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Confidential (FR) Class III FOMC

September 30, 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

Recent indicators have been mixed but, on balance, suggest that economic growth has not broken out of the sub-par range that has prevailed since the beginning of the recovery. Although domestic final sales apparently picked up around midyear, employment and industrial production have been weak. Hurricane Andrew has been a net negative for production and incomes to date, but the rebuilding that is under way should be a slight positive for the next few quarters. Meanwhile, the news on prices has continued to be very favorable.

Labor Market Developments

The August labor market report contained a confusing set of signals. Nonfarm payroll employment fell 83,000 in August, and the decline would have been considerably larger if not for a federally funded employment program that added almost 100,000 public and private sector jobs.[1] However, the average workweek in the private sector shot up 0.4 hour in August, and aggregate hours worked rose 0.8 percent. The unemployment rate declined 0.1 percentage point to 7.6 percent.

Private payrolls fell 167,000 in August with most of the loss occurring in manufacturing and retail trade. The loss of almost 100,000 jobs in manufacturing was widespread and was split about evenly between producers of durable and nondurable goods. Defense-related industries--defined as those that are dependent on defense expenditures for at least 50 percent of their output--lost another 10,000 jobs; the cumulative drop since mid-1990 has been more than 200,000. In retail trade, an employment decline of 71,000 in August

1. The BLS estimates that the summer jobs program in August added 90,000 jobs to government payrolls and 10,000 jobs to private payrolls. In July, the programs added 60,000 to government employment and 15,000 to private payrolls.

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

	1990	1991	1991 Q4	1992 Q1	1992 Q2	1992 June	1992 July	1992 Aug.
	----------- Average monthly changes ---------							
Nonfarm payroll employment[2]	-5	-79	-46	15	74	-73	177	-83
Private	-34	-91	-67	-4	64	-65	95	-167
Manufacturing	-47	-36	-28	-17	-14	-39	11	-97
Durable	-36	-33	-30	-16	-15	-27	-22	-45
Defense-related[3]	-4	-8	-8	-9	-12	-11	-16	-10
Nondurable	-11	-3	2	-1	1	-12	33	-52
Construction	-23	-26	-23	4	-1	-32	-16	-7
Retail trade	-8	-35	-36	-7	21	6	24	-71
Finance, insurance, real estate	-1	-3	2	2	-1	-9	-3	6
Services	44	30	36	28	70	21	100	22
Health services	31	29	29	16	20	9	33	18
Business services	0	3	13	11	39	14	9	16
Total government	29	12	21	19	10	-8	82	84
Private nonfarm production workers	-40	-76	-54	18	89	-28	53	-157
Manufacturing production workers	-39	-23	-15	1	-9	-32	25	-86
Total employment[4]	-32	-62	-120	207	75	-82	198	-35
Nonagricultural	-39	-54	-87	203	56	-156	246	-49
Memo:								
Aggregate hours of private production workers (percent change)	.0	-.1	.0	.1	.0	-.7	.0	
Average workweek (hours)	34.5	34.3	34.4	34.5	34.4	34.3	34.3	34

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Industries which are dependent on defense expenditures for at least 50 percent of their output.
4. Survey of households.

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

	1990	1991	1991 Q4	1992 Q1	1992 Q2	1992 June	1992 July	1992 Aug.
Civilian unemployment rate (16 years and older)	5.5	6.7	6.9	7.2	7.5	7.8	7.7	7.6
Teenagers	15.5	18.7	19.0	19.6	21.0	23.6	21.0	19.8
20-24 years old	8.8	10.8	11.4	11.1	11.3	11.1	11.7	11.5
Men, 25 years and older	4.4	5.7	5.8	6.3	6.5	6.8	6.5	6.7
Women, 25 years and older	4.3	5.1	5.3	5.6	5.8	5.9	5.9	5.9
Labor force participation rate	66.4	66.0	65.9	66.2	66.5	66.6	66.6	66.4

more than reversed the gains recorded earlier in the summer. The job gain posted in services was considerably smaller than earlier in the year.

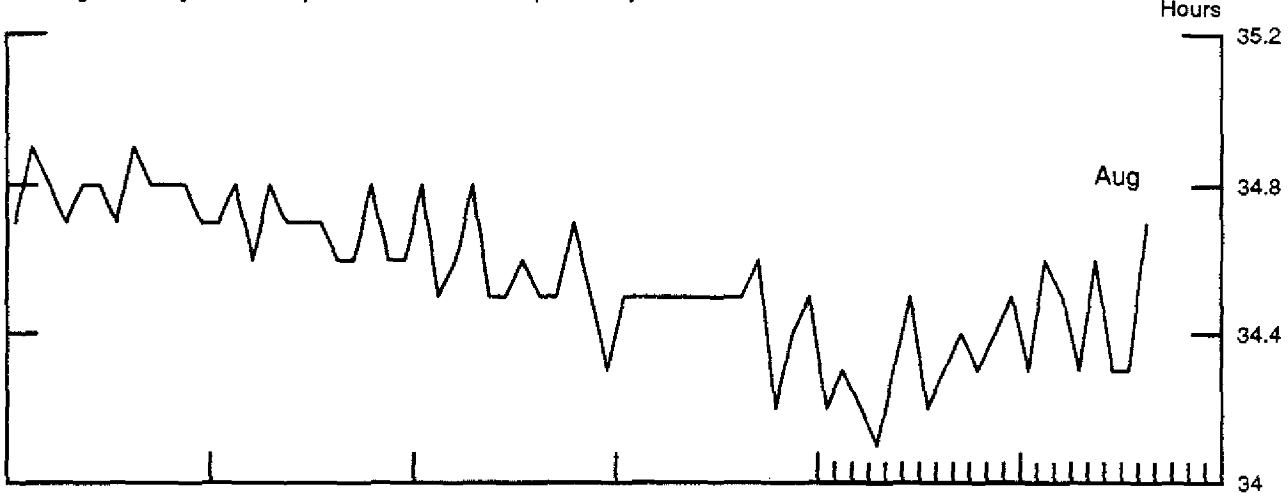
The jump in average weekly hours in August should be viewed with skepticism. The workweek is a volatile series, and large monthly movements often are revised or partially reversed in the following month. Further, the August increase occurred almost entirely in the service-producing sector, where movements are especially erratic, particularly in those industries that commonly use part-time workers. In manufacturing, where the average weekly hours tend to be more stable, the workweek was unchanged.

The tick down in the unemployment rate in August is attributable almost entirely to teenagers, likely reflecting hiring in the summer jobs program. Unemployment among adults was little changed. The weakness in labor markets apparently has slowed the flow of jobseekers, and the labor force has declined about 100,000 over the past two months. By contrast, the labor force had risen around 300,000 per month from December through June, exerting strong upward pressure on the unemployment rate. At 66.4 percent, the participation rate in August stood 0.2 percentage point below its June peak, but remained well above the levels of late 1991.

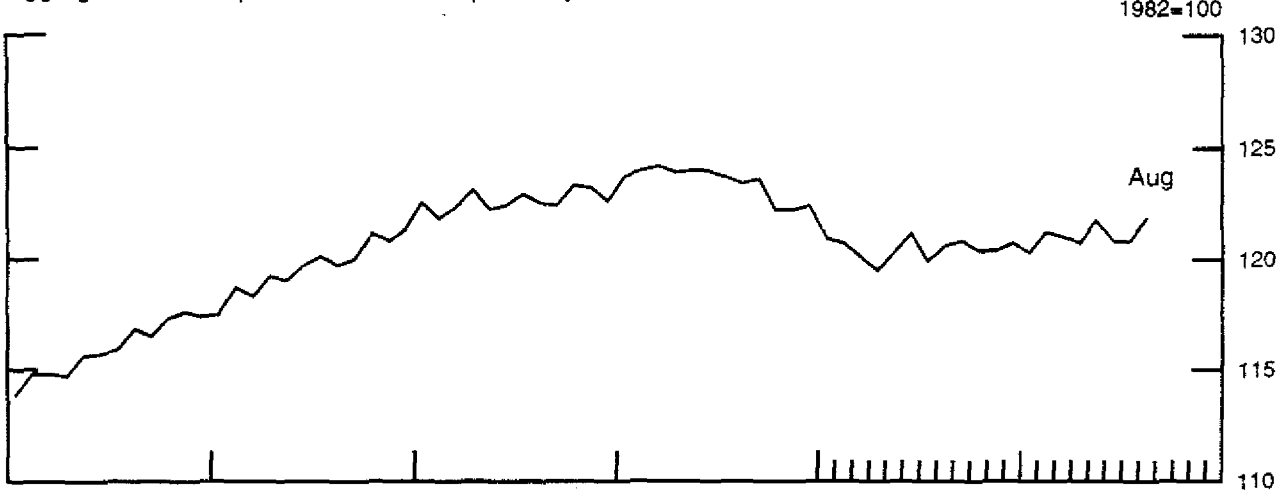
Since the August labor market survey, fielded during the week ended August 15, initial claims for unemployment insurance under regular state programs have averaged close to 400,000 per week. However, these numbers understate the true level of new claims. Under revisions made in July to the Emergency Unemployment Compensation (EUC) program, some eligible workers are able--and find it more attractive--to file for EUC benefits rather than regular state benefits. As shown in the table below, when those EUC

LABOR MARKET INDICATORS

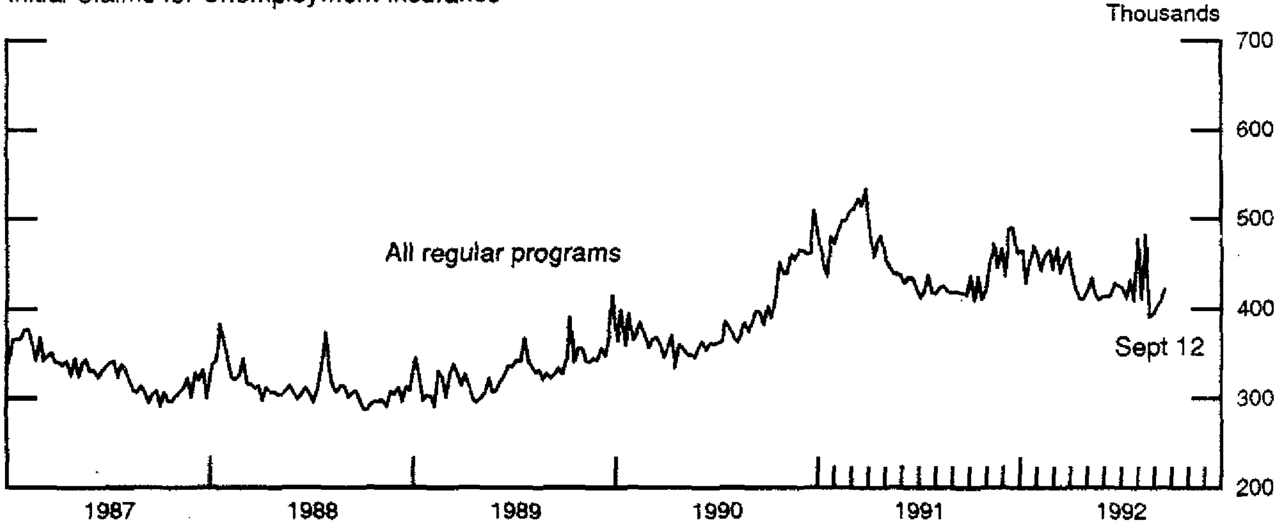
Average weekly hours of production or nonsupervisory workers



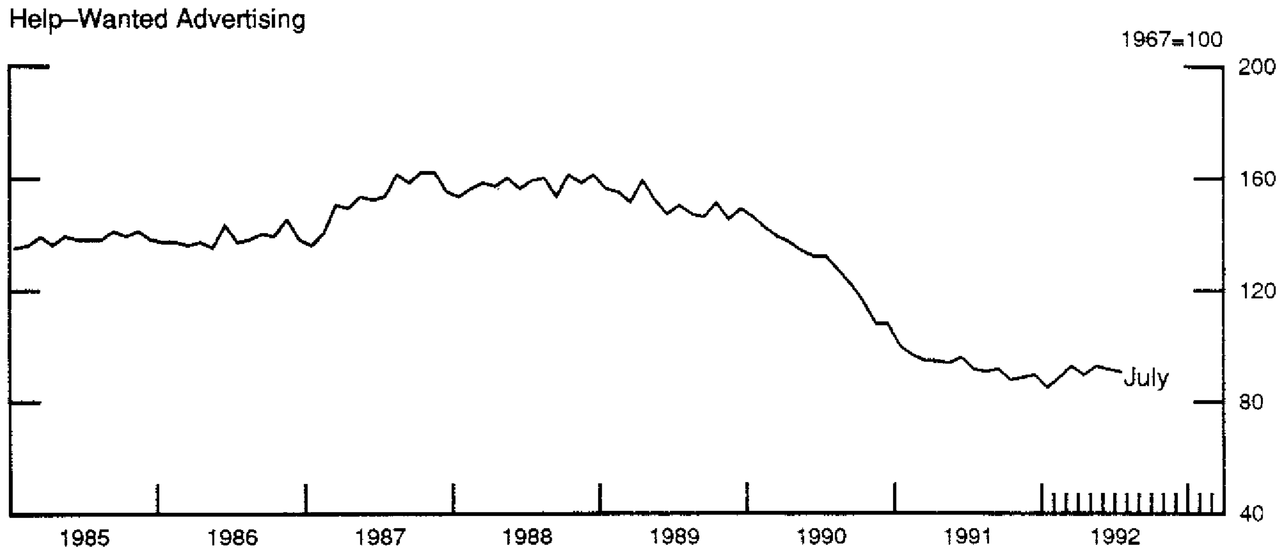
Aggregate hours of production or nonsupervisory workers

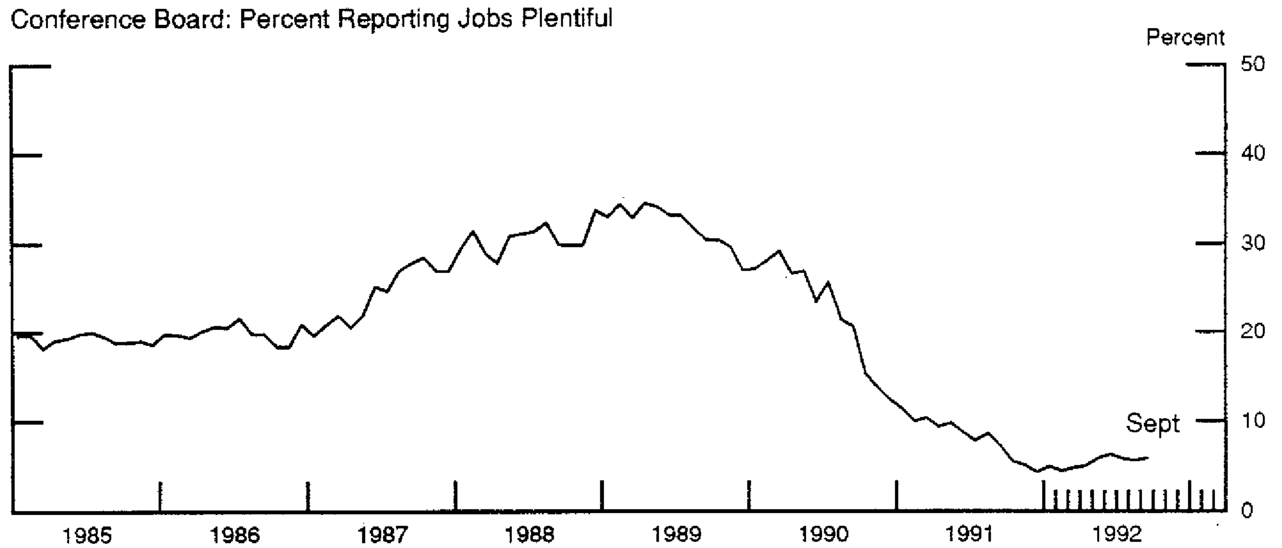


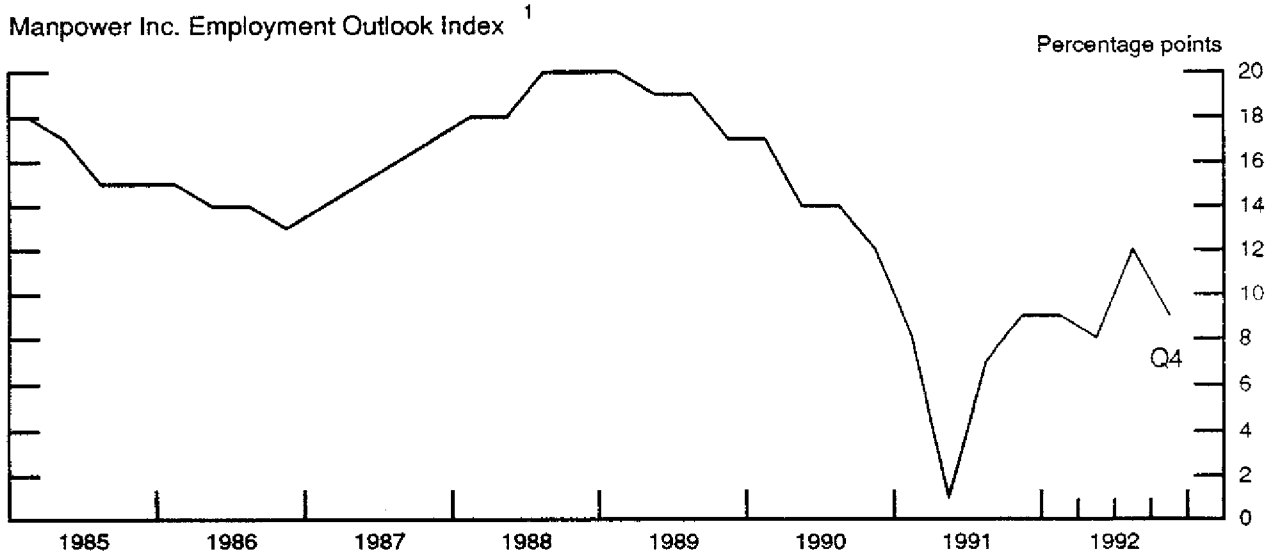
Initial Claims for Unemployment Insurance



ALTERNATIVE LABOR MARKET INDICATORS

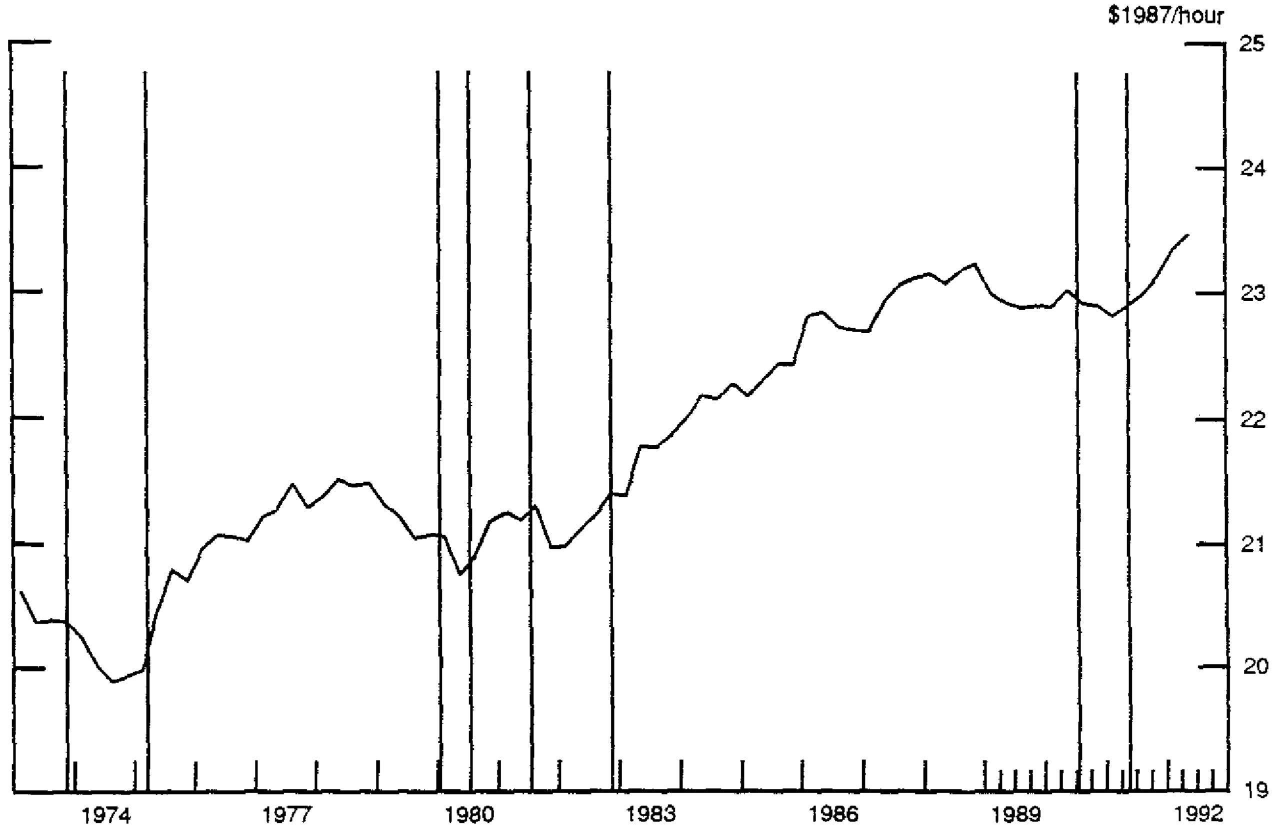






1. Percent of respondents planning to increase employment minus the percent planning to decrease employment; seasonally adjusted.

OUTPUT PER HOUR
(Nonfarm Business Sector)



PRODUCTIVITY IN THE NONFARM BUSINESS SECTOR
(Percent change, annual rate)

				1991			1992	
	1989	1990	1991	Q2	Q3	Q4	Q1	Q2
Output	.1	-.9	-.6	.9	1.5	1.6	2.3	2.0
Hours	1.6	-.9	-1.6	-.4	-.1	-.9	-1.5	.0
Output per hour	-1.4	.0	1.0	1.3	1.7	2.5	3.8	2.0

claimants are considered, total claims have moved up since the August survey week.

INITIAL CLAIMS WITH EUC ADJUSTMENT
(In thousands; seasonally adjusted by BLS)

	1992					
	Aug. 8	Aug. 15	Aug. 22	Aug. 29	Sep. 5	Sep. 12
Initial claims						
All regular programs	482	391	394	402	408	422
EUC	9	12	16	24	23	30
Adjusted claims	491	403	409	427	431	452

Other labor market indicators also point to continued softness (chart). The Conference Board's index of help-wanted advertising, as of July, remained near a cyclical low. The same is true for the perceived employment prospects as measured by the Conference Board's consumer confidence survey: The fraction of respondents believing that jobs are plentiful has shown little improvement in recent months, and an unusually high proportion of respondents continue to report that jobs are hard to find. Another indication of sluggishness comes from the Manpower Inc. Employment Outlook Survey, which asks approximately 15,000 large public and private employers about their hiring plans during the next quarter. On a seasonally adjusted basis, only 9 percent more respondents in this survey intend to increase employment than to decrease employment in the fourth quarter; this result represents a reduction from the third-quarter intentions.

Productivity in the nonfarm business sector rose at a 2.0 percent annual rate in the second quarter, the result of a rise in output and no change in hours. Productivity has displayed a fairly normal cyclical pattern during the past couple of years. From its pre-recession peak in 1988:Q4 to its trough in 1991:Q1, productivity declined 1.7 percent. That loss was recovered over the

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

	Proportion in total IP 1991:Q4	1991[1]	1992 Q1	1992 Q2	1992 June	1992 July	1992 Aug.
			-Annual Rate--		-----Monthly Rate-----		
Total index	100.0	-.5	-2.9	5.3	-.4	.6	-.5
Previous		-.5	-2.9	5.2	-.4	.4	
Motor vehicles and parts	4.2	8.5	-20.0	44.2	-2.4	-3.0	1.2
EXCLUDING MOTOR VEHICLES AND PARTS:							
Total index	95.8	-.9	-2.1	3.8	-.3	.8	-.5
Products, total	57.1	-1.3	-1.4	2.2	-.4	.5	-.3
Final products	42.9	-.9	-2.1	2.8	-.5	.6	-.2
Consumer goods	25.0	2.0	-1.2	2.8	-.7	.6	-.5
Durables	3.7	3.2	3.1	9.1	-1.1	-.2	.7
Nondurables	20.9	1.8	-2.1	1.8	-.6	.7	-.7
Excluding energy	18.2	1.7	-.7	1.7	-.5	.4	-.5
Business equipment	14.6	-1.9	-1.7	7.8	.0	.6	.7
Office and computing	2.8	4.2	13.2	22.0	2.1	2.3	1.4
Industrial	3.9	-8.7	-12.1	6.3	-.5	.8	-.2
Other	7.9	-.2	-1.3	3.5	-.5	-.2	.8
Defense and space equip.	4.4	-8.0	-10.9	-9.1	-.8	-.7	-.5
Intermediate products	14.2	-2.3	.8	.3	-.1	.2	-.4
Construction supplies	5.3	-6.4	2.7	4.5	-.7	.7	-.2
Materials	38.7	-.2	-3.2	6.3	-.1	1.1	-.9
Durables	18.2	-1.8	-1.7	6.5	-.2	1.1	-.5
Nondurables	9.0	2.3	-1.4	8.3	.8	.3	-1.5
Energy	10.2	.0	-6.0	2.5	-.9	2.2	-1.5
Memo:							
Manufacturing excluding motor vehicles and parts	80.8	-.8	-1.1	3.9	-.1	.5	-.4
Mining	7.3	-3.3	-7.1	4.3	-1.7	2.5	-1.3
Utilities	7.7	1.0	-8.5	2.0	-.2	2.2	-1.2

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

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1967-91 Avg.	1991 Aug.	1992 Q1	1992 Q2	1992 June	1992 July	1992 Aug.
Total industry	82.1	79.8	78.2	78.8	78.7	79.0	78.5
Manufacturing	81.4	78.6	77.3	77.9	77.8	77.9	77.5
Primary processing	82.3	81.2	80.5	81.3	81.4	82.3	81.2
Advanced processing	81.0	77.5	76.0	76.5	76.3	76.2	76.1

subsequent four quarters, as productivity grew 2.3 percent, well above its trend rate.

Few new wage data have been published since the last Greenbook. Average hourly earnings for production or nonsupervisory workers, which are volatile on a monthly basis, jumped 0.7 percent in August. Increases were widespread across industries but especially large in the finance, insurance, and real estate industry. Despite the surge last month, the trend in wages remains disinflationary: Over the twelve months ended in August, average hourly earnings were up 2.6 percent, 1/2 percentage point below the previous twelve-month period.

AVERAGE HOURLY EARNINGS
(Percent change; based on seasonally adjusted data)

	12 months ending in August			1992		
	1990	1991	1992	June	July	Aug.
				--Monthly rate--		
Total private nonfarm	3.9	3.2	2.6	.2	.0	.7
Manufacturing	3.4	3.3	2.5	.0	.1	.6
Services	4.8	4.0	3.2	.4	.0	.8
Finance, insurance, real estate	4.9	4.3	4.8	.0	.0	2.0

Recent collective bargaining data from the Bureau of National Affairs also point to a continued deceleration of wages. First-year wage adjustments under agreements covering 50 or more workers have averaged 3.4 percent so far this year, down from the 3.9 percent average change in 1991.

Industrial Production

Industrial production declined 0.5 percent in August, erasing most of the July gain and returning IP to a level close to its average for the second quarter. Weakness in the output of materials was responsible for much of the August reversal. Hurricane Andrew and the strike at GM's Lordstown parts plant together accounted for about one-third of the decline in total IP.

Regarding the special factors in August, the hurricane disrupted oil and gas extraction in the Gulf of Mexico and caused the temporary closing of petroleum refineries and petrochemical plants in Louisiana and Texas. We estimate that it reduced industrial production by a little more than 0.1 percent in August. The strike at Lordstown forced the temporary shutdown of several assembly plants in late August and early September. Despite the strike, overall output of motor vehicles (value weighted) posted a 1 percent gain in August because higher truck production more than offset the drop in auto output.

