less than Baa	283	552	595	1,255	1,020	170
No rating (or unknown)	474	399	331	930	1,015	880
Memo items:						
Convertible bonds	243	634	761	976	811	431
Original discount bonds						
Par value	952	1,094	163	790	505	25
Gross proceeds	281	184	133	631	446	21
Stocks--total[2]	2,547	3,484	4,710	3,700	3,500	4,800
By industry						
Utility	871	1,283	1,203	900	400	500
Industrial	1,119	1,474	2,124	2,500	2,300	3,500
Financial	557	727	1,383	300	800	800

1. Total reflects gross proceeds rather than par value of original discount bonds.
2. Includes equity issues associated with debt/equity swaps.
3. Notes and bonds, not seasonally adjusted.
4. Bonds categorized according to Moody's bond ratings.
p--preliminary. e--estimate.

The yield spread between prime corporate bonds and 20-year Treasury securities has continued to fluctuate in a relatively narrow range of 70 to 80 basis points. As rates backed up in June, the quality spread between high- and lower-rated corporate bonds widened somewhat from the narrow differentials in April and May, but it is still quite low by historical standards.

The gross amount of publicly offered bonds sold in domestic markets by all U.S. corporations totaled $7 billion in May, but volume has fallen off sharply in recent weeks and is estimated to have been only about $1-3/4 billion in June. Nevertheless, the large volume of long-term corporate debt issued in the quarter as a whole, and the accompanying net paydown of business loans and commercial paper, indicate that firms made further progress towards lowering their short- to long-term debt ratio, despite the increased emphasis on short-term borrowing in June.

The continued gain in stock prices has made equity issuance an attractive form of external financing for many firms. Reflecting the buoyant stock market, price-earnings ratios (as conventionally measured, using the past 12-month book profits) have reached their highest levels since 1976. Corporations responded by selling $3 billion of new equity issues in May and $5-1/4 billion in June. Stock issuance has played an unusually important role in corporate funding during this cyclical upturn.

<u>Government Finance</u>

<u>Federal sector</u>. The Treasury borrowed $44-1/2 billion, net, in the second quarter to finance a $33-1/2 billion deficit and to build up its cash balance. Although the budget probably was marginally in surplus in June owing to seasonal tax inflows, the Treasury raised about $23 billion of new funds during the month in anticipation of substantial financing needs in the

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

	1983				
	May	June^e	July^f	Q2^e	Q3^f
Treasury financing					
Combined surplus/deficit(-)	-30.5	1.5	-21.2	-33.4	-53.1
Means of financing deficit:					
Net cash borrowing from the public	18.5	23.3	12.5	44.5	50.9
Marketable borrowings/ repayments(-)	17.4	21.5	12.0	40.9	48.2
Bills	-.8	9.0	3.2	2.2	9.2
Coupons	18.2	12.5	8.8	38.7	39.0
Nonmarketable	1.1	1.8	.5	3.6	2.7
Decrease in the cash balance	18.9	-22.8	7.5	-12.5	7.0
Memo: Cash balance at end of period	5.2	28.0	20.5	28.0	21.0
Other[2]	-6.9	-2.0	1.2	1.4	-4.8
Federally sponsored credit agencies net cash borrowing[3]	-1.8	1.1	.9	-.2	4.7
FHLB	-.6	-.7	-.3	-2.8	.5
FNMA	-1.3	*	.6	-.6	1.8
Farm Credit Banks	-.6	.7	.4	.2	1.2
FHLMC	.3	1.0	*	2.0	.5
SLMA	.4	.2	.2	1.0	.7

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.
e--estimated. f--forecast. *--less than $50 million.

third quarter. The Treasury cash balance is estimated by the staff to have reached a very high level of $28 billion at the end of June.

Congressional delays in raising the debt ceiling disrupted Treasury auctions in May. The statutory debt limit was raised $100 billion to $1.4 trillion in late May--likely sufficient to see the Treasury through the end of September--and the Treasury subsequently raised $5 billion of new money at auctions of cash management bills. Most of the remaining $18 billion of new money raised during June was obtained in auctions of intermediate-term coupons.

In the third quarter, the staff expects that the Treasury will borrow about $51 billion, net, to help finance a projected deficit of $53 billion. The Treasury already has raised $8-1/2 billion of this total through 7-year notes and 20-year bonds that were auctioned in late June for settlement early in July.

Federally sponsored credit agencies paid down $1.8 billion in debt in May, but are estimated to have borrowed about $1 billion in June. Over the past two months, the FHLBs reduced their outstanding liabilities by an estimated $1.3 billion, reflecting seasonal declines in advances to thrifts as well as a reduction in the agency's liquidity. FNMA is also estimated to have reduced its debt obligations by about $1.3 billion during the May-June period. While the agency continued to make substantial purchases of mortgages, it reduced its need to borrow by issuing pass-through securities. Borrowings by the FFCBs have been essentially flat since April, while both the FHLMC and the SLMA have undertaken significant amounts of borrowing.

<u>State and local sector</u>. Yields on tax-exempt securities are only slightly above those prevailing at the time of the last FOMC meeting, but

are well above their levels in early May. The volume of gross offerings of tax-exempt bonds is estimated to have fallen to $5.2 billion in June, primarily as a result of the rise in yields. Refunding issues, which are relatively rate sensitive, dropped off in June to about half their May volume. The July 1 effective date for statutory registration requirements also damped June offerings, given the normal settlement lags.

A recent court ruling against "take-or-pay" utility contracts has virtually assured that WPPSS will default on interest payments due on bonds issued to finance nuclear project Nos. 4 and 5.[1] Although the court ruling applies only to the state of Washington, it raises some question about the

GROSS OFFERINGS OF SECURITIES BY STATE AND LOCAL GOVERNMENTS
(Monthly totals or monthly averages; billions of dollars)

	1982		1983			
	Year	QIV	QI	Apr.	May[e]	June[e]
	Seasonally adjusted					
Total	9.80	13.00	9.91	10.82	11.80	8.70
Long-term	6.40	8.75	6.96	8.42	9.10	5.20
Short-term[1]	3.40	4.25	2.95	2.40	2.70	3.50
	Not seasonally adjusted					
Total	9.80	12.60	8.27	16.15	11.50	10.00
Long-term	6.40	9.10	5.92	10.15	9.00	6.70
Refundings	.35	.70	1.00	1.60	2.20	1.15
Mortgage revenue	1.00	1.20	.75	1.20	1.00	1.40
Short-term[1]	3.40	3.50	2.35	6.00	2.50	3.50

1. These figures do not include tax-exempt commercial paper.
e--estimate.

1. The Washington State Supreme Court ruled on June 15 that the 29 Washington public utility districts and municipal utilities, which collectively own nearly 70 percent of WPPSS project Nos. 4 and 5, were not authorized under state law to enter into "take-or-pay" contracts that secure the bonds for the two nuclear projects. "Take-or-pay" agreements require participating utilities to repay bondholders, even if the utilities purchase no electricity because the plants are not completed or operable.

