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March 16, 1994

RECENT DEVELOPMENTS

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Interpretation of the incoming economic data has been complicated by the severe winter weather and the redesign of the monthly household labor market survey. Nonetheless, the economy seems to have retained appreciable forward momentum. The faster pace of economic activity since last summer has put upward pressure on prices of some industrial materials; however, productivity growth has kept unit labor costs subdued, and consumer price inflation has remained in check.

Labor Market Developments

Despite the negative effects of the severe weather, labor demand appears to have grown moderately further in early 1994. After posting sizable gains at the end of 1993, nonfarm payrolls leveled off in January, with only part of the pause clearly attributable to severe weather. But payrolls rebounded 217,000 in February, and employment in the household survey also increased. The unemployment rate fell 0.2 percentage point to 6.5 percent.

Employment in the private service-producing sector, which flattened out in January, increased 220,000 in February. Hiring in retail trade rebounded, despite another noticeable drop in jobs at eating and drinking places. Services employment was up smartly, led by continued gains in the health industry and an increase in business services. The transportation, wholesale trade, finance, and insurance industries also posted sizable job gains.

Manufacturing payrolls increased 12,000 in February, bringing the total gain since September to about 80,000. Much of the increase over this five-month period has been in automobile- and construction-related industries; machinery producers have also been adding workers. In contrast, construction payrolls, which are

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

			1993			1993	1994	
	1992	1993	Q2	Q3	Q4	Dec.	Jan.	Feb.
	------------Average monthly changes---------							
Nonfarm payroll employment[2]	80	169	179	134	203	230	-2	217
Private	59	154	167	101	192	180	15	210
Manufacturing	-26	-15	-55	-24	13	3	30	12
Durable	-22	-9	-44	-12	18	15	31	6
Nondurable	-5	-6	-10	-12	-5	-12	-1	6
Construction	-5	17	31	6	24	1	-20	-22
Trade	20	47	51	31	43	100	15	72
Finance, insurance, real estate	-2	7	5	9	15	9	6	15
Services	78	99	140	86	92	60	-21	121
Health services	29	25	26	24	21	12	23	21
Business services	31	39	41	31	54	31	-11	62
Total government	22	16	12	33	11	50	-17	7
Private nonfarm production workers	74	142	156	94	167	123	-14	214
Manufacturing production workers	-13	-4	-39	-14	22	12	37	19
Total employment[3]	127	209	208	127	364	329	1310	287
Nonagricultural	120	219	231	106	363	347	1074	228
Memo:								
Aggregate hours of private production workers (percent change)	.1	.3	.4	.0	.5	.2	.7	-1.3
Average workweek (hours)	34.4	34.5	34.5	34.5	34.5	34.5	34.8	34.3
Manufacturing (hours)	41.1	41.5	41.4	41.4	41.7	41.7	41.8	41.1

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

			1993			1993	1994	
	1992	1993	Q2	Q3	Q4	Dec.	Jan.	Feb.
Civilian unemployment rate (16 years and older)	7.4	6.8	7.0	6.7	6.5	6.4	6.7	6.5
Teenagers	20.0	19.0	19.8	18.2	18.3	17.8	18.4	17.9
20-24 years old	11.3	10.5	10.7	10.4	9.7	9.5	11.0	10.0
Men, 25 years and older	6.4	5.8	5.8	5.8	5.5	5.4	5.4	5.4
Women, 25 years and older	5.7	5.4	5.4	5.3	5.3	5.2	5.4	5.1
Fulltime workers	7.4	6.8	6.6	6.5	6.2	6.4	6.8	6.6
Labor force participation rate	66.3	66.2	66.2	66.1	66.2	66.3	66.7	66.7
Teenagers	51.3	51.5	51.9	51.5	51.1	50.9	53.3	52.4
20-24 years old	77.1	77.1	77.3	77.0	76.7	76.7	76.2	77.5
Men, 25 years and older	76.6	76.2	76.2	76.2	76.2	76.2	76.5	76.2
Women, 25 years and older	57.0	57.1	56.9	57.1	57.5	57.6	58.0	58.2

1. Data for 1994 are not directly comparable with earlier values due to a redesign of the CPS in January 1994.

especially vulnerable to weather disruptions, have fallen 40,000 since December.

Average weekly hours of production or nonsupervisory workers have been volatile this year: After jumping 0.3 hour in January, they plummeted 0.5 hour to 34.3 hours in February. Some decrease in the workweek last month was to be expected, given its extraordinarily high level in January, but the drop clearly was accentuated by the weather.[1] Notably, the household survey indicated a huge rise in the number of full-time workers who reported part-time hours in February due to bad weather. As a result of the drop in the workweek, aggregate hours of private production workers fell 1-1/4 percent.[2]

After an unexpectedly low reading in January, the unemployment rate fell 0.2 percentage point in February to 6.5 percent.[3] However, the Commissioner of the BLS has stated that the official figures may be exaggerating the decline in joblessness in early 1994. One reason is that the BLS is using seasonal factors based on the old series to adjust the current unemployment rates; results from last year's parallel survey suggest that seasonal movements in

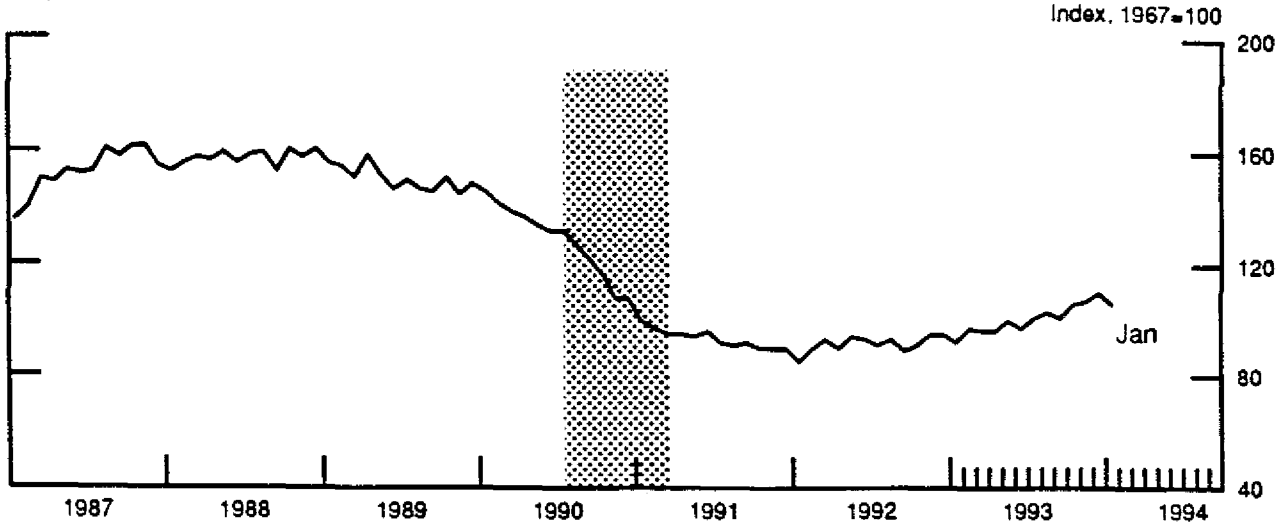
1. The manufacturing workweek also plunged in February after three months of readings that were among the highest of the post World War II period. In this case, the drop appears to have been entirely weather-induced. Indeed, the BLS reported that a number of factories were forced to shut down temporarily during the survey week.

2. It is important to note that weather disruptions were more severe during the February reference week than during the January reference week. However, looking at the months as a whole (the observation period for the industrial production data), the disruptions were more severe in January.

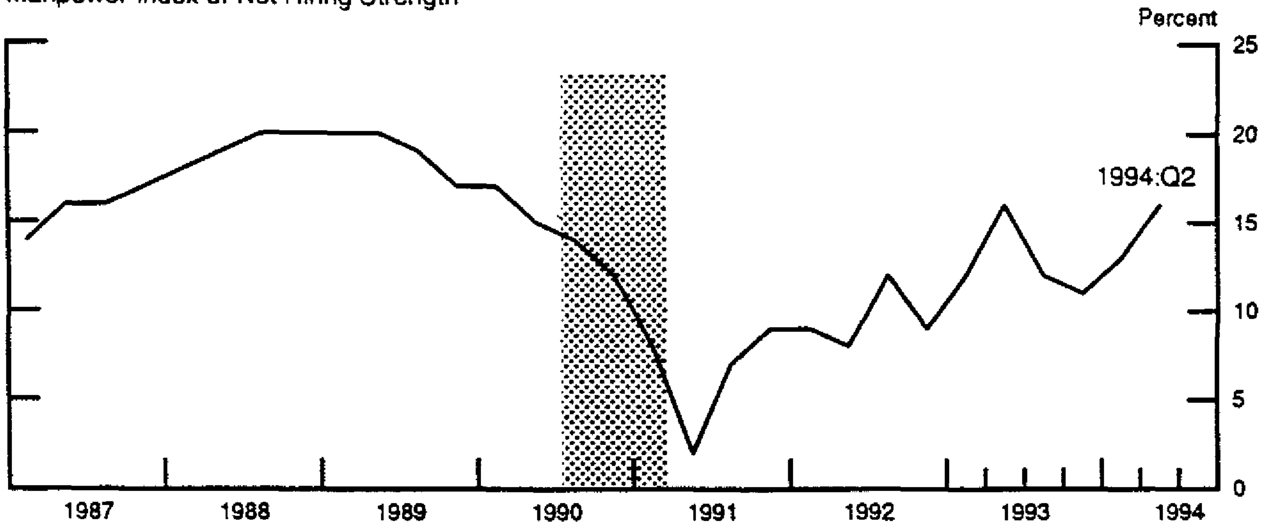
3. An important question is how to evaluate the January and February readings on unemployment relative to the levels that were reported late last year using the old CPS. With the introduction of the new CPS, our working assumption was that the switch to the new format would add 1/2 percentage point, the average difference in 1993 between the official data and the results of the parallel survey, to the reported data. However, the 1/2 percentage point adjustment reflects an average for the year as a whole, which abstracts from seasonal adjustment difficulties and other factors associated with the transition to the new survey format.

LABOR MARKET INDICATORS
(Seasonally adjusted)

Help Wanted Index

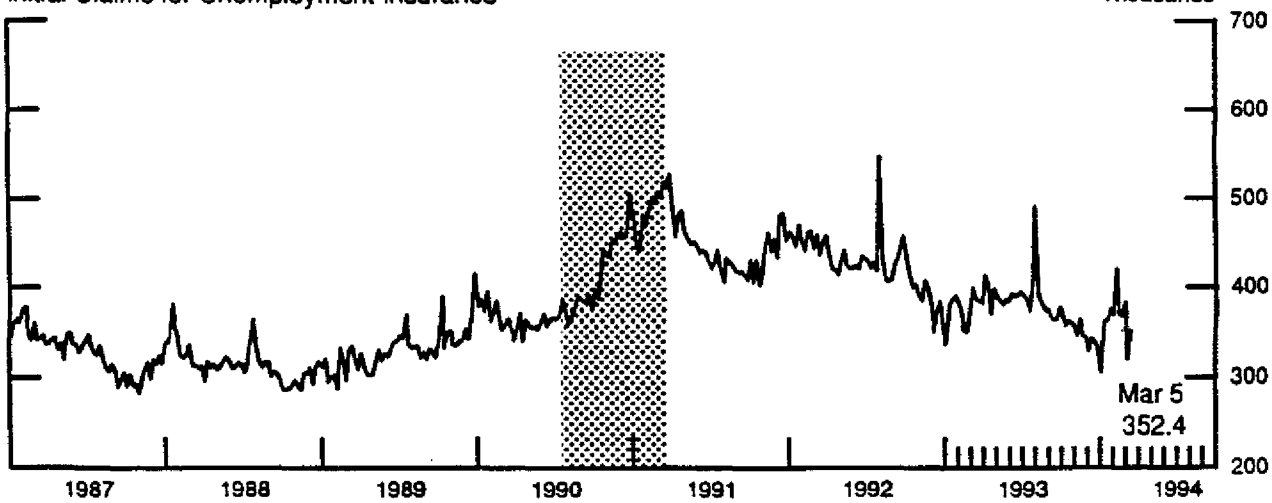


Manpower Index of Net Hiring Strength*



* Percent of respondents planning hiring increases minus the percent planning decreases.

Initial Claims for Unemployment Insurance*



* Including EUC Adjustment

the old and new unemployment rate series may differ. Our rough calculations indicate that the unemployment rate may have been understated 0.1 percentage point in January and, perhaps, 0.2 percentage point in February; this difference will be reversed next summer when the data for most months will be biased upward.

Other technical factors also may have held down the reported unemployment rates for early 1994. Notably, most of the individuals in the January and February samples had experience with the old CPS format, which may have influenced their responses: A person who had described herself as "out of the labor force" in the old survey might still have a tendency to continue to answer the same way--ignoring any changes in definition in the new survey. In addition, the percentage of interviews conducted from centralized computer-assisted telephone facilities so far has been smaller than BLS is planning for the longer run; in last year's parallel survey, respondents interviewed by phone from the centralized facilities appeared to have higher unemployment rates than those interviewed in the field--either by phone or in person. These factors all are difficult to quantify, but they suggest that the current unemployment rate may overstate the degree of labor market tightness.[4]

Alternative indicators of labor market conditions are consistent with a moderate increase in employment. Although the Conference Board's help-wanted index fell back a bit in January, the reading, which followed a period of steady improvement, may have been affected by the bad weather. As measured by the Manpower Index, hiring plans for the second quarter strengthened, bringing

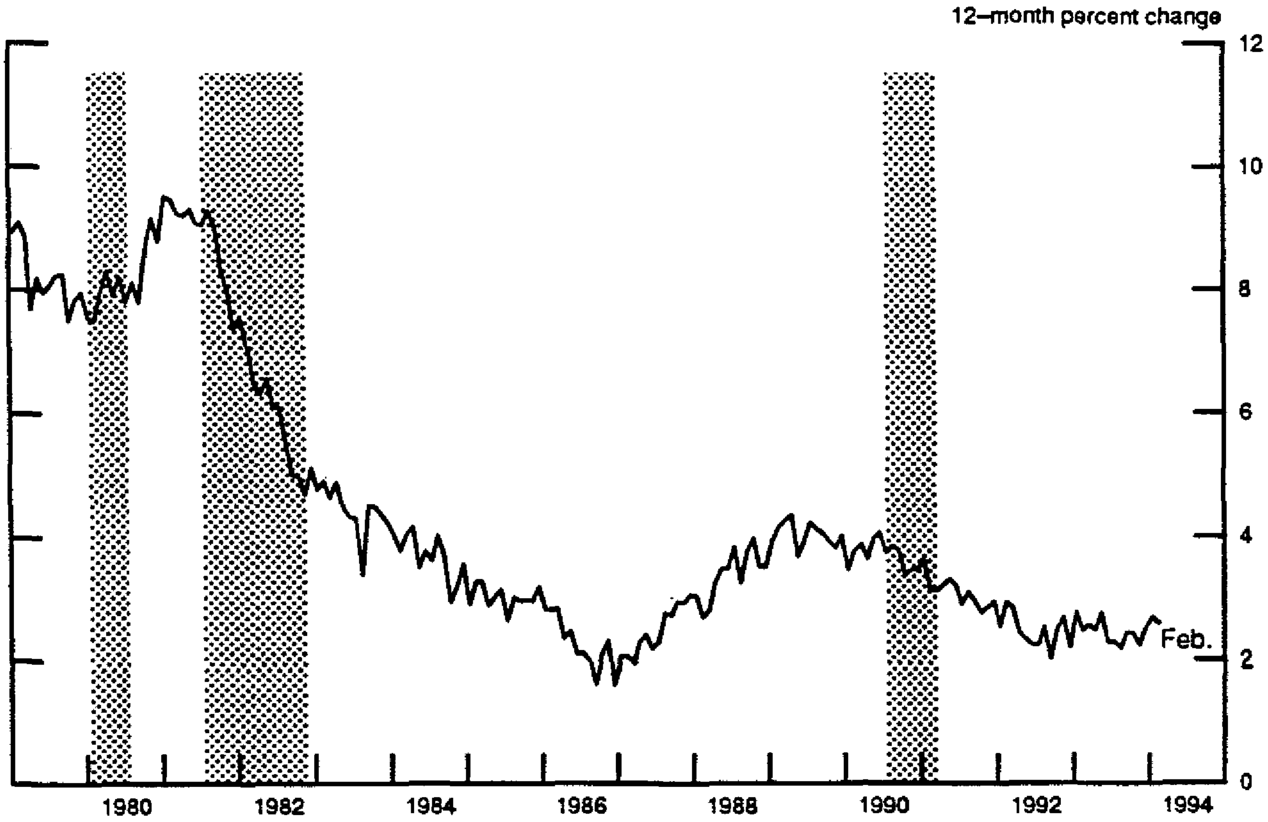
4. One factor that could be working to raise the unemployment rate slightly in the near term is that BLS cannot immediately apply composite estimation to the new survey data. This procedure, which was used with the old CPS, tends to reduce the variance in the monthly changes in unemployment and to control for rotation group bias.

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

	1992	1993	1993 Q2	1993 Q3	1993 Q4	1993 Dec.	1994 Jan.	1994 Feb.
			-Annual rate-			-Monthly rate-		
Total private nonfarm	2.2	2.5	1.1	1.9	3.4	.2	.5	.2
Manufacturing	2.3	3.2	2.1	4.2	3.8	.6	.1	.8
Durable	2.2	3.4	2.3	4.0	5.3	.7	.0	.7
Nondurable	2.5	2.6	2.6	5.2	.4	.3	.4	.6
Contract construction	1.1	1.2	1.1	2.0	-.3	-.4	.0	1.1
Transportation and public utilities	1.7	1.3	.3	-.6	2.7	.3	.4	-.1
Finance, insurance and real estate	3.5	5.2	5.5	4.3	6.1	.2	1.4	-.6
Total trade	2.1	2.4	.5	.9	3.3	.2	.8	.0
Services	2.6	2.3	.7	2.2	2.6	.0	.8	-.2

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

AVERAGE HOURLY EARNINGS OF PRODUCTION OR NONSUPERVISORY WORKERS
(Twelve-month percent change)



the index back up to its year-earlier level. Initial claims for unemployment insurance, after turning up in January and most of February, moved back down in recent weeks to levels comparable to those of last October and early November. During the week ended March 5, initial claims totaled 352,000.

Average hourly earnings of production or nonsupervisory workers rose 0.2 percent in February after surging 0.5 percent in January. Over the past twelve months, hourly earnings have risen 2.6 percent, about the same as the increase over the previous twelve-month period, but in the upper part of the range since mid-1992. Productivity in the nonfarm business sector was revised upward to show a gain of 6 percent at an annual rate in the fourth quarter, bringing the increase over the four quarters of 1993 to nearly 2 percent.

Industrial Production

The index of industrial production rose 1/2 percent per month in January and February; the index in February stood nearly 2 percent (not at an annual rate) above its fourth-quarter average.[5] Output of utilities surged in January as cold temperatures put upward pressure on heating demand, but the less severe conditions in February contributed to a retracing of about one-third of the gain. By contrast, manufacturing output picked up in February as the restraining effects of the bad weather diminished.

Manufacturing output increased 0.6 percent in February, after a rise of just 0.2 percent in January. The available evidence suggests that adverse weather may have lowered the level of factory

5. In creating our estimate of industrial production for February, we discounted heavily the 1-1/2 percent drop in production work hours from the BLS payroll survey, mainly because the weather during the reference week was significantly worse than during the rest of the month.

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

	Proportion in total IP 1993:Q4	1993[1]	1993 Q3	1993 Q4	1993 Nov.	1993 Dec.	1994 Jan.	1994 Feb.
			--Annual rate--		-----Monthly rate------			
Total index	100.0	4.3	2.8	6.7	.8	1.0	.5	.4
Previous		4.2	2.8	6.5	.8	.9	.5	
Manufacturing	85.2	5.0	2.4	8.3	1.0	1.2	.2	.6
Motor vehicles and parts	5.6	16.6	-19.1	91.4	6.7	4.6	2.0	5.4
Mining	6.9	-.7	-2.9	2.5	-1.1	.3	.9	.8
Utilities	7.9	1.1	12.6	-5.8	1.0	.3	3.6	-1.3
Manufacturing excl. motor vehicles and parts	79.6	4.2	3.9	4.4	.6	.9	.1	.2
Consumer goods	21.4	.5	2.3	-1.3	-.2	.0	-.3	.0
Durables	3.7	5.7	9.0	4.1	.3	.1	.0	-.9
Nondurables	17.7	-.5	1.0	-2.4	-.4	-.1	-.4	.1
Business equipment	14.9	9.1	8.7	7.8	.9	1.5	.7	.4
Office and computing	4.2	33.9	31.4	35.5	2.8	3.0	2.8	2.7
Industrial	3.9	4.2	4.4	.2	.4	1.6	-.5	.2
Other	6.8	.4	.1	-1.8	.0	.4	.0	-1.1
Defense and space equipment	2.8	-9.4	-8.9	-9.3	-.3	-1.0	-1.4	-.7
Construction supplies	5.2	5.9	8.0	11.1	.9	1.8	-.3	-.8
Materials	28.5	6.2	4.1	7.6	1.1	1.4	.1	.6
Durables	19.3	7.5	6.7	8.4	1.1	1.5	.7	.7
Nondurables	9.0	3.9	.2	4.9	.8	1.4	-1.1	.5

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

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1988-89 High	1967-92 Avg.	1993 Avg.	1993 Q3	1993 Q4	1993 Nov.	1993 Dec.	1994 Jan.	1994 Feb.
Total industry	84.8	81.9	81.5	81.4	82.3	83.0	83.0	83.3	83.4
Manufacturing	85.1	81.2	80.6	80.3	81.5	82.3	82.3	82.3	82.6
Primary processing	89.1	82.2	84.0	83.9	85.5	86.4	86.4	86.0	86.1
Advanced processing	83.3	80.7	79.1	78.8	79.9	80.5	80.5	80.7	81.1

output about 1/2 percentage point in January, but significantly less in February. In particular, output of motor vehicles and steel, which were clearly restrained by weather in January, increased notably in February. Other industries, including furniture, stone, clay, and glass, and apparel, apparently sustained output losses in both months.

Assemblies of motor vehicles rose to a 13.9 million unit annual rate in February--the highest level since the late 1970s; the increase in the output of motor vehicles and parts accounted for about two-thirds of the increase in total manufacturing output. Looking ahead, manufacturers' schedules call for sizable reductions in assemblies of both autos and trucks on a seasonally adjusted basis in the second quarter. Auto producers raised output in the first quarter partly to fill orders from rental car companies that were deferred in the second half of last year and to replenish dealer stocks; sales to rental fleets are expected to return to more normal levels in the second quarter. In the case of trucks, the anticipated reduction in assemblies is entirely a product of the seasonal adjustment process; manufacturers currently are producing near capacity and will continue to do so through the spring.

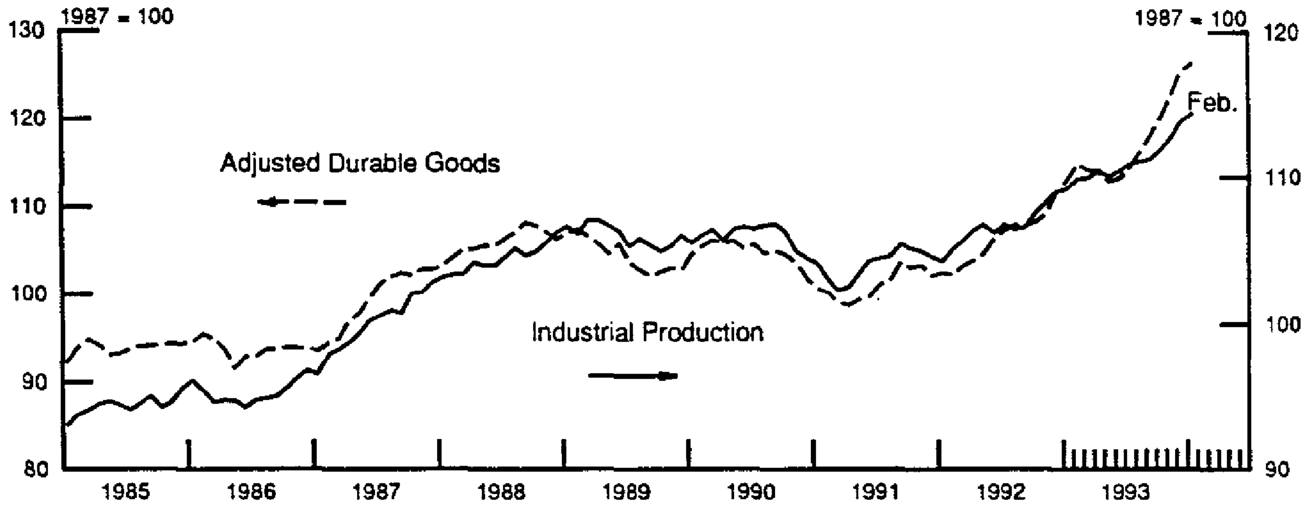
PRODUCTION OF DOMESTIC AUTOS AND TRUCKS[1]
(Millions of units at an annual rate; FRB seasonal basis)

	1993		1994			
	Nov.	Dec.	Jan.	Feb.	Mar.	Q2
					---scheduled---	
U.S. production	12.0	12.5	12.8	13.9	13.2	11.8
Autos	6.6	6.8	7.0	7.6	7.5	6.5
Trucks	5.4	5.7	5.9	6.3	5.8	5.3
Days' supply						
Autos	57.5	59.8	61.2	60.2		
Light trucks	58.2	57.4	55.1	55.7		

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

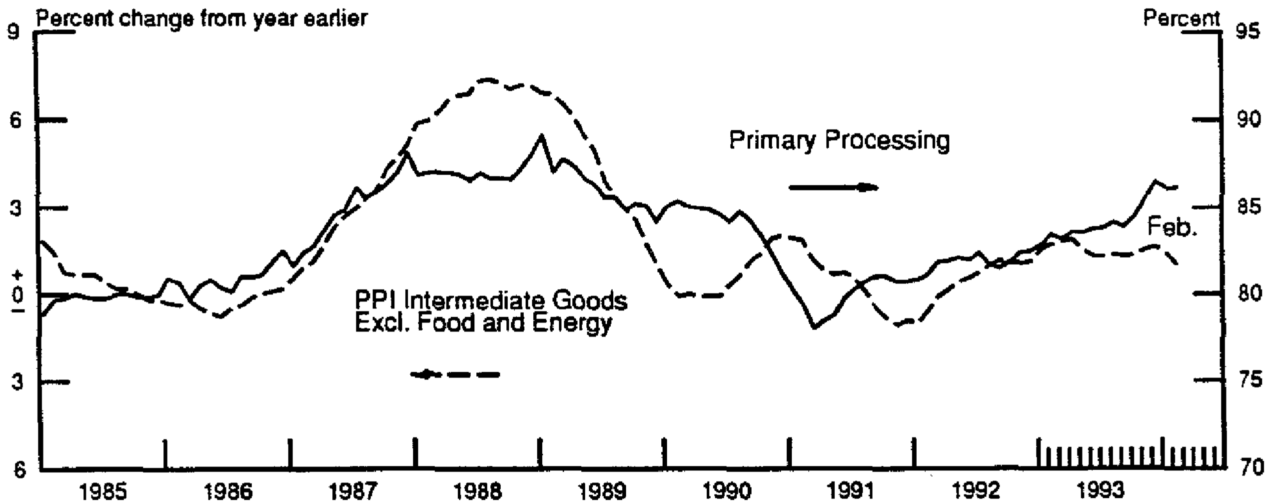
MANUFACTURING SECTOR

INDUSTRIAL PRODUCTION AND REAL ADJUSTED DURABLE GOODS*

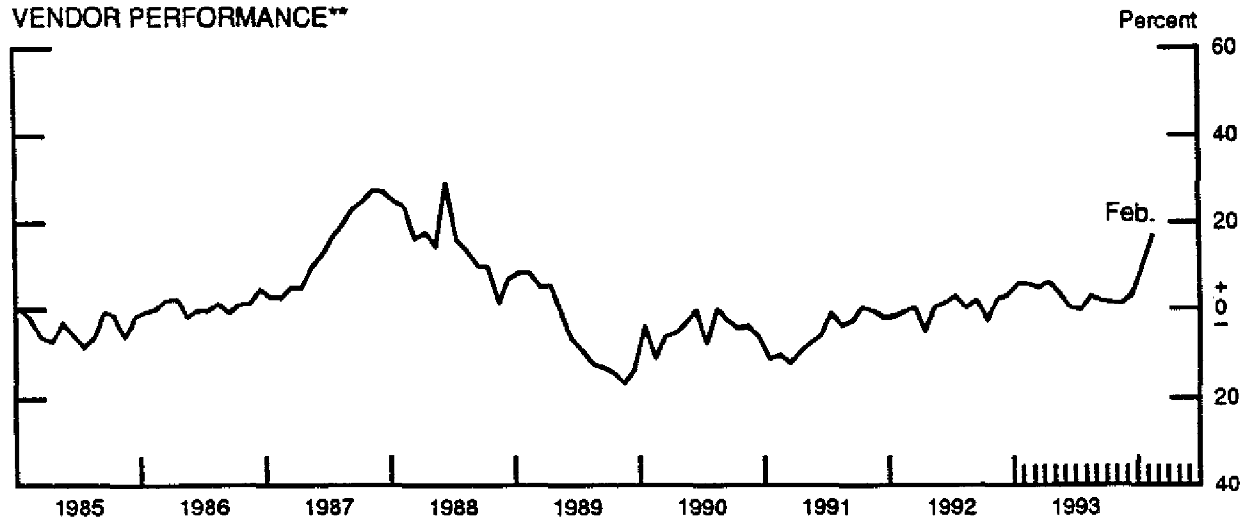


* Three–month moving average of real adjusted durable goods.

CAPACITY UTILIZATION AND PRODUCER PRICES



VENDOR PERFORMANCE**



** Percent of respondents in the purchasing managers survey reporting slower supplier deliveries minus those reporting faster deliveries, seasonally adjusted.

