Prefatory Note

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

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

---

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

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

Confidential (FR) Class III FOMC

September 21, 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

The economy appears to have expanded at an appreciable clip this quarter. Payroll growth reportedly slowed in August, but the trend of hiring has remained quite strong, according to a range of indicators. Manufacturing activity has evidenced notable strength of late, boosted by a pickup in motor vehicle production. Measures of demand are mixed across sectors, with the overall picture being one of firming final sales, especially of consumer goods, and slowing inventory investment. Against a backdrop of rising resource utilization and the earlier rise in oil prices, materials costs have continued to surge, and the consumer price index has increased a bit faster in the past couple of months than during the spring.

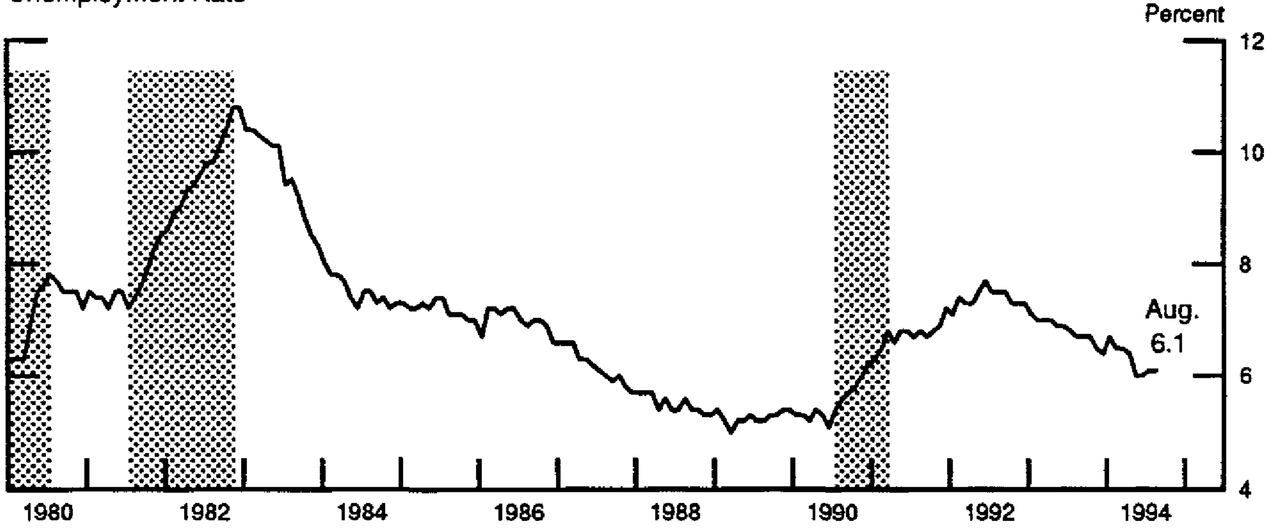
Employment and Unemployment

Payrolls grew less rapidly in August, but still at a fairly brisk rate. Nonfarm employment rose about 180,000, following gains averaging 280,000 per month over the first seven months of the year. The average workweek of production or nonsupervisory workers declined to 34.5 hours from a relatively high level in July, and aggregate hours of production workers fell 0.2 percent. Nevertheless, the average level of hours during July and August was 1.9 percent (annual rate) above the second-quarter level.

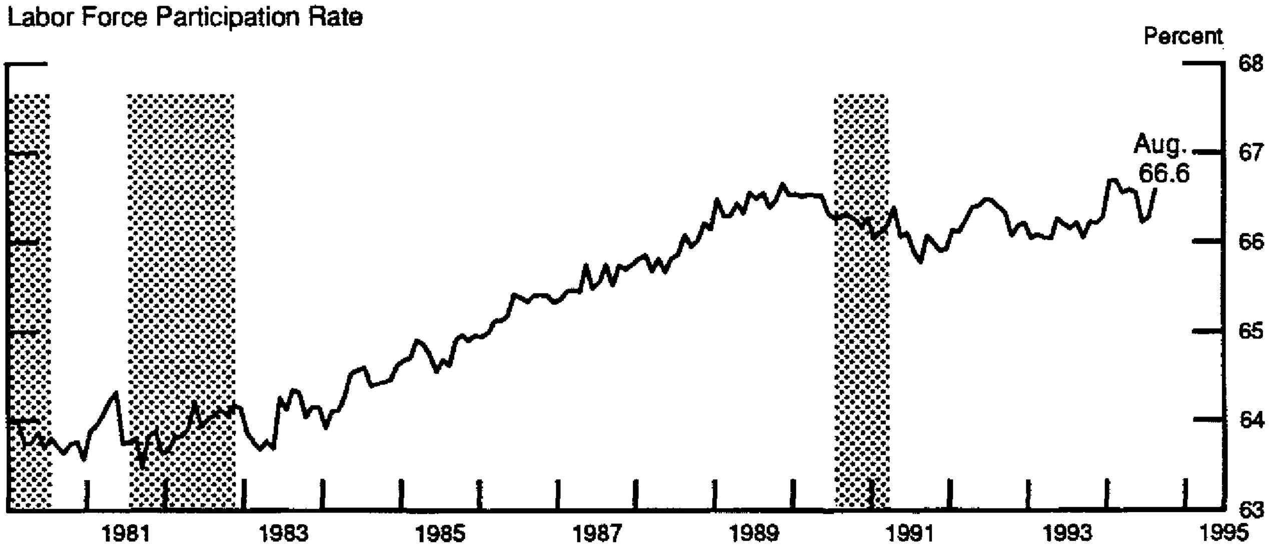
The unemployment rate was unchanged, at 6.1 percent, in August. The labor force participation rate jumped to 66.6 percent, its highest level since April, but household employment also surged 714,000. Even so, the increase in household employment so far this

LABOR MARKET INDICATORS
(Seasonally adjusted)

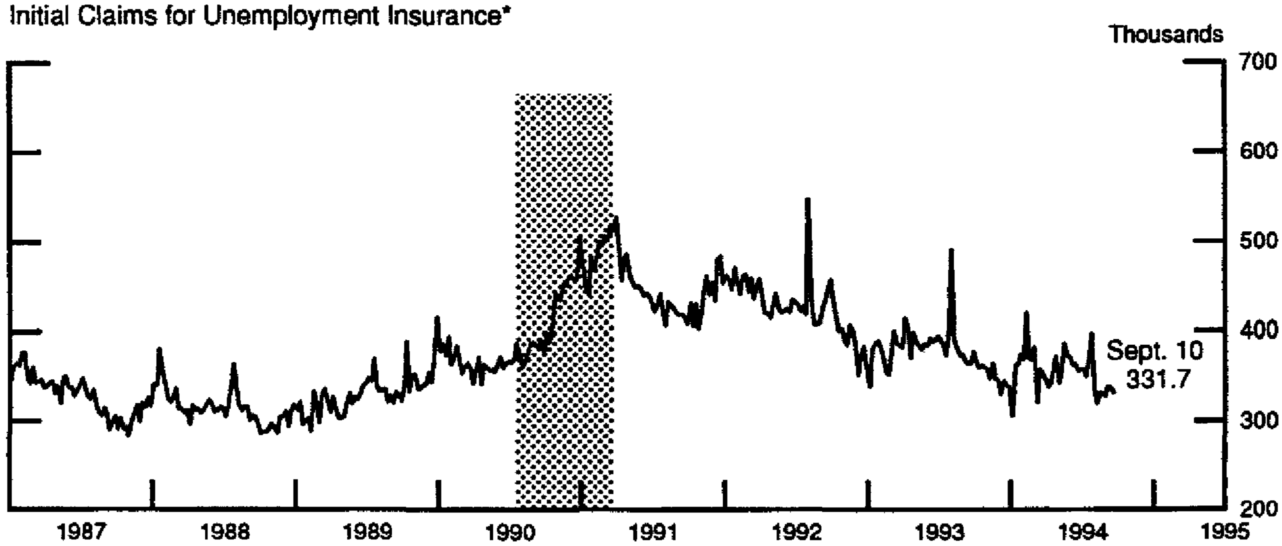
Unemployment Rate



Labor Force Participation Rate



Initial Claims for Unemployment Insurance*



* Including EUC adjustment.

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

	1992	1993	1993 Q4	1994 Q1	1994 Q2	1994 June	1994 July	1994 Aug.
	-----------Average monthly changes---------							
Nonfarm payroll employment[2]	96	194	229	229	345	383	251	179
Private	76	179	219	222	320	379	260	175
Manufacturing	-14	-11	3	13	21	35	1	32
Durable	-14	-7	10	12	21	36	-3	28
Nondurable	0	-4	-7	0	0	-1	4	4
Construction	-1	19	24	23	40	20	22	-6
Trade	10	42	47	44	96	138	104	18
Finance, insurance, real estate	4	10	11	4	6	11	0	5
Services	78	116	127	133	146	167	132	123
Health services	22	23	20	23	22	27	16	38
Business services	31	46	62	61	57	75	70	53
Total government	20	15	10	8	26	4	-9	4
Private nonfarm production workers	86	164	185	211	300	338	171	151
Manufacturing production workers	-3	-1	12	22	24	37	-3	38
Total employment[3]	127	209	364	459	131	-442	22	714
Nonagricultural	120	219	363	349	195	-242	-22	549
Memo:								
Aggregate hours of private production workers (percent change)	.1	.3	.4	.4	.4	-.2	.4	-.2
Average workweek (hours)	34.4	34.5	34.5	34.6	34.7	34.6	34.7	34.5
Manufacturing (hours)	41.1	41.5	41.7	41.7	42.1	42.0	41.9	42.0

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)

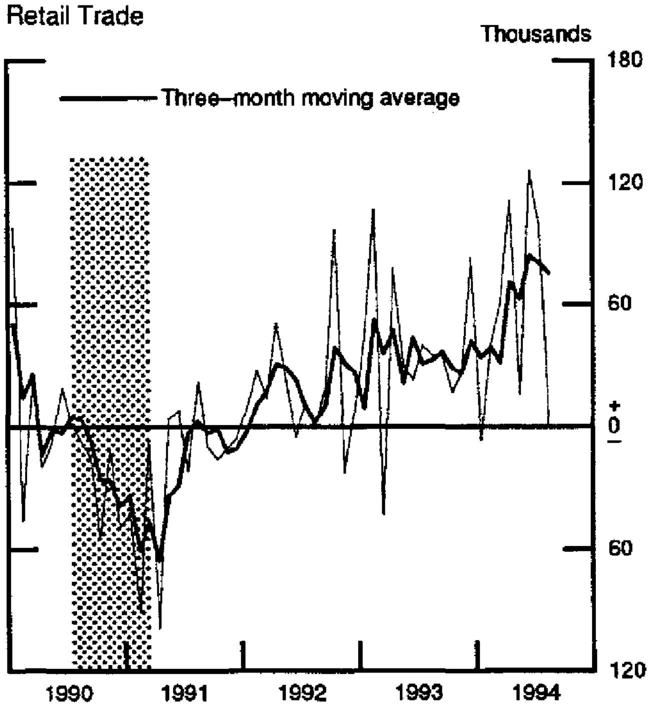
	1992	1993	1993 Q4	1994 Q1	1994 Q2	1994 June	1994 July	1994 Aug.
Civilian unemployment rate (16 years and older)	7.4	6.8	6.5	6.6	6.2	6.0	6.1	6.1
Teenagers	20.0	19.0	18.3	18.0	18.4	16.9	17.7	17.5
20-24 years old	11.3	10.5	9.7	10.6	9.6	9.4	9.9	10.2
Men, 25 years and older	6.4	5.8	5.5	5.3	4.8	4.7	4.9	4.8
Women, 25 years and older	5.7	5.4	5.3	5.3	5.0	4.9	4.8	4.9
Full-time workers	7.4	6.8	6.4	6.7	6.2	6.1	6.2	6.1
Labor force participation rate	66.3	66.2	66.2	66.6	66.5	66.2	66.3	66.6
Teenagers	51.3	51.5	51.1	52.7	53.6	53.7	52.5	53.0
20-24 years old	77.1	77.1	76.7	77.0	77.0	77.2	76.4	77.0
Men, 25 years and older	76.6	76.2	76.2	76.3	75.8	75.5	75.8	75.8
Women, 25 years and older	57.0	57.1	57.5	58.0	57.9	57.6	57.8	58.2

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

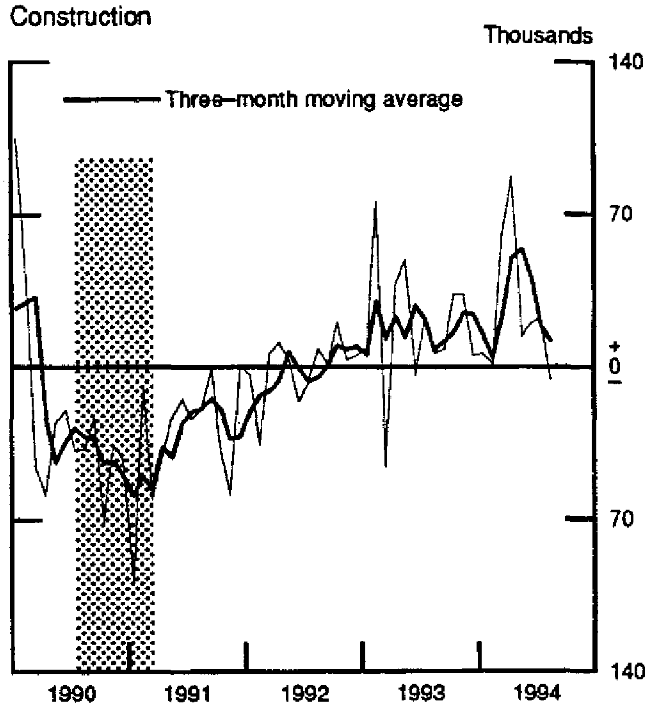
PAYROLL EMPLOYMENT GROWTH BY SECTOR

(Seasonally adjusted; monthly change)

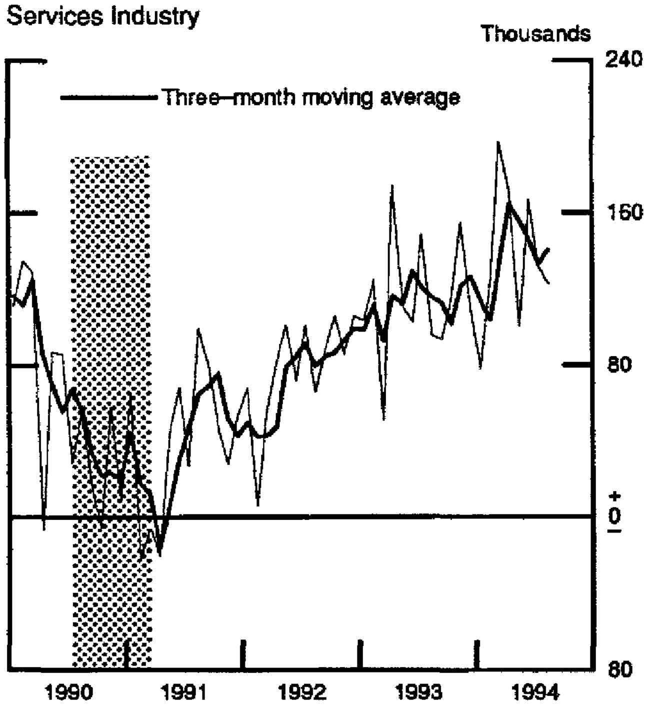
Retail Trade



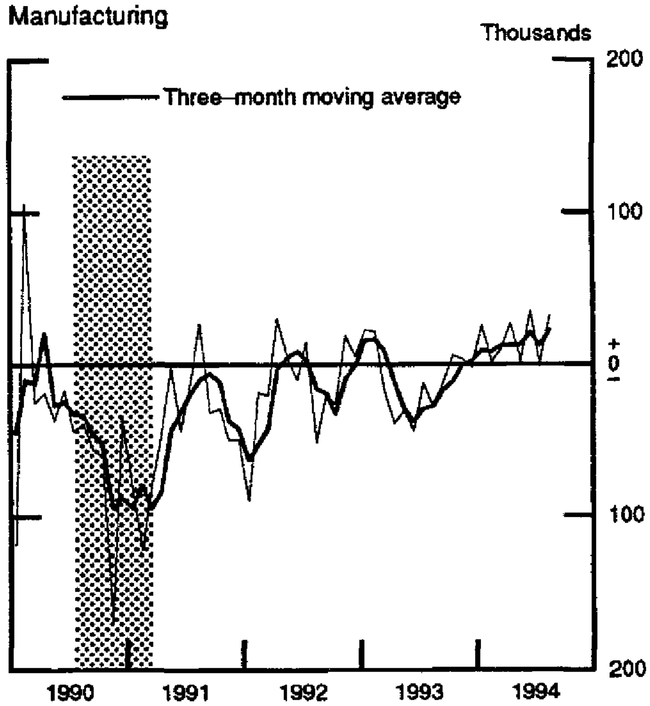
Construction



Services Industry



Manufacturing



year still trails the gain in payroll employment by nearly 1 million.[1]

The slowdown in hiring reported in the August payroll survey was concentrated in retail trade and construction. Retail trade employment was unchanged in August; however, this followed gains totaling more than 200,000 in the previous two months. Much of the deceleration owed to a decline at eating and drinking establishments, where employment may have been boosted temporarily in June and July by activity associated with the World Cup. (The baseball strike occurred after the August survey reference week.)

Construction employment fell 6,000, largely because of a decline in heavy construction, which includes highway and street construction (but not buildings). In addition, hiring by special trade contractors (carpenters, plumbers, and electricians) was the slowest (only 1,000) in more than a year.

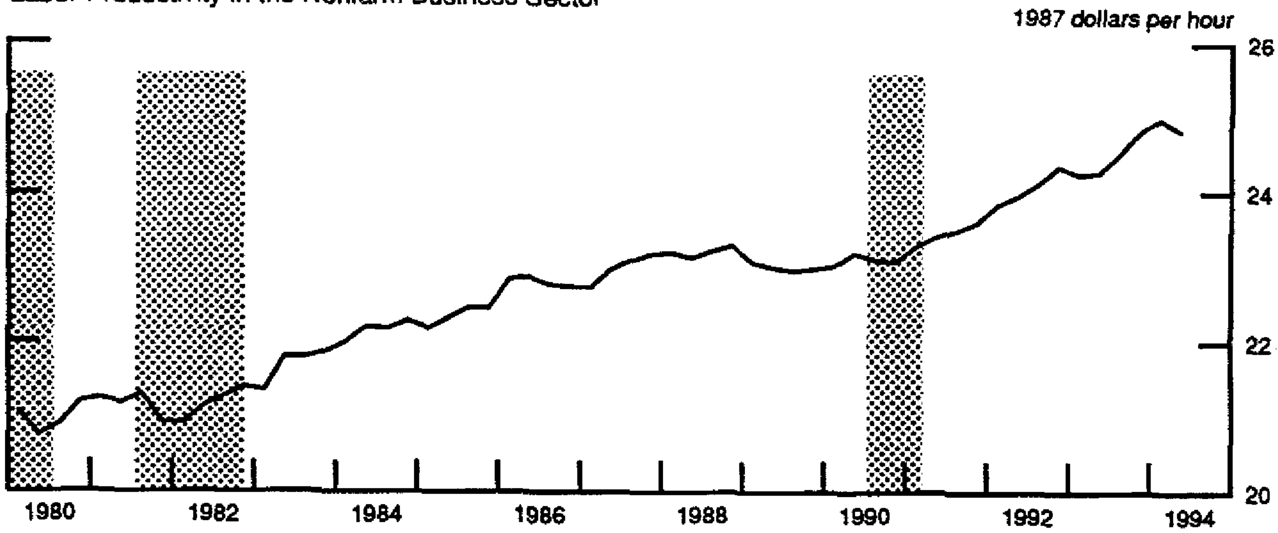
In contrast, manufacturing payrolls rose 32,000 in August. Much of the strength came in motor-vehicle-related sectors, but employment was up in a number of other industries as well, including electrical machinery, apparel, and printing. In addition, the factory workweek increased to 42 hours--close to the postwar highs recorded earlier this year; average overtime hours matched the postwar high of 4.8 recorded in April. Outside of manufacturing, the workweek was down or unchanged in most major sectors.

Other indicators suggest that labor market conditions remain firm. Weekly filings of initial claims for unemployment insurance have fluctuated in a relatively low range of 320,000 to 340,000 per week since the latter part of July. The Manpower, Inc., index of

1. The Bureau of Labor Statistics preliminary review of unedited data from state unemployment insurance records for 1994:Q1 suggests that the gap will widen when the payroll series is rebenchmarked next June. At this point, the BLS expects to revise the March 1994 level of payroll jobs upward by 300,000 to 500,000--toward the high end of the historical range of benchmark adjustments.

PRODUCTIVITY AND COSTS

Labor Productivity in the Nonfarm Business Sector



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

	1992[1]	1993[1]	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1993:Q2 to 1994:Q2
Output per hour							
Total business	3.4	2.0	3.4	5.7	2.9	-2.7	2.2
Nonfarm business	3.2	1.9	4.1	4.9	2.9	-2.5	2.3
Manufacturing	3.7	4.8	2.6	7.9	6.8	4.5	5.4
Nonfinancial corporations[2]	3.6	2.9	4.5	4.7	3.3	-1.3	2.7
Compensation per hour							
Total business	5.1	2.9	3.1	2.4	6.2	.3	3.0
Nonfarm business	5.2	2.5	2.8	2.4	6.1	.8	3.0
Manufacturing	4.3	3.2	4.1	4.0	3.8	-1.6	2.6
Nonfinancial corporations[2]	4.7	1.9	2.2	1.4	5.1	.0	2.2
Unit labor costs							
Total business	1.7	.9	-.3	-3.1	3.3	3.2	.7
Nonfarm business	1.9	.6	-1.2	-2.4	3.1	3.4	.7
Manufacturing	.6	-1.6	1.5	-3.6	-2.8	-5.8	-2.7
Nonfinancial corporations[2]	1.0	-1.0	-2.1	-3.1	1.8	1.4	-.5

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, finance and insurance companies; the sector accounts for about two-thirds of business employment.

net hiring strength for the fourth quarter is little changed from its high second- and third-quarter levels.

Revised data indicate that labor productivity in the nonfarm business sector fell at an annual rate of 2.5 percent in the second quarter. This decline is twice the rate initially estimated and was due entirely to a downward revision to nonfarm business output. The sharp decrease in output per hour in the second quarter almost offset the first-quarter gain, but the level of productivity was still up 2-1/4 percent from a year earlier.

The offsetting movements in labor productivity over the first two quarters of the year partly reflect an overstatement of hours growth in the first quarter and the subsequent understatement in the second quarter.[2] This pattern also affected hourly compensation growth. Nonfarm hourly compensation rose 0.8 percent at an annual rate in the second quarter after a jump of 6.1 percent in the first quarter. However, over the four quarters ended in 1994:Q2, nonfarm hourly compensation was up 3 percent--down from an increase of 3.8 percent over the same period of a year ago.

Our most recent data indicate little change in wage trends. Average hourly earnings of production or nonsupervisory workers rose 0.2 percent in August and, over the past twelve months, were up 2.5 percent.

2. Data from the establishment survey on employment and average weekly hours are the principal inputs used by the BLS to estimate total hours worked during the month and quarter. Severe weather caused the workweek to drop sharply during the February survey week. Following its usual procedure, the BLS made no adjustment to the hours estimates in the productivity report to account for the fact that the survey week was not representative of the month as a whole. However, in estimating output and total compensation for the first quarter, the Bureau of Economic Analysis assumed that economic activity returned to more normal levels for the remainder of February. Thus, the understatement of growth in first-quarter hours boosted productivity and hourly compensation. These effects were reversed in the second quarter.

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

	Proportion in total IP 1993:Q4	1994		1994			
		Q1	Q2	May	June	July	Aug.
		-Annual	Rate-	-------Monthly	rate--------		
Total index	100.0	8.3	5.2	.5	.6	.3	.7
Previous		8.3	4.4	.3	.5	.2	
Motor vehicles and parts	5.6	37.9	-21.6	-3.7	.3	-2.5	8.9
EXCLUDING MOTOR VEHICLES AND PARTS:							
Total index	94.4	6.7	7.1	.8	.6	.5	.2
Products, total	55.4	5.8	6.7	.9	.7	.7	.2
Final products	41.8	6.1	6.6	.9	.8	.9	.3
Consumer goods	23.5	4.3	4.8	1.0	1.1	.7	-.1
Durables	3.7	1.9	2.5	.4	.9	4.0	-1.1
Nondurables	19.8	4.7	5.2	1.1	1.2	.1	.1
Excluding energy	17.0	3.9	9.3	1.0	.6	.3	.1
Business equipment	14.9	12.0	12.1	1.2	.6	1.6	.9
Office and computing	4.2	33.9	12.0	.3	1.6	2.1	2.1
Industrial	3.9	6.1	14.9	1.4	-.1	2.2	.6
Other	6.8	3.0	10.6	1.8	.3	.9	.4
Defense and space equip.	2.8	-10.2	-6.8	-1.3	-.6	-.8	.5
Intermediate products	13.6	4.6	7.0	.8	.4	.0	.[illegible]
Construction supplies	5.2	-.4	11.7	1.1	-.1	.1	
Materials	39.0	8.0	7.8	.7	.4	.2	.3
Durables	19.8	9.5	12.6	.7	.3	1.0	.9
Nondurables	9.2	3.7	6.7	1.9	-.2	.0	.1
Energy	10.0	8.9	-.4	-.6	1.4	-1.3	-.9
Memo:							
Manufacturing	85.2	7.8	7.2	.7	.3	.5	1.0
Manufacturing excluding motor vehicles and parts	79.6	5.9	9.6	1.0	.3	.7	.5
Mining	6.9	4.9	4.8	-.8	.6	-1.3	-.8
Utilities	7.9	15.8	-11.8	.2	4.1	-1.2	-1.3

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

Industrial Production

Reflecting a large increase in manufacturing output, the industrial production index rose 0.7 percent in August. Moreover, the increases for the preceding three months are now reported to be larger than previously estimated. As a result, the rate of capacity utilization for total industry has climbed to 84.7 percent--2.8 percentage points above the 1967-93 average.

In August, higher output of motor vehicles and parts directly contributed 0.5 percentage point to the 1.0 percent rise in manufacturing output. Total motor vehicle assemblies increased more than 1 million units (annual rate) to 12.3 million units. Industry sources indicate that quicker retooling for the new model year permitted the rapid August rise in production. Indeed, General Motors met production schedules despite a strike at a parts plant in August, and the company reports that it will make up the lost output of about 200,000 units (annual rate) for affected models in September.

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

	1994		1994		
	July	Aug.	Sept.	Oct.	Q4
			------scheduled-----		
U.S. production	11.2	12.3	11.9	12.4	12.7
Autos	6.0	6.4	6.3	6.8	7.0
Trucks	5.2	5.9	5.6	5.7	5.6
Days' supply					
Autos	65.9	56.7			
Light Trucks	63.2	65.4			

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

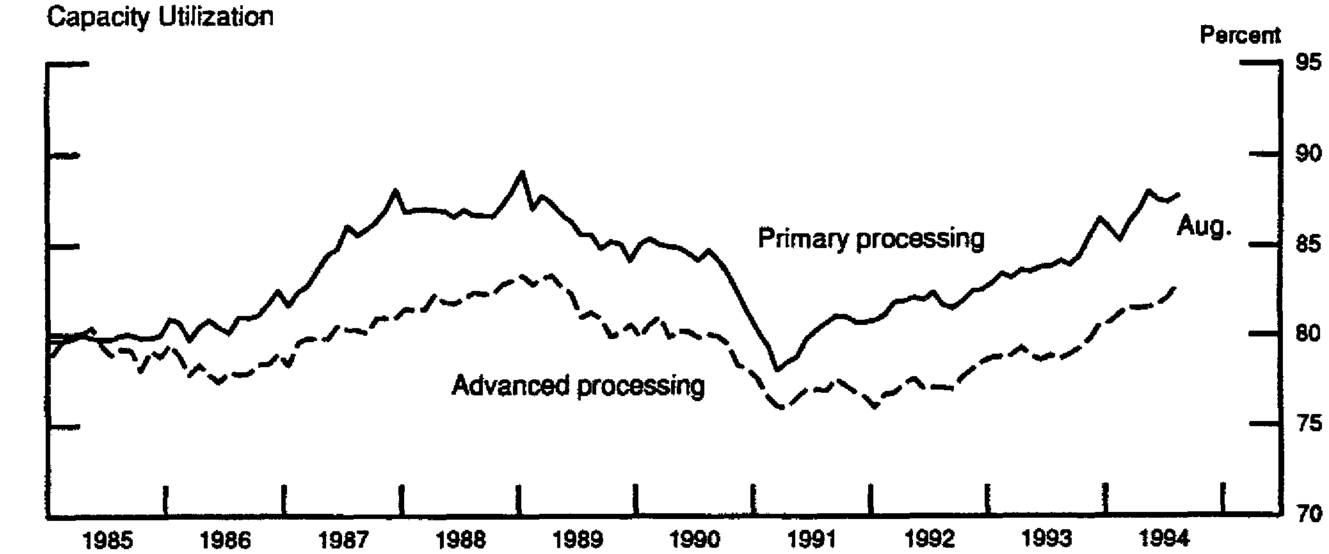
Outside of the motor vehicle industry, much of the rise in manufacturing output was from motor-vehicle-related industries such as tires, consumer steel, and metal stampings; production in these industries, taken together, was up 3.7 percent in August. Another

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

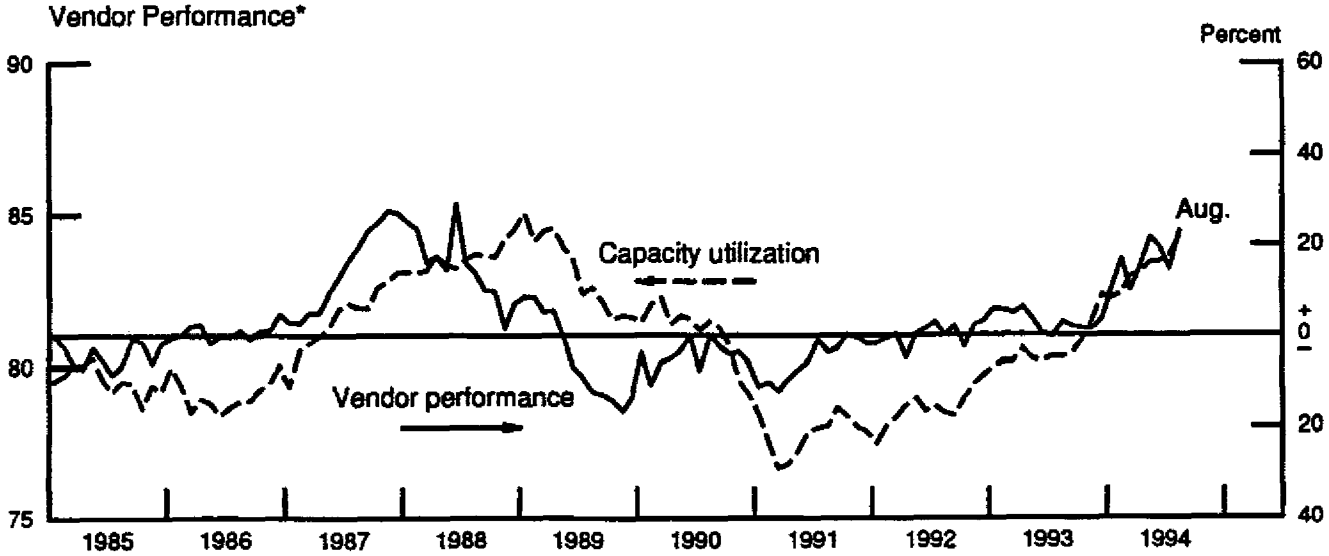
	1988-89 High	1967-93 Avg.	1993 Avg.	1994 Q1	1994 Q2	1994 June	1994 July	1994 Aug.
Total industry	84.8	81.9	81.5	83.4	83.9	84.2	84.3	84.7
Manufacturing	85.1	81.2	80.6	82.5	83.3	83.4	83.7	84.3
Primary processing	89.1	82.2	84.0	85.8	87.4	87.5	87.4	87.7
Advanced processing	83.3	80.6	79.1	81.2	81.6	81.7	82.1	82.8

MANUFACTURING SECTOR

Capacity Utilization



Vendor Performance*



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

important contribution came from the continued robust expansion in the output of business equipment. Production of office and computing equipment registered a second consecutive monthly increase of 2.1 percent, while output of industrial equipment expanded 0.6 percent.

In other areas, output growth was lower in August. The index for household durables edged down after a large increase in July, and production of consumer nondurable goods excluding energy was little changed. Utilities output fell 1.3 percent as electricity usage continued to retreat from an elevated level in June; in contrast to previous months, this August was a bit cooler than average. Output of construction supplies remained flat, and mining production fell for the second straight month.

Because of the surge in August production, as well as revisions to estimated growth in the preceding three months, the factory operating rate reached 84.3 percent. Most of the recent rise occurred in advanced-processing industries, whose utilization rate climbed to 82.8 percent. The utilization rate in primary-processing industries turned up as well in August, to 87.7 percent, after having edged lower in the preceding two months. The pressures on capacity were mirrored in purchasing managers' reports on vendor performance in August, which the NAPM reported to be the worst since mid-1988.

Prices

Higher rates of capacity utilization have exerted discernible upward pressure on prices at earlier stages of production. Producer prices of intermediate materials other than food and energy rose 0.5 percent in August and have risen at about a 6 percent annual rate during the past three months. Materials with especially large increases in recent months include metals, chemicals, and paper.

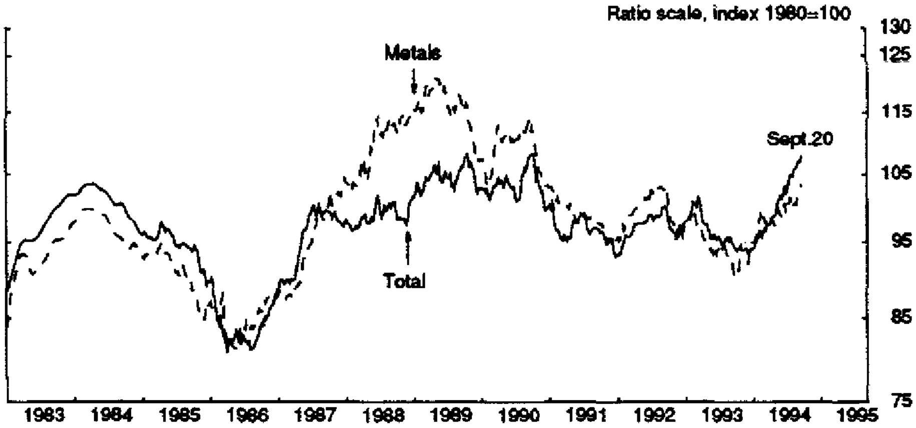
SPOT PRICES OF SELECTED COMMODITIES

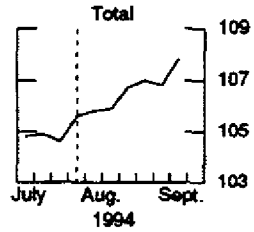
	Current price ($)	Percent change[1] 1992	1993	To Aug. 09[2]	Aug. 09[2] to Sept. 20	Memo: Year earlier to Date
		INDUSTRIAL COMMODITIES				
Metals:						
Copper (lb.)	1.260	4.1	-19.0	31.0	12.5	44.8
Steel scrap (ton)	134.500	1.1	46.8	-2.2	-1.5	19.6
Aluminum, London (lb.)	.722	9.9	-10.7	30.1	10.9	44.8
Lead (lb.)	.390	-4.3	3.0	10.2	2.6	16.4
Zinc (lb.)	.491	-10.3	-7.5	-.4	5.6	15.9
Tin (lb.)	3.589	6.5	-14.1	6.0	3.5	19.2
Textiles and fibers:						
Cotton (lb.)	.709	-3.2	19.6	15.3	-.9	31.2
Burlap (yd.)	.278	-9.6	8.2	3.8	1.1	15.8
Miscellaneous materials:						
Hides (lb.)	.950	11.4	1.3	12.7	6.7	17.3
Rubber (lb.)	.668	12.3	-7.3	49.2	.1	51.0
		OTHER COMMODITIES				
Precious metals:						
Gold (oz.)	393.900	-5.9	16.6	-2.3	4.0	11.0
Silver (oz.)	5.595	-5.7	38.8	2.0	8.9	36.8
Platinum (oz.)	419.500	5.5	8.0	6.4	2.3	14.3
Forest products:						
Lumber (m. bdft.)	305.000	47.5	75.8	-30.4	-5.6	-4.7
Plywood (m. sqft.)	390.000	53.5	-6.3	8.3	10.8	20.0
Petroleum:						
Crude oil (barrel)	15.750	1.4	-25.0	31.5	-11.3	-3.7
Gasoline (gal.)	.453	-2.9	-31.0	61.3	-24.2	-8.6
Fuel oil (gal.)	.471	21.9	-22.4	14.4	-5.8	-11.2
Livestock:						
Steers (cwt.)	64.500	10.6	-7.3	-3.4	-7.9	-11.6
Hogs (cwt.)	35.500	10.4	.6	5.5	-17.4	-25.3
Broilers (lb.)	.548	-5.3	6.1	3.4	2.8	-7.7
U.S. farm crops:						
Corn (bu.)	2.015	-16.1	41.7	-26.8	-4.0	-9.2
Wheat (bu.)	4.030	-11.7	5.8	-10.3	14.8	24.0
Soybeans (bu.)	5.310	1.1	24.5	-19.4	-5.1	-13.8
Other foodstuffs:						
Coffee (lb.)	2.210	17.9	-2.3	175.2	24.5	227.4
Memo:						
Exchange value of the dollar (March 1973=100)	87.927	10.1	3.4	-5.6	-2.3	-5.3
Yield on Treasury bill, 3-month[3]	4.620	-68	-14	139	17	170

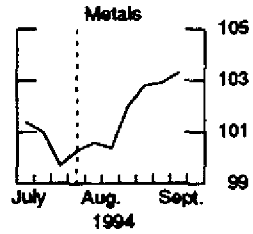
1. Changes, if not specified, are to the last week of the year indicated and from the last week of the preceding year.
2. Week of the August Greenbook.
3. Changes are in basis points.