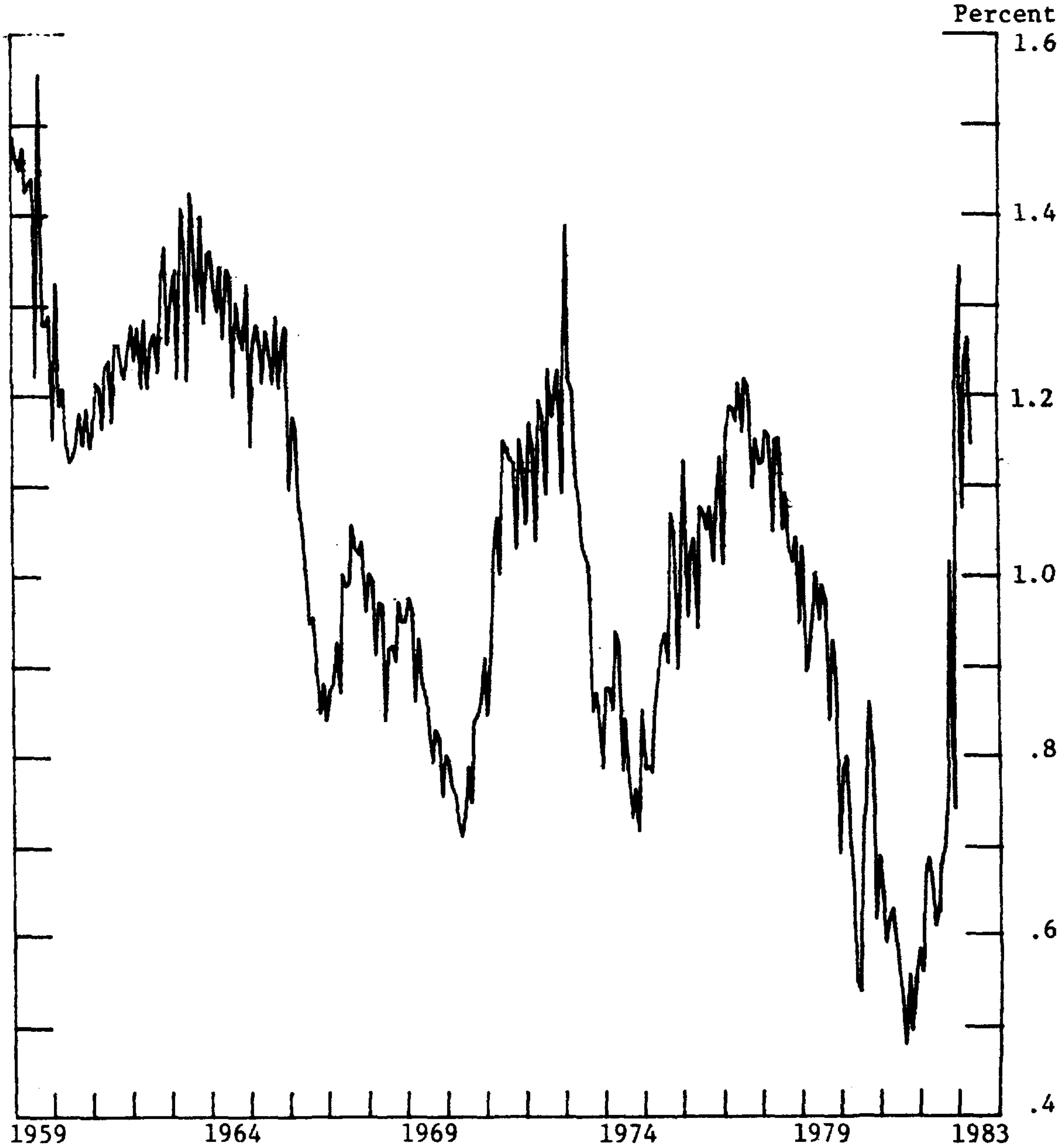
use of such contracts by joint power projects in other states. Thus far, however, WPPSS developments appear to have had a limited impact on municipal markets. There has been no apparent indication of a flight to quality by investors in municipal securities: the spreads between A-rated and Aaa-rated municipal bond yields, and between revenue and general obligation bond yields, have remained nearly unchanged at relatively low levels. Moreover, the volume of tax-exempt bond issuance by utilities generally remains high.

Mortgage Markets

Interest rates in mortgage markets have backed up since the last FOMC meeting, and field reports and trade opinions indicate that credit demands have slackened recently. Average interest rates on new commitments for fixed-rate conventional home mortgages at S&Ls have risen by about 1/2 of a percentage point to 13.08 percent. After average discounts on new issues of GNMA-guaranteed pass-through securities for forward delivery climbed above 6 points in the secondary market early last month, the rate ceilings on regular FHA/VA home mortgages was raised by 50 basis points to 12 percent, effective June 8-the first increase since early 1982. These discounts recently have moved up to nearly 8 points, raising the distinct possibility of another near-term hike in the FHA/VA ceilings.

The cost of adjustable-rate home mortgage credit has turned around even more sharply, narrowing the initial differential between costs of credit on fixed-rate loans compared with adjustable-rate loans. In early May, when the initial rate differential favored flexible-rate financing more than it does now, the average proportion of fixed-rate contracts on all home first mortgages closed by major institutional originators remained

MONTHLY REPAYMENT RATES ON MORTGAGES HELD BY INSURED S&Ls
(Seasonally adjusted)



near the 71 percent level recorded in early April--one of the highest shares in several years. Many borrowers evidently prefer arrangements offering certainty on the size of payments plus the potential for refinancing if market rates should decline.[1]

S&Ls slowed their pace of net acquisitions of mortgage assets in May to a combined total of $2.9 billion in mortgages and mortgage-backed securities. The volume of new loans made by insured S&Ls stayed heavy, although off a bit from the pace earlier in the year, while net sales of mortgages and portfolio repayments were large. Outstanding mortgage commitments at S&Ls reached a new high in May, but new commitments made edged down for the second consecutive month. Net mortgage lending at commercial banks strengthened in May, exceeding the improved first-quarter average for the second consecutive month; estimates for June show a further acceleration.

With housing sales up, due-on-sale clauses in conventional mortgages now readily enforceable, and the costs of mortgage credit lower, repayments on S&L portfolios of mortgages--including prepayments on older loans--have climbed to some of the highest levels of the past two decades.[2] By May, repayments were at a monthly rate of 1.2 percent of mortgage balances held at the end of the previous month. To an extent, this higher payoff rate on S&L portfolios probably has enhanced opportunities for these institutions to upgrade their earnings by reinvesting the proceeds from older mortgages

1. According to the mid-May survey of Senior Loan Officer Opinion on Bank Lending Practices, about a third of the panel--roughly the same proportion as in the two previous surveys--indicated that home mortgage credit demand during the three months prior to the survey had shifted toward fixed-rate loans. As in the mid-November survey, over three fourths of respondents originating fixed-rate home mortgages reported that they intended to sell these loans rather than hold them.
2. Refinancing also has spurted on regular mortgages insured by FHA on existing homes, but still accounts for a minor share of aggregate activity.

CONSUMER INSTALLMENT CREDIT

	1981	1982	1982 Q4	1983 Q1	1983 Feb.[r]	1983 Mar.	1983 Apr.
	- - - - - Percent rate of growth, SAAR - - - - -						
Change in outstandings--total	5.8	4.0	5.1	7.1	2.6	9.0	7.9
By type:							
Automobile credit	7.3	3.9	9.3	5.0	-2.1	11.2	6.3
Revolving credit	7.7	7.0	4.0	7.1	-2.6	22.5	17.2
All other[1]	4.5	2.6	2.0	9.1	8.9	1.5	5.3
	- - - - - - - Billions of dollars, SAAR - - - - - - -						
Change in outstandings--total	18.2	13.1	17.2	24.2	8.8	31.0	27.3
By type:							
Automobile credit	8.5	4.9	11.8	6.5	-2.8	14.7	8.3
Revolving credit	4.5	4.4	2.5	4.4	-1.6	14.1	11.0
All other[1]	5.3	3.8	2.9	13.3	13.2	2.2	8.0
By major holder:							
Commercial banks	-0.1	4.8	6.6	10.2	9.5	16.3	14.2
Finance companies	13.4	4.6	6.8	6.8	-7.9	5.8	-6.2
All other	5.4	3.9	3.8	7.1	7.3	8.9	8.0
	- - - - - - - - Annual percentage rate - - - - - - - -						
Interest rates							
At commercial banks[2]							
New cars, 48 mos.[3]	16.54	16.83	15.97	14.81	14.81	n.a.	13.90[5]
Personal, 24 mos.	18.09	18.65	17.99	17.59	17.59	n.a.	16.57[5]
Credit cards	17.78	18.51	18.75	18.89	18.89	n.a.	18.79[5]
At auto finance companies[4]							
New cars	16.17	16.15	14.02	12.12	12.05	12.07	11.94[5]
Used cars	20.00	20.75	20.69	19.83	19.91	19.38	18.76[5]

1. Includes primarily personal cash loans, home improvement loans, and sales finance contracts for non-automotive consumer durable goods.
2. Average of "most common" rates charged, on loans of specified type and maturity, during the first week in the middle month of each quarter.
3. Data for periods prior to 1983-Q1 are for new-car loans at a 36-month maturity.
4. Average rate for all loans of each type made during the period, regardless of maturity.
5. Data for May 1983.
r--revised. n.a.--not available.

at current market yields. Refinancings, however, were also strong, so that some repayments represent a flow of principal from the high-yielding loans made in recent years.

