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Confidential (FR) Class III FOMC

May 13, 1987

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 Period			Percent change from		
	Period	Release date	Data	Preceding period	Three periods earlier	Year earlier
				(At annual rates)		
Civilian labor force	Apr.	05-08-87	119.3	1.1	1.0	1.7
Unemployment rate (%)[1]	Apr.	05-08-87	6.3	6.6	6.7	7.1
Nonfarm employment, payroll (mil.)	Apr.	05-08-87	102.3	3.7	2.8	2.5
Manufacturing	Apr.	05-08-87	19.2	.9	1.2	-.1
Nonmanufacturing	Apr.	05-08-87	83.1	4.4	3.1	3.2
Private nonfarm						
Average weekly hours (Hr.)[1]	Apr.	05-08-87	34.7	34.8	34.8	34.8
Hourly earnings ($)[1]	Apr.	05-08-87	8.88	8.90	8.84	8.72
Manufacturing						
Average weekly hours (Hr.)[1]	Apr.	05-08-87	40.5	41.0	41.0	40.7
Unit labor cost (1967=100)	Mar.	04-29-87	77.6	-6.2	-4.6	-6.5
Industrial production (1977=100)	Mar.	04-15-87	126.7	-3.8	.0	2.5
Consumer goods	Mar.	04-15-87	126.5	-6.6	-2.2	3.9
Business equipment	Mar.	04-15-87	139.2	-4.3	6.1	1.1
Defense and space equipment	Mar.	04-15-87	187.2	2.6	3.0	6.2
Materials	Mar.	04-15-87	115.1	-4.2	-.3	1.6
Consumer prices, all items (1967=100)	Mar.	04-24-87	336.4	5.0	6.0	3.0
All items, excluding food and energy	Mar.	04-24-87	336.6	5.7	5.1	4.0
Food	Mar.	04-24-87	329.2	-1.5	2.4	4.7
Producers prices: (1967=100)						
Finished goods	Mar.	04-10-87	293.2	5.3	4.6	1.5
Intermediate materials, nonfood	Mar.	04-10-87	316.2	4.6	7.7	-.1
Crude foodstuffs and feedstuffs	Mar.	04-10-87	227.6	5.3	-10.6	1.9
Personal income ($ bil.)[2]	Mar.	04-24-87	3603.9	1.8	6.9	4.6
				(Not at annual rate)		
Mfgrs. new orders dur. goods ($ bil.)	Mar.	04-30-87	105.8	3.8	-.2	4.5
Capital goods industries	Mar.	04-30-87	37.0	9.4	.2	-4.9
Nondefense	Mar.	04-30-87	27.3	1.7	-6.8	2.7
Defense	Mar.	04-30-87	9.7	39.0	26.8	-21.4
Inventories to sales ratio:[1]						
Manufacturing and trade, total	Feb.	04-16-87	1.49	1.49	1.47	1.58
Manufacturing	Mar.	04-30-87	1.62	1.64	1.61	1.75
Trade	Feb.	04-16-87	1.37	1.44	1.41	1.42
Ratio: Mfgrs.' durable goods inventories to unfilled orders[1]	Mar.	04-30-87	.580	.584	.573	.577
Retail sales, total ($ bil.)	Apr.	05-13-87	125.4	.1	5.7	5.9
GAF[3]	Apr.	05-13-87	27.4	-.5	3.4	5.9
Auto sales, total (mil. units)[2]	Apr.	05-05-87	10.8	3.4	30.7	-2.3
Domestic models	Apr.	05-05-87	7.7	2.5	32.3	-3.7
Foreign models	Apr.	05-05-87	3.1	5.8	26.7	1.1
Housing starts, private (thous.)	Mar.	04-16-87	1774	-3.2	-2.2	-6.0
Leading indicators (1967=100)	Mar.	04-29-87	187.5	.4	.4	6.3

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

Recent indicators suggest that output is continuing to expand at a moderal rate, albeit with only spotty improvements in the industrial sector. Wage inflation has remained relatively subdued, but price increases have accelerated. The rise in inflation reflects adjustments to higher crude petroleum prices as well as some apparent dollar-related price hikes in imported goods.

Employment and Unemployment

Labor demand grew at a brisk pace in April. In the household survey, employment jumped almost 470,000, and unemployment recorded an unusually sharp over-the-month decline. As a result, the civilian unemployment rate dropped to 6.3 percent. After holding steady throughout much of the second half of last year, joblessness has declined more than 1/2 percentage point since last November, and last month reached its lowest level in the current expansion.

Nonfarm payroll employment increased 3'6,000 in April. Excluding government, where revisions are frequently large, private industry jobs were up almost 260,000 last month, somewhat above the average increase in the first quarter. Aggregate hours of production workers edged off a bit in April, associated in large part with the observance of religious holidays during the survey reference week, which lowered the average workweek.[1] Nonetheless, total hours worked by production workers have risen at nearly a 4 percent annual rate so far this year.

1. This decline was particularly noticeable in manufacturing, where the factory workweek declined 1/2 hour and aggregate hours fell 1.0 percent last month. Such a decline is generally consistent with the pattern that has been observed on previous occasions when Good Friday fell during the survey reference week.

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

	1985	1986	1986 Q3	1986 Q4	1987 Q1	1987 Feb.	1987 Mar.	1987 Apr.
			—Average monthly changes—					
Nonfarm payroll employment[2]	230	201	239	254	229	228	155	316
Strike adjusted	229	201	194	252	216	192	154	316
Manufacturing	-18	-9	-10	27	8	43	-1	14
Durable	-16	-14	-12	6	1	35	-7	0
Nondurable	-2	6	2	21	7	8	6	14
Construction	21	17	21	-5	21	-15	-35	23
Trade	65	53	50	47	71	92	34	72
Finance and services	122	121	107	121	103	106	88	140
Total government	38	25	31	51	9	-12	49	59
Private nonfarm production workers	159	145	173	171	174	240	74	198
Manufacturing production workers	-18	-4	-6	31	8	39	6	17
Total employment[3]	162	207e	125	217	244	371	-14	467
Nonagricultural	182	207e	132	210	203	280	-62	461

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments. Strike-adjusted data noted.
3. Survey of households.
e—Adjusted by Board staff to eliminate distortions caused by the introduction of revised population estimates.

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

	1985	1986	1986 Q3	1986 Q4	1987 Q1	1987 Jan.	1987 Feb.	1987 Mar.
Civilian, 16 years and older	7.2	7.0	6.9	6.9	6.7	6.7	6.6	6.3
Teenagers	18.6	18.3	18.1	17.8	17.9	18.0	18.1	17.4
20-24 years old	11.1	10.7	10.7	10.5	10.4	10.5	10.2	10.1
Men, 25 years and older	5.3	5.4	5.4	5.4	5.2	5.1	5.1	4.8
Women, 25 years and older	5.9	5.5	5.4	5.3	5.1	5.1	5.0	4.7
White	6.2	6.0	6.0	6.0	5.7	5.7	5.6	5.4
Black	15.1	14.5	14.5	14.1	14.2	14.3	13.9	13.0
Fulltime workers	6.8	6.6	6.5	6.5	6.3	6.3	6.2	5.9
Memo:								
Total national[1]	7.1	6.9	6.8	6.8	6.6	6.6	6.5	6.[illegible]

1. Includes resident Armed Forces as employed.

Payroll employment gains in 1987 have been concentrated in service-producing industries, continuing the trend seen throughout most of this expansion. The number of jobs in finance and services increased about 100,000 per month in the first quarter and rose another 140,000 in April, while in trade, employment advanced more than 70,000 last month, about the same pace as in the first three months of the year. In contrast, hiring in manufacturing, on net, has been quite slow, although early in the year employers lengthened workweeks to meet higher production levels. In April, manufacturing employment was little changed, as further cutbacks in transportation equipment about offset small gains in other industries.

Industrial Production and Capacity Utilization

Industrial production registered a 2.6 percent (annual rate) increase in the first quarter as a whole, but output was down in March, and the decline appears to have extended into April. While the sharp drop in production workers' hours last month should be discounted somewhat because of the holiday effects, available physical product data--especially on assemblies of motor vehicles--suggest a further drop in overall industrial production last month.

Personal Income and Consumption

Nominal personal income picked up sharply in the first quarter, growing at an average monthly rate of $20.4 billion, about twice the fourth-quarter pace. The higher first-quarter income growth reflects a sizable swing in interest income as well as larger gains in wages and salaries. The month-to-month movements in income were dominated by wide fluctuations in subsidy payments to farmers, but over the quarter as a whole, these payments made virtually no net contribution to personal income growth. Although transfer

PERSONAL INCOME
(Average monthly change; billions of dollars)

	1986	1986 Q4	1987 Q1	1987 Jan.[r]	1987 Feb.[r]	1987 Mar.[p]
Total personal income	10.4	11.6	20.4	10.7	45.1	5.4
Wages and salaries	7.0	9.1	12.5	13.4	16.6	7.4
Private	5.2	7.1	9.6	9.0	14.3	5.4
Proprietors' income	1.7	3.5	2.8	-8.4	23.2	-6.3
Farm	-.8	2.5	.2	-10.0	17.8	-7.2
Rent, dividends, and interest	-.9	-3.0	3.2	4.1	3.0	2.5
Transfer payments	2.4	1.6	3.0	4.9	2.6	1.6
Less: Personal contributions for social insurance	.7	.5	1.9	4.1	1.0	.5
Less: Personal tax and nontax payments	3.2	6.4	-8.6	-13.4	-6.4	-6.0
Equals: Disposable personal income	7.2	5.2	29.0	24.1	51.5	11.5
Memo: Real disposable personal income	3.0	-.7	--	-.8	37.3	--

r—Revised.
p—Preliminary.

payments grew with cost-of-living allowances, these were largely offset by increases in personal contributions to social insurance.

Disposable personal income was boosted last quarter by special tax effects. Personal tax and nontax payments fell sharply in the first quarter, reflecting a combination of factors related to the new tax laws. Increases in nonwithheld taxes early in the quarter—related in part to the year-end bulge in realized capital gains--tended to raise these payments, but were more than offset by reductions in personal tax rates and underwithholding of tax liabilities. On average, the decrease in tax and nontax payments contributed $8.6 billion per month to disposable income growth during the first quarter.

Unit auto sales improved during the middle of the first quarter, and continued to edge up in March and April. Real consumer spending fell slightly in the first quarter, as a tax-induced decline in automobile sales early in the year more than offset the gains in outlays for other goods and services.

Excluding sales at automotive dealers, as well as gasoline stations and hardware stores (the "retail control" group), nominal retail spending rose 0.4 percent in April. Although the March level was revised down substantially, sales at the retail group in April still were 1.0 percent above the first-quarter average.

With consumption growth falling short of gains in disposable income, the saving rate during the first quarter rebounded to 3.6 percent, a bit below the 1986 average of 3.8 percent and well below the post-war average of about 7 percent. The NIPA measured saving rate is expected to be exceptionally low in the second quarter, as disposable income growth in April

AUTO SALES, PRODUCTION, AND INVENTORIES
(Millions of units at an annual rate, FRB seasonals)

	1986	1987	1987		
	Q4	Q1	Feb.	Mar.	Apr.
Total auto sales[1]	11.3	9.7	10.3	10.5	10.8
Domestic	7.7	6.9	7.3	7.5	7.7
Imported	3.7	2.8	3.0	3.0	3.1
Domestic production	7.5	7.9	8.3	7.9	7.2
Dealers' stocks	1.54	1.81	1.74	1.81	1.79
Days' supply[2]	61	80	73	74	71
Total light truck sales[3]	4.5	4.2	4.4	4.6	4.9
Domestic	3.5	3.4	3.6	3.7	3.8
Imported[4]	1.0	.8	.8	.9	1.1

1. Components may not add to totals due to rounding.
2. Days' supply for the quarter are based on end-of-quarter stocks and average sales for the quarter.
3. Trucks having gross weight 10,000 pounds or less.
4. About 1 percent of imported trucks have gross weight above 10,000 pounds.

RETAIL SALES
(Seasonally adjusted percentage change)

	1986		1987	1987		
	Q3	Q4	Q1	Feb	Mar	Apr
Total sales	3.9	-.1	-.9	4.8	.8	.1
Previous estimate[1]			-1.0	4.9	.2	--
(REAL)[2]	3.0	-.9	-2.3	4.4	.1	--
Previous estimate[1]			-2.5	4.5	-.4	—
Total less auto dealers, nonconsumer stores, and gasoline stations.	1.7	1.2	2.0	2.5	-.4	.4
Previous estimate[1]			2.1	2.6	.1	—
GAF[3]	1.7	.3	2.2	3.9	.0	-.5
Durable	9.2	-1.5	-5.6	8.2	2.1	-.6
Automotive dealers	13.1	-3.3	-10.6	13.6	3.6	-.9
Motor vech. & misc.dlrs.	14.2	-3.6	-11.4	14.9	4.0	-1.0
Furniture and applicances	4.2	1.7	.3	.7	1.1	-1.4
Other durable goods	6.4	1.3	2.7	1.4	-3.0	1.6
Nondurable	.7	.8	2.2	2.8	.0	.6
Apparel	.7	.8	2.2	6.1	2.0	.3
Food	.9	1.9	.2	.9	.2	.9
General merchandise[4]	1.0	-.6	3.2	4.5	-1.7	-.5
Gasoline stations	-3.9	-.9	4.6	3.8	2.7	1.3

1. Based on incomplete sample counts approximately one month ago.
2. BCD series 59. Data are available approximately 3 weeks following the retail sales release.
3. General merchandise, apparel, furniture and appliance stores.
4. General merchandise excludes mail order nonstores; mail order sales are also excluded in the GAF grouping.
—Data are unavailable because of a future release date.

PERSONAL CONSUMPTION EXPENDITURES
(Percent change from preceding period)

	1986[1]	1986 Q4	1987 Q1	1987 Jan.[r]	1987 Feb.[r]	1987 Mar.[p]
		--Annual rate--		--Monthly rate--		
Personal consumption expenditures	5.7	3.0	4.9	-2.0	2.4	.3
Durable goods	11.4	-10.6	-16.4	-15.5	8.1	.7
Excluding motor vehicles	10.7	13.4	5.7	-1.8	3.1	.0
Nondurable goods	1.9	3.2	10.0	-.1	2.5	.2
Excluding gasoline	4.4	3.4	9.6	-.2	2.4	.1
Services	6.8	7.0	8.1	.6	1.0	.3
Excluding energy	7.6	8.6	9.9	.8	1.1	.2
Memo:						
Real personal consumption expenditures	4.0	-.4	-.4	-2.9	2.1	--
Excluding motor vehicles	3.7	2.9	2.8	-.7	1.4	--
Personal saving rate (percent)	3.8	2.5	3.6	3.9	3.4	3.4

1. Percent change from fourth quarter of preceding period to fourth quarter of period indicated.
r--Revised.
p—Preliminary.

was held down by large tax payments resulting from capital gains realized in 1986.

Business Fixed Investment

Real business fixed investment was estimated to have fallen at about a 13 percent annual rate in the first quarter, reflecting widespread declines in outlays. On the equipment side, last quarter's decline in spending was concentrated in January and followed a tax-induced bunching of purchases in late 1986. While substantial, this first-quarter "payback" was only half as large as the one that occurred a year earlier, which followed the rush to lock-in the investment tax credit. In February and March, demand for nondefense capital goods stabilized, and purchases of motor vehicles recovered. In contrast, the decline in outlays for nonresidential construction excluding petroleum drilling that occurred in the first quarter extended the downtrend that began in early 1986.[1] This continued weakness reflects widespread excess capacity in the industrial and commercial sectors, and to a lesser extent, adverse effects of tax law changes for nonresidential structures.

