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Confidential (FR) Class III FOMC

March 25, 1992

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

Retail sales and housing starts climbed steeply in the first two months of this year. However, businesses evidently have been meeting at least some of the increased demand by drawing down excess inventories that accumulated in the latter part of 1991. Moreover, the contraction in commercial building and in government spending is still damping overall activity. Slack in labor and product markets has continued to restrain wage and price increases; the year-over-year change in the core CPI is at the lowest ebb since 1987.

Employment and Unemployment

Job market data have provided mixed signals of late, but on balance they suggest only a slight improvement in labor demand early this year. Nonfarm payroll employment rose 164,000 in February, the largest increase since May 1990; however, certain features of the rise suggest that it may not reflect ongoing influences. Most of the gain was in the retail trade sector where seasonal swings are particularly large around the turn of the year; retail employment, on a not seasonally adjusted basis, normally drops in February, and the decline this year was less than usual, mirroring less-than-normal hiring during the Christmas season. Another contributor to the February upturn was an increase of 12,000 in factory payrolls after five months of decline. The return to work of 30,000 auto workers from temporary layoff more than accounted for the rise, and employment was either little changed or down slightly throughout the remainder of the manufacturing sector. The picture in other sectors was mixed, with a moderate increase in services and small declines in construction and government.

The average workweek in private industry jumped 0.4 hour in February, resulting in a sharp rise in aggregate hours worked by

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

	1990	1991	1991 Q2	1991 Q3	1991 Q4	1991 Dec.	1992 Jan.	1992 Feb.
	Average monthly changes							
Nonfarm payroll employment[2]	36	-62	-6	60	-61	39	-149	164
Private	3	-75	-22	71	-91	-6	-144	176
Manufacturing	-48	-38	-22	12	-40	-44	-56	12
Durable	-39	-35	-17	-1	-39	-43	-48	15
Nondurable	-9	-4	-5	13	-1	-1	-8	-3
Construction	-23	-27	-3	-4	-37	5	11	-30
Trade	-10	-42	-23	-9	-47	-14	-81	125
Finance, insurance, real estate	1	-3	-11	-4	3	7	-9	7
Services	72	42	45	75	40	49	8	47
Total government	33	13	16	-11	30	45	-5	-12
Private nonfarm production workers	-9	-62	-8	64	-78	-22	-89	149
Manufacturing production workers	-41	-25	-5	15	-27	-28	-47	38
Total employment[3]	-32	-62	25	60	-120	-44	389	-74
Nonagricultural	-39	-54	-29	61	-87	45	406	-140

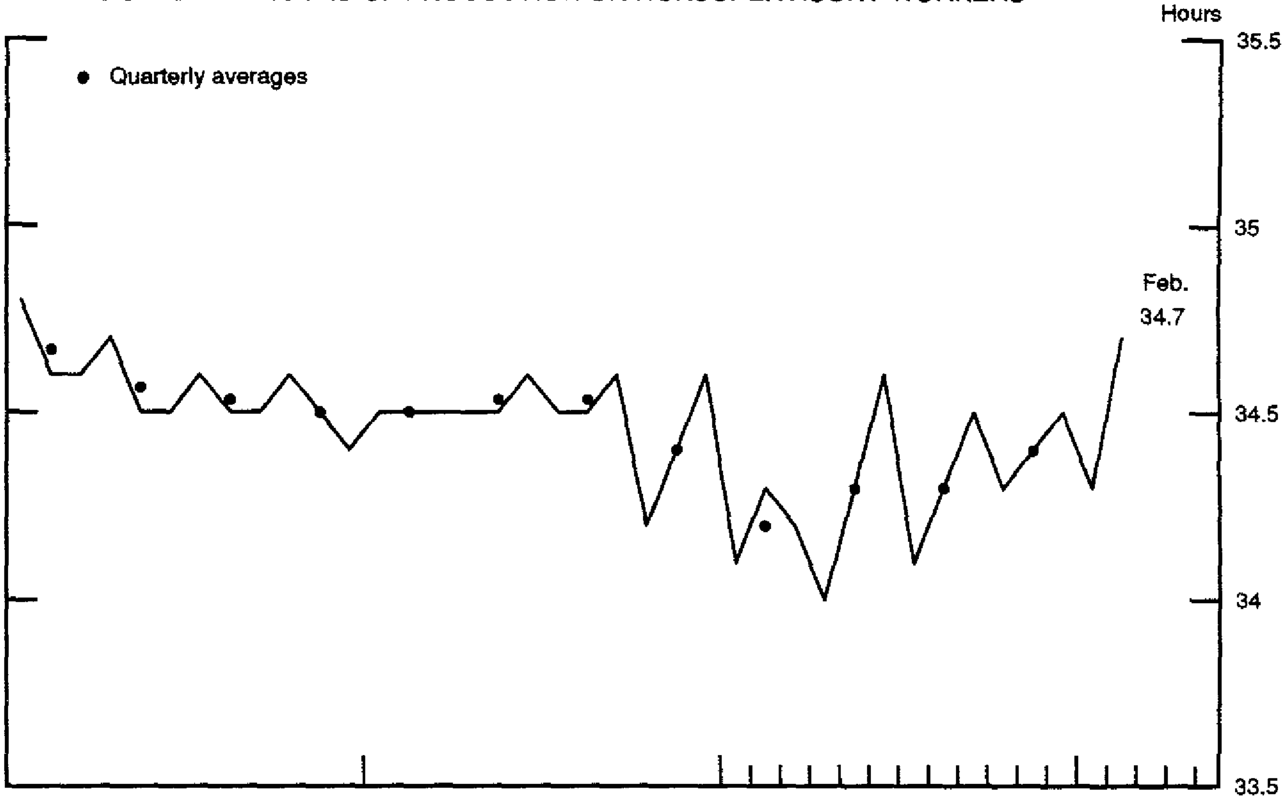
1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households.

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

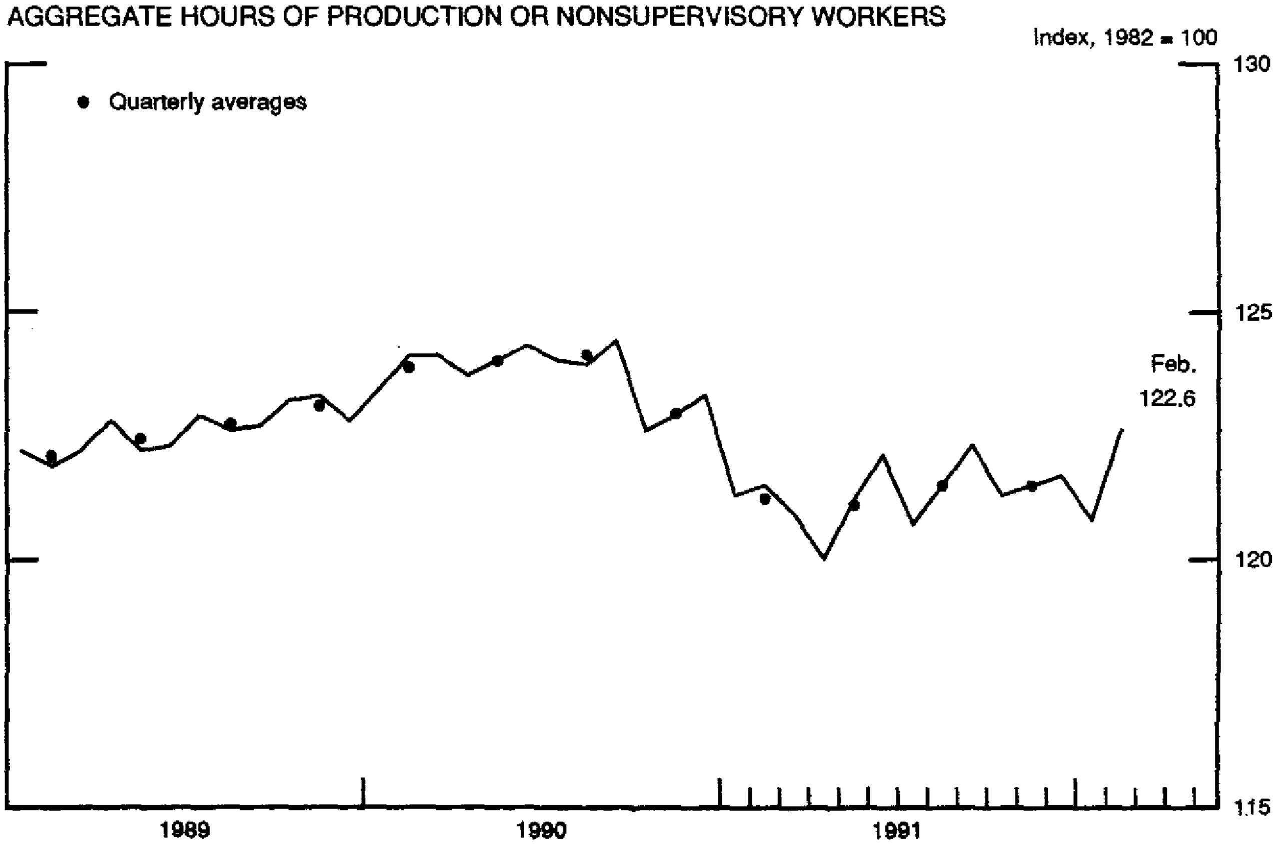
	1990	1991	1991 Q2	1991 Q3	1991 Q4	1991 Dec.	1992 Jan.	1992 Feb.
Civilian, 16 years and older	5.5	6.7	6.7	6.8	6.9	7.1	7.1	7.3
Teenagers	15.5	18.7	18.7	19.0	19.0	19.3	18.3	20.0
20-24 years old	8.8	10.8	10.7	11.0	11.4	11.9	11.2	11.2
Men, 25 years and older	4.4	5.7	5.7	5.8	5.8	5.9	6.4	6.3
Women, 25 years and older	4.3	5.1	5.1	5.0	5.3	5.4	5.4	5.6
White	4.8	6.0	6.0	6.1	6.2	6.3	6.2	6.5
Black	11.3	12.4	12.7	12.2	12.6	12.7	13.7	13.8
Fulltime workers	5.2	6.5	6.5	6.6	6.6	6.8	6.8	7.1
Memo:								
Total national[1]	5.4	6.7	6.7	6.7	6.9	7.0	7.0	7.2

1. Includes resident armed forces as employed.

AVERAGE WEEKLY HOURS OF PRODUCTION OR NONSUPERVISORY WORKERS



AGGREGATE HOURS OF PRODUCTION OR NONSUPERVISORY WORKERS



production or nonsupervisory workers. The workweek rose 0.3 hour in manufacturing, and gains were even larger in some service-producing sectors in which movements tend to be highly erratic. With weekly hours moving above pre-recession levels in some sectors--including finance, services, and manufacturing--we are inclined to discount some of the February increase in both the workweek and aggregate hours; in any event, the average level of aggregate hours in January and February stood just 0.2 percent above the fourth-quarter level (not at an annual rate).

Lingering weakness in labor demand is also evident in the still-elevated level of weekly filings of initial claims for unemployment insurance. Claims have fluctuated around 450,000 in recent weeks, a level little changed from the one that has prevailed since last summer. This suggests that a continuing stream of layoffs is still damping the growth in employment.

INITIAL CLAIMS FOR UNEMPLOYMENT INSURANCE
(Weekly data in thousands; seasonally adjusted by the BLS)

	1991		1992		1992	
	Nov.	Dec.	Jan.	Feb.	Feb. 29	Mar. 7
All regular programs	454	476	451	455	467	440

Further layoffs also were apparent in data from the household survey. The unemployment rate rose to 7.3 percent in February from 7.1 percent in January and December, with job losers accounting for most of the increase. On a more positive note, however, the labor force expanded sharply for the third consecutive month, with the entrants apparently moving into jobs. This suggests that actual hiring activity may have picked up in some areas, although not yet at a pace sufficient to offset continued job cutbacks elsewhere. The labor force gains in recent months have been concentrated among men and women 25 years and older; in contrast, labor force levels were little changed for teenagers and young adults, the groups that experienced the largest declines in participation in 1990 and early 1991.

Industrial Production and Capacity Utilization

Industrial production increased 0.6 percent in February, retracing about one-third of the decline since the beginning of the fourth quarter. The motor vehicle industry--where assemblies moved up to 9.1 million units at an annual rate in February from 8.2 million in January (FRB seasonals)--accounted for about half of the increase. In contrast, utility output remained low in February as this winter's unseasonably warm weather continued. With the rise in production in February, capacity utilization for all industry moved back up to 78.2 percent, but was still 5-1/2 percentage points below the July 1990 peak.

Excluding motor vehicles and utilities, industrial production rose 0.4 percent in February. The February increase was broad, with output of materials, intermediate products, and final products all up. Among final products, output of both business equipment and consumer goods posted gains. Production of consumer durables (excluding motor vehicles) increased more than 1 percent last month, after sharp declines in December and January. Production of consumer nondurables other than utility output also picked up in February. Within business equipment, production of industrial equipment firmed, after having declined for six consecutive months, and output of office and computing equipment continued to post strong gains.

Output of defense and space equipment, which moved down 0.9 percent in February, has continued to exert a small but significant drag on overall manufacturing activity. This category of industrial production has fallen about 14 percent from its peak

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

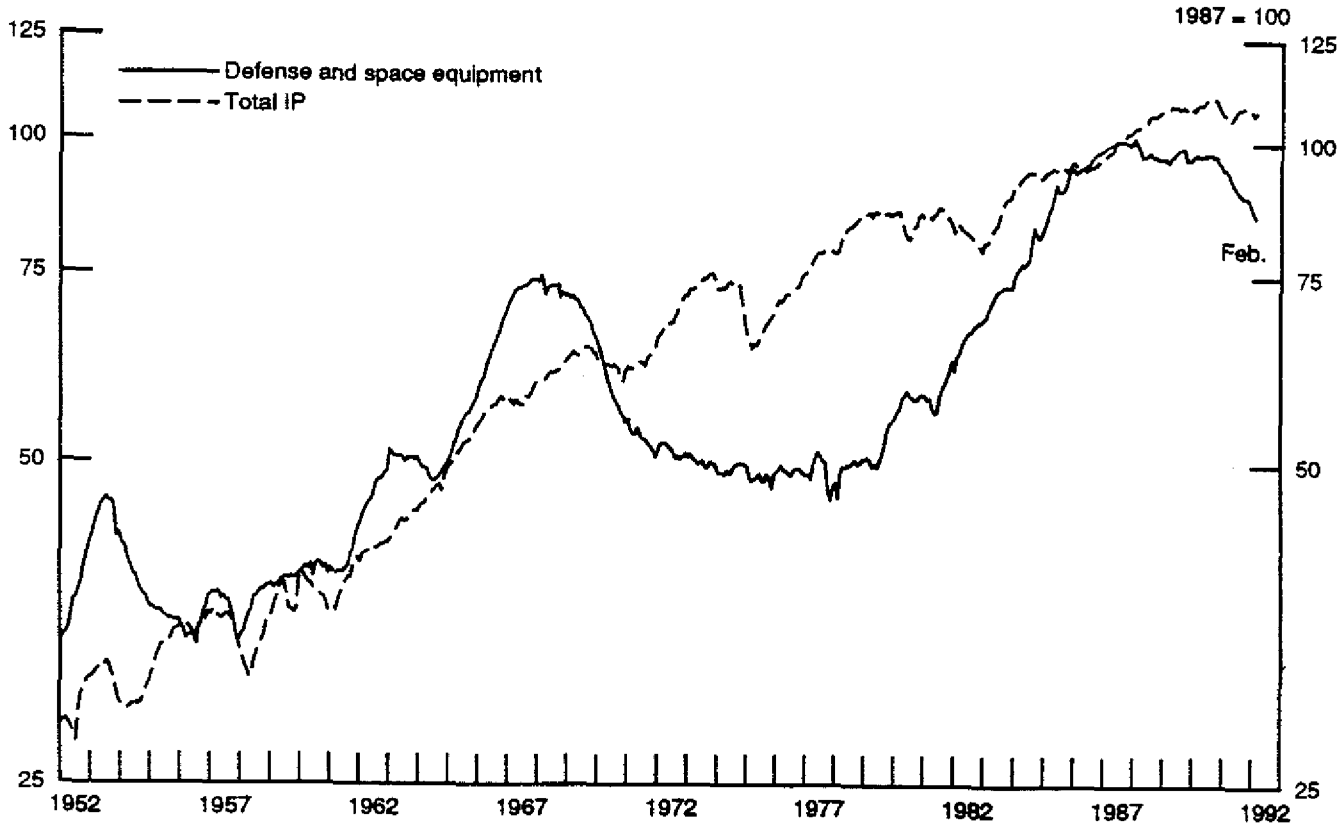
	Proportion in total IP 1991:Q4	1991[1]	1991 Q3	1991 Q4	1991 Dec.	1992 Jan.	1992 Feb.
			-Annual rate-				
Total index	100.0	-.5	6.6	-.7	-.6	-.8	.6
Motor vehicles and parts	4.2	8.5	32.1	4.4	-1.4	-8.0	7.1
Utilities	7.7	1.0	2.9	-3.6	-2.8	-.6	-.5
EXCLUDING MOTOR VEHICLES AND PARTS AND UTILITIES:							
Total Index	88.1	-1.0	5.9	-.7	-.4	-.5	.4
Products, total	57.8	-1.1	3.1	.0	-.3	-.5	.5
Final products	43.7	-.6	2.1	.4	-.3	-.7	.5
Consumer goods	22.3	2.0	6.6	3.2	-.2	-.2	.5
Durables	4.1	3.0	10.9	-2.5	-.8	-.8	1.2
Nondurables	18.9	1.8	5.6	4.2	.0	.0	.3
Business equipment	14.6	-1.9	-.8	-1.7	-.3	-.4	.3
Office and computing	2.8	4.2	-3.3	10.5	.8	.9	.6
Industrial	3.9	-8.6	-2.3	-14.2	-1.5	-1.9	.4
Other	7.9	-.3	.9	1.0	-.1	.0	.1
Defense and space equip.	4.4	-8.2	-8.4	-4.8	-1.3	-1.5	-.9
Intermediate products	12.7	-2.9	6.7	-1.8	-.2	-.1	.2
Construction supplies	5.3	-6.4	2.9	-5.0	-.8	.2	.2
Materials	33.3	-.4	11.5	-1.0	-.5	-.6	.6
Durables	18.2	-1.8	10.2	-.4	-.4	-.4	.7
Nondurables	9.0	2.3	17.0	.2	-.5	-.7	.8

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

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1967-90 Avg.	1988-89 High	1990 July	1991 Dec.	1992 Jan.	1992 Feb.
Total industry	82.2	85.0	83.8	78.7	77.9	78.2
Manufacturing	81.5	85.1	83.1	77.7	77.0	77.4
Primary processing	82.4	89.0	86.1	80.2	79.9	80.2
Advanced processing	81.1	83.6	81.8	76.6	75.8	76.2

Industrial Production: Total and Defense and Space Equipment
(Monthly, seasonally adjusted)



ANNUAL U.S. LIGHT VEHICLE ASSEMBLY CAPACITY[1]
(At start of model years; millions of units)

	1989	1990	1991	1992	1993	1994
Total industry						
Autos and light trucks	13.84	13.69	13.14	12.98	13.20	13.19
Autos	9.58	9.36	8.53	8.03	8.05	8.08
Light trucks	4.26	4.33	4.61	4.95	5.15	5.12
By nameplate:						
Domestic producers						
Autos and light trucks	12.31	12.05	11.34	10.94	11.09	10.84
Autos	8.18	7.87	6.94	6.37	6.31	6.09
Light trucks	4.13	4.18	4.40	4.57	4.78	4.74
Transplant producers						
Autos and light trucks	1.53	1.64	1.80	2.03	2.11	2.36
Autos	1.40	1.49	1.59	1.66	1.74	1.98
Light trucks	.13	.15	.21	.37	.37	.37

1. Assembly capacity given work agreements as of March, 1992, as compiled from industry sources by Federal Reserve staff for the industrial production and capacity utilization system.

year of 1987 (chart). The decline has directly sliced about 0.2 percentage point per year off industrial production, and if indirect effects on the demand for other materials and parts are counted as well, the restraint amounts to about 0.3 percentage point per year.[1] Defense and space output has not yet fallen as much, nor as steeply, as it did after the Korean and Vietnam Wars, and the spending cuts approved to date imply less of a decline in output than in those earlier episodes of downsizing.

Weekly measures of production were relatively flat in early March. Electricity generation increased, and production of home goods--such as appliances, televisions, and air conditioners--posted further gains. In contrast, output of steel products fell back. Through mid-March, domestic production of motor vehicles was running at about the February pace, somewhat short of schedules. In February, capacity utilization at domestic auto and light truck plants stood at 65.5 percent.

PRODUCTION OF AUTOS AND TRUCKS
(Millions of units at an annual rate; FRB seasonal basis)

	1991	1992		1992		
	Q4	Jan.	Feb.	Mar.	Apr.	May
				---schedules---		
U.S. production	9.6	8.2	9.1	9.4	9.6	10.0
Autos	5.7	5.0	5.4	5.5	5.7	6.0
Trucks	3.9	3.1	3.7	4.0	3.9	4.0

Looking further ahead, capacity in the domestic auto industry is expected to move slightly higher in the 1993 model year despite the well-publicized announcements of plant-closings by General Motors. Annual light vehicle assembly capacity for the U.S. motor vehicle industry is slated to increase about 200,000 units to 13.2 million units and to remain at that higher level in the 1994 model year (table). Declines in the automobile assembly capacity of

1. In 1987, defense-related industries constituted about 5-1/2 percent of industrial production on a value-added basis.

domestic nameplate producers are expected to be more than offset by increased capacity at their light truck plants and at Japanese transplants; in addition, some of the largest closings announced by GM are not scheduled to take place until 1994.[2]

Consumption and Personal Income

Recent data on consumer spending have been decidedly upbeat. However, current income growth looks to be insufficient to support a continuation of strong consumption gains, and, although consumer sentiment apparently has improved, it remains less favorable than last spring and summer. The survey evidence points to a still-cautious attitude toward the use of savings or new borrowing to finance purchases.

Retail sales were ebullient in the first two months of the year. Excluding the automotive group, the initial estimate for February showed an increase of 1.3 percent, and the rise in January was revised up from 0.6 percent to 2.0 percent. The increase in both months was relatively broad and is consistent with anecdotal reports of a considerable pickup in consumer spending since the beginning of the year. In assessing the magnitude of the improvement, however, it is important to recognize that the initial monthly retail sales estimates are subject to considerable and repeated revision. Indeed, the upward revision to the initial January estimate was one of the largest in recent years, and an analysis of past patterns provides some reason to think that the

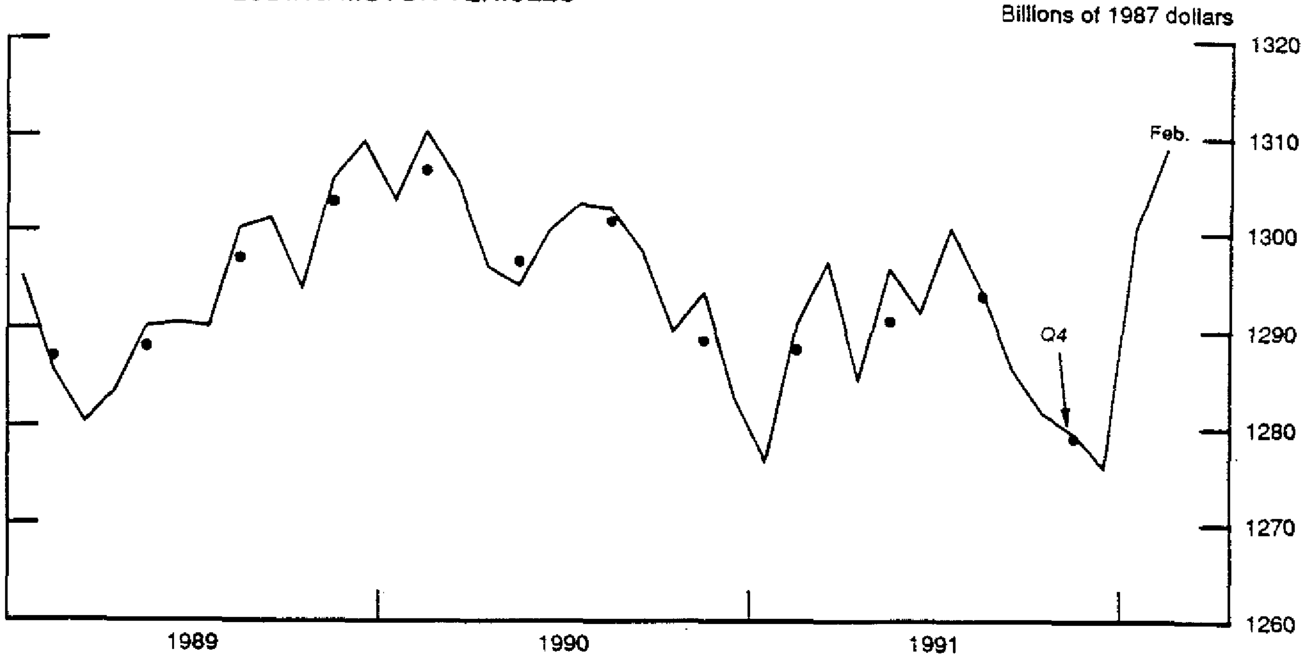
2. Light truck assembly capacity will expand because Ford is adding a plant in Ohio, Chrysler is starting a new plant in Detroit, and Chrysler is adding a third shift to a minivan plant in St. Louis. Among transplant producers, Honda and Nissan are anticipated to increase auto capacity notably. GM's Willow Run assembly plant is scheduled to be removed from capacity after the 1993 model year.

RETAIL SALES
(Seasonally adjusted percentage change)

	1991			1991	1992	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
Total sales	1.5	.4	-.1	.0	2.1	1.3
Previous estimate			-.1	.1	.6	
Retail control[1]	.9	.4	-.9	-.4	1.9	1.0
Previous estimate			-.7	.0	.4	
Total excl. automotive group	1.1	.4	-.8	-.3	2.0	1.3
Previous estimate			-.7	.1	.6	
GAF[2]	2.2	.9	-2.2	-.9	4.9	1.6
Previous estimate			-2.1	-.6	.3	
Durable goods stores	2.8	.2	.9	.8	2.8	2.3
Previous estimate			.7	.2	.5	
Bldg. material and supply	4.8	-.1	-.7	2.4	3.9	5.7
Automotive dealers	3.3	.1	2.5	.8	2.5	1.4
Furniture and appliances	2.0	.2	-2.3	1.8	2.5	1.3
Other durable goods	-.2	.7	-.8	-1.7	3.3	3.6
Nondurable goods stores	.8	.5	-.7	-.5	1.7	.8
Previous estimate			-.5	.1	.6	
Apparel	4.2	.0	-3.0	-.5	1.6	2.3
Food	1.1	-.3	.2	.5	.3	-.8
General merchandise[3]	1.4	1.6	-1.8	-2.2	7.3	1.4
Gasoline stations	-3.1	-.2	-1.2	-2.3	.0	3.1
Other nondurables[4]	.7	.9	-.2	.1	.4	.8

1. Total retail sales less building material and supply stores and automotive dealers, except auto and home supply stores.
2. General merchandise, apparel, furniture, and appliance stores.
3. General merchandise excludes mail order nonstores; mail order sales are also excluded in the GAF grouping.
4. Includes sales at eating and drinking places, drug and proprietary stores.

PCE GOODS EXCLUDING MOTOR VEHICLES*



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

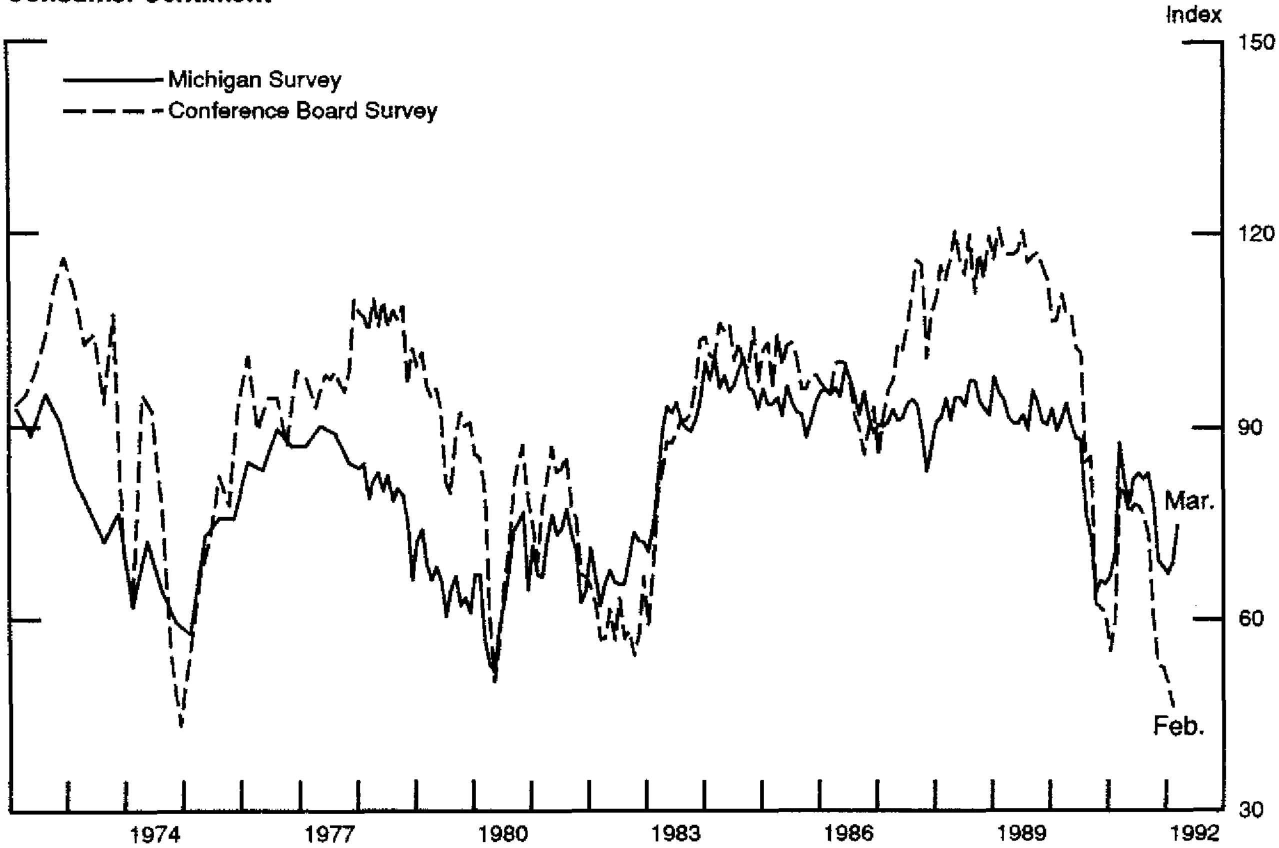
U.S. SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate; BEA seasonals)

			1991			1992		
	1990	1991	Q2	Q3	Q4	Jan.	Feb.	Mar.[4]
Total[1]	13.86	12.30	12.34	12.69	12.22	11.85	12.48	n.a.
Autos	9.50	8.39	8.43	8.60	8.19	7.97	8.53	n.a.
Light trucks	4.36	3.91	3.90	4.09	4.03	3.88	3.96	n.a.
North American[2]	10.84	9.73	9.70	10.06	9.79	9.50	9.89	10.10
Autos	6.90	6.14	6.11	6.31	6.06	5.89	6.19	6.34
Light trucks	3.95	3.59	3.59	3.75	3.73	3.61	3.71	3.76
Foreign produced	3.01	2.57	2.64	2.63	2.42	2.35	2.59	n.a.
Autos	2.60	2.25	2.32	2.29	2.13	2.07	2.34	n.a.
Light trucks	.41	.32	.32	.34	.29	.28	.25	n.a.
Memo:								
Domestic nameplate[3]								
Market share, total	.72	.70	.70	.70	.72	.72	.71	n.a.
Autos	.64	.63	.62	.62	.64	.64	.63	n.a.