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

	1992						
	Q1	Q2	July	Aug.	Sep.[e]	Oct.	Q4
	-actual-					-scheduled-	
Domestic production	8.8	10.0	9.5	9.4	9.3	10.0	10.0
Autos	5.2	6.1	5.7	5.4	5.5	5.6	5.5
Trucks	3.6	3.9	3.7	4.1	3.8	4.4	4.5

e Estimated.

On balance, automobile and truck assemblies were a bit under 9-1/2 million units at an annual rate in August and much of September, compared with plans as of mid-August to produce at a rate of around 10 million units. Part of the shortfall was a result of the Lordstown strike, but lagging orders from dealers led to underbuilds at other GM plants and prompted the company to reevaluate demand. Not only has GM reduced planned sales to car rental companies by 200,000 for the 1993 model year, but it also announced a 0.2 million unit (annual rate) cut in scheduled assemblies for the fourth quarter. Ford and Chrysler have followed GM in lowering planned output for the fourth quarter.

The available evidence suggests that industrial activity remained weak in September. The disruptions in the oil and gas extraction industry caused by Hurricane Andrew continued into September and should reduce overall output by about 0.1 percent. Output of motor vehicles in September edged down.[2] In addition, available weekly output data in other manufacturing industries were down, on balance, from August. Moreover, orders for nondefense capital goods other than computers and aircraft, despite a bulge in June, have remained lackluster, on balance, since early in the year. Also, the downward trend in output of defense and space equipment is expected to continue. At this point, the only industries for which we have positive signals for September are computers, heavy trucks, and electricity generation.

Personal Income and Consumption

Real disposable personal income fell 0.6 percent in August after registering little change in July. The sharp decline in income reflected the effects of Hurricane Andrew. Excluding this influence, income grew 0.8 percent in August, with most of the gain coming from wages and salaries.

BEA made three major adjustments to personal income in August to account for losses inflicted by the storm. First, rental income was reduced about \$46 billion and proprietors' income by about \$7 billion at an annual rate to account for uninsured losses to housing and other property.[3] Second, wages and salaries were

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2. The strike at another GM parts facility (in Lansing), which began last Friday, lasted less than a week; production at the affected assembly plants should return to normal later this week.

3. In the NIPA, rental income reflects rents received by households (including implicit rents on owner-occupied housing) net of depreciation and accidental damage as measured by the capital consumption allowance. Because the properties destroyed by (Footnote continues on next page)

lowered about $5 billion to account for work interruptions. Third, farm income was reduced about $2 billion to account for crop damage. The saving rate fell from 4.6 percent in July to 4.0 percent in August; however, excluding all of the hurricane-related effects on income and saving that BEA has identified, the saving rate in August was close to 5 percent.

Real personal consumption expenditures rose 0.1 percent in August.[4] Because of the larger gains in June and July, the average level of real PCE in July and August was up 4.1 percent at an annual rate from the second-quarter. The sluggish pace of consumer spending in August reflected relatively widespread weakness in expenditures for goods. Outlays for motor vehicles were little changed last month, with a drop in auto sales offset by higher outlays for light trucks. Expenditures on goods other than motor vehicles fell 0.4 percent, with declines in most major categories of

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(Footnote continued from previous page)

Hurricane Andrew were small relative to the total stock in the economy, the storm had a negligible effect on the estimated flow of rents received, and the decline in rental income thus mainly reflects increases in the capital consumption allowance. In the allowance, accidental damage is measured from estimates of the value of destroyed property--exclusive of furniture and other personal items which are not included in the capital stock--net of insurance claims paid to cover the damage. Thus, only uninsured losses to housing and other rental property translate into lower rental income. (Insurance disbursements largely are reflected in lower corporate profits.) Similar methods are used to measure the capital consumption allowance for farm and nonfarm proprietors' income; the major difference is that proprietors' income reflects uninsured losses to inventories as well as those to structures and equipment.

4. Unlike real PCE, nominal PCE declined last month. In the NIPA, nominal outlays for property insurance are calculated as the difference between premiums paid to insurance companies and benefits paid to individuals. In August, nominal outlays were lowered $15.2 billion (annual rate) to account for insurance payments to cover damage to personal property. In contrast, real outlays for property insurance are estimated using constant-dollar premiums without any subtraction for benefits paid and so were unaffected by the storm. Consequently, the ratio of nominal to real outlays--the implicit deflator for household and auto insurance--registered a 52 percent decline in August. Together, these items have a current weight of 0.7 percent in the PCE deflator.

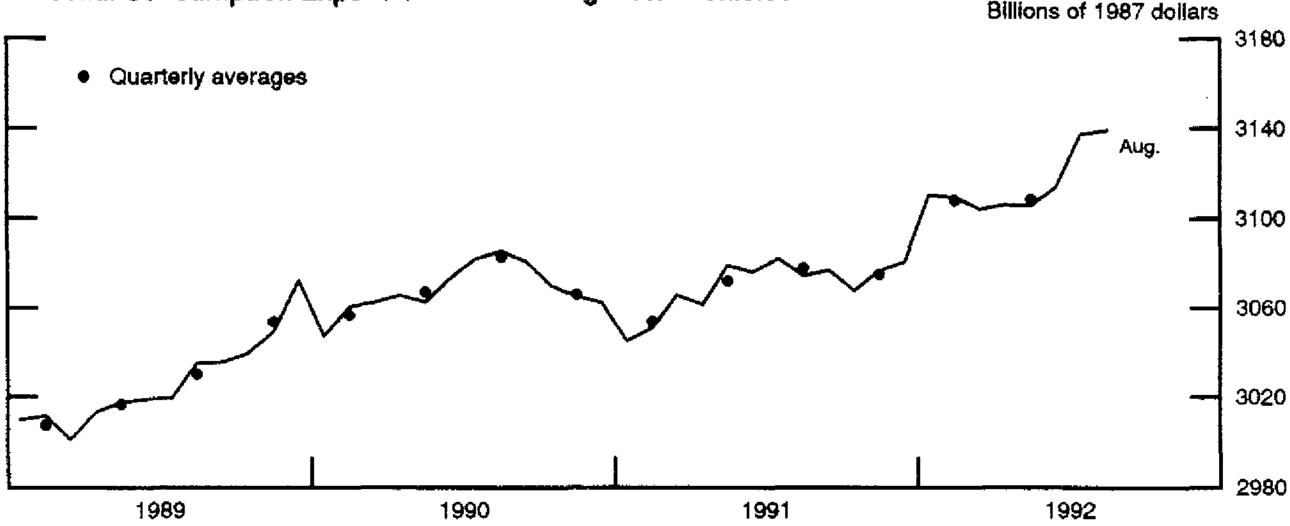
PERSONAL INCOME
(Average monthly change at an annual rate; billions of dollars)

	1991	1992 Q1	1992 Q2	1992 June	1992 July	1992 Aug.
Total personal income	12.8	21.6	9.6	5.8	12.1	-23.7
Wages and salaries	5.2	11.3	3.6	-1.9	4.7	19.4
Private	3.8	8.6	.9	-4.7	1.6	16.5
Other labor income	1.5	1.4	1.4	1.4	1.4	1.5
Proprietors' income	.1	7.1	-4.2	-2.0	-.7	-6.5
Farm	-.3	1.7	-5.9	-4.7	-1.7	-7.7
Rent	.6	-.1	3.7	4.7	2.2	-43.1
Dividend	-.8	.1	1.2	1.3	1.6	1.8
Interest	-.6	-8.6	-.8	-.8	-1.3	-1.1
Transfer payments	7.8	12.2	5.3	3.2	4.7	5.9
Less: Personal contributions for social insurance	1.1	1.9	.6	.1	.6	1.5
Less: Personal tax and nontax payments	-.1	-5.0	3.3	1.4	3.6	6.3
Equals: Disposable personal income	12.9	26.6	6.3	4.4	8.5	-29.9
Memo: Real disposable income	1.2	9.8	-1.9	-2.5	1.7	-20.0

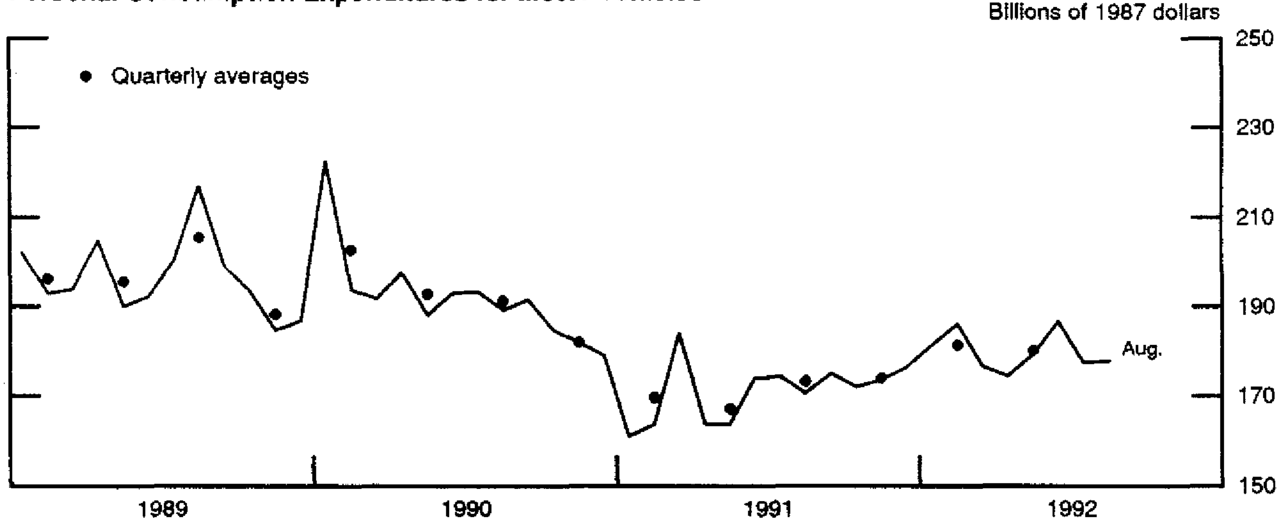
REAL PERSONAL CONSUMPTION EXPENDITURES
(Percent change from the preceding period)

	1991	1992 Q1	1992 Q2	1992 June	1992 July	1992 Aug.
		-Annual rate-		----Monthly rate----		
Personal consumption expenditures	.0	5.1	-.1	.5	.4	.1
Durable goods	-2.5	16.5	-2.1	2.6	-.4	-.6
Excluding motor vehicles	-1.0	15.2	-1.6	1.4	2.9	-1.1
Nondurable goods	-1.5	5.5	-1.5	-.5	.8	-.2
Excluding gasoline	-1.6	5.6	-1.7	-.3	.9	-.4
Services	1.6	2.2	1.2	.5	.4	.4
Excluding energy	1.5	3.0	.9	.5	.4	.4
Memo: Personal saving rate (percent)	4.7	4.9	5.3	4.9	4.6	4.0

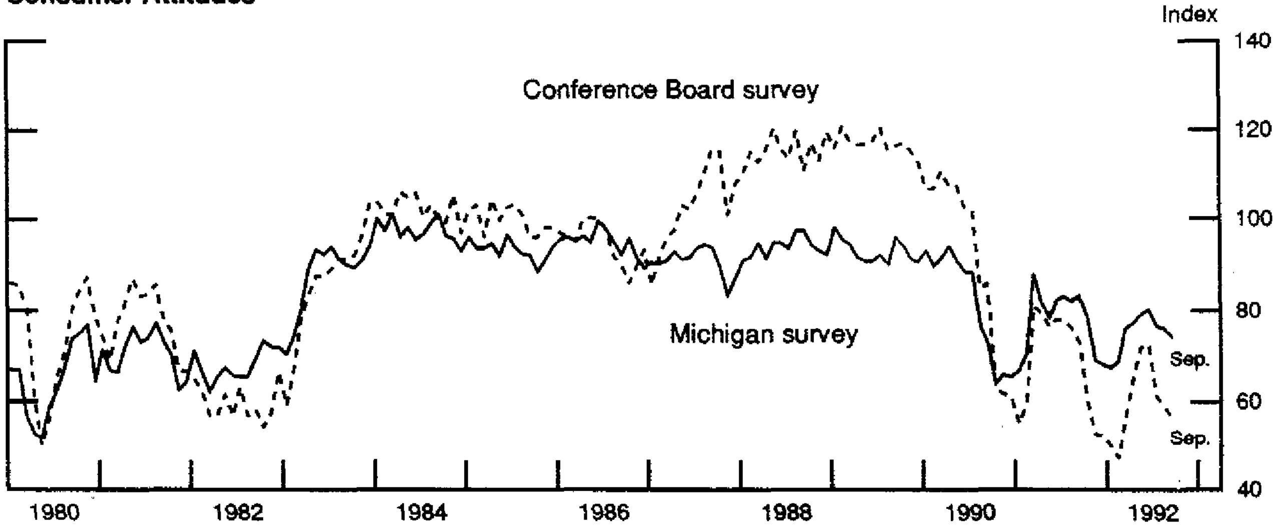
Personal Consumption Expenditures Excluding Motor Vehicles



Personal Consumption Expenditures for Motor Vehicles



Consumer Attitudes



spending. In contrast, outlays for services rose 0.4 percent in August; in particular, medical care services continued to rise, and airline travel registered another noticeable increase.

Unlike its effect on income, the hurricane's disruption to consumer spending in August likely was small relative to the economy as a whole: Retail sales for all of Dade County normally account for less than 1 percent of total retail sales. In addition, buying in preparation for the hurricane may have provided some offset to the lost sales at businesses shut down by the storm.

Only bits and pieces of spending data for September are available. Sales of light vehicles have edged up thus far to about 12-3/4 million units at an annual rate. However, the increase follows two months of sales that were 500,000 units below the 13 million unit selling pace of the second quarter, and, on balance, growth of demand for light vehicles seems to have stalled. The weakness has been especially pronounced in the foreign-produced segment of the market and likely reflects last spring's increase in the prices of Japanese imports.

Consumer sentiment deteriorated further in September. The preliminary reading of the University of Michigan's composite index of consumer sentiment fell nearly 2 index points in the first half of September. Respondents' more pessimistic assessments of future business conditions and of buying conditions for large household durables were only partially offset by more favorable perceptions of current personal financial situations. The Michigan index is now 6 points below its recent peak recorded in June. The Conference Board confidence index also declined in September, with a noticeable drop in the expectations and buying plans components.

SALES OF AUTOMOBILES AND LIGHT TRUCKS[1]
(Millions of units at a seasonally adjusted annual rate)

			1991	1992		1992		
	1990	1991	Q4	Q1	Q2	July	Aug.	Sept.[2]
Total	13.86	12.30	12.26	12.37	12.99	12.49	12.54	12.67
Autos	9.50	8.39	8.21	8.31	8.50	8.34	7.94	8.26
Light trucks	4.36	3.91	4.05	4.06	4.49	4.15	4.60	4.41
North American[3]	10.84	9.73	9.82	9.86	10.57	10.33	10.38	10.47
Autos	6.90	6.14	6.06	6.07	6.32	6.41	5.96	6.26
Big Three	5.82	4.99	5.00	5.02	5.17	5.10	4.61	5.02
Transplants	1.08	1.14	1.06	1.05	1.15	1.31	1.35	1.24
Light trucks	3.95	3.59	3.76	3.79	4.25	3.92	4.42	4.21
Foreign produced	3.01	2.57	2.45	2.50	2.43	2.16	2.16	2.20
Autos	2.60	2.25	2.15	2.24	2.18	1.93	1.98	2.00
Light trucks	.41	.32	.29	.27	.24	.23	.17	.20

1. Components may not add to totals because of rounding.
2. North American sales are actual data for the first 20 days; sales of foreign produced vehicles are staff estimates.
3. Excludes some vehicles produced in Canada and Mexico that are classified as imports by the industry.

Housing Markets

No indications exist as yet that the appreciably lower interest rates on home mortgages that emerged this summer are producing more than a mild pickup in housing construction. Starts rose 10 percent in August to 1.06 million units (annual rate), their highest level since March; single-family homebuilding accounted for most of the gain. Permit issuance declined, however, and the level of permit issuance in August suggests that the sample-based starts estimate may be overstating the actual pace of housing construction.

Data on new home sales continue to be difficult to read, because of the frequency of sizable revisions. Available figures for August indicate a considerable dropoff from an upward-revised July total. Given recent tendencies, one might anticipate an upward revision to the August level in due course, but unless such a revision was very large, it would leave sales no higher than in the first quarter; this would, judging by historical norms, be consistent with single-family starts of little more than 1 million units. The most recent report from home builders surveyed in early September also suggested no significant change in sales volume (chart, top panel).

In the resale home market, transactions declined in August, offsetting the gain of a month earlier. The continuing weakness in the trade-up market helps explain the discrepancy between sales volumes and consumer attitudes toward home buying, which have been this positive only once before in the last thirty-five years (middle panel). Low interest rates make this a good time to buy, according to most respondents to the Michigan survey, but flat prices apparently have made potential trade-up buyers reluctant to sell.

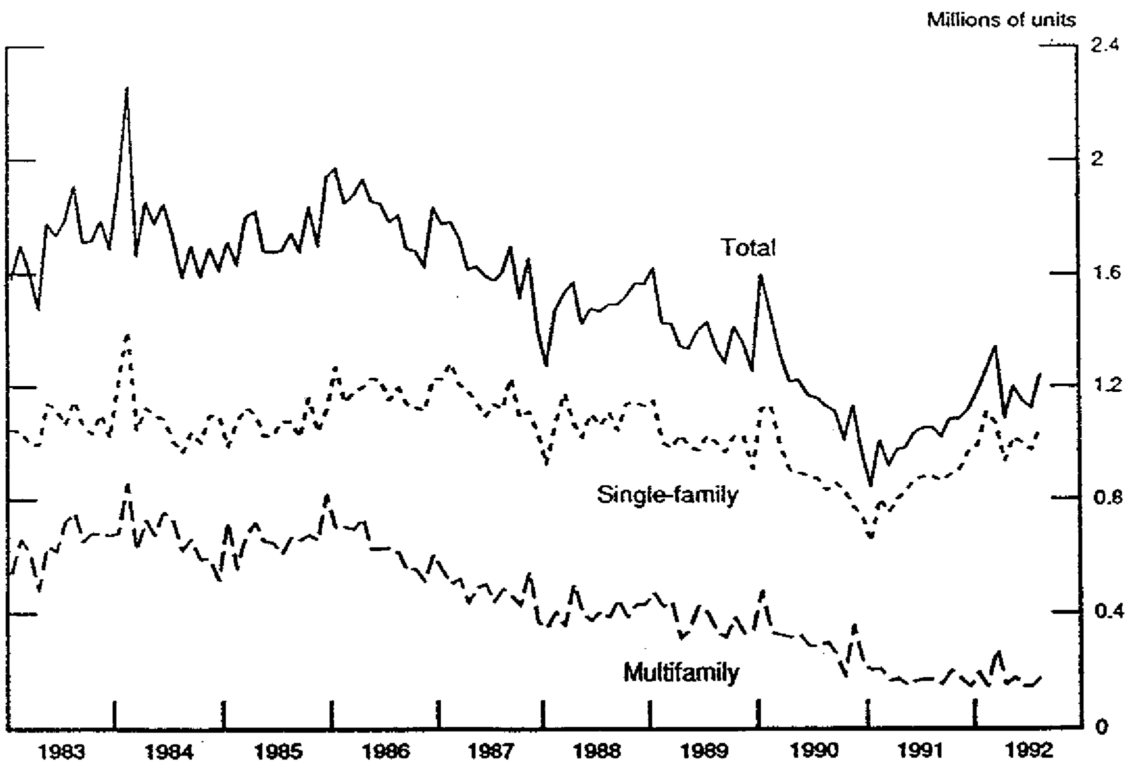
House prices, which had begun to firm, have softened again in recent months (chart). Year-to-year changes in both transactions

PRIVATE HOUSING ACTIVITY
(Millions of units; seasonally adjusted annual rates)

	1991	1991	1992		1992		
	Annual	Q4	Q1	Q2[r]	June[r]	July[r]	Aug[p]
All units							
Permits	.95	1.02	1.12	1.05	1.03	1.08	1.06
Starts	1.01	1.10	1.26	1.14	1.15	1.12	1.24
Single-family units							
Permits	.75	.82	.92	.88	.87	.88	.87
Starts	.84	.92	1.06	.98	1.00	.97	1.06
Sales							
New homes	.51	.56	.62	.56	.58	.61	.57
Existing homes	3.22	3.23	3.41	3.43	3.35	3.45	3.34
Multifamily units							
Permits	.20	.20	.19	.17	.16	.20	.19
Starts	.17	.17	.20	.16	.15	.15	.18

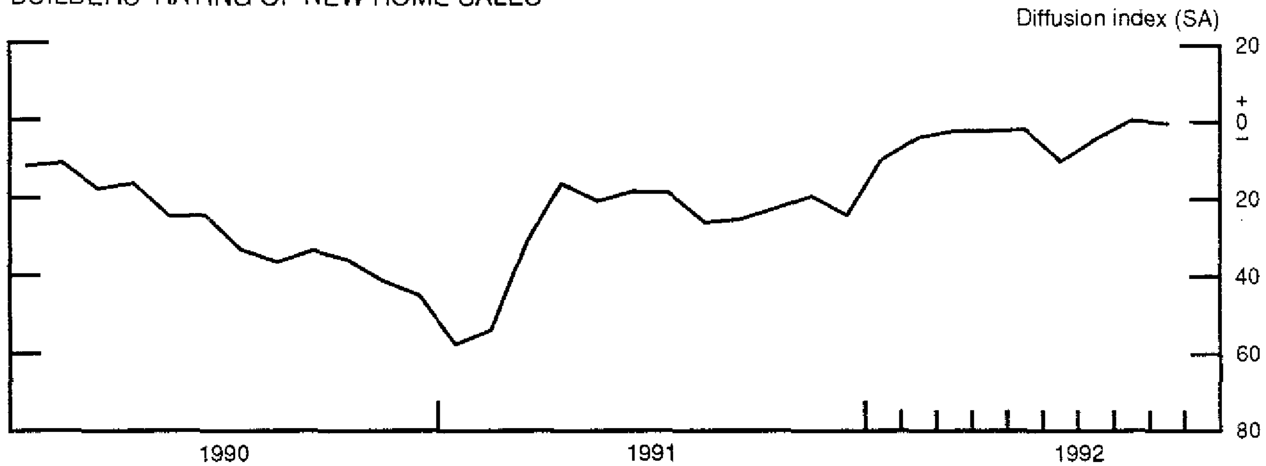
p Preliminary. r Revised estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



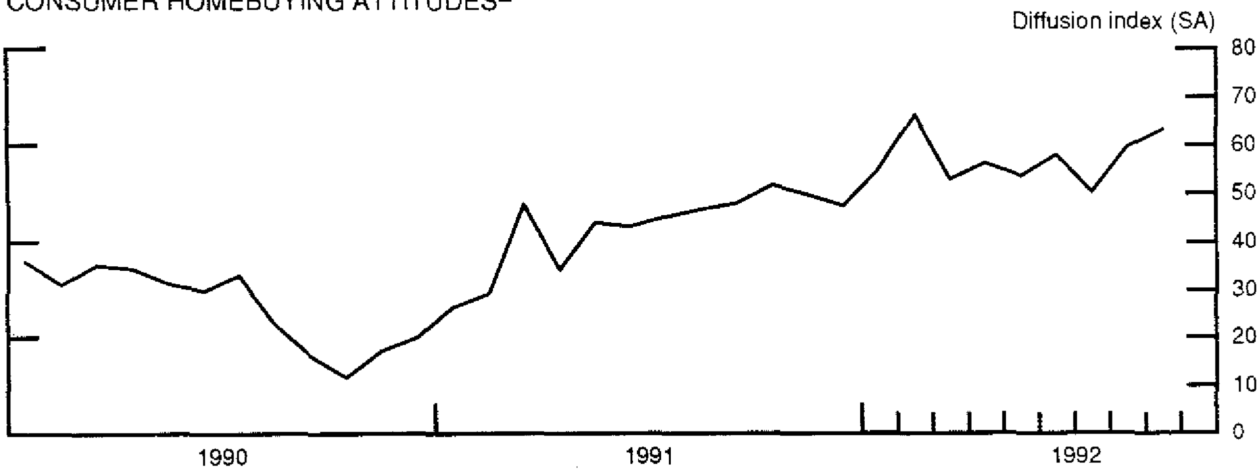
Survey Data on Housing Activity

BUILDERS' RATING OF NEW HOME SALES[1]



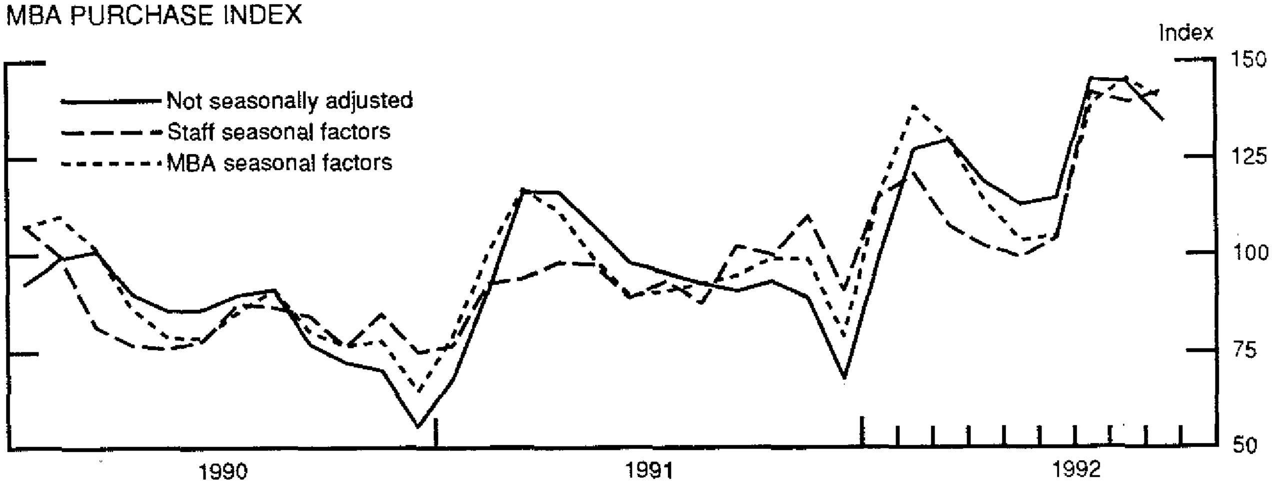
1 The index is calculated from National Association of Homebuilders data as the proportion of respondents rating current sales as good to excellent minus the proportion rating them as poor.