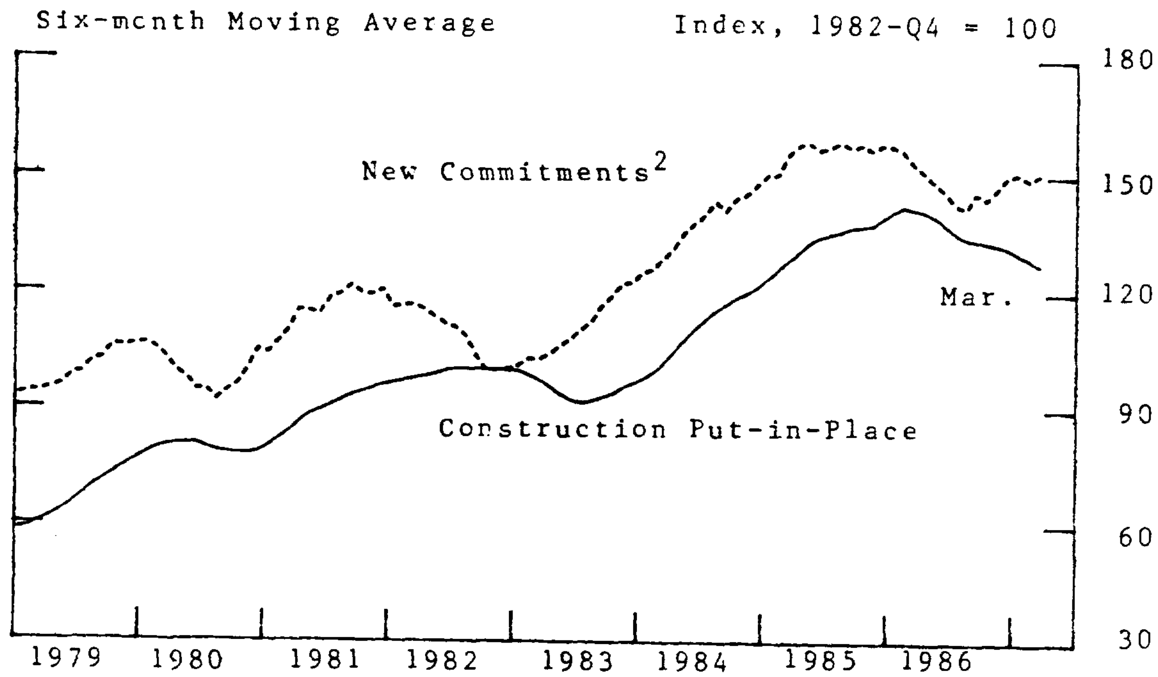
Indicators of prospects for investment spending provide a mixed picture. Excluding the volatile aircraft group, new orders for nondefense capital goods were little changed in the first quarter, and, overall, orders show no sign of emerging from the flat pattern that has prevailed since mid-1984. For nonresidential construction, however, new commitments have firmed since mid-1986, suggesting some pause in the downward adjustment

1. About half of the 23 percent first-quarter decline estimated in the preliminary GNP report likely will be revised away, as the recent report on construction put-in-place contained sharp upward revisions to nominal outlays in January and February.

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

	1986		1987	1987		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Producers' durable equipment						
Nondefense capital goods						
Shipments	.2	3.2	-3.2	-10.1	3.7	2.3
Aircraft	-5.1	17.7	-13.7	-37.4	23.0	14.6
Excl. aircraft	.8	1.5	-1.7	-5.8	1.7	.8
Office and computing equip.	1.7	-2.2	-3.0	-6.7	.4	-2.0
All other categories	.6	2.4	-1.3	-5.5	2.0	1.4
Orders	3.2	6.2	-3.9	-8.6	.3	1.7
Aircraft	-8.0	78.0	-26.2	-39.0	-10.3	14.5
Excl. aircraft	4.6	-1.7	.5	-1.1	1.9	.0
Office and computing equip.	15.0	-5.2	-10.7	-21.4	11.4	1.6
All other categories	2.2	-.8	3.4	4.2	.0	-.3
Sales of heavy-weight trucks (thousands of units, A.R.)	268	274	277	246	270	316
Nonresidential structures						
Nonresidential construction	-.3	-3.4	-2.4	-1.7	3.5	-3.8
Commercial building	.9	-6.1	-3.6	-4.6	6.3	-4.7
Office	-4.3	-6.7	-.8	-.2	5.0	-6.3
Other commercial	6.3	-5.4	-6.1	-8.7	7.6	-3.2
Industrial building	-6.4	1.2	-6.5	-3.4	4.0	-7.2
Public utilities, institutional, and other	-.1	-1.9	-.3	1.4	.9	-2.1
Rotary drilling rigs in use	-12.6	9.4	-1.0	-1.9	-1.0	3.0

NONRESIDENTIAL CONSTRUCTION AND NEW COMMITMENTS[1]



1. Sum of contracts (from F.W. Dodge) and permits (from Census).
2. Includes only the building components of nonresidential construction, that is, industrial, commercial, institutional, and hotels and motels.

Surveys of Plant and Equipment Spending
(Percent change from previous year, current dollars)

		Planned for 1987		
	1986[1]	Commerce Dept. (Jan.-Mar.)	McGraw-Hill (Jan.-Mar.)	Commerce Dept. (Oct.-Nov.)
Including petroleum and mining				
All Business	-2.0	3.0	2.0	.9
Excluding petroleum and mining				
All business	1.6	4.2	2.1	2.1
Manufacturing	-1.7	3.3	3.4	-.1
Durables	-5.7	2.2	0	-.6
Nondurables	3.8	4.6	7.6	.5
Nonmanufacturing	3.5	4.7	1.3	3.3

1. As estimated in the January-March Commerce Department survey.

of this sector. For 1987 as a whole, survey readings still point to lackluster investment outlays. The most recent Commerce Department survey, conducted between late January and early March, indicated that firms expect nominal spending to rise only 3 percent between 1986 and 1987. Much of this increase reflects the expected stabilization of capital spending by petroleum and mining companies. However, the Commerce survey also points to stronger spending by several other sectors, including industries that could be benefiting from the lower value of the dollar, such as iron and steel, machinery, and textiles.

Business Inventories

After a sharp depletion in December and a massive accumulation in January, business inventory investment, on balance, apparently returned to a more moderate pace in the latter part of the first quarter. Increases in stocks at auto dealers' accounted for most of the $28 billion annual rate rise in nonfarm inventories estimated by the BEA in the first quarter. Physical unit data from industry sources indicate that domestic dealers' stocks of new cars increased to a near-record high of 1.8 million units by the end of March, and the bloated inventories have prompted automakers to trim assembly schedules well below the first-quarter production rate of 7.9 million units. Plans now call for assemblies to run at a 7-1/4 million unit annual pace this spring, and then to move down to a 7.0 million unit annual rate in the third quarter. Preliminary data indicate that dealers' stocks began to edge down in April; if current sales rates are maintained and automakers meet scheduled production rates, stocks should be drawn down gradually to more manageable levels by the end of the model year.

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

	1986 Q4	1987 Q1	1986 Dec.	1987 Jan.	1987 Feb.r	1987 Mar.p
Current Cost Basis:						
Total	-1.1	—	-41.8	76.0	10.8	--
Manufacturing	-11.7	5.7	-6.6	30.2	-1.8	-11.3
Wholesale	5.9	8.5	-9.9	23.7	.7	1.1
Retail	1.4	—	-25.3	22.1	12.0	—
Automotive	-11.3	—	-15.5	25.4	12.1	—
Ex. auto	12.6	—	-9.8	-3.3	-.2	—
Constant Dollar Basis:						
Total	-9.6	—	-32.7	71.6	15.9	--
Manufacturing	-3.3	—	-2.4	23.9	-11.4	--
Wholesale	-4.3	—	1.5	13.5	10.8	—
Retail	-2.0	—	-31.8	34.2	16.5	--
Automotive	-1.1	—	-15.9	35.2	15.5	--
Ex. auto	-.9	—	-15.9	-1.0	1.1	--

INVENTORIES RELATIVE TO SALES[1]

	Range in Preceding 12 months:[2] low	high	1986 Q4	1987 Q1	1986 Dec.	1987 Jan.	1987 Feb.r	1987 Mar.p
Current Cost Basis:								
Total	1.47	1.58	1.50	—	1.47	1.55	1.49	--
Manufacturing	1.61	1.75	1.65	1.64	1.61	1.69	1.64	1.62
Wholesale	1.21	1.32	1.25	1.23	1.24	1.28	1.21	1.21
Retail	1.44	1.59	1.51	--	1.47	1.59	1.53	--
Automotive	1.33	2.12	1.64	—	1.49	2.12	1.90	—
Ex. auto	1.42	1.49	1.47	—	1.46	1.46	1.42	--
Constant Dollar Basis:								
Total	1.45	1.56	1.48	—	1.45	1.53	1.47	—
Manufacturing	1.62	1.74	1.66	—	1.62	1.69	1.64	--
Wholesale	1.25	1.34	1.26	—	1.26	1.29	1.22	—
Retail	1.35	1.51	1.42	—	1.37	1.51	1.46	--
Automotive	1.12	1.89	1.41	—	1.25	1.85	1.68	--
Ex. auto	1.40	1.45	1.42	—	1.41	1.43	1.40	—

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

In manufacturing, the sharp fluctuations in inventory investment around the turn of the year left the stock situation little changed on balance, and at the end of the first quarter, inventories in most industries still appeared lean by historical standards. Factories have remained conservative in their stocking decisions so far this year: non-auto production decelerated in the first quarter, and factory inventory accumulation, especially at the raw materials stage, remained moderate. In the trade sectors, non-auto retail inventories were essentially flat over the first two months of the year, and wholesale inventories on a current cost basis were little changed in both February and March.

Housing Markets

Total private housing starts receded a bit in March after rising considerably during the winter. For the first quarter as a whole, total starts averaged 1.81 million units, the same as their average pace during 1986. Single-family housing starts registered a robust 1.27 million unit annual rate in the first quarter, and sales of new single-family homes were at a strong 710,000 unit annual rate. This vigorous pace of activity was supported by further declines in mortgage interest rates, which reached a nine-year low towards the end of March. Subsequently, mortgage rates began to climb, and for fixed-rate loans, increased almost 1-1/2 percentage points by the end of April. Although construction data for April are not yet available, trade sources have reported that the spurt in rates had only a small effect on home sales and construction. However, if mortgage rates maintain their current higher levels, housing activity would likely moderate noticeably in coming months.

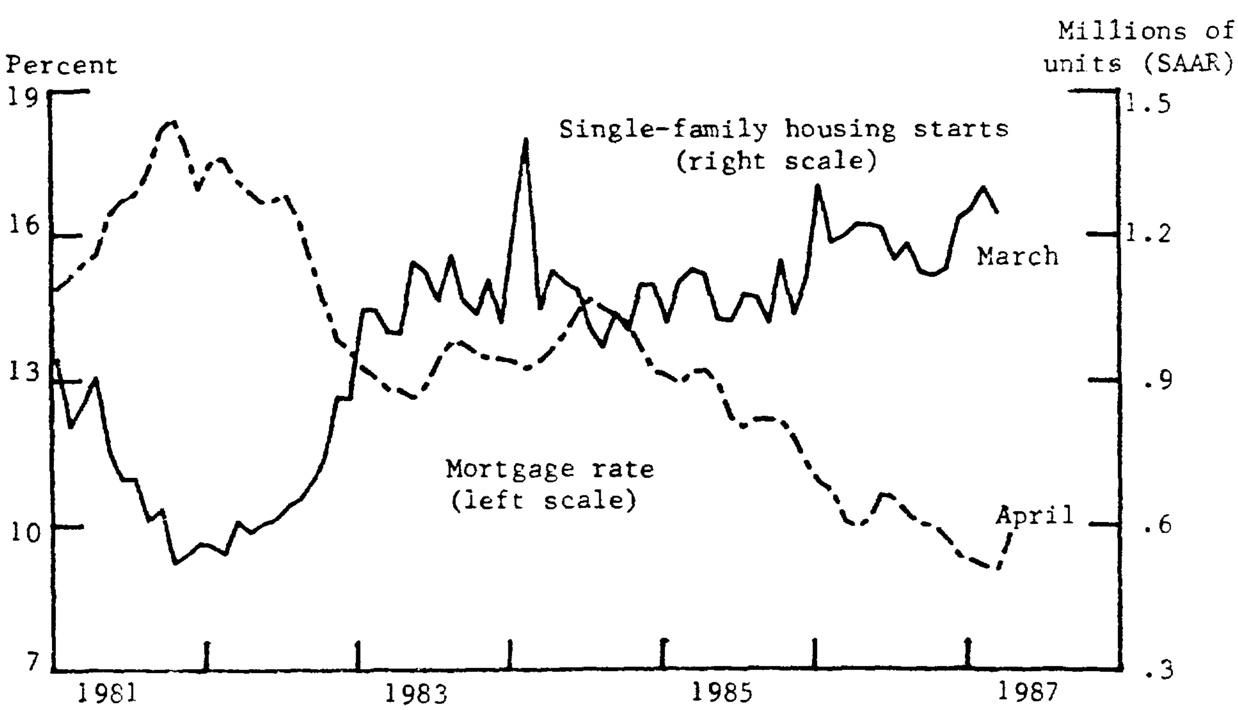
Multifamily housing starts were little changed in March at a level one-fourth below the early 1986 peak. This weakness continues to reflect the

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

	1986	1986		1987	1987		
	Annual	Q3	Q4	Q1	Jan.	Feb.	Mar.[1]
All units							
Permits	1.75	1.68	1.70	1.74	1.69	1.76	1.76
Starts	1.81	1.76	1.70	1.81	1.82	1.83	1.77
Single-family units							
Permits	1.07	1.06	1.06	1.15	1.09	1.23	1.13
Starts	1.18	1.15	1.16	1.27	1.25	1.30	1.25
Sales							
New homes	.75	.69	.71	.71	.70	.73	.70
Existing homes	3.57	3.62	3.93	3.63	3.48	3.69	3.71
Multifamily units							
Permits	.68	.62	.64	.59	.60	.54	.63
Starts	.63	.61	.54	.54	.56	.53	.53

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

SINGLE-FAMILY HOUSING STARTS AND THE CONTRACT RATE
ON FIXED-RATE CONVENTIONAL MORTGAGE COMMITMENTS



near-record nationwide rental vacancy rate as well as recent changes in the tax code that have diminished the profitability of multifamily housing investments.

Federal Government

The federal deficit in March--the latest available Monthly Treasury Statement—was $28 billion, $2.1 billion less than a year earlier. For the fiscal year to date, the deficit was about $14-1/2 billion below year-earlier levels. In April, the deficit likely plummeted. Outlays appear to have remained on a fairly steady path—in part held down last month by the long-awaited sale of Conrail—while receipts soared with the sharp rise in individual nonwithheld tax payments following the April 15 tax date. Daily data show April collections about $20 billion above last year, in large part reflecting increased taxes on capital gains realized at the end of 1986 to take advantage of lower rates under the old tax law and favorable conditions in securities markets.

On balance, a sizable decline in the federal deficit from the 1986 fiscal year record seems in train, but a number of offsetting forces leave the exact magnitude in considerable doubt, and make it misleading to extrapolate the part-year results to a fiscal year total. Tax receipts from capital gains income may be reduced later this year to the extent that some of the stepped up capital gains realizations in 1986 were borrowed from 1987. After accounting for the boost in receipts owing to the retroactive repeal of the investment tax credit, it appears that corporate tax receipts through April have been a little below the expectations of some analysts. A catch-up could occur after the Treasury issues complete regulations for the new tax law, but the full implications of that law for

Federal Unified Budget Receipts, Outlays and the
Deficit through March
(Fiscal years, billions of dollars)

	Receipts	Outlays	Deficit
Monthly totals:			
March 1986	49.6	79.7	30.1
March 1987	56.5	84.5	28.0
Change from 1986 to 1987 (percent)	13.9	6.0	-7.0
Total for the fiscal year to date:			
Through March 1986	356.9	493.2	136.3
Through March 1987	383.8	505.7	121.9
Change from 1986 to 1987 (percent)	7.5	2.5	-10.6
Fiscal year 1986 total	769.1	989.8	220.7

STATE GOVERNMENTS' GENERAL FUND YEAR-END SURPLUS[1]

Fiscal year	Year-end surplus (billions of dollars)	Surplus as a percent of general fund expenditures
1978	8.9	8.6
1979	11.2	8.7
1980	11.8	9.0
1981	6.5	4.4
1982	4.5	3.0
1983	2.0	1.3
1984	5.6	3.3
1985	8.0	4.3
1986	5.4	2.6
1987[e]	1.6	.8

e—estimate.
1. Does not include stabilization funds.
Source: National Governors' Association and National Association of State Budget Officers.

corporate tax receipts in the 1987 fiscal year remain very uncertain. On the spending side, timing shifts in Medicare and military pay schedules could lower spending more later this year, but outlays for deposit insurance could rise sharply if congressional action were to lead to a change in FSLIC policy toward the closing of troubled institutions.

In action on the 1988 fiscal year budget, the House and Senate have passed similar versions of the congressional budget resolution. A House-Senate conference committee is currently working out differences between the two budget proposals. The House and Senate proposals each call for about $36 billion of deficit reducing actions, about evenly split between new tax revenues and outlay cuts. The estimated deficits in the two budget plans are both a bit less than $135 billion if CBO economic and technical assumptions are used.

State and Local Government Sector

Real purchases of goods and services by state and local governments rose at a 3.8 percent annual rate in the first quarter, only a little less than the rapid 4.6 percent advance in 1986. Most of the first-quarter growth in outlays was for construction projects, while state and local employment was little changed.