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. Excludes some vehicles produced in Canada and Mexico that are classified as imports by the industry.
3. Sales of vehicles produced by GM, Ford, and Chrysler.
4. First twenty-day auto sales.

Consumer Sentiment



January figure may be revised down.[3] As may be seen in the chart, however, even if the January and February increases were to be revised down significantly, the back-to-back gains would probably still be sufficient to sharply boost outlays for nonauto goods in real terms this quarter.

Sales of motor vehicles also have improved recently, but the volume remains unimpressive. In February, total sales of motor vehicles rose to a 12.5 million unit annual rate, after January's 11.85 million unit annual pace. Sales of vehicles produced in North America continued to improve in March, registering a 10.1 million unit annual pace during the first twenty days of the month. While this selling rate is the strongest for these vehicles since last summer, it remains well below the 11-1/2 million unit rate that prevailed in the second half of the 1980s. Buy-American campaigns have not translated into increased market share for domestic nameplates; in fact, their market share edged lower from January to February. However, impending price increases for Japanese-brand vehicles were highly publicized, and a desire to buy in advance of the price hikes might have been responsible for the increased market share of foreign nameplates.

The University of Michigan's preliminary report on consumer sentiment for early March revealed the first significant rise since attitudes deteriorated sharply last fall. Nonetheless, the composite index in March was still below the level that prevailed in late summer. No March figure is available yet for the Conference

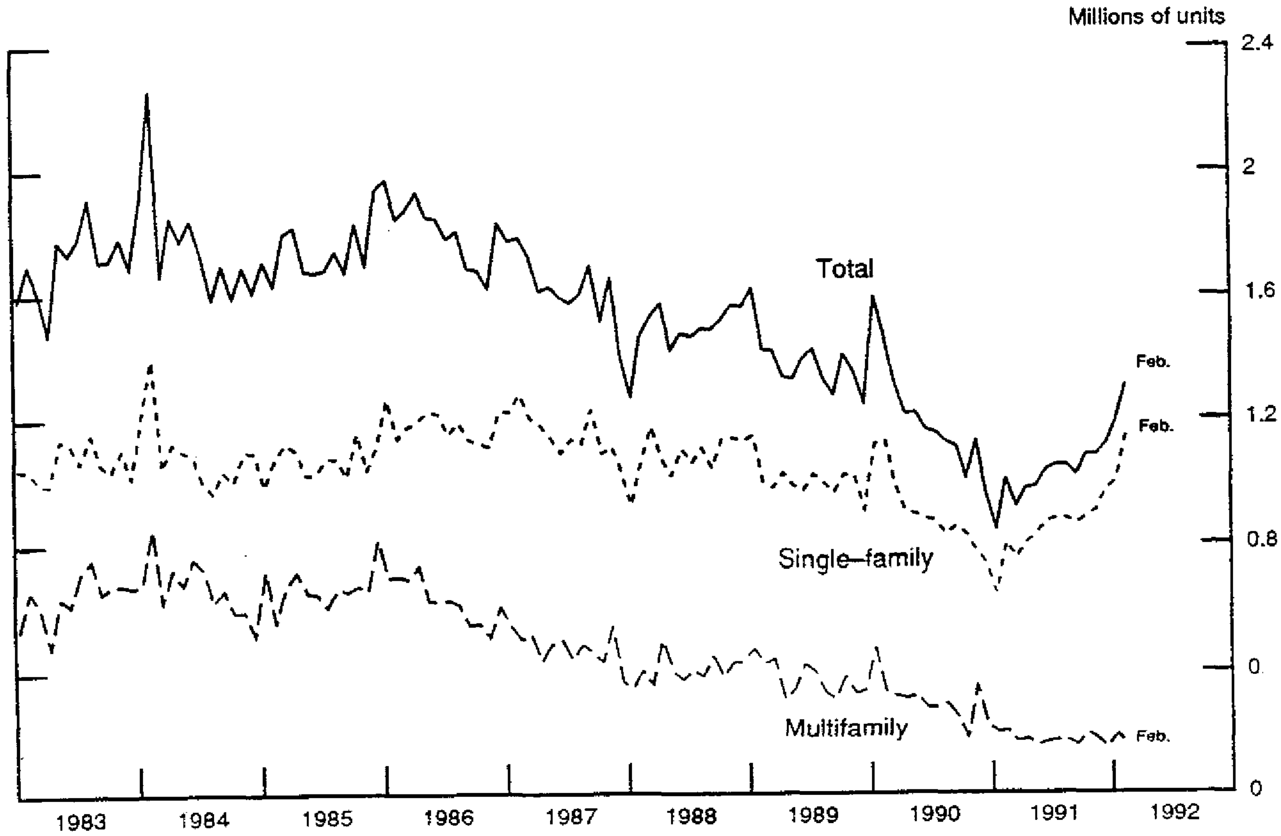
3. The staff has examined revisions in spending estimates over the past three years for the retail control category--retail sales excluding motor vehicles and building material and supply stores. Of the four upward revisions between the initial and the second estimate that were more than one standard deviation from the mean revision during this period, three were subsequently revised down between the second and the final estimate. A more formal test found statistical evidence of negative serial correlation in revisions, although the analysis was only able to explain a small portion of the variance in revisions.

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

	1991[r]	1991			1991	1992	
	Annual	Q2	Q3	Q4[r]	Dec.[r]	Jan.[r]	Feb.[r]
All units							
Permits	.96	.96	.98	1.03	1.06	1.11	1.16
Starts	1.01	1.00	1.04	1.10	1.12	1.19	1.30
Single-family units							
Permits	.76	.76	.78	.81	.85	.91	.96
Starts	.84	.83	.88	.92	.97	1.00	1.15
Sales							
New homes	.51	.51	.51	.55	.54	.61	n.a.
Existing homes	3.22	3.37	3.16	3.20	3.27	3.22	3.52
Multifamily units							
Permits	.20	.20	.20	.21	.20	.20	.20
Starts	.17	.17	.17	.17	.15	.19	.16

p Preliminary. r Revised estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)

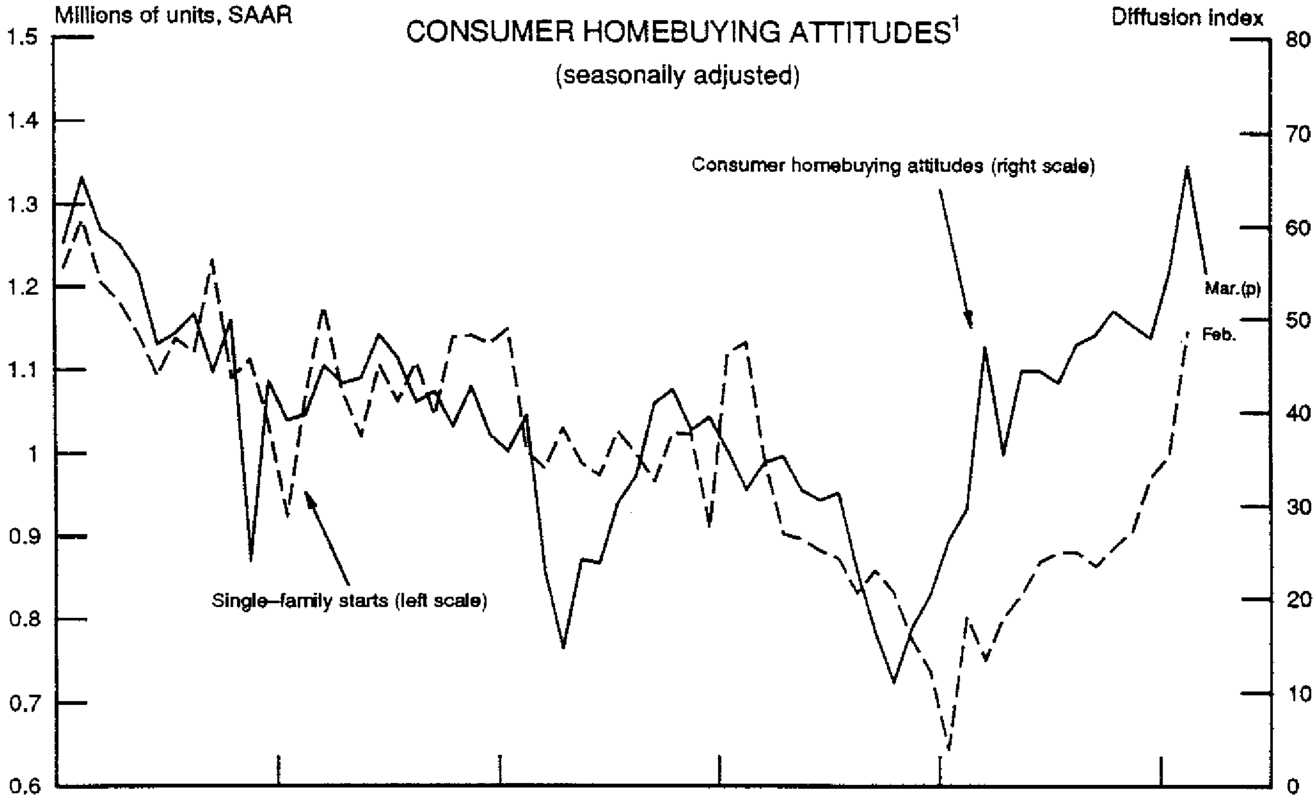


Board's index of consumer confidence; this index dropped last month to the lowest level since 1974, but the Conference Board has said that responses received at the end of the month--too late for inclusion--were more positive than those used to compute their published February figure.

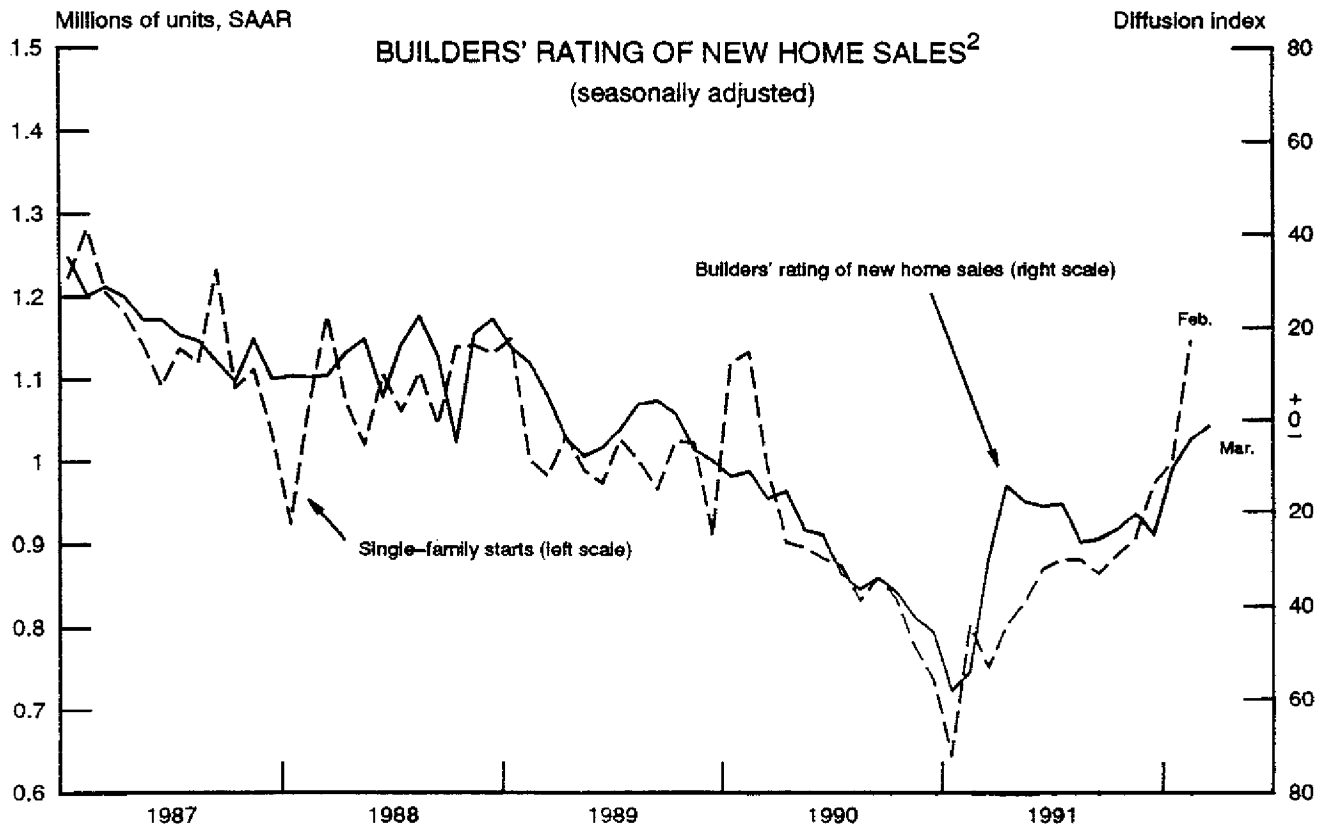
Housing

The housing market appears to be continuing on a recovery path. Single-family housing starts rose substantially in both January and February, reaching the highest level since March 1990. New home sales also rose to pre-recession heights in January, and existing home sales in February more than reversed a dip in January, reaching their highest level since January 1989. In addition, builders' attitudes continued to improve, and consumers' homebuying attitudes--which dropped back in March from a February peak--remain well above levels seen in recent years (chart). Furthermore, market fundamentals--house prices and interest rates--are generally more favorable than they were a year ago and argue for some further improvement in the single-family market. By contrast, no near-term relief is likely for the multifamily sector, in which vacancy rates remain historically high despite the reduced production of recent years.

A number of recent reports have emphasized the influence of several special factors on housing activity. However, we believe that these factors likely explain only a portion of the recent pickup. One popular story is that the unusually warm weather this winter accounted for much of the January-February rise in housing market activity, largely because weather conditions were particularly favorable in the Midwest, where the pickup in housing was concentrated. However, permit issuance--which is less sensitive than starts to short-run weather influences--also was up



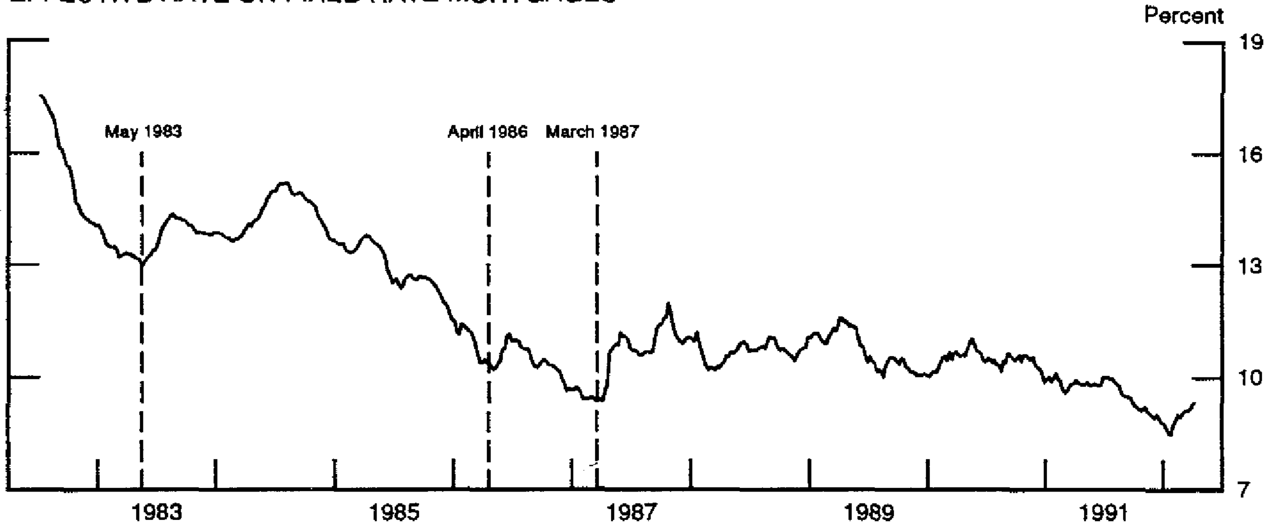
1 The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.



2 The index is calculated from National Association of Homebuilders data as the proportion of respondents rating current sales as good to excellent minus the proportion rating them as poor.

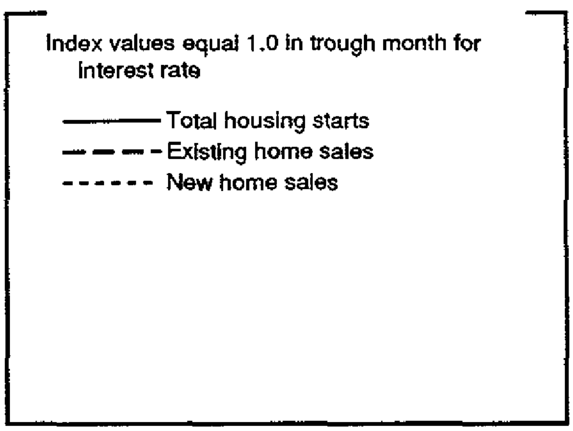
Housing Market Reactions to Upturns in Interest Rates

EFFECTIVE RATE ON FIXED RATE MORTGAGES

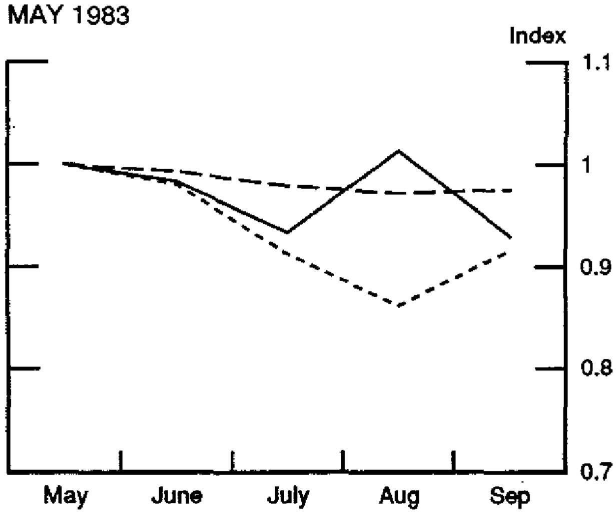


Housing Activity Following Upturns

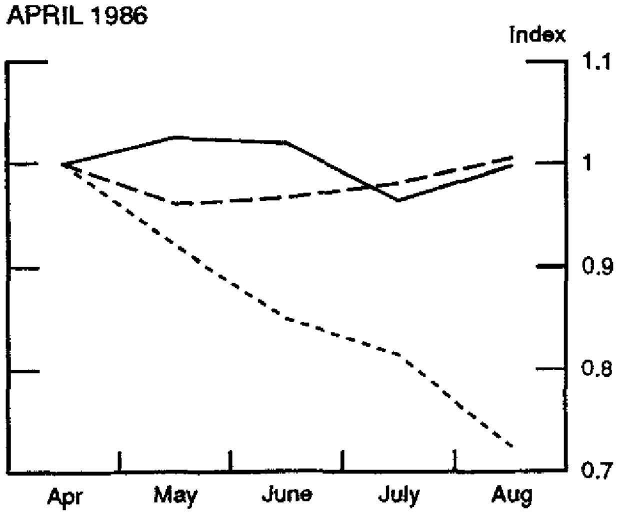
KEY



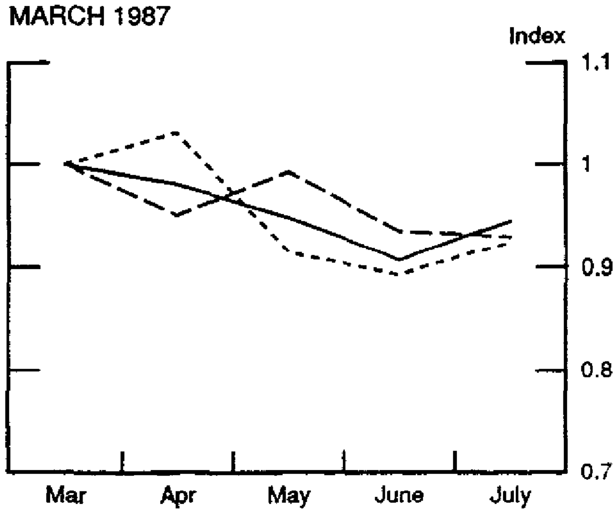
MAY 1983



APRIL 1986



MARCH 1987



substantially, suggesting that the strength in the housing sector is not due solely to favorable weather.[4]

A second factor that has been cited as a possible explanation for the pickup in activity is the upturn in mortgage interest rates that began in mid-January. If the upturn convinced some prospective homebuyers that rates had bottomed for the foreseeable future, a rush to buy in advance of further rate increases could be boosting current sales. However, such an effect has not been clearly evident in past episodes when rates turned up after a prolonged downtrend (chart); for example, home sales and single-family starts did not, in general, rise immediately following the turnaround in mortgage rates in 1983, 1986, or 1987.

A third factor that may be influencing housing activity is the set of proposals to provide a tax break to first-time homebuyers. The direction of the effect, however, is unclear: The prospect of a credit could be drawing new buyers into the market, but uncertainty about passage of these proposals could be delaying some purchases. In any event, it seems unlikely that the net effect has been large.

Business Fixed Investment

After falling for five consecutive quarters, real business fixed investment appears to have stabilized in early 1992--with a rebound in equipment outlays likely offsetting a further deterioration in nonresidential construction.

On the equipment side, spending in the current quarter is likely to be boosted by purchases of transportation equipment and computers. Aircraft outlays dropped to a very low level in the fourth quarter (chart), and Boeing reported a large increase in shipments of its aircraft to domestic airlines in January and

4. In addition, each of the past three winters has been unusually favorable for construction, and to the extent that starts have responded to these weather abnormalities, the current seasonal factors already have begun to correct for this weather pattern.

February; for the first quarter as a whole, real aircraft purchases are likely to increase several billion dollars at an annual rate. Business purchases of motor vehicles also appear to have strengthened, with a sharp increase in sales of heavy trucks in December sustained, on balance, in January and February; sales of these trucks in January and February averaged about 5 percent above their fourth-quarter level. In addition, real investment in computers, which rose 40 percent at an annual rate in the fourth quarter, is likely to post another double-digit increase in the current quarter. Nominal shipments of office and computing equipment in January and February were 4-1/2 percent above the fourth-quarter level, while the average PPI for electronic computers in January and February was 2-1/4 percent below the fourth-quarter level.

Outside of transportation equipment and computers, spending for capital equipment looks to have declined so far this year. In January and February, shipments of nondefense capital goods other than aircraft and computers averaged 2-1/2 percent below the fourth-quarter level, with widespread weakness across most types of industrial machinery.

Looking ahead, equipment shipments likely will rise further in coming months. Excluding aircraft and computers, nominal orders for nondefense capital goods during January and February were 1.1 percent above the fourth-quarter level and have been trending up since reaching their trough early last year. For computers, shipments have been running well above orders since October (chart), drawing down backlogs of unfilled orders.[5] Consequently, nominal computer shipments likely will move back in line with orders over

5. This pattern is consistent with the story that IBM began large-scale shipments of its new line of mainframe computers in the fourth quarter, with deliveries filling orders that were placed as long ago as the fall of 1990.

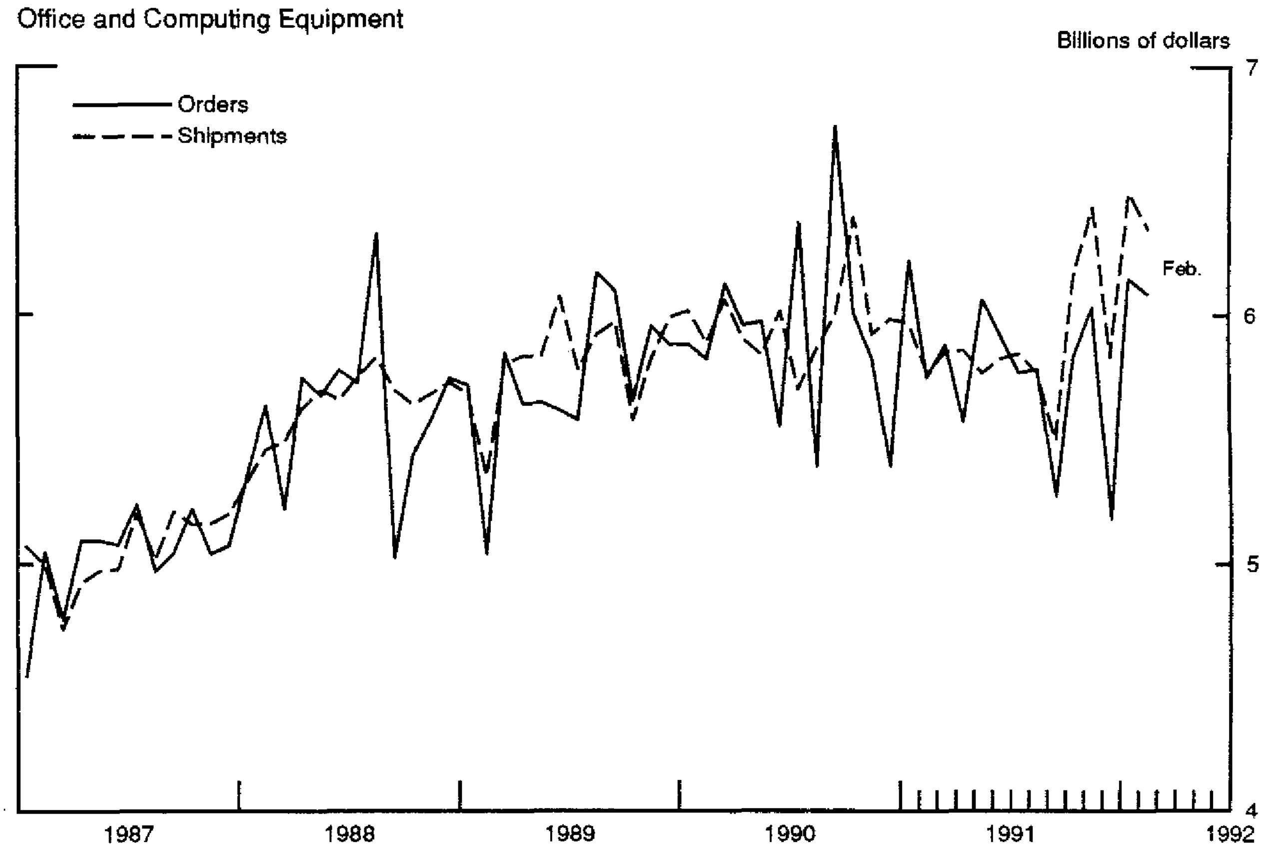
BUSINESS CAPITAL SPENDING INDICATORS
(Percentage change from preceding comparable periods; based on seasonally adjusted data)

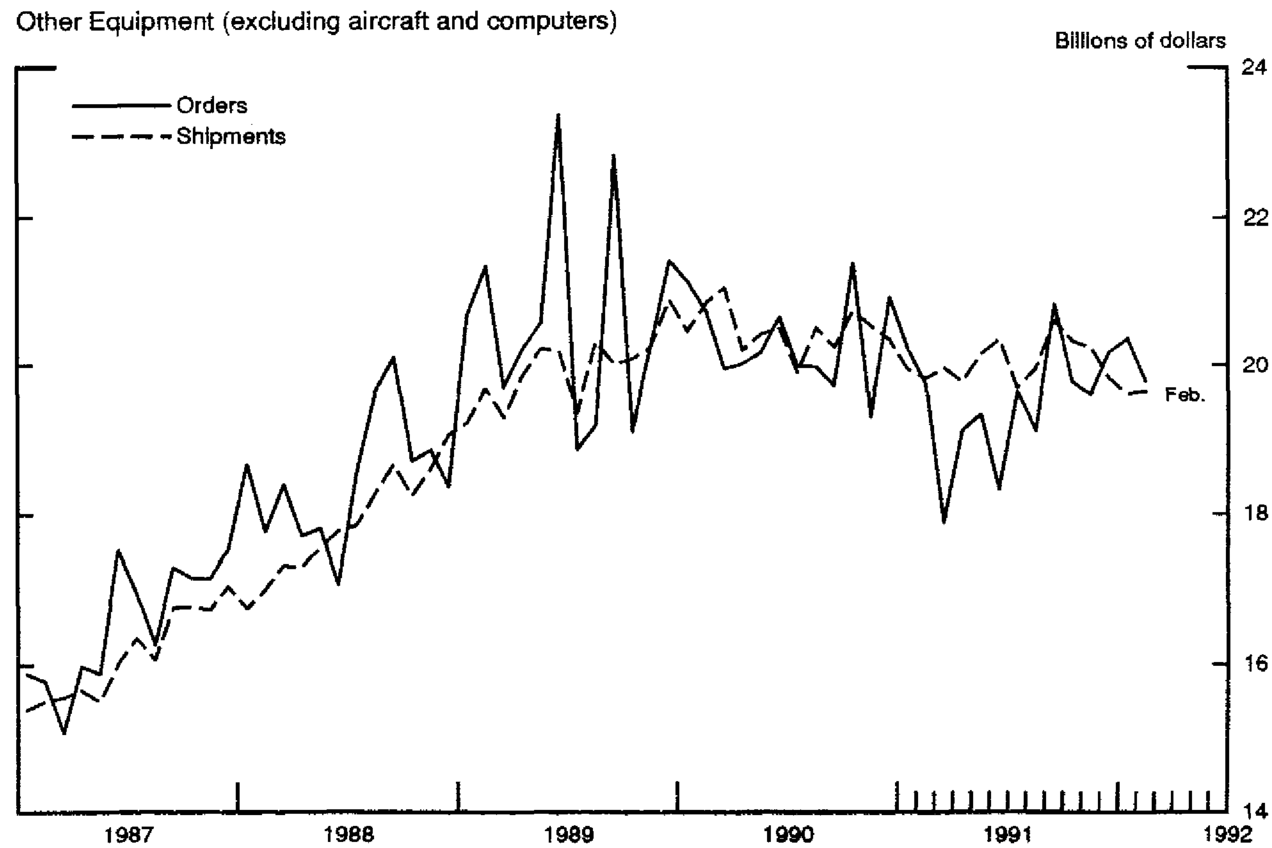
	1991 Q2	1991 Q3	1991 Q4	1991 Dec.	1992 Jan.	1992 Feb.
Producers' durable equipment						
Shipments of nondefense capital goods	1.4	-.2	1.5	-7.2	2.5	2.3
Excluding aircraft and parts	.5	-.5	1.9	-3.8	1.7	-.4
Office and computing	-.8	-2.0	7.8	-9.4	11.4	-2.2
All other categories	.9	.0	.2	-2.1	-1.1	.2
Shipments of complete aircraft[1]	7.3	-4.5	-23.2	-16.4	33.3	n.a.
Sales of heavy-weight trucks	-5.4	1.6	-1.8	15.4	-7.0	3.4
Orders of nondefense capital goods	-13.6	13.6	-2.9	-17.1	9.5	-2.4
Excluding aircraft and parts	-1.8	2.8	.2	-1.0	4.5	-2.4
Office and computing	-1.6	-4.2	1.3	-14.1	18.7	-1.0
All other categories	-1.9	5.0	-.1	3.0	.9	-2.8
Nonresidential structures						
Construction put-in-place	-2.7	-5.6	-2.5	-.7	.2	n.a.
Office	-5.4	-9.0	-9.8	-4.4	-8.8	n.a.
Other commercial	-3.5	-8.8	-6.9	-1.9	3.7	n.a.
Industrial	-4.2	-6.4	6.6	4.0	.3	n.a.
Public utilities	1.4	.3	-.1	-1.5	1.2	n.a.
All other	-3.1	-6.3	-2.8	.3	2.0	n.a.
Rotary drilling rigs in use	-9.9	-12.1	-9.2	-1.6	-2.7	-.4
Footage drilled[2]	-10.0	-2.5	-11.0	9.4	3.2	n.a.

