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May 16, 1984

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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SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest data			Percent change from		
	Period	Release date	Data	Preceding period	Three periods earlier	Year earlier
(At annual rates)						
Civilian labor force	Apr.	05-04-84	113.2	3.5	3.7	2.0
Unemployment rate (%) <u>1/</u>	Apr.	05-04-84	7.8	7.8	8.0	10.2
Insured unemployment rate (%) <u>1/</u>	Feb.	04-23-84	2.9	3.1	3.3	4.5
Nonfarm employment, payroll (mil.)	Apr.	05-04-84	92.9	5.3	4.3	4.3
Manufacturing	Apr.	05-04-84	19.7	6.2	5.6	7.0
Nonmanufacturing	Apr.	05-04-84	73.3	5.0	3.9	3.6
Private nonfarm:						
Average weekly hours (hr.) <u>1/</u>	Apr.	05-04-84	35.6	35.2	35.5	34.9
Hourly earnings (\$) <u>1/</u>	Apr.	05-04-84	8.30	8.25	8.22	7.95
Manufacturing:						
Average weekly hours (hr.) <u>1/</u>	Apr.	05-04-84	41.2	40.6	41.0	40.1
Unit labor cost (1967=100)	Mar.	04-30-84	88.9	-8.0	-6.6	-7.7
Industrial production (1967=100)	Apr.	05-15-84	163.1	16.4	11.6	14.4
Consumer goods	Apr.	05-15-84	161.6	12.8	5.3	9.4
Business equipment	Apr.	05-15-84	175.4	15.9	11.0	19.4
Defense & space equipment	Apr.	05-15-84	132.7	20.2	13.7	12.3
Materials	Apr.	05-15-84	162.9	17.2	16.1	16.6
Consumer prices all items (1967=100)	Mar.	04-24-84	307.6	2.7	4.9	4.7
All items, excluding food & energy	Mar.	04-24-84	297.0	4.9	5.0	5.0
Food	Mar.	04-24-84	301.8	-1.6	8.7	4.0
Producer prices: (1967=100)						
Finished goods	Apr.	05-11-84	291.6	.0	3.5	2.9
Intermediate materials, nonfood	Apr.	05-11-84	323.8	.7	2.9	3.6
Crude foodstuffs & feedstuffs	Apr.	05-11-84	269.0	-14.1	-.9	5.4
Personal income (\$ bil.) <u>2/</u>	Mar.	04-18-84	2,940.5	5.7	11.3	10.1
(Not at annual rates)						
Mfgs. new orders dur. goods (\$ bil.)	Mar.	05-01-84	104.5	2.1	6.1	30.9
Capital goods industries	Mar.	05-01-84	38.1	10.9	17.1	41.6
Nondefense	Mar.	05-01-84	11.5	55.5	51.1	70.0
Defense	Mar.	05-01-84	26.6	-1.6	6.8	32.0
Inventories to sales ratio: <u>1/</u>						
Manufacturing and trade, total	Mar.	05-14-84	1.33	1.32	1.30	1.43
Manufacturing	Mar.	05-14-84	1.42	1.43	1.40	1.59
Trade	Mar.	05-14-84	1.24	1.23	1.21	1.30
Ratio: Mfgs.' durable goods inventories to unfilled orders <u>1/</u>	Mar.	05-01-84	.522	.526	.537	.585
Retail sales, total (\$ bil.)	Apr.	05-11-84	106.4	2.9	-.2	11.8
GAF <u>3/</u>	Apr.	05-11-84	22.6	3.6	1.0	12.8
Auto sales, total (mil. units.) <u>2/</u>	Apr.	05-03-84	10.3	4.2	-6.2	22.1

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic growth regained upward momentum in April after tapering off late in the first quarter, owing in part to adverse weather. Both employment and industrial production advanced rapidly last month, and retail sales rebounded. However, housing activity appears to have leveled off in response to rising mortgage interest rates. Wage and price inflation in the first four months of this year remained at about last year's pace.

Industrial Production

Industrial output rose 1/2 percent in March and then surged almost 1-1/2 percent in April. Since the turn of the year, monthly production increases have averaged only slightly less than during the preceding 13 months of cyclical recovery. Gains in April were widespread among most product and material categories. Apart from autos, where output declined, production gains for most consumer goods were considerably larger than in February and March. The strong upward trend in output of business equipment resumed in April after two months of smaller increases. In addition, output of defense equipment has expanded more rapidly lately than during 1983. Among materials categories, a particularly strong increase was reported for equipment parts; and raw steel output, although still at a depressed level, climbed 2 percent.

Auto assemblies, which were running at a high rate of 9-1/4 million units (not seasonally adjusted) in March, dropped back in April largely because several GM plants were shut down for model changeovers and plant

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

	1983		1984	1984		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
	-----Annual rate-----			--Monthly rate--		
Total	21.8	10.2	11.7	1.0	.5	1.4
Final products	17.7	8.4	12.1	.4	.4	1.2
Consumer goods	16.9	1.9	7.2	.1	.2	1.1
Durable	29.7	5.8	16.4	-.4	.4	.4
Nondurable	12.3	0.5	3.7	.3	.2	1.3
Business equipment	23.2	22.2	20.3	.9	.5	1.3
Defense and space equipment	10.2	11.6	17.9	.9	.8	1.7
Construction supplies	31.3	8.4	15.0	1.0	1.1	1.5
Materials	25.2	12.3	12.6	1.9	.6	1.4
Durable goods	31.4	18.0	20.9	2.5	.8	1.9
Nondurable goods	18.3	10.2	1.4	1.9	1.0	1.4
Energy materials	21.0	1.3	10.5	-.1	-.5	.3

CAPACITY UTILIZATION IN INDUSTRY
(Percent of capacity, seasonally adjusted)

	1978-80	1982	1967-82	1984		
	High	Low	Avg.	Feb.	Mar.	Apr.
Total industry	87.3	69.6	82.4	80.8	81.0	81.9
Manufacturing	87.5	68.8	81.8	81.0	81.2	82.3
Durable	89.4	64.8	80.5	80.2	80.6	81.9
Nondurable	87.2	73.8	83.9	82.0	82.0	82.7
Mining	90.4	69.6	86.5	75.1	74.5	74.3
Utilities ¹	86.8	79.0	88.6	82.6	83.2	83.2
Industrial materials	88.9	66.6	83.3	82.0	82.3	83.3
Metal materials	95.4	46.2	82.2	70.9	71.7	73.3
Paper materials	97.9	86.3	93.4	99.0	98.3	99.5
Chemical materials	91.3	64.0	85.1	79.0	79.8	80.4

1. The 1978-80 high is below the 1967-82 average because of the unusually slow growth in demand for electricity.

conversions.¹ These changeovers, which usually occur during the third quarter, will be completed in June. In preparing estimates of GNP, the Commerce Department does not plan to adjust their seasonal factors to reflect the early model changeover. As a result, their estimate of auto production should have a substantial downward effect on the real GNP growth rate in the second quarter--perhaps as much as 2 percentage points at an annual rate.

Manufacturing capacity utilization rose about 1 percentage point in April to 82.3 percent, about the same as the average rate during the 1967-1982 period. Utilization rates vary widely among industries, and shortages appear to be confined to a few specific products and materials, such as some electronic components, popular models of cars and trucks, radial tires, gypsum board, paper, and a few plastics materials. For the bulk of the industrial sector, existing capacity still appears ample.

Employment and Unemployment

Labor demand strengthened further in April as payroll employment climbed 400,000. Part of the surge last month reflected a bounceback in jobs at construction sites after a weather-related decline the month before. Moreover, service industries added 175,000 employees, the largest monthly gain for this sector since the recovery began. In manufacturing, employment growth returned to the pace recorded early this year, rising another 100,000, and the factory workweek rose to

1. In line with past practice, the Board staff has adjusted its seasonal factors for auto production to reflect the earlier-than-usual model changeovers. Using these factors, auto assemblies were at an 8.2 million unit rate in March and 7.7 million in April. The decline that occurred in addition to model changeovers was at small car plants and for some less-popular large models.

CHANGES IN EMPLOYMENT¹
(Thousands of employees; based on seasonally adjusted data)

	1981	1982	1983	1983		1984	1984		
				Q3	Q4	Q1	Feb.	Mar.	Apr.
---Average monthly changes---									
Nonfarm payroll employment ²	-6	-172	245	336	249	302	427	149	407
Manufacturing	-40	-127	91	96	136	93	110	61	101
Durable	-33	-99	71	79	108	72	95	49	62
Nondurable	-8	-28	20	17	28	22	15	12	40
Construction	-21	-20	23	35	17	27	56	-63	74
Trade	8	-18	44	39	56	65	58	57	15
Finance and services	59	31	86	98	69	100	165	100	196
Total government	-25	-13	1	47	-30	-5	31	-17	1
Private nonfarm production workers	-7	-146	213	245	239	238	317	109	239
Manufacturing production workers	-47	-108	82	81	124	74	80	49	95
Total employment ³	0	-51	330	378	355	400	702	248	262
Nonagricultural	21	-67	336	435	339	425	578	363	150

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

2. Survey of establishments.
3. Survey of households.

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

	1981	1982	1983	1983		1984	1984		
				Q3	Q4	Q1	Feb.	Mar.	Apr.
Civilian, 16 years and older	7.6	9.7	9.6	9.4	8.5	7.9	7.8	7.8	7.8
Teenagers	19.6	23.2	22.4	22.4	20.6	19.6	19.3	19.9	19.4
20-24 years old	12.2	14.8	14.4	14.0	12.9	11.9	11.6	11.6	12.2
Men, 25 years and older	5.1	7.5	7.8	7.5	6.8	6.1	6.1	5.9	5.9
Women, 25 years and older	5.9	7.3	7.2	7.0	6.3	6.1	6.1	6.0	6.0
White	6.7	8.6	8.4	8.1	7.4	6.8	6.7	6.7	6.7
Black	15.6	18.9	19.5	19.4	17.9	16.5	16.2	16.6	16.8
Fulltime workers	7.3	9.6	9.5	9.3	8.3	7.6	7.5	7.5	7.6
Memo:									
Total national ¹	7.5	9.5	9.5	9.3	8.4	7.8	7.7	7.7	7.7

1. Includes resident Armed Forces as employed.

its highest level in almost two decades. Since its cyclical trough in December 1982, the number of nonfarm payroll jobs has increased more than 4 million. Although this rate of employment growth has been on a par with the average of previous post-war recoveries, total hours of work have expanded more rapidly as the average workweek, particularly in manufacturing, has lengthened much more than during previous recoveries.

Despite continued gains in employment, the civilian unemployment rate remained at 7.8 percent for the third consecutive month in April as expanding job opportunities have drawn more individuals into the labor force. The civilian labor force participation rate, which hovered around 64 percent during the first year of the recovery, rose to 64.4 percent by April. The recent increase has occurred among adult females, who have contributed importantly to the secular rise in participation over the past two decades, and among youth, whose participation tends to be highly sensitive to the availability of jobs.

Personal Income and Consumption

Income growth was exceptionally strong in the first quarter, and the saving rate rose nearly 1 percentage point to 6.1 percent. Real disposable personal income grew at more than a 10 percent annual rate-- the largest quarterly advance since the recovery began. Rising employment contributed to the gains in wages and salaries, while payments under the PIK program again added substantially to farm income; indeed, the surge in PIK payments may have accounted for some of the increase in the measured saving rate last quarter. Recent data on employment and wages suggest that wage and salary income posted a large gain last

PERSONAL INCOME AND EXPENDITURES
(Based on seasonally adjusted data)

	1982	1983	1983		1984	1984		
			Q3	Q4	Q1	Jan.	Feb.	Mar.
- - Percentage changes at annual rates ¹ - -								
Total personal income								
Nominal	4.6	7.7	7.3	11.1	13.2	19.8	8.3	5.7
Real ²	-.3	4.2	3.0	8.1	9.7	14.2	8.3	.7 ^e
Disposable personal income								
Nominal	5.1	8.8	10.9	11.0	13.8	20.9	8.4	5.9
Real	.2	5.2	6.5	8.0	10.2	15.0	8.4	.2 ^e
Expenditures								
Nominal	7.5	9.0	6.5	9.4	9.2	21.8	12.4	5.2
Real	2.5	5.4	2.2	6.5	5.8	15.9	-12.2	-.6 ^e
- - Changes in billions of dollars ³ - -								
Total personal income	10.6	17.9	16.3	26.0	27.0	47.1	20.0	13.8
Wages and salaries	5.1	11.2	10.3	11.4	12.2	22.7	8.5	5.4
Private	3.4	9.7	8.8	9.9	9.9	18.7	6.9	4.0
Manufacturing	-.6	3.7	4.0	2.8	4.6	8.1	3.8	1.8
Other income	6.0	7.5	6.6	15.2	16.8	29.8	11.9	8.7
Farm income	-8.9	-.6	-1.4	5.1	5.2	17.2	.7	-2.3
Disposable personal income	10.0	17.2	21.9	22.2	24.2	42.6	17.5	12.4
Expenditures	12.0	16.0	10.0	19.1	9.0	40.9	-23.7	9.8
Durables	2.5	4.3	-.3	9.7	-2.7	6.8	-11.1	-3.9
Nondurables	1.9	4.0	3.2	1.4	5.5	31.0	-10.1	-4.5
Services	7.6	7.8	7.1	8.1	6.2	3.0	-2.4	18.1
Personal saving rate (percent)	5.8	4.9	4.9	5.2	6.1	5.1	6.6	6.7

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. Total personal income is deflated by the personal consumption expenditure deflator.

3. 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.

e--estimate

month. However, the drop in PIK payments is likely to depress income growth in the second quarter.

Rising income and a willingness to use installment credit continue to provide support for consumer spending. Total retail sales climbed 2.9 percent in April, more than reversing the March decline; the later-than-usual Easter holiday and bad weather in March may account for the volatile monthly swing in sales. All major types of stores reported higher sales in April, but gains were particularly strong for durable goods, the most credit-sensitive component of consumer expenditures. Retail sales in the GAF grouping of largely discretionary items rose to a level 2.1 percent above the first-quarter average.

Despite low inventories of popular domestic models and Japanese cars, unit auto sales in April were at a 10.3 million unit annual rate, just slightly less than during the first quarter. Sales of domestic models, which had dipped in March, returned to 8.2 million unit rate in April; foreign car sales have hovered around a 2.1 million unit rate since February. Now that a new quota year has begun, deliveries of Japanese models undoubtedly have stepped up, and sales are expected to increase in the next few months.

Consumer surveys found households still quite optimistic in April. The Conference Board index of confidence advanced nearly 3-1/2 percentage points, almost returning to its January 1984 peak. The Michigan Survey Research Center's index of consumer sentiment moved lower, but, except for the preceding three months, was the highest in the last ten years. Intentions to buy cars and houses were near record levels; however, many

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

	1983		Q1	1984		
	Q3	Q4		Feb.	Mar.	Apr.
Total sales	1.9	2.9	3.3	-1.1	-2.0	2.9
(Real) ¹	1.1	2.5	2.8	-.8	-2.1	--
Total, less automotive, gasoline and nonconsumer stores	2.2	1.6	2.9	-1.6	-.6	2.2
GAF ²	1.9	3.3	3.1	-.7	-1.8	3.6
Durable	2.4	6.8	4.7	-.6	-5.3	5.2
Automotive group	1.0	9.4	5.5	-.2	-7.3	6.4
Furniture & appliances	4.7	3.4	3.0	-3.1	-1.1	3.6
Nondurable	1.7	1.0	2.6	-1.3	-.2	1.8
Apparel	-1.5	4.2	2.4	.9	1.0	3.9
Food	1.7	.1	2.1	-.9	.5	1.2
General merchandise ³	2.1	2.9	3.4	-.4	-3.2	3.6
Gasoline stations	2.3	-.7	.1	-1.0	1.2	1.2

1. BCD series 59. Data are available approximately 3 weeks following the retail sales release.

2. General merchandise, apparel, furniture and appliance stores.

3. General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF grouping.

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

	1983			1984			
	Q2	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total sales	9.1	9.2	9.9	10.5	10.6	9.9	10.3
Imports	2.3	2.3	2.7	2.3	2.2	2.1	2.1
Domestic	6.8	6.9	7.3	8.2	8.5	7.8	8.2
Small	3.0	2.8	3.2	3.7	3.8	3.5	3.7
Intermediate & standard	3.9	4.1	4.1	4.4	4.6	4.3	4.6
Domestic production	6.3	7.6	7.6	8.2	8.1	8.2	7.7
Small	2.7	3.2	3.8	3.9	3.8	3.9	3.8
Intermediate & standard	3.6	4.4	3.8	4.2	4.3	4.3	3.9

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

consumers who thought it was a good time to buy a house also expressed concerns that interest rates would rise during the year ahead. The inflation rate anticipated for the next 12 months, 5.9 percent, was notably higher than the price expectations reported since last fall.