It appears that the state and local sector as a whole incurred a sizable deficit in its operating and capital accounts in the first quarter, the first such shortfall since early 1983. Fiscal problems have been widespread; in order to avoid deficits in fiscal 1987, 28 states are proposing tax hikes while 23 states are expected to cut their general funds budgets in coming months.[1] Even with these adjustments, the general funds surplus is expected to total just $1.6 billion in fiscal 1987, with half of the surplus accruing to New Jersey and California. This deterioration in the surplus brings aggregate balances down to just 0.8 percent of planned expenditures in fiscal 1987, the lowest ratio in ten years.

Prices

Inflation rates have been higher so far this year, reflecting both the rebound in energy prices and a pickup in the prices of goods other than food and energy. In March, both the CPI and the PPI for finished goods rose 0.4 percent. Over the first three months of 1987, the CPI rose at a 6.2 percent annual rate following an increase of 2-1/2 percent in the fourth quarter of 1986; the PPI exhibited a similar acceleration, picking up to a 4.6 percent annual rate of increase in the first quarter of this year.

Energy prices. Much of the recent pickup in the CPI and PPI reflects the rise in crude petroleum prices around the turn of the year in the wake of the December 20th OPEC accord. Boosted by strong increases early in the quarter, the PPI index for consumer energy items surged over the first 3 months of the year while the CPI energy component increased at a 26 percent annual pace. At the retail level in March, the CPI for energy items increased 1 percent. However, the PPI for finished energy goods edged off a bit in March and--with crude prices relatively stable, suppliers' margins firming, and petroleum product stocks near seasonal norms--it appeared that the adjustment of producer and retail energy prices

1. For all but four states, fiscal 1987 ends in June. Of the 28 states considering tax hikes, 14 are raising collections by retaining all or a portion of the "windfall" resulting from Federal tax reform.

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

	Relative Importance Dec. 1986	1986	1986 Q3	1986 Q4	1987 Q1	1987 Feb.	1987 Mar.
			-Annual rate-			-Monthly rate-	
All items[2]	100.0	1.1	2.0	2.5	6.2	.4	.4
Food	16.2	3.8	8.4	4.1	2.5	.3	-.1
Energy	7.4	-19.7	-21.0	-9.9	26.1	1.9	1.0
All items less food and energy	76.4	3.8	3.7	3.7	5.2	.3	.5
Commodities	26.1	1.4	2.6	1.4	5.1	.0	.7
Services	50.3	5.2	4.3	5.1	5.3	.4	.4
Memorandum:							
CPI-W[3]	100.0	.7	1.7	2.2	6.3	.4	.5

1. Changes are from final month of preceding period to final month of period indicated.
2. Official index for all urban consumers.
3. Index for urban wage earners and clerical workers.

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

	Relative Importance Dec. 1986	1986	1986 Q3	1986 Q4	1987 Q1	1987 Feb.	1987 Mar.
			-Annual rate-			-Monthly rate-	
Finished goods	100.0	-2.5	-.4	1.1	4.6	.1	.4
Consumer foods	26.3	2.9	11.2	1.1	-6.9	-.5	.5
Consumer energy	8.6	-39.1	-42.7	-18.4	69.1	4.0	-.2
Other consumer goods	40.6	2.9	2.3	4.1	3.7	-.3	.8
Capital equipment	24.5	2.1	2.0	3.3	.3	-.3	.1
Intermediate materials[2]	95.0	-4.5	-1.5	-1.2	8.0	.5	.4
Exc. energy	82.9	.1	1.5	1.1	3.4	.2	.3
Crude food materials	42.5	-1.7	18.1	-3.8	-10.2	.0	.4
Crude energy	40.9	-29.4	-19.6	-10.4	56.7	2.6	-.9
Other crude materials	16.6	1.6	-24.1	26.0	.2	.0	-.9

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

to the year-end rise in crude oil prices was largely completed by the end of the first quarter.

Food prices. After several months of declines, food prices picked up a bit in the March PPI, reflecting higher prices for fruits and vegetables as well as significant increases for livestock prices in the crude food index. In contrast to the PPI, the CPI for food declined slightly in March, its first monthly decline in the past year. Although an April surge in spot market livestock prices suggests some upward pressures on meat prices in the near term, producers are expected to boost output more rapidly as the year progresses, and futures markets for hogs and cattle point to price declines later this year.

Prices excluding food and energy. Excluding food and energy items, the CPI rose 0.5 percent in March and at more than a 5 percent annual rate over the first three months of this year. The first-quarter acceleration occurred in the goods component, where prices were up at about a 5 percent annual rate, a marked pickup from the 1-1/2 percent increase in 1986. Although sharp hikes in apparel and used car prices accounted for much of this acceleration, more rapid price increases were quite widespread among other consumer goods, and in part, appear associated with higher import prices. Inflation in nonenergy services continued near its 1986 pace of 5-1/4 percent in the first quarter.

Other measures indicate that prices paid by U.S. importers have continued to rise in lagged response to the drop in the exchange value of the dollar. According to the preliminary estimates of the BEA fixed-weighted indexes, prices of non-oil imports were up 6-1/4 percent between the first quarter of 1986 and the first quarter of 1987 after increasing

IMPORT AND DOMESTIC PRICES--SELECTED MEASURES
(Percent changes)

1987	1986	1987
Import Price Measures		
BEA	(Q1 to Q1)	
Non-oil imports (fixed-weight)[1]	2.3	6.3
Capital goods, exc. autos	2.4	9.2
Autos	7.9	9.8
Consumer goods, exc. autos	2.7	6.9
Durable	4.4	8.7
Industrial supplies and materials, exc. petroleum	-4.3	-.9
Domestic Price Measures		
	(Mar. to Mar.)	
CPI		
Commodities less food, energy, and used cars[2]	2.3	3.3
PPI		
Capital equipment	1.7	2.0
Intermediate materials less food and energy	-.2	1.2
Crude materials less food and energy	-2.9	2.7

1. Calculated by Federal Reserve from BEA series. Includes items not listed.
2. Unpublished series.

only 2-1/4 percent over the preceding four quarters. Rapid increases continued over the year for some consumer goods, such as autos and photographic equipment, whose prices had begun to move up in 1985. In addition, sharp increases in the prices of clothing and non-auto capital goods imports have been observed recently.

At the producer level, domestic capital equipment prices have shown little net change so far this year, as declines in motor vehicle prices associated with manufacturers' incentive programs largely offset moderate increases in other categories. At earlier stages of processing, however, prices of domestically-produced intermediate materials other than food and energy have begun to pick up in recent months, rising at a 3.4 percent annual rate during the first quarter. The acceleration reflects a sharp rise in prices of industrial chemicals and some other petroleum-related materials as well as substantial increases in a number of other materials categories.

Commodity prices. After generally declining for more than two years, spot commodity prices began moving higher in the latter part of 1986 and have risen noticeably since March. The depreciation of the dollar and the associated rise in inflation expectations probably have been among the influences pushing commodity prices higher this year, although the timing and extent of price increases have varied considerably according to conditions in specific markets. Since the last Greenbook, striking increases have occurred in the markets for precious metals, and prices also have risen for a number of industrial commodities, livestock, and most other agricultural products. In contrast, oil prices have been relatively stable following the big advance around the turn of the year, although oil

PRICES OF SELECTED SPOT COMMODITIES
(Percent change during period indicated)[1]

Commodity	1983	1984	1985	1986	1987 Year to May 11	1987 Mar. 24* to May 11
			INDUSTRIAL COMMODITIES			
Metals:						
Copper	-7.5	-5.2	5.9	-6.3	12.6	5.5
Steel scrap	61.7	-7.2	-5.6	-13.5	7.5	2.6
Lead	17.0	-11.8	-14.2	47.7	19.3	30.8
Zinc	28.9	-8.2	-15.6	12.6	.5	10.3
Textiles and fibers:						
Cotton	21.1	-17.2	-4.5	.3	10.7	14.9
Burlap	31.1	25.6	-36.2	-10.0	6.9	4.6
Wool	3.2	.4	-14.5	-2.6	42.1	27.4
Miscellaneous materials:						
Hides	46.8	-14.7	28.5	2.5	36.1	20.3
Rubber	34.5	-26.7	-3.6	11.1	8.4	5.2
Tallow	23.0	18.7	-31.0	5.7	-3.4	16.3
			OTHER COMMODITIES			
Precious metals:						
Gold	-17.1	-17.2	5.5	17.9	16.5	10.8
Silver	-20.0	-25.6	-11.0	-9.7	60.0	48.1
Platinum	.7	-25.2	28.7	24.8	32.2	12.7
Forest products:						
Lumber	-1.7	-8.1	-1.3	20.5	1.1	-10.8
Plywood	5.8	1.5	-5.4	-2.1	-4.7	-7.7
Petroleum:						
Crude oil	-6.8	-7.0	-7.1	-29.1	6.6	2.5
Gasoline	-4.1	-17.6	8.4	-35.1	17.7	1.7
Fuel oil	3.4	-14.2	10.7	-42.1	11.8	3.6
Livestock:						
Steers	10.0	.8	-4.9	-6.2	23.1	13.5
Hogs	-11.7	-3.0	-2.5	-2.3	18.1	11.9
Broilers	37.8	-15.4	-1.1	-10.2	22.6	17.8
U.S. farm crops:						
Corn	45.7	-23.5	-7.4	-40.7	28.6	18.6
Wheat	-3.1	-3.0	-8.3	-23.5	23.4	11.3
Soybeans	45.1	-26.8	-11.0	-9.4	16.4	16.4
Other foodstuffs						
Coffee	14.0	-11.0	37.7	-26.3	-23.6	3.9
World sugar	18.0	-56.9	54.8	12.5	29.6	.0
Cocoa beans	42.3	-23.1	16.7	-17.4	5.3	4.9

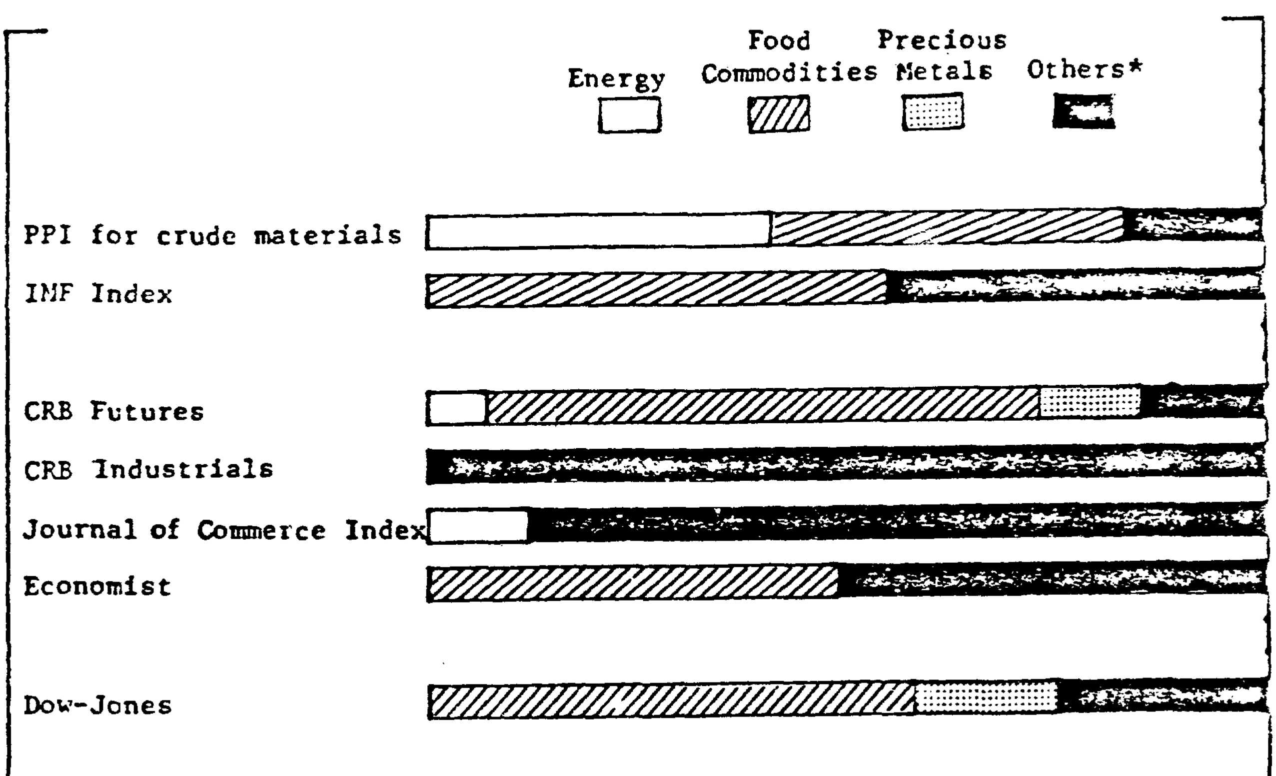
1. Changes are to the last week of the period indicated from the last week of the preceding period.
*Week of the March Greenbook.

PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

	Last Obser- vation	Percent change[2] 1986	1987 Year to Date	1987 Mar. 24 to date
1. PPI for crude materials	March	-9.7	4.7	na
1a. Ex. food and energy	March	1.6	3.1	na
1b. Ex. food and energy, seas. adj.	March	1.6	.0	na
2. IMF commodity index[3]	March	-7.9	2.5	na
2a. Metals	March	-.5	6.1	na
2b. Nonfood agric.	March	8.5	5.3	na
3. Commodity Research Bureau				
3a. Futures prices	May 11	-9.1	13.0	12.4
3b. Industrial spot prices	May 5	5.1	5.7	7.2
4. Journal of Commerce industrials	May 11	-1.4	8.1	6.5
5. Economist (U.S. dollar index)	May 5	-4.7	14.6	6.2
5a. Industrials	May 5	5.8	16.8	5.4
6. Dow-Jones	May 11	-8.9	12.4	11.7

1. Not seasonally adjusted.
2. Change is measured to end of period, from last observation of previous period.
3. Includes items not shown separately.

INDEX WEIGHTS



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

markets may be somewhat unsettled over the next month due to speculation concerning the outcome of OPEC's next scheduled meeting in June.

A variety of popular commodity price indexes also have shown significant increases since late March and for the year to date. These include indexes that focus primarily on industrial materials, such as the Journal of Commerce index, and those that are more heavily-weighted toward agricultural commodities, such as the Commodity Research Bureau's index of futures prices.

Wages and Labor Costs

Despite falling unemployment and the pickup in price inflation in the first quarter, available measures of labor costs as yet show little sign of acceleration in wage inflation. Hourly compensation, as measured by the employment cost index (ECI), which is based on a survey of employers' costs for fringe benefits as well as wages and salaries, rose 3.1 percent in the 12 months ended in March, about the same as the year-over-year changes in the second half of last year. The rate of increase in wages and salaries alone continued to about match the rise in compensation. By industry, the gap between the rates of increase in the manufacturing and non-manufacturing sectors widened in the first quarter, as factory pay increases were relatively small early this year.. By occupation, increases for white-collar workers, at 3-3/4 percent, continued to outpace those of their blue-collar counterparts by a large margin. Separately, the hourly earnings index for production and nonsupervisory workers rose 0.2 percent in April, about the same as its first-quarter average and similar to the trend in blue-collar wages reported in the ECI.

EMPLOYMENT COST INDEX
(Percentage change from year earlier; not seasonally adjusted)

	1985	1986				1987
	Q4	Q1	Q2	Q3	Q4	Q1
Total private nonfarm compensation	3.9	3.8	3.8	3.2	3.2	3.1
By industry:						
Manufacturing	3.3	3.1	3.3	3.0	3.3	2.3
Nonmanufacturing	4.3	4.3	4.0	3.2	3.1	3.4
By occupation:						
White-collar	4.8	4.4	4.2	3.6	3.5	3.7
Blue-collar	3.2	3.1	2.9	2.6	2.7	2.1
Service workers	3.0	3.6	3.4	2.7	3.1	2.9
By bargaining status						
Union	2.6	2.9	2.6	2.3	2.1	1.6
Nonunion	4.6	4.2	4.2	3.5	3.6	3.6
Memo:						
Wages and salaries	4.1	3.9	3.7	3.1	3.1	3.2

n.a.--Not available

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

	1985[1]	1986[1]	1986			1987
			Q2	Q3	Q4	Q1p
Nonfarm business sector:						
Output per hour	.2	.7	.5	-.3	-1.5	1.7
Compensation per hour	3.9	2.6	2.3	2.3	2.7	.1
Unit labor costs	3.7	1.8	1.8	2.6	4.2	-1.6

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

Workers in the unionized sector continue to receive quite small pay increases. As measured by the ECI, these workers saw average compensation adjustments of just 1.6 percent over the past year. Separate data on collective bargaining activity under major contracts (1,000 or more workers) confirm the continuance of small first-year wage adjustments in the first quarter, averaging just 0.9 percent in the first contract year and 1.7 percent annually over the life of the contract. In addition, average deferred wage adjustments negotiated in earlier contracts have continued to shrink. As a result, despite a slight increase in the size of COLA payments owing to recent pickups in the CPI, overall union wage inflation--as measured by the effective wage change series--slowed to a 1.6 percent annual rate in the first quarter of 1987 from a 2-1/4 percent pace in 1986.

