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

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

Confidential (FR) Class III FOMC

August 12, 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

Recent indicators have provided mixed signs on the current pace of economic expansion. It is fairly clear that hiring has continued at a good clip into the summer months, but, owing to a leveling of the workweek, aggregate hours in July were only modestly above the second-quarter average. Although there are no signs of a troublesome overhang of stocks in the wake of the spring surge in inventory investment, that rate of accumulation is not likely to be sustained. Among final sales categories, housing activity is showing the effects of higher interest rates; consumer demand appears to be firm, with spending probably damped a bit recently by the limited availability of desired motor vehicles; and indicators of business fixed investment remain strongly positive. On balance, the picture suggests that GDP growth probably has slowed somewhat from the average pace of the first half, but not enough to relieve pressures on productive resources. Meanwhile, there has been no significant change in the trends of labor costs and of prices of finished goods and services--despite a continued rise in the prices of industrial materials.

Employment and Unemployment

In July, nonfarm payroll employment rose about 260,000, a pace not appreciably different from the average for the first six months of the year. Although average weekly hours of production or nonsupervisory workers were essentially flat in July, the gain in employment was enough to push production worker hours up to a level 0.4 percent above the second-quarter average. The unemployment rate in July backed up 0.1 percentage point to 6.1 percent.

Increases in payroll jobs were widespread in July. Employment in the services industry posted a large gain, owing in part to another sizable increase in hiring at personnel supply agencies.

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

	1992	1993	1993 Q4	1994 Q1	1994 Q2	1994 May	1994 June	1994 July
	------------Average monthly changes---------							
Nonfarm payroll employment[2]	96	194	229	229	336	252	356	259
Private	76	179	219	222	311	219	353	261
Manufacturing	-14	-11	3	13	19	2	27	6
Durable	-14	-7	10	12	20	1	32	-5
Nondurable	0	-4	-7	0	-1	1	-5	11
Construction	-1	19	24	23	39	14	16	25
Trade	10	42	47	44	93	25	127	80
Finance, insurance, real estate	4	10	11	4	6	-4	13	1
Services	78	116	127	133	146	101	165	138
Health services	22	23	20	23	21	13	24	18
Business services	31	46	62	61	58	23	77	73
Total government	20	15	10	8	25	33	3	-2
Private nonfarm production workers	86	164	185	211	295	203	323	149
Manufacturing production workers	-3	-1	12	22	22	1	32	7
Total employment[3]	127	209	364	459	131	534	-442	22
Nonagricultural	120	219	363	349	195	557	-242	-22
Memo:								
Aggregate hours of private production workers (percent change)	.1	.3	.4	.4	.4	.7	-.3	.4
Average workweek (hours)	34.4	34.5	34.5	34.6	34.7	34.8	34.6	34.6
Manufacturing (hours)	41.1	41.5	41.7	41.7	42.1	42.1	42.0	41.9

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households. Data for 1994 are not directly comparable with earlier years because of a redesign of the CPS in January 1994.

SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES[1]
(Percent; based on seasonally adjusted data)

	1992	1993	1993 Q4	1994 Q1	1994 Q2	1994 May	1994 June	1994 July
Civilian unemployment rate (16 years and older)	7.4	6.8	6.5	6.6	6.2	6.0	6.0	6.1
Teenagers	20.0	19.0	18.3	18.0	18.4	18.3	16.9	17.7
20-24 years old	11.3	10.5	9.7	10.6	9.6	9.4	9.4	9.9
Men, 25 years and older	6.4	5.8	5.5	5.3	4.8	4.6	4.7	4.9
Women, 25 years and older	5.7	5.4	5.3	5.3	5.0	4.9	4.9	4.8
Full-time workers	7.4	6.8	6.2	6.7	6.2	6.0	6.1	6.2
Labor force participation rate	66.3	66.2	66.2	66.6	66.5	66.5	66.2	66.3
Teenagers	51.3	51.5	51.1	52.7	53.6	53.1	53.7	52.5
20-24 years old	77.1	77.1	76.7	77.0	77.0	77.1	77.2	76.4
Men, 25 years and older	76.6	76.2	76.2	76.3	75.8	75.9	75.5	75.8
Women, 25 years and older	57.0	57.1	57.5	58.0	57.9	58.1	57.6	57.8

1. Data for 1994 are not directly comparable with earlier years because of a redesign of the CPS in January 1994.

Retail trade employment grew 75,000, reflecting gains at eating and drinking establishments as well as general merchandise and food stores. In the construction industry, employment rose another 25,000 in July--a surprisingly large gain in light of the recent trends in homebuilding activity. Manufacturing employment rose 6,000 in July; however, strike activity by the United Auto Workers (UAW) at Caterpillar and General Dynamics reduced manufacturing payrolls by 12,000 workers. The average workweek in manufacturing edged down in July; nevertheless, at 41.9 hours, it remains very high by the standards of recent years.[1]

The latest strikes in manufacturing underscore the more aggressive posture of organized labor this year. From January to June of this year, 24 strikes involving 1,000 or more workers occurred. Should strikes continue to occur at this rate, 1994 would register the largest number of work stoppages since 1989. Nevertheless, strike activity this year remains low in comparison with the 1970s, when strikes totaled at least 200 or more each year.

MAJOR WORK STOPPAGES
(Strikes involving 1,000 or more workers, for selected years)

	1988	1989	1990	1991	1992	1993	1994[1]
Strikes	40	51	44	40	35	35	24
Workers involved (thousands)	118	452	185	392	364	182	215

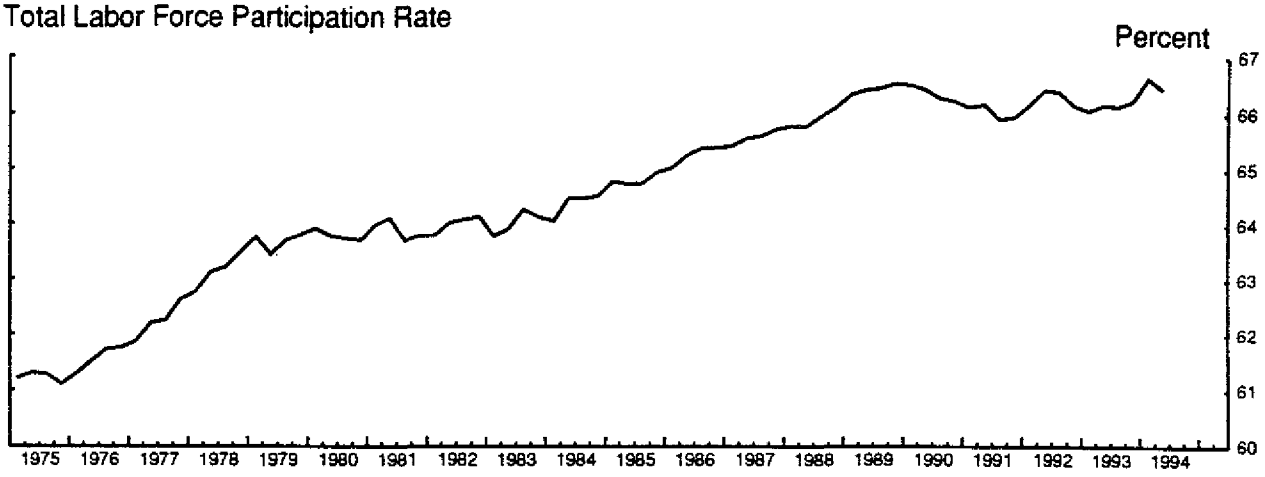
1. January to June, not annualized.

In the household survey, total employment increased just 22,000 in July. Since January, growth in household employment has fallen

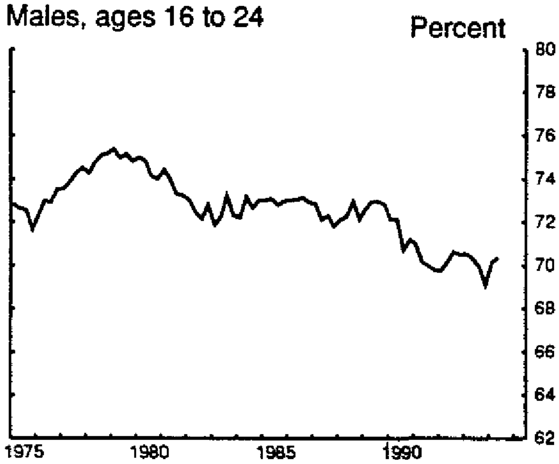
1. The workweek was down in a number of industries and fell sharply in motor vehicles. Unlike in previous years, General Motors shut down all of its plants in early July for summer vacation. Although most workers received paid time off for a regular workweek, their reported hours fell because no overtime was scheduled during that period.

LABOR FORCE PARTICIPATION RATES
(Seasonally adjusted data)

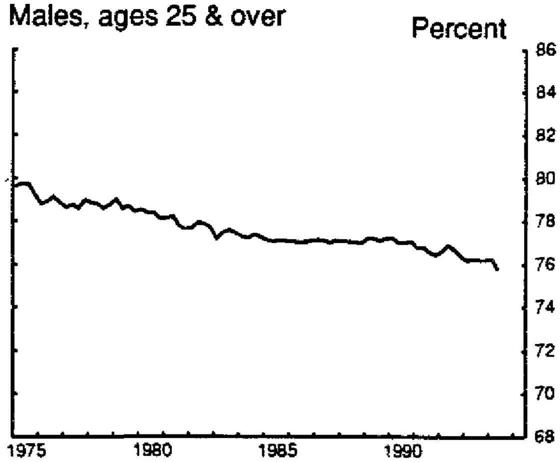
Total Labor Force Participation Rate



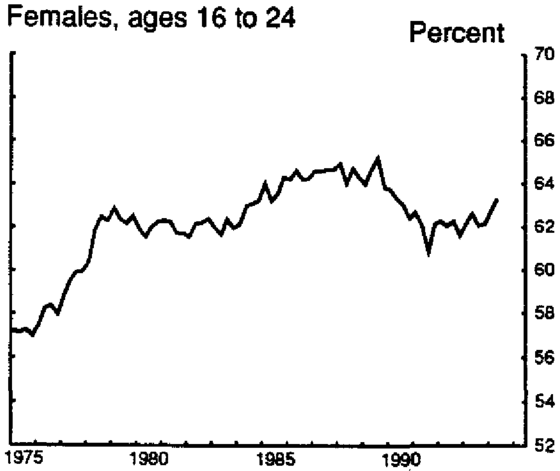
Males, ages 16 to 24



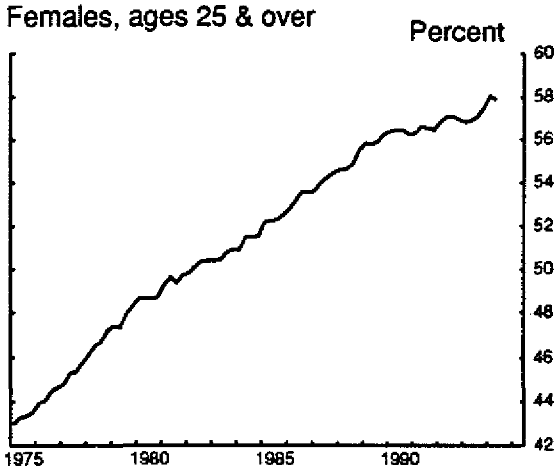
Males, ages 25 & over



Females, ages 16 to 24



Females, ages 25 & over



Note: Data for 1994 are not directly comparable with earlier years because of the redesign of the CPS in 1994.

considerably short of that in payroll employment.[2] The number of unemployed workers rose 188,000 in July, mostly reflecting more individuals on temporary layoff and a larger number of unemployed new entrants into the labor force. Meanwhile, the labor force moved higher in July, nudging the participation rate up to 66.3 percent--a level still well below the January reading of 66.7 percent.

As with employment, the weakness in the participation rate this year may reflect sampling error or start-up problems with the new CPS. However, even when viewed over a longer time span, labor force participation in recent years has lagged earlier trends. In particular, the flatness in participation since 1990 contrasts sharply with the increases recorded during the mid- to late 1980s when a significant number of youths and women were pulled into a booming labor market.

Even before the recession began to discourage participation, the rates for younger workers had begun to decline, in part, it appears, because they were opting for school. During the recession and slow recovery, participation remained weak, not only among young workers but also adults. But even as the economy has strengthened, the participation rate has not picked up. In part, the recent lack of entry may reflect a continuing perception that job opportunities are scarce. But, more fundamental changes in labor force growth appear to be involved. With the gap between female and male participation rates having narrowed dramatically over the past twenty years, the scope for sizable further contributions from rising participation rates of women probably has diminished.

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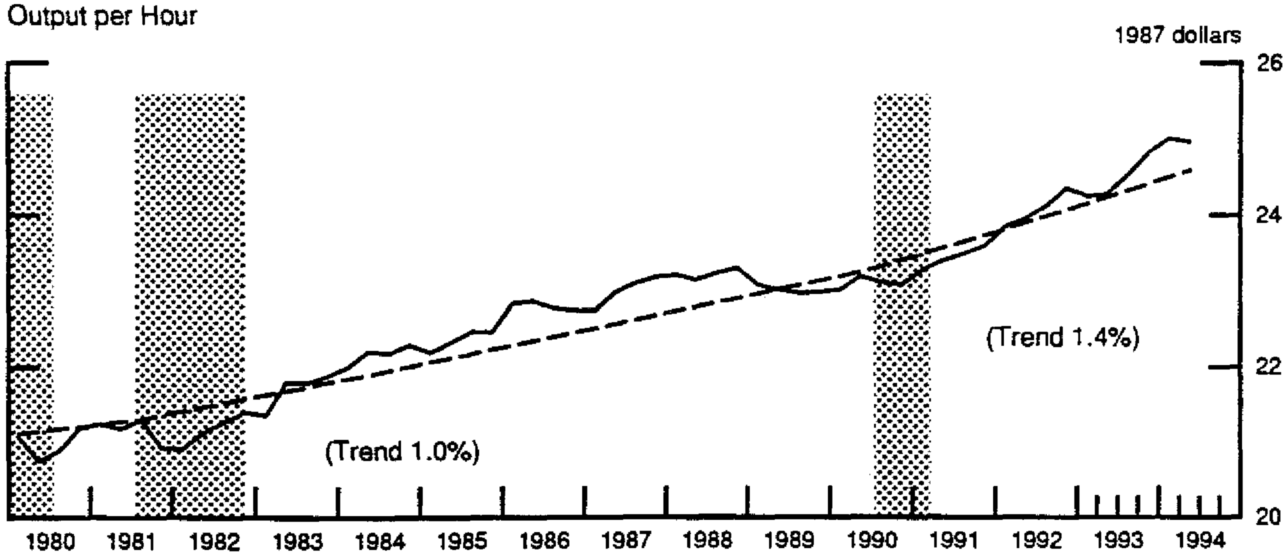
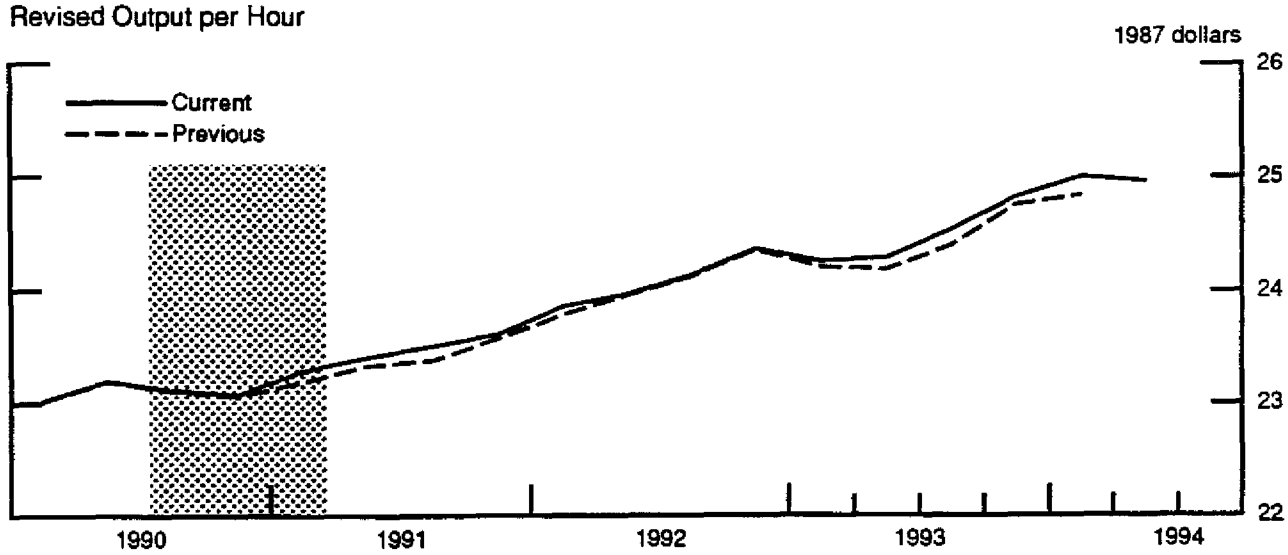
2. Over the six months ending in July 1994, employment growth in the payroll survey exceeded that in the household survey by almost 1.4 million--large, but not unprecedented in the history of the series. BLS has indicated some discomfort with the recent divergence in these series and has cautioned users to discount the household survey data because of the uncertainties associated with the introduction of the new CPS.

LABOR PRODUCTIVITY
(Nonfarm business sector)





REVISIONS TO LABOR PRODUCTIVITY
(Nonfarm business sector; percent change at an annual rate)

	1991	1992	1993	1994 Q1	1994 Q2	1993:Q2-1994:Q2
Output per hour						
Revised	2.3	3.2	1.9	2.9	-1.2	2.6
Previous	2.2	3.3	1.7	1.3	n.a.	n.a.

Although some further gains are anticipated in aggregate participation, the underlying uptrend is likely to fall short of the rapid rate of increase seen over the previous two decades.

Initial claims for unemployment insurance were 327,000 during the week ended August 6. With the exception of a brief run-up in early July, weekly filings of initial claims in recent weeks have moved below the 350,000 average evident between March and June of this year.[3]

In the second quarter, output per hour in the nonfarm business sector is estimated to have fallen at an annual rate of 1.2 percent. Although nonfarm output rose 4.1 percent in the second quarter, hours worked jumped 5.4 percent at an annual rate. Nonetheless, over the four quarters ended in 1994:Q2, labor productivity rose 2.6 percent--a gain well above our estimate of 1.4 percent annual trend growth.

In the first quarter, labor productivity growth was revised up more than 1-1/2 percentage points to 2.9 percent (annual rate). However, revisions to labor productivity in earlier years were small, and left productivity only a little above its previous level (chart).

Industrial Production

Data on hours of production workers and measures of physical product suggest that industrial production advanced moderately in July, after rising 1/2 percent in June. A decline in electricity generation from its unusually high June level is expected to reduce the July gain by about 0.1 percentage point. Production in manufacturing rose fairly strongly, and the rate of factory capacity utilization probably remained near 83 percent. Utilization rates in

3. Claims were boosted in early July by some transitory factors, which included flood-related claims in the Southeast and shutdowns at General Motors plants for summer vacations.

GROWTH IN SELECTED COMPONENTS OF INDUSTRIAL PRODUCTION
(Percent change from preceding period except as noted)

	Proportion in total IP 1993:Q4	1993[1]	1994 Q1	1994 Q2	1994 Apr.	1994 May	1994 Jun.
			-Annual rate-		--Monthly rate---		
Total index	100.0	4.2	8.3	4.4	.2	.1	.5
Previous		4.2	8.1		.1	.2	
Manufacturing	85.2	5.0	7.8	5.3	.3	.2	.2
Motor vehicles and parts	5.6	16.6	37.9	-22.9	-1.7	-3.9	-.6
Mining	6.9	-.8	4.9	2.2	.4	-1.2	-.5
Utilities	7.9	.9	15.8	-2.8	-1.4	.9	5.4
Manufacturing excl. motor vehicles and parts	79.6	4.3	5.9	7.7	.5	.5	.2
Consumer goods	21.4	.6	2.7	5.6	.2	.1	.1
Durables	3.7	5.8	1.9	.0	.4	-1.5	1.2
Nondurables	17.7	-.4	2.9	6.8	.2	.4	-.1
Business equipment	14.9	9.1	12.0	11.6	.6	1.1	.6
Office and computing	4.2	33.9	33.9	17.0	1.0	1.1	1.7
Industrial	3.9	4.2	6.1	12.2	.8	1.0	.0
Other	6.8	.3	3.0	7.7	.3	1.2	.1
Defense and space equipment	2.8	-9.5	-10.2	-6.1	-.2	-.9	-.5
Construction supplies	5.2	5.9	-.4	9.7	2.0	.4	.2
Materials	39.0	4.3	8.0	6.6	.3	.2	
Durables	19.8	7.4	9.5	10.7	1.0	.2	
Nondurables	9.2	3.8	3.7	3.8	-.7	1.2	-
Energy	10.0	-1.0	8.9	1.2	-.1	-.6	1.5

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

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

	Share 1994 H1	1994 Q1	1994 Q2	1994 Apr.	1994 May	1994 Jun.
Total durable goods	100.0	5.4	1.5	.3	1.4	1.2
Adjusted durable goods orders[1]	65.0	3.2	3.4	-.5	.4	1.2
Nondefense capital goods excluding aircraft and computers	17.0	1.9	3.0	-.6	-2.9	8.2
Office & computing machines	5.0	.8	6.0	-.1	-1.4	-1.1
All other categories[2]	44.0	3.9	3.3	-.5	1.9	-1.1
Real adjusted durable goods orders[3]		2.5	3.5	-.3	.2	1.0

1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.
2. Includes primary metals; most fabricated metals; most stone, clay, and glass products; electronic components; household appliances; scientific instruments; and miscellaneous durable goods.
3. Nominal adjusted durable goods orders were deflated with a PPI for durable goods excluding transportation equipment and the BEA deflator for office, computing, and accounting machinery.

primary processing industries, such as textiles, lumber, and iron and steel, remained well above their 1967-93 averages.

Assembly schedules for the third quarter indicate little change in car and truck output. In July, auto production was close to schedules, and truck production actually exceeded plans. As in July, car assemblies in August are expected to be held down by extended model changeovers at some plants.[4] Truck schedules call for production to increase in August as additional capacity comes on line.

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

	1994					
	May	June	July	Q1	Q2	Q3[s]
U.S. production[1]	11.5	11.6	11.3	12.9	11.8	11.7
Autos	6.3	6.2	6.0	7.1	6.4	6.2
Trucks	5.3	5.4	5.2	5.9	5.4	5.5
Days' supply						
Autos	60.3	63.0	64.5[2]	60.0	60.9	
Light trucks	61.7	64.2	61.7[2]	53.0	60.0	

1. Components may not add to totals due to rounding.
2. Days' supply in July estimated from production and sales.
s Scheduled.

The available evidence suggests that output of appliances and other household durables was robust in July. Meanwhile, declines in output of gasoline and residential electricity held down growth in production of consumer nondurables. The fallback in residential electricity came on the heels of a double-digit gain in June and

4. Altogether, unusually long downtimes reduced the level of motor vehicle output in the second quarter by roughly 0.2 million to 0.3 million units (annual rate) and are likely to reduce the level of motor vehicle output in the third quarter by a similar amount. The lost production is expected to be made up only gradually in coming quarters.

CAPACITY UTILIZATION IN INDUSTRY
(Percent of capacity; seasonally adjusted)

	1967-93	1988-89	1994		1994	
	Avg.	High [1]	Q1	Q2	May	June
Total industry	81.9	84.8	83.4	83.8	83.6	83.9
Manufacturing	81.2	85.1	82.5	82.9	82.9	82.8
Primary processing	82.2	89.1	85.8	86.8	87.0	86.8
Textile mill products	86.2	92.1	90.3	91.8	91.5	91.8
Lumber and products	83.1	93.3	89.8	90.0	90.5	90.2
Pulp and paper	92.2	98.1	93.7	92.3	94.1	90.2
Chemicals[2]	83.3	92.3	85.5	86.3	86.7	86.5
Petroleum products	85.5	88.5	90.5	94.1	94.6	93.6
Stone, clay and glass	77.9	83.7	77.9	78.2	78.4	78.3
Primary metals	80.1	92.9	89.6	93.1	93.0	92.8
Iron and steel	79.8	95.7	91.1	96.2	95.9	95.7
Nonferrous metals	80.9	88.9	87.4	88.5	88.6	88.4
Fabricated metal products	77.2	82.0	80.3	81.3	81.1	81.5
Advanced processing	80.6	83.3	81.2	81.3	81.3	81.2
Furniture and fixtures	81.7	86.8	82.0	83.1	82.5	83.6
Chemicals[3]	77.3	82.0	78.5	78.9	79.3	79..
Nonelectrical machinery	80.8	83.7	87.4	88.5	88.5	88.7
Electrical machinery	80.4	84.9	85.1	86.3	86.4	86.1
Motor vehicles and parts	75.7	84.5	90.5	83.7	82.8	81.9
Autos and light trucks[4]		89.6	92.8	83.0	81.7	80.1
Aerospace and misc. transportation equipment	75.5	88.3	62.4	62.4	62.4	62.6
Instruments	82.0	81.2	73.5	73.3	73.0	73.5
Mining	87.4	87.0	89.0	89.5	89.3	88.8
Utilities	86.7	92.6	89.0	88.1	86.8	91.4

1. The historical highs shown are specific to each series and did not occur in the same month.
2. Includes industrial organic and inorganic chemicals, synthetic materials, plastics resins, and fertilizers.
3. Includes drugs and toiletries, soaps and detergents, paints and allied products, pesticides, and other miscellaneous chemical products.
4. Series begins in 1977.

reflected more moderate temperatures, which reduced air conditioning demands.

Recent data also indicate that output of business equipment and related parts (excluding motor vehicles) advanced quite strongly in July, despite the ongoing weakness in aircraft and defense equipment and the strike at Caterpillar.[5] Production worker hours for business equipment excluding motor vehicles increased moderately last month, and the implied gains in production are consistent with the uptrend in orders for information processing, industrial, and other equipment.

Production of construction supplies looks to have changed little for a second month in July, and growth in output of industrial materials, which was rapid through March, has slowed because of declines in the production of parts used to make vehicles. Output of energy materials declined in July, and raw steel production fell because of repairs to equipment at several plants. Elsewhere, a rebound in paper and paperboard and continued growth in equipment parts contributed to a small overall gain in production of industrial materials.

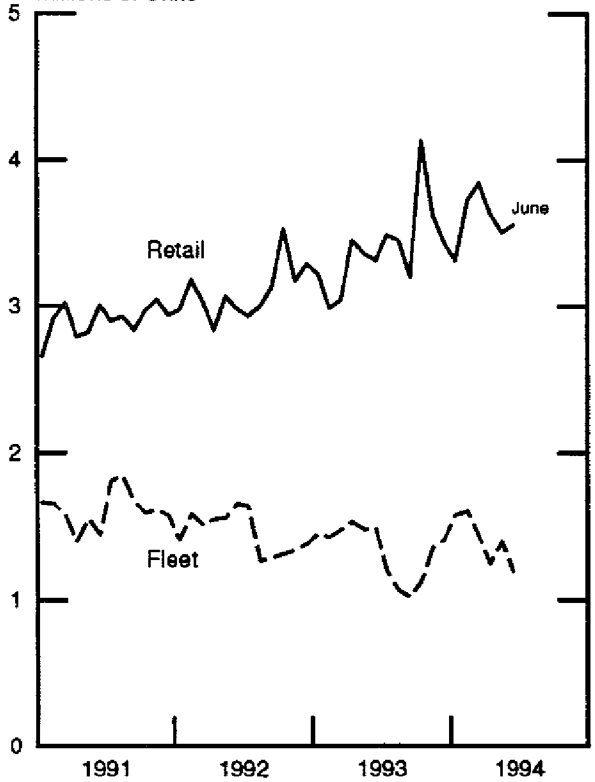
Motor Vehicles

Sales of new light vehicles fell to an average of a little over 14 million units (annual rate) in June and July, with declines in purchases of both cars and trucks. Nearly all of this decline in sales from the robust pace of the first quarter has occurred among vehicles produced by the Big Three.

5. The strike at Caterpillar began on June 22. Sources at Caterpillar report that plants are currently operating with a workforce that is at 75 percent of its pre-strike level. About 25 percent of the regular hourly employees have returned, and been joined by roughly 13,500 white-collar workers, re-hired workers, contract employees, and newly hired permanent employees. This information suggests that the level of July production at Caterpillar was roughly one-half of the normal nonstrike level.

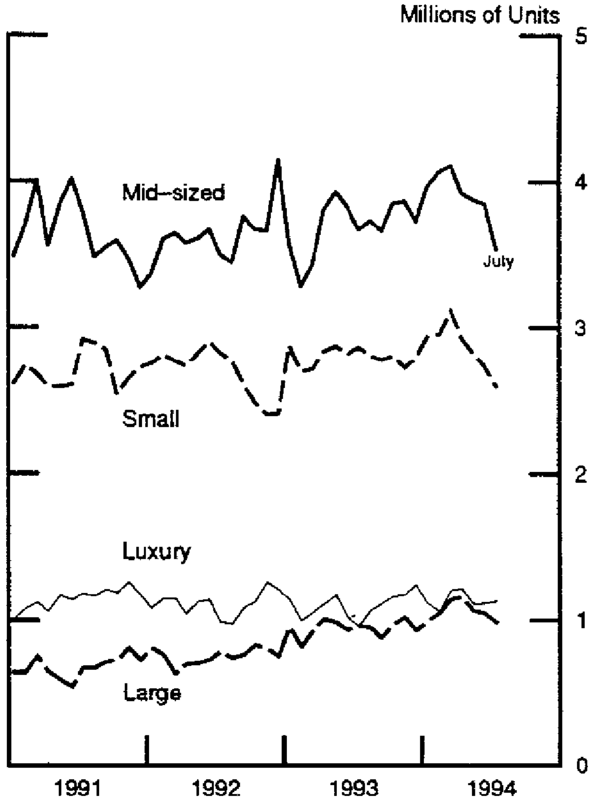
MOTOR VEHICLE SALES AND INVENTORIES

GM and Ford Domestic Auto Sales
(Seasonally adjusted annual rate; FRB seasonals)
Millions of Units

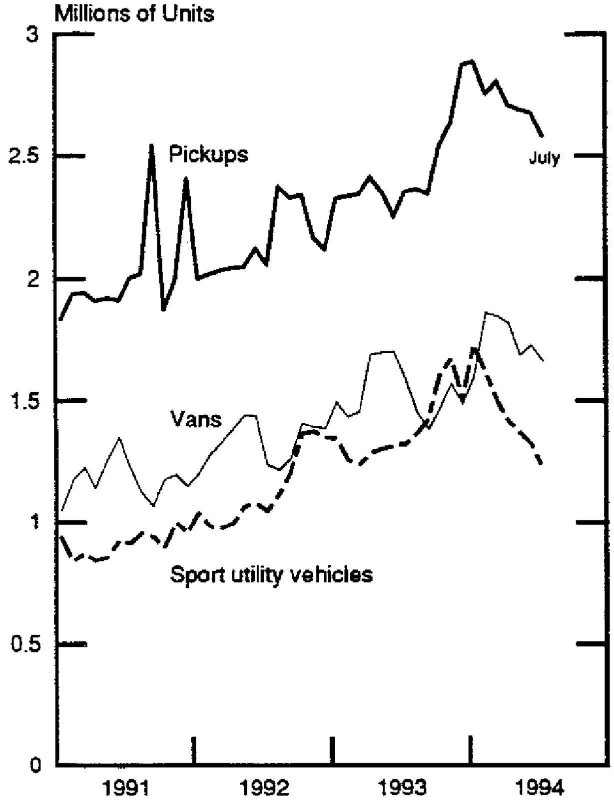


Note: Data are confidential. Retail includes consumer leasing.

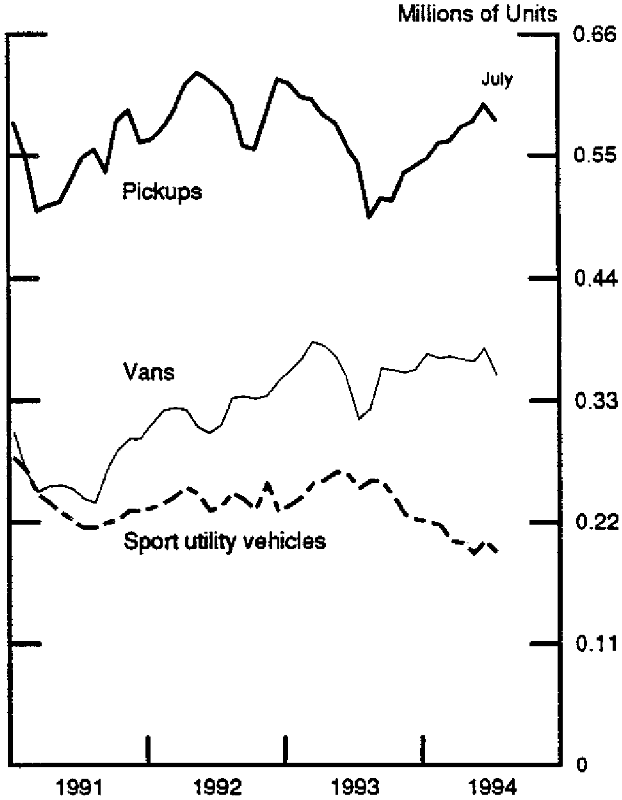
Auto Sales
(Seasonally adjusted annual rate; BEA seasonals)
Millions of Units



Light Truck Sales
(Seasonally adjusted annual rate; BEA seasonals)
Millions of Units



Light Truck Stocks
(Seasonally adjusted; FRB seasonals)
Millions of Units



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

	1993	1993 Q4	1994 Q1	1994 Q2	1994 May	1994 June	1994 July
Total	13.9	14.5	15.5	14.7	14.6	14.5	13.7
Autos	8.7	9.0	9.4	9.2	9.1	9.0	8.5
Light trucks	5.2	5.6	6.0	5.6	5.6	5.5	5.3
North American[2]	11.7	12.5	13.3	12.6	12.5	12.2	11.6
Autos	6.7	7.1	7.4	7.2	7.1	6.9	6.5
Big Three	5.5	5.7	6.0	5.7	5.7	5.4	5.1
Transplants	1.3	1.4	1.4	1.5	1.4	1.5	1.4
Light trucks	5.0	5.4	5.9	5.4	5.4	5.3	5.1
Foreign produced	2.2	2.0	2.2	2.2	2.1	2.2	2.1
Autos	2.0	1.9	2.0	2.0	2.0	2.1	2.0
Light trucks	.2	.1	.1	.2	.2	.2	.1
Memo: domestic name-plate market share							
Total	.74	.74	.74	.73	.74	.72	.72
Autos	.64	.65	.65	.63	.64	.61	.61

Note: Data on sales of trucks and imported autos for the most recent 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; before January 1994, some vehicles produced in Mexico were also excluded.

Two special factors have contributed to the decline in light motor vehicle sales since the first quarter. First, more than half of the drop in car sales in the second quarter reflected lower levels of fleet sales (chart, upper left panel).[6] The swing in rental car purchases was concentrated in sales of mid-sized and large vehicles, which represent a larger share of fleet purchases than of overall sales. Second, short supplies of several models of cars and trucks have held down sales. Inventories of some domestic models of small and mid-sized cars have been extremely lean owing to the extended model changeovers, and sales of these vehicles have fallen appreciably (upper right panel). Among light trucks, sales

6. The first-quarter spurt in purchases by rental car companies represented a catch-up in sales delayed from the second half of last year because of supply shortages. The information on fleet and retail sales from Ford and General Motors is confidential.

RETAIL SALES
(Percent change; seasonally adjusted)

	1993	1994		1994		
	Q4	Q1	Q2	May	June	July
Total sales	3.0	1.5	1.1	.0	.8	-.1
Previous estimate			.7	-.4	.6	
Retail control[1]	1.4	1.0	1.2	.5	.7	.3
Previous estimate			.7	.1	.2	
Total excl. automotive group	1.9	.7	1.5	.5	.8	.4
Previous estimate			1.1	.1	.4	
GAF[2]	2.1	.7	1.8	.3	1.8	.5
Previous estimate			1.4	.0	1.1	
Durable goods stores	5.7	2.2	1.4	-.6	.9	-.5
Previous estimate			1.1	-1.1	.8	
Bldg. material and supply	7.6	-1.6	4.0	.1	1.2	1.5
Automotive dealers	7.2	4.2	-.3	-1.8	.9	-1.7
Furniture and appliances	4.8	.0	3.9	1.4	1.4	1.3
Other durable goods	-1.8	.1	4.2	2.1	.2	1.0
Nondurable goods stores	1.4	1.0	.8	.4	.7	.2
Previous estimate			.5	.1	.5	
Apparel	1.0	-1.3	.3	-.5	2.0	-.9
Food	1.7	.9	-.1	.9	-.2	.5
General merchandise[3]	1.3	1.9	1.4	.1	1.8	.7
Gasoline stations	-.2	3.0	.5	-1.3	1.4	-.5
Other nondurables[4]	1.7	.6	1.5	.7	.4	.1

1. Total retail sales less building material and supply stores and automotive dealers, except auto and home supply stores.
2. General merchandise, apparel, furniture, and appliance stores.
3. Excludes mail-order nonstores; mail-order sales are also excluded from the GAF grouping.
4. Includes sales at eating and drinking places, drug stores, and proprietary stores.

have been limited by short supplies of sport utility vehicles (lower left panel), where production has run into capacity constraints at either assembly or parts plants, and inventories have become very tight (lower right panel).

In addition, the highly favorable market fundamentals that boosted demand earlier this year have ebbed a bit. Prices have increased further, and the average interest rate at auto finance companies was 10 percent in June, 2-1/2 percentage points higher than its recent low in January. The latest readings on car buying attitudes from the Michigan SRC survey were little changed in early August at a level somewhat below the high readings seen earlier this year.[7]

Personal Income and Consumption

The latest spending data show that nominal retail sales were flat in July. Nominal sales in the retail control category increased only 0.3 percent; however, the previously slight gains in May and June were revised upward to 0.5 percent and 0.7 percent, respectively. Sales at general merchandise and furniture and appliance stores increased further, while purchases at apparel stores were off in July after large June increases. In combination with today's CPI report, the retail sales data suggest that real consumption of goods excluding motor vehicles in July was 0.4 percent above the second-quarter average. The upward revisions to retail sales also imply second-quarter growth in real PCE of nearly 2 percent, about 3/4 percentage point above the initial BEA estimate.

The biggest contributor to the recent volatility in PCE growth has been spending on durable goods, which jumped 8-3/4 percent at an

7. In recent months, fewer households have been reporting that it is a good time to buy a car because of low interest rates or low prices, and more respondents have been saying that it is a good time to buy because prices will rise in the future.