Excluding motor vehicles, manufacturing output has continued to advance in recent months, but the gains have been smaller than those of late 1993--even making allowance for the weather disruptions. Output of nonauto consumer durable goods, which had risen markedly in the fourth quarter, has softened considerably, while production of consumer nondurables, including clothing and other staples, has been essentially flat for several months. In the area of business equipment, output of office and computing equipment has remained very robust, but production of industrial equipment has slackened. Output of defense and space equipment and of commercial aircraft fell further in the first two months of 1994. Production of construction supplies also turned down, likely because of the weather-induced curtailments in construction, and output of durable materials slowed after last year's burst.

Factory operating rates have risen to relatively high levels by historical norms, especially for primary processing industries, where utilization was at 86 percent in February, about 4 percentage points above the average level during the previous twenty-five years. Typically, when operating rates in primary processing industries become high, prices for intermediate materials firm; in addition, materials processors may ration deliveries through nonprice means. So far, inflation in materials has not picked up as much as the historical relationships would suggest, possibly reflecting intense domestic and foreign competition, and there are few reports of suppliers putting customers on allocation. Moreover, although purchasing managers' reports for January and February indicated a sharp deterioration in vendor performance, survey respondents attributed it, in large part, to the severe weather.

Personal Income and Consumption

Consumer spending hit a lull in early 1994. This flattening was attributable at least in part to the bad weather. but may also reflect a tendency of spending to return to trend after a period of exceptional increases. Nonetheless, with real disposable personal income having posted solid gains since the middle of last year and consumer sentiment holding at a relatively high level. the underpinnings for consumption growth remain firm.

Retail sales are now estimated to have declined 1-1/2 percent in nominal terms in January and to have only reversed that drop in February. Spending at the retail control group. which excludes sales at automotive dealers and building material and supply stores. showed a similar pattern: It rose 1.2 percent in February. after dropping 1.4 percent in the preceding month.[6] Within this group. sales at all types of stores increased in February.

RETAIL SALES
(Percent change from preceding period, seasonally adjusted)

	1993		1993	1994	
	Q3	Q4	Dec.	Jan.	Feb.
Total sales	1.6	3.3	1.1	-1.6	1.5
(Previous)		*3.3*	*1.2*	*-.5*	
Retail control [1]	1.0	1.6	.6	-1.4	1.2
(Previous)		*1.6*	*.7*	*-.1*	
GAF	2.4	2.1	.2	-1.2	1.6
General merchandise	2.6	1.0	.5	1.2	1.4
Apparel	.8	1.3	-1.4	-3.4	3.0
Furniture and appliances	3.6	5.2	1.1	-4.4	.9
Other	.4	1.3	.8	-1.5	1.0

1. Total excluding automotive dealers and building material and supply stores.

6. The revised data for January are much weaker than the estimates released last month. The advance estimates had shown a decrease in total retail sales of only 0.5 percent and a decrease of only 0.1 percent for the control. Although outlays at general merchandise stores and auto dealers were revised up, spending at most other types of stores is now estimated to have been substantially lower.

By contrast, sales of new light vehicles have been exceptionally brisk so far this year--averaging 15.4 million units at an annual rate in January and February. As noted earlier, part of the uptick in sales represented a surge in fleet purchases by businesses, which had been restricted by supply difficulties during the second half of last year (chart).[7] But, underlying the high pace of sales as well are continuing replacement demand by households and positive car-buying attitudes, as measured by the Michigan survey. Sales to retail customers, which reportedly were depressed in January by the California earthquake and severe weather, increased noticeably in February, bringing the average pace of such sales for the two months to about the levels seen, on balance, during the second half of last year.

Purchases of light trucks, which strengthened notably in the fourth quarter, increased further in January and remained at that high level in February. Sales of large pickups by the Big Three domestic producers have been especially vigorous. In addition, sales of Chrysler minivans, which are being heavily promoted in anticipation of the introduction of Ford's new minivan, rose sharply in February. The recent strength in sales has left days' supply of light trucks at a low level, and although an increase of about 200,000 light trucks (annual rate) from a retooled Canadian plant should help to ease pressures on supply, stocks almost certainly will remain tight.

Consumer spending on services grew rapidly in January. Outlays for energy soared, reflecting the unusually cold temperatures in many parts of the country; the continuation of colder-than-average temperatures in February suggests that spending for heating likely remained high last month. Outlays for personal business services

7. Data on fleet and retail purchases are only received from GM and Ford and are confidential.

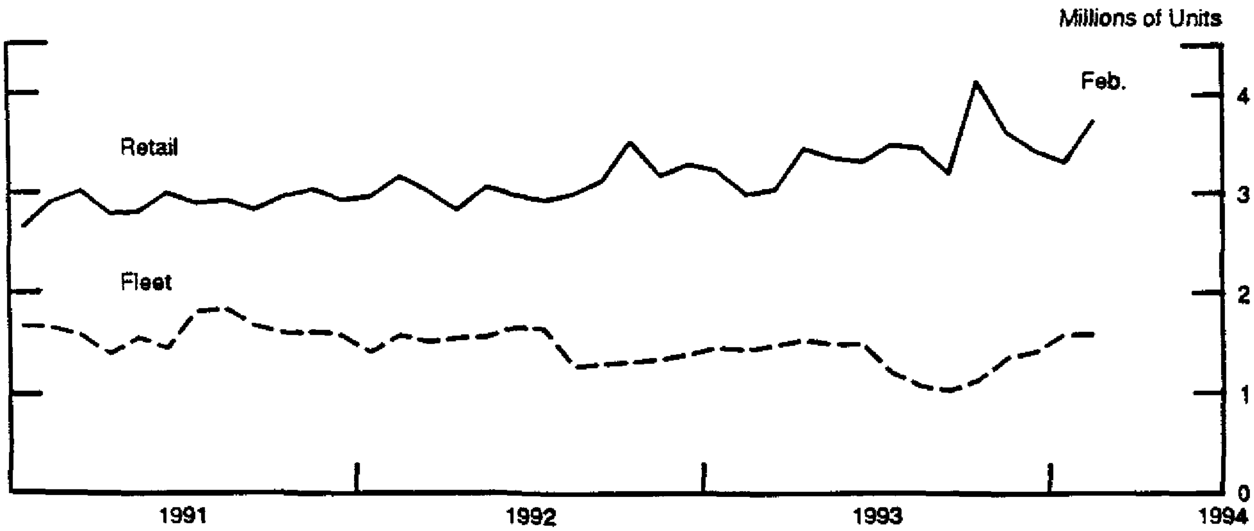
SALES OF AUTOMOBILES AND LIGHT TRUCKS[1]
(Millions of units at an annual rate: BEA seasonals)

			1993			1993	1994	
	1992	1993	Q2	Q3	Q4	Dec.	Jan.	Feb.
Total	12.8	13.9	14.1	13.6	14.5	14.5	15.3	15.5
Autos	8.4	8.7	9.0	8.6	8.9	8.8	9.2	9.4
Light trucks	4.4	5.2	5.2	5.0	5.6	5.7	6.1	6.1
North American[2]	10.5	11.7	11.9	11.4	12.5	12.5	13.2	13.3
Autos	6.3	6.7	6.9	6.6	7.1	7.0	7.3	7.4
Big Three	5.1	5.5	5.7	5.1	5.7	5.6	6.0	6.0
Transplants	1.2	1.3	1.2	1.5	1.4	1.4	1.3	1.4
Light trucks	4.2	5.0	5.0	4.8	5.5	5.5	5.9	5.9
Foreign produced	2.3	2.2	2.2	2.2	2.0	2.0	2.0	2.2
Autos	2.1	2.0	2.1	2.0	1.9	1.8	1.9	2.0
Light trucks	.2	.2	.2	.2	.1	.1	.2	.1
Memo:								
Domestic nameplate								
Market share, total	.72	.74	.75	.71	.75	.75	.75	.74
Autos	.63	.65	.66	.62	.65	.64	.66	.65

Note: Data on sales of trucks and imported autos for the current month are preliminary and subject to revision.
1. Components may not add to totals because of rounding.
2. Excludes some vehicles produced in Canada that are classified as imports by the industry: prior to January 1994, some vehicles produced in Mexico were also excluded.

GM AND FORD DOMESTIC AUTO SALES

(Seasonally adjusted annual rate; FRB seasonals)

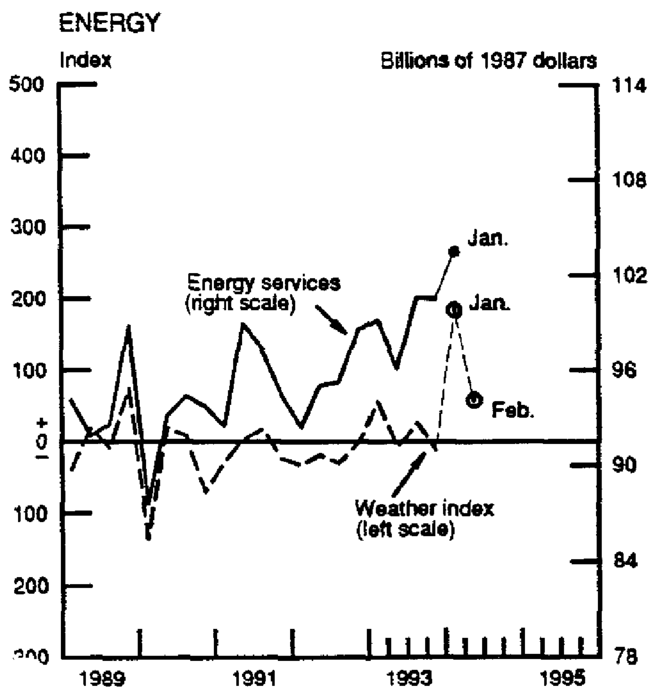


Note: Data are confidential. Retail includes consumer leasing.

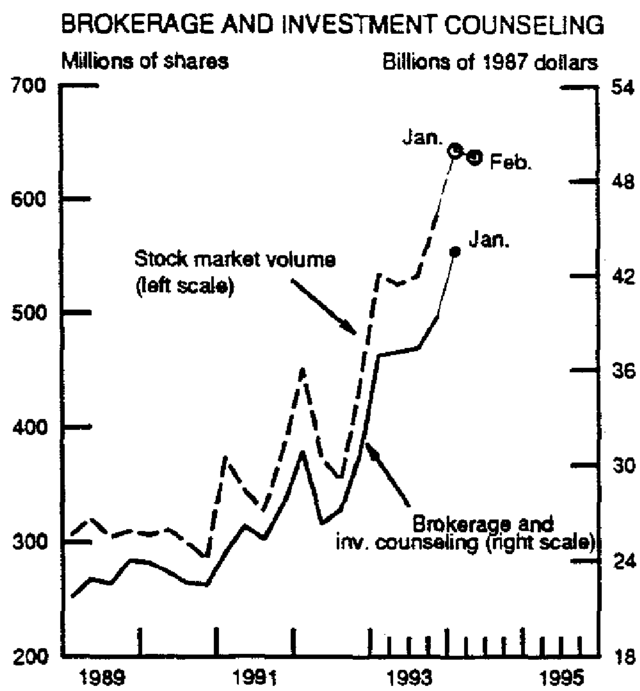
PCE SERVICES
(Percent change from preceding period, seasonally adjusted)

	Share of Total Services 1993	1992[1]	1993[1]	1993 Q3	1993 Q4	1993 Dec.	1994 Jan.
				--Annual rate--		--Monthly rate--	
Total Services	1.00	2.8	2.9	3.9	2.4	.1	.9
Energy	.05	4.3	2.0	19.7	-.3	-4.6	6.8
Nonenergy	.95	2.7	2.9	3.1	2.6	.3	.5
Housing	.26	1.3	1.7	2.1	1.6	.2	.1
Nonenergy Household Operation	.06	4.6	2.0	2.7	1.6	.2	.2
Transportation	.07	2.9	3.2	1.2	3.9	-.3	.1
Medical	.25	2.2	3.6	3.5	3.7	.2	.6
Personal Business	.15	2.6	5.1	1.3	4.7	1.2	1.8
Other	.16	5.2	2.1	6.8	.6	.3	.3

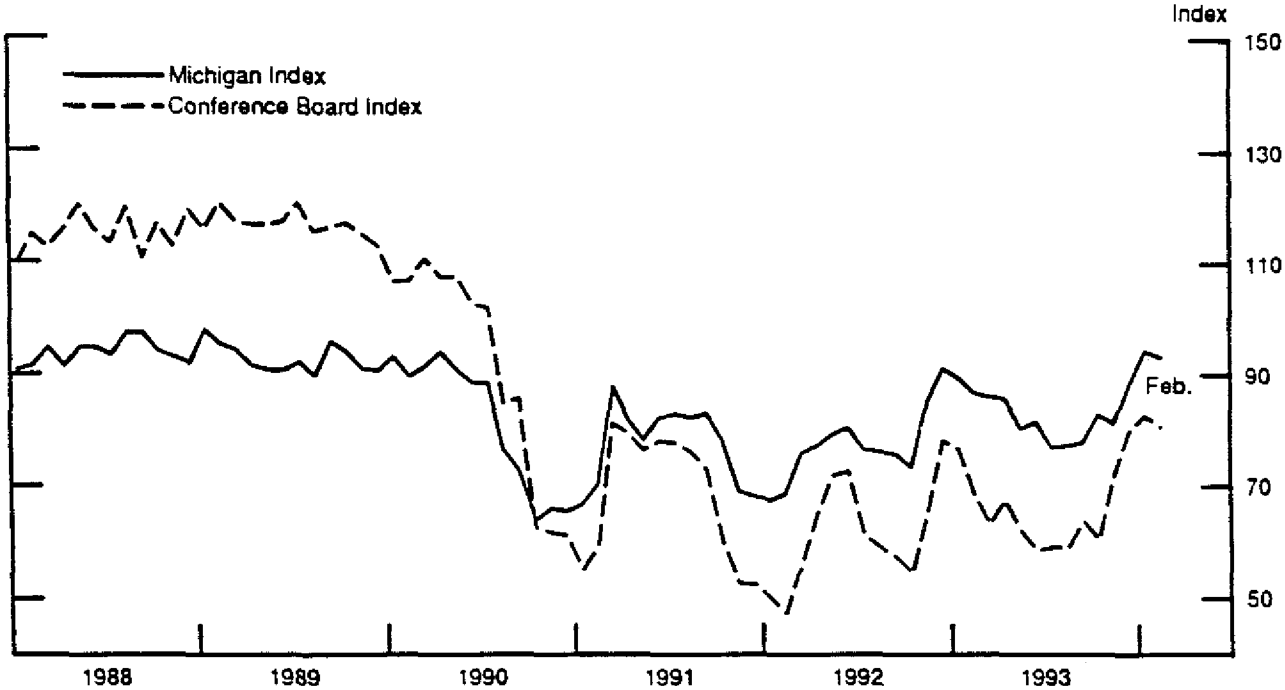
1 Changes are from fourth quarter of preceding year to fourth quarter of year indicated.



Note: The weather index is the deviation in the number of heating and cooling degree days in a month from that month's average over the past 5 yrs.



CONSUMER SENTIMENT



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

		1993			1993	1994
	1993	Q2	Q3	Q4	Dec.	Jan.
Total personal income	3.6	28.1	22.3	36.5	35.8	-15.3
Wages and salaries	-8.5	36.7	11.5	13.8	14.6	32.6
Private	-10.3	35.0	9.0	13.3	12.8	28.3
Other labor income	2.7	2.7	2.7	2.8	2.9	3.0
Proprietors' income	3.9	-13.1	.8	15.7	9.9	-13.3
Farm	1.6	-15.3	-1.1	10.9	5.2	-13.6
Rent	1.5	1.3	2.0	-.2	.0	-39.8
Dividend	.3	.3	.4	.1	.1	.2
Interest	.3	-1.1	1.9	.7	.6	1.0
Transfer payments	4.6	4.0	3.9	4.6	8.8	9.4
Less: Personal contributions for social insurance	1.2	2.7	.7	1.0	1.0	8.4
Less: Personal tax and nontax payments	-.1	7.7	3.0	4.3	5.0	8.8
Equals: Disposable personal income	3.7	20.5	19.4	32.2	30.7	-24.0
Memo: Real disposable income	-3.9	10.3	11.7	18.7	22.9	-17.0

also were very strong in January, in part because high trading volumes in the stock and bond markets pushed up outlays for brokerage and investment counseling services.

Total nominal personal income fell 0.3 percent in January. However, substantial earthquake-related reductions in rental and nonfarm proprietors' income and a decline in subsidy payments to farmers more than accounted for the drop.[8] Nominal wages and salaries jumped 1.0 percent in January, after rising an average of 0.4 percent per month during the second half of 1993. The implications of the February labor market data for personal income are uncertain because BEA typically makes some allowance for unusually severe weather during the reference week when it translates the data on hours into wages and salaries.

Housing Markets

Most of the key indicators of housing market activity were down in January from cyclical highs reached at the end of 1993, and starts remained at a relatively low level in February. Housing activity clearly was depressed by weather conditions in the early months of 1994, but some retreat from the extraordinary levels of late 1993 was likely in any event.[9]

Housing starts averaged 1.29 million units at an annual rate in January and February, compared with a fourth-quarter level of 1.48 million units. The largest declines in January were in the Northeast and Midwest--the two regions where the weather was most abnormal. But the weather explanation is only partial: Starts

8. Uninsured losses to residential and business property from the Northridge earthquake reduced rental income and nonfarm proprietors' income by $40 billion and $2-1/2 billion, respectively.

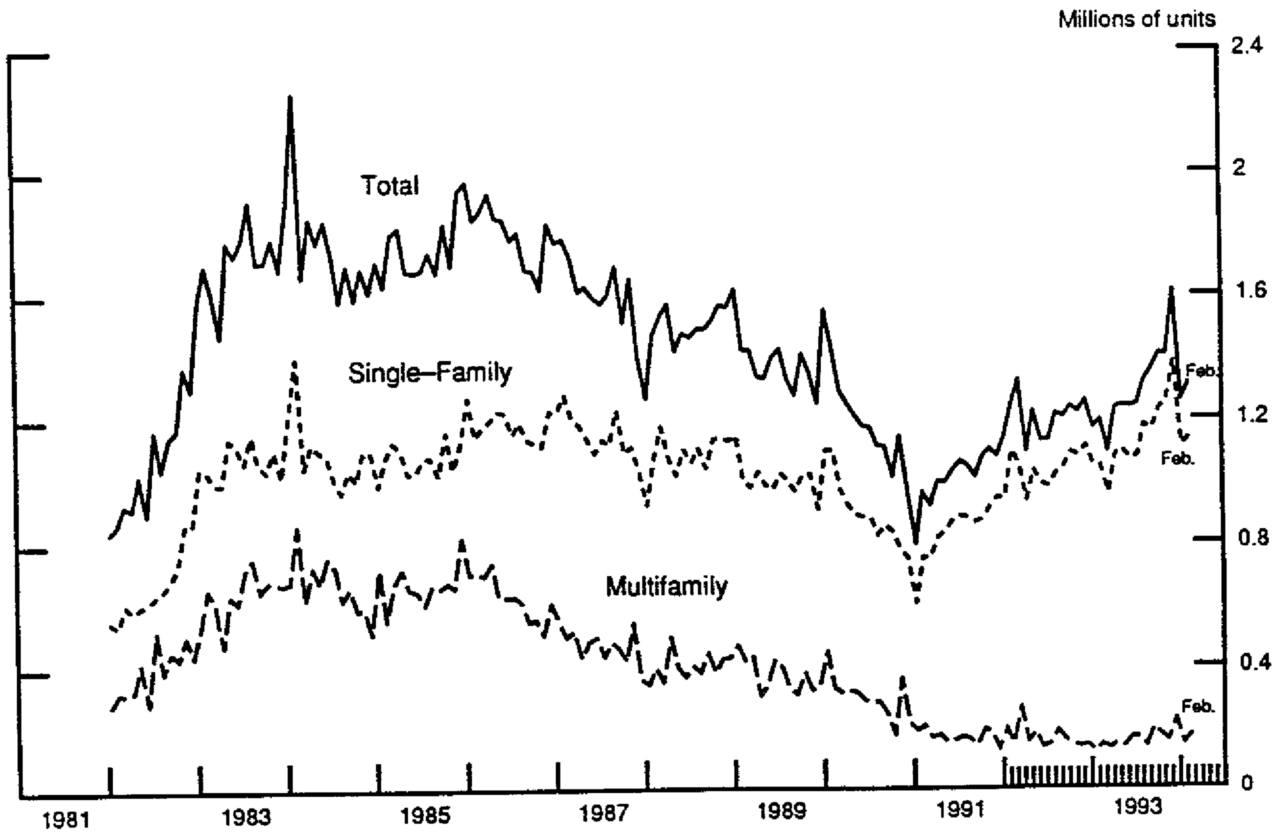
9. The Los Angeles earthquake has probably had no significant effect on housing activity thus far. In 1993, the LA/Long Beach metropolitan area accounted for less than 1 percent of U.S. housing starts. Industry sources in Southern California estimate that no more than a few hundred of the closings scheduled for existing homes in January were postponed or cancelled because of the earthquake.

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

	1993	1993			1993	1994	
	Annual	Q2	Q3	Q4	Dec.	Jan.	Feb.p
All units							
Starts	1.29	1.24	1.31	1.48	1.61	1.26	1.31
Permits	1.21	1.11	1.23	1.39	1.48	1.36	1.25
Single-family units							
Starts	1.13	1.08	1.14	1.29	1.38	1.11	1.13
Permits	1.00	.92	1.01	1.15	1.20	1.12	1.06
Sales							
New homes	.67	.65	.68	.79	.87	.70	n.a.
Existing homes	3.80	3.59	3.90	4.17	4.35	4.22	n.a.
Multifamily units							
Starts	.16	.15	.17	.19	.23	.15	.18
Permits	.21	.19	.21	.24	.28	.24	.19

p--preliminary

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



rebounded in the Northeast in February despite continuing bad weather, and permit issuance for the nation as a whole--which typically is less sensitive than starts to the weather--fell 8 percent in February, after a similar drop in January. Sales of new homes also plunged in January, while sales of existing homes were only slightly below the high December level (chart, top panel).

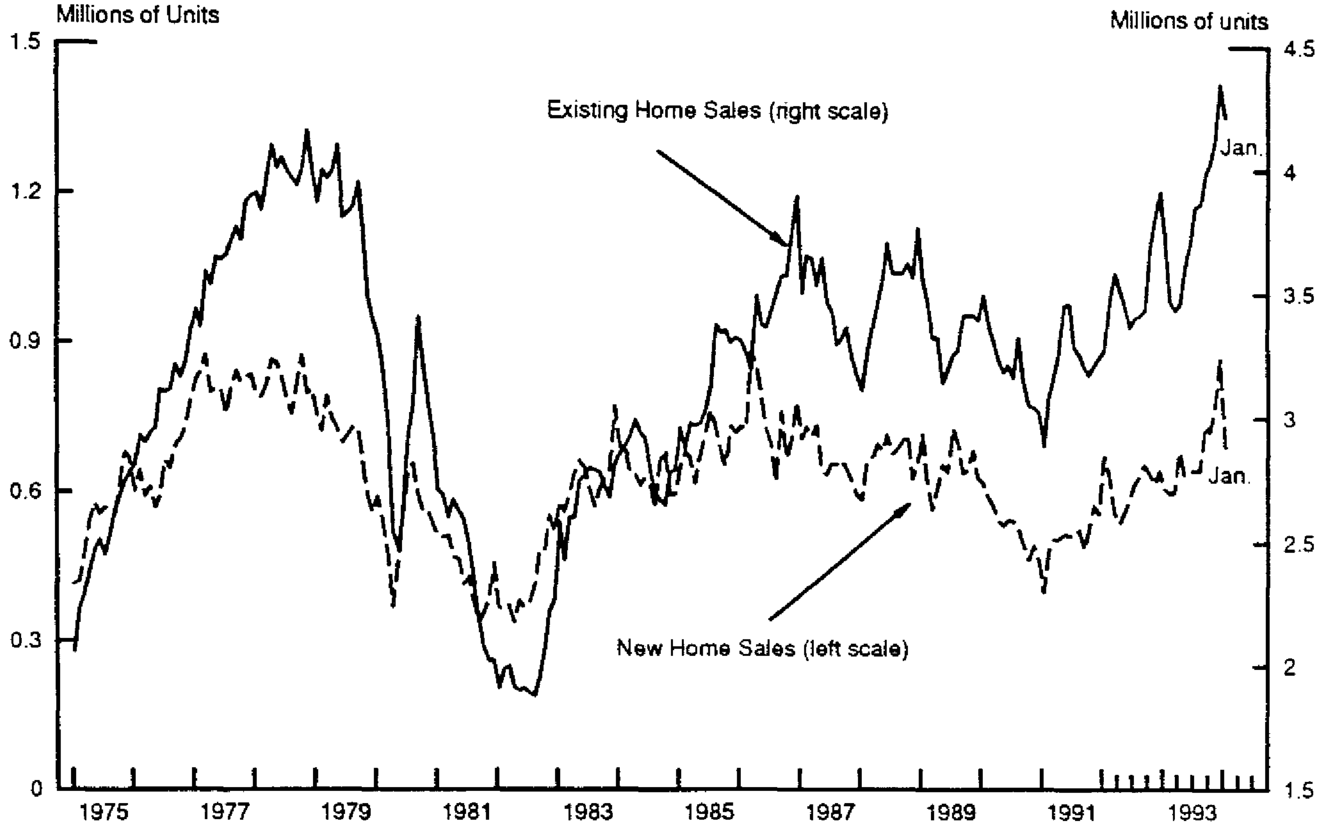
First indications of housing activity in March come from industry surveys of builders and lenders. Homebuilders' ratings of current sales edged down for the fourth consecutive month, although assessments remained nearly as positive as at their peaks in the mid-1980s. Applications for home purchase loans at mortgage bankers moved up a bit beginning in late February, but remain below the volumes seen late last year. Mortgage interest rates have increased about 50 basis points since mid-February and likely will have some effect on activity this month.

Overall, house prices have been rising moderately. Constant-quality price indexes for new and existing homes in the fourth quarter indicate annual inflation rates in the range of 2 to 4 percent. Transactions prices of new and existing homes sold in January posted somewhat larger increases, but these monthly measures are sensitive to changes in the mix of homes sold.

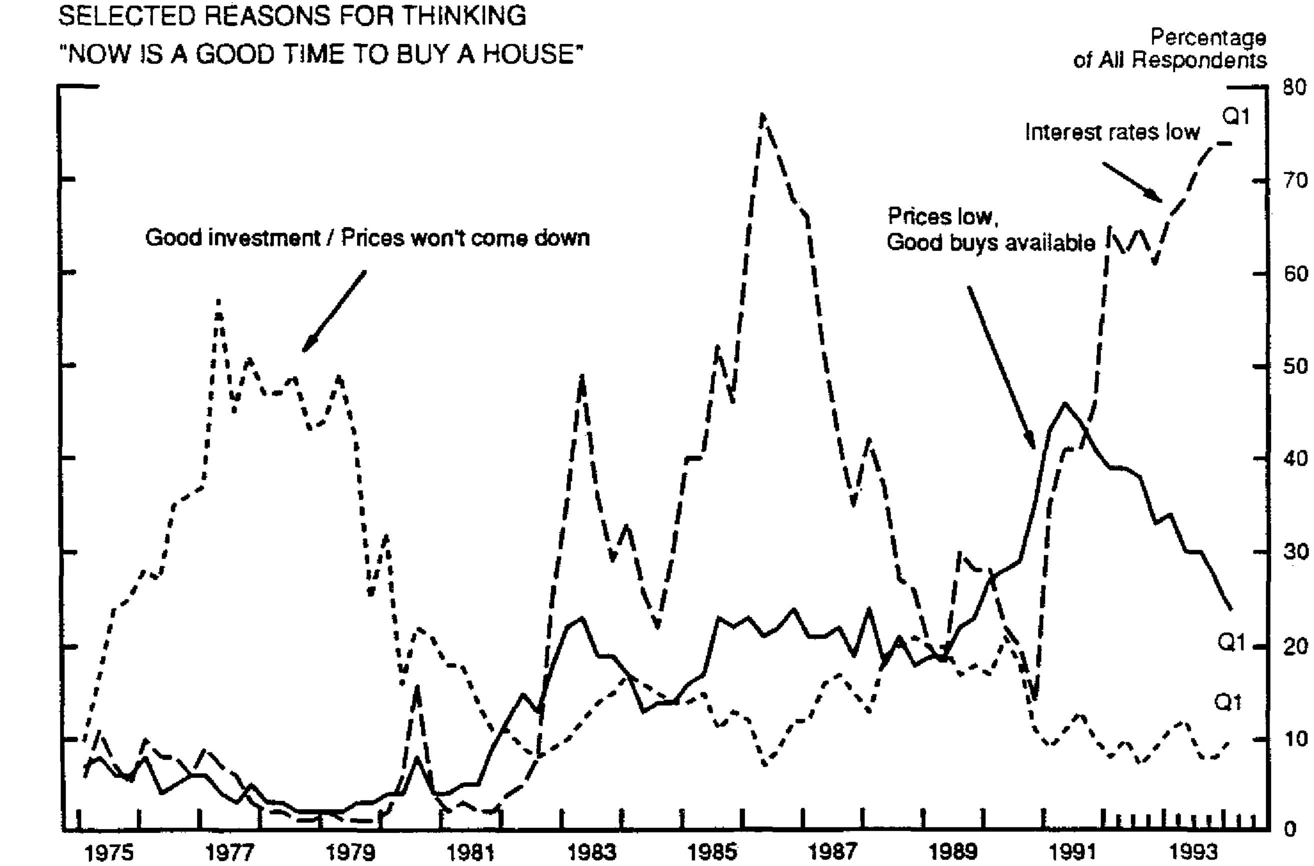
Lumber costs continue to put upward pressure on house prices. Costs of other materials, including plywood and gypsum products, have also risen, but by less. Labor supply for construction remains ample in all but a few booming markets; neither the unemployment rate for these workers nor wages yet show significant tightening for the nation overall.