Business Fixed Investment

Business fixed investment still is expanding strongly, but the pace has subsided from the extremely rapid rate late last year. Indicators of future outlays point to continued strong growth.

Shipments of nondefense capital goods rose 3.9 percent in March, bringing the increase for the first quarter to only about 1 percent. That gain was substantially less than the extraordinary 6 percent surge in the fourth quarter, but it understates the strength in domestic equipment demand. Real imports of capital goods jumped about 14 percent (not at an annual rate) in the first quarter. Foreign producers of capital equipment have made steady inroads into U.S. markets over the past several years, and imports in real terms now account for about a fourth of all equipment expenditures other than motor vehicles compared with about one-seventh in 1980. In addition, spending on cars and trucks rose rapidly last quarter.

Nonresidential construction activity also has been robust, increasing almost 6 percent in the first quarter, with substantial gains reported for most major categories. Building of stores, restaurants, and warehouses, which typically follows residential construction activity, has risen steadily since mid-1983. Office construction picked up sharply despite high vacancy rates across most of the country; apparently, developers

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

	1983		1984			
	Q3	Q4	Q1	Jan.	Feb.	Mar.
<u>Producers' durable equipment</u>						
Nondefense capital goods						
Shipments	3.1	6.0	.9	-5.3	.3	3.9
Excluding aircraft & parts	4.9	6.1	2.0	-4.2	-.6	5.5
Orders	3.9	6.9	4.8	.8	7.7	-1.6
Excluding aircraft & parts	6.4	5.4	3.7	1.3	.8	4.1
Unfilled orders	1.4	2.0	4.3	.8	2.3	1.2
Excluding aircraft & parts	2.4	1.9	3.3	1.0	1.3	1.0
Addendum:						
Sales of heavy-weight trucks (thousands of units, annual rate)	181	199	232	190	275	232
<u>Nonresidential structures</u>						
Nonresidential construction put in place	2.7	2.4	5.8	.5	2.6	0.6
Nonresidential building permits	11.6	-2.1	16.0	10.4	2.9	19.8

expect that demand for office space will remain strong over the long term. Industrial building also rose sharply from its depressed level, but spending by public utilities declined.

Looking ahead, new orders for nondefense capital goods indicate a further expansion of capital spending. Excluding the volatile aircraft component, new orders rose sharply in March, and were up 3.7 percent for the first quarter. Private surveys of business plans for capital spending also indicate a substantial rise in outlays in 1984. The April McGraw-Hill survey of plant and equipment spending found that businesses plan to boost nominal expenditures 18-1/2 percent this year, with manufacturers expecting larger increases than nonmanufacturing firms. The Merrill-Lynch survey, also conducted in April, found a slightly lower rate of growth at 16 percent. Both findings represent significant upward revisions from the results of the fall samplings.

Business Inventories

Investment in business inventories expanded rapidly in recent months. Indeed, the swing toward greater accumulation of nonfarm stocks accounted for nearly one-third of real GNP growth in the first quarter. Overall manufacturing and trade inventories surged ahead at an annual rate of \$55-1/2 billion in book value terms in March, after rising at a record pace of \$110 billion in February. Nonetheless, the inventory-sales ratio for all manufacturing and trade remained fairly low. Thus, there appears to be room for further accumulation in the months ahead, particularly in the manufacturing sector.

Manufacturers continue to maintain lean inventories relative to sales. Throughout the latter half of 1983, manufacturers failed to

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

	1982	1983	1983		1984			
			Q3	Q4	Q1	Jan.	Feb. ^I	Mar. ^P
<u>Book value basis</u>								
Total	-18.1	8.8	25.5	29.4		44.7	110.0	
Manufacturing	-17.5	-4.2	6.0	5.0	27.2	5.5	38.3	37.9
Wholesale trade	-.3	2.5	10.0	9.6		13.6	15.2	
Retail trade	-.3	10.5	9.4	14.8		25.6	57.4	
Automotive	-1.1	4.2	4.3	8.7		4.1	28.6	
Ex. Auto	.8	6.3	5.2	6.1		21.5	28.9	
<u>Constant dollar basis</u>								
Total	-8.2	.0	9.0	9.4		7.6	42.1	
Manufacturing	-8.4	-3.1	1.4	-.5		-5.5	13.8	
Wholesale trade	.6	-.5	3.8	3.6		3.9	5.0	
Retail trade	-.5	3.6	3.8	6.3		9.2	23.2	
Automotive	-.4	1.1	2.3	4.1		.6	9.5	
Ex. Auto	.0	2.5	1.6	2.3		8.5	13.7	

INVENTORIES RELATIVE TO SALES¹

	Cyclical Reference Points ²		1983		1984			
	1981 Low	1982 High ^P	Q3	Q4	Q1	Jan.	Feb. ^I	Mar. ^P
<u>Book value basis</u>								
Total	1.39	1.53	1.35	1.32		1.29	1.32	
Manufacturing	1.60	1.78	1.48	1.44	1.44	1.41		1.42
Wholesale trade	1.06	1.28	1.15	1.12		1.08	1.11	
Retail trade	1.36	1.43	1.34	1.37		1.29	1.35	
Automotive	1.59	1.88	1.46	1.44		1.35	1.46	
Ex. Auto	1.36	1.35	1.31	1.31		1.28	1.32	
<u>Constant dollar basis</u>								
Total	1.62	1.77	1.57	1.55		1.51	1.54	
Manufacturing	1.92	2.14	1.80	1.75		1.72	1.73	
Wholesale trade	1.35	1.56	1.40	1.39		1.33	1.37	
Retail trade	1.33	1.45	1.36	1.36		1.33	1.38	
Automotive	1.44	1.79	1.37	1.40		1.28	1.36	
Ex. Auto	1.27	1.38	1.36	1.35		1.34	1.38	

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

2. Highs and lows are specific to each series and are not necessarily coincident.

r--revised estimates.

p--preliminary estimates.

accumulate inventories even though shipments were rising. But continued strong demand early in 1984 apparently persuaded them to step up sharply their stockbuilding. In February and March, the book value of manufacturing stocks rose at an annual rate of \$38 billion compared with the average \$5 billion pace in the preceding several months. The recent expansion in stocks was widespread both by industry and by stage of processing. Together with strong new orders and a rising backlog of unfilled orders, recent inventory buildups apparently signal sustained strength in production and employment in manufacturing industries.

Inventories at trade establishments also expanded briskly in recent months, especially at retail stores. In general, trade inventories are not as lean as manufacturing stocks, and there is a wide disparity in the inventory situation within the trade sector. Auto dealers, for example, have complained about short supplies of some popular models for several months, even though deliveries were stepped up in the first quarter. At other retailers, some of the accumulation in February and March probably was unintended, but may be transitory given the resurgence of sales in April. Anecdotal reports suggest that the current level of stocks is not a major concern for most retailers.

Housing Markets

Unusual weather has made recent data difficult to interpret. Early in the year, favorable weather conditions boosted housing starts, whereas in March bad weather hindered construction activity. In April, total private housing starts rebounded to a 1.96 million unit annual rate--close to the advanced first-quarter pace. However, newly-issued

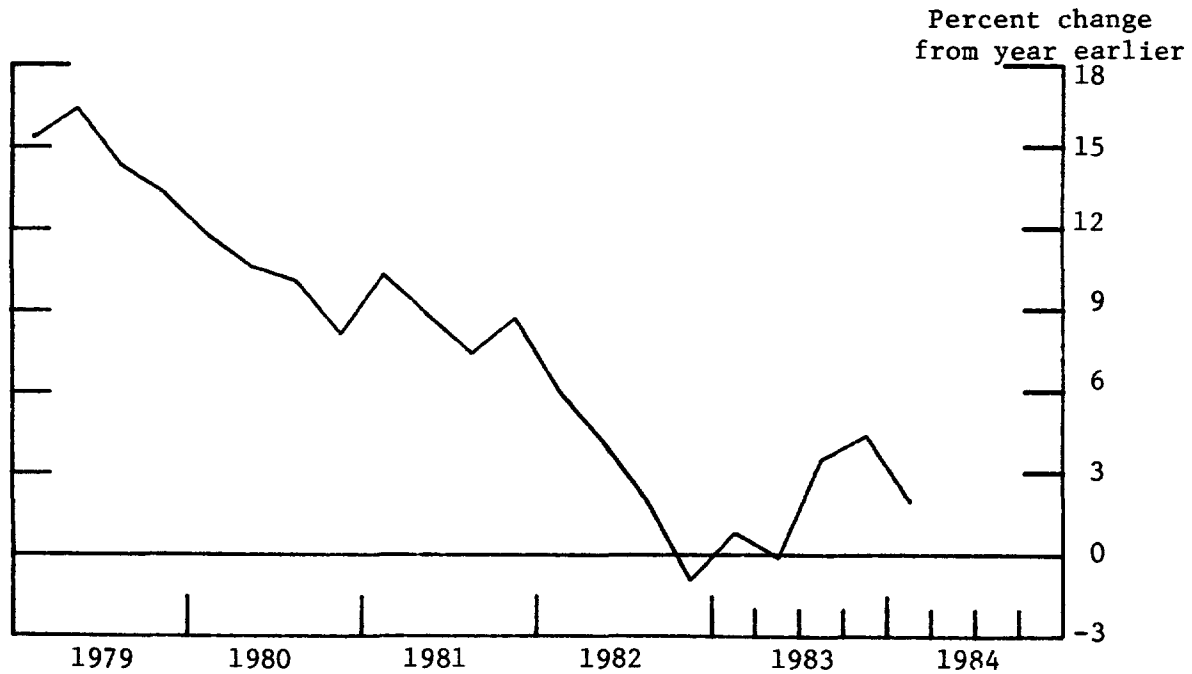
PRIVATE HOUSING ACTIVITY
(Seasonally adjusted annual rates, millions of units)

	1983	1983	1984	1984		
	Annual	Q4	Q1	Feb.	Mar.	Apr. ¹
All units						
Permits	1.59	1.63	1.81	1.90	1.73	1.73
Starts	1.70	1.70	1.96	2.26	1.65	1.96
Single-family units						
Permits	.89	.91	1.02	1.08	.97	.94
Starts	1.07	1.04	1.28	1.46	1.07	1.15
Sales						
New homes	.62	.67	.68	.70	.66	n.a.
Existing homes	2.72	2.76	2.94	2.91	3.03	n.a.
Multifamily units						
Permits	.70	.72	.79	.82	.75	.79
Starts	.63	.66	.69	.80	.58	.82
Mobile home shipments	.30	.31	.30	.29	.29	n.a.

1. Preliminary estimates.

n.a.--not available.

PRICES FOR NEW HOUSES, QUALITY-ADJUSTED



residential building permits--an indicator less affected by weather--were unchanged in April at a 1.7 million unit annual rate, which is somewhat below the level earlier in the year.

Multifamily starts jumped sharply in April to their highest monthly pace in more than a decade. Over the preceding eight months, multifamily construction had been sustained on a high plateau, as building of rental units was particularly robust. A combination of factors has made rental units more attractive to investors, including tax advantages of accelerated depreciation, a dramatic slowdown in the rise in construction costs, and lower operating costs due to declining energy prices. This high level of rental construction increased the potential supply of new units that were vacant and available for occupancy, or were under construction, to an estimated 780,000 in the first quarter of 1984, up 35 percent from just two years earlier.

Single-family starts were at a 1.1 million unit annual rate in April, or 10 percent below the advanced first-quarter average. New house sales edged lower in March but for the quarter as a whole showed a moderate gain. Despite some slowing in the last few months, the recovery of housing activity since early 1982 has been impressive. Yet price increases of new houses sold have remained quite small. On a quality-adjusted basis, new house prices rose only 2 percent over the year ended in the first quarter. However, the average price of new houses (unadjusted) has gone up substantially, as rising incomes and, until recently, lower mortgage rates have enabled households to upgrade the quality of the homes that they purchase.

Government: Federal, State, and Local

Over the first half of fiscal year 1984 the federal budget deficit totaled \$118 billion (unified basis, not at an annual rate), \$11 billion less than for the same period a year earlier. Receipts were about \$27 billion higher than last year, reflecting both the strength of economic activity and the social security tax increase this January. Meanwhile, total outlays increased about \$16 billion. Smaller payments under unemployment insurance and Commodity Credit Corporation programs relative to a year ago held down growth in total outlays. Excluding these two programs, outlays rose roughly \$31 billion.

In April the administration issued the spring update of its fiscal 1985 budget. The revisions were small and reflected changes in economic assumptions—mainly higher GNP and higher interest rates in the near term—as well as some technical reestimates. There were no significant changes in policy assumptions. In particular, the new estimates do not take account of the compromise between Senate Republicans and the administration on a deficit reduction package. For FY1984 the deficit now is estimated at \$178 billion, or \$6 billion less than shown in the February budget. The deficit figure for FY1985 is essentially unchanged at \$179 billion, and estimates for the outyears, FY1986 through FY1989, are roughly \$3 to \$5 billion higher in each year.

Congress has made some progress on the FY1985 budget and deficit reduction measures. In the House, a budget resolution with deficit reduction measures totaling about \$187 billion over the 1985-87 period has passed. In addition, the House approved a tax reform bill and a

spending reconciliation bill that include the revenue raising measures and entitlement cuts assumed in the budget resolution. The tax bill increases receipts roughly \$10 billion in 1985 and twice that amount in subsequent years. The bulk of the spending reductions, however, will need to be enacted in the appropriations process later this summer. Meanwhile, the Senate passed a revenue measure similar to that in the House and is expected to vote soon for spending reductions consistent with the Senate leadership/administration bill shown on the following table. The Senate then will take up the fiscal 1985 resolution that has been reported by its budget committee.

After several years of little growth, real spending at state and local governments advanced at a 3.2 percent annual rate in the first quarter. Now that operating and capital budgets are in surplus overall, many state and local governments are in a better position to turn their attention to restoring and modernizing the infrastructure. Indeed, almost all of the increased spending in the first quarter was made on structures, particularly schools and sewer systems. In addition, although austerity measures still are limiting employment growth in this sector, a number of jurisdictions that imposed wage freezes in recent years seem likely to resume pay increases this year.

Exports and Imports

An increasing portion of domestic demand was met by foreign suppliers during the first quarter, and the U.S. merchandise trade deficit reached a record level of \$103 billion (annual rate). Spending on imported goods jumped 12 percent (not at an annual rate). Most of the increase was in

RECENT DEFICIT REDUCTION PLANS
(Unified basis, billions of dollars)

	-----Fiscal year-----		
	1985	1986	1987
1. Receipts: CBO baseline	733	795	863
Proposed increases:			
Senate/administration	10	15	20
House resolution	10	18	22
2. Defense outlays: Admin. budget ¹	272	311	349
Proposed cuts:			
Senate/administration	6	16	19
House resolution	16	35	45
3. Nondefense outlays: CBO baseline ²	668	719	784
Proposed cuts: ³			
Senate/administration	10	20	33
House resolution	6	11	21
4. Total reductions			
Senate/administration	26	51	72
House resolution	31	63	88
5. Baseline deficit ⁴	207	235	270
6. Resulting deficits ⁴			
Senate/administration	181	184	198
House resolution	175	172	182

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

1. As shown in the April update of the FY1985 budget.

2. February 1984 nondefense baseline revised up for interest outlays to allow for faster growth of debt associated with inserting administration defense proposals.