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

	1993	1993 Q4	1994 Q1	1994 Q2	1994 May	1994 June
Total personal income	.1	33.5	30.3	18.8	23.4	4.9
Wages and salaries	-8.8	13.7	19.8	15.9	24.8	1.4
Private	-10.2	13.6	17.0	13.7	19.1	3.2
Other labor income	2.5	2.7	1.8	1.7	1.7	1.7
Proprietors' income	2.9	16.2	.5	-4.9	-8.3	-5.3
Farm	.7	10.7	-1.7	-6.3	-10.2	-6.3
Rent	1.9	.7	2.3	-2.3	-.7	-2.2
Dividend	.8	.3	.9	2.1	1.9	1.6
Interest	-2.7	-3.1	3.2	4.8	4.7	5.0
Transfer payments	4.6	4.1	4.9	2.6	.7	3.0
Less: Personal contributions for social insurance	1.1	1.1	3.1	1.0	1.4	.2
Less: Personal tax and nontax payments	.1	4.4	5.2	3.9	-25.7	.6
Equals: Disposable personal income	.0	29.1	25.1	14.9	48.9	4.4
Memo: Real disposable income	-6.4	16.4	11.8	3.4	30.4	-5.3

REAL PCE SERVICES
(Percent change from the preceding period)

	1993	1993 Q4	1994 Q1	1994 Q2	1994 May	1994 June
		------Annual rate-----			Monthly rate	
PCE Services	2.5	2.0	4.0	1.6	.7	.5
Energy	2.2	-1.2	5.9	-2.9	6.9	4.2
Nonenergy	2.5	2.2	3.9	1.9	.4	.3
Housing	1.6	1.4	1.9	1.9	.1	.2
Household operation	1.1	-.6	1.2	3.3	.2	.2
Transportation	4.8	4.4	3.4	4.3	1.0	.5
Medical	2.5	2.4	2.4	2.5	.4	.2
Personal business	3.5	4.5	8.1	-1.9	-.2	.2
Other	3.1	1.6	7.4	2.6	1.3	.4

annual rate in the first quarter, and then slowed substantially in the second quarter. A temporary surge in consumer purchases of motor vehicles in the first quarter more than accounted for the swing; transactions in used cars, in particular, were boosted by unusually large sales from rental car companies.

Spending on nondurable goods and services has also grown more slowly than in the first quarter. In part, this pattern reflects temporary first-quarter strength in spending on personal business services--pushed up by increased securities trading--and energy services, which were boosted by severe winter weather. The most recent data show that services spending increased 0.5 percent in June; about two-thirds of this gain was attributable to increased outlays for electricity during the June heat wave.

During the past year or so, the pace of consumption growth has roughly matched that of disposable income adjusted for the effects of the California earthquake and other special factors (top and middle panels). This pattern has produced a fairly flat adjusted saving rate for this period (bottom panel).[8] The recent stability of the saving rate contrasts with the decline that occurred between early 1992 and mid-1993.

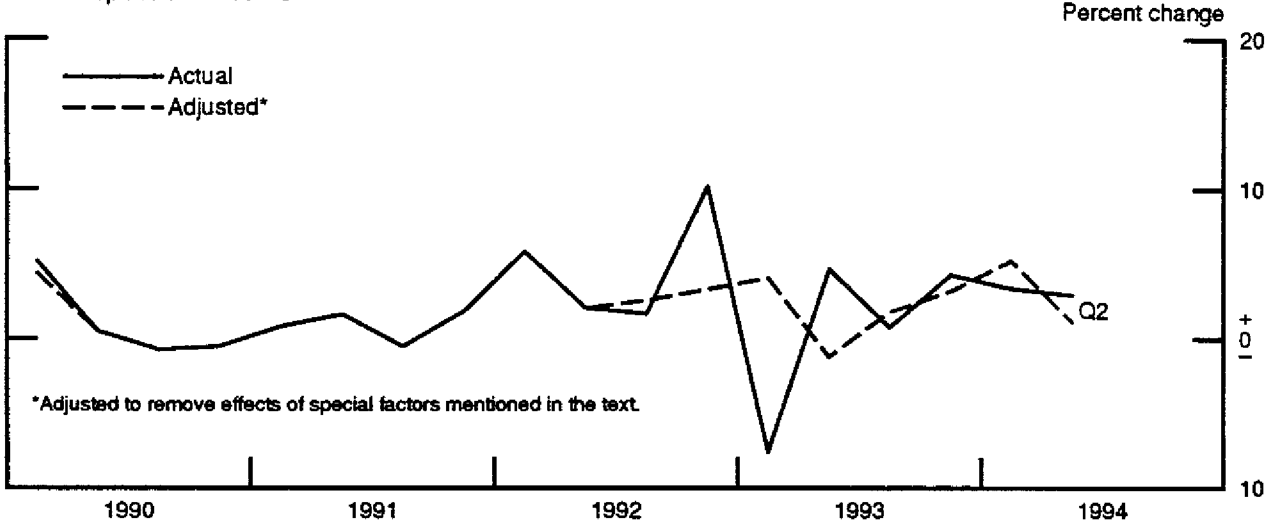
Some analysts have suggested that the weakness in spending in the second quarter is an important signal that household debt burdens have again become too high and consumers are beginning to retrench. The evidence is mixed: While the ratio of debt service payments to income has stopped declining, it has not as yet shown a significant increase (top panel). Although the ratio of debt to

---

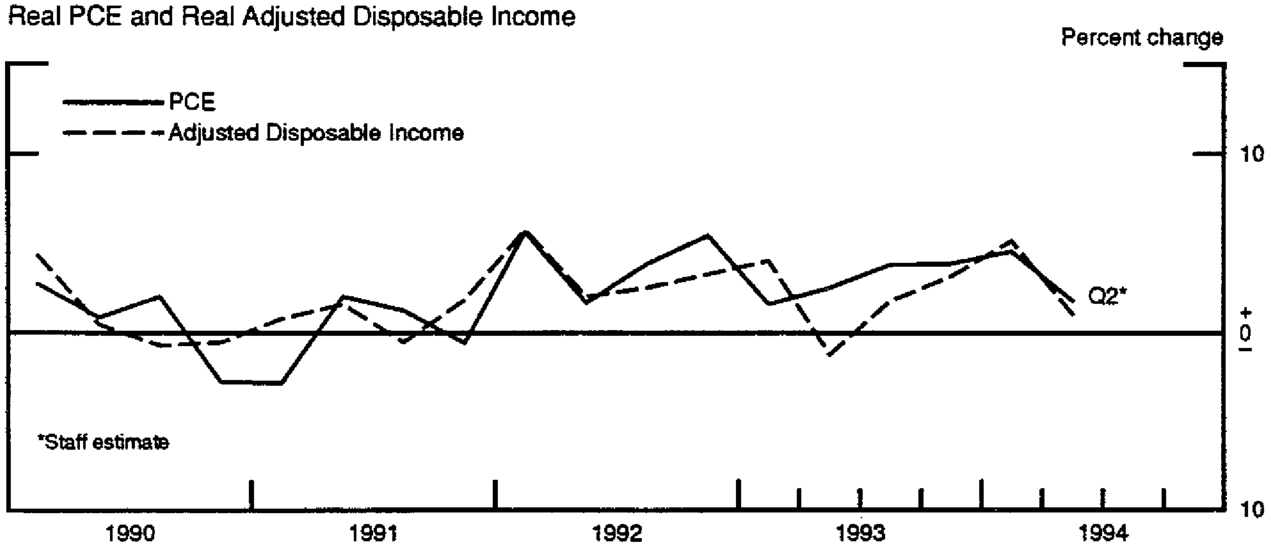
8. The adjusted income and saving rate series exclude BEA's adjustments for uninsured losses to residential and business properties that occurred during the Northridge earthquake and hurricanes Andrew, Iniki, and Hugo. The series also transfer some bonuses paid in the fourth quarter of 1992 for tax reasons to the first quarter of 1993, which is when they normally would have been paid. BEA has made no adjustment for bonus-shifting between 1993 and 1994.

RECENT BEHAVIOR OF CONSUMPTION AND INCOME

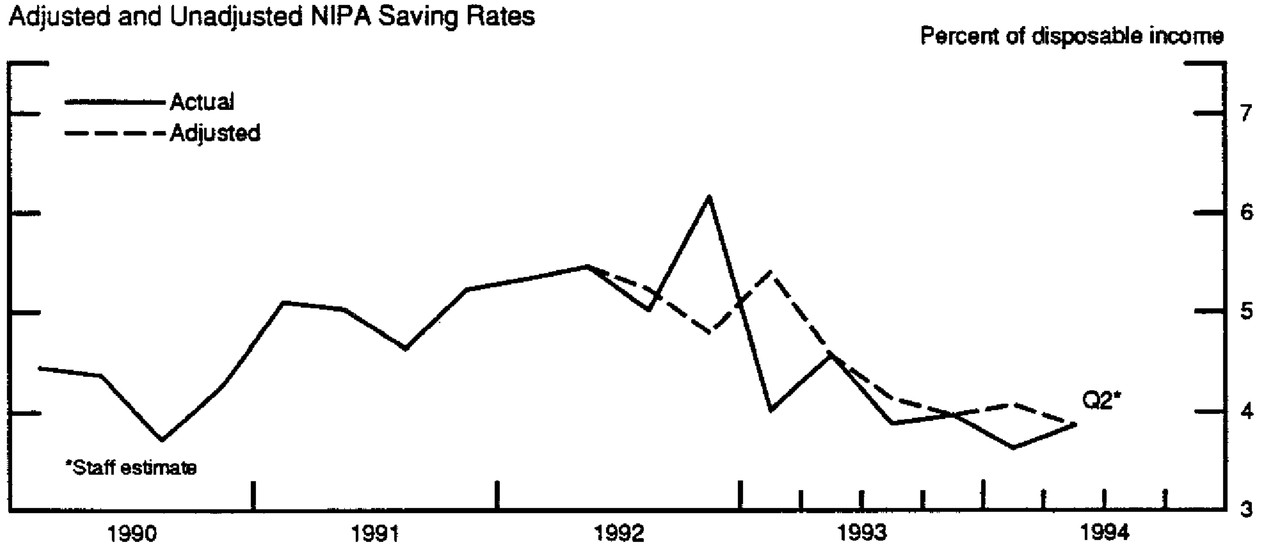
Real Disposable Income



Real PCE and Real Adjusted Disposable Income

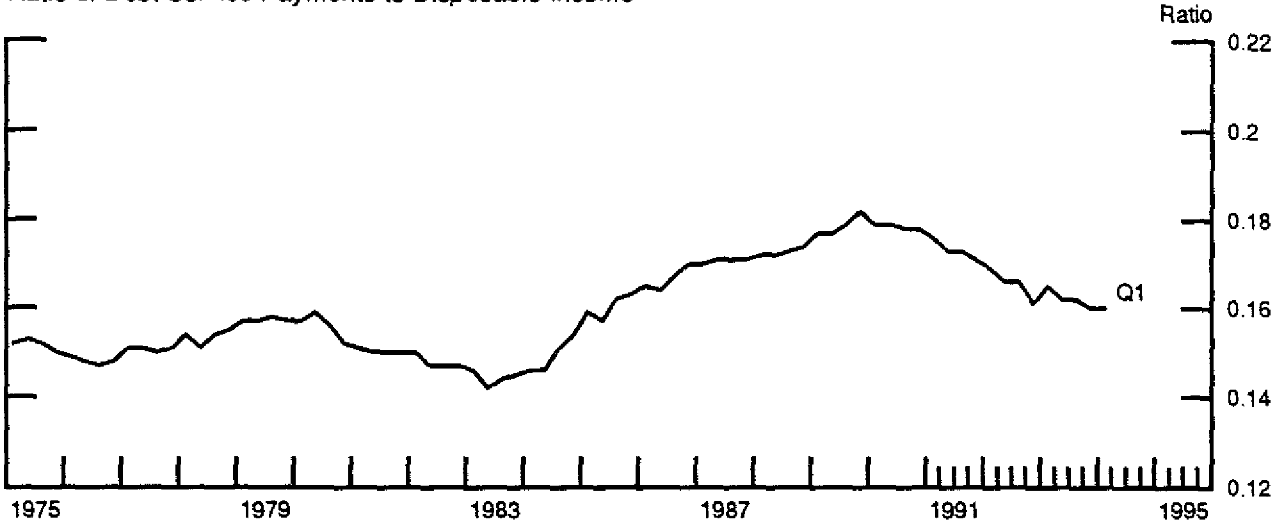


Adjusted and Unadjusted NIPA Saving Rates

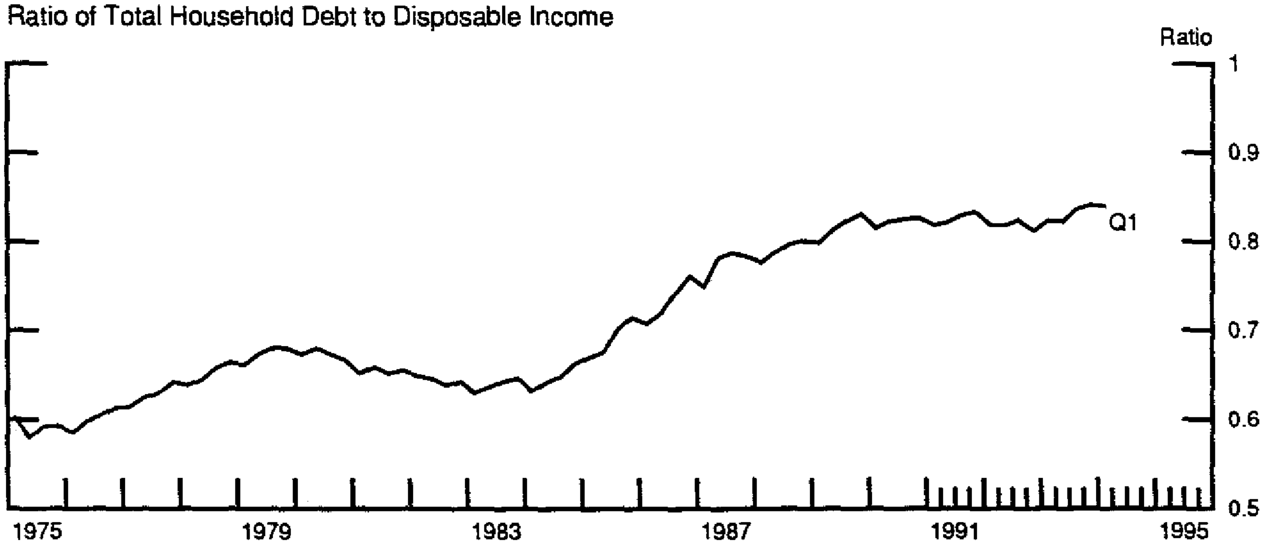


HOUSEHOLD SECTOR INDICATORS

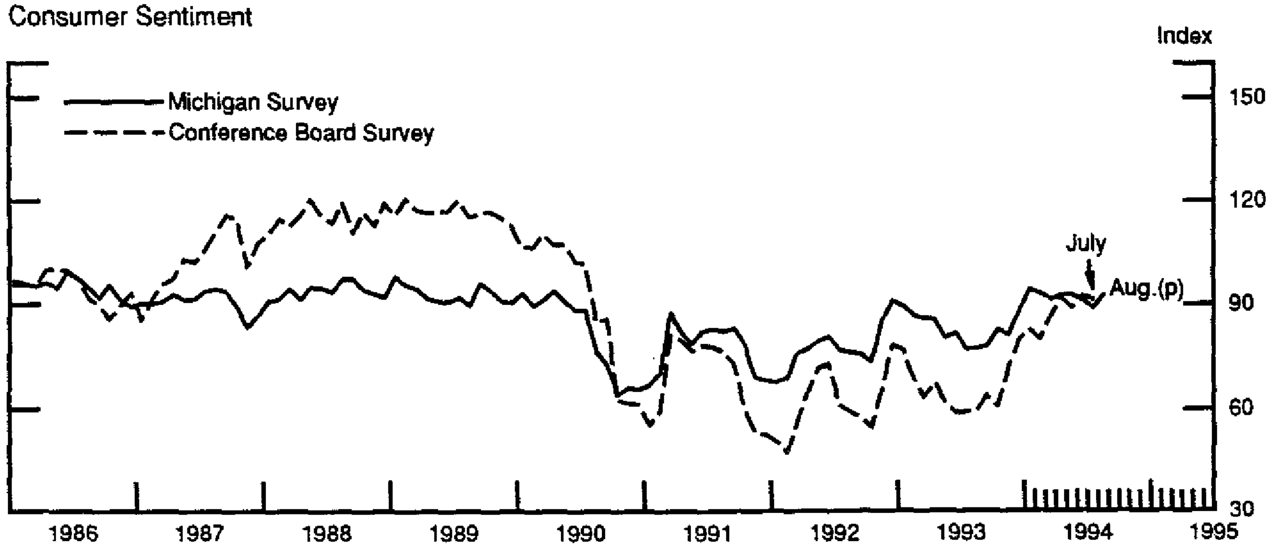
Ratio of Debt Service Payments to Disposable Income



Ratio of Total Household Debt to Disposable Income



Consumer Sentiment

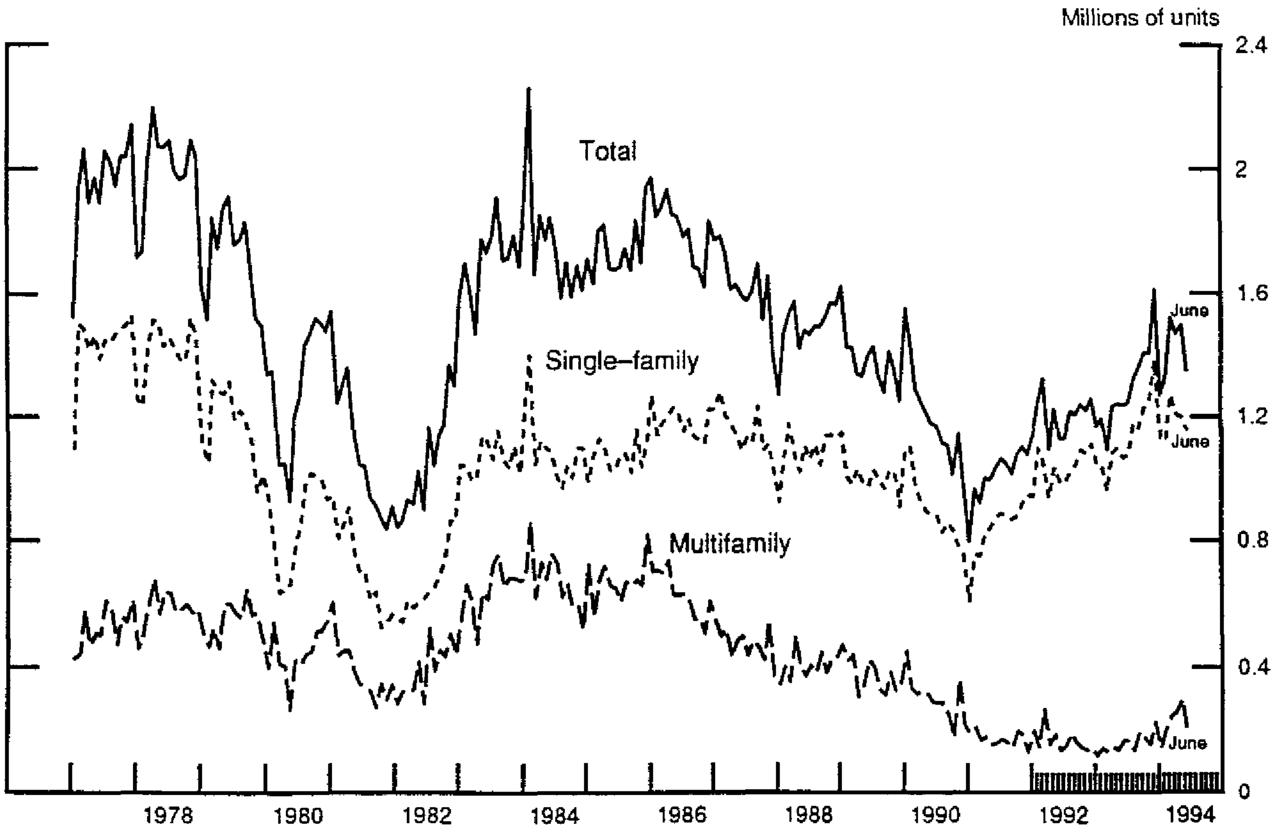


PRIVATE HOUSING ACTIVITY
(Millions of units; seasonally adjusted annual rate)

	1993	1993	1994	1994	1994	1994	1994
	Annual[r]	Q4	Q1	Q2[p]	Apr.	May[r]	June[p]
All units							
Starts	1.29	1.48	1.37	1.44	1.47	1.50	1.35
Permits	1.21	1.38	1.29	1.35	1.38	1.36	1.32
Single-family units							
Starts	1.13	1.29	1.17	1.19	1.21	1.20	1.16
Permits	1.01	1.13	1.06	1.06	1.07	1.08	1.04
Sales							
New homes	.67	.77	.69	.65	.67	.69	.59
Existing homes	3.80	4.17	4.05	4.06	4.12	4.11	3.96
Multifamily units							
Starts	.16	.19	.20	.25	.26	.30	.19
Permits	.21	.25	.23	.29	.31	.27	.28

p Preliminary.
r Revised estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



income has edged up recently (middle panel), some of the recent debt growth occurred because of increased transactions use of credit cards, stimulated in part by incentives such as frequent flyer miles or rebates.

Historically, movements in consumption spending have been more closely related to consumer confidence than to debt burdens, probably because perceptions about current and future economic conditions are a key factor in determining whether a given debt burden is acceptable or worrisome. The preliminary results from the Michigan survey indicate that confidence improved in early August, raising the level of the index back close to its recent peak. Gains were evident in consumers' assessments of both current and expected conditions. The Conference Board index edged off in July but remained near its highest reading in four years.

Housing Markets

Housing markets have continued to weaken in response to the higher level of mortgage interest rates, with activity slowing further in June. Total private housing starts fell 9.8 percent in June, to 1.35 million units at an annual rate.

In the single-family sector, housing starts declined to 1.16 million units in June, while sales of new single-family homes fell to 591,000 units at an annual rate, the lowest level in two years.[9] The latest data leave single-family starts and permits unusually high in relation to sales, suggesting--as do other indicators--that the June estimate of sales may understate the actual level. The number of new homes for sale rose in June to 317,000 units, the highest level since late 1990, though not an unusually high level historically. The declines in new home sales and in single-family starts were accompanied by a small drop in

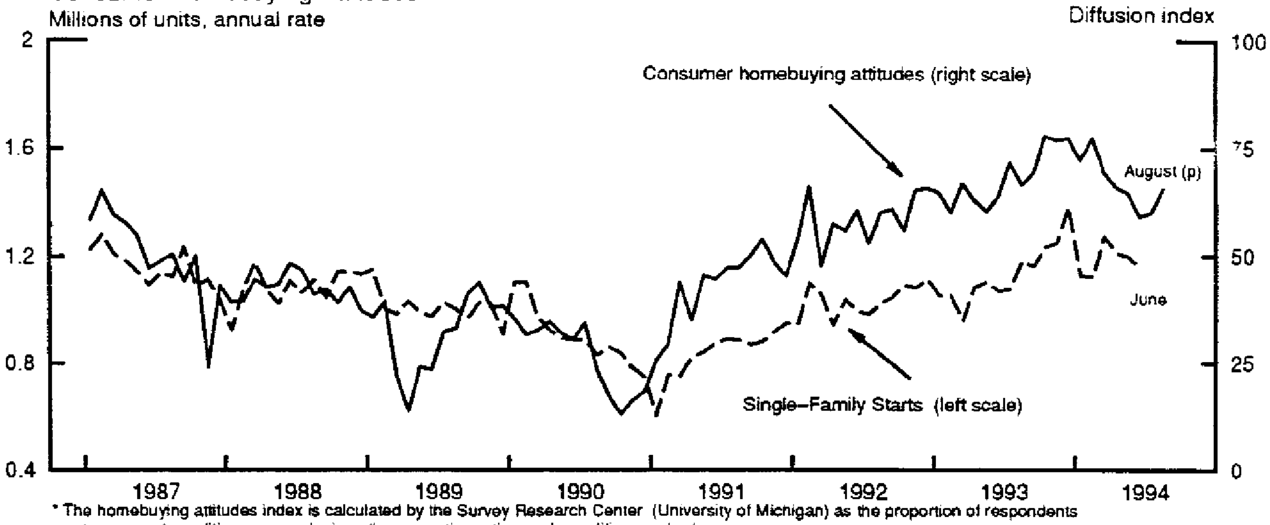
9. The sales estimates for April and May also were revised down considerably.

INDICATORS OF HOUSING DEMAND

(Seasonally adjusted)

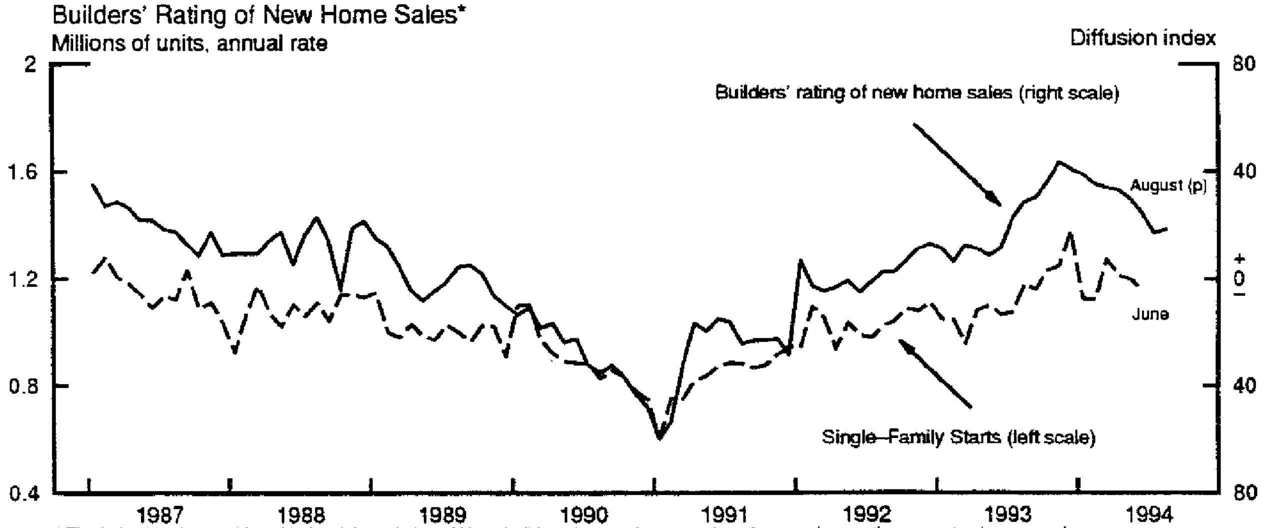
8/12/94

Consumer Homebuying Attitudes*



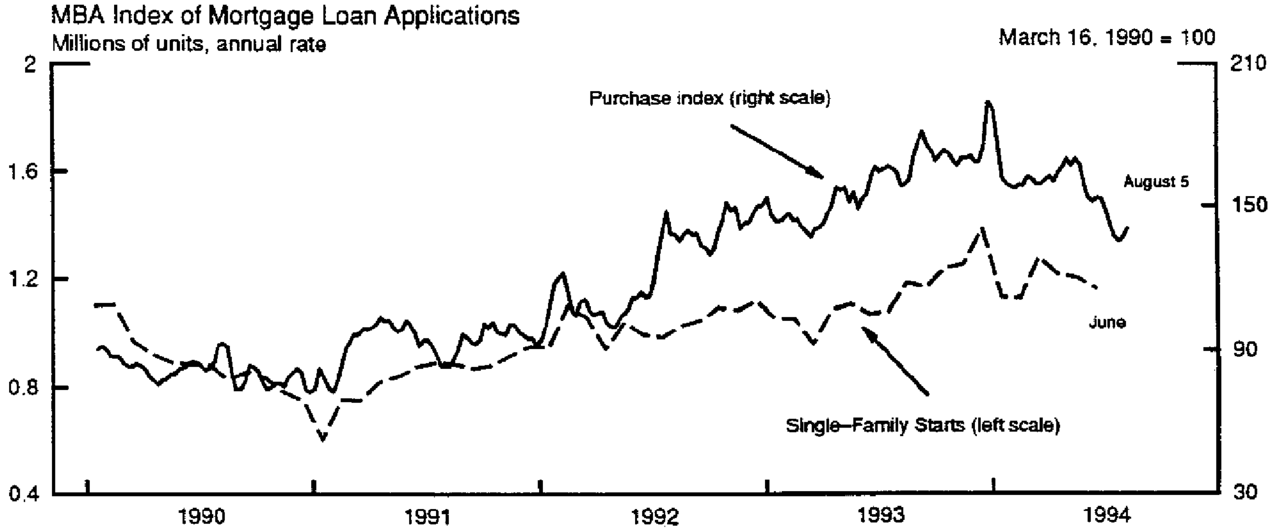
* The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

Builders' Rating of New Home Sales*



* 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



existing home sales in June (but most such sales are reported at closing and thus lag the other series). Further, although consumers' homebuying attitudes, home builders' assessments of new home sales, and mortgage applications for purchasing a home all edged up in early August, they remained well below the favorable readings at the beginning of the year (chart).

In the multifamily sector, starts fell more than 100,000 units (annual rate) in June, accounting for nearly three-fourths of the decline in total housing starts. Averaging through the monthly fluctuations, multifamily starts jumped 25 percent in the second quarter. An increase in multifamily activity is consistent with anecdotal reports of demand pressures for multifamily housing and rising rents in various localities, but some of the recent pickup may also reflect construction postponed during the first quarter. Furthermore, market conditions for the nation as a whole do not appear to favor sustained rapid growth in this sector. Vacancy rates for apartments have been stuck at about the same level over the past year, and they remain high by historical standards (chart). Also, increases in residential rent have been persistently low relative to the non-housing components of the consumer price index (chart).

Recent press reports have suggested that reduced availability of homeowners' insurance may adversely affect home sales in California, which accounts for roughly 7 percent of single-family construction activity nationwide. Under California law, companies that write homeowners' insurance are required to offer earthquake coverage. But, with losses mounting, many firms have stopped selling new homeowner policies. (In most cases, renewals of existing policies have not been affected.) Because lenders are increasingly requiring earthquake coverage as a condition for a

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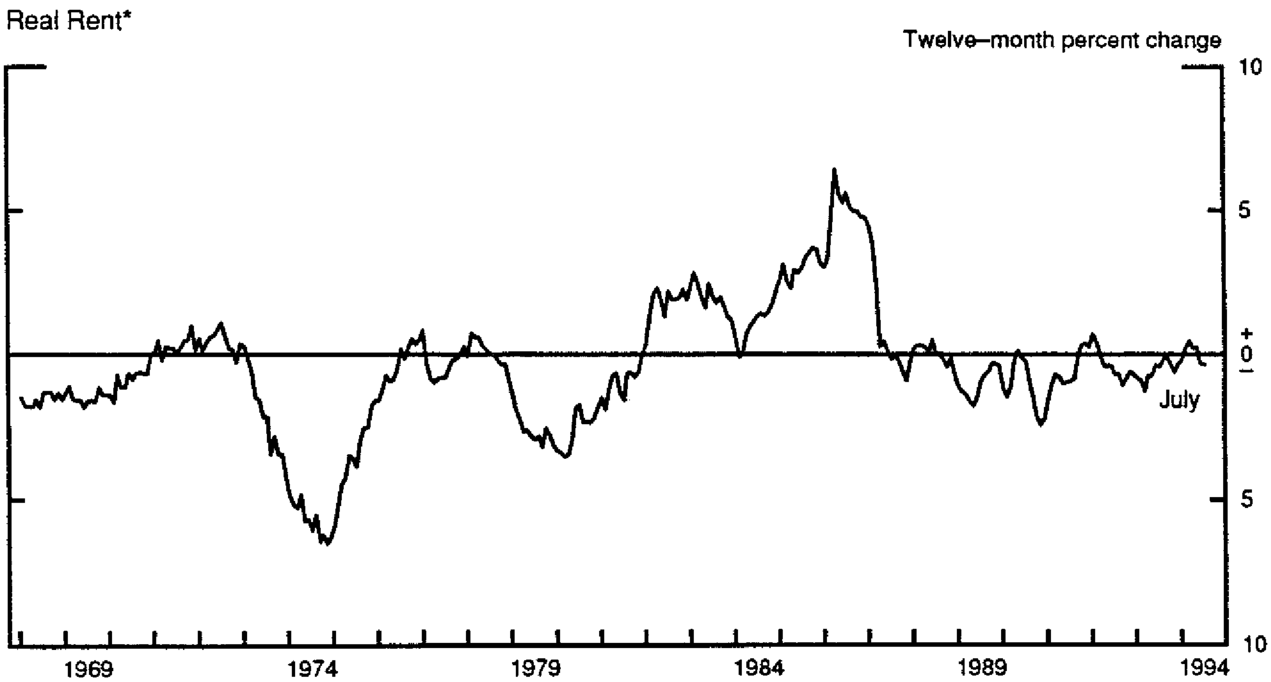
MULTIFAMILY RENTAL HOUSING



* CPI rent / CPI excluding shelter

loan, difficulties in obtaining homeowners' policies could hamper home sales. According to information obtained from the staff of Governor Wilson and from the California Association of Realtors, few if any closings have fallen through at this point, but some settlements have been delayed. A state-run program that offers minimal fire and earthquake coverage may provide an alternative to private coverage.

For some time, home builders have been citing price increases for some materials and shortages of skilled construction labor as factors that have begun to exert upward pressure on home prices. Lumber prices have stabilized somewhat at a fairly high level, and the prices of many other building materials--including plywood, gypsum products, concrete products, and insulation--have continued to move upward (chart).

Employment of production or nonsupervisory workers in construction has risen moderately over the past couple of years for residential contractors and more noticeably for skilled workers in special trades (chart).[10] However, employment at operative builders, who construct homes for sale, has only edged up. Data on average hourly earnings of production or nonsupervisory workers in residential construction indicate that hourly wage increases generally have been modest in recent months. Although AHE for total construction jumped 0.8 percent in July, data are not yet available separately for the residential and nonresidential sectors.