Consumer Credit

Consumer installment credit grew at an 8 percent annual rate during April, slightly above the average for the first quarter. Data available for commercial banks as well as recent strength in auto sales suggest that the pace of net consumer borrowing has accelerated further since April. The recent growth in consumer installment credit outstanding has been stronger than in comparable periods in previous cycles. This relatively robust growth appears to have coincided with shifting supply conditions in consumer credit markets, owing in part to the relaxation of restrictive usury ceilings.

Interest rates on consumer installment loans declined somewhat further in recent months. Commercial bank finance rates for closed-end loans dropped by 90 to 100 basis points from early February to early May. Rates for new-automobile credit at finance companies averaged slightly below 12 percent in April and May, reflecting the continuation of special financing programs offered by the auto manufacturers.

Delinquency rates on closed-end consumer loans at commercial banks edged upward during the past 12 months, after sharp declines dating from the third quarter of 1980. The delinquency rate at auto finance companies continued to fall and by the end of March was at the lowest level since 1968. Delinquency rates on mortgage loans were at record highs in the first quarter, but showed indications of leveling off. Personal bankruptcy filings during April fell considerably below the first-quarter pace.

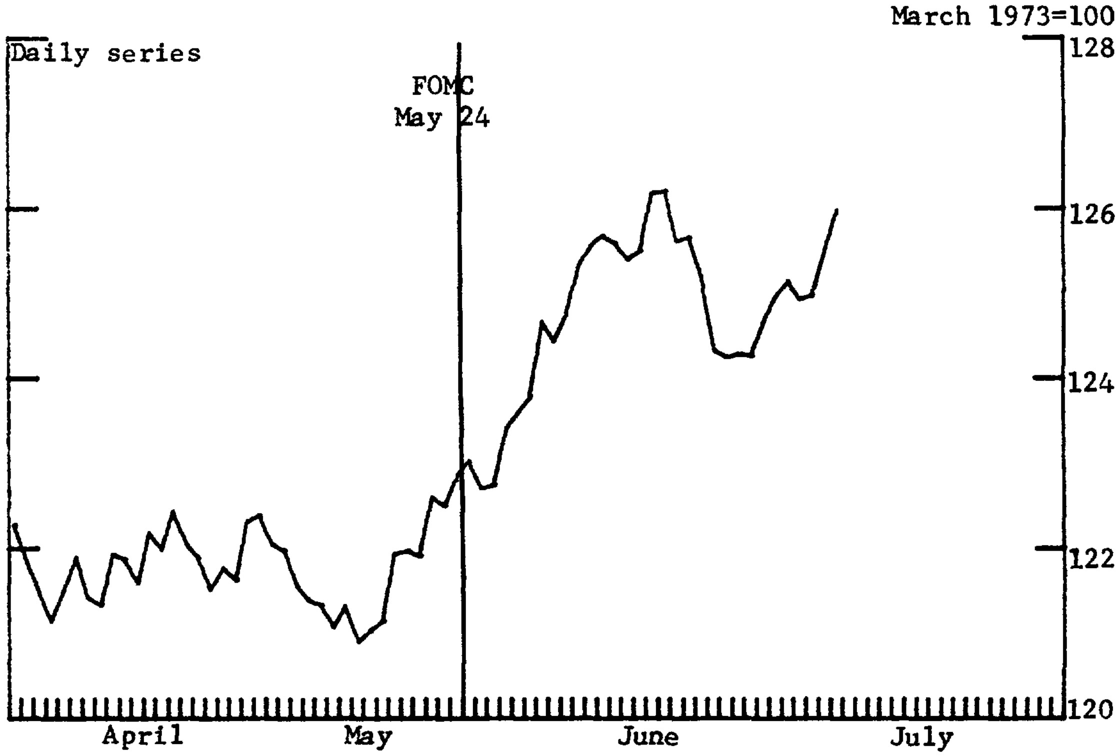
Foreign Exchange Markets

Between the last FOMC meeting and June 15, the dollar appreciated almost three percent on a weighted-average basis to a new high, slightly above its November 1982 level. Since then the dollar has slipped back about one-half percent. The rise in the dollar was generally associated with increases in the differential between U.S. and foreign interest rates, as shown in the lower panel of the chart. At times, political tensions in the Middle East were cited as an additional factor. The record monthly U.S. merchandise trade deficit reported on June 28 did not seem to have a major short-run impact on dollar exchange rates.

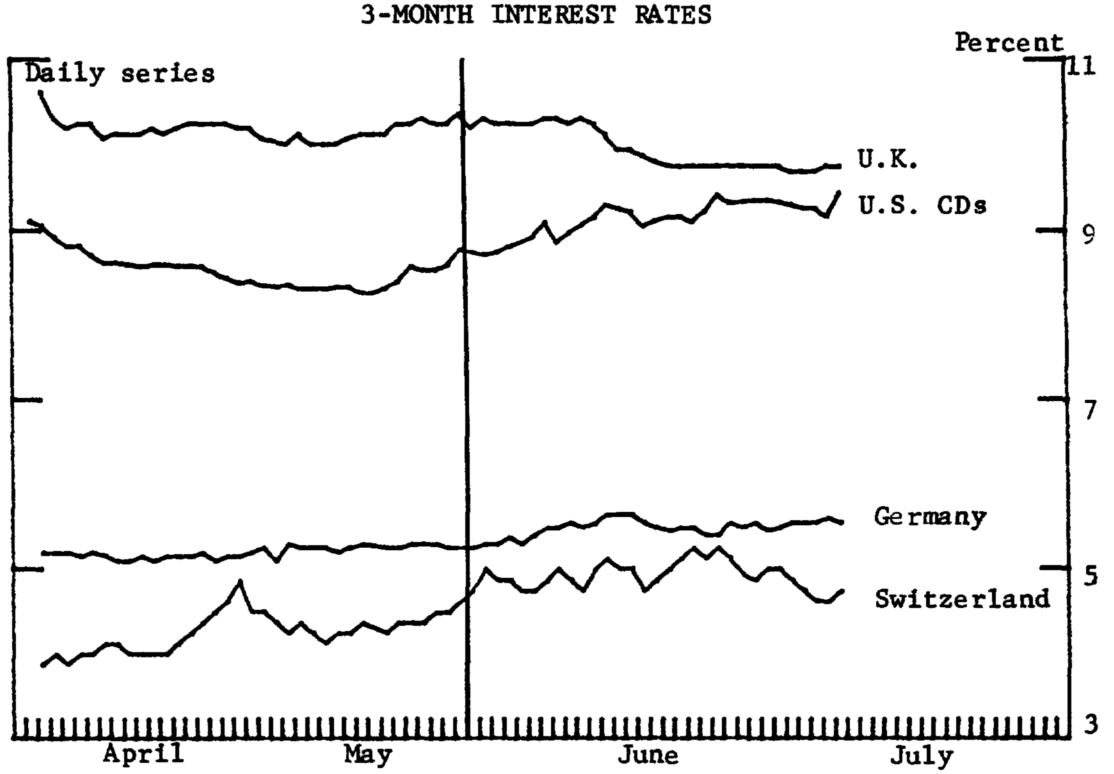
The pound appreciated by over two percent against the dollar in the week following the last FOMC meeting; growing confidence in a victory for the ruling Conservative Party in the June 9 election was probably the major factor. Since then the pound has depreciated by about four percent. The depreciation has been associated with the Bank of England lowering of its money market intervention rates and with reductions in base lending rates of one-half percentage point to 9-1/2 percent by major U.K. banks. Since the last FOMC meeting the differential between U.S. 90-day CDs and the 90-day London sterling interbank rate has increased by over one percentage point.

The configuration of the EMS remains largely unchanged since the last FOMC meeting, with the mark still near its floor against the French franc.

WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR



3-MONTH INTEREST RATES



Swiss banks raised their customer time deposit rates by 3/4 percentage point to 4-1/4 percent and the Belgians reduced their discount rate by one-half percentage point to nine percent. Belgian rates have now declined by about five percentage points since the EMS realignment in March. The Belgian franc has depreciated 3/4 percent against the mark since the last FOMC meeting.

U.S. banks' foreign lending in first quarter. U.S.-chartered banks' claims on non-OPEC developing countries and on smaller developed countries increased only slightly in the first quarter, and net new lending to these countries was substantially less than in the fourth quarter of 1982 or in the year-earlier period. As a result of this slowing of new credits, combined with a reduction in outstanding claims on offshore banking centers, total U.S. bank claims on foreigners declined $2.7 billion in the quarter, following small increases in such claims in the last two quarters of 1982.

The OPEC countries and G-10 countries were the only groups to which net new lending was stronger than in the first quarter of last year. For the non-OPEC developing countries, claims rose $0.5 billion compared with $1.3 billion a year earlier and an average increase of about $2.6 billion in the previous four quarters. On the other hand, it is noteworthy that there was no absolute decline in claims on these countries as a group. The reduced net new lending to the smaller developed countries largely reflected a decline in claims on Spain.

Most of the changes in claims on individual non-OPEC developing countries were quite small, as shown in Table 2. For the four largest borrowers, claims rose $0.3 billion on Mexico, $0.1 billion each on Brazil and Argentina, and were unchanged as regards Korea. Among other important borrowers the largest changes were a $0.4 billion increase on the Philippines and a $0.3 billion decrease on Chile.

In March, both Brazil and Mexico made initial drawings on the large commercial bank loans that were part of the financial packages arranged for them last winter. The shares of U.S.-chartered banks in

TABLE 1. CLAIMS ON FOREIGNERS OF U.S.-CHARTERED BANKS
(Billions of dollars)

	Change (no sign = increse)					
	1982				1983	Outstanding
Claims on:	Q-1	Q-2	Q-3	Q-4	Q-1	3/31/83
Total, all countries	3.3	14.9	1.9	1.8	-2.7	433.6
Non-OPEC developing countries	1.3	6.1	0.3	2.6	0.5	107.0
OPEC countries	0.6	1.0	0.9	0.4	1.0	28.4
Eastern Europe	-0.6	-0.5	-0.4	-0.1	-0.1	6.1
Smaller developed countries	2.2	1.5	0.5	1.0	0.2	33.8
G-10 countries and Switzerland	-1.5	1.3	-1.4	3.7	0.8	178.1
Offshore banking centers	1.8	5.8	-0.1	-3.3	-3.2	64.5
Miscellaneous	-0.5	-0.1	1.9	-2.5	-1.4	16.2

TABLE 2. CLAIMS OF U.S.-CHARTERED BANKS ON NON-OPEC DEVELOPING COUNTRIES
(Billions of dollars)

	Change (no sign = increse)					
	1982				1983	Outstanding
Claims on:	Q-1	Q-2	Q-3	Q-4	Q-1	3/31/83
Latin America	2.2	4.8	0.8	-0.6	0.4	72.2
of which:						
Argentina	0.5	-0.2	-0.5	-0.3	0.1	9.0
Brazil	0.6	1.6	1.1	0.4	0.1	22.9
Chile	0.2	0.4	-0.2	0.1	-0.3	6.0
Colombia	-0.3	0.3	0.2	0.2	-	3.0
Mexico	1.3	2.2	-0.2	-0.6	0.3	24.6
Peru	-0.1	0.6	0.1	-	-0.2	2.4
Others	-	-0.1	0.3	-0.4	0.4	4.3
Asia and Africa	-0.9	1.3	-0.5	3.2	0.1	34.8
of which:						
Korea	-0.8	0.3	0.4	1.5	-	10.8
Philippines	-0.1	0.4	-0.3	0.2	0.4	6.6
Taiwan	-	-0.1	-0.1	0.4	-0.2	5.1
Others	-	0.7	-0.5	1.1	-0.1	12.3
Total	1.3	6.1	0.3	2.6	0.5	107.0

these drawings were about $1 billion in the case of Brazil and $0.7 billion as regards Mexico. In the case of Brazil, the difference between this $1 billion drawing and the $0.1 billion rise in claims is partly explained by Brazilian repayments of one-half, or about $600 million, of the bridge credits received from U.S. banks in the fourth quarter of 1982. In addition, claims on Brazil held by U.S. bank branches located in that country, which are mostly denominated in cruzeiros, were reduced by $0.4 billion equivalent because of the 28 percent devaluation of the cruzeiro in February. With respect to Mexico, the difference between the $0.7 billion loan disbursement and the $0.3 billion rise in claims is partly explained by $150-200 million of Mexican payments on trade credits, which are not covered by the debt repayment freeze in effect since August 1982. Private Mexican debtors may also have paid off other debts with funds held in the United States or otherwise beyond the reach of Mexican exchange controls.

U.S. International Financial Transactions

Domestic offices of U.S. chartered banks (including IBFs), which had made net advances of about $14 billion to their own foreign offices between December 1982 and March of this year, reduced these outstanding advances by almost $6 billion in the second quarter. (see line 1b of the International Banking Table.) The reduction in outstanding advances likely reflects in part the recovery of Eurodollar deposits at foreign branches of U.S. banks by U.S. nonbank residents. In the first quarter, total Eurodollar holdings of U.S. nonbank residents increased by $4 billion (line 3 below) despite a sizable decline in such holdings by money market mutual funds. Much of the growth during the first quarter occurred in March and partial data for the second quarter indicate that this strong growth has [illegible]

INTERNATIONAL BANKING DATA
($ billion)

	1981	1982				1983					
	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June 4/
1. U.S. Banking Offices' Positions Vis-a-Vis Own Foreign Offices 1/											
(a) Total	9.2	10.7	16.6	6.5	8.1	-5.5	-6.4	-5.5	-6.2	-4.5	-0.5
(b) U.S.-Chartered Banks	-8.9	-2.8	1.3	-4.4	-3.1	-13.8	-14.5	-17.4	-16.4	-13.2	-11.7
(c) Foreign Chartered Banks	18.1	13.5	15.3	10.9	11.2	8.3	8.1	11.9	10.2	8.7	11.2
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks 2/											
(a) Total	13.2	13.8	14.1	16.1	15.7	16.4	16.6	16.4	16.0	16.8	16.7
(b) NY Banks Only	8.8	9.1	9.7	11.4	11.2	12.0	12.0	12.2	11.9	12.3	12.1
3. Eurodollar Holdings of U.S. Nonbank Residents 3/	93.6	104.2	116.0	111.5	110.3	110.0	111.9	114.9	116.3e/	n.a.	n.a.

1/ Average of Wednesdays, net due to own foreign office = (+). IBFs are included in U.S. offices.
2/ Daily averages.
3/ End of month.
4/ Through June 22.
e/ Estimate.

During the first six months of this year, banks chartered in the United States and banks in other major industrialized countries apparently have scaled back their international interbank trading activities in Eurodollar and U.S. domestic markets. Data reported by the foreign branches of U.S. chartered banks indicate that a sharp drop in gross claims on foreign banks was matched by a sharp drop in liabilities in the first four months of the year. Similarly, data reported by the U.S. agencies and branches of banks based in major industrialized countries indicate that they have made offsetting reductions in both their gross claims and liabilities on U.S. banks between December 1982 and mid-June. These reductions in interbank transactions may reflect efforts by banks to reduce the size of their balance sheets at a time of rising concern about capital adequacy.

In the first quarter of the year there was a reduction in interbank credit extended in the U.S. market to U.S. agencies and branches of banks based in several developing countries (Brazil, Venezuela, Argentina, Mexico). During this period, total net borrowings in the U.S. interbank market by those agencies and branches fell by about $1 billion. These reductions in borrowing have been replaced by funding from related foreign offices of the individual banks.

The boom in the U.S. stock market has been accompanied by $3.7 billion in net foreign purchases of U.S. corporate stock in the first four months of the year (line 2b of Summary Table of U.S. International Transactions), an amount which slightly exceeded net purchases for all of 1982. At the same time, net U.S. purchases of foreign corporate stock and bonds each amounted to about $1.5 billion over this same period (see line 2c for total).

Foreign official reserve assets held in the United States rose only $0.6 billion through April of 1983, as reductions in OPEC holdings of official reserve assets in the United States of $2.4 billion were nearly matched by increases in holdings of G-10 countries. Partial data available from the Federal Reserve Bank of New York indicate that OPEC countries have continued to reduce their official reserve assets by an additional $1.5 billion between the end of April and June of this year.

U.S. OFFICIAL RESERVE ASSETS 1/
(Billions of dollars; increase in assets (+))

	Holdings 2/		Transactions 3/ 1982			Transactions 3/ 1983	
	Dec. 1981	Dec. 1982	1st Half	Q3	Q4	Q1	Q2e/
Total 4/	15.9	21.5	2.6	1.7	2.5	1.2	.4
SDRs	4.1	5.2	.6	.4	.3	.1	.3
Reserve Position in the I.M.F.	5.1	7.3	1.4	.5	.7	2.1	.2
Foreign Currency 4/	6.8	8.9	.6	.8	1.4	-1.1	.0
G10 + Switzerland 4/	6.8	6.8	.4	.2	.1	.1	.1
Other	--	2.1	.2	.6	1.3	-1.2	-.2

1. Excludes holdings of gold.
2. Valued at market exchange rates.
3. Net flows on a balance-of-payments basis excluding valuation changes.
4. Holdings are net of foreign exchange held in anticipation of redemption of Treasury debt denominated in foreign currencies (Carter bonds); transactions are net of use of foreign exchange for such redemptions. Carter bond redemptions for the period indicated totaled $354 million for the 1st half 1982, $902 million for 1982 Q3, $519 million for 1982 Q4, $386 million for January 1983, and $490 million for May 1983.
e. Estimated.

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS
(Billions of dollars)

	1981 Year	1982 Year	1982 Q-3	1982 Q-4	1983 Q-1	1983 Feb.	1983 Mar.	1983 Apr.
Private Capital								
Banks								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	-34.0	-39.6	-13.1	-10.8	-9.3	1.2	-0.8	4.2
a) with own foreign offices	-2.7	-9.6	-9.8	-3.2	-10.1	-0.2	-1.1	4.6
b) all other	-31.3	-30.0	-3.3	-7.6	0.8	1.4	0.3	-0.5
Securities								
2. Private securities transactions, net	1.2	-1.8	-2.9	-1.6	1.1	0.6	-0.1	*
a) Foreign net purchases (+) of U.S. corp. bonds	2.1	2.5	0.1	0.1	0.1	0.1	*	0.3
b) Foreign net purchases (+) of U.S. corp. stocks	4.8	3.6	0.3	1.8	2.8	1.0	1.0	0.9
c) U.S. net purchases (-) of foreign securities	-5.7	-8.0	-3.3	-3.5	-1.8	-0.5	-1.0	-1.2
3. Foreign net purchases (+) of U.S. Treasury obligations 1/	2.5	6.4	1.0	2.1	2.9	0.7	0.6	-0.6
Official Capital								
4. Changes in foreign official reserve assets in U.S. (+ = increase)	5.5	2.7	2.8	1.5	0.3	-2.2	0.2	0.3
a) By area								
G-10 countries and Switzerland	-10.8	-12.7	1.6	-2.8	2.7	0.5	0.1	-0.2
OPEC	12.7	6.6	*	-1.0	-1.4	-1.8	0.6	-1.0
All other countries	3.6	8.8	1.2	5.3	-0.9	-0.9	-0.6	1.5
b) By type								
U.S. Treasury securities	5.0	5.8	4.8	4.3	3.0	0.3	-1.1	0.8
Other 2/	0.5	-3.1	-2.0	-2.8	-2.7	-2.5	1.3	-0.5
5. Changes in U.S. official reserve assets (+ = decrease) 3/	-5.2	-5.0	-0.8	-2.0	-0.8	-0.2	-0.2	-0.1e/
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	-9.7	3.0	0.2	2.0	-0.4	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	22.0	10.4	2.6	2.8	1.6	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 4/ 5/	-11.1	-6.3	1.7	-2.1	0.0	n.a.	n.a.	n.a.
9. U.S. current account balance 5/	4.6	-11.2	-6.6	-6.6	-3.0	n.a.	n.a.	n.a.
10. Statistical Discrepancy 5/	24.2	41.4	15.1	14.7	7.6	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-28.1	-36.4	-13.1	-11.4	-8.7	-2.6	-2.8	-4.3

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

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

U.S. Merchandise Trade

The U.S. merchandise trade deficit was substantially larger in May than in the preceding eight months. Imports rose in May, primarily because oil imports increased from unusually low levels but also because of a rise in automotive imports from Japan. The increase in imports of foreign cars reflected the beginning of a new auto agreement-year with Japan, very low U.S. stocks of Japanese cars, and rising sales. Exports in May were at about the same rate as in April; a small decline in agricultural exports was offset by some increases in nonagricultural exports.

For April-May combined, the trade deficit was $61 billion at an annual rate, a deficit larger than in any previous quarter. Exports declined 3 percent from first-quarter rates while imports rose 9 percent.

U.S. MERCHANDISE TRADE*

	1982		1983			
	Year	4Q	1Q	A/M	Apr.	May
Value (Bil. $, SAAR)						
Exports	211.2	193.4	198.3	192.7	192.5	192.9
Agricultural	37.2	33.1	36.0	34.7	35.1	34.4
Nonagricultural	174.0	160.3	162.2	158.0	157.4	158.5
Imports	247.6	238.8	233.2	253.8	244.6	263.0
Oil	61.2	60.5	42.0	50.9	42.1	59.6
Nonoil	186.4	178.3	191.2	202.9	202.5	203.4
Trade Balance	-36.4	-45.4	-35.0	-61.1	-52.1	-70.1
Volume (Bil. 72$, SAAR)						
Exports - Agric.	17.1	15.9	16.9	n.a.	16.1	n.a.
- Nonagric.	61.2	56.3	56.1	n.a.	54.5	n.a.
Imports - Oil	5.0	5.0	3.6	n.a.	3.9	n.a.
Nonoil	71.8	70.0	75.5	n.a.	79.7	n.a.

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

Just under half of the substantial rise in imports in April-May was accounted for by oil. On a seasonally adjusted basis, the volume of oil imports in May rose to almost 6 million barrels per day (mbd) from averages of about 4 mbd both in 1Q83 and in April. Oil import prices rose 15 cents per barrel in May but were still $1.85 below the first-quarter price. See the table below. Oil imports were unusually low in the first four months of the year in response to two temporary market situations: lower oil consumption than expected (warmer winter) and uncertainties regarding OPEC pricing and production (an agreement was reached mid-March). These developments contributed to falling prices (by about $2 to $4 per barrel) at a time when private inventories were being drawn down. Since March, spot prices have increased somewhat and have currently stabilized at or slightly above official prices. The upward price movement was reflected in recent price increases by Egypt and the USSR; both countries price their crude oil according to movements in the spot market. However, the United Kingdom has proposed to keep its price unchanged through the third quarter, and various OPEC members indicated that OPEC intends to maintain its $29 per barrel market price through the end of the year.

OIL IMPORTS

	1982		1983			
	Year	4Q	1Q	A/M	Apr.	May
Volume (mbd, SA)	5.36	5.56	3.91	5.08	4.21	5.95
Price ($/BBL)	31.23	30.97	29.41	27.48	27.41	27.56
Value (Bil$ SAAR)	61.2	60.5	42.0	50.9	42.1	59.6

Nonoil imports increased strongly in April-May in a wide range of items from industrial supplies to automotive imports from Japan. Automotive imports from Canada also increased strongly in response to rising U.S. domestic car sales (cars are assembled in Canada using a large proportion of U.S. parts).

The decline in exports was partly in agricultural commodities, especially wheat (for which world supplies are plentiful) and soybeans. For soybeans, most of the decline was in shipments to the EEC as U.S. soybeans became more expensive relative to competing home-market feedgrain prices.

Most of the decline in exports in April-May was in nonagricultural items, particularly industrial supplies and machinery. Exports to these two categories of goods, which account for two-thirds of nonagricultural exports, dropped 13 percent in value and 16 percent in volume since the third quarter of last year as a result of sluggish economic activity in major foreign markets and the continued strong exchange value of the dollar. Commercial aircraft exports dropped back from a very strong first quarter rate; those exports went largely to developed countries.

By area, most of the increased trade deficit in April-May was concentrated in Latin America and Western Europe. Only part of that rise was from oil imports. Overall, two-thirds of the increased deficit was attributable to a drop in exports (especially to Western Europe but also to Latin America and to other developing countries) and to a rise in nonoil imports that was fairly widespread among areas-- Latin America, Canada, Western Europe, and Japan.

Foreign economic developments. Recent data from the major industrial countries indicate that recovery is proceeding, though at a rather moderate and uneven pace. In most countries the recovery has not yet become broadly based, and strength in private investment in plant and equipment is conspicuously lacking. No signs of inroads into high levels of unemployment abroad are evident yet. Germany, Canada, and the United Kingdom all reported stronger growth of GNP in the first quarter. The United Kingdom appears to have finally emerged from a prolonged, deep recession, and Canada has rebounded from the sharp drop in output of last year. Stronger growth in these two countries has been supported by an increased pace of stock building (slower destocking in Canada) and moderate increases in private consumption. Though real growth in Italy was positive for the first time in several quarters, the Italian index of industrial production has continued its extended decline. Broadly-based recovery has not yet taken hold in Japan either, where first-quarter growth was disappointingly weak. Data show increases in output in Germany and France through April, but the unemployment rate rose in May to 9-1/2 percent in Germany and the French economy continues to be troubled by an unemployment rate of nearly 9 percent.

Price pressures abroad have abated or held steady in most countries except in France, where relaxation of controls has given rise to strong advances. Recent moderate wage settlements in Germany, Japan, and Canada have improved further the prospects for control of inflation.

Some large swings in trade and current-account positions of the major industrial countries have been seen in recent months. In the United Kingdom, the current account declined by about $300 million (s.a.) in May following April's fall of almost $1 billion. In April, the Italian trade account (n.s.a.) declined by about $1 billion, and in May the French trade deficit increased by $800 million (s.a.). A prominent exception to this pattern is Japan where the current-account surplus in May held steady at $2.3 billion (s.a.). This brings the cumulative five-month surplus for Japan in 1983 to more than $8 billion, and public attention has begun to focus once again on imbalances in Japanese trade relations.

In recent elections, the ruling parties in both the United Kingdom and Japan strengthened their positions, but in Italy the controlling Christian Democratic party lost ground, making necessary the formation of another precarious coalition government.

In Japan, despite some tentative signs that a recovery may begin soon, the economy has continued to stagnate in recent months. According to recently released GNP figures for the first quarter, real growth was only 0.6 percent (s.a.a.r.), the third quarter in a row in which the growth rate has been halved. All components of domestic demand experienced weaker growth than in the fourth quarter, except government consumption. Recent gains in industrial production have been an encouraging sign. For the three months ending in May, industrial production was about 7 percent (s.a.a.r.) above that of the previous three months. The unemployment rate in May continued to stand at almost 2.7 percent (s.a.) -- an extremely high level by modern Japanese standards. Recent surveys of the economy by the Japanese Economic Planning Agency (EPA) have not been positive about near-term prospects, but have found some grounds for guarded optimism -- particularly in a sharp rise in the EPA index of leading indicators at the end of the first quarter.

Price developments continue to be favorable in Japan. Following a strong advance in May, the CPI fell by 0.7 percent in June; the year-over-year increase in June of 1.9 percent was the least in 16 years. Wholesale prices continued to decline for the sixth month in the previous seven, and the WPI in May was more than 2 percent below its year-previous level.

The May current-account surplus of over $2.3 billion (s.a.) was virtually unchanged from April's record level, bringing the five-month cumulative surplus to $8.1 billion. Imports declined markedly again, while exports continued to display the renewed strength that they have shown since the beginning of the year, raising concern that Japan may accumulate an extraordinarily large surplus this year.

In the June 26 Upper House elections, Prime Minister Nakasone's ruling Liberal Democratic Party strengthened its majority position.

In Germany, some signs of strength are evident in recent data. German real GNP grew at a rate of 2 percent (s.a.a.r.) in the first quarter, supported primarily by private consumption and investment in equipment. In contrast to past recoveries, net exports have not yet contributed to GNP growth. Industrial production fell 1 percent in April and remained unchanged in May. Although the May index stood about 3 percent above its level of late last year, it still was below its level of one year ago. The rate of unemployment continued to rise in May, however, reaching 9.5 percent (s.a.), a figure which represents 2.3

million unemployed workers.

The rate of consumer-price inflation continued to slow in June to 2-1/2 percent on a year-over-year basis. On a seasonally adjusted basis, the level of consumer prices is below that at the end of 1982. Wholesale prices and import prices have been below their year-earlier levels for several months. Early this month, the union of public employees -- the largest in Germany -- agreed to a 2.8 percent wage increase over the coming 12 months.

The current account through May has recorded a surplus of almost $2-1/2 billion, compared with approximate balance for last year's corresponding period. This improvement in the current account is due to an increase in the German terms of trade and a reduction in interest payments on foreign loans. The volume of net exports has actually fallen slightly since mid-1982.

Fiscal policy will remain tight according to the latest budget estimates for FY 1984. The federal deficit is projected to fall further in response to budget cuts to about DM 36 billion (about 2-1/2 percent of GDP) from this year's estimated DM 40 billion deficit.

In the United Kingdom real GDP rose 4-1/4 percent (s.a.a.r.) in the first quarter, continuing the moderate but steady recovery in real economic activity that began in the final quarter of 1981. Industrial production rose in April by slightly more than it had declined in March to reach a level 1.6 percent (s.a.) above the January figure. Unemployment data have recently been revised for the past several years, and there have been some changes in reporting procedures. On the new basis, the May figure of 12.4 percent (s.a.) was down from April's level of 12.7 percent.

Retail price inflation decreased again in May to 3.7 percent on a year-over-year basis -- an extraordinarily low figure by recent historical standards. This reflects not only a slowing of current price increases but also a fairly sizable increase in the retail price index in May of last year. Both the trade and current-account balances were in deficit in May. The cumulative trade deficit through May was almost $2 billion (s.a.), while the cumulative current account was near balance. Through May of last year, the trade and current balances were in surplus by $0.5 billion and $2.0 billion, respectively.

The recent reelection of the Conservative government will permit the implementation in the coming months of the monetary and fiscal measures announced in the March budget. Some moderate expansionary fiscal measures, including tax cuts for individuals and business, as well as legislative restrictions on union power, were announced in the speech outlining the government's program that was recently delivered by Queen Elizabeth to Parliament.

The Canadian economy has begun to grow after an 18-month contraction. Real GNP advanced at a vigorous 7.2 percent rate (s.a.a.r.) in the first quarter. This growth largely reflected a sharp deceleration of inventory runoffs; although inventories did decline in the first quarter, as they have continuously since 1981-Q4, the decline of 0.9 percent of real GNP was less than one-half the average quarterly decline for 1982. Real private consumption expenditure also contributed to the recovery; it moved ahead to record an annual growth rate of 2.8 percent in the first quarter, up from the 2 percent increase in the fourth quarter. These advances contrast with the declines in real private consumption that characterized the first three quarters of 1982.

The private investment picture remains weak, with the exception of a continued strong performance in residential construction, but a sharp increase in capacity utilization in the first quarter is a promising sign. Progress on unemployment has been less dramatic, as the unemployment rate edged down to 12.4 percent in May from 12.5 percent in April.

The inflation picture has shown continued improvement. The consumer price index remained unchanged in April and rose 0.3 percent in May, making the cumulative rise since January only 4.3 percent (a.r.). This is about half of the rate of CPI increase seen in 1982. Non-indexed wage agreements also showed substantial moderation in the first quarter with a 6.6 percent increase (a.r.) compared with the 10 percent average increase in 1982.

With the quickened pace of activity, the current account in the first quarter declined by about $700 million (s.a.). Real imports of goods and services advanced at a quarterly rate of 6 percent, while real exports increased by 3.8 percent.

Despite a 1 percent fall in domestic demand, real GDP in Italy rose slightly (1.2 percent, s.a.a.r.) in the first quarter as real exports climbed by 5-1/2 percent. Real imports remained flat, reflecting the influence of the continued recession. (Part of the increase also may be a reflection of faulty seasonal adjustment.) Industrial production plummeted in April to a level 18 percent below the previous cyclical peak of early 1980. Although consumer surveys taken in the first five months of the year reveal a slight improvement in consumer confidence, the readings in these polls are still below the levels recorded last spring.

Consumer price inflation has moderated recently. In the three-month period ending in June, prices were about 12 percent (a.r.) above the level of the previous three months and 16 percent above the level of the corresponding period last year. Wholesale prices in May were 10 percent above their year-earlier level. In the first four months of this year, the trade deficit was $3.3 billion (n.s.a.), compared with a deficit of $7 billion in the same period last year.

In general and local elections in late June, the controlling Christian Democratic Party lost ground, and negotiations are currently under way to form a new coalition government. One problem the new government will have to face is the size of the enlarged public sector deficit which last year was 15-1/2 percent of GDP; a similar figure is expected this year under current policies. On June 30, Bank of Italy effected its decision of last December to remove bank credit ceilings, stating its intention to rely more on "market-related" tools, such as reserve requirements and the discount rate, to implement changes in policy.

Economic activity in France remains sluggish. Industrial production in April, despite a reversal of the previous month's 0.8 percent (a.r.) decline, was at the same level as in the first two months of this year and was unchanged from its level of April last year. The unemployment rate has held relatively steady for over a year; the May figure was up slightly to 8.8 percent (s.a.). Industrialists are reportedly expecting no increase in economic activity for the remainder

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(PERCENTAGE CHANGE FROM PREVIOUS PERIOD, SEASONALLY ADJUSTED)

		Q4/Q4	Q4/Q4	1982			1983	1983					LATEST 3 MONTHS
		1981	1982	Q2	Q3	Q4	Q1	JAN.	FEB.	MAR.	APR.	MAY	FROM YEAR AGO+
CANADA:	GNP	.8	-3.8	-1.4	-.8	-.7	1.8	*	*	*	*	*	-1.2
	IP	-3.5	-11.9	-2.9	-2.9	-4.0	5.8	5.4	2.1	-.7	.7	1.1	-1.3
FRANCE:	GDP	1.8	1.2	1.0	-.6	.8	.4	*	*	*	*	*	1.6
	IP	-.5	-2.6	.3	-2.1	.8	.5	1.6	.0	-.8	.8	N.A.	-.3
GERMANY:	GNP	.6	-1.9	-.0	-.8	-.2	.5	*	*	*	*	*	-.4
	IP	-.3	-5.6	-.9	-2.8	-1.9	2.0	3.0	-1.9	3.0	-1.0	.0	-3.4
ITALY:	GDP	.5	-2.4	-1.4	-2.2	-.2	.3	*	*	*	*	*	-3.5
	IP	.4	-6.1	-1.5	-7.6	2.2	-.6	-.2	-.5	-.5	-4.8	N.A.	-10.0
JAPAN:	GNP	2.7	3.7	1.9	.9	.4	.2	*	*	*	*	*	3.5
	IP	5.7	-1.7	-1.7	1.7	-.8	.5	-.3	-.7	2.3	-.2	.3	2.2
UNITED	GDP	-.3	1.2	.0	.2	.9	1.0	*	*	*	*	*	2.2
KINGDOM:	IP	-.4	.4	.4	.5	-.1	1.5	-.1	1.6	-.9	1.0	N.A.	2.5
UNITED	GNP	.7	-.9	.5	.2	-.3	.6	*	*	*	*	*	1.1
STATES:	IP	-1.7	-7.5	-1.7	-.9	-2.1	2.4	1.6	.5	1.3	2.0	1.1	1.4

* DATA NOT AVAILABLE ON A MONTHLY OR QUARTERLY BASIS.

+ IF QUARTERLY DATA, LATEST QUARTER FROM YEAR AGO.

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(PERCENTAGE CHANGE FROM PREVIOUS PERIOD)

		Q4/Q4 1981	Q4/Q4 1982	1982 Q1	1982 Q2	1982 Q3	1982 Q4	1983 Q1	1983 Q2	1983 MAR.	1983 APR.	1983 MAY	1983 JUN.	LATEST 3 MONTHS FROM YEAR AGO
CANADA:	CPI	12.3	9.7	2.5	3.1	2.2	1.6	.6	N.A.	1.0	.0	.3	N.A.	6.4
	WPI	8.5	4.5	1.4	1.9	.8	.3	.7	N.A.	.7	1.0	N.A.	N.A.	3.7
FRANCE:	CPI	14.1	9.5	2.8	3.1	1.4	1.9	2.6	N.A.	.9	1.3	.7	N.A.	9.0
	WPI	12.7	8.5	2.7	2.6	1.9	1.0	2.4	N.A.	1.3	1.6	1.0	N.A.	9.0
GERMANY:	CPI	6.5	4.7	1.5	1.4	1.1	.7	.5	.6	-.1	.2	.4	.4	2.8
	WPI	10.4	3.1	1.8	1.3	.0	.0	-2.0	N.A.	-.6	.8	.6	N.A.	-1.1
ITALY:	CPI	18.4	16.6	4.0	3.0	4.1	4.5	3.6	2.9	.9	1.0	1.0	.6	16.0
	WPI	18.7	12.4	3.3	2.0	3.2	3.3	1.6	N.A.	.3	.8	.5	N.A.	10.1
JAPAN:	CPI	1.0	2.9	.3	1.1	.5	1.0	-.1	.9	.5	.2	1.2	-.9	2.3
	WPI	-.1	1.3	.2	.2	.9	-.1	-1.9	N.A.	-.4	-.7	-.3	N.A.	-1.9
UNITED	CPI	11.9	6.2	1.7	3.2	.5	.7	.5	N.A.	.2	1.4	.4	N.A.	4.1
KINGDOM:	WPI	11.2	7.7	2.2	1.7	1.6	2.0	1.8	N.A.	.5	.7	.6	N.A.	7.2
UNITED	CPI (SA)	9.6	4.5	.7	1.3	1.9	.5	-.1	N.A.	.1	.6	.5	N.A.	3.7
STATES:	WPI (SA)	7.3	3.7	.7	.3	1.5	1.1	-.7	N.A.	-.1	-.1	.3	N.A.	2.2

July 6, 1983

TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES#
(BILLIONS OF U.S. DOLLARS; SEASONALLY ADJUSTED)

				1981	1982				1983	1983			
		1981	1982	Q4	Q1	Q2	Q3	Q4	Q1	FEB.	MAR.	APR.	MAY
CANADA:	TRADE	5.8	15.9	2.3	2.9	3.7	5.3	4.0	3.3	1.2	1.1	1.6	N.A.
	CURRENT ACCOUNT	-4.4	2.1	-.2	-.1	.5	.9	.9	.2	*	*	*	*
FRANCE:	TRADE+	-9.3	-14.0	-3.3	-3.0	-4.0	-4.2	-2.9	-3.5	-1.1	-.9	-.2	-1.0
	CURRENT ACCOUNT+	-4.7	-12.0	-2.0	-2.1	-4.4	-3.2	-2.3	-3.6	*	*	*	*
GERMANY:	TRADE	11.9	20.6	5.5	5.0	5.3	5.2	5.1	5.3	1.7	1.7	N.A.	N.A.
	CURRENT ACCOUNT (NSA)	-7.3	3.6	4.4	-.4	.9	-1.6	4.7	1.7	.4	1.3	.0	.6
ITALY:	TRADE	-15.9	-14.6	-2.5	-6.2	-2.8	-3.2	-2.4	-1.5	-.5	-.4	-1.4	N.A.
	CURRENT ACCOUNT (NSA)	-9.1	-5.5e	-.9	-3.7	-1.2	N.A.	N.A.	N.A.	*	*	*	*
JAPAN:	TRADE+	20.1	18.8	5.0	4.3	5.5	5.1	4.0	6.5	2.1	2.2	2.8	3.3
	CURRENT ACCOUNT	4.8	6.9	1.1	.9	2.8	2.3	1.6	3.5	.9	1.3	2.3	2.3
UNITED KINGDOM:	TRADE	6.4	3.7	.7	.4	.2	1.0	2.1	-.4	-.2	.6	-.6	-.9
	CURRENT ACCOUNT+	12.6	6.8	2.5	1.1	1.4	1.5	2.8	.6	.1	.9	-.2	-.5
UNITED STATES:	TRADE	-28.1	-36.4	-7.8	-6.1	-5.9	-13.1	-11.4	-8.7	-2.6	-2.8	-4.3	-5.8
	CURRENT ACCOUNT	4.6	-11.2	.6	.6	1.4	-6.6	-6.6	-3.0	*	*	*	*

THE CURRENT ACCOUNT INCLUDES GOODS, SERVICES AND PRIVATE AND OFFICIAL TRANSFERS.
+ QUARTERLY DATA ARE SUBJECT TO REVISION AND ARE NOT CONSISTENT WITH ANNUAL DATA.
* COMPARABLE MONTHLY OR QUARTERLY CURRENT ACCOUNT DATA ARE NOT PUBLISHED.

of the year. The advance in consumer prices in May of 0.7 percent was only half as large as the jump in April. However, for the seven-month period following the lifting of price controls last October, consumer prices increased at an annual rate of over 11 percent, substantially above the government's announced target of 8 percent for 1982 as a whole.

The current account in the first quarter of 1983 was in deficit by $3.6 billion (s.a.), a larger deficit than that recorded in the first quarter last year, and well above the average quarterly deficit in 1982. The trade deficit was sharply reduced in April as imports declined, but imports and the deficit returned in May to the high levels of earlier in the year. For the first five months of this year, trade was in deficit at an annual rate of nearly $12 billion (s.a.), only slightly below the near-record deficit rate of last year.

At the end of May the government announced a further tightening of credit controls that is designed to lower M2 growth this year to 9 percent (December/December). The latter figure is the target announced in March as part of the government's austerity program. M2 growth last year (December/December) was 11.7 percent.

Major Debt Problem Situations in Developing Countries

Mexico was in full compliance with the first-quarter performance criteria specified in its arrangement with the IMF. This enabled it to draw about $326 million from the IMF at the end of May. The proceeds were used to reduce the outstanding balance of the emergency credits that were extended to Mexico by the BIS, the U.S. Treasury, and the Federal Reserve; the remaining balance is scheduled to be repaid by August 23. The IMF drawing made Mexico eligible for a $1.1 billion drawdown on the

$5 billion commercial bank credit signed in March. This installment has not yet been drawn, reflecting an easing of Mexico's foreign exchange position. Mexico recorded a merchandise trade surplus of $4.4 billion in the first four months of this year, compared with a deficit of nearly $1 billion in the same period last year. The consumer price index increased by 3.8 percent in June--the smallest monthly increase in fourteen months--but was about 37 percent higher than in December 1982 and about 112 percent higher than in June 1982. Effective June 14, the minimum wage was raised by about 15 percent, bringing it only to about 43 percent above the level that prevailed during the last nine months of last year.

Brazil failed to meet several first-quarter performance tests under its agreement with the IMF. As a result, the drawing that had been scheduled for May 31 was delayed. Since Brazilian drawings of new money from the banks depend on its being in compliance with the IMF program, a $635 million disbursement from the banks was also delayed. As a result, Brazil was unable to make a repayment to the BIS and has received two extensions so far. Since early June, Brazil has introduced additional monetary and fiscal policy measures in the hope of regaining access to the IMF and bank money. These measures include some tightening of wage policy and some reduction in price and credit subsidies. The IMF is seeking deeper cuts in public enterprise spending and a further tightening of wage policy. Meanwhile, Brazil's public sector arrears have risen to about $1.2 billion. A single steering group of banks to advise Brazil on its financing problems has been organized, taking the place of the four separate committees of banks that previously were dealing with the four financing projects that Brazil had undertaken.

Argentina met the principal first-quarter performance tests specified under its IMF stand-by arrangement and obtained a waiver on some relatively minor violations, enabling it to draw \$325 million from the IMF. Negotiations with banks are continuing on a \$1.5 billion medium-term loan and on a restructuring of an estimated \$6 billion of external public and publicly-guaranteed debt due in 1983. On July 1, it was announced that Argentina had agreed to use the \$300 million balance of a bridge loan to bring interest current. Argentina is seeking a waiver from the IMF and the banks of the requirement that interest arrears be eliminated by June 30.

Venezuela telexed creditor banks on June 29, asking them to extend for another three months beyond June 30 the 90-day moratorium on repayments of public sector debt, which totals about \$25 billion. On June 6, Venezeula presented its creditor banks with a plan to reschedule all \$15 billion of public sector debt maturing in 1983 and \$2.3 billion maturing in 1984. The banks have reserved their position pending Venezuela's discussions with the IMF. Venezuela has announced plans to draw from the IMF about \$1.5 billion (consisting of its reserve position in the Fund, its first credit tranche, and its SDR holdings) and to ask for a \$1.1 billion drawing from the IMF's Compensatory Financing Facility for export shortfalls.

Chile has made substantial progress with its plans to restructure some of its external debt and to raise new loans. Chile's request to the banks that its short-term trade credits be maintained at the end-January level has been surpassed. With this strong bank support of the Chilean financing plan, the IMF is expected to restore Chile's ability to draw under its stand-by arrangement at the end of July. On June 29, Peru's foreign bank creditors agreed to roll over $2 billion in short-term credit lines, to refinance over eight years $380 million of medium-term debt maturing from March 1983 to March 1984 and to provide $450 million in new money. In addition, Peru has requested a rescheduling of principal and interest payments owed to official creditors through February 1985.

An agreement to reschedule about $2.6 billion in Ecuador's public and private sector debts owed to banks up to the end of 1983 was signed in June 1983. The banks are being asked to provide $430 million in new credits. An IMF stand-by arrangement was approved early in June and is scheduled to take effect if and when the IMF receives assurances that the new bank credits will be available. Ecuador has also requested a rescheduling of a portion of the debt owed to official creditors.

The Philippines in recent months has begun to experience external financing problems, brought on in part by sluggish export receipts, an increase in debt service payments due to an increase in the amount of short-term external debt, and a cut-back in foreign bank credits. The current account deficit, which has been increasing for several years, reportedly increased further in the first half of 1983. The Government has allowed the peso to depreciate against the dollar by about 10 percent during the first 25 weeks of this year (and 26 percent since mid-1980). On June 23 the Government announced a further 7.3 percent devaluation of the peso, a cut in public investment, and the discontinuance of the subsidy of petroleum products. These steps complement measures taken earlier in the year in the context of a one-year IMF stand-by arrangement approved in February. A mid-term review of the stand-by program has shown that, due to a worsening in the capital account, the Philippines had lost more international reserves than had been expected. Largely as a result of the review, it was agreed that credit policy would be tightened further.