CONSUMER HOMEBUYING ATTITUDES[2]



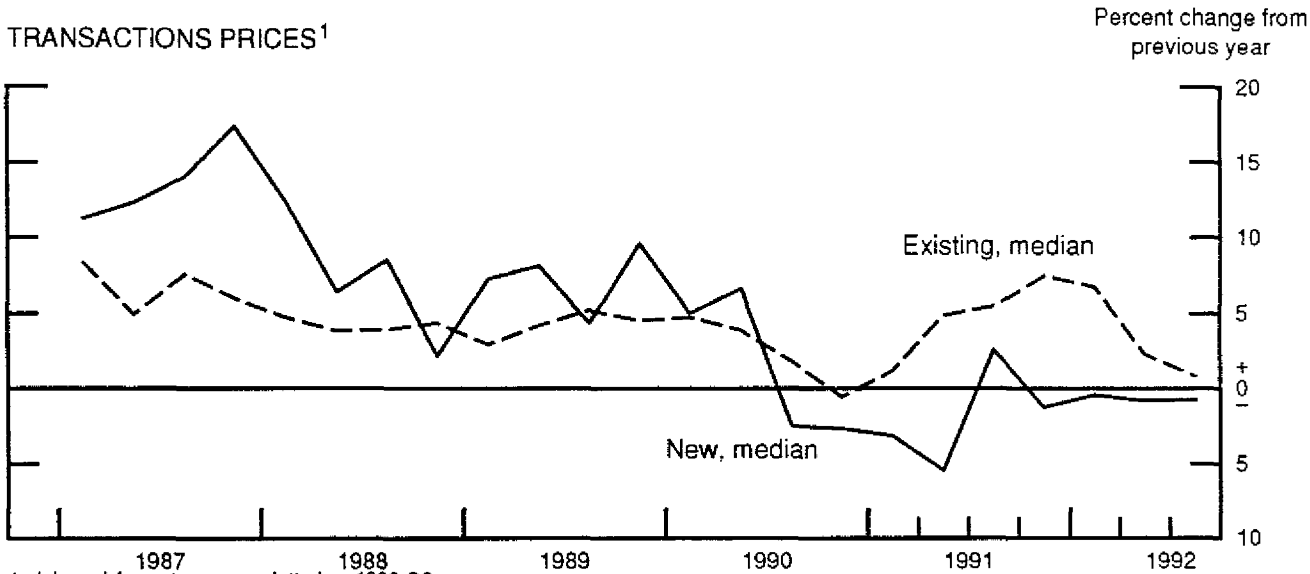
2 The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

MBA PURCHASE INDEX



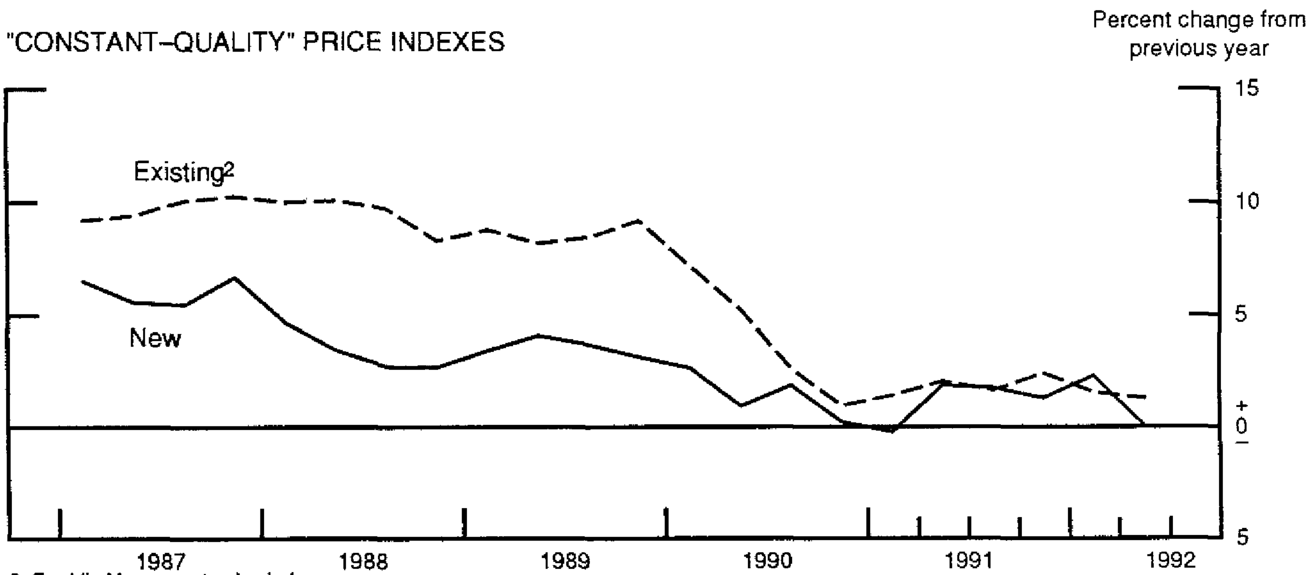
Nominal House Prices

TRANSACTIONS PRICES[1]



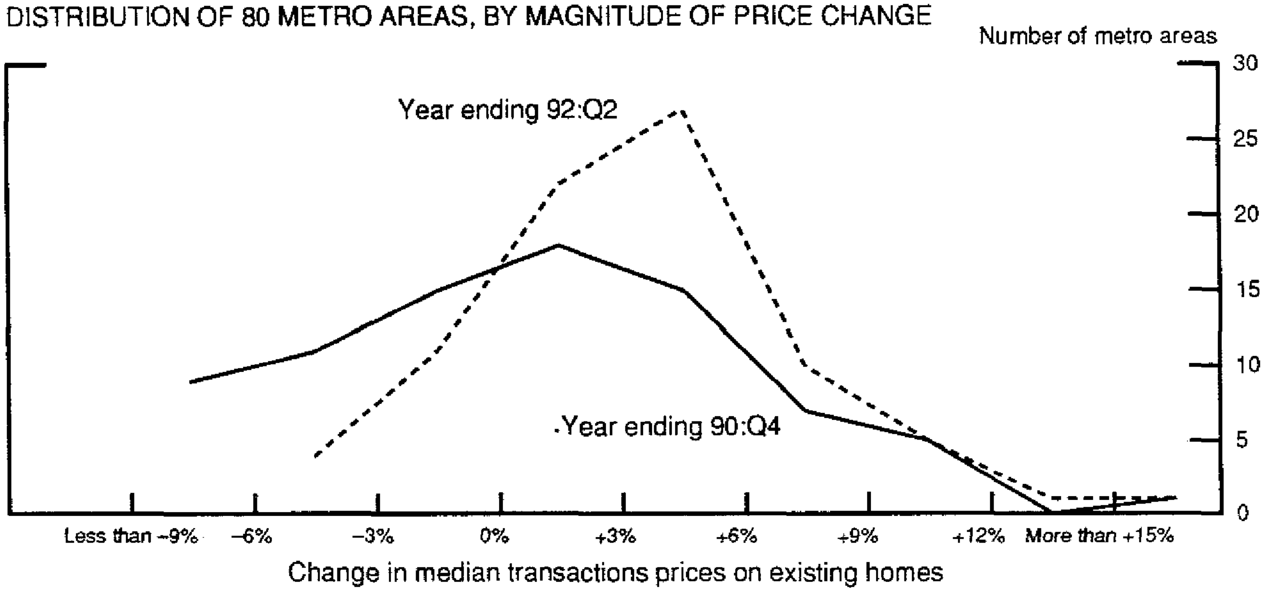
1. July and August average plotted as 1992:Q3.

"CONSTANT–QUALITY" PRICE INDEXES



2. Freddie Mac repeat sales index.

DISTRIBUTION OF 80 METRO AREAS, BY MAGNITUDE OF PRICE CHANGE



prices (top panel) and quality-adjusted price indexes (middle) have slowed; inflation-adjusted prices continue to decline, as they have by most national measures since mid-1990. While the number of metro areas posting large year-over-year declines in sales prices is down from 1990, nominal transactions prices continued to fall during the year ended in the second quarter in fourteen of the eighty local markets for which data are available. Soft prices are both cause and consequence of the recently weak demand for single-family housing. Because expectations of future price changes are sensitive to recent experience, flat prices resulting from weak demand further reduce consumers' drive to buy in advance of price hikes. This reduced urgency to buy, in turn, causes the expectation of weak prices to be self-fulfilling.

Other forces continue to restrain demand for single-family homes. In addition to their concerns about job security, consumers in many local markets are finding multifamily rental housing to be an attractive alternative to home purchase for the time being. Persistently high vacancy rates for rental housing have put downward pressure on rents.

Rebuilding after the hurricanes will boost residential construction expenditures, but the effect will be slight. Most estimates of the damage to residential structures are between $5 billion and $10 billion. Even if most of the destroyed and damaged units are eventually replaced, the process will take a couple of years, and the augmentation of economywide construction expenditures will be small in percentage terms.

Business Fixed Investment

Real outlays for producers' durable equipment, which rose nearly 25 percent at an annual rate in the second quarter, appear to be expanding at a much slower pace in the current quarter. For

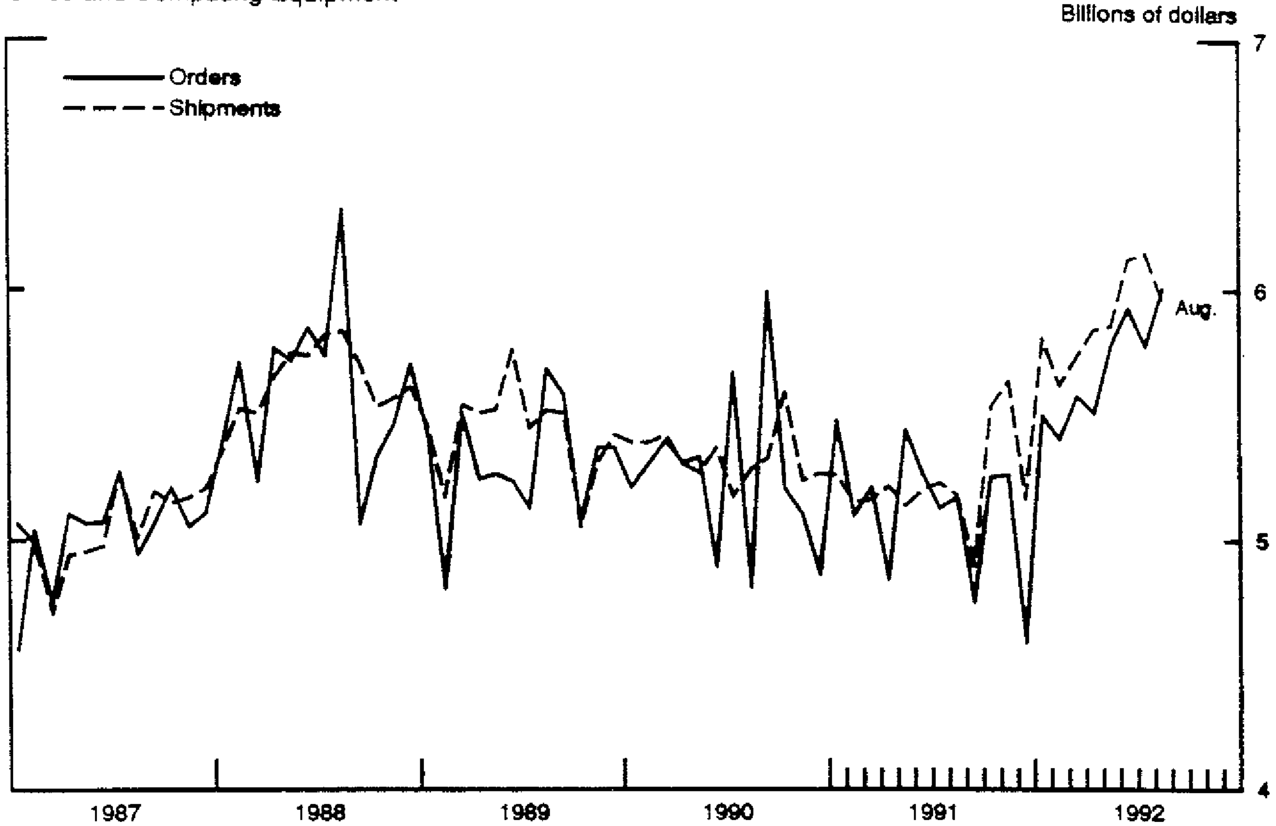
BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period;
based on seasonally adjusted data)

	1991	1992		1992		
	Q4	Q1	Q2	June	July	Aug.
Producers' durable equipment						
Shipments of nondefense capital goods	.9	.5	1.4	7.3	-3.1	-2.1
Excluding aircraft and parts	1.2	.2	2.6	4.9	.1	-2.4
Office and computing	6.8	5.0	3.8	4.5	.4	-3.2
All other categories	-.3	-1.2	2.3	5.0	.0	-2.1
Shipments of complete aircraft[1]	-23.2	65.0	-12.7	9.8	-16.3	n.a.
Sales of heavy weight trucks	-1.4	7.1	5.9	.5	.8	1.2
Orders of nondefense capital goods	-4.0	2.5	-.4	1.6	-5.4	-3.7
Excluding aircraft and parts	-1.3	4.0	.5	4.9	-1.4	-2.9
Office and computing	.4	9.2	4.4	2.4	-2.5	3.9
All other categories	-1.8	2.6	-.6	5.6	-1.0	-4.8
Nonresidential structures						
Construction put-in-place	-4.2	.6	.2	2.8	-1.7	n.a.
Office	-10.8	-4.9	-6.7	3.9	-9.2	n.a.
Other commercial	-10.4	1.5	3.7	12.9	-7.8	n.a.
Industrial	2.7	2.4	-5.9	-3.0	.4	n.a.
Public utilities	.8	5.2	.7	.1	3.3	n.a.
All other	-4.2	-2.7	6.2	1.8	1.1	n.a.
Rotary drilling rigs in use	-9.2	-4.7	-1.4	-7.3	6.5	-.2
Footage drilled[2]	.7	-18.0	-4.0	-8.9	n.a.	n.a.
Memo:						
Business fixed investment[3]	-5.2	3.0	16.1	n.a.	n.a.	n.a.

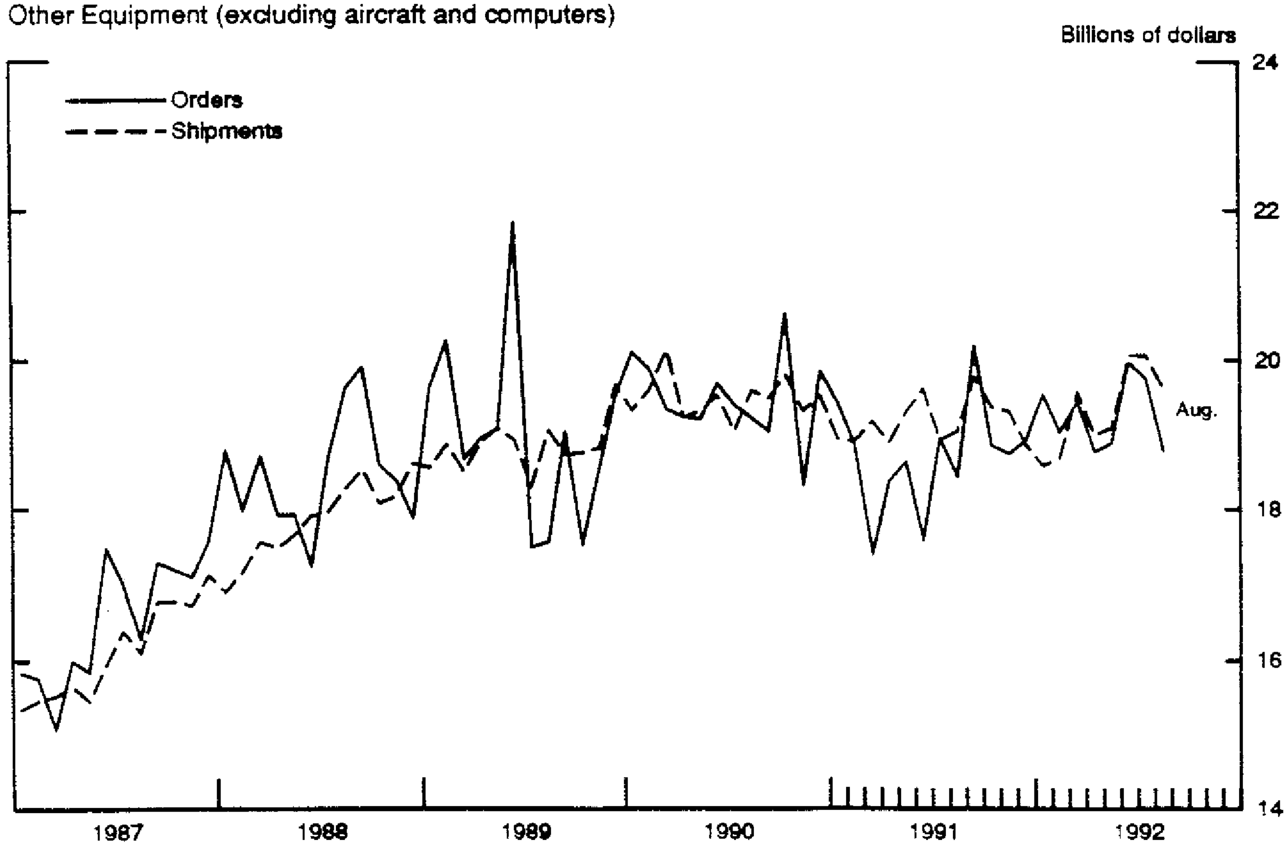
1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines." Monthly data are seasonally adjusted using FRB seasonal factors constrained to BEA quarterly seasonal factors. Quarterly data are seasonally adjusted using BEA seasonal factors.
2. From Department of Energy. Not seasonally adjusted.
3. Based on constant-dollar data; percent change, annual rate.
n.a. Not available.

RECENT DATA ON ORDERS AND SHIPMENTS

Office and Computing Equipment



Other Equipment (excluding aircraft and computers)



nonresidential construction, recent data suggest activity has remained essentially flat.

Most of the second-quarter jump in equipment spending was the result of purchases of transportation equipment, notably a transitory bunching that doubled deliveries of aircraft to domestic airlines. Subsequently, Boeing's domestic deliveries fell off from the second-quarter pace.[5] In addition, business spending on motor vehicles likely will not repeat the solid gain posted in the second quarter; sales of heavy trucks in July and August were about unchanged from the pace recorded last quarter.

In contrast to this recent weakness in outlays for transportation equipment, demand for computing equipment has continued to advance briskly. Orders moved up further on net over July and August; although shipments eased somewhat in August, the average level of nominal shipments in those months was nearly 2 percent above the second-quarter average. The robust growth in real spending on computers has been driven, in large part, by the ongoing rapid declines in prices for personal computers and workstations.

The demand for other types of equipment appears to have remained lackluster. Orders dropped in August to the bottom end of the range that has prevailed over the past year; shipments for this broad grouping of equipment also declined after posting no change in July. Nonetheless, because of gains in earlier months, third-quarter spending for nondefense capital goods other than computers

5. The longer-term outlook for domestic aircraft purchases remains negative. Over the first eight months of 1992, Boeing received orders from domestic carriers for just 17 aircraft, compared with orders for 464 aircraft in 1989 and 201 aircraft in 1990. Moreover, several major airlines have either stretched out the delivery period for aircraft already ordered or have cancelled options for future deliveries. In reponse to this evidence of weakening demand, Boeing is cutting production of its 737s in October and has announced that the production rate for 757s will be scaled back next September.

and aircraft likely will post a moderate rise from the previous quarter.

Outlays for nonresidential construction in July remained in the fairly narrow range that has prevailed since last fall. This overall stability, however, masks divergent patterns among the major components of nonresidential construction. Outlays for public utility structures as well as for hospitals and other institutional buildings continued to trend up through July. In addition, spending for commercial projects other than office buildings has firmed so far this year. However, factory construction has edged lower since the spring, and activity in the office sector has continued to plunge; in July, outlays for office construction stood nearly 9 percent below the average for the second quarter.

The erosion of prices for office buildings and other commercial properties does not yet appear to have ended, possibly because market participants have been disappointed by the still sluggish demand for commercial space. According to the Russell-NCREIF index, the national average of nominal appraised values for office properties fell another 5-1/2 percent in the second quarter, while

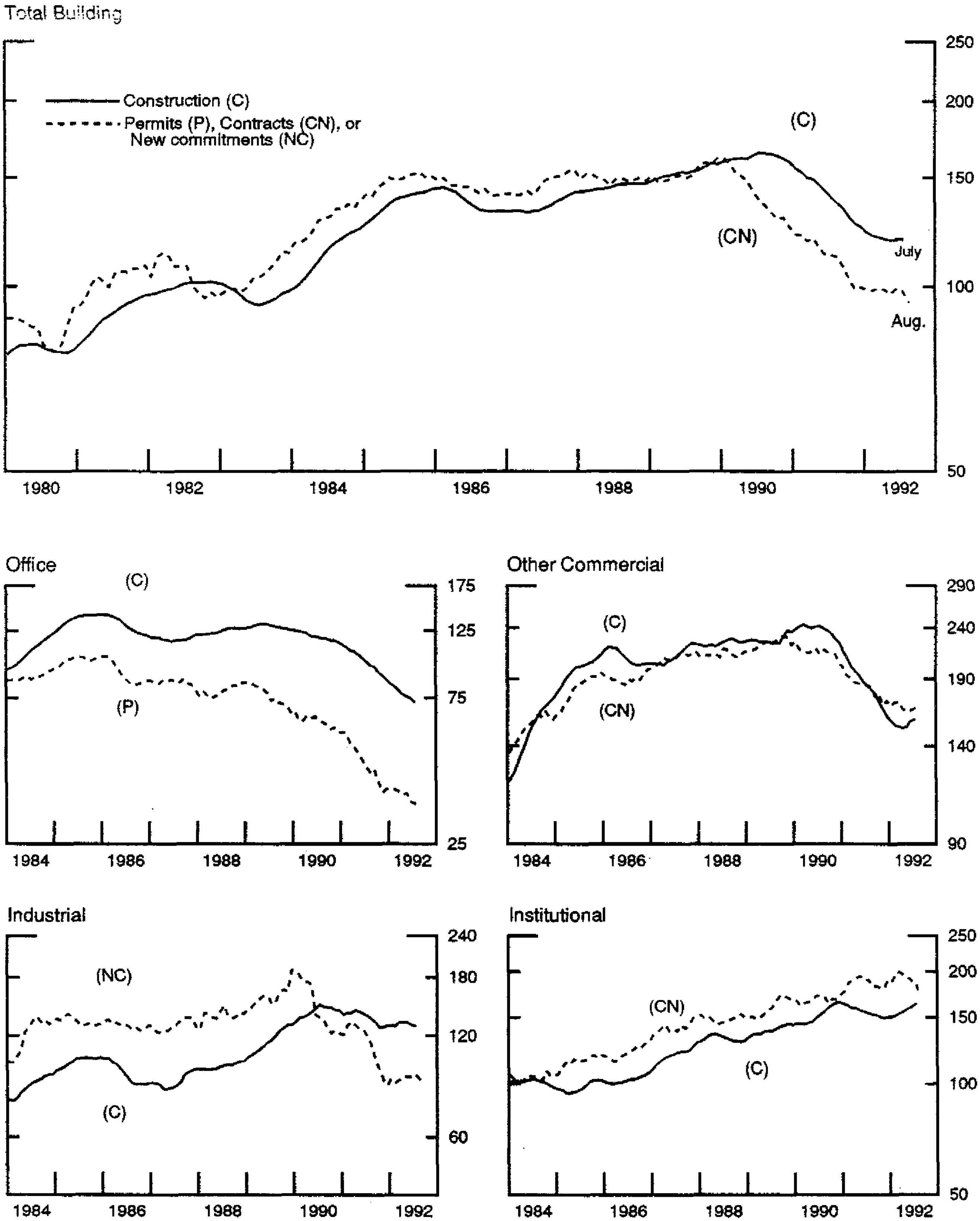
PRICES OF COMMERCIAL BUILDINGS
(Percent change, national average)

				1991	1992	
	1989[1]	1990[1]	1991[1]	Q4	Q1	Q2
Russell-NCREIF index						
Office buildings	-2.9	-8.3	-17.1	-10.0	-1.7	-5.4
Retail stores	3.6	-.4	-8.3	-4.9	-2.0	-2.1
Warehouses	2.7	-4.2	-8.7	-4.4	-1.8	-2.2
National Real Estate Index						
Office buildings	1.3	-4.1	-7.5	-2.8	-2.2	NA
Retail stores	2.6	-2.0	-5.8	-2.7	-1.0	NA
Warehouses	3.1	-.1	-7.3	-2.8	-1.3	NA

1. Percent change over four quarters of year shown.

NONRESIDENTIAL CONSTRUCTION AND SELECTED INDICATORS*

(Index, Dec. 1982 = 100, ratio scale)



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

the values of both retail properties and warehouses dropped roughly 2 percent.[6] Moreover, the FDIC's latest Survey of Real Estate reaches similar conclusions. Nationwide, 36 percent of the senior banking examiners and liquidators responding to the survey believed that prices of commercial real estate had fallen between April and July, compared with just 5 percent that believed these prices had risen.

Contracts for total nonresidential building point to a continuation of essentially flat spending in the near term (chart). Among the components of nonresidential construction, the leading indicators suggest a further shrinkage of activity in the office sector, offset by limited gains in other sectors. These indicators, however, do not take account of the rebuilding activity likely to result from Hurricane Andrew. The sketchy estimates now available suggest that damage to nonresidential structures (including offshore drilling facilities) could total $2 billion to $3 billion. As with residential reconstruction, the amount and timing of repairs are uncertain, but rebuilding could provide a small, though perceptible, boost to nonresidential construction in coming quarters.

Business Inventories

After a large increase in June, business inventories rose only a little in July and, in most sectors, inventory-sales ratios at the end of July were near the lows of their recent ranges.

In manufacturing, inventories at aircraft producers fell further in July, a continuation of a year-long trend that likely reflects the drop in civilian aircraft orders and the shrinkage of

6. Separate data on commercial property values published in the National Real Estate Index (NREI) also display further declines in prices earlier this year. The NREI is based on actual transactions prices reported by roughly 200 of the largest participants in the commercial real estate market. This index, published with a considerable lag, is currently available only through the first quarter of 1992.

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

	1991	1992		1992		
	Q4	Q1	Q2	May	June	July
Current-cost basis						
Total	23.1	-7.9	22.7	-7.2	46.1	11.6
Excluding auto dealers	22.1	-13.7	16.1	-2.4	44.4	16.7
Manufacturing	-14.0	-11.2	-1.5	13.0	-5.2	.7
Excluding aircraft	-7.0	-7.1	6.3	16.3	2.5	9.1
Wholesale	19.9	-1.2	6.1	-12.4	33.7	-6.1
Retail	17.3	4.5	18.1	-7.7	17.6	17.0
Automotive	1.1	5.8	6.6	-4.8	1.6	-5.1
Excluding auto dealers	16.2	-1.3	11.5	-3.0	15.9	22.1
Constant-dollar basis						
Total	16.2	-13.2	7.4	-23.0	34.1	7.9
Excluding auto dealers	17.0	-18.0	1.9	-16.0	29.5	15.3
Manufacturing	-11.3	-8.7	-6.5	4.4	-6.5	5.3
Wholesale	15.2	-4.9	2.1	-13.8	25.2	-7.5
Retail	12.3	.5	11.8	-13.7	15.4	10.1
Automotive	-.9	4.8	5.5	-7.1	4.6	-7.3
Excluding auto dealers	13.1	-4.4	6.3	-6.6	10.7	17.5

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

	1991	1992		1992		
	Q4	Q1	Q2	May	June	July
Current-cost basis						
Total	1.54	1.52	1.51	1.52	1.50	1.49
Excluding auto dealers	1.52	1.50	1.49	1.49	1.47	1.47
Manufacturing	1.62	1.62	1.57	1.59	1.55	1.55
Excluding aircraft	1.45	1.45	1.41	1.42	1.39	1.39
Wholesale	1.37	1.36	1.36	1.36	1.35	1.33
Retail	1.58	1.54	1.57	1.55	1.57	1.56
Automotive	1.87	1.85	1.90	1.90	1.90	1.88
Excluding auto dealers	1.50	1.46	1.48	1.46	1.48	1.47

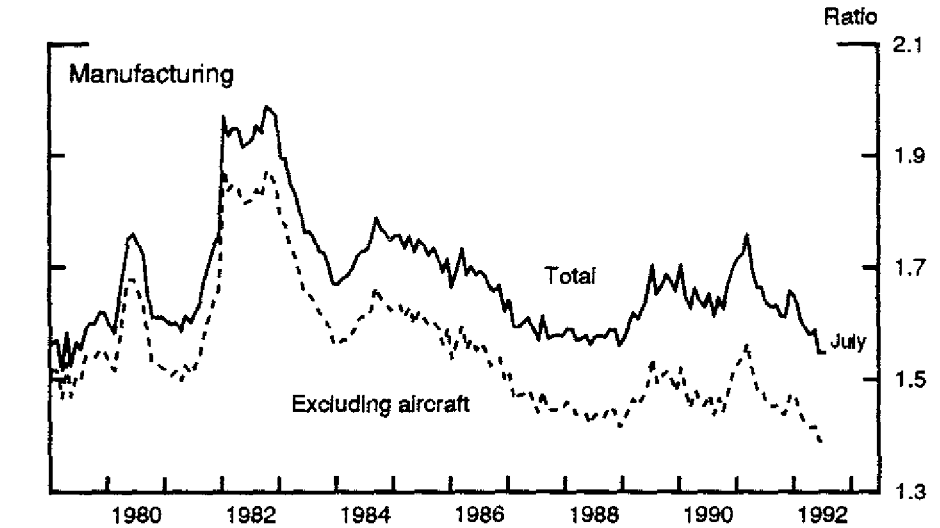
1. Ratio of end of period inventories to average monthly sales for the period.