1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines". Seasonally adjusted with FRB seasonal factors.
2. From Department of Energy. Not seasonally adjusted.
n.a. Not available.

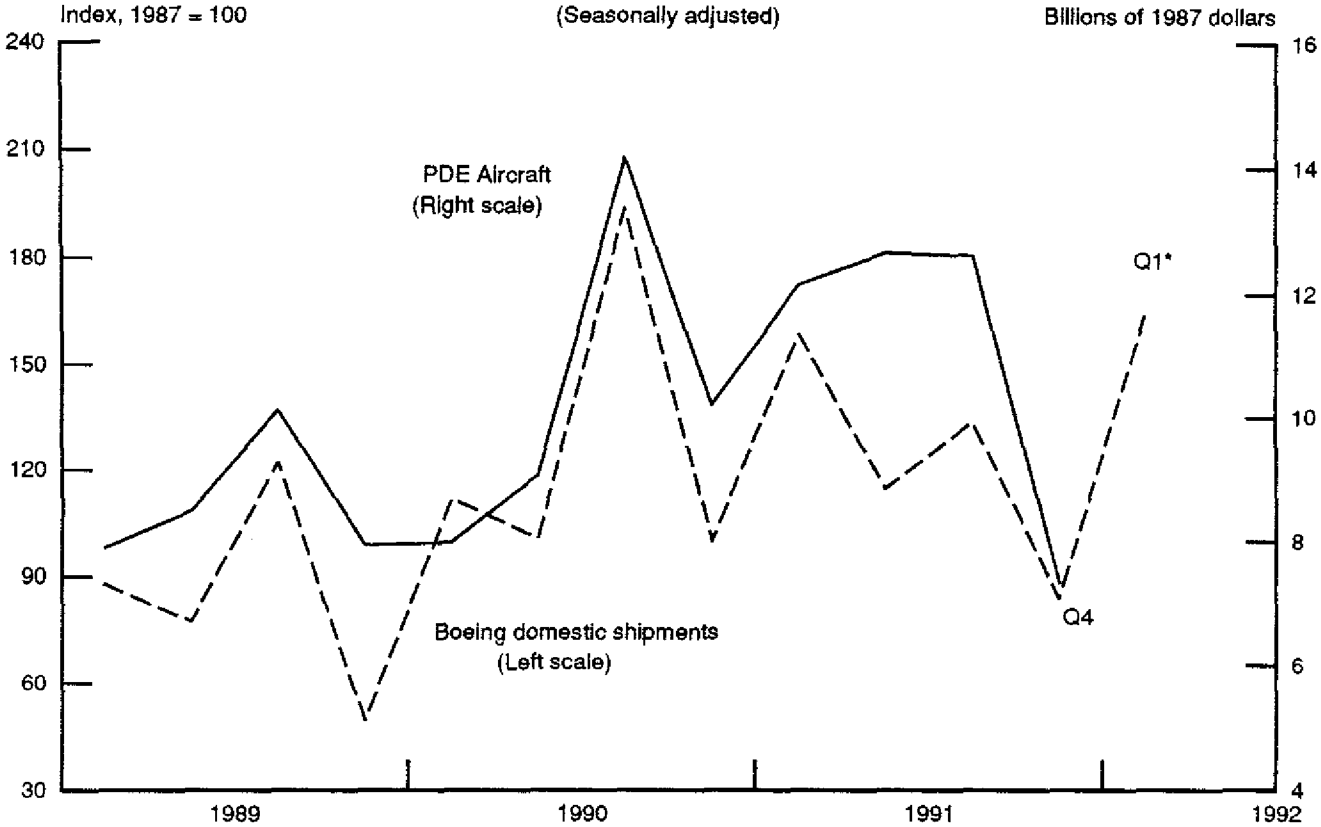
3/25/92

RECENT DATA ON ORDERS AND SHIPMENTS



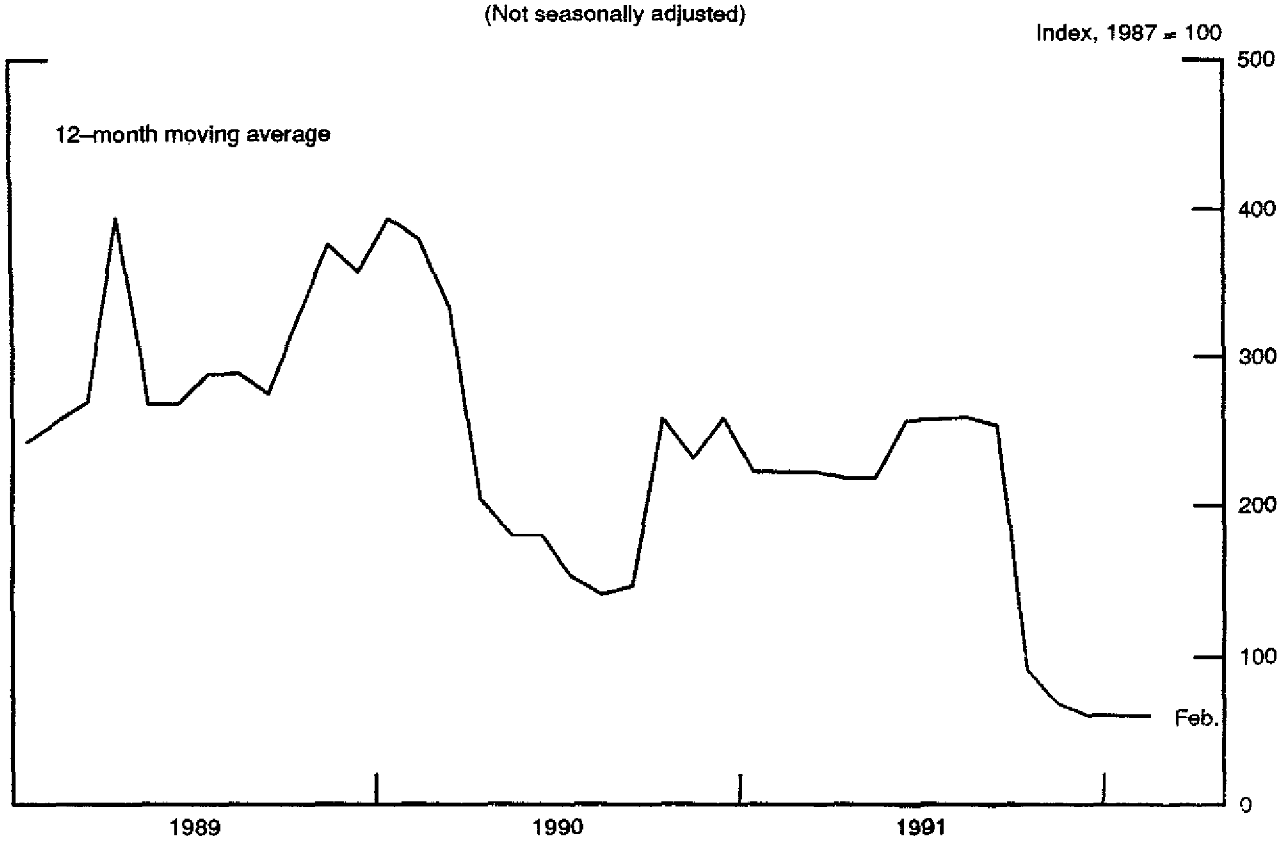


PDE AIRCRAFT OUTLAYS AND
BOEING SHIPMENTS TO DOMESTIC AIRLINES
(Seasonally adjusted)



* Q1 is an average of January and February.

NEW ORDERS OF BOEING COMMERCIAL AIRCRAFT BY DOMESTIC AIRLINES
(Not seasonally adjusted)



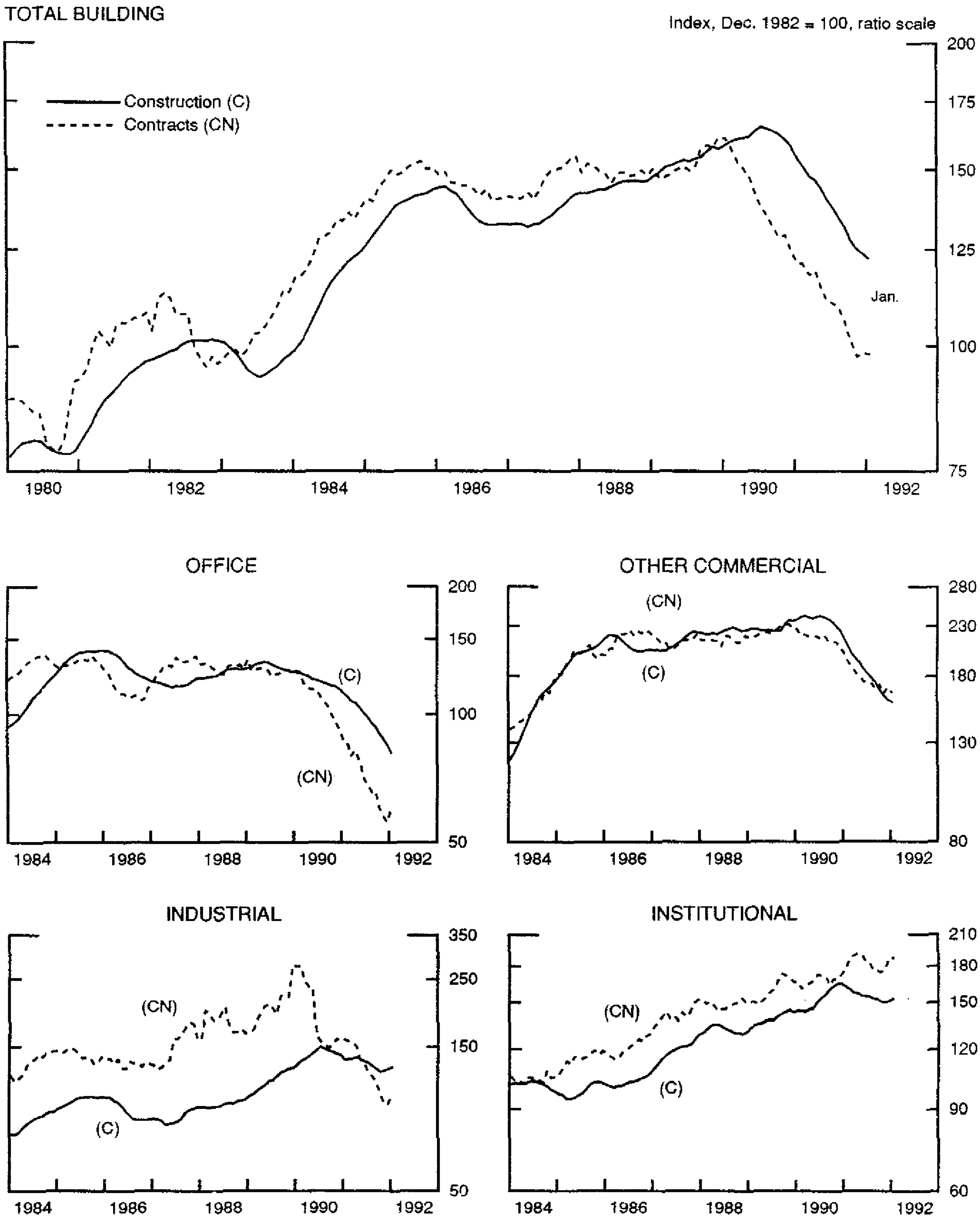
the next few months. Nonetheless, with additional price declines almost a certainty, near-term purchases in real dollars likely will continue to rise moderately.

For aircraft, by contrast, the outlook is relatively weak after the first quarter because the substantial excess capacity among domestic airlines has prompted a severe retrenchment in aircraft orders. Boeing's new orders from domestic carriers have been stagnant in recent months after trending down sharply since the end of 1989 (chart). Order deferrals and cancellations also have increased recently; for example, United Airlines recently announced that it would defer almost $7 billion of ordered aircraft. At Boeing, most of the cutbacks have affected orders that were originally scheduled for shipment in 1993 and beyond; planned purchases of Boeing planes in 1992 appear to be little changed.[6] In contrast, McDonnell-Douglas has been hit much harder by cancellations of near-term orders and has already reduced production of its MD-80 by about one-third.

Nonresidential construction activity continues to be depressed by an oversupply of commercial buildings. Nominal construction put-in-place edged up in January but, because of earlier declines, was still a bit below the fourth-quarter average. The January data showed further drops in office and hotel construction, the types of nonresidential buildings for which excess supply appears to be most severe. Reflecting the continued high level of vacancies, appraised values of office properties fell further in the fourth quarter of 1991, bringing the cumulative decline in values since 1985 to more

6. Boeing has publicly announced only one production cutback: a scheduled reduction next October in the production rate of 737s from the current rate of twenty-one per month to fourteen per month.

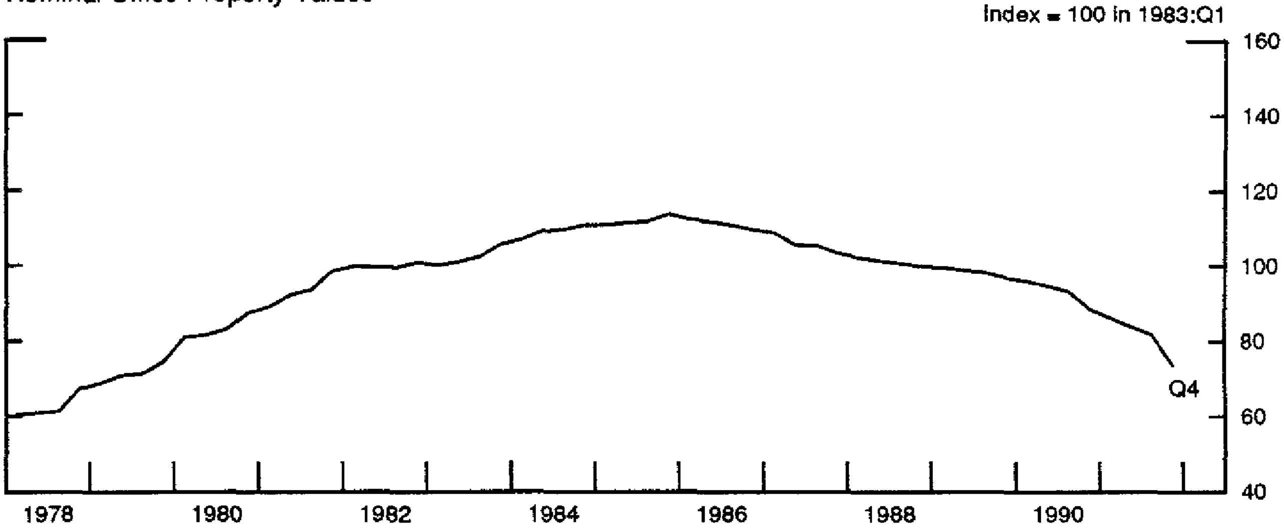
Nonresidential Construction and Contracts <1>



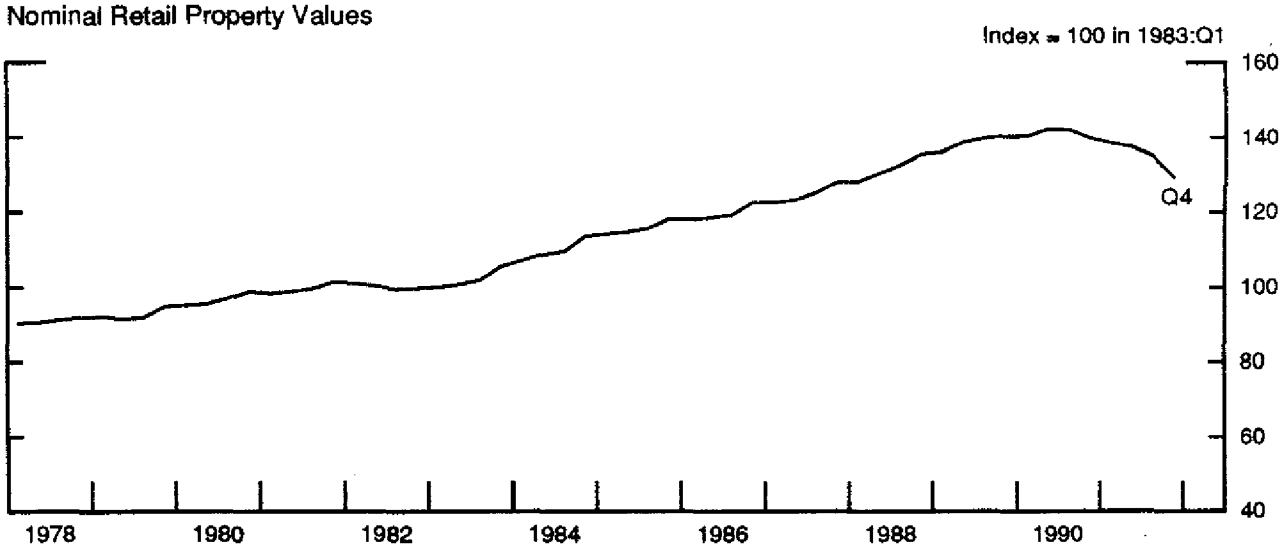
<1> Six-month moving average for all series shown. For contracts, total only includes private, while individual sectors include private and public.

RUSSELL–NCREIF COMMERCIAL PROPERTY VALUES

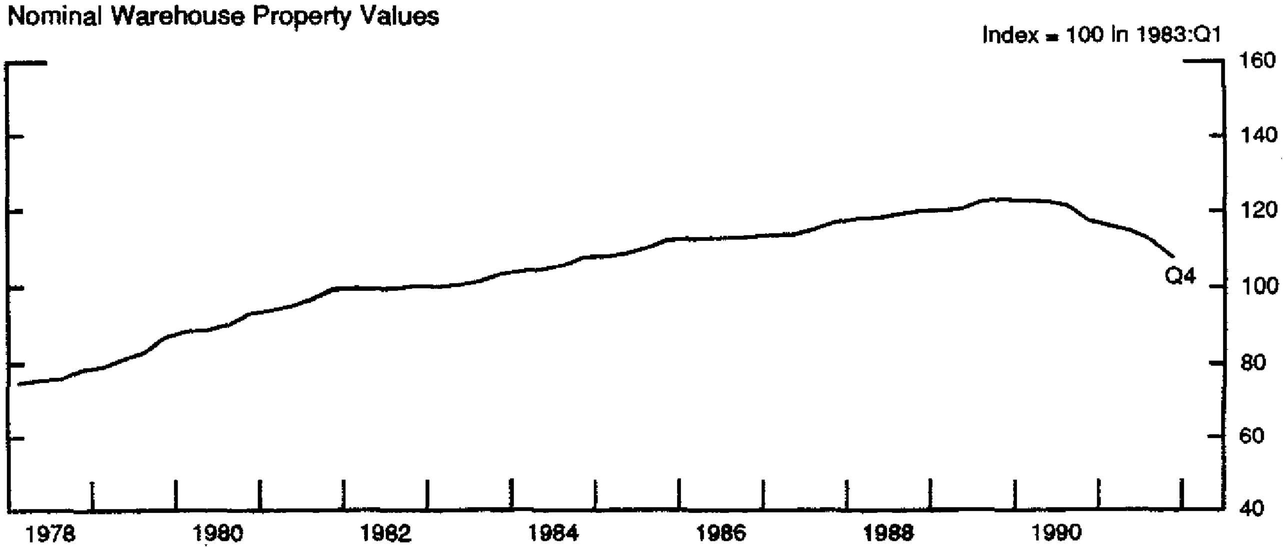
Nominal Office Property Values



Nominal Retail Property Values



Nominal Warehouse Property Values



than 30 percent (chart).[7] For the non-office commercial sector--which consists primarily of retail and warehouse properties--appraised values have been dropping steadily since 1989. Nonetheless, contracts for this sector have begun to flatten out (this being visible in the last few observations for the six-month moving average shown in the chart), suggesting that the steepest declines in construction activity may be past.

Inventories

Sharp increases in trade inventories late last year have been followed by reductions early in the first quarter. In current-cost terms, stocks at wholesale and nonauto retail establishments fell in January at an annual rate of $17 billion, retracing more than one-third of the accumulation in the fourth quarter. Even so, for many types of businesses in the trade sector, inventory-sales ratios remained at elevated levels in January, raising the possibility of further paring in subsequent months.

In wholesale trade, weak sales during the fourth quarter led to some sizable backups in stocks held by distributors of machinery, motor vehicles, electrical goods, and apparel. In part, however, the December accumulation of machinery inventories at the wholesale level was mirrored by a drawdown of machinery stocks in manufacturing. As wholesale machinery sales picked up in January--rising 2.4 percent after a 1.1 percent drop during the fourth quarter--much of the December accumulation was reversed, and the inventory-sales ratio for wholesalers of machinery plunged to the lowest level since April 1990. Elsewhere in wholesale trade, however, stock-sales ratios remained at levels that are relatively high by historical standards.

7. These data are compiled by the Frank Russell Company in conjunction with the National Council of Real Estate Investment Fiduciaries (Russell-NCREIF) and are based on appraised values of commercial properties owned by major institutional investors.

In retail trade, robust sales in January reduced the inventory overhangs that had developed at many types of stores during the fourth quarter. Nonauto retail inventories were drawn down at an annual rate of $12 billion in January. For stores in the GAF group--which includes general merchandise, apparel, and furniture and appliance stores--strong sales in January helped to lower the inventory-sales ratio to 2.41 months, significantly below the December peak of 2.51 months. As in wholesale trade, however, stocks held by many types of nonauto retailers--particularly sellers of nondurables goods--were still on the high side in January; overall, the inventory-sales ratio for nonauto retailers remains somewhat above its midyear trough.

In contrast, manufacturers have managed to keep their inventories under control despite sluggish orders and shipments in recent months. Factory inventories were pared at a $15-1/2 billion annual rate in January, with much of the drawdown occurring in defense aircraft and parts, food products, and petroleum.[8] On balance, producers have been reducing their stocks since late 1990, and inventory-to-shipments ratios in most industries have remained well below the cyclical peaks reached early last year.

Federal Sector

According to the monthly unified budget data, the federal government recorded a $148 billion deficit for the first five months of the fiscal year, up $37 billion from a year earlier. The rise in the deficit reflects both sluggish receipts and an 8 percent increase in outlays. Growth in outlays continues to be paced by health care spending under the Medicaid and Medicare programs and by spending for cyclically sensitive income-support programs, notably

8. Given the sizable declines in petroleum prices at the producer level in December and January, much of the January reduction in petroleum inventories in current-cost terms likely reflects price changes rather than changes in real quantities.

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

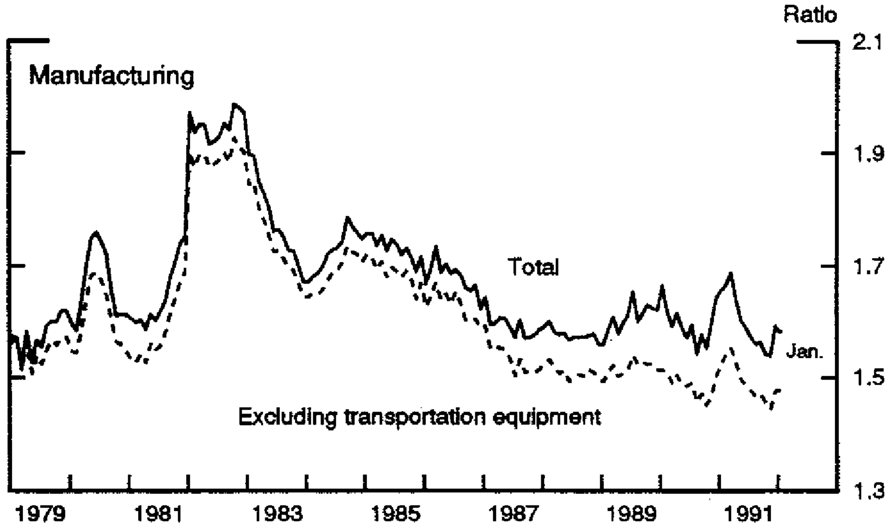
	1991			1991		1992
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Current-cost basis:						
Total	-50.0	10.8	27.6	10.5	33.4	-43.0
Total excluding retail auto	-42.2	1.8	26.5	16.3	34.5	-35.4
Manufacturing	-24.1	-4.5	-12.5	-2.9	-25.4	-18.4
Wholesale	-18.8	-3.3	20.0	10.6	27.9	-4.7
Retail	-7.2	18.6	20.1	2.8	31.0	-19.9
Automotive	-7.9	9.0	1.1	-5.8	-1.0	-7.6
Excluding auto	.7	9.6	19.0	8.6	32.0	-12.3
Constant-dollar basis:						
Total	-30.4	-1.0	14.1	-1.7	16.9	n.a.
Total excluding retail auto	-29.4	-1.0	21.3	11.8	27.6	n.a.
Manufacturing	-14.2	-4.1	-9.9	-2.5	-22.6	n.a.
Wholesale	-13.2	-3.0	15.5	8.1	21.8	n.a.
Retail	-3.0	6.2	8.4	-7.3	17.7	n.a.
Automotive	-1.1	.0	-7.3	-13.5	-10.7	n.a.
Excluding auto	-2.0	6.1	15.7	6.3	28.5	n.a.

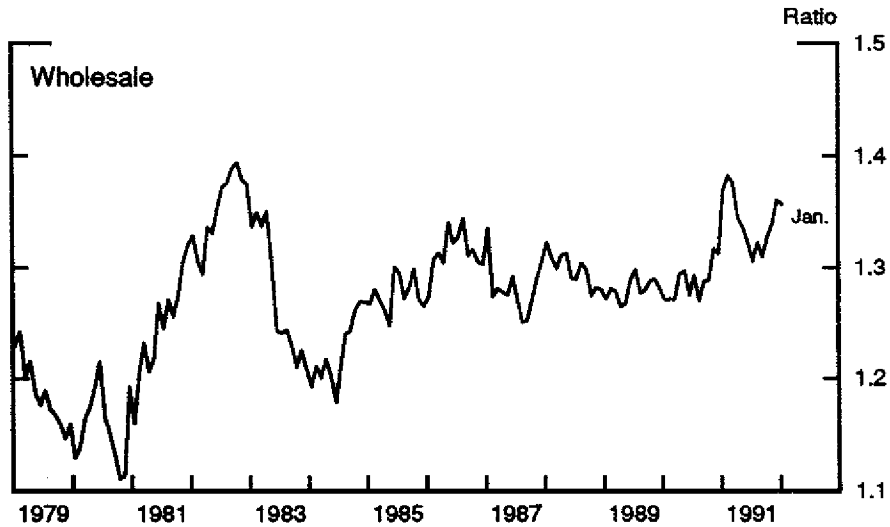
INVENTORIES RELATIVE TO SALES[1]
(Months supply; based on seasonally adjusted data)

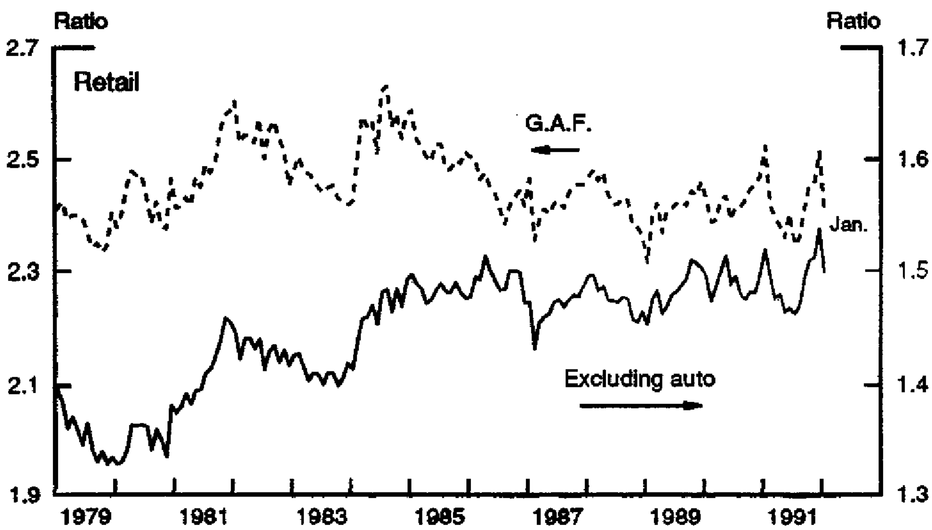
	Range in preceding 12 months:[2]		1991			1991		1992
	Low	High	Q2	Q3	Q4	Nov.	Dec.	Jan.
Current-cost basis:								
Total	1.49	1.57	1.51	1.50	1.51	1.50	1.53	1.52
Total excluding retail auto	1.47	1.55	1.49	1.47	1.49	1.48	1.51	1.50
Manufacturing	1.54	1.69	1.60	1.57	1.55	1.54	1.59	1.58
Wholesale	1.31	1.38	1.32	1.31	1.36	1.34	1.36	1.36
Retail	1.54	1.61	1.55	1.57	1.61	1.59	1.61	1.56
Automotive	1.82	2.01	1.84	1.91	1.87	1.88	1.86	1.80
Excluding auto	1.46	1.54	1.47	1.48	1.54	1.51	1.54	1.50

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)







FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Unified basis, billions of dollars, not seasonally adjusted, except where otherwise noted)

	January and February			Fiscal year through February		
	1991	1992	Percent change	1991	1992	Percent change
Outlays	192.8	230.5	19.6	528.4	568.2	7.5
Deposit insurance (DI)	-2.4	2.2	n.a.	11.8	-2.8	n.a.
Defense cooperation account (DCA) contributions	-10.0	-.5	-94.7	-14.3	-4.3	-69.9
Outlays ex DI and DCA	205.2	228.9	11.5	530.9	575.3	8.4
National defense ex DCA	47.7	50.5	6.0	128.6	128.0	-.5
Net interest	32.9	34.1	3.6	79.1	84.0	6.2
Social security	44.4	47.5	7.0	107.8	116.0	7.6
Medicare and health	27.8	32.5	16.9	68.0	83.3	22.5
Income security	29.8	36.2	21.5	70.3	80.7	14.8
Other	22.8	28.0	24.0	77.3	83.3	8.1
Receipts	168.4	166.1	-1.3	417.8	421.6	.8
Personal income and social insurance taxes	148.3	146.8	-1.0	348.4	351.1	.7
Withheld and FICA	124.5	129.8	4.3	314.7	324.9	3.3
Refunds	-6.3	-14.0	122.7	-9.9	-18.7	89.1
Other	30.1	31.0	2.9	43.6	44.9	2.2
Corporate income	6.3	4.2	-33.3	31.8	28.4	-10.0
Other	13.8	15.1	9.7	37.6	42.1	11.0
Deficit	24.4	64.4	163.5	110.6	148.0	33.0
Deficit ex DI and DCA	36.8	62.8	70.4	113.1	155.5	36.3

unemployment insurance. Defense expenditures (excluding DCA contributions) in January and February were about 6 percent above year-earlier levels, but that increase is attributable to changes in the monthly timing of payroll expenditures; after adjusting for the payroll shifts, defense spending so far this fiscal year has been about 3 percent below the comparable period in FY1991.

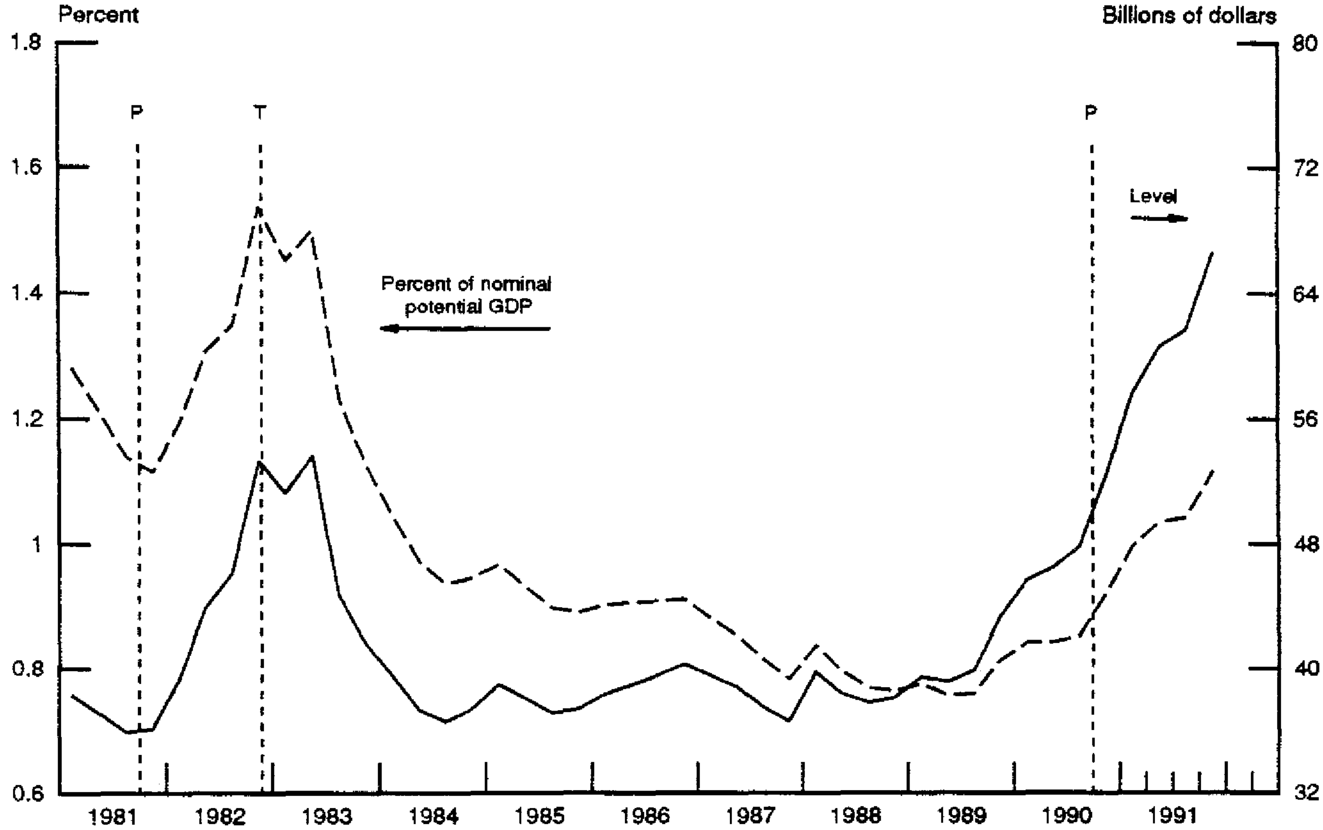
Receipts, which during the first five months of the fiscal year were up less than 1 percent relative to a year earlier, have been held down by slow income growth and faster-than-usual disbursements of individual tax refunds. Data on individual refunds are now available through March 20; they show an increase of $4.3 billion relative to the comparable period of 1991.[9] The speed-up reflects in part the greater use of electronic filing, but its effect on cash in the hands of consumers is not so clear. If electronic filing were not available, then some taxpayers might have taken out loans against their expected tax refunds as they have done in past years.[10]

Two minor measures to boost disposable income were implemented recently: reduced withholding of taxes and extended unemployment benefits. The new withholding tables recently issued to employers by the IRS are effective for wages paid after February 1992 and will, according to Treasury estimates, lower withheld taxes $2 billion each month starting in March; net final tax settlements (tax payments minus refunds) during the next tax-filing season will

9. The data from the Monthly Treasury Statements shown in the table exaggerate the increase in refunds this year. The bulk of refunds are mailed on Fridays, and the January-February period this year included an additional Friday.

10. In any event, this year's change in the pattern of refund issuance will not affect the monthly pattern of disposable income that is reported by BEA. Analysts at BEA have indicated that they interpret this year's faster issuance of refunds as a part of an ongoing secular trend, and that the change will not affect seasonally adjusted disposable income estimates.

NOMINAL EXPENDITURES FOR UNEMPLOYMENT, FOOD STAMPS AND PUBLIC ASSISTANCE EXCLUDING MEDICAID



increase by a corresponding amount.[11] The timing of the change implies that, on net, cumulative federal tax receipts will be about $20 billion lower during calendar year 1992 and $4 billion lower during calendar year 1993. For calendar and fiscal years beginning in 1994, lower withholding of taxes will be approximately offset by higher net final tax settlements.

On February 7, the President signed into law a second extension of unemployment benefits. The law offers an additional thirteen weeks of compensation for unemployed workers who exhaust their twenty-six weeks of state benefits and then exhaust the thirteen to twenty weeks of extended federal benefits enacted late last year. The bill is estimated to cost $2.7 billion in fiscal year 1992; it is "financed" out of the $2.2 billion surplus from last year's pay-as-you-go legislation and from an acceleration of estimated corporate tax payments.

Regarding other budgetary actions, the Congress passed a tax bill on March 20, which the President quickly vetoed. In addition, the House has approved a budget resolution for fiscal year 1993 that cuts defense expenditures $10 billion more than is required by the 1990 budget agreement; the President has proposed reducing defense expenditures $5 billion more than in the 1990 agreement. The resolution also includes a complicated provision that would allow the House to vote to relax some of the features of the 1990 budget agreement and shift some of the defense savings to discretionary domestic programs; at this time the outcome of such a vote is far from certain.

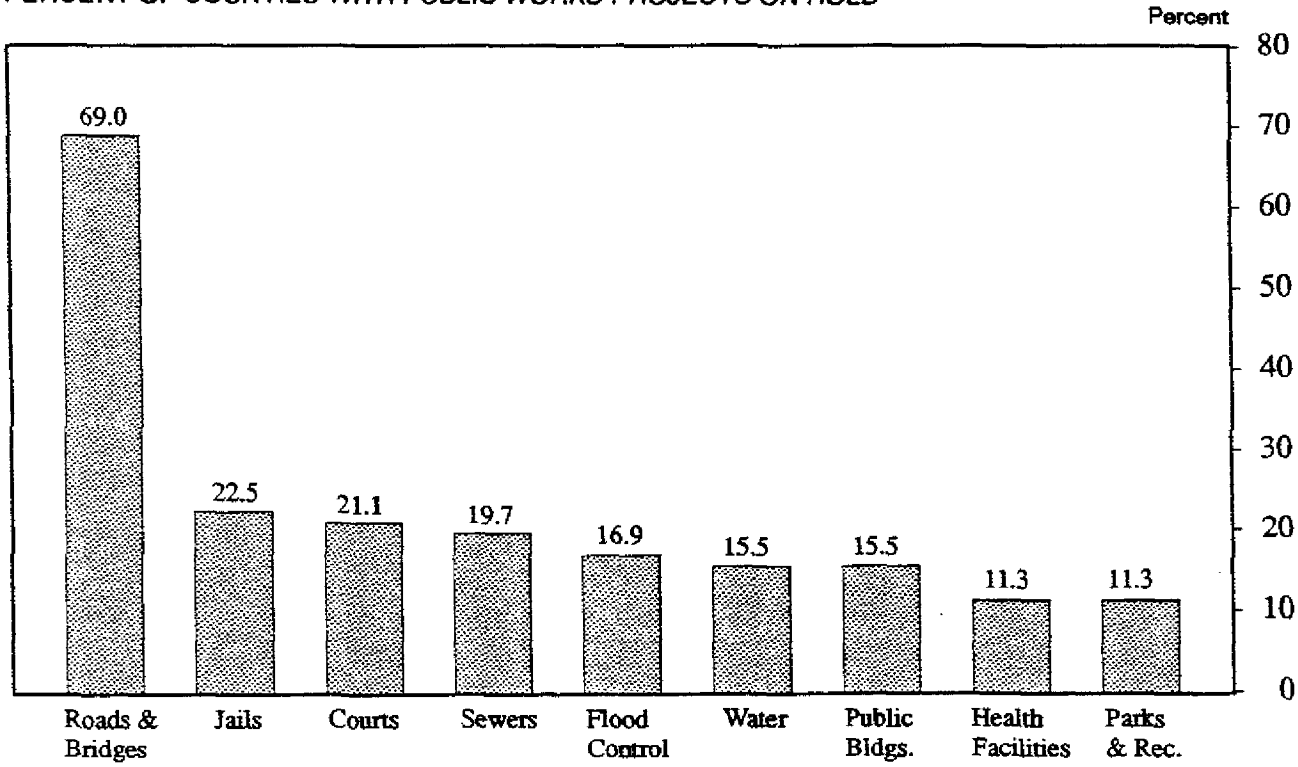
State and Local Government Sector

Incoming data indicate that real purchases of goods and services by state and local governments fell early this year, as the

11. The Treasury estimates anticipated that some taxpayers would file new W-4 forms to retain their previous levels of withholding.

TOTAL STATE AND LOCAL REAL CONSTRUCTION PUT-IN-PLACE

PERCENT OF COUNTIES WITH PUBLIC WORKS PROJECTS ON HOLD



Source: National Association of Counties, February 1992.

weakened financial position of many of these governments continued to restrain spending. Employment by state and local governments edged down in January and February, and real construction put-in-place dropped back in January (chart). Since its peak in the fourth quarter of 1990, most of the cuts in construction spending have been in the building of highways, roads, and bridges.

A recent survey of the most populous counties in the United States, representing 44 percent of the U.S. population, provides additional evidence of cutbacks in spending on infrastructure projects. Seventy percent of the respondents have delayed highway projects, and a much smaller--but still sizable--portion have put other types of capital projects, such as jails and sewer facilities, on hold. In addition, nearly 80 percent of survey respondents have had to cut services, employment, or both, in order to offset a potential budget gap. Looking ahead, many respondents anticipate continuing budgetary pressures owing to further cutbacks in state aid and reduced property tax collections from lower assessments.

Prices and Wages

Consumer prices rose 0.3 percent in February, after rising only 0.1 percent in January. Food prices turned up last month, and the decline in energy prices slowed. For items other than food and energy, prices were up 0.4 percent in February, a bit more than in recent months.

However, the underlying trend in prices continued to moderate in the early part of this year. As measured by the CPI excluding food and energy, the twelve-month change in prices slowed to 3-3/4 percent in February from the 5-1/2 percent pace posted over the preceding year. This marked deceleration overstates the restraining influence of slack in labor and product markets because, in the year ended February 1991, prices were boosted by higher

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

	Relative importance Dec. 1991	1990	1991	1991 Q2	1991 Q3	1991 Q4	1992 Jan.	1992 Feb.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	6.1	3.1	3.0	3.0	3.2	.1	.3
Food	16.0	5.3	1.9	4.8	-2.3	2.7	-.4	.3
Energy	7.4	18.1	-7.4	-.8	1.2	3.6	-1.5	-.9
All items less food and energy	76.6	5.2	4.4	3.2	4.6	3.1	.3	.4
Commodities	24.8	3.4	4.0	2.2	4.4	.6	.2	.6
Services	51.9	6.0	4.6	3.3	4.6	4.3	.4	.3
Memorandum:								
CPI-W[3]	100.0	6.1	2.8	3.0	2.7	3.3	.0	.2

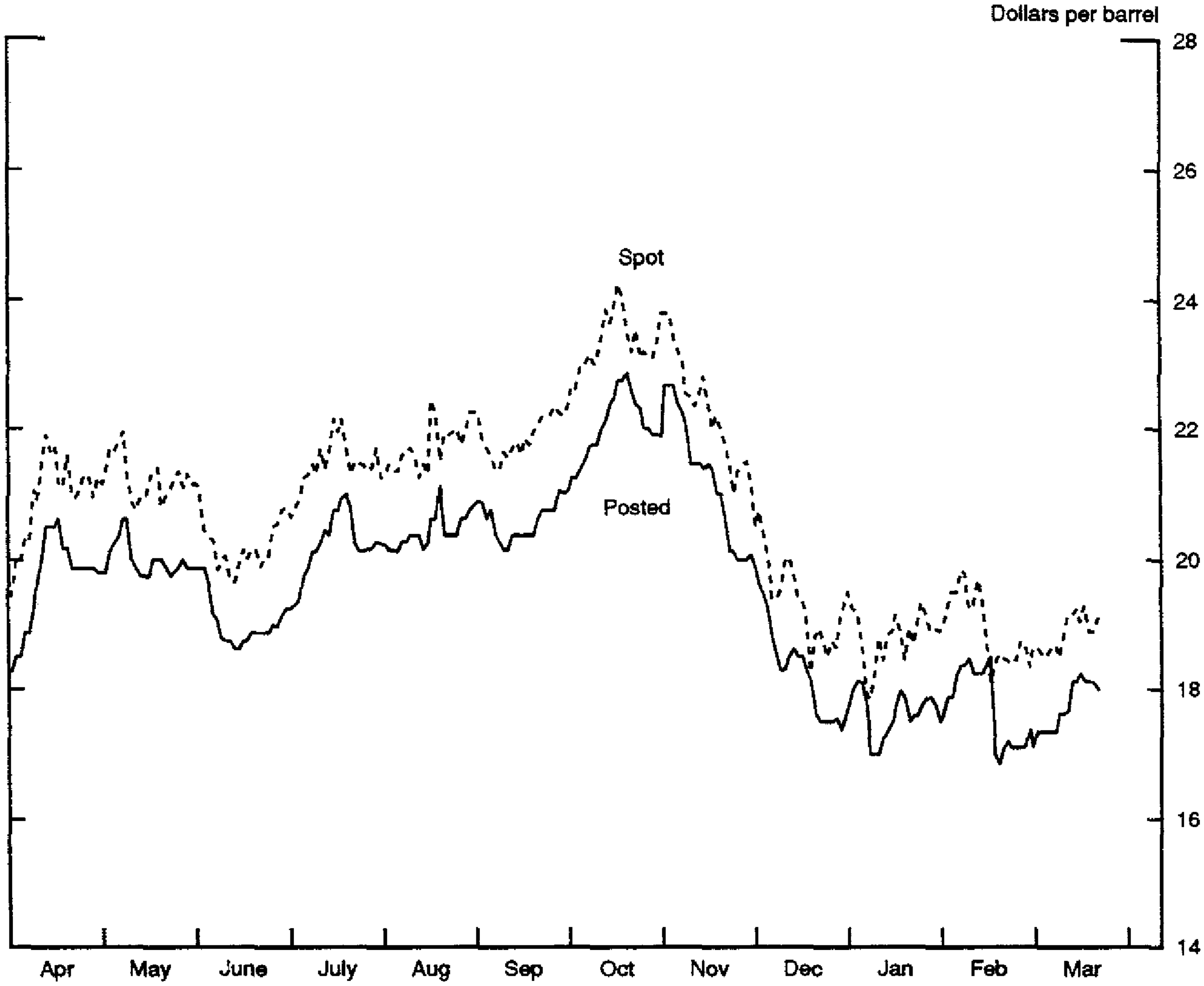
1. Changes are from final month of preceding period to final month of period indicated.
2. Official index for all urban consumers.
3. Index for urban wage earners and clerical workers.

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

	Relative importance Dec. 1991	1990	1991	1991 Q2	1991 Q3	1991 Q4	1992 Jan.	1992 Feb.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	5.7	-.1	.7	1.3	1.0	-.3	.2
Consumer foods	21.9	2.6	-1.6	-.6	-4.4	-1.3	-.3	1.1
Consumer energy	13.8	30.7	-9.6	-1.5	3.7	-.5	-2.8	-.1
Other finished goods	64.3	3.5	3.1	1.9	2.8	2.5	.3	.1
Consumer goods	39.5	3.7	3.4	1.8	3.6	2.4	.4	.1
Capital equipment	24.8	3.4	2.5	1.6	1.3	1.9	.2	.0
Intermediate materials[2]	95.3	4.6	-2.7	-1.0	.4	-1.7	-.5	.5
Excluding food and energy	81.7	1.9	-.8	-.7	-1.3	.0	-.2	.4
Crude food materials	41.4	-4.2	-5.6	-8.6	-6.6	-3.8	1.7	2.2
Crude energy	40.0	19.1	-16.7	.5	-.5	4.8	-3.5	1.2
Other crude materials	18.6	.6	-8.0	-14.1	-4.9	-7.4	.0	1.4

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

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
1991		
April	19.56	20.82
May	19.99	21.24
June	19.04	20.20
July	20.15	21.42
August	20.40	21.69
September	20.55	21.86
October	21.96	23.23
November	21.40	22.47
December	18.47	19.52
1992		
January	17.63	18.82
February	17.72	19.00
March [1]	17.71	18.83

1. Price through March 24 .

federal excise taxes and by the passthrough of higher oil prices; even aside from these influences, however, the improvement has been substantial.

In the food category, the CPI rose 0.3 percent in February, about reversing the January decline. Since the end of 1990, the twelve-month rate of change in retail food prices has moved down from about 5-1/4 percent to 1-1/2 percent, a more marked slowing than that seen in core inflation. Nearly all of the various food categories have contributed to this rapid deceleration. Large increases in the supplies of meats and poultry have pushed the prices of these products significantly below the levels of a year ago, and only a small price increase has taken place for fruit and vegetables over the year. Moreover, the prices of other foods, which tend to be dominated by the cost of nonfarm inputs, rose only 2-1/2 percent over the twelve months ended in February, about 1 percentage point less than the rise of the previous year.

Energy prices held down the CPI in January and February, as previous declines in crude oil costs were passed through to the refinery and retail levels. In addition, warmer-than-expected weather depressed heating oil prices in December and January. At this time, private survey data point to relatively small changes in gasoline prices in early March, and there is little evidence of pressure on prices from current inventory levels.

Excluding food and energy items, the CPI for goods rose 0.6 percent in February, after a modest advance of 0.2 percent in January. A jump in apparel prices of about 1-1/2 percent--reflecting the introduction into the CPI sample of spring and summer clothing in February rather than March--accounted for about half the

February increase.[12] Large increases also were registered for pharmaceuticals and for some categories that are not seasonally adjusted, notably housefurnishings.[13] More generally, however, the CPI for goods other than food and energy slowed over the past year, rising 3 percent over the latest twelve-month period, 1 percentage point less than in the preceding year.

The CPI for nonenergy services rose 0.3 percent in February, after a 0.4 percent rise in January. On a twelve-month basis, increases in this index have slowed to about 4 percent over the year ended this February, from a 6-1/2 percent pace during the preceding year. To some extent, this deceleration owes to the sharp decline in auto finance charges last year and to a reduction in airfares, which have tended to follow the path of fuel costs. However, slowing is evident in other services as well, most notably in the shelter component. Shelter, which accounts for more than half of the nonenergy services category, rose only about 3-1/2 percent over the latest twelve-month period, compared with an increase of nearly 6 percent over the preceding twelve months.

Turning to recent developments that will affect consumer prices in March, three Japanese motor vehicle manufacturers increased prices on March 13. Prices of Toyotas were raised an average of 3.2 percent, while price increases for Nissan and Honda models were 3.0 percent and 1.7 percent, respectively; there were relatively larger price hikes for Toyota's high-priced Lexus models and for Nissan's Infiniti models. Although these higher prices should begin

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12. Although the BLS has improved its seasonal adjustment procedures, the adjustment factors for apparel do not yet appear fully consistent with the early introduction of seasonal clothing into the CPI sample (started two years ago). This inconsistency affects the index mainly in February and August.

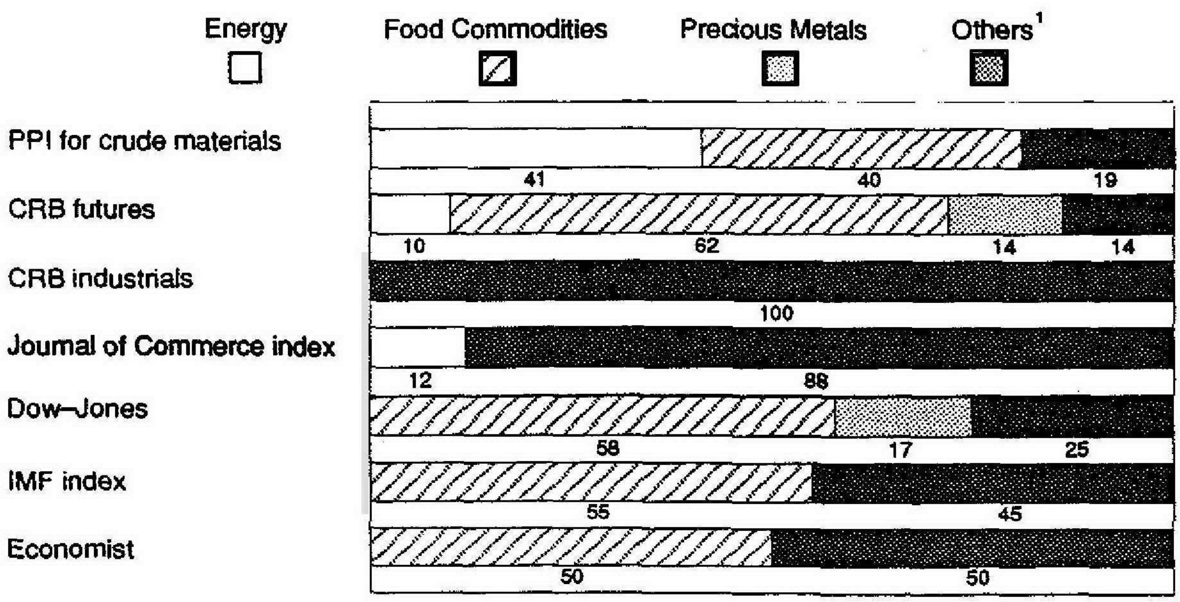
13. In previous years, problems with seasonal adjustment have tended to boost the CPI in January and February. This effect was less evident in January of this year, in part reflecting changes in the BLS adjustment procedures.

PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

	Last observation	Percent change[2] 1990	1991	1992 To Jan. 29[3]	1992 Jan. 28[3] to date	Memo: Year earlier to date
1. PPI for crude materials[4]	Feb.	6.0	-11.6	-.4	1.7	-4.9
1a. Foods and feeds	Feb.	-4.2	-5.6	2.1	2.3	-.8
1a. Energy	Feb.	-2.7	-16.7	-3.5	1.2	-8.4
1b. Excluding food and energy	Feb.	.6	-8.0	.3	1.5	-6.7
1c. Excluding food and energy, seasonally adjusted	Feb.	.5	-8.1	.0	1.4	-6.7
2. Commodity Research Bureau						
2a. Futures prices	Mar. 24	-2.7				-2.7
2b. Industrial spot prices	Mar. 23	.6				-7.2
3. *Journal of Commerce* industrials	Mar. 24	-2.4	-7.2	1.6	1.9	1.3
3a. Metals	Mar. 24	-3.9	-7.1	1.9	1.6	-1.2
4. Dow-Jones Spot	Mar. 24	-1.7	-12.1	5.3	2.0	-4.5
5. IMF commodity index[4]	Feb.	-5.6	.5	1.0	.8	1.6
5a. Metals	Feb.	-3.0	-9.5	-.8	2.3	-8.4
5b. Nonfood agriculture	Feb.	-3.5	1.3	.8	.7	4.1
6. *Economist* (U.S. dollar index)	Mar. 17	-4.4	-9.1	2.5	.8	-3.4
6a. Industrials	Mar. 17	-3.2	-14.9	4.8	2.1	-4.8

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.

to show up in the CPI for new vehicles in March, they probably will affect the index in April and May as well, owing to lags in dealer pricing and CPI pricing methods. Over the March-to-May period, the increases are likely to boost the CPI new car index--which has a weight of about 4 percent in the total CPI--by roughly 1/2 percent.[14] Of course, much larger effects would be felt if domestic carmakers were to follow suit.

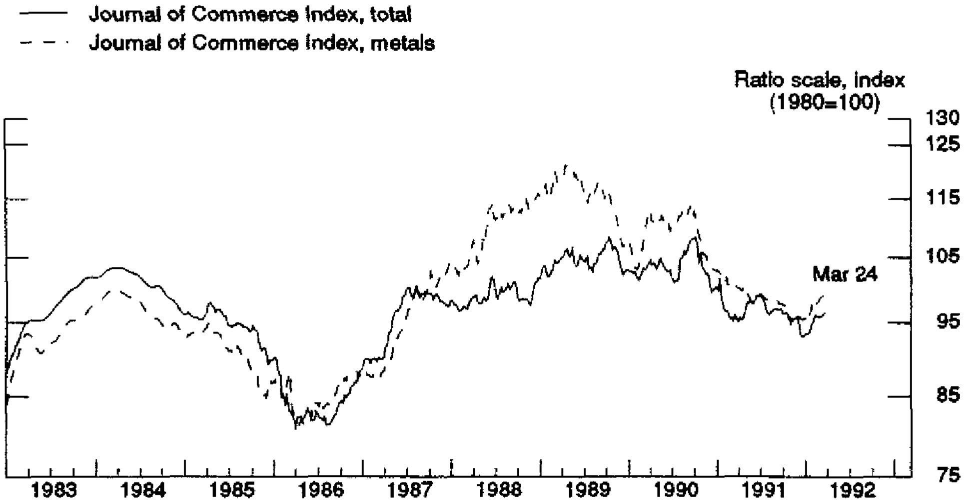
At the producer level, the PPI for finished goods excluding food and energy rose 0.1 percent in February, after a 0.3 percent increase in January. The index was boosted in January and held down in February by a swing in prices of passenger cars.[15] On balance, the PPI for consumer goods other than food and energy was up nearly 3 percent at an annual rate over the past six months. In contrast, prices of capital equipment have risen only about 1-3/4 percent at an annual rate over the past half year, restrained by weak demand for capital equipment, declining prices of computers, and competition from imported equipment.

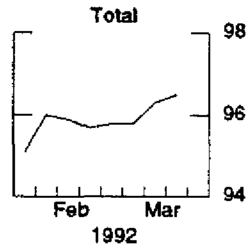
The PPI's for intermediate and crude materials (nonfood, nonenergy) both turned up in February, after declining during most of the past year. At the intermediate level, the increase was 0.4 percent, with a marked rebound in nonferrous metals prices and further large increases in prices for lumber and plywood. At the crude materials level, the index rose 1.4 percent, reflecting sharp increases in prices for nonferrous metal scrap. Despite the February increases, however, the PPIs for intermediate and crude

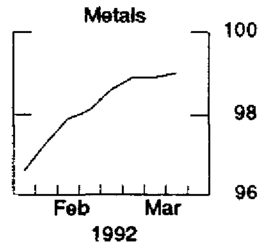
14. The PPI for passenger cars is likely to be less affected than the CPI because the PPI includes only domestically produced vehicles. In addition, all of the increase in the PPI is likely to occur in April, because the price increases occurred after the PPI's March 10 pricing date.

15. On an unadjusted basis, passenger car prices were little changed in January and fell in February, as automakers offered additional incentives. The adjustment factors "expected" the incentives in January, leading to the observed swing in seasonally adjusted car prices.

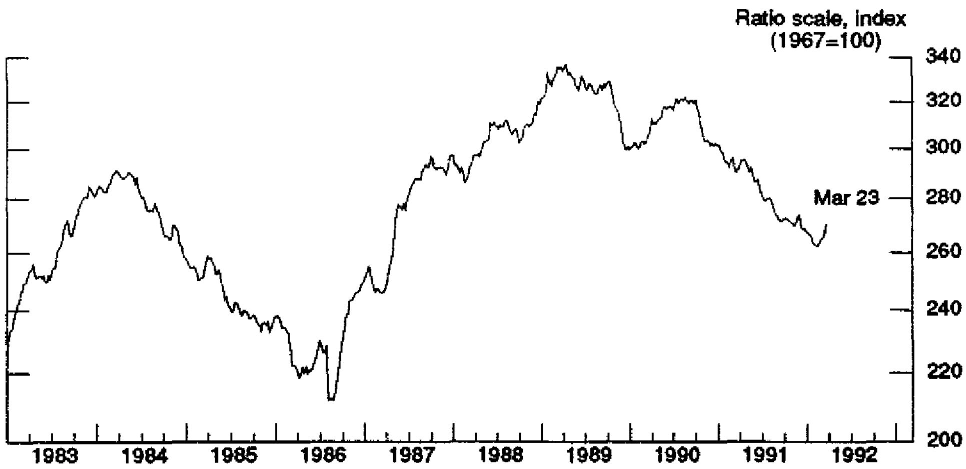
COMMODITY PRICE MEASURES *

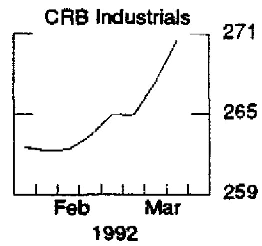




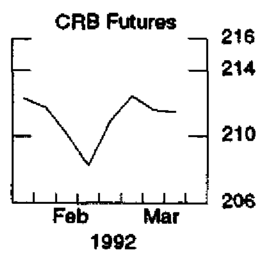


CRB Spot Industrials





CRB Futures



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

Dotted lines indicate week of last Greenbook.

materials outside of food and energy registered net declines over the latest twelve-month period of 0.7 percent and 6.7 percent, respectively.

Since the last Greenbook, spot prices of industrial materials generally have firmed a bit. Among particular commodities, prices of copper and aluminum, which bottomed out around year-end, have posted additional net gains, and the Journal of Commerce sub-index for metals has risen about 1-1/2 percent since late January, perhaps reflecting industrial demand. Prices of lumber products have also moved higher, reflecting a recovery in the housing sector and supply constraints associated with protection of the spotted owl in the Pacific Northwest.[16]

The most recent data on labor costs indicate that wage inflation remains moderate. Average hourly earnings of production or nonsupervisory workers rose 0.3 percent in February, following a decline of 0.1 percent in January. Over the twelve months ended in February, hourly earnings rose 2.9 percent, about 1/2 percentage point less than in the preceding twelve month period. The deceleration was concentrated in the goods-producing sector, although wage increases slowed in several service-producing industries as well.

16. Since the pricing date for the February PPI, plywood prices have receded somewhat. However, lumber prices climbed further after the imposition in early March of a 14-1/2 percent temporary duty on imports from British Columbia, a major supplier.

AVERAGE HOURLY EARNINGS

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

			1991			1991	1992	
	1990	1991	Q2	Q3	Q4	Dec.	Jan.	Feb.
			-Annual rate-			-Monthly rate-		
Total private nonfarm	3.7	3.0	5.2	1.6	2.7	.4	-.1	.3
Manufacturing	3.6	3.0	5.2	2.2	2.5	.1	-.3	.4
Durable	3.6	3.2	5.6	3.1	1.7	-.1	-.4	.8
Nondurable	3.8	2.8	3.9	2.3	2.7	.3	.0	.5
Contract construction	.3	1.4	.3	1.7	1.1	.6	-.6	-.4
Transportation and public utilities	3.0	1.7	2.1	1.2	1.8	.6	-.3	.6
Finance, insurance and real estate	5.3	4.3	7.2	1.9	4.2	1.0	-.7	1.4
Total trade	3.4	3.3	6.1	1.5	2.5	.2	.1	.1
Services	4.6	3.9	6.5	1.2	3.9	.5	-.1	.5

1. Annual changes are measured from final quarter of preceding year to final quarter of year indicated.

DOMESTIC FINANCIAL DEVELOPMENTS

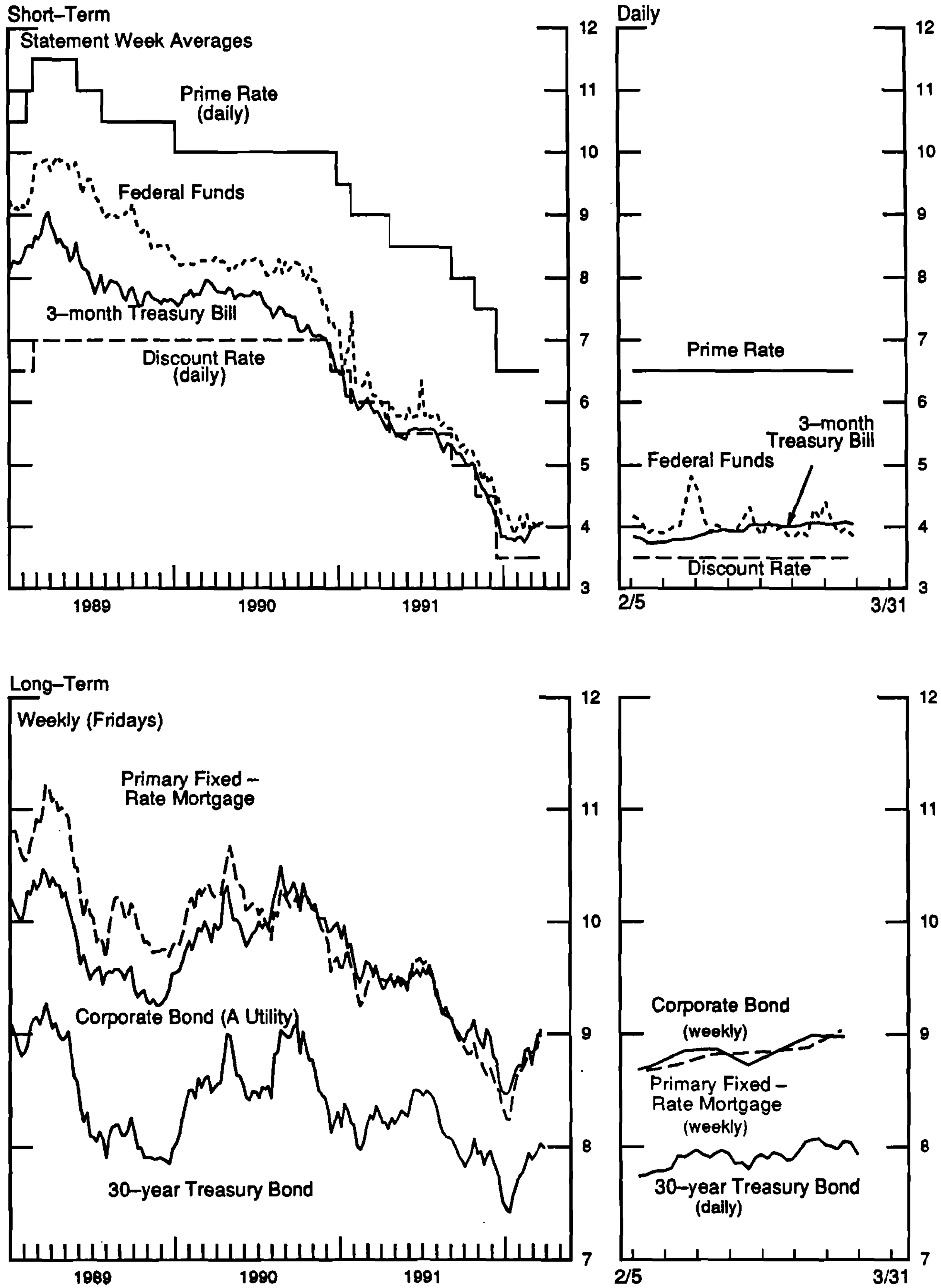
SELECTED FINANCIAL MARKET QUOTATIONS [1]
(percent)

	1989 March highs	1992 FOMC Feb 5	Dec-Jan Lows	1992 Mar 24	Change from: Mar 89 highs	Dec-Jan Lows	FOMC Feb 5
Short-term rates							
Federal funds[2]	9.85	4.09	3.94	3.94	-5.91	0.00	-0.15
Treasury bills[3]							
3-month	9.10	3.84	3.72	4.05	-5.05	0.33	0.21
6-month	9.11	3.89	3.76	4.19	-4.92	0.43	0.30
1-year	9.05	4.00	3.81	4.42	-4.63	0.61	0.42
Commercial paper							
1-month	10.05	4.08	4.01	4.29	-5.76	0.28	0.21
3-month	10.15	4.08	3.94	4.32	-5.83	0.38	0.24
Large negotiable CDs[3]							
1-month	10.07	4.01	3.95	4.26	-5.81	0.31	0.25
3-month	10.32	4.03	3.89	4.28	-6.04	0.39	0.25
6-month	10.08	4.07	3.89	4.46	-5.62	0.57	0.39
Eurodollar deposits[4]							
1-month	10.19	4.00	3.94	4.25	-5.94	0.31	0.25
3-month	10.50	4.00	3.88	4.31	-6.19	0.43	0.31
Bank prime rate	11.50	6.50	6.50	6.50	-5.00	0.00	0.00
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	9.88	5.59	5.05	6.26	-3.62	1.21	0.67
10-year	9.53	7.21	6.71	7.53	-2.00	0.82	0.32
30-year	9.31	7.74	7.39	7.94	-1.37	0.55	0.20
Municipal revenue[5] (Bond Buyer)	7.95	6.76	6.53	6.87	-1.08	0.34	0.11
Corporate--A utility recently offered	10.47	8.68	8.46	8.87	-1.60	0.41	0.19
Home mortgage rates[6]							
FHLMC 30-yr. FRM	11.22	8.68	8.23	9.03	-2.19	0.80	0.35
FHLMC 1-yr. ARM	9.31	5.93	5.79	6.22	-3.09	0.43	0.29

	Record highs	Date	1989 Lows Jan 3	1992 FOMC Feb 5	Mar 24	Percent change from: Record highs	1989 lows	FOMC Feb 5
Stock prices								
Dow-Jones Industrial	3290.25	3/3/92	2144.64	3257.60	3260.96	-0.89	52.05	0.10
NYSE Composite	231.85	1/15/92	154.00	228.87	225.89	-2.57	46.68	-1.30
AMEX Composite	418.99	2/12/92	305.24	415.24	399.57	-4.63	30.90	-3.77
NASDAQ (OTC)	644.92	2/12/92	378.56	636.97	618.68	-4.07	63.43	-2.87
Wilshire	4121.28	1/15/92	2718.59	4081.13	4017.52	-2.52	47.78	-1.56

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 maintenance period ending April 1, 1992.
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 previous to date shown.

Selected Interest Rates*
(percent)



* Friday weeks are plotted through March 13, statement weeks through March 20.

Market interest rates have risen appreciably since the February FOMC meeting, even as federal funds have stayed around 4 percent. Yields on thirty-year Treasury bonds have moved up a little less than 1/4 percentage point, to just under 8 percent, but the three-year Treasury rate is up almost 3/4 percentage point and the one-year rate is up about 1/2 percentage point. A building sense that a solid economic upturn may be taking shape obviously has played an important part in this backup in rates; and, because it also has diminished the perceived risks associated with private securities, quality spreads have tightened in many cases.

The monetary aggregates jumped in February. However, much of that surge was in transaction balances and can be traced in part to the spate of mortgage loan refinancings and earlier-than-normal disbursements of personal income tax refunds, as well as to previous declines in market interest rates. Outside of transaction balances, M2 growth in February was slow, and M3-only components continued to decline on balance. Preliminary data suggest that growth of the broader aggregates slackened in early March.

The debt of domestic nonfinancial sectors has continued to grow at a fairly slow pace of late. Business borrowing remains exceptionally weak, with heavy issuance of securities in the capital markets reflecting efforts to strengthen balance sheets or to trim interest costs rather than to meet a need for external finance. Household borrowing, however, has shown some signs of reviving, especially in the home mortgage sector where rising real estate activity and refinancing, which perhaps has occasioned some cashing out of equity, have buoyed credit demand; total consumer credit resumed growing in January, as auto loans rose for the first time in a year, and indications for February suggest that upward momentum

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

	1991[1]	1991 Q3	1991 Q4	1991 Dec	1992 Jan	1992 Feb p	Growth Q4 91- Feb 92p
	------------Percent change at annual rates--------------------						
1. M1	8.0	7.5	11.1	9.2	16.3	26.9	18.2
2. M2	2.8	0.7	2.3	2.9	3.2	9.4	5.4
3. M3	1.2	-1.3	1.0	1.4	1.4	7.0	3.4
	------------Percent change at annual rates------------						Levels bil. $ Feb 92p
Selected components							
4. M1-A	5.6	4.4	8.8	7.1	13.6	28.1	584.8
5. Currency	8.4	6.9	7.4	5.9	9.4	9.8	271.6
6. Demand deposits	3.4	2.6	10.0	7.9	18.2	45.7	305.1
7. Other checkable deposits	12.4	12.9	15.0	12.7	20.5	25.1	346.0
8. M2 minus M1[2]	1.1	-1.6	-0.7	0.7	-1.4	3.2	2544.8
9. Overnight RPs and Eurodollars, NSA	-7.6	-14.6	39.9	39.3	26.9	1.6	77.5
10. General purpose and broker/dealer money market mutual fund shares	3.9	-4.7	-4.0	3.3	-1.7	12.3	363.7
11. Commercial banks	7.1	7.4	3.9	1.5	0.2	1.0	1264.7
12. Savings deposits (including MMDAs)	13.3	13.2	16.0	17.4	20.0	22.9	688.9
13. Small time deposits	1.1	1.6	-8.5	-15.6	-21.7	-24.3	575.
14. Thrift institutions	-6.9	-10.6	-8.8	-5.5	-2.7	-2.6	838.
15. Savings deposits (including MMDAs)	9.3	9.7	10.2	14.1	24.1	31.1	395.5
16. Small time deposits	-16.8	-24.2	-22.5	-21.1	-24.5	-31.1	443.2
17. M3 minus M2[3]	-5.5	-9.8	-4.9	-5.7	-7.0	-4.4	725.9
18. Large time deposits	-11.7	-15.0	-18.9	-14.1	-25.3	-16.8	421.9
19. At commercial banks, net[4]	-5.1	-8.0	-14.4	-10.4	-25.8	-12.5	342.8
20. At thrift institutions	-31.7	-40.3	-36.7	-28.2	-24.5	-35.4	79.0
21. Institution-only money market mutual fund shares	33.4	11.4	37.0	38.0	22.1	38.2	188.2
22. Term RPs, NSA	-21.6	-11.5	-23.6	-45.6	0.0	18.6	72.0
23. Term Eurodollars, NSA	-9.9	-2.5	-8.3	-73.2	-24.6	10.5	57.8
	-----Average monthly change in billions of dollars----						
MEMORANDA:[5]							
24. Managed liabilities at commercial banks (25+26)	-1.2	-2.3	4.5	8.5	-4.9	1.5	694.1
25. Large time deposits, gross	-0.2	-1.8	-4.0	-2.2	-7.9	-2.4	413.6
26. Nondeposit funds	-1.0	-0.5	8.5	10.7	3.0	3.9	280.5
27. Net due to related foreign institutions	0.4	1.1	6.2	6.0	4.5	-1.2	42.2
28. Other[6]	-1.4	-1.5	2.3	4.7	-1.5	5.1	238.3
29. U.S. government deposits at commercial banks[7]	0.2	-0.1	0.9	-7.7	1.3	-8.3	19.5

1. Amounts shown are from fourth quarter to fourth quarter.
2. Nontransactions M2 is seasonally adjusted as a whole.
3. The non-M2 component of M3 is seasonally adjusted as a whole.
4. Net of large denomination time deposits held by money market mutual funds and thrift institutions.
5. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis.
6. Consists of borrowing from other than commercial banks in the form of federal funds purchased, securitie sold under agreements to repurchase, and other liabilities for borrowed money (including borrowing from Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially est.
7. Consists of Treasury demand deposits and note balances at commercial banks.
p - preliminary

continued last month. Over the first quarter, state and local governments have issued substantial volumes of new securities, but a good part of it represents refunding activity rather than net increments to debt. In contrast, both gross and net borrowing by the federal government continues very heavy.

Monetary Aggregates and Bank Credit

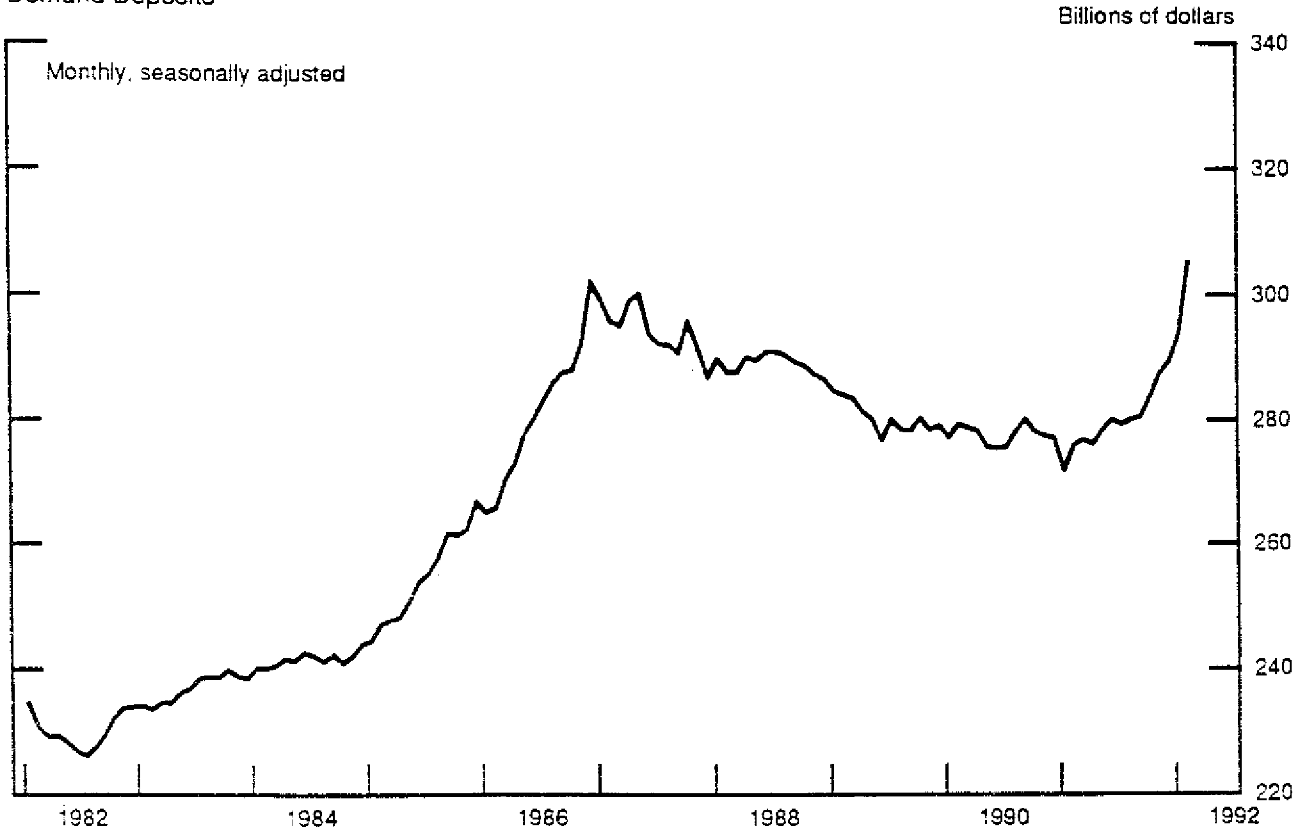
M2 spurted in February to an almost 9-1/2 percent annual rate. The bulge in M2 growth largely reflected a further acceleration in M1, which was boosted last month by continued strength in other checkable deposits (OCDs) and a surge in demand deposits. Growth in these components likely was due to the continued relatively low opportunity cost of holding liquid balances. Some part of the acceleration in February also may reflect changes in the timing of individual tax refunds.[1] Demand deposits in January and February were further supported by a surge in refinancings of mortgages held in collateral pools for mortgage-backed securities guaranteed by GNMA or FNMA. Servicers of mortgages in GNMA- and FNMA-guaranteed MBSs typically retain interest and principal payments (including any prepayments) in demand deposits before transmitting funds to owners of the securities. Funds are passed through with a lag of from fifteen to forty-five days; thus, the recent bulge in mortgage refinancings and the accompanying liquidation of mortgage pools likely has provided a temporary boost to the level of demand deposits (chart).

Apart from strength in M1 components, growth of M2 was bolstered in February by a rebound in the level of retail money

1. Disbursements of individual tax refunds have been running ahead of refunds over the comparable period last year, partly because aggregate liabilities slowed along with income growth and partly because individuals are making greater use of electronic filing--thereby possibly altering the seasonal pattern of deposit flows before and after April 15. The staff estimates that the earlier disbursement of refunds may have boosted M2 by 1/2 to 1 percentage point in February.

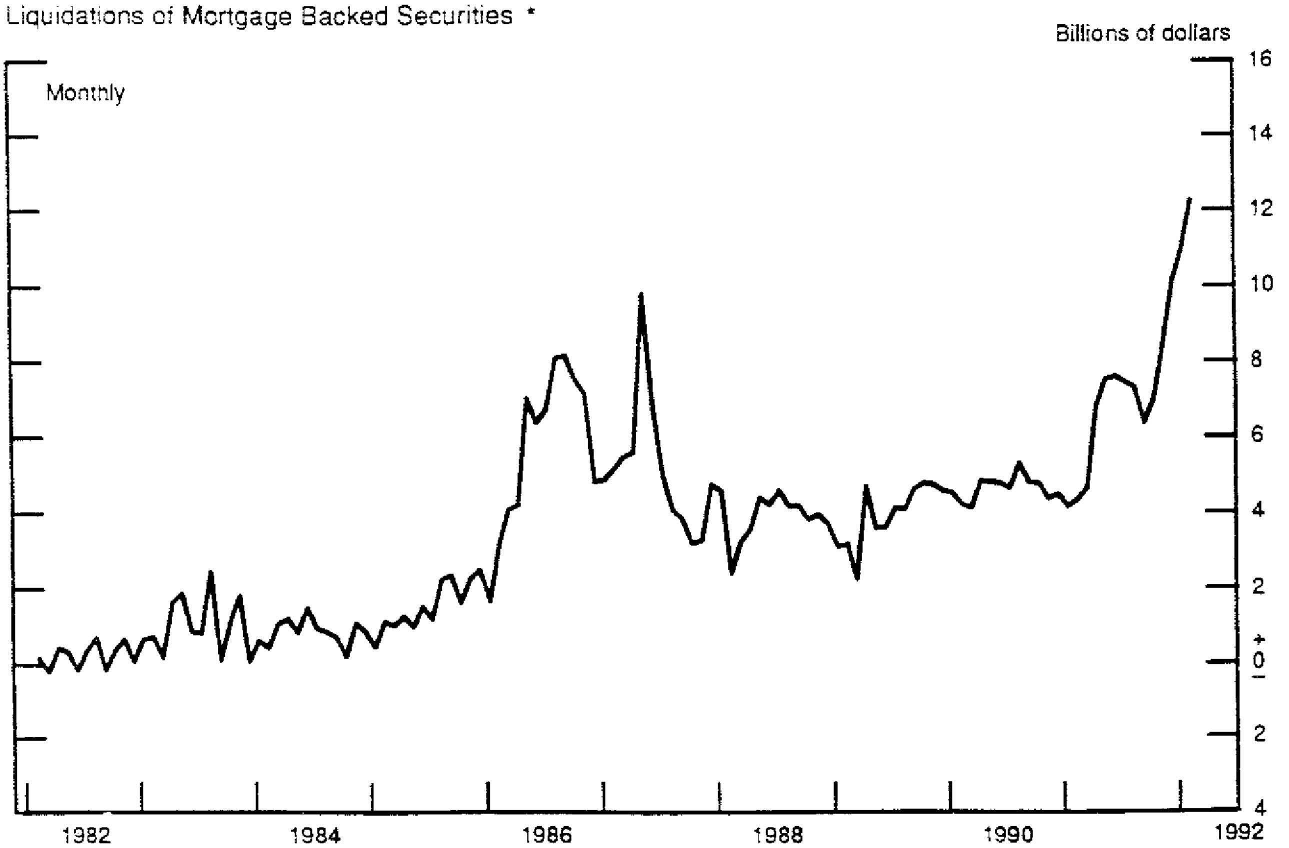
Demand Deposits and MBS Liquidations

Demand Deposits



Data through February 1992.

Liquidations of Mortgage Backed Securities *



* GNMA + FNMA. GNMA for February 1992 is a staff estimate.

market mutual funds, which had been little changed for several months. Small time deposits continued to run off rapidly, but gains in savings deposits (including MMDAs) about offset this decline. Consumers apparently have been lured by still small opportunity costs involved in holding such accounts and by their usefulness as a parking place while awaiting higher CD rates. With credit growth still weak, banks have remained reluctant so far to bid aggressively for retail CDs, and the spreads between Treasury securities and rates offered on small time deposits have widened further as market rates have backed up.

A step-up in M3 growth, to a 7 percent annual rate in February, mostly reflected the strength of its M1 component. In addition, institution-only money fund assets accelerated to a nearly 40 percent annual rate in February, as their yields continued to exceed those on competing assets. Growth in this component also might reflect some bounce-back from "year-end" effects, when some institutions drew down their fund balances to take advantage of more favorable yields elsewhere in credit markets or to show greater participation in equity markets on their year-end balance sheets. Large CDs continued to run off in line with the ongoing contraction in depository balance sheets.

Commercial bankers reportedly are looking more actively for solid business loan customers, and the recent Survey of Terms of Business Lending (STBL) for February suggests a small unwinding in business loan spreads. Rates charged on prime-based loans have fallen, especially rates for loan sizes over $1 million; since November, floating rates on prime-based loans dropped 1-1/4 percentage points and fixed rates declined 1 percentage point, a bit more than the drop in market rates over this period. Nonetheless, business loans registered another sizable contraction

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

Category	Dec. 1990 to Dec. 1991	1991 Q3	1991 Q4	1991 Dec.	1992 Jan.	1992 Feb.	Levels bil.$ 1992 Feb.
			Commercial bank credit				
1. Total loans and securities at banks	3.8	2.0	6.7	6.1	3.2	0.5	2,844.6
2. Securities	17.4	17.4	23.9	21.1	3.7	7.4	747.9
3. U.S. government	23.8	24.0	29.9	26.2	3.6	9.6	568.7
4. Other	0.9	-0.9	6.1	6.1	3.4	0.7	179.1
5. Loans	-0.3	-2.9	0.9	0.9	3.0	-1.9	2,096.7
6. Business	-3.2	-2.4	-1.7	-6.2	-4.7	-9.8	608.9
7. Real estate	3.0	-0.6	1.6	1.0	-0.6	6.5	875.4
8. Consumer	-3.8	-5.9	-3.7	2.0	-0.3	1.6	364.2
9. Security	22.4	9.0	35.9	22.4	98.9	-44.7	56.9
10. Other	-3.6	-11.7	5.8	15.4	23.5	-10.0	191.2
		Short- and intermediate-term business credit					
11. Business loans net of bankers acceptances	-3.0	-2.2	-2.2	-7.1	-3.7	-10.3	602.0
12. Loans at foreign branches[2]	-1.6	-1.7	34.2	34.0	-14.2	-81.3	23.4
13. Sum of lines 11 and 12	-2.9	-2.2	-0.9	-5.5	-4.0	-13.3	625.4
14. Commercial paper issued by nonfinancial firms	-10.4	-22.8	-6.4	-11.5	12.5	13.2	137.8
15. Sum of lines 13 and 14	-4.3	-6.0	-1.8	-6.4	-1.4	-8.4	763.2
16. Bankers acceptances, U.S. trade-related[3]	-16.2	-17.6	-4.2	-4.3	-12.9	-26.0	27.1
17. Finance company loans to business[4]	6.8	11.6	5.7	-2.3	-9.3	n.a.	308.3[5]
18. Total (sum of lines 15, 16, and 17)	-1.8	-1.6	0.1	-5.2	-3.7	n.a.	1,105.1[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. Consists of acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods. Based on average of data for current and preceding ends of month.
4. Based on average of data for current and preceding ends of month.
5. January 1992 data.
p--Preliminary.
n.a.--Not available.

last month, while total bank credit was about flat. Businesses apparently used proceeds from capital market offerings to pay down bank debt as a part of their balance-sheet restructuring. Certain other categories of bank lending, however, picked up last month. Real estate loans expanded at a 6-1/2 percent pace--the largest rise in almost a year--perhaps boosted by loan originations being held in portfolio instead of being sold at a loss owing to the backup in rates. In addition, consumer loans grew at a 3-1/2 percent rate, after adjusting for securitizations, following a small decline in January.

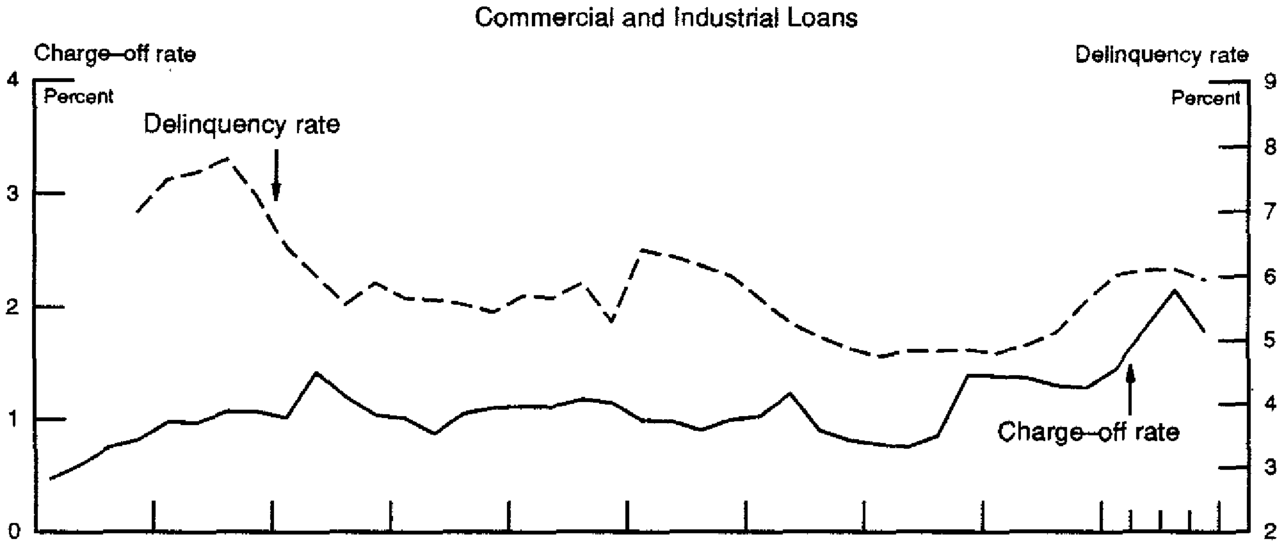
Securities holdings of banks expanded in January and February, but at a slower pace than in 1991; this slowdown apparently reflects small net acquisitions of collateralized mortgage obligations (CMOs). It also is conceivable that with the surge in mortgage prepayments, banks have reevaluated the risks associated with such large exposures to mortgage-related securities.

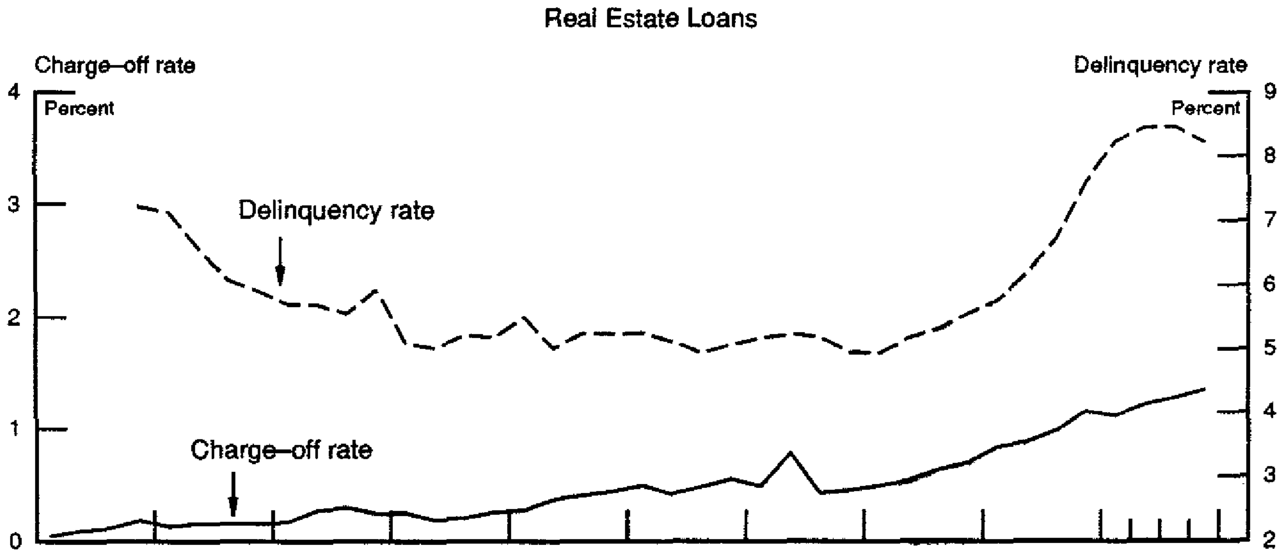
Data from the most recent call reports for large banks indicate that asset quality problems may have peaked. Delinquency rates for most categories of loans fell in the fourth quarter of 1991; C&I loans, real estate loans, and consumer loans all recorded lower delinquency rates (chart). Although charge-off rates fell for C&I loans and consumer loans, they continued to rise for real estate loans.

