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Confidential (FR) Class III FOMC

March 20, 1991

RECENT DEVELOPMENTS

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

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DOMESTIC NONFINANCIAL DEVELOPMENTS

Signals on the economy have become more mixed in recent weeks. Data on employment and industrial output through February point clearly to a further significant decline in real gross national product this quarter, but there are hints that a bottom to the recession is near--the end of the Gulf war has bolstered sentiment, consumer spending evidently turned up in February, and housing activity has revived as well.

Wage increases seem to be abating, but news on the price front has been ambiguous. In the producer and consumer price indexes, energy prices have dropped sharply, but other prices rose faster in January and February than in the preceding several months.

Labor Markets

Labor market conditions continued to deteriorate in February. Private payroll employment fell 208,000, and the unemployment rate jumped 0.3 percentage point to 6.5 percent. Although aggregate hours of production or nonsupervisory workers rose 0.3 percent in February because of a rebound in the average workweek, the advance in aggregate hours retraced only part of the sharp January decline; as a result, the February reading was about 1 percent below its fourth-quarter average.

The decline in employment in February was widespread across industries. Manufacturing employment dropped 127,000, with the largest losses in durable goods industries. Employers have eliminated more than 1 million factory jobs since their number peaked in January 1989, with about 650,000 of the jobs lost since last July. Employment in the construction industry edged up in February, after falling especially sharply in January, when the weather

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

	1989	1990	1990 Q2	1990 Q3	1990 Q4	1990 Dec.	1991 Jan.	1991 Feb.
	-----Average Monthly Changes-----							
Nonfarm payroll employment[2]	193	52	236	-72	-203	-161	-233	-184
Private	162	20	106	8	-202	-139	-210	-208
Manufacturing	-16	-49	-23	-43	-109	-51	-79	-127
Durable	-16	-39	-20	-44	-79	-34	-58	-117
Nondurable	-0	-11	-3	1	30	-17	-21	-10
Construction	5	-19	-14	-31	-64	-46	-150	27
Transportation, public utilities	16	9	13	8	4	16	2	-36
Wholesale trade	15	-1	7	-4	-13	-12	-34	-23
Retail trade	32	-3	19	7	-58	-69	17	-69
Finance, insurance, real estate	9	4	8	2	-7	-4	-9	-10
Services	100	79	92	72	44	25	46	28
Health services	41	51	53	47	53	60	40	32
Total government	30	31	129	-80	-1	-22	-23	24
Private nonfarm production workers	134	7	94	-25	-186	-147	-215	-199
Manufacturing production workers	-17	-42	-18	-36	-91	-45	-61	-101
Total employment[3]	148	-32	1	-118	-103	188	-652	-4
Nonagricultural	148	-38	-27	-90	-123	120	-562	-63

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households.

UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; seasonally adjusted)

	1989	1990	1990 Q2	1990 Q3	1990 Q4	1990 Dec.	1991 Jan.	1991 Feb.
Civilian, 16 years and older	5.3	5.5	5.3	5.6	5.9	6.1	6.2	6.5
Teenagers	15.0	15.5	15.0	16.0	16.4	16.6	18.2	17.1
20-24 years old	8.6	8.8	8.7	8.9	9.2	9.2	9.5	10.5
Men, 25 years and older	3.9	4.4	4.1	4.5	4.8	5.1	5.1	5.6
Women, 25 years and older	4.2	4.3	4.2	4.3	4.6	4.8	4.9	4.9
Labor force participation rate	66.4	66.4	66.5	66.3	66.2	66.3	66.0	66.1
Memo:								
Total national unemployment rate[1]	5.2	5.4	5.2	5.5	5.8	6.0	6.1	6.4

1. Includes resident armed forces as employed.

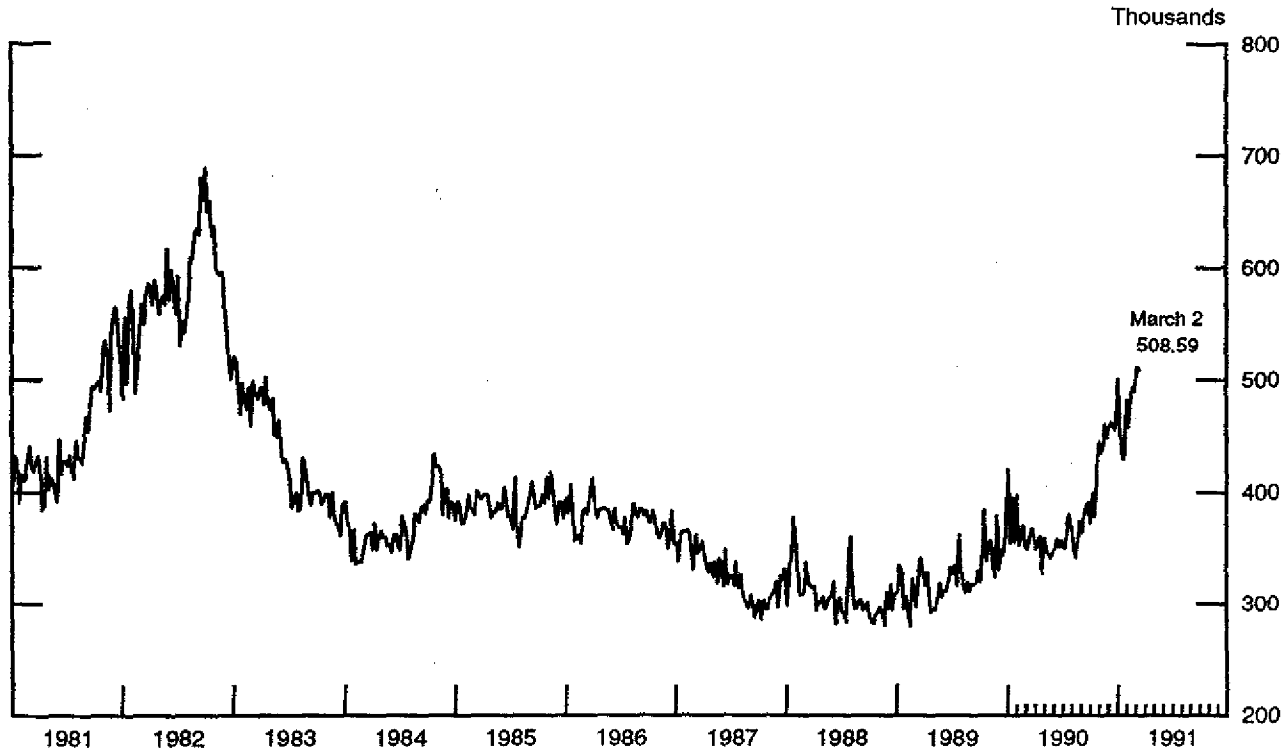
was unusually adverse; the average decline over the two months was similar to that in the fourth quarter. Employment also fell in most service-producing industries in February. Reductions were largest in retail trade, the airline industry, and business services, while health services continued to be the only major industry to post a notable job increase.

In the household survey, employment was about unchanged in February following a large January decline, while the number of unemployed surged 443,000. The increase in unemployment in February largely reflected job losses among adult men, whose unemployment rate rose 0.5 percentage point to 5.6 percent. In addition, job losers continued to account for a growing proportion of the unemployed, and the number of individuals working part-time for economic reasons increased sharply.

In recent weeks, initial claims for unemployment insurance (UI) have moved above 500,000, and the number of unemployed workers covered by UI has risen to 3.31 million. Shortages of administrative funds for the UI system evidently have caused some problems in the functioning of the program. Measures are being taken to add funds to the system; in the meantime, the funding shortfalls have resulted in understaffing, and sometimes closings, of state benefit offices.[1] These problems do not appear to have had much

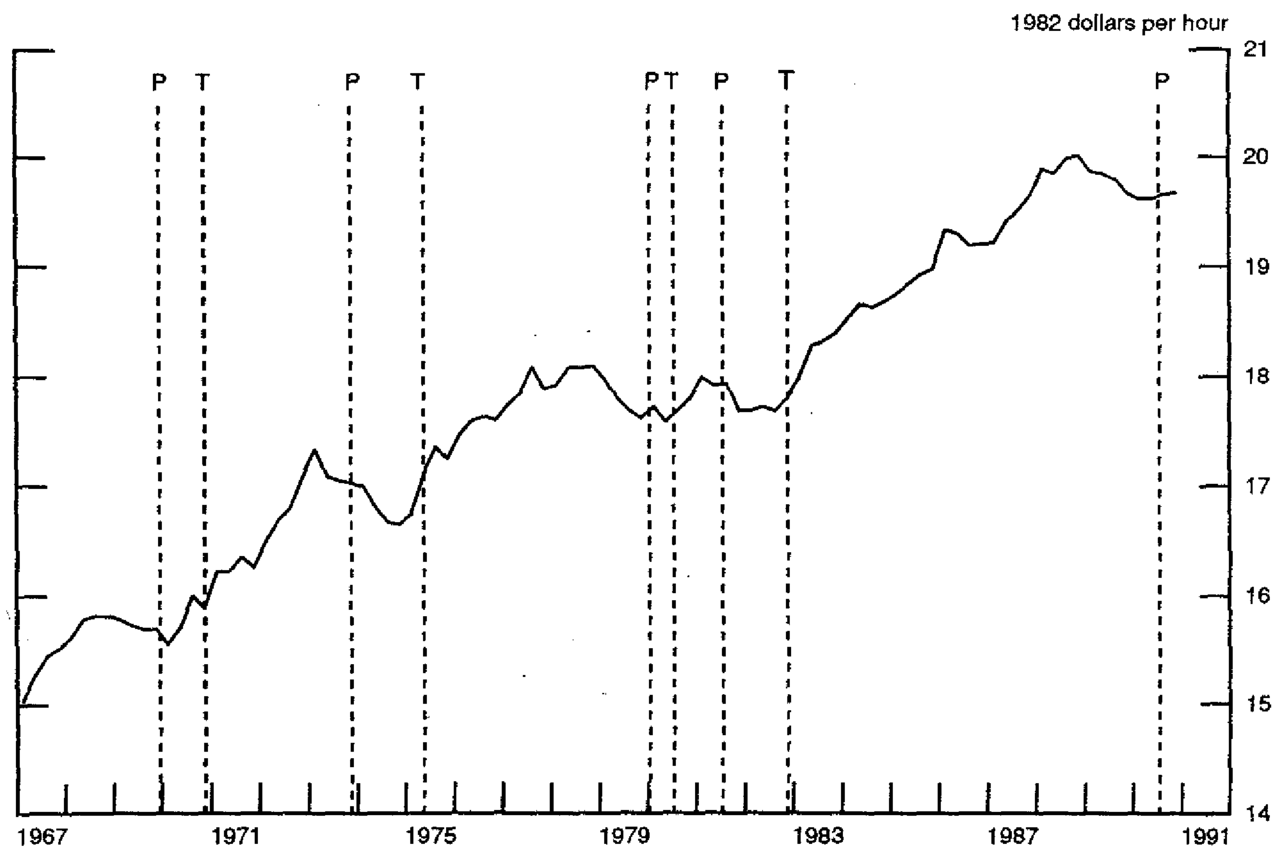
1. Although the UI program is administered by the states, and most benefits are funded by state taxes, the administrative expenses of the program are a federal responsibility. Under current budget procedures, these administrative expenses--which total roughly $2 billion per year--are funded by discretionary annual appropriations. This year's appropriation was passed last fall--before the full extent of the recession and the rise in joblessness became clear; as a result, the system is facing a substantial shortage of administrative funds. The House has passed legislation that would provide an additional $200 million in FY91, and the Administration recently agreed to $150 million. The Administration also agreed to designate the UI funds as "emergency spending" that would not have to be offset by reductions in other discretionary programs.

Initial Claims for Unemployment Insurance
(Weekly data; seasonally adjusted, FRB basis)[1]

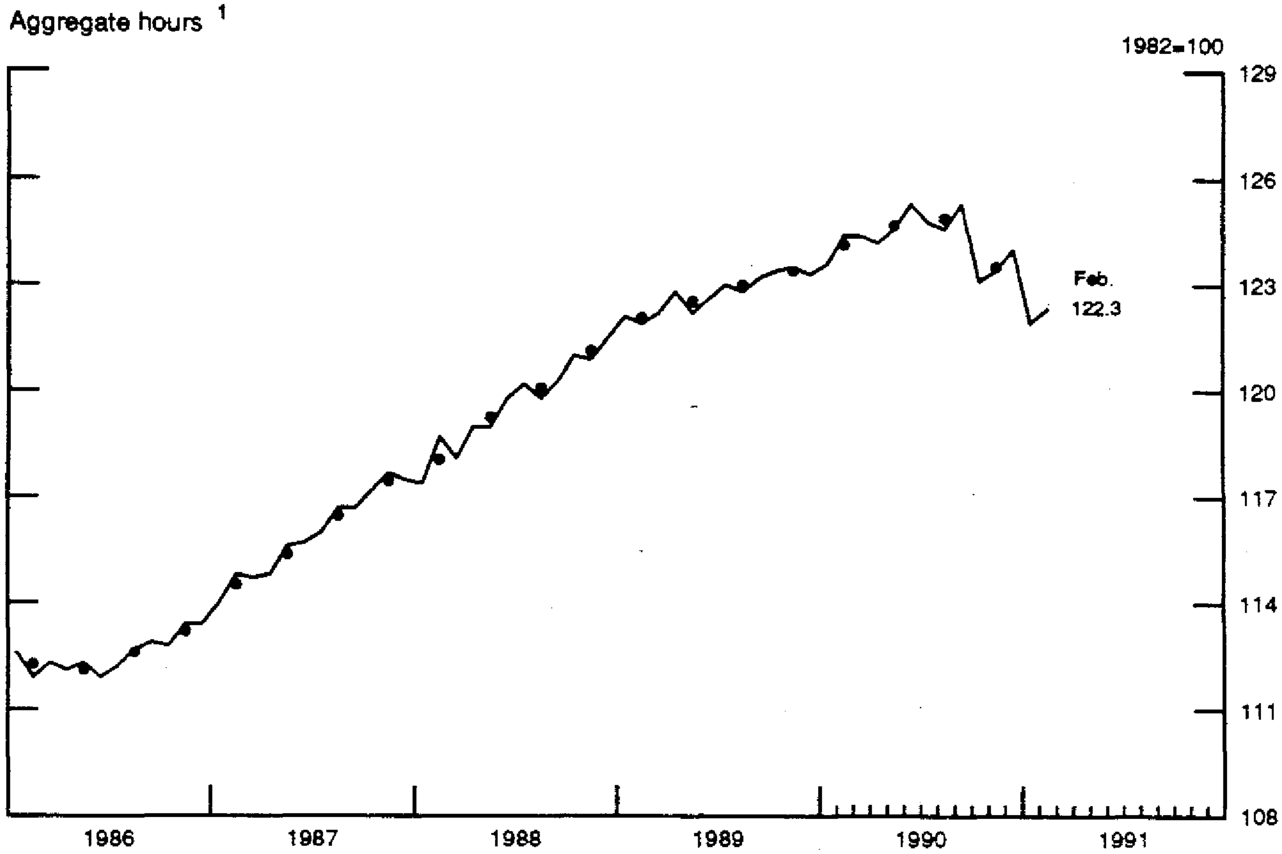


1. Only the state program components of these series are seasonally adjusted.

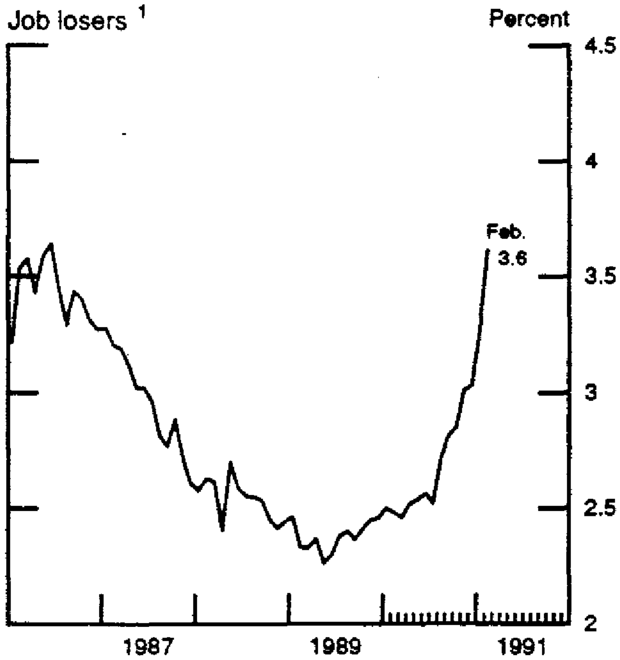
Labor Productivity in the Nonfarm Business Sector



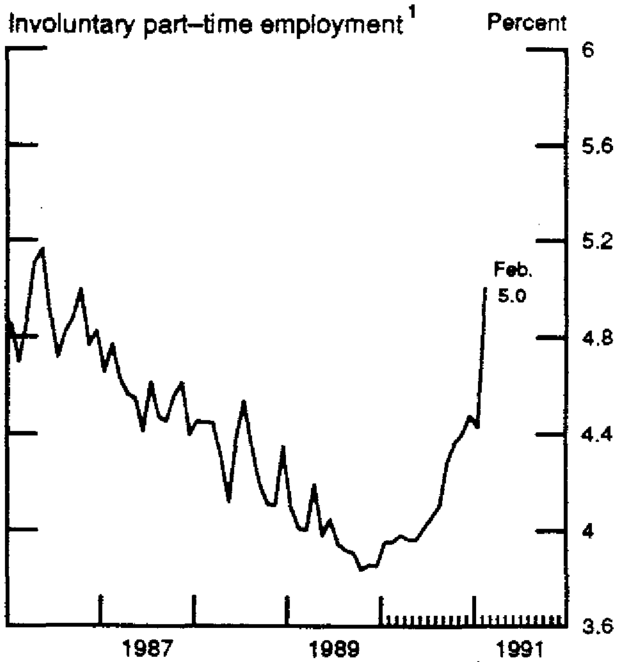
Labor Market Indicators



1. Dots denote quarterly averages.



1. As a percentage of household employment.



1. Persons employed part-time for economic reasons as apercentage of household employment.

effect on the filing of initial claims. However, delays in the processing of claims have significantly lengthened the lag between the initial filing and certification for benefits, thus slowing the payment of benefits.

Revised data indicate that productivity in the nonfarm business sector grew at a 0.3 percent annual rate in the fourth quarter of 1990, reflecting large and nearly offsetting declines in output and hours worked. If these preliminary data hold up, productivity performance actually will have turned out to be somewhat better than typically occurs in the first quarter following cyclical peaks, as employers have moved rapidly to trim payrolls in light of falling demand. For 1990 as a whole, productivity was flat in the nonfarm business sector, while manufacturing productivity increased 2.9 percent. In both sectors, productivity performance was better than in 1989, but the gains in 1990 were smaller than in any other year since 1981.

Average hourly earnings of production or nonsupervisory workers were essentially flat in January and February. Over the twelve months ended in February, average hourly earnings increased 3.3 percent, about 1/2 percentage point below the pace recorded during the previous twelve months. According to the Bureau of National Affairs, the median first-year wage increase in collective bargaining contracts (including lump-sum payments) has been running about 4 percent so far in 1991, down 1/4 percentage point from the pace recorded over 1990 as a whole. These data provide further evidence of a slackening in wage inflation since the unemployment rate began to rise.

AVERAGE HOURLY EARNINGS
(Percentage change; based on seasonally adjusted data)[1]

Sector	1989	1990 Year	1990 Q3	1990 Q4	1990 Dec.	1991 Jan.	1991 Feb.	Memo Feb. 1990 to Feb. 1991
			Annual rate		Monthly rate			
Total private nonfarm	4.1	3.7	4.0	2.4	.5	.1	.0	3.3
Manufacturing	2.8	3.6	2.6	2.6	.3	.4	-.1	3.4

1. Changes over periods longer than one month are measured from final month of preceding period to final month of period indicated.

Industrial Production

Industrial production continued to fall sharply during the first two months of this year. In February, total output was down 0.8 percent; as a result, it now seems likely that the decline in industrial production for the first quarter as a whole will be at least as great as the 7 percent annual rate drop recorded in the fourth quarter.

Reductions in output were widespread in February. Production of motor vehicles and parts fell nearly 4 percent, as assemblies of cars and trucks dropped back to 7-1/2 million units. Excluding motor vehicles, industrial production fell 0.7 percent, about the same rate of decline as in December and January. Output of nonauto consumer goods dropped further, mainly because of decreases in appliances, furniture, and electricity for residential use. In the capital goods sector, output of computers advanced for a second month, but production of industrial machinery and farm equipment continued to decline. Output of materials dropped again, led by sharp decreases in output of durables, particularly steel.

GROWTH IN SELECTED COMPONENTS OF INDUSTRIAL PRODUCTION
(Percent change from preceding comparable period)

	Proportion in total IP 1990:Q4	1990				1990	1991	
		H1[1]	Q3	Q4	Feb. over Q4	Dec.	Jan.	Feb.
		---------Annual rate--------				---Monthly rate----		
Total index	100.0	2.4	3.9	-7.1	-9.8	-1.1	-0.5	-0.8
Excluding motor vehicles and parts	96.2	2.2	3.9	-5.0	-8.6	-0.8	-0.8	-0.7
Products, total	61.4	2.8	2.4	-5.3	-8.4	-0.7	-0.5	-0.7
Final products	46.9	3.2	3.4	-5.3	-8.4	-1.0	-0.3	-0.6
Consumer goods	25.6	-0.3	1.9	-4.0	-8.2	-0.9	-0.1	-0.7
Automotive products	2.2	7.8	2.0	-37.6	-34.5	-7.2	3.7	-4.1
Other consumer goods	23.5	-1.1	1.9	0.2	-5.4	-0.4	-0.5	-0.4
Durables	3.0	4.6	-6.9	-16.2	-11.5	-0.7	-0.8	-0.9
Nondurables	20.5	-2.0	3.3	2.9	-4.5	-0.3	-0.4	-0.3
Energy	2.6	-9.3	13.7	-2.6	-9.3	-0.0	-0.1	-1.6
Other	17.8	-0.9	1.9	3.7	-3.8	-0.4	-0.4	-0.2
Business equipment	15.8	8.7	8.1	-7.2	-9.0	-1.1	-0.3	-0.7
Motor vehicles	1.0	14.1	3.1	-49.8	-47.0	-10.2	6.0	-5.3
Other business equipment	14.8	8.2	8.5	-2.9	-5.8	-0.5	-0.6	-0.4
Computers	2.7	16.1	8.9	-3.8	2.1	-0.6	0.8	1.4
Other	12.1	6.6	8.4	-2.7	-7.5	-0.5	-0.9	-0.8
Defense and space equip.	4.8	1.8	0.4	-4.7	-8.1	-0.4	-1.3	-0.1
Construction supplies	5.7	-1.7	-2.6	-12.3	-16.1	-1.0	-2.1	-1.1
Materials	38.6	1.8	6.3	-9.9	-12.0	-1.6	-0.6	-1.1
Durable	19.7	3.2	7.1	-13.8	-17.5	-2.6	-0.6	-1.7
Nondurable	8.8	1.4	5.1	-6.2	-5.9	-1.1	-0.4	-0.1
Energy	10.2	-0.6	6.0	-5.0	-6.2	0.0	-0.8	-0.6
Memorandum:								
Manufacturing	84.9	2.9	3.4	-7.4	-10.5	-1.4	-0.5	-0.8
Excluding motor vehicles and parts	81.0	2.6	3.3	-5.0	-9.1	-1.1	-0.7	-0.7

1. From the final quarter of the previous period to the final quarter of the period indicated.

CAPACITY UTILIZATION IN MANUFACTURING
(Percent of capacity; seasonally adjusted)

	1967-89	1988-89	1990	1990	1991	
	Avg.	High	Feb.	Dec.	Jan.	Feb.
Total industry	82.2	85.0	83.3	80.5	79.9	79.1
Manufacturing	81.5	85.1	83.0	79.4	78.8	78.0
Primary processing	82.3	89.0	86.1	81.3	80.4	79.2
Advanced processing	81.1	83.6	81.7	78.6	78.1	77.5

On balance, output in industries for which we have weekly physical product data picked up slightly in early March, largely because of stronger output of steel and energy-related items.[2] Current schedules call for a moderate rise in assemblies of motor vehicles this month, to an 8 million unit annual rate; however, while auto production through mid-March tracked close to the 5 million unit pace scheduled for the month as a whole, the planned step-up in truck production had not materialized.

Assembly schedules call for motor vehicle production to increase to a 9 million unit annual rate in the second quarter. These plans incorporate only a small rise in auto assemblies, to a 5-1/2 million unit rate, which seems very conservative relative to the recent sales pace and the low level of stocks, even adjusting for imports from Canada and Mexico. Reportedly, the Big Three are basing their plans more closely than usual on dealer orders, which apparently have yet to firm decisively.[3] In contrast, truck output plans seem a bit optimistic, given that sales have been sluggish and inventories--although down appreciably over the past few months--remain on the high side.

Capacity utilization in manufacturing slipped further in February to 78 percent--7 percent below the recent high in 1989. Operating rates have fallen especially sharply since last September, after edging down over the summer. Last month, operating rates continued to fall in most major

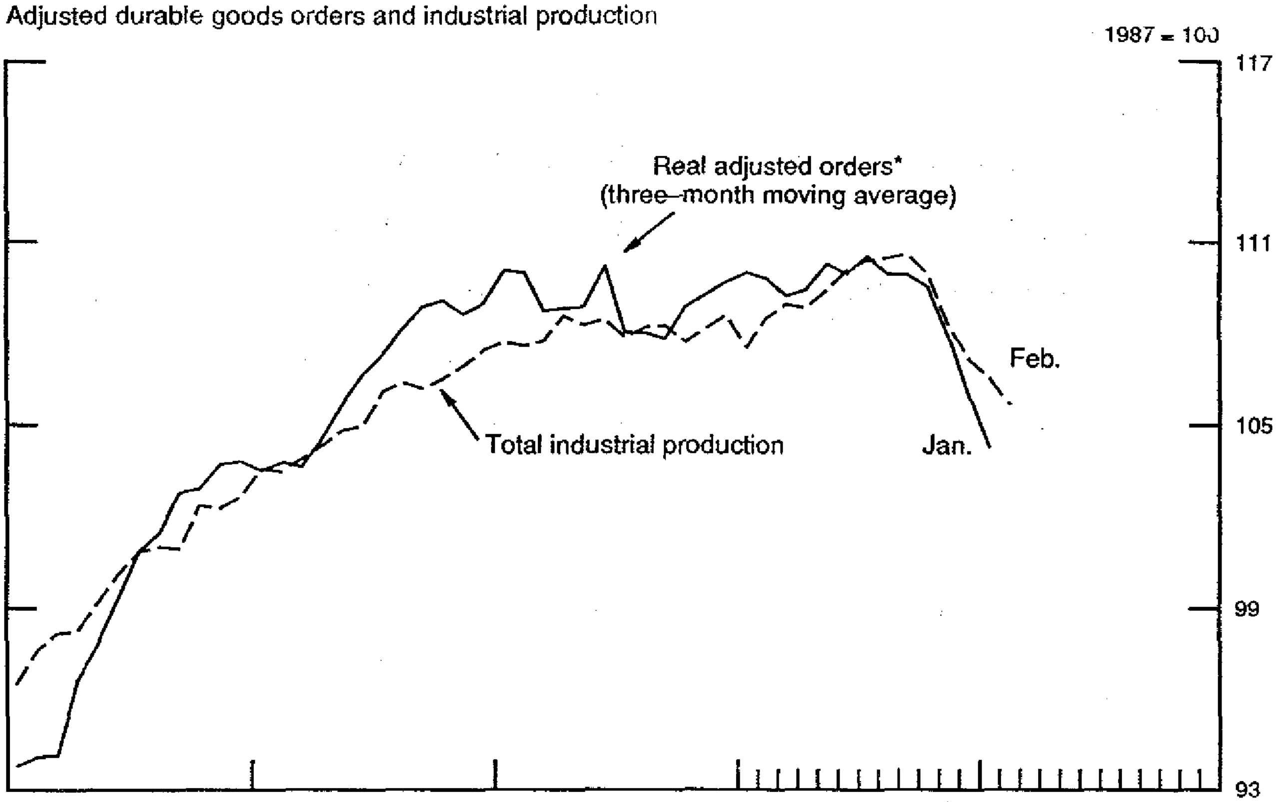
2. These industries include electricity generation, crude oil, motor vehicles, steel, coal, and paper. They represent less than 20 percent of the total index.

3. The slowing in sales of cars and light trucks since mid-1990 appears to have affected the domestic Big Three and foreign nameplates about equally. Since last July, the Big Three's share of total light vehicle sales has averaged about 63 percent--not much different than the average during the first half of 1990.