The employment cost index provides more comprehensive data on the construction industry. ECI hourly compensation in construction, which includes residential, nonresidential, and public building, rose at an annual rate of 4.8 percent over the March to June period, following a 7 percent increase in the first quarter. Unpublished

10. Data for special trades employment are not specific to residential construction.

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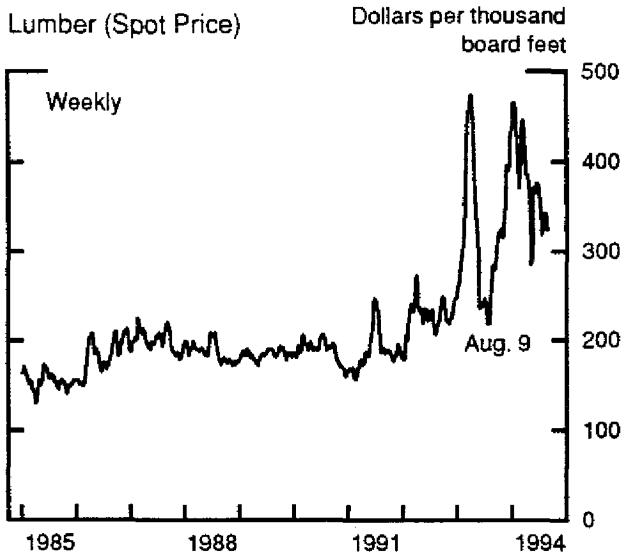
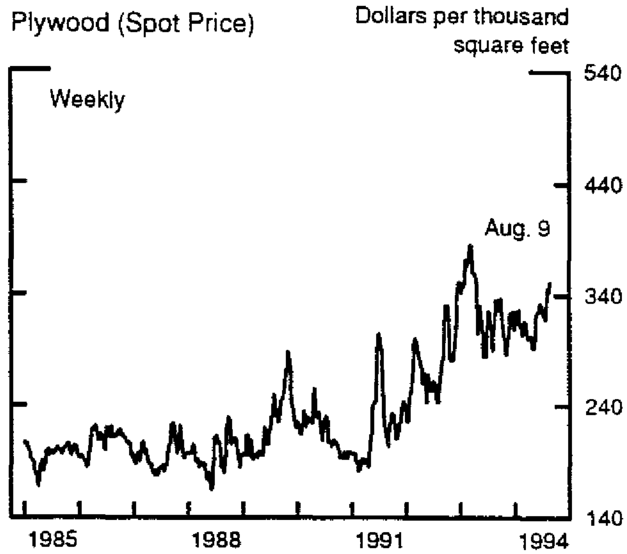
CONSTRUCTION MATERIAL PRICES
(Not seasonally adjusted)

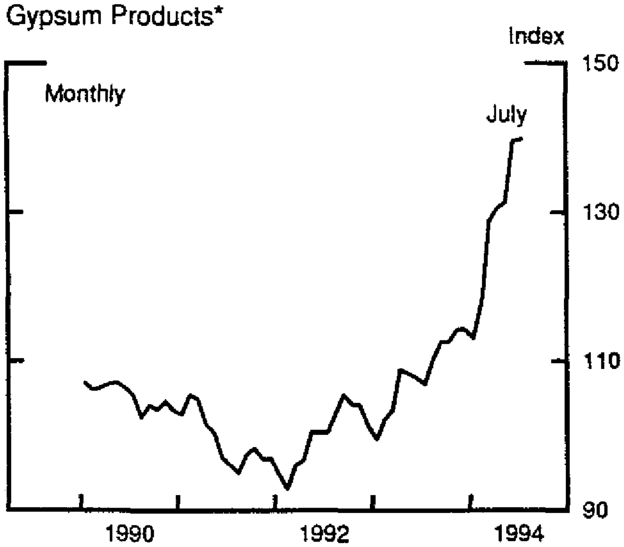
Lumber (Spot Price)



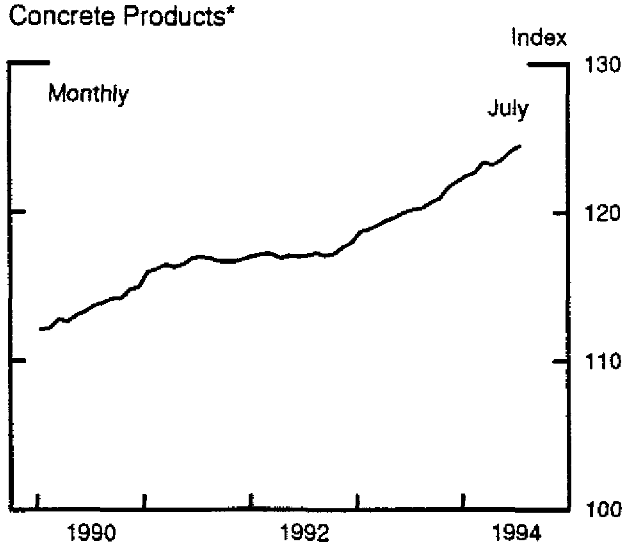
Plywood (Spot Price)



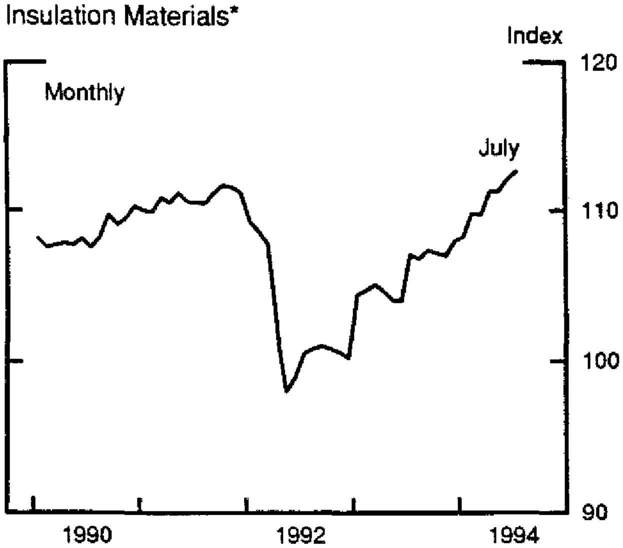
Gypsum Products*



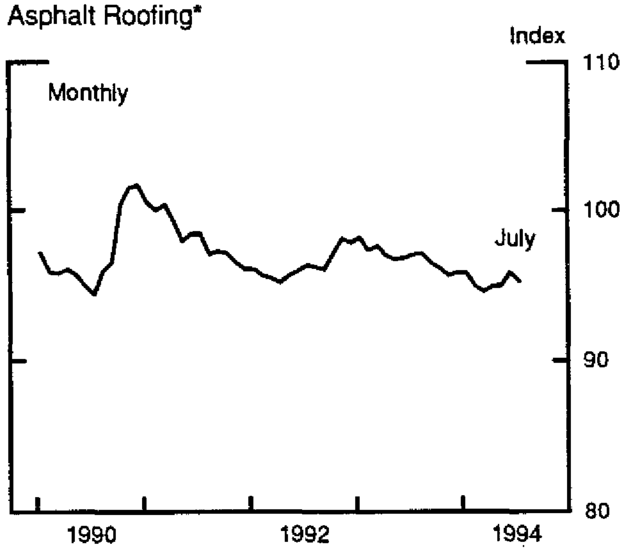
Concrete Products*



Insulation Materials*



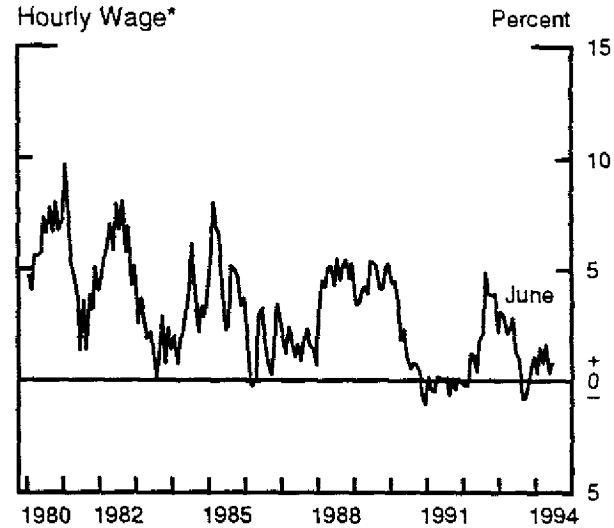
Asphalt Roofing*



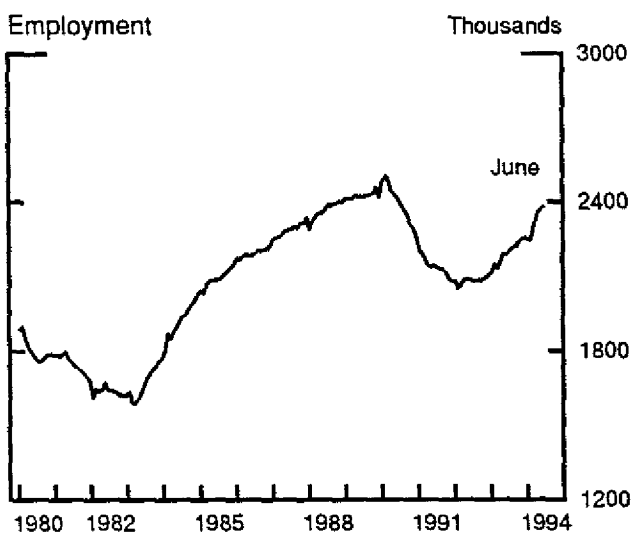
* Producer price index, 1982 = 100.

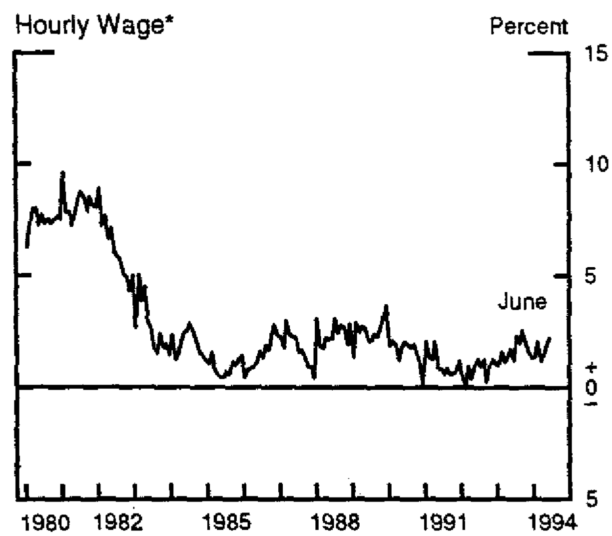
CONSTRUCTION EMPLOYMENT AND WAGES

Residential General Contractors

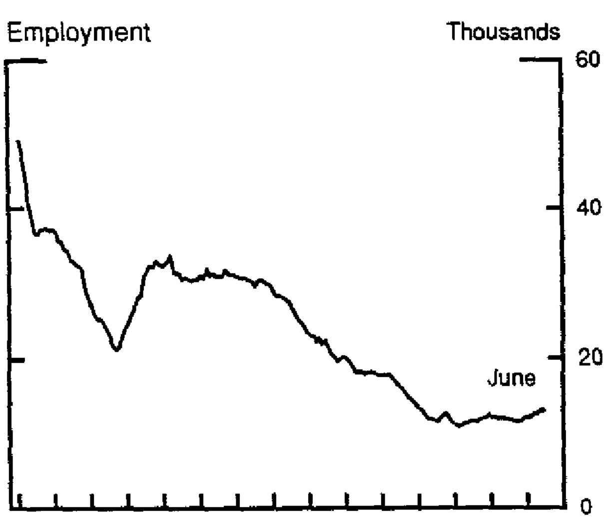


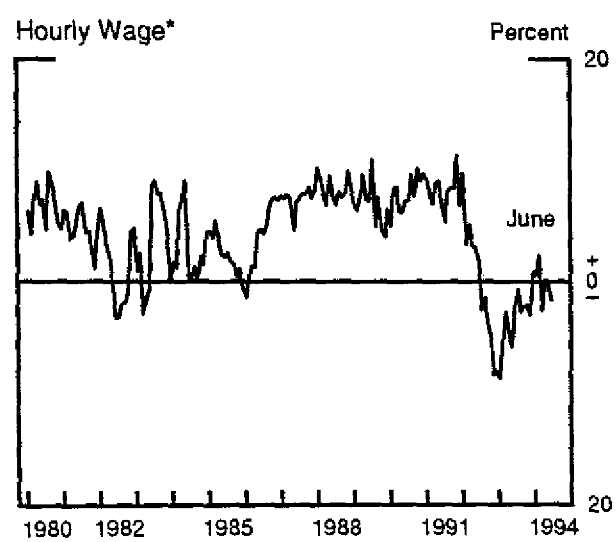
Special Trades





Operative Builders





* Percent change in average hourly earnings from a year earlier.

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

	1993	1994		1994		
	Q4	Q1	Q2	Apr.	May	June
Producers' durable equipment						
Shipments of nondefense capital goods	7.1	1.0	1.8	-1.5	1.0	1.7
Excluding aircraft and parts	8.0	1.2	4.0	1.3	1.9	.7
Office and computing	5.2	3.3	1.5	-2.3	-.3	1.9
All other categories	8.8	.5	4.8	2.4	2.5	.3
Shipments of complete aircraft[1]	34.1	10.0	-32.5	-57.6	-9.9	67.2
Sales of heavy trucks	10.3	-1.0	5.3	3.3	-1.9	11.8
Orders of nondefense capital goods	10.4	6.2	-.2	-.9	-.9	5.9
Excluding aircraft and parts	10.9	1.7	3.7	-.4	-2.5	6.0
Office and computing	12.9	.8	6.0	-.1	-1.4	-1.1
All other categories	10.4	1.9	3.0	-.6	-2.9	8.2
Nonresidential structures						
Construction put-in-place	5.0	-3.1	5.6	2.9	.9	.7
Office	4.6	-.3	3.6	-2.5	-1.4	-2.1
Other commercial	13.7	-6.0	12.0	4.5	2.2	2.3
Institutional	-4.5	-6.7	6.5	2.5	2.0	1.3
Industrial	1.3	1.0	7.2	6.9	.7	-1.6
Public utilities	7.4	-2.2	2.3	2.3	1.0	2.1
Lodging and misc.	.6	-2.7	1.1	2.2	-1.8	-3.6
Rotary drilling rigs in use	-3.7	.8	2.2	1.9	-1.6	-.7
Memo:						
Business fixed investment[2]	21.1	10.9	10.0	n.a.	n.a.	n.a.
Producers' durable equipment[2]	27.5	18.6	7.7	n.a.	n.a.	n.a.
Nonresidential structures[2]	3.3	-11.8	18.4	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. Based on constant-dollar data; percent change, annual rate.
n.a. Not available.

data from the BLS indicate that rising wages and benefits of professional and managerial personnel have fueled most of the recent pickup in overall construction compensation growth.[11]

Although trade reports from some areas have mentioned rising home prices as a partial explanation for lower sales in June, increases in national measures of home prices remained moderate in the second quarter. The constant-quality new home price index, which adjusts for compositional changes in house quality and geographic location, rose 3.0 percent from the level a year earlier, with no clear trend in the rate of increase in recent quarters. The constant-quality index of existing home prices (compiled jointly by Fannie Mae and Freddie Mac from repeat sales of individual properties) increased 3.7 percent during the same period; the rate of increase in this index has been on a gradual uptrend since early 1993.

Business Fixed Investment

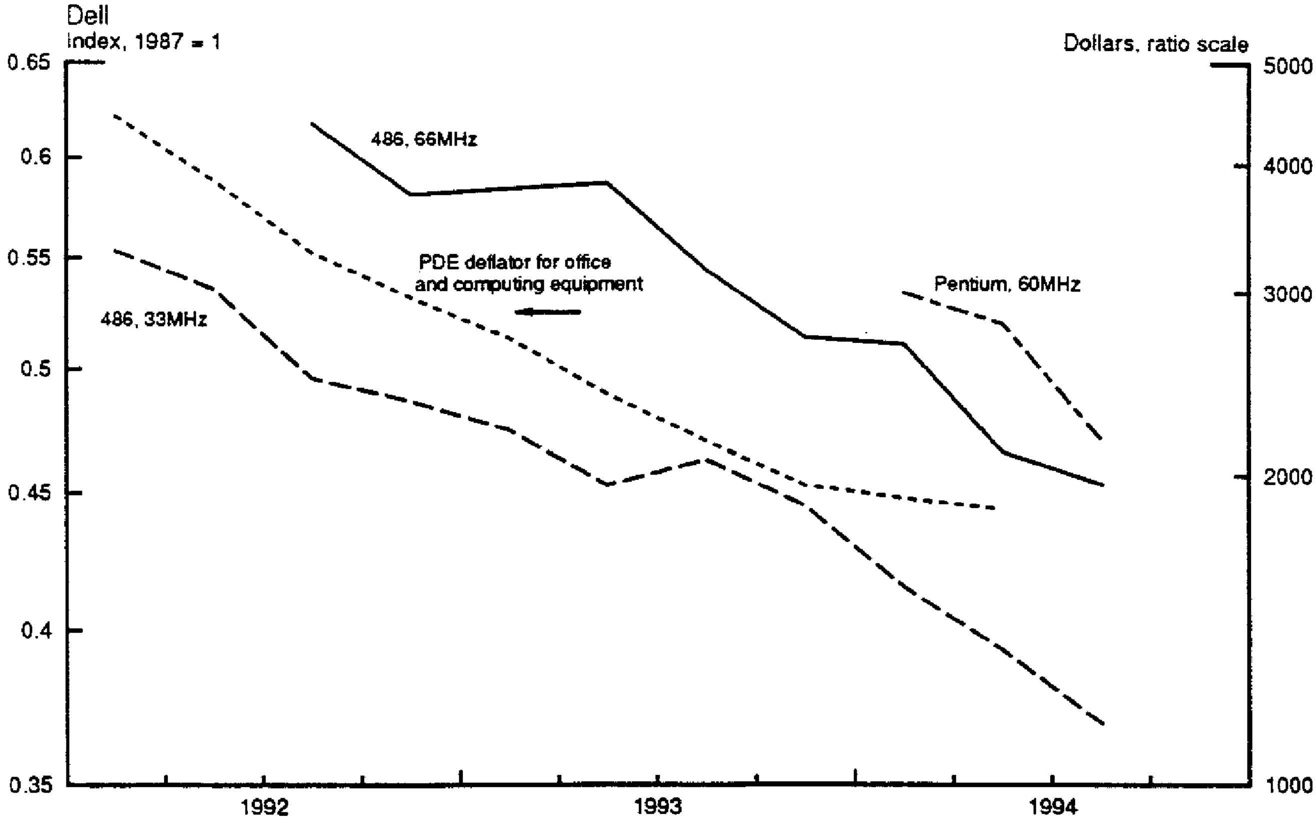
Real business fixed investment advanced at an annual rate of 10 percent in the second quarter, roughly the same pace as in the first quarter, but down from the 16 percent growth rate registered in 1993. Outlays in the second quarter were boosted by a strong recovery in real nonresidential construction. Investment in producers' durable equipment--which advanced at an annual rate of 21 percent in 1993--rose less than 8 percent in the second quarter.

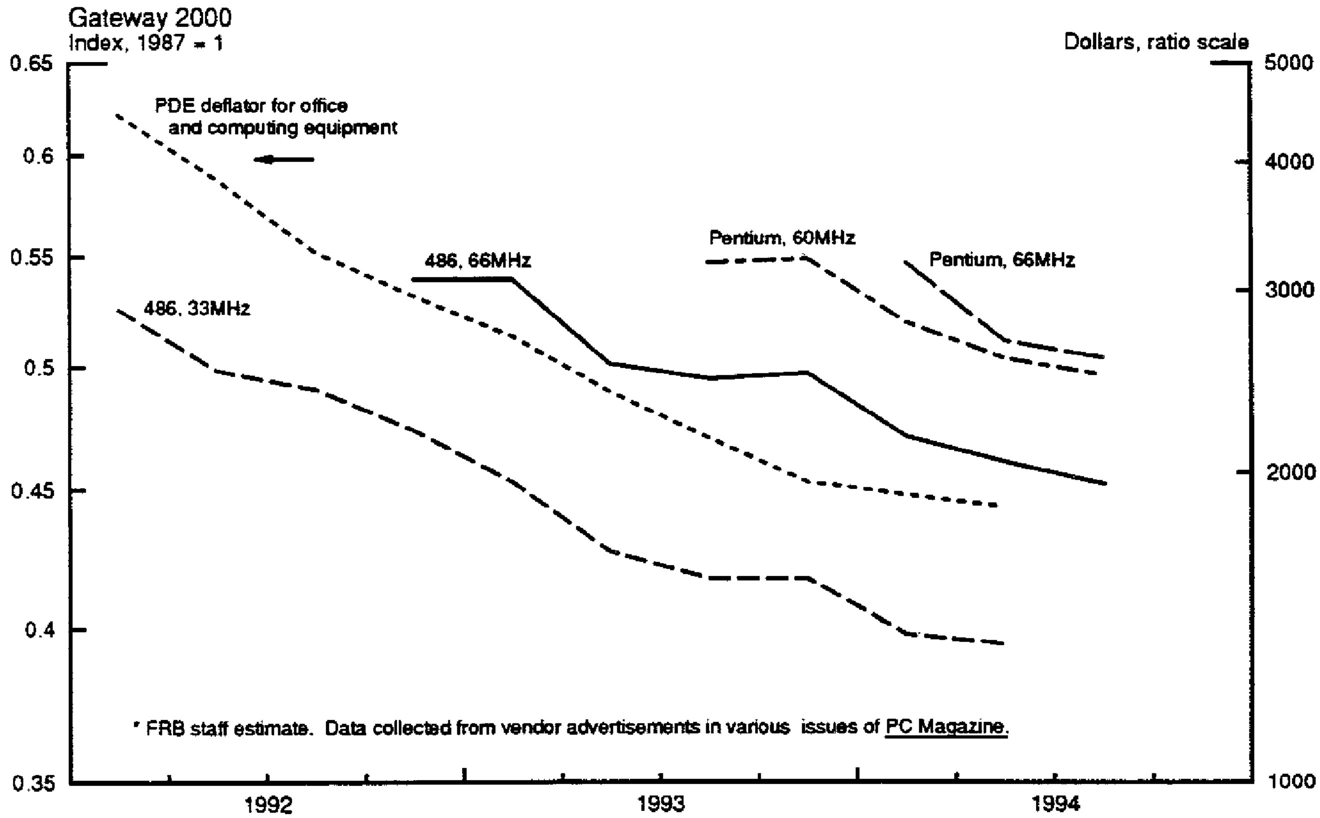
A marked slowing in the growth rate of real outlays for office and computing equipment accounted for much of the deceleration in PDE. After soaring nearly 60 percent in 1993, real computer purchases have advanced at only about one-quarter that pace so far this year. While growth in nominal expenditures has tailed off a bit, the deceleration in real expenditures has been intensified by a

11. Wages of workers in these occupations are excluded from average hourly earnings.

PERSONAL COMPUTER PRICES

(Adjusted for changes in system performance)*





* FRB staff estimate. Data collected from vendor advertisements in various issues of PC Magazine.

slowing of the rate of decline in BEA's computer deflator. This deflator decreased only 3-3/4 percent at an annual rate in the second quarter, after falling at an annual rate of about 15 percent over the 1992-93 period.

Price measurement problems may have exaggerated the extent of the estimated slowdown in real computer purchases during the first half of this year. Industry sources do not believe that prices are firming, and a small sample of mail-order PC vendor prices collected by Board staff provides some evidence to this effect. Although the sample does not cover the full range of equipment in the computer deflator, the models included are in what currently is one of the hottest segments of the market, and they still are posting significant price declines (chart). The biggest drops apply to the newest models, which may be underrepresented in the computer deflator.[12] Had the computer deflator fallen at the 1992-93 pace, office and computing investment would have grown at an annual rate of close to 25 percent in the second quarter--adding 3-1/2 percentage points to growth in real PDE.

Most other components of PDE have continued to show solid gains. PDE excluding aircraft, computers, and motor vehicles advanced 17 percent at an annual rate in the second quarter; for the first six months of 1994, spending in this category rose at roughly last year's pace. Real investment in communications equipment jumped at an annual rate of 34 percent in the second quarter, and special industrial equipment--a category that includes woodworking, textile, paper industry, food product, and printing machinery--advanced 17 percent. The only major categories of PDE that did not

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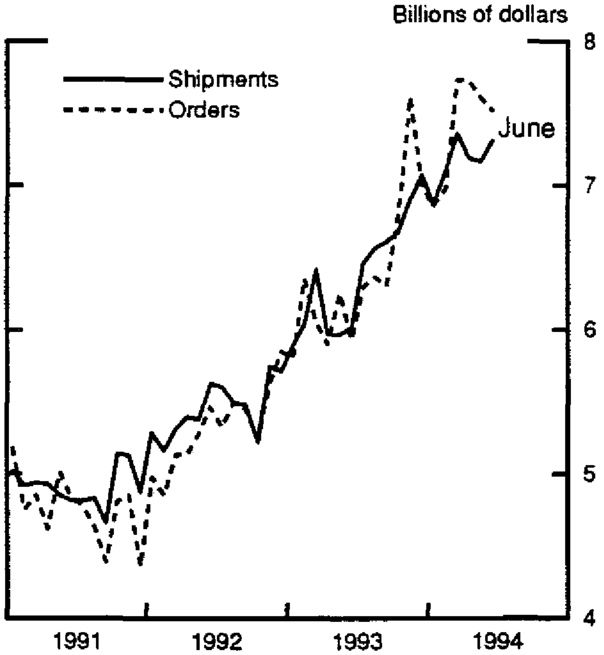
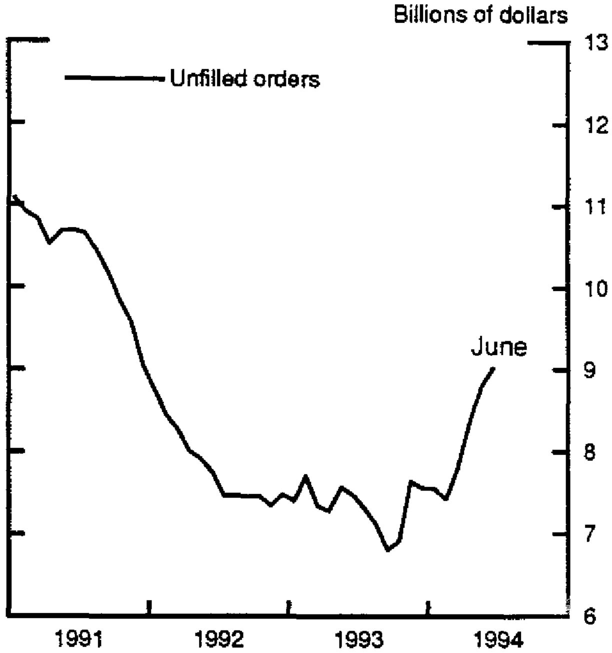
12. In the most recent annual revision, the computer deflator was revised down substantially for 1992 and 1993. The revision reflected new information collected by the Census Bureau on the composition of computer purchases, with a higher weight given to personal computers in the revised numbers.

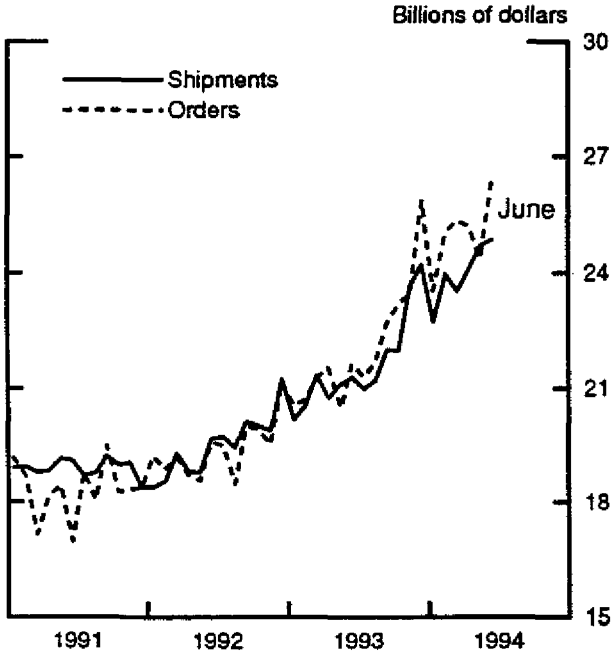
ORDERS AND SHIPMENTS OF NONDEFENSE CAPITAL GOODS

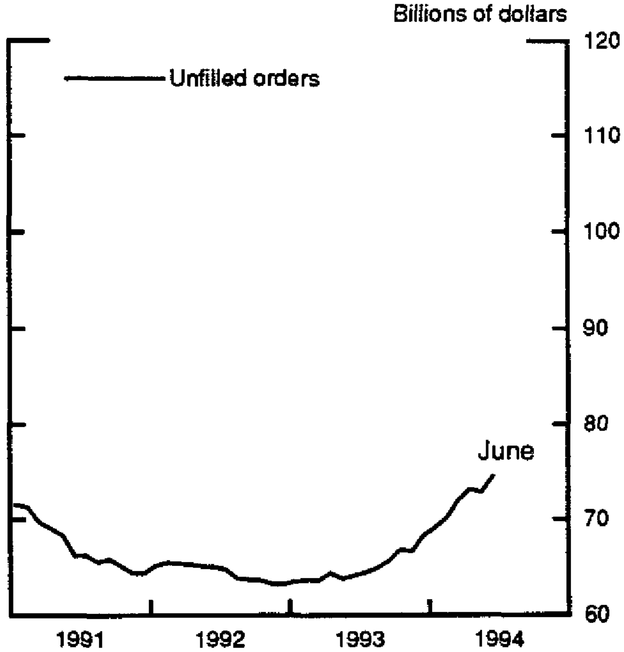
Office and Computing Equipment





Other Equipment (Excluding Aircraft and Computing Equipment)





show solid growth were aircraft and motor vehicles. Business purchases of aircraft declined sharply in the second quarter.[13] Motor vehicle purchases were off 17 percent, as fleet sales dropped from their high first-quarter level, and heavy truck sales flattened out because of capacity constraints.

Most leading indicators of investment activity point to further large gains in PDE in coming months. Orders for nondefense capital goods surged in June, continuing a strong uptrend. Bookings have been solid for most types of equipment, and the stock of unfilled orders for nondefense capital goods (excluding aircraft and computers) has risen sharply in recent months. In addition, heavy-truck manufacturers report large order backlogs, and planned capacity expansions should begin to come online in the early fall. Unfilled orders for computers also have surged, and industry sources are reporting that some major manufacturers are accumulating large inventories in anticipation of another sharp jump in sales later this year.

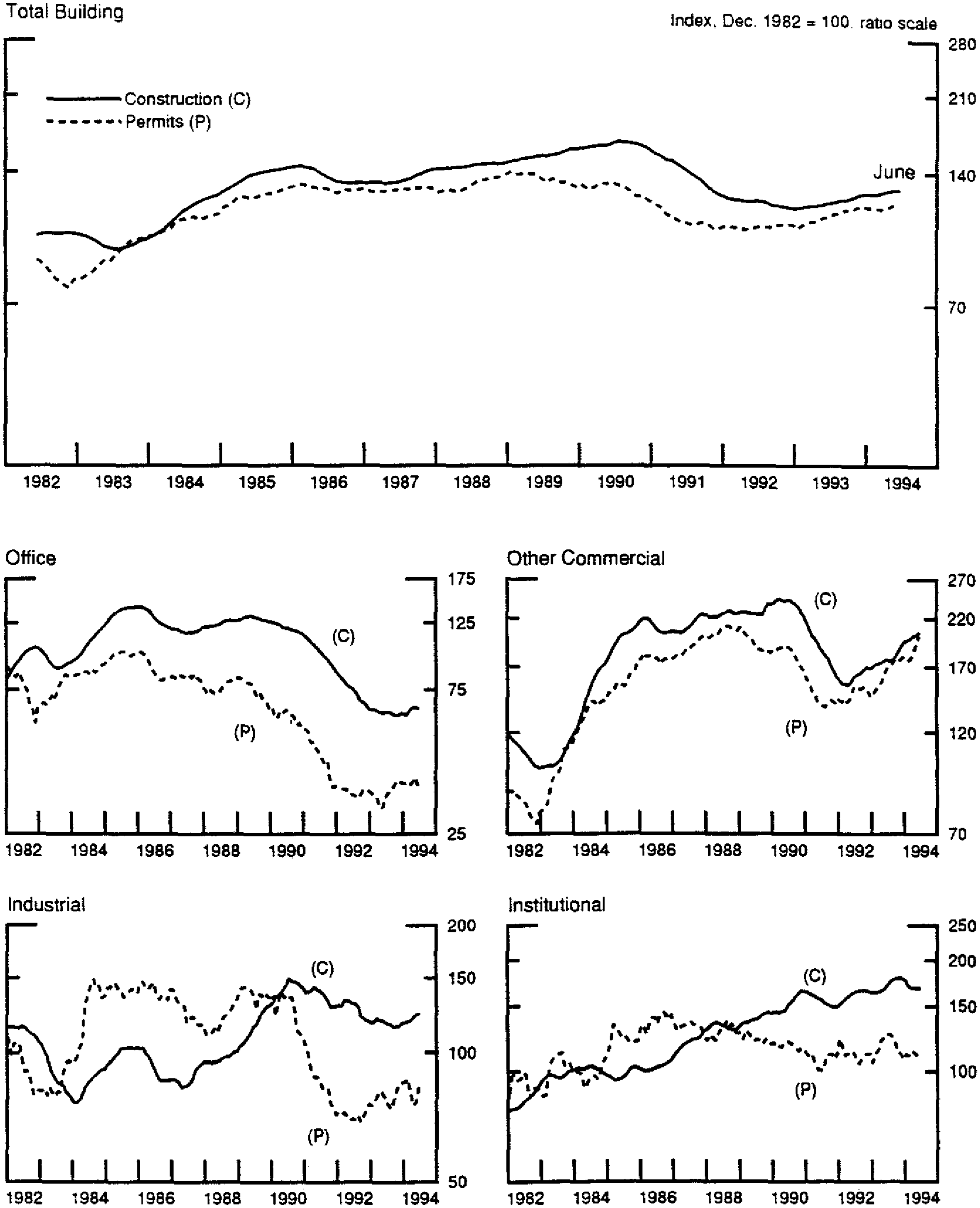
Real investment in nonresidential structures climbed 18 percent at an annual rate in the second quarter, more than offsetting the large weather-related decline in the first quarter.[14] Outlays advanced at double-digit rates in virtually every category, with the largest gains occurring in the industrial and commercial sectors.

13. Because growth in aircraft spending has been depressed for some time, this category is no longer a major component of PDE. In the second quarter, aircraft represented less than 1 percent of PDE; this share is well below the shares in excess of 7 percent seen at times during the boom years of the late 1960s.

14. The June data on construction put-in-place for nonresidential structures were close to BEA's assumptions in the advance estimate of GDP and do not suggest any significant revision to real investment in the second quarter.

NONRESIDENTIAL CONSTRUCTION AND PERMITS

(Six-month moving average)



The second-quarter jump in construction returned that series to last year's slightly positive trend.[15]

A recent spurt in permit issuance suggests that the modest recovery in nonresidential construction may well continue into the second half of the year. Permits for private nonresidential structures increased 1.5 percent in June and were up 10 percent for the second quarter as a whole. Permits for industrial and commercial buildings have picked up, while institutional permits have continued their recent downtrend.

Manufacturing and Trade Inventories

Business inventory investment slowed in June after a sharp acceleration in April and May. Excluding auto dealers, stocks in manufacturing and trade rose in June at a $29 billion annual rate in current-cost terms, as compared with the average $80 billion April-May pace.[16] Despite this surge last quarter, stocks do not appear excessive at this point. The bulk of the runup was in retail and wholesale trade inventories, but given the high level of demand, stock-sales ratios in these sectors remained within their recent ranges. And in manufacturing, stockbuilding appears to have been the planned response to rising demand.

Recent buildups in manufacturing stocks have been concentrated in just a few industries. Particularly noteworthy is the machinery industry, where stocks have been trending upward over the past year. Orders have been strong for many types of industrial machines and electrical and electronic equipment, and the inventory investment in

15. Growth in nonresidential structures investment was revised down for 1991, 1992, and 1993 in the latest annual NIPA revision, with reductions in estimated spending on industrial buildings, utilities, and drilling and mining.

16. For the second quarter, the current-cost inventory accumulation for all manufacturing and trade excluding motor vehicles is now shown to have been $57 billion based on Census data, about $4 billion more than BEA's assumption in the advance GDP report.

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

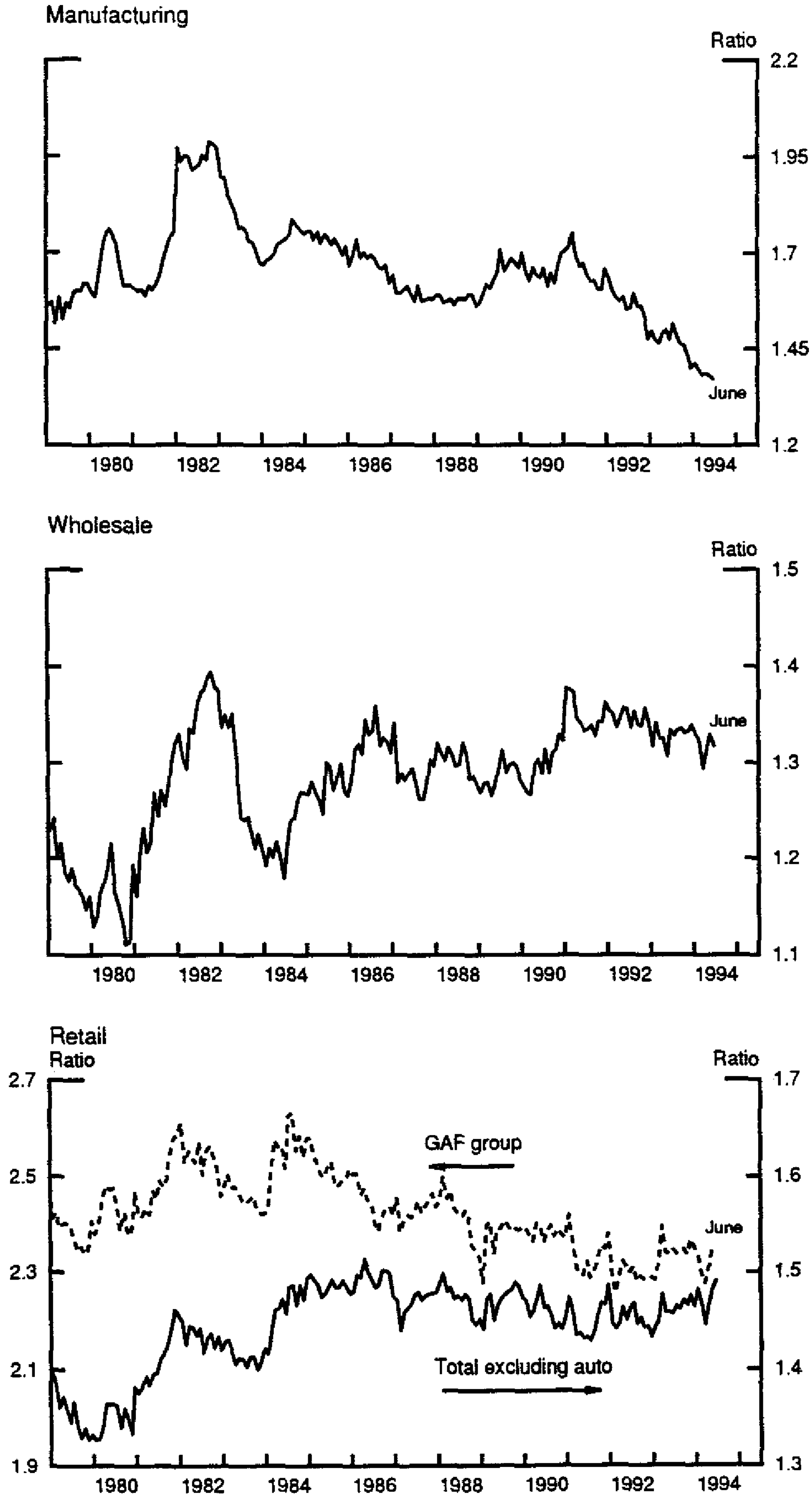
	1993	1994		1994		
	Q4	Q1	Q2	Apr.	May	June
Current-cost basis						
Total	18.8	18.4	73.8	57.6	122.4	41.3
Excluding auto dealers	5.5	15.9	62.0	52.0	105.0	29.0
Manufacturing	-13.1	9.4	11.8	10.5	20.8	4.0
Defense aircraft	-4.7	-4.4	-4.5	-1.9	-8.2	-3.5
Nondefense aircraft	-4.5	-1.4	3.6	3.2	8.7	-1.1
Excluding aircraft	-3.9	15.2	12.7	9.2	20.4	8.6
Wholesale	6.1	3.1	19.8	27.0	43.3	-11.0
Retail	25.8	5.9	42.2	20.2	58.2	48.3
Automotive	13.3	2.6	11.8	5.6	17.4	12.3
Excluding auto dealers	12.5	3.4	30.5	14.6	40.8	36.0
Constant-dollar basis						
Total	-3.1	9.9	n.a.	21.2	83.2	n.a.
Excluding auto dealers	1.5	7.3	n.a.	36.8	81.9	n.a.
Manufacturing	-7.7	9.9	n.a.	3.6	15.3	n.a.
Wholesale	-.4	-2.0	n.a.	21.9	34.3	n.a.
Retail	5.0	2.0	n.a.	-4.3	33.7	n.a.
Automotive	-4.5	2.5	n.a.	-15.6	1.3	n.a.
Excluding auto dealers	9.6	-.5	n.a.	11.3	32.4	n.a.

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

	1993	1994		1994		
	Q4	Q1	Q2	Apr.	May	June
Current-cost basis						
Total	1.43	1.41	1.41	1.40	1.41	1.41
Excluding auto dealers	1.41	1.39	1.40	1.38	1.39	1.39
Manufacturing	1.42	1.40	1.38	1.39	1.38	1.37
Defense aircraft	5.24	4.80	4.86	5.11	4.96	4.86
Nondefense aircraft	5.05	4.98	5.84	5.65	6.14	5.61
Excluding aircraft	1.29	1.28	1.26	1.26	1.26	1.25
Wholesale	1.34	1.31	1.32	1.31	1.33	1.32
Retail	1.51	1.50	1.54	1.50	1.52	1.53
Automotive	1.66	1.61	1.68	1.61	1.67	1.68
Excluding auto dealers	1.47	1.47	1.50	1.46	1.48	1.49

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

RATIO OF INVENTORIES TO SALES
(Current-cost data)



this area appears to have been intended. Recent Census data show that increases in manufacturers' bookings became more widespread in June; orders for many types of nondefense capital goods--construction and materials handling equipment, metalworking machinery, and equipment for the telecommunications, rail and marine transportation industries--increased substantially. By stage of processing, inventories of materials and supplies and work in process grew last quarter, but stocks of finished goods edged down. This pattern also suggests that the accumulation of factory stocks was largely intended.

In the trade sector, the sharp accumulations in April and May followed sizable drawdowns in March and generally modest buildups over the first quarter as a whole. In June, inventories were reduced at some trade establishments and expanded much more slowly at others. The accumulation of wholesale inventories in the second quarter was largely in durable goods--motor vehicles, machinery, electrical goods, and professional and commercial equipment. By and large, this pattern of stockbuilding mirrors that observed for manufacturers and is generally in line with the brisk pace of business fixed investment in recent months. In contrast, retail inventory buildups outside of automotive dealers in May and June were concentrated in nondurable goods, especially in stocks of general merchandise. Sales at general merchandise stores rebounded in June, and inventories were up considerably. The inventory-sales ratio for general merchandise stores at the end of June was still below its recent high posted in November of last year.

Federal Sector

Real federal government purchases declined at a 4.8 percent annual rate in the second quarter, with drops in both defense and nondefense purchases. Much of the relatively steep 6.9 percent

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

	Jun. 1993	Jun. 1994	Fiscal year to date FY1993	FY1994	Dollar change	Percent change
Outlays	117.5	122.9	1059.5	1089.2	29.7	2.8
Deposit insurance (DI)	-2.0	1.2	-20.5	-3.8	16.7	-81.4
Outlays excluding DI	119.5	121.7	1080.1	1093.0	13.0	1.2
National defense	24.8	24.2	218.5	207.8	-10.7	-4.9
Net interest	15.5	15.9	148.8	149.7	.9	.6
Social security	28.7	30.1	227.9	239.2	11.3	5.0
Medicare and health	21.3	23.0	170.0	186.6	16.6	9.8
Income security	13.8	13.1	158.8	163.0	4.2	2.6
Other	15.4	15.4	156.0	146.7	-9.4	-6.0
Receipts	128.6	138.1	858.4	939.1	80.8	9.4
Personal income and social insurance taxes						
Withheld	70.4	74.4	604.4	647.8	43.4	7.2
Nonwithheld	24.9	25.8	138.8	148.3	9.4	6.8
Other	-.5	-.6	-44.5	-44.1	.5	N.A.
Corporate income taxes	24.9	29.1	88.4	106.2	17.8	20.2
Other	8.8	9.4	71.3	81.0	9.7	13.6
Deficit(+)	-11.1	-15.2	201.2	150.1	-51.1	-25.4
Excluding DI	-9.1	-16.4	221.7	153.9	-67.8	-30.6

Details may not add to totals because of rounding.

ADMINISTRATION BUDGET PROJECTIONS[1]
(Billions of dollars)

	Fiscal years					
	1994	1995	1996	1997	1998	1999
Outlays	1480	1521	1605	1683	1761	1852
Receipts	1260	1354	1426	1493	1569	1645
Deficit	220	167	179	190	192	207

1. Estimates exclude the budgetary impact of the President's health care reform proposal.

ADMINISTRATION ECONOMIC ASSUMPTIONS

	Calendar years					
	1994	1995	1996	1997	1998	1999
	------Percent change, Q4 over Q4------					
Real GDP	3.0	2.7	2.6	2.5	2.5	2.5
GDP deflator	2.7	2.8	2.9	3.0	3.0	3.0
CPI-U	2.9	3.2	3.3	3.4	3.4	3.4
	--------Percent, annual average-------					
Civilian unemployment rate	6.3	6.2	6.1	6.1	6.1	6.1
Interest rates						
3-month Treasury bills	4.0	4.7	4.8	4.8	4.8	4.8
10-year Treasury notes	6.8	7.0	7.0	7.0	7.0	7.0

Source: OMB, Mid-Session Review of the Budget, July 1994.

decline in real nondefense spending stemmed from the government's employee buyout program, which reduced the nondefense workforce by roughly 17,000 people.[17] The accompanying transitory boost in nominal compensation led to an increase in the nondefense compensation deflator in the second quarter, as did the additional paid leave given to the federal work force for the day of mourning for former President Nixon.[18]

The unified budget deficit for the fiscal year through June was $150 billion, 25 percent below the corresponding figure for fiscal year 1993. The reduction in the deficit reflects continuing strength in all categories of receipts, as well as restraint in the growth of outlays.

The final data on June tax collections showed a $9.5 billion increase over this same period last year. Corporate estimated tax payments were particularly high, rising 17 percent above last year's level, primarily because of continued growth in profits. Withheld personal income and social insurance taxes in June were 5-1/2 percent above their level of a year ago; the gain roughly matches the increase in wages and salaries over the past four quarters. Nonwithheld personal taxes were up only 3-1/2 percent from the June 1993 level, but these data are difficult to interpret because of the variability in the timing of nonwithheld payments and the changes in tax rates and safe harbor provisions.[19]

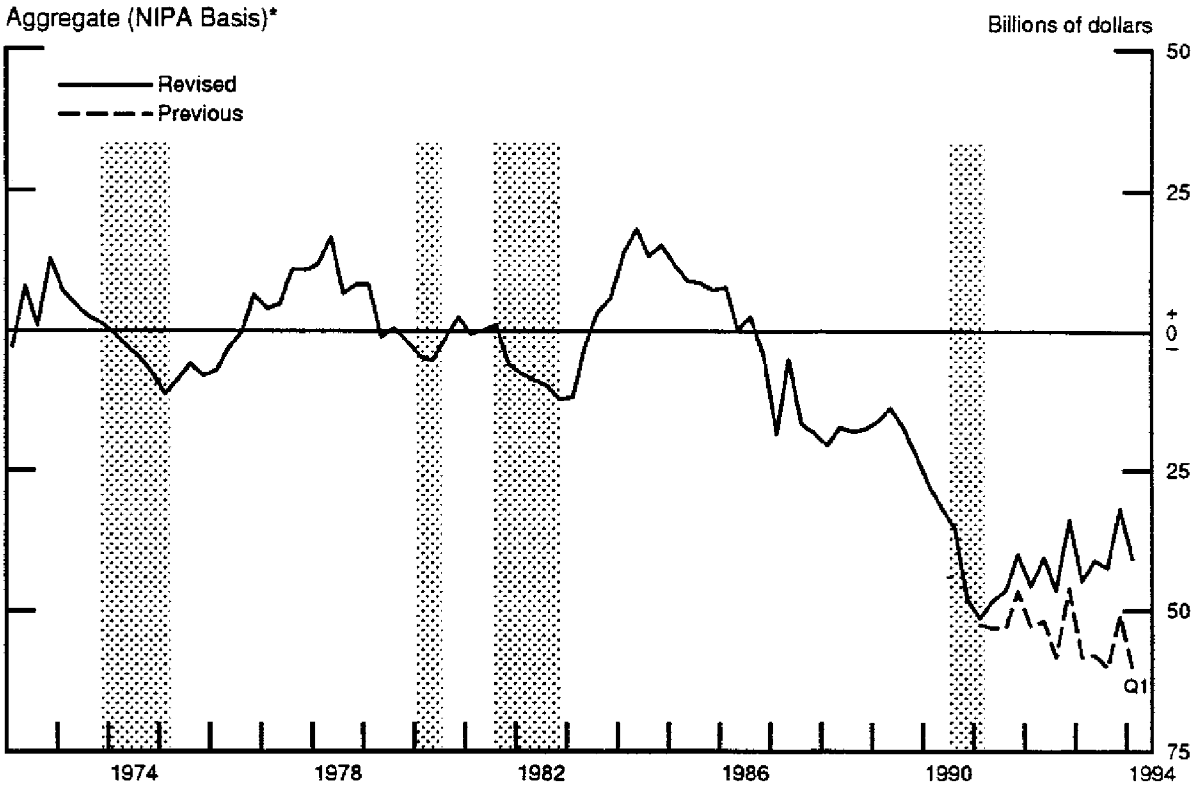
---

17. Real federal government purchases in the first quarter also were revised down sharply; most of the revision was in nondefense purchases.

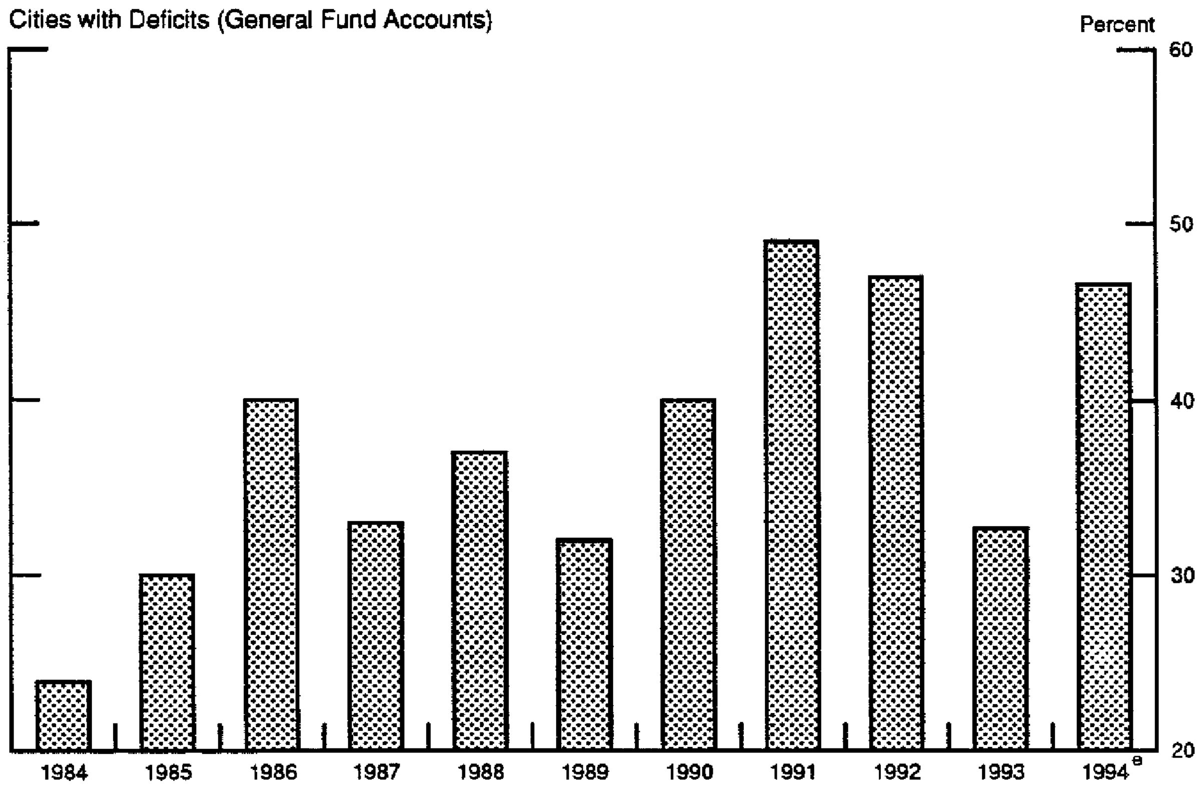
18. The effect of these factors is only temporary, and in the third quarter the nondefense compensation deflator is expected to retrace its run-up.

19. OBRA-93 changed the safe harbor provisions such that taxpayers whose income increased by more than $40,000 over the previous year could avoid interest or penalty charges by paying 110 percent of that year's tax liability. Previously, these taxpayers were required to pay 90 percent of current year tax liability in withheld or estimated payments.

STATE AND LOCAL SECTOR SURPLUS (DEFICIT)



* Excludes social insurance funds.



e – Estimate
Source: National League of Cities.

Federal outlays excluding deposit insurance so far this year are 1.2 percent higher than outlays over the same period last year. Outlays during June were 1.8 percent higher than outlays during June 1993; spending in the defense and income security categories was lower, while spending in other categories was higher. The reduction in income security expenditures reflected decreased spending on unemployment benefits, through both lower unemployment and the expiration of emergency unemployment benefits. Medicare and health spending was up 8 percent over the June 1993 level.

In the Mid-Session Review of the 1995 Budget, OMB projected deficits of $220 billion for 1994 and $167 billion for 1995. Thereafter, the deficit is projected to increase gradually through the end of the decade. The economic assumptions underlying these projections are little different from those used in January, except for higher projected interest rates. CBO has not yet released its summer update of the economic and budget outlook, but press reports indicate that their deficit forecast for 1994 will be close to $200 billion, $20 billion below the Administration's forecast. Most of the difference probably stems from projected outlays; OMB's forecast looks high compared with the nine months of data that we have for fiscal 1994.

State and Local Government Sector

Real purchases by state and local governments rose at a 2.0 percent annual rate in the second quarter, following a 1.4 percent decline in the first quarter. The second-quarter gain was widespread across goods and services. Real construction spending rose at a 1.9 percent annual rate in the second quarter, reversing only a little of its sharp first-quarter decline.[20]

20. The June data on construction put-in-place suggest an upward revision to real construction expenditures of $1 billion, which would raise the growth rate in this category to 6-1/2 percent (annual rate).

The BEA's annual revision has significantly reduced the deficit on operating and capital accounts, excluding social insurance funds (chart).[21] Most of the revision stems from lower estimates of goods and services. Other factors contributing to the revision include lower estimated transfer payments (mostly for Medicaid), and greater personal nontax collections. In addition to being smaller than previously estimated, the state and local deficit on operating and capital accounts now appears to have improved slightly since 1991. Nevertheless, the sector has a long way to go before it can see a surplus.

Although the condition of state general fund budgets--largely operating accounts that represent about half of state spending--appears to have improved during the past year, recent developments for cities have been less positive. Survey data from the National League of Cities show that the share of cities expecting deficits in their general fund accounts increased in fiscal 1994, after dropping considerably in fiscal 1993. The rising incidence of deficits is apparent for cities of all sizes and in all regions but is most pronounced in western cities. Many cities continue to see infrastructure needs, federal and state mandates, crime, and the demand for criminal justice as important sources of budgetary pressure.

21. With the limited amount of current data on state and local governments available to BEA, large revisions are not unusual. The detailed information used for revised estimates is compiled principally from the Census of Governments. BEA is now using final data from the Census for FY1992 and preliminary data for FY1993; it has no additional data on outlays for FY1994 (the year ended June 30, 1994, for most state governments and about half of all local governments). On the revenue side, BEA has quarterly tax data from the Census of Governments through calendar 1993. It also has more timely information on Medicaid from the Health Care Financing Administration. But, even with these data, considerable uncertainty surrounds the estimates of state and local government finances for the most recent year.

Given the growing concern about crime, many recent state and local legislative sessions focused on corrections and law enforcement. Welfare reform and education also were important topics. However, proposals for sweeping health care reform failed in every state where they were considered, and implementation of major plans has stalled; many legislatures avoided the issue as debate at the federal level proceeded this year. Meanwhile, legislation for less ambitious changes in health-care systems has largely succeeded, particularly those resulting in Medicaid reform.

Labor Costs

In the second quarter, hourly compensation, as measured by the employment cost index (ECI), rose 3.7 percent at an annual rate, following a sharp slowing in the first quarter. Over the twelve months ended in June, ECI hourly compensation increased 3.4 percent.[22] The acceleration in compensation last quarter largely owed to a pickup in wage and salary growth. Hourly benefit costs increased 3.7 percent at an annual rate over the March to June period--just slightly faster than in the first quarter.

Over the past year, growth in wages and salaries has moved up about 1/2 percentage point with almost all of the pickup due to increased earnings of sales workers.[23] Wage growth of sales workers rose from 1.4 percent over the twelve months ended in June 1993 to 4.1 percent ended in June of this year. Excluding sales occupations, hourly wage and salary growth has held steady at about 3 percent over the past year.

22. Nonfarm hourly compensation increased 3 percent over the same period. In recent revisions, nonfarm hourly compensation growth was not revised in 1993 at 2.5 percent, growth in compensation per hour in 1992 was revised up about 1/2 percentage point to 5.2 percent, and growth in 1991 was not revised.

23. Earnings of sales workers could increase because of a greater volume of sales, an increase in the commission rate/base wage, or both. An increase in the commission rate or base wage is more indicative of wage pressure. Unfortunately, no information on the source of change is available from the ECI data.

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

	1993			1994	
	June	Sep.	Dec.	Mar.	June
	-----Quarterly percent change------- (compound annual rate)				
Total hourly compensation:[1]	3.8	3.4	3.4	2.7	3.7
Wages and salaries	2.5	3.5	3.2	2.1	3.5
Benefit costs	5.6	4.2	4.5	3.5	3.7
By industry:					
Construction	3.2	2.4	0.3	7.0	4.8
Manufacturing	4.5	3.4	3.7	1.3	4.0
Transportation and public utilities	3.5	3.1	3.8	4.8	1.3
Wholesale trade	2.8	2.1	4.5	-0.3	5.2
Retail trade	2.1	2.8	3.1	2.4	4.1
FIRE	1.8	9.5	2.4	4.5	0.0
Services	3.7	3.7	3.0	4.0	2.6
By occupation:					
White-collar	3.5	3.8	3.4	3.4	3.7
Blue-collar	3.8	3.4	3.4	2.0	3.0
Service occupations	3.1	2.4	2.7	3.4	1.3
Memo:					
State and local governments	3.4	2.0	2.7	3.3	3.6
	-----Twelve-month percent change----				
Total hourly compensation:	3.6	3.7	3.6	3.3	3.4
Excluding sales workers	3.9	3.8	3.7	3.3	3.2
Wages and salaries	2.7	3.1	3.1	2.9	3.1
Benefit costs	5.8	5.4	5.0	4.4	3.9
By industry:					
Construction	3.8	3.3	2.4	3.2	3.6
Manufacturing	4.4	4.2	4.1	3.3	3.2
Transportation and public utilities	3.7	3.5	3.5	3.8	3.3
Wholesale trade	2.6	3.0	3.0	2.3	2.8
Retail trade	3.1	2.9	3.0	2.6	3.1
FIRE	2.1	4.1	4.6	4.5	4.1
Services	3.9	3.8	3.5	3.6	3.3
By occupation:					
White-collar	3.6	3.7	3.7	3.5	3.6
Blue-collar	3.8	3.8	3.7	3.2	3.0
Service occupations	3.3	3.0	3.1	2.9	2.5
Memo:					
State and local governments	3.4	3.0	2.8	2.8	2.9

1. Seasonally adjusted by the BLS.

Increases in hourly benefit costs have slowed nearly 2 percentage points over the past year owing largely to a deceleration in the growth of health care costs. Growth in employers' costs for health insurance was 5 percent over the twelve months ended in June, down nearly 3 percentage points from the previous year and considerably below the annual rates of increase of close to 14 percent during the late 1980s. The deceleration in employers' health costs probably reflects the combination of the slowing in overall growth in health care costs, efforts by employers to shift a greater proportion of costs onto workers, and the ongoing shift away from traditional indemnity plans. Up-to-date data are limited, but information from the Employee Benefits Survey (EBS) of Medium to Large Firms (100 or more employees) indicates that the percent of employees who contributed to their own employer-sponsored health care plans rose from 35 percent in 1985, before the recent run-up in ECI hourly health care costs, to more than 50 percent in 1991.[24] Also, the percentage of employees participating in employer-sponsored health plans declined from more than 90 percent in 1989 (a coverage rate that had held for some time) to 83 percent in 1991.[25]

The consumer price index also indicates that the cost of health care has decelerated considerably. Over the twelve months ended in July, the CPI for medical care (including services and commodities)

24. The survey covers the same group of firms as contained in the ECI data. Trends evident between 1985 and 1991 likely have continued over the most recent 2-1/2 years.

25. Firms have put downward pressure on costs through preferred provider organizations (PPOs). The EBS indicates that in recent years participation in PPOs increased considerably at the expense of traditional fee-for-service plans. The percentage participating in health maintenance organizations (HMOs) has held steady at about 17 percent in recent years.

EMPLOYMENT COST INDEX OF HOURLY WAGES AND SALARIES
FOR PRIVATE INDUSTRY WORKERS
(Twelve-month percent changes)

	1993			1994	
	June	Sep.	Dec.	Mar.	June
Hourly wages and salaries	2.7	3.1	3.1	2.9	3.1
By industry:					
Construction	2.3	2.4	2.0	2.5	2.9
Manufacturing	2.9	3.0	3.2	2.9	3.0
Transportation and public utilities	3.1	3.1	3.2	3.1	2.8
Wholesale trade	2.3	2.9	2.6	2.0	2.8
Retail trade	2.9	2.9	2.9	2.3	2.8
FIRE	1.0	3.8	4.2	4.0	3.6
Services	3.2	3.2	3.0	3.2	3.1
By occupation:					
White-collar	2.8	3.4	3.3	3.1	3.3
Blue-collar	2.5	2.7	2.9	2.8	2.9
Service occupations	2.2	2.1	2.1	2.5	2.4
Memo:					
State and local governments	2.8	2.9	2.7	2.7	2.8

EMPLOYMENT COST INDEX OF HOURLY BENEFIT COSTS
FOR PRIVATE INDUSTRY WORKERS
(Twelve-month percent changes)

	1993			1994	
	June	Sep.	Dec.	Mar.	June
Hourly benefit costs[1]	5.8	5.4	5.0	4.4	3.9
Insurance costs	7.2	6.8	6.4	5.1	4.4
Health care	7.8	7.2	6.9	5.7	5.0
Supplemental pay	4.3	4.8	2.8	5.3	5.5
Retirement and savings	6.6	4.6	4.9	9.5	9.6
Paid leave	3.7	3.7	3.4	2.9	2.8
Legally required	5.3	4.6	4.4	3.7	3.1
By industry:					
Goods-producing	7.0	6.3	5.6	4.2	3.8
Service-producing	4.9	4.4	4.5	4.5	4.1
By occupation:					
White-collar occupations	5.4	4.8	4.6	4.7	4.5
Blue-collar occupations	6.3	5.9	5.5	4.0	3.3
Service occupations	6.3	5.5	5.5	4.1	2.9
Memo:					
State and local governments	4.4	3.2	2.9	3.0	3.2

1. The detail on benefit costs is from unpublished data from the BLS.

rose 4.6 percent.[26] This is down from 6.0 percent over the same period of a year ago and annual increases of more than 9-1/2 percent in late 1990 and early 1991.

In addition to the slowing in employers' costs for health insurance, benefit growth has been restrained by a sharp deceleration in costs for workers' compensation and unemployment insurance. For workers' compensation, the slowing reflects both the deceleration in health care costs described above and some changes in state laws that place additional restrictions on eligibility. The slowing in unemployment insurance costs largely reflects improvements in experience ratings, and the better condition of state unemployment insurance funds associated with the ongoing strengthening of the labor market.

In contrast to these areas of slowing benefit cost growth, hourly pension costs and nonproduction bonuses increased more than 10 percent over the past twelve months, compared with increases of about 6-1/2 percent for the same period a year ago. Anecdotal evidence indicates that the acceleration in pension costs reflects the need by some firms to lower overly optimistic investment assumptions, as well as some efforts by regulators to push companies with underfunded plans to increase their contributions. The faster growth in nonproduction bonuses largely reflects improved profits at many firms over the past year.

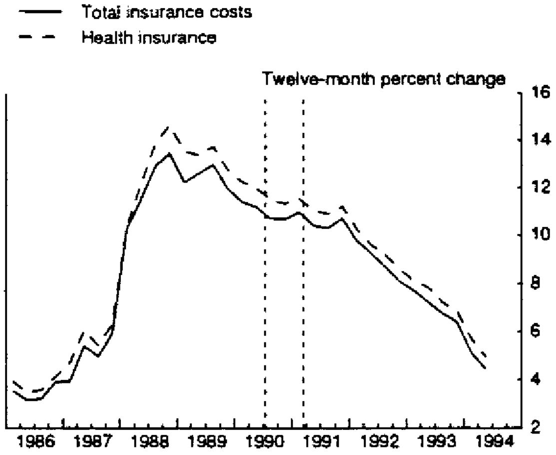
The only aggregate data that we have on wages in the third quarter are average hourly earnings of production or nonsupervisory workers. AHE rose 0.4 percent in July, following a decline in the previous month. The largest increases last month were recorded in

26. The CPI measures list prices of a fixed basket of medical services and commodities. Although the PCE deflator for medical services is based partly on the CPI, it also incorporates data on transactions prices (rather than list prices), which should make it a better measure of costs paid. The PCE deflator for medical services increased 4 percent over the year ending in June.

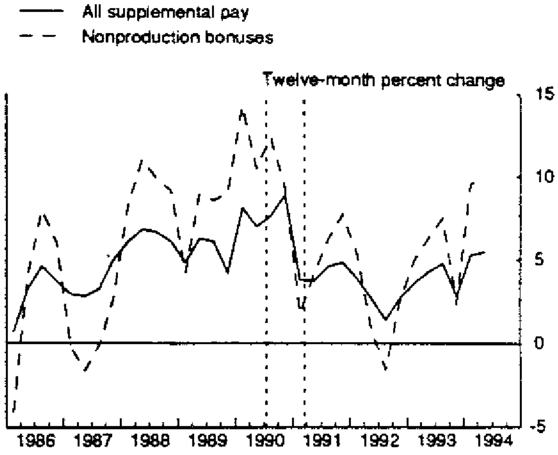
8/4/94

COMPONENTS OF ECI BENEFIT COSTS
(Private industry workers; twelve-month percent change)

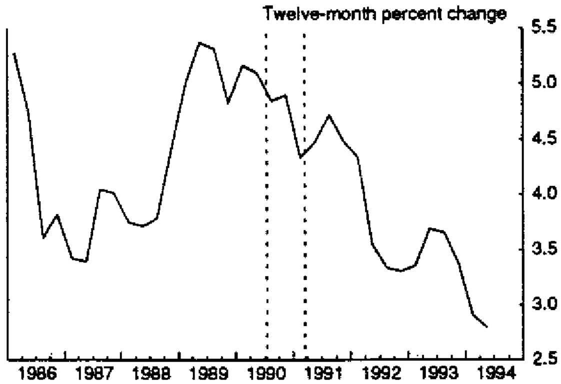
Insurance Costs



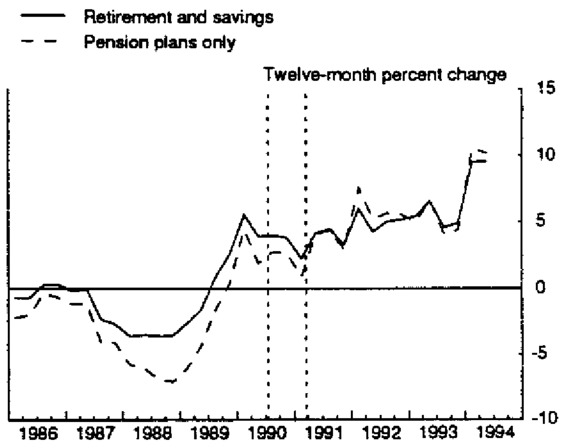
Supplemental Pay



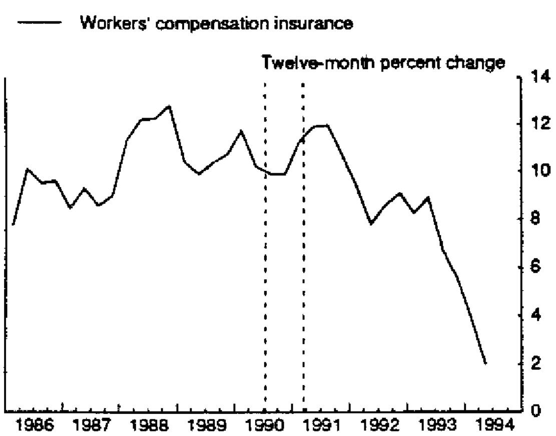
Paid Leave



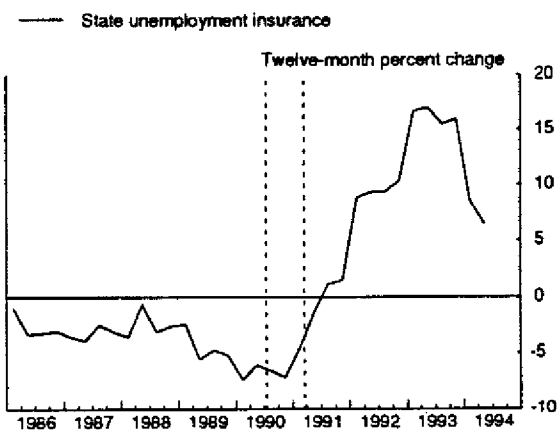
Savings and Pension Plans



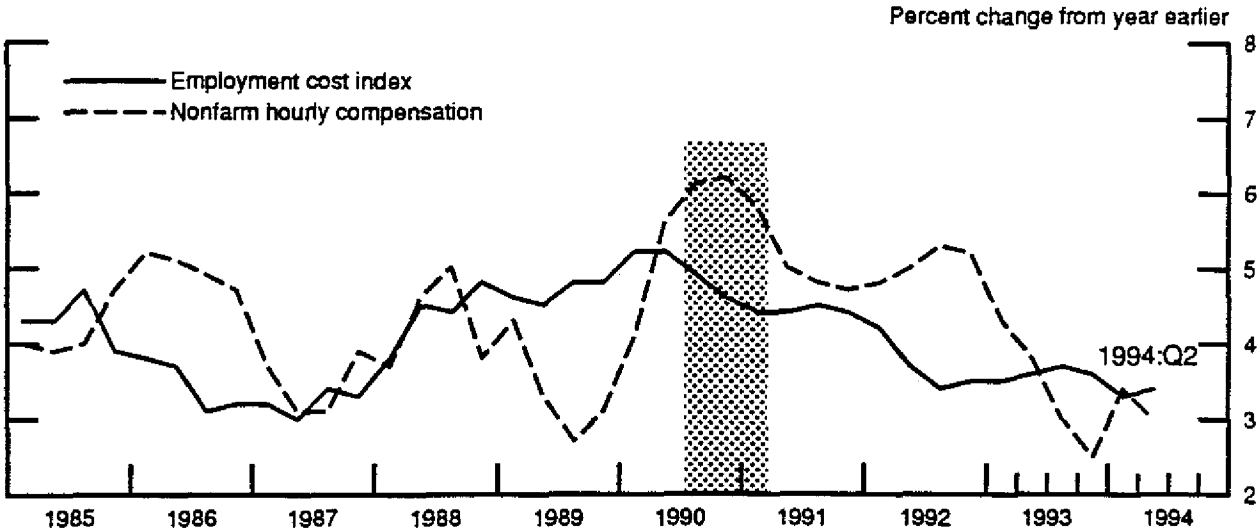
Legally Required Benefits



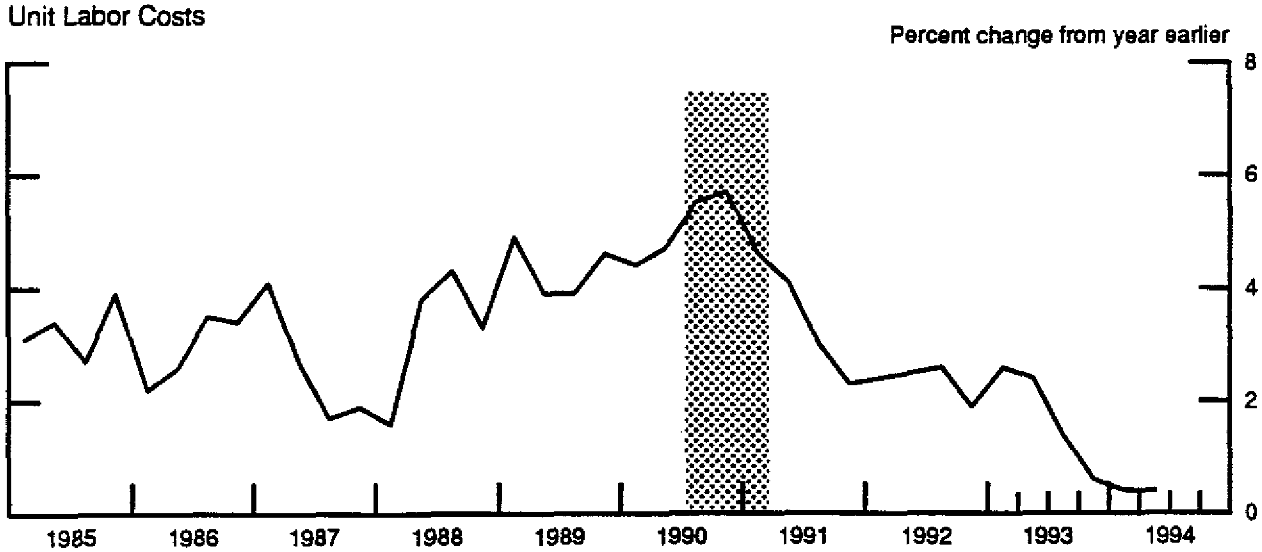
Legally Required Benefits



HOURLY COMPENSATION
(Private nonagricultural industries)



Unit Labor Costs



REVISIONS TO LABOR COSTS
(Nonfarm business sector; percent change at an annual rate)

	1991	1992	1993	1994 Q1	1994 Q2	1993:Q2-1994:Q2
Compensation per hour						
Revised	4.7	5.2	2.5	6.1	.8	3.0
Previous	4.7	4.8	2.5	5.3	n.a.	n.a.
Unit labor costs						
Revised	2.3	1.9	.6	3.1	2.0	.4
Previous	2.5	1.5	.8	3.9	n.a.	n.a.

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

	Relative importance, Dec. 1993	1992	1993	1993 Q4	1994 Q1	1994 Q2	1994 June	1994 July
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	2.9	2.7	3.3	2.5	2.5	.3	.3
Food	15.8	1.5	2.9	4.9	-1.1	2.8	.3	.5
Energy	7.0	2.0	-1.4	1.2	4.7	-4.9	.1	1.8
All items less food and energy	77.2	3.3	3.2	3.4	2.9	3.1	.3	.2
Commodities	24.4	2.5	1.6	2.4	.6	4.2	.4	.1
Services	52.8	3.7	3.9	3.7	4.2	2.4	.2	.2
Memo:								
CPI-W[3]	100.0	2.9	2.5	3.1	2.5	2.5	.3	.3

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 Q4	1994 Q1	1994 Q2	1994 June	1994 July
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	1.6	.2	-.3	3.6	-.3	.0	.5
Consumer foods	22.9	1.6	2.4	5.2	-.6	-5.8	.0	.5
Consumer energy	13.3	-.3	-4.1	-15.6	15.4	-2.6	.3	2.5
Other finished goods	63.7	2.0	.4	.9	3.0	2.1	-.1	.1
Consumer goods	40.3	2.1	-.4	1.5	2.0	1.5	-.1	.0
Capital equipment	23.4	1.7	1.8	.3	4.3	3.6	.1	.1
Intermediate materials[2]	95.2	1.1	.8	-.3	2.8	2.8	.5	.6
Excluding food and energy	82.3	1.2	1.6	1.6	1.9	3.9	.6	.4
Crude food materials	44.1	3.0	7.2	18.4	-4.5	-20.9	-1.2	-2.1
Crude energy	34.4	2.3	-12.3	-22.1	10.1	26.9	3.3	-1.3
Other crude materials	21.5	5.7	10.7	15.4	22.7	-2.1	.7	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.

AVERAGE HOURLY EARNINGS
OF PRODUCTION OR NONSUPERVISORY WORKERS[1]

	1992	1993	1994 Q1	1994 Q2	1994 May	1994 June	1994 July
			-Annual rate-		--Monthly rate--		
Total private nonfarm	2.1	2.6	2.2	2.2	.4	-.1	.4
Construction	1.2	1.2	1.7	5.6	.6	.5	.8
Retail trade	2.4	2.4	3.5	2.4	.3	.0	.5
FIRE	3.6	5.5	2.8	2.1	.5	-.7	.3
Services	2.4	2.2	2.2	3.0	.5	-.1	.2

1. Changes over periods longer than one month are measured from final month of preceding period to final month of period indicated.

construction and retail trade. Over the past year, AHE rose 2.7 percent--up 1/4 percentage point relative to the same period of a year ago and at the high end of the range seen over the past two years. In July, the chain-weighted average hourly earnings series rose 0.5 percent.[27] The difference between the chain-weighted and the regular hourly earnings series indicates that industrial shifts in employment held down wage growth last month.

Prices

In today's release, the consumer price index for July rose 0.3 percent. Excluding food and energy, the CPI was up 0.2 percent--slightly below the increases in May and June. Over the twelve months through July, the overall CPI has increased 2.8 percent and the CPI excluding food and energy has increased 2.9 percent; both figures are about unchanged from the rates of increase during the preceding twelve-month period.

Consumer energy prices rose 1.8 percent in July, as the runup in crude-oil prices since March began to make its way to the retail level. Gasoline prices rose 3.5 percent, while fuel oil prices increased 1.1 percent. The CPI for food rose 0.5 percent in July.

27. The chain-weighted series holds industry weights constant from one month to the next.

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from six months earlier			
	Jan. 1993	July 1993	Jan. 1994	July 1994
CPI	3.3	3.2	2.6	3.1
Goods	2.1	1.5	1.0	2.5
Alcoholic beverages	2.3	0.3	2.7	.0
New vehicles	2.0	3.7	2.7	5.3
Apparel	0.5	-0.6	1.2	0.8
House furnishings	-0.4	-0.4	4.3	0.9
Housekeeping supplies	.0	-0.6	3.0	0.9
Medical commodities	4.2	3.4	3.0	2.7
Entertainment	1.8	0.5	2.4	2.7
Tobacco	11.4	2.8	-16.3	5.2
Services	3.9	3.9	3.4	3.4
Owners' equivalent rent	3.5	2.9	3.0	3.2
Tenants' rent	2.6	2.0	2.4	2.2
Other renters' costs	1.3	4.3	2.8	3.1
Airline fares	16.6	22.7	2.5	3.3
Medical care	6.8	6.5	4.7	5.2
Entertainment	3.4	2.4	6.1	1.9
Auto financing	-13.1	-7.7	-5.5	27.2
Tuition	8.7	8.0	5.7	7.5
PPI finished goods	1.8	1.6	-0.6	1.6
Consumer goods	1.6	1.4	-1.9	0.9
Capital goods, excluding computers	2.4	2.5	2.3	3.1
Computers	-9.9	-15.9	-7.3	-5.6
PPI intermediate materials	1.1	1.5	1.5	3.4
PPI crude materials	8.3	10.9	9.2	8.2
Factors affecting price inflation				
ECI hourly compensation[1]	3.4	3.8	3.4	3.2
Goods-producing	3.9	4.3	3.2	3.3
Service-producing	3.2	3.3	3.8	2.9
Civilian unemployment rate[2,3]	7.1	6.8	6.7	6.1
Capacity utilization[2,4] (manufacturing)	79.7	80.1	82.3	82.8
Inflation expectations[5,6]				
Michigan Survey	4.6	4.9	3.7	4.7
Conference Board	4.3	4.6	4.3	4.3
Non-oil import price[7]	1.8	-1.5	2.2	1.7
Consumer goods, excluding autos, food, and beverages	3.3	-0.8	1.9	.0
Autos	1.5	-0.6	3.8	4.5

1. Private industry workers, periods ended in June.
2. End-of-period value.
3. Data for 1994 are not directly comparable with earlier values because of a redesign of the CPS in January 1994.
4. Latest reported value: June.
5. One-year-ahead expectations.
6. Latest reported value: August.
7. BLS import price index (not seasonally adjusted).

Fresh fruit and vegetable prices registered another large increase, and coffee prices were up 22 percent. Meat prices declined in July, and price increases for other food categories were quite modest. Food prices so far this year have risen at a 1-1/2 percent annual rate, compared with a 3 percent increase in 1993.

In today's CPI report, new vehicle prices rose 0.4 percent. These price increases reflected the effects of seasonal adjustment; the prices before seasonal adjustment were unchanged. In recent years, automotive companies have offered incentive programs at the end of the model year. This year, however, such incentives were not needed since stocks of cars and trucks are quite lean. Elsewhere, apparel prices fell 0.5 percent in July, reflecting summer sales and the slower-than-usual introduction of fall merchandise. Within the services category, rent increases picked up in July, but this was partially offset by a decline in other renters' costs and small increases in other service components.

Over the six months through July, the CPI excluding food and energy has increased 3.1 percent at an annual rate, essentially the same pace as in the six-month period a year earlier. (The intervening six-month period is distorted by an unusual decline in tobacco prices.) Prices of consumer goods other than food and energy have increased 2.5 percent over the past six months, about twice the pace of the year-earlier period. New motor vehicle prices have accelerated by about 1-1/2 percentage points at an annual rate, reflecting both strong demand, which has pushed production of some models to capacity, and the weakness of the dollar against the Japanese yen, which has boosted prices of imported models. Among other goods, apparel prices have also accelerated; however, movements in these prices can be very erratic.

In contrast to goods prices, prices of services have continued to moderate. The CPI for services other than energy has increased 3.4 percent at an annual rate over the past six months, down 1/2 percentage point from the six months ended July 1993. Increases in rent have picked up a bit, and higher interest rates have boosted auto financing costs. But offsetting changes have occurred in airline fares, tuition, entertainment, and medical care services.

INDEXES OF HOSPITAL CARE PRICES
(Percent change between July of the year indicated and July of the previous year)

	CPI	PCE deflator[1]	PPI
1990	10.8	6.8	
1991	10.3	7.0	
1992	9.3	5.3	
1993	8.4	5.1	
1994	5.7	3.7	2.9

1. Percentage change, June to June.

An important part of medical services is hospital care. While hospital prices have decelerated in recent years along with other medical care services prices, the rate of increase in the CPI for hospitals has run considerably higher than other measures of hospital-price increases. Over the twelve months ended July 1994, the CPI for hospital care increased 5.7 percent, while the latest reading for the PPI and the PCE deflator indicate twelve-month increases of 2.9 and 3.7 percent respectively. The differences in these price increases may reflect the fact that the CPI relies on list prices for hospital services. By comparison, the PPI for hospital care explicitly attempts to monitor transactions price. While the PCE deflator relies, in part, on the CPI series, it also incorporates information on input costs prepared by the Health Care Financing Administration. Transactions prices may have been falling relative to list prices, as health insurance companies have increasingly negotiated discounts with hospitals.

PRICES IN THE NATIONAL ACCOUNTS
(Percent change, annual rate)

	1992[1]	1993[1]	1994:Q1	1994:Q2
GDP fixed-weight price index	3.2	2.8	3.1	2.9
Federal government	3.3	3.9	4.8	7.7
GDP deflator	2.6	1.8	2.9	2.9

1. Fourth quarter to fourth quarter percent change.

Over the first half of the year, the fixed-weight price index for GDP increased at a 3 percent annual rate, up slightly from the 2-3/4 percent increase over the four quarters of 1993. The pickup in the price index for the federal government in the first half of the year was particularly marked, reflecting the unusually large number of days the government was shut down for inclement weather and holidays, the effects of the early retirement "buy-out" scheme for federal workers, and the pay raise in the first quarter of the year.[28] Excluding the federal sector, GDP prices rose about as fast in the first half of the year as in 1993. The larger acceleration in the GDP deflator reflects both the price effects evident in the fixed-weight index and shifts in the composition of GDP--particularly the slower growth in business purchases of computers, which have a very low deflator level.

Finished goods prices in yesterday's PPI report rose 0.5 percent, while, excluding food and energy, the PPI was up 0.1 percent. Finished energy prices posted a large 2.5 percent increase, led by an 8 percent increase in gasoline prices.

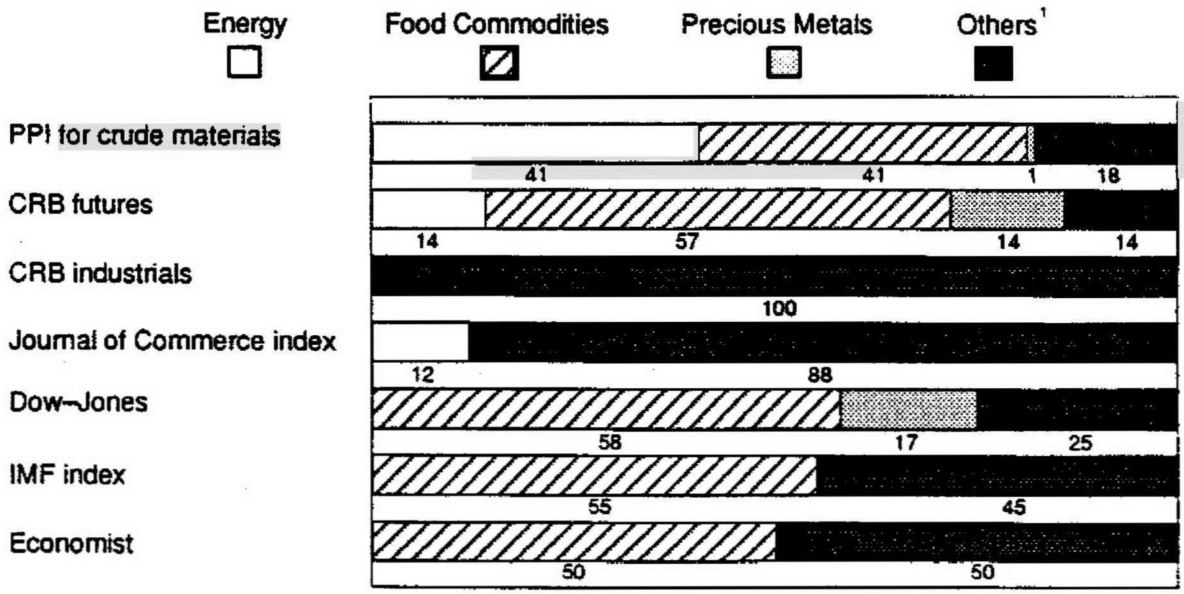
28. As noted above, the early retirement program and the unusual number of shutdowns should have only a transitory effect on the level of the federal government deflator.

COMMODITY PRICE INDEXES[1]

	ast bserv- tion	1992	1993	Dec 93 to Jun 28[3]	Jun 28[3] to date	Memo: Year earlier to date
		Percent change[2]				
1. PPI for crude materials[4]	Jun	3.3	0.1	2.6	n.a.	-0.6
1a. Foods and feeds	Jun	3.0	7.2	-3.9	n.a.	0.5
1b. Energy	Jun	2.3	-12.3	8.7	n.a.	-5.9
1c. Excluding food and energy	Jun	5.7	10.7	5.8	n.a.	7.3
1d. Excluding food and energy, seasonally adjusted	Jun	6.1	10.6	4.7	n.a.	7.3
2. Commodity Research Bureau						
2a. Futures prices	Aug 09	-2.9	11.6	2.2	0.5	7.6
2b. Industrial spot prices	Aug 09	-0.7	-0.0	9.2	5.1	19.0
3. Journal of Commerce industrials	Aug 09	5.0	-4.0	8.5	3.5	10.5
3a. Metals	Aug 09	1.9	-2.6	4.3	1.3	7.3
4. Dow-Jones Spot	Aug 09	10.4	5.1	10.5	1.0	14.0
5. IMF commodity index[4]	Jun	-2.6	2.4	6.2	n.a.	15.7
5a. Metals	Jun	-3.1	-14.4	15.4	n.a.	11.9
5b. Nonfood agricultural	Jun	2.4	0.2	9.4	n.a.	11.7
6. Economist (U.S. dollar index)	Aug 02	1.6	9.1	20.0	4.5	34.4
6a. Industrials	Aug 02	4.5	4.4	15.3	1.8	27.4

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

reflecting the recent run-up in crude oil prices. Finished food prices rose 0.5 percent in July, boosted by a 43 percent jump in coffee prices.

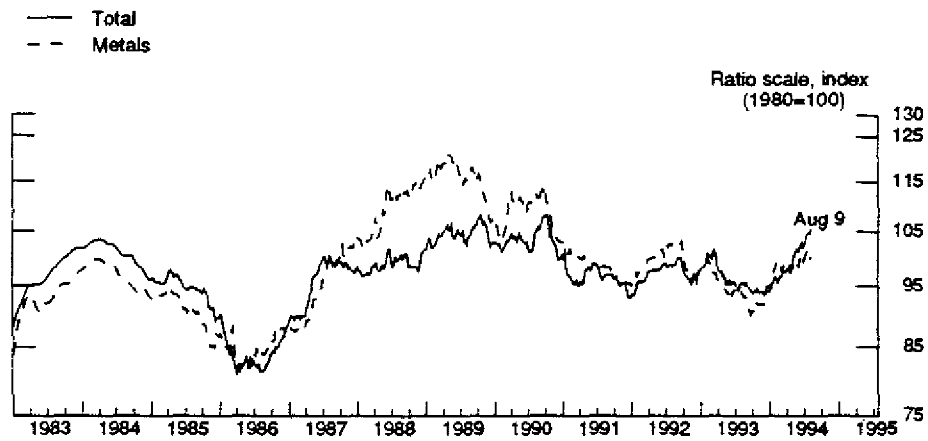
Prices of intermediate materials other than food and energy rose 0.4 percent in July after increasing 0.6 percent in June. So far this year, intermediate materials prices have increased at a 3 percent annual rate, up from 1-1/2 percent over the twelve months of 1993. The pickup in intermediate materials price increases likely reflects pressures from tightening capacity utilization and from higher prices of nonfood, nonenergy crude materials, which have risen at a 12 percent annual rate so far this year, following an 11 percent increase in 1993.

Spot commodity prices have been mixed since the last Greenbook. Industrial materials have posted further increases, led by steel scrap prices, which have surged in response to the continued high level of demand in this sector. In contrast, prices of the major crops have plummeted in recent weeks. The price of corn has fallen 16.5 percent since the last Greenbook and the price of soybeans has dropped almost 17 percent. The recent declines have returned these prices to their levels before last summer's flood. Coffee prices, which had surged in the second quarter, increased further in the early inter-Greenbook period. Although some of the increase has since been reversed, spot prices are roughly triple the levels of a year ago.

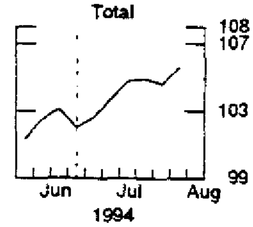
Driving prices lower for agricultural commodities have been forecasts of near-record production. As expected at the time of the last Greenbook, the USDA's August forecast of crop production, indicates a bumper harvest in the major U.S. grain crops (table). Corn production is expected to rise 45 percent over last year's unusually low level, as a result of favorable growing conditions in

COMMODITY PRICE MEASURES *

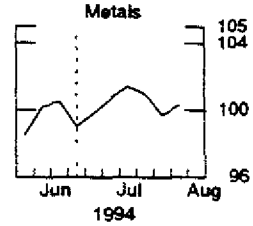
Journal of Commerce Index



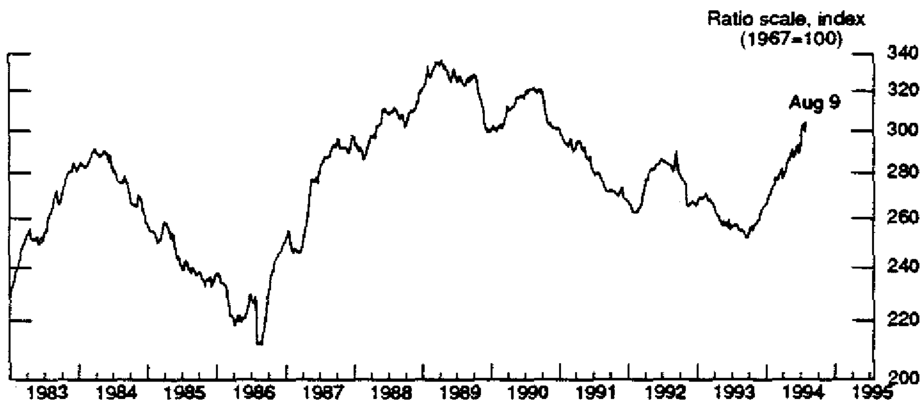
Total



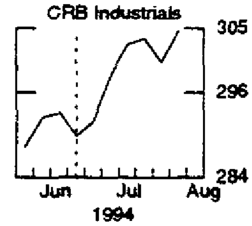
Metals



CRB Spot Industrials

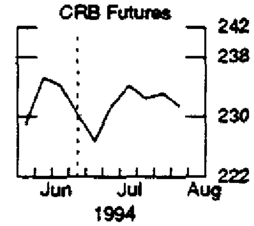


CRB Industrials



CRB Futures

CRB Futures



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

Dashed lines indicate week of last Greenbook.

the Midwest. The soybean harvest is expected to be roughly 25 percent higher than last year, and wheat production is anticipated to be in line with last year's output. However, wheat prices have been buoyed in recent weeks by the expected shortfalls in world production of wheat, driven particularly by problems in the former Soviet Union.

SPOT PRICES OF SELECTED COMMODITIES

	Current price ($)	Percent change[1]: 1992	1993	To Jun 28[2]	Jun 28[2] to Aug 09	Memo: Year earlier to Date
		INDUSTRIAL COMMODITIES				
Metals:						
Copper (lb.)	1.120	4.1	-19.0	29.8	.9	24.4
Steel scrap (ton)	136.500	1.1	46.8	-20.1	22.4	21.3
Aluminum, London (lb.)	.651	9.9	-10.7	29.5	.5	21.1
Lead (lb.)	.380	-4.3	3.0	2.9	7.1	13.5
Zinc (lb.)	.465	-10.3	-7.5	3.9	-4.1	3.8
Tin (lb.)	3.467	6.5	-14.1	10.5	-4.1	4.5
Textiles and fibers:						
Cotton (lb.)	.715	-3.2	19.6	17.9	-2.3	33.9
Burlap (yd.)	.275	-9.6	8.2	3.8	.0	14.6
Miscellaneous materials:						
Hides (lb.)	.890	11.4	1.3	12.0	.6	12.7
Rubber (lb.)	.668	12.3	-7.3	30.2	14.6	54.3
		OTHER COMMODITIES				
Precious metals:						
Gold (oz.)	378.650	-5.9	16.6	-.3	-2.0	-.4
Silver (oz.)	5.140	-5.7	38.8	5.3	-3.1	10.4
Platinum (oz.)	410.000	5.5	8.0	3.4	2.8	4.5
Forest products:						
Lumber (m. bdft.)	323.000	47.5	75.8	-27.2	-4.4	1.
Plywood (m. sqft.)	352.000	53.5	-6.3	-.9	9.3	5.1
Petroleum:						
Crude oil (barrel)	17.750	1.4	-25.0	25.9	4.4	7.9
Gasoline (gal.)	.598	-2.9	-31.0	44.1	11.9	12.5
Fuel oil (gal.)	.500	21.9	-22.4	14.8	-.3	4.6
Livestock:						
Steers (cwt.)	70.000	10.6	-7.3	-16.6	15.7	-8.8
Hogs (cwt.)	43.000	10.4	.6	6.7	-1.1	-8.5
Broilers (lb.)	.533	-5.3	6.1	-1.4	4.8	-7.6
U.S. farm crops:						
Corn (bu.)	2.100	-16.1	41.7	-12.4	-16.5	-7.1
Wheat (bu.)	3.510	-11.7	5.8	-14.0	4.3	10.1
Soybeans (bu.)	5.595	1.1	24.5	-3.2	-16.7	-15.5
Other foodstuffs:						
Coffee (lb.)	1.775	17.9	-2.3	162.4	4.9	181.7
Memo:						
Exchange value of the dollar (March 1973=100)	89.962	10.1	3.4	-6.0	.5	-5.3
Yield on Treasury bill, 3-month[3]	4.450	-68	-14	112	27	142

1. Changes, if not specified, are to the last week of the year indicated and from the last week of the preceding year.
2. Week of the June Greenbook.
3. Changes are in basis points.

U.S. CROP PRODUCTION[1]

		1992	1993	USDA Projections for 1994 May 12	USDA Projections for 1994 July 12	USDA Projections for 1994 Aug. 12
		- - - - - - Billions of bushels - - - - - -				
1.	Corn	9.48	6.34	8.73	9.00	9.20
2.	Soybeans	2.19	1.81	2.10	2.16	2.28
3.	Wheat	2.46	2.40	2.36	2.42	2.39
4.	Sorghum	.88	.57	.59	.62	.66
5.	Oats	.30	.21	.25	.25	.25
6.	Barley	.46	.40	.40	.41	.39
		- - - - Billions of hundredweight - - - - -				
7.	Rice	.18	.16	.18	.19	.19
		- - - - - - - Billions of pounds - - - - - - -				
8.	Peanuts	4.28	3.33	n.a.	n.a.	4.09
9.	Tobacco	1.72	1.61	n.a.	n.a.	1.56
		- - - - - - - Millions of bales - - - - - - -				
10.	Cotton	16.22	16.18	17.70	18.00	19.2
		- - - - - - - - Millions of tons - - - - - - - -				
11.	Sugar beets	29.14	26.40	n.a.	n.a.	29.2
12.	Sugar cane	30.36	30.53	n.a.	n.a.	31.4
Memo:						
		- - - - - - Billions of 1987 dollars - - - - -				
13.	Value, 12 crops[2]	47.03	38.42	44.58	45.65	46.76

1. Data are from the U.S. Department of Agriculture.
2. Calculated by the staff from USDA data.

DOMESTIC FINANCIAL DEVELOPMENTS

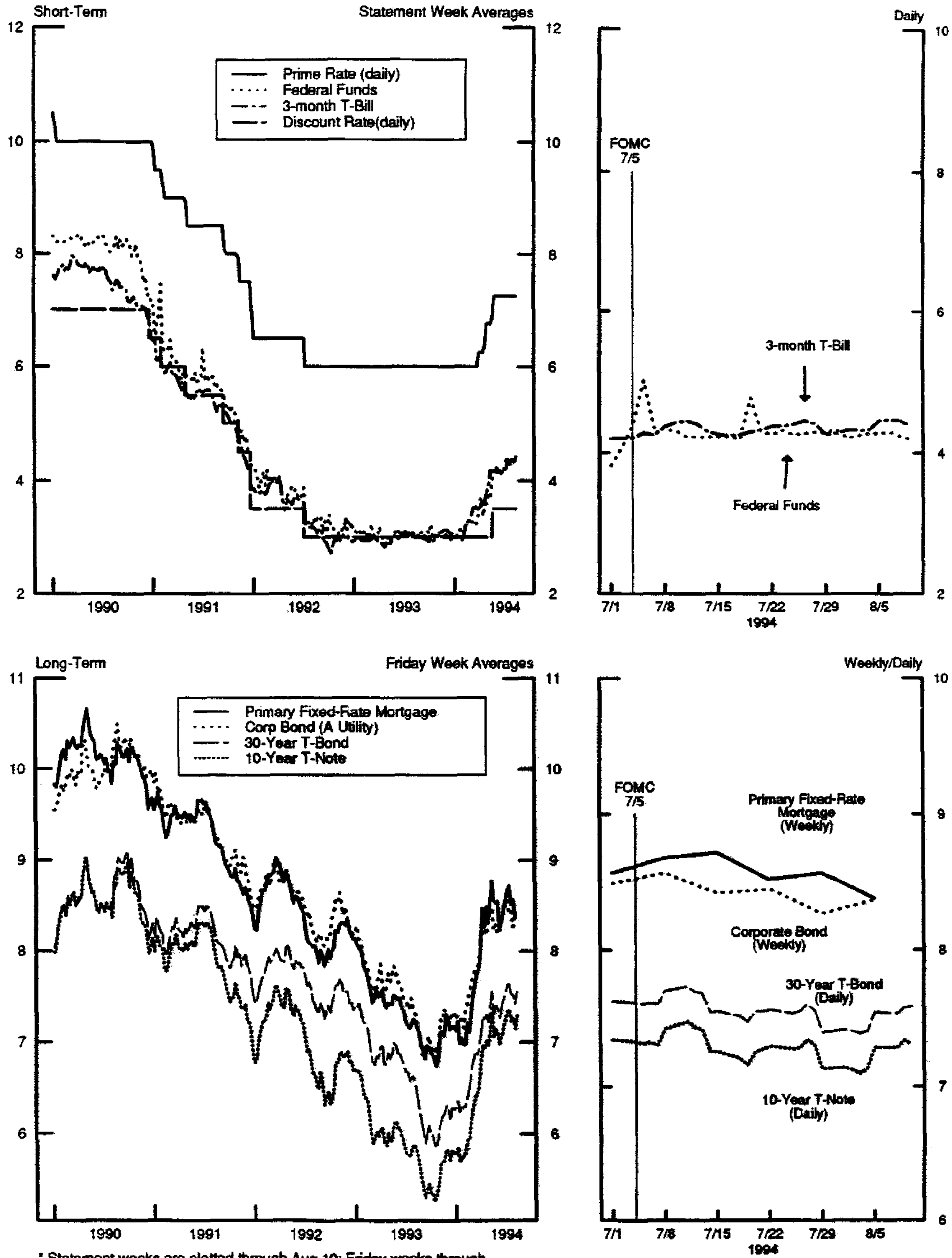
SELECTED FINANCIAL MARKET QUOTATIONS 1/
(Percent except as noted)

Instrument	1993 Mid-Oct lows	1994 Feb 3	1994 FOMC, Jul 5	1994 Aug 11	Change to Aug 11, 1994: From Mid-Oct lows	From Feb 3	From FOMC, Jul 5
SHORT-TERM RATES							
Federal funds 2/	3.07	3.07	4.23	4.26	1.19	1.19	0.03
Treasury bills 3/							
3-month	3.01	3.13	4.21	4.34	1.33	1.21	0.13
6-month	3.09	3.27	4.66	4.92	1.83	1.65	0.26
1-year	3.23	3.52	5.18	5.30	2.07	1.78	0.12
Commercial paper							
1-month	3.13	3.16	4.52	4.54	1.41	1.38	0.02
3-month	3.23	3.25	4.77	4.82	1.59	1.57	0.05
Large negotiable CDs 3/							
1-month	3.08	3.11	4.50	4.51	1.43	1.40	0.01
3-month	3.22	3.25	4.80	4.79	1.57	1.54	-0.01
6-month	3.23	3.41	5.19	5.23	2.00	1.82	0.04
Eurodollar deposits 4/							
1-month	3.06	3.06	4.50	4.44	1.38	1.38	-0.06
3-month	3.25	3.25	4.81	4.75	1.50	1.50	-0.06
Bank prime rate	6.00	6.00	7.25	7.25	1.25	1.25	0.00
INTERMEDIATE- AND LONG-TERM RATES							
U.S. Treasury (constant maturity)							
3-year	4.06	4.60	6.48	6.61	2.55	2.01	0.13
10-year	5.19	5.81	7.31	7.36	2.17	1.55	0.05
30-year	5.78	6.31	7.60	7.56	1.78	1.25	-0.04
Municipal revenue 5/ (Bond Buyer)	5.41	5.49	6.56	6.49	1.08	1.00	-0.07
Corporate--A utility, recently offered	6.79	7.35	8.47	8.41	1.62	1.06	-0.06
Home mortgages 6/							
FHLMC 30-yr. fixed rate	6.74	6.97	8.57	8.57	1.83	1.60	0.00
FHLMC 1-yr. adjustable rate	4.14	4.12	5.48	5.56	1.42	1.44	0.08

Stock exchange index	Record high Level	Record high Date	1989 Low, Jan. 3	1994 FOMC, Jul 5	1994 Aug 11	Percentage change to Aug 11: From record high	From 1989 low	From FOMC, Jul 5
Dow-Jones Industrial	3978.36	1/31/94	2144.64	3652.48	3750.90	-5.72	74.90	2.69
NYSE Composite	267.71	2/2/94	154.00	246.51	253.31	-5.38	64.49	2.76
NASDAQ (OTC)	803.93	3/18/94	378.56	703.59	728.20	-9.42	92.36	3.50
Wilshire	4804.31	2/2/94	2718.59	4412.17	4537.07	-5.56	66.89	2.83

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 Aug 17, 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 Aug 10; Friday weeks through Aug 5, 1994.

Interest rates registered mixed changes over the intermeeting period. A growing sense that additional tightening was not imminent helped to tilt most rates down in the opening weeks of the period. These early declines in yield were reversed in August, when the monthly employment report and other data were interpreted as suggesting that the economy had retained considerable momentum and that a policy response would be forthcoming. Major equity indexes rose 2-1/2 to 3-1/2 percent over the intermeeting period, on better-than-expected earnings reports. The spread of the thirty-year fixed-rate mortgage over the comparable Treasury yield remained fairly tight, as did most quality spreads.

The monetary aggregates rebounded sharply in July, after contracting in June. Growth in M2 was boosted by an acceleration in liquid deposits and a turnaround in money market mutual funds. The about-face in money market funds was accompanied by renewed liquidations of bond mutual funds. The strength in M2 showed through to M3, which was also propelled by inflows to M3-type money funds and significant issuance of large time deposits, which at least in part reflected strong expansion in bank credit.

Borrowing by businesses has apparently picked up some over June and July, although remaining concentrated at the short end. Boosted by business lending, as well as strong growth in consumer loans, bank credit accelerated to a double-digit pace in July. Business loans were boosted in part by a cutback in capital market financing as well as by merger-related lending. The pace of public offerings in corporate equity and bond markets remained sluggish in July, barely exceeding the slow pace seen during the turbulent markets of April. Issuance of long-term debt by state and local governments was similarly slow, as the volume of bonds eligible for refunding

MONETARY AGGREGATES
(Based on seasonally adjusted data)

Aggregate or component	1993	1994 Q1	1994 Q2	1994 May	1994 Jun.	1994 Jul. (p)	1993:Q4 to Jul. 94 (p)	Level (bil. $) Jul. 94 (p)
Aggregate	Percentage change (annual rate)[1]							
1. M1	10.5	6.0	1.9	1.9	3.7	7.6	4.3	1153.7
2. M2	1.4	1.8	1.4	0.3	-3.2	4.9	1.6	3595.9
3. M3	0.6	0.2	-0.1	-1.8	-1.1	6.0	0.6	4233.4
Selected components								
4. M1-A	11.7	9.5	3.5	-0.3	5.6	9.6	6.6	740.9
5. Currency	10.3	11.8	10.6	10.0	9.6	10.2	11.1	343.2
6. Demand deposits	13.3	7.7	-2.5	-9.6	2.5	9.0	2.9	389.5
7. Other checkable deposits	8.4	-0.2	-1.1	5.6	0.6	3.8	0.3	412.7
8. M2 minus M1	-2.3	-0.1	1.2	-0.3	-6.4	3.6	0.3	2442.2
9. Overnight RPs and Eurodollars, n.s.a.	11.6	20.3	0.0	0.0	21.6	64.8	18.0	101.5
10. General-purpose and broker-dealer money market funds	-2.1	-0.1	17.8	12.0	-19.1	14.0	7.3	363.5
11. Commercial banks	-1.0	0.7	-2.1	-1.5	-2.2	0.5	-0.7	1246.4
12. Savings deposits	4.2	4.3	-3.3	-6.1	-7.7	-2.5	-0.8	777.6
13. Small time deposits	-8.6	-5.2	0.1	6.2	6.7	5.7	-0.4	468.8
14. Thrift institutions	-5.8	-4.6	-3.0	-4.4	-8.1	-5.7	-4.4	728.3
15. Savings deposits	0.6	0.6	0.1	-2.2	-10.3	-9.5	-1.9	424.6
16. Small time deposits	-13.2	-11.5	-7.3	-7.4	-5.1	-0.4	-7.7	303.7
17. M3 minus M2	-3.5	-8.9	-8.7	-14.2	10.9	12.4	-4.7	637.6
18. Large time deposits	-6.9	-4.7	-4.0	10.5	1.1	11.1	-1.4	336.9
19. At commercial banks[3]	-6.6	-3.6	-3.2	19.2	0.0	11.0	-0.4	276.2
20. At thrift institutions	-8.2	-9.5	-7.2	-27.5	6.0	12.0	-5.5	60.7
21. Institution-only money market mutual funds	-5.4	-26.8	-22.8	-52.2	1.4	9.9	-18.8	170.9
22. Term RPs, n.s.a.	16.8	-16.5	13.7	-31.8	47.1	5.0	1.9	95.7
23 Term Eurodollars, n.s.a.	0.0	0.0	8.5	-2.5	17.6	32.2	8.6	49.7
	Average monthly change (billions of dollars)[2]							
Memo								
24. Managed liabilities at com'l. banks (lines 25 + 26)	5.5	24.2	11.4	-14.2	9.9	16.2	...	956.0
25. Large time deposits, gross	-2.3	-3.3	1.6	6.4	-2.1	3.2	...	341.6
26. Nondeposit funds	7.8	27.5	9.8	-20.6	12.0	13.0	...	614.4
27. Net due to related foreign institutions	4.5	13.0	8.9	-2.2	13.5	12.7	...	197.9
28. Other[4]	3.3	14.5	0.9	-18.5	-1.5	0.3	...	416.5
29. U.S. government deposits at commercial banks[5]	0.2	0.2	-0.4	-2.9	-8.4	-5.2	...	16.7

1. For years, "percentage change" is percentage change in quarterly average from fourth quarter of preceding year to fourth quarter of specified year. For quarters, it is the percentage change in quarterly average from preceding quarter to specified quarter, annualized.
2. For years, "average monthly change" is the dollar change from December to December, divided by 12. For quarters, it is the dollar change from the last month of the preceding quarter to the last month of the specified quarter, divided by 3.
3. Net of holdings of money market mutual funds, depository institutions, U.S. government, and foreign bank and official institutions.
4. 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.
5. Treasury demand deposits and note balances at commercial banks.

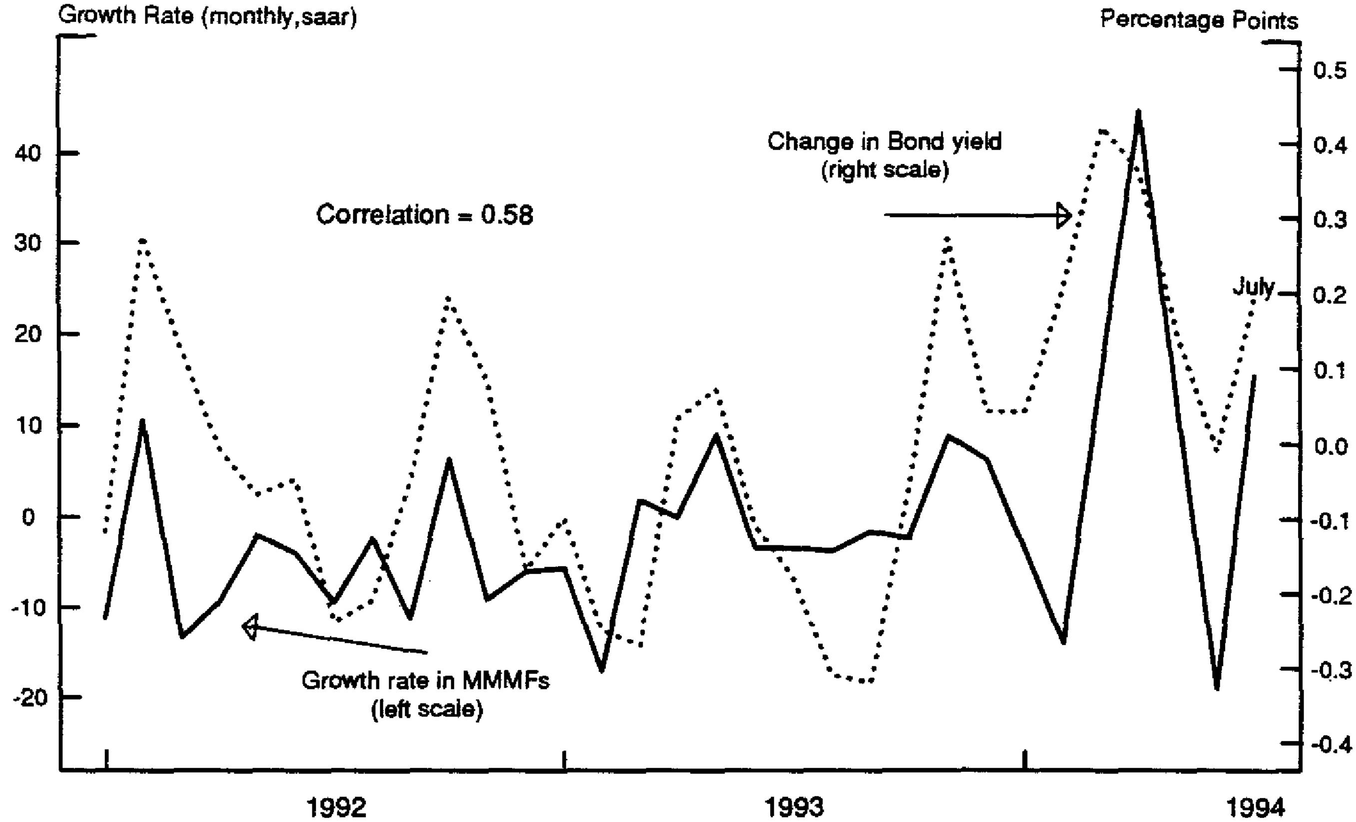
continued to dwindle. In the federal sector, net borrowing is rising sharply in the current quarter, reflecting a typical seasonal excess of outlays over receipts. Available data on home mortgage lending indicate little pickup early in the third quarter. During the second quarter, consumer credit registered its strongest quarterly gain of the current expansion, and bank lending to consumers continued to show considerable strength in July.

Monetary Aggregates and Bank Credit

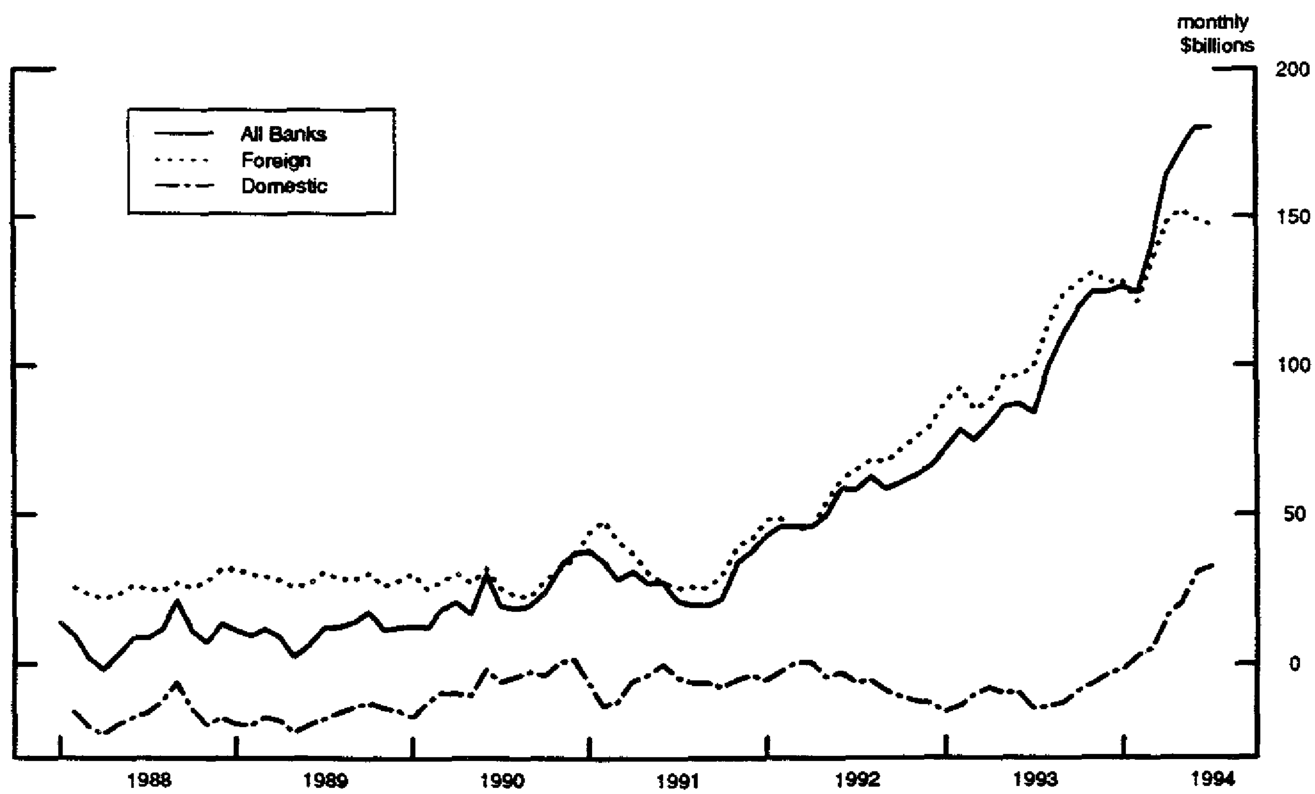
M2 rebounded in July after a weak showing in June. Although strength in demand deposits provided a boost, the main contribution was from the nontransaction component of M2. Retail money market funds had substantial inflows in July after experiencing outflows in the previous month, in a saw-tooth pattern related to the movement of long-term interest rates (chart). Over the past few years, as bond yields have risen, inducing capital losses on bond mutual funds and other capital market instruments, flows into money funds have picked up. Bond mutual funds saw a modest inflow in June and then a larger outflow in July, to an extent mirroring the pattern in money funds; however, the dollar flows from bond funds were not so pronounced as those from money funds. A large jump in the level of overnight Eurodollars also contributed to M2 growth in July.

Although rates on retail CDs moved up considerably in July, with Treasury yields also rising at the short end, yield spreads on retail deposits remained unusually wide. In general, deposit rates seem to be adjusting upward more slowly than is normal for a period of rising market interest rates. Despite their considerable yield disadvantage, growth in small time deposits accelerated to a 3-1/4 percent pace in July. Yield differentials were especially wide on savings deposits (including MMDAs), and this component continued to run off in July, albeit at a slower rate than in June. From the

Growth rate of MMMFs vs. Change in Yield of Thirty-year Treasury Bond



Net Due To Related Foreign Offices



fourth quarter of 1993 to July, M2 expanded at a 1-1/2 percent annual rate, lifting it above the lower bound of its 1-to-5 percent annual range.

The turnaround in M2 in July showed through to M3, which rose at a brisk 6 percent pace. M3 was also boosted by an acceleration in large time deposits, perhaps reflecting increased funding needs for credit growth at banks. Moreover, institution-only money market funds, which had seen heavy outflows as short-term rates rose earlier this year, grew moderately in July. On balance, M3 growth from the fourth quarter of 1993 to July was at an annual rate of 1/2 percent, moving into its 0-to-4 percent annual range.

After expanding at only a 3 percent annual rate in June, bank credit accelerated to a 12-1/2 percent pace in July, with both securities and loans showing strength. Holdings of U.S. government securities declined slightly, while other securities advanced at a 21 percent annual rate. Most of the growth in other securities was caused by FIN 39, the accounting standard that limits banks' ability to net off-balance-sheet contracts. The implementation of this standard caused a one-time grossing up of other securities earlier in the year. In addition, FIN 39 has ongoing effects as such off-balance-sheet positions are marked to market.

Led by the business and consumer categories, loans expanded smartly in July. Factors contributing to business loans were merger-related lending and lack of appeal of capital markets to nonfinancial firms. Even after accounting for these factors, business loans were quite strong. Banks reported in the August Survey of Bank Lending Practices that they saw increased demand for business loans after May, related to rising inventory and working capital financing needs and stronger investment outlays. The survey also found that banks continued to assume a more aggressive lending

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	1994 Q1	1994 Q2	1994 May	1994 Jun	1994 Jul	Level, Jul 1994 ($billions)
	Commercial bank credit						
1. Total loans and securities	5.3	7.8	4.9	1.7	3.2	12.6	3,237.9
2. Securities	8.5	16.0	6.8	-2.7	2.7	4.0	966.7
3. U.S. government	9.6	10.0	2.4	-11.1	1.4	-.8	749.2
4. Other	4.3	39.6	23.2	28.3	7.3	20.8	217.5
5. Loans	4.0	4.5	4.1	3.5	3.4	16.3	2,271.2
6. Business	-1.8	8.3	8.7	8.2	4.8	17.0	617.1
7. Real estate	4.5	1.0	4.1	1.9	7.4	7.6	958.7
8. Consumer	9.0	11.4	12.4	9.1	9.6	22.9	422.6
9. Security	35.6	-19.6	-34.6	7.8	-20.2	26.8	77.8
10. Other	-.6	6.5	-11.1	-16.0	-24.3	39.4	195.0
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-2.1	8.2	8.2	8.7	4.6	17.2	607.4
12. Loans at foreign branches[2]	-12.1	-7.4	18.8	16.3	-5.4	16.1	22.6
13. Sum of lines 11 and 12	-2.5	7.7	8.6	9.2	4.3	17.0	630.0
14. Commercial paper issued by nonfinancial firms	4.4	-12.2	-9.2	-14.3	-2.4	5.6	150.1
15. Sum of lines 13 and 14	-1.1	3.6	5.0	4.5	3.0	14.8	780.1
16. Bankers acceptances, U.S. trade-related[3,4]	-12.2	17.9	-13.3	-22.6	-28.8	n.a.	20.3[5]
17. Loans at finance companies[4]	-.3	14.1	13.9	13.4	8.5	n.a.	328.3[5]
18. Total (sum of lines 15, 16, and 17)	-1.1	6.8	7.2	6.7	4.0	n.a.	1,119.2[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. June 1994.
n.a. Not available.

posture by further easing terms and standards for C&I loans.[1] Consumer loans expanded at more than a 20 percent annual rate in July, but this acceleration over the previous month reflects a lack of securitizations.

Real estate loans maintained solid growth in July. The recent prominence of adjustable-rate mortgages (ARMs) in originations may have continued into July, boosting bank credit, since ARMs are less likely to be securitized. Moreover, a few banks have been reporting in recent months that they are more willing to make loans for nonresidential real estate, and other banks indicate that they have stopped tightening standards and terms for such loans. About 3 percentage points of the July growth in real estate loans at banks owed to the acquisition of mortgage assets from thrift institutions.

Reluctant to bid aggressively for retail deposits, banks have funded loan growth by borrowing from affiliates abroad. July saw substantial increases in banks' net due-to position with related foreign offices (chart). U.S. branches and agencies of foreign banks have traditionally been large borrowers from foreign affiliates, especially since 1991. Recently, U.S. chartered banks have also begun to expand rapidly their net due-to position. Respondents to the August loan officer survey mentioned more attractive borrowing costs as a reason why they have been relying more on this source.

Mutual Funds

Net sales of stock and bond fund shares moderated in the second quarter (table). Stock funds continued to attract investors, although inflows have slowed somewhat. Among stock funds, net sales of domestic funds moderated in July but still provided support to

1. The results of the August survey are discussed more fully in the appendix.

the equity markets. Inflows to international funds slowed in the second quarter, and net sales remained relatively light in July.

Bond funds posted small outflows, on balance, over the second quarter, and preliminary data suggest continued outflows in July. Net sales of bond funds have been depressed by outflows from government and GNMA funds, prompted in part by publicity about capital losses from derivative holdings. Investors retreated from high-yield funds in July after increasing their holdings by about $1.5 billion in the second quarter. Municipal bond funds recorded outflows in the second quarter for the first time since 1987 but saw a small inflow in July.

NET SALES OF MUTUAL FUNDS CLASSIFIED BY TYPE
(Billions of dollars, monthly rate)

	1993		1994				Memo: Assets
Type of Fund	Q3	Q4	Q1	Q2	June	July[e]	June
Total stock	10.9	14.7	13.8	11.0	9.2	7.0	788.3
International	4.1	5.8	6.2	3.0	2.0	2.7	140.2
Domestic	6.8	8.9	7.6	8.0	7.2	4.3	648.1
Total bond	12.9	9.5	3.8	-0.8	.8	-2.3	721.2
GNMA	0.4	-0.9	-1.6	-1.4	-1.1	-1.2	50.7
Government	1.1	0.1	-1.0	-1.6	-1.3	-1.6	100.7
High-yield	0.3	1.1	0.0	0.5	.8	-0.3	47.0
Tax-exempt	3.9	2.7	1.0	-0.3	.1	0.9	239.3
Other	7.4	7.5	5.3	2.5	2.3	-0.2	283.5

e Estimate.
Source: Investment Company Institute.

Business Finance

Businesses reduced further their use of capital markets in July. Public bond issuance by nonfinancial corporations slowed to a $5 billion rate last month from the $7-1/4 billion pace averaged over the previous two months. The falloff in July owed in large part to a slide in junk bond issuance. Gross issuance in this sector was estimated at $1 billion in July--the lowest monthly total since the junk market revived in mid-1991. Junk yield spreads over Treasuries widened about 15 basis points in July but have since come back in. In general, spreads over Treasuries remain on the narrow side.

Ratings changes by Moody's in the second quarter continued the general pattern seen over the past year. While the financial sector experienced no downgrades and twenty-one upgrades--ten of these for bank holding companies--downgrades in the nonfinancial sector outnumbered upgrades by a factor of three to two. Perhaps most notable among the upgrades was that of Chrysler Corporation, which jumped two notches from Baa2 to A3. In a departure from the recent pattern of ratings changes, downgrades outnumbered upgrades for speculative-grade industrial firms.

Gross public equity issuance by nonfinancial corporations slowed to $1.7 billion in July, half of June's pace and one of the lowest monthly totals in the current business expansion. In keeping with the recent patterns, the number of IPOs brought to market has continued high, but prices and volumes of IPOs have come in well below issuer expectations. Issuance by financial corporations in July apparently totaled a moderate $3.2 billion, nearly half of which was accounted for by several large REIT offerings. As a result of the falloff in gross equity issuance and an increase in stock repurchases, it now appears likely that net equity issuance will turn negative this quarter.

Merger and takeover activity seems to be distinctly on the rise, with implications for share retirements. Repurchases in the quarter thus far have been boosted by the employee buyout of United Airlines. Prospective mergers and acquisitions include the takeover of Gerber by Sandoz and bids for QVC and a large pharmaceutical

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

Type of security	1992	1993	1994 Q1	1994 Q2p	1994 May p	1994 Jun p	1994 Jul p
All U.S. corporations	40.84	53.42	53.12	41.87	43.90	44.83	24.32
Stocks[2]	7.04	9.65	8.40	6.56	3.93	8.20	4.85
Bonds	33.80	43.77	44.72	35.30	39.96	36.63	19.47
Nonfinancial corporations							
Stocks[2]	4.42	5.32	4.58	4.42	2.44	5.25	1.68
Sold in U.S.	4.03	5.12	4.02	3.19	2.23	3.69	1.23
Utility	.87	1.06	.65	.44	.37	.77	.08
Industrial	3.16	4.00	3.37	2.75	1.86	2.92	1.16
Sold abroad	.39	.19	.56	1.23	.21	1.56	.45
Bonds	13.67	16.20	11.07	6.50	6.85	7.53	5.10
Sold in U.S.	12.83	15.56	10.33	5.63	5.89	6.67	4.50
Utility	5.33	7.34	4.57	1.84	1.71	2.26	1.20
Industrial	7.50	8.22	5.76	3.79	4.18	4.41	3.30
Sold abroad	.84	.64	.74	.87	.97	.87	.60
By quality[3]							
Aaa and Aa	2.18	2.56	.80	.59	.65	.92	.26
A and Baa	7.74	8.71	5.60	3.01	2.64	4.00	3.26
Less than Baa	2.86	4.17	3.92	1.98	2.46	1.73	.98
Unrated or rating unknown	.09	.09	.00	.00	.00	.01	.00
Financial corporations							
Stocks[2]	2.62	4.61	3.81	2.15	1.50	2.95	3.17
Sold in U.S.	2.51	4.16	3.54	1.97	1.38	2.75	2.28
Sold abroad	.11	.45	.27	.18	.12	.20	.89
Bonds	20.13	27.57	33.65	28.81	33.11	29.10	14.37
Sold in U.S.	18.67	25.01	29.28	24.59	26.90	25.09	13.00
Sold abroad	1.46	2.56	4.37	4.22	6.21	4.00	1.37
By quality[3]							
Aaa and Aa	1.55	1.78	3.31	3.99	3.89	2.16	2.71
A and Baa	6.77	8.99	11.24	9.67	11.86	10.80	4.52
Less than Baa	.31	.49	.66	.17	.15	.20	.20
Unrated or rating unknown	.04	.08	.02	.11	.03	.20	.01

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.

firm. Merger activity this year, however, has not yet reached the levels seen in the late 1980s. Until recently, much of the activity had been financed with stock-for-stock swaps and therefore had only a relatively small impact on equity retirement by nonfinancial corporations.

Amid positive second-quarter earnings reports, major stock price indexes have moved up from the lows posted at the beginning of July, with most indexes rising 2-1/2 to 3-1/2 percent over the intermeeting period. Among the industrials, the basic materials group showed the strongest gains, rising about 5 percent during this period. Second-quarter earnings reports so far suggest that operating earnings of the firms making up the S&P 500 have climbed about 15 percent from a year earlier, exceeding most analysts' expectations.

State and Local Government Finance

Gross issuance of long-term tax-exempt debt was just $12-1/2 billion in July, continuing the second quarter's relatively sluggish pace. The July figure was boosted by $4 billion in revenue anticipation warrants (twenty-two month maturity) issued by California. Short-term issuance was nearly $6-1/2 billion, buoyed by $3 billion in California revenue anticipation notes. Through July, long-term issuance is down 40 percent from the comparable period last year, depressed by the sharp falloff in advance and current refundings. The decline in refunding volume owes mostly to the reduction in bonds eligible to be advance refunded. News concerning municipal securities has continued to be dominated by California. Passage of a budget paved the way for more borrowing, narrowly averting the need to issue IOUs.[2] Although the state

2. The controversial budget is balanced only through the unrealistic assumption that the federal government will pay the state a total of $3.6 billion spread out over 1995 and 1996 to cover the state's costs of providing services to illegal immigrants.

issued securities totaling $7 billion in a single week, consisting of both the warrants and notes, they were well received. Almost all of the warrants were credit-enhanced through letters of credit provided by an international consortium of banks. The banks provided the letters of credit only after the budget included a provision that forces spending cuts if a deficit materializes. S&P and Moody's gave the credit-enhanced warrants their highest credit rating. The notes also received the highest ratings, reflecting high expected cash flow coverage over their short duration.

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

			1994				
	1992	1993	Q1	Q2	May	June[p]	July[p]
Total offerings[1]	21.8	27.8	18.5	16.4	13.8	24.4	18.9
Total tax-exempt	21.2	27.1	17.7	16.0	13.6	23.7	18.8
Long-term	17.9	23.3	15.5	12.4	12.4	14.8	12.4
Refundings[2]	7.9	15.7	7.4	3.4	3.3	5.1	2.1
New capital	10.0	7.6	8.1	9.0	9.1	9.7	10.3
Short-term	3.3	3.8	2.4	3.6	1.2	8.9	6.4
Total taxable	.6	.7	.8	.4	.2	.7	.1

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

At the same time, Moody's, S&P, and Fitch all downgraded $18.4 billion in California long-term general obligation debt on July 18. The S&P downgrade was from A+ to A and Moody's was from Aa to A. In related actions, S&P lowered the ratings of more than $5 billion of other California debt, including $273 million of California State University System revenue bonds and $3.2 billion of appropriation-backed debt issued through the Public Works Board, the Los Angeles State Building Authority, and the San Francisco State Building Authority.

The ratio of yields on tax-exempts to those on Treasuries has edged down since the last FOMC meeting and is near its lowest levels of the year. The yield ratio remained especially low at the short end, owing in part to strong demand from tax-exempt money market funds and from bond mutual funds, which have added to their short-term holdings perhaps to hedge against a further rise in interest rates.

Treasury and Sponsored Agency Financing

The staff anticipates that the $56 billion fiscal deficit in the third quarter will be financed primarily by $40 billion of marketable borrowing. The swing in marketable borrowing, from a thirteen-year low of $8 billion in the second quarter to a level more in line with recent experience, will remove the support that the Treasury market has lately enjoyed from low supply.

At the midquarter refunding, the Treasury announced that its experiment with single-price auctions at two- and five-year note auctions will be continued indefinitely. After twenty-three rounds of experimentation, the preliminary evidence on the new auction technique was judged by Treasury officials to be "neutral to slightly positive."[3] The Treasury also announced that a new 30-1/4-year bond would be auctioned rather than a 30-year bond, with

3. On the neutral side, at single-price auctions, the markups of auction average rates over when-issued rates at the times of auctions--a measure of the premium that market participants extract from the Treasury for bearing the uncertainty of bidding at auctions--have differed little between single-price and discriminatory-price auctions. On the positive side, prices have moved less after single-price auctions than after discriminatory-price auctions, consistent with the view that more information is revealed prior to the auction under the single-price format.

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

Item	1994 Q2	1994 Q3[p]	1994 Jul.[e]	1994 Aug.[p]	1994 Sept[p]
Total surplus/deficit (-)	.6	-56.1	-38.0	-32.2	14.1
Means of financing deficit:					
Net cash borrowing/repayments(-)	7.7	39.5	-4.3	50.8	-7.0
Nonmarketable	-.5	-2.1	-3.3	.7	.6
Marketable	8.2	41.6	-1.0	50.1	-7.6
Bills	-22.7	2.1	5.9	9.4	-13.2
Coupons	30.9	39.5	-6.9	40.7	5.7
Decrease in the cash balance	-6.4	2.7	30.7	-14.5	-13.6
Other[2]	-2.0	14.0	11.6	-4.1	6.4
Memo:					
Cash balance, end of period	51.0	48.3	20.3	34.8	48.3

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

NET CASH BORROWING OF FEDERALLY SPONSORED CREDIT AGENCIES[1]
(Billions of dollars)

Agency	1993 Q3	1993 Q4	1994 Q1	1994 Apr.	1994 May	1994 June
FHLBs	5.4	8.9	5.7	6.2	3.4	--
FHLMC	17.1	-2.7	12.9	2.7	5.7	2.1
FNMA	19.3	5.3	15.3	2.4	4.3	4.7
Farm Credit Banks	-.1	1.5	-.7	0.2	-0.1	1.2
SLMA	-.1	1.0	1.3	3.2	1.5	2.1
FAMC[2]	0	0	0	0	0	0

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

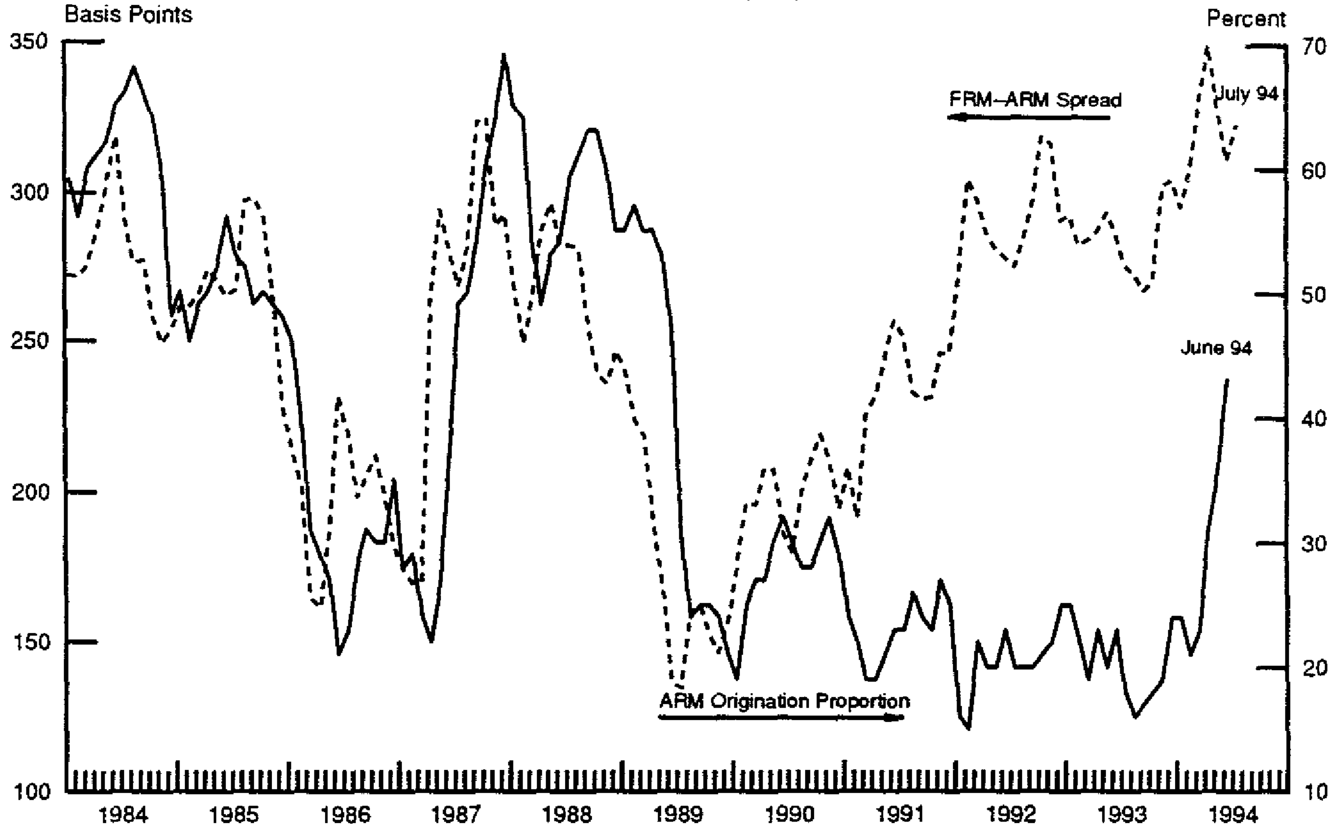
the goal of increasing the liquidity and the flexibility of the strips market. Since last year, when the Treasury began auctioning long-term bonds semiannually rather than quarterly, the coupon payment dates of these issues have been concentrated in February and August. The Treasury hopes that by spreading coupon payments across four dates, including May and November, long-term bonds will be more heavily demanded by investors for defeasance purposes or for constructing synthetic instruments.

Mortgage Markets

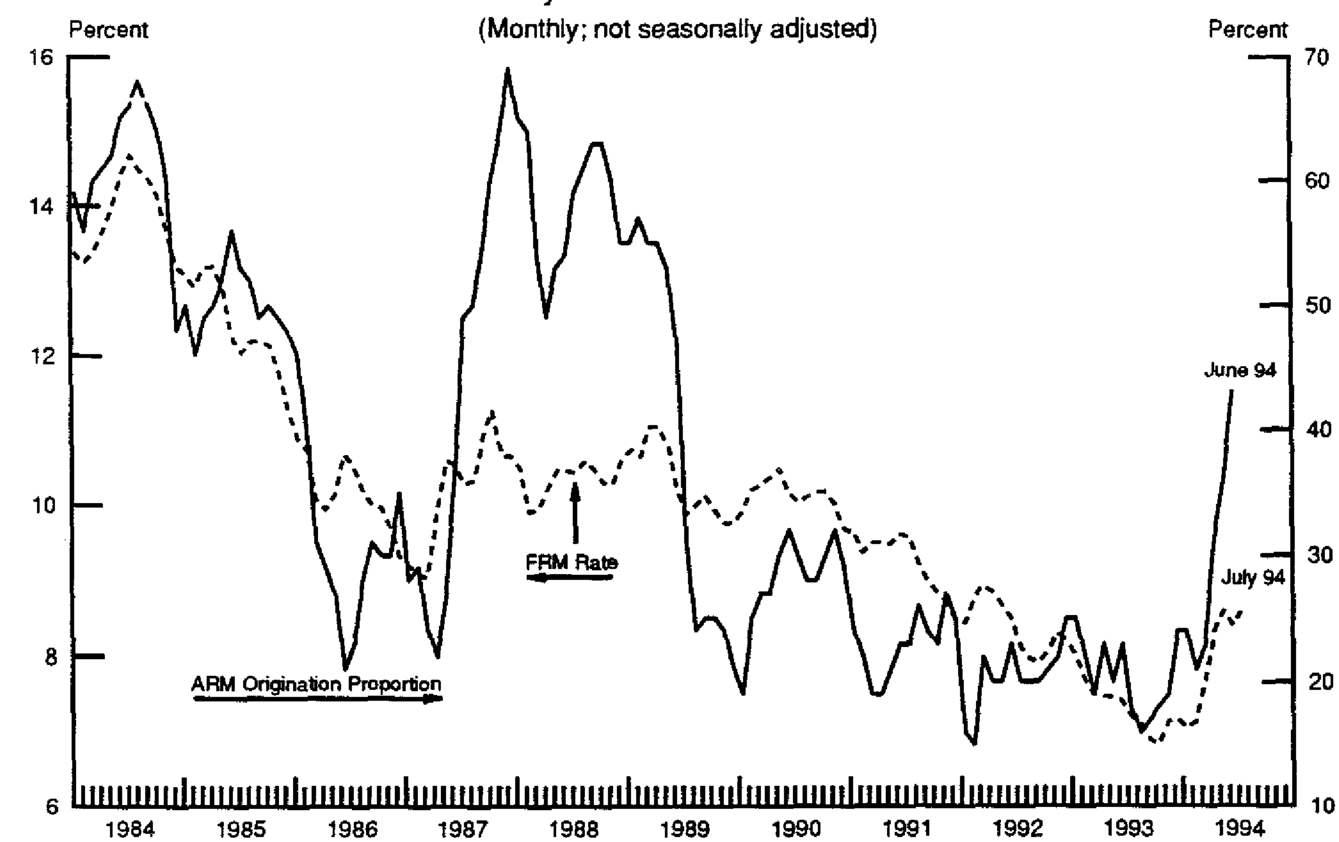
Interest rates on conventional mortgages have registered mixed changes over the intermeeting period. In the primary market, the average commitment rate on thirty-year fixed-rate loans is unchanged, on net, but initial ARM rates have edged up 8 basis points. Spreads of ARMs to Treasuries remain tight, as many lenders, especially thrifts, continue to price ARMs aggressively. Although the FRM-ARM spread has narrowed from its all-time high in April, by historical standards it remains fairly wide.

The FRM-ARM initial rate spread is an important determinant of borrowers' demands for ARMs, as is the level of FRM interest rates (chart). With rates on FRMs remaining well above their lows of last fall, the wide initial rate advantage of ARMs has contributed to a steady increase in the ARM share of conventional loans closed at major institutional lenders. According to Federal Housing Finance Board data, the ARM share of all conventional home purchase mortgages closed in June was 43 percent, its largest share since June 1989. At thrift institutions, the ARM share in June was 71 percent, compared with shares of 27 percent and 44 percent respectively at mortgage companies and commercial banks. Thrifts reportedly have been offering very competitive starting rates on

ARM Origination Proportion and FRM–ARM Spread
(Monthly; not seasonally adjusted)



ARM Origination Proportion and
FHLMC Thirty–Year Conventional FRM Rate
(Monthly; not seasonally adjusted)



ARMs and thus have been gaining market share in mortgage originations from commercial banks and mortgage companies.

Available data on mortgage lending activity in the third quarter suggest little pickup from the slower second-quarter pace. Adjusted for thrift acquisitions, real estate loan growth at commercial banks appears to have edged up in July to about a 4-1/2 percent annual rate. Meanwhile, the Mortgage Bankers Association's index of applications to purchase new and existing homes is off about 10 percent since late June, and the MBA's refinancing index remains near historical lows.

Given the drop-off in gross mortgage loan originations in recent months and the rising popularity of ARMs, gross issuance of agency pass-through securities has slowed sharply from the record $66 billion pace set last December to $24 billion in June (table). Historically, issuance of agency pass-through securities has shown a strong inverse correlation with the level of FRM interest rates (chart), owing in part to variations in the appeal of ARMs. Thus, in the current environment of higher long-term interest rates and lower refinancing activity, some drop-off in gross pass-through issuance is to be expected.

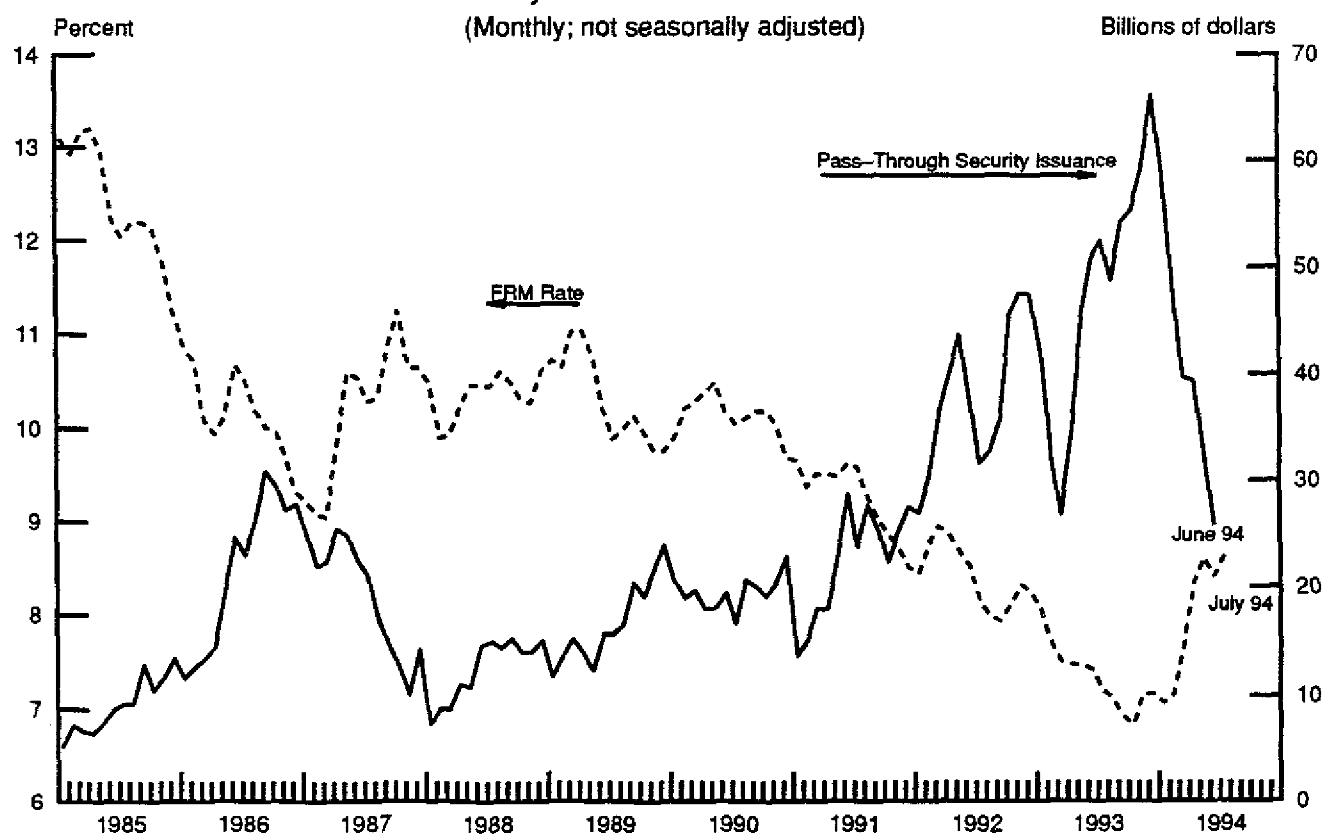
Among loan categories, much of the increase in pass-throughs outstanding has been in the conventional market, which continues to gain market share at the expense of government-backed FHA and VA loans. Legislation has passed the House that would increase FHA loan limits, making FHA insurance available to more borrowers and possibly boosting GNMA market share. The current loan limits are $67,500 in most parts of the country and up to $151,725 in certain high-cost markets. The increases in the House bill would raise the

ISSUANCE OF MORTGAGE-BACKED SECURITIES
(Monthly averages; billions of dollars; not seasonally adjusted except as noted)

	Pass-through securities				Multiclass securities					
		Federal agency				Federal agency				
Period	Total[1]	Fixed-rate[1]	ARM-backed[1]	Non-agency[2]	Total	FNMA REMICs	FHLMC REMICs	GNMA REMICs	STRIPs	Non-agency[3]
1990	20.1	17.2	2.2	.6	10.6	5.1	3.4	0	.8	1.4
1991	23.7	20.2	1.9	1.6	18.1	8.4	6.0	0	1.1	2.6
1992	40.0	34.7	3.2	2.2	30.4	12.9	10.9	0	1.3	5.3
1993	48.6	42.3	4.6	1.7	37.0	14.0	11.9	0	4.9	6.2
1993:Q3	54.3	46.5	5.3	2.5	43.7	17.3	12.6	0	6.7	7.1
:Q4	59.0	52.1	5.1	1.8	44.4	15.9	17.7	0	3.8	7.0
1994:Q1	55.1	47.2	6.2	1.7	37.2	10.9	13.8	0	4.0	8.5
:Q2 p	33.6	27.4	4.8	1.4	17.9	4.7	7.3	.2	2.4	3.4
1994:Apr	44.1	36.3	5.8	2.1	32.7	8.9	14.5	0	5.1	4.3
May	31.5	25.5	5.0	1.0	13.6	2.9	5.2	0	2.1	3.5
Jun p	25.1	20.4	3.7	1.0	7.4	2.3	2.1	.5	0	2.5

1. Seasonally adjusted.
2. Collateralized by adjustable-rate mortgages.
3. Collateralized by fixed-rate mortgages.
p Preliminary. r Revised.
Note: Details may not sum to totals because of rounding.

Issuance of Agency Pass-Through Securities and FHLMC Thirty-Year Conventional FRM Rate
(Monthly; not seasonally adjusted)



low-cost limit to $101.575 and the high-cost limit to $172.678. The Senate has yet to act on this legislation.[4]

Issuance of agency multiclass securities declined further in June, with REMIC production falling to about $5 billion, down from $8 billion in May and the all-time high of nearly $41 billion in December 1993. The decline in REMIC issuance owes largely to the drop in pass-throughs; however, with reports continuing to circulate about losses on derivative investments, it may also reflect investors' lingering concerns about the market value and liquidity of certain specialized tranches. Apparently, turmoil in the MBS market has had little feedback to the primary market, as spreads to Treasuries remain relatively tight.

Consumer Installment Credit

Buttressed by a fourth consecutive month of rapid increase in June, consumer installment credit during the second quarter recorded its strongest quarterly gain in the current economic expansion. At a 15-1/2 percent annual rate, growth in the second quarter climbed to the 15-to-20 percent range attained at some point during most previous expansions (chart). Such levels were reached sooner in past upswings, but an unusually slow pickup in spending on consumer durables in the early stages of this expansion held down consumer credit growth. Since late last summer, however, outlays for autos and other durable goods have strengthened, providing a significant boost to credit expansion. The June increase of 15-1/2 percent reflected continuing strength in auto and revolving credit. Slower but still hefty growth was evident in the volatile "other" category, consisting of personal cash loans, boat and mobile home loans, home

4. It is unclear by how much the new limits would boost FHA market share. FHA insurance fees are considerably higher than private mortgage insurance fees. Consequently, even though more borrowers would fall within the upward revised FHA limits, those who met the underwriting requirements of the conventional loan market presumably would still opt for private mortgage insurance.

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

Type of credit	1992	1993	1994 Q1	1994 Q2[p]	1994 May[r]	1994 June[p]	Memo: Outstanding June 1994 (Billions of dollars)
Installment	.2	9.0	10.9	15.9	16.6	15.6	849.6
Auto	-1.0	9.2	9.1	18.5	15.7	18.8	301.2
Revolving	4.8	11.9	15.6	17.9	16.6	15.5	312.6
Other	-3.4	5.4	7.0	10.1	17.9	11.6	235.9
Noninstallment	6.3	-5.5	4.2	-16.6	-22.3	-15.4	51.0
Total	.6	8.0	10.4	13.9	14.3	13.8	900.6

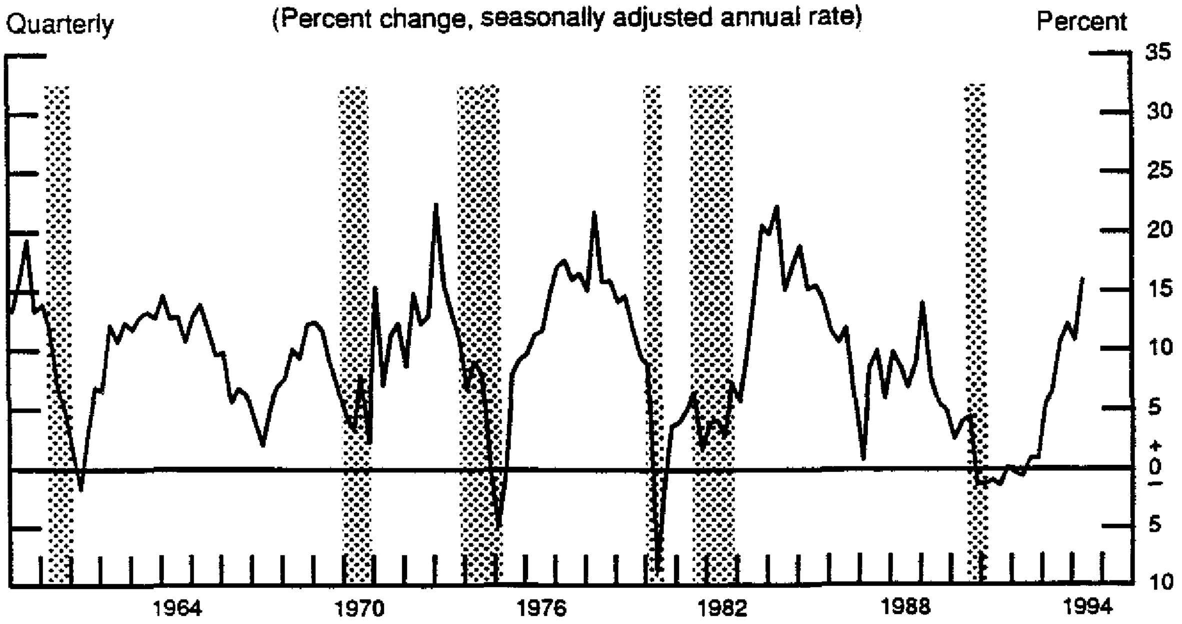
r Revised. p Preliminary.

INTEREST RATES ON CONSUMER LOANS
(Annual percentage rate)

Type of loan	1991	1992	1993	1993 Nov.	1994 Feb.	1994 May	1994 June
At commercial banks[1]							
New cars (48 mo.)	11.1	9.3	8.1	7.6	7.5	7.8	...
Personal (24 mo.)	15.2	14.0	13.5	13.2	12.9	13.0	...
Credit cards	18.2	17.8	16.8	16.3	16.1	16.2	...
At auto finance cos.[2]							
New cars	12.4	9.9	9.5	9.0	8.9	9.9	10.0
Used cars	15.6	13.8	12.8	12.4	12.2	13.5	13.8

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.

CONSUMER INSTALLMENT CREDIT



improvement loans, and other specialized loans to finance consumer durables. Consistent with these figures, some banks reported strengthening of consumer loan demand in the August Bank Lending Practices Survey.

Of the three components of installment credit, revolving credit has shown the most consistent strength over the past year and a half. Growing acceptance of credit cards as a means of payment has likely boosted the growth rate of revolving credit by several percentage points. For example, credit cards are more frequently being used for the purchase of groceries, the payment of college tuition, and, in some states, the payment of taxes.

One reason for the greater use of credit cards for such payments is the proliferation of programs that tie rebates and other rewards to the volume of charges made to an account. Prominent among such programs are those that award credits toward "free" airline tickets and toward automobile purchases. Airline cards have existed for several years, but their use has reportedly intensified in the past two years. General Motors initiated a program in September 1992, in partnership with a bank subsidiary of Household International, that grants up to $500 per year in discounts toward the purchase of a new General Motors car. At the end of June, receivables under this program totaled $5.8 billion, accounting for 10 percent of the increase in revolving credit outstanding since September 1992. Ford launched a similar program with Citibank in February 1993, apparently also with good results. Apple Computer and some gasoline companies have recently initiated cards with volume incentives. Because these plans provide the customary "grace period" of twenty-five to thirty days during which no interest is assessed if billed amounts are paid in full by the due date, cardholders can generate a high volume of charges without incurring any interest cost. Such usage raises the measured level of consumer credit.

Rising market interest rates have probably had only little restraining effect on consumer credit to date, partly because rate increases on consumer loans have a relatively small impact on monthly payments and also because consumer rates generally have risen less than market rates. The Bank Rate Monitor indicates that rates on new-car loans at banks rose about 3/4 percentage point from the end of January to the end of July, less than half the increase in yields on three-year Treasury notes. Over the same period, credit card rates have apparently risen very little.

APPENDIX

The August Senior Loan Officer Opinion Survey on Bank Lending Practices

The August 1994 Senior Loan Officer Opinion Survey on Bank Lending Practices posed questions about changes in bank lending standards and terms, changes in loan demand by businesses and households, the maturity of banks' holdings of securities, net borrowing from banks' offices abroad, and the effects of the Credit Availability Program.

The results show a continuation of the easing of terms and standards on loans to both businesses and households found in the last several surveys, although at a somewhat diminished pace. Respondents eased terms and standards on commercial and industrial loans to firms of all size categories, with more banks easing for middle-market firms than for larger and smaller firms. As in the February and May surveys, the responses indicated a slight easing of standards for commercial real estate loans. Respondents reported an increased willingness to make loans to individuals and, on net, a slight easing in standards for home mortgage loans. Demand for business loans increased over the last three months at a significant fraction of respondent banks, although slightly off the record numbers reported in the May survey. Demand for credit from households was mixed across types of credit: demand for mortgages declined significantly; demand for home equity lines of credit declined slightly, on net; and demand for consumer installment loans went up.

Special questions on the survey addressed the average remaining maturities of banks' holdings of securities. The median responses indicate an average remaining maturity of just under three years for banks' investment account assets that are classified as available-for-sale; three and a half years for investment account securities classified as held-to-maturity; and two and a half years for trading account securities. Additional questions examined the recent run-up in net borrowing from overseas offices by domestic banks and by branches and agencies of foreign banks. About half the respondents reported increasing such borrowing over recent periods. Most banks attributed the increase to lower interest rates abroad. The most popular source for the borrowing was the eurodollar market and the most popular maturity was under three months. Special questions also addressed the effects of the Credit Availability Program (CAP). Little evidence of an effect on loan terms and standards or loan volume was found.

Lending to businesses

Commercial and industrial loans other than for mergers. Between 5 and 10 percent of domestic respondents, on net, reported some easing of credit standards for firms in all size categories, with the greatest easing reported for middle-market firms and the least for large firms. The number of respondents who eased was off slightly from the levels found in the May and February surveys. Also, for the first time since late last year, several banks reported tightening standards. Lending standards at foreign respondents were essentially unchanged.

Many banks responded that they had eased loan terms over the last three months. Specifically, about half the domestic respondents eased spreads of loan rates over base rates and the cost of credit lines for large and middle-market borrowers while under a quarter eased these terms for small borrowers. Smaller, although still considerable numbers of banks eased other terms, including credit line size, loan covenants, and collateralization. The fraction of foreign respondents that eased terms was similar to that for domestic banks. The main reason given by respondents for easing was increased competition followed by a more favorable economic outlook.[1]

Commercial real estate loans. Domestic respondents indicated that credit standards for commercial real estate loans eased slightly, on net. Only a few banks indicated any change in standards for commercial office buildings, with one more bank having eased than tightened. The results were about the same for other forms of commercial real estate. The February and May surveys also found evidence of a slight easing.

Demand. Demand for business loans strengthened over the last three months at a significant fraction of respondent banks. Between a fifth and a third of banks reported increased demand from firms of various sizes, with the largest fraction reporting increased demand from middle-market firms. These fractions are slightly off the record levels reported in the previous survey, but still indicate strong demand for business loans. Banks attributed the increased demand largely to increases in customers' inventory financing needs and expenditures on plant and equipment. Surprisingly few banks attributed the increased demand to reductions in nonbank financing, although this may be because banks are more aware of the purpose of a loan than their customer's alternative sources of funds.

Lending to households

Respondents were also more willing to make consumer and residential mortgage loans. About 20 percent of the respondents were more willing now than three months ago to make consumer installment and home equity loans. On net, only a few banks eased standards for approving mortgage applications for purchasing homes.

With respect to the demand for household credit, the survey results were mixed across types of credit. As in May, respondents experienced a significant decline in demand for residential mortgages, with over half the banks, on net, reporting a decline and several banks reporting a substantial decline. Demand for home equity lines of credit decreased at some banks and increased at others; on net, less than 10 percent of the banks experienced a decrease. Demand for consumer installment credit increased, on net, with about 20 percent of the respondents indicating an increase in demand.

Securities

At the beginning of 1994 banks, in accordance with financial accounting standard 115 (FAS 115), began marking to market those securities in their investment portfolio that are classified as available for sale. The August survey asked the respondents for the average maturities of the three classifications of securities: held in investment accounts and classified as available for sale, held in investment accounts and classified as held to maturity, and held in trading accounts. The survey responses indicate that the maturities of banks' portfolios are quite different across banks, with several banks indicating average maturities of less than two years and many indicating maturities of greater than five years. Overall, the median average maturity of the trading account was shortest, two and a half years; followed by the available-for-sale securities in the investment account, just under three years; and the held-to-maturity

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1. As in May, increased competition was the most common reason provided for easing, even though it was not listed as a reason for easing of terms and standards.

securities had the longest average maturity, about three and a half years.

Borrowing from abroad

Since mid-1993, U.S. domestic banks have significantly increased their net borrowing from their non-U.S. offices and international banking facilities (I.B.F.). Since mid-1991, branches and agencies have significantly increased their net borrowing from their parent bank, their parent bank's non-U.S. offices and their I.B.F. Questions on the August survey explored the reasons for and the characteristics of this increase in borrowing from abroad. About half of the domestic and foreign respondents indicated that they had increased this source of funding. The most frequently cited reason for the increase was lower interest rates abroad. The responses indicate that banks avoid currency exposure in the transactions by borrowing primarily in the eurodollar market. Virtually all of the domestic respondents indicated that they most commonly borrowed at maturities under six months, with almost two-fifths of respondents indicating an overnight maturity and a like amount indicating other maturities under three months. All of the foreign respondents indicated that they most commonly borrowed at maturities under six months.

Effects of the Credit Availability Program

In March 1993, the Credit Availability Program (CAP) was announced. The CAP included the following initiatives: regulatory changes allowing the strongest banks and thrifts to make and carry a limited portfolio of small business and farm loans with minimal documentation, reductions in the appraisal burden on loans secured by real estate, changes in the rules for financing the sale of OREO, clarification of the use of the category other assets especially mentioned, and improvements in the examination process. The August 1993 survey asked the domestic respondents a series of questions about the effects of the CAP and found that it did not have a substantial effect on the supply of credit to small and medium-sized businesses. At that time, many respondents anticipated that the reductions in the appraisal burdens, which had not yet been implemented, would have a substantial effect. Recently bank regulatory agencies increased from $100,000 to $250,000 the threshold level above which the services of an appraiser are required for loans collateralized with real estate. They have also exempted from appraisal requirements business loans of $1 million or less where the sale of, or rental income derived from, the real estate taken as collateral is not the primary source of repayment. The current survey asked domestic respondents if these changes affected their terms and standards and loan volumes. Both changes had allowed less than 20 percent of respondents to ease lending terms and standards and resulted in increased lending volume at less than 10 percent of respondents. Even fewer banks indicated a change in terms and standards or loan volume resulting from the other initiatives of the CAP. Over three quarters of the respondents said that none of the initiatives had any effect on their bank's lending to small and medium-sized businesses. Among those banks that stated the CAP had had some effect, most selected improvements in the examination process as having had the largest effect.

INTERNATIONAL DEVELOPMENTS

U.S. International Trade in Goods and Services.

In May, the U.S. trade deficit in goods and services widened slightly from what was recorded in April; for April-May combined, the deficit was larger than in the first quarter by $9 billion at an annual rate and was significantly larger than at any time since 1988. Data for June will be released on August 18.

NET TRADE IN GOODS & SERVICES
(Billions of dollars, seasonally adjusted)

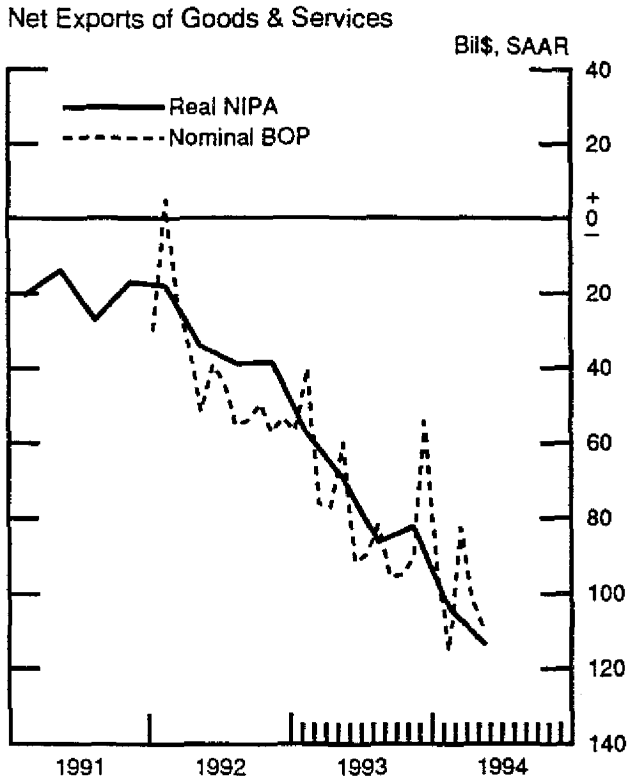
	Year	Quarters			Months		
	1993	93Q4	94Q1	94Q2e	Mar	Apr	May
		(annual rates)			(monthly rates)		
Real NIPA 1/ Net Exports of G&S	-73.9	-82.2	-104.0	-113.4	--	--	--
Nominal BOP Net Exports of G&S	-75.7	-79.9	-97.1	-106.2	-6.9	-8.5	-9.2
Goods, net	-132.6	-132.7	-147.8	-164.5	-11.5	-13.3	-14.1
Services, net	56.8	52.8	50.8	58.2	4.6	4.8	4.9

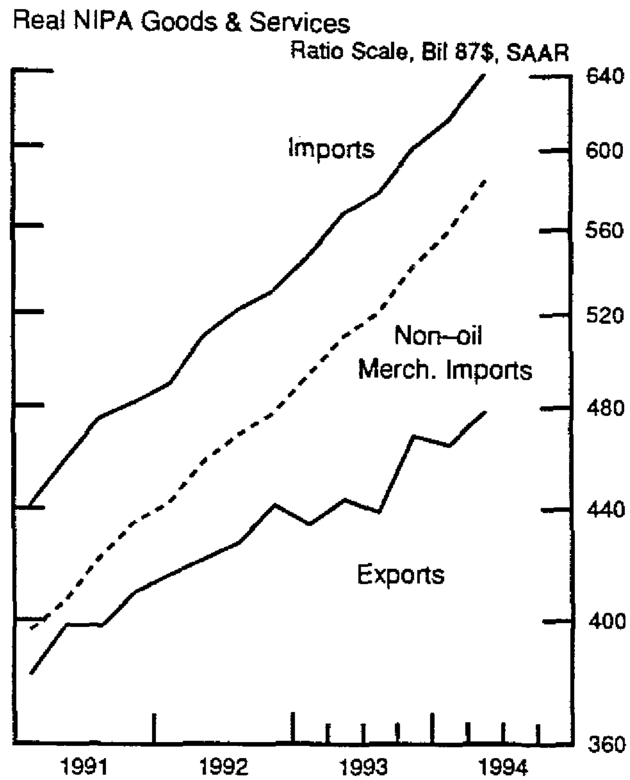
1/ In billions of 1987 dollars, SAAR.
e/ BOP data are two months at an annual rate.
Source: U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census.

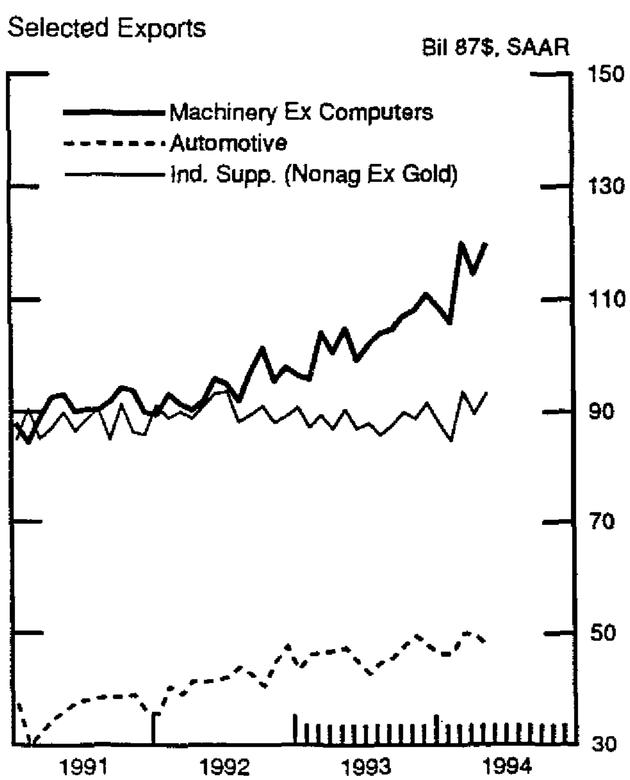
Exports of goods and services were about the same in May as in April with increased shipments of machinery and industrial supplies offset by reduced exports of aircraft and gold. For the two months combined, exports were stronger than in the first quarter by 11 percent at an annual rate; increases occurred in both goods and services with the sharpest rises recorded for machinery (especially to Canada, the United Kingdom, and expanding markets in Asia), automotive products to Canada and Mexico, industrial supplies (largely chemicals, aluminum, and paper), and travel and transportation receipts from foreigners.

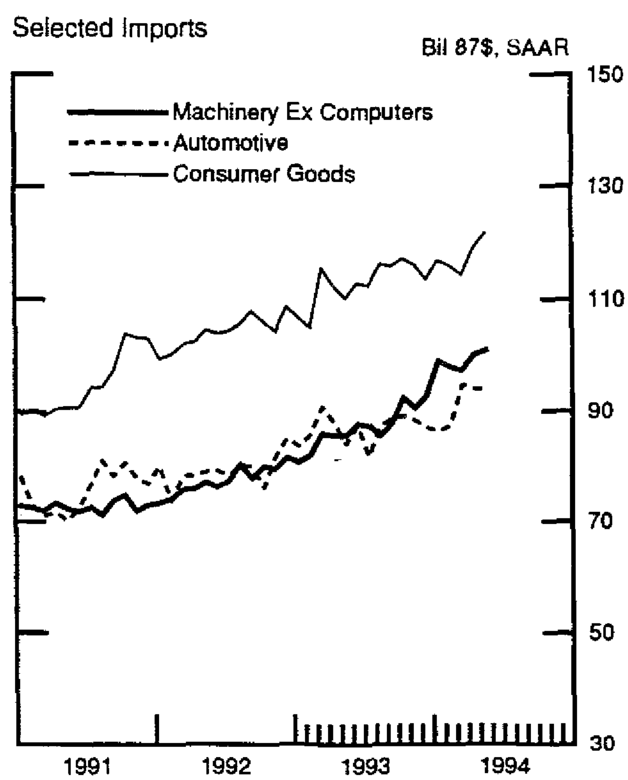
Imports of goods and services were slightly higher in May than in April; most of the rise was in oil (higher prices) and consumer

U.S. International Trade in Goods & Services









U.S. EXPORTS AND IMPORTS OF GOODS AND SERVICES
(Billions of dollars, SAAR, BOP basis)

	Quarters				Months		
	Levels		$Change 1/		Levels		$Chg 1/
	94Q1	94Q2e/	Q1	Q2e/	Apr	May	May
Exports of G&S	656.8	674.6	-8.3	17.8	673.8	675.3	1.5
Goods Exports	472.1	485.0	-6.6	12.9	484.5	485.4	0.9
Agricultural	43.7	43.9	-1.6	0.2	42.8	45.1	2.3
Gold	9.4	7.3	-3.8	-2.1	8.5	6.0	-2.5
Computers	31.3	31.0	0.7	-0.3	30.6	31.5	0.9
Other Goods	387.7	402.7	-2.0	15.0	402.6	402.8	0.2
Aircraft & Pts	34.2	33.6	-0.2	-0.7	37.4	29.7	-7.7
Semiconductors	23.5	23.8	2.8	0.3	23.4	24.1	0.7
Other Cap Gds	105.6	111.7	-0.1	6.1	109.5	113.8	4.3
Automotive	54.4	55.6	-0.6	1.2	56.7	54.6	-2.1
to Canada	29.0	30.7	-0.4	1.8	31.5	30.0	-1.6
to Mexico	7.9	8.3	-0.5	0.3	7.9	8.6	0.7
to ROW	17.5	16.6	0.2	-0.9	17.2	16.0	-1.2
Ind Supplies	96.2	100.8	-0.2	4.6	98.3	103.3	5.0
Consumer Goods	55.4	56.8	-1.5	1.4	55.9	57.8	1.8
All Other	18.4	20.5	-2.1	2.1	21.4	19.6	-1.8
Services Exp	184.7	189.6	-1.7	4.9	189.3	189.9	0.6
Imports of G&S	753.8	780.8	8.8	26.9	776.2	785.4	9.2
Goods Imports	619.9	649.4	8.5	29.5	644.6	654.3	9.7
Petroleum	41.6	47.8	-6.0	6.2	46.6	49.1	2.5
Gold	8.8	6.1	-1.2	-2.7	6.3	6.0	-0.3
Computers	41.8	44.0	1.5	2.2	43.6	44.4	0.8
Other Goods	527.7	551.5	14.2	23.7	548.1	554.8	6.7
Aircraft & Pts	11.3	12.4	-1.1	1.1	12.3	12.5	0.2
Semiconductors	23.1	23.7	1.3	0.7	23.8	23.6	-0.2
Other Cap Gds	94.4	97.4	5.6	3.1	97.0	97.8	0.8
Automotive	108.1	113.9	2.2	5.8	113.9	113.9	-0.0
from Canada	36.9	40.0	-1.1	3.1	40.1	40.0	-0.1
from Mexico	13.4	14.1	0.4	0.7	13.8	14.3	0.5
from ROW	57.8	59.8	2.9	2.0	60.0	59.6	-0.4
Ind Supplies	101.3	105.8	5.4	4.5	104.7	106.9	2.2
Consumer Goods	137.8	143.7	-0.2	6.0	142.1	145.3	3.2
FFB	29.4	30.1	0.5	0.8	29.9	30.4	0.5
All Other	22.5	24.3	0.4	1.9	24.3	24.4	0.0
Services Imp	133.9	131.3	0.3	-2.6	131.6	131.1	-0.5
Memo:							
Oil Qty (mb/d)	9.00	9.27	-0.24	0.28	9.38	9.16	-0.22

1/ Change from previous quarter or month. e/ Average of two months.
Source: U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census

goods. For the two months combined, imports were higher than in the first quarter by 15 percent at an annual rate. The increase was spread about evenly among all major merchandise trade categories: service payments to foreigners declined slightly. Higher imports of machinery and non-oil industrial supplies (especially metals) reflected the strength of U.S. expenditures on business equipment and construction supplies. The rise in imported consumer goods was largely in durable items such as household goods and recreational and home entertainment equipment, and appears to have contributed to a sharp run-up in U.S. retail inventories. Two-thirds of the increase in imported consumer goods in April-May came from China.

In May, the quantity of imported oil declined for the second consecutive month. Nonetheless, for April/May combined imports averaged a bit above the first quarter rate as a decline in consumption was more than offset by an increase in U.S. stocks. Preliminary Department of Energy statistics suggest that in June oil consumption increased sharply with the onset of the driving season, likely pushing imports above 9.5 mb/d.

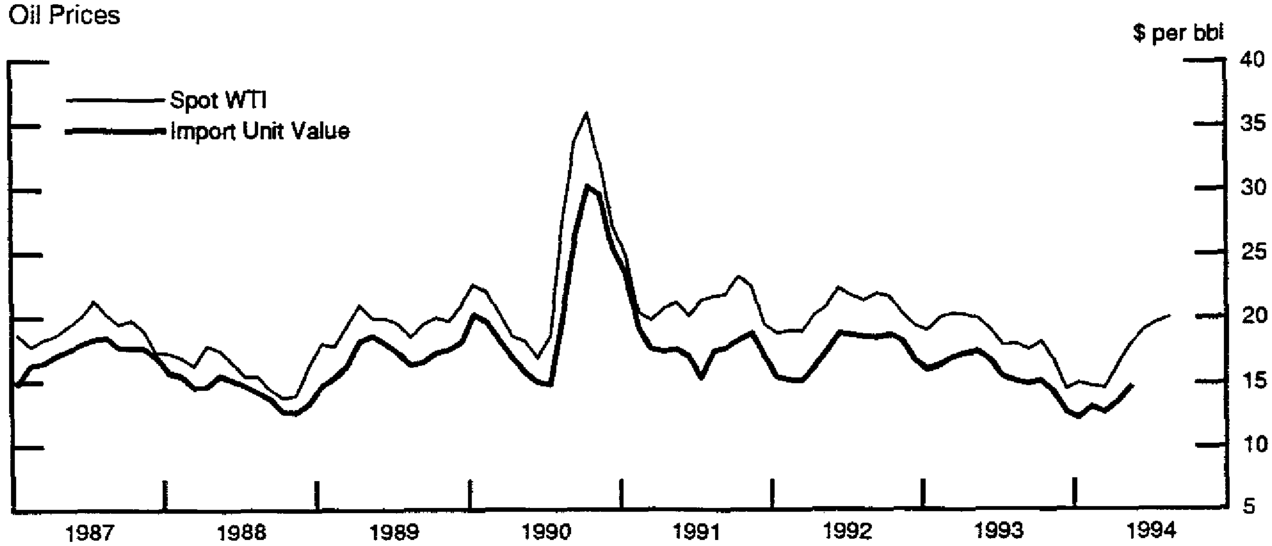
Prices of U.S. Imports and Exports

Prices of imported oil have continued to rise, climbing more than $1.00 per barrel in May as OPEC production remained roughly unchanged in the face of increasing oil demand, both in the United States and abroad. For April-May on average, the price of imported oil was 11 percent (NOT an annual rate) higher than in the first quarter. Since the June Greenbook, West Texas Intermediate (WTI) spot and futures prices have risen on balance in response to unrest in Nigeria. Spot WTI peaked in early August at almost $21.00 per barrel, and is currently trading at [$18.55] per barrel. These developments should lead to further increases in import prices in July and August.

PRICES OF U.S. IMPORTS AND EXPORTS
(percent change from previous period)

	Quarters			Months		
	93Q4	94Q1	94Q2	Apr	May	Jun
	(annual rates)			(monthly rates)		
	-----------------BLS Prices---------------					
Merchandise Imports	-0.7	-2.1	7.3	0.7	0.9	0.7
Oil	-24.3	-30.2	63.8	5.1	8.3	4.4
Non-Oil	2.0	1.3	2.8	0.3	0.2	0.3
Foods, Feeds, Bev.	5.9	0.8	15.8	1.4	1.8	2.1
Ind Supp Ex Oil	-0.9	5.4	4.2	0.5	-0.2	0.5
Computers	-6.1	-5.1	-6.6	-0.2	-0.9	-0.2
Capital Goods Ex Comp	2.3	-0.1	2.7	0.2	0.1	0.3
Automotive Products	6.9	2.0	2.6	0.3	0.3	0.0
Consumer Goods	0.9	-0.1	1.0	0.2	0.2	-0.1
Memo:						
Oil Imports ($/bbl)	14.09	12.67	14.12	13.57	14.67	--
Merchandise Exports	0.5	4.1	1.4	0.0	0.4	0.0
Agricultural	8.2	19.9	-7.5	-2.2	1.4	-2.1
Nonagricultural	-0.6	2.2	2.9	0.4	0.2	0.3
Ind Supp Ex Ag	-4.0	7.8	9.4	0.9	0.6	1.2
Computers	-6.9	-10.0	-6.4	-0.3	-0.8	-1.0
Capital Goods Ex Comp	2.3	0.9	-0.3	-0.2	-0.1	0.2
Automotive Products	1.3	1.5	1.1	-0.1	0.2	0.0
Consumer Goods	0.7	0.8	0.3	0.2	0.1	-0.2
	--------Prices in the NIPA Accounts--------					
Fixed-Weight						
Imports of Gds & Serv.	0.0	-2.8	7.4	--	--	--
Non-oil Merch Ex Comp	3.2	0.5	3.3	--	--	--
Exports of Gds & Serv.	0.7	4.4	2.5	--	--	--
Nonag Merch Ex Comp	0.2	2.9	3.9	--	--	--

Oil Prices



Prices of non-oil imports rose 0.3 percent in June, about the same rate as in four of the previous five months. In the second quarter on average, prices (BLS) rose 2.8 percent at an annual rate; while increases were recorded in all major end-use trade categories, the largest rise was in foods. Two aspects of non-oil import price developments are worth noting -- price increases in recent months are a bit stronger than a year earlier, and prices (fixed-weight excluding computers) now have risen in five consecutive quarters (at an average annual rate of 2.4 percent); the last period of sustained import price rise was 1987-88.

Prices of agricultural exports fell in June bringing the decline in the second quarter to 7.5 percent at an annual rate. This was the first price decline recorded since the second quarter of 1993 and reflected, in part, an improvement in crop conditions.

In June, prices of nonagricultural exports rose for the sixth consecutive month. The increase in the second quarter was slightly more than in the first quarter, but was still less than 3 percent AR. Price increases were recorded in most major trade categories, led by a rise in industrial supplies. Slightly offsetting this increase was a decline in the price of exported capital goods.

U.S. International Financial Transactions

Foreign official assets in the United States rose by $13 billion in June, largely as the result of central bank efforts to stabilize the foreign exchange value of the dollar. (See line 1 of the Summary of U.S. International Transactions table.) Partial information from the FRBNY suggests that G-10 holdings rose by a further net $6 billion in July. For the second quarter as a whole, large increases in holdings by the G-10 countries were offset somewhat by reduced holdings of several OPEC countries and Mexico.

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

	Year		Quarter				Month		
			1993		1994		1994		
	1992	1993	Q3	Q4	Q1	Q2	Apr.	May	June
Official capital									
1. Changes in foreign official reserve assets in U.S. (+ = increase)	**38.3**	**70.0**	**18.5**	**23.0**	**10.6**	**7.5**	**-14.0**	**8.5**	**13.0**
a. G-10 countries	4.8	29.8	9.1	4.7	10.9	15.3	.6	6.4	8.3
b. OPEC countries	4.9	-5.1	-3.1	-.9	-2.3	-4.4	-2.0	-1.3	-1.2
c. All other countries	28.6	45.3	12.1	19.1	2.0	-3.3	-12.7	3.4	5.9
2. Changes in U.S. official reserve assets (+ = decrease)	**3.9**	**-.7**	**-.5**	**-.7**	**-.1**	**3.5**	**.5**	**1.7**	**1.3**
Private capital									
Banks									
3. Change in net foreign positions of banking offices in the U.S.[2]	**35.6**	**13.6**	**20.2**	**5.3**	**35.3**	**38.2**	**16.6**	**10.6**	**11.1**
Securities[3]									
4. Foreign net purchases of U.S. securities (+)	**68.1**	**106.8**	**21.4**	**46.6**	**31.1**	**6.6**	**-9.6**	**11.7**	**4.4**
a. Treasury securities[4]	37.4	25.6	3.6	8.3	9.4	-7.3	-10.4	7.7	-4.5
b Corporate and other bonds[5]	34.3	61.6	14.9	26.1	14.6	15.1	2.3	2.5	10.3
c. Corporate stocks	-3.7	19.6	2.8	12.2	7.0	-1.3	-1.5	1.6	-1.4
5. U.S. net purchases (-) of foreign securities	**-47.9**	**-124.3**	**-42.0**	**-31.6**	**-26.4**	**-16.5**	**-6.7**	**-4.1**	**-5.7**
a. Bonds	-15.6	-61.0	-21.6	-10.7	-7.9	-5.8	-5.5	-.1	-.2
b. Stocks	-32.3	-63.3	-20.4	-20.9	-18.6	-10.7	-1.2	-4.0	-5.5
Other flows (quarterly data, s.a.)									
6. U.S. direct investment (-) abroad	-41.0	-57.9	-6.3	-22.7	-20.4	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment in U.S.	9.9	21.4	3.0	8.1	8.1	n.a.	n.a.	n.a.	n.a.
8. Other (+ = inflow)[6]	18.1	53.9	22.0	-1.5	-11.0	n.a.	n.a.	n.a.	n.a.
U.S. current account balance (s.a.)	-67.9	-103.9	-27.9	-30.6	-31.9	n.a.	n.a.	n.a.	n.a.
Statistical discrepancy (s.a.)	-17.1	21.1	-8.4	4.0	4.7	n.a.	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 Survey of Current Business.

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

Large net capital inflows through banks (including RPs by nonbank securities dealers) continued in June (line 3). During the second quarter, both U.S. and foreign-based banks relied on net borrowings from their own offices outside the United States as an important source of funds. In addition, $16 billion of the $38 billion inflow was accounted for by swings in RP transactions of nonbank securities dealers. Moreover, the Brazilian debt restructuring in April resulted in a shift of about $5 billion from reported bank claims to holdings of securities.

Private foreign net purchases of U.S. securities (line 4) were modest in June and amounted to only $6.6 billion in the second quarter as a whole. Net purchases of U.S. corporate and government agency bonds (line 4b) were very strong, particularly in June, reflecting in part settlement for the large volume of Eurobonds issued by U.S. borrowers in May. In contrast, private foreigners sold U.S. Treasury securities net (line 4a) during the quarter. Large net sales of Treasury securities were recorded for the British West Indies and Bermuda. (It appears that some of the proceeds from these sales probably were lent back to U.S. nonbank securities dealers; net liabilities of U.S. nonbank securities dealers to nonbanks in the British West Indies and Bermuda increased by $10.2 billion in the second quarter.) In contrast, Japanese residents were recorded as having bought over $10 billion in U.S. Treasury securities in the second quarter. In addition, private foreigners reduced their holdings of U.S. corporate stocks (line 4c) in the second quarter, as stock prices remained below the highs reached earlier in the year.

U.S. residents continued to add to their holdings of foreign stocks in the second quarter (line 5b), but increases in holdings of foreign bonds (line 5a) were far more modest. Net purchases of stocks in Japan accounted for about 40 percent of total net purchases in the second quarter, in contrast to more than 50 percent in the first quarter. Net purchases of foreign bonds were held down in the second quarter, as they were in the first quarter, by very large sales to the United Kingdom in the last month of the quarter. Through the first six months of 1994, U.S. residents have sold net $23 billion in foreign bonds to the United Kingdom. In contrast, U.S. residents made large net purchases of foreign bonds from the rest of Europe and Brazil (the latter in connection with Brazil's debt restructuring).

Net shipments of U.S. currency abroad by banks reporting to the FRBNY picked up from $5.1 billion in the first quarter to $8.2 billion in the second quarter. Of the total so far this year, $8.2 billion net has been shipped to Russia.

BEA is continuing its efforts to estimate changes in foreign holdings of U.S. currency, but no data were incorporated in the U.S. International Transactions Accounts in this June's revisions. BEA did revise its estimates of credit extended by banks outside the United States to U.S. nonbanks. As with data on the Eurodeposits of U.S. nonbank residents, BEA is now using data from the BIS, Federal Reserve, and other central banks instead of the notoriously inadequate components from the Treasury International Capital (TIC) reports. (See lines 4 and 5 of the International Banking Data table.)

INTERNATIONAL BANKING DATA 1/
(Billions of dollars)

	1991 Dec.	1992 Dec.	1993 Sept.	1993 Dec.	1994 Mar.	1994 May	1994 June	1994 July
1. Net claims of U.S. banking offices (excluding IBFs) on own foreign offices and IBFS	-35.8	-71.6	-114.6	-122.1	-157.5	-177.3	-175.4	-191.0
a. U.S.-chartered banks	12.4	17.0	12.5	4.2	-15.1	-29.5	-29.9	-41.0
b. Foreign-chartered banks	-48.3	-88.6	-127.1	-126.3	-142.4	-147.9	-145.6	-150.0
2. Credit extended to U.S. nonbank residents								
a. By foreign branches of U.S. banks	23.9	24.8	21.4	21.8	21.4	22.4	22.2	22.4
b. By Caribbean offices of foreign-chartered banks	n.a.	n.a.	95.9	90.9	88.6	n.a.	n.a.	n.a.
3. Eurodollar holdings of U.S. nonbank residents								
a. At all U.S.-chartered banks and foreign-chartered banks in Canada and the United Kingdom	102.9	90.0	77.0	77.8	75.1	72.1	73.6	79.3
b. At the Caribbean offices of foreign-chartered banks	n.a.	n.a.	82.4	79.2	84.2	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	183	195	201	206	n.a.	n.a.	n.a.	n.a.
5. Eurodeposits of U.S. nonbank residents	271	255	252	253	n.a.	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 FR 2950 and FR 2951.

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

Line 3a is an average of daily data (FR 2050) supplemented by the FR 2502 and end of quarter data supplied by the Bank of Canada and the Bank of England. There is a break in the series in April 1994.

Lines 4 and 5 are end-of-period data estimated by BEA on the basis of data provided by the BIS, the Bank of England, and the FR 2502 and FFIEC 002s. It includes some foreign-currency denominated deposits and loans. Source: SCB

Foreign Exchange Markets

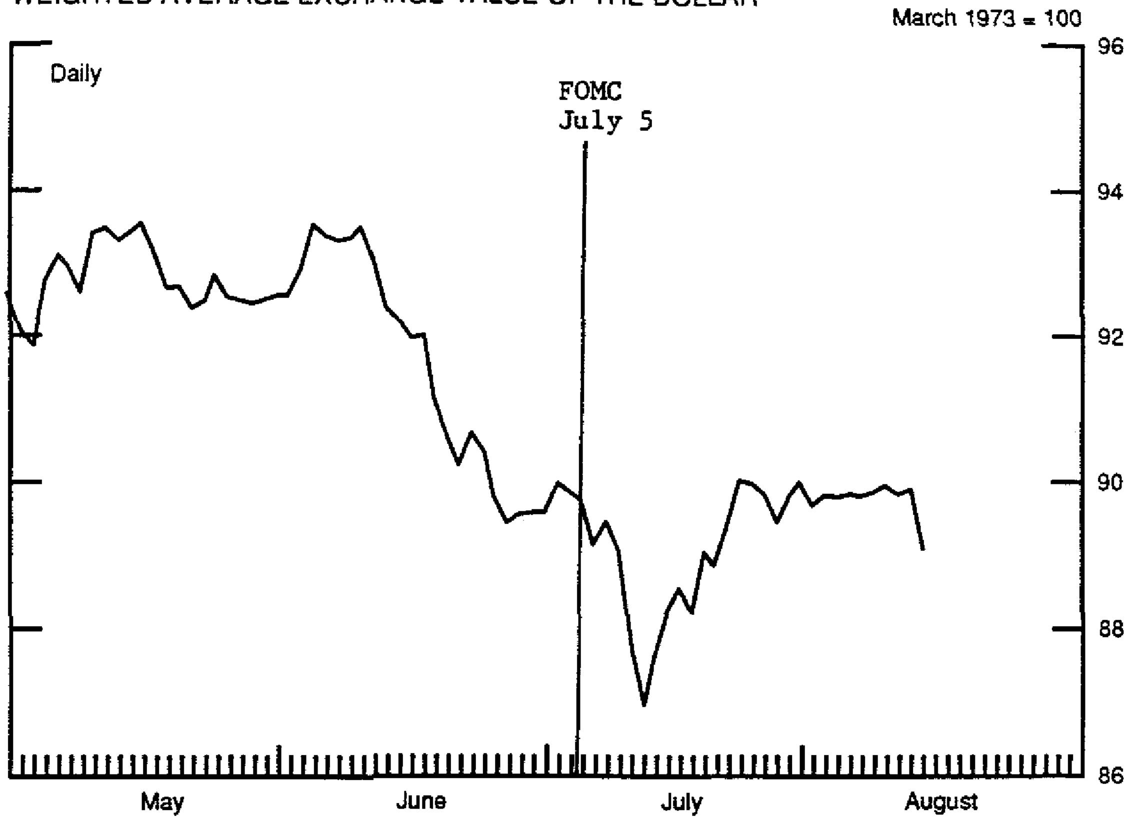
The weighted-average foreign exchange value of the dollar has shown little net change on balance since the July 5 FOMC meeting. Over this period, the dollar has depreciated about 1-1/2 percent against the mark and risen about 1 percent relative to the yen. The dollar declined in early July, apparently reflecting market perceptions that U.S. officials were not concerned over the dollar's value, or perhaps even were willing to look favorably on dollar depreciation as a way of creating pressure in trade negotiations with Japan. However, the dollar recovered these loses later in the month following statements of concern over the dollar by Chairman Greenspan and Treasury officials. On July 20, Chairman Greenspan in his Humphrey-Hawkins testimony indicated that the weakness of the dollar was a concern and had recently been a focus of Federal Reserve policy. The next day Treasury Under Secretary Summers stated that the Administration wanted the dollar to strengthen in value and that a dollar decline had potentially adverse consequences. The July 31 announcement that the Unites States was starting trade sanctions proceedings against Japan over discriminatory government procurement practices for telecommunications and medical equipment caused only a temporary decline of the dollar against the yen.

Since the July FOMC meeting, the weighted-average of short-term interest rates in the major industrial countries has risen about 15 basis points while U.S. short-term rates have declined 5 basis points. The largest individual change has been in Italy, where short-term rates have risen 130 basis points. Most of this rise took place after the Bank of Italy's August 11 announcement of 50 basis point increases in its official lending rates in an attempt to provide support for the lira. In Canada, the three-month rate has declined by 75 basis points in response to an easing of pressure on the Canadian dollar, apparently reflecting some lessening market concerns over the outcome of the upcoming Quebec provincial elections. Since reaching a peak in late June, Canadian short-term interest rates have declined about 100 basis points, reversing about one-third of their rise of earlier in the year. Short-term rates in the United Kingdom have risen 50 basis points over the past month. Indications of strength in the U.K. economy seem to have convinced market participants that the next interest rate adjustment by the Bank of England is likely to be an increase. Japanese short-term rates have edged up about 20 basis points over the past month, apparently reflecting a growing perception that the Bank of Japan is likely soon to start nudging short-term interest rates higher as the Japanese economy turns around.

Short-term interest rates in Germany have shown almost no net change since the July FOMC meeting. On July 21, the Bundesbank Council, at its last meeting before its August recess, decided to keep its discount and Lombard rates unchanged and indicated that for the following four weeks the repo transactions through which the Bundesbank provides liquidity to the German money market would be conducted at a fixed rate of 4.85 percent. In the weeks leading up to this announcement, the repo rate had been reduced in progressively smaller increments to 4.88 percent.

The weighted-average of long-term interest rates in the foreign industrial countries has increased about 20 basis points since the July FOMC meeting, while U.S. long-term rates has been about unchanged on balance over this period. The long-term rate in Germany has risen about 25 basis points on balance, and long-term

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



INTEREST RATES IN THE MAJOR INDUSTRIAL COUNTRIES

	Three-month Rates			10-year Bond Yields		
	July 5	August 12	Change	July 5	August 12	Change
Germany	4.90	4.90	0.00	7.04	7.27	0.23
Japan	2.09	2.29	0.20	4.33	4.57	0.24
United Kingdom	5.13	5.63	0.50	8.72	8.72	0.00
Canada	6.60	5.85	-0.75	9.29	9.13	-0.16
France	5.50	5.56	0.06	7.67	7.87	0.20
Italy	8.38	9.69	1.31	10.88	11.64	0.76
Weighted-average foreign	4.77	4.94	0.17	7.35	7.56	0.21
United States	4.80	4.75	-0.05	7.31	7.31	0.00

rates in other European countries have also generally moved higher. Nearly all of the increases in European long-term rates came in the wake of the August 11 announcements by the Swedish and Italian central banks of increases in their official lending rates. Although these moves appeared to have come in response to exclusively internal developments unique to Italy and Sweden, they appear to have reinforced market perceptions that the next short-term interest rate moves in a number of other European are also likely to be in an upward direction, and touched off a sharp rise in long-term rates throughout Europe. In Japan, the long-term rate has risen by about 25 basis points over the past month, apparently reflecting market perceptions that the Japanese economy is starting to show signs of reviving, as well as concerns over the possible impact on future interest rates of the widening Japanese budget deficit.

. The Desk has not intervened over this period.

Developments in Foreign Industrial Countries

Monthly indicators suggest that recovery continued in the second quarter in the major foreign industrial countries. The moderate recovery in continental Europe that began late last year appears to have firmed, while growth continued at a healthy pace in the United Kingdom and Canada. In Japan, where signs of established recovery still are tentative, economic activity softened somewhat from the strong expansion registered in the first quarter, but growth, albeit on a weaker pace, continued.

In the United Kingdom and Canada, unemployment rates in the second quarter fell from rates registered in the first quarter.

Unemployment in western Germany and France may have peaked in the second quarter as rates in June edged down from May. Nevertheless, the unemployment rate in every foreign G-7 country remains high by historical standards.

Consumer price inflation remains subdued, especially in Canada and Japan where excise tax cuts and yen appreciation respectively have lowered year-on-year inflation rates to zero. However, input prices in the United Kingdom have picked up in recent months.

Individual Country Notes. In Japan, second-quarter data suggest that GDP growth likely slowed from the nearly 4 percent (SAAR) pace registered in the first quarter. Industrial production and housing starts moved up moderately in the April-June period, and the index of leading indicators remained well above the boom-bust demarcation line of 50. Machinery orders in May and June regained part of the sharp drop-off registered in April. In contrast, new car registrations declined sharply in the second quarter, despite the pickup in June, and the most recent measures of labor market tightness -- particularly the job offers-to-applicants ratio -- showed further deterioration.

JAPANESE ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1993		1994				
	Q3	Q4	Q1	Q2	Apr.	May	Jun.
Industrial Production	0.1	-3.7	1.9	0.9	-1.9	-1.2	2.0
Machinery Orders	0.4	-0.7	6.9	-16.7	-23.1	1.7	8.6
New Car Registrations	1.6	-3.3	8.5	-7.5	-12.3	-4.6	7.4
Job Offers Ratio*	0.71	0.66	0.66	0.64	0.66	0.64	0.63
Index Leading Ind.*	42.9	35.8	64.9	n.a.	72.7	60.0	n.a.
Business Sentiment**	-51	-56	-56	-50	--	--	--

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

On July 31, the United States identified Japanese government procurement practices for telecommunications and medical equipment as discriminatory against imports, giving Japan 60 days to take corrective steps or face the risk of higher sanctions on some exports to the United States. This development added temporarily to downward pressure on the dollar against the yen, exacerbating concerns that the rising yen may stifle Japan's nascent recovery.

Notwithstanding the roughly 10 percent appreciation of the yen against the dollar since the beginning of the year, Japan's trade surplus totalled $126.5 billion (SAAR) in the first seven months of 1994, up from the $119.6 billion surplus registered in all of 1993. This increase largely reflects movements in dollar prices of Japanese exports and imports, stemming in part from the rise in the yen. Measures of the constant-dollar value of Japan's trade, based on wholesale export and import price indices, indicate that the real surplus has declined thus far in 1994 from its 1993 average.

In western Germany, available data suggest that recovery likely strengthened further in the second quarter. Industrial production and manufacturing orders posted moderate gains, and the rate of capacity utilization exceeded 80 percent for the first time since the fourth quarter of 1992. However, retail sales in the second quarter were down 3.3 percent relative to the first quarter. In eastern Germany, industrial production (NSA) has continued to show strong gains, advancing 19.2 percent during the year ending in May.

WESTERN GERMAN ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1993		1994				
	Q3	Q4	Q1	Q2	May	Jun.	Jul.
Industrial Production	0.7	-0.4	0.0	2.4	-0.1	1.0	n.a.
Manufacturing Orders	1.9	-1.1	2.6	3.6	-0.1	2.2	n.a.
Capacity Utilization	78.2	78.1	79.4	81.5	--	--	--
Unemployment Rate (%)	8.5	9.0	9.2	9.3	9.3	9.3	9.2
Production Plans*	-15.0	-8.0	3.3	7.7	8.0	9.0	n.a.

* Percent of manufacturing firms planning to increase production in the next three months minus those planning to decrease production.

Growth of the targeted monetary aggregate M3 has moderated since the early months of this year but remains high. In June, German M3 increased 11.4 percent (SAAR) relative to the fourth quarter of 1993, down from 13.4 percent in May. It appears unlikely that M3 will fall within its official target range of 4 to 6 percent this year. In its mid-year review on July 21, the Bundesbank Council reaffirmed this year's target range for M3 growth.

First-quarter GDP growth in France recently was revised upward to 2.8 percent (SAAR) from an initial estimate of 2 percent. This upward revision was largely due to an increase in the contribution from inventories and a smaller negative contribution from business fixed investment.

FRENCH REAL GDP
(percent change from previous period, SAAR)

	1992	1993	1993		1994
	Q4/Q4	Q4/Q4	Q3	Q4	Q1
GDP	0.6	-0.5	1.2	0.0	2.8
Total Domestic Demand	-0.3	-2.0	-2.0	-1.6	6.8
Net Exports (contribution)	0.8	1.5	2.5	1.1	-3.4

Monthly indicators suggest that the French recovery continued in the second quarter. Industrial production rose in April and May due to stronger manufacturing output. The increase in May was small relative to April due to unseasonably cold weather in April that contributed to a temporary rise in energy output. Second-quarter consumption appears to have been quite strong as consumption of manufactured products rose sharply. Survey data for June show that business confidence and domestic and foreign orders continued to improve. Employment data for June indicate that French unemployment may have peaked in May--somewhat earlier than expected.

FRENCH ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Apr.	1994 May	1994 Jun.
Industrial Production	0.9	-0.5	0.8	n.a.	2.3	0.3	n.a.
Consumption of Manufactured Products*	1.9	-1.5	0.6	1.4	1.8	-1.1	0.2
Unemployment Rate (%)	11.9	12.3	12.5	12.6	12.6	12.7	12.6

* Roughly 1/3 of total real consumption

In the United Kingdom, preliminary data show that the GDP growth rate rose in the second quarter despite large tax increases that took effect at the beginning of April. Although oil production continued to boost growth, non-oil output also grew strongly and now

UNITED KINGDOM REAL GDP
(percent change from previous period, SAAR)

	1992 Q4/Q4	1993 Q4/Q4	1993 Q3	1993 Q4	1994 Q1	1994 Q2*
GDP	0.3	2.6	3.8	3.0	2.7	3.6*
Non-oil GDP	0.2	2.2	2.9	2.4	2.0	3.2

* preliminary

UNITED KINGDOM ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 May	1994 Jun.	1994 Jul.
Industrial Production	1.3	1.4	0.9	2.0	0.4	0.2	n.a.
Retail Sales	1.0	0.8	1.1	1.0	0.0	0.3	n.a.
Average Earnings	3.3	3.1	3.8	n.a.	3.8	n.a.	n.a.
Production Plans* (%)	12.0	9.7	20.7	20.3	23.0	22.0	13.0
Consumer Confidence** (%)	-4.7	-12.0	-7.7	-14.0	-10.0	-10.0	-6.0
Unemployment Rate (%)	10.4	10.0	9.8	9.4	9.4	9.4	n.a.
Input Prices (NSA)***	5.4	-0.7	-3.0	0.6	0.9	2.2	2.9
RPI ex. MIP (NSA)****	3.1	2.7	2.7	2.4	2.5	2.4	n.a.

* Percent of manufacturing firms planning to increase production in the next four months minus those that plan to decrease production. NSA.

** Percent of individuals who expect the general economic situation to improve minus those who expect it to worsen. NSA.

*** Producers' input prices, percent change from year earlier.

**** Retail prices excluding mortgage interest payment, percent change from year earlier.

exceeds its previous peak in the second quarter of 1990. Underlying inflation continues to remain subdued, and inflation in average earnings has stabilized. However, input prices have picked up in recent months.

In Italy, growth in the first quarter slowed considerably from the strong pace registered in the fourth quarter of 1993. Although consumption and fixed investment rose 1.4 percent (SAAR) and 7 percent respectively, total domestic demand fell as government spending declined and inventories continued to run off. For the eighth consecutive quarter, net exports made a positive contribution to growth.

ITALIAN REAL GDP
(percent change from previous period, SAAR)

	1992 Q4/Q4	1993 Q4/Q4	1993 Q3	1993 Q4	1994 Q1
GDP	-0.6	0.3	-2.5	3.8	0.3
Total Domestic Demand	-2.2	-3.4	-4.8	3.3	-1.6
Net Exports (contribution)	1.7	3.8	2.3	0.6	1.9

Available indicators suggest that the recovery may have gained momentum in the second quarter. Industrial production (NSA) posted a strong gain on a year-on-year basis, and capacity utilization moved up. Consumer confidence soared to levels not reached since the September 1992 ERM crisis, and although it softened as the quarter progressed, business sentiment remained strong. Car sales were up from levels registered one year ago, and machine tool orders rebounded sharply. On the negative side, the unemployment rate rose further.

In an attempt to prop up the embattled lira, which recently moved below 1000 LIT/DM as the stability of the Berlusconi government appeared more precarious, the Bank of Italy on August 11 surprised financial markets by raising the discount rate 1/2 percentage point to 7-1/2 percent.

ITALIAN ECONOMIC INDICATORS (NSA)

	1993		1994				
	Q3	Q4	Q1	Q2	Apr.	May	Jun.
Industrial Production*	-2.7	0.1	2.6	6.1	0.2	9.2	8.7
Capacity Utilization (%)	73.7	74.4	74.5	76.0	--	--	--
Unemployment Rate (%)	10.3	11.3	11.3	11.6	--	--	--
Consumer Confidence	98.5	96.3	100.6	112.8	108.4	112.6	117.3
Business Sentiment** (%)	-3	4	19	17	25	17	8

* Percent change from year earlier level.
** Percent of manufacturing firms having a favorable view of business conditions minus those with an unfavorable outlook.

Preliminary data for Canada indicate that economic activity continued to expand at a robust pace in the second quarter. Strength in manufacturing industries boosted industrial production in April and May, and the Index of Business Confidence reached its highest level in 15 years. Employment gains remained strong through July. Consumer confidence slipped, however, as consumers expressed increased caution about spending plans in light of recent steep interest rate increases. Consumer-price inflation remains subdued. Excluding the effects of recent excise tax cuts, inflation in the second quarter averaged 1.4 percent (year-on-year).

CANADIAN ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1993		1994					
	Q3	Q4	Q1	Q2	Apr.	May	Jun.	Jul.
Industrial Production	1.0	1.2	0.5	n.a.	1.3	0.7	n.a.	n.a.
Retail Sales	1.3	1.0	3.2	n.a.	-1.7	1.0	n.a.	n.a.
Consumer Attitudes	-0.2	10.6	4.5	-1.3	--	--	--	--
Business Confidence*	-7.7	10.0	8.8	12.3	--	--	--	--
Employment	0.2	0.3	0.4	0.8	0.0	0.5	0.1	0.5
Unemployment Rate (%)	11.4	11.1	11.0	10.7	11.0	10.7	10.3	10.2
Consumer Prices**	1.7	1.8	0.6	0.0	0.2	-0.2	0.0	n.a.

* NSA.
** Percent change from year earlier.

EXTERNAL BALANCES
(Billions of U.S. dollars, seasonally adjusted)

	1993	1994					
	Q4	Q1	Q2	Apr.	May	Jun.	Jul.
Japan: trade	30.5	31.3	30.9	11.6	8.5	10.7	11.6
current accnt	30.6	33.8	34.2	12.5	10.0	11.8	n.a.
Germany: trade*	14.4	10.2	n.a.	3.9	3.0	n.a.	n.a.
current accnt*	-3.4	-5.1	n.a.	-1.0	-3.7	n.a.	n.a.
France: trade	5.5	2.8	n.a.	1.5	1.3	n.a.	n.a.
current accnt	n.a.	n.a.	n.a.	--	--	--	--
U.K.: trade	-5.0	-4.4	n.a.	-1.1	-1.6	n.a.	n.a.
current accnt	-2.7	-0.8	n.a.	--	--	--	--
Italy: trade	6.2	6.9	n.a.	2.0	2.7	n.a.	n.a.
current accnt*	6.4	1.3	7.1	1.4	1.6	4.2	n.a.
Canada: trade	1.8	1.7	n.a.	0.8	-0.2	n.a.	n.a.
current accnt	-6.1	-5.3	n.a.	--	--	--	--

* Not seasonally adjusted.
-- Data not available on a monthly basis.

Chart 1

August 12, 1994

Industrial Production for Major Foreign Countries

Ratio Scale, Seasonally Adjusted, Monthly

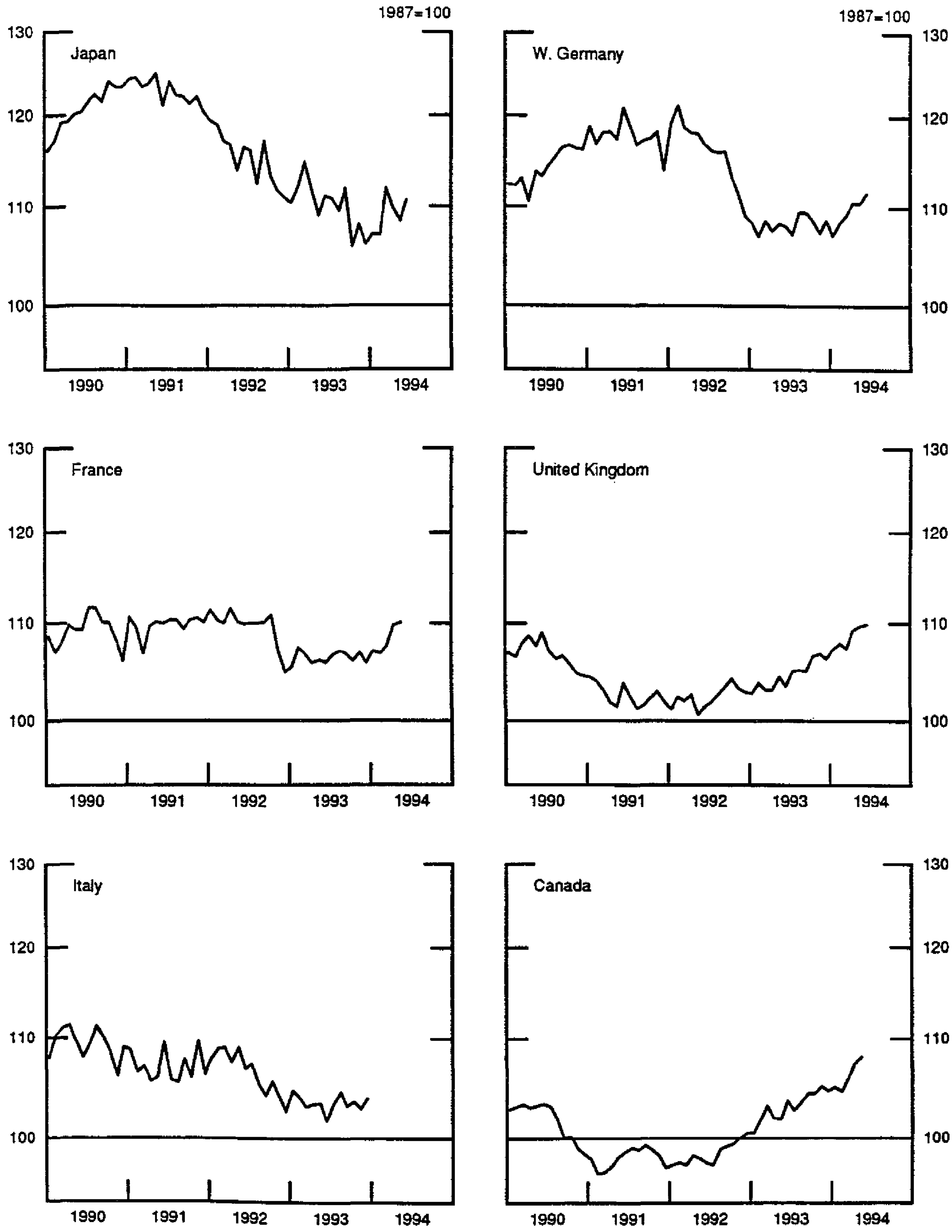
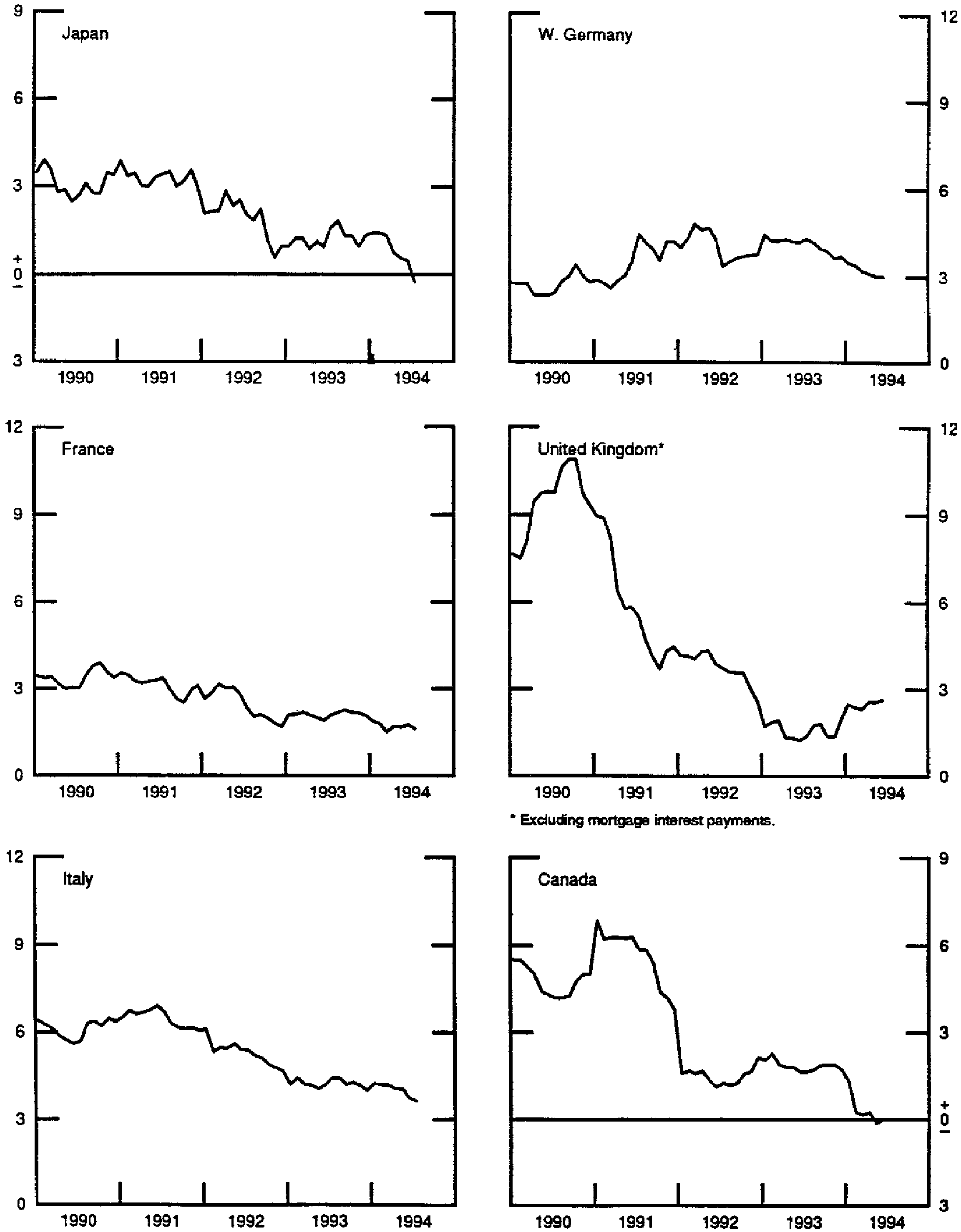


Chart 2

August 12, 1994

Consumer Price Inflation for Major Foreign Countries

Yearly Percent Change



Economic Situation in Other Countries

The Mexican economy has experienced signs of economic recovery, as export performance has been stimulated by NAFTA as well as a more competitive real exchange rate. Uncertainty about the August 21 presidential election contributed to strong pressure on the peso in early July, but this pressure abated and the exchange rate subsequently appreciated. In Venezuela, recently imposed foreign exchange and price controls have caused shortages of imported raw materials and a sharp contraction in industrial output and exports. Brazil has implemented a new stabilization program that pegs its currency to the U.S. dollar, and monthly inflation fell from 50 percent in June to 7.8 percent in July. In Argentina, the unemployment rate has reached a record high of 10.8 percent despite strong growth in industrial production and exports.

In China, output growth and inflation slowed slightly in the first half of 1994, and the trade deficit declined sharply. Taiwan's industrial output in June was up 9.8 percent (year/year), while Korea's second-quarter industrial production was up 10 percent (year/year). In Russia, inflation has slowed in recent months, but the fiscal outlook has deteriorated due to an increase in tax evasion and an unexpectedly steep decline in industrial production.

Individual country notes. In Mexico, new data on GDP growth is expected to be released prior to the August 21 presidential and congressional elections. First-quarter real GDP growth is likely to be revised upward to nearly 1 percent (year/year), compared with the previous estimate of 0.5 percent. Recent sectoral data suggests that GDP growth may have risen further in the second quarter.

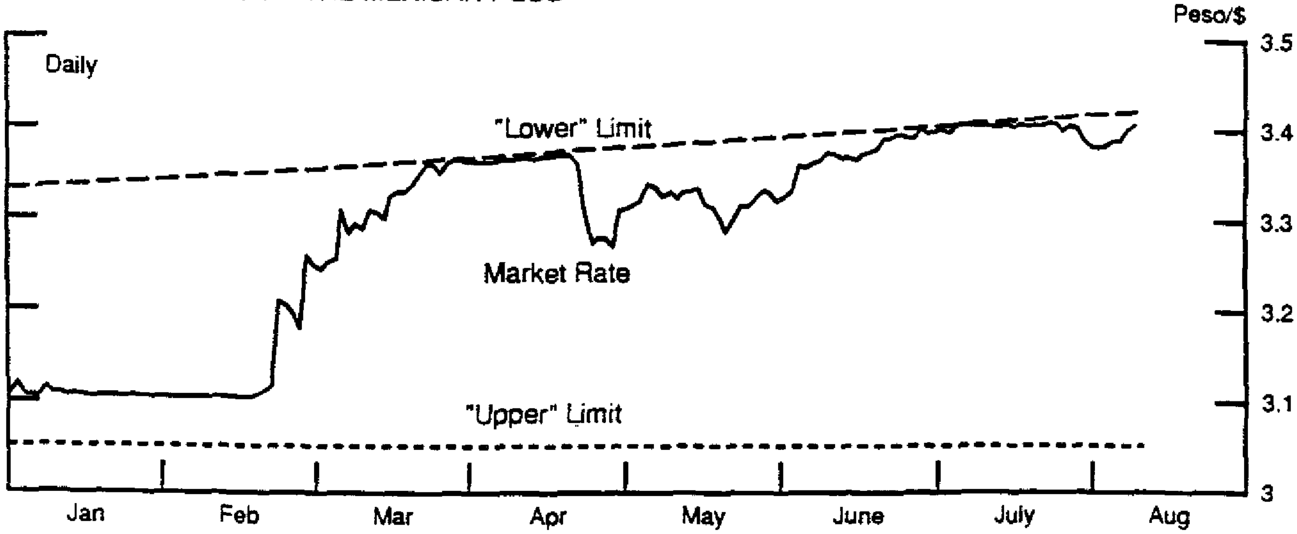
Signs of economic recovery have been visible in the growth of imports (19.3 percent higher in January-May 1994 than in the same period of 1993) and of exports of manufactured goods (25 percent higher). Total exports during January-May were up 17.3 percent from the same period in 1993, despite a 14 percent drop in the value of petroleum exports. The cumulative trade deficit reached $7.3 billion, up $1.5 billion from the same period a year earlier.Automobile companies are responsible for a substantial share of increased trade, as production lines at Mexican and U.S. facilities are restructured under the impetus of NAFTA. Export performance in recent months has also been stimulated by U.S. economic expansion and a more competitive real exchange rate. The peso depreciated by nearly 9 percent against the dollar from mid-February through July, while consumer price inflation remained steady at about 0.5 percent per month over this period. At the end of July, the CPI was 6.8 percent higher than a year earlier.

In early July, uncertainty about the approaching presidential election contributed to strong pressure against the peso, but this pressure abated and the exchange rate subsequently appreciated. As shown in the following chart on Mexican financial markets, the peso/dollar exchange rate moved away from the "lower" limit of its fluctuation band, and was 0.6 percent above the "lower" limit on August 11. The Mexico City stock market index on August 11 was 33 percent above the trough recorded in April, but remained 10 percent below last February's all-time high. The rate on one-month peso-denominated Treasury bills at the August 10 auction declined further to 15.2 percent, but remained well above its mid-February low of 8.8 percent.

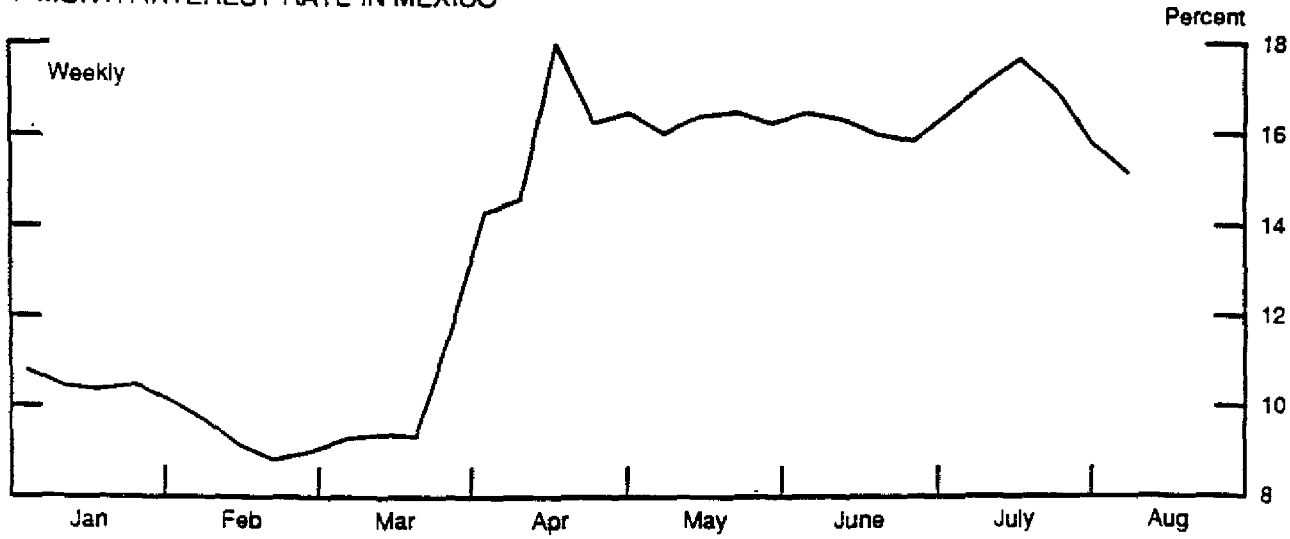
In Venezuela, the Caldera administration's adoption of foreign exchange and price controls has disrupted trade and economic activity. These controls were imposed by emergency decree on June 27 in response to rapidly deteriorating inflation and international reserves. Foreign exchange markets were closed for two weeks until

RECENT MEXICAN FINANCIAL INDICATORS

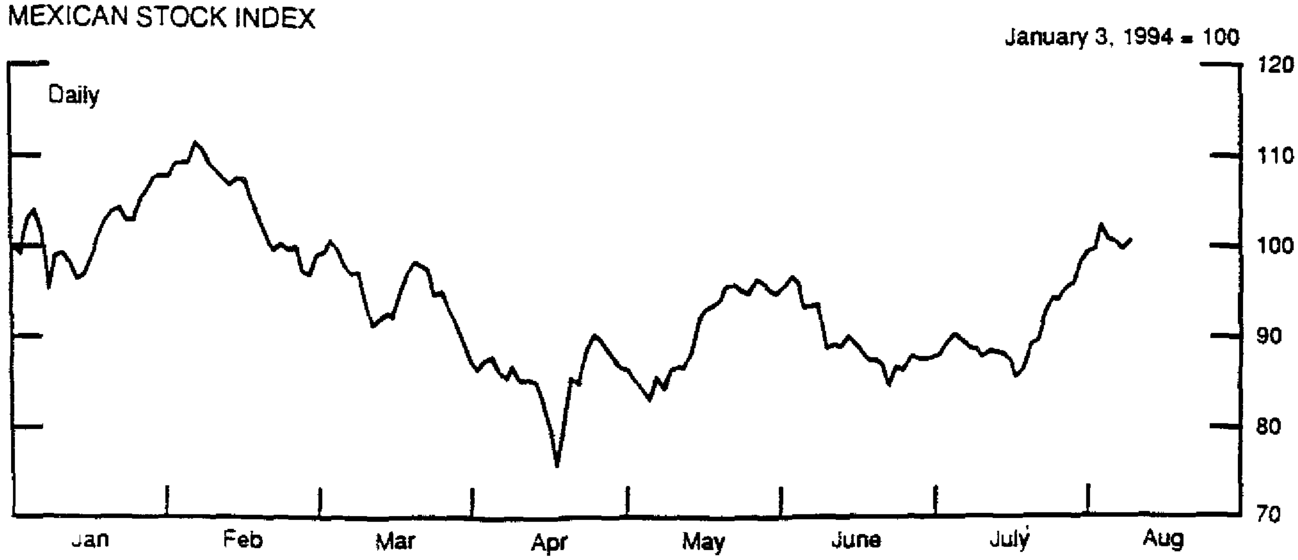
EXCHANGE VALUE OF THE MEXICAN PESO



1-MONTH INTEREST RATE IN MEXICO



MEXICAN STOCK INDEX



detailed regulations could be issued, and trading resumed in mid-July at a single official rate of 170 bolivars per dollar, a revaluation of 15 percent from the previous free market rate. Although foreign exchange purchases for foreign travel and debt service were authorized by the new Exchange Control Board, importers did not receive approval for any foreign exchange purchases until July 28.

Shortages of imported raw materials reportedly forced widespread plant shutdowns and accelerated vacations during July, causing a substantial drop in industrial production. Non-oil exports fell an estimated 50 percent in July, after falling 20 percent the previous month. The flow of imports presumably slowed to a trickle in July, after a 30 percent drop in imports over the previous six months due to weak economic activity. Foreign exchange reserves increased by about $900 million during July to an estimated $9.8 billion. The authorities have indicated that the central bank will sell importers about $300 million per month in foreign exchange, about half the amount required to finance imports at January-June levels. Despite the evident shortfall in the supply of dollars, the government has apparently succeeded thus far in suppressing a black market inside Venezuela by announcing heavy fines and prison sentences for foreign exchange violations. However, a small parallel market has developed across the border in Colombia, with bolivars trading at a discount of about 25 percent below the official exchange rate.

Price controls have been imposed on over 100 basic goods and services, including price rollbacks of 10 to 20 percent on some products. These controls probably contributed to the drop in industrial output, with only partial success in restraining inflation. The consumer price index rose 6.3 percent in July, down from 9 percent inflation in June, but still more than twice the inflation rate of 3.1 percent a year earlier. Government officials blamed July's inflation on raw materials shortages. However, the recent shift to a highly expansionary monetary policy has probably contributed to the upward pressure on prices. In mid-July, the central bank cut its discount rate to 45 percent, from 73 percent a week earlier.

In late June, an emergency oversight board was established with very broad authority over the banking system. The oversight board may instruct a bank to deposit funds in another bank, and may confiscate the assets of any bank that fails to comply with board directives. In early August, the authorities took over Banco de Venezuela, the country's second-largest bank and the tenth bank to be taken over this year.

Brazil's implementation of a new stabilization program has caused a sharp drop in the inflation rate. Under the *Plan Real*, a new currency called the *real* was introduced on July 1, and the central bank is committed to maintaining the value of the currency at no less than one dollar per *real*. Confidence in the new plan has been strengthened by the central bank's large holdings of international reserves, which exceeded $40 billion at the end of May. In fact, tight monetary policy in July generated upward pressure on domestic interest rates and contributed to an appreciation of the currency to $1.10 per *real* on August 11. Consumer prices (in *real* terms) rose by 7.8 percent in July, compared with June's inflation rate of 50 percent under the old currency. However, the long-term sustainability of the plan depends on the extent to which Brazil reduces its fiscal deficit and avoids the need for inflationary financing. The impact of recent fiscal adjustments remains unclear, despite optimistic government claims.

Brazil's unemployment rate was 5.5 percent over the first six half of 1994, down slightly from 5.7 percent a year earlier. The cumulative trade surplus for January-June was $7 billion, roughly unchanged from a year earlier.

In Argentina, the unemployment rate has reached a record high despite strong growth in industrial production and exports. In May's semi-annual survey, urban unemployment jumped to 10.8 percent, up from 6.6 percent in 1992 and 9.9 percent in 1993. Meanwhile, industrial production during January-May was up 6.2 percent from a year earlier. Faced with relatively high labor costs and the elimination of tariffs on imported capital goods, the manufacturing sector has cut back its work force and invested heavily to achieve higher labor productivity and improve its international competitiveness. Unemployment has also risen due to layoffs by privatized utilities and by provincial governments with more stringent budget requirements. The Menem administration has responded to higher unemployment by establishing job retraining, by changing regulations to stimulate employment in the construction sector, and by pushing legislation to increase the flexibility of work arrangements.

The January-May trade deficit widened to $1.8 billion, from $140 million a year earlier, reflecting moderate export growth and soaring capital goods imports. In early August, Argentina and Brazil reached agreement on the structure of external tariffs of the Mercosur customs union, which is scheduled for implementation on January 1, 1995.

Consumer prices in July were 3.6 percent higher than a year earlier. However, recent polls reveal widespread perceptions that the benefits of low inflation and rapid economic growth have not "trickled down" to the average working family. In early August, a constitutional assembly gave final approval to reforms that will permit President Menem to run for a second term, but growing public discontent has clouded the prospects for his reelection next year.

In China, output growth and inflation slowed slightly in the first half of 1994, while the trade deficit declined sharply. Output grew 11.6 percent (year/year), down from 13.7 percent a year earlier. Urban consumer inflation in June slowed to 23 percent (year/year), down from February's peak of 26 percent. China ran a trade deficit of $820 million over the first six months of 1994, down from $2.7 billion a year earlier, as export growth of 30 percent outpaced import growth of 20 percent.

Foreign direct investment in China during the first half of 1994 was $14.7 billion, up 55 percent from the same period of 1993. Foreign exchange reserves reached $32 billion in June, up sharply from $21 billion at the beginning of the year. The rapid increase in official reserves reflects the shrinking trade deficit, large capital inflows, and the influence of the unified exchange rate system established in January. The new system has provided Chinese enterprises with more stable access to foreign exchange and has reduced the incentive to hide export earnings abroad.

In a July report to Congress, the U.S. Treasury concluded again that China's manipulation of its foreign exchange system prevents effective adjustment of the balance of payments. The U.S. Treasury particularly objected to the exclusion of foreign-funded enterprises from the new interbank foreign exchange market.

Taiwan's industrial production in June was 9.8 percent higher than a year earlier; for the first half of 1994, industrial production was up 6.9 percent. The January-July trade surplus was $3.1 billion, down from $4 billion a year earlier. Exports rose 4.2 percent, and imports grew 6.7 percent. Foreign exchange reserves topped $90 billion at the end of June, boosted by the appreciation of the yen and deutschmark.

In Korea, second-quarter industrial production rose about 10 percent (year/year), with particularly strong growth in the automotive and electronics sectors. Although the central bank has pursued a less-accommodative monetary policy since mid-February, consumer price inflation rose to 6.9 percent (year/year) in June, up from 4.3 percent a year earlier. The unexpected jump in inflation prompted a further tightening of liquidity, and the three-month time deposit rate rose to 14.5 percent on August 9, up about 200 basis points since early June.

Merchandise imports during the first half of 1994 rose 14.6 percent from a year earlier, while exports grew by 11.4 percent. The current account deficit rose sharply to $2.7 billion over January-April, up from $1.2 billion a year earlier.

On July 1, the government changed its regulations to allow small- and medium-sized Korean enterprises to sell convertible bonds directly to foreign investors. Overseas borrowing had previously been limited mainly to firms engaged in producing technologically sophisticated manufactured goods. To promote greater international portfolio diversification, the government also liberalized restrictions on foreign stock purchases by domestic residents.

In Russia, official statistics indicate that real GDP fell 17 percent during the first half of 1994 (year/year), while industrial production was 26 percent below its year-earlier level. The sharp contraction in output has been exacerbated by rising fuel and raw materials prices, growing inter-enterprise arrears, and reduced government purchases. However, these official statistics probably overstate the actual decline in economic activity, due to incomplete coverage of the private sector. Russia's largest private investment fund, the MMM corporation, collapsed in late July, but no immediate macroeconomic impact was evident.

Inflation has slowed in recent months; consumer prices increased by 4.8 percent in June and by 5.1 percent in July, compared with last year's average rate of over 20 percent per month. The ruble has depreciated at a steady rate of about 1 percent a week since late February. On August 11, the MICEX exchange rate was 2108 rubles per dollar. The Central Bank of Russia has progressively lowered its refinance rate from 17.5 percent a month in April to 12.5 percent a month in early August, but the rate remains substantially higher than monthly consumer price inflation.

A large shortfall in revenue contributed to the fiscal deficit of about 10 percent of GDP during January-June, well above this year's target of 7.2 percent of GDP specified in the Systemic Transformation Facility (STF) arrangement with the IMF. The revenue shortfall reflects the unexpectedly steep decline in industrial production, growing tax evasion, and incomplete implementation of revenue enhancement measures outlined in the STF.