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Part 2

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

Confidential (FR) Class III FOMC

May 17, 1995

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee
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DOMESTIC NONFINANCIAL DEVELOPMENTS

Growth of real GDP appears to have slowed substantially in the current quarter, and resource utilization has declined. Manufacturing output likely will fall appreciably this quarter, mainly reflecting an inventory correction that is centered in the motor vehicles sector, and construction activity will be held down by the slump in housing starts since the turn of the year. Increases in consumer and producer prices picked up a bit in the first four months of this year, even as compensation increases remained subdued.

Labor Market Developments

The labor market report for April showed essentially no change in the levels of payroll employment and aggregate hours and a spurt in the unemployment rate to 5-3/4 percent. Although possible technical problems call into question the results of that report, a slowing of the growth of labor demand is indicated by other information as well. Notably, initial claims for unemployment insurance have moved up considerably in recent weeks.

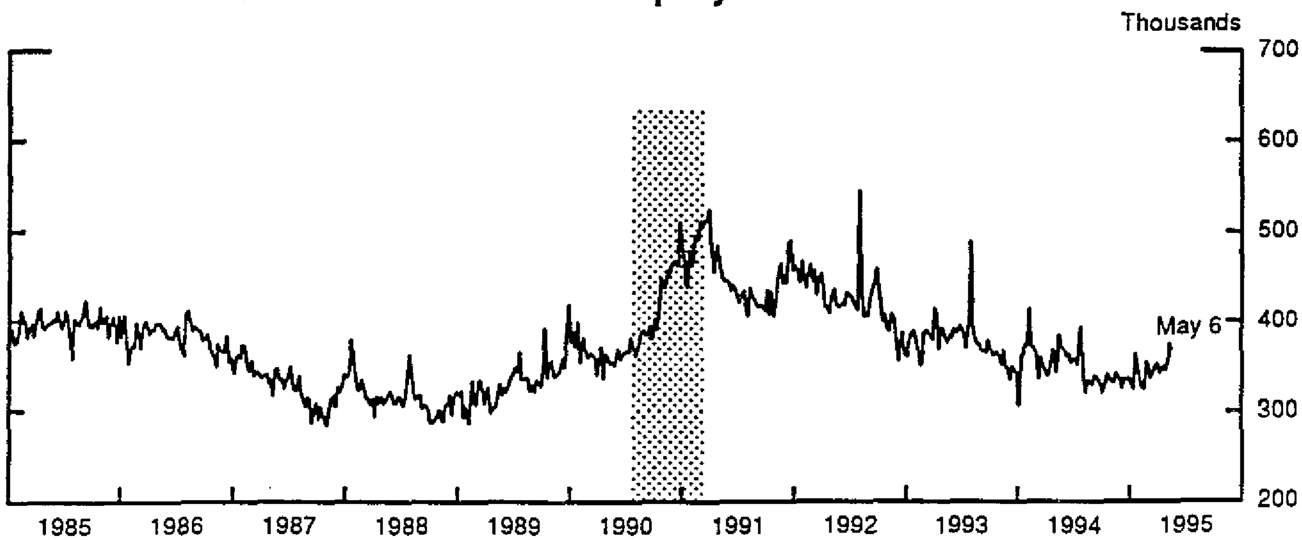
With respect to the April data, the BLS believes that a combination of special factors and seasonal adjustment difficulties likely depressed reported job growth last month. Most notably, five weeks elapsed between the March and April survey periods in each of the past three years, leading the seasonal factors to expect sizable job gains in April. This year, however, only four weeks elapsed between the surveys, and the BLS's seasonal adjustment technique makes no specific allowance for the length of the interval. The greatest impact of the missing week was probably in industries such as services, retail trade, and construction, in which job increases normally are quite large at this time of year. The BLS has produced

EMPLOYMENT DATA
(Thousands of employees; based on seasonally adjusted data)

	1993	1994	1994 Q3	1994 Q4	1995 Q1	1995 Feb.	1995 Mar.	1995 Apr.
	Average monthly changes[1]							
Nonfarm payroll employment[2]	194	292	284	309	234	355	177	-9
Strike-adjusted	194	293	292	303	233	355	177	23
Private	179	273	240	309	229	320	177	-10
Manufacturing	-11	24	17	43	18	20	-11	-28
Mining	-0	-2	0	-3	-2	-3	0	-3
Construction	19	26	15	26	27	-30	68	-20
Retail trade	40	68	64	94	20	64	-32	13
Wholesale trade	2	13	15	14	20	26	10	8
Finance, insurance, real estate	10	1	-1	-3	3	3	13	1
Services	116	132	124	123	133	222	120	6
Personnel supply services	30	34	28	32	9	31	-39	-21
Total government	15	19	44	0	4	35	0	1
Civilian labor force	119	236	251	145	262	172	203	226
Total household employment[3]	209	326	336	309	235	486	149	-202
Nonagricultural	219	289	297	268	179	405	107	-98
Unemployment	-90	-90	-85	-164	27	-315	54	428
	Levels							
Labor force participation rate	66.2	66.6	66.5	66.6	66.9	66.9	66.9	67.0
Unemployment rate	6.8	6.1	6.0	5.6	5.5	5.4	5.5	5.8
Average workweek (hours)	34.5	34.6	34.5	34.7	34.6	34.5	34.5	34.6
Manufacturing (hours)	41.5	42.0	42.0	42.1	42.1	42.1	41.9	41.3
Manufacturing overtime (hours)	4.2	4.7	4.6	4.8	4.8	4.9	4.7	4.3
Memo:								
Aggregate hours of private production workers (percent change)	0.3	0.3	0.2	0.3	0.2	-0.7	0.2	0.1

1. From final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households. Data after 1993 are not directly comparable with earlier years because of a redesign of the CPS in January 1994.

Initial Claims for Unemployment Insurance



Note. Includes EUC adjustment.

estimates of the understatement ranging from 70,000 to 230,000.[1] Our own estimate of the understatement--based on seasonal adjustment procedures that take explicit account of the survey interval--is at the low end of the BLS range, leaving the adjusted April increase well below the average monthly gain during the first quarter of 234,000.

Manufacturing employment, which does not exhibit large seasonal flows in early spring and thus is less vulnerable to the recent seasonal adjustment difficulties, declined in April for a second consecutive month. Apart from metals and machinery, most manufacturing industries lost jobs over the past two months. Elsewhere in the goods-producing sector, construction employment fell 20,000 in April after a sizable weather-related surge in March.

In the service-producing sector, retail trade employment increased moderately in April, after accounting for the strike at grocery stores. By contrast, services added a mere 6,000 jobs last month, compared with an average increase of 133,000 per month in the first quarter. Notably, jobs in personnel supply services declined for a second straight month after three years of rapid growth. Anecdotal evidence suggests that the weakness in personnel supply services is partly associated with a softening of demand for temporary workers by manufacturers.

The civilian unemployment rate jumped 0.3 percentage point in April. However, seasonal adjustment difficulties associated with the timing of the survey week likely boosted the unemployment rate a bit. In addition, the household data continue to be clouded by the

1. In addition, the BLS estimates that a strike by supermarket workers took 32,000 workers off the job. However, the net effect of the strike on the employment figures may be less because many stores apparently hired replacement workers and because some striking workers whose last pay period overlapped the survey week may have been included in the payroll data. Furthermore, the late start of the baseball season may have depressed April employment in retail trade, transportation services, services, and local governments.

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

	Proportion in total IP 1994:Q4	1994 Q4	1995 Q1	1995 Feb.	1995 Mar.	1995 Apr.
		-Annual rate-		----Monthly rate----		
Total index	100.0	5.9	4.6	.0	-.3	-.4
Previous		5.9	5.5	.1	-.3	
Major Market Groups:						
Products, total	60.1	4.5	4.1	-.1	-.4	-.5
Consumer goods	27.5	2.8	4.4	.0	-.9	-.5
Durable	5.8	6.4	7.1	-.5	-2.0	-2.8
Excluding autos and trucks	3.9	.5	.7	-1.6	-1.7	-1.5
Nondurable	21.7	1.8	3.7	.2	-.6	.1
Intermediate products	14.2	5.7	1.5	-.5	-.2	-.7
Construction supplies	5.5	8.1	4.7	-.7	.0	-1.5
Business supplies	8.8	4.3	-.5	-.3	-.4	-.2
Equipment	18.4	6.2	5.7	.1	.2	-.3
Business equipment	15.2	8.6	7.3	.3	.4	-.4
Excluding autos and trucks	13.9	7.7	6.4	.2	.6	.1
Defense and space equipment	2.4	-2.8	-3.6	-1.0	.0	-.2
Materials	39.9	8.1	5.4	.0	-.2	-.2
Durable	22.4	12.6	8.4	.0	.0	-.6
Nondurable	8.8	6.9	1.1	-.6	.1	.0
Energy	8.7	-1.7	2.0	.7	-1.3	.7
Major Industry Groups:						
Manufacturing	86.8	7.7	4.9	-.2	-.1	-.5
Manufacturing excluding motor vehicles and parts	81.1	6.9	4.3	-.3	.0	-.3
Motor vehicles and parts	5.7	20.6	14.0	.8	-1.5	-4.4
Mining	6.1	-3.4	4.1	.7	-.6	.2
Utilities	7.2	-6.0	1.7	1.6	-2.4	1.6

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1988-89 High	1967-94 Avg.	1994 Q4	1995 Q1	1995 Jan.	1995 Feb.	1995 Mar.	1995 Apr.
Total industry	84.9	82.0	84.9	85.1	85.5	85.2	84.7	84.1
Manufacturing	85.2	81.3	84.5	84.7	85.2	84.7	84.3	83.5
Primary processing	89.0	82.5	89.5	89.6	90.2	89.4	89.2	88.3
Advanced processing	83.5	80.7	82.5	82.8	83.2	82.8	82.4	81.6

redesign of the CPS. The seasonal adjustment factors for the unemployment rate are calculated from a time series that includes only one previous April under the redesigned CPS. Concurrent seasonal adjustment factors, which include this April's data, would put the unemployment rate at 5.7 percent.

Industrial Production

According to our initial estimates, industrial output dropped 0.4 percent in April after no change in February and a 0.3 percent decrease in March. The decline last month in manufacturing output was slightly larger, and factory utilization fell to 83.5 percent, more than 1-1/2 percentage points below its peak at the turn of the year.

Roughly one-half of the decline in manufacturing output in April was the direct result of a cutback in the production of motor vehicles and parts. Assemblies fell to an annual rate of 12.1 million units in April, 3/4 million units below the March pace. And with sales dropping sharply and inventories rising to uncomfortable levels, producers' assembly schedules call for output to be down nearly 1 million units further in May.

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

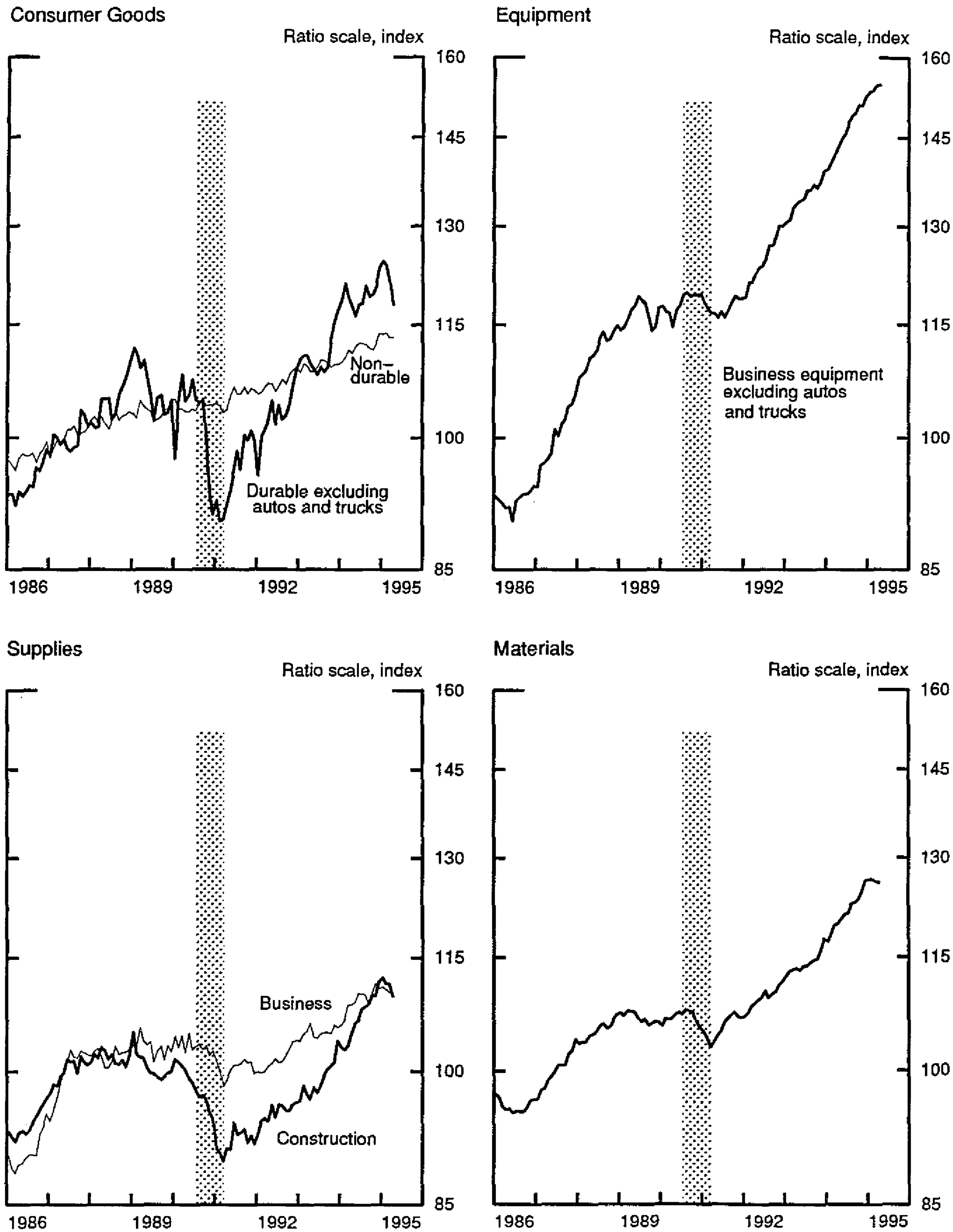
	1995				
	Mar.	Apr.	May sched.	Q1	Q2 sched.
U.S. production	12.8	12.1	11.2	12.9	11.7
Autos	7.1	6.5	6.0	7.1	6.2
Trucks	5.6	5.6	5.2	5.8	5.5
Days' supply					
Autos	72.3	85.9[2]			
Light trucks	62.9	73.3[2]			

1. Components may not sum to totals because of rounding.
2. Days' supply figures for April are staff estimates.

The cutbacks in motor vehicle output have spilled over to products such as steel, metal stampings, and rubber that are inputs

Industrial Production, by Market Group

(1987 = 100)



to auto production. Output has also fallen in several other cyclically sensitive sectors. Notably, in response to sluggish demand, there have been widespread reductions in production of non-auto consumer durables, such as furniture and appliances. In addition, output of construction supplies has fallen more in the past three months than in any previous three-month period since the beginning of the current expansion in early 1991. Production of business equipment (excluding autos and trucks) registered only a small gain in April despite the strong uptrend in orders for capital goods; the strong orders may reflect in part the weakness of the dollar against the yen and the deutsche mark.

Since peaking at 85.2 percent around the turn of the year, the factory operating rate has fallen more than 1-1/2 percentage points and now stands about midway between its recent high and the long-run average of 81.3 percent. This easing reflects both the declines in production in recent months and the stepped-up pace of capacity growth estimated for this year. The utilization rate for primary processing industries has posted an even greater decrease; nonetheless, at 88.3 percent, it remains high by historical norms, and prices for intermediate materials continued to post sizable increases through April.

Motor Vehicles

Sales of new light vehicles fell nearly 12 percent in April, to a 13.3 million unit annual rate (FRB seasonals). Although much of the weakness has been in consumer sales, confidential data from General Motors and Ford suggest that fleet sales were especially weak last month. Fleets tend to be heavy purchasers of mid-sized cars, the category accounting for the bulk of the decline in car sales in April (chart).

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

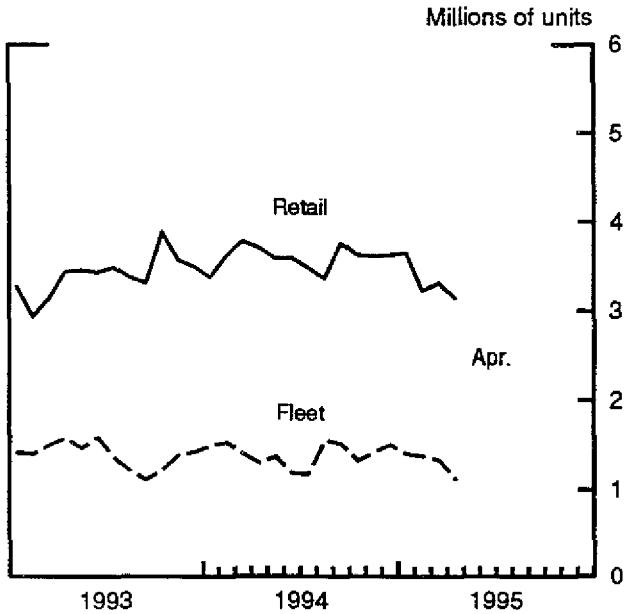
			1994		1995	1995		
	1993	1994	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total	13.9	15.0	15.1	15.3	14.9	14.5	15.0	13.3
(BEA seasonals)	13.9	15.0	14.6	15.4	14.9	14.7	15.1	13.8
Autos	8.7	9.2	9.3	9.2	8.9	8.6	9.0	7.9
Light trucks	5.2	5.8	5.8	6.1	6.0	5.9	6.1	5.4
North American[2]	11.7	12.9	12.8	13.2	12.9	12.5	13.0	11.5
Autos	6.7	7.3	7.2	7.3	7.1	6.8	7.2	6.3
Big Three	5.5	5.7	5.6	5.8	5.6	5.4	5.5	4.9
Transplants	1.3	1.5	1.6	1.6	1.5	1.4	1.7	1.4
Light trucks	5.0	5.7	5.6	5.9	5.8	5.7	5.9	5.2
Foreign produced	2.1	2.1	2.2	2.0	2.0	2.0	2.0	1.8
Autos	2.0	2.0	2.0	1.8	1.8	1.8	1.8	1.6
Light trucks	.2	.2	.2	.2	.2	.2	.2	.2
Memo: Domestic name-plate market share								
Total	.74	.73	.71	.74	.74	.75	.73	.74
Autos	.65	.63	.61	.64	.63	.64	.62	.63

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

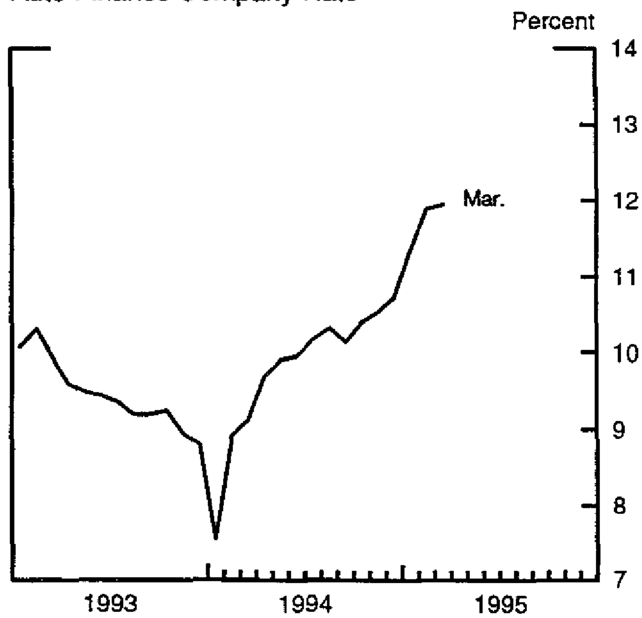
1. Components may not add to totals because of rounding.

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.

GM and Ford Fleet and Retail Auto Sales



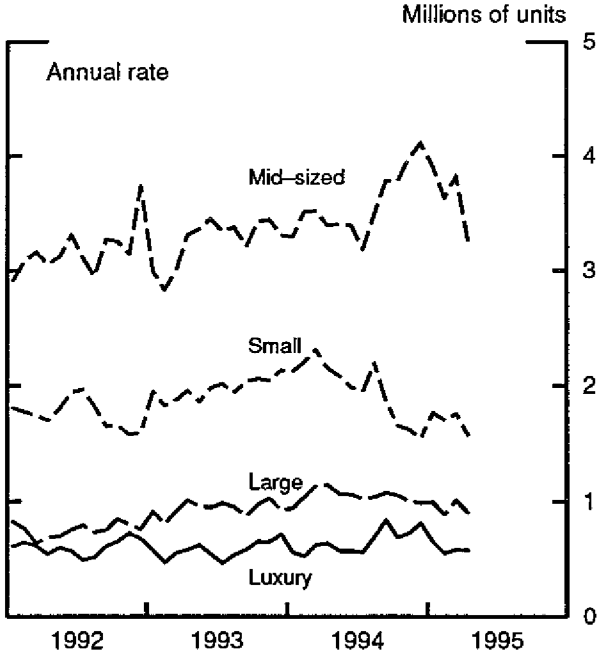
Auto Finance Company Rate



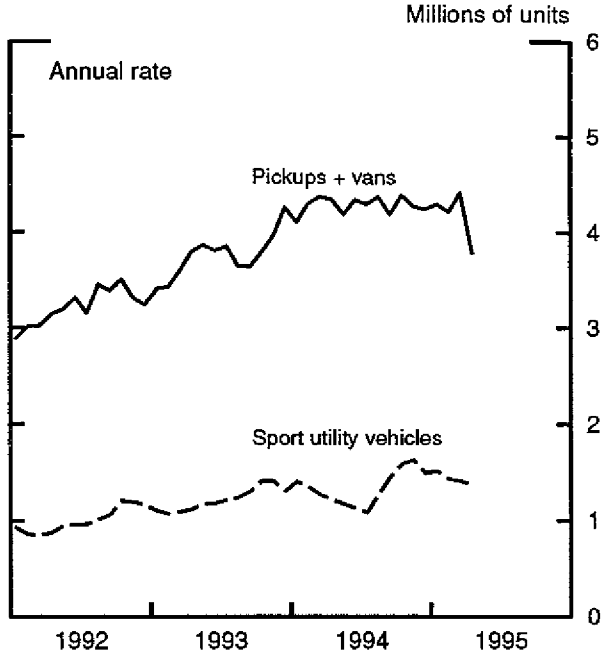
Sales and Inventories of Domestic Autos and Light Trucks

(Seasonally adjusted: FRB seasonals)

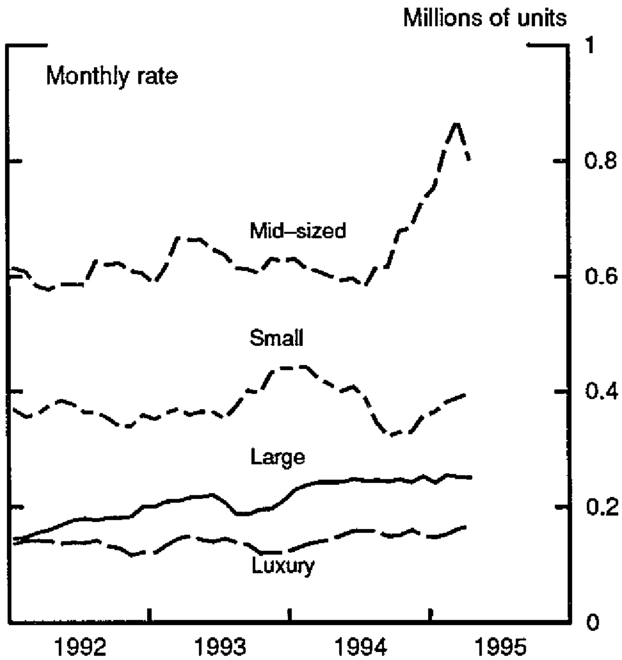
Auto Sales



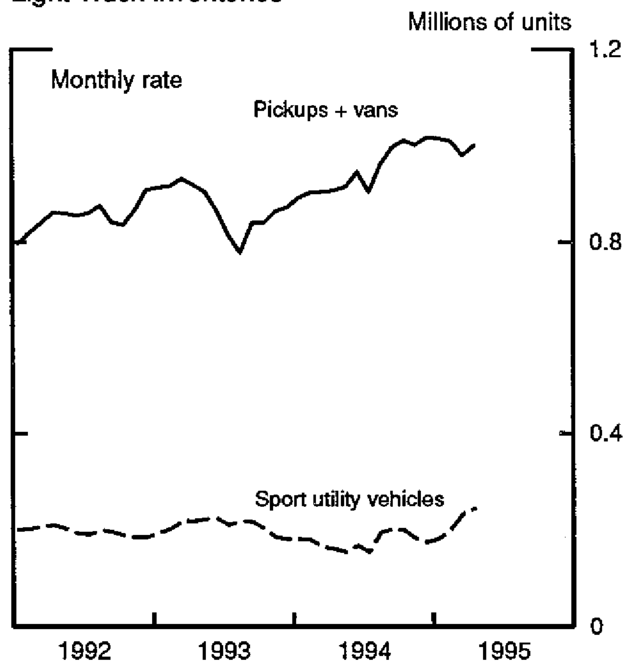
Light Truck Sales



Auto Inventories



Light Truck Inventories



So far this year, light vehicle sales have averaged 14-1/2 million units at an annual rate, compared with the 15 million unit rate posted for 1994 as a whole.[2] The drop has been widespread across types of vehicles and has affected both foreign and domestic models. The weakness in sales could be an indication that the pent-up demand accumulated during the early 1990s has been satisfied. Sales probably also have been depressed by higher auto finance charges; these rates have risen about 3 percentage points over the past year. In addition, many respondents to the Michigan survey cited high prices as a deterrent to car purchases.

At the low April sales pace, the days' supply of domestic autos at dealers jumped to about 85 days--well above the desired level of 60 to 65 days. Days' supply of domestic light trucks moved up as well, but the April level of about 70 days was less worrisome than that for autos.

As noted, assemblies of both autos and trucks likely will be down sharply in May. This week Chrysler announced new sales incentives on many models and for the industry as a whole, additional incentives, coupled with restrained production, are likely through the summer. However, prior commitments to parts suppliers constrain manufacturers' ability to trim production further through the end of the current model year.

Personal Income and Consumption

The revisions to the retail sales data indicate that spending has not been so weak as suggested by earlier estimates. Nonetheless, consumption growth in the first quarter was still

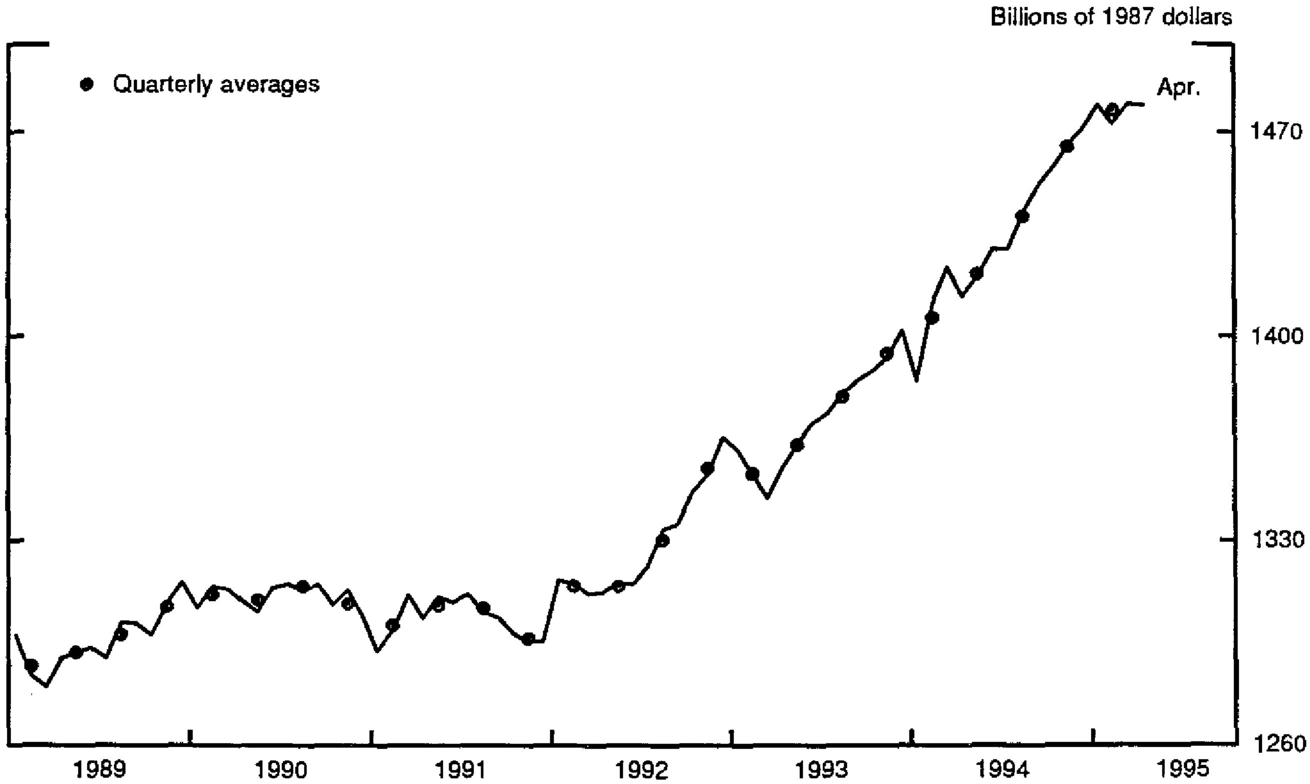
2. We do not have a good explanation for the plunge in sales in April, but it is worth noting that assessments of buying conditions for cars in the Michigan survey also plummeted last month. The buying conditions index recovered in early May to a level comparable to the average for the fourth and first quarters.

RETAIL SALES
(Percent change; seasonally adjusted)

	1994		1995	1995		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total sales	1.9	2.4	.5	-.7	.8	-.4
Previous estimate			.1	-1.0	.2	
Retail control[1]	1.9	1.3	1.0	-.8	.6	.3
Previous estimate			.6	-1.1	.2	
Total excl. automotive group	2.0	1.4	.8	-.6	.6	.1
Previous estimate			.5	-1.0	.2	
GAF[2]	2.3	2.2	.6	-1.1	.7	-.4
Previous estimate			.6	-1.3	.8	
Durable goods stores	2.4	4.5	-.5	-.8	1.1	-1.5
Previous estimate			-.9	-1.2	.4	
Bldg. material and supply	2.8	2.1	-1.1	.3	1.5	-2.4
Automotive dealers	1.7	6.0	-.6	-1.1	1.3	-2.0
Furniture and appliances	4.3	5.3	-.3	-1.3	.1	-1.3
Other durable goods	2.8	-.8	.9	-.5	1.1	1.8
Nondurable goods stores	1.6	1.1	1.1	-.7	.5	.3
Previous estimate			.7	-.9	.0	
Apparel	1.0	1.8	-.9	-.5	2.5	-1.2
Food	1.3	1.1	1.1	-1.4	-.5	.8
General merchandise[3]	1.9	1.0	1.7	-1.3	.3	.4
Gasoline stations	3.2	.0	2.5	.2	1.7	.3
Other nondurables[4]	1.5	1.4	.7	.0	.7	.3

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.