Preliminary data for the nonfarm business sector indicate that productivity rose 1.7 percent at an annual rate in the first quarter, reversing a 1-1/2 percent decline in the fourth quarter of 1986: this peculiar pattern of productivity growth largely reflects the erratic movement of hours of self-employed workers over the last two quarters. Reported growth of compensation per hour was inexplicably low last quarter, posting only a 0.1 percent rise--a sharp contrast with the other data on wage trends discussed above.

III-T-1

SELECTED FINANCIAL MARKET QUOTATIONS[1]

(Percent)

	1984 Highs	1985 March highs	1986 June highs	1987 FOMC Mar. 31	1987 May 12	Change from: June highs	Change from: FOMC Mar. 31
Short-term rates							
Federal funds[2]	11.63	8.58	6.90	6.11	6.77	-0.13	0.66
Treasury bills[3]							
3-month	10.67	8.80	6.52	5.61	5.60	-0.92	-0.01
6-month	10.77	9.13	6.57	5.74	5.83	-0.74	0.09
1-year	11.13	9.25	6.62	5.78	6.40	-0.22	0.62
Commercial paper							
1-month	11.42	8.94	6.87	6.39	6.79	-0.08	0.40
3-month	11.35	9.12	6.81	6.31	6.85	0.04	0.54
Large negotiable CDs[3]							
1-month	11.52	8.89	6.88	6.30	6.72	-0.16	0.42
3-month	11.79	9.29	6.91	6.30	6.89	-0.02	0.59
6-month	12.30	9.92	6.97	6.31	7.11	0.14	0.80
Eurodollar deposits[4]							
1-month	11.89	8.89	7.01	6.38	6.88	-0.13	0.50
3-month	12.20	9.58	7.01	6.36	7.11	0.10	0.75
Bank prime rate	13.00	10.50	8.50	7.50	8.00	-0.50	0.50
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	13.49	11.22	7.86	6.79	7.94	0.08	1.15
10-year	13.99	12.02	8.39	7.51	8.55	0.16	1.04
30-year	13.94	11.97	7.93	7.81	8.72	0.79	0.91
Municipal revenue[5] (Bond Buyer index)	11.44	10.25	8.57	7.11	8.20	-0.37	1.09
Corporate--A utility Recently offered	15.30	13.23	9.70	9.05e	9.93e	0.23	0.88
Home mortgage rates[6]							
S&L fixed-rate	14.68	13.29	10.76	9.07	10.52	-0.24	1.45
S&L ARM, 1-yr.	12.31	11.14	8.65	7.53	7.85	-0.80	0.32

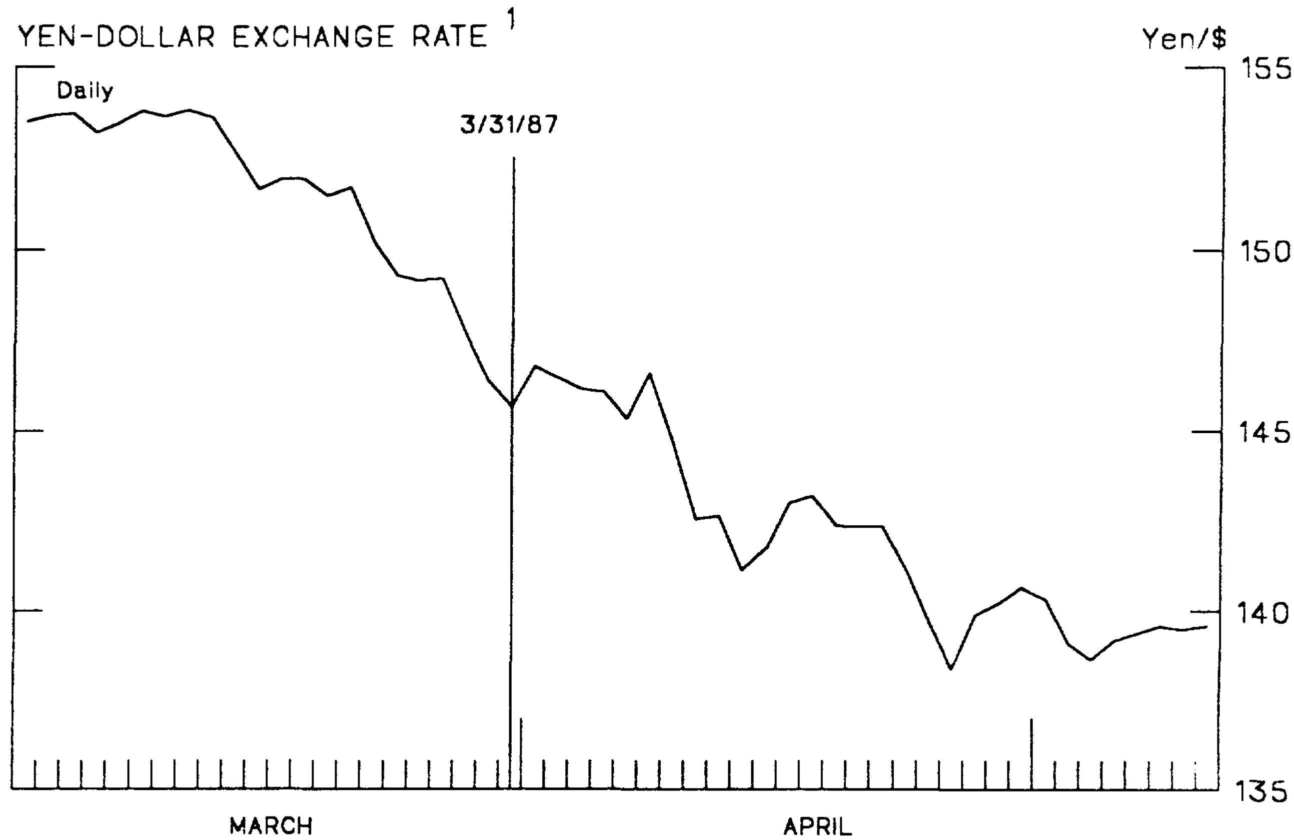
	1984 Lows	1985 March lows	1986 Highs	1987 FOMC Mar. 31	1987 May 12	Percent change from: 1986 highs	Percent change from: FOMC Mar. 31
Stock prices							
Dow-Jones Industrial	1086.57	1247.35	1955.57	2304.69	2322.60	18.77	0.78
NYSE Composite	85.13	102.46	145.75	165.89	165.39	13.48	-0.30
AMEX Composite	187.16	222.28	285.19	332.66	335.01	17.47	0.71
NASDAQ (OTC)	225.30	276.18	411.16	430.05	420.53	2.28	-2.21

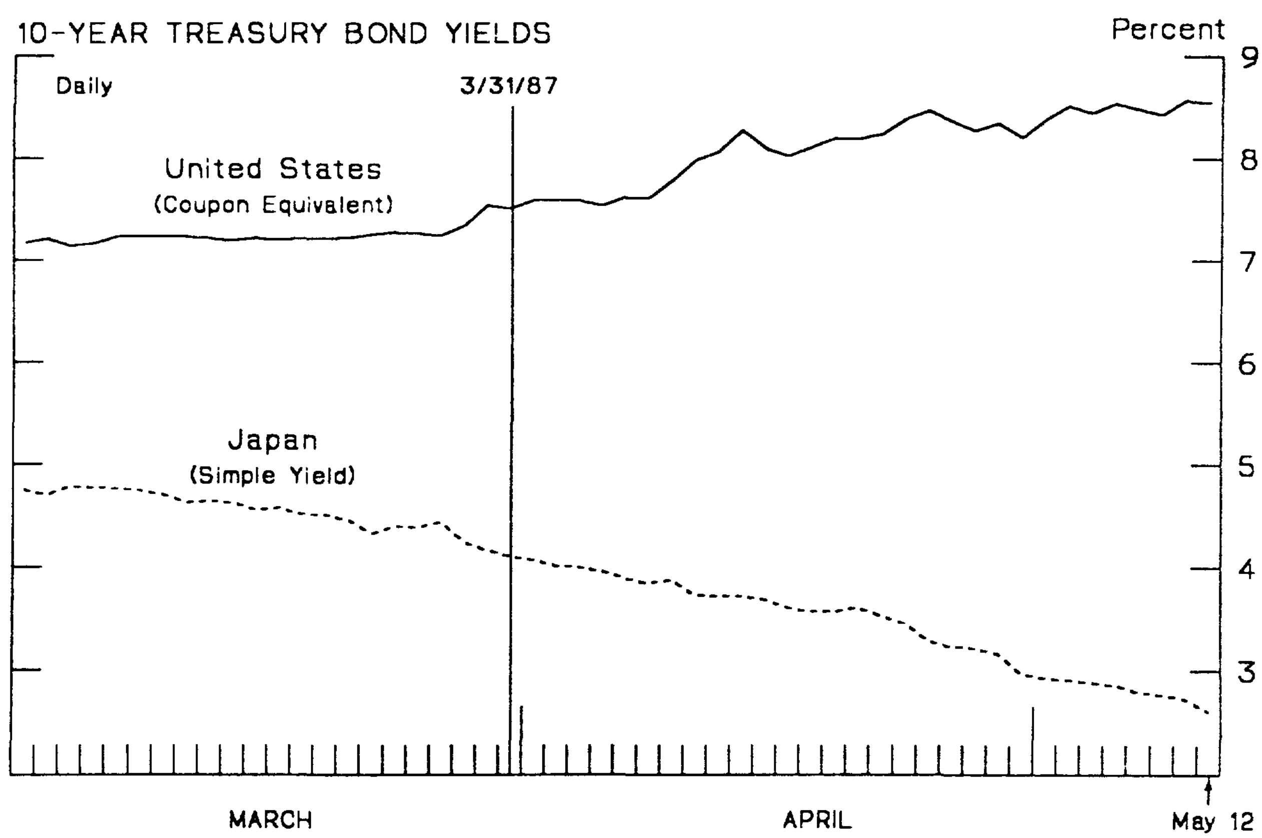
1. One-day quotes except as noted.
2. Averages for two-week reserve maintenance period closest to date shown. Last observation is the average to date for the maintenance period ending May 20, 1987.
3. Secondary market.
4. Averages for statement week closest to date shown.
5. One-day quotes for preceding Thursday.
6. One-day quotes for preceding Friday.

e--estimate

In often volatile markets, most interest rates have moved sharply higher and the yield curve has steepened appreciably since the March 31 FOMC meeting. The runup in rates appears to have been sparked by the announcement of trade sanctions by the United States and concerns about the implications of developments on the external side for domestic inflation and financial pressures. Bond traders tended to take their cue from movements in the foreign exchange value of the dollar, particularly against the yen (see chart on page III-2); in this context, the Chairman's confirmation of "snugging" by the Federal Reserve actually prompted a brief market rally. But more recently, as the yen-dollar ratio stabilized, traders found cause for alarm in a sharp rise in commodity prices.

Longer-term bond rates have risen roughly a percentage point on balance over the intermeeting period, and larger increases have been recorded on home mortgages. Meanwhile, private short-term rates have increased 3/8 to 3/4 of a percentage point—and short-term Treasury bill rates are about unchanged on net, owing to a contraction of available supplies and perhaps some enhanced preference for quality and liquidity. The reduced supplies of Treasury bills in trading accounts added to the difficulties encountered in providing reserves to offset the effects of an unexpectedly large increase in Treasury cash balances after the April tax date; federal funds traded for a time above 7 percent before easing in the last few days to around 6-3/4 percent. Commercial banks raised their prime loan rate twice, in quarter-point increments, but its spread over other short-term rates remained unusually narrow. Broad stock price averages ranged widely and ended the period little changed on balance.





1. Exchange rate data are noon quotes.

The marked weakness in the monetary aggregates that developed after year-end was interrupted in mid-April by a bulge in transaction accounts as individuals prepared to make larger than usual tax payments, presumably related to capital gains realized late last year. M1 growth jumped to an 18 percent annual rate last month; increases in M2 and M3 also were larger, but April growth at a 6 percent rate left these aggregates slightly below their annual target "cones."

Although the jump in interest rates in April led in some instances to a deferral of planned borrowing, debt growth overall appears to have been maintained at around the average pace of the first three months of the year. Rather than cutting back its borrowing, the Treasury has let the massive influx of tax revenues enlarge its cash balance. In other sectors, perhaps the most noteworthy development has been a shift in the composition of financing--away from stocks and bonds and toward bank loans and commercial paper by businesses, and, reportedly, away from fixed-rate and toward adjustable-rate mortgages by households.

Monetary Aggregates and Bank Credit

Financial flows have been significantly distorted in recent weeks by unusually large payments on nonwithheld personal taxes. Many individuals evidently chose to realize capital gains in 1986 before less favorable treatment under tax reform took effect, and nonwithheld tax payments in April were around $20 billion above the year-earlier level. The most striking monetary effect was at the M1 level, as people added to their balances to cover checks mailed to the IRS. Both demand deposits and other checkable deposits accelerated sharply; by late in the month, the tax checks had begun to clear and the M1 buildup started to unwind.

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

	1985:Q4 to 1986:Q4	1986 Q4	1987 Q1	1987 Feb.	1987 Mar.	1987 Apr.pe	Growth from Q4 1986 to Apr. 1987pe
	------ Percentage change at annual rates ------						
1. M1	15.3	17.0	13.0	-0.7	3.3	18	12
2. M2	8.9	9.2	6.4	-0.2	1.8	6	5-1/4
3. M3	8.8	8.0	6.5	1.2	1.9	6	5-1/2
							Levels in billions of dollars Mar. 1987
Selected components							
4. Currency	7.5	8.1	10.1	7.7	3.8	7	187.8
5. Demand deposits	11.6	12.8	2.4	-17.3	-6.4	19	299.1
6. Other checkable deposits	28.6	31.1	29.4	13.0	13.8	25	245.5
7. M2 minus M1[2]	6.9	6.6	4.1	-0.1	1.3	2	2086.4
8. Overnight RPs and Eurodollars, NSA	14.7	21.9	16.6	-57.3	-39.1	-3	77.2
9. General purpose and broker/dealer money market mutual fund shares, NSA	17.3	12.7	6.2	9.8	5.1	1	211.6
10. Commercial banks	6.8	6.4	5.9	-1.1	1.2	-1	906.3
11. Savings deposits, SA, plus MMDAs, NSA[3]	16.0	19.2	13.3	2.9	7.7	3	546.3
12. Small time deposits	-4.2	-10.7	-4.9	-7.2	-8.3	-6	360.0
13. Thrift institutions	4.3	3.1	3.9	5.6	7.6	5	905.8
14. Savings deposits, SA, plus MMDAs, NSA[3]	12.0	15.5	14.5	16.7	15.6	11	420.5
15. Small time deposits	-1.2	-6.4	-4.8	-3.9	0.7	0	485.3
16. M3 minus M2[4]	8.3	3.4	7.1	7.1	2.2	4	698.7
17. Large time deposits	3.0	-2.2	2.7	-4.3	5.1	12	449.9
18. At commercial banks, net[5]	2.8	0.4	9.5	0.8	12.6	28	299.1
19. At thrift institutions	3.3	-7.3	-10.0	-14.0	-9.5	-21	150.8
20. Institution-only money market mutual fund shares, NSA	30.3	16.8	0.9	10.0	2.8	-25	84.9
21. Term RPs, NSA	28.3	26.4	6.4	38.7	-15.9	76	82.1
22. Term Eurodollars, NSA	2.3	5.1	49.4	51.5	20.0	-46	91.4
	-- Average monthly change in billions of dollars --						
MEMORANDA:							
23. Managed liabilities at commercial banks (24+25)	2.0	1.3	8.8	4.9	7.9	0	517.1
24. Large time deposits, gross	0.6	0.5	2.8	0.9	3.0	6	354.1
25. Nondeposit funds	1.4	0.8	6.0	4.0	4.9	-6	163.0
26. Net due to related foreign institutions, NSA	0.6	1.7	4.3	3.0	6.0	-5	-6.1
27. Other[6]	0.8	-1.0	1.7	0.9	-1.0	-1	169.1
28. U.S. government deposits at commercial banks[7]	0.4	1.6	-1.2	1.9	-5.5	3	17.7

1. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis.
2. Nontransactions M2 is seasonally adjusted as a whole.
3. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs increased during March and April 1987 at rates of 27.7 percent and 28 percent, respectively. At thrift institutions, savings deposits excluding MMDAs increased during March and April 1987 at rates of 29.1 percent and 31 percent, respectively.
4. The non-M2 component of M3 is seasonally adjusted as a whole.
5. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
6. 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, loan RPs and other minor items). Data are partially estimated.
7. Consists of Treasury demand deposits and note balances at commercial banks.
pe--preliminary estimate

The step-up in M2 growth in April was due almost entirely to the greater strength in M1, as expansion of its nontransactions component remained quite sluggish. MMDAs ran off sharply over the second half of last month, apparently depressed in part by tax payments. Such accounts, however, have displayed an underlying weakness for several months, and their rates remain a bit below those on savings accounts and only a quarter of a percentage point above the average yield on NOW accounts. Since last autumn, moreover, MMDA rates also have become less attractive relative to those on money market mutual funds.[1] Small time deposits continued to run off in April, as rates paid on them have lagged the recent climb in market rates and remain low relative to yields on more liquid retail deposit instruments. Although money market mutual funds likely also were drawn down to pay taxes, the weakness appeared less than seasonal. In general, liquid M2-type instruments may have been boosted last month by investors shifting away from sometimes chaotic equity and bond markets; anecdotal evidence suggests that flows into equity and bond mutual funds were noticeably weaker in April than earlier this year. Savings deposits continued to show exceptional strength, advancing at a 30 percent pace in April as their rates have remained relatively attractive.