INDICATORS OF INDUSTRIAL ACTIVITY

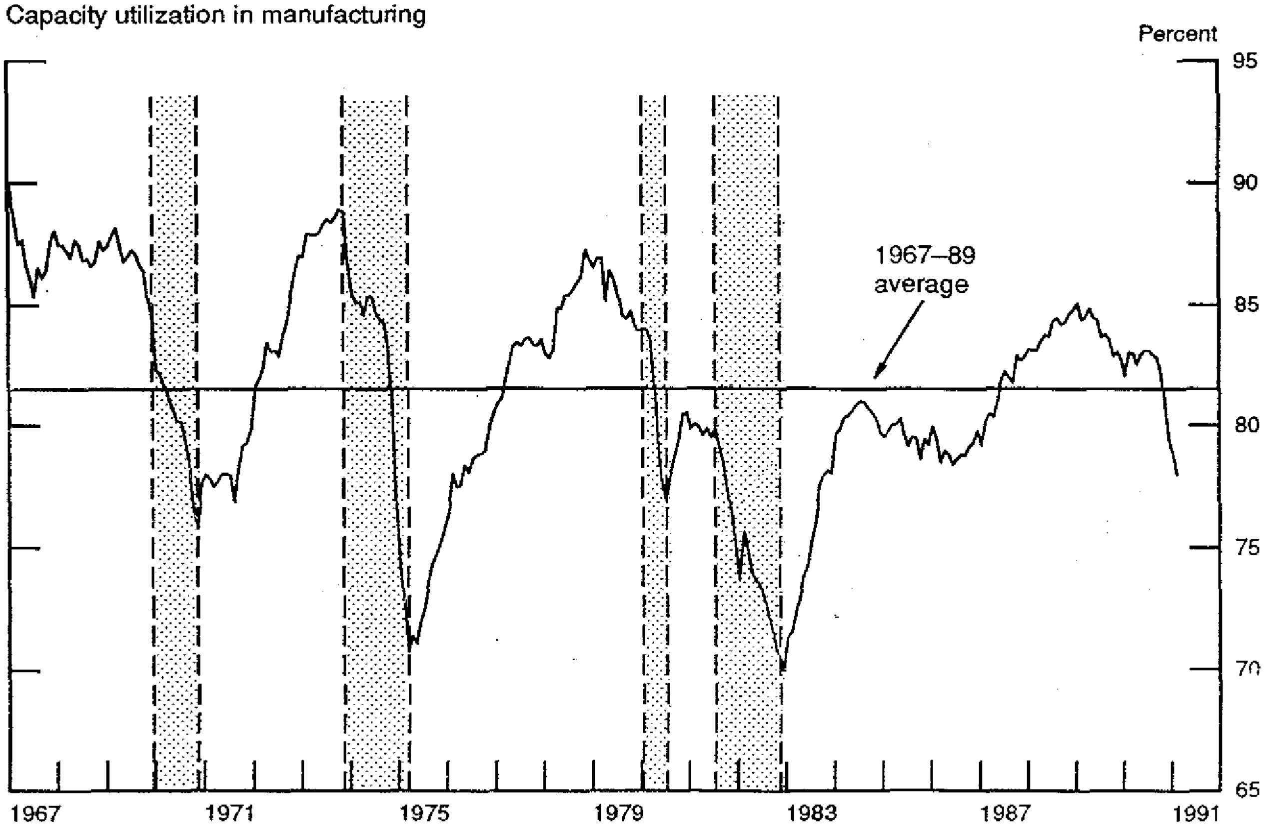
(Based on monthly, seasonally adjusted data)

Adjusted durable goods orders and industrial production



*Adjusted goods orders equal bookings for durable goods industries that report unfilled orders, excluding orders for defense capital goods, nondefense aircraft, and motor vehicle parts. Nominal orders are deflated using the PPI for durable goods.

Capacity utilization in manufacturing



industries, with the largest declines at primary processing industries, particularly steel and lumber.

Personal Income and Consumption

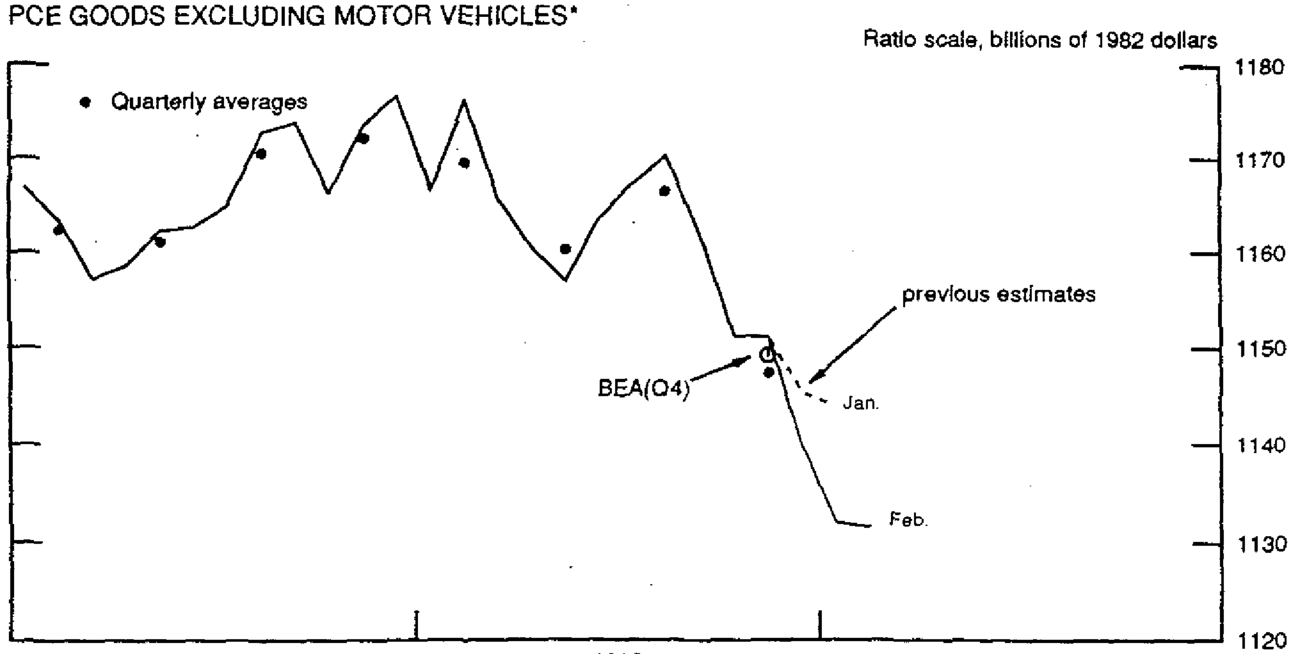
Household income remained weak in early 1991. Real disposable personal income fell an estimated 0.9 percent at a monthly rate in January, largely reflecting the cutbacks in employment and hours. In addition, the meager rebound in aggregate hours worked in February, combined with flat average hourly earnings, suggests that wages and salaries probably recovered little last month. There were sizable, but offsetting, changes in other components of personal income in January. Farm proprietors' income fell $16 billion at an annual rate, as federal subsidy payments to farmers plummeted; at least part of this decline is likely to be reversed in coming months. Meanwhile, transfer income jumped nearly $17 billion as social security benefits and other government transfers were boosted by the annual COLAs.

Consumer spending at the turn of the year now appears to have been even weaker than indicated previously, reflecting downward revisions to estimates of December and January sales at the retail control group of stores--that is, those excluding automotive dealers and building material and supply stores. These data, which now show sizable declines in nominal terms in both months, imply that real outlays for goods other than motor vehicles in January were more than 1 percent below their fourth-quarter average. In addition, expenditures for services other than electricity and natural gas appear to have slowed; as estimated by BEA, the increase between September and January was only 2 percent at an annual rate, down from more than 3 percent over the first nine months of 1990.

PERSONAL INCOME
(Average monthly change at an annual rate; billions of dollars)

	1990	1990 Q3	1990 Q4	1990 Nov.	1990 Dec.	1991 Jan.
Total personal income	20.3	19.0	14.4	19.0	26.8	-21.8
Wages and salaries	10.9	12.0	2.4	.0	22.8	-14.2
Private	8.3	10.4	.1	-2.3	20.4	-20.7
Other labor income	1.3	1.2	1.0	1.0	1.0	1.0
Proprietors' income	2.0	-.7	4.5	14.8	-1.3	-19.4
Farm	.5	-2.5	4.6	14.4	-1.3	-16.3
Rent	.5	1.7	-1.4	-2.6	-1.7	1.2
Dividend	.7	.6	.6	.7	.4	.0
Interest	1.8	1.8	1.0	1.1	.7	.2
Transfer payments	5.1	3.3	6.3	4.0	6.3	16.7
Less: Personal contributions for social insurance	1.1	.8	.1	.0	1.5	7.3
Less: Personal tax and nontax payments	4.0	5.7	2.0	1.3	5.9	-1.3
Equals: Disposable personal income	16.3	13.4	12.4	17.7	20.9	-20.5

PCE GOODS EXCLUDING MOTOR VEHICLES*



*The observations for December, January, and February are staff estimates.

More recently, there have been hints that household spending may be starting to firm. One such hint came in the advance retail sales report for February, which showed that sales at the retail control grouping of stores were little changed in nominal terms and were about flat in real terms as well. Notably, sales at general merchandise, apparel, and furniture outlets, a grouping that often is taken as an indicator of discretionary purchases, jumped 2 percent in nominal terms last month, after posting sizable declines over the preceding few months. Sales of automobiles and light trucks in February rose to a 12 million unit annual rate from the abysmally low January pace; sales of domestic models were about 9-1/2 million units last month and remained at about the same selling pace during the first 10-day period in March.

SALES OF AUTOMOBILES AND LIGHT TRUCKS[1]
(Millions of units at an annual rate; BEA seasonals)

			1990			1990	1991	
	1989	1990	Q2	Q3	Q4	Dec.	Jan.	Feb.
Autos and light trucks	14.51	13.86	13.97	14.18	12.94	12.64	10.98	11.95
Autos	9.90	9.50	9.54	9.72	8.98	8.91	7.63	8.35
Light trucks	4.61	4.36	4.43	4.47	3.97	3.73	3.35	3.60
Domestic total[2]	11.19	10.84	10.77	11.30	10.18	9.96	8.78	9.36
Autos	7.08	6.90	6.80	7.21	6.59	6.61	5.71	6.10
Light trucks	4.11	3.95	3.98	4.09	3.59	3.35	3.06	3.26
Import total	3.33	3.01	3.19	2.88	2.76	2.68	2.20	2.59
Autos	2.82	2.60	2.74	2.51	2.38	2.30	1.92	2.25
Light trucks	0.50	0.41	0.45	0.38	0.38	0.38	0.29	0.34

Note: Data on sales of trucks and imported autos for the current month are preliminary and subject to revision.

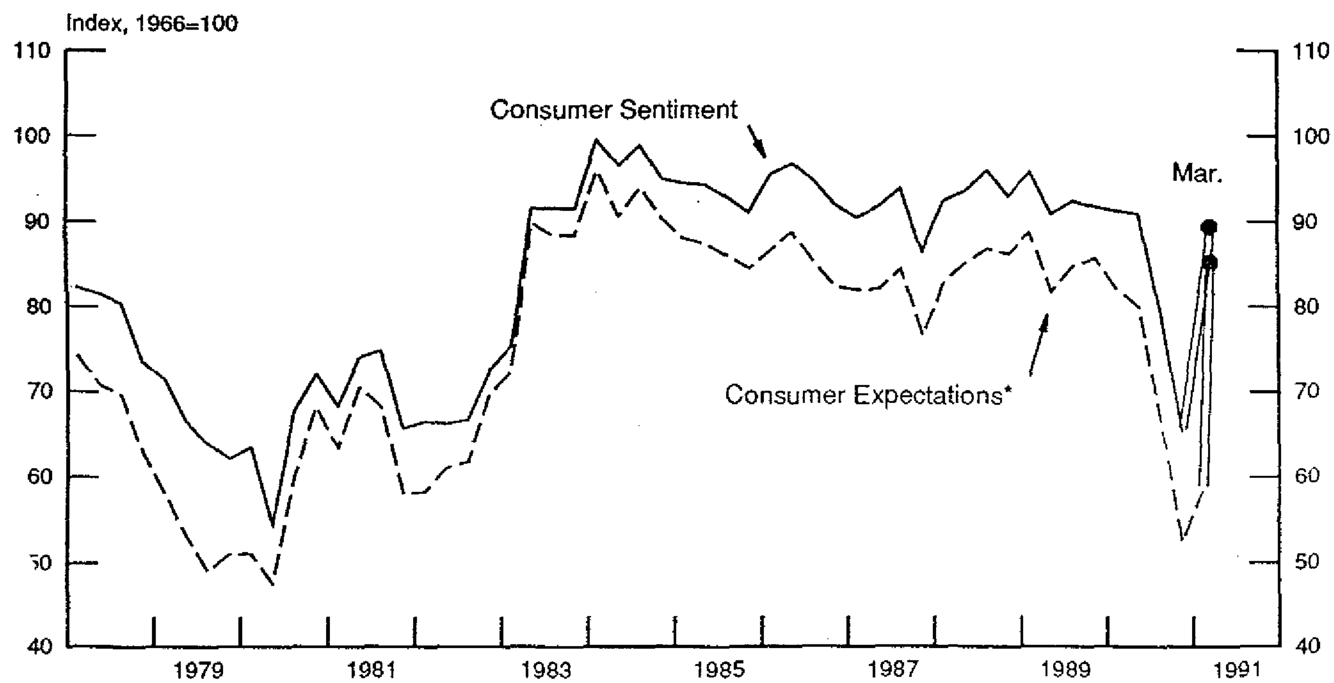
1. Components may not add to totals due to rounding.
2. Includes vehicles produced in Canada and Mexico and vehicles made in U.S. plants of foreign manufacturers.

RETAIL SALES
(Seasonally adjusted percentage change)

	1990		1990	1991	
	Q3	Q4	Dec.	Jan.	Feb.
Total sales	1.5	.1	-1.8	-1.4	.8
Retail control[1]	1.9	.5	-1.0	-.6	.1
Previous estimate[2]		.7	-.4	-.0	
GAF[3]	.8	-2.1	-1.5	-.9	2.0
Durable goods stores	.0	-1.1	-3.2	-3.0	2.3
Automotive dealers	.3	-.4	-3.9	-4.3	3.3
Furniture and appliances	-2.3	-2.0	-2.1	-1.0	1.1
Nondurable goods stores	2.4	.8	-1.0	-.6	-.0
Apparel	1.0	-3.2	-1.6	-2.7	2.5
Food	1.2	.6	.0	.0	-.8
General merchandise[4]	2.1	-1.6	-1.3	.0	2.1
Gasoline stations	9.3	9.3	-4.2	-3.7	-4.9

1. Total retail sales less building material and supply stores and automotive dealers, except auto and home supply stores.
2. Based on incomplete sample counts approximately one month ago.
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.

Michigan Indexes of Consumer Sentiment and Consumer Expectations



* Equally weighted average of expected personal financial conditions and expected overall business conditions, 12 months and 5 years ahead

According to preliminary readings from the Michigan survey, consumer sentiment rebounded sharply in early March, after plunging to low levels upon Iraq's invasion of Kuwait and the commencement of the recession. Much of the pickup in sentiment reflected consumers' more optimistic assessment of prospective business conditions, both one year and five years ahead. In addition, substantially more consumers thought it was a better time to buy automobiles, household durables, and homes.

Our research suggests that measures of consumer sentiment probably have some predictive ability for future changes in consumption, even controlling for the information contained in other macroeconomic variables. However, the informational advantage provided by the surveys in previous episodes does not appear to have been great. Nonetheless, the extraordinarily large changes in sentiment in the current period--seemingly out of proportion to actual economic events--may make such historical comparisons somewhat unreliable. As a result, although average historical relationships suggest that the plunge in sentiment should not have been the most important factor in generating the observed slowdown in household spending, we cannot rule out a greater effect. Conceivably, given the widespread news reports about consumer pessimism, firms may have lowered their sales expectations, and hence reduced production and employment--making that pessimism almost a self-fulfilling prophecy. We could see a reversal of that pattern now. Be that as it may, we would not expect that the recent rebound in sentiment would represent a sustainable stimulus to consumer spending unless it were accompanied by a prompt resumption of growth in real income.

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

	1990			1990	1991	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
Producers' durable equipment						
Shipments of nondefense capital goods	-0.9	1.1	0.3	0.9	-1.1	n.a.
Complete aircraft	-3.1	16.7	-5.3	3.0	10.4	n.a.
Excluding aircraft and parts	-1.5	-0.8	1.2	-0.4	-0.3	n.a.
Office and computing	-1.0	-1.4	3.7	1.6	0.2	n.a.
All other categories	-1.6	-0.7	0.6	-0.9	-0.4	n.a.
Weighted PDE shipments[1]	-1.4	-0.1	2.3	-1.5	-0.3	n.a.
Sales of heavy-weight trucks	-5.9	6.4	-10.8	4.0	-11.5	3.4
Orders of nondefense capital goods	-5.8	4.9	4.8	17.8	-9.3	n.a.
Excluding aircraft and parts	-1.4	0.6	-0.5	1.5	3.1	n.a.
Office and computing	-1.2	5.2	-8.4	-10.7	21.6	n.a.
All other categories	-1.5	-0.6	1.6	4.6	-0.8	n.a.
Weighted PDE orders[1]	-0.7	0.1	1.6	0.7	0.9	n.a.
Nonresidential structures						
Construction put-in-place	-0.5	1.1	-5.7	-1.4	0.3	n.a.
Office	-3.8	1.6	-8.2	-1.0	-1.9	n.a.
Other commercial	-3.5	-2.5	-9.7	-0.3	-3.9	n.a.
Public utilities	-0.5	0.0	0.1	-5.4	2.2	n.a.
Industrial	0.7	2.3	-5.9	6.3	1.2	n.a.
All other	4.9	4.5	-5.8	-3.3	3.0	n.a.
Rotary drilling rigs in use	7.9	-2.8	-2.8	-2.3	2.4	2.2
Footage drilled[2]	-5.8	8.1	6.0	13.5	-1.6	n.a.

Note: The Census M-3 report does not provide information on complete aircraft orders.
1. Computed as the weighted sum of 25 individual equipment series (excluding aircraft) from the Census M-3 report with weights equal to the fraction of final business spending for each type of equipment.
2. From Department of Energy. Not seasonally adjusted.
n.a. Not available.

Business Fixed Investment

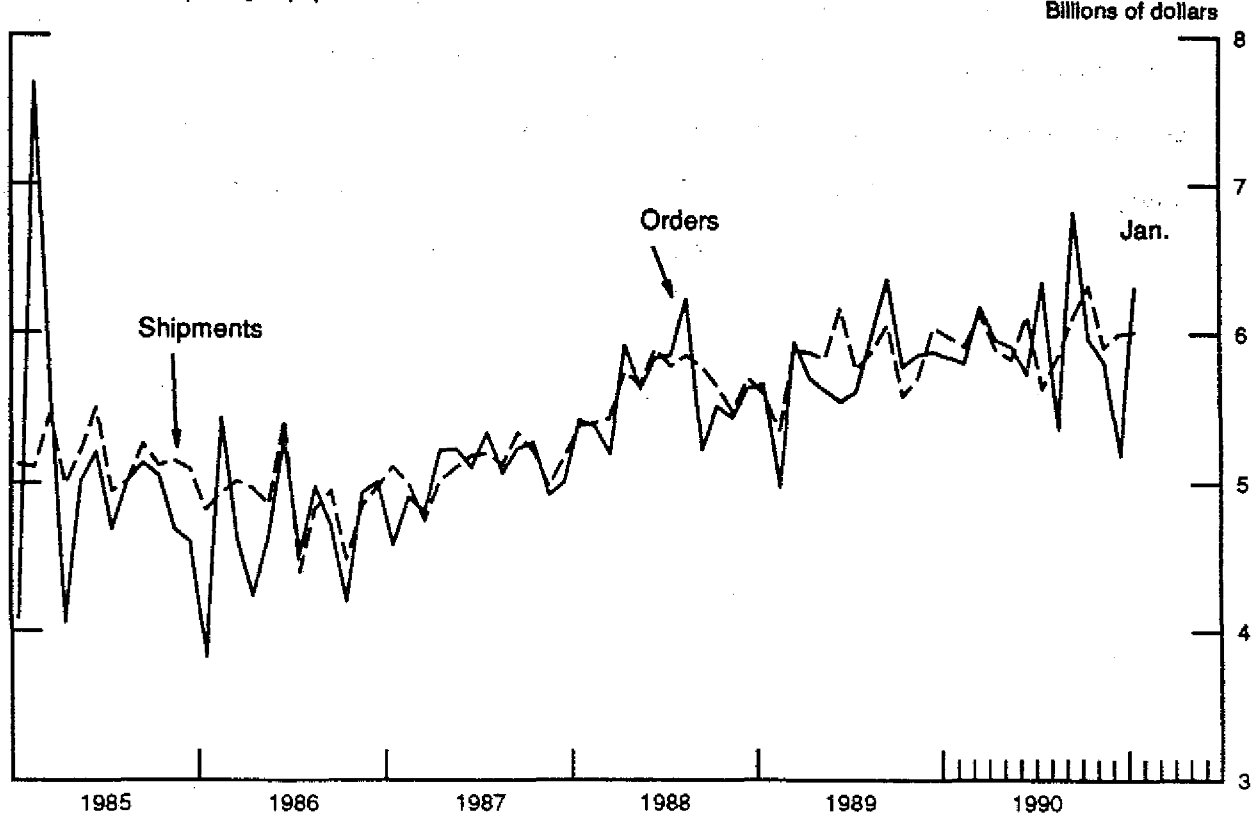
Business fixed investment appears to have been weak in early 1991. On the equipment side, shipments of nondefense capital goods other than aircraft--weighted to include only final business purchases--edged down in January to a level 1-3/4 percent below their average in the fourth quarter. And for nonresidential construction, both the current and leading indicators point to a further sizable drop in building this quarter.

Outlays for office and computing equipment--a major component of equipment--rose sharply in real terms in the fourth quarter after showing little growth over the first three quarters of last year. In January, nominal computer shipments were about 1 percent below the fourth-quarter average; new orders for computers surged in January, but this increase followed several months of weak readings. Shipments and orders for equipment other than computers (and aircraft) both fell fractionally in January, suggesting that outlays for these goods will remain on the essentially flat path that has been evident for some time. Meanwhile, business purchases of cars and trucks apparently were down, on balance, in January and February.

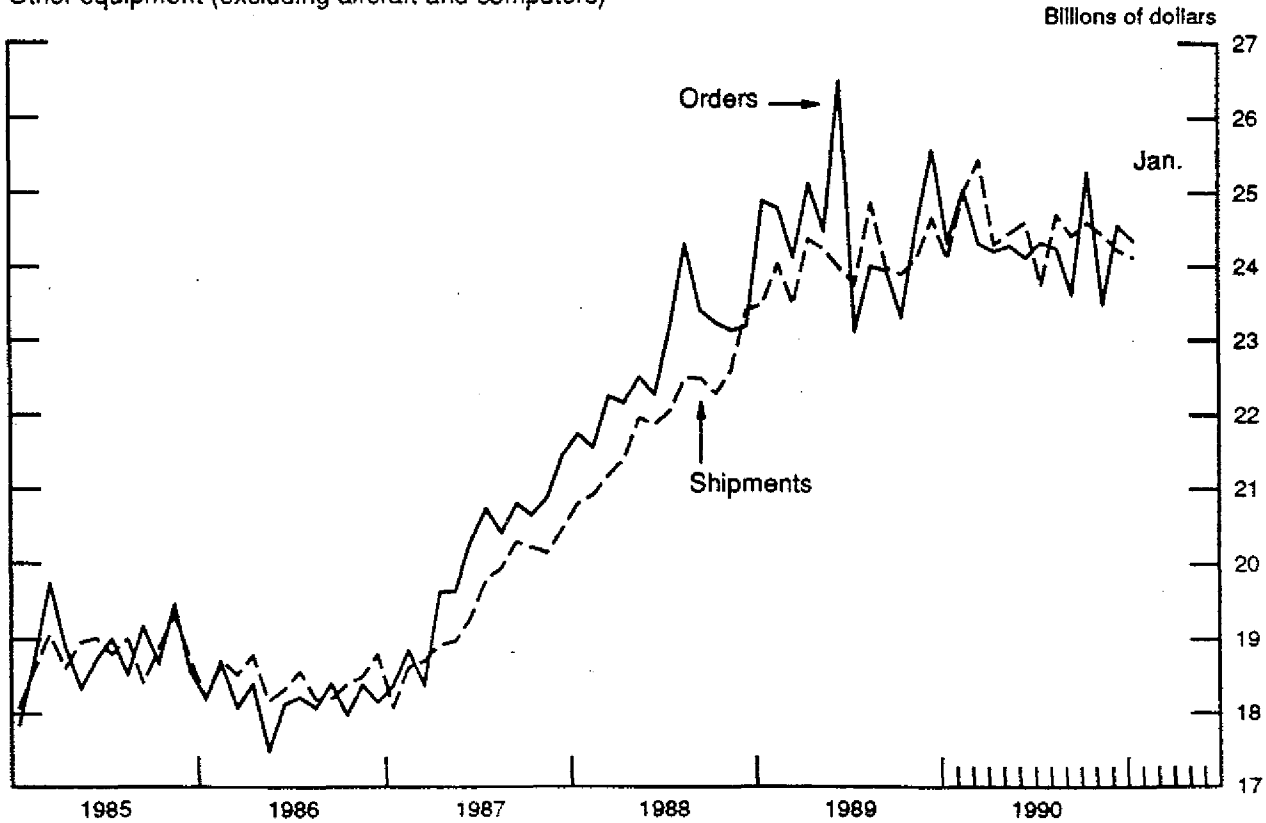
Incoming orders for commercial aircraft slowed somewhat in January--perhaps because of the effects of the weak economy, high fuel prices, and fears of terrorism on the health of the airline industry. Nonetheless, purchases of aircraft should continue to buoy equipment outlays well into the future. None of Boeing's orders has been cancelled, although a few bookings from domestic airlines have been deferred. Moreover, Boeing has an order backlog of 1,800 planes, worth about $100 billion, which will take several years to produce at current rates.

Recent Data on Orders and Shipments
(Excluding motor vehicles and parts)

Office and computing equipment

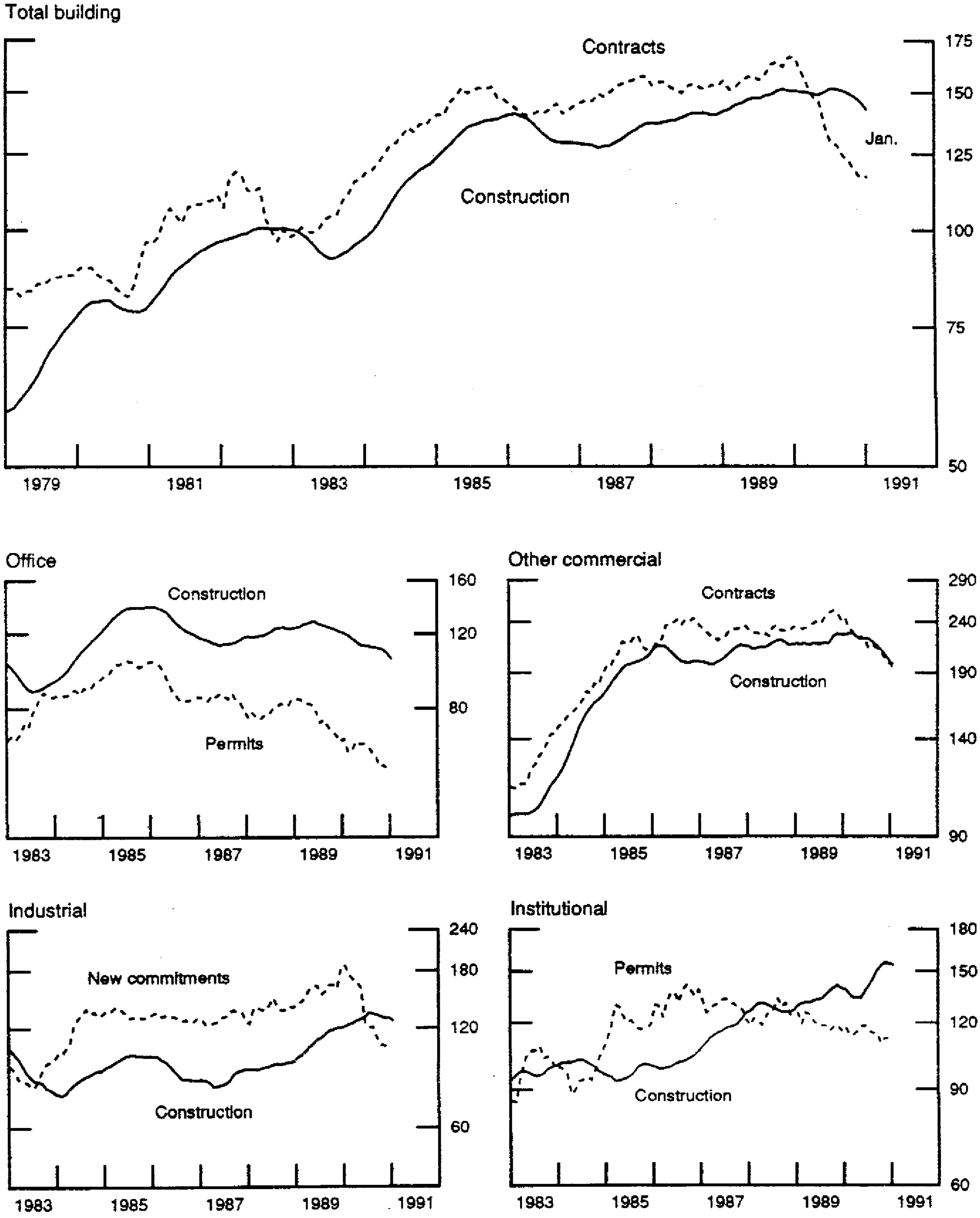


Other equipment (excluding aircraft and computers)



Nonresidential Construction and Selected Indicators[1]

(Dec. 1982 = 100, ratio scale)



1. Six-month moving average for all series shown. For contracts, total only includes private, while individual sectors include private and public. New commitments are the sum of permits and contracts.

Real expenditures for nonresidential structures plummeted in the fourth quarter, with declines of more than 20 percent at an annual rate for most types of buildings. In January, construction put in place edged up from a downward-revised December level but remained below its fourth-quarter average. The outlook remains bleak for this sector. Contracts for total construction have been dropping since late 1989. In addition, office vacancy rates have remained close to 20 percent as absorption of office space has fallen nearly as rapidly as new construction.[4] Furthermore, tight lending standards remain in place for many types of commercial construction.

The crisis in the Persian Gulf does not appear to have induced a large pickup in drilling activity. Real outlays for drilling and mining increased only slightly in the fourth quarter. More recently, footage drilled, a very volatile series even on a quarterly basis, showed little net change between last fall and January, and the Baker-Hughes rig count continued to hover around 1,000 through the first week in March.

Inventory Investment

Manufacturing and trade inventories rose at an annual rate of $41 billion in current-cost terms in January, after little net change in the fourth quarter. In real terms, stocks had fallen $19 billion in the fourth quarter, reflecting sizable liquidations at manufacturers and at auto dealers. With sales and shipments down sharply around the turn of the year, the ratio of inventories to sales in manufacturing and trade continued to move up through January.

4. At the end of last year, the Coldwell-Banker office vacancy rate was 19.5 percent, the same as at the end of the third quarter still down slightly from a year earlier.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars at annual rates;
based on seasonally adjusted data)

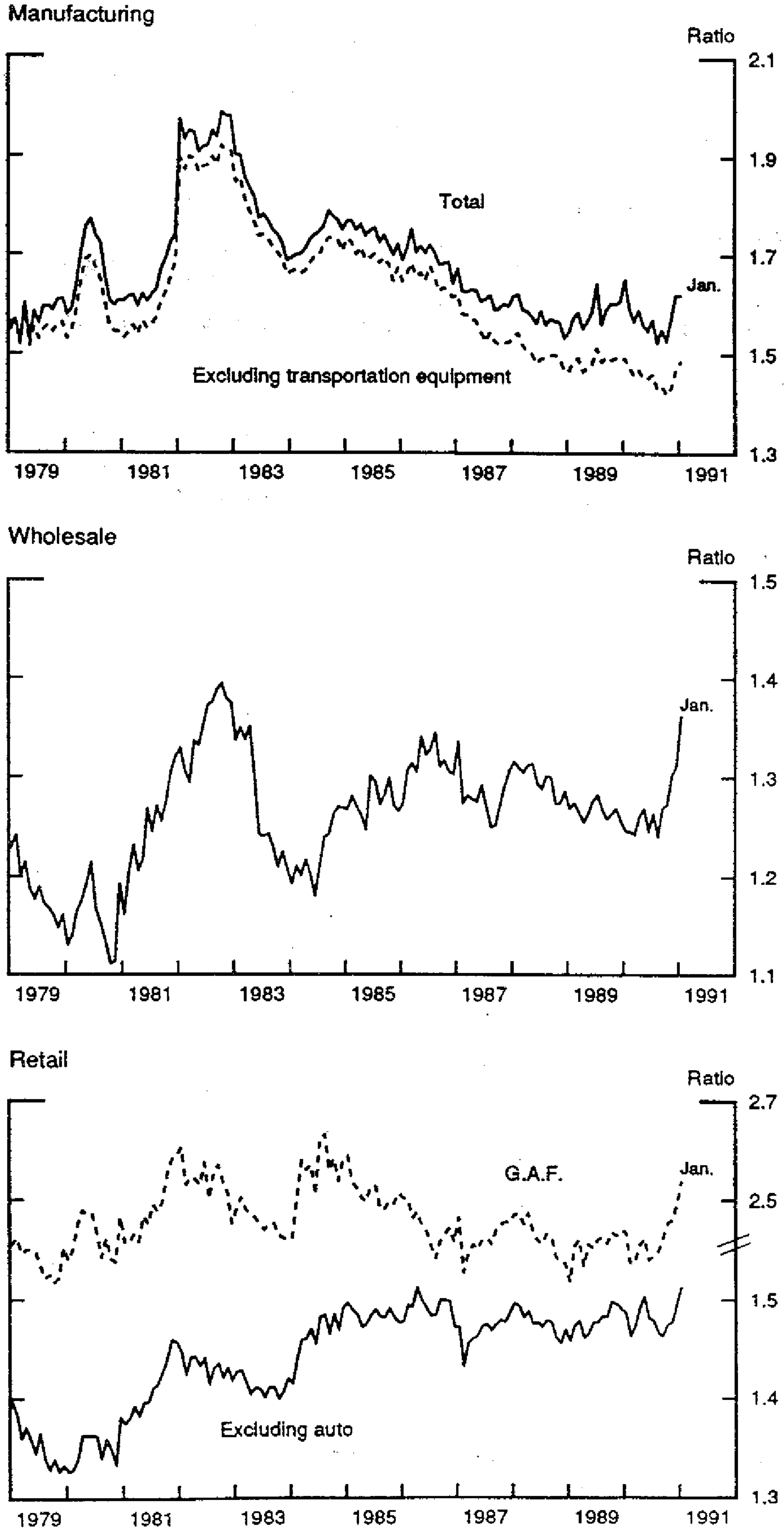
	1990			1990		1991
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Current-cost basis:						
Total	11.2	57.5	.4	20.8	-61.2	40.8
Total excluding retail auto	9.8	36.7	10.5	34.3	-38.1	31.5
Manufacturing	-4.2	25.2	-8.2	8.3	-38.5	-.7
Wholesale	7.6	8.2	10.7	17.2	.6	21.3
Retail	7.8	24.1	-2.1	-4.7	-23.3	20.2
Automotive	1.4	20.8	-10.1	-13.5	-23.1	9.3
Excluding auto	6.5	3.3	8.0	8.8	-.2	10.9
Constant-dollar basis:						
Total	6.2	5.1	-18.7	5.3	-59.0	n.a.
Total excluding retail auto	3.3	1.9	-8.4	14.3	-32.3	n.a.
Manufacturing	-2.6	3.7	-16.1	-1.0	-29.2	n.a.
Wholesale	1.2	.6	4.1	13.2	-6.1	n.a.
Retail	7.6	.8	-6.7	-6.9	-23.6	n.a.
Automotive	2.8	3.2	-10.3	-9.0	-26.7	n.a.
Excluding auto	4.8	-2.4	3.6	2.1	3.1	n.a.

INVENTORIES RELATIVE TO SALES[1]
(Months supply; based on seasonally adjusted data)

	Range in preceding 12 months:[2]		1990			1990		1991
	Low	High	Q2	Q3	Q4	Nov.	Dec.	Jan.
Current-cost basis:								
Total	1.46	1.53	1.48	1.48	1.50	1.50	1.53	1.56
Total excluding retail auto	1.43	1.50	1.45	1.45	1.47	1.47	1.50	1.52
Manufacturing	1.52	1.62	1.56	1.56	1.56	1.57	1.62	1.62
Wholesale	1.24	1.31	1.25	1.26	1.30	1.30	1.31	1.36
Retail	1.55	1.61	1.58	1.60	1.59	1.59	1.61	1.64
Automotive	1.87	2.12	1.92	2.08	2.01	2.05	2.07	2.19
Excluding auto	1.46	1.50	1.49	1.47	1.48	1.48	1.50	1.51
Constant-dollar basis:								
Total	1.42	1.49	1.43	1.43	1.46	1.47	1.49	n.a.
Total excluding retail auto	1.39	1.47	1.41	1.41	1.45	1.45	1.47	n.a.
Manufacturing	1.44	1.52	1.47	1.46	1.48	1.49	1.52	n.a.
Wholesale	1.26	1.35	1.27	1.28	1.34	1.35	1.35	n.a.
Retail	1.51	1.58	1.55	1.55	1.56	1.57	1.58	n.a.
Automotive	1.74	1.89	1.82	1.85	1.77	1.83	1.84	n.a.
Excluding auto	1.44	1.51	1.48	1.47	1.50	1.49	1.51	n.a.

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. Range is for the 12-month period preceding the latest month for which data are available.

Ratio of Inventories to Sales
(Current-cost data)



Manufacturers made intermittent inventory adjustments through much of 1990, and liquidations became more widespread in the fourth quarter; inventory reductions in real terms were reported by the machinery, aircraft, and petroleum refining industries, and only the motor vehicles industry reported a significant increase in stocks. Factory inventories were little changed, on balance, in current-cost terms in January. However, by January--despite efforts to hold the line on stock building--slumping sales had pushed the inventory-to-shipments ratios for many manufacturers near the high end of the range observed over the past year, especially for primary metals and several nondurable goods industries.

In the trade sector, wholesale and non-auto retail inventories increased in January at a $32 billion annual rate in current-cost terms after a net increase of $19 billion during the fourth quarter, and stock-sales ratios for these groups currently stand at the high end of the range observed in recent years. For the broad range of retail establishments carrying discretionary consumption goods (general merchandise, apparel, and furniture and appliances), inventories rose substantially in January, when sales fell 1 percent. The jump in sales at these stores in February likely helped to ease the inventory overhang; even so, the stock-sales ratio probably remained high by the standards of recent years. The inventory-sales ratio for wholesalers also moved up sharply in January; stocks were especially heavy at distributors of machinery and equipment, partly because of the continued weakness in the construction industry.

Housing Markets

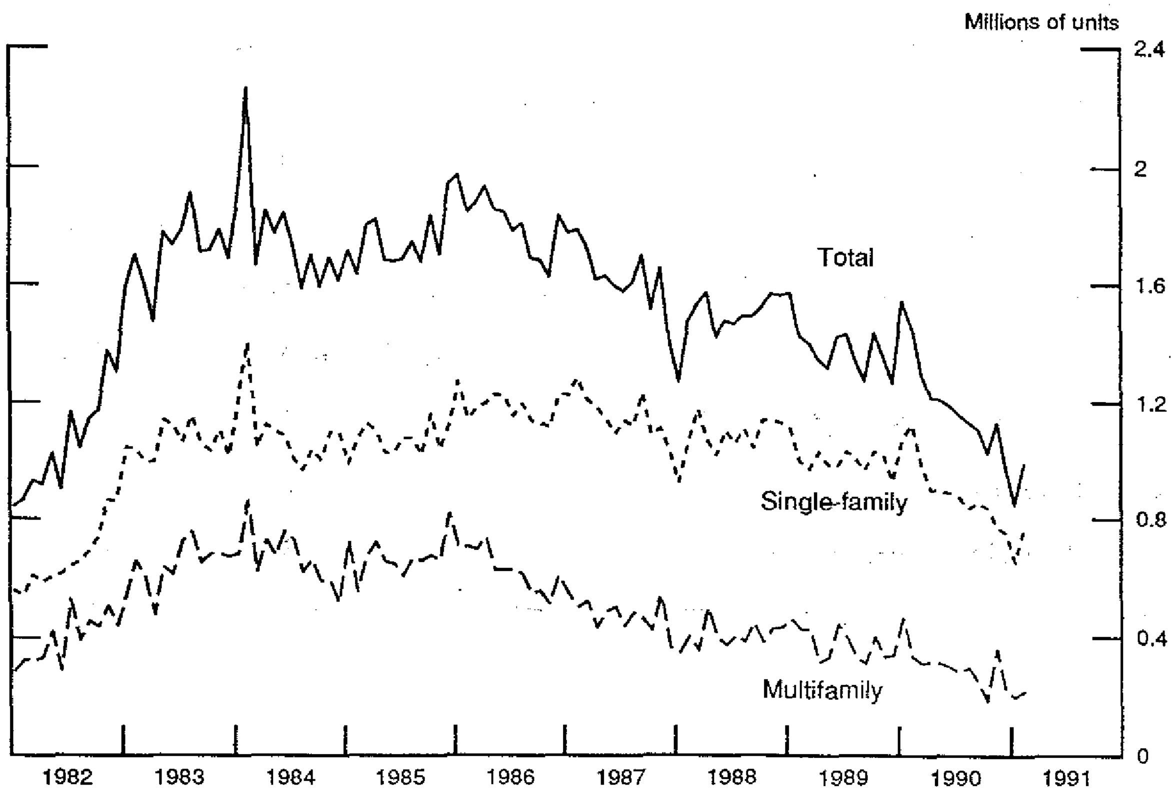
In February, permits and starts for single-family homes more than retraced surprisingly sharp January declines. Additional evidence that

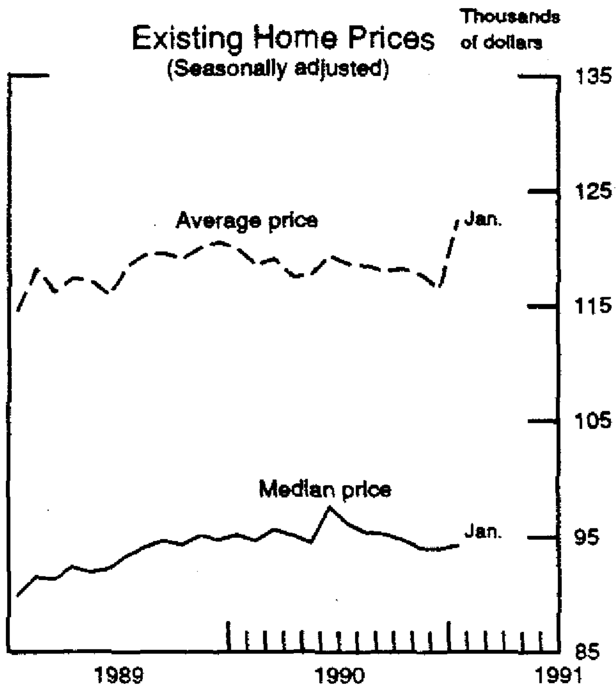
PRIVATE HOUSING ACTIVITY
(Seasonally adjusted annual rates; millions of units)

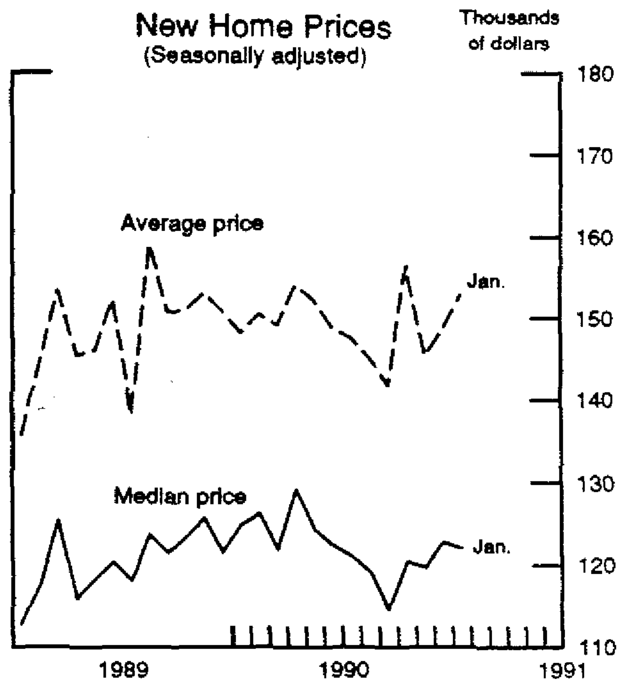
	1990	1990			1990	1991	
	Annual	Q2	Q3	Q4	Dec.[r]	Jan.[r]	Feb.[p]
All units							
Permits	1.10	1.09	1.04	.89	.84	.80	.87
Starts	1.19	1.20	1.13	1.04	.97	.85	.99
Single-family units							
Permits	.79	.80	.76	.68	.65	.61	.69
Starts	.89	.90	.86	.79	.75	.65	.77
Sales							
New homes	.54	.54	.52	.47	.47	.41	n.a.
Existing homes	3.32	3.36	3.30	3.12	3.13	2.91	n.a.
Multifamily units							
Permits	.30	.29	.28	.22	.20	.19	.17
Starts	.30	.31	.28	.26	.22	.20	.22
Vacancy rate[1]							
Rental units	9.1	8.5	9.5	9.0	n.a.	n.a.	n.a.
Owned units	7.2	7.9	6.6	6.6	n.a.	n.a.	n.a.

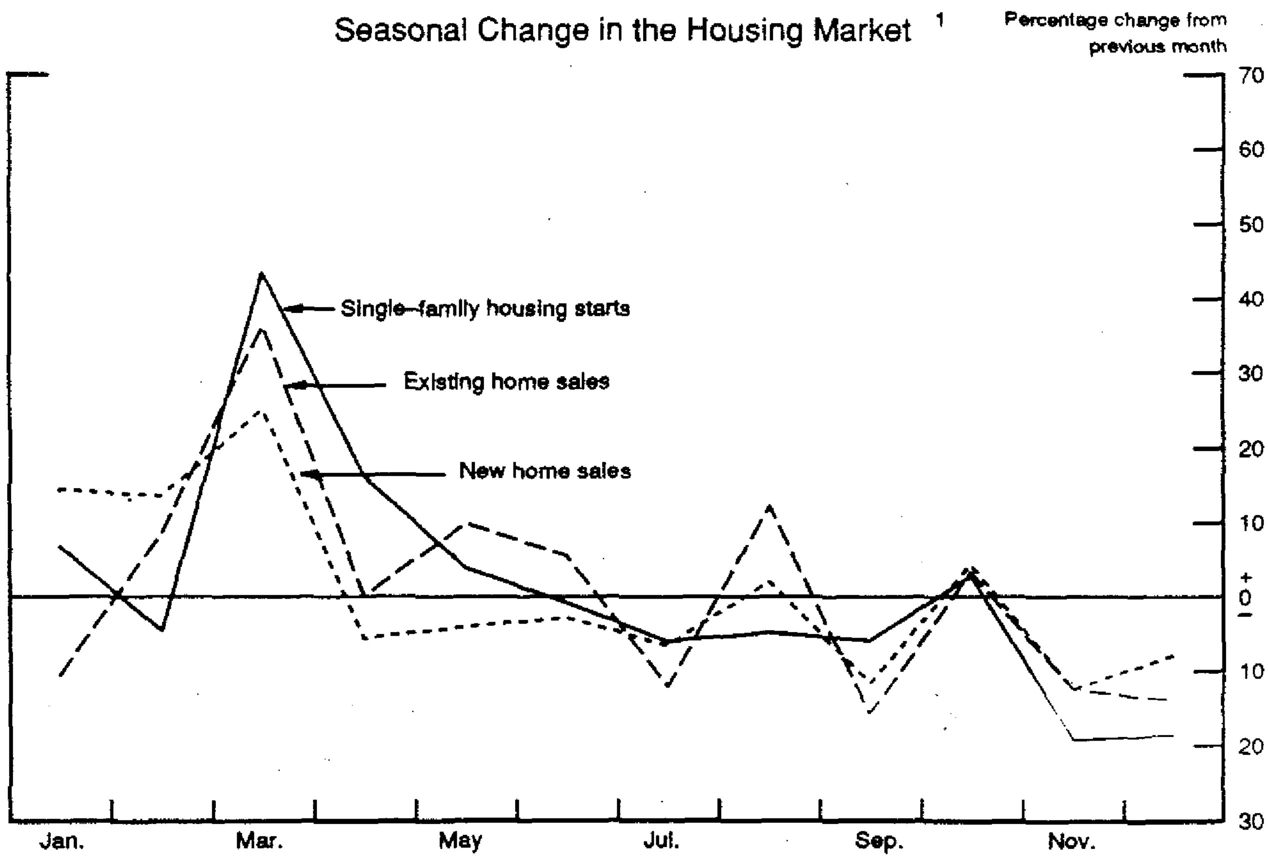
1. Percent. Owned units consist mainly of condominiums. All vacancy rate data are revised.
p Preliminary. r Revised estimates. n.a. Not available.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)









1. Calculated from seasonal factors for 1988-90.

construction may have bottomed out came from builders surveyed by the National Association of Homebuilders, who reported an unusually sharp increase in shoppers and sales during the month.

Media reports and other anecdotal accounts add to the perception that a recovery in housing demand and homebuilding may be commencing. To be sure, distinguishing between seasonal and cyclical changes in housing activity is particularly difficult as spring arrives; the normal seasonal rise from February to March is about 25 percent for new home sales and about 45 percent for starts. Nonetheless, that demand could be firming is plausible in light of the fact that lower mortgage rates and weak house prices have made houses much more affordable. The Michigan Survey of Consumer Sentiment, taken in early March, indicated a jump in the number of consumers who thought it was a good time to buy a home, because of both lower home prices and mortgage rates.

Meanwhile, multifamily construction continues dormant; starts in this segment of the market were little changed in February and remain near their lowest level since the 1950s. With vacancies still high and with investors and lenders both on the sidelines, multifamily construction shows no signs of near-term revival.

The Federal Government

The federal government accounts showed a small unified budget surplus in January, reflecting a seasonal bulge in receipts and a temporary lapse in funding for the RTC. Nevertheless, the $85 billion deficit that cumulated through January is a record for the first four months of a fiscal year.

Nonwithheld income tax receipts in January, which are primarily payments for tax liability incurred on 1990 nonwage sources of income, were

FEDERAL GOVERNMENT RECEIPTS AND OUTLAYS
(Billions of dollars)

	Jan. 1990	Jan. 1991	Fiscal year to date FY1990	FY1991	Percent change
Receipts	99.5	101.8	328.3	355.6	8.3
Nonwithheld income taxes	22.4	21.8	30.3	29.9	-1.2
Withheld income and social security taxes	64.4	65.7	238.7	255.9	7.2
Corporate income taxes	3.1	3.8	25.1	29.3	16.5
Defense cooperation account	0	1.1	0	5.3	
Other taxes	9.7	9.4	34.2	35.2	2.9
Outlays	91.3	100.0	390.6	440.1	12.7
Deposit insurance	-1.3	-.5	5.7	13.7	138.3
Defense	22.0	21.9	95.7	102.8	7.4
Other	70.5	78.7	289.2	323.7	11.9
Surplus/Deficit(-)	8.3	1.8	-62.3	-84.5	35.7

Details may not add to totals because of rounding.

OPERATION DESERT STORM--BUDGET AUTHORITY
(Billions of dollars)

	FY1990 Supplemental	FY1991 Supplemental	
		Administration	Congress
Desert Storm budget authority	3	65[1]	43
Sources of financing:			
Allied financial contributions	1	50[1]	n.a.[2]
U.S. Treasury financing	2	15	n.a.[3]
Memo:			
Allied in-kind contributions:	0	3	n.a.
Total allied contributions	1	53	n.a.

1. Assumes that all $51 billion, which includes the $1 billion authorized in the FY1990 supplemental, in pledged financial contributions are received from the allies. A shortfall in these receipts would reduce the amount of new budget authority available.
2. Authority to spend up to $43 billion of allied financial contributions.
3. Treasury financing will total $43 billion less the amount contributed by the allies, up to a maximum of $15 billion.

CASH AND IN-KIND CONTRIBUTIONS FOR OPERATION DESERT SHIELD/STORM
(Billions of dollars)

		Received			Future
Country	Commitments	Cash[2]	In-kind[1]	Total	receipts
Saudi Arabia	16.8	4.6	1.6	6.0	10.8
Kuwait	16.0	4.5	.0	4.5	11.5
Japan	10.7	.9	.5	1.3	9.4
Germany	6.6	2.4	.5	3.0	3.6
United Arab Emirates	3.0	.9	.1	1.0	2.0
Korea	.4	.1	.0	.3	
Total	53.5	13.2	2.7	15.9	37.6

1. Through January 31, 1991.
2. Through February 28, 1991.

a bit below year-earlier collections. For the fiscal year to date, wage-related tax collections--withheld income taxes and social security taxes--rose about 7 percent.[5] This increase exceeded the growth in aggregate wages and salaries over this period by about 2-1/2 percentage points, primarily because of the January 1990 hike in the social security tax rate. Fiscal-year-to-date corporate tax receipts appear surprisingly strong, given the performance of profits in 1989 and 1990, but may represent a catch-up for low estimated tax payments in the first three quarters of last year. Contributions from allies for Operation Desert Shield/Storm, deposited in the Defense Cooperation Account, added $5.3 billion to receipts for the months of October through January; the Defense Department reports that an additional $8 billion was deposited in February. Substantial contributions also are expected in March.

On the outlay side of the budget, congressional delays in authorizing new funding halted most thrift resolution activity by the Resolution Trust Corporation in January and February. Senate and House conferees have agreed to a bill that provides an additional $30 billion of loss funds for the RTC; the measure is scheduled for a final vote in both chambers before the Easter recess. Defense spending for the fiscal year through January increased 7-1/2 percent from levels one year ago, because of expenses for Desert Storm and shifts in the timing of military pay. Other spending increased 12 percent from year-earlier levels, partly because of continuing sharp

5. Withheld income taxes and payroll taxes are aggregated because precise data are initially available only for total employer deposits. The withheld income and payroll tax components reported on the Monthly Treasury Statement are only Treasury estimates and may incorporate adjustments for past estimating errors. The estimation errors and subsequent corrections cancel when these components are summed.

increases in health expenditures and recession-related outlays for income support.

The House and the Senate have approved similar versions of a supplemental appropriation bill for Desert Storm that would provide $43 billion of defense budget authority; this follows a $3 billion supplemental passed last fall. Both versions specify that the spending is to be funded first by foreign contributions. They also provide up to $15 billion of Treasury funding--either to be used as working capital or to make up the shortfall if the foreign contributions are less than $43 billion. The $43 billion of budget authority is much smaller than the Administration's request on February 22, which was based on the assumption of a longer war. Funding for Operation Desert Storm and for items that the Administration and the Congress label "emergencies" is not subject to the spending limitations in the new budget procedures.[6]

Real defense purchases are estimated to have increased at an 8 percent annual rate in the fourth quarter, largely because of outlays related to the Persian Gulf crisis; the spending was concentrated in petroleum and ammunition purchases and military compensation. Nondefense purchases, excluding CCC, were flat in the fourth quarter as a reduction in spending on the census was offset by increases elsewhere.

6. Other spending legislation also is making its way through the Congress. The Administration requested an FY91 supplemental appropriation of $2.8 billion, about half for food stamps and the rest scattered through a variety of programs. The House boosted the request to $4.1 billion, primarily by adding money to defense (apart from direct Desert Storm expenses) and aid to Israel. The ultimate effect on the deficit will depend on whether the Congress and the President designate this spending as an emergency measure, which would not require offsetting reductions elsewhere.

State and Local Governments

After trending up through much of last year, real outlays by state and local governments for construction fell back in December and dropped sharply in January. The decline was concentrated in spending on highways, which dropped 23 percent between November and January. Construction spending is very volatile month to month; nevertheless, the recent data may be signaling the beginning of a period of constraint on building for some governments, triggered by revenue shortfalls and budgetary pressures. Most governors apparently will attempt to close their potential FY91 budget gaps primarily with spending cuts rather than tax increases.[7] In addition to reductions in construction, many state governments have announced plans to cut employment, furlough employees, and reduce aid to local governments. Growth in outlays for day-to-day operations for the sector as a whole already has slowed noticeably: Over the four quarters of 1990, real purchases for nondurable goods and services rose 1.5 percent, the smallest increase since 1982.

With the rise in fiscal difficulties, a number of states with high credit ratings have come under greater scrutiny by the credit rating agencies. In particular, Standard and Poor's has placed six states rated AA and AAA on "CreditWatch" for possible downgrading: California, Connecticut, Maine, Michigan, Illinois, and Pennsylvania. Concern about the quality of the states' debt centers on potential deficits in both the current fiscal year, which ends on June 30 for all of these states, and in fiscal 1992. If the governments of these states are not able to come up with plausible plans to erase the deficits, downgradings could occur. Even without an actual

7. Fiscal year 1991 ends on June 30 for most state governments.

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

	Relative importance Dec. 1990	1989	1990	1990 Q2	1990 Q3	1990 Q4	1991 Jan.	1991 Feb.
				------Annual rate-----			-Monthly rate-	
All items[2]	100.0	4.6	6.1	4.1	8.2	4.9	.4	.2
Food	16.2	5.6	5.3	2.5	4.6	3.9	.6	-.2
Energy	8.2	5.1	18.1	1.2	44.2	18.0	-2.4	-4.0
All items less food and energy	75.6	4.4	5.2	4.6	6.0	3.8	.8	.7
Commodities	24.5	2.7	3.4	2.0	3.3	2.3	1.0	1.0
Services	51.1	5.3	6.0	5.5	7.2	4.8	.7	.6
Memorandum:								
CPI-W[3]	100.0	4.5	6.1	3.8	8.4	5.0	.4	.1

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. 1990	1989	1990	1990 Q2	1990 Q3	1990 Q4	1991 Jan.	1991 Feb.
				------Annual rate-----			-Monthly rate-	
Finished goods	100.0	4.9	5.6	1.0	11.3	4.4	-.1	-.6
Consumer foods	23.7	5.2	2.5	-1.6	2.3	1.3	-.3	.2
Consumer energy	16.8	9.5	29.8	-4.6	118.7	17.7	-2.5	-5.1
Other finished goods	59.5	4.2	3.5	3.2	3.5	3.5	.5	.4
Consumer goods	36.4	4.4	3.6	3.8	3.5	3.1	.8	.5
Capital equipment	23.1	3.8	3.4	2.7	3.6	3.3	.3	.2
Intermediate materials[2]	95.2	2.5	4.6	.4	13.4	3.8	-.4	-.9
Excluding food and energy	78.5	.9	1.9	.7	4.0	2.0	.1	-.1
Crude food materials	34.7	2.8	-3.6	-3.8	-7.8	-5.3	-1.5	.0
Crude energy	50.4	17.9	18.6	-39.2	305.8	-20.2	6.3	-15.9
Other crude materials	14.9	-3.6	.4	13.5	5.9	-18.5	.3	.2

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

change in credit ratings, debt service costs for states and localities experiencing erosion in their budgets likely will increase relative to what they otherwise would have been, as capital markets adjust to the weakened fiscal conditions and rates on new offerings rise.

Prices

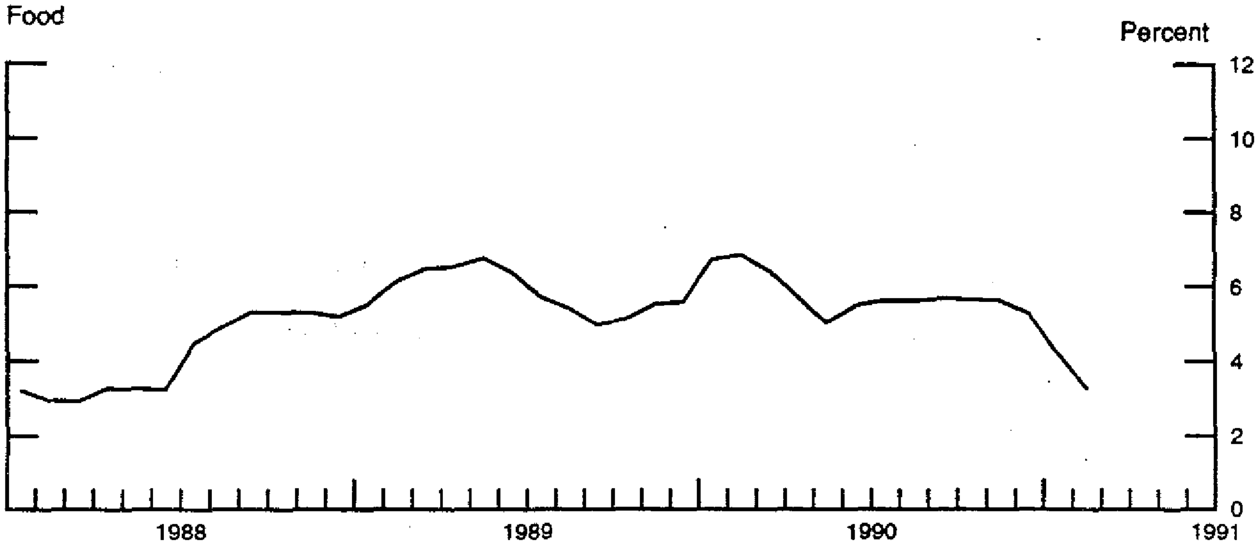
Increases in consumer prices have slowed in recent months, but that slowing is almost entirely the result of a retracing of the earlier runup in energy prices. Excluding food and energy, the CPI posted sizable increases in early 1991, reflecting hikes in excise taxes as well as an unusual bunching of price increases at the beginning of the year. As a result, the twelve-month percent change in the CPI excluding food and energy rose to 5.6 percent in February--1 percentage point higher than in the year-earlier period. Even adjusting for the influence of these special factors, it is hard to reconcile recent price behavior with the observed slowing in wage inflation and the overall level of slack in the economy.

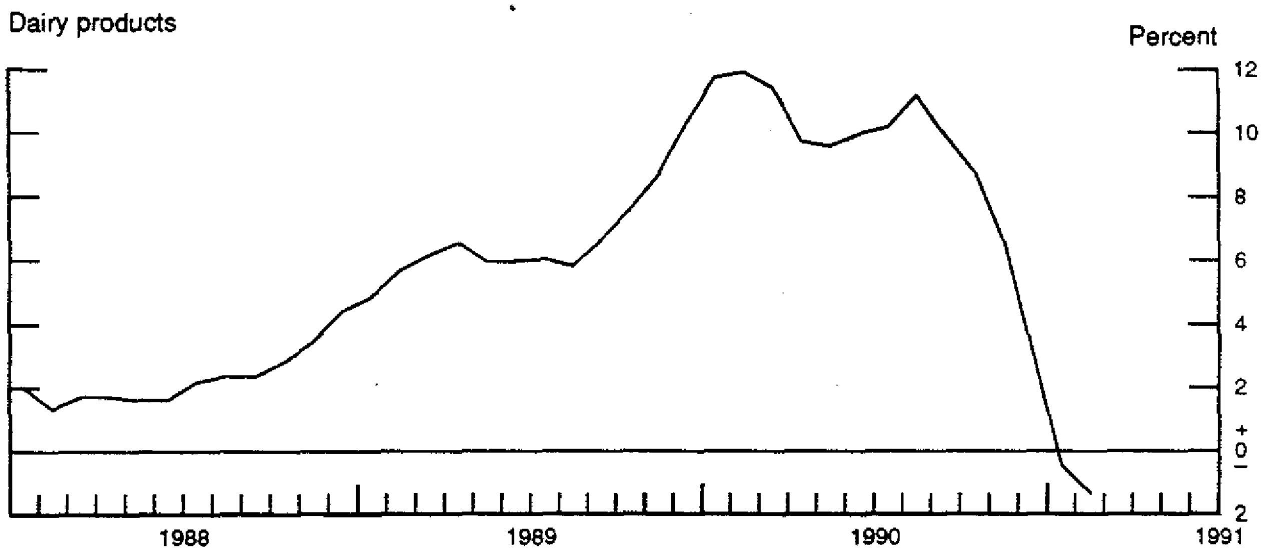
The CPI for energy declined about 2-1/2 percent in January and another 4 percent in February. Reflecting the sharply lower cost of crude oil, retail gasoline prices fell 14 percent over the first two months of the year. However, gasoline inventories have tightened, and private survey data for early March suggest that prices will decline less sharply this month. Elsewhere, prices of fuel oil and natural gas also posted large declines in February, while electricity rates edged up.

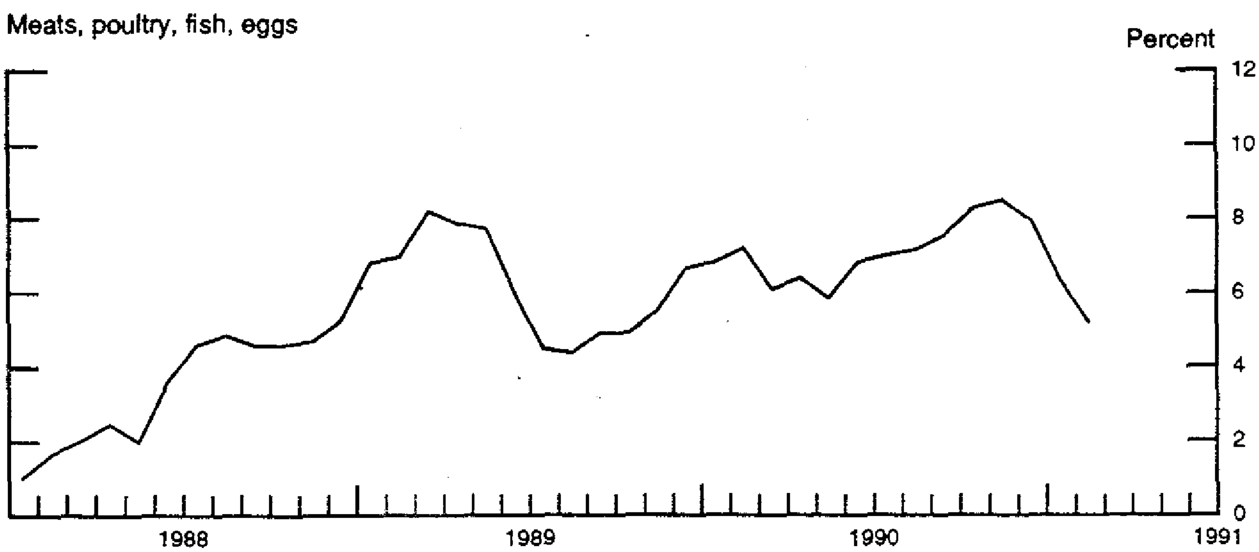
Food prices at the consumer level jumped 0.6 percent in January, but then fell 0.2 percent in February. About half of the January rise was accounted for by a sharp increase in the prices of fruits and vegetables; most of that increase was reversed in February. Large January advances in

Food Price Trends[1]

(Change in the consumer price index from year earlier)

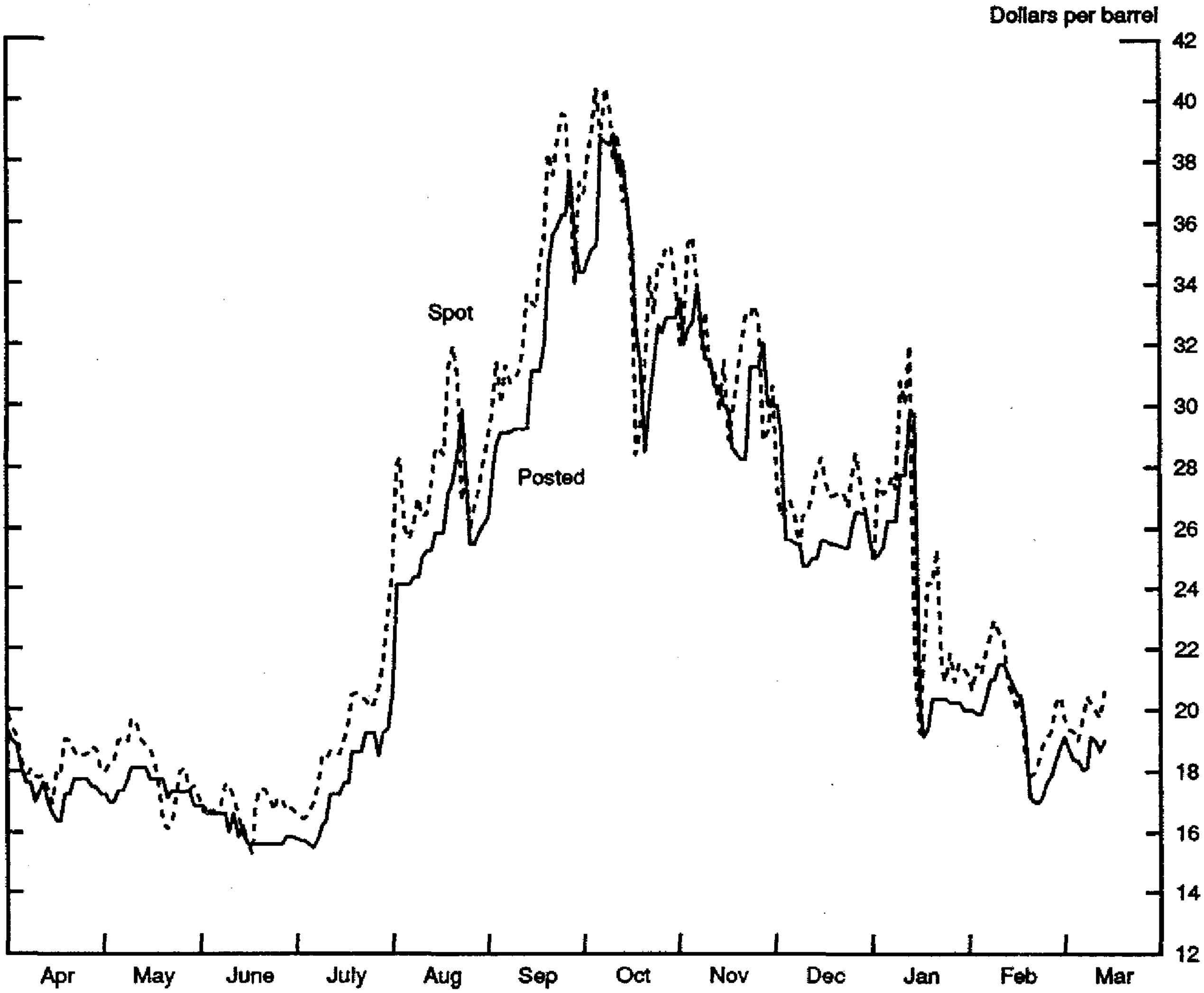






1. Data are through February 1991.

Daily Spot and Posted Prices of West Texas Intermediate [1]



1. Posted prices are evaluated as the mean of the range listed in the Wall Street Journal.

MONTHLY AVERAGE PRICES--WEST TEXAS INTERMEDIATE

Year and Month	Posted	Spot
1990		
April	17.77	18.58
May	17.55	18.24
June	16.15	16.87
July	17.23	18.64
August	24.99	27.17
September	31.10	33.69
October	34.82	35.92
November	31.32	32.30
December	26.32	27.34
1991		
January	23.74	24.96
February	19.61	20.52
March[1]	18.59	19.87

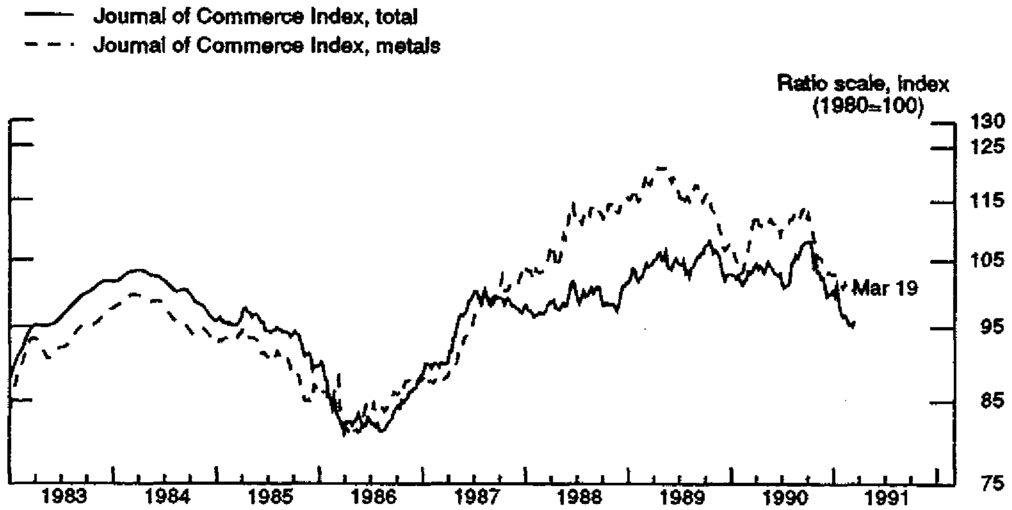
1. Price through March 19.

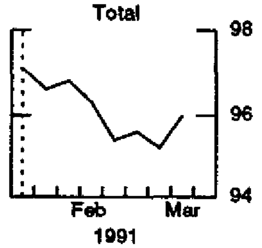
the prices of some other foods--such as cereals and bakery products and nonalcoholic beverages--probably reflected a bunching of price increases at the start of the year, as prices of these items flattened out in February.

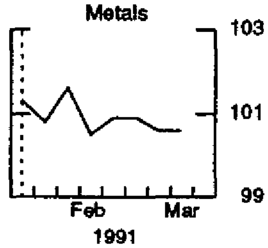
In total, the food price data of recent months suggest that the trend in food price inflation has slowed. The twelve-month percentage change in the CPI for food, which had stayed well above 5 percent over most of the 1989-90 period, recently has dropped back to just over 3 percent. A big factor in this deceleration has been the sharp turnabout of dairy prices in recent months, from a year-to-year rate of change of about 10 percent as late as last September to a decline of about 1-1/4 percent as of February of this year. A sustained increase in dairy production largely explains the swing. In addition, increases in the prices of food away from home, the category with by far the biggest weight of any category in the CPI for food, have been quite moderate in recent months, and its year-to-year trend has dropped a full percentage point since last summer, a meaningful deceleration in a series that often displays considerable inertia. The twelve-month rate of change in meat prices also has slowed of late, but only to the 5 percent mark, as expansion of beef and pork production appears to be proceeding rather cautiously at this point. Futures prices of farm commodities have strengthened moderately since the last FOMC meeting, from what had been a slightly declining trajectory overall to one that looks relatively flat over 1991 as a whole.

Heavy precipitation in California in recent weeks has provided a little breathing room in that state's battle against drought, but the year still promises to be one of tight water supplies. The impact of the drought on agricultural production and food prices nationally will depend on several

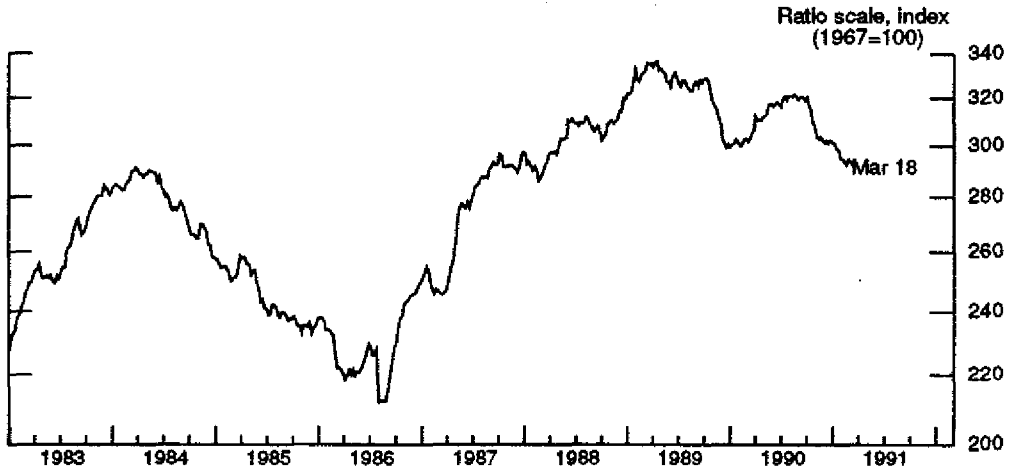
COMMODITY PRICE MEASURES *

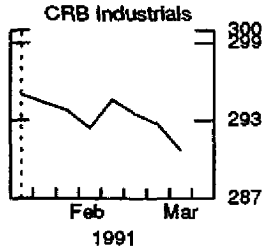




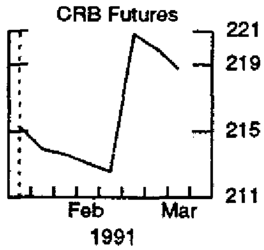


CRB Spot Industrials





CRB Futures



* Weekly data, Tuesdays; Journal of Commerce data monthly before 1985

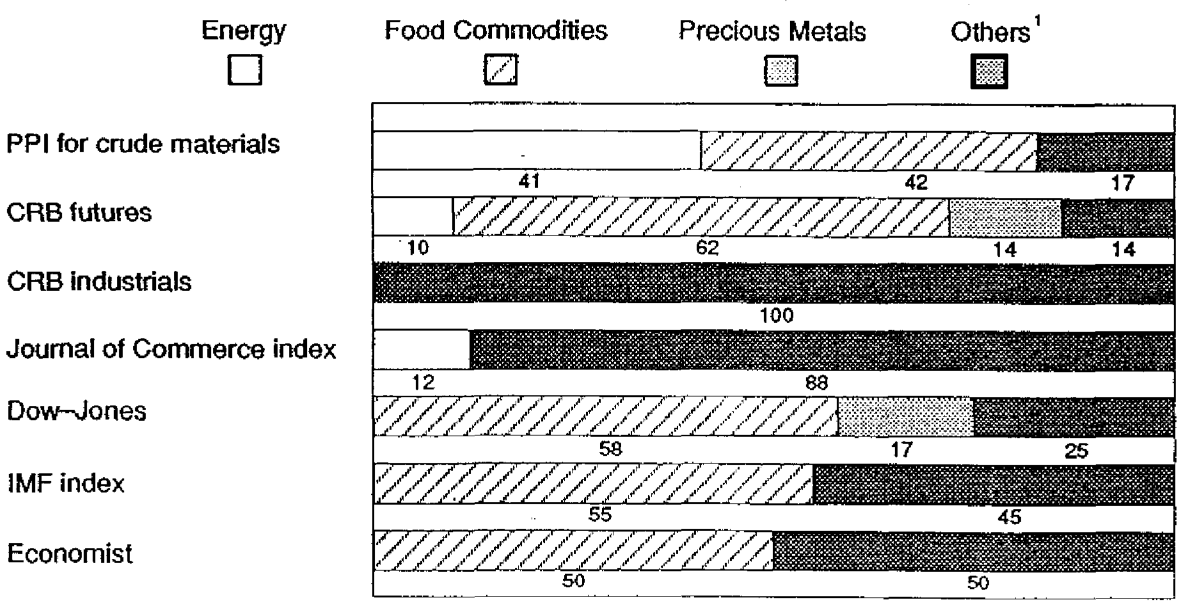
Dotted lines indicate week of last Greenbook.

PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

	Last observation	Percent change[2] 1989	1990	1991 To Jan. 29[3]	1991 Jan. 29[3] to date	Memo: Year earlier to date
1. PPI for crude materials[4]	Feb.	7.1	6.0	3.0	-8.3	-2.2
1a. Foods and feeds	Feb.	2.8	-3.6	-1.0	.1	-5.6
1b. Energy	Feb.	17.9	18.6	6.3	-15.9	.8
1c. Excluding food and energy	Feb.	-3.6	.4	.7	.1	1.8
1d. Excluding food and energy, seasonally adjusted	Feb.	-3.6	.4	.3	.2	1.8
2. Commodity Research Bureau						
2a. Futures prices	Mar. 19	-9.0	-2.7	-3.3	1.6	-7.6
2b. Industrial spot prices	Mar. 18	-5.9	.6	-2.1	-1.5	-4.7
3. *Journal of Commerce* industrials	Mar. 19	1.3	-2.4	-3.3	-1.1	-7.1
3a. Metals	Mar. 19	-7.2	-3.9	-1.6	-.7	-9.4
4. Dow-Jones Spot	Mar. 19	-10.1	-1.7	-2.2	1.9	-6.7
5. IMF commodity index[4]	Feb.	-12.9	-5.6	.0	.3	-2.7
5a. Metals	Feb.	-23.4	-3.0	-.7	-.2	1.1
5b. Nonfood agric.	Feb.	-4.6	-3.5	-.6	-1.1	-4.0
6. *Economist* (U.S. dollar index)	Mar. 12	-22.8	-4.4	-3.3	1.6	-11.3
6a. Industrials	Mar. 12	-23.8	-3.2	-4.4	.7	-11.3

1. Not seasonally adjusted.
2. Change is measured to end of period, from last observation of previous period.
3. Week of the January Greenbook.
4. Monthly observations. IMF index includes items not shown separately.
n.a. Not available.

Index Weights



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

factors: the degree to which California acreage might have to be constrained or herds reduced; the degree to which yields might be cut on the remaining acreage; and the degree to which producers in other states might lift acreage in anticipation of reduced harvests in California. With regard to field crops, a special USDA survey of prospective plantings, taken in the last half of January, pointed to increased acreage in 1991 for most major crops for the nation as a whole (wheat was the exception); although state detail was not provided in the report, the anticipated increases in national acreage did extend to field crops that are important in California, such as cotton and rice. Additional USDA reports on prospective plantings will become available in the last ten days of March, both for field crops and for vegetables that are processed; a USDA report on the prospective second-quarter acreage of fresh vegetables will be released in early April.

Excluding food and energy, the CPI jumped 0.8 percent in January and another 0.7 percent in February. Higher federal excise taxes contributed to large increases in both months in the prices of tobacco and alcoholic beverages, while a 16 percent rise in postal rates boosted the index in February. In addition, problems with seasonal adjustment probably overstated somewhat the rise in inflation in the first two months of the year. Apparel prices rose almost 3 percent in total over this period, as the BLS began to sample spring merchandise earlier than was expected by the seasonal factors; some reversal of these increases is likely in coming months. Similarly, changes in BLS' method of pricing lodging while out of town caused this subindex to surge, adding as much as 0.3 percentage point to the rise in the overall CPI over the past year.

Nonetheless, even outside of these areas, the acceleration in prices appears to have been fairly widespread. Prices of new cars were up 1.3 percent in January and another 0.5 percent in February, reflecting the continued introduction into the CPI sample of 1991 models and some scaling back of incentive programs. Prices of light trucks rose a similar amount despite an extensive supply of those vehicles. In addition to motor vehicles, price increases have picked up for a variety of public services, and airfares have continued to rise despite some moderation in jet fuel costs.

At the producer level, the PPI for finished goods less food and energy increased 0.5 percent in January and 0.4 percent in February. Increases in motor vehicle prices were large in both months, while prices of alcoholic beverages jumped sharply in January before giving back some of the increase in February. Prices of intermediate materials (nonfood, non-energy) were little changed in February for the third consecutive month as declines--notably for nonferrous metals and some petroleum-based materials--about offset increases for most of the more processed materials. Price changes for crude nonfood materials less energy were mixed and, on average, relatively small after substantial declines over the last four months of 1990.

The prices of some commodities--notably grains and precious metals--jumped sharply after the end of hostilities in the Middle East. But the increases did not become widespread and, in some cases, already have been partly reversed. These patterns of price change have showed through most clearly in the CRB futures index, a measure in which food commodities and precious metals are heavily weighted. In contrast, both the CRB spot index

LEAD TIME PERFORMANCE OF LEADING INDICATORS
(Calculated at business cycle troughs)

Series	Mean lead (months)	Standard deviation (months)
Average manufacturing workweek	.9	.8
Initial claims (inverted)	.1	1.9
Consumer goods orders (1982$)	1.4	2.3
Vendor performance	4.4	3.9
Plant and equipment commitments (1982$)	-.1	3.8
Building permits	5.4	4.5
Change in durable goods unfilled orders	3.0	3.0
Change in sensitive materials prices	2.7	2.1
Stock prices (S&P500)	4.7	1.6
Money supply (M2 in 1982$)	3.5	2.1
Consumer expectations	3.9	2.9
Composite index of leading indicators	4.6	3.8

Calculated from individual series lead times (as designated by BEA) for the seven postwar business cycle troughs since 1952.

for industrials and the Journal of Commerce index of industrial metals prices have moved in narrow ranges for more than a month, as price movements in spot markets for industrial materials have been mixed.

Leading Indicators of Expansion

The composite index of leading economic indicators, which declined more moderately on average in December and January, appears likely to record an increase in February. The lead time for this measure has been erratic in the past seven business cycles; turns in the LEI precede the reference cycle trough by an average of about 4-1/2 months, but with a standard deviation of almost four months.

The lead times of the individual LEI components vary considerably in their length and reliability. The table lists the mean lead times at troughs and the associated standard deviations. Among those indicators with significant lead times, several turned upward awhile ago. Stock prices reached a low point in October and have posted strong gains recently; given its lead time of almost five months, and the relatively small standard deviation, the stock index would appear to be providing a strong signal of an imminent upturn in the economy. Consumer expectations turned up in November, suggesting, again with comparatively high reliability, that the business cycle trough is at hand. In contrast, the real money stock and building permits turned up only last month, which would suggest a cyclical turn in the second quarter. One other indicator that is both available and characterized by a relatively low standard deviation, sensitive material prices, has yet to display a clear trough.

Given the relatively short or irregular lead times of the other six components of the LEI, their recent behavior probably tells us little about the timing of the prospective cyclical trough. However, the fact that the average workweek, (inverted) initial claims, and vendor performance all continued to fall through February tends to reinforce the sense that the turning point probably has not yet been reached, but it does not by any means rule out the possibility that the trough could occur shortly.

DOMESTIC FINANCIAL DEVELOPMENTS

SELECTED FINANCIAL MARKET QUOTATIONS [1]
(percent)

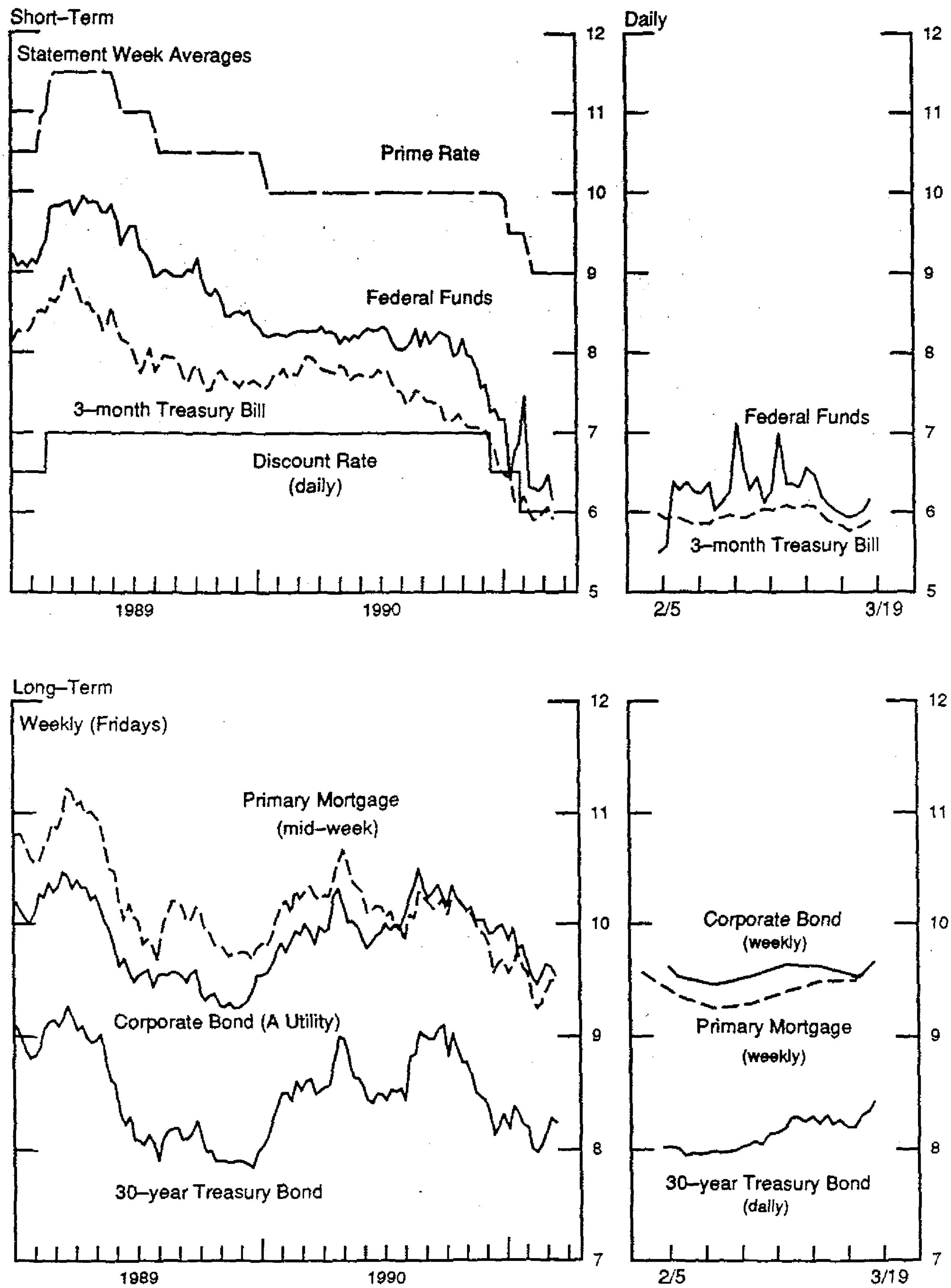
	1989		1990	1991		Change from:	
	March highs	Dec lows	Aug highs	FOMC Feb 6	Mar 19	Aug 90 highs	FOMC Feb 6
Short-term rates							
Federal funds[2]	9.85	8.45	8.21	6.89	6.09	-2.12	-.80
Treasury bills[3]							
3-month	9.09	7.53	7.59	5.91	5.89	-1.70	-.02
6-month	9.11	7.29	7.51	5.88	5.94	-1.57	.06
1-year	9.05	7.11	7.45	5.86	6.07	-1.38	.21
Commercial paper							
1-month	10.05	8.51	8.10	6.42	6.36	-1.74	-.06
3-month	10.15	8.22	8.05	6.41	6.32	-1.73	-.09
Large negotiable CDs[3]							
1-month	10.07	8.52	8.14	6.40	6.41	-1.73	.01
3-month	10.32	8.22	8.18	6.45	6.41	-1.77	-.04
6-month	10.08	8.01	8.25	6.45	6.49	-1.76	-.13
Eurodollar deposits[4]							
1-month	10.19	8.38	8.13	6.38	6.31	-1.82	-.07
3-month	10.50	8.25	8.19	6.50	6.31	-1.88	-.19
Bank prime rate	11.50	10.50	10.00	9.00	9.00	-1.00	.00
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	9.88	7.69	8.50	6.99	7.48	-1.02	.49
10-year	9.53	7.77	9.05	7.79	8.25	-.80	.46
30-year	9.31	7.83	9.17	8.02	8.42	-.75	.40
Municipal revenue[5] (Bond Buyer)	7.95	7.28	7.80	7.24	7.29	-.51	.05
Corporate--A utility recently offered	10.47	9.29	10.50	9.61	9.66	-.84	.05
Home mortgage rates[6]							
S&L fixed-rate	11.22	9.69	10.29	9.56	9.50	-.79	-.06
S&L ARM, 1-yr.	9.31	8.34	8.39	7.75	7.45	-.94	-.30

			1989	1991		Percent change from:		
	Record highs	Date	Lows Jan 3	FOMC Feb 6	Mar 19	Record highs	1989 lows	FOMC Feb 6
Stock prices								
Dow-Jones Industrial	2999.75	7/16/90	2144.64	2830.94	2867.82	-4.40	33.72	1.30
NYSE Composite	205.74	3/5/91	154.00	195.38	200.66	-2.47	30.30	2.70
AMEX Composite	397.03	10/10/89	305.24	332.73	351.37	-11.50	15.11	5.60
NASDAQ (OTC)	485.73	10/9/89	378.56	439.24	462.81	-4.72	22.26	5.37
Wilshire	3582.30	3/5/91	2718.59	3390.97	3494.05	-2.46	28.52	3.04

1/ One-day quotes except as noted.
2/ Average for two-week reserve maintenance period closest to date shown. Last observation is average to date for the maintenance period ending March 20, 1991.
3/ Secondary market.
4/ Bid rates for Eurodollar deposits at 11 a.m. London time.
5/ Based on one-day Thursday quotes and futures market index changes.
6/ Quotes for week ending Friday closest to date shown.

Selected Interest Rates*

(percent)



*—Friday weeks through March 15, Wednesday weeks through March 13.

The System eased pressures on reserve positions slightly further in early March, just after the release of the weak February job report, but the quarter-point cut in the federal funds rate turned out to be a comparatively minor factor in financial market developments during the intermeeting period. The more powerful forces were the hopes of stronger economic performance in the wake of the allied military success in the Gulf, indications of some firming in consumer demand and housing activity, and disappointingly large increases in the "core" components of the February PPI and CPI.

Most short-term market rates are marginally lower now than at the time of the February FOMC meeting, but at the long end of the maturity spectrum Treasury bond yields are up around 40 basis points. Reflecting the perceived reduction in default risks, high-grade corporate bond yields are little changed and junk bond rates have fallen more than 150 basis points. The stock market, too, has benefited from the better economic outlook; after backing off in the past few days from what were record highs for many popular indexes, share prices are still up about 2 to 5 percent over the intermeeting period. Gains in private securities of bank holding companies prompted a number of institutions to tap the markets for new debt and equity capital.

The more upbeat assessment of prospective credit risks contrasts with continued signs of financial distress. Most measures of delinquencies and charge-offs of loans to households and businesses increased in the fourth quarter, and there has been little falloff in announcements of fiscal difficulties at state and local governments. Downgradings of bonds remain frequent, and some of the renewed enthusiasm for junk bonds relates to the prospect of gaining more valuable equity positions in restructurings of overleveraged and otherwise financially distressed companies.

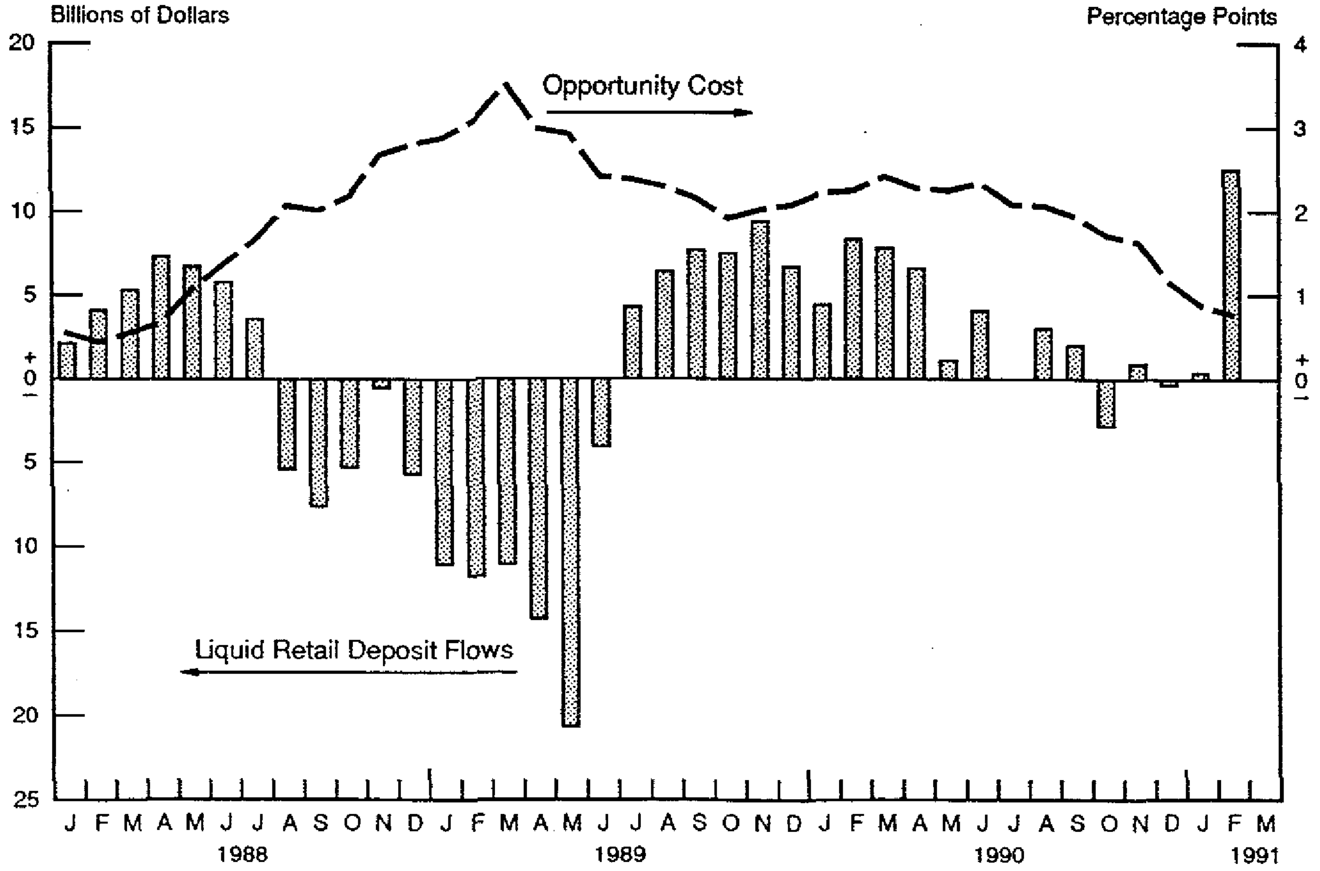
Aggregate borrowing by nonfinancial firms appears to have risen in the past couple of months as offerings of investment-grade bonds have more than offset the weakness in bank loans and commercial paper; many corporations apparently have been anxious to strengthen balance sheets and unwilling to bet on a significant decline soon in long-term interest rates. A dip in tax-exempt interest rates in early February led to a rejuvenation in long-term municipal debt issuance; short-term borrowing also has picked up, to cover budgetary shortfalls. Evidence on household borrowing is limited and mixed. Consumer credit was decidedly weak as spending collapsed around year-end, but bank data hint at an upturn in February. In the mortgage market, trade reports point to a renewed interest in home loans, especially refinancings, in February.

Monetary expansion picked up in February, and the latest data indicate that the stronger growth trend has extended into this month. M2 has moved well within its annual growth cone, the bulk of the recent acceleration reflecting a rise in liquid retail deposits; although this may simply be a lagged adjustment to the sizable decline in opportunity costs since last summer, there are signs, too, that the decline in public confidence may be abating. M3 growth was pushed to double digits in February on the continued strength of inflows to institution-only MMMFs and a surge in large time deposits at foreign branches and agencies. Bank credit posted a sizable gain in February, although business loans remained weak.

Monetary Aggregates and Bank Credit

M2 accelerated to an 8-1/2 percent annual rate of growth in February, its most robust performance in a year. The turnaround owed somewhat to a rebound in demand deposits but primarily reflected a surge in liquid retail deposits--OCDs and savings plus MMDAs. The opportunity cost of holding these deposits had been falling since early last summer but with little apparent impact on this component of M2 until recently (chart). Inflows to liquid deposits had perhaps been restrained by concerns of households about the soundness of the depository system, particularly in view of bank and

Opportunity Costs and Inflows to Liquid Retail Deposits[1]



1. OCDs + Savings + MMDAs.

MONETARY AGGREGATES
(based on seasonally adjusted data unless otherwise noted)

	1990[1]	1990 Q3	1990 Q4	1990 Dec	1991 Jan	1991 Feb p	Growth Q4 90 Feb 91p
	------------Percent change at annual rates						
1. M1	4.2	3.7	3.4	3.1	1.9	14.1	6.4
2. M2	3.9	3.0	2.2	1.7	0.8	8.4	3.5
3. M3	1.7	1.6	1.1	0.6	3.9	10.6	5.0
	------------Percent change at annual rates						Levels bil. $ Feb 91p
Selected components							
4. M1-A	4.6	6.0	4.9	2.7	2.7	14.6	539.4
5. Currency	11.0	11.2	11.1	6.9	25.3	16.7	255.1
6. Demand deposits	-0.6	1.3	-0.7	-1.3	-17.3	14.1	276.1
7. Other checkable deposits	3.5	-0.3	0.7	3.7	0.9	12.7	297.0
8. M2 minus M1[2]	3.8	2.7	1.8	1.2	0.4	6.6	2519.8
9. Overnight RPs and Eurodollars, NSA	3.0	5.4	-20.8	-58.7	-48.7	-16.9	69.9
10. General purpose and broker/dealer money market mutual fund shares	11.4	9.9	11.2	16.4	29.7	14.1	360.5
11. Commercial banks	9.9	11.4	7.8	11.0	5.0	11.6	1192.0
12. Savings deposits plus MMDAs[3]	7.5	7.4	4.1	4.4	2.9	14.9	586.3
13. Small time deposits	12.4	15.5	11.5	17.3	7.2	8.2	605.7
14. Thrift institutions	-5.4	-8.8	-7.6	-12.8	-7.7	-3.6	897.4
15. Savings deposits plus MMDAs[3]	-2.2	-4.9	-7.4	-11.6	-3.5	8.9	340.5
16. Small time deposits	-7.2	-11.1	-7.9	-13.6	-10.2	-11.3	556.8
17. M3 minus M2[4]	-6.4	-3.9	-3.7	-4.0	16.9	19.7	806.0
18. Large time deposits	-9.5	-8.9	-13.0	-12.9	12.3	9.6	516.3
19. At commercial banks, net[5]	-3.6	-2.2	-8.5	-4.3	25.8	21.9	401.5
20. At thrift institutions	-23.9	-27.3	-26.3	-39.3	-30.7	-31.6	114.8
21. Institution-only money market mutual fund shares	20.2	21.6	30.4	51.8	42.0	84.9	139.3
22. Term RPs, NSA	-12.0	1.6	-25.9	-69.0	-10.6	-20.1	87.9
23. Term Eurodollars, NSA	-12.8	12.2	13.6	0.0	-5.2	20.9	70.2
	-----Average monthly change in billions of dollars----						
MEMORANDA:[6]							
24. Managed liabilities at commercial banks (25+26)	-0.2	0.9	-2.5	-8.1	-1.5	-2.3	715.4
25. Large time deposits, gross	-2.6	-2.6	-3.9	-3.4	9.1	9.4	450.3
26. Nondeposit funds	2.4	3.6	1.5	-4.7	-10.6	-11.7	265.1
27. Net due to related foreign institutions	2.2	1.4	4.4	4.5	-1.2	-8.8	24.6
28. Other[7]	0.2	2.1	-2.8	-9.2	-9.5	-2.9	240.5
29. U.S. government deposits at commercial banks[8]	0.3	1.8	-0.5	-0.8	1.4	7.6	33.4

1. Amounts shown are from fourth quarter to fourth quarter.
2. Nontransactions M2 is seasonally adjusted as a whole.
3. Commercial bank savings deposits excluding MMDAs grew during January and February at rates of 12 percent and 11.3 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during January and February at rates of -4.5 percent and 9.7 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. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis.
7. Consists of borrowing 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 borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estimated.
8. Consists of Treasury demand deposits and note balances at commercial banks.
p - preliminary

thrift institution crises in New England. Indeed, the Boston District experienced substantial outflows in December and January. More recently, however, retail deposits have rebounded, especially in New England, and household purchases of Treasury securities, as indicated by the volume of noncompetitive tenders, fell off sharply in February. The rise in retail deposits apparently did not come at the expense of stock and bond funds, however, inflows into which reportedly continued at a strong pace in February.

Growth of currency and money market mutual funds slowed in February, although continuing at a brisk pace. Currency shipments to the Middle East have slowed considerably in recent weeks from their frenetic January pace, but shipments to other foreign countries have continued unabated. M2-type MMMFs continued to grow strongly as well, bolstered by their favorable yields relative to other market instruments. Small time deposits, in contrast, remain in the doldrums, as depositories have lowered rates on retail CDs much more quickly than on other deposits.

M3 jumped 10-1/2 percent in February, putting this aggregate at the upper bound of its annual growth cone. In addition to the revival of M2 growth, M3 was driven by continued strength in institution-only MMMFs and in large time deposits.

Large time deposits have expanded at double-digit rates in the past two months after contracting for much of last year. This recent strength has been accounted for entirely at branches and agencies of foreign banks and reflects their substitution away from other liabilities following the December change in reserve requirements. Previously, foreign branches and agencies had been required to hold reserves against all nonpersonal time

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT

(Percentage changes at annual rates, based on seasonally adjusted data)

	1989:Dec. to 1990:Dec.	1990 Q3	1990 Q4	1990 Dec.	1991 Jan.	1991 Feb.	Levels bil.$ Feb.
	----- Commercial Bank Credit -----						
1. Total loans and securities at banks	5.3	5.7	2.3	3.1	-.9	6.3	2735.0
2. Securities	8.6	8.4	.5	-.4	4.2	7.4	635.5
3. U.S. government securities	13.9	10.6	3.7	.5	-.3	10.3	458.0
4. Other securities	-3.1	2.7	-7.2	-2.0	15.0	.0	177.6
5. Total loans	4.3	4.9	2.9	4.1	-2.5	5.9	2099.4
6. Business loans	1.9	1.2	3.1	4.1	-5.7	.2	643.8
7. Real estate loans	9.5	7.7	6.1	5.6	.0	6.9	842.6
8. Consumer loans	1.2	1.2	.6	1.6	-8.9	5.7	377.7
9. Security loans	4.1	72.0	-6.8	30.3	76.8	.0	43.2
10. Other loans	-1.8	3.6	-4.6	-.6	-6.3	20.3	192.2
	----- Short- and Intermediate-Term Business Credit -----						
11. Business loans net of bankers acceptances	1.9	1.4	3.2	4.0	-5.3	1.9	637.7
12. Loans at foreign branches[2]	19.3	36.7	37.0	38.1	13.8	-13.7	26.0
13. Sum of lines 11 & 12	2.5	2.5	4.4	5.4	-4.3	1.1	663.7
14. Commercial paper issued by nonfinancial firms	12.2	16.8	-3.2	-4.0	3.2	-15.1	149.0
15. Sum of lines 13 & 14	4.2	5.1	3.0	3.5	-3.1	-1.8	812.7
16. Bankers acceptances: U.S. trade related[3,4]	-9.6	-27.2	17.8	.0	-3.6	n.a.	32.1[5]
17. Line 15 plus bankers acceptances: U.S. trade related	3.6	3.8	3.5	3.4	-3.1	n.a.	846.6[5]
18. Finance company loans to business[3]	12.7	20.7	8.0	8.8	13.2	n.a.	293.2[5]
19. Total short- and intermediate-term business credit (sum of lines 17 & 18)	5.8	8.0	4.6	4.9	1.1	n.a.	1139.8[5]

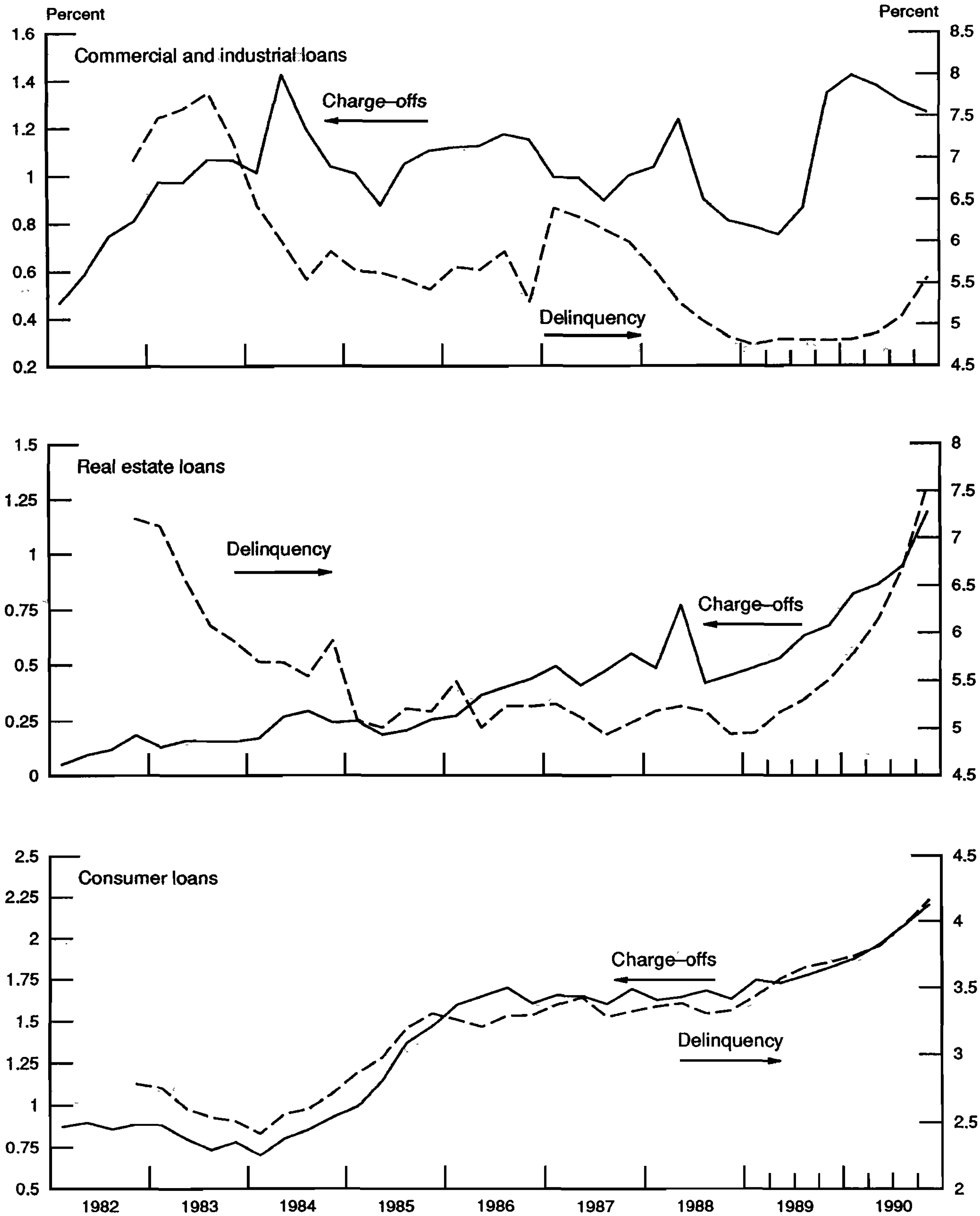
1. Average of Wednesdays.
2. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
3. Based on average of data for current and preceding ends of month.
4. Consists of acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage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

deposits, but only against those net Eurodollar borrowings that exceeded 8 percent of their capital, as measured by their assets. Owing to this exclusion, the reserve requirement on net Eurodollar borrowing had not been binding on many branches and agencies. For these institutions, therefore, the change in reserve requirements amounted to a reduction in the relative cost of funding with large time deposits. In addition, representatives of several foreign branches indicate that they have turned to large time deposits as a vehicle for locking in funds over the quarter-end rather than use shorter-term liabilities such as federal funds.

Bank credit expanded at a 6-1/4 percent annual rate in February, its strongest showing since last summer. Growth of security holdings rose, mainly U.S. government securities at large domestic banks. The loan categories also strengthened. Consumer loans rebounded smartly following a large decline in January; adjusted for securitizations, such loans increased at a 9 percent annual rate last month, after no change in January. Real estate loans also increased briskly in February, despite some slowing in home equity lending; about half of the growth, however, was due to banks' acquisition of loans from thrift institutions. Business loans grew slightly last month, but some of the increase owed to a foreign bank's transfer of loans from its Nassau branch to its U.S. branches.

Business loan growth may have been restrained to a degree by the failure of some loan rates to decline in tandem with market rates: According to the Survey of Terms of Bank Lending, the average spread of prime-based loans over the federal funds rate widened considerably further between November and February. Banks apparently have continued to tighten lending standards for C&I and commercial real estate loans. According to

Rates of Loan Loss (Charge-offs) and Delinquency at Large Banks[1]
(Seasonally adjusted)



1. Loss rates are based on charge-offs net of recoveries. Delinquent loansinclude those past due 30 days or more and still accruing interest, as well as those on nonaccrual status. Data are reported on the Quarterly Report of Condition by banks with at least $300 million in assets. Data are consolidated (foreign and domestic offices). Percent at annual rate of average amount outstanding, seasonally adjusted. Loss rate series begin in 1982 Q1, delinquency rate series begin in 1982 Q4.

the March Senior Loan Officer Opinion Survey on Bank Lending Practices, about one-half the number of banks that had reported tightening in the preceding survey, covering the three months ending in late January, indicated further tightening in the six weeks ending in mid-March. For consumer lending, however, banks on balance evidenced no further tightening in the most recent survey.

Through the end of last year, charge-off and delinquency rates on real estate and consumer loans at commercial banks continued to rise (chart). Business loan delinquencies also rose further, while charge-offs remained elevated. Regionally, loan problems at banks were spread over most Districts, although the greatest concentration continues to be in the Northeast and Texas.

Nonfinancial Business Finance

The weakness in business loans in February was accompanied by a decline in commercial paper and at least partially reflected a desire by firms to shift to longer-term financing. Bond issuance has been heavy in recent weeks, apparently because many corporate treasurers believed that long-term rates were unlikely to fall much further. Issues with maturities longer than ten years have accounted for a large share of total nonfinancial offerings.

The commercial paper market was largely unaffected by restrictions approved by the Securities and Exchange Commission on taxable money funds' holdings of so-called second-tier securities, partly because the restrictions had been long anticipated. Beginning June 1, 1991, a taxable money fund can hold no more than 5 percent of its assets in second-tier securities--generally those carrying the second-highest rating of the credit

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

	1989	1990p	-----1990----- Q4[p]	Dec.[p]	----1991---- Jan.[p]	Feb.[p]
Corporate securities - total[1]	19.84	19.80	22.11	20.98	16.03	26.58
Public offerings in U.S.	17.78	17.68	20.67	20.29	14.97	23.75
Stocks--total[2]	2.69	1.95	1.33	1.79	0.97	1.75
Nonfinancial	1.08	1.03	0.56	0.46	0.54	1.01
Utility	0.29	0.35	0.36	0.30	0.46	0.34
Industrial	0.79	0.68	0.20	0.16	0.08	0.68
Financial	1.60	0.92	0.77	1.33	0.43	0.74
Bonds	15.09	15.73	19.35	18.50	14.00	22.00
Nonfinancial	6.27	5.41	7.47	7.40	4.80	9.20
Utility	1.78	1.94	2.77	3.70	1.20	2.00
Industrial	4.49	3.46	4.70	3.70	3.60	7.20
Financial	8.82	10.32	11.87	11.10	9.20	12.80
By quality[3]						
Aaa and Aa	3.29	3.45	4.72	4.00	4.90	5.00
A and Baa	5.67	6.34	7.61	6.99	5.66	10.41
Less than Baa	2.39	0.15	0.11	0.17	0.36	0.31
No rating (or unknown)	0.06	0.03	0.00	0.00	0.00	0.00
Memo items:						
Equity-based bonds[4]	0.52	0.38	0.26	0.36	0.36	0.39
Mortgage-backed bonds	1.68	2.41	2.27	2.25	1.60	1.70
Other asset-backed	2.02	3.35	4.62	5.08	1.48	4.58
Variable-rate notes	1.03	0.82	1.13	1.57	0.00	0.60
Bonds sold abroad - total	1.90	1.90	1.42	0.68	0.80	2.80
Nonfinancial	0.48	0.40	0.17	0.13	0.30	1.70
Financial	1.43	1.50	1.25	0.55	0.50	1.10
Stocks sold abroad - total	0.16	0.22	0.02	0.02	0.26	0.03
Nonfinancial	0.12	0.10	0.02	0.02	0.07	0.01
Financial	0.04	0.12	0.01	0.00	0.19	0.03

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. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings. Such swaps totaled $20.4 billion in 1989.

3. Bonds categorized according to Moody's bond ratings, or to Standard and Poor's if unratec Moody's. Excludes mortgage-backed and asset-backed bonds.

Includes bonds convertible into equity and bonds with warrants that entitle the holde to purchase equity in the future.

rating agencies--and no more than one percent of its assets in any single second-tier company.[1] The SEC imposed these limits out of concern for the safety of money funds in view of the defaults on commercial paper over the past two years. While affecting some funds, the new rule is not likely to have much impact on the industry in the aggregate, as the SEC estimated that money funds held only about $6 billion of second-tier commercial paper at the end of 1990--roughly 1-1/2 percent of the total assets of money funds.

Yield spreads in the corporate sector have narrowed across the board, suggesting that investors' concerns about credit quality have diminished in recent weeks. Within the investment-grade sector, spreads between intermediate-term corporate bonds and Treasury issues have been reduced 5 to 10 basis points from their early January highs, while spreads for longer-term bonds have narrowed as much as 50 basis points. Industrial bonds have outperformed utility bonds, and medium-grade bonds rated A and BBB have rallied more than higher-rated bonds, restoring the alignment of last summer.

The improvement of credit quality spreads was especially evident in the junk bond market, as spreads relative to Treasuries narrowed nearly 200 basis points; nonetheless, these spreads, at roughly 950 basis points, are still very high. Strong inflows to high-yield mutual funds in recent weeks reportedly have helped fuel the improvement. In spite of the rally, issuance of new junk bonds has remained light, and a pickup in volume is not likely as long as yield spreads remain so wide and LBO activity subdued.

1. A second-tier security is one that has received no rating lower than the second-highest and no more than one top rating.

The recent rally in the junk bond market differs from last spring's rally in that bonds rated B and CCC have recently outperformed the stronger BB-rated credits--as the lower-rated bonds have benefitted most from several de-leveraging initiatives. For example, RJR-Nabisco successfully completed an equity-for-debt tender offer that reduced its leverage ratio to 4:1, compared with 25:1 when the buyout was completed two years ago. A number of other highly leveraged companies have announced or are considering similar exchange offers or buybacks. In addition, bond prices of some highly leveraged companies, surged in response to merger offers by investment-grade companies. These merger offers typically are contingent on bondholders' agreeing to receive less than par value for their bonds but more than the deeply discounted market prices.

Exchange and restructuring proposals are expected to be numerous in 1991. Last year thirty-one exchange offers (involving $11.7 billion of high-yield securities) and twenty-three tender offers (amounting to $4.3 billion) were announced. Most of the exchange offers involved replacing outstanding debt with combinations of cash, common stock, and new debt securities that had lower, pay-in-kind, or deferred interest payments. Fifteen exchange offers were completed during the year, including two that had been announced in 1989. Overleveraged and distressed situations were the cause of most of the exchange proposals.

New high-yield securities issued through exchange offers were down markedly last year. This reduction primarily reflects the difficulties that issuers face when negotiating with increasingly demanding bondholders. Several transactions, such as Southland's, were terminated because holders did not tender the minimum amounts needed for the offers to be successful, forcing some companies into bankruptcy under chapter 11. More recently, a growing number of issuers are seeking bondholder approval of prepackaged bankruptcy reorganization plans concurrent with distressed exchange offers. Prepackaged bankruptcies usually require the approval of only two-thirds of bondholders, compared with a typical 90 to 95 percent for exchange/tender offers.

Stock prices have risen about 3 percent on average since early February; the S&P 500, NYSE composite, and Wilshire indexes posted record highs during the intermeeting period before dropping back more recently. In response to price gains, gross equity issuance by nonfinancial corporations rose in February but only to a quite moderate $1 billion; offerings in March have been a bit stronger than in February. The pace of net equity retirements in the first quarter of 1991 is expected to be noticeably slower than that of the previous quarter, with AT&T's proposed acquisition of NCR unlikely before the end of March.

Financial Firms

In the market for subordinated bank debt, yield spreads over Treasuries have narrowed about 100 basis points on average for regional banks since January, with even greater improvements posted by the weaker money center banks. In response to lower rates, nine banking firms raised $1.7 billion in subordinated debt between late January and mid-March, compared with $1.4 billion for all of 1990. Bank borrowing in the unsecured senior note market also has rebounded, as more than $550 million came to market in late February and early March. Furthermore, borrowing in the medium-term note market appears to have been strong of late.

Equity issuance by banking firms also has picked up in recent weeks. New offerings included common stock issues by Norwest and KeyCorp and preferred stock offerings by Barnett and Security Pacific. In the private placement market, Citicorp raised $1.19 billion with two offerings of convertible preferred stock; roughly half was purchased by institutional investors under SEC rule 144a, which allows free trading of privately placed securities among institutional investors that have at least $100 million in investment assets.

Issuance of asset-backed securities rebounded in February and continued strong in March. During the final five months of 1990, investor resistance to heavy supply and concern about rising delinquencies and charge-offs caused a 50 to 75 basis point widening in the spreads on AAA-rated securities backed by credit card receivables and auto loans. Since the last FOMC, however, spreads have narrowed about 20 basis points.

Recent bond offerings by other financial firms included two issues by MBIA, Inc., the parent company of the largest municipal bond insurer. The spreads on MBIA issues were fairly wide relative to comparable corporate rates and reportedly were more indicative of investors' lack of familiarity with MBIA than of concern about the health of the firm, whose debt is rated Aa2/AA+.

Reported junk bond holdings of insurance companies may show a substantial increase due to a reclassification under the new rating system that was recently adopted by the National Association of Insurance Companies. Indeed, the reclassification may largely explain why the junk bond holdings at First Executive's two insurance units increased from 55 percent of their total bond holding at year-end 1989 to 79 percent at year-end 1990. The new rating system also requires companies to maintain larger reserves against lower-rated bonds, leading to reports that some insurance companies are exploring ways to restructure their portfolios. For example, insurance companies may be able to reduce such reserves by repackaging their junk bond holdings in a collateralized bond structure. Such a repackaging also would reduce the impact of a proposed 20 percent cap on junk bond holdings, which already have been imposed by some state regulators.

Treasury and Sponsored-Agency Financing

The federal deficit is likely to be substantially smaller in the first quarter of 1991 than projected at the time of the last Greenbook. The main reason is the unexpectedly slow pace of RTC resolutions and larger foreign contributions to the funding of Operation Desert Shield/Desert Storm. Given the reduced borrowing requirement, the Treasury has slashed the gross sizes of its bill auctions. Since the beginning of February, weekly bill auctions have been cut from $20 billion to $16 billion, and the one-year bill auctions have been reduced by $1 billion. In the coupon sector, only the gross size of the two-year note auction has been reduced, while the thirty-year bond auction was increased marginally.

The slowing in RTC activity reflects, in part, the failure of the Congress to enact additional funding, although the Congress is expected to pass a bill reconciled by a conference committee in the near future. The Adminstration requested an additional $30 billion for the RTC loss fund for the remainder of the fiscal year. Net RTC spending in the first quarter through mid-March totaled about $14 billion--$8 billion in loss funds and $6

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

	1990		1991			
	Q3	Q4	Q1^p	Jan.	Feb.^p	Mar.^p
Treasury financing						
Total surplus/deficit (-)	-57.8	-86.9	-69.9	1.8	-31.4	-40.2
Means of financing deficit:						
Net cash borrowing from the public	69.0	98.8	59.6	31.8	36.3	-8.4
Marketable borrowings/ repayments (-)	64.5	83.9	52.9	26.0	35.4	-8.5
Bills	29.0	45.0	5.9	10.0	4.4	-8.5
Coupons	35.6	38.9	47.0	16.0	31.0	0.0
Nonmarketable[2]	4.5	15.0	6.7	5.7	0.9	0.1
Decrease in the cash balance	-5.5	7.9	5.2	-30.6	2.4	33.4
Memo: Cash balance at end of period	40.2	32.2	27.0	62.8	60.5	27.0
Other[3]	-5.6	-19.9	5.0	-2.9	-7.3	15.2
Federally sponsored credit agencies, net cash borrowing[4]	-1.9	14.1	--	--	--	--
FHLBs	-6.7	1.6	--	-2.5	--	--
FHLMC	-3.1	3.0	--	--	--	--
FNMA	.9	4.6	--	2.4	--	--
Farm Credit Banks	.9	-.8	--	-.1	--	--
FAC	.1	.0	.0	.0	.0	.0
SLMA	1.0	.8	--	--	--	--
REFCORP	5.0	5.0	6.9	6.9	.0	.0

1. Data reported on a not seasonally adjusted, payment basis.
2. Includes proceeds from securities issued by federal agencies under special financing authorities and the face value of zero-coupon bonds issued to REFCORP (the discount from face value is offset in other means of finance).
3. Includes checks issued less checks paid, accrued items and other transactions.
4. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
p--projected.
e--estimated.
Note: Details may not add to totals due to rounding.

billion in working capital. For the current fiscal year as a whole, spending has totaled $24 billion, of which $11 billion was to cover losses.

Thus far, the RTC has made little progress in selling assets. Of the 352 thrifts resolved through year-end 1990, 266 were deposit payouts, of which 51 resulted in no transfer of assets to the private sector; in the remaining 215 resolutions, less than half of the assets were transferred to the acquiring institutions. The RTC has sold only $45 billion of the $190 billion of assets that have been added to the RTC balance sheet since August 1989; half of the assets sold were mortgages and a third were securities. Another sign of the difficult task facing the RTC is the drop in premiums for deposits it has sold. Last fall, premiums ranged from 3 percent to 6 percent; more recent sales have had premiums of less than 1 percent.

In the market for the debt of government-sponsored enterprises, spreads on new issues remained narrow in February and March. The Federal National Mortgage Association continued to borrow heavily in January; since September its outstanding debt has risen 6 percent, to $126 billion. Borrowing by the Federal Home Loan Mortgage Corporation also was strong in the fourth quarter. Stock prices for Fannie are about unchanged while those for Freddie are roughly 15 percent above their levels at the time of the February FOMC meeting.

The Administration's FY92 federal budget document contains an analysis of government-sponsored enterprises that focuses primarily on interest-rate and credit risk. The analysis concludes that the direct risk to taxpayers from the implicit guarantee "is not large." However, the report cites specific weaknesses regarding the insurance fund of the Farm Credit System.

In addition, it questions the viability of the FHLB System in light of its shrinking membership and FIRREA-mandated assessments.

Municipal Securities

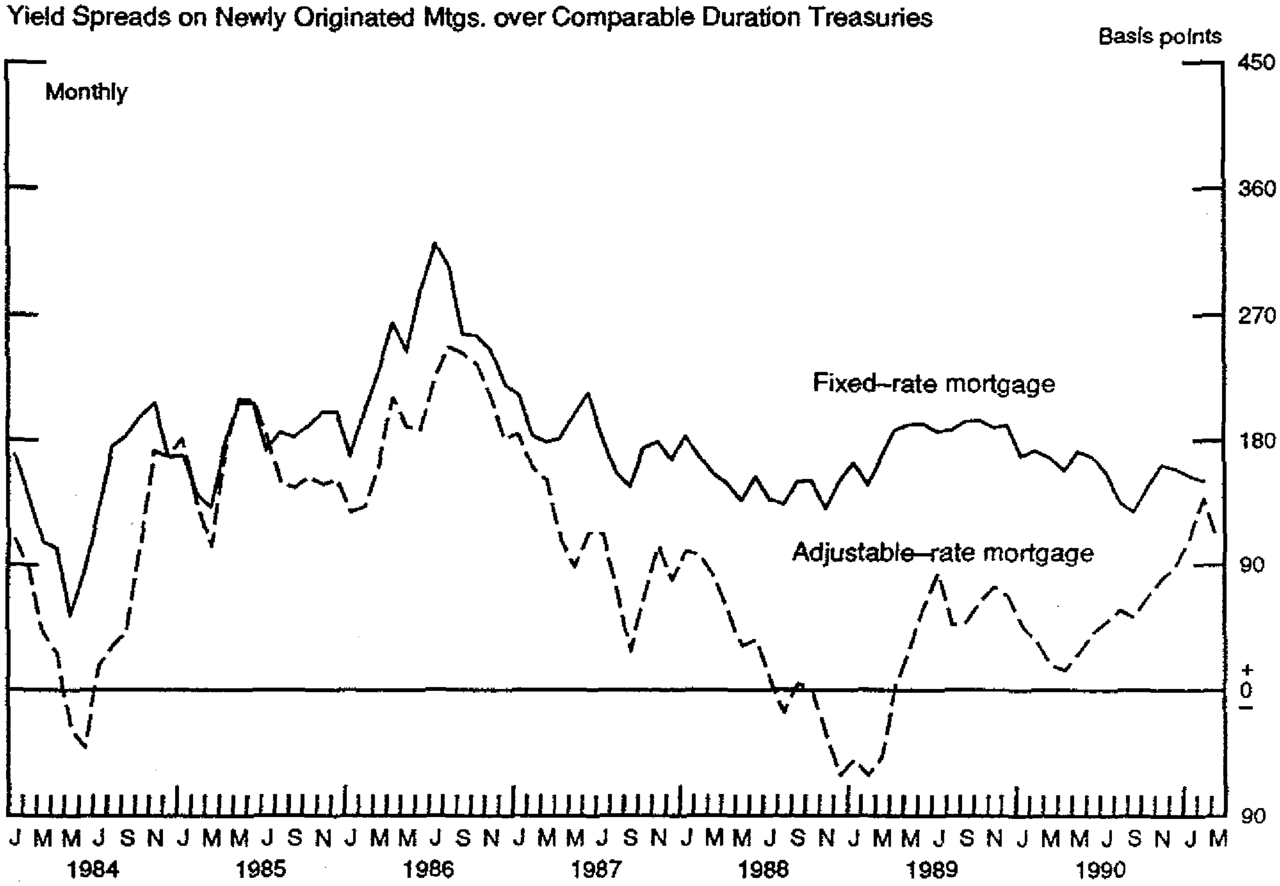
Issuance of long-term tax-exempt securities jumped in February as state and local governments took advantage of reduced rates; yields dropped to their lowest levels in eighteen months early in the intermeeting period before backing up. Some of last month's offerings had originally been slated for January but were delayed in hopes of lower rates. Refunding issuance remained low in February, however, as many of the outstanding issues with coupon rates higher than current bond yields have previously been refunded.

Short-term issuance rose to approximately $2 billion in February and likely will be boosted further in coming months, as states and municipalities contend with continuing budget difficulties. Connecticut is likely to issue approximately $700 million in notes this spring to cover its fiscal 1991 shortfall. California is preparing to issue a record $5 billion in revenue anticipation notes, and New York State will enter the note market with a $3.9 billion issue in June.

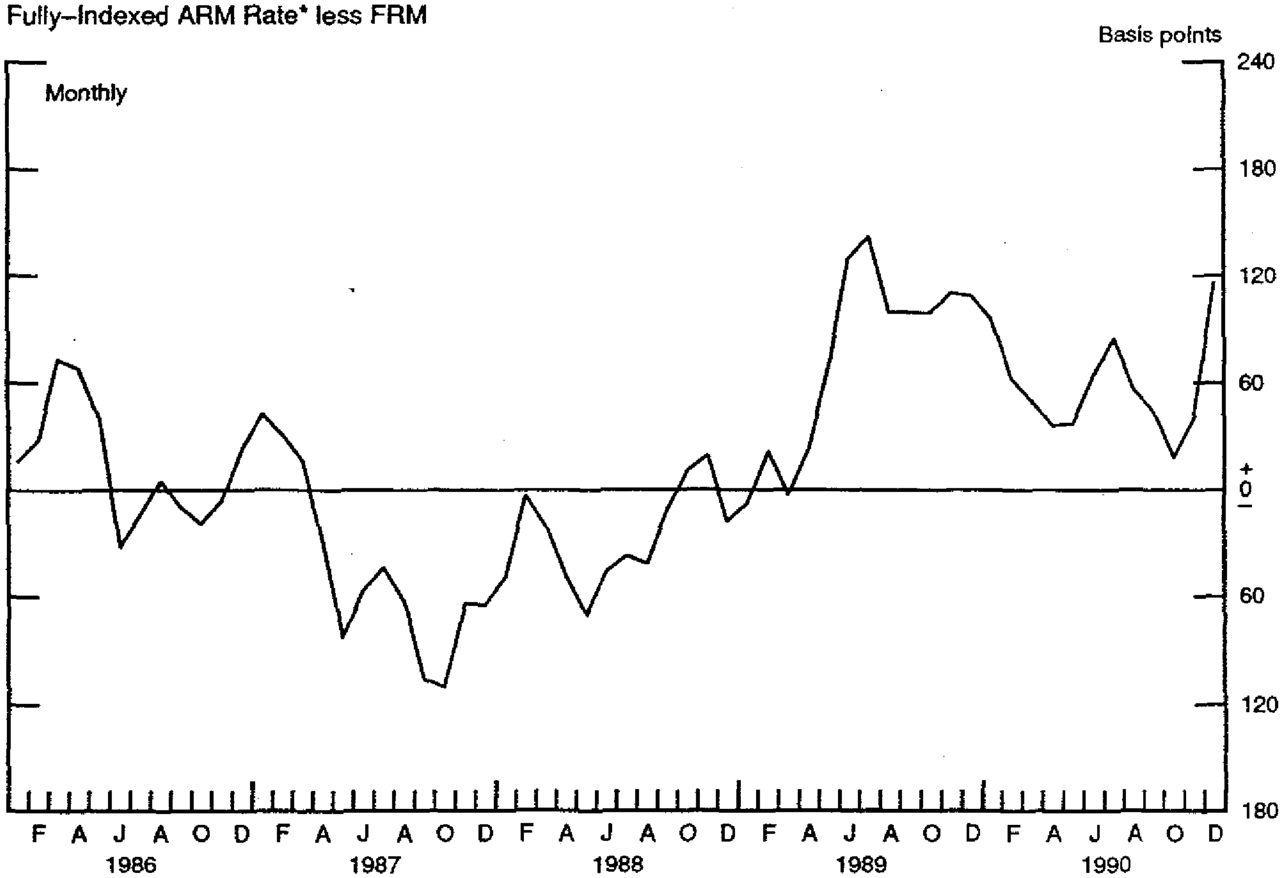
Moody's Investors Service lowered New York City's rating from A to Baa1 in February, affecting about $16.5 billion in debt. The credit agency indicated that the city's fiscal 1992 financial plan did not represent a reasonable program to achieve a balanced budget. At about the same time, the New York State Financial Control Board, created in the mid-1970s to oversee the city's finances during that fiscal crisis, reported that New York City's four-year financial plan will result in the spending of $10.7 billion more than revenues will permit over the period. According to

Mortgage Pricing

Yield Spreads on Newly Originated Mtgs. over Comparable Duration Treasuries



Fully-Indexed ARM Rate* less FRM



*ARM rate is the rate to which the loan will adjust after discount period.

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

	1989 Year	1990 Year	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1991 Jan.	1991 Feb.[p]
Total offerings[1]	11.90	13.12	8.86	15.64	15.66	12.30	8.18	12.46
Total tax-exempt	11.65	12.87	8.74	15.35	15.45	11.94	8.14	12.21
Long-term	9.48	10.05	7.64	11.22	11.11	10.22	7.23	10.15
Refundings[2]	2.47	1.45	1.45	1.86	1.48	1.01	.25	.40
New capital	7.01	8.60	6.19	9.36	9.63	9.21	6.98	9.75
Short-term	2.17	2.82	1.10	4.13	4.34	1.72	.91	2.06
Total taxable	.25	.25	.12	.29	.21	.36	.04	.25

p--preliminary.
1. Includes issues for public and private purposes; also includes taxable issues.
2. Includes all refunding bonds, not just advance refundings.

the report, the prospective budget deficits would increase debt service costs from 12 percent of tax revenue to 20 percent by the end of the plan. Deficits of the size predicted would permit the board to take control of the city's finances.

Although the number of states and municipalities facing budgetary deficits remains large, the pace of rating downgradings has slowed so far in 1991. A total of 59 state and local government units have been downgraded through mid-March, compared with an average of 120 per quarter in 1990. Downgradings in 1991 have continued to exceed upgradings by a sizable margin, but by less than in 1990.

Mortgage Markets

Mortgage lending appears to have remained weak in the first quarter, although it may have begun to pick up recently, sparked by declines in mortgage rates. Commitment rates on both FRMs and ARMs generally have fallen in recent months, both in absolute terms and relative to comparable-duration Treasuries (chart). Contract rates on conventional FRMs dropped as much as 30 basis points in mid-February from their levels at the time of the February FOMC meeting, but have since moved back up.

In the ARM sector, the average commitment rate on loans indexed to the Treasury one-year constant maturity yield declined about 30 basis points through mid-March, reducing the spread over the index by a comparable amount. Nonetheless, the spread remains quite wide by the standards of recent years as ARM lenders have been much less aggressive in pricing loans. Moreover, in recent months, fully indexed ARM rates (that is, the rate in effect after the initial period) for new loans have exceeded rates on comparable FRMs by as much as 1-1/4 percentage points, while in late 1987 and early 1988 fully indexed ARM rates were well below rates on FRMs. The ARM share of new loans closed has averaged about 30 percent recently, less than half the portion in 1987 and 1988.

Total mortgage debt is estimated to have grown at an annual rate of only 4 percent in the fourth quarter, the slowest pace since 1982. Credit expansion was concentrated in single-family loans, where growth was little changed from the third-quarter rate. As noted above, bank real estate loans, which were flat in January, rose in February--even after adjusting for aquisitions from thrift institutions. Moreover, trade reports note a marked surge in refinancing volume that has boosted recent loan originations. Refinancing activity apparently has accounted for as much as 30 to 40 percent of total loan applications at some lenders, close to the record levels registered during the refinancing wave of 1986-87. A pickup in refinancing volume has been widely anticipated, given the decline in recent months in contract rates on FRMs to an average near 9-1/2 percent. Estimates suggest that about 16 percent of FRM debt outstanding at year-end 1989 carried rates in excess of 11 percent, making many of them candidates for refinancing.[2] Moreover, borrowers who initially received ARM teaser rates well below the costs of fixed-rate credit and whose discount period has expired now have a financial incentive to refinance.

MORTGAGE-BACKED SECURITY ISSUANCE
(Monthly averages, billions of dollars, NSA unless noted)

	Federally related pass-through securities			Multiclass securities				
	Total (SA)	Fixed-rate	ARM-backed	Total	Private issues[1]	FNMA REMICs	FHLMC REMICS	Agency strips
1989 r	16.5	14.1	2.6	8.1	1.4	3.1	3.2	.3
1990 r	19.3	16.8	2.3	11.3	2.2	5.0	3.4	.5
1990-Q1 r	21.5	18.5	1.4	11.3	1.6	5.0	3.8	.9
Q2 r	19.9	16.4	2.2	11.1	2.9	4.7	3.0	.4
Q3 r	18.2	17.5	1.6	12.1	2.7	6.6	2.3	.6
Q4 r	17.4	14.9	4.1	10.9	2.2	3.9	4.5	.3
1990-Oct. r	18.4	16.7	2.5	14.2	2.2	5.6	5.7	.6
Nov. r	17.8	16.8	2.6	8.4	2.3	3.8	2.1	.2
Dec. r	16.0	11.1	7.1	10.1	2.2	2.4	5.5	.0
1991-Jan. p	15.7	13.0	0.7	4.9	1.1	2.4	1.2	.2
Feb. p	n.a.	n.a.	n.a.	n.a.	n.a.	3.2	n.a.	n.a.

1. Excludes pass-through securities with senior/subordinated structures.
r--revised p--preliminary n.a.--not available.

In the secondary mortgage market, issuance of agency pass-throughs edged lower in January to a seasonally adjusted $15.7 billion rate, as a decline in ARM-backed volume offset a pickup in issuance of fixed-rate

2. In 1985 an estimated 46 percent of single-family loans outstanding had rates above 11 percent.

securities. The decline in January likely reflected uncertainty associated with the Persian Gulf war and is thought to have been temporary.

Consumer Installment Credit

Consumer installment credit contracted in January for the second consecutive month, a development that usually occurs only during periods of recession.[3] The contraction was marginal in December but deepened to a 4 percent annual rate in January, reflecting weakness in auto credit and the "all other" component, of which unsecured personal loans make up the largest share. Revolving credit, which had contracted sharply in December, bounced back in January, although its growth remains notably weak relative to much of last year.

The sharp slowing in revolving credit growth appears to be due more to damped demand than to curtailment of the supply of credit. Although delinquency rates have been rising on credit cards (the main element of revolving credit), that form of credit remains one of the most profitable for banks, which are the dominant issuers of credit cards. There are no indications that banks are generally imposing significantly tougher criteria for opening new accounts. (Although First Chicago made headlines in late February by cancelling cards or reducing credit limits for certain accounts in the Northeast, this restrictive action against existing cardholders appears to be the exception among major issuers.) On the demand side,

3. Consumer installment credit declined in three consecutive months from December 1986 through February 1987, but part of that contraction was attributable to large paydowns of consumer debts through exercise of home equity lines of credit induced by the Tax Reform Act of 1986. The last previous period of sustained decline in consumer credit occurred in April through July 1980, a period that encompassed both a recession and the Carter Administration's credit controls program. The cumulative decline for those four months was 8-1/2 percent at an annual rate.

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (at annual rate)								Memo: Outstandings (billions of dollars)
				1990				1991	1991
	1988	1989[1]	1990[r]	H1	Q3	Q4[r]	Dec.[r]	Jan.[p]	Jan.[p]
Total installment	8.9	5.5	3.1	2.2	5.9	2.1	-.6	-4.0	736.6
Installment, excluding auto	10.3	8.6	6.5	5.4	11.5	3.3	-3.2	-1.3	453.2
Selected types									
Auto	7.0	1.3	-1.9	-2.5	-2.7	.1	3.6	-8.2	283.4
Revolving	13.7	14.2	10.7	11.7	16.2	2.6	-8.3	7.0	219.5
All other	7.6	4.2	2.9	.3	7.1	3.9	1.7	-9.0	233.7
Memorandum:									
Total[2]	7.3	5.0	2.3	1.9	3.1	2.3	2.4	-1.5	795.2

1. Growth rates are adjusted for discontinuity in data between December 1988 and January 1989.
2. Installment plus noninstallment.
r--revised. p--preliminary.
Note: Details may not add to totals due to rounding.

CONSUMER INTEREST RATES
(Annual percentage rate)

			1990		1991	
	1989	1990	Nov.	Dec.	Jan.	Feb.
At commercial banks[1]						
New cars (48 mo.)	12.07	11.81	11.72	...	...	11.60
Personal (24 mo.)	15.44	15.46	15.69	...	...	15.42
Credit cards	18.02	18.17	18.23	...	...	18.28
At auto finance cos.[2]						
New cars	12.62	12.54	12.74	12.86	12.99	...
Used cars	16.18	15.99	16.07	16.04	15.70	...

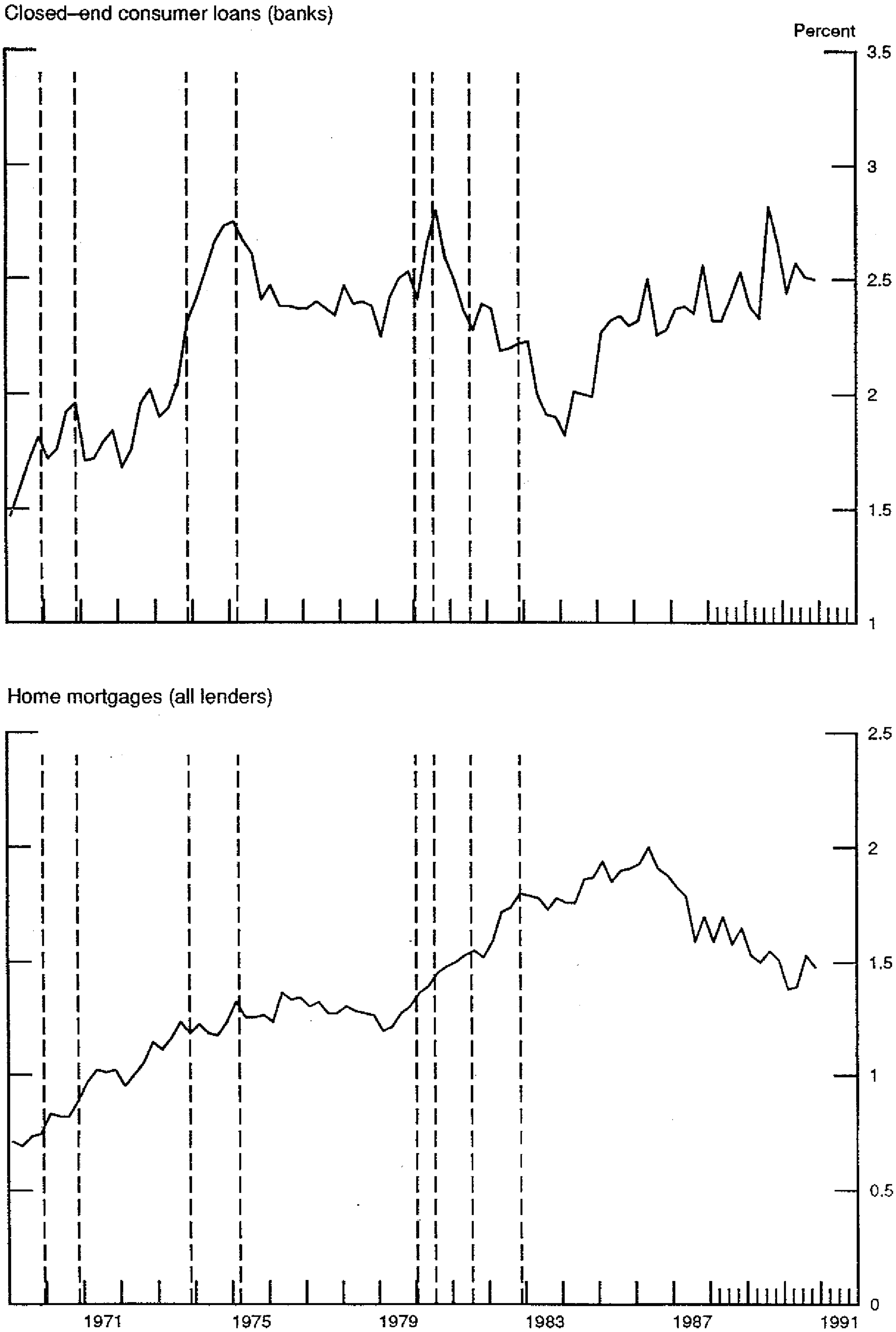
1. Average of "most common" rate charged for specified type and maturity during the first week of the mid-month of each quarter.
2. Average rate for all loans of each type made during the month regardless of maturity.

retail sales have been sluggish, and consumer surveys suggest caution on the part of households in borrowing. Nonetheless, some major issuers have noted a pickup in credit card usage in recent weeks.

As noted, delinquency rates on bank credit cards have been rising in recent months. In the fourth quarter of 1990, as reported by the American Bankers Association (ABA), credit card accounts with payments past-due for thirty days or more rose to 2-3/4 percent of total accounts, up 1/4 percentage point from the preceding quarter and 2/3 percentage point over the course of the year. Some other delinquency measures, however, have shown little or no deterioration recently. The ABA's average delinquency rate for several types of closed-end consumer loans was virtually unchanged in the fourth quarter. At approximately 2-1/2 percent for both the year and the fourth quarter, this rate is near the upper end of its range for the past twenty years.

On home mortgages, delinquencies declined in the fourth quarter, according to the Mortgage Bankers Association (MBA). The proportion of loans past due 60 days or more dropped back 0.05 percentage points to 1-1/2 percent after a fairly sharp rise in the third quarter. Despite the earlier increase, the delinquency rate at year-end 1990 was around the lowest levels of the past ten years. The downtrend in the MBA's series for home mortgages contrasts with an ongoing rise in delinquencies on real estate loans taken from bank call reports. In addition to home mortgages, however, the latter encompass commercial mortgages and construction loans, for which repayment problems have been more severe. Delinquency rates also rose in the fourth quarter on mortgage loans at life insurance companies;

Delinquency Rates on Loans to Households [1]



1. Consumer loans are those past due 30 days or more. Home mortgages are those past due 60 days or more.

Source: For consumer loans, American Bankers Association; for mortgages, Mortgage Bankers Association.

most of the holdings of these institutions are commercial mortgages with maturity of five to ten years.

INTERNATIONAL DEVELOPMENTS

U.S. Merchandise Trade

In January, the U.S. merchandise trade deficit increased slightly to $7.0 billion (seasonally adjusted, Census basis) from a revised deficit in December of $6.3 billion. Exports increased 3-1/2 percent in January with most of the increase in automotive products (from a low December level) and in industrial supplies. The level of exports in January was nearly 1 percent higher than the monthly average for the fourth quarter. Imports rose 5 percent in January, with nearly all of the increase in automotive products (also from a low level) and non-oil industrial supplies. The value of oil imports rose only slightly as a decline in price of $3 per barrel was more than offset by a 15 percent increase in quantity imported; the quantity of oil imported in January was at about a 3 percent higher rate than the fourth-quarter average.

U.S. MERCHANDISE TRADE: MONTHLY DATA
(Billions of dollars, seasonally adjusted, Customs basis)

	Exports			Imports			
	Total	Ag.	Nonag.	Total	Oil (nsa)	Non-oil	Balance
1990-Jan	31.4	3.6	27.8	41.6	5.9	35.6	-10.2
Feb	31.6	3.4	28.2	38.7	4.8	33.8	-7.1
Mar	33.3	3.7	29.6	41.6	4.8	36.8	-8.4
Apr	32.1	3.3	28.8	39.4	3.9	35.5	-7.3
May	32.8	3.3	29.5	40.5	4.4	36.2	-7.8
Jun	34.2	3.6	30.6	39.6	3.9	35.7	-5.3
Jul	32.1	3.1	29.0	41.2	4.1	37.2	-9.1
Aug	32.5	3.4	29.2	42.3	5.3	37.0	-9.7
Sep	32.0	3.1	29.0	41.3	6.2	35.1	-9.3
Oct	35.0	3.0	32.0	46.0	7.0	39.0	-11.0
Nov	34.2	3.3	30.9	43.1	6.4	36.7	-8.9
Dec[r]	33.3	2.9	30.4	39.6	5.4	34.2	-6.3
1991-Jan[p]	34.5	3.0	31.5	41.5	5.4	36.1	-7.0

r--revised p--preliminary
Source: U.S. Department of Commerce, Bureau of the Census.

Exports picked up strongly in the fourth quarter, partly stimulated by cumulative gains in price competitiveness associated with the significant decline in the dollar since mid-1989. Much of the fourth-quarter increase in nonagricultural exports was in quantity, particularly industrial supplies

U.S. MERCHANDISE TRADE: QUARTERLY DATA
Billions of dollars, BOP-basis

	Years		1990 (saar)				Memo: Percent Change 1990: Q4 from	
	1989	1990	Q1	Q2	Q3	Q4	Prev. Qtr.	Year Ago
Exports	360	389	384	386	385	402	4.5	9.5
Imports	475	498	492	479	504	517	2.7	7.3
Oil	51	62	62	49	63	75	19.6	40.4
Non-oil	424	436	429	431	441	442	0.3	3.2
Balance	-115	-109	-108	-93	-119	-115		
Ex Oil	-64	-47	-46	-44	-56	-40		

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Balance-of-Payments Accounts.

(largely fuels and chemicals). (See the table on the next page.) The growth rate of exports of capital goods and consumer goods was also strong in the fourth quarter, but exports of automotive products declined. Over the entire year, the quantity of exports expanded 9 percent (Q4/Q4), with sharp rates of increase recorded for industrial supplies, capital goods, and consumer goods. By area, the largest increase in value was to Western Europe, which accounts for 30 percent of nonagricultural exports. There was also a sharp increase in nonagricultural exports to Mexico, particularly automotive parts for use by Ford, GM, and Chrysler in their Mexican plants. Nonagricultural exports to Canada, which account for nearly one-quarter of U.S. shipments, rose at a much slower rate reflecting the sagging Canadian economy. Agricultural exports in the fourth quarter were 4 percent less

MAJOR TRADE CATEGORIES
(Billions of dollars, BOP basis, SAAR)

	Year 1990	1989 Q4	1990 Q1-r	1990 Q2-r	1990 Q3-r	1990 Q4-p
Agricultural Exports	40.4	40.9	43.8	41.3	38.9	37.5
Nonagricultural Exports	348.9	326.1	340.6	345.1	345.7	364.3
Industrial Supplies	97.4	89.0	94.0	92.6	95.3	107.6
Gold	3.8	2.1	2.6	3.6	3.7	5.1
Fuels	13.9	12.2	12.6	11.0	13.7	18.1
Other Ind. Supp	79.7	74.7	78.7	77.9	77.9	84.4
Capital Goods	153.9	140.8	153.0	154.5	152.4	155.8
Aircraft & Parts	32.3	26.0	32.3	34.5	31.4	31.0
Computers & Parts	26.0	24.7	26.5	24.9	26.2	26.2
Other Machinery	95.7	90.1	94.3	95.1	94.7	98.6
Automotive Products	36.6	35.6	34.9	38.7	36.5	36.3
Canada	21.9	22.8	21.0	23.6	22.1	20.9
Other	14.7	12.8	13.9	15.1	14.4	15.4
Consumer Goods	43.0	38.0	40.6	41.9	43.6	45.7
Other Nonagric.	18.1	22.7	18.0	17.4	17.9	18.9
Oil Imports	62.1	53.3	62.4	48.7	62.6	74.8
Non-Oil Imports	435.9	428.6	429.2	430.6	441.2	442.4
Industrial Supplies	82.3	83.2	80.3	82.1	83.3	83.7
Gold	2.5	4.3	1.7	2.1	2.8	3.4
Other Fuels	3.4	3.7	3.1	3.1	3.4	3.9
Other Ind. Supp.	76.5	75.2	75.5	76.9	77.1	76.4
Capital Goods	117.2	116.5	115.6	115.6	116.7	121.1
Aircraft & Parts	10.6	9.0	9.2	10.5	9.9	12.9
Computers & Parts	23.0	23.4	23.1	22.8	23.1	23.2
Other Machinery	83.6	84.1	83.3	82.3	83.7	84.9
Automotive Products	86.1	83.0	83.7	84.6	90.5	85.7
Canada	29.6	29.6	27.4	30.5	33.1	27.4
Other	56.5	53.4	56.3	54.1	57.4	58.3
Consumer Goods	106.2	106.4	104.8	104.4	107.3	108.4
Foods	26.6	25.0	27.9	26.9	25.6	26.2
Other Non-oil	17.3	14.5	17.0	16.9	17.7	17.3

r--revised. p--preliminary.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

than in the third quarter, with much of the decrease attributable to prices (especially for wheat).

In the fourth quarter, the quantity of non-oil imports was about the same as in the third quarter; a sharp decline in imported automotive products was largely offset by an increase in imported computers and parts. There were only small changes in other trade categories. Prices of non-oil imports rose nearly 6 percent AR in the fourth quarter, led by increases in prices of imported automotive products and capital goods.

The value of imported oil rose sharply at the latter part of 1990 despite a drop in the quantity imported by more than 15 percent in the fourth quarter. The decline from strong rates earlier in the year reflected

OIL IMPORTS
(BOP basis, value at annual rates)

	1990			Months				
	Q2	Q3	Q4-p	Aug	Sep	Oct	Nov	Dec-p
Value (Bil. $)	48.66	62.57	74.84	63.70	74.94	83.92	77.12	63.47
Price ($/BBL)	15.81	19.66	28.47	19.95	24.74	29.27	29.61	26.29
Quantity (mb/d)	8.45	8.64	7.14	8.58	8.41	7.71	7.24	6.49

p--preliminary.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

weaker U.S. economic activity, mild weather, and a slowdown in refinery runs in order to perform maintenance. As measured by the Department of Energy, the quantity imported continued to be held down in January and February.

Price of Oil

Even though prices of oil began to decline in November, the price of imported oil in January was still about 50 percent higher than the lows recorded in June and July. Developments in spot markets suggest that import prices in February were about $20. (BLS data for February will be released on March 28.)

OPEC agreed at the March 11-12 meeting of its Price Monitoring Committee to hold production in the second quarter of 1991 to 22.3 million barrels per day and affirmed its commitment to a $21 per barrel reference (export) price. Announcement of the accord moved West Texas prices up slightly to just over $20 per barrel, which is consistent with an OPEC export price of roughly $18 per barrel.

Prices of Non-oil Imports and Exports

BLS prices of non-oil imports were about the same in January as in December and about 1/2 percent above the fourth-quarter average. (See the table on the next page.) Except for sharp increases in prices of agricultural products and chemicals, prices of imported goods showed only small changes from December levels. In the fourth quarter, prices of non-oil imports rose at an annual rate of 6 percent, after having shown only small increases earlier in the year; part of the rise was related to the depreciation of the dollar earlier in the year. The strongest rises were for imported capital goods and consumer durables. There were also increases in the prices of imported automotive products (new model year as well as the dollar's depreciation), and petroleum-related goods. Smaller increases were recorded for prices of imported consumer nondurables, foods, and industrial supplies (increases for fuels more than offset price declines for other supplies and materials).

Prices of nonagricultural exports in January were little changed on average from levels recorded in December, as declines in prices of exported fuels, paper, and building materials were offset by increases in prices of such exported goods as agricultural machinery, telecommunications equipment, textiles, and steelmaking materials. In the fourth quarter, nonagricultural export prices rose at an annual rate of 8 percent. Most of that increase was associated with rising prices of exported fuels and other industrial

IMPORT AND EXPORT PRICE MEASURES
(percentage change from previous period, annual rate)

	Year 1990-Q4 / 1989-Q4	Quarters 1990 Q2	Q3	Q4	Months 1990 Dec	1991 Jan
	(Quarterly Average, AR)				(monthly rates)	
	BLS Prices					
Imports, Total	8.3	-5.7	10.2	24.9	-0.5	-1.4
Foods, Feeds, Bev.	7.2	-4.9	7.4	4.8	2.6	1.4
Industrial Supplies	20.0	-18.7	31.7	76.7	-3.1	-4.6
Ind Supp Ex Oil	-0.5	0.6	-1.5	1.6	-0.5*	0.3*
Capital Goods	5.6	2.4	3.8	8.3	1.2	-0.1
Automotive Products	1.3	-5.0	3.3	10.0	0.1	-0.4
Consumer Goods	3.4	4.3	-0.3	4.8	0.4	0.4
Memo:						
Oil	62.5	-47.4	134.1	310.0	-6.7	-11.1
Non-oil	2.8	0.2	1.8	6.1	0.5	0.1
Exports, Total	2.3	1.3	1.7	4.4	-0.3	0.3
Foods, Feeds, Bev.	-6.7	8.1	-13.1	-16.3	0.0	1.5
Industrial Supplies	4.9	-2.4	5.2	15.9	-0.8	-0.6
Capital Goods	2.7	1.6	3.3	2.2	-0.1	0.9
Automotive Products	2.1	1.8	1.9	3.5	0.2	0.2
Consumer Goods	3.7	3.3	1.6	3.7	0.5	0.7
Memo:						
Agricultural	-5.3	8.3	-11.9	-14.0	0.1	1.4
Nonagricultural	3.6	-0.1	3.9	8.0	-0.3	0.2
	Prices in the GNP Accounts					
Fixed-Weight						
Imports, Total	10.7	-12.3	15.8	34.4	--	--
Oil	61.3	-56.7	135.7	348.2	--	--
Non-oil	2.9	-2.3	3.9	5.2	--	--
Exports, Total	2.9	1.5	0.8	5.7	--	--
Ag.	-2.6	10.7	-10.1	-11.8	--	--
Nonag.	4.0	-0.2	3.1	9.4	--	--
Deflators						
Imports, Total	8.9	-8.7	11.3	27.0	--	--
Oil	63.7	-56.6	135.2	346.4	--	--
Non-oil	1.9	-1.0	2.1	0.5	--	--
Exports, Total	0.1	4.7	-3.9	3.6	--	--
Ag.	-2.6	10.7	-10.1	-11.8	--	--
Nonag.	1.4	4.4	-3.1	5.7	--	--

*Not for publication.

supplies (especially petrochemicals). Price increases for exported capital goods, automotive products, and consumer goods were in the 2 to 4 percent annual rate range in the fourth quarter. Prices of agricultural exports moved up in January despite continued declines in wheat and other grains. In the fourth quarter, agricultural export prices dropped for the sixth time in the last seven quarters, led by declining prices of grain, especially wheat.

U.S. Current Account through 1990-Q4

The U.S. current account deficit has been and will continue to be buffeted by events in the Middle East. The deficit was $111 billion (SAAR) in the fourth quarter, $5 billion (AR) larger than in the revised third quarter. (See the table on the next page.) For the year the deficit was $99 billion, the smallest deficit recorded since 1984.

In the fourth quarter, a narrowing of the merchandise trade deficit, increases in net investment income receipts, and continuing increases in net receipts from other service transactions (especially receipts from foreigners traveling in the United States), were more than offset by larger net military payments and a jump in unilateral transfers.

Unilateral transfers in 1990-Q4 were affected by several special transactions that were partly offsetting. These included (1) receipt by the U.S. government of $4.3 billion (not annual rate) in cash contributions from the coalition partners in Operation Desert Shield to help defray the costs of operations in the Persian Gulf, (2) grants by the U.S. government of $7 billion (not annual rate) to the Government of Egypt in debt forgiveness, essentially allowing Egypt to repay principal ($5 billion) and interest ($2 billion) owed to the U.S. government, and (3) grants to Israel of $2.9 billion (not annual rate) from regular Congressional appropriations.

U.S. CURRENT ACCOUNT
(Billions of dollars, seasonally adjusted annual rates)

	1990 Year	1990 Q3-r	1990 Q4-p	Changes Q4-Q3
1. Trade Balance	-108.7	-119.1	-115.4	3.7
2. Exports	389.3	384.6	401.8	17.2
3. Imports	498.0	503.7	517.3	13.5
4. Investment Income, net	7.5	9.0	17.1	8.1
5. Direct Investment, net	49.4	52.6	55.0	2.4
6. Portfolio Income, net	-41.8	-43.6	-37.9	5.7
7. Service Transactions	22.9	20.6	23.8	3.2
8. Military, net	-6.4	-6.8	-8.2	-1.4
9. Other Services, net	29.3	27.4	32.0	4.5
10. Unilateral Transfers	-21.1	-16.4	-36.5	-20.1
11. Current Account Balance	-99.3	-105.9	-111.0	-5.1

r--revised p--preliminary

Military exports and imports were both affected in the fourth quarter by Operation Desert Shield. Transfers under U.S. military agency sales contracts (exports) were boosted by accelerated sales of equipment to coalition countries in the Middle East. There were also increased direct defense expenditures abroad in support of operations in the Persian Gulf. On balance, expenditures rose more than sales.

Much of the increase in net investment income receipts in the fourth quarter was attributable to U.S. government receipts, which included an accounting entry for the implicit receipt of interest on the Egyptian debt (described above under unilateral transfers).

U.S. International Financial Transactions

The recently released BOP data for the fourth quarter did nothing to reduce or explain the unprecedented statistical discrepacy registered for the first three quarters of 1990. (See line 10 of the Summary of U.S. International Transactions table.) As anticipated, the fourth quarter figure was large -- $19.4 billion -- leading to a preliminary statistical discrepancy for the year of $73 billion. This figure is more than twice as large as the previous high of $3' billion observed in 1982. As discussed in earlier Greenbooks, net currency shipments by banks contributed approximately $15 billion to the increase in the discrepancy, but the major part is, at present, unexplained. Currency movements have continued at a high rate in 1991: net outflows were $2.9 and $1.4 billion, respectively, in January and February.

For the fourth quarter, the only substantial recorded capital inflow was the increase in foreign official reserve assets held in the United States (line 4). Inflows of $20.1 billion in the quarter brought the annual total to $31.4 billion. European countries, particularly Spain, Switzerland, and Germany, accounted for almost 3/4 of the increase; Mexico and Venezuela accounted for much of the remainder.

For the year, the net inflows in official capital and banking were to a large extent offset by large net outflows related to private portfolio capital (lines 2 and 3) and moderate net outflows associated with direct investment (lines 6 and 7). With respect to portfolio capital, U.S. residents continued large net purchases of foreign securities in the fourth quarter, leading to a record annual outflow (line 2c). A large part of the outflow was the result of a large increase in the issuance of foreign bonds in the U.S. market. Foreigners sold $13.9 billion net of U.S. stocks for the year (line 2b). Foreign holdings of U.S. Treasury obligations and U.S. corporate bonds did increase, but by amounts that were not large historically (lines 2a and 3).

Unlike 1989, when there was a net direct investment inflow of $41 billion (lines 6 and 7), in 1990 a net outflow of just over $10 billion emerged. Direct investment outflows reached a new annual high of $36.4

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

	1989 Year	1990 Year	1990 Q1	Q2	Q3	Q4	1990 Nov.	Dec.	1991 Jan.
Private Capital									
Banks									
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	27.4	32.7	17.1	-1.3	26.6	-9.7	-18.5	10.0	3.3
Securities									
2. Private securities transactions, net[1]	16.1	-26.4	-7.4	-8.7	-3.2	-7.1	4.2	-5.6	-0.5
a) foreign net purchases (+) of U.S. corporate bonds[2]	32.8	18.5	5.1	6.6	0.8	6.0	3.5	1.5	0.6
b) foreign net purchases (+) of U.S. corporate stocks	7.9	-13.9	-3.1	-3.5	-2.3	-5.0	-0.4	-1.1	-0.5
c) U.S. net purchases (-) of foreign securities	-24.6	-31.1	-9.4	-11.8	-1.8	-8.1	1.1	-6.1	-0.6
3. Foreign net purchases (+) of U.S. Treasury obligations	30.1	1.4	-0.9	3.7	0.4	-1.9	-0.2	-2.7	4.2
Official Capital									
4. Changes in foreign official reserves assets in U.S. (+ = increase)	8.3	31.4	-7.4	4.9	13.8	20.1	11.0	3.3	6.8
a) By area									
G-10 countries	-5.2	10.0	-6.2	-0.9	8.9	8.3	2.6	4.0	-1.3
OPEC	10.1	1.7	3.1	*	-1.3	-0.1	0.7	-0.9	0.4
All other countries	3.4	19.7	-4.3	5.8	6.3	11.9	7.7	-0.2	7.7
b) By type									
U.S. Treasury securities	0.1	29.5	-5.8	2.4	12.1	20.8	12.6	6.9	6.3
Other[3]	8.2	1.9	-1.6	2.5	1.7	-0.7	-1.6	-3.6	0.5
5. Changes in U.S. official reserve assets (+ = decrease)	-25.3	-2.2	-3.2	0.4	1.7	-1.1	-0.4	-0.6	-0.5
Other transactions (Quarterly data)[4]									
6. U.S. direct investment (-) abroad	-31.7	-36.4	-9.3	-4.8	-19.3	-3.0	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	72.2	25.7	5.5	7.2	11.9	1.1	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow)[5]	-9.5	0.1	5.5	-7.6	-7.6	10.0	n.a.	n.a.	n.a.
9. U.S. current account balance	-110.0	-99.3	-22.3	-22.7	-26.5	-27.8	n.a.	n.a.	n.a.
10. Statistical discrepancy	22.4	73.0	22.4	28.9	2.2	19.4	n.a.	n.a.	n.a.
MEMO:									
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-114.9	-108.7	-26.8	-23.2	-29.8	-28.9	n.a.	n.a.	n.a.

1. These data have not been adjusted to exclude commissions on securities transactions and, therefore, do not match exactly the data on U.S. international transactions as published by the Department of Commerce.
2. Includes all U.S. bonds other than Treasury obligations.
3. Includes deposits in banks, commercial paper, acceptances, borrowing under repurchase agreements, and other securities.
4. Seasonally adjusted.
5. Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, and other banking official transactions not shown elsewhere. In addition, it includes amounts resulting from adjustments to the data mad the Department of Commerce and revisions to the data in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.
*--Less than $50 million.
NOTE: Details may not add to total because of rounding.

billion; this was primarily the result of high levels of acquisitions and capital spending by existing foreign affiliates of U.S. companies. Preliminary estimates of capital spending plans for 1991 suggest continued large direct investment outflows this year.

Direct investment inflows, on the other hand, were very low in the fourth quarter and fell over 60 percent for the year to $26 billion (line 7). Preliminary data for the value of acquisitions by foreign direct investors in the United States show a much smaller fall-off in 1990 of approximately 25 percent. The implication is that direct investors are still acquiring U.S. assets at a rapid rate, but that, because of favorable interest rates, a much larger percentage of this expansion is being financed in the United States.

Data for January show significant recorded capital inflows in banking, foreign net purchases of U.S. Treasury obligations, and official capital (lines 1, 3 and 4). Preliminary data from the FRBNY indicate a small decrease in February for foreign official reserves held in the United States, more than accounted for by Germany's $2 billion payment for Operation Desert Storm. Additional substantial contributions by other governments to cover the costs of Operation Desert Storm are likely to be reflected in declines in official reserves in coming months. Data on banking flows in February, reported on a monthly average basis in the International Banking Data table, show a resumption of significant capital outflows (line 1). The reduction in net borrowing by agencies and branches of foreign banks, shown in line 1b, coincided with strong growth of large time deposits at their U.S. offices.

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1989				1990				1991	
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.
1. Net Claims of U.S. Banking Offices (excluding IBFS) on Own Foreign Offices and IBFS	-2.9	-3.9	-6.4	-5.5	-11.7	-11.0	-15.6	-31.3	-27.3	-17.3
(a) U.S.-chartered banks	20.4	19.2	14.9	19.2	12.2	7.2	5.7	5.5	16.7	17.4
(b) Foreign-chartered banks	-23.3	-23.1	-21.3	-24.7	-23.9	-18.2	-21.3	-36.9	-44.0	-34.7
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	24.0	26.0	21.6	20.7	21.8	22.2	24.0	24.7	24.7	25.7
3. Eurodollar Holdings of U.S. Nonbank Residents 1/	144.8	131.5	130.3	123.5	110.6	106.5	109.1	114.0	113.7	112.6

1. Includes term and overnight Eurodollars held by money market mutual funds. Note: These data differ in coverage and timing from the overall banking data incorporated in the international transactions accounts. Line 1 is an 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 an average of daily data for the overnight component and an average of Wednesday data for the term component.

Foreign Exchange Markets

The weighted-average foreign-exchange value of the dollar, in terms of the other G-10 currencies, has risen 11 percent since the February 6 FOMC meeting, as shown in the accompanying chart. The dollar was supported by euphoria over the successful end of the Persian Gulf war and by expectations that an upturn in consumer confidence will help the U.S. economy rebound. These changed expectations, coupled with perceptions of some weakening of growth abroad, led the market to expect movements in relative interest differentials more favorable to the dollar. In Germany, proposed tax increases were seen as reducing the need for a further tightening of monetary conditions. Signs of a slowdown in the Japanese economy fed speculation that the Bank of Japan might lower its official interest rates, contributing to downward pressure on the yen. Later in the period, concern about events in the Soviet Union weighed particularly heavily against the mark. Overall, the dollar rose 13-1/2 percent against the mark, 11 percent against sterling, and 8 percent against the yen.

During the first week of the intermeeting period, with the dollar near all-time lows against the mark

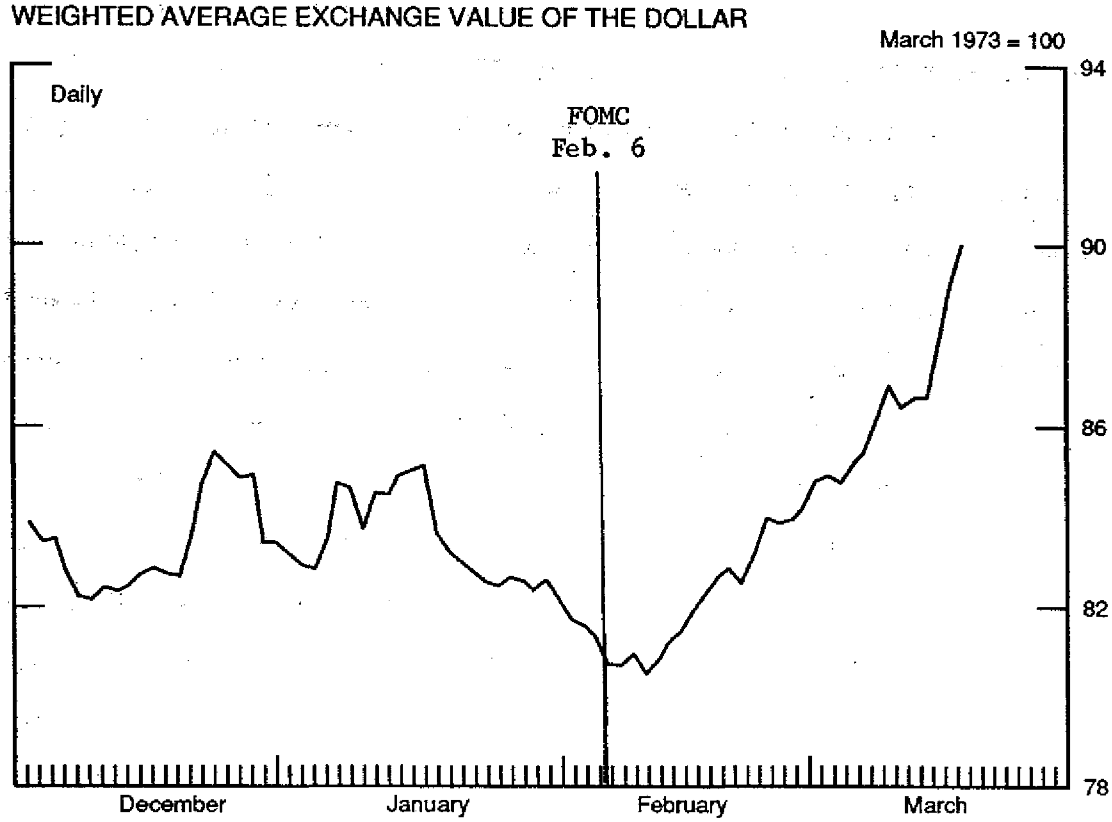
. The Desk purchased about $850 million, all against marks,

. The dollar's sharp rise later prompted official dollar sales,

. The Desk sold $330 million, $300 million of that against marks and the rest against yen. The Desk's dollar sales were the first since April of last year.

The strength of the Spanish peseta within the EMS stretched the currency grid to near its limit. Maintaining current parities imposed a constraint on monetary policy for the countries at the bottom of the band,

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



the United Kingdom and France, where economic slowdown created pressure to ease interest rates. In mid-February, the Bank of Spain cut its money market intervention rate 20 basis points and the Bank of England took advantage of the opportunity by lowering its money market dealing rate 50 basis points. The Bank of England later eased another 50 basis points after sterling moved away from the lower limit. Near the end of the period, after evidence of slowing Spanish consumer price growth, the Bank of Spain lowered its money market intervention rate a full percentage point to 13-1/2 percent. However, the peseta eased only slightly following that move, as it was accompanied by the removal of a 30 percent deposit requirement on foreign borrowing, which effectively had been a tax on inflows of capital into Spain. The Bank of France followed by easing its money market intervention rate 1/4 percentage point, but kept its 5-10 day RP rate unchanged.

Foreign stock prices surged along with U.S. stock prices amid the war-end euphoria. Stock prices rose most sharply in the United Kingdom (nearly 13 percent), but also rose strongly in Japan (10 percent) and Germany (7 percent).

Developments in Foreign Industrial Countries

Data on real GNP growth in the major foreign industrial countries in the fourth quarter in general indicated a weakening of activity, although conditions varied among individual countries. In both Japan and Germany, real GNP growth slowed in the fourth quarter from its very strong third-quarter rate, but growth remained positive and there have been tentative indications of stronger activity early in the first quarter. In contrast, in France, the United Kingdom, and Canada, real GNP declined in the fourth quarter, in the latter two cases extending third-quarter reductions.

Indicators of fourth-quarter activity in Italy also suggest continued weakness.

Movements of inflation rates in the major industrial countries have been mixed in recent months. Underlying price trends have been distorted by special factors in several countries, with prices of perishable food falling in Japan and the new Goods and Services Tax raising prices in Canada. The recent weakness of foreign currencies against the dollar has not yet become apparent in foreign price data. The most recent monthly figures show a reduction in the German trade surplus and larger trade deficits in Italy and the United Kingdom. In contrast, the trade surplus in Japan increased in February.

Individual Country Notes. In Japan, real GNP (s.a.) in the fourth quarter increased 2.1 percent (s.a.), less than half the rate in the previous quarter. Domestic demand fell slightly due to weak consumption (a rate of decline of 1.1 percent), housing investment (down 6.3 percent), and a drop in inventory investment by the private and, especially, government sectors. Net exports made a positive contribution to fourth-quarter growth as exports rose 12 percent and imports declined 2.3 percent.

Indicators of activity early in the first quarter have been mixed. Some monthly indicators seem to be signaling weakness. New machinery orders (s.a.) declined 4.2 percent in January, after falling 7.5 percent the previous month, and were only 1.8 percent above year-earlier levels. Corporate bankruptcies (s.a.) in February were 51.1 percent above their level of a year ago. Monetary growth continues to fall dramatically, with the 12-month rate of M2+CD growth dropping to 5.4 percent in February, well below the peak rate of 13.2 percent reached last May, reflecting some slackening of business loan demand. In contrast, other economic measures

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

	Q4/Q4 1989	Q4/Q4 1990	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1990 Oct.	1990 Nov.	1990 Dec.	1991 Jan.	1991 Feb.	Latest 3 months from year ago 2
Canada												
GDP	2.9	-1.0	.5	-.2	-.3	-1.0	*	*	*	*	*	-1.0
IP	-.4	-5.2	-1.7	-.0	-.8	-2.8	-.0	-1.6	-1.0	n.a.	n.a.	-5.2
France												
GDP	3.5	n.a.	.8	.0	1.2	n.a.	*	*	*	*	*	2.8
IP	2.8	-.3	-.5	1.5	1.4	-2.7	.3	-1.9	-1.6	3.0	n.a.	-.5
West Germany												
GNP	3.2	4.8	3.6	-.9	1.7	.4	*	*	*	*	*	4.8
IP	4.8	5.4	2.4	-.7	3.2	.4	.2	-.5	-.7	3.6	n.a.	5.3
Italy												
GDP	3.0	n.a.	.7	-.4	.7	n.a.	*	*	*	*	*	1.7
IP	3.3	n.a.	-2.3	-1.2	1.5	n.a.	-2.9	-.8	n.a.	n.a.	n.a.	-2.4
Japan												
GNP	4.8	4.7	1.6	1.4	1.1	.5	*	*	*	*	*	4.7
IP	4.2	7.0	.9	1.9	2.4	1.7	3.0	-.8	-.8	1.3	n.a.	6.7
United Kingdom												
GDP	1.3	-1.4	1.0	-.1	-1.3	-1.0	*	*	*	*	*	-1.4
IP	.2	-3.2	-.2	2.0	-2.9	-2.1	-.4	-1.8	-.7	-.3	n.a.	-3.8
United States												
GNP	1.8	.4	.4	.1	.4	-.5	*	*	*	*	*	.4
IP	1.1	.3	.2	1.0	1.0	-1.8	-.6	-1.5	-1.1	-.5	-.8	-1.6

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

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

	Q4/Q4 1989	Q4/Q4 1990	1989 Q3	1989 Q4	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1990 Nov.	1990 Dec.	1991 Jan.	1991 Feb.	Latest 3 months from year ago
Canada													
CPI	5.2	4.9	1.4	.7	1.4	.9	1.1	1.4	.6	-.1	2.6	n.a.	5.6
WPI	.2	1.6	-.3	-.6	.4	.3	-.1	1.0	.5	.0	.0	n.a.	1.9
France													
CPI	3.6	3.6	.7	.8	.7	.9	1.0	1.0	-.2	-.1	.4	.2	3.5
WPI	.9	.7	-.7	-1.0	-.4	-.2	.2	1.1	*	*	*	*	.7
West Germany													
CPI	3.1	3.0	.0	.6	1.1	.5	.4	.9	-.2	.1	.6	.3	2.8
WPI	4.3	.9	-.6	.3	-.3	.6	.2	.4	-.9	-.3	1.1	.3	1.5
Italy													
CPI	6.6	6.3	1.0	1.8	1.6	1.2	1.4	2.0	.6	.4	.7	.9	6.5
WPI	n.a.	9.9	.0	3.2	1.4	-.1	3.9	4.3	-1.7	-.3	n.a.	n.a.	9.9
Japan													
CPI	2.9	3.5	.1	.9	.4	1.2	.2	1.6	-.2	.0	1.0	-.3	3.9
WPI	3.7	1.9	.8	-.3	.4	.8	.0	.7	.4	.3	.0	-.4	2.0
United Kingdom													
CPI	7.6	10.0	.9	2.0	1.8	4.7	1.6	1.6	-.2	-.1	.2	n.a.	9.3
WPI	5.2	5.9	1.2	1.2	1.6	2.1	.9	1.2	.3	.3	1.2	.5	6.2
United States													
CPI (SA)	4.6	6.3	.8	1.0	1.8	1.0	1.7	1.7	.3	.3	.4	.2	5.7
WPI (SA)	4.9	6.4	.0	1.1	2.1	.1	1.6	2.5	.4	-.6	-.1	-.6	4.3

1. Asterisk indicates that monthly data are not available.

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

	1989	1990	1989		1990				1990		1991	
			Q3	Q4	Q1	Q2	Q3	Q4	Nov.	Dec.	Jan.	Feb.
Canada												
Trade	5.8	8.8	1.5	1.0	1.4	2.4	2.9	2.0	1.0	.9	n.a.	n.a.
Current account	-14.1	-14.0	-3.5	-4.0	-4.4	-3.6	-2.9	-3.1	*	*	*	*
France												
Trade	-6.9	-9.4	-1.9	-2.0	-.4	-1.7	-3.9	-3.4	-.3	-1.8	-1.1	n.a.
Current account	-3.4	-7.3	-1.2	-2.3	.3	-2.4	-3.0	-2.3	*	*	*	*
Germany [2]												
Trade (NSA)	71.6	65.2	17.8	16.6	22.4	16.7	16.0	10.1	2.2	2.4	.9	n.a.
Current account	55.5	43.9	11.1	13.5	17.0	10.8	8.7	7.4	.9	2.2	-.8	n.a.
Italy												
Trade	-12.6	-12.0	-2.7	-2.3	-3.6	-2.1	-2.4	-3.9	-2.9	.8	-2.3	n.a.
Current account (NSA)	-10.9	-15.0	.1	-1.5	-9.1	-2.6	-1.6	-1.7	*	*	*	*
Japan												
Trade	64.5	52.2	15.5	12.2	15.6	13.5	14.7	8.5	3.3	2.6	5.0	5.1
Current account	57.6	36.2	14.2	9.2	15.3	8.0	7.0	5.9	2.1	1.3	3.8	n.a.
United Kingdom												
Trade	-39.2	-31.5	-10.6	-6.9	-9.6	-8.7	-7.0	-6.2	-2.5	-1.6	-2.4	n.a.
Current account	-32.4	-22.0	-9.8	-7.0	-7.9	-7.9	-4.5	-1.6	-.6	-.3	-2.4	n.a.
United States												
Trade	-114.9	-108.7	-29.8	-28.7	-26.8	-23.2	-29.8	-28.9	*	*	*	*
Current account	-110.0	n.a.	-27.6	-26.7	-22.3	-22.7	-26.5	n.a.	*	*	*	*

1. The current account includes goods, services, and private and official transfers. Asterisk indicates that monthly data are not available.
2. Before July 1990, West Germany only.

suggest strong growth. Industrial production (s.a.) rose 1.3 percent in January and showed a 7.5 percent increase from year-earlier levels. Retail sales (s.a.) jumped 4.4 percent in January, raising their 12-month increase in 8.2 percent. The unemployment rate (s.a.) declined to 2 percent in January, its lowest level in over 10 years.

Recent measures of inflation have also been mixed. Consumer prices in the Tokyo area (n.s.a.) declined 0.3 percent in February, lowering the 12-month inflation rate to 3.8 percent from 4.3 percent in the previous month. However, this movement was distorted by sharp swings in perishable food prices. Excluding these items, the 12-month consumer price inflation rate rose from 3.3 percent to 3.5 percent in February. Wholesale prices (n.s.a.) declined by 0.4 percent in February and their 12-month rate of increase eased to 1.6 percent. The closely watched spring wage round is about to begin. Most private forecasts suggest that the government's goal of holding increases to about last year's rate of 5.9 percent is likely to be achieved.

Provisional data indicate that real GNP in Western Germany (s.a.) increased 1.5 percent (a.r.) in the fourth quarter. All elements of domestic demand increased strongly; private consumption increased 3.1 percent, public consumption grew 4.8 percent, and fixed investment increased 6.6 percent. Net exports fell sharply, however, reducing the growth in total GNP. This steep decline was due largely to a 38 percent (a.r.) increase in imports.

Industrial production in Western Germany (s.a.) increased 3.6 percent in January after declining slightly in November and December. The volume of new orders for West German manufactured goods (s.a.) increased 2.8 percent in January, partially reversing the decline over the preceding two months. Retail sales (s.a.) in Western Germany increased 6.9 percent in January.

West German unemployment (s.a.) fell to 6.2 percent in February, the lowest rate in 10 years.

Unofficial estimates suggest that East German nominal GNP (n.s.a.) increased about 5 percent in the fourth quarter, after falling about 25 percent in the third quarter. Private consumption is estimated to have increased about 10 percent in the fourth quarter, and fixed investment to have risen about 25 percent. Another substantial increase in imports and a further sharp sell-off of inventories were the two most important factors constraining growth in the fourth quarter. Industrial production in Eastern Germany (n.s.a.) fell 10.5 percent in December, and for the fourth quarter was 51 percent below year-earlier levels. Official East German unemployment (n.s.a.) was 8.9 percent in February, up from 7.3 percent in January. The number of workers engaged in government subsidized "short-time" work (n.s.a.) increased 0.7 percent in October to 21.5 percent of the labor force.

The combined German trade balance (n.s.a.) fell sharply in January to just $10.4 billion (a.r.). This compares with a surplus rate of $40.6 billion in the fourth quarter. Exports (n.s.a.) fell 1.7 percent in January relative to the average for the fourth quarter, while imports (n.s.a.) increased 5.4 percent over the same period. The combined German current account (n.s.a.) was in deficit by $9.5 billion (a.r.) in January, compared with a surplus rate of $30 billion in the fourth quarter.

The Bundesbank announced that M3 (s.a.) in Western and Eastern Germany combined increased at an annual rate of 2.8 percent in January. This figure was depressed, however, by declines in M3 held in Eastern Germany. Given this fact, the pace of M3 growth was unacceptably high, according to the Bundesbank.

Chancellor Kohl's government has accepted a 1991 Federal budget with an anticipated deficit of 2-1/2 percent of GNP (DM 70 billion). Anticipated increases in revenues (DM 35 billion) are larger than cuts in spending (DM 15 billion). What is notably absent is any substantial cut in subsidies. In addition, Finance Minister Waigel has stated publicly that an increase in the VAT, probably in connection with EC-1992 tax harmonization, will probably be implemented after 1992.

Activity in France slowed sharply in the fourth quarter. Marketable GDP (s.a.), an early indicator of total GDP that excludes most government services, contracted 1.6 percent (a.r.). Fixed investment fell 3.2 percent, and inventory accumulation fell precipitously after a rapid run-up in the third quarter. The slowdown in activity was concentrated in the industrial sector, with industrial production (s.a.) falling 10.4 percent (a.r.) in the fourth quarter. Industrial production rose 3 percent in January, but survey evidence indicates that it is likely to have contracted again in February.

Recent data show little sign of recovery from recession in the United Kingdom. Real GDP (s.a.) fell 3.8 percent (a.r.) in the fourth quarter, after contracting 5.1 percent in the third quarter. The decline in fourth-quarter GDP stemmed mainly from sharp falls in consumption (down 6.1 percent) and fixed investment (down 9.6 percent). In January, industrial output (s.a.) fell 0.3 percent to stand 3.8 percent below its year-earlier level. Unemployment (s.a.) rose for the eleventh month in a row in February, reaching a rate of 7 percent.

The 12-month retail price inflation rate (s.a.) eased to 9 percent in January, the third successive month in which inflation declined. Excluding mortgage interest payments and the poll tax, the 12-month rate of inflation has fallen to 7.4 percent from a peak of 8.4 percent in October.

On March 19, the government presented its budget for the fiscal year beginning next month. The proposed budget appears to have a broadly neutral fiscal impact, but, because of the recession, is forecast to swing into deficit by £8 billion (1.3 percent of GNP) following a small surplus in the fiscal year just ending. The unpopular poll tax is to be reduced significantly, and probably will be replaced by a property tax. The VAT rate is to be raised from 15 percent to 17.5 percent in order to finance a central government takeover of many local government expenditure responsibilities.

In Italy, indicators of economic activity continue to show weakness. Industrial production (n.s.a.) in December was 0.9 percent below its level a year earlier. Capacity utilization (n.s.a.) rose slightly in the fourth quarter, but remained below its level of a year earlier.

The 12-month change in the consumer price index (n.s.a.) in February rose to 6.7 percent. This increase was due in large part to one-time increases in administered prices in the communications, transportation, and energy sectors. To offset the inflationary impact of these price increases, the government has announced that it will reduce VAT rates on fuels and railway tickets.

The recession continues in Canada, where real GDP (s.a.) fell 4.1 percent (a.r.) in the fourth quarter, the third consecutive quarterly decline. All components of domestic demand except government purchases contracted. Unemployment (s.a.) rose to 10.2 percent in February, up from 9.3 percent in December.

Consumer prices (n.s.a.) rose 2.6 percent in January, increasing on a year-over-year basis to 6.8 percent from 5 percent the previous month. This increase was almost entirely due to the implementation of the Goods and Services Tax on January 1.

Finance Minister Michael Wilson presented the government's budget for fiscal year 1991-92 in late February. Despite spending restraints, the recession and high interest payments on debt have pushed the projected federal budget deficit up to C$30.5 billion (4.5 percent of GDP). Wilson also announced with Bank of Canada Governor John Crow the setting of inflation targets in an effort to reduce inflation expectations on the path to price stability. These targets provide for a year-over-year rate of increase in the consumer price index of 3 percent by the end of 1992 and 2 percent by the end of 1995.

Developments in East European Economies

Paris Club creditors have agreed to write off about half of Poland's official debt. The IMF has completed negotiations with governments in the region on the terms of Extended Fund Facilities (Poland and Hungary), Stand-by Arrangements, (Bulgaria, the Czech and Slovak Federal Republic, and Romania) and Compensatory and Contingency Financing Facilities (for all five countries). The IMF programs amount to between $1 and $2 billion each. Despite declines in production by state-owned enterprises in 1990, increased private sector activity is evident in the region, and growth in exports to hard-currency markets was substantial in 1990.

Individual Country Notes. Paris Club creditors have agreed to a two-phase reduction of Poland's official debt payments, to be followed by further reductions upon successful completion of the three-year IMF program. The Extended Fund Facility and a Compensatory and Contingency Financing Facility amount to about $2 billion total. IMF Board approval is expected in April. The Paris Club agreement sets the stage for similar debt relief by commercial creditors.

Polish gross domestic product fell 12 percent in 1990. However, while industrial output sold by the state-owned sector fell 23 percent, private sector output rose by 8.5 percent. Inflation measured on a December-over-December basis was 250 percent, although only about 80 percent, on an annual basis, over the second half of the year. Preliminary data for the year indicate a hard-currency trade surplus of $3.8 billion. Hard currency exports rose about 57 percent to $11.9 billion, while imports rose only 11 percent to $8.1 billion.

Hungary and the IMF have completed negotiations for a three-year Extended Fund Facility for about $1.6 billion and a Compensatory and Contingency Financing Facility with a potential for $490 million if oil prices rise above those specified in the program.

In the Czech and Slovak Federal Republic, the auction of small businesses began in Prague in late January with the sale of 17 retail shops. The final prices were well above the minimum asking price, and press coverage noted that most of the successful bidders had access to foreign capital.

In January, the IMF approved a 14 month stand-by arrangement of about $880 million. Additional funds of about $210 million may be available through the Compensatory and Contingency Financing Facility.

The price level rose about 25 percent in January over December, reflecting the freeing of prices on January 1 as part of the move to a market-oriented economy.

Economic Situation in Major Developing countries

In February, the Mexican government placed an international bond issue in its own name for the first time in nine years. Mexico's current account deficit rose in 1990 and is likely to climb further this year unless remedial action is taken, particularly on the fiscal front. In Brazil, new economic measures, including controls on wages, prices, and financial investments, were implemented at the end of January. Progress has been made recently in negotiations with bank creditors on the payment of interest arrears, and Brazil is following through on a promise to pay 30 percent of current interest accruals. In Argentina, inflation rose to 27 percent in February from 7.7 percent in January due to a sharp depreciation of the austral. The exchange rate stabilized in February in response to tax increases and the establishment of a trading band for the austral, but additional fiscal adjustment is needed. In Venezuela, a $1.2 billion aluminum smelter project was selected to receive substantial financing through debt-equity swaps. Subscriptions to a $1,775 million commercial bank loan to Colombia are largely complete. Nigeria and its commercial bank creditors reached preliminary agreement in March on a debt reduction arrangement covering $5.7 billion in external debt. In February, the IMF approved a new financing package for the Philippines totaling SDR 629 million. Taiwan's cumulative trade surplus has remained unchanged in the first two months of 1991 from the same period last year, while Korea experienced a record current account deficit in January.

Individual Country Notes. In February, for the first time in nine years, the Mexican government placed an issue in the international bond market in its own name. The five-year, DM 300 million issue was priced to yield 10.37 percent. The same week, the state oil company, PEMEX, placed a two-year issue in the market and raised $125 million.

Moody's assigned a Ba2 rating to the new DM issue and commented that the widening current account deficit, the large external debt burden, and ongoing political uncertainty contributed to a rating below investment grade. The current account deficit rose by an estimated $500 million in 1990 to nearly $6 billion, as imports rose 27 percent. The larger deficit occurred in spite of a 28 percent increase in oil export earnings, a 13 percent increase in non-oil exports, and savings on external interest payments stemming from last year's bank financing package.

The current account deficit was more than offset by capital inflows, including substantial capital repatriation by the private sector, and international reserves rose by an estimated $2 billion. Foreign direct investment inflows were large, but much capital flowed into short-term paper and it could flow out rapidly if market perceptions of Mexico's prospects should deteriorate as the current account deficit grows further. The lower oil prices now prevailing, a monetary and fiscal policy stance that favors relatively low real interest rates, and the continued real appreciation of the peso against the dollar portend a widening of the current account deficit in 1991. The deficit may rise to as much as $10 billion unless remedial action is taken, particularly on the fiscal front.

Real GDP growth in 1990 was 3.9 percent, boosted by fourth-quarter growth of 5.9 percent at an annual rate. Meanwhile, interest rates have continued to decline. At the March 12 auction, the 28-day Treasury bill rate was 21.7 percent, down from 23.5 percent on January 22. At the end of November, the four monetary aggregates showed increases from year earlier levels ranging from 45 to 69 percent.

In <u>Brazil</u>, at the end of January, the government announced a new package of measures, called Collor II. Major elements of the package, including new controls on prices, wages, and financial investments, seem inconsistent with the government's pledge to reduce public sector intervention in the economy. Anticipation of a price freeze, together with continuing fiscal pressures, helped to spur inflation to 22 percent in February, with the price index mainly reflecting price increases that occurred in late January, just before the freeze was imposed. The price controls have not yet led to widespread shortages, probably because of the recession and because the controls are not highly effective; prices are believed to be rising by about 10 percent on a monthly basis.

In a speech on March 14, President Collor stated his intention to make the private sector the motor of economic growth. He proposed a tax on large fortunes, and an end to job guarantees for public-sector employees, which will require amending the constitution. Collor also stated his intention to privatize 27 government firms by 1992.

Brazil's real GDP fell 4.6 percent in 1990, according to revised data. Industrial output fell 8.6 percent. The trade surplus in January 1991 was $1.4 billion, up from $1 billion in December, and compared with $500 million in January 1990.

Negotiations on the payment of interest arrears on medium- and long-term debt to commercial banks have made progress recently, after Brazil dropped its insistence on linking payments on these arrears to a comprehensive debt restructuring. In March, Brazil followed through on an earlier pledge and paid $352 million towards current interest, bringing total payments to about 30 percent of interest accrued in the first quarter of 1991. Discussions on a comprehensive debt restructuring are continuing.

In Argentina, consumer price inflation rose to 27 percent in February (monthly basis) from 7.7 percent in January, due to a 59 percent run-up in the austral price of the dollar during January. However, the exchange rate stabilized in February in response to economic measures announced at the beginning of that month by newly appointed Economy Minister Domingo Cavallo; consumer price increases were concentrated at the beginning of February and are believed to have moderated significantly thereafter. The new economic measures included increases in the value-added tax and in various asset taxes, as well as the establishment of a trading band for the exchange rate. When the austral price of the dollar pierced the 10,000 austral ceiling of the band at the end of February, the central bank defended the band with a record \$252 million in foreign exchange sales and a five percentage point increase in reserve requirements, causing the value of the dollar to sink to about 9,600 australs in recent trading.

The tax hikes announced in February are not expected to be sufficient to balance the budget. Due to transfers to the provinces, pension system deficits, and a deterioration in tax revenues, the central government ran non-interest operating deficits in both January and February. As a result of earlier weak fiscal performance, Argentina missed the 1990 fourth-quarter performance criteria under its IMF stand-by program, and therefore will not receive a \$240 million disbursement conditioned on achieving those targets. Argentina currently is negotiating with the IMF on a new stand-by program.

In spite of set-backs in achieving macroeconomic stability, progress toward structural adjustment is continuing. In February and March, the World Bank and the IDB approved loans totaling \$523 million to support reforms in provincial administration and in the public enterprise sector. Additionally, the government announced steps to eliminate non-tariff import barriers and reduce significantly the average tariff level and the degree of tariff dispersion.

A \$1.2 billion aluminum smelter project was selected by the authorities in Venezuela to be the first participant in a planned program of large-scale investment projects to receive financing from debt-equity swaps. The 300,000 metric-ton-per-year smelter is to be developed by a joint venture owned 70 percent by Alcoa Aluminum and 30 percent by Venezuelan companies. Morgan Guaranty is putting together the financing in the form of \$321 million in ordinary equity, \$372 million in debt-equity conversions, \$100 million in supplier credits, and \$448 million in bank credits.

Subscriptions to a $1,775 million commercial bank loan to Colombia were largely completed in February. The package includes a $1,575 million, 12.5-year loan paying LIBOR plus 1 percent, and a $200 million, 5-year bearer-bond issue paying LIBOR plus 1.5 percent. In contrast to prior concerted loan efforts for Colombia, the current syndication may be oversubscribed, pending the decisions of a few remaining banks. The signing of the loan, which will refinance 93 percent of maturing obligations on Colombia's medium- and long-term commercial bank debt during 1991-94, is expected in early April.

On March 2, Nigeria and its commercial bank creditors reached preliminary agreement on a debt restructuring arrangement covering $5.7 billion of external debt. The arrangement is to include three options: a Nigerian buyback of at least 60 percent of the debt at a price to be determined by Nigeria; a par exchange for 30-year bonds paying 6.25 percent interest with collateralized principal and 12 months of interest support; and an exchange for 20-year bonds carrying market interest (without enhancements) together with the lending of new money equal to 10 percent of exposure. As part of the package, Nigeria has agreed to clear about $340 million of interest arrears to banks.

On February 20 the IMF approved a new financing package for the Philippines totaling SDR 629 million. The package includes an 18-month SDR 264 million stand-by credit, a SDR 277 million Compensatory and Contingency Financing Facility (CCFF) to cover higher oil costs and an expected export shortfall, as well as SDR 88 million in contingent CCFF funds if a larger payments deficit occurs than is currently expected. The IMF will set aside 25 percent of each drawing under the stand-by to support operations involving debt reduction. The main aims of the current stabilization program are to reduce the rate of inflation, cut the balance of payments deficit, and increase the level of international reserves.

In Taiwan, consumer prices rose 5.4 percent in the twelve months ending in February, compared with 2.8 percent in the previous twelve months. Taiwan's current account surplus fell slightly to $10.9 billion in 1990 from $11.4 billion in 1989. In the first two months of 1991, the cumulative trade surplus (on a customs basis) was unchanged at $1 billion from the same period last year.

In Korea, consumer prices were 10.6 percent higher in January than a year earlier, partly due to strong domestic demand stimulated by rapid money growth over most of the previous year. Korea's current account deficit was $1.5 billion in January, compared with $2.1 billion in all of 1990. In 1990, imports rose rapidly relative to exports due to strong domestic demand and a large increase in oil imports.