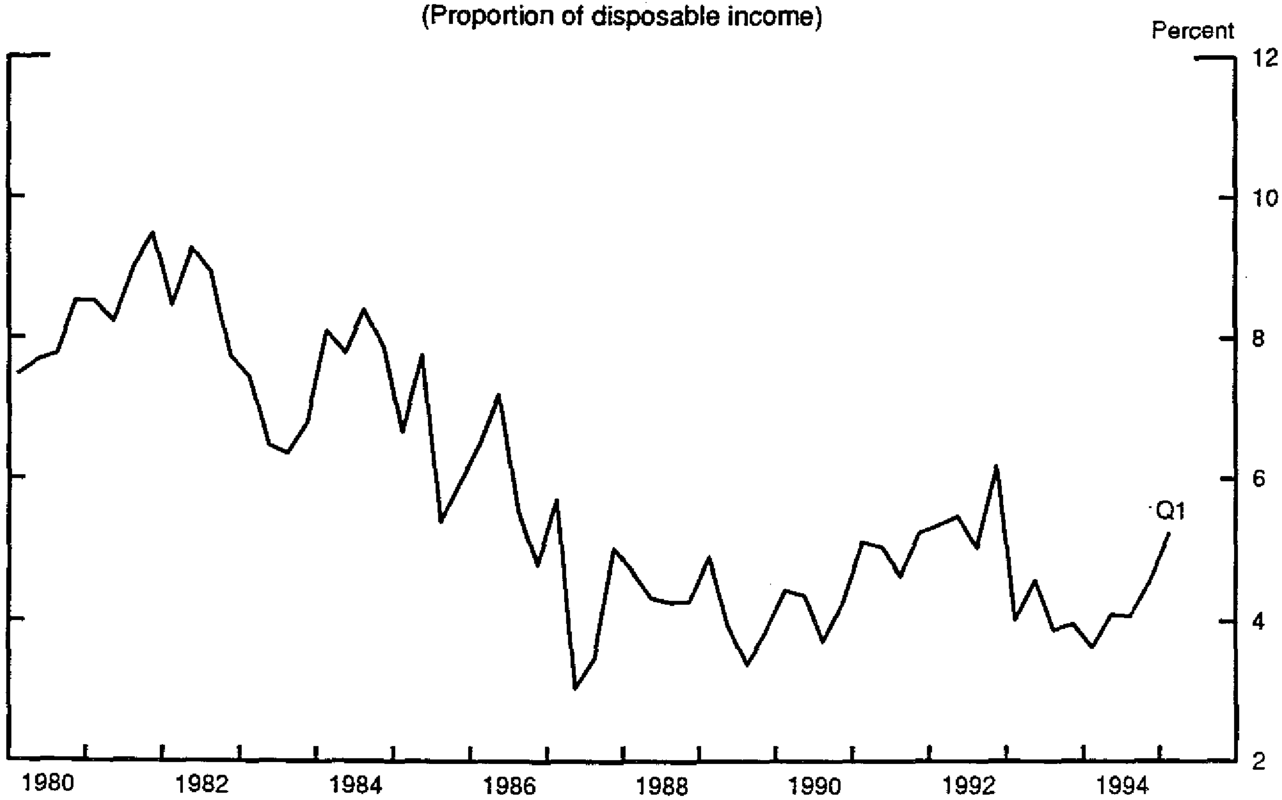
Real PCE Goods Excluding Motor Vehicles



Note. February, March, and April figures are staff estimates.

Personal Saving Rate

(Proportion of disposable income)



Note. Figure for Q1 is a staff estimate based on revised retail sales data.

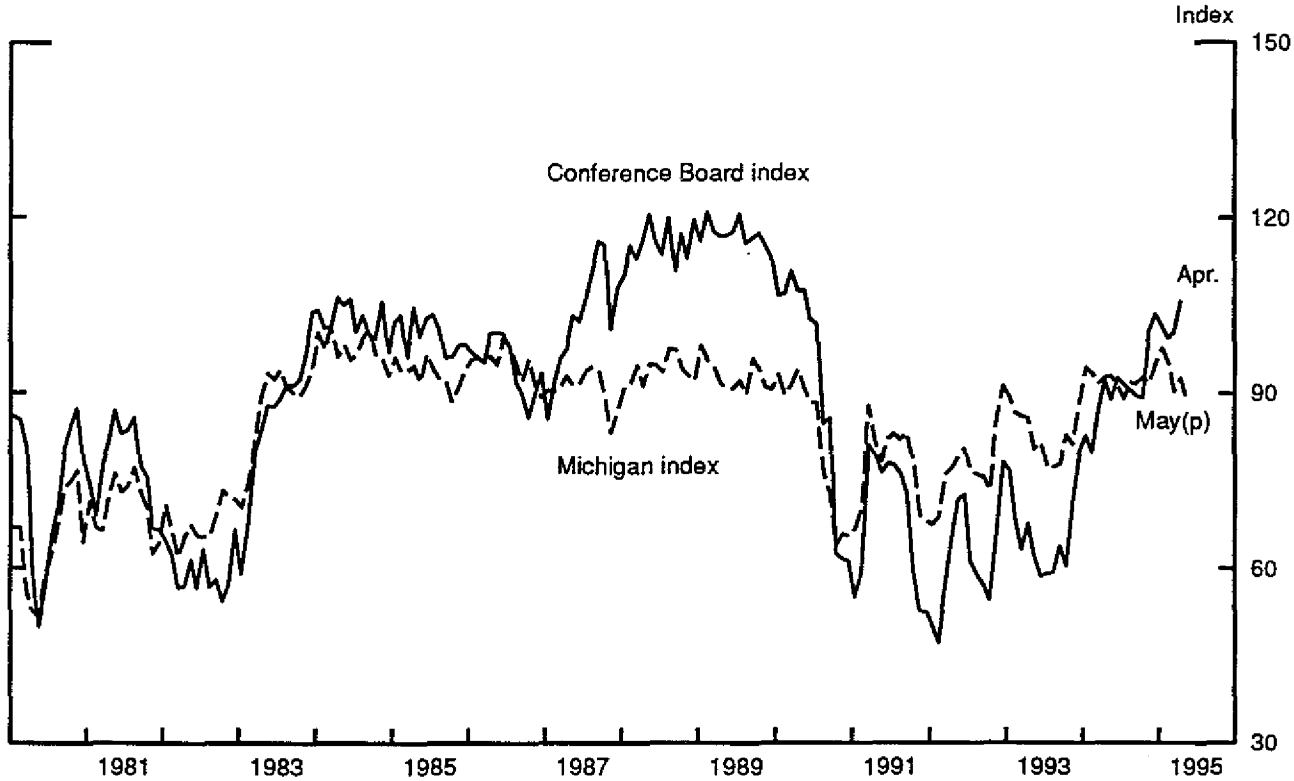
appreciably below last year's pace, and the second quarter appears to be off to a slow start.

The drop in motor vehicle purchases in April depressed total retail sales, which fell 0.4 percent in nominal terms. Sales in the retail control category, which excludes automotive dealers and building materials and supply stores, are estimated to have increased 0.3 percent in April, and the data for earlier months were revised up to show little net change over February and March. Given the revisions, we estimate that real outlays for goods other than motor vehicles rose at an annual rate of about 3-1/2 percent in the first quarter, well above the 2 percent rate in the advance GDP release. However, based on the advance retail sales data, the level of these outlays in April was only about the same in real terms as the first-quarter average.

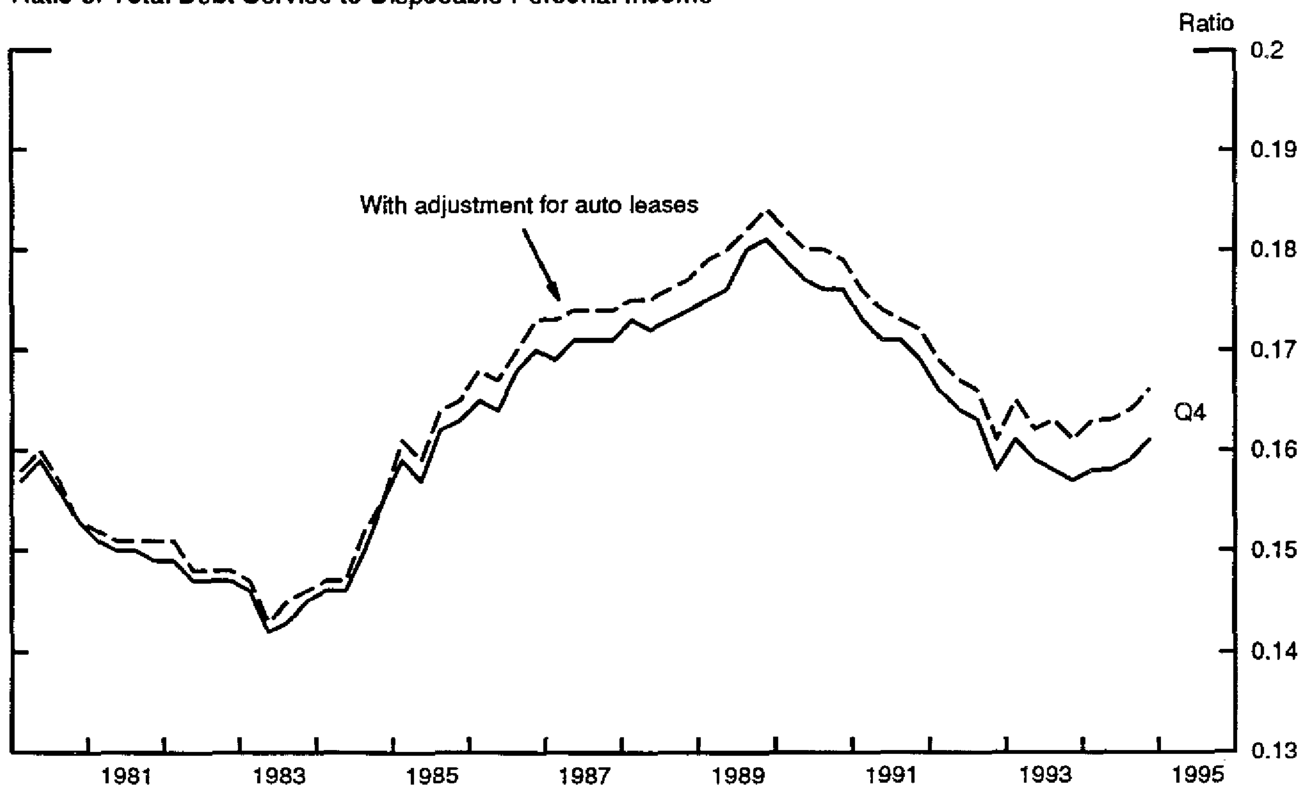
Although much of the slowdown in spending this year has been in motor vehicles, spending for other durable goods has also decelerated considerably after three years of extraordinary growth. Outlays for furniture and household equipment other than electronics, which posted an 11 percent (annual rate) increase in the second half of 1994, were little changed in the first quarter--likely influenced to an extent by the slower pace of home sales. Real outlays for electronics, which had grown at a blistering 30 percent annual rate in the second half of 1994, rose less than 10 percent in the first quarter. It is too soon to know whether spending on home electronics is slowing because pent-up demand for these products has been satisfied or whether consumers are merely taking a break before embarking on another spending binge. Among nondurable goods, the most notable development this year has been the flattening of apparel expenditures, which had increased at an 11-1/2 percent annual rate in the second half of 1994.

Indicators of Consumer Spending

Consumer Sentiment Indexes



Ratio of Total Debt Service to Disposable Personal Income



In contrast, outlays for services other than energy continued to trend up in the first quarter at about the 3 percent annual rate that was recorded in 1994. Transportation was the only major category of services for which first-quarter growth was weak, but the level of this series had been temporarily boosted in the fourth quarter by an airline fare war.

Real disposable personal income grew at a 4-1/2 percent annual pace in the first quarter, and the personal saving rate rose from about 4-1/2 percent in the fourth quarter to about 5 percent in the first quarter.[3] Delays in income tax refunds probably depressed consumption and boosted the measured saving rate in the first quarter, although the pattern of retail sales through April suggests that the effect may have been small. (BEA's estimates of income allocate tax refunds smoothly over the course of the year and thus make no allowance for the delays in refund disbursements in early 1995.) Looking to April, the combination of essentially no change in hours worked and an increase of 0.6 percent in average hourly earnings points to a brisk gain in labor income.

Recent readings on consumer sentiment have been mixed. The Michigan SRC index declined somewhat in early May because of less optimistic assessments of current and prospective personal financial situations and of expected business conditions over the next twelve months and five years. Even so, the overall sentiment index remained in the high and relatively narrow range that has been evident since the end of 1993. Moreover, the Conference Board confidence measure jumped in April, largely because of more favorable expectations about near-term business conditions and employment opportunities.

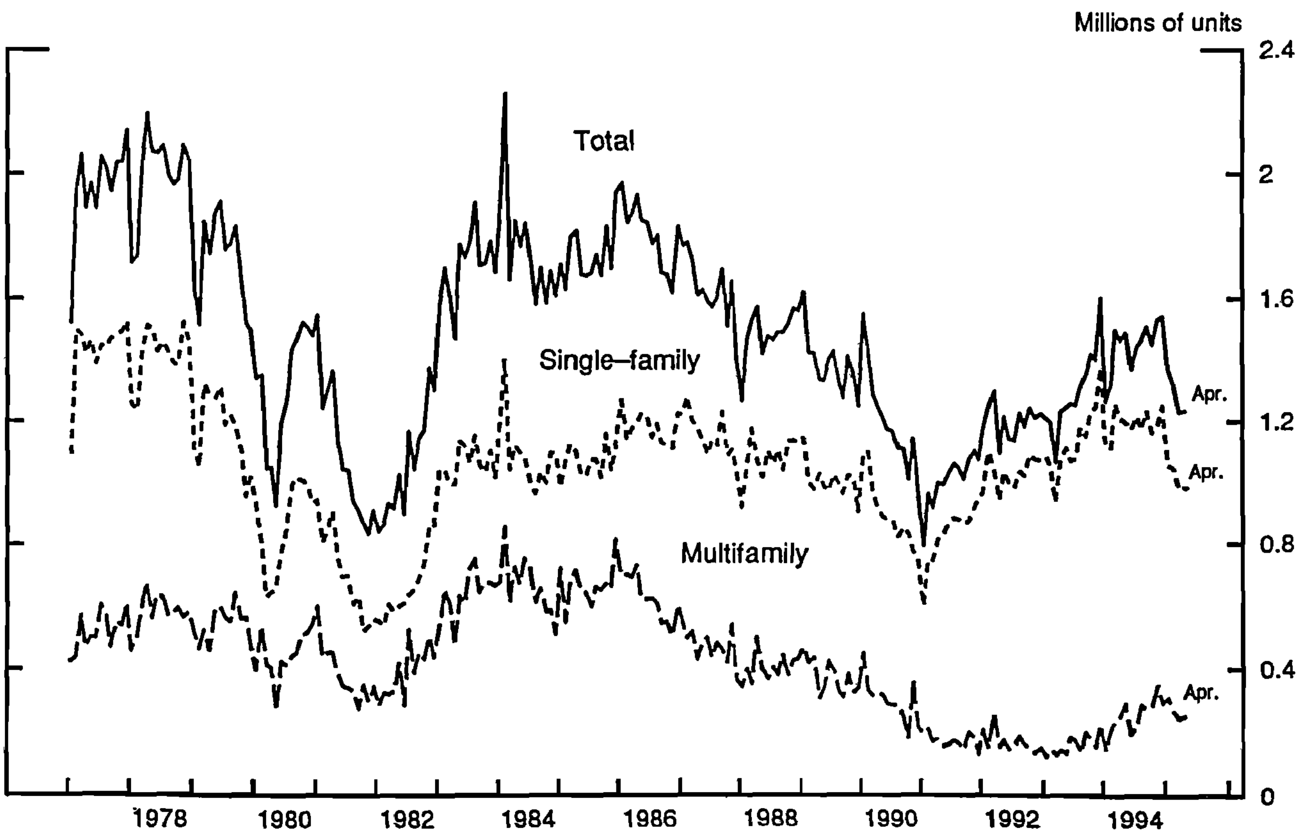
3. The currently published saving rate for the first quarter is 5.2 percent. All else equal, the revisions to retail sales will lower it by slightly more than 0.1 percentage point.

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

	1994				1995	1995		
	Annual	Q2[r]	Q3[r]	Q4[r]	Q1[r]	Feb.[r]	Mar.[r]	Apr.[p]
All units								
Starts	1.46	1.44	1.47	1.51	1.31	1.32	1.23	1.24
Permits	1.37	1.37	1.39	1.39	1.27	1.28	1.24	1.24
Single-family units								
Starts	1.20	1.19	1.21	1.20	1.03	1.05	.98	.98
Permits	1.07	1.08	1.06	1.06	.94	.93	.91	.90
New-home sales	.67	.66	.66	.66	.59	.56	.58	n.a.
Existing-home sales	3.95	4.08	3.91	3.76	3.55	3.42	3.62	n.a.
Multifamily units								
Starts	.26	.25	.26	.31	.28	.27	.25	.25
Permits	.31	.29	.33	.33	.33	.35	.32	.34

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

Private Housing Starts
(Seasonally adjusted annual rate)



The consumer debt service burden has been increasing gradually since bottoming out in late 1993, but it remains well below the levels of the late 1980s and early 1990s. An adjusted measure of the debt service burden, which includes regular monthly payments on leased vehicles, is also substantially below the highs of a few years ago.

Housing Markets

Housing starts were virtually unchanged in April at an annual rate of 1.24 million units. Both single-family and multifamily starts--and permits--were about flat from March to April.

Though it was not true of last month's starts figures, other recent indicators point to some firming in the demand for single-family homes. This is not surprising, given that rates on fixed-rate mortgages have fallen about 140 basis points since the recent peak in mid-December. Initial rates on adjustable rate mortgages have fallen 75 basis points since mid-January. Sales of both new and existing homes rose moderately in March, after declining appreciably over the first two months of the year. More recently, the improvements in April and May in homebuying attitudes, builders' assessments of new home sales, and purchase applications at mortgage bankers all support the view that demand has started to rise.

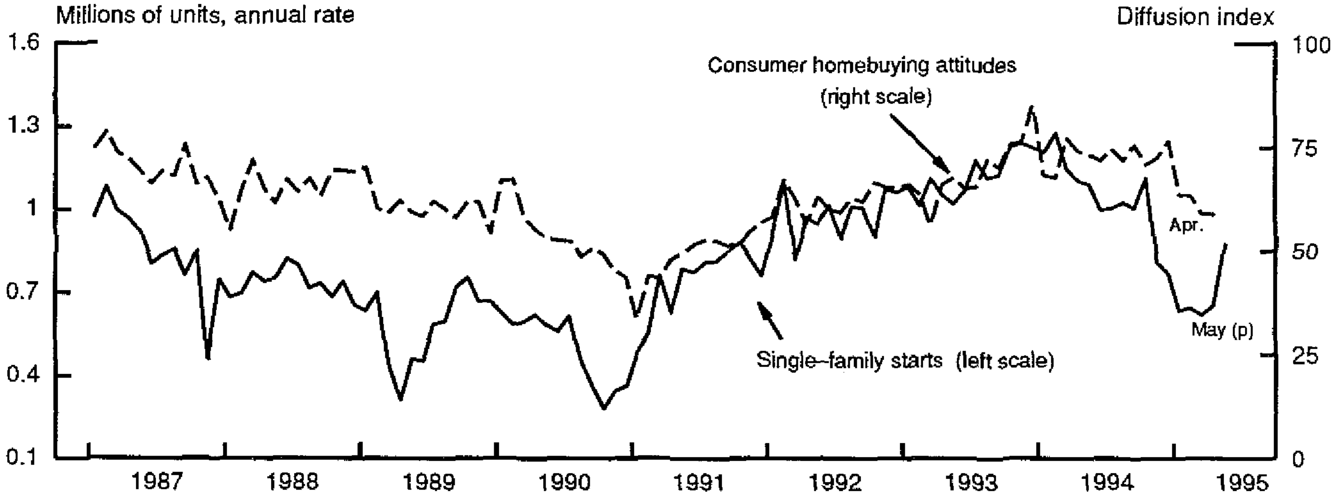
But, at least through April, single-family construction evidently continued to be damped by a relatively large inventory of new homes for sale. The stock of unsold new homes rose in March to 349,000 units, the highest level in nearly five years, and the months' supply ratio remained well above average (chart). Moreover, in the past year, completed houses have accounted for a growing proportion of the rising inventory. The substantial cost of financing unsold finished units is an inducement for builders to cut back on construction.

Indicators of Housing Demand

(Seasonally adjusted; FRB seasonals except starts)

Consumer Homebuying Attitudes

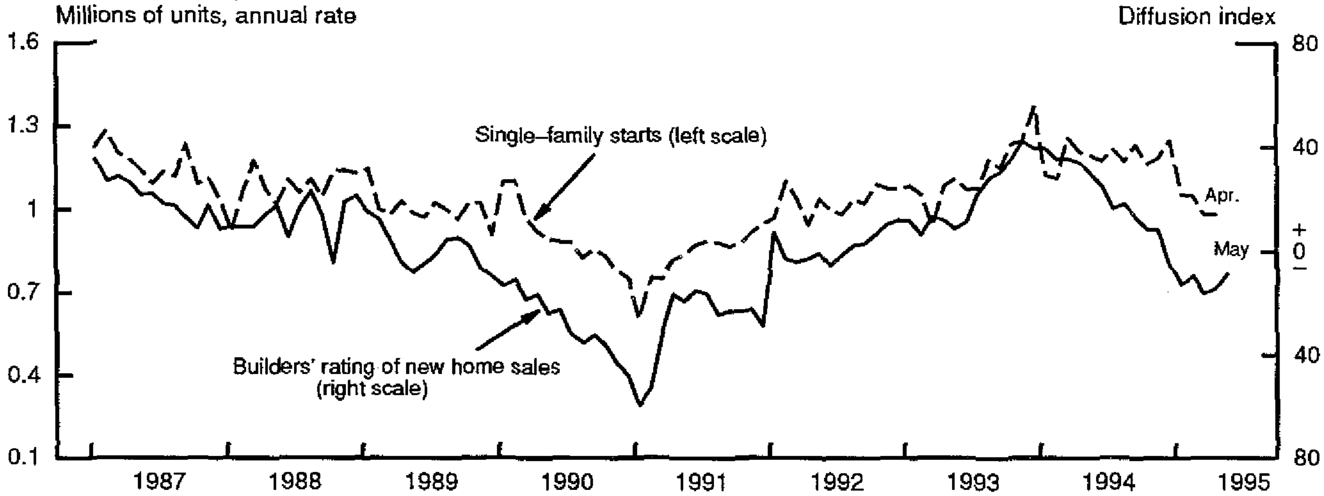
Millions of units, annual rate — Diffusion index



Note. 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

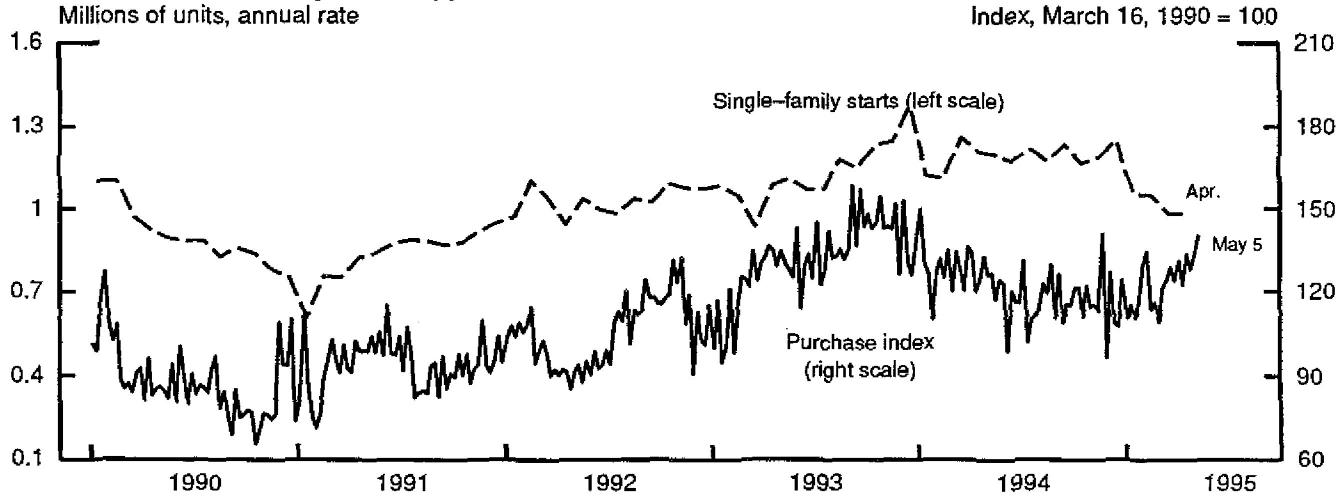
Millions of units, annual rate — Diffusion index



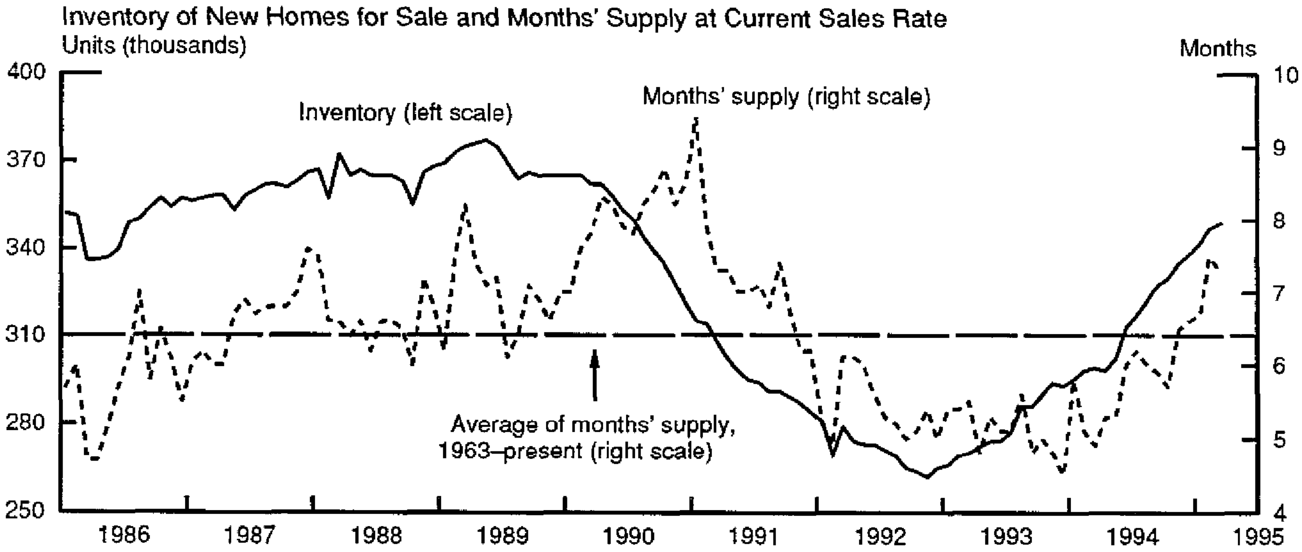
Note. The index is calculated from National Association of Homebuilders data as the proportion of respondents rating current sales as good to excellent minus the proportion rating them as poor.

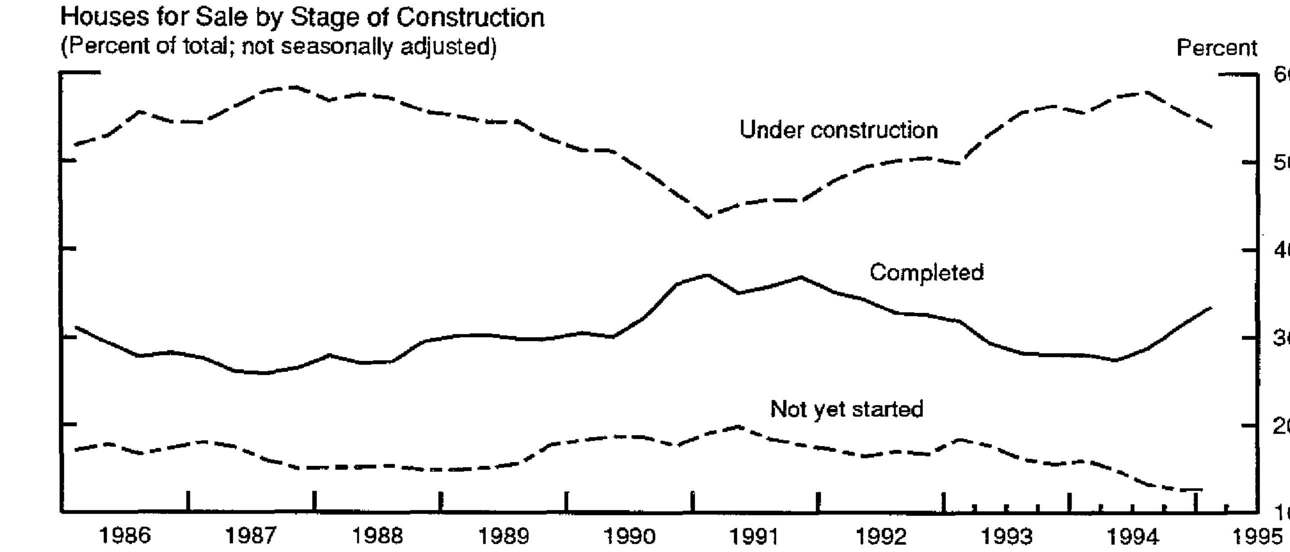
MBA Index of Mortgage Loan Applications

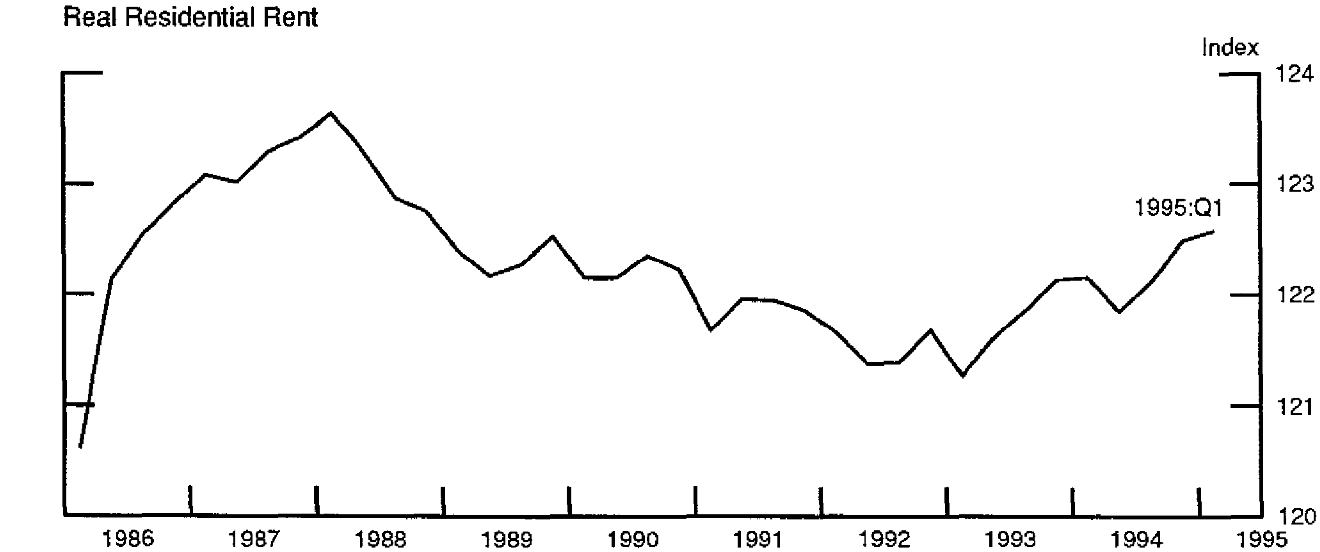
Millions of units, annual rate — Index, March 16, 1990 = 100



Indicators of Housing Supply







Note. Real rent is CPI rent index (1982=100) divided by GDP deflator (1987=100).

Multifamily housing starts last month continued to run well below the level of permits. Although there is no clear-cut explanation for the gap, discrepancies of this magnitude are not uncommon and tend to be reversed within several months. Data on vacancy rates and residential rent suggest that the realignment of supply and demand in the apartment market has continued. The vacancy rate for multifamily rental housing has remained below 9 percent since mid-1994, the lowest sustained readings since the mid-1980s (although still well in excess of the long-run average). Also, residential rent in real terms continued to rise in the first quarter (chart).

Business Fixed Investment

Business fixed investment remained extremely strong in the first quarter. Real outlays rose nearly 20 percent at an annual rate, with substantial increases in both equipment and construction. Advance indicators point to further growth over the near term, although gains are likely to be smaller than those of the past several quarters.