M3 growth picked up last month primarily on the strength of its M2 component. Institution-only MMMFs posted a substantial decline, likely because their yields lagged the upturn in market interest rates, and term Eurodollars reversed the pattern of recent months by

1. See table on page III-6. Perhaps reflecting these unfavorable interest-rate relationships, the number of MMDA accounts at commercial banks is estimated to have declined between November and February, the first time this quarterly series has shown a decline.

AVERAGE RATES PAID ON SELECTED RETAIL ACCOUNTS AT COMMERCIAL BANKS

Date	Account				Memo: Yield paid on taxable MMMFs
	NOW	MMDA	Savings	Six-month CD	
	-- annual effective yield -- (percent)				
1986					
Q1	5.87	6.82	5.64[1]	7.35	7.28
Q2	5.60	6.21	5.57	6.59	6.44
Q3	5.37	5.64	5.46	5.98	5.78
Q4	5.16	5.34	5.39	5.68	5.45
1987					
Jan.	5.07	5.26	5.33	5.64	5.48
Feb.	5.02	5.25	5.30	5.69	5.50
March	5.00	5.24	5.30	5.71	5.53
April[p]	5.00	5.25	5.28	5.90	5.67

p--preliminary.
1. Regulatory ceiling rate of 5.5 percent at an annual effective yield.

registering a large drop. While large time deposits at banks surged, those at thrift institutions contracted for the eighth consecutive month. Some large thrifts reportedly have decreased their reliance on CDs in favor of RPs on mortgage-backed securities as well as commercial paper and medium-term notes issued through their holding companies; such nondeposit instruments do not incur FSLIC insurance assessments. Despite the continuing news of the FSLIC's problems, S&Ls generally seem not to have experienced runs on insured deposits; however, some troubled institutions in the Dallas and San Francisco FHLB districts are said to be having difficulty placing uninsured liabilities and are relying instead on FHLB advances, which have increased nearly $20 billion over the last year. By contrast, commercial banks stepped up CD issuance last month to fund stronger asset growth and to pay back borrowings from their foreign offices.

Bank credit accelerated in April to a 13 percent annual rate of growth, reflecting a pickup in both loans and securities holdings. Holdings of U.S. government securities--which include federally related mortgage-backed securities--rose for the first time since January as heavy purchases by small banks more than offset runoffs from the trading accounts of large banks. Banks also added to their holdings of other securities, with small banks again accounting for the bulk of the increase. Within the other-security category, available data indicate that in recent months large weekly reporting institutions have continued to run off tax-exempt securities but have stepped up their purchases of private, taxable securities such as collateralized mortgage obligations (CMOs).

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

	1986 Q3	1986 Q4	1987 Q1	1987 Feb.	1987 Mar.	1987 Apr.p	Levels in bil. of dollars Aprilp
	Commercial Bank Credit						
1. Total loans and securities at banks	13.4	8.4	7.0	0.9	3.8	12.9	2149.1
2. Securities	31.5	6.0	2.4	5.9	1.9	8.9	513.6
3. U.S. government securities	27.8	20.2	5.7	-4.2	-3.4	5.7	315.8
4. Other securities	36.8	-14.5	-2.8	23.3	9.9	14.1	197.8
5. Total loans	7.8	9.1	8.4	-0.7	4.4	14.3	1635.6
6. Business loans	3.4	18.5	7.6	-0.6	-4.6	4.6	553.8
7. Security loans	14.5	-39.3	-3.1	25.5	-6.2	166.1	43.6
8. Real estate loans	13.6	16.3	17.9	11.8	17.1	16.2	517.9
9. Consumer loans	6.2	5.4	1.9	1.1	1.9	4.6	316.9
10. Other loans	7.9	-20.5	0.0	-39.0	3.0	22.2	203.4
	Short- and Intermediate-Term Business Credit						
11. Business loans net of bankers acceptances	3.4	18.8	8.1	-0.2	-3.1	3.7	548.7
12. Loans at foreign branches[2]	0.0	-22.5	-7.1	60.8	-7.2	14.5	16.7
13. Sum of lines 11 & 12	3.3	17.4	7.7	1.3	-3.0	4.0	565.4
14. Commercial paper issued by nonfinancial firms	7.3	-19.1	-13.0	-42.1	0.0	38.9	79.6
15. Sums of lines 13 & 14	3.8	12.5	5.1	-4.1	-2.6	8.2	645.0
16. Bankers acceptances: U.S. trade related[3,4]	0.0	-16.9	-2.5	-3.8	7.7	n.a.	31.5 (Mar)
17. Line 15 plus bankers acceptances: U.S. trade related	3.6	11.0	4.8	-4.1	-2.0	n.a.	672.2 (Mar)
18. Finance company loans to business[3]	3.4	11.2	14.7	15.1	12.2	n.a.	178.3 (Mar)
19. Total short- and intermediate-term business credit (sum of lines 17 & 18)	3.5	11.0	n.a.	-0.1	0.7	n.a.	850.4 (Mar)

n.a.--not available.
p--preliminary
1. Average of Wednesdays.
2. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
3. Based on average of current and preceding ends of month.
4. Consists of acceptances that finance U.S. imports, U.S. exports and domestic shipment and storage of goods.

The faster loan growth at banks in April reflected a turnaround in business lending as well as an increase in consumer lending and a jump in security loans. The bulge in security loans likely reflected an accumulation of inventories of securities at nonbank dealers. The increase in consumer lending appears to have been concentrated around midmonth, suggesting that a portion of the heavy tax payments was financed with bank borrowings. Real estate lending--which includes takedowns under home equity lines--grew at a 16-1/4 percent rate, only slightly below the strong pace of the first quarter.

Corporate Finance

Total borrowing by nonfinancial firms appears to have slowed in April and shifted toward shorter-term markets. Deteriorating market conditions prompted a plunge in bond and stock offerings by nonfinancial businesses to the lowest level since October 1985 and well under the March high. At the same time, net issuance of commercial paper by such firms surged to $2-1/2 billion in April, reversing virtually all of the decline experienced earlier this year. As a result, the sum of business loans plus commercial paper rose at an 8-1/4 percent rate in April, after contracting in the previous two months.

Credit growth over the first four months of the year continued to be boosted by merger-related demands as stock retirements from acquisitions and share repurchases remained high, albeit below the inflated level of late last year. Increases in interest rates on low-grade bonds lagged those on investment-grade debt during most of April, and "junk bonds" accounted for an unusually large share--about half--of gross public offerings by nonfinancial firms.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly rates, not seasonally adjusted, billions of dollars)

	1986			1987			
	Year	Q3	Q4	Q1P	Feb.P	Mar.P	Apr.P
Corporate securities - total[1]	28.24	23.84	30.57	29.05	26.55	36.45	23.63
Public offerings in U.S.	24.53	20.47	27.53	26.44	23.83	32.34	21.50
Stocks--total[2]	5.15	4.45	5.98	5.31	3.61	9.40	4.00
Nonfinancial	2.51	2.05	2.97	2.55	1.84	5.20	2.90
Utility	.64	.48	.82	.60	.70	.85	.50
Industrial	1.87	1.57	2.15	1.95	1.14	4.35	2.40
Financial	2.64	2.40	3.01	2.76	1.77	4.20	1.10
Bonds--total[1]	19.38	16.02	21.55	21.13	20.22	22.94	17.50
Nonfinancial	9.65	8.21	8.21	8.95	8.46	11.58	5.25
Utility	3.61	3.13	3.69	2.05	3.07	1.52	1.65
Industrial	6.04	5.08	4.52	6.90	5.39	10.06	3.60
Financial	9.72	7.81	13.34	12.18	11.76	11.36	12.25
By quality[3]							
Aaa and Aa	5.70	3.82	7.19	3.32	3.23	2.57	2.00
A and Baa	6.03	5.15	5.16	7.20	6.80	6.89	4.30
Less than Baa	3.41	3.29	2.93	3.06	2.49	5.49	2.80
No rating (or unknown)	.34	.19	.52	.07	.08	.12	.10
Memo items:							
Equity-based bonds[4]	.86	.70	.30	1.37	1.77	1.61	1.70
Mortgage-backed bonds	4.16	3.64	6.74	7.23	7.22	7.70	8.30
Variable-rate notes	1.29	.72	3.33	2.62	1.80	3.47	2.55
Bonds sold abroad - total	3.56	3.28	2.77	2.55	2.63	4.06	1.90
Nonfinancial	1.49	.93	.95	1.02	.78	1.67	.95
Financial	2.07	2.35	1.82	1.53	1.85	2.39	.95
Stocks sold abroad - total	.15	.09	.27	.06	.09	.05	.23
Nonfinancial	.09	.07	.22	.06	.09	.05	.21
Financial	.06	.02	.05	.00	.00	.00	.02

p--preliminary.
1. Securities issued in the private placement market are not included. Total reflects gross proceeds rather than par value of original discount bonds.
2. Includes equity issues associated with debt/equity swaps.
3. Bonds categorized according to Moody's bond ratings or Standard and Poors if unrated by Moody's. Excludes mortgage-backed bonds.
4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.

A decline in share prices over much of April led to a substantial drop in equity issuance from March's record pace. Offerings by financial firms--which tend to be particularly responsive to short-run swings in market conditions--fell to their lowest level since October 1985.

Initial public offerings also declined sharply in April from high first-quarter levels. A few of the IPOs this year have been by firms that previously had been purchased by private investors in leveraged buyouts; these "reverse LBOs" accounted for about 10 percent of IPO volume in the first quarter of 1987.

Treasury and Sponsored Agency Financing

The deficit of the federal government is expected to total only about $2 billion in the second quarter of calendar 1987, the smallest in six years. The more-than-seasonal drop is attributable primarily to the surge in receipts of personal nonwithheld taxes, but the broadening of the business tax base under the new tax code also should increase estimated corporate tax payments in April and June.

The Treasury is expected to borrow $26 billion from the public this quarter, raising its cash balance about $20 billion to a quarter-end level of almost $30 billion.[1] As it did last quarter, the Treasury is maintaining the recent pattern and size of note and bond auctions while paying down large amounts of bills. About $38 billion of new cash is likely to be raised through coupon issues, including $16-1/2 billion in the usual midquarter refunding, about $2 billion more than last quarter. Issuance

1. The staff projection assumes that the debt ceiling will not disrupt Treasury debt management. Under current law, the debt ceiling of $2.3 trillion will drop to $2.1 trillion on May 15; the staff estimates that the Treasury cash balance would be depleted on May 28 in the absence of a legislative remedy or unusual extra financing before May 15.

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

	1987 Q1	1987 Q2[e]	1987 Mar.	1987 Apr.[p]	1987 May[e]
Treasury financing					
Total surplus/deficit(-)	-58.5	-2.2	-28.0	34.1	-37.5
Means of financing deficit:					
Net cash borrowing from the public	27.6	25.7	7.9	9.1	10.0
Marketable borrowings/ repayments(-)	16.7	18.7	2.9	3.3	9.5
Bills	-20.4	-19.6	-10.5	-5.6	-7.7
Coupons	37.1	38.3	13.4	8.9	17.2
Nonmarketable	10.9	6.9	5.0	5.7	.5
Decrease in the cash balance	21.9	-20.3	15.8	-46.7	28.8
Memo: Cash balance at end of period	9.0	29.4	9.0	55.7	26.8
Other[2]	9.1	-3.2	4.3	3.5	-1.4
Federally sponsored credit agencies, net cash borrowing[3]	-2.1	5.2	-.2	2.2	1.7
FHLBs	3.3	5.0	.8	2.4	1.5
FNMA	-1.9	.7	.1	-.5	.5
Farm Credit Banks	-5.1	-1.8	-2.0	-.2	-.7
FHLMC	.5	.6	.2	.2	.2
SLMA	1.1	.7	.7	.3	.2

p--preliminary. e--staff 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.
Note: Details may not add to totals due to rounding.

of non-marketable debt is anticipated to garner about $7 billion this quarter, most of it obtained from SLGS. SLGS issuance had been maintained by strong state and local refinancing activity in March and early April, but has been falling off more recently in response to a reduced pace of refunding issues.

Net borrowing by federally sponsored credit agencies in the second quarter is expected to total $5-1/4 billion, after a paydown of more than $2 billion in the first quarter. The Home Loan Banks, which were the only major issuer in the first quarter, should continue to play a prominent role, owing to robust demand for advances by S&Ls. Fannie Mae is raising a small amount of new funds in the second quarter; its borrowing is expected to remain light over the remainder of the year, as a large proportion of mortgage originations likely will continue to be securitized. The Farm Credit Banks, facing weak demand for loans by creditworthy borrowers, continue to reduce their outstanding debt, with a second-quarter paydown close to the average for 1986. Despite the reduced presence of the FCBs in the market, investor concerns about the solvency of the Farm Credit System have lifted spreads on the most recent 3- and 6-month issues to about 75 basis points over Treasury securities, compared with about 60 basis points at the previous pricing in late March.[1]

1. In late April the Farm Credit System released information that its losses were expected to remain substantial through the end of the decade, and in early May it testified before Congress that it would need $6 billion in federal aid to remain viable.

Municipal Securities Market

Issuance of municipal securities slowed in April in response to escalating interest rates. Gross tax-exempt bond volume is estimated at $6-1/2 billion, less than half the March figure. Around $1-3/4 billion in scheduled long-term offerings, primarily refunding bonds, were postponed or cancelled during April. Reduced long-term issuance was partly offset by a seasonal surge in offerings of short-term tax-exempt debt, mainly tax anticipation notes issued by New York State.

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

	1985	1986	1986	1987			
	Year	Year	Q4	Q1	Feb.	Mar.	Apr.p
Total tax-exempt	19.82	12.87	11.72	10.41	9.27	14.81	9.34
Short-term[1]	1.97	1.65	.72	.44	.53	.46	2.81
Long-term	17.85	11.22	11.00	9.97	8.74	14.35	6.53
Refundings[2]	4.85	4.62	5.43	6.65	6.04	9.65	3.23
New capital	13.00	6.60	5.57	3.32	2.70	4.70	3.30
Total taxable	.03	.33	.48	.32	.21	.66	.05

p--preliminary.
1. Does not include tax-exempt commercial paper.
2. Includes all refunding bonds, not just advance refundings.

Tax-exempt bond yields jumped more than a percentage point in April before easing a bit near month-end. Pressures in the tax-exempt market were exacerbated by investors attempting to reduce holdings at a time when dealer inventories and the forward calendar of new issues were already sizable. Reportedly, long-term bond funds liquidated as much as several billion dollars in tax-exempt bonds during the week ending April 16, as many investors redeemed shares and the funds themselves restructured their assets to secure a larger cash position.

