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June 30, 1993

RECENT DEVELOPMENTS

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

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DOMESTIC NONFINANCIAL DEVELOPMENTS

Real GDP growth in the second quarter appears to have exceeded the meager 0.7 percent pace of the first, but by how much is still uncertain. Production worker hours were very strong in May, suggesting the possibility of a large gain in output, but the recent spending indicators point to no more than a moderate expansion of activity. The manufacturing sector slowed during the spring, with imports perhaps accounting for an increased share of domestic spending; new orders have softened in recent months. Although consumer prices rose just 0.1 percent in May, the cumulative wage and price data for the year to date provide no evidence that inflation is still trending downward--and according to some measures it may have turned back up.

Employment and Unemployment

The May labor market report was much stronger than most analysts expected--and stronger than most appear willing to believe. Total payroll employment rose 200,000 for the second straight month, and the unemployment rate edged down to 6.9 percent--its lowest level since November 1991. Most stunning was the indication that aggregate hours worked by production or nonsupervisory workers surged 1.4 percent in May, propelled by a sharp jump in the workweek, to a historically high level. The employment report for June will be released on Friday; through the first three weeks of the month, filings of initial claims for unemployment insurance (adjusted for the emergency unemployment program) remained in the 370,000 to 400,000 per week range that has prevailed since the beginning of the year.

An increase in private payroll employment of 200,000 per month in April and May brought the cumulative gain for the year to 870,000. The number of jobs in the manufacturing sector has

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

	1991	1992	1992 Q3	1992 Q4	1993 Q1	1993 Mar.	1993 Apr.	1993 May
	------------Average monthly changes---------							
Nonfarm payroll employment[2]	-72	80	73	135	162	26	216	209
Private	-88	59	37	123	155	15	209	196
Manufacturing	-44	-26	-41	-12	7	-19	-75	-39
Durable	-39	-22	-32	-9	3	-19	-56	-48
Nondurable	-5	-5	-9	-3	5	0	-19	9
Construction	-33	-5	-7	4	7	-34	36	67
Trade	-30	20	10	35	62	-19	47	33
Finance, insurance, real estate	-9	-2	-1	3	0	-3	10	-1
Services	39	78	84	92	77	91	199	126
Health services	30	29	31	36	29	30	33	24
Business services	4	31	22	47	31	43	66	29
Total government	17	22	36	12	7	11	7	13
Private nonfarm production workers	-71	74	52	132	149	-4	149	225
Manufacturing production workers	-29	-13	-28	1	16	-3	-59	-27
Total employment[3]	-62	130	71	196	85	114	-149	857
Nonagricultural	-53	122	79	182	145	148	-127	847
Memo:								
Aggregate hours of private production workers (percent change)	-.1	.1	.0	.2	.1	-.4	.7	1.4
Average workweek (hours)	34.3	34.4	34.4	34.4	34.4	34.2	34.4	34.8
Manufacturing (hours)	40.6	41.1	41.1	41.2	41.3	41.2	41.5	41.5

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

SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data)

	1991	1992	1992 Q3	1992 Q4	1993 Q1	1993 Mar.	1993 Apr.	1993 May
Civilian unemployment rate (16 years and older)	6.7	7.4	7.5	7.3	7.0	7.0	7.0	6.9
Teenagers	18.7	20.0	20.3	19.4	19.6	19.5	20.7	19.7
20-24 years old	10.8	11.3	11.5	11.1	11.0	10.6	10.6	11.4
Men, 25 years and older	5.7	6.4	6.5	6.3	5.9	6.1	5.8	5.7
Women, 25 years and older	5.1	5.7	5.8	5.8	5.4	5.1	5.4	5.3
Fulltime workers	6.5	7.1	7.3	7.0	6.6	6.6	6.6	6.6
Labor force participation rate	66.0	66.3	66.4	66.2	66.0	66.0	65.9	66.3
Teenagers	51.7	51.3	51.7	51.2	51.5	51.3	51.7	52.7
20-24 years old	76.8	77.1	77.4	77.0	77.3	77.2	76.9	78.0
Men, 25 years and older	76.7	76.7	76.7	76.4	76.1	76.1	76.1	76.3
Women, 25 years and older	56.5	57.0	57.1	57.1	56.8	56.8	56.6	56.9

continued to decline, but increases have been reported of late in most other sectors. Construction employment rose about 100,000 over April and May, with the pickup in hiring undoubtedly enhanced by a return to more normal weather. The share of payroll employment growth attributable to service industries was even larger in the recent two months than in the first quarter.

Job growth in business services, which was one of the few bright spots in the labor market in 1992, has continued at a brisk pace in 1993. Of that growth, about two-thirds has been in the personnel supply category, the major component of which is temporary help agencies; the share of temporary workers in total payroll employment, while still small, has been increasing rapidly (chart). Although the growth in temporary employment over the past decade may reflect firms' desire for a more flexible workforce, recent increases may also be a signal that firms remain cautious about expanding payrolls permanently.

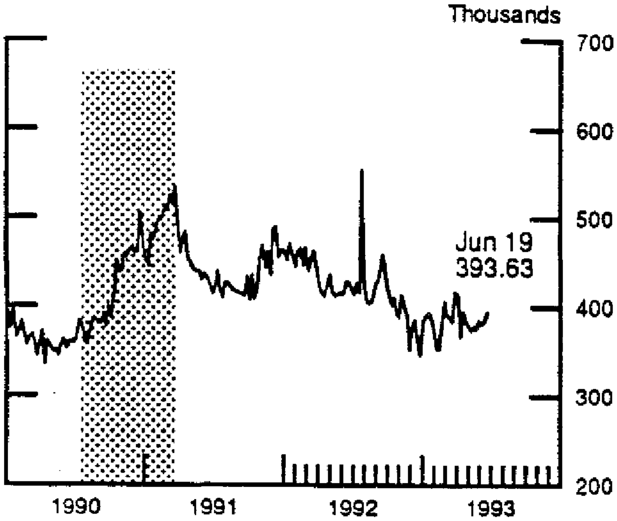
Average weekly hours of production or nonsupervisory workers jumped 0.4 hour to 34.8 hours in May, the highest level since April 1989. In manufacturing, the average workweek held constant at 41.5 hours in May, and overtime hours were unchanged at 4.2 hours per week--high levels by historical standards.

As measured in the household survey, employment surged 857,000 in May. Monthly movements in this series tend to be highly volatile, but especially so at the end of the school year when large seasonal swings in hiring occur. For the year to date, household employment has increased about 960,000--a gain similar to that recorded in payroll employment over the same period.

The labor force also posted a substantial increase in May, up almost 800,000. Labor force growth had been quite sluggish during the preceding four months, however, and the May gain only moved the

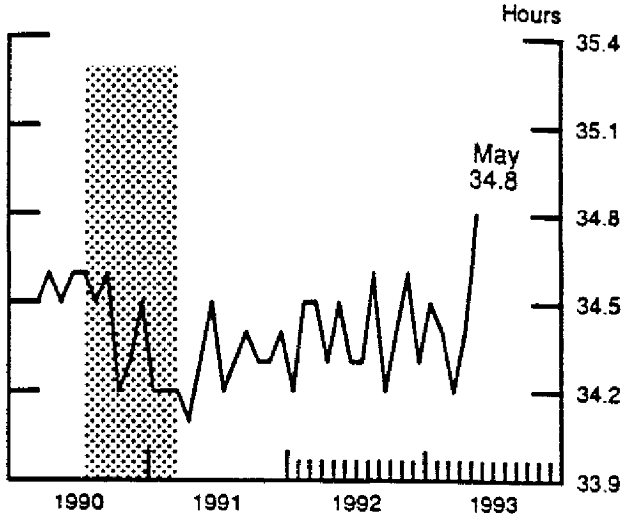
OTHER LABOR MARKET INDICATORS

Initial Claims for Unemployment Insurance*



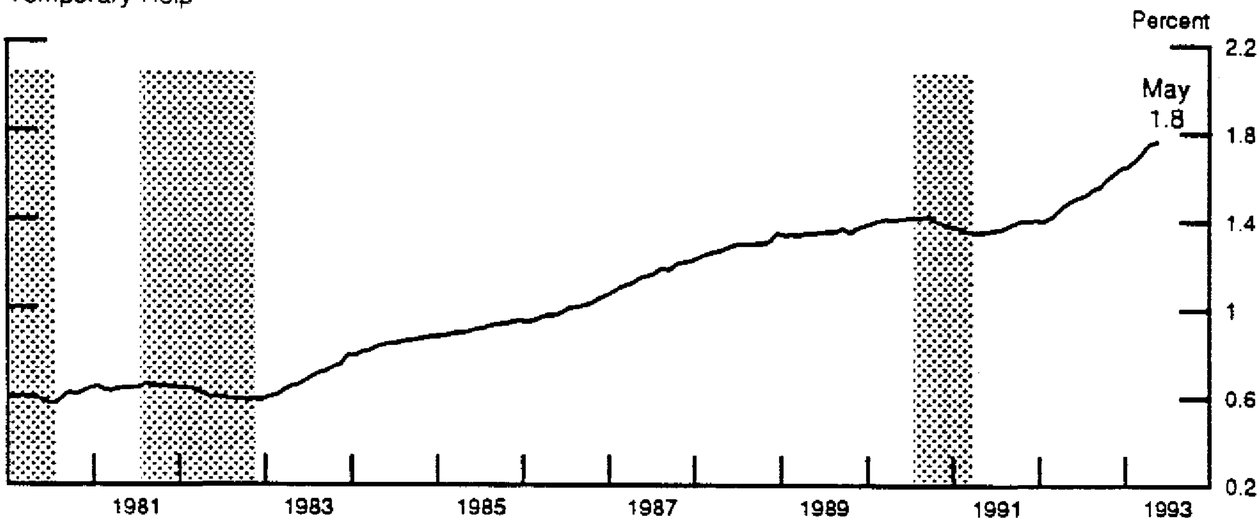
* Including EUC adjustment.

Average Weekly Hours*



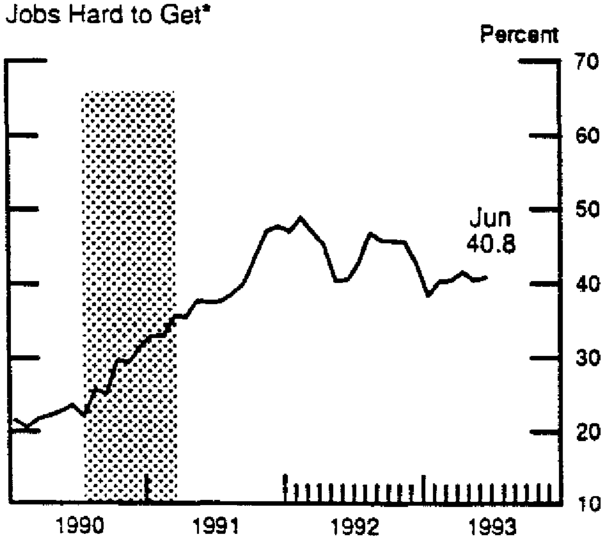
* Production or non-supervisory workers.

Temporary Help*



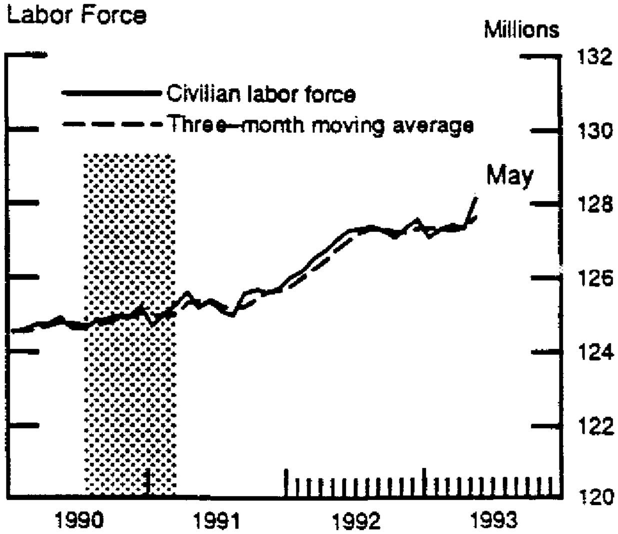
* Employment in personnel services as a share of total private employment.

Jobs Hard to Get*



* From the Conference Board's Survey of Consumer Sentiment.

Labor Force



labor force participation rate back up to its December 1992 level of 66.3 percent. Participation so far this year probably has continued to be damped by perceptions that job opportunities are scarce. For example, the Conference Board survey of consumers shows that the proportion of respondents who perceive jobs as "hard to get" has come down only a little, on net, from its recent peak, and the proportion who consider jobs to be plentiful has risen only a little.

Industrial Production

Industrial production rose 0.2 percent in May, after upward-revised increases of the same size in March and April. Mining output moved up a bit further in May, and output of utilities edged down. Manufacturing output increased 0.2 percent, as a slight decline in motor vehicle assemblies partly offset gains elsewhere. The capacity utilization rate for industry was unchanged at 81.6 percent for a third month.

Motor vehicle assemblies dropped to a 10.7 million unit annual pace in May after holding steady in the preceding two months at just over 11 million units. With sales of North-American-produced autos improving slightly further in May, dealers' inventories of new autos fell to an estimated seventy days' supply. For June, production appears to have edged down further, to a 10.5 million unit annual pace.

Assembly schedules for July call for production at U.S. plants to return to the May level, and a sharp pickup in assemblies currently is scheduled for August. The increase in auto assemblies scheduled for August comes just before the start of labor negotiations in the industry and may represent a desire to build inventories in anticipation of a possible strike. Assemblies of light trucks apparently edged down in June for a second month, but

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

	Proportion in total IP 1992:4	1992[1]	1992 Q4	1993 Q1	1993 Mar.	Apr.	May
			-Annual rate		---Monthly rate----		
Total index	100.0	3.2	6.7	5.5	.2	.2	.2
Previous		3.2	6.7	5.3	.0	.1	
Manufacturing	84.6	3.7	6.5	6.4	.3	.4	.2
Motor vehicles and parts	4.9	10.2	33.7	37.4	-.5	.5	-1.4
Mining	7.3	-.9	1.5	-5.7	-.6	1.3	.5
Utilities	8.2	2.0	14.4	4.6	.2	-3.4	-.3
MANUFACTURING EXCEPT MOTOR VEHICLES AND PARTS	79.7	3.3	5.1	4.6	.3	.4	.3
Consumer goods	22.1	2.1	4.7	2.3	.2	.0	.2
Durables	3.7	3.8	5.8	15.0	.3	.4	.2
Nondurables	18.4	1.7	4.4	-.1	.2	-.1	.3
Business equipment	14.5	9.9	10.6	8.6	1.3	.8	.5
Office and computing	3.2	31.1	25.2	32.0	2.9	2.8	2.7
Industrial	4.0	6.1	8.3	4.8	.7	.7	.6
Other	7.1	4.2	5.9	.6	.8	-.1	-.7
Defense and space equipment	3.3	-7.8	-7.5	-7.6	-.8	-.4	-.4
Construction supplies	4.8	4.5	4.4	5.9	-1.3	-.2	.5
Materials	28.2	3.2	5.1	7.3	.1	.6	.
Durables	18.9	3.6	7.7	9.3	-.2	.4	.
Nondurables	9.0	2.3	.4	4.1	.7	.9	.2

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

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1967-92 Avg.	1992 Avg.	1992 Q4	1993 Q1	1993 Mar.	Apr.	May
Total industry	81.9	79.8	80.7	81.4	81.6	81.6	81.6
Manufacturing	81.2	78.8	79.6	80.5	80.6	80.8	80.8
Primary processing	82.2	82.2	82.7	83.9	83.8	84.1	84.3
Advanced processing	80.7	77.3	78.3	79.0	79.3	79.4	79.4

remained in a very high range. Production plans for the third quarter show assemblies holding close to their second-quarter average.

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

	1993					
	Apr.	May	June	July	Aug.	Sept.
			----------scheduled---------			
U.S. production	11.1	10.7	10.5	10.7	11.5	10.9
Autos	6.3	6.0	6.0	6.2	6.7	6.2
Trucks	4.8	4.7	4.5	4.5	4.7	4.7
Light trucks	4.6	4.4	4.2	4.2	4.4	4.4
Days' supply[2]						
Autos	72.5	71.1				
Light trucks	69.6	68.2				

1. Components may not sum to totals because of rounding.
2. BEA seasonal basis, end of month.

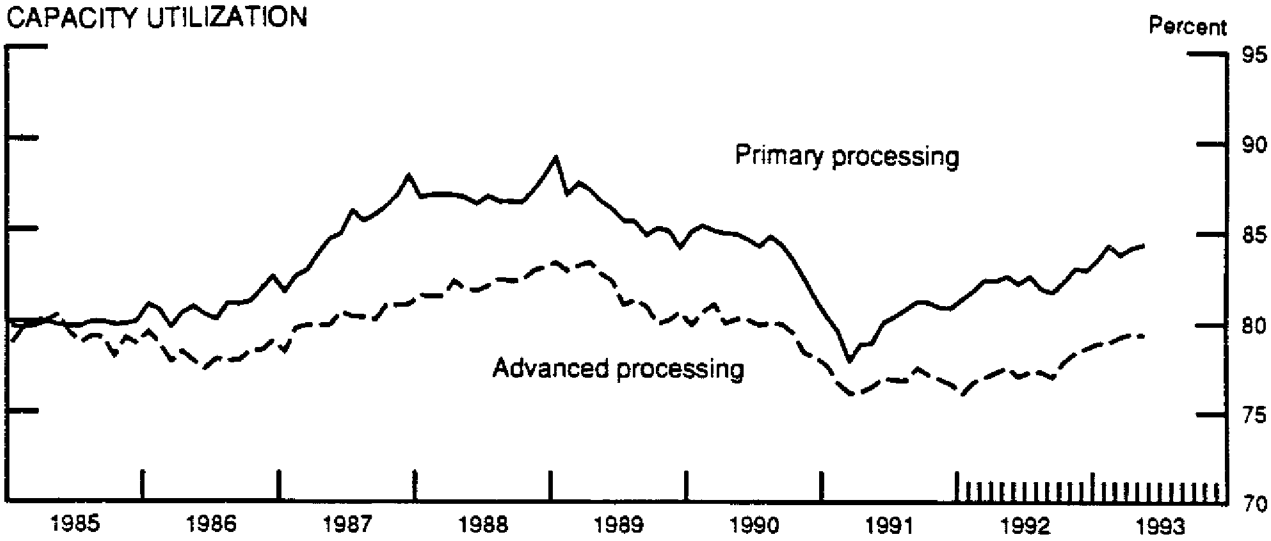
Automobile manufacturers appear to have ample flexibility to increase production of cars; annual assembly capacity for cars in the United States presently amounts to about 8.2 million units, about 2 million units above the production rates of recent months. By contrast, truck makers have been operating much closer to capacity, as sales growth for light trucks has greatly outstripped growth in sales of cars over the past two years. U.S. capacity for light trucks is slated to move up a bit further in the 1994 model year, to 5.3 million units, about 3/4 million units above recent output levels.

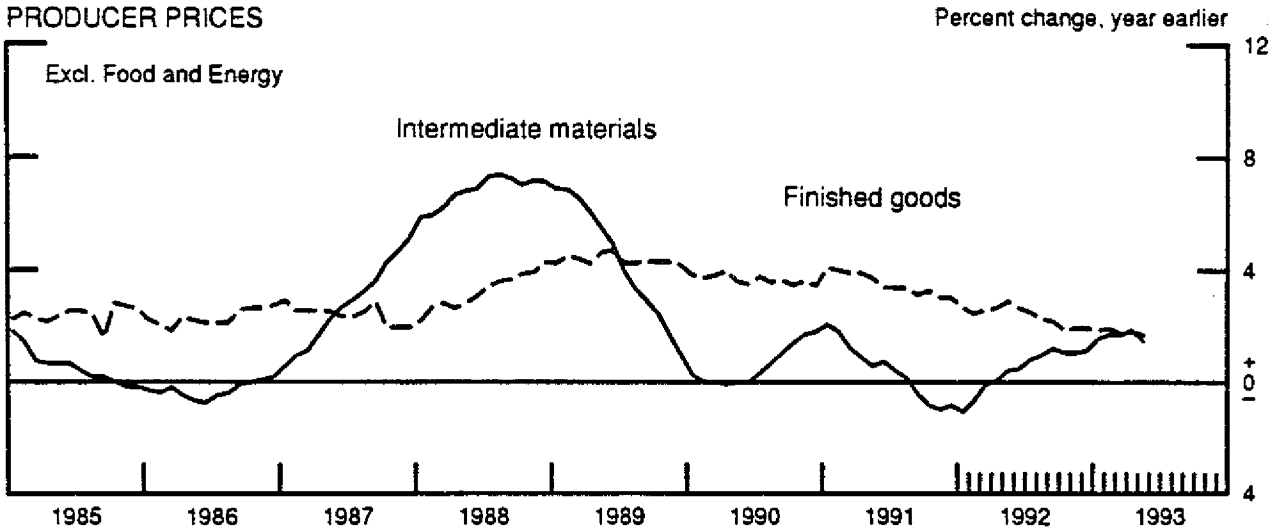
MODEL-YEAR ASSEMBLY CAPACITY
FOR U.S. AUTOS AND LIGHT TRUCKS
(Millions of units)

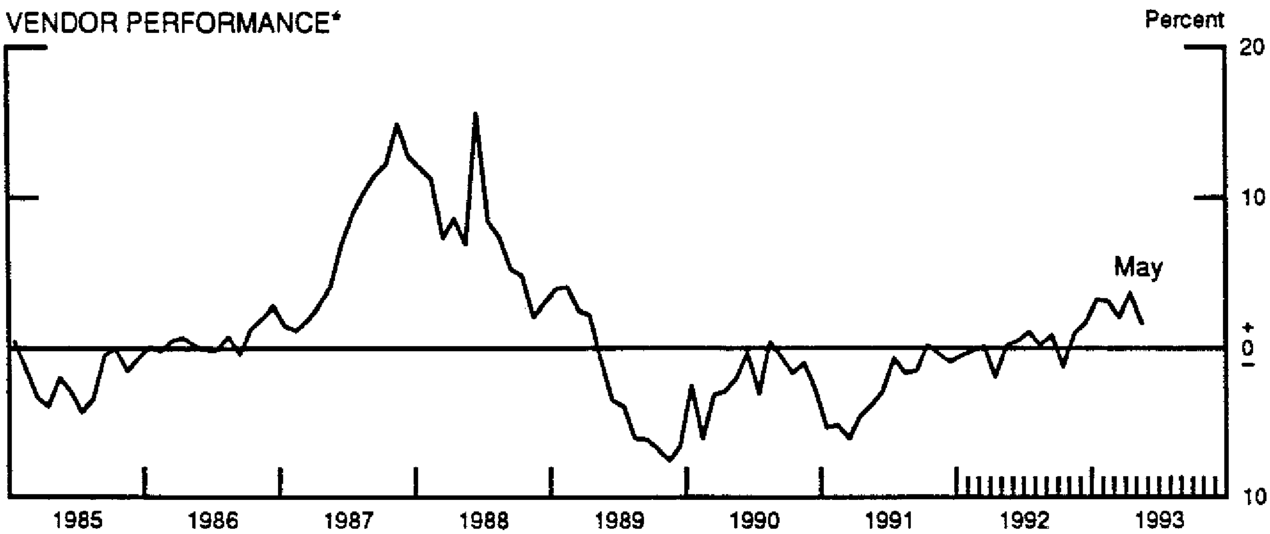
	1992	1993	1994
Total light vehicles	13.07	13.34	13.35
Autos	8.11	8.18	8.10
Light trucks	4.96	5.17	5.25

Source: FRB staff compilation from industry sources.

MANUFACTURING SECTOR







Source: National Association of Purchasing Managers. Series is equal to the net proportion of respondents who say that deliveries have slowed.

Outside of motor vehicles, manufacturing output increased 0.3 percent in May, just a shade less than the 0.4 percent average monthly pace in the first four months of 1992. Growth of output for consumer goods other than motor vehicles has been weak this year, likely in response both to the subdued pace of retail sales and to the recent increase in import penetration. In contrast, gains in the output of business equipment have been strong, averaging about 0.8 percent per month. The May gain was on the low side of that average--output of computers and industrial equipment is estimated to have continued to grow briskly, but other business equipment production fell 0.7 percent. Production of materials increased 0.3 percent in May, about the same as the average for the first four months of 1993.

Among the more current indicators of industrial activity, orders for manufacturers' durable goods fell in May for the third consecutive month (table). Reports from the Philadelphia Business Outlook Survey and Chicago purchasing managers suggest that activity was sluggish in June. The available weekly output indicators are a slight negative for June IP.

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

	Share 1992 H2	1993 Q1	1993 Feb.	1993 Mar.	1993 Apr.	1993 May
Total durable goods	100	3.1	2.5	-3.4	-.2	-1.7
Adjusted durable goods[1]	66	2.0	1.0	-1.4	-.1	-1.1
Office and computing	4	9.0	9.6	-4.8	-2.5	6.5
Nondefense capital goods[2]	16	3.1	.9	2.8	1.2	-4.8
Other	46	1.0	.2	-2.5	-.3	-.5
Memo:						
Real adjusted durable goods		2.2	1.5	-1.7	.0	-.4

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

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

		1992		1993	1993	
	1992	Q3	Q4	Q1	Apr.	May
Total personal income	20.8	14.1	37.7	22.3	5.5	30.3
Wages and salaries	10.8	7.5	20.8	4.0	10.9	30.2
Private	8.9	7.5	18.6	2.2	9.0	28.3
Other labor income	1.4	1.4	1.4	1.5	1.4	1.4
Proprietors' income	4.1	5.3	8.2	10.0	-17.3	-7.8
Farm	.5	2.6	3.4	8.4	-21.0	-11.5
Rent	1.4	-.6	2.6	.4	8.3	.6
Dividend	1.2	1.5	2.0	.6	.2	.3
Interest	-3.7	-5.5	.0	-.7	-.4	-.2
Transfer payments	6.7	5.3	4.0	7.8	3.0	7.6
Less: Personal contributions for social insurance	1.1	.7	1.5	1.3	.7	1.9
Less: Personal tax and nontax payments	2.0	4.4	5.4	2.3	2.3	5.5
Equals: Disposable personal income	18.7	9.7	32.2	20.0	3.3	24.9
Memo: Real disposable income	7.1	1.9	18.5	5.2	-8.1	15.7

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

		1992		1993	1993	
	1992	Q3	Q4	Q1	Apr.	May
		------Annual rate-----			Monthly rate	
Personal consumption expenditures	3.4	3.7	5.1	.8	.9	.1
Durable goods	9.2	9.4	14.0	-.8	3.9	.7
Excluding motor vehicles	10.0	18.8	8.9	3.3	.9	.3
Nondurable goods	3.3	2.5	6.8	-2.7	1.1	-.2
Excluding gasoline	3.6	2.6	8.0	-3.0	1.7	-.7
Services	2.2	3.1	2.1	3.2	.1	.1
Excluding energy	2.3	3.3	1.9	3.3	.4	.5
Memo:						
Personal saving rate (percent)	4.8	4.6	4.4	4.9	4.4	4.8

The rate of capacity utilization in manufacturing was unchanged in May, at 80.8 percent, after rising 1 percentage point from December to April. However, historical revisions to the capacity and production data have raised the level of the utilization rate over the past few quarters. The revised rate for March, the last month for which data were published before the revision, is about 1-1/2 percentage points above the initial estimate. Manufacturing output during 1992 and early 1993 is now shown to have increased about 1 percentage point faster than previously estimated, and the growth rate of capacity over that period has been revised down. The upward revision to the growth of manufacturing output since the end of 1991 was particularly large for electrical machinery, industrial and commercial machinery, and computer equipment.

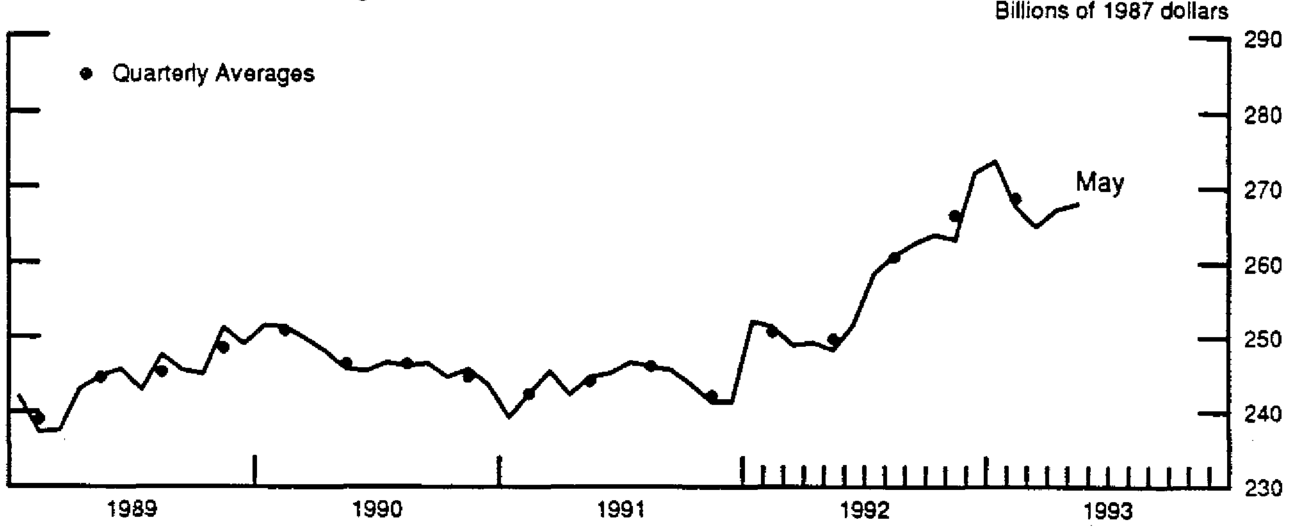
The revised utilization rates continue to show an especially rapid rise in operating rates for the primary-processing group since the early 1991 trough (upper panel of chart). As typically occurs when slack in utilization at primary processors is taken up, prices for many intermediate materials have firmed over the past year and a half. At higher operating rates, materials suppliers also tend to ration deliveries through nonprice means, and the purchasing managers' reports on delivery performance provide some evidence that this phenomenon has been at work in recent months, although, to be sure, the May reading showed delivery performance speeding up once again.

Personal Income and Consumption

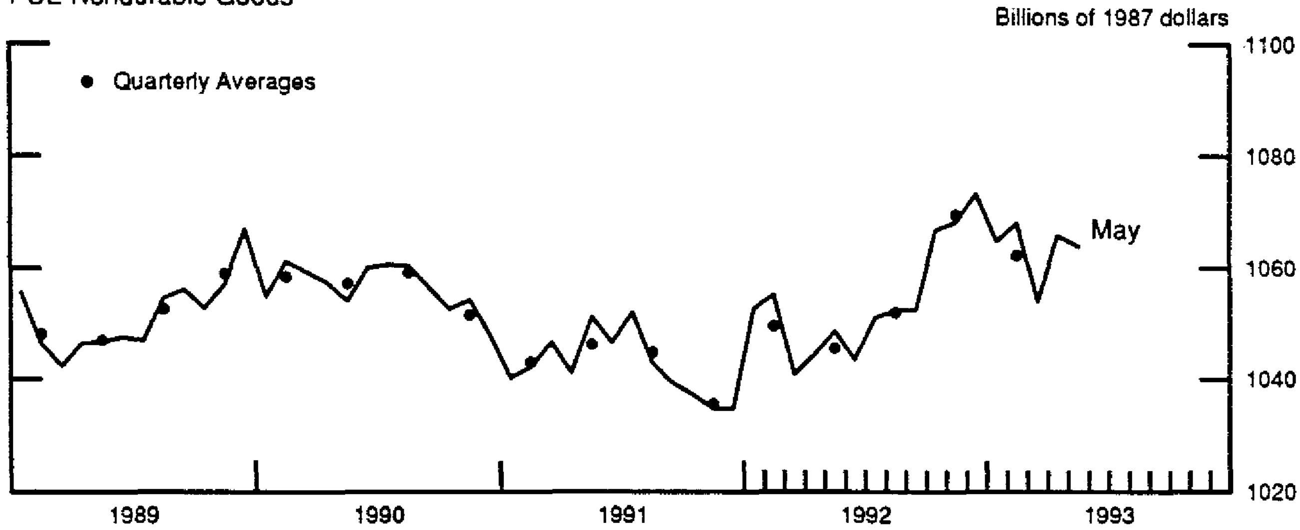
Indicators for the consumer sector have been mixed of late. Real personal consumption expenditures appear to have increased moderately in the second quarter, but the gains have been sporadic and rather narrowly based. After rebounding in April from the

Personal Consumption Expenditures Excluding Motor Vehicles

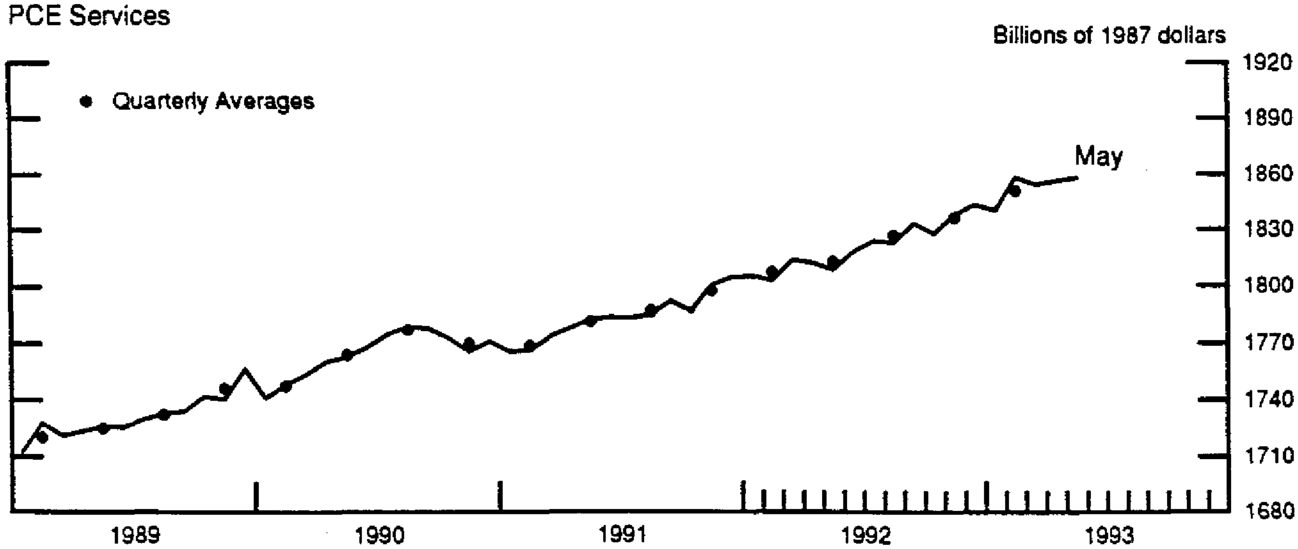
PCE Durable Goods Excluding Motor Vehicles



PCE Nondurable Goods



PCE Services



weather-related declines in March, total real PCE is estimated to have risen only 0.1 percent in May, to a level 0.6 percent above the average for the first quarter. Spending for motor vehicles and for nonenergy consumer services has increased substantially in recent months, but elsewhere little improvement has been evident.

After rebounding in April, spending on nondurable goods fell 0.2 percent in May. Services spending rose only 0.1 percent in total, as energy consumption dropped back from the especially high levels of late winter. Spending for durable goods other than motor vehicles was up 0.3 in May but remained slightly below the average for the first quarter. Overall, expenditures in May on real PCE excluding motor vehicles were only 0.2 percent above the average level in the fourth quarter of 1992 (not at an annual rate).

Sales of new cars and light trucks, which posted a weather-related recovery in April from a lackluster pace in March, moved higher in May to a 14.4 million unit annual rate, the highest since January 1990. Purchases of both domestic- and foreign-nameplate vehicles advanced last month. During the first twenty days in June, sales of domestic light vehicles (which include some foreign nameplates) continued at about the same elevated pace as in May.

Cutting through the weather-related disruptions in monthly sales, purchases of light vehicles have been on a significant uptrend since last fall. During this period, domestic-nameplate vehicles have fared better than foreign-nameplate vehicles. The market share for Big Three cars has averaged about 66 percent so far this year, compared with a 63 percent share for 1992 as a whole. This improvement reflects, at least in part, the smaller rise in Big Three prices relative to increases in foreign car prices.

The sustained strength in auto sales in recent months seems at odds with the softness evident in many other indicators for the

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

	1991	1992	1992 Q3	1992 Q4	1993 Q1	1993 Apr.	1993 May	1993 June 1-20
Total	12.30	12.85	12.59	13.24	13.12	14.22	14.39	n.a.
Autos	8.39	8.38	8.21	8.38	8.30	8.91	9.10	n.a.
Light trucks	3.91	4.46	4.38	4.86	4.82	5.31	5.29	n.a.
North American[2]	9.73	10.51	10.41	11.02	10.92	11.88	12.00	12.16
Autos	6.14	6.28	6.24	6.38	6.32	6.78	6.91	6.95
Big Three	4.99	5.10	4.94	5.18	5.29	5.64	5.70	5.72
Transplants	1.14	1.18	1.30	1.20	1.04	1.15	1.21	1.25
Light trucks	3.59	4.23	4.17	4.64	4.60	5.10	5.09	5.22
Foreign produced	2.57	2.34	2.18	2.22	2.20	2.34	2.39	n.a.
Autos	2.25	2.11	1.97	2.01	1.97	2.13	2.19	n.a.
Light trucks	.32	.23	.20	.21	.23	.21	.20	n.a.
Memo:								
Domestic nameplate market share, total	.70	.72	.71	.73	.74	.75	.74	n.a.
Autos	.63	.63	.63	.64	.66	.66	.65	n.a.

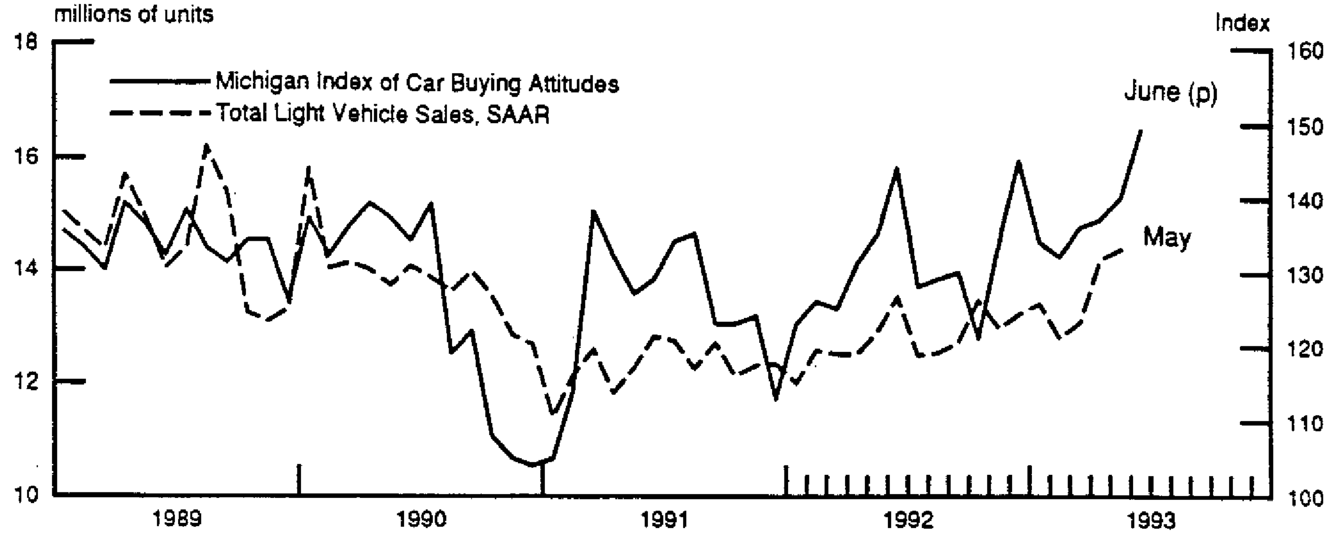
Note: Data on sales of trucks and imported autos for the current month are preliminary and subject to revision.

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

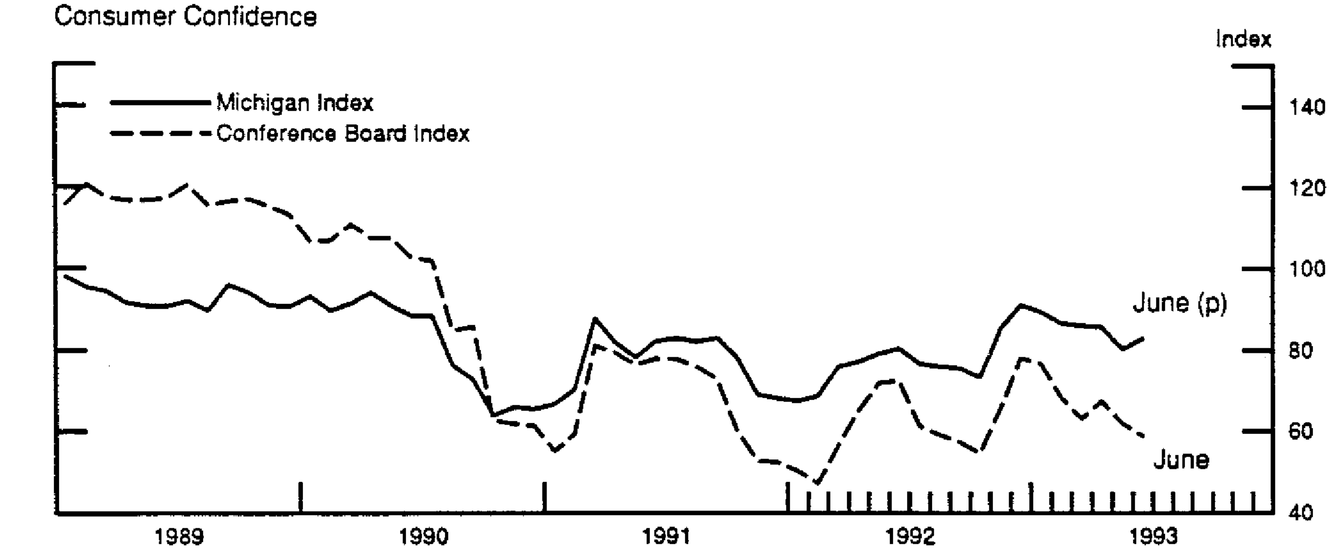
2. Excludes some vehicles produced in Canada and Mexico that are classified as imports by the industry.

Indicators of Consumer Sentiment

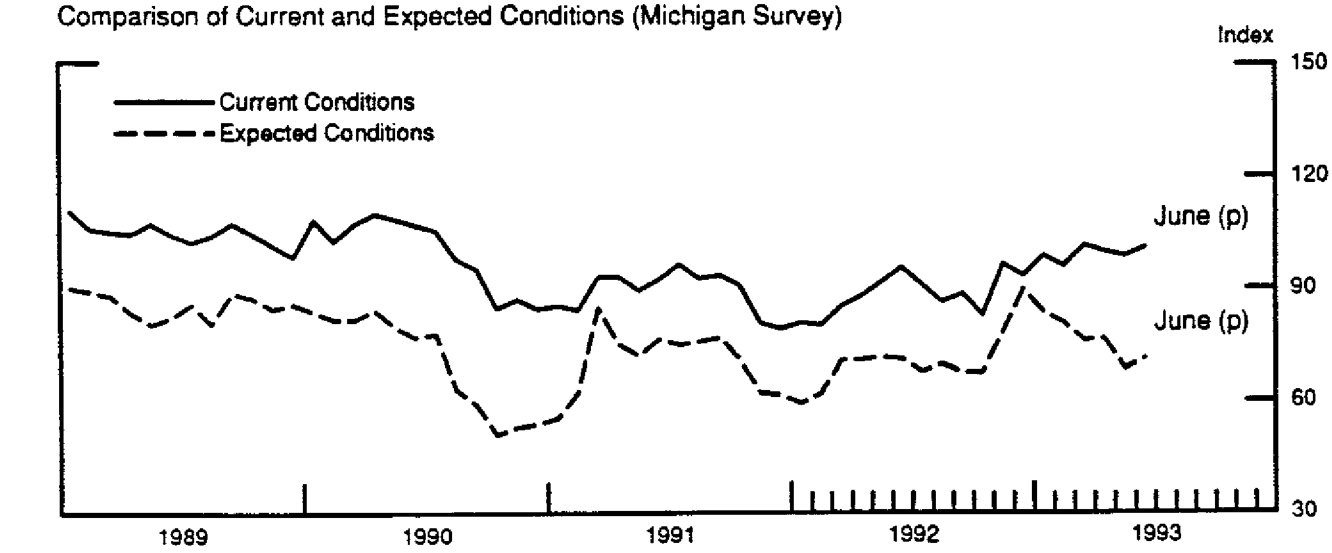
Car Buying Attitudes versus Light Vehicle Sales



Consumer Confidence



Comparison of Current and Expected Conditions (Michigan Survey)



consumer sector. One possible explanation for this strength is that consumers are acting to relieve pent-up replacement demand for motor vehicles that may have developed during the recession and early phases of the recovery, when scrappage of older models was apparently postponed. The attitudes of consumers toward car buying have generally been improving. In the first part of June, the index of car-buying conditions from the Michigan survey of consumers stood at 149, significantly above both its January level of 134 and its average 1992 level of 131. The leading reasons that consumers gave for this positive appraisal were that "good buys" were available and interest rates were low.

Personal income grew rapidly in May, led by a jump in wages and salaries that was only partly offset by a second month of decline in farm proprietors' income. Since the beginning of the year, income growth has been uneven but moderate on average.

The University of Michigan's composite index of consumer confidence rose slightly in early June, reflecting modest improvements in consumers' assessments of both current and expected conditions. Although the June increase reverses roughly half of the May decline in sentiment, the index still stands approximately 8 points below its recent peak in December. A less favorable outlook for future conditions more than accounts for the index's deterioration in the first half of this year. The Conference Board's index of consumer sentiment fell a bit further in June and is also well below its level at the end of last year.

Housing Markets

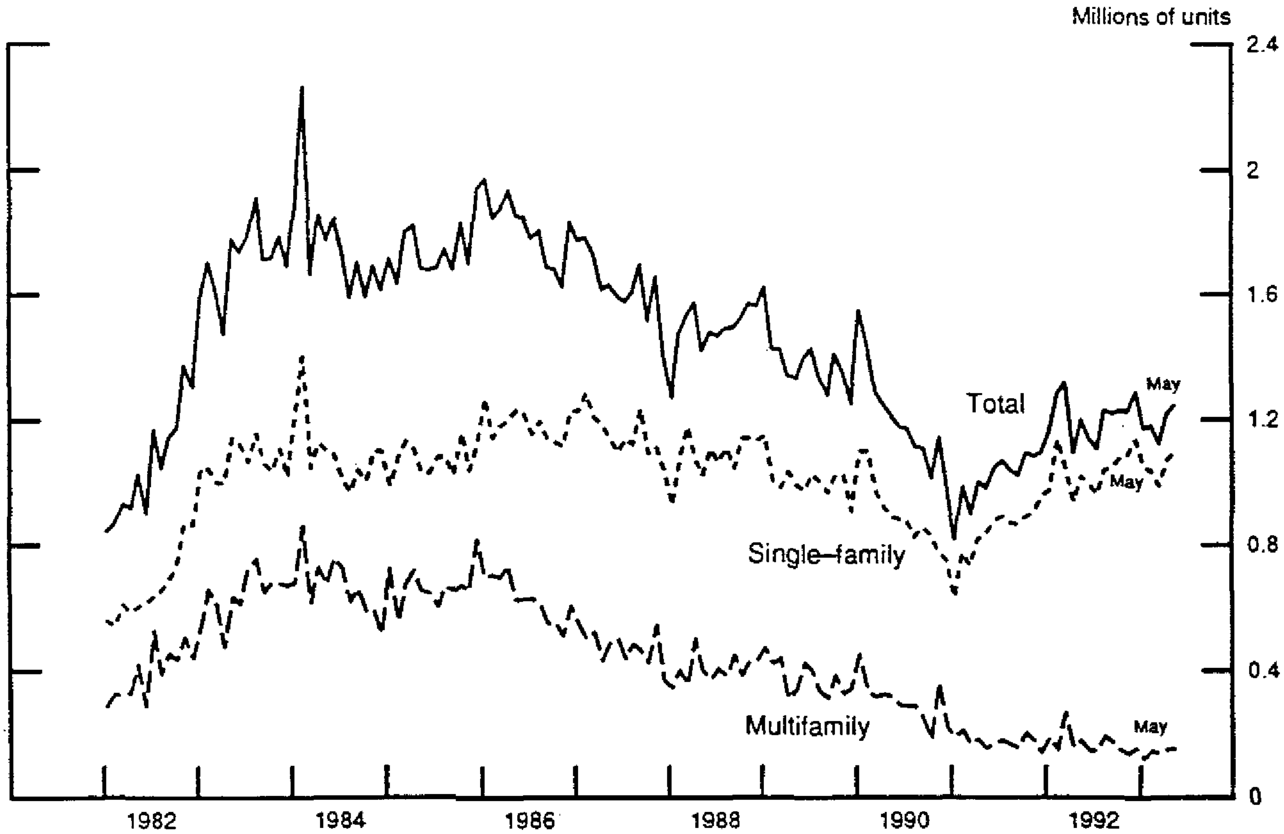
Housing activity has picked up moderately following the weakness of the first quarter. During April and May, starts and sales of new homes averaged about 5 to 10 percent above their first-quarter levels.

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

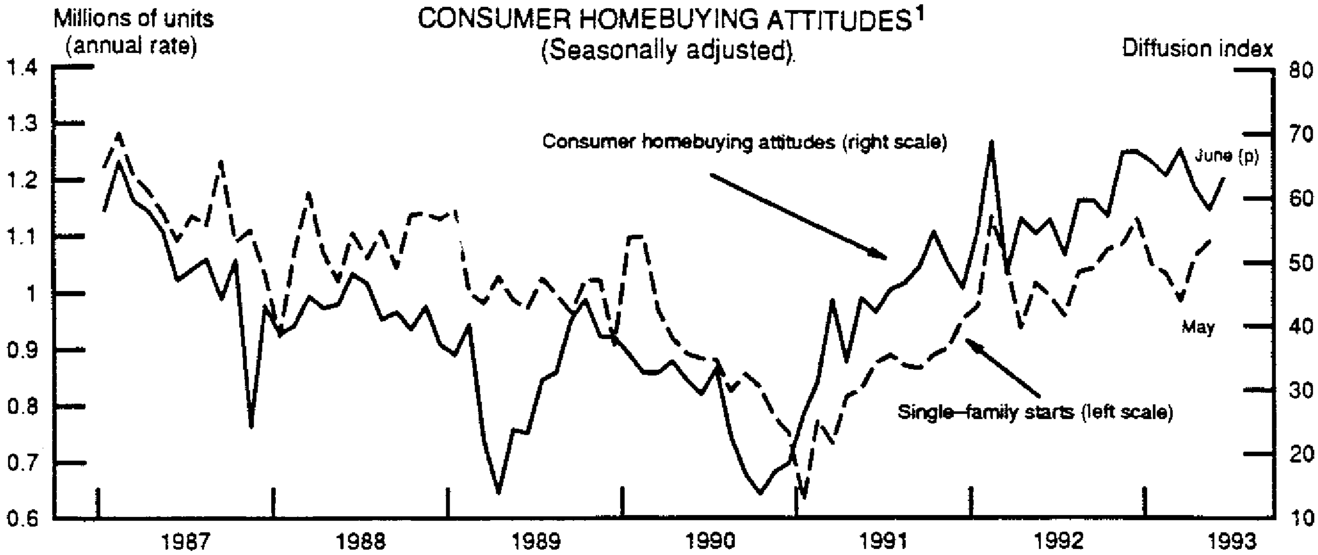
	1992 Annual	1992 Q3^r	1992 Q4^r	1993 Q1^r	1993 Mar.^r	1993 Apr.^r	1993 May^p
All units							
Starts	1.20	1.18	1.25	1.16	1.12	1.22	1.24
Permits	1.11	1.10	1.16	1.11	1.03	1.10	1.11
Single-family units							
Starts	1.03	1.02	1.10	1.03	.99	1.07	1.09
Permits	.92	.90	.99	.93	.87	.93	.91
Sales							
New homes	.61	.64	.64	.60	.60	.72	.57
Existing homes	3.52	3.37	3.87	3.54	3.37	3.45	3.61
Multifamily units							
Starts	.17	.17	.15	.13	.14	.15	.15
Permits	.19	.20	.17	.18	.16	.18	.20

p Preliminary. r Revised estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)

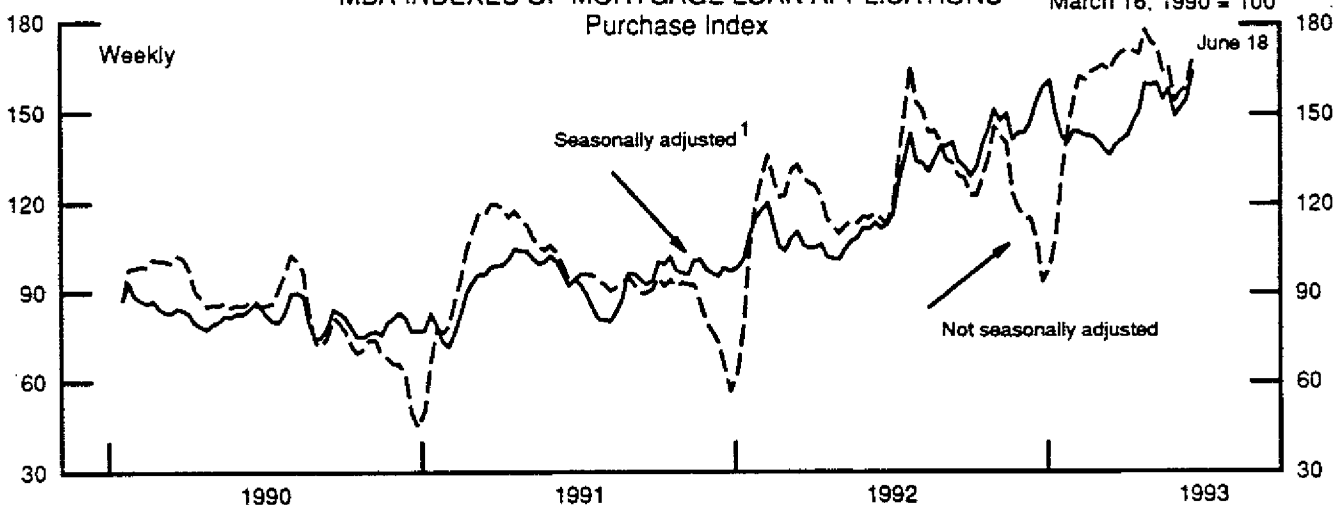


CONSUMER HOMEBUYING ATTITUDES[1]
(Seasonally adjusted)



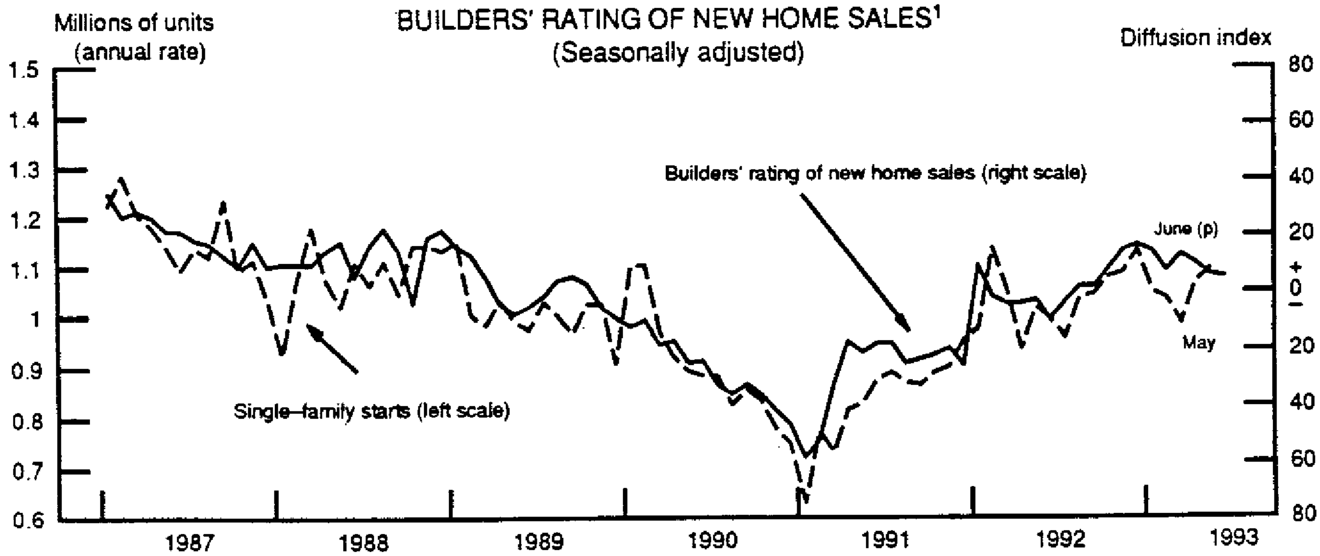
1 The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

MBA INDEXES OF MORTGAGE LOAN APPLICATIONS
Purchase Index



1. Seasonally adjusted by Federal Reserve Board Staff

BUILDERS' RATING OF NEW HOME SALES[1]
(Seasonally adjusted)



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

The single-family sector has been responsible for the recent gains. The lowest mortgage interest rates in twenty years and the sluggishness of house prices over the past several years have combined to make home purchase more affordable on a cash-flow basis than at any time since the early 1970s. Despite improving affordability, temporary factors kept both builders and their customers from the market in the first quarter. Abnormally bad weather, especially in March, delayed some projects and sales, and the sharp spike in lumber prices--since reversed--probably disrupted activity to a degree. With these temporary factors abating during the spring, single-family starts have rebounded moderately.

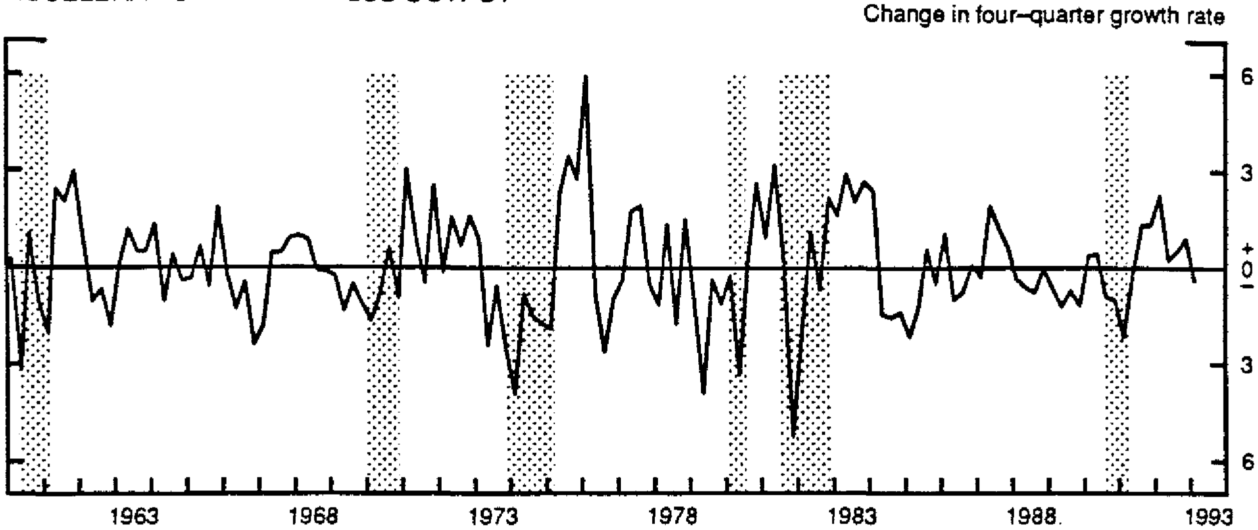
New home sales in April jumped to their highest level in nearly four years, but retraced the gain in May. The April-May average of 647,000 units at an annual rate was an improvement from the first quarter, but was on the soft side relative to starts. As measured by constant-quality price indexes, the year-to-year rise in house prices was less than 1 percent as of the first quarter, but recent monthly data on transactions prices for new homes show larger year-to-year increases; as usual, price trends vary greatly from city to city.

No big changes in housing activity are evident in the scattered June indicators now in hand. Home builders surveyed early this month assessed current sales slightly less positively than they had a month earlier. However, consumer attitudes toward home purchase improved early this month according to the Michigan Survey, and mortgage applications for home purchase have increased in the two most recent weekly reports (chart).

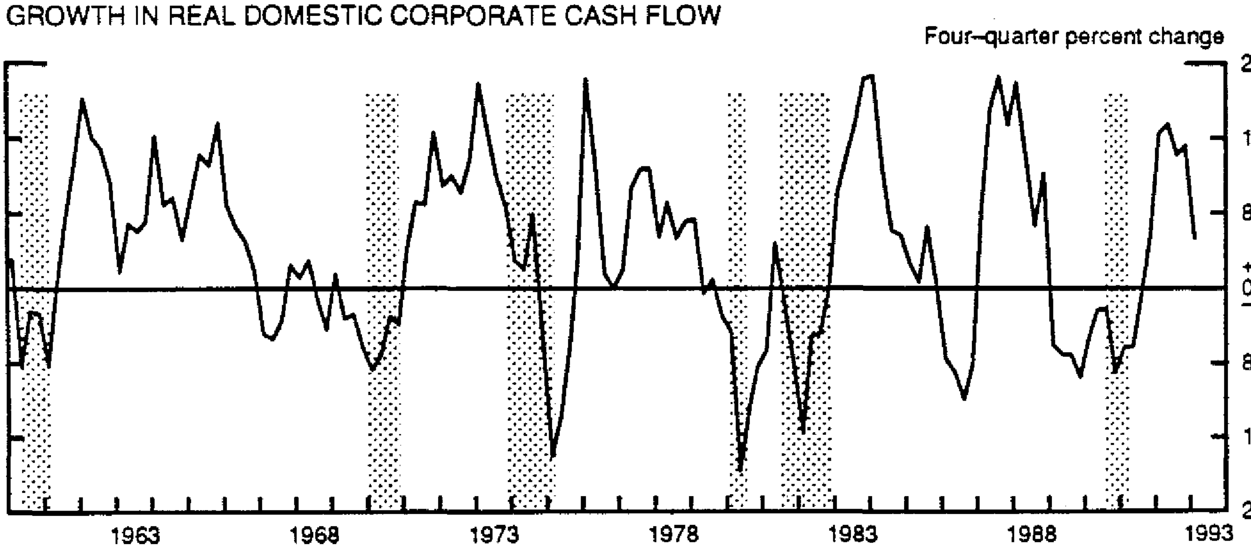
Despite the recent pickup in starts, real residential investment expenditures probably were flat in the second quarter. Expenditures typically peak two to three months after the start of

FUNDAMENTAL DETERMINANTS OF BUSINESS FIXED INVESTMENT

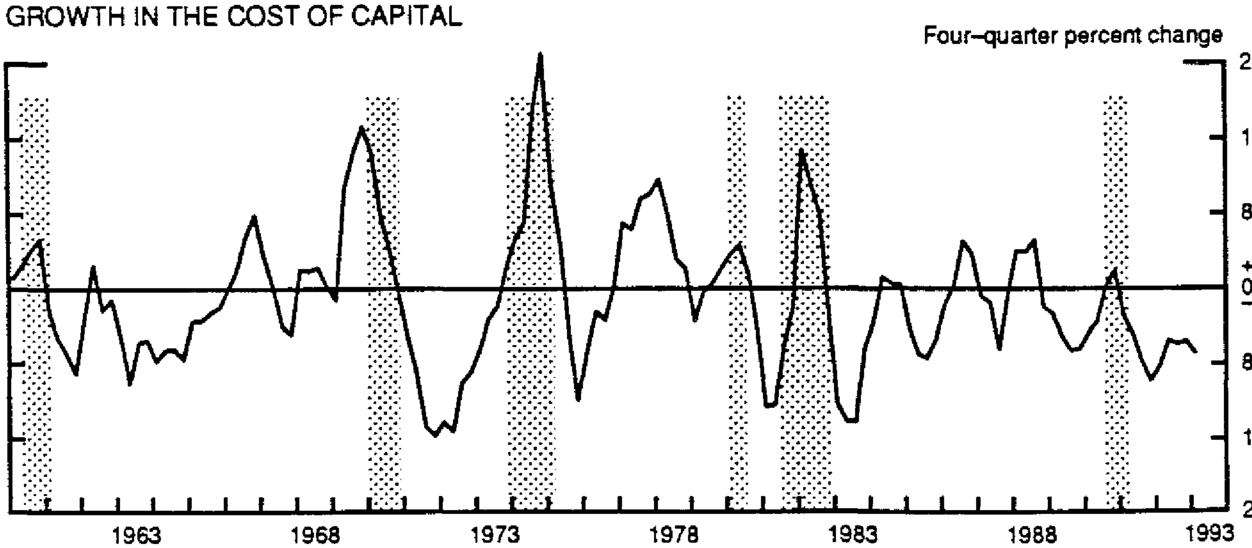
ACCELERATION OF BUSINESS OUTPUT



GROWTH IN REAL DOMESTIC CORPORATE CASH FLOW



GROWTH IN THE COST OF CAPITAL



construction, and much of the spending associated with April and May starts will not occur until the third quarter.

Construction of multifamily housing remains at its lowest level since the 1950s. These structures--most of which are intended for rental use--now account for only about 5 percent of total residential investment expenditures, compared with a figure of 15 percent in the mid-1980s. Despite the low production of the past several years, vacancy rates and rents in most local markets have not yet shown clear signs of tightening.

Business Fixed Investment

Revised data show that real outlays for producers' durable equipment advanced at an annual rate of 18-1/4 percent in the first quarter, and despite some unevenness in the recent orders and shipments data, a further strong advance in equipment spending appears to be in train in the second quarter. Shipments of nondefense capital goods excluding aircraft and computers were up 1-1/2 percent in May after a decline of 3 percent in April; their average level for April and May combined was about 1 percent above the first-quarter average (not at an annual rate). From a longer-term perspective, these shipments have been on an uptrend since early last year, reflecting widespread advances for various types of machinery, electrical equipment, and communications equipment (chart). Business purchases of motor vehicles also have been trending up in recent quarters, and in the quarter just completed greater purchases of both light vehicles and heavy trucks appear to have contributed to gains in overall equipment spending.