On the equipment side, data on new orders for nondefense capital goods suggest that shipments will post another solid advance in the current quarter--probably reflecting sizable increases in both producers' durable equipment spending and exports. Excluding computers and aircraft, orders rose a whopping 7-1/2 percent in the first quarter, and backlogs continued to increase. New orders for computing equipment also shot up in February and March after a dip around the turn of the year, and trade reports indicate that demand remains strong in all segments of the market. Moreover, product innovations continue at a rapid pace. For example, Intel plans to roll out faster Pentium processors in coming months, and the next

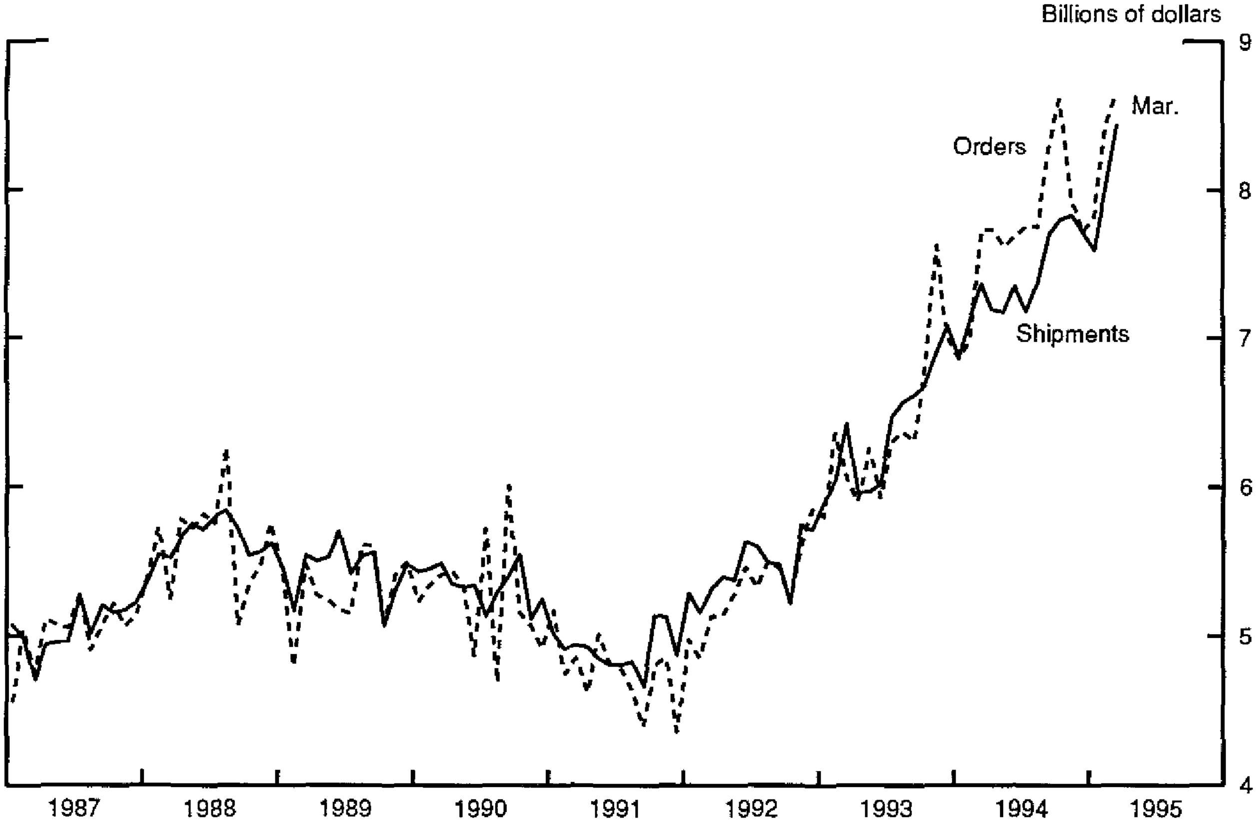
BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period; based on seasonally adjusted data, in current dollars)

	1994 Q3	1994 Q4	1995 Q1	1995 Jan.	1995 Feb.	1995 Mar.
Producers' durable equipment						
Shipments of nondefense capital goods	3.4	2.7	5.2	2.2	2.7	1.0
Excluding aircraft and parts	3.2	3.3	4.7	1.5	2.5	1.5
Office and computing	2.5	4.9	2.9	-1.6	5.2	5.5
All other categories	3.4	2.9	5.3	2.4	1.7	.4
Shipments of complete aircraft[1]	24.0	-12.8	n.a.	-14.4	18.0	n.a.
Sales of heavy trucks	1.3	8.2	8.8	17.3	-5.0	-3.5
Orders of nondefense capital goods	3.3	3.4	8.7	10.7	.6	2.7
Excluding aircraft and parts	3.4	2.7	6.4	7.5	-1.5	3.7
Office and computing	3.3	2.0	2.5	1.4	7.4	2.7
All other categories	3.5	2.9	7.5	9.2	-3.8	4.0
Nonresidential structures						
Construction put-in-place	2.4	5.0	1.8	.0	-.4	2.4
Office	2.8	9.6	3.5	3.7	-1.3	-2.3
Other commercial	1.9	4.2	7.6	.8	2.3	5.6
Institutional	-1.3	1.9	.3	-2.3	2.1	-3.2
Industrial	3.5	6.9	4.9	1.0	7.1	2.2
Public utilities	5.4	4.5	-7.4	-3.2	-9.6	6.1
Lodging and miscellaneous	-4.6	6.8	11.8	5.1	3.7	-1.3
Rotary drilling rigs in use	-2.1	-5.3	-1.7	.1	2.2	-3.2
Memo:						
Business fixed investment[2]	14.1	17.6	19.3	n.a.	n.a.	n.a.
Producers' durable equipment[2]	18.1	19.6	20.8	n.a.	n.a.	n.a.
Nonresidential structures[2]	1.6	11.0	14.1	n.a.	n.a.	n.a.

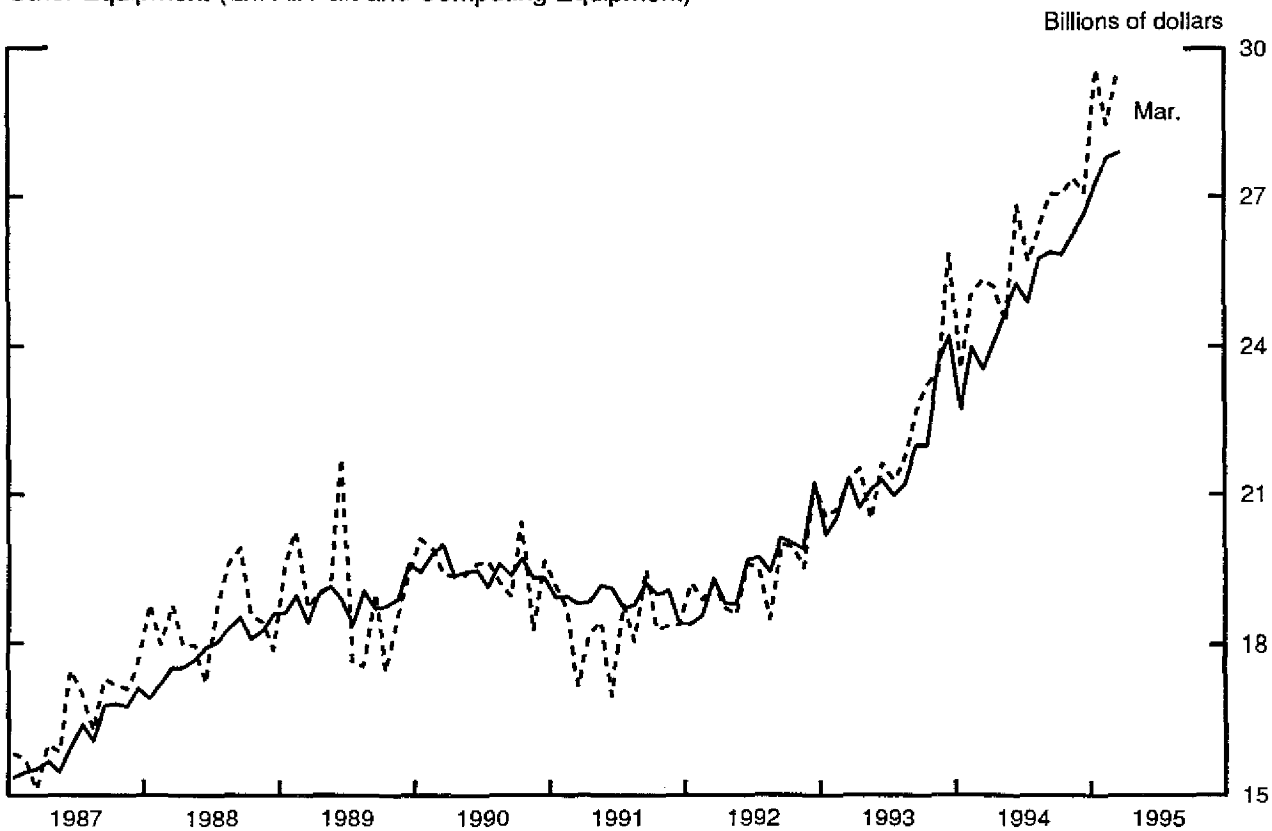
1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines." Monthly data are seasonally adjusted using FRB seasonal factors constrained to BEA quarterly seasonal factors. Quarterly data are seasonally adjusted using BEA seasonal factors.
2. Based on constant-dollar data; percent change,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

Orders and Shipments of Nondefense Capital Goods

Office and Computing Equipment



Other Equipment (Ex. Aircraft and Computing Equipment)



generation Intel processor, the P6, is scheduled to be available in PCs and multiprocessor servers by late October.

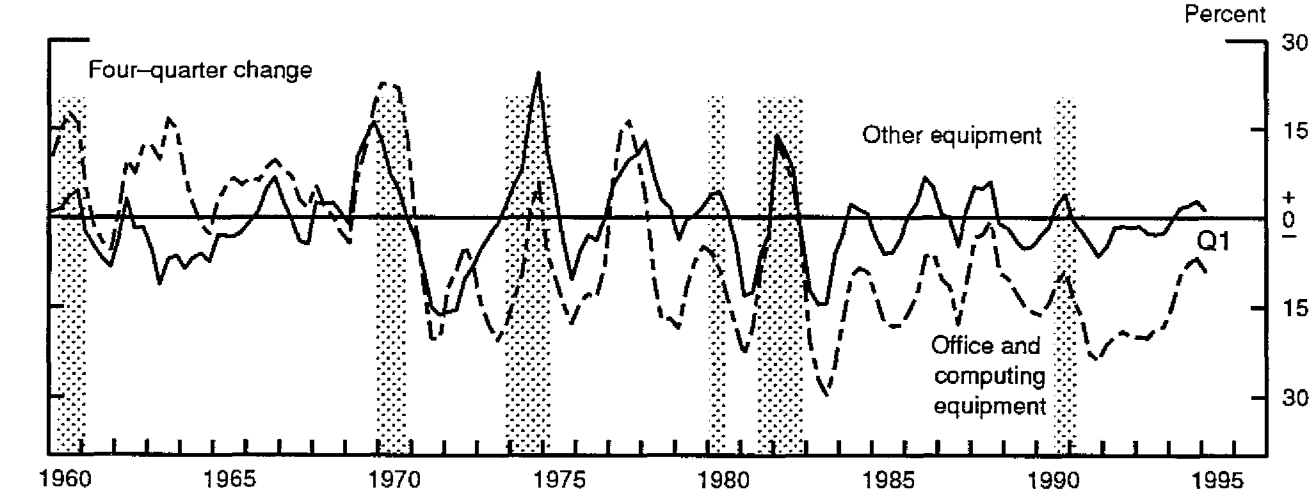
Transportation equipment is the one area in which some retrenchment appears likely. Business purchases of motor vehicles reportedly plunged in April. Likewise, outlays on aircraft probably will drop back after spurting in the first quarter to their highest level in almost two years. Domestic demand for aircraft remains weak, and unfilled orders have continued to trend down. In contrast, all the major producers of heavy trucks are operating at capacity, and deliveries should remain high in the current quarter. Although a falloff in new truck orders earlier this year has reduced the backlog, that backlog is still large enough to sustain strong production volumes for some time.

On the whole, the fundamental determinants of equipment investment, which tend to lead spending by a few quarters, remain relatively favorable. The user cost of capital goods continues to be held down by the ongoing decline in computer prices and is benefiting from rallies in the stock and bond markets this year. In addition, financial reports suggest that corporate cash flow was fairly healthy in the first quarter. However, the accelerator effect, as proxied by the four-quarter change in output <u>growth</u>, no longer appears to be providing much impetus to the growth of investment.

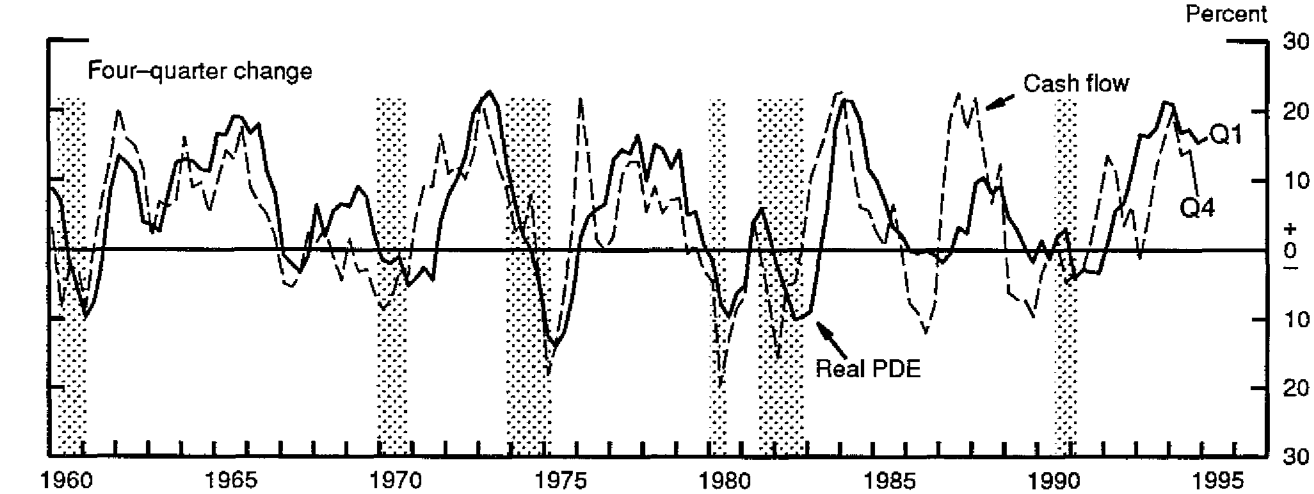
Outlays for nonresidential structures have risen appreciably over the past several quarters. Spending advanced at a 14 percent annual rate in the first quarter, reflecting widespread gains among the various components. Permits for nonresidential structures, which tend to lead construction by a few months, have continued to trend up, although the rate of advance appears to have moderated a bit recently. During the past half year or so, permits for

Fundamental Determinants of Equipment Spending

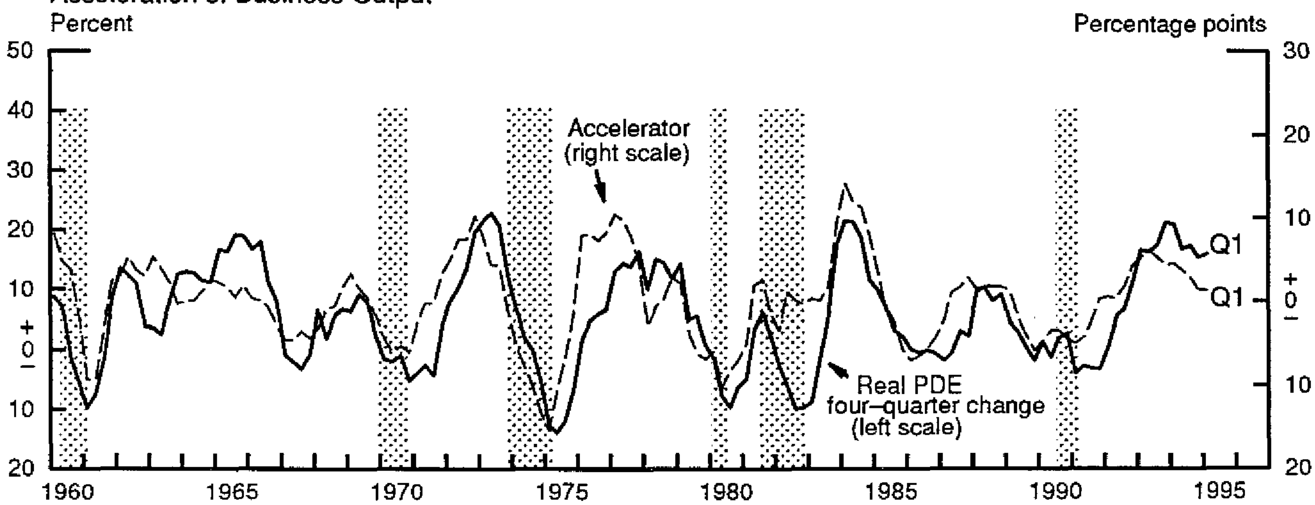
Cost of Capital



Real Domestic Corporate Cash Flow



Acceleration of Business Output

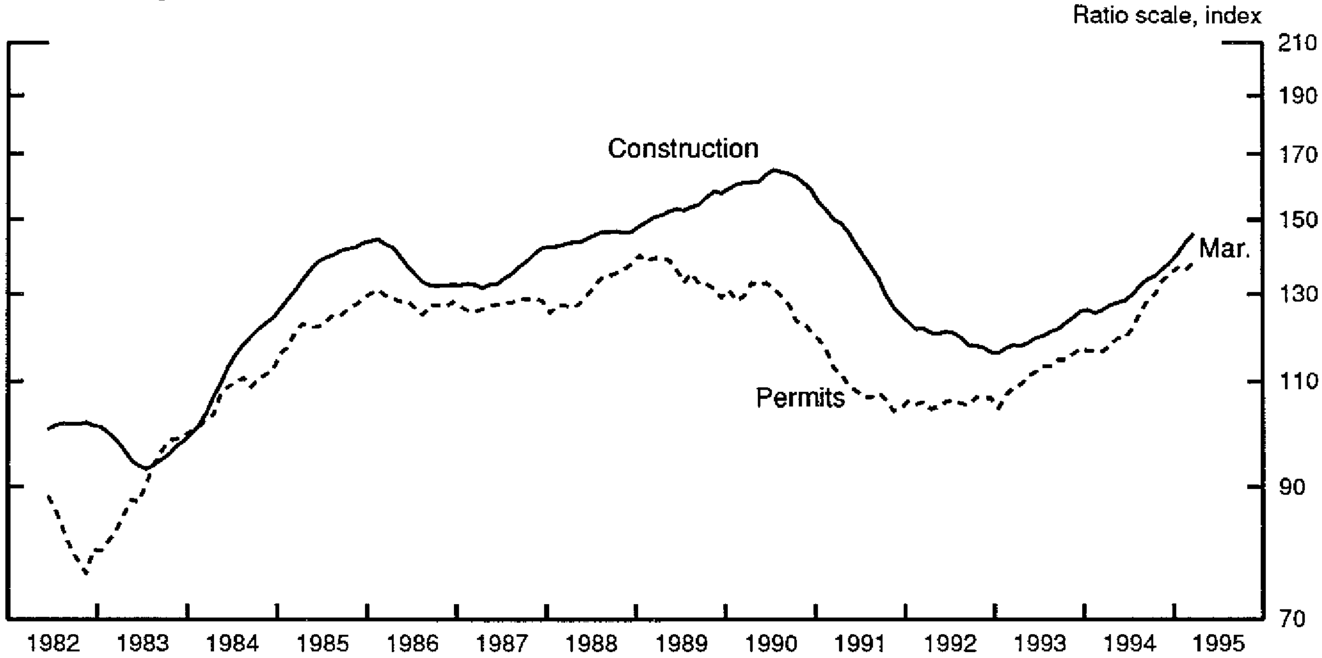


Note. The accelerator is the eight–quarter percent change in business output less the year–earlier eight–quarter percent change.

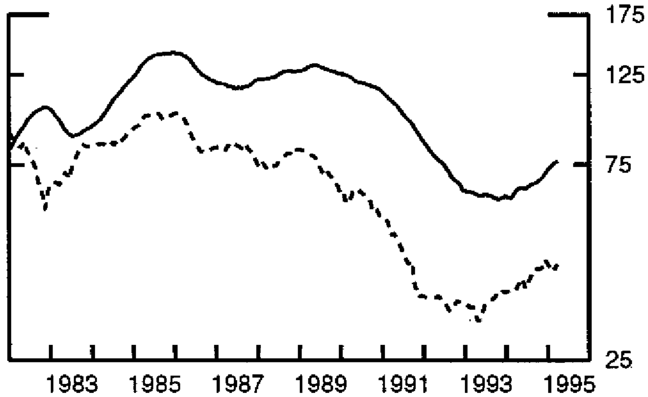
Nonresidential Construction and Permits

(Six–month moving average)

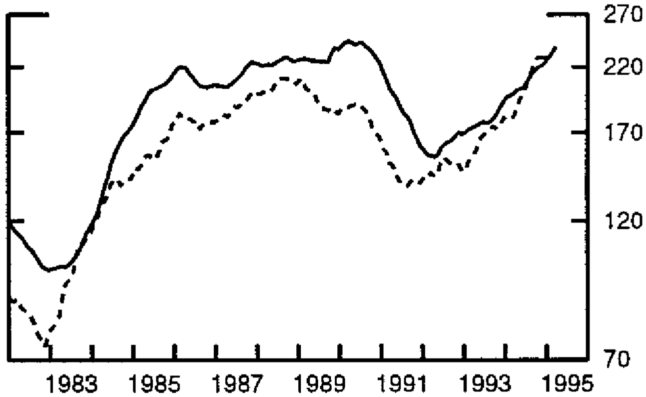
Total Building



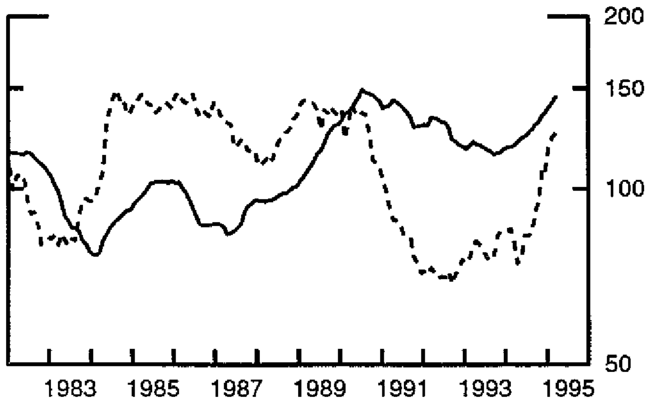
Office



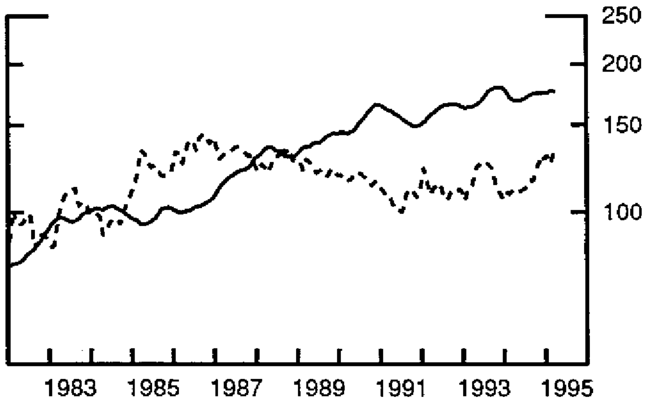
Other Commercial



Industrial



Institutional



Note. The underlying monthly data were indexed to Dec. 1982 = 100; a six–month moving average was applied to the indexed data.

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

	1994		1995	1995		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Total	68.9	57.7	104.8	145.5	89.0	79.8
Excluding wholesale and retail motor vehicles	51.9	55.2	75.6	96.9	67.0	62.9
Manufacturing	13.7	21.1	42.1	51.5	43.5	31.2
Computers	-3.0	-1.0	2.4	8.7	-.3	-1.1
Excluding computers	16.7	22.1	39.6	42.8	43.8	32.4
Wholesale	22.0	25.5	34.1	42.6	25.1	34.5
Excluding motor vehicles	22.3	25.9	28.2	30.2	18.3	36.0
Retail	33.2	11.1	28.6	51.3	20.4	14.1
Automotive	17.3	2.9	23.3	36.2	15.2	18.5
Excluding auto dealers	15.9	8.2	5.4	15.2	5.3	-4.4
Constant-dollar basis						
Total	39.6	33.8	n.a.	58.7	52.5	n.a.
Excluding motor vehicles	31.6	22.7	n.a.	54.6	37.5	n.a.
Manufacturing	4.5	4.1	n.a.	26.7	9.3	n.a.
Wholesale	15.2	14.1	n.a.	27.9	20.9	n.a.
Excluding motor vehicles	15.9	14.9	n.a.	17.4	15.4	n.a.
Retail	19.9	15.6	n.a.	4.1	22.2	n.a.
Automotive	7.9	11.8	n.a.	-5.1	9.9	n.a.
Excluding auto dealers	12.0	3.8	n.a.	9.2	12.4	n.a.

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

	1994		1995	1995		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Total	1.40	1.38	1.40	1.38	1.39	1.40
Excluding wholesale and retail motor vehicles	1.37	1.36	1.36	1.35	1.35	1.36
Manufacturing	1.36	1.35	1.35	1.33	1.34	1.35
Computers	1.51	1.41	1.45	1.54	1.46	1.37
Excluding computers	1.36	1.35	1.35	1.32	1.34	1.35
Wholesale	1.31	1.31	1.32	1.30	1.30	1.33
Excluding motor vehicles	1.29	1.29	1.30	1.28	1.27	1.31
Retail	1.53	1.51	1.54	1.52	1.54	1.54
Automotive	1.76	1.68	1.81	1.75	1.79	1.80
Excluding auto dealers	1.46	1.46	1.46	1.45	1.46	1.45
Constant-dollar basis						
Total	1.46	1.44	n.a.	1.43	1.44	n.a.
Excluding motor vehicles	1.50	1.49	n.a.	1.48	1.48	n.a.
Manufacturing	1.41	1.39	n.a.	1.38	1.38	n.a.
Wholesale	1.40	1.40	n.a.	1.40	1.40	n.a.
Excluding motor vehicles	1.40	1.39	n.a.	1.39	1.38	n.a.
Retail	1.57	1.55	n.a.	1.55	1.58	n.a.
Automotive	1.63	1.62	n.a.	1.63	1.69	n.a.
Excluding auto dealers	1.55	1.53	n.a.	1.53	1.55	n.a.

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

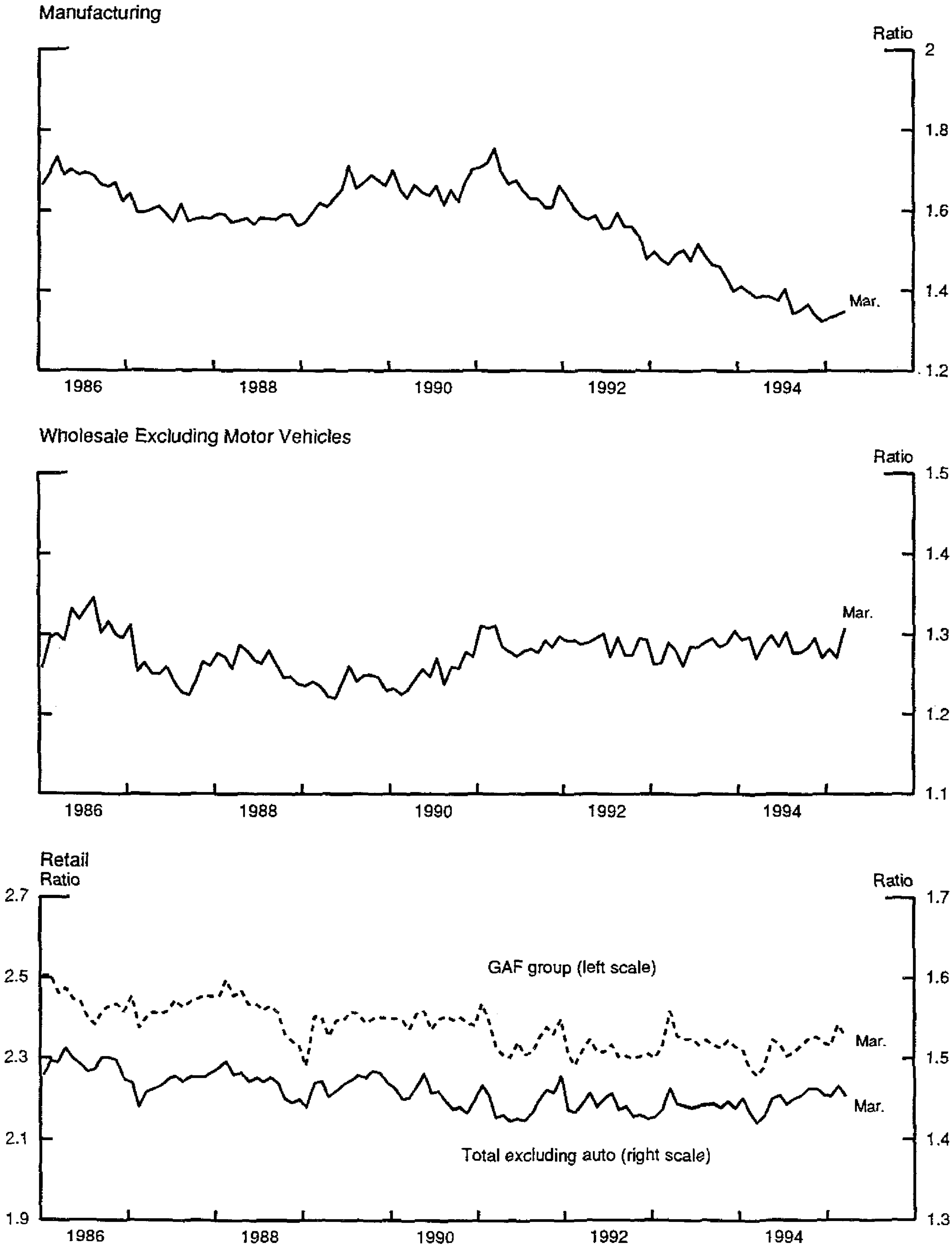
industrial structures have been especially strong, while growth in permits for office buildings and other commercial structures appears to have slowed. Real spending for structures by public utilities rose at an annual rate of 4 percent in the first quarter because of heavy spending by telecommunications companies; many electric utilities apparently have put their investment plans on hold, because of concerns about the implications of actual and potential changes in the regulatory environment.

Inventories

Investment in manufacturing and trade inventories surged to an annual rate of $105 billion in book-value terms in the first quarter, $40 billion more than the average for the second half of 1994. Increases in stocks of motor vehicles at the wholesale and retail levels accounted for about $30 billion of the first-quarter stockbuilding, and the imbalance in this sector has led to sizable cuts in production. Nonvehicle stocks also accumulated at a brisk pace, and, although the aggregate non-auto inventory-to-sales ratio has remained in a relatively narrow range since late last summer, scattered signs of imbalances have emerged.

Much of the non-auto accumulation this year has been in stocks of business equipment, which continued to grow at a rapid pace at both the factory and wholesale levels. Capital goods orders overall are probably firm enough to justify most of this accumulation. By contrast, producers and distributors of construction supplies, steel, and some other materials built inventories through early 1995 in anticipation of continued firm demand--and perhaps in some cases as a hedge against price increases. But with demand in these industries slowing more than had been anticipated, efforts to trim stocks have contributed to the recent slowdowns in industrial production. Similarly, the disappointing pace of retail sales has

Inventory–Sales Ratio, by Major Sector
(Book value)



resulted in a backup of stocks of furniture, appliances, and apparel, and production of these goods has been cut appreciably over the past few months.

Federal Sector

BEA estimates that real federal government purchases decreased at an annual rate of 4-1/2 percent in the first quarter. Real defense spending declined about 7 percent, while real nondefense purchases were essentially flat.

The unified federal budget deficit for the first half of fiscal year 1995 was $144 billion, 4 percent lower than for the same period in fiscal 1994. The decline resulted from a 6-1/2 percent increase in receipts and a more restrained 4-1/2 percent rise in outlays.

Monthly Treasury Statements from October through March show growth in all major categories of receipts.[4] For the fiscal year to date, receipts from individual income taxes and social insurance taxes are 5 percent higher and 7-1/2 percent higher, respectively, than in the first six months of fiscal 1994. Corporate income taxes are up 6-1/2 percent. Federal Reserve earnings, which represent more than half of the "other" receipts category, have been particularly strong, reflecting the higher interest rates this fiscal year.

Daily Treasury Statements indicate that nonwithheld tax collections from April 1 through May 17 were $86 billion, up $20 billion from the same period in 1994. Nonwithheld taxes in 1995 include final payments on income tax liabilities from 1994 and prior years, estimated tax payments on 1995 liabilities, and social

4. Receipts in March 1995 were slightly lower than in March 1994, largely because of a calendar anomaly that resulted in five weekly refund payments this year compared with four in 1994. In addition, corporate final payments, which were due by March 15, probably were weakened by changes in the tax law that required corporations to pay a greater portion of corporate tax liability as estimated payments throughout the year.