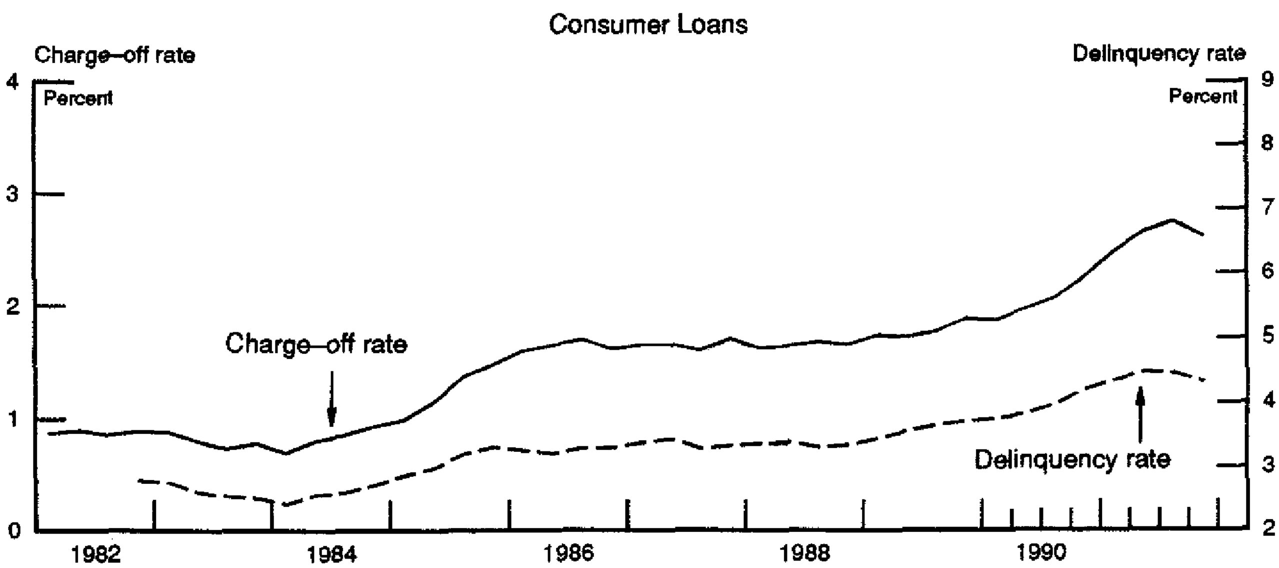
Business Finance

As noted, the further decline in business loans at banks in February and early March was accompanied by sizable financings in other markets. Public issuance of both bonds and stocks continued to be very strong, while commercial paper outstanding of nonfinancial corporations moved up in February and March. Indeed, with gross equity issuance at close to a record pace and merger

Charge–Off and Delinquency Rates at Large Banks, SA [1]







1. Charge–off rates are net of recoveries. Delinquent loans include 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. Charge–off rate series began in 1982 Q1, delinquency rate series began in 1982 Q4.

activity relatively slow, the staff estimates that nonfinancial corporations will raise about $50 billion (annual rate) of net new equity capital during the quarter. In the public bond market, rate spreads relative to comparable Treasury maturities have continued to narrow. Even the private placement market is starting to show signs of becoming more receptive to lower-rated credits than was the case last year, although the current volume of such financing reportedly remains small.

The near-record pace of equity issuance thus far in 1992 mainly reflects a steady flow of large offerings by well-known firms. Notably, the major auto companies already have raised more than $2 billion in new equity, adding to the nearly $5 billion they raised in 1991. In addition, favorable market valuations and the strong incentives to deleverage have prompted a record volume of reverse LBOs, most of which involve below-investment-grade firms. In 1991, below-investment-grade companies issued a record $11.6 billion in new stock, a figure that would be exceeded in 1992 if the recent pace of issuance continues.

No doubt, the continued high level of share prices has encouraged new equity issuance. While stock prices, on average, have edged down about 2 percent since the February FOMC meeting, several indexes set all-time highs during the period. A number of traditional measures of equity valuation suggest that the cost of equity capital is low relative to historical norms, even compared with the extremes reached in 1987 and some earlier periods. A case in point is the ratio of current prices to four-quarter trailing earnings for the S&P 500, which rose to a record 25.8 in late February. Although sizable one-time earnings write-offs taken during the past twelve months might exaggerate this measure

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

			1991		1992		
	1990	1991p	Q3	Q4p	Janp	Febp	Mare
Corporate securities - total[1]	19.89	32.14	30.63	34.36	45.24	36.62	34.50
Public offerings in U.S.	17.75	29.35	28.15	31.80	40.80	33.94	31.50
Stocks--total[2]	1.95	5.44	4.94	8.48	6.80	9.44	6.00
Nonfinancial	1.03	3.72	3.50	6.07	4.11	6.21	4.50
Utility	0.35	0.42	0.16	0.36	0.84	0.57	1.00
Industrial	0.68	3.30	3.34	5.72	3.27	5.64	3.50
Financial	0.92	1.72	1.44	2.41	2.69	3.23	1.50
Bonds	15.80	23.91	23.21	23.32	34.00	24.50	25.50
Nonfinancial	5.65	9.52	9.06	9.52	16.00	10.50	14.50
Utility	1.97	2.99	2.74	3.36	6.80	5.40	4.00
Industrial	3.68	6.53	6.32	6.16	9.20	5.10	10.50
Financial	10.15	14.39	14.14	13.80	18.00	14.00	11.00
By quality[3]							
Aaa and Aa	3.44	3.61	2.86	3.64	6.00	3.77	3.00
A and Baa	6.50	12.18	11.00	11.34	18.88	12.66	10.57
Less than Baa	0.15	1.03	0.47	1.92	1.13	1.44	4.35
No rating (or unknown)	0.04	0.01	0.02	0.00	0.00	0.08	0.13
Memo items:							
Equity-based bonds[4]	0.40	0.63	0.41	0.46	0.76	0.63	1.45
Mortgage-backed bonds	2.43	2.99	3.66	2.97	4.73	5.39	3.65
Other asset-backed	3.27	4.08	5.21	3.43	3.27	1.17	3.80
Variable-rate notes	0.84	0.84	0.96	0.81	0.65	1.23	0.15
Bonds sold abroad - total	1.92	2.33	2.12	2.06	3.80	1.70	2.50
Nonfinancial	0.46	1.00	1.04	0.32	1.60	0.35	1.80
Financial	1.46	1.33	1.07	1.73	2.20	1.35	0.70
Stocks sold abroad - total	0.22	0.46	0.36	0.51	0.64	0.98	0.50
Nonfinancial	0.10	0.38	0.29	0.43	0.37	0.68	0.40
Financial	0.12	0.08	0.07	0.07	0.27	0.30	0.10

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 $9.4 billion in 1990.
3. Bonds categorized according to Moody's bond ratings, or to Standard and Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.

p--preliminary. e--staff estimate.

somewhat, the ratio likely would still be in the upper reaches of its historical range if those recent write-offs were excluded.

In February and March, issuance of investment-grade corporate bonds was heavy, although off a bit from the record pace in January. The refinancing of high-coupon, callable debt has been the dominant factor driving corporate bond issuance, despite the recent back-up in long-term rates that has prompted a few companies to postpone scheduled offerings. Call volume has been much heavier so far this year than it was in 1986, a time when long-term rates were at similar levels.[2] At current levels of interest rates, the dollar volume of bond calls during 1992 seems likely to surpass the 1986 record of $40 billion.

The pace of offerings of junk bonds has remained relatively robust, and some analysts project that gross issuance could total $20 billion in 1992--about twice the pace of 1991. (However, this amount would be only half that recorded in 1986, the high-water mark for junk bonds.) As with the investment-grade sector, the proceeds from most of the junk bond offerings have been used to pay down high-cost debt obligations, including both high-coupon bonds and bank loans. Also, a number of firms have used the proceeds from equity offerings to retire some of their existing junk bonds. In general, these refinancings and restructurings have produced substantial reductions in interest expense, not only because debt has been replaced with equity, but also because more than half of the below-investment-grade straight bonds issued in 1992 have had

2. Two features of the current interest rate environment have diminished the present value of call option features and increased the incentive to exercise such calls now. First, today's steep yield curve implies a low probability for more attractive call opportunities in the future; and second, compared with 1986, recent interest-rate volatility has been relatively subdued--thereby generally decreasing the value of retaining the call option.

coupon yields below 10 percent--several percentage points lower than the yields on the bonds that were retired.

Although the overall quality of new offerings of junk bonds is much higher than was true for the takeover-related offerings of the late 1980s, some recent developments suggest that the market has begun to be more receptive to lower-quality issues. BB-rated companies still dominate the current new issue calendar, but the number of B-rated offerings has increased. Also, offerings of bonds that have subordinate rankings in the issuers' capital structures have become increasingly common. Finally, issuance last year tended to be dominated by firms in the consumer goods sector, such as RJR and Duracell; recently, more cyclically sensitive companies--including home builders, cable companies, computer firms, and oil companies--have reentered the primary market.

In the private placement market, recently available data indicate that nonfinancial firms issued only $44 billion of debt securities in 1991, down from gross issuance of $55 billion in 1990 and $82 billion in 1989. This drop-off reflects the combined effects of a reduction in borrowing by firms to finance takeovers and a general decline in purchases of private placements by ESOPs. In addition, the falloff in placements was especially steep for the below-investment-grade sector, as life insurance companies limited their overall acquisitions of lower-rated securities.

The capital markets also have become more receptive to offerings by financial firms. In the past two months, insurance companies--including Travelers, CIGNA, and Aetna--have raised equity through private placements and improved their balance sheets through divestitures of financial assets. Debt offerings by auto finance companies have enjoyed somewhat narrower yield spreads this year, apparently also reflecting the benefits of balance-sheet restructuring through equity issuance by their parent companies.[3] Yield spreads on bonds issued by banks have continued to narrow, and bank holding companies have floated nearly $3 billion in equity so far in 1992--including a $1.6 billion issue by Chemical Banking Corporation. The improvement in yield spreads apparently has prompted banks to begin funding more loan assets on their own balance sheets. As a result, issuance of bonds secured by receivables has slowed somewhat in 1992, even though yield spreads on these asset-backed securities have narrowed.[4]

There have been other signs that financial stress is diminishing. The number of newly reported business failures and bankruptcies remains large, but appears to have leveled off recently. Defaults on corporate bonds, although still high by historical standards, seem likely to begin receding from the record $18 billion annual volumes of 1990 and 1991. Although downgrades of bonds are still outnumbering upgrades, the differential has been shrinking, and a number of highly-leveraged firms appear poised to regain investment-grade status within the next year or two. And, although the number of increases in dividend payments has not changed much in the past few months, the number of decreases in dividend payments has declined noticeably from the record pace of early 1991.

Treasury and Sponsored Agency Financing

With the Treasury drawing heavily on cash balances, net borrowing by the federal government during the first quarter is expected to be down slightly from the fourth quarter level, despite a sizable increase in the deficit, not seasonally adjusted. Gross

3. Nonetheless, General Motors and GMAC bonds were downgraded by S&P in March, and GMAC's commercial paper is currently under review.
4. In addition, lingering concern over the possibility of a cap on credit-card interest rates probably has somewhat discouraged issuance of bonds backed by credit-card receivables.

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

	1991		1992			
	Q3	Q4	Q1[p]	Jan.[e]	Feb.[e]	Mar.[p]
Treasury financing						
Total surplus/deficit (-)	-91.4	-83.1	-124.5	-15.7	-48.8	-60.0
Means of financing deficit:						
Net cash borrowing from the public	95.0	89.1	80.4	11.4	20.9	48.0
Marketable borrowings/ repayments (-)	103.5	81.0	80.1	14.5	19.2	46.4
Bills	43.0	25.8	25.2	-3.6	4.5	24.4
Coupons	60.4	55.2	54.8	18.1	14.8	22.0
Nonmarketable	-8.5	8.2	.3	-3.0	1.7	1.6
Decrease in the cash balance	2.1	-7.3	36.5	.9	31.0	4.6
Memo: Cash balance at end of period	41.5	48.8	12.3	47.9	16.9	12.3
Other[2]	-5.7	1.3	7.6	3.3	-3.2	7.4
Federally sponsored credit agencies, net cash borrowing[3]	5.1	8.0	--	-8.3	--	--
FHLBs	.7	1.0	--	-2.9	--	--
FHLMC	2.7	-1.2	--	-.9	--	--
FNMA	.9	6.5	--	-4.0	4.0	--
Farm Credit Banks	.3	.2	--	-.5	--	--
SLMA	.6	1.5	--	--	--	--

1. Data reported on a not seasonally adjusted, payment basis.
2. Includes checks issued less checks paid, accrued items and other transactions.
3. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
p--projected.
e--estimated.
Note: Details may not add to totals due to rounding.

Treasury auction sizes have increased sharply, and further increases are likely over the spring. Weekly bill offerings have risen from $20.4 billion to $22.8 billion, while the sizes of short-term note issues had increases ranging from $500 million to $1-1/4 billion. In a modest attempt to shorten the maturity of its debt, the Treasury trimmed its ten- and thirty-year issues by $1 billion and $2 billion, respectively, in the first quarter. However, there was little market reaction to the change, and the cutback in longer maturities had no discernible effect on the Treasury yield curve.

In the market for agency issues, almost half the sizable paydown of debt outstanding of all government-sponsored enterprises (GSE) in January was reversed by the Federal National Mortgage Association's issuance of securities in February. Since the last FOMC meeting, spreads on newly issued GSE debt generally have widened.

On March 6, the Federal Home Loan Mortgage Corporation announced that it plans to sell at least $500 million of preferred stock, in order to bolster the firm's capital and to meet current and proposed regulatory standards. Freddie Mac also said that it will boost the percentage of whole mortgages in its portfolio--increasing the share from the current 5 percent to 10 percent of total assets over the next five years--and will finance these new mortgage holdings in part with callable debt. Thus far, however, there appears to have been little market enthusiasm for GSE callable debt, and sales of the Freddie Mac securities have gone rather slowly.

Municipal Securities

Gross offerings of long-term municipal bonds in March likely will be a bit above the robust pace of issuance recorded in February. Refunding activity has been heavy in both months, and refunding during the first quarter may exceed $16 billion--the largest volume in any quarter since early 1987. Funds from the recent refundings evidently are being used to retire callable debt issues immediately, unlike in some earlier periods when outstanding (but not-yet-callable) debt issues were often defeased through advance refundings; in the first two months of 1992, less than $3 billion in Treasury-issued SLGS were sold to state and local governments.[5]

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

			1991		1992		
	1990	1991	Q3	Q4	Jan.	Feb.[p]	Mar.[f]
Total offerings[1]	13.49	16.60	19.54	16.95	13.27	15.60	--
Total tax-exempt	13.24	16.18	18.72	16.54	13.03	15.21	16.00
Long-term	10.26	12.84	13.51	14.93	12.62	12.26	14.00
Refundings[2]	1.68	3.11	3.09	3.44	5.49	4.57	6.00
New capital	8.58	9.73	10.42	11.49	7.13	7.69	8.00
Short-term	2.98	3.34	5.21	1.61	.41	2.95	2.00
Total taxable	.25	.42	.82	.41	.24	.39	--

p--preliminary f--forecast.
1. Includes issues for public and private purposes.
2. Includes all refunding bonds, not just advance refundings.

Much of the investor demand for tax-exempt securities in the past year has been funneled through mutual funds. Inflows to both open-end and new closed-end tax-exempt mutual funds rose throughout 1991, with investors apparently shifting out of money market funds and other short-term instruments. Net flows to open-end municipal

5. SLGS are Treasury securities whose yields are tied to tax-exempt rates. SLGS are sold to tax-exempt issuers of advance refunding bonds to provide them with an investment instrument that does not violate arbitrage restrictions for tax-exempt sales proceeds. The proceeds from a refunding sale also can be invested in other types of securities; however, for nearly all refunding issues over $5 million, any arbitrage profits must be rebated to the U.S. Treasury. Market observers have indicated that the strict and complicated rebate provisions currently force municipal issuers to use virtually all the proceeds from advance refunding issues to purchase SLGS.

bond funds were $26 billion last year, roughly 3/4 of net new tax-exempt debt, and early indications point to a continuation of heavy bond-fund purchases in 1992. Also, sales of shares by closed-end municipal bond funds and unit investment trusts were strong last year and reportedly have been strong again early this year.

Financial stress in the state and local government sector does not appear to be abating. A recent report by the National Council of State Legislatures indicates that more than half the states are experiencing significant spending overruns on entitlement programs, and Moody's has warned of additional credit-rating downgrades in 1992. Moody's recently downgraded California's bond rating to Aa1 from Aaa, citing two consecutive years of operating deficits and an apparent lack of political will to reduce its widening budget gap for fiscal 1992. Budget difficulties also have stymied New York State's effort to end its reliance on short-term debt to finance its accumulated deficit. In 1989, the state began to replace its short-term debt with long-term bonds, but the accumulated deficit has risen by another $2 billion since then. As a result, almost $4 billion of short-term borrowing to cover deficits is expected by New York State this spring, nearly the same amount it borrowed in the previous two springs.

<u>Mortgage Markets</u>

Mortgage interest rates have continued to trend upward over the intermeeting period, in tandem with other market interest rates. Contract rates on conventional fixed-rate mortgages have increased about 35 basis points since the end of January and about 80 basis points since their January lows. Spreads over Treasuries remain fairly tight, perhaps in part because the backup in mortgage rates is seen as damping repayments. In response to the increase in market rates, the ceiling rate on VA-guaranteed loans also was

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
1988	12.4	10.2	2.3	6.8	5.0	.9	.9	n.a.
1989	16.8	14.1	2.7	8.4	1.6	3.1	3.2	.3
1990	19.7	17.2	2.4	11.4	2.4	5.1	3.4	.5
1991	22.5	20.5	2.0	19.0	3.0	9.0	6.0	.9
1991-Q1	17.7	14.0	1.7	9.0	2.1	4.0	2.8	.1
Q2	23.7	21.4	1.7	18.8	3.3	8.2	6.8	.5
Q3	24.5	23.7	2.0	24.6	3.6	11.9	7.1	2.0
Q4	22.7	22.6	2.5	23.2	2.9	12.0	7.3	1.0
1991-July	24.7	22.5	1.2	19.4	2.7	8.9	6.3	1.6
Aug.	25.8	25.7	2.0	26.0	4.9	12.2	7.5	1.5
Sep.	23.0	22.8	2.6	28.5	3.3	14.7	7.4	3.2
Oct.	22.1	20.1	2.2	28.2	4.5	15.0	6.8	1.9
Nov.	22.9	22.2	2.9	23.6	2.3	12.2	8.3	.8
Dec.	23.1	25.4	2.5	17.8	2.0	8.7	6.8	.7
1992-Jan. p	32.9	25.5	1.5	29.2	5.0	19.3	4.1	.8
Feb. e	26.8	22.0	2.0	22.1	n.a.	n.a.	n.a.	n.a.

1. Excludes pass-through securities with senior/subordinated structures.
p--preliminary e--estimate

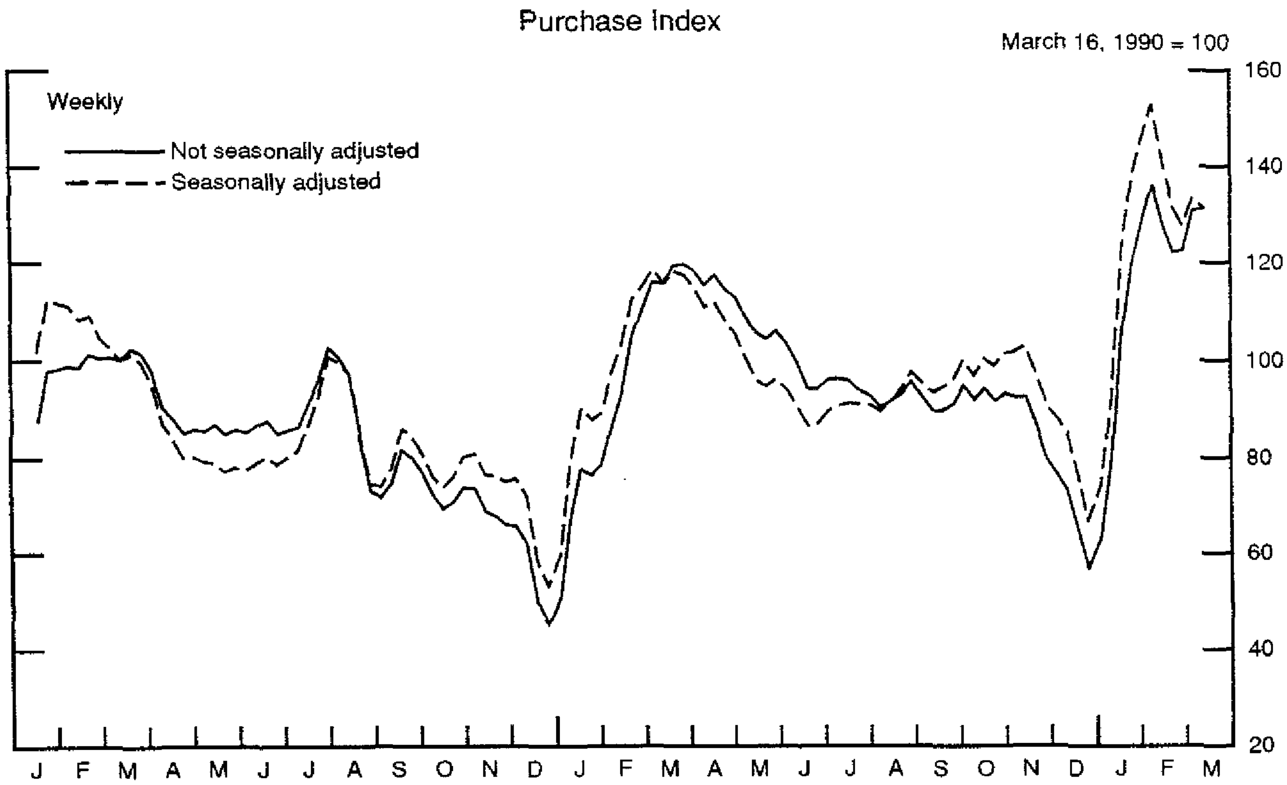
raised to 8-1/2 percent in late February--up 1/2 percentage point from the rate established in late December. Although the initial rate advantage of adjustable-rate mortgages has remained appreciable, at a little under 3 percentage points, ARMs have accounted for less than 20 percent of mortgage loan originations in recent months.

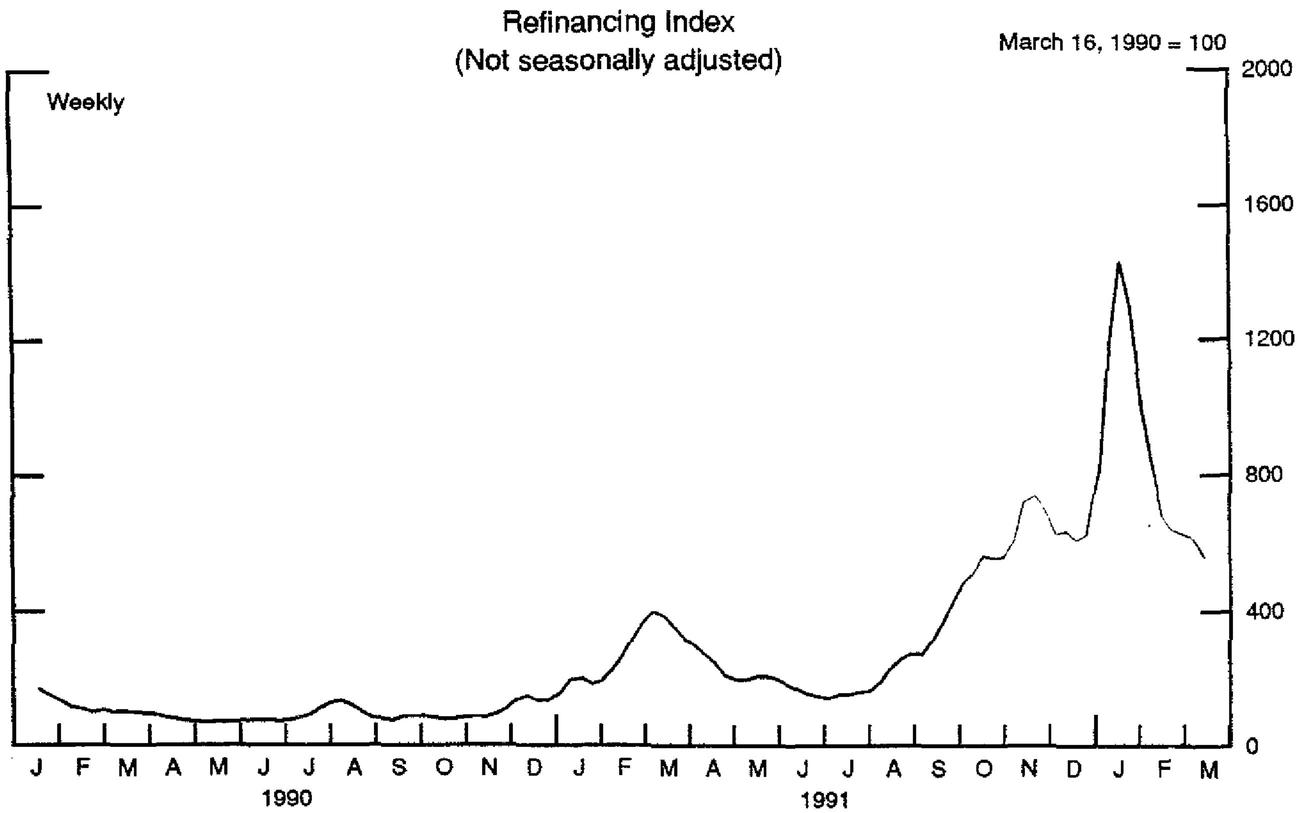
Despite the recent increase in interest rates, mortgage borrowing appears to have been picking up. As noted above, real estate loans at commercial banks rose at about a 6-1/2 percent annual rate in February, and preliminary data for March suggest further growth. Staff estimates that the volume of mortgage-backed securities issuance also remained strong in February (table). In addition, the Mortgage Bankers Association's (MBA) weekly survey indicates that applications for loans to purchase homes remain at a level about 40 percent above the fourth-quarter pace (chart).

The back-up in mortgage interest rates since late January has damped refinancing activity (chart). Anecdotal reports suggest that the decline in applications also reflects in part efforts by some lenders to intentionally discourage refinancings. Even so, refinancings continue to account for about 40 percent of total loan applications at mortgage companies surveyed by the MBA.

Home mortgage delinquency rates declined in the fourth quarter of last year. The percent of FHA-insured loans thirty days or more past due fell in the fourth quarter to 7.10 percent, while the past-due rate on conventional loans was little changed from its much lower 3.14 percent third-quarter rate. Moreover, mortgages that are past due sixty days or more (a measure of more serious payment problems) fell 0.11 percentage point in the fourth quarter, to 1.56 percent.

MBA Indexes of Mortgage Lending Applications





Consumer Credit

Overall consumer credit outstanding moved up in January, after declining over most of last year. Its automobile component registered its first increase in more than a year--edging up at a 1-1/2 percent seasonally adjusted annual rate, compared with a 6 percent decline for 1991 as a whole. Revolving credit also grew modestly. (Caution is warranted, however, when interpreting revolving credit in January and in December, because this component exhibits highly irregular variation in those two months.) Given the pickup in consumer loans at banks in February and the strength in retail sales so far this year, it seems likely that consumer installment credit increased somewhat in February.

The decline of nearly 1 percent in total installment debt for 1991, along with slow growth relative to income the year before, has reduced the debt-service burdens of consumers. Installment debt outstanding relative to disposable personal income, for example, declined to 17 percent in the fourth quarter of last year, compared with a high of 18-1/2 percent in 1989. Moreover, scheduled payments of principal and interest relative to income are estimated to have declined from about 11 percent to 10-1/2 percent over the same period.

The latest information on consumer loan delinquency rates also points to reduced debt-management problems for households. According to the American Bankers Association, the delinquency rate on closed-end consumer loans at banks dropped fairly sharply during the fourth quarter, with large declines occurring in the auto loan category (chart). Also, auto loan delinquencies declined further at captive auto finance companies.

With repayment experience apparently improving, lenders may become more ready to extend credit to households. In the October

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (at annual rate)							Memo: Outstandings (billions of dollars)
				1991			1992	1992
	1989[1]	1990	1991[r]	Q3	Q4[r]	Dec.[r]	Jan.[p]	Jan.[p]
Installment	5.9	2.3	-.8	-.8	.2	-1.2	-.3	729.2
Auto	1.3	-2.1	-5.9	-6.2	-3.4	-1.0	1.5	268.2
Excluding auto	9.2	5.2	2.4	2.5	2.3	-1.3	-1.3	461.0
Revolving	15.2	10.6	6.5	7.6	4.2	-.8	1.5	234.8
All other	4.5	.6	-1.5	-2.6	.3	-1.9	-4.3	226.2
Noninstallment	2.6	-4.9	-19.2	-34.0	-31.0	11.8	54.0	50.0
Total	5.8	1.7	-2.2	-3.2	-1.9	-.4	3.0	779.3

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

CONSUMER INTEREST RATES
(Annual percentage rate)

				1991		1992	
	1989	1990	1991	Nov.	Dec.	Jan.	Feb.
At commercial banks[1]							
New cars (48 mo.)	12.07	11.81	11.14	10.61	...	...	9.89
Personal (24 mo.)	15.44	15.46	15.18	14.88	...	...	14.39
Credit cards	18.02	18.17	18.23	18.19	...	...	18.09
At auto finance cos.[2]							
New cars	12.62	12.54	12.40	10.79	10.41	10.04	...
Used cars	16.18	15.99	15.60	15.06	14.90	14.34	...

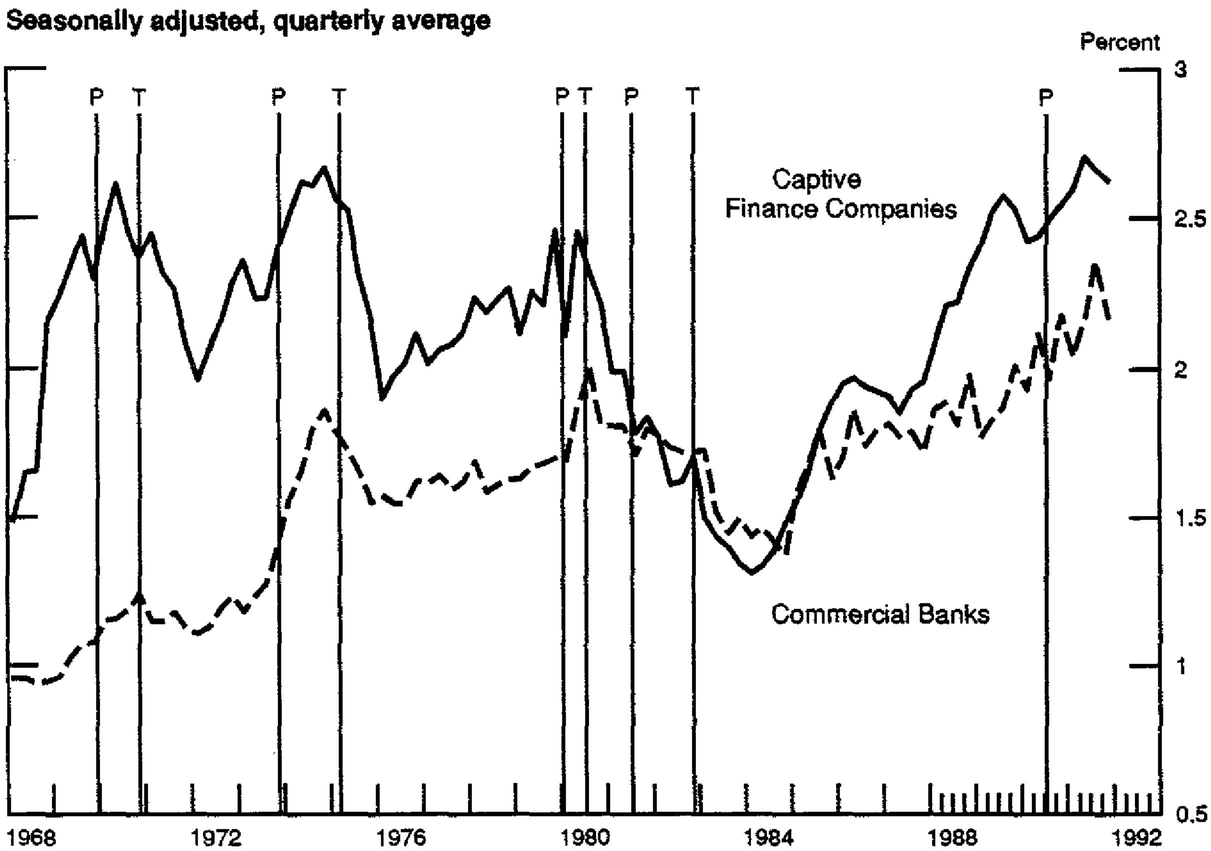
1. Average of "most common" rate charged for specified type and maturity during the first week of the mid-month of each quarter.
2. Average rate for all loans of each type made during the month regardless of maturity.

and January Surveys of Senior Loan Officers, there was some rise in the number of banks expressing increased willingness to lend to consumers, and none reported reduced willingness to lend. An index of relative willingness to lend, based on the difference between numbers of banks more willing versus those less willing to lend, dropped into negative territory only briefly early last year and since has been moderately positive (chart).

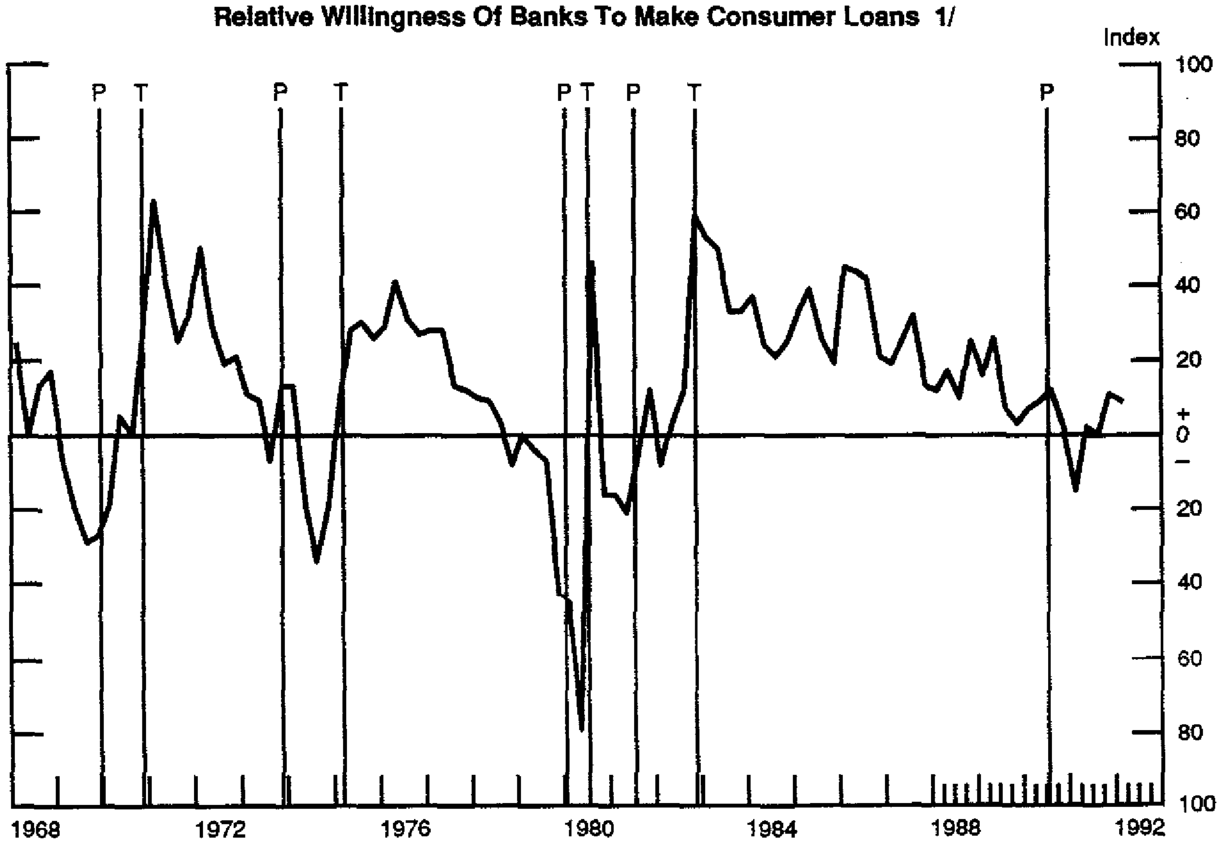
Interest rates on consumer loans at banks continued to decline, although such declines failed to match the reductions in bank funding costs. New-car loan rates in early February were about 2-1/2 percentage points below levels prevailing in the spring of 1989. At just under 10 percent, these rates were at their lowest level since May 1972. There may be room for some further decline in auto loan rates, insofar as their recent spreads of around 400 basis points above yields on Treasury securities of comparable maturity are relatively high--the historical average for this spread is about 300 basis points.

The average rate on credit card balances declined 0.10 percentage point between the November and February surveys, putting this measure at 18.09 percent, little below its 1991 average. Other evidence makes clear, however, that competitive forces are making lower rates more widely available to consumers today than at any time in the past. In recent months, many banks also have discontinued charging annual fees. In addition, major credit card issuers are increasingly segmenting the market by offering a variety of plans to certain groups of customers, plans that generally involve lower rates than on the issuers' regular plans. Credit risk, account activity, and use of other banking services have been the criteria for deciding to whom to offer these

Auto Loan Delinquency Rates



Relative Willingness Of Banks To Make Consumer Loans 1/



1. Weighted responses of banks more willing to make consumer loans minus responses of banks that are less willing.

reduced-rate plans.[6] The Board's series has not reflected any lowering of rates through market segmentation because it incorporates each respondent's "most common" rate charged, which is usually the rate charged on its regular card accounts.

6. For example, Texas Commerce Banks recently established a hierarchy of rates for different classes of cardholders: 17.8 percent for holders of the standard card, 15.8 percent for customers with certain other banking relationships, and 14.8 percent for a "preferred" subset of the latter group. In February, American Express announced a new pricing structure for its Optima card based on both payment record and account use. Under the new structure, Optima charges 12.5 percent for cardholders of one year or longer who spend at least $1,000 and have made no late payments during the preceding 12 months. Cardholders who are in good standing but fail to meet the spending or one-year tenure requirements are assessed 14.75 percent. Card members with late payments on their record within the past twelve months pay 18.75 percent.

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

The U.S. merchandise trade deficit in January was $5.8 billion (seasonally adjusted, Census basis), slightly smaller than the revised $6.0 billion deficit recorded in December, but not much different than the average for the fourth quarter. In January, both imports and exports fell below the average levels achieved in the last three months of 1991, by about the same amounts.

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

	Exports			Imports			
	Total	Ag.	NonAg.	Total	Oil	NonOil	Balance
1991-Jul	35.2	3.4	31.8	41.2	4.0	37.2	-5.9
Aug	34.4	3.3	31.1	40.9	4.5	36.4	-6.5
Sep	35.3	3.3	32.1	42.3	4.6	37.7	-6.9
Oct	37.1	3.5	33.6	43.4	4.1	39.3	-6.3
Nov	36.9	3.5	33.4	41.1	4.1	37.0	-4.2
Dec	35.9	3.8	32.1	41.9	3.9	38.0	-6.0
1992-Jan	35.5	3.6	32.0	41.3	3.6	37.7	-5.8

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

The decline in imports in January relative to the average level in the last three months of 1991 was in oil, which declined $0.4 billion, and in consumer goods, which declined $0.5 billion. Over the same period, imports of industrial supplies increased slightly while imports of both capital goods and automotive products were essentially unchanged. The decline in exports in January compared with the average rate in the fourth quarter was concentrated in aircraft and automotive products, down almost $0.5 billion each; exports of industrial supplies rose $0.3 billion.

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

	Year		1991				$ Change	
	1990	1991	Q1	Q2	Q3	Q4	Q4-Q4	Q4-Q3
Trade Balance	-108.1	-73.6	-74.1	-62.1	-83.4	-74.6	36.3	8.8
Total U.S. Exports	389.6	416.5	402.2	415.6	416.1	432.2	29.9	16.2
Agricultural Exports	40.2	40.1	39.3	37.7	40.2	43.3	5.5	3.1
Nonagric. Exports	349.3	376.4	362.9	377.8	375.9	389.0	24.5	13.1
Industrial Suppl.	96.7	101.7	105.0	101.7	100.0	99.9	-6.0	-0.1
Gold	3.0	3.6	4.1	3.3	3.4	3.7	-0.7	0.3
Fuels	14.0	14.3	16.8	13.0	12.7	14.7	-3.5	1.9
Other Ind. Suppl.	79.6	83.8	84.2	85.5	83.9	81.6	-1.9	-2.3
Capital Goods	153.8	167.0	155.8	170.5	166.0	175.7	19.7	9.7
Aircraft & Parts	32.3	36.5	30.8	38.8	35.5	40.9	10.1	5.5
Computers & Parts	25.9	27.3	27.3	27.3	26.6	27.8	1.4	1.2
Other Machinery	95.6	103.2	97.7	104.4	103.9	106.9	8.2	3.0
Automotive Products	37.4	39.8	33.7	39.8	43.9	42.0	4.9	-1.9
To Canada	22.6	22.3	19.1	21.9	24.9	23.3	1.8	-1.6
To Other	14.8	17.5	14.5	17.9	19.0	18.7	3.1	-0.3
Consumer Goods	43.3	45.8	45.9	44.5	44.7	48.4	2.5	3.7
Other Nonagric.	18.2	22.1	22.6	21.3	21.3	22.9	3.3	1.6
Total U.S. Imports	497.7	490.1	476.3	477.7	499.5	506.9	-6.3	7.4
Oil Imports	62.1	51.4	52.9	51.7	52.4	48.8	-23.2	-3.6
Non-Oil Imports	435.6	438.7	423.5	426.0	447.1	458.0	16.9	11.0
Industrial Suppl.	82.5	80.8	80.0	80.5	80.1	82.5	-1.4	2.3
Gold	2.5	2.7	3.3	3.0	2.3	2.4	-0.8	0.1
Other Fuels	3.6	3.9	3.8	4.1	3.7	3.9	-0.4	0.2
Other Ind. Suppl.	76.4	74.2	73.0	73.4	74.2	76.1	-0.2	2.0
Capital Goods	116.4	121.3	119.2	121.1	122.0	122.9	2.7	0.9
Aircraft & Parts	10.6	12.0	11.2	12.4	12.5	11.7	-1.1	-0.8
Computers & Parts	23.0	26.1	24.2	26.0	27.7	26.7	3.4	-0.9
Other Machinery	82.8	83.2	83.8	82.7	81.9	84.5	0.4	2.6
Automotive Products	87.3	84.8	81.5	78.1	91.4	88.3	2.2	-3.1
From Canada	29.7	28.7	23.2	28.1	33.8	29.8	2.5	-4.0
From Other	56.5	56.1	58.4	50.1	57.6	58.5	-0.3	0.9
Consumer Goods	106.2	108.1	100.6	100.4	110.6	120.7	13.8	10.1
Foods	26.6	26.5	25.5	27.9	26.3	26.3	0.3	0.0
All Other	16.4	17.2	16.6	18.0	16.6	17.5	-0.7	0.8

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

Between the third and the fourth quarter of 1991, the merchandise trade deficit improved nearly $9 billion at an annual rate. Exports grew 16 percent at an annual rate in the fourth quarter, led by large increases in shipments of aircraft and other capital equipment, and slightly smaller increases in exports of consumer goods and agricultural products. Non-oil imports grew 10 percent, led almost entirely by a large (42 percent at an annual rate) increase in imports of consumer goods. Some of these imports may have ended up in retail inventories, in light of the decline in total domestic expenditure in the fourth quarter. The decline in imports of consumer goods in January (to about the average level of the third quarter of 1991) may suggest that these inventories were being worked off earlier this year. In addition, some of the surge in consumer imports in the fourth quarter was in apparel from China, possibly stimulated by expectations that most favored nation status for China would not be renewed.

The value of imported oil in January was 9 percent less than December as a sharp drop in price swamped a small increase in the quantity of oil imports. Preliminary DOE data suggest that weak economic activity, mild weather and a large drawdown in stocks combined to hold down the quantity of imports in January. Except for the stock drawdown, these factors appear to have also held down imports in February.

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1991			Months			
	Q2	Q3	Q4	Oct	Nov	Dec	Jan
Value (Bil. $)	51.68	52.41	48.84	49.36	49.59	47.57	43.42
Price ($/BBL)	17.30	17.26	18.04	18.31	18.82	17.06	15.44
Quantity (mb/d)	8.18	8.31	7.41	7.38	7.21	7.64	7.70

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

After falling rapidly between their mid-October peak and November, spot oil prices fluctuated between $18 and $20 dollars per barrel from December through early February. Following the relatively unsuccessful mid-February OPEC ministerial meeting, at which no individual quotas were assigned, spot prices dipped roughly $1.50 per barrel. Through the middle of March, prices have recouped roughly $1 of this decline on signs of an increase in global economic activity. Given shipping and contract lags, prices of imported oil declined through January and probably will show little change through March.

Prices of Exports and Non-oil Imports

Prices of non-oil imports accelerated in January, after having risen 4 percent at an annual rate in the fourth quarter. The increases in January were largest for capital goods and non-oil industrial supplies. The price increases for capital goods continued a trend that began in the fourth quarter of 1991, and reversed the declines recorded in the previous two quarters. The decline in the price index for automotive products in January was for the second consecutive month and followed a run-up of prices in the fall with the introduction of new models. Data for February will be released March 26 and will be included in the Greenbook Supplement.

In the fourth quarter of 1991, fixed-weight (NIPA) prices of non-oil imports rose 2-1/2 percent (AR) from the third quarter level. Price increases of 5-7 percent (annual rate) for consumer goods, automotive products, and capital goods, generally reversed the declines in the previous two quarters that had been associated in part with an appreciating dollar. On the other hand, prices of non-oil industrial supplies fell in the fourth quarter -- the fourth consecutive quarter of decline. Averaging over all commodities,

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

	Year	Quarters			Months	
	1991-Q4	1991			1991	1992
	1990-Q4	Q2	Q3	Q4	Dec	Jan
		(Quarterly Average, AR)			(Monthly Rates)	
	--------------------BLS Prices--------------------					
Imports, Total	-4.6	-7.2	-3.5	5.0	-0.4	-0.3
Foods, Feeds, Bev.	2.7	3.1	-3.5	3.6	1.3	0.6
Industrial Supplies	-17.7	-19.0	-6.7	2.0	-2.6	-2.4
Ind Supp Ex Oil*	-4.1	-4.5	-7.3	-4.4	0.7	1.1
Capital Goods	0.3	-5.2	-4.4	6.5	0.5	0.8
Automotive Products	3.6	1.2	-1.0	7.6	-0.1	-0.1
Consumer Goods	0.6	-4.3	-0.6	5.3	0.7	0.6
Memo:						
Oil	-35.5	-41.1	-5.9	16.0	-8.7	-9.4
Non-oil	0.4	-2.7	-3.2	3.9	0.5	0.6
Exports, Total	-0.2	-1.2	-2.5	2.5	-0.6	-0.4
Foods, Feeds, Bev.	6.7	8.1	-5.8	17.7	-3.7	-0.8
Industrial Supplies	-8.2	-11.9	-8.0	-2.9	-0.4	-1.4
Capital Goods	3.2	3.5	1.6	2.2	-0.2	0.2
Automotive Products	2.6	2.0	2.1	2.9	-0.3	0.1
Consumer Goods	3.1	6.3	-2.3	2.5	0.6	0.3
Memo:						
Agricultural	3.6	6.6	-8.5	10.9	-2.7	-1.0
Nonagricultural	-1.0	-2.6	-1.8	1.2	-0.3	-0.3
	------------Prices in the NIPA Accounts-----------					
Fixed-Weight						
Imports, Total	-5.5	-8.9	-1.4	4.0	--	--
Oil	-37.7	-47.4	-1.2	21.5	--	--
Non-oil	0.2	-3.2	-1.4	2.5	--	--
Exports, Total	0.2	-1.4	-3.6	2.6	--	--
Ag	4.8	9.3	-9.1	11.2	--	--
Nonag	-0.4	-2.9	-2.9	1.9	--	--
Deflators						
Imports, Total	-6.4	-10.8	-2.9	3.7	--	--
Oil	-37.7	-47.3	-1.5	21.6	--	--
Non-oil	-1.4	-5.0	-3.2	1.7	--	--
Exports, Total	-1.1	-2.6	-3.9	0.7	--	--
Ag	3.6	-0.1	-6.3	6.1	--	--
Nonag	-1.5	-2.8	-3.9	0.3	--	--

*/ Months not for publication.

prices of non-oil imports were about the same in 1991-Q4 as a year earlier.

Prices of U.S. exports declined in January for the second month in a row. While the declines in January were largely in agricultural products, decreases were also recorded in industrial supplies, especially fuels. Slight increases in the prices of capital goods, consumer goods, and automotive products partially offset these declines.

In the fourth quarter, fixed-weight (NIPA) prices of U.S. exports rose at a 2-1/2 percent annual rate. The price of agricultural exports jumped 11 percent (AR) while prices of exported capital, consumer, and automotive products rose more moderately. In contrast, prices of exported industrial supplies declined for the fourth consecutive quarter. As in the case for non-oil imports, average export prices were about the same in the fourth quarter of 1991 as a year earlier.

U.S. Current Account

The U.S. current account balance fell to a deficit of $41.1 billion at seasonally adjusted annual rates in the fourth quarter, slightly lower than the deficit of $46.5 billion (revised) in the third quarter. This small improvement came as a narrowing in the merchandise trade deficit and a reduction in unilateral transfer payments more than offset a weakening in net receipts from services and investment income.

Merchandise exports grew more than merchandise imports in the fourth quarter, and U.S. grant payments for debt forgiveness dropped back to near zero from a level of $15.6 billion in the third quarter. For service transactions, payments increased more than receipts, especially for travel.

Net investment income receipts fell to near zero in the fourth quarter. While much of the decline reflected net capital losses on direct investments there was also a small decrease in net portfolio income receipts. This decline in portfolio income receipts is attributable to a seasonal pattern induced by semi-annual coupon payments which have not been filtered from the data. Without this seasonal effect, the general decline in dollar interest rates would have reduced net payments despite a deterioration in the net portfolio position.

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

	Trade Balance	Services net	Net Income Direct Invest.	Net Income Portfolio net	Transfers net	Current Account Balance
1989	-115.9	22.4	42.5	-39.8	-15.5	-106.3
1990	-108.1	26.4	52.7	-40.7	-22.3	-92.1
1991	-73.6	35.9	51.4	-42.0	19.7	-8.6
1990-1	-110.1	23.6	51.9	-39.8	-16.1	-90.7
2	-96.4	26.4	43.6	-43.6	-18.8	-88.7
3	-115.0	25.6	53.5	-42.3	-17.3	-95.5
4	-110.9	29.9	61.7	-37.2	-37.1	-93.6
1991-1	-74.2	28.4	61.4	-41.8	67.7	41.5
2	-62.2	35.8	52.3	-42.8	28.4	11.6
3	-83.4	41.0	48.2	-40.8	-11.5	-46.5
4	-74.6	38.3	43.7	-42.7	-5.7	-41.1
$Change						
91Q4-91Q3	8.8	-2.7	-4.5	-1.9	5.8	5.4
91Q3-91Q2	-21.2	5.2	-4.1	2.0	-39.9	-58.1
91Q2-91Q1	12.0	7.4	-9.1	-1.0	-39.3	-29.9

Memo:
Cash grants received from foreign governments in support of Operation Desert Storm/Shield amounted to (annual rates): 1990-Q4 $17.2 billion, 1991-Q1 $90.8 billion, 1991-Q2 $46.4 billion, 1991-Q3 $18.4 billion. Cash grants are positive entries in unilateral transfers (column 5).

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

U.S. International Financial Transactions

Banks reported only small capital inflows in December and January (line 1 of the Summary Table of U.S. International Transactions), despite substantial inflows through interbank transactions. This pattern was evident throughout the fourth quarter when banks reported a small outflow even though agencies and branches of foreign banks decreased their net claims on own foreign offices by $23 billion on a monthly average basis (line 1b of the International Banking Data Table).

Foreign net purchases of corporate and agency bonds remained strong in December (line 2a of the Summary Table), bringing the total for the quarter to $7 billion and the total for the year to $26 billion. These large purchases coincided with exceptionally strong new issue volume in the domestic market and very high levels of new Eurobond issues by U.S. corporations. A large part--almost $9 billion--of these net purchases were in agency bonds.[1] In contrast to the large bond purchases, foreigners on net sold $2-1/2 billion of U.S. stocks in December (line 2b), reducing net purchases for the year to $10 billion. Although these stock purchases were relatively small, they contrast with net sales of almost $14 billion in 1990.

U.S. residents continued to acquire foreign securities at a rapid pace in December (line 2c), bringing the outflow for the quarter to almost $12 billion and for the year to $47 billion. About three-quarters of the net outflow for the year was to Europe. Elsewhere there were large net purchases in Canada and Japan, and net sales in the rest of Asia. Roughly two-thirds of the outflow was in the form of U.S. purchases of foreign stocks. U.S. residents

1. This figure is much lower than that recently reported in the press which reflected gross, rather than net, purchases.

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

	1990 Year	1991 Year	1991 Q1	Q2	Q3	Q4	1991 Nov.	Dec.	1992 Jan.
Private Capital									
Banks									
1. Change in net foreign positions of banking offices[1] in the U.S. (+ = inflow)	36.6	-20.5	0.1	-29.2	9.2	-0.6	4.6	1.0	1.5
Securities									
2. Private securities transactions, net[2]	-29.1	-10.8	-5.1	3.4	-2.6	-6.6	1.5	-3.8	-4.4
a) foreign net purchases (+) of U.S. corporate bonds[3]	16.2	26.2	3.5	7.9	8.1	6.7	2.0	2.3	1.9
b) foreign net purchases (+) of U.S. corporate stocks	-13.7	10.2	1.8	7.7	2.3	-1.5	0.6	-2.5	-2.4
c) U.S. net purchases (-) of foreign securities	-31.6	-47.2	-10.3	-12.2	-12.9	-11.8	-1.1	-3.6	-3.9
3. Foreign net purchases (+) of U.S. Treasury obligations	-1.0	17.6	4.0	13.4	-1.3	1.5	-1.5	1.9	2.0
Official Capital									
4. Changes in foreign official reserves assets in U.S. (+ = increase)	32.1	19.8	6.1	-3.5	3.4	13.8	8.2	-1.9	10.1
a) By area									
G-10 countries	10.0	-17.6	-11.4	-4.7	-1.9	0.3	0.6	-2.5	0.4
OPEC	1.2	-5.8	0.3	-2.9	-4.4	1.2	0.7	0.3	0.6
All other countries	20.8	43.2	17.2	4.1	9.7	12.2	6.8	0.2	9.1
b) By type									
U.S. Treasury securities	29.6	19.0	2.9	-2.3	5.8	12.6	5.7	2.3	7.8
Other[4]	2.5	0.8	3.2	-1.2	-2.4	1.2	2.5	-4.2	2.3
5. Changes in U.S. official reserve assets (+ = decrease)	-2.2	5.8	-0.4	1.4	3.9	1.2	0.8	0.1	-0.3
Other transactions (Quarterly data)[5]									
6. U.S. direct investment (-) abroad	-33.4	-29.5	-12.1	-2.0	-6.7	-8.8	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	37.2	22.2	4.3	7.5	6.1	4.2	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow)[6]	-6.3	7.1	1.2	-2.7	3.8	4.8	n.a.	n.a.	n.a.
9. U.S. current account balance	-92.1	-8.6	10.4	2.9	-11.6	-10.3	n.a.	n.a.	n.a.
10. Statistical discrepancy	63.5	-3.1	-8.5	8.8	-4.2	0.8	n.a.	n.a.	n.a.
MEMO:									
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-108.1	-73.6	-18.5	-15.5	-20.8	-18.7	n.a.	n.a.	n.a.

1. Includes changes in positions of all depository institutions, bank-holding companies, and certain transactions between brokers/dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements.)
2. 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.
3. Includes all U.S. bonds other than Treasury obligations.
4. Includes deposits in banks, commercial paper, acceptances, borrowing under repurchase agreements, and other securities.
5. Seasonally adjusted.
6. Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, and other banking and official transactions not shown elsewhere. In addition, it includes amounts resulting from adjustments to the data made by 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.

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1990				1991				1992	
	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	-11.7	-11.0	-15.6	-31.3	-23.8	-13.7	-14.1	-35.8	-40.0	-38.2
(a) U.S.-chartered banks	12.2	7.2	5.7	5.5	7.6	5.4	11.0	12.4	6.8	2.9
(b) Foreign-chartered banks	-23.9	-18.2	-21.3	-36.9	-31.3	-19.2	-25.2	-48.3	-46.8	-41.1
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	21.8	22.2	24.0	24.7	26.0	23.9	23.7	23.9	23.9	23.4
3. Eurodollar Holdings of U.S. Nonbank Residents 1/	110.6	106.5	109.1	116.1	114.6	105.8	100.8	103.7	102.2	100.2

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.

were particularly active in the Japanese stock market where they recorded net purchases of $13 billion.

Foreign purchases of U.S. Treasury securities picked up in December to $2 billion (line 3), bringing the net purchases for the year to $17-1/2 billion. Japanese residents on net sold $1 billion in Treasuries in December, reducing their net purchases for the year to about $3 billion.

These trends in private securities transactions generally continued into January. Foreigners continued to acquire U.S. Treasury, corporate, and agency bonds at a rapid pace while reducing their holding of U.S. stocks. U.S. residents' acquisition of foreign securities accelerated slightly in January with most of the acquisitions coming in the form of stocks. One notable change from the earlier pattern is that U.S. residents reduced their holding of Japanese stocks in January, recording the first monthly decline in over a year. U.S. residents also reduced their holding of Japanese bonds by almost $1-1/2 billion.

Official transactions recorded a net reduction in foreign holdings in the United States of $2 billion in December (line 4), all of which is attributable to declines in G-10 holdings. For 1991 as a whole, official capital registered an inflow of $20 billion, as sizable reductions by G-10 and OPEC countries were more than offset by a $40 billion inflow from other countries. More than three-quarters of this inflow is attributable to Spain, Taiwan, and Mexico. In January there were large inflows from official sources, most of which was attributable to Taiwan and the BIS. Partial data from the FRBNY indicate small official capital inflows in February.

U.S. direct investment abroad continued at a rapid pace in the fourth quarter, reaching almost $9 billion. For the year, U.S. direct investment abroad totaled almost $30 billion, slightly less than in 1990. About one-half of the investment was in Western Europe as U.S. companies continue to position themselves in advance of EC 1992. Additionally, U.S. firms invested substantial sums in Latin America, in part through participation in the privatization of previously state-owned enterprises such as the $1 billion investment GTE and ATT made in Telefono de Venezuela.

Foreign direct investment in the United States declined further in the fourth quarter to $4 billion, bringing the total for the year to $22 billion (line 7). This compares with a $37 billion inflow in 1990. Nearly all of the decline from 1990 can be attributed to a decline in direct investment from Japan, which fell from $17 billion to $4 billion. More generally, foreign acquisitions in the United States declined substantially in 1991.

The statistical discrepancy was virtually zero in the fourth quarter, bringing the discrepancy for the year to a negative $3 billion. This is a marked change from the positive $63 billion discrepancy recorded in 1990. These wide swings in the discrepancy from year to year are most likely the result of errors and omissions in the recording of capital flows rather than current account transactions. Changes in recorded capital flows in periods when there are wide swings in the discrepancy should be interpreted with caution.

Foreign Exchange Markets

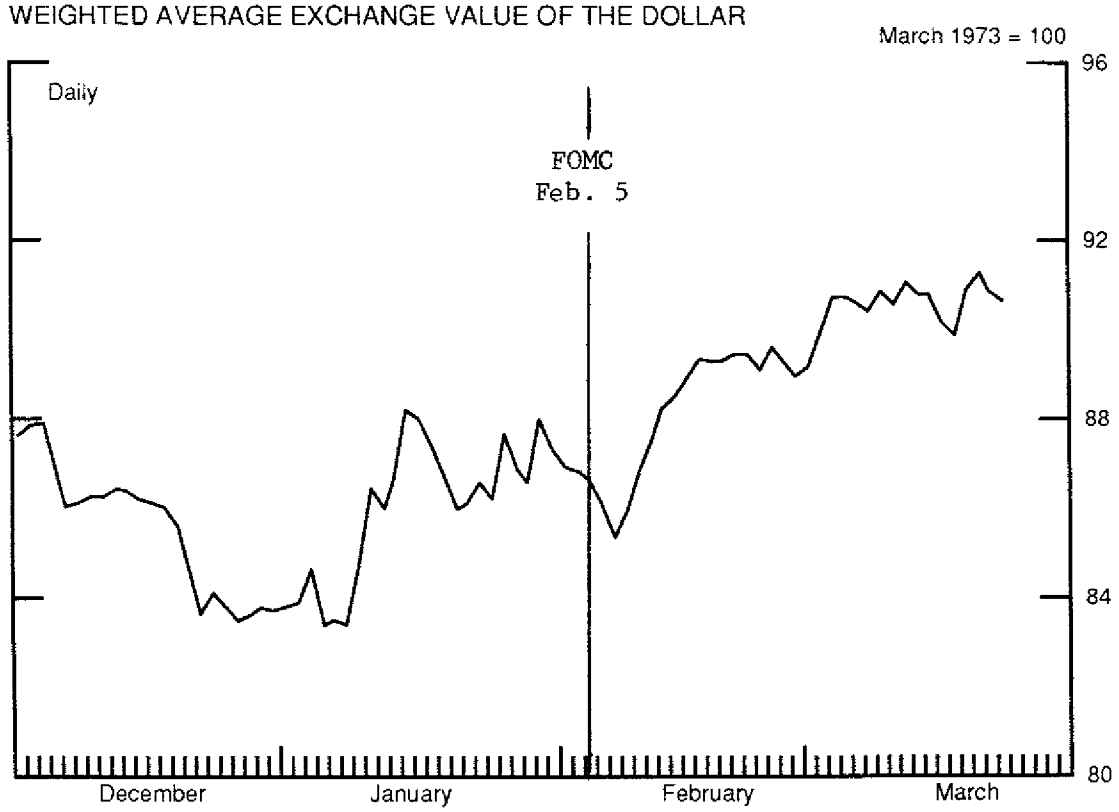
The weighted-average foreign-exchange value of the dollar, shown in the chart, has increased by about 4 percent since the February 4 FOMC meeting. The dollar initially declined on expectations of further Federal Reserve easing. This view gained support after the release on February 7 of nonfarm payroll figures for January, which were somewhat weaker than expected by the market.

Later, however, the dollar appreciated as expectations of a near-term Federal Reserve easing were reduced following the release of stronger-than-expected U.S. data on retail sales, car sales, and initial jobless claims. Following a pause at the end of February, the dollar resumed its appreciation as the March purchasing managers' report confirmed the view that the U.S. economic recovery may be taking hold. Late in the intermeeting period the dollar retreated somewhat, despite further indications that the U.S. recovery is underway. Contributing to this retreat was a tightening of money market conditions in Germany, where monetary growth continued quite rapid and concerns over wage pressures intensified.

The dollar's movement against the German mark mirrored the weighted average dollar's movement, rising nearly 4 percent. The dollar appreciated against the Japanese yen by nearly 6 percent over the period. Throughout the period, the market has expected the Bank of Japan to announce an official discount rate cut ranging from 1/2 percent to 1 percent. The Tankan survey's diffusion index of business conditions moved into negative territory for the first time since 1987, suggesting that economic prospects continue to weaken in Japan. During this intermeeting period the Bank of Japan intervened several times to support the yen at various levels. On two occasions the U.S. monetary authorities joined this intervention initiative to sell a total of $150 million.

The net movement in long-term interest rate differentials over the period was in favor of the dollar. The U.S. 10-year bond yield increased by more than 20 basis points since February 4, while German bellwether bond yields increased by more than 10 basis points and Japanese bellwether bond yields declined by about 10 basis points. Changes in short-term interest rate differentials have been mixed. German call money rates, on balance, were unchanged. German

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



three-month rates have risen by 20 basis points, a little less than those in the United States. In contrast, Japanese three-month interest rates have declined by more than 25 basis points, reflecting the anticipated official discount rate cut.

Persistent political and financial market scandals, the effects of fiscal year-end positioning, and the continued weakening outlook for economic activity and corporate profits in Japan combined to drive the Japanese stock market sharply lower. The Nikkei index dropped below 20,000 during the intermeeting period, but regained some of its losses by the end of the period. Both the Nikkei and the wider Topix index declined by more than 8 percent, on balance. The U.K. stock market declined by more than 4 percent, after the announcement of the U.K. budget and the April 9 date for the general election.

In the middle of the intermeeting period, the Swiss franc began a steady decline against the mark. Initially, the Swiss authorities appeared willing to accept some depreciation of the Swiss franc against the mark, allowing them to direct their monetary policy towards improving the weakening domestic economic conditions. When the franc's depreciation continued, however, the Swiss National Bank more than reversed its earlier easing of money market conditions in an effort to stabilize the currency.

. On balance, the Swiss franc depreciated by nearly 2 percent against the mark over the intermeeting period.

The Canadian dollar weakened by nearly 1 percent against the U.S. dollar since the February FOMC. There have been concerns over the political status of Quebec, as well as rumors that financial difficulties of a large Canadian real estate firm might spill over to the banking system.

. Canadian 3-month interest rates and long-term interest rates rose by over 35 basis points over the intermeeting period.

. The United States intervened on two occasions, the first of which was for Treasury account only. U.S. intervention totaled $150 million dollars, $125 million for Treasury and $25 million for the System.

The price of gold declined by nearly 5 percent over the period. There were some market reports that former Soviet republics have been selling large quantities of gold through German banks.

Developments in Foreign Industrial Countries

Newly available national accounts data confirm that growth weakened in most major foreign industrial countries in the fourth quarter of 1991. Real output declined in Japan, Germany, the United Kingdom, and Canada, while French marketable GDP was unchanged. Data from the first quarter show some signs of recovery in continental Europe but continued weakness in Japan, Britain, and Canada.

Recent price data show measured inflation rates that are on average little changed. Strong wage pressures persist in Germany and the United Kingdom, despite slower activity and rising British unemployment. Soft raw materials prices in 1991 caused decreases in consumer-price inflation in the major industrial countries that overstated progress in reducing underlying inflation, which has come down more slowly.

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

	Q4/Q4 1990	Q4/Q4 1991	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1991 Oct.	1991 Nov.	1991 Dec.	1992 Jan.	1992 Feb.	Latest 3 months from year ago [2]
Canada												
GDP	-1.1	-.2	-1.4	1.3	.1	-.2	*	*	*	*	*	-.2
IP	-6.3	-1.2	-2.1	1.3	.8	-1.2	-.8	-.3	-1.4	n.a.	n.a.	-1.2
France												
GDP	1.8	n.a.	.3	.7	.7	n.a.	*	*	*	*	*	1.3
IP	-.3	1.9	.4	1.1	.6	-.3	1.3	-.7	-1.2	1.9	n.a.	1.7
West Germany												
GNP	5.3	1.0	2.4	-.6	-.5	-.4	*	*	*	*	*	1.0
IP	5.4	.0	2.0	-.1	-.5	-1.4	.2	.3	-4.2	5.9	n.a.	-.2
Italy												
GDP	1.1	n.a.	.6	.4	.1	n.a.	*	*	*	*	*	1.0
IP	-3.8	-.8	.3	-1.9	-.2	1.1	-2.0	5.6	-6.3	n.a.	n.a.	-.8
Japan												
GNP	4.7	3.2	2.0	.7	.5	-.0	*	*	*	*	*	3.2
IP	6.9	-1.6	-.1	-.7	.3	-1.1	-.1	.0	-1.3	-.8	n.a.	-2.3
United Kingdom												
GDP	-.7	-1.7	-.9	-.7	.2	-.3	*	*	*	*	*	-1.7
IP	-3.2	-.7	-.3	-1.3	1.1	-.2	.3	-.5	-.4	-1.3	n.a.	-.6
United States												
GNP	-.1	.4	-.6	.3	.5	.2	*	*	*	*	*	.4
IP	.3	-.5	-2.5	.6	1.6	-.2	.0	-.3	-.6	-.8	.6	.5

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 1990	Q4/Q4 1991	1990 Q3	1990 Q4	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1991 Nov.	1991 Dec.	1992 Jan.	1992 Feb.	Latest 3 months from year ago
Canada													
CPI	4.9	4.1	1.1	1.4	2.9	.7	.6	-.1	.4	-.5	.5	.1	2.3
WPI	1.9	-2.9	.2	1.2	-.3	-1.6	-.8	-.3	-.1	.1	.1	n.a.	-3.1
France													
CPI	3.6	2.9	1.0	1.0	.5	.7	.8	.9	.3	.1	.2	n.a.	3.0
WPI	.7	-3.6	.2	1.1	-.5	-1.5	-.7	-1.0	*	*	*	*	-3.6
West Germany													
CPI	3.0	3.9	.4	.9	.8	.9	1.5	.7	.4	.1	.4	.6	4.1
WPI	.9	1.6	.2	.4	.5	.3	.7	.2	.5	-.7	.3	.6	1.4
Italy													
CPI	6.3	6.1	1.4	2.0	1.9	1.4	1.0	1.7	.7	.3	.8	.2	5.8
WPI	9.9	1.1	3.9	4.3	.2	-1.0	.5	1.4	.9	-1.3	.5	n.a.	1.4
Japan													
CPI	3.2	3.2	.2	1.2	.8	.8	.4	1.1	.3	-.6	.0	-.2	2.4
WPI	1.9	-1.3	.0	.7	.1	-.4	-.4	-.7	.0	.0	-.6	.1	-1.8
United Kingdom													
CPI	10.0	4.2	1.6	1.6	.6	2.0	.4	1.0	.4	.1	-.1	.5	4.2
WPI	5.9	5.1	.9	1.1	2.0	1.9	.6	.5	.4	-.1	.7	n.a.	4.8
United States													
CPI (SA)	6.3	3.0	1.7	1.7	.8	.6	.7	.9	.4	.2	.1	.3	2.8
WPI (SA)	6.4	-.1	1.6	2.4	-.4	-.2	.0	.5	.1	-.1	-.3	.2	-.1

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)

	1990	1991	1990 Q3	1990 Q4	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1991 Nov.	1991 Dec.	1992 Jan.	1992 Feb.
Canada												
Trade	9.4	6.4	2.8	2.3	2.2	2.5	.9	.8	.2	.6	.9	n.a.
Current account	-18.9	-23.4	-4.3	-4.6	-4.8	-5.0	-6.5	-7.1	*	*	*	*
France												
Trade	-9.3	-5.5	-3.6	-3.1	-2.6	-1.4	-1.9	.4	.1	-.9	.7	.1
Current account	-9.5	n.a.	-3.5	-2.0	-4.0	-1.6	-.2	n.a.	*	*	*	*
Germany 2												
Trade (NSA)	65.2	12.9	16.0	10.1	4.4	-1.1	2.8	6.7	2.2	3.3	.1	n.a.
Current Account (NSA)	47.3	-20.1	9.4	8.5	-5.9	-5.9	-6.1	-2.1	.9	-1.1	-4.1	n.a.
Italy												
Trade	-12.3	-12.9	-3.0	-4.6	-.4	-4.1	-5.1	-3.3	-1.6	-.3	.0	n.a.
Current account (NSA)	-14.2	n.a.	.7	-3.7	-7.6	-4.7	-3.8	n.a.	*	*	*	*
Japan												
Trade	51.8	78.8	14.2	8.5	17.4	18.8	20.8	21.9	7.4	7.9	8.4	10.4
Current account	35.8	72.6	7.0	6.4	12.8	18.7	19.6	21.5	7.2	7.9	7.2	n.a.
United Kingdom												
Trade	-32.0	-17.5	-7.3	-6.2	-5.8	-3.6	-3.7	-4.4	-1.7	-1.3	-2.1	-1.9
Current account	-25.6	-12.0	-4.8	-3.9	-4.8	-1.3	-3.0	-2.9	-1.1	-.7	-1.6	-1.3
United States												
Trade	-108.1	-73.6	-28.8	-27.7	-18.5	-15.5	-20.8	-18.7	-4.7	-7.0	-6.7	n.a.
Current account	-92.1	-8.6	-23.9	-23.4	10.4	2.9	-11.6	-10.3	*	*	*	*

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.

The ruling Socialist party fared poorly in French local and regional elections held March 22. National elections will be held in both Italy and Britain in early April.

Individual country notes. In Japan, fourth-quarter real total domestic demand (s.a.a.r.) fell 2.1 percent, but unusual strength in the external sector limited the decrease in GNP to 0.2 percent, as exports rose 6.3 percent and imports fell 4.7 percent. Consumption edged up 0.4 percent, investment in plant and equipment dropped 2.5 percent, and residential construction plunged 18.4 percent. Largely because of a sharp reduction in government rice holdings, inventories made a 1.3 percent negative contribution to growth.

Recent monthly indicators have also been generally weak. New machinery orders (s.a.) plummeted 13.1 percent in December, industrial production (s.a.) declined by 0.8 percent in January, and new passenger car registrations (s.a.) were down 5.6 percent in February. In contrast, housing starts (s.a.) rose 5.9 percent in January. The Bank of Japan's diffusion index, a measure of current business confidence at major manufacturing firms, dropped steeply in February to its lowest level since 1987. The unemployment rate (s.a.) was unchanged in January at 2.1 percent, but the ratio of job offers to applicants (s.a.), a more sensitive indicator of labor market conditions, declined 2.3 percent to a level 12.9 percent below its peak in March 1991.

Inflationary pressures have remained low. Consumer prices in the Tokyo area recorded a 12-month increase of only 2.2 percent in February. Excluding prices of perishable foods, which have fallen in recent months, 12-month consumer-price inflation has remained virtually constant at 2.4 percent since November 1991. Wholesale prices dropped 1.6 percent from February 1991 to February 1992.

In February, M2 plus CD's (s.a.) contracted for the third consecutive month, reflecting slower loan growth and shifts in asset holdings out of bank deposits, and reducing 12-month money growth to 1.6 percent.

The merchandise trade surplus (s.a.) increased to $10.4 billion in February, the highest monthly surplus on record. Exports (s.a.) were up 1.3 percent from January, and imports fell 8.4 percent.

West Germany's GNP, adjusted for seasonal effects and variations in the number of working days, fell at an annual rate of 1.9 percent in the fourth quarter. Domestic demand grew 2.9 percent, with a 2.5 percent increase in private consumption. Real net exports were off sharply as west German imports grew 5 percent, due in part to a surge in foreign travel, while exports were essentially unchanged. It appears that a failure of seasonal adjustment of output in the fourth quarter to account for the effect of extra holiday leave-taking may have contributed to the decline in measured output.

Monthly indicators continue to present a mixed picture. Industrial production (s.a.) in western Germany increased 5.9 percent in January, after falling a revised 4.2 percent in December. Construction activity was particularly strong -- up 8.5 percent in January -- due in part to mild weather. The residual seasonal effect mentioned above appears to account for much of December's decline and January's rebound. The volume of new orders for west German manufactured goods (s.a.) also swung sharply, falling 2.5 percent in December and increasing 2.7 percent in January. Total orders in December and January were down 1 percent from the previous two months taken together.

Despite the output contraction of the past three quarters, no slack has emerged in west German labor markets. The west German unemployment rate (s.a.) was 6.3 percent in January and February, and has remained between 6.2 percent and 6.4 percent since the beginning of 1991. Partly because of labor agreements that mandate reductions in weekly hours, west German employment (s.a.) has remained relatively strong, increasing 0.8 percent in the second half of 1991.

In eastern Germany, the unemployment rate (n.s.a.) fell 0.6 percentage points in February to 16.4 percent, while the number of workers on short-time was unchanged at 6.6 percent. Industrial production (n.s.a.) increased 7.9 percent in the fourth quarter of 1991. Investment intention surveys suggest that gross fixed investment will rise about 30 percent this year, and other surveys continue to show growing optimism about business conditions.

Consumer prices (s.a.) in western Germany rose 0.5 percent in February after no change in January, raising twelve-month inflation to 4.3 percent. West German producer prices (n.s.a.) were up 0.3 percent in February, lifting twelve-month WPI inflation to 2.0 percent.

Negotiations over wage agreements for 1992 continue to be a source of uncertainty. In the banking sector, wage negotiations are deadlocked, although recent public statements by bank management and union officials suggest some potential for compromise. Negotiations involving public sector employees are also at an impasse.

The pan-German current account deficit (n.s.a.) widened from $1.1 billion to $4.1 billion in January, as exports (n.s.a.) fell 0.6 percent and imports increased 6.4 percent.

German M3 was 8.5 percent (s.a.a.r.) above its 1991-Q4 average in February, compared with 9 percent in January. The recent growth of M3 reflects continued rapid expansion of currency, demand deposits, and bank lending.

The recent dispute over the government's 1993 tax package has been resolved, with the Bundesrat approving the government's proposals with only minor changes. The main components of this legislation are a 1 percentage point increase in the VAT rate and the elimination of some business taxes.

In France, real marketable GDP (s.a.a.r.) was unchanged in the fourth quarter, after rising 2 percent in the previous quarter. Consumption growth of 2.8 percent was offset by a decline in investment of 2.4 percent and a substantial drop in inventories. Marketable GDP excludes most government services and is a good preliminary indicator of total real GDP.

Monthly indicators for January and February point to a recovery in activity in the first quarter. Industrial production (s.a.) rose 1.9 percent in January, following a modest decline in the fourth quarter. Consumption of manufactured products (s.a.) increased 3 percent in January and 1.2 percent in February. The INSEE monthly survey of French industry for February showed a strong increase in orders, and firms also indicated they intended to increase production over the next few months. Retail sales (s.a.) increased sharply in January but declined slightly in February. The unemployment rate was unchanged in January at 9.8 percent.

Inflationary pressures continued to be moderate. The consumer price index in February was 3.0 percent above its level a year earlier, up slightly from the 2.9 percent increase registered in January. The quarterly survey of hourly wages, conducted in January, showed an increase in wages of 4.0 percent (n.s.a.a.r.), down from the 4.5 percent increase one quarter earlier.

The trade balance (s.a.) registered small surpluses in January and February, following a small surplus in the fourth quarter of 1991, reflecting strong export growth.

The Ministry of Finance announced that the final budget deficit for 1991 was FF132 billion (1.9 percent of GDP). Weaker than expected economic activity caused the deficit to exceed the Ministry's previous estimate by 30 percent.

In regional elections held March 22, the governing Socialist Party won 18.3 percent of the vote, down from 30 percent in 1986. Support for the mainstream parties together dropped from roughly 70 percent to 50 percent. The main beneficiaries were the extreme right-wing National Front, and the two "Green" parties. In part, the results reflect dissatisfaction with the mainstream parties' failure to address France's unemployment and immigration issues.

In Italy, the economy has continued to grow sluggishly. In the third quarter of 1991, GDP (s.a.a.r.) grew 0.4 percent. Industrial production (s.a.) rose 1.1 percent in the fourth quarter, following two quarters of declines. Consumer confidence slumped in the fourth quarter, but increased in January to its highest level since last September.

Inflation shows further signs of easing, though part of the decline reflects technical factors. Consumer prices in February were 5.3 percent above their level a year earlier, down from 6.1 percent in January, although quirks in measurement practices caused part of this drop. Wholesale prices in January were 0.8 percent above their level a year earlier.

Italy's trade deficit (s.a.) for 1991 was $12.9 billion, little changed from 1990. The current account deficit (n.s.a.) widened to $16 billion for the first three quarters of 1991, from $10.5 billion during the same period in 1990, largely because of a $3 billion increase in net outflow of investment income.

On April 5, Italy will hold a general election. Voter dissatisfaction appears widespread, and the political situation is particularly uncertain.

The latest data for the United Kingdom indicate that economic recovery continues to be elusive. Real GDP contracted 1.1 percent (s.a.a.r.) in the fourth quarter, after growing 0.7 percent in the third quarter. Consumption grew only 0.1 percent (s.a.a.r.) and investment fell 7.1 percent.

In January, manufacturing production (s.a.) fell 0.7 percent to a level 1.0 percent below its fourth-quarter average and 3.8 percent below its level in January 1991. Retail sales (s.a.) were up 0.3 percent in January and 0.4 percent in February. The unemployment rate (s.a.) continued to mount, reaching a rate of 9.4 percent in February.

Retail prices (n.s.a.) rose 0.5 percent in February, leaving twelve-month inflation unchanged at 4.1 percent, compared with a rate of 8.9 percent a year ago. The government's measure of underlying inflation, which excludes mortgage interest rates, stood at 5.6 percent in the year to February, down from a rate of 8.6 percent in February 1991. Wages continued to rise at an underlying annual rate of 7.3 percent in January.

On March 10, Chancellor of the Exchequer Norman Lamont presented the national government budget for the 1992-93 fiscal year, which begins April 1. Lamont announced some minor tax cuts, and, largely because of expectations of weak economic activity, projected a budget deficit of 4-1/2 percent of GDP.

On March 11, Prime Minister John Major announced that a general election will be held April 9. Recent polls suggest the election will be very close. It is possible that neither the Tories nor the Labour Party will win enough seats to control Parliament.

The recovery in Canada lost ground in the fourth quarter of 1991, as real GDP (s.a.) dropped 0.8 percent (a.r.), taking the level of output 1.9 percent below its peak in the first quarter of 1990. Total domestic demand (s.a.) edged up 0.9 percent (a.r.), but the external sector made a negative contribution, as exports plunged 12 percent. A 20 percent (a.r.) leap in expenditures on plant and equipment (s.a.) caused total fixed investment to rise 5.6 percent despite a drop in the sum of residential and non-residential construction, but consumption fell 1.6 percent.

First-quarter monthly data show continued weakness. The unemployment rate rose from 10.3 percent (s.a.) in December to 10.4 percent in January and February, as total employment (s.a.) slipped 0.1 percent. A 12.5 percent increase in February was not sufficient to lift housing starts (s.a.) above their December level, because of January's 13.8 percent decline. Factory shipments (s.a.) and new orders (s.a.) each fell 2.4 percent in January, the fifth consecutive monthly decline for both measures, and retail sales (s.a.) were virtually unchanged from their dismal December level.

1992 price data show continued success for the Bank of Canada's efforts to reduce base inflation. The CPI excluding food and energy (n.s.a.), rose 0.4 percent in February, lowering twelve-month inflation from 2.9 percent to 2.8 percent. Wholesale prices (n.s.a.) rose 0.1 percent in January, but stand 3.1 percent lower than a year earlier. Wage settlements increased 3.6 percent in 1991, compared with 5.7 percent in 1990.

Canada's current account deficit (s.a.a.r.) increased $2 billion in the fourth quarter to a record $28 billion. The merchandise trade surplus (s.a.) fell $0.1 billion to a twelve-year low of $3.3 billion, but deterioration in the invisibles deficit accounted for most of the current account change. Strong export growth in January caused the merchandise trade surplus (s.a.a.r.) to rise from \$6.6 billion to \$11.2 billion, its highest level since last May.

On February 25, Canadian Finance Minister Don Mazankowski presented the federal government budget for fiscal year 1992, which begins April 1. The overall fiscal stance will tighten slightly, and the government expects the federal budget deficit to fall from 4.6 percent of GDP in fiscal year 1991 to 3.9 percent of GDP in fiscal year 1992.

There is substantial uncertainty about Canada's political future due to the lack of progress achieved thus far in discussions of the National Unity Plan constitutional reform proposals announced by the federal government last September. The Cabinet intends to submit specific constitutional amendments to Parliament by late April. Should it deem the revised proposals to be unacceptable, the provincial government of Quebec has promised to hold a referendum by the end of October, in which voters would be able to choose among alternatives that would include secession.

<u>Developments in the Former Soviet Union and East European Countries</u>

The government of <u>Russia</u> has drafted a Memorandum of Economic Policies, which summarizes its program for the first quarter of 1992 and outlines proposals for a broad range of policies to be implemented later in the year. Except for rent, utilities, and public transportation, most remaining administered prices at the retail level will be eliminated by the end of March. Full liberalization of energy prices has been postponed until late 1993.

Military expenditure cuts, subsidy reductions, and new taxes have reduced the government budget deficit from more than 20 percent of GDP in 1991 to an estimated 8 to 10 percent of GDP in the first quarter of 1992. The government plans to eliminate the deficit by the end of the year.

The Central Bank of Russia (CBR) recently tightened monetary policy. Growth of CBR credits to commercial banks was restricted, the financing rate was increased to 20 percent (although the real rate remains negative), and reserve requirements were raised. However, recent reports suggest that the government is considering monetizing wage and pension increases and subsidizing CBR credits to failing industries.

Russia, along with several of the other republics of the former Soviet Union, is expected to become a member of the IMF by the time of the Interim Committee meeting in late April, or soon thereafter.

In Poland, on February 17 the new government of Prime Minister Jan Olszewski unveiled its economic program. The program describes a package of "anti-recessionary" policies that aim to stabilize economic activity and hold down unemployment by aiding money-losing state enterprises, while limiting inflation to current levels. In mid-March, the government introduced to the parliament a budget for the remainder of 1992 based on the new program. The budget aims to hold the fiscal deficit to 5 percent of GDP through deep expenditure cuts. Other budgetary provisions include a reduction in business taxes and industrial policies targeted at expanding exports and investment.

Because of objections to the course of policy and his loss of authority on economic issues, Finance Minister Karol Lutkowski submitted his resignation on February 15. In late February, the Prime Minister nominated, and Parliament confirmed, Andrzej Olechowski to be the new Finance Minister. In addition, on March 5, Hanna Gronkiewicz-Waltz was approved to be the new Central Bank

President. Gronkiewicz-Waltz was renominated by President Walesa after being rejected by the Parliament in December.

In Czechoslovakia, over 8 million citizens (about half the population) have purchased coupons that will give them the right to purchase shares in medium- and large-size privatized firms. Many investors are choosing to invest through one or more of the 437 private investment funds that have been created.

Economic Situation in Other Countries

Brazil has reached a debt rescheduling agreement with its Paris Club creditors and may be able to agree with commercial bank creditors on the terms of a debt and debt-service reduction package within the next several weeks. Brazilian real GDP rose 1.2 percent in 1991, after falling 4 percent in the previous year. In Mexico, real GDP grew 3.6 percent last year. The interest rate on 28-day Mexican T-bills has fallen by about 4 percentage points since early February, reflecting continued capital inflows. In the wake of an attempted coup on February 4, Venezuela is experiencing an ongoing political crisis that could weaken the country's economic reform program. Argentina has reached agreement with the IMF on the terms of an SDR 2.1 billion Extended Fund Facility and is continuing negotiations on a restructuring of its commercial bank debt. On March 4, the Philippines received IMF Executive Board approval of a revised stand-by arrangement, opening the way for the implementation of an August 1991 financing agreement with commercial banks. The current account deficit of Korea quadrupled to a record $8.8 billion last year. In Taiwan, the current account surplus increased to $12 billion in 1991 from $10.8 billion in 1990, and total reserves less gold reached $84 billion in January 1992.

Individual country notes. In late February, Brazil reached a debt rescheduling agreement with its Paris Club creditors. The agreement covers an estimated $9 billion in principal and interest arrears and about $15 billion in principal and interest coming due after the end of 1991, and specifies that Brazil will make cash payments of $4.1 billion towards arrears by September 1992.

Brazil and its commercial bank creditors may be able to reach an agreement on a package of debt and debt-service reduction within the next several weeks. Brazil has indicated that it could increase interest payments above the present level of 30 percent of interest due after an agreement is reached. In late February, Brazil's Bank Advisory Committee presented a detailed proposal for a "phased-in" approach to enhancements, under which banks would swap existing debt for par and discount bonds with partial collateral on the condition that Brazil would fund rolling interest support within a specified period. The details of how a phase-in would be implemented are now under discussion.

Real GDP rose 1.2 percent in 1991, after falling 4 percent in 1990. For the Sao Paulo region, which accounts for over one-third of GDP, industrial sales in February were reportedly up slightly from the seasonally low sales month of January. However, several auto companies have suspended production or are operating well below capacity in response to depressed sales. The consumer price index compiled by the University of Sao Paulo rose 21.6 percent in February compared with 25.8 percent in January.

Brazil's trade surplus for January-February 1992 was $1.9 billion, compared with $2.4 billion for the same period in 1991. Capital inflows continue, spurred by high domestic interest rates. According to unofficial estimates, international reserves stood at $12.5 billion in mid-March, up from $8.9 billion at the end of 1991.

Mexico's real GDP is estimated to have increased 3.6 percent in 1991. This growth rate is lower than the government's initial estimate of 4.5 percent, in part because of an upward revision of 1990 growth from 3.9 to 4.4 percent. Total investment grew by 8.5 percent in real terms, led by a 16 percent rise in investment in machinery and equipment. Consumer prices rose by 1.2 percent in February, down from 1.8 percent in January.

The 1991 merchandise trade deficit widened to $7.1 billion from $0.5 billion in 1990. The value of imports rose 23 percent, while export earnings climbed 13 percent for non-oil products but fell 19 percent for crude oil and petroleum derivatives.

Large capital inflows have helped to keep the peso/dollar exchange rate near the lower limit of its band despite the trade deficit. The exchange rate band has been widening since the system was adopted last November, as the upper limit (in pesos per dollar) rose daily by 20 centavos while the lower limit remained frozen. The lower limit was to begin rising by 20 centavos per day on March 15, when the spread between the two limits reached 60 pesos, or about 2 percent. On March 14, however, the Bank of Mexico decided to keep the lower limit frozen at 3,051 pesos and allow the band to continue to widen. On March 24, when the upper limit was 3,113 pesos, the peso/dollar rate was 3,072 pesos.

Capital inflows have also placed downward pressure on interest rates. At the March 17 auction, 28-day Mexican Treasury bills yielded 11.6 percent, 3.9 percentage points less than on February 4.

In February, PEMEX, the government oil company, established two voluntary credit facilities with groups of foreign banks, the first such arrangements in ten years. They were a letter of credit from five European banks, backing a $230 million commercial paper program, and a $100 million trade finance facility with 13 banks led by Chase Manhattan Bank.

On March 16, the financial group that acquired Mexico's second largest bank when it was privatized last November issued $555 million of stock in international equity markets, of which $352 million was placed in New York. This is the first international equity placement by a Mexican financial institution.

In the wake of an attempted coup on February 4, Venezuela is experiencing an ongoing political crisis that could result in a substantial weakening of the country's economic reform program. President Carlos Andres Perez has to date rejected widespread calls that he resign and allow presidential and legislative elections, scheduled for December 1993, to be held this year. However, in consultation with opposition politicians, Perez is considering constitutional changes to respond to popular dissatisfaction with his government and head off the possibility of a second coup attempt. Although he has reiterated his commitment to economic liberalization, Perez has frozen domestic gasoline and electricity prices, which were being increased on a monthly basis.

Political uncertainty has led to incipient capital outflows and pressure on the bolivar. The Central Bank of Venezuela succeeded in stabilizing the currency (at about 65 Bs/$, compared with an end-January rate of 62 Bs/$) by increasing domestic interest rates. Between end-January and mid-March, the yield on 91-day central bank bills rose from 33 percent to 38 percent and the Caracas stock market index declined by over 14 percent. The consumer price index increased 2.7 percent in February and has risen 31 percent over the last 12 months.

In early March, Argentina and the IMF agreed on a letter of intent for a three-year, SDR 2.1 billion Extended Fund Facility (EFF) to replace the one-year stand-by arrangement approved in July 1991. The EFF, which is expected to be approved at the end of

March, calls for an increase in Argentina's non-interest fiscal surplus, excluding revenues from privatization, from 0.7 percent of GDP in 1991 to 2 percent of GDP during the 1992-94 period. The EFF includes a 25 percent set-aside to support a possible debt-reduction arrangement now under negotiation by Argentina and its commercial bank external creditors.

Consumer price inflation rose from 0.6 percent in December 1991 to 3 percent in January and 2.2 percent in February. The increase largely reflects price hikes in food and housing services. By contrast, wholesale prices rose only 0.7 percent over the first two months of 1992, reflecting the role of the fixed exchange rate in stabilizing the prices of tradable goods.

On March 4, the Philippines received IMF Executive Board approval of a revised program that involves a four-month extension of its stand-by arrangement and authorizes an additional drawing. The revised program was approved after the government took new steps to meet the arrangement's performance criteria. Drawings had been suspended since last summer after the performance criteria were missed. Reinstatement of the IMF program opened the way for the implementation of an August 1991 agreement with commercial banks. The agreement was amended in February and now provides for a cash buyback and swap options involving (a) conversion bonds to be issued at a 75 percent discount to banks agreeing to subscribe to new-money bonds, (b) 15-year unguaranteed bonds carrying a temporary interest rate reduction, or (c) 25-year collateralized bonds with a permanent interest rate reduction.

Korea's current account deficit quadrupled to a record $8.8 billion in 1991. Only a prohibition on public construction in the fourth quarter, reduced access to foreign currency loans, and delays of import clearance by the Korean government reportedly kept the deficit from exceeding $10 billion. External debt rose to over $39 billion in 1991 from $31.7 billion in 1990. In January 1992, the current account deficit was unchanged from a year earlier at $1.4 billion.

In <u>Taiwan</u>, an increase in export growth contributed to a 7.3 percent rise in real GNP last year. Taiwan's current account surplus rose from $10.8 billion in 1990 to $12 billion in 1991, despite a 5 percent appreciation of the New Taiwan dollar. Taiwan's cumulative trade surplus expanded somewhat in the first two months of 1992 to $1.3 billion from $1 billion in the same period a year earlier. Taiwan's central bank has been attempting to slow the rate of NT dollar appreciation through foreign exchange intervention and by reducing the inflow of funds into the securities market. Total reserves less gold increased by $10 billion in 1991 to $82.4 billion and further to $84 billion in January 1992. Over the last few months, the central bank has slowed the rate of foreign investment approvals. After a further appreciation of the NT dollar in January, the central bank temporarily halted foreign investment inflows in February. Subsequently, the NT dollar has depreciated by nearly 2 percent.