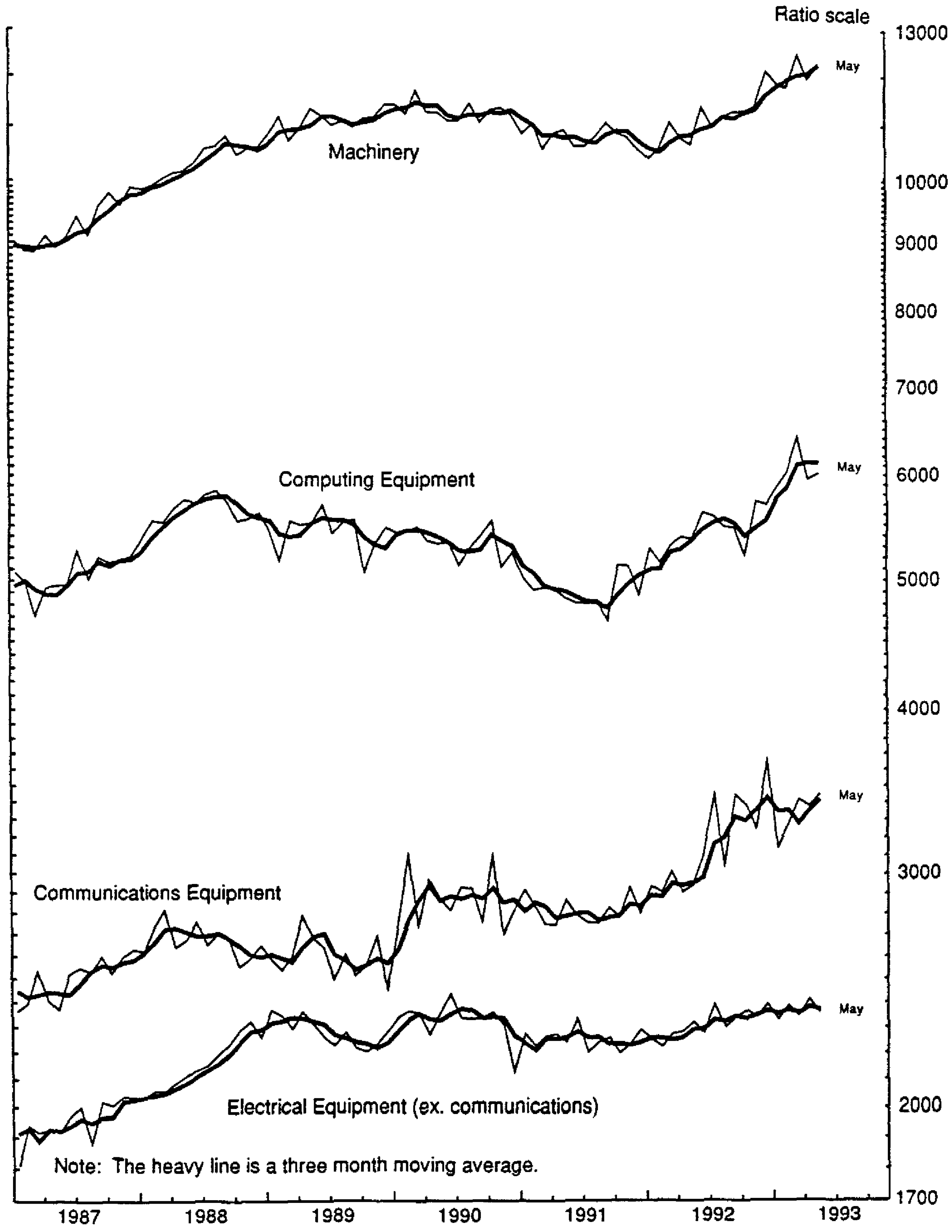
Shipments of computing equipment, which surged 10 percent in the first quarter, declined sharply in April and retraced only a small part of the lost ground in May. This retrenchment may stem

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

	1992		1993	1993		
	Q3	Q4	Q1	Mar.	Apr.	May
Producers' durable equipment						
Shipments of nondefense capital goods	.7	3.4	1.1	4.6	-3.8	1.2
Excluding aircraft and parts	3.0	2.6	3.3	4.4	-3.8	1.3
Office and computing	1.0	.6	10.1	6.3	-7.1	1.0
All other categories	3.5	3.1	1.5	3.9	-2.8	1.4
Shipments of complete aircraft[1]	-25.8	4.6	21.3	38.0	-15.3	n.a.
Sales of heavy weight trucks	2.0	6.8	3.1	7.0	4.1	-.2
Orders of nondefense capital goods	-4.0	6.8	.7	-10.9	3.7	-1.1
Excluding aircraft and parts	2.1	4.2	4.4	1.0	.4	-2.4
Office and computing	2.5	2.6	9.0	-4.8	-2.5	6.5
All other categories	1.9	4.6	3.1	2.8	1.2	-4.8
Nonresidential structures						
Construction put-in-place	-3.7	.9	1.9	-1.2	.5	n.a.
Office	-11.2	-2.1	-4.2	-6.2	2.3	n.a.
Other commercial	-2.0	5.2	3.8	-3.6	1.9	n.a.
Industrial	-8.2	-1.8	1.6	-.6	-4.1	n.a.
Public utilities	-2.1	3.2	5.7	.3	-1.3	n.a.
All other	.9	-1.8	-.9	1.3	3.6	n.a.
Rotary drilling rigs in use	2.6	14.5	-8.2	-8.8	1.9	2.6
Footage drilled[2]	-2.4	9.7	3.3	-26.9	-5.0	22.4
Memo:						
Business fixed investment[3]	3.1	9.7	13.1	n.a.	n.a.	n.a.
Producers' durable equipment[3]	9.5	14.5	18.3	n.a.	n.a.	n.a.
Nonresidential structures[3]	-11.3	-1.9	.0	n.a.	n.a.	n.a.

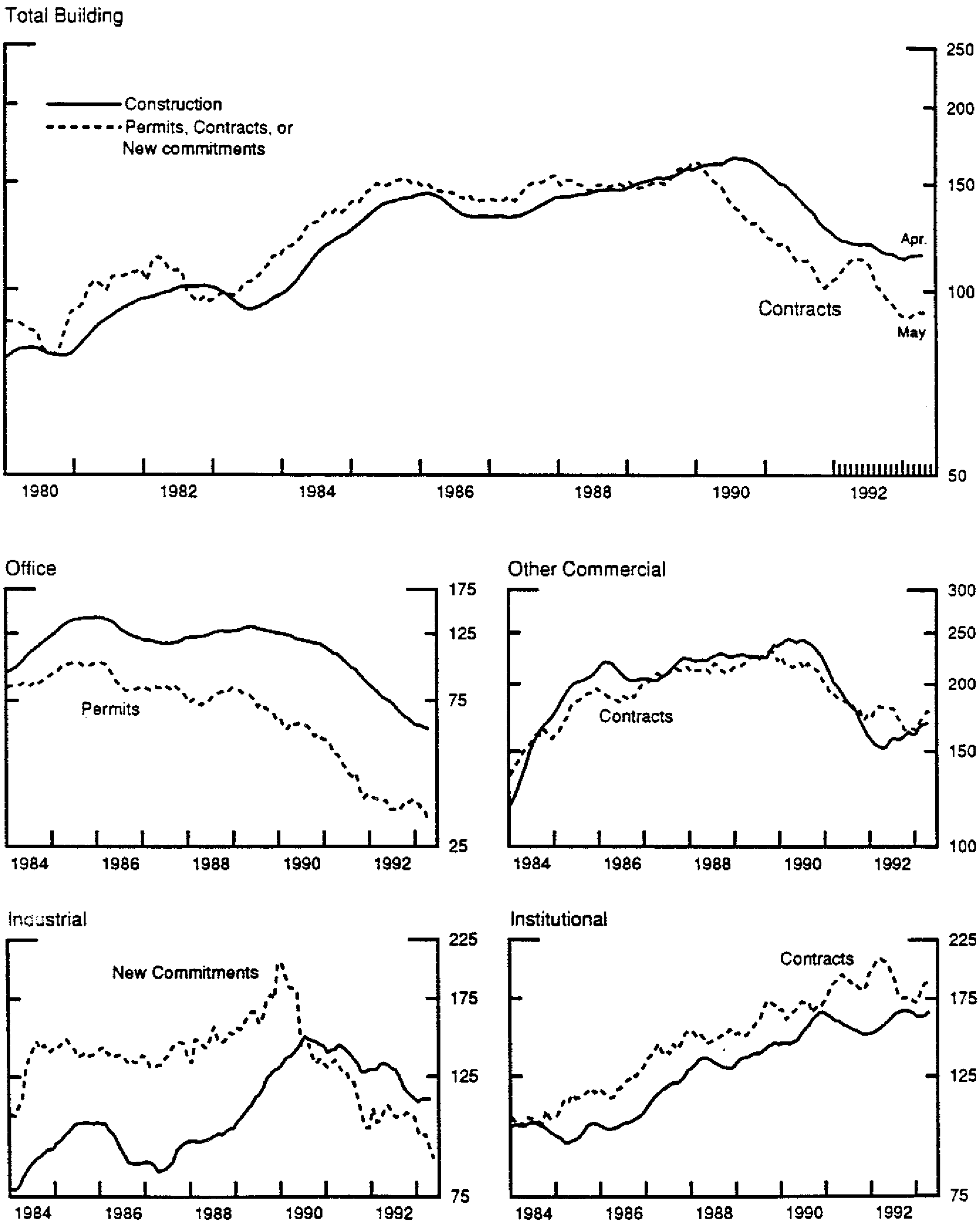
1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines." Monthly data are seasonally adjusted using FRB seasonal factors constrained to BEA quarterly seasonal factors. Quarterly data are seasonally adjusted using BEA seasonal factors.
2. From Department of Energy.
3. Based on constant-dollar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

SHIPMENTS OF SELECTED COMPONENTS OF NONDEFENSE CAPITAL GOODS
(Millions of dollars)



NONRESIDENTIAL CONSTRUCTION AND SELECTED INDICATORS*

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



*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.

from weakness abroad.[1] A number of companies have reported that demand from Europe, especially Germany, has dropped. By contrast, industry contacts say that domestic demand still is expanding, and imports of computing equipment continued to advance at a strong pace through April.

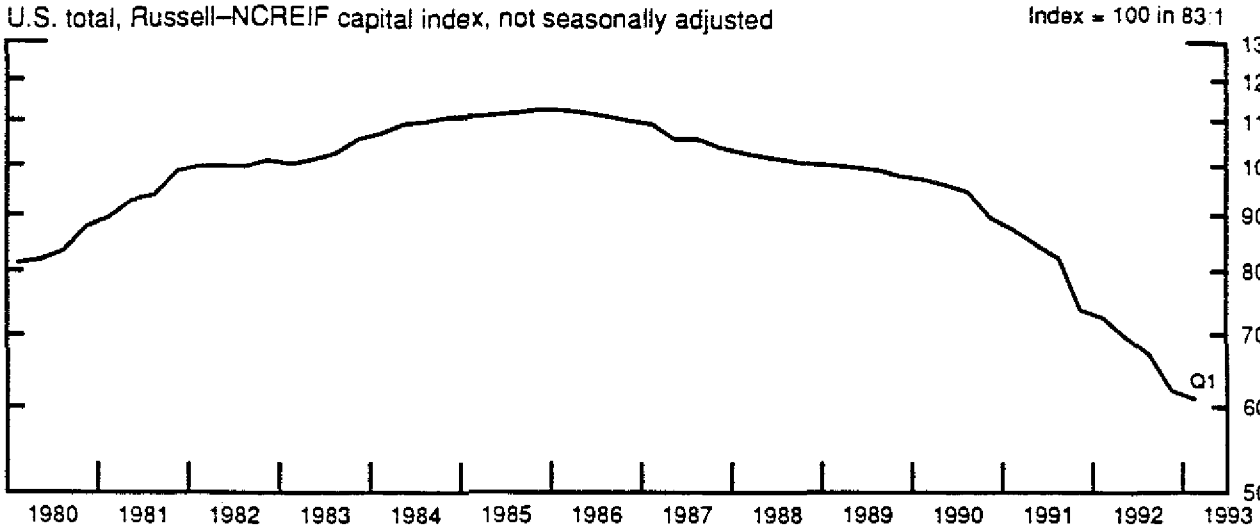
The upward trajectory in equipment spending over the past year and a half is a reflection of fundamental improvement in the economic and financial condition of the business sector. Business output, profits, and cash flow have increased, and the cost of capital has declined sharply. Although some of these fundamental indicators have turned less favorable recently (chart), the overall situation in the business sector still seems to be conducive to increased investment. Business profits and cash flow remained well above year-earlier levels in the first quarter of 1993, and the cost of capital has continued to decline at a rapid pace, reflecting, in part, a downtrend in the prices of computers. Moreover, much-discussed concerns about future increases in mandated labor costs may be encouraging some firms to undertake labor-saving investments. By contrast, the accelerator mechanism, which links investment to changes in the rate of growth of business output, appears now to be at best a neutral force.

Outlays for nonresidential structures, which plummeted in 1991 and fell 3 percent further in 1992, were about unchanged in the first quarter of this year. Among components of nonresidential structures spending, recent performance has been mixed. Expenditures for the "other commercial" component, which includes buildings purchased by wholesalers and retailers, has firmed in

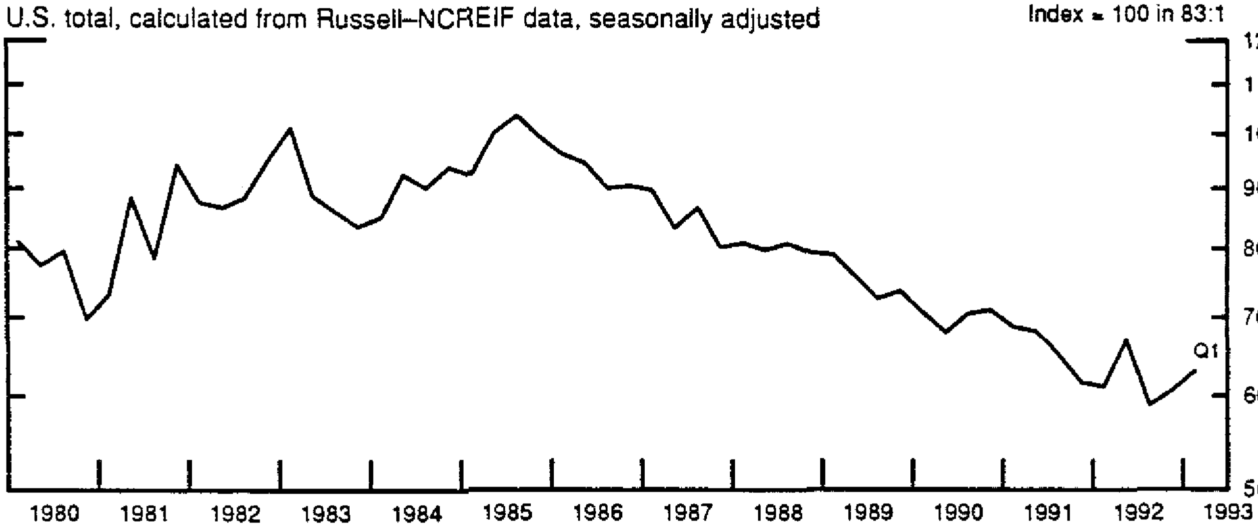
1. Exports are very important in the computing equipment industry: in 1992, the export share for this industry (that is, the proportion of its shipments that were exported) averaged more than 39 percent, compared with an export share for manufacturing as a whole of about 14 percent.

INDICATORS OF THE MARKET FOR OFFICE SPACE

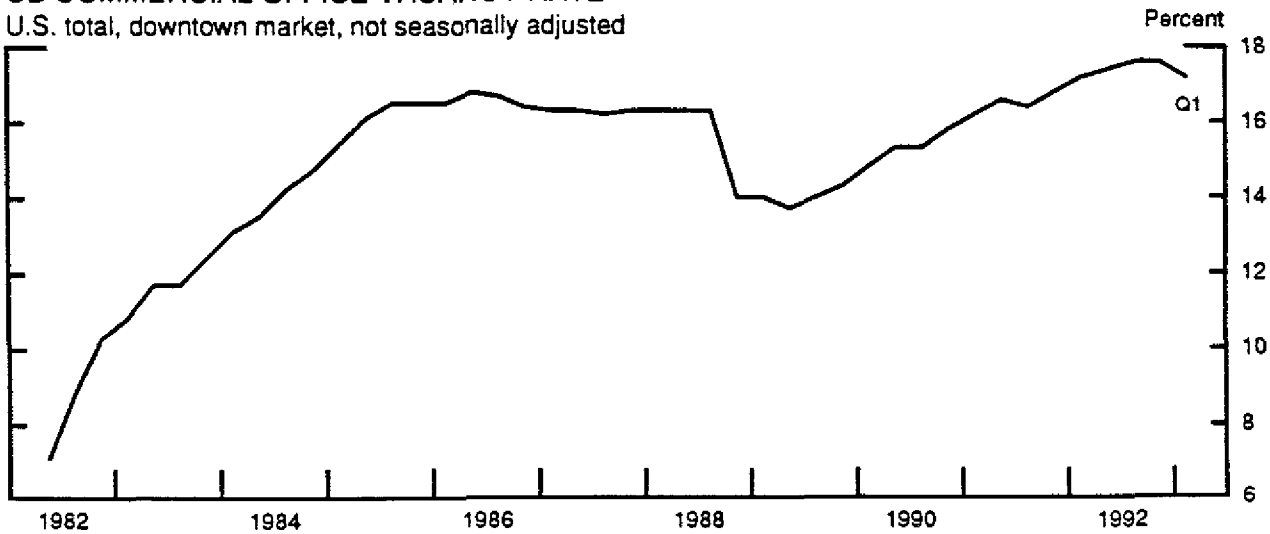
NOMINAL OFFICE PROPERTY VALUES
U.S. total, Russell–NCREIF capital index, not seasonally adjusted



EFFECTIVE NOMINAL RENTAL INCOME FOR U.S. OFFICE PROPERTIES
U.S. total, calculated from Russell–NCREIF data, seasonally adjusted



CB COMMERCIAL OFFICE VACANCY RATE
U.S. total, downtown market, not seasonally adjusted



recent quarters, and spending for the utilities component has picked up. Outlays for industrial construction were little changed in the first quarter, after trending sharply lower over the previous two years; however, new commitments for industrial structures have continued to weaken.

The indicators of conditions in the office sector remain predominantly negative. Construction expenditures for offices have continued to decline in 1993, and permits have slumped, reversing the small gains that were briefly evident in the latter part of 1992. Both the Russell-NCREIF property index, a measure of the appraised values of income-producing properties, and the National Real Estate Index (NREI), which measures transactions prices but includes only downtown areas, indicate that the prices of office buildings were still falling early this year. A measure of rental income from these properties, calculated from the Russell-NCREIF series, turned up in the first quarter, but that measure has been

PRICES OF OFFICE BUILDINGS ACCORDING TO THE
NATIONAL REAL ESTATE INDEX
(Percent change, national average)

	1990	1991	1992	1992 Q4	1993 Q1
Office buildings	-4.1	-7.5	-10.4	-8.0	-18.0

Note: The NREI office price index refers only to downtown areas. Annual changes are from fourth quarter to fourth quarter; quarterly changes are at annual rates.

volatile in recent quarters, and the rise may not be a reliable signal. The national vacancy rate for office buildings, according to CB Commercial (formerly Coldwell Banker), was 18.3 percent in March, only a slight decline from the average reading of about 19 percent during the previous couple of years. Improvement in suburban areas more than accounts for the downturn in the national vacancy rate from its late 1992 peak; the vacancy rate in downtown

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

	1992		1993	1993		
	Q3	Q4	Q1	Mar.	Apr.	May
Current-cost basis						
Total	16.9	20.4	39.9	46.5	14.4	n.a.
Excluding auto dealers	19.7	11.7	20.6	27.1	11.7	n.a.
Manufacturing	4.4	-19.1	1.2	-2.3	9.2	13.3
Defense aircraft	-7.7	-2.0	-4.4	-4.7	-2.0	2.2
Nondefense aircraft	2.1	-2.8	.0	-.8	-4.3	.4
Excluding aircraft	10.0	-14.3	5.6	3.2	15.5	10.8
Wholesale	3.3	16.5	5.1	8.9	-3.0	n.a.
Retail	9.3	23.1	33.6	40.0	8.2	n.a.
Automotive	-2.8	8.7	19.3	19.5	2.7	n.a.
Excluding auto dealers	12.1	14.4	14.3	20.6	5.5	n.a.
Constant-dollar basis						
Total	10.1	7.1	22.4	38.8	-.9	n.a.
Excluding auto dealers	8.5	5.0	5.6	17.0	.3	n.a.
Manufacturing	3.9	-14.5	1.8	6.2	6.2	n.a.
Wholesale	-3.5	9.6	-4.1	-1.3	-4.8	n.a.
Retail	9.7	12.0	24.7	33.9	-2.3	n.a.
Automotive	1.6	2.1	16.8	21.8	-1.2	n.a.
Excluding auto dealers	8.1	9.9	7.9	12.1	-1.1	n.a.

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

	1992		1993	1993		
	Q3	Q4	Q1	Mar.	Apr.	May
Current-cost basis						
Total	1.50	1.48	1.47	1.47	1.48	n.a.
Excluding auto dealers	1.48	1.46	1.44	1.44	1.45	n.a.
Manufacturing	1.57	1.52	1.48	1.47	1.49	1.50
Defense aircraft	5.26	5.21	5.07	5.04	5.12	5.28
Nondefense aircraft	5.10	4.66	5.08	5.00	5.13	5.08
Excluding aircraft	1.41	1.37	1.34	1.32	1.35	1.36
Wholesale	1.34	1.35	1.33	1.34	1.34	n.a.
Retail	1.56	1.55	1.60	1.61	1.59	n.a.
Automotive	1.89	1.85	1.99	2.00	1.96	n.a.
Excluding auto dealers	1.48	1.47	1.49	1.51	1.49	n.a.
Constant-dollar basis						
Total	1.59	1.57	1.55	1.56	1.57	n.a.
Excluding auto dealers	1.56	1.54	1.52	1.52	1.53	n.a.
Manufacturing	1.68	1.63	1.59	1.57	1.61	n.a.
Wholesale	1.39	1.41	1.38	1.39	1.40	n.a.
Retail	1.64	1.62	1.66	1.68	1.66	n.a.
Automotive	2.00	1.93	2.06	2.08	2.05	n.a.
Excluding auto dealers	1.54	1.53	1.55	1.57	1.55	n.a.

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

markets trended up through the end of last year and declined only slightly during the first quarter of this year.

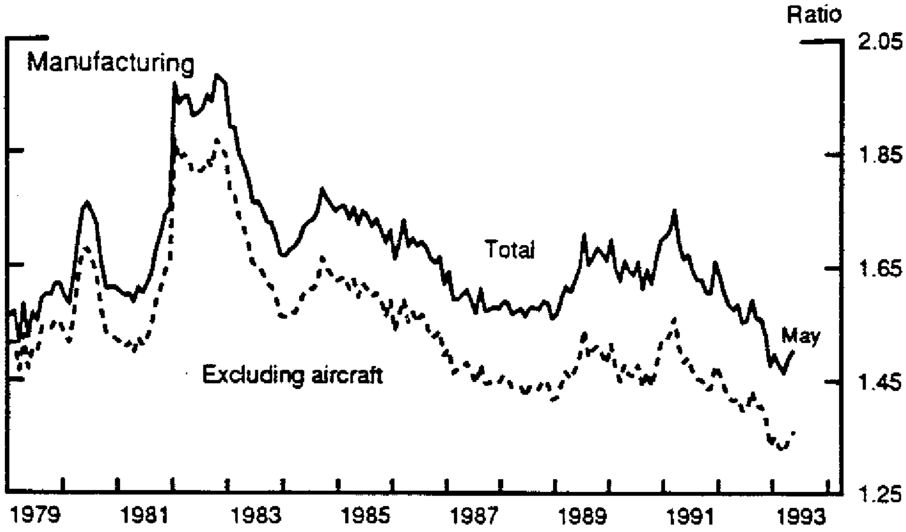
Business Inventories

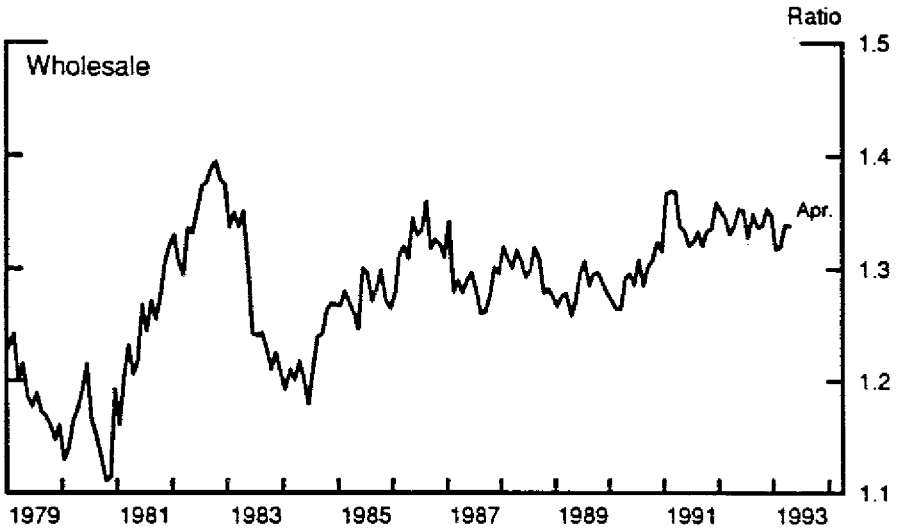
Business inventory accumulation slowed considerably in April, with manufacturing and trade stocks rising at about a $14-1/2 billion annual rate (current cost), after runups in February and March that averaged about $50 billion at an annual rate. Inventory change in manufacturing picked up a bit in May, in current-cost terms. Inventory-sales ratios generally showed little evidence of imbalances through early spring. However, a notable exception was the non-auto retail sector, where stocks may have been a bit excessive in the early part of the second quarter. Some of that accumulation could well be attributable to the surge in imports in March and April.

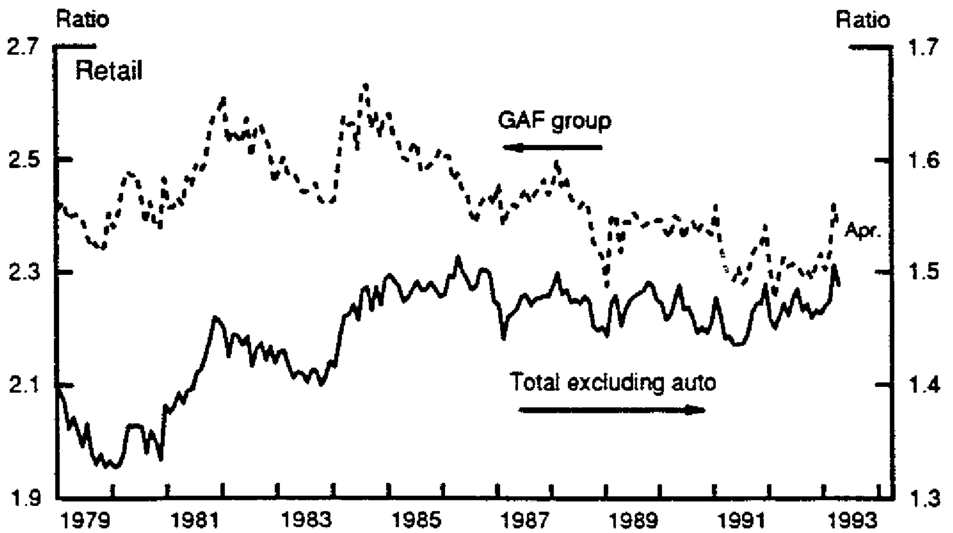
In manufacturing, the average rate of accumulation in April and May amounted to $11-1/4 billion in current-cost terms, after only a small increase in the first quarter. Excluding the aircraft industry, in which production has been retrenching and inventories declining for more than a year, factory inventory accumulation picked up to a $13-1/4 billion pace in April and May, compared with an average of $5-1/2 billion in the first quarter. Most of the rise in manufacturers' stocks over the past two months has consisted of finished goods and materials and supplies. By contrast, work-in-process inventories fell substantially in March and April and were unchanged in May. The inventory-sales ratio in manufacturing edged up in April and May, but remains below the level in late 1992.

Inventory data for wholesale and retail trade are available only through April. Although retail sales rebounded in April from the effects of the March storms, inventory-sales ratios for several types of retail establishments remained higher at the end of April

RATIO OF INVENTORIES TO SALES
(Current-cost data)







than they had been at the end of February, and at some types of stores, end-of-April stocks may have been higher than desired. Most notably, the April ratio for GAF grouping of stores remained near the high end of the range of the past two years (chart, lower panel).[2]

Wholesale inventories appear to have been more in line with sales at the end of April (chart, middle panel). Stocks of machinery, by far the largest wholesale category, were pared sharply in April, but weak machinery shipments kept the stock-sales ratio high. Inventory-sales ratios for most other categories of wholesale distributors were well within their recent ranges.

Federal Sector

Treasury data for the period from October to May show a somewhat smaller deficit for the current fiscal year than during the same part of the previous fiscal year. However, after adjustment for deposit insurance (DI) and the defense cooperation account (DCA), the deficit thus far this fiscal year, at about $230 billion, is little different from that of last year.

Federal receipts through May amounted to $730 billion, 5-1/4 percent higher than a year ago. Receipts through May were boosted by large increases in corporate tax payments, reflecting strong corporate profits. However, net receipts from personal income and social insurance taxes have grown only slightly.

Daily Treasury statements through June 28 show continued strength in corporate tax receipts. By contrast, the daily data show receipts from the second quarterly installment of estimated individual income taxes for 1993 to be down somewhat from the

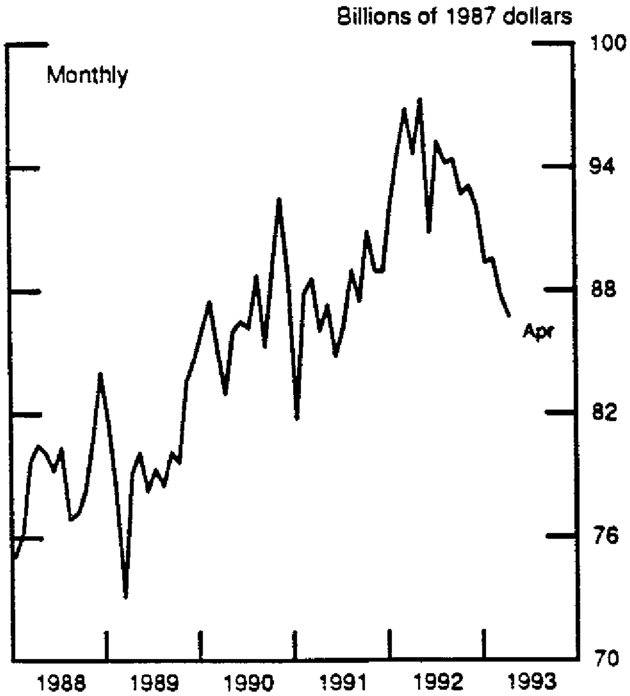
2. GAF stores are outlets for general merchandise, apparel, furniture, and appliances, including mail-order sales. In addition to the discretionary nature of purchases at these stores, the GAF stores are important also because of their relative size. As a group they account for about one-third of total retail inventories, and one-fourth of retail sales.

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

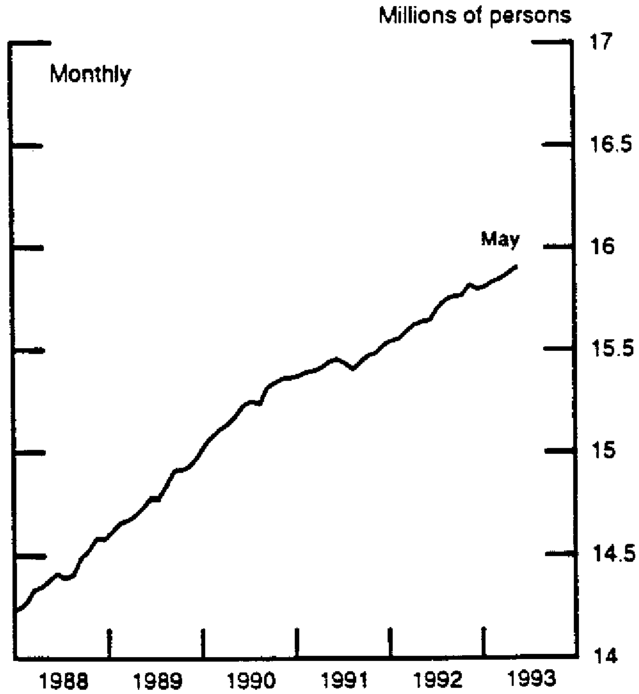
	April-May 1992	April-May 1993	Fiscal year to date FY1992	FY1993	Dollar change	Percent change
Outlays	232.7	231.7	925.8	942.0	16.2	1.8
Deposit insurance (DI)	2.0	-4.9	7.9	-18.5	-26.4	n.m.
Defense Cooperation account (DCA)	-.8	.0	-5.2	.0	5.1	n.m.
Outlays excluding DI and DCA	231.6	236.7	923.1	960.6	37.5	4.1
National defense	49.0	47.7	200.3	193.7	-6.5	-3.2
Net interest	33.6	34.0	134.4	133.3	-1.1	-0.8
Social security	48.1	50.7	187.9	199.2	11.4	6.0
Medicare and health	34.3	38.2	135.0	148.7	13.7	10.2
Income security	35.6	36.3	136.4	145.4	9.0	6.6
Other	31.0	29.8	129.2	140.2	11.1	8.6
Receipts	200.5	202.9	694.3	730.3	36.1	5.2
Personal income and social insurance taxes						
Withheld	121.2	127.7	513.2	534.5	21.3	4.2
Nonwithheld	73.4	60.9	114.0	113.9	-0.1	-0.1
Refunds	38.9	36.9	75.5	69.2	-6.3	-8.3
Corporate income taxes	16.9	20.2	55.2	63.4	8.2	14.9
Other	28.0	31.1	87.4	87.7	0.4	0.4
Deficit(+)	32.2	28.9	231.5	211.7	-19.8	-8.6
Excluding DI and DCA	31.0	33.8	228.8	230.2	1.4	0.6

Details may not add to totals due to rounding.
n.m. - not meaningful

STATE AND LOCAL GOVERNMENT CONSTRUCTION PUT-IN-PLACE



STATE AND LOCAL GOVERNMENT EMPLOYMENT



comparable June 1992 total. The slight weakness in the June data on estimated tax payments by individuals does not help to resolve uncertainty about the trend in individual tax liability. Strong estimated tax collections in January had lead to speculation that taxpayers had shifted a substantial portion of their 1993 liability to 1992, in order to avoid the higher individual tax rates anticipated for 1993. But weak estimated tax collections in April suggested that the January increase may have reflected instead new rules that require many taxpayers to meet more of their tax liability through either withholding or estimated tax payments. The slight weakness in the June estimated tax payments could be consistent with either hypothesis.

Outlays for the current fiscal year through May were $942 billion, about 2 percent higher than last year. Adjusting for DI and DCA, outlays are 4 percent higher than last year. A surge in defense outlays in April was largely reversed in May. Defense outlays had dropped sharply in the first quarter of 1993, to a level below the trend implied by scheduled defense cutbacks; outlays in April and May remained below that trend, at a level only slightly above their average for the first quarter. Expenditures for health, which slowed during the first few months of the current fiscal year, have recently picked up, but the increase is within the range of normal variability and not necessarily a signal of a return to the high growth rates that had prevailed until this year.

The Congress continues to work on future budgets. Both the House and the Senate have approved bills consistent with the deficit reduction objective of the President's plan, $500 billion over five years. Both the House and Senate rejected the proposed investment tax credits. But each would allow small businesses to write off more equipment purchases than are currently allowed, and each would increase the top tax rate on corporations to 35 percent, 1 percent less than the rate in the President's proposal. The House bill made the President's proposed increases in income taxes retroactive to the beginning of 1993, but the Senate bill reduces this retroactivity by making the increase in 1993 rates only half as large as the President's proposal. The Senate also eliminated the proposed "empowerment zones" and small-business capital-gains relief, extended the 10 percent "millionaire's" surtax to capital gains income, and rejected the proposed Btu tax in favor of a tax on transportation fuels of 4.3 cents per gallon. The Senate bill makes up for revenue-decreasing items relative to the House bill by shortening extensions of business investment incentives such as the R&E credit, deepening Medicare cuts, and scaling back food stamps and the earned income tax credit.

State and Local Government Sector

Current indicators continue to provide mixed signals about real activity in the state and local sector in the second quarter. According to preliminary estimates, real construction spending declined again in April to a level about 2-1/2 percent below its first-quarter average (chart). Although outlays for highways have risen of late, other categories of construction have shown weakness. In contrast to construction spending, employment of state and local government workers continued to rise in April and May.

Fiscal conditions have improved this year in most states. However, California, with 12 percent of the national population, is struggling to balance its budget once again. With the cumulative shortfall for this year and next projected to be $8 billion (compared with around $11 billion at the same time last year), it appears that substantial further belt tightening will be required. Early in June, the state sold $2 billion in short-term warrants to tide it over until the budget is passed and to avoid another round of IOUs, such as those that were issued last year to pay state bills. The state legislature recently passed a budget that included a six-month extension of the 1/2 cent temporary sales tax, initiated two years ago, a shift of $2.6 billion in property tax receipts to the state treasury, and reductions in funding for welfare and higher education. Pressures to balance the budget also have intensified in Maine and Oregon.

Prices

The consumer price index rose 0.1 percent in May, after an increase of 0.4 percent in April. For items other than food and energy, the CPI was up 0.2 percent last month. The twelve-month change in this measure of the "core" rate of inflation was 3.4 percent in May, down from 3.8 percent in the year-earlier period. However, the twelve-month change has remained in the neighborhood of 3-1/2 percent since August of last year.

The pattern of price change within the past year actually shows some acceleration. After rising at an annual rate of 3.1 percent during the second half of 1992, the core CPI excluding food and energy moved up at an annual pace of 4.1 percent during the first five months of 1993. Increases in services prices picked up to a rate of 4.4 percent in the first five months of 1993, from a rate of 3.8 percent in the second half of last year. The prices of commodities other than food and energy accelerated from a 1.7 percent rate to one of 3.4 percent.

Whether these intra-year patterns of price change are a reliable guide to changes in the inflation trend is open to question, partly because of the difficulties of removing "normal" seasonal influences from the data. During the past several years, price increases during the early part of the year have tended to

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

	Relative importance, Dec. 1992	1991	1992	1992 Q3	1992 Q4	1993 Q1	1993 Apr.	1993 May
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	3.1	2.9	2.6	3.2	4.0	.4	.1
Food	15.8	1.9	1.5	3.2	1.4	2.6	.4	.4
Energy	7.3	-7.4	2.0	1.2	1.9	3.1	.2	-1.0
All items less food and energy	76.9	4.4	3.3	2.5	3.8	4.3	.4	.2
Commodities	24.7	4.0	2.5	1.8	1.5	4.6	.3	.0
Services	52.2	4.6	3.7	2.9	4.7	4.4	.4	.3
Memo:								
CPI-W[3]	100.0	2.8	2.9	2.3	3.2	4.1	.4	.1

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

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

	Relative importance, Dec. 1992	1991	1992	1992 Q3	1992 Q4	1993 Q1	1993 Apr.	1993 May
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	-.1	1.6	1.3	-.3	3.9	.6	.0
Consumer foods	22.4	-1.5	1.6	4.3	3.3	-2.2	1.4	-.1
Consumer energy	13.9	-9.6	-.3	-3.5	-10.2	17.2	.1	-.6
Other finished goods	63.7	3.1	2.0	1.2	1.2	3.0	.4	.2
Consumer goods	40.6	3.4	2.1	1.5	1.2	2.9	.4	.2
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	.1	-.2
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	2.5	.5
Crude energy	39.5	-16.6	2.3	19.8	-17.8	-9.7	-.6	4.8
Other crude materials	19.3	-7.6	5.7	2.2	1.9	25.0	1.8	.4

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

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	May 1991	May 1992	May 1993
CPI	5.1	3.8	3.4
Goods	4.1	3.0	2.3
Alcoholic beverages	10.7	3.3	1.4
New vehicles	4.0	2.6	2.5
Used cars	.1	3.0	9.1
Apparel	3.0	2.8	1.2
House furnishings	1.3	1.0	.1
Housekeeping supplies	3.2	.4	1.4
Entertainment	3.6	2.4	1.4
Medical commodities	8.1	7.0	3.5
Services	5.5	4.2	4.0
Owners' equivalent rent	4.3	3.5	3.3
Tenants' rent	4.0	2.5	2.5
Other renters' costs	14.9	6.0	4.1
Airline fares	3.3	2.9	13.4
Medical care	9.1	7.9	6.9
Entertainment	5.6	3.5	2.8
Auto financing	.8	-11.8	-9.7
PPI finished goods	3.7	2.8	1.7
Consumer goods	3.7	3.5	1.7
Capital equipment excluding computers	3.8	2.9	2.4
Computers	n.a.	-19.4	-14.8
PPI intermediate materials	.6	.4	1.5
PPI crude materials	-5.3	-1.3	9.4
Factors affecting price inflation			
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]	6.8	7.4	6.9
Capacity utilization[2] (manufacturing)	77.2	79.1	80.8
Inflation expections[3]			
Mean of responses	4.8	4.2	4.9
Median, bias-adjusted[4]	4.3	4.1	4.7
Non-oil import price[5]	2.9	.1	.1
Consumer goods, excluding autos, food, and beverages	1.9	1.8	1.2
Autos	4.4	1.1	.5

1. Private industry workers, periods ended in March.
2. End-of-period value.
3. Michigan Survey one-year ahead expectations, June data.
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.

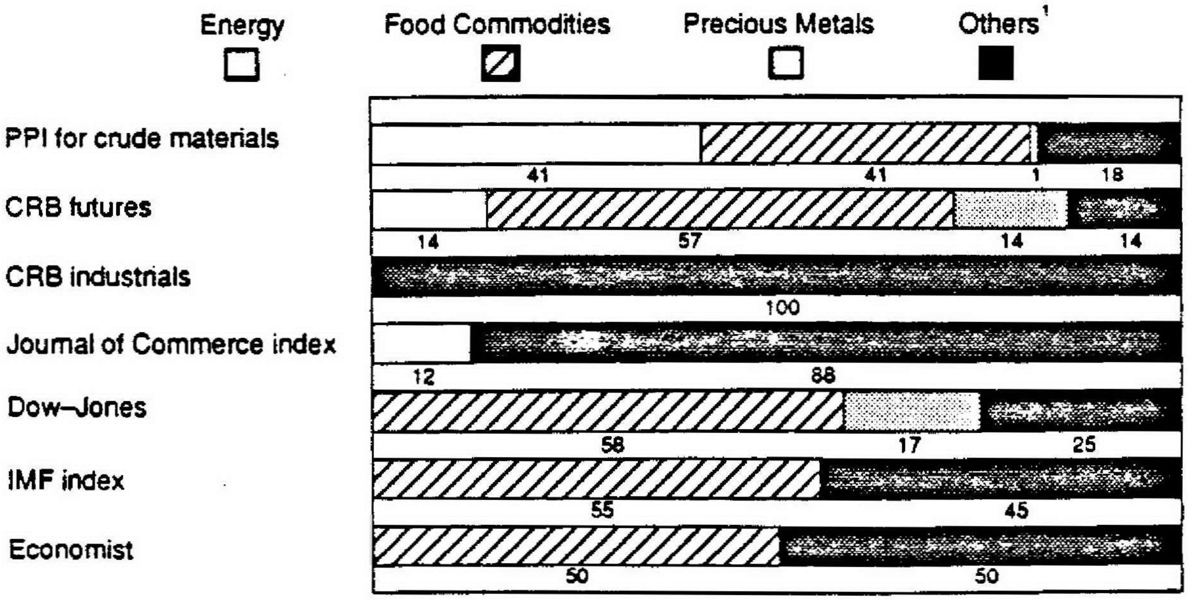
PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

	Last observation	Percent change[2] 1991	1992	Dec. 92 to May 11[3]	May 11[3] to date	Memo: Year earlier to date
1. PPI for crude materials[4]	May	-11.6	3.3	5.4	n.a.	5.0
1a. Foods and feeds	May	-5.8	3.0	7.2	n.a.	3.4
1b. Energy	May	-16.6	2.3	1.5	n.a.	4.7
1c. Excluding food and energy	May	-7.6	5.7	9.4	n.a.	9.4
1d. Excluding food and energy, seasonally adjusted	May	-7.7	6.0	8.1	n.a.	9.5
2. Commodity Research Bureau						
2a. Futures prices	June 29	-6.5	-2.9	3.0	-1.4	-2.0
2b. Industrial spot prices	June 29	-11.3	-.7	-2.6	-1.3	-11.0
3. *Journal of Commerce* industrials	June 29	-7.2	5.0	-1.3	-.8	-3.2
3a. Metals	June 29	-7.1	1.9	-3.0	-.4	-8.2
4. Dow-Jones Spot	June 29	-12.1	10.4	-1.2	.3	.9
5. IMF commodity index[4]	Apr.	.7	-2.6	n.a.	n.a.	-3.6
5a. Metals	Apr.	-8.9	-3.1	n.a.	n.a.	-14.2
5b. Nonfood agriculture	Apr.	1.3	2.4	n.a.	n.a.	5.7
6. *Economist* (U.S. dollar index)	June 22	-9.1	1.6	-1.4	-2.1	-6.1
6a. Industrials	June 22	-14.9	4.5	-6.4	-.8	-10.9

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

n.a. Not available

Index Weights

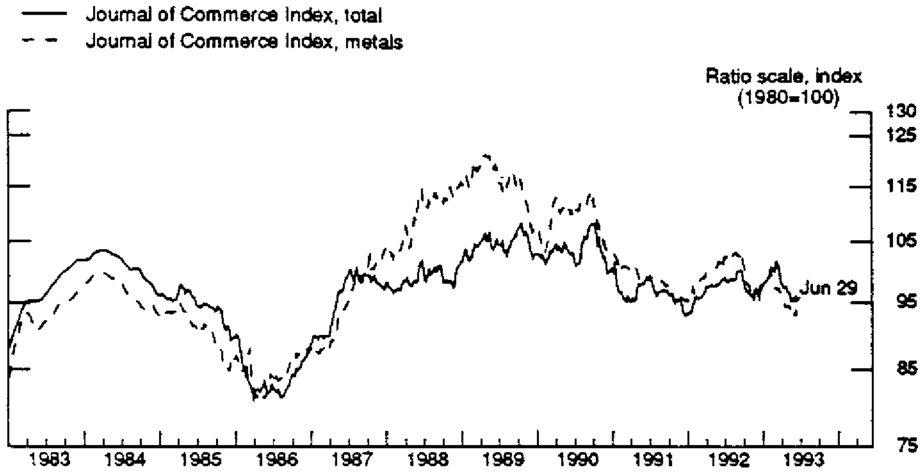


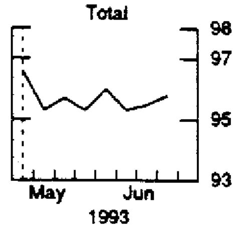
1. Forest products, industrial metals, and other industrial materials.

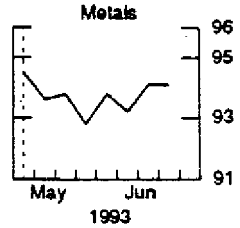
exceed rates of increase over the year as a whole, even after seasonal adjustment by the BLS. In investigating this phenomenon, the staff has determined that the official seasonally adjusted price data, in fact, display significant residual seasonality. The CPI is the aggregate of many subcomponent price series. Among these components, the BLS does not adjust series that it believes do not show both stable and statistically significant seasonals. Although these unadjusted series, considered individually, may not exhibit significant seasonality, when added together they do. If the price data are aggregated in a way that adjusts for this apparent residual seasonality in the unadjusted components, the rate of rise in the CPI excluding food and energy over the first five months of 1993 is reduced from the reported 4.1 percent to 3.8 percent, about the same rate of increase--using these procedures--as in the first five months of 1992. Thus, price acceleration so far in 1993 may have been less pronounced than the official data imply. But this analysis does not suggest that the core CPI currently is on track for anything better than a repetition of last year's performance--as opposed to the further slowing that might have been expected in a slack economy.

The monthly patterns of change in the core CPI were mixed in May of this year. The price index for goods other than food and energy was unchanged in May as declines in the prices of apparel and house furnishings offset higher prices for motor vehicles, tobacco, and some other items. The drop in apparel prices, which had risen sharply earlier in the year, reflected larger-than-usual discounting of spring and summer merchandise, and followed sharp drops in retail sales at apparel stores. Prices for housefurnishings have recently reversed sizable hikes earlier in the year. These recent patterns of price change for apparel and housefurnishings provide some

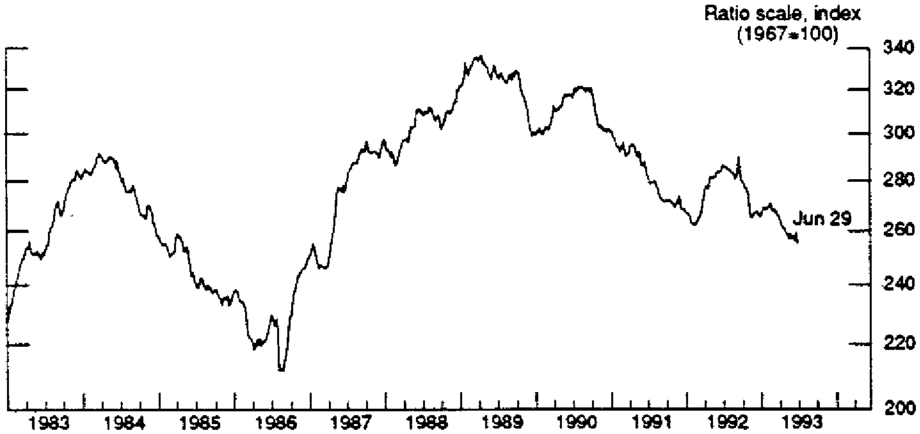
COMMODITY PRICE MEASURES *

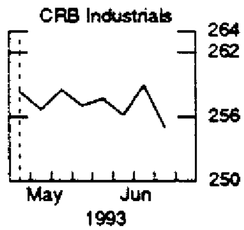




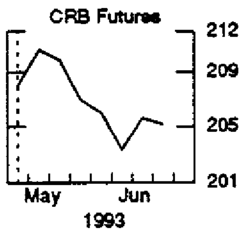


CRB Spot Industrials





CRB Futures



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

Dotted lines indicate week of last Greenbook.

support for the notion that consumers are successfully resisting price increases in markets that remain highly competitive. Increased competition also is playing a role in the pricing of tobacco--a category of the CPI that has been rising rapidly for years. This spring, the major tobacco companies announced promotional campaigns aimed at fending off the challenge of lower-priced generic brands. Price cuts were implemented by the companies in late May and should show up in the June CPI, even though part of the effect of increased competition will likely be offset by increases in state excise taxes.[3]

Prices of nonenergy services were up 0.3 percent last month, as compared with the rise of 0.4 percent in April. Owners' equivalent rent was flat in May, after a hefty increase in the previous month. However, the index for services was boosted by a large May rise in airline fares. Another round of fare discounting has since been initiated.

The May rise of 0.1 percent in the overall CPI was held down by a 1 percent drop in the index for energy, which fell back to its year-end level. The prices of gasoline and heating oil declined in May. These prices have been restrained in recent months by heavy OPEC production and, in the case of gasoline, by ample inventories: private survey data suggest that seasonally adjusted gasoline prices fell further in June. In contrast, the CPI for residential natural gas rose substantially further in May for the third consecutive month. Although the spot prices for natural gas dropped back in May, the long-term trend in natural gas prices continues to point

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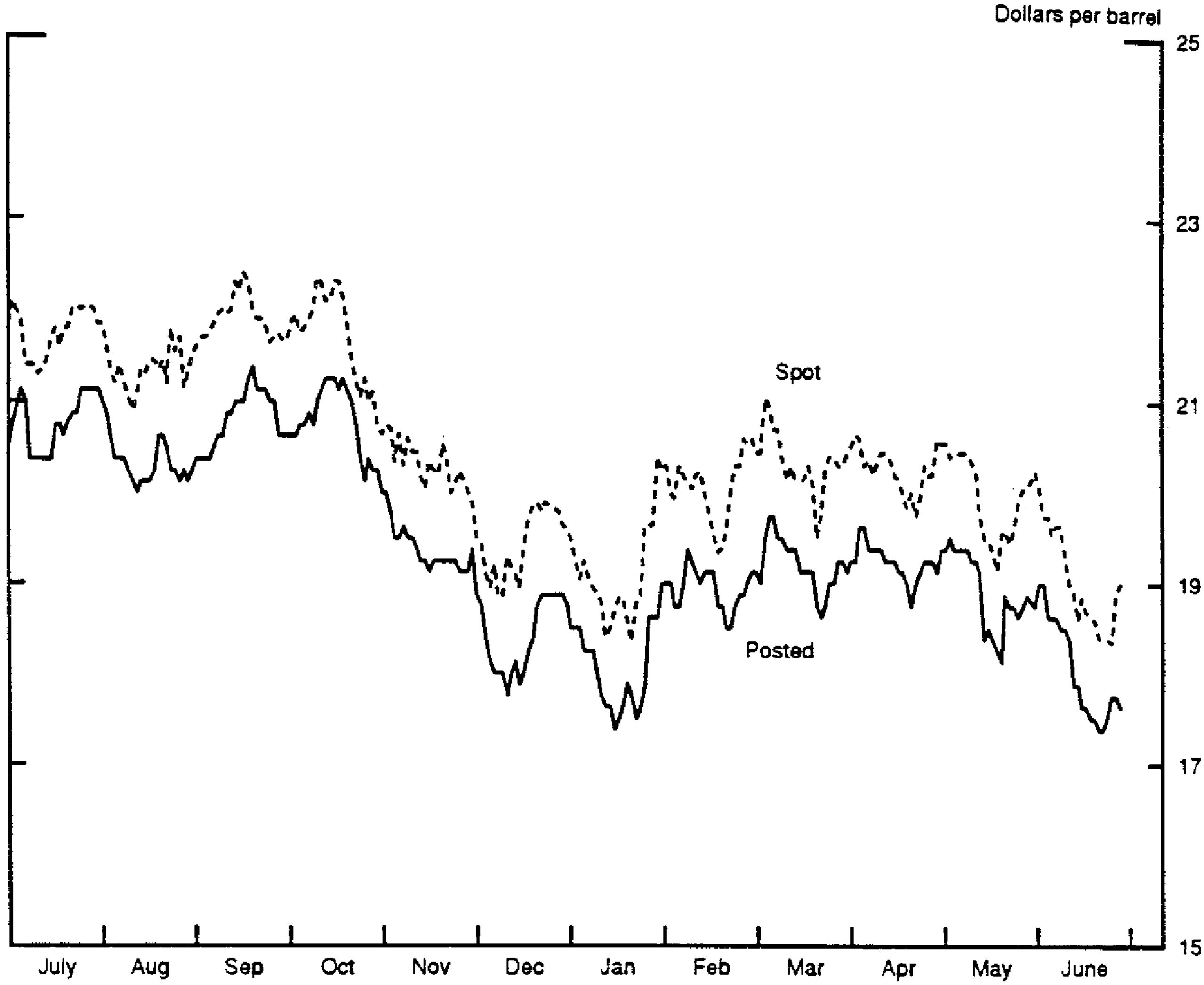
3. For example, New York state increased cigarette taxes by 17 cents per pack on June 1. Because New York City alone accounts for more than 4 percent of the CPI sample, this tax hike is large enough to have a noticeable effect on the overall CPI for tobacco. Several smaller states are boosting cigarette taxes on July 1.

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



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

MONTHLY AVERAGE PRICES—WEST TEXAS INTERMEDIATE

Year and Month	Posted	Spot
1992		
July	20.77	21.76
August	20.32	21.35
September	20.83	21.90
October	20.77	21.69
November	19.38	20.34
December	18.40	19.41
1993		
January	18.01	19.08
February	18.92	20.05
March	19.20	20.35
April	19.24	20.27
May	18.91	19.94
June [1]	18.07	19.08

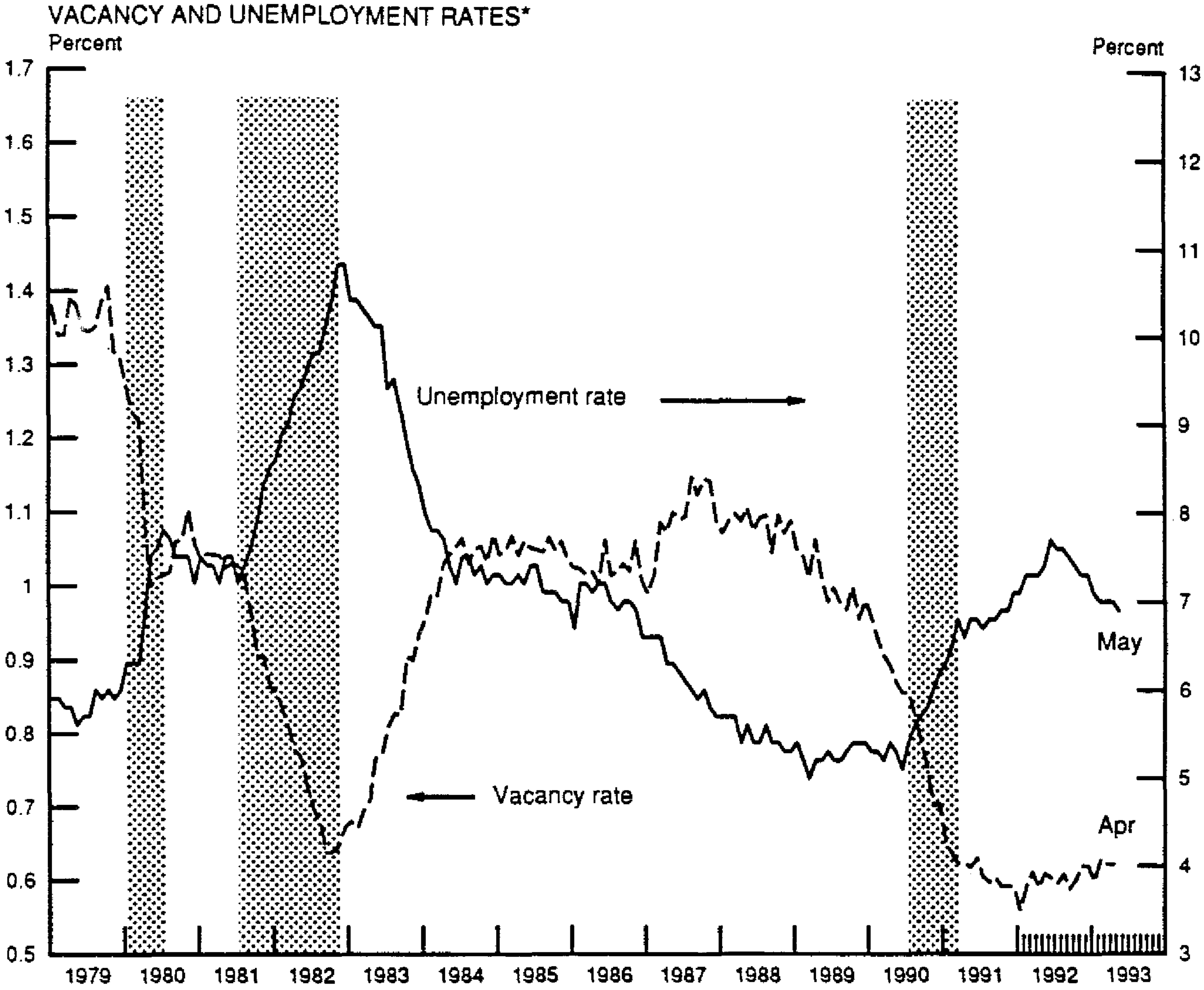
1. Price through June 29.

upward, reflecting pressure from the shift toward cleaner-burning fuels.

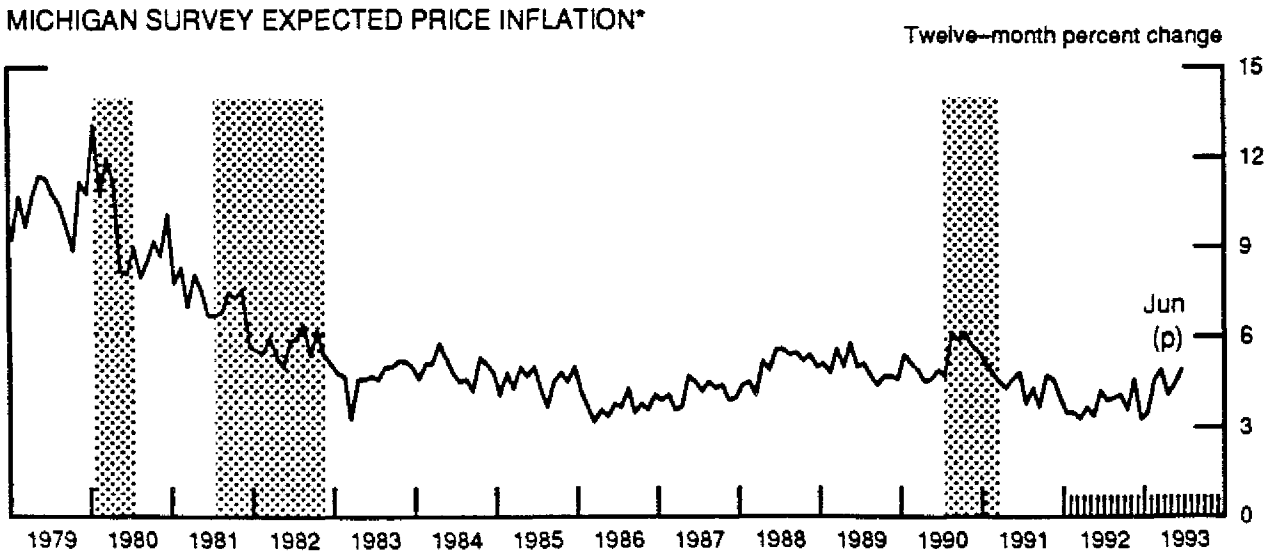
The CPI for food jumped 0.4 percent in May, the same as the rise in April, largely because the index for fresh vegetables rose sharply once again. So far in 1993, food prices have risen at an annual rate of 3-1/2 percent, twice the rate of rise during 1992. However, smaller increases appear likely in coming months. The wholesale prices of fresh vegetables have fallen sharply since early May. In addition, sharp declines in cattle prices since April should begin exerting a damping influence on prices at the retail level before too long. Excluding the two food categories that are the most volatile--meats and fresh produce--food prices increases have remained subdued this year, averaging less than 0.2 percent per month. At the farm level, planting delays have continued to plague producers in some parts of the country in recent weeks. Soybean plantings, in particular, remained behind schedule in June, and soybean prices have moved to a point above the range that had prevailed over the previous several months. More generally, however, recent spot and futures prices for farm products do not seem to be pointing to any major problems in the food price outlook.

The PPI for capital goods rose 0.2 percent in May for the fourth month in a row; it has risen 1.6 percent over the past year. During the twelve months ending in May, computer prices dropped 15 percent, and prices of other capital goods continued to decelerate, rising just 2-1/2, about 1/2 percentage point below the year-earlier pace. Prices of intermediate materials less food and energy, which had spurted in the early part of 1993, fell 0.2 percent in May. Some of the rise and subsequent decline in these prices is attributable to the swing in lumber prices.

FACTORS INFLUENCING WAGE INFLATION



* The vacancy rate is the Conference Board's help wanted index divided by total payroll employment.



* Mean expected inflation over the next twelve months.

Spot prices of industrial materials have dropped back further, on balance, since the last Greenbook. The Journal of Commerce index of industrial materials prices has fallen 0.8 percent since the last Greenbook reflecting declines both for metals and for other industrial commodities (table). Most other commodity price indexes also have weakened. The price of gold has fluctuated around a sideways trend in recent weeks, after rising sharply in April and early May.

Wages and Labor Productivity

Lower estimated output growth in the first quarter, combined with upward revisions to employment, led to a downward revision of first-quarter growth in labor productivity. Output per hour in the nonfarm business sector is now estimated to have fallen 1.6 percent at an annual rate in the first quarter, a reduction of 1-1/2 percentage points from the previous estimate. First-quarter productivity data for the manufacturing sector were not changed significantly in the revision; they still show an increase in output per hour of almost 5 percent at an annual rate. With the downward revision, nonfarm business productivity rose 1.4 percent over the four quarters ended in the first quarter of 1993; in contrast, the four-quarter change in manufacturing productivity exceeded 5 percent.

Historical data on productivity and costs also have been revised since the last Greenbook, but generally by only small amounts. The BLS's annual benchmark revision to nonfarm payroll employment left the level of payroll employment on the benchmark date of March 1992 little changed and had essentially no effect on productivity estimates over the year preceding the benchmark date. However, the agency's revision to its bias-adjustment factor boosted estimates of employment growth from April to December of 1992, and

LABOR PRODUCTIVITY AND COSTS
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

			1992			1993	1992-Q1 to
	1991[1]	1992[1]	Q2	Q3	Q4	Q1	1993-Q1
Output per hour							
Total business	1.4	2.9	.7	3.2	3.4	-1.5	1.4
Nonfarm business	1.3	2.8	1.4	2.7	3.2	-1.6	1.4
Manufacturing	2.6	5.2	5.3	3.8	7.0	4.8	5.2
Nonfinancial corporations[2]	2.3	3.6	2.0	4.4	5.0	-2.4	2.2
Compensation per hour							
Total business	4.1	3.5	1.5	3.9	3.8	3.7	3.2
Nonfarm business	4.1	3.4	2.0	3.5	3.9	3.3	3.1
Manufacturing	4.7	3.0	3.6	3.4	6.3	.7	3.5
Nonfinancial corporations[2]	3.9	2.5	1.6	3.0	3.1	2.9	2.6
Unit labor costs							
Total business	2.7	.5	.8	.7	.5	5.3	1.8
Nonfarm business	2.8	.6	.6	.7	.6	5.0	1.7
Manufacturing	2.1	-2.0	-1.7	-.4	-.6	-3.9	-1.6
Nonfinancial corporations[2]	1.5	-1.0	-.4	-1.4	-1.8	5.4	.4

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, finance and insurance companies; the sector accounts for about two-thirds of business employment.
3. N.A. Not available.

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

			1992		1993	1993		
	1991	1992	Q3	Q4	Q1	Mar.	Apr.	May
			-Annual rate-			-Monthly rate-		
Total private nonfarm	2.9	2.2	2.3	2.3	3.8	.4	-.1	.6
Finance, insurance and real estate	4.3	3.5	3.8	5.3	4.4	.2	.4	1.7
Total trade	3.0	2.1	3.4	-1.4	4.9	.5	-.1	.6
Services	3.9	2.6	3.1	2.3	3.4	.1	-.2	.7

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

therefore lowered estimated productivity growth commensurately over that more recent period.[4] Reflecting the BLS's corrections to the historical (1981-1991) data on payroll employment, productivity growth over the 1980s is now 0.1 percentage point higher than previously estimated. Finally, the manufacturing data has been revised to incorporate the gross product originating (GPO) data from 1977 to 1990: the effect of this change generally was to lower previous estimates of manufacturing productivity.

REVISIONS TO LABOR PRODUCTIVITY AND COSTS
(Percent change, Q4/Q4)

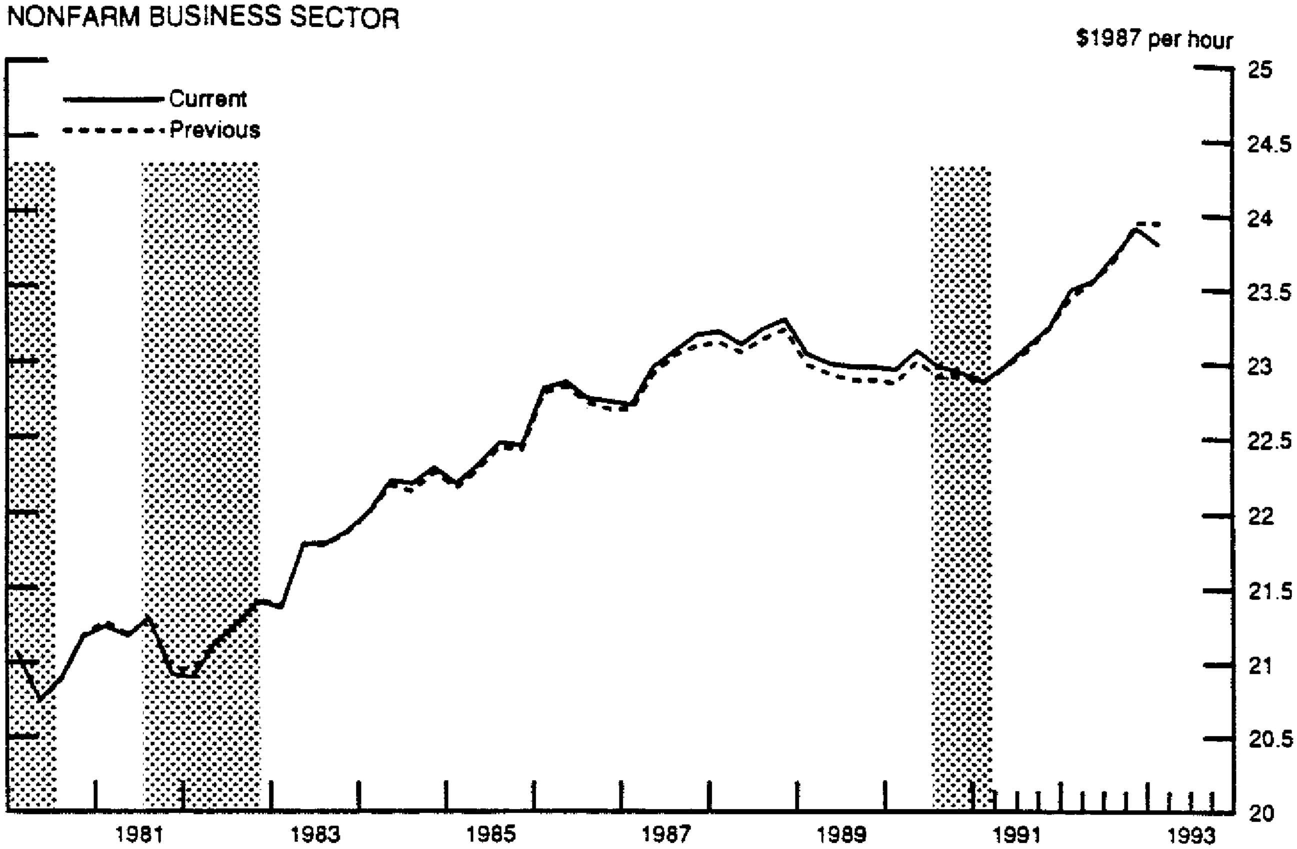
	1988	1989	1990	1991	1992
Nonfarm Business Sector					
Output per hour					
Current	.5	-1.4	-.2	1.3	2.8
Previous	.5	-1.4	.1	1.3	3.1
Compensation per hour					
Current	3.8	3.1	6.0	4.1	3.4
Previous	3.8	3.1	6.3	4.2	3.7
Manufacturing					
Output per hour					
Current	1.5	-.3	2.1	2.6	5.2
Previous	3.2	.0	3.3	2.1	3.5
Compensation per hour					
Current	5.1	3.8	5.3	4.7	3.0
Previous	5.0	3.8	5.4	4.4	2.7

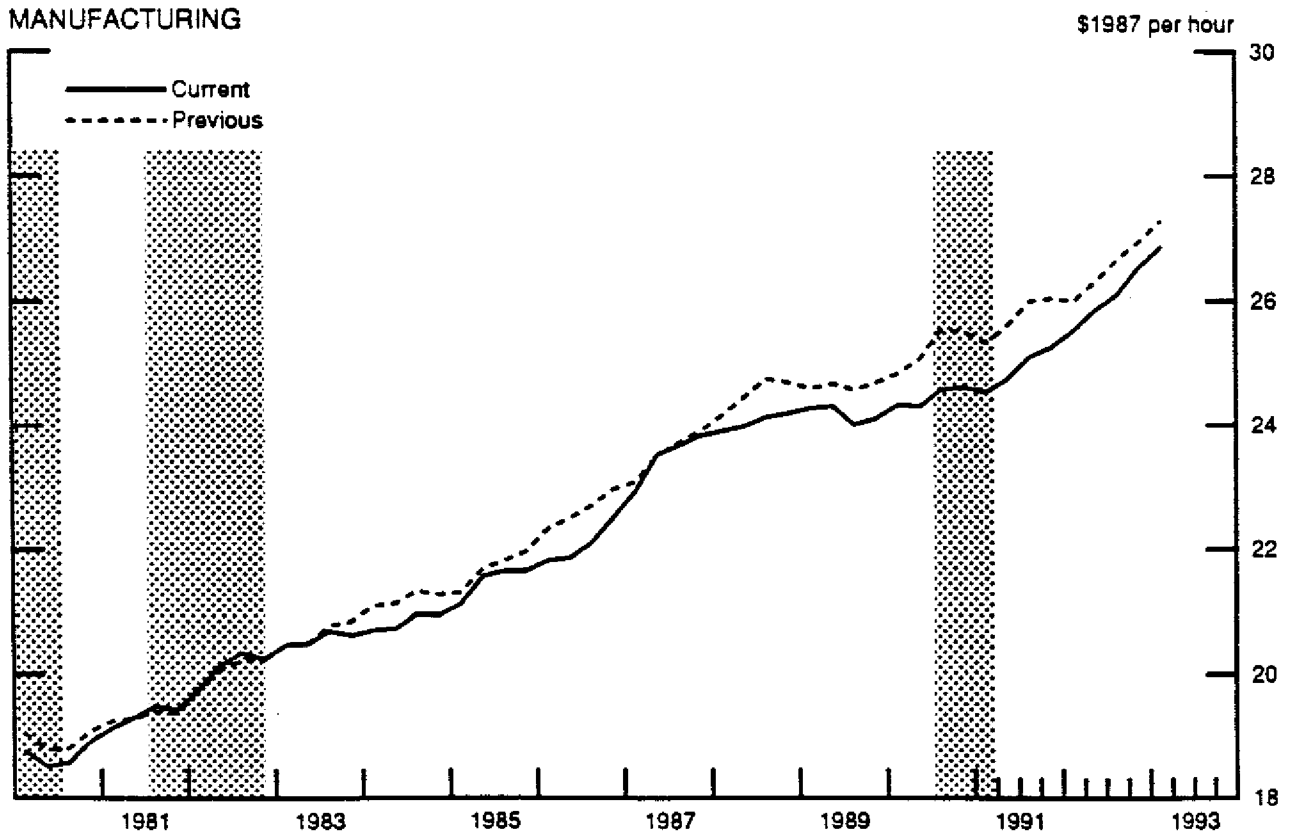
The scanty additional data on labor costs that have become available since the last Greenbook have added to the somewhat disappointing reports that were already in hand. In the first-quarter, hourly compensation in the nonfarm business sector increased 3.3 percent at an annual rate--little changed from the pace of 3.4 percent recorded in 1992. In addition, in May, average hourly earnings of production or nonsupervisory workers rose

4. The bias-adjustment factor is used by the BLS to reflect employment growth in new or small firms that are not adequately captured in the monthly surveys.

REVISIONS TO LABOR PRODUCTIVITY

(All persons; seasonally adjusted)





0.6 percent; this rise boosted the twelve-month change in this measure to 2.8 percent--up about 1/2 percentage point from the twelve months ended in May of last year.

The apparent upward tilt in average hourly earnings appears inconsistent with the degree of slack remaining in labor markets. The unemployment rate is well above the levels at which upward pressures on wages began to emerge in the last business cycle, and other indicators of labor market slack seem to tell a similar story. For example, a measure of the labor market "vacancy rate," computed by scaling the Conference Board's help wanted index against total nonfarm payroll employment, showed only slight improvement as of April compared with the start of the recovery in the spring of 1991.

Of course, the natural rate of unemployment may have risen, perhaps as a result of the downsizing of the defense industry and other structural changes in the economy. Although these developments likely have had an effect, they probably have not raised the natural rate from the 5-1/2 to 6 percent range that seemed to prevail in the late 1980s to 7 percent, the rate during the recent period when wage and price deceleration apparently stalled. The economy has undergone substantial structural change often in the past without producing such large or abrupt increases in the natural rate.[5]

A partial explanation for the failure of wage growth to continue decelerating may be the worsening in inflation expectations. According to recent Michigan Surveys, consumers expect prices to rise 4.5 percent or more over the coming year, up noticeably from expectations in the range of 3.5 to 4 percent that

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5. The reductions in defense spending after both the Korean war and the Vietnam war were larger and swifter than the current decline. Further, an equally disruptive set of shifts was occurring in the early 1980s when exchange rate movements and other forces caused a major restructuring in manufacturing.

predominated in the latter part of 1992. If these survey responses are actually representative of prevailing views, they not only may help to explain the absence of further wage deceleration but also may reveal something about the context in which businesses perceive the risks of losing market share if they post price increases. Of course, this analysis leaves the increase in inflation expectations unexplained and thus provides limited insight into prospective developments.

DOMESTIC FINANCIAL DEVELOPMENTS

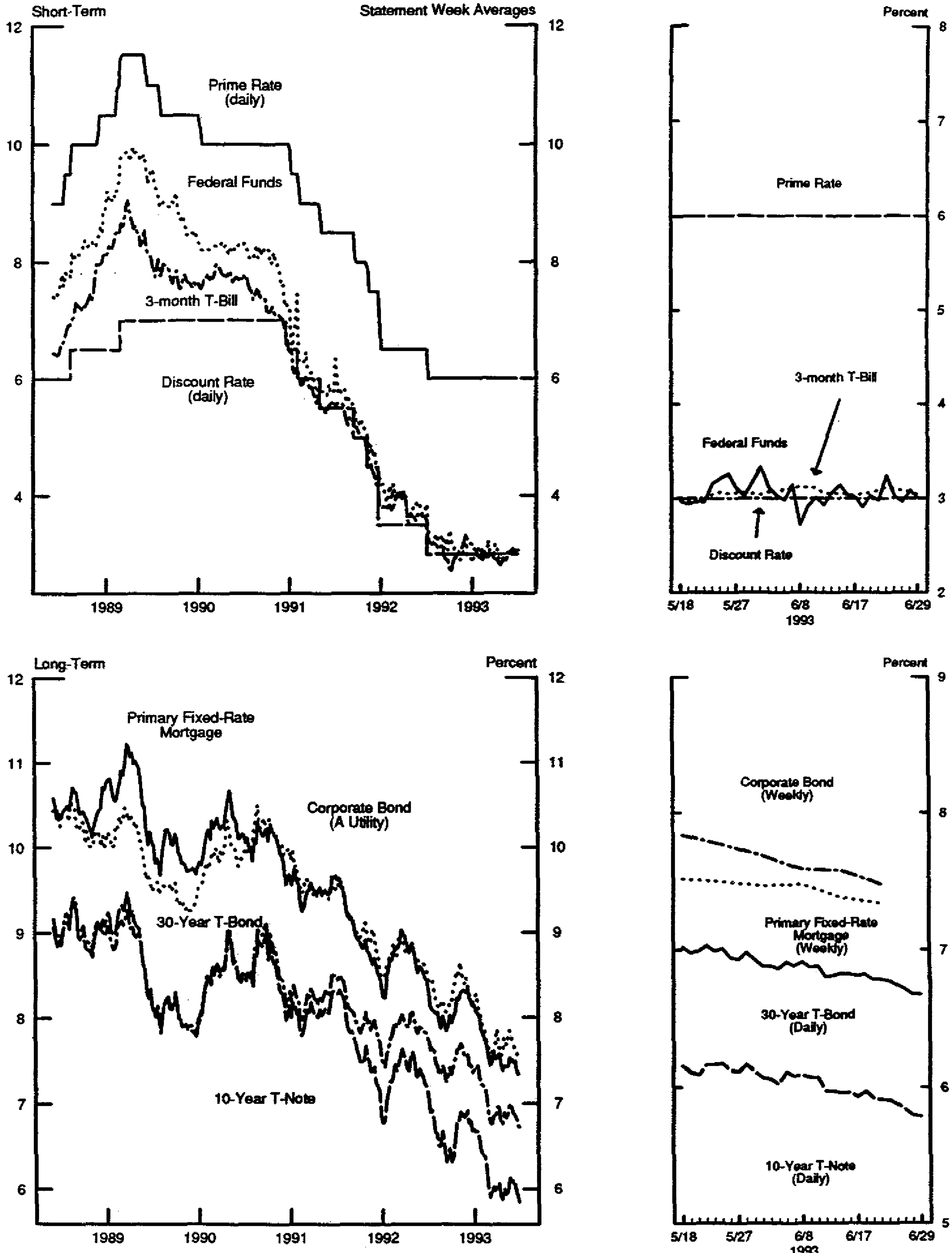
SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent except as noted)

Instrument	1992 Sept. 4	1993 FOMC May 18	1993 June 29	Change to June 29, 1993 From Sept. 4	Change to June 29, 1993 From FOMC May 18
SHORT-TERM RATES					
Federal funds[2]	3.19	2.94	3.00	-.19	.06
Treasury bills[3]					
3-month	2.92	3.01	3.03	.11	.02
6-month	2.96	3.11	3.12	.16	.01
1-year	3.06	3.26	3.32	.26	.06
Commercial paper					
1-month	3.22	3.12	3.21	-.01	.09
3-month	3.22	3.15	3.26	.04	.11
Large negotiable CDs[3]					
1-month	3.06	3.09	3.13	.07	.04
3-month	3.06	3.13	3.20	.14	.07
6-month	3.11	3.24	3.40	.29	.16
Eurodollar deposits[4]					
1-month	3.31	3.00	3.06	-.25	.06
3-month	3.31	3.13	3.19	-.12	.06
Bank prime rate	6.00	6.00	6.00	.00	.00
INTERMEDIATE- AND LONG-TERM RATES					
Treasury (constant maturity)					
-year	4.38	4.49	4.37	-.01	-.12
10-year	6.40	6.15	5.79	-.61	-.36
30-year	7.29	7.02	6.67	-.62	-.35
Municipal revenue[5] (Bond Buyer)	6.31	5.90	5.75	-.56	-.15
Corporate--A utility, recently offered	8.06	7.84	7.48	-.58	-.36
Home mortgages[6]					
FHLMC 30-yr. fixed rate	7.84	7.42	7.34	-.50	-.08
FHLMC 1-yr. adjustable rate	5.15	4.63	4.59	-.56	-.04

Stock exchange index	Record high Level	Record high Date	1989 Low, Jan. 3	1993 FOMC, May 18	1993 June 29	Percentage change to June 29 From record high	From 1989 low	From FOMC, May 18
Dow-Jones Industrial	3554.86	5/27/93	2144.64	3444.39	3518.85	-1.01	64.08	2.16
NYSE Composite	251.36	3/10/93	154.00	243.53	249.06	-.92	61.73	2.27
AMEX Composite	440.95	6/4/93	305.24	428.22	433.52	-1.68	42.03	1.24
NASDAQ (OTC)	708.85	2/4/93	378.56	680.78	701.07	-1.10	85.19	2.98
Wilshire	4475.25	3/10/93	2718.59	4335.06	4443.29	-.71	63.44	2.50

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.
Based on one-day Thursday quotes and futures market index changes.
Quotes for week ending Friday previous to date shown.

Selected Interest Rates*



* Friday weeks are plotted through Jun 25 statement weeks through Jun 23, 1993.

Short-term rates came under considerable upward pressure in late May, amid reports of the FOMC's adoption of a biased directive, which would trigger tightening absent any improvement in price trends. Although short-term rates subsequently fell with the release of the producer price index report, they have since backed up some and are slightly higher over the intermeeting period. At the long end of the market, the concern about monetary tightening had some adverse effects initially, but interest rates began to decline in early June; the downward movement gathered momentum on the price reports, signs of sluggish economic growth, and progress in maneuvering a deficit-reduction plan through the Congress. Some longer-term rates have been trimmed as much as 35 basis points since mid-May, and the thirty-year Treasury rate is at its lowest level since regular auctions commenced in 1977.

Bouyed by the decline in long-term rates, major stock price indexes have risen 2-1/4 percent to 3 percent over the past six weeks, despite early announcements by several major companies signaling disappointing second-quarter earnings. Prices of interest-sensitive stocks--utilities, bank holding companies, and securities firms, in particular--have led the advance.

Overall, debt of nonfinancial businesses, state and local governments, and households appears to have grown more rapidly over the past two months than the 4 percent rate estimated for April. In the business sector, commercial paper of nonfinancial corporations has increased sharply since April, while loans at banks posted a large increase in May--after several monthly declines--and appear to have risen further in June. The strengthening of short- and intermediate-term business borrowing has come despite fairly strong

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

Aggregate or component	1992[1]	1993 Q1[2]	1993 Q2pe[2]	1993 Apr.	1993 May.	1993 Jun.pe	1992:Q4 to Jun.93pe	Level (bil. $) May.93
	Percentage change (annual rate)							
1. M1	14.3	6.6	10½	9.0	27.6	7	9½	1067.2
2. M2	1.8	-2.0	2¼	0.7	10.8	3	1	3506.0
3. M3	0.3	-3.8	2½	2.4	9.3	0	-¼	4170.9
Selected components								
4. M1-A	13.7	6.2	13	14.4	26.7	7	10¼	671.4
5. Currency	9.1	9.4	9¾	9.6	10.4	11	10	304.0
6. Demand deposits	18.0	3.7	16	18.6	41.1	3	10¾	359.2
7. Other checkable deposits	15.4	7.3	6½	0.0	29.2	6	8	395.8
8. M2 minus M1[3]	-2.6	-5.5	-1¼	-2.9	3.7	1	-2½	2438.9
9. Overnight RPs and Eurodollars, n.s.a.	1.8	-10.2	-16	-34.4	-47.3	35	-10	68.3
10. General-purpose and broker-dealer money market funds	-5.2	-10.1	-¼	-5.0	17.4	3	-3½	336.5
11. Commercial banks	-0.1	-2.2	½	-1.7	4.3	2	-½	1259.4
12. Savings deposits	14.5	1.6	4¾	3.2	14.0	9	4¾	764.7
13. Small time deposits	-15.8	-7.6	-6¾	-9.1	-10.3	-9	-7½	494.7
14. Thrift institutions	-5.5	-9.0	-4½	-3.0	2.8	-4	-6	772.1
15. Savings deposits	14.8	-0.2	1	2.3	9.6	3	1	429.0
16. Small time deposits	-21.5	-19.1	-11	-9.0	-5.6	-11	-14	343.1
17. M3 minus M2[3]	-6.6	-13.2	2¾	11.7	1.4	-16	-6	664.9
18. Large time deposits	-16.3	-17.8	-4	9.9	1.0	-12	-10¾	343.6
19. At commercial banks[4]	-15.4	-18.0	-2¾	10.0	4.7	-10	-9½	279.3
20. At thrift institutions	-19.6	-17.5	-8½	11.2	-12.9	-19	-13¾	64.4
21. Institution-only money market mutual funds	18.2	-14.1	¼	-3.0	14.4	-30	-8	202.8
22. Term RPs, n.s.a.	7.9	9.9	28	36.4	-5.4	12	17¾	88.0
23. Term Eurodollars, n.s.a.	-22.6	-2.6	32½	-7.2	31.4	-5	14	51.0
	Average monthly change (billions of dollars)							
Memo								
24. Managed liabilities at com'l. banks (lines 25 + 26)	-2.1	-1.0	4	7.9	-3.1	7	. . .	680.2
25. Large time deposits, gross	-4.6	-3.6	-1	-0.7	1.2	-4	. . .	356.2
26. Nondeposit funds	2.5	2.6	5	8.6	-4.3	11	. . .	324.0
27. Net due to related foreign institutions	2.8	2.4	1½	9.2	-5.2	1	. . .	83.1
28. Other[5]	-0.2	0.1	3½	-0.6	0.9	10	. . .	240.9
29. U.S. government deposits at commercial banks[6]	-0.5	-0.5	1¾	5.4	-5.1	5	. . .	19.1

1. 'Percentage change' is percentage change in quarterly average from fourth quarter of preceding year to fourth quarter of specified year. 'Average monthly change' is dollar change from December to December, divided by 12.
2. 'Percentage change' is percentage change in quarterly average from preceding quarter to specified quarter. 'Average monthly change' is dollar change from the last month of the preceding quarter to the last month of the specified quarter, divided by 3.
3. 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. 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.
6. Treasury demand deposits and note balances at commercial banks.
pe Preliminary estimate. n.s.a. Not seasonally adjusted.

issuance of bonds and equity, much of which continued to go to debt refinancing. Boosted by refunding issuance, gross offerings of long-term municipal bonds were exceptionally heavy in both May and June. Household net borrowing appears to have risen at a moderate pace this spring.

The monetary aggregates surged in May, partly owing to temporary factors, and subsequently slowed again in June. Both M2 and M3 are still well below their annual growth cones.

Monetary Aggregates and Bank Credit

M2 expanded at a 10-3/4 percent annual rate in May--the first appreciable monthly increase since November--after declining at nearly a 2 percent rate on average this year through April. The strength in M2 showed through to M3, which grew at a 9-1/4 percent rate. Data for June show a considerable slowdown, with M2 growth estimated at 3 percent and M3 expected to be about flat.

The strength in M2 in May was in liquid deposits. M1 grew at a 27-1/2 percent rate, with the inflows to demand deposits and OCDs being the largest since last fall. Savings deposits and MMDAs also grew at a pace not seen since late last year, and money market mutual funds posted their biggest increase in several years. The growth in liquid deposits owed partly to a resurgence in mortgage prepayments in the past couple of months. An added boost in May came from below-normal nonwithheld tax payments in April that led to smaller declines in liquid deposits in May than anticipated by seasonal adjustment factors. These two special factors, however, do not appear to account entirely for the spurt in liquid deposits in May, implying that underlying money demand may have strengthened somewhat.

M2 increased at a substantially reduced rate in June; moreover, much of June's growth is probably attributable to a further increase

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

Type of credit	Dec. 1991 to Dec. 1992	1992 Q4	1993 Q1	1993 Mar.	1993 Apr.	1993 May	Level, May 1993 ($billions)
	Commercial bank credit						
1. Total loans and securities at banks	3.6	2.7	1.6	5.2	5.0	8.9	2,985.0
2. Securities	13.0	7.1	11.6	21.8	15.8	5.2	873.3
3. U.S. government	17.5	10.6	14.2	24.0	16.2	4.3	694.7
4. Other	-1.2	-5.9	2.1	13.8	13.0	10.2	178.7
5. Loans	0.2	1.0	-2.4	-1.5	0.5	10.4	2,111.7
6. Business	-3.2	-2.0	-2.0	-5.5	-5.5	7.7	592.7
7. Real estate	2.1	2.4	-2.4	0.4	-0.3	7.7	893.7
8. Consumer	-1.8	-1.3	6.2	2.0	10.6	8.2	366.9
9. Security	18.2	3.7	-14.8	15.6	-34.6	120.6	66.8
10. Other	1.2	7.3	-14.9	-9.4	15.9	0.0	191.6
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-3.3	-3.0	-2.7	-5.7	-6.0	6.6	583.5
12. Loans at foreign branches[2]	2.0	11.4	-30.0	-34.9	5.1	-10.2	23.3
13. Sum of lines 11 and 12	-3.1	-2.5	-3.9	-7.1	-5.5	6.0	606.8
14. Commercial paper issued by nonfinancial firms	9.5	16.6	-9.3	-16.1	31.0	17.5	153.3
15. Sum of lines 13 and 14	-0.8	1.2	-5.0	-8.8	1.8	8.3	760.1
16. Bankers acceptances, U.S. trade-related[3,4]	-16.9	-6.8	-10.4	10.8	-10.7	-16.1	22.0
17. Finance company loans to business[4]	1.8	1.2	-2.5	6.7	5.1	n.a.	306.7[5]
18. Total (sum of lines 15, 16, and 17)	-0.5	1.0	-4.4	-4.2	2.4	n.a.	1,083.9[5]

1. Except as noted, levels are averages of Wednesday data and percentage changes are based on averages of Wednesday data; data are adjusted for breaks caused by reclassification; changes are measured from preceding period to period indicated.
2. Loans to U.S. firms made by foreign branches of domestically chartered banks.
3. Acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.
4. Changes are based on averages of month-end data.
5. April 1993.
n.a. Not available.

in prepayments of mortgage-backed securities and to lingering tax effects. Renewed underlying weakness accompanied reports of continued brisk inflows to long-term mutual funds, though probably not as strong as May's rapid pace.

Bank credit grew at a 9 percent rate in May and appears to have nearly maintained that pace in June. Unlike earlier months, growth in May was concentrated in loans rather than securities, though this pattern may not hold up in June. Among the major components of bank credit, business loans posted a 7-3/4 percent annual gain in May, the first positive reading since January, reflecting a turnaround at large domestic and foreign-related banks. Business loans at small banks continued to grow in May at roughly the moderate pace seen, on average, since year-end. Partial data from June point to some further growth in business loans. Judging from the May Senior Loan Officer Opinion Survey and spreads on business loans from the May Survey of Terms of Bank Lending, supply restraints on business lending appear to have eased further.

Real estate loans, particularly those other than home equity loans, also have gained strength in the past two months, probably a reflection of the closings on the large number of refinancings initiated earlier in the year. The strength also likely reflects the surge in new-home sales during April, much of the financing for which probably was not booked until May or June. Bolstering the case for further growth of real estate loans are recent reports that some of the larger regional banks have been more aggressively courting homebuilders for projects to finance, although they remain focused on highly capitalized builders with proven track records.

Consumer loans grew rapidly in May. Until June, bank securitizations of credit card loans had been well below the volume of last year, and thus a large share of their originations had remained on their books. Banks, howe r, have offered a greater number of asset-backed securities in ne, and consequently, growth in consumer loans on bank balance she s has fallen off.

Growth in bank holdings of secur ies appears to have picked up again in June after slowing significantly in May. Results of a recent survey of 220 banks by Ernst & Young suggested that they plan to slash investments in fixed-rate mortgage securities in response to the Financial Accounting Standards Board's new rule on market-value accounting. The rule, which was formally approved by the FASB this month, will require banks to value a greater portion of their securities holdings at market and thereby subject measures of accounting earnings and book assets to fluctuations in market values of those securities. To cushion themselves against the resultant fluctuations in reported capital, surveyed banks plan to cut fixed-rate mortgage securities held in their investment portfolios from 30 percent to about 20 percent. At the same time, respondents said they expect to boost the share of adjustable-rate mortgage securities from about 9 percent to 14 percent. More generally, half of the surveyed banks--and two-thirds of large banks--said they plan to shorten durations to reduce potential volatility in their portfolios. Despite the likelihood of banks restructuring their portfolios of mortgage-backed securities, market participants have yet to see any effect on yield spreads.[1]

Propelled in part by continued high profitability, both on an absolute and a return-on-assets basis, equity capital of commercial banks increased $10 billion (including 6-1/2 billion in retained

1. The market-value accounting rule was developed mainly in response to concerns expressed by the SEC about gains trading by banks and insurance companies. Life insurance companies have also indicated that they will shorten the maturities of their investments. Insurance companies invest heavily in medium- and long-term debt and are concerned about the effect of large fluctuations in reported net worth on policyholder confidence.

earnings) in the first quarter, to 7.8 percent of total assets, the highest ratio reported by the industry since 1973. Troubled assets fell nearly $4 billion to $84 billion in the first quarter, the lowest level since the second quarter of 1990. The ratio of reserves to noncurrent loans reached 0.92, the highest level since banks began reporting noncurrent loans in 1982.

Second-quarter developments largely support the view that bank balance sheets are in a condition to accommodate future loan demand by creditworthy borrowers. Spurred by narrow bond spreads, banks have issued a near-record flow of subordinated debt during the second quarter. Also, bank holding companies have stepped up issuance of senior bonds, a move that typically is associated with increased asset growth. Finally, aside from large offerings by Citicorp and Chase Manhattan, bank equity issuance has been light during May and June.

<u>Nonfinancial Business Finance</u>

Net borrowing by nonfinancial corporations appears to have strengthened in May and June. Commercial and industrial loans surged in May and have continued to grow in June. Commercial paper has also grown substantially during the past two months, though some of the June strength may owe to demands for cash to make unusually large corporate tax payments. A lull in gross issuance of public bonds in May likely reflected a falloff in refinancing activity, as evidenced by the pickup in June after the drop in corporate bond rates.

May's slowdown in gross public bond issuance by nonfinancial corporations was concentrated in investment-grade offerings. The runup in interest rates during May damped interest in new bond refundings, which have made up more than half of public offerings this year. Indications in June, however, point to a rebound, as

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

	1991	1992	1992 Q4	1993 Q1	1993 Apr.[p]	1993 May[p]	1993 June[e]
Corporate securities - total	32.14	40.81	38.33	55.94	43.12	43.51	51.40
Public offerings in U.S.	29.35	38.01	36.12	51.62	39.25	40.70	47.40
Stocks--total	5.44	6.54	5.84	8.04	6.25	8.70	9.40
Nonfinancial	3.72	4.03	3.13	4.39	3.67	5.39	4.80
Utility	.42	.87	.44	.63	.69	1.14	1.20
Industrial	3.30	3.16	2.69	3.76	2.98	4.25	3.60
Financial	1.72	2.51	2.71	3.66	2.58	3.31	4.60
Bonds	23.91	31.47	30.29	43.58	33.00	32.00	38.00
Nonfinancial	9.52	12.81	10.42	19.85	16.50	12.60	19.00
Utility	2.99	5.33	3.36	9.16	8.00	5.50	8.50
Industrial	6.54	7.47	7.06	10.73	8.50	7.10	10.50
Financial	14.39	18.67	19.87	23.73	16.50	19.40	19.00
By quality							
Aaa and Aa	3.72	3.73	3.26	5.50	3.78	4.80	5.75
A and Baa	12.09	14.50	11.88	20.84	17.45	12.66	21.83
Less than Baa	1.03	3.10	3.23	4.92	4.01	3.96	4.70
No rating (or unknown)	.02	.08	.16	.05	.03	.08	.09
Memo items:							
Equity-based bonds	.63	.62	.68	.49	.33	.46	1.52
Mortgage-backed bonds	2.99	6.07	6.05	8.04	4.43	5.43	1.47
Other asset-backed	4.07	4.00	5.70	4.23	3.30	5.07	4.16
Variable-rate notes	.84	1.89	2.47	2.04	2.35	2.58	2.25
Bonds sold abroad - total	2.33	2.30	1.95	3.79	3.50	2.50	3.30
Nonfinancial	1.00	.84	.63	.64	1.80	.80	1.00
Financial	1.33	1.46	1.32	3.15	1.70	1.70	2.30
Stocks sold abroad - total	.46	.50	.25	.53	.37	.31	.70
Nonfinancial	.38	.39	.19	.37	.30	.28	.30
Financial	.08	.11	.06	.16	.07	.03	.40

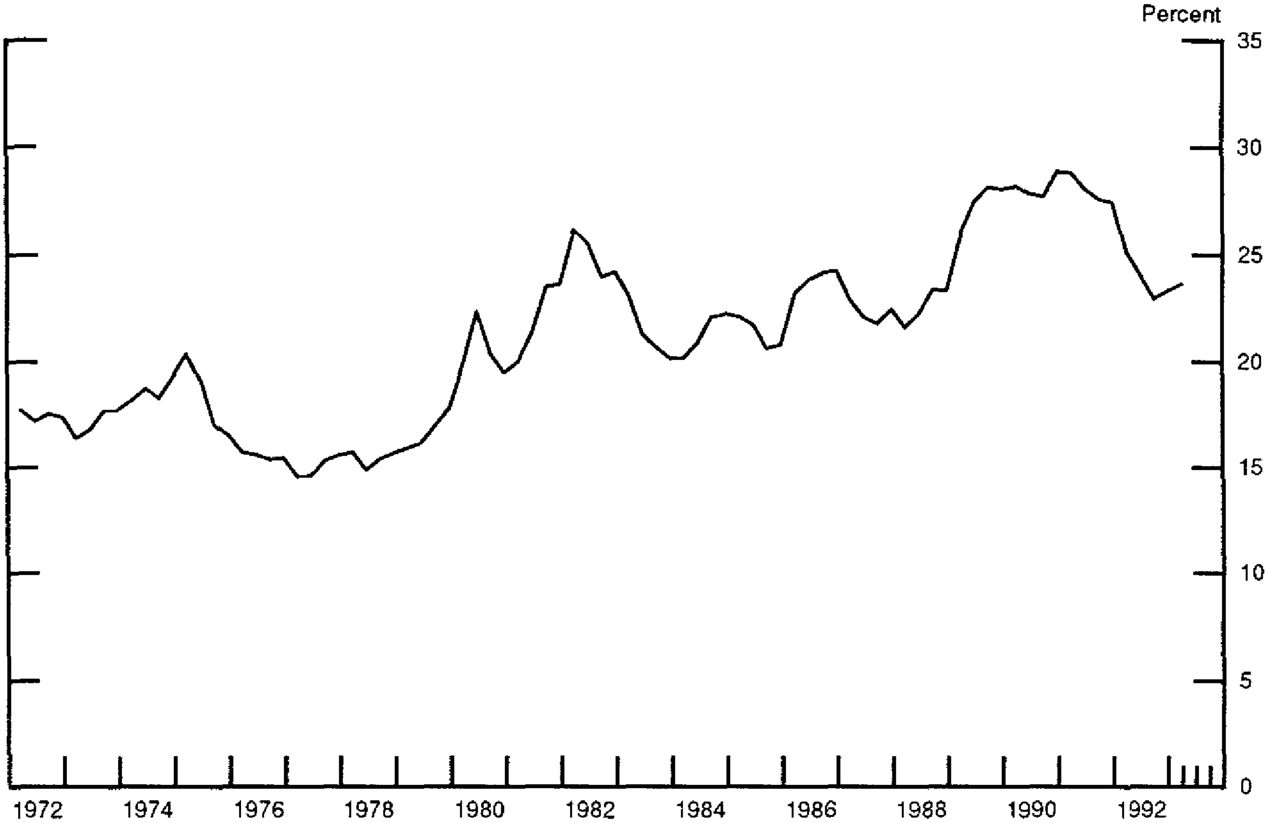
p preliminary.
e staff estimate.
1. Securities issued in the private placement market are not included. Total reflects gross proceeds rather than par value of original discount bonds.
2. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings. Such swaps totaled $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.

issuers have taken advantage of falling rates and tighter spreads. One of these, Ford Motor Company, sold a fifty-year, noncallable bond at 98 basis points over the thirty-year Treasury bond yield, the fourth fifty-year bond this year.

In the below-investment-grade sector, spreads have narrowed substantially since April. New issue yields on B-rated industrial bonds are now frequently less than 10 percent and, on some BB-rated bonds, less than 9 percent. In this environment, issuance was strong in May at about $4 billion and has been robust so far in June. This year to date, below-investment-grade bond offerings have totaled $26 billion, which, if continued, would easily surpass the record issuance of $42 billion set in 1986. Not included in this figure is another $9 billion of junk bonds issued in the 144A private placement market, which the issuers either have subsequently registered or are in the process of registering as public bonds with the SEC. B-rated firms have accounted for two-thirds of the junk-grade bonds offered in the public market so far this year, up from 60 percent in 1992 and 36 percent in 1991. Although high this year, the share of B-rated bonds among below-investment-grade offerings is still well below the 90 percent share seen from 1987 to 1989. Fueled by heavy inflows of funds, junk bond mutual funds have been the principal buyers in both the public and private markets.

Gross public issuance of equity by nonfinancial firms jumped sharply in May to $5.7 billion, boosted by IBM's $1.1 billion preferred stock offering. In addition, there were numerous issues by mid-sized firms in energy-related industries. Initial public offerings jumped in May to more than $1.5 billion from April's sluggish pace of $600 million. Issuance by nonfinancial firms fell off in early June, apparently reflecting a reluctance of firms to compete for investor interest with the $2.4 billion offering by

Ratio of Net Interest Payments to Cash Flow
Plus Net Interest Payments, Nonfinancial Corporations
(In percent)



Note: Cash flow is depreciation (book) plus retained earnings (book).

Allstate. Nevertheless, at about $5 billion for the month, issuance remains vigorous.

Cash flow from domestic operations of nonfinancial corporations declined in the first quarter, as their after-tax profits peaked in the fourth quarter of 1992. The yearlong climb in profits was halted by a substantial falloff from the record level of profits earned in the wholesale and retail trade sector during the fourth quarter and, more broadly, by an increase in unit labor costs. Also contributing to the slowdown was a leveling-off of net interest payments; consequently, the corporate debt service burden, measured as the ratio of net interest payments over cash flow plus interest payments, has ticked up (chart). Nonetheless, it stands well below the levels in 1989 and 1990.

Asset-backed offerings rebounded strongly in May, putting issuance for the year on a pace close to the record of $49 billion in 1991. Credit cards and auto loans have been most common in the asset-backed market lately, and GMAC has been an especially active issuer of auto-related securities.

Real estate investment trusts have been quite successful in their equity offerings lately, with nearly $1 billion raised since the last FOMC meeting. Most of the REITs are based on cash flows of shopping centers, healthcare facilities, and residential properties; commercial office space REITs have been conspicuously absent from the market.

Treasury Financing

The Treasury is estimated to have raised $53 billion in marketable securities in the second quarter. Somewhat less than half covers the $22 billion federal deficit, with the remainder used to build the end-of-quarter cash balance. All of the net marketable borrowing is expected to be accounted for by coupon auctions.

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

	1993				
	Q1	Q2[p]	Apr.	May	June[p]
Treasury financing					
Total surplus/deficit (-)	-62.4	-22.0	8.1	-37.0	6.9
Means of financing deficit:					
Net cash borrowing from the public	60.1	60.8	5.5	30.8	24.5
Marketable borrowings/ repayments (-)	53.2	53.4	1.8	27.3	24.4
Bills	2.2	-.7	-17.7	15.3	1.7
Coupons	51.0	54.2	19.5	12.0	22.7
Nonmarketable	6.9	7.4	3.7	3.6	.1
Decrease in the cash balance	8.3	-38.6	-18.9	20.2	-39.8
Memo: Cash balance at end of period	21.6	60.1	40.5	20.3	60.1
Other[2]	-6.0	-.3	5.4	-14.1	8.4
Federally sponsored credit agencies, net cash borrowing[3]	10.5	--	--	--	--
FHLBs	0.5	--	2.1	--	--
FHLMC	11.6	--	--	--	--
FNMA	-0.5	--	--	--	--
Farm Credit Banks	-0.3	--	-0.4	0.3	--
SLMA	-0.9	--	--	--	--
FAMC[4]	.0	--	.0	--	--

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

Weekly bill auctions were scaled back in April to $20 billion from $22 billion in anticipation of tax inflows; since then, the Treasury has boosted the auctions to $24.4 billion, as nonwithheld tax payments fell short of expectations.

Since the Treasury's announcement at the May mid-quarter refunding of its intention to shorten the average maturity of outstanding debt by eliminating the seven-year note auction and reducing the thirty-year bond auctions, the size of the monthly two-year note auction has been increased $750 million, while monthly five-year note auction sizes have been unchanged. A $15 billion cash management bill auctioned in mid-May to mature at the end of September was designed to help smooth the transition to shorter maturities by making up for the absence of a seven-year note auction in early July.

Municipal Securities

Gross issuance of long-term municipal bonds has been exceptionally heavy over the past two months. Bond offerings jumped in May to nearly $26 billion, the fourth highest monthly total on record, and the volume in June may have fallen just short of this figure. The refunding of outstanding debt has continued to make up the lion's share of long-term issuance, as the advance refunding of bonds issued between 1988 and 1991 has offered substantial interest savings at current interest rates. The recent surge in refunding volume was reported to have been partly prompted by some issuers' fears of a tightening in monetary policy.[2]

2. In addition, the runup in intermediate-term Treasury yields between May and early June, in conjunction with a slight decrease in long-term municipal rates, provided an extra incentive to advance refund outstanding debt. Until the bonds being advance refunded reach their call dates and can be retired, the proceeds from the refunding bonds are invested in Treasury securities. At current interest rates, this produces a loss to issuers, because the yields earned on intermediate-term Treasury securities are below those paid on longer-term refunding bonds. This so-called negative arbitrage (Footnote continues on next page)

Because issuance this year has greatly reduced the stock of bonds likely to be refunded at current bond rates, many municipal bond dealers expect the pace of refundings to moderate in coming months unless interest rates drop significantly.

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

	1991	1992	1992 Q4	1993 Q1	1993 Apr.	1993 May[p]	1993 June[f]
Total offerings[1]	16.68	21.78	19.88	22.67	23.38	27.13	38.00
Total tax-exempt	16.26	21.21	19.34	22.23	23.19	26.21	37.00
Long-term	12.87	17.93	18.27	21.08	18.66	25.82	25.50
Refundings[2]	3.12	7.91	8.34	14.34	13.28	16.43	17.00
New capital	9.75	10.02	9.93	6.74	5.38	9.39	8.50
Short-term	3.39	3.28	1.07	1.15	4.53	.39	11.50
Total taxable	.42	.57	.54	.44	.19	.92	1.00

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

The heavy volume of long-term issuance has been accommodated without raising tax-exempt bond yields relative to Treasury rates, in part because investor demand has remained strong in light of the expected increase in personal income tax rates. Investors have also recently stepped up bond purchases in advance of the estimated $10 billion to $12 billion of bond redemptions scheduled for July 1. These redemptions, amounting to about 1 percent of the outstanding stock of municipal bonds, represent previously refunded bonds now nearing their first call dates. The redemption of a similar amount last year caught many investors unprepared, and in the ensuing

(Footnote continued from previous page)

reduces the interest savings from advance refunding outstanding bonds and, on the margin, discourages refinancings. The movement in municipal and Treasury rates in May and June, however, reduced the negative arbitrage.

scramble to reinvest the proceeds, municipal bond rates dropped sharply.

California's recently adopted budget for the fiscal year beginning July 1 has raised two concerns for investors and credit rating agencies. One concern is the likelihood of projected revenues covering planned expenditures, as well as providing funds to retire a portion of the $2.7 billion of debt used to finance previous deficits. The reasonableness of these projections is probably crucial to the state's maintenance of its current credit ratings. The second concern involves the effect of the transfer of $2.6 billion of property taxes from local governments to the public school system. Counties, which stand to lose about $2 billion, lack the diversity of revenue sources to easily recoup the losses. The state, however, is providing partial relief by earmarking the revenues from a temporary sales tax surcharge to the counties. A permanent extension of the surcharge, and thus ongoing relief, requires voter approval in November. Investors fear that a negative vote could lead to a significant deterioration in the financial condition of a number of county governments.

New York City adopted a 1994 budget in June that most analysts view as relying too heavily upon one-time revenue sources and overly optimistic revenue projections to balance the budget. Not only are analysts concerned that the city may be vulnerable to a revenue shortfall in the 1994 fiscal year but also that insufficient effort has been made to deal with future budget gaps, which the city projects to be $6.4 billion over the 1995 to 1997 fiscal years. Standard & Poor's, which rates the city's long-term bonds at A-, is reviewing the rating for a possible downgrade. Moody's rates the city's debt as Baa1. Bond dealers report that the new budget had little effect on New York City's bond prices, as the outcome had been anticipated.

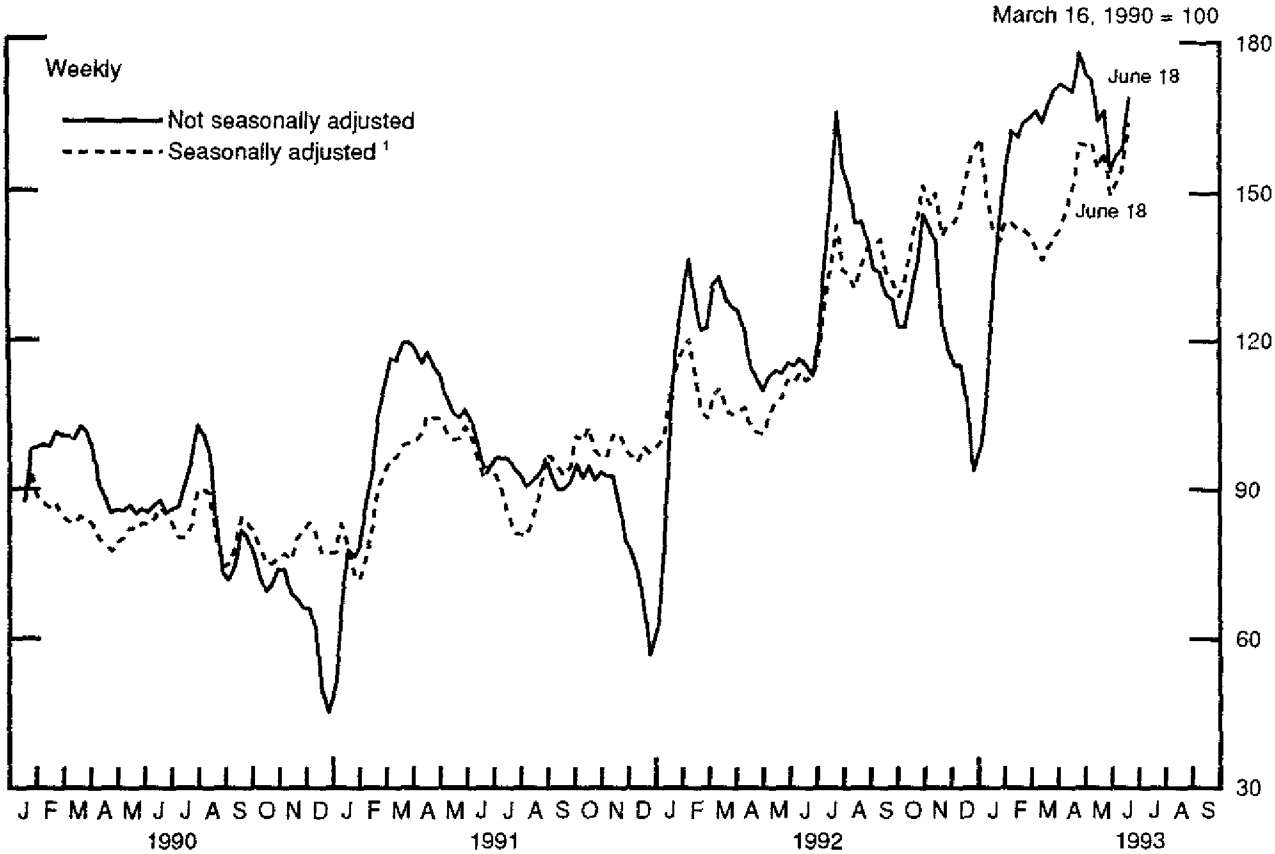
Mortgage Markets

Available data on mortgage lending activity in the second quarter suggest a pickup from the subdued 2-1/2 percent growth in the first quarter. The Mortgage Bankers Association (MBA) purchase index, a measure of mortgage loan application volume excluding refinancing, has been running above its first-quarter range on a seasonally adjusted basis (chart). In addition, real estate loans at commercial banks have grown at a seasonally adjusted annual rate of about 4 percent so far in the second quarter, after declining 2.6 percent in the first quarter.

Commitment rates on thirty-year, fixed-rate mortgages have decreased about 8 basis points over the intermeeting period and are at their lowest levels since August 1972. Initial rates on adjustable rate mortgages indexed to the one-year constant maturity Treasury are also down slightly over the intermeeting period, reaching their lowest levels ever. Despite the sizable initial rate advantage of ARMs, data from the MBA show that ARMs continue to account for less than 20 percent of loan application volume at mortgage banking companies.

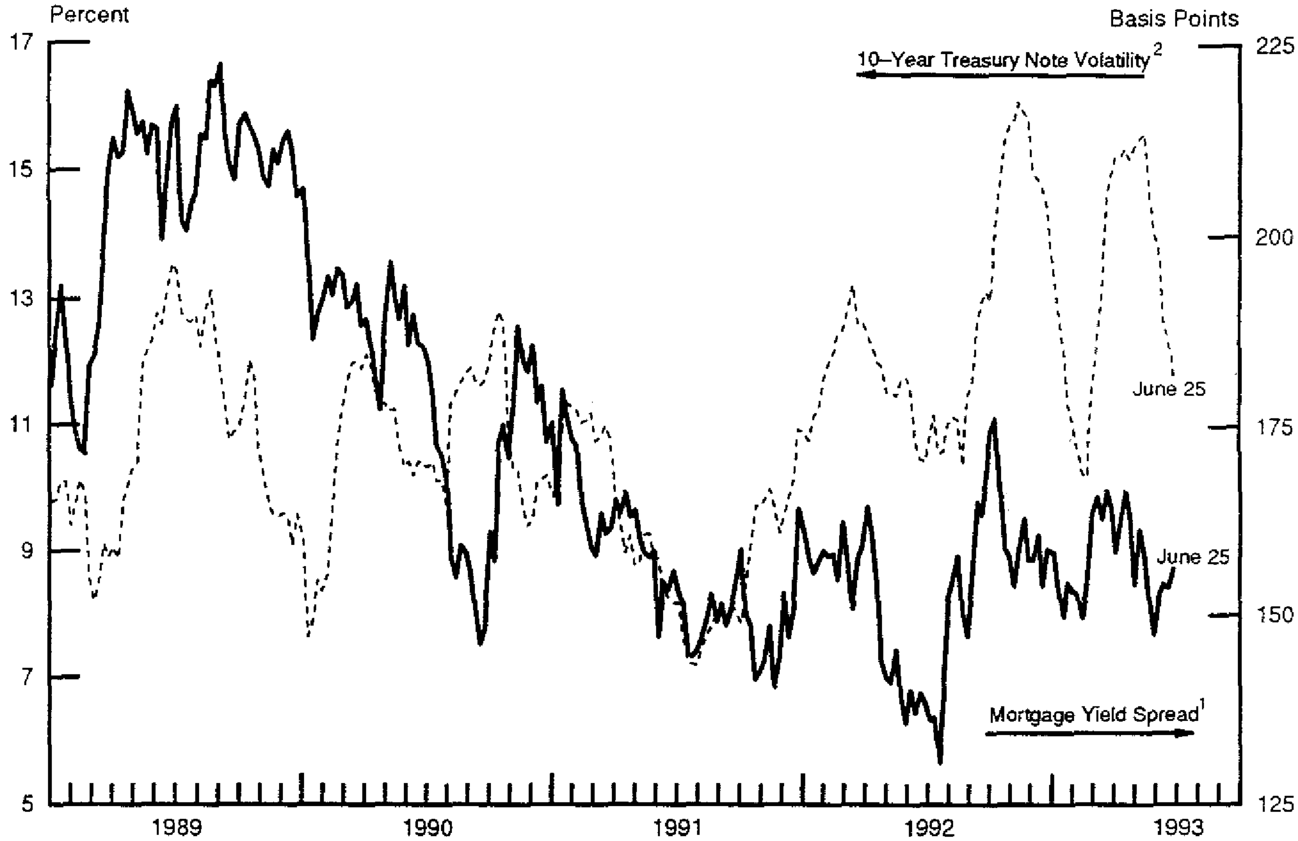
Although interest rate volatility and mortgage yield spreads have declined from the levels reached earlier in the year, spreads have increased slightly in recent weeks. Spreads had widened late in the first quarter in response to greater uncertainty about prepayments created by higher levels of volatility (chart). However, spreads narrowed again as bond yields turned up in late spring and market sentiment shifted to expect a near-term peak in mortgage prepayment rates. According to the latest industry data, prepayment rates in May advanced for the third month in a row with

MBA Index of Mortgage Loan Applications
(Purchase Index)



1. Seasonally adjusted by Federal Reserve Board staff.

Mortgage Yield Spread and Volatility
(Weekly)



1. Spread is Freddie Mac primary mortgage market survey rate less 10–year Treasury yield.
2. Volatility is the annualized standard deviation of daily percentage changes in yield over previous 60 days.

the closing of refinancing applications submitted earlier (chart). Despite the latest increase, however, the May data appear to suggest that prepayment rates may soon level off.

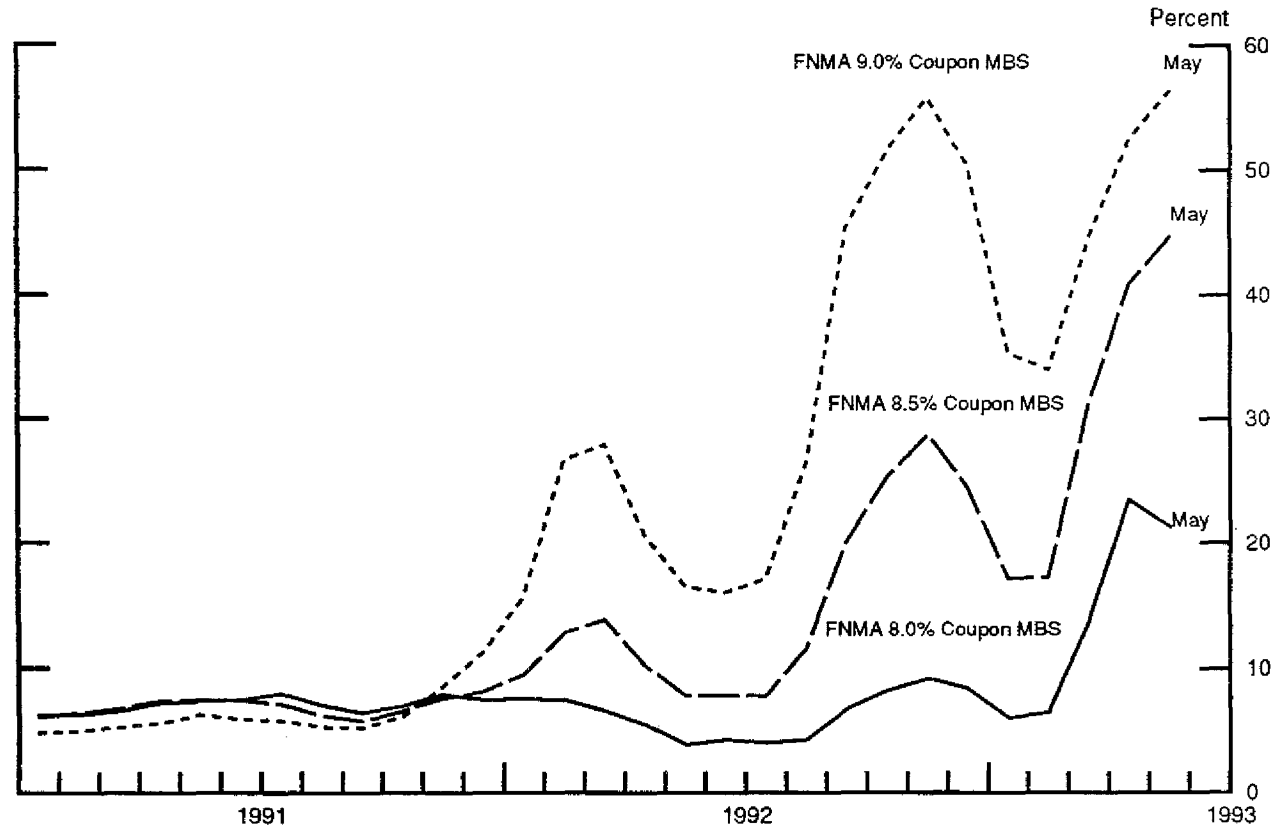
The increase in prepayment rates since March is expected to produce a surge in gross issuance of mortgage-backed securities in June and July. Gross issuance of FRM-backed pass-throughs by the agencies rose to a seasonally adjusted $37 billion in May, below January's rapid pace but still exceeding the monthly average pace for the first quarter as a whole.

Prompted by higher-than-expected FHA and VA mortgage originations, most likely owing to increases in refinancings, issuance of Ginnie Mae securities, in particular, has continued at a rapid pace.[3] As a result, Ginnie Mae already has used roughly $63 billion of an estimated $78 billion in total commitment authority for the fiscal year ending September 30, 1993. At its current monthly pace of about $7.5 billion in gross issuance, Ginnie Mae will run out of its remaining authority by the end of July, as the Congress has yet to pass the necessary supplemental authorization legislation.

According to industry publications, the market for private-label mortgage securities has outpaced the agency sector in terms of percentage growth in the past year or so, and recent legal developments are expected to provide further impetus to growth. Two recent Supreme Court rulings dealing with secured mortgage lenders' rights in chapter 13 bankruptcy cases have prompted Moody's to review its policies on bankruptcy coverage for private-label MBS deals. In a decision just handed down, the Court ruled that a

3. Legislative changes enacted last fall lowered refinancing costs under both programs. Changes to the VA mortgage guarantee program lowered the refinancing charge from 1-1/4 percent of the loan amount to 1/2 percent, while FHA borrowers benefited from, among other things, the repeal of the 57 percent limit on the proportion of closing costs that can be financed (imposed in 1991).

Prepayment Rates on FNMA Mortgage–Backed Securities
(Monthly, seasonally adjusted annualized rate)



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

	Pass-through securities				Multiclass securities				
		Federal agency		Private					
	Total (SA)	Fixed-Rate (SA)	ARM-backed (SA)	Non-agency[1]	Total	Non-agency[2]	FNMA REMICs	FHLMC REMICs	Agency strips
1989 r	17.5	14.0	2.8	.7	7.3	.5	3.1	3.2	.3
1990 r	20.1	17.3	2.2	.6	10.5	1.4	5.1	3.4	.6
1991 r	23.8	20.3	1.9	1.6	17.9	2.6	8.5	6.0	.9
1992 r	40.1	34.7	3.2	2.2	30.0	5.3	12.9	11.0	.8
1992-Q2 r	40.0	34.8	3.6	1.6	32.7	5.4	13.9	12.4	.9
Q3 r	35.5	29.8	3.4	2.3	35.4	6.1	16.7	11.5	1.1
Q4 r	48.4	42.5	3.2	2.8	28.2	4.6	9.9	12.9	.8
1993-Q1 r	39.9	33.3	5.2	1.5	25.3	5.6	10.6	6.8	2.2
1992 Oct. r	48.3	42.4	3.4	2.4	32.7	4.4	14.5	13.5	.3
Nov. r	47.5	42.3	3.4	1.8	30.4	5.4	10.7	13.2	1.1
Dec. r	49.5	42.6	2.8	4.0	21.5	4.0	4.6	11.9	1.0
1993 Jan. r	50.8	42.0	7.9	.9	18.3	5.9	6.9	5.4	.0
Feb. r	39.4	32.6	4.8	2.0	29.4	5.1	10.4	7.5	6.4
Mar. r	29.5	25.1	2.7	1.7	28.5	5.9	14.4	7.6	.7
Apr. r	37.1	31.9	4.0	1.1	29.2	4.3	10.2	9.9	4.9
May p	40.8	36.5	3.7	.6	36.2	4.0	13.8	13.7	4.7

1. Collateralized by adjustable-rate mortgages.
2. Collateralized by fixed-rate mortgages.
p preliminary. r revised.

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lender is entitled to back interest and fees on a home mortgage involved in a bankruptcy proceeding even though the loan instrument did not contain explicit language to that effect. In another ruling, the Court held that chapter 13 of the bankruptcy code does not allow a debtor to "cram down" a home mortgage into secured and unsecured portions. In effect, several lower court rulings had in recent years allowed debtors--usually individuals filing for bankruptcy--to reduce the principal value of their mortgage holder's claim to the current (deflated) value of their home. Although the Court's recent rulings have not resolved whether cramdowns are permissible under the less frequently used chapter 11 of the bankruptcy code, Moody's has announced that, in response to the latest ruling, it likely will cut the bankruptcy premium that it has required for top ratings on private-label securities backed by home mortgage collateral. Moody's credit support guidelines have been the most stringent of the major credit agencies for these securities, largely owing to its concerns about mortgage cramdowns.[4]

Consumer Installment Credit

Consumer installment credit grew at a 3-1/2 percent seasonally adjusted annual rate in April, down a bit from 4-3/4 percent in March. This marks the sixth consecutive month of growth in the 3 percent to 8 percent range, reflecting both moderate advances in consumer spending and probably some tapering off of the early paydowns of loans that restrained growth during much of last year. While interest rates on consumer loans trended downward over the three-month period ending May 8, yield spreads against three-year Treasury notes remained relatively wide (chart).

4. The other major rating agencies have as yet not announced changes in their credit support requirements, citing the remaining uncertainty regarding potential cramdowns under chapter 11 of the code.

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (Annual rate)							Memo: Outstandings[1] (Billions of dollars)
				1992	1993			1993
	1990	1991	1992	Q4	Q1[r]	Mar.[r]	Apr.[p]	Apr.[p]
Installment	2.0	-.7	1.0	4.4	5.7	4.7	3.6	754.0
Auto	-2.7	-8.4	-.5	.3	2.8	2.3	1.9	261.9
Revolving	12.1	9.5	4.4	6.1	10.5	7.5	7.5	262.6
Other	-.8	-1.0	-.8	7.2	3.7	4.4	1.2	229.5
Noninstallment	-4.6	-15.1	3.0	18.7	-19.3	-33.7	99.2	53.7
Total	1.5	-1.8	1.2	5.3	4.1	2.3	9.5	807.7

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)

				1992	1993			
	1990	1991	1992	Nov.	Feb.	Mar.	Apr.	May
At commercial banks[1]								
New cars (48 mo.)	11.78	11.14	9.29	8.60	8.57	...	...	8.17
Personal (24 mo.)	15.46	15.18	14.04	13.55	13.57	...	...	13.63
Credit cards	18.17	18.23	17.78	17.38	17.26	...	...	17.15
At auto finance cos.[2]								
New cars	12.54	12.41	9.93	9.65	10.32	9.95	9.61	...
Used cars	15.99	15.60	13.79	13.37	13.90	13.21	12.74	...

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.

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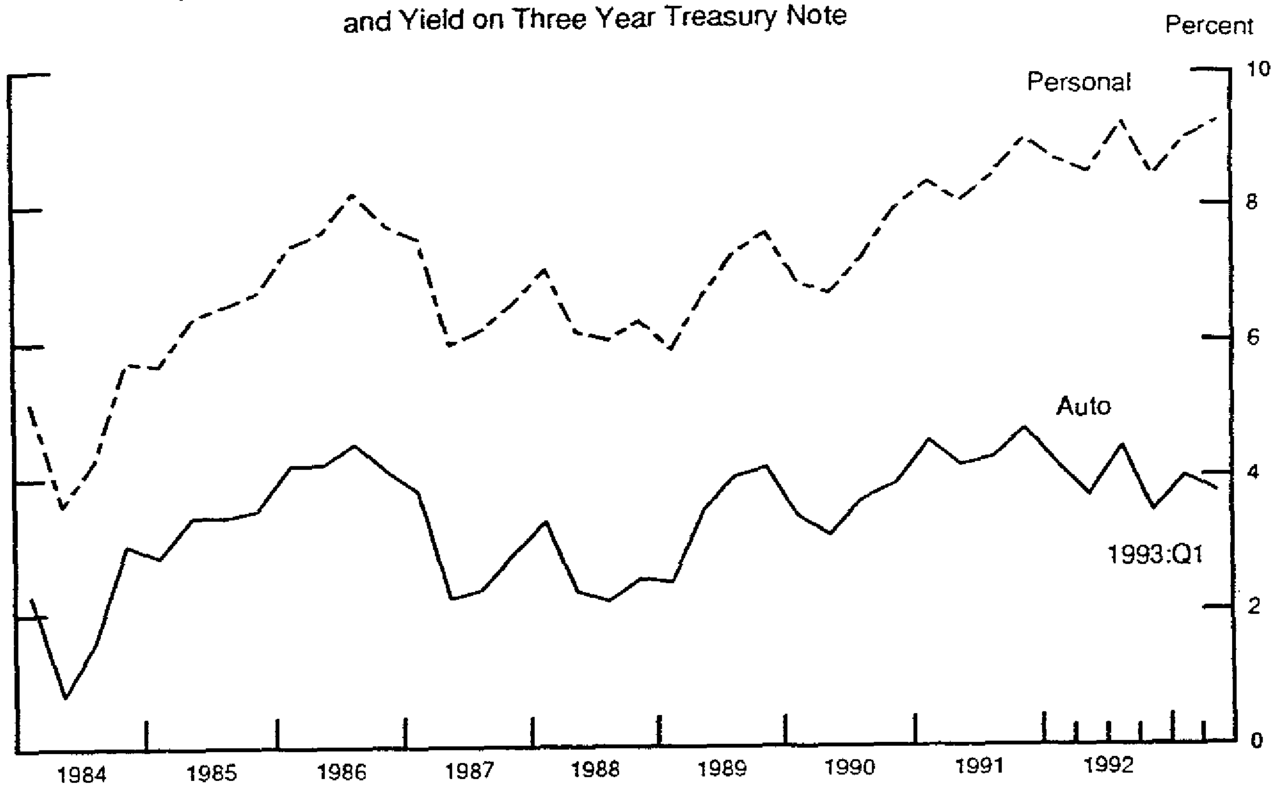
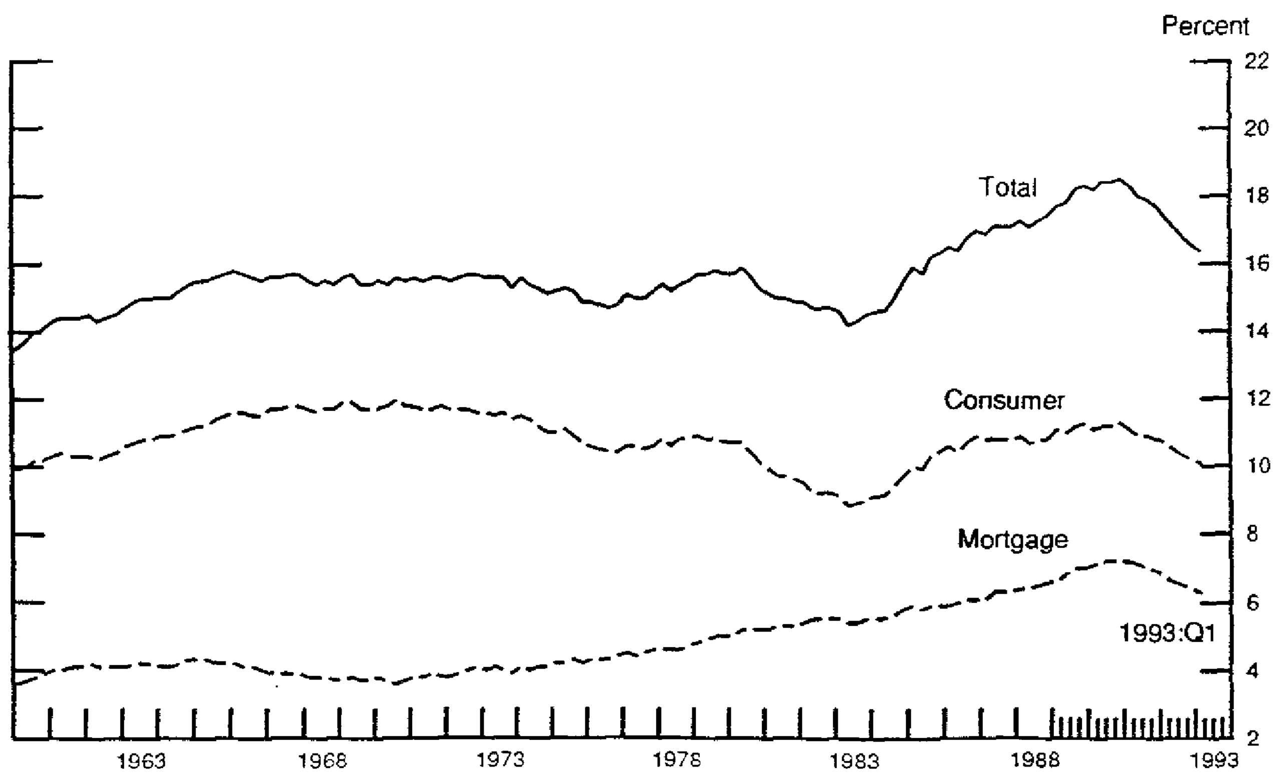
Mortgage and Consumer Finance

Spreads between Consumer Loan Rates at Commercial Banks
and Yield on Three Year Treasury Note

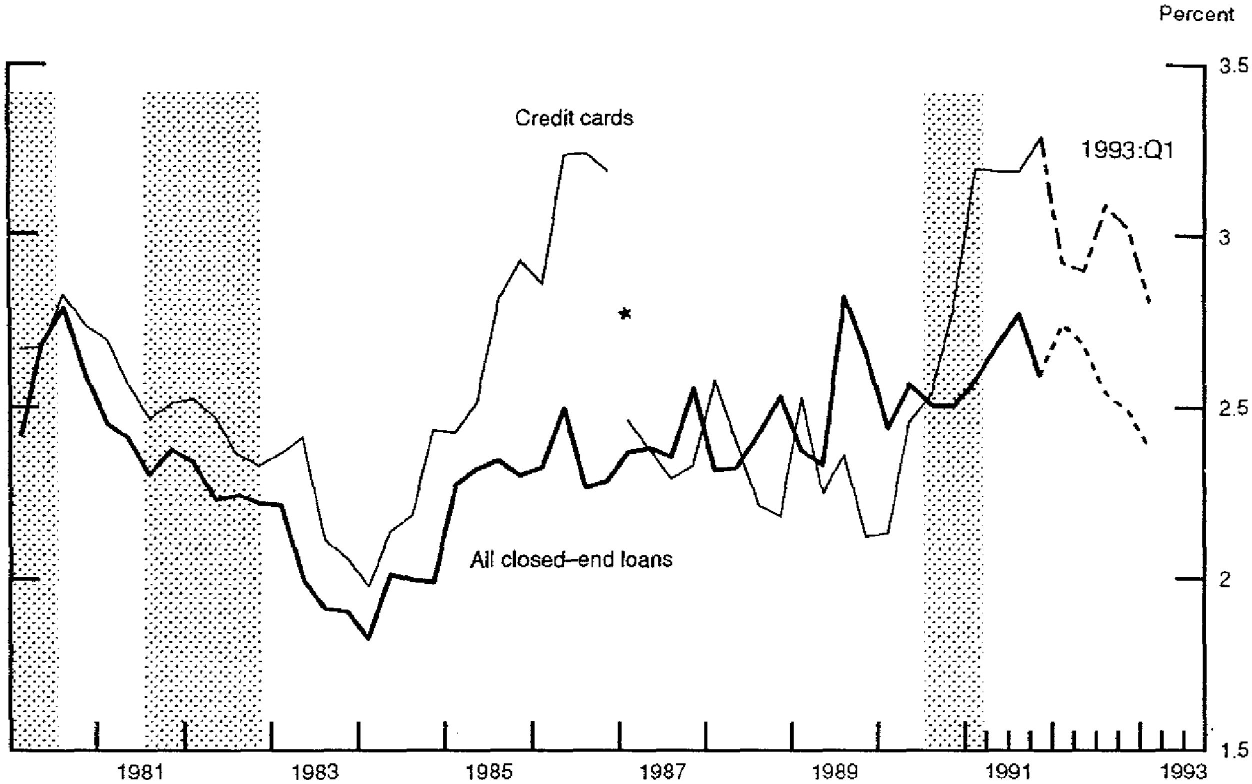


Ratio of Household Debt Service to Disposable Personal Income
(In Percent)



Note: Debt service is a staff extimate of scheduled payments of principal and interest.

CONSUMER LOAN DELINQUENCY RATES AT COMMERCIAL BANKS



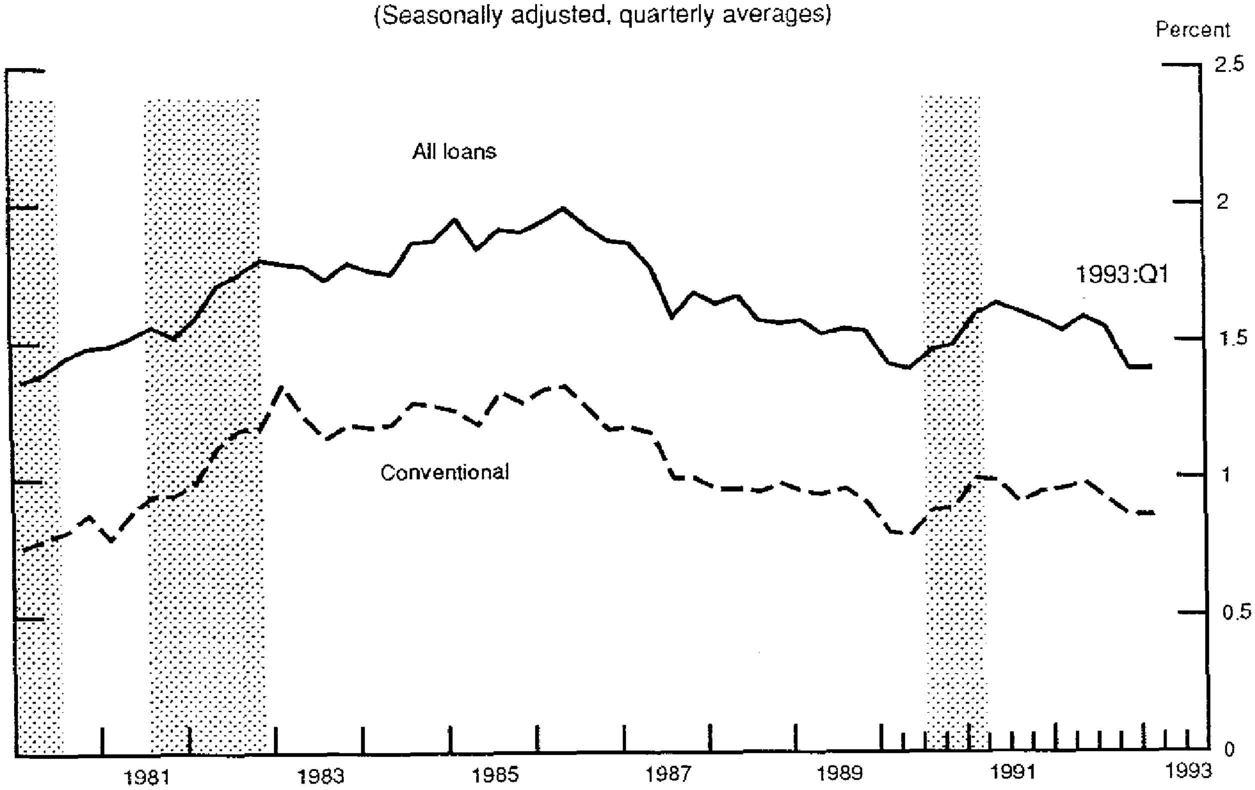
* Break in series between 1986 and 1987.

Note: Dashed line indicates that series are discontinuous between 1991 and 1992 because of changes in definition and coverage.

Source: American Bankers Association. Loans past due 30 days or more.

HOME MORTGAGE DELINQUENCY RATES AT ALL LENDERS

(Seasonally adjusted, quarterly averages)



Source: Mortgage Bankers Association. Loans past due 60 days or more.

Despite the growth in consumer credit in the first quarter, household debt service burdens continued to improve. The ratio of monthly principal and interest payments to disposable personal income edged down to its lowest level since early 1986 (chart).[5] With the most recent wave of mortgage refinancings, the ratio of scheduled principal and interest payments on outstanding mortgage debt slipped to 6.3 percent--a level last recorded in 1987. Most of the reduction has been in scheduled interest payments, as many homeowners have refinanced at lower interest rates and adjustable rate mortgages have repriced downward. The monthly claim on current income arising from consumer installment debt has also continued to drop, mainly reflecting the paydown of relatively high-rate loans.

Further evidence of the improvement in consumer balance sheets were the first-quarter declines in most measures of consumer loan delinquencies. Delinquencies on closed-end consumer loans at banks fell 11 basis points to 2.38 percent in the first quarter, according to data from the American Bankers Association (ABA). The ABA series for credit card delinquencies dropped 21 basis points in the first quarter to 2.81 percent (chart). According to data reported by the Mortgage Bankers Association, home mortgage delinquencies were little changed in the quarter, remaining at about the lowest rate in ten years (chart). Call Report data tended to echo these trends for both consumer and mortgage loans at commercial banks. Finally, according to the Administrative Office of U.S. Courts, the number of personal bankruptcy filings decreased in the first quarter, marking the fourth straight quarterly decline.

5. The level of these data is slightly greater than reported previously, reflecting the general upward revision in the level of consumer installment credit in the 1993 benchmark.

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

In April, the merchandise trade deficit was $10.5 billion (seasonally adjusted, Census-basis), the same as recorded in March but considerably larger than the deficits recorded in January and February. Data for May will be released July 16.

Imports in April eased back only slightly from the high March level; declines were recorded in foods, non-oil industrial supplies, and consumer goods. However, the level of imports in April was 5 percent higher than the first-quarter average; the higher amount was divided almost equally among oil, capital goods, automotive products (half from Canada), and consumer goods.

Exports declined slightly in April; most of the decline from March to April was in machinery and industrial supplies -- categories that had risen in March. Nonetheless, the level of exports in April was still a bit higher than the first-quarter average.

For January-April combined, an increase in the value of imports and a decline in exports widened the deficit to $123 billion at a

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

	Exports			Imports			
	Total	Ag.	NonAg.	Total	Oil	Non-Oil	Balance
1992-Oct	38.9	4.0	34.9	46.1	5.0	41.1	-7.2
Nov	37.8	3.7	34.1	45.6	4.6	41.1	-7.8
Dec	39.2	3.7	35.5	46.1	4.1	42.0	-7.0
1993-Jan	37.5	3.5	34.0	45.2	4.2	40.9	-7.7
Feb	36.9	3.7	33.3	44.8	4.1	40.8	-7.9
Mar	38.9	3.6	35.3	49.3	4.5	44.9	-10.5
(Q1 Avg)	(37.8)	(3.6)	(34.2)	(46.5)	(4.3)	(42.2)	(-8.7)
Apr	38.4	3.7	34.7	48.9	5.0	43.9	-10.5

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

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

	Year 1992	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Jan-Apr	$ Change J/A-Q1	$ Change J/A-Q4
Trade Balance	-96.1	-71.1	-99.2	-110.4	-103.8	-123	-52	-19
Total U.S. Exports	440.1	433.4	433.2	438.0	456.0	448	15	-8
Agric. Exports	44.0	43.3	42.6	44.7	45.5	44	1	-2
Nonagric. Exports	396.1	390.0	390.6	393.3	410.4	404	14	-6
Industrial Suppl.	101.8	99.6	100.9	102.3	104.5	102	2	-2
Gold	4.5	3.8	3.5	3.6	7.2	7	3	0
Fuels	13.6	13.6	13.7	13.5	13.4	12	-2	-1
Other Ind. Suppl.	83.7	82.2	83.6	85.2	83.8	83	1	-1
Capital Goods	176.9	177.2	175.0	173.3	182.0	179	2	-3
Aircraft & Parts	37.7	42.8	37.7	33.4	37.1	34	-9	-3
Computers & Parts	28.8	27.5	28.7	28.8	30.0	29	2	-1
Other Machinery	110.4	106.9	108.6	111.1	114.9	116	9	1
Automotive Goods	47.1	43.1	46.4	47.8	50.9	52	9	1
To Canada	23.8	21.7	23.8	24.2	25.6	27	5	1
To Other	23.2	21.4	22.6	23.6	25.4	25	4	0
Consumer Goods	50.4	48.3	49.0	51.0	53.3	51	3	-2
Other Nonagric.	20.0	21.8	19.3	19.0	19.7	20	-2	0
Total U.S. Imports	536.3	504.4	532.4	548.4	559.8	571	67	11
Oil Imports	51.6	41.9	52.4	57.2	54.9	53	11	-2
Non-Oil Imports	484.7	462.5	480.0	491.2	505.0	518	56	13
Industrial Suppl.	88.6	84.6	88.1	88.3	93.5	95	10	2
Gold	3.8	2.3	3.6	2.7	6.7	6	4	-1
Other Fuels	4.6	4.1	4.3	5.0	4.7	5	1	0
Other Ind. Suppl.	80.3	78.2	80.2	80.6	82.1	84	6	3
Capital Goods	134.2	125.4	131.8	137.8	141.8	144	19	2
Aircraft & Parts	12.6	11.8	13.3	12.3	13.0	11	-1	-2
Computers & Parts	31.8	28.2	30.8	33.6	34.6	36	8	2
Other Machinery	89.8	85.4	87.6	91.9	94.2	97	12	3
Automotive Goods	91.8	89.1	91.2	91.8	95.1	102	13	7
From Canada	31.7	31.4	31.6	31.6	32.3	38	7	5
From Other	60.1	57.8	59.6	60.2	62.8	64	6	2
Consumer Goods	123.0	117.4	121.3	126.7	126.5	130	13	4
Foods	27.9	27.0	28.7	28.1	27.6	27	0	0
All Other	19.3	19.0	19.0	18.5	20.6	19	0	2

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

seasonally adjusted annual rate (balance of payments basis); this compares with a fourth-quarter deficit of $104 billion at an annual rate.

The quantity of imports rose 14 percent at an annual rate in the first four months of 1993 compared with the fourth-quarter average. About one-fourth of the increase was computers and another fourth was automotive products (primarily Big-Three vehicles made in Canada and shipped to the United States). Another 20 percent of the rise was consumer goods of which nearly two-thirds was apparel and footwear. Smaller increases were recorded in the other major trade categories. By area, most of the increase in the value of non-oil imports was from Canada, with small increases from Latin America and Japan; imports from Asia and Western Europe declined.

The quantity of exports declined 8 percent at an annual rate in the first four months of 1993 compared with the fourth-quarter average. A drop-back in exported aircraft and parts from an unusually strong fourth-quarter level accounted for about one-third of the decline. The remainder of the decrease was largely in exported consumer goods (primarily tobacco products from strong third and fourth-quarter levels) and agricultural products (especially corn). These declines were partly offset by increases in automotive exports to Canada and in exports of machinery (other than computers). By area, most of the decline in value from the fourth quarter was to developing countries in Latin America and Asia; moderate increases were recorded to Canada and the United Kingdom.

Oil Imports

The rise in the value of imported oil in April reflected both higher prices (by 40 cents per barrel from the March average) and an increase in quantity. The increase in the quantity reflected a rise in consumption and stockbuilding. In contrast, the quantity of oil imported in the first quarter was little changed from the fourth quarter as a decline in consumption (mild weather) was about offset by a slowing in the rate of inventory depletion.

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1992		1993	Months			
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Value (Bil. $)	57.19	54.85	51.02	50.80	48.92	53.33	59.41
Price ($/BBL)	18.54	17.89	16.42	16.06	16.35	16.86	17.24
Quantity (mb/d)	8.45	8.39	8.50	8.66	8.19	8.66	9.44

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

From a low in January, prices of imported oil have risen steadily, increasing 40 cents per barrel in April; these increases reflected production restraint by OPEC early in the year. Nonetheless, the price of imported oil in April was still less than the fourth-quarter average. On June 10 OPEC agreed to roll over its second-quarter quota agreement into the third quarter. Kuwait, however, refused to participate in the agreement stating that it intends to push its production (1.8 mb/d in May) above 2.1 mb/d by September. Oil prices have fallen about 60 cents per barrel, on balance, since the June 10 meeting. Spot WTI now (June 30) stands at about $19.10 per barrel. These movements in spot prices suggest that import prices are likely to have fallen to about $16.50 per barrel in June.

Prices of Non-oil Imports and Exports

Prices (BLS) of U.S. non-oil imports increased 0.4 percent in May; this was the third consecutive month an increase was reported and follows declines in three of the previous four months. This pattern of price changes largely reflects the pattern recorded by imported capital goods and consumer goods. In May (as in April) there was also a sharp increase in the price of imported passenger

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

	Year	Quarters			Months	
	1993-Q1	1992	1993		1993	
	1992-Q1	Q4	Q1	Q2-e	Apr	May
		(Quarterly Average, AR)			(Monthly Rates)	
	--------------------BLS Prices--------------------					
Imports, Total	0.5	0.4	-5.1	4.1	0.4	0.4
Foods, Feeds, Bev.	-5.1	2.8	-5.5	2.0	1.1	0.5
Industrial Supplies	1.7	-4.2	-9.2	9.1	0.8	-0.2
Ind Supp Ex Oil	-0.2	-0.5	-1.9	2.0	-0.1	-0.2
Capital Goods	-0.1	-0.1	-4.4	1.1	0.0	0.7
Automotive Products	0.3	3.0	-2.8	4.6	0.7	0.7
Consumer Goods	1.3	2.9	-3.2	1.8	0.3	0.3
Memo:						
Oil	5.3	-11.4	-23.5	21.9	2.1	0.3
Non-oil	0.0	1.5	-3.3	2.3	0.3	0.4
Exports, Total	0.6	-1.0	1.3	1.7	0.2	0.4
Foods, Feeds, Bev.	-3.7	-3.9	5.5	3.8	0.6	1.4
Industrial Supplies	2.5	-2.7	1.9	4.8	0.5	0.6
Capital Goods	0.3	-0.7	-0.7	-0.2	0.2	-0.1
Automotive Products	1.6	2.5	1.2	0.7	0.1	0.2
Consumer Goods	2.1	3.3	3.3	0.7	0.1	0.4
Memo:						
Agricultural	-1.3	-2.7	5.6	2.0	0.4	1.1
Nonagricultural	1.1	-0.8	0.6	1.6	0.2	0.3
	------------Prices in the NIPA Accounts-----------					
Fixed-Weight						
Imports, Total	1.4	0.0	-5.2	--	--	--
Oil	7.6	-14.0	-29.7	--	--	--
Non-oil	0.6	0.7	-2.4	--	--	--
Exports, Total	0.5	-0.4	0.7	--	--	--
Ag	-2.7	-6.0	4.9	--	--	--
Nonag	1.1	0.0	0.7	--	--	--
Deflators						
Imports, Total	-1.2	-1.5	-7.7	--	--	--
Oil	7.2	-12.7	-30.2	--	--	--
Non-oil	-2.0	-0.2	-5.1	--	--	--
Exports, Total	-1.3	-1.1	-0.8	--	--	--
Ag	0.3	4.1	5.1	--	--	--
Nonag	-1.5	-1.5	-1.4	--	--	--

cars; these price increases were the largest recorded since October 1992. For April-May combined, prices of non-oil imports rose 2.3 percent at an annual rate. There were increases in all major trade categories, particularly automotive products; these increases followed declines in the same categories in the first quarter.

Prices of agricultural exports increased sharply in May; however, for April-May combined the increase from the fourth quarter was a moderate 2.0 percent at an annual rate. Prices of exported nonagricultural products rose by about the same rate in May as in April; for April-May combined prices rose 1.6 percent at an annual rate. The increase in May (as in April) was led by a rise in prices of exported foods and industrial supplies, especially building materials.

U.S. Current Account

The U.S. current account deficit in the first quarter of 1993 was $84 billion (seasonally adjusted, annual rate), $11 billion smaller than in the fourth quarter. An increase in the deficit on goods and services was more than offset by a shift to a surplus from a small deficit in the balance on investment income and a reduction in net unilateral transfers.

The deficit on merchandise trade widened in the first quarter as exports declined from an unusually strong fourth-quarter level and imports rose. The surplus on services increased. Nearly half of the increase in service receipts was in travel and passenger fares; there was little change in service payments as an increase in payments for travel abroad was offset by decreases in most other service payments.

A sharp increase in receipts on U.S. direct investment abroad, mainly related to the operations of manufacturing and of banking and finance affiliates, was partly offset by a large decrease in other

U.S. Current Account
(Billions of dollars, seasonally adjusted annual rates)

	Trade Balance	Services net	Investment Income, net	Transfers net	Current Acct.Bal. Pub.	Current Acct.Bal. Ex Special Grants 1/
Year						
1990	-109.0	30.7	20.3	-33.8	-91.9	-89.0
1991	-73.8	45.9	13.0	6.6	-8.3	-45.6
1992	-96.1	56.4	6.2	-32.9	-66.4	-67.6
Quarters						
1991-1	-75.2	33.3	23.1	56.4	37.6	-48.3
2	-65.3	45.2	11.6	15.5	7.1	-38.9
3	-78.6	50.9	6.5	-26.3	-47.4	-50.2
4	-76.2	54.1	10.9	-19.4	-30.6	-45.2
1992-1	-71.1	56.2	17.7	-29.6	-26.7	-28.5
2	-99.2	54.6	3.6	-32.0	-73.0	-76.0
3	-110.4	61.1	6.8	-28.6	-71.1	-71.1
4	-103.9	53.7	-3.2	-41.4	-94.8	-94.8
1993-1	-116.3	58.5	1.0*	-32.3	-89.0*	-89.0*

*/ Includes an estimate for corrected data. BEA expects to revise investment income by adding about $5 billion at an annual rate to payments. The revision is CONFIDENTIAL until released by BEA in about 10 days.
1/ Includes foreign cash grants to the United States to cover costs of the war in the Persian Gulf. These grants amounted to $4.3 billion in 1990, $42.6 billion in 1991, and $1.3 billion in 1992; they are shown in the accounts as positive unilateral transfers. Also excludes special U.S. grants to foreign countries amounting to $7.2 billion in 1990 and $5.2 billion in 1991.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

private receipts caused by a decline in interest rates. Income payments on foreign assets in the United States decreased primarily reflecting lower interest rates.

The reduction in net unilateral transfers was more than accounted for by a decrease in U.S. Government grants. (The high level of grants in the fourth quarter of last year included the usual annual payment to Israel plus some grants financing Israeli military purchases.)

U.S. International Financial Transactions

Foreign official reserve assets in the United States (line 4 of the Summary of U.S. International Transactions table) rose by almost

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

	1992 Year	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Feb.	1993 Mar.	1993 Apr.
Private Capital								
Banks								
1. Change in net foreign positions of banking offices[1] in the U.S. (+ = inflow)	39.1	-1.9	36.3	0.4	-7.6	-1.3	5.4	-3.9
Securities								
2. Private securities transactions, net[2]	-19.6	1.7	-11.5	-5.4	-17.8	-6.3	-5.7	-1.2
a) foreign net purchases (+) of U.S. corporate bonds[3]	34.8	11.8	6.7	8.6	6.1	3.1	1.2	4.0
b) foreign net purchases (+) of U.S. corporate stocks	-3.7	-1.2	-3.8	4.2	3.9	1.8	2.3	-0.2
c) U.S. net purchases (-) of foreign securities	-50.7	-8.9	-14.5	-18.1	-27.7	-11.1	-9.2	-4.9
3. Foreign net purchases (+) of U.S. Treasury obligations	37.5	10.3	5.0	21.4	13.5	2.5	8.4	2.8
Official Capital								
4. Changes in foreign official reserves assets in U.S. (+ = increase)	38.1	20.3	-8.2	5.0	11.3	1.4	-3.2	2.9
a) By area								
G-10 countries	4.8	3.3	3.8	-4.7	-1.9	-1.6	-5.3	4.9
OPEC	4.9	-2.6	2.9	1.7	0.5	-1.3	2.3	-1.2
All other countries	28.5	19.6	-14.9	7.9	12.7	4.3	-0.4	-0.8
b) By type								
U.S. Treasury securities	18.5	11.2	-0.3	-7.4	1.1	-2.3	-0.7	3.1
Other[4]	19.7	9.1	-7.9	12.4	10.2	3.7	-2.6	-0.2
5. Changes in U.S. official reserve assets (+ = decrease)	3.9	1.5	2.0	1.5	-1.0	-0.3	-0.2	0.1
Other transactions (Quarterly data)[5]								
6. U.S. direct investment (-) abroad	-34.7	-6.9	-2.0	-11.5	-10.0	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	-2.4	2.4	1.0	3.1	5.8[e]	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow)[6]	11.9	8.4	-6.9	-6.1	22.0	n.a.	n.a.	n.a.
9. U.S. current account balance	-66.4	-18.3	-17.8	-23.7	-22.2	n.a.	n.a.	n.a.
10. Statistical discrepancy	-12.2	-17.5	2.1	15.3	6.0	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-96.1	-24.8	-27.6	-26.0	-29.1	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.

$3 billion in April, more than accounted for by Japan, which intervened heavily to resist the appreciation of the yen. Partial information from FRBNY indicates that G-10 holdings rose substantially again in May and June, despite substantial declines in holdings by Germany in May.

Private foreigners continued to add net to their holdings of U.S. Treasury securities in April (line 3). The United Kingdom and Japan more than accounted for the net purchases. For the first four months of 1993, net purchases recorded directly by Japanese residents amounted to more than $5 billion, about the same average pace as recorded in 1992.

Private foreigners also added net about $4 billion to their holdings of U.S. government agency and corporate bonds in April (line 2a). However, new Eurobond issues by U.S. corporations fell in May and June from the very high levels reached in March and April. Foreign purchases and sales of U.S. corporate stock were about offsetting in April (line 2b), but the volume of transactions remained relatively high.

U.S. net purchases of foreign securities (line 2c) were substantial in April, but far below the pace of previous months. In contrast to the first quarter, in April net purchases of foreign stocks far outpaced net purchases of bonds. Net stock purchases were largest in Europe, particularly in the United Kingdom and Spain, and in Asia, particularly in Hong Kong and Japan.

Banks reported a net outflow in April on a month-end basis (line 1), but much of this outflow appears to be the result of end-of-period window dressing by foreign-based banks at the end of March. In contrast, on a monthly average basis, banks reported a net inflow from their own foreign offices and IBFs in April and little net change in May. (See line 1 of the International Banking

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1991				1992				1993			
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Feb.	Mar.	Apr.	May
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	-71.5	-77.1	-82.0	-81.9
(a) U.S.-chartered banks	7.6	5.4	11.0	12.4	3.2	8.3	12.7	17.0	12.4	8.9	11.2	11.5
(b) Foreign-chartered banks	-31.3	-19.2	-25.2	-48.3	-44.6	-65.1	-70.9	-88.6	-83.8	-86.0	-93.2	-93.3
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	24.0	23.5	23.4	23.5
3. Eurodollar Holdings of U.S. Nonbank Residents 1/	114.6	105.8	100.8	102.9	100.3	91.2	86.3	90.0	88.6	89.5	86.5	86.0

1. Includes term and overnight Eurodollars held by money market mutual funds. Note: These data differ in coverage and timing from the overall banking data incorporated in the international transactions accounts. Line 1 is an average of daily data reported to the Federal Reserve by U.S. banking offices. Line 2 is an average of daily data. Line 3 is an average of daily data for the overnight component and an average of Wednesday data for the term component.

Data table.) Foreign chartered banks more than accounted for the net inflow.

Data recently released by the Department of Commerce indicate that U.S. direct investment abroad continued strong in the first quarter of 1993 (line 6 of the Summary of U.S. International Transactions table). The outflows were spread among countries in Latin America, continental Europe, and Asia. Foreign direct investment in the United States (line 7) increased somewhat, but remains far below peak levels reached in 1989.

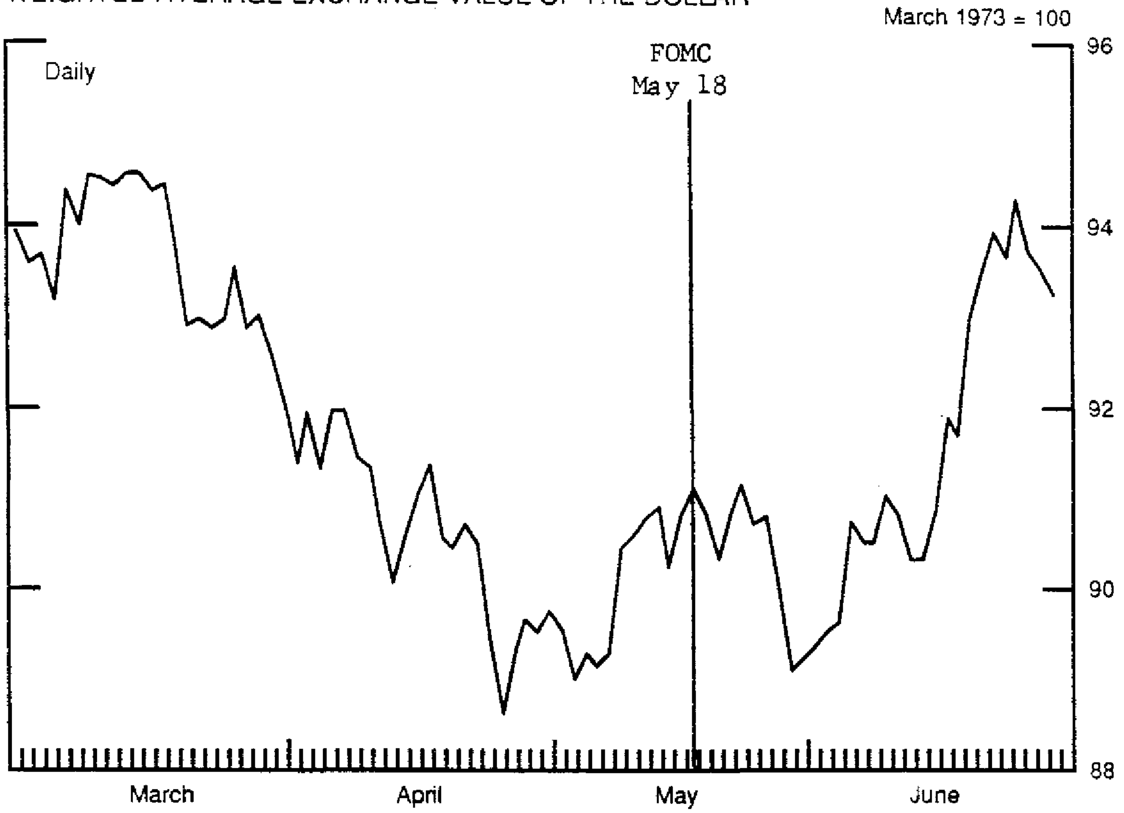
Inflows of other capital (line 8) were very large in the first quarter. A substantial part of these inflows was accounted for by reductions in U.S. nonbanks' holdings of foreign commercial paper, Eurodollar deposits, and CDs. It should be noted that BEA has substantially improved its estimates of these holdings by substituting information from other sources for suspect components of the Treasury International Capital Reports. Information from Moody's Investors Service and other sources is now used to estimate U.S. holdings of foreign commercial paper, and data provided by foreign central banks, particularly the Bank of England, are used to estimate holdings of Euro-CDs. These improvements have resulted in substantial revisions to earlier data.

Foreign Exchange Markets

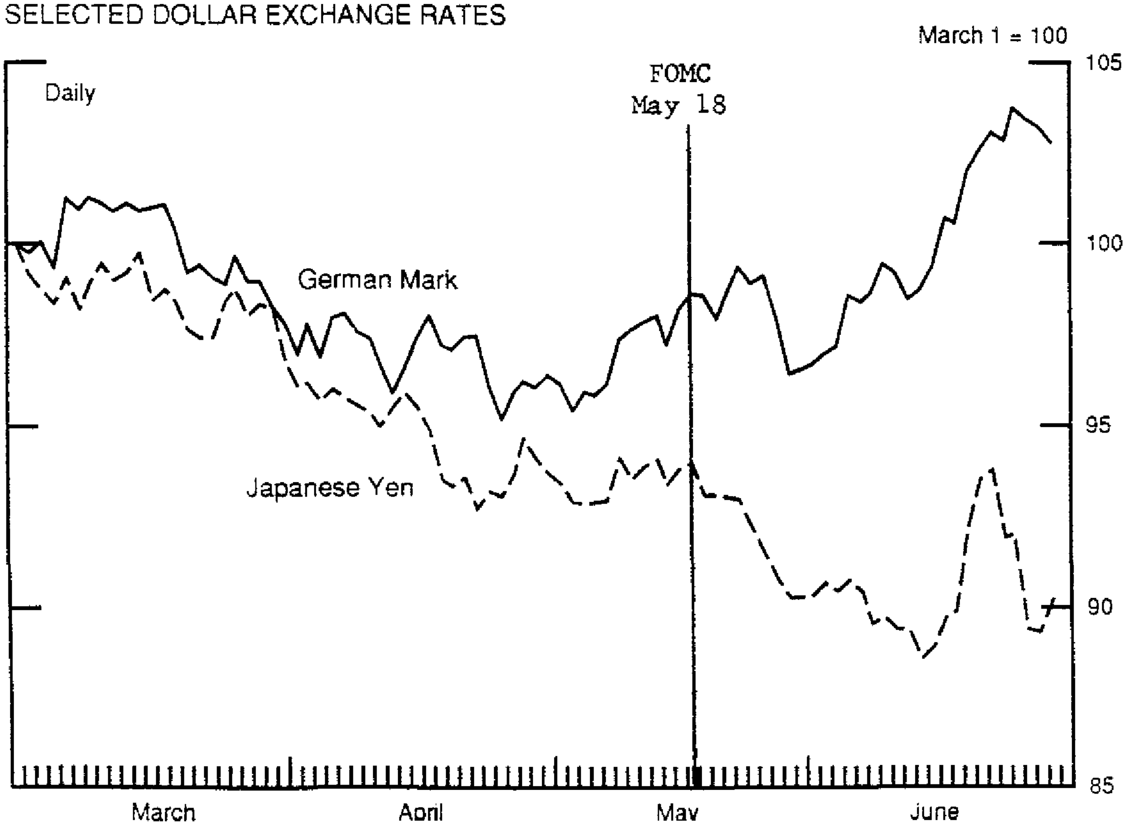
The weighted average foreign exchange value of the dollar in terms of the other G-10 currencies, shown in the accompanying chart, has appreciated just under 2 percent since the last FOMC meeting. On balance, the U.S. dollar appreciated 4 percent against the German mark and 1-1/4 percent against the British pound, but depreciated 5-1/2 percent versus the Japanese yen.

Initially the dollar continued its depreciation against the Japanese yen, falling through a string of record lows until it

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



SELECTED DOLLAR EXCHANGE RATES



reached 104.80 ¥/$ on June 15. The dollar's decline against the yen was an extension of the previous yen rally, and continued to be fueled by the belief that Japan's trading partners, and the United States in particular, desire an appreciation of the yen to reduce Japan's persistent trade surpluses. Although there were a multitude of statements from U.S. and Japanese officials to the effect that no official policy of seeking a yen appreciation existed, and that the yen was appreciating too quickly, apparently none was convincing enough to have a significant impact. During this period the Bank of Japan steadily intervened to retard the yen's rise and bought an exceptionally large quantity of dollars. The Federal Reserve System and U.S. Treasury joined the Bank of Japan intervention operations on three occasions and bought a total of half a billion dollars each. However, on June 18 Prime Minister Miyazawa lost a vote of no confidence and dissolved the lower house of the Japanese parliament. Market consideration of such a vote had only arisen a few days earlier, and the yen depreciated 3-1/2 percent against the dollar in the week surrounding the vote. Subsequently news stories and official comments ahead of the G-7 summit in Tokyo refocused attention on Japan's trade surplus. This contributed to a rebound of the yen to the levels it had achieved shortly before the vote of no confidence.

The course of the German mark continues to be dominated by seesawing expectations of when and by how much the Bundesbank will cut German interest rates. In late May, the German mark appreciated against the U.S. dollar when Bundesbank officials commented that consumer price inflation data, which showed a rise of 4.2 percent for the year ending in May, limited the room for further interest rate cuts in the near future. However, the sentiment changed when, at the beginning of June, statistics for west Germany showed that first-quarter GDP declined at an annual rate of 5.6 percent. Additionally, some Bundesbank Council members predicted that German M3 growth could fall back into the Bundesbank's target range of 4-1/2 to 6-1/2 percent, and market participants once again shortened their timetables for German interest rate cuts. Furthermore, French and Japanese officials in late June were openly calling for German rate cuts. Although official interest rates remain unchanged, persisting expectations that the Bundesbank may ease at its next Council meeting, on July 1, contributed to the mark's depreciation.

With the German mark weakening to near the bottom of the ERM parity grid, a considerable number of central banks in Europe did not wait to follow a Bundesbank rate cut, but instead led the way to lower interest rates. The central banks of Sweden, Denmark, the Netherlands, Belgium, France, Spain, Portugal, Ireland, and Italy cut their official rates 20 to 250 basis points, with the Bank of Portugal being the most aggressive after the escudo's ERM parity was devalued by 6-1/2 percent on May 13 in tandem with an 8 percent devaluation of the Spanish peseta. While three-month interest rates in Germany actually rose 25 basis points to 7-1/2 percent, they declined 60 basis points in France and 30 basis points in the Netherlands, to 6.9 and 6.5 percent respectively. Short-term interest rates in the United Kingdom also fell 20 basis points to 5.8 percent. Short-term interest rates are now lower in several ERM member countries than they are in Germany.

The widespread rate cuts and the continued lack of prospects for strong recovery helped ease long-term interest rates in Europe. Ten-year bond yields in Germany and the Netherlands each fell 20 basis points to 6.6 and 6.4 percent respectively, while they declined 40 basis points to 6.7 percent in France. The long-term bond yield in France is now 7 basis points above its German counterpart, although it briefly dipped below the German yield in late June. In the United Kingdom, the ten-year yield declined 45 basis points to 7.7 percent.

Major stock market indices around the world were mixed. Stock markets in Switzerland, France, the Netherlands and Belgium rose between 5 and 6-3/4 percent over the intermeeting period, largely because of lower interest rates, while the Nikkei index in Japan declined almost 3-1/2 percent, primarily in response to the uncertainty stemming from the political upheaval. Gold extended its rise from earlier this spring, albeit at a slower pace and not without considerable fluctuations. The dollar price of gold rose 2 percent on balance to $375/oz amid continuing reports of strong demand from China.

Developments in Foreign Industrial Countries

There are signs of recovery in economic activity in some countries but further deterioration in others. Japan registered a surprisingly strong rise in first-quarter GDP of 2.7 percent (s.a.a.r.); however, recent indicators suggest that this strength did not continue in the second quarter. In the United Kingdom and Canada, recent data indicate that economic recovery is continuing. In continental Europe, in contrast, growth remains weak and unemployment continues to rise. Germany registered a large decline in GDP of 5.6 percent (s.a.a.r.) in the first quarter, and recent indicators suggest this weakness persisted in the second quarter.

Inflationary pressures remained subdued in all foreign G-7 countries except Germany. German inflation in June remained above 4 percent largely as a result of price increases in the service and housing sectors. In the United Kingdom and Italy, recent currency devaluations do not appear to have added significantly to inflation.

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

	1991	1992	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 JAN	1993 FEB	1993 MAR	1993 APR	1993 MAY	Latest three months from year ago 2/
JAPAN												
GDP	3.0	0.0	-0.2	-0.5	-0.2	0.7	*	*	*	*	*	-0.3
IP	-1.6	-7.7	-2.4	0.1	-2.9	-0.1	-0.3	1.5	2.5	-2.5	-2.4	-3.3
WEST GERMANY												
GDP	2.0	0.4	-0.3	-0.4	-0.8	-1.4	*	*	*	*	*	-2.9
IP	0.1	-4.7	-1.9	-1.3	-4.2	-2.7	0.2	-1.3	1.5	0.4	NA	-9.2
FRANCE												
GDP	1.2	0.7	0.2	0.2	-0.4	NA	*	*	*	*	*	0.7
IP	1.8	-2.3	0.0	0.1	-2.6	-0.9	0.3	2.4	-1.0	-0.6	NA	-3.4
UNITED KINGDOM												
GDP	-1.7	0.2	-0.1	0.4	0.3	0.4	*	*	*	*	*	1.0
IP	-0.7	0.5	-0.4	0.8	0.9	0.2	-0.1	1.6	-1.2	0.0	NA	1.4
ITALY												
GDP	1.4	-0.3	0.2	-0.5	-0.6	NA	*	*	*	*	*	-0.3
IP	-0.5	-3.2	-2.8	-2.3	-0.7	NA	NA	NA	NA	NA	NA	-3.2
CANADA												
GDP	-0.1	0.8	0.0	0.1	0.7	0.9	*	*	*	*	*	1.7
IP	-1.4	2.6	0.4	0.8	1.6	1.9	0.5	0.7	1.5	-0.7	NA	5.1
UNITED STATES												
GDP	0.1	3.1	0.4	0.8	1.2	0.2	*	*	*	*	*	2.6
IP	-0.3	3.2	1.2	0.2	1.6	1.4	0.3	0.5	0.2	0.2	0.2	3.8

* 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	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 MAR	1993 APR	1993 MAY	1993 JUN	Latest month from year ago 2/
JAPAN													
CPI	3.2	0.9	-0.3	1.3	-0.1	0.0	0.0	1.1	0.5	0.6	0.3	0.0	1.0
WPI	-1.7	-1.5	-0.4	0.0	-0.2	-0.9	-0.5	NA	-0.5	-0.5	-0.3	NA	-3.0
WEST GERMANY													
CPI	3.9	3.7	1.2	1.1	0.5	0.9	1.8	1.0	0.3	0.3	0.3	0.1	4.1
WPI	1.6	-1.9	0.4	0.5	-2.0	-0.8	0.7	NA	0.2	-0.1	-0.1	NA	-2.1
FRANCE													
CPI	2.9	1.8	0.5	0.8	0.0	0.5	0.8	NA	0.5	0.1	0.2	NA	2.0
WPI	-3.6	NA	0.2	0.4	-0.5	NA	NA	NA	*	*	*	*	-0.9
UNITED KINGDOM													
CPI	4.2	3.1	0.5	2.2	-0.1	0.4	-0.7	NA	0.4	0.9	0.4	NA	1.3
WPI	4.9	3.4	1.4	1.1	0.4	0.5	1.7	NA	0.7	0.5	0.2	NA	4.0
ITALY													
CPI	6.5	5.3	1.4	1.2	0.7	1.3	1.0	NA	0.2	0.4	0.4	NA	4.1
WPI	1.1	3.0	0.0	0.8	-0.5	2.8	1.6	NA	0.8	0.7	NA	NA	5.4
CANADA													
CPI	4.1	1.8	0.4	0.5	0.4	0.4	0.7	NA	-0.1	0.0	0.2	NA	1.8
WPI	-3.2	3.1	0.5	0.6	0.8	1.2	1.2	NA	0.3	-0.2	0.0	NA	3.1
UNITED STATES													
CPI (SA)	3.0	3.1	0.8	0.8	0.7	0.8	0.9	NA	0.1	0.4	0.1	NA	3.2
WPI (SA)	-0.1	1.5	0.1	0.8	0.4	0.2	0.6	NA	0.4	0.6	0.0	NA	2.0

* 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				1993	1993			
	1991	1992	Q4	Q1	Q2	Q3	Q4	Q1	FEB	MAR	APR	MAY
JAPAN												
TRADE	78.5	107.3	21.2	28.0	24.5	26.2	28.6	29.7	10.2	9.7	11.2	10.0
CURRENT ACCOUNT	73.1	117.2	22.9	28.6	28.8	28.1	31.7	36.2	11.0	16.3	11.7	NA
GERMANY												
TRADE (NSA)	13.6	21.4	6.9	4.4	3.4	8.6	5.0	NA	0.7	NA	NA	NA
CURRENT ACCOUNT (NSA)	-19.5	-26.0	-2.0	-5.5	-6.6	-8.7	-5.2	NA	-3.2	NA	NA	NA
FRANCE												
TRADE	-5.3	5.6	0.4	1.1	1.9	1.3	1.3	NA	0.9	NA	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	-6.6	NA	NA	NA	NA
CURRENT ACCOUNT	-10.0	-20.6	-3.1	-5.1	-5.6	-4.2	-5.8	-6.1	NA	NA	NA	NA
ITALY												
TRADE	-13.0	-10.5	-3.4	-2.4	-4.1	-2.2	-1.8	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	2.9	0.7	0.7	0.9	NA
CURRENT ACCOUNT	-25.5	-23.0	-7.3	-6.7	-6.1	-5.6	-4.6	-4.7	*	*	*	*
UNITED STATES												
TRADE	-73.8	-96.1	-19.1	-17.8	-24.8	-27.6	-26.0	-29.1	-8.7	-11.5	-11.8	NA
CURRENT ACCOUNT	-8.3	-66.4	-7.6	-6.7	-18.3	-17.8	-23.7	-20.9	*	*	*	*

* Data not available on a monthly or quarterly basis.
1/ The current account includes goods, services, and private and official transfers.

France, Italy and Canada all registered trade surpluses in the early months of 1993. However, the United Kingdom registered another large trade deficit in the first quarter. Japan's trade surplus increased to $122 billion (s.a.a.r.) during the five months through May.

In Japan, real GDP increased 2.7 percent (s.a.a.r.) in the first quarter following three consecutive quarterly declines. The strongest component of private domestic demand was consumption, which rose 4.7 percent. Plant and equipment investment was down 0.7 percent, while housing investment fell 11.6 percent. Government investment increased 28.6 percent, reflecting the government's fiscal stimulus program adopted in the second half of 1992. Both inventory investment and net exports made negative contributions to growth.

Most monthly indicators from the second quarter have been less positive. In May, industrial production declined 2.4 percent (s.a.) after falling 2.5 percent in April. New passenger car registrations (s.a.) recorded a cumulative fall of 20.3 percent during April and May, while housing starts (s.a.) declined 8 percent over the same two-month period. New machinery orders (s.a.) fell 23.3 percent in April. In contrast, the index of leading indicators remained above the "boom/bust" demarcation level for the fourth consecutive month in April, and M2+CDs grew at double-digit rates in April and May on a 12-month basis.

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

	1992			1993				
	Q2	Q3	Q4	Q1	Q2	Mar.	Apr.	May
Machinery Orders	-11.4	8.4	-14.8	16.0	--	9.7	-23.3	--
New Car Registrations	-6.6	-1.8	-5.6	10.7	--	5.0	-11.2	--
Job Offers Ratio	-9.6	-9.7	-7.8	-3.2	--	3.3	-4.5	-3.6
Business Sentiment* (%)	-24	-37	-44	-49	-49	--	--	--

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

Inflationary pressure has remained subdued. Consumer prices in the Tokyo area showed a 12-month increase of only 1 percent in June. Wholesale prices declined 3 percent in the 12 months to May due in part to appreciation of the yen. Wage growth has continued to moderate. Over the first four months of the year, wages, including bonuses and overtime, were only 1.1 percent above their year-earlier level.

The trade surplus has continued to increase. Through May, the trade surplus was $122 billion (s.a.a.r.), compared with $117 billion for 1992 as a whole.

On June 18, Prime Minister Miyazawa lost a no-confidence vote in the lower house of parliament when a dissident faction of the ruling Liberal Democratic Party joined opposition parties in voting against the government over its failure to enact political reform legislation. New lower house elections have been scheduled for July 18. In the interim, Prime Minister Miyazawa remains the head of a caretaker government.

Real GDP in western Germany (s.a.a.r.) dropped 5.6 percent in the first quarter (adjusted for working days), the fourth consecutive quarterly decline--bringing the cumulative four-quarter fall of GDP to 3 percent. Real domestic demand declined 7.8 percent in the first quarter, reversing the temporary expansion at the end of last year that resulted from a substantial increase in private consumption in anticipation of the increase in the value-added tax on January 1. Investment was flat in the first quarter, owing to a substantial decline in equipment investment that was about offset by an increase in construction spending. The external sector made a positive contribution to real GDP growth during the first quarter, as imports declined more than exports.

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

	1992			1993			
	Q2	Q3	Q4	Q1	Mar.	Apr.	May
Machinery Orders	-4.3	-2.2	-7.4	-0.1	-2.7	-2.1	--
Capacity Utilization	-0.7	-2.2	-3.1	-2.5	--	--	--
Unemployment Rate (%)	6.5	6.7	7.2	7.6	7.8	8.0	8.0
Production Plans* (%)	-6	-12	-33.3	-25.7	-28	-24	--

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

Total industrial production (s.a.) declined in western Germany in April after declining 2.7 percent in the first quarter. (According to the government, the initially reported increase of 0.4 percent will be revised to show a decrease in April). Industrial production excluding construction (s.a.) was up slightly in April after it declined 2.9 percent in the first quarter. In April, total orders (s.a.) were up 2 percent relative to March, to stand 0.7 percent below their average in the first quarter. In May, the unemployment rate (s.a.) was unchanged from April at 8 percent. West German unemployment remains low compared with levels reached in previous recessions.

Consumer prices in western Germany increased 4.1 percent in June on a 12-month basis, as price pressures in services and housing, in particular, remained strong. The increase in the value-added tax of 1 percentage point at the beginning of the year is estimated to have added 0.5 percentage points to the rate of inflation. Excluding services and housing prices and effects of the VAT, consumer prices rose at slightly more than 2 percent on a 12-month basis. Wholesale prices (n.s.a.) dropped 2.1 percent, and producer prices (n.s.a.) were down 2.9 percent for the year ending in May. In May, import prices (n.s.a.) were about 3.6 percent below their year-earlier level. In late May, the conflict over wages in the chemicals, metals, and engineering industries in eastern Germany was resolved. After staging the first strikes in eastern Germany in 60 years, IG-Metall negotiated new contracts that delayed the equalization of wages between eastern and western Germany until 1996. (Under the old contract, wage parity was scheduled for 1994). Increases in eastern German wages will be about 15 percent this year, down from the 25 percent increases called for in the old contract. Employers retained the clause that allows some opting-out or renegotiation of contracts under adverse economic circumstances.

Through May, M3 in western and eastern Germany combined increased 6.7 percent (s.a.a.r.) relative to the fourth quarter of last year, slightly above the Bundesbank's 1993 target range of 4-1/2 to 6-1/2 percent.

A second supplementary budget for 1993 that has been submitted to the German parliament would authorize a Federal deficit of DM68 billion this year, an increase of DM38.6 billion compared with the 1992 deficit. On June 29, the cabinet approved a budget for 1994 holding the deficit constant at its 1993 level.

In France, economic activity showed signs of having weakened further in the second quarter. Industrial production declined 0.6 percent (s.a.) in April after declining 0.9 percent in the first quarter. Surveys indicate that industrial production probably was flat in May and probably declined in June. The unemployment rate continued to rise, reaching 10.9 percent (s.a.) in April from 10.7 percent in March. Weakness was also apparent on the expenditure side. Consumption of manufactured products, equal to one-third of total consumption, declined 5.1 percent (s.a.) in May after rising 2.7 percent in the previous month. Retail sales also fell sharply in May.

Inflationary pressures continued to ease. The consumer price index in May was only 2 percent (n.s.a.) above its year-earlier level, down from 2.2 percent in the previous month. A temporary increase in inflation is likely later in the year due to increases in excise taxes on gasoline and alcohol included in the new government's supplementary budget. This good inflation performance was supported by continued moderation in wage inflation. In April, wages were only 2.9 percent (n.s.a.) above their year-earlier level, down from an increase of 3.6 percent in January.

The French trade balance remained in surplus in the first two months of 1993, registering a combined surplus of $1.1 billion (s.a.).

On May 25, Prime Minister Balladur announced additional stimulus measures to support construction and employment. These measures, plus those in the supplementary budget announced two weeks earlier, total roughly 0.5 percent of GDP in 1993. Although this total amounts to only one-half the value of the tax increases and expenditure cuts in the supplementary budget, fiscal policy remains expansionary overall due to the operation of automatic stabilizers. The additional stimulus measures should not add to the 1993 budget deficit as they are to be financed by revenues from privatization. A privatization plan, announced on May 26, identified 21 companies to be privatized and should yield revenues of FF40 billion in 1993.

Recent indicators of U.K. economic activity have been positive. In May, the purchasing managers' index indicated that manufacturing activity rose for the fourth consecutive month. Unemployment (s.a.) has fallen this year to a rate of 10.4 percent in May. Industrial production (s.a.) was unchanged in April at a level 1 percent above a year ago, but manufacturing production (s.a.) rose 0.7 percent.

After increasing in the first three months of 1993, retail sales volume (s.a.) declined 0.2 percent in both April and May.

In May, consumer prices (n.s.a.) rose 0.4 percent, and the 12-month inflation rate remained at 1.3 percent. Excluding mortgage interest rates, consumer prices were 2.8 percent above their level of May 1992. The recent fall in the 12-month rate of inflation mainly reflects lower average council tax bills for households compared with the poll tax. Cost increases associated with the depreciation of sterling have been offset by continued moderation in labor costs. The underlying annual rate of inflation in earnings was 4 percent in April.

In June, the first complete set of trade figures released since December revealed that in the first quarter of 1993, the United Kingdom recorded its biggest quarterly trade gap since 1990. Provisional figures indicated that the visible trade deficit was £4.5 billion ($6.6 billion) in the first quarter, up slightly from the £4.35 billion ($6.8 billion) registered in the last quarter of 1992. The deficit in trade with other EC countries remained at $1.6 billion in the first quarter despite depreciation of sterling. Underlying export volume rose only 0.5 percent between the final quarter of 1992 and the first quarter of 1993 reflecting the recession in other EC nations, while import volume was up 3 percent.

On May 27, Prime Minister Major replaced Chancellor of the Exchequer Norman Lamont with Kenneth Clarke. Chancellor Clarke delivered the annual Mansion House speech on economic policy on June 15 and announced no new policy initiatives. He stated his determination to keep inflation down and get public spending under control; he also stated that it would be several years before Britain would reenter the ERM.

Economic activity in Italy remains weak and recent indicators are mixed. Provisional data indicate that industrial production (s.a.) rose 0.3 percent in April following the first quarter's 0.1 percent decline. Survey data suggest that industrial production rose again in May. In addition, the consumer confidence index (n.s.a.) fell in April for the third consecutive month.

Despite the lira's depreciation last year and earlier this year, consumer price inflation has remained restrained due largely to the weakness in economic activity. Through May, consumer price inflation averaged 4.0 percent (12-month basis), down from the average rate of 5.3 percent recorded in 1992. However, consumer price inflation may rise soon as recent acceleration in producer and wholesale prices, caused by lira depreciation, feeds through to consumer prices.

Weakness in economic activity and the lira's depreciation produced a trade surplus (n.s.a.) of $1.2 billion in the first quarter. A deficit of $6.6 billion was recorded in the first quarter of 1992.

On May 21, the Ciampi government announced a 12.5 trillion lire (0.8 percent of GDP) supplementary budget-reduction package for 1993. The package was needed to prevent Italy's budget deficit from mushrooming beyond the target of 150 trillion lire (9.4 percent of GDP) for 1993. The package will also allow Italy to draw the second tranche of its 8 billion ECU loan from the EC. Parliament is expected to pass the package by mid-July.

In Canada, GDP (s.a.a.r.) grew 3.8 percent in the first quarter, as exports of goods and services rose 5.9 percent. Increases in domestic demand were more modest as a 2.5 percent increase in private consumption was partially offset by a 3.5 percent fall in investment. Data for the second quarter have been mixed. Canadian industrial production (s.a.) fell 0.7 percent in April to a level 0.5 percent above the first quarter average. GDP at factor cost (s.a.) was flat in April, after rising 0.6 percent in March. The unemployment rate (s.a.) was unchanged in May at nearly 11-1/2 percent. Retail sales (s.a.) rose 1 percent in April.

Recent price data confirm that inflation has remained moderate, despite significant depreciation of the Canadian dollar last autumn. The 12-month change in the CPI excluding food and energy (n.s.a.) declined from 1.9 percent in April to 1.6 percent in May. The all-items CPI was up 1.8 percent in the 12-month period to May; producer prices were unchanged in May at a level 3.2 percent above that of a year earlier. Wage settlements increased 0.5 percent at an annual rate in the first four months of the year, their smallest rise in three decades of measurement.

The current account deficit (s.a.a.r.) was virtually unchanged in the first quarter at $18.8 billion. In April, exports (s.a.) reached $11.6 billion, a new record, as the merchandise trade surplus expanded to $0.9 billion.

On June 13, Kim Campbell was chosen by Progressive Conservative Party delegates to succeed Brian Mulroney as Prime Minister. She took office on June 25 and named Gilles Loiselle Minister of Finance. Loiselle announced that he will present a plan to eliminate the budget deficit in five years. Campbell must call a general federal election by November 1993. The latest polls suggest that the election will be a close contest between the Conservatives and the Liberals, who are led by Jean Chretien.

Implementing legislation for the North American Free Trade Agreement (NAFTA) was passed in the House of Commons on May 27 and in the Senate on June 23. The Canadian government does not plan to enter the bill into law until the agreement is ratified by the United States and Mexico.

In Russia, on May 22 the Government and the Central Bank (CBR) signed a new Economic Policy Statement. The statement was negotiated with the participation of IMF staff, and its adoption was one of the pre-conditions for Russian access to the IMF's new Systemic Transformation Facility (STF). The statement outlines policies aimed at reducing monthly inflation to single-digit levels by the end of the year. It envisions increases in official interest rates, quarterly ceilings on CBR credit emission, sharp reductions in the fiscal deficit primarily through expenditure reductions, and some structural reforms.

Since the policy statement was signed, the Russian government and the CBR have implemented a number of the anticipated policy changes: the CBR discount rate has been increased from 100 percent to 140 percent in three steps; import and grain subsidies have been cut; and coal prices have been increased as part of a phased elimination of coal subsidies. On June 30 the IMF Executive Board is expected to approve the first of two $1.5 billion loans to Russia from the STF.

Since June 15, the ruble has appreciated 5 percent against the dollar in interbank auctions, following depreciation of 63 percent since the beginning of the year. Market commentary has attributed the ruble's strength to new restrictions on dollar sales in interbank auctions, high demand for rubles to meet mid-year tax payments, and the entry of foreign banks into the market on July 1. The ruble's recent strength may also indicate some tightening of monetary policy.

Economic Situation in Other Countries

Growth in Mexico and Taiwan slowed marginally in the first quarter, helping to lower inflation in both economies. Upturns were recorded for Brazil and Korea, but Brazilian growth comes on the back of a worsening inflation problem and may not be sustainable (despite the announcement of another new economic plan on June 14). Questions about the sustainability of rapid growth also plague the outlook for China, where economic activity continues to be brisk despite a modest attempt to tighten monetary conditions in May. Aside from Brazil and China, inflation remains stable or falling in developing countries. Trade balances declined in several developing countries as weak world demand depressed exports, while domestic demand kept import flows up in Brazil and China; Korea's current account deficit, however, continued to shrink as contractionary policies take hold. The most important of China's several exchange rates depreciated 25 percent overnight when authorities decided to let the rate float on June 1.

Individual country notes. Mexico's real GDP rose 2.4 percent in the first quarter from a year earlier, only slightly slower than the 2.6 percent growth recorded for all 1992 but the lowest Q1/Q1 increase since 1989. Declines in the output of clothing, metal products, and machinery kept overall manufacturing growth to 1.7 percent, but construction activity rose 7.6 percent.

The monthly CPI increase in May was 0.6 percent for the third straight month. The May CPI stood 10 percent higher than a year earlier, and 3.9 percent higher than in December 1992; the December-May increase was the slowest for this period in 21 years.

Mexico's trade deficit in the year through April was $4.7 billion, up only slightly from the same period one year ago; exports grew 11 percent, while imports rose 8.9 percent from a bigger base.

Slower growth has helped to limit Mexican imports, which grew 24.4 percent for all 1992. In the first quarter, Mexico posted a $5.2 billion current account deficit, compared with a $4.9 billion deficit in the same period last year, while the capital account recorded an $8.3 billion surplus; international reserves rose $2.3 billion.

After depreciating mildly between mid-April and mid-May, the peso has regained strength in response to firmer interest rates and a May 17 presidential proposal to grant autonomy to the Bank of Mexico. On June 29, the exchange rate was 3.118 pesos per dollar, 4.4 percent above the lower limit of its band. After reaching a high of 15.8 percent on June 16, the 28-day Treasury-bill rate turned down and was 14.4 percent on June 30, a low for the year.

A constitutional amendment providing for central bank autonomy was passed in the Mexican Congress on June 22. Implementing legislation is likely to be introduced in the November session, and the proposal is expected to go into effect early next year.

In Brazil, real GDP grew 4.7 percent in the first quarter from a year earlier, after falling 0.6 percent in 1992 (Q4/Q4). Growth appears to have remained robust over the second quarter, based on data on automobile sales, which increased 14 percent in volume terms between April and May. Monthly inflation rose from 28 percent in March and April to 30 percent in May, the highest rate since March 1990. The cumulative trade surplus for the year through April was $4.6 billion, up from a $3.7 billion surplus over the same period in 1992; exports grew 22 percent and imports grew 25 percent.

Finance Minister Eliseu Resende resigned in May and was replaced by Fernando Henrique Cardoso, who unveiled a new stabilization plan on June 14. The plan would cut $6 billion of expenditures in the second half of 1993 (3 percent of yearly GDP).

The plan also envisions fundamental reforms in several areas: 1) tax reform, 2) more rapid privatization and fewer obstacles to foreign investment in privatized firms, 3) transfer of spending authority to state and local governments, and 4) strengthened central bank supervision over federal and state banks (which have been important sources of fiscal and monetary pressures). Under the last point, the central bank would be authorized to take administrative control of banks and to liquidate them if necessary.

Since most of the reforms require congressional approval and amendments to the 1988 constitution, it is not clear whether they will attract sufficient political support. This leaves continuing questions over whether Brazil can qualify for a new IMF stand-by arrangement that would facilitate the conclusion of negotiations on a Brady-style restructuring of $44 billion in external commercial bank debt.

In Argentina, consumer prices rose 1.3 percent in May. The CPI has risen 12.4 percent over the past 12 months, compared with a 22.4 percent increase over the same period a year earlier. Newly revised national accounts show that real GDP grew by an estimated 8.7 percent in 1992--about the same as in 1991. However, economic activity has slowed in recent months. Imports during the first three months of 1993 were 13 percent higher than a year earlier, while exports grew by 5 percent over the same period; the trade deficit widened to $240 million in the first quarter, from only $34 million a year earlier.

In early May, the Argentine government, in an effort to stimulate investment and productivity growth, eliminated tariffs and document taxes on imported capital goods, and established a 15 percent tax rebate for domestically produced capital goods. On June 7, the government launched a public offering of 45 percent of shares in the state oil enterprise, which has an estimated total net worth of $7 billion. Proceeds from the offering will be used to repay debts to pensioners and provincial governments.

Real GNP in Taiwan grew 6.2 percent in the first quarter from a year earlier, down moderately from a 6.9 percent pace for the same period last year. Export growth continues to slow, with the value of exports growing about 6 percent in the first five months of 1993 compared with the same period last year. Over the same period, import growth also slowed to 13 percent, and Taiwan's trade balance fell $1.7 billion to a $3 billion surplus.

Weaker activity helped lower 12-month consumer price inflation to 2 percent in May, compared with a 2.7 percent increase in April and a 3.4 percent rise (Dec./Dec.) for 1992.

The New Taiwan dollar weakened further in June. It stood at 26.39 to the dollar on June 30, a depreciation of 3.9 percent from the end of 1992. The recent depreciation is a departure from 1990-92 trends, when the NT dollar appreciated about 6.3 percent. Recent weakness in the currency, in part, reflects continuing heavy capital outflows, principally to China. Official data show outflows of more than $500 million to China in the first five months of 1993, eight times the total for the similar period last year. Such totals, moreover, likely understate greatly actual outflows, since the bulk of these go unreported to evade taxes (on subsequent earnings).

Following elections last December that resulted in a significant opposition presence in Taiwan's legislature for the first time, lawmakers on May 28 cut a modest $1.6 billion from Taiwan's FY94 budget (originally proposing $42.6 billion in spending), the first time such a cut to central government budget requests has ever been made.

Chinese authorities raised interest rates about 2 percentage points in mid-May, in an initial attempt to restrain the economy, but 1-year yields (of slightly more than 9 percent) remain about half current inflation trends. Industrial production in May rose 27.3 percent from a year earlier, and urban prices in the same month continued rising at a 17 percent annual rate. China's trade balance continues to deteriorate sharply, posting a $3 billion deficit in the first five months of this year. In May, exports were up 10 percent from a year ago, while imports grew 34 percent. China's exchange authority floated its swap center exchange rate June 1, and the yuan subsequently depreciated 25 percent overnight in some markets. Demand for foreign currency (and gold) is high in China as unauthorized capital outflows continue and households seek inflation hedges.

In Korea, growth improved somewhat in the first quarter but remained quite low by historical standards. Real GNP increased 3.3 percent from a year earlier, up from a growth rate of 2.8 percent in the fourth quarter. Export growth appeared to have accelerated, while consumption growth held steady; although fixed investment fell for the fourth consecutive quarter, the dropoff was less than in the fourth quarter of last year. In the year through May, consumer price inflation was 4.5 percent, down from 7.1 percent for the first five months of 1992. The current account deficit narrowed to $518 million in January-May from $4 billion in the same period last year, reflecting the government's contractionary economic policies; exports grew about 8 percent, while imports fell 2 percent. Indicators show U.S. demand accounting for most of the pickup in exports.