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

	Mar. 1994	Mar. 1995	Fiscal year to date: FY1994	FY1995	Dollar change	Percent change
Outlays	125.4	142.5	726.6	758.4	31.8	4.4
Deposit insurance (DI)	-.8	-1.3	-6.7	-10.9	-4.2	62.3
Outlays excluding DI	126.3	143.7	733.3	769.3	36.0	4.9
National defense	24.5	26.5	139.7	134.1	-5.7	-4.0
Net interest	16.6	19.7	99.1	113.5	14.4	14.5
Social security	26.5	27.8	156.0	163.7	7.7	4.9
Medicare and health	23.6	26.0	123.5	133.4	9.9	8.0
Income security	20.5	24.7	113.1	112.4	-.7	-.6
Education	2.5	4.7	21.0	26.9	5.9	28.0
Other	12.0	14.3	80.9	85.4	4.5	5.6
Receipts	93.1	92.5	576.4	614.4	38.0	6.6
Personal income taxes	29.9	26.8	262.0	274.8	12.8	4.9
Social insurance taxes	37.0	39.4	209.4	224.9	15.5	7.4
Corporate income taxes	15.6	14.9	53.7	57.1	3.4	6.3
Other	10.7	11.4	51.4	58.1	6.6	12.9
Deficit(+)	32.3	49.9	150.1	144.0	-6.1	-4.1
Excluding DI	33.2	51.2	156.9	154.9	-1.9	-1.2

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

security and Medicare taxes from the self-employed. The robust growth in nonwithheld tax payments reflects the strong gains in income of the past year and a change in tax payment rules that allowed individuals to delay a larger share of payments on 1994 liability to the April 17 due date for final payments.[5]

The pace of refund issuance has picked up appreciably in the past several weeks, and the shortfall that occurred earlier in the year appears to have been eliminated. Refunds issued through May 12 totaled $82 billion, $7 billion more than in the comparable period of 1994 and about in line with the normal pattern once income growth is taken into account.

Federal outlays, excluding deposit insurance, have risen about 5 percent so far this fiscal year. Roughly 40 percent of the increase is attributable to higher interest payments. Spending on Medicare and other health programs has also continued to grow, with spending up 8 percent over the comparable period of last year; this rate of increase is consistent with recent trends but is significantly lower than the rates at the beginning of this decade. Outlays for education have also risen sharply, largely reflecting the artificially low level of spending last year, when the Student Loan Marketing Association prepaid some outstanding Federal Financing Bank loans two years ahead of schedule (these prepayments were scored as negative outlays). Payments for income security and

5. Under current safe harbor provisions, taxpayers with adjusted gross income (AGI) in 1993 of less than $150,000 can avoid IRS penalties for late payments of 1994 taxes if payments in 1994 (including the estimated payment in January 1995) were at least as great as the lesser of 90 percent of 1994's tax liability or 100 percent of 1993's tax liability (the so-called "previous year's safe harbor"). For higher-income taxpayers, the previous year's safe harbor is 110 percent of their 1993 tax liability. These provisions are looser than the law that applied to estimated and final payments on 1993 liabilities. Under that law, taxpayers were denied the option of the previous year's safe harbor if their AGI was greater than $75,000, or had jumped more than $40,000, or if they had paid estimated taxes or penalties for underpayment of estimated taxes in any of the previous three years.

defense were relatively high in March, but much of the increase can be explained by differences in payment schedules between this March and last.[6] For the fiscal year to date, outlays for income security were about the same as a year earlier, while defense spending was down 4 percent.

Both the Senate and the House budget committees have passed budget resolutions that contain sizable spending cuts in fiscal 1996 and aim to balance the budget by fiscal 2002. Official CBO scoring for the bills has not been released, but estimates provided by the Senate Budget Committee for its plan show a path of steady deficit reduction that results exclusively from spending cuts. By contrast, the House Budget Committee plan includes the tax cut passed by the full House earlier this year; it shows a smaller improvement in the deficit from fiscal 1996 to fiscal 1999 and sharper decreases thereafter. Floor debate on these bills is scheduled to begin this week.

PROJECTIONS OF THE FEDERAL BUDGET DEFICIT

	Fiscal years						
	1996	1997	1998	1999	2000	2001	2002
	Billions of dollars						
Senate Budget Committee	157	128	97	86	74	29	-2
House Budget Committee	156	175	140	134	108	61	-1
CBO March baseline	210	230	232	266	299	316	349

6. Because April 1 fell on a Saturday, outlays of $5.7 billion were accelerated into March ($2.6 billion for military active duty, $1.4 billion for veterans benefits, and $1.7 billion for supplemental security income benefits). Because a similar event occurred in September and October of 1994, such payment shifts have only a small net effect on the data for the fiscal year-to-date. The extra payment date for refunds this March also boosted spending slightly because the refundable portion of the EITC is counted as an outlay for income security.

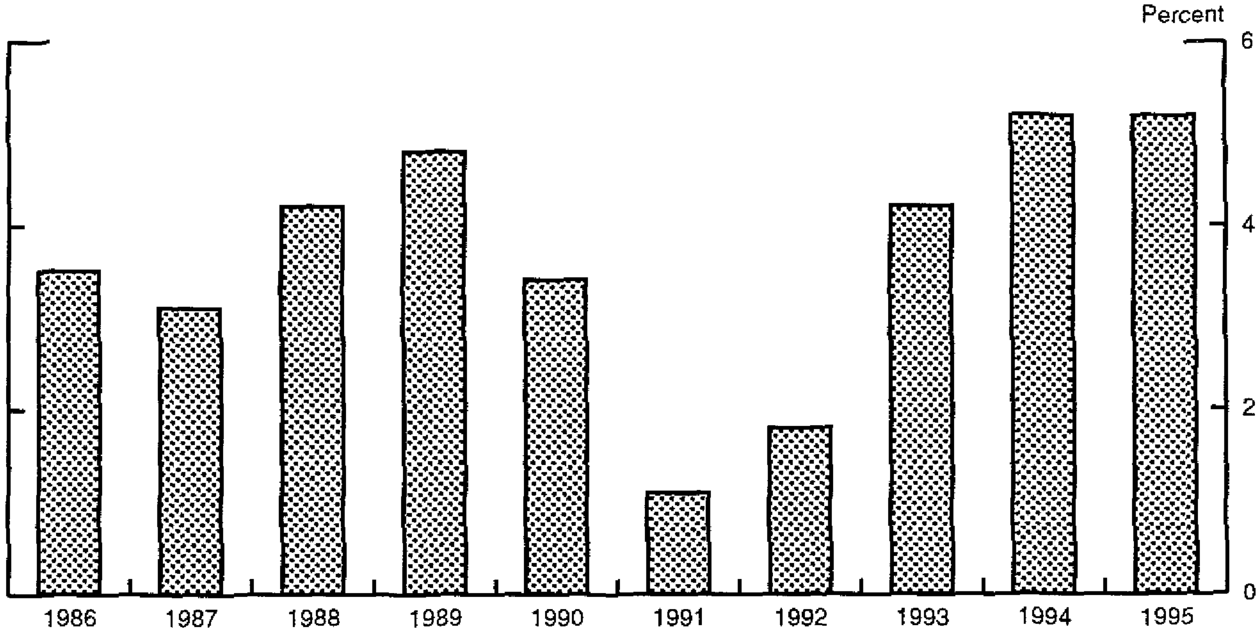
State and Local Government Sector

Real purchases of goods and services by state and local governments were little changed in the first quarter after having grown 2 percent over 1994. The slowing in the first quarter was concentrated in construction spending, which fell after three quarters of solid increases. Purchases of other goods and services remained on the gradual uptrend that has been evident over the past few years. State and local employment increased nearly 20,000 per month, on average, over the first four months of 1995; most of the advance this year has been at local governments. The recent employment gains have been about in line with the average over 1992-94.

Although many cities and counties have not yet resolved their financial problems, the fiscal news from the states remains upbeat. Preliminary figures from the National Association of State Budget Officers (NASBO) indicate that revenues are coming in at or above projected levels and that most states expect to close out fiscal 1995 (which ends June 30 for most states) with their general fund budgets--the primary accounts for financing day-to-day operations--in good shape. For the states as whole, year-end balances in these accounts are expected to exceed 5 percent of expenditures for the second year in a row (chart). Meanwhile, almost half the states have finalized their budgets for fiscal 1996. A fair number of states are expected to enact tax cuts, but most will be small. The legislatures in Virginia and New Mexico have already rejected sizable rollbacks, and opposition to the large tax cuts proposed by the governors of California, Massachusetts, Nebraska, and Wisconsin is strong. On the spending side, states are continuing to focus on anti-crime measures and reforms to welfare programs.

Year–End Balances of State General Funds

(Percent of fiscal year expenditures)



Note. The 1995 value is a NASBO estimate.
Source. NASBO.

Prices

Inflation has been more rapid in recent months, offsetting the good news of late 1994. Indeed, excluding food and energy, consumer prices increased 0.4 percent in April and have risen 3.1 percent over the past twelve months--the highest reading on this basis since December 1993. Materials prices, which had picked up sharply in the second half of last year, have continued to rise rapidly.

The CPI for food increased 0.7 percent in April after remaining unchanged in March. Food prices were pushed up by a surge in fruit and vegetable prices resulting from the March floods in California. However, spot prices of vegetables have since retreated, and the spike in retail prices should be largely reversed over the next couple of months.

Retail energy prices increased 0.4 percent in April, about reversing the decline in March. Gasoline prices at the pump rose 0.6 percent in April, consistent with increases in crude oil prices, while utility rates have changed little on balance over the past two months and also over the past year.

The CPI for goods other than food and energy rose 0.2 percent in April, as compared with increases of 0.1 percent in the two previous months. Prices of new cars and trucks rose 0.6 percent and 0.8 percent, respectively, in April, the largest increases in more than two years. The weaker dollar has boosted the prices of foreign models and--because of lessened competition--may also be raising the prices of many domestic models. Used car prices rose another 0.4 percent in April, bringing the increase over the past year to nearly 16 percent.

The CPI for services other than energy increased 0.4 percent in both March and April. Automobile finance charges increased 1.1 percent in April to a level 32 percent above a year earlier.

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

	Relative importance, Dec. 1994	1993	1994	1994 Q3	1994 Q4	1995 Q1	1995 Mar.	1995 Apr.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	2.7	2.7	3.6	1.9	3.2	.2	.4
Food	15.8	2.9	2.9	5.1	3.9	.0	.0	.7
Energy	7.0	-1.4	2.2	9.2	.4	-1.1	-.5	.4
All items less food and energy	77.2	3.2	2.6	2.6	2.0	4.1	.3	.4
Commodities	24.1	1.6	1.4	.9	.3	2.6	.1	.2
Services	53.1	3.9	3.2	3.6	2.6	4.8	.4	.4
Memo:								
CPI-W[3]	100.0	2.5	2.7	3.9	2.2	3.6	.3	.3

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

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

	Relative importance, Dec. 1994	1993	1994	1994 Q3	1994 Q4	1995 Q1	1995 Mar.	1995 Apr.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	.2	1.7	1.9	2.2	2.6	.0	.5
Consumer foods	22.8	2.4	1.1	1.9	9.2	-1.8	-.2	-.2
Consumer energy	13.6	-4.1	3.5	3.2	.0	9.1	-.5	2.3
Other finished goods	63.7	.4	1.6	1.8	.3	2.6	.1	.3
Consumer goods	40.2	-.4	1.4	1.7	.6	2.6	.2	.3
Capital equipment	23.5	1.8	2.0	2.1	-.3	2.4	-.1	.3
Intermediate materials[2]	95.6	.8	4.8	6.2	7.2	9.9	.3	.8
Excluding food and energy	82.9	1.6	5.2	6.8	8.3	9.8	.4	.7
Crude food materials	40.4	7.2	-9.4	-13.5	-1.2	-5.0	-2.4	-.9
Crude energy	34.5	-12.3	-.1	-19.2	-7.6	-3.9	-.9	5.3
Other crude materials	25.1	10.7	17.3	20.3	27.9	20.0	.5	1.2

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

The increase in this component added 0.2 percentage point to the twelve-month change in the CPI excluding food and energy. Available information on recent interest rate developments suggest that there should be little further rise in these charges. Airfares continued to move up in March and April and, so far in 1995, have largely reversed their decline over 1994. Airlines are finding it easier to fill seats and are operating in the black once again. Whether the rising price trend will persist is questionable, however: With hundreds of planes parked on runways and in the desert, additional capacity is readily available.

After several years of decelerating prices, inflation in medical care services appears to have leveled out. CPI prices of medical services increased 0.4 percent in both March and April, in line with the trend increase of about 5-1/4 percent over the past year. The twelve-month change in the PPI for hospital care, a narrower but conceptually superior measure to the CPI, has been around 3-1/2 to 4 percent since late 1993.[7]

Prices of intermediate materials have continued to increase rapidly and have begun to push up prices at the finished level. The PPI for nonfood, nonenergy intermediate materials increased 0.4 percent in March and 0.7 percent in April. Although these increases are smaller than the back-to-back 1 percent increases in the first two months of the year, they are still large enough to have pushed the twelve-month increase in this PPI measure to nearly 8 percent, compared with a 1 percent increase over the year ended in

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7. The CPI is believed to overstate inflation in the medical services sector because it focuses on the costs of physician visits and days in the hospital (rather than the cost of treating an ailment), does not account for quality changes, and is based on "list" prices that exceed the prices actually paid by most insurers, managed care plans, and government programs. By contrast, the PPI for hospital care is based on treatment paths and explicitly attempts to monitor transactions prices. It has been available only since December 1992.

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Apr. 1993	Apr. 1994	Apr. 1995
CPI	3.5	2.8	3.1
Goods	2.7	0.9	1.8
Alcoholic beverages (2.0)[1]	1.7	1.3	1.3
New vehicles (6.6)	2.4	3.6	3.1
Apparel (6.6)	2.6	-0.6	-1.5
House furnishings (4.5)	.0	0.9	0.5
Housekeeping supplies (1.4)	1.2	0.7	3.3
Medical commodities (1.7)	3.1	3.1	2.0
Entertainment (2.5)	1.4	1.9	1.8
Tobacco (2.1)	10.6	-8.1	2.3
Used cars (1.7)	9.2	5.1	15.8
Services	3.8	3.7	3.7
Owners' equivalent rent (26.3)	3.3	3.2	3.2
Tenants' rent (7.5)	2.4	2.4	2.4
Other renters' costs (2.8)	4.5	2.8	4.4
Airline fares (1.3)	7.1	11.7	-0.6
Medical care (7.7)	6.7	5.3	5.2
Entertainment (3.1)	3.0	4.1	2.9
Auto financing (0.8)	-9.2	-1.9	31.9
Tuition (3.4)	8.4	6.7	6.0
PPI finished goods	2.0	.0	2.0
Consumer goods	2.2	-1.1	2.0
Capital goods, excluding computers	2.4	2.3	2.0
Computers	-15.2	-7.9	-8.1
PPI intermediate materials	1.9	1.0	7.8
PPI crude materials	9.0	9.0	17.9
Factors affecting price inflation			
ECI hourly compensation[2]	3.5	3.3	2.9
Goods-producing	4.0	3.2	2.9
Service-producing	3.2	3.4	2.9
Civilian unemployment rate[3,4]	7.0	6.4	5.8
Capacity utilization[3] (manufacturing)	80.8	83.0	83.5
Inflation expectations[5]			
Michigan Survey[6]	4.4	3.9	3.8
Conference Board	4.9	4.3	4.3
Non-oil import price[7]	0.1	2.0	4.4
Consumer goods, excluding autos, food, and beverages	1.3	1.0	1.4
Autos	0.5	4.1	3.0

1. Relative importance weight in CPI excluding food and energy.
2. Private industry workers, periods ended in March.
3. End-of-period value.
4. Data after 1993 are not directly comparable with earlier values because of a redesign of the CPS in January 1994.
5. One-year-ahead expectations.
6. Latest reported value: May
7. BLS import price index (not seasonally adjusted), periods ended in March.

SPOT PRICES OF SELECTED COMMODITIES

	Current price ($)	Percent change[1]: 1993	1994	To Mar. 21[2]	Mar. 21[2] to May 16	Memo: Year earlier to date
INDUSTRIAL COMMODITIES						
Metals						
Copper (lb.)	1.300	-19.0	64.9	2.1	-9.7	19.3
Steel scrap (ton)	142.500	46.8	2.9	-4.2	3.6	13.1
Aluminum, London (lb.)	.792	-10.7	73.5	-8.9	.1	29.7
Lead (lb.)	.414	3.0	20.7	-.6	.0	19.9
Zinc (lb.)	.563	-7.5	23.6	-7.2	5.1	22.1
Tin (lb.)	3.931	-14.1	21.4	-4.9	4.1	3.3
Textiles and fibers						
Cotton (lb.)	1.023	19.6	38.5	23.1	-3.3	31.9
Burlap (yd.)	.295	8.2	10.2	.7	.3	7.3
Miscellaneous materials						
Hides (lb.)	.990	1.3	14.2	8.6	1.0	13.8
Rubber (lb.)	.910	-7.3	75.4	20.1	-3.5	75.8
OTHER COMMODITIES						
Precious metals						
Gold (oz.)	383.850	16.6	-1.7	.4	.2	.3
Silver (oz.)	5.445	38.8	-5.0	-2.2	16.2	-2.0
Platinum (oz.)	432.000	8.0	7.5	.4	3.8	8.6
Forest products						
Lumber (m. bdft.)	234.000	75.8	-37.1	-6.2	-14.6	-35.9
Plywood (m. sqft.)	332.000	-6.3	1.5	2.1	-1.5	2.5
Petroleum						
Crude oil (barrel)	18.760	-25.0	15.6	8.3	11.1	18.4
Gasoline (gal.)	.664	-31.0	32.4	5.4	28.5	32.9
Fuel oil (gal.)	.502	-22.4	12.7	-7.0	9.7	7.3
Livestock						
Steers (cwt.)	63.000	-7.3	-3.4	1.4	-11.3	-8.7
Hogs (cwt.)	38.500	.6	-12.9	5.6	2.7	-11.5
Broilers (lb.)	.528	6.1	-4.9	-3.6	11.7	-15.0
U.S. farm crops						
Corn (bu.)	2.465	41.7	-23.2	6.8	4.7	-4.8
Wheat (bu.)	4.158	5.8	11.4	-10.7	6.7	17.4
Soybeans (bu.)	5.565	24.5	-19.6	1.3	-1.5	-17.9
Other foodstuffs						
Coffee (lb.)	1.613	-2.3	153.1	.8	-2.0	40.8
Memo:						
Exchange value of the dollar (March 1973=100)	83.687	3.4	-5.5	-6.8	-.3	-10.1
Yield on Treasury bill, 3-month[3]	5.690	-14	247	21	-5	149

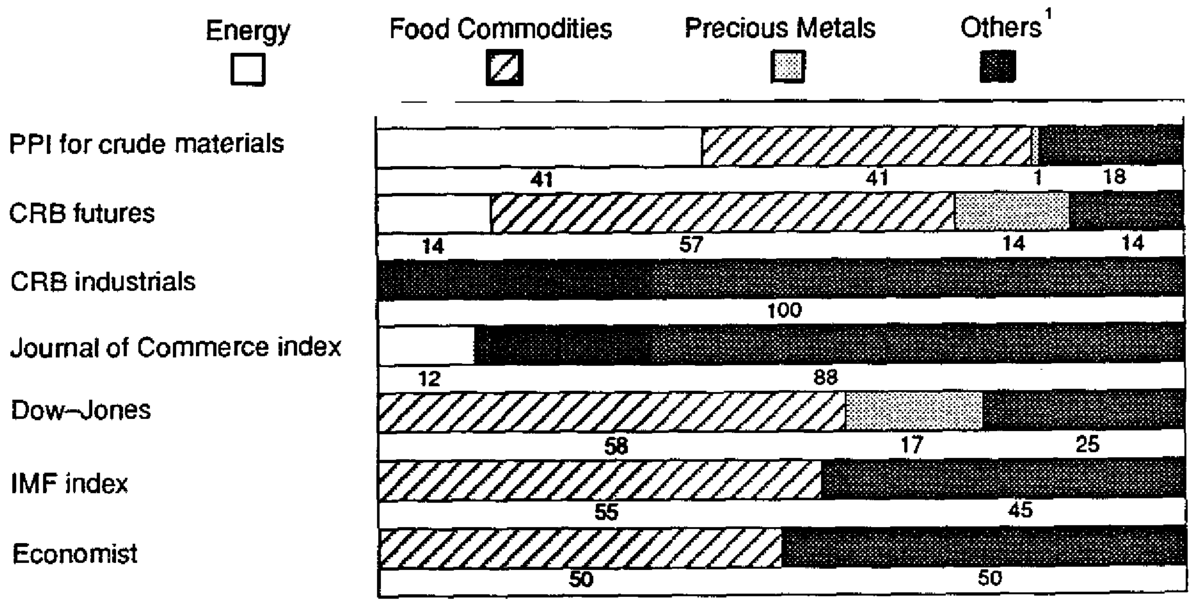
1. Changes, if not specified, are to the last week of the year indicated and from the last week of the preceding year.
2. Week of the March Greenbook.
3. Changes are in basis points.

COMMODITY PRICE INDEXES

	Last observ-ation	1993	1994	Dec. 94 to Mar. 21[2]	Mar. 21[2] to date	Memo: Year earlier to date
		Percent change[1]				
PPI for crude materials[3]	Apr.	0.1	-0.5	1.8	1.6	-0.2
Foods and feeds	Apr.	7.2	-9.4	1.6	-1.3	-9.9
Energy	Apr.	-12.3	-0.1	-1.0	5.3	0.6
Excluding food and energy	Apr.	10.7	17.3	5.9	1.3	17.9
Excluding food and energy, seasonally adjusted	Apr.	10.5	17.6	4.7	1.2	17.7
Commodity Research Bureau						
Futures prices	May. 16	11.6	4.8	-0.8	-1.2	0.9
Industrial spot prices	May. 02	-0.0	29.1	0.8	2.1	22.9
Journal of Commerce industrials	May. 16	-2.9	22.1	0.7	0.0	14.0
Metals	May. 16	-1.8	31.9	-4.5	1.2	17.5
Dow-Jones Spot	May. 16	5.1	14.8	3.4	-1.8	6.9
IMF commodity index[3]	Mar.	2.4	15.2	0.9	n.a.	13.6
Metals	Mar.	-14.4	39.1	-2.8	n.a.	29.5
Nonfood agricultural	Mar.	0.2	14.8	7.5	n.a.	17.8
Economist (U.S. dollar index)	May. 09	9.1	31.0	0.4	-1.6	19.0
Industrials	May. 09	4.4	38.6	0.3	-2.3	23.6

Note. Not seasonally adjusted. Copyright for Journal of Commerce data is held by CIBCR, 1994.
1. Change is measured to end of period, from last observation of previous period.
2. Week of the March Greenbook.
3. Monthly observations. IMF index includes items not shown separately.
n.a. Not available.

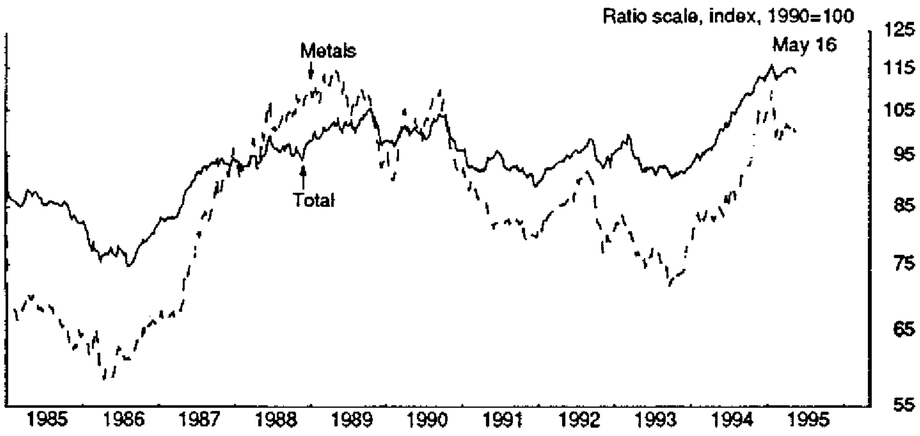
Index Weights

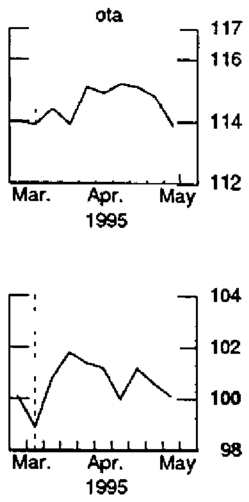


1. Forest products, industrial metals, and other industrial materials.

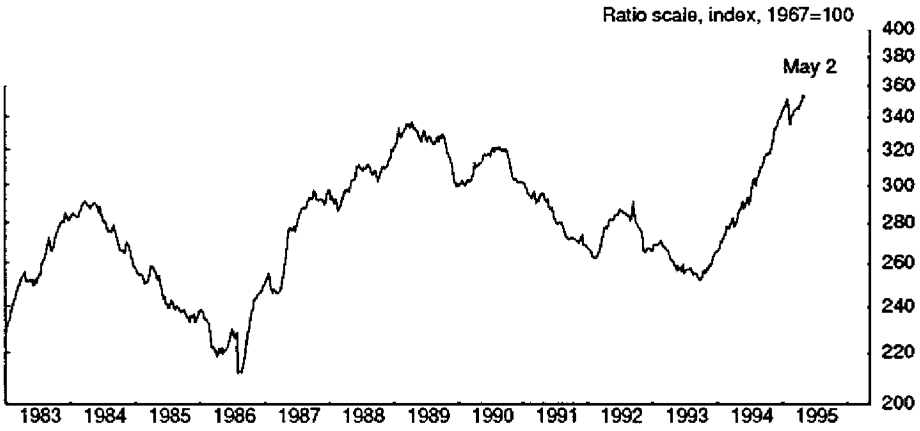
Commodity Price Measures

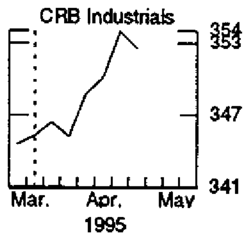
Journal of Commerce Index



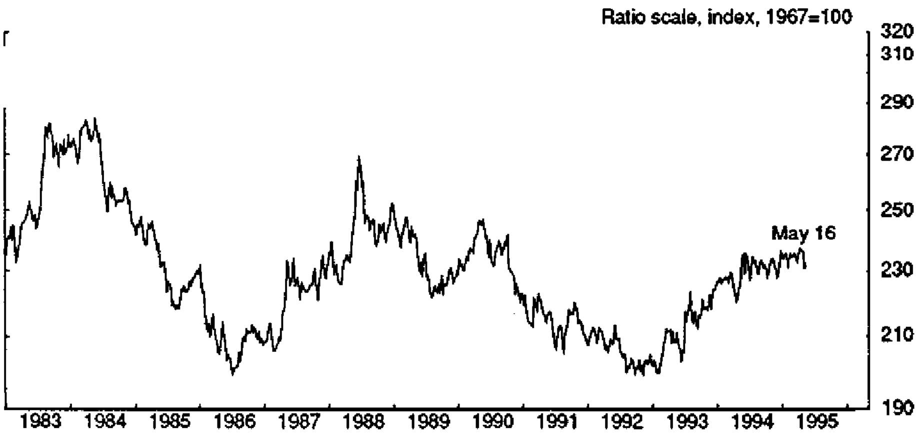


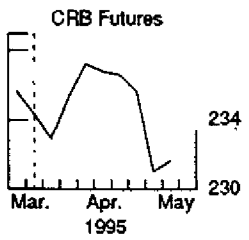
CRB Spot Industrials





CRB Futures





Note. Weekly data, Tuesdays. 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. Copyright for Journal of Commerce data is held by CIBCR, 1994.

April 1994. At the finished level prices of nonfood, nonenergy items have increased at a 2.9 percent annual rate so far in 1995 up from an increase of 1.6 percent over the twelve months of 1994

Movements in prices of major industrial spot commodities have been mixed since the week of the March Greenbook. Prices of most metals have risen--notably steel scrap prices are up 3-1/2 percent, largely offsetting their decline since the beginning of the year Zinc and tin prices have also gone up, and also offset much of their declines since the beginning of the year Copper prices, however fell markedly, more than offsetting gains since the beginning of the year Cotton and rubber prices have also moved down after posting large increases in the first three months of the year Among major farm crops, prices of corn and wheat have moved up since the last Greenbook, apparently reflecting concerns over weather-related planting delays. Prices of soybeans, however, have edged down.