COMMODITY PRICE MEASURES

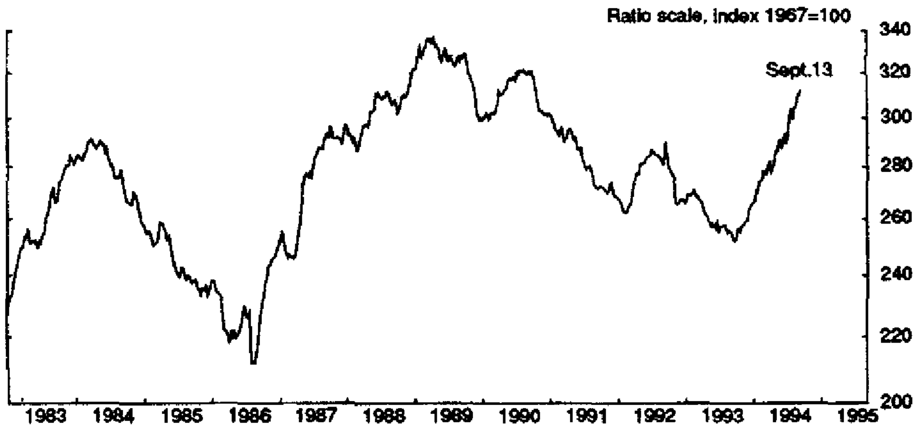
Journal of Commerce Index

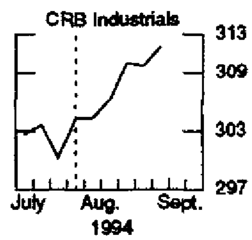




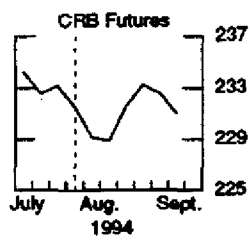


CRB Spot Industrials





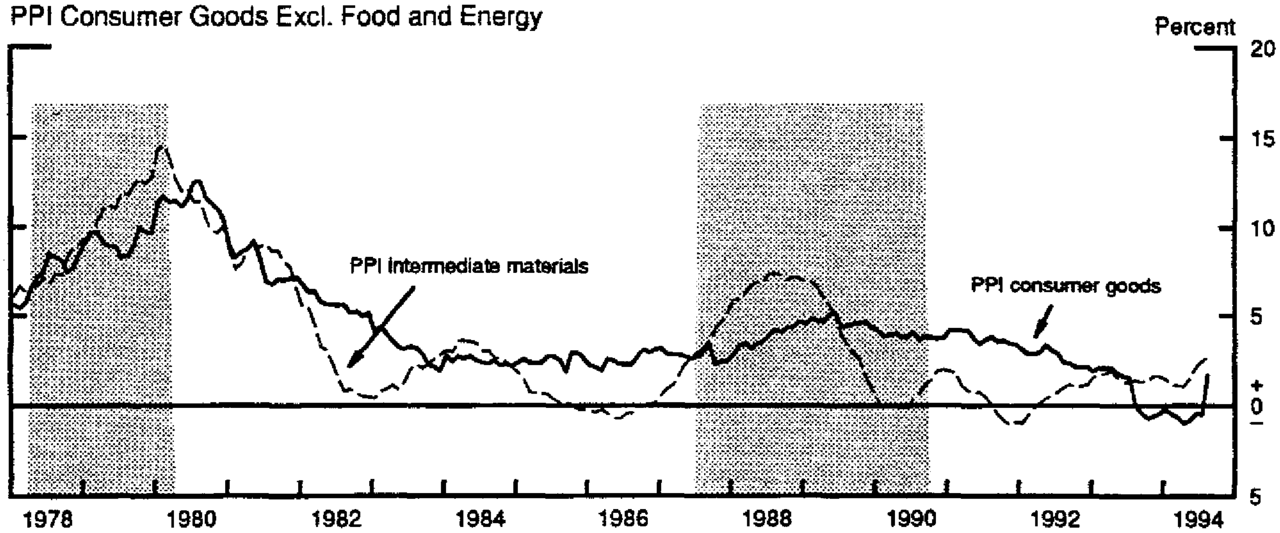
CRB Futures



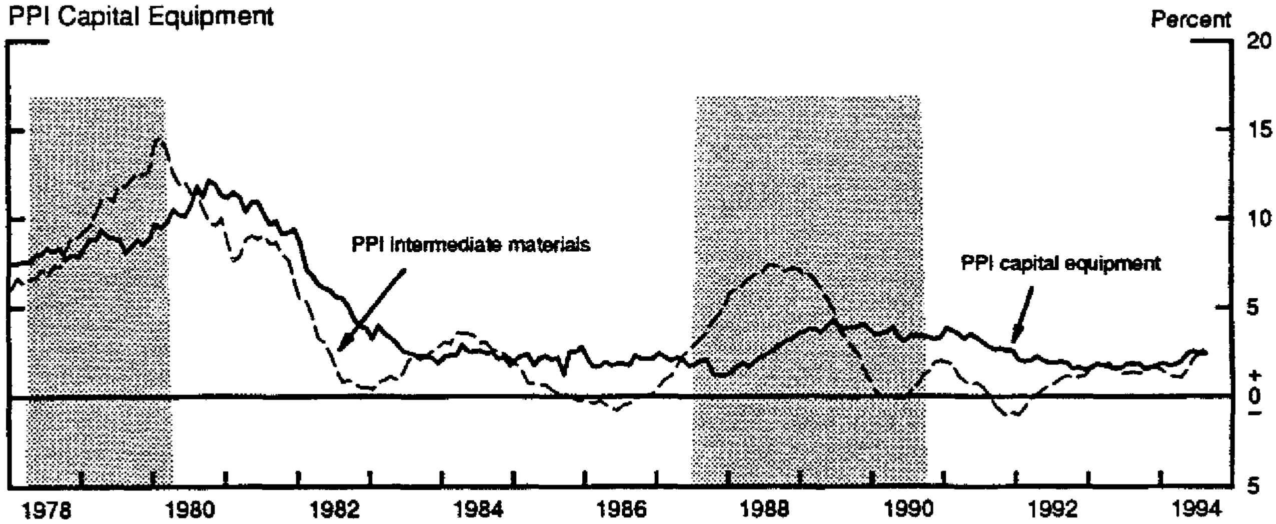
Note. Weekly data, Tuesdays; Journal of Commerce data monthly before 1985. Vertical lines on small panels indicate week of last Greenbook. The Journal of Commerce index is based almost entirely on industrial commodities, with a small weight given to energy commodities, and the CRB spot price index consists entirely of industrial commodities, excluding energy. The CRB futures index gives about a 60 percent weight to food commodities and splits the remaining weight roughly equally among energy commodities, industrial commodities and precious metals.

INTERMEDIATE MATERIALS PRICES AND FINISHED GOODS PRICES
(Excluding food and energy; twelve-month change)

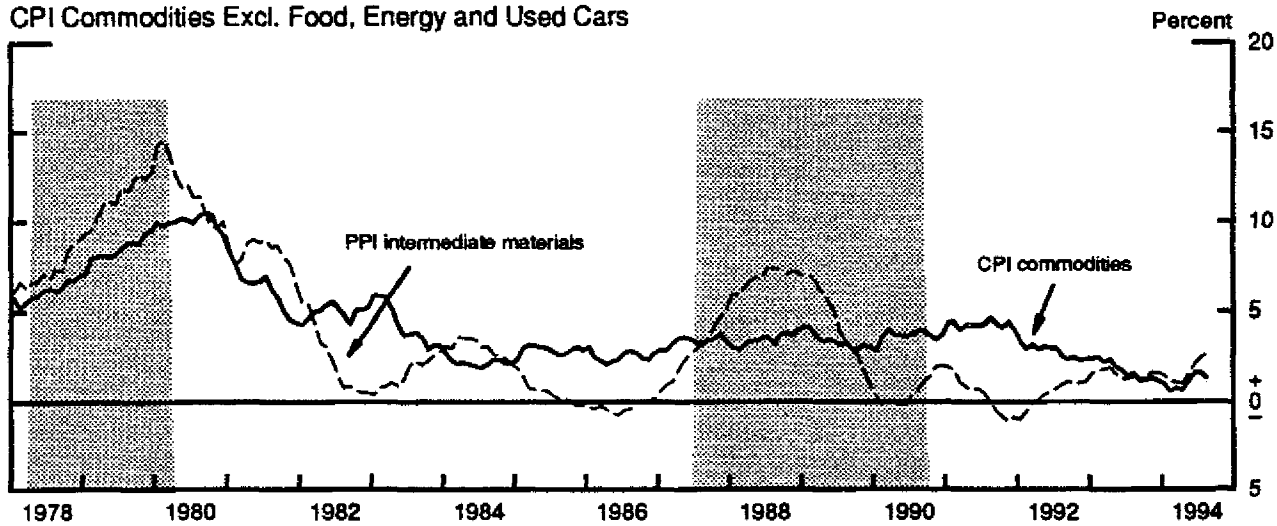
PPI Consumer Goods Excl. Food and Energy



PPI Capital Equipment



CPI Commodities Excl. Food, Energy and Used Cars



Note. Shaded areas are periods when actual output is above potential.

The increases in metals prices likely reflect not only the recent increases in operating rates in these industries but also the recovery in activity in other industrialized countries that has contributed to rising global metals prices. Chemicals prices also have been affected by the run-up in crude-oil prices.

Spot commodity prices also have increased generally since the last Greenbook. Most industrial materials posted further large increases--copper, aluminum, zinc, and tin prices were all up more than 4 percent--although scrap steel prices declined in recent weeks after large increases prior to that. Corn and wheat prices also increased significantly in recent weeks. Although corn prices remained well below their spring levels, wheat prices have more than offset their declines this summer. Coffee prices have been extremely volatile in recent weeks; however, their average so far in September is not much different from that of July.

Recent developments in intermediate materials prices may exert upward pressure on finished goods prices in the coming months, but past experience indicates that the extent of pass-through from materials prices to prices of finished goods can vary greatly (chart). Little pass-through was apparent when materials prices accelerated in 1983 and 1984 during the beginning of the expansion. That episode illustrates that accelerating materials prices may give false signals about subsequent changes in finished goods prices, particularly when utilization is relatively low. Econometric evidence suggests that the pass-through tends to be more pronounced when the economy is operating at high levels of utilization (shaded areas); however, that result was far more apparent in the late 1970s than the late 1980s.

The PPI for finished goods rose 0.6 percent in August, the largest monthly increase since October 1990. In addition to another

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 July	1994 Aug.
				-----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	.5	.4
Energy	7.0	2.0	-1.4	1.2	4.7	-4.9	1.8	1.4
All items less food and energy	77.2	3.3	3.2	3.4	2.9	3.1	.2	.3
Commodities	24.4	2.5	1.6	2.4	.6	4.2	.1	-.1
Services	52.8	3.7	3.9	3.7	4.2	2.4	.2	.4
Memo:								
CPI-W[3]	100.0	2.9	2.5	3.1	2.5	2.5	.3	.4

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

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

	Relative importance, Dec. 1993	1992	1993	1993 Q4	1994 Q1	1994 Q2	1994 July	1994 Aug.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	1.6	.2	-.3	3.6	-.3	.5	.6
Consumer foods	22.9	1.6	2.4	5.2	-.6	-5.8	.5	.7
Consumer energy	13.3	-.3	-4.1	-15.6	15.4	-2.6	2.5	1.7
Other finished goods	63.7	2.0	.4	.9	3.0	2.1	.1	.4
Consumer goods	40.3	2.1	-.4	1.5	2.0	1.5	.0	.4
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	.6	.7
Excluding food and energy	82.3	1.2	1.6	1.6	1.9	3.9	.4	.5
Crude food materials	44.1	3.0	7.2	18.4	-4.5	-20.9	-2.1	-1.4
Crude energy	34.4	2.3	-12.3	-22.1	10.1	26.9	-1.3	-.1
Other crude materials	21.5	5.7	10.7	15.4	22.7	-2.1	2.0	1.4

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

jump in energy prices, prices of finished foods registered a 0.7 percent increase. The PPI for finished goods other than food and energy rose 0.4 percent in August, following two months of no change. Price increases were especially large for light motor vehicles and a variety of nondurable consumer items, including tobacco products and cosmetics.

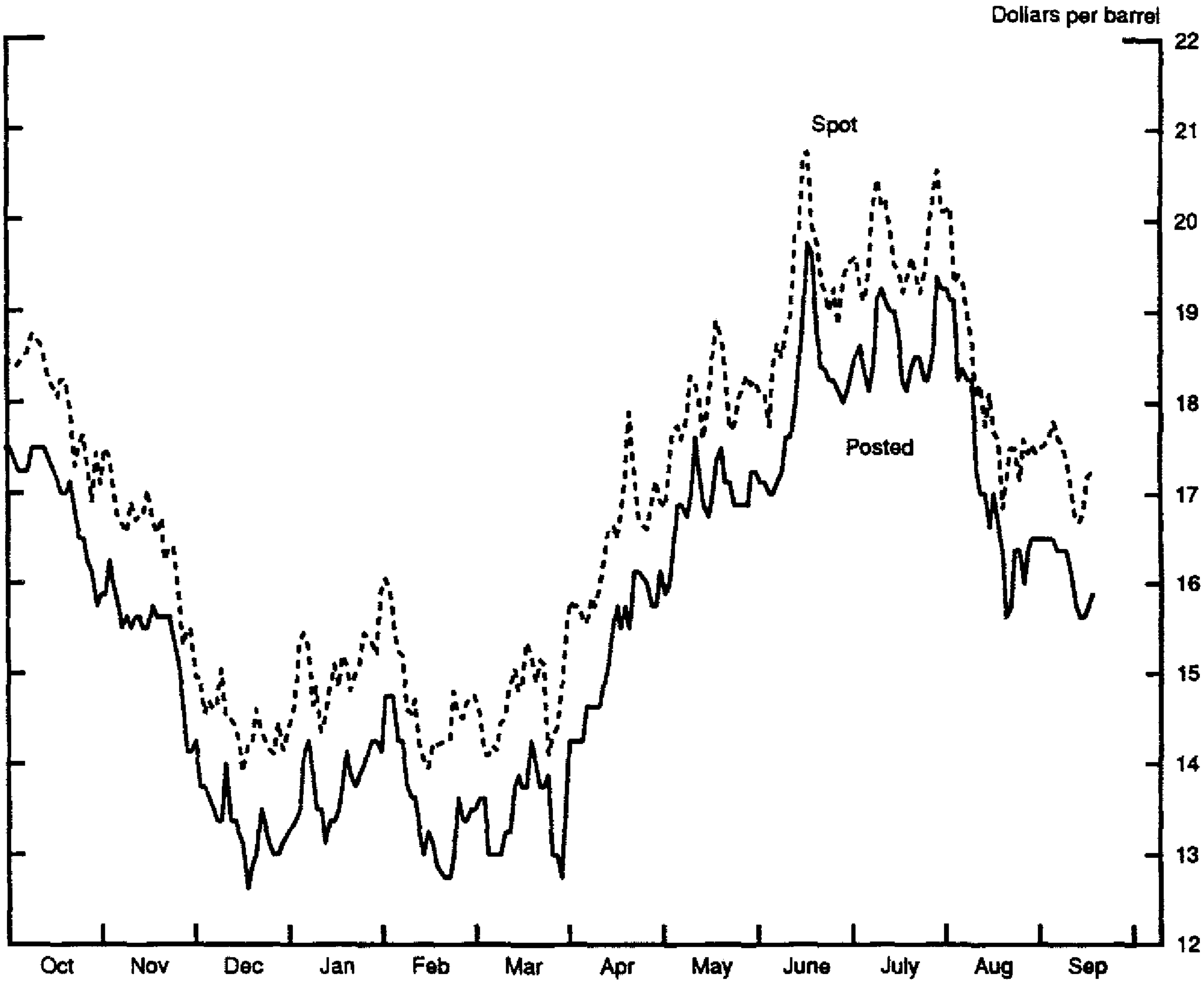
The twelve-month change in the PPI for finished goods other than food and energy increased from 0.5 percent in July to 1.9 percent in August. This increase, however, was mostly the result of the 25 percent decline of tobacco prices in August 1993, which has now dropped out of the twelve-month percent change. Excluding food, energy, and tobacco, the most recent twelve-month change in prices of finished goods was 1.8 percent, up a bit from the 1.6 percent pace in the previous twelve-month period.[3]

Despite significant upward pressure on prices at earlier stages of processing, inflation at the consumer level has only increased modestly. The consumer price index has risen a little faster of late, posting increases of 0.3 percent for three months running--including August. The recent edging up of CPI inflation has been led by some solid increases in energy and certain food and service prices.

Retail energy prices rose 1.4 percent in August, the second consecutive large increase. The recent increases in energy prices primarily reflect the pass-through of higher crude oil prices (the posted price of a barrel of West Texas intermediate rose from $13.50 in March to $18.50 in July.) Since late July, however, crude oil prices have reversed some of their earlier increase, and the

3. The decline in prices of tobacco products at the retail level was spread over August and September of 1993. As these declines drop out of the twelve-month change in the CPI excluding food and energy in September, that index will be boosted by 0.1 percentage point.

DAILY SPOT AND POSTED PRICES OF WEST TEXAS INTERMEDIATE*



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

MONTHLY AVERAGE PRICES--WEST TEXAS INTERMEDIATE

Year and Month	Posted	Spot
1993		
October	17.10	18.15
November	15.55	16.68
December	13.39	14.51
1994		
January	13.78	15.02
February	13.63	14.78
March	13.46	14.66
April	15.13	16.38
May	16.80	17.88
June	17.97	19.07
July	18.56	19.65
August	17.40	18.37
September [1]	16.14	17.29

1. Price through September 20.

Lundberg survey for early September suggests that an easing in retail energy prices has already begun.

The CPI for food rose 0.4 percent in August. Coffee prices posted another large gain as the huge increases in spot prices continued to be passed on to the consumer level. Excluding coffee prices, retail food prices were up only 0.1 percent last month, continuing the moderate trend evident since the beginning of the year.

Prices of consumer goods other than food and energy fell slightly in August. The decline was concentrated in the volatile apparel category; in other categories, consumer goods prices rose 0.2 percent. Prices of services other than energy rose 0.4 percent in August, following four months of 0.2 percent increases. Owners' equivalent rent posted a second consecutive 0.4 percent increase, following three months of more modest increases; tenants' rent also was up 0.4 percent in August. Nonetheless, the twelve-month changes in these series remain at 3-1/4 percent (owners' rent) and 2-1/2 percent (tenants' rent), the same as their twelve-month changes a year ago. Medical services prices rose 0.4 percent for the fourth consecutive month. Over the past twelve months, medical fees increased 5.0 percent, down from 6.4 percent in the previous twelve-month period.

Motor Vehicles Sales

Sales of new light vehicles rebounded in August to a 15.5 million unit annual rate (FR seasonals),[4] with increases in purchases of autos and light trucks. The recent strength reflects both a temporary boost from heavy incentives on Japanese makes and

4. Sales are reported on an FRB seasonally adjusted basis to correct for problems in the BEA seasonal factors that do not accurately account for variations in the reporting periods used by automakers.

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

			1993	1994		1994		
	1992	1993	Q4	Q1	Q2	June	July	Aug.
Total	12.8	13.9	14.6	15.0	14.8	14.7	14.3	15.5
(BEA Seasonals)	12.8	13.9	14.5	15.5	14.8	14.5	13.7	15.3
Autos	8.4	8.7	9.0	9.2	9.1	9.0	8.7	9.6
Light trucks	4.5	5.2	5.5	5.8	5.7	5.7	5.6	5.7
North American[2]	10.5	11.8	12.5	12.9	12.7	12.5	12.1	13.1
Autos	6.3	6.8	7.1	7.3	7.2	7.0	6.7	7.4
Big Three	5.1	5.5	5.7	5.9	5.7	5.5	5.2	5.6
Transplants	1.2	1.3	1.4	1.4	1.5	1.6	1.5	1.8
Light trucks	4.2	5.0	5.4	5.6	5.5	5.5	5.4	5.7
Foreign produced	2.3	2.2	2.0	2.1	2.1	2.2	2.1	2.4
Autos	2.1	2.0	1.9	2.0	2.0	2.0	2.0	2.2
Light trucks	.2	.2	.1	.1	.2	.2	.1	.2
Memo: domestic name-plate market share								
Total	.72	.74	.74	.74	.73	.72	.72	.70
Autos	.63	.64	.65	.65	.63	.61	.61	.59

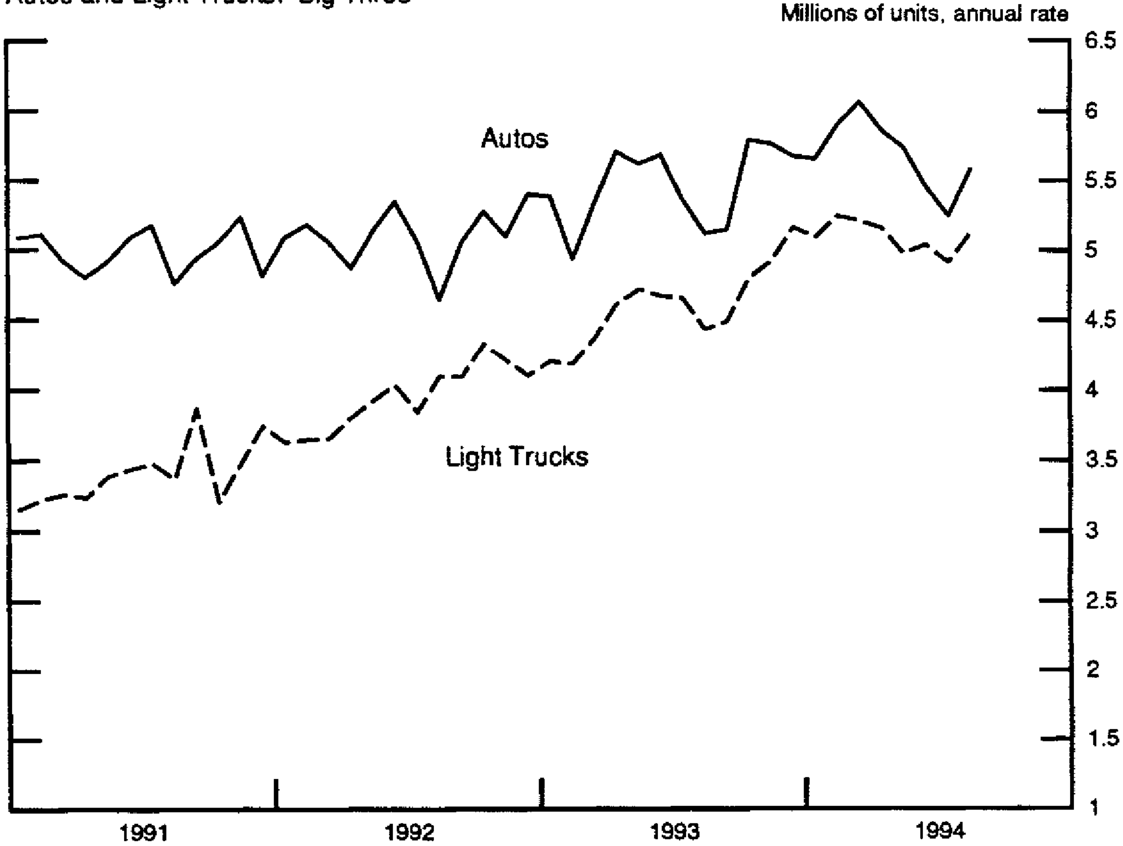
Note: Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

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

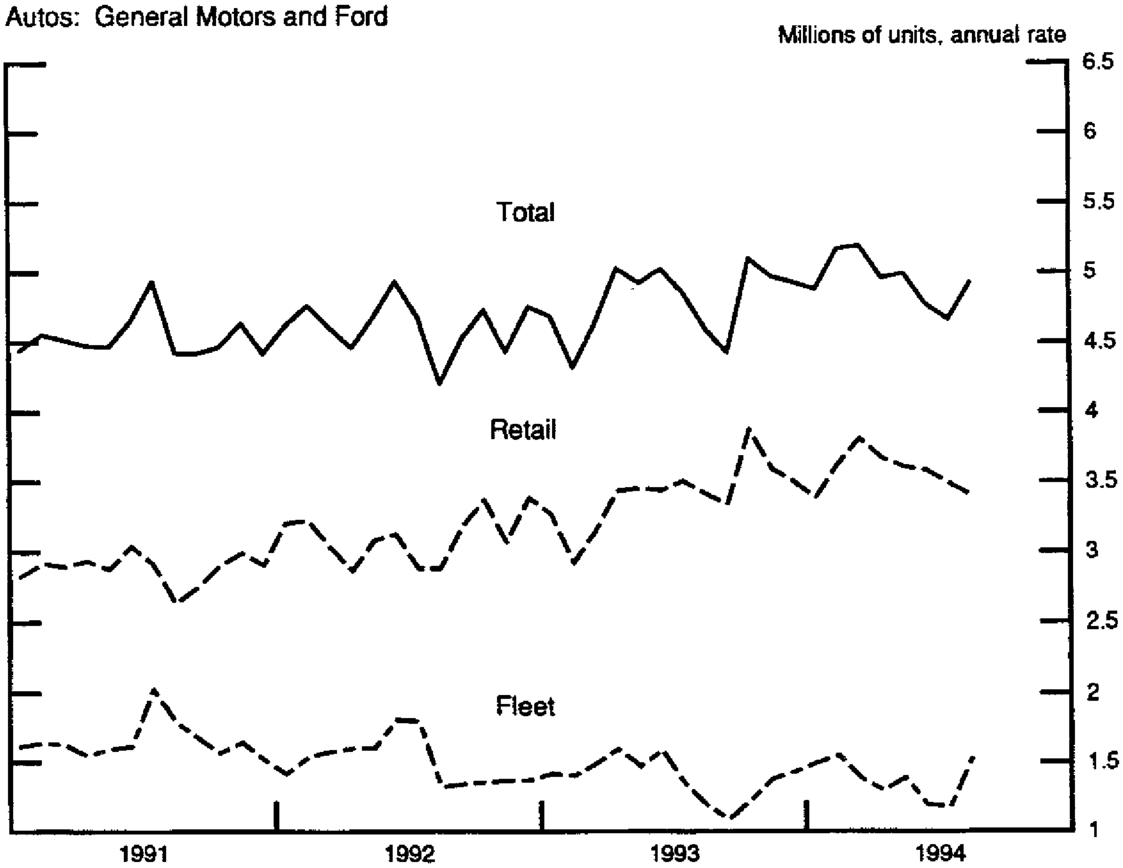
2. Excludes some vehicles produced in Canada that are classified as imports by the industry: before January 1994, some vehicles produced in Mexico were also excluded.

LIGHT VEHICLE SALES

Autos and Light Trucks: Big Three



Autos: General Motors and Ford



Note: These data were provided on a confidential basis.

September 16, 1994

RETAIL SALES
(Percent change; seasonally adjusted)

	1993	1994		1994		
	Q4	Q1	Q2	June	July	Aug.
Total sales	3.0	1.5	1.1	.9	.0	.8
Previous estimate			1.1	.8	-.1	
Retail control[1]	1.4	1.0	1.2	.8	.6	.6
Previous estimate			1.2	.7	.3	
Total excl. automotive group	1.9	.7	1.5	.9	.5	.7
Previous estimate			1.5	.8	.4	
GAF[2]	2.0	.7	1.8	1.7	.1	1.1
Previous estimate			1.8	1.8	.5	
Durable goods stores	5.7	2.2	1.5	1.2	-.6	1.3
Previous estimate			1.4	.9	-.5	
Bldg. material and supply	7.4	-1.6	4.0	1.3	-.2	2.2
Automotive dealers	7.1	4.2	-.2	1.1	-1.6	1.2
Furniture and appliances	4.8	.0	4.0	1.7	.0	1.7
Other durable goods	-1.3	.1	4.4	1.0	2.4	.5
Nondurable goods stores	1.4	1.0	.8	.7	.5	.4
Previous estimate			.8	.7	.2	
Apparel	1.0	-1.3	.2	1.7	-.5	2.0
Food	1.7	.9	-.1	-.2	.3	.2
General merchandise[3]	1.3	1.9	1.4	1.8	.4	.4
Gasoline stations	-.3	3.0	.6	1.8	.9	1.0
Other nondurables[4]	1.7	.6	1.5	.4	.8	.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.

some easing of the supply constraints that had held down sales of domestic nameplates since the first quarter.

Among Big Three makes, an improved supply of light vehicles permitted rebounds in sales of autos and light trucks after downward trends since the beginning of the year (chart, top panel). Confidential data from GM and Ford on automobile sales indicate that the rebound occurred in fleet sales, which are primarily made to rental car companies (chart, bottom panel). When faced with limited supplies of vehicles earlier this year, automakers apparently denied vehicles to their captive rental car companies and now are meeting rental car demand with the newly available supply. Furthermore, the addition of third shifts at two plants producing pickup trucks and sports utility vehicles began to alleviate supply constraints in that segment of the market, allowing sales to edge up in August.

The latest reading on car buying attitudes from the Michigan SRC survey shows more positive consumer sentiments. Fewer consumers expressed concerns that past and expected interest rate hikes will choke off the recovery. In September, the preliminary estimate of consumers' appraisals of car buying conditions jumped nearly 6 percent, reaching its highest level since April.

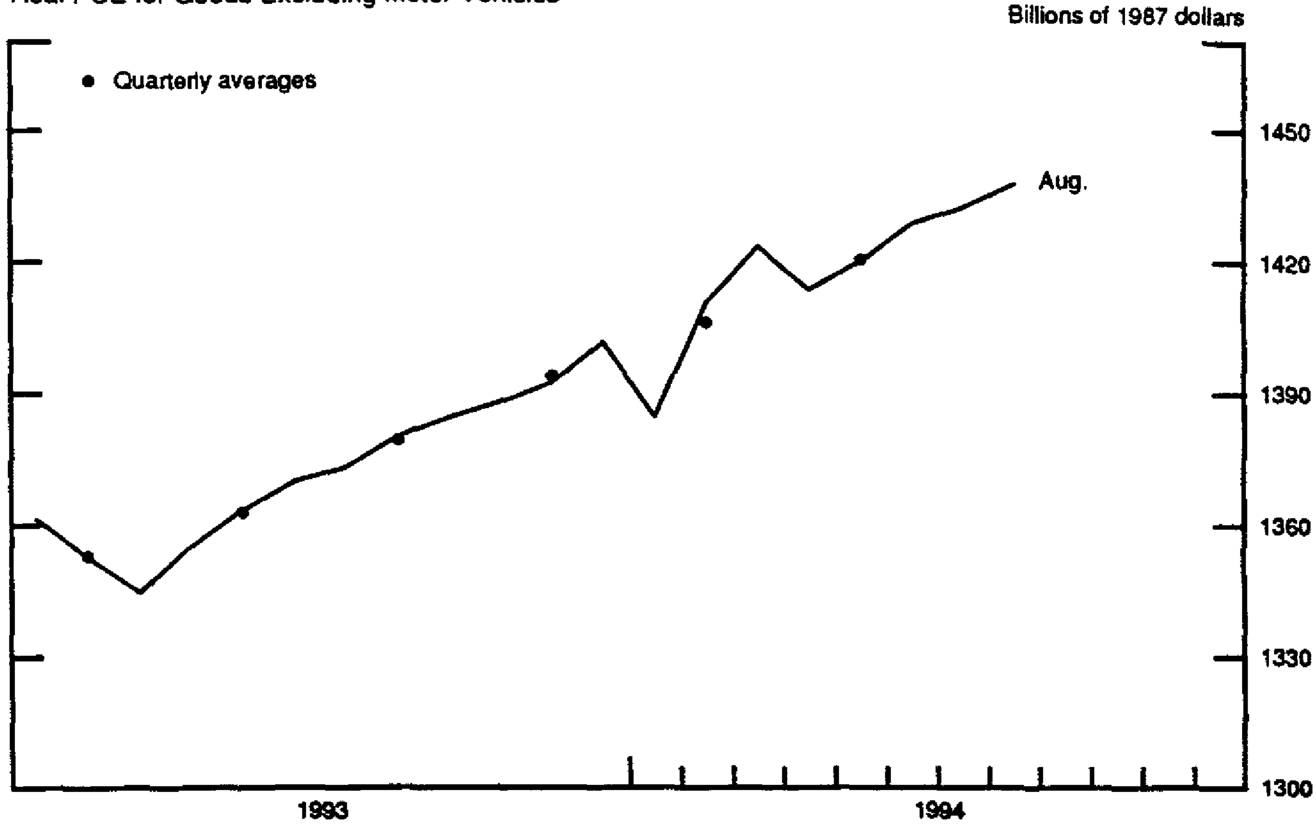
Given the high level of demand since the turn of the year, domestic automakers have been able to raise prices of cars and light trucks 4 and 5 percent, respectively, as measured by the PPI during the twelve months ended in August. Moreover, the continued appreciation of the yen has boosted Japanese prices and raised the BLS import price index for autos 5 percent during the twelve-month period ended in July.

Personal Income and Consumption

Nominal retail sales increased 0.8 percent in August, boosted by a sharp rebound in sales of durable goods from a weak July.

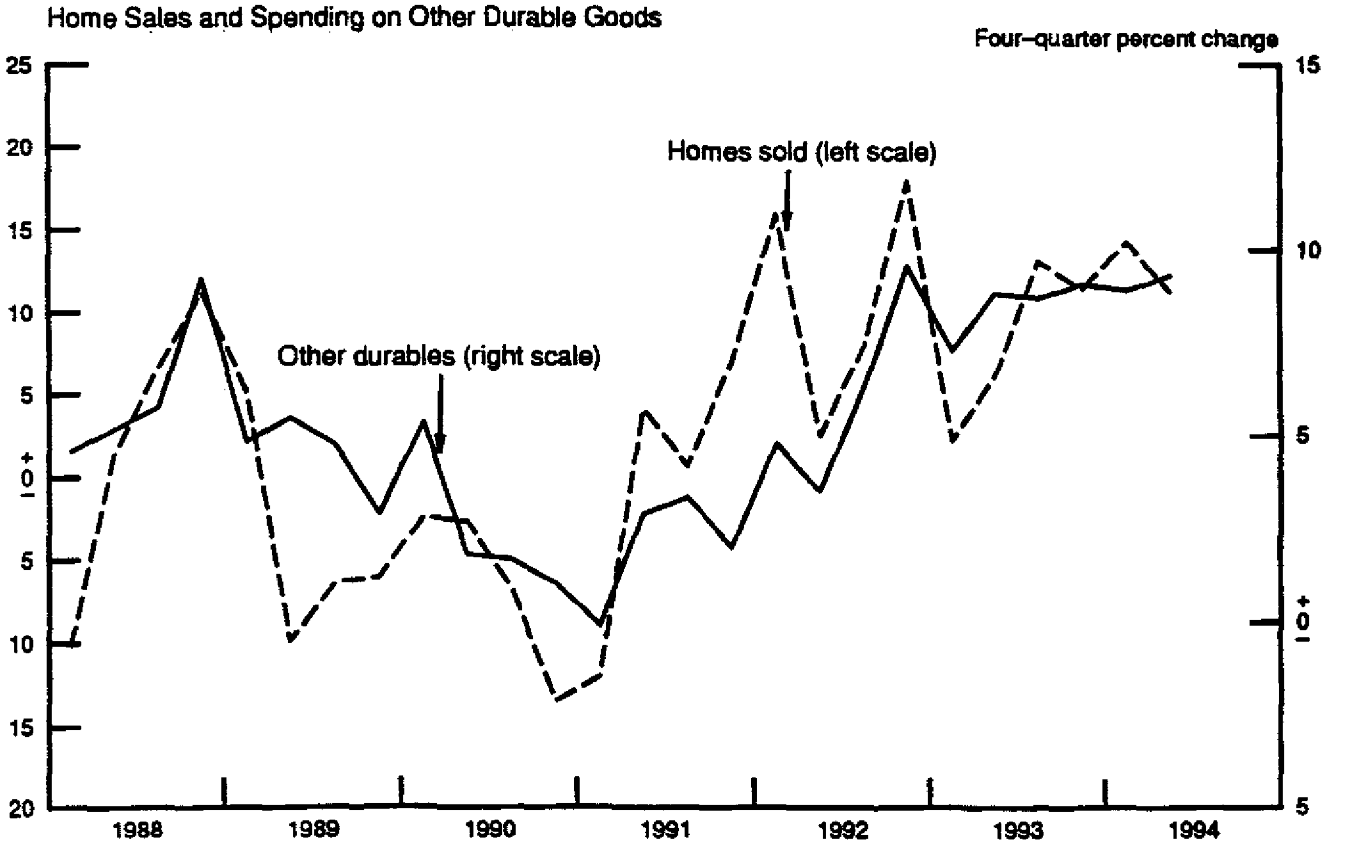
PERSONAL CONSUMPTION EXPENDITURES

Real PCE for Goods Excluding Motor Vehicles*



*June, July, and August are staff estimates

Home Sales and Spending on Other Durable Goods



Spending in the retail control category increased 0.6 percent in August, the same rate as the upward-revised estimate in July. Factoring in the latest CPI data, real consumption of goods excluding motor vehicles is estimated to have risen 0.4 percent in August to a level 4.8 percent (annual rate) above the second-quarter average: The latest increase maintains the brisk pace that has prevailed since early 1993.

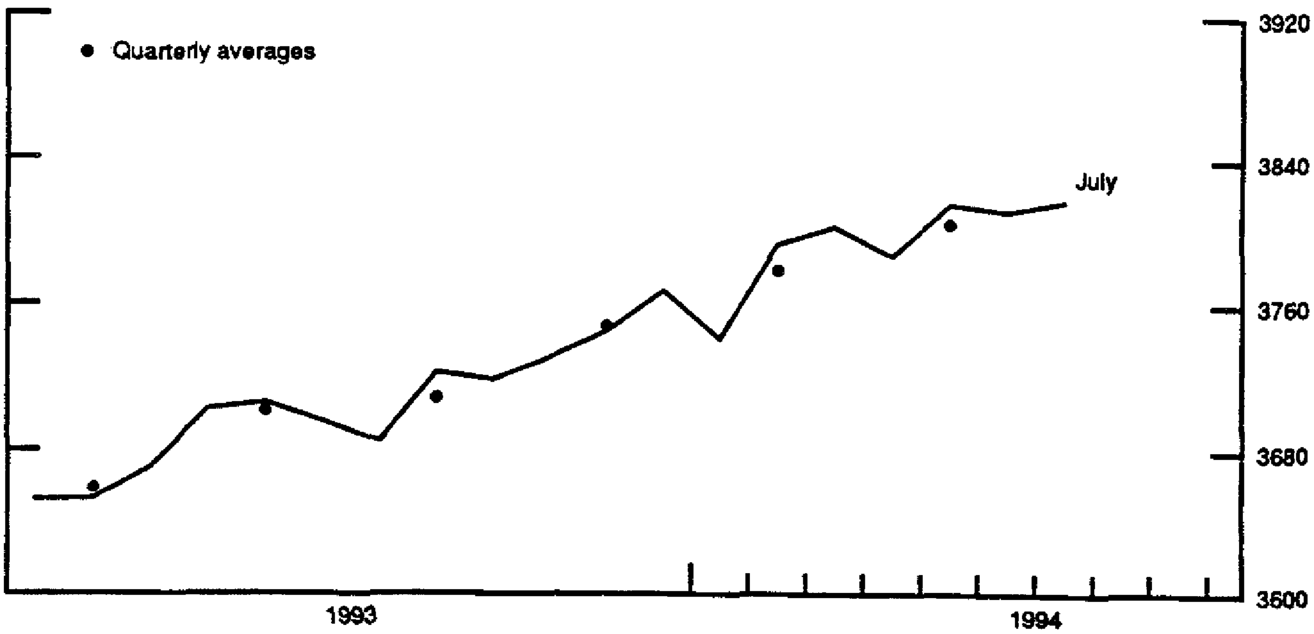
The fastest growing subcategory of spending on nonauto goods during this period has been durables, particularly furniture and household equipment. Historically, growth in spending on furniture and household equipment has tended to track growth in home sales. Although growth in home sales leveled off during the first half of this year, it remained high relative to a year ago (figure, bottom panel). Thus, growth in spending on these household durables has also remained high.

Real disposable income remained on a solid upward trend through July. However, judging from the most recent labor market report, wage and salary growth for August is likely to be below the pace of the first half of the year. The modest upward trend in interest income attributable to rising interest rates is likely to provide only a slight offset.

Measures of consumer attitudes have been relatively stable recently. The Michigan index of sentiment edged up in the first half of September, according to preliminary results. The increase reflected mixed changes in assessments of current and prospective conditions; improved expectations about future conditions (an official cyclical leading indicator) offset less positive appraisals of current conditions (chart, top panel). Both the Michigan and the Conference Board indexes have been fluctuating near, but slightly below, their post-recession peaks.

PERSONAL INCOME

Real Disposable Personal Income

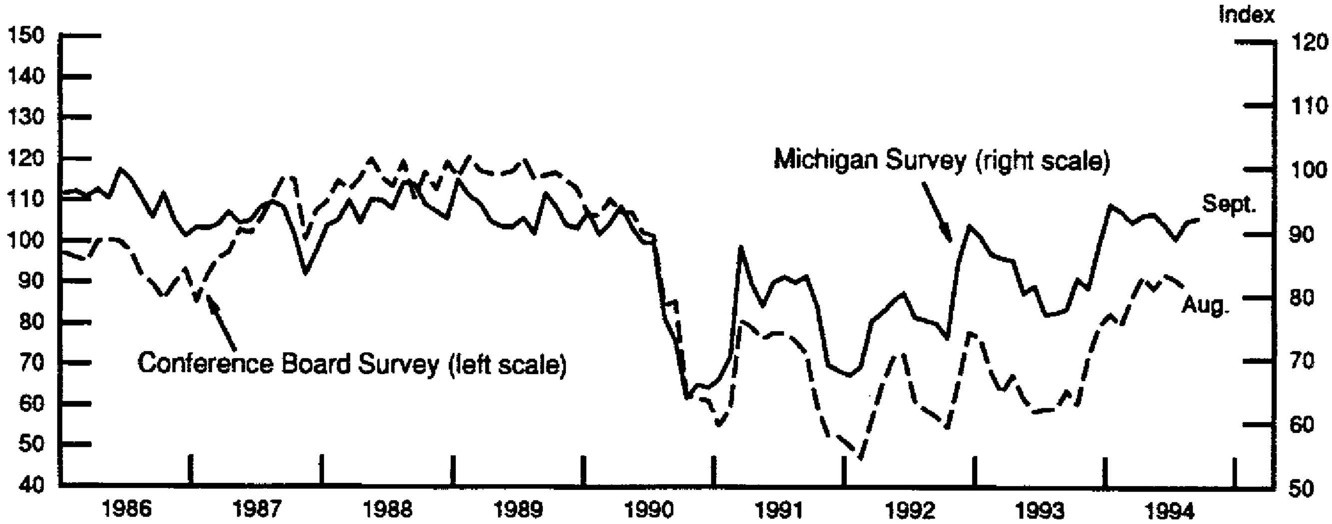


PERSONAL INCOME
(Average monthly change at an annual rate; billions of dollars)

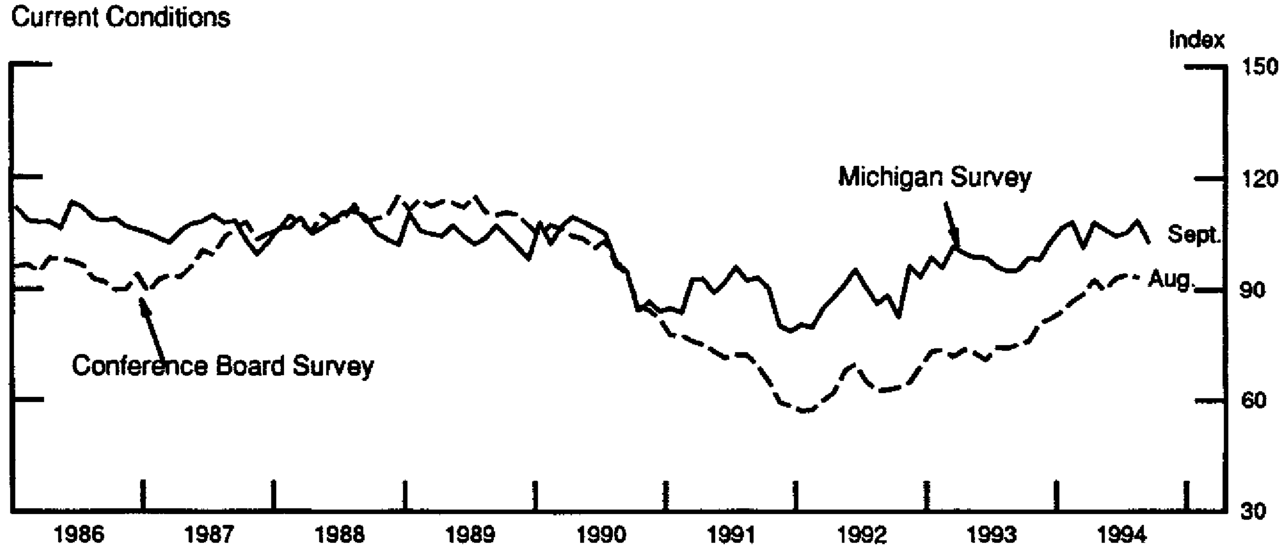
		1993	1994		1994	
	1993	Q4	Q1	Q2	June	July
Total personal income	.1	33.5	30.3	18.5	7.3	29.9
Wages and salaries	-8.8	13.7	19.8	15.8	3.7	16.8
Private	-10.2	13.6	17.0	13.7	5.2	15.2
Other labor income	2.5	2.7	1.8	1.7	1.7	1.8
Proprietors' income	2.9	16.2	.5	-5.5	-5.0	1.0
Farm	.7	10.7	-1.7	-6.9	-6.3	-.5
Rent	1.9	.7	2.3	-2.4	-2.5	.3
Dividend	.8	.3	.9	2.1	1.6	1.7
Interest	-2.7	-3.1	3.2	5.3	5.5	5.0
Transfer payments	4.6	4.1	4.9	2.8	3.0	4.6
Less: Personal contributions for social insurance	1.1	1.1	3.1	1.3	.7	1.3
Less: Personal tax and nontax payments	.1	4.4	5.2	4.1	1.4	3.7
Equals: Disposable personal income	.0	29.1	25.1	14.4	5.9	26.2
Memo: Real disposable income	-6.4	16.4	11.8	2.8	-4.2	6.1

INDICATORS OF CONSUMER ATTITUDES

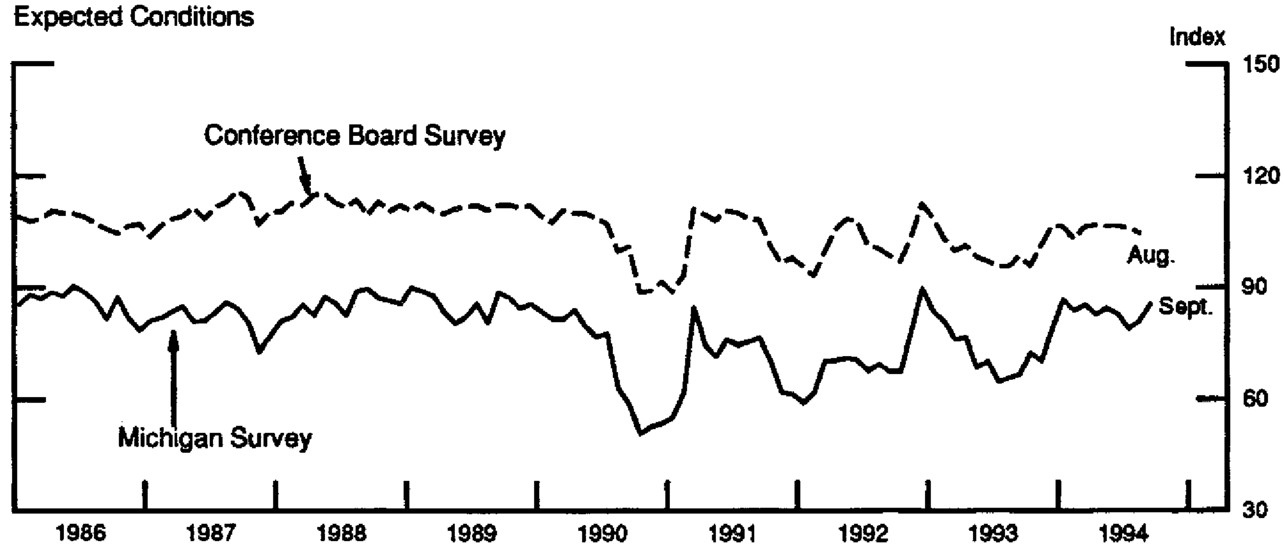
Consumer Sentiment



Current Conditions



Expected Conditions

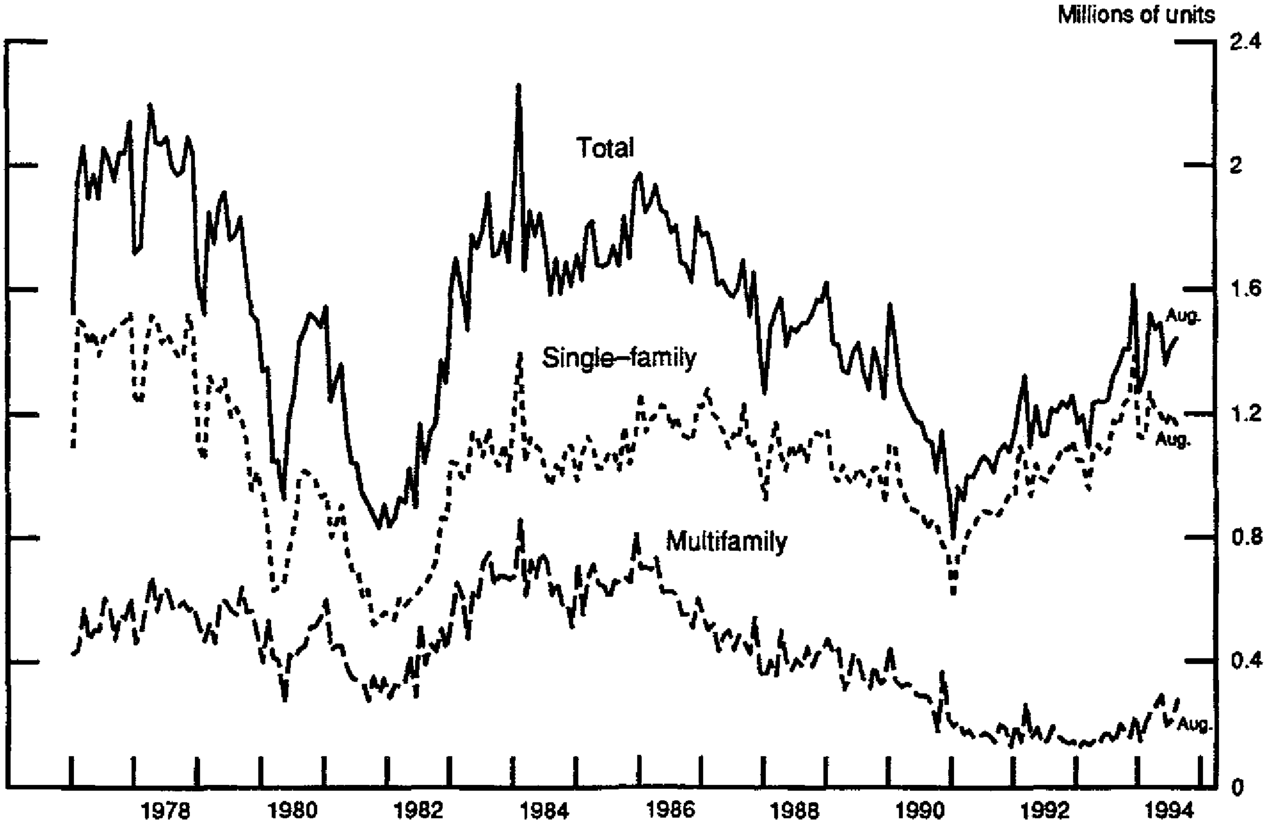


PRIVATE HOUSING ACTIVITY
(Millions of units; seasonally adjusted annual rates)

	1993		1994				
	Annual	Q4	Q1	Q2p	June r	July r	Aug. p
All units							
Starts	1.29	1.48	1.37	1.44	1.36	1.41	1.44
Permits	1.20	1.38	1.29	1.35	1.32	1.34	1.35
Single-family units							
Starts	1.13	1.29	1.17	1.19	1.16	1.20	1.17
Permits	.99	1.13	1.06	1.07	1.05	1.03	1.05
New-home sales	.67	.77	.69	.66	.61	.66	n.a.
Existing-home sales	3.80	4.17	4.05	4.06	3.96	3.95	n.a.
Multifamily units							
Starts	.16	.19	.20	.25	.20	.21	.28
Permits	.21	.25	.23	.29	.27	.30	.30

Note. p Preliminary. r Revised. n.a. Not available.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



Housing Markets

Most indicators of housing demand eased a bit further during the intermeeting period, but single-family construction was surprisingly resilient.

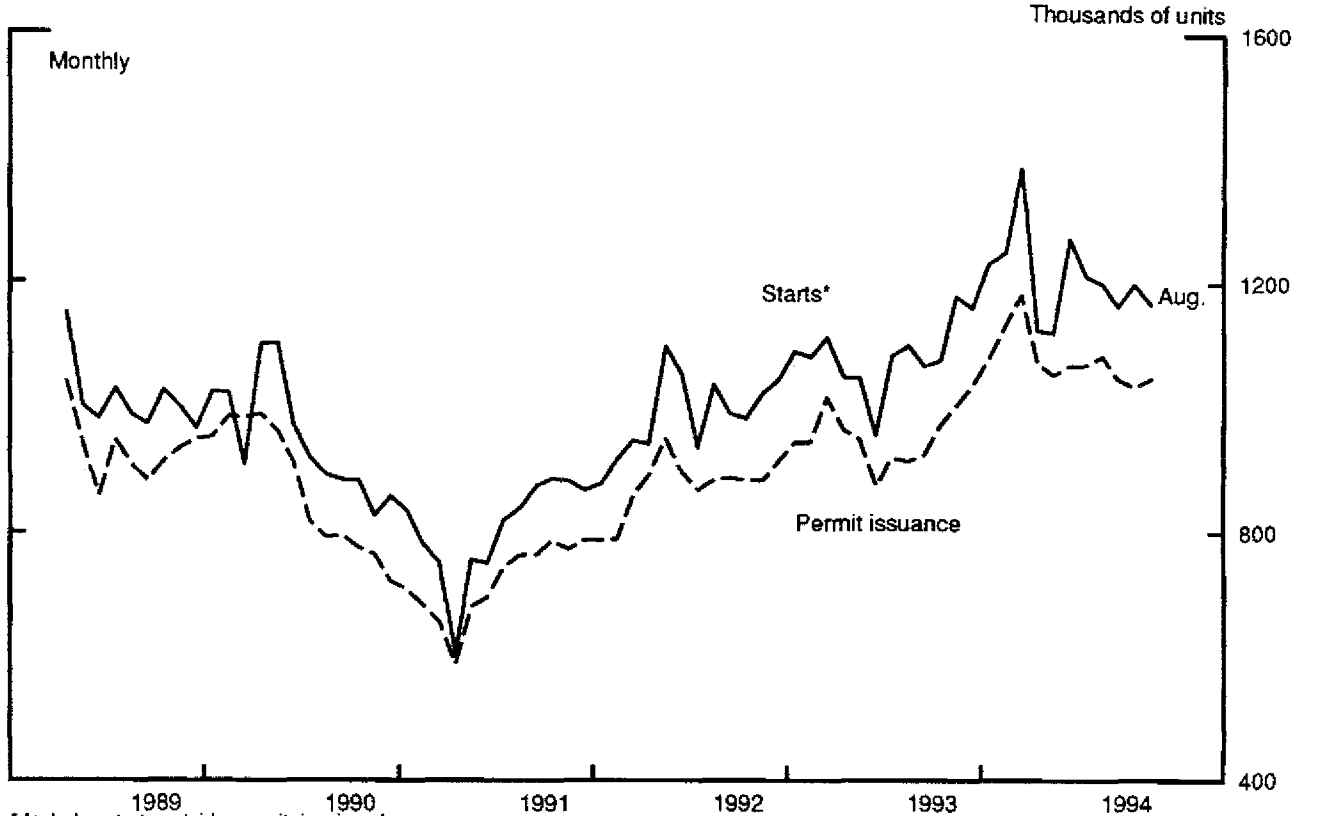
Single-family starts edged down 3 percent in August to 1.17 million units (annual rate). Nonetheless, as in July, the level was close to the second-quarter average of 1.19 million units. Permit issuance for single-family projects corroborates the recent leveling off in starts. Prior to these most recent readings, single-family construction had been trending down with the rise in mortgage interest rates that began late last year; the monthly pattern, however, was obscured by last winter's severe weather.

The strength of single-family production during the summer months is at odds with most other indicators, which have been pointing to a further softening of housing demand. New-home sales in June and July averaged 17 percent below the high of last year's fourth quarter, and the level of sales suggests that demand is not sufficient to support the recent rate of production. Sales of existing homes are down as well. These data on softening sales volumes are corroborated by assessments of market conditions by builders and lenders, as recorded in industry surveys through early September (chart, middle and bottom panels). Consumer homebuying attitudes, on the other hand, have improved in recent months.

The weakening of demand has yet to show through in prices, which by most measures have continued to increase at about a 3-to-4 percent annual rate for the nation as a whole. Rising construction costs, however, may be offsetting the effects of reduced demand. Although lumber prices have been flat in recent weeks, they are about 7 percent above even the elevated level of a year earlier. Costs of plywood and most other building materials rose further in

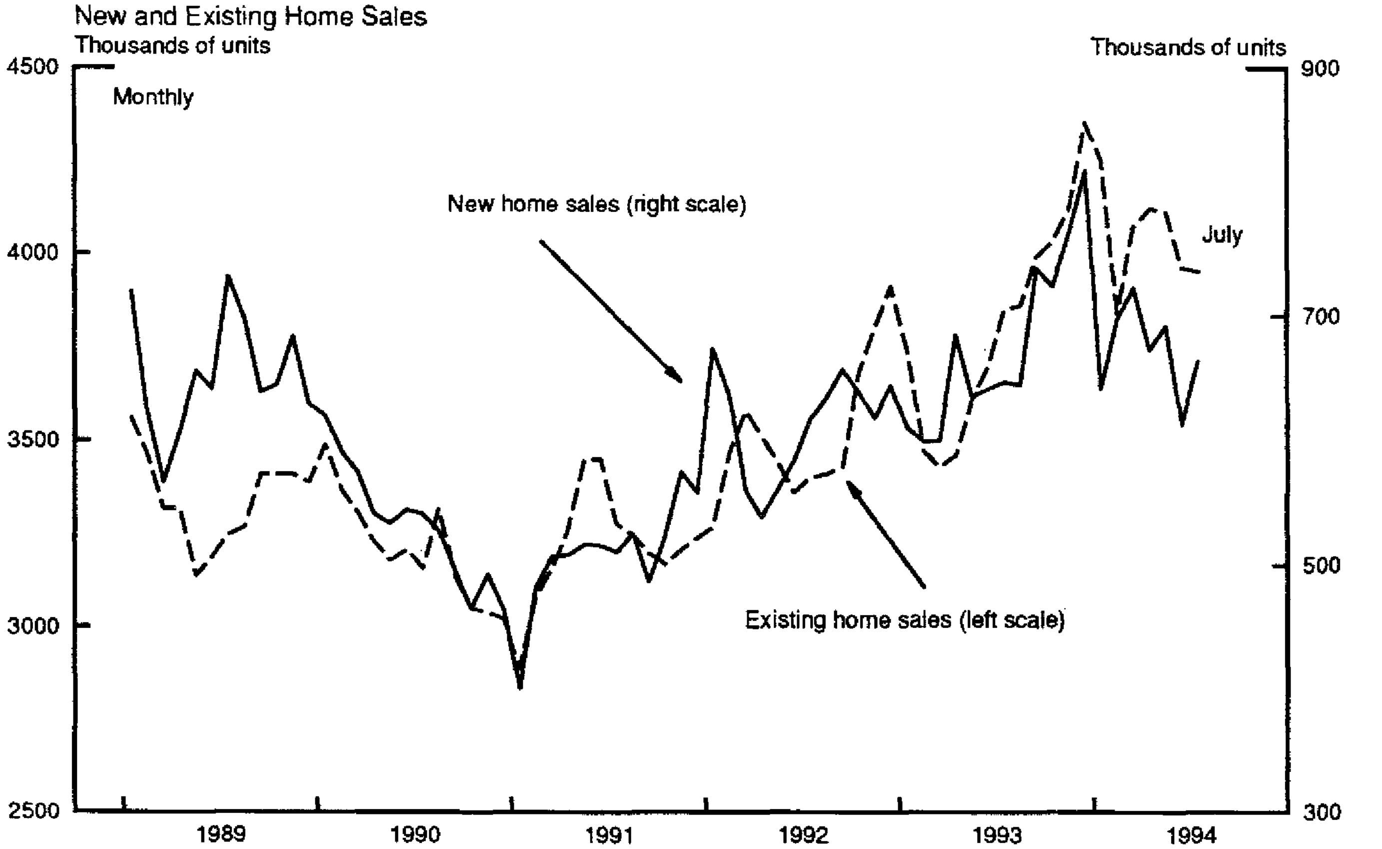
SINGLE–FAMILY HOUSING INDICATORS

Single–Family Starts and Permit Issuance



* Includes starts outside permit–issuing places.

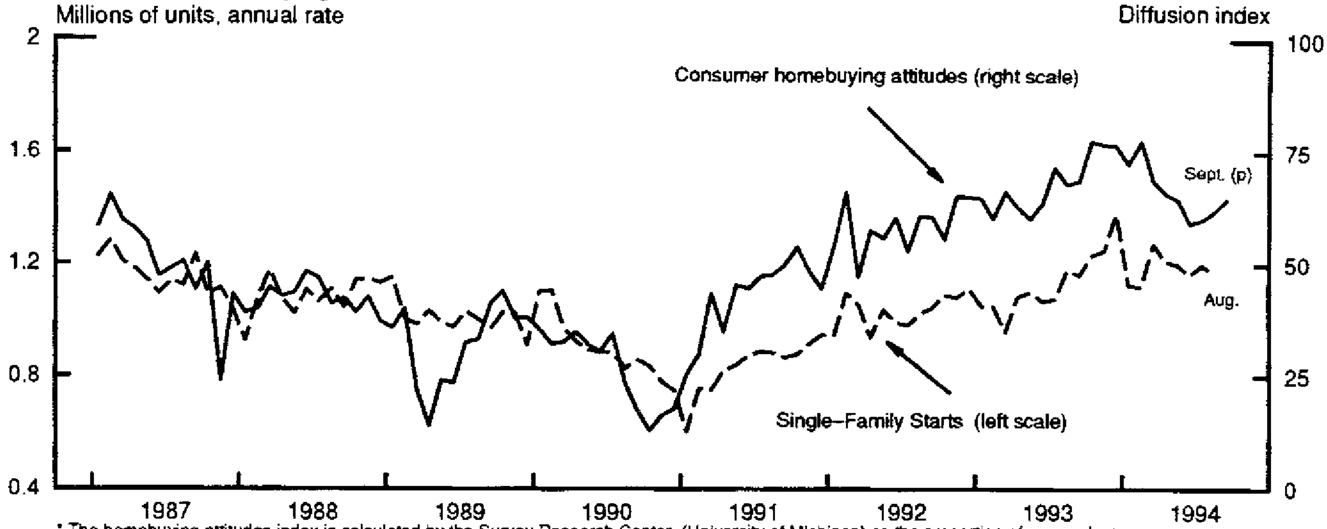
New and Existing Home Sales



INDICATORS OF HOUSING DEMAND

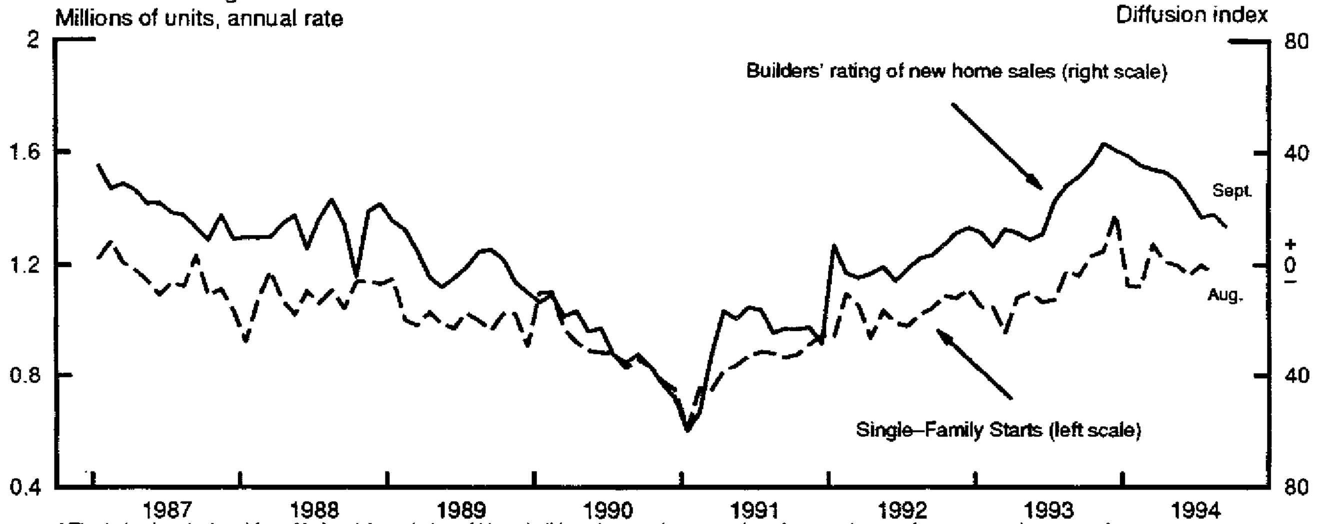
(Seasonally adjusted)

Consumer Homebuying Attitudes*



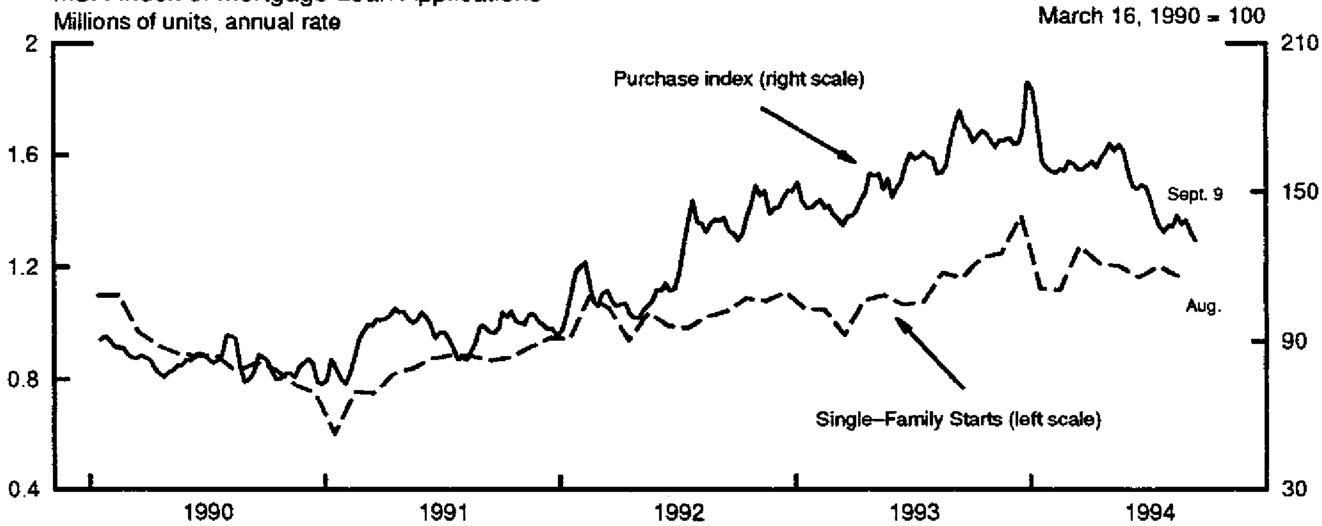
* The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

Builders' Rating of New Home Sales*

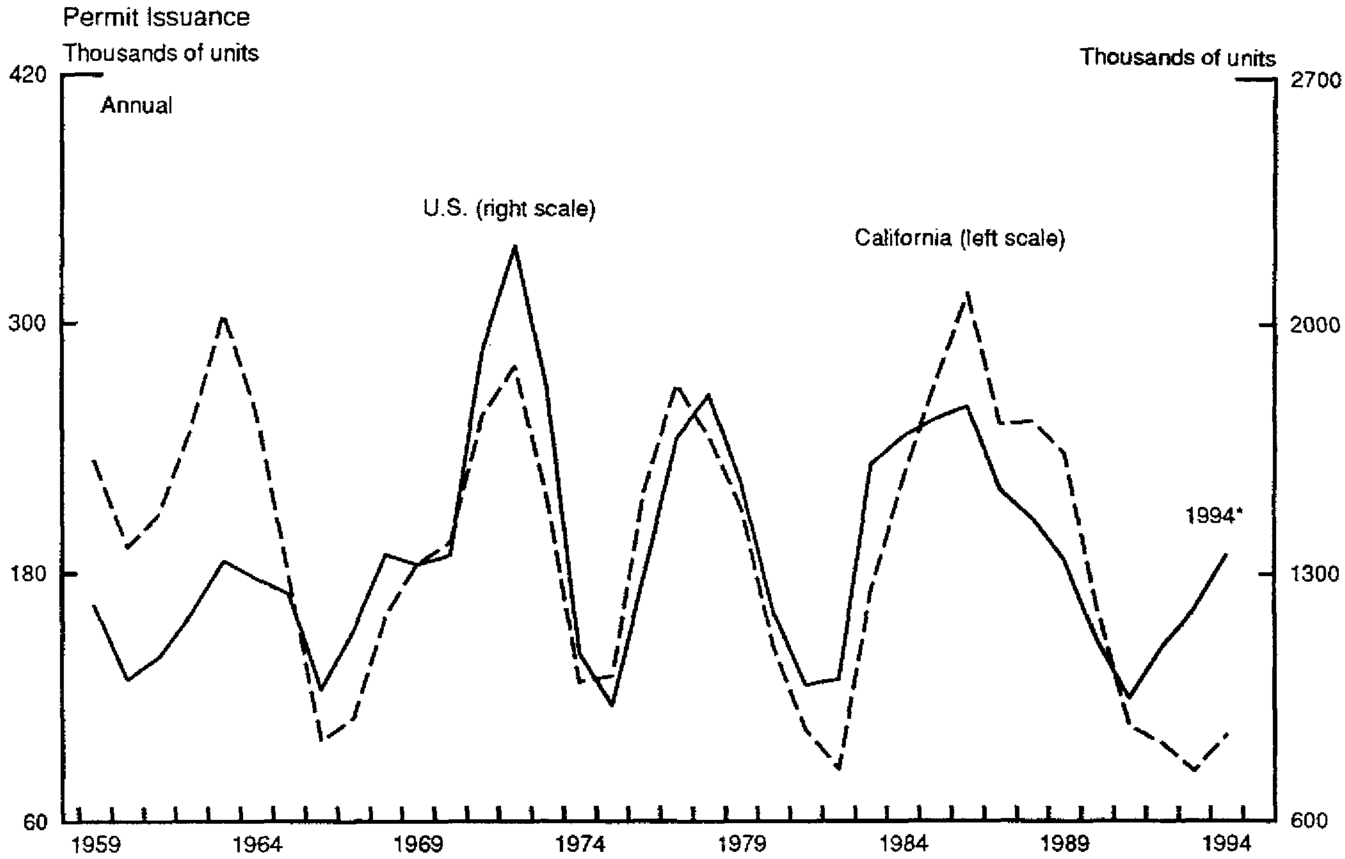


* The index is calculated from National Association of Homebuilders data as the proportion of respondents rating current sales as good to excellent minus the proportion rating them as poor.

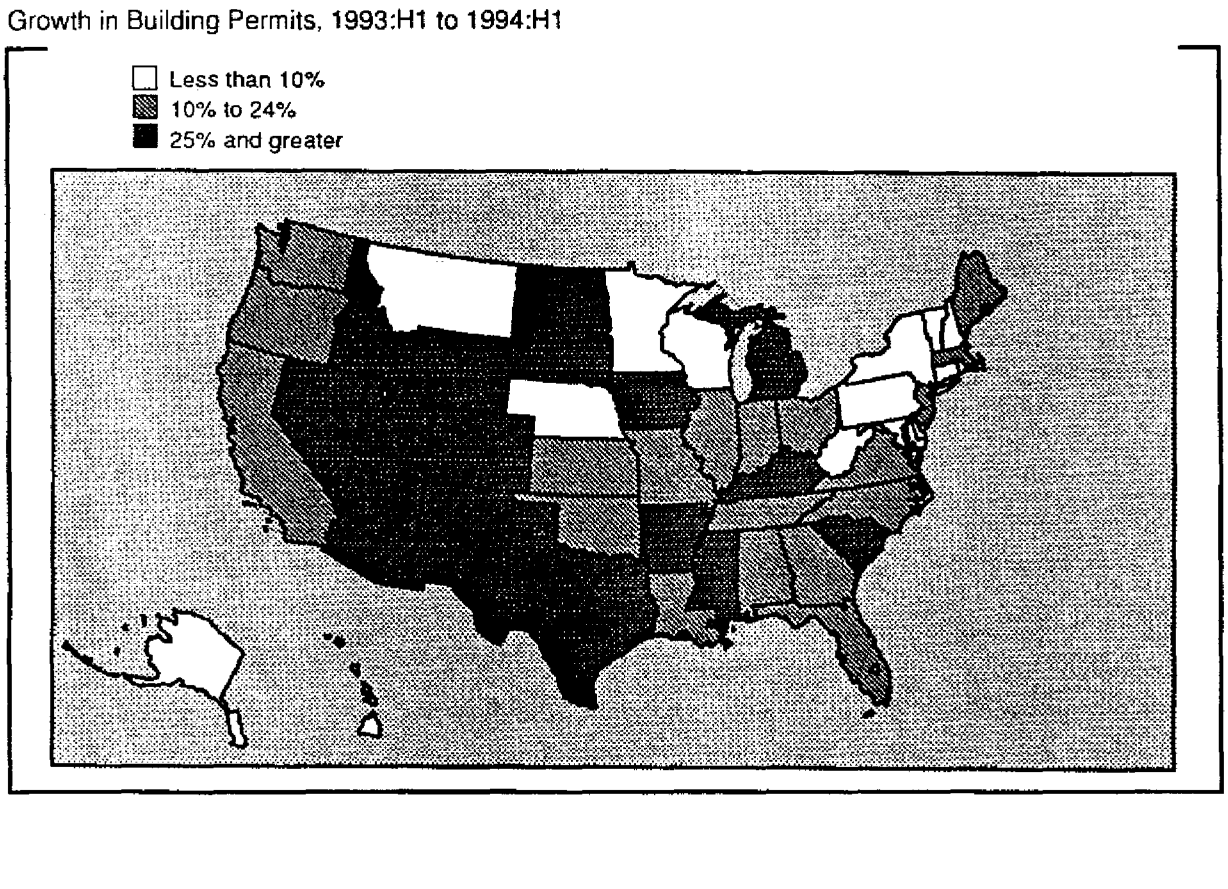
MBA Index of Mortgage Loan Applications



CALIFORNIA AND THE NATION



* 1994 projected as twice the level of the first six months.



August and, like lumber, have increased more rapidly during the past year than have prices in general. Construction labor costs, by contrast, continue to rise only slowly, except for some skilled trades in scattered local markets.

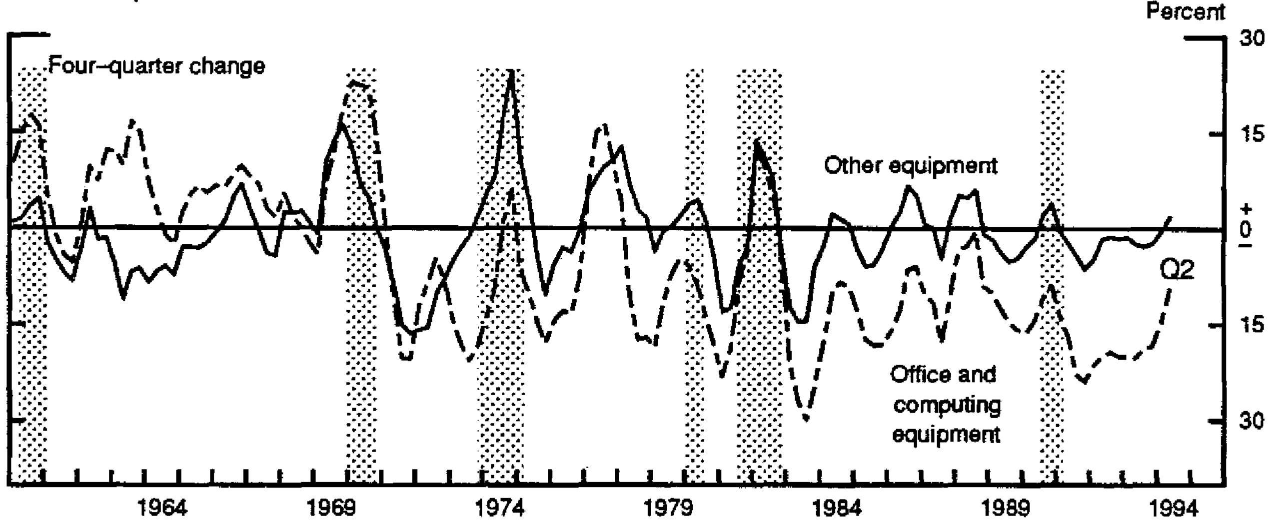
In the multifamily sector, starts rose in both July and August. These increases regained most of the ground lost by the sharp drop in June, which had followed a surge in May. Permit issuance for these projects moved to a higher level during the summer--added evidence that this segment of the market is beginning to recover from its depressed levels of the past several years. Continued high vacancies and soft rents argue against a sharp rebound, however, and production for the foreseeable future should remain less than half the peak levels reached in the mid-1980s.

The federal income tax credit for construction or rehabilitation of rental housing for low-income households, which was reauthorized a year ago,[5] is often cited as a key cause of the recent strengthening in multifamily construction; however, our estimates suggest that the actual influence of the credit has been quite modest. First, the equity injected into apartment construction through the tax credits is small relative to the size of the market, owing in part to statutory caps on the amount of credits that can be issued annually and to the costs of syndicating the credits. Second, some of the construction projects to which the credits are assigned would have gone forward even without the credit. And third, even if the tax credits tipped the scales in favor of some projects, the resulting increased housing supply would

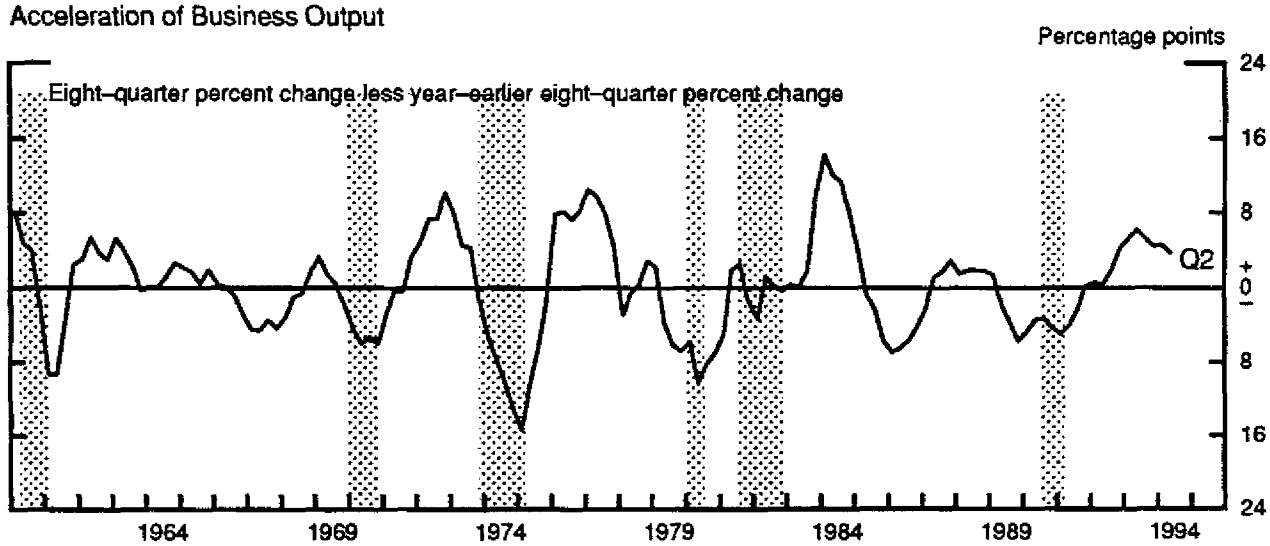
5. The tax credit is a reduction in federal tax liability each year for ten years for owners of, and investors in, low-income rental housing. Credits are available for new construction or rehabilitation of existing properties and are based on development costs, the number of qualifying low-income housing units, and ceilings on state issuance of credits. For new construction, up to 70 percent of the development costs (excluding land expenses and architectural and other professional fees) are available for tax credits.

FUNDAMENTAL DETERMINANTS OF BUSINESS FIXED INVESTMENT

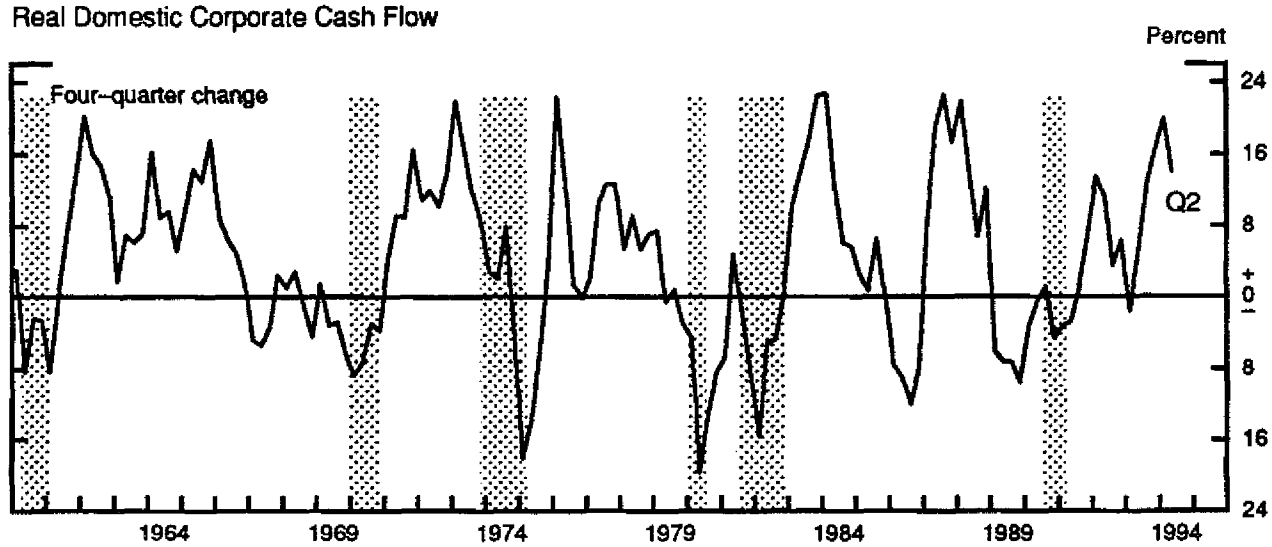
Cost of Capital



Acceleration of Business Output



Real Domestic Corporate Cash Flow



tend to lower rents in the local market and thus deter unsubsidized projects.

One factor buoying the national housing statistics this year has been a turnaround in the California economy. Housing construction in the state continued to decline in 1992 and 1993, even as the nation overall was recovering from the recession (chart). Last year, California accounted for only 7 percent of the nation's residential construction, down from an 18 percent share as recently as 1986. This year, building has increased, house prices have stabilized in several large metro areas, and sales of existing homes statewide in the second quarter jumped 24 percent from a year earlier. But, despite the turnaround, California's homebuilding performance this year falls short of most other states in the booming West (bottom panel).

Business Fixed Investment

The limited data available for the third quarter are consistent with the view that growth of real business fixed investment, though still strong, has been slowing during 1994 after the sharp advance in 1993. In July, nominal new orders and shipments of nondefense capital goods were down. On the other hand, unfilled orders increased in July, business purchases of motor vehicles improved in August, and indicators of third-quarter construction activity were up slightly.

Looking at the fundamental determinants of capital spending, increases in long-term interest rates caused the cost of capital for equipment excluding computers to rise in the second quarter for the first time in three years (chart). The cost of capital for computers continued to decline, although at a much less dramatic

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

	1993	1994		1994		
	Q4	Q1	Q2	May	June	July
Producers' durable equipment						
Shipments of nondefense capital goods	7.1	1.0	2.3	1.0	3.0	-2.0
Excluding aircraft and parts	8.0	1.2	4.6	1.9	2.3	-2.0
Office and computing	5.2	3.3	1.7	-.3	2.4	-2.4
All other categories	8.8	.5	5.4	2.5	2.2	-1.9
Shipments of complete aircraft[1]	34.1	10.0	-33.0	-9.9	64.4	-51.5
Sales of heavy trucks	10.3	-1.0	5.3	-1.9	11.8	-12.9
Orders of nondefense capital goods	10.4	6.2	.2	-.9	7.2	-4.7
Excluding aircraft and parts	10.9	1.7	4.2	-2.5	7.5	-3.1
Office and computing	12.9	.8	6.7	-1.4	.9	.4
All other categories	10.4	1.9	3.5	-2.9	9.5	-4.2
Nonresidential structures						
Construction put-in-place	5.0	-3.1	5.8	.9	1.3	1.1
Office	4.6	-.3	4.1	-1.3	-.9	2.7
Other commercial	13.7	-6.0	12.3	2.2	3.1	1.3
Institutional	-4.5	-6.7	7.3	2.2	3.2	1.4
Industrial	1.3	1.0	7.1	.7	-1.7	1.9
Public utilities	7.4	-2.2	2.7	1.0	3.0	.5
Lodging and misc.	.6	-2.7	-.7	-3.5	-5.6	-3.6
Rotary drilling rigs in use	-3.7	.8	2.2	-1.6	-.7	.3
Memo:						
Business fixed investment[2]	21.1	10.9	9.2	n.a.	n.a.	n.a.
Producers' durable equipment[2]	27.5	18.6	6.5	n.a.	n.a.	n.a.
Nonresidential structures[2]	3.3	-11.8	19.6	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.

pace than in recent years.[6] In addition, the "accelerator effect," proxied by the eight-quarter change in output growth, waned. The growth of cash flow through midyear, on the other hand, was still solid.

Shipments of nondefense capital goods (excluding aircraft)--office and computing equipment as well as other equipment--declined about 2 percent in July, offsetting June advances. Nevertheless, shipments of both types of capital goods in July were still roughly at their average levels for the second quarter. New orders also declined in July. Bookings for office and computing equipment advanced 0.4 percent, but this gain was more than offset by a 4.2 percent decline in orders for other capital goods. Nevertheless, orders for nondefense capital goods remained at a high level in July relative to shipments. Thus, the already sizable orders backlog continued to grow.

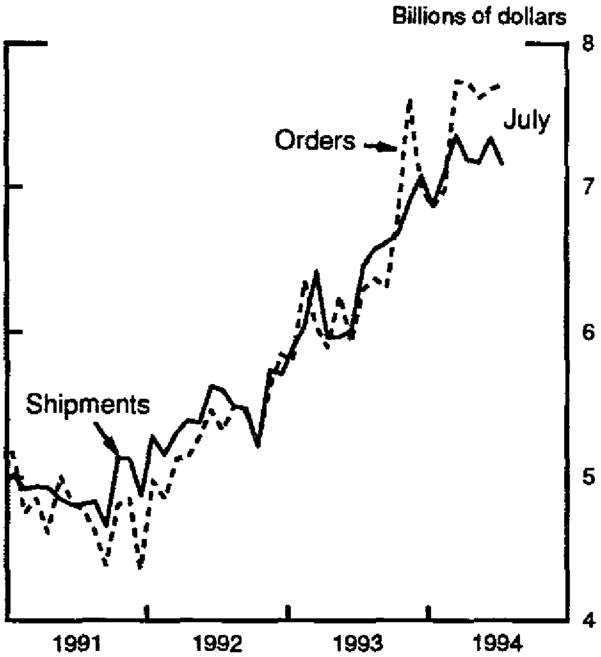
Rising sales of motor vehicles boosted capital spending significantly in the first quarter, but sales dropped off in the second quarter. The fluctuations in fleet sales of light vehicles, which were discussed earlier, accounted for this pattern. Light vehicle sales turned up in August, as did sales of heavy-weight trucks. The continuing strength in demand for heavy trucks has stretched industry capacity and motivated truck manufacturers to bring new capacity on line in the fall.

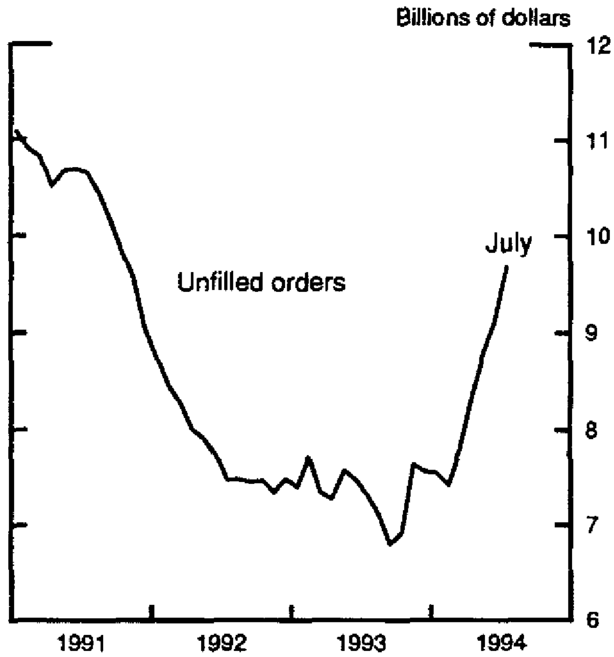
Turning to nonresidential structures, construction put in place increased 1.1 percent in July, after climbing 5.8 percent in the second quarter. On a six-month moving average basis, construction continues to trend up at about the same rate as in 1993 despite

6. In addition to higher interest rates, a large part of the change is attributable to a slowing in the rate of decline of computer prices. As discussed in detail in the August Greenbook, this slowing appears to be the result of a poorly constructed sample for the producer price index for computers that is the basis for the BEA's PDE deflator.

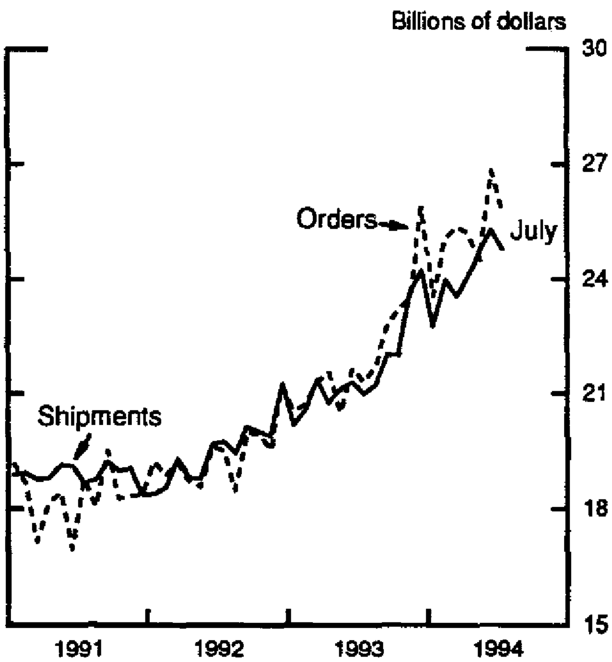
ORDERS AND SHIPMENTS OF NONDEFENSE CAPITAL GOODS

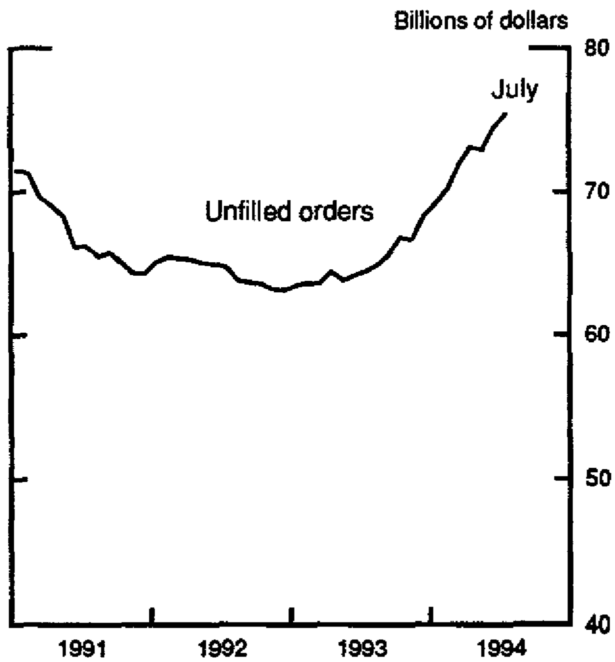
Office and Computing Equipment





Other Equipment (Excluding Aircraft and Computing Equipment)



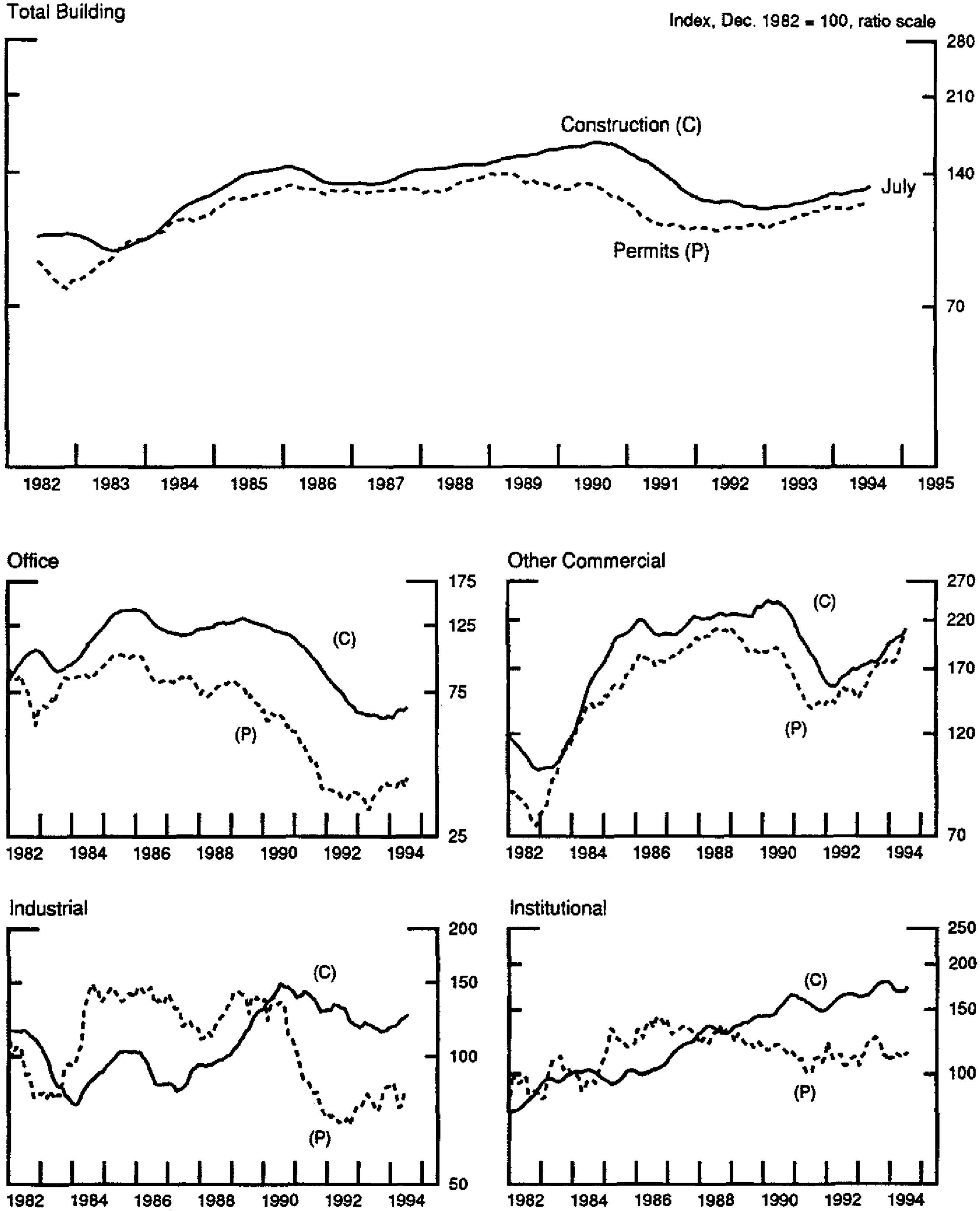


being hit hard by winter weather in the first quarter. Outlays for all construction categories, except lodging, showed strong to moderate gains.

Several recent key indicators of commercial construction activity were consistent with the view that conditions are improving. The National Real Estate Index (NREI), showed increases in prices over the past year for retail structures and office buildings. Given the huge declines in prices for office buildings witnessed in recent years, these increases were a significant departure. An alternative measure of office prices--the Russell-NCREIF index--has shown some signs of leveling off. Moreover, the Russell-NCREIF index of nominal rental income for U.S. office properties began to inch up in the second quarter. The FDIC's August survey of Real Estate was also upbeat. Nationwide, 89 percent of the bank examiners and liquidators responding to the survey believed that prices of commercial real estate were either holding steady or increasing at the beginning of the third quarter, up from 74 percent at the same time last year and a low of 54 percent in early 1992. Another indication of improving conditions was the decline of vacancy rates. Both downtown and suburban vacancy rates continued to edge down in the second quarter. These rates have come down sharply over the past two years--from around 20 percent to roughly 16 percent--and vacancy rates are now at their lowest level in three years.

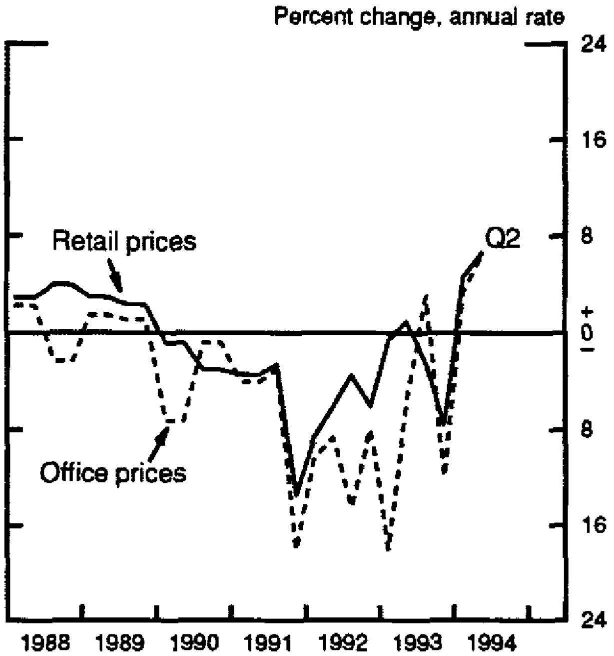
In the natural gas industry, exploration has leveled off lately, but industry analysts view this development as a temporary lull. Exploration activity is apparently being scaled back in response to the recent decline in natural gas spot prices. Most analysts believe, however, that these price declines reflect transitory developments--such as the mild summer--that reduced

NONRESIDENTIAL CONSTRUCTION AND PERMITS
(Six-month moving average)

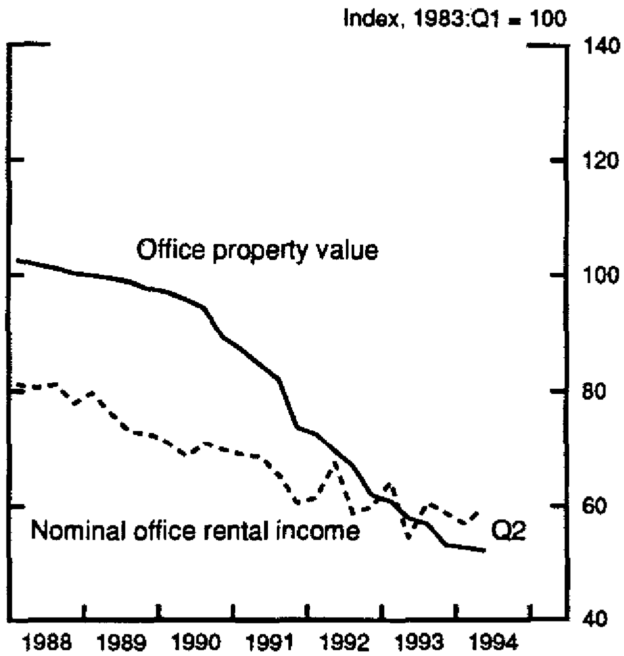


INDICATORS OF COMMERCIAL REAL ESTATE CONDITIONS

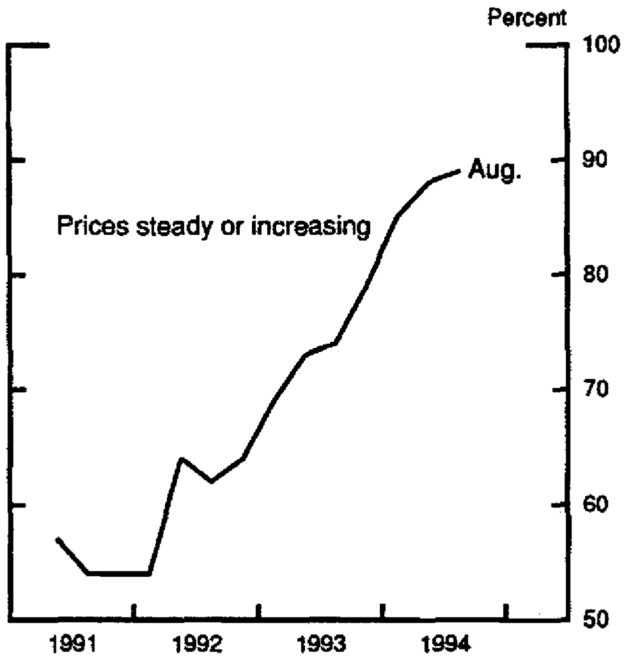
National Real Estate Index



Russell–NCREIF Indicators, U.S. Total

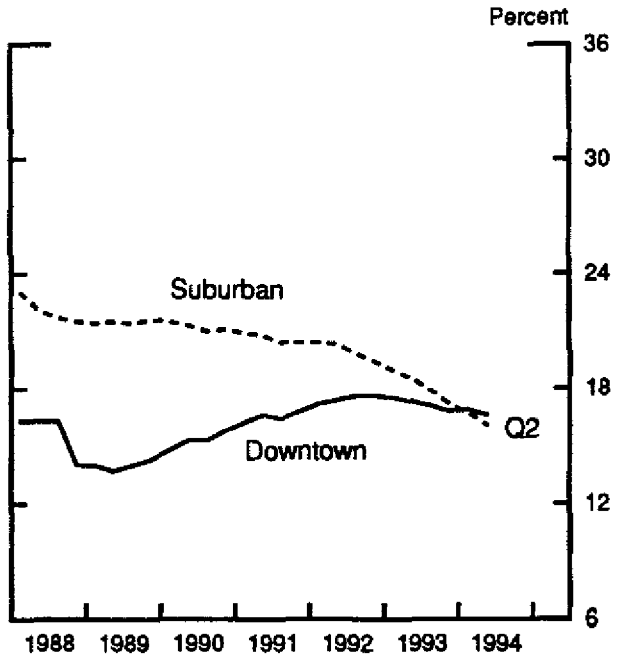


FDIC Survey of Real Estate Prices *



* This series is available only after 1991.

U.S. Office Vacancy Rates



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

	1993	1994		1994		
	Q4	Q1	Q2	May	June	July
Current-cost basis						
Total	18.8	18.4	75.6	122.4	47.0	28.8
Excluding auto dealers	5.5	15.9	65.3	105.0	38.9	45.9
Manufacturing	-13.1	9.4	13.3	20.8	8.7	39.6
Defense aircraft	-4.7	-4.4	-4.7	-8.2	-4.1	1.8
Nondefense aircraft	-4.5	-1.4	3.7	8.7	-.9	.3
Excluding aircraft	-3.9	15.2	14.4	20.4	13.7	37.6
Wholesale	6.1	3.1	23.0	43.3	-1.4	21.4
Retail	25.8	5.9	39.4	58.2	39.7	-32.2
Automotive	13.3	2.6	10.4	17.4	8.1	-17.1
Excluding auto dealers	12.5	3.4	29.0	40.8	31.5	-15.1
Constant-dollar basis						
Total	-3.1	9.9	39.6	81.0	18.8	n.a.
Excluding auto dealers	1.5	7.3	41.8	79.5	11.5	n.a.
Manufacturing	-7.7	9.9	3.3	12.2	-4.2	n.a.
Wholesale	-.4	-2.0	13.0	32.9	-14.7	n.a.
Retail	5.0	2.0	23.3	35.9	37.8	n.a.
Automotive	-4.5	2.5	-2.1	1.5	7.4	n.a.
Excluding auto dealers	9.6	-.5	25.4	34.5	30.4	n.a.

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

	1993	1994		1994		
	Q4	Q1	Q2	May	June	July
Current-cost basis						
Total	1.43	1.41	1.41	1.41	1.40	1.42
Excluding auto dealers	1.41	1.39	1.40	1.39	1.39	1.40
Manufacturing	1.42	1.40	1.39	1.38	1.38	1.41
Defense aircraft	5.24	4.80	4.85	4.96	4.86	4.96
Nondefense aircraft	5.05	4.98	5.85	6.14	5.64	5.77
Excluding aircraft	1.29	1.28	1.26	1.26	1.25	1.29
Wholesale	1.34	1.31	1.33	1.33	1.32	1.33
Retail	1.51	1.50	1.54	1.52	1.53	1.51
Automotive	1.66	1.61	1.67	1.67	1.67	1.66
Excluding auto dealers	1.47	1.47	1.50	1.48	1.49	1.47
Constant-dollar basis						
Total	1.50	1.48	1.48	1.48	1.47	n.a.
Excluding auto dealers	1.49	1.47	1.47	1.47	1.47	n.a.
Manufacturing	1.51	1.48	1.47	1.47	1.46	n.a.
Wholesale	1.44	1.40	1.41	1.42	1.41	n.a.
Retail	1.55	1.53	1.56	1.54	1.55	n.a.
Automotive	1.60	1.56	1.57	1.57	1.58	n.a.
Excluding auto dealers	1.53	1.52	1.56	1.54	1.55	n.a.

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

demand. In the longer run, demand for natural gas and renewed exploration are expected to be bouyed by, among other things, the Clean Air Act, which has induced many utilities to switch to gas-fired plants.

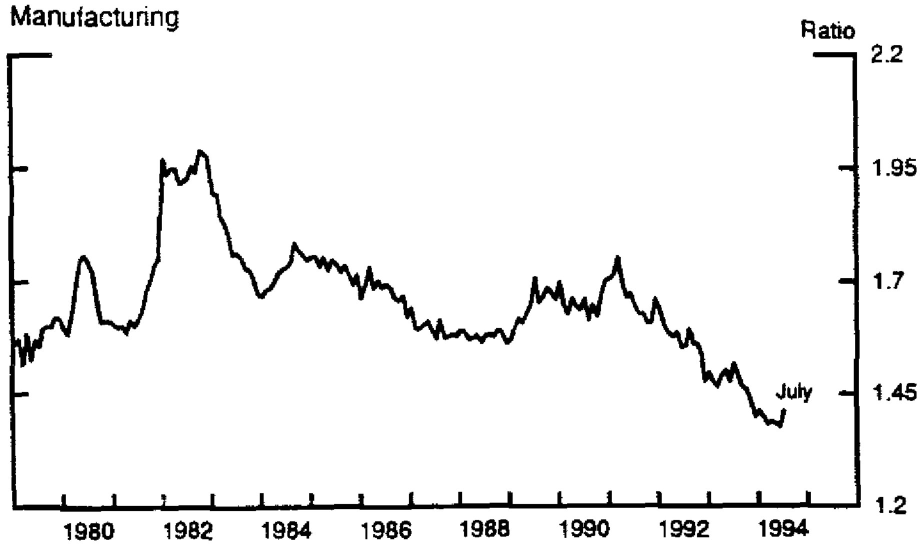
Manufacturing and Trade Inventories

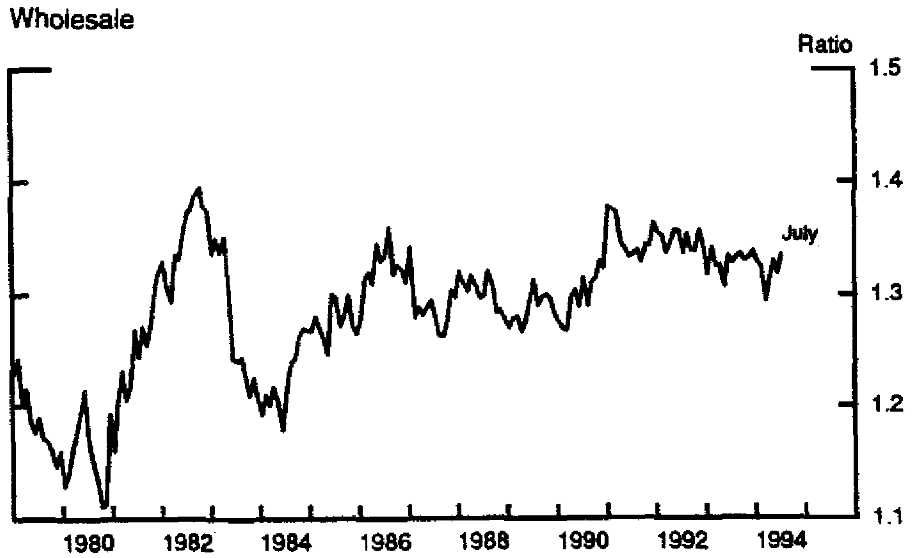
Overall business inventory accumulation slowed markedly in July, as a sizable drawdown in retail inventories offset part of the increase in manufacturing and wholesale stocks. For all manufacturing and trade, inventories rose at a $28.8 billion annual rate in current-cost terms in July compared with a second-quarter pace of $75.7 billion. A substantial portion of the July accumulation was in stocks of producer goods; in contrast, the backup during May and June occurred in stocks of consumer goods in the retail sector. The inventory-sales ratio for all manufacturing and trade moved up somewhat in July, as total shipments and sales fell 0.8 percent. Nonetheless, at 1.42 months, the ratio remained toward the middle of the range posted over the past year.

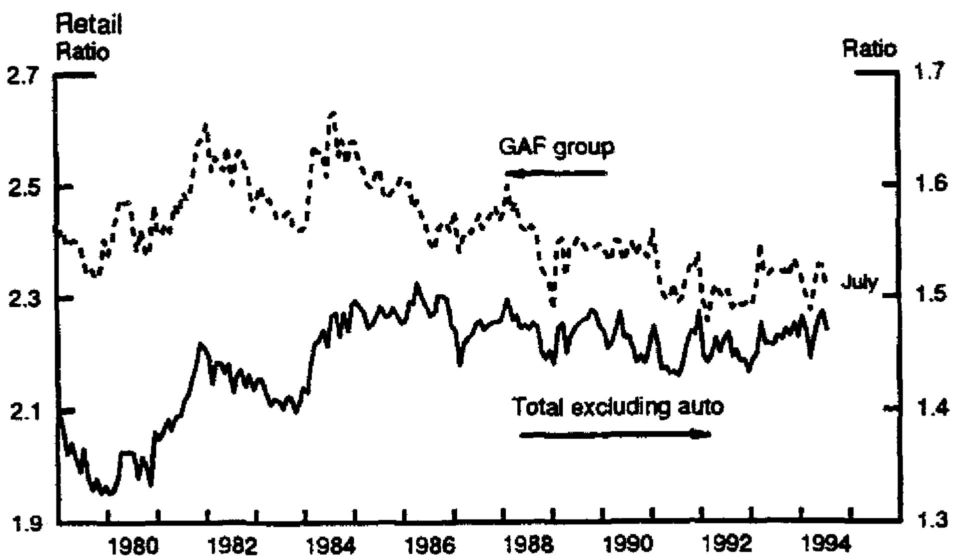
By major sector, the inventory situation was quite varied. Manufacturers' inventory investment accelerated in July; factory stocks rose at a $39.6 billion annual rate in current-cost terms--nearly triple the second-quarter pace. The July run-up was accompanied by a 1.6 percent drop in factory shipments, and the manufacturers' inventory-shipments ratio showed an unusually steep one-month rise, from 1.38 to 1.41 months.

More specifically, industry detail shows that more than half of the July accumulation of manufacturing inventories was in stocks of materials, supplies, and work-in-process, or in finished goods inventories held in materials-producing industries. Our judgment is that these accumulations were mainly associated with planned increases in production, with concerns about lengthening order lead

RATIO OF INVENTORIES TO SALES
(Current–cost data)







times and rising prices also playing a role. Among other finished goods, the largest buildup was in stocks of capital goods (industrial machinery, business equipment, and aircraft).

A similar pattern emerged in the recent buildup of wholesale inventories, which expanded substantially in July and over the second quarter. As in manufacturing, a sizable portion of the wholesale inventory accumulation in recent months consisted of stocks of producer durables--machinery, business equipment, metals, and so on. The net increase in nondurable stocks in the wholesale sector was small in recent months.

In contrast, retail inventories declined in July, falling at a $32.2 billion annual rate. The decline was predominantly in automotive inventories and general merchandise stocks. The drawdown of general merchandise stocks in July, together with a 0.4 percent increase in sales, sharply reduced the inventory-sales ratio for this type of retail establishment. At 2.28 months in July, the ratio was near the low end of the range observed over the past year.

Federal Sector

NIPA revisions for the second quarter of 1994 show that real federal government purchases decreased at an annual rate of 8.8 percent, rather than the 5 percent reduction reported in the advance estimates. The change occurred mostly in nondefense purchases, which are now estimated to have fallen at an annual rate of 14 percent--twice the advance report estimate of 7 percent. BEA attributes the revision to a relabeling of certain transactions from nondefense purchases to grants, rather than a reduction in total government spending. Total spending was actually revised up $3.7 billion.

The unified budget deficit for the fiscal year through July was $183 billion, 24 percent less than for the same period in fiscal

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

	Jul. 1993	Jul. 1994	Fiscal year to date FY1993	FY1994	Dollar change	Percent change
Outlays	120.2	118.0	1179.7	1207.2	27.5	2.3
Deposit insurance (DI)	-3.4	-.6	-23.9	-4.4	19.5	-81.7
Outlays excluding DI	123.6	118.6	1203.6	1211.6	8.0	.7
National defense	25.9	22.1	244.4	230.0	-14.5	-5.9
Net interest	17.2	18.0	165.9	167.7	1.7	1.1
Social security	25.6	26.7	253.5	265.9	12.4	4.9
Medicare and health	20.1	20.8	190.1	207.4	17.2	9.1
Income security	18.7	17.0	177.4	180.0	2.6	1.4
Other	16.1	14.0	172.2	160.6	-11.5	-6.7
Receipts	80.6	84.8	939.0	1024.0	85.0	9.0
Personal income taxes	37.5	37.4	414.6	441.6	27.0	6.5
Social insurance taxes	32.3	34.0	353.9	381.8	27.9	7.9
Corporate income taxes	2.7	3.8	91.1	110.0	18.9	20.8
Other	8.2	9.6	79.5	90.6	11.1	14.0
Deficit(+)	39.6	33.2	240.8	183.3	-57.5	-23.9
Excluding DI	42.9	33.8	264.7	187.7	-77.0	-29.1

Details may not add to totals because of rounding.

CBO BUDGET PROJECTIONS[1]
(Billions of dollars, except where noted)

	Fiscal years					
	1994	1995	1996	1997	1998	1999
Outlays	1467	1525	1609	1684	1758	1863
Receipts	1265	1363	1433	1492	1562	1632
Deficit	202	162	176	193	197	231
Deficit (percent of GDP)						
Total	3.0	2.3	2.4	2.5	2.4	2.7
Excluding Deposit Insurance	3.1	2.5	2.5	2.5	2.5	2.7

CBO ECONOMIC ASSUMPTIONS

	Calendar years					
	1994	1995	1996	1997	1998	1999
	-------Percent change, year over year-----					
Real GDP	4.0	3.0	2.4	2.1	2.1	2.2
GDP deflator	2.2	2.5	2.6	2.7	2.7	2.7
CPI-U	2.6	3.1	3.3	3.4	3.4	3.4
	----------Percent, annual average---------					
Civilian unemployment rate[2]	6.2	5.8	5.9	6.0	6.1	6.1
Interest rates						
Treasury bills	4.1	5.5	5.1	4.9	4.9	4.9
Treasury notes	6.8	6.8	6.5	6.5	6.5	6.5

1. The projections assume that revenues and outlays for major benefit programs evolve according to laws in effect at the time the projections are made, and that appropriations through FY1999 for other programs are consistent with the discretionary spending caps. The projections include Social Security and the Postal Service, which are off-budget.
2. Pre-1994 basis.

Source: CBO, The Economic and Budget Outlook: An Update, August 1994.

1993. The lower deficit reflects both a sizable increase in receipts and restrained growth. In particular, outlays (excluding deposit insurance) have increased only 0.7 percent this fiscal year, restrained by declines in defense and other discretionary spending. July outlays decreased 4 percent from last year's level because July 1993 had "double" pay dates (that is, five Fridays) that boosted defense and income security outlays. After accounting for this effect, outlays grew about 1 percent. Moreover, medicare and health spending, though up 9 percent this fiscal year over the same period last year, has grown significantly more slowly than during the 1990-1992 period.

The Congressional Budget Office (CBO) released revised deficit estimates in August. In The Economic and Budget Outlook: An Update, the CBO projects a deficit of $202 billion for FY1994, $18 billion below the Administration's forecast. The bulk of the difference between deficit estimates is in their outlay projections. Data for the first ten months of FY1994 clearly are more consistent with the CBO estimate.

The CBO five-year forecast anticipates that the deficit will decline to $162 billion in 1995 but then rise to $231 billion in 1999. The Administration projects a deficit of $207 billion in 1999. The Administration's lower deficit forecast is primarily attributable to differences in assumptions about real GDP growth. The Administration shows growth of 2.5 percent per year for the last three years of the decade, while CBO assumes growth closer to 2.1 percent.

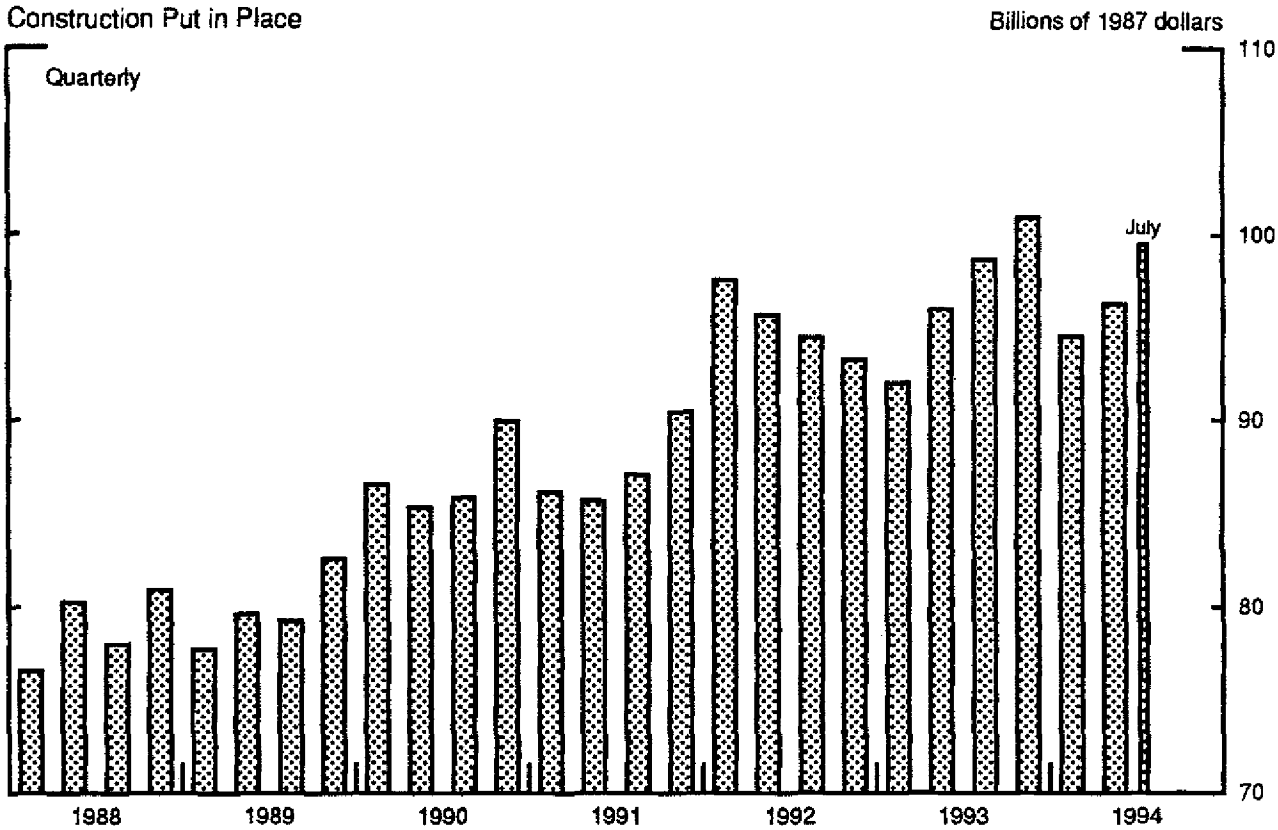
The Violent Crime Control and Law Enforcement Act of 1994 authorizes $30.2 billion over the next six years. The funding comes from reductions in federal employment, and the act is supposed to be deficit neutral. Most spending in the crime bill will be state and local grants, although it also includes a small reallocation of federal purchases.

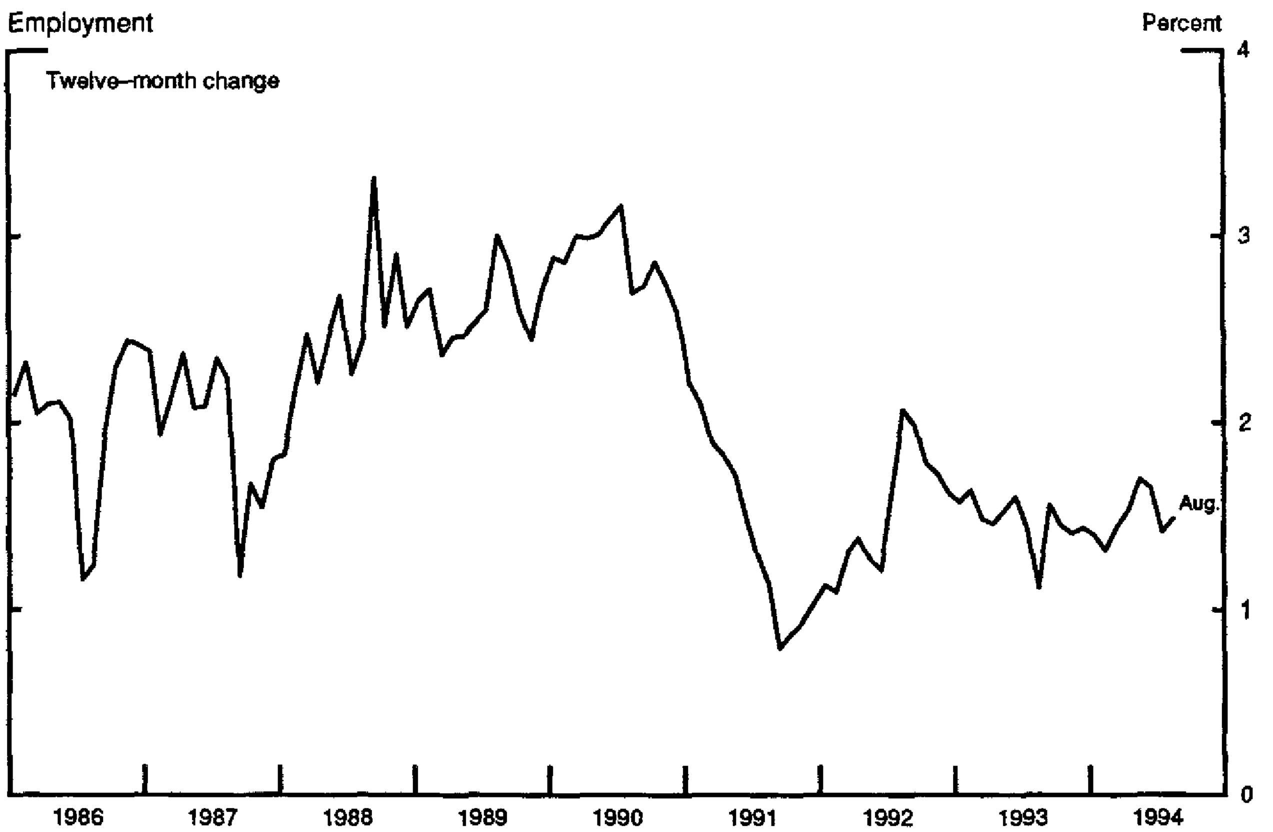
State and Local Government Sector

Real spending on state and local government structures increased 2.0 percent in July to a level more than 3 percent above the second-quarter average. Most of the recent strength occurred in construction of water and sewer facilities and "other buildings," a category that includes a wide range of government buildings, such as offices, courtrooms, and prisons. Nevertheless, construction outlays remain below the high reached in the fourth quarter of 1993.

Meanwhile, employment in state and local governments during July and August averaged only slightly above the second-quarter level. Employment at local government educational establishments (the largest subgroup) continued to rise; state education jobs also expanded. However, these gains were largely offset by reductions in employment in other local government operations. On a year-over-year basis, growth of state and local government employment--at 1-1/2 percent in August--remained at the reduced pace that has prevailed for the past two years.

STATE AND LOCAL SECTOR





DOMESTIC FINANCIAL DEVELOPMENTS

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

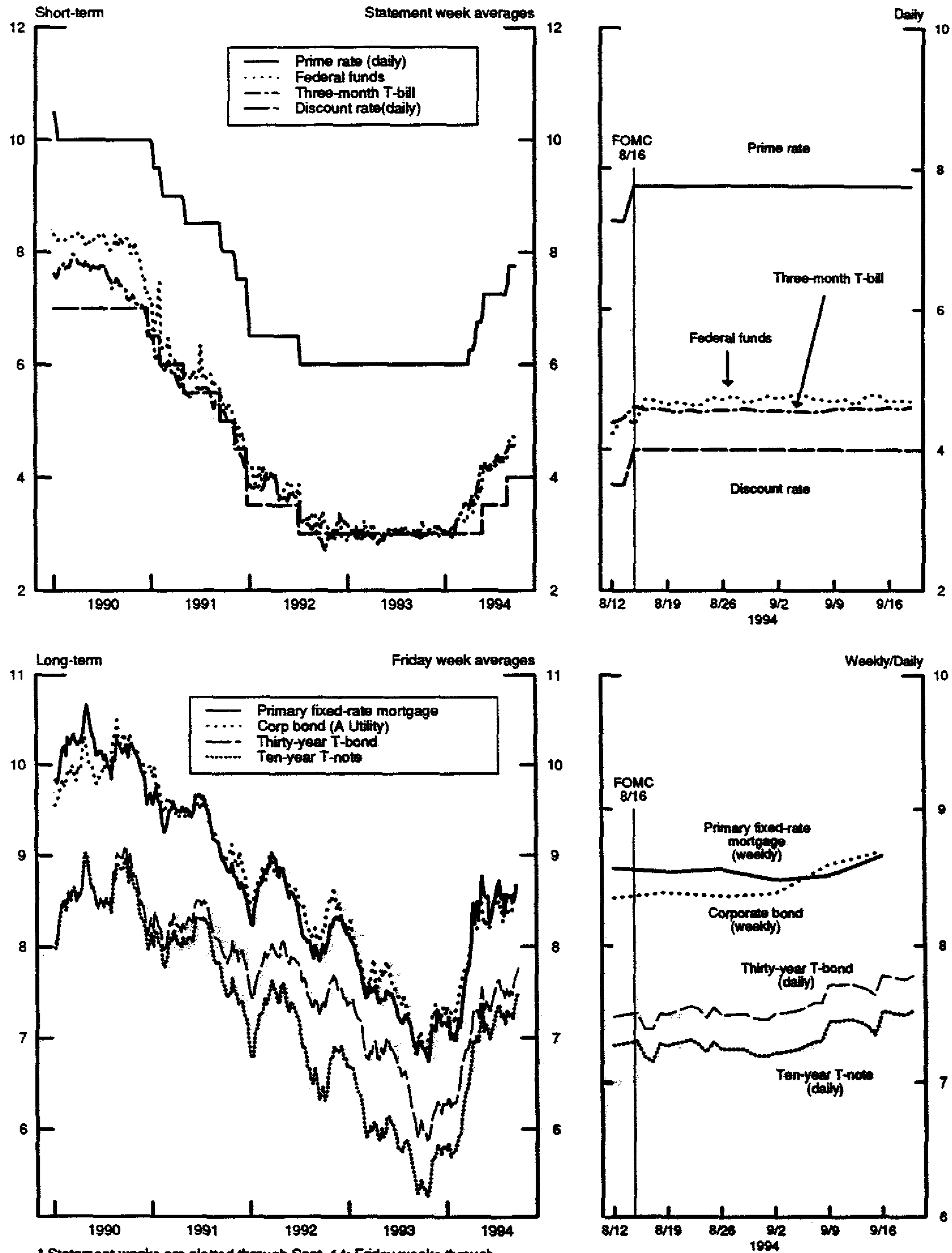
Instrument	1993 Mid-Oct lows	1994 Feb 3	1994 FOMC,* Aug 16	1994 Sep 20	Change to Sep 20, 1994: From Mid-Oct lows	From Feb 3	From FOMC,* Aug 16
SHORT-TERM RATES							
Federal funds[2]	3.07	3.07	4.27	4.71	1.64	1.64	.44
Treasury bills[3]							
3-month	3.01	3.13	4.45	4.62	1.61	1.49	.17
6-month	3.09	3.27	4.95	5.09	2.00	1.82	.14
1-year	3.23	3.52	5.31	5.50	2.27	1.98	.19
Commercial paper							
1-month	3.13	3.16	4.65	4.90	1.77	1.74	.25
3-month	3.23	3.25	4.87	5.01	1.78	1.76	.14
Large negotiable CDs[3]							
1-month	3.08	3.11	4.56	4.83	1.75	1.72	.27
3-month	3.22	3.25	4.81	5.04	1.82	1.79	.23
6-month	3.23	3.41	5.25	5.45	2.22	2.04	.20
Eurodollar deposits[4]							
1-month	3.06	3.06	4.56	4.81	1.75	1.75	.25
3-month	3.25	3.25	4.81	5.00	1.75	1.75	.19
Bank prime rate	6.00	6.00	7.25	7.75	1.75	1.75	.50
INTERMEDIATE- AND LONG-TERM RATES							
U.S. Treasury (constant maturity)							
3-year	4.06	4.60	6.58	6.75	2.69	2.15	.17
10-year	5.19	5.81	7.14	7.53	2.34	1.72	.39
30-year	5.78	6.31	7.51	7.78	2.00	1.47	.27
Municipal revenue[5] (Bond Buyer)	5.41	5.49	6.49	6.51	1.10	1.02	.02
Corporate--A utility, recently offered	6.79	7.35	8.25	8.68	1.89	1.33	.43
Home mortgages[6]							
FHLMC 30-yr fixed rate	6.74	6.97	8.57	8.66	1.92	1.69	.09
FHLMC 1-yr adjustable rate	4.14	4.12	5.56	5.49	1.35	1.37	-.07

Stock exchange index	Record high Level	Record high Date	1989 Low, Jan. 3	1994 FOMC,* Aug 16	1994 Sep 20	Percentage change to Sep 20: From record high	From 1989 low	From FOMC, Aug 16
Dow-Jones Industrial	3978.36	1/31/94	2144.64	3760.29	3869.09	-2.75	80.41	2.89
NYSE Composite	267.71	2/2/94	154.00	254.52	255.91	-4.41	66.18	.55
NASDAQ (OTC)	803.93	3/18/94	378.56	732.89	766.74	-4.63	102.54	4.62
Wilshire	4804.31	2/2/94	2718.59	4561.51	4613.53	-3.97	69.70	1.14

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 Sept. 28, 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.

* Rates are as of the close on Aug. 15, 1994.

SELECTED INTEREST RATES*
(Percent)



* Statement weeks are plotted through Sept. 14; Friday weeks through Sept. 16, 1994.

The half-point hike in the discount and federal funds rates implemented in the wake of the August FOMC meeting outstripped market expectations, and other money market yields firmed in response. Major commercial banks promptly followed the System action, raising the prime rate 1/2 percentage point, to 7-3/4 percent.

The press release announcing the August policy moves was widely interpreted as indicating that subsequent action was on hold, at least for a few months, and longer-term rates initially fell somewhat. But, later in the intermeeting period, in light of data suggesting that underlying inflationary pressures might be greater than previously thought, long rates more than reversed their earlier declines. On balance, these rates have risen 15 to 40 basis points since the FOMC meeting. Corporate bond rates generally moved up in line with Treasury yields. Despite the rise in interest rates, however, major stock indexes rose between 1 and 5 percent over the intermeeting period.

The monetary aggregates declined in August after growing moderately in July, and they appear to be stabilizing in September. Smoothing through monthly movements, the aggregates have remained sluggish, mostly reflecting the effect of the rise of market yields relative to deposit rates. The lack of a sustained improvement in the bond markets has continued to encourage businesses to rely heavily on bank loans and commercial paper for credit. Merger transactions and stock repurchases have been absorbing more equity shares than are being issued. State and local governments also have trimmed long-term borrowings but have maintained issuance of short-term debt. Net federal borrowing has risen this quarter owing to a seasonal expansion of the budget deficit. Home mortgage lending

MONETARY AGGREGATES
(Based on seasonally adjusted data, except where noted)

Aggregate or component	1993	1994 Q1	1994 Q2	1994 June	1994 July	1994 Aug. (p)	1993:Q4 to Aug 94 (p)	Level (bil. $) Aug. 94 (p)
Aggregate	Percentage change (annual rate)[1]							
1. M1	10.5	6.0	1.9	3.7	7.6	-1.6	3.7	1152.2
2 M2	1.4	1.9	1.9	-2.2	4.6	-2.0	1.4	3597.2
3. M3	0.7	0.3	0.5	0.0	6.1	-1.9	0.7	4241.4
Selected components								
4. Currency	10.3	11.8	10.6	9.6	10.2	7.7	10.8	345.4
5. Demand deposits	13.3	7.7	-2.5	2.5	9.3	-4.0	2.2	388.3
6. Other checkable deposits	8.4	-0.2	-1.1	0.6	3.8	-7.3	-0.6	410.2
7. M2 minus M1	-2.3	0.0	2.0	-5.0	3.2	-2.2	0.4	2445.0
8. Savings deposits	2.9	2.9	-2.1	-8.6	-4.8	-7.6	-1.9	1194.8
9. Small time deposits	-10.5	-7.8	-2.9	2.0	3.3	7.9	-2.2	777.6
10. Retail money market funds	-2.1	-0.1	17.8	-19.1	14.0	-2.0	6.2	362.9
11. Overnight RPs, n.s.a.	21.2	25.6	16.4	34.2	4.3	21.6	20.7	84.7
12 Overnight Eurodollars, n.s.a.	-15.5	6.9	31.5	136.8	212.1	-33.2	54.1	24.6
13. M3 minus M2	-3.3	-8.4	-7.2	13.1	14.5	-1.3	-3.2	644.1
14. Large time deposits, net[4]	-6.9	-4.7	-4.0	1.4	9.7	12.1	0.0	340.0
15. Institution-only money market mutual funds	-5.4	-26.8	-22.8	1.4	9.9	-11.2	-17.8	169.3
16. Term RPs, n.s.a.	18.8	-13.7	25.9	54.4	21.3	-29.1	6.4	100.7
17. Term Eurodollars, n.s.a.	0.0	0.9	5.1	40.6	19.6	0.0	7.7	49.7
Memo								
18 Monetary base	10.4	10.1	8.3	7.8	8.0	6.5	8.8	409.2
19. Household M2[2]	-0.1	0 3	1.7	-3.8	1.9	-1.7	0.4	3089.6
	Average monthly change (billions of dollars)[3]							
Memo								
20 Managed liabilities at commercial banks (lines 22 + 23)	5.5	24.0	11.9	9.7	18.7	15.7	...	974.7
21 Large time deposits, gross	-2.3	-3.3	1.6	-2.1	3.2	4.4	...	346.0
22 Nondeposit funds	7.8	27.3	10.3	11.8	15.5	11.3	...	628.7
23. Net due to related foreign institutions	4.5	12.9	9.1	13.2	16.6	11.3	...	212.9
24. Other[5]	3.3	14.5	1.1	-1.5	-1.0	0.0	...	415.8
25. U.S. government deposits at commercial banks	0.2	0.2	-0.4	-8.4	-5.0	-1.7	...	15.2

1. For the years shown, fourth quarter-to-fourth quarter percent change. For the quarters shown, based on quarterly averages.
2. Sum of seasonally adjusted currency, retail money funds, and other checkable, savings and small time deposits.
3. For years, 'average monthly change' is based on the dollar change from December to December. For quarters, it is based on the dollar change across the last months of quarters.
4. Net of holdings of money market mutual funds, depository institutions, U.S. government, and foreign banks and official institutions.
5. Borrowing from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase, and other liabilities for borrowed money (including borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs, and other minor items). Data are partially estimat

activity appears to have rebounded in the third quarter from its surprisingly weak second-quarter pace. Consumer credit demand was down only a touch in July, and consumer loan growth at banks remained strong in August.

Monetary Aggregates and Bank Credit

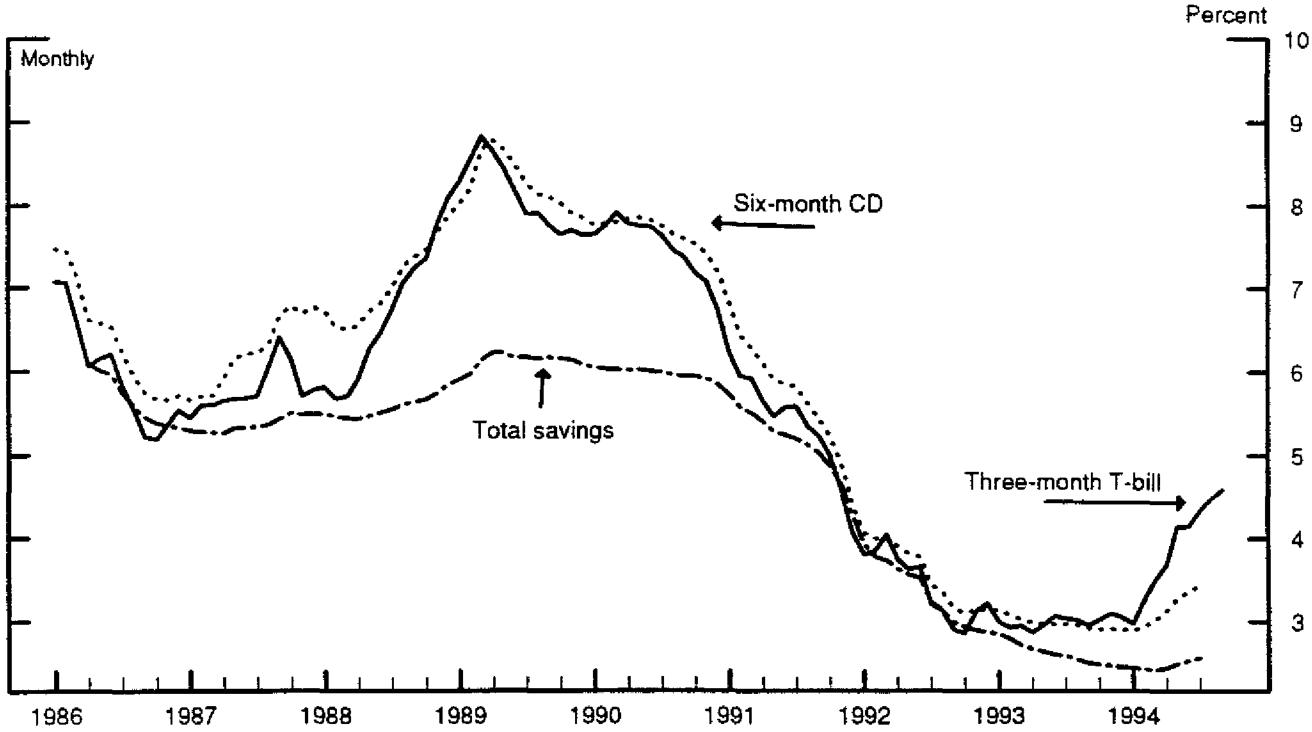
M2 declined at a 2 percent pace in August, following a strong July gain, but preliminary data indicate that the outflow ceased in early September. The runoff in August reflected weakness in most of the aggregate's liquid components: Demand and other checkable deposits declined, which together reversed most of their July increase, while outflows from savings deposits accelerated.

Despite monthly fluctuations, M2, on balance, has hovered near the lower bound of its growth cone in the third quarter. Its slow growth has reflected increasing opportunity costs on most of its components. Historically, yields on OCDs and savings (including MMDAs) have adjusted quite slowly to changes in market rates (chart). As opportunity costs rise, depositors who are more rate sensitive move balances from these accounts to small time deposits and money market mutual funds, whose rates are more closely tied to market rates. However, yields on small time deposits appear to be adjusting more slowly in this episode than the norm, probably prompting some depositors to more actively shift out of M2 and into other investments.

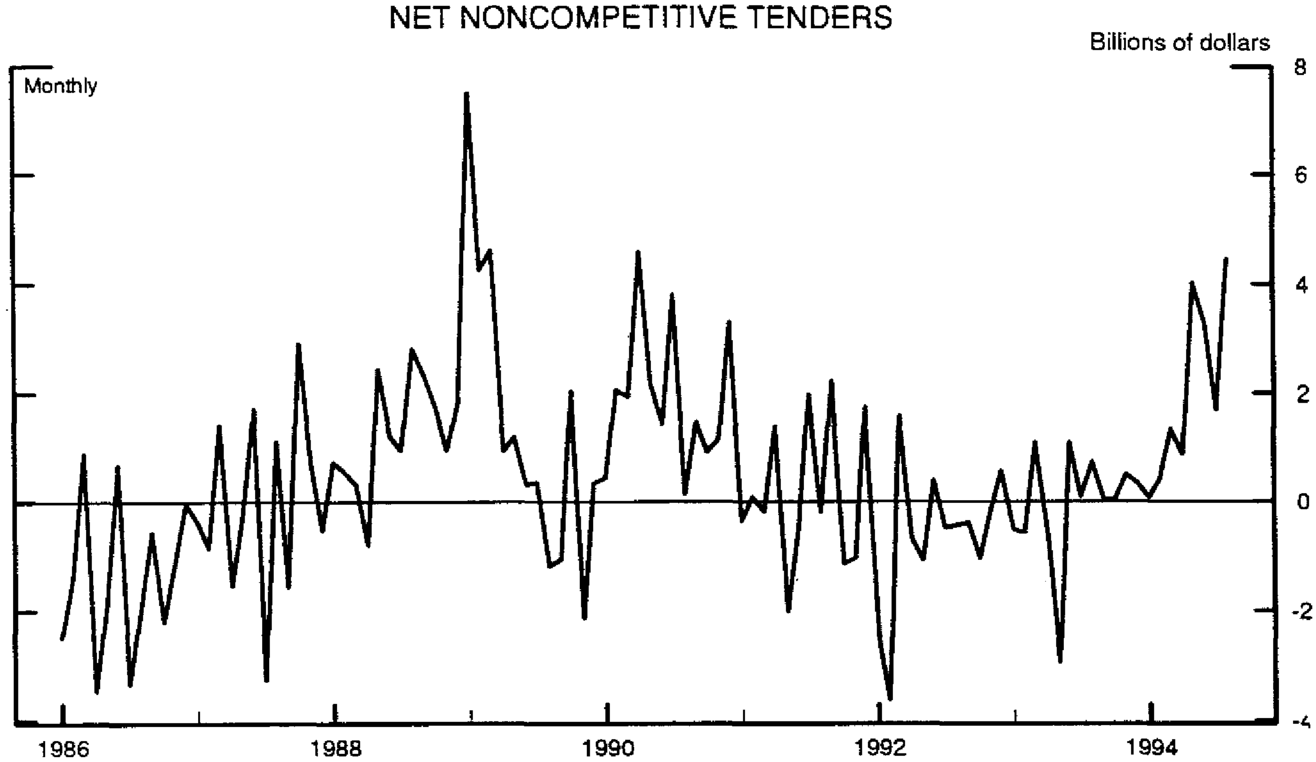
These shifts seem to be bypassing bond mutual funds to a large extent, although inflows to stock funds have been robust. Bond funds posted outflows in July and likely in August. Some investors apparently acquired securities directly, as evidenced by the $4 billion increase in net noncompetitive tenders in August (chart).

M3 contracted at a 2 percent pace last month, which left the aggregate near the lower bound of its annual growth range. Large

THREE-MONTH T-BILL RATE AND SELECTED DEPOSIT RATES



NET NONCOMPETITIVE TENDERS



time deposits expanded briskly, as they have since May. This renewed growth partly reflects banks' use of wholesale rather than retail liabilities to fund credit growth. In addition, some of the growth in large time deposits may owe to banks' efforts to replace Treasury deposits, which have declined nearly $20 billion (seasonally adjusted) from their recent high during the tax period in April.

Bank credit expanded at a 5 percent rate in August, off from its rapid July pace. Much of the deceleration reflected a contraction in securities. Although loan growth also dropped a bit, it still was strong at a 10-1/4 percent annual rate. Consumer loans grew briskly. Real estate loans accelerated, partly owing to the acquisition by banks of thrift assets. Some of the faster growth also may be the result of increased issuance of adjustable rate mortgages, which banks are more apt to hold than fixed-rate mortgages and which are typically securitized. In addition, data from the second quarter call report indicate a modest pickup in commercial real estate lending at medium- and small-sized banks; credit extended in this market may still be boosting real estate loan growth.

Business loan growth slowed somewhat in August but nonetheless proceeded at nearly a 10 percent rate. Banks reportedly have been more aggressive in making such loans, and the most recent Survey of Terms of Bank Lending found that the interest rate spreads on small- and medium-sized business loans over the federal funds rate fell between May and August. Expanding external financing needs and a shift from bond markets appear to have boosted demands for short- and intermediate-term credit.

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 Jun	1994 Jul	1994 Aug	Level, Aug 1994 ($billions)
	Commercial bank credit						
1. Total loans and securities	5.3	7.9	4.9	3.2	12.5	5.1	3,251.9
2. Securities	8.5	16.1	6.9	2.6	3.7	-6.8	961.4
3. U.S. government	9.6	10.0	2.5	1.4	-.6	-6.7	745.3
4. Other	4.3	40.0	23.1	6.8	19.6	-7.7	216.1
5. Loans	4.0	4.4	4.1	3.4	16.2	10.3	2,290.5
6. Business	-1.8	8.3	8.7	4.8	17.0	9.7	622.0
7. Real estate	4.5	.9	4.0	7.2	7.9	11.5	967.9
8. Consumer	9.0	11.6	12.6	9.6	22.0	17.9	429.0
9. Security	35.6	-19.6	-34.6	-20.2	26.8	-41.6	75.1
10. Other	-.6	6.5	-11.3	-24.3	39.4	9.9	196.5
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-2.1	8.2	8.1	4.6	17.2	9.5	612.1
12. Loans at foreign branches[2]	-12.1	-7.4	18.8	-5.4	16.1	15.9	22.9
13. Sum of lines 11 and 12	-2.5	7.7	8.5	4.1	17.2	9.7	635.0
14. Commercial paper issued by nonfinancial firms	4.4	-12.2	-9.2	-2.4	9.6	8.0	151.6
15. Sum of lines 13 and 14	-1.1	3.6	4.9	2.8	15.7	9.4	786.6
16. Bankers acceptances, U.S. trade-related[3,4]	-12.2	17.9	-13.3	-28.8	-11.8	n.a.	20.1[5]
17. Loans at finance companies[4]	-.3	14.1	14.5	10.3	-3.6	n.a.	327.8[5]
18. Total (sum of lines 15, 16, and 17)	-1.1	6.8	7.4	4.4	9.5	n.a.	1,128.4[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. July 1994.
n.a. Not available.

Business Finance

Nonfinancial firms continued to find long-term financing opportunities less attractive, and gross issuance of stocks and bonds remained sluggish in August and early September. Junk bond offerings were few and small; issuance of investment-grade debt was somewhat better maintained, but the average pace of offerings in July and August was still off by almost 50 percent from the first half of the year. On the equity side, gross public issuance, including initial public offerings, slackened in July and continued to be weak in August. Although some of this weakness may have owed to the summer holiday season, the calendar of issues slated for September does not suggest a significant pickup in the pace of equity offerings.

For financial corporations, bond issuance rose in August, owing to a surge in offerings of asset-backed securities. Because they have short maturities and often offer floating interest rates, asset-backed securities have found particular favor among investors seeking protection from rising interest rates.

There was considerable activity on the merger and acquisition front over the intermeeting period, and estimates suggest that the volume could top $85 billion this year (chart). The pickup has been primarily driven by a surge in megamergers (transactions with a total sales price of $1 billion or more). The total value of megamergers completed this year already is higher than in any of the previous three years, and the calendar of proposed megamergers is heavy. In one merger of note, Martin Marietta and Lockheed recently announced plans to combine in a deal, valued at $8.8 billion, that is scheduled to close in early 1995.

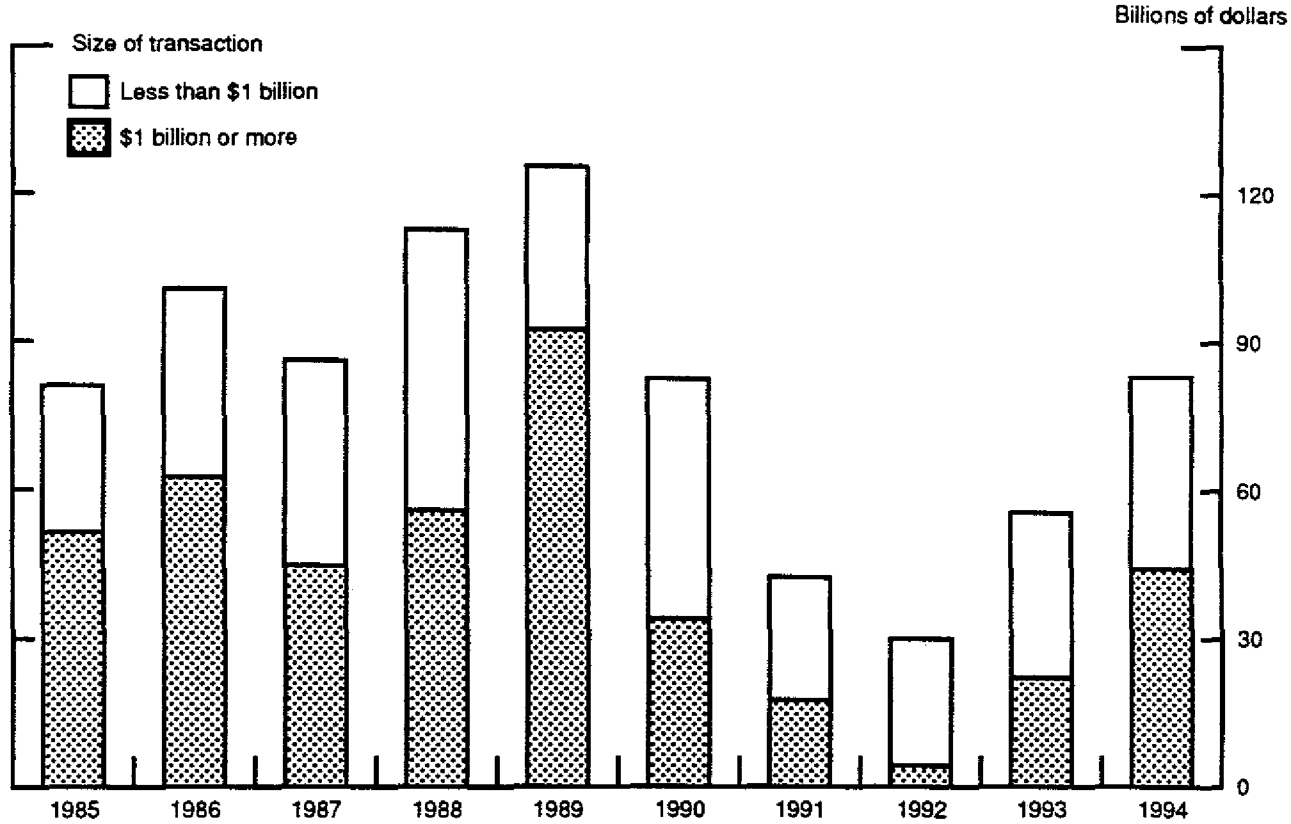
Merger activity thus far this year has been concentrated in a few industries--principally media and telecommunications, health

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 Q2	1994 Jun	1994 Jul[p]	1994 Aug[p]
All U.S. corporations	40.84	53.42	52.90	40.78	43.39	23.93	29.28
Stocks[2]	7.04	9.65	8.18	5.48	6.77	4.46	3.43
Bonds	33.80	43.77	44.72	35.30	36.63	19.47	25.85
Nonfinancial corporations							
Stocks[2]	4.42	5.32	4.33	3.38	3.97	1.29	1.60
Sold in U.S.	4.03	5.12	4.03	3.19	3.68	1.23	1.54
Utility	.87	1.06	.65	.44	.78	.08	.23
Industrial	3.16	4.00	3.38	2.75	2.91	1.16	1.30
Sold abroad	.39	.19	.30	.19	.29	.06	.07
Bonds	13.67	16.19	11.07	6.50	7.53	5.10	5.74
Sold in U.S.	12.83	15.55	10.33	5.63	6.67	4.50	5.00
Utility	5.33	7.34	4.57	1.84	2.26	1.20	1.00
Industrial	7.50	8.21	5.76	3.79	4.41	3.30	4.00
Sold abroad	.84	.64	.74	.87	.87	.60	.74
By quality[3]							
Aaa and Aa	2.18	2.56	.80	.59	.92	.06	.23
A and Baa	7.74	8.70	5.60	3.02	4.03	1.92	3.20
Less than Baa	2.86	4.17	3.92	1.99	1.74	.98	.69
Unrated or rating unknown	.09	.09	.00	.00	.01	.00	.03
Financial corporations							
Stocks[2]	2.62	4.61	3.82	2.10	2.79	3.17	1.82
Sold in U.S.	2.51	4.16	3.55	1.95	2.66	2.28	1.81
Sold abroad	.11	.45	.28	.15	.13	.89	.02
Bonds	20.13	27.58	33.65	28.81	29.10	14.37	19.50
Sold in U.S.	18.67	25.02	29.28	24.59	25.09	13.00	18.20
Sold abroad	1.46	2.56	4.37	4.22	4.00	1 37	1.30
By quality[3]							
Aaa and Aa	1.55	1.78	3.31	4.08	2.43	2.06	.74
A and Baa	6.77	9.01	11.24	9.68	10.85	2.85	3.27
Less than Baa	.31	.49	.63	.17	.20	.00	.19
Unrated or rating unknown	.04	.08	.04	.11	.20	.01	.00

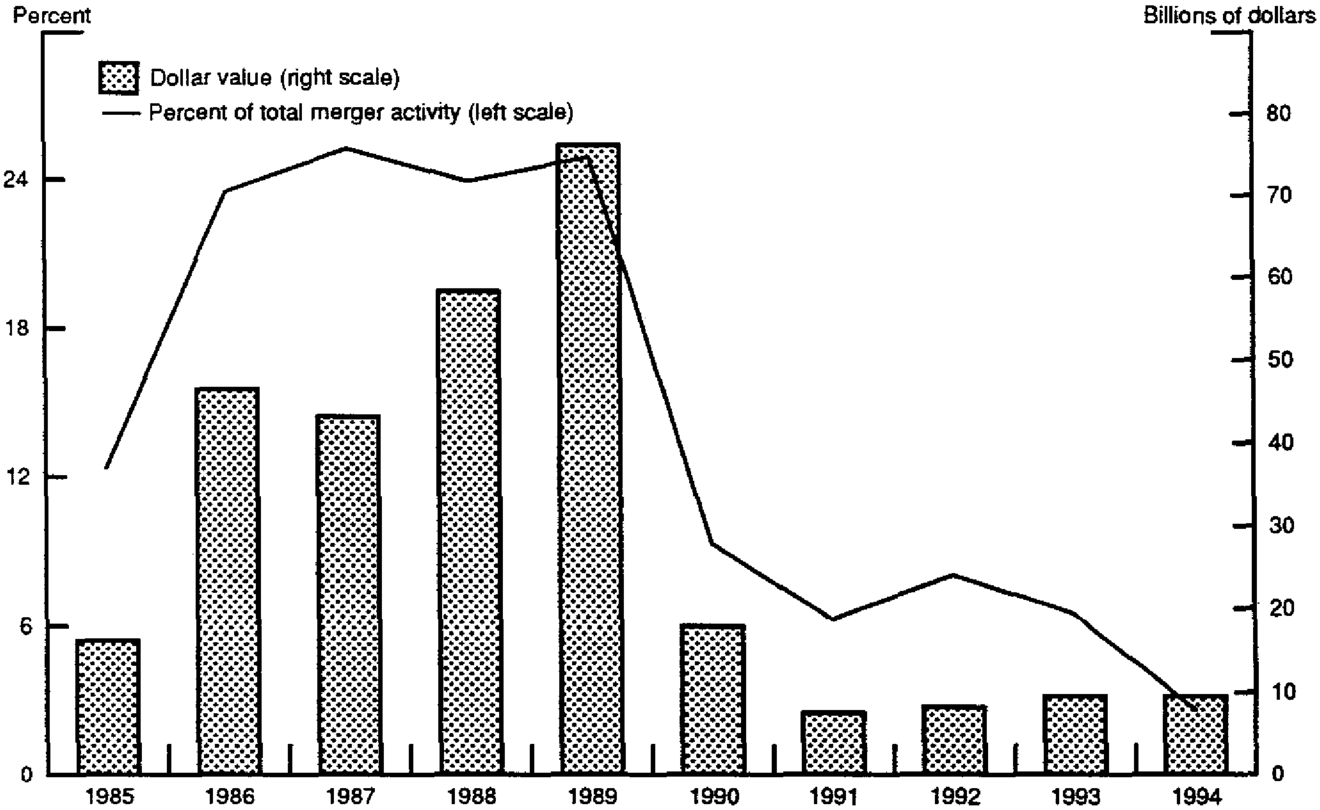
1. Securities issued in the private placement market are not included. Total reflects gross proceeds rather than par value of original discount bonds.
2. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.
3. Bonds categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
p Preliminary.

MERGER AND ACQUISITION ACTIVITY OF U.S. NONFINANCIAL CORPORATIONS[1]



1. Divestitures are excluded. 1994 estimate represents activity through August at an annual rate.

LEVERAGED BUYOUT ACTIVITY OF U.S. NONFINANCIAL CORPORATIONS[1]



1. Including divestitures. 1994 estimate represents activity over the first half of the year at an annual rate.

care, chemicals and pharmaceuticals, and defense. For the most part, the mergers have been motivated either by technological synergies or by the need to consolidate in response to changed demand conditions. The mergers have been financed to a large extent by stock swaps rather than by cash and debt. This financing pattern contrasts with the experience of the 1980s, which was the heyday of the leveraged buyout (chart). Because a high proportion of recent merger activity has been financed through stock swaps, the impact of this activity on equity retirements is less than in the 1980s. However, looking forward, the crowded calendar will involve merger-related retirements of equity that, when added to share repurchases, likely will keep net equity issuance negative next year.

State and Local Government Finance

Gross issuance of long-term tax-exempt debt fell to about $11 billion in August, as the volume of refunding dropped to $1-1/2 billion, its lowest level since early 1991. For the first eight months of this year, long-term issuance is down about 40 percent from the same period in 1993, with the decline due entirely to a dropoff in refunding activity. The limited amount of long-term issuance, along with heavy retirements, suggests that outstanding long-term tax-exempt debt has declined thus far this year. Since 1952, net issuance of such debt has been negative in only two quarters and has never been negative over an entire year. The reduced supply has helped to hold down yields on municipal securities relative to those on Treasuries.

Meanwhile, gross issuance of short-term tax-exempt debt was a hefty $6 billion in August after even heavier issuance in June and July. A large volume of short-term issuance might appear surprising in light of the improved financial positions of most state and local governments, which suggests less need to cover gaps in cash flows.

In fact, the recent pickup in short-term issuance has not kept pace with retirements in this maturity sector as well and is consistent with some decline in the stock of outstanding short-term debt.

GROSS OFFERINGS OF MUNICIPAL SECURITIES[1]
(Monthly rates, not seasonally adjusted, billions of dollars)

			1994				
	1992	1993	Q1	Q2	June	July[p]	Aug.[p]
Total tax-exempt	21.2	27.2	17.7	16.1	23.9	19.2	17.2
Long-term	18.9	23.3	15.5	12.4	14.8	19.1	11.3
Refundings[2]	10.4	15.7	7.4	3.4	5.1	2.1	1.4
New capital	8.5	7.6	8.1	9.0	9.7	10.3	9.9
Short-term	3.3	3.9	2.4	3.7	9.1	6.7	5.9
Total taxable	.6	.7	.8	.4	.7	.1	0.2

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

Treasury Financing

The Treasury will likely finance the projected third-quarter fiscal deficit of $49-1/2 billion mainly by borrowing $31 billion from the public and by drawing down its cash balance. Nonmarketable borrowing is expected to turn negative owing to a large paydown in state and local government series (SLGS) as a consequence of the sharp falloff in advance refunding.

The Treasury announced sharp cutbacks in the sizes of its weekly bill auctions in advance of its expected large inflows on the September 15 tax date. These actions surprised market participants somewhat, in light of the Treasury's intention, announced in May 1993, to shorten the maturity of the public debt. In practice, though, the Treasury has shortened its average maturity by issuing

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

Item	1994 Q2	1994 Q3[p]	1994 Jul.	1994 Aug.[e]	1994 Sept.[e]
Total surplus/deficit (-)	.6	-49.4	-33.2	-29.3	13.2
Means of financing deficit:					
Net cash borrowing/repayments(-)	7.7	30.9	-3.2	51.3	-17.1
Nonmarketable	-.5	-3.2	-3.6	.8	-.3
Marketable	8.2	34.1	0.4	50.5	-16.8
Bills	-22.7	-6.5	7.6	8.3	-22.4
Coupons	30.9	40.7	-7.2	42.2	5.7
Decrease in the cash balance	-6.4	12.0	30.7	-9.8	-8.7
Other[2]	-2.0	6.4	5.7	-12.2	12.8
Memo:					
Cash balance, end of period	51.0	39.0	20.3	30.1	39.0

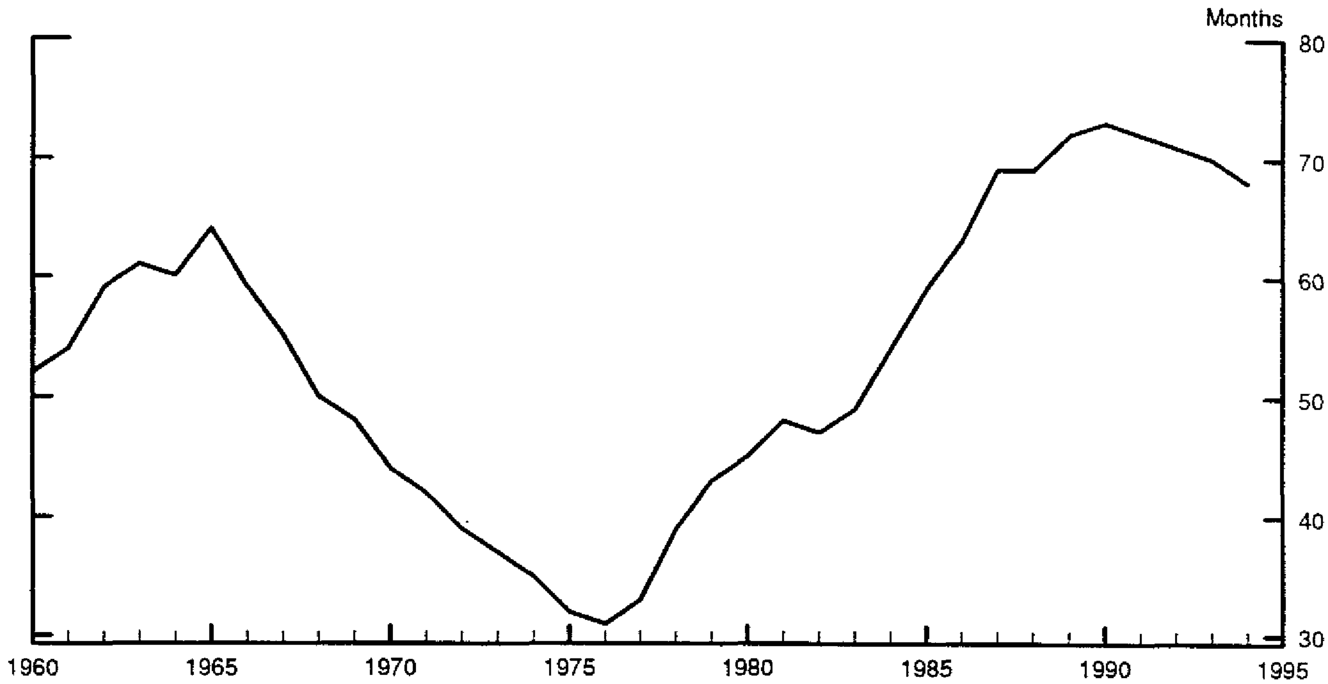
1. Data reported on a payment basis.
2. Includes checks issued less checks paid, accrued items, and other transactions.
p--projected.
e--estimated.
Note: Details may not add to totals because of rounding.

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

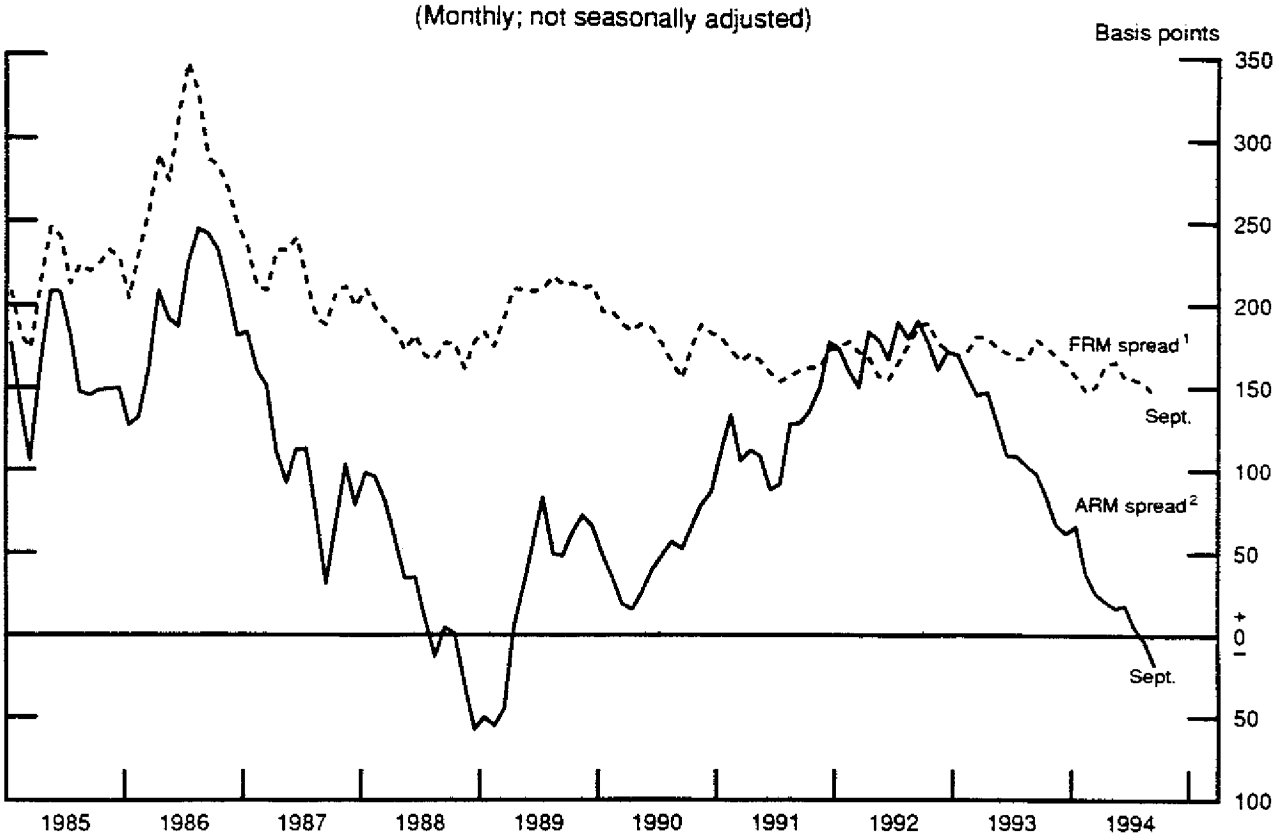
1. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
2. Federal Agricultural Mortgage Corporation.

AVERAGE MATURITY OF TREASURY DEBT



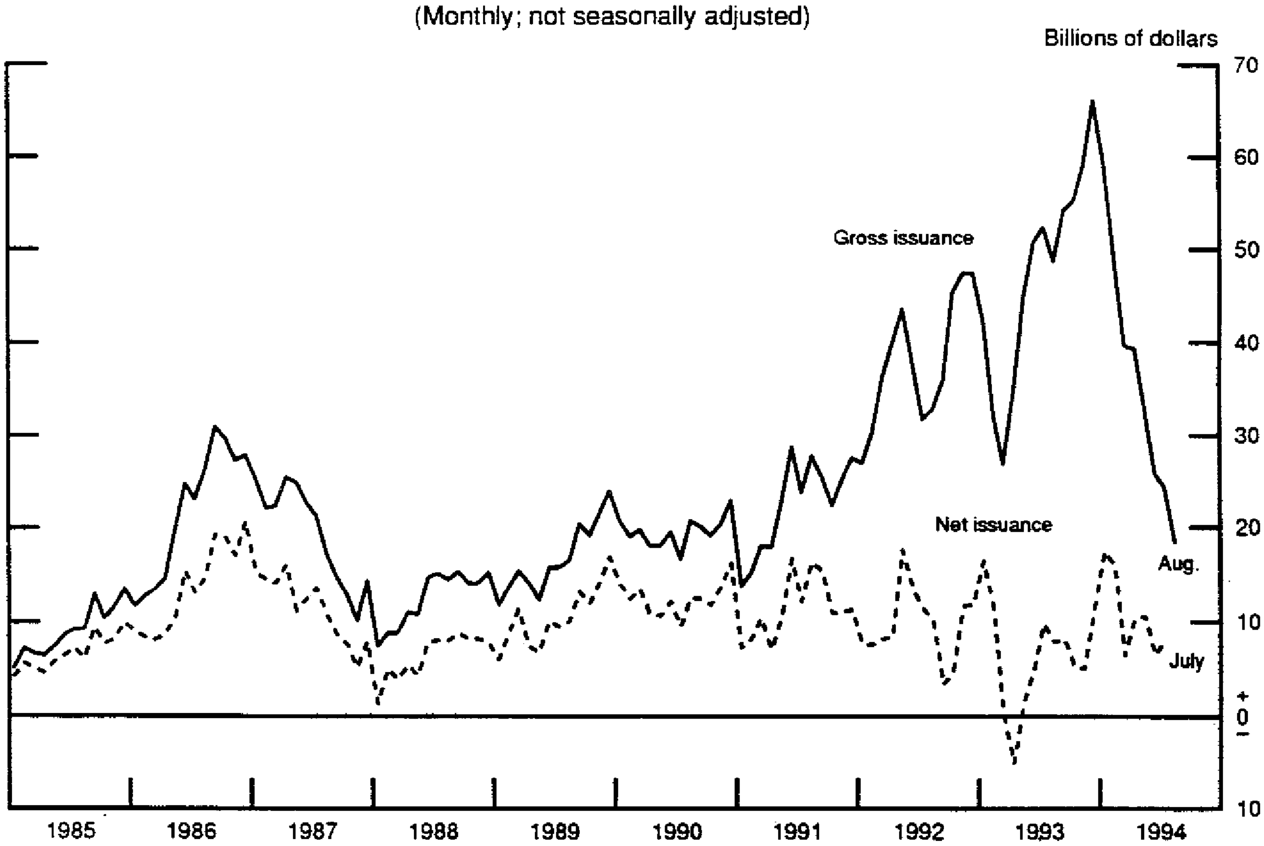
DIFFERENCE BETWEEN TREASURY AND FEDERAL RESERVE STAFF ESTIMATES OF YIELD ON A THIRTY-YEAR CONSTANT MATURITY BOND

MORTGAGE YIELD SPREADS
(Monthly; not seasonally adjusted)



1 Spread between the yield on the thirty-year fixed rate mortgage and the average yield on ten-year and seven-year Treasury notes.
2. ARM rate less the one-year Treasury rate.

ISSUANCE OF AGENCY MORTGAGE PASS-THROUGH SECURITIES
(Monthly; not seasonally adjusted)



more one-year bills and two-year notes and fewer longer-term securities. Nonetheless, on the whole, the average maturity of the public debt maturity had decreased only modestly by early this year (chart).

The Treasury's decision to move to a semiannual auction schedule for the thirty-year bond has had a noticeable effect on the bond's yield in relation to the rest of the term structure. Typically, on-the-run, or the most recently issued, securities have liquidity value, which is capitalized into their price, lowering their yield compared to off-the-run securities. Given the change in the issuance cycle, liquidity premiums on thirty-year bonds are capitalized for six months rather than for three months under the old schedule, implying a higher price and lower yield. Because the Treasury's estimates of constant-maturity yields are based on the on-the-run securities, these widely reported yields include such liquidity effects. Moreover, the Treasury's calculation of constant-maturity yields makes no adjustment for changes in duration, thereby overstating the extent of interest rate changes. Board staff estimates of constant-maturity yields, which remove such liquidity and duration effects, suggest that the impact can be substantial at times (chart). Over this intermeeting period, however, the wedge has not been significant, as the on-the-run thirty-year bond incorporates little liquidity value.

Mortgage Markets

Since the last FOMC meeting, the yield spread between the conventional fixed-rate thirty-year mortgage and comparable Treasury securities is about unchanged, but the spread on adjustable-rate mortgages over the one-year Treasury bill has narrowed 16 basis points (chart). Portfolio lenders have continued to price ARMs aggressively, to the point where the ARM-to-Treasury rate spread on recently closed mortgages has turned negative; the ARM rate on new lending, of course, reflects start rates that may be initially set low to entice borrowers but that adjust upward over time.

Partial data for the third quarter indicate that mortgage lending activity has picked up from an unusually weak second quarter pace. Real estate loan growth at commercial banks has been notably strong, in part reflecting the relative strength of ARM financing. Mortgage loan growth at thrifts in the second quarter turned positive for the first time in over a year and is expected also to pick up further in the current period. While the Mortgage Bankers Association purchase application index declined on a seasonally adjusted basis from its level in the second quarter, much of the weakness is likely attributable to a shift of originations from mortgage companies to banks and thrifts. The ARM share of conventional mortgage originations remained above 40 percent, according to the Federal Housing Finance Board, and depositories are more active than are mortgage bankers in this sector of the market.

Gross issuance of pass-throughs by the agencies declined to about $19-1/2 billion in August, the lowest monthly volume since April 1991. Net issuance also has been relatively weak recently, totaling only $6-1/2 billion in June and $8 billion in July, substantially below January's $17 billion. One reason for the decline in issuance is that lenders typically hold the bulk of the ARMs that they originate in portfolio. Even so, agencies appear to be participating in the increase in ARM originations. So far in 1994, total ARM-backed securities issuance has jumped 28 percent above the same period as last year, and the agency sector has accounted for about 85 percent of all new ARM-backed securities issued thus far in 1994. The limited new supply of pass-through securities coupled with generally lower rate volatility have contributed to relatively tight spreads between mortgage securities and Treasuries in secondary markets.

Consumer Credit

Consumer installment credit increased at an 8 percent seasonally adjusted annual rate in July, half its June pace. However, this deceleration was overstated by the reclassification of about $2 billion of loans at one large finance company, formerly reported as "other consumer loans," which trimmed about 3 percentage points from the growth of total installment credit in July.

Interest rates on consumer loans at commercial banks increased over the period from May to August. The average "most common" rate on a forty-eight-month new-car loan rose about 60 basis points to 8.4 percent. Rates on two-year personal loans and credit card plans also rose, but by lesser amounts. The spread of the auto loan rate against three-year Treasuries widened a bit in August but remained well below the average of the past ten years (chart). Spreads on personal loan rates and credit card rates were little changed and remained near their ten-year averages.

Credit quality of commercial bank consumer loans improved, based on data reported on the second-quarter call report. Delinquency rates on all types of consumer loans edged down; the largest decline occurred for credit card loans. Delinquency rates at large banks were sharply lower, while those at small banks were up slightly. The American Bankers Association series on delinquency rates also indicated declines in rates for five types of closed-end consumer loans and for credit cards.

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

Type of credit	1992	1993	1994 Q1	1994 Q2[r]	1994 June[r]	1994 July[p]	Memo: Outstanding July 1994 (Billions of dollars)
Installment	.2	9.0	10.9	16.0	16.0	7.9	855.5
Auto	-1.0	9.2	9.1	18.9	20.1	16.5	305.7
Revolving	4.8	11.9	15.6	17.9	15.6	14.0	316.2
Other	-3.4	5.4	7.0	10.0	11.2	-11.3	233.6
Noninstallment	6.3	-5.5	4.2	-15.7	-12.6	-2.9	51.0
Total	.6	8.0	10.4	14.1	14.3	7.2	906.5

r Revised.
p Preliminary.

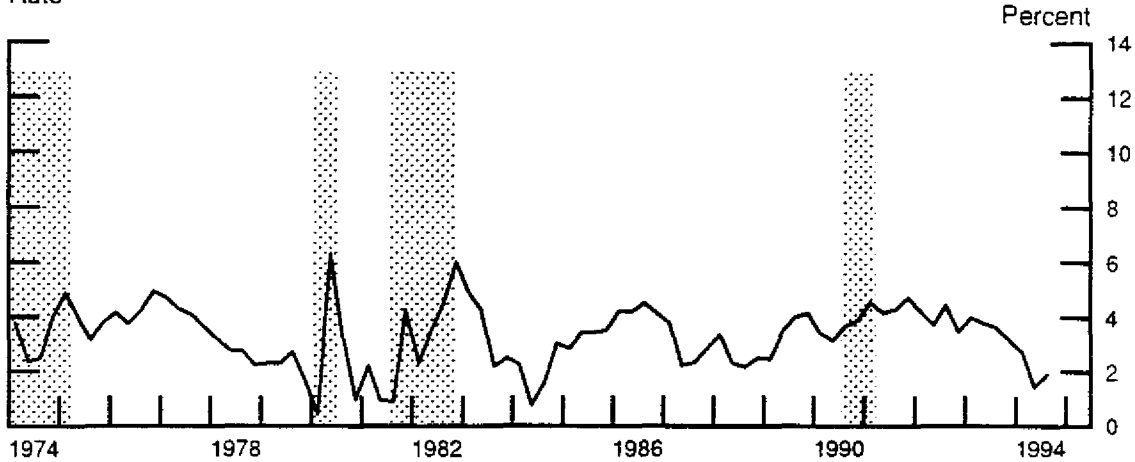
INTEREST RATES ON CONSUMER LOANS
(Annual percentage rate)

Type of loan	1991	1992	1993	1994 Feb.	1994 May	1994 July	1994 Aug.
At commercial banks[1]							
New cars (48 mo.)	11.1	9.3	8.1	7.5	7.8	...	8.4
Personal (24 mo.)	15.2	14.0	13.5	12.9	13.0	...	13.3
Credit cards	18.2	17.8	16.8	16.1	16.2	...	16.3
At auto finance cos.[2]							
New cars	12.4	9.9	9.5	8.9	9.9	10.2	...
Used cars	15.6	13.8	12.8	12.2	13.5	13.9	...

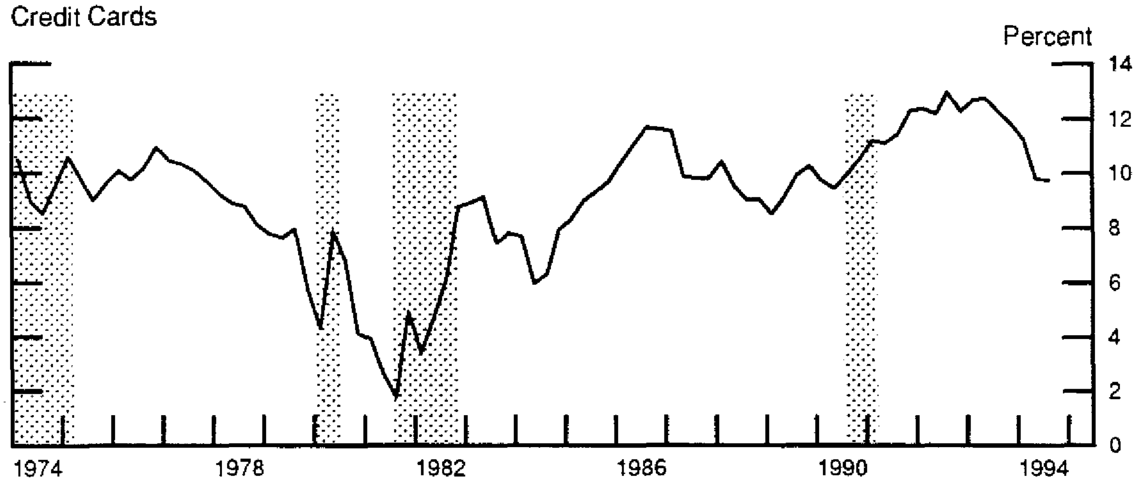
1. Average of "most common" rate charged for specified type and maturity during the first week of the middle month of each quarter.
2. For monthly data, rate for all loans of each type made during the month regardless of maturity.
Note: Annual data are averages of quarterly data for commercial bank rates and of monthly data for auto finance company rates.

COMMERCIAL BANK CONSUMER LOAN RATE SPREADS
(Consumer rate less yield on three-year Treasury note)

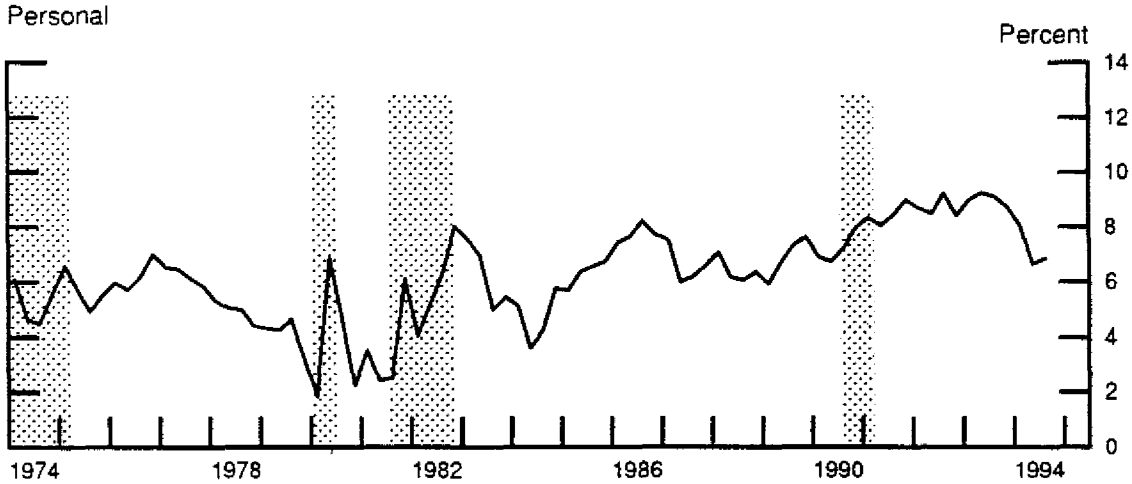
Auto



Credit Cards



Personal



INTERNATIONAL DEVELOPMENTS

U.S. International Trade in Goods and Services

In July, the U.S. trade deficit in goods and services widened to $11.0 billion; the deficit was larger than in June and, when expressed at an annual rate, was substantially larger than in the second quarter.

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

	Year	Quarters			Months		
	1993	93Q4	94Q1	94Q2	May	Jun	Jul
		(annual rates)			(monthly rates)		
Real NIPA 1/							
Net Exports of G&S	-73.9	-82.2	-104.0	-112.9	--	--	--
Nominal BOP							
Net Exports of G&S	-75.7	-79.9	-97.3	-107.5	-9.4	-9.0	-11.0
Goods, net	-132.6	-132.7	-147.8	-166.5	-14.3	-14.0	-15.7
Services, net	56.8	52.8	50.5	59.0	4.9	5.0	4.7

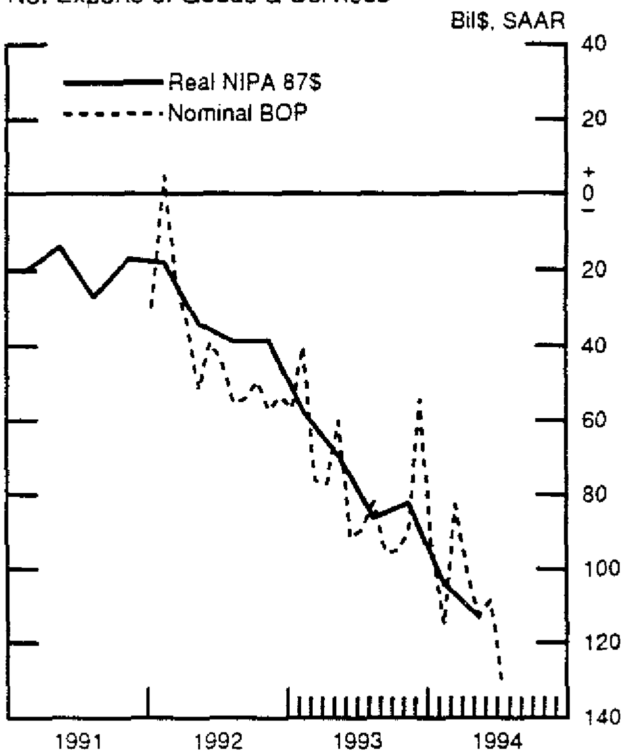
1/ In billions of 1987 dollars, SAAR.
Source: U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census.

Exports of goods and services in July dropped back to levels recorded in April and May, and were 1 percent less than the second-quarter average. One part of the decline in exports was transitory. Aircraft exports were low for seasonal reasons in July and are expected to have rebounded in August. Similarly, exports of automotive products to Canada dropped in July (as did imports of automotive products from Canada). Another part of the decline reflected a drop back from the comparatively high levels recorded in June: exports of machinery and consumer goods were less than in June, nonetheless, they were still higher than in either of the two preceding months. Agricultural exports (primarily soybeans) declined in July to about the second-quarter average level. On the other hand, exports of nonagricultural industrial supplies (especially chemicals) increased strongly in both June and July.

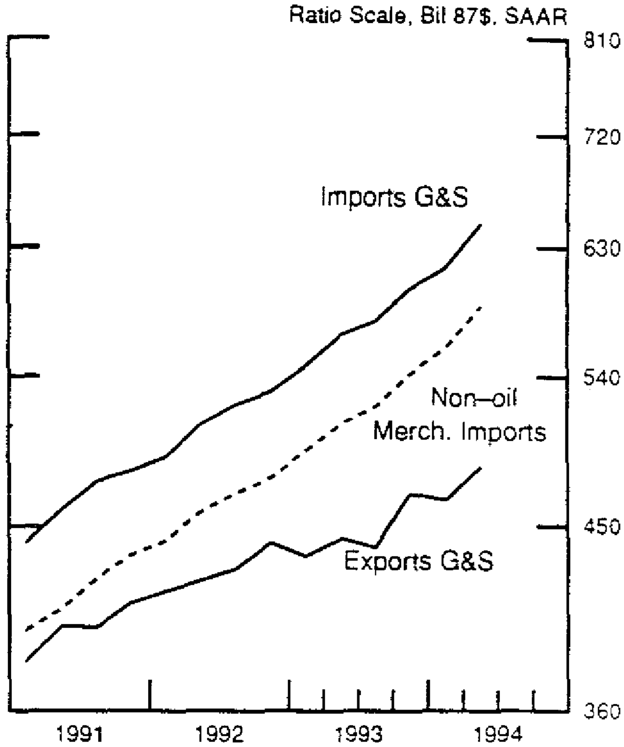
U.S. International Trade in Goods & Services

09/21/94

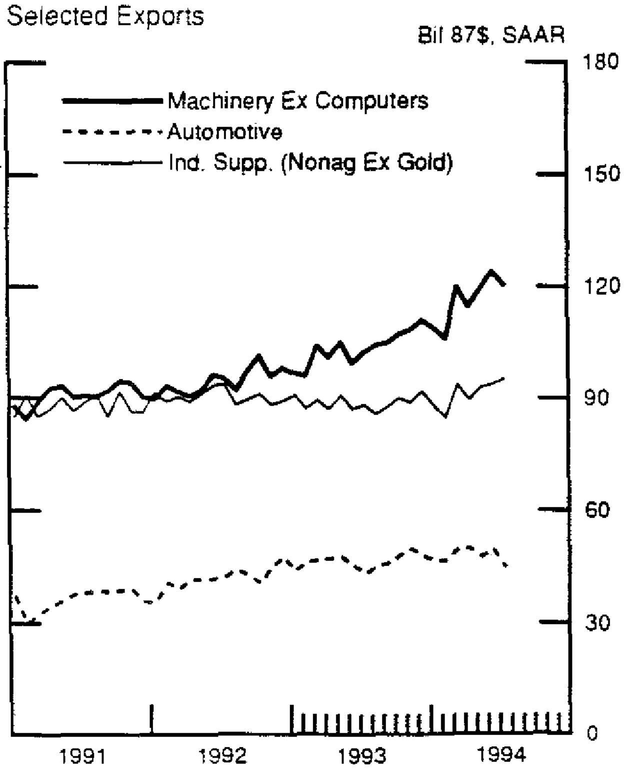
Net Exports of Goods & Services



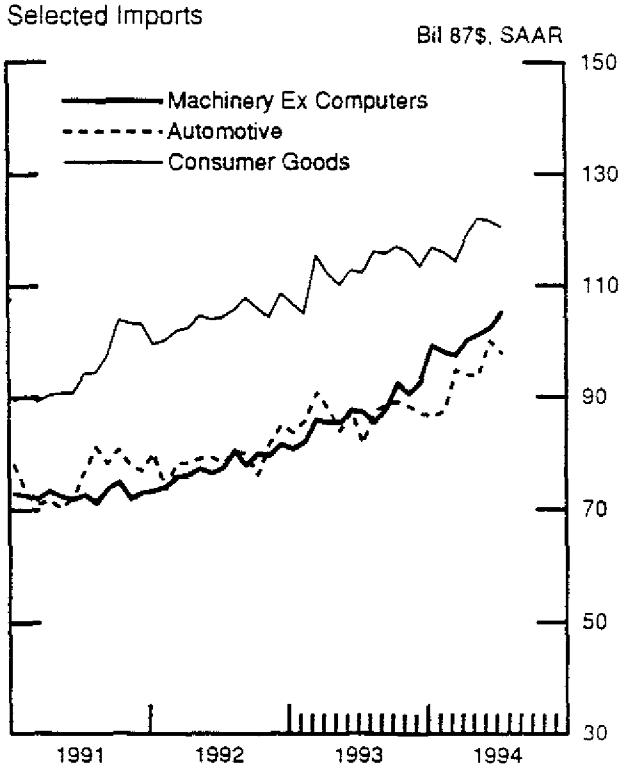
Real NIPA Goods & Services



Selected Exports



Selected Imports



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

	Quarters				Months		
	Levels		$Change 1/		Levels		$Chg 1/
	94Q1	94Q2	Q1	Q2	Jun	Jul	Jul
Exports of G&S	659.5	684.6	-5.6	25.1	700.3	677.7	-22.7
Goods Exports	472.1	490.7	-6.6	18.6	504.3	484.0	-20.3
Agricultural	43.7	43.8	-1.6	0.1	44.0	42.7	-1.3
Gold	9.4	5.7	-3.8	-3.6	2.5	4.6	2 1
Computers	31.3	31.9	0.7	0.6	33.8	33.1	-0.7
Other Goods	387 7	409.3	-2.0	21.6	424.0	403.6	-20.4
Aircraft & Pts	34.2	34.1	-0.2	-0.2	35.1	23 2	-11.9
Semiconductors	23.5	24.0	2.8	0.6	24.6	23 7	-0.9
Other Cap Gds	105.6	114.1	-0.1	8.5	119.2	115 6	-3.7
Automotive	54.4	55.9	-0.6	1.6	56.7	51.4	-5.2
to Canada	29.0	30.6	-0.4	1.7	30.4	26.5	-3.9
to Mexico	7.9	5.5	-0.5	-2.4	0.0	0.0	-0.0
to ROW	17.5	19.8	0.2	2.3	26.2	24.9	-1.4
Ind Supplies	96.2	102.3	-0.2	6.1	105.5	109.5	4.0
Consumer Goods	55.4	58.3	-1.5	2.9	61.4	58 3	-3.0
All Other	18.4	20.5	-2.1	2.1	21.5	21.9	0.4
Services Exports	187 4	193.9	1.0	6.5	196.0	193 6	-2.4
Imports of G&S	756.8	792.1	11.8	35.3	808.8	809.6	0.7
Goods Imports	619.9	657.2	8.5	37.3	672.6	672.4	-0.2
Petroleum	41.6	51.5	-6.0	9.9	58.7	61.0	2.3
Gold	8.8	4.7	-1.2	-4.1	1.8	2.6	0.8
Computers	41.8	44.3	1.5	2 6	44.9	44.6	-0 3
Other Goods	527.7	556.7	14.2	29.0	567.2	564.2	-3.0
Aircraft & Pts	11.3	12.3	-1.1	1.0	12.3	9.3	-3.0
Semiconductors	23.1	23.7	1.3	0.6	23.7	25.4	1.7
Other Cap Gds	94.4	98.6	5.6	4.2	100.7	102.4	1.7
Automotive	108.1	116.5	2.2	8.4	121.8	119.2	-2.6
from Canada	36.9	41.2	-1.1	4.3	43.6	36.9	-6.7
from Mexico	13.4	9 4	0.4	-4.0	0.0	0.0	-0.0
from ROW	57.8	65.9	2.9	8.2	78.2	82.2	4.0
Ind Supplies	101.3	106.5	5.4	5.2	107.6	109.8	2.2
Consumer Goods	137.8	144.5	-0.2	6.7	145.7	144.3	-1.4
FFB	29.4	30.5	0.5	1.1	31.1	31.4	0.3
All Other	22.5	24.2	0.4	1.7	24.3	22.4	-1.9
Services Imports	136.9	134.9	3.2	-2.0	136.3	137.2	0.9
Memo:							
Oil Qty (mb/d)	9.00	9.61	-0.24	0.61	10.29	10.05	-0.24

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

The level of imports in July was about the same as in June, and was 2 percent higher than the second-quarter average. In July, small increases in imported oil, other industrial supplies, and automotive products from Japan were offset by declines in imported aircraft, consumer goods, and automotive products from Canada.

In the second quarter the trade deficit was larger than in the first quarter and significantly larger than at any time since 1988 Exports of goods and services were 4 percent higher than in the first quarter; increases occurred in both goods and services with the sharpest rises recorded for machinery, industrial supplies (particularly chemicals, aluminum, and paper), and travel and transportation receipts from foreigners. Imports of goods and services rose 5 percent; the increase was spread about evenly over most categories of merchandise. The exception was imported oil whose value jumped nearly 25 percent.

The quantity of oil imported in July (10 million barrels per day) eased only slightly from the record high levels in June. The strength of imports in June was associated with increased consumption of oil that accompanied the onset of the summer driving season. In July, imports remained strong as inventories rose at a quicker pace while production eased. Preliminary Department of Energy statistics indicate that in August consumption of oil rose slightly, inventories continued to be rebuilt, and imports fell somewhat but remained over 9 mb/d.

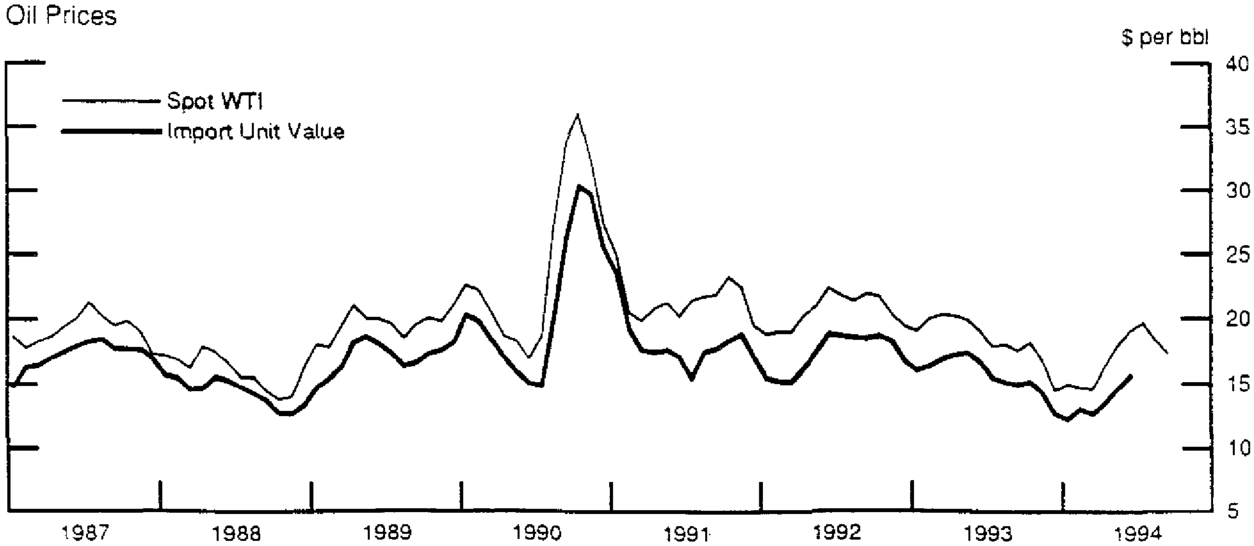
Prices of Merchandise Imports and Exports

The price of imported oil continued its upward trend in July rising another $1.00 per barrel to reach $16.62 per barrel. While the $1.00 rise in June prices occurred as OPEC production remained roughly unchanged in the face of increasing world oil demand, the onset of the Nigerian oil workers unions strike on July 4 pushed the

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

	Quarters			Months		
	93Q4	94Q1	94Q2	May	Jun	Jul
	(annual rates)			(monthly rates)		
	BLS Prices					
Merchandise Imports	-0.7	-2.1	7.4	0.9	0.8	1.1
Oil	-24.3	-30.2	67.5	8.4	5.5	7.1
Non-Oil	2.0	1.3	2.8	0.2	0.3	0.5
Foods, Feeds, Bev.	5.9	0.8	16.0	1.7	2.4	4 4
Ind Supp Ex Oil	-0.9	5.4	4.4	-0.1	0 5	0.5
Computers	-6.1	-5.1	-6.6	-0.9	-0.2	-1.2
Capital Goods Ex Comp	2.3	-0.1	2.7	0.1	0.3	0 4
Automotive Products	6.9	2.0	2.4	0.2	0.1	0.0
Consumer Goods	0.9	-0.1	1.0	0.2	-0.1	0.2
Memo:						
Oil Imports ($/bbl)	14.09	12.67	14.66	14.65	15 65	16.62
Merchandise Exports	0.5	4.1	1.4	0.4	0 0	0.3
Agricultural	8.2	19.9	-7.3	1.4	-2.2	-2.1
Nonagricultural	-0.6	2.2	2.9	0.2	0 3	0.6
Ind Supp Ex Ag	-4.0	7.8	9.4	0.6	1 2	2.0
Computers	-6.9	-10.0	-6.4	-0.8	-1.0	-0.4
Capital Goods Ex Comp	2.3	0.9	-0.2	0.0	0 2	0 1
Automotive Products	1.3	1.5	0.9	0.1	0.1	0.2
Consumer Goods	0.7	0.8	0.2	0.1	-0.3	0.0
	Prices in the NIPA Accounts					
Fixed-Weight						
Imports of Gds & Serv.	0.0	-2.8	7.8	--	--	--
Non-oil Merch Ex Comp	3.2	0.5	3.6	--	--	--
Exports of Gds & Serv.	0.7	4.4	2.2	--	--	--
Nonag Merch Ex Comp	0.2	2.9	3.5	--	--	--

Oil Prices



price of oil higher still. After peaking at $20.55 on August 1, closing spot oil prices (West Texas Intermediate (WTI)) fell as low as $16.70 per barrel (the lowest levels since April) as concern over Nigerian production disruption abated and the unions suspended their strike (September 5). Currently, spot WTI is trading at $17.17 per barrel. Import prices in August and September should follow this fall in spot and futures prices: import prices are expected to be above $16.00 per barrel in August, and to average about $15.25 per barrel in September.

Prices of non-oil imports rose in July for the fifth consecutive month. The sharpest increase in July, as in June, was for imported coffee, the price of which jumped 60 percent in two months. Other than for foods, import price increases in recent months were strongest for industrial supplies followed by capital goods other than computers. Prices of imported automotive products which increased earlier in the year did not rise much in June or July. While prices of imported consumer goods have varied within a small range this year, in recent months increases have occurred more often than declines.

Price increases of nonagricultural exports have moved up during the year, with the sharpest increases in recent months recorded for nonagricultural industrial supplies (especially paper). Only small price changes were reported for exported consumer goods, automotive products, and capital goods other than computers in recent months. Prices of agricultural exports declined in July (primarily soybeans and corn) as they did in June (largely wheat).

Price data for August will be released by BLS on September 29.

U.S. Current Account through 1994-Q2

The U.S. current account deficit was $147.9 billion SAAR in the second quarter, $18.6 billion larger than in the first quarter.

The deficit for net goods and services widened as an increase in net receipts from service transactions (largely from foreign travelers in the United States, especially for World Cup Soccer) was more than offset by an increase in the deficit for merchandise trade (imports increased more than exports rose).

U.S. CURRENT ACCOUNT
(Billions of dollars, seasonally adjusted annual rates)

	Goods & Services Balance	Investment Income, net	Transfers net	Current Acct Balance
Years				
1992	-40.4	4.5	-32.0	-67.9
1993	-75.7	3.9	-32.1	-103.9
Quarters				
1993-1	-57.7	7.4	-29.1	-79.4
2	-76.3	2.7	-28 8	-102.4
3	-89.0	8.1	-30 5	-111.4
4	-79 9	-2.4	-40.1	-122.3
1994-1-r	-97.3	-3.2	-28.7	-129 3
2	-108.0	-10.0	-29.9	-147.9
Memo:				
$ Change				
Q2-Q1	-10.7	-6.8	-1.2	-18.6

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

Both payments and receipts of investment income rose sharply in Q2, with income payments on foreign assets in the United States increasing more than income receipts from U.S. assets abroad. The jump in income payments reflected higher interest rates (which pushed up portfolio payments) as well as higher income payments on foreign direct investment in the United States. Most of the increase in income receipts from U.S. assets abroad reflected higher interest rates and receipt of past due interest payments owed to U.S. banks by Brazil.

Net unilateral transfers rose marginally in the second quarter.

U.S. International Financial Transactions

Foreign official assets held in the United States rose strongly in July for the third straight month (line 1 of the Summary of U.S. International Transactions table). July's increase was related only in part to reported foreign exchange-market intervention by the G-10 countries. Within the G-10, significant increases were registered by Canada, Japan, and Switzerland, while outside the G-10 most of the rise was accounted for by Singapore and the BIS. Mexican reserves in the United States continued to fall.

Banking inflows, at $10.9 billion, also continued at approximately the same rate as May and June (line 3). About half of the net inflow was attributable to investment banks and securities dealers. Daily average data indicate continued inflows in August from own foreign offices and IBFs (line 1 of the International Banking Data table).

Private foreigners sold U S. securities net in July, in contrast to huge net purchases in the the first quarter and significant net additions in May and June (line 4 of the Summary table). Holdings of Treasury securities fell by $9 billion in July (line 4a); much of the international activity in U.S. Treasury securities in 1994 has been recorded in Caribbean financial centers, particularly Bermuda, the British West Indies, and the Netherlands Antilles, and presumably reflects the activities of certain "hedge" and other investment funds. Net private sales of U.S. Treasury securities reported for these areas amounted to $12.7 billion in the second quarter and another $7.5 billion in July.

Corporate and other bond purchases by private foreigners were almost halved in July to a net $5.8 billion (line 4b); of the total, about $2.5 billion was for U.S. agency bonds. Small net sales of

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	May	June	July
<u>Official capital</u>									
1. Changes in foreign official reserve assets in U.S. (+ = increase)	38.3	70.0	18.1	23.1	10.6	7.9	8.9	13.0	13.6
a G-10 countries	4.8	29 8	9 1	4.7	10 9	15.4	6.4	8.4	5 8
b. OPEC countries	4 9	-5.1	-3.1	-.9	-2.3	-4.4	-1.0	-1.4	1.5
c. All other countries	28.6	45.3	12.1	19 2	2 0	-3.0	3 5	6 1	6 3
2. Changes in U.S. official reserve assets (+ = decrease)	3.9	-.7	-.5	-.7	-.1	3.5	1.7	1.3	-.1
<u>Private capital</u>									
Banks									
3. Change in net foreign positions of banking offices in the U.S.[2]	35.6	11.4	15.0	5.3	37.3	37.4	10.4	10.5	10.9
Securities[3]									
4. Foreign net purchases of U.S. securities (+)	68.1	106.8	21.4	46.6	31.1	6.3	11.8	4.1	-3.9
a Treasury securities[4]	37 4	25.6	3 6	8.3	9.4	-7.3	7 7	-4 5	-8.9
b Corporate and other bonds[5]	34.3	61.6	14.9	26 1	14.6	14.9	2 6	10.0	5 8
c. Corporate stocks	-3.7	19 6	2 8	12 2	7 0	-1.3	1 6	-1.4	- 9
5. U.S. net purchases (-) of foreign securities	-47.9	-124.3	-42.0	-31.6	-26.4	-18.3	-4.2	-7.4	-4.5
a Bonds	-15.6	-61.0	-21 6	-10.7	-7.9	-6.3	-.2	* 1	-1 4
b Stocks	-32.3	-63.3	-20.4	-20 9	-18.6	-12.0	-4.0	-6 7	-3 1
Other flows (quarterly data, s a.)									
6 U S direct investment (-) abroad	-41.0	-57 9	-6.3	-22 7	-24 8	-7 8	n.a.	n.a.	n a
7 Foreign direct investment in U.S.	9.9	21.4	3 0	8.1	12 0	3.9	n.a.	n.a.	n a
8 Other (+ = inflow)[6]	18.1	56 1	27.6	-1 5	7 1	7 6	n.a	n.a.	n a
<u>U.S. current account balance (s.a.)</u>	-67.9	-103.9	-27.9	-30 6	-32.3	-37.0	n.a.	n.a.	n a
<u>Statistical discrepancy (s.a.)</u>	-17.1	21.1	-8.4	4.0	-14.5	-3 5	n.a.	n.a.	n a

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

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

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

4. Includes Treasury bills.

5. Includes U.S government agency bonds.

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

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

INTERNATIONAL BANKING DATA 1/
(Billions of dollars)

	1991	1992	1993		1994			
	Dec.	Dec.	Sept.	Dec.	Mar.	June	July	Aug.
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	-175.4	-191.0	-199.2
a. U.S.-chartered banks	12.4	17.0	12.5	4.2	-15.1	-29.9	-41.0	-48.8
b. Foreign-chartered banks	-48.3	-88.6	-127.1	-126.3	-142.4	-145.6	-150.0	-150.3
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	22.2	22.4	22.6
b. By Caribbean offices of foreign-chartered banks	n.a.	n.a.	95.9	90.9	88.6	83.9	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	73.6	79.3	80.0
b. At the Caribbean offices of foreign-chartered banks	n.a.	n.a.	82.4	79.2	84.2	82.1	n.a.	n.a.
MEMO: Data as recorded in the U.S. international transactions accounts								
4. Credit extended to U.S. nonbank residents	179	192	197	202	207	n.a.	n.a.	n.a.
5. Eurodeposits of U.S. nonbank residents	239	237	236	235	234	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 corporate stocks continued in July (line 4c). U.S. residents, on the other hand, continued net purchases of foreign securities at the moderate rates seen since the beginning of the second quarter (line 5).

Recently released preliminary data for second-quarter direct investment capital flows show a substantial falloff of both outflows and inflows from the very high levels of 1994:Q1 (lines 6 and 7). In both cases the declines were largely associated with shifts in accounts receivable and payable between parent firms and affiliates, reflecting shifting financing decisions. At $7.8 billion for the quarter, outflows of U.S. direct investment abroad were double the value of inflows for foreign investment in the United States. However, net outflows for direct investment declined, from $12.8 billion in the first quarter, to $3.9 billion (line 6 plus line 7).

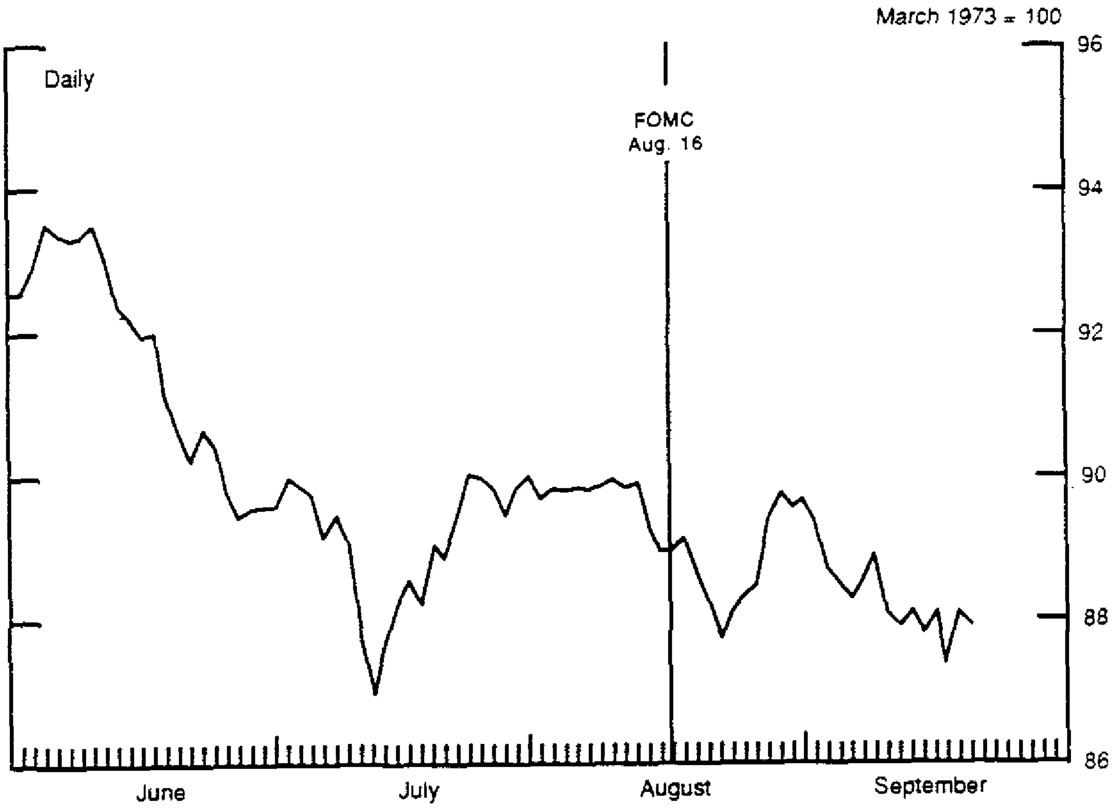
The preliminary statistical discrepancy was a small negative $3.5 billion for the second quarter, but the very large revision of the statistical discrepancy for the first quarter underlines the "softness" of the preliminary numbers. The revised figure for the first quarter of negative $14.5 billion represents a $19.2 billion shift from the preliminary number of $4.7 billion. The primary causes of the change were revisions in bank claims on own foreign offices and the receipt of data on the claims and liabilities of U.S. nonbanks that normally lag by a quarter. The (preliminary) statistical discrepancy for the first two quarters of 1994 now stands at a negative $18 billion. When combined with the impact of currency shipments of approximately $13 billion in the first half that are unrecorded in the balance of payments, the total of unrecorded net capital outflows and net imports now stands at $31 billion for the first half of 1994.

Two possible sources of such a sizable discrepancy are the series on credit extended to and Eurodeposits of U.S. nonbank residents. As part of recent improvements introduced by BEA in the U.S. international accounts, BEA is now using data reported to the BIS as a major source of information on these items. As shown in lines 4 and 5 of the International Banking Data Table, BEA's data for these accounts recorded a capital inflow of $6 billion in the first quarter. Federal Reserve statistical reports present a quite different picture: as reported on lines 2a and 2b of the same table, the sum of the differences between the March and December levels of credit extended to U.S. nonbanks equals a net outflow of $2.7 billion. Further, our independent measures of Eurodollar holdings (lines 3a plus 3b), total a net outflow of $2.3 billion. Thus, Federal Reserve figures estimate a capital *outflow* totaling $5 billion for these items -- a difference that would account for $11 billion of the revised statistical discrepancy in the first quarter. However, since the coverage of the Federal Reserve series is less complete than that of the BIS, it is still possible that these differences do not account for the statistical discrepancy in 1994:Q1.

Foreign Exchange Markets

The weighted average foreign exchange value of the dollar, shown in the chart, declined 1-1/2 percent on balance during the intermeeting period, with concerns over U.S. inflation apparently the primary factor contributing to the decline. The dollar rose shortly after the Federal Reserve tightened monetary conditions on August 16, but subsequently fell on concerns that the Federal Reserve was likely to fall behind what was needed to prevent a rise in U.S. inflation. The dollar rebounded temporarily at the end of August on U.S. GDP figures for the second quarter that suggested

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



INTEREST RATES IN THE MAJOR INDUSTRIAL COUNTRIES

	Three-month Rates			10-year Bond Yields		
	Aug. 16	Sept. 21	Change	Aug. 16	Sept. 21	Change
Germany	4.90	5.00	0.10	7.20	7.67	0.47
Japan	2.29	2.31	0.02	4.57	4.46	-0.11
United Kingdom	5.56	5.94	0.38	8.60	9.02	0.42
Canada	5.92	5.59	-0.33	9.06	9.01	-0.05
France	5.56	5.49	-0.07	7.75	8.20	0.42
Italy	9.56	8.50	-1.06	11.61	11.93	0.32
Belgium	5.54	5.37	-0.17	8.29	8.56	0.27
Netherlands	4.86	5.03	0.17	7.23	7.60	0.37
Switzerland	4.31	4.00	-0.31	5.26	5.50	0.24
Sweden	8.85	8.13	-0.72	11.64	11.30	-0.34
Weighted-average foreign	5.06	5.02	-0.04	7.58	7.82	0.24
United States	4.86	5.07	0.21	7.19	7.55	0.36

U.S. economic growth was beginning to slow. In the following weeks, however, the dollar gave up all of these gains, weakened in part by figures showing that in August U.S. producer prices, capacity utilization, and industrial production had all increased by more than market participants had expected. Toward the end of the intermeeting period, the dollar weakened against the yen on news of a widening of the U.S. trade deficit in August and worries about ongoing trade talks with Japan.

The Canadian dollar rose 2-1/2 percent against the dollar during the intermeeting period. Most of this rise reflected an unwinding of concerns that a victory by the separatist Parti Quebecois in provincial elections on September 16 would lead to Quebec's eventual secession from Canada. The slim margin of the Parti Quebecois' popular vote victory supported pre-election polls showing a substantial majority of Quebec's citizens opposed to secession.

Sterling rose 2-1/4 percent against the dollar during the intermeeting period. About half of of this rise occurred after the Bank of England surprised market participants by raising its money market intervention rate 1/2 percentage point on September 12. Strong economic growth and a desire to prevent the emergence of inflation were cited as the basis for the rate increase. Data released subsequent to the rate increase suggested U.K. inflation may be picking up.

Ten-year bellwether bond yields rose 45 basis points in Germany during the intermeeting period and by 20 to 40 basis points in most other European countries. These increases followed reports of strong second-quarter GDP growth in both Germany and the United Kingdom. A non-trivial portion of the backup in European interest rates occurred after the release of stronger-than-expected U.S.

economic data, suggesting a common component to concerns about the pickup in U.S. and European economic activity.

In Japan the ten-year bellwether bond yield declined 10 basis points, reflecting Japan's weak second quarter economic performance, as well as low business confidence, which both suggest that the Japanese economy is recovering at a considerably slower pace than that in Europe.

While long term interest rates rose in the United States and Europe during the intermeeting period, the ten year bellwether bond yield declined 5 basis points in Canada, reflecting an unwinding of the risk premium that it had developed prior to Quebec's parliamentary election.

The yield on the bellwether bond in Sweden declined 35 basis points on balance during the intermeeting period. Prior to national elections on September 18, the yield declined on market participants' relief that it appeared a centrist, as opposed to a far-left, coalition would form the next government. Following the election, the bellwether bond yield gave up some of its pre-election gains after the Social Democratic Party indicated that it intends to form a minority government.

Three-month interest rates rose 10 basis points to 5.00 percent in Germany during the inter-meeting period. Over the same period, the Bundesbank conducted all of its RPs at a fixed rate of 4.85 percent. Comments by Bundesbank Council members concerning the future scope for monetary easing were mixed during the period, but three-month Euromark futures rates backed up slightly, suggesting the market expects a slightly accelerated pace of Bundesbank tightening. The yield on the December 1994 three-month Euromark futures contract is currently 30 basis points above the current three-month rate: and the yield on the December 1995 three-month

Euromark futures contract is currently 175 basis points above the current three-month rate. These yields reflect both expectations of the future path of three-month rates, as well as liquidity and risk premia.

In Japan, short-term rates remained unchanged at about 2.30 percent during the intermeeting period. Three-month Euroyen futures rates declined about 10 basis points during the period, with most of this decline occurring at the end of the period, following the release of weaker than expected second quarter GDP figures. The yield on the December 1994 Euroyen futures contract is 20 basis points above the current three-month rate, and the yield on the December 1995 Euroyen futures contract is 140 basis points above the current three-month rate.

. The Desk did not intervene during the period.

<u>Developments in Foreign Industrial Countries</u>

Real GDP grew strongly (by 4 percent or more, SAAR) in the second quarter in Germany, France, the United Kingdom, and Canada, confirming that recovery is firmly established, but Japanese real GDP contracted. Components of GDP showed differing patterns of growth across these economies. In Japan, growth in public investment and private housing expenditures was offset by weakness in private consumption and investment spending. In Germany, final domestic demand contracted and inventory investment surged, while in France all components of final domestic demand were strong. In the United Kingdom, government expenditures made an important contribution to growth, while in Canada a surge in fixed investment was the primary source of growth. Net exports provided support in Germany, Canada, and the United Kingdom, but subtracted from growth in Japan and France. Available data for the third quarter are mixed, but in general suggest a slight moderation from the rapid pace of expansion in the second quarter.

Consumer price inflation remains low in major foreign industrial countries, but in several there has been a pickup in input prices and producer prices. Unemployment rates have started to level off or come down, but they remain well above estimated NAIRUs.

In Japan, after growth of nearly 4 percent (SAAR) in the first quarter, real GDP declined 1.6 percent in the second quarter, as consumption expenditures, plant and equipment investment, and net exports fell. While consumption expenditures are expected to reverse their decline in the third quarter, reflecting the effects of tax rebates and unusually hot weather, the second-quarter decline in economic activity underscores the weak and tentative nature of the recovery.