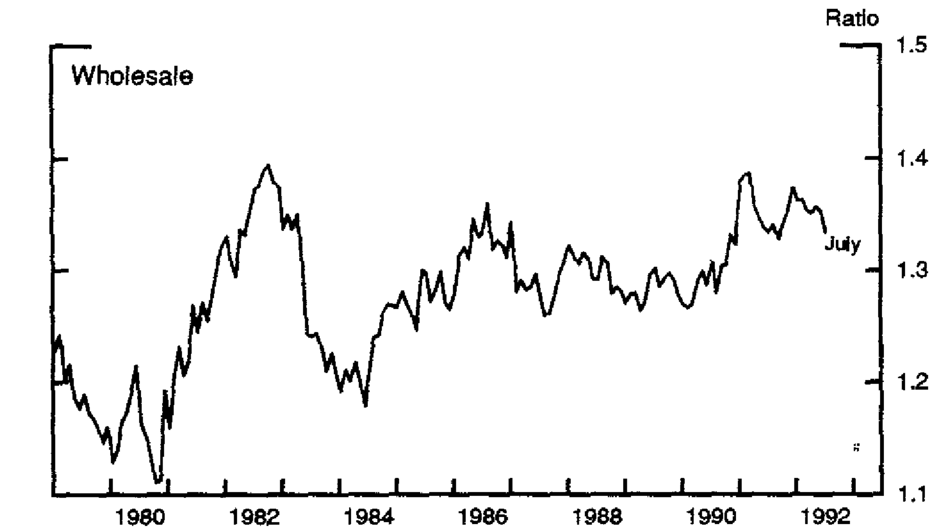
defense spending. Outside of the aircraft industry, manufacturing stocks rose moderately in current-cost terms in July after a small increase in the second quarter. The low investment in factory inventories in recent months has kept stock-shipments ratios for many industries at historically low levels. In July, the ratio for all manufacturing on a current-cost basis was unchanged at 1.55 months.

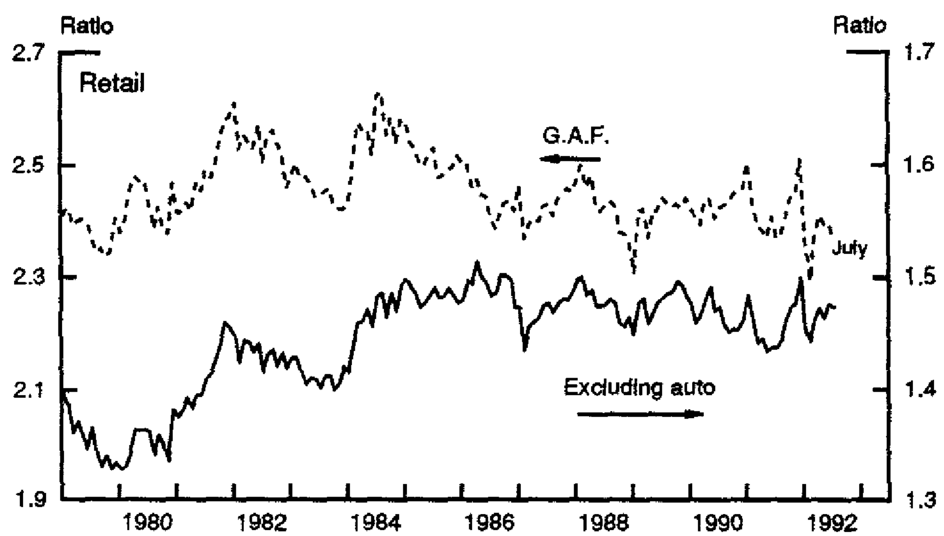
In the trade sector, wholesale inventories were trimmed in July after a sizable runup in June. But the July liquidation was concentrated in just a few categories (machinery and raw farm products in particular), while the inventory position of other types of wholesale distributors did not materially change. Wholesale trade remains the one major sector in which the stock-sales ratio still is on the high side of its historical range, and further paring appears likely in the months ahead. In retail trade, non-auto inventories expanded at a substantial pace in July but were accompanied by a sharp rebound in sales that lowered the inventory-sales ratio at most types of stores. However, given the renewed softness in consumer sentiment in recent months and the still-sluggish pace of income growth, some retailers may view even these recent ratios as being uncomfortably high.

The net effect of Hurricane Andrew on third-quarter nonfarm inventory investment may not be so large as some initial reports suggested. Petroleum production and distribution facilities suffered significant damage from the hurricane, and in the two weeks that ended September 4, crude oil stocks were drawn down nearly 6 million barrels (a 1.7 percent decline) while inventories of refined products fell 16 million barrels (also a 1.7 percent

RATIO OF INVENTORIES TO SALES
(Current-cost data)







decline).[7] However, more recent reports indicate that the stocks are being replenished quickly. Gasoline inventories, for example, rose about 4.3 million barrels during the two weeks ending September 18, restoring more than one-half of the drawdown during the preceding two weeks.

Federal Sector

The FY1992 budget deficit is likely be smaller than either CBO's August estimate of $314 billion or OMB's July estimate of $334 billion. Outlays over the past few months have been lower than either agency had projected, while the incoming receipts data generally have been in line with CBO's expectations, but stronger than OMB's.

Federal outlays in July and August were about 6 percent below the level of July-August 1991 on a unified budget basis, according to the monthly Treasury statements. The decrease largely reflected the stalemate in funding for deposit insurance. Nonetheless, for the year to date, expenditures are still up about 5 percent from last year, primarily because of higher spending on Social Security, Medicare, Medicaid, and income security programs. Year-to-date defense expenditures (adjusted for contributions to the Defense Cooperation Account) are down about 5 percent, despite a temporary jump in the past two months.

Receipts in July and August were only slightly above the levels of a year earlier. Nonetheless, the total for the first eleven months of FY1992 remains 3 percent above the comparable period of FY1991; social insurance receipts are up about 5 percent, while

7. Most of the petroleum inventory in the nonfarm sector is held by businesses outside of manufacturing and trade--pipelines, utilities, transportation companies, and bulk terminals--and is not reported in the monthly Census surveys. The current-quarter petroleum inventory changes in GDP are estimated by BEA, based on information from the Department of Energy and other industry sources. The petroleum figures cited in this paragraph are not seasonally adjusted.

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Unified basis, billions of dollars, except where otherwise noted)

	July and August		Fiscal year through August			
	1991	1992	FY1991	FY1992	Dollar change	Percent change
Outlays	239.5	225.1	1207.5	1268.5	61.0	5.1
Deposit insurance (DI)	19.2	-3.6	49.9	5.7	-44.2	-88.6
Defense Cooperation account (DCA)	-3.5	.0	-42.4	-5.2	37.2	-87.7
Outlays excluding DI and DCA	223.8	228.8	1200.0	1267.9	67.9	5.7
National defense	55.4	51.5	292.9	277.3	-15.6	-5.3
Net interest	33.6	34.0	178.4	184.2	5.8	3.3
Social security	45.3	48.3	246.4	263.4	17.0	6.9
Medicare and health	32.1	35.6	160.4	189.0	28.6	17.8
Income security	30.2	32.9	159.5	183.9	24.4	15.3
Other	27.3	26.5	162.5	170.1	7.6	4.7
Receipts	155.0	157.3	944.9	972.9	28.0	3.0
Personal income taxes	73.0	69.8	419.7	418.1	-1.6	-0.4
Social insurance taxes	61.9	64.8	362.0	380.3	18.3	5.1
Corporate income taxes	3.1	4.3	79.5	82.3	2.8	3.5
Other	17.2	18.3	83.8	92.0	8.2	9.8
Deficit(+)	84.5	67.8	262.6	295.6	33.0	12.6
excluding DI and DCA	68.8	71.4	255.2	295.1	40.0	15.7

Note: Components may not sum to totals because of rounding.

personal income taxes are little changed from a year earlier, in part because of the March cut in withholding rates. More recently, daily data indicate that corporate declarations and payments of estimated individual income taxes were higher in September than they were around the last quarterly due date in June; the new regulations for payment of individual nonwithheld taxes account for only part of the increase.

Legislation providing $11 billion in disaster relief for the victims of the hurricanes has been signed by the President. Roughly two-thirds of the total is for grants and other direct assistance, and the rest is for loans and loan guarantees. Most of the resulting increase in the deficit will be incurred in FY1993. Because the funding is designated as being for emergency purposes, it does not violate the budget agreement.

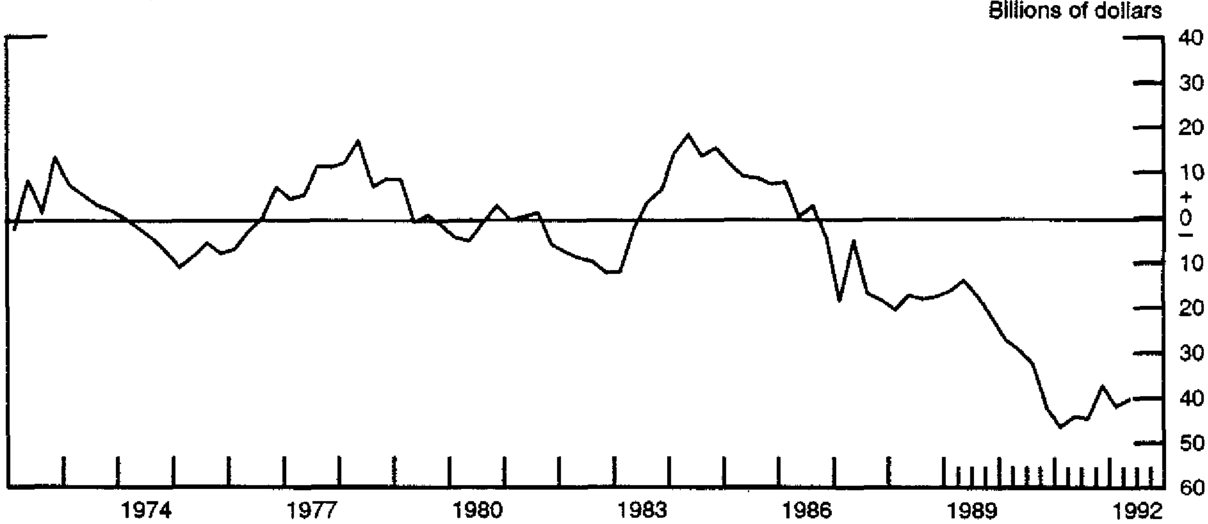
Congressional action on the appropriations bills has accelerated with the approach of the new fiscal year. Of the thirteen regular appropriations bills, one-third have been sent to the President for signature; conference reports have been completed on another third. In total, appropriations are about $10 billion below the level requested by the President, with virtually all of the shortfall in defense. Meanwhile, the Senate has passed a wide-ranging tax bill; among other things, it provides funding for enterprise zones, extends several expiring tax provisions, and modifies the luxury taxes that were enacted in 1990. The House passed a much narrower tax bill earlier this year.

State and Local Government Sector

Spending by state and local governments rose in the early part of the third quarter. In particular, employment on average jumped 87,000 in July and August, the largest two-month advance since the fall of 1986. However, most of the increase was in the federally

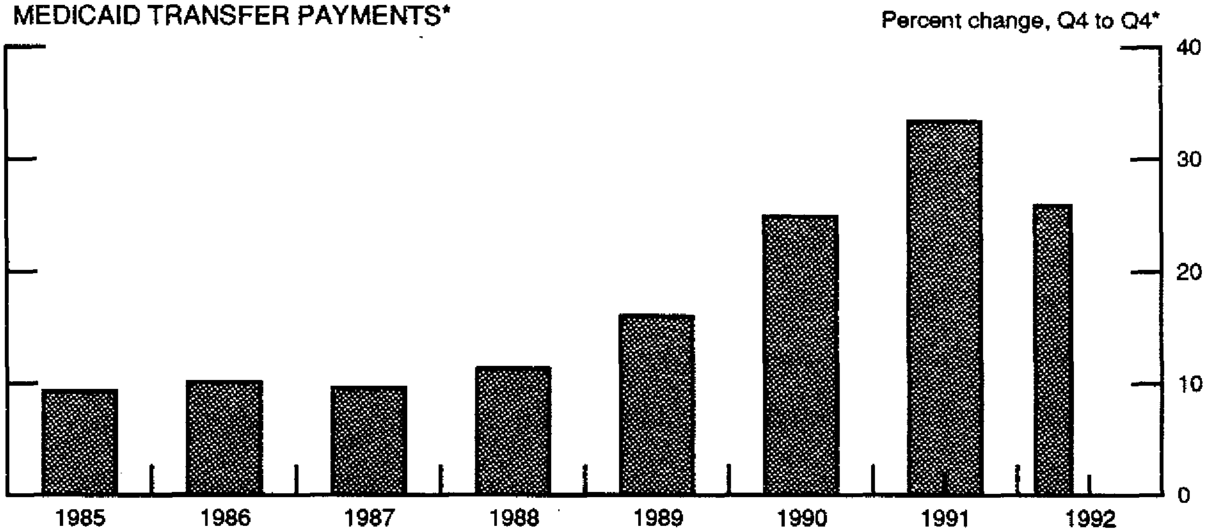
STATE AND LOCAL SECTOR

OPERATING AND CAPITAL ACCOUNTS SURPLUS/DEFICIT*



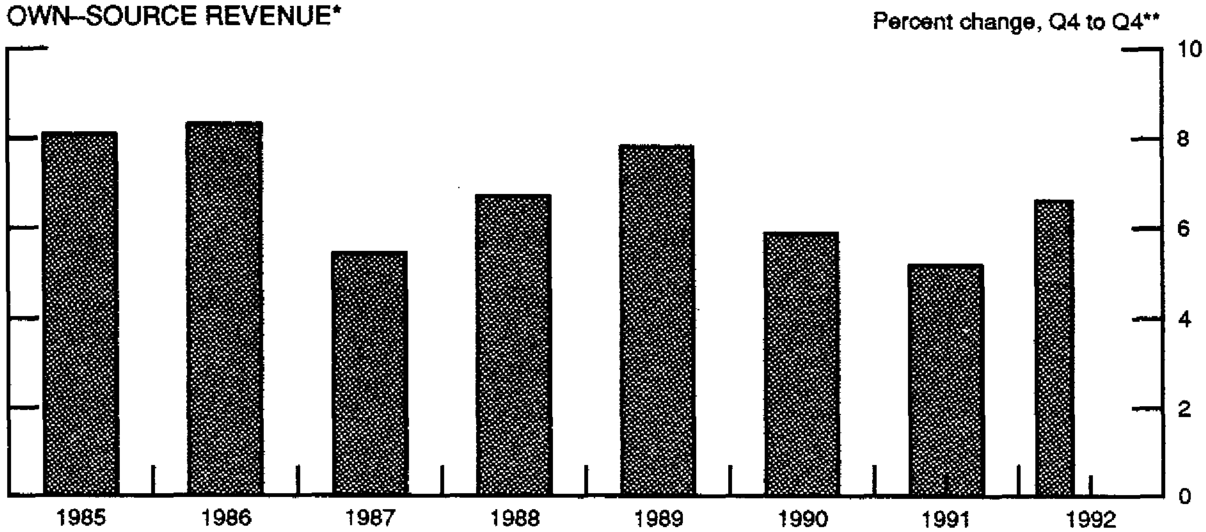
*Excludes social insurance funds.

MEDICAID TRANSFER PAYMENTS*



*1992 is percent change from 1991:Q4 to 1992:Q2 at an annual rate.

OWN-SOURCE REVENUE*



*Personal, sales, property and corporate taxes and fees.
**1992 is percent change from 1991:Q4 to 1992:Q2 at an annual rate.

funded program for summer jobs and should have been reversed in September when school resumed.

Real spending on public construction projects also rose in July, but it stood nearly 2 percent below the level in the second quarter. Spending is expected to be boosted in coming months by rebuilding in Florida, Louisiana, and Hawaii in the aftermath of the recent hurricanes; however, because the federal government will pick up most of the tab, the fiscal position of these governments will not be greatly affected.

In early September--two months after the start of California's fiscal year--state officials agreed on a budget for FY1993 that included wide-ranging reductions in outlays, particularly those for welfare, education, and aid to local governments. New tax measures, which last year generated a $6-1/2 billion increase in revenues, were not included. Because of a certain amount of legerdemain and because revenues continue to come in below expectations, the outlook for California's fiscal position is still shaky.

The overall fiscal position of state and local governments has improved only slightly in the past eighteen months (chart) despite numerous budget cuts and tax hikes. Efforts to deal effectively with the fiscal erosion have been stymied by the combined effects of surging medicaid costs and weak tax receipts. Much of the increase in medicaid expenditures by states in recent years reflects the expansion of federal mandates, especially those for children and pregnant women. On the receipts side, increased corporate profits have supported government revenues this year. Total revenues grew at a 6.6 percent annual rate in the first half of this year, up from a 5.2 percent rate for 1991.

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

	Relative importance Dec. 1991	1990	1991	1991 Q4	1992 Q1	1992 Q2	1992 July	1992 Aug.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	6.1	3.1	3.2	3.5	2.6	.1	.3
Food	16.0	5.3	1.9	2.7	1.5	-1.2	-.1	.9
Energy	7.4	18.1	-7.4	3.6	-6.9	12.5	.3	-.2
All items less food and energy	76.6	5.2	4.4	3.1	4.8	2.8	.2	.2
Commodities	24.8	3.4	4.0	.6	5.3	2.1	.2	.2
Services	51.9	6.0	4.6	4.3	4.8	2.9	.3	.3
Memorandum:								
CPI-W[3]	100.0	6.1	2.8	3.3	3.0	2.7	.2	.4

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
(Percent change; based on seasonally adjusted data)[1]

	Relative importance Dec. 1991	1990	1991	1991 Q4	1992 Q1	1992 Q2	1992 July	1992 Aug.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	5.7	-.1	1.0	1.0	3.0	.1	.1
Consumer foods	21.9	2.6	-1.5	-1.0	.3	-1.6	.0	.7
Consumer energy	13.8	30.7	-9.6	-.5	-7.0	16.1	-.4	-.1
Other finished goods	64.2	3.5	3.1	2.1	3.7	1.8	.2	-.1
Consumer goods	39.5	3.7	3.4	2.4	3.6	2.4	.2	-.1
Capital equipment	24.7	3.4	2.5	1.9	3.5	.9	.2	.1
Intermediate materials[2]	95.3	4.6	-2.7	-1.7	.0	5.0	.1	.0
Excluding food and energy	81.7	1.9	-.8	.0	1.7	1.3	.2	.2
Crude food materials	41.2	-4.2	-5.8	-4.9	11.8	1.5	-1.7	-.4
Crude energy	40.0	19.1	-16.6	5.3	-26.6	44.8	1.1	.2
Other crude materials	18.7	.6	-7.6	-5.9	15.0	3.5	1.3	.1

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

Prices

Recent news on prices has continued to be quite favorable. In August--for the fourth month in a row--the CPI for items other than food and energy rose just 0.2 percent. With these small increases, the twelve-month change in this measure was 3.5 percent in August, down a percentage point from a year earlier. The recent string of 0.2 percent monthly increases, however, was probably below the underlying trend in inflation, just as the outsized increases earlier in the year were above the underlying trend.

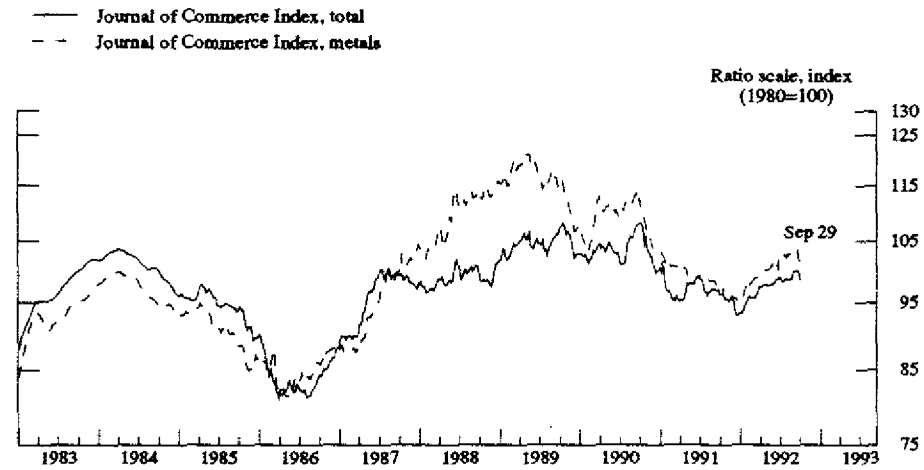
The deceleration in prices over the past year, in the context of high unemployment, appears reasonably consistent with historical relations. A rough rule of thumb--drawn from postwar experience--is that roughly 2 percentage-point-years of "excess" unemployment will squeeze out 1 percentage point of inflation, yielding a historical sacrifice ratio of about 2. In the current episode, the sacrifice ratio to date is just below 2.[8]

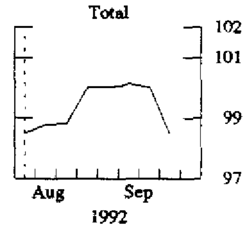
Overall, consumer prices rose 0.3 percent in August, pushed up by a jump in food prices. In large measure, this jump reflected a surge in fruit and vegetable prices, which--even after the August rise--were only 2-1/2 percent above the level of a year earlier. Recent developments in the farm sector, described later, suggest that little upward pressure on prices is in store in coming months.

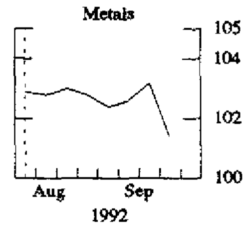
Consumer energy prices edged down in August, as the price of gasoline partially reversed a runup earlier in the summer. Crude oil prices declined between June and August, and these lower costs reached the retail level last month. Although crude prices in

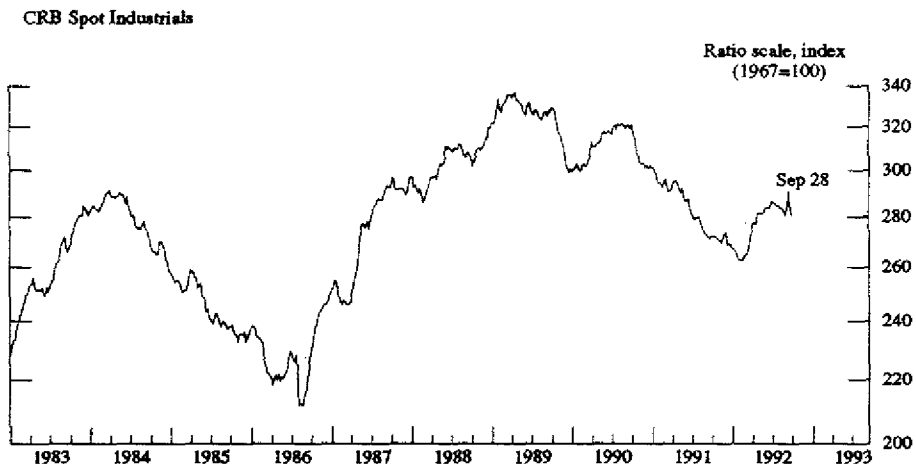
8. Based on the staff estimate of the natural rate of unemployment, the economy has experienced 2-1/4 percentage-point-years of excess unemployment since the unemployment rate first moved above the natural rate in the summer of 1990. Since that time, the twelve-month change in the CPI for items other than food and energy has moved down about 1-1/2 percentage points, implying a sacrifice ratio of slightly more than 1-1/2.

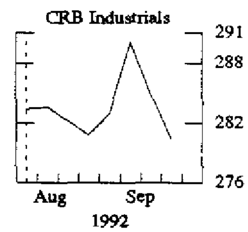
COMMODITY PRICE MEASURES *

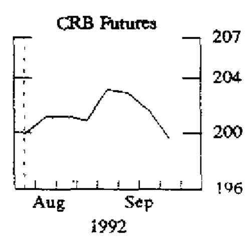












* Weekly data, Tuesdays; Journal of Commerce data monthly before 1985

Dotted lines indicate week of last Greenbook.

September have increased on balance, private survey data for the month suggest that retail gasoline prices have not yet moved up.[9] In contrast to gasoline prices, the index for residential natural gas rose for a third consecutive month; wellhead prices have firmed in recent months as the persistent supply overhang appears to be diminishing.

For goods other than food and energy, prices at retail were up just 0.2 percent in August; prices of services other than energy rose 0.3 percent. Declines in airfares and auto finance costs held down the services index, and residential and owners' equivalent rent remained subdued, as they have since April. In contrast, the index for tuition rose substantially as increases for the 1992-93 academic year began to get into the CPI.

In a reflection of excess capacity and weak demand for many types of business equipment, prices of capital goods also have increased at a modest pace recently. Over the past twelve months, the PPI for capital goods rose just 1-3/4 percent, about 1 percentage point below the pace in the preceding twelve-month period. Of course, capital goods prices have been held down by the continued rapid decline in computer prices. But even with computers excluded, prices of business equipment have risen just 2-1/2 percent over the past twelve months, also about a percentage point below the pace in the preceding year.

Spot measures of industrial commodity prices have, on balance, edged off since the last Greenbook. However, prices of some items have been boosted by Hurricane Andrew. Spot prices of natural gas at the wellhead have risen significantly since the storm, reflecting

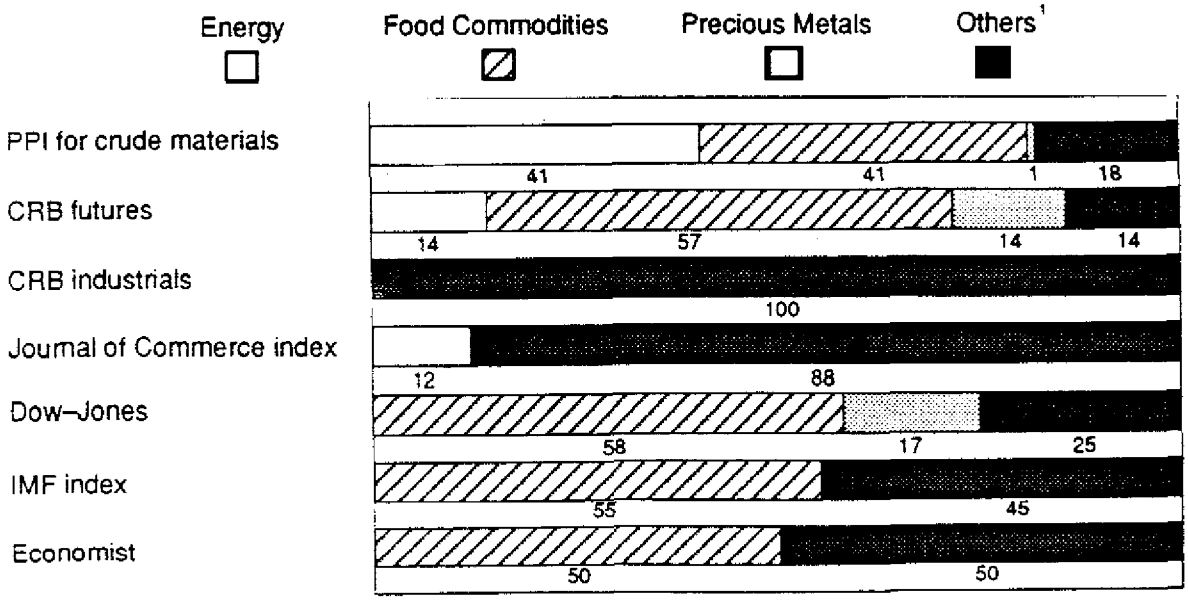
9. Beginning in November, federal clean air rules require that only oxygenated fuel be sold in the thirty-nine metropolitan areas with high emissions of carbon monoxide. Industry analysts estimate that this reformulation boosts refiners' costs by 3 to 5 cents per gallon later this year. These cost increases will boost retail prices by a similar amount during the fall.

PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

	Last observation	Percent change[2] 1990	1991	1992 To Aug. 11[3]	1992 Aug. 11[3] to date	Memo Year earlier to date
1. PPI for crude materials[4]	Aug.	6.0	-11.6	3.3	n.a.	1.8
1a. Foods and feeds	Aug.	-4.2	-5.8	2.1	n.a.	1.0
1a. Energy	Aug.	19.1	-16.6	2.9	n.a	1.6
1b. Excluding food and energy	Aug.	.6	-7.6	6.4	n.a.	3.6
1c. Excluding food and energy, seasonally adjusted	Aug.	.7	-7.6	5.9	n.a.	3.5
2. Commodity Research Bureau						
2a. Futures prices	Sep. 29	-2.7	-6.5	-3.9	-.2	-7.8
2b. Industrial spot prices	Sep. 29	.6	-11.3	6.1	-1.1	3.0
3. _Journal of Commerce_ industrials	Sep. 29	-2.4	-7.2	5.7	.0	2.4
3a. Metals	Sep. 29	-3.9	-7.1	7.6	-1.5	3.9
4. Dow-Jones Spot	Sep. 29	-1.7	-12.1	6.3	-.6	-.9
5. IMF commodity index[4]	Aug.	-5.2	.7	-1.2	n.a.	.2
5a. Metals	Aug.	-1.1	-8.9	8.8	n.a.	5.9
5b. Nonfood agriculture	Aug.	-3.5	1.3	1.7	n.a.	.0
6. _Economist_ (U.S. dollar index)	Sep. 22	-4.4	-9.1	4.1	-3.6	-.9
6a. Industrials	Sep. 22	-3.2	-14.9	10.5	-4.8	3.4

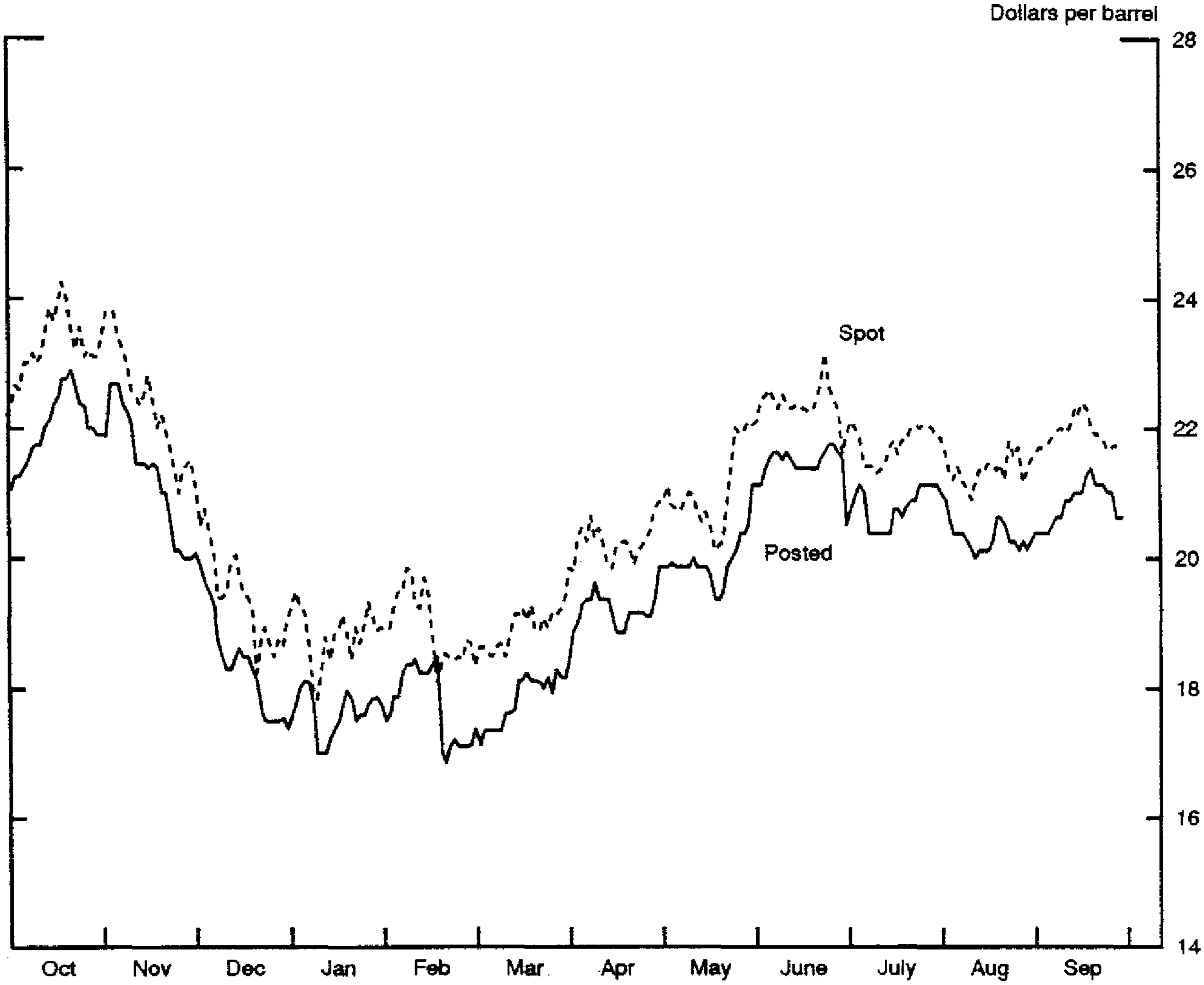
1. Not seasonally adjusted.
2. Change is measured to end of period, from last observation of previous period.
3. Week of the August Greenbook.
4. Monthly observations. IMF index includes items not shown separately.
n.a. Not available

Index Weights



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

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		
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	17.81	18.92
April	19.20	20.24
May	19.90	20.94
June	21.46	22.38
July	20.77	21.76
August	20.32	21.35
September [1]	20.84	21.91

1. Price through September 29.

damage to production facilities along the gulf coast.[10] Plywood and lumber prices posted increases that have ranged from 5 percent to 15 percent, as additional demand was triggered by the hurricane. Even before the storm, lean supplies were placing upward pressure on plywood prices.

The spot and futures prices of most agricultural commodities have continued to be restrained in recent weeks by the prospect of ample supplies. The condition of the major field crops appears to have been well-maintained through late summer, and a large harvest is anticipated. In addition, livestock supplies still are expanding; according to the Department of Agriculture's latest forecast, the combined output of meat and poultry is expected to rise an additional 2 percent in 1993, after a gain of more than 4 percent this year. In Florida, hurricane damage to some specialty crops--such as limes, avocados, and mangoes--was followed in short order by large price increases; however, the availability of supplies from alternative sources probably will limit the magnitude and duration of those increases.

10. Spot prices are now $2.73 per million BTU, up about $0.80 from the pre-hurricane level.

DOMESTIC FINANCIAL DEVELOPMENTS

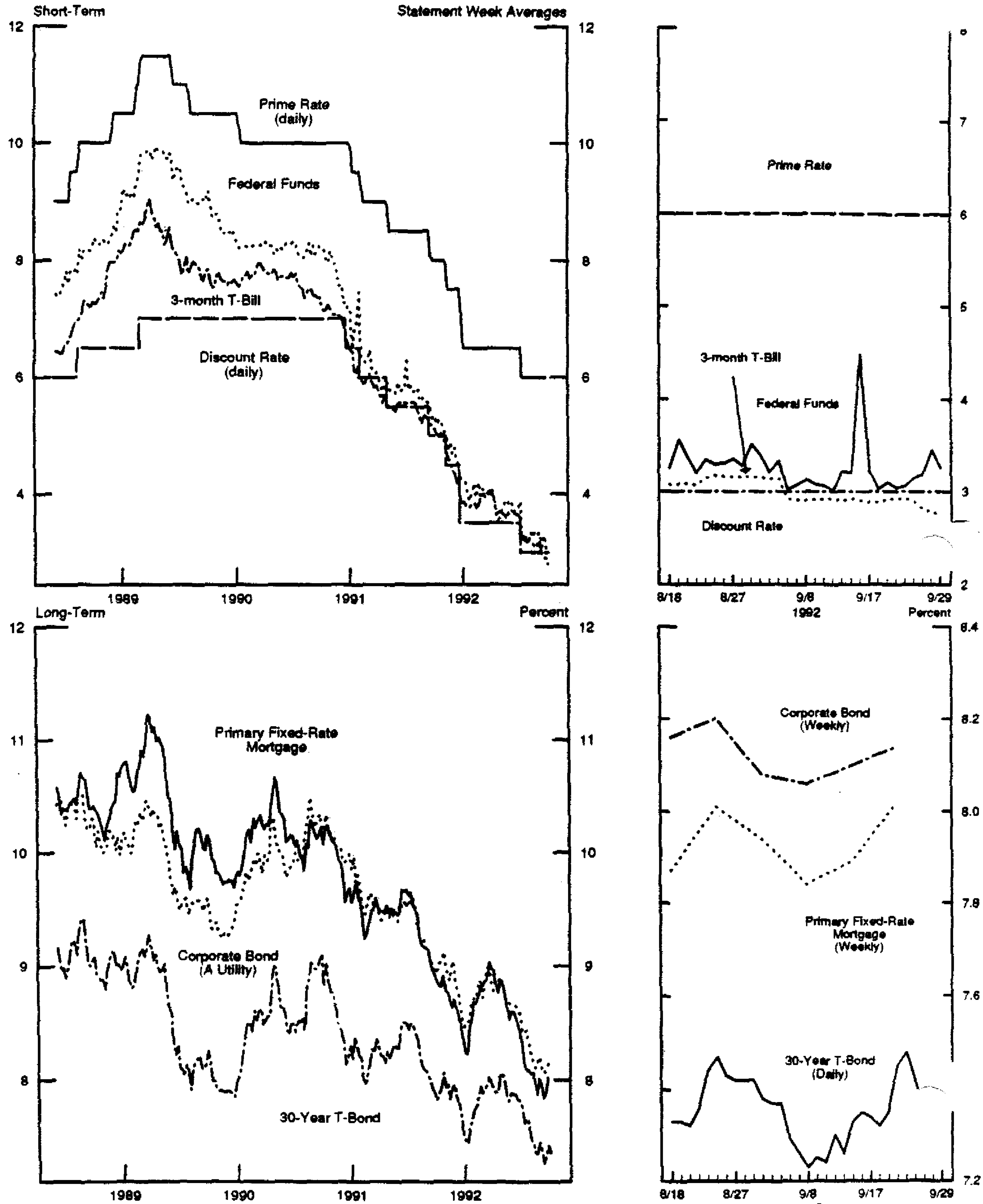
SELECTED FINANCIAL MARKET QUOTATIONS [1]
(percent)

	1992 FOMC Aug 18	1992 Sept 4	1992 Sept 29	Change from: Sept 4	Change from: FOMC Aug 18
Short-term rates					
Federal funds [2]	3.27	3.19	3.15	-.04	-.12
Treasury bills [3]					
3-month	3.07	2.92	2.73	-.19	-.34
6-month	3.13	2.96	2.85	-.11	-.28
1-year	3.22	3.06	2.95	-.11	-.27
Commercial paper					
1-month	3.38	3.22	3.31	.09	-.07
3-month	3.37	3.22	3.26	.04	-.11
Large negotiable CDs [3]					
1-month	3.26	3.06	3.11	.05	-.15
3-month	3.27	3.06	3.12	.06	-.15
6-month	3.33	3.11	3.13	.02	-.20
Eurodollar deposits [4]					
1-month	3.25	3.31	3.06	-.25	-.19
3-month	3.31	3.31	3.13	-.18	-.18
Bank prime rate	6.00	6.00	6.00	.00	.00
Intermediate- and long-term rates					
U.S. Treasury (constant maturity)					
3-year	4.56	4.38	4.31	-.07	-.25
10-year	6.48	6.40	6.37	-.03	-.11
30-year	7.33	7.29	7.36	.07	.03
Municipal revenue [5] (Bond Buyer)	6.20	6.31	6.49	.18	.29
Corporate--A utility recently offered	8.10	8.06	8.17	.11	.07
Home mortgage rates [6]					
FHLMC 30-yr. FRM	7.96	7.84	8.02	.18	.06
FHLMC 1-yr. ARM	5.30	5.15	5.02	-.13	-.28

	Record highs	Date	1989 Lows Jan 3	1992 FOMC Aug 18	1992 Sept 29	Percent change from: Record highs	1989 lows	FOMC Aug 18
Stock prices								
Dow-Jones Industrial	3413.21	6/1/92	2144.64	3329.48	3266.80	-4.29	52.32	-1.88
NYSE Composite	233.73	9/14/92	154.00	231.90	228.90	-2.07	48.64	-1.29
AMEX Composite	418.99	2/12/92	305.24	386.81	375.61	-10.35	23.05	-2.90
NASDAQ (OTC)	644.92	2/12/92	378.56	570.87	577.63	-10.43	52.59	1.18
Wilshire	4121.28	1/15/92	2718.59	4053.95	4013.05	-2.63	47.62	-1.01

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 September 30, 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*



* Friday weeks are plotted through September 25, statement weeks through September 23.

Short-term interest rates are generally down 10 to 30 basis points since the August FOMC meeting, in keeping with the quarter point easing of the federal funds rate that came on the heels of the weak September 4 employment report. In contrast, long-term rates have registered mixed changes over the intermeeting period. Declines in bond yields around the release of the employment report have since been reversed, amid concerns about fiscal prospects in the wake of the election and possible shifts in the demand for U.S. securities in an unsettled exchange rate environment.

The equity markets rallied sharply in early September with the fall in interest rates, and several major indexes touched all-time highs. Most indexes have more than retraced this ground since then, and they now stand about 1 to 2 percent below mid-August levels. Prices of most financial stocks, including banks, were weak, as further signs of a faltering recovery heightened concern about credit losses.

Debt growth by nonfederal sectors, though still weak, appears to have picked up a bit in the third quarter. In the business sector, commercial paper borrowing jumped in August and early September, while business loans at banks likely posted a gain in September for the first time in nearly a year. Corporations continued to issue bonds in volume in the public markets, but largely for debt refinancing. In the household sector, a firming in real estate borrowing may be in the offing in September as the summer surge in mortgage applications progresses to closing. Consumer credit outstanding, however, probably declined further in August.

The broad monetary aggregates resumed expanding in August and continued to grow in September. The liquid components accounted for

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

	1991[1]	1992 Q2	1992 Q3pe	1992 Jul	1992 Aug	1992 Sep pe	Growth Q4 91- Sep 92pe
	-----------Percent change at annual rates--------------------						
1. M1	8.0	9.8	10½	11.3	16.0	18	13¼
2. M2	2.8	0.3	0	-0.9	3.1	3	1¾
3. M3	1.2	-1.3	-½	-1.1	2.7	1	¼
	-----------Percent change at annual rates------------						Levels bil. $ Aug 92
Selected components							
4. M1-A	5.6	9.1	11	14.7	16.9	21	610.9
5. Currency	8.4	5.8	11½	12.2	14.2	17	282.3
6. Demand deposits	3.4	12.5	11¼	18.1	19.4	25	320.7
7. Other checkable deposits	12.4	11.0	9¾	6.1	14.1	13	362.7
8. M2 minus M1[2]	1.1	-3.1	-3¾	-5.6	-1.9	-3	2496.0
9. Overnight RPs and Eurodollars, NSA	-6.9	-27.1	16¼	8.3	57.6	-35	76.4
10. General purpose and broker/dealer money market mutual fund shares	3.9	-4.8	-8	-11.5	-5.8	-17	349.1
11. Commercial banks	7.1	0.5	-1½	-2.1	-0.6	3	1259.5
12. Savings deposits (including MMDAs)	13.3	12.0	10	9.3	13.6	18	724.4
13. Small time deposits	1.1	-13.2	-16½	-17.0	-19.0	-16	535.2
14. Thrift institutions	-6.9	-6.7	-5¾	-7.3	-5.9	-4	811.9
15. Savings deposits (including MMDAs)	9.3	18.9	8	5.2	8.9	11	421.1
16. Small time deposits	-16.8	-29.4	-19¾	-19.6	-21.7	-19	390.8
17. M3 minus M2[3]	-5.7	-9.1	-2½	-1.9	0.9	-7	702.7
18. Large time deposits	-11.7	-18.9	-17¼	-20.6	-16.1	-16	383.3
19. At commercial banks, net[4]	-5.1	-14.8	-17¼	-23.6	-15.4	-18	315.0
20. At thrift institutions	-31.7	-37.0	-17¼	-5.2	-22.4	-5	68.2
21. Institution-only money market mutual fund shares	33.4	20.1	41¼	48.1	54.9	10	217.2
22. Term RPs, NSA	-22.0	6.1	-3¼	-23.0	5.0	17	71.9
23. Term Eurodollars, NSA	-11.0	-18.4	-20¾	-11.3	-22.8	-65	51.6
	-----Average monthly change in billions of dollars----						
MEMORANDA:[5]							
24. Managed liabilities at commercial banks (25+26)	-0.6	-2.8	-3½	-3.7	-4.1	-2	681.1
25. Large time deposits, gross	-0.2	-4.8	-3½	-6.4	-1.5	-3	384.5
26. Nondeposit funds	-0.5	2.1	0	2.7	-2.6	0	296.6
27. Net due to related foreign institutions	0.4	5.0	-1	2.1	-4.0	-1	59.8
28. Other[6]	-0.9	-3.0	1	0.6	1.4	1	236.8
29. U.S. government deposits at commercial banks[7]	0.2	1.3	0	-3.9	10.7	-7	32.6

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, securities sold under agreements to repurchase, and other liabilities for borrowed money (including borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estimat
7. Consists of Treasury demand deposits and note balances at commercial banks.

pe - preliminary estimate

all the pick up, and runoffs in both large and consumer time deposits showed no signs of abating.

Monetary Aggregates and Bank Credit

M2 grew at a 3 percent annual rate in August and appears to have maintained that pace in September. M3 also turned up in August, increasing at a 2-3/4 percent pace, but slowed somewhat during September. Both aggregates, however, remain well below their annual target ranges.

The increase in M2 in September was fully accounted for by growth in M1, as the non-M1 component contracted at a more rapid pace in September. Currency growth remains strong, reportedly because of larger shipments to Latin America, Eastern Europe, and the former Soviet republics. Growth rates for liquid deposits rose even though sizable reductions in deposit rates have tempered the declines in opportunity costs from recent reductions in yields on market instruments. During most of 1991, market rates fell considerably more rapidly than deposit rates; this year, depositories have adjusted their rates more promptly, thus attenuating the stimulative effect of policy easings on M2 growth. Demand deposits were likely boosted by increased compensating balances, as firms were induced to maintain higher balances by the lagged adjustment of the earnings credit to falling short-term interest rates. The pickup in mortgage refinancing also contributed to higher growth in demand deposits as well as MMDAs.

With their rates remaining relatively unattractive, small time deposits continued to run off. M2 money funds also declined further in September, as their average yield fell below 3 percent. Inflows to stock and bond mutual funds dropped off in August to $14.5 billion from July's record $21 billion pace. Inflows reportedly were heavy in September, especially at bond funds.

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

Category	1990 Dec. to 1991 Dec.	1992 Q 1	1992 Q 2	1992 Jun.	1992 Jul.	1992 Aug.	Level, bil.$ 1992 Aug.
	Commercial bank credit						
1. Total loans and securities at banks	3.9	2.1	2.1	1.7	-0.1	5.4	2,882.2
2. Securities	17.6	6.7	14.7	11.3	14.5	22.8	804.7
3. U.S. government	23.8	11.3	19.7	17.6	14.2	28.7	629.8
4. Other	1.4	-7.9	-2.1	-10.4	14.6	2.8	174.9
5. Loans	-0.2	0.5	-2.4	-1.8	-5.5	-1.3	2,077.5
6. Business	-2.9	-6.5	-7.3	-8.0	-5.2	-3.8	593.9
7. Real estate	2.9	2.6	0.5	-1.5	-2.5	-1.5	878.5
8. Consumer	-3.9	-0.9	-2.2	1.0	-1.0	-5.0	357.7
9. Security	21.3	44.7	25.7	44.3	-65.0	37.3	63.0
10. Other	-2.7	3.0	-9.1	-3.9	-9.1	2.6	184.4
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-2.5	-6.7	-7.0	-7.3	-6.5	-3.7	587.1
12. Loans at foreign branches[2]	-1.6	-40.9	26.3	84.6	44.4	-42.9	24.3
13. Sum of lines 11 and 12	-2.5	-8.0	-5.8	-3.7	-4.7	-5.1	611.5
14. Commercial paper issued by nonfinancial firms	-10.4	14.9	-3.9	6.0	4.3	15.3	142.7
15. Sum of lines 13 and 14	-4.0	-4.0	-5.4	-1.9	-3.2	-1.3	754.1
16. Bankers acceptances, U.S. trade-related[3,4]	57.3	22.9	-27.3	-37.8	-4.9	-29.4	23.9
17. Finance company loans to business[4]	1.4	-1.9	-1.6	5.2	9.2	n.a.	301.0[5]
18. Total (sum of lines 15, 16, and 17)	-1.5	-3.9	-4.9	-1.0	0.3	n.a.	1,080.4[5]

1. Average of Wednesdays. Data are adjusted for breaks caused by reclassifications.
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.
4. Based on average of data for current and preceding ends of month.
5. July 1992.
n.a.--Not available.

The growth of M3 reflected the expansion of M2. On balance, the non-M2 components fell as large time deposits continued to contract, and the rapid rates of growth of institution-only money funds moderated.

Bank credit growth rebounded to a 5-1/2 percent annual rate in August, the strongest advance since April. Loans contracted for the fourth consecutive month in August, but more slowly than previously, while acquisitions of securities strengthened. Preliminary data for September point to growth in bank credit about in line with that of August, as a resumption of growth in bank loans appears to be offset by a slowdown in the growth of securities.

Securities growth at banks during August was somewhat distorted by the warrants issued by the state of California to employees and contractors. About $1-3/4 billion of these warrants eventually appeared on bank balance sheets; the bulk of the remaining $1-1/4 billion of warrants were acquired by county and other local governments. California began redeeming the warrants in September, and their retirement could damp bank credit a bit.

Business loans contracted in August at the slowest pace since last November, and they appear to have increased in September. In August, the runoff in business loans at large banks slowed, perhaps reflecting reduced debt restructuring activity by large firms suggested by the falloff in equity issuance and the moderating pace of gross bond issuance. At small banks, business loans contracted at an accelerated pace in August, and another decline appears probable in September.

The August Senior Loan Officer survey and the Survey of Terms of Bank Lending (STBL) suggest that lending practices may have stabilized. Except for land acquisition and development loans, loan terms and standards apparently have not firmed in recent months.

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

	1990	1991	1992 Q1	1992 Q2[p]	1992 July[p]	1992 Aug.[p]	1992 Sept.[e]
Corporate securities - total[1]	19.82	32.15	41.01	41.45	46.89	38.43	41.56
Public offerings in U.S.	17.68	29.36	37.66	38.20	44.48	35.28	40.30
Stocks--total[2]	1.95	5.44	7.53	7.08	6.48	5.28	5.30
Nonfinancial	1.03	3.72	5.14	4.99	3.02	2.95	2.60
Utility	0.35	0.42	0.79	1.24	0.56	0.95	1.80
Industrial	0.68	3.30	4.35	3.75	2.46	2.00	0.80
Financial	0.92	1.72	2.38	2.09	3.46	2.70	2.70
Bonds	15.73	23.92	30.13	31.12	38.00	30.00	35.00
Nonfinancial	5.62	9.51	13.43	12.37	19.50	12.50	16.50
Utility	1.98	2.98	5.00	5.42	9.50	5.50	7.00
Industrial	3.64	6.53	8.43	6.95	10.00	7.00	9.50
Financial	10.11	14.41	16.70	18.75	18.50	17.50	18.50
By quality[3]							
Aaa and Aa	3.42	3.72	4.13	2.89	6.63	4.00	5.50
A and Baa	6.44	12.09	15.84	15.01	17.07	12.55	17.70
Less than Baa	0.15	1.03	2.64	3.31	4.13	2.62	2.58
No rating (or unknown)	0.04	0.02	0.10	0.02	0.03	0.08	0.02
Memo items:							
Equity-based bonds[4]	0.40	0.63	1.01	0.52	0.23	0.28	0.33
Mortgage-backed bonds	2.43	2.99	4.83	6.63	6.20	7.96	3.00
Other asset-backed	3.27	4.08	2.63	3.26	3.94	2.79	6.20
Variable-rate notes	0.80	0.84	0.90	2.18	0.98	1.84	2.62
Bonds sold abroad - total	1.92	2.33	2.61	2.46	2.20	3.00	1.00
Nonfinancial	0.46	1.00	0.96	1.06	0.80	1.30	0.30
Financial	1.46	1.33	1.64	1.40	1.40	1.70	0.70
Stocks sold abroad - total	0.22	0.46	0.74	0.79	0.21	0.16	0.26
Nonfinancial	0.10	0.38	0.53	0.67	0.09	0.14	0.26
Financial	0.12	0.08	0.21	0.12	0.12	0.01	0.00

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.

Further, the STBL indicates that bank loan rates generally moved down with market interest rates between May and August, leaving margins little changed on balance. In line with these surveys, the National Federation of Independent Businesses Survey also reported a drop in August in the percentage of respondents who indicated they had greater difficulty obtaining credit.

Real estate loans at banks posted a modest decrease in August, the third consecutive monthly decline. While relatively heavy securitizations and loan sales contributed to the decline, these factors do not appear to account fully for the weakness. Home equity loans were little changed in August, after rising almost 12 percent at an annual rate in July. Preliminary September data suggest some rebound in real estate lending.

Business Finance

Net external debt financing by nonfinancial business may have firmed a bit over the past two months, boosted by growth in commercial paper and the apparent turnaround in business loans at banks. Nonetheless, proceeds from bond issuance, including the deluge in September sparked by a drop in market interest rates, continue to go largely to debt retirement.[1]

Nonfinancial corporations have turned less to the equity market for financing in recent months, which may be influencing business borrowing. Gross public offerings of equity in September were a little under $3 billion, about the pace of the last two months but

1. According to one estimate, the nonfinancial sector has used about 60 percent of the proceeds from new bonds issued in 1992 to refinance maturing bonds and to call outstanding bonds. By contrast, in the late 1980s, only about a third of the proceeds from new offerings were applied to retire old bonds. Rough estimates suggest that refinancing will reduce bond interest payments $2 to $4 billion in 1992. Greater reductions in interest expense are being realized from the repricing of bank loans and maturing commercial paper.

well off that of the first half of the year. Consequently, net equity issuance by nonfinancial corporations amounted to only $13 billion (annual rate) in the third quarter, only a third of the first-half pace. A marked slowing in deleveraging activity has contributed to the falloff: Reverse leveraged buyouts have declined from $5.3 billion in the first half to less than $500 million in the third quarter. Initial public offerings of stock by smaller companies also have slowed, and the small volume of IPOs in registration points to a continuation of this trend.

In the junk bond market, nonfinancial corporations issued $2.6 billion in both August and September, bringing the gross volume of public offerings for the year to $27 billion. The bulk of this issuance is to pay down higher-yielding bonds. At an annual rate, gross issuance of junk bonds in 1992 is about on pace with that of the late 1980s. The heavy issuance has not resulted in a widening of yield spreads largely because junk bond retirements have been equally heavy, defaults have moderated, and demand has been buoyed by strong inflows to junk bond mutual funds.

Stock price indexes are off since the August FOMC meeting, but several indexes set all-time highs during the intermeeting period. The S&P 500 price-earnings ratio, at 24.5, has edged down from its May peak of 26, but it remains high by historical standards.

Bank share prices have declined about 4 percent since the last meeting, and yield spreads on their subordinated notes have widened 5 to 15 basis points. The price declines probably reflect lingering problems with real estate loans. Nevertheless, bank holding companies have continued to tap the markets for regulatory capital: Since the August FOMC meeting, they have issued roughly $1 billion each of subordinated notes and of new equity shares, raising the combined total issuance for 1992 to $16 billion, already an annual record. By contrast, issuance of notes that do not count as regulatory capital, such as commercial paper and senior notes, remained weak.