Labor Costs

Trends in labor compensation remained favorable in early 1995 According to the Employment Cost Index (ECI) hourly compensation for private industry workers rose at an annual rate of just 2.3 percent from December to March; this was the second small increase in a row and held the twelve-month change in the ECI to 2.9 percent, the lowest twelve-month reading since the series began in 1980. The deceleration in the ECI was centered in benefits, which rose at an annual rate of just 0.6 percent in the first quarter and were up only 3 percent over the past year Growth in wages and salaries has held steady at around 3 percent per year since 1993. The moderation in benefit growth has reflected a continuing slowdown in the rate of increase in health insurance, workers' compensation, and state unemployment insurance costs. In addition, employers' payments to retirement funds, which had soared

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

	1994				1995
	Mar.	June	Sept.	Dec.	Mar.
	-----Quarterly percent change------- (compound annual rate)				
Total hourly compensation:[1]	3.0	3.4	3.3	2.6	2.3
Wages and salaries	3.1	3.5	2.7	2.4	2.7
Benefit costs	3.5	4.1	4.0	3.0	0.6
By industry:					
Construction	6.7	4.5	4.1	-0.3	0.3
Manufacturing	2.3	3.6	3.6	2.9	1.9
Transportation and public utilities	4.5	2.0	5.5	3.7	4.7
Wholesale trade	1.0	4.5	4.8	2.0	6.8
Retail trade	2.8	3.8	4.4	0.3	3.0
FIRE	4.5	0.0	2.7	1.4	4.4
Services	3.3	2.9	2.3	2.9	1.9
By occupation:					
White-collar	3.4	3.7	3.0	2.9	2.9
Blue-collar	2.0	3.0	3.7	2.3	1.6
Service occupations	3.0	2.0	2.7	3.7	1.0
Memo:					
State and local governments	3.7	3.3	2.6	2.6	2.9
	-----Twelve-month percent change----				
Total hourly compensation:	3.3	3.4	3.3	3.1	2.9
Excluding sales workers	3.3	3.2	3.3	3.1	3.0
Wages and salaries	2.9	3.1	2.9	2.8	2.9
Benefit costs	4.4	3.9	4.0	3.7	2.9
By industry:					
Construction	3.2	3.6	3.9	3.7	2.1
Manufacturing	3.3	3.2	3.2	3.1	3.0
Transportation and public utilities	3.8	3.3	3.9	3.9	4.0
Wholesale trade	2.3	2.8	3.4	3.1	4.5
Retail trade	2.6	3.1	3.6	2.8	2.9
FIRE	4.5	4.1	2.4	2.1	2.1
Services	3.6	3.3	2.9	2.8	2.5
By occupation:					
White-collar	3.5	3.6	3.4	3.2	3.1
Blue-collar	3.2	3.0	3.0	2.8	2.7
Service occupations	2.9	2.5	2.4	2.8	2.3
Memo:					
State and local governments	2.8	2.9	3.0	3.0	3.1

1. Seasonally adjusted by the BLS.

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

	1994				1995
	Mar.	June	Sept.	Dec.	Mar.
Hourly wages and salaries	2.9	3.1	2.9	2.8	2.9
By industry:					
Construction	2.5	2.9	3.0	3.2	2.3
Manufacturing	2.9	3.0	3.2	3.0	3.3
Transportation and public utilities	3.1	2.8	3.7	3.6	4.1
Wholesale trade	2.0	2.8	3.3	3.0	4.0
Retail trade	2.3	2.8	3.1	2.4	3.0
FIRE	4.0	3.6	1.3	1.2	1.1
Services	3.2	3.1	2.8	2.8	2.6
By occupation:					
White-collar	3.1	3.3	3.0	2.8	2.9
Blue-collar	2.8	2.9	3.0	2.8	2.9
Service occupations	2.5	2.4	2.3	3.0	2.7
Memo:					
State and local governments	2.7	2.8	2.9	3.1	3.2

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

	1994				1995
	Mar.	June	Sept.	Dec.	Mar.
Hourly benefit costs[1]	4.4	3.9	4.0	3.7	2.9
Insurance costs	5.1	4.4	3.9	3.6	1.5
Health care	5.7	5.0	4.3	3.9	1.6
Supplemental pay	5.3	5.5	6.2	4.5	6.2
Retirement and savings	9.5	9.6	10.2	11.1	6.1
Paid leave	2.9	2.8	3.2	3.1	3.7
Legally required	3.7	3.1	2.9	2.3	1.2
Workers' compensation	3.9	2.0	0.7	-0.5	-2.7
By industry:					
Goods-producing	4.2	3.8	3.7	3.5	2.4
Service-producing	4.5	4.1	4.4	3.8	3.3
By occupation:					
White-collar occupations	4.7	4.5	4.7	4.5	3.6
Blue-collar occupations	4.0	3.3	3.3	2.8	2.1
Service occupations	4.1	2.9	2.8	2.4	1.6
Memo:					
State and local governments	3.0	3.2	3.2	2.8	2.5

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

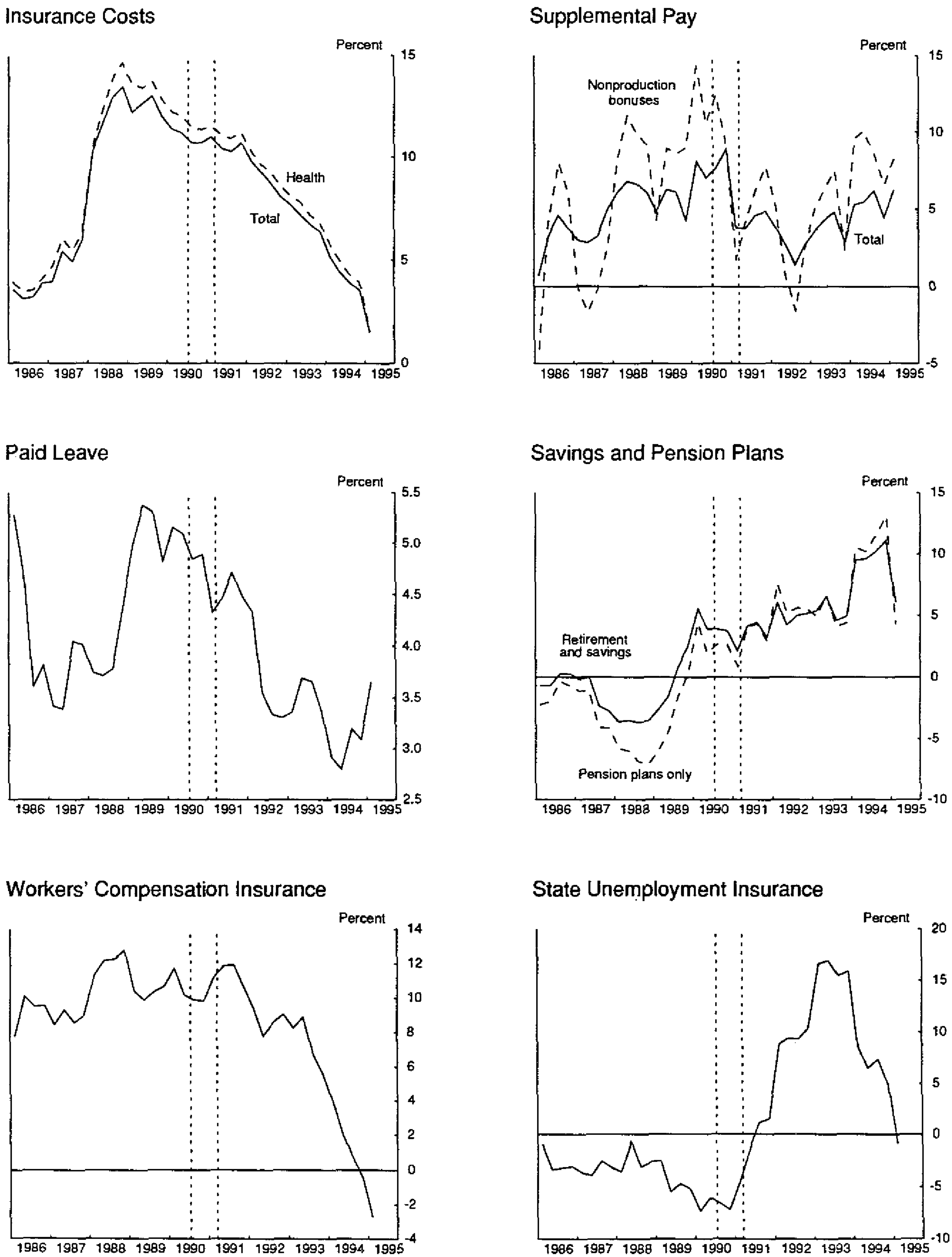
in 1994 as firms came under pressure to shore up the funding of defined-benefit pension plans, have been rising less rapidly of late.

Under some circumstances, decreases in benefits costs may lead to offsetting adjustments in other components of employees' real compensation packages For example, to the extent that employers are offering less attractive health insurance plans to workers (or increasing workers' share of health insurance costs) we might expect to see some offset over time in faster growth of other components of compensation or in slower increases in prices However these relationships are loose, and we have not been able to find evidence of regular short-run tradeoffs in the historical data.

The deceleration in ECI compensation has been spread widely across occupations and industries. By occupation, the only exceptions are skilled white collar and unskilled blue collar workers. By industry, only wholesale trade posted a significant acceleration.

In the union sector the ECI measure of hourly compensation rose 2.6 percent in the twelve months ended in March, 1 percentage point less than over the preceding twelve months These data are consistent with the latest BLS data on major collective bargaining settlements, which showed the average effective change in wage rates for the 5.4 million workers covered by major contracts--both new and continuing--dropping to 2.6 percent in the year ended in the first quarter of 1995, compared with an average increase of 2.9 percent during the previous year Moreover wage increases specified over the life of new contracts reached during the first quarter of 1995 were more than a percentage point less than those specified in the contracts they replaced. Information from the Bureau of National

Components of ECI Benefit Costs
(Private industry workers; twelve-month change)



Affairs on contracts negotiated so far this year is broadly consistent with the BLS data

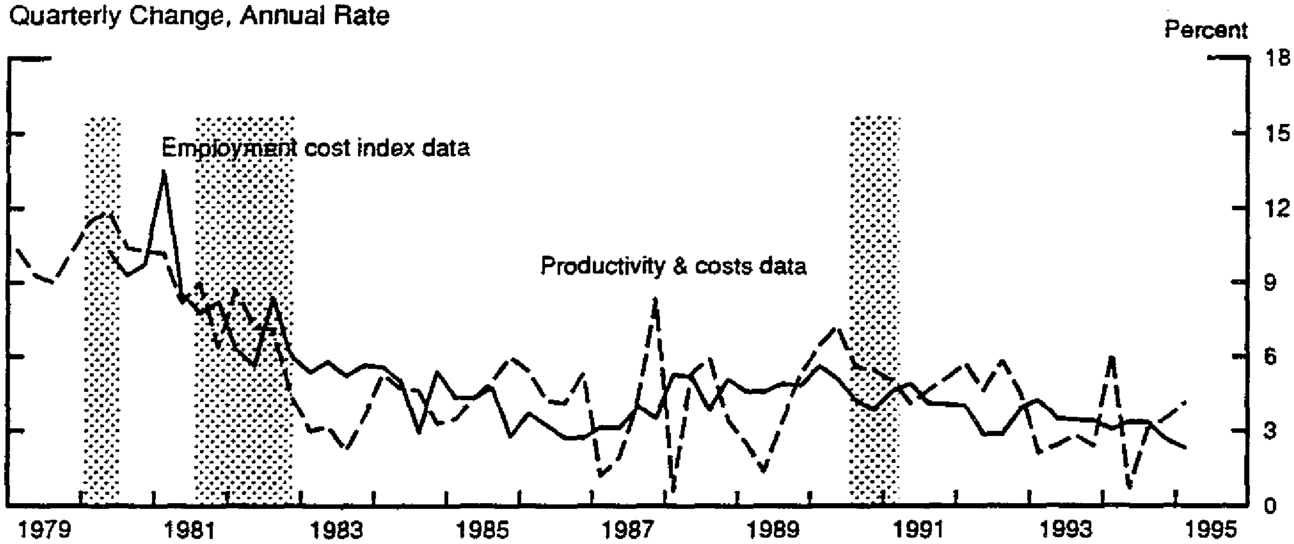
Preliminary data from the BLS's productivity and costs release indicate that average hourly compensation in the nonfarm business sector rose at an annual rate of 4.1 percent in the first quarter of 1995 substantially more than suggested by the ECI The disparity between the two measures is attributable in part to differences in the treatment of benefits costs, shifts in the industry mix of employment and an increase in the ratio of overtime to straight-time hours.[8] In any event quarterly movements in these two measures of compensation rarely match. In fact since the ECI began in 1980, the mean absolute difference between the two measures on a quarterly basis has been 1.6 percentage points Nonetheless, the series tend to grow by similar amounts over longer periods of time, and both suggest that hourly compensation has risen roughly 3 percent over the past year

After remaining essentially unchanged in the second half of 1994 unit labor costs in the nonfarm business sector rose at an annual rate of 3.4 percent in the first quarter of 1995, reflecting a 4.1 percent increase in compensation and a 0.7 percent increase in productivity Over the past four quarters, unit labor costs have risen about 1 1/2 percent compared with an increase of only 1/4 percent over the preceding four quarters. This pickup in unit labor costs is more than accounted for by a slowdown in productivity growth; hourly compensation actually rose less rapidly than over the preceding year

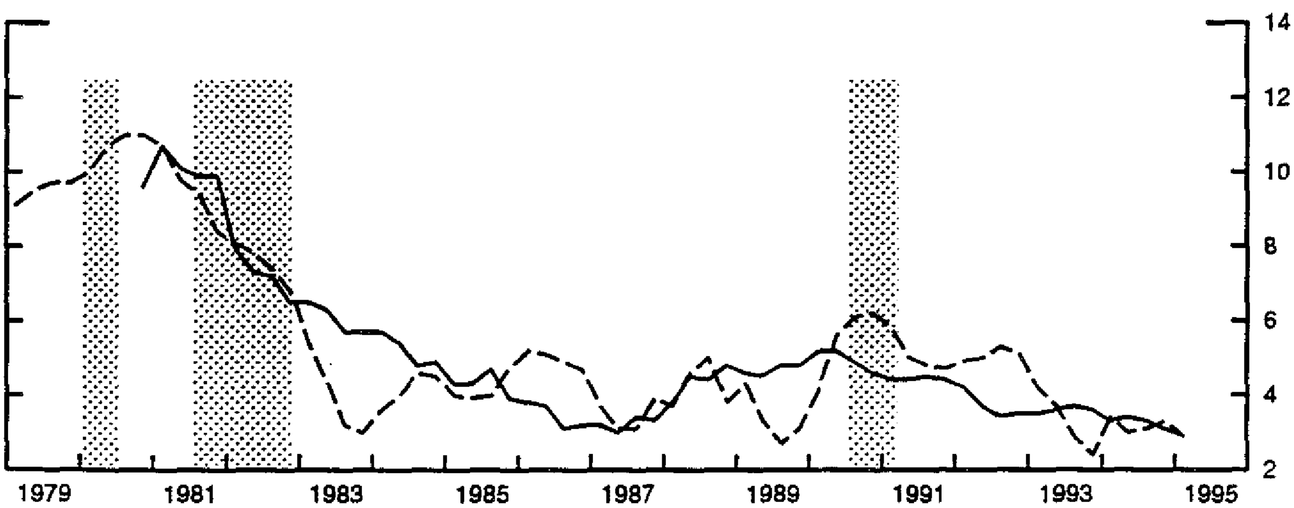
8. The ECI uses current survey data to measure benefits while the compensation-per-hour data often extrapolate from the recent past On the other hand the compensation-per-hour measure included a large pension contribution by General Motors that was not included in ECI benefits. By design, the ECI does not capture either shifts in the industry mix or changes in the number of overtime hours.

Compensation per Hour
(Quarterly data)

Quarterly Change, Annual Rate



Four-Quarter Change



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

			1994			1995	1994:Q1 to
	1993[1]	1994[1]	Q2	Q3	Q4	Q1	1995:Q1
Compensation per hour							
Total business	2.8	3.3	.2	3.6	3.1	3.9	2.7
Nonfarm business	2.4	3.3	.7	3.1	3.5	4.1	2.9
Manufacturing	2.9	2.2	-1.4	3.0	3.4	4.9	2.4
Unit labor costs							
Total business	.9	1.1	2.3	-.2	-.9	3.5	1.2
Nonfarm business	.6	1.3	2.9	-.1	-.6	3.4	1.4
Manufacturing	-.8	-2.4	-6.7	-.5	.0	1.2	-1.5

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

After holding fairly steady in the first quarter of 1995 average hourly earnings (AHE) jumped 0.6 percent in April bringing the increase over the past twelve months to 3.[illegible] percent However this series is volatile; indeed, the last two monthly increases in the vicinity of 0.6 percent (in January 1995 and October 1994) were followed by low readings over the subsequent two months Judging by the chain-weighted AHE, as seasonally adjusted by the Board's staff AHE growth in April would have been 0.7 percent if not for mix shifts among industries.

DOMESTIC FINANCIAL DEVELOPMENTS

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

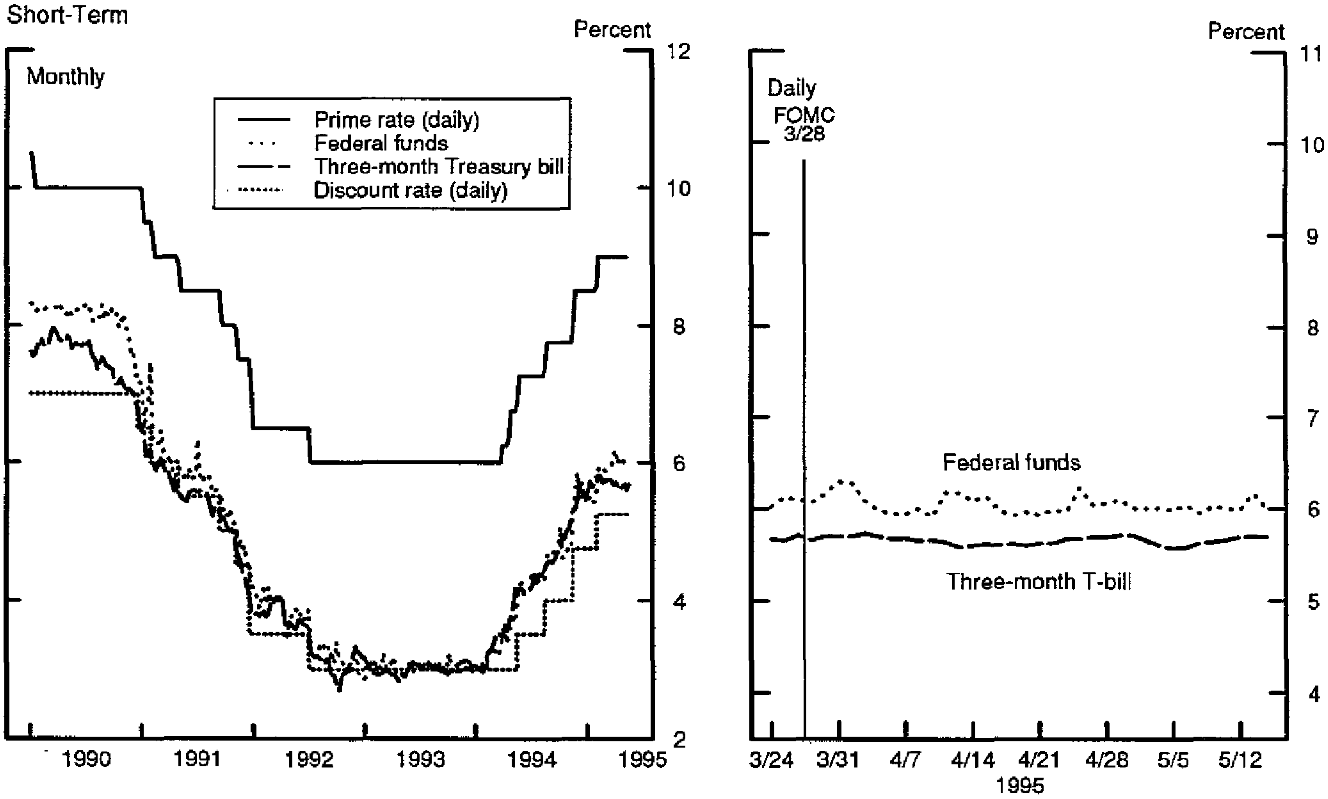
Instrument	1994 Feb 3	1994 High	1995 FOMC, Mar 28	1995 May 16	Change to May 16, 1995: From 1994 Feb 3	From 1994 high	From FOMC, Mar 28
SHORT-TERM RATES							
Federal funds[2]	3.07	5.66	6.00	6.03	2.96	.37	.03
Treasury bills[3]							
3-month	3.13	5.78	5.71	5.69	2.56	.09	.02
6-month	3.27	6.38	5.83	5.65	2.38	.73	.18
1-year	3.52	6.84	5.98	5.62	2.10	-1.22	.36
Commercial paper							
1-month	3.16	6.13	6.07	6.06	2.90	.07	.01
3-month	3.25	6.32	6.12	6.06	2.81	.26	.06
Large negotiable CDs[3]							
1-month	3.11	6.10	6.03	5.98	2.87	12	.05
3-month	3.25	6.39	6.12	6.02	2.77	.37	.10
6-month	3.41	6.89	6.31	6.03	2.62	.86	.28
Eurodollar deposits[4]							
1-month	3.06	6.06	6.00	5.97	2.91	.09	.03
3-month	3.25	6.38	6.13	6.03	2.78	.35	.10
Bank prime rate	6.00	8.50	9.00	9.00	3.00	.50	.00
INTERMEDIATE- AND LONG-TERM RATES							
U.S. Treasury (constant maturity)							
3-year	4.60	7.82	6.85	6.22	1.62	-1.60	.63
10-year	5.81	8.04	7.16	6.57	.76	-1.47	.59
30-year	6.31	8.16	7.41	6.87	.56	-1.29	.54
Municipal revenue[5] (Bond Buyer)	5.49	7.37	6.34	6.18	.69	-1.19	.16
Corporate--A utility, recently offered	7.35	9.05	8.37	7.81	.46	-1.24	.56
Home mortgages[6]							
FHLMC 30-yr. fixed rate	6.97	9.25	8.40	7.87	90	-1.38	.53
FHLMC 1-yr. adjustable rate	4.12	6.79	6.41	6.12	2.00	.67	.29

Stock exchange index	Record high Level	Record high Date	1989 Low, Jan. 3	1995 FOMC, Mar 28	1995 May 16	Percentage change to May 16: From record high	From 1989 low	From FOMC, Mar 28
Dow-Jones Industrial	4437.47	5/15/95	2144.64	4151.81	4435.05	.05	106.80	6.82
NYSE Composite	284.27	5/16/95	154.00	271.95	284.27	.00	84.59	4.53
NASDAQ (OTC)	868.25	5/16/95	378.56	826.14	868.25	.00	129.36	5.10
Wilshire	5171.41	5/16/95	2718.59	4940.44	5171.41	.00	90.22	4.68

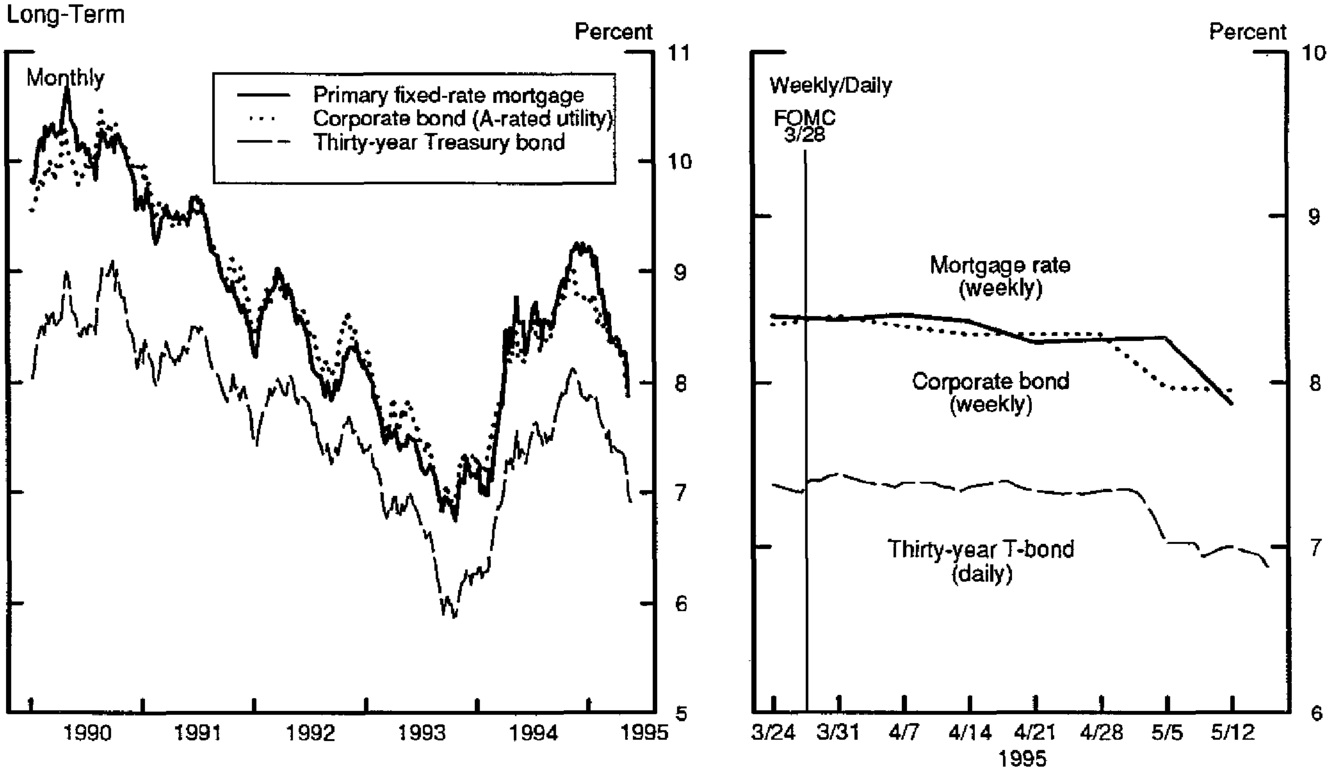
1. One-day quotes except as noted.
2. Average for two-week reserve maintenance period closest to date shown. Last observation is average to date for maintenance period ending May 24, 1995.
3. Secondary market
4. Bid rates for Eurodollar deposits at 11 a.m. London time.
5. Most recent observation based on one-day Thursday quote and futures market index changes.
6. Quotes for week ending Friday previous to date shown.

Selected Interest Rates

Short-Term



Long-Term

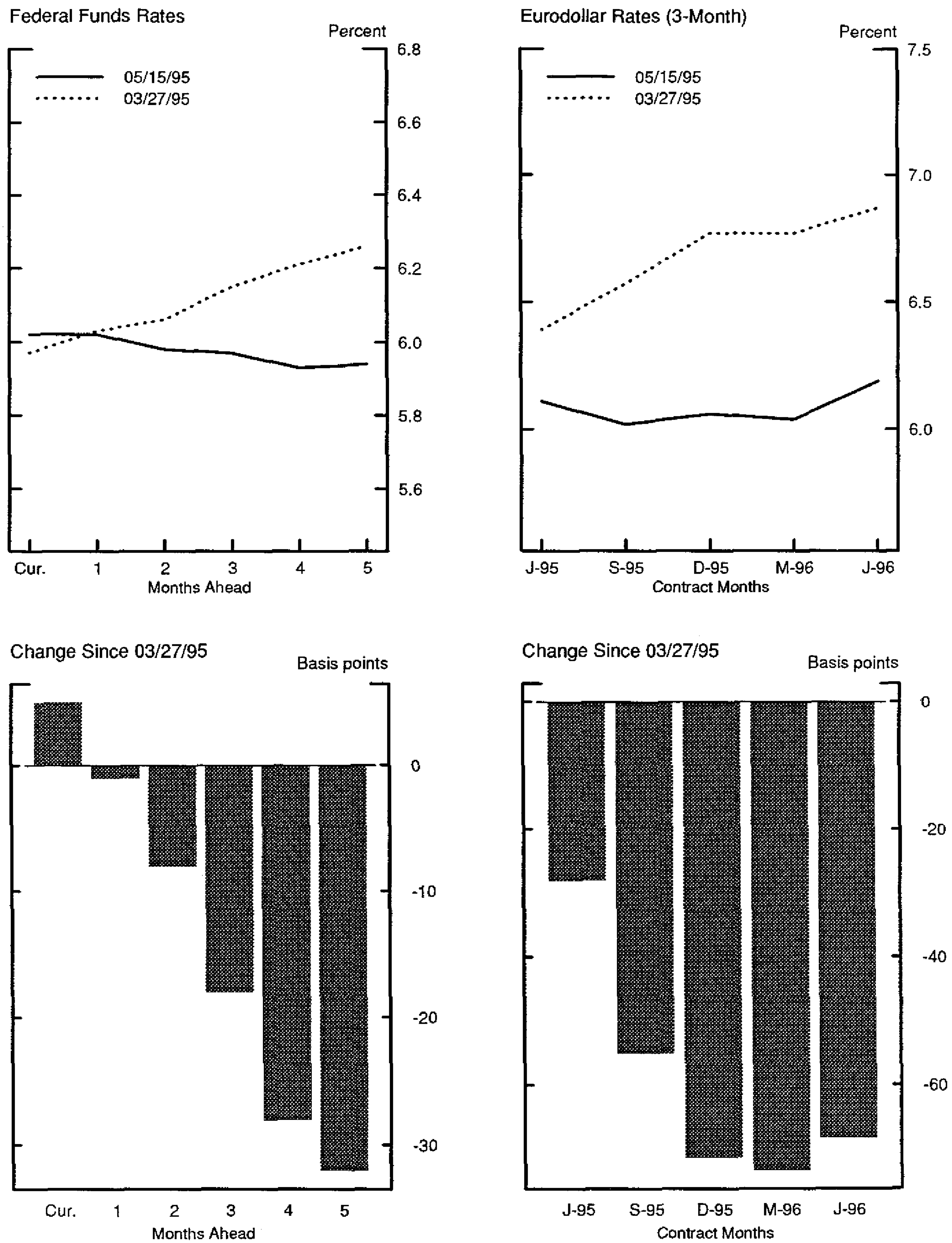


The FOMC's decision at its March 28 meeting to keep money market conditions unchanged largely confirmed market expectations for System policy, and most interest rates showed little response. In the weeks that followed, though, rates edged lower as data pointing to slower economic growth solidified market expectations of no further System tightening. Additional evidence of decelerating activity, including the figures on April employment and auto sales, gave fresh impetus to the bond rally in early May, which produced a particularly sharp decline in rates at intermediate maturities. Large increases in the April producer and consumer price indexes put only a mild dent in the market's enthusiasm, and bond prices soon moved up again in connection with a rebound in the dollar.

Short-term rates have shed as much as 30 basis points over the intermeeting period, and yields on Treasury coupon securities have fallen more than 1/2 percentage point. The pattern of federal funds and Eurodollar futures rates can now be read as suggesting that market participants see a greater chance of System easing than of tightening later this year. Private rates have about kept pace with the decline in Treasury yields, preserving narrow quality spreads. Rates on municipal debt have fallen by smaller amounts, reflecting concern that tax reform might erode that sector's relative attractiveness. Major stock price indexes are up 4-1/2 percent to 7 percent on generally stronger-than-anticipated earnings reports as well as the lower interest rates.

Borrowing by the business and household sectors appears to have remained strong so far in the current quarter. Although bond issuance by nonfinancial firms was subdued through April, offerings have picked up in response to the latest drop in rates. In addition, businesses have continued to borrow substantial sums from

Selected Short-Term Futures Rates



Note. Changes are taken from levels the day before the previous FOMC meeting.

banks and have stepped up their use of commercial paper. Evidence on household borrowing activity this quarter is scant, but banks recorded a big increase in consumer loans in April.

Total bank credit advanced sharply in April. With managed liabilities providing much of the funding for this expansion, M3 posted further substantial growth--including a noticeable pickup in its M2 component.

Monetary Aggregates and Bank Credit

Tax effects substantially boosted M1 and M2 in April. Nonetheless, M1 expanded at only a 2 percent rate, while M2 increased at a 4 percent rate and moved up toward the midpoint of its target range of 1 percent to 5 percent. The growth of M3 matched the previous month's relatively rapid gain of 6 percent, and the aggregate continued to exceed the upper bound of its target range of 0 percent to 4 percent.

The individual components of M2 continued to exhibit widely disparate movements. Small time deposits recorded another hefty increase, as interest rates on this component have risen substantially more than those on other deposits. Other checkable deposits edged up after several months of declines, but savings deposits experienced another large contraction.

The pattern of tax payments and tax refunds likely affected the liquid components of the aggregates more strongly this April than in past years. Nonwithheld personal tax liabilities tend to boost liquid deposits in the period before a tax date as individuals build balances in advance of writing checks to the IRS. Nonwithheld tax obligations ran higher this April than last because of the stronger economy in 1994 and because of rule changes that allow individuals to delay a larger share of payments until April. Furthermore, since mid-March, individual tax refunds have been running above last

MONETARY AGGREGATES
(Based on seasonally adjusted data)

Aggregate or component	1994	1994 Q4	1995 Q1	1995 Feb.	1995 Mar.	1995 Apr. (p)	1994:Q4 to Apr. 95 (p)	Level (bil. $) Apr. 95 (p)
Aggregate	Percentage change (annual rate)[1]							
1. M1	2.3	-1.2	0.0	-1.8	0.7	2.0	0.4	1149.7
2. M2	1.0	-0.4	1.7	-1.2	2.8	4.0	2.1	3643.4
3. M3	1.4	1.7	4.4	2.3	6.1	6.1	4.8	4379.5
Selected components								
4. Currency	10.2	8.7	8.2	3.7	12.4	10.6	9.0	365.7
5. Demand deposits	0.4	-4.2	0.6	1.9	-2.5	-6.3	-1.1	381.2
6. Other checkable deposits	-2.1	-6.7	-7.7	-10.2	-7.9	0.9	-6.2	393.6
7. M2 minus M1	0.4	0.0	2.5	-0.9	3.7	5.0	3.0	2493.7
8. Savings deposits	-4.5	-11.7	-15.7	-19.0	-18.3	-13.7	-15.6	1082.4
9. Small time deposits	2.4	13.9	22.8	28.3	32.0	25.3	25.6	896.0
10. Retail money market funds	7.3	7.5	8.2	-1.2	-1.2	15.9	7.9	396.6
11. Overnight RPs, n.s.a.	13.9	7.3	17.2	-8.3	16.6	-30.1	5.7	85.5
12. Overnight Eurodollars, n.s.a.	41.3	29.3	27.3	-140.0	-30.2	-27.1	-3.9	30.3
13. M3 minus M2	3.6	13.1	18.2	20.2	23.2	16.0	18.9	736.0
14. Large time deposits, net[2]	7.1	18.1	14.3	26.8	21.3	8.6	15.2	380.4
15. Institution-only money market mutual funds	-8.2	7.2	10.0	-38.0	57.2	24.8	16.2	192.9
16. Term RPs, n.s.a.	6.7	5.1	30.6	39.6	-3.2	33.1	27.9	115.4
17. Term Eurodollars, n.s.a.	16.1	20.2	22.2	61.3	22.9	22.5	25.8	59.8
Memo								
18. Monetary base	8.4	6.9	6.3	3.4	8.5	7.3	6.7	427.9
19. Household M2[3]	0.5	0.0	1.0	-0.2	2.9	5.7	2.1	3135.2
	Average monthly change (billions of dollars)[4]							
Memo								
20. Managed liabilities at commercial banks (lines 21 + 22)	14.2	11.3	27.7	22.9	-1.7	22.4	...	1121.0
21. Large time deposits, gross	2.1	5.2	5.0	10.3	7.9	1.4	...	393.1
22. Nondeposit funds	12.0	6.1	22.7	12.6	-9.6	21.0	...	727.9
23. Net due to related foreign institutions	7.5	4.3	9.4	7.6	-11.2	-4.6	...	236.7
24. Other[5]	4.5	1.8	13.3	5.0	1.6	25.6	...	491.2
25. U.S. government deposits at commercial banks	0.0	0.7	-0.8	0.2	-3.2	2.6	...	18.2

1. For the years shown, fourth quarter-to-fourth quarter percent change. For the quarters shown, based on quarterly averages.
2. Net of holdings of depository institutions, money market mutual funds, U.S. government, and foreign banks and official institutions.
3. Sum of seasonally adjusted currency, retail money funds, and other checkable, savings, and small time deposits.
4. For the years shown, "average monthly change" is the fourth quarter-to-fourth quarter dollar change, divided by 12. For the quarters shown, it is the quarter-to-quarter dollar change, divided by 3.
5. Borrowing from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase, and other liabilities for borrowed money (including borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs, and other minor items). Data are partially estimated.
p Preliminary. n.s.a. Not seasonally adjusted.

