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Confidential (FR) Class III FOMC

November 12, 1992

RECENT DEVELOPMENTS

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

CONTENTS

II DOMESTIC NONFINANCIAL DEVELOPMENTS

DOMESTIC NONFINANCIAL DEVELOPMENTS

Indications of the pace of economic activity in the current quarter are in short supply at this point; what information there is, however, suggests at least a mildly positive trajectory. Private payrolls increased slightly in October, and the same appears true for industrial output. Despite declining consumer sentiment, motor vehicle sales were up last month, and largely anecdotal information on other retail activity is moderately upbeat. Rising orders for nondefense capital goods through September point to a solid gain in shipments this quarter, and the increase in housing starts during the summer augurs well for residential construction activity. Meanwhile, with the amount of slack in the economy still substantial, increases in wages and prices continued to slow.

Real GDP

According to BEA's advance estimate, real GDP increased at a 2-3/4 percent annual rate in the third quarter. This was somewhat faster than most market observers had anticipated. However, an examination of the details of the report and the subsequent incoming data do not reveal any obvious grounds for the suspicions expressed by some that the growth rate was vastly overstated. The estimated rise in final sales--2.1 percent at an annual rate--seems broadly consistent with the monthly indicators available at this time. BEA's assumption for the September merchandise trade deficit was in line with the already-sizable August figure. Incoming data on manufacturing and wholesale trade inventories also have been in line with BEA's advance estimate of a modest increase in nonfarm inventory investment. The increase in farm inventory investment is not directly verifiable, but it is consistent with the latest data on agricultural production this year.

REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

(Percent change from previous period at compound annual rates; based on seasonally adjusted data, measured in 1987 dollars)

		1990–Q4 to 1991–Q4	1992–Q1 Final	1992–Q2 Final	1992–Q3 Advance
1.	Gross domestic product	.1	2.9	1.5	2.7
2.	Final sales	–.6	4.7	–.1	2.1
3.	Consumer spending	.0	5.1	–.1	3.4
4.	Business fixed investment	–7.0	3.0	16.1	.3
5.	Producers' durable equipment	–3.5	3.2	24.1	8.5
6.	Nonresidential structures	–14.3	2.7	–.8	–17.7
7.	Residential investment	–.1	20.1	12.6	.4
8.	Government purchases	–.6	1.7	–1.2	2.0
9.	Exports of goods and services	7.4	2.9	–1.4	1.9
10.	Imports of goods and services	4.8	3.5	14.7	6.9
	ADDENDA:				
11.	Nonfarm inventory investment [1]	–9.6 [2]	–10.7	6.0	9.8
12.	Retail autos [1]	–1.3 [2]	4.8	5.5	2.4
13.	Excluding retail autos [1]	–8.3 [2]	–15.5	.5	7.4
14.	Farm inventory investment [1]	.3 [2]	–1.9	1.8	5.0
15.	Net exports of goods and services [1]	–21.8 [2]	–21.5	–43.9	–51.5
16.	Nominal GDP	3.5	6.2	4.3	4.5
17.	GDP fixed–weight price index	3.5	3.6	2.9	2.1
18.	Gross domestic purchases fixed–weight price index	2.8	3.1	3.2	2.4
19.	GDP implicit price deflator	3.4	3.3	2.8	1.8
20.	Personal saving rate (percent)	4.7 [2]	4.9	5.3	4.5

1. Level, billions of 1987 dollars.
2. Annual average.

Employment and Unemployment

Recent data point to a slight improvement in labor demand. Private payroll employment rose 66,000 in October after remaining about unchanged in September. The average workweek and the index of aggregate hours for private production workers partially reversed their sharp September declines, and the civilian unemployment rate edged down to 7.4 percent.

Nonfarm payroll employment was up 27,000 in October; the number was held down by losses in government employment that reflected early retirements by postal workers and the end of the federally funded summer jobs program.[1] In the private sector, the services industry added 89,000 jobs last month, with business services, which tend to be cyclically sensitive, and health services providing most of the increase. Finance, insurance, and real estate added 14,000 jobs, and wholesale trade posted its first increase in more than two years. By contrast, manufacturing employment fell another 56,000 last month. Although declines were widespread by industry, transportation equipment was particularly hard hit by cutbacks in defense spending. However, total hours in manufacturing were flat, as an increase in overtime offset the employment decline. Also, construction posted a modest gain of 20,000 in October, in part reflecting rebuilding activity in the wake of Hurricane Andrew.

In the household survey, employment fell 76,000 in October. However, the number of persons unemployed declined 238,000, and the jobless rate edged down 0.1 percentage point. In general, the household measure of employment has changed little from month to month over the past six months, and the runup in the unemployment rate through June, as well as its subsequent decline, primarily

1. The BLS estimates that there were about 45,000 retirements from the Postal Service and about 20,000 exits from the summer jobs program in October.

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

	1990	1991	1992 Q1	1992 Q2	1992 Q3	1992 Aug.	1992 Sept.	1992 Oct.
	------------ Average monthly changes ------------							
Nonfarm payroll employment[2]	-5	-79	15	74	-3	-109	-72	27
Private	-34	-91	-4	64	-28	-185	-2	66
Manufacturing	-47	-36	-17	-14	-43	-97	-38	-56
Durable	-36	-33	-16	-15	-32	-49	-23	-41
Defense-related[3]	-4	-8	-9	-12	-13	-13	-11	-16
Nondurable	-11	-3	-1	1	-11	-48	-15	-15
Construction	-23	-26	4	-1	- 8	7	-16	20
Retail trade	-8	-35	-7	21	-16	-78	2	-10
Finance, insurance, real estate	-1	-3	2	-1	-4	1	0	14
Services	44	30	28	70	60	10	54	89
Health services	31	29	16	20	19	10	16	35
Business services	0	3	11	39	11	19	6	45
Total government	29	12	19	10	25	76	-70	-39
Private nonfarm production workers	-40	-76	18	89	-31	-152	0	86
Manufacturing production workers	-39	-23	1	-9	-35	-85	-33	-32
Total employment[4]	-32	-62	207	75	42	-35	-36	-76
Nonagricultural	-39	-54	203	56	46	-49	-60	6
Memo:								
Aggregate hours of private production workers (percent change)	.0	-.1	.1	.0	-.1	.7	-.9	.6
Average workweek (hours)	34.5	34.3	34.5	34.4	34.4	34.6	34.3	34.5

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	1992 Q1	1992 Q2	1992 Q3	1992 Aug.	1992 Sept.	1992 Oct.
Civilian unemployment rate (16 years and older)	5.5	6.7	7.2	7.5	7.6	7.6	7.5	7.4
Teenagers	15.5	18.7	19.6	21.0	20.4	19.8	20.4	18.3
20-24 years old	8.8	10.8	11.1	11.3	11.6	11.5	11.6	10.9
Men, 25 years and older	4.4	5.7	6.3	6.5	6.6	6.7	6.6	6.6
Women, 25 years and older	4.3	5.1	5.6	5.8	5.8	5.9	5.7	5.6
Labor force participation rate	66.4	66.0	66.2	66.5	66.4	66.4	66.3	66.1

reflects large swings in the labor force. After rising sharply last winter and spring, the labor force participation rate has declined about a half percentage point since June (chart). Such a decline is very unusual during a recovery.

Initial claims for unemployment insurance have come in noticeably under the 400,000 mark of late. These numbers are somewhat deceptive, however; under revisions to the Emergency Unemployment Compensation (EUC) program made in July, some workers are eligible to file for EUC benefits who otherwise would have filed for regular benefits. As shown in the table below, after adjusting regular initial claims for an estimate of this phenomenon, claims recently have been running around 400,000--a level that historically has been consistent with only small gains in payrolls.

INITIAL CLAIMS WITH EUC ADJUSTMENT[1]
(In thousands; seasonally adjusted by BLS)

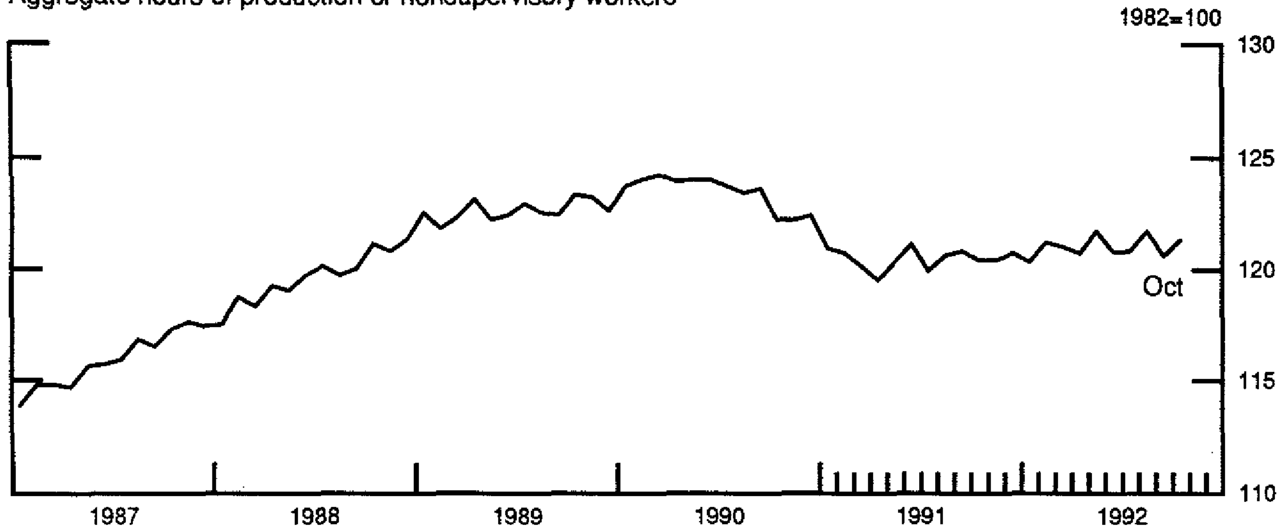
	1992					
	Sept. 26	Oct. 3	Oct. 10	Oct. 17	Oct. 24	Oct. 31
Initial claims						
All regular programs	408	392	379	384	369	363
EUC effect	28	28	25	27	26	23
Adjusted claims[2]	435	420	404	411	395	385

1. Includes revised data.
2. Initial claims (all regular programs) plus the EUC effect.

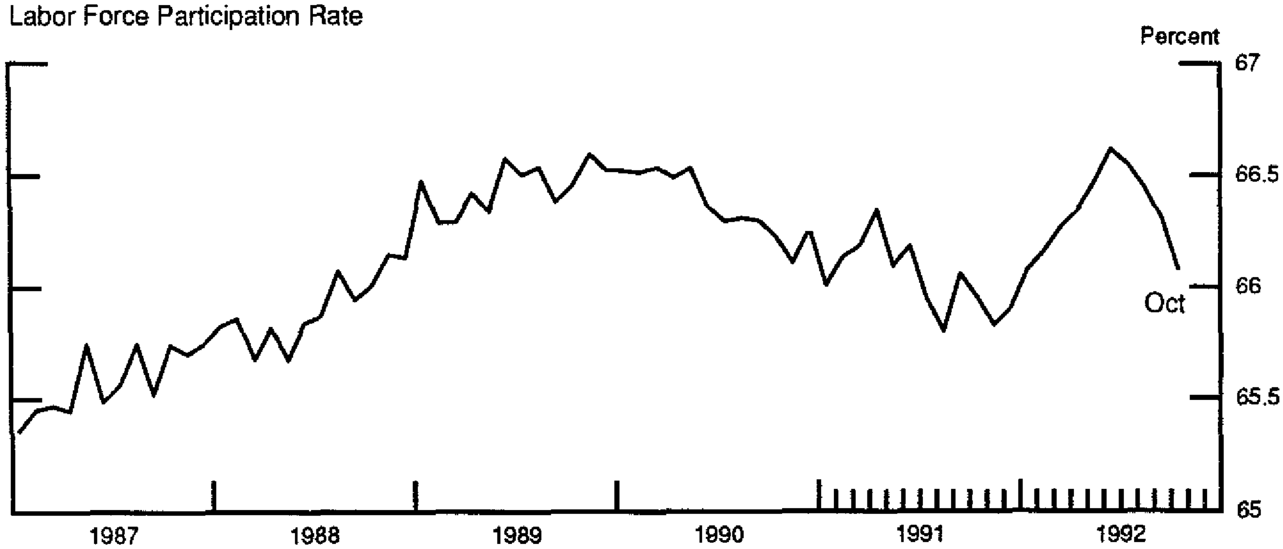
Other labor market indicators point to continued sluggishness in the demand for workers. The Conference Board's index of help-wanted advertising fell back again in September and is scarcely above its cyclical low. Perceived employment prospects, as measured by the Conference Board's consumer confidence survey, remained poor in October: The fraction of respondents believing that jobs are plentiful has barely improved in recent months. A monthly survey of smaller businesses by the National Federation of Independent

LABOR MARKET INDICATORS

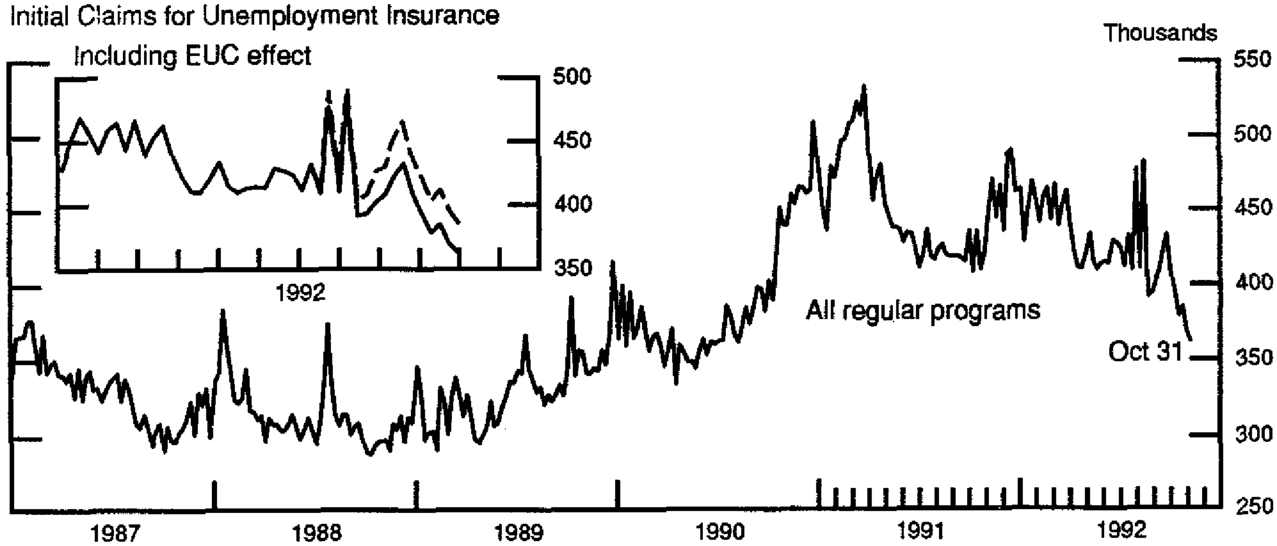
Aggregate hours of production or nonsupervisory workers



Labor Force Participation Rate

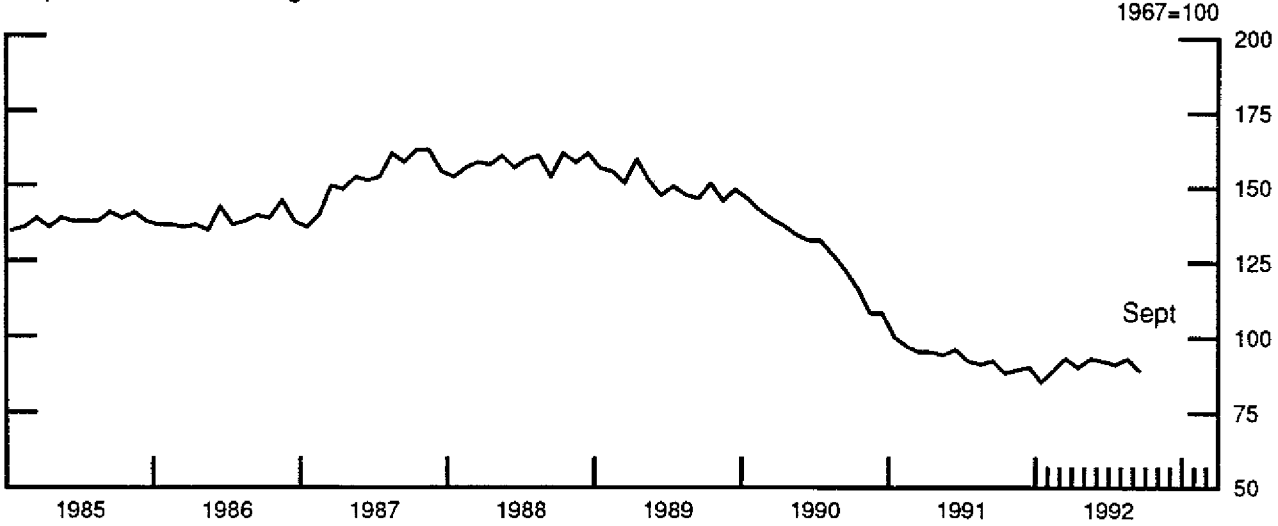


Initial Claims for Unemployment Insurance

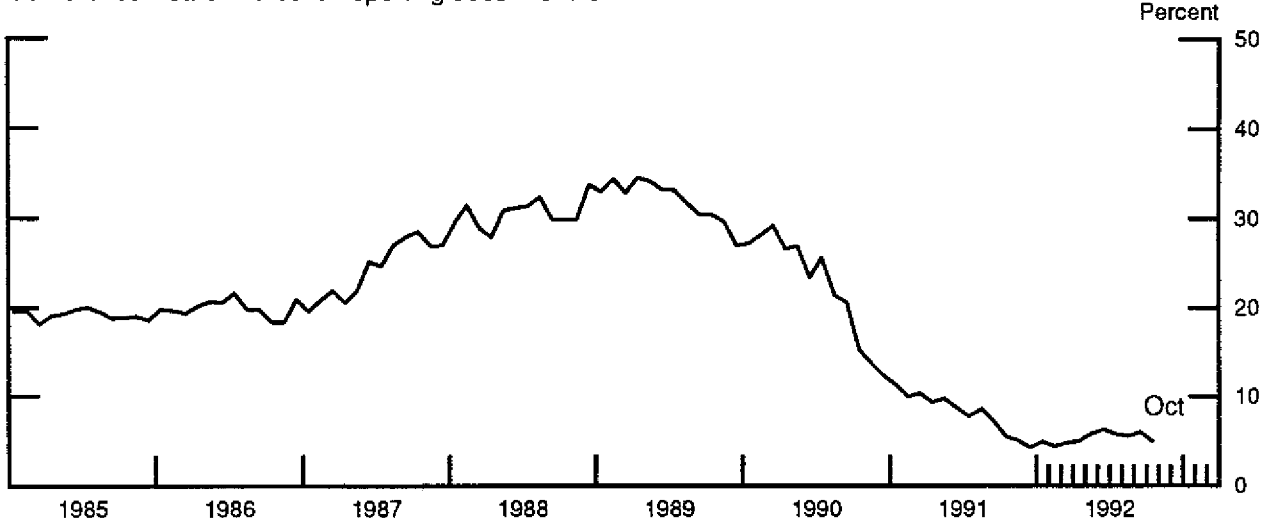


ALTERNATIVE LABOR MARKET INDICATORS

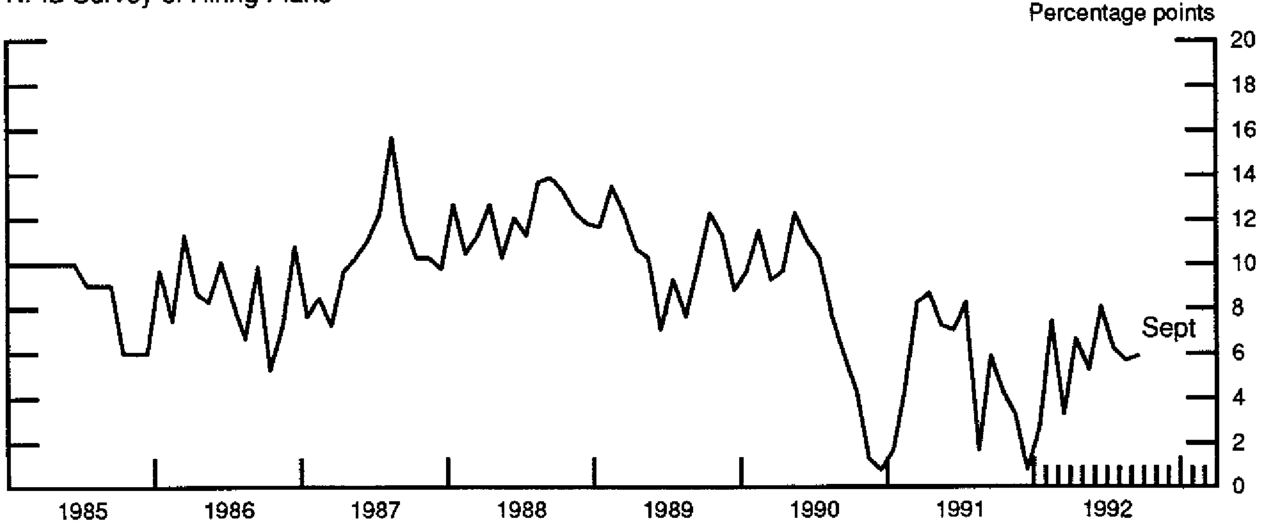
Help–Wanted Advertising



Conference Board: Percent Reporting Jobs Plentiful

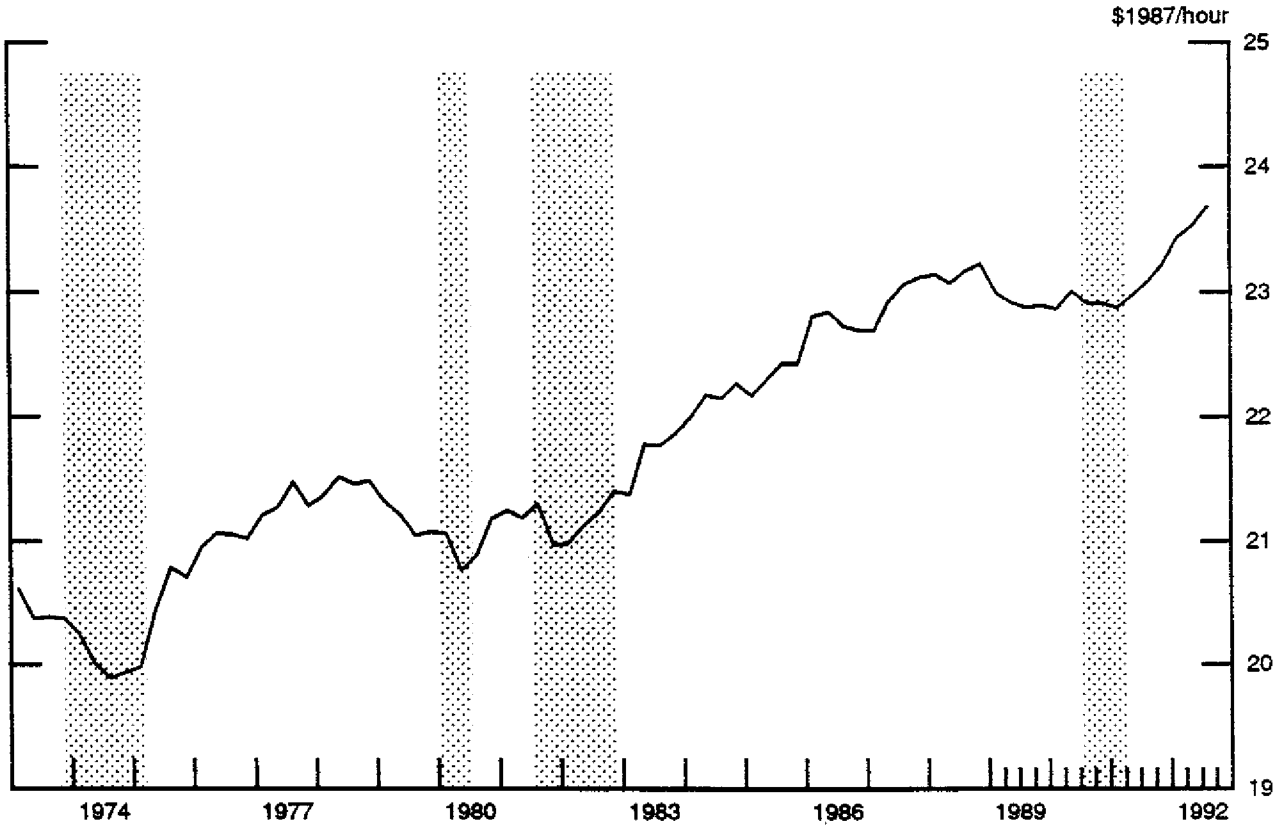


NFIB Survey of Hiring Plans[1]



1. Percent of respondents planning to expand employment minus the percent planning to reduce employment during the next three to six months; seasonally adjusted.

OUTPUT PER HOUR
(Nonfarm Business Sector)



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

	1989	1990	1991	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Q3
	-----	Q4/Q4	------					
Output	.1	-.9	-.6	1.5	1.6	2.3	1.7	3.0
Hours	1.6	-1.0	-1.9	-.3	-.9	-1.3	.1	.4
Output per hour	-1.4	.1	1.3	1.9	2.5	3.7	1.7	2.6

Business suggests that hiring plans picked up a little over the course of this year but remain weak: In September, only about 6 percent more firms (seasonally adjusted) planned to expand employment than planned to reduce employment during the next three to six months; this figure had been around 10 percent prior to the recession. Other employer surveys are similarly downbeat on hiring expectations.

Productivity in the nonfarm business sector rose at a 2.6 percent annual rate in the third quarter, reflecting a 3.0 percent rise in output and only a small increase in hours. This pattern--rising output and weak hours--has been evident throughout the recovery. Over the past six quarters of rising output, total hours worked have fallen somewhat, while productivity has increased at an average annual rate of 2-1/2 percent.

Industrial Production

On balance, activity in the industrial sector has shown little change since May, although the available data suggest that production edged up in October. Last month, physical production measures advanced slightly on net: Sizable gains in output of light trucks, raw steel, and refined petroleum products more than compensated for declines in output of electricity, appliances, paper, and paperboard. As noted earlier, total hours worked by manufacturing production-workers were unchanged in October, and, with productivity likely advancing further, factory production probably rose a little.

Two years after the onset of the recession, total industrial production remains about 1-1/2 percent below its peak of the third quarter of 1990. Excluding computers, production is more than 2-1/2 percent below its peak; only output of nondurable consumer goods and of related materials has surpassed pre-recession levels,

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 Q3	1992 July	1992 Aug.	1992 Sep.
			----Annual Rate----			---Monthly Rate----		
Total index	100.0	-.5	-2.9	5.2	1.6	.8	-.4	-.2
Previous		-.5	-2.9	5.3	1.4	.6	-.5	
Motor vehicles and parts	4.2	8.5	-20.0	44.4	-8.3	-2.7	1.5	-.9
EXCLUDING MOTOR VEHICLES AND PARTS:								
Total index	95.8	-.9	-2.1	3.8	2.0	.9	-.5	-.2
Products, total	57.1	-1.3	-1.4	2.0	1.0	.7	-.3	-.1
Final products	42.9	-.9	-2.1	2.6	1.1	.8	-.2	-.1
Consumer goods	25.0	2.0	-1.2	2.5	1.1	.9	-.2	.1
Durables	3.7	3.2	3.1	9.1	1.4	.3	.6	-1.1
Nondurables	20.9	1.8	-2.1	1.4	1.1	1.0	-.3	.3
Excluding energy	18.2	1.7	-.7	1.4	1.1	.8	-.2	.0
Business equipment	14.6	-1.9	-1.7	7.6	4.0	.6	.4	-.4
Office and computing	2.8	4.2	13.2	22.0	25.4	2.3	1.4	1.9
Industrial	3.9	-8.7	-12.1	6.3	1.2	.7	-.8	-.2
Other	7.9	-.2	-1.3	3.3	-2.1	-.2	.6	-1.4
Defense and space equip.	4.4	-8.0	-10.9	-9.1	-9.5	-.8	-.9	-1.2
Intermediate products	14.2	-2.3	.8	.4	.6	.4	-.4	-.4
Construction supplies	5.3	-6.4	2.7	4.7	1.7	.8	-.1	-1.2
Materials	38.7	-.2	-3.2	6.4	3.6	1.2	-.7	-.2
Durables	18.2	-1.8	-1.7	6.5	4.2	1.0	-.3	-.4
Nondurables	9.0	2.3	-1.4	8.0	2.0	1.0	-1.4	.0
Energy	10.2	.0	-6.0	2.8	4.4	2.3	-1.3	.4
Memo:								
Manufacturing excluding motor vehicles and parts	80.8	-.8	-1.1	3.9	1.6	.7	-.4	-.4
Mining	7.3	-3.3	-7.1	4.3	1.7	2.6	-1.2	-1.2
Utilities	7.7	1.0	-8.5	1.5	8.1	2.4	-.9	2.6

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 Sep.	1992 Q2	1992 Q3	1992 July	1992 Aug.	1992 Sep.
Total industry	82.1	79.9	78.8	78.7	79.1	78.7	78.4
Manufacturing	81.4	78.8	77.9	77.7	78.0	77.7	77.2
Primary processing	82.3	81.3	81.3	81.7	82.5	81.5	81.0
Advanced processing	81.0	77.7	76.5	76.0	76.2	76.1	75.7

while defense equipment, industrial equipment, and construction supplies have shown little or no sign of recovery.

NEW ORDERS FOR DURABLE GOODS
(Percent change from preceding period; seasonally adjusted)

	H1 Share	1992 Q2	1992 Q3	1992 July	1992 Aug.	1992 Sep.
Total durable goods	100	2.6	-1.9	-2.7	-.4	-.1
Adjusted durable goods[1]	66	2.8	1.3	.1	-2.3	1.5
Office and computing	5	4.4	2.1	-2.5	4.2	-4.1
Nondefense capital goods[2]	16	-.6	2.5	-.9	-5.2	9.5
Other	45	3.8	.8	.7	-2.0	-.5

1. Excludes defense capital goods, nondefense aircraft, motor vehicle parts, and those companies not reporting unfilled orders.
2. Excludes aircraft and computers.

Indicators of the direction of manufacturing activity are mixed. Adjusted orders for durable goods, which exclude motor vehicles and items with unusually long lead times, rose in September after a decline in August. The October NAPM index inched back to only a fraction above the 50 percent level, and the Chicago purchasers' index moved below 50 percent. Anecdotal reports--such as those contained in the Beige Book--are similarly ambiguous.

PRODUCTION OF DOMESTIC AUTOS AND TRUCKS[1]
(Millions of units at an annual rate; FRB seasonal basis)

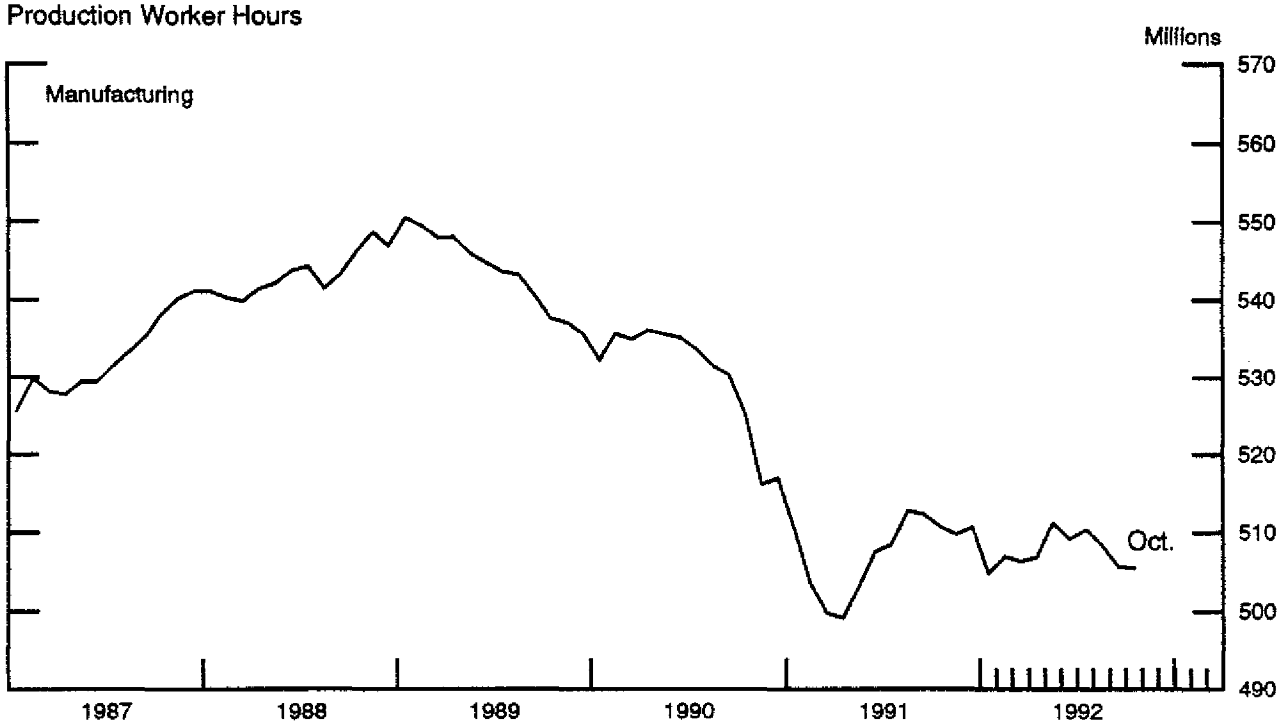
	1992 Q2	1992 Q3	1992 Sep.	1992 Oct.	1992 Nov. -schedules-	1992 Dec. -schedules-
U.S. production	10.0	9.5	9.4	9.9	10.6	10.3
Autos	6.1	5.6	5.6	5.5	6.0	5.7
Trucks	3.9	3.9	3.8	4.4	4.6	4.7

1. Components may not add to totals due to rounding.

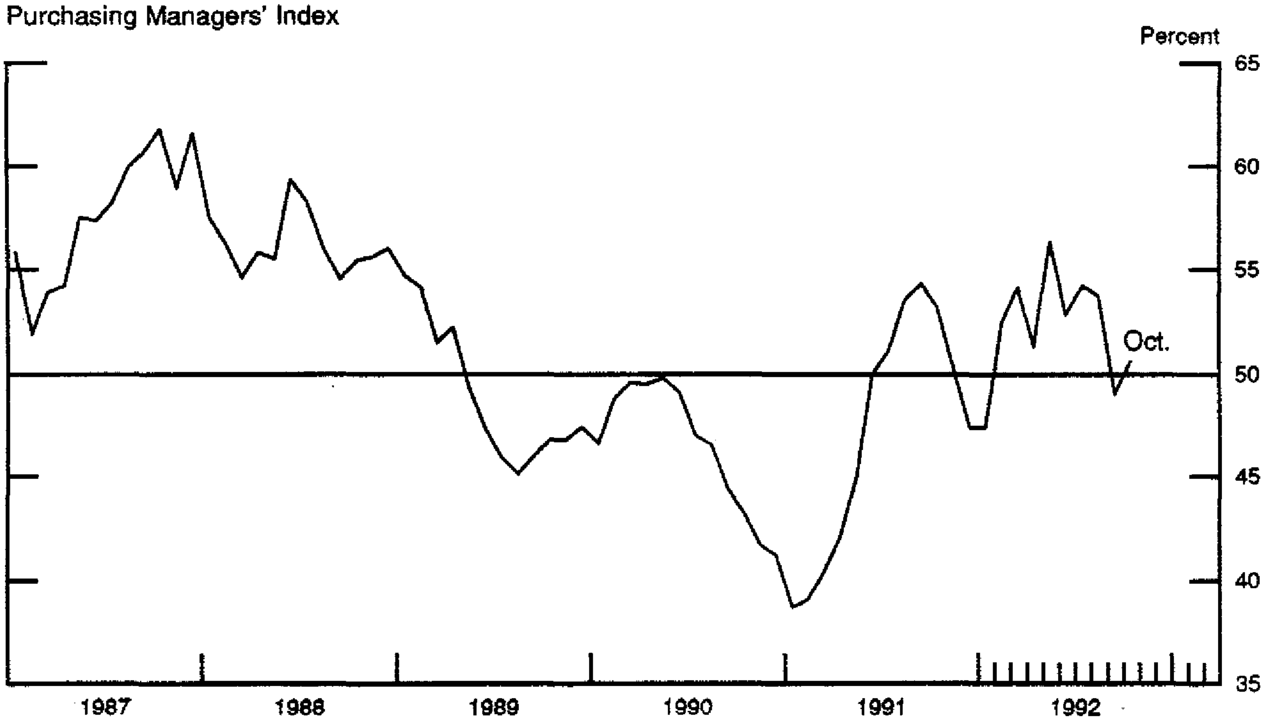
Prospects appear favorable for near-term production in the motor vehicle industry, however. Total assemblies in October rose to a 9.9 million unit annual rate, half a million units higher than in September; all the gain was in the production of light trucks, as auto assemblies declined somewhat. Given recent sales levels, it

INDUSTRIAL SECTOR INDICATORS
(Seasonally Adjusted)

Production Worker Hours



Purchasing Managers' Index



appears likely that some of the step-up in assembly rates scheduled for the remainder of the quarter will be realized.

Personal Income and Consumption

Growth in real income remains exceptionally weak for a business-cycle upswing. Real disposable personal income was flat in the third quarter, and, even adjusting for the effects of Hurricanes Andrew and Iniki, it increased at only a 0.5 percent annual rate.[2] Since the trough in disposable income in the first quarter of 1991, real DPI has risen at a 1.7 percent annual rate, compared with a 4.5 percent average in other recoveries (chart, top panel).[3] The shortfall is concentrated in real wages and salaries (chart, bottom panel). Judging from the October labor market report, labor income likely rose early in the fourth quarter.

Although real personal consumption expenditures increased at a 3-1/2 percent annual rate in the third quarter, that increase was based largely on gains in June and July. Real PCE was flat in August and edged up just 0.1 percent in September.[4] The

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2. Hurricanes Andrew and Iniki affected several components of nominal personal income in both August and September. Most prominently, destruction of uninsured property was counted as a reduction in rental income. Other large effects were a reduction in farm proprietors' income due to crop damage and to the destruction of property, and reduced wages and salaries for employees unable to work in the aftermath of the storms. The latest estimates of Hurricane Andrew's effects on personal income are smaller than the initial estimates, because BEA now believes that more of the losses were insured than originally thought. The initial estimate was that Hurricane Andrew reduced rental income of persons and proprietors by about $46 billion; the current estimate is a reduction of $22.6 billion. It should be noted that, although the hurricane effect on personal income was reduced, the larger insurance company payouts likely will show up as lower estimates of corporate profits for the third quarter. BEA's estimates of hurricane effects on other components of the national income accounts were little changed.

3. The average is calculated from the recoveries that began in 1961:Q1, 1970:Q4, 1975:Q4, and 1982:Q4.

4. BEA did not make specific adjustments to account for the impact of Hurricanes Andrew and Iniki on real PCE; some of the effects are, of course, already embedded in the underlying source data (predominately retail sales information). However, nominal personal consumption expenditures were reduced because BEA subtracts insurance payouts from insurance premiums to generate its estimate (Footnote continues on next page)

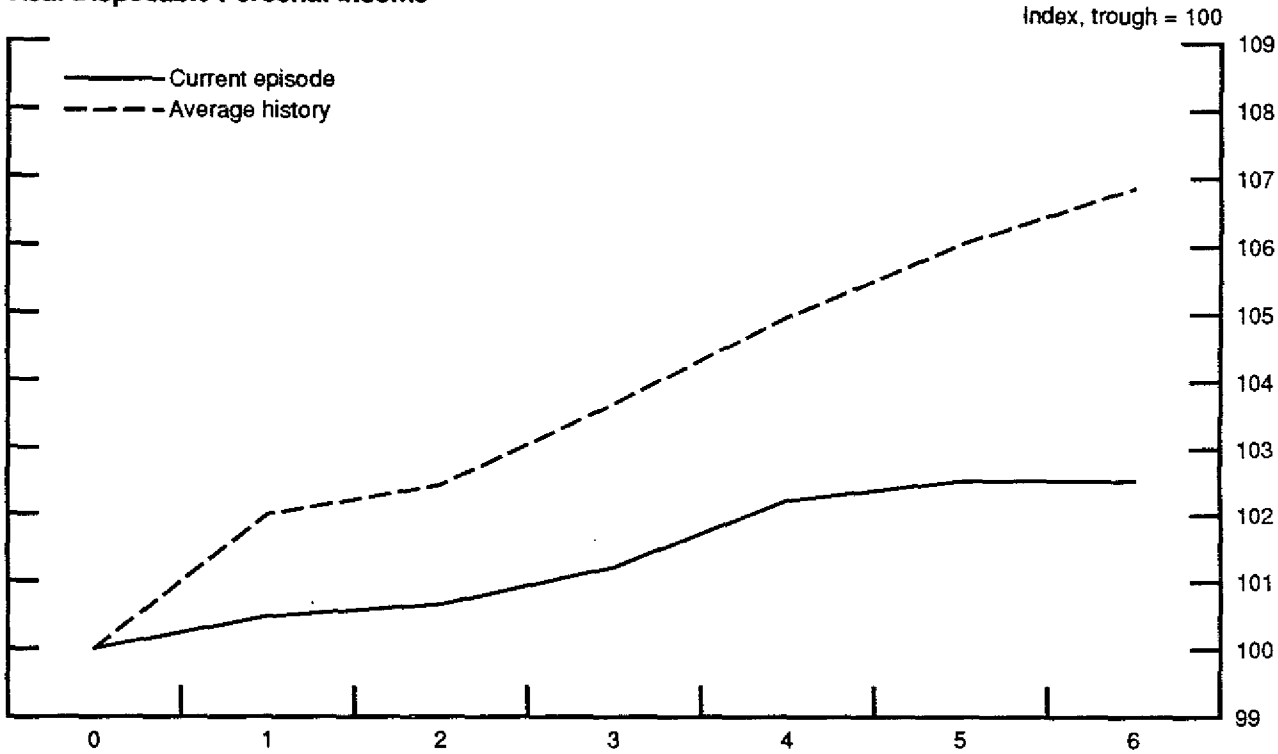
PERSONAL INCOME
(Average monthly change at an annual rate; billions of dollars)

	1991	1992 Q1	1992 Q2	1992 Q3	1992 July	1992 Aug.	1992 Sep.
Total personal income	12.8	21.6	9.6	13.0	10.6	-7.8	36.2
Wages and salaries	5.2	11.3	3.6	6.4	4.8	18.0	-3.7
Private	3.8	8.6	.9	5.2	3.5	16.8	-4.8
Other labor income	1.5	1.4	1.4	1.4	1.4	1.5	1.4
Proprietors' income	.1	7.1	-4.2	4.3	1.5	-5.2	16.5
Farm	-.3	1.7	-5.9	1.9	-.7	-6.5	12.9
Rent	.6	-.1	3.7	-1.1	.5	-21.6	17.8
Dividend	-.8	.1	1.2	1.5	1.6	1.8	1.0
Interest	-.6	-8.6	-.8	-3.8	-4.0	-3.7	-3.7
Transfer payments	7.8	12.2	5.3	4.9	5.2	2.9	6.7
Less: Personal contributions for social insurance	1.1	1.9	.6	.6	.5	1.4	-.2
Less: Personal tax and nontax payments	-.1	-5.0	3.3	4.4	4.8	6.5	1.9
Equals: Disposable personal income	12.9	26.6	6.3	8.6	5.9	-14.3	34.3
Memo: Real disposable income	1.2	9.8	-1.9	1.5	-.9	-1.6	6.9

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

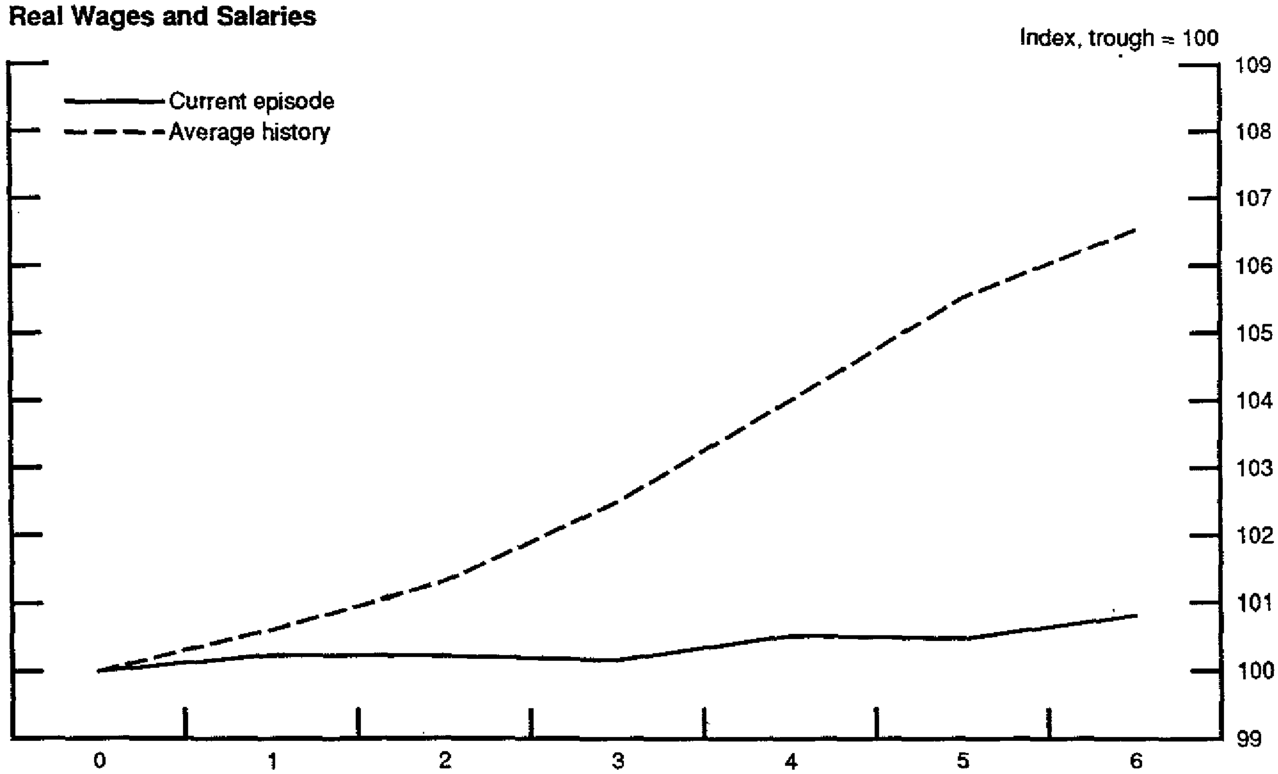
	1991	1992 Q1	1992 Q2	1992 Q3	1992 July	1992 Aug.	1992 Sep.
		------Annual rate-----			----Monthly rate----		
Personal consumption expenditures	.0	5.1	-.1	3.4	.4	.0	.1
Durable goods	-2.5	16.5	-2.1	8.6	-.2	.0	1.0
Excluding motor vehicles	-1.0	15.2	-1.6	19.2	2.7	.9	1.0
Nondurable goods	-1.5	5.5	-1.5	1.7	.8	-.1	-.3
Excluding gasoline	-1.6	5.6	-1.7	1.5	.8	-.3	-.3
Services	1.6	2.2	1.2	3.1	.3	.1	.2
Excluding energy	1.5	3.0	.9	3.3	.3	.2	-.0
Memo:							
Personal saving rate (percent)	4.7	4.9	5.3	4.5	4.6	4.5	4.6

Real Disposable Personal Income



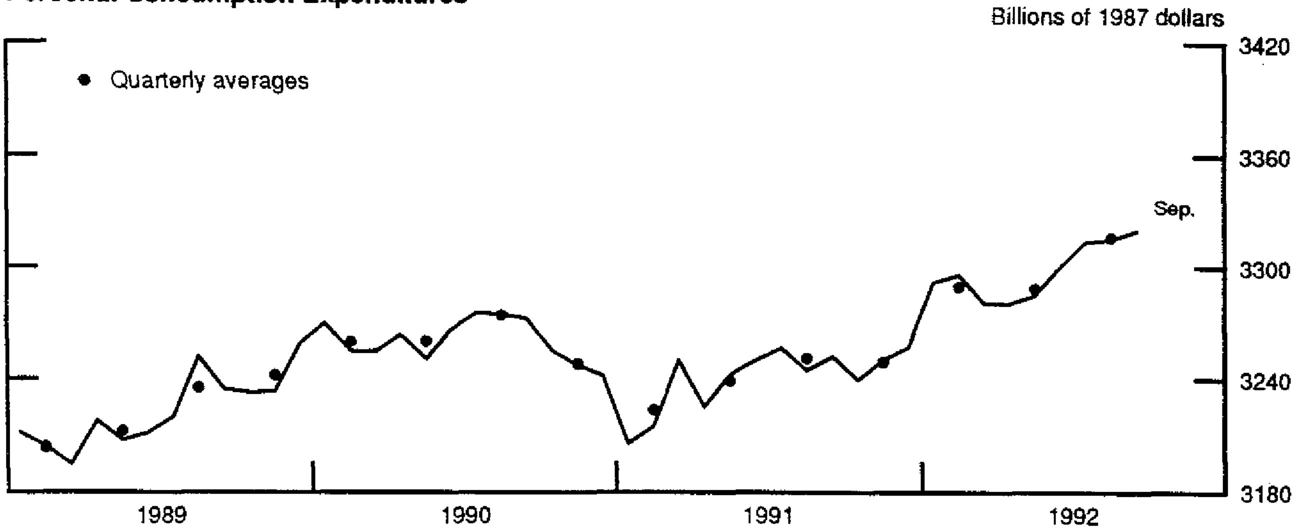
Number of quarters from trough
Current trough = 1991:Q1 (Includes troughs 1961:Q1 1970:Q4 1975:Q1 1982:Q4)

Real Wages and Salaries

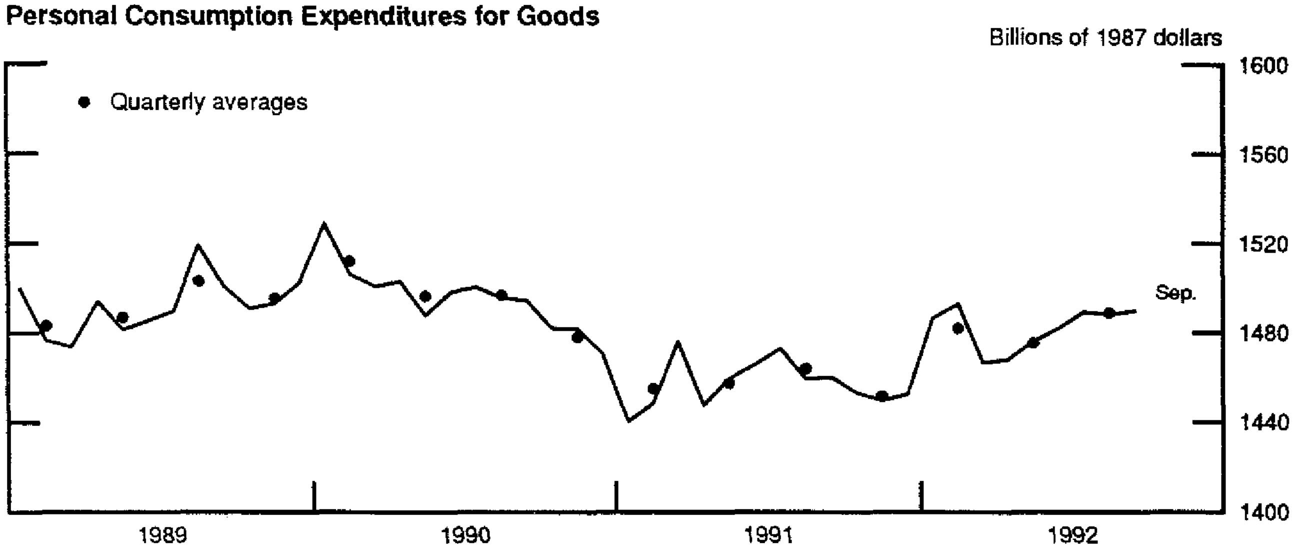


Numbers of quarters from trough
Current trough = 1991:Q1 (Includes troughs 1961:Q1 1970:Q4 1975:Q1 1982:Q4)

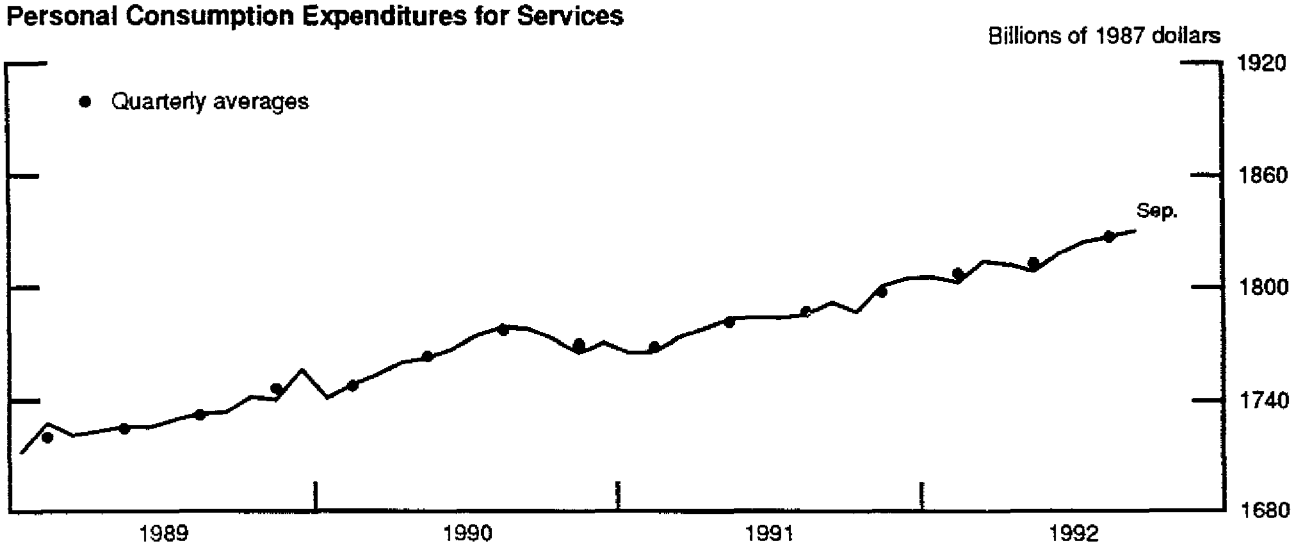
Personal Consumption Expenditures



Personal Consumption Expenditures for Goods



Personal Consumption Expenditures for Services



September gain reflected a substantial increase in purchases of durable goods, such as furniture and household equipment, that may have been influenced by rebuilding efforts following Hurricane Andrew. In addition, sales of new motor vehicles were up a bit in September, and unseasonable weather boosted electricity consumption. These increases were largely offset by a decline in spending on nondurable goods, leaving total consumer spending near its July level (chart). Coincident with this stagnation in consumption, the Michigan and Conference Board indexes of consumer sentiment have drifted lower since July.

One area of improvement since July has been sales of light motor vehicles. The latest data show substantial increases in sales for September and again in October. Seasonal adjustment problems (associated with the extensive incentive programs on light trucks at the end of the 1991 model year) may have misallocated some sales between September and October; nevertheless, the average 13.1 million unit annual rate for the two months together was considerably above the July-August pace. Most of the gains reflected a strengthening in the market for light trucks; sales of cars remained sluggish. The relative gains in the truck market reflect further growth in the sales of minivans and lower-priced pickups. Part of the stagnation in sales of North America-produced autos since July may be attributed to reductions in fleet sales to car rental companies.

The personal saving rate moved down to 4.5 percent in the third quarter--4.6 percent excluding identified hurricane effects.

(Footnote continued from previous page)

of nominal spending on insurance. Real PCE on insurance is estimated using a different method, which does not directly capture hurricane effects. As a result, the discrepancy between the two measures is forced into the deflator for insurance services.

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

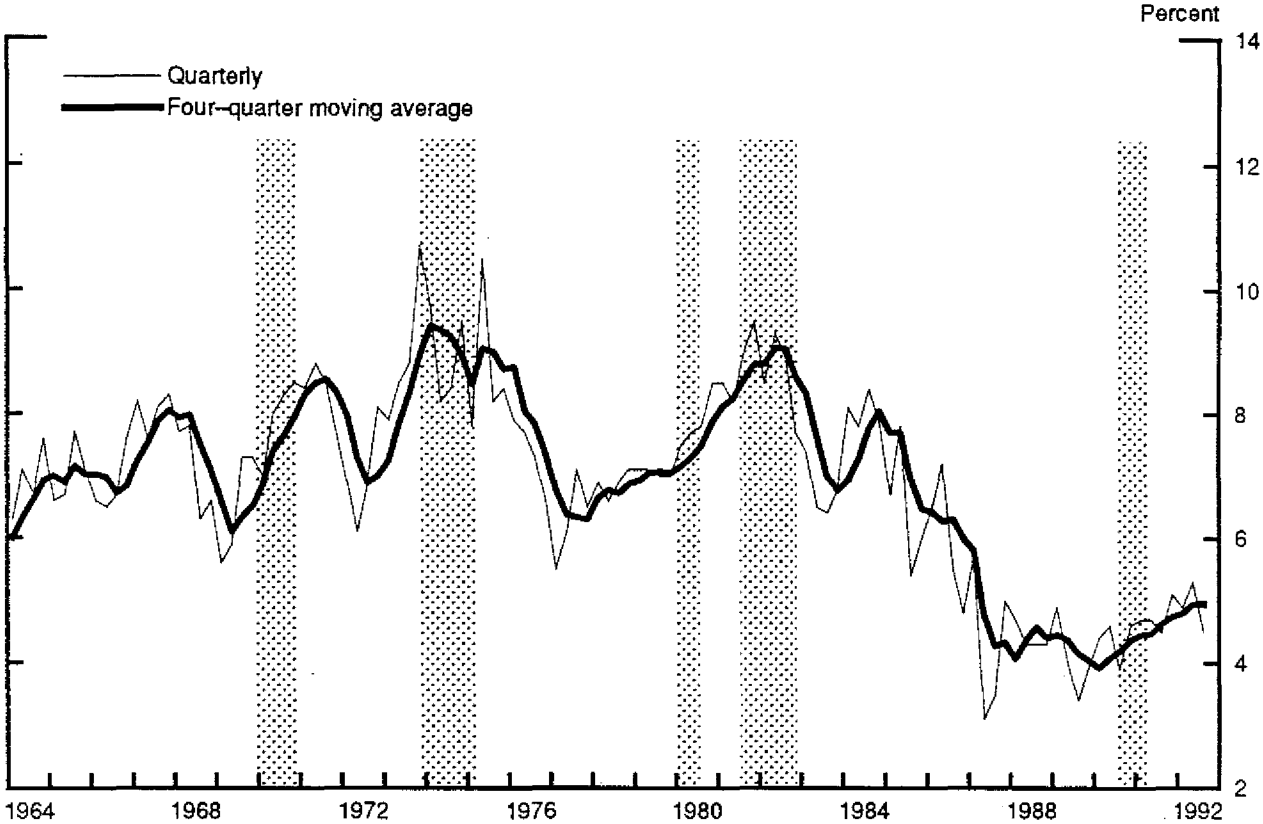
		1992			1992			
	1991	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Total	12.30	12.37	12.99	12.59	12.49	12.54	12.73	13.50
Autos	8.39	8.31	8.50	8.21	8.34	7.94	8.35	8.30
Light trucks	3.91	4.06	4.49	4.38	4.15	4.60	4.39	5.20
North American[2]	9.73	9.86	10.57	10.41	10.33	10.38	10.53	11.27
Autos	6.14	6.07	6.32	6.24	6.41	5.96	6.35	6.29
Big Three	4.99	5.02	5.17	4.90	5.10	4.61	5.12	5.17
Transplants	1.14	1.05	1.15	1.34	1.31	1.35	1.23	1.12
Light trucks	3.59	3.79	4.25	4.17	3.92	4.42	4.18	4.98
Foreign produced	2.57	2.50	2.43	2.18	2.16	2.16	2.21	2.23
Autos	2.25	2.24	2.18	1.97	1.93	1.98	2.00	2.01
Light trucks	.32	.27	.24	.20	.23	.17	.21	.22
Memo:								
Domestic nameplate								
Market share, total	.70	.72	.73	.73	.72	.71	.73	.75
Autos	.63	.63	.63	.64	.63	.60	.64	.65

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

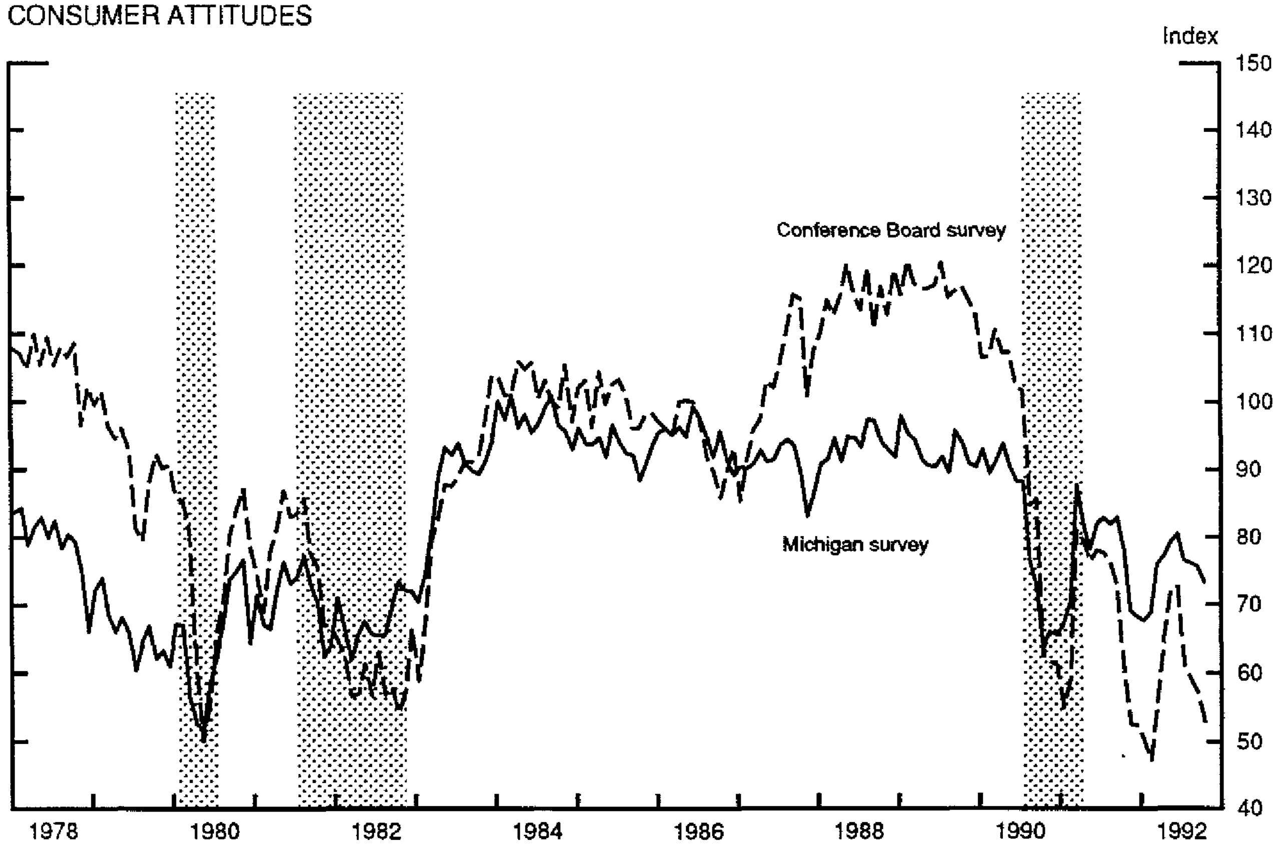
1. Components may not add to totals because of rounding.

2. Excludes some vehicles produced in Canada and Mexico that are classified as imports by the industry.

PERSONAL SAVING RATE



CONSUMER ATTITUDES



Despite this drop, the underlying trend of the personal saving rate (as measured by a four-quarter moving average) has been upward since around the beginning of 1990 (chart).

Housing Markets

Housing market indicators have continued to be mixed but, on balance, now provide fairly persuasive evidence of a moderate pickup in demand and production since midyear. Housing starts, which rose substantially in August, edged up further in September to 1.26 million units at an annual rate, the highest reading since March (table and chart). Permit issuance rebounded in September after little change in August. Rebuilding in the wake of Hurricane Andrew did not have a discernible effect on national or regional estimates of starts and permits in September.[5]

Single-family starts inched up to an annual rate of 1.07 million units in September, their second-highest level this year. Single-family permits increased more rapidly than starts in September, narrowing the gap between the two series, which was unusually wide in August (chart, top panel). The closer alignment of the two indicators suggests that greater confidence can be placed in the starts estimate.[6] Also, the preliminary estimate of new home sales for September (lower panel, dashed line) edged down only a little from the August figure, which was revised upward substantially (solid line). Large upward revisions in new home sales have occurred with regularity this year; the dot on the chart

5. The Census Bureau has made a special effort to identify construction activity that reflects rebuilding following Hurricane Andrew. Beginning with the September release, Census changed its definitions of starts and permits to include units being totally rebuilt on an existing foundation.

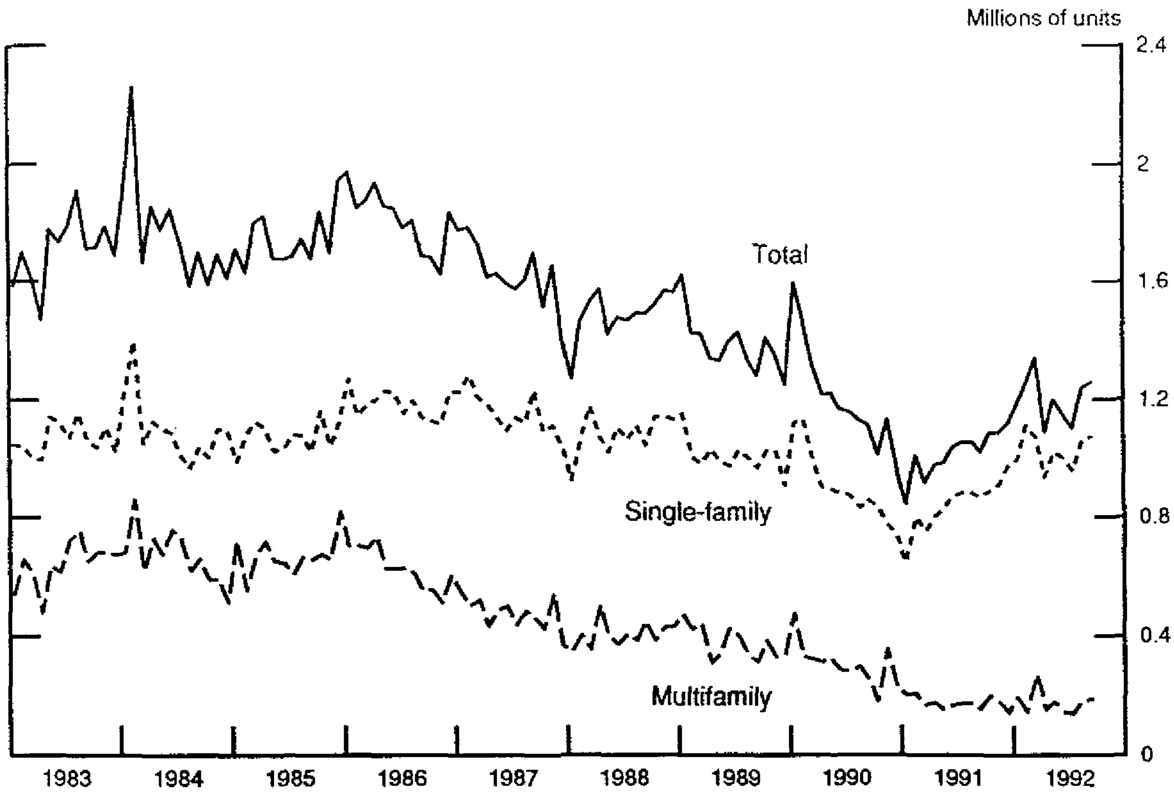
6. Because the permits series is less subject to sampling error than starts, high readings of starts relative to permits can be an indication of irregularities affecting the starts estimate.

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

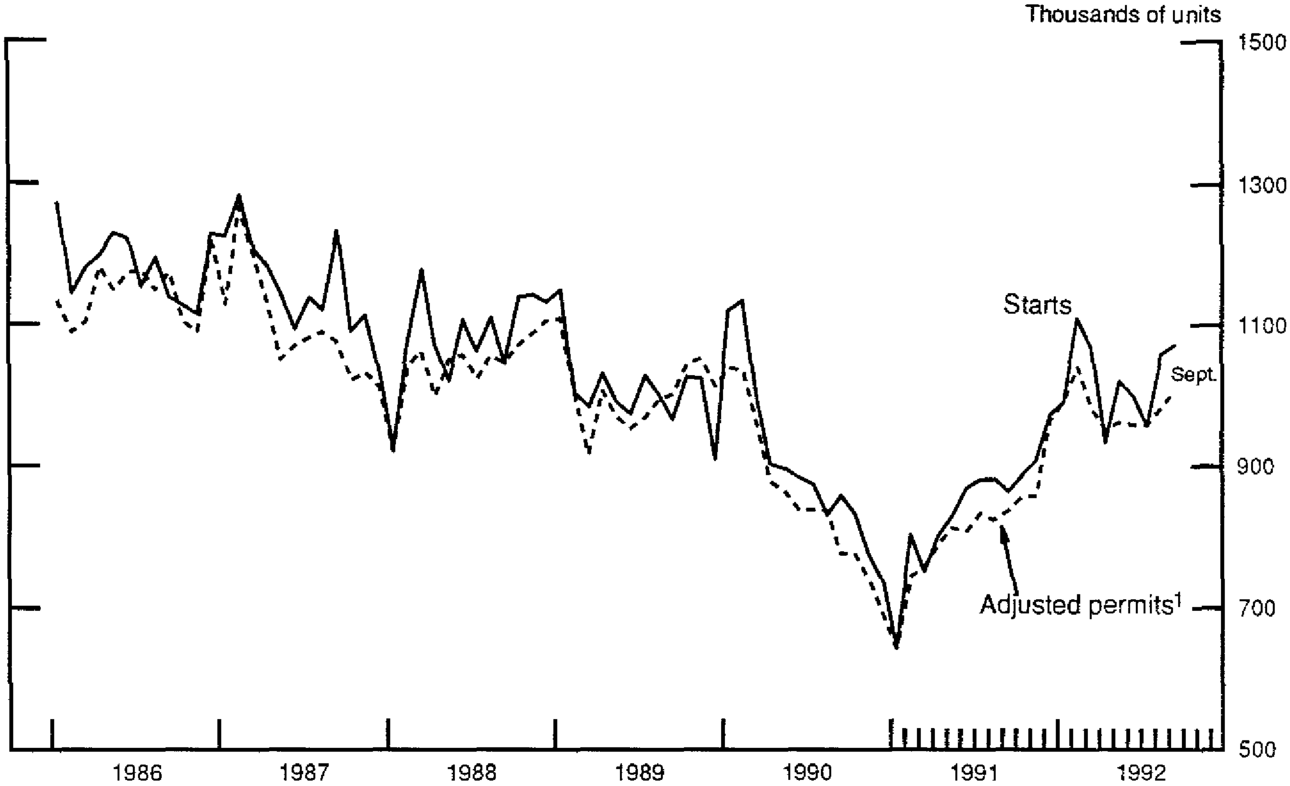
	1991	1992			1992		
	Annual	Q1	Q2	Q3[p]	July[r]	Aug.[r]	Sep.[p]
All units							
Permits	.95	1.12	1.05	1.09	1.08	1.08	1.12
Starts	1.01	1.26	1.14	1.20	1.10	1.24	1.26
Single-family units							
Permits	.75	.92	.88	.89	.88	.88	.90
Starts	.84	1.06	.98	1.03	.96	1.06	1.07
Sales							
New homes	.51	.62	.56	.62	.61	.62	.62
Existing homes	3.22	3.41	3.43	3.35	3.45	3.31	3.28
Multifamily units							
Permits	.20	.19	.17	.21	.20	.20	.21
Starts	.17	.20	.16	.17	.14	.18	.19

p Preliminary. r Revised estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)

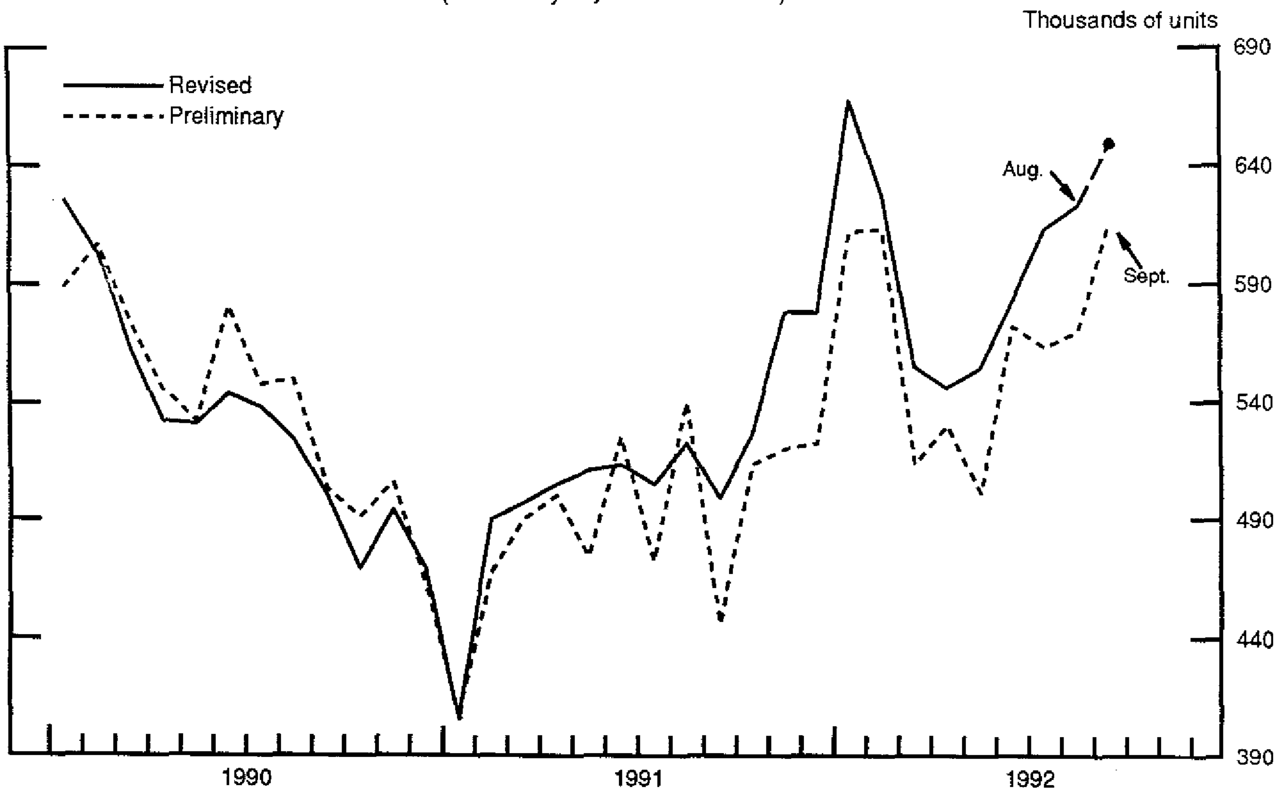


SINGLE-FAMILY HOUSING STARTS AND ADJUSTED PERMITS
(Seasonally adjusted annual rate)



1. Adjusted permits equals total permits plus total starts outside of permit-issuing areas.

PRELIMINARY AND REVISED NEW HOME SALES
(Seasonally adjusted annual rate)



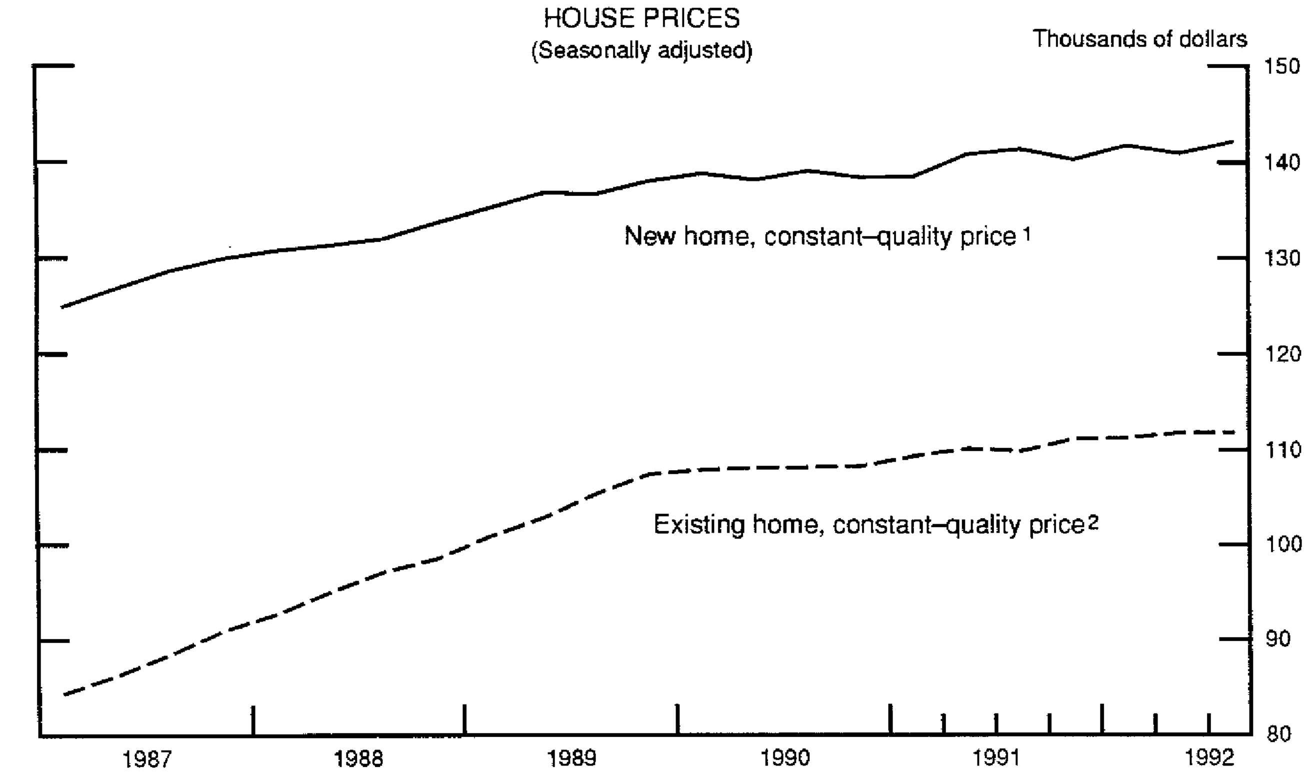
indicates the level to which a typical revision would raise the September preliminary estimate.[7]

The demand for single-family housing has been pulled in two different directions by the flattening of house prices in recent years (chart, upper panel). Slowing price increases have contributed to a decline in the cash-flow burden of a mortgage, which has helped support housing demand. However, the weakness of house prices also has diminished the amount of price appreciation that buyers probably expect, thereby damping the demand for homeownership as an investment.

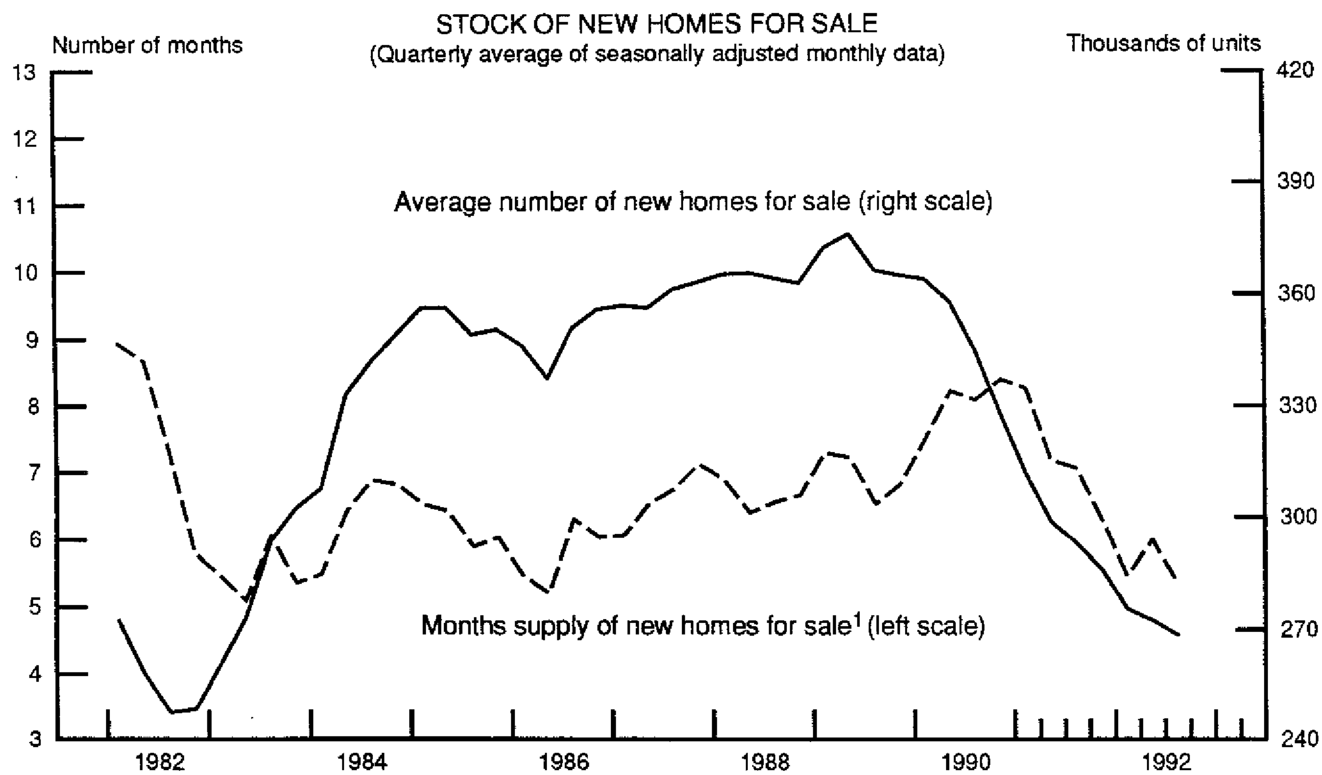
On the supply side of the housing market, the outstanding inventory of new homes for sale continued to decline in the third quarter, to the lowest level in about nine years (chart, lower panel). Moreover, when measured relative to sales as months' supply, the stock of homes for sale is near the low end of its historical range. Although this may signal an emerging tightness in the market, the flatness of prices suggests that, so far, the supply of homes for sale has been adequate in relation to demand.

Multifamily housing starts edged up to 185,000 units (annual rate) in September but continued to be impeded by a persistent oversupply of rental apartments and the resulting restraint on rents. In the third quarter, the vacancy rate for multifamily rental properties edged down to 9.3 percent--only a little below the 9.6 percent reading in the year-earlier period.

7. The Census Bureau samples newly issued building permits and then obtains information about sales of the newly permitted units. Although an imputation is made for houses that are sold before a permit is issued, an underestimate occurs if the number of such units is unusually large, as has occurred repeatedly this year. From the preliminary estimate to the final estimate, the average revision for the first half of this year was about 32,000 units.



1. Estimated price of a home with characteristics typical of houses built in 1987.
2. Series derived by moving the median existing home price from a base period of 1987:Q1 according to the FHLMC repeat–sales price index.



1. Number of homes for sale divided by new home sales.

Business Fixed Investment

Real outlays for producers' durable equipment posted another strong increase in the third quarter, led, once again, by a sharp increase in outlays for computing equipment. Recent data on orders and shipments at domestic manufacturers point to a softening in the computer industry, but, at the same time, suggest that other areas are picking up.[8] Real outlays for nonresidential structures, which had changed little over the first half of 1992, declined sharply in the third quarter.[9]

Outlays for computing equipment have risen at close to a 40 percent annual rate during the past year and a half, accounting for almost all the increase in producers' durable equipment spending during this period. According to industry sources and articles in trade publications, investment in computers has been driven by further price reductions and product innovations.[10] However, the nominal value of shipments of computing equipment declined fairly sharply in both August and September, and new orders have fallen, on net, during the past few months (chart). The data in hand point to further growth in <u>real</u> outlays for computing equipment in the current quarter, but at a slower pace than earlier in the year.

8. September data on shipments of nondefense capital goods suggest a small upward revision to third-quarter PDE. Outlays for computing equipment are expected to be revised down nearly $2 billion (1987 dollars), while outlays for PDE excluding aircraft, motor vehicles, and computers are expected to be revised up about $2-3/4 billion.

9. Data on construction put-in-place, which became available after the advance GDP report, suggest an upward revision to outlays for nonresidential structures of close to $2 billion (1987 dollars). Even with this revision, these outlays still would show a decline of about $5 billion in the third quarter.

10. It should be noted that the surge in business spending for computing equipment since early 1991 has been accompanied by a dramatic deterioration in the trade balance for computers and parts. During this period, constant-dollar imports, which constitute about half of business purchases of computing equipment, jumped more than 80 percent, while exports rose 33 percent; as a result, the trade balance in this sector declined from a surplus of $2-1/2 billion to a deficit of $14-1/2 billion (1987 dollars).

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

	1992			1992		
	Q1	Q2	Q3	July	Aug.	Sep.
Producers' durable equipment						
Shipments of nondefense capital goods	.5	1.4	.6	-3.0	-2.1	2.2
Excluding aircraft and parts	.2	2.6	2.9	.2	-2.4	3.1
Office and computing	5.0	3.8	.4	.4	-3.2	-2.5
All other categories	-1.2	2.3	3.7	.1	-2.2	4.8
Shipments of complete aircraft[1]	64.6	-12.7	n.a.	-16.0	-10.2	n.a.
Sales of heavy weight trucks	7.1	5.9	2.0	.8	1.2	4.6
Orders of nondefense capital goods	2.5	-.4	-3.8	-5.4	-3.9	7.8
Excluding aircraft and parts	4.0	.5	2.4	-1.3	-3.1	6.2
Office and computing	9.2	4.4	2.1	-2.5	4.3	-4.1
All other categories	2.6	-.6	2.5	-.9	-5.2	9.5
Nonresidential structures						
Construction put-in-place	.6	.6	-3.9	-2.0	-4.5	.3
Office	-4.9	-6.7	-13.6	-9.7	-4.4	-7.0
Other commercial	1.5	3.8	-4.6	-6.8	-8.3	.3
Industrial	2.4	-6.0	-9.1	1.1	-11.8	1.2
Public utilities	5.2	2.5	.2	1.3	-.1	.9
All other	-2.7	6.2	1.5	.8	-1.5	2.9
Rotary drilling rigs in use	-4.7	-1.4	.7	6.5	-.2	-1.0
Footage drilled[2]	-17.7	-4.3	n.a.	13.2	3.5	n.a.
Memo:						
Business fixed investment[3]	3.0	16.1	.3	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.

Spending on transportation equipment declined significantly last quarter, owing largely to another sharp swing in aircraft purchases. Purchases of new aircraft jumped to an unsustainably high level in the second quarter and then dropped back to a relatively low level in the third quarter. These outlays may rebound in the current quarter but are likely to trend down during the next couple of years owing to the overcapacity among domestic carriers.

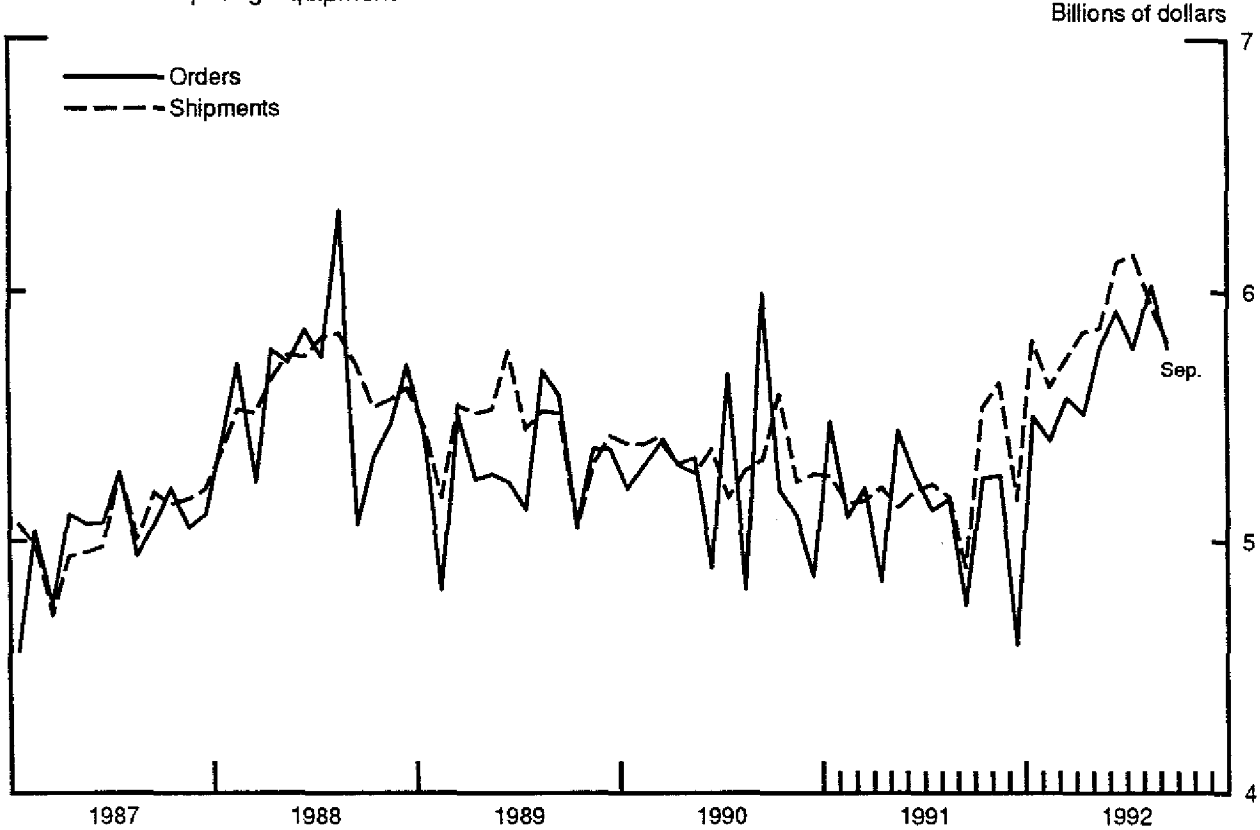
Investment in items other than transportation and computing equipment advanced at an annual rate of 11-1/2 percent in the third quarter, and a large, widespread increase in orders points to further gains in coming months. Purchases of communications equipment accounted for most of the increase in spending in the last quarter. Part of this strength probably stems from a movement among telephone companies toward digital technologies and fiber optics. In addition, purchases of cellular phones, fax machines, and modems have been trending upward for some time.

Outlays for nonresidential structures, which had fluctuated within a fairly narrow range earlier this year, dropped sharply last quarter. Among sectors, office construction posted the largest decline in the third quarter; the annual rate of decline in this sector over the first three quarters of this year was about the same as in 1991. Activity in the industrial and "other commercial" sectors also dropped considerably in the third quarter, and growth in institutional construction slowed.

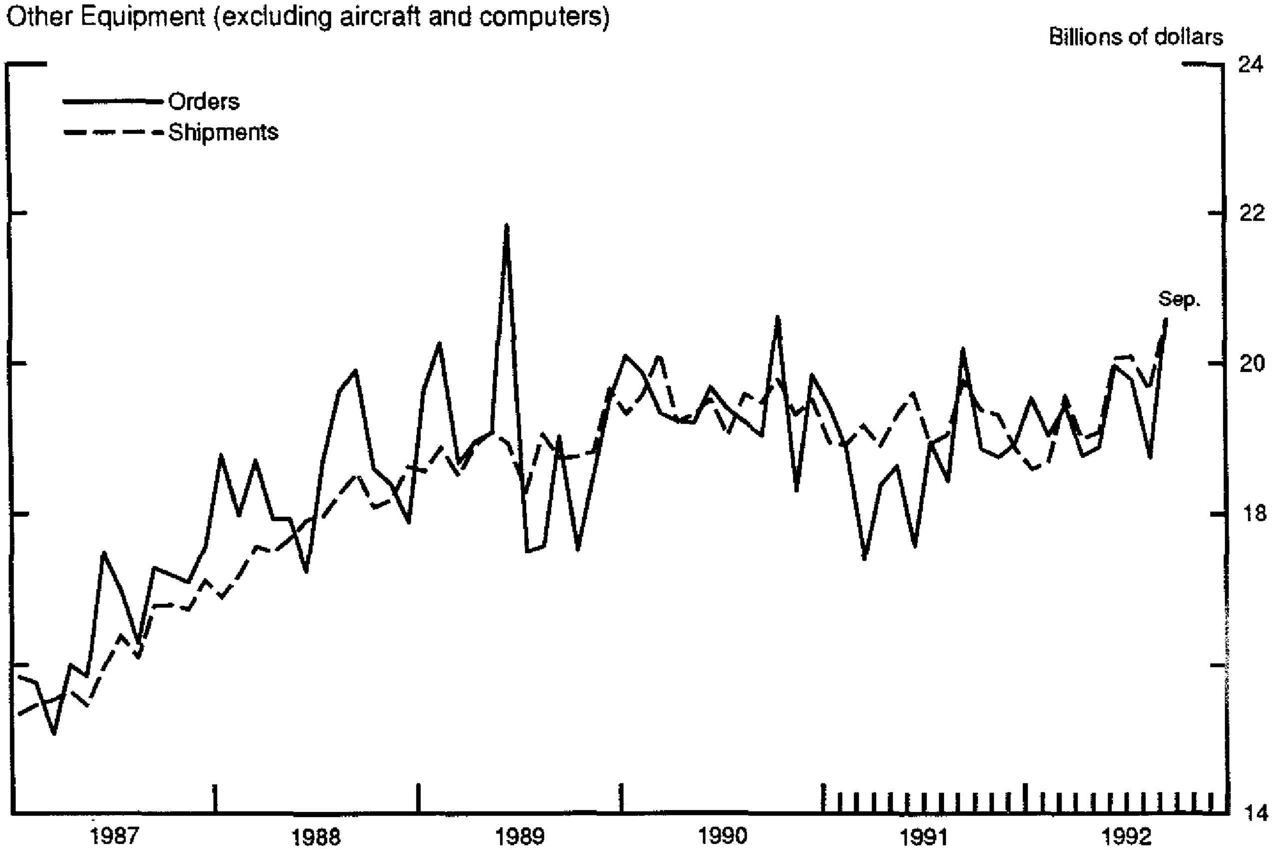
For the nonresidential construction sector as a whole, new commitments (the sum of contracts and permits for this sector) have flattened out this year, after sharp declines in 1990 and 1991. However, construction, which usually lags new commitments by about half a year, has continued to trend down this year, albeit not as

RECENT DATA ON ORDERS AND SHIPMENTS

Office and Computing Equipment

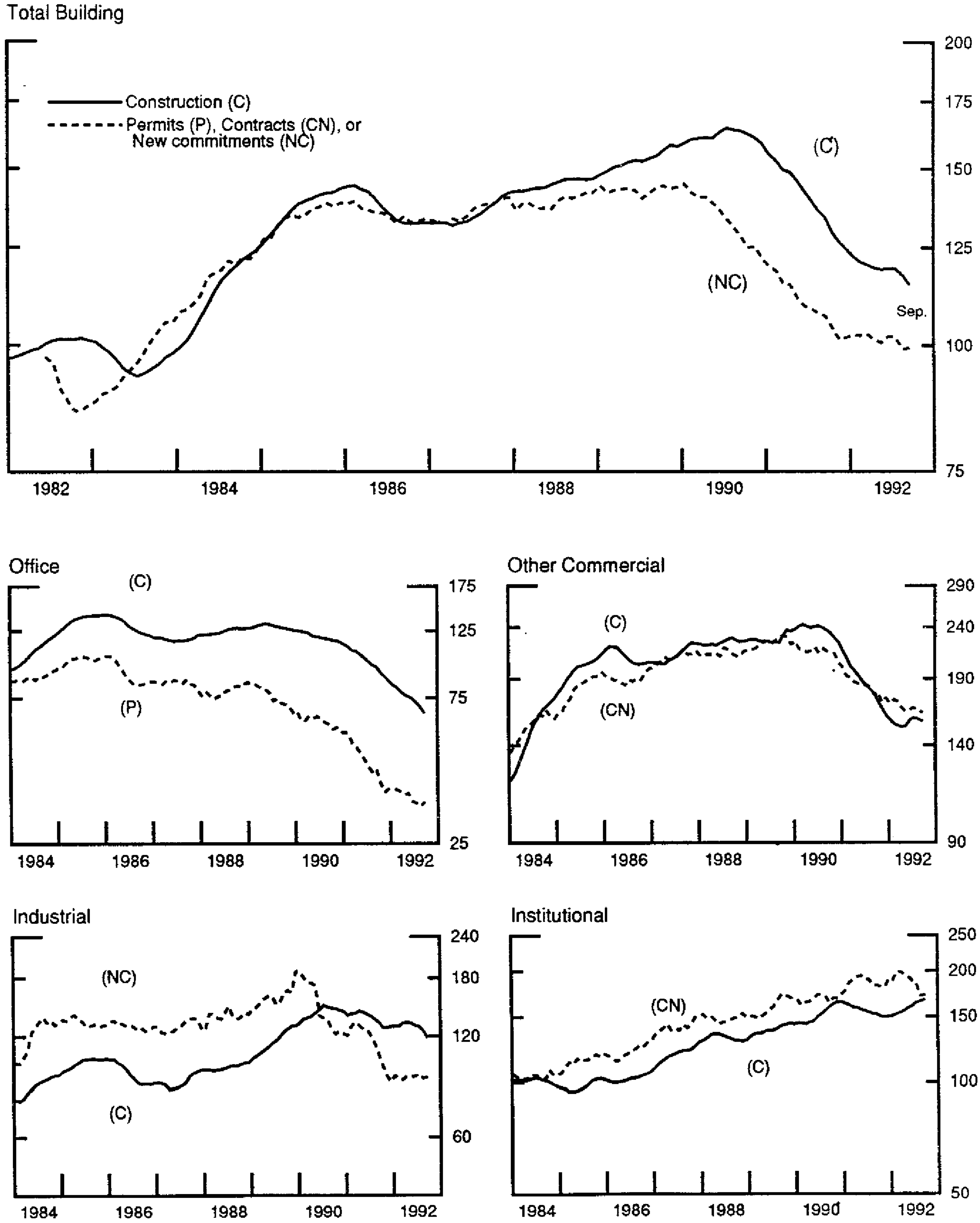


Other Equipment (excluding aircraft and computers)



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.

sharply as in 1991. The office sector, where the lag between new commitments and construction is relatively long, continues to be the weakest component of nonresidential structures. Moreover, office vacancy rates around the country generally remain very high, especially in downtown areas, and prices for office properties have continued to decline. All told, a further shrinkage of activity in this market segment is likely for at least the next few quarters.

The picture in the industrial sector is similar, though less severe. Currently, there is plenty of spare capacity in the industrial sector. New commitments currently are running well below the level of construction, suggesting that activity will remain weak, at least in the near term. In contrast, new commitments and construction appear to be fairly well aligned in the other commercial and institutional sectors. The "other commercial" sector shrank substantially in 1991 but has flattened out, on net, this year. The prospects for this sector depend critically on the future course of the retail sector of the economy.

Finally, drilling activity, which sagged earlier this year, increased in October to a level of 753 rigs in use, up 10 percent from the previous month. Much of this pickup is attributable to the recovery from damage caused by Hurricane Andrew and higher prices for natural gas.

Business Inventories

The available data indicate that businesses in manufacturing and trade may have trimmed their stocks in September, after sharp accumulations in July and August, and there appear to be no serious inventory overhangs at this time.

In manufacturing, inventories were reduced in September at an annual rate of $12 billion in current-cost terms, retracing a

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

	1992			1992		
	Q1	Q2	Q3	July	Aug.	Sep.
Current-cost basis						
Total	-7.9	22.7	n.a.	42.0	25.8	n.a.
Excluding auto dealers	-13.7	16.1	n.a.	41.7	26.0	n.a.
Manufacturing	-11.2	-1.5	6.9	7.6	25.3	-12.2
Excluding aircraft	-7.1	6.3	12.7	15.7	26.7	-4.4
Wholesale	-1.2	6.1	3.2	3.5	6.9	-.8
Retail	4.5	18.1	n.a.	30.8	-6.4	n.a.
Automotive	5.8	6.6	n.a.	.3	-.3	n.a.
Excluding auto dealers	-1.3	11.5	n.a.	30.5	-6.1	n.a.
Constant-dollar basis						
Total	-13.2	7.4	n.a.	35.6	30.1	n.a.
Excluding auto dealers	-18.0	1.9	n.a.	33.0	22.2	n.a.
Manufacturing	-8.7	-6.5	n.a.	7.8	19.3	n.a.
Wholesale	-4.9	2.1	n.a.	.5	9.8	n.a.
Retail	.5	11.8	n.a.	27.3	1.0	n.a.
Automotive	4.8	5.5	n.a.	2.7	7.9	n.a.
Excluding auto dealers	-4.4	6.3	n.a.	24.6	-6.8	n.a.

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

	1992			1992		
	Q1	Q2	Q3	July	Aug.	Sep.
Current-cost basis						
Total	1.52	1.51	n.a.	1.49	1.52	n.a.
Excluding auto dealers	1.50	1.49	n.a.	1.47	1.49	n.a.
Manufacturing	1.62	1.57	1.57	1.55	1.60	1.57
Excluding aircraft	1.45	1.41	1.41	1.39	1.44	1.41
Wholesale	1.36	1.36	1.33	1.32	1.34	1.32
Retail	1.54	1.57	n.a.	1.56	1.56	n.a.
Automotive	1.85	1.90	n.a.	1.88	1.89	n.a.
Excluding auto dealers	1.46	1.48	n.a.	1.48	1.47	n.a.

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

substantial portion of the runup in August.[11] The August accumulation of manufacturing stocks apparently was the result of a sharp drop in shipments. (Factory production edged down in August, even after adjusting for the effect of Hurricane Andrew and a strike at General Motors.) As shipments rose in September, factory stocks were drawn down, and inventory-shipments ratios for most industries returned to the low end of their recent ranges. Although a substantial part of the September drawdown was in defense aircraft, liquidation was widespread in other durable goods industries as well. By stage of processing, manufacturers apparently have continued to carefully manage their holdings of production materials and work-in-process, over which they have more direct control, and inventory-shipments ratios trended downward (chart, middle and lower panels). For finished goods, however, the inventory-shipments ratio generally has remained flat in recent months, around the level that prevailed during the one and one-half years before the 1990-91 sales slump (chart, upper panel).

In wholesale trade, inventories changed little in September, after moderate accumulations in July and August. For the third quarter as a whole, inventories of merchant wholesalers rose at a $3 billion annual rate in current-cost terms--about what BEA assumed in its advance GDP estimate--while sales rose 3.3 percent (not annualized). The inventory-sales ratio for the wholesale trade sector fell to 1.32 months at the end of September, the low end of the range posted over the past year.

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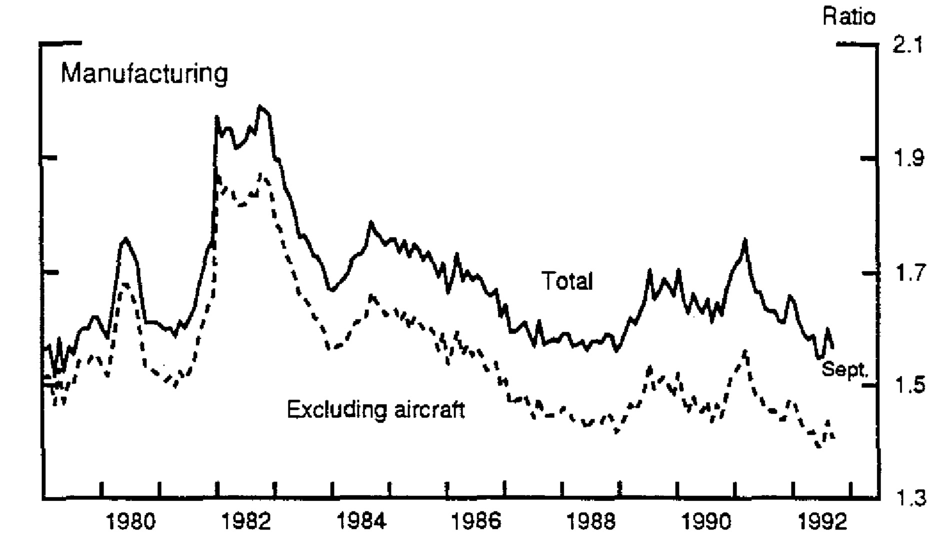
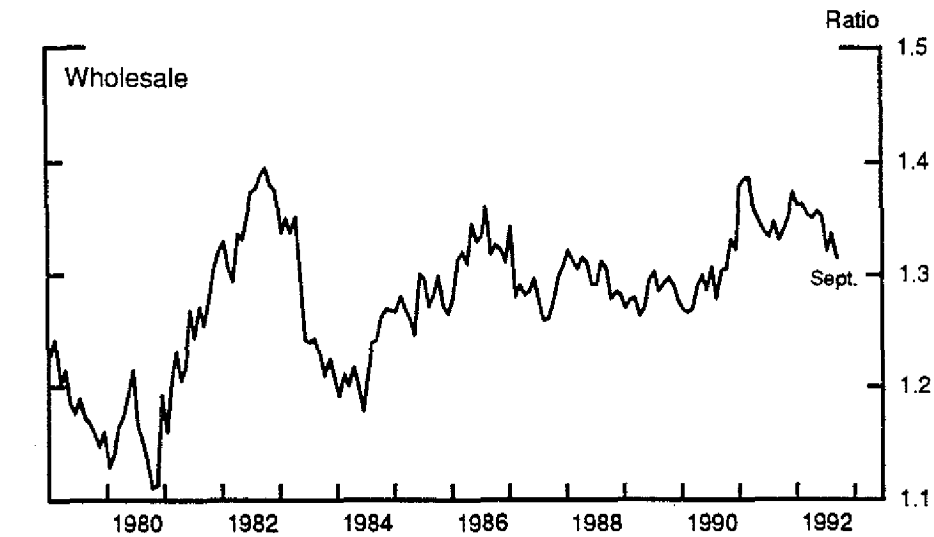
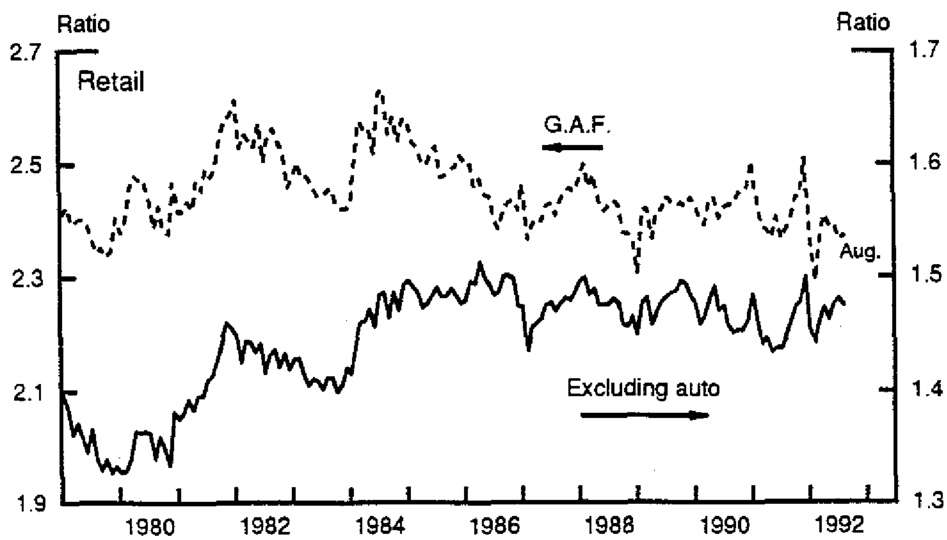
11. In constructing the advance GDP estimate for the third quarter, BEA assumed that manufacturing inventories declined in September at an annual rate of $8.1 billion in current-cost terms--about $4 billion less liquidation than indicated by the incoming data. Given BEA's estimates of IVAs and implicit inventory deflators, the discrepancy may lead to a downward revision to third-quarter nonfarm inventory investment of about $1 billion in real terms.

RATIO OF INVENTORIES TO SALES
(Current–cost data)

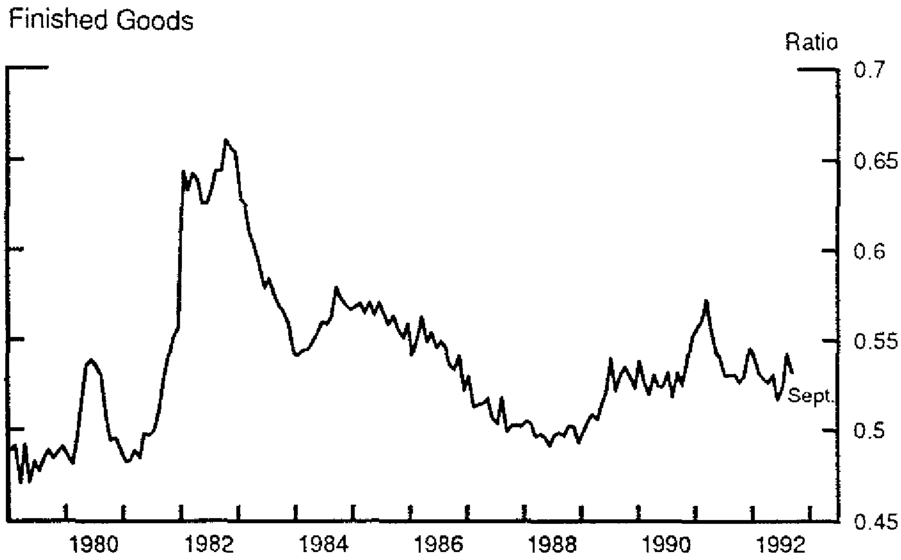


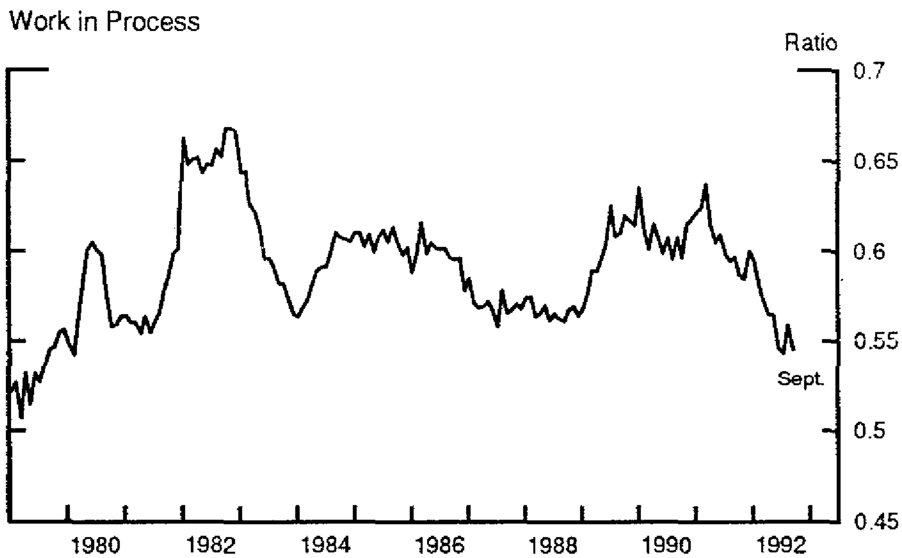


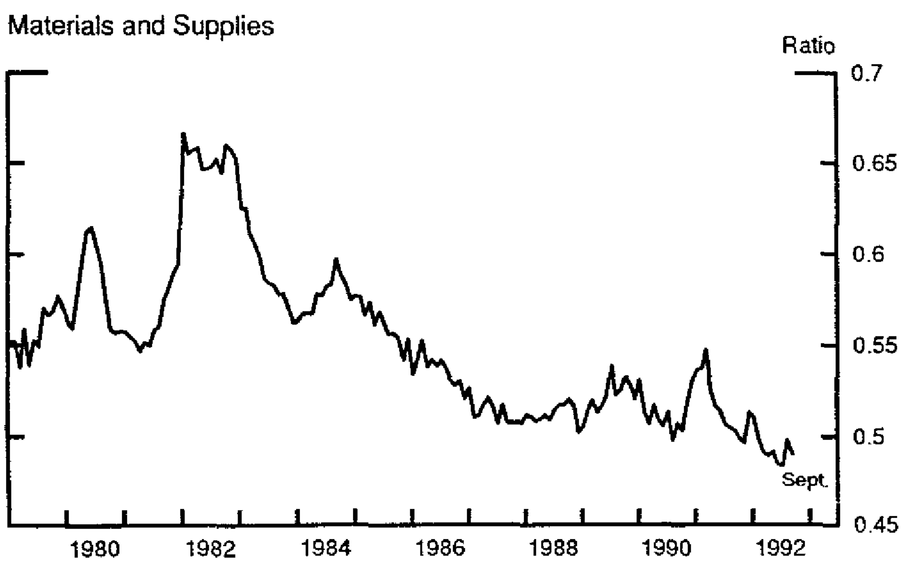


MANUFACTURERS' INVENTORY – SHIPMENTS RATIO BY STAGE OF PROCESSING

(Current–cost data)







Non-auto retail inventories fell back in August, reversing a portion of the sharp increase in July. The August liquidation was largely in stocks of nondurable goods--apparel, food, and general merchandise--where stocks have been broadly in line with sales. For stores in the GAF grouping, inventory buildups averaged a moderate $7-1/2 billion (current cost) annual rate over the first two months of the third quarter and left the inventory-sales ratio for GAF stores at 2.37 months in August, considerably below its recent peak of 2.51 months in December of last year. Given the sizable 1.1 percent rise in GAF sales in September (and a 3.6 percent growth over the third quarter as a whole) shown in the latest advance retail sales report, inventories held by stores in this important category probably are in reasonably good shape at present.

Federal Sector

The unified budget showed a deficit of $290 billion in FY1992--about $20 billion larger than in FY1991 but considerably smaller than had been anticipated only a few months ago. OMB projected a deficit of $334 billion in July, and CBO's August estimate was $314 billion. Outlays for deposit insurance turned out to be lower than had been anticipated by either agency, largely because of fewer resolutions of troubled banks by the Bank Insurance Fund. OMB also overestimated spending in several other areas, notably defense and health, and was much too pessimistic about receipts. Excluding deposit insurance and contributions to the Defense Cooperation Account, the deficit increased from $247 billion in FY1991 to $292 billion in FY1992.

Receipts grew 3.5 percent in FY1992. The rise in taxes lagged the 4.2 percent gain in nominal GDP over this period, largely because of the change in withholding rules that lowered withheld individual income taxes by about $2 billion per month beginning in

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

	Q3 1991	Q3 1992	Fiscal years FY1991	FY1992	Dollar change	Percent change
Outlays	355.7	338.0	1323.8	1381.9	58.1	4.4
Deposit insurance (DI)	36.0	-6.4	66.6	2.9	-63.7	-95.6
Defense Cooperation account (DCA)	-4.8	.0	-43.6	-5.2	38.4	-88.1
Outlays excluding DI and DCA	324.5	344.6	1300.7	1384.2	83.5	6.4
National defense	78.6	77.4	316.9	303.4	-13.5	-4.3
Net interest	49.4	49.4	194.5	199.4	4.9	2.5
Social security	67.9	72.5	269.0	287.5	18.5	6.9
Medicare and health	47.4	54.7	175.7	208.6	32.9	18.7
Income security	42.4	48.1	170.8	199.4	28.6	16.7
Other	38.9	42.5	173.8	185.9	12.1	7.0
Receipts	264.4	275.6	1054.3	1091.7	37.4	3.5
Withheld + FICA	185.9	185.8	745.1	765.1	20.0	2.7
Nonwithheld + SECA	28.5	34.4	168.2	173.8	5.6	3.3
Corporate income taxes	21.7	24.2	98.1	100.3	2.2	2.2
Other	28.3	31.2	42.8	52.6	9.8	22.8
Deficit (+)	91.4	62.4	269.5	290.2	20.7	7.7
excluding DI and DCA	60.2	68.9	246.8	292.5	45.7	18.5

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

March. Most recently, however, estimated personal income tax payments--nonwithheld income taxes and self-employment contributions--were 20 percent higher in the third quarter than a year earlier. The increase appears to reflect both greater liabilities and changes in tax laws that require taxpayers to meet a greater percentage of their liabilities through estimated payments.

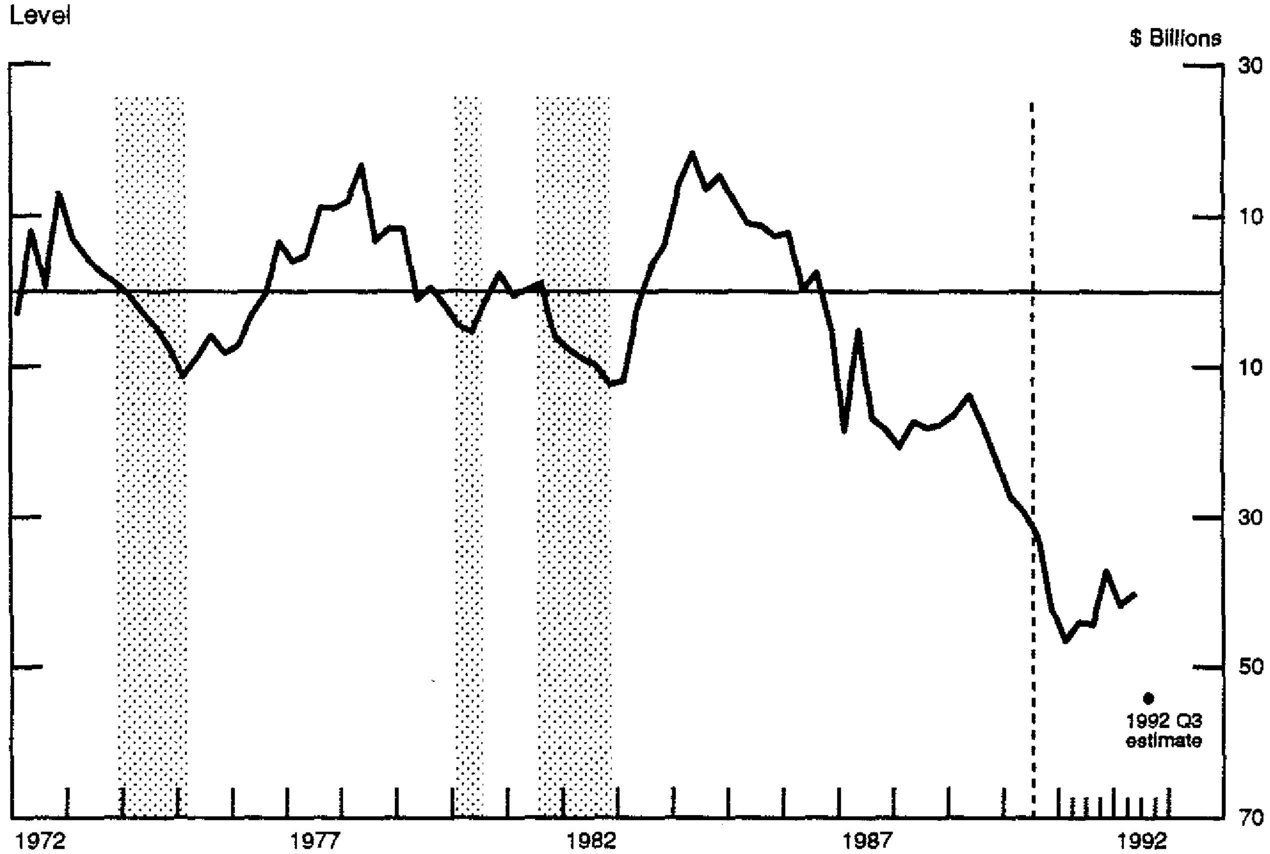
Outlays increased 4.4 percent in FY1992; excluding deposit insurance and the Defense Cooperation Account, the rise in outlays was 6.4 percent. Most of the increase was in the Medicare, health, and income security functions. In contrast, defense spending decreased 4.3 percent, despite a third-quarter bulge associated with a bunching of weapons deliveries, higher spending for operations and maintenance, and severance allowances related to the downsizing of the military.

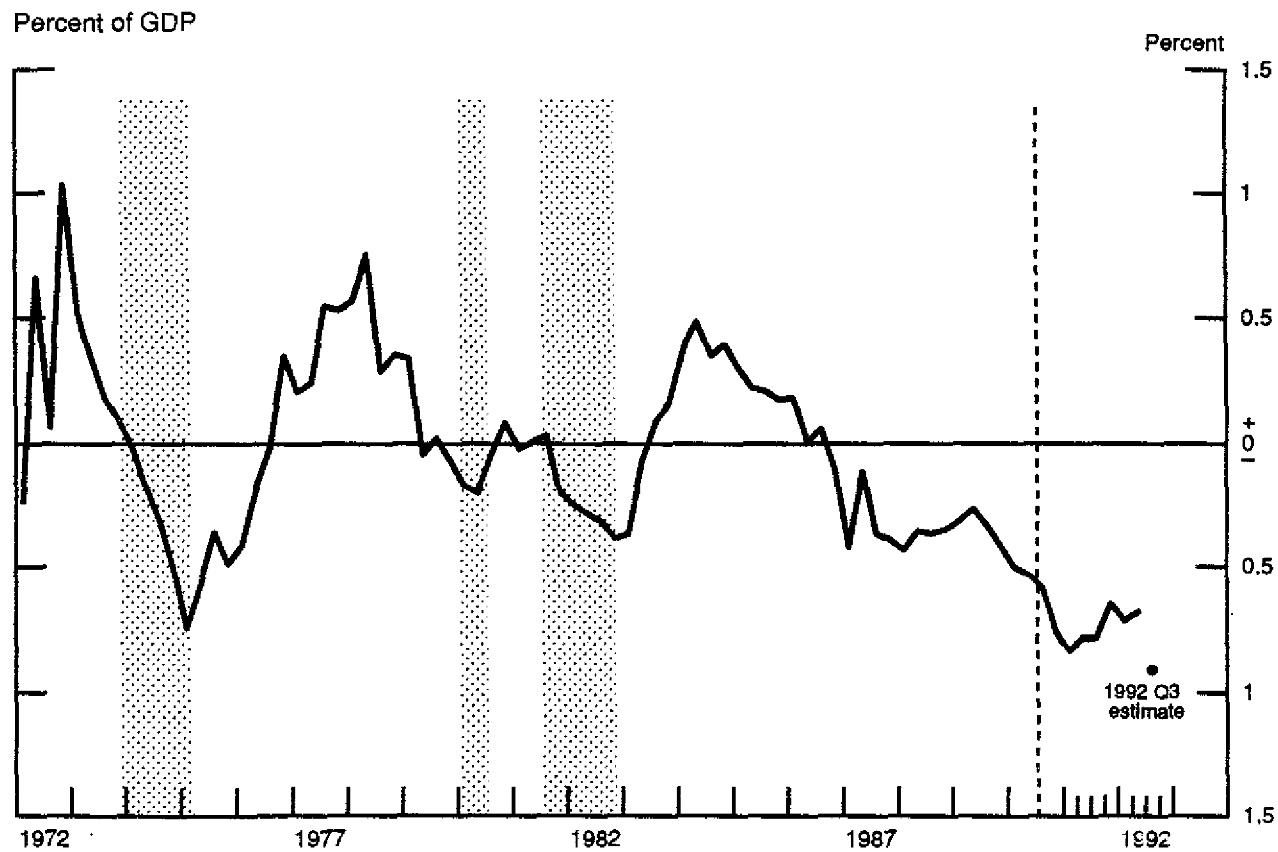
Higher defense outlays also were evident in the advance NIPA estimates for the third quarter, where defense purchases rose at nearly a 7 percent annual rate in real terms after five quarters of sizable declines. Meanwhile, nondefense purchases fell at a 1.4 percent annual pace, mainly because of decreased purchases of structures and "other" items.

The appropriations bills passed by the Congress and signed by President Bush hold total discretionary outlays for FY1993 nearly $10 billion below the discretionary spending caps set by the Omnibus Budget Reconciliation Act; almost all the difference is in defense spending, which is slated to fall 5 percent below its level in FY1992. However, some of the restraint is anticipated to be offset by about $7 billion of emergency outlays, not subject to the spending caps, to compensate victims of hurricane damage. Lastly, President Bush has vetoed the tax and urban aid bill.

STATE AND LOCAL SECTOR SURPLUS (DEFICIT)*

(NIPA basis)





*Excludes social insurance funds.

State and Local Governments

According to BEA's advance estimate, real purchases of goods and services by state and local governments edged up at a 0.4 percent annual rate in the third quarter, buoyed by an infusion of federal funding for summer jobs. Outlays for structures were unchanged, as increases for highways, hospitals, and school buildings were offset by decreases for other types of structures. And purchases of other goods and services fell, reflecting a sizable rise in government charges for providing medical and educational services.[12]

Meanwhile, receipts appear to have increased only a little in the third quarter, as a modest rise in tax collections was largely offset by a drop in federal aid. The decline in grants was the first in two years and owed in part to a small drop in grants for Medicaid, AFDC, and other public assistance programs; the decline undoubtedly is temporary, given the sharp uptrend in spending under these programs. All told, the deficit of operating and capital accounts, excluding social insurance funds, is estimated by the staff to have jumped to well over $50 billion, at an annual rate, in the third quarter (chart).

Although budgets remain under pressure, governments have been averse to another round of tax increases. Indeed, tax hikes during state legislative sessions completed in 1992 are expected to result in just a $4 billion increase in collections, compared with $15 billion and $10 billion in increases during the 1991 and 1990 sessions respectively. Instead, governments have focused on spending cuts, especially for higher education and local government aid (other than for elementary and secondary schools). For example, California's recent budget agreement reduced aid to counties,

12. To avoid double counting, such charges are treated as negative outlays in the National Income and Product Accounts.

EMPLOYMENT COST INDEX
(Percent change from preceding period at compound annual rates; based on seasonally adjusted data)[1]

	1991			1992		
	June	Sep.	Dec.	Mar.	June	Sep.
Total compensation costs:						
Private industry workers	4.5	4.1	4.0	4.0	2.5	3.2
By industry:						
Goods-producing	4.9	4.1	4.4	5.1	2.5	3.9
Service-producing	4.5	4.1	4.0	3.3	2.1	3.2
By occupation:						
White-collar	4.9	4.0	2.9	4.3	2.9	3.2
Blue-collar	4.1	4.9	3.7	4.4	3.2	3.6
Service workers	6.1	6.3	3.3	4.3	2.5	4.6
By bargaining status:						
Union	4.9	4.9	3.7	7.4	3.2	4.3
Nonunion	4.9	4.1	2.5	4.4	2.5	3.2
Memo:						
Wages and salaries	4.2	3.0	3.3	3.3	1.8	2.2
Benefits	6.6	6.9	5.7	6.0	3.4	6.5

1. Changes are from final month of preceding period to final month of period indicated. Percent changes are seasonally adjusted by the BLS. Data by bargaining status are not seasonally adjusted.

EMPLOYMENT COST INDEX
(Private industry workers; twelve-month percent changes)

			1991		1992		
	1990	1991	Sep.	Dec.	Mar.	June	Sep.
Total compensation costs:							
Private industry workers	4.6	4.4	4.5	4.4	4.2	3.7	3.4
By industry:							
Goods-producing	4.8	4.6	4.5	4.6	4.6	4.1	3.9
Service-producing	4.6	4.3	4.5	4.3	4.0	3.5	3.1
By occupation:							
White-collar	4.9	4.5	4.4	4.5	4.0	3.5	3.3
Blue-collar	4.4	4.3	4.4	4.3	4.3	4.0	3.7
Service workers	4.7	4.8	5.5	4.8	4.8	3.9	3.5
By bargaining status:							
Union	4.3	4.6	4.8	4.6	5.2	4.8	4.6
Nonunion	4.8	4.3	4.3	4.3	4.0	3.4	3.1
Memo:							
Wages and salaries	4.0	3.7	3.7	3.7	3.4	3.0	2.7
Benefits	6.6	6.2	6.4	6.2	6.3	5.5	5.2

cities, and special districts by more than $1 billion. It also reduced aid to the two university systems around 10 percent, and aid to community colleges about 25 percent. Several other states, including Ohio and Louisiana, cut spending on higher education as well. Many states have raised tuition and fees, with increases ranging from 13 to 60 percent.

Labor Costs

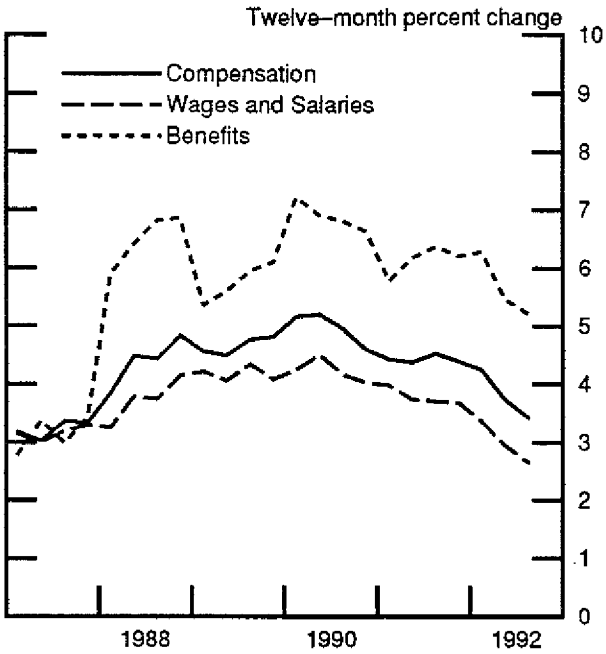
Continuing weakness in the labor market and moderating inflation have led to further slowing of compensation cost increases. The Employment Cost Index (ECI) for hourly compensation for private industry workers increased 3.2 percent (annual rate) over the three months ended in September. Over the twelve months ended in September, ECI hourly compensation rose 3.4 percent--more than a percentage point below the pace of the preceding twelve months. This substantial deceleration was evident both in the wages and salaries and in the benefits components of the ECI. At 2.7 percent, the twelve-month rise in wages and salaries was the lowest reading since the survey began in the mid-1970s. The deceleration in benefits costs reflects, in part, continued slowing in the rate of increase of health-care expenses.

The deceleration of the past two years has been especially great in the state and local sector, likely reflecting the fiscal pressures on those governments. Compensation per hour of state and local workers rose 3.5 percent over the past twelve months, about the same increase as in private industry. Through 1990, compensation gains for state and local workers had been outpacing gains in private industry by more than one percentage point.

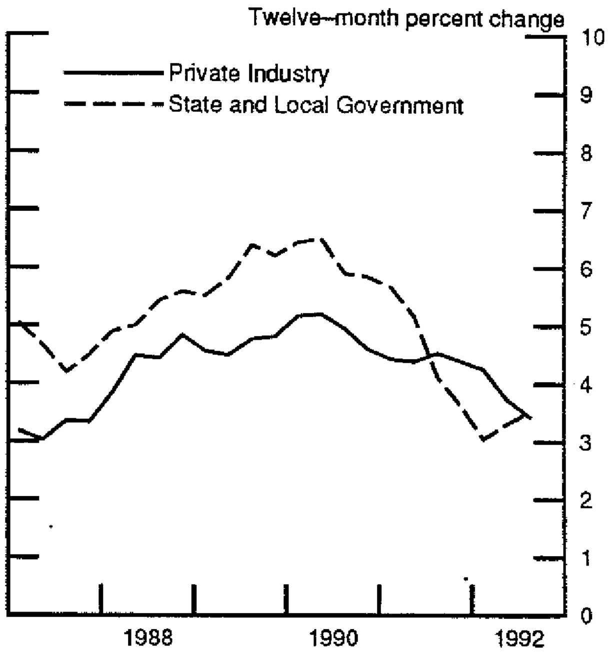
Within the private sector, the deceleration in hourly compensation has been greater in the service-producing sector than in the goods-producing sector. In part, this reflects an especially

Employment Cost Index

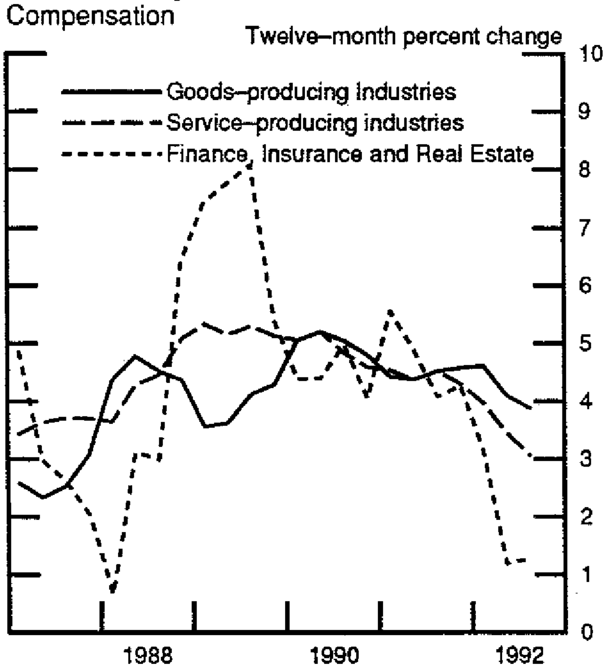
Private Industry Workers



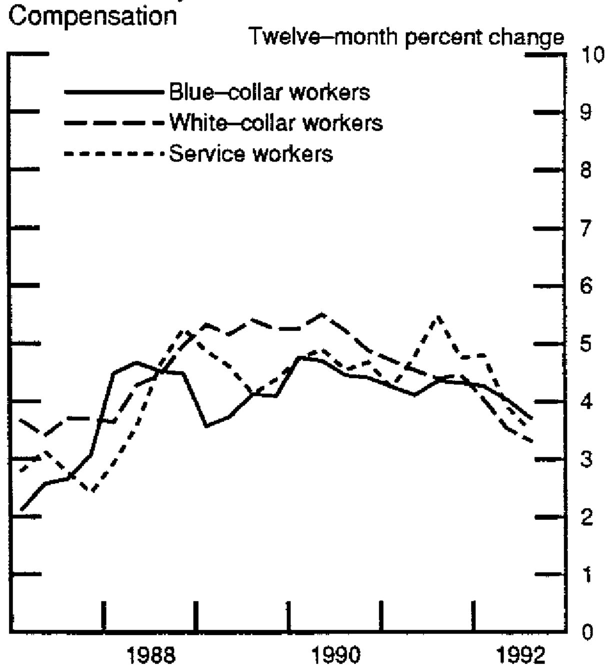
Compensation



Private Industry Workers
Compensation



Private Industry Workers
Compensation

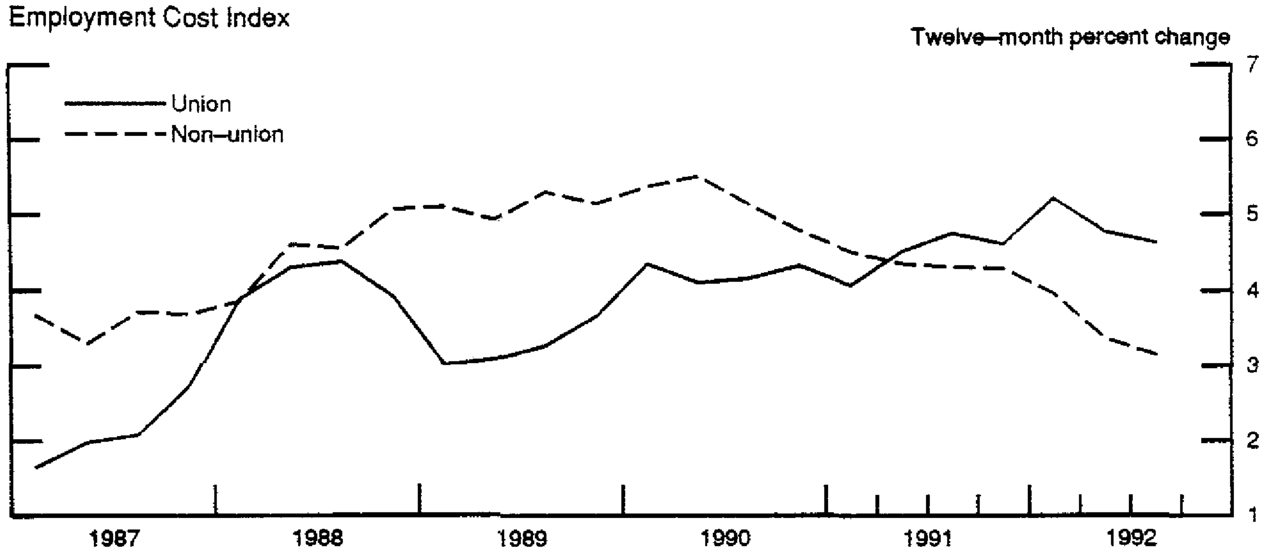


low reading for the finance, insurance, and real estate industry: Compensation per hour in that industry has increased only about 1-1/4 percent over the past twelve months. However, the ECI for finance, insurance, and real estate is extremely volatile, reflecting the inclusion of commissions and bonuses in the data, and the recent small increases in compensation costs in that industry may not persist.

The deceleration also has been widespread by occupation, but has been especially rapid among service workers. For these workers, compensation was up 3.5 percent over the twelve months ended September, down 2 percentage points from the preceding twelve-month period. The deceleration has been smallest--although still notable--among blue-collar workers. This slower deceleration may reflect the heavier unionization among blue-collar workers. According to the ECI, the increase in compensation costs for unionized workers was about unchanged over the past twelve months and actually picked up over the past two years. Wages and salaries for unionized workers, however, have shown a small amount of deceleration over this period.

Separate data on new major collective bargaining agreements also show a small deceleration in union wages. The series on effective wage change in agreements covering 1,000 or more workers rose 3.2 percent for the year ended in September, about 1/4 percentage point below the increases recorded in 1990 and 1991. This measure of wage change--which includes the effects of first-year adjustments from new settlements and the deferred adjustments and COLAs under prior settlements--is conceptually similar to the ECI for wages and salaries. The contributions of first-year adjustments and COLAs have slowed this year relative to 1991, but deferred adjustments under earlier contracts have not.

Compensation in Union Contracts



CHANGES IN NEGOTIATED WAGE AND COMPENSATION RATES UNDER MAJOR COLLECTIVE BARGAINING SETTLEMENTS[1]
(Percent change)

	1990	1991	1992 H1	1992 Q3	1992 Q3 parties under prior settlements
Wage rate changes (all industries)[2]					
First-year adjustments	4.0	3.6	2.8	3.0	3.0
Average over life of contract	3.2	3.2	3.0	3.1	2.8
Workers affected (in thousands)	2,004	1,744	653	585	---
Compensation rate changes (all industries)[3]					
First-year adjustments	4.6	4.1	3.2	3.3	---
Average over life of contract	3.2	3.4	3.5	3.0	---
Workers affected (in thousands)	1,278	1,155	255	450	---

1. Estimates exclude lump-sum payments and potential gains under cost-of-living clauses.
2. Contracts covering 1,000 or more workers.
3. Contracts covering 5,000 or more workers.

EFFECTIVE WAGE CHANGE IN MAJOR UNION CONTRACTS AND COMPONENTS OF CHANGE

	1987	1988	1989	1990	1991	1992:Q3[1]
Total effective wage change	3.1	2.6	3.2	3.5	3.6	3.2
Contribution of:						
New settlements	.7	.7	1.2	1.3	1.1	.9
Prior settlements	1.8	1.3	1.3	1.5	1.9	1.9
COLAs	.5	.6	.7	.7	.5	.4

1. Changes over the four quarters ended this period.

The only direct piece of statistical information available on fourth-quarter labor costs is average hourly earnings for production or nonsupervisory workers, which rose 0.2 percent in October. Average hourly earnings are volatile on a month-to-month basis, but smoothing through the monthly wiggles, they have shown a slowing in response to labor market slack. Over the twelve months ended in October, average hourly earnings were up 2.6 percent, about 1/4 percentage point less than over the preceding twelve-month period.

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

	12 months ending in October			1992		
	1990	1991	1992	Aug.	Sep.	Oct.
				--Monthly rate--		
Total private nonfarm	3.4	2.9	2.6	.8	-.3	.2
Manufacturing	3.9	2.8	2.1	.5	.1	-.1
Services	4.0	3.7	3.2	.8	-.2	.4
Finance, insurance, real estate	3.9	4.0	4.0	1.9	-1.1	.6

Prices

Recent news on producer and consumer prices has continued to be very favorable. The PPI for finished goods rose 0.1 percent in October. The index for goods other than food and energy declined 0.1 percent, largely reflecting a sharp decline in seasonally adjusted prices of passenger cars. Over the past twelve months, the PPI excluding food and energy has increased 2 percent, about 1-1/4 percentage points less than in the preceding year.

In September--for the fifth consecutive month--the CPI for items other than food and energy rose just 0.2 percent. With these modest increases, the twelve-month change in this measure has fallen rapidly, to 3-1/4 percent in September, down about 1-1/4 percentage points from a year earlier (table). This is the smallest increase

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Sep. 1990	Sep. 1991	Sep. 1992
CPI	5.5	4.5	3.3
Goods	3.7	4.3	2.5
excluding used cars	4.0	4.4	2.4
Alcoholic beverages	4.8	10.4	2.5
New vehicles	2.1	4.3	2.8
Apparel	5.5	3.5	1.3
Housefurnishings	1.1	.7	1.0
Housekeeping supplies	3.2	2.5	.3
Entertainment	3.7	4.2	.9
Services	6.4	4.7	3.6
Owners' equivalent rent	6.0	3.1	3.0
Tenants' rent	4.6	3.3	1.8
Other renters' costs	13.7	9.5	8.0
Auto finance charges	-.1	-2.8	-13.6
Airline fares	13.5	.7	-3.0
Medical care	9.6	8.4	7.3
Entertainment	6.0	4.9	3.3
PPI Finished goods[1]	3.5	3.3	2.0
Consumer goods	3.4	3.7	2.2
Capital equipment, excluding computers	3.3	3.5	2.4
PPI intermediate materials	1.4	-.8	1.1
PPI crude materials	.1	-9.4	2.9
Factors Affecting Price Inflation			
ECI hourly compensation[2]	4.9	4.5	3.4
Goods-producing	5.0	4.5	3.9
Service-producing	4.8	4.5	3.1
Civilian unemployment rate[3]	5.7	6.8	7.5
Capacity utilization[3] (manufacturing)	82.8	78.8	77.2
Inflation expectations[1,4]	6.1	4.7	3.6
Non-oil import prices[5]	2.4	.4	2.8
Consumer goods, excluding autos, food, and beverages	3.6	.5	3.7
Autos	1.0	4.2	2.3

1. October to October changes.
2. Private industry workers, periods ended in September.
3. End-of-period value.
4. University of Michigan Survey, twelve-month horizon.
5. BLS import price index (not seasonally adjusted), periods ended in September.

n.a. - not available

in this measure since 1966, except for the period of wage-price controls in the early 1970s. During the twelve months ending in September, prices of goods other than food and energy have risen just 2-1/2 percent, about 1-3/4 percentage points less than the pace in the preceding twelve-month period. Prices of nonenergy services have decelerated markedly as well, especially for airfares, tenants' rents, and auto finance charges. Even the price of medical services has decelerated over the past two years.

This deceleration in the CPI for items other than food and energy reflects, in large part, the substantial slack in product and labor markets. Unemployment has remained at a high level, putting downward pressure on labor costs in both the goods- and service-producing sectors (table). Low levels of capacity utilization in manufacturing also have restrained price increases. Furthermore, non-oil import prices have remained subdued, although these prices did accelerate a bit in the past twelve months.

Overall, consumer prices were up just 0.2 percent in September, as food prices increased further while energy prices were unchanged (table). The increase in food prices reflected a continued rebound in fresh fruit and vegetable prices, which retraced their April-July declines during August and September. Despite the pickup in fruits and vegetables, food prices are up just 1-3/4 percent over the past twelve months. Given ample harvests, there appears to be little upward pressure in train on food prices in coming months.

Consumer energy prices were unchanged in September and have risen 2-1/4 percent over the past twelve months. In September, gasoline prices declined, continuing to reverse a runup earlier in the summer. However, private survey data for October and early November show that retail gasoline prices were up somewhat on a

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

	Relative importance Dec. 1991	1990	1991	1992 Q1	1992 Q2	1992 Q3	1992 Sep.	1992 Oct.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	5.7	-.1	1.0	3.3	1.6	.3	.1
Consumer foods	21.9	2.6	-1.5	.3	-1.0	3.6	.4	.1
Consumer energy	13.8	30.7	-9.6	-7.0	17.9	-.5	.8	1.4
Other finished goods	64.2	3.5	3.1	3.7	1.8	1.2	.2	-.1
Consumer goods	39.5	3.7	3.4	3.6	2.4	1.2	.2	-.1
Capital equipment	24.7	3.4	2.5	3.5	.9	.9	.0	-.2
Intermediate materials[2]	95.3	4.6	-2.7	.0	5.4	.3	.1	.0
Excluding food and energy	81.7	1.9	-.8	1.7	1.7	1.0	.0	-.2
Crude food materials	41.2	-4.2	-5.8	11.8	1.9	-6.2	.6	.6
Crude energy	40.0	19.1	-16.6	-26.6	51.5	16.4	3.6	-.5
Other crude materials	18.7	.6	-7.6	15.0	4.8	2.5	-.5	-1.3

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

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

	Relative importance Dec. 1991	1990	1991	1992 Q1	1992 Q2	1992 Q3	1992 Aug.	1992 Sep.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	6.1	3.1	3.5	2.6	2.6	.3	.2
Food	16.0	5.3	1.9	1.5	-1.2	4.7	.9	.4
Energy	7.4	18.1	-7.4	-6.9	12.5	.4	-.2	.0
All items less food and energy	76.6	5.2	4.4	4.8	2.8	2.5	.2	.2
Commodities	24.8	3.4	4.0	5.3	2.1	2.1	.2	.2
Services	51.9	6.0	4.6	4.8	2.9	2.6	.3	.1
Memorandum:								
CPI-W[3]	100.0	6.1	2.8	3.0	2.7	2.9	.4	.1

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

seasonally adjusted basis.[13] The index for residential natural gas rose for a fourth consecutive month; it now stands 4-1/2 percent above its May level. Wellhead prices began moving up during the summer after the long-lived supply bubble was finally worked off. More recently, hurricane damage to the Gulf Coast and expectations of a cold winter have boosted spot prices, suggesting that--aside from monthly volatility--additional advances in residential gas prices are in store. As of November 9, spot prices were about 25 percent higher than before Hurricane Andrew.

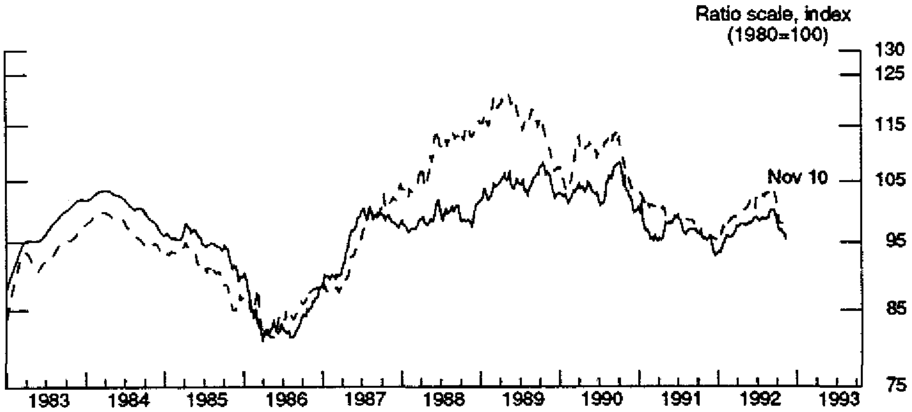
For goods other than food and energy, prices at retail rose just 0.2 percent in September. Goods prices were held down by further declines in prices of house furnishings and personal care goods; prices of these items continued to drop back, after posting sizable increases early in the year. Prices of services other than energy were up just 0.1 percent in September, as shelter prices were unchanged.

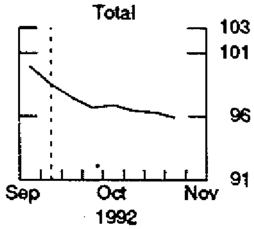
Prices of capital goods also have remained subdued, as excess capacity and weak demand held back price increases. In the past year, the PPI for capital goods was held down by computer prices that dropped 16 percent during the twelve months ending in October. However, price increases for other capital goods have also been restrained over this period, rising just 2-1/2 percent, about 1 percentage point below the year-earlier pace. Modest price increases for motor vehicles over the past twelve months contributed importantly to this slowing. For the October index, BLS fully

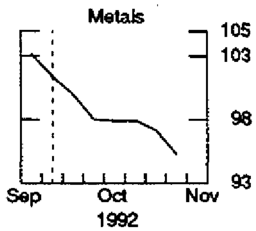
13. Gasoline prices in November have been boosted by federal clean air rules requiring that only oxygenated fuels be sold in thirty-nine metropolitan areas with high emissions of carbon monoxide. Industry analysts estimate that refiners' costs have risen three to five cents per gallon. However, the effect on the CPI likely will be less because areas with oxygenated gasoline account for only one-third of the CPI sample.

COMMODITY PRICE MEASURES *

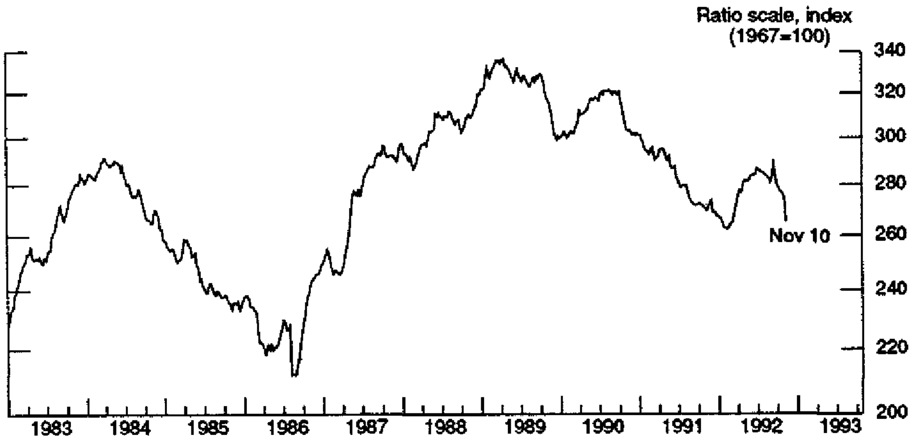
—— Journal of Commerce Index, total
– – Journal of Commerce Index, metals

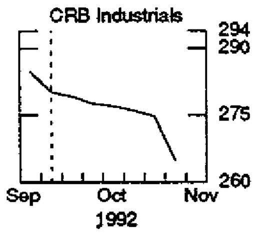




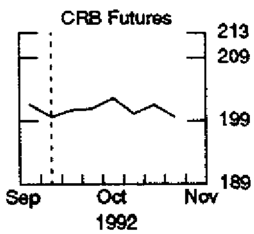


CRB Spot Industrials





CRB Futures



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

Dotted lines indicate week of last Greenbook.

incorporated the 1993 model-year vehicles into the PPI sample.[14] On a quality-adjusted basis, passenger car prices actually fell 1/2 percent in the twelve months ending in October, as, in addition to modest sticker price increases, automakers began to discount the new models immediately. Although light truck prices moved up 4-1/4 percent in the year ending in October, this still was a 1-1/4 percentage point slowdown from the year-earlier pace.

Spot measures of industrial commodity prices have fallen, on balance, since the last Greenbook (table and chart). The Journal of Commerce index of industrials has declined about 2-1/2 percent from the end of September, retracing nearly half its increase since the beginning of the year; its metals subindex has fallen 6 percent since the time of the last Greenbook. These declines are consistent with the recent sluggishness in industrial production--both here and abroad. Finally, spot prices of crude oil have moved down more than a dollar over this period (chart).

14. In contrast to the PPI, BLS introduces the new model year vehicles into the CPI gradually, fully incorporating them by January.

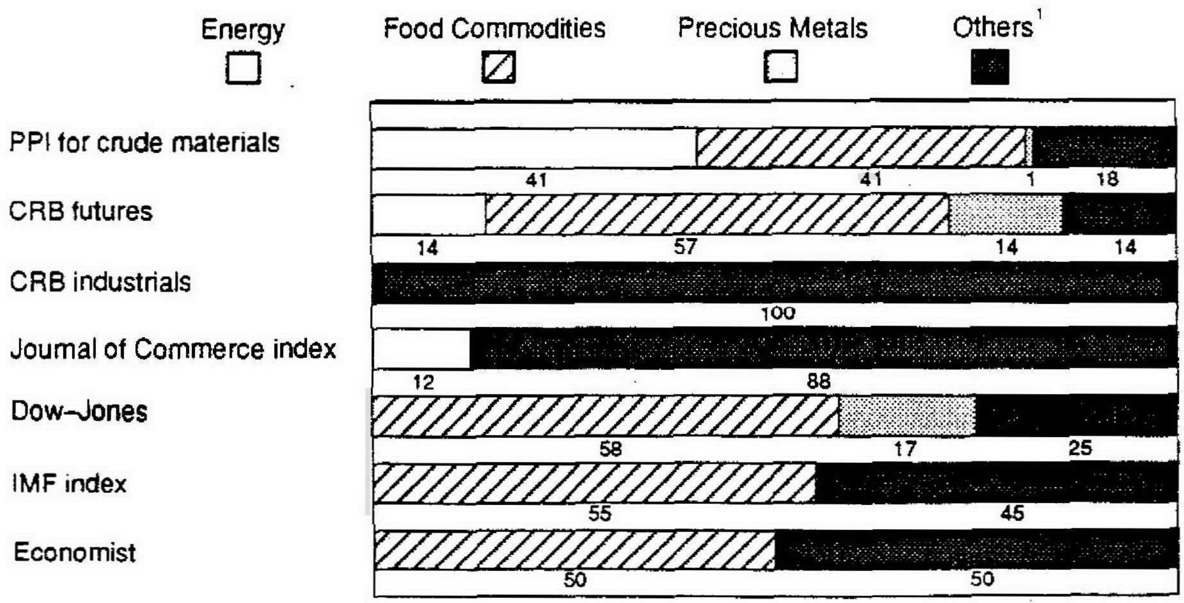
PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

	Last observation	1990	1991	1992 To Sep. 29[3]	1992 Sep. 29[3] to date	Memo Year earlier to date
1. PPI for crude materials[4]	Oct.	6.0	-11.6	4.4	n.a.	1.9
1a. Foods and feeds	Oct.	-4.2	-5.8	1.4	n.a.	.9
1a. Energy	Oct.	19.1	-16.6	6.7	n.a	2.7
1b. Excluding food and energy	Oct.	.6	-7.6	6.4	n.a.	2.9
1c. Excluding food and energy, seasonally adjusted	Oct.	.7	-7.6	5.4	n.a.	3.0
2. Commodity Research Bureau						
2a. Futures prices	Nov. 10	-2.7	-6.5	-4.1	.0	-6.7
2b. Industrial spot prices	Nov. 10	.6	-11.3	4.9	-5.5	-1.7
3. *Journal of Commerce* industrials	Nov. 10	-2.4	-7.2	5.7	-2.6	.7
3a. Metals	Nov. 10	-3.9	-7.1	6.1	-6.0	.5
4. Dow-Jones Spot	Nov. 10	-1.7	-12.1	5.6	-1.5	1.1
5. IMF commodity index[4]	Sept.	-5.2	.7	-1.4	n.a.	-1.0
5a. Metals	Sept.	-1.1	-8.9	6.4	n.a.	6.4
5b. Nonfood agriculture	Sept.	-3.5	1.3	1.6	n.a.	1.6
6. *Economist* (U.S. dollar index)	Nov. 3	-4.4	-9.1	.2	-2.3	-3.7
6a. Industrials	Nov. 3	-3.2	-14.9	5.3	-5.5	-3.3

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

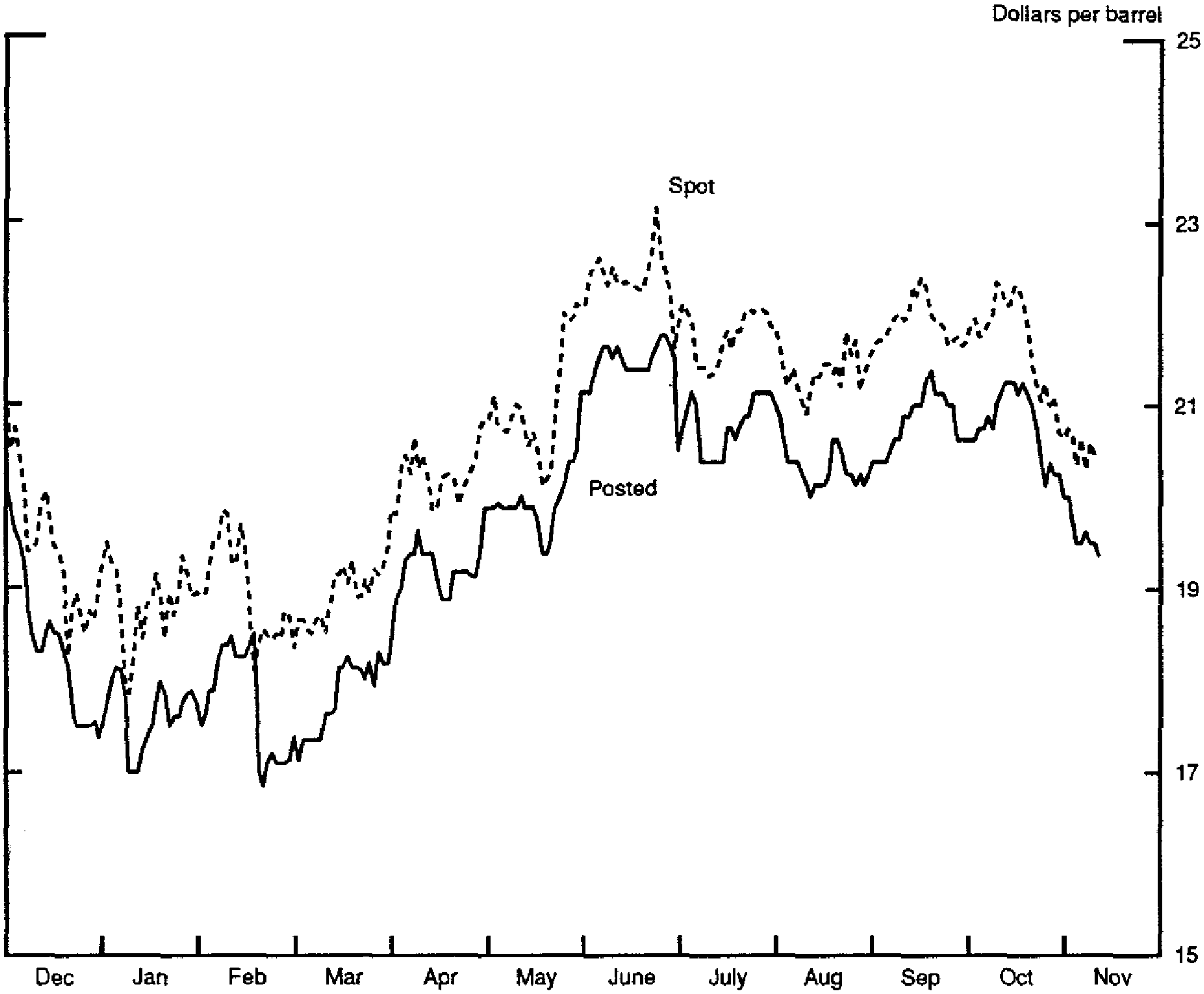
n.a. Not available

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		
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	20.83	21.90
October	20.77	21.68
November [1]	19.59	20.53

1. Price through November 11.

DOMESTIC FINANCIAL DEVELOPMENTS

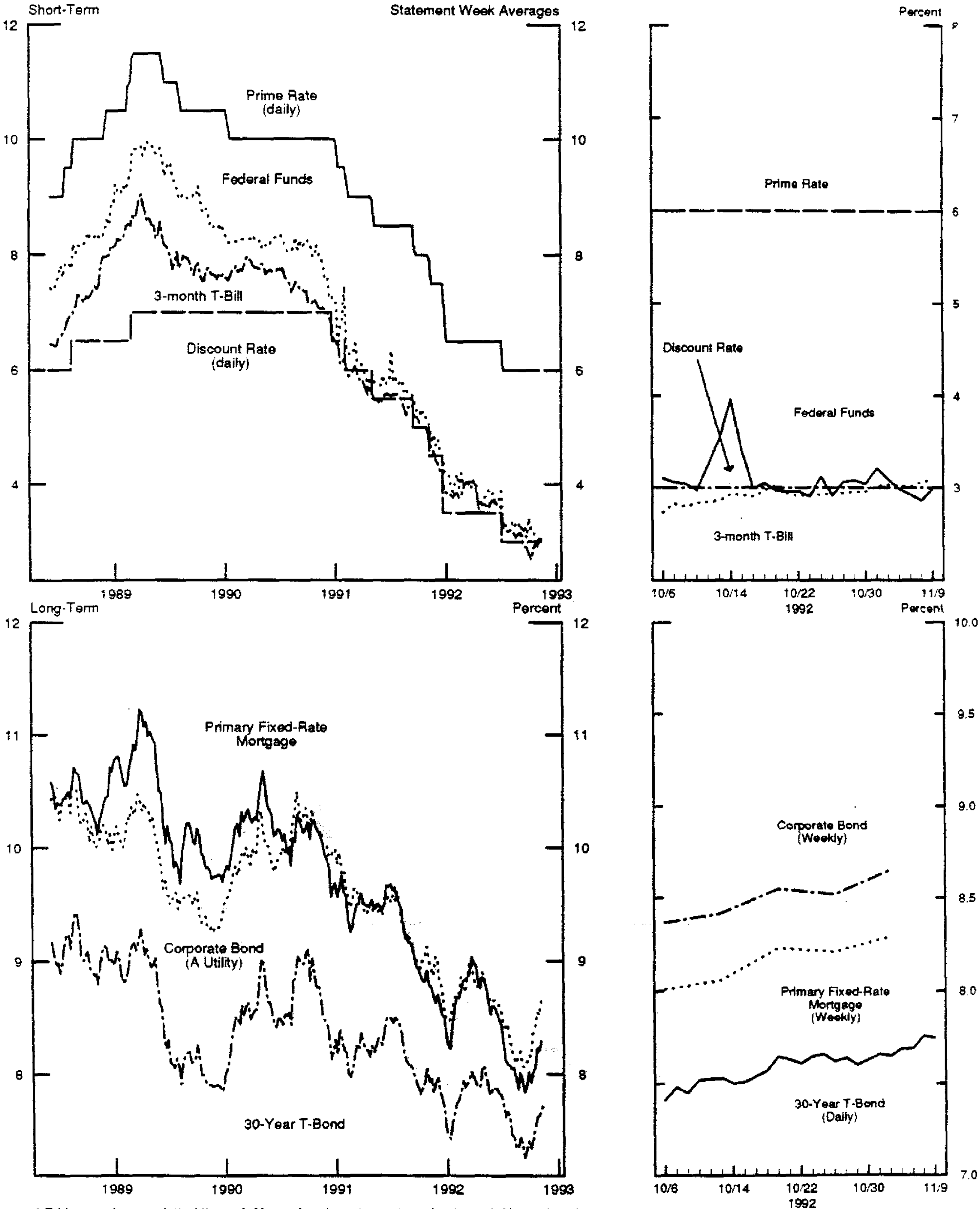
SELECTED FINANCIAL MARKET QUOTATIONS[1]
(percent)

	1992 Sept 4	1992 FOMC Oct 6	1992 Nov 9	Change from: Sept 4	Change from: FOMC Oct 6
Short-term rates					
Federal funds[2]	3.19	3.24	3.00	-0.19	-0.24
Treasury bills[3]					
3-month	2.92	2.73	3.08	0.16	0.35
6-month	2.96	2.84	3.30	0.34	0.46
1-year	3.06	2.93	3.49	0.43	0.56
Commercial paper					
1-month	3.22	3.14	3.28	0.06	0.14
3-month	3.22	3.14	3.56	0.34	0.42
Large negotiable CDs[3]					
1-month	3.06	2.97	3.17	0.11	0.20
3-month	3.06	3.04	3.50	0.44	0.46
6-month	3.11	3.05	3.52	0.41	0.47
Eurodollar deposits[4]					
1-month	3.31	2.94	3.13	-0.18	0.19
3-month	3.31	3.06	3.56	0.25	0.50
Bank prime rate	6.00	6.00	6.00	0.00	0.00
Intermediate- and long-term rates					
U.S. Treasury (constant maturity)					
3-year	4.38	4.24	5.16	0.78	0.92
10-year	6.40	6.30	7.00	0.60	0.70
30-year	7.29	7.41	7.75	0.46	0.34
Municipal revenue[5] (Bond Buyer)	6.31	6.45	6.70	0.39	0.25
Corporate--A utility recently offered	8.06	8.26	8.65	0.59	0.39
Home mortgage rates[6]					
FHLMC 30-yr. FRM	7.84	7.93	8.29	0.45	0.36
FHLMC 1-yr. ARM	5.15	5.01	5.17	0.02	0.16

	Record highs	Date	1989 Lows Jan 3	1992 FOMC Oct 6	1992 Nov 9	Percent change from: Record highs	1989 lows	FOMC Oct 6
Stock prices								
Dow-Jones Industrial	3413.21	6/1/92	2144.64	3178.19	3240.87	-5.05	51.11	1.97
NYSE Composite	233.73	9/14/92	154.00	224.09	230.63	-1.33	49.76	2.92
AMEX Composite	418.99	2/12/92	305.24	367.71	385.36	-8.03	26.25	4.80
NASDAQ (OTC)	644.92	2/12/92	378.56	570.55	622.05	-3.55	64.32	9.03
Wilshire	4121.28	1/15/92	2718.59	3928.03	4087.78	-0.81	50.36	4.07

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 November 11, 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 November 6, statement weeks through November 4.

Interest rates have risen appreciably over the intermeeting period. The failure of the System to validate market expectations of an easing step after the last FOMC meeting prompted interest rates in all maturities to increase 15 to 20 basis points. As political developments raised concerns about possible expansion of the federal deficit and incoming data suggested continued moderate growth of the economy, intermediate- and long-term rates rose further, bringing the total increase over the period to 25 to 90 basis points. Revised expectations on the economy also helped buoy the equity market: Major stock price indexes have risen between 2 percent and 5 percent since the last FOMC meeting.

Spreads between private and Treasury yields widened a touch over the period, partly because of heavy issuance of corporate and municipal securities. Those sectors of the market suffered as well from reduced flows of cash into bond mutual funds and sales of securities by insurance companies to fund hurricane claims. The market for municipal securities rallied somewhat in November as issuance slackened and a greater focus on the possibility of tax increases may have spurred buying.

The evidence on credit flows remains mixed. Business loans, which had strengthened in September, leveled off in October, and, after accounting for special factors, commercial paper outstanding was also flat. Gross equity issuance by nonfinancial corporations edged up in October, and public bond issuance remained strong; the proceeds of these offerings were targeted primarily for debt repayment. In the household sector, refinancing activity has continued to dominate mortgage transactions, but borrowing for home purchase reportedly has risen somewhat; installment credit recorded a small increase in September, the first since January. State and

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

	1991[1]	1992 Q2	1992 Q3	1992 Aug	1992 Sep	1992 Oct pe	Growth Q4 91- Oct 92pe
	------------	Percent change	at annual rates	------------			
1. M1	8.0	9.8	10.3	15.6	19.1	22	14½
2. M2	2.8	0.4	0.3	3.2	3.5	5	2
3. M3	1.2	-1.3	-0.3	3.4	1.4	0	½
	------------	Percent change	at annual rates	------------			Levels bil. $ Sep 92
Selected components							
4. M1-A	5.6	9.1	11.2	17.1	22.8	21	622.5
5. Currency	8.4	5.8	11.2	14.6	17.4	9	286.4
6. Demand deposits	3.4	12.5	11.5	19.4	26.6	31	327.8
7. Other checkable deposits	12.4	11.0	8.8	13.4	12.9	25	366.1
8. M2 minus M1[2]	1.1	-3.0	-3.5	-1.6	-2.5	-2	2493.6
9. Overnight RPs and Eurodollars, NSA	-6.9	-27.1	16.2	54.3	-26.8	19	74.5
10. General purpose and broker/dealer money market mutual fund shares	3.9	-3.9	-7.2	-5.8	-17.1	11	345.7
11. Commercial banks	7.1	0.5	-1.6	-0.5	2.6	0	1262.3
12. Savings deposits (including MMDAs)	13.3	12.0	10.0	13.4	16.7	14	734.4
13. Small time deposits	1.1	-13.3	-16.3	-18.8	-16.6	-19	527.9
14. Thrift institutions	-6.9	-6.7	-5.1	-4.7	-2.8	-9	811.5
15. Savings deposits (including MMDAs)	9.3	18.9	8.3	9.2	10.8	9	425.1
16. Small time deposits	-16.8	-29.4	-18.7	-19.3	-17.4	-28	386.4
17. M3 minus M2[3]	-5.7	-9.5	-2.9	4.1	-8.9	-23	697.1
18. Large time deposits	-11.7	-18.9	-16.3	-11.7	-15.3	-23	379.8
19. At commercial banks, net[4]	-5.1	-14.8	-16.0	-10.2	-17.4	-27	311.8
20. At thrift institutions	-31.7	-37.0	-16.8	-20.7	-5.3	-4	68.0
21. Institution-only money market mutual fund shares	33.4	20.1	39.9	54.9	0.0	-66	217.2
22. Term RPs, NSA	-22.0	6.1	-2.8	5.0	21.7	38	73.2
23. Term Eurodollars, NSA	-11.0	-22.7	-33.1	-23.9	-63.3	-5	46.7
	-----	Average monthly change	in billions of dollars	----			
MEMORANDA:[5]							
24. Managed liabilities at commercial banks (25+26)	-0.5	-1.0	1.0	2.4	3.5	-11	698.3
25. Large time deposits, gross	-0.2	-4.8	-3.7	-1.5	-3.4	-8	381.2
26. Nondeposit funds	-0.4	3.8	4.8	3.9	6.9	-2	317.1
27. Net due to related foreign institutions	0.4	5.2	0.6	-3.4	3.2	2	63.0
28. Other[6]	-0.8	-1.3	4.1	7.4	3.6	-4	254.0
29. U.S. government deposits at commercial banks[7]	0.2	1.3	-0.1	10.7	-7.2	-3	25.4

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

local governments have issued a large volume of tax-exempt bonds, both to refund old debt and to raise new capital. Federal borrowing, induced by the persistent deficit, has remained large.

Monetary growth strengthened further in October. M1, propelled by mortgage refinancing activity and the effects of low short-term interest rates, grew at a 22 percent annual rate. This strength bolstered M2, which increased at about a 5 percent pace. The non-M1 component of M2 fell slightly, as redemptions of small time deposits more than offset large inflows into retail money market mutual funds. M3 was about flat.

Monetary Aggregates and Bank Credit

The expansion of M2 quickened to a 5 percent annual rate in October after two months at about 3 percent. With this growth, M2 in October edged closer to, but remained below, the lower bound of its target range. None of the strength in M2 showed through to M3, which was about unchanged in October, falling further below the lower bound of its target range.

The growth rate of M1 increased to 22 percent in October, mainly reflecting lagged adjustment to reductions in interest rates resulting from previous monetary easings. In addition, special factors can account for perhaps a third of M1 growth over the last two months. First, the recent surge in mortgage refinancing has raised demand deposit accounts; staff estimates suggest that refinancings increased demand deposits by roughly $2 billion in September and an additional $3 billion in October. Second, as required under the recent tightening of loopholes in Regulation D, has ceased its special sweep account program. The resulting reclassification of large time deposits as other checkable deposits implied an increase of about $1-1/2 billion to M1 and M2 on a monthly average basis in October. Lastly, shipments of currency

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 2	1992 Q 3	1992 Aug.	1992 Sep.	1992 Oct. p	Level, bil.$ 1992 Oct. p
	Commercial bank credit						
1. Total loans and securities at banks	3.9	3.0	4.1	5.4	6.8	4.0	2,922.7
2. Securities	17.7	16.4	15.0	22.1	7.7	10.4	823.8
3. U.S. government	23.8	21.9	17.6	28.1	9.1	11.8	645.0
4. Other	1.6	-1.8	5.7	0.7	2.7	6.1	178.8
5. Loans	-0.2	-1.8	0.1	-1.0	6.4	1.5	2,099.0
6. Business	-2.8	-4.2	-0.8	-3.8	5.4	-1.0	603.0
7. Real estate	2.9	0.2	0.4	-1.0	5.1	4.6	885.7
8. Consumer	-4.0	-2.9	-2.5	-4.4	-2.0	-4.0	355.5
9. Security	21.3	21.1	13.8	35.6	71.0	0.0	66.2
10. Other	-2.8	-9.0	1.7	1.3	12.3	5.1	188.5
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-2.4	-3.7	-1.1	-3.4	5.6	-3.0	596.2
12. Loans at foreign branches[2]	-1.6	26.3	1.6	-42.9	4.9	14.8	24.7
13. Sum of lines 11 and 12	-2.4	-2.6	-1.0	-4.8	5.6	-2.3	620.9
14. Commercial paper issued by nonfinancial firms	-10.4	-3.9	7.1	15.3	1.7	18.5	145.1
15. Sum of lines 13 and 14	-3.9	-2.9	0.5	-1.1	4.9	1.6	766.0
16. Bankers acceptances, U.S. trade-related[3,4]	-16.2	-27.3	-19.5	-29.4	-25.1	n.a.	23.4[5]
17. Finance company loans to business[4]	1.4	-1.6	7.4	12.0	0.8	n.a.	304.2[5]
18. Total (sum of lines 15, 16, and 17)	-2.9	-3.1	2.0	1.8	3.2	n.a.	1,092.6[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. September 1992.
p--Preliminary.
n.a.--Not available.

abroad, the bulk of which was apparently directed to Eastern Europe, have boosted currency growth. This measure, however, may overstate actual net currency shipments, as outflows of currency are captured more accurately than are reflows back into the U.S.

The growth of M1 continued to account for all of the expansion of M2. The nontransaction component of M2 fell at an annual rate of 2 percent in October, as the first increase in retail money market mutual funds since May and the rapid expansion of overnight RPs and Eurodollar deposits were more than offset by redemptions of small time deposits. Anecdotal reports suggest that the increase in money funds accompanied a substantial drop in net inflows to stock and bond funds in October.

Despite the pickup in M2, M3 growth slowed in September and came to a halt in October. Non-M2 M3 fell at a 23 percent annual rate in October, primarily the result of the continuing runoff in large time deposits. Issuance of CDs by branches and agencies of foreign banks (Yankee CDs) was particularly weak around quarter-end. Institution-only money market funds, which had been growing rapidly, were unchanged in September and fell markedly in October, also reflecting in part quarter-end effects. Some investors are very sensitive to the spread between the rate paid on these funds and RP rates, a spread that typically narrows on settlement days and around quarter-ends. September 30 ended both a maintenance period and a quarter, heightening window-dressing pressures and sending RP rates above the typical money fund rate, inducing huge net redemptions.

Bank credit grew at a 4 percent rate in October, down from its 6-3/4 percent pace in September, as a slowdown in loan growth more than offset an increased pace of securities acquisitions. Nonetheless, the increase in loans in October was the second consecutive monthly rise after four months of decline.

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

	1990	1991	1992 Q2	1992 Q3^p	1992 AUG^p	1992 SEP^p	1992 OCT^p
Corporate securities - total[1]	19.82	32.15	41.42	42.04	36.98	42.90	38.52
Public offerings in U.S.	17.68	29.36	38.17	39.78	33.63	41.61	36.47
Stocks--total[2]	1.95	5.44	7.08	5.69	5.28	5.31	6.97
Nonfinancial	1.03	3.72	4.99	2.86	2.95	2.62	3.23
Utility	0.35	0.42	1.24	1.11	0.95	1.82	0.51
Industrial	0.68	3.30	3.75	1.75	2.00	0.79	2.71
Financial	0.92	1.72	2.09	2.83	2.33	2.70	3.74
Bonds	15.73	23.92	31.09	34.09	28.35	36.30	29.50
Nonfinancial	5.62	9.52	12.33	14.86	11.53	14.93	15.50
Utility	1.97	2.99	5.41	7.45	5.73	7.06	4.50
Industrial	3.64	6.54	6.92	7.42	5.80	7.87	11.00
Financial	10.11	14.40	18.76	19.23	16.83	21.38	14.00
By quality[3]							
Aaa and Aa	3.42	3.72	2.84	4.75	2.72	4.98	5.72
A and Baa	6.44	12.09	15.02	15.01	12.17	15.97	12.02
Less than Baa	0.15	1.03	3.31	3.12	2.64	2.59	4.18
No rating (or unknown)	0.04	0.02	0.02	0.04	0.08	0.02	0.35
Memo items:							
Equity-based bonds[4]	0.40	0.63	0.52	0.28	0.28	0.33	0.43
Mortgage-backed bonds	2.43	2.99	6.63	6.76	7.96	6.13	4.00
Other asset-backed	3.27	4.08	3.26	4.45	2.79	6.61	3.23
Variable-rate notes	0.80	0.84	2.18	2.00	1.84	3.12	1.56
Bonds sold abroad - total	1.92	2.33	2.46	2.04	3.20	1.00	1.70
Nonfinancial	0.46	1.00	1.06	0.73	1.30	0.30	0.90
Financial	1.46	1.33	1.40	1.31	1.90	0.70	0.80
Stocks sold abroad - total	0.22	0.46	0.79	0.22	0.16	0.29	0.36
Nonfinancial	0.10	0.38	0.67	0.17	0.14	0.29	0.21
Financial	0.12	0.08	0.12	0.04	0.01	0.00	0.14

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.

Bank lending of all types slowed in October. After increasing at a 5-1/2 percent rate in September, business loans contracted slightly in October. The relative strength of business loans in September stands in contrast to the substantial runoffs in the preceding ten months, and may have reflected in part cutbacks in initial public stock offerings, some of the proceeds of which had been used to pay down bank debt. Real estate loans increased at a 4-1/2 percent rate in October, only a bit below September's pace and the third highest monthly rate this year; more than half the October increase, however, was the result of acquisitions of real estate loans from failed thrift institutions. Consumer loan growth in October was held down by increased securitization of such loans, which resulted in a decline in bank holdings of these loans at a rate of nearly 5 percent; adjusted for securitizations, the growth of consumer loans was unchanged from September at about 2 percent.

Business Finance

Net borrowing by nonfinancial businesses appears to have remained subdued in October. Last month, business loans at banks were about unchanged, and gross public issuance of bonds, while keeping at September's rapid pace in October, was mostly directed toward debt refinancing. The pace of bond issuance was greatest early in the month; it slowed markedly when rising rates made refinancing less attractive. Commercial paper issuance rebounded from the quarter-end runoff in the first week of October and continued strong thereafter, with about half the net increase intended to finance an acquisition.

Over the intermeeting period, yield spreads on investment-grade corporate bonds widened further, bringing the cumulative increase since mid-September to 10 to 20 basis points. These spreads likely owe part of their rise to sales of corporate securities by some property-casualty insurance companies in the wake of Hurricanes Andrew and Iniki. In addition, Marriot's announcement of plans to split the company into a debt-free hotel management corporation and a debt-laden real estate corporation reawakened concern about event risk and increased yields on debt of companies for which similar restructurings might prove attractive. Adding to the negative tone in the market, reports circulated that dealers were meeting increasing resistance to the supply of new corporate issues and Moody's placed General Motors' bonds on credit watch.

Yield spreads on junk bonds have been under pressure as well in recent months and are up about 1/2 percentage point since their trough in early June, although they are still down 1 percentage point since January. Junk bond issuance remained brisk in October at more than $4 billion, the second highest monthly reading this year. A few planned offerings, however, were postponed last month because of the backup in interest rates. Because most of the offerings of junk bonds have been for debt refinancings, postponements do not have the same immediate disruptive consequences as in 1989 and 1990, when they often prevented the financing of acquisitions and buyouts. Reflecting investors' higher demand for quality, many junk bond mutual funds reported in October the first outflows of the year; previous inflows were substantial and probably contributed to the sizable drop in spreads from January to June.

Of late, a few large issuers of commercial paper have experienced negative ratings actions. Dealers report some difficulty in placing paper through the year-end for weaker credits. Moreover, after Moody's and Duff & Phelps placed GMAC on credit watch, investors demanded a premium of 10 to 15 basis points on its paper. Following the recent downgrades of Sears Roebuck Acceptance Corporation and Westinghouse Credit Corporation (WCC), two sizable direct issuers of commercial paper, market participants also have become concerned about the capacity of the market to absorb the further increases in medium-grade paper that would occur if GMAC were downgraded a notch as well. Reflecting that concern, WCC announced last week that it would pay down commercial paper, turning instead to bank loans for short-term financing.

Gross equity issuance by nonfinancial corporations picked up slightly in October, staying about in line, at $3.2 billion, with the slower pace evident since June; volume was bolstered by Ford's $1.0 billion offering of preferred stock. Nonfinancial IPO volume increased in October but remained at only half its pace early in the year. Issuance by financial firms was fairly strong, reflecting the $1.1 billion sale of Preferred Equity Redemption Cumulative (PERC) stock by Citicorp.

On balance, stock prices have moved up since the last FOMC meeting. The NYSE composite has risen about 3 percent, while the Dow Jones Industrial index is up 2 percent. The lesser gain of the Dow partly reflects weakness in the share prices of IBM and Westinghouse, both of which reported disappointing third-quarter earnings. In addition, the turmoil leading up to the management shakeup at GM, the continued flow of red ink at that firm in the third quarter, and the anticipated slashing of its common dividend weighed heavily on GM's stock price and the DJIA. Paced by a revival in high-tech and biotech stock prices (perhaps bolstered by hopes of Clinton Administration support), the NASDAQ index has jumped about 9 percent. Both money center and regional bank indexes have surged, bettering the performance of the S&P500.

Treasury and Sponsored Agency Financing

The staff anticipates that a $125 billion deficit for the fourth quarter will be financed by $88 billion of borrowing and by a

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

	1992				
	Q3	Q4^p	Oct.^p	Nov.^p	Dec.^p
Treasury financing					
Total surplus/deficit (-)	-62.4	-124.9	-41.8	-44.9	-38.2
Means of financing deficit:					
Net cash borrowing from the public	77.0	87.7	-2.8	62.7	27.7
Marketable borrowings/ repayments (-)	72.6	83.7	-2.5	61.4	24.7
Bills	16.1	30.4	-6.5	18.0	18.9
Coupons	56.4	53.3	4.0	43.5	5.8
Nonmarketable	4.4	4.0	-.3	1.3	3.0
Decrease in the cash balance	-11.7	32.6	39.4	-1.1	-5.7
Memo: Cash balance at end of period	58.8	26.2	19.4	20.5	26.2
Other[2]	-2.8	4.5	5.1	-16.7	16.1
Federally sponsored credit agencies, net cash borrowing[3]	9.0	--	--	--	--
FHLBs	2.3	--	--	--	--
FHLMC	2.5	--	--	--	--
FNMA	5.0	--	--	--	--
Farm Credit Banks	--	--	--	--	--
SLMA	-.7	--	--	--	--
FAMC[4]	.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. Federal Agricultural mortgage Corporation.
p--projected.
Note: Details may not add to totals due to rounding.

substantial drawdown of the cash balance. Thus far in the fourth quarter, the Treasury has increased the gross issuance in the weekly bill auctions from $20.4 billion to $23.6 billion, more than reversing the sharp reductions in auction sizes in the third quarter. Meanwhile, gross coupon auctions have been increased as much as $500 million. The staff anticipates further increases in both bill and coupon auction sizes and that the Treasury will sell a long-term cash management bill to mature after the April 1993 tax payment date.

The Treasury is in the midst of its mid-quarter refunding, selling $37 billion of securities. The $11-1/4 billion sale of "ten-year" notes is a reopening of the current on-the-run security in order to alleviate an "acute, protracted shortage." In the Treasury's view, the persistence over several months of that note's concessionary rate in the financing market, its position below the rest of the yield curve, and widespread fails-to-deliver constitute evidence of a lasting shortage. This first test of the reopening policy stated in the *Joint Report on the Government Securities Market* went well, with strong demand at the auction and some narrowing of spreads in the term financing market.

Legislation regulating Fannie Mae and Freddie Mac was signed into law by President Bush on October 29. The legislation establishes a new Office of Federal Housing Enterprise Oversight within the Department of Housing and Urban Development, to be funded by assessments on the agencies based on their assets and mortgage-backed securities. The legislation requires that the financial condition of each of the two agencies be examined at least annually and imposes minimum capital levels.

Municipal Securities

Yields on long-term municipal bonds moved up about 35 basis points in October but fell back somewhat in November. On balance since late July, tax-exempt rates have risen nearly 60 basis points, boosting the ratio of tax-exempt to Treasury yields from a midsummer low of 0.83 to 0.87.

Gross issuance of long-term debt has run at an extremely heavy pace in the past three months. A substantial volume of gross issuance came from advance refundings in the third quarter, as rates were low and many issuers rushed offerings in anticipation of future rate increases. Retirements reportedly have slowed after an extraordinary surge in early July, but they are likely to continue to restrain overall debt growth of this sector.[1]

According to market reports, tax-exempt mutual funds experienced outflows in October after recording strong inflows throughout the year. This probably explains part of the relative poor performance of municipal yields that month, as mutual funds are the predominant buyer in this market, accounting for more than 85 percent of the net increase in tax-exempt securities outstanding during the first half of the year. Reflecting hurricane losses, sales of municipal bonds by property-casualty insurance companies, another significant group of investors, have added to the pressure on rates.

Bond issuance has fallen markedly in the past week, especially refunding issues. Moreover, net issuance is expected to decline sharply in January, when about $8 billion in municipal debt is likely to be called (and financed in part by maturing SLGSs). As a

1. Approximately $10 billion of municipal debt was redeemed on July 1, 1992, representing about 1 percent of outstanding municipal bonds. Another $5 billion was retired during the rest of the third quarter, and retirements are expected to be around $5 billion in the fourth quarter, according to several market analysts.

result of this decline, and perhaps also because investors are contemplating a fiscal package early in the new administration that includes higher marginal tax rates, yields on tax-exempt securities recently backed down about 10 basis points.

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

			1992			1992		
	1990	1991	Q1	Q2	Q3	Aug.	Sep.[p]	Oct.[p]
Total offerings[1]	13.49	16.60	16.75	21.64	23.76	23.09	28.93	22.91
Total tax-exempt	13.24	16.18	16.20	20.89	23.32	22.24	28.54	22.30
Long-term	10.26	12.84	14.47	16.60	17.46	18.00	18.18	20.33
Refundings[2]	1.68	3.11	5.12	5.81	7.44	6.01	7.68	6.57
New capital	8.58	9.73	9.35	10.79	10.02	11.99	10.50	13.76
Short-term	2.98	3.34	1.73	4.29	5.86	4.24	10.36	1.97
Total taxable	.25	.42	.55	.75	.44	.85	.39	.61

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

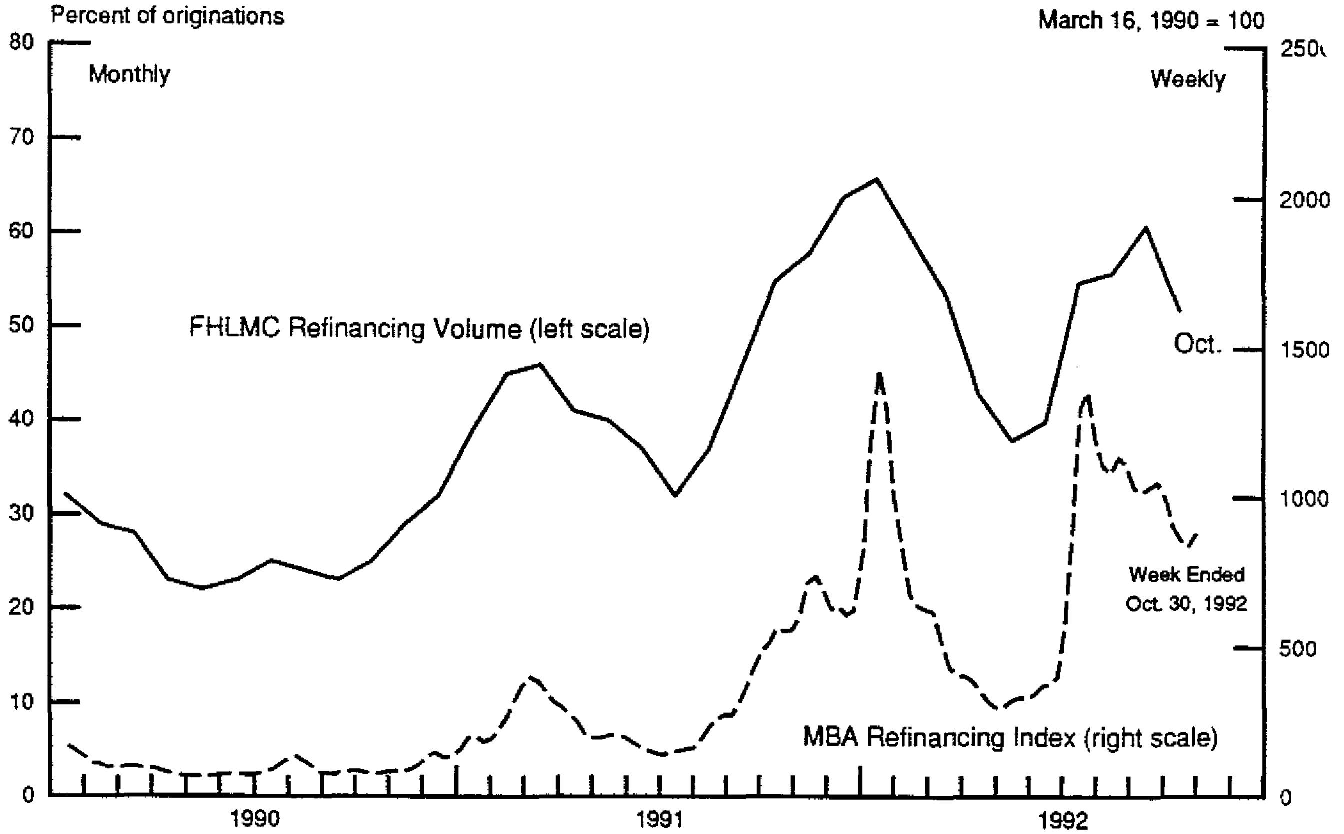
Voters approved more than 60 percent of the nearly 400 general obligation bond issues placed on ballots in the recent election by state and local governments.[2] Although only about $7 billion in debt was authorized, this election's approval rate is higher than in the past several elections, when voters turned down most issues.

Mortgage Markets

Interest rates on conventional home mortgages have followed Treasury rates upward over the intermeeting period; as of last week, rates on fixed-rate loans were up 36 basis points to 8.29 percent, and rates on adjustable-rate loans were up 16 basis points to 5.17 percent. Spreads of mortgage pass-through yields over Treasuries have edged 20 to 30 basis points above their extremely narrow levels of this past summer. Enormous refinancing activity

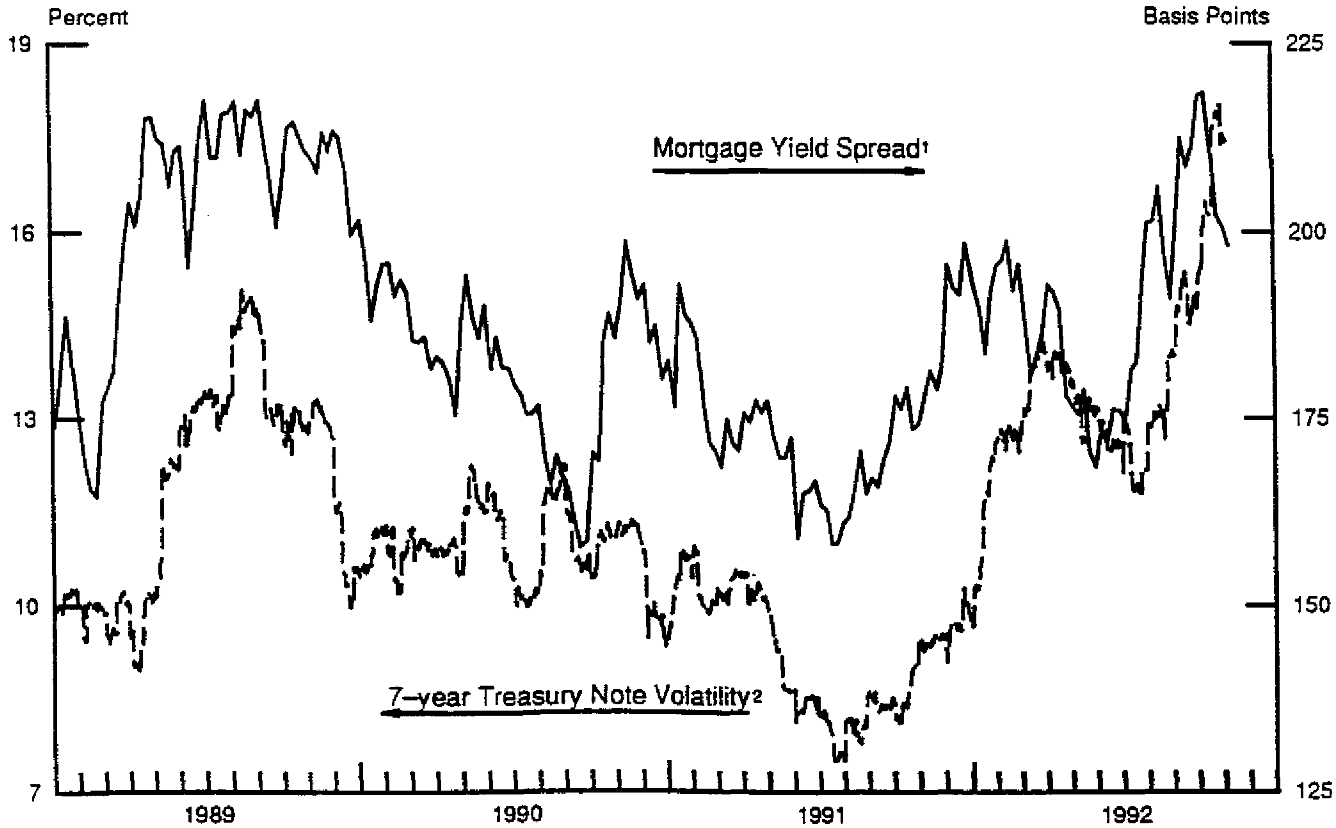
2. Many state constitutions require a referendum before allowing a general obligation debt issue to be sold.

Refinancing Indicators (NSA)



Mortgage Yield Spread and Volatility

(Weekly)

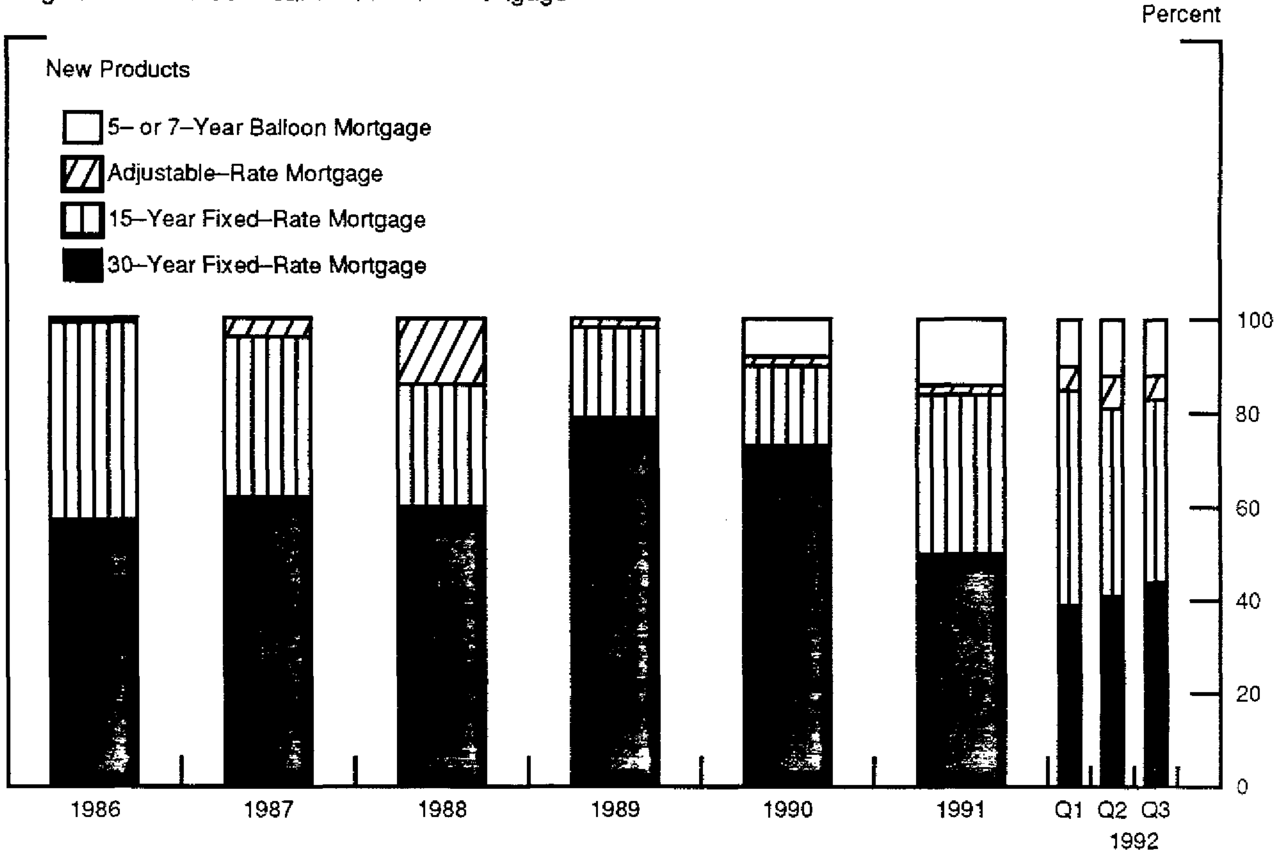


1. Spread is Freddie Mac primary mortgage market survey rate less 7–year Treasury yield.
2. Volatility is the standard deviation of daily percentage changes in yield over previous 120 days, annualized.

Freddie Mac Mortgage Refinancings

(Percentage of total refinancings in new products)

Original Product: 30–Year Fixed–Rate Mortgage



and high interest rate volatility put pressure on these spreads (chart).

Fifteen-year and balloon mortgages have become more popular in recent years. In 1992, only about 40 percent of the thirty-year, fixed-rate mortgages that FHLMC had previously purchased have been refinanced by another thirty-year mortgage, down from nearly 80 percent three years ago (chart). Fifteen-year mortgages have grown to about 40 percent, and five- and seven-year balloon mortgages to about 10 percent, of FHLMC refinancing activity.

Recent legislation has enacted several significant changes to the mortgage insurance program of the Federal Housing Administration (FHA) and the mortgage guarantee program of the Veterans Administration (VA). In particular, changes to the FHA program are expected to make FHA mortgages less costly and easier to obtain, thereby increasing the volume of FHA loan originations. One change, increasing the maximum loan size, is not likely to have much effect, because the average loan size is substantially below the old maximum. Another change is more significant, as it repeals the 57 percent limitation on the amount of closing costs that the loan can finance. This limit was widely perceived as having constrained the volume of FHA mortgage loans by increasing the amount of cash required at closing. Changes to the VA mortgage guarantee program expand the pool of eligible borrowers, lower the refinancing cost for veterans, and authorize the VA for the first time to guarantee adjustable-rate mortgages. Also for the first time and effective immediately, interest rates on VA-guaranteed mortgages are no longer constrained by a VA-administered ceiling rate, but, like other mortgage rates, are free to be determined by market forces.

Consumer Credit

Consumer installment credit outstanding rose at a seasonally adjusted annual rate of 2-3/4 percent in September, following seven months of decline. The increase in September reflected rebounds in both automobile loans and revolving credit, while runoffs continued in the "other loans" category. The 4-1/4 percent gain in auto credit was the largest since October 1989; in the intervening period, the stock of auto debt had shrunk by 12 percent. The upturn in revolving credit follows a six-month period of notable weakness.

The ratio of outstanding installment credit to disposable personal income was 16.3 percent in September, the lowest since mid-1985 (chart). Estimated principal and interest payments also have continued to trend down relative to disposable income, as lower interest rates and the net paydowns of outstanding balances have enabled consumers to reduce the cash flow burden of outstanding credit.

Over the past dozen years a number of nonfinancial firms have entered the third-party credit card market, most often through the medium of a nationally chartered bank, which enabled these firms to "export" the interest rate charged in their home states and avoid the ceilings imposed by the state of residence of the cardholder. Under the Bank Holding Company Act, as amended, these banks generally fall into two types: "nonbank banks," for example, Sears (Greenwood Trust; Discover card) and American Express (American Express Centurion Bank; Optima card); and "credit card banks," for example, General Electric (Monogram Credit Card Bank) and Household Finance (two banks). Passage of the Competitive Equality in Banking Act (CEBA) in 1987 essentially precluded establishment of any more nonbank banks, but it grandfathered existing entities and limited their asset growth to 7 percent per year. However, CEBA also

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (at annual rate)							Memo: Outstandings (billions of dollars)
				1992		1992		1992
	1989[1]	1990	1991	H1	Q3[p]	Aug.[r]	Sept.[p]	Sept.[p]
Installment	5.8	2.6	-1.0	-1.3	-.4	-1.9	2.7	722.3
Auto	1.4	-2.4	-7.6	-4.3	.8	-3.7	4.2	257.9
Revolving	15.2	11.9	8.9	3.8	4.0	3.4	8.8	249.9
Other	4.2	.8	-2.3	-3.5	-6.6	-5.9	-6.3	214.6
Noninstallment	3.9	-3.5	-10.0	13.0	8.2	15.7	3.4	57.4
Total	5.6	2.1	-1.7	-.4	.3	-.6	2.7	779.6

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.

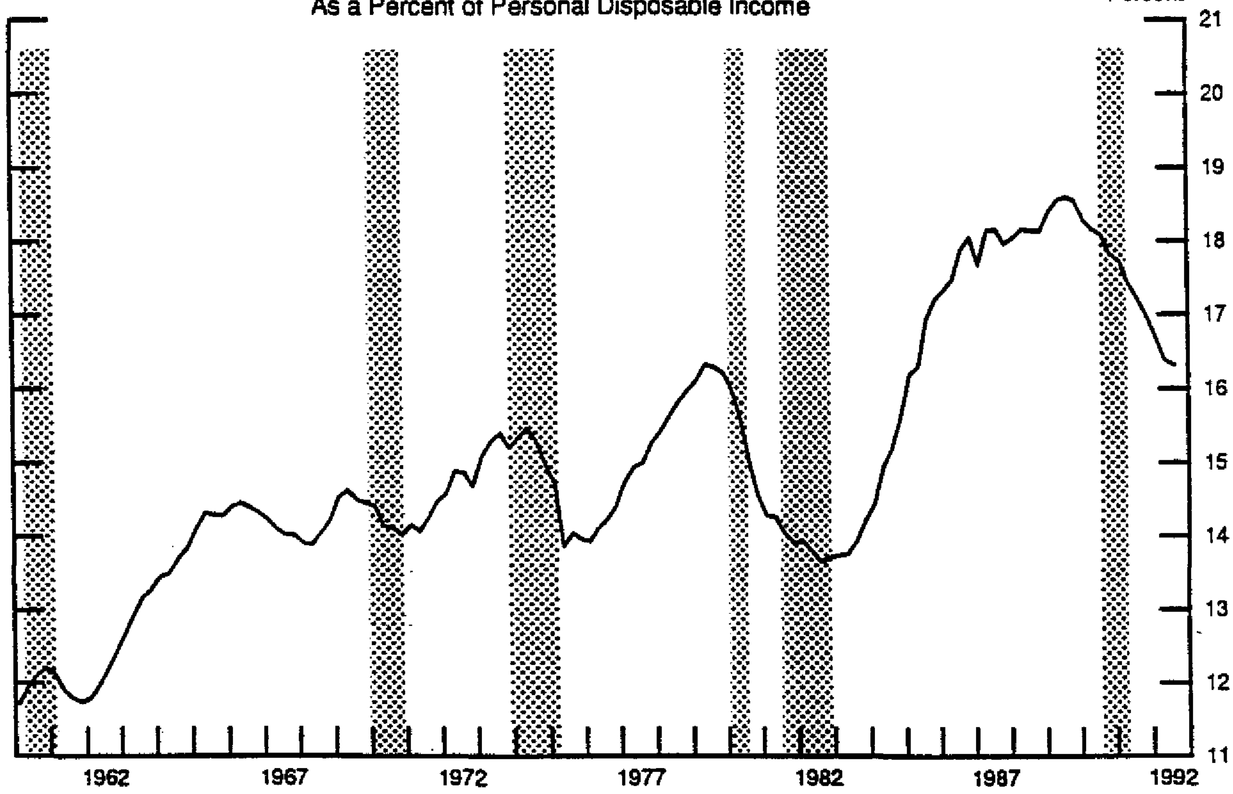
CONSUMER INTEREST RATES
(Annual percentage rate)

				1992				
	1989	1990	1991	Feb.	May	July	Aug.	Sept.
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	9.94	8.88	8.65
Used cars	16.18	15.99	15.60	14.00	14.01	13.67	13.49	12.06

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.

November 6, 1992
Mortgage and Consumer Finance

Consumer Installment Credit Outstanding S.A.
As a Percent of Personal Disposable Income



established the separate category of credit card banks, which it exempted from both the BHC Act and growth limitations.[3] After AT&T introduced the no-fee AT&T/Universal card as a Visa or MasterCard product in 1990, banks complained to the two licensing organizations, which subsequently modified their membership rules to make it difficult, if not impossible, for a firm owned by a nondepository to join the Visa or MasterCard system. To circumvent this constraint, some nondepositories have adopted the practice of "co-branding," whereby a nonfinancial firm wishing to establish a national credit card program reaches an agreement with an existing member of MasterCard or VISA to share billing on the face of the card.

In the past couple of months, two major nonfinancial corporations--General Motors and General Electric--have each introduced a new credit card as a co-branded MasterCard. Furthermore, GTE has begun issuing a combined MasterCard-telephone charge card through a co-branding arrangement with Associates National Bank (Ford). There are reports that other telephone companies may enter into such arrangements as well and that Chrysler may soon join the credit card club. So far, however, the increased competition has had no notable effect on the price or quantity of credit, as loan balances have merely been shifted among institutions.

Gross public issuance of credit card-backed securities has been sluggish so far this year, in part reflecting slow growth of receivables as well as the much improved state of bank balance sheets and capital positions (table). However, even in the absence of any new cards, issuance of card-backed securities is expected to

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3. A "nonbank bank" is an institution holding a commercial bank charter that agrees either to not take deposits or to make commercial loans. A "credit card bank" is an institution that engages only in credit card operations.

pick up in 1993 as a number of earlier issues mature and either pay down completely or begin scheduled amortization. In 1993, twenty-five separate issues totaling $14.75 billion (of which Citicorp alone accounts for $5.55 billion) will mature and will either return to the balance sheet or have to be rolled over.

GROSS PUBLIC ISSUANCE OF CONSUMER ASSET-BACKED SECURITIES
(Monthly averages in billions of dollars, not seasonally adjusted)

	TOTAL	Type of Collateral: Auto	Credit Cards	Other[1]	Type of Issuer: Commercial Bank	Finance Company	Other[2]
1988	1.29	.46	.66	.16	.67	.25	.36
1989	1.88	.65	1.00	.22	.92	.64	.31
1990	2.87	.87	1.83	.17	1.83	.80	.25
1991	3.07	1.23	1.70	.13	1.70	1.05	.31
1991 Q3	3.66	1.57	1.87	.22	1.12	2.12	.43
Q4	2.89	1.27	1.54	.09	1.21	1.54	.14
1992 Q1	2.26	1.55	.32	.39	1.91	.32	.03
Q2	2.41	1.26	.88	.26	1.30	.93	.18
Q3	2.14	.99	1.06	.09	.90	1.20	.05

1. Includes boat, recreation vehicle, mobile home and personal loans.
2. Includes retailers and savings and loan institutions.
Note: Details may not add to totals due to rounding.

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

The U.S. merchandise trade deficit widened sharply in August to $9.0 billion (seasonally adjusted, Census basis), up from a revised July deficit of $7.3 billion. A 6 percent drop in exports far outweighed the 1 percent decline in imports, leading to the largest monthly U.S. trade deficit since November 1990. The decline in exports in August was widespread across all major trade categories, while the decline in imports was concentrated in oil, foods, 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	37.8	3.9	33.9	45.1	4.8	40.3	-7.3
Aug	35.5	3.6	32.0	44.5	4.5	40.0	-9.0

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

For July-August combined, the trade deficit widened to $105 billion at an annual rate (BOP basis). Exports were little changed from the second quarter, while imports increased by 2-1/2 percent. Beginning in the second quarter of 1992 there appears to have been an upward shift in the level of the trade deficit after five consecutive quarters of deficits in the $60-80 billion (AR) range.

Most of the increase in non-oil imports in July-August was in capital goods and consumer goods. Computers accounted for much of the increase in imported capital goods. U.S. domestic sales of

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

	Year	1991		1992			$ Change	
	1991	Q3	Q4	Q1	Q2	Q3-e	Q3e-Q3	Q3e-Q2
Trade Balance	-73.4	-80.7	-74.2	-68.9	-97.7	-105.4	-24.7	-7.8
Total U.S. Exports	416.0	416.6	431.4	431.8	430.3	435.2	18.6	4.9
Agricultural Exports	40.1	40.7	43.2	43.3	42.0	44.7	4.1	2.7
Nonagric. Exports	375.8	375.9	388.2	388.5	388.3	390.5	14.6	2.2
Industrial Suppl.	101.8	100.5	100.0	99.7	100.4	103.1	2.6	2.8
Gold	3.6	3.4	3.6	3.8	3.4	4.2	0.7	0.8
Fuels	14.3	12.7	14.7	13.9	13.6	14.3	1.6	0.8
Other Ind. Suppl.	83.9	84.3	81.8	82.1	83.4	84.6	0.3	1.2
Capital Goods	167.0	166.7	176.3	176.4	174.1	169.9	3.1	-4.2
Aircraft & Parts	36.4	35.4	40.8	42.6	37.7	33.2	-2.3	-4.6
Computers & Parts	27.3	26.8	27.9	27.4	28.6	27.9	1.0	-0.7
Other Machinery	103.3	104.5	107.5	106.4	107.8	108.9	4.4	1.1
Automotive Products	40.0	43.7	41.7	42.9	46.2	48.9	5.3	2.7
To Canada	22.8	25.0	23.1	20.8	23.7	24.5	-0.5	0.8
To Other	17.5	18.7	18.6	22.1	22.5	24.5	5.8	2.0
Consumer Goods	45.9	44.9	48.2	47.9	48.7	49.9	5.0	1.3
Other Nonagric.	21.0	20.1	22.1	21.5	19.0	18.6	-1.4	-0.3
Total U.S. Imports	489.4	497.3	505.6	500.7	528.0	540.7	43.4	12.7
Oil Imports	51.2	52.5	48.8	41.5	51.9	55.7	3.3	3.9
Non-Oil Imports	438.2	444.8	456.8	459.2	476.1	484.9	40.1	8.8
Industrial Suppl.	83.9	80.0	83.3	84.3	88.4	87.0	7.1	-1.4
Gold	2.9	2.3	3.1	2.3	3.7	2.3	-0.0	-1.5
Other Fuels	3.9	3.8	4.8	4.4	4.6	4.2	0.4	-0.4
Other Ind. Suppl.	77.1	73.9	75.4	77.7	80.1	80.6	6.7	0.5
Capital Goods	120.7	121.3	122.1	125.1	131.4	136.2	14.9	4.8
Aircraft & Parts	11.7	12.5	11.5	12.1	13.5	11.3	-1.2	-2.2
Computers & Parts	26.1	27.1	26.8	27.7	30.7	33.7	6.6	2.9
Other Machinery	82.9	81.7	83.8	85.4	87.2	91.3	9.6	4.0
Automotive Products	84.9	90.8	88.6	87.8	89.3	89.4	-1.4	0.1
From Canada	28.8	33.1	30.1	30.9	31.7	33.0	-0.1	1.3
From Other	56.2	57.7	58.5	56.9	57.6	56.4	-1.3	-1.2
Consumer Goods	108.0	109.9	118.7	116.2	119.0	125.1	15.2	6.1
Foods	26.5	26.3	26.4	26.8	29.1	28.8	2.5	-0.3
All Other	14.1	16.5	17.7	19.0	18.9	18.4	1.8	-0.6

e--Average of first 2 months of quarter at an annual rate.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

computers were very strong, fueled by price wars and by a push by U.S. businesses to upgrade PCs and workstations to take advantage of improved software. Most of the increased sales were in the low end of the computer spectrum, items that are often imported. Other machinery imports also rose strongly in July-August; the increase in these imports since the end of 1991 represents the first significant advance in this category since 1988 and is consistent with some firming in domestic spending for these goods.

Imports of oil fell in August, as both quantity and price declined from the levels recorded in July. The noticeable decline in the quantity of oil imported in August largely reflected a decrease in domestic stocks (after four months of increase or no change), and to a lesser extent the effects of the temporary shutdown of the Louisiana Offshore Oil Pipeline (LOOP) brought about by Hurricane Andrew. For July-August combined, however, imports of oil were above the second-quarter pace, reflecting the strong level of imports in July. Preliminary Department of Energy data for September indicate a drop in oil consumption and an increase in stocks; imports in September (BOP basis) may have tipped up slightly.

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1992			Months			
	Q1	Q2	Q3-e	May	Jun	Jul	Aug
Value (Bil. $)	41.47	51.86	55.75	50.11	57.64	57.56	53.93
Price ($/BBL)	15.27	17.48	18.58	17.41	18.81	18.67	18.49
Quantity (mb/d)	7.44	8.12	8.21	7.88	8.39	8.44	7.99

e--Average of first 2 months of quarter at an annual rate.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Since June, the spot price for West Texas Intermediate (WTI) generally has fluctuated around $22 per barrel and lately has slipped below $21 per barrel. Relatively strong OPEC production (particularly in Iran and Saudi Arabia) and lackluster demand

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

	Year 1992-Q3 / 1991-Q3	Quarters 1992 Q1	Q2	Q3	Months 1992 Aug	Sep
		(Quarterly Average, AR)			(Monthly Rates)	
	--------------------BLS Prices--------------------					
Imports, Total	2.8	-1.2	0.8	6.6	0.5	0.2
Foods, Feeds, Bev.	-1.1	10.0	-15.0	-1.5	-0.3	0.4
Industrial Supplies	1.8	-15.1	12.1	9.7	0.4	0.2
Ind Supp Ex Oil*	0.4	4.7	-0.5	2.1	0.5	0.2
Capital Goods	4.0	4.7	-3.4	8.4	0.9	0.7
Automotive Products	2.5	0.9	-2.6	4.6	0.2	0.1
Consumer Goods	4.2	6.2	0.3	5.3	0.4	-0.1
Memo:						
Oil	4.5	-45.0	44.4	25.5	0.1	0.1
Non-oil	2.6	4.4	-2.7	4.8	0.4	0.2
Exports, Total	1.0	-1.2	2.0	0.7	-0.3	0.2
Foods, Feeds, Bev.	-0.4	-1.3	-2.0	-13.6	-4.4	3.0
Industrial Supplies	0.2	-6.5	5.5	5.5	0.7	-0.3
Capital Goods	1.4	1.2	0.9	1.2	0.2	-0.2
Automotive Products	1.8	1.6	1.2	1.3	0.1	0.2
Consumer Goods	2.6	5.9	1.6	0.3	0.0	0.0
Memo:						
Agricultural	-0.5	-3.3	-1.0	-7.6	-3.6	1.9
Nonagricultural	1.2	-1.0	2.7	2.0	0.3	-0.1
	------------Prices in the NIPA Accounts------------					
Fixed-Weight						
Imports, Total	2.6	-4.2	4.8	6.3	--	--
Oil	8.0	-48.9	72.1	28.6	--	--
Non-oil	1.1	1.8	0.0	4.3	--	--
Exports, Total	0.6	-0.7	1.5	-0.4	--	--
Ag	-2.9	-4.1	-1.1	-15.0	--	--
Nonag	1.4	-0.4	1.8	3.0	--	--
Deflators						
Imports, Total	-0.2	-6.9	2.3	1.6	--	--
Oil	8.1	-48.6	70.7	29.1	--	--
Non-oil	-1.2	-1.5	-2.3	-1.1	--	--
Exports, Total	-1.2	-1.1	-1.8	-2.8	--	--
Ag	-3.0	-5.2	-1.6	-9.1	--	--
Nonag	-1.0	-0.7	-1.8	-2.1	--	--

*/ Months not for publication.

recently have combined to depress oil prices. Spot WTI currently stands at $20.49 per barrel. These movements in spot prices suggest that import prices were little changed from the August level in either September or October.

Exports rose slightly in July-August from the second-quarter average, but were still only slightly higher than in the fourth quarter of 1991. The quantity of exports remained essentially flat, as increases in exports of computers, automotive products, and agricultural products (particularly wheat, rice, and soybeans) were offset by declines in exports of aircraft and other products. By area, a downward turn in exports to Western Europe was offset by increased exports to Latin America and developing nations in Asia.

Prices of Exports and Non-oil Imports

Non-oil import prices rose by about 4-1/2 percent at an annual rate in the third quarter according to the BLS, following a decline in the previous quarter. Strong price increases in imports of capital goods were attributable in part to the depreciation of the dollar over the summer. Prices of imported consumer goods and automotive products also rose noticeably in the third quarter.

Prices of non-agricultural exports rose only slightly in the third quarter, while prices of agricultural exports fell sharply, continuing the price declines of the previous three quarters.

U.S. International Financial Transactions

Partial data on international capital transactions for the third quarter indicate large inflows of private capital, especially through bank transactions, and sizable outflows of official capital. This pattern represents a shift from that in recent quarters when official transactions showed large net inflows and accounted for the bulk of the total net capital inflows. Despite the substantial increase in private capital inflows in the third quarter, total net inflows thus far reported for the quarter were substantially less than the projected current account deficit, indicating a large positive statistical discrepancy. In the first half of the year, the discrepancy was large and negative. Part, but not all, of the swing in the discrepancy appears to have been associated with larger currency shipments abroad, which are omitted from the accounts.

Banks in the United States recorded large net inflows in August and September, bringing the total for the third quarter to $20 billion. (See line 1 of the Summary of U.S. International Transactions table.) Most of the September inflow was attributable to end-of-quarter transactions by U.S. branches and agencies of foreign banks. As a group, these banks increased their net liabilities to related foreign offices by about $15 billion in the last weeks of September and reduced these liabilities by more than $6 billion in the early days of October. Averaging through the quarter-end movements, it still appears that the foreign-based banks have increased their reliance on related foreign offices for funds in recent months. As shown on line 1b of the International Banking Table, on a monthly average basis, foreign-chartered banks in the United States increased their net liabilities to own foreign offices by $10 billion between August and October. This figure is roughly consistent with the asset growth at branches and agencies and the runoff of large CDs issued by them in the United States.

Net purchases of U.S. corporate and agency bonds by private foreigners picked up in August and remained brisk in September, bringing total purchases to $7 billion for the quarter. (See line 2a of the Summary Table.) Private foreign purchases of Treasury securities, especially bonds and notes, also picked up in August, reaching almost $8 billion (line 3). These purchases were concentrated in the United Kingdom and Japan. In September

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

	1990 Year	1991 Year	1991 Q4	1992 Q1	1992 Q2	1992 Q3	1992 July	1992 Aug.	1992 Sept.
Private Capital									
Banks									
1. Change in net foreign positions of banking offices[1] in the U.S. (+ = inflow)	36.6	-18.4	-2.1	4.4	-2.5	20.0	-4.9	11.9	13.0
Securities									
2. Private securities transactions, net[2]	-29.1	-10.9	-6.0	-4.3	1.7	-11.5	-6.3	-0.8	-4.4
a) foreign net purchases (+) of U.S. corporate bonds[3]	16.2	25.7	6.6	7.7	11.8	7.1	1.7	3.2	2.1
b) foreign net purchases (+) of U.S. corporate stocks	-13.7	10.1	-1.5	-2.8	-1.2	-3.8	*	-1.4	-2.4
c) U.S. net purchases (-) of foreign securities	-31.6	-46.8	-11.1	-9.1	-8.8	-14.8	-8.0	-2.7	-4.1
3. Foreign net purchases (+) of U.S. Treasury obligations	-1.0	19.3	1.9	-0.8	10.4	5.5	0.3	7.9	-2.7
Official Capital									
4. Changes in foreign official reserves assets in U.S. (+ = increase)	32.1	16.0	13.3	21.0	20.3	-8.6	2.3	2.6	-13.4
a) By area									
G-10 countries	10.0	-17.6	0.5	2.4	3.3	3.6	2.3	1.0	0.3
OPEC	1.2	-5.8	1.2	2.7	-2.5	2.9	1.3	-0.2	1.8
All other countries	20.8	39.3	11.6	15.9	19.5	-15.1	-1.3	1.7	-15.5
b) By type									
U.S. Treasury securities	29.6	14.8	12.6	14.9	11.1	-0.3	4.7	-0.9	-4.1
Other[4]	2.5	1.2	0.7	6.0	9.2	-8.3	-2.4	3.4	-9.3
5. Changes in U.S. official reserve assets (+ = decrease)	-2.2	5.8	1.2	-1.1	1.5	2.0	0.4	1.5	*
Other transactions (Quarterly data)[5]									
6. U.S. direct investment (-) abroad	-32.7	-27.1	-11.7	-15.1	-11.0	n.a.	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.	n.a.
8. Other capital flows (+ = inflow)[6]	-5.8	8.6	2.5	14.0	11.0	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance	-90.4	-3.7	-7.2	-5.9	-17.8	n.a.	n.a.	n.a.	n.a.
10. Statistical discrepancy	47.4	-1.1	2.4	-8.4	-19.6	n.a.	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	-18.5	-17.2	-24.4	n.a.	n.a.	n.a.	n.a.

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

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1990	1991				1992					
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	July	Aug.	Sept.	Oct. */
1. Net Claims of U.S. Banking Offices (excluding IBFS) on Own Foreign Offices and IBFS	-31.3	-23.8	-13.7	-14.1	-35.8	-41.4	-56.8	-56.0	-54.1	-58.2	-60.8
(a) U.S.-chartered banks	5.5	7.6	5.4	11.0	12.4	3.2	8.3	9.0	11.2	12.7	15.1
(b) Foreign-chartered banks	-36.9	-31.3	-19.2	-25.2	-48.3	-44.6	-65.1	-65.0	-65.3	-70.9	-75.8
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	24.7	26.0	23.9	23.7	23.9	23.3	24.5	25.1	24.8	24.8	25.1
3. Eurodollar Holdings of U.S. Nonbank Residents 1/	116.1	114.6	105.8	100.8	102.9	100.3	91.2	89.6	86.6	84.6	86.7

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.

*/ Data through October 26.

foreigners made net sales of Treasuries totaling $3 billion. Widespread sales by Europeans more than offset Japanese net purchases of almost $3-1/2 billion. For the quarter as a whole, private foreigners purchased less than $6 billion in Treasuries, about one-half of the amount purchased in the second quarter.

Foreigners resumed selling U.S. equities on a modest scale in August and picked up the pace of net sales in September. For the quarter, net sales of equities totaled almost $4 billion, about equal to the total sales in the first two quarters (line 2b).

U.S. residents continued to acquire foreign securities, especially European equities, in August and September, though at a somewhat slower pace than in July. For the third quarter net purchases of stocks and bonds totaled almost $15 billion (line 2c).

Foreign official reserves in the United States declined $13 billion in September. Most of the decline was attributable to reduced holdings by the BIS and Canada.

. Large reductions in French, Spanish, and Swedish reserves were offset by increases in German and U.K. reserves. Partial data for October indicate that official reserves at The FRBNY rose more than $5 billion as a $9 billion increase in BIS holdings was only partially offset by reductions in Spanish, German, and Swiss holdings.

Foreign Exchange Markets

The weighted average value of the dollar, shown in the accompanying chart, rose 9 percent since the last FOMC meeting. The dollar began appreciating shortly after the meeting as market expectations for further Federal Reserve easing dissipated. It continued to rise on German interest rates declines, and on the expectation that a Clinton administration would use fiscal policy to stimulate the economy, reducing the likelihood for further easing by the Federal Reserve.

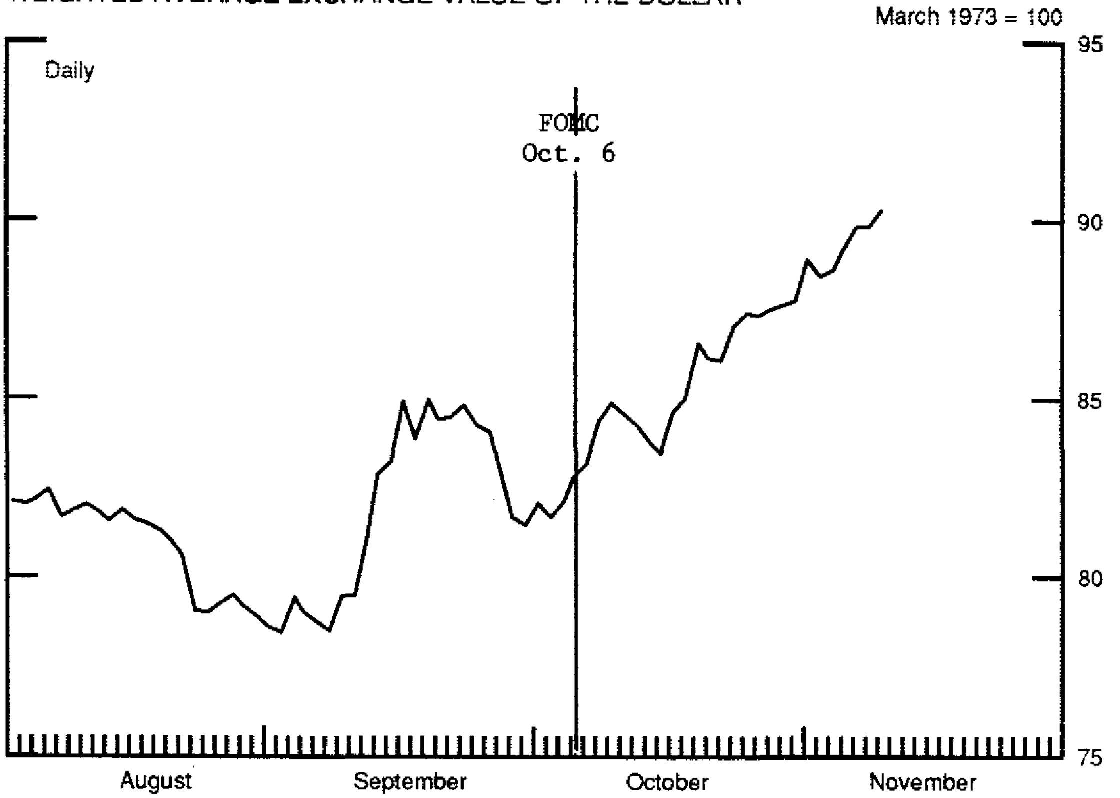
The dollar rose 12 percent against the mark during the period, but rose only 3-1/2 percent against the yen in part because expectations for monetary easing in Japan have been more subdued than those in Europe, and perhaps also because the huge Japanese trade surplus continued to widen. Interest rates in Japan changed little during the period; the three-month CD rate declined 5 basis points, and the yield on the bellwether bond declined 10 basis points.

Expectations for Bundesbank easing were mixed toward the end of the period because the impetus for easing posed by evidence of a weakening German economy was offset by stubborn German inflation, a growing budget deficit, and upcoming wage negotiations. Market commentary also suggests that the Bundesbank will postpone further rate cuts pending anticipated devaluations of the weaker ERM currencies by year-end. Three-month rates in Germany declined 5 basis points to 8.85 percent during the period. They had been down by more, but rebounded towards the end of the period. The yield on the bellwether bond declined 5 basis points to 7.30 percent.

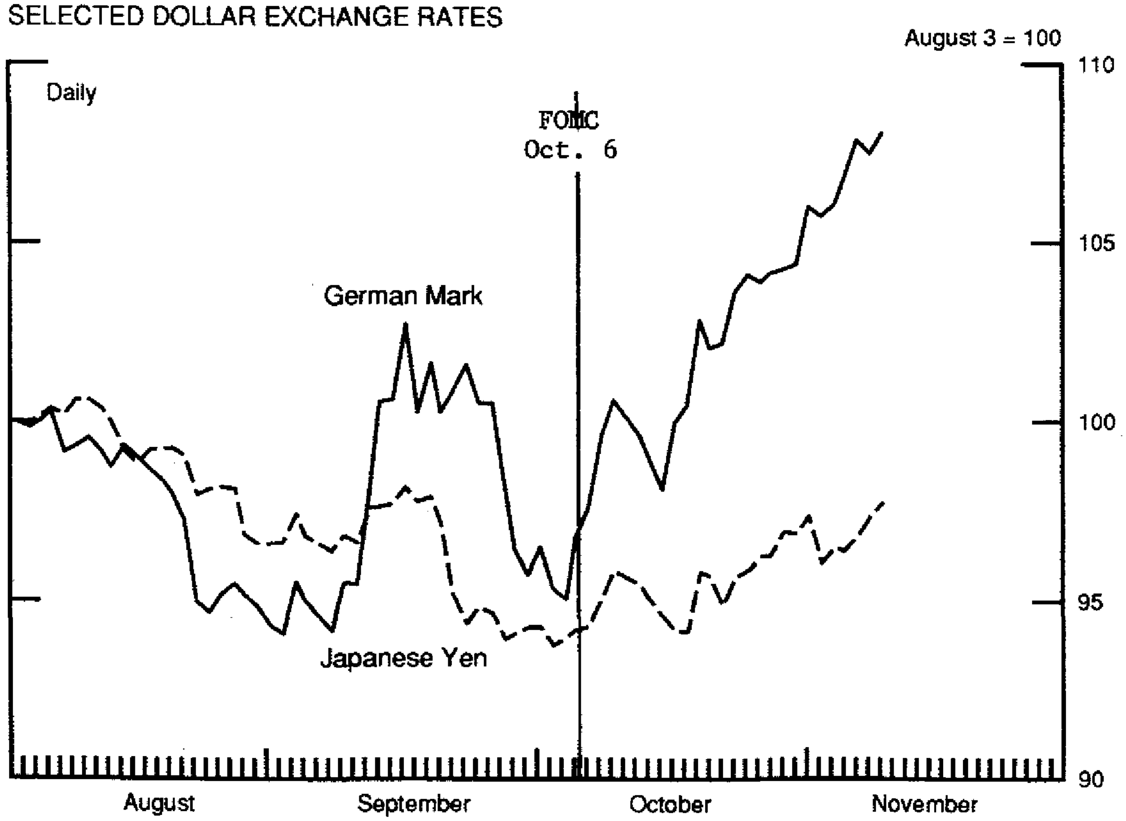
Elsewhere in Europe, interest rate movements were more pronounced due to an unwinding of exchange rate pressures and the pursuit of more growth-oriented monetary policies.

In the United Kingdom, three-month rates declined just over 200 basis points to about 7 percent, reflecting a shift in government priorities from inflation reduction to the pursuit of economic

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



SELECTED DOLLAR EXCHANGE RATES



growth. This shift towards growth-oriented policies came in response to further signs of economic deterioration, and was also a part of government efforts to appease critics of its proposal to shut-down several government-owned coal pits. Three-month rates are currently 330 basis points below their average level in August, and the market expects base rates to decline an additional 175 basis points over the next few months.

Three-month rates in Italy declined 240 basis points during the period but remain 250 basis points above their average level in June, before the exchange rate pressures on the lira intensified. Since the last meeting, Italy has succeeded in passing several budget deficit reduction measures, and the lira has strengthened 7-3/4 percent against the mark. Italian government officials have hinted that the lira may reenter the ERM around year's end.

Three-month rates in France and Sweden declined 290-350 basis point over the period, mostly in response to reduced exchange rate pressures. Three-month rates in France are 95 basis points below their level in August, and the spread between French and German three-month rates is currently narrower than its average level in August.

In Spain, although some exchange rate pressures persist, three-month rates declined 145 basis points to 13.90 percent, perhaps because capital controls instituted during the EMS crisis have provided the Bank of Spain with some room to maneuver rates lower. By European Community agreement, these capital controls, as well as those in Ireland, must be removed by the end of this year. At the time of their removal the market expects the peseta and the Irish punt, as well as the Portuguese escudo to be devalued 5-10 percent.

In Canada voters overwhelmingly rejected a referendum on constitutional reforms on October 26. This rejection was widely anticipated and had only a minor effect on the Canadian dollar. Three-month rates in Canada declined 80 basis points on balance during the period. These rates had declined by more, but downward pressure on the Canadian dollar prompted the Bank of Canada to tighten somewhat towards the end of the period. The Canadian dollar declined 1-1/4 percent, on balance, against the U.S. dollar during the period.

Developments in Foreign Industrial Countries

Real economic activity in major foreign industrial countries has proceeded at a sluggish pace in the third quarter. In Japan, incoming data for industrial production, inventories, and new car registrations continued to suggest weakness. Similarly, for western Germany and the United Kingdom, industrial production, orders, and measures of business confidence are down relative to the second quarter. In addition, real activity appears to be slowing in France and Italy. In contrast, a recovery may have taken hold in Canada during the third quarter, as industrial production, orders, and retail sales showed moderate increases. Moderation in economic activity has generally led to lower inflation, except in western Germany.

Individual country notes. In Japan, activity appears to have remained generally weak in the third quarter. While industrial production (s.a.) rose 4.6 percent in September, this mainly reflected recovery from an unusually sharp seasonal drop in the previous month. For the third quarter as a whole, industrial

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

	Q4/Q4 1990	Q4/Q4 1991	1991 Q4	1992 Q1	1992 Q2	1992 Q3	1992 May	1992 June	1992 July	1992 Aug.	1992 Sept.	Latest 3 months from year ago 2
Canada												
GDP	-2.0	-.0	.0	.3	.2	n.a.	*	*	*	*	*	.6
IP	-6.3	-1.4	-1.1	-.2	.3	n.a.	-.5	.1	-.4	1.9	n.a.	-.6
France												
GDP	1.5	1.7	.1	1.0	.2	n.a.	*	*	*	*	*	2.4
IP	-.3	1.9	-.2	.1	-.1	n.a.	-1.7	.2	.0	.0	n.a.	-.7
WEST GERMANY												
GDP	5.8	2.0	-.3	2.0	-.3	n.a.	*	*	*	*	*	1.1
IP	5.4	.3	-1.2	2.8	-2.0	-1.9	-.1	-1.4	-.4	.2	-2.0	-2.3
Italy												
GDP	1.6	1.7	.4	.6	.2	n.a.	*	*	*	*	*	1.5
IP	-3.8	-.5	1.1	2.5	-2.9	n.a.	4.5	-2.2	n.a.	n.a.	n.a.	.4
JAPAN												
GDP	5.2	3.0	-.0	.9	.2	n.a.	*	*	*	*	*	1.5
IP	6.9	-1.6	-1.2	-3.1	-2.3	.1	-1.9	2.5	.4	-4.2	4.6	-6.3
United Kingdom												
GDP	-1.0	-1.6	-.3	-.4	-.2	n.a.	*	*	*	*	*	-.6
IP	-3.1	-.7	-.1	-.8	-.2	n.a.	-1.0	.0	1.0	-.3	n.a.	-1.3
UNITED STATES												
GDP	-.5	.1	.1	.7	.4	.7	*	*	*	*	*	1.9
IP	.3	-.5	-.2	-.7	1.3	.4	.7	-.4	.8	-.4	-.2	.7

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 July	1992 Aug.	1992 Sept.	1992 Oct.	Latest 3 months from year ago
Canada													
CPI	4.9	4.1	.7	.6	-.1	.4	.5	.4	.2	.0	-.1	n.a.	1.2
WPI	1.9	-3.2	-1.6	-.9	-.4	.5	.6	.8	.3	.1	.5	n.a.	1.5
France													
CPI	3.6	2.9	.7	.8	.8	.7	.7	.6	.3	.1	.1	n.a.	2.8
WPI	.7	-3.6	-1.5	-.7	-1.0	.2	.4	n.a.	*	*	*	*	-1.1
West Germany													
CPI	3.0	3.9	.9	1.5	.7	1.2	1.1	.5	.0	.2	.3	.4	3.6
WPI	.9	1.6	.3	.7	.2	.4	.5	-2.0	-1.3	-.7	-.4	n.a.	-1.0
Italy													
CPI	6.3	6.1	1.4	1.0	1.7	1.4	1.2	.7	.2	.1	.3	.6	5.1
WPI	9.9	1.1	-1.0	.5	1.4	.0	.8	n.a.	-.3	-.3	n.a.	n.a.	2.1
Japan													
CPI	3.2	3.2	.8	.4	1.1	-.3	1.3	-.1	-.4	.1	.5	-.1	1.7
WPI	1.9	-1.3	-.4	-.4	-.7	-.4	.0	-.1	.1	.1	-.3	n.a.	-1.1
United Kingdom													
CPI	10.0	4.2	2.1	.4	1.0	.5	2.2	-.1	-.4	.1	.4	n.a.	3.6
WPI	5.9	4.9	1.9	.6	.5	1.4	1.1	.4	.2	.1	.1	.1	3.3
United States													
CPI (SA)	6.3	3.0	.6	.7	.9	.7	.8	.6	.1	.3	.2	n.a.	3.1
WPI (SA)	6.4	-.1	-.2	.0	.5	.0	.8	.4	.0	.1	.3	.1	1.6

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			1992			1992			
			Q2	Q3	Q4	Q1	Q2	Q3	June	July	Aug.	Sept.
Canada												
Trade	9.4	5.0	1.7	.9	1.0	1.7	1.6	n.a.	.4	.5	.7	n.a.
Current account	-21.5	-25.5	-6.0	-6.6	-7.3	-6.1	-6.3	n.a.	*	*	*	*
France												
Trade	-9.3	-5.3	-1.5	-1.5	.4	1.1	1.9	1.3	-.2	1.2	-.6	.8
Current account	-9.5	n.a.	-1.6	-.2	n.a.	n.a.	n.a.	n.a.	*	*	*	*
Germany 2												
Trade (NSA)	65.2	12.9	-1.1	2.8	6.7	4.4	3.4	8.5	1.3	.8	3.9	3.8
Current Account (NSA)	46.4	-19.5	-5.9	-5.9	-2.2	-5.6	-6.3	n.a.	-2.7	-5.2	-1.4	n.a.
Italy												
Trade	-12.2	-13.0	-3.5	-4.9	-3.3	-1.9	-4.0	n.a.	-1.5	n.a.	n.a.	n.a.
Current account (NSA)	-14.4	-21.5	-4.6	-3.7	-5.0	n.a.	n.a.	n.a.	*	*	*	*
Japan												
Trade	51.7	78.5	19.7	21.0	21.2	28.0	24.5	26.2	8.0	8.5	8.3	9.4
Current account	35.9	73.1	18.8	19.5	22.9	28.6	28.8	28.1	8.5	9.7	8.5	9.9
United Kingdom												
Trade	-33.0	-18.3	-3.8	-4.0	-4.7	-5.4	-5.7	-6.3	-1.8	-2.2	-2.2	-2.0
Current account	-26.8	-8.0	-.4	-2.1	-1.1	-3.0	-4.7	-5.8	-1.4	-2.0	-2.1	-1.8
United States												
Trade	-108.9	-73.4	-16.4	-20.2	-18.5	-17.2	-24.4	n.a.	-8.0	-8.1	-9.4	n.a.
Current account	-90.4	-3.7	2.4	-11.1	-7.2	-5.9	-17.8	n.a.	*	*	*	*

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

production was only 0.1 percent higher than in the second quarter, and was 6.3 percent below its year-earlier level. The inventories to shipments ratio (s.a.) rose an additional 0.6 percent in the third quarter, and showed a year-over-year increase of 8.2 percent. Retail sales (n.s.a.) in the third quarter were 1.8 percent below their level in the third quarter of last year. New passenger car registrations (s.a.) declined 2.6 percent in the third quarter and fell 10.8 percent below their year-earlier level. Housing starts (s.a.) have continued to be the strongest indicator, registering a 2.9 percent increase in the third quarter. The unemployment rate (s.a.) in September remained unchanged at 2.2 percent. However, the job offers to applicants ratio (s.a.) continued to decline, falling to its lowest level in four years.

Inflationary pressures have remained subdued. Consumer prices in the Tokyo area (n.s.a.) were nearly unchanged in October, and their 12-month change declined to 1.2 percent. However, much of the decline in the 12-month change over recent months was due to lower prices of perishable foods. Excluding perishable food prices, the 12-month change in consumer prices was 2.3 percent in October. Wholesale prices (n.s.a.) declined by 0.3 percent in September, as their 12-month decrease remained at 1.1 percent.

The trade surplus (s.a.) increased somewhat further in September. For the first nine months of the year, the trade surplus was $79 billion (s.a.), 38 percent higher than the surplus in the same period last year.

The downturn in real economic activity in western Germany registered in the second quarter appears to have persisted into the third quarter. Industrial production (s.a.) dropped 1.9 percent in the third quarter relative to its average in the second quarter and in September was significantly below its level in the fourth quarter of last year. The volume of new orders for west German manufactured goods (s.a.) fell steadily between February and September. For the third quarter, total orders declined 2.3 percent relative to their second-quarter average, reflecting a drop in both domestic and foreign orders. Measures of business confidence have exhibited sharp declines in recent months. One survey of production plans in September registered its steepest drop since the end of 1982. On a slightly more positive note, the volume of retail sales (s.a.) was essentially unchanged in the third quarter relative to the second quarter average. Despite increasing in March and April on a year/year basis, industrial production in eastern Germany (n.s.a.) has declined in more recent months and in July stood 5.1 percent below year-earlier levels.

After remaining steady throughout 1991 at roughly 6.3 percent, the unemployment rate (s.a.) in western Germany has edged up this year and stood at 6.6 percent in October.

Consumer price inflation (n.s.a.) in western Germany remained strong through October, increasing to 3.8 percent on a year/year basis. Other prices have moderated somewhat in recent months, likely reflecting the appreciation of the DM against its major trading partners.

The combined German current account has continued to deteriorate. The cumulative current account deficit (n.s.a.) for all of Germany reached $18.5 billion in August, about $2 billion larger than the deficit through August of last year. The widening of the current account deficit primarily reflects a decline in the value of exports.

In September, M3 in western and eastern Germany combined was 9.1 percent (s.a.a.r.) higher than in the fourth quarter of 1991, well above the Bundesbank's M3 target range of 3-1/2 to 5-1/2 percent growth for 1992. Three-month interest rates have continued to drift down slowly since the official Bundesbank easing on September 14 that reduced the discount and Lombard rates to 8.25 and 9.5 percent, respectively, and now stand between 8.8 and 8.9 percent.

In early September, the draft budget and medium-term financial plan that was approved by the German cabinet in July was presented to the German parliament. Over the past several weeks, however, the draft budget for 1993 has been the subject of considerable controversy. The Finance Ministry now estimates a gap of DM 16 billion between expenditures and revenues in the draft budget, due to a drop in expected tax revenues and to additional financial obligations in eastern Germany. To bridge the DM 16 billion gap, the cabinet has approved a series of measures, including expenditure reduction, additional borrowing, and additional revenues through privatization receipts and coin sales. This modified 1993 draft budget continues to hold the growth of expenditures to 2.5 percent in nominal terms, but the Federal deficit is now expected to increased to DM 44 billion from a projected deficit of DM 40.5 billion this year. No mention has been made of additional taxes in 1993, but there has been discussion of tax increases in 1995.

In France, monthly indicators point to continued weakness in the third quarter. Although the July-August average of industrial production was flat (s.a.), output in the manufacturing sector declined 1.2 percent relative to June. It is likely that production continued to trend down in September, as the Bank of France's measure of industrial output fell in that month. The unemployment rate edged up in the third quarter to 10.3 percent (s.a.). In addition, foreign and domestic orders and business confidence all fell (s.a.) in September. The only positive indicator was real consumption of manufactured products (a third of total consumption), which rose 1.2 percent (s.a.) in September, to lie 0.5 percent above its second-quarter average.

Inflation in September continued it gradual decline. The consumer price index was 2.6 percent above its year-earlier level, down slightly from 2.7 percent in August.

Through September, France's cumulative trade surplus was $4.3 billion (s.a.), a substantial improvement relative to $5.7 billion deficit registered over the same period last year. This favorable trade balance performance masks a significant slowdown in French export growth that has contributed to the slowdown in overall economic growth. In the third quarter, French merchandise exports (s.a.) were 2.2 percent below their average in the first half of 1992, and slightly below their level in the third quarter of last year.

On October 27, the French Chamber of Deputies approved the 1993 budget. The deficit is projected to equal FF165 billion or 2.2 percent of GDP, slightly less than the 1992 deficit now estimated at FF180 billion. The increase in total expenditures is to be held to 3.4 percent in 1993, although certain categories of expenditures such as job training, agriculture, education, and justice will increase by significantly more. Tax revenues are projected to rise only 2.9 percent, largely due to very slow growth in VAT and corporate income tax revenues, and a small reduction in the corporate income tax rate.

In Italy, economic growth is slowing. Recently released figures show that real GDP grew only 0.8 percent (s.a.a.r) in the second quarter compared with 2.4 percent (s.a.a.r) in the first quarter. Other recent indicators suggest that this slowdown in activity continued into the third quarter. Industrial production (n.s.a.) declined 3.7 percent in the 12 months ending in August, and new orders fell 1.6 percent in the year ending in July. Although retail sales in July were up 7.8 percent from July 1991, the rate of increase was slower than those recorded earlier this year. The consumer confidence index in September plunged 9.3 percent (n.s.a) from July's level (the survey is not conducted in August) and lies 15.5 percent lower than in September 1991. A rebound in consumer confidence is unlikely in the near term due to higher taxes and lower wage growth.

For the year ending in October, Italian consumer prices rose 5 percent from year-earlier levels. Since June, consumer price increases have been trending down on a year/year basis. Wholesale prices were up 1.7 percent, for the year ending in August. The inflation rate should rise in the coming months as the effective 15 percent devaluation of the lira begins to affect prices. Another wage-price spiral may ensue if the unions succeed in demanding the reinstatement of the *scala mobile*, Italy's recently abolished system of wage indexation.

Approximately 25 percent of the 93 trillion lira (roughly $71 billion equivalent) 1993 deficit reduction package has been approved by Parliament. On October 22, the lower house approved an additional 50 percent of the package and sent it to the upper house where the measure is predicted to pass a confidence vote. Budget committees in both houses are currently debating the remaining 25 percent of the package. This progress in fiscal consolidation, together with general easing of exchange market tensions and faltering Italian growth, induced the Bank of Italy to lower the discount rate 100 basis points to 14 percent on October 23. Another discount rate cut is likely when Parliament approves the remaining portions of the deficit reduction package.

Latest data for the United Kingdom indicate that the economy may be contracting again. Industrial production (s.a.) fell 0.3 percent in August after rising 1 percent in July. (The July increase was entirely accounted for by a resumption in energy production after spring maintenance on North Sea oilfields was completed.) Manufacturing production (s.a.) contracted 0.3 percent in August to a level 0.5 percent below a year ago. In October, the CBI's industrial survey indicated that recovery is unlikely to be led by the corporate sector. Business confidence and investment intentions continued to recede, reversing most of the rise that occurred earlier this year.

Consumer spending has picked up slightly in recent months; the volume of retail sales (s.a.) rose 1.2 percent in August and 0.2 percent in September to stand 1.5 percent above a year ago. In the third quarter, sales were 0.5 percent higher than in the previous quarter and at their highest level since the first half of 1990. However, in October consumer confidence fell again to its lowest level since 1990, pointing to weak sales in the current quarter. Unemployment (s.a.) continued to rise in September to a rate of 10.1 percent.

Inflation continues to be moderate, despite the depreciation of the pound. Consumer prices (n.s.a.) rose 0.4 percent in September after rising 0.1 percent in August. The 12-month inflation rate remained at 3.6 percent, the lowest since 1986. Excluding mortgage interest rates, consumer prices were 4 percent above their level of September 1991, at the upper boundary of the government's new inflation target of 1-4 percent. Producers' output prices (n.s.a.) rose slightly in October after they stood still in September and were 3.3 percent above their year-earlier level. The prices of producers' materials and fuels (n.s.a.) rose 2.5 in October after rising 1.1 percent in September, largely reflecting price increases of imported materials associated with sterling's devaluation.

Despite continued weakness in domestic demand, the trade balance (s.a.) deteriorated substantially in the third quarter. The cumulative current account deficit (s.a.) for the first three quarters of the year was $13.5 billion, compared with a deficit of $7.3 billion in the same period of 1991.

In Canada, economic indicators for the third quarter suggest a resumption of recovery after four quarters of very slow growth. Monthly GDP at factor cost (s.a.) for July-August combined came in 0.5 percent above its second-quarter average, as industrial production increased 0.4 percent, retail sales (s.a.) were up 1.3 percent, and factory orders (s.a.) rose 0.9 percent. In the third quarter as a whole, housing starts (s.a.) increased 6.7 percent and total employment (s.a.) rose 0.1 percent. The unemployment rate (s.a.) fell to 11.3 percent in October, its second consecutive monthly decline.

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 (n.s.a.), fell to 1.6 percent in September. The all-items CPI was up 1.3 percent over this period. Although wholesale prices (n.s.a.) rose 0.5 percent in September, they stand only 2.1 percent above their year-earlier level. Wage settlements increased an average of 2.4 percent (a.r.) during the first eight 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. For July-August combined, the trade surplus (s.a.a.r.) was $6.7 billion, up from $5.6 billion in the second quarter, reflecting continued rapid growth in exports.

On Monday October 26, Canadians voting in a non-binding referendum decisively rejected an agreement on constitutional reform reached by Prime Minister Mulroney and the ten provincial premiers in August. Although the stated purpose of the proposals was to foster national unity, failure to adopt the plan is not likely to lead to a dissolution of the Canadian federation. Financial markets have reacted favorably to the apparent resolution of some of the political uncertainty associated with the referendum vote.

The Former Soviet Union and Eastern Europe

Inflation in Russia accelerated sharply in September. It appears that a substantial volume of new central bank credits were granted in late August and early September to both reduce the volume of inter-enterprise arrears and to support Russian exports to other countries in the ruble area. Retail prices are reported to have increased about 25 percent in September, after increasing 11 and 10 percent in July and August, respectively. Since the beginning of September the external value of the ruble has declined by almost half.

The pace of output declines appears to have slowed in September. Industrial production is reported to have been 28 to 29 percent below year-earlier levels in September, compared with 27 percent in August, and 21 percent in July.

In late October the Supreme Soviet (parliament) turned down President Yeltsin's request to delay a meeting of the Congress of People's Deputies scheduled for December 1. Opposition leaders have said that they plan to use the Congress, which is Russia's highest political body, to force changes in the Russian cabinet, including the ouster of acting Prime Minister Yegor Gaidar.

In Poland, the government of Prime Minister Hanna Suchocka has introduced several pieces of economic legislation that attempt to address the continuing fiscal crisis and the stalled privatization program. The fiscal deficit, which was targeted to be 5 percent of GDP in 1992, is now expected to be closer to 8 percent. Despite the poor fiscal situation, the real economy shows signs of improvement, with positive performance in industrial output and exports.

The Czech and Slovak Federal Republic (CSFR) is scheduled to divide into two independent countries on January 1, 1993. The impending breakup has raised many uncertainties about future economic policies. Slovak leaders have already said that they intend to move away from the privatization measures adopted by the federal government, which to date have been successful.

Economic Situation in Other Countries

Mexico's tight fiscal and monetary policies are constraining real GDP growth. International reserves fell by an estimated $1.4 billion in the past six months, despite sharply higher domestic interest rates. The authorities have taken steps to allow the peso to depreciate somewhat more in 1993 than in 1992. Brazil's economic activity remains depressed, and inflation continues to be high, amid unceasing political turmoil. No progress is being made in getting the IMF stand-by arrangement back on track. In Argentina, industrial sales this year are rising. Continuing appreciation of the real exchange rate and deterioration of the trade and current accounts have prompted the government to waive all taxes on export goods and to raise the basic tax rate on imports. Final agreement on the debt reduction package seems to be imminent. In Venezuela, real GDP growth exceeds 8 percent in 1992. Overvaluation of the bolivar and a large fiscal deficit led the central bank to allow a 10 percent currency depreciation in October. Tight monetary policy in Korea continues to reduce inflationary pressures, and the trade deficit is falling. In Taiwan, slower real GDP growth prompted the central bank to lower its discount rate. Public investment is rising strongly this year as an ambitious development program begins to be implemented. The trade surplus continues to narrow.

Individual country notes. Mexico's tight fiscal and monetary policies are likely to hold 1992 real GDP growth to about the same rate (2.8 percent) as in the first half of the year. These policies are yielding a public sector fiscal surplus, excluding privatization proceeds, and slowing twelve-month inflation toward single-digit rates, a goal that the government hopes to reach next year. The CPI rose by 0.9 percent in September and by 0.7 percent in October, leaving it 14.8 percent higher than a year earlier.

International reserves, including gold, on October 31 were $18.3 billion, an estimated $1.4 billion less than six months earlier. The decline reflects a smaller capital account surplus and a sharp increase in the current account deficit. In the first half of 1992, the current account deficit was $10.2 billion, twice as much as in the first half of 1991, but the capital account surplus fell to $10.9 billion from $13.6 billion. In January-August 1992, the trade deficit was $9.8 billion, up from $3.8 billion a year earlier. Imports were 27.6 percent higher, but exports were only 3.6 percent higher. Manufactured exports were 9.6 percent higher, but petroleum, agricultural, and mining products exports were lower. The growth of manufactured exports owes much to automobile and truck exports, which, through June, were 33.6 percent higher than a year earlier. Other manufactured exports were only 4.3 percent higher.

On October 20, the Mexican authorities doubled the rate at which they are depreciating the lower limit of the band within which the peso/dollar exchange rate is allowed to fluctuate. This limit is now moving by 40 centavos per dollar per day, or by 4.6 percent over a full year, up from 20 centavos. The upper, more appreciated limit, remains fixed at 3,056.2 pesos per dollar. On November 9, the lower limit was 3.4 percent lower than the upper limit. The policy change was part of an extension of the anti-inflation pact between government, business, and organized labor. The pact was due to expire in January 1993 and will now run until the end of 1993.

The Mexican financial markets, where rumors of an imminent devaluation were widespread, were relieved that this possibility had receded with the policy announcement. The spot rate for the dollar strengthened from 3,143 pesos per dollar on October 19 to 3,123 pesos on November 9, when it was 1.3 percent above the lower limit of the band. The Mexican stock market index rose strongly on the news. The twenty-eight-day Treasury-bill rate eased after rising 870 basis points since mid-March. At the November 4 auction, it was 18.8 percent, down from 19.7 percent on October 14.

In Brazil, economic activity remains depressed and inflation continues to be high. Real GDP is projected to rise by only 0.3 percent in 1992, down from 0.9 percent in 1991. Monthly inflation in October is estimated at between 25 and 27 percent, somewhat higher than in recent months (20-24 percent). In Sao Paulo state, which accounts for roughly one-third of the country's GDP, economic conditions appear to be worsening. In metropolitan Sao Paulo, where unemployment remains at about 16 percent, sales of durable goods were 15-25 percent lower in October than a year earlier.

Overall economic performance would be even worse, were it not for export growth and the good agricultural harvest so far this year. In January-September 1992, exports were 10 percent higher than in the same period of 1991, while imports were 3 percent lower. As a result, the cumulative nine-month trade surplus was $11.7

billion, up from $9 billion in the same period of 1991. The wider trade surplus reflects the depressed internal demand and an improved competitive position as a result of a 15 percent real exchange rate depreciation between the end of 1991 and June 1992.

At the end of August, international reserves were a record $22 billion, up from $8 billion at the end of 1991, mainly due to large capital inflows. Sterilization operations are aggravating the fiscal problem, because of the high cost of domestic debt.

Poor economic performance reflects the loss of consumer and investor confidence generated by political turmoil in recent months. A congressional vote forced President Collor to step down in early October while the Senate considers whether to impeach him for his role in government corruption. Vice President Itamar Franco became acting president, but he and his economic team have not yet shown that they are serious about pushing fiscal and monetary reforms.

Brazil has made no headway in getting its IMF stand-by program back on track. The Brady-style bank debt restructuring package is stalled until the IMF is satisfied with Brazil's fiscal performance.

In Argentina, industrial sales were 20 percent higher in the first eight months of 1992 than in the same period of 1991. In October, consumer prices rose 1.3 percent and were 17.9 percent above a year earlier. In contrast, wholesale prices were only 3.8 percent above a year earlier, reflecting competitive pressure from imported goods. Because of the fixed peso/dollar exchange rate and the inflation differential, the real exchange rate has appreciated and the balance of payments has deteriorated. A trade deficit of about $1 billion is officially forecast in 1992, in contrast to trade surpluses throughout the past decade. To achieve a balanced trade account during 1993, the government is waiving all taxes on export goods (including the 18 percent VAT), and raising the basic tax rate on imports by 7 percent. The resulting net loss of fiscal revenues will be made up by other tax and expenditure changes.

In early November, final agreement on the Brady-style debt reduction package already approved by Argentina and its commercial bank advisory committee appeared to be imminent.

Venezuela's real GDP was 8-3/4 percent higher in the first nine months of 1992 than in the same period of 1991, mainly because private sector output surged over 13 percent. The CPI rose by 2.3 percent in October, when it was 34 percent above a year earlier.

In October, the bolivar was allowed to depreciate by nearly 10 percent. The bolivar was under pressure owing to its progressively larger overvaluation, concern over a large 1992 fiscal deficit, and political uncertainty. The central bank attempted to counter this pressure through a tight monetary policy that included stricter enforcement of bank reserve requirements. As a result, interest rates rose in October, until, on October 28, they spiked to record levels of 2,600 percent in the overnight interbank market and 51 percent for 89-day central bank bills. The central bank reacted by supplying reserves to the banking system at 60 percent, thereby limiting interbank interest rates to that level. In early November, the exchange rate moved narrowly around 77 bolivars per dollar.

In Korea, tight monetary policy is continuing to reduce inflationary pressures this year. Consumer prices were 5.7 percent higher in September than a year earlier, down from 9.4 percent in the year ending September 1991. In the first ten months of 1992, the trade deficit (on a customs clearance basis) narrowed to $5.4 billion from $9.9 billion in the same period of 1991. Import growth has slowed considerably due to the slowdown in domestic demand.

In Taiwan, real GDP growth year-over-year slowed to an estimated 5.5 percent in the third quarter of 1992. Net exports fell, due in part to weak external demand. However, domestic investment rose. Public investment in 1992 is likely to be about 18 percent higher than in 1991 as an ambitious six-year infrastructure development program has begun to be implemented. Partly in response to the slowing economy, the central bank cut its discount rate by 0.5 percent to 5.625 percent in early October, more than reversing an increase of 0.25 percent adopted in May to fight inflation. In October, the twelve-month increase in the CPI was 5.1 percent.

In the first ten months of 1992, exports were 7.4 percent higher than in the same period of 1991, while imports were 13.4 percent higher. The trade surplus for the ten-month period fell to $8.4 billion from $10.8 billion in January-October 1991, despite a rapidly growing trade surplus with China, mainly through Hong Kong.