Mortgage Markets

Rates in both the primary and secondary mortgage markets increased in April by more than yields on Treasury bonds of comparable maturity, as investors put a greater premium on liquidity and also reevaluated the prepayment risks inherent in mortgage instruments. The average contract rate on 30-year fixed-rate conventional mortgage commitments increased about 1-1/2 percentage points to 10-1/2 percent in early May, reversing much of the decline that had occurred since mid-1986. Moreover, the rate ceiling on mortgages guaranteed by the Veterans Administration was raised from 8-1/2 percent to 9-1/2 percent in mid-April and then to 10 percent in the past week. In the secondary market, the extent of the rise in rates depended on the yields paid by the underlying mortgages. For example, yields on GNMA mortgage pass-throughs with 8 percent coupons rose more than a percentage point, about in line with those on 10-year Treasuries, while yields on 11 percent GNMAs rose only about 3/8 of a point, as primary mortgage rates moved to levels that will act to discourage prepayment of the underlying higher-coupon mortgages. The initial rate on new commitments for one-year ARMs increased only about 30 basis points during April and early May, pushing the initial rate spread between fixed-rate and adjustable-rate mortgages up almost 115 basis points, to nearly 2-3/4 percentage points.

Preliminary data indicate that growth in mortgage lending in the first quarter of 1987 slowed to a 10 percent annual rate, well below the rapid clip of late last year. Residential mortgage debt increased about 11 percent, down from the last quarter of 1986 but about in line with growth in previous years. The growth in commercial mortgage debt, by contrast, fell well below the pace of recent years; commercial real estate transactions had jumped in the closing months of last year to avoid the adverse impact of tax changes. Mortgage market participants report that the volume of residential lending dropped off considerably in April in response to the backup in interest rates and that by midmonth the share accounted for by ARMs had risen.

GROWTH IN MORTGAGE DEBT OUTSTANDING
BY TYPE OF PROPERTY
(Percent, at annual rates; based on end of period data)

		Residential				
Period	Total	Total	1 - 4 family	Multi-family	Commercial	Farm
1983	11.2	10.7	10.8	10.3	16.5	2.6
1984	12.0	11.5	10.9	15.5	18.3	-.7
1985	11.7	12.0	11.5	15.5	15.1	-5.7
1986-Q1	9.9	9.6	8.9	14.8	14.2	-4.7
Q2	11.2	12.9	12.8	13.8	9.7	-9.5
Q3	13.9	15.6	15.8	14.2	11.7	-5.1
Q4	15.6	15.3	15.3	14.9	21.7	-9.5
1987-Q1P	10.1	10.9	11.5	7.0	10.4	-7.8

p--preliminary.

Gross issuance of CMOs increased in April from an already very strong first-quarter pace. Nearly all of the issuers of fixed-rate CMOs in March and April have opted for REMIC tax treatment. Another relatively new mortgage-backed security that has gained some importance in the secondary market is a stripped mortgage pass-through, where principal and interest payments are stripped and sold as separate discount securities. The price of the principal-only securities falls when interest rates rise, as payments are discounted at a higher rate and the slower expected rate of prepayment pushes principal payments further into the future.

However, the value of the interest-only securities increases as market interest rates rise, owing to the expectation that more interest payments will be received, since the underlying mortgage is likely to remain outstanding for a longer period of time.

Consumer Installment Credit

Consumer installment credit outstanding was virtually unchanged in March after an annual rate of growth of only 2 percent in February. Revolving credit fell, while automobile lending was up only slightly, and all other consumer credit rose at a 2-1/2 percent rate. For the first quarter, installment debt rose at only a 1-1/4 percent rate, well below even the sharply reduced fourth-quarter rate. Excluding auto loans, consumer credit has increased at less than a 1 percent annual rate for two consecutive quarters.

Only five other episodes of sluggish consumer credit growth lasting as long as the recent one have been observed over the past two decades. Four of these occurred during recessions and the other during the "mini-recession" of 1967. Consumer debt behavior in the current episode undoubtedly is reflecting in part the tax law changes that provide greater incentives to finance expenditures by drawing down assets or through mortgage borrowings; in addition, more fundamentally, the deceleration may be a consequence of the magnitude of prior debt accumulation.

In the latest entry into the nascent market of securitized consumer loans, Bank of America sold off a $400 million package of revolving credit loans in March. Previous entries have been mainly auto loans at finance companies and some small test marketings by banks. Estimates put the outstanding volume of issues to date, including private placements, at around $15 billion, about 2 percent of total consumer installment credit outstanding.

CONSUMER INSTALLMENT CREDIT
(Seasonally adjusted)

	Percent change (at annual rate)						Net change (billions of dollars)		Memo: Outstandings (billions of dollars)
			1986	1987	1987		1987		1987
	1985	1986	Q4	Q1p	Feb.r	Mar.p	Feb.r	Mar.p	Mar.p
Total[1]	17.1	10.5	4.6	1.2	2.1	-.1	1.01	-.06	579.5
Total, excluding auto	14.9	5.7	.6	.8	1.5	-.1	.42	-.11	333.4
Selected types									
Auto	20.7	17.8	10.1	1.7	2.9	.2	.59	.05	246.1
Revolving	22.5	10.6	5.5	.6	6.6	-4.5	.75	-.51	135.2
All other	10.6	2.6	-2.7	1.0	-2.0	2.4	-.33	.40	198.3
Selected holders									
Commercial banks	15.7	8.1	4.1	1.1	1.9	1.1	.41	.24	262.3
Finance companies	26.3	20.7	2.9	-1.3	1.8	.4	.21	.04	136.1
Credit unions	9.9	8.0	8.1	2.4	3.2	-2.5	.21	-.17	78.3
Savings institutions[2]	30.0	10.7	9.5	6.2	2.5	-1.9	.12	-.10	58.9

1. Includes items not shown separately.
2. Savings and loans, mutual savings banks, and federal savings banks.
r--revised. p--preliminary.

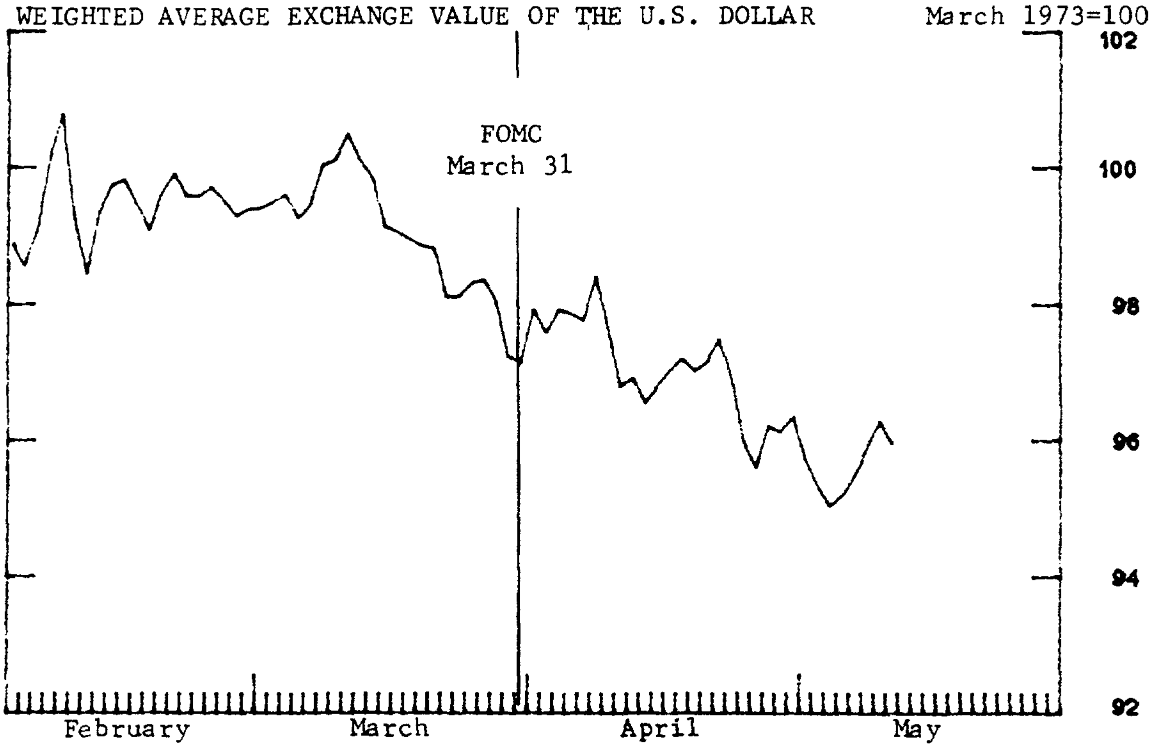
CONSUMER INTEREST RATES
(Annual percentage rate)

			1986		1987		
	1985	1986	Nov.	Dec.	Jan.	Feb.	Mar.
At commercial banks[1]							
New cars (48 mo.)	12.91	11.33	10.58	...	...	10.35	...
Personal (24 mo.)	15.94	14.83	14.19	...	...	14.10	...
Credit cards	18.69	18.26	18.09	...	...	18.10	...
At auto finance cos.[2]							
New cars	11.98	9.44	11.83	11.71	11.65	10.78	10.59
Used cars	17.59	15.95	15.20	15.12	14.62	14.56	14.40

1. Average of "most common" rate charged for specified type and maturity during the first week of the mid-month of each quarter.
2. Average rate for all loans of each type made during the month regardless of maturity.

Foreign Exchange Markets

As shown in the upper panel of the chart, the dollar was quite volatile in the period since the March 31 FOMC meeting, rising intermittently with rumors and official statements suggesting that central banks might act vigorously to defend the dollar, and falling as expectations were not fulfilled. The U.S. currency was bolstered at various times by reports that central banks were making efforts to strengthen their abilities to defend the dollar through expanded swap lines and the issuance of yen-denominated treasury securities. At other times, the dollar was supported by speculation that the Federal Reserve might increase its discount rate, instructions from Prime Minister Nakasone to the Bank of Japan to begin lowering short-term interest rates, reports subsequently confirmed by Chairman Volcker that the Federal Reserve was tightening, and reports of efforts to effect coordinated changes in U.S. and Japanese discount rates. Despite these intermittent gains, however, during the period as a whole, the multilateral, trade-weighted value of the dollar declined about one percent against the currencies of the foreign G-10 countries. The underlying selling pressure on the dollar was fueled by the perception that existing payments imbalances are not sustainable and that the United States, Japan, and West Germany are not prepared to make adjustments in policies, either separately or in concert, that can prevent further dollar depreciation. Market participants were unimpressed with the outcome of the meeting of G-7 finance ministers and central bankers on April 8 and disappointed as expectations of discount-rate changes were



Three-Month Interest Rates

	March 31	May 13	Change (in basis points)
U.S. CDs	6.27	6.89	+62
German Interbank	3.95	3.70	-25
Japanese Gensaki	3.98	3.78	-20
U.K. Interbank	9.88	8.75	-113

not realized. The dollar received further downward impetus from the release of U.S. trade data for February that were worse than expected. New U.S. GNP data lowered market assessments of second-quarter growth in the United States and seemed to limit the scope for tightening by the Fed. Offsetting some of these negative factors, however, was the release of favorable U.S. employment data for April.

Against individual currencies, the dollar fell nearly 4 percent against the yen, more than 3-1/2 percent against sterling, and about a half percent against the mark since the March FOMC meeting. As the yen strengthened against the dollar, the rate on three-month gensaki (repo) transactions fell about 20 basis points from its level at the end of March (see table on three-month interest rates), while the yield on the ten-year benchmark bond fell nearly 150 basis points. In the United Kingdom, interest rates on three-month interbank sterling declined nearly 115 basis points, as the Bank of England twice cut its money-market dealing rates one half percentage point and major U.K. banks made equal cuts in their base lending rates. U.K. base lending rates now stand at 9 percent. Three-month interbank rates in Germany have eased 25 basis points since the end of March, partly in anticipation of a decline in the rate at which the Bundesbank performs its security repurchase transactions. The Bundesbank lowered its repo rate 25 basis points to 3.55 percent near the end of the intermeeting period and also lowered its intervention (treasury-bill selling) rate 30 basis points to 3.2 percent.

. Sterling was boosted by

favorable budget announcements, firming oil prices, and public-opinion polls indicating a growing likelihood of reelection for the incumbent party in the national elections scheduled for June 11.

. The Desk also intervened in this period, buying $1.5 billion against yen and $240 million against deutsche marks. Prior to this period, the last time the Desk sold marks was in May 1984.

The dollar price of gold shot up 12.8 percent to $474.75 in April but fell back later to $459.50, a net increase of 9.1 percent from the March FOMC meeting. The price of silver also climbed sharply, reaching a peak of $11.25 before settling at around $8.50, a net gain of about 35 percent from the beginning of the intermeeting period.

U.S. International Financial Transactions

Foreign official reserves in the United States rose $11 billion in March to bring the official inflow for the first quarter of 1987 to $14.5 billion. (See line 4 of the Summary of U.S. International Transactions table.)

. Partial information for April indicates that official holdings by G-10 countries at FRBNY increased about $5 billion in April,

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The increased foreign official holdings of dollars outside the United States may well be reflected in U.S. data as larger bank-reported inflows from the Euromarkets. The inflow reported by banks in the first quarter was large, more than $11 billion. (See line 1 of the Summary Table.) Most of the inflow was in the form of net borrowing from own foreign offices. (See line 1 of the table of International Banking Data.) Balance sheet data indicate that the inflow was used by

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

	1985 Year	1986 Year	1986 Q2	1986 Q3	1986 Q4	1987 Q1	1987 Jan.	1987 Feb.	1987 Mar.
Private Capital									
Banks									
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	33.6	20.3	-8.4	12.8	6.5	11.5	11.6	-1.1	0.9
Securities									
2. Private securities transactions, net	43.0	67.0	21.5	17.5	15.2	17.1	3.6	5.3	8.0
a) foreign net purchases (+) of U.S. corporate bonds	46.0	53.7	16.0	12.8	12.1	8.6	1.8	2.6	3.9
b) foreign net purchases (+) of U.S. corporate stocks	4.8	18.0	7.0	4.5	0.3	10.2	1.6	3.3	5.3
c) U.S. net purchases (-) of foreign securities	-7.9	-4.6	-1.5	0.3	2.8	-1.7	0.2	-0.7	-1.2
3. Foreign net purchases (+) of U.S. Treasury obligations	20.5	8.5	3.8	0.7	-3.0	5.5	-2.7	8.8	-0.6
Official Capital									
4. Changes in foreign official reserves assets in U.S. (+ = increase)	-2.0	33.0	14.6	14.6	1.6	14.5	2.0	1.5	11.0
a) By area									
G-10 countries (incl. Switz.)	-0.4	30.8	11.2	14.5	1.2	14.6	2.1	2.0	10.6
OPEC	-6.9	-8.1	-2.3	-2.9	-4.7	-2.8	-0.6	-1.8	-0.3
All other countries	5.3	10.3	5.8	3.0	5.0	2.6	0.6	1.3	0.7
b) By type									
U.S. Treasury securities	-0.8	34.5	14.5	12.2	4.6	11.2	1.5	0.4	9.2
Other 1/	-1.1	-1.5	0.1	2.4	-3.0	3.3	0.4	1.1	1.7
5. Changes in U.S. official reserve assets (+ = decrease)	-3.9	0.3	-0.0	0.3	0.1	2.0	0.6	*	1.3
Other transactions (Quarterly data)									
6. U.S. direct investment (-) abroad	-18.8	-31.9	-8.2	-8.0	-5.7	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	17.9	25.6	4.1	5.6	14.4	n.a.	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 2/ 3/	4.4	-9.3	-5.5	-2.2	-2.5	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance 3/	-117.7	-140.6	-34.4	-35.3	-36.8	n.a.	n.a.	n.a.	n.a.
10. Statistical discrepancy 3/	23.0	27.1	12.5	-6.0	10.2	n.a.	n.a.	n.a.	n.a.
MEMO:									
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-124.4	-147.7	-35.7	-37.7	-38.4	n.a.	n.a.	n.a	n.a.

1. Includes deposits in banks, commercial paper, acceptances, borrowing under repurchase agreements, and other securities.
2. Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, and other banking and official transactions not shown elsewhere. In addition, it includes amounts resulting from revisions of the data in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.
3. Includes seasonal adjustment for quarterly data.
* Less than $50 million.
NOTE: Details may not add to total because of rounding.

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1982 Dec.	1983 Dec.	1984 Dec.	1985 Dec.	1986 Sept.	1986 Dec.	1987 Jan.	1987 Feb.	1987 Mar.	1987 Apr. 2/
1. Net Claims of U.S. Banking Offices (excluding IBFS) on Own Foreign Offices and IBFS	49.1	44.5	33.0	28.2	27.5	22.3	18.3	15.3	9.2	14.6
(a) U.S.-chartered banks	40.0	40.5	32.1	32.4	29.9	31.7	26.6	24.7	21.6	24.3
(b) Foreign-chartered banks	9.1	4.0	.9	-4.2	-2.4	-9.4	-8.3	-9.5	-12.3	-9.8
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	15.8	18.6	20.7	18.7	18.1	16.8	15.8	16.5	16.0	16.4
3. Eurodollar Holdings of U.S. Nonbank Residents 1/	112.6	124.3	117.6	112.1	118.5	123.8	130.8	133.5	137.1	134.2

1. Includes term and overnight Eurodollars held by money market mutual funds.
2. Through April 27, 1987.
Note: These data differ in coverage and timing from the overall banking data incorporated in the international transactions accounts. Line 1 is an average of daily data reported to the Federal Reserve by U.S. banking offices. Line 2 is an average of daily data. Line 3 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.