Commecial Bank Credit and Short- and Intermediate-Term Business Credit

(Percentage change; seasonally adjusted annual rate)[1]

Type of credit	1994	1994 Q4	1995 Q1	1995 Feb	1995 Mar	1995 Apr	Level, Apr 1995 (billions of $)
	Commercial bank credit						
1. Total loans and securities	6.7	4.0	7.8	4.7	8.2	13.9	3,424.2
2. Securities	4.8	-7.6	-5.0	-10.9	2.9	15.7	951.5
3. U.S. government	.1	-11.1	-6.2	-8.1	-20.8	0.0	704.5
4. Other	23.5	4.5	-1.4	-19.8	79.6	63.4	247.0
5. Loans	7.6	8.8	13.0	10.8	10.2	13.2	2,472.8
6. Business	9.2	10.3	17.1	21.7	6.5	15.7	682.0
7. Real estate	6.5	7.8	12.0	9.1	6.6	8.8	1,035.9
8. Consumer	15.2	16.4	12.7	5.2	14.6	15.2	471.0
9. Security	-17.2	-20.0	-9.1	-14.0	33.6	60.3	73.2
10. Other	3.3	3.4	13.4	5.9	23.3	5.7	210.6
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	9.4	10.9	18.2	23.5	7.1	15.3	674.8
12. Loans at foreign branches[2]	5.1	-3.5	15.9	20.5	-5.0	40.5	24.5
13. Sum of lines 11 and 12	9.3	10.6	18.1	23.4	6.6	16.2	699.3
14. Commercial paper issued by nonfinancial firms	1.2	25.0	22.1	20.1	20.4	36.7	178.5
15. Sum of lines 13 and 14	7.6	13.3	18.9	22.6	9.4	20.3	877.8
16. Bankers acceptances, U.S. trade-related[3,4]	-8.3	-25.7	-21.2	0.0	20.2	n.a.	18.1[5]
17. Loans at finance companies[4]	12.2	17.0	20.3	18.9	15.0	n.a.	371.4[5]
18. Total (sum of lines 15, 16, and 17)	8.6	13.7	18.7	21.3	11.2	n.a.	1,252.7[5]

1. Except as noted, levels are averages of Wednesday data and percentage changes are based on averages of Wednesday data. For years, "percentage change" is percentage change in quarterly average from fourth quarter of preceding year to fourth quarter of specified year. For quarters, it is the percentage change in quarterly average from preceding quarter to specified quarter, annualized. Data are adjusted for breaks caused by reclassification.
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. Levels and changes are based on averages of month-end data.
5. March 1995.
n.a. Not available.

The Effect of FIN 39 on Bank Credit Growth

(Percent; seasonally adjusted annual rate)

Period	Bank credit		Total securities	
	Reported	Ex. FIN 39	Reported	Ex. FIN 39
<u>Year</u>				
1994	6.7	5.6	4.8	.7
<u>Quarter</u>				
1994:Q1	8.7	5.5	16.5	5.7
Q2	6.5	5.8	9.0	6.6
Q3	7.2	6.5	1.3	-1.1
Q4	4.0	4.0	-7.6	-8.0
1995:Q1	7.8	7.8	-5.0	-5.6
<u>Month</u>				
1994:Dec.	6.7	8.2	-5.7	-.8
1995:Jan.	11.9	12.4	-1.8	-.8
Feb.	4.7	5.1	-10.9	-10.0
Mar.	8.2	2.7	2.9	-17.4
Apr.	13.9	10.1	15.7	1.6
Memo: April level (billions of dollars)	3,424.2	3,365.5	951.5	892.7

Note. FIN 39 is Financial Accounting Standards Board Interpretation No. 39. Adjusted for breaks caused by reclassifications. Monthly levels are prorated averages of weekly (Wednesday) levels.

year's pace, in part catching up from earlier processing delays caused by IRS efforts to detect fraudulent claims for refunds. Both of these effects probably strengthened the liquid components of M1 and M2 (including money market mutual funds) in April, partly offsetting the lagged effects of previous increases in overall opportunity costs of holding M2 assets.[1]

Bank credit accelerated to a 14 percent annual rate of growth in April. Much of the faster growth reflected a cessation of the heavy run-offs of U.S. government securities observed over the previous two months. Other securities were again boosted by increases in the market value of off-balance-sheet derivatives contracts, which accounted for an estimated 4 percentage points of bank credit growth in April. An accounting interpretation by the Financial Accounting Standards Board (FIN 39), adopted in January 1994 for regulatory reporting of off-balance-sheet contracts, limits the ability of banks to net contracts in a gain position (carried as assets) against those in a loss position (carried as liabilities) and thereby has the effect of grossing up the balance sheet. At times, the FIN 39 requirement has strongly influenced measured bank credit growth (table).[2]

The major components of bank loans strengthened in April from the previous month. Growth in real estate loans picked up some, although not to the elevated pace of the first quarter as a whole; net gains continued to be held down by run-offs of commercial real estate loans at U.S. offices of foreign banks. Consumer loan growth

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1. broadened its sweep account program at the beginning of May, which should depress M1 substantially for the month. However, the program will have no effect on M2 because it moves NOW account balances into MMDAs.

2. Call Report data show that these asset and liability items tend to move together, suggesting that bank equity has not been as heavily exposed to movements in interest and exchange rates as either side of the balance sheet alone. This result is not surprising, given that the major bank dealers in derivatives probably hedge the risks of conducting their customer business.

in April (with and without adjustment for securitizations) was marginally ahead of the brisk pace in March. The May Senior Loan Officer Opinion Survey indicated some softening of demand, on balance, for residential mortgage, home equity, and consumer installment loans. In contrast, for commercial mortgages, the share of bankers perceiving a pickup in demand slightly exceeded that seeing a decline. The willingness of banks to lend in these areas held nearly steady or increased a bit: Virtually all respondents reported unchanged standards for mortgage loans, while a few banks expressed greater willingness to make consumer loans and none said they were less willing.

Business loans at banks grew at a 15-3/4 percent annual rate in April. The recent strength in this category largely reflects heavy financing needs for inventories and for plant and equipment, though some banks responding to the May opinion survey also cited merger financing as a major factor in recent loan growth, especially for larger firms. The few banks reporting changes with regard to lending standards were in the direction of ease, and a large number of banks reported easing terms.

Mutual Funds

Investors' purchases of stock fund shares remained strong in March and April, while bond funds posted small net outflows after a moderate inflow in February. Most types of bond funds have experienced net outflows since February; the exceptions are funds that specialize in corporate bonds and those that mix stocks and bonds. Among stock funds, inflows into international funds picked up in April, reflecting renewed investor interest now that equity prices in emerging markets are generally viewed as having bottomed out.

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

	1994	1995				Memo:
	Q4	Q1	Feb.	Mar.	Apr.[e]	March Assets
Total stock	8.1	8.2	8.9	8.8	8.0	943.7
International	2.0	.4	.7	.2	1.5	161.9
Domestic	6.1	7.8	8.2	8.6	6.5	781.8
Total bond	-7.1	.1	3.1	-1.3	-.1	744.4
GNMA	-1.2	-.7	-.4	-.5	-.6	53.8
Government	-2.0	-.6	-.4	-1.1	-.1	85.6
High-yield	.0	1.0	1.6	.7	.7	49.2
Tax-exempt	-3.2	.3	1.4	-1.2	-.2	240.4
Income	.2	.8	1.1	1.2	.3	226.3
Other	-.9	-.6	-.3	-.5	-.2	57.8
Total money fund	9.8	7.7	-3.8	1.3	3.0	650.8
Taxable	9.4	6.7	-3.5	1.6	5.9	532.2
Tax-exempt	.4	1.0	-.3	-.3	-2.9	118.6

e Estimate.
Source: Investment Company Institute.

Taxable money market funds posted a sizable net inflow over March and April, with most of the inflow invested in commercial paper. In contrast, tax-exempt funds have experienced no net increase in assets so far this year.

Business Finance

With businesses concentrating much of their fund-raising in bank loans and commercial paper, gross public offerings of bonds by nonfinancial corporations in March and April continued at a level only somewhat above the weak volumes recorded during the second half of last year. However, the recent decline in long-term interest rates has spurred a pickup in bond issuance. Merger activity has contributed to total offerings, as several companies each have issued about $1 billion of bonds since mid-April to finance the cash portion of recent acquisitions. But some firms involved in merger transactions have elected to issue private placements with

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

Type of security	1993	1994	1994 Q4	1995 Q1	1995 Feb.	1995 Mar	1995 Apr.p
All U.S. corporations	52.89	40.66	32.45	39.59	41.77	39.69	29.69
Stocks[2]	9.12	5.55	4.22	3.84	5.07	3.20	3.49
Bonds	43.77	35.11	28.23	35.74	36.70	36.49	26.20
Nonfinancial corporations							
Stocks[2]	5.04	3.14	3.01	2.80	3.49	2.43	2.58
Sold in U.S.	4.64	2.92	2.78	2.53	3.27	2.12	2.48
Utility	1.05	.37	.23	.41	.27	.22	.17
Industrial	3.82	2.55	2.56	2.12	2.99	1.90	2.30
Sold abroad	.40	.22	.23	.27	.23	.31	.10
Bonds	16.19	7.35	5.41	6.67	8.88	5.75	6.40
Sold in U.S.	15.55	6.44	4.30	5.37	7.47	4.68	5.70
Utility	7.34	2.19	1.09	1.37	1.32	1.63	1.77
Industrial	8.21	4.26	3.21	4.01	6.15	3.05	3.94
Sold abroad	.64	.90	1.11	1.30	1.41	1.07	.70
By quality[3]							
Aaa and Aa	2.56	.58	.58	.69	1.26	.48	.79
A and Baa	8.70	3.82	2.59	3.38	3.80	3.37	3.98
Less than Baa	4.17	2.01	1.13	1.26	2.40	.73	.93
Unrated or rating unknown	.09	.01	.00	.01	.02	.01	.00
Financial corporations							
Stocks[2]	4.08	2.41	1.21	1.04	1.58	.77	.91
Sold in U.S.	3.83	2.16	1.17	1.04	1.56	.77	.91
Sold abroad	.25	.25	.04	.01	.02	.00	.00
Bonds	27.58	27.76	22.82	29.07	27.82	30.74	19.80
Sold in U.S.	25.02	23.98	19.12	23.00	21.28	27.60	16.30
Sold abroad	2.56	3.78	3.70	6.08	6.54	3.14	3.50
By quality[3]							
Aaa and Aa	1.78	3.72	2.69	3.95	2.72	4.37	2.44
A and Baa	9.01	9.02	7.73	10.73	12.10	9.76	7.36
Less than Baa	.49	.31	.20	.04	.04	.04	.15
Unrated or rating unknown	.08	.10	.28	.05	.06	.08	.34

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.

registration rights under SEC rule 144A; this avenue enables them to raise funds quickly and then to exchange a private issue for a public one in the future, when they have more time to comply with SEC filing requirements.

Quality spreads on corporate bonds have remained narrow. For example, the interest rate spread between bonds rated Baa by Moody's and those rated Aaa tightened to 57 basis points in April, only 1 basis point above the lowest monthly spread since 1980. Spreads on junk bonds also declined slightly through April. The tightening of spreads owes partly to the light supply of new bonds, but investors also seem comfortable with the financial positions of most U.S. corporations. Investor confidence has been mirrored in the commercial paper market as well, where the spread between yields on medium-grade and high-grade paper has remained very tight by historical standards.

Issuance of commercial paper was strong again in April, as firms continued to find the market very receptive to new offerings. Much of the issuance has been used to fund mergers or to repurchase shares, as was the case for DuPont, which recently issued $8.5 billion in paper to buy back most of its shares owned by Seagrams. Gross issuance is expected to remain heavy, as firms involved in recently announced merger deals plan to use paper for the initial financing. At the same time, there have been substantial paydowns of previously issued merger-related paper, which has limited the net impact of mergers on the amount of commercial paper outstanding.

Merger activity in the nonfinancial sector has been buoyant since the last FOMC meeting. Seven new deals valued at more than $1 billion each have been announced. Indeed, the spate of recently announced deals suggests that the value of mergers completed in 1995 could exceed the record set in 1989. As was the case last year, most of the recent deals have been concentrated in a few industries--most notably, health care and pharmaceuticals, and telecommunications and media. Consistent with the pattern of financing in the second half of 1994, about half of the deals have been structured as stock swaps, implying far less reliance on cash payments than during the 1980s. Accordingly, the recent merger wave has not prompted a deterioration in overall credit quality in the nonfinancial sector. In fact, during the first quarter, Moody's merger-related rating changes were generally upgrades because of expected synergies from these transactions and the relatively small amount of debt needed to finance them.

Most of the recent mergers have been strategic, intra-industry deals; however, the attempted takeover of Chrysler by Kirk Kerkorian could signal the beginning of a new wave of hostile leveraged buyouts. Kerkorian believes that Chrysler has hoarded too much cash and seeks a larger payout in the form of dividends or share repurchases.[3] At present, Kerkorian's bid appears doomed, as he has failed to line up the necessary financing. It is possible, though, that this theme will arise elsewhere: A number of U.S. corporations have built up large cash reserves to weather a possible recession; thirty-five companies reportedly have more than $1 billion in cash, and for some of these firms, the ratio of cash to the market value of equity exceeds the 30 percent ratio of Chrysler.

Bolstered by declining interest rates and reports of strong profits, the stock market has continued the rally that began last December. The major stock price indexes have moved up between

3. Ford and General Motors recently announced dividend increases. In December, Chrysler upped its dividend by 60 percent in response to earlier pressure from Kerkorian.

4-1/2 percent to 7 percent since the March FOMC meeting, and 13 percent to 16 percent since the end of last year. First-quarter earnings reports for nonfinancial corporations generally came in above market expectations, with positive earnings surprises outnumbering negative surprises by nearly two to one for the fourth consecutive quarter. Profit margins remained at their highest levels since the late 1970s. Some of the largest positive surprises were in the computer industry (Digital, Intel, IBM, Sun Microsystems, and Microsoft) and in chemicals (Dupont, Dow Chemical, and Eastman Chemical).

Despite the stock market advance, gross issuance of equity by nonfinancial corporations continued at a slow pace through April. The relatively few offerings brought to market early in May, along with the sluggish pace of new registrations, suggest only a limited increase in issuance this month.

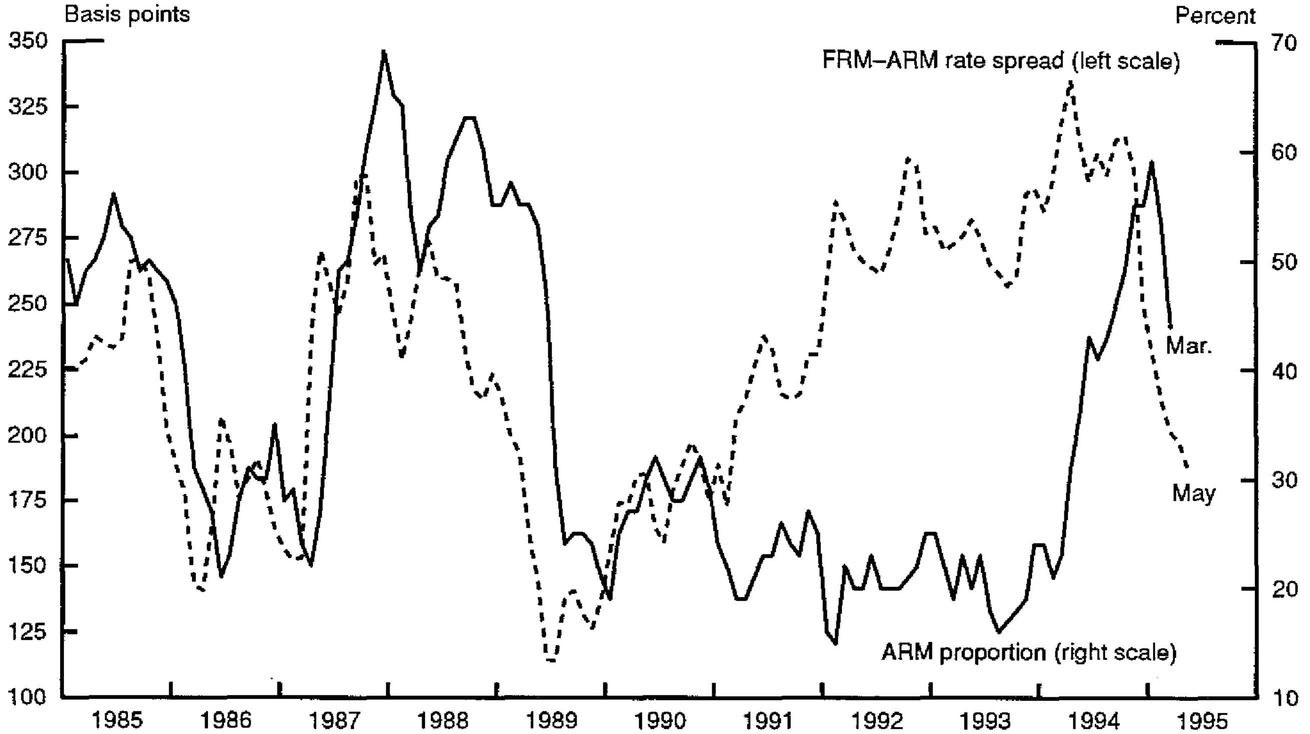
Mortgage Markets

The average contract rate on conventional fixed-rate mortgage (FRM) loans declined roughly 50 basis points, to 7-7/8 percent, between the March FOMC meeting and early May. The fixed-rate decline has exceeded the drop in the average initial rate on conventional adjustable-rate mortgages indexed to one-year Treasury yields. As a result, the spread between the initial rates on fixed- and adjustable-rate mortgages dipped below the relatively narrow two percentage points that already had prompted some rebound in the popularity of fixed-rate loans recently. According to the latest data from the Federal Housing Finance Board, the ARM share of all newly originated loans declined in March for the second consecutive month, to 44 percent from a peak near 60 percent in January (chart).

Market participants expect that if the recent lower levels of mortgage rates persist, refinancings will rise over the next few

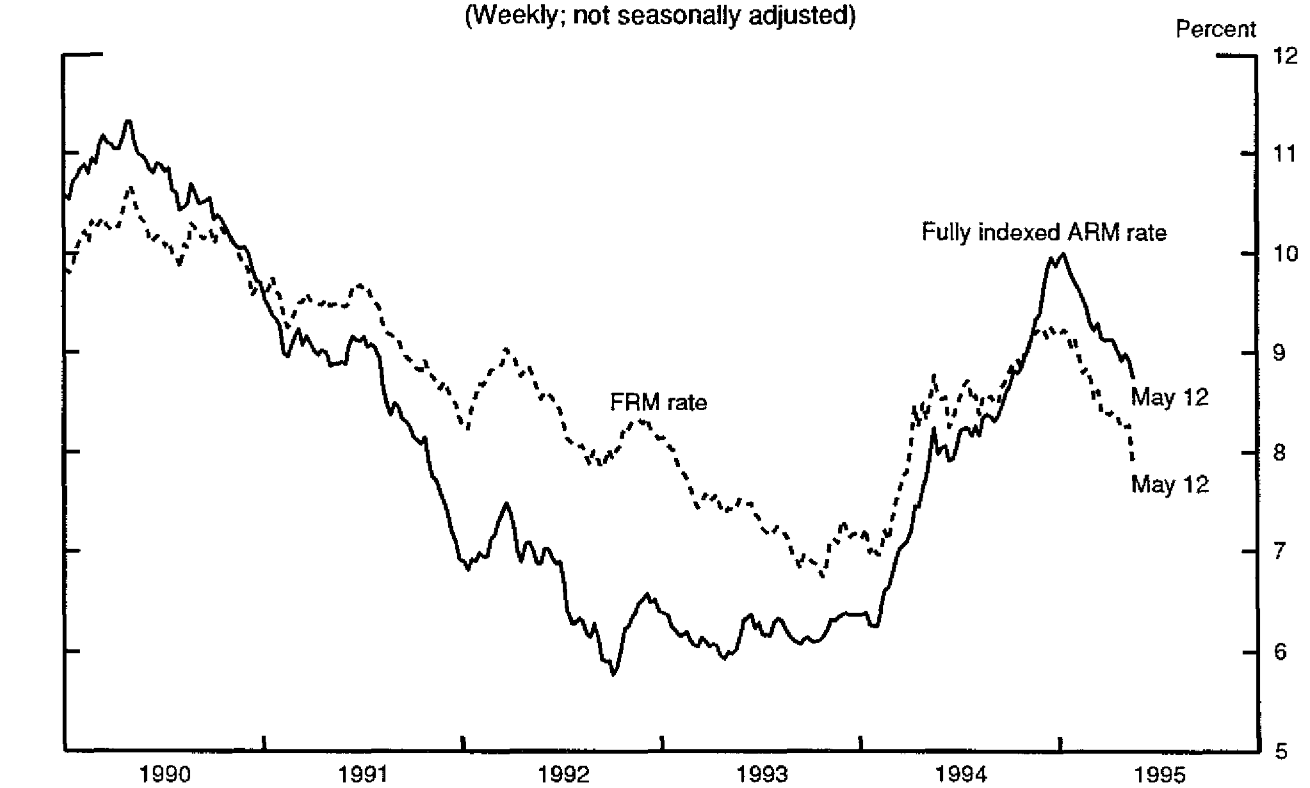
ARM Proportion and FRM–ARM Rate Spread

(Monthly; not seasonally adjusted)



Fully Indexed ARM Rate and Freddie Mac FRM Rate

(Weekly; not seasonally adjusted)



Note. Fully indexed ARM rate equals one-year Treasury plus 275 basis points.

months to about 20 percent of total origination volume, from around 10 percent now. In particular, many mortgage borrowers who have ARMs issued with sizable initial-period discounts are likely to switch to fixed-rate credit as those ARMs reach their reset dates. Currently, initial rates on FRMs are well below the fully indexed levels (index plus margin) for one-year Treasury ARMs (chart). Without further rate declines, however, refinancing is unlikely to reach the pace in 1992-93, as up to 65 percent of outstanding mortgages today have rates that are at or below current levels.

Sufficient data are not yet available to gauge the pace of home mortgage lending activity in the current quarter. However, a slowdown in single-family construction expenditures, offset in part by a pickup in mortgage refinancing, suggests the more moderate pace of borrowing evidenced in the first quarter likely has continued. In the secondary market, gross issuance of agency pass-through securities edged lower in March, while net issuance was about flat. Issuance of private-label mortgage-backed securities jumped in April, largely reflecting a sizable $1.3 billion deal from the Resolution Trust Corporation, its first residential mortgage security this year. In the multiclass sector, agency-backed REMIC volume totaled only $1.5 billion in April, 20 percent below the already-low level registered in March. Fannie Mae issued by far the largest volume, including one issue that represented the agency's first major entry into the home-equity loan security market.

Only limited information on measures of aggregate mortgage credit quality are available for the first quarter. Results from Freddie Mac indicate a slight weakening in credit performance, as delinquencies on loans held in portfolio edged up for both single-family and multifamily mortgages. Freddie Mac attributed the uptick to continued declines in house prices in California and parts

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

Type of credit	1993	1994	1994 Q4	1995 Q1	1995 Feb.[r]	1995 Mar.[p]	Memo: Outstanding Mar. 1995 (billions of dollars)
Installment	8.6	14.7	14.3	13.4	10.0	17.9	941.8
Auto	9.5	15.1	11.9	7.3	10.6	9.8	330.4
Revolving	11.9	17.3	18.4	21.9	22.0	22.9	356.2
Other	3.8	11.0	11.8	9.9	-7.1	21.3	255.3
Noninstallment	-4.9	-4.9	-7.7	-27.9	-77.7	.8	47.0
Total	7.7	13.5	13.2	11.2	5.5	17.0	988.9

r Revised.
p Preliminary.

INTEREST RATES ON CONSUMER LOANS
(Annual percentage rate)

Type of loan	1992	1993	1994	1994 Nov.	1995 Jan.	1995 Feb.	1995 Mar.
At commercial banks[1]							
New cars (48 mo.)	9.3	8.1	8.1	8.8	n.a.	9.7	n.a.
Personal (24 mo.)	14.0	13.5	13.2	13.6	n.a.	14.1	n.a.
Credit cards[2]							
All accounts	n.a.	n.a.	n.a.	15.9	n.a.	16.2	n.a.
Accounts assessed interest	n.a.	n.a.	n.a.	15.7	n.a.	15.3	n.a.
At auto finance cos.[3]							
New cars	9.9	9.5	9.8	10.5	11.4	11.9	12.0
Used cars	13.8	12.8	13.5	14.2	14.6	15.1	15.1

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

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

2. The rate for *all accounts* is the stated APR averaged across all credit card accounts at all reporting banks. The rate for *accounts assessed interest* is the annualized ratio of total finance charges at all reporting banks to the total average daily balances against which the finance charges were assessed (excludes accounts for which no finance charges were assessed).

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

n.a. Not available.

of the Northeast. Although the delinquency indicators remained well below the average levels for 1994, Freddie increased its loss provision in response to the weaker results.

Consumer Credit

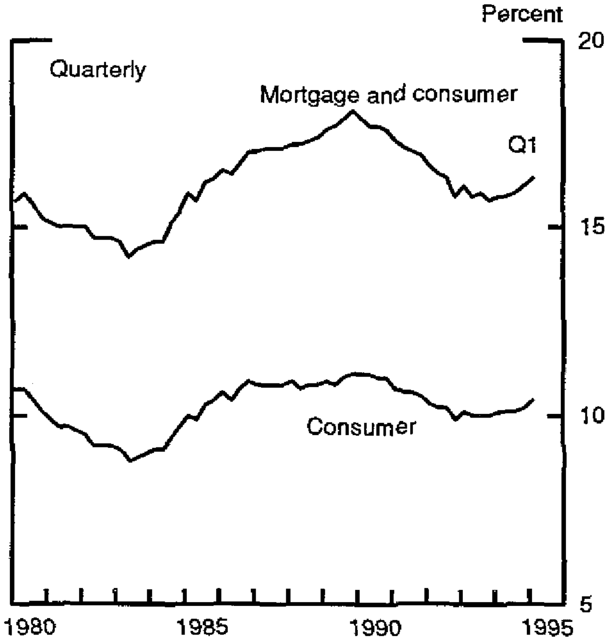
Growth in consumer installment credit moderated only a little further during the first quarter. A strong rebound in March nearly offset the slower pace over the first two months of the quarter, leaving growth for the quarter as a whole at an annual rate of 13-1/2 percent. The revolving credit component continued its strong advance of the past several quarters, averaging a 22 percent rate of growth. As a result of the slower pace of new-car sales, growth in automobile credit tapered off to a 7-1/4 percent rate last quarter from a 12 percent gain in the fourth quarter; relatively strong used-car sales probably kept auto credit from slowing more than it did. The "other" category--mainly personal cash loans, non-auto sales finance contracts, and home improvement loans--decelerated to a 10 percent rate of increase for the first quarter as a whole.

So far, only limited evidence has accumulated to suggest that the substantial rise in consumer installment debt since mid-1993 has significantly increased the financial strains on households. Despite the rapid expansion of such debt, declines last year in the average interest rate paid on the outstanding stock of debt tended to offset increasing principal payments.[4] On balance, the staff's estimates of scheduled mortgage and consumer debt service

4. Consumer interest rates were generally rising last year, but because of the low levels from which the rise began, new loans were still coming on stream at rates lower than the average on existing loans. In the auto loan area, however, rates on new loans about equaled the average rate on the stock of auto debt by the first quarter of 1995, so that the downward push of lower interest costs on scheduled payments had effectively ended.

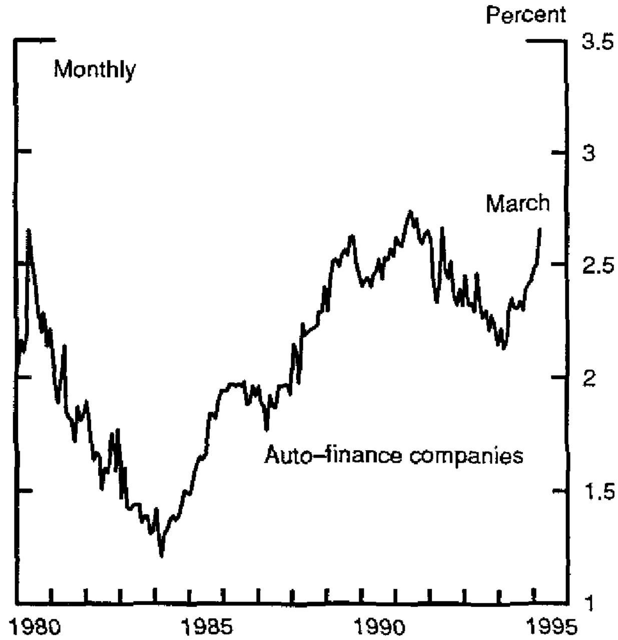
Household Borrowing

Debt Payment Burden

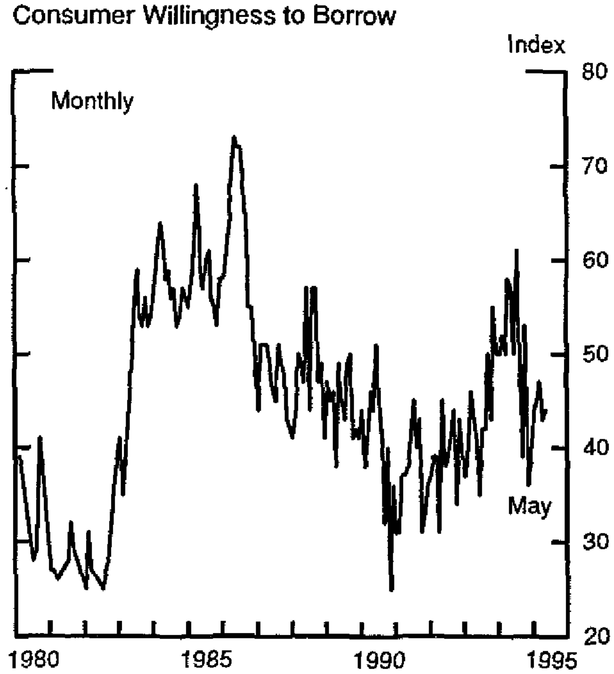


Note. Scheduled payments of principal and interest divided by disposable personal income.

Auto Loan Delinquency Rate

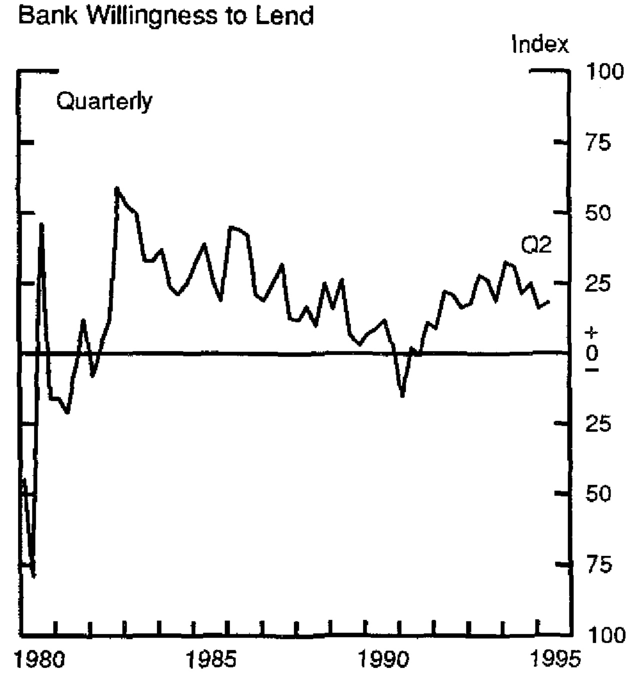


Consumer Willingness to Borrow



Note. Percent of respondents saying "o.k. to use credit," minus percent saying "not o.k.," plus 100.