Consumer attitudes toward homebuying, as measured by the Michigan survey, remain very favorable. Affordability is the driving force: Three-fourths of respondents cite low interest rates

NEW AND EXISTING HOME SALES



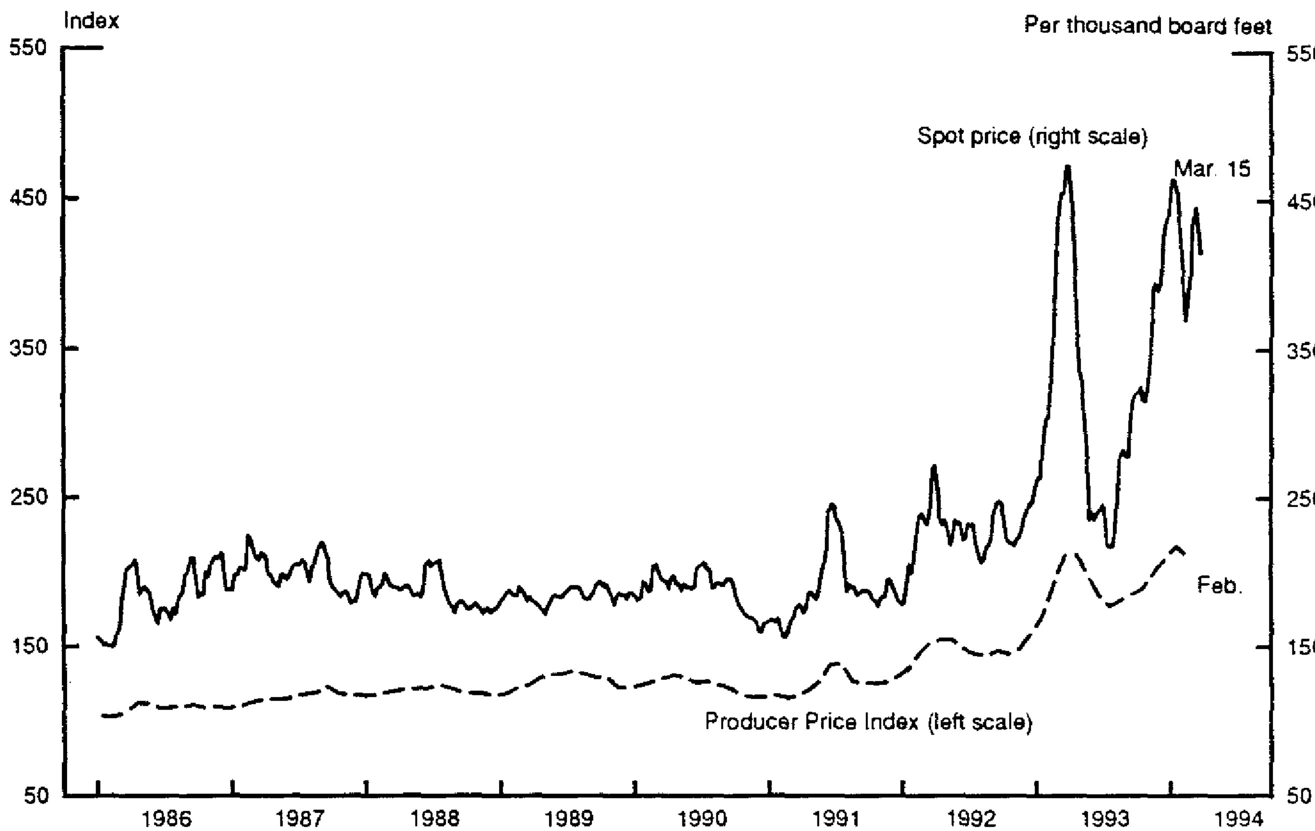
SELECTED REASONS FOR THINKING
"NOW IS A GOOD TIME TO BUY A HOUSE"



Source: University of Michigan Survey of Consumers; Note: Respondents may give more than one reason.

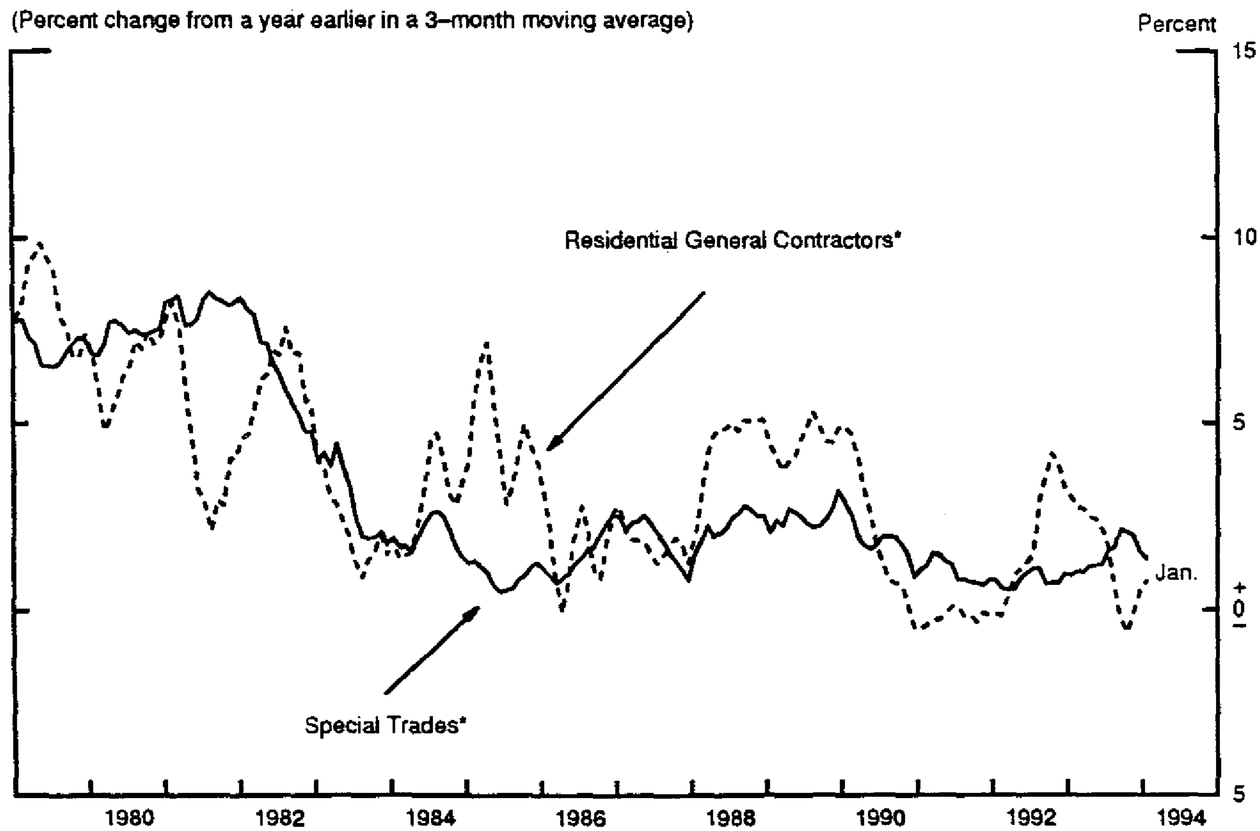
SELECTED CONSTRUCTION COSTS

SOFTWOOD LUMBER



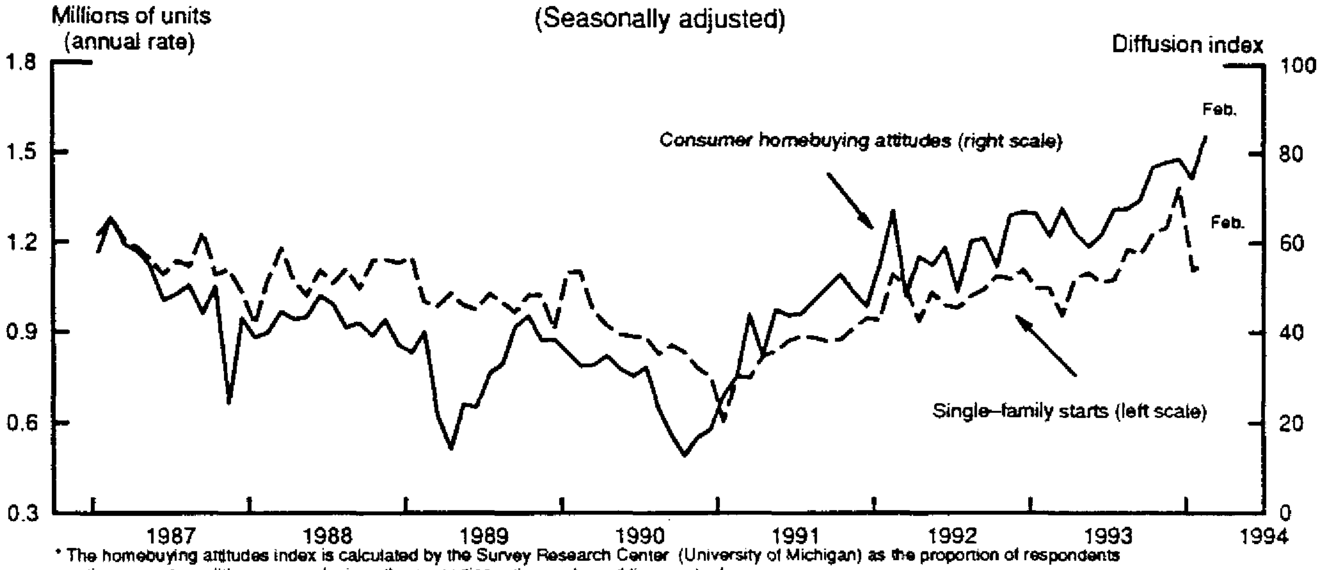
AVERAGE HOURLY EARNINGS IN CONSTRUCTION

(Percent change from a year earlier in a 3–month moving average)



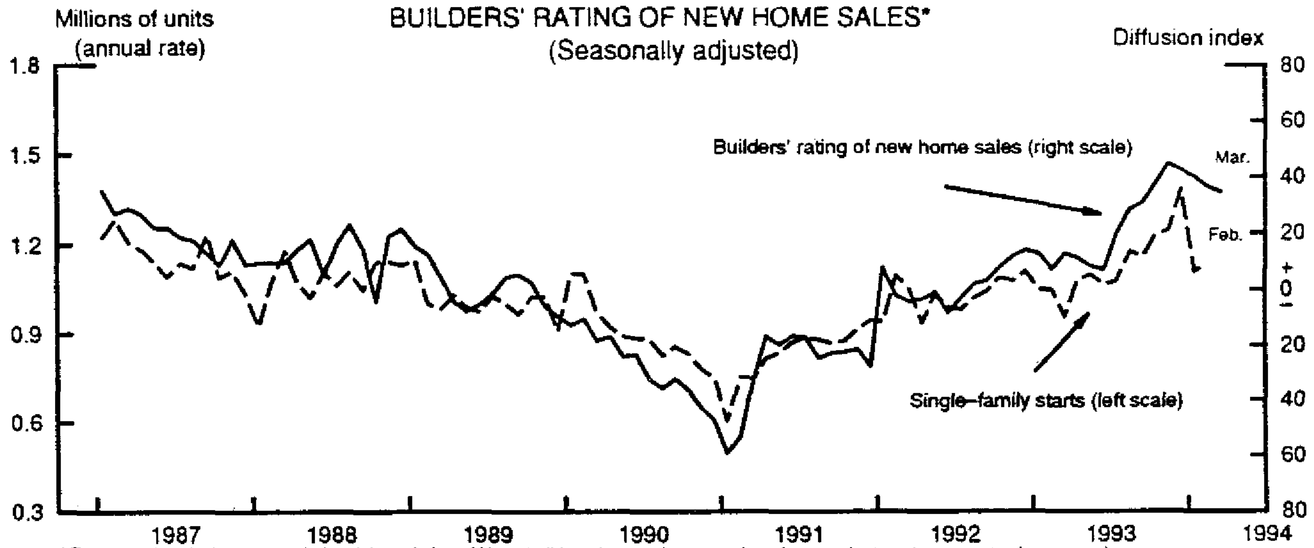
* Wage data seasonally adjusted by Board staff.

CONSUMER HOMEBUYING ATTITUDES*
(Seasonally adjusted)



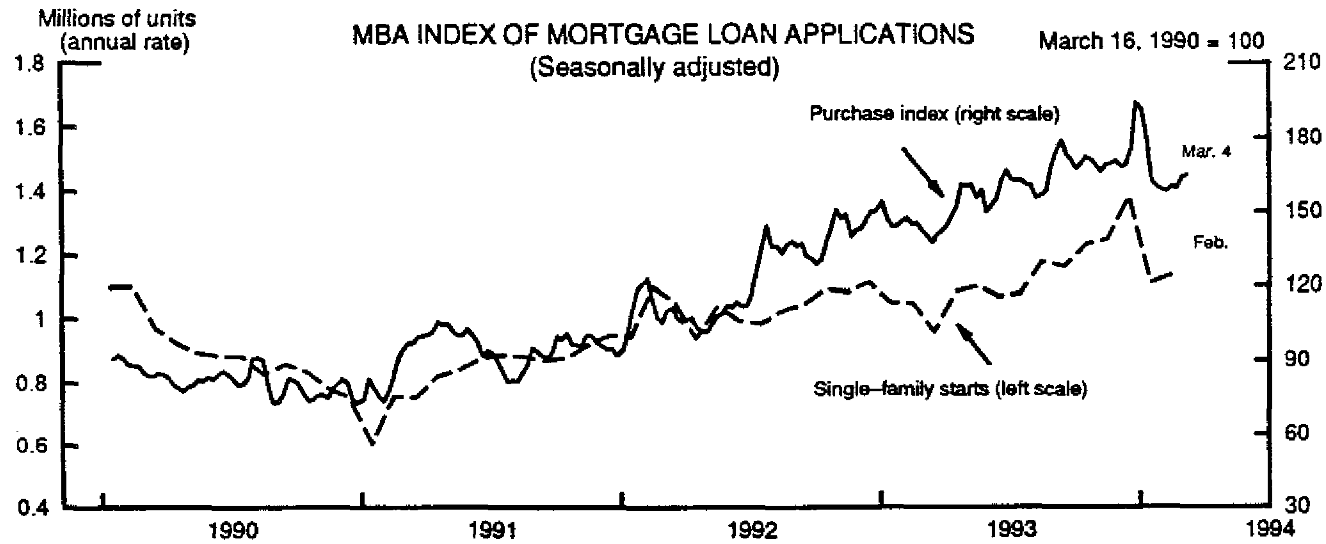
* The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

BUILDERS' RATING OF NEW HOME SALES*
(Seasonally adjusted)



* 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.

MBA INDEX OF MORTGAGE LOAN APPLICATIONS
(Seasonally adjusted)



as the reason that "now is a good time to buy," and "low prices"--though noted less often than they were a year ago--are the second most frequent response. In contrast, the investment motive to buy homes apparently remains very weak.

Business Fixed Investment

Real business fixed investment rose 22 percent at an annual rate in the fourth quarter of 1993, the largest quarterly increase in ten years. The very limited information available for the current quarter points to a still healthy but noticeably smaller gain.

On the equipment side, orders and shipments of nondefense capital goods excluding aircraft retreated in January, after having moved up sharply late last year. Orders dropped 7 percent, partly reflecting the retracing of a spike in bookings for railroad equipment, while shipments dropped 5 percent. Even so, these declines reversed only part of the runup over the preceding two months.

Business purchases of motor vehicles remained on a solid uptrend in early 1994. As mentioned earlier, fleet sales of autos surged in January and remained at a high level in February. Sales of heavy trucks were also strong in January and the large backlog of orders suggests that they will remain so for some time.

In contrast, the news in the aircraft sector is still downbeat. Domestic outlays for aircraft declined nearly 40 percent in real terms over the four quarters of 1993 and will likely remain very weak in 1994. Not only has Boeing cut production substantially, but a large share of the planes scheduled for completion this year are slated for foreign deliveries.

On the whole, however, the fundamental determinants of outlays for equipment other than aircraft are very favorable. Capacity

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

	1993			1993		1994
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Producers' durable equipment						
Shipments of nondefense capital goods	1.0	.6	7.1	4.8	4.6	-4.7
Excluding aircraft and parts	.8	3.4	8.0	6.6	2.3	-5.0
Office and computing	-2.2	9.4	5.2	3.4	2.5	-4.1
All other categories	1.7	1.7	8.8	7.6	2.3	-5.2
Shipments of complete aircraft[1]	-7.4	-39.5	34.1	-7.0	68.6	-22.9
Sales of heavy weight trucks	11.2	-1.1	8.5	26.8	-22.5	9.8
Orders of nondefense capital goods	4.1	-1.2	10.4	6.3	.5	5.5
Excluding aircraft and parts	1.3	3.6	10.9	3.7	5.7	-7.1
Office and computing	-.7	4.9	12.9	12.2	-8.1	-1.7
All other categories	1.9	3.2	10.4	1.2	10.1	-8.6
Nonresidential structures						
Construction put-in-place	2.7	1.2	4.7	2.1	.5	-2.9
Office	-.3	-1.8	3.6	7.4	6.9	-11.0
Other commercial	3.4	-.8	13.5	1.7	3.5	-.5
Institutional	6.4	2.9	-1.9	-3.8	2.2	-3.3
Industrial	-5.4	4.1	6.9	4.2	-1.1	.9
Public utilities	2.4	1.6	3.0	3.5	-1.8	-6.0
Lodging and misc.	22.5	6.7	-.6	-3.7	-10.2	9.6
Rotary drilling rigs in use	-3.5	14.2	-3.7	-4.1	-.9	.3
Footage drilled[2]	-3.9	7.2	-14.8	-7.7	-7.8	n.a.
Memo:						
Business fixed investment[3]	16.6	7.4	22.1	n.a.	n.a.	n.a.
Producers' durable equipment[3]	19.8	10.0	24.9	n.a.	n.a.	n.a.
Nonresidential structures[3]	8.1	.3	14.2	n.a.	n.a.	n.a.

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

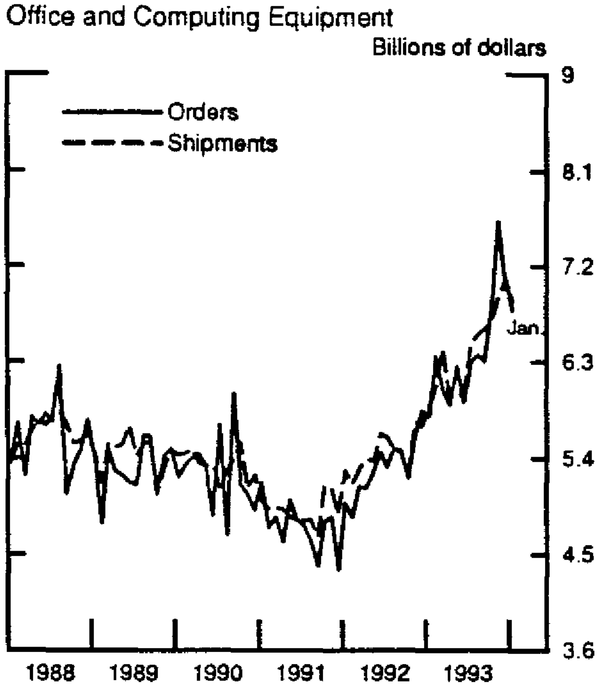
utilization rates have increased, cash flow remains high, and the cost of capital continues to decline because of the falling relative price of capital goods, particularly computers. Sales expectations, which were likely boosted by the solid growth of business output at the end of 1993, should continue to buoy equipment spending.

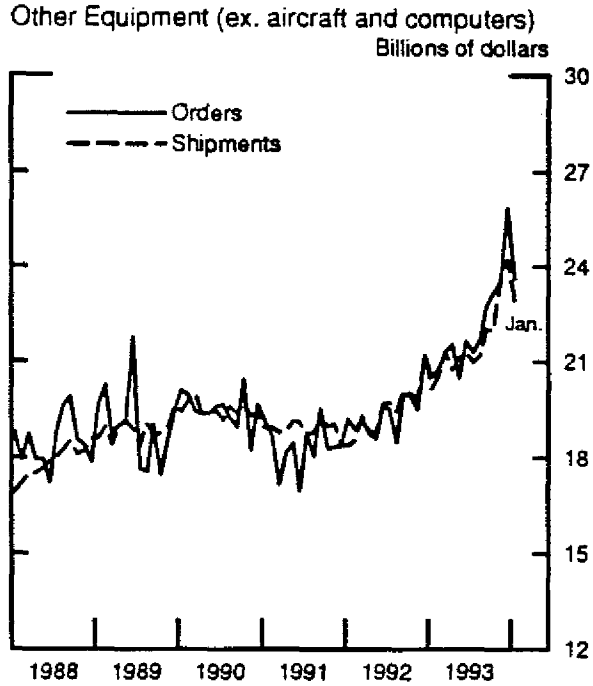
Turning to nonresidential investment, construction put-in-place, which trended up for most of 1993, fell about 3 percent in January. Declines were sharpest for office buildings, which had posted big increases in the preceding two months, and public utilities, where weather conditions appeared to be a factor. In addition, permits for private nonresidential buildings fell 15 percent, with sizable decreases registered in all categories except institutional buildings. Finally, rotary drilling rigs in use remained roughly at their December level in January.

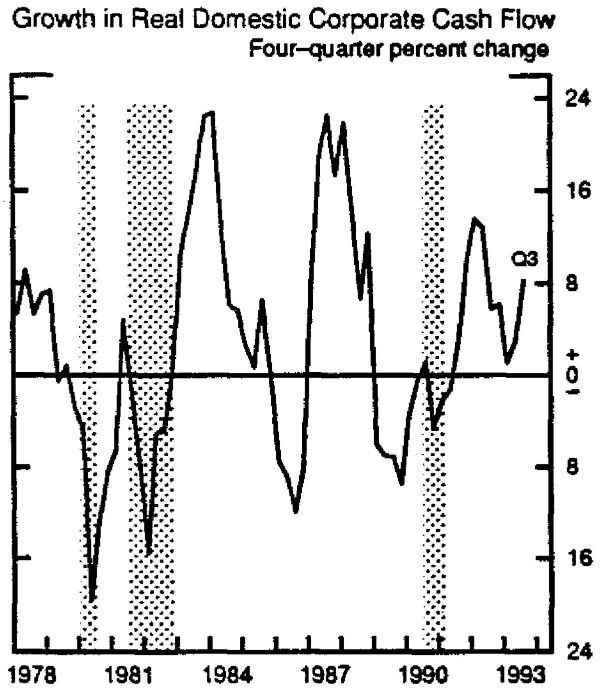
The news from several recent reports concerning real estate markets is mixed. According to the Russell-NCREIF index, the nominal appraised value of income-producing properties in the United States fell 2.4 percent in the fourth quarter of 1993, bringing the decline over the four quarters of 1993 to 7.4 percent.[10] This reduction, though sizable, actually is considerably smaller than those reported in 1991 and 1992. As in previous years, office properties suffered the largest declines in appraised values. However, the FDIC's latest Survey of Real Estate trends, which records the assessments of senior examiners and asset managers at federal banking agencies, was far more positive than the Russell-NCREIF index: in January, 40 percent of the respondents characterized the market for commercial real estate as having improved since last October. Finally, Coldwell Banker reported that

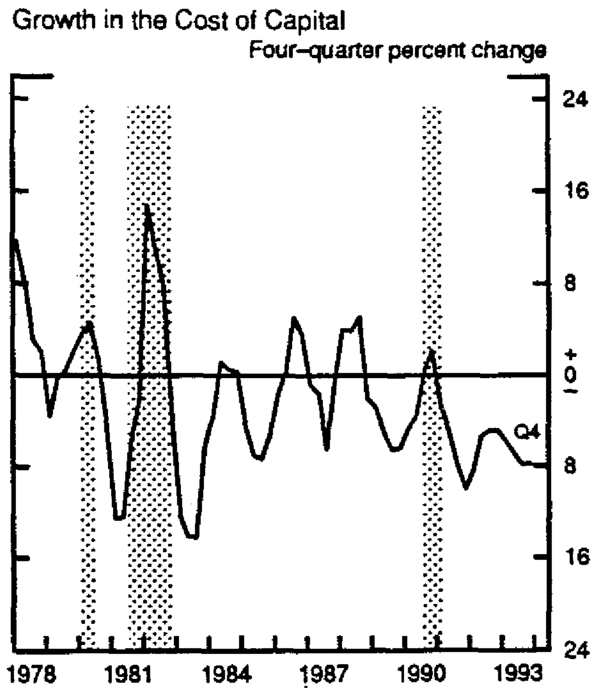
10. The properties covered by this index include apartment buildings, retail stores, warehouses, office buildings, and mixed-use buildings that combine office and R&D activities.

PRODUCERS' DURABLE EQUIPMENT









the national office vacancy rate was 17.0 percent in the fourth quarter, down from 18.7 percent at the end of 1992.

Manufacturing and Trade Inventories

Business inventories fell a little, on balance, at the beginning of 1994, and stocks generally were lean, especially at manufacturing firms. Excluding auto dealers, manufacturing and trade stocks declined at nearly a $6 billion annual rate in current-cost terms in January, after rising less than $10 billion at an annual rate in the fourth quarter.

Manufacturers' inventories rose at an annual rate of $15.5 billion in January after posting a net decline in the fourth quarter. Much of the January increase was at producers of machinery, whose shipments plunged--perhaps in part because of weather disruptions. Demand for machinery had been very strong in late 1993, especially for computers and office equipment and machinery for the service industry, and inventory-shipments ratios had fallen to extraordinarily low levels. Thus, even with an uptick in January, the inventory-shipments ratios for these industries remained low by historical norms.

In the trade sector, inventories posted sizable declines in current-cost terms at both the wholesale and retail levels. The decline in retail stocks was a bit surprising in light of the weakness in sales in January. Stocks at general merchandisers, which had been on the high side last autumn, dropped sharply between November and January, and the inventory-sales ratio for these stores fell to a very low level on a historical basis.

Federal Sector

The unified federal budget deficit for the first four months of fiscal year 1994 was $76 billion, 16 percent less than for the same period in fiscal 1993. The improvement was attributable to

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

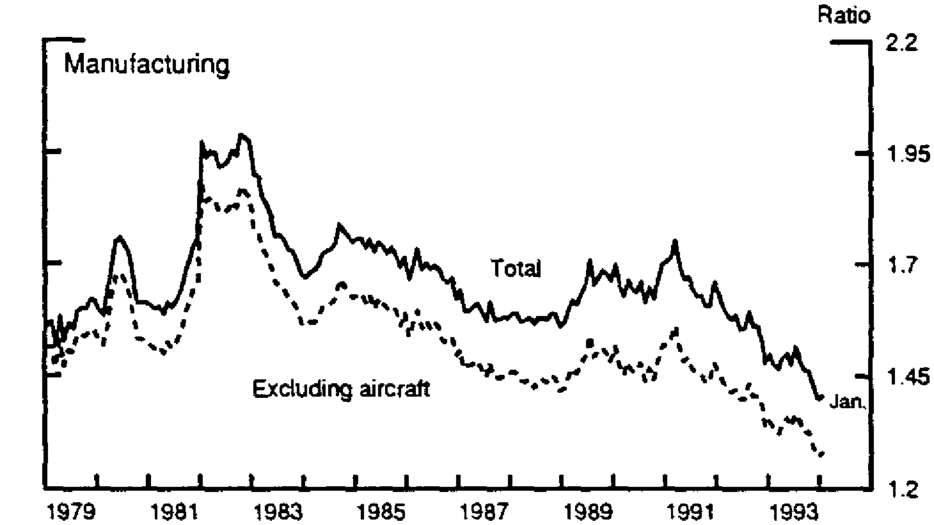
	1993			1993		1994
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Current-cost basis						
Total	20.5	12.7	22.7	58.1	-17.9	-2.0
Excluding auto dealers	20.9	22.3	7.7	36.6	-29.8	-5.8
Manufacturing	7.1	-2.5	-13.1	-1.4	-33.1	15.5
Defense aircraft	-.2	-.8	-4.7	4.3	-10.5	-1.2
Nondefense aircraft	-3.1	-3.3	-4.5	-1.4	-9.2	3.2
Excluding aircraft	10.5	1.5	-3.9	-4.3	-13.3	13.4
Wholesale	6.2	12.2	5.6	13.4	4.8	-11.0
Retail	7.2	3.0	30.1	46.1	10.4	-6.4
Automotive	-.3	-9.6	14.9	21.6	12.0	3.9
Excluding auto dealers	7.5	12.7	15.2	24.6	-1.5	-10.3
Constant-dollar basis						
Total	14.0	16.4	11.0	32.3	-2.2	n.a.
Excluding auto dealers	14.4	23.5	10.0	30.6	-13.3	n.a.
Manufacturing	5.0	3.1	-3.5	5.1	-16.5	n.a.
Wholesale	5.9	8.5	1.4	6.2	3.4	n.a.
Retail	3.0	4.8	13.2	21.0	10.9	n.a.
Automotive	-.5	-7.1	1.0	1.7	11.1	n.a.
Excluding auto dealers	3.5	11.8	12.1	19.3	-.2	n.a.

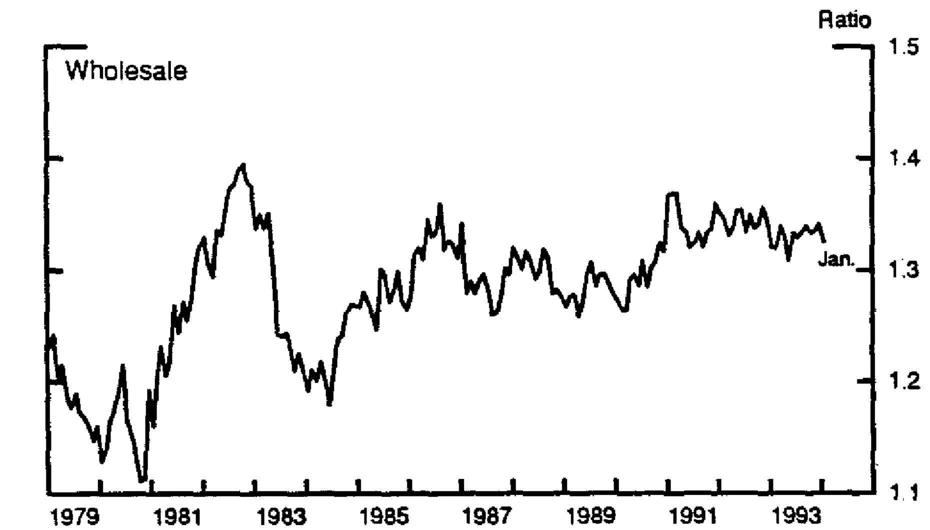
INVENTORIES RELATIVE TO SALES[1]
(Months supply; based on seasonally adjusted data)

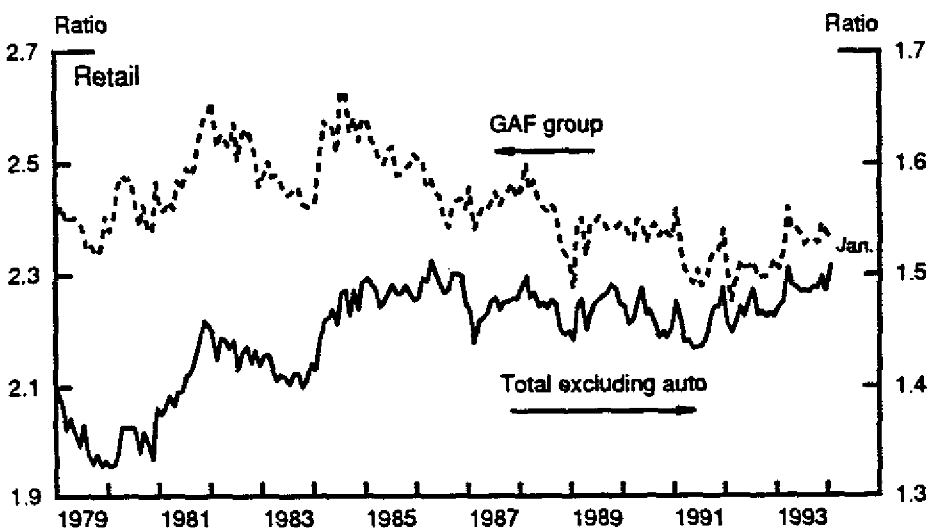
	1993			1993		1994
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Current-cost basis						
Total	1.47	1.47	1.44	1.44	1.42	1.43
Excluding auto dealers	1.44	1.45	1.42	1.42	1.40	1.41
Manufacturing	1.49	1.49	1.42	1.43	1.40	1.41
Defense aircraft	5.25	5.22	5.24	5.63	5.85	4.90
Nondefense aircraft	4.87	5.39	5.05	5.63	4.60	4.81
Excluding aircraft	1.35	1.35	1.29	1.29	1.27	1.28
Wholesale	1.32	1.34	1.34	1.33	1.34	1.33
Retail	1.58	1.56	1.55	1.55	1.54	1.56
Automotive	1.90	1.78	1.74	1.72	1.71	1.73
Excluding auto dealers	1.49	1.50	1.49	1.50	1.49	1.51
Constant-dollar basis						
Total	1.56	1.55	1.52	1.52	1.50	n.a.
Excluding auto dealers	1.54	1.54	1.51	1.51	1.49	n.a.
Manufacturing	1.60	1.60	1.54	1.54	1.51	n.a.
Wholesale	1.42	1.42	1.43	1.42	1.43	n.a.
Retail	1.62	1.60	1.57	1.57	1.55	n.a.
Automotive	1.85	1.76	1.65	1.63	1.62	n.a.
Excluding auto dealers	1.55	1.55	1.55	1.55	1.53	n.a.

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

RATIO OF INVENTORIES TO SALES
(Current-cost data)







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

	Fiscal year to date (January)			
	FY1993	FY1994	Dollar change	Percent change
Outlays	468.5	486.6	18.1	3.9
Deposit insurance (DI)	-9.0	-.9	8.1	-89.9
Outlays excluding DI	477.5	487.5	10.0	2.1
National defense	97.7	92.9	-4.7	-4.8
Net interest	67.0	67.0	.0	.0
Medicare and health	72.2	80.4	8.3	11.4
Social security	98.2	103.2	5.0	5.1
Income security	67.0	70.1	3.1	4.6
Other	75.6	73.9	-1.7	-2.2
Receipts	377.8	410.2	32.4	8.6
Personal income and social insurance taxes				
Withheld	278.9	298.2	19.3	6.9
Nonwithheld	44.4	45.7	1.3	2.9
Refunds (-)	4.3	3.8	-.5	-11.7
Corporate income taxes	29.7	36.5	6.8	22.8
Excise	15.1	17.1	2.0	13.5
Other	14.0	16.4	2.5	17.6
Deficit(+)	90.6	76.4	-14.2	-15.7
Excluding DI	99.7	77.4	-22.3	-22.4

Details may not add to totals because of rounding.

developments in both receipts and outlays: Tax receipts outpaced nominal GDP growth while the rise in outlays was more restrained.

Relatively strong growth was evident across all major sources of taxes. For the fiscal year to date, corporate income taxes increased 23 percent over the comparable 1993 period, reflecting both sizable gains in corporate profits and the speed-up of corporate tax payments required by the Unemployment Compensation Amendments of 1992.[11] Individual and social insurance taxes were 7 percent higher, boosted in part by the increase in withholding rates for high-income individuals in January. Excise taxes rose 14 percent, in part because of the hike in the tax on transportation fuels in October.

The pattern of personal tax receipts around the turn of this year was similar to that experienced a year earlier. As occurred in late 1992, personal tax receipts were unusually high in December 1993, suggesting that some high-income taxpayers shifted wage and salary income forward from January to avoid the higher Medicare taxes that went into effect this year. January nonwithheld tax receipts, which include the final quarterly estimated tax payment on the prior year's tax liability, also were high for a second year. As in 1993, payments this year were likely boosted by the rules enacted in 1991, which increased the percentage of their expected yearly tax liabilities that individuals must pay through withholding or estimated tax payments. Some of the bulge in January 1993 was also attributable to income shifting in anticipation of higher taxes under the then-incoming Clinton Administration, but such shifting likely was less of a factor this year.

Excluding deposit insurance, outlays have risen only about 2 percent so far this fiscal year. Restrained by the caps on

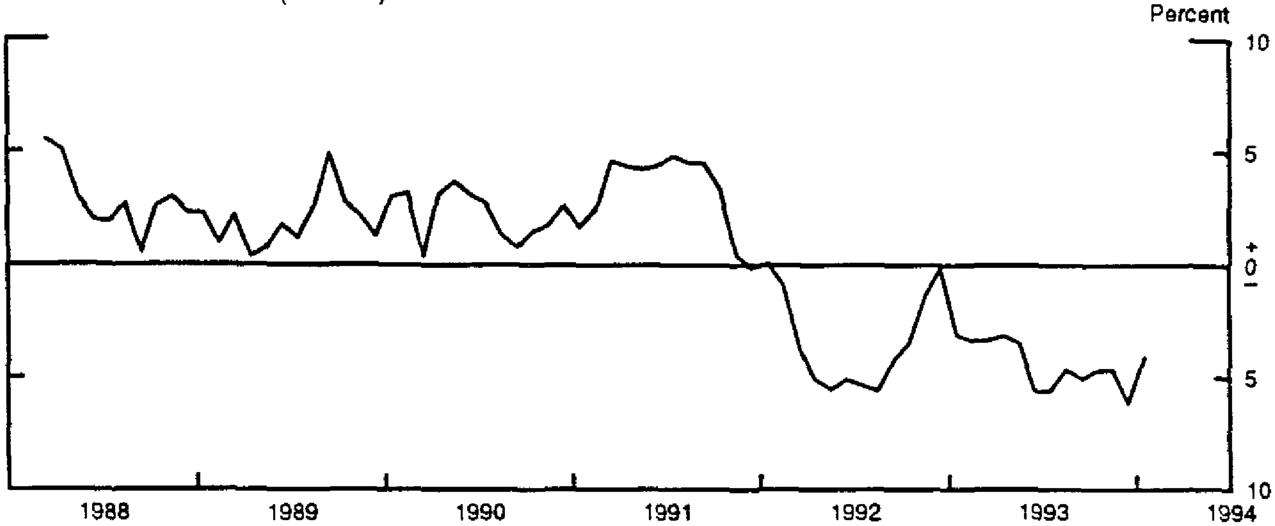
11. The speedup of tax payments was used to help finance the extension of emergency unemployment benefits.

3/10/94

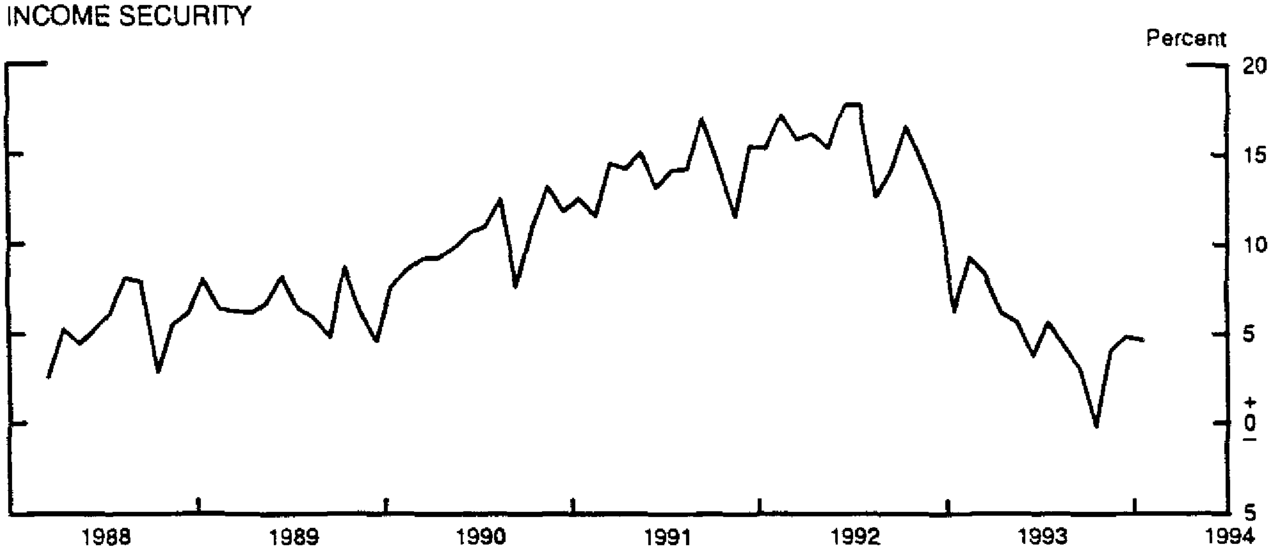
SELECTED COMPONENTS OF FEDERAL OUTLAYS

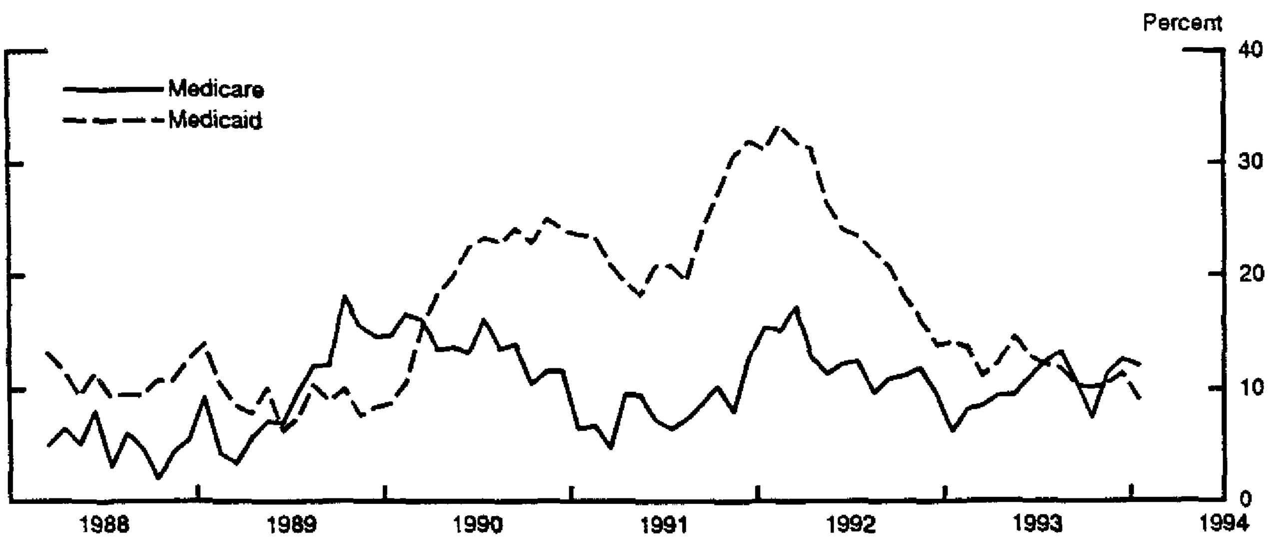
(Percent change form one year earlier*)

NATIONAL DEFENSE (ex DCA)



INCOME SECURITY





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

discretionary appropriations, defense spending has dropped about 5 percent in nominal terms. With regard to mandatory spending, the growth in income security programs has continued to slow, in part because of reductions in outlays for unemployment benefits. However, health-related spending, up about 11 percent for the current fiscal year to date, has shown no noticeable deceleration since the unwinding of the 1990-92 Medicaid bulge. Net interest payments have remained flat as rising debt levels have about offset the effects of the downward trend in interest rates.

A supplemental appropriations bill was passed in February that authorized $11 billion in spending and $1 billion of new loans mainly for the California earthquake, Somalia peace keeping, and Midwest floods. Because this spending has been given the emergency designation, it is not subject to the discretionary spending caps. The outlays authorized by this legislation will be disbursed over the next several years with $4 billion and $3 billion allocated to fiscal years 1994 and 1995 respectively.

On February 7, the Clinton Administration released its budget for fiscal year 1995. The Administration projects that the unified budget deficit will be $235 billion in fiscal 1994, drop to $165 billion in fiscal 1995, and then rise slightly through 1998. The Administration's deficit projections, adjusted for the effects of the health care reform package and the President's other initiatives, are quite similar to CBO's.

Some of the projected improvement in the deficit reflects the Administration's assumption that real GDP will grow at above-potential rates over the next several years, and that the unemployment rate will decline to 5.5 percent by 1998 (under the old survey methodology). The brighter fiscal picture also reflects the budget restrictions enacted in OBRA93, which set a discretionary

ADMINISTRATION BUDGET PROJECTIONS
(Billions of dollars)

	Fiscal years					
	1994	1995	1996	1997	1998	1999
TOTAL DEFICIT	235	165	170	186	191	181
Health care reform	0	-11	-3	7	5	-18
Other initiatives	-1	-1	-5	-4	-1	-12
Baseline deficit	236	177	178	184	187	211
Memo: CBO estimates						
Baseline deficit	223	171	166	182	180	204
Health care reform	0	-10	1	20	32	21

ADMINISTRATION ECONOMIC ASSUMPTIONS

	Calendar years					
	1994	1995	1996	1997	1998	1999
	------Percent change, Q4 over Q4------					
Real GDP	3.0	2.7	2.7	2.6	2.6	2.5
GDP deflator	2.7	2.8	2.9	3.0	3.0	3.0
CPI-U	3.0	3.2	3.3	3.4	3.4	3.4
	--------Percent, annual average-------					
Civilian unemployment rate[1]	6.4	6.0	5.8	5.6	5.5	5.5
Interest rates						
3-month Treasury bills	3.4	3.8	4.1	4.4	4.4	4.4
10-year Treasury notes	5.8	5.8	5.8	5.8	5.8	5.8

1. Pre-1994 basis.

spending cap for each year through 1998 and reaffirmed the pay-as-you-go (PAYGO) requirements governing mandatory spending and taxes. The discretionary caps are roughly constant in nominal terms: thus, real discretionary spending is required to fall at about the rate of inflation. Under the PAYGO rules, new legislation affecting mandatory spending and receipts may not increase the deficit in any year.

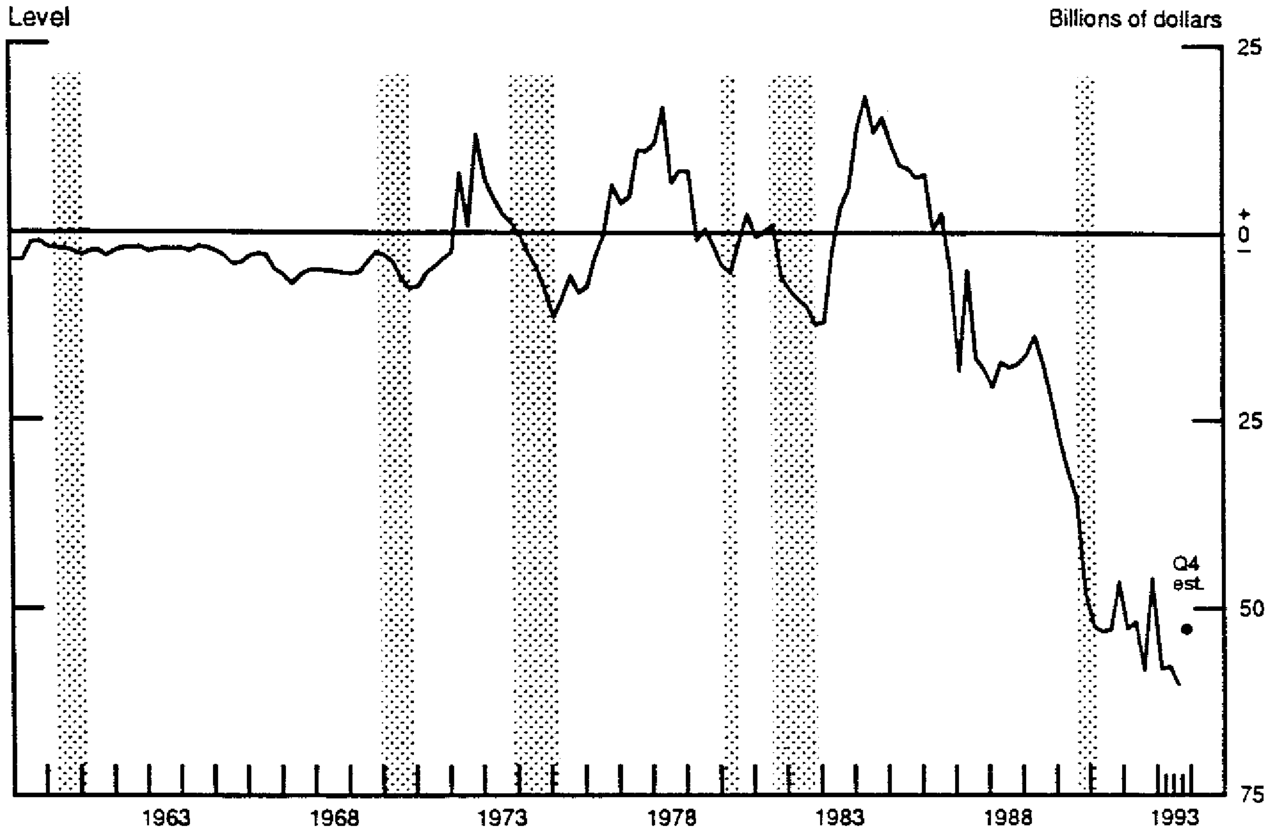
The OBRA93 restrictions also appear to have constrained new policy initiatives by the Administration. Proposed increases in some training, education, and health programs were limited by the need to find offsetting cuts in other programs. Although the Administration has indicated that it will propose welfare reform later in the year, it has not been included in the budget. The budget does include the Administration's health reform package, which is estimated to have little effect on the deficit through fiscal year 1998 and to generate sizable deficit reduction thereafter. In contrast, CBO estimates that the health plan would add to the deficit over this period.

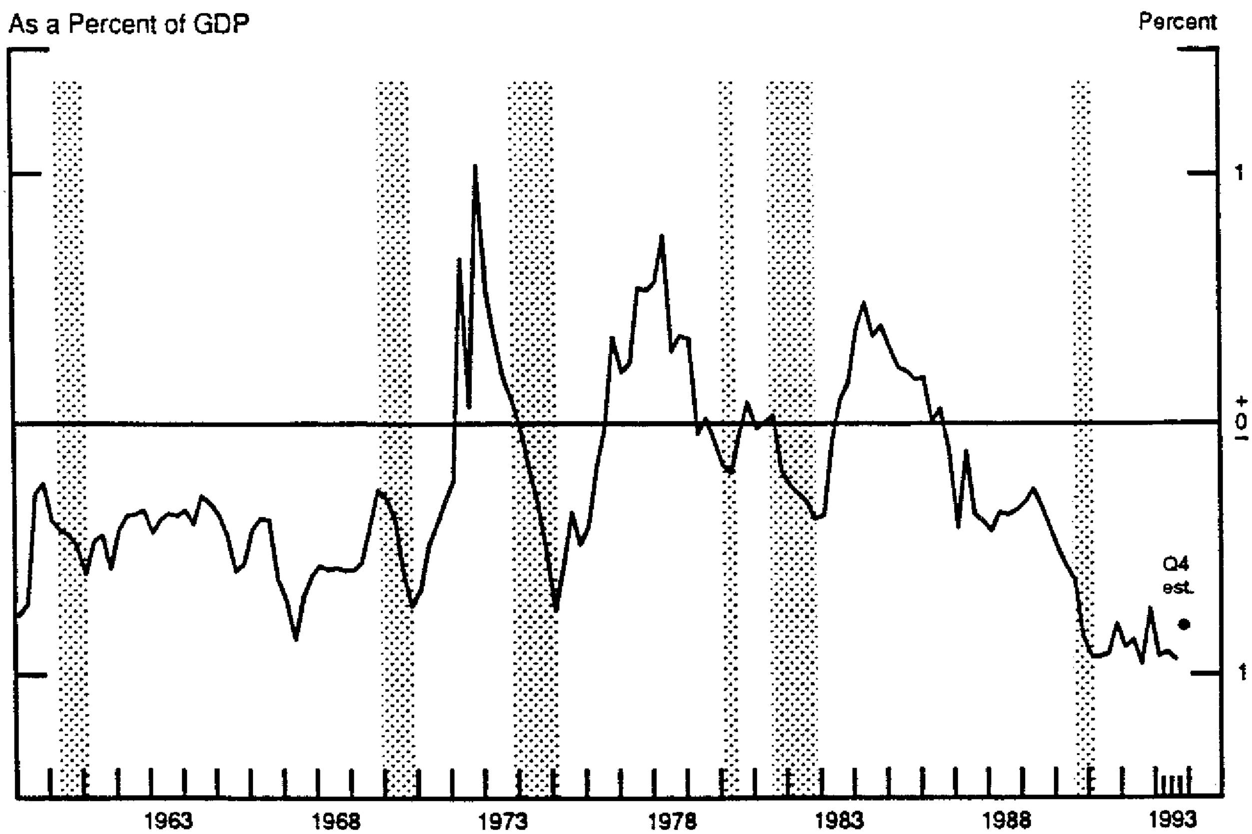
State and Local Government Sector

State and local government purchases appear to be slowing in the first quarter following three large quarterly advances. Outlays for construction, which posted a strong advance in the fourth quarter, dropped sharply in January. At least part of that decline probably reflected weather-related slowdowns in the East and Midwest, offset a bit by some earthquake rebuilding in California. State and local employment grew by 16,000 workers in February, following a substantially smaller gain in January. The rise so far this year has been somewhat weaker than the average seen last year. Local governments coping with weather-related problems in the past

STATE AND LOCAL SECTOR SURPLUS (DEFICIT)*

(NIPA basis)





*Excludes social insurance funds.

two months reportedly have extended hours of existing employees and contracted out to private workers.

While still large on a historical basis, the NIPA deficit of operating and capital accounts, excluding social insurance funds, narrowed a bit in the fourth quarter to an estimated $52 billion (annual rate). This reduction in the deficit is broadly consistent with survey and anecdotal reports from the states, which are also suggesting budgetary improvement during the current fiscal year.

Prices

Inflation at the finished goods level has remained subdued despite the acceleration in economic activity in recent quarters. In January and February, consumer price increases (both overall and excluding food and energy) averaged about 0.2 percent per month, a bit below the average increase of about 0.25 percent per month over 1993. Price increases at the intermediate goods level have also been small recently. By contrast, prices of crude materials (excluding food and energy) have continued to rise rapidly, as they did during much of 1993. Crude material costs represent a relatively small part of the value of finished goods, however, and such cost increases alone usually do not directly impart much upward thrust to finished goods prices.

Retail food prices fell in the first two months of the year. Prices of fresh fruit and vegetables accounted for the decline, dropping about 6 percent over the two months following their sizable runup towards the end of 1993. Excluding fruits and vegetables, which are extremely volatile on a month-to-month basis, food prices edged up. At the commodity level, spot and futures prices of major crops have dropped back somewhat since the last Greenbook, but stocks of several of these commodities remain unusually low, raising

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

	Relative importance, Dec. 1993	1992	1993	1993 Q2	1993 Q3	1993 Q4	1994 Jan.	1994 Feb.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	2.9	2.7	2.5	2.0	3.3	.0	.3
Food	15.8	1.5	2.9	2.3	2.6	4.9	-.1	-.3
Energy	7.0	2.0	-1.4	-3.8	-4.2	1.2	-.8	1.6
All items less food and energy	77.2	3.3	3.2	3.2	2.1	3.4	.1	.3
Commodities	24.4	2.5	1.6	.9	.0	2.4	.0	-.1
Services	52.8	3.7	3.9	4.1	3.5	3.7	.2	.4
Memo:								
CPI-W[3]	100.0	2.9	2.5	2.6	1.4	3.1	.1	.2

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

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

	Relative importance, Dec. 1993	1992	1993	1993 Q2	1993 Q3	1993 Q4	1994 Jan.	1994 Feb.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	1.6	.2	.0	-2.5	-.3	.2	.5
Consumer foods	22.9	1.6	2.4	1.3	3.2	5.2	-.3	-.4
Consumer energy	13.3	-.3	-3.8	-5.4	-7.4	-14.6	.8	2.8
Other finished goods	63.7	2.0	.4	.9	-3.5	.9	.4	.1
Consumer goods	40.3	2.1	-.6	.6	-6.4	1.2	.3	.2
Capital equipment	23.4	1.7	1.9	.6	2.2	.9	.6	.1
Intermediate materials[2]	95.2	1.1	.6	.3	-1.0	-.7	.2	.4
Excluding food and energy	82.3	1.2	1.6	.0	1.0	1.6	.2	.0
Crude food materials	44.1	3.0	6.6	-3.0	13.1	15.5	-.9	1.2
Crude energy	34.4	2.3	-13.7	17.5	-28.1	-26.8	3.8	-6.4
Other crude materials	21.5	5.7	11.6	11.2	-4.5	19.6	1.6	2.0

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

the prospects for more price volatility than usual in agricultural markets in coming months.

Energy prices at the consumer level moved up 1.6 percent in February, reflecting the weather-induced increases in spot prices of both heating oil and natural gas. Nevertheless, with crude oil prices remaining low, these weather effects likely will prove to be transitory. Indeed, by mid-March, the spot prices of gasoline and fuel oil had moved back down to near their levels at the time of the last Greenbook.

Excluding food and energy, the CPI increased 0.3 percent in February, after a rise of only 0.1 percent in January; over the past twelve months, these prices have increased 2.8 percent. Prices of nonfood, nonenergy commodities have been especially tame so far this year. Tobacco prices--which declined 6 percent in 1993--moved down another 1/2 percentage point in the first two months of this year. Apparel prices also were down in January and February, but this may reflect a delay in the seasonal price increases that will be associated with the introduction of spring and summer merchandise. However, the CPI for new motor vehicles was up about 1/2 percent in February, reflecting strong demand in that industry. Among services, rent of shelter (which accounts for more than a third of the CPI excluding food and energy) increased about 1/4 percent in January--its average pace over the past year--but was up about 1/2 percent in February.

Consumers' inflation expectations have continued to edge lower in the past two months, although they are still running above inflation measured over the the past year. The Michigan survey showed the average expected price change for the next twelve months declining to near 3-1/2 percent in January and February from 3-3/4 percent in the fourth quarter. The median of expectations from this survey also has moved lower. In the Conference Board

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Feb 1992	Feb 1993	Feb 1994
CPI	3.8	3.6	2.8
Goods	2.9	2.8	0.8
Alcoholic beverages	2.9	2.3	1.3
New vehicles	2.4	2.4	3.4
Apparel	3.1	2.5	-1.1
House furnishings	1.3	0.2	1.5
Housekeeping supplies	0.6	1.0	0.8
Medical commodities	7.9	4.4	2.8
Entertainment	2.5	2.1	1.2
Tobacco	8.5	10.4	-7.7
Services	4.1	4.0	3.7
Owners' equivalent rent	3.5	3.3	3.3
Tenants' rent	2.9	2.4	2.5
Other renters' costs	6.0	3.1	3.5
Airline fares	-7.6	12.7	10.0
Medical care	7.9	6.8	5.4
Entertainment	4.0	3.3	4.9
Auto financing	-12.1	-8.4	-5.4
Tuition	9.1	8.8	6.8
PPI finished goods	2.5	2.0	0.4
Consumer goods	2.8	2.2	-0.5
Capital goods, excluding computers	2.8	2.7	2.2
Computers	-18.8	-14.8	-11.8
PPI intermediate materials	-0.7	1.7	1.1
PPI crude materials	-6.1	9.7	10.2
<u>Factors affecting price inflation</u>			
ECI hourly compensation[1]	4.4	3.5	3.6
Goods-producing	4.6	3.8	3.9
Service-producing	4.3	3.2	3.6
Civilian unemployment rate[2,3]	7.4	7.0	6.5
Capacity utilization[2] (manufacturing)	78.1	80.2	82.6
Inflation expectations[4]			
Mean of responses	3.5	4.6	3.7
Median, bias-adjusted[5]	3.5	4.1	3.7
Non-oil import price[6]	0.2	0.8	1.5
Consumer goods, excluding autos, food, and beverages	1.0	2.2	1.0
Autos	2.8	0.4	3.9

1. Private industry workers, periods ended in December.
2. End-of-period value.
3. Data for 1994 are not directly comparable with earlier values due to a redesign of the CPS in January 1994.
4. Michigan Survey one-year ahead expectations.
5. Median adjusted for average downward bias of 0.9 percentage points, relative to actual inflation, since 1978.
6. BLS import price index (not seasonally adjusted), periods ended in December.
n.a. Not available.

survey, expectations held about unchanged at 4-1/4 percent in January and February.

The PPI for finished goods rose 0.5 percent in February, after a 0.2 percent increase in January. However, much of the February increase owed to a surge in energy prices, especially for gasoline and heating oil. By contrast, the PPI for food was down in February, reflecting a plunge in fresh vegetable prices. Excluding food and energy, the PPI rose 0.1 percent and was up 0.4 percent over the past twelve months.

Price pressures also remain subdued in the markets for intermediate materials. The index for intermediate goods excluding food and energy was unchanged in February, and the increase over the past twelve months was 1.1 percent. However, the index for crude materials other than food and energy was up another 2 percent in February after rising 1-1/2 percent in January and nearly 12 percent over 1993. The February increase reflected jumps in the price of raw cotton and of several metals.