U.S. banking offices to offset a weakness in core deposits rather than to increase lending. In April there was a temporary reversal of the inflow, which may have been associated with tax-related increases in domestic deposits at midmonth.

U.S. nonbank residents added to their Eurodollar holdings in March, bringing the rise for the quarter to $13 billion. (See line 3 of the International Banking table.) Partial data indicate a $3 billion decrease in this position in April.

Foreign purchases of U.S. corporate stocks and bonds remained strong in the first quarter and produced a $19 billion inflow. (See lines 2.a and 2.b of the summary table.) New issues of Eurobonds accounted for a large part of foreign purchases of U.S. corporate bonds. U.S. corporations borrowed more than $4 billion in the Eurobond market in March, raising the total for the first quarter to $7.7 billion. The Eurobond markets accounted for about 12 percent of new bond issues by U.S. corporations in the first quarter, slightly less than the average for 1986. (New Eurobond issues by U.S. corporations declined sharply in April.) Nearly one-third of the borrowing in the first quarter was denominated in foreign currencies, with Japanese yen and Swiss francs accounting for about half of the foreign-currency-denominated volume.

The trend toward larger foreign net purchases of U.S. stocks relative to bonds continued last quarter and raised the total purchases of corporate stocks above that of corporate bonds for the first time in three years. Two possible explanations for the relatively high foreign demand for U.S. stocks have been cited. First, price multiples on U.S. stocks are still low relative to those in many other countries.

Second, the uncertain outlook for the dollar makes stocks attractive relative to bonds in the United States, since a further decline in the dollar could raise interest rates (either through higher inflation or policies aimed at supporting the dollar) thereby producing a capital loss on bonds. At the same time, the impact of higher interest rates on stock prices would be at least partially offset by enhanced competitiveness of U.S. firms resulting from a lower dollar.

Private foreign purchases of U.S. Treasuries brought a capital inflow of $5.5 billion for the first quarter, but this is more than accounted for by net purchases by the IBRD. Excluding the IBRD, foreigners on balance sold over $1.5 billion in Treasuries. Market commentary indicates that the foreign demand for Treasuries was strong at the May refinancing, but it is uncertain how much of this was ultimately for sale to foreign investors. U.S. residents increased their net holdings of foreign securities in February and March, producing a net outflow of $1.7 billion for the first quarter of the year.

The decision by British Petroleum to buy out the $7 billion minority interests of its U.S. affiliate, Standard Oil of Ohio, may swell the U.S. direct investment inflows in 1987. The full amount of the purchase will not appear immediately as a direct investment inflow because of financing arranged in the United States by British Petroleum of North America, but the impact on recorded direct investment inflows is expected to be substantial nonetheless.

Merchandise Trade

For 1987, only very preliminary information is available for the months of January and February. Figures for March will be released May 14, on a similarly preliminary basis, and they will be described in the Greenbook Supplement.[1] These figures are not seasonally adjusted and include insurance and freight charges in the value of imports. (See the table below.) The deficit in February was substantially

MONTHLY TRADE DATA
(Billions of dollars, annual rates)

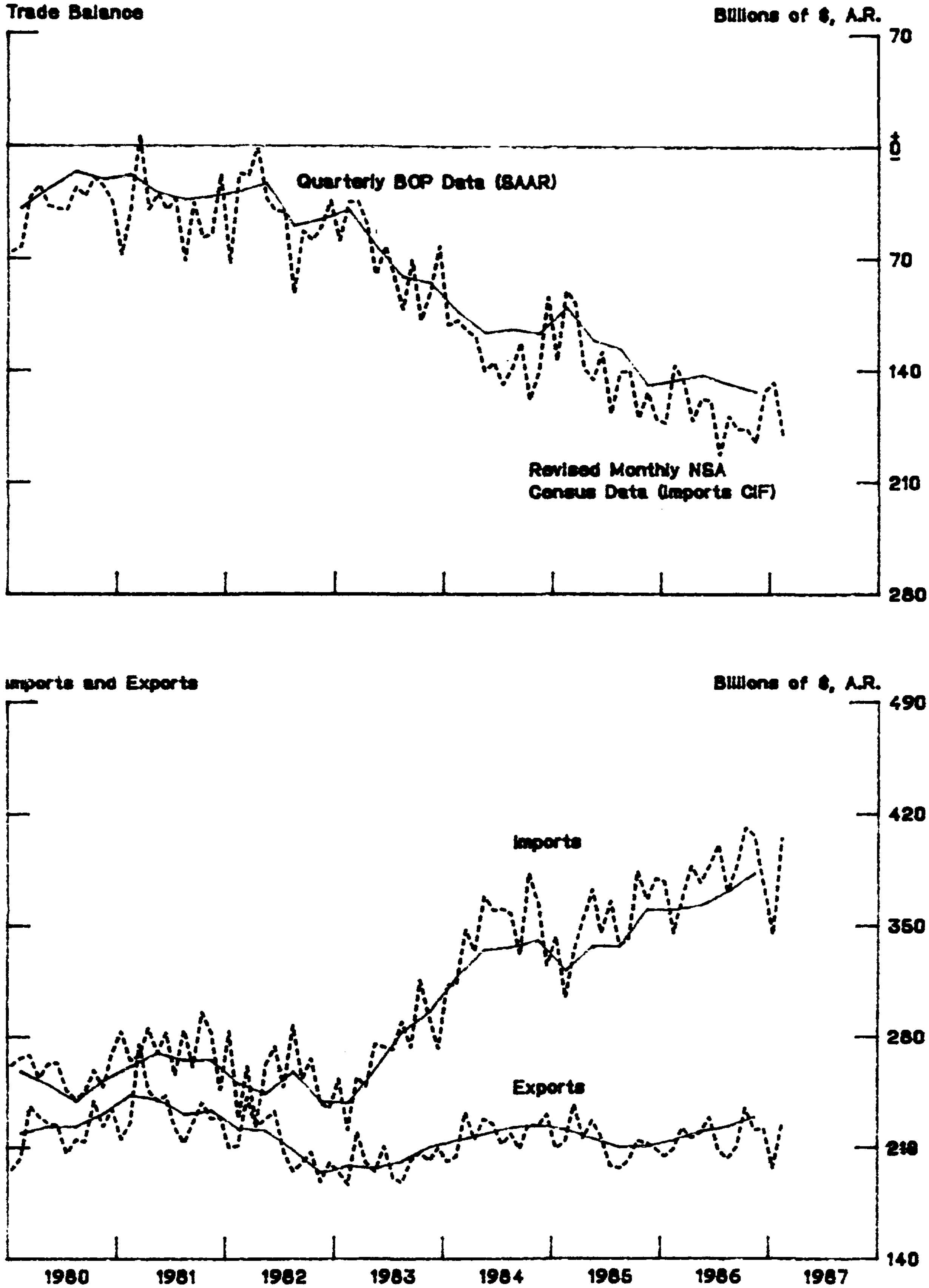
	Revised Census Basis, NSA		
	Exports	Imports CIF	Balance CIF
Months			
1986 - Oct.	235	411	-176
Nov.	221	406	-185
Dec.	222	375	-153
1987 - Jan.	197	344	-147
Feb.	224	405	-181
Mar.	n.a.	n.a.	n.a.
Quarters			
1986 - Q4	226	398	-172
1987 - J/F	210	374	-164

SOURCE: U.S. Department of Commerce, Bureau of the Census.

larger than that recorded in January. However, a review of the recorded deficits for the past five months suggests that monthly data continue to be volatile. (See the chart on the next page.) In fact,

1. Beginning with the release of February data, monthly trade figures are being released 40-45 days following the close of the month, about two weeks later than in the past. By extending the time taken for tabulation, the Commerce Department hopes to reduce much of the problem of the "carry-over" of late import documents. While there was still a serious problem in the February data, the Commerce Department anticipates the "carry-over" of late documents to be much reduced beginning with March data.

U.S. MERCHANDISE TRADE



the figures for February still contained a serious problem of late documents which caused the value of imports to be exaggerated in February and understated in January.[2]

Averaging the monthly figures, the deficit in January/February combined was slightly less than in the fourth quarter of 1986. The average value of both exports and imports was lower than that recorded in the fourth quarter.

The decline in the value of exports in January/February from fourth-quarter levels was spread among several trade categories, particularly agricultural commodities, machinery, aircraft, chemicals and gold. The decrease in the value of imports appears to have been widespread across all major non-oil trade categories.

The value of oil imports in January/February combined was about the same as recorded for the fourth quarter of 1986. A decline in volume in the January/February period by nearly 10 percent was offset by a sharp rise in the price of oil imports of about $2.65 per barrel. The lower volume imported in the first quarter reflects in part a drawdown in U.S. stocks of petroleum from unusually strong fourth-quarter levels; U.S. domestic consumption was essentially unchanged. In February, spot prices in world markets eased somewhat as demand for OPEC oil appeared markedly lower than the OPEC production quota, but prices picked up in early-March as OPEC producers maintained production restraints. From early-March until early-May,

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2. Late documents included in February data but belonging largely in January data amounted to $3.5 billion ($42 billion at an annual rate), 10 percent of the reported February import total. To put this in perspective, the swing in the published trade deficit from January to February that was highlighted in press reports last month was $2.8 billion.

prices of oil in world spot markets changed only marginally, reflecting OPEC's willingness to alter production in order to maintain stable prices.

Data for the full first quarter on a seasonally adjusted basis will be released by the Commerce Department at the end of May. The seasonally adjusted data will compare with the figures in the table below.

U.S. MERCHANDISE TRADE
(Billions of dollars, annual rates)

	Balance-of-payments basis, seasonally adjusted						
	Exports			Imports			
	Total (1)	Ag. (2)	Nonag. (3)	Total (4)	Oil (5)	Non-oil (6)	Balance (7)
Years							
1984	220	38	182	332	57	275	-112
1985	214	30	185	339	51	288	-124
1986	222	27	195	370	34	336	-148
Quarters							
1985-4	211	29	182	360	57	304	-149
1986-1	214	29	186	360	40	320	-146
2	220	25	196	363	31	332	-143
3	223	26	197	372	32	340	-149
4	229	28	201	383	32	351	-154

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

Data for net exports of goods and services included in the GNP figures for 1987-Q1 published last month are very preliminary estimates. They show an improvement in real net exports of $13.8 billion (1982 dollars) from the fourth quarter level. Since those figures were estimated, data have become available for import and export prices (BLS data for 1987-Q1, and unit value index data for January and February from the Census Bureau). Before the next GNP press release, revised value figures for merchandise exports and imports will also be available for the full first quarter. The staff expects that when the data for real net exports are revised, there will be a somewhat smaller improvement from the fourth quarter level than originally estimated.

Prices of Non-oil Imports

Recent data on prices of non-oil imports indicate an upturn in the price of many manufactured goods, particularly capital goods (other than computers) and consumer goods. (See the table below.) During the first quarter of 1987, several product categories which had posted relatively modest changes in the previous quarter registered significant increases. There were large price increases in the major non-electric machinery categories, in the price of auto parts from non-Canadian sources, and in the prices of such consumer goods items as clothing, photo supplies and scientific equipment. This acceleration in import prices suggests that, in aggregate terms, the price competitiveness of domestically produced products has improved somewhat. On the other hand, prices of imported industrial supplies (measured here by unit value indexes for January and February) showed little change from recent weak levels. Also, changes in the prices of imported foods continued to be dominated by swings in the world coffee market (whereas coffee shortages were anticipated during the fourth quarter, Brazil and other producers now have more coffee supplies than the market anticipated or is interested in buying).

SELECTED PRICES OF NON-OIL IMPORTS
(Percent change from previous quarter, AR)

	1986 Q-3	1986 Q-4	1987 Q-1	Change Since 1985-Q1 1/
Capital Goods				
Business Machines 2/	-3.1	-3.1	-3.9	-25.8
Other Capital Goods 3/	11.3	5.2	19.6	22.4
Automotive Products 3/	6.9	9.9	7.6	19.7
Consumer Goods 3/	14.2	1.8	14.1	14.9
Clothing 3/	7.6	3.8	19.7	6.4
Footwear 3/	10.5	3.1	5.6	8.3
Photographic Equipment 3/	11.4	11.8	13.3	35.5
Industrial Supplies 4/	1.0	3.9	-.9	-4.8
Foods, Feeds, Beverages 4/	-13.6	12.9	-10.7	4.1

1/ The exchange value of the dollar peaked in 1985-Q1 (FR index = 156.3). From 1985-Q1 to 1987-Q1 the dollar declined 36 percent on average against G-10 currencies.
2/ Data are deflators constructed by BEA for computers and other business machines.
3/ BLS data; surveyed early in the last month of each quarter.
4/ Unit value indexes (Commerce Department). 1987-Q1 = January/February average.

Developments in the Foreign Industrial Countries

The pace of economic activity in most of the major foreign industrial nations continued to be sluggish in the first quarter of 1987. Using the latest available data, the average three-month index of industrial production was below year-ago levels in Germany and was little changed in Japan, Canada, and France. In contrast, industrial production has risen fairly strongly in Italy and the United Kingdom since last year. Inflation remained low abroad. However, deflation slowed in Japan and Germany, partially as a result of higher oil prices, and inflation rose slightly in France. Trade and current account surpluses have continued to be very large in Japan and Germany, although export and import volumes have adjusted somewhat to the strengthening of the Japanese yen and the German mark over the past two years. The United Kingdom and Canada have experienced upturns in their external balances while France and Italy have recently recorded trade balance deteriorations.

Individual Country Notes. In Japan, indicators of real economic activity have been mixed in recent months. Industrial production rose by 1.4 percent (s.a.) in the first quarter following declines of about 0.5 percent in both the third and fourth quarters of 1986. Retail sales rose 4.5 percent (s.a.) in January but fell 1.5 percent in February. New housing starts have followed a similar path, rising 3.1 percent in January but declining 1.7 percent in February. The unemployment rate was 2.9 percent in March, down from the record rate of 3.0 percent in January. Prices have risen little this year. The Tokyo consumer price index was 0.5 percent below its year-earlier level in the first quarter of 1987 but in April increased to a level 0.3 percent above April 1986. The all-commodities index of wholesale

TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES 1/
(Billions of U.S. dollars, seasonally adjusted except where otherwise noted)

	1985	1986	1985 Q4	1986 Q1	1986 Q2	1986 Q3	1986 Q4	1987 Q1	1987 Jan.	1987 Feb.	1987 Mar.	1987 Apr.
<u>Canada</u>												
Trade	12.8	7.3	2.9	1.8	2.0	1.6	2.0	2.2	.5	1.0	.8	n.a.
Current account	-.4	-6.5	-.7	-2.0	-1.4	-1.4	-1.6	n.a.	*	*	*	*
<u>France</u>												
Trade	-2.6	.1	-.4	.4	-.8	.0	.4	-1.0	-.4	-.1	-.5	n.a.
Current account	.1	3.7	.6	1.1	.3	1.2	1.1	n.a.	*	*	*	*
<u>Germany</u>												
Trade (NSA)	25.4	52.3	9.1	9.5	12.5	14.1	16.2	15.1	3.9	5.7	5.5	n.a.
Current account (NSA)	13.9	36.4	7.0	6.9	8.3	8.1	13.2	10.9	2.6	3.6	4.8	n.a.
<u>Italy</u>												
Trade	-12.0	-2.1	-3.3	-2.4	-.3	.8	-.2	-1.6	-.5	-1.0	-.2	n.a.
Current account (NSA)	-4.0	5.4	-.9	-3.4	1.2	5.0	2.6	n.a.	*	*	*	*
<u>Japan</u>												
Trade	46.1	82.5	14.8	15.5	20.3	24.0	22.6	23.6	8.4	8.2	6.9	7.1
Current account 2/	49.2	85.7	15.1	15.9	21.6	23.8	24.4	24.5	8.8	8.4	7.3	n.a.
<u>United Kingdom</u>												
Trade	-2.6	-12.7	-.4	-2.1	-2.4	-4.5	-3.8	-1.8	-.8	-.4	-.7	n.a.
Current account	3.9	-1.6	.7	.6	.2	-1.4	-1.1	1.0	.1	.6	.3	n.a.
<u>United States</u>												
Trade 2/	-124.4	-147.7	-37.4	-36.5	-35.7	-37.2	-38.4	n.a.	*	*	*	*
Current account	-117.7	-140.6	-33.7	-34.0	-34.4	-35.3	-36.8	n.a.	*	*	*	*

1. The current account includes goods, services, and private and official transfers. Asterisk indicates that monthly data are not available.
2. Annual data are subject to revisions and therefore may not be consistent with quarterly and/or monthly data.

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period) 1/

	Q4/Q4 1985	Q4/Q4 1986	1985 Q4	1986 Q1	1986 Q2	1986 Q3	1986 Q4	1987 Q1	1987 Jan.	1987 Feb.	1987 Mar.	1987 Apr.	Latest 3 months from year ago
Canada													
CPI	4.2	4.3	.9	1.2	.8	1.2	1.0	n.a.	.2	.4	n.a.	n.a.	4.0
WPI	2.5	.3	.8	.9	-1.5	.2	.7	.3	.1	.2	.2	n.a.	-.4
France													
CPI	4.8	2.1	.6	.1	.7	.6	.7	1.2	.9	.2	.1	n.a.	3.2
WPI	1.9	-3.3	-1.4	-.7	-1.4	-.7	-.5	n.a.	*	*	*	*	-3.3
Germany													
CPI	1.8	-1.0	.3	.0	-.3	-.5	-.3	.6	.4	.1	.0	.2	-.2
WPI	-1.1	-9.0	-.9	-2.1	-2.6	-2.9	-1.6	-.2	.8	-.4	.0	.1	-6.2
Italy													
CPI	8.6	4.7	2.2	1.8	1.1	.6	1.2	1.3	.6	.4	.4	.3	4.2
WPI	5.9	-2.4	.9	-.5	-1.8	-.8	.7	n.a.	1.1	.2	n.a.	n.a.	-1.4
Japan													
CPI	2.0	.1	.3	.3	.3	-.5	.0	-.3	-.2	-.1	.4	.9	-.2
WPI	-3.7	-10.5	-2.4	-2.4	-4.2	-2.8	-1.5	-.5	-.6	-.1	.2	n.a.	-8.7
United Kingdom													
CPI	5.5	3.4	.5	.7	1.3	.1	1.3	1.2	.4	.4	.2	n.a.	3.9
WPI	5.2	4.2	.9	1.4	1.6	.4	.7	1.3	.7	.3	.3	.5	3.8
United States													
CPI (SA)	3.5	1.3	1.0	.4	-.3	.6	.7	1.3	.7	.4	.4	n.a.	2.2
WPI (SA)	1.4	-1.8	.8	-1.2	-1.2	-.1	.6	.8	.6	.1	.4	n.a.	.1

1. Asterisk indicates that monthly data are not available.

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period, seasonally adjusted) 1/

	Q4/Q4 1985	Q4/Q4 1986	1986 Q2	1986 Q3	1986 Q4	1987 Q1	1986 Nov.	1986 Dec.	1987 Jan.	1987 Feb.	1987 Mar.	Latest 3 months from year ago 2/
Canada												
GDP	3.9	1.6	.7	.2	.1	n.a.	*	*	*	*	*	1.6
IP	5.2	-1.4	-.9	-1.2	.9	n.a.	-.3	1.9	.6	.6	n.a.	-.4
France												
GNP	1.8	2.4	1.4	.5	.5	n.a.	*	*	*	*	*	2.4
IP	2.0	-.3	1.3	1.3	-1.3	n.a.	-1.9	.0	-2.0	3.0	n.a.	.3
Germany												
GNP	2.2	2.4	2.6	.7	-.1	n.a.	*	*	*	*	*	2.4
IP	3.3	.6	1.4	.7	-.8	-3.1	-.8	-.7	-3.4	3.2	-3.2	-1.9
Italy												
GNP	2.1	2.2	2.7	.0	.0	n.a.	*	*	*	*	*	2.2
IP	1.0	3.2	1.5	-3.3	2.2	n.a.	2.4	-2.8	.0	4.2	n.a.	3.1
Japan												
GNP	4.2	2.0	.9	.7	.8	n.a.	*	*	*	*	*	2.0
IP	.9	-.7	.2	-.5	-.6	1.4	-1.7	3.6	-.5	-.2	.7	.4
United Kingdom												
GNP	2.5	3.3	.4	.8	.7	n.a.	*	*	*	*	*	3.3
IP	4.5	2.3	.8	.8	.1	n.a.	.2	-.6	.3	1.6	n.a.	2.7
United States												
GNP	2.9	2.0	.2	.7	.3	1.1	*	*	*	*	*	2.2
IP	1.8	1.1	-.5	.5	.8	.6	.6	.6	-.2	.5	-.3	1.4

1. Asterisk indicates that monthly data are not available.
2. For quarterly data, latest quarter from year ago.

prices declined in March to 6.8 percent below its level of a year ago, while import prices dropped 16.2 percent over the same period. The decline in wholesale prices has ceased in recent months owing to higher costs of oil.

Japan's trade surplus (s.a.) declined in February and March but rose slightly in April. For the first four months of 1987, the cumulative value of the trade balance was $92.2 billion (s.a.a.r.) compared with $82.5 billion for all of last year. Export volume (n.s.a.) continued to decline to a first-quarter level that was 0.2 percent below a year ago while import volume (n.s.a.) rose 8.0 percent in the first quarter relative to its year-earlier level.

In the face of strong opposition to the sales tax portion of the tax reform package, the Liberal Democratic Party (LDP) has agreed to allow a parliamentary committee to debate the issue and decide whether to adopt, modify, or abandon the sales tax. Without this tax, the overall tax reform package would be stimulative. The LDP has also proposed a demand stimulus package with a record supplementary budget of at least 5 trillion yen ($36 billion) and has announced that at least 80 percent of already scheduled public works expenditure will be contracted in the first half of FY 1987 that started April 1. Growth of M2+CDs remained rapid. In March, this aggregate rose 9.3 percent (s.a.a.r.), bringing the first quarter increase to 8.8 percent above the level of the first quarter of 1986.

German economic activity remained weak in the first quarter of 1987. Industrial production fell by 3.2 percent (s.a.) in March, reversing February's increase and dropping to a level more than 2 percent below March 1986. Retail sales volume rose 1 percent (n.s.a.) from March 1986 to March 1987, a decrease from the 3 percent annual growth rate for the year ending in February. The average volume of new orders in February and March rose 1 percent from the previous two-month period, with domestic orders up 1.5 percent and foreign demand falling by 1 percent. The unemployment rate increased slightly to 8.9 percent (s.a.) in March and remained there in April. In April, consumer prices reached a level 0.1 percent above April 1986, representing the first time the 12-month inflation rate has been positive since March 1986. Wholesale prices were up slightly (n.s.a.) in April, reaching a level 5.6 percent below April 1986.

The metal workers union recently agreed to terms for a three-year contract, averting a major strike. The package reduces the work week to 37 hours by 1989 and includes average annual wage gains of around 4.1 percent. The increase in wages for 1987 will be 3.7 percent applied retroactively to April 1.

The trade balance (n.s.a.) for the first quarter of 1987 was $15.1 billion compared with $9.5 billion in the same period of 1986. The first-quarter current account (n.s.a.) increased by 58 percent between 1986 and 1987. However, evidence on trade volumes indicates that some adjustment is taking place in response to the strengthening of the mark. In January, export volume (s.a.) decreased by 4.9 percent to a level 6.8 percent below January 1986, but import volume (s.a.) also fell by 2.3 percent to a level only 0.6 percent above a year ago.

The German money supply continued to increase at a rapid pace; through March, central bank money grew by 7.3 percent (s.a.a.r.) from the fourth quarter of 1986, above the 3 to 6 percent target range for 1987. On May 12 the rate on repurchase agreements the Bundesbank enters into declined from 3.8 to 3.55 percent.

Indicators of real economic activity were mixed in France, Canada, and Italy in the last quarter of 1986 and the first quarter of 1987. On average, industrial production rose during the first two months of the year in all of these countries after having declined or stagnated in the last half of 1986. Recent revisions of Italian GDP data provide further evidence of stagnation in the second half of 1986; real GDP remained flat in the third and fourth quarters. French real GDP grew by 2 percent (s.a.a.r.) in both the third and fourth quarters of 1986 and averaged 2.3 percent for the year. Growth was spurred by domestic demand, especially business fixed capital formation, while the trade balance contributed negatively. In March, the unemployment rate hit a new record high of 11.1 percent (s.a.) in France while it fell to 9.3 percent (s.a.) in Canada in April. In contrast, recent data suggest strong real activity in the United Kingdom. Industrial production (s.a.) was 2.4 percent above its year-earlier level in both February and March, and unemployment declined for the eighth consecutive month to 11 percent (s.a.).

External balances improved in Canada and the United Kingdom, while France suffered a significant deterioration. The Canadian trade surplus was $8.8 billion (s.a.a.r.) through March compared with $7.3 billion for 1986. Although the United Kingdom's trade deficit widened in March, the average deficit for the first quarter was significantly below that of the last two quarters of 1986. In contrast, the French cumulative trade balance deficit was $4 billion (s.a.a.r.) in the first quarter of 1987 compared with a small surplus for 1986. Most of this deterioration was due to a considerable worsening of the industrial trade balance stemming from increased competition from abroad.

In financial markets, major banks in Canada raised their prime-lending rates 50 basis points to 9-1/4 percent on April 23rd as the Canadian dollar declined below 75 cents.

An interim Italian government led by Christian Democrat Amintore Fanfani lasted 10 days and then fell; early Parliamentary elections will be held in mid-June. In the United Kingdom, the government has called a general election for June 11.

Economic Situation in Major Developing Countries

Brazil's new Finance Minister Bresser Pereira devalued the cruzado by 7-1/2 percent effective May 1 and announced a reduced growth target for 1987 and other goals conducive to a reconciliation with its foreign bank creditors, and perhaps with the IMF. In late April, Mexico drew the first tranche of its $7.7 billion new commercial bank money package and repaid the banks the $500 million bridge loan that was arranged last December. Argentina and the Philippines recently completed agreements with commercial banks to reschedule approximately $30 billion and $13 billion of foreign debt, respectively. Argentina will also receive $1.95 billion in new money. However, the Philippine government has indicated it may reopen loan negotiations to obtain the lower interest rate, 13/16 percent over LIBOR, that Argentina received in April and Mexico received last year. Chile reached agreement with the Paris Club in early April to reschedule 85 percent of bilateral credits maturing in 1987 and 1988. In mid-April, the Venezuelan government announced regulations implementing a debt-equity conversion program that allows conversions in a wide range of sectors.

Individual Country Notes. Brazil's Finance Minister Funaro resigned in late April reflecting growing domestic dissatisfaction over the relapse to high inflation (14.4 percent in March and an estimated 19.5 percent in April), declining real wages, and--of notable concern to the business community--continuing weakness of exports (with a first-quarter trade surplus of only $0.6 billion, compared with $2.7 billion a year earlier). Newly appointed Finance Minister Bresser Pereira announced a 7-1/2 percent devaluation of the exchange rate and articulated several reassuring economic policy goals--a cooling of GDP growth to 3 or 3-1/2 percent in 1987, maintenance of positive real interest rates, restoration of a $9 billion average trade surplus in the medium term, and correction of public sector prices and other measures to reduce the fiscal deficit. While Bresser's appointment should be viewed as a positive development, it remains to be seen how successful he will be in implementing the policies he is recommending. President Sarney has been hesitant to take unpopular economic measures because the Brazilian Congress could shorten his presidential term. When negotiations with commercial banks begin, Bresser will seek new money--with a total of $4 billion per year from official and private sources still being cited as Brazil's requirement over the next several years. Bresser's economic team (which includes a new Central Bank President Fernando Milliet) is now preparing an economic plan--expected to deal with wages, prices, fiscal policy, and negotiation of the external debt--for presentation to President Sarrey by early June. An IMF mission arrived in Brazil in late April (the first IMF visit since collapse of the Cruzado Plan last fall) to survey economic conditions and to prepare a report for the Paris Club creditors.

Mexico drew the first tranche of $3.5 billion under the commercial bank $7.7 billion new money financing on April 30, after commitments exceeded 100 percent, and used $500 million to repay the bridge loan from 54 banks that had been outstanding since last December. The next $500 million tranche is contingent upon Mexico having made the third drawing under its IMF stand-by arrangement. This drawing is expected in late May after the IMF Board approves a program review and specific quantitative performance criteria for 1987.

Interest rates, which began to decline in March after five months of near stability, continued downward in April, but Treasury bills and most time deposits still have positive real interest rates despite some upsurge in inflation. Consumer prices rose by 6.6 percent in March and by 8.7 percent in April, when they were 121 percent higher than a year earlier. The peso price of the dollar rose by only 5.6 percent in April. Since the end of November 1986, the peso has appreciated in real terms against the dollar by 3.4 percent. However, exports continued to rise in March, bringing first-quarter exports to $5.2 billion, 23 percent higher than a year earlier. First-quarter imports were 12 percent lower than a year earlier.

In April, Argentina and its bank advisory committee agreed on a $30 billion debt rescheduling and $1.95 billion in new money. Rescheduled debt will have a tenor of 19 years with 7 years of grace and interest at 13/16 percentage points above LIBOR. The new money package consists of a $1.55 billion term loan that has a tenor of 12 years with 5 years of grace at an interest rate of 7/8 percentage points above LIBOR and a trade credit and deposit facility of $400 million carrying a spread of 13/16 percentage points over LIBOR.

The Argentine agreement with the commercial banks includes some innovative measures aimed at providing a menu of options for banks participating in new financing and at speeding the process of attaining a "critical mass" of new money commitments to the bank package. These measures include: (1) an "alternative participation instrument" or "exit bond" that will enable banks to exchange up to $5 million of their outstanding loans for a 25-year bearer bond (including 12 years of grace) that pays a fixed 4 percent annual interest rate (amounts subscribed to this bond will be excluded from the base debt from which new money contributions by individual banks are calculated); (2) a "new money instrument" that will be a bearer bond with a maximum subscription of $1 million per bank and will have the same terms as other new money under the 1987 term loan; and (3) an early participation fee of a flat 3/8 percent of the new money contribution for lenders that commit their share of new financing on or before June 17, 1987, and a fee of 1/8 percent for lenders that commit to the new money agreement on or before July 17, 1987. Argentina will seek to reschedule debt maturing in 1986-88 owed to official creditors in talks with the Paris Club in late May.

After rising at a 7.5 percent average monthly rate during the first quarter of 1987, consumer prices in Argentina rose about 3.4 percent in April.

On March 27, the Philippine government reached agreement with its bank creditors to reschedule $13.2 billion in outstanding debt, including $3 billion in trade credits. Repayment is to be made over 17 years, with 7-1/2 years of grace. The spread over LIBOR will be 7/8 percentage points, except for the trade credits with a spread of 3/4 percentage points, and will increase to 1 percentage point if the Philippine government fails to maintain the amortization schedule from 1990 on, or to make certain prepayments during 1987-89. The agreement gives the creditor banks the option of receiving a portion of the interest payments in Philippine Investment Notes (PINs), which are freely transferable, foreign-currency-denominated, non-interest-bearing, six-year notes that can be used to make approved equity investments in the Philippines. In mid-April, the Philippine authorities stated their intention to request a reopening of loan negotiations so that the Philippines could obtain the slightly lower spread granted to Argentina in April. To date, however, there has been no formal request from the Philippine authorities for a resumption of negotiations. On April 20, the IMF completed a favorable First Review of the Philippines' October 1986 IMF stand-by arrangement.

In early April, Chile reached agreement with the Paris Club to reschedule 85 percent of amortization of official debt due in 1987 and 1988, yielding a reduction of $140 million in debt service payments during 1987-88. With the restructuring of its bank debt (at 1 to 1-1/8 percent over LIBOR) in February, this completes the 1987-88 financing package for Chile.

In mid-April, the Venezuelan government announced regulations implementing a debt-equity conversion program. The program allows conversions in a wide range of sectors and establishes a commission with substantial discretionary power over the terms and conditions of the conversion.

Wage and price pressures are growing in Venezuela following the December devaluation of the main controlled exchange rate from 7.5 to 14.5 bolivars per dollar. (On May 12, the free market exchange rate was 26.80 compared to 24.23 on April 27.) On April 27, the government announced a general wage increase of 20-30 percent, with most workers receiving 25 percent increases. At the same time, the government froze prices on 70 basic commodities and prohibited layoffs for four months. The measures appear to be a response to rising inflation and labor unrest. Inflation, which was 12 percent in 1986, rose at a 28 percent annual rate during the first quarter of 1987.