Bank Willingness to Lend



Note. Weighted responses of banks more willing to make consumer loans minus responses of banks less willing.

payments relative to income has edged up over the past two quarters but is well below the 1989 highs (chart).[5]

Little information on loan payment performance is yet available for the first quarter. Most consumer loan delinquency rates at the end of last year stood near their lowest levels in two decades. However, one series for which first-quarter data are available--delinquency rates on auto loans at the captive auto finance companies--rose fairly sharply (chart). This series, which had turned higher in the first quarter of last year, may be providing an early warning signal of increased financial strains on some households. Its performance may also be reflecting a somewhat riskier loan mix brought about by the shift toward leasing in new-car financing, which has left the captives holding a greater share of higher-risk used-car contracts.

Consumer willingness to use credit for major purchases, as measured in the University of Michigan's monthly survey of consumer sentiment, has changed little over the last few months but does indicate a more cautious attitude than was apparent last spring and summer (chart). As discussed above, bank loan officers also have noticed some slackening lately in consumer loan demand.

State and Local Finance

A five-month municipal bond rally abruptly reversed course in the last week of April as underwriters had difficulty placing new supply. Although tax-exempt rates have fallen, on balance, since the last FOMC meeting, the ratio of long-term tax-exempt yields to taxable yields jumped to 88 percent in early May, reportedly because of increased investor concerns about tax reform. However, the

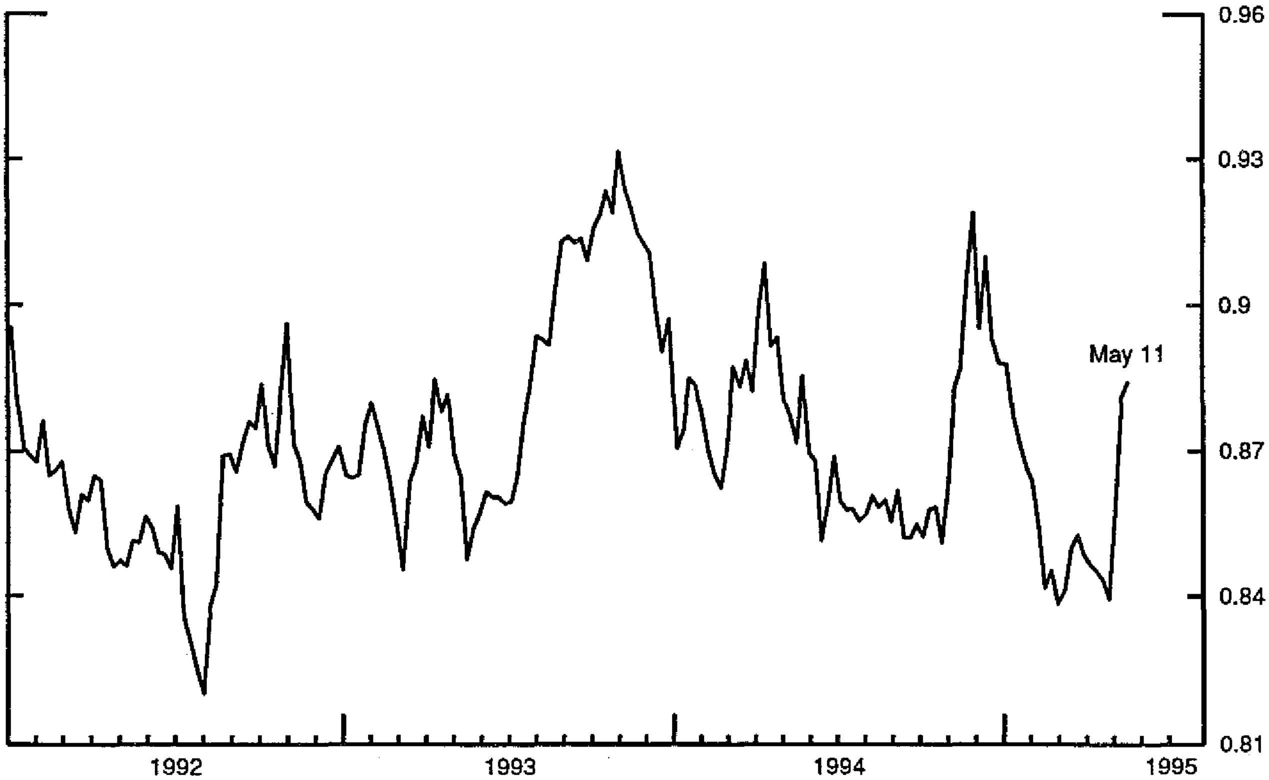
5. Adding estimates of auto lease payments to the measures of debt service burden would raise these measures about 1/2 percentage point recently compared with about 1/4 percentage point in 1990. Thus, the inclusion of leases would not significantly alter the picture of household debt service burdens.

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

	1993	1994	1994 Q4	1995 Q1	1995 Feb.	1995 Mar.	1995 Apr.
Total tax-exempt	27.2	16.4	14.3	10.7	8.7	14.6	9.5
Long-term	23.3	12.8	10.8	9.0	7.4	11.8	8.5
Refundings[2]	15.7	3.9	1.7	1.7	1.7	1.3	2.0
New capital	7.6	8.9	9.1	7.3	5.7	10.5	6.5
Short-term	3.9	3.6	3.5	1.7	1.3	2.8	1.0
Total taxable	.7	.7	1.1	.4	.5	.5	.7

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

Ratio of Yield on Long-Term Municipal Bonds to Yield on Long-Term Treasuries
(Weekly data)



Note. Ratio of Bond Buyer municipal thirty-year revenue bond yield to thirty-year Treasury bond yield.

increase in the ratio of tax-exempt to taxable yields occurred at shorter maturities as well, even though it is extremely unlikely that a flat tax or consumption tax would be implemented before 1997.

Gross issuance of long-term tax-exempt debt during March and April increased somewhat from the anemic rates in January and February. Nonetheless, so far this year, gross issuance has been 40 percent below its pace during the same period last year. Refunding activity has remained light, and new capital issuance has been slightly below the year-ago rates. Retirements continue to outpace gross issuance, and we estimate that the level of long-term municipal debt outstanding fell $20 billion over the first four months of the year.

The negative net issuance owes to the retirements of bonds issued during the municipal market boom in the mid-1980s. Over the past three years, state and local governments locked in favorable interest rates by advance refunding a substantial amount of the debt issued during those earlier years. They are committed to calling and retiring the defeased debt on its first call date. Such retirements will amount to an estimated $64 billion this year alone, which suggests that net issuance will continue to be negative through the remainder of the year.

Overall, state and local financial conditions, as measured by ratings changes, have been relatively stable. On balance, Standard and Poor's downgraded somewhat more municipal debt in the first quarter than it upgraded, but Washington, D.C., alone accounted for much of the dollar volume of downgrades.[6]

Nevertheless, a few other notable trouble spots remain evident. For example, the rebounding California economy has been set back by

6. Even with the new oversight board, which may be in place by the end of June, the District is not expected to balance its budget for at least a couple of years.

the financial crisis in Mexico, a major export market for the state. Governor Wilson has proposed a 15 percent across-the-board cut in state personal and corporate income taxes, and his budget continues to rely on unrealistic expectations of large federal subsidies for services provided to illegal aliens. California's controller characterizes the proposed budget as creating enormous fiscal risk, and it faces an uncertain fate in the California legislature.

It is becoming increasingly likely that Orange County will default on its more than $1 billion in short-term obligations due this summer. Orange County and its noteholders continue to press ahead with their negotiations to roll over payments due this summer. As a result of this likely default, investors have been less receptive to note issuance by municipalities throughout California. Such note issuance during the first four months of 1995 was $222 million, down from $3.5 billion during the same period in 1994. Moreover, California note issuers are paying for credit enhancement on a much higher proportion of notes issued in 1995.

The U.S. bankruptcy court approved Orange County's settlement with the participants of its ill-fated investment pool.[7] Pool participants will receive 77 cents on the dollar in cash, with the remainder of their investment covered by notes and IOUs. All participants have accepted this settlement and, thus, have given up the right to sue Orange County. The county plans to issue $1 billion in new debt in order to extricate itself from bankruptcy. The California Senate has approved a number of measures that, if also approved in the House, would increase the likelihood of such debt being successfully issued. These measures would, for example,

7. Former Treasurer Robert Citron has pleaded guilty to six felony counts for his role in the financial debacle. Orange County is suing Merrill Lynch for $2.4 billion for selling illegal and unsuitable securities to the Orange County investment pool.

make it easier for Orange County to sell off assets and would permit motor vehicle registration fees to collateralize new debt.

New York City also continues to face major financial hurdles. Mayor Giuliani has proposed the sharpest budget cutbacks in the city's budget since World War II, yet his latest proposed budget still depends on nearly $1 billion in uncertain state aid. New York City is now behind in meeting its pension obligations, and another payment to its pension fund is due later this month. S&P continues to carry New York City's $23 billion in outstanding general obligation bonds, currently rated A-, on CreditWatch with negative implications.

Federal Finance

The inflow of federal tax receipts is projected to result in a budget surplus of $24.4 billion in the second quarter. The staff anticipates that this surplus will be used to replenish the Treasury cash balance, with basically no net marketable borrowing, as the Treasury is expected to pay off nearly $35 billion in bills while raising a similar amount with coupon issues. To meet this latter need, Treasury auction sizes are being raised at all maturities. In May, the Treasury increased the one-, two-, and five-year offerings $500 million each. The auction sizes of three- and six-month Treasury bills have also been increased, from $23.2 billion in April to $25.6 billion in May. Similarly, in the mid-quarter refunding, the Treasury also announced increases of $500 million in the size of the auctions of three-year and ten-year notes. At the press conference to announce the mid-quarter refunding auctions, Treasury said it was studying the possibility of issuing floating-rate and index-linked securities.

Borrowing by government-sponsored agencies, especially the housing-related agencies, slowed in the first quarter. Agencies

TREASURY FINANCING
(Billions of dollars; total for period)

Item	1995 Q1	1995 Q2[p]	1995 Apr.[e]	1995 May[p]	1995 June[p]
Total surplus/deficit (-)	-71.3	24.4	48.3	-42.5	18.7
Means of financing deficit					
Net cash borrowing and repayments (-)	66.0	-1.7	-28.6	38.9	-12.1
Nonmarketable	-8.5	.4	-.3	1.7	-1.0
Marketable	74.4	-2.1	-28.3	37.3	-11.1
Bills	22.6	-34.7	-21.3	11.0	-24.4
Coupons	51.8	32.6	-7.0	26.3	13.3
Decrease in cash balance	8.5	-16.1	-20.0	18.8	-14.9
Other[1]	-3.1	-6.6	.3	-15.2	8.3
Memo:					
Cash balance, end of period	18.1	34.2	38.1	19.2	34.2

Note. Data reported on a payment basis. Details may not sum to totals because of rounding.
p Projected.
e Estimate.
1. Accrued items, checks issued less checks paid, and other transactions.

NET CASH BORROWING OF GOVERNMENT-SPONSORED ENTERPRISES
(Billions of dollars)

Agency	1994 Q4	1995 Q1	1995 Jan.	1995 Feb.	1995 Mar.
FHLBs	34.5	4.5	2.0	-2.1	4.5
FHLMC	9.3	8.4	1.8	6.4	.3
FNMA	17.9	1.4	-6.8	5.3	2.9
Farm Credit Banks	-1.2	.8	2.4	-1.7	.1
SLMA	.6	1.2	n.a.	n.a.	n.a.

Note. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
n.a. Not available.

continue to issue mostly callable paper as a way of hedging the prepayment risk embedded in their assets. Yield spreads tightened slightly, to less than 20 basis points on new debt issues. In secondary markets, however, yield spreads on callable debt continued to widen because of the increasing likelihood that they will be called in light of the decline in longer-term yields.

INTERNATIONAL DEVELOPMENTS

U.S. International Trade in Goods and Services

In February, the U.S. trade deficit in goods and services was substantially smaller than in January. Exports, which had dropped sharply in January, rose in February to just under their record year-end level. Imports, which had jumped up in January, eased in February. Nonetheless, for January-February combined, the deficit at an annual rate was larger than in the fourth quarter. Data for March will be released May 18 and included in the Greenbook supplement.

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

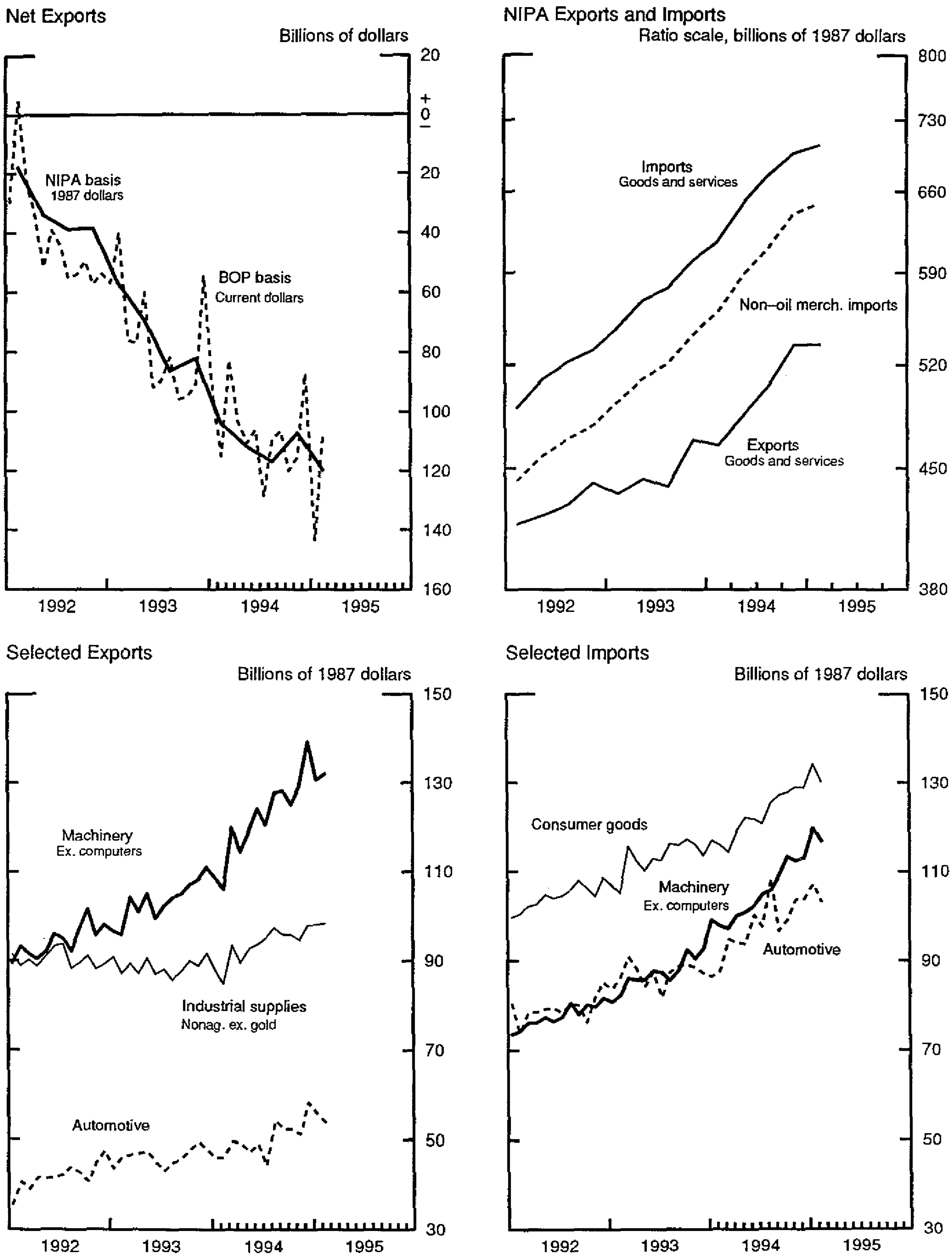
	Year	Quarters			Months		
	1994	94Q3	94Q4	95Q1e	Dec	Jan	Feb
		(annual rates)			(monthly rates)		
Real NIPA 1/ Net Exports of G&S	-110.0	-117.0	-107.1	-119.7	--	--	--
Nominal BOP Net Exports of G&S	-106.6	-114.9	-107.5	-125.8	-7.3	-12.0	-9.0
Goods, net	-166.6	-178.5	-172.7	-186.3	-12.9	-16.9	-14.2
Services, net	60.0	63.5	65.2	60.5	5.6	4.9	5.2

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

The level of exports of goods and services for January-February combined was about the same at an annual rate as in the fourth quarter. A decline in exports of automotive products to Mexico, aircraft, and consumer goods was largely offset by increased deliveries of automotive vehicles to Canada and shipments of industrial supplies. The change in exports in January-February combined was largely in quantity; the exceptions were exported industrial supplies and agricultural products, where virtually all of the rise was in price. By area, higher exports to Japan and Asia were offset by lower exports to Western Europe and Latin America.

U.S. International Trade in Goods and Services

(Seasonally adjusted annual rate)



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

	Levels				Amount Change 1/			
	Quarters		Months		Quarters		Months	
	94Q4	95Q1e/	Jan	Feb	94Q4	95Q1	Jan	Feb
Exports of G&S	741.6	740.3	731.6	749.0	32.4	-1.3	-31.8	17.4
Goods Exports	538.4	538.8	531.6	546.0	27.8	0.4	-26.3	14.4
Agricultural	54.1	55.2	53.5	56.9	7.4	1.1	-3.2	3.4
Gold	3.4	3.4	3.2	3.6	-1.2	-0.1	-0.6	0.4
Computers	36.0	35.9	35.4	36.3	2.2	-0.2	-1.2	1.0
Other Goods	444.8	444.3	439.5	449.1	19.5	-0.5	-21.2	9.6
Aircraft & Pts	29.5	22.4	17.7	27.2	1.0	-7.1	-13.4	9.5
Semiconductors	28.2	28.2	27.4	29.0	2.9	0.0	-2.8	1.7
Other Cap Gds	121.8	121.8	122.6	121.1	2.4	0.1	-6.6	-1.5
Automotive	61.8	63.2	64.3	62.1	4.2	1.4	-2.7	-2.1
to Canada	34.6	37.8	39.9	35.8	3.6	3.2	3.0	-4.1
to Mexico	8.5	6.1	6.4	5.8	0.9	-2.4	-1.7	-0.6
to ROW	18.7	19.2	17.9	20.5	-0.3	0.5	-3.9	2.6
Ind Supplies	116.6	124.7	123.3	126.0	5.1	8.1	3.1	2.7
Consumer Goods	64.8	61.4	59.9	63.0	3.4	-3.4	-3.8	3.1
All Other	22.1	22.6	24.5	20.7	0.6	0.4	8.5	-3.7
Services Exports	203.2	201.5	200.0	203.0	4.5	-1.7	-5.5	3.0
Imports of G&S	849.1	866.1	875.0	857.1	25.0	16.9	24.5	-17.9
Goods Imports	711.1	725.1	733.8	716.3	22.1	14.0	21.2	-17.5
Petroleum	51.2	50.5	49.5	51.5	-9.5	-0.6	0.3	2.1
Gold	2.7	1.7	1.8	1.7	-0.2	-0.9	-0.4	-0.0
Computers	51.3	50.4	51.5	49.3	4.1	-0.9	0.9	-2.3
Other Goods	606.0	622.4	631.0	613.8	27.7	16.4	20.3	-17.3
Aircraft & Pts	11.9	9.6	9.4	9.8	2.1	-2.3	-3.5	0.4
Semiconductors	30.7	32.4	33.5	31.3	3.7	1.7	3.1	-2.3
Other Cap Gds	107.4	112.0	112.2	111.7	3.7	4.5	4.7	-0.5
Automotive	126.8	130.7	132.8	128.5	3.5	3.9	4.1	-4.3
from Canada	47.7	49.7	51.0	48.5	3.3	2.0	2.0	-2.5
from Mexico	17.1	17.0	16.9	17.1	3.2	-0.2	0.3	0.2
from ROW	62.0	64.0	65.0	63.0	-3.1	2.0	1.8	-2.0
Ind Supplies	117.1	121.0	123.3	118.7	6.4	3.9	4.4	-4.6
Consumer Goods	154.4	159.2	161.3	157.0	5.8	4.8	6.6	-4.2
Foods	31.9	34.0	34.2	33.7	-0.3	2.1	2.4	-0.5
All Other	25.9	23.7	24.3	23.1	2.7	-2.2	-1.3	-1.2
Services Imports	138.0	141.0	141.2	140.8	2.9	3.0	3.3	-0.4
Memo:								
Oil Qty (mb/d)	9.08	8.69	8.61	8.78	-1.15	-0.39	-0.25	0.16

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

Imports of goods and services in January-February were 2 percent higher at an annual rate than in the fourth quarter. However, this was a somewhat slower rate of increase than in the past several quarters. This moderate growth is consistent with the easing of U.S. economic activity experienced during the first quarter. Increases in imports were recorded in all major trade categories except oil and computers. By area, imports from Canada and Western Europe registered the sharpest rise during the first quarter.

The total quantity of oil imported in January-February was less (at an annual rate) than in the fourth quarter. While preliminary Department of Energy statistics indicate that imports rose in March with the onset of seasonal inventory accumulation, the quantity of imports for the full quarter is expected to be somewhat less than in the fourth quarter. In April, the quantity of oil imports is estimated to have remained near the first quarter average.

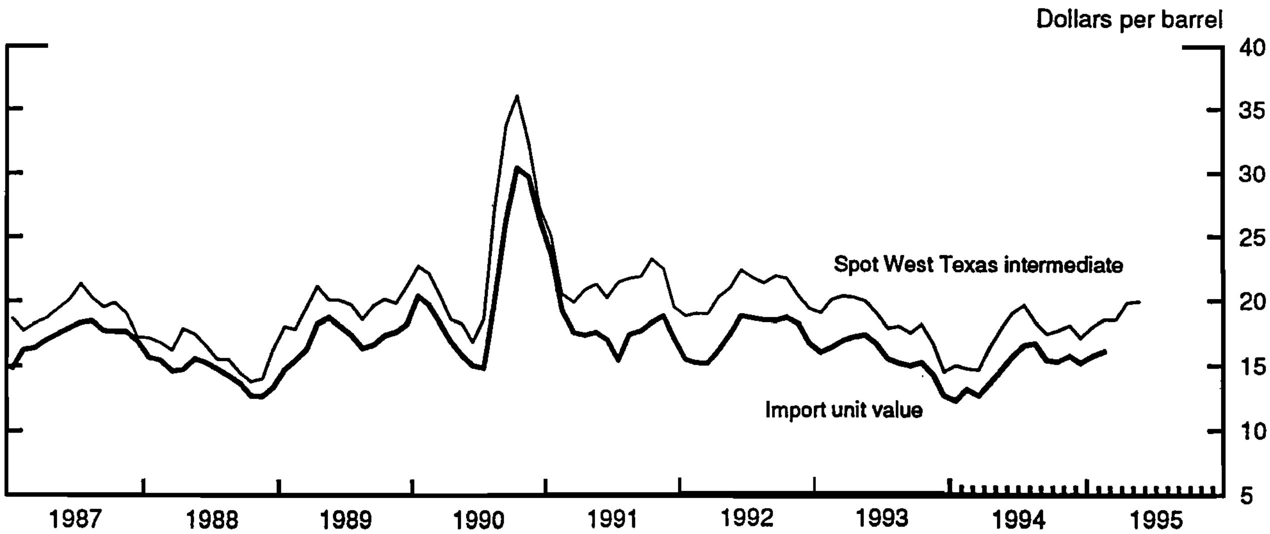
The price of imported oil rose during the first quarter, averaging about $16.00 per barrel, $0.60 per barrel higher than the fourth quarter of last year. In early 1995, the market for lighter-end products remained tight (given strong Asian demand and relatively lean U.S. inventories). In addition, towards the end of March and throughout April, spot oil prices (West Texas Intermediate) picked-up on increased tension between the United States and both Iran and Iraq, a relatively tight gasoline market in the United States, and seasonally lower production in the North Sea. Currently, spot WTI is trading at $19.93 per barrel, compared with a first-quarter average of $18.35 per barrel.

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

	Quarters			Months		
	94Q3	94Q4	95Q1	Jan	Feb	Mar
	(annual rates)			(monthly rates)		
	BLS Prices					
Merchandise Imports	7.7	3.8	4.4	0.3	0.7	0.6
Oil	36.1	-10.9	15.4	0.9	3.1	2.1
Non-Oil	5.3	5.5	3.1	0.2	0.5	0.4
Foods, Feeds, Bev.	38.4	7.9	-0.4	0.7	-2.0	2.7
Ind Supp Ex Oil	8.5	15.2	14.8	1.3	1.2	0.7
Computers	-8.7	-6.2	-4.2	-0.1	-0.3	-1.4
Capital Goods Ex Comp	4.3	2.6	0.5	-0.3	0.5	0.3
Automotive Products	2.4	6.2	0.6	-0.1	0.4	0.1
Consumer Goods	1.0	1.6	1.1	-0.1	0.5	0.0
Memo:						
Oil Imports ($/bbl)	16.22	15.42	15.91	15.73	16.08	--
Merchandise Exports	2.1	5.9	8.6	0.9	0.6	0.6
Agricultural	-14.4	7.0	12.7	-0.1	0.5	2.0
Nonagricultural	4.5	5.9	8.2	0.9	0.7	0.3
Ind Supp Ex Ag	17.1	18.8	23.4	2.4	1.5	0.8
Computers	-11.3	-6.3	-6.3	-0.7	-0.7	-0.7
Capital Goods Ex Comp	0.4	0.0	2.7	0.5	0.3	0.2
Automotive Products	1.0	2.3	0.9	0.1	0.3	-0.4
Consumer Goods	-0.6	1.2	1.7	0.2	0.3	0.3
	Prices in the NIPA Accounts					
Fixed-Weight						
Imports of Gds & Serv.	9.1	3.2	4.2	--	--	--
Non-oil Merch Ex Comp	6.2	5.4	3.5	--	--	--
Exports of Gds & Serv.	2.9	6.9	9.7	--	--	--
Nonag Merch Ex Comp	6.1	7.1	9.5	--	--	--

5/17/95

Oil Prices



Prices of Merchandise Non-oil Imports and Exports

The price of U.S. non-oil imports rose 0.4 percent in March, a bit less than in February. For the first quarter, the price rose at a somewhat slower rate than in the previous two quarters. Most of the increase in the first quarter was in prices of imported industrial supplies, which were 11 percent higher than a year earlier. The price of imported food rebounded strongly in March from the previous month's decline, but was unchanged for the first quarter as a whole, after having risen 15 percent over the previous four quarters. Prices of capital goods and automotive imports also decelerated significantly in the first quarter.

Export prices rose strongly in the first quarter -- the largest quarterly increase since 1990. This rise largely reflected increasing prices of industrial supplies and agricultural products. Export prices in March, having increased for the sixth consecutive month, increased largely on higher agricultural export prices.

Data for April will be released on May 26.

U.S. International Financial Transactions

Foreign official assets in the United States increased sharply in March as foreign governments (particularly Japan) intervened in foreign exchange markets to counter the slide in the foreign exchange value of the dollar. For the first quarter as a whole, foreign official assets in the United States rose by $21.6 billion (line 1 of the Summary of U.S. International Transactions table). Intervention continued on a substantial scale in the first half of April and partial data from the FRBNY indicate large increases in foreign official assets in the United States in that month as well. In general, official holdings in the United States of developing countries in Asia increased in the first quarter while the experience of Latin American countries was mixed. Particularly large declines were shown by Argentina.

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

	Year		Quarter				Month		
			1994			1995	1995		
	1993	1994	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar
Official capital									
1. Change in foreign official reserve assets in U.S. (increase, +)	**70.4**	**37.2**	**9.0**	**19.2**	**-1.1**	**21.6**	**-3.5**	**10.0**	**15.1**
a. G-10 countries	30.1	28.9	15.8	8.9	-6.1	16.9	2.6	-1.5	15.8
b. OPEC countries	-5.1	-3.3	-4.7	3.3	.4	.3	.1	.1	.2
c. All other countries	45.5	11.7	-2.0	7.0	4.6	4.3	-6.2	11.4	.8
2. Change in U.S. official reserve assets (decrease, +)	**-1.4**	**5.3**	**.1**	**3.5**	**.2**	**-5.3**	**-1.0**	**-3.5**	**.7**
Private capital									
Banks									
3. Change in net foreign positions of banking offices in the U.S.[1]	**13.7**	**110.4**	**35.7**	**9.8**	**24.8**	**-17.9**	**-3.6**	**4.3**	**-18.6**
Securities[2]									
4. Foreign net purchases of U.S. securities (+)	**105.7**	**94.4**	**5.8**	**20.6**	**36.6**	**45.7**	**13.5**	**19.9**	**12.4**
a. Treasury securities[3]	24.7	34.5	-7.1	5.6	26.1	29.9	7.9	14.3	7.7
b. Corporate and other bonds[4]	61.3	55.5	14.8	14.0	12.9	19.5	6.4	5.8	7.3
c. Corporate stocks	19.6	4.4	-1.9	1.0	-2.4	-3.7	.8	.2	-2.6
5. U.S. net purchases (-) of foreign securities	**-133.4**	**-52.7**	**-10.8**	**-10.2**	**-15.2**	**-7.2**	**1.0**	**-4.0**	**-4.2**
a. Bonds	-70.1	-5.9	1.7	-3.3	-6.1	-2.7	1.2	-2.5	-1.5
b. Stocks	-63.3	-46.8	-12.5	-6.8	-9.2	-4.5	.2	-1.5	-2.7
Other flows (quarterly data, s.a.)									
6. U.S. direct investment (-) abroad	-57.9	-58.4	-8.2	-11.2	-14.0	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment in U.S.	21.4	60.1	5.4	14.7	27.9	n.a.	n.a.	n.a.	n.a.
8. Other (inflow, +)[5]	64.3	-7.3	5.2	8.0	-13.0	n.a.	n.a.	n.a.	n.a.
U.S. current account balance (s.a.)	-103.9	-155.7	-37.8	-40.8	-44.8	n.a.	n.a.	n.a.	n.a.
Statistical discrepancy (s.a.)	21.1	-33.3	-4.2	-13.6	-1.0	n.a.	n.a.	n.a.	n.a.

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

1. 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.

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

3. Includes Treasury bills.

4. Includes U.S. goverment agency bonds.

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

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

Private foreigners made very large net purchases of U.S. bonds in the first quarter (lines 4a and 4b), but sold U.S. stocks net (line 4c). Purchases of U.S. Treasury securities were particularly strong, approaching almost as much in the first quarter of 1995 as in the entire year 1994. Net purchases of U.S. corporate and U.S. government agency bonds were also strong, as U.S. corporations borrowed heavily in the Eurobond market. In recent months, new issues of Eurobonds by U.S. corporations have returned to a more moderate, but still strong, pace.

U.S. net purchases of foreign securities (line 5) were modest in the first quarter, far below the pace of recent years. Purchases of equities from developing countries were negligible. Net bond purchases were also low. However, foreign issues in the U.S. bond market picked up in April.

There was a large net capital outflow recorded by banks and certain brokers and dealers in March (line 3), bringing the net recorded outflow to almost $18 billion for the first quarter. About one-fourth of the total outflow for the quarter was accounted for by RP transactions of brokers and dealers. Both domestic and foreign chartered banks contributed to the rest of the outflow. As indicated on line 1 of the International Banking Data table, outflows from banks to their foreign offices and IBFs also showed up on a monthly average basis in March and April. These outflows apparently reflected a shift in funding sources for banks. Rates of return on domestic bank deposits have been rising relative to alternative investments attracting larger inflows into core deposits; banks have also increased their reliance on managed liabilities other than net borrowing from their own foreign offices.