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

	1992	1993	1993		1994	
	Q4/Q4	Q4/Q4	Q3	Q4	Q1	Q2
GDP	1.2	0.0	1.1	-2.8	4.0	-1.6
Total Domestic Demand	0.4	0.3	0.7	-0.5	3.0	-0.3
Consumption	1.7	1.1	1.8	3.0	5.6	-2 8
Investment	-0.8	-1.3	1.3	-6.0	-3.3	2.2
Government Consumption	2.2	3.0	2.5	3.7	1.8	1.3
Inventories (contribution)	-0.6	-0.1	-1.0	-0.5	0.6	0.6
Exports	3.5	-2.2	3.0	-8.1	17.9	5.9
Imports	-0.9	5.4	0.6	8.2	10.8	16.0
Net Exports (contribution)	0.6	-1.0	0.4	-2.4	0.8	-1.2

Data for the third quarter are mixed, but on balance suggest a resumption of growth. Industrial production and housing starts moved up moderately in the second quarter, but they edged down somewhat in July. New car registrations declined in the second quarter but rebounded in August. Similarly, new machinery orders were up strongly in June and July following a second-quarter decline, on average. Recent movements in the unemployment rate and the job offers/applicants ratio point to further deterioration in the labor market.

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

	1993	1994						
	Q4	Q1	Q2	Q3	May	June	July	Aug.
Industrial Production	-3.7	1.9	1.1	n.a.	-1.2	2.7	-1 7	n.a.
Housing Starts	-2.0	3.7	1.7	n.a.	0.5	0.3	-2.3	n.a
Machinery Orders	-0.7	6.9	-16 5	n.a.	1.7	9.4	9 3	7.8
New Car Registrations	-3.3	8.5	-7.5	n.a.	-4.6	7.4	-0 2	n.a.
Job Offers Ratio*	0.66	0.66	0.64	n.a.	0.64	0.63	0.62	n.a.
Business Sentiment**	-56	-56	-50	-39	--	--	--	--

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

In the Bank of Japan's August economic survey (Tankan), the index of business sentiment of major manufacturing firms (the percentage having a favorable view of business conditions minus the percentage with an unfavorable outlook) registered its second consecutive increase after more than four years of decline. However, sentiment on balance is still negative, and firms predicted a 4 percent fall in investment in the fiscal year that began in April, about the same predicted decline as in May's survey.

Real GDP rose 4 percent at an annual rate in western Germany in the second quarter, nearly twice the first-quarter rate of increase. In the first quarter, a surge in construction spending (due to mild winter weather and tax incentives) boosted growth, but in the second quarter, inventory accumulation was the major source of growth. Consumption declined substantially, owing partly to the decline in real disposable income this year. Construction fell, as expected after the weather-induced surge in the first quarter, while machinery and equipment investment spending rose for the second consecutive quarter. Both exports and imports grew strongly, and net exports made a modest contribution to growth.

WEST GERMAN 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	-0.5	4.4	-1.2	2.2	4.0
Total Domestic Demand	1.7	-2.4	4.6	-5.2	3 4	3.6
Consumption	3.7	-0.8	8.4	-1.3	1.4	-3.9
Investment	-2.8	-8.2	1.3	-9.3	18.0	-2 7
Government Consumption	4.4	-1.8	4.1	2.4	-3.9	-1 7
Inventories (contribution)	-0.6	0.2	-1.3	-2.8	-0.1	6.4
Exports	-2.8	0.8	5.2	9.2	3.4	20 3
Imports	1.2	-5.1	6.2	-2.9	8.1	23 3
Net Exports (contribution)	-1.3	1.7	0.1	3.7	-1.0	0 6

In July, industrial production continued to expand (although the July figure is expected to be revised downward), while the volume of retail sales fell further, suggesting that inventory accumulation may have continued into the third quarter. However, a July survey showed a marked improvement in west German businesses' views concerning finished goods inventories, except in consumer goods sectors. Increases in manufacturing orders and firms' production plans in June and July suggest that economic activity is likely to continue to pick up.

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

	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 May	1994 June	1994 July	1994 Aug.
Industrial Production	0.4	-0.3	0.3	2.7	-0.1	1.8	2.3	n.a.
Retail Sales	2.0	-1 9	1.3	-3.2	6.7	-0.9	-1.9	n.a.
Manufacturing Orders	1.7	-0.9	2.6	3.8	-0.1	2.8	0.7	n.a.
Capacity Utilization	78.2	78.1	79.4	81.5	--	--	--	--
Unemployment Rate (%)	8.5	8.9	9.2	9.3	9.3	9.3	9.2	9.3
Production Plans*	-15.0	-8.0	3.3	7.7	8.0	9.0	9.0	n.a.

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

In eastern Germany, industrial production (NSA) has continued to show strong gains, advancing 21-1/2 percent in the year ending in June, led by basic and producer goods, which were up nearly 30 percent. Manufacturing orders (NSA) also have evidenced strong gains recently, and are up more than 15 percent for the year ending in June.

In France, real GDP rose 4 percent (SAAR) in the second quarter. Growth was broad based with consumption, investment, and total domestic demand all expanding at a 4 percent annual rate The strength in consumption is partly due to government subsidies on automobile purchases (which rose almost 33 percent, SAAR). These incentives appear to have had most of their impact early in the quarter, as the consumption of manufactured products, which includes autos, declined in May and was almost flat in June.

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

	1992 Q4/Q4	1993 Q4/Q4	1993 Q3	1993 Q4	1994 Q1	1994 Q2
GDP	0.6	-0.5	1.2	0	2.8	4.0
Total Domestic Demand	-0.3	-2.1	-1.3	-0.9	5.7	4.3
Consumption	1.8	0.3	2.8	0	0	4.0
Investment	-2.1	-4.4	3.6	-2.0	-1.2	4.0
Government Consumption	-2.0	0.3	1.6	0.8	1.6	2.0
Inventories (contribution)	-1.1	-1.2	-3.9	-0.3	5.5	0.3
Exports	5.6	3.1	14.3	3.6	1.6	10.8
Imports	2.3	-2.6	4.5	0.4	13.4	11.7
Net Exports (contribution)	0.8	1.6	2.5	0.9	-3.1	-0.2

Exports grew rapidly, but the increase in imports was larger, reflecting increased demand for investment goods. As a result, the contribution of net exports remained slightly negative.

Consumer prices were unchanged for the third month in a row in August and remained at 1.7 percent above their year-earlier level.

The French government budget, presented to Parliament on September 21, sets a 1995 central government deficit target of

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

	1993		1994					
	Q3	Q4	Q1	Q2	May	June	July	Aug
Industrial Production	0.8	-0.5	1.0	2.4	0.3	-0.7	n a	n.a
Unemployment Rate (%)	11.9	12.3	12.5	12.6	12.7	12.6	12.6	n.a.
Consumption of Manufactured Products	2.1	-1.9	0.7	1.4	-1.1	0.2	n.a.	n.a.
Consumer Prices (NSA)	0.2	0.5	0.4	0.6	0.2	0.0	0.0	0 0

3.6 percent of GDP, down from 4.1 percent in 1994. The target is to be achieved largely by holding expenditure growth to the rate of inflation. On a general government basis the deficit is likely to be larger due to deficits in the social security budget and at the local government level.

Real GDP in the United Kingdom expanded rapidly in the second quarter. Oil production and net exports continued to boost growth. Total domestic demand also contributed to growth, boosted by private and government consumption expenditures.

U.K. REAL GDP
(percent change from previous period, SAAR)

	1992	1993	1993		1994	
	Q4/Q4	Q4/Q4	Q3	Q4	Q1	Q2
GDP	0.3	2.6	3.6	3.6	3.8	4.0
Total Domestic Demand	0.8	3.0	2.6	5.2	0.8	1.6
Consumption	1.3	3.1	4.4	4.1	1.8	1.8
Fixed Investment	0.0	1.7	7.0	9.1	11.0	-1 2
Government Consumption	-0.6	1.6	1.8	0.9	1.1	3.4
Inventories (contribution)	0 0	0.5	-1.7	1.0	-2.4	0 0
Exports	3.9	3.3	10.4	5.3	18.1	4.2
Imports	6.5	4.3	8.9	13.2	5.9	-4.2
Net Exports (contribution)	-0.9	0.0	0.2	-2.2	2.8	2.4
Non-oil GDP	0.2	2.3	2.9	2.4	3.2	3.6

A sharp drop in oil production in July resulted in flat industrial production despite a pickup in manufacturing production. Retail sales expanded in July, but fell back in August, with the end of summer discounting by retailers. Rising input prices contributed to an increase in producer price inflation in August, after declines in the previous seven months.

U.K. ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1993		1994					
	Q3	Q4	Q1	Q2	May	June	July	Aug.
Industrial Production	1.3	1.4	0.9	2.1	0.5	0.1	0.0	n.a.
Retail Sales	1.1	0.8	1.1	0.9	0.2	0 0	0.6	-0 4
Unemployment Rate (%)	10.4	10.0	9.8	9.4	9.4	9.4	9.3	9.2
Input Prices (NSA)*	5.4	-0.7	-3.0	0.6	0.9	2.3	3.2	3 4
Producer Prices (NSA)	3.8	3 8	3.3	2.2	2.1	2.1	2.0	2.3
RPI ex. MIP (NSA)**	3.1	2.7	2.7	2.4	2.5	2.4	2.2	2.3

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

In the first change in monetary policy since February, the government set a minimum lending rate of 5.75 percent on September 12 that resulted in a 50 basis-point rise in base lending rates. Chancellor of the Exchequer Kenneth Clarke stated that the rate increase was in response to the strong and rapid pickup in growth and was designed to ensure that no risks were taken with inflation.

Available indicators in Italy suggest that the recovery has continued in the second and third quarters. Industrial production picked up significantly in May and June. Consumer confidence increased in June and edged down only slightly in July. In August,

ITALIAN ECONOMIC INDICATORS (NSA)

	1993	1994					
	Q4	Q1	Q2	Apr.	May	June	July
Industrial Production*	0.1	2.6	6.1	0.2	9.2	8.7	n.a
Capacity Utilization (%)	74 4	74.5	76.0	--	--	--	--
Unemployment Rate (%)	11.3	11.3	11.6	--	--	--	--
Consumer Confidence	96.3	100.6	112.8	108.4	112.6	117.3	116.8
Business Sentiment** (%)	4	19	17	25	17	8	n.a.

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

new car registrations and electricity consumption were up 8.1 percent and 7 3 percent, respectively, relative to August 1993.

Economic activity in Canada surged in the second quarter, largely on the strength of business machinery and equipment investment and a resumption of construction activity Inventory accumulation and continued strong exports also contributed to the unexpectedly robust pace.

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

	1992	1993	1993		1994	
	Q4/Q4	Q4/Q4	Q3	Q4	Q1	Q2
GDP	0.5	3.2	1.3	3.6	4.4	6.4
Consumption	0.6	2.2	1.7	2.4	4.4	3.0
Fixed Investment	-5.8	4.5	3.6	11.3	1.5	18.2
Government Consumption	0.8	-0.1	-0.8	0.2	-3.3	-2.4
Exports	9.4	10.9	6.8	14.3	4.6	18.2
Imports	3.3	11.1	4.4	15.6	0.8	15.1
Net Exports (contribution)	1.7	-0.3	0.7	-0.7	1.3	0.7

Preliminary indicators for the third quarter suggest that economic activity will continue at a healthy, but more moderate, pace. Growth in the composite index, Canada's main leading indicator, slowed in July and August, continuing a trend begun in May and the volume of retail sales fell in July. Rising commodity prices and the lower level of the Canadian dollar through August continued to contribute to industrial-product price inflation, but so far consumer price inflation remains subdued. Excluding the effects of recent tax cuts, 12-month consumer price inflation averaged 1.6 percent in August.

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

	1993		1994					
	Q3	Q4	Q1	Q2	May	June	July	Aug
Industrial Production	0.9	1.0	0.7	2.9	0.8	0.8	n.a.	n.a.
Retail Sales	1.3	1.0	3.3	1.3	1.1	1.6	-1.8	n.a.
Composite Index*	2.0	1.8	2.3	2.1	0.6	0.5	0.3	0.4
Employment	0.2	0.3	0.4	0.8	0.5	0.1	0.5	0.2
Unemployment Rate (%)	11.4	11.1	11.0	10.7	10.7	10.3	10.2	10.3
Consumer Prices**	1.7	1.8	0.6	0.0	-0.2	0.0	0.2	0.2
Industrial Product Prices**	3.0	2.9	3.1	5.0	4.6	6.0	6.2	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 account	30.6	33.8	34.2	12.5	10.0	11.8	12.0
Germany: trade*	14.4	10.2	15.6	3.9	3.0	8.6	n.a.
current account*	-3.4	-5.1	-3.7	-1.0	-2.7	-0.1	n.a.
France: trade	5.5	2.8	4.0	1.5	1.3	1.1	n.a.
current account	4.1	n.a.	n.a.	--	--	--	--
U.K.: trade	-5.0	-4.3	-3.6	-0.9	-1.6	-1.1	n.a.
current account	-2.7	-0.7	n.a.	--	--	--	--
Italy: trade	6.2	6.9	n.a.	2.0	2.7	n.a.	n.a.
current account*	6.4	1.3	6.9	1.4	1.3	4.2	2.4
Canada: trade	1.8	1.4	1.9	0.6	0.2	1.0	1.7
current account	-6.1	-5.5	-5.5	--	--	--	--

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

Chart 1

September 21, 1994

Industrial Production for Major Foreign Countries

Ratio Scale, Seasonally Adjusted, Monthly

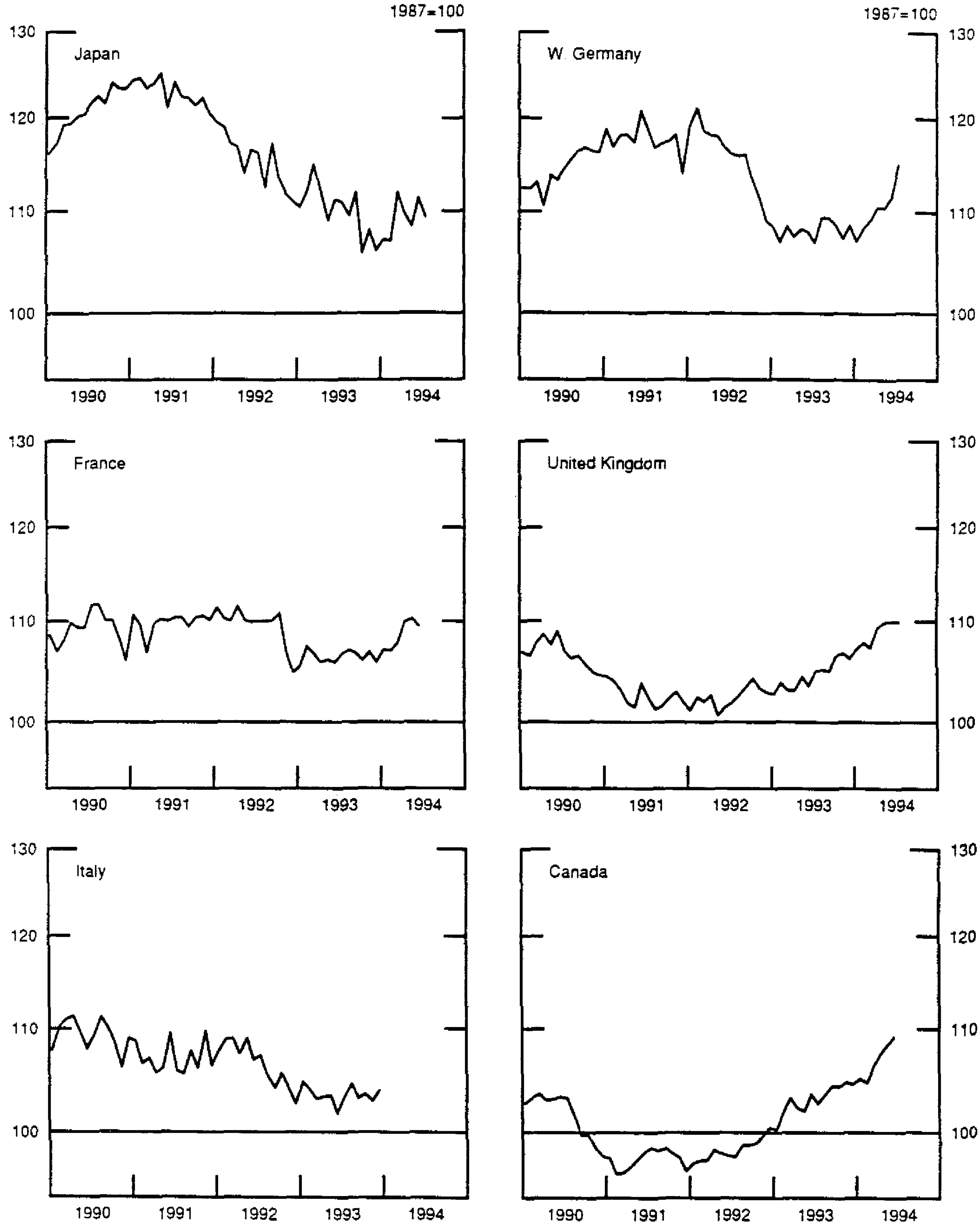
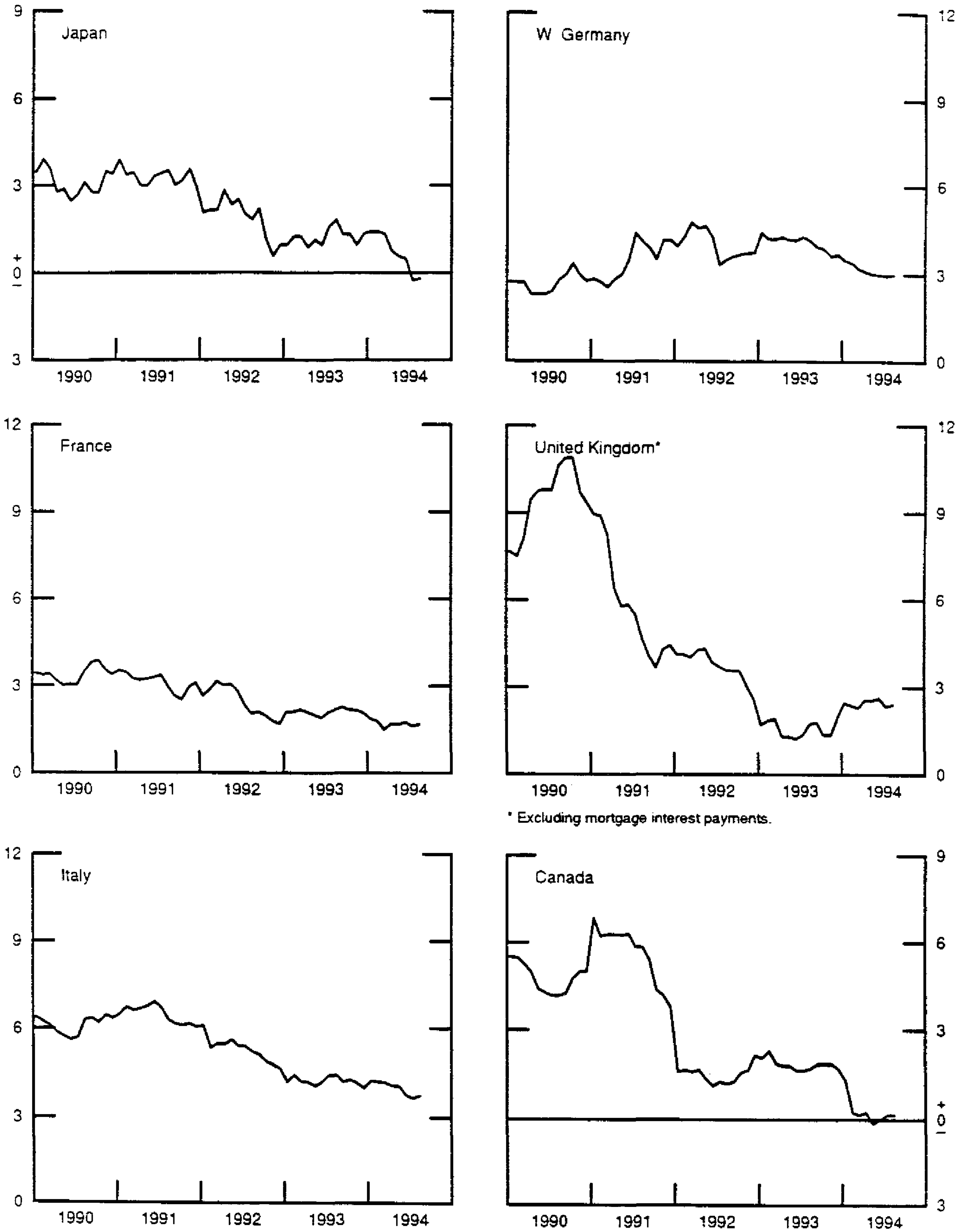


Chart 2

September 21, 1994

Consumer Price Inflation for Major Foreign Countries

12–Month Percent Change



* Excluding mortgage interest payments.

Economic Situation in Other Countries

Growth appears strong in major developing economies other than Venezuela and Russia.

Mexico grew strongly in the second quarter, according to preliminary statistics released just before the August presidential election. In Brazil, inflation has fallen under the latest stabilization plan, which took effect July 1. Price controls in Venezuela have restrained inflation, and output continues to contract. In Argentina, growth is steady while inflation has stayed low. In China, strong growth continues and inflation rates have risen; strong export growth has pushed the trade balance for the year into surplus. In Taiwan, consumer prices rose substantially in August because of bad weather. In Korea, output growth and inflation have both risen recently. Russian output continues to fall, but inflation has also fallen; tax revenues are running far below projections.

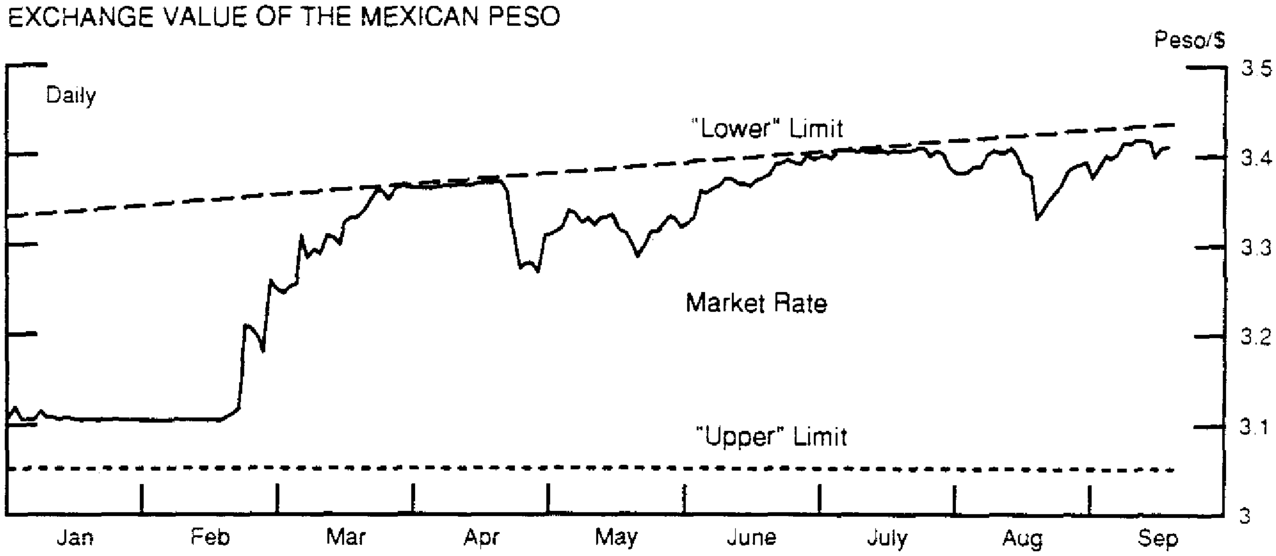
Individual country notes. In Mexico, real GDP rose 3.8 percent in the second quarter from the same quarter last year. This strong growth was well above the 0.5 percent rise in the first quarter, and exceeded most private and official forecasts. The surge was attributed to increases in foreign direct investment and spending on public infrastructure. These data are preliminary and were released just before the Mexican presidential elections; hence, their implications for the strength of the recovery will remain unclear until revised GDP data are released. Consumer prices rose 6.8 percent in August from a year earlier. The trade deficit in the first half of 1994 was $8.9 billion, up from $6.9 billion in the same period last year.

In the presidential elections on August 21, Ernesto Zedillo, candidate of the ruling Institutional Revolutionary Party (PRI), won

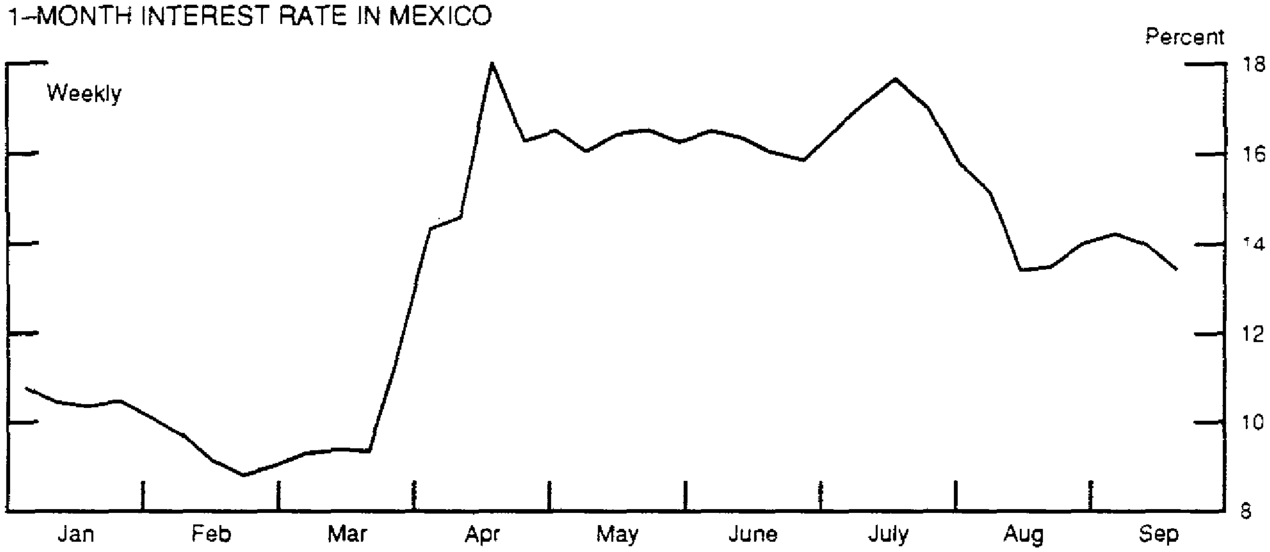
9/21/94

RECENT MEXICAN FINANCIAL INDICATORS

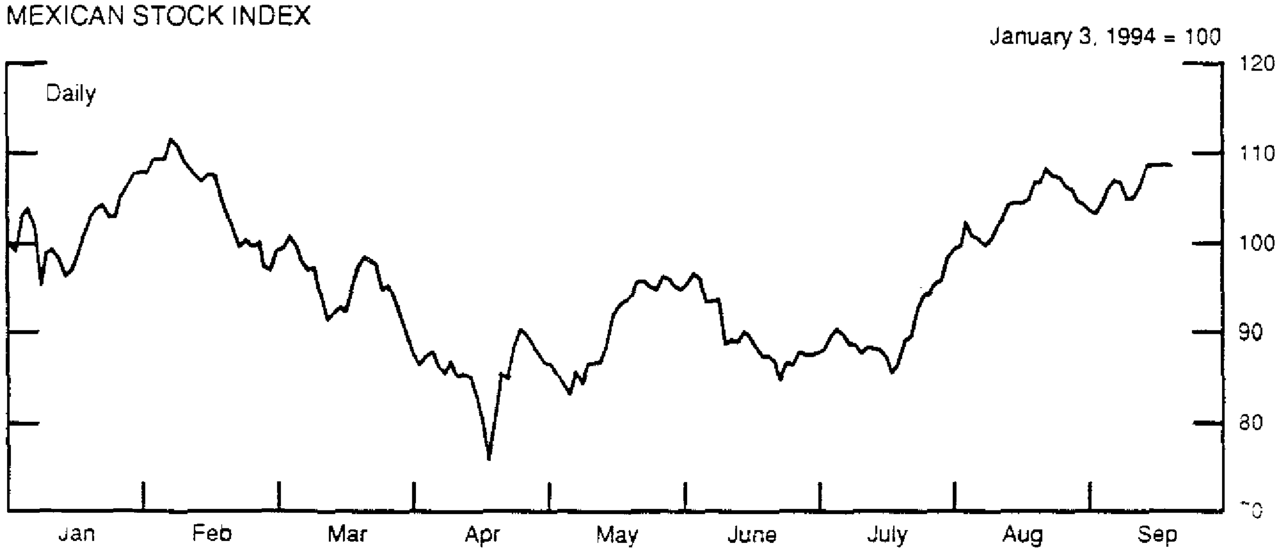
EXCHANGE VALUE OF THE MEXICAN PESO



1-MONTH INTEREST RATE IN MEXICO



MEXICAN STOCK INDEX



a decisive victory. The wide margin of Zedillo's victory, as well as the reporting of only scattered, minor electoral irregularities, largely dispelled concerns that political turmoil would continue to restrain economic activity even after the elections.

As shown in the following chart on Mexican financial developments, pressure on the peso eased in the runup to the presidential election as polls indicated increasing support for the PRI. By the time of the election, Zedillo's victory had been largely discounted. Since then, however, pressure on the peso has increased because of uncertainties related to the renewal within the next few weeks or months of the annual anti-inflation pact. The peso/dollar exchange rate has moved closer to the "lower" limit of its fluctuation band. The rate on one-month peso-denominated Treasury bills fell steadily from its recent peak of 17.7 percent at the July 19 auction to 13.4 percent at the August 17 auction. The rate rose slightly in the three weeks following the election before falling back to 13.4 percent on September 21. The Mexico City stock market, which gained steadily in the month before the election, also has largely leveled off since then.

In Brazil, inflation has continued to fall under its latest stabilization program, the *Plano Real*, implemented July 1. Consumer prices rose 7.8 percent in July, 5.5 percent in August, and are projected to rise even less in September. By contrast, prices rose 50 percent in June. Under the plan, the central bank committed to maintain the value of Brazil's newly introduced currency at no less than one dollar per *real*. Although nominal interest rates have declined since early July, the exchange rate has continued to be about $1.10 per *real*. The central bank's international reserves have remained at about $40 billion since June.

Finance Minister Rubens Ricupero resigned in mid-September after unintentionally stating during an interview that the aim of the government's economic plan was to support the presidential candidacy of former finance minister Henrique Cardoso. Owing to the popularity of the current program, Cardoso holds a strong lead over other presidential candidates. If he does not amass a majority in the October 3 election, however, a runoff between the top two contenders is scheduled for November 15. Ciro Gomes, the new finance minister, has pledged to adhere to the current program. To reduce inflationary pressures, the government recently announced that it would slash tariffs on over 400 goods. Recent reports that the central bank has had to provide some assistance to banks facing liquidity problems have caused some disturbance, albeit minor so far, in financial markets.

The cumulative trade surplus for the year through July 1994 was $7.6 billion, roughly equalling the surplus recorded over the same period last year. Economic activity reportedly slowed in July; but in August retail sales in Sao Paulo have been robust, up 22 percent from July and 70 percent from a year ago.

In Venezuela, consumer inflation has been restrained by price controls imposed on basic goods and services in late June. Monetary policy remains highly expansionary, however, putting upward pressure on non-controlled prices. Consumer price inflation was 5.2 percent in August, down from 9 percent in June and 6.3 percent in July; nevertheless, inflation remains high compared with monthly rates of about 3 percent last year. The maximum bank loan rate has fallen to about 3 percent in recent weeks, substantially below consumer inflation. The authorities hope that negative real interest rates will stimulate economic activity and reduce urban unemployment. GDP contracted 2.8 percent in the first half of 1994 from a year earlier, while the urban unemployment rate reached 8.9 percent in June, up from 6.6 percent at the beginning of the year. In early September, the Caldera administration announced an economic recovery plan that emphasizes deficit reduction, privatization, and foreign investment in the petroleum industry.

Imports in July dropped nearly 30 percent from a year earlier, due to weak aggregate demand as well as the strict foreign exchange controls imposed the previous month. Non-oil exports in July and August were unchanged from a year earlier, compared with 21 percent growth during the first half of 1994. The central bank's official reserves, excluding gold, reached an estimated $7.1 billion at the end of August, up from $5.5 billion in late June.

Following previous takeovers this year, the authorities on September 12 took over Banco Consolidado, which holds an estimated 8 percent of deposits in the banking system. The bank will remain open during restructuring and is expected to be eventually reprivatized.

In Argentina, growth appears steady while inflation remains low. Industrial production during the first half of 1994 was up 6 percent from a year earlier. Consumer prices were 3.8 percent higher in August than a year earlier. Strong import growth caused the cumulative trade deficit for the year through June to widen to $2.1 billion, from $240 million for the year-earlier period. Exports rose 12 percent from the year-earlier period, while imports rose 34 percent. Argentina registered a current account deficit of $3.3 billion in the first quarter of 1994, up from $1.8 billion a year earlier.

The Treasury initiated auctions of three-month peso and dollar denominated T-bills on August 22. On September 19, the auction rates for these two bills were 7.5 percent and 6.2 percent respectively. The government also announced its intention to privatize nearly all remaining state enterprises by early 1995.

Growth in China remains strong and inflation, which had shown signs of moderating, has risen again. Value-added in industry rose 18 percent in August compared with the year-earlier period; for the year through August, industrial output is up 16 percent. This strong industrial growth still appears slightly slower than growth last year. Urban consumer prices were 27 percent higher in August 1994 than a year earlier, after rising 24 percent in July. The continuing problems with inflation have caused the authorities to postpone additional price reforms, and have led to plans to outlaw "unreasonable" profits.

China ran a trade surplus of $170 million in August, its third straight monthly surplus. The trade surplus for the year through August is $100 million, compared to a deficit of $5.7 billion in the same period last year The movement from deficit to surplus reflects strong exports, which are up 32 percent over the first eight months of last year; imports are up 18 percent. Imports are reportedly fueled primarily by equipment imports of foreign-funded enterprises, which account for 45 percent of imports this year.

Equity markets in China boomed in August. The Shanghai and Shenzhen A share markets, which are not open to foreigners, roughly tripled between July 29 and September 21. B shares, which are open only to foreigners, rose about 20 percent over this period. Despite the recent surge, share prices remain well below their record levels of last year.

In Taiwan, GNP rose 5.8 percent in the second quarter from the same quarter last year. Consumer prices in August were up 2.4 percent from July and 7.1 percent from a year earlier. This spike in inflation was attributed to typhoons that caused food prices to rise sharply, and is not expected to persist. Taiwan's current account surplus in the first half of 1994 was $2.4 billion, down from $3 billion in the first half of last year. In August Taiwan's trade surplus was $800 million; exports rose 5 percent from the same month last year, while imports rose 11 percent.

In Korea, real GNP increased by 8.1 percent in the second quarter from the same quarter last year, driven especially by strong growth in investment. Rising inflation has accompanied the economic recovery. Consumer prices rose 7.4 percent in August from a year earlier, compared with a 4.4 percent rise in August 1993. The central bank has tightened liquidity in an effort to reduce inflation, contributing to a marked rise in interest rates during the past three months. The interest rate on three month CDs was 15.3 percent on September 13, almost three hundred basis points above the average rate in June.

Merchandise exports increased by 11.9 percent in the first seven months of 1994, as demand strengthened in industrial countries and yen appreciation enhanced Korea's competitiveness. Merchandise imports rose 14.7 percent over the same period, however, as strong investment demand fueled imports of capital goods. Hence, the current account deficit for the first seven months of this year widened to $2.9 billion, from $1.2 billion a year earlier.

In Russia, the ruble-dollar exchange rate depreciated 6.2 percent during August and about 6 percent during the first three weeks of September, up sharply from the 3.8 percent average monthly depreciation from May through July. The pressure on the ruble appears to reflect substantial credits to the agricultural sector, the industrial sector, and the Northern Territories, which has increased demand for dollars.

Russian official statistics indicate that during the first eight months of 1994, real GDP fell 16.5 percent and industrial production contracted 23.4 percent compared with the same period in 1993. These figures probably overstate the actual decline in economic activity, however, because they do not adequately cover the private sector. Monthly consumer price inflation in both July and August was around 5 percent, well below last year's average monthly rate of 20 percent. On August 22, the Central Bank of Russia reduced its three-month refinance rate from 12.5 percent a month to 10.8 percent a month.

Through June, Russia was complying with the major commitments in its Systemic Tranformation Facility (STF) with the IMF. The fiscal situation, however, continues to deteriorate. Government officials indicate that nominal federal tax receipts are now running at only 50 percent of revenue projections. This partly reflects lower than anticipated inflation, but also reflects sharper than expected declines in output, increased tax evasion, and unrealistically optimistic initial projections In response, the government has reduced expenditures relative to budget and increased its use of sequestration, in an effort to satisfy fiscal targets outlined in the STF.