3. Includes savings on debt service from lower deficit.

4. The baseline and resulting deficits are calculated from the CBO baseline receipts and nondefense outlay projections with the administration's defense requests. The deficits published by the Senate Republicans differ from those shown above because they use a baseline with different technical and economic assumptions. The deficits published by the Senate are \$169 billion, \$150 billion, and \$143 billion in FY1985, FY1986, and FY1987, respectively.

the volume of capital and consumer goods as well as industrial supplies, and reflects the strength of demand in the United States as well as the price competitiveness of imported goods. On average, prices of nonoil imports rose 3-1/2 percent at an annual rate in the first quarter, the same as in the fourth quarter, after two years of declining or being flat. Merchandise exports picked up moderately as economic activity in major trading-partner countries has strengthened somewhat since late last year. Higher shipments to Canada and Western Europe accounted for much of the increase. (A more complete discussion of international economic developments is included in Part IV.)

Prices

There is currently no indication of a broad-based acceleration of inflation at either the consumer or producer level. Although the rate of inflation picked up somewhat in the first quarter, this was primarily the result of a large temporary increase in food prices. Declining energy prices offset part of the higher food costs, while the prices of other goods and services rose at the same 5 percent pace as in the fourth quarter of 1983. Moreover, price increases for producers' finished goods and intermediate materials were negligible in April.

The consumer price index rose at a 5.0 percent annual rate in the first quarter, up from a 4.0 percent increase in the fourth quarter of 1983. Approximately one-third of the overall increase in the CPI could be attributed to higher food prices, which advanced at a 9.0 percent annual rate. Much of the increase occurred early in the quarter, and by March, a number of food prices had retreated. This reflected the reversal

RECENT CHANGES IN CONSUMER PRICES
(Percentage change; based on seasonally adjusted data)¹

	Relative Importance Dec. 1983	1982	1983	1983		1984	1984	
				Q3	Q4	Q1	Feb.	Mar.
				--Annual rate--		--Monthly rate--		
All items ²	100.0	3.9	3.8	4.5	4.0	5.0	.4	.2
Food	18.7	3.1	2.6	1.1	4.3	9.0	.7	-.1
Energy	11.9	1.3	-.5	3.4	-1.7	-1.4	.2	-.2
All items less food and energy ³	69.4	6.0	4.9	5.9	4.9	5.1	.3	.4
Commodities	26.5	5.1	5.0	6.8	4.6	3.4	.2	.4
Services	42.9	6.9	4.8	5.2	5.3	5.9	.4	.4
Memorandum: CPI-W ⁴	100.0	3.9	3.3	4.7	2.6	2.3	.1	.0

1. Changes are from final month of preceding period to final month of period indicated.
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; based on seasonally adjusted data)¹

	Relative Importance Dec. 1983	1982	1983	1983		1984	1984	
				Q3	Q4	Q1	Mar.	Apr.
				--Annual rate--		--Monthly rate--		
Finished goods	100.0	3.7	.6	2.0	1.1	6.0	.5	.0
Consumer foods	24.0	2.1	2.3	2.5	5.8	17.4	.8	-.6
Consumer energy	12.0	-.1	-9.2	-1.3	-10.4	-7.2	-1.2	.7
Other consumer goods	41.8	5.3	1.9	2.7	1.5	4.7	.9	-.1
Capital equipment	22.2	3.9	1.9	2.1	1.8	4.3	.3	.3
Intermediate materials ²	94.8	.3	1.4	4.0	2.5	2.6	.5	.1
Exc. energy	79.3	.6	3.0	3.6	4.1	3.5	.6	.1
Crude food materials	52.8	1.5	8.0	15.6	12.1	13.7	4.2	-1.2
Crude energy	31.3	2.6	-4.6	-1.7	-2.3	-1.3	-.8	.4
Other crude materials	15.9	-7.6	15.5	16.6	2.4	-9.2	.2	2.9

1. Changes are from final month of preceding period to final month of period indicated.

Excludes materials for food manufacturing and animal feeds.

of earlier weather- and disease-related price increases. However, tight meat supplies and low inventories of some key crops could put renewed upward pressure on food prices in coming months.

Falling gasoline and natural gas prices contributed to another decline in consumer energy costs in the first quarter. In contrast with gasoline prices, fuel oil prices advanced rapidly in January and February as the result of unusually cold weather; they subsequently fell back in March. Gasoline prices have stabilized recently, and further declines seem unlikely now that the summer driving season has begun.

At the producer level, prices for finished goods accelerated to a 6.0 percent annual rate in the first quarter, but then were unchanged in April. A reversal of the sharp runup in food prices, especially fresh vegetables, contributed to the favorable April report. Moreover, prices for finished consumer items, apart from food and energy, were essentially unchanged on balance, while increases for capital equipment continued to be moderate. At an earlier stage of processing, prices of intermediate materials (excluding food and energy) also were little changed on average in April after a 0.6 percent rise in March. For some intermediate materials, notably those produced by the pulp and paper industries, strong demand and high capacity utilization rates boosted prices further. But prices for a number of building supplies, such as softwood lumber and plywood, have declined recently, possibly in an overreaction to an expected weakening in residential construction activity.

Wages and Labor Costs

Wage inflation remained moderate during the first quarter of 1984, as the general pattern of wage increases across occupations and bargaining

SELECTED MEASURES OF LABOR COSTS IN THE NONFARM BUSINESS SECTOR
(Percentage change at annual rates; based on seasonally adjusted data)

	1981	1982	1983	1983		1984 to date
				Q3	Q4	
<u>Hourly earnings index, wages of production workers¹</u>						<u>First 4 months</u>
Total private nonfarm	8.3	6.0	3.9	2.3	4.5	3.9
Manufacturing	8.8	6.1	2.8	1.8	3.5	3.6
Contract construction	8.4	5.2	1.4	-1.2	1.2	3.0
Transportation and public utilities	8.5	6.1	4.3	.9	4.8	3.4
Trade	7.0	4.8	4.6	3.7	4.8	3.5
Services	9.1	6.6	5.0	3.7	6.2	4.7
<u>Employment cost index, wages and salaries of all persons²</u>						<u>First 3 months</u>
Total	8.8	6.3	5.0	5.5	5.0	4.2
By occupation:						
White collar	9.1	6.5	6.0	7.7	4.9	3.1
Blue collar	8.6	5.6	3.8	2.6	4.3	4.9
Service workers	8.3	8.5	4.6	2.3	11.4	5.2
<u>Major collective bargaining settlements³</u>						
First-year wage adjustments	9.8	3.8	2.6	—	—	3.0
Total effective wage change	9.5	6.8	4.0	—	—	3.6
<u>Labor costs and productivity, all persons</u>						
Compensation per hour	9.0	7.2	4.8	3.8	4.3	6.1
Output per hour	1.2	.8	3.9	2.3	2.7	2.6
Unit labor costs	7.7	6.3	1.8	1.5	1.6	3.4
<u>Employment cost index, compensation⁴</u>						
Compensation per hour	9.8	6.4	5.7	6.1	4.9	7.0

1. Changes are from final quarter of preceding period to final quarter of period indicated. Quarterly changes at compound rates.

2. Seasonally adjusted by the Board staff.

3. Data are for contracts covering 1,000 or more workers.

4. Not seasonally adjusted.

status essentially mirrored that seen in 1983. A comprehensive measure of wage change in private industry--the employment cost index (ECI)--rose at a 4-1/4 percent annual rate in the first quarter; on a year-over-year basis, this series has leveled off at a 5 percent rate for several quarters. Among white-collar workers, year-over-year wage increases have averaged 5-1/2 to 6 percent lately, while blue-collar wage increases have been notably smaller at 4 percent reflecting the unprecedented number of union workers accepting wage concessions over the life of agreements negotiated in 1982 and 1983. Like the ECI, data from the hourly earnings index for production and nonsupervisory workers have not shown signs of accelerating wage increases over the first four months of 1984.

Concession bargaining continued to occur in early 1984 but was far less pervasive than in the past two years. Under major agreements, roughly one-fifth of union workers negotiating new contracts during the first quarter accepted initial wage cuts or freezes, compared with an extraordinary figure of two-fifths of workers settling in 1982 and 1983. Wage cuts so far this year were confined primarily to three industries--construction, food stores, and airlines. Although concessions were less widespread, so was the incidence of settlements in excess of 8 percent. As a result of this reduced dispersion of new wage settlements, first-year adjustments (excluding COLAs) averaged 3 percent in early 1984, only a bit more than last year.

Hourly compensation, which includes employers' contributions for social insurance and fringe benefits as well as wages, rose at a 6.1

percent annual rate in the first quarter. About 1-1/2 percentage points of the increase reflects legislated changes in both the taxable wage base and tax rate for social security along with an extension of mandatory coverage to nonprofit institutions, which became effective January 1. Meanwhile, productivity in the nonfarm business sector advanced at a 2.6 percent annual rate, the same as the upward-revised increase for the fourth quarter. These gains do not appear particularly impressive for a period when output was expanding briskly, but they are consistent with some improvement in the underlying trend rate of productivity growth from the dismal performance of the late 1970s.

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SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1982		1983	1984			Change from:	
	Highs	FOMC Dec. 21	Spring lows	FOMC Jan. 30	FOMC Mar. 27	May 15	FOMC Jan. 30	FOMC Mar. 27
Short-term rates								
Federal funds ²	15.61	8.69	8.48	9.41	9.97	10.55p	1.14	.58
Treasury bills								
3-month	14.57	7.90	7.96	8.89	9.78	10.11	1.22	.33
6-month	14.36	8.01	7.97	8.97	9.89	10.42	1.45	.53
1-year	13.55	8.11	7.95	9.00	9.89	10.60	1.60	.71
Commercial paper								
1-month	15.73	8.48	8.17	9.14	10.01	10.68	1.54	.67
3-month	15.61	8.43	8.13	9.13	10.05	10.94	1.81	.89
Large negotiable CDs ³								
1-month	15.94	8.59	8.26	9.23	10.18	10.95	1.72	.77
3-month	16.14	8.62	8.26	9.31	10.32	11.44	2.13	1.12
6-month	16.18	8.78	8.29	9.43	10.56	11.92	2.49	1.36
Eurodollar deposits ²								
1-month	16.36	9.44	8.68	9.53	10.45	11.28p	1.75	.83
3-month	16.53	9.56	8.71	9.70	10.68	11.88p	2.18	1.20
Bank prime rate	17.00	11.50	10.50	11.00	11.50	12.50	1.50	1.00
Treasury bill futures								
June 1984 contract	13.50	8.25	8.49	9.27	10.06	10.42	1.15	.36
Dec. 1984 contract	9.78	8.98	8.89	9.85	10.64	11.60	1.75	.96
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	15.16	9.87	9.36	10.88	11.83	12.77	1.89	.94
10-year	14.95	10.54	10.12	11.66	12.46	13.48	1.82	1.02
30-year	14.80	10.53	10.27	11.74	12.50	13.50	1.76	1.00
Municipal revenue (Bond Buyer index)	14.32	10.81 ⁴	9.21	9.95 ⁴	10.39 ⁴	10.61 ⁴	.66	.22
Corporate—A utility Recently offered	17.47	12.90e	11.64	12.90e	13.80e	14.89e	1.99	1.09
Home mortgage rates								
S&L fixed-rate	17.66	13.63 ⁵	12.55	13.29 ⁵	13.48 ⁵	13.87 ⁵	.58	.39
FNMA ARM, 1-yr.	17.41	11.13 ⁵	10.54	11.40 ⁵	12.10 ⁵	12.70 ⁵	1.30	.60
	1982	1983	1984			Percent change from:		
	Lows	Highs	FOMC Jan. 30	FOMC Mar. 27	May 15	1983 highs	FOMC Jan. 30	
Stock prices								
Dow-Jones Industrial	776.92	1287.20	1221.52	1154.31	1150.86	-10.6	-5.8	
NYSE Composite	58.80	99.63	94.12	90.55	90.90	-8.8	-3.4	
AMEX Composite	118.65	249.06	217.53	209.19	207.51	-16.7	-4.6	
NASDAQ (OTC)	159.14	328.91	269.23	249.10	249.00	-24.3	-7.5	

One-day quotes except as noted.

Averages for statement week closest to date shown.

3. Secondary market.

4. One-day quotes for preceding Thursday.

5. One-day quotes for preceding Friday.

e--estimated. p--preliminary.

DOMESTIC FINANCIAL DEVELOPMENTS

The rapid expansion of domestic spending and the financing of mergers have been reflected in continued strong growth of credit demands in recent months. Debt of domestic nonfinancial sectors rose at a 12-1/4 percent annual rate in the first quarter, above its monitoring range, and available data suggest still faster growth in April. Business borrowing has been heavy--in the commercial paper market, persistently, and at banks and in bond markets, more irregularly. In the household sector, growth of consumer installment credit has maintained the robust pace established last fall, and home mortgage borrowing has yet to slow. Treasury financing operations have been influenced of late by debt ceiling considerations, but federal debt nevertheless has continued to soar. Only in the state and local government sector has growth of debt been comparatively moderate.

These increasing credit demands have put pressure on interest rates, contributing to rises of 70 to 135 basis points in market rates for private short-term instruments and increases of about 100 basis points in long-term rates on taxable securities. Banks have twice raised their prime rate since the last FOMC meeting, moving it up 100 basis points to 12-1/2 percent. The federal funds rate has fluctuated considerably but recently has averaged about 50 basis points above the 10 percent average level in late March--consistent with the increase in the discount rate from 8-1/2 to 9 percent and adjustment plus seasonal borrowing averaging in the vicinity of \$1 billion.

Yields on Treasury bills have increased considerably less than other rates but some of the divergence in the behavior of public and private rates is probably only temporary. Relative supplies have been affected by a reduction in the size of the Treasury's weekly bill auctions and the recent flood

of new commercial paper. In addition, financial uncertainty was heightened for a time by the failure of Lion Capital, a securities firm, and by rumors of a major bank failure.

The expansion of credit is reflected in the relatively rapid growth of M3 at an average 10 percent rate in March and April, which has pushed this aggregate about 1/2 percentage point above its 1984 range. On the other hand, the narrower aggregates, M1 and M2, are in the lower halves of their ranges as the growth of core deposits has been slower than that of loans.

Monetary Aggregates and Bank Credit

M1 was flat in April after growing at about a 7 percent annual rate in the first quarter. The sluggishness last month probably overstates any underlying weakness in narrow money. Because of deposit churning around the mid-April tax date, seasonal factors affecting April and May growth rates have proved especially difficult to identify and have been revised substantially in recent years.¹ Moreover, growth of M1 may have been depressed by the increasing use by households of drafts drawn on MMDAs and MMMFs for tax payments. The weakness in M1 in April was concentrated in its other checkable deposits component, while balances in MMDAs and broker/dealer MMMFs rose rapidly in the weeks preceding the tax date and declined afterward.² Perhaps confirming these suspicions about seasonal influences--which are

1. The current seasonal factors are estimated by the X-11 ARIMA technique using data through the end of 1983. An M1 growth estimate based on seasonal factors derived by the same method, but using data through April 1984, would be nearly 4 percent, and the estimated growth for April of experimental M1, which uses a model-based seasonal adjustment procedure with data through 1983, is 2 percent.

2. The processing of tax returns by the Treasury does not appear to have contributed significantly to the weakness in M1 in April. Tax refunds, which tend to boost M1, were down only slightly from previous years, while nonwithheld tax payments, which also tend to boost M1 as balances are built up to cover checks to the IRS, were essentially unchanged from previous years.

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

	1983			1984			Growth from Q4 1983 to Apr. 1984
	Q2	Q3	Q4	Q1	Mar.	Apr.	
----- Percentage change at annual rates -----							
1. M1	11.6	9.5	4.8	7.2	5.0	0.0	5.4
2. (M1) ²	(12.7)	(7.9)	(4.6)	(8.0)	(8.1)	(2.0)	(7.0)
3. M2	10.6	6.9	8.5	6.8	3.6	7.3	6.6
4. M3	9.3	7.4	9.9	8.9	9.0	10.7	9.5
Levels in billions of dollars Mar. 1984							
<u>Selected components</u>							
5. Currency	10.2	9.1	9.7	8.7	5.6	7.2	151.8
6. Demand deposits	4.2	4.0	-0.5	1.2	1.0	5.9	245.2
7. Other checkable deposits	28.5	21.2	9.6	16.2	13.5	-19.5	133.1
8. M2 minus M1 ³	10.2	6.1	9.6	6.7	3.2	9.6	1707.1
9. Overnight RPs and Eurodollars, NSA ⁴	48.0	-8.1	23.4	13.5	-38.8	-14.8	56.2
10. General purpose and broker/dealer money market mutual fund shares, NSA	-44.4	-13.1	-1.2	9.8	22.8	10.8	146.1
11. Commercial banks	18.4	12.2	12.4	5.4	6.2	7.8	729.6
12. Savings deposits, SA, plus MMDAs, NSA ⁵	62.8	11.0	5.9	6.5	10.1	7.4	373.8
13. Small time deposits	-21.2	13.7	19.3	4.4	2.4	7.8	355.8
14. Thrift institutions	11.9	7.3	7.3	6.5	6.5	7.1	781.2
15. Savings deposits, SA, plus MMDAs, NSA ⁵	53.8	1.0	-7.0	-0.6	9.3	4.8	328.0
16. Small time deposits	-17.0	12.3	18.8	11.8	4.8	9.1	453.3
17. M3 minus M2 ⁶	3.8	9.8	16.3	18.1	31.7	25.0	548.2
18. Large time deposits	-0.3	11.9	15.5	24.4	27.9	25.9	355.3
19. At commercial banks, net ⁷	-14.6	-4.6	-0.4	9.8	23.7	18.6	236.3
20. At thrift institutions	51.2	63.5	57.6	58.2	36.5	40.7	119.0
21. Institution-only money market mutual fund shares, NSA	-41.7	-17.8	16.6	10.9	5.8	0.0	41.8
22. Term RPs, NSA	40.4	15.2	50.0	16.9	30.9	58.2	58.4
23. Term Eurodollars, NSA	28.9	-1.7	-1.3	10.5	51.8	5.0	97.1
-- Average monthly change in billions of dollars --							
<u>MEMORANDA:</u>							
24. Managed liabilities at commercial banks (25+26)	0.0	-2.8	5.2	4.7	9.8	6.4	403.8
25. Large time deposits, gross	-4.0	-2.0	0.1	2.0	5.3	3.2	292.2
26. Nondeposit funds	4.0	-0.8	5.1	2.7	4.5	3.2	111.6
27. Net due to related foreign institutions, NSA	2.4	1.2	2.9	2.1	4.8	3.1	-33.4
28. Other ⁸	1.6	-2.0	2.1	0.7	-0.3	0.1	145.0
29. U.S. government deposits at commercial banks ⁹	0.3	1.0	-1.2	1.2	-3.9	-0.8	15.9

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. M1 seasonally adjusted using an experimental model-based procedure applied to weekly data.

3. Nontransactions M2 is seasonally adjusted as a whole.

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. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs declined during February, March, and April at rates of 18.2, 11.1, and 2.8 percent respectively. At thrift institutions, savings deposits excluding MMDAs declined during February at a rate of 8.8 percent, and increased in March and April at rates of 0.7 and 0.7 percent respectively.

6. The non-M2 component of M3 is seasonally adjusted as a whole.

7. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.

8. 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.

9. Consists of Treasury demand deposits at commercial banks and Treasury note balances.

widely shared by private analysts—M1 turned upward in late April and early May.

The broader monetary aggregates strengthened somewhat in April, but their growth, especially that of M2, may also be understated. M2 advanced at a 7-1/4 percent clip last month, up 1/2 percentage point from its first-quarter growth rate. Two seasonal adjustment problems may have appreciably reduced M2 growth in April. First, the reporting of RPs over two April holiday weekends as term, rather than as overnight, obligations probably is responsible for a significant part of the April increase in term RPs, and for the decline in overnight RPs. Second, growth of IRA and Keogh accounts at depository institutions and MMMFs, which are excluded from the monetary aggregates, totaled more than \$6 billion last month. April is by far the most important month for these flows, and total flows have increased rapidly over the past three years, making it unlikely that standard adjustments capture the full seasonal effects.

Inflows of small time deposits at both banks and thrifts strengthened somewhat in April despite an apparent stickiness in rates on such accounts. Over the past several months, the rise in yields on Treasury securities and other market instruments has outstripped those posted by depository institutions on MMDAs and other deposit accounts. By late April, differentials between Treasury yields and offering rates at commercial banks reached 50 basis points for 3- to 6-month maturities and about 100 basis points for 2- to 4-year maturities. Data for thrift institutions suggest that they have responded even less aggressively than commercial banks to the increases in market rates, though their rates remain higher than those at banks.

M3 expanded at a 10-3/4 percent pace in April, somewhat faster than in earlier months. The seasonal pattern of IRA contributions may also have cut into M3 growth but to a smaller degree than for M2. Both thrift institutions and commercial banks continued to rely heavily on managed liabilities, using large CDs to fund rapid loan growth. In addition to liabilities counted in M3, banks again tapped their foreign offices as a source of funds in April; over the first four months of the year such borrowings totaled more than \$9 billion, accounting for about 40 percent of the increase in managed liabilities.

Growth in commercial bank credit eased in April after five months of swift expansion. Banks ran off securities holdings at a faster pace than in the two previous months, while business loan growth at domestic banking offices abated as banks booked a sizable volume of loans offshore, and firms shifted more of their borrowing to the commercial paper market. Consumer and real estate lending, however, continued to expand vigorously.

Business Finance

The pattern of corporate financing so far in the second quarter generally extends the trends evident in the first quarter. The financing gap of nonfinancial corporations is continuing to widen as gross capital expenditures increase more rapidly than the flow of internal funds. The resultant external financing needs of these firms are being met through debt issuance; the sale of new equity shares has been sluggish since early in the year when stock prices slumped, and a large volume of stock has been retired in mergers that have been financed by borrowing.

With hopes for declining interest rates beginning to fade this winter and credit needs rising, corporations became more willing to sell bonds, and

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

	1983		1984				Levels in bil. of dollars April 1984 ^P
	Q3	Q4	Q1	Feb.	Mar.	April ^P	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks ³	8.6	12.8	14.1	15.9	13.3	5.6	1634.6
2. Securities	6.3	10.8	4.6	-0.5	-0.3	-8.2	437.3
3. Treasury securities	13.6	25.1	-1.9	-2.5	-7.6	-6.4	186.1
4. Other securities	1.5	0.6	9.5	1.4	4.7	-9.4	251.2
5. Total loans ³	9.5	13.5	17.6	22.1	18.4	10.4	1197.3
6. Business loans ³	7.6	9.4	18.9	15.2	29.2	7.5	438.4
7. Security loans	25.1	60.8	-1.5	144.0	-140.3	-17.6	26.8
8. Real estate loans	11.6	11.4	13.4	12.4	12.9	15.6	351.2
9. Consumer loans	15.8	23.1	21.5	17.1	19.5	19.7	235.3
----- Short- and Intermediate-Term Business Credit -----							
10. Business loans net of bankers acceptances	7.4	9.7	18.1	14.7	27.3	7.1	428.8
11. Commercial paper issued by non- financial firms ⁴	-2.7	25.9	20.1	30.7	49.9	91.0	53.9
12. Sum of lines 10 & 11	6.4	11.3	18.3	16.5	29.3	15.6	482.7
13. Line 12 plus loans at foreign branches ⁵	6.1	11.5	18.1	15.6	28.4	16.5	502.0
14. Finance company loans to business ⁶	17.8	29.0	n.a.	27.5	n.a.	n.a.	n.a.
15. Total bankers acceptances outstanding ⁶	20.5	18.9	-22.2	-24.1	0.0	n.a.	n.a.
16. Total short- and intermediate- term business credit (sum of lines 13, 14 and 15)	9.3	14.8	n.a.	12.9	n.a.	n.a.	n.a.

P--preliminary

n.a.--not available.

1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.

2. Growth rates beginning 1984 have been estimated after adjusting for major changes in reporting panels and definitions that caused breaks in series at the beginning of January. Data should be regarded as highly preliminary.

3. 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.

4. Average of Wednesdays.

5. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.

6. Based on average of current and preceding ends of month.

total volume in the domestic and Euromarkets strengthened from the weak pace in late 1983. New public bond issues by nonfinancial corporations totaled \$2.5 and \$3.0 billion in March and April, respectively, the largest monthly totals since last May. About a fourth of this volume was merger-related. New issue bond volume dried up in the first half of May, however, as interest rates climbed further.

On the whole, firms have not been enthusiastic about taking on large quantities of long-term, fixed-rate debt at recent yield levels. Average maturities of bonds have shortened and nonfinancial corporations have turned increasingly to loans and short-term market paper for the bulk of their financing needs. Commercial paper issuance has accelerated sharply in recent months, with the net \$3.8 billion raised in April the largest monthly increase on record. In the last three months, the sum of business loans at commercial banks and commercial paper outstanding grew at an average annual rate of 20 percent. About a third of that growth was related to merger financing, but borrowing was large even after adjustment for this influence.

As interest rates have increased, the spreads between rates on corporate and Treasury bonds have widened somewhat: the Board's A-rated utility index is now more than 130 basis points above the yield on 30-year Treasury bonds, compared with a low of about 100 basis points three months ago. This partly reflects the impact of differences in call protection, rather than concerns about quality. Indeed, quality spreads among private issues have not widened appreciably except for a few borrowers with serious problems, such as utilities experiencing trouble with nuclear power plant construction. Risk premiums on securities of utilities with nuclear plants

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

	1983			1984			
	Year	Q3	Q4	Q1P	Mar.P	Apr.P	May ^f
----- Seasonally adjusted -----							
Corporate securities--total	10.54	9.14	9.12	9.74	8.35	9.05	7.10
Securities sold in U.S.	9.84	8.51	8.54	8.30	6.60	7.30	6.30
Publicly offered bonds ¹	3.94	2.65	3.50	4.80	3.30	4.30	3.10
Privately placed bonds	1.55 ^e	1.76 ^e	1.50 ^e	1.50 ^e	1.50 ^e	1.50 ^e	1.50 ^e
Stocks ²	4.35	4.10	3.54	2.00	1.80	1.50	1.70
Securities sold abroad ³	.70	.63	.58	1.44	1.75	1.75	.80
--- Domestic offerings, not seasonally adjusted ---							
Publicly offered bonds--total ¹	3.94	2.65	3.43	4.75	3.40	4.20	3.00
By industry							
Utility	.96	.87	.60	.65	.90	.55	--
Industrial	1.13	.53	.38	.85	.35	1.80	--
Financial	1.85	1.25	2.45	3.25	2.15	1.85	--
By quality ⁴							
Aaa and Aa	1.13	.70	1.95	.93	.76	1.29	--
A and Baa	1.57	1.11	.96	1.57	1.53	1.25	--
Less than Baa	.48	.19	.39	.61	.57	1.23	--
No rating (or unknown)	.34	.30	.26	.34	.27	.05	--
Memo items:							
Equity based bonds ⁵	.75	.60	.32	.28	.17	.76	--
Mortgage-backed bonds	.38	.31	.87	1.24	.10	.27	--
Stocks--total ²	4.30	3.67	3.84	2.10	1.80	1.30	2.00
By industry							
Utility	.80	.48	.81	.25	.30	.30	--
Industrial	2.27	2.14	1.73	.95	1.00	.70	--
Financial	1.23	1.05	1.30	.90	.50	.30	--

p--preliminary. f--staff forecast. e--estimate.

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. Excludes mortgage-backed bonds.

5. Includes bonds convertible into equity and bonds with warrants attached where the warrants entitle the holder to purchase equity in the future.

about to begin operations or with what investors perceive to be well-managed construction programs have not grown noticeably.

Government Finance

Federal sector. The staff is projecting a combined deficit of \$27-1/2 billion in what used to be the Treasury's surplus quarter. To finance this shortage and to increase its cash balance, the Treasury plans to raise \$37 billion, net. That would, however, push the debt over its current statutory limit. Starting in late April, with its debt approaching the ceiling and with its cash balance skyrocketing to record levels, the Treasury slashed the size of its regular bill auctions. The cash reserves have since declined sharply and would run out entirely by late May or early June without legislation to raise the debt limit.

Because of the bill paydowns, the Treasury has been able to maintain its normal pattern of coupon offerings, including a \$16-1/2 billion mid-quarter refunding in the second week of May. Although such auction statistics in the aggregate, as the volume of bids, the proportion of dealer awards, and subsequent dealer positions appear unexceptional, the refunding cannot be said to have gone well. Dealer awards of the long-term bond were unusually high, and market prices--especially for long issues--plunged in initial when-issued trading as retail demand reportedly was not forthcoming. Rumors of large positions being dumped prevailed an unsettled market last Friday; data indicate that although a third of the dealers' awards remained unsold at the end of the day, their positions were well-hedged.

Net cash borrowing of federally sponsored credit agencies edged up to \$5-1/2 billion in the first quarter. FNMA issued about \$3-1/2 billion of new debt to finance mortgage purchases for its portfolio, including a

TREASURY AND AGENCY FINANCING¹
(Total for period; billions of dollars)

	1984				
	Q1	Q2 ^e	Mar.	Apr. ^p	May ^e
<u>Treasury financing</u>					
Combined surplus/deficit(-)	-56.6	-27.5	-30.2	8.7	-32.6
Means of financing deficit:					
Net cash borrowing from the public	49.3	37.1	7.5	17.2	10.4
Marketable borrowings/ repayments(-)	47.6	35.7	6.6	16.4	9.9
Bills	6.5	-1.2	.8	-3.4	-.4
Coupons	41.1	36.7	5.8	19.8	10.6
Nonmarketable	1.7	1.8	.9	.8	.5
Decrease in the cash balance	-2.3	-2.6	9.7	-24.1	28.2
Memo: Cash balance at end of period	14.1	16.7	14.1	38.2	10.0
Other ²	9.6	-7.0	13.0	-1.8	-6.0
<u>Federally sponsored credit agencies, net cash borrowing³</u>					
FHLB	-1.1	1.2	-.4	.3	.4
FNMA	3.4	1.7	2.1	.1	.8
Farm Credit Banks	.8	.8	.3	-.1	.5
FHLMC	1.8	.7	1.1	.0	.4
SLMA	.5	.5	.2	.2	.1

p--preliminary. e--estimate.

1. Data reported on a not seasonally adjusted, payment basis.

2. Includes checks issued less checks paid, accrued items and other transactions.

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

substantial amount of adjustable-rate loans. Financing activity by the agencies is estimated to have tailed off in April, but is projected to run at about \$5 billion over the second quarter as a whole.

State and local sector. Activity in the tax-exempt bond market has remained relatively light so far this year. In April, gross offerings of these bonds totaled \$3.9 billion on a seasonally adjusted basis, somewhat below the first-quarter average. April is typically a busy month because many states have winter legislative sessions which often result in new issues coming to market in early spring. While many large G.O. bonds have been offered recently, tax-exempt issuance for private purposes continues to be minimal while Congress ponders legislative restraints. At present, both the House and the Senate have passed bills that would tighten restrictions on the issuance of industrial revenue bonds and would extend authority to issue single-family mortgage revenue bonds. A compromise package is expected later this month or next.

In recent weeks, interest rates on municipal securities have risen much less than rates on taxable securities. Market sources attribute the comparatively favorable performance of municipals to their relatively short supply, and suggest that rates could experience upward pressures if and when an increased supply of private-purpose issues comes to market--although the market presumably is discounting this to a degree.

Mortgage Markets

Interest rates have risen in both primary and secondary mortgage markets during the intermeeting period, but by less than in other long-term securities markets. On fixed-rate conventional home mortgages at S&Ls, average interest rates on new commitments moved up only 39 basis points to

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

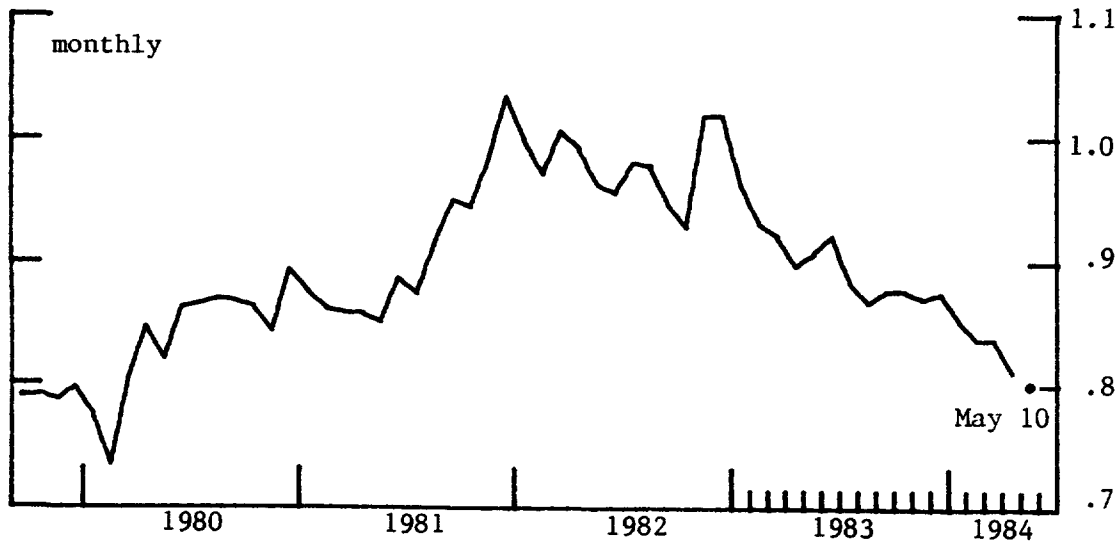
	1982	1983		1984			
	Year	Year	Q3	Q4	Q1 ^e	April ^e	May ^f
----- Seasonally adjusted -----							
Total	10.29	10.28	9.33	10.52	8.78	7.10	8.20
Long-term	6.58	7.09	6.01	6.77	5.62	3.90	5.40
Short-term ¹	3.71	3.19	3.32	3.75	3.16	3.20	2.80
----- Not seasonally adjusted -----							
Total	10.29	10.28	8.89	10.11	7.27	11.26	7.70
Long-term	6.58	7.09	5.57	7.11	4.77	4.76	5.50
Refundings	.36	1.16	.91	.79	.68	.77	--
Total housing ²	1.24	1.45	1.62	1.79	.38	.15	--
Short-term ¹	3.71	3.19	3.32	3.00	2.50	6.50	2.20

e--estimate. f--staff forecast.

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

2. Primarily mortgage revenue bonds for home ownership and multifamily rental structures.

RATIO OF TAX-EXEMPT TO TAXABLE BOND YIELDS*



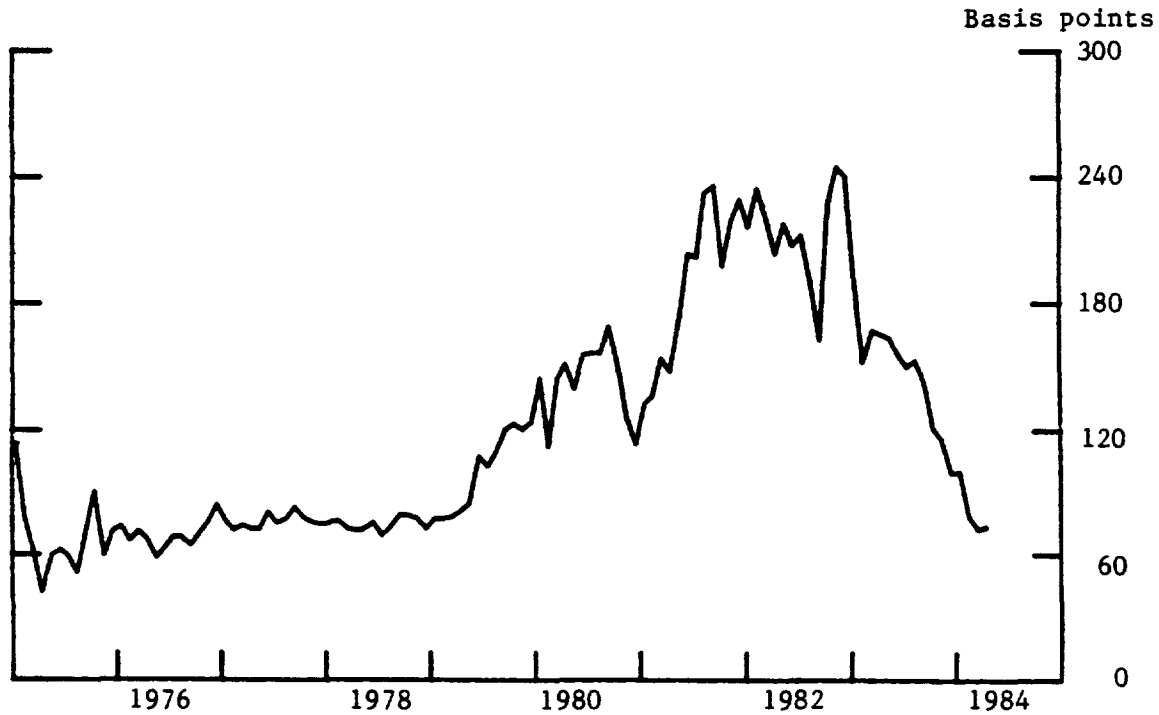
*Bond Buyer 30-year Revenue Bond Index to 30-year Treasury bond yields.

13.87 percent as of May 11. At large mortgage companies, the most common contract rate on level-payment FHA-insured loans has risen by 50 basis points since the last FOMC meeting to 13-1/2 percent, while the effective yield has increased 75 basis points. As price discounts on GNMA guaranteed pass-through securities issued against pools of FHA/VA loans climbed to nearly 6 points, the Veterans Administration raised its ceiling rate 1/2 percentage point to 13.5 percent, effective May 8. With the subsequent movements in market yields, discounts most recently have reached 5 points, even at the 13.5 percent rate.

The yield differential between current-coupon GNMA's and ten-year Treasury securities is now less than half what it was last August, dropping to 74 basis points in April--the narrowest spread since late 1978 (see chart on page III-14). The recent decline can be largely attributed to the use of GNMA's as backing for collateralized mortgage obligations (CMOs). The demand for GNMA's increased as securities firms issued a flood of CMOs from September through February. Moreover, supplies of new GNMA's have been restrained by the growing popularity of mortgages with adjustable-rate features. Because the spreads have shrunk, securities firms can now earn only a small return from issuing CMOs, and new offerings dropped off markedly in March and April.

In the secondary market for adjustable-rate mortgages (ARMs), required yields posted by FNMA under its standard purchase programs have advanced in line with the rise in yields on Treasury securities. However, FNMA does allow initial-rate discounting by lenders and recoups this interest short-

YIELD SPREAD: GNMA LESS TREASURY YIELDS*



*Yields on GNMA's adjusted to a semi-annual coupon basis.

ADJUSTABLE-RATE HOME MORTGAGES HELD BY MAJOR INSTITUTIONS
(Billions of dollars)

End of Month	National banks	FSLIC-insured thrifts	FNMA	FHLMC
December, 1982	\$ 7.0	\$43.0	\$3.3	\$0.1
December, 1983	11.0	68.3	7.1	0.4
March, 1984	n.a.	n.a.	8.9	0.7

n.a.—not available.

fall by paying less than par for the loans.¹ In the primary market, the FHLBB reported that the proportion of conventional loans closed in early April with adjustable-rate features was 60 percent at major lenders, essentially unchanged from the record share reported in March. The average contract rate on ARM loans closed dropped 19 basis points to 11.11 percent, reflecting the importance of loans with "teaser" rates and the use of buy-downs.²

The interest rate sensitivity of the home mortgage portfolio at financial institutions, while still low, has increased substantially at some firms. By the end of 1983, adjustable-rate loans already accounted for 16 percent of all home mortgages held by FSLIC-insured thrifts, and 11 percent of the home mortgage portfolio at national banks--both up considerably from a year earlier.³ FNMA has also added ARMs to its portfolio so as to reduce its interest-rate risk; at the end of March, 12 percent of the home mortgages held by Fannie Mae were ARMs. FHLMC, under direction from the FHLBB to encourage thrifts to originate more ARMs, also has actively acquired this mortgage instrument, which accounted for 7 percent of its portfolio by the end of the first quarter.

New mortgage commitments at federally insured S&Ls dipped in March from their record volume of a month earlier, but remained high. The back-

1. FNMA announced that it will soon revise its ARM purchase programs to provide a wider range of consumer protections. One expected feature is the requirement that initial-period rate discounts not exceed 250 basis points below the program rate on any type of ARM.

2. In comparison, the average contract rate on fixed-rate conventional loans rose 9 basis points.

3. These figures are for all ARMs including some older variable-rate mortgages with, typically, less interest rate flexibility. When mortgage-backed securities are added to the home mortgage portfolio, the portion with adjustable rates declines to 13 percent at thrifts.

MORTGAGE ACTIVITY AT FEDERALLY INSURED SAVINGS AND LOAN ASSOCIATIONS¹
(Billions of dollars, seasonally adjusted)

	Mortgage commitments		Net change in mortgage assets		
	New (1)	Outstanding ² (2)	Total (3)	Mortgage loans (4)	Mortgage-backed securities (5)
1983-Jan.	10.5	31.9	2.2	0.2	2.0
Feb.	11.8	34.7	5.5	2.4	3.2
Mar.	12.3	37.4	5.2	1.4	3.9
Apr.	11.9	39.9	4.0	2.7	1.2
May	12.9	42.3	4.0	2.1	1.9
June	14.6	44.4	6.7	3.8	3.0
July	16.2	46.6	8.2	5.5	2.7
Aug.	15.3	48.5	8.8	5.6	3.2
Sept.	15.8	49.8	8.0	5.5	2.5
Oct.	14.0	51.0	6.4	3.7	2.7
Nov.	15.2	53.8	6.5	5.6	1.0
Dec.	15.0	56.5	6.0	5.7	0.3
1984-Jan.	17.2	58.0	5.8	4.9	0.9
Feb.	18.1	60.4	6.1	6.0	0.1
Mar.	16.8	62.7	10.0	5.9	4.1

1. Insured S&Ls account for approximately 98 percent of the assets of all operating S&Ls. Net changes in mortgage assets reflect adjustments to account for conversions of S&Ls to savings banks.

2. End of month. Includes loans in process.

NEW ISSUES OF FEDERALLY GUARANTEED MORTGAGE PASS-THROUGH SECURITIES
(Monthly averages, millions of dollars, n.s.a.)

Period	All issues	GNMAs	FHLMCs	FNMA's	Memo: FNMA and FHLMC swap issues
1982-Q3	4772	1305	2249	1218	3149
Q4	6653	1779	2727	2147	3795
1983-Q1	7122	3841	1955	1326	2204
Q2	7368	4753	1392	1223	1880
Q3	7619	4835	1544	1240	2115
Q4	5733	3403	1673	657	1954
1984-Q1	4893	2745	887	1261	1744
1984 Mar.	5764	2488	871	2405	2937
Apr.	3243	1981	760	502	921

log of mortgage commitments outstanding continued to advance, reaching a new high of nearly \$63 billion by month-end. Mortgage assets increased a record \$10 billion. S&Ls acquired both loans and mortgage-backed securities at a rapid pace, including a large volume of FNMA securities obtained in swaps.

In the first quarter, stiff competition from conventional adjustable-rate mortgages reduced the number of fixed-rate conventional, FHA, and VA loans being originated, so the flow of new issues of GNMA and FHLMC pass-throughs slowed.¹ FNMA's new issue volume was high in March, reaching \$2.4 billion, owing to large amounts of swaps with S&Ls, including some seasoned adjustable-rate mortgages.² In April, new offerings for all three agencies were down.

Consumer Credit

Consumer installment credit expanded at a 17-1/2 percent annual rate in March following an unusually strong 20 percent rate of increase in February. In view of the March decline in retail sales, the magnitude of the credit expansion is impressive. Some arithmetic considerations suggest a partial explanation. Sales in March, though lower than in February, were high relative to sales in 1982 and 1983 (when consumers also were less willing to borrow for purchases); with credit extensions more closely tied to current sales, and repayments more closely linked to past sales, outstandings have risen rapidly.

1. GNMA securities represent shares in pools of FHA/VA loans, all of which are fixed rate. HUD regulations for FHA-insured ARMs are currently under review by the Administration and may not become effective until the latter half of the summer.

2. FNMA is the only federally related agency to have issued adjustable-rate mortgage pass-through securities, having done so through swaps with four separate S&Ls.

CONSUMER INSTALLMENT CREDIT

	1982	1983	1983 Q4	1984 Q1	1984 Feb. Mar.	
----- Percent rate of growth, SAAR -----						
Change in outstandings--total	4.3	11.4	16.8	17.4	20.2	17.6
By type:						
Automobile credit	3.5	9.3	12.9	14.8	23.3	2.7
Revolving credit	8.4	15.5	24.5	25.1	20.1	46.0
All other ¹	3.3	11.4	16.8	16.3	17.5	17.6
----- Billions of dollars, SAAR -----						
Change in outstandings--total	14.2	39.8	62.8	67.8	79.3	70.4
By type:						
Automobile credit	4.4	12.1	17.8	20.9	33.6	3.9
Revolving credit	5.1	10.1	17.4	19.0	15.3	35.5
All other ¹	4.8	17.6	27.6	27.9	30.4	31.0
By major holder:						
Commercial banks	3.8	19.5	38.1	41.5	59.0	41.1
Finance companies	4.7	4.1	1.1	-0.0	3.1	-2.3
All other	5.7	16.2	23.6	26.3	17.2	31.7
----- Annual percentage rate -----						
Interest rates						
At commercial banks ²						
New cars, 48 mos. ³	16.83	13.92	13.46	13.32	13.32	n.a.
Personal, 24 mos.	18.65	16.68	16.39	16.16	16.16	n.a.
Credit cards	18.51	18.78	18.75	18.73	18.73	n.a.
At auto finance companies ⁴						
New cars	16.15	12.58	13.65	14.11	14.11	14.05
Used cars	20.75	18.74	18.12	17.55	17.59	17.52

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 1982 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.

n.a.--not available.

The strength in consumer credit during the first quarter was distributed across all credit categories, with commercial banks again the dominant supplier.¹ In March, credit card debt at banks jumped while--in what likely is an erratic movement--auto loan growth slowed to a crawl. Margins between rates charged for automobile credit and the cost of funds to lenders have narrowed recently, but until March, heavy demand for car loans and the opportunity to recover market share from the auto finance companies drew a large volume of bank funds into this market. The growing use of adjustable-rate loans in the auto market also may have enhanced the willingness of banks to accept narrower initial gross margins on auto loans. Two thirds of the banks in a recent informal polling had adjustable-rate consumer loan programs in place. Typically 20 to 30 percent of new loans at these institutions carry variable rates, which are adjusted monthly and most often are tied to the prime or a CD rate.

On balance, despite strong business credit demands, commercial banks apparently have continued to be quite willing to make consumer loans. In April, consumer loans at banks were again up sharply, and one fourth of the respondents to the April 24 Senior Loan Officer Opinion Survey, the same proportion as in February, reported increased willingness to make installment loans to individuals. None of the respondents said they were less willing to make consumer loans, and large proportions of them had already reported increased willingness in the August and November surveys. Nearly 60 percent of the survey respondents also reported raising interest

1. Savings and loans and mutual savings banks have achieved higher rates of growth than commercial banks in recent months, but are much smaller factors in consumer credit markets. Together, their holdings add up to one sixth the amount that commercial banks hold.

rate quotations on fixed-rate consumer loans since February; the weighted average increase was 40 basis points.

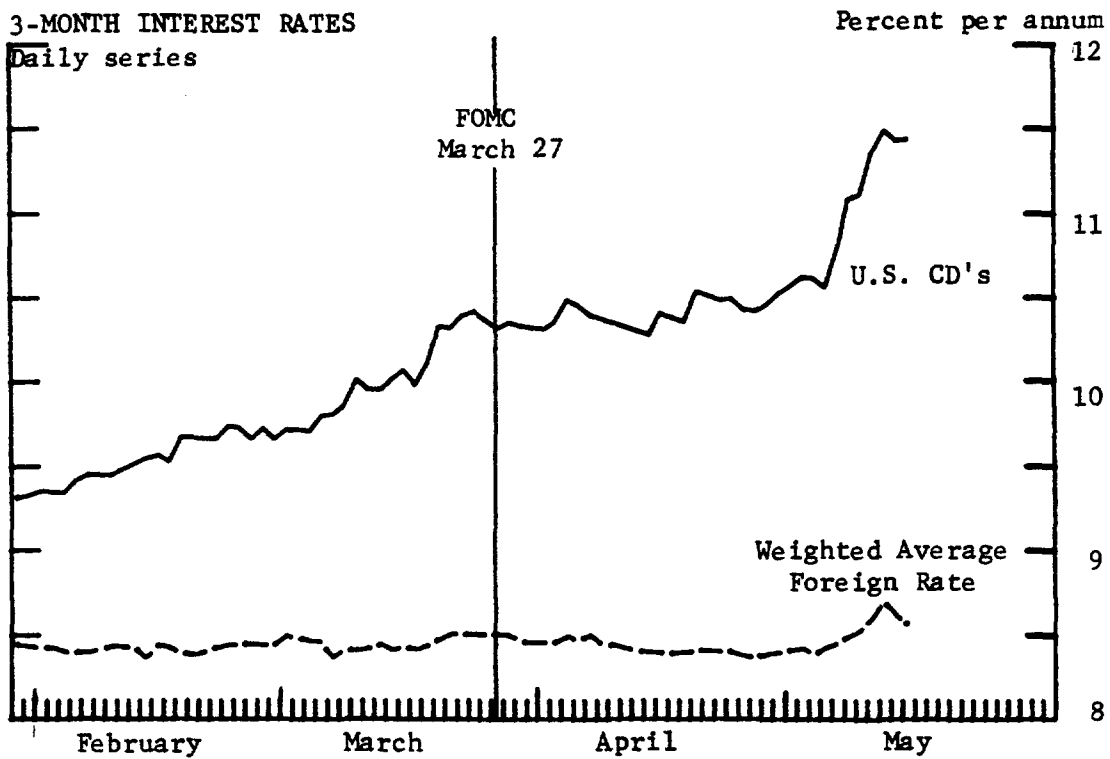
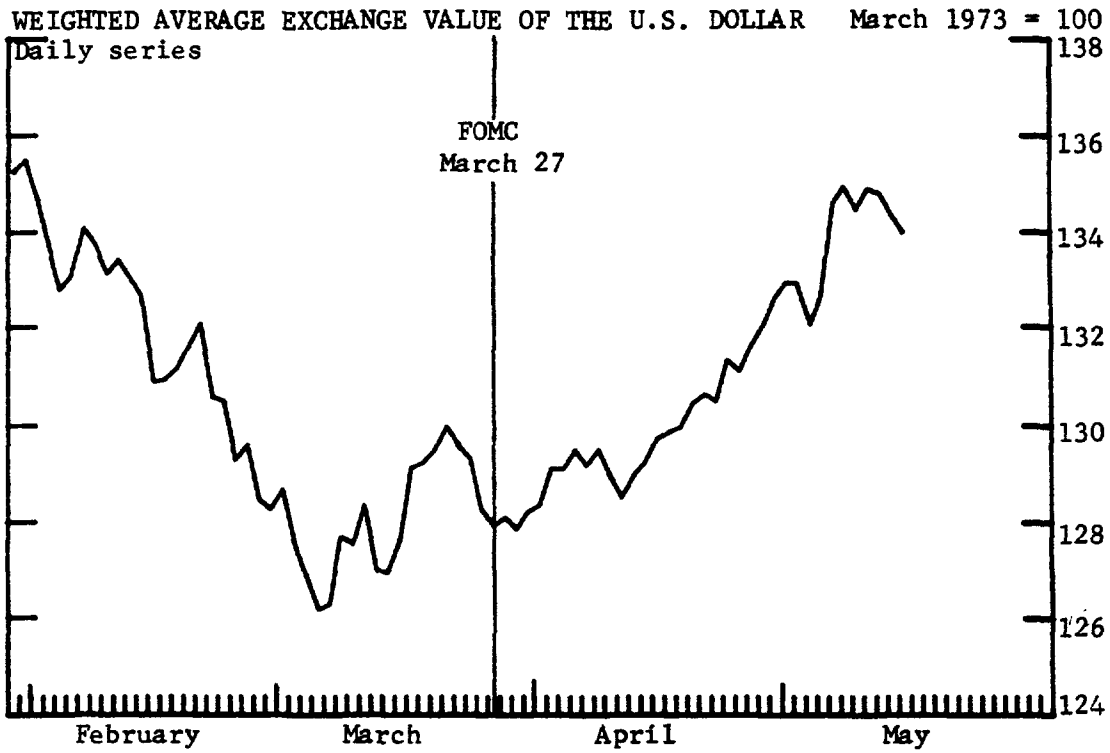
Foreign Exchange Markets

Since the last FOMC meeting, the dollar has risen by about 4-1/4 percent on a trade-weighted basis, as shown in the upper panel of the chart. It now stands only 2 percent below its mid-January peak. This gain in part reflects troubles that have afflicted the mark, but signs of continuing strength in U.S. economic activity and associated further increases in dollar interest rates also have provided support for the dollar along a broader front. On a bilateral basis, the dollar has appreciated 5-1/4 percent against the mark and almost as much against the other EMS currencies. But the dollar also has advanced about 3 percent on average against the non-EMS currencies. In addition, the dollar price of gold has dropped 3 percent.

Early in the intermeeting period, the dollar's value fluctuated amid continuing market uncertainty about U.S. monetary policy. After the Federal Reserve discount rate was raised, the dollar firmed.

Over the next several weeks, the dollar appreciated sharply against the continental European currencies while its value against the yen and the Canadian dollar remained little changed on balance. On April 17, negotiations between management and the German metalworkers union broke down in disagreement over the union's demand to shorten the work-week from 40 hours to 35 hours without a cut in pay. The mark steadily weakened as the union moved toward strike action which has so far proved limited but has been viewed in the market as a potential threat to German recovery. Disappointing reports on economic activity in Germany and on Germany's balance of payments also were negative factors for the mark.

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the entire EMS band
moved lower against the dollar.

In the final weeks of the intermeeting period, the dollar's advance broadened to include all major currencies. Reports of a widening U.S. trade deficit did not noticeably weaken the dollar. Fresh signs of ongoing strength in U.S. economic activity lent support to the dollar, whereas in January and February, they had exerted a negative influence on the dollar's value. This contrast and remarks by market participants suggest that the rise in key interest rates around the time of the last FOMC meeting bolstered confidence in the anti-inflation stance of U.S. monetary policy. Better-than-expected reports on U.S. consumer and producer prices also may have helped to limit concern about inflation. In this context, further increases in dollar interest rates relative to foreign rates drew strong support to the dollar, whereas in February they had not. As shown in the bottom panel of the chart, the difference between the interest rate on 90-day U.S. CDs and a weighted average of rates on foreign-denominated 3-month instruments has widened by a full percentage point since mid-April. Late in the period, interest rates in the United Kingdom, Germany, and Switzerland registered some upward movement accompanied by some firming of the respective currencies.

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U.S. International Financial Transactions

The capital inflows necessary to finance the growing U.S. current account deficits occurred through a variety of channels in the early months of 1984, as the foreign exchange value of the dollar first declined and then recovered. Net Eurodollar borrowing by U.S. banks from their own foreign offices and IBFs, stimulated by strong domestic loan demand, increased by more than \$9 billion on a daily average basis between December and April. (See International Banking Data table, line 3.) By April the Eurodollar reserve requirement was binding on average on 13 of the 24 largest banks, up from 7 in the third quarter of 1983.

In contrast, the balance of payments data for the first quarter of 1984 showed a \$12.2 billion net inflow through banks, but not through transactions with own foreign offices. (See Summary of U.S. International Transactions table). The explanation of this apparent inconsistency is that in the balance of payments data IBFs are treated as domestic rather than foreign offices and transactions of bank holding companies with their foreign affiliates are also included. Bank holding companies raised about \$3.5 billion through the issue of commercial paper in the United States during the first quarter, most of which was advanced to affiliated banking offices abroad. IBFs experienced substantial net inflows of funds from unaffiliated foreigners and reduced their liabilities to affiliated banks in the United States in the first quarter. In the balance of payments data the roundtripping of funds raised by bank holding companies cancels out, while the net

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1981	1982	1983				1984			
	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.	Apr.
1. Net Claims of U.S. Banking Offices (excluding IBFs) on Own Foreign Offices	8.2	33.2	49.2	43.7	42.3	38.8	37.0	35.7	33.8	30.5
2. Net Claims of U.S. Banking Offices on Own IBFs <u>1/</u>	11.8	16.2	14.6	12.8	10.5	5.2	7.8	7.0	4.1	4.2
3. Sum of lines 1 and 2										
of which:	20.0	49.4	63.8	56.5	52.8	44.0	44.7	42.7	37.9	34.7
(a) U.S.-chartered banks	22.5	40.3	53.7	50.0	47.1	40.4	39.4	38.3	35.5	33.8
(b) Foreign-chartered banks	2.4	9.1	10.0	6.5	5.7	3.6	5.3	4.4	2.4	0.9
4. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	13.2	15.7	16.4	16.8	16.8	18.6	18.7	19.0	18.6	19.5
5. Eurodollar Holdings of U.S. Nonbank Residents <u>2/</u>	95.5	112.6	116.4	120.4	121.3	126.4	123.6	124.8	128.7	128.4

9-ΔI

1. Corresponds to net claims of international banking facilities (IBFs) on all foreign residents, including all banks whether related or not, and all nonbanks.

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

Note: These data differ in coverage and timing from the overall banking data incorporated in the international transactions accounts. Line 1 is an estimate constructed as the residual of line 3 minus line 2. Line 2 is data for the last Wednesday of the month for the sample of monthly IBF reporters. Line 3 is an average of daily data reported to the Federal Reserve by U.S. banking offices. Line 4 is an average of daily data. Line 5 is the month-end value for data through September 1983. For dates after September 1983, the overnight portion is an average of daily data and the term portion is an average of Wednesday data.

inflow into IBFs shows up as an inflow from unrelated foreigners rather than as an inflow from own foreign offices.

The large inflow of funds into U.S. banking offices (including IBFs) from unrelated foreigners in the balance of payments data occurred through a variety of channels; U.S. banks' liabilities to unrelated foreign banks increased and claims on both unrelated banks and nonbanks in foreign countries fell. In addition, capital flight into the United States from the LDCs appeared to continue in the first quarter of 1984; Latin American nonbanks increased their deposits in U.S. banks by almost \$2 billion, exceeding the average quarterly rate of 1983.

During the first quarter of 1984 there were also substantial net capital inflows resulting from private securities transactions. Foreign purchases of U.S. equities totaled more than \$1 billion. In addition, U.S. corporations issued more than \$6 billion in Eurobonds during the first four months of 1984. Some of these funds will be used abroad, but the larger part will show up as inflows in the direct investment accounts. The month-to-month volatility of private foreigners' holdings of U.S. Treasury securities in the first quarter is almost entirely accounted for by transactions of the World Bank.

Official reserve transactions did not contribute to financing the U.S. current account deficit in the first quarter of 1984. U.S. reserve assets increased by \$0.7 billion; foreign official reserve holdings in the United States fell by \$3.2 billion. The G-10 countries added to their holdings largely as a

result of French borrowings and German accumulation of interest payments on reserves and dollars exchanged for marks by U.S. troops stationed in Germany. The decline in OPEC assets accelerated to almost \$3 billion in the first quarter of 1984. The reserves of other countries also declined, largely as a result of transactions by the BIS and Singapore.

Preliminary data indicate that official reserves held at the Federal Reserve Bank of New York increased by \$.7 billion in April. The OPEC countries continued to draw down their assets here (-\$.5 billion) but other countries, particularly Germany and Singapore, increased their holdings. These increases were, in general, not associated with intervention. In the German case the increase was the result of central bank swaps with commercial banks, designed to influence German liquidity conditions, and in the case of Singapore, the country is an active portfolio manager, reversing positions frequently.

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

	1982	1983	1983			1984		
	Year	Year	Q3	Q4	Q1	Jan.	Feb.	Mar.
Private Capital								
Banks								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	-39.5	16.7	12.3	12.2	12.2	5.1	2.2	4.9
a) with own foreign offices	-8.9	8.9	10.7	9.1	-0.4	-1.8	0.1	1.3
b) all other	-30.6	7.8	1.6	3.2	12.6	6.9	2.1	3.6
Securities								
2. Private securities transactions, net	-1.6	1.1	0.3	0.2	1.6	0.2	0.8	0.6
a) foreign net purchases (+) of U.S. corporate bonds	2.8	2.2	0.5	0.7	0.1	0.2	0.1	-0.2
b) foreign net purchases (+) of U.S. corporate stocks	3.6	6.4	1.3	0.4	1.2	*	0.5	0.7
c) U.S. net purchases (-) of foreign securities	-8.0	-7.5	-1.5	-0.9	0.4	0.0	0.2	0.1
3. Foreign net purchases (+) of U.S. Treasury obligations 1/	6.5	8.3	0.8	1.7	1.5	1.6	3.0	-3.1
Official Capital								
4. Changes in foreign official reserve assets in U.S. (+ = increase)	2.9	5.1	-2.8	6.4	-3.2	-1.6	0.6	-2.2
a) By area								
G-10 countries and Switzerland	-12.7	6.4	0.9	1.7	2.4	0.5	2.6	-0.6
OPEC	6.9	-8.5	-2.0	-1.5	-2.9	-0.2	-1.5	-1.1
All other countries	8.8	7.3	-1.7	6.1	-2.8	-1.9	-0.5	-0.5
b) By type								
U.S. Treasury securities	5.7	7.0	-0.6	2.6	-0.3	1.5	0.1	-2.0
Other 2/	-2.7	-1.8	-2.2	3.8	-2.9	-3.1	0.4	-0.2
5. Changes in U.S. official reserve assets (+ = decrease) 3/	-5.0	-1.2	0.5	-1.0	-0.7	-0.5	-0.2	*
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	3.0	-7.6	-4.5	-2.4	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	10.4	9.5	3.2	2.1	n.a.	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 4/ 5/	-6.9	2.3	-0.1	-0.4	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance 5/	-11.2	-41.3	-11.4	-15.9	n.a.	n.a.	n.a.	n.a.
10. Statistical discrepancy 5/	41.4	7.1	1.7	-2.9	n.a.	n.a.	n.a.	n.a.

MEMO:

U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-36.4	-61.1	-17.5	-19.4	-25.8	-8.6	-8.0	-9.2
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1. Includes U.S. Treasury notes publicly issued to private foreign residents.
2. Includes deposits in banks, commercial paper, acceptances, & borrowing under repurchases 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 increased again in March to a new record level. For the first quarter as a whole, the deficit was \$25 billion, at an annual rate, larger than that recorded in the fourth quarter of last year (revised). Exports increased moderately for the third successive quarter, but imports jumped substantially.

The rise in imports in the first quarter, 12 percent not at an annual rate, was primarily in capital goods, nonoil industrial supplies, and in consumer goods. These are categories that accounted for half of all imports last year. Items showing the strongest rises included nonferrous metals, steel, business and office machines, electric

U.S. MERCHANDISE TRADE^{1/}

	1983		1983		1984			
	Year	Q1	Q2	Q3	Q4	Q1	Feb.	Mar.
<u>Value (Bil. \$, SAAR)</u>								
Exports	200.2	197.0	194.9	201.8	207.2	216.5	214.4	218.7
Agricultural	36.6	35.3	34.8	37.2	39.2	41.0	39.1	42.4
Nonagricultural	163.6	161.7	160.0	164.5	168.0	175.4	175.3	176.3
Imports	261.3	234.1	254.3	271.7	284.9	319.6	310.8	328.6
Oil	53.8	43.1	51.3	63.7	57.1	55.2	54.8	57.9
Non-oil	207.5	191.0	203.0	208.1	227.8	264.3	256.0	270.7
Trade Balance	-61.1	-37.1	-59.4	-70.0	-77.7	-103.1	-96.4	-109.9
<u>Volume (Bil 72\$, SAAR)</u>								
Exports								
Agricultural	16.3	16.5	15.8	16.3	16.2	17.0	16.2	17.5
Nonagricultural	57.3	56.0	56.0	57.6	58.8	60.9	60.5	61.4
Imports								
Oil	4.9	3.7	4.8	5.8	5.2	5.1	5.0	5.3
Non-oil	81.9	75.4	80.2	82.1	89.1	102.5	100.1	104.3

1. International transactions and GNP basis.

machinery, and clothing. As in the past several quarters, the increase reflected both the strength of the U.S. economy and the high exchange value of the dollar. Automotive imports were marginally above the fourth-quarter level with most of the rise in imports coming from Canada; foreign car imports from Japan and Europe were about the same as in the fourth quarter.

Prices of nonoil imports rose by 3 1/2 percent at an annual rate in the first quarter, the same rate as in the fourth quarter; this follows nearly two years of nonoil import prices declining or being flat.

Oil imports in the first quarter were slightly less than in the fourth quarter. (See the table below.) U.S. oil consumption has averaged close to 15.5 mbd during the past three quarters; inventories, which were drawn down in the fourth quarter, were little changed in the first quarter. Preliminary data for April show a pick-up in both consumption and stock accumulation. While the average price of imported oil was slightly less in the first quarter than in the fourth quarter, prices increased during the quarter reflecting rising spot market prices in late December and early January. Since the beginning of the year, spot prices have remained close to official prices.

OIL IMPORTS

	1983	1983				1984		
	Year	Q1	Q2	Q3	Q4	Q1	Feb.	Mar.
Volume (mbd, SA)	5.20	4.01	5.07	6.17	5.54	5.38	5.19	5.59
Price (\$/BBL)	28.42	29.41	27.69	28.29	28.29	28.05	28.19	28.19
Value (Bil. \$, SAAR)	53.80	43.08	51.31	63.69	57.14	55.24	54.77	57.88

Exports in the first quarter increased by 4.5 percent from fourth quarter levels. Much of the rise was in machinery and automotive products (to Canada) with a smaller rise in chemical exports. Since the low first half of last year, nonagricultural exports expanded by 9 percent (mostly in volume); about two thirds of the increase in exports was to Canada and 15 percent in exports to Mexico. Exports to Western Europe began to pick up in the fourth quarter as economic activity in those countries strengthened.

Agricultural exports were only marginally higher in value in the first quarter as the effect of an increase in the volume of soybean exports (from low fourth quarter levels) was offset by the effect of lower prices in the value of wheat exports (a record wheat harvest in Argentina added to the market glut).

Foreign Economic Developments. The progress of the recovery in major foreign industrial countries remains uneven. It is notable that seasonally adjusted industrial production in five major countries declined in the latest month for which data are available. However, despite declines in March, industrial production rose in the first quarter in Japan and Germany. Industrial production also rose in Italy (n.s.a.) in the first two months of the year following a rebound of activity in the second half of last year, and orders data and consumer surveys in March suggest continued moderate growth. The slow expansion in the United Kingdom appears to have been interrupted in February and March, although business surveys there indicate an improved outlook for the spring. The record drop of Canadian industrial production and declines in new and unfilled orders reflect a weakening of the expansion. Activity remains weak in France, and the unemployment rate, which has been increasing since October, reached 9.6 percent in March. Unemployment rates have also risen somewhat in Canada and Germany and remain at or near record levels in other European countries.

Consumer price inflation, measured on a year-over-year basis, declined in the early months of this year in Italy and France, the two relatively high inflation countries. Inflation in other countries remains stable at rates above those of a year earlier. The reduction in Italian inflation was cited as a factor in the May 4 reduction of the discount rate.

The trade account strengthened in Japan in the first quarter to a surplus of \$40 billion (s.a.a.r.). The French and Italian trade positions deteriorated in the first quarter, though deficits for both

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

	Q4/Q4 1982	Q4/Q4 1983	1983			1984	1983	1984				LATEST 3 MONTHS FROM YEAR AGO+
			Q2	Q3	Q4	Q1	DEC.	JAN.	FEB.	MAR.	APR.	
CANADA												
GNP	-5.0	6.6	1.9	2.0	.9	N.A.	*	*	*	*	*	6.6
IP	-11.8	16.7	3.1	4.3	3.1	N.A.	.9	2.3	-3.5	N.A.	N.A.	14.5
FRANCE												
GDP	1.2	.5	.5	-.3	.6	N.A.	*	*	*	*	*	.5
IP	-1.8	1.8	1.0	.8	.0	N.A.	-.8	.8	-1.5	N.A.	N.A.	2.6
GERMANY												
GNP	-1.6	2.9	1.2	-.1	1.3	N.A.	*	*	*	*	*	2.9
IP	-5.4	5.9	2.2	.5	2.2	1.1	.2	.9	1.0	-3.9	N.A.	6.0
ITALY												
GDP	-2.3	1.2	-1.6	1.1	1.0	N.A.	*	*	*	*	*	1.2
IP	-6.1	-1.0	-4.7	1.8	1.4	N.A.	-6.8	N.A.	N.A.	N.A.	N.A.	-1.0
JAPAN												
GNP	3.8	3.6	1.1	1.5	.8	N.A.	*	*	*	*	*	3.6
IP	-2.7	8.5	1.6	3.3	2.5	3.3	.5	.7	2.7	-.9	N.A.	11.2
UNITED KINGDOM												
GDP	1.6	3.3	-.5	.5	1.6	N.A.	*	*	*	*	*	3.3
IP	.1	4.8	.0	2.0	1.4	N.A.	1.5	.5	-1.6	N.A.	N.A.	4.3
UNITED STATES												
GNP	-1.7	6.2	2.3	1.9	1.2	2.0	*	*	*	*	*	7.7
IP	-7.5	15.0	4.3	5.1	2.5	2.8	.6	1.5	1.0	.5	1.4	15.1

* DATA NOT AVAILABLE ON A MONTHLY OR QUARTERLY BASIS.

+ IF QUARTERLY DATA, LATEST QUARTER FROM YEAR AGO

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

	Q4/Q4	Q4/Q4	1982	1983				1984	1984				LATEST 3 MONTHS FROM YEAR AGO
	1982	1983	Q4	Q1	Q2	Q3	Q4	Q1	JAN.	FEB.	MAR.	APR.	
CANADA													
CPI	9.7	4.6	1.6	.6	1.4	1.6	.9	1.2	.5	.6	.2	N.A.	5.2
WPI	4.5	3.4	.3	.7	1.5	.9	.3	1.6	.8	.4	.5	N.A.	4.4
FRANCE													
CPI	9.5	9.8	1.8	2.7	2.8	2.1	1.9	1.7	.7	.6	.7	N.A.	8.8
WPI	8.5	14.5	1.0	2.5	4.0	3.7	3.5	N.A.	1.8	.2	N.A.	N.A.	15.8
GERMANY													
CPI	4.7	2.6	.7	.5	.6	1.0	.5	1.0	.5	.3	.1	.2	3.2
WPI	3.1	.9	.0	-2.0	.8	.9	1.2	1.7	.7	.7	.1	.4	5.2
ITALY													
CPI	16.6	12.8	4.5	3.6	2.9	2.3	3.5	2.8	1.2	1.1	.7	.7	11.7
WPI	12.4	9.1	3.3	1.6	1.6	2.3	3.3	3.2	1.4	1.0	.7	N.A.	10.8
JAPAN													
CPI	-.2	1.9	1.0	-.1	2.8	-.2	1.3	2.8	.3	1.3	.0	.4	3.2
WPI	.2	-3.3	-.1	-1.9	-1.0	.2	-.6	.1	.0	.2	-.4	-.1	-1.1
UNITED KINGDOM													
CPI	6.2	5.1	.7	.5	2.0	1.3	1.1	.6	-.1	.4	.3	N.A.	5.2
WPI	6.5	5.5	1.2	1.4	2.0	.8	1.3	1.9	.7	.6	1.0	1.1	6.3
UNITED STATES													
CPI (SA)	4.4	3.2	.4	-.0	1.1	1.0	1.1	1.2	.6	.4	.2	N.A.	4.5
WPI (SA)	3.6	.9	.9	-.4	.2	.6	.4	1.1	.6	.4	.5	.0	2.7

May 16, 1984

TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES 1/
(BILLIONS OF U.S. DOLLARS; SEASONALLY ADJUSTED)

	1982	1983	1982 Q4	1983				1984 Q1	1983 DEC.	1984		
				Q1	Q2	Q3	Q4			JAN.	FEB.	MAR.
CANADA												
TRADE	14.8	14.6	4.1	3.3	4.3	3.3	3.7	3.4	1.3	1.7	.8	.8
CURRENT ACCOUNT	2.4	1.3	.9	.2	1.0	-.2	.3	N.A.	*	*	*	*
FRANCE												
TRADE 2/	-14.0	-5.9	-2.9	-3.5	-1.7	-.6	-.2	-1.5	.1	-.6	-.6	-.3
CURRENT ACCOUNT 2/	-12.1	-4.2	-2.4	-3.9	-.9	.3	.3	N.A.	*	*	*	*
GERMANY												
TRADE	20.9	16.4	5.0	5.1	4.1	3.7	3.4	4.3	1.0	1.3	1.7	1.3
CURRENT ACCOUNT (NSA)	3.6	3.3	4.7	1.7	.8	-2.6	3.4	.7	2.0	-.2	.2	.7
ITALY												
TRADE	-12.8	-7.8	-2.6	-3.0	-1.4	-2.1	-1.3	-2.5	-.8	-.4	-.5	-1.6
CURRENT ACCOUNT (NSA)	-5.8	.5	-.7	-2.0	.6	1.0	.9	N.A.	*	*	*	*
JAPAN												
TRADE 2/	18.8	31.5	4.0	6.5	8.1	8.8	8.1	10.0	2.8	3.7	3.1	3.3
CURRENT ACCOUNT	6.9	21.0	1.6	3.5	6.0	6.1	5.5	7.2	2.2	2.9	1.9	2.4
UNITED KINGDOM												
TRADE	3.6	-.8	2.0	.3	-.7	-.4	-.0	.0	.5	-.5	.8	-.3
CURRENT ACCOUNT 2/	9.1	3.3	3.7	1.8	.1	1.0	.5	1.1	.7	-.1	1.2	.1
UNITED STATES												
TRADE	-36.4	-60.5	-11.4	-9.3	-14.9	-17.5	-19.4	-25.8	-4.8	-8.6	-8.0	-9.2
CURRENT ACCOUNT	-11.2	-40.8	-6.6	-3.7	-9.7	-12.1	-15.3	N.A.	*	*	*	*

1/ THE CURRENT ACCOUNT INCLUDES GOODS, SERVICES AND PRIVATE AND OFFICIAL TRANSFERS.

2/ QUARTERLY DATA ARE SUBJECT TO REVISION AND ARE NOT CONSISTENT WITH ANNUAL DATA.

* COMPARABLE MONTHLY OR QUARTERLY CURRENT ACCOUNT DATA ARE NOT PUBLISHED.

countries remain below year-earlier levels.

Individual Country Notes. The Japanese economy is continuing its steady growth. Although industrial production fell almost one percent in March, the average in the first quarter was a robust 14 percent (s.a.a.r.) above its level in the previous quarter. Exports have remained bouyant, in large part because of the strong U.S. recovery, and the components of private domestic demand have also revived in recent months. According to the most recent assessment by the Japanese Economic Planning Agency, the outlook for investment in private plant and equipment, which has been a source of relative strength in recent months, has brightened further with an improvement of corporate profits. Consumption demand, which has lagged somewhat in this recovery, appears to be increasing at a moderate pace. Labor-market conditions have improved slightly, as the unemployment rate declined 0.05 percentage points in March from February's record level of 2.73 percent.

Wholesale prices continue to be stable. Consumer prices, however, have shown some signs of upward pressure in recent months. The CPI advanced by 0.4 percent in April, the third month this year in which consumer prices have increased.

The Japanese trade balance registered another large surplus in March of \$3.3 billion (s.a.), the third consecutive month of surpluses exceeding \$3 billion. The current-account surplus in the first quarter was over \$7.2 billion (s.a.), more than double last year's first quarter total. Extremely strong exports, which grew by almost 6 percent (s.a.) in March, accounted for much of the gain.

The German industrial production index declined by a provisional

3.9 percent in March, leaving the first quarter level 1 percent above that of the fourth quarter and 6 percent above the year-earlier level. Producers and investment goods were among the stronger sectors. According to an unofficial, preliminary estimate, real GNP in the first quarter rose by about 2 percent (s.a.a.r.). The number of unemployed has hovered around the 2.2 million level (9 percent, s.a.) since October of last year, only 0.1 million below the peak recession level. Order volumes have risen modestly so far this year, with foreign orders maintaining the strong lead over domestic orders that developed in the course of last year. The rate of consumer price inflation over the three months to April was below 2.5 percent (a.r.).

While the rise in foreign demand is being reflected in a strong recovery of German exports, the trade surplus (n.s.a.) for the first quarter this year was less than last year's because German imports rose even faster. The current account surplus through March, at \$0.7 billion, was almost \$1 billion below the year-earlier figure.

This year's wage round has produced no major settlement so far. The focus is on the metalworkers' union, which broke off negotiations over a 35 hour workweek with no loss of pay. The union recently won two important local strike votes; on May 14 selective strikes began and are expected to expand.

In the United Kingdom the expansion may have paused as industrial production declined 1.6 percent (s.a.) in February and retail sales fell 1.1 percent in March. However, survey data indicate that orders had increased in the four months to April, and business confidence remains strong. The unemployment rate for April remained unchanged at 12.6

percent, the level that had been observed in both February and March. The rate of inflation continued to be steady; in March the retail price index was 5.25 percent above its year-earlier level, approximately the rate of increase in each of the previous three months.

The U.K. trade balance returned to deficit in March. The \$300 million deficit counteracted a substantial surplus in February to produce a small trade surplus for the first quarter. The current account registered a first-quarter surplus of \$1.1 billion.

U.K. mineworkers have been on strike for almost two months. The dispute concerns planned pit closures announced earlier by the National Coal Board and does not involve wage issues. Recently some possible compromises have been suggested which may provide the basis for negotiation. Continued operation of some mines and existing stockpiles have greatly limited so far the impact of the strike on coal-using industries.

In France, industrial production fell 1-1/2 percent (s.a.) in February but remained above its year-earlier level. The unemployment rate rose for the fifth consecutive month in March and now stands at 9.6 percent (s.a.). Consumer price inflation in the first quarter was below that of a year earlier.

The French trade deficit narrowed somewhat in March. For the first quarter as a whole the trade deficit was about \$1.5 billion (s.a.), greater than the \$0.2 billion (s.a.) deficit recorded in the fourth quarter of last year. However, this widening of the trade deficit appears to have been due in large part to an unusual seasonal pattern of oil imports; the trade surplus for manufactured goods increased in the

first quarter.

Revised data for Italy reveal that real GDP in 1983 rose by 1.2 percent (Q4/Q4); evidence is mounting that the slow recovery, which began last summer, is continuing this year. Industrial production (n.s.a.) in February was 3 percent above its year-earlier level; delays in the revision of seasonal adjustment factors account for the absence of those data. Data on orders and surveys of production expectations point to continued growth this year; surveys also suggest increasing confidence among consumers.

Part of this optimism may reflect the slowdown of inflation: the consumer price index in the twelve months ending in April rose by 11-1/2 percent, the lowest such increase in eight years and 5 percentage points below the increase in the year ending in April 1983. However, wholesale price inflation picked up in the year ending in March, in part as a result of the appreciation of the dollar against the lira.

The lagging recovery in Italy helped to produce a small surplus in the current account last year. In the first quarter of this year, the trade deficit was \$2-1/2 billion, compared with a \$3 billion deficit in the first quarter of 1983.

The decree law on incomes policy, which was proposed on February 16 and which would have reduced the cost of living increases granted under the scala mobile, lapsed on April 16 as a result of the delaying tactics of the Communist party. On the next day the Craxi government re-submitted a somewhat watered-down version of the previous decree law, according to which scala mobile increases will be reduced only through July of this year. The government hopes that labor-management talks can

achieve a more lasting reform of the system. On May 5 the government reduced the discount rate from 16 to 15.5 percent, with the deceleration of inflation and the exchange rate stability of the lira cited as factors behind this decision.

Canadian economic activity continued to expand early this year at a more hesitant pace than that experienced over the first three quarters of 1983. After posting a strong rise in January, industrial production declined sharply in February by 3-1/2 percent (s.a.). Part of the severity in the decline in February's industrial production can be accounted for by a lockout in British Columbia and unusually bad weather. Nevertheless, the decline was broadly based as large drops occurred in the output of transportation equipment, electrical products, primary metals and machinery. Further, the value of new orders also declined sharply in February, particularly in new orders for durable goods. The unemployment rate in March and April of 11.4 percent, though more than 1 percentage point below the peak of early 1983, is up 0.3 percentage points from the level of the fourth quarter.

The inflation rate was up slightly and averaged approximately 5 percent in the first quarter. This compares with a 4-1/2 percent increase in the CPI over the twelve months ending in December 1983.

The trade surplus in the first quarter declined slightly from the average quarterly figure for last year. The strong performance of transportation equipment exports to the United States accounts for a substantial fraction of this year's trade surplus.

The federal government introduced legislation that would increase the ceiling on assets of foreign banks in Canada to 16 percent of total

domestic banking assets. The existing ceiling of 8 percent appears to be binding on foreign banks, a large fraction of which are U.S. banks. This legislation, which is an amendment to the Bank Act, is unusual in that the next revision of the Bank Act was not scheduled to occur until 1990.

A general price freeze was put into effect in Sweden on April 12. Also, the government called for freezes on both rent and dividend increases, for restrictions on the use of credit cards, and for a drawdown of the liquidity of corporations and local governments. Corporations with a wage bill in excess of \$2.5 million will be required to deposit with the central bank (at 7 percent interest) a sum corresponding to 6 percent of their wage bills. Local governments will be required to deposit a sum equal to 3 percent of their wage bills in similar accounts. The funds will be frozen for a maximum of two years but may be drawn from earlier for productive investment and at the discretion of the government.

These measures were taken in response to recent wage settlements that were viewed as jeopardizing the government's goal of reducing inflation, as measured by the CPI, from 8.9 percent in 1983 (Q4/Q4) to 4 percent by the end of 1984. (The recent agreement concluded with the metalworkers implies an annual increase in wage costs, inclusive of wage drift, of 8-1/2 to 9 percent.) Although the price freeze should increase employer resolve against granting similar increases in subsequent negotiations, the government's threat of instituting an incomes policy if industry and labor representatives fail to agree to an acceptable ceiling for wages in 1985 is expected to have a larger effect on slowing wage growth. The government's inflation target for 1985 has been set at 3 percent.

Debt Situation in Selected Developing Countries

Argentina's negotiations with the IMF are proceeding slowly, and this in turn is delaying negotiations with bank creditors. Colombia is continuing to lose reserves, and a large Colombian bank is seeking refinancing of its external debts. Foreign banks have disbursed \$3.9 billion of Brazil's \$6.5 billion new money facility; performance of Brazil's external sector has been better than expected so far this year, though performance of the domestic economy, especially in the monetary area, has been worse. Mexico's \$3.8 billion loan is oversubscribed, but there are still no signs of a turnaround in domestic economic activity, and inflation so far this year is exceeding projections. Chile and Peru's IMF programs have both received Executive Board approval. Venezuela has virtually eliminated public sector interest arrears and has implemented an austerity program, but remains somewhat reluctant to go to the IMF. The Philippines continues to negotiate with the IMF, and bank creditors have again extended the moratorium on debt repayments.

Argentina is continuing its slow-moving negotiations with the IMF. Completion of a letter of intent that the IMF management would approve now seems unlikely before mid-June. The major area under discussion is the budget, but tough negotiations will also be required on interest rate policy, exchange rate policy, and wage policy. An IMF staff mission arrived in Buenos Aires May 7 to resume negotiations. Pending conclusion of an IMF agreement, Argentina obtained a \$400 million short-term credit (\$100 million each from Mexico, Venezuela, and the group of banks that constitute the commercial bank Working Committee for Argentina, and \$50 million each from Brazil and Colombia). Using these funds and \$100

million from its own reserves, Argentina paid public sector interest arrears for the fourth quarter. This payment allowed U.S. banks to keep Argentine loans on an accrual status for the purpose of income calculations. If an IMF letter of intent has been signed by May 31 (originally April 29), the U.S. Treasury's Exchange Stabilization Fund will lend Argentina \$300 million as a bridge to the IMF credit, to be used to reimburse the four Latin American countries. Discussions with banks on the possible release of the undisbursed \$1 billion that remains under the 1983 medium-term loan, on debt restructuring, and on new financing remain at a standstill. The \$750 million in payments on the 1982 bridge loan from commercial banks that were due on April 16 have been postponed until June 15. The government is continuing to set wages, interest rates, and exchange rate changes in relation to the projected rate of inflation. The policy of granting retroactive wage increases when inflation exceeds the projected rate to restore a small increase in real wages has been modified by placing these retroactive raises on a quarterly instead of a monthly schedule. The monthly interest rates on 30-day loans and deposits were raised to 14 and 13 percent, respectively, at the beginning of April, but although the CPI rose by 18.5 percent in April, these rates have remained unchanged for May. Over the past 16 months, the official peso price of the dollar has increased by 20 percent less than the CPI. The free market premium for the dollar was about 55 percent at the end of April.

Since 1980, the end of the coffee boom, Colombia's economic and financial position has deteriorated. For over two years, there has been a recession in domestic economic activity, with real GDP rising only

about 1 percent per year in 1982 and 1983. The deficit of the non-financial public sector has increased steadily and exceeded 6 percent of GDP last year. The current account deficit was about \$3 billion in both 1982 and 1983. Gross international reserves, excluding gold, which were close to \$5 billion at the end of 1981, had fallen to less than \$1.3 billion by the end of March 1984. (Gold holdings on that date were equivalent to \$1.6 billion at current prices.) Since late 1982, the authorities have tightened exchange controls, increased quantitative restrictions on imports, and increased fiscal incentives for exporters. They have also raised the rate of increase of the peso price of the dollar under their crawling peg system from a 16 percent annual rate before October 1982 to 26 percent in 1983, thereby achieving a real depreciation of 7-8 percent in 1983. Colombia began to experience some difficulties in obtaining new financing from foreign commercial banks in 1983, although some medium-term syndicated Eurocurrency credits and club deals are continuing to be arranged. Money market and short-term trade financing lines to Colombian banks and their branches in Panama began to be reduced in 1983, partly because of financial difficulties experienced by some of the more important Colombian banks. Last month, a large Colombian commercial bank obtained a 90-day moratorium on most of its short-term external debts pending conclusion of a refinancing arrangement. If access to foreign bank credit narrows further, Colombia may be forced to negotiate an IMF agreement before the end of 1984, and may have to seek a rollover and/or restructuring of a large portion of its scheduled debt payments which amount to about \$4 billion in 1984.

Brazil registered a trade surplus of \$3.5 billion during the first four months of the year, compared with \$1.4 billion over the first four months of 1983, due largely to strong growth in exports. To achieve the \$9 billion trade balance target for the year, Brazil will only need average trade balance surpluses of about \$700 million per month for the rest of the year. Domestic activity picked up slightly during the first quarter as a result of the strong growth in exports of manufactured goods. The rate of inflation was 229 percent for the twelve month period ending in April of this year compared with 211 percent over the twelve months of 1983. However, the monthly inflation rate fell to 8.9 percent in April, a decline from the average monthly rate of more than 10 percent in the first three months of the year. Brazil met all of the first-quarter performance criteria under its IMF program in addition to abolishing foreign exchange controls and clearing all arrears. Foreign banks disbursed \$3.0 billion from Brazil's new money facility in March, and an additional \$875 million (of the remaining \$3.5 billion) was disbursed in April. At present, it appears that although official agencies have committed \$2.5 billion in new money to Brazil, it is unlikely that the full amount will be disbursed before year-end. However, the better than expected performance of the current account may compensate for such a shortfall.

The 1984 foreign commercial bank loan for Mexico was open for signature on April 27. The loan is for \$3.8 billion, but subscriptions exceed \$4 billion. Some banks which participated in last year's loan have not yet made a commitment, and Mexico is continuing to pressure them to join the syndication. There are still no signs of a turn-around in

domestic economic activity: in 1983, real GDP was 4.7 percent lower than in 1982 and industrial production was 8.6 percent lower. The decline moderated somewhat in the fourth quarter when industrial production was about 5 percent lower than a year earlier. In April, the CPI was 4.3 percent higher than in March and 69.1 percent higher than a year earlier, and inflation in the first four months of the year has averaged 5.1 percent per month, casting doubt on whether an inflation rate of less than 50-55 percent for the year as a whole (December-over-December) is attainable. (The authorities have projected a 40 percent inflation rate.) Given these inflation developments, the market is increasingly aware that continuation of the current policy of increasing the peso price of the dollar by 13 centavos per day would result in a significantly overvalued peso by the end of the year. On May 3, rumors circulated that a 10 percent devaluation was imminent and that it might be followed by an increase in the rate of daily crawl of the peso price of the dollar. As a result, in U.S. markets the peso fell sharply, closing at 202 pesos per dollar on May 4 compared with 184.75 pesos on May 2. When no change in exchange policy occurred in the ensuing days, the rate firmed somewhat, closing at 196 pesos on May 11.

Chile's program for the second year of its stand-by arrangement was approved by the IMF Executive Board on May 14, when a "critical mass" of 85 percent of Chile's 1984 commercial bank credit of \$780 million had been committed. Executive Board consideration had been delayed several weeks while these commitments were obtained and because the new Finance Minister, Luis Escobar (who replaced Carlos Caceres on April 2), wished to discuss with the Fund the possibility of incorporating more fiscal

stimulus into the program. After several days of talks in mid-April, it was decided that the program would remain unchanged. (The program already contains a provision for some increase in the fiscal deficit in the second half of this year if private sector activity remains weak; a decision will be made in July.) Chile's Central Bank President, Hernan Felipe Errazuriz, resigned in late April, apparently because of disagreements with the new Finance Minister over the course of Chilean economic policy. He has been named Ambassador to the United States. Francisco Ibanez, the former Superintendent of Banks, has been appointed the new Central Bank President. Chilean consumer prices in the first quarter of this year were up 21 percent from the first quarter of 1983, after a 24 percent increase from the fourth quarter of 1982 to the fourth quarter of 1983. Unemployment edged up to 15.5 percent in the first quarter of 1984 from 14.6 percent in the fourth quarter of last year.

Peru's stand-by arrangement was approved by the IMF Executive Board on April 26. Board consideration was delayed a few weeks because the government had not taken some of the adjustment measures that were prerequisite and because the new Finance Minister, Jose Benavides (who replaced Carlos Rodriguez Pastor on March 20), wanted to discuss with the Fund the possibility of easing some of the targets. Both were reflections of growing political opposition to further austerity. In the intervening weeks, the necessary price and tax adjustments were announced, and the Fund agreed to raise the fiscal deficit target slightly from 3.8 to 4.1 percent of GDP to allow for some additional official development assistance. Peru's bank creditors, who had previously planned to disburse the final \$100 million of the country's 1983

credit when the IMF Executive Board approved the program, now plan to disburse the funds when the 1984-85 rescheduling agreement goes into effect, probably in July. This does not pose an immediate cash squeeze for Peru, since the country has just made its first drawing of SDR 15 million under the stand-by arrangement and a drawing of SDR 74.7 million under the Compensatory Financing Facility. In accordance with the adjustment program, the rate of increase in the sole/dollar exchange rate has been accelerated from about 4 percent per month during September-February to about 7-1/2 percent per month in March-April, bringing it back in line with the monthly rate of inflation.

Venezuela's newly elected government is implementing an adjustment program aimed at both eliminating the \$1 billion in private sector interest arrears in the near term and at reducing the overall level (\$34 billion) of external debt. To date, Venezuela has been reluctant to seek IMF approval of its program, but that attitude may be changing. Interest arrears on public sector debt were virtually eliminated in early April. The government is expected to seek rescheduling of \$14.2 billion of 1983 and 1984 debts of the public sector. Banks are likely to insist that private sector interest arrears be cleared up before a rescheduling of private sector debt is negotiated. On May 3, the government announced the imposition of a 100 percent reserve requirement on holdings of foreign currency assets by Venezuelan banks in order to prevent speculation by banks in the free exchange market. The free market rate had depreciated to about 15-1/2 bolivars per dollar from 13 bolivars per dollar. The central bank had been selling dollars to the banks at about 14 bolivars per dollar.

The Philippines continues to negotiate with the IMF on a stand-by arrangement for SDR 615 million. Prime Minister Virata has said that he hopes to sign a letter of intent in late May. The government continued during April and early May to take fiscal and monetary adjustment measures. The ad valorem duty surcharge on a wide range of imports was increased on April 11 from 5 percent to 8 percent in order to increase government revenues. However, on May 1 President Marcos decreed a 10 percent pay increase for all government employees, and it is not yet clear how this will affect the 1984 budget. On April 23, the central bank again increased the reserve requirement for banks, from 23 to 24 percent, in order to restrain further domestic liquidity. The IMF team currently in Manila will assess the impact of these measures. The Philippines has received from bank creditors a second extension of a 90-day moratorium on the repayment of principal on non-trade external debt originally granted last October. The new extension runs from April 16 to July 12. On April 23 the Philippine Central Bank authorized Citibank to pay to depositors about 46 percent of the roughly \$600 million in interbank deposits at its Manila branch. These deposits had been frozen by the Philippine authorities last October. The 46 percent figure derives from the fact that Citibank had reinvested outside the Philippines about 46 cents of each dollar deposited with its Manila branch. The branch will use assets outside the Philippines to pay off 46 percent of each deposit upon maturity.