Spot commodity prices have increased on balance since the last Greenbook, despite the easing of farm commodity prices noted above. Lumber prices, while continuing to exhibit considerable volatility, are up slightly on net since the week of the last Greenbook. Steel scrap prices, which had surged in the second half of 1993, have been unchanged over the past several weeks; however, prices of other metals have generally increased, and the Journal of Commerce index of industrial prices (which is heavily weighted toward metals) is up about 1-1/2 percent since the last Greenbook. The prices of gold and other precious metals also have moved higher. In the energy markets, fuel oil prices surged in early February but have since fallen back; crude oil prices followed an opposite path, dropping back somewhat through the first half of February, but rallying a bit in recent days.

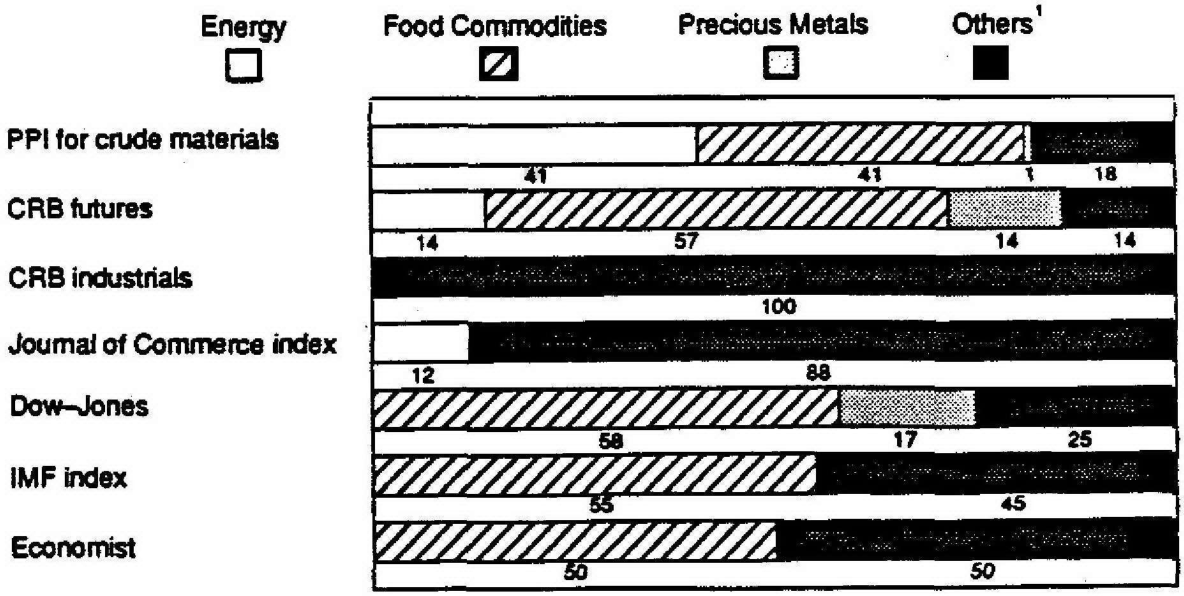
SPOT PRICES OF SELECTED COMMODITIES

	Last observ-ation	Percent change[2] 1992	1993	Dec 93 to Jan 25[3]	Jan 25[3] to date	Memo: Year earlier to date
1. PPI for crude materials	Feb	3.3	-0.5	1.8	-1.3	-0.5
1a. Foods and feeds	Feb	3.0	6.6	0.0	1.2	6.4
1b. Energy	Feb	2.3	-13.7	3.8	-6.4	-13.7
1c. Excluding food and energy	Feb	5.7	11.6	2.0	2.5	10.2
1d. Excluding food and energy, seasonally adjusted	Feb	6.1	11.6	1.6	2.0	10.2
2. Commodity Research Bureau						
2a. Futures prices	Mar 15	-2.9	11.6	0.2	1.6	9.5
2b. Industrial spot prices	Mar 15	-0.7	-0.0	1.7	3.2	4.4
3. Journal of Commerce industrials	Mar 15	5.0	-4.0	1.8	1.7	-3.8
3a. Metals	Mar 15	1.9	-2.6	2.4	1.2	1.3
4. Dow-Jones Spot	Mar 15	10.4	5.1	1.6	2.4	5.7
5. IMF commodity index[4]	Feb	-2.6	2.4	1.4	1.4	6.0
5a. Metals	Feb	-3.1	-14.4	1.6	2.7	-7.3
5b. Nonfood agricultural	Feb	2.4	0.2	1.6	2.9	2.9
6. Economist (U.S. dollar index)	Mar 08	1.6	9.1	-0.8	3.8	9.3
6a. Industrials	Mar 08	4.5	4.4	0.1	6.7	3.3

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

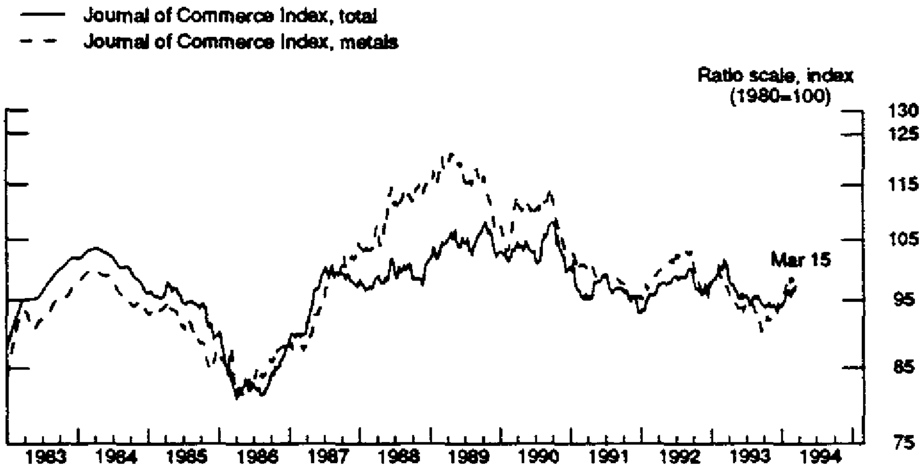
n.a. Not available

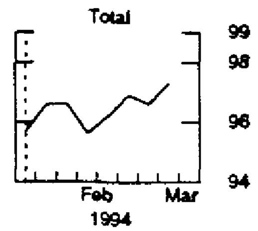
Index Weights

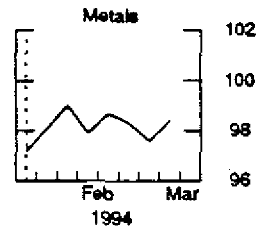


1. Forest products, industrial metals, and other industrial materials.

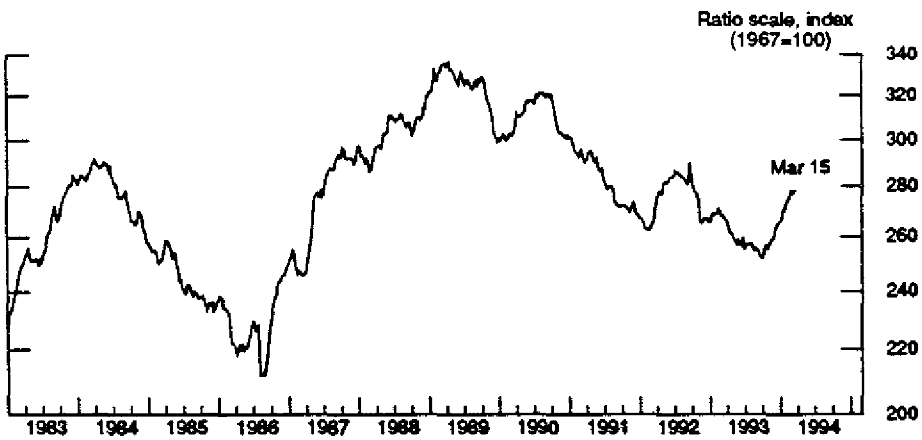
COMMODITY PRICE MEASURES *

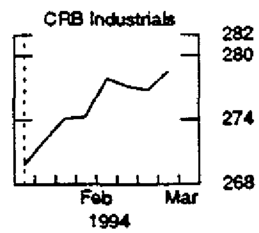




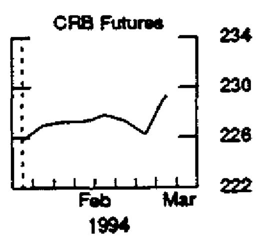


CRB Spot Industrials





CRB Futures



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

Dotted lines indicate week of last Greenbook.

DOMESTIC FINANCIAL DEVELOPMENTS

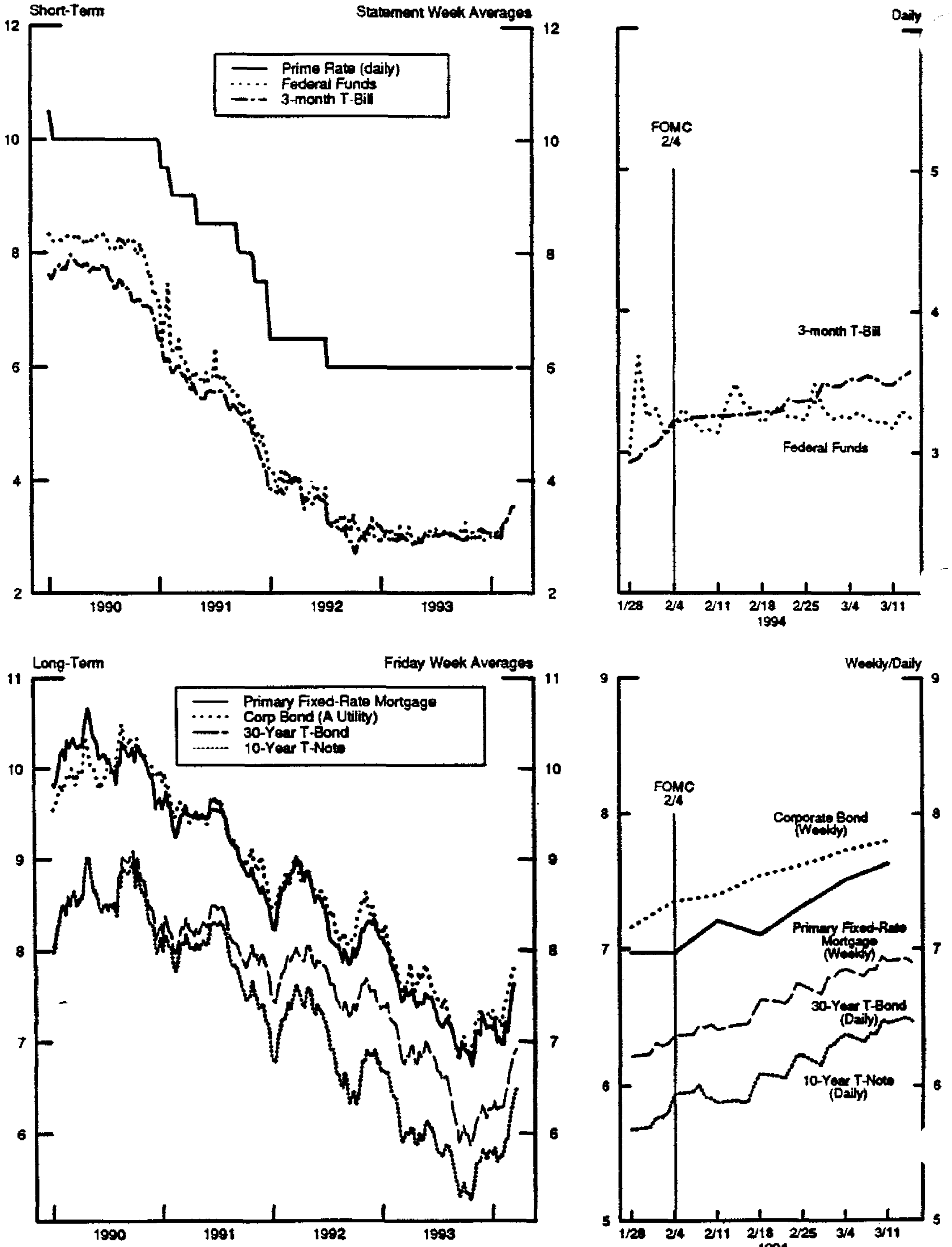
SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent except as noted)

Instrument	1993 Mid-Oct lows	1994 Feb 3	1994 FOMC, Feb 4	1994 Mar 15	Change to Mar 15, 1994: From Mid-Oct lows	From Feb 3	From FOMC Feb 4
SHORT-TERM RATES							
Federal funds[2]	3.07	3.07	3.07	3.23	.16	.16	.16
Treasury bills[3]							
3-month	3.01	3.13	3.23	3.58	.57	.45	.35
6-month	3.09	3.27	3.38	3.82	.73	.55	.44
1-year	3.23	3.52	3.69	4.12	.89	.60	.43
Commercial paper							
1-month	3.13	3.16	3.16	3.62	.49	.46	.46
3-month	3.23	3.25	3.25	3.85	.62	.60	.60
Large negotiable CDs[3]							
1-month	3.08	3.11	3.13	3.53	.45	.42	.40
3-month	3.22	3.25	3.26	3.75	.53	.50	.49
6-month	3.23	3.41	3.43	4.02	.79	.61	.59
Eurodollar deposits[4]							
1-month	3.06	3.06	3.13	3.44	.38	.38	.31
3-month	3.25	3.25	3.31	3.75	.50	.50	.44
Bank prime rate	6.00	6.00	6.00	6.00	.00	.00	.00
INTERMEDIATE- AND LONG-TERM RATES							
U.S. Treasury (constant maturity)							
3-year	4.06	4.60	4.75	5.38	1.32	.78	.63
10-year	5.19	5.81	5.94	6.47	1.28	.66	.53
30-year	5.78	6.31	6.37	6.90	1.12	.59	.53
Municipal revenue[5] (Bond Buyer)	5.41	5.49	5.49	6.17	.76	.68	.68
Corporate--A utility, recently offered	6.79	7.35	7.35	7.79	1.00	.44	.44
Home mortgages[6]							
FHLMC 30-yr. fixed rate	6.74	6.97	6.97	7.63	.89	.66	.66
FHLMC 1-yr. adjustable rate	4.14	4.12	4.12	4.51	.37	.39	.39

Stock exchange index	Record high: Level	Record high: Date	1989 Low, Jan. 3	1994 FOMC, Feb 4	1994 Mar 15	Percentage change to Mar 15: From record high	From 1989 low	From FOMC Feb 4
Dow-Jones Industrial	3978.36	1/31/94	2144.64	3871.42	3849.59	-3.24	79.50	-.56
NYSE Composite	267.71	2/2/94	154.00	261.21	258.99	-3.26	68.18	-.85
NASDAQ (OTC)	800.47	1/31/94	378.56	777.28	793.52	-.87	109.62	2.09
Wilshire	4804.31	2/2/94	2718.59	4685.14	4686.35	-2.46	72.38	.03

1. One-day quotes except as noted.
2. Average for two-week reserve maintenance period closest to date shown. Last observation is average to date for maintenance period ending March 16, 1994.
3. Secondary market.
4. Bid rates for Eurodollar deposits at 11 a.m. London time.
5. Most recent observation based on one-day Thursday quote and futures market index changes.
6. Quotes for week ending Friday previous to date shown.

Selected Interest Rates*
(percent)



* Statement weeks are plotted through Mar 9; Friday weeks through Mar 11, 1994.

Since the System's action to tighten reserve conditions on February 4, the federal funds rate has increased 25 basis points to 3-1/4 percent, but other rates have risen by considerably more. Across the Treasury yield curve, for example, rates have jumped 40 to 60 basis points with the largest increases in the intermediate maturities. Some of the rise reflects expectations that the Federal Reserve will raise short-term rates faster than previously thought and that further tightening is, in fact, imminent. Contributing to that impression was surprisingly strong year-end 1993 economic data and evidence of solid economic growth in early 1994 which were seen as suggesting stronger credit demands and the need for higher interest rates to contain inflation. Heightened trade tension and unsettled conditions in financial markets abroad also may have contributed to the rise in rates. In total, though, not all of the increase can be explained by fundamentals, suggesting that some portion may represent the effect of attempts by fund managers to pare holdings of long-term bonds in the U.S. and abroad as opportunities to profit from rate declines were seen as having run their course.

The rise in interest rates contributed to weakness in stock prices, which have declined on net since early February and are now 2 percent to 3 percent below the highs recorded just before the February FOMC meeting. Shares of some banks thought to have been exposed to global weakness in capital markets have fallen by more.

The monetary aggregates weakened in February. M2 contracted at a 1 percent annual rate: M1 continued to expand at a moderate pace but declines in the non-M1 components of M2 were widespread. M3 collapsed, falling at a 7-3/4 percent pace as institutional investors reacted quickly to a widening spread between money market

MONETARY AGGREGATES
(Based on seasonally adjusted data)

Aggregate or component	1993[1]	1993 Q3[2]	1993 Q4[2]	1993 Dec.	1994 Jan.	1994 Feb. (p)	1993:Q4 to Feb. 94 (p)	Level (bil. $) Feb. 9 (p)
Aggregate	Percentage change (annual rate)							
1. M1	10.5	12.0	9.4	6.5	5.4	5.4	6.2	1138.7
2. M2	1.4	2.6	2.1	2.4	2.3	-1.0	1.4	3569.9
3. M3	0.6	1.1	2.4	3.5	1.2	-7.7	-1.0	4205.3
Selected components								
4. M1-A	11.7	13.2	10.6	5.9	12.6	9.8	10.1	727.6
5. Currency	10.3	10.5	9.0	7.1	14.6	14.4	12.1	329.2
6. Demand deposits	13.4	15.9	12.2	5.3	11.2	6.2	8.7	390.5
7. Other checkable deposits	8.4	10.0	7.3	7.3	-6.7	-2.6	-0.8	411.1
8. M2 minus M1[3]	-2.3	-1.5	-1.2	0.5	0.8	-3.9	-0.8	2431.2
9. Overnight RPs and Eurodollars, n.s.a.	9.9	30.6	30.4	16.2	43.9	-24.4	11.2	91.7
10. General-purpose and broker-dealer money market funds	-1.8	-1.8	2.1	7.2	-3.4	-13.1	-2.8	345.1
11. Commercial banks	-1.0	-1.2	-0.6	1.9	1.6	-0.5	0.9	1255.1
12. Savings deposits	4.2	4.9	3.6	4.4	7.3	1.5	4.7	791.1
13. Small time deposits	-8.6	-10.6	-7.3	-2.3	-7.9	-3.9	-5.3	464.0
14. Thrift institutions	-5.8	-4.4	-5.1	-5.8	-3.2	-5.2	-4.6	741.0
15. Savings deposits	0.6	2.3	-0.4	2.0	0.0	-0.8	-0.1	429.9
16. Small time deposits	-13.3	-13.1	-11.1	-15.7	-8.0	-11.1	-10.8	311.1
17. M3 minus M2[3]	-3.5	-6.6	4.0	9.5	-5.1	-44.4	-14.2	635
18. Large time deposits	-6.8	-7.0	-1.4	-1.8	8.1	-20.7	-5.5	335
19. At commercial banks[4]	-6.5	-7.5	-0.3	5.2	9.1	-24.0	-4.8	274.0
20. At thrift institutions	-8.2	-4.3	-6.9	-34.0	3.9	-7.8	-9.5	61.5
21. Institution-only money market mutual funds	-5.4	-10.4	8.8	13.6	-26.2	-98.4	-37.9	176.9
22. Term RPs, n.s.a.	16.9	24.3	-5.8	17.9	-59.1	-39.7	-29.2	87.7
23. Term Eurodollars, n.s.a.	-0.9	-32.8	26.5	-66.5	-39.1	53.9	-0.9	46.5
	Average monthly change (billions of dollars)							
Memo								
24. Managed liabilities at com'l. banks (lines 25 + 26)	5.8	11.9	3.2	33.9	29.0	-7.4	...	873.7
25. Large time deposits, gross	-2.3	-5.9	2.1	4.4	1.5	-5.1	...	340.0
26. Nondeposit funds	8.1	17.8	1.1	29.5	27.5	-2.3	...	533.7
27. Net due to related foreign institutions	4.4	12.1	-2.8	-2.0	-1.3	20.9	...	137.4
28. Other[5]	3.7	5.6	3.9	31.5	28.8	-23.2	...	396.3
29. U.S. government deposits at commercial banks[6]	0.2	-0.5	-0.3	4.7	1.0	2.5	...	26.0

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.

mutual funds and higher-yielding short-term instruments. Data for early March for the broad aggregates suggest some rebound at a time when households appear to be pulling back from longer-term mutual funds.

It is too soon to tell if the higher interest rates and unsettled conditions in financial markets are significantly altering borrowing by the nonfederal sectors. Business borrowing appears to have tilted toward shorter maturity bonds and bank loans. Issuance of municipal debt has slowed in response to the backup in interest rates. Mortgage debt growth may have been affected by the recent weather-related disruptions to housing activity, although underlying debt growth of households appears firm.

Monetary Aggregates and Bank Credit

M2 declined 1 percent at an annual rate in February, following increases at about a 2-1/2 percent rate in both December and January. The M1 component continued to grow moderately in February: Currency posted another double-digit gain; growth of demand deposits slowed, reflecting the continued decline in the volume of mortgage refinancings; and the run-off in other checkable deposits abated.[1] Outside of M1, money market funds recorded a substantial outflow, despite indications that households have reacted to weakness in capital markets by investing less in bond funds. Moreover, inflows to saving deposits weakened in February, perhaps in response to the increase in opportunity costs on such accounts, while small time deposits continued to decline near the pace of recent months.

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1. The decline in other checkable deposits was accounted for by the introduction of a product to sweep balances from other checkable deposits to MMDAs. Because the arrangement was introduced in mid-January, it affected month-average growth in February.

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. 1992 to Dec. 1993	1993 Q3	1993 Q4	1993 Dec.	1994 Jan.	1994 Feb.	Level, Feb. 1994 ($billions)
	Commercial bank credit						
1. Total loans and securities at banks	5.1	4.5	3.7	4.7	6.2	5.7	3,130.5
2. Securities	8.8	5.5	4.4	11.9	14.4	8.0	931.1
3. U.S. government	10.1	5.6	5.6	13.0	7.9	-.5	734.5
4. Other	4.3	5.5	0.0	9.2	39.8	41.0	196.6
5. Loans	3.6	4.1	3.4	1.8	2.8	4.8	2,199.4
6. Business	-1.6	-4.0	-1.4	-.8	10.3	4.7	591.9
7. Real estate	3.6	4.0	4.6	5.7	2.4	-1.2	933.4
8. Consumer	8.6	9.9	9.9	6.8	8.3	10.1	395.7
9. Security	33.3	49.9	19.5	-13.8	-104.5	18.3	79.8
10. Other	.3	.8	-7.5	-12.3	18.7	17.8	198.7
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-2.0	-4.4	-1.3	-.8	9.8	4.8	583.0
12. Loans at foreign branches[2]	-12.1	-26.0	1.9	0.0	-5.5	-38.9	20.9
13. Sum of lines 11 and 12	-2.4	-5.3	-1.2	-.8	9.2	3.2	603.9
14. Commercial paper issued by nonfinancial firms	4.4	20.1	-8.2	-20.9	3.8	-7.6	157.2
15. Sum of lines 13 and 14	-1.0	-.1	-2.8	-5.2	8.4	.8	761.1
16. Bankers acceptances, U.S. trade-related[3,4]	-12.2	-7.4	-22.5	-23.4	11.9	n.a.	20.3[5]
17. Finance company loans to business[4]	-.5	3.4	.1	-1.6	0.0	n.a.	305.8[5]
18. Total (sum of lines 15, 16, and 17)	-1.1	.7	-2.3	-4.4	6.1	n.a.	1,086.7[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. January 1994.
n.a. Not available.

M3 contracted at a 7-3/4 percent annual rate in February. In addition to the weakness in its M2 components, the decline reflects heavy redemptions of institution-only money funds, whose rates move more slowly than rates on market instruments. Also, large time deposits fell sharply, with most of the decline recorded at branches and agencies of foreign banks; they apparently substituted funds raised abroad for domestic CDs to support brisk credit growth.

Bank credit expanded at a 5-3/4 percent pace in February, a little slower than in January but faster than in the fourth quarter.[2] A significant portion of the reported recent growth--more than 3 percentage points in February--actually reflects an accounting change, rather than any net additions to loans and investments. That change, which limits the ability of banks to net off-balance-sheet items, affected the securities component.[3] Overall, holdings of U.S. government securities were little changed over the month, and large banks actually divested short-term securities. The unusual weakness in government securities may reflect the portfolio decisions of managers expecting that interest rates have hit bottom and that opportunities for additional capital gains on fixed-income investments have passed. Moreover, since the beginning of the year, banks have reported their securities "held for sale" on a marked-to-market basis, and some of the weaker growth may reflect a decline in security valuations.[4]

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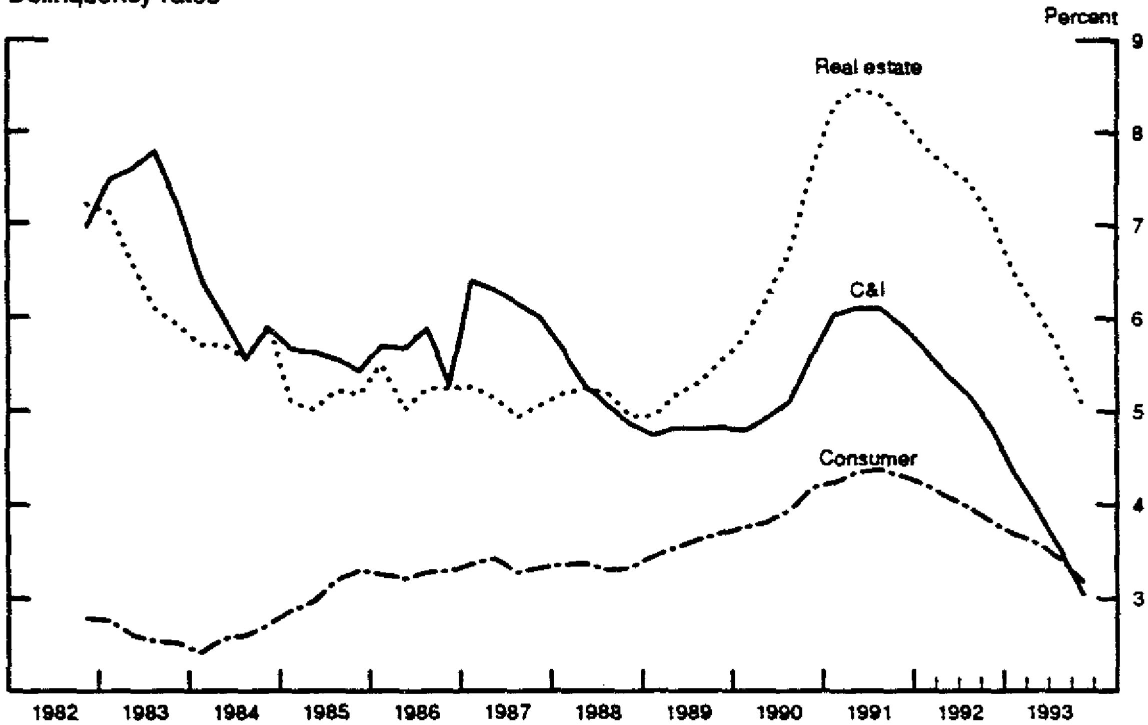
2. Bank credit data have been benchmarked back to 1988 using recent Call Reports. Also, seasonal factors have been reestimated, and a new method for smoothing through breaks in series has been implemented.

3. As indicated in the January Greenbook, banks must report the net cash value of off-balance-sheet items such as swaps and options on their balance sheets, as other trading account assets (a component of other securities) or other liabilities. Previously, banks were permitted to net across counterparties, but FASB has determined that beginning this year, banks may net gains and losses only for given customers.

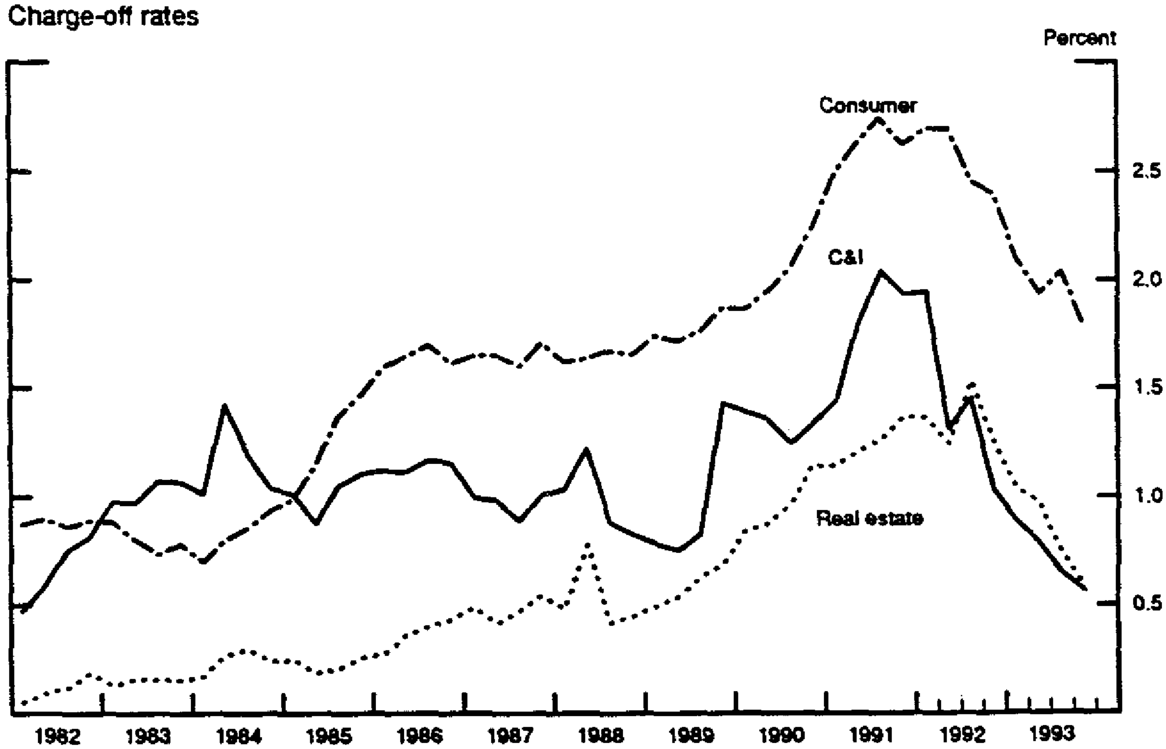
4. FASB115, which is effective for fiscal years beginning after December 15, 1993, was implemented by most banks in January 1994.

Delinquency and Charge-Off Rates at Large Banks, SA
(By Type of Loan)

Delinquency rates



Charge-off rates



Note: Data are from FFIEC's quarterly Reports of Condition and Income for banks with at least $300 million in assets, and for all banks with foreign offices. Delinquent loans include those past due 30 days or more and still accruing interest, as well as those on nonaccrual status. Delinquency rates are averages of the beginning and end of each quarter. Charge-off rates are annualized, net of recoveries, divided by average outstanding loans. Delinquency rate series began 1982 Q4, charge-off rate series began 1982 Q1.

Total loan growth at banks strengthened to a 4-3/4 percent pace in February, owing to a pickup in consumer loans and to a partial reversal of run-offs in the volatile security loan grouping. Consumer loans expanded at a 10 percent annual rate in February following an 8-1/4 percent pace in January. February's increase was boosted in part by loans made in anticipation of tax refunds. Moreover, banks recently have chosen to hold consumer loans on their books rather than securitize them, probably because of more comfortable capital positions. Real estate loans, in contrast, declined at a 1-1/4 percent rate in February.

Business loans expanded at a 4-3/4 percent pace in February. Although growth was off a bit from the 10-1/4 percent spurt in January, the expansion in business lending thus far this year shows a marked pickup from 1993 activity. Call Report data for C&I loans indicate significant further improvement in commercial bank delinquency and charge-off rates for the fourth quarter (chart): Delinquency rates fell to yet another record low for the series that began at the end of 1982, while charge-off rates again moved down smartly. Delinquencies and charge-offs for real estate and consumer loans were down to rates last recorded in the late 1980s.

Business Finance

The recent rise in interest rates has been associated with some changes in corporate financing patterns. Gross issuance of bonds by nonfinancial corporations, slackened a bit in February and early March, with several offerings reportedly postponed or canceled, and issuance activity has been largely confined to short- and intermediate-term maturities. In February, only six investment-grade offerings had maturities of thirty-years or longer, compared with the average of twenty-one per month in 1993 and fourteen in January.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS[1]
(Billions of dollars; monthly rates, not seasonally adjusted)

	1992	1993P	1993 Q3	1993 Q4P	1993 DECP	1994 JANP	1994 FEBP
All U.S. corporations	40.83	54.53	58.06	53.44	45.84	51.92	47.06
Stocks[2]	7.04	10.32	11.90	12.13	11.18	7.42	9.06
Bonds	33.80	44.21	46.16	41.31	34.66	44.50	38.00
Nonfinancial corporations							
Stocks[2]	4.42	5.68	6.21	6.75	6.55	4.77	5.02
Sold in U.S.	4.03	5.08	5.11	6.08	6.13	3.40	4.37
Utility	0.87	1.06	1.02	1.60	1.89	0.36	1.02
Industrial	3.16	4.02	4.09	4.48	4.24	3.04	3.36
Sold abroad	0.39	0.60	1.10	0.67	0.42	1.37	0.65
Bonds	13.67	16.28	15.47	12.49	10.82	14.45	12.50
Sold in U.S.	12.82	15.55	14.54	12.11	10.45	13.50	12.00
Utility	5.33	7.36	7.77	5.21	5.38	6.00	4.50
Industrial	7.49	8.19	6.78	6.90	5.07	7.50	7.50
Sold abroad	0.84	0.73	0.92	0.37	0.37	0.95	0.50
By quality[3]							
Aaa and Aa	2.18	2.56	1.86	1.79	1.14	1.55	1.14
A and Baa	7.74	8.70	8.79	5.79	4.65	6.99	6.43
Less than Baa	2.85	4.16	3.65	4.42	4.51	4.97	4.43
Unrated or rating unknown	0.09	0.10	0.14	0.11	0.16	0.00	0.00
Financial corporations							
Stocks[2]	2.62	4.61	5.62	5.30	4.61	2.66	3.89
Sold in U.S.	2.51	4.16	4.73	4.73	4.38	2.43	3.34
Sold abroad	0.11	0.45	0.89	0.57	0.23	0.23	0.55
Bonds	20.13	27.93	30.70	28.82	23.84	30.05	25.50
Sold in U.S.	18.67	25.19	27.83	26.33	22.55	26.50	20.00
Sold abroad	1.46	2.74	2.87	2.50	1.29	3.55	5.50
By quality[3]							
Aaa and Aa	1.55	1.88	2.81	1.59	1.40	3.39	1.32
A and Baa	6.77	9.06	8.84	9.00	6.54	10.31	6.09
Less than Baa	0.31	0.48	0.55	0.63	0.33	0.40	0.76
Unrated or rating unknown	0.04	0.09	0.08	0.14	0.30	0.01	0.26

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.
3. Bonds categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
p Preliminary.

Liquidity in the corporate debt markets has deteriorated, and secondary market activity in all types of bonds has reportedly dropped off noticeably. Speculative-grade mutual funds reported outflows in late February and early March, partly reversing several months of strong gains. Changes in yield spreads between investment-grade bonds and Treasury securities have been uneven among sectors. Spreads on most bank bonds widened 10 to 20 basis points, reflecting concerns about losses on proprietary trading, while spreads on bonds of regulated telephone companies and utilities have remained stable or have narrowed slightly. In the speculative-grade market, yield spreads on new offerings have increased somewhat.

Increased uncertainty about future interest rates has resulted in a falloff in the issuance of structured notes. A structured note is a security that is customized to the specifications of the investor and has features that reflect an investor's opinion about the future path of interest rates. At the time of issuance, the issuer of a structured note typically simultaneously enters into a swap or other derivative transaction. In 1993, U.S. corporations issued about $30 billion of these notes, and federal agencies issued another $55 billion. Recently, as interest rates have become more volatile, investors have decreased their demand for structured notes, and dealers have become less willing to underwrite them.

Commercial paper issuance by nonfinancial and financial firms also has edged off, and maturities have been shortened, in some cases to overnight. As a result, the average maturity on outstanding commercial paper declined from thirty-eight days in early February to thirty-four days in mid-March. Quality spreads between medium-grade and prime-grade paper have widened a few basis points.

After moving to record highs in early February, major stock price indexes have declined around 3 percent. On February 4, the day of the tightening, share prices fell more than 2 percent, the largest one-day decline since 1992. Share prices of utilities, banks, and other financial firms have posted larger declines than industrials owing to their greater sensitivity to changes in interest rates. The price-earnings ratio for the S&P 500 (on trailing twelve-month earnings) continued drifting down, to 21.0 in March from 23.6 in early February. The all-time high was 26.1 in May of 1992.

Equity markets were also buffeted by the February 23 cancellation of the Bell Atlantic Corporation, Telecommunications Inc. (TCI), and Liberty Media Corporation merger, which would have been one of the largest in U.S. history. The firms cited concerns about the FCC's decision to order a 7 percent cut in basic cable rates. But, the steep drop in the price of Bell Atlantic's stock after the merger was announced was no doubt an important factor. The failure of the merger has increased the likelihood that telephone companies will engage in joint ventures with media companies, rather than acquiring them. In the week after the cancellation, share prices of regional Bell operation companies rose 3 percent to 4 percent, while share prices of cable companies fell 5 percent to 10 percent. Yield spreads on Bell Atlantic's AA-rated bonds narrowed 5 to 10 basis points, while spreads on TCI's BBB-rated bonds widened 20 to 50 basis points. Yield spreads also widened on bonds of below-investment-grade cable companies, as investors now view their bonds as less likely to be upgraded as a result of mergers.

The five-month takeover battle for Paramount Communications Corporation apparently ended in early February with Viacom Inc.'s

$9-3/4 billion offer of cash and securities. The deal involved the retirement of about $6-1/2 billion in equity, which reduced aggregate net equity issuance in the first quarter. Paramount shareholders will receive Viacom shares and contingent value rights that obligate Viacom to guarantee the value of some of those shares.

Despite the decline in the stock market, many nonfinancial corporations continued efforts to improve their balance sheets by issuing equity. In February, nonfinancial firms raised $4.4 billion in new equity, up from $3.4 billion in January but significantly below the $6.1 billion raised in the fourth quarter of last year. The volume of initial public offerings totaled nearly $1.5 billion in February, double January's pace. Information for early March indicates a further rise in equity issuance.

Nonbank financial intermediaries appear to be better positioned to supply credit to businesses. The overall health and profitability of finance companies improved markedly during 1993. Recent earnings reports of several independent finance companies have shown gains of 20 percent to 40 percent, and there have been a number of rating upgrades, most notably for Household International and Chrysler. The improvement is due to continued wide spreads earned on credit products, further improvements in credit quality, and a strengthening in the condition of captives' parent companies. In January, business receivables of finance companies grew at a 7-3/4 percent annual rate, after running off in the fourth quarter of last year.

In order to maintain an important conduit for funding and liquidity, some finance companies have indicated that they will continue to securitize a steady, though perhaps small, stream of assets--both wholesale and retail credits. Along those lines, in

TREASURY FINANCING[1]
(Total for period: billions of dollars)

	1993	1994			
	Q4	Q1[p]	Jan.	Feb.[p]	Mar.[p]
Treasury financing					
Total surplus/deficit (-)	-92.0	-66.7	15.6	-43.7	-38.6
Means of financing deficit:					
Net cash borrowing from the public	89.3	38.3	-6.9	32.6	12.6
Marketable borrowings/ repayments (-)	84.8	39.6	-3.5	31.7	11.4
Bills	56.2	-8.0	-12.3	-1.3	5.6
Coupons	28.5	47.6	8.9	33.0	5.7
Nonmarketable	4.5	-1.3	-3.5	.9	1.2
Decrease in the cash balance	2.8	24.6	-8.1	19.7	13.0
Memo: Cash balance at end of period	49.7	25.2	57.8	38.1	25.2
Other[2]	-.1	3.9	-.6	-8.6	13.0

1. Data reported on a payment basis, not seasonally adjusted.
2. Includes checks issued less checks paid, accrued items, and other transactions.
p--Projected.
NOTE: Details may not add to totals because of rounding.

FEDERALLY SPONSORED CREDIT AGENCIES
Net Cash Borrowing[1]
(Billions of dollars)

	1993				1994
	Q1	Q2	Q3	Q4	Jan.
FHLBs	0.5	12.0	5.3	8.9	-2.3
FHLMC	11.6	-5.6	17.1	-2.7	11.2
FNMA	-0.5	10.7	19.3	5.3	1.9
Farm Credit Banks	0.3	0.1	0.0	1.5	-0.5
SLMA	-0.9	0.1	-0.1	1.0	--
FAMC[2]	0.0	0.0	0.0	0.1	--

1. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
2. Federal Agricultural Mortgage Corporation.

January. GMAC issued its first public securitization of wholesale auto loans.

Some life insurers are also becoming more active lenders. Recent earnings reports of life insurance companies have been favorable, with profits buoyed by ongoing cost-cutting measures and downward adjustments to policyholder dividends. For most firms, the performance of existing portfolios has improved, and their risk-based capital ratios evidently look fairly comfortable. A survey of life insurance companies by the Mortgage Bankers Association found that those companies seeking investment opportunities in 1994 have increased their commercial mortgage lending goals 40 percent over 1993 goals, while other respondents plan to re-enter that market after an absence of three or four years.

Treasury and Sponsored Agency Financing

The staff anticipates that the $67 billion first-quarter fiscal deficit will be financed by $40 billion of marketable borrowing and by a large drawdown of the Treasury's cash balance. The Treasury is expected to pay down $8 billion in bills, as $16 billion of cash management issues are scheduled to mature. The gross size of the weekly bill auctions was cut from $25.2 billion to $24.4 billion in the middle of the quarter, but recently the amount was reset to $25.2 billion. Treasury coupon auctions are expected to raise $48 billion, with gross auction sizes generally little changed from the previous quarter.

At the February mid-quarter refunding announcement, the Treasury indicated that it was studying the possibility of issuing floating-rate five- to seven-year notes indexed to three-month Treasury bill rates, with rates reset quarterly. Such notes would lessen the government's exposure to longer-term interest rates and reduce the amount of bills that need to be rolled over.

Over the past few months, several dealers have created synthetic Treasury bonds to meet demands for noncallable securities having maturities of sixteen to twenty years. A scarcity has arisen because the existing Treasury bonds maturing between years 2007 and 2014 are callable five years before maturity, and the large drop in yields since these securities were issued makes it likely that they will be called by 2009. Dealers have filled the potential void between the years 2010 and 2014 by buying strips to replicate the payments of sixteen- to twenty-year bonds and placing them in custodial accounts as collateral for investors. Yields on these synthetic securities have been well above those suggested by the interpolated yield curve.

The market for federal agency debt has been relatively calm over the past month. Narrow spreads relative to Treasury securities have generally been maintained, with only a minor widening during the recent upturn in interest rates.

Municipal Securities

Tax-exempt bond yields have increased relative to Treasury yields over the intermeeting period, primarily reflecting significant cutbacks in purchases by municipal bond funds. These funds reportedly are attempting to build liquidity in anticipation of any share redemptions that might be prompted by the backup in interest rates. At the end of January, liquid assets held by tax-exempt bond funds had dipped below 3 percent of total assets, the low end of the range prevailing over the past ten years. Market reports suggest that inflows to these funds slowed in February, after being exceptionally heavy in January, and that outflows occurred early in March.

Longer-term municipal yields have been under the greatest pressure, as bond funds have been, on balance, net sellers. Intermediate-term rates have fared somewhat better, partly because property-casualty insurance companies have continued to buy securities with maturities ranging from five to fifteen years. In addition, dealers report that banks and individuals in recent days have found tax-exempt yields in the shorter end of this range to be attractive.

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

			1993			1994	
	1992	1993	Q3	Q4	Dec.	Jan.p	Feb.p
Total offerings[1]	21.8	27.8	29.5	24.4	28.4	17.4	18.1
Total tax-exempt	21.2	27.1	28.9	23.6	27.5	17.0	16.9
Long-term	17.9	23.3	24.0	21.5	24.5	16.1	13.0
Refundings[2]	7.9	15.7	15.5	13.7	15.0	10.7	4.7
New capital	10.0	7.6	8.5	7.8	9.5	5.4	8.3
Short-term	3.3	3.8	4.9	2.1	3.0	.9	3.9
Total taxable	.6	.7	.6	.8	.9	.4	1.2

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

The backup in municipal yields contributed to a sharp decrease in refunding volume in February, and overall gross issuance of tax-exempt bonds fell to $13 billion last month, well below the average monthly pace of $24 billion recorded last year. Gross issuance was slow in the first week of March, and with the thirty-day calendar remaining light, volume this month likely will decline further.

Gross issuance of short-term debt jumped sharply in February, boosted by a $3.2 billion sale of revenue anticipation warrants by California. The warrants mature in the fiscal year beginning July 1. The state's financial prospects have deteriorated further in recent months, prompting Standard and Poor's to revise its long-term credit outlook from stable to negative. Although an action of this sort generally portends a rating downgrade, dealers bid aggressively in the competitive offering of revenue anticipation warrants, partly because of heightened investor demand for liquidity. Yields on California's outstanding bonds were not affected by S&P's action, as market participants had already built a premium into interest rates on the state's bonds.

On March 9, the Securities and Exchange Commission (SEC) released for comment a proposal that would force many issuers of municipal securities to provide up-to-date financial information.[5] The SEC has no legal authority over municipal issuers, but it can achieve its disclosure objective by imposing restrictions on the activities of brokers and dealers in municipal securities. Thus, the proposal would restrict dealers to underwriting only those securities of issuers agreeing to provide periodic financial reports and would require dealers to review the most recent information before recommending securities to investors in secondary market transactions.

5. The SEC provided guidance on the appropriate information, which includes annual financial statements and notices of material events affecting the issuer's creditworthiness and the terms of the securities. The proposal would not apply to small issuers, and it would affect only securities sold after its adoption. Along with the release of the proposal, the SEC also asked the Congress to adopt legislation that would require certain issuers of private activity bonds to register the securities with the SEC and be subject to the reporting requirements of corporate issuers.

Mortgage Markets

The Freddie Mac survey of major mortgage lenders indicates that the average contract rate on conventional fixed-rate mortgages has increased 66 basis points since the February FOMC meeting, to 7.63 percent. The upward spurt about followed the rise in Treasury bond rates, and mortgage yield spreads were little changed, on balance, over the intermeeting period (chart, upper panel). The rate on fixed-rate mortgages is now nearly 1 percentage point above its recent low recorded during the week ended October 22 of last year. The average initial rate on one-year, Treasury-indexed, adjustable-rate mortgages rose nearly 40 basis points over the intermeeting period, to 4.51 percent, after posting a record low of 4.12 percent during the week ended February 4 (chart, middle panel).

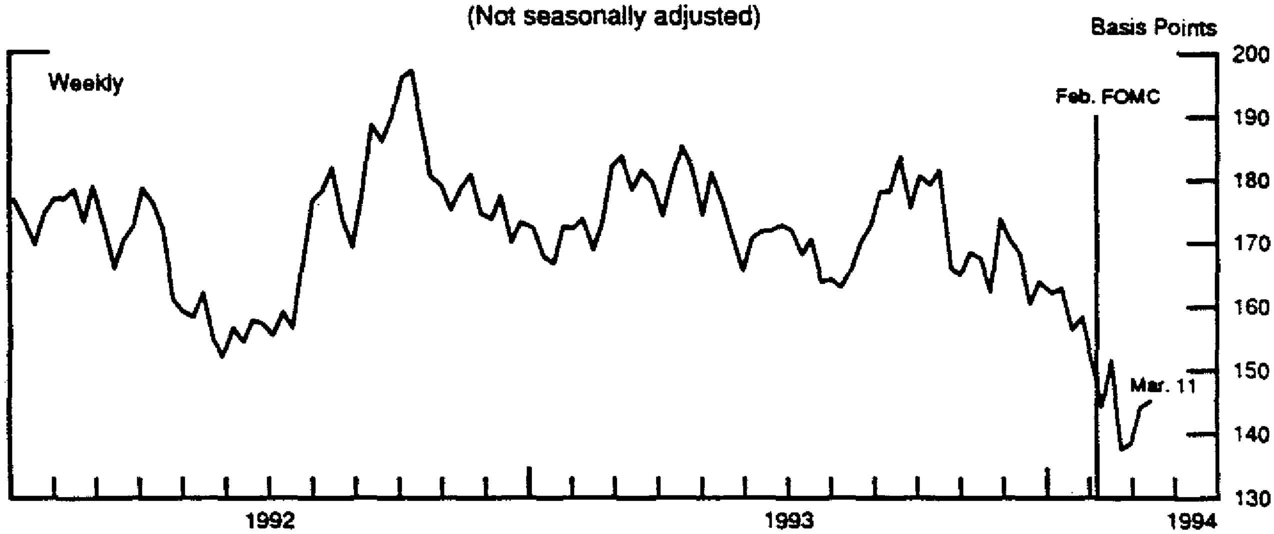
With higher rates on fixed-rate mortgages and a steeper yield curve, the Federal Housing Finance Board reported that the proportion of new loans for home purchases having adjustable interest rates jumped to 24 percent in December and January from an average of 18 percent during the five preceding months (chart, lower panel). Market reports suggest that thrift institutions are eager to originate ARMs for their portfolios; some thrifts have been increasing discounts on first-year ARM rates to capture market share from mortgage companies. The estimated discount on "teaser-rate" ARMs has increased from about 200 basis points in mid-January to about 250 basis points in the week ended March 11.

Available information for the fourth quarter shows that home mortgage credit expanded at an 8-1/2 percent seasonally adjusted annual rate that quarter, the fastest growth in three and one-half years. Moreover, both multifamily and commercial mortgage debt posted small increases, the first rise in about two years. Limited data for mortgage credit in the current quarter suggest

Thirty-Year Fixed-Rate Mortgage Yield Spread

Primary Market Rate Less Comparable Maturity Treasury Yield [1]

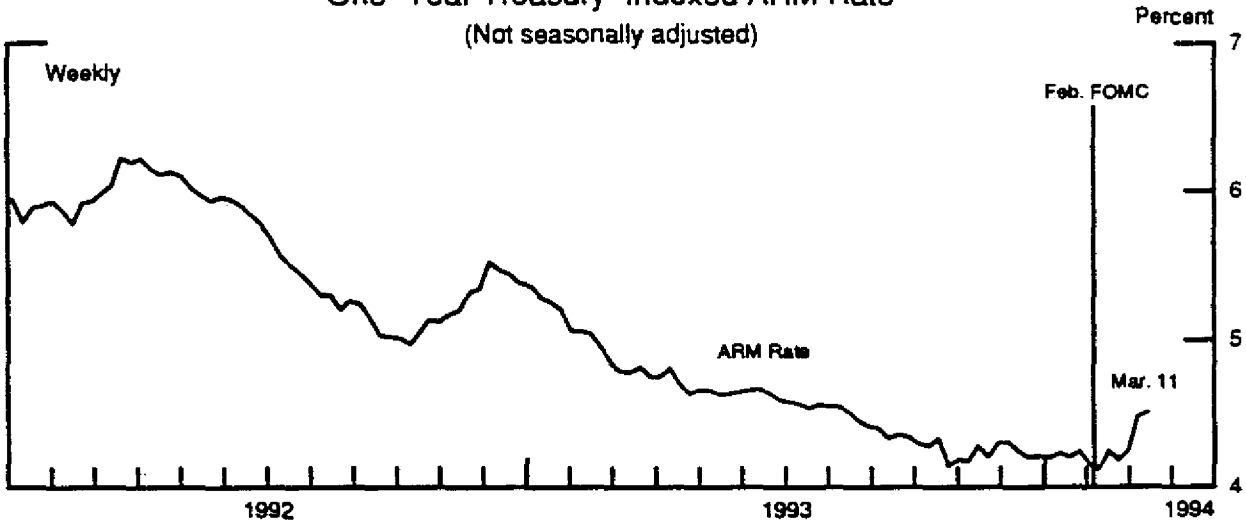
(Not seasonally adjusted)



1. Comparable maturity Treasury yield equals the average yield of the constant maturity Treasury 7-year and 10-year notes.

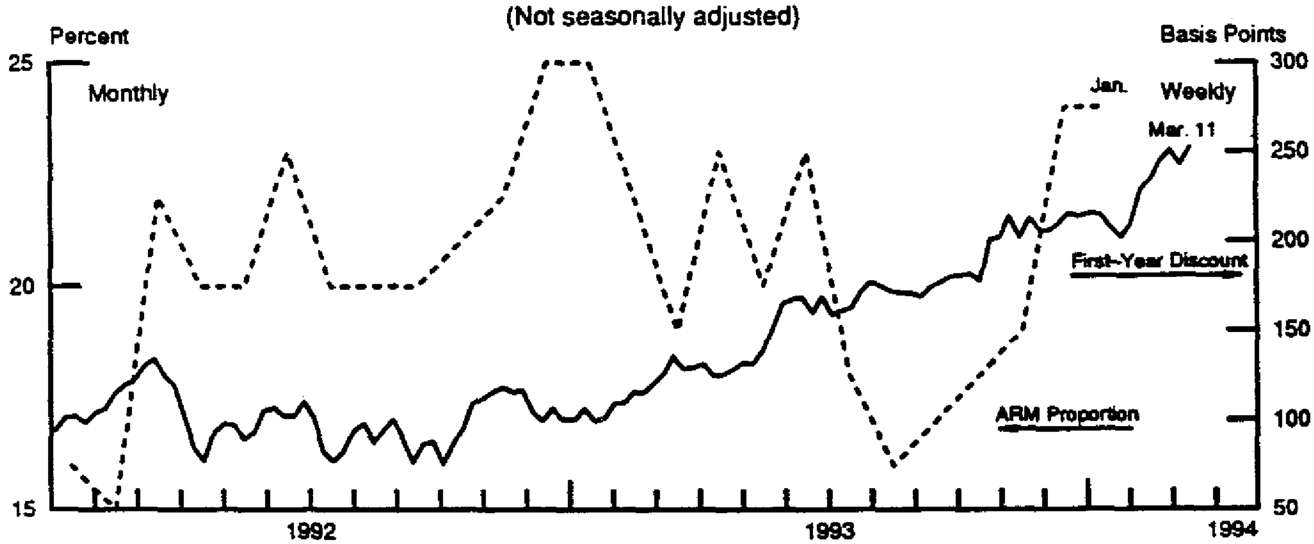
One-Year Treasury-Indexed ARM Rate

(Not seasonally adjusted)



First-Year ARM Rate Discount and ARM Origination Proportion [1]

(Not seasonally adjusted)



1. "ARM origination proportion" is the proportion of new loans for home purchases that have adjustable interest rates.

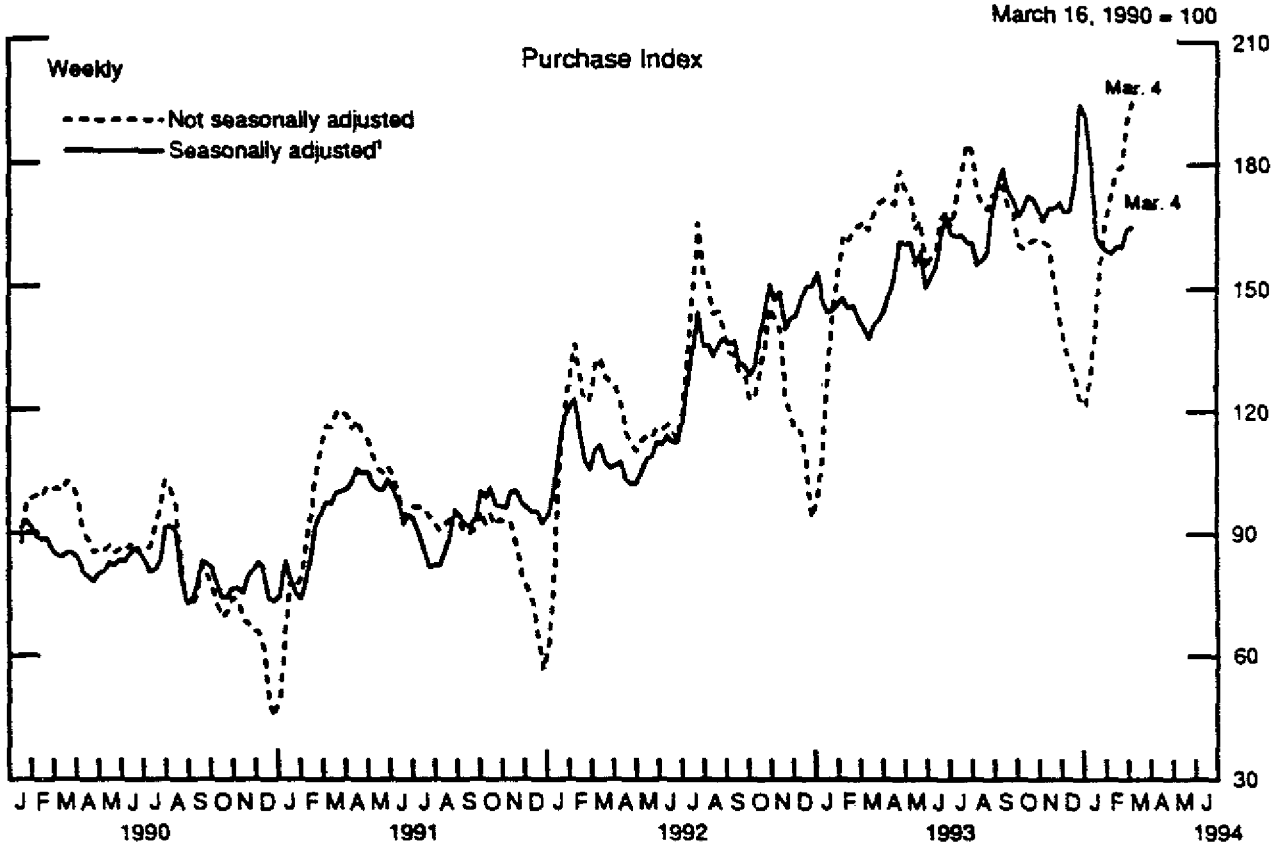
growth about on par with the fourth quarter's rapid pace, likely in part reflecting closings on the large volume of mortgage applications late last year (chart). In the current quarter, the Mortgage Bankers Association's index of applications for loans to purchase new and existing homes, has moved down from peaks at the end of last year, but remains relatively high (chart).

The increase in commercial mortgage debt likely reflects other favorable developments in the commercial real estate market. For example, the American Council of Life Insurance reports that commercial mortgage delinquencies at life insurance companies (including loans in process of foreclosure) declined to 4.54 percent at the end of the year. Over the past three quarters, commercial mortgage delinquencies have dropped more than 2-1/2 percentage points. Part of the decline can be attributed to asset sales, securitizations, and an increase in loans in good standing with restructured terms (a majority of which are reported to have been done at current market rates). However, participants in the council's survey, which account for 85 percent of the life insurance industry's total mortgage holdings, also attributed the sharply improved credit performance in the fourth quarter to more of their delinquent loans having been paid off or brought current, suggesting improved cash flow from commercial properties and an increased ability and willingness among borrowers to put more equity into their properties.

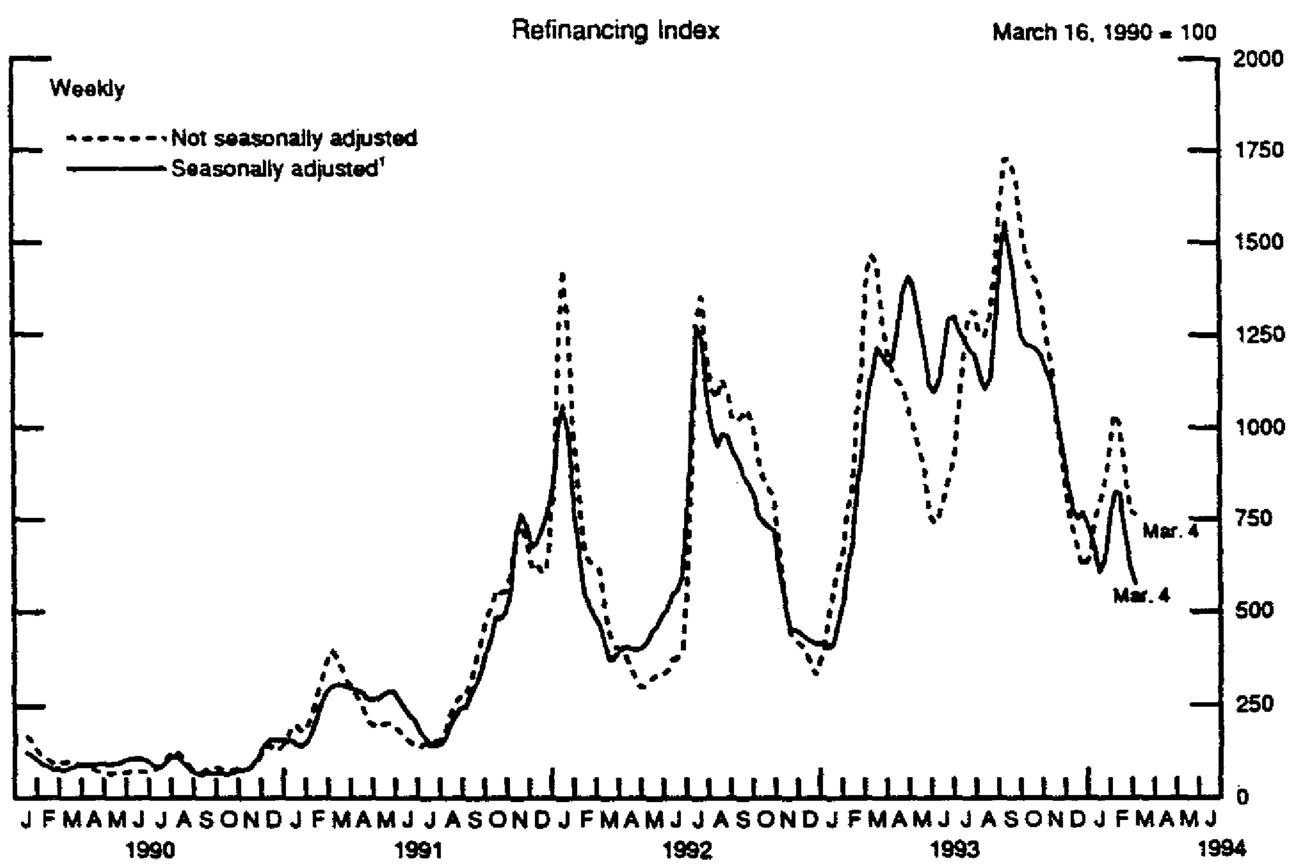
Consumer Credit

Growth in consumer installment credit dropped off a bit in January from its strong fourth-quarter pace, largely reflecting weaker auto credit growth. In contrast, revolving credit accelerated and the "other" installment category continued to grow rapidly, although well below its December pace. Total credit

MBA Indexes of Mortgage Loan Applications



1. Seasonally adjusted by Federal Reserve Board staff.



1. Seasonally adjusted by Federal Reserve Board staff

GROWTH OF CONSUMER CREDIT
(Percent change, seasonally adjusted annual rate)

	1991	1992	1993	1993 Q4	1993 Dec.	1994 Jan.p	Memo: Outstandings January 1994 (Billions of dollars)
Installment	-.7	1.0	6.6	11.2	11.5	9.1	796.1
Auto	-8.4	-.5	7.2	11.3	6.4	2.7	279.0
Revolving	9.5	4.4	10.7	11.4	9.5	14.2	284.8
Other	-1.0	-.8	1.4	10.8	20.4	10.6	232.3
Noninstallment	-15.1	3.0	-2.4	-4.9	11.8	3.1	50.9
Total	1.8	1.2	6.0	10.2	11.5	8.8	847.0

p--preliminary

INTEREST RATES ON CONSUMER LOANS
(Annual percentage rate)

	1991	1992	1993	1993 Aug.	1993 Nov.	1994 Jan.	1994 Feb.
At commercial banks[1]							
New cars (48 mo.)	11.1	9.3	8.1	8.0	7.6	...	7.5
Personal (24 mo.)	15.2	14.0	13.5	13.5	13.2	...	12.9
Credit cards	18.2	17.8	16.8	16.6	16.3	...	16.1
At auto finance cos.[2]							
New cars	12.4	9.9	9.5	9.2	8.9	7.6	...
Used cars	15.6	13.8	12.8	12.5	12.4	12.0	...

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.

(installment plus noninstallment) advanced at an 8-3/4 percent rate in January, following an 11-1/2 percent pace in December.

Interest rates on consumer loans at commercial banks edged down further between surveys taken in the first week of November and the first week of February. The average "most common" rate on credit card plans declined another 1/4 percentage point, to just over 16 percent--the lowest level since this series began in early 1972. Rates on forty-eight month new car loans edged down to a series low of 7-1/2 percent. At finance companies, the average rate on loans for new cars dropped almost 1-1/2 percentage points between November and January, reflecting a sales campaign by GM that offered loans at a 2.9 percent rate for some models.

Gross public issuance of securities backed by consumer loans surged to a record $44 billion in 1993, far surpassing the previous high of $37 billion in 1991. Industry sources expect 1994 to be another strong year for new issues; in part, this reflects an increase in the volume of outstanding credit card securities scheduled to mature in 1994 and likely to be "rolled over" in the form of new securitizations. Robust auto sales in 1994 also are expected to generate substantial new issuance during the year. Despite the larger volume of gross issuance of securitized consumer credit, the ratio of securitized assets to total installment credit outstanding has remained near 15 percent since late 1992.

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

In December, the merchandise trade deficit was $7.4 billion (seasonally adjusted, Census basis), the smallest deficit since December 1992. Exports rose sharply (about half of which reflected a bunching of deliveries of aircraft) and imports declined somewhat. Decreases in imported oil, consumer goods, and vehicles from Canada were not fully offset by increased imports of capital goods, other industrial supplies, and automotive products from countries other than Canada. Data for January will be released on March 22.

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

	Exports			Imports			
	Total	Ag.	NonAg.	Total	Oil	NonOil	Balance
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
Apr	38.5	3.7	34.7	48.7	4.9	43.7	-10.2
May	38.9	3.6	35.3	47.3	4.6	42.7	-8.4
Jun	37.6	3.4	34.2	49.7	4.8	44.9	-12.1
Jul	37.1	3.6	33.5	47.5	4.4	43.2	-10.4
Aug	38.1	3.4	34.6	48.1	4.0	44.1	-10.0
Sep	38.9	3.6	35.3	49.5	4.2	45.3	-10.6
Oct	40.1	3.7	36.4	51.0	4.4	46.6	-10.9
Nov	40.2	3.7	36.5	49.9	4.2	45.7	-9.7
Dec	42.2	3.9	38.3	49.6	3.4	46.2	-7.4

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

In the fourth quarter, the deficit narrowed by $13 billion at an annual rate, with both exports and imports rising well above third-quarter levels. Exports rose 7 percent, with strong increases recorded in a wide range of categories, especially aircraft, machinery, agricultural items, and automotive products (vehicles to Canada, and parts to the rest of the world). Some of the larger

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

	Year		1993				$ Change	
	1992	1993	Q1	Q2	Q3	Q4	Q4-Q4	Q4-Q3
Trade Balance	-96.1	-132.5	-117.3	-137.6	-143.9	-131.1	-27.3	12.8
Total U.S. Exports	440.1	456.8	445.9	452.3	447.7	481.1	25.2	33.4
Agric. Exports	44.0	43.5	43.3	43.0	42.3	45.3	-0.2	3.0
Nonagric. Exports	396.1	413.3	402.6	409.2	405.4	435.8	25.3	30.4
Industrial Suppl.	101.8	105.2	102.4	103.3	104.3	110.7	6.2	6.4
Gold	4.5	9.1	6.4	7.5	9.3	13.4	6.1	4.1
Fuels	13.6	11.8	12.6	12.5	10.4	11.6	-1.8	1.2
Other Ind. Suppl.	83.7	84.3	83.5	83.3	84.7	85.7	1.9	1.1
Capital Goods	176.9	183.4	177.8	183.3	178.6	193.9	11.9	15.3
Aircraft & Parts	37.7	32.8	33.1	36.4	27.1	34.5	-2.6	7.4
Computers & Parts	28.8	29.3	28.9	28.1	29.6	30.7	0.7	1.2
Other Machinery	110.4	121.3	115.9	118.8	121.9	128.7	13.7	6.8
Automotive Goods	47.1	51.7	51.3	51.4	48.4	55.6	4.7	7.2
To Canada	23.8	27.4	26.5	27.2	26.1	29.7	4.1	3.6
To Other	23.2	24.3	24.8	24.2	22.3	26.0	0.6	3.6
Consumer Goods	50.4	53.5	51.5	52.2	54.2	56.1	2.8	1.9
Other Nonagric.	20.0	19.5	19.6	19.0	19.9	19.4	-0.3	-0.4
Total U.S. Imports	536.3	589.2	563.2	589.9	591.6	612.3	52.5	20.6
Oil Imports	51.6	51.6	51.0	57.2	50.1	48.0	-6.9	-2.1
Non-Oil Imports	484.7	537.7	512.2	532.6	541.5	564.3	59.3	22.8
Industrial Suppl.	88.6	100.4	93.9	98.6	103.2	105.8	12.3	2.7
Gold	3.8	8.8	5.3	8.4	11.6	10.0	3.3	-1.6
Other Fuels	4.6	4.9	4.5	4.8	5.4	4.7	0.0	-0.7
Other Ind. Suppl.	80.3	86.7	84.0	85.4	86.2	91.1	9.0	4.9
Capital Goods	134.2	152.2	142.6	150.7	152.6	162.7	21.0	10.1
Aircraft & Parts	12.6	11.2	10.5	11.8	10.5	12.1	-0.8	1.6
Computers & Parts	31.8	38.2	35.9	37.3	39.1	40.5	5.9	1.5
Other Machinery	89.8	102.8	96.2	101.7	103.1	110.1	15.9	7.0
Automotive Goods	91.8	102.4	100.5	102.2	100.2	106.9	11.8	6.7
From Canada	31.7	37.3	36.9	37.0	37.1	38.2	5.9	1.1
From Other	60.1	65.1	63.6	65.1	63.1	68.7	5.9	5.6
Consumer Goods	123.0	134.4	129.0	132.9	137.7	137.9	11.4	0.2
Foods	27.9	28.1	27.4	27.5	28.3	29.0	1.4	0.7
All Other	19.3	20.2	18.9	20.6	19.5	21.9	1.3	2.4

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

increases in exported machinery were in computers, telecommunications equipment, and semiconductors. Strong shipments of oilseeds and meat and poultry accounted for most of the increase in agricultural exports. Exports to Western Europe and developing countries in Asia showed the largest increases from the third to fourth quarters.

Imports rose 3 percent in the fourth quarter; the largest increases were in capital equipment (computers, semiconductors, and oil drilling equipment) and consumer goods. Cars and parts from countries other than Canada and industrial supplies (particularly building materials) also registered gains in the fourth quarter. By area, non-oil imports from Canada, Western Europe, Japan, and Mexico strengthened noticeably.

Oil Imports

Both the price and quantity of imported oil fell in December. Prices of oil continued the slide begun in October, as slack demand and strong production (especially by North Sea and OPEC producers) continued to weigh on prices. The sharp drop in the quantity of oil imported appears to reflect the desire to draw down large inventories. Preliminary Department of Energy statistics suggest that inventories were also drawn down in January, with imports likely to average near 8.0 mb/d for the month, compared with the monthly average of 9.3 mb/d for the fourth quarter of 1993.

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1993			Months			
	Q2	Q3	Q4	Sep	Oct	Nov	Dec
Value (Bil. $)	57.24	50.12	47.98	50.63	52.84	50.20	40.91
Price ($/BBL)	17.06	15.21	14.12	14.89	15.19	14.29	12.79
Quantity (mb/d)	9.19	9.02	9.30	9.31	9.52	9.62	8.77

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

Since early February, when frigid U.S. weather pushed the near-term West Texas Intermediate (WTI) contract price to almost $16.00 per barrel, spot and future oil prices have fallen on balance. Most recently, the near-term contract price has traded near $14.75 per barrel as the March Gulf Cooperation Council meeting ended with no indication of production restraint. OPEC ministers are scheduled to meet on March 25 in Geneva. The price of oil imports in January is estimated to have been near $12.30 per barrel, with February's price likely to have remained near that level.

Prices of Exports and Non-oil Imports

Prices of U.S. nonagricultural exports (see table on following page) rose 0.4 percent in January; this was the only notable increase reported since last May. Contributing to the increase were run-ups in prices of industrial supplies (building materials), automotive products, and consumer goods. Prices of agricultural exports jumped 2.6 percent in January, the third consecutive monthly increase. The largest increases were reported for wheat and rice.

Prices of U.S. non-oil imports rose 0.3 percent in January, sustaining the December increase. Aside from consumer goods, increases were recorded in every major trade category. Most notably, prices of imports of non-oil industrial supplies increased as the result of price increases for imported unfinished metals and electricity.

U.S. Current Account

In the fourth quarter, the deficit in the U.S. current account widened by $13.8 billion (annual rate) as declines in net investment income, net unilateral transfers, and net services more than offset a narrowing in the U.S. merchandise trade deficit. Net investment income fell as payments on direct investments in the United States (no longer depressed by foreign losses in U.S. real estate markets)

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

	Year 1993-Q4 / 1992-Q4	Quarters 1993 Q2	Q3	Q4	Months 1993 Dec	1994 Jan
		(Quarterly Average, AR)			(Monthly Rates)	
	--------BLS Prices--------					
Imports, Total	-1.5	3.3	-3.0	-0.8	-0.9	0.0
Foods, Feeds, Bev.	2.9	3.2	8.7	5.8	0.1	0.5
Industrial Supplies	-8.0	4.5	-16.2	-10.0	-3.2	-0.4
Ind Supp Ex Oil	-1.3	0.1	-2.4	-1.0	0.9	0.6
Capital Goods	0.1	1.9	2.5	0.8	-0.3	0.1
Automotive Products	2.8	5.1	2.2	6.9	0.1	0.4
Consumer Goods	0.3	2.3	1.0	1.0	0.0	-0 1
Memo:						
Oil	-19.3	12.3	-35.2	-23.7	-10.5	-2.8
Non-oil	0.6	2.5	1.5	2.0	0.1	0.3
Exports, Total	0.9	1.6	0.2	0.5	0.3	0.6
Foods, Feeds, Bev.	7.6	0.7	15.1	9.3	3.1	2.7
Industrial Supplies	-0.1	4.7	-3.0	-3.7	0.2	1.0
Ind Supp Ex Ag	0.0	5.6	-2.9	-4.0	0.1	0.9
Capital Goods	-0.0	0.1	-0.4	0.8	-0.1	0.0
Automotive Products	0.6	0.5	-0.7	1.3	0.1	0.4
Consumer Goods	0.9	0.3	-0.5	0.7	-0.2	0.3
Memo:						
Agricultural	6.6	-1.4	14.8	8.2	3.0	2.6
Nonagricultural	0.1	1.9	-1.5	-0.6	0.0	0.4
	--------Prices in the NIPA Accounts--------					
Fixed-Weight						
Imports, Total	-1.1	4.0	-3.2	0.4	--	--
Oil	-21.1	16.0	-36.4	-25.9	--	--
Non-oil	1.0	3.2	0.4	3.2	--	--
Exports, Total	0.8	1.8	0.0	0.4	--	--
Ag	6.2	-2.1	17.3	5.7	--	--
Nonag	0.1	2.6	-2.2	-0.4	--	--
Deflators						
Imports, Total	-3.7	1.6	-6.7	-1.4	--	--
Oil	-21.1	16.1	-36.4	-26.2	--	--
Non-oil	-1.8	0.4	-3.2	1.1	--	--
Exports, Total	-1.5	0.8	-5.1	-0.6	--	--
Ag	4.9	-3.7	9.7	8.9	--	--
Nonag	-2.1	1.2	-6.4	-1.4	--	--

surged. An increase in U.S. government grants accounted for the decline in net unilateral transfers; as usual all of U.S. government aid to Israel for the fiscal year was transferred in the fourth quarter. Payments by U.S. residents for travel abroad (including passenger fares) increased sharply.

For the year 1993, the current account balance fell by $42.8 billion, largely the result of a weakening in the trade balance. Net services and transfers were little changed in 1993; almost all categories of service receipts and payments recorded increases over the year. Declines in receipts for U.S. portfolio investments abroad (due to falling interest rates) more than offset a reduction in payments to foreigners on portfolio investments in the United States, reducing the balance on net investment income.

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

	Trade Balance	Services net	Investment Income, net	Transfers net 1/	Current Acct Balance 1/
Year					
1990	-109.0	30.7	20.3	-33.8	-91.9
1991	-73.8	45.9	13.0	6.6	-8.3
1992	-96.1	56.4	6.2	-32.9	-66.4
1993	-132.5	55.7	0.1	-32.5	-109.2
Quarters					
1992-1	-71.1	56.2	17.7	-29.6	-26.7
2	-99.2	54.6	3.6	-32.0	-73.0
3	-110.4	61.1	6.8	-28.6	-71.1
4	-103.8	53.7	-3.2	-41.4	-94.7
1993-1	-117.3	58.6	-0.5	-30.4	-89.5
2	-137.6	58.0	-0.1	-29.2	-108.9
3	-143.9	55.4	6.5	-30.4	-112.4
4	-131.1	50.7	-5.6	-40.1	-126.2

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.

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

U.S. International Financial Transactions

Foreign official holdings in the United States increased substantially in January, continuing the pattern of large official inflows that occurred in 1993 (line 1 of the Summary of U.S. International Transactions table on the next page). The G-10 countries accounted for much of the increase. However, little of this official inflow was directly associated with reported exchange market intervention in January. There were also significant increases in holdings of certain developing countries in Asia. Partial information from the FRBNY indicates additional increases in holdings by some G-10 countries in February.

Foreign private net purchases of U.S. securities fell sharply in January (line 4). There were substantial net private sales of U.S. Treasury securities (line 4a): net sales by Japanese residents ($4 billion) almost completely reversed their substantial net purchases recorded in the fourth quarter of 1993. In contrast, private foreign net purchases of U.S. agency securities (included in line 4b) remained strong. Net purchases of U.S. corporate bonds also dropped sharply in January, probably reflecting the temporary lull in the announcement of new issues of Eurobonds towards the end of 1993. In contrast, net foreign purchases of U.S. corporate stocks remained strong.

U.S. net purchases of foreign securities remained near record levels in January (line 5). As in 1993, most U.S. purchases of foreign securities were from Europe, Canada, and Japan. However, U.S. residents also made additional investments in certain emerging markets, particularly in Latin America. The volume of Yankee bond issues was very large in the first two months of 1994, including issues by the governments of China and Colombia, Yacimientos

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS[1]
(Billions of dollars, not seasonally adjusted except as noted)

	Year		Quarter				Month		
			1993				1993		1994
	1992	1993	Q1	Q2	Q3	Q4	Nov.	Dec.	Jan
<u>Official capital</u>									
1. Changes in foreign official reserve assets in U.S. (+ = increase)	38.3	69.9	11.4	17.3	18.1	23.0	13.0	11.6	6.1
a. G-10 countries	4.8	29.9	-1.9	17 8	9.1	4.8	7.8	-3.7	5.8
b. OPEC countries	4.9	-5.1	.5	-1.7	-3.1	-.9	*	6	-3.1
c. All other countries	28.6	45.1	12.7	1.2	12.1	19.1	5.2	14.7	3.4
2. Changes in U.S. official reserve assets (+ = decrease)	3.9	-.7	-1.0	1.5	-.5	-.7	-.3	-.3	-.2
<u>Private capital</u>									
Banks									
3. Change in net foreign positions of banking offices in the U.S.[2]	35.6	38.8	-3.2	.6	23.9	17.5	9.7	-13.7	-5.8
Securities[3]									
4. Foreign net purchases of U.S. securities (+)	68.1	106.3	24.0	14.8	21.2	46.4	20.4	12.7	2.2
a. Treasury securities[4]	37.4	25.4	14.2	-.5	3.6	8.1	10.0	-2.5	-6 3
b. Corporate and other bonds[5]	34.3	61.3	5 7	14.8	14.8	26.0	7.2	10.7	5 0
c Corporate stocks	-3.7	19.6	4 2	.5	2.8	12.1	3 2	4.5	3.5
5. U.S. net purchases (-) of foreign securities	47.9	-130.3	-25.8	-26.1	-47.0	-31.5	-7.0	-15.0	-14.9
a. Bonds	15.6	-61.3	-17 3	-11.8	-21.6	-10.6	*	-8.1	-9.0
b. Stocks	-32.3	-69.1	-8.4	-14.3	-25.4	-20.9	-6.9	-6.5	-5.9
Other flows (quarterly data, s.a.)									
6. U.S. direct investment (-) abroad	-34.8	-50.2	-8.7	-11.9	-8.3	-21.3	n.a.	n.a.	n.a.
7. Foreign direct investment in U.S.	2.4	31.5	8 8	10.5	2.7	9.6	n.a.	n.a.	n.a.
8. Other (+ = inflow)[6]	13.0	17.2	7.7	6.1	18.1	-14.8	n.a.	n.a.	n.a.
<u>U.S. current account balance (s.a.)</u>	-66.4	-109.2	-22.4	-27.2	-28.1	-31.5	n.a.	n.a.	n.a.
<u>Statistical discrepancy (s.a.)</u>	-12.2	26.7	9.2	14.4	-.1	3.3	n.a.	n.a.	n.a.

1. The sum of official capital, private capital, the current account balance, and the statistical discrepancy is zero. Details may not sum to totals becuse of rounding.

2. Changes in dollar-denominated positions of all depository institutions and bank holding companies plus certain transactions between broker-dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements). Includes changes in custody liabilities other than U.S. Treasury bills.

3. Includes commissions on securities transactions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

4. Includes Treasury bills.

5. Includes U.S. government agency bonds.

6. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the <u>Survey of Current Business</u>.

n.a. Not available. * Less than $50 million.

Petroliferos Fiscales (Argentina), and Banco National de Comercio Exterior (Mexico).

Banks continued to bring in funds from their own foreign offices and IBFs in the first two months of 1994 on a monthly average basis. (See line 1 of the International Banking Data table on next page.) Credit extended to U.S. nonbanks by the foreign offices of U.S.-chartered banks has been flat recently (line 2a). However, it should be noted that such loans booked at the Caribbean offices of foreign-chartered banks are much larger (line 2b). The Treasury International Capital (TIC) Reports in principle cover offshore loans from both U.S. and foreign-chartered banks (line 4). However, coverage is clearly inadequate and recent increases are largely attributable to improved compliance and reporting made possible by comparisons with the new FFIEC 002s, which provides reports on Caribbean offices of foreign-chartered banks.

Data recently released by BEA indicate that U.S. direct investment capital outflows (line 6 of the Summary of U.S. International Transactions table) rose to record levels in 1993, swelled by increased reinvested earnings and new equity flows. While the bulk of the increase in U.S. direct investment abroad went to Europe, flows to South and Central America were also large; they rose from $6 billion in 1992 to $10 billion in 1993. Foreign direct investment in the United States (line 7) rebounded in 1993 from the extremely depressed 1992 level, but remained far below the peak of $68 billion reached in 1989. Direct investors from Western Europe accounted for virtually all the inflows.

The statistical discrepancy in the U.S. international transactions accounts rose to almost $27 billion in 1993. Increased foreign holdings of U.S. currency, which are not currently covered in the accounts, contributed to the positive discrepancy. BEA plans

INTERNATIONAL BANKING DATA 1/
(Billions of dollars)

	1991	1992	1993				1994	
	Dec.	Dec.	Mar.	June	Sept.	Dec.	Jan.	Feb.
1. Net claims of U.S. banking offices (excluding IBFs) on own foreign offices and IBFS	-35.8	-71.6	-77.1	-80.4	-114.6	-122.1	-124.6	-134.8
a. U.S.-chartered banks	12.4	17.0	8.9	16.8	12.5	4.2	-1.8	-4.8
b. Foreign-chartered banks	-48.3	-88.6	-86.0	-97.2	-127.1	-126.3	-122.8	-130.0
2. Credit extended to U.S. nonbank residents								
a. By foreign branches of U.S. banks	23.9	24.8	23.5	23.1	21.4	21.8	21.9	21.0
b. By Caribbean offices of foreign-chartered banks	n.a.	n.a.	106.5	101.1	95.9	n.a.	n.a.	n.a.
3. Eurodollar holdings of U.S. nonbank residents								
a. At U.S.-based banks in the Caribbean and at all banks in Canada and the United Kingdom	102.9	90.0	89.5	86.1	77.0	77.8	77.0	76.5
b. At the Caribbean offices of foreign-chartered banks	n.a.	n.a.	91.6	80.2	82.5	n.a.	n.a.	n.a.
MEMO: Data as recorded in the U.S. international transactions accounts								
4. Credit extended to U.S. nonbank residents	49.8	52.6	51.1	51.6	49.6	61.5	60.3	n.a.
5. Eurodeposits of U.S. nonbank residents	136.6	128.9	123.3	120.7	113.3	n.a.	n.a.	n.a.

1. Data on lines 1 through 3 are from Federal Reserve sources and sometimes differ in timing from the banking data incorporated in the U.S. international transactions accounts.

Lines 1a, 1b, and 2a are averages of daily data reported on the FR2950 and FR2951.

Lines 2b and 3b are end-of-period data reported quarterly on the FFIEC 002s.

Line 3a is an average of daily data for the overnight component (FR2050) and an average of Wednesday data for the term component (FR2077) supplemented by the FR2502 and end of quarter data supplied by the Bank of Canada and the Bank of England. Line 3a includes holdings by money market mutual funds.

Line 4 is end-of-period data from the Treasury International Capital (TIC) Reports.

Line 5 is end-of-period data estimated by BEA on the basis of the FR2502 and information provided by foreign central banks, supplemented by TIC reports of banks' custody claims. It includes foreign-currency denominated deposits, but does not currently include estimates of deposits at foreign-chartered banks in the Caribbean.

to incorporate estimates of increases in foreign holdings of U S. currency in the accounts starting in June.

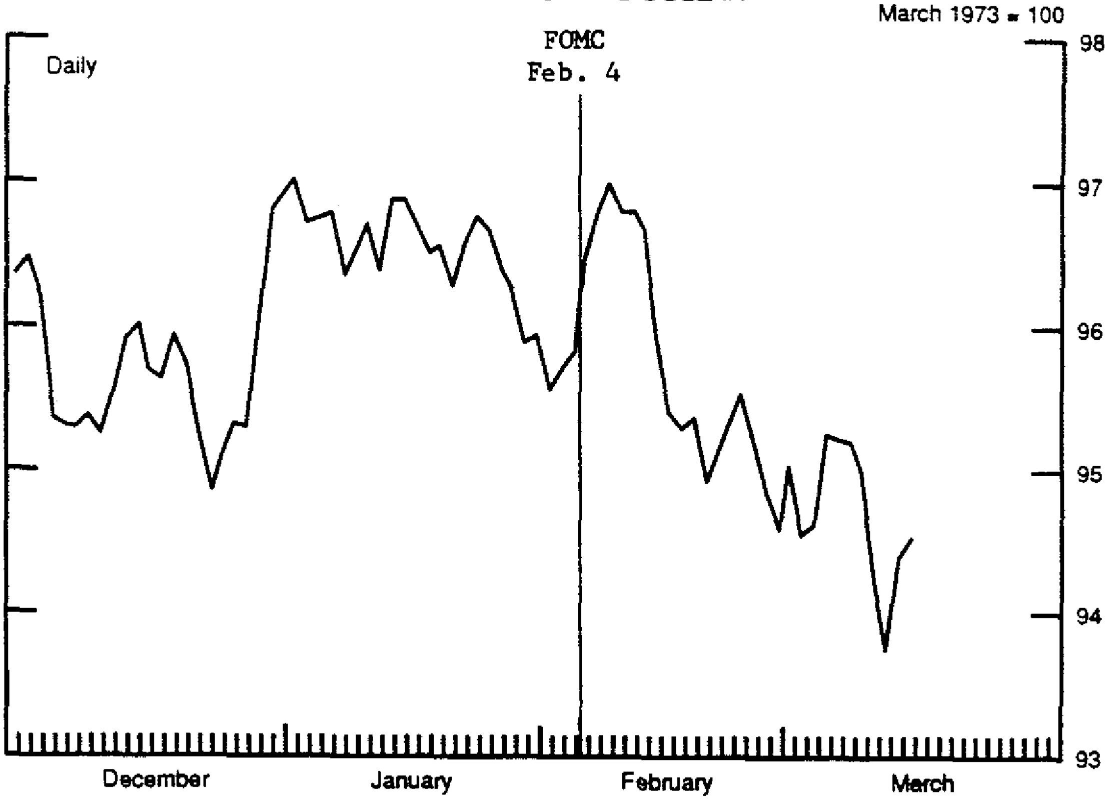
Foreign Exchange Markets

The weighted average foreign exchange value of the dollar declined more than 1-1/4 percent on balance from immediately preceding the February FOMC meeting. Concern over the breakdown of trade negotiations between the United States and Japan, disappointment with the pace of monetary easing in Germany, and, late in the period, an increase in uncertainty about U.S. economic policies generally in the wake of the Whitewater investigation have contributed to the downward pressure on the dollar. On balance over the period, the dollar depreciated 2-1/2 percent against the mark and 2 percent against the yen. These declines came despite the tightening of U.S. monetary policy announced on February 4, which caught the market somewhat by surprise, and the subsequent flow of data releases indicating that U.S. economic activity is generally strong.

The failure of the United States and Japan to reach an agreement on trade issues prompted a sharp decline in the value of the dollar against the yen in mid-February. The Bank of Japan responded to the decline with sizable intervention purchases of dollars over the course of subsequent weeks.

On February 17, the Bundesbank announced a reduction in its discount rate of 50 basis points to 5-1/4 percent, making room for further declines in its RP rate, which had been fixed at 6 percent since early December. However, since the cut in the discount rate, the decline in the RP rate has been very gradual, cumulating to only 12 basis points. The slow pace of easing over the weeks following the official rate move refuted once again market expectations that the time for some significant easing by the Bundesbank had come.

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



SELECTED 10-YEAR BOND YIELDS

	(1) TROUGH	2) PEAK	(3) CHANGE (2)-(1)	(4) FEB. 3	(5) MAR.15	(6) CHANGE (5)-(4)
Germany	5.53	6.31	0.78	5.73	6.15	0.42
Japan	3.12	4.15	1.03	3.61	4.12	0.51
United Kingdom	6.08	7.20	1.12	6.30	7.16	0.86
Canada	6.33	7.48	1.15	6.47	7.45	0.98
France	5.60	6.50	0.90	5.78	6.23	0.45
Italy	8.50	9.80	1.30	8.53	9.43	0.90
Switzerland	4.01	4.45	0.44	4.08	4.39	0.31
Netherlands	5.50	6.43	0.93	5.69	6.19	0.50
Belgium	6.31	7.29	0.98	6.51	7.05	0.54
Sweden	6.66	7.74	1.08	6.70	7.42	0.72
Spain	7.71	9.38	1.67	7.80	8.70	0.90
Weighted-average foreign	5.54	6.45	0.91	5.72	6.31	0.59
United States	5.60	6.48	0.88	5.81	6.47	0.66

The release of data showing M3 growth in Germany of more than 20 percent at an annual rate from its fourth-quarter average soured expectations all the more, although recent favorable results in major wage negotiations in Germany may have rekindled some expectations that more significant easing is not far off.

Despite the firm stance of the Bundesbank, stable ERM exchange rates allowed other European authorities to ease somewhat. While the three-month market interest rate in Germany was essentially unchanged on balance during the period, the comparable rate in France declined 15 basis points, as French authorities lowered their money-market intervention rate 10 basis points to 6.10 percent. Authorities in many other continental European countries also lowered official rates, particularly after the Bundesbank cut its discount rate. Declines in short-term market rates during the period were as large as 40 to 45 basis points in Belgium and Spain. In addition, the Bank of England announced on February 8--prior to the move by the Bundesbank--a cut in its minimum lending rate of 25 basis points to 5-1/4 percent. The three-month rate in the United Kingdom also declined 25 basis points during the period. Only in the United States and Canada did short-term interest rates move significantly higher during the period, with the three-month rate in Canada up 30 basis points, relative to a rise of 50 basis points in the comparable U.S. rate. Canadian authorities moved short-term interest rates higher in part in reaction to the weakening of the Canadian dollar, which depreciated 2-3/4 percent against the U.S. dollar.

Bond yields in every major country moved higher in the period following the February FOMC meeting, with the weighted average of foreign long-term bond yields up about 60 basis points and the yield on the U.S. ten-year note up more than 65 basis points. It is difficult to determine in full the cause or causes for such large increases in yields. The most plausible common factor would appear to be a coincidence of improved prospects for economic growth in the major industrial countries and an associated actual or perceived shift toward a less accommodative monetary policy stance in response to these improved growth prospects. The rise in long-term rates may also have been magnified by the actions of professional investors seeking to limit their losses. The weakest part of this explanation would seem to be that, while there has been clear evidence recently of a pickup in activity in some of these countries--particularly in the United States--the recent evidence of an upturn elsewhere--notably, in Germany and Japan--is much less apparent.

Some of the increases can be attributed to country-specific factors. Political uncertainties rose in many countries. The Whitewater investigation in the United States, cabinet struggles in Japan, the declining position of the Conservative Party in the United Kingdom, and the rising popularity of the right-wing ahead of March elections in Italy have called into question the prospects for existing policies and policy plans. Concern over developments in Russia and eastern Europe may have exerted some downward pressure on the German bond market and on the bond markets of other European countries whose currencies are linked tightly to the mark. The sluggish pace of easing by the Bundesbank has also contributed to higher yields in Germany and other ERM countries. The fiscal stimulus package in Japan, although delayed, has helped push bond yields higher there, as have concerns about U.S.-Japan trade frictions. And inflation fears in the United Kingdom may have been reignited following the cut in the minimum lending rate, which was perceived to have been politically motivated, coming as it did in conjunction with a statement by the Bank of England that it perceived inflation risks to be on the upside.

. In February, the Desk began a program to liquidate System holdings of currencies other than marks and yen. During the intermeeting period, the Desk sold less than $1 million equivalent of Belgian francs and $416 million equivalent of Swiss francs.

Developments in Foreign Industrial Countries

Economic activity in the major foreign industrial countries appears to have picked up early this year, after a mixed performance in the fourth quarter of 1993. In Japan, western Germany, and Italy, economic activity contracted in the fourth quarter; in the United Kingdom and Canada, economic recovery gained momentum, and in France real GDP recorded its third consecutive quarter of modest positive growth. In January, industrial production rose in Japan and the United Kingdom, while in western Germany it leveled off at somewhat above the fourth-quarter average. Japanese machinery orders and housing starts, German manufacturing orders and retail sales, and French consumption of manufactured goods also showed increases in January.

In recent months, unemployment rates have receded in Canada, the United Kingdom, and Japan, while remaining stubbornly high in France and continuing to rise in Germany and Italy. Wage and consumer price inflation has continued to moderate in most of the major foreign industrial nations.

In 1993, all of the foreign G-7 countries registered improvements in their external accounts; this improvement was the counterpart of the $40 billion deterioration of the U.S. current

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

	1992	1993	1993 Q1	Q2	Q3	Q4	1993 OCT	NOV	DEC	1994 JAN	FEB	Latest three months from year ago 2/
JAPAN												
GDP	-0.3	NA	0.9	-0.5	0.5	NA	*	*	*	*	*	0.5
IP	-7.7	-4.8	0.4	-1.5	0.1	-3.7	-5.5	2.2	-1.9	0.9	NA	-3.6
GERMANY												
GDP	0.7	-0.5	-1.4	0.6	0.9	-0.6	*	*	*	*	*	-0.5
W. GERMANY												
GDP	0.0	-0.8	-1.8	0.7	1.0	-0.7	*	*	*	*	*	-0.8
IP	-4.6	-2.7	-2.9	-0.0	0.7	-0.4	-0.7	-1.3	1.3	0.0	NA	-1.3
FRANCE												
GDP	0.7	-0.1	-0.9	0.2	0.4	0.2	*	*	*	*	*	-0.1
IP	-2.5	-1.3	-1.0	-0.6	0.8	-0.5	-0.6	0.7	-0.7	NA	NA	-1.3
UNITED KINGDOM												
GDP	0.2	2.6	0.6	0.5	0.7	0.8	*	*	*	*	*	2.6
IP	0.9	3.2	0.1	0.9	1.2	1.1	1.3	-0.1	-0.6	0.7	NA	3.7
ITALY												
GDP	-0.2	NA	-0.2	0.7	-0.5	NA	*	*	*	*	*	-0.5
IP	-3.1	-0.6	-0.1	-1.1	0.8	-0.2	0.5	-0.7	1.0	NA	NA	-0.6
CANADA												
GDP	0.8	3.0	0.7	0.9	0.5	0.9	*	*	*	*	*	3.0
IP	1.9	4.9	1.9	0.8	1.0	1.2	0.0	0.6	-0.1	NA	NA	4.9
UNITED STATES												
GDP	3.9	3.2	0.2	0.5	0.7	1.8	*	*	*	*	*	3.2
IP	3.2	4.3	1.3	0.6	0.7	1.6	0.6	0.8	1.0	0.5	0.4	4.8

* 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/)

			1992		1993				1993		1994		Latest month from year ago 2/
	1992	1993	Q3	Q4	Q1	Q2	Q3	Q4	NOV	DEC	JAN	FEB	
JAPAN													
CPI	0.9	1.2	-0.1	0.0	0.0	1.1	0.5	-0.4	-0.7	0.2	0.1	0.0	1.3
WPI	-1.5	-3.3	-0.2	-0.9	-0.5	-1.4	-1.0	-0.5	-0.1	0.1	0.1	-0.5	-3.2
WEST GERMANY													
CPI	3.7	3.7	0.5	0.9	1.8	1.0	0.4	0.5	0.2	0.2	0.9	0.2	3.3
WPI	-1.9	-0.3	-2.0	-0.8	0.7	0.1	-0.6	-0.5	0.3	0.0	0.6	0.5	0.3
FRANCE													
CPI	1.8	2.1	0.0	0.5	0.8	0.6	0.2	0.5	0.1	-0.1	0.2	0.3	1.8
WPI	-2.1	-1.6	-0.4	-2.3	0.0	-0.8	-0.3	-0.5	*	*	*	*	-1.6
UNITED KINGDOM													
CPI	3.1	1.6	-0.1	0.4	-0.7	1.6	0.3	0.3	-0.1	0.2	-0.4	NA	2.5
WPI	3.1	3.8	0.2	0.4	1.3	1.7	0.4	0.3	0.0	0.5	0.3	0.1	3.3
ITALY													
CPI	4.8	4.1	0.7	1.3	1.0	1.1	0.9	1.1	0.5	0.0	0.6	0.4	4.2
WPI	3.0	4.5	-0.5	2.8	1.6	1.3	0.5	1.0	0.0	0.1	NA	NA	3.9
CANADA													
CPI	1.8	1.8	0.4	0.4	0.7	0.2	0.4	0.5	0.5	-0.2	0.0	NA	1.3
WPI	3.3	2.9	0.8	1.2	1.2	-0.0	0.5	1.2	0.3	0.5	0.0	NA	2.3
UNITED STATES													
CPI (SA)	3.1	2.7	0.8	0.8	0.8	0.8	0.5	0.7	0.3	0.2	0.0	0.3	2.4
WPI (SA)	1.6	0.2	0.4	0.3	0.6	0.6	-0.8	-0.2	0.1	-0.1	0.2	0.5	0.2

* 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*)

	1992	1993	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1993 NOV	1993 DEC	1994 JAN	1994 FEB
JAPAN												
TRADE	107.3	119.6	26.2	28.6	29.7	29.9	29.5	30.5	8.8	11.1	10.9	10.5
CURRENT ACCOUNT	117.2	129.1	28.1	31.7	36.0	31.5	31.6	29.9	9.2	10.3	11.2	NA
GERMANY												
TRADE (NSA)	21.4	36.4	8.6	5.0	5.9	7.9	8.1	14.4	4.4	5.0	NA	NA
CURRENT ACCOUNT (NSA)	-25.5	-20.8	-8.6	-5.2	-4.8	-3.6	-9.8	-2.5	0.8	-0.5	NA	NA
FRANCE												
TRADE	5.6	16.3	1.3	1.3	2.5	3.9	5.0	4.9	1.1	2.3	NA	NA
CURRENT ACCOUNT	3.5	NA	-0.5	2.8	1.8	3.7	NA	NA	*	*	*	*
UNITED KINGDOM												
TRADE	-23.4	-19.5	-6.1	-6.8	-4.9	-4.9	-4.3	-5.3	-1.9	-2.3	NA	NA
CURRENT ACCOUNT	-15.0	NA	-3.2	-3.6	-4.4	-3.8	-3.1	NA	*	*	*	*
ITALY												
TRADE	-10.5	19.7	-2.1	-1.5	4.5	5.2	5.1	4.9	2.7	-0.3	NA	NA
CURRENT ACCOUNT (NSA)	-28.0	4.8	-6.5	-5.6	-3.1	2.0	3.6	2.2	-0.5	0.4	NA	NA
CANADA												
TRADE	7.4	9.0	1.7	2.9	2.4	2.3	2.3	2.1	0.5	0.4	NA	NA
CURRENT ACCOUNT	-23.0	-19.6	-5.6	-4.6	-5.2	-5.1	-4.7	-4.6	*	*	*	*
UNITED STATES												
TRADE	-96.1	-132	-27.6	-26.0	-29.3	-34.4	-36.0	-32.8	-11.4	-8.8	NA	NA
CURRENT ACCOUNT	-66.4	NA	-17.8	-23.7	-22.3	-27.2	-28.0	NA	*	*	*	*

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

account. Japan racked up a record current account surplus of $129 billion, and France posted a record trade surplus of $16 billion. Italy's current account swung from a large deficit in 1992 to a moderate surplus in 1993. The U.K. trade deficit and current account deficits in Germany and Canada were down somewhat from their 1992 levels.

Individual Country Notes. In Japan, the economy appears to have weakened in the fourth quarter but may have revived somewhat at the start of 1994. Industrial production, housing starts, and new car registrations declined strongly in the fourth quarter but recovered somewhat in January. The ratio of job offers to applicants remained flat in January, while the unemployment rate (s.a.) fell to 2.7 percent in January from 2.8 percent in December.

In the Bank of Japan's most recent economic survey (Tankan), the index of business sentiment for the first quarter was unchanged from that in the fourth quarter. Firms predicted a 4.5 percent decline in investment for FY 1994 (which begins April 1) following a 9.2 percent decline in FY 1993.

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

	1993			1994	1993		1994
	Q2	Q3	Q4	Q1	Nov.	Dec.	Jan.
Machinery Orders	-9.5	2.3	-5.9	--	1.3	11.2	4.6
New Car Registrations	-9.8	1.6	-3.3	--	3.7	-0.6	6.4
Job Offers Ratio*	0.80	0.70	0.66	--	0.65	0.65	0.65
Index Leading Ind.*	46.2	42.9	35.1	--	41.7	36.4	--
Business Sentiment**	-49	-51	-56	-56	--	--	--

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

Consumer prices in the Tokyo area in February were unchanged from January and were up 1.3 percent from February a year ago.

Wholesale prices showed a 12-month decrease of 3 2 percent in February, reflecting in large part appreciation of the yen.

The current account surplus (s.a.) widened to $129 billion in 1993, 10 percent higher than in 1992. In February, the trade surplus (customs basis, s.a.) narrowed somewhat and was slightly above its average monthly level in 1993.

On February 8, the government announced a 15.25 trillion stimulus package (equivalent to 3-1/4 percent of GDP). More than a third of the package was in the form of a temporary, one-year cut in income taxes and other taxes and the rest was in public works spending, loans, and land purchases. A committee will be formed to design permanent tax reform legislation, to be passed within the calendar year. The package is expected to boost the growth rate of real GDP by somewhat less than one percentage point in both 1994 and 1995.

Real GDP in Germany declined 1.3 percent (annual average) in 1993, reflecting a downturn of 1.9 percent in western Germany and moderate real growth in the five eastern states. Real GDP in western Germany decreased 2.7 percent (s.a.a.r) in the fourth quarter of 1993, following a substantial increase in the third quarter. A sharp decline in total domestic demand in the fourth quarter was partly offset by a substantial increase in net exports; real exports of goods and services expanded at an annual rate of 12.6 percent, while real imports declined almost 7 percent.

During the first quarter of this year, economic activity appears to have leveled off in western Germany, at least in the manufacturing sector. Industrial production was unchanged in January from its December level, but was up 0.4 percent from the fourth-quarter average. Total manufacturing orders increased in

January from December, and were 0.6 percent above their average level in the fourth quarter.

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

	1993					1994	
	Q1	Q2	Q3	Q4	Dec.	Jan.	Feb.
Manufacturing Orders	-0.9	0.5	1.5	-0.7	-0.6	1.4	--
Capacity Utilization	-2.5	-1.0	-0.6	-0.1	--	--	--
Unemployment Rate (%)	7.6	8.0	8.5	9.0	9.0	9.1	9.2
Production Plans* (%)	-25.7	-21.7	-15.0	-8.0	-4	--	--

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

Real GDP in eastern Germany increased 6.3 percent last year, following a rise of 9.7 percent in 1992. For the year ending in November, industrial production was 12.3 percent above its year-ago level, led by strong increases in both manufacturing and construction.

The West German unemployment rate rose to 9.2 percent (s.a.) in February, while that in eastern Germany was 17.1 percent (n.s.a.). Negotiations between the IG Metall union that represents 3-1/2 to 4 million engineering workers and the engineering employers association Gesamtmetall reached a conclusion on March 5, averting a strike of 10,000 engineering workers that was scheduled to begin two days later. The agreement calls for a 2 percent increase in wages beginning in June, and cuts in some benefits, leaving overall compensation about unchanged this year. The agreement allows for reductions in the work week from the current 36 hours to as few as 30 hours. A wage compromise was reached for 3-1/2 million public sector workers as well, with overall compensation about unchanged from 1993 levels.

Twelve-month consumer price inflation in western Germany fell to 3.3 percent in February. Inflation has moderated in recent months despite increases in a variety of administrative prices and taxes at the beginning of 1994 (particularly the "mineral oil" tax on petroleum) that had been widely expected to boost inflation temporarily. Moderating wage inflation and declines in import prices may have contributed to easing of inflation. Consumer price inflation in eastern Germany has slowed substantially, to 3.5 percent for the 12 months ending in February.

The German current account deficit narrowed to $21 billion in 1993, owing to an increase in the trade surplus. In December, exports were 5-1/2 percent lower than their year-earlier level, while imports were down more than 19 percent because of weak domestic demand.

Growth of the targeted monetary aggregate M3 picked up toward the end of last year and was sharply higher in January. German M3 increased 21.2 percent (s.a.a.r.) in January relative to the fourth quarter of 1993. Part of the explanation for the high January figure is that the year-end level of M3 (which is included in the January average M3 figure) was substantially above the average fourth-quarter level.

Preliminary indicators for the first quarter of 1994 point to a recovery of economic activity in France. In January, consumption of manufactured products (s.a.) rose 0.9 percent while INSEE survey data showed that French industrialists expect business conditions to improve further. The unemployment rate (s.a.) remained stable at 12.2 percent in January.

Real GDP rose 0.8 percent (s.a.a.r.) in the fourth quarter after rising 1.6 percent in the third quarter. The growth in real GDP was entirely due to positive contributions from net exports and investment. Net exports expanded as imports dropped sharply and exports rose slightly. Consumption spending was unchanged after rising 2.9 percent in the third quarter. Inventories made a large negative contribution to growth. For 1993 as a whole, GDP fell 0.1 percent (Q4/Q4) as positive contributions from consumption and net exports were more than offset by a large decline in investment and a large drop in inventories. France registered a record trade surplus of $16 billion in 1993. Imports declined slightly during 1993 while exports rose steadily.

The consumer price index rose in February to stand 1.8 percent above its year-earlier level, down from 2.1 percent in December. The easing of the 12-month rate of inflation was due to large declines in fresh food and apparel prices that more than offset increases in excise taxes on gasoline and tobacco. Further slowing of wage inflation also contributed.

In the United Kingdom, economic activity continued to recover at a modest pace. Real GDP (s.a.a.r.) is estimated to have increased 3.2 percent in the fourth quarter, with higher oil production accounting for one fourth of the increase. In January, industrial production (s.a.) rose 0.3 percent above the fourth-quarter average. The unemployment rate (s.a.) in February was 9.8 percent, a bit below the fourth-quarter average. In January and February, indicators of business confidence picked up considerably, while consumer confidence and retail sales increased on average.

In January, 12-month consumer price inflation rose to 2.5 percent due to mortgage-interest effects. Excluding mortgage interest payments, consumer price inflation was 2.8 percent, about the same as in December. Producers' input prices in February were lower than a year earlier but were more than 7 percent higher than in August 1992, just prior to sterling's devaluation. In January, the underlying rate of increase of earnings remained at 3-1/4 percent.

In the first change since November, the government set a minimum lending rate of 5.25 percent on February 8 that resulted in a 25 basis point cut in base lending rates. Later on the same day, the Bank of England released its *Inflation Report* that forecast inflation in 1994-95 in the top half of the targeted band of 1-4 percent, at just over 3 percent, and stated that the forecast had upside risk.

Economic activity in Italy remained weak. The average level of industrial production (s.a.) in the fourth quarter retreated from the level recorded in the third quarter. The unemployment rate (n.s.a.), which stood at 10.3 percent in the third quarter, mushroomed to 11.3 percent in the fourth quarter. Real retail sales remained flat. On the positive side, consumer confidence rebounded as did orders.

Inflation has been held in check by weak economic activity. In the year through February, CPI inflation was 4.2 percent, about the same as the rate recorded in 1993, which was the lowest rate in 24 years. Absent an increase in excise taxes on a variety of goods that took effect at the beginning of the year, the rate would have been 0.2 percentage points lower.

The weak lira and declining domestic demand have produced a significant improvement in Italy's external accounts. Although exports (in dollar terms) dropped in 1993 from levels recorded in 1992, a dramatic reduction in imports yielded a trade surplus of nearly $20 billion and a current account surplus of about $5 billion. In 1992, both accounts registered large deficits.

Parliamentary elections are scheduled for March 27 and 28. In a poll conducted on March 10, 35 percent of the respondents favored the leftist alliance, 19 percent backed the center alliance, and 43 percent supported the parties of the right.

Economic activity in Canada strengthened in the fourth quarter of 1993. Real GDP grew 3.8 percent (s.a.a.r.), following a revised 1.9 percent increase in the third quarter. Total fixed investment increased strongly, with business machinery and equipment investment rising 21 percent (s.a.a.r.) and both residential and nonresidential investment expanding. Consumption expenditures rose 1.8 percent (s.a.a.r), and an increase in exports was offset by equally strong growth in imports. For 1993 as a whole, real GDP grew 3 percent (Q4/Q4). The current account deficit narrowed slightly in the fourth quarter, and for the year totalled $19.6 billion, following a $23 billion deficit in 1992.

The composite indicator index grew strongly in both December and January. However, shipments and new orders fell in January to levels below their fourth-quarter averages. Conditions in the labor market remain weak, although employment rose and the unemployment rate (s.a.) fell in February to 11.1 percent. Continued slack in labor markets contributed to a record low increase in wage settlements for 1993 of only 0.7 percent. Consumer price inflation remains low. The consumer price index excluding food and energy fell 0.1 percent in January, and rose only 1.7 percent over the level one year earlier. Consumer price inflation is expected to remain low through 1994, largely as a result of sharp declines in cigarette taxes in February.

On February 22, Minister of Finance Paul Martin presented the Chretien government's first budget for 1994-95. The budget calls for the federal deficit to fall to C$39.7 billion (5.4 percent of GDP) in the current fiscal year. The budget reduces defense spending and unemployment benefits, and broadens the tax base somewhat. The deficit is projected to decline to 4.2 percent of GDP by 1995-96, while the net public debt is projected to rise to 75 percent of GDP over the same period.

Economic Situation in Other Countries

Prices of Brady bonds have declined considerably in recent weeks, continuing their fall since the beginning of the year. Between end-December 1993 and mid-March, Brady bond prices declined by almost 15 percent for Mexico, over 15 percent for Argentina, and by nearly 20 percent for Venezuela. These declines reflect country developments, the rise in dollar interest rates, and investor skittishness in emerging markets.

In Mexico, economic performance has been disappointing, and there is uncertainty about the political and economic ramifications of the recent civil unrest. In Venezuela, the new administration faces serious challenges with respect to fiscal deficit reduction and banking stability. Brazil's real GDP grew by 5 percent in 1993, but inflation has remained very high. Economic activity in China, and to a lesser extent, in Korea, has been strong. In Russia, economic activity has continued to plummet. On March 10, Poland reached agreement with commercial bank creditors on a Brady-style debt restructuring package.

Individual country notes. Mexico's real GDP grew only 0.4 percent in 1993, down from 2.6 percent in 1992. After a 1.2 percent contraction in the third quarter from the year-earlier level, the economy showed virtually no change in the fourth quarter compared with the same period of 1992. In February, the announcement of weak growth performance, disappointing company earnings reports, and concerns about the political and economic ramifications of the rebellion in the state of Chiapas prompted a downward revision of market sentiment about the attractiveness of investments in Mexico. Stock prices, which had reached an all-time peak on February 8, closed 18 percent lower on March 15. Over the February 22-24 period, the peso depreciated nearly 4 percent; the Bank of Mexico reportedly chose not to support it. The exchange rate was 3.21 pesos per dollar on March 15, having depreciated by 6.2 percent since February 21. The exchange rate depreciation in late February occurred as interest rates reached new lows, but rates then turned up. At the auction of March 16, the 28-day Treasury-bill rate was 93.9 percent, 58 basis points above the February 23 low.

The CPI rose 0.5 percent in February, bringing the year-over-year increase to 7.2 percent, down from an increase of 10.9 percent for the twelve months through February 1993.

President Salinas has nominated Bank of Mexico Director General Miguel Mancera to continue as governor of the Bank of Mexico after it becomes an autonomous entity on April 1. Mancera will serve a term of 3 years and 9 months. After that, the term will be six years. The terms of the four deputy governors, which will be staggered, will be eight years.

Brazil's real GDP rose by 5 percent in 1993, compared with a decline of 0.9 percent in 1992. Growth was spurred by expansionary fiscal policies, mainly in the first quarter of 1993. However, Brazil has yet to move aggressively to reduce persistent fiscal deficits and high inflation. Monthly inflation was over 40 percent in January and February. In early March, Brazil introduced the Real Unitary Value (URV), a unit of account that the government hopes will serve as a transition to the introduction of a new and stable currency in two to three months. The URV is pegged one for one with the dollar and is adjusted against the cruzeiro daily. Although the government has hoped that all wages, prices, and financial contracts will be denominated in URVs, there has been no indication that use of the URV has been widespread.

It remains unclear whether Brazil will secure an IMF program soon, which would facilitate the implementation of the $35 billion Brady-style commercial bank debt rescheduling package. Brazilian officials maintain that Brazil will secure an IMF stand-by arrangement in time for the bank debt agreement to be implemented by the April 15 deadline.

In Argentina, the merchandise trade deficit reached an estimated $2.3 billion in 1993, up from $1.3 billion a year earlier. Imports were up 12.4 percent, while exports rose by 5.6 percent.

Consumer prices in Argentina were unchanged in February, and stood 5.8 percent higher than a year earlier.

In Venezuela, the new administration of President Rafael Caldera, inaugurated on February 2, faces serious challenges with respect to fiscal deficit reduction and banking stability. The fiscal deficit reached an estimated 10 percent of GDP in 1993, up from 6 percent of GDP a year earlier. The Caldera administration has proposed budgetary measures to Congress that are aimed at meeting a fiscal deficit target of 2 percent of GDP in 1994. However, especially because lower oil prices will reduce oil revenue by an estimated 2.5 percent of GDP in 1994, substantial further fiscal tightening will be needed to meet the deficit target.

Weak economic activity, rising real interest rates, poor bank management, and increasing uncertainty about future inflation have created serious problems in the banking system. In mid-January, Venezuela's second largest bank, Banco Latino, was taken over by government regulators. Banco Latino's problems weakened the public's already shaky confidence in the banking system, resulting in heavy withdrawals of bank deposits and substitution into dollars in recent weeks.

Monetary authorities have estimated that $900 million (1.5 percent of GDP) will be required to repay depositors and recapitalize Banco Latino, so that it can resume normal operations within a few months. The public deposit insurance agency has extended aid to Banco Latino and to six other financial institutions, while the central bank has cut reserve requirements by 3 percentage points and has intervened to stabilize the bolivar. As of early March, the central bank's net foreign reserves had fallen to $6.9 billion, about $1.5 billion lower than in early January.

Taiwan recorded a trade surplus of $150 million for the first two months of 1994, down from a surplus of $255 million for the same period of 1993. Exports were up 3.8 percent, while imports were up 6.7 percent. Inflation has remained low; consumer prices in February were 3.9 percent higher than a year earlier. In early March, Taiwan increased the ceiling on investment by foreign institutions in the stock market from $5 billion to $7.5 billion.

In China, real GDP grew a revised 13.4 percent in 1993. Anecdotal evidence indicates that the economy had continued its strong growth in the first quarter of 1994. Industrial production was 20 percent higher in January than a year earlier, after adjusting for the Lunar New Year falling in January last year and in February this year. Urban prices in January were 23.3 percent higher than a year earlier. In an effort to meet the official goal of slowing growth to 9 percent in 1994, central government officials announced restrictions on new fixed investments in late January. There have been no indications, however, that restrictions are having any effect. The high rate of fixed investment last year, which rose by 58 percent, is widely seen as a major reason for the overheating of the economy in 1993.

Imports in January 1994 were 78 percent higher than in January 1993, while exports were 43 percent higher, leading to a January 1994 trade deficit of $900 million, down from a surplus of $150 million in January 1993.

In early March, China arrested or detained several prominent pro-democracy dissidents, prompting criticism from U.S. officials. To renew China's most-favored nation (MFN) trade status, President Clinton must declare that China has made progress on human rights by early June. If the United States revokes MFN, Chinese exports to the United States would be disrupted and China may retaliate against U.S. firms.

In Korea, economic activity remains robust, in part because demand for exports from China and other Asian countries has been strong and because monetary policy has been accommodative since early 1993. Manufacturing production was 9 percent higher in 1993-Q4 than a year earlier, and also exhibited strong growth in January. Inflation has increased significantly in the past few months after having remained stable at an annual rate of about 4-3/4 percent during the first three quarters of 1993. The consumer price index was 6.8 percent higher in February 1994 than a year earlier. Concern about inflation has led authorities to tighten liquidity in the past few weeks and to adopt informal price controls.

Korea's merchandise exports increased by 7.8 percent in 1993. Merchandise imports increased by only 2.1 percent in 1993, as weak investment demand in 1993-H1 limited demand for imported capital goods. The substantial improvement in the merchandise trade balance contributed to a shift in the current account balance from a deficit of $4.5 billion in 1992 to a surplus of $450 million in 1993 -- Korea's first current account surplus since 1989.

In Russia, real GDP dropped an estimated 12 percent during 1993, and industrial production fell 16 percent. The contraction in economic activity continued in early 1994; industrial production in January was 26 percent below its January 1993 level. Monthly inflation climbed to 22 percent in January from 12 percent in December. This increase reflected large rate hikes for services and strong aggregate demand fueled by high money growth. Preliminary reports suggest, however, that February inflation fell to 9.9 percent, an 18-month low.

In a March 3 Cabinet meeting, government ministers approved a draft budget that limits the 1994 fiscal deficit to about 62 trillion rubles, an estimated 10.2 percent of GDP. Reformers maintain that projected revenues are too optimistic and predict that the actual deficit will be around 100 trillion rubles.

After falling almost 24 percent during the first three weeks in January, the ruble remained stable until late February, when it depreciated further, leaving the exchange rate at 1716 rubles per dollar on March 15. The latest depreciation followed the government's release of arrears payments to the agriculture and mining sectors.

On March 10, Poland and commercial bankers agreed to conditions to reduce the country's commercial bank debt. Poland's medium and long-term debt of $8.1 billion will be swapped for one of several options, including a collateralized discount bond, a collateralized par bond at below market interest rates, and new money. In addition, $3.8 billion in interest arrears will be converted into 20-year bonds including a 7-year grace period, and $1.1 billion in trade credits will be bought back by Poland. Early indications are that Poland has satisfied the performance criteria of its IMF stand-by arrangement.