Stock prices of property/casualty insurance companies fell in the aftermath of Hurricane Andrew, but the prices of some companies have rebounded recently on the prospect that the industry may now raise premiums significantly. Initial estimates of insured losses from Hurricanes Andrew and Hurricane Iniki were \$7.3 billion for southern Florida, \$500 million for Louisiana, and \$1.6 billion for Hawaii. Several firms have announced upward revisions to their loss estimates from Andrew, however, and total insured losses may be as high as \$12 billion. Catastrophic losses for 1992 will almost certainly exceed the one-year record of \$7.3 billion set in 1989, but their impact on the financial condition of the insurance industry is expected to be slight. In general, major catastrophes are only a small portion of the industry's total insured losses over the course of a year. Nonetheless, some individual companies have been adversely affected: Moody's has downgraded Allstate and Continental, and both Moody's and Standard and Poor's are reviewing Prudential's rating.

Treasury Financing

The projected \$71 billion deficit for the third quarter is expected to be financed by a roughly equal amount of marketable borrowing. Nonmarketable borrowing is projected to be slightly positive in the third quarter because of the heavy redemptions by state and local governments of nonmarketable Treasury obligations when debt that has been pre-refunded reaches call dates. Instead of using the SLG program, many municipalities have invested the proceeds of recent advance refundings in marketable Treasury securities.

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

	1992				
	Q2	Q3[p]	July	Aug.	Sept.[p]
Treasury financing					
Total surplus/deficit (-)	-28.4	-70.6	-43.1	-24.7	-2.8
Means of financing deficit:					
Net cash borrowing from the public	62.5	73.3	28.3	38.8	6.2
Marketable borrowings/ repayments (-)	52.8	72.5	32.9	34.5	5.1
Bills	2.4	16.0	14.1	4.7	-2.9
Coupons	50.4	56.5	18.8	29.7	8.0
Nonmarketable	9.7	.9	-4.6	4.4	1.1
Decrease in the cash balance	-27.2	-11.0	9.5	1.5	-22.1
Memo: Cash balance at end of period	47.0	58.1	37.5	36.0	58.1
Other[2]	-6.9	8.3	5.3	-15.7	18.7
Federally sponsored credit agencies, net cash borrowing[3]	8.1		--	--	--
FHLBs	-.5	--	--	--	--
FHLMC[4]	2.5	--	--	--	--
FNMA	7.7	--	-1.6	2.9	--
Farm Credit Banks	-.8	--	-2.6	2.9	--
SLMA	-1.2	--	--	--	--
FAMC[5]	.5	--	.0	.0	--

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.
4. Data for April and May only.
5. Federal Agricultural mortgage Corporation.
p--projected.
Note: Details may not add to totals due to rounding.

In recent weeks, the Treasury has cut back the sizes of its three- and six-month bill and two-year note auctions to reduce the mid-September bulge in its cash balance resulting from corporate and individual tax payments. Nevertheless, in the fourth quarter, the Treasury will likely need to increase sharply gross auction sizes.

The Treasury began a year-long experiment with single-price ("Dutch") auctions, beginning with the monthly two- and five-year note auctions held in late September. The Treasury hopes that by removing the risk of paying prices that are higher than necessary to receive securities, single-price auctions will broaden participation at auctions as well as prevent the shading of bids by existing participants. The increased demand for Treasury securities at auctions may offset the losses created because some buyers pay a lower price than when the Treasury charged multiple prices. The two-year auction went well, attracting a heavy volume of bids and coming in at an unusually tight spread to the when-issued rate at the time of the auction. The five-year auction, however, went poorly, as evidenced by a relatively low volume of bids and an unusually large mark-up over the when-issued rate.

Municipal Securities

During the third quarter, gross issuance of long-term municipal bonds was robust, but a substantial portion was to refund bonds with higher yields. During this year, the average monthly refunding volume, $6.2 billion, has been higher than the record pace established in 1986, when falling interest rates and anticipated limits on the number of pre-refundings spurred issuance. The heavy issuance has caused municipal bond yields to rise relative to Treasury rates in the past two months.

Sales of short-term debt reached a record pace during September. The largest issue was by California, which sold about

$5 billion of notes for funding government operations. The state had already sold $3 billion of one-month notes to pay down scrip issued during the state's two-month budget crisis. Despite the resolution of the budget crisis, many analysts fear that the fiscal 1993 budget does not address the full extent of the state's deficit problems. These concerns were reflected in the premium paid on the state's one-month note offering. These tax-exempt notes were priced to yield 3.4 percent, only about 10 basis points below medium-grade taxable commercial paper yields with the same maturity.

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

			1992			1992		
	1990	1991	Q1	Q2	Q3[f]	July	Aug.[p]	Sept.[f]
Total offerings[1]	13.49	16.60	16.75	21.64	24.18	19.75	23.09	29.71
Total tax-exempt	13.24	16.18	16.20	20.89	23.80	19.67	22.24	29.50
Long-term	10.26	12.84	14.47	16.60	17.39	16.18	18.00	18.00
Refundings[2]	1.68	3.11	5.12	5.81	7.54	8.62	6.01	8.00
New capital	8.58	9.73	9.35	10.79	9.85	7.56	11.99	10.00
Short-term	2.98	3.34	1.73	4.29	6.41	3.49	4.24	11.50
Total taxable	.25	.42	.55	.75	.38	.08	.85	.21

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

Several other states have tapped or soon will tap the short-term market for funds. These states have entered the 1993 fiscal year with smaller-than-normal cash reserves and are using short-term debt to finance temporary imbalances between outlays and revenues. Yields on new tax-exempt notes have jumped over the past month, owing primarily to the sharp increase in supply. The rating agencies view negatively the heavy reliance on short-term debt by states with financial problems, as it signals a reluctance to deal with budget imbalances. Such borrowings have been a factor in several downgradings, including Moody's lowering of New Jersey's long-term rating from Aaa to Aal in August. In contrast, Standard and Poor's and Moody's each upgraded Massachusetts's general obligation debt to A when the state ended the 1992 fiscal year with a significant budget surplus, and subsequently reduced its reliance on short-term borrowing.

The credit quality of local governments in south Florida is being reviewed by Standard & Poor's following Hurricane Andrew. Dade County officials have estimated a shortfall of at least $55 million for the county government. Other local governments may face shortfalls of up to $30 million. Standard & Poor's has suggested that, without federal aid, some of these governments are likely to be downgraded.

Mortgage Markets

Over the intermeeting period, net changes in interest rates on conventional home mortgage loans have been mixed. The average contract rate on new commitments for thirty-year, fixed-rate loans has remained relatively stable around 8 percent, while the average initial rate quoted on ARMs indexed to the one-year constant maturity Treasury yield has fallen nearly 30 basis points. As a result, the initial rate advantage of ARMs has widened further to roughly 3 percentage points, close to the record 313 basis points set in October 1987. At that time, ARMs accounted for over 60 percent of conventional loan originations. Despite the relatively wide initial rate spread between FRMs and ARMs, ARMs currently account for only about 20 percent of loan originations.

Gross issuance of fixed-rate pass-throughs by the agencies, while still sizable in August, weakened further from the record pace of the second quarter (table). With the August moderation in pass-through issuance, REMIC issuance also slowed somewhat, but is expected to increase in coming months, partly because many

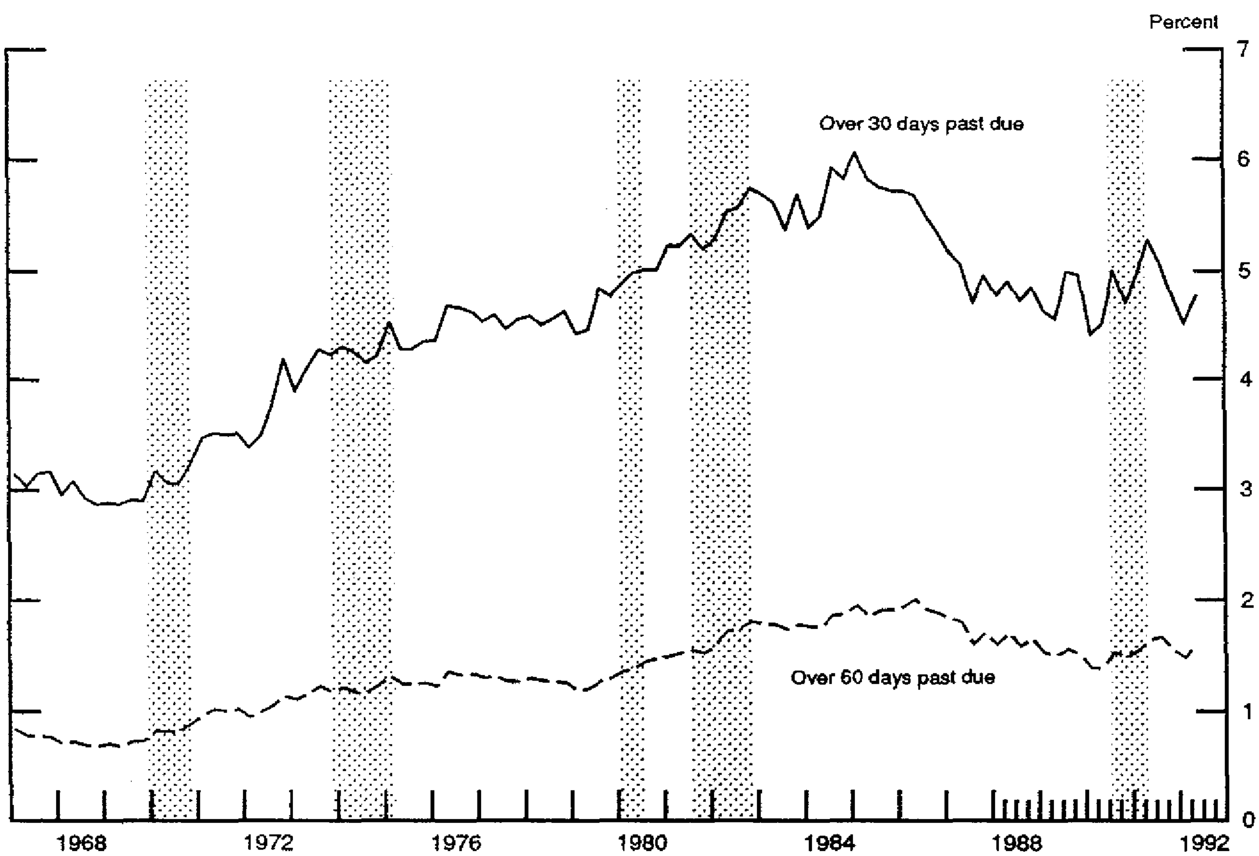
SELECTED MORTGAGE DEBT AGGREGATES

	Mortgage Debt Outstanding (Percent change at annual rate, nsa)					Net Issuance of Securitized Residential Mortgages (Percent change at annual rate, nsa)			
	Total	Single Family	Multi Family	Commercial	Farm	Total	GNMA	FNMA	FHLMC
1987	12.8	13.3	8.2	17.0	-9.6	25.8	20.2	44.0	24.1
1988	9.2	11.7	4.4	5.3	-2.6	11.5	7.8	27.4	6.5
1989	8.5	10.0	4.1	6.6	-1.4	16.9	8.6	28.0	20.5
1990	6.7	8.7	2.0	3.0	-0.1	17.1	9.1	31.4	15.9
1991	3.1	4.9	-0.5	-1.2	-0.9	13.4	5.4	24.1	13.5
1991-Q1	3.8	4.4	2.0	3.2	-0.1	10.1	6.3	16.4	9.1
Q2	5.7	7.2	4.1	2.0	-0.8	13.0	3.7	24.3	13.9
Q3	1.4	4.8	-9.3	-5.7	-2.9	16.2	8.5	25.2	16.8
Q4	1.5	3.2	1.0	-4.2	0.0	11.8	2.6	22.8	11.8
1992-Q1	4.5	7.5	-0.4	-3.9	-1.3	8.0	-3.1	19.2	9.7
Q2	2.8	5.7	-9.7	-3.3	3.2	13.3	0.9	24.0	16.2
1992-Jul.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.9	15.0	n.a.
Aug.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.5	17.4	n.a.

n.a.--not available

HOME MORTGAGE DELINQUENCY RATES AT ALL LENDERS

(Seasonally adjusted, quarterly averages)



Source: Mortgage Bankers Association.

refinanced mortgages are ultimately funded through REMICs and partly because Freddie Mac has begun issuing REMICs backed by Ginnie Mae pass-throughs.

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	16.5	14.1	2.7	8.4	1.6	3.1	3.2	.3
1990	19.7	17.2	2.4	11.5	2.4	5.1	3.4	.6
1991	22.1	20.4	2.0	18.4	3.0	8.5	6.0	.9
1991-Q3	24.5	23.7	2.0	22.6	3.6	10.4	7.1	1.5
Q4	22.6	22.4	2.5	23.5	2.9	11.2	7.3	2.1
1992-Q1	35.1	29.1	2.0	23.5	4.8	11.1	7.0	.6
Q2	42.2	36.7	3.6	33.8	6.6	13.9	12.4	.9
1992-July	33.4	29.0	3.1	40.3	6.0	19.9	11.7	2.7
Aug. p	30.1	29.4	3.0	36.5	8.0	15.0	12.7	.8

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

Data for the second quarter indicate that mortgage credit for all property types grew at an estimated 2.8 percent annual rate, with the expansion largely accounted for by loans on single-family properties (table). Outstanding multi-family mortgages and commercial mortgage debt continued to fall. Available data suggest that net mortgage debt growth remained weak through August: Net issuance of bonds backed by residential mortgages was relatively light in July and August, while real estate loans at banks declined in both months. However, as noted above, preliminary data for banks indicate a pickup in real estate lending in September, and third quarter home mortgage applications at mortgage bankers have remained very strong.

Delinquency rates for mortgages deteriorated a bit in the second quarter for most types of loans (chart). The 30-day mortgage

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (at annual rate)							Memo: Outstandings (billions of dollars)
				1992		1992		1992
	1989[1]	1990	1991	Q1	Q2[r]	June[r]	July[p]	July[p]
Installment	5.8	2.6	-1.0	-.2	-2.6	-.5	-1.9	721.5
Auto	1.4	-2.4	-7.6	-1.3	-7.5	-12.0	2.4	257.8
Revolving	15.2	11.9	8.9	4.1	3.4	5.6	-.7	247.2
Other	4.2	.8	-2.3	-3.6	-3.6	6.4	-8.3	216.5
Noninstallment	3.9	-3.5	-10.0	17.5	8.0	3.3	7.4	56.5
Total	5.6	2.1	-1.7	1.0	-1.9	-.2	-1.2	778.1

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)

	1989	1990	1991	1992				
				Feb.	May	June	July	Aug.
At commercial banks[1]								
New cars (48 mo.)	12.07	11.78	11.14	9.89	9.52	...	...	9.15
Personal (24 mo.)	15.44	15.46	15.18	14.39	14.28	...	...	13.94
Credit cards	18.02	18.17	18.23	18.09	17.97	...	...	17.66
At auto finance cos.[2]								
New cars	12.62	12.54	12.41	10.19	10.67	10.25	9.94	8.88
Used cars	16.18	15.99	15.60	14.00	14.01	13.89	13.67	13.49

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.

delinquency rate rose to 4.8 percent, retracing the previous quarter's decline. The number of single-family loans 60 days or more past due, a measure of more serious payment problems, edged up to 1.6 percent. Despite their recent uptick, both measures of payment difficulties remain below the peak levels recorded in the mid-1980s.

Consumer Installment Credit

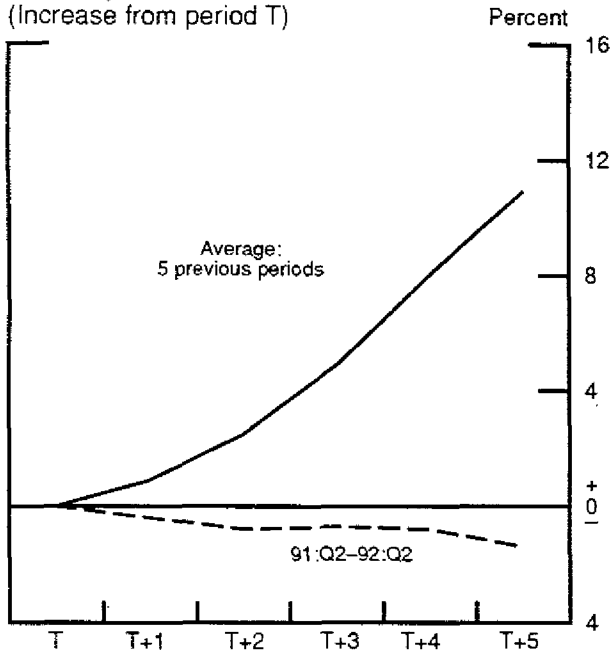
Consumer installment credit outstanding contracted at a 2 percent annual rate in July, and several indicators suggest that the downward trend continued in August. In particular, growth of consumer credit at banks (after adjustment for securitization) remained slow, and with sluggish new-car sales and with relatively high interest rate spreads on outstanding consumer loans, consumer credit demands likely remain subdued.

Growth in consumer debt has been unusually weak throughout the current economic recovery. By the fifth quarter of the previous five recovery periods, consumer credit had increased an average of 11 percent from its level at the trough (chart). Assuming the second quarter of 1992 is the fifth quarter of the current recovery, consumer credit was 1-1/2 percent below its level in the trough quarter. A major factor behind this credit contraction is an atypically sluggish growth for spending on durable goods, which are frequently financed by consumer debt. Recent spending on consumer durables also has trended far below its average recovery path (chart); durables consumption was 4 percent above its trough level in the fifth quarter of the current recovery period, compared to an average gain of 17 percent after five quarters of earlier recoveries.

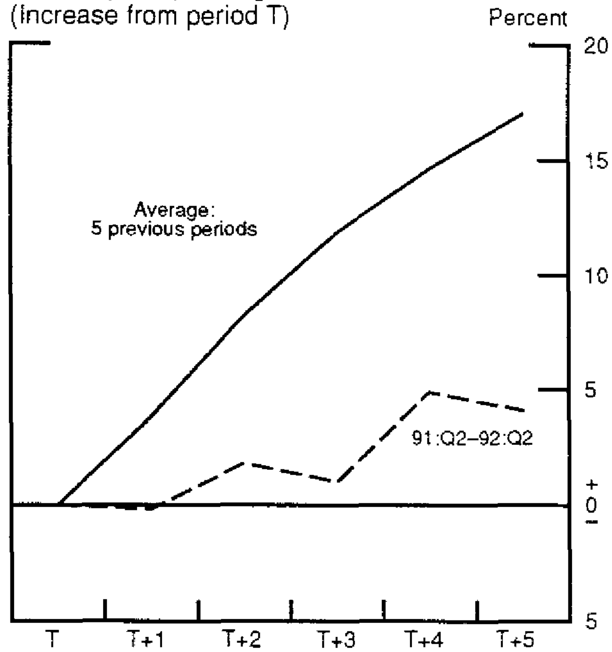
Other factors influencing the growth in consumer debt are the shift by borrowers from consumer loans into home equity loans and

FACTORS AFFECTING CONSUMER CREDIT GROWTH

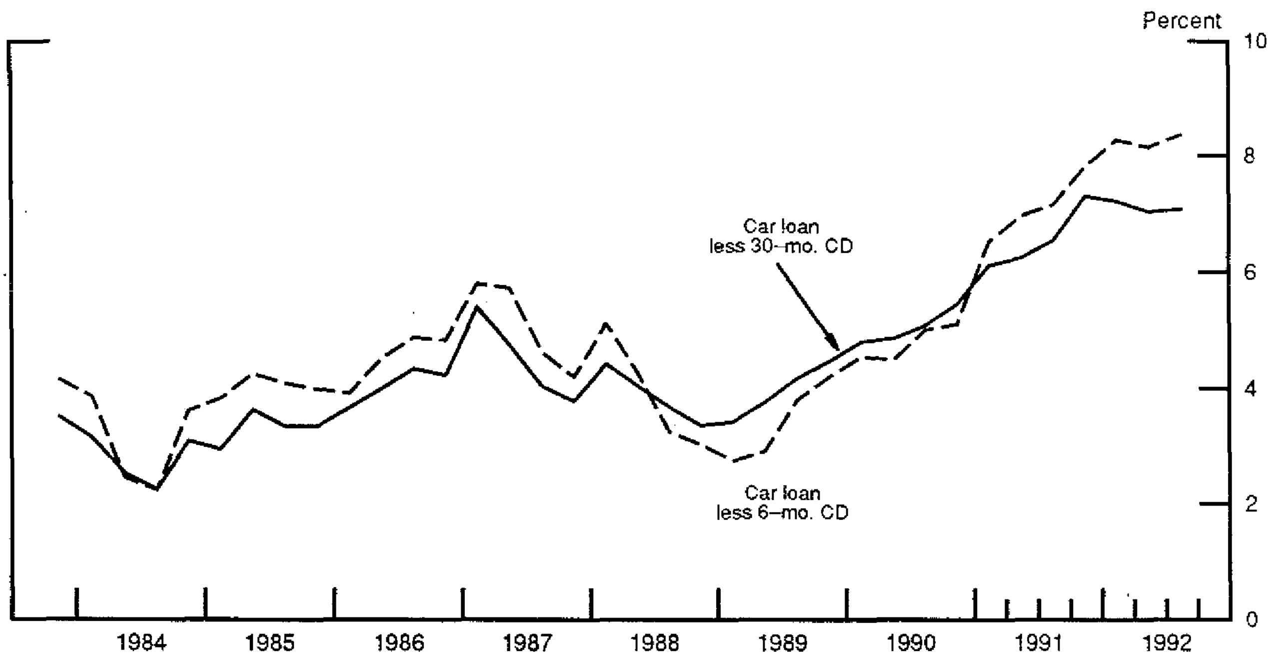
Recovery in Consumer Credit
(Increase from period T)



Recovery in Spending on Durables
(Increase from period T)



Rate Spread: New–car loan vs. 6–month and 30–month CDs[1]



1. New–car loan rate is a 12–quarter average; all rates on after–tax basis.

auto leasing, and the paying down of consumer debt ahead of schedule. The substantial widening of the spreads of rates that households are paying on existing consumer debt over the rates at which maturing financial assets can be reinvested remains a strong incentive for households to liquidate debt. Although rates charged on newly originated consumer loans have dropped in recent months, particularly for auto loans, rates on the existing stock of consumer debt are mostly fixed at their original levels. Spreads between the after-tax cost of existing auto loans and currently available after-tax yields on retail CDs of six- and thirty-month maturity are estimated to be from 1-1/2 to 2-1/2 percentage points above previous highs in early 1987 (chart).[2]

The ability of households to meet payment obligations appears to have improved over the past year, despite the weakness of the economic recovery and slow income growth. Most series on loan delinquencies have been on the downswing since last summer, although the picture for the second quarter (most recently available data) has been somewhat mixed.

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2. Rates on new-car loan portfolios are measured using a 12-quarter average to approximate the average rate on outstanding loans. The major tax adjustment used here takes account of the phaseout of tax deductibility for nonmortgage interest payments starting in 1987. In that year, 65 percent of nonmortgage interest was deductible. The deductible portion was reduced to 10 percent by 1990, with no deductibility thereafter.

Consumer surveys indicate that most consumer credit is owed by households with income at or above the median. Most consumers with this level of income itemize their deductions. To approximate the marginal tax rate for such consumers, the average of marginal rates at the median income and twice the median income levels for each year were used in calculating the after-tax auto loan rate and CD rates.

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

The preliminary U.S. merchandise trade deficit in July was $7.8 billion (seasonally adjusted, Census basis), compared with $6.7 billion (revised) in June and an average of $7.0 billion (monthly rate) in the second quarter. Non-agricultural exports remained about unchanged from the average monthly rates recorded during each of the preceding three quarters. Agricultural exports rose noticeably above the recent quarterly average of $3.6 billion (monthly rate) due to gains in shipments of wheat and soybeans.

Non-oil imports in July continued on the fairly strong upward trend that was evident during the first and second quarters of the year, particularly imports of capital goods and consumer goods.

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

	Exports			Imports			
	Total	Ag.	NonAg.	Total	Oil	NonOil	Balance
1992-Jan	35.5	3.6	31.9	41.3	3.6	37.6	-5.8
Feb	37.7	3.7	33.9	40.9	3.3	37.6	-3.3
Mar	37.1	3.5	33.6	42.7	3.4	39.2	-5.6
Apr	36.4	3.8	32.7	43.5	4.0	39.5	-7.1
May	35.7	3.3	32.4	42.9	4.2	38.7	-7.1
Jun	38.2	3.5	34.7	44.9	4.8	40.1	-6.7
Jul	37.3	3.9	33.5	45.2	4.8	40.3	-7.8

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

For the second quarter, a combination of flat exports and growing imports resulted in a merchandise trade deficit that approached an annual rate of $100 billion (BOP basis), a rate not seen since 1990-Q4.

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

	Year	1991			1992		$ Change	
	1991	Q2	Q3	Q4	Q1	Q2	Q2-Q2	Q2-Q1
Trade Balance	-73.4	-65.6	-80.7	-74.2	-68.9	-97.7	-32.1	-28.8
Total U.S. Exports	416.0	413.3	416.6	431.4	431.8	430.3	17.0	-1.5
Agricultural Exports	40.1	37.5	40.7	43.2	43.3	42.0	4.5	-1.3
Nonagric. Exports	375.8	375.8	375.9	388.2	388.5	388.3	12.5	-0.2
Industrial Suppl.	101.8	101.3	100.5	100.0	99.7	100.4	-0.9	0.6
Gold	3.6	3.2	3.4	3.6	3.8	3.4	0.2	-0.4
Fuels	14.3	13.0	12.7	14.7	13.9	13.6	0.6	-0.4
Other Ind. Suppl.	83.9	85.2	84.3	81.8	82.1	83.4	-1.8	1.4
Capital Goods	167.0	169.4	166.7	176.3	176.4	174.1	4.7	-2.3
Aircraft & Parts	36.4	38.7	35.4	40.8	42.6	37.7	-1.0	-4.9
Computers & Parts	27.3	27.2	26.8	27.9	27.4	28.6	1.4	1.2
Other Machinery	103.3	103.4	104.5	107.5	106.4	107.8	4.4	1.4
Automotive Products	40.0	39.7	43.7	41.7	42.9	46.2	6.5	3.3
To Canada	22.8	21.9	25.0	23.1	20.8	23.7	1.8	2.9
To Other	17.5	17.8	18.7	18.6	22.1	22.5	4.7	0.4
Consumer Goods	45.9	44.5	44.9	48.2	47.9	48.7	4.1	0.7
Other Nonagric.	21.0	20.9	20.1	22.1	21.5	19.0	-1.9	-2.5
Total U.S. Imports	489.4	478.9	497.3	505.6	500.7	528.0	49.1	27.3
Oil Imports	51.2	51.7	52.5	48.8	41.5	51.9	0.1	10.4
Non-Oil Imports	438.2	427.1	444.8	456.8	459.2	476.1	49.0	16.9
Industrial Suppl.	83.9	80.4	80.0	83.3	84.3	88.4	8.0	4.1
Gold	2.9	3.0	2.3	3.1	2.3	3.7	0.8	1.5
Other Fuels	3.9	3.9	3.8	4.8	4.4	4.6	0.6	0.2
Other Ind. Suppl.	77.1	73.5	73.9	75.4	77.7	80.1	6.6	2.4
Capital Goods	120.7	120.4	121.3	122.1	125.1	131.4	11.1	6.3
Aircraft & Parts	11.7	12.2	12.5	11.5	12.1	13.5	1.3	1.4
Computers & Parts	26.1	25.8	27.1	26.8	27.7	30.7	4.9	3.0
Other Machinery	82.9	82.4	81.7	83.8	85.4	87.2	4.8	1.9
Automotive Products	84.9	79.1	90.8	88.6	87.8	89.3	10.2	1.5
From Canada	28.8	28.1	33.1	30.1	30.9	31.7	3.6	0.7
From Other	56.2	51.0	57.7	58.5	56.9	57.6	6.6	0.7
Consumer Goods	108.0	101.6	109.9	118.7	116.2	119.0	17.4	2.9
Foods	26.5	27.6	26.3	26.4	26.8	29.1	1.5	2.3
All Other	14.1	18.0	16.5	17.7	19.0	18.9	0.9	-0.1

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

The increase in non-oil imports during the second quarter was spread across every major trade category, with notable increases in computers and parts, consumer goods, and industrial supplies. By area, the largest increase was in imports from Canada, only a small fraction of which were automotive products. Non-oil imports from Japan actually fell in the second quarter.

Nonagricultural exports remained essentially unchanged in the second quarter as a substantial drop in shipments of aircraft about offset significant increases in exports of automotive products (largely to Canada) and capital goods other than aircraft. By area, exports to industrial countries (Japan and Western Europe) dropped sharply, while exports to developing countries rebounded sharply from a first-quarter lull. Agricultural exports fell in the second quarter as wheat shipments retreated from the strong first-quarter rate that was the byproduct of a bunching of shipments.

Oil imports increased in July, as both the quantity and the price of these imports rose well above the second-quarter levels. The noticeable increase in the quantity of oil imported over the past two months appears to have been the result of a combination of increased consumption and stockbuilding. Preliminary Department of Energy data for August indicate a small decline in the quantity of imports, in part due to the temporary shutdown of the Louisiana Offshore Oil Pipeline (LOOP) brought about by Hurricane Andrew. The

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1991	1992		Months			
	Q4	Q1	Q2	Apr	May	Jun	Jul
Value (Bil. $)	48.78	41.47	51.86	47.83	50.11	57.64	57.99
Price ($/BBL)	18.05	15.27	17.48	16.16	17.41	18.81	18.68
Quantity (mb/d)	7.40	7.44	8.12	8.11	7.88	8.39	8.50

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

bulk of Hurricane Andrew's effect on oil production, consumption, and imports will be reflected in September data.

Since the beginning of June, the spot price for West Texas Intermediate (WTI) has fluctuated around $22 per barrel, after having generally risen since March. OPEC's widely expected decision to increase its quota in the fourth quarter had little effect on oil prices, with spot prices currently standing at $21.57. These movements in spot prices suggest that import prices were little changed from the July level in either August or September.

Prices of Exports and Non-oil Imports

In August, prices of nonagricultural exports rose for the seventh consecutive month. Relative to the second quarter, prices of nonagricultural exports in July/August rose at an average annual rate of 2.2 percent. As for the second quarter, increases in July/August were primarily attributable to higher prices of exported industrial supplies (especially building materials and fuels), with smaller increases recorded for consumer goods and automotive products. Prices of agricultural exports fell sharply in both August and July, recording an average annual rate of decline of 9.6 percent relative to the second quarter.

Prices of non-oil imports rose 0.4 percent (monthly rate) in August. Compared with the second quarter (when prices of non-oil imports fell), prices of non-oil imports rose at an annual rate of 4.2 percent in July/August. This increase was the result of continued strength in prices of industrial supplies and consumer goods, as well as turnarounds in the prices of imports of capital goods and automotive products. The recent increases in non-oil import prices reflect in part a lagged adjustment to the decline in the exchange value of the dollar during the second quarter.

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

	Year 1992-Q2 / 1991-Q2	Quarters 1991 Q4	1992 Q1	1992 Q2	Months 1992 Jul	Aug
		(Quarterly Average, AR)			(Monthly Rates)	
	--------------------BLS Prices--------------------					
Imports, Total	0.4	5.2	-1.2	1.1	0.5	0.3
Foods, Feeds, Bev.	-1.7	3.7	10.0	-15.1	0.3	-0.3
Industrial Supplies	-1.9	3.1	-15.1	13.4	0.1	-0.1
Ind Supp Ex Oil*	-2.0	-4.3	4.7	-0.7	0.1	0.4
Capital Goods	0.7	6.5	4.7	-3.6	0.9	0.9
Automotive Products	1.1	7.4	0.9	-2.6	0.4	0.2
Consumer Goods	2.7	5.1	6.2	0.4	0.6	0.4
Memo:						
Oil	-1.8	19.5	-45.0	50.3	0.3	-1.0
Non-oil	0.6	3.9	4.4	-2.7	0.5	0.4
Exports, Total	0.0	2.5	-1.4	1.6	0.0	-0.2
Foods, Feeds, Bev.	1.7	17.6	-1.3	-2.1	-1.7	-4.4
Industrial Supplies	-3.2	-3.0	-6.5	5.3	0.6	0.9
Capital Goods	1.1	2.2	0.7	-0.1	0.0	0.2
Automotive Products	2.0	3.0	1.6	1.0	0.2	0.0
Consumer Goods	1.9	2.5	5.9	1.6	0.1	0.0
Memo:						
Agricultural	-0.7	10.8	-3.3	-1.0	-1.2	-3.5
Nonagricultural	0.0	1.2	-1.3	2.1	0.3	0.3
	------------Prices in the NIPA Accounts-----------					
Fixed-Weight						
Imports, Total	0.5	4.1	-4.2	4.8	--	--
Oil	1.1	20.1	-48.9	72.1	--	--
Non-oil	0.4	2.2	1.8	0.0	--	--
Exports, Total	0.0	2.2	-0.7	1.1	--	--
Ag	-1.1	10.4	-4.1	-1.1	--	--
Nonag	0.2	1.1	-0.4	1.5	--	--
Deflators						
Imports, Total	-1.9	2.3	-6.9	1.6	--	--
Oil	1.2	20.4	-48.6	70.6	--	--
Non-oil	-2.3	0.2	-1.5	-3.2	--	--
Exports, Total	-1.2	1.1	-1.1	-2.0	--	--
Ag	-2.3	4.6	-5.2	-1.7	--	--
Nonag	-1.2	0.6	-0.7	-2.0	--	--

*/ Months not for publication.

U.S. Current Account

The U.S. current account balance recorded a deficit of $71.2 billion (annual rate) in the second quarter of 1992, compared with a $23.6 billion deficit (revised) in the first quarter of 1992. Most of the increase was due to a sharp rise in the merchandise trade deficit; however, surpluses on both the investment income and services balances decreased, and net unilateral transfers increased.

U.S. Current Account
(billions of dollars, seasonally adjusted)

	Merchandise Trade, net	Services net	Investment Income, net	Transfers net	Current Acct Bal Pub.	Current Acct Bal Ex Foreign Grants 1/
Year						
1991	-73.4	45.3	16.4	8.0	-3.7	-46.2
Quarters						
1991-1	-73.3	37.4	27.9	56.8	48.8	-41.9
2	-65.6	43.1	15.7	16.5	9.7	-36.7
3	-80.7	48.1	12.3	-24.0	-44.3	-62.8
4	-74.2	52.5	9.8	-17.1	-28.9	-43.5
1992-1r	-68.9	55.4	17.9	-28.0	-23.6	-25.4
2	-97.7	51.9	5.5	-30.9	-71.2	-74.4

1/ Excludes foreign cash grants to the United States to cover costs of the war in the Persian Gulf. These grants amounted to $42.5 billion in 1991 and $1.3 billion in 1992 and are shown in the accounts as positive unilateral transfers.

The decline in the surplus on the services balance is the result of declines in military sales and net service receipts of affiliated businesses (traditionally a volatile category). A slowing in the gains recorded in travel receipts, as well as stagnant performances in most other services categories, also helped to lower the surplus on services.

The increase in net unilateral transfers was mostly due to a step-up in U.S. government grants, partly the result of increased expenditures associated with peace keeping and refugee efforts.

The deterioration of the surplus on the investment income balance was largely the result of an increase in payments on foreign assets in the United States. In particular, direct investment income payments swung from losses in the first quarter to small profits in the second quarter. The swing in direct investment payments was largely the result of a return to profitability by U.S. affiliates of foreign banks. In addition, portfolio investment payments rose in the second quarter despite a decline in short-term interest rates as foreigners rebalanced their portfolios in favor of debt with longer maturities.

U.S. International Financial Transactions

Recently released figures for direct investment and other capital flows confirmed our prediction in the August Greenbook of a large negative statistical discrepancy in the second quarter (line 10 of the Summary of U.S. International Transactions table). Although the preliminary value for the second quarter was almost a negative $20 billion, the revised first-quarter number was increased by over $7 billion, to just over negative $8 billion. This change in the first-quarter statistical discrepancy was primarily the result of revisions in direct investment inflows and outflows; outflows of direct investment abroad were revised upward (line 6) and inflows of foreign direct investment into the United States were revised downward by enough to result in a net outflow for the quarter of $3.8 billion (line 7).

The $11 billion outflow of direct investment abroad in the second quarter was very high by historic standards, although lower than the first-quarter outflow. Once again, direct investment abroad ran well ahead of the inflow of foreign direct investment into the United States. For the first half of 1992, outflows reached an

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

	1990	1991	1991		1992		1992		
	Year	Year	Q3	Q4	Q1	Q2	May	June	Jul
Private Capital									
Banks									
1. Change in net foreign positions of banking offices[1] in the U.S. (+ = inflow)	36.6	-19.2	11.1	-2.0	3.9	-1.9	5.8	-8.0	-5.6
Securities									
2. Private securities transactions, net[2]	-29.1	-11.4	-2.5	-6.7	-4.3	1.3	0.1	1.4	-5.6
a) foreign net purchases (+) of U.S. corporate bonds[3]	16.2	25.7	8.2	6.5	7.7	11.9	3.7	4.1	1.7
b) foreign net purchases (+) of U.S. corporate stocks	-13.7	10.1	2.3	-1.5	-2.8	-0.8	0.1	-0.5	-0.1
c) U.S. net purchases (-) of foreign securities	-31.6	-47.3	-13.0	-11.8	-9.2	-9.8	-3.6	-2.2	-7.2
3. Foreign net purchases (+) of U.S. Treasury obligations	-1.0	17.8	-1.2	1.5	-0.7	10.4	-4.0	9.4	0.6
Official Capital									
4. Changes in foreign official reserves assets in U.S. (+ = increase)	32.1	16.0	3.4	13.3	21.1	20.2	9.1	7.1	2.3
a) By area									
G-10 countries	10.0	-17.6	-1.9	0.5	2.4	3.3	2.8	2.0	2.8
OPEC	1.2	-5.8	-4.4	1.2	2.8	-2.6	-3.1	0.9	1.2
All other countries	20.8	39.3	9.8	11.6	15.9	19.4	9.4	4.2	-1.7
b) By type									
U.S. Treasury securities	29.6	14.8	5.6	12.6	14.9	11.1	5.6	3.0	4.
Other[4]	2.5	1.1	-2.2	0.7	6.2	9.1	3.5	4.1	-2.
5. Changes in U.S. official reserve assets (+ = decrease)	-2.2	5.8	3.9	1.2	-1.1	1.5	2.0	-0.3	0.4
Other transactions (Quarterly data)[5]									
6. U.S. direct investment (-) abroad	-32.7	-27.1	-7.1	-11.7	-15.1	-11.0	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	45.1	11.5	*	5.7	-3.8	6.0	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow)[6]	-5.8	11.4	5.0	3.5	14.3	10.9	n.a.	n.a.	n.a.
9. U.S. current account balance	-90.4	-3.7	-11.1	-7.2	-5.9	-17.8	n.a.	n.a.	n.a.
10. Statistical discrepancy	47.4	-1.1	-1.5	2.4	-8.4	-19.6	n.a.	n.a.	n.a.
MEMO:									
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-108.9	-73.4	-20.2	-18.5	-17.2	-24.4	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.

unprecedented $26 billion; outflows of over $15 billion to Western Europe and $7 billion to Latin America were far above recent levels.

A contraction of Eurodollar holdings by U.S. residents contributed to a net inflow of $10.9 billion in the second quarter for other capital flows (line 8). Monthly average data presented on the International Banking Data table, indicate a continued decline in these holdings in July and August (line 3).

The most striking aspect of the July data in the Summary table is the dramatic increase in U.S. net purchases of foreign securities to $7.2 billion -- far above the already robust monthly rates established in the first and second quarters (line 2c). Net bond purchases totaled $4.3 billion, with stocks at $2.9 billion. Net purchases from Japanese residents amounted to $2 billion, three-quarters of which was for bonds. Net purchases from Canadians were slightly more than $2 billion (mostly bonds), with nearly another $1 billion from the French. Net purchases of $2.8 billion passed through the United Kingdom.

On the other hand, July also saw $1.6 billion in net <u>sales</u> of foreign securities to Latin American residents (presumably a reduction in U.S. holdings of Latin American securities). $600 million of this total constituted net sales of Chilean bonds, sales probably triggered by the increased exchange-rate risk engendered by a shift in the Chilean exchange-rate system from a peg to the dollar to a peg to a basket of foreign currencies. U.S. investors also sold net $400 million in Mexican stocks, as the Mexican stock market declined precipitously from its June peak.

Foreign net purchases of U.S. securities of all kinds were small in July (lines 2a, 2b, and 3). However, the low figure on line 2a is partly the result of a net reduction in foreign holdings

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1990				1991				1992			
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	July	Aug.
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	-41.4	-56.8	-55.6	-55.6
(a) U.S.-chartered banks	12.2	7.2	5.7	5.5	7.6	5.4	11.0	12.4	3.2	8.3	9.0	11.2
(b) Foreign-chartered banks	-23.9	-18.2	-21.3	-36.9	-31.3	-19.2	-25.2	-48.3	-44.6	-65.1	-64.7	-65.1
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	23.3	24.5	25.0	24.8
3. Eurodollar Holdings of U.S. Nonbank Residents 1/	110.6	106.5	109.1	116.1	114.6	105.8	100.8	102.9	100.3	92.0	90.6	87.7

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.

of U.S. agency bonds; foreign holdings of U.S. corporate bonds increased by approximately $2.4 billion, a reasonably robust rate. Eurobond sales in August continued to be strong.

Banks registered moderate net capital outflows for the second straight month (line 1). Foreign official reserve holdings in the United States rose only modestly in July (line 4); partial data for August from the FRBNY suggest continued slow growth.

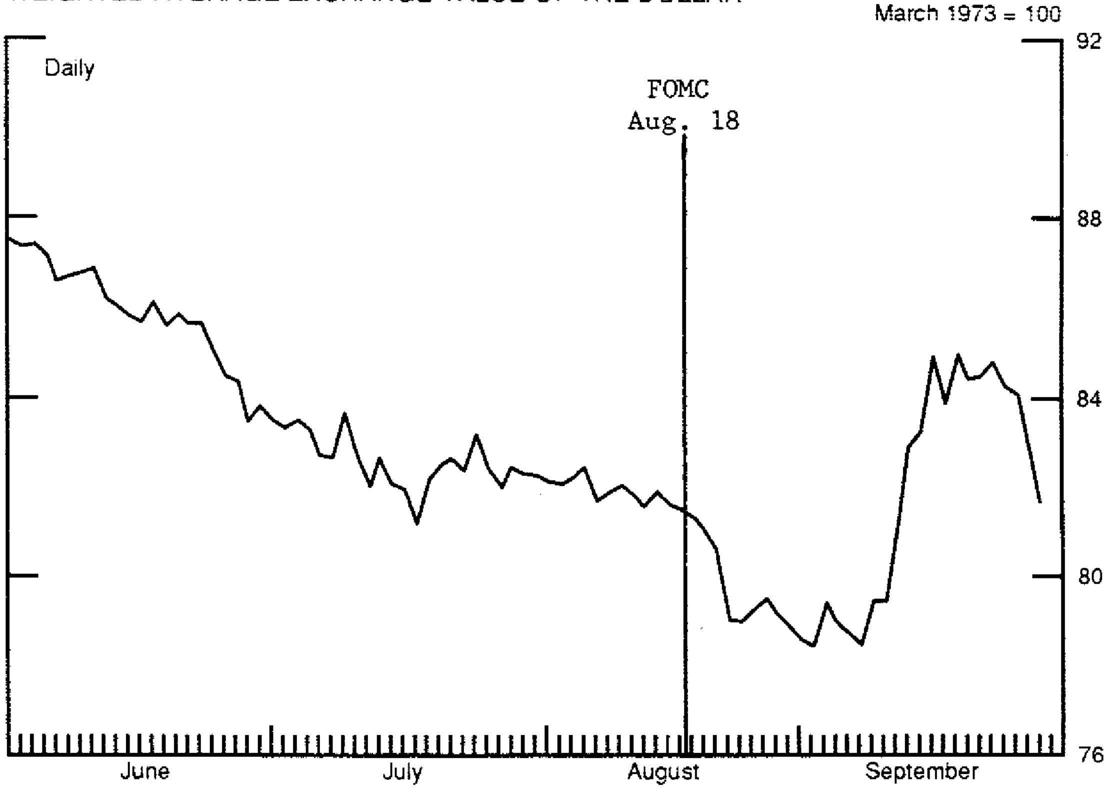
Foreign Exchange Markets

The trade-weighted average foreign exchange value of the dollar, shown in the accompanying chart, was highly volatile during the inter-meeting period, but finished the period near its level during the August 18 FOMC meeting. On balance, the dollar declined nearly 3-1/2 percent against the mark and 5-1/2 percent against the yen, while it rose 4-1/2 percent against the Canadian dollar, 8 percent against sterling, and 11-1/2 percent against the Italian lira. During the early part of the period the dollar weakened against the mark on the perception that strong German money growth in July reduced the likelihood of a near term German easing.

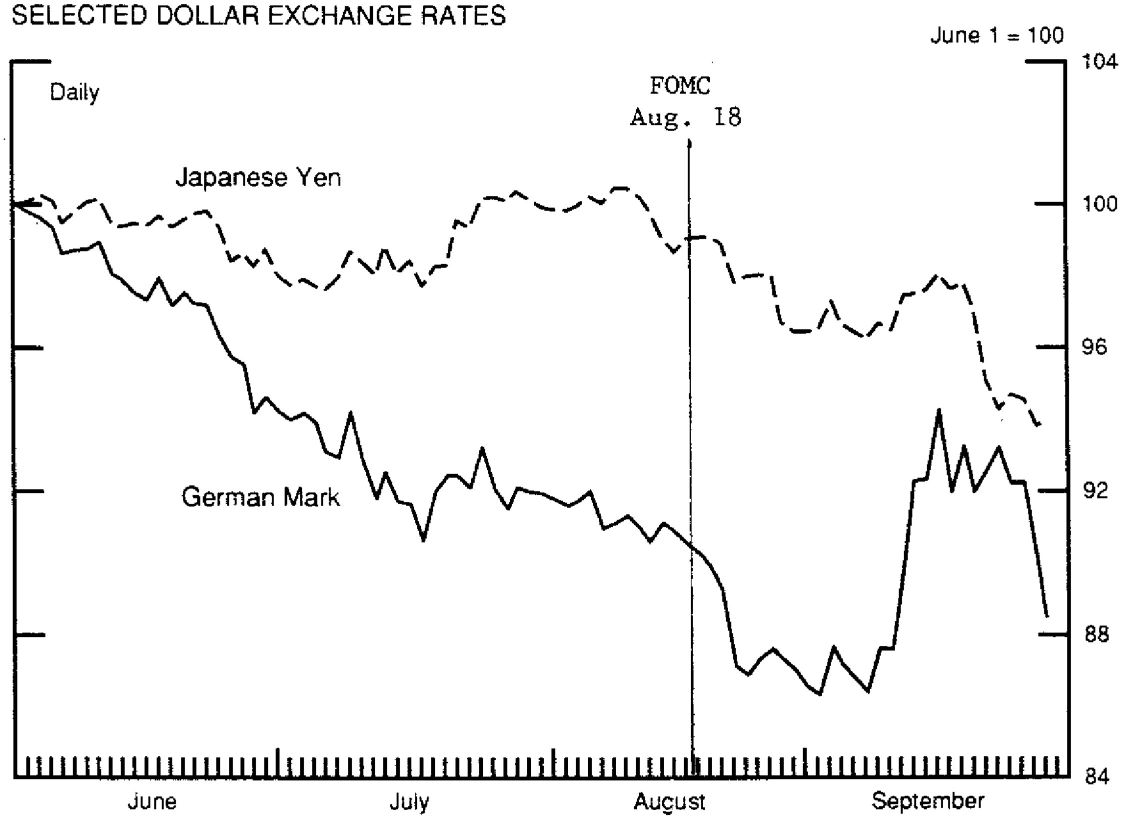
. Nevertheless, the dollar continued to decline, in part on the market's perception that the Bush administration favored a lower dollar to boost exports. The dollar was also weakened somewhat against the yen by the announcement on August 28 of Japan's ¥ 10.7 trillion fiscal stimulus package, and subsequently by poor employment figures for August that were followed by Federal Reserve easing on September 4.

The second half of the period was dominated by tensions in European currency markets. At first, the dollar rose sharply

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



SELECTED DOLLAR EXCHANGE RATES



against the mark and other European currencies in response to the announcement that the Bundesbank would ease in connection with the lira's realignment within the ERM of the EMS. The dollar later gained on safe-haven concerns amid the high exchange rate volatility in Europe, and on the expectation of further German easing to stabilize the ERM. Toward the end of the period the dollar fell sharply against the European currencies, as declining turmoil in the EMS eroded the dollar's safe-haven premium and reduced expectations for short-term German easing. Heightened expectations for further Federal Reserve easing also contributed to the dollar's end-of-period decline.

The dollar continued to depreciate against the yen for most of the second-half of the period, setting a new low near ¥ 118.50. Contributing to the dollar's decline were comments from U.S. Treasury officials indicating that the dollar's rate against the yen was not a cause for concern.

Currency tensions in Europe rose in the weeks before the French vote, in part on uncertainty about the effects that a possible French rejection of the Maastricht treaty would have on existing currency arrangements. The increase in tensions was evident in increasingly large sales of marks against other European currencies, Finland's decision to float the markka on September 8, and the Bank of Sweden's decision to raise its marginal lending rate to 75 percent the next day. One week before the French vote, following unprecedentedly large sales of DM for lira by the central banks of Italy and Germany, the central rate for the lira was devalued 7 percent, and it was announced that German interest rates would be reduced the following day. The Bundesbank reduced the Lombard rate 25 basis points to 9-1/2 percent and the discount rate 50 basis points to 8-1/4 percent, and announced a fixed rate RP tender at 9.20 percent--50 basis points less than the previous week.

Instead of reducing tensions, the size of the Bundesbank's rate cuts apparently strengthened the market's perception that the Bundesbank would keep rates high, while the lira's devaluation called into question the resolve of European central banks to maintain the existing parity relationships. Large scale attacks on sterling, the Italian lira, the French franc, the Spanish peseta, the Portuguese escudo, the Irish pound, the Danish krone, and the Swedish krona followed shortly.

As of this writing, the United Kingdom and Italy have withdrawn their currencies from the ERM and allowed them to float. Over the intermeeting period, sterling has declined about 11 percent against the mark, and the lira has declined 15 percent. Neither currency is expected to rejoin the ERM soon. Having withdrawn from the ERM, the Bank of England lowered official interest rates 1 percentage point.

The French franc remained under attack following the narrow affirmation of the Maastricht treaty.

. In addition, the German and French governments issued a joint communique indicating that there is no need to devalue the franc. The joint effect of these actions appears to have stabilized the franc.

The weaker currencies in the ERM remain under pressure. Although the central rate for the Spanish peseta was devalued 5 percent, the peseta remained under attack following the devaluation, prompting the Bank of Spain to reinstate capital controls. The central banks of Ireland and Portugal have also imposed capital controls.

Interest rates in Germany and mark-bloc countries have declined on balance during the period. In Germany, call money and three-month rates have declined by about 80 basis points to 9 percent since the last FOMC meeting, with most of this reduction occurring during the currency crisis. The yield on the bellwether bond has declined 45 basis points. Large rate declines also occurred in Switzerland, the Netherlands, and Belgium. The market had been expecting further German rate cuts, but these expectations diminished as ERM tensions subsided. Interest rates in other European countries, especially those whose currencies have been under attack, have been extremely volatile. For example, the Swedish marginal lending rate had been as high as 500 percent at one point, before being reduced to 24 percent, and overnight rates in Portugal have soared as high as 1,000 percent. Since the FOMC meeting, call money rates in France have risen 800 basis points, on balance, to 18 percent, but were much higher during the currency crisis. French three-month rates rose 275 basis points to 13 percent, with most of this increase occurring following the Maastricht vote.

Interest rates in Japan were essentially unchanged during the intermeeting period, with the call money rate hovering slightly above 4 percent, and the three-month rate remaining near 3-3/4 percent. The yield on the bellwether bond in Japan remained steady, slightly below 5 percent. The Japanese stock market posted a significant recovery during the period, and had risen as much as 32 percent, but toward the end of the period the Nikkei weakened for a net gain of 22 percent. The announcement of the Japanese fiscal stimulus package, and other additional measures aimed primarily at supporting the stock market, contributed to the Nikkei's rise.

The dollar rose 4-1/2 percent against the Canadian dollar during the period. The Canadian dollar began weakening during the period in response to Bank of Canada easing. Later, despite some Bank of Canada tightening, the Canadian dollar continued to weaken in response to polls that indicated that Canadian voters would reject the unity proposition in the Constitutional referendum scheduled for October 26. Toward the end of the period, these uncertainties contributed to sharp increases in Canadian interest rates. Canadian three-month interest rates rose nearly 250 basis points on balance during the intermeeting period, with half of this increase occurring on September 30.

Developments in Foreign Industrial Countries

Recent economic indicators in most major foreign industrial countries point to slower growth. Sales and orders weakened in Japan early in the third quarter, and leading indicators, such as business confidence, inventories, and investment intentions, suggest that weakness will persist in the near term. The Japanese government announced a major fiscal stimulus package in late August that should begin to have an impact later this year. In western Germany, industrial production and new orders continued to fall in

July, and the unemployment rate remained at 6.7 percent in August. Unemployment rates have continued to increase in the United Kingdom and have remained above 10 percent in France, Italy, and Canada. Industrial production was sluggish in Japan, Canada, the United Kingdom, and Sweden in the third quarter. Moderation in economic activity has generally led to lower inflation, except in western Germany.

French voters narrowly approved the Maastricht treaty on September 20. However, in the weeks prior to the vote, concern about the possible outcome contributed to intense pressures on the weaker currencies in the exchange rate mechanism (ERM) causing U.K. and Italian authorities to withdraw their currencies from the ERM. Central banks in France and Sweden raised call money rates substantially to defend their currencies. U.K. Prime Minister Major called an emergency EC summit (to be held October 16) to discuss necessary revisions to the Maastricht treaty and restoring stability to the ERM. The exchange value of the ruble also fell sharply in recent weeks as Russian production continued to drop and prices increased at a fast clip.

Individual country notes. In Japan, real GDP rose 0.7 percent (s.a.a.r.) in the second quarter, following a 3.6 percent increase in the first quarter. Second-quarter growth was more than accounted for by an increase in net exports, as imports (down at a 21.7 percent annual rate) fell by more than exports (down 12.7 percent). Final domestic demand was about flat in the second quarter. Buoyed by the acceleration of public works spending, government investment rose sharply (up 32.6 percent). Private final domestic demand declined at a 2.5 percent rate because of a sharp drop in plant and equipment investment (down 9.4 percent). The only strong component

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

	Q4/Q4 1990	Q4/Q4 1991	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Apr.	1992 May	1992 June	1992 July	1992 Aug.	Latest 3 months from year ago 2
Canada												
GDP	-2.0	-.0	.1	.0	.3	.2	*	*	*	*	*	.6
IP	-6.3	-1.4	.7	-1.1	-.2	.1	.2	-.5	-.1	-.6	n.a.	-1.5
France												
GDP	1.5	1.7	1.1	.1	1.0	n.a.	*	*	*	*	*	2.7
IP	-.3	1.9	.6	-.2	.1	-.2	1.3	-1.5	-.4	n.a.	n.a.	.3
WEST GERMANY												
GDP	5.8	2.0	-.2	-.3	2.0	-.3	*	*	*	*	*	1.1
IP	5.4	.3	-.5	-1.2	2.8	-2.0	-.7	-.1	-1.4	-.3	n.a.	-2.0
Italy												
GDP	1.6	1.8	.3	.4	.6	n.a.	*	*	*	*	*	2.0
IP	-3.8	-.5	-.3	1.1	2.5	n.a.	-5.5	4.2	n.a.	n.a.	n.a.	2.1
JAPAN												
GDP	5.2	3.0	.4	-.0	.9	.2	*	*	*	*	*	1.5
IP	6.9	-1.6	.1	-1.2	-3.1	-2.3	.1	-1.9	2.5	.4	-3.7	-5.8
United Kingdom												
GDP	-1.0	-1.6	.2	-.3	-.4	-.2	*	*	*	*	*	-.6
IP	-3.1	-.7	1.0	-.1	-.8	-.3	.5	-.9	.0	1.0	n.a.	-1.1
UNITED STATES												
GDP	-.5	.1	.3	.1	.7	.4	*	*	*	*	*	1.6
IP	.3	-.5	1.6	-.2	-.7	1.3	.5	.7	-.4	.6	-.5	.9

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	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Q3	1992 June	1992 July	1992 Aug.	1992 Sept.	Latest 3 months from year ago
Canada													
CPI	4.9	4.1	.7	.6	-.1	.4	.5	n.a.	.2	.2	.0	n.a.	1.2
WPI	1.9	-3.2	-1.6	-.9	-.4	.5	.6	n.a.	.1	.3	.1	n.a.	.9
France													
CPI	3.6	2.9	.7	.8	.9	.6	.7	n.a.	.1	.3	.1	n.a.	2.9
WPI	.7	-3.6	-1.5	-.7	-1.0	.1	n.a.	n.a.	*	*	*	*	-3.1
West Germany													
CPI	3.0	3.9	.9	1.5	.7	1.2	1.1	.5	.2	.0	.2	.3	3.5
WPI	.9	1.6	.3	.7	.2	.4	.5	n.a.	-.1	-1.3	-.7	n.a.	-.1
Italy													
CPI	6.3	6.1	1.4	1.0	1.7	1.4	1.2	n.a.	.3	.2	.1	n.a.	5.3
WPI	9.9	1.1	-1.0	.5	1.4	.0	.8	n.a.	-.3	-.3	n.a.	n.a.	2.5
Japan													
CPI	3.2	3.2	.8	.4	1.1	-.3	1.3	-.1	.0	-.4	.1	.5	2.0
WPI	1.9	-1.3	-.4	-.4	-.7	-.4	.0	n.a.	-.2	.1	.1	n.a.	-1.3
United Kingdom													
CPI	10.0	4.2	2.1	.4	1.0	.5	2.2	n.a.	.0	-.4	.1	n.a.	3.7
WPI	5.9	4.9	1.9	.6	.5	1.4	1.1	n.a.	.1	.1	.1	n.a.	3.4
United States													
CPI (SA)	6.3	3.0	.6	.7	.9	.7	.8	n.a.	.3	.1	.3	n.a.	3.1
WPI (SA)	6.4	-.1	-.2	.0	.5	.0	.7	n.a.	.2	.1	.1	n.a.	1.7

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	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 May	1992 June	1992 July	1992 Aug.
Canada												
Trade	9.4	5.0	1.5	1.7	.9	1.0	1.7	1.6	.7	.3	.5	n.a.
Current account	-21.5	-25.5	-5.6	-6.0	-6.6	-7.3	-6.1	-6.3	*	*	*	*
France												
Trade	-9.3	-5.5	-2.7	-1.5	-1.5	.3	.9	1.9	.8	-.2	1.2	-.6
Current account	-9.5	n.a.	-4.0	-1.6	-.2	n.a.	n.a.	n.a.	*	*	*	*
Germany 2												
Trade (NSA)	65.2	12.9	4.4	-1.1	2.8	6.7	4.4	3.4	.7	1.3	n.a.	n.a.
Current Account (NSA)	46.4	-19.5	-5.6	-5.9	-5.9	-2.2	-5.6	-6.1	-2.4	-2.5	-5.2	n.a.
Italy												
Trade	-12.2	-13.0	-1.3	-3.6	-4.8	-3.3	-2.0	-4.0	-1.4	-1.5	n.a.	n.a.
Current account (NSA)	-14.4	-21.5	-8.1	-4.6	-3.7	-5.0	n.a.	n.a.	*	*	*	*
Japan												
Trade	51.8	78.8	17.4	18.8	20.8	21.9	28.0	24.5	9.7	7.9	8.5	8.8
Current account	35.8	72.6	12.8	18.7	19.6	21.5	28.5	28.6	10.9	8.4	9.7	n.a.
United Kingdom												
Trade	-32.6	-18.1	-5.8	-3.8	-4.0	-4.5	-5.4	-5.6	-1.5	-1.8	-2.2	-2.3
Current account	-26.8	-10.3	-4.4	-.6	-2.3	-3.0	-5.1	-4.6	-1.2	-1.4	-2.0	-2.1
United States												
Trade	-108.9	-73.4	-18.3	-16.4	-20.2	-18.5	-17.2	-24.4	-8.3	-8.0	-8.7	n.a.
Current account	-90.4	-3.7	12.2	2.4	-11.1	-7.2	-5.9	-17.8	*	*	*	*

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.

of private domestic demand was housing investment (up 10.3 percent, after declining in the six previous quarters).

Recent monthly indicators of activity suggest continued weakness in the third quarter. Industrial production (s.a.) fell 3.7 percent in August, and its 12-month decline widened to 7.6 percent. The inventories-to-shipments ratio (s.a.) increased 4.6 percent in August, and its cumulative rise from its low point in October 1990 reached 21.6 percent. Retail sales continued to sag, recording a 12-month decline of 2 percent in August. Sales of durable goods, including autos, have been especially weak. New passenger car registrations (s.a.) dropped 6.1 percent in August, and were 18.2 percent below their year-earlier level.

JAPANESE ECONOMIC INDICATORS
(percent change from previous period except where noted, s.a.)

	1991	1992					
	Q4	Q1	Q2	Q3	May	Jun.	Jul.
Machinery Orders	-4.4	2.4	-14.3	--	-15.1	10.2	-0.5
Capacity Utilization	-2.3	-2.8	-2.0	--	-1.5	2.3	-0.4
Unemployment Rate (%)	2.1	2.1	2.1	--	2.1	2.1	2.2
Business Sentiment* (%)	13	-5	-24	-37	--	--	--

* Manufacturing firms having a favorable view of business conditions minus those with an unfavorable outlook.

Further weakness in plant and equipment investment is suggested by the decline in new machinery orders (s.a.) in the second quarter and July, when they fell 4.6 below their year-earlier level. The unemployment rate (s.a.) has remained little changed. However, the job offers to applicants ratio (s.a.), a more sensitive indicator of labor market conditions, declined a further 3.7 percent in July, falling 29.3 percent below its peak of March 1991. Another indicator of labor market weakness has been the fall in overtime hours, which showed a 12-month decline of 15.3 percent in June.

The Bank of Japan's latest quarterly economic survey, conducted in August before the announcement of the government's fiscal stimulus package, reported a further deterioration in business sentiment. Firms on average also predicted a 2.8 percent decline in investment in the current fiscal year, lower than in the previous survey. The survey also indicated that an increasing percentage of firms viewed their inventory holdings as excessive.

Inflation pressures have remained subdued. The 12-month change in Tokyo consumer prices increased to 2.2 percent in September, mainly due to an increase in perishable food prices. Wholesale prices showed a 12-month decline of 1.1 percent in August, as import prices were down 2.9 percent over this period.

The trade surplus (s.a.) increased somewhat further in August. For the first eight months of the year, the trade surplus was $104.6 billion (a.r.), 41 percent higher than in the same period last year.

On August 28, the government announced a package of measures to expand government spending, increase lending, and stimulate the economy. The total package amounts to ¥10.7 trillion (about 2-1/4 percent of GDP) of which ¥5.7 trillion involves increased spending on public works projects and the remainder calls for an expansion of various credit programs.

Real GDP in western Germany increased 3.4 percent (s.a.a.r.) over the first half of 1992, as a significant boost to activity in the first quarter was only partly offset by a downturn of 1.1 percent in the second quarter. Some reversal of the first-quarter boom in construction, along with a decline in private consumption, produced a downturn in domestic demand of 4.3 percent (s.a.a.r.). Helping to offset the decline in domestic demand was the external sector, as a 12 percent (s.a.a.r.) drop in imports more than offset a moderate decline in exports. Industrial production has edged down monthly since February and began the third quarter well below its second-quarter average. The volume of new orders for west German manufactured goods (s.a.) fell through July, from a peak at the beginning of the year. The unemployment rate (s.a.) in western Germany has edged up since February and stood at 6.7 percent in August.

WESTERN GERMAN ECONOMIC INDICATORS
(percent change from previous period except where noted, s.a.)

	1991	1992					
	Q4	Q1	Q2	May	Jun.	Jul.	Aug.
Machinery Orders	-1.5	2.2	-4.0	-0.3	-1.6	-0.5	--
Capacity Utilization	-0.9	-0.6	-0.7	--	--	--	--
Unemployment Rate (%)	6.3	6.2	6.5	6.5	6.6	6.7	6.7
Business Sentiment* (%)	-1.7	-3.7	-6.0	-9.0	-4.0	-3.0	--

* Mining and manufacturing firms that expect to increase production minus those who expect to decrease it.

In September, consumer prices (n.s.a.) increased 0.3 percent to a level 3.7 percent above the year-ago level. Producer prices were unchanged in August and stood 1.1 percent above their year-earlier level. Owing to appreciation of the mark, import prices fell in June and July by 0.4 percent and 1.2 percent, respectively.

The current account deficit reached $5.2 billion (n.s.a.) in July, primarily as a result of a drop in the value of exports. The total deficit for the first seven months of the year was $16.8 billion compared with a deficit of $14.6 in the same period of 1991.

Through August, M3 in western and eastern Germany combined increased 9.0 percent (s.a.a.r.) relative to the fourth quarter of 1991. Monetary expansion remains well above the Bundesbank's M3 target range of 3-1/2 to 5-1/2 percent growth for 1992. On September 14, the Bundesbank reduced the discount and Lombard rates by 1/2 and 1/4 points to 8.25 and 9.5 percent, respectively, in coordination with a realignment of the Italian lira within the European Monetary System.

Just prior to the Munich Summit, the German cabinet approved a draft 1993 budget and medium-term financial plan that would limit the annual growth of Federal expenditures to 2.5 percent in nominal terms over the next four years. In early September, this budget package was presented to the German parliament; final passage is expected before year-end. In his presentation to parliament, Chancellor Kohl called for a "solidarity pact" with labor unions, local government, business, and the Treuhandanstalt. This pact would include no growth in real wages, limit growth in local expenditure, as well as provide new measures to facilitate private investment in eastern Germany.

Real marketable GDP, a preliminary indicator of French total GDP that excludes most government services, rose 0.4 percent (s.a.a.r.) in the second quarter, after rising 3.6 percent in the first quarter. Net exports made a positive contribution to growth in the second quarter while consumption and investment fell 0.1 percent (s.a.a.r.) and 1 percent respectively. The few monthly indicators available for the third quarter are mixed but, on balance, point to continued moderate growth. Consumption of manufactured products (about a third of total consumption) was up 2 percent (s.a.) on average in July and August from its June level. Unemployment (s.a.) decreased in July, although the rate remained unchanged at 10.3 percent.

In August, the consumer price index was 2.7 percent above its year-earlier level, down from an average of roughly 3 percent earlier in the year. France's favorable inflation performance has been supported by a moderation of wage inflation. Hourly wages in the July quarterly survey were only 3.1 percent (n.s.a.) above their year-earlier level, down significantly from the 4.3 percent rise registered in the April survey.

On September 20, French voters narrowly approved the Maastricht treaty by 51 to 49 percent. Support for the treaty was concentrated in regions on the periphery of France and in the Paris area. Opposition was strong in rural areas and in the south. The strongest opposition came from farmers (of whom 3/4 voted against the treaty), artisans and shopkeepers, and among the working class. In contrast, supporters tended to be professionals, better educated, and more affluent.

The 1993 budget, which soon will be presented to parliament, proposes that the increase in total expenditures be held to 3.5 percent, but that spending rise more in priority areas such as employment and training, justice, and public security. The budget deficit is projected to amount to 2 percent of GDP.

In Italy, economic growth remains weak. In June, industrial production adjusted for the number of working days, was 4 percent lower than in June 1991. Also, in June, new orders (n.s.a.) fell to a level 3.5 percent below a year ago; this follows a 8.7 percent decline in May from the previous year. The consumer confidence index dipped in July and is 5.5 percent lower than the level in July 1991. A rebound in consumer confidence is unlikely in the near term due to higher taxes, lower wage growth, and uncertainties related to Italy's withdrawal from the ERM.

The year-on-year CPI inflation rate fell to 5.2 percent in August, the fourth consecutive monthly decline. Wholesale and producer price indices in June were, respectively, 2.3 and 2.1 percent higher than a year earlier. The abolition of the *scala mobile*, Italy's system of wage indexation to the cost of living will freeze firm-level wage negotiations until the end of 1993. Consequently, the only source of wage growth in the next sixteen months will be existing multi-year contracts and a one-time wage increase of 20,000 lire/month (about $16.00/month) effective January through December 1993. This is expected to slow wage inflation from about 6 percent in 1992 to 4 to 4-1/2 percent in 1993.

Market fears of a French rejection of the Maastricht Treaty and concerns over Italy's budget deficit forced the lira to its ERM floor in early September. Neither the Bank of Italy's move on September 4 to increase the discount rate 175 basis points to 15 percent nor its massive intervention in support of the lira could raise it off its ERM floor. After numerous statements reaffirming Italy's commitment to defend the parity, the lira was devalued by 7 percent on September 13 and then allowed to float on September 17.

In the United Kingdom, real GDP contracted 0.7 percent (s.a.a.r.) in the second quarter after declining 1.4 percent in the first quarter, resulting in a cumulative fall of 4.1 percent since its peak in the second quarter of 1990. Consumer spending rose for the first time in two years in the second quarter, by 2.2 percent (s.a.a.r.) after it had fallen 3.4 percent since the onset of the recession. However, fixed investment fell 9.1 percent (s.a.a.r.) to a level 17.5 percent below its peak in the first quarter of 1990. Net exports of goods and services had a negative impact on second-quarter growth; exports rose 5.8 percent (s.a.a.r.) but were more than offset by a 9.5 percent increase in imports.

Industrial production (s.a.) rose 1.0 percent in July from the previous month, but the increase was entirely accounted for by a resumption in energy production after spring maintenance on North Sea oilfields was completed. Manufacturing production (s.a.) was stagnant at a level 1.5 percent below a year ago. In August, business confidence receded again to its weakest level since May 1991. An industrial survey suggested that capital spending will remain flat at about its first-quarter level for the rest of the year. Another indication of weak output growth in months ahead was the level of unwanted inventories, which rose in the past three months. Consumer spending picked up slightly in August; the volume of retail sales (s.a.) rose 0.8 percent after falling in June and July. Unemployment (s.a.) continued to rise in August to a rate of 9.9 percent, a 5-year high.

The recession has slowed inflation significantly. Consumer prices (n.s.a.) rose 0.1 percent in August after falling 0.4 percent in July. The 12-month inflation rate fell to 3.6 percent, the lowest level since 1986. Excluding mortgage interest rates, consumer prices stood 4.2 percent above their level of August 1991. Producers' output prices (n.s.a.) edged up 0.1 percent in August, to a level 3.3 percent above their year-earlier level. The prices of producers' materials and fuels (n.s.a.) fell 2.2 percent in August to a level 1.9 percent below a year earlier.

Record import volume and sluggish exports pushed up Britain's trade deficit in August. The cumulative current account deficit for the first two-thirds of 1992 was $19.9 billion (s.a.a.r.), compared with a deficit of $8.9 billion in the same period of 1991.

The withdrawal of the pound from the ERM caused sterling to depreciate by about 9-1/2 percent against the DM, and about 9 percent on a multilateral trade-weighted basis. The government lowered its minimum lending rate by 1 percentage point to 9 percent on September 22 and is expected to announce new plans for monetary policy in the next few weeks. Prime Minister Major stated that it would be some time before sterling reentered the ERM and that certain conditions, such as changes in the ERM and greater cyclical convergence among ERM members, would need to be met before then.

In Canada, output continued to inch forward in the second quarter, as GDP increased 0.7 percent (s.a.a.r.). Consumption expenditure rose 1.5 percent (s.a.a.r.) and the external sector made a positive contribution to growth, as export volume posted a healthy gain. However, a sharp drop in expenditure on plant and equipment caused total investment to fall 6.1 percent (s.a.a.r.), despite a 6.2 percent increase in residential construction. Although the recovery is five quarters old, output has returned only about half of the way back to its cyclical peak of early 1990. Consumer and business confidence both rose in the second quarter, and the personal savings rate increased to 10.5 percent.

Activity indicators for the third quarter suggest further weakness. Housing starts (s.a.) dropped 14 percent in August, and department store sales were down 3 percent from a year earlier. Total employment (s.a.) rose 0.1 percent, but continued recovery in labor force participation kept the unemployment rate at 11.6 percent. In July, GDP at factor cost was unchanged, factory shipments (s.a.) decreased 2.1 percent, new orders (s.a.) fell 3.1 percent, and total retail sales (s.a.) slipped 0.2 percent.

Recent price data show continued success for the Bank of Canada's efforts to reduce base inflation. The 12-month change in the CPI, excluding food and energy, fell to 1.7 percent in August. The all-items CPI was up 1.2 percent over this period, and wholesale prices rose only 1.5 percent. Wage settlements increased an average of 2.1 percent (a.r.) during the first seven months of the year, compared with a 3.6 percent average for all of 1991 and 5.6 percent in 1990.

The current account deficit (s.a.a.r.) widened slightly in the second quarter to $25.1 billion, as a rebound in imports caused a moderate decline in Canada's merchandise trade surplus. In July, the trade surplus (s.a.a.r.) was $6.3 billion, up from June but virtually unchanged from its first half average, as both imports and exports rose sharply.

The national unity crisis that has plagued Canada for the past year may be close to resolution, as Prime Minister Mulroney and the ten provincial premiers agreed to specific constitutional amendments on August 28. The proposals will be put before the Canadian electorate on October 26 in a non-binding referendum. The latest poll showed more voters opposed to the agreement than supporting it in Quebec, Alberta, and British Columbia, but a narrow plurality in favor in Canada as a whole.

The Swedish economy has remained in recession with GDP declining 2.9 percent (s.a.a.r.) in the second quarter after declining 2.2 percent in the first quarter of this year. Industrial production in July was nearly 8 percent below its level a year earlier; in August, the unemployment rate (n.s.a.) climbed to 5.8 percent, an unusually high rate for Sweden. Weak growth has curbed inflation; the 12-month CPI inflation rate dropped to about 2 percent in August from its 9-1/4 percent average last year.

The Swedish krona, which is unilaterally pegged to the ECU, has come under downward pressure since the Danish referendum on EMU (June 2). Pressure was further intensified by the Finnish decision to allow the markka to float on September 8 and worries about Swedish financial institutions. In mid-September the Swedish Riksbank raised its marginal lending rate to an unprecedented 500 percent but later lowered the rate to 24 percent. To support the ailing Swedish banking and financial system, the government recently proposed a broad system of guarantees, loans, and capital assistance for banks and state-connected credit institutions.

In further attempts to defend the krona, on September 20 the government announced major and permanent cuts to the ballooning budget deficit (estimated to be near 7 percent of GDP). The emergency package drastically cut welfare payments and raised taxes on gasoline and tobacco. The tighter budget is expected to save about $3-1/2 billion and increase tax revenue by about $1-1/2 billion in 1993.

On September 22, acting Russian Prime Minister Yegor Gaidar addressed Parliament and outlined recent economic developments. Industrial production was reported to have declined 21 percent in July (year/year) and 27 percent in August, compared with a decline of 13-1/2 percent in the first six months of the year. Retail prices were reported to have increased 17 percent in July and 8 percent in August. The only bright spot in Gaidar's report was agriculture, with the 1992 grain harvest forecast at 96 million tons, compared with 89 million tons last year.

Gaidar also announced that the extension of all credit to Ukraine had been suspended until a formal agreement specifying mutual debts between Ukraine and the Russian Federation is signed. Gaidar called for the elimination of restrictions on Ukrainian exports to Russia, a step that should enhance the ability of Ukraine to pay for its imports from Russia.

The exchange value of the ruble has fallen sharply in recent weeks. The ruble depreciated from 168 r/$ on August 25 to 254 r/$ on September 29. On September 18 domestic oil prices were more than doubled from $0.90 per barrel at current exchange rates to $2.10 per barrel. Prices for petroleum products and coal were also increased. These price increases should raise government revenues, but the full fiscal impact is unclear because offsetting subsidies for residential heating, transportation, and agricultural were also introduced.

Published reports indicate that inter-enterprise arrears (which had increased dramatically in the first half of the year) were reduced substantially at the end of August through netting of offsetting claims. The remaining arrears are estimated to be between 500 billion and 1 trillion rubles, down from 3.2 trillion rubles at the beginning of July. This suggests that losses in state-owned enterprises during the first half of 1992 were 10 to 20 percent of GDP.

Economic Situation in Other Countries

Mexican real GDP growth slowed to 2.8 percent (year-over-year basis) in the first half of 1992, reflecting sluggish U.S. economic activity and a tightening of Mexican fiscal and monetary policies. Political turmoil related to the upcoming impeachment trial of Brazil's President Collor is delaying needed fiscal adjustments and implementation of a recently agreed commercial bank debt restructuring package. Argentina and its bank advisory committee have agreed to increase the proportion of discount bonds in the country's debt reduction package to 35 percent, from the 15 percent initially opted for by the banks. On September 18, Argentina passed a review of its compliance with its IMF program. Real GDP in Venezuela in the first half of 1992 was 8-1/2 percent greater than in the first half of 1991, and the government is acting to limit a large fiscal deficit. In recent months, economic growth has weakened substantially in Korea and slightly in Taiwan.

Individual country notes. In Mexico, real GDP growth in the first half of 1992 slowed to 2.8 percent (H1/H1) after 4.1 percent growth in the first half of 1991 (H1/H1) and 3.6 percent for 1991 as a whole. In manufacturing, real growth was 2.1 percent in the first half of 1992 on a year-over-year basis, down from 3.7 percent for 1991 as a whole.

The slower growth rate reflects not only sluggish U.S. economic activity, but also a tightening of Mexican fiscal and monetary policies--intended to restrain inflation and limit the trade deficit. Excluding privatization proceeds, there was an overall public sector surplus of 7.8 trillion pesos in the first half of 1992, after a deficit of 5.8 trillion pesos in the first half of 1991. Interest rates rose by 500-600 basis points from mid-March to early August, reflecting slower capital inflows after an April measure limiting banks' external liabilities, uncertainty as to the completion of the NAFTA negotiations, and the negative effect on investor confidence of a stock market sell-off in June.

Capital inflows appear to have increased somewhat after mid-July, helping to stabilize interest rates in August and early September. However, rates rose again after mid-September, apparently reflecting decreased capital inflows. The 28-day Treasury bill rate was 19 percent at the auction of September 23, compared with 17 percent on August 12. The peso appreciated from 3,123 per dollar at the end of June to 3,058 per dollar on September 9, but weakened again and stood at 3,114 per dollar on September 29.

International reserves, including gold, were officially reported as $18 billion on August 21, an estimated $1.6 billion less than at the end of April. Mexican reserves are officially reported only three times a year, and the next report is not expected until November 1.

Completion of the NAFTA negotiations, announced on August 12, did not have a lasting impact on the Mexico City stock market. The stock market index, rose by about 7 percent in the last four days of

July, partly in anticipation of a NAFTA announcement, but fell thereafter. On September 29, it was 32.5 percent lower than the all-time peak, in June of this year, and 10 percent lower than at the end of 1991.

The CPI rose by 0.6 percent in August, leaving it 15.4 percent higher than a year earlier.

In Brazil, the Chamber of Deputies voted on September 29 to have President Collor undergo an impeachment trial in the Senate. During the trial, which is expected to start in about a week, Collor will be suspended from office and Vice-President Itamar Franco will be the acting president.

The term sheet for a Brady-style commercial bank debt restructuring package (covering $44 billion in bank debt) has been completed. However, the fiscal reforms needed to reduce inflation, bring Brazil into compliance with its IMF program, and facilitate implementation of the bank debt restructuring are not likely to be put in place until the present political turmoil is resolved.

Inflation remains about 22 percent per month, where it has been since February. Cumulative retail sales in Sao Paulo were 16.5 percent lower for 1992 through June than in the first half of 1991, and real GDP is expected to expand only about 1 percent this year. Weakness in the domestic economy has slowed the growth of imports, while exports, especially to Mexico and other Latin neighbors, have remained robust. As a result, Brazil's cumulative 1992 trade surplus through August was $10.3 billion, 23 percent greater than in the same period in 1991. International reserves were unofficially estimated to have been $20 billion in August. However, reserves probably declined in the latter part of September, when the central bank is reported to have spent over $1 billion to support the cruzeiro.

In Argentina, consumer prices rose 1.5 percent in August and were 18.8 percent higher than a year earlier. No new trade data have been released since the last Greenbook, but official statements suggest that the authorities believe that only a small surplus or rough balance on trade will be realized in 1992. Strong domestic demand, coupled with an appreciating real exchange rate, has led to rapid import growth. The real effective exchange rate appreciated by more than 50 percent over the 18 months ending June 1992.

Argentina and its bank advisory committee have reached tentative agreement on adjusting the proportion of par and discount bonds to be issued in Argentina's bank debt reduction package. The committee agreed to accept a 65/35 percent par/discount bond split, compared with the 85/15 percent split initially opted for by the banks. The committee must now get the broader group of Argentina's creditor banks to accept the split. The initial split was unacceptable to Argentina because the par bonds are more costly to collateralize and because a more balanced split allows Argentina to borrow from the IMF, the World Bank, and other official lenders greater resources to finance the collateral. On September 18, Argentina passed a review of its compliance with its IMF program.

Real GDP in Venezuela in the first half of 1992 was 8-1/2 percent greater than in the first half of 1991. Output expanded 16 percent in the private sector but dropped 3 percent in the public sector. During this period, Venezuela's consolidated public sector deficit is estimated to have equaled 6-3/4 percent of GDP at an annual rate. Since last year, when a small surplus was achieved, the country's fiscal position has deteriorated sharply due to lower oil export earnings and privatization revenues. To reduce the fiscal imbalance, the government has cut spending (especially outlays by the state oil company) and is seeking legislative approval of a long-delayed value-added tax. The government also hopes to secure soon final legislative approval for laws to enhance the independence of the Central Bank of Venezuela, improve bank supervision and regulation, and restructure the banking system.

After the coup attempt in February, the Central Bank of Venezuela raised interest rates and intervened in foreign exchange markets in a successful effort to prevent a rapid depreciation of the floating rate of the bolivar, which is now about 69 Bs/$, compared with an end-January rate of 62 Bs/$. The yield on 91-day central bank bills rose from 33 percent in January to 42 percent in April, but had eased to 32 percent by mid-September. The consumer price index rose 33 percent over the 12 months through August, and inflation has been roughly constant in recent months.

Economic growth in Korea has been weakening in recent months. GNP rose an estimated 6 percent in the second quarter of 1992 (Q2/Q2), compared with 7.4 percent in the first quarter of 1992 and 9.8 percent in the second quarter of 1991. Consumer prices were 5.9 percent higher in August than a year earlier, down from 9.5 percent in the year ending August 1991. In the first seven months of this year, Korea's current account deficit fell to $5 billion from $6.9 billion in the same period in 1991, due to a large deceleration in import growth.

On September 1, 1992, the Korean government implemented the revised Foreign Exchange Control Act. In contrast to the previous version of the Act, foreign exchange transactions are permitted in principle under the new plan, with exceptions explicitly listed. Key changes in the regulations appear to be aimed at reducing constraints on export finance and overseas financing for Korean firms.

In _Taiwan_, real GDP in the first half of 1992 grew an estimated 6.6 percent (H1/H1), a growth rate about 1/4 of a percentage point less than in the previous year. A decline in imported goods prices, due to an appreciation of the NT dollar, has helped to moderate inflationary pressure. In July, consumer prices were up 3.7 percent from a year earlier, while wholesale prices fell 3.5 percent from a year earlier. Taiwan's cumulative trade surplus in the first eight months declined to $6.8 billion from $7.9 billion in the same period of 1991, as export growth slowed somewhat and import demand remained strong.