Net shipments of U.S. currency to foreigners were very large in the first quarter of 1995, reaching $8.5 billion. Shipments to

INTERNATIONAL BANKING DATA 1/
(Billions of dollars)

	1991	1992	1993	1994		1995		
	Dec.	Dec.	Dec.	June	Dec.	Feb.	Mar.	Apr.
1. Net claims of U.S. banking offices (excluding IBFs) on own foreign offices and IBFS	-35.8	-71.6	-122.1	-175.4	-224.0	-249.2	-242.7	-239.1
a. U.S.-chartered banks	12.4	17.0	4.2	-29.9	-70.1	-89.7	-88.6	-85.5
b. Foreign-chartered banks	-48.3	-88.6	-126.3	-145.6	-153.9	-159.4	-154.1	-153.6
2. Credit extended to U.S. nonbank residents								
a. By foreign branches of U.S. banks	23.9	24.8	21.8	22.2	23.1	23.7	23.5	24.3
b. By Caribbean offices of foreign-chartered banks	n.a.	n.a.	90.9	83.9	78.5	n.a.	n.a.	n.a.
3. Eurodollar holdings of U.S. nonbank residents								
a. At all U.S. chartered banks and foreign-chartered banks in Canada and the United Kingdom	102.9	90.0	77.8	73.6	86.0	89.7	90.5	91.0
b. At the Caribbean offices of foreign-chartered banks	n.a.	n.a.	79.2	85.7	85.9	n.a.	n.a.	n.a.
MEMO: Data as recorded in the U.S. international transactions accounts								
4. Credit extended to U.S. nonbank residents	178	191	202	211	221	n.a.	n.a.	n.a.
5. Eurodeposits of U.S. nonbank residents	241	239	237	240	247	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

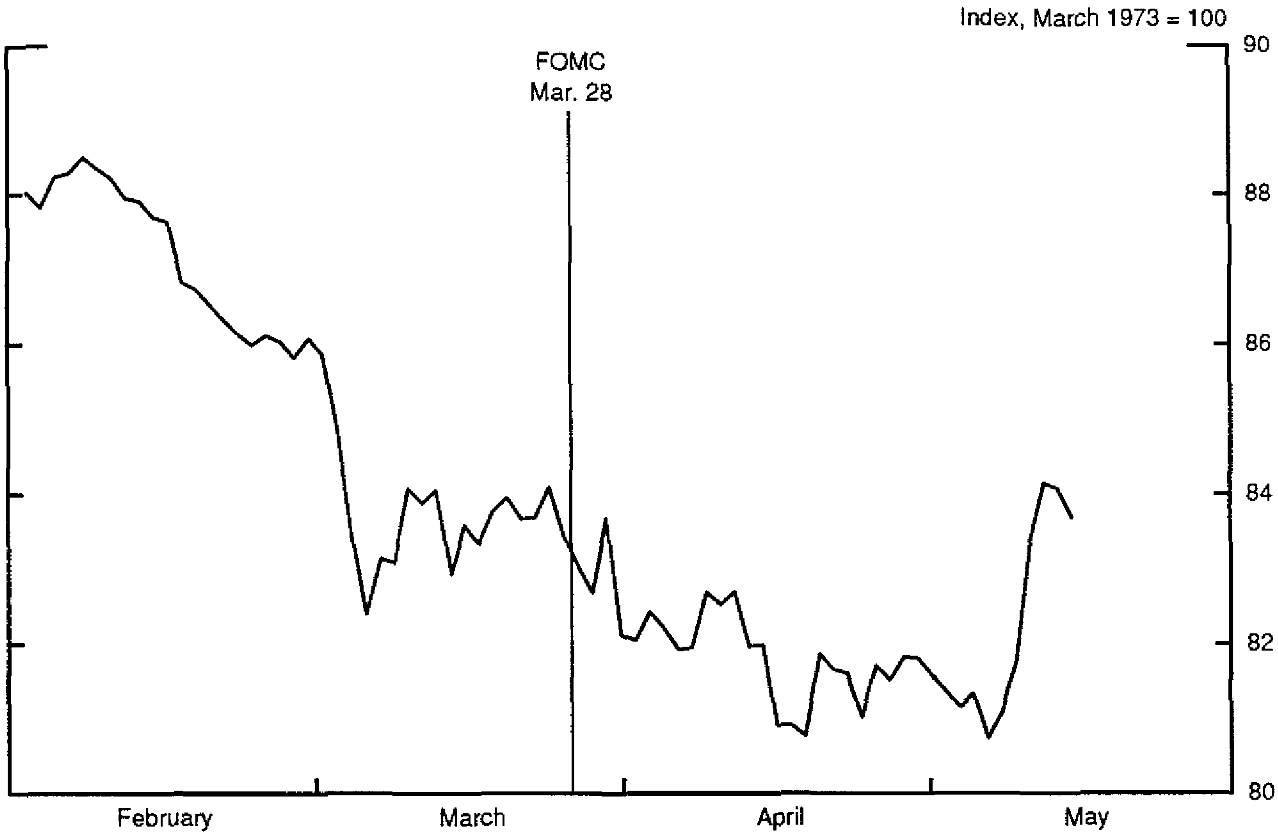
Russia remained strong, while shipments to Argentina picked up sharply.

Foreign Exchange Markets

The weighted-average dollar has risen 1 percent, on net, since the March 28 FOMC meeting. The dollar has risen 3 percent against the German mark, but has declined by similar amounts against the Japanese yen and the Canadian dollar. All of the dollar's gains against the mark occurred in the past week. The reasons for the dollar's recent rally were unclear. Market participants may have come to believe that the dollar's decline earlier this year was overdone, especially in light of signs that the weak dollar is having a negative effect on foreign economies and is prompting easier monetary policy abroad. With the Mexican crisis having been cited as a negative for the dollar earlier this year, the dollar may have benefitted recently from the improvement in Mexican economic conditions over the past two months. In addition, last week's Congressional proposals to balance the U.S. government budget over the next seven years may have supported the dollar over the past week.

During the first three weeks of the intermeeting period, the dollar continued to decline sharply against the yen, reaching a record intra-day low just under 80 yen per dollar on April 19, amid indications that the United States and Japan would not be able to reach agreement on trade issues. Without a negotiated agreement to open Japanese markets, market participants apparently believed that the dollar would have to fall to bring about adjustment in the trade balance. The strengthening of the yen occurred despite two moves by the Bank of Japan to ease monetary policy. First, on March 31, the Bank reduced its target for the overnight call money rate by more than 30 basis points to the 1-3/4 percent level of the official discount rate. Then, on April 14, the official discount rate was

Weighted Average Exchange Value of the Dollar
(Daily data)



Interest Rates in Major Industrial Countries

	Three-month rates			Ten-year bond yields		
	Mar. 28	May 16	Change	Mar. 28	May 16	Change
Germany	4.95	4.50	-0.45	7.15	6.84	-0.31
Japan	1.95	1.35	-0.60	3.82	3.44	-0.38
United Kingdom	6.66	6.63	-0.03	8.46	8.09	-0.37
Canada	8.30	7.45	-0.85	8.51	8.01	-0.50
France	7.95	6.96	-0.99	7.91	7.41	-0.50
Italy	11.06	10.00	-1.06	13.35	11.94	-1.41
Belgium	6.08	5.12	-0.96	8.09	7.62	-0.47
Netherlands	5.00	4.45	-0.55	7.31	6.94	-0.37
Switzerland	3.50	3.44	-0.06	5.02	4.79	-0.23
Sweden	9.04	8.85	-0.19	11.32	10.51	-0.81
Weighted-average foreign	5.56	4.89	-0.67	7.41	6.94	-0.47
United States	6.12	6.02	-0.10	7.16	6.57	-0.59

Note. Change is in percentage points.

cut to 1 percent and the call money rate was allowed to decline to nearly 1-1/4 percent. Also largely ineffective were the Bank of Japan's frequent dollar purchases during the intermeeting period

and U.S. intervention purchases against mark and yen totalling $2.6 billion on April 3 and 5.

The Bundesbank's surprise easing of key interest rates on March 30 appeared to have more effect on the foreign exchange markets. The Bundesbank reduced its discount rate 50 basis points to 4 percent and reduced the rate on 14-day repurchase agreements 35 basis points to 4-1/2 percent, indicating that the move was prompted in part by the effect of the strong mark on the domestic economy. The dollar recovered some ground against the mark that day and remained relatively steady against the mark from then until the recent dollar rally.

Within Europe, the mark declined against other currencies following the Bundesbank's actions but then rose ahead of the second stage of the French presidential election. Following that election, the French franc recovered to be about unchanged on net against the mark since the last FOMC meeting. The Italian lira has gained more than 5 percent on balance against the mark. Most of that gain came in May after an agreement between the government and unions over reforming the pension system. Italian ten-year bond yields have declined nearly 1-1/2 percentage points since the last FOMC meeting, much more than yields in any other major country. Italian short-term interest rates have also eased more than 1 percentage point. Short-term rates have declined nearly as much in Canada and France, two other countries where exchange rate pressures have eased over the intermeeting period. On net, weighted-average foreign three-month interest rates have declined nearly 70 basis points versus a 10 basis point decline in U.S. short-term rates. In contrast, U.S.

ten-year interest rates have declined somewhat more than the 50 basis point decline in weighted-average foreign ten-year interest rates.

The Mexican peso has appreciated nearly 15 percent against the dollar since the last FOMC meeting, as Mexican financial markets have stabilized. Mexican stock prices have risen nearly 13 percent and yields of Mexican Brady bonds (stripped of their collateral) have fallen 5-1/2 percentage points. There has also been a significant decline in the interest rates at which Mexican banks are able to borrow dollars. With banks able to borrow more cheaply elsewhere, outstanding dollar loans from the Bank of Mexico through its FOBAPROA window have declined from a peak of nearly $4 billion in early April to about $2.5 billion on May 16. With those repayments, and with a somewhat greater willingness of foreigners to receive tesobono payouts in pesos, the Bank of Mexico has been able to meet tesobono maturities of $4 billion since the end of March with only an $800 million decline in dollar reserves (net of official loans).

Developments in Foreign Industrial Countries

Indicators of economic activity for the major foreign industrial countries suggest that recovery continued in the first quarter of 1995, although the pace varied significantly across countries. In Japan, industrial production bounced back following the Kobe earthquake, and other indicators suggest tentative signs of renewed recovery. In Germany, available incoming data are quite limited, although capacity utilization continued to expand in the first quarter. Preliminary estimates of first-quarter GDP in the United Kingdom indicate that growth continued at about the same pace as in the fourth quarter of last year. Preliminary data are weak in France and Italy, and growth in Canada appears to have decelerated from the rapid pace of last year.

Consumer price inflation remains low in most foreign industrial countries, with the exception of Italy. Inflation has been held in check in part by moderate increases in labor costs, although recent wage settlements in Germany may put upward pressure on inflation later this year. There are also indications of emerging inflationary pressures in the United Kingdom and Canada.

Data through March give little information on the impact of recent exchange rate movements. In Japan, "J-curve" effects are likely to increase the nominal trade surplus in dollar terms in the short term, although provisions of the recent Japanese government fiscal package should offset some of the increase. In Germany, the rapid appreciation of the DM from February through April appears to have affected confidence about the durability of the recovery. However, since May 10, the dollar has rebounded sharply against the DM and the yen, which may mitigate some of these effects.

Former prime minister Jacques Chirac was elected president of France. Chirac promised to address the problem of high French unemployment. He is expected to introduce a supplemental budget reducing payroll taxes and increasing employment subsidies.

Individual country notes. In Japan, data for the first quarter of 1995 are mixed, but appear to point to a slow recovery of growth. Industrial production fell in January, reflecting the effects of the Kobe earthquake, but bounced back in February and March as companies made up the production losses. New car registrations grew strongly in the first quarter, but fell in April. Housing starts declined for the third straight quarter. The fall in January machinery orders, and its subsequent February rebound, may also reflect the negative effects of the earthquake. The recent stability in the unemployment rate and the job offers/applicants ratio suggests that the labor market may have hit bottom.

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

	1994		1995				
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Industrial Production	1.7	1.6	1.3	-1.4	1.9	2.4	n.a.
Housing Starts	-2.6	-0.1	-1.9	1.6	0.9	-7.8	n.a.
Machinery Orders	19.3	-1.7	n.a.	-6.5	9.3	n.a.	n.a.
New Car Registrations	6.0	-4.0	10.9	5.6	3.6	8.7	-19.0
Unemployment Rate (%)	3.0	2.9	3.0	2.9	2.9	3.0	n.a.
Job Offers Ratio *	0.63	0.64	0.66	0.66	0.66	0.66	n.a.
Business Sentiment**	-39	-29	-21	--	--	--	--

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

On May 10, the Japanese government approved a stimulus package amounting to 1/2 percent of GDP to finance reconstruction of areas hit by the Kobe earthquake and for programs to help companies cope with the strong yen. On May 16, the United States announced a 100 percent tariff on luxury cars imported from Japan worth almost $6 billion, after the breakdown of recent trade talks aimed at deregulating Japan's auto parts market and at opening up Japanese car dealerships to U.S. auto companies.

Information on recent economic developments in Germany is limited, as the statistical agencies are in the process of converting the separate western and eastern accounts to a pan-German basis. Preliminary all-German retail sales for January and February showed no change from the previous year and sales in March showed a sharp decline, consistent with the weakness in spending that had been expected as a result of the reimposition of the solidarity income tax surcharge. Very preliminary pan-German industrial production data (SA, based on new data collection methods) for January show a 6.9 percent decline from December, partly reflecting weather-related weakness in construction. However, capacity utilization in west German manufacturing rose in the first quarter, suggesting that production continued to expand.

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

	1994		1995				
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Capacity Utilization	82.9	84.2	85.2	--	--	--	--
Unemployment Rate (%)*	8.3	8.2	8.2	8.2	8.2	8.2	8.2
Production Plans**	8.7	15.3	16.3	20	15	14	n.a.
Addendum:							
Unemployment Rates (%)							
Eastern Germany***	14.5	13.3	14.5	14.7	14.7	14.2	13.9
All-Germany***	9.4	9.0	9.7	10.0	10.0	9.6	9.4

* Total labor force, including the self-employed.
** Percent of manufacturing firms planning to increase production in the next three months less those planning to decrease production.
*** NSA.

A substantial increase in orders for manufactured goods at the end of last year is likely to translate into further gains in production in the short run. However, the recent appreciation of the DM may have begun to affect the business outlook, as the net percentage of firms expecting to increase production in the next three months fell in both February and March along with a sharp drop in export expectations. Continued stagnation in the west German labor market, reflected in the persistence of the unemployment rate (SA) at 8.2 percent in April, also has been attributed in part to the strength of the DM, as firms reportedly are reluctant to hire new staff in the face of uncertainty about the durability of the recovery. The east German unemployment rate (NSA), which was 13.9 percent in April, has stabilized in the last few months following nearly a year of steady improvement.

The year-over-year CPI inflation rate for western Germany was 2.3 percent in April. Excluding effects of indirect tax increases, consumer price inflation has shown little change for the past six months, following a significant reduction over the preceding year. The outlook for further deceleration is uncertain. The DM appreciation has begun to have a beneficial effect on import and producer prices. However, wage settlements so far this year have been significantly higher than previously anticipated, while the DM recently has retraced much of its earlier appreciation.

Official interest rates were lowered on March 30 for the first time in nine months. The discount rate was reduced from 4.5 to 4.0 percent, and the repo rate was lowered from 4.85 to 4.5 percent. The Bundesbank also switched from fixed to variable-rate repurchase operations in April, although the repo rate since has shown little change.

In France, recent monthly indicators are weak. Industrial production fell in February, after rising slightly in January, largely reflecting movements in energy output. Manufacturing production rose in February, reversing about half of its January decline. A business survey by INSEE, the French Statistics institute, indicated that production changed little in the first quarter, and data on manufacturing capacity utilization in April showed little change from January. An April INSEE survey reported that French businesses intend to increase real investment by 11 percent this year, roughly the same as the intended increase reported in the January survey. Consumption was also weak, as consumption of manufactured products (equal to one-third of total consumption) fell almost one percent in the first quarter.

Consumer prices in April were 1.6 percent above their year-earlier level, a slightly smaller increase than in previous months. This good inflation performance in part reflects relatively constant wage inflation.

On May 7, former prime minister Jacques Chirac was elected president of France, defeating socialist candidate Lionel Jospin with 52.6 percent of the vote. The high rate of unemployment in France was the dominant campaign issue and Chirac has committed himself to new measures to reduce unemployment. The new government

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

	1994		1995				
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Industrial Production	2.0	-0.1	n.a.	0.5	-1.4	n.a.	n.a.
Unemployment Rate (%)	12.5	12.4	12.3	12.3	12.3	12.2	n.a.
Consumption of Manufactured Products	1.6	-0.2	-0.9	-2.0	1.0	-1.1	n.a.
Consumer Prices*	1.6	1.6	1.7	1.7	1.7	1.7	1.6

* NSA; percent change from previous year.

is expected to introduce a supplemental mid-year budget in July that will cut payroll taxes paid by employers sharply and increase employment subsidies. These measures probably will be financed by an increase in the VAT. On the issue of European integration, President Chirac is committed to achieving European Monetary Union by 1999, but has said he will call a referendum on reforms to the institutional structure of the European Union that are expected to result from the 1996 intergovernmental conference.

In the first quarter, real GDP in the United Kingdom rose a preliminary 3.1 percent (SAAR), the same as in the fourth quarter and much stronger than market expectations. (No information about components was released.) Economic activity increased in the service sector, while industrial production reportedly was flat. Good weather also boosted agriculture and construction. Retail sales were flat on average in the first quarter, but survey data show a surge in April sales and expectations of strong sales in May. In April, the unemployment rate fell further to 8.3 percent. Producer confidence improved considerably in the first quarter but fell somewhat in April. Consumer confidence in the three months to April was at its lowest level in over two years.

Despite some deceleration in earnings inflation, producer and retail price inflation has accelerated this year. However, expectations of price increases in the CBI survey were considerably smaller in April, after edging down in the previous two months from the peak in January.

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

	1994		1995				
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Industrial Production	1.3	0.5	0.1	-0.2	0.2	1.0	n.a.
Retail Sales	0.7	0.3	-0.1	-1.2	1.2	-0.1	n.a.
Unemployment Rate (%)	9.2	8.8	8.5	8.5	8.5	8.4	8.3
RPI Excluding Mortgage Interest Payments *	2.2	2.2	2.7	2.8	2.7	2.8	2.6
Producer Prices *	2.1	2.5	3.6	3.5	3.6	3.8	4.0

* NSA; percent change from preceding year.

In the Bank of England's quarterly *Inflation Report* released May 11, inflation is forecast to rise to the top of the 1 to 4 percent target range in 1996 and to fall to only 3 percent in 1997, primarily because of the pound's depreciation this year. Because the government is committed to reducing inflation to 2-1/2 percent or below by mid-1997, the *Report*'s release reinforced market speculation that Governor George had advised Chancellor Clarke to raise official rates at the monetary meeting on May 5. After their meeting, Clarke surprised the market by announcing that rates would not be raised this month.

In Italy, monthly indicators are mixed, but on balance suggest a resumption of GDP growth. ISTAT, the Italian statistics office, reported that after falling sharply in January, industrial production rebounded 0.5 percent in February to a level slightly below its fourth-quarter average. The unemployment rate rose sharply in the first quarter as employment declined in all sectors of the economy. An industry survey by Confindustria, an organization of Italian employers, indicated that industrial production rose 2 percent in April, after declining 0.4 percent in March.

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

	1993	1994	1994			
	Q4/Q4	Q4/Q4	Q1	Q2	Q3	Q4
GDP	-0.2	2.7	1.4	4.0	5.4	0.1
Private Consumption	-1.1	1.8	2.3	2.4	1.7	0.8
Investment	-10.7	2.4	2.1	3.8	-2.1	5.9
Government Consumption	0.0	0.5	-0.2	0.8	1.2	0.1
Exports	10.9	10.3	20.1	3.9	18.3	0.3
Imports	-5.5	14.7	20.6	9.9	18.6	10.3
Total Domestic Demand	-4.4	3.8	1.4	5.7	5.4	2.9
Net Exports (contribution)	4.3	-1.1	0.0	-1.6	-0.0	-2.8

Indicators of inflation have risen sharply in recent months. In April, consumer prices were 5.2 percent above their year-earlier level. Increases in the VAT and excise taxes on gasoline are expected to increase consumer prices by 0.7 percent this year. Wholesale and producer price inflation also increased sharply in both January and February. Signs of inflationary pressure were also evident in wages. In February, wages were 2.5 percent above their year-earlier level, a slightly smaller increase than in January but well above the increase of 1.9 percent registered in December.

On May 8, the Italian government and labor unions announced an agreement on pension reform. Under the reform, Italy will move gradually from a system where workers are entitled to a pensions equal to 70 percent of recent wages after 35 years of work

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

	1994			1995			
	Q3	Q4	Dec	Q1	Jan	Feb	Mar
Industrial Production	2.8	1.5	5.8	n.a.	-4.4	0.5	n.a.
Cap. Utilization (%)	75.8	77.6	--	78.2	--	--	--
Unemployment Rate (%)	11.0	11.9	--	12.2	--	--	--
Consumer Confidence*	117.1	112.7	113.2	112.2	115.0	115.2	106.4
Bus. Sentiment** (%)	19	20	27	30	30	31	28

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

regardless of age to one based on lifetime contributions with a retirement age beginning no earlier than 57. The employers organization refused to sign the agreement, arguing that the 12-year transition from the old to the new system is too long. The reform is expected to reduce the structural budget deficit by roughly 2/3 percentage points of GDP. Prime Minister Dini said he will resign after parliament passes the reform, which is expected by June 30. New national elections are expected in November.

Preliminary economic indicators in Canada for the first quarter suggest that growth has slowed from the very rapid pace of expansion seen last year. Industrial production declined in February and manufacturing shipments and new factory orders fell in both February and March, following four consecutive strong monthly increases. Retail sales fell in both January and February. A decline in the labor force participation rate was responsible for the drop in the unemployment rate in April, while overall employment has been essentially unchanged since last November. The index of business confidence registered its first decline in six quarters, and the index of consumer attitudes fell to its lowest level since the end of 1993. Consumer price inflation has picked up in recent

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

	1994		1995				
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Industrial Production	2.4	2.0	n.a.	0.7	-0.5	n.a.	n.a.
Manufacturing Survey:							
Shipments	4.7	5.1	3.9	3.2	-2.0	-0.6	n.a.
New Orders	6.0	4.1	3.5	1.7	-1.8	-0.9	n.a.
Retail Sales	0.8	2.1	n.a.	-0.1	-0.5	n.a.	n.a.
Employment	0.9	0.7	0.3	0.1	-0.1	0.1	0.0
Unemployment Rate (%)	10.2	9.7	9.7	9.7	9.6	9.7	9.4
Consumer Prices*	0.2	0.0	1.6	0.6	1.8	2.2	n.a.
Consumer Attitudes	4.2	-0.7	-11.5	--	--	--	--
Business Confidence**	3.9	2.4	-0.7	--	--	--	--

* Percent change from year earlier.
** NSA.

months, with 12-month inflation excluding the effects of last year's cigarette tax cuts rising from 1.6 percent in December to 2.2 percent in March, slightly above the midpoint of the Bank of Canada's target range.

On May 3, the Bank of Canada released the first issue of the new semi-annual *Monetary Policy Report*, which summarizes the Bank's inflation-control targets and the outlook for inflation. The *Report* concludes that although there is some risk that past depreciation of the Canadian dollar could push core inflation temporarily to the upper half of the 1 to 3 percent target band in 1995, the longer-term outlook is consistent with the Bank's objectives. On May 8, the Bank of Canada lowered the target range for the overnight call rate by 25 basis points, to a range of 7.5-8 percent. The Bank previously had raised the call rate target by a total of 300 basis points since last November.

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

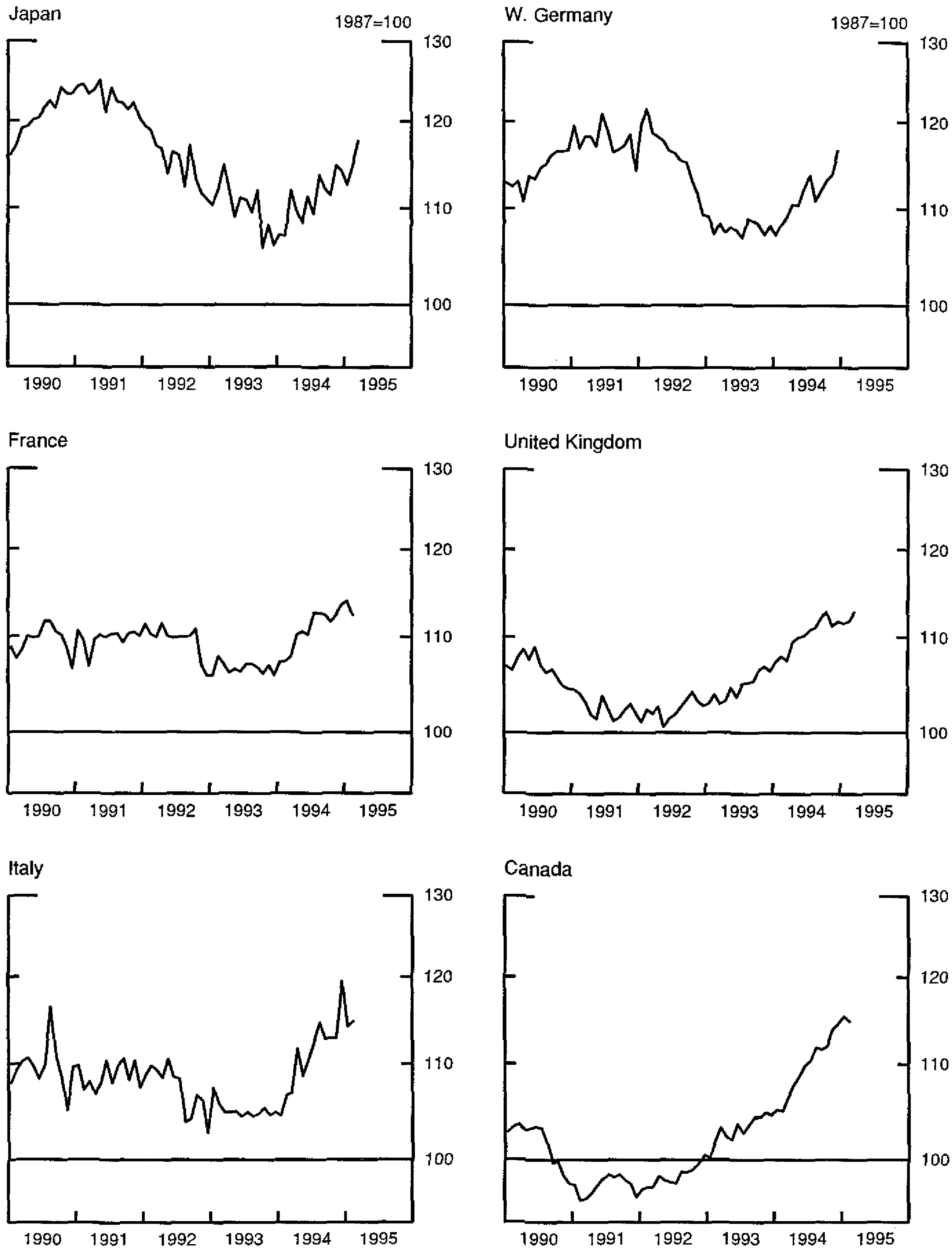
	1994			1995			
	1994	Q3	Q4	Q1	Jan	Feb	Mar
Japan: trade	120.9	28.4	30.3	27.3	7.5	10.5	9.3
current account	129.5	32.0	29.5	29.6	9.7	10.4	9.4
Germany: trade	46.0	10.2	14.4	n.a.	5.8	4.0	n.a.
current account*	-22.7	-12.7	-6.5	n.a.	-0.6	-1.9	n.a.
France: trade	15.6	3.9	5.1	n.a.	1.6	2.1	n.a.
current account*	n.a	n.a.	n.a.	n.a.	--	--	--
U.K.: trade	-16.4	-2.9	-4.9	n.a.	-1.8	n.a.	n.a.
current account	-0.4	2.1	0.8	n.a.	--	--	--
Italy: trade	21.8	5.4	3.2	n.a.	2.7	n.a.	n.a.
current account*	15.6	5.0	4.8	n.a.	-2.5	1.0	n.a.
Canada: trade	12.5	3.8	4.5	n.a.	1.7	1.7	n.a.
current account	-18.1	-3.6	-3.9	n.a.	--	--	--

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

Data on Japan's trade and current accounts for the first quarter are now available. Since January, the yen has appreciated close to 14 percent against the dollar. The first-quarter trade balance was down slightly from the fourth quarter, and the current account was about unchanged, suggesting that exchange rate impacts have yet to be felt. Based on historical experience, we expect the recent yen appreciation to increase Japan's nominal trade surpluses in dollar terms until sometime during the first half of next year, reflecting "J-curve" effects.

Industrial Production in Selected Industrial Countries

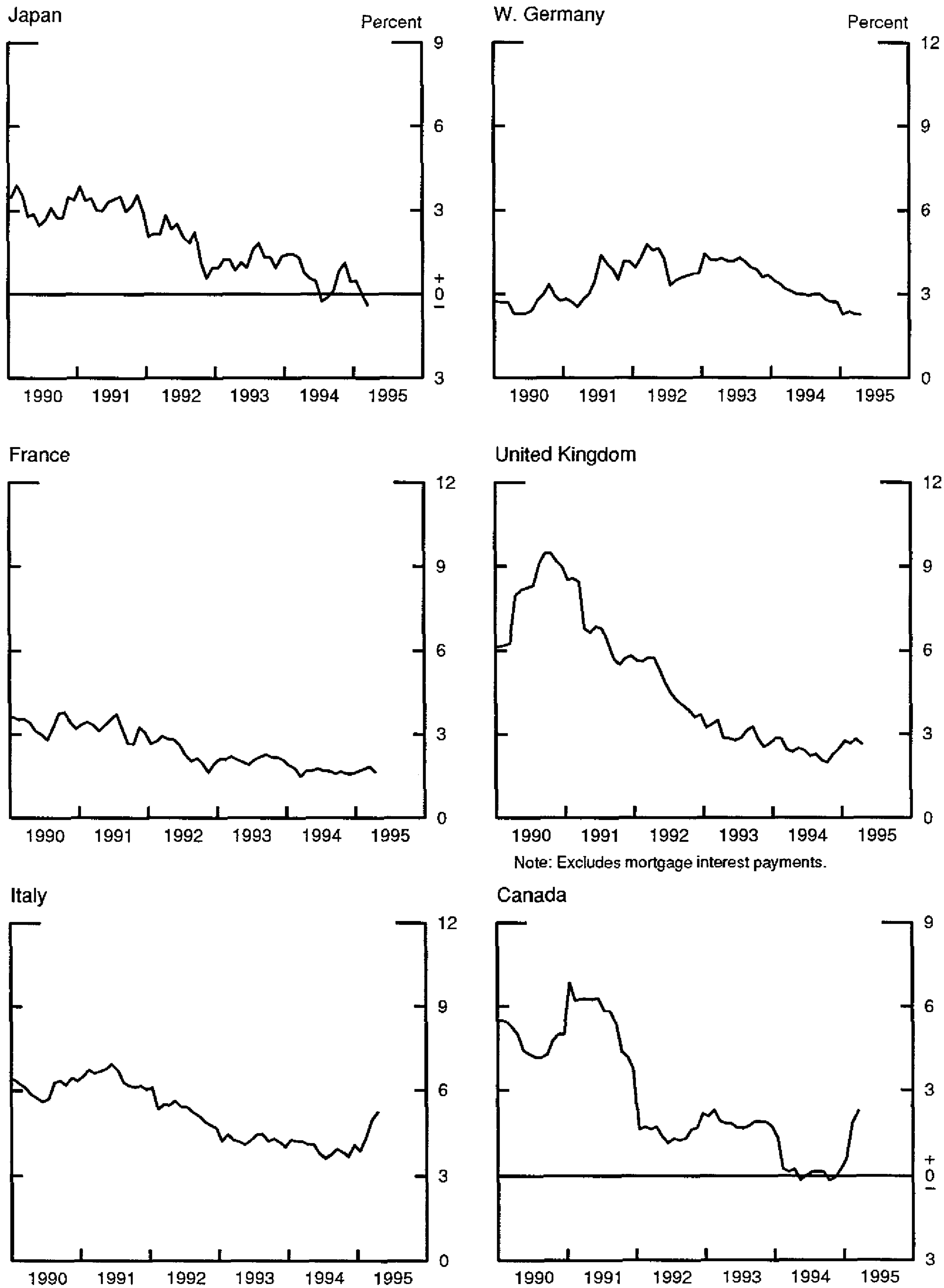
(Monthly data; seasonally adjusted; ratio scale, index)



5-17-95

Consumer Price Inflation in Selected Industrial Countries

(12-month change)



Economic Situation in Other Countries

Growth in the first quarter of 1995 remained relatively steady in most major developing countries other than Mexico, where growth was negative. Export growth in the first quarter of 1995 was strong in most countries other than Brazil. Import growth varied widely, however, with high import growth in Brazil, Taiwan, and Korea, and low or negative growth in Mexico and Argentina. As of May 16, the prices of par Brady Bonds had risen by nearly a third since the last Greenbook, and in Argentina and Brazil are now above their levels on December 19, 1994; Mexican bond prices remain 9 percent below their December 19 levels.

Mexico ran trade and fiscal surpluses in the first quarter; the peso has appreciated strongly since late March. Brazil has responded to a deteriorