

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

¹ In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

² A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

May 13, 1993

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

Employment and unemployment.....	1
Industrial production	7
Personal income and consumption.....	9
Housing markets.....	15
Business fixed investment.....	19
Business inventories.....	25
Federal sector.....	27
State and local government sector.....	33
Prices.....	35
Labor costs.....	43

Tables

Changes in employment.....	2
Payroll employment in personnel supply services.....	2
Labor market indicators.....	5
Growth in selected components of industrial production.....	6
Capacity utilization.....	6
Production of domestic autos and trucks.....	8
Retail sales.....	10
Sales of automobiles and light trucks.....	11
Personal income.....	12
Real personal consumption expenditures.....	12
Private housing activity.....	16
Business capital spending indicators.....	20
Changes in manufacturing and trade inventories.....	24
Inventories relative to sales.....	24
Federal government outlays and receipts.....	28
Recent changes in consumer prices.....	34
Recent changes in producer prices.....	34
Inflation rates excluding food and energy.....	36
Price indexes for commodities and materials.....	40
Employment cost index.....	44
Effective wage change in major union contracts and components of change.....	46
Changes in negotiated wage and compensation rates under major collective bargaining settlements.....	46
Average hourly earnings.....	47
Calendar of major collective bargaining activity in 1993.....	48

Charts

Changes in payroll employment.....	4
Labor market indicators.....	5
Light vehicle sales.....	11
Consumer attitudes.....	14
Expected business conditions.....	14
Private housing starts.....	16
Lumber prices.....	18
Cash flow burden of homeownership.....	18
Months supply of new homes on the market.....	18
Recent data on orders and shipments.....	22
Nonresidential construction and selected indicators.....	23
Ratio of inventories to sales.....	26
Daily nonwithheld tax receipts in April and early May.....	30
Cumulative nonwithheld tax receipts in April and early May.....	30
Federal unified budget outlays for health and national defense....	31
State and local sector surplus or deficit.....	32
General fund revenue collections.....	32

II NONFINANCIAL DEVELOPMENTS--Continued	
CPI for medical care, medical care services, and commodities.....	38
Index weights.....	40
Commodity price measures.....	42
Employment cost index.....	45
Compensation in the union sector.....	46
Union membership.....	48

III DOMESTIC FINANCIAL DEVELOPMENTS

Monetary aggregates and bank credit.....	3
Nonfinancial business finance.....	7
Treasury and sponsored-agency financing.....	9
Municipal securities.....	12
Mortgage markets.....	13
Consumer installment credit.....	17

Tables

Monetary aggregates.....	2
Commercial bank credit and short- and intermediate-term business credit.....	4
Loan growth by bank group.....	6
Gross offerings of securities by U.S. corporations.....	8
Treasury and agency financing.....	10
Gross offerings of municipal securities.....	12
Mortgage-backed security issuance.....	16
Consumer credit.....	18
Consumer interest rates.....	18

Charts

Mortgage yield spreads and volatility.....	14
Indicators of residential mortgage refinancing.....	14
MBA purchase index.....	16

IV INTERNATIONAL DEVELOPMENTS

Merchandise trade.....	1
Prices of exports and non-oil imports.....	4
U.S. international financial transactions.....	6
Foreign exchange markets.....	10
Developments in foreign industrial countries.....	14
Individual country notes.....	14
Economic situation in other countries.....	27
Individual country notes.....	27

Tables

U.S. merchandise trade: Monthly data.....	1
Major trade categories.....	2
Oil imports.....	3
Import and export price measures.....	5
Summary of U.S. international transactions.....	7
International banking data.....	8
<i>Major industrial countries</i>	
Real GDP and industrial production.....	15
Consumer and wholesale prices.....	16
Trade and current account balances.....	17
Japanese economic indicators.....	18
West German economic indicators.....	19

Charts

Weighted average exchange value of the dollar.....	11
Selected dollar exchange rates.....	11

DOMESTIC NONFINANCIAL DEVELOPMENTS

DOMESTIC NONEINANCIAL DEVELOPMENTS

Reading through the distortions caused by the late-winter blizzard, economic activity appears to have expanded sluggishly in recent months. Payroll employment rose only slightly, on net, over March and April, as did industrial production. Among the components of final demand, equipment spending has displayed the most notable vigor. However, the advance report on retail sales in April indicates that--despite a healthy jump in auto purchases--consumer spending has remained sluggish. Inventories rose appreciably in the first quarter, and although significant imbalances are not evident at this juncture, inventory investment likely will decline this quarter. Despite the considerable slack in the economy, recent wage and price data, on the whole, suggest a stalling in the disinflation trend.

Employment and Unemployment

Labor markets continue to improve, but at a slow pace. Nonfarm payroll employment rose 119,000 in April after essentially no change in March, and the civilian unemployment rate held at 7 percent. Since the April survey week, initial claims for unemployment insurance (adjusted for the emergency unemployment program) have averaged around 380,000, a level that probably is consistent with small gains in employment.

A rise of 151,000 in employment in the services industry--reflecting continued strength in hiring in health and business services--more than accounted for the April increase in payrolls. Within business services, much of the job growth again came from personnel supply firms, which have accounted for 44 percent of the increase in total nonfarm employment since the trough of the

CHANGES IN EMPLOYMENT¹
(Thousands of employees; based on seasonally adjusted data)

	1991	1992	1992	1993	1993		
			Q4	Q1	Feb.	Mar.	Apr.
	----- Average monthly changes -----						
Nonfarm payroll employment ²	-79	50	85	147	338	-9	119
Private	-91	30	73	142	310	-17	107
Manufacturing	-36	-22	-13	9	20	-24	-65
Durable	-33	-19	-11	3	9	-28	-48
Defense-related ³	-8	-12	-13	-12	-7	-12	-9
Nondurable	-3	-3	-2	6	11	4	-17
Construction	-26	-1	3	5	98	-59	-10
Retail trade	-35	4	13	60	134	-19	21
Finance, insurance, real estate	-3	1	3	1	-1	-1	17
Services	30	58	63	49	55	78	151
Health services	29	20	25	15	26	10	37
Business services	3	27	45	20	34	38	48
Total government	12	20	12	5	28	8	12
Private nonfarm production workers	-76	47	98	142	276	-42	37
Manufacturing production workers	-23	-10	5	18	9	-13	-47
Total employment ⁴	-62	130	196	85	380	114	-149
Part time for economic reasons	60	-2	-11	-33	355	-277	273
Memo:							
Aggregate hours of private production workers (percent change)	-.1	0	.2	.1	.3	-.5	.4
Average workweek (hours)	34.3	34.4	34.5	34.4	34.4	34.3	34.4
Manufacturing (hours)	40.7	41.1	41.2	41.4	41.5	41.2	41.5

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

PAYROLL EMPLOYMENT IN PERSONNEL SUPPLY SERVICES
(Change: in thousands)

	Mar. 83- Mar. 90	Mar. 90- Mar. 91	Mar. 91- Mar. 93
Total nonfarm	20,882	-1,607	797
Services	8,694	112	1,242
Health	1,794	349	551
Business	2,305	-161	454
Personnel supply	958	-101	352
Memo: Change in personnel supply as a share of change in total	----- percent -----		
	5	6	44

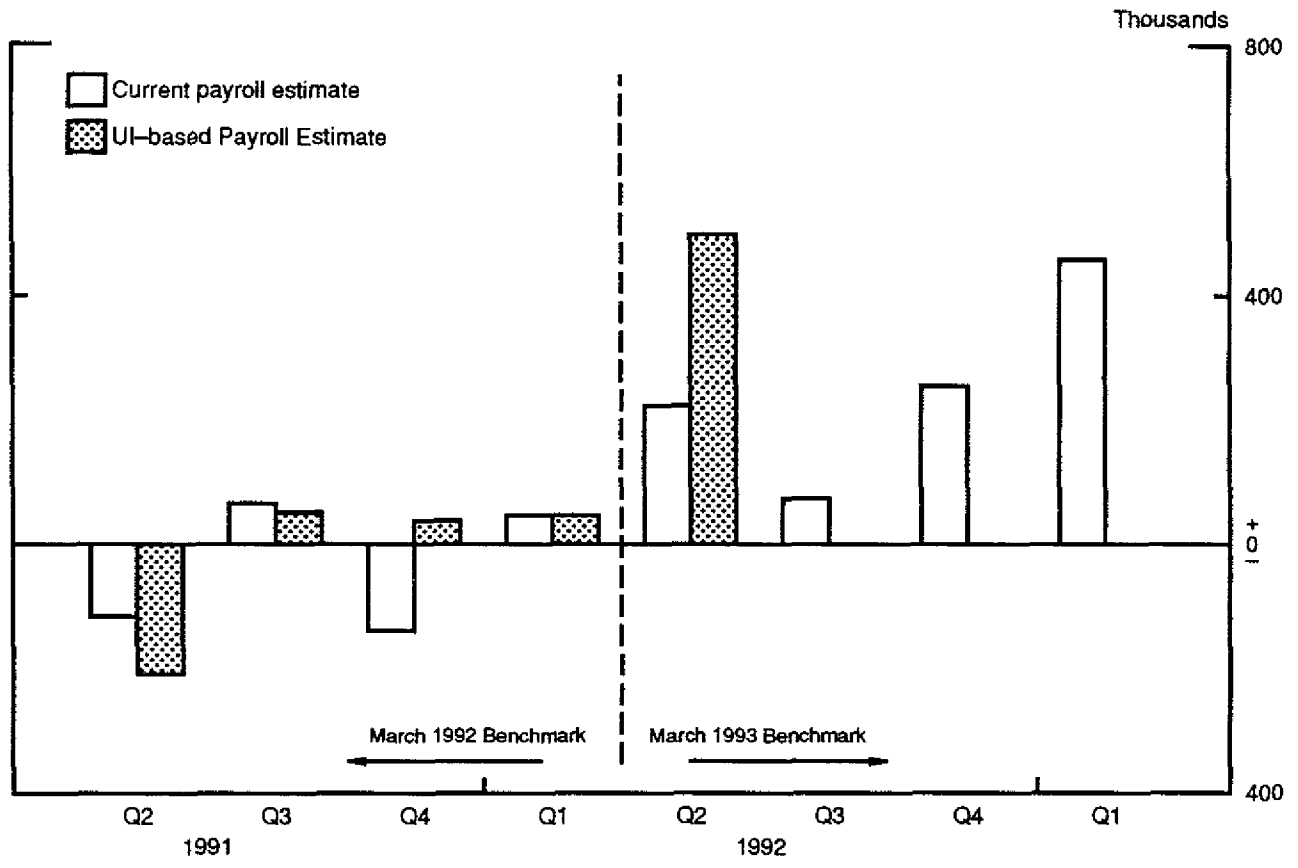
recession.¹ In manufacturing, payrolls dropped 65,000 last month; factory job losses were widespread, but were particularly large at manufacturers of transportation equipment. Construction employment failed to rebound from its weather-related decline in March; reports suggest that wet weather continued to restrain hiring in April. Other industries posted only small employment changes last month.

At this point, the cumulative rise in nonfarm payroll employment since March 1992 is estimated to have been 1.1 million; between March 1991 and March 1992, employment was down 144,000. The Bureau of Labor Statistics (BLS) expects that next month's benchmark revision will lower the March 1992 level only slightly (around 60,000).² But, the BLS apparently has decided to incorporate an upward adjustment to growth of payroll employment after March 1992. As shown in the chart, employment data from the unemployment insurance tax system tracked sample estimates from the payroll report fairly closely through the first quarter of 1992. However, employment growth, as measured by the UI data, far outpaced the sample estimates from the payroll survey in the second quarter of last year. Normally, the BLS would wait until next year's benchmark (and the availability of all four quarters of UI data) to fold in this potential discrepancy. But, in this case the BLS has decided to apply a strong dose of judgment to their bias adjustment factors

1. Workers in personnel supply firms--including temporary workers--account for about 1-1/2 percent of total nonfarm payrolls. A special BLS survey conducted in 1987 indicated that about half of all temporary workers were in administrative support jobs (secretaries, typists, etc.) and about a quarter were in the category of operators, fabricators, and laborers.

2. The data between March 1981 and March 1991 will be revised to wedge in the noneconomic revision to employment that occurred in January 1991 when payroll processing software was updated to eliminate some overcounting of employment totals in quarterly UI reports.

CHANGES IN PAYROLL EMPLOYMENT

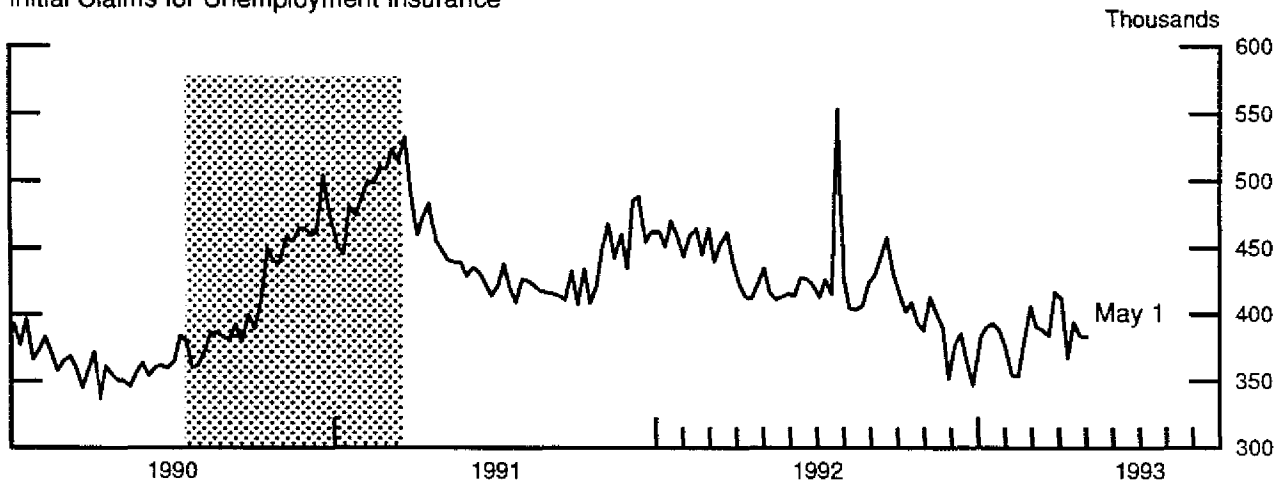


LABOR MARKET INDICATORS

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

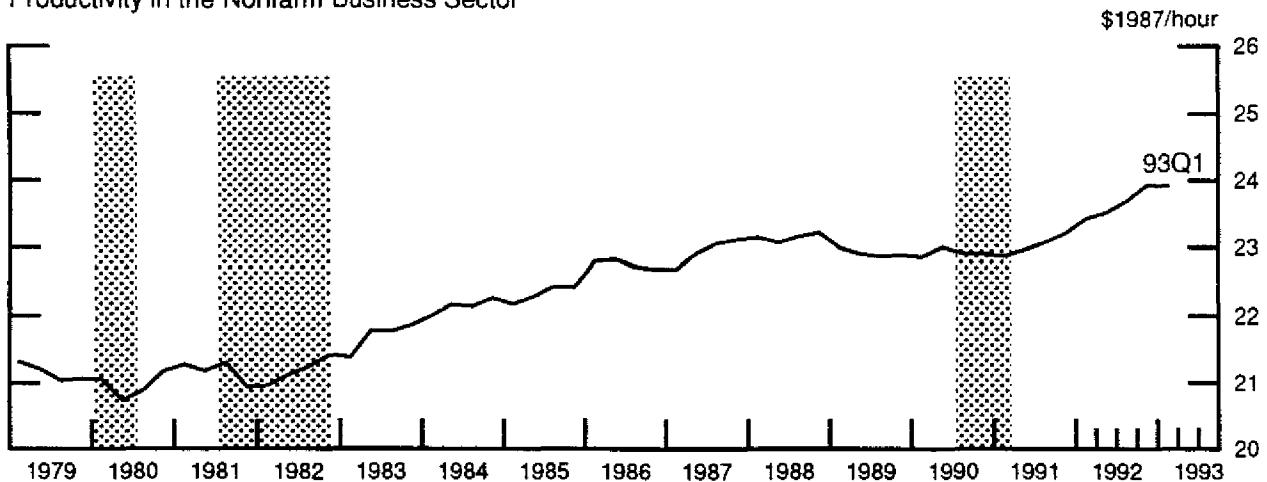
	1991	1992	1992 Q4	1993 Q1	1993		
					Feb.	Mar.	Apr.
Civilian unemployment rate (16 years and older)	6.7	7.4	7.3	7.0	7.0	7.0	7.0
Teenagers	18.7	20.0	19.4	19.6	19.6	19.5	20.7
20-24 years old	10.8	11.3	11.1	11.0	11.2	10.6	10.6
Men, 25 years and older	5.7	6.4	6.3	5.9	5.9	6.1	5.8
Women, 25 years and older	5.1	5.7	5.8	5.4	5.3	5.1	5.4
Labor force participation rate	66.0	66.3	66.2	66.0	66.0	66.0	65.9
Teenagers	51.7	51.3	51.2	51.5	52.1	51.3	51.7
20-24 years old	76.8	77.1	77.0	77.3	77.4	77.2	76.9
Men, 25 years and older	76.7	76.7	76.4	76.1	76.2	76.1	76.1
Women, 25 years and older	56.5	57.0	57.1	56.8	56.8	56.8	56.6

Initial Claims for Unemployment Insurance *



* Adjusted for EUC program.

Productivity in the Nonfarm Business Sector



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

	Proportion in total IP 1992:4	1992		1993		1993	
		1992 ¹	Q4	Q1	Feb.	Mar.	Apr.
			-Annual rate-		---Monthly rate---		
Total index	100.0	3.2	6.7	5.3	.5	.0	.1
Previous	100.0	2.2	4.6	5.2	.6	.0	
Manufacturing	84.6	3.7	6.5	6.2	.5	.1	.4
Motor vehicles and parts	4.9	10.2	33.7	38.3	.4	-1.1	.1
Mining	7.3	-.9	1.5	-6.0	-2.7	-.2	.8
Utilities	8.2	2.0	14.4	3.9	4.0	-.1	-3.6
MANUFACTURING EXCEPT MOTOR VEHICLES AND PARTS	79.7	3.3	5.1	4.5	.5	.2	.4
Consumer goods	22.1	2.0	4.7	1.4	.3	.0	.1
Durables	3.7	3.5	5.8	14.9	1.6	-.1	.5
Nondurables	18.4	1.7	4.4	-1.1	.1	.0	.1
Business equipment	14.5	9.9	10.6	8.3	.4	1.0	1.0
Office and computing	3.2	31.1	25.2	33.7	3.1	3.9	3.5
Industrial	4.0	6.1	8.3	4.5	-.5	.0	.0
Other	7.1	4.2	5.9	-.4	-.2	.2	.2
Defense and space equipment	3.3	-7.8	-7.5	-7.6	-.7	-.6	-.5
Construction supplies	4.8	4.5	4.4	7.0	2.3	-.1	-.3
Materials	28.2	3.2	5.1	7.5	.6	-.1	.7
Durables	18.9	3.6	7.7	9.9	1.0	-.2	.6
Nondurables	9.0	2.3	.4	3.5	-.2	.2	1.0

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

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1967-92	1992	1992	1993	1993		
	Avg.	Avg.	Q4	Q1	Feb.	Mar.	Apr.
Total industry	81.9	79.8	80.7	81.4	81.5	81.4	81.4
Manufacturing	81.2	78.8	79.6	80.4	80.5	80.5	80.7
Primary processing	82.2	82.4	82.7	83.9	84.4	83.9	84.1
Advanced processing	80.7	77.9	78.3	79.0	78.9	79.1	79.2

for the post-March 1992 period, adding some 300,000 to estimated job growth over that period.

In the household survey, employment declined 149,000 in April, after small gains in the first quarter. Weak employment prospects may have damped labor-force entry, and the participation rate edged down in April to a level 0.4 percentage point below its 1992 average. The number of individuals working part time for economic reasons rose sharply in April and, on balance, has remained at a relatively high level over the past year.

Productivity in the nonfarm business sector was essentially unchanged in the first quarter--the weakest reading since the expansion began--after a jump of 4.1 percent at an annual rate in the fourth quarter. In part, this pattern reflects swings in hours of self-employed workers. Since the cyclical trough in the first quarter of 1991, productivity has increased at an annual rate of 2.3 percent, a little less than that averaged during the first two years of previous expansions, but substantially above gains in recent years.

Industrial Production

RESTRICTED UNTIL THE G.17 RELEASE AT 9:15 AM ON FRIDAY, MAY 14

Total industrial production was little changed in March and April, after having posted average monthly gains of about 1/2 percent between September and February. Part of the recent weakness in the index reflects a decline in utility output, following a weather-related runup in February. The rise in manufacturing output of 1/4 percent, on average, in March and April also dropped below its earlier pace, apparently responding to the slower pace of final sales in recent months.

Production of consumer goods other than motor vehicles slowed on balance in March and April after a weakening in orders for such

items as household appliances and consumer electronics during the first quarter. Except for the ongoing strength in the computer industry, production of business equipment has been little changed in recent months; declines in production of civilian aircraft remain a noticeable drag.

Motor vehicle assemblies edged down in March and a bit further in April. With the pickup in domestic light-vehicle sales in April, dealers' inventories of both autos and light trucks fell to a more comfortable seventy days' supply at month-end. According to current schedules, motor vehicle production will hold at a 10.9 million unit annual rate in May and then decline in June to a 10.5 million unit pace. These schedules can accommodate some reduction in sales from the high April pace without causing the days' supply of vehicles to drift back above the seventy-day mark.

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

	1993					
	Feb.	Mar.	Apr.	May	June	Q2
U.S. production	11.2	11.0	10.9	10.9	10.5	10.8
Autos	6.3	6.2	6.1	6.2	6.1	6.1
Trucks	4.9	4.8	4.8	4.8	4.4	4.7
Days' supply ²						
Autos	75.5	74.5	70.4	n.a.	n.a.	n.a.
Light Trucks	74.8	78.8	69.1	n.a.	n.a.	n.a.

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

2. BEA seasonal basis, end of month.

n.a. Not available.

Mining output increased 0.8 percent in April. Coal production, which was held down in March by the winter storm, bounced back in April; the recent hit-and-run strikes by the United Mine Workers' Union are expected to have a limited depressing effect on coal output in May. Looking beyond the short-term movements, mining output has been trending down since 1990, in large part the result

of the ongoing reductions in oil and gas extraction. With regard to utilities, output accelerated over the course of 1992, and the recent wiggles are weather-related gyrations around an upward trend.

Personal Income and Consumption

Nominal retail sales rose 1.2 percent in April, reversing the weather-induced drop in March. Abstracting from weather effects, consumption spending has been lackluster so far this year, after a burst of outlays in the latter part of 1992. This downshift in consumption growth likely reflects the slow advance in after-tax income and the deterioration in consumer sentiment in the first quarter regarding future economic conditions.

According to the data for April, spending in the retail control category--which the BEA uses to estimate personal consumption expenditures for goods other than motor vehicles--advanced 0.7 percent, reversing a little less than half of the March decline in real terms. These data suggest that the April level of real PCE for goods excluding motor vehicles was a bit below the average level in the first quarter.

The latest information for sales of new cars and light trucks is more favorable. Total light vehicle sales rose to a 14.2 million unit annual rate in April, up considerably from the 13.1 million unit pace in March. A portion of the robust sales in April probably represents purchases that had been delayed by the bad weather in late February and the first twenty days of March. Cutting through the shorter-term fluctuations, sales of light vehicles have been on a mild uptrend since early 1992.³

3. Vehicles with domestic nameplates have accounted for the entire increase in sales of autos and light trucks since last fall. Evidently, the price increases announced for many foreign models this year have restrained demand for these vehicles.

May 13, 1993

RETAIL SALES
(Percent change; seasonally adjusted)

	1992		1993		1993	
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total sales	1.5	2.9	.4	-.1	-.8	1.2
Previous estimate			.1	-.3	-1.0	
Retail control ¹	1.5	2.1	.4	.4	-1.1	.7
Previous estimate			.3	.3	-1.2	
Total excl. automotive group	1.4	2.2	.4	.3	-1.1	.7
Previous estimate			.3	.1	-1.2	
GAF ²	2.8	2.6	.7	-1.0	-2.2	1.6
Previous estimate			1.1	-.5	-1.9	
Durable goods stores	2.0	4.4	.2	-2.0	-.3	2.2
Previous estimate			-.3	-2.5	-.9	
Bldg. material and supply	-.6	4.0	.9	.3	-2.3	.8
Automotive dealers	1.9	5.7	.3	-1.5	.4	3.0
Furniture and appliances	2.9	4.4	.7	-2.3	-.4	-.8
Other durable goods	4.3	-.4	-1.3	-5.9	-1.1	3.4
Nondurable goods stores	1.2	2.1	.5	1.0	-1.1	.6
Previous estimate			.4	.9	-1.1	
Apparel	2.9	2.9	-2.2	-2.2	-4.2	2.7
Food	.7	1.3	.5	1.1	-1.9	.3
General merchandise ³	2.8	1.7	2.0	.1	-2.2	2.2
Gasoline stations	-.1	-.5	3.0	3.3	-.2	1.1
Other nondurables ⁴	.6	3.9	-.6	1.8	.9	-.7

1. Total retail sales less building material and supply stores and automotive dealers, except auto and home supply stores.

2. General merchandise, apparel, furniture, and appliance stores.

3. Excludes mail order nonstores; mail order sales are also excluded from the GAF grouping.

4. Includes sales at eating and drinking places, drug stores and proprietary stores.

SALES OF AUTOMOBILES AND LIGHT TRUCKS¹
(Millions of units at an annual rate; BEA seasonals)

	1991	1992	1992		1993		1993	
			Q3	Q4	Q1	Feb.	Mar.	Apr.
Total	12.30	12.85	12.59	13.24	13.12	12.81	13.09	14.23
Autos	8.39	8.38	8.21	8.38	8.30	7.96	8.26	8.88
Light trucks	3.91	4.46	4.38	4.86	4.82	4.85	4.83	5.35
North American ²	9.73	10.51	10.41	11.02	10.92	10.57	10.95	11.91
Autos	6.14	6.28	6.24	6.38	6.32	5.97	6.33	6.76
Big Three	4.99	5.10	4.94	5.18	5.29	4.96	5.32	5.62
Transplants	1.14	1.18	1.30	1.20	1.04	1.00	1.01	1.14
Light trucks	3.59	4.23	4.17	4.64	4.60	4.61	4.62	5.15
Foreign produced	2.57	2.34	2.18	2.22	2.20	2.24	2.15	2.32
Autos	2.25	2.11	1.97	2.01	1.97	1.99	1.93	2.12
Light trucks	.32	.23	.20	.21	.23	.24	.22	.21

Memo:

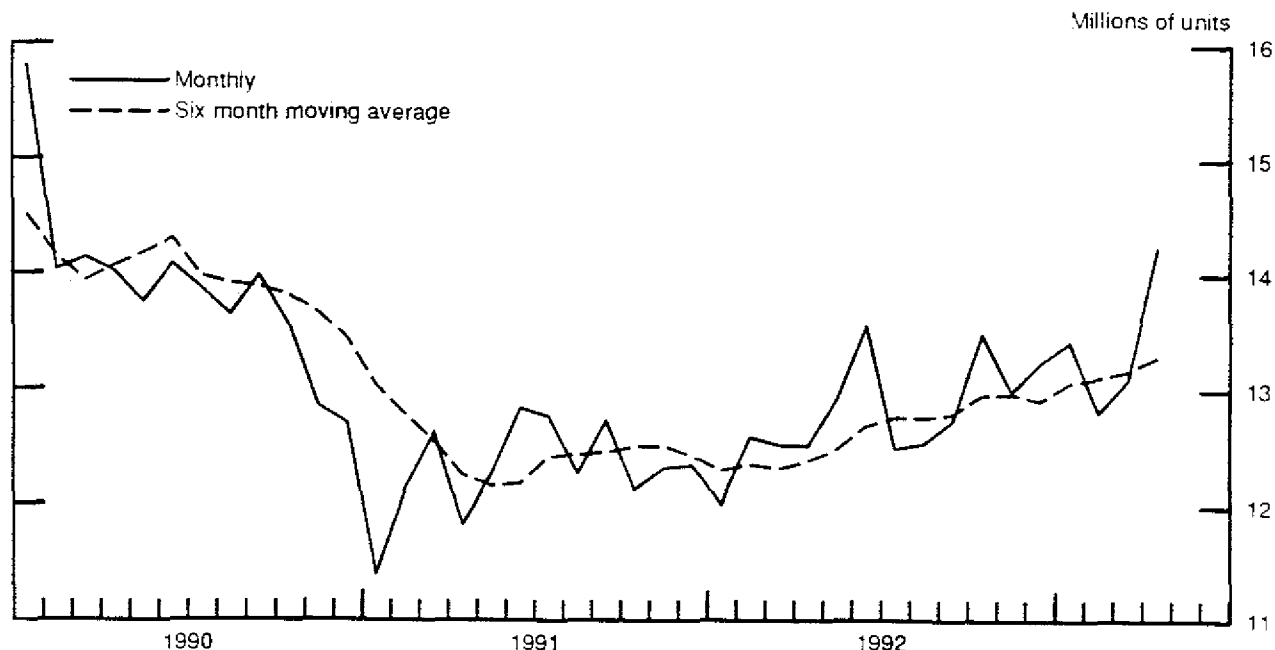
Domestic nameplate								
Market share, total	.70	.72	.71	.73	.74	.74	.75	.75
Autos	.63	.63	.63	.64	.66	.65	.67	.66

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.

Light Vehicle Sales
(Seasonally adjusted annual rate)



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

	1992	1992		1993	1993	
		Q3	Q4	Q1	Feb.	Mar.
Total personal income	20.8	14.1	37.7	22.1	5.9	32.5
Wages and salaries	10.8	7.5	20.8	5.8	-5.0	2.6
Private	8.9	7.5	18.6	3.8	.5	2.4
Other labor income	1.4	1.4	1.4	1.5	1.4	1.5
Proprietors' income	4.1	5.3	8.2	9.6	7.2	29.2
Farm	.5	2.6	3.4	8.3	6.9	28.9
Rent	1.4	-.6	2.6	.4	2.6	-5.0
Dividend	1.2	1.5	2.0	.6	.3	.2
Interest	-3.7	-5.5	.0	-1.1	-1.1	-.8
Transfer payments	6.7	5.3	4.0	6.8	.6	4.9
Less: Personal contributions for social insurance	1.1	.7	1.5	1.4	.1	.1
Less: Personal tax and nontax payments	2.0	4.4	5.4	2.6	-.9	.4
Equals: Disposable personal income	18.7	9.7	32.2	19.5	6.8	32.1
Memo: Real disposable income	7.1	1.9	18.5	5.4	-6.4	19.2

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

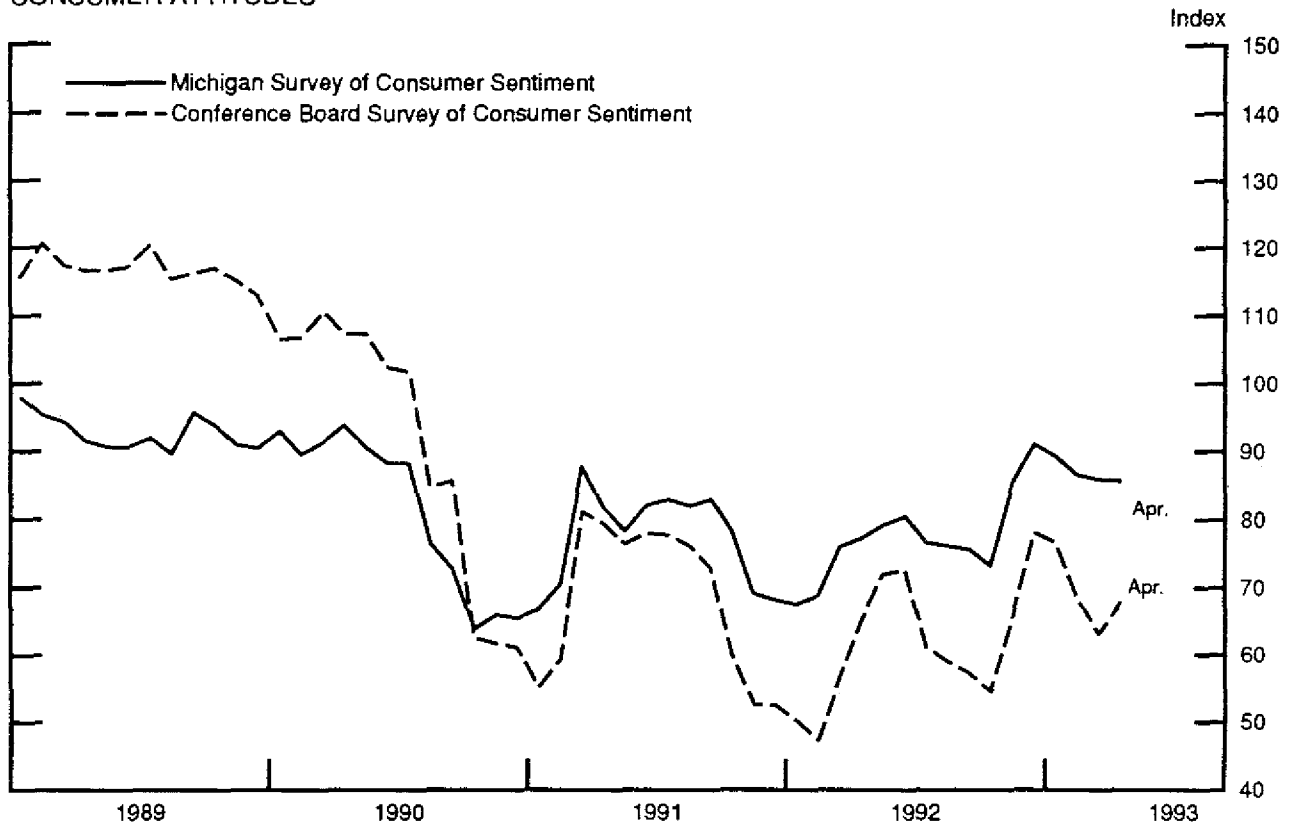
	1992	1992		1993	1993	
		Q3	Q4	Q1	Feb.	Mar.
		-----Annual rate-----			Monthly rate	
Personal consumption expenditures	3.4	3.7	5.1	1.2	-.2	-.4
Durable goods	9.2	9.4	14.0	.7	-3.7	-.5
Excluding motor vehicles	10.0	18.8	8.9	3.3	-2.3	-1.4
Nondurable goods	3.3	2.5	6.8	-2.8	.2	-1.1
Excluding gasoline	3.6	2.6	8.0	-2.5	.3	-1.3
Services	2.2	3.1	2.1	3.7	.6	-.0
Excluding energy	2.3	3.3	1.9	3.9	.1	.2
Memo: Personal saving rate (percent)	4.8	4.6	4.4	4.8	4.5	5.4

Labor income has been quite sluggish this year. In real terms, wages and salaries actually fell slightly between December and March, after rising at more than a 6 percent annual pace over the preceding three months. To be sure, this deceleration is exaggerated by special factors that boosted the December level of income--notably, a jump in bonuses in the securities industry. Nonetheless, after removing the unusual bonuses, real wages and salaries rose at an annual rate of only 1-1/2 percent between December and March, and the employment report for April suggests little change from this pace.

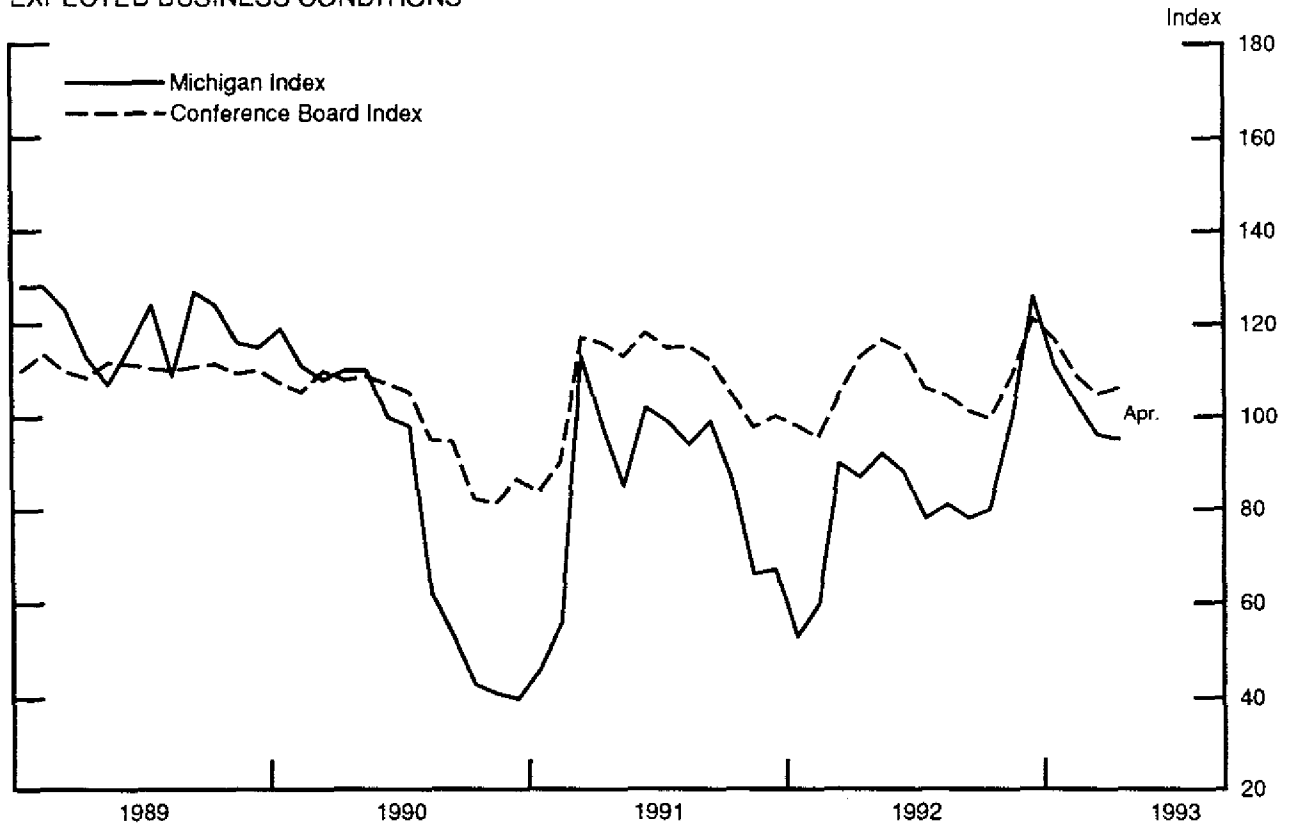
Total real disposable income has advanced more rapidly in recent months than wages and salaries alone, but the relative strength has largely reflected a transitory jump in farm subsidy payments. Because such income probably is not spent immediately, this bulge in subsidies explains much of the reported rise in the personal saving rate to 5.4 percent in March from the 4-1/2 percent level that prevailed during the preceding five months.

As indicated below in the discussion of federal sector developments, several factors have affected the timing of personal tax payments over the past year. Of these factors, the 1992 change in tax withholding schedules likely has been the most important for consumer spending. Because of the reduction in withholding, many households either received smaller refunds than usual or faced outstanding tax bills this spring. Some of these households--particularly those with limited financial resources--likely spent part of the extra income in 1992 and curtailed their spending

CONSUMER ATTITUDES



EXPECTED BUSINESS CONDITIONS



somewhat early this year when confronted with the larger taxes owed.⁴

Coinciding with the weakness in after-tax income and spending, both the Michigan and the Conference Board surveys showed substantial deterioration in consumer sentiment from December to March. Most of the first-quarter decline in both indexes was the result of a fading of post-election optimism about near-term future economic conditions. In April, the Conference Board index turned up, reversing about one-third of its decline since December, while the Michigan index was essentially unchanged.

Housing Markets

Total housing starts declined 4.6 percent in March, to 1.13 million units at an annual rate; for the first quarter as a whole, total starts were 6.5 percent below their fourth-quarter average, reflecting declines in both the single-family and multifamily sectors. Issuance of building permits also fell in the first quarter.

Housing construction probably was curtailed, in part, by the unusually bad weather in March throughout much of the nation. On a regional basis, total housing starts declined 27 percent in the Northeast, 14 percent in the Midwest, and 5 percent in the South; all three of these regions experienced abnormally cold and wet weather in March. Starts rose 18 percent in the West, where the weather was favorable.

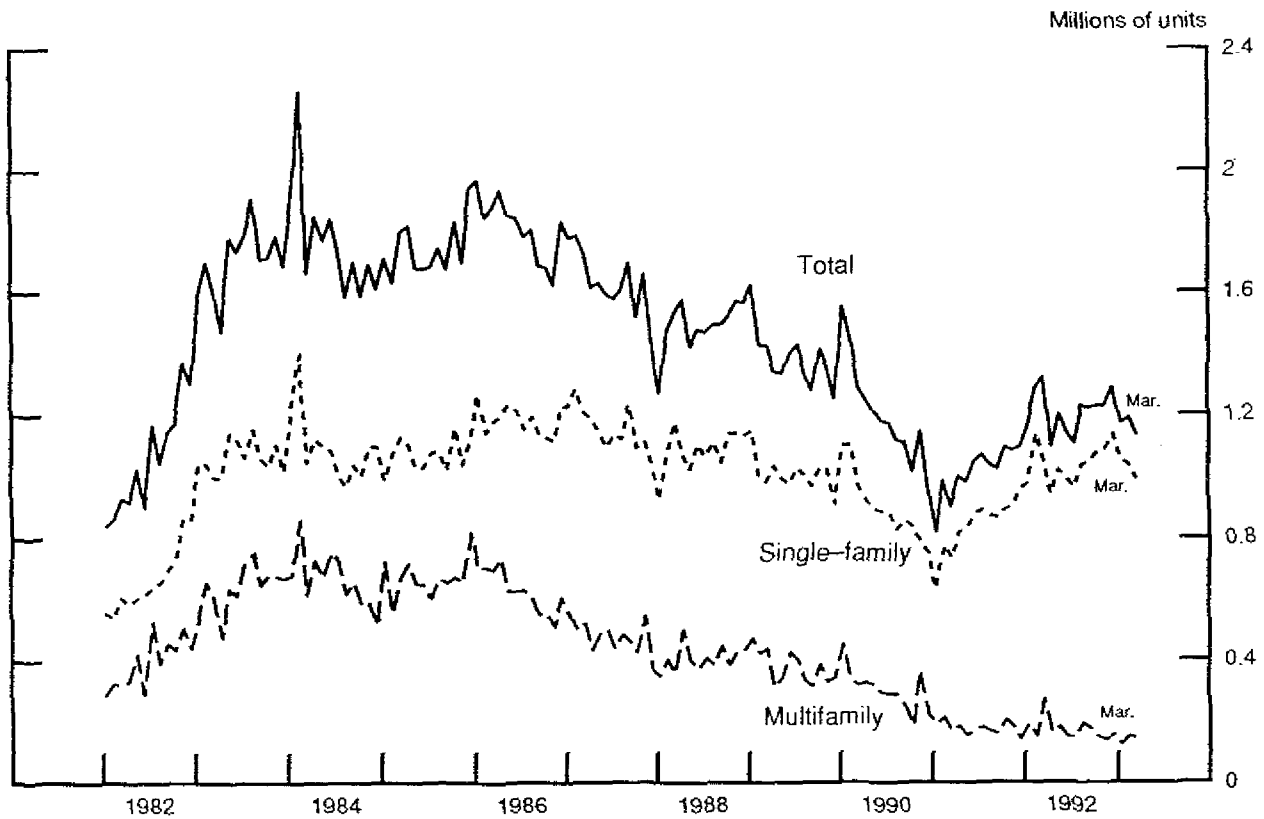
4. The other significant change in the timing of personal tax payments was the surge in estimated tax payments around year-end and the corresponding weakness in final payments in recent months. This timing shift was concentrated among financially sophisticated households, some of whom were taking actions to minimize their tax burdens. These households are unlikely to have altered the time pattern of their consumption as a result of such tax-minimization strategies.

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

	1992	1992		1993	1993		
	Annual	Q3	Q4	Q1 ^p	Jan. ^r	Feb. ^r	Mar. ^p
All units							
Starts	1.20	1.18	1.25	1.17	1.17	1.19	1.13
Permits	1.11	1.09	1.16	1.12	1.18	1.14	1.04
Single-family units							
Starts	1.03	1.02	1.10	1.03	1.05	1.04	.99
Permits	.92	.89	.99	.94	1.00	.96	.88
Sales							
New homes	.61	.64	.64	.61	.60	.61	.64
Existing homes	3.52	3.37	3.87	3.53	3.78	3.46	3.36
Multifamily units							
Starts	.17	.17	.15	.14	.12	.15	.14
Permits	.19	.20	.17	.18	.18	.18	.16

p Preliminary. r Revised estimates.

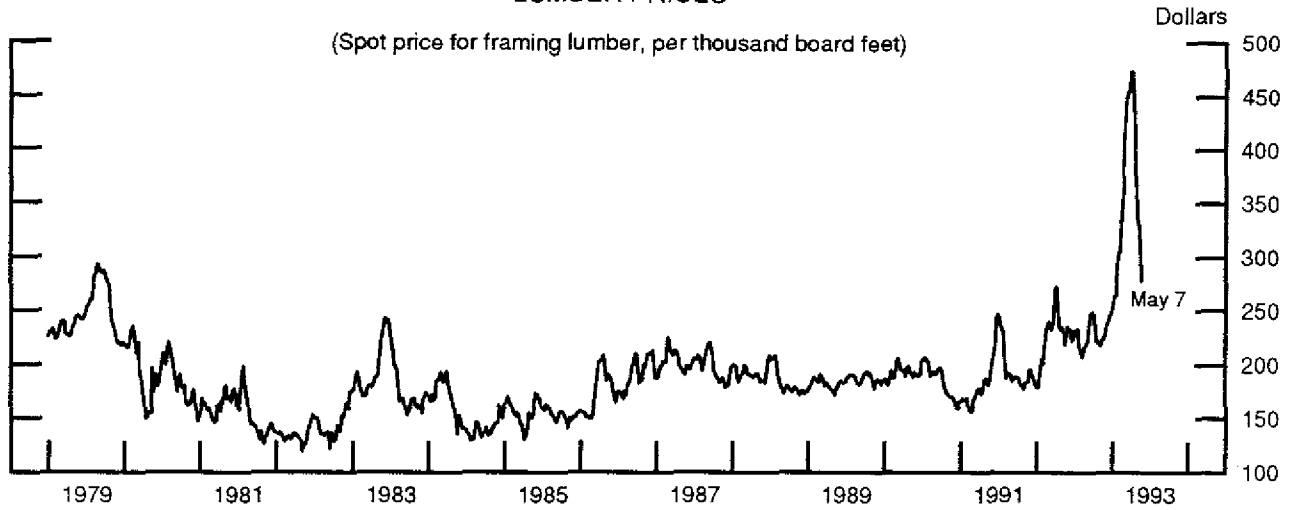
PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



In addition, this winter's surge in lumber prices evidently cut into homebuilding in recent months; tightened environmental regulations created uncertainties about timber supplies and resulted in panic buying. Currently available data suggest that, at least initially, these cost increases were largely absorbed in builders' profit margins; in particular, new home prices, adjusted for changes in geographic composition, structural characteristics, and seasonal variation, edged down in the first quarter. The apparent inability to pass the costs on to buyers reflected not only the underlying demand conditions but also, according to builders and bankers, a reluctance of appraisers (working from "comparables") to add on the higher costs in determining valuations for mortgage loans. Lumber prices rank far above other concerns in recent surveys of builders. Although reports also indicate shortages of buildable lots, related in part to the limited supply of credit for land acquisition and development, this problem has been emphasized by a relatively small fraction of builders.

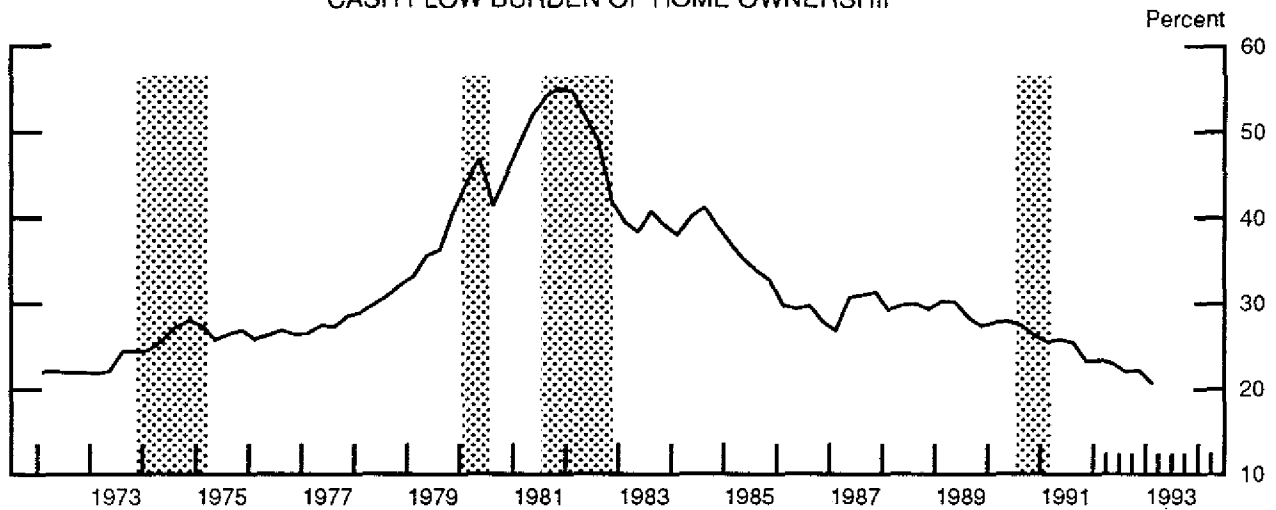
Several factors suggest that construction of single-family homes is likely to rebound in the second quarter. First, the spot price of lumber fell sharply from an all-time high of \$473 per thousand board feet just before the last FOMC meeting to \$278 in the week ended May 7. The declines in recent weeks have reversed virtually all of the run-up in prices earlier this year (chart). Second, despite some backup in the past couple of weeks, mortgage rates are close to their lowest levels in twenty years, making homes affordable on a cash-flow basis to a broader spectrum of potential buyers. Finally, the stock of new single-family homes for sale was low in March, both in absolute terms and in comparison with sales, and any future increase in demand likely will be accompanied by an increase in homebuilding. Already, some evidence of a pickup in the

LUMBER PRICES



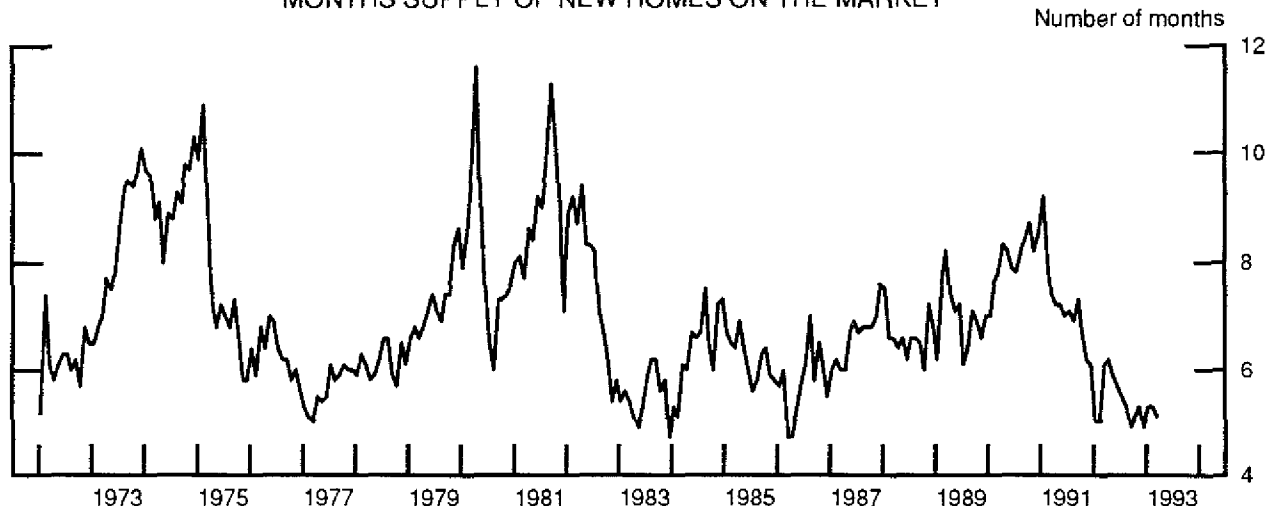
Source: Crow's Forest Industry Journal.

CASH FLOW BURDEN OF HOME OWNERSHIP*



* Financing cost of a constant-quality new home, as a percentage of average household income. Financing cost calculated as scheduled payment of principal and interest on a fixed-rate mortgage for 80% of the purchase price.

MONTHS SUPPLY OF NEW HOMES ON THE MARKET*



* stock of homes for sale divided by sales.

single-family market can be seen in data from the Mortgage Bankers Association: The number of applications for loans to finance purchases of new and existing homes, as seasonally adjusted by the staff, rose 11 percent from late March to early May.

In contrast, in the multifamily sector, prospects for a near-term pickup from the depressed conditions prevailing in the first quarter are dim. Multifamily starts continued to be impeded by a persistent oversupply of rental apartments and the resulting restraint on rents. The vacancy rate for multifamily rental properties jumped to 10 percent in the first quarter, compared with 9.4 percent a year earlier.

Business Fixed Investment

Business fixed investment continued to trend up in the first quarter, driven by another sizable rise in equipment outlays. Advance indicators point to further gains in equipment spending over the near term and to continued lethargy in nonresidential construction.

The growth in real equipment outlays last quarter was paced by another sharp increase in spending for computing equipment, which has nearly doubled over the past two years. Firms have continued to take advantage of the sharp price reductions and enormous improvements in performance offered by PCs and workstations. In contrast, business spending for transportation equipment remained lackluster in the first quarter. Within this category, the continued uptrend in purchases of heavy trucks represents the only area of strength; indeed, in response to the financial problems besetting domestic carriers, outlays for aircraft edged down further in the first quarter to a level almost 10 percent below the 1992 average. Real outlays for items other than computers and transportation equipment are currently estimated by BEA to have

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

	1992		1993	1993		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
<u>Producers' durable equipment</u>						
Shipments of nondefense capital goods	.8	3.8	1.6	-4.4	.9	4.8
Excluding aircraft and parts	3.0	2.8	4.1	-2.8	1.8	4.8
Office and computing	.2	.8	14.0	5.3	2.8	8.2
All other categories	3.9	3.4	1.3	-5.2	1.5	3.8
Shipments of complete aircraft ¹	-18.1	-11.9	n.a.	36.6	-18.9	n.a.
Sales of heavy weight trucks	2.0	6.8	3.1	-.9	6.0	7.0
Orders of nondefense capital goods	-3.6	7.1	1.7	-10.8	13.9	-10.4
Excluding aircraft and parts	2.5	4.3	5.6	-1.7	2.8	1.1
Office and computing	2.0	1.9	14.5	3.8	9.7	-4.1
All other categories	2.6	5.0	3.0	-3.3	.7	2.8
<u>Nonresidential structures</u>						
Construction put-in-place	-3.7	.9	1.2	.7	2.8	-2.6
Office	-11.2	-2.1	-5.9	-1.8	6.2	-11.7
Other commercial	-2.0	5.2	3.1	5.3	3.8	-5.3
Industrial	-8.2	-1.8	2.3	.3	3.6	.5
Public utilities	-2.1	3.2	4.3	2.9	-.7	-1.8
All other	.9	-1.8	-.9	-4.2	4.3	1.6
Rotary drilling rigs in use	2.6	14.5	-8.2	-1.8	-13.0	-8.8
Footage drilled ²	-2.4	9.7	-5.6	4.5	-15.6	-5.3
Memo:						
Business fixed investment ³	3.1	9.7	5.6	n.a.	n.a.	n.a.
Producers' durable equipment ³	9.5	14.5	8.6	n.a.	n.a.	n.a.
Nonresidential structures ³	-11.3	-1.9	-2.2	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.

3. Based on constant-dollar data; percent change, annual rate.

n.a. Not available.

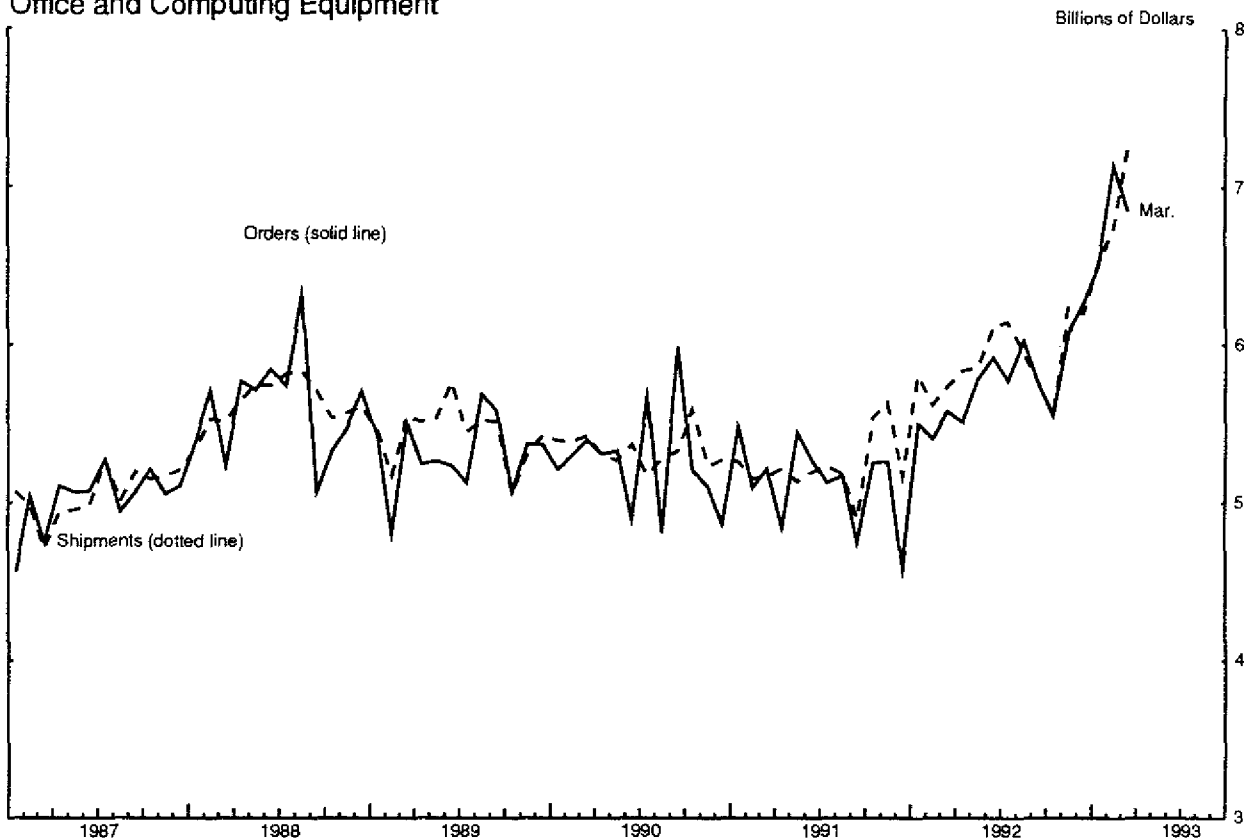
declined as well in the first quarter. However, the shipments of these goods in March turned out to be stronger than BEA had assumed. By our estimates, the new shipments data imply that real outlays for this broad class of equipment likely posted a small rise in the first quarter, continuing the uptrend that began in the second quarter of 1992.

Looking ahead, the recent data on orders for nondefense capital goods (excluding aircraft) point to further advances in equipment spending in the near term. In particular, new orders for such goods--which lead shipments, on average, by a couple of months--increased 5-1/2 percent in the first quarter; advances were widespread across the various types of equipment.

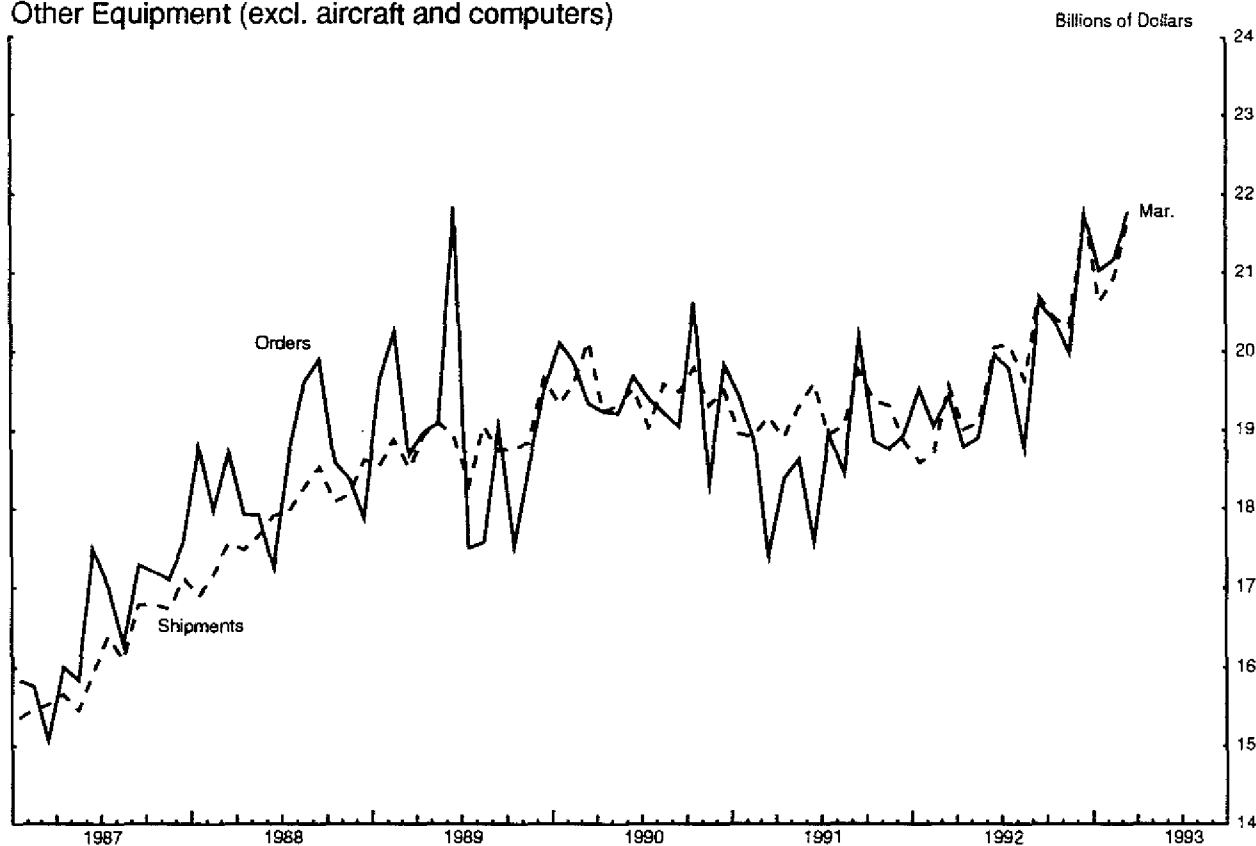
With regard to nonresidential construction, outlays declined at an annual rate of 2-1/4 percent last quarter. Office construction continued to plunge, as this sector remains burdened by an overhang of unoccupied space. In addition, drilling activity declined last quarter, undoing the advance posted in the fourth quarter of last year; as we had indicated, the fourth-quarter increase was spurred, in large part, by the expiration at year-end of a tax incentive for natural gas. Elsewhere, spending for "other commercial" structures posted its second consecutive quarterly increase, and activity in the public utilities sector continued to trend up, owing mainly to capacity expansion at electric utilities. Industrial construction, which declined sharply last year, edged down a bit further in the first quarter, reflecting the relatively low utilization rate in manufacturing. For nonresidential structures as a whole, the recent data on contracts and permits are mixed, but suggest, on balance, that the bottom has been reached in this sector or is close at hand.

RECENT DATA ON ORDERS AND SHIPMENTS

Office and Computing Equipment



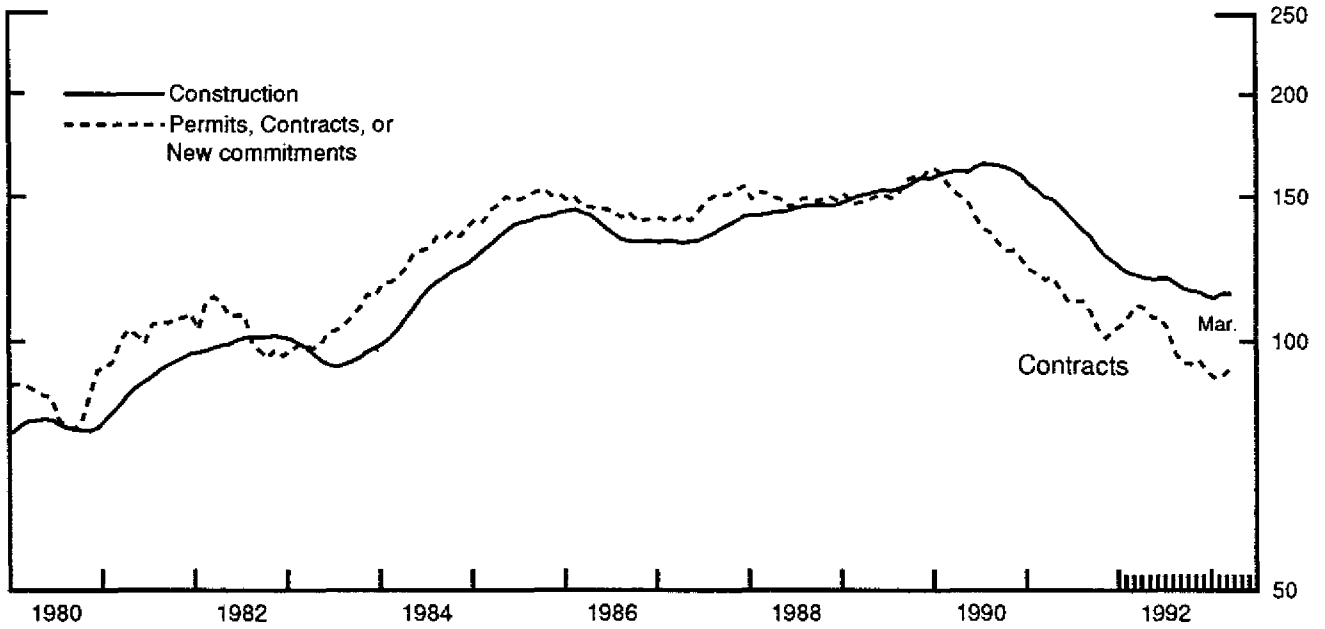
Other Equipment (excl. aircraft and computers)



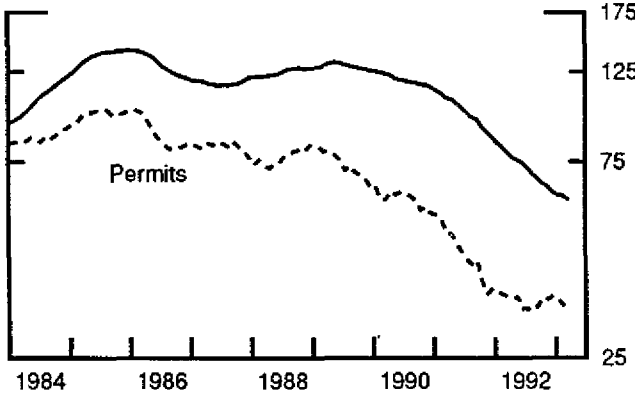
NONRESIDENTIAL CONSTRUCTION AND SELECTED INDICATORS*

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

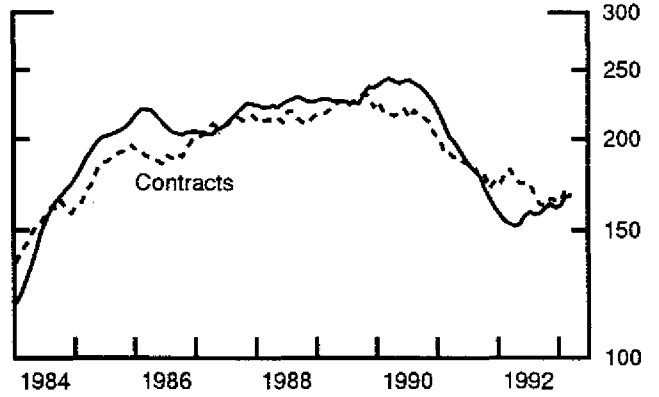
Total Building



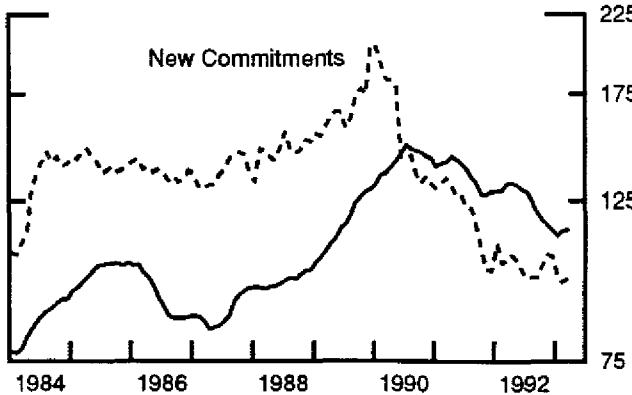
Office



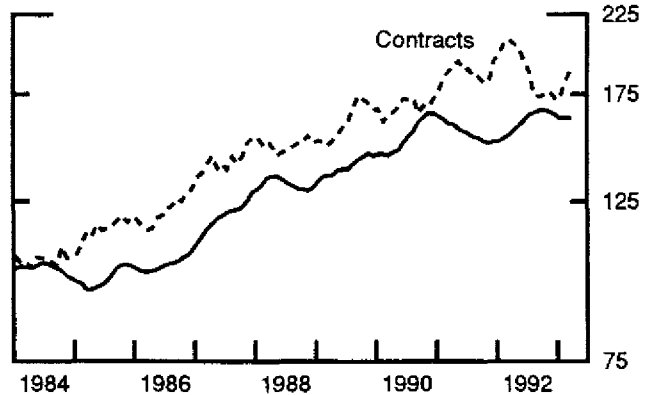
Other Commercial



Industrial



Institutional



*Six-month moving average for all series shown. For contracts, individual sectors include private & public buildings. All other include private only. New commitments are the sum of permits and contracts.

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

	1992		1993	1993		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Current-cost basis						
Total	18.7	17.7	n.a.	26.6	35.7	n.a.
Excluding auto dealers	21.5	9.0	n.a.	13.0	15.0	n.a.
Manufacturing	6.1	-21.9	4.2	-5.7	7.5	10.8
Defense aircraft	-9.5	-1.7	-4.1	-5.0	-2.9	-4.5
Nondefense aircraft	3.6	-3.5	.0	-1.7	2.9	-1.3
Excluding aircraft	12.1	-16.7	8.3	1.0	7.5	16.5
Wholesale	3.3	16.5	8.4	10.9	-4.5	18.7
Retail	9.3	23.1	n.a.	21.4	32.7	n.a.
Automotive	-2.8	8.7	n.a.	13.6	20.7	n.a.
Excluding auto dealers	12.1	14.4	n.a.	7.8	12.0	n.a.
Constant-dollar basis						
Total	10.1	7.1	n.a.	-6.7	16.8	n.a.
Excluding auto dealers	8.5	5.0	n.a.	.7	-4.5	n.a.
Manufacturing	3.9	-14.5	n.a.	-5.6	-2.9	n.a.
Wholesale	-3.5	9.6	n.a.	2.2	-6.9	n.a.
Retail	9.7	12.0	n.a.	-3.3	26.6	n.a.
Automotive	1.6	2.1	n.a.	-7.3	21.3	n.a.
Excluding auto dealers	8.1	9.9	n.a.	4.0	5.4	n.a.

INVENTORIES RELATIVE TO SALES¹
(Months supply; based on seasonally adjusted data)

	1992		1993	1993		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Current-cost basis						
Total	1.50	1.48	n.a.	1.46	1.46	n.a.
Excluding auto dealers	1.48	1.46	n.a.	1.44	1.43	n.a.
Manufacturing	1.57	1.52	1.48	1.50	1.47	1.46
Defense aircraft	5.37	5.41	5.23	5.42	5.29	5.19
Nondefense aircraft	5.19	4.64	5.11	5.06	5.28	5.02
Excluding aircraft	1.41	1.37	1.33	1.35	1.33	1.32
Wholesale	1.34	1.35	1.33	1.32	1.32	1.33
Retail	1.56	1.55	n.a.	1.55	1.57	n.a.
Automotive	1.89	1.85	n.a.	1.86	1.95	n.a.
Excluding auto dealers	1.48	1.47	n.a.	1.47	1.47	n.a.
Constant-dollar basis						
Total	1.59	1.57	n.a.	1.54	1.54	n.a.
Excluding auto dealers	1.56	1.54	n.a.	1.52	1.51	n.a.
Manufacturing	1.68	1.63	n.a.	1.60	1.58	n.a.
Wholesale	1.39	1.41	n.a.	1.37	1.37	n.a.
Retail	1.64	1.62	n.a.	1.61	1.63	n.a.
Automotive	2.00	1.93	n.a.	1.89	1.99	n.a.
Excluding auto dealers	1.54	1.53	n.a.	1.53	1.54	n.a.

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

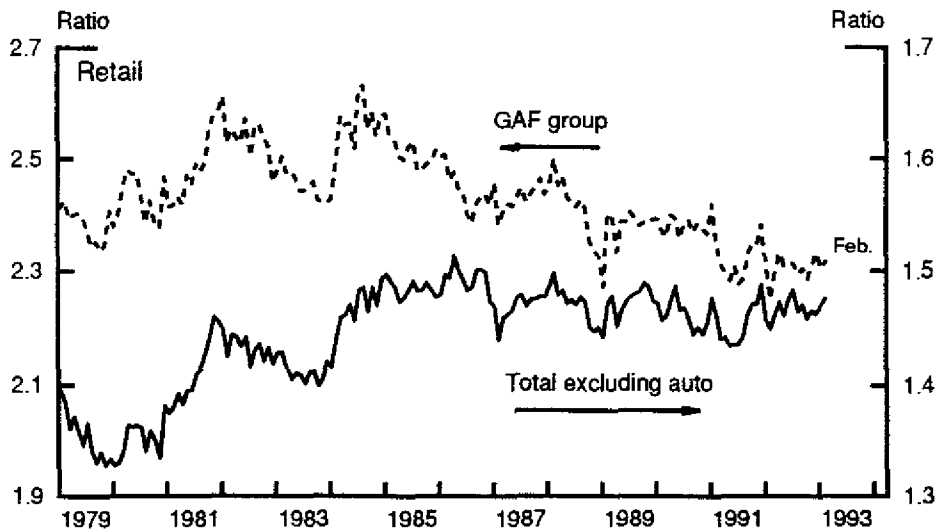
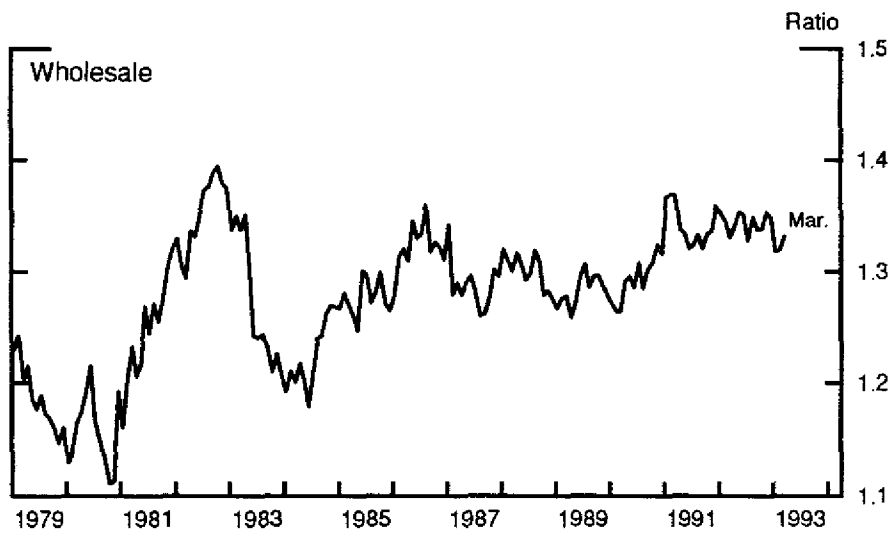
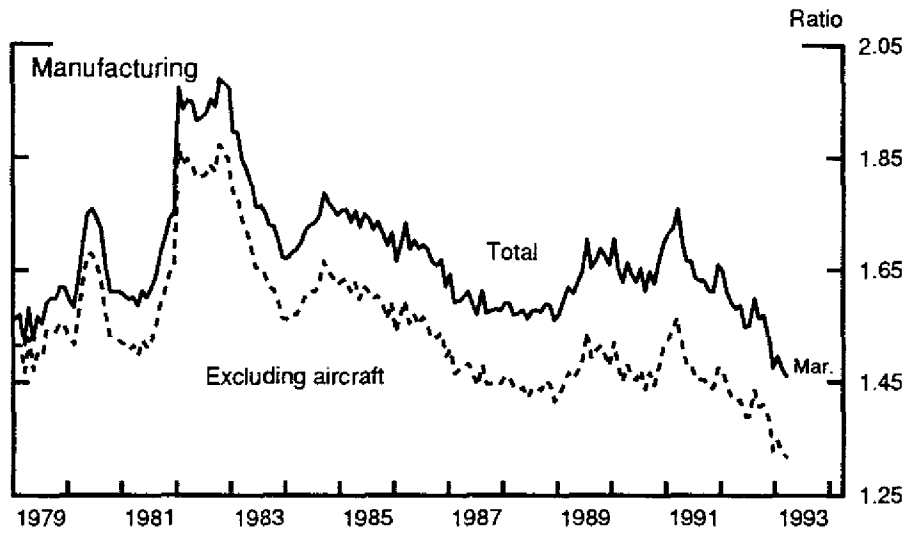
Business Inventories

According to BEA's advance estimate, nonfarm businesses accumulated inventories at a fairly rapid pace in the first quarter. That estimate was made without actual March data, but the figures that have come in on manufacturers' and wholesalers' stocks have validated BEA's assumptions of significant increases. Even so, inventory-sales ratios in those sectors have remained relatively low.

Manufacturing inventories expanded in both February and March, ending a string of liquidations since early fall. A good part of this accumulation likely was intended: Taking February and March together, the bulk of the accumulation occurred in the durable-goods sector, where shipments were strong and the inventory-shipments ratio fell. Stocks held by producers of nonelectrical machinery look particularly lean, judging by the sharp drop in the inventory-sales ratios over the past six months for producers of both computing equipment and industrial machinery. Moreover, the appreciable rise in inventories at lumber and wood producers in February and March probably reflected in large measure the runup in lumber prices rather than an accumulation of physical stocks.

Wholesale inventories have been quite volatile of late, rising appreciably in March, after a small drawdown in February. Despite the sizable accumulation of stocks in March, the inventory-sales ratio for the wholesale sector moved up only slightly, leaving the March ratio at the low end of the range observed over the past two years. In retail trade (excluding auto dealers), inventories rose at a moderate pace during January and February, leaving the inventory-sales ratio in the narrow range that had prevailed over the preceding year. More recent data on non-auto retail stocks have

RATIO OF INVENTORIES TO SALES (Current-cost data)



yet to be released, but anecdotal reports suggest that retailers, for the most part, do not regard stocks as heavy.

Federal Sector

Recent information has mixed implications for the FY1993 federal deficit. On the one hand, monthly Treasury statements through March suggested that this year's budget gap is likely to be considerably smaller than the \$322 billion estimated by OMB in April, reflecting strong tax collections during the first half of FY1993 and restrained growth in spending. However, the anticipated improvement has been tempered by the surprisingly low level of nonwithheld tax payments in April and early May.

Daily Treasury Statements indicate that nonwithheld income and social insurance tax collections from April 1 through May 6 were only \$58 billion, \$12 billion lower than during the same period in 1992 (chart). During April and May, these collections mainly represent final payments on the previous year's tax liability.⁵ The apparent weakness in final payments contrasts with the robust pace of estimated payments earlier this year. Much of the shift from final payments to estimated payments likely reflects the tightened safe-harbor provisions for estimated payments, which boosted the last such payment on 1992 income, due January 15.⁶ The weakness in final payments also stems, in part, from the reduction in penalties this year for taxpayers who file for

5. Last year, final payments accounted for 80 percent of nonwithheld tax collections in April and May.

6. In the past, the safe-harbor provisions provided that penalties were not due so long as current-year tax payments (withheld and estimated) were higher than the previous year's tax liability. Now, for taxpayers whose "modified AGI" rises more than \$40,000 from the previous year, the rules have been tightened. These taxpayers no longer can simply pay an amount that exceeds the previous year's tax liability. To avoid penalties, tax payments must exceed 90 percent of the current year's liability.

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

	Q1 1992	Q1 1993	Fiscal year to date*			
			FY1992	FY1993	Dollar change	Percent change
Outlays	354.4	324.6	693.1	710.3	17.2	2.5
Deposit insurance (DI)	10.9	-5.7	5.9	-13.6	-19.5	n.m.
Defense Cooperation account (DCA)	-0.6	0	-4.3	.0	4.3	n.m.
Outlays excluding DI and DCA	344.1	330.4	691.5	723.9	32.4	4.7
National defense	73.5	68.1	151.2	146.4	-4.8	-3.2
Net interest	51.0	50.2	100.7	99.3	-1.4	-1.4
Social security	71.3	51.1	139.8	148.5	8.7	6.2
Medicare and health	49.9	55.8	100.7	110.5	9.8	9.7
Income security	55.5	58.5	100.9	109.6	8.7	8.6
Other	42.9	46.8	98.2	109.6	11.4	11.6
Receipts	238.9	262.3	493.7	527.5	33.7	6.8
Personal income and social insurance taxes						
Withheld	196.9	202.3	392.0	406.8	14.8	3.8
Nonwithheld	32.6	44.0	40.6	53.0	12.4	30.5
Refunds	32.8	29.0	36.6	32.3	-4.3	-11.8
Corporate income taxes	14.6	16.7	38.3	43.3	4.9	12.9
Other	27.6	28.1	59.4	56.4	-2.9	-5.0
Deficit(+)	115.6	62.4	199.4	182.8	-16.5	-8.3
Excluding DI and DCA	105.3	68.1	197.8	196.4	-1.4	-.7

Details may not add to totals due to rounding.

*October through March.

n.m.- not meaningful.

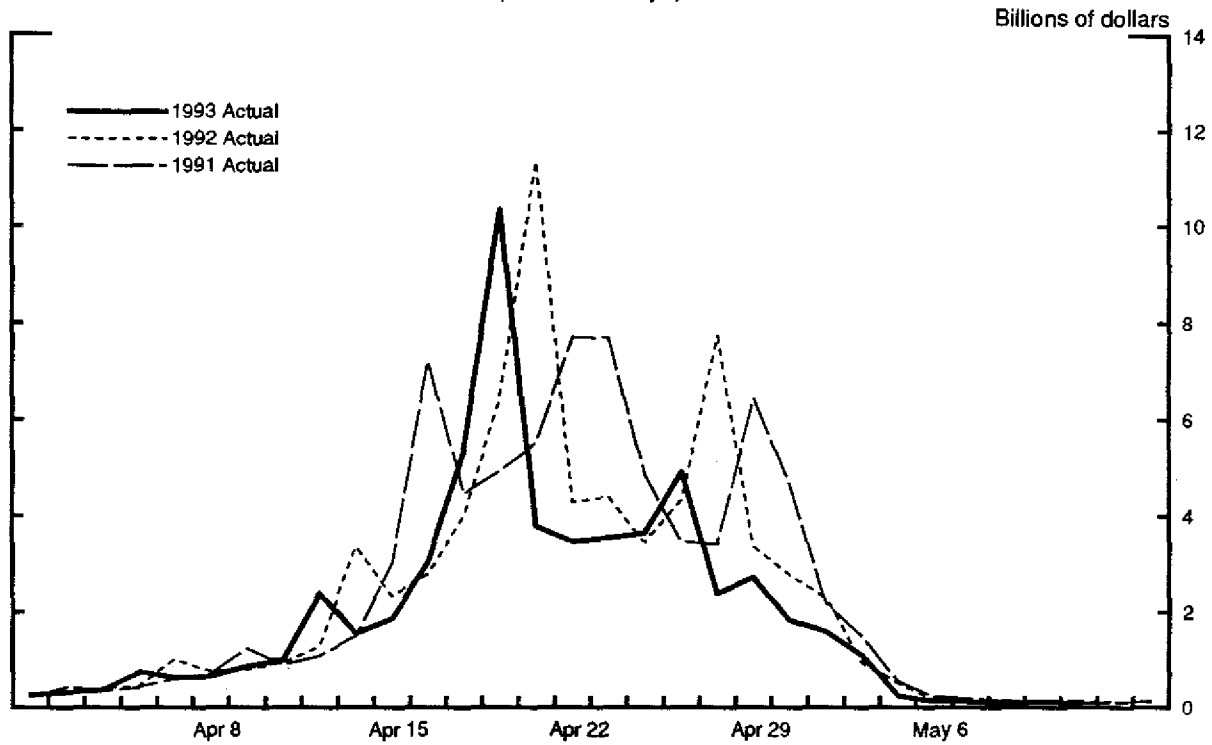
extensions without fully settling their tax bills.⁷ The reduced penalties may have encouraged more taxpayers to wait until this summer to make payment in full. Indeed, through the end of April this year, 5.4 million taxpayers had filed for extensions, up from the 4.7 million filings during the same period in 1992.

The weakness in receipts this spring would have been even greater if not for the change in withholding schedules that took effect in March of 1992. This change in the schedules lowered 1992 withholding by about \$20 billion, but did not affect 1992 tax liabilities. As a result, refunds to individuals through the first week in May were about 6 percent below the comparable period in 1992, and final payments have received a boost from individuals whose withholding fell short of their liabilities.

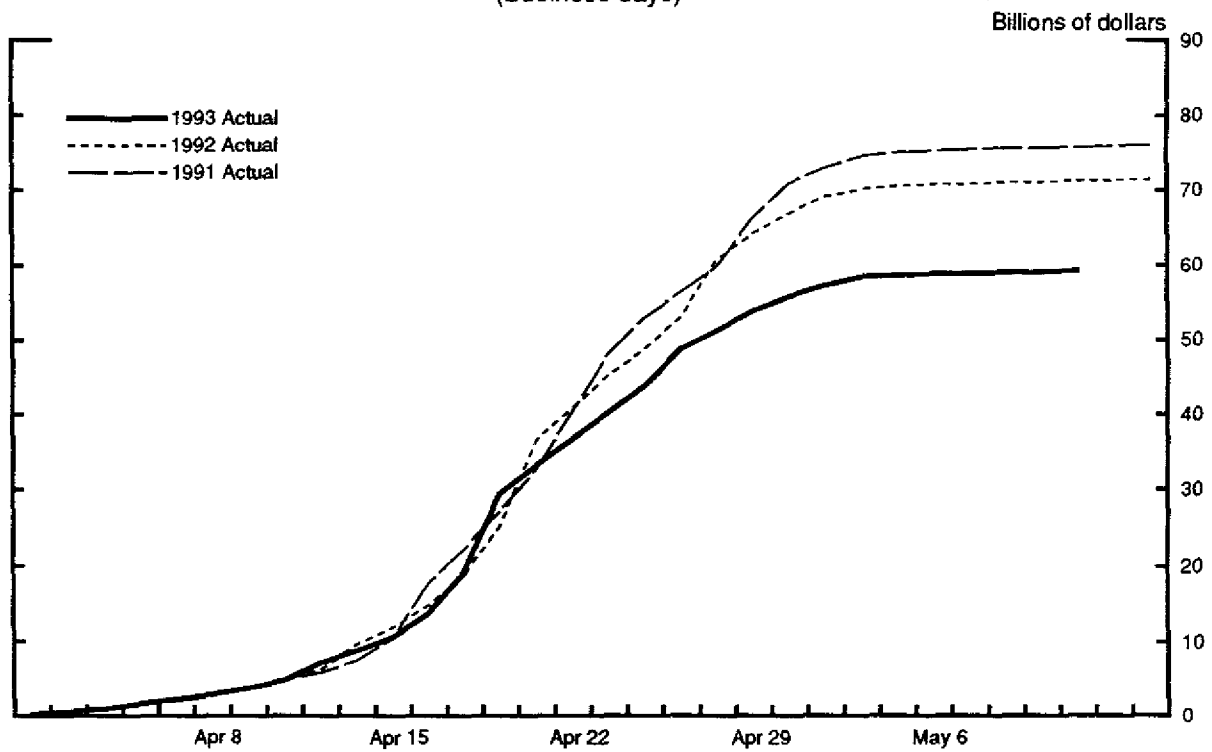
On the outlay side, spending during the first half of FY1993 was only 4.7 percent above that recorded during the same period a year earlier (excluding outlays for deposit insurance and the defense cooperation account). This rate of increase in outlays represents a marked slowing from the 7.2 percent rise during the first half of FY1992. Much of the deceleration has been in health care--especially in Medicaid, for which outlays had surged over the preceding few years; in part, the slowing appears to stem from regulations issued in 1992 that limit the ability of states to shift Medicaid costs to the federal government. Along with the welcome news on Medicaid, growth in total federal outlays during the first half of FY1993 also was restrained by reduced net interest outlays and by a drop in defense spending. With the first-quarter plunge in

7. The Internal Revenue Service has permanently removed the major penalty for underpayment of estimated taxes at the time of filing an extension; this penalty was 5 percent of the tax liability for every month of late filing, up to a maximum of 25 percent of the balance due. Another penalty of 1/2 percent of the taxes due is still applied each month of late filing. Also, 7 percent annual interest is charged on late filings.

Daily Nonwithheld Tax Receipts In April and Early May
(Business days)



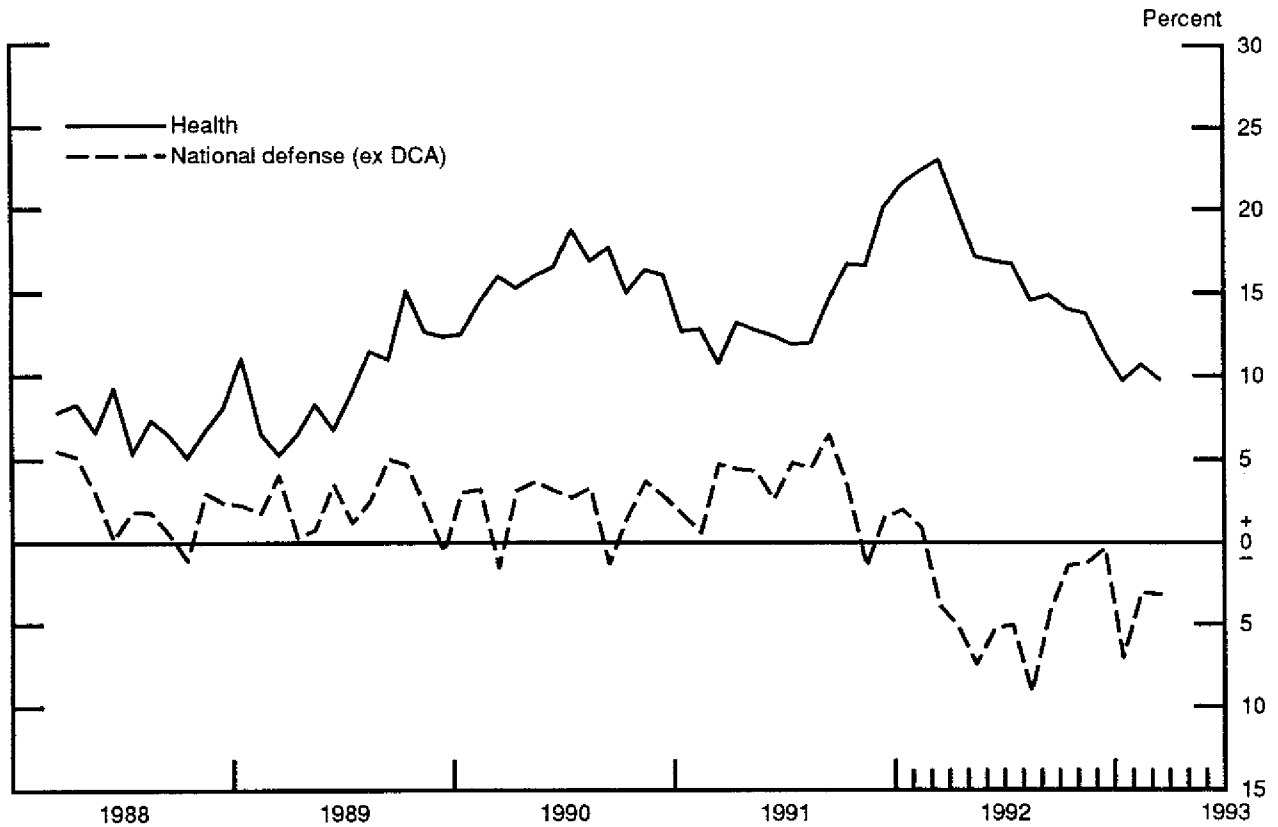
Cumulative Nonwithheld Tax Receipts in April and Early May
(Business days)



Note: Nonwithheld taxes include final payments on prior year liabilities, estimated tax payments on 1993 liability, and SECA (social security taxes from self-employed individuals). Dates shown are for 1993; the daily figures for 1992 and 1991 are aligned to correspond to these dates.

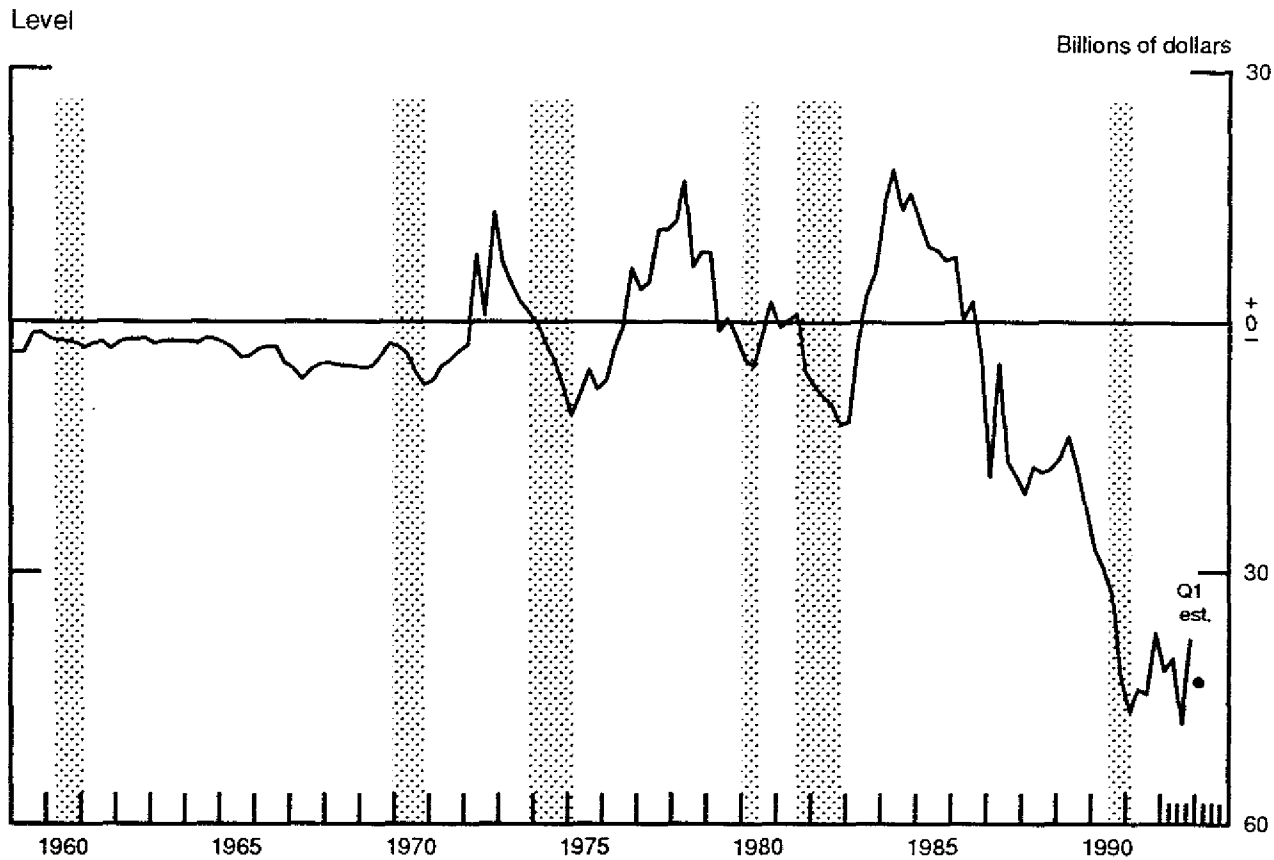
Source: Fiscal Analysis Section

Federal Unified Budget Outlays for Health and National Defense
 (Percent change from one year earlier*)

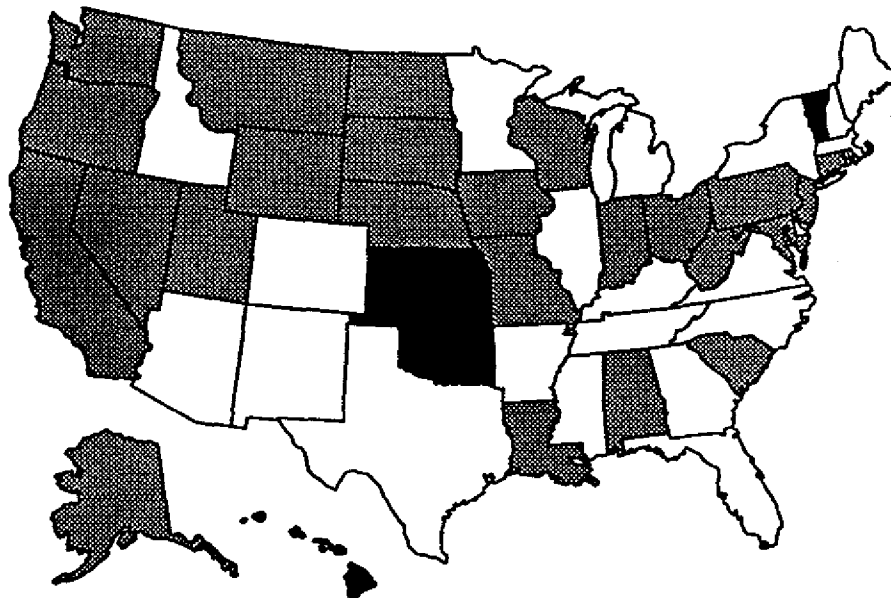


*Percent change was calculated on a six-month moving average of the levels.

STATE AND LOCAL SECTOR SURPLUS (DEFICIT)*
(NIPA basis)



General Fund Revenue Collections
(January and February, 1993)



- Stronger than expected
- ▨ On target
- Weaker than expected

defense outlays, much of the total decline anticipated to occur over FY1993 already has taken place, and the contraction during the rest of the fiscal year is likely to be fairly small.

On the legislative front, the Congress passed a budget resolution in early April that--while largely consistent with the Clinton budget--calls for about \$5 billion less spending in fiscal year 1994. In addition, much of the Administration's proposed stimulus package was derailed by a Republican Senate filibuster; only a further extension of unemployment insurance became law. With the Congress discussing a variety of modifications of the deficit-reduction program, the fiscal outlook remains cloudy, and the upcoming medical care proposal only compounds the uncertainty. In all likelihood, this uncertainty has contributed to the recent weakening of consumer and business confidence.

State and Local Government Sector

Real purchases of goods and services by state and local governments were essentially flat in the first quarter and have not changed, on net, since the first quarter of 1992. Construction outlays have been the weakest component of purchases throughout this period, including the first quarter.⁸ Real spending on compensation of state and local workers advanced at a modest pace in the first quarter, roughly in line with the small gains in employment. In April, state and local government employment continued to increase fairly slowly.

During the first quarter, the deficit of operating and capital accounts appears to have widened somewhat. However, recent information from the states suggests that their receipts improved in

8. The March data on construction, which were not available in time for the advance GDP report, suggest a slightly bigger drop than BEA's current estimate of a 4-3/4 percent (annual rate) decline in real state and local construction spending in the first quarter.

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

	Relative importance, Dec. 1992	1991	1992	1992		1993	1993	
				Q3	Q4	Q1	Mar.	Apr.
				-----Annual rate-----			-Monthly rate-	
All items ²	100.0	3.1	2.9	2.6	3.2	4.0	.1	.4
Food	15.8	1.9	1.5	3.2	1.4	2.6	.1	.4
Energy	7.3	-7.4	2.0	1.2	1.9	3.1	.7	.2
All items less food and energy	76.9	4.4	3.3	2.5	3.8	4.3	.1	.4
Commodities	24.7	4.0	2.5	1.8	1.5	4.6	.1	.3
Services	52.2	4.6	3.7	2.9	4.7	4.4	.2	.4
Memo:								
CPI-W ³	100.0	2.8	2.9	2.3	3.2	4.1	.2	.4

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

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

	Relative importance, Dec. 1992	1991	1992	1992		1993	1993	
				Q3	Q4	Q1	Mar.	Apr.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	-.1	1.6	1.3	-.3	3.9	.4	.6
Consumer foods	22.4	-1.5	1.6	4.3	3.3	-2.2	.5	1.4
Consumer energy	13.9	-9.6	-.3	-3.5	-10.2	17.2	1.3	.1
Other finished goods	63.7	3.1	2.0	1.2	1.2	3.0	.1	.4
Consumer goods	40.6	3.4	2.1	1.5	1.2	2.9	.1	.4
Capital equipment	23.1	2.5	1.7	1.2	.6	3.4	.2	.2
Intermediate materials ²	95.4	-2.7	1.1	.7	-2.1	5.3	.3	.1
Excluding food and energy	81.8	-.8	1.2	1.3	-.3	4.3	.2	.2
Crude food materials	41.2	-5.8	3.0	-4.8	5.1	1.1	.1	2.5
Crude energy	39.5	-16.6	2.3	19.8	-17.8	-9.7	.8	-.6
Other crude materials	19.3	-7.6	5.7	2.2	1.9	25.0	.4	1.8

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

the first quarter. In January and February, revenues were at or above projections in all but four states (chart). A preliminary count of revenues indicates that state tax collections were up about 6 percent over the year ended in the first quarter. The increase matched that over the four quarters of 1992, which--when adjusted for legislated tax changes and inflation--was the first advance in at least two years. The improvement has been especially noticeable in personal income tax payments, which were up 9 percent in the first quarter from their year-earlier level. One reason may be that many high-income individuals accelerated declarations into 1992 (and paid estimated taxes in early 1993) in anticipation of increased federal income tax rates.

Prices

Recent price data suggest that the underlying rate of price inflation has leveled off. In April, the CPI excluding food and energy rose 0.4 percent, after an increase of 0.1 percent in March. Although these increases were less, on average, than the out-sized figures for January and February, the twelve-month change in the CPI excluding food and energy was 3.5 percent in April, roughly the pace that has prevailed since last summer.

Among the components of consumer prices, food prices rose 0.4 percent in April, after increases of only 0.1 percent in both February and March. Meat prices rose further in April, extending the fairly sharp upswing that began around the start of the year. The production of beef and pork has fallen short of expectations so far in 1993, but is expected to pick up again as the year progresses. In addition, the price of fresh vegetables turned up sharply in April, reflecting weather-related supply disruptions earlier in the year. Apart from meats and fresh produce, food price

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Apr. 1991	Apr. 1992	Apr. 1993
<u>CPI</u>	5.1	3.9	3.5
Goods	4.0	3.0	2.7
Alcoholic beverages	11.2	3.2	1.7
New vehicles	4.0	2.5	2.4
Apparel	2.4	2.4	2.6
House furnishings	.8	2.1	.0
Housekeeping supplies	4.0	.1	1.2
Entertainment	4.0	2.3	1.4
Medical commodities	8.1	7.8	3.1
Services	5.8	4.3	3.8
Owners' equivalent rent	4.4	3.6	3.3
Tenants' rent	4.0	2.6	2.4
Other renters' costs	16.3	4.9	4.5
Airline fares	5.2	5.0	7.1
Medical care	9.5	7.8	6.7
Entertainment	5.4	4.0	3.0
<u>PPI finished goods</u>	3.9	2.7	1.8
Consumer goods	4.2	2.9	2.0
Capital equipment, excluding computers	3.5	3.2	2.0
Computers	n.a.	-20.9	-15.1
PPI intermediate materials	.8	.2	1.8
PPI crude materials	-3.7	-2.7	9.7
<u>Factors affecting price inflation</u>			
ECI hourly compensation ¹	4.4	4.2	3.5
Goods-producing	4.4	4.6	4.0
Service-producing	4.5	4.0	3.2
Civilian unemployment rate ²	6.6	7.3	7.0
Capacity utilization ² (manufacturing)	77.0	78.8	80.7
Inflation expectations ³			
Mean of responses	4.3	3.7	4.1
Median, bias-adjusted ⁴	4.1	4.0	4.0
Non-oil import price ⁵	2.9	.1	.2
Consumer goods, excluding autos, food, and beverages	1.9	1.8	1.3
Autos	4.4	1.1	.6

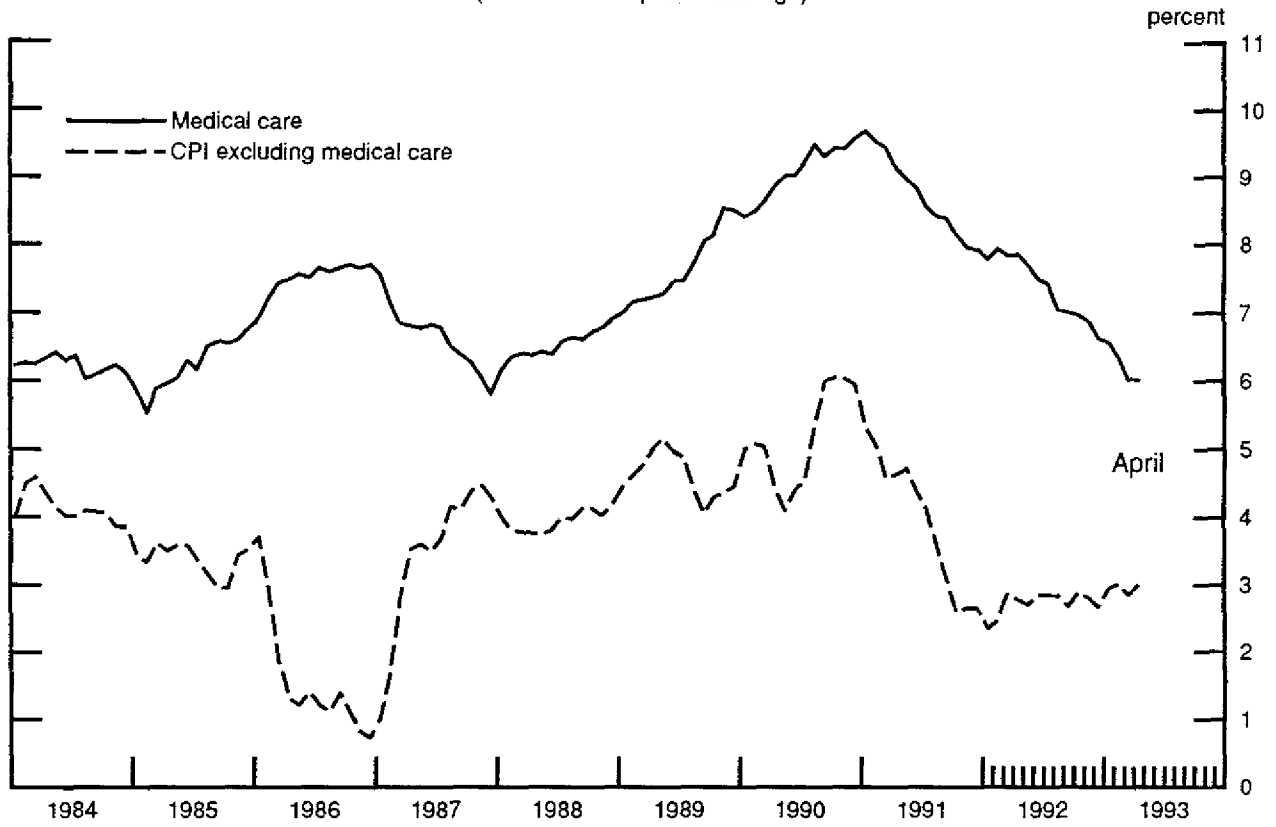
1. Private industry workers, periods ended in March.
 2. End-of-period value.
 3. Michigan Survey one-year ahead expectations.
 4. Median adjusted for average downward bias of 0.9 percentage points, relative to actual inflation, since 1978.
 5. BLS import price index (not seasonally adjusted), periods ended in March.
- n.a. Not available.

increases at retail have continued to be quite small so far this year--less than 0.2 percent per month, on average.

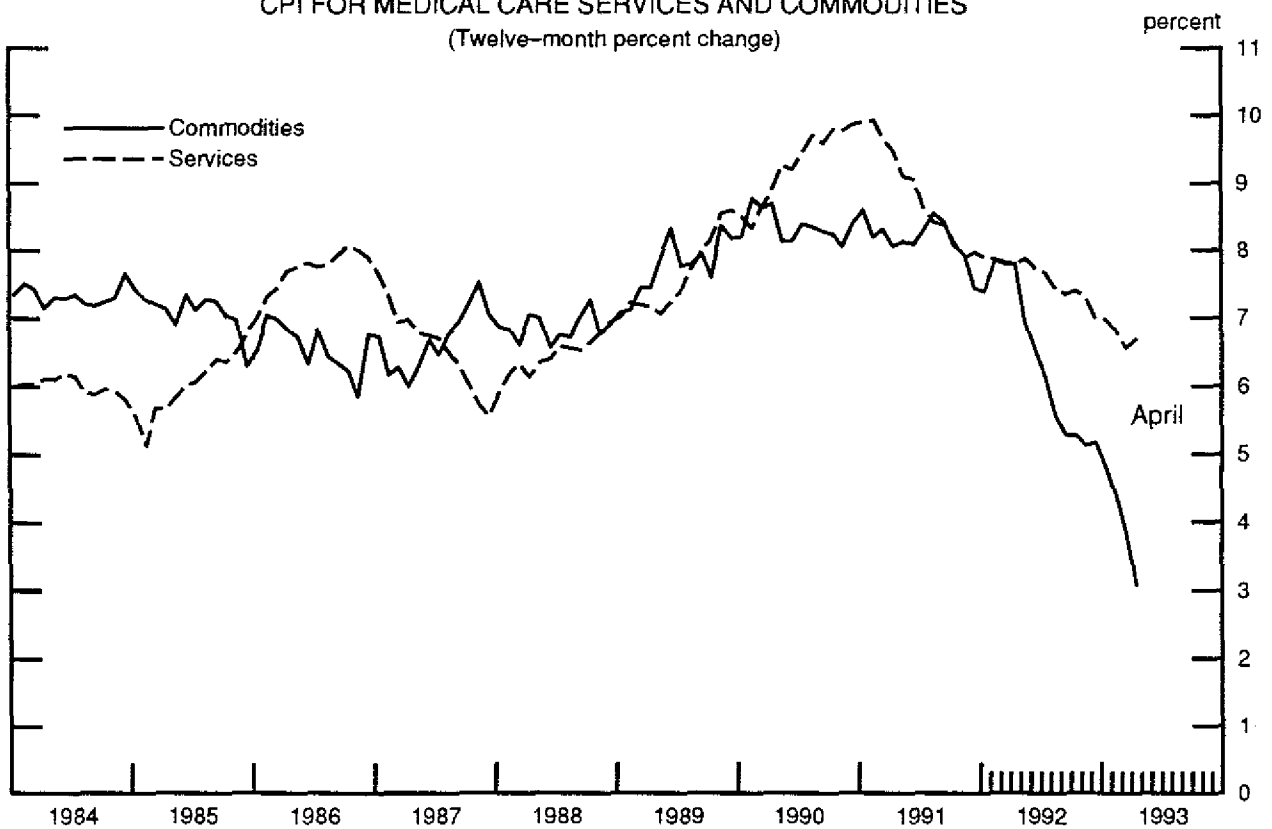
Consumer energy prices were up 0.2 percent in April, as increases in the prices of electricity and natural gas were partially offset by a decline in gasoline prices. Despite ups and downs, gasoline prices have changed little from the beginning of the year; private survey data suggest that retail gasoline prices moved higher in early May on a seasonally adjusted basis. Residential natural gas prices rose 1.0 percent in April--on top of a 1.4 percent increase in March--as higher prices at the wellhead were passed through to consumers. Spot and futures prices for natural gas surged between late March and late April and have remained, on balance, at elevated levels. In large part, this surge stemmed from efforts to rebuild stocks after the stretch of colder-than-usual weather at the end of the winter. But longer-term factors also have had some influence. In particular, several pieces of legislation in recent years have mandated the use of cleaner-burning fuels, which likely will boost demand for natural gas over the longer haul. At the same time, exploratory drilling for new natural gas has been depressed by the extended period of very low prices.

For goods other than food and energy, prices rose 0.3 percent in April, pushed up by increases in prices of tobacco and motor vehicles. Prices of passenger cars and light trucks both increased 0.5 percent; however, for the twelve months ending in April, car prices are up just 2-1/4 percent, while light truck prices increased 3 percent. Looking ahead, Philip Morris recently announced plans to reduce the price of Marlboro cigarettes by about 20 percent to fight "generic" brands that have been gaining market share; the price cuts went into effect with a lag and should begin to show up in the May

CPI FOR MEDICAL CARE
(Twelve-month percent change)



CPI FOR MEDICAL CARE SERVICES AND COMMODITIES
(Twelve-month percent change)



CPI report.⁹ Manufacturers of some other brand-name consumer products appear to be facing similar pressures from generic brands, a factor that could help hold down the CPI in coming months.

Prices of nonenergy services were up 0.4 percent in April, after an advance of 0.2 percent in March. Shelter prices jumped 0.5 percent last month, boosted by a sizable increase in owners' equivalent rent. Although airfares declined in March and April--reflecting some discounting of summertime fares--the price of medical services rose 0.7 percent in April, after a very small increase in March.

Turning to the broader category of medical care--which includes both services and commodities--prices have decelerated substantially since 1990 (chart). Of course, the pace of inflation in medical care prices has been much higher than that for overall prices for some time; medical care prices have risen at an average annual pace of 7.3 percent since 1984, compared with an average inflation rate of 3.6 percent for the CPI excluding medical care over this period. The lower panel of the chart splits medical care into its components for services and commodities.¹⁰ The pattern of increases in these categories was fairly similar through 1991; however, beginning last year, the rate of deceleration in the two categories diverged. The sharp slowing that has occurred in the commodities index since last spring may represent increased competition as well as a response by

9. Given Marlboro's market share of nearly 25 percent, these price cuts could reduce the total CPI by 0.1 percentage point. However, Philip Morris is cutting prices through a variety of channels, including coupons and promotional merchandise tie-ins. The in-store coupons will be reflected in the CPI, but the tie-ins will not. Note that because of the sampling procedures used for the CPI, the effect of the price reductions likely will be spread over a few months.

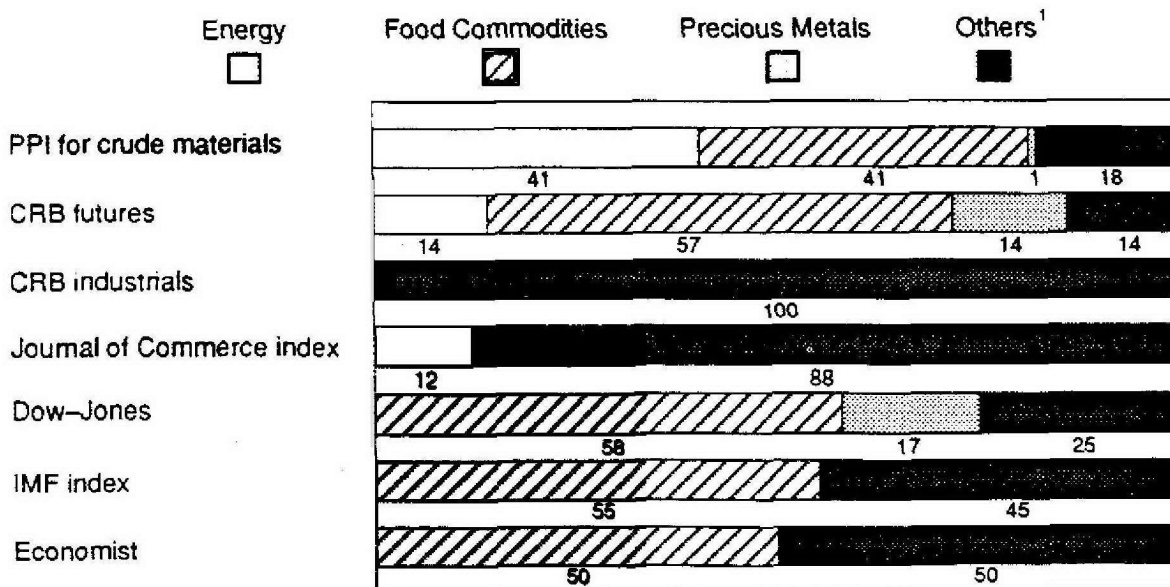
10. Commodities--mostly prescription drugs--make up less than 20 percent of the total medical care category.

PRICE INDEXES FOR COMMODITIES AND MATERIALS¹

	Last observ- ation	Percent change ²				Memo: Year earlier to date
		1991	1992	Dec. 92 to Mar. 16 ³	Mar. 16 ³ to date	
1. PPI for crude materials ⁴	Apr.	-11.6	2.9	2.1	1.0	4.9
1a. Foods and feeds	Apr.	-5.8	2.8	3.6	1.8	4.4
1b. Energy	Apr.	-16.6	1.5	-1.8	-.6	3.1
1c. Excluding food and energy	Apr.	-7.6	5.6	6.8	2.3	9.7
1d. Excluding food and energy, seasonally adjusted	Apr.	-7.7	5.9	5.8	1.8	9.8
2. Commodity Research Bureau						
2a. Futures prices	May 11	-6.5	-2.9	3.7	-.6	-.3
2b. Industrial spot prices	May 11	-11.3	-.7	.6	-3.2	-8.2
3. Journal of Commerce industrials						-.9
3a. Metals						-5.8
4. Dow-Jones Spot	May 11	-12.1	10.4	3.5	-4.6	1.5
5. IMF commodity index ⁴	Mar.	.7	-2.6	-1.1	n.a.	-4.5
5a. Metals	Mar.	-8.9	-3.1	-5.4	n.a.	-10.3
5b. Nonfood agriculture	Mar.	1.3	2.4	1.6	n.a.	4.6
6. Economist (U.S. dollar index)	May 4	-9.1	1.6	5.8	-2.0	1.9
6a. Industrials	May 4	-14.9	4.5	7.9	-4.9	-.8

- 1. Not seasonally adjusted.
- 2. Change is measured to end of period, from last observation of previous period
- 3. Week of the March 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

drug companies to the national focus on prescription drug prices.¹¹

In addition to the recent unfavorable news on consumer prices, the PPI for finished goods other than food and energy also was up 0.4 percent in April, although the increase was concentrated in two items: tobacco and passenger cars. Tobacco prices rose a hefty 1.4 percent, reflecting higher prices for both generic and premium brands of cigarettes. Producer prices of passenger cars increased 1.1 percent in April, partly reflecting problems with seasonal adjustment in the PPI and the timing of incentives over the year.¹² Prices of capital goods rose 0.2 percent in both March and April, after a larger increase in February. Computer prices, which dropped 15 percent over the year ended in April, have continued to temper the rise in the total PPI for capital goods. Nonetheless, even excluding computers, prices of other capital goods rose just 2 percent during the twelve months ended in February, about 1-1/4 percentage points below the year-earlier pace.

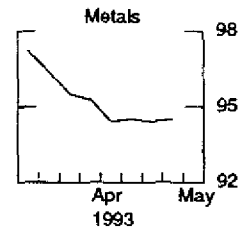
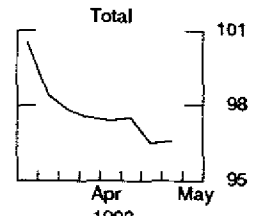
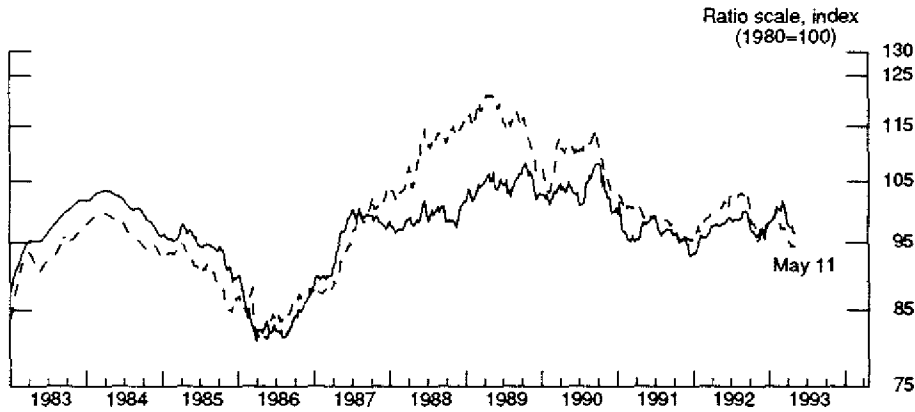
Spot prices of industrial materials have dropped back, on balance, since the last Greenbook. The Journal of Commerce index of industrial materials prices has declined 4-1/2 percent since the middle of March, and its metals subcomponent has fallen about 2-3/4 percent over this period (table). Part of this decline reflects the plunge in lumber prices, after the spike earlier in the year; however, prices of many other industrial materials have dropped back as well. By contrast, prices of precious metals have

11. The CPI's measure of prescription drug prices only covers drugs purchased directly by consumers at retail outlets and by mail order. Hence, discounts received by HMOs and other groups would not be captured in the CPI.

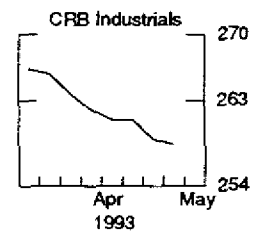
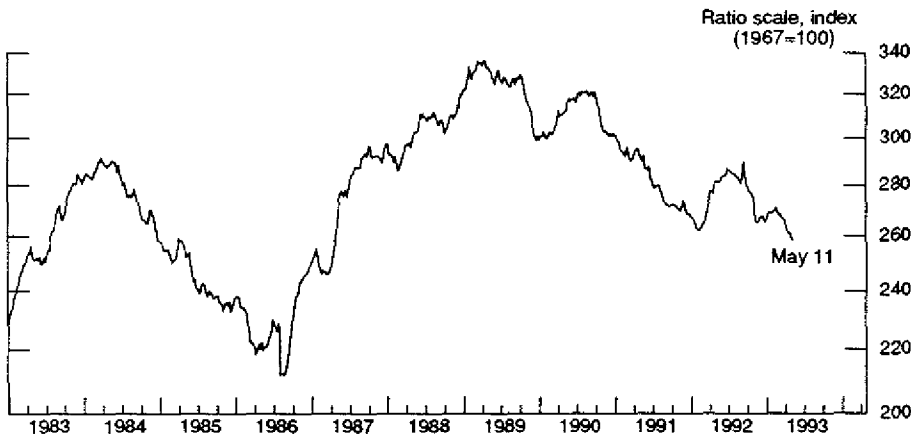
12. In this model year, incentives were put in place earlier than usual. And, in recent months, incentives were not sweetened as much as expected by the seasonal factors, contributing to some sizable monthly increases on a seasonally adjusted basis. Passenger car prices were up only 0.3 percent before seasonal adjustment.

COMMODITY PRICE MEASURES *

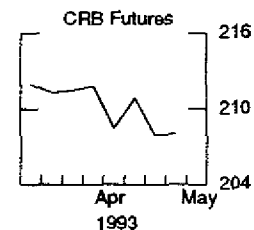
— Journal of Commerce Index, total
 - - Journal of Commerce Index, metals



CRB Spot Industrials



CRB Futures



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

Dotted lines indicate week of last Greenbook.

moved up. Gold prices have risen more than 5 percent in the past four weeks, and silver and platinum prices are up as well. By and large, analysts have cited increases in demand from other parts of the world, along with political uncertainty, as explanations for the pickup; in general, analysts have not emphasized expectations of higher inflation for the United States as the source of the runup in gold prices.

Labor Costs

The deceleration in labor costs has stalled recently. With the unemployment rate holding at or above 7 percent over the past year, some ongoing deceleration in hourly compensation would have been expected to occur. However, measured by the Employment Cost Index (ECI), hourly compensation for private industry workers rose 4.2 percent at an annual rate over the December-to-March period, up from an increase of 3.5 percent in the fourth quarter of 1992. This first-quarter acceleration in hourly compensation was evident both for wages and salaries and for benefits.¹³

Smoothing through the quarterly volatility, ECI hourly compensation increased 3-1/2 percent over the year ended in March. While down 3/4 percentage point from the year ended March 1992, this twelve-month change has held steady for the past few quarters. A flattening is evident both for wages and salaries and for benefits, and it is widespread by industry and occupation as well. The same pattern appears in the data on average hourly earnings of production or nonsupervisory workers: Over the year ended in April, average

13. Inflation in benefits costs jumped to a seasonally adjusted annual rate of 7 percent in the first quarter. However, the source of this acceleration is far from clear. Before seasonal adjustment, there was a sharp rise in health-care costs in the first quarter. But this year's bulge actually was smaller than that during the first quarter of recent years and should have been filtered out by the seasonal adjustment procedure. BLS has no explanation for the source of the jump in the seasonally adjusted measure of benefits.

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

	1991	1992				1993
	Dec.	Mar.	June	Sep.	Dec.	Mar.
Total compensation costs:						
Private industry workers	3.7	4.0	2.9	3.2	3.5	4.2
By industry:						
Goods-producing	4.4	4.7	3.2	3.5	3.5	5.3
Service-producing	3.3	3.3	2.9	2.8	3.5	3.5
By occupation:						
White-collar	2.9	4.3	2.9	3.2	2.8	5.3
Blue-collar	3.7	4.4	3.2	3.6	3.2	4.6
Service workers	3.3	4.0	2.8	3.5	2.1	4.6
By bargaining status:						
Union	3.7	7.4	3.2	4.3	2.5	6.7
Nonunion	2.5	4.4	2.5	3.2	2.8	4.6
Memo:						
Wages and salaries	3.3	2.9	2.2	2.5	2.9	3.2
Benefits	5.7	5.2	4.8	5.5	5.0	7.0

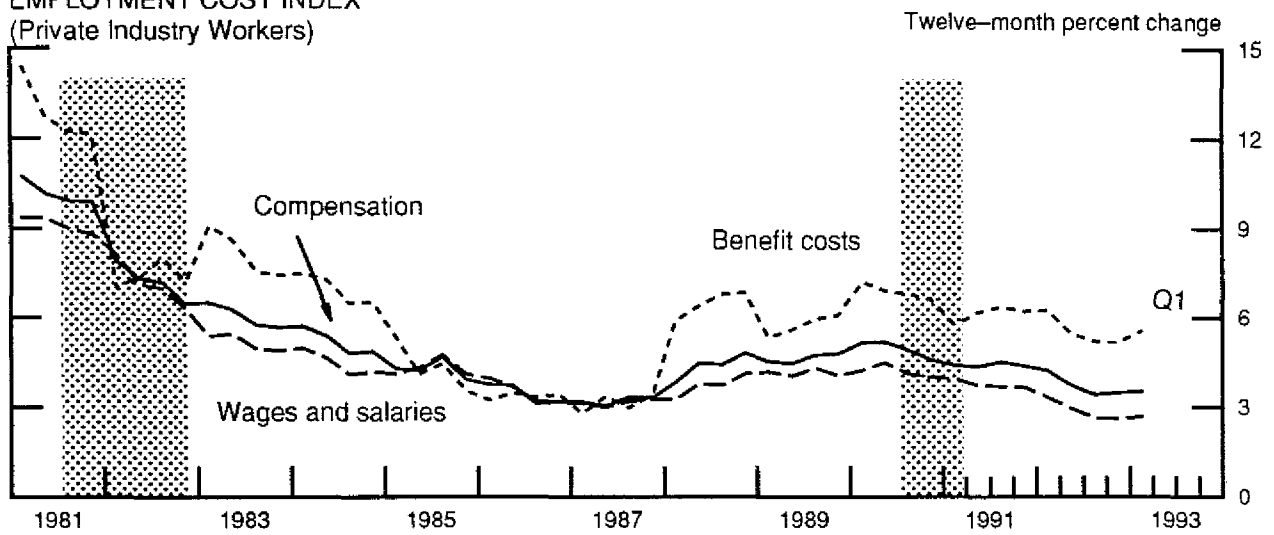
1. Changes are from final month of preceding period to final month of period indicated. Percent changes are seasonally adjusted by the BLS. Data by bargaining status are not seasonally adjusted.

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

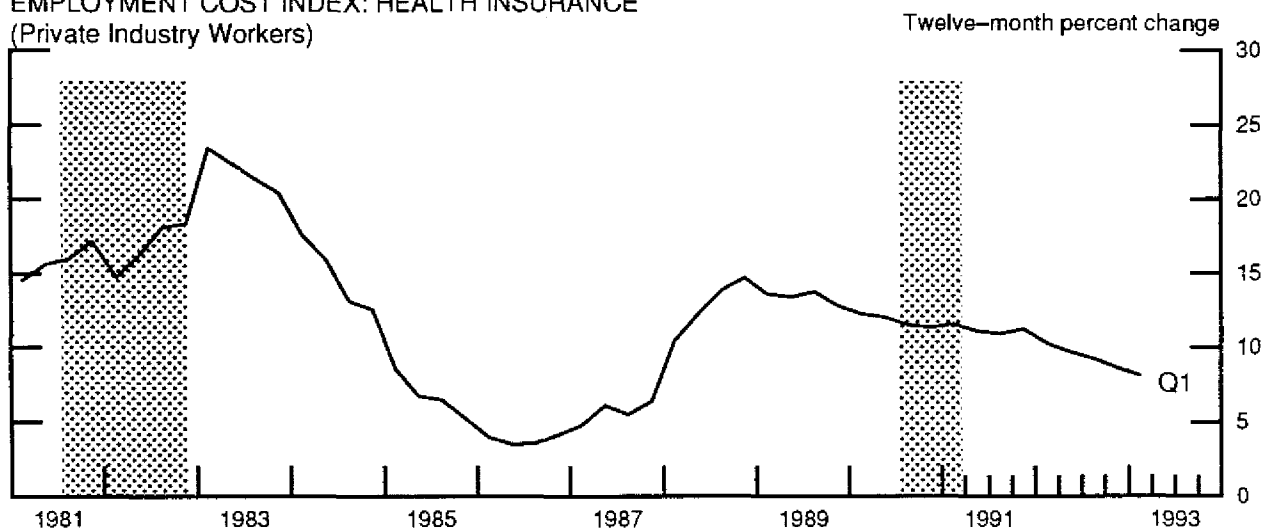
	1991	1992	1992				1993
			Mar.	June	Sep.	Dec.	Mar.
Total compensation costs:							
Private industry workers	4.4	3.5	4.2	3.7	3.4	3.5	3.5
By industry:							
Goods-producing	4.6	3.8	4.6	4.1	3.9	3.8	4.0
Service-producing	4.3	3.2	4.0	3.5	3.1	3.2	3.2
By occupation:							
White-collar	4.5	3.3	4.0	3.5	3.3	3.3	3.5
Blue-collar	4.3	3.6	4.3	4.0	3.7	3.6	3.6
Service workers	4.8	3.1	4.8	3.9	3.5	3.1	3.3
By bargaining status:							
Union	4.6	4.3	5.2	4.8	4.6	4.3	4.2
Nonunion	4.3	3.2	4.0	3.4	3.1	3.2	3.3
Memo:							
Wages and salaries	3.7	2.6	3.4	3.0	2.7	2.6	2.7
Benefits	6.2	5.2	6.3	5.5	5.2	5.2	5.6

EMPLOYMENT COST INDEX

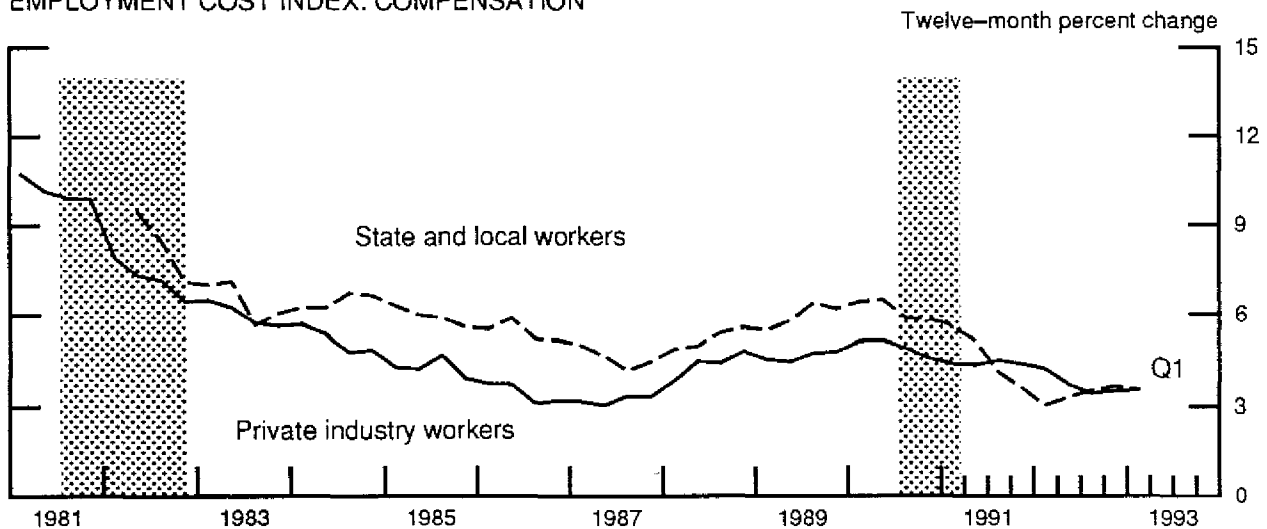
EMPLOYMENT COST INDEX
(Private Industry Workers)



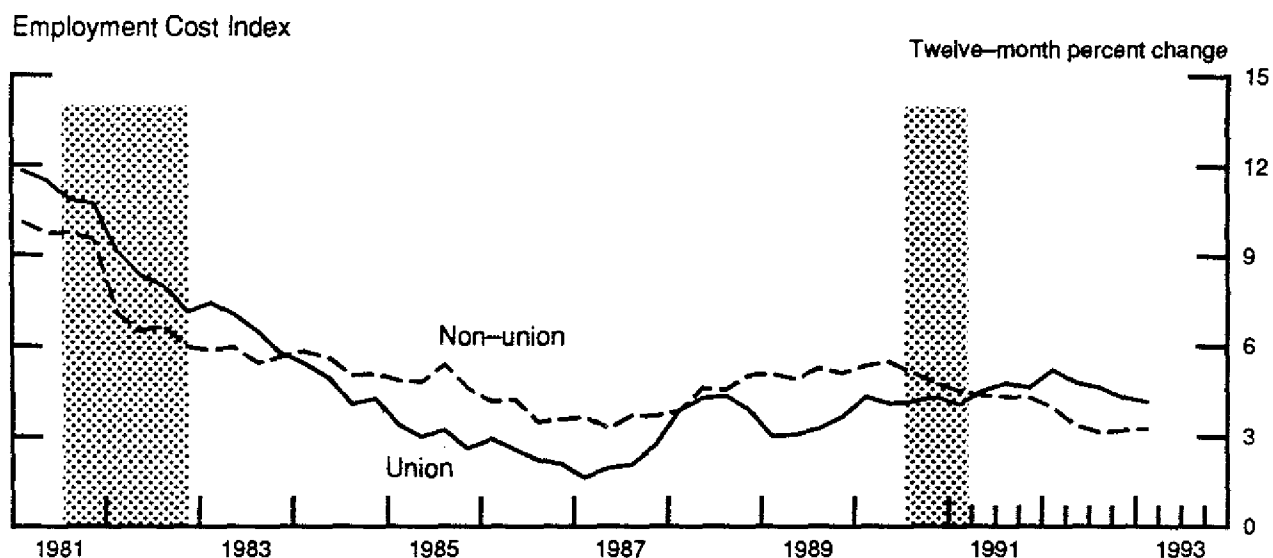
EMPLOYMENT COST INDEX: HEALTH INSURANCE
(Private Industry Workers)



EMPLOYMENT COST INDEX: COMPENSATION



COMPENSATION IN THE UNION SECTOR



EFFECTIVE WAGE CHANGE IN MAJOR UNION CONTRACTS AND COMPONENTS OF CHANGE

	Total Effective Wage Change	Contribution of:		COLAS
		Prior Settlements	New Settlements	
1988	2.6	1.3	.7	.6
1989	3.2	1.3	1.2	.7
1990	3.5	1.5	1.3	.7
1991	3.6	1.9	1.1	.5
1992	3.1	1.9	.8	.4
1992:Q1 ¹	3.5	2.0	1.1	.4
Q2 ¹	3.3	2.0	.9	.4
Q3 ¹	3.2	1.9	.9	.4
Q4 ¹	3.1	1.9	.8	.4
1993:Q1 ¹	2.9	1.8	.8	.4

1. Changes over the four quarters ended this period.

CHANGES IN NEGOTIATED WAGE AND COMPENSATION RATES
UNDER MAJOR COLLECTIVE BARGAINING SETTLEMENTS¹
(Percent change)

	1990	1991	1992	1992		1993
				Q3	Q4	Q1
Wage rate changes (all industries) ²						
First-year changes	4.0	3.6	2.9	2.9	1.8	2.8
Average over life of contract	3.2	3.2	3.1	3.1	2.6	3.1
Workers affected (in thousands)	2004	1790	1608	603	301	207
Compensation rate changes (all industries) ³						
First-year changes	4.6	4.1	3.3	3.3	1.4	3.1
Average over life of contract	3.2	3.4	3.3	3.0	2.7	3.1
Workers affected (in thousands)	1278	1179	919	445	177	117

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.

hourly earnings increased 2.6 percent, about the same as over the preceding twelve-month period.

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

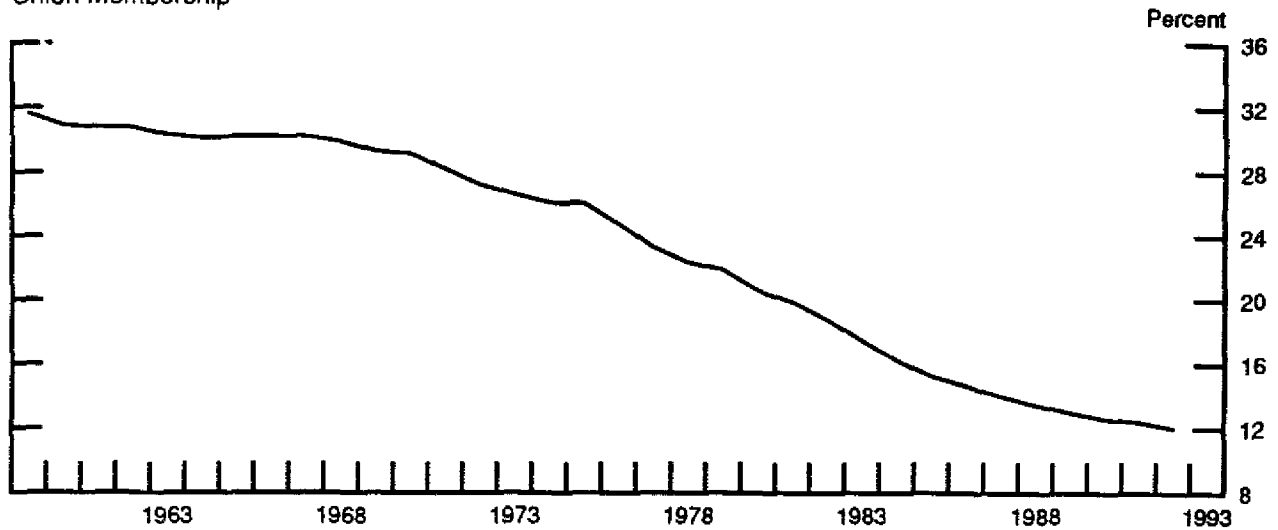
	<u>12 months ending in April</u>			<u>1993</u>		
	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>
				--Monthly rate--		
Total private nonfarm	3.2	2.5	2.6	.3	.3	.0
Manufacturing	3.4	2.7	2.6	.3	.0	.6
Services	4.0	3.1	2.6	.1	.2	-.3
Finance, insurance, real estate	3.9	4.0	4.2	.1	.2	.1

With regard to state and local government workers, the ECI for compensation increased 3.6 percent over the year ended in March, similar to the rise for private industry workers. The compensation of state and local workers decelerated sharply over 1990 and 1991. But, as with private industry workers, there has been no further moderation in the growth of their labor costs in recent quarters.

By bargaining status, compensation increases for union workers outpaced gains by nonunion workers in the first quarter, continuing the pattern seen over the past couple of years. Nevertheless, on a twelve-month change basis, compensation costs for union workers have decelerated in recent quarters. This pattern is true for wages as well: The ECI for wages and salaries for union workers increased 3 percent over the year ended in March, down from 3.4 percent over the preceding twelve-month period.

Separate data on major union settlements (covering 1,000 or more workers) also show continued deceleration in union wages. The effective wage change series--which is the collective bargaining series closest in concept to the ECI--rose 2.9 percent over the year ended in March, down from the 3.5 percent increase over the previous four quarters. New settlements in the first quarter called for wage

Union Membership *



* As a share of private wage and salary workers.

CALENDAR OF MAJOR COLLECTIVE BARGAINING ACTIVITY IN 1993¹

	Principal Industries	Contract Expirations	
		Agreements	Workers Covered (thousands)
January	Bituminous coal, petroleum refining	31	128
February	Transportation equipment	24	65
March	Construction	50	144
April	Construction, food stores	32	135
May	Construction, aluminum, electric and gas utilities, food stores	82	231
June	State and local government, construction	241	754
July	Construction, steel, trucking, local governments	43	280
August	Local government, steel	41	150
September	Automobiles, apparel, local government	46	638
October	Food stores	32	153
November	Transportation equipment	20	49
December	Local government, electric and gas utilities, health services	33	87
Total 1993		669	2,795

1. Only bargaining units covering 1,000 workers or more are included.

adjustments averaging 3.1 percent annually over the life of the contract. This increase is similar to those posted in 1992 settlements and is less than that when the same parties bargained two to three years ago. Compensation rate changes in new settlements--for which data are collected only from contracts covering 5,000 or more workers--also averaged 3.1 percent over the life of the contract, slightly less than for contracts signed in 1992.

Although the unionized sector has shrunk over time, collective bargaining data continue to provide useful information on wage setting in certain sectors. Of particular note this year is the triennial contract between the UAW and the Big Three automakers, which covers some 600,000 workers; the agreement expires in September. Also expiring later this year are agreements covering a large number of workers in construction, steel, and state and local governments. As has been the case in recent years, health insurance costs--both for current employees and for retirees--are likely to be a prominent issue in these upcoming negotiations.

DOMESTIC FINANCIAL DEVELOPMENTS

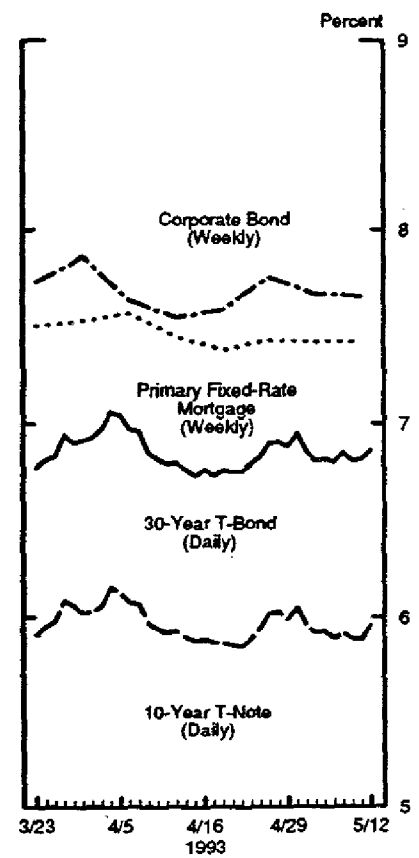
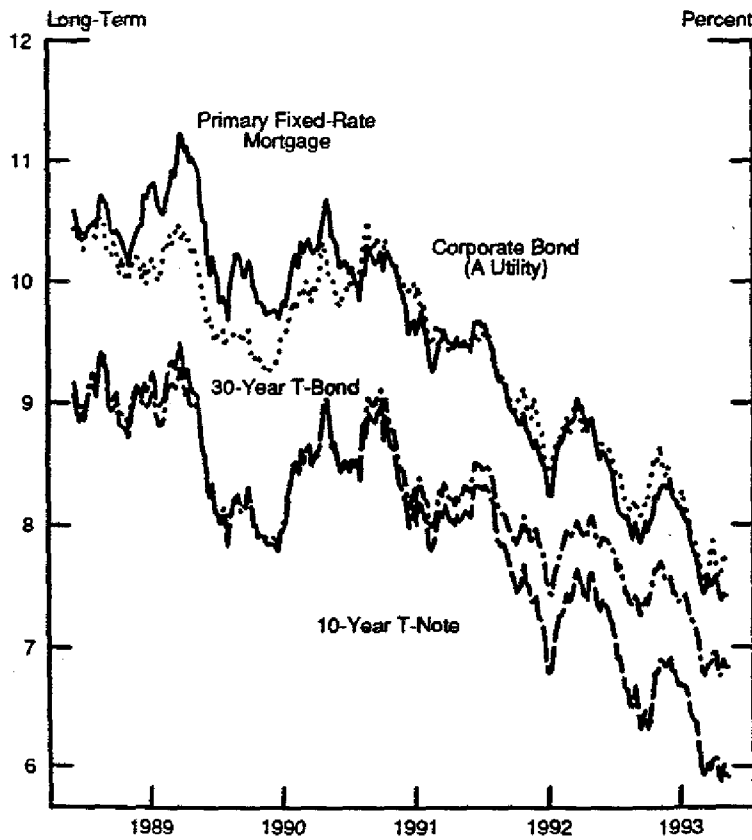
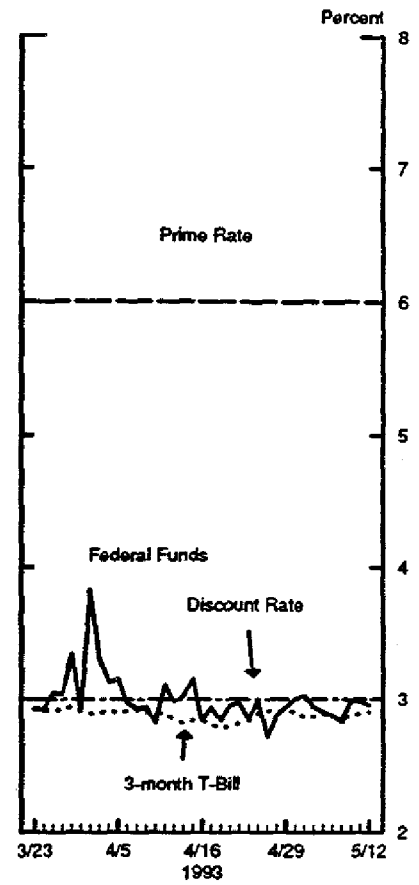
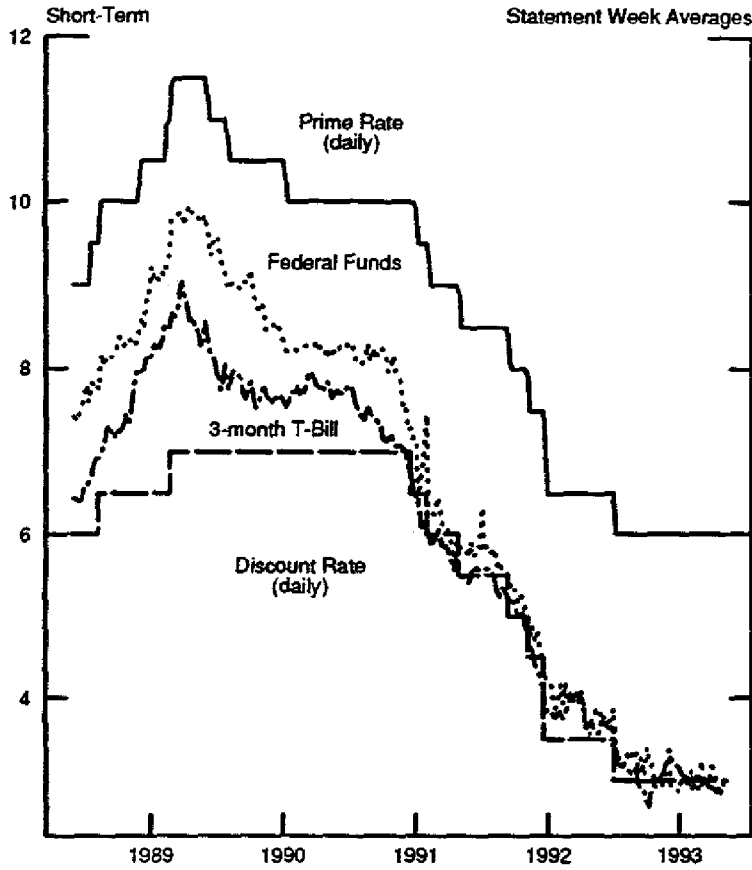
SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent except as noted)

Instrument	1992		1993		Change to May 12, 1993	
	Sept. 4	FOMC	Mar. 23	May 12	From Sept. 4	From FOMC Mar. 23
SHORT-TERM RATES						
Federal funds ²	3.19	3.03	2.94		-.25	-.09
Treasury bills ³						
3-month	2.92	2.92	2.90		-.02	-.02
6-month	2.96	3.03	3.00		.04	-.03
1-year	3.06	3.15	3.13		.07	-.02
Commercial paper						
1-month	3.22	3.14	3.09		-.13	-.05
3-month	3.22	3.23	3.11		-.11	-.12
Large negotiable CDs ³						
1-month	3.06	3.09	3.05		-.01	-.04
3-month	3.06	3.09	3.06		.00	-.03
6-month	3.11	3.18	3.12		.01	-.06
Eurodollar deposits ⁴						
1-month	3.31	3.06	3.00		-.31	-.06
3-month	3.31	3.13	3.06		-.25	-.07
Bank prime rate	6.00	6.00	6.00		.00	.00
INTERMEDIATE- AND LONG-TERM RATES						
U.S. Treasury (constant maturity)						
3-year	4.38	4.31	4.28		-.10	-.03
10-year	6.40	5.91	5.96		-.44	.05
30-year	7.29	6.77	6.86		-.43	.09
Municipal revenue (Bond Buyer) ⁵	6.31	5.90	5.84		-.47	-.06
Corporate--A utility, recently offered ⁶	8.06	7.55	7.66		-.40	.11
Home mortgages						
FHLMC 30-yr. fixed rate	7.84	7.57	7.42		-.42	-.15
FHLMC 1-yr. adjustable rate	5.15	4.82	4.63		-.49	-.19

Stock exchange index	Record high		1989		1993		Percentage change to May 12	
	Level	Date	Low. Jan. 3	FOMC. Mar. 23	May 12	From record high	From 1989 low	From FOMC. Mar. 23
Dow-Jones Industrial	3482.31	5/12/93	2144.64	3461.86	3482.31	.00	62.37	.59
NYSE Composite	251.36	3/10/93	154.00	247.26	246.06	-2.11	59.78	-.49
AMEX Composite	428.43	5/12/93	305.24	419.56	428.43	.00	40.36	2.11
NASDAQ (OTC)	708.85	2/4/93	378.56	675.04	681.69	-3.83	80.07	.99
Wilshire	4475.25	3/10/93	2718.59	4396.65	4379.27	-2.14	61.09	-.40

1. One-day quotes except as noted.
2. Average for two-week reserve maintenance period closest to date shown. Last observation is average for maintenance period ending May 12, 1993.
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



Domestic Financial Developments

Short-term interest rates are little changed on balance since the last FOMC meeting. Federal funds have continued to trade around 3 percent, and other short-term rates have remained in the narrow zone that has prevailed since last summer. Long-term rates are up about 10 basis points on net. Early in the intermeeting period, the yield on the thirty-year Treasury bond rose almost 30 basis points, with most of the movement owing to shifts in forward rates at maturities beyond three years. This early spike likely was fueled by concerns about a buildup in inflationary pressures, sparked by a sharp increase in average hourly earnings and reinforced by some pressure on commodity prices. Those fears subsided with a subsequent string of more favorable price readings and indications of a slowing in the pace of economic expansion, but the markets showed signs of edginess about the uncertain fate of the deficit reduction effort and were jolted most recently by adverse news on consumer and producer prices.

Despite more favorable earnings reports than expected on balance, stock price indexes were narrowly mixed: The NYSE composite posted a small decline, while the NASDAQ rose 1 percent. Bank stocks, in particular, were pummeled, with shares of money center banks falling about 5 percent.

Public bond and equity issuance, while slowing from the pace earlier in the year, remained heavy in April. Much of the proceeds continued to be used to retire outstanding loans and securities, and the growth rate of total business debt appeared to remain quite sluggish. State and local government debt expanded at a moderate rate, bolstered in part by heavy issuance of advance refunding bonds. Household borrowing also appears to have remained moderate, even though use of revolving debt seems to have picked up

MONETARY AGGREGATES
(Based on seasonally adjusted data except as noted)

Aggregate or component	1992 ¹	1992 Q4	1993 Q1	1993 Feb	1993 Mar	1993 Apr	Growth Q4 92- Apr 93
-----Percentage change (annual rate)-----							
1. M1	14.3	16.8	6.6	-0.2	2.7	9.0	6.1
2. M2	1.8	2.7	-2.0	-4.0	-1.0	0.1	-1.6
3. M3	0.3	-0.2	-3.8	-1.8	-1.7	1.9	-2.3
-----Percentage change (annual rate)-----							Level bil. \$ Apr 93
<u>Selected components</u>							
4. M1-A	13.7	15.3	6.2	3.7	4.3	14.4	656.8
5. Currency	9.1	10.3	9.4	8.6	8.9	9.6	301.4
6. Demand deposits	18.0	19.6	3.7	0.0	0.4	18.6	347.3
7. Other checkable deposits	15.4	19.3	7.3	-6.8	0.0	0.0	386.4
8. M2 minus M1 ²	-2.6	-2.8	-5.5	-5.6	-2.5	-3.7	2429.6
9. Overnight RPs and Eurodollars, n.s.a.	1.8	2.2	-10.7	10.0	0.0	-56.0	69.5
10. General-purpose and broker-dealer money market mutual fund shares	-5.2	-4.1	-10.1	-21.2	-1.8	-5.0	331.7
11. Commercial banks	-0.1	0.2	-2.2	2.8	-2.9	-1.8	1254.8
12. Savings deposits (including MMDAs)	14.5	12.9	1.6	2.5	-2.9	3.0	755.8
13. Small time deposits	-15.8	-17.2	-7.6	3.1	-2.9	-9.1	499.0
14. Thrift institutions	-5.5	-6.0	-9.0	-16.6	-8.3	-3.0	770.7
15. Savings deposits (including MMDAs)	14.8	8.7	-0.2	-10.0	-5.1	2.3	425.1
16. Small time deposits	-21.5	-21.7	-19.1	-24.1	-12.6	-9.3	344.6
17. M3 minus M2 ³	-6.6	-14.4	-13.4	9.9	-5.1	11.5	662.8
18. Large time deposits	-16.3	-17.1	-17.8	-15.1	-20.4	9.5	343.1
19. At commercial banks ⁴	-15.4	-18.3	-18.0	-12.3	-20.9	8.7	277.9
20. At thrift institutions	-19.6	-11.3	-17.5	-28.6	-18.3	11.2	65.1
21. Institution-only money market mutual fund shares	18.2	-19.3	-14.1	35.5	-5.9	-3.0	200.4
22. Term RPs, n.s.a.	7.8	23.1	10.9	37.6	55.4	37.6	88.8
23. Term Eurodollars, n.s.a.	-22.6	-28.5	-7.7	74.5	59.7	-4.9	48.3
-----Average monthly change (billions of dollars)-----							
<u>Memo⁵</u>							
24. Managed liabilities at commercial banks (lines 25 + 26)	-2.1	-4.7	-0.3	-2.0	7.9	6.3	683.8
25. Large time deposits, gross	-4.6	-5.6	-3.6	-1.5	-2.7	-0.7	355.0
26. Nondeposit funds	2.5	0.8	3.3	-0.5	10.6	7.0	328.8
27. Net due to related foreign institutions	2.8	2.6	2.7	-0.8	5.8	7.1	86.9
28. Other ⁶	-0.2	-1.8	0.7	0.3	4.8	-0.1	241.9
29. U.S. government deposits at commercial banks ⁷	-0.5	-1.2	-0.5	-2.0	-4.8	5.5	24.3

1. Change 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 holdings of money market mutual funds, depository institutions, U.S. government, and foreign banks and official institutions.
5. Calculated on end-month-of-quarter basis.
6. Borrowing from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase, and other liabilities for borrowed money (including borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs, and other minor items). Data are partially estimated.
7. Treasury demand deposits and note balances at commercial banks.

considerably with the increase in aggressive rebate programs. Private domestic nonfinancial debt expanded at about a 3-1/2 percent annual rate from the fourth quarter through March, near the pace set last year, while federal debt growth, at 9-1/2 percent, was somewhat below last year's pace. Overall, the debt aggregate expanded at about a 5 percent rate through the first quarter, placing it above the lower bound of its monitoring range.

The broader monetary aggregates remained weak through April, before surging in early May. Temporary factors continued to depress M2 growth in March, had little net effect in April, but appear to be spurring the rebound in early May. Abstracting from such influences, the underlying growth in M2 since the fourth quarter has been modest. Both M2 and M3 remain well below the lower bounds of their target ranges.

Monetary Aggregates and Bank Credit

M2 posted its fourth consecutive monthly decline in March. M2 velocity shot up at a 7 percent pace in the first quarter, even though deposit rates relative to short-term market rates were about unchanged. This was the largest quarterly increase in velocity since the early 1980s, when binding deposit rate ceilings were causing heavy outflows from deposits.

The weakness in M2 has continued to be mirrored by large net inflows into bond and stock mutual funds. In March, these inflows were near the record pace set in January, and April reportedly was another strong month. Contributing to the strength of these inflows have been the expanding efforts of banks in recent years to sell mutual funds to retail customers. Results from a recent Senior Financial Officer Survey indicate a rapidly growing availability of mutual funds at large banks, as well as enlarged sales staffs and more intense marketing. M2 growth also was damped somewhat in March

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT¹
(Percentage change at annual rate, based on seasonally adjusted data)

Category	1991 Dec. to 1992 Dec.	1992 Q 4	1993 Q 1	1993 Feb.	1993 Mar.	1993 Apr. p	Level, bil.\$ 1993 Apr. p
	Commercial bank credit						
1. Total loans and securities at banks	3.5	2.7	1.6	1.4	5.3	5.0	2,962.5
2. Securities	13.0	7.1	11.6	16.0	21.8	15.8	870.0
3. U.S. government	17.5	10.7	14.1	18.2	23.5	16.7	691.8
4. Other	-1.2	-5.8	2.5	7.6	15.2	12.2	178.2
5. Loans	0.2	1.0	-2.5	-4.3	-1.4	0.6	2,092.6
6. Business	-3.2	-2.0	-1.8	-2.4	-5.2	-6.3	589.6
7. Real estate	2.1	2.4	-2.6	-3.1	0.3	-0.3	886.8
8. Consumer	-1.8	-1.2	6.0	7.0	1.7	12.3	364.6
9. Security	18.2	3.7	-14.8	-26.6	15.6	-34.6	60.7
10. Other	0.7	7.3	-15.1	-29.0	-9.5	15.9	190.9
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-3.3	-3.1	-2.7	-4.9	-5.7	-6.8	580.8
12. Loans at foreign branches ²	2.0	11.4	-30.0	-61.4	-34.9	5.1	23.5
13. Sum of lines 11 and 12	-3.1	-2.5	-3.9	-7.2	-6.9	-6.3	604.3
14. Commercial paper issued by nonfinancial firms	9.5	16.6	-9.0	-2.4	-15.3	30.1	151.1
15. Sum of lines 13 and 14	-0.8	1.2	-4.9	-6.4	-8.4	1.0	755.5
16. Bankers acceptances, U.S. trade-related ^{3,4}	-16.9	-6.8	-10.4	-26.3	10.8	n.a.	22.5 ⁵
17. Finance company loans to business ⁴	1.8	1.2	-2.5	-10.6	6.7	n.a.	305.4 ⁵
18. Total (sum of lines 15, 16, and 17)	-0.5	1.0	-4.3	-8.0	-3.9	n.a.	1,082.8 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. March 1993.

p--Preliminary.

n.a.--Not available.

by a temporary pause between waves of settlements of mortgage refinancing transactions and by the use of seasonal adjustment factors that were swollen by the lagged effects of year-end monetary easings in 1990 and 1991.

In April a turnaround of the seasonal distortions and a strengthening in prepayments of mortgage-backed securities boosted growth in demand deposits and M1. At the M2 level, however, this pickup was mostly offset by weak nonwithheld tax payments, which depressed the buildup of liquid household balances. In early May, a reversal of tax effects and likely still stronger prepayment activity probably contributed to a bounce-back of M1 and M2.

M3 edged higher in April after declining in March. The broad aggregate was boosted by an increase in large time deposits--the first monthly growth in more than two years. Institution-only money funds declined in both March and April. M3 also has jumped in early May.

Nondeposit sources of funds grew briskly at both domestic and foreign-related banks in March and April. Large U.S. offices of foreign banks have continued to increase their reliance on borrowings from related foreign offices. Thus, despite the weakness of the broader monetary aggregates, bank credit expanded moderately, growing at rates of 5-1/4 and 5 percent in March and April respectively.¹ The growth of bank credit has been accounted for by acquisitions of securities. Total loans slid further in March before flattening out in April, when consumer loans jumped, partly as a result of a comparative lack of securitizations, but largely reflecting increased credit extensions. Real estate loans were little changed and business loans fell over the two-month period. The pattern of loan growth among banks (table) shows that most of

1. Bank credit data have been benchmarked to the December 1992 Call Report.

the recent weakness in these two components and in total loans was at large domestic banks and foreign-related institutions. The continued runoff of business loans at larger banks in part likely reflects the use of proceeds from bond and stock issuance; at small banks, business loan growth, while weaker in April, has been positive for the past few months. The decline in real estate loans at foreign banks and large domestic banks probably is a continuation of an ongoing adjustment in the commercial real estate sector.

LOAN GROWTH BY BANK GROUP
(Seasonally adjusted annual rates¹)

	All banks	Large domestic banks	Small domestic banks	Foreign- related institutions
<u>Total loans</u>				
1992 - Q4	1.0	.4	1.6	1.8
1993 - Jan.	-1.7	-6.9	0	13.3
Feb.	-4.3	-5.8	3.7	-24.0
Mar.	-1.4	-2.4	3.0	-12.0
Apr.	.6	-.6	6.4	-14.4
<u>Business loans²</u>				
1992 - Q4	-2.0	-2.0	-2.0	-2.0
1993 - Jan.	2.2	-3.4	-2.2	17.0
Feb.	-2.4	-2.2	6.7	-12.2
Mar.	-5.2	-7.8	9.7	-15.4
Apr.	-6.3	-13.1	2.9	-4.7
<u>Real estate loans</u>				
1992 - Q4	2.4	2.3	5.8	-21.9
1993 - Jan.	-5.0	-8.0	1.1	-34.7
Feb.	-3.1	-10.5	4.7	-9.5
Mar.	.3	-3.9	5.7	-14.4
Apr.	-.3	-.9	3.0	-24.3

1. Data are adjusted for breaks caused by reclassifications.

2. Includes holdings of bankers acceptances and nonfinancial commercial paper.

Banks, having fortified their capital positions by issuing equity and subordinated debt and by retaining a record amount of earnings, appear able to increase their loan portfolios. Responses to the most recent Senior Loan Officer Survey indicate that banks have begun to ease terms and standards on business loans and that the demand for bank loans has increased a bit in recent months. However, the persistence of wide rate spreads on loans suggests that banks continue to seek greater compensation for risk bearing than in times past.

Nonfinancial Business Finance

Incoming data since the last FOMC meeting point to no real pickup in aggregate net business borrowing from the sluggish pace evident since last year. Underlying external funding needs have been modest, and net equity issuance has remained strong, damping the need of many corporations to borrow. The strength in commercial paper in April was only enough to balance the weakness in business loans, leaving their sum up only slightly for the month. Gross public bond offerings by nonfinancial corporations were exceptionally high again in April, albeit below the torrid pace of the first quarter.

The private placement market has seen a recent deluge of issues by below-investment-grade companies, with more than \$3-1/2 billion reported to have been raised since early March. In addition, Time-Warner and News Corp., two companies with split ratings, sold a combined \$1-1/2 billion. All \$5 billion of offerings have come with registration rights, which obligate the issuers to register the securities as public issues with the Securities and Exchange Commission within a few months. Investors view these private issues as virtually equivalent to publicly issued junk bonds, and junk-bond mutual funds have been the primary buyers.

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

	-----1992-----			-----1993-----			
	1991	1992	Q4	Q1 ^P	Feb ^P	Mar ^P	Apr ^P
Corporate securities - total	32.14	40.81	38.33	55.68	60.26	55.63	41.62
Public offerings in U.S.	29.35	38.01	36.12	51.64	57.36	50.64	39.25
Stocks--total	5.44	6.54	5.84	8.04	10.06	8.84	6.25
Nonfinancial	3.72	4.03	3.13	4.39	5.05	5.32	3.67
Utility	0.42	0.87	0.44	0.63	0.41	1.09	0.69
Industrial	3.30	3.16	2.69	3.76	4.64	4.23	2.98
Financial	1.72	2.51	2.71	3.66	5.01	3.52	2.58
Bonds	23.91	31.47	30.29	43.59	47.30	41.80	33.00
Nonfinancial	9.52	12.81	10.42	19.90	18.55	21.70	17.00
Utility	2.99	5.33	3.36	9.16	8.78	11.10	8.55
Industrial	6.54	7.47	7.06	10.73	9.78	10.60	8.45
Financial	14.39	18.67	19.87	23.69	28.75	20.10	16.00
By quality							
Aaa and Aa	3.72	3.73	3.26	5.53	7.53	4.99	3.78
A and Baa	12.09	14.50	11.88	20.92	22.65	20.28	17.78
Less than Baa	1.03	3.10	3.23	4.92	3.93	4.32	4.01
No rating (or unknown)	0.02	0.08	0.16	0.05	0.00	0.15	0.03
Memo items:							
Equity-based bonds	0.63	0.62	0.68	0.49	0.20	0.60	0.33
Mortgage-backed bonds	2.99	6.07	6.05	7.94	8.26	7.85	4.10
Other asset-backed	4.07	4.00	5.70	4.23	4.93	4.21	3.30
Variable-rate notes	0.84	1.89	2.47	2.04	4.12	1.64	2.35
Bonds sold abroad - total	2.33	2.30	1.95	3.52	2.18	4.50	2.00
Nonfinancial	1.00	0.84	0.63	0.74	0.59	1.00	0.60
Financial	1.33	1.46	1.32	2.78	1.59	3.50	1.40
Stocks sold abroad - total	0.46	0.50	0.25	0.53	0.72	0.49	0.37
Nonfinancial	0.38	0.39	0.19	0.37	0.54	0.34	0.30
Financial	0.08	0.11	0.06	0.16	0.19	0.16	0.07

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 \$15 billion in 1991.

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.

Gross public offerings of equity by nonfinancial corporations fell in April from the rapid first-quarter pace but, at about \$3-3/4 billion, were near the heavy issuance rate of the past two years. Initial public offerings by nonfinancial firms fell sharply to \$600 million in April from March's total of \$1.8 billion, the first reading below \$1 billion since November.

Although low interest rates and corporate restructuring have improved business balance sheets in the aggregate, downgrades by Moody's of nonfinancial corporate bonds exceeded upgrades, 41 to 23, in the first quarter and were near the fourth-quarter levels of 1992. Downgrades were particularly common among firms tied to the commercial aviation, aerospace, and computer businesses. Ratings improved substantially among banks, however, and only four insurance companies were downgraded last quarter compared with ten in the previous quarter. Recently published data indicate that, in 1992, the failure rate of businesses rose slightly in the Pacific Coast region but were about unchanged in other areas of the country.

Treasury and Sponsored Agency Financing

The staff anticipates that net marketable Treasury borrowing will total \$50 billion in the second quarter of which \$26 billion will be used to finance the second-quarter federal deficit, and the remainder will boost the end-of-quarter cash balance.² Nonmarketable borrowing is expected to increase from last quarter's pace, largely reflecting purchases of SLGs by state and local governments with proceeds from sales of advance refunding bonds.

As usual, the short end of the maturity spectrum has borne the brunt in offsetting the effect on the Treasury's cash balance of April tax inflows. Weekly Treasury bill auctions in April were cut

2. In early April, Congress temporarily increased the debt ceiling to \$4.37 trillion. The debt ceiling is scheduled to revert to the \$4.15 trillion level at the end of September.

TREASURY AND AGENCY FINANCING¹
(Total for period; billions of dollars)

	1993				
	Q1	Q2 ^P	Apr. ^P	May. ^P	June ^P
<u>Treasury financing</u>					
Total surplus/deficit (-)	-62.4	-26.0	10.5	-39.8	3.2
Means of financing deficit:					
Net cash borrowing from the public	60.1	62.5	10.4	28.2	23.9
Marketable borrowings/ repayments (-)	53.2	49.8	1.8	26.1	21.9
Bills	2.2	-1.7	-17.7	13.9	2.1
Coupons	51.0	51.5	19.5	12.2	19.9
Nonmarketable	6.9	12.7	8.7	2.1	2.0
Decrease in the cash balance	8.3	-29.4	-18.9	23.7	-34.1
Memo: Cash balance at end of period	21.6	50.9	40.5	16.8	50.9
² Other	-6.0	-7.1	-2.0	-12.0	6.9
<u>Federally sponsored credit agencies, net cash borrowing³</u>					
	8.5	--	--	--	--
FHLBs ⁴	-1.4	--	--	--	--
FHLMC	11.6	--	--	--	--
FNMA	-0.5	--	--	--	--
Farm Credit Banks	-0.3	--	--	--	--
SLMA	-0.9	--	--	--	--
FAMC ^{4,5}	.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. Excludes data for March 1993.

5. Federal Agricultural Mortgage Corporation.

p projected.

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

from \$22.4 billion to \$20 billion, but since have been boosted back to \$24 billion, reflecting individual nonwithheld tax payments that were lower than expected and the Treasury's increased reliance on short-term borrowing.

The Treasury's intended shift in debt management, announced in advance of the May midquarter refunding and designed to lower Treasury borrowing costs, elicited little market reaction. These shifts, which will be implemented after the May midquarter refunding, include auctioning thirty-year bonds semiannually in February and August rather than quarterly (likely resulting in annual cutbacks of about 40 percent from current levels), eliminating the quarterly seven-year note auction, and offsetting these reductions by increasing gross auction sizes of bills and coupons with maturities of three years or less.

The May midquarter refunding totaled \$35 billion: Issuance of the three-year notes was increased \$0.5 billion to \$16 billion; issuance of the ten-year notes was left unchanged at \$10.75 billion; and issuance of the thirty-year bonds was reduced \$1 billion to \$8.25 billion. The latter two issues were re-openings from previously auctioned securities. The Treasury also announced that it would auction a long-dated \$15 billion cash management bill in mid-May, which will help cushion the effect of the omitted auctions.

The Treasury initiated its Treasury Automated Auction Processing System (TAAPS) in late April at the fifty-two-week bill auction. This and subsequent auctions have gone smoothly: The results generally have been announced earlier than the norm under the paper-driven system and most of the registered primary dealers have used TAAPS. The system will allow more reliable enforcement of Treasury auction rules.

Municipal Securities

Gross issuance of long-term municipal debt was heavy in April at \$18.7 billion, though down significantly from the \$27.5 billion in March, which was the third highest volume on record. The pace of new offerings has been brisk thus far in May; the calendar of prospective offerings, however, has begun to lighten, pointing to the possibility of some slowing in issuance later in the month. Refundings continued to dominate offerings, representing more than 70 percent of April's total issuance. Over the past four months, refundings have been more than two-thirds of all offerings, as compared with roughly 40 percent in 1992. The large volume of new offerings has contributed to a small increase in municipal bond yields relative to Treasury rates since early March. Upward pressure on tax-exempt yields also came from an appreciable slowing in inflows to tax-exempt bond funds in March, which in the past two years were the largest group of buyers of municipal bonds.

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

	1992			1993			
	1991	1992	Q4	Q1 ^P	Feb.	Mar. ^P	Apr. ^P
Total offerings ¹	16.68	21.78	19.87	22.67	19.84	28.90	23.38
Total tax-exempt	16.26	21.21	19.33	22.23	19.30	28.41	23.19
Long-term	12.87	17.93	18.26	21.08	17.80	27.48	18.66
Refundings ²	3.12	7.91	8.33	14.34	13.16	17.76	13.28
New capital	9.75	10.02	9.93	6.74	4.64	9.72	5.38
Short-term	3.39	3.28	1.07	1.15	1.50	.93	4.53
Total taxable	.42	.57	.54	.44	.54	.49	.19

p preliminary.

1. Includes issues for public and private purposes.

2. Includes all refunding bonds, not just advance refundings.

Boosted by California's \$3.0 billion of revenue anticipation notes and an \$850 million offering by New York, short-term tax-exempt volume surged in April to \$4.5 billion. Proceeds from both offerings were used primarily to pay off maturing short-term debt. New York's offering was considerably smaller than those in recent years, reflecting a program implemented in 1990 to refinance the deficit with long-term bonds.

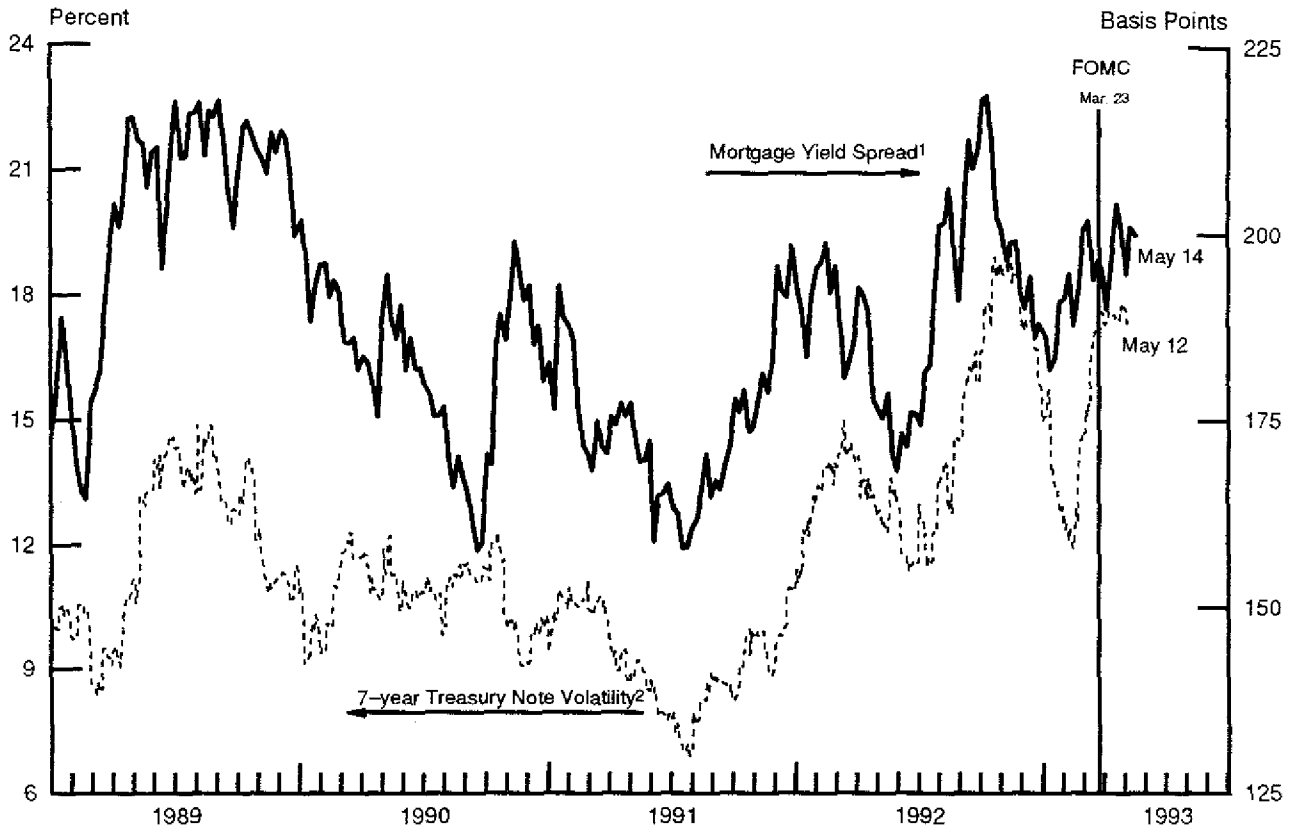
The fiscal outlook for state and local governments appears to be slowly improving. A recent survey of state budget officers indicates that states generally have adopted conservative budgets for 1993 and 1994, with spending increases averaging 3 percent each year. Revenues are expected to grow at a slightly greater pace over the same period, even though most states are eschewing tax increases.

Credit-rating changes on long-term municipal bonds showed some improvement during the first quarter of 1993. At Moody's, the number of upgrades outpaced the number of downgrades by a margin of 1-1/2 to 1. At Standard and Poor's, downgrades outstripped upgrades, but the majority of the rating decreases resulted from the lowering of ratings on two bond insurers; apart from these, the ratio of upgrades to downgrades was roughly 1.5 compared with 0.28 in 1991 and 0.82 in 1992. Both rating agencies noted strengthening in the credit quality of revenue bonds, especially those of utilities.

Mortgage Markets

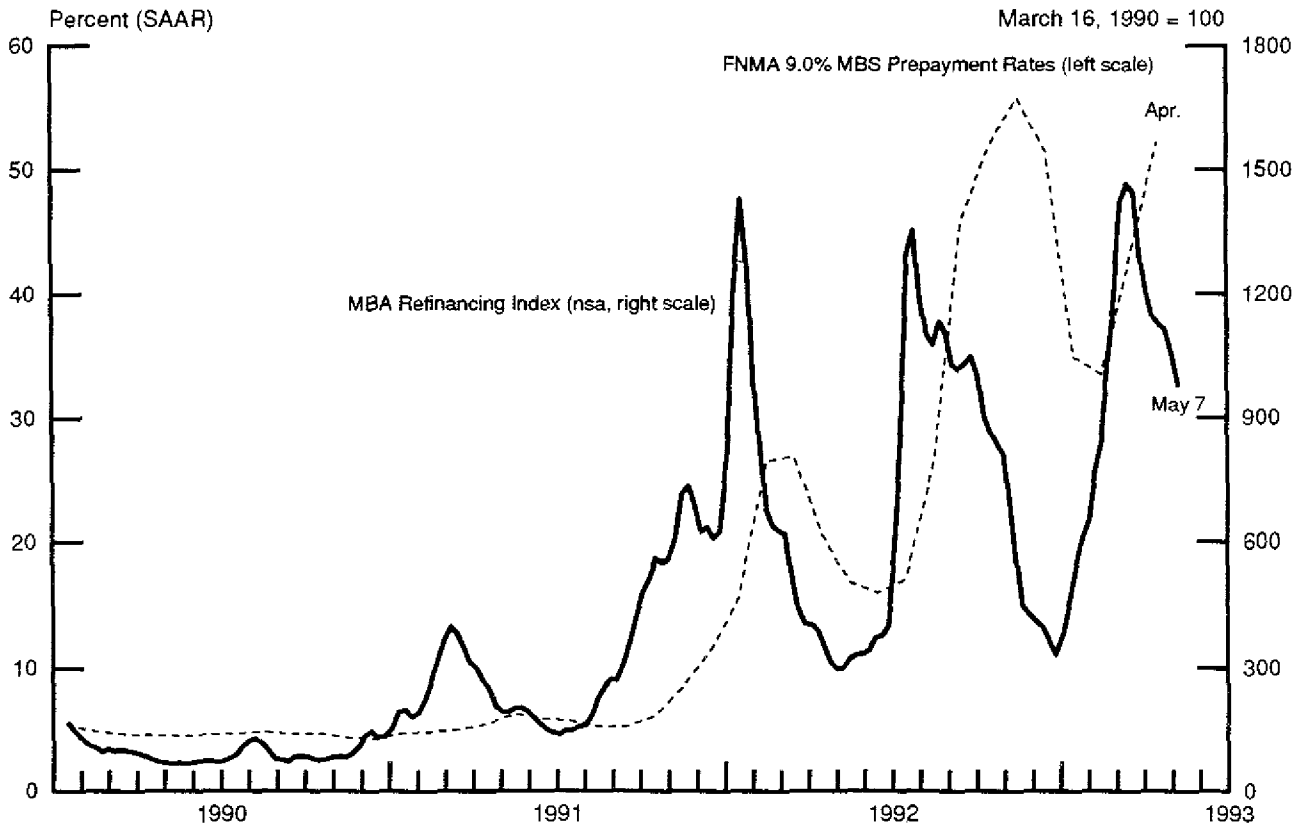
During the period since the last FOMC meeting, interest rates on conventional thirty-year, fixed-rate mortgages dropped to their lowest level since August 1972 before edging back up to an average of 7.42 percent last week--still more than 140 basis points below their level one year earlier. Mortgage yield spreads widened only

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 annualized standard deviation of daily percentage changes in yield over previous 60 days.

Indicators of Residential Mortgage Refinancing



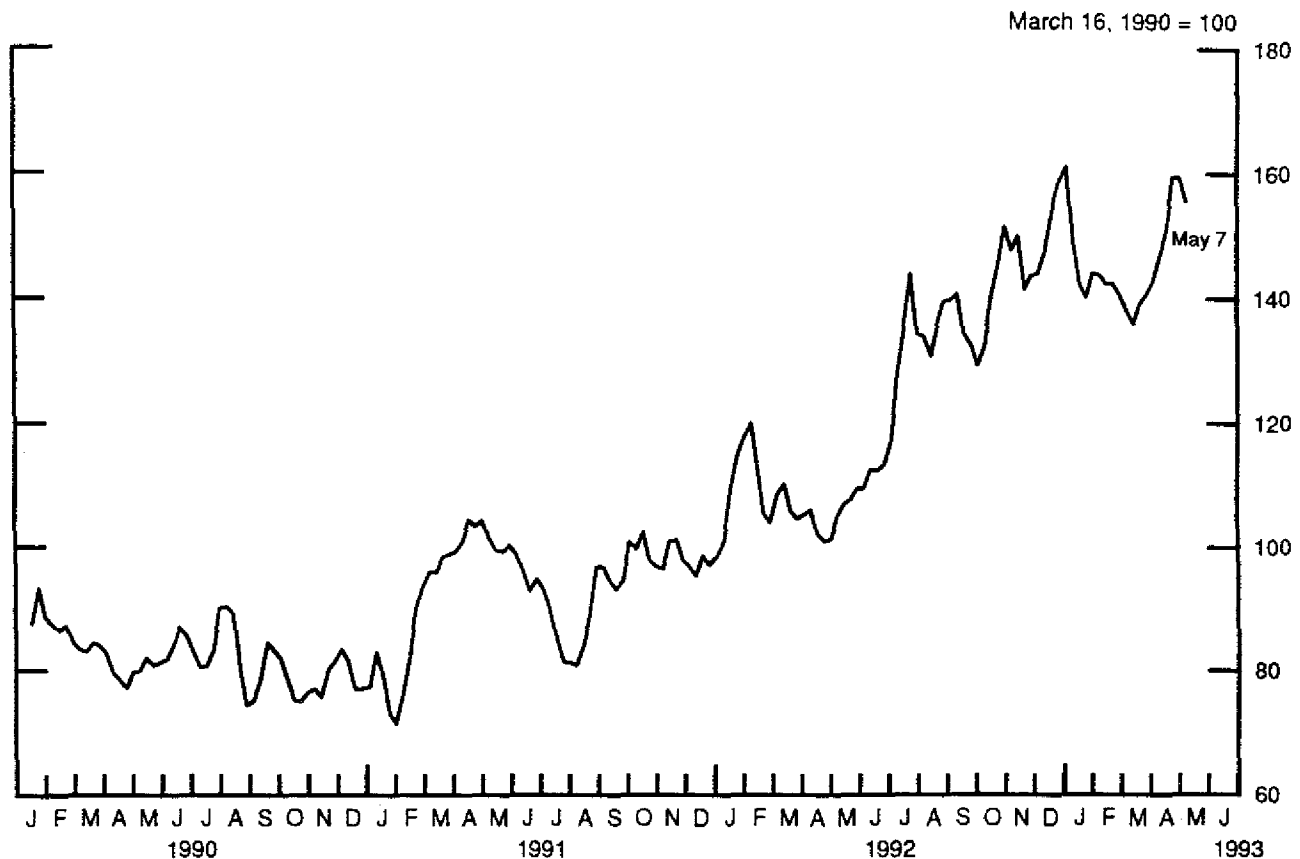
about 6 basis points on balance over the period, and market volatility has remained elevated (chart). Rates on adjustable-rate mortgages declined another 19 basis points to 4.63 percent last week, the lowest level on record.

Against this backdrop, the Mortgage Bankers Association's indexes of mortgage applications have remained at high levels. Actual mortgage prepayment rates surged in March, a widely expected acceleration in light of previous increases in mortgage applications (chart). Moreover, the index of new applications to finance home purchases appears to have picked up sharply, on a seasonally adjusted basis, in recent weeks (chart).

Commensurate with the slowdown in housing activity in the first quarter and the lagged effects of the decline in mortgage refinancing applications late last year, gross issuance of agency pass-through securities declined sharply in February and March from January's peak. However, issuance of collateralized mortgage obligations and mortgage strips remained heavy (table). The reduced supply of mortgage-backed securities and the steady issuance of CMOs has helped hold spreads below levels seen last year. With the resurgence of prepayments in March and April, most market analysts are predicting an imminent rise in issuance of MBSs that likely will put upward pressure on spreads.

In April, the Financial Accounting Standards Board (FASB) voted to proceed with the enactment of fair-value accounting. The new rules will become part of GAAP, applying to financial institutions and nonfinancial institutions with security portfolios. Most holders of mortgage-backed and other securities likely will designate them as available for sale, requiring firms directly to adjust shareholders' equity for unrealized gains and losses. Investors subject to the new rules are likely to reduce their

MBA Purchase Index
(Seasonally Adjusted)¹



1. Seasonally adjusted by Federal Reserve Board staff.

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

	Pass-through securities				Multiclass securities				
	Total (SA)	Federal Rate (SA)	agency ARM- backed	Private Non- agency ¹	Total	Non- agency ²	FNMA REMICs	FHLMC REMICs	Agency strips
1989	17.3	13.9	2.7	.7	7.2	.6	3.1	3.2	.3
1990	20.2	17.2	2.4	.6	10.5	1.4	5.1	3.4	.6
1991	23.7	20.1	2.0	1.6	18.0	2.6	8.5	6.0	.9
1992	40.1	34.7	3.2	2.2	30.0	5.3	12.9	11.0	.8
1992-Q1	36.0	32.0	2.0	2.0	23.6	4.9	11.1	7.0	.6
Q2	41.4	36.2	3.6	1.6	32.6	5.4	13.9	12.4	.9
Q3	35.4	29.9	3.2	2.3	35.4	6.1	16.7	11.5	1.1
Q4	47.2	40.5	4.0	2.7	28.2	4.6	9.9	12.9	.8
1993-Q1 P	38.5	33.6	3.4	1.5	28.9	5.6	13.7	6.8	2.8
1993-Jan. r	48.5	43.7	3.9	.9	26.0	5.9	13.6	5.4	1.1
Feb. r	38.8	33.6	3.2	2.0	31.3	5.1	14.8	7.5	3.9
Mar. P	28.3	23.5	3.1	1.7	29.8	5.9	12.9	7.5	3.5

1. Collateralized by adjustable-rate mortgages.

2. Collateralized by fixed-rate mortgages.

p preliminary. r revised.

holdings of longer maturity instruments because of their greater price volatility. Indeed, recent surveys indicate that banks reduced the average maturity of their investment portfolios in 1992, partly in anticipation of the accounting changes.

Consumer Installment Credit

Growth in consumer installment credit slowed somewhat in March, in association with the weather-related drop-off in retail sales, but the increase for the first quarter as a whole was still the strongest since the fourth quarter of 1989. Installment credit grew at a 6 percent seasonally adjusted annual rate, compared with a 4-1/2 percent gain in the previous quarter, and a revised 1 percent increase for all of last year. Auto credit grew at a modest 2-1/2 percent rate in the first quarter after slowing in March, while revolving credit increased at an 11 percent rate for the quarter.

One factor underlying the recent resurgence in revolving credit may be the heavy promotion of credit cards with rebates and other incentives tied to the volume of transactions. General Motors, in partnership with Household Credit Services, introduced a credit card last October through which cardholders can build up credits of \$500 per year toward the purchase of a GM vehicle, based on rebates of 5 percent on every dollar transacted. The GM program is already considered a major success, with 4.4 million accounts in force and outstanding balances having climbed to nearly \$3 billion by the end of April. Ford Motor Company initiated a similar plan in conjunction with Citicorp in February of this year, and several card plans are tied to frequent-flier programs of the airlines.

Clearly, these types of programs provide incentives for people to route as many of their transactions as possible through their card accounts, even though they may plan to avoid financing costs by paying off such charges when billed. But such convenience use not

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (Annual rate)							Memo: Outstandings ¹ (billions of dollars)
	1990 ^r	1991 ^r	1992 ^r	1992		1993		1993
				Q4 ^r	Q1 ^p	Feb. ^r	Mar. ^p	Mar. ^p
Installment	2.0	-.7	1.0	4.4	6.0	7.4	5.5	752.2
Auto	-2.7	-8.4	-.5	.3	2.5	11.5	1.4	261.3
Revolving	12.1	9.5	4.4	6.1	11.1	13.8	9.0	261.3
Other	-.8	-1.0	-.8	7.2	4.3	-4.5	6.2	229.6
Noninstallment	-4.6	-15.1	3.0	18.7	-22.6	-36.1	-43.8	49.1
Total	1.5	-1.8	1.2	5.3	4.1	4.5	2.4	801.3

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

r Revised. Reflects annual rebenchmarking and estimation of new seasonal factors.

p Preliminary.

CONSUMER INTEREST RATES
(Annual percentage rate)

	1990	1991	1992	1992		1993		
				Nov.	Dec.	Jan.	Feb.	Mar.
At commercial banks ¹								
New cars (48 mo.)	11.78	11.14	9.29	8.60	8.57	...
Personal (24 mo.)	15.46	15.18	14.04	13.55	13.57	...
Credit cards	18.17	18.23	17.78	17.38	17.26	...
At auto finance cos. ²								
New cars	12.54	12.41	9.93	9.65	9.65	10.08	10.32	9.95
Used cars	15.99	15.60	13.79	13.37	13.53	13.72	13.90	13.21

1. Average of "most common" rate charged for specified type and maturity during the first week of the middle month of each quarter.

2. For monthly data, rate for all loans of each type made during the month regardless of maturity.

Note: Annual data are averages of quarterly data for commercial bank rates and of monthly data for auto finance company rates.

only generates high transaction volume, it boosts the measured level of outstandings. With billing cycles scheduled throughout the month, balances at any point may be substantial for many accounts, even for those that are usually paid in full.

The consumer credit figures have been benchmarked to the September 1992 Call Report and other sources of updated information. Some components have been revised back to 1989. The pattern of persistent weakness over the past two years did not materially change, although installment credit growth for all of 1992 is now estimated at 1 percent versus a decline of 1/4 percent before benchmarking.

INTERNATIONAL DEVELOPMENTS

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

The U.S. merchandise trade deficit was \$7.2 billion in February (seasonally adjusted, Census basis), the same as in January (revised); there was little change recorded in the levels of either exports or imports. For exports, increases in agricultural products, automotive parts, aircraft, and semiconductors (which in all cases reversed declines recorded in the previous month) were largely offset by decreases in other categories, especially gold, other industrial supplies, and machinery. There were similarly offsetting movements in imports in February -- imported motor vehicles and semiconductors increased while the value of imported oil, other industrial supplies, foods, and machinery declined. Data for March will be released on May 19.

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

	Exports			Imports			Balance
	Total	Ag.	NonAg.	Total	Oil	NonOil	
1992-Jul	37.8	3.9	33.9	45.2	4.8	40.3	-7.4
Aug	35.8	3.6	32.2	45.0	4.6	40.3	-9.2
Sep	37.9	4.0	33.9	46.6	4.8	41.8	-8.7
Oct	39.1	4.1	35.0	46.3	5.0	41.3	-7.3
Nov	38.2	3.7	34.5	45.5	4.5	41.0	-7.3
Dec	39.7	3.7	35.9	46.6	4.1	42.4	-6.9
1993-Jan	37.1	3.5	33.6	44.3	4.2	40.1	-7.2
Feb	37.2	3.7	33.5	44.4	4.1	40.3	-7.2

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

For January-February combined (balance of payments basis) the merchandise trade deficit was slightly less than in the fourth quarter (see the table on the next page). The value of both exports and imports dropped sharply in January-February from the fourth-quarter level. More than half of the 4 percent drop in

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

	Year	1992				1993	\$ Change	
	1992	Q1	Q2	Q3	Q4	Q1-e	Q1e-Q1	Q1e-Q4
Trade Balance	-96.3	-70.7	-100.0	-110.5	-103.9	-97.5	-26.8	6.4
Total U.S. Exports	439.3	430.5	428.6	440.5	457.5	437.7	7.2	-19.7
Agric. Exports	43.9	42.9	41.4	45.9	45.6	44.0	1.1	-1.6
Nonagric. Exports	395.3	387.7	387.2	394.6	411.9	393.8	6.1	-18.1
Industrial Suppl.	101.6	99.6	100.1	102.4	104.4	102.3	2.7	-2.1
Gold	4.5	3.8	3.5	3.6	7.2	5.9	2.1	-1.3
Fuels	13.4	13.8	13.4	13.3	13.3	13.8	-0.0	0.6
Other Ind. Suppl.	83.7	82.0	83.3	85.5	84.0	82.6	0.7	-1.3
Capital Goods	176.8	176.3	173.9	173.7	183.5	174.6	-1.7	-8.8
Aircraft & Parts	37.8	42.6	37.7	33.3	37.7	31.2	-11.4	-6.5
Computers & Parts	28.8	27.4	28.6	28.9	30.2	28.9	1.5	-1.3
Other Machinery	110.2	106.3	107.5	111.5	115.6	114.6	8.2	-1.1
Automotive Goods	46.7	42.4	45.7	48.4	50.2	47.0	4.6	-3.2
To Canada	23.4	20.7	23.5	24.3	25.3	24.5	3.8	-0.8
To Other	23.2	21.8	22.2	24.1	24.9	22.5	0.8	-2.4
Consumer Goods	50.4	47.9	48.5	51.2	53.9	51.4	3.5	-2.5
Other Nonagric.	19.8	21.5	19.0	18.8	19.9	18.3	-3.1	-1.6
Total U.S. Imports	535.5	501.2	528.6	551.0	561.4	535.2	34.0	-26.2
Oil Imports	51.4	41.6	51.9	57.1	55.0	49.7	8.1	-5.3
Non-Oil Imports	484.2	459.6	476.8	493.9	506.4	485.5	25.9	-20.9
Industrial Suppl.	88.4	84.3	88.2	87.8	93.2	86.8	2.5	-6.4
Gold	3.8	2.3	3.6	2.7	6.7	3.2	0.9	-3.6
Other Fuels	4.3	4.3	4.5	4.3	4.2	4.1	-0.2	-0.1
Other Ind. Suppl.	80.2	77.7	80.2	80.8	82.3	79.5	1.8	-2.8
Capital Goods	134.4	125.5	131.8	138.4	142.0	138.2	12.7	-3.8
Aircraft & Parts	12.7	12.1	13.5	12.3	13.1	10.4	-1.6	-2.7
Computers & Parts	31.8	27.9	30.9	34.0	34.5	34.8	6.9	0.3
Other Machinery	89.9	85.5	87.4	92.1	94.5	93.0	7.5	-1.4
Automotive Goods	91.2	87.7	89.4	92.2	95.7	94.8	7.1	-0.9
From Canada	32.2	30.8	31.5	34.0	32.4	33.9	3.2	1.6
From Other	59.1	56.9	57.9	58.2	63.3	60.9	3.9	-2.4
Consumer Goods	123.0	116.4	119.5	128.8	127.3	121.9	5.5	-5.4
Foods	27.9	26.7	29.0	28.2	27.6	26.0	-0.7	-1.6
All Other	19.2	19.0	18.9	18.5	20.6	17.8	-1.2	-2.8

e--Average of first 2 months of quarter at an annual rate.

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

exports was in aircraft, automotive products and gold, categories that increased sharply (and for largely transitory reasons) in the fourth quarter. By area, the drop in nonagricultural exports was concentrated among the developing countries, particularly Taiwan and China. Exports to both of these countries had jumped noticeably in the fourth quarter, and appear to have returned to more typical levels in January-February. Strong shipments to the United Kingdom were offset by declines in exports to most other industrial countries.

The 5 percent drop in imports in January-February was spread over all major trade categories. A noticeable decline was recorded for imports of consumer goods, which fell for the second consecutive quarter. Imports of other industrial supplies and aircraft also dropped sharply. The decline in imports was fairly evenly balanced between industrial and developing countries. Imports from Germany, Hong Kong, and Singapore all retreated from relatively high levels in the fourth quarter. Imports from Canada increased; automotive imports accounted for 84 percent of the gain.

The value of imported oil declined in February, as a drop in quantity was only partly offset by a small increase in price. For January-February combined, the quantity imported averaged 8.4 million barrels per day, about the same as recorded in both the third and fourth quarters of last year. The price of imported oil

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1992		1993	Months			
	Q3	Q4	Q1-e	Nov	Dec	Jan	Feb
Value (Bil. \$)	57.11	54.97	49.70	54.71	50.08	50.80	48.61
Price (\$/BBL)	18.56	17.94	16.21	18.23	16.74	16.06	16.36
Quantity (mb/d)	8.42	8.39	8.40	8.19	8.10	8.66	8.13

e--Average of first 2 months of quarter at an annual rate.

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

averaged \$16.21 per barrel in January-February, a drop of about \$1.75 per barrel from the fourth-quarter average, as mild winter weather depressed oil prices.

After rising almost continuously during February, spot oil prices (West Texas Intermediate (WTI)) have fluctuated in a relatively narrow \$1.00 per barrel band around \$20.00 per barrel since March. Second-quarter production cuts agreed to by OPEC members in their mid-February accord have been realized (especially for Saudi Arabia and Kuwait) and appear to be balancing the seasonal decline in oil consumption. The June WTI futures contract is now trading at \$20.08 per barrel. The oil market appears quite calm, as evidenced by the low expected future price volatility derived from the crude oil options market. Movements in spot and futures prices suggest further increases in the oil import unit value in March and April (given shipping and contract lags), with the April import unit value averaging in the neighborhood of \$17.50 per barrel.

Prices of Exports and Non-oil Imports

According to the Bureau of Labor Statistics (BLS), prices of U.S. non-oil imports increased 0.3 percent in March. Increases were recorded in all major categories except foods, feeds, and beverages. Price increases were largest for industrial supplies and materials, largely the result of continuing increases in the prices of imported lumber and a sharp increase in the price of imported electricity. Prices of U.S. exports fell slightly in March; prices of agricultural exports decreased 0.4 percent, while prices of nonagricultural exports remained unchanged. The decline in agricultural prices was primarily attributable to the second consecutive month of decline in prices of food grains. For nonagricultural exports, an increase in the prices of industrial

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

	Year	Quarters			Months	
	1993-Q1	1992		1993	1993	
	1992-Q1	Q3	Q4	Q1	Feb	Mar
	(Quarterly Average, AR)				(Monthly Rates)	
-----BLS Prices-----						
<u>Imports, Total</u>	0.4	6.3	0.4	-5.3	-0.1	0.5
Foods, Feeds, Bev.	-5.0	-1.9	2.8	-5.1	-1.6	-0.4
Industrial Supplies	1.6	9.8	-4.2	-9.4	0.9	1.4
Ind Supp Ex Oil	-0.1	2.3	-0.5	-1.6	0.3	0.7
Capital Goods	-0.0	8.2	-0.1	-4.3	-0.6	0.3
Automotive Products	0.3	3.9	3.0	-2.8	0.1	0.1
Consumer Goods	1.3	5.3	2.9	-3.1	-0.2	0.1
Memo:						
Oil	5.1	25.5	-11.4	-24.1	2.0	2.6
Non-oil	0.0	4.5	1.5	-3.3	-0.3	0.3
<u>Exports, Total</u>	0.5	-0.1	-1.0	1.2	0.2	-0.1
Foods, Feeds, Bev.	-3.6	-13.3	-3.9	5.7	-0.8	-0.1
Industrial Supplies	2.4	5.6	-2.7	1.6	0.3	0.5
Capital Goods	0.3	1.4	-0.7	-0.7	0.2	-0.4
Automotive Products	1.6	1.4	2.5	1.2	0.4	-0.2
Consumer Goods	2.2	0.7	3.3	3.4	0.5	-0.3
Memo:						
Agricultural	-1.3	-7.1	-2.7	5.6	-0.5	-0.4
Nonagricultural	1.1	2.3	-0.8	0.6	0.3	0.0
-----Prices in the NIPA Accounts-----						
<u>Fixed-Weight</u>						
Imports, Total	1.3	6.3	0.0	-5.5	--	--
Oil	8.8	28.6	-14.0	-26.4	--	--
Non-oil	0.5	4.3	0.7	-2.8	--	--
Exports, Total	0.6	0.4	-0.4	1.1	--	--
Ag	-2.8	-8.2	-6.0	4.5	--	--
Nonag	1.1	1.8	0.0	0.7	--	--
<u>Deflators</u>						
Imports, Total	-1.4	2.2	-1.5	-8.2	--	--
Oil	8.7	26.9	-12.7	-26.3	--	--
Non-oil	-2.2	-0.3	-0.2	-6.0	--	--
Exports, Total	-1.3	-1.5	-1.1	-0.8	--	--
Ag	0.6	-6.0	4.1	6.6	--	--
Nonag	-1.5	-1.3	-1.5	-1.4	--	--

supplies and materials (largely lumber) was offset by declines in prices for every other major category.

For the first quarter as a whole, the BLS reported that prices of non-oil imports declined 3.3 percent at an annual rate from the fourth quarter of 1992. The decrease followed two quarters of price increases and was spread among all major trade categories. The decline was associated in part with the appreciation of the dollar late last year. The drop in the price of imported capital goods was almost entirely the result of the continued decline in the price of imported accessories and parts for computers (8.0 percent at an annual rate). Prices of exports increased slightly in the first quarter following small declines in the previous two quarters. Most of the rise was in prices of exported agricultural products (notably soybeans and vegetables) and consumer goods (apparel, toiletries and cosmetics).

U.S. International Financial Transactions

In the first quarter, banks in the United States reported a \$6.8 billion outflow. (See line 1 of the Summary of U.S. International Transactions table.) In part, this outflow reflected a decline in foreign nonbanks' deposits at banks in the United States. In April, monthly average data on the net claims of U.S. banking offices on own foreign offices and IBFs indicate a net capital inflow (line 1 on the International Banking table on page IV-8), principally due to an increase in net borrowing by foreign-chartered banks from their affiliates abroad. Despite the increase in net Eurodollar borrowing at agencies and branches of foreign banks, asset positions have remained about flat.

Foreign purchases of U.S. Treasury securities remained nearly as strong in the first quarter as the very large net purchases in

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

	1992	1992			1993	1993		
	Year	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.
<u>Private Capital</u>								
Banks								
1. Change in net foreign positions of banking offices ¹ in the U.S. (+ = inflow)	39.1	-1.9	36.3	0.4	-6.8	-11.7	-1.1	6.0
Securities								
2. Private securities transactions, net ²	-19.6	1.7	-11.5	-5.4	-16.5	-5.8	-6.3	-4.4
a) foreign net purchases (+) of U.S. corporate bonds ³	34.8	11.8	6.7	8.6	7.0	1.8	3.1	2.2
b) foreign net purchases (+) of U.S. corporate stocks	-3.7	-1.2	-3.8	4.2	3.9	-0.1	2.0	2.3
c) U.S. net purchases (-) of foreign securities	-50.7	-8.9	-14.5	-18.1	-27.5	-7.4	-11.1	-8.9
3. Foreign net purchases (+) of U.S. Treasury obligations	37.5	10.3	5.0	21.4	14.3	2.6	2.6	9.1
<u>Official Capital</u>								
4. Changes in foreign official reserves assets in U.S. (+ = increase)	38.1	20.3	-8.2	5.0	11.2	13.1	1.4	-3.4
a) By area								
G-10 countries	4.8	3.3	3.8	-4.7	-1.9	5.1	-1.6	-5.3
OPEC	4.9	-2.6	2.9	1.7	0.5	-0.6	-1.3	2.3
All other countries	28.5	19.6	-14.9	7.9	12.6	8.7	4.3	-0.4
b) By type								
U.S. Treasury securities ⁴	18.5	11.2	-0.3	-7.4	1.0	4.0	-2.3	-0.7
Other	19.7	9.1	-7.9	12.4	10.2	9.1	3.7	-2.7
5. Changes in U.S. official reserve assets (+ = decrease)	3.9	1.5	2.0	1.5	-1.0	-0.5	-0.3	-0.2
<u>Other transactions</u> (Quarterly data) ⁵								
5. U.S. direct investment (-) abroad	-35.3	-7.5	-3.5	-8.8	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	-3.9	5.4	-2.6	-3.0	n.a.	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow)	15.7	17.3	-16.7	2.7	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance	-52.4	-18.3	-15.8	-22.0	n.a.	n.a.	n.a.	n.a.
10. Statistical discrepancy	-13.1	-28.8	15.0	8.2	n.a.	n.a.	n.a.	n.a.

MEMO:

U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)

-96.3 -25.0 -27.6 -26.0 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)

	1991				1992				1993			
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.	Mar.	Apr.
1. Net Claims of U.S. Banking Offices (excluding IBFS) on Own Foreign Offices and IBFS	-23.8	-13.7	-14.1	-35.8	-41.4	-56.8	-58.0	-71.6	-73.1	-71.5	-77.1	-81.9
(a) U.S.-chartered banks	7.6	5.4	11.0	12.4	3.2	8.3	12.7	17.0	17.8	12.4	8.9	11.3
(b) Foreign-chartered banks	-31.3	-19.2	-25.2	-48.3	-44.6	-65.1	-70.9	-88.6	-90.9	-83.8	-86.0	-93.2
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	26.0	23.9	23.7	23.9	23.3	24.5	24.8	24.8	24.6	24.0	23.5	23.4
3. Eurodollar Holdings of U.S. Nonbank Residents <u>1/</u>	114.6	105.8	100.8	102.9	100.3	91.2	86.3	90.0	88.4	88.6	89.2	85.9

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.

the fourth quarter (line 3 of the Summary table). Canada, Japan, and the United Kingdom were the principal net purchasers, and substantial net purchases were directed through the Netherlands Antilles.

After reaching an all-time high in 1992, U.S. net private purchases of foreign stocks and bonds surged at an even faster pace in the first quarter of 1993 (line 2c of the Summary Table). Foreign bonds accounted for 70 percent of the total net purchases in the first quarter, unlike in 1991 and 1992 when foreign stocks were more alluring. U.S. net purchases of stocks in Japan, however, of over \$1.7 billion were particularly strong in the first quarter. Bond purchases in the first quarter were concentrated in Canadian and U.K. offerings. The large volume of Yankee bonds issued by entities from these countries contributed to this total. Consistent with the higher yielding stocks and bonds observed domestically, Eurodollar holdings of U.S. nonbank residents drifted downward in the first quarter, and fell further in April (line 3 of the International Banking table).

Some of the recent surge in recorded U.S. net purchases of foreign stocks and bonds can be attributed to improvements in the coverage of U.S. purchases and sales of foreign securities through foreign financial intermediaries. The new reporters are primarily pension funds and money managers. Over the last 15 months, the new reporters have accounted for about 10 percent of net purchases.

Eurobond activity in March was reminiscent of the mid-1980s. The high value of issues, at \$4.5 billion, was last observed in 1987. Moreover, the large number of floating rate notes (seven) was last observed in 1985. Finally, the value of non-dollar issues (\$1.43 billion) was also above the monthly average for recent years.

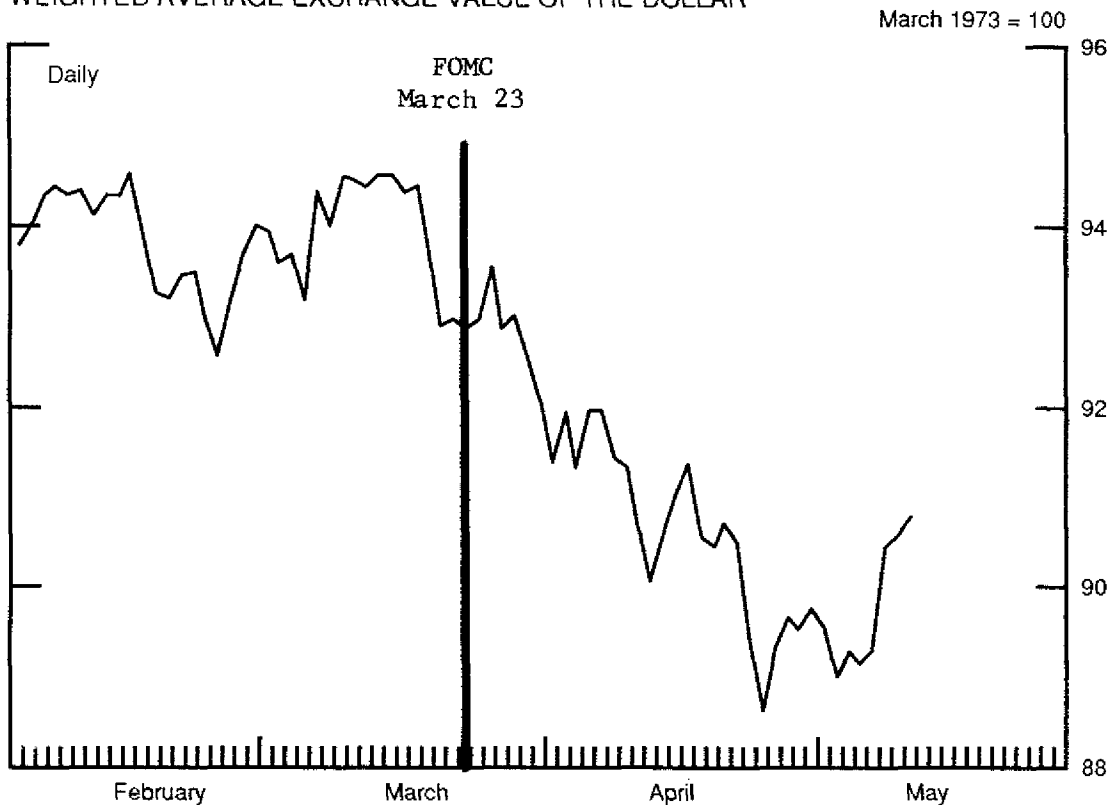
Foreign official reserve assets held in the United States increased in the first quarter (line 4 of the Summary table), principally by "other countries" (line 4a), including Spain, Argentina, Mexico, Singapore, and Australia. Germany registered a substantial decrease. Preliminary data from the Federal Reserve Bank of New York for April indicate substantial increases in Japanese holdings associated with intervention purchases to support the dollar.

Foreign Exchange Markets

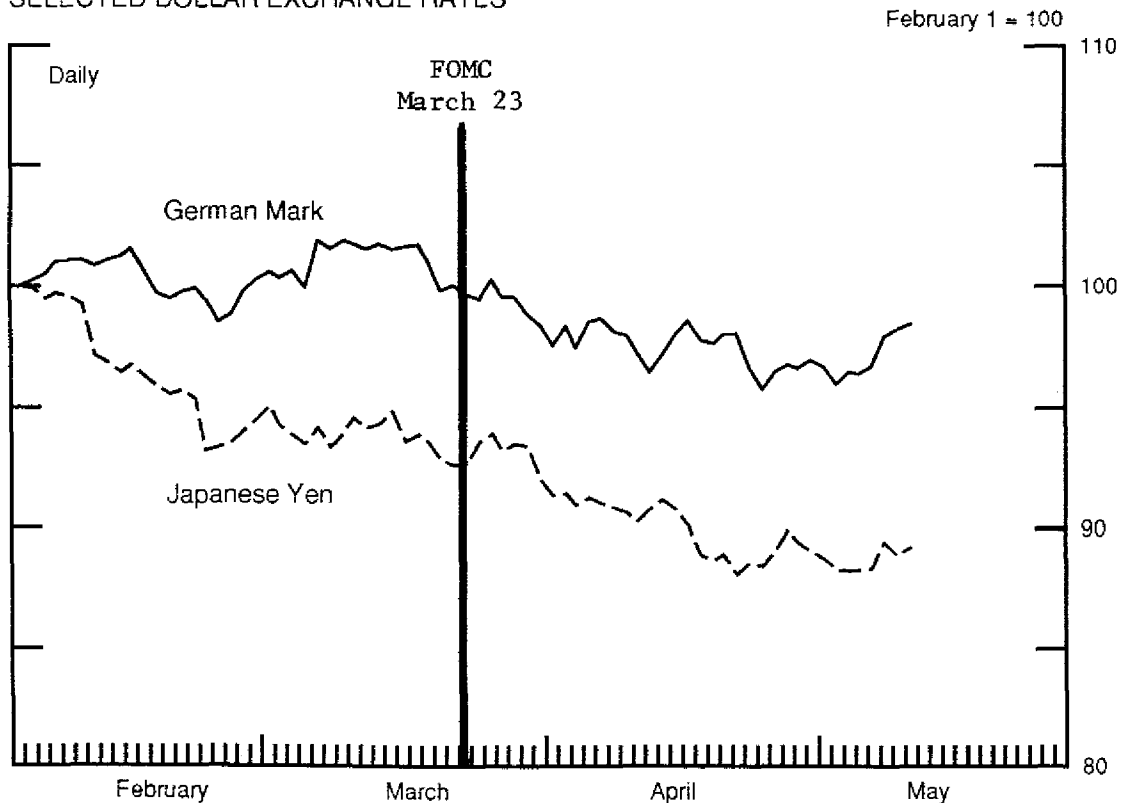
The weighted average foreign exchange value of the dollar in terms of the other G-10 currencies, shown in the accompanying chart, has declined just over 2 percent since the last FOMC meeting. The dollar continued its depreciation versus the Japanese yen, declining 3-1/2 percent on balance, and the dollar also fell just over 1 percent versus the German mark. Initially the dollar declined in part due to sentiment that the U.S. recovery had slowed, prompted by a string of worse-than-expected data releases. Late in the period the dollar rebounded as the outlook for continental Europe, and Germany in particular, became more pessimistic.

At the end of March and in early April, when the Japanese fiscal stimulus package was taking firm shape just as President Clinton's U.S. fiscal stimulus proposal began to falter in Congress, the U.S. dollar depreciated sharply versus the Japanese yen. Japanese officials decried the yen's rapid appreciation, and on April 2 the Bank of Japan initiated intervention purchases of U.S. dollars to smooth the yen's appreciation. Through most of April, however, neither U.S. nor other foreign officials offered support, verbal or otherwise. On the contrary, in mid-April statements by President Clinton and a public disagreement over the content of a meeting between Finance Minister Hayashi and Treasury Secretary

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



SELECTED DOLLAR EXCHANGE RATES



Bentsen were interpreted to favor appreciation of the yen. Since the beginning of April the Bank of Japan has purchased a large quantity of dollars

on April 27 the New York Desk also sold \$200 million worth of Japanese yen. The sale was evenly divided between the accounts of the Federal Reserve System and the U.S. Treasury. The yen steadied in the wake of the U.S. intervention, but rose back slightly before depreciating at the very end of the period.

In Europe, the Bundesbank continued its policy of gradual interest rate reduction in the face of slowly deteriorating forecasts for the German economy during the remainder of this year. At first, declining rates at Bundesbank security repurchases guided short-term market interest rates lower; later, on April 22, the Bundesbank cut the Lombard rate 50 basis points to 8-1/2 percent and the discount rate 25 basis points to 7-1/4 percent. German call money rates have fallen 80 basis points, and three-month interest rates have declined 40 basis points. Most other European central banks followed the Bundesbank's lead and cut their official interest rates by similar amounts. French interest rates declined more sharply than other European interest rates. In particular, French call money rates and three-month interest rates have fallen 280 and 310 basis points respectively since the last FOMC meeting. Despite the rapid decline in French interest rates and large DM purchases by the Bank of France, the French franc appreciated 3/4 percent versus the German mark. The franc now trades 1/2 percent below its parity with the German mark, and appears to have left devaluation pressures behind following the second round of the French elections on March 21. On the other hand, ahead of the Spanish elections on June 6, the Spanish peseta came under pressure in late April. In response, the

Bank of Spain reversed a previous decline in interest rates, and Spanish three-month interest rates rose 1/2 percent on balance.

. On May 13, the Bank of Spain suspended its obligation to defend the peseta within the ERM and the Spanish government requested a realignment of the ERM grid. The Portuguese escudo was suspended shortly after the peseta. Nonetheless, Bank of Spain officials indicated that there was no intent to float the peseta. In Italy, the government corruption scandal continued to take its toll on the lira at the end of March. However, in mid-April a popular referendum called for electoral reform to end proportional representation in the Senate, and the lira recovered for a net appreciation of 6 percent versus the U.S. dollar, while an interim government under former Bank of Italy Governor Ciampi settled into office. In the United Kingdom, there are signs that the economy is moving out of its recession, and the British pound has appreciated 3-1/2 percent versus the U.S. dollar on the heels of a string of better-than-expected economic statistics. However, the net appreciation of the pound was reduced by a decline late in the period following a crushing defeat of the Conservatives in local elections.

The Canadian dollar depreciated 2 percent versus the U.S. dollar among renewed concerns about the Canadian federal and provincial debts, as well as the larger-than-expected federal deficit in this year's Canadian budget, which was presented at the end of April.

In international equity markets, the London and Frankfurt indices posted small declines. However, in Tokyo, the Nikkei index rose 11 percent during the period, which coincided with the

beginning of a new Japanese fiscal year, and may have been aided by the Japanese fiscal stimulus package.

After an extended period of stability, prices of precious metals moved up sharply during the period. The dollar price of gold rose almost 11 percent, while the silver price increased just over 23 percent. Part of the price increase is due to the dollar's decline, but several market participants also cited expectations for increased Asian demand as a reason for the gold price rise.

Developments in Foreign Industrial Countries

Recent economic indicators point to continued weak economic activity on average in the major foreign industrial economies. It appears that activity in western Germany in the first quarter weakened further after negative fourth-quarter growth. First-quarter growth also appears to have been weak or even negative in Japan, France, and Italy, but there are indications that these countries may be nearing recession troughs. Recovery in the United Kingdom appears to be firming, and activity in Canada continued to move ahead at a modest pace.

Weak economic activity has kept inflation subdued in most countries, although in some countries special factors have caused measured rates of inflation to rise. Recent VAT increases in western Germany have raised the 12-month rate of CPI inflation, but other western German price measures have been stable or have fallen. Although sterling depreciation and stronger demand in the United Kingdom appear to be adding to upward pressure on consumer prices, inflation has stayed low. Consumer price inflation remains moderate in Italy, but producer and wholesale price inflation have picked up due to lira depreciation.

Individual Country Notes. In Japan, recent indicators have been mixed and, on balance, show activity continuing at a weak pace

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

	1991	1992	1992			1993	1992			1993			Latest three months from year ago 2/
			Q2	Q3	Q4	Q1	NOV	DEC	JAN	FEB	MAR		
JAPAN													
GDP	3.0	0.2	-0.2	-0.5	-0.1	NA	*	*	*	*	*		0.2
IP	-1.6	-7.7	-2.3	0.3	-2.9	-0.3	-2.2	-1.3	-0.3	2.1	0.5		-5.1
WEST GERMANY													
GDP	2.0	0.2	-0.2	-0.4	-0.8	NA	*	*	*	*	*		0.2
IP	0.1	-4.7	-1.9	-1.3	-4.2	-3.4	-1.8	-2.8	0.2	-1.3	-0.6		-10.4
FRANCE													
GDP	1.2	0.7	0.2	0.2	-0.4	NA	*	*	*	*	*		0.7
IP	1.8	-2.2	-0.0	0.1	-2.6	NA	-4.4	-1.1	-0.1	2.5	NA		-3.8
UNITED KINGDOM													
GDP	-1.6	0.1	-0.1	0.3	0.2	0.3	*	*	*	*	*		0.6
IP	-0.7	0.5	-0.4	0.8	0.9	NA	-0.7	-0.1	-0.1	1.6	NA		1.2
ITALY													
GDP	1.4	-0.3	0.2	-0.5	-0.6	NA	*	*	*	*	*		-0.3
IP	-0.5	NA	-2.8	-2.5	NA	NA	0.9	NA	NA	NA	NA		-3.4
CANADA													
GDP	-0.0	1.3	0.1	0.3	0.9	NA	*	*	*	*	*		1.3
IP	-1.4	2.6	0.4	0.8	1.6	NA	0.5	0.5	0.1	0.7	NA		4.1
UNITED STATES													
GDP	0.1	3.1	0.4	0.8	1.2	0.4	*	*	*	*	*		2.9
IP	-0.5	2.2	1.3	0.6	1.1	1.3	0.6	0.5	0.3	0.6	0.0		4.3

* Data not available on a monthly or quarterly basis.

1/ Yearly data are Q4 to Q4 percent change.

2/ For quarterly data, latest quarter from a year ago.

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

	1991	1992	1991		1992			1993		1992		1993		Latest month from year ago 2/
			Q4	Q1	Q2	Q3	Q4	Q1	JAN	FEB	MAR	APR		
JAPAN														
CPI	3.2	0.9	1.1	-0.3	1.3	-0.1	0.0	0.0	0.0	0.1	0.5	0.6	0.9	
WPI	-1.3	-1.4	-0.7	-0.4	0.0	-0.1	-0.9	-0.6	-0.1	-0.5	-0.5	NA	-2.3	
WEST GERMANY														
CPI	3.9	3.7	0.7	1.2	1.1	0.5	0.9	1.8	1.1	0.4	0.3	0.3	4.3	
WPI	1.6	-1.9	0.2	0.4	0.5	-2.0	-0.8	0.7	0.7	0.2	0.2	NA	-1.6	
FRANCE														
CPI	2.9	1.8	0.8	0.5	0.8	0.0	0.5	0.8	0.4	0.4	0.5	NA	2.2	
WPI	-3.6	NA	-1.0	0.2	0.4	-0.5	NA	NA	*	*	*	*	-0.9	
UNITED KINGDOM														
CPI	4.2	3.1	1.0	0.5	2.2	-0.1	0.4	-0.7	-0.9	0.7	0.4	NA	1.9	
WPI	4.9	3.4	0.5	1.4	1.1	0.4	0.5	1.7	0.9	0.5	0.7	0.4	3.8	
ITALY														
CPI	6.1	4.8	1.7	1.4	1.2	0.7	1.3	1.0	0.3	0.4	0.2	0.4	4.2	
WPI	1.1	3.0	1.4	0.0	0.8	-0.5	2.8	NA	0.3	0.6	NA	NA	4.4	
CANADA														
CPI	4.1	1.8	-0.1	0.4	0.5	0.4	0.4	0.7	0.4	0.3	-0.1	NA	1.9	
WPI	-3.2	3.1	-0.4	0.5	0.6	0.8	1.2	1.1	0.6	0.3	0.1	NA	3.6	
UNITED STATES														
CPI (SA)	3.0	3.1	0.8	0.8	0.8	0.7	0.8	0.9	0.5	0.3	0.1	NA	3.1	
WPI (SA)	-0.1	1.5	0.4	0.1	0.8	0.4	0.2	0.5	0.2	0.4	0.4	0.6	2.4	

* Data not available on a monthly or quarterly basis.
1/ Yearly data are Q4 to Q4 percent change.
2/ For quarterly data, latest quarter from year ago.

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

	1991	1992	1991		1992			1993	1992		1993	
			Q4	Q1	Q2	Q3	Q4	Q1	DEC	JAN	FEB	MAR
JAPAN												
TRADE	78.5	107.3	21.2	28.0	24.5	26.2	28.6	30.0	9.5	9.8	10.2	10.0
CURRENT ACCOUNT	73.1	117.2	22.9	28.6	28.8	28.1	31.7	36.2	9.6	8.9	11.0	16.3
GERMANY												
TRADE (NSA)	13.6	21.4	6.9	4.4	3.4	8.6	5.0	NA	0.3	1.1	NA	NA
CURRENT ACCOUNT (NSA)	-19.5	-25.3	-2.2	-5.6	-6.1	-9.0	-4.6	NA	-3.2	-3.1	NA	NA
FRANCE												
TRADE	-5.3	5.6	0.4	1.1	1.9	1.3	1.3	NA	1.1	0.6	NA	NA
CURRENT ACCOUNT	-5.8	NA	0.8	NA	NA	NA	NA	NA	*	*	*	*
UNITED KINGDOM												
TRADE	-18.3	-24.1	-4.7	-5.4	-5.7	-6.2	-6.8	NA	-2.7	NA	NA	NA
CURRENT ACCOUNT	-10.0	-20.6	-3.1	-5.1	-5.6	-4.2	-5.8	NA	-2.4	NA	NA	NA
ITALY												
TRADE	-13.0	NA	-3.3	-2.2	-4.3	-2.4	NA	NA	NA	NA	NA	NA
CURRENT ACCOUNT (NSA)	-21.4	NA	-5.0	-9.2	-5.9	-6.5	NA	NA	*	*	*	*
CANADA												
TRADE	5.0	7.8	1.0	1.7	1.7	1.7	2.7	NA	0.8	1.5	0.9	NA
CURRENT ACCOUNT	-25.5	-23.7	-7.3	-6.2	-6.1	-6.3	-5.2	NA	*	*	*	*
UNITED STATES												
TRADE	-73.4	-96.3	-18.5	-17.7	-25.0	-27.6	-26.0	NA	-8.4	-8.1	-8.1	NA
CURRENT ACCOUNT	-3.7	-62.4	-7.2	-6.4	-18.3	-15.8	-22.0	NA	*	*	*	*

* Data not available on a monthly or quarterly basis.

1/ The current account includes goods, services, and private and official transfers.

but with some positive signs. In March, industrial production (s.a.) increased 0.5 percent, although it still was more than 2 percent below its year-earlier level. New machinery orders (s.a.) increased for the fourth consecutive month in February with a 3.7 percent rise, and new passenger car registrations (s.a.) increased 5 percent in March, their third consecutive monthly rise. Housing starts (s.a.) also rose 3.8 percent in March and were up 9.2 percent on a 12-month basis. Inventory adjustment appears to be continuing with the inventory/shipments ratio (s.a.) falling 1.5 percent in February; the inventories index in March was more than 3-1/4 percent below its year-earlier level.

Balanced against these developments, retail sales dropped 7.5 percent in March, and the EPA's measure of consumer confidence slipped in the first quarter to its lowest level in more than 10 years. Labor-market indicators remain soft. The unemployment rate (s.a.) was unchanged at 2.3 percent in March, but the job offers to applicants ratio (s.a.), a more sensitive indicator of labor market conditions, decreased 3.3 percent to a level 40 percent below its previous peak two years earlier. Another indicator of recent labor market weakness has been a fall in overtime hours, which recorded a 12-month decline of 20 percent in February.

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

	1992			1993			
	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.
Machinery Orders	-14.3	11.4	-17.2	--	7.1	3.7	--
New Car Registrations	-6.6	-1.8	-5.6	10.7	8.4	1.5	5.0
Job Offers Ratio	-9.6	-9.7	-7.8	-3.2	1.1	-2.2	-3.3
Business Sentiment* (%)	-24	-37	-44	-49	--	--	--

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

Inflationary pressures have remained subdued, in part because of the recent strength of the yen. Consumer prices in the Tokyo area (n.s.a.) were up 0.6 percent in April, and their 12-month increase was only 0.9 percent. Some of the recent weakness in the 12-month measure of consumer prices reflects a drop in perishable food prices. Wholesale prices (n.s.a.) declined 0.5 percent in March and showed a 12-month decrease of 2.3 percent. The latest 12-month increase in wages was 2.7 percent in February.

Japan's trade surplus (s.a.a.r.) in the first quarter was \$120 billion; the first-quarter current account surplus was \$145 billion.

On April 13, the government announced a new fiscal stimulus package totaling 13.2 trillion (2-3/4 percent of GDP). As was the case with the package announced last August, the new measures concentrate on increased public works spending and expanded credit programs. There were also modest tax incentives for housing and small business investment. The package is expected to be approved by late June, and should provide an extra boost to GDP of roughly 1-1/2 percent spread over several quarters this year and in 1994.

Major economic indicators in western Germany point to a continued decline in real GDP in the first quarter. After falling more than 4 percent (s.a.) in the fourth quarter, industrial production dropped 3.4 percent in the first quarter, while total

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

	1992			1993				
	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Machinery Orders	-4.3	-2.2	-7.4	-0.2	5.5	-2.8	-3.0	--
Capacity Utilization	-1.4	-2.2	-3.2	--	--	--	--	--
Unemployment Rate (%)	6.5	6.7	7.2	7.6	7.4	7.6	7.8	7.9
Production Plans (%)	-6	-12	-33.3	-25.7	-25	-24	-28	--

* Percent of mining and manufacturing firms that expect to increase production minus those that expect to decrease it.

orders fell an additional 0.2 percent (s.a.). Provisional data indicate that real retail sales rose 0.9 percent in March from their year-ago level; however, real retail sales in the first quarter were down 6 percent from a year ago. In April, the unemployment rate (s.a.) rose to 7.9 percent from 7.8 percent in March.

Consumer prices in western Germany increased 4.3 percent in April on a year/year basis, a further increase from the 1992 average of 4 percent. The April figure reflects in part the effect of a value-added tax increase at the beginning of January. Other measures of inflation have shown less upward movement. Wholesale prices (n.s.a.) dropped 1.6 percent during the year ending in March, and producer prices were up 0.3 percent over the same period. March import prices (n.s.a.) were 2.7 percent below their level one year ago.

The pan-German current account deficit (s.a.) exceeded \$25 billion in 1992, about \$6 billion larger than the 1991 deficit. In January, the current account deficit (n.s.a.) totalled \$3.1 billion.

Through March, pan-German M3 increased 3.2 percent (s.a.a.r.) relative to the fourth quarter of 1992, below the Bundesbank's 1993 target range of 4-1/2 to 6-1/2 percent. The Bundesbank's assertion that M3 growth remains strong likely is based on M3 growth on a year/year basis, which was 8.3 percent over the 12 months ending in March.

Recently, employers in the chemicals, metals, and engineering industries in eastern Germany suspended contracts negotiated last year that called for increases in nominal wages of about 25 percent on April 1 and equalization of wages with those in western Germany by 1994. Settlement was reached in the chemicals industry when employers agreed to increase wages by 9 percent this year. However,

on May 3, eastern German IG Metall workers staged a strike that has spread to more than 70 steel and engineering companies.

The "solidarity pact" recently reached between the federal and Laender (or state) governments largely determines transfer payments from western to eastern Laender. The agreement takes effect in 1995, and reinstates the 7-1/2 percent surcharge on income. Under this program, the budget deficit of the territorial authorities (a broad budget concept) is expected to narrow from almost 5 percent of GDP in 1993 to under 4 percent in 1995. The Federal budget for 1993, approved last fall, has been revised to account for the expected decline in tax revenues from the weakening German economy. Finance Minister Waigel recently announced that the 1993 Federal deficit is projected to reach DM 65 to 70 billion (2.4 percent of GDP), up from the 1992 deficit of DM 38.6 billion (1.4 percent of GDP).

In France, monthly indicators suggest that first-quarter GDP was weak and may have declined again. After falling slightly in January, industrial production rose 2.5 percent (s.a.) in February due largely to the 8.1 percent rise in energy production caused by unusually cold weather. The increase in manufacturing output was only 0.5 percent. The Bank of France's business survey indicates that industrial production probably was flat in March. Other monthly indicators were largely negative. Unemployment rose in March to 10.7 percent (s.a.) from 10.6 percent in February. In the first quarter, consumption of manufactured products fell 2.9 percent (s.a.) below its fourth-quarter level, indicating that total consumption, which was strong in the fourth quarter, has weakened significantly.

The consumer price index increased 2.2 percent in March from its year-earlier level, up only slightly from the 2.0 percent

increase registered in December (which was a 36-year low). Provisional data indicate that the consumer price index rose 2.2 percent in April from its year-earlier level.

The new French government of Edouard Balladur has proposed fiscal measures to encourage employment. Specifically, it plans to reduce payroll taxes to encourage employment and to provide support to the construction sector. Partly as a result, the new government projects that the central government budget deficit will increase to 4-3/4 percent of GDP from 3.2 percent of GDP in 1992. Moreover, the government projects that the deficit in the social security budget will more than double, resulting in a general government budget deficit of close to 6 percent of GDP. To return the social security budget to balance the government intends to raise the CSG, a tax on all income used to finance social security, raise some excise taxes, and scale back pension benefits. The new government's medium-term objective is to reduce the central budget deficit to 2.5 percent of GDP by 1997.

The new government has proposed legislation granting independence to the Bank of France. The formal objective of an independent Bank of France will be to guarantee stability of the currency. However, the French government will retain the right to choose the exchange rate regime and when to realign the parity. The Bank of France is to have responsibility for controlling interest rates and monetary aggregates and for setting reserve requirements. The Bank of France also will maintain its role in bank supervision.

The economy in the United Kingdom continues to exhibit signs of recovery. According to provisional estimates, real GDP grew 1.1 percent (s.a.a.r.) in the first quarter of 1993 after rising 0.7 percent in the final quarter of 1992. However, excluding oil and gas production, real GDP rose 2.5 percent (s.a.a.r.) after having

stagnated in the previous three quarters. In April, a Confederation of British Industry (CBI) survey indicated that export orders are lifting firms out of recession and that in coming months total orders and output are expected to record the strongest growth in four years. Housing starts (s.a.) rose 22 percent in the first quarter from the previous quarter. Unemployment (s.a.) fell unexpectedly for two consecutive months to stand at a rate of 10.5 percent in March.

Inflation has picked up a bit recently; consumer prices (n.s.a.) rose 0.7 percent in February and 0.4 percent in March, reversing a 0.9 percent drop in January. In March, the 12-month inflation rate edged up to 1.9 percent from 1.8 percent in February. Underlying inflation has risen as well; excluding mortgage interest rates, consumer prices were up 0.7 percent in March to stand 3.5 percent above their level of March 1992. In April, producer prices (n.s.a.) rose 0.4 percent and were up 3.8 percent from April 1992 while the cost of materials and fuel (n.s.a.) stood 7.2 percent above the level of a year ago. Cost increases associated with the depreciation of sterling since last September have been offset by continued moderation in labor costs.

In Italy, economic growth remained negative in the fourth quarter. Real GDP (s.a.a.r.) fell 2.4 percent following a decline of 2.0 percent in the third quarter. However, other more recent indicators suggest that Italy may be nearing the trough of its current recession. Provisional data indicate that industrial production (s.a.a.r.) rose 4.8 percent in January and February, and survey data suggest that it rose about 6 percent in March. An economic survey of businessmen, conducted in early March, indicates that production in the investment goods sector might reverse its downward trend in late spring.

Weakness in economic activity has restrained inflation which, through April, averaged 4.3 percent (12-month basis), down from the average rate of 5.3 percent recorded in 1992. However, consumer price inflation may rise soon as the effect of lira depreciation, which already has caused larger increases in producer and wholesale prices, feeds through to consumer prices.

Provisional data indicate that the trade deficit in 1992 narrowed to \$10.3 billion from \$13.0 billion in 1991 while the current account deficit widened to \$23.9 billion in 1992 from \$21.4 billion in 1991. The deterioration of the current account reflects an increased deficit on invisibles and investment income.

On April 22, Prime Minister Giuliano Amato resigned and was replaced by former Bank of Italy Governor Carlo Ciampi. On May 4, Antonio Fazio was named the new Governor of the Bank of Italy.

In Canada, real GDP grew 3.5 percent (s.a.a.r.) in the fourth quarter. More recent data point to continued growth. In January and February, taken together, industrial production (s.a.) rose 1.0 percent from its fourth-quarter average, GDP at factor cost (s.a.) expanded 0.6 percent, factory shipments (s.a.) increased 1.5 percent, new orders (s.a.) surged 3.6 percent, and retail sales (s.a.) were up 1.8 percent. Total employment (s.a.) grew 0.6 percent in the first quarter, but it slipped 0.1 percent from that level in April, as the unemployment rate (s.a.) rose to 11.4 percent. Housing starts (s.a.) plunged 14 percent in the first quarter, but rebounded in April to a level near their fourth-quarter average.

Recent price data show that inflation has remained moderate. The targeted 12-month change in the CPI excluding food and energy (n.s.a.) decreased from 2.1 percent in February to 1.9 percent in March. The all-items CPI was also up 1.9 percent over this period.

and wholesale prices rose 3.6 percent. Wage settlements increased about 1-1/2 percent in January-February.

Largely because of strong export growth, the current account deficit (s.a.a.r.) narrowed in the fourth quarter to \$20.7 billion. Exports continued to surge in January and February, and the merchandise trade surplus (s.a.a.r.) for the two months combined widened to \$14.6 billion from a fourth-quarter level of \$10.8 billion.

In Russia, provisional data show that gross industrial production in the first quarter of 1993 was 19 percent below its level in the same period last year, up slightly from a year/year decline of 23 percent in the fourth quarter. Available monthly data imply an upward trend over the first quarter.

Inflation has moderated somewhat since the beginning of the year. Monthly increases in consumer prices (n.s.a.) fell from 26 percent in January to 16 percent in April. During the four-week period ending April 20, food prices increased at a monthly rate of 17 percent.

On April 15, G-7 Foreign and Finance Ministers announced a new \$43 billion aid package for Russia. The package includes new lending from the IMF, World Bank, EBRD, and G-7 export credit agencies as well as the refinancing of \$15 in debt-service obligations under the recent Paris Club rescheduling. The package contains \$3 billion in loans, with only marginal policy conditionality, from the IMF's new Systemic Transformation Facility.

In an important referendum on April 25th, 58 percent of those voting expressed confidence in President Yeltsin, while 53 percent endorsed the Russian government's economic policies. Support for new legislative elections was less than a majority of all registered

voters, the legal requirement, although 67 percent of votes cast favored such elections.

In Eastern Europe, recovery appears to have stalled in the first quarter in several key countries. In Poland, weaker exports related in part to decelerating demand in Western Europe, has been a factor in the sluggish pace of activity. Industrial production fell in 1993-Q1 for the first time since 1990, and the unemployment rate was above 14 percent in April. Twelve-month inflation remained just below 40 percent in March. On April 30, the government won parliamentary passage of its mass privatization bill, a key element in a package of legislation that will implement its program for restructuring the enterprise and financial sectors. In early May, Poland and a committee of bank creditors agreed to general principles governing negotiations on restructuring \$12 billion of the country's debt to commercial banks, including short-term revolving credits, medium-term debt, and interest arrears. Polish authorities have announced that the country will begin monthly payments (of about \$5 million) on its \$8.5 billion medium-term debt.

In the Czech Republic, recovery appears to have been slowed by a sharp drop in trade with the Slovak Republic following the break-up of the Czech-Slovak Federal Republic (CSFR) in January. Full privatization of Czech state industry -- specifically final delivery of ownership shares in Czech firms to the general public holding vouchers -- has been delayed by a dispute between Czech and Slovak authorities over division of assets of the former CSFR. Passage of a new bankruptcy law may force many firms and banks to adopt stricter financial discipline, increase layoffs, and accelerate some enterprise failures. In mid-March, the IMF approved a new one-year SDR 177 million (\$250 million equivalent) IMF stand-by credit for the Czech Republic.

Economic Situation in Other Countries

Real GDP in Mexico grew 2.6 percent in 1992, with growth declining in the latter part of the year. Interest rates have fallen since early March, reflecting lower expected inflation and continued slow economic growth. The peso has weakened somewhat since late April. In Brazil, economic activity and inflation have picked up in recent months. A new economic plan, announced April 24, appears to be insufficient to secure a new IMF stand-by arrangement. Argentina's industrial production growth has fallen sharply from its year-ago rate. On April 7, the Argentine government closed a Brady Plan debt restructuring arrangement with commercial bank creditors. In Venezuela, the possibility that President Perez may have to leave office because of alleged misappropriation of funds has roiled financial markets. Rapid expansion of imports in Taiwan, associated with continued high rates of GDP growth, contributed to a reduction in the trade surplus in the first four months of 1993. China's real GDP grew 14.1 percent in the first three months of 1993 (Q1/Q1). Weak economic activity in Korea spurred the Bank of Korea to cut interest rates further on March 25.

Individual country notes. Mexico's real GDP grew 2.6 percent in 1992. Growth slowed during the year, and output in the fourth quarter was only 1.9 percent greater than a year earlier.

Economic growth appears to have remained sluggish in the early months of 1993, judging from anecdotal evidence and from the disappointing first-quarter earnings reports issued by leading companies. Reflecting this situation, the Mexico City stock market index fell sharply in late April and early May.

Interest rates have continued a decline that began in early March, reflecting decreases in expected inflation and in economic

growth. At the auction of May 12, the twenty-eight-day Treasury-bill rate was 15.1 percent, down 232 basis points from the March high. The monthly CPI increases have been progressively lower since a 1.3 percent rise in January, having fallen to 0.6 percent in both March and April. In April, the CPI was 10.1 percent above a year earlier.

After a six-month period in which the Mexican peso appreciated slightly in nominal terms against the dollar, the peso depreciated by 1.3 percent from April 23 to May 12. On May 12, the exchange rate was 3.131 pesos per dollar, 3.4 percent above the lower limit of the band within which it floats.

At the end of 1992, reserves including gold were \$18.5 billion, up about \$1 billion from the end of 1991. The reported reserve gain last year is smaller than would have been expected with a capital account surplus of \$26 billion and a current account deficit of \$22.8 billion. Large negative errors and omissions, which fill the gap, include a combination of net unrecorded imports of goods and services and net unrecorded capital outflows. Indications are that strong capital inflows continued in the early months of 1993, helping international reserves to rise further. However, data on the level of reserves during 1993 are not yet available.

In January-February 1993, manufactured exports were only about 4 percent higher than a year earlier. Merchandise imports were 9 percent higher for these two months, after a 26 percent increase in 1992 as a whole.

Economic activity in Brazil appears to have picked up in recent months, especially in consumer durables, after a revised 1.1 percent decline for 1992 as a whole. Inflation has increased since Itamar Franco became president in early December 1992. Monthly inflation rose from a range of 20 to 25 percent in the last quarter of 1992 to

about 28 percent in March and April. The trade surplus declined from \$3.2 billion in the first quarter of 1992 to \$2.5 billion for the same period this year; exports rose only 4 percent, while imports climbed 16 percent.

The Brazilian government unveiled a new economic plan on April 24. The macroeconomic stabilization measures in the plan appear to be insufficient to secure a new IMF stand-by arrangement. A new IMF program would facilitate the conclusion of Brazil's negotiations with commercial bank creditors on a Brady-style restructuring of \$44 billion in external debt. Brazil would like participating banks to limit the share of debt tendered for par and discount bonds, the most expensive options to collateralize, to no more than 40 percent each.

In Argentina, growth in industrial production has slowed to 1.9 percent (Q1/Q1), in contrast to last year's growth (Q1/Q1) of more than 25 percent. The CPI rose 0.8 percent in March and 1 percent in April. The CPI has risen 11.7 percent over the past twelve months, compared with a 30.2 percent increase over the same period a year earlier.

On April 7, Argentina closed a Brady Plan debt restructuring arrangement with its commercial bank creditors. A total of \$19.8 billion in bank debt was exchanged for 30-year par and discount bonds with fully collateralized principal and a rolling one-year interest guarantee. Interest arrears of \$8.3 billion will be converted to 12-year uncollateralized bonds by September 1993. The debt restructuring arrangement was supported by \$2.7 billion in loans from the IMF, World Bank, IDB, and the Japan Export-Import Bank.

In late March, Argentina passed a quarterly review under its IMF Extended Fund Facility. All quantitative performance criteria

were met, but a deadline for social security reforms was postponed due to legislative delays; the lower house of the Argentine congress approved a reform package in late April, and final approval is expected to occur in June.

In Venezuela, the Supreme Court is expected to rule on May 20 as to whether President Perez should be tried for alleged misappropriation of funds. If a trial is conducted and Perez resigns, Congress would select an interim President within 30 days, and that person would serve until elections in December. In response to these events, the Caracas stock index declined a total of 10 percent on May 5 and 6 and the Venezuelan bolivar came under heavy pressure. The central bank has limited the depreciation of the currency to less than one percent by buying bolivars and by boosting the annual yield on three-month bills from 45.3 percent on May 5 to 61.1 percent on May 12. With expected inflation now about 38 percent, domestic real interest rates stand at very high levels.

Taiwan's real GDP grew 6.6 percent in 1992, compared with 7.2 percent growth in 1991. Net exports declined 38.4 percent due to weak external demand and rapid import growth. Fixed investment grew 12.3 percent in 1992, up from 8.2 percent in 1991. Private fixed investment rose by 14.1 percent, but public fixed investment continued to fall behind targets. Large parts of Taiwan's ambitious \$303 billion infrastructural program face cancellation once a current government review is complete. Consumer price inflation remained stable in March at a year-over-year rate of 3.2 percent.

Taiwan's merchandise trade surplus continued to narrow in the first four months of 1993, falling to \$1.8 billion from \$3.8 billion in the same period for 1992. In the first four months, exports grew 3.4 percent, while imports increased 13.2 percent.

Real GDP in China was 14.1 percent higher in the first quarter of 1993 than a year earlier. Price pressures are on the rise, with urban prices up 15.7 percent in the year ending in March 1993, after a 6.4 percent increase for all 1992. Chinese authorities have been sanguine in public about recent signs of overheating, but indicate they may attempt to cool the economy by raising interest rates. Continued inability of the central authorities to curb rapid lending growth at local levels, along with the continuing problem of financing state enterprise losses, suggest that reining in the economy will be difficult.

Output growth has remained weak in Korea. Industrial production was only slightly higher in the first quarter of 1993 than in the same period last year. In the twelve months through April, consumer price inflation was 4.8 percent, compared with 7.1 percent in the year ending April 1992. The current account deficit narrowed to about \$900 million in the first quarter of 1993 from \$3.2 billion in the first quarter of 1992. Exports rose 10 percent, and imports declined about 3 percent.

In response to the slow pace of economic activity, the Bank of Korea cut rediscount rates by 1/2 to 1 percentage point on March 25, and other regulated interest rates were also reduced. These moves followed rediscount rate reductions of 1 to 2 percentage points in January 1993. The rediscount rate on commercial and trade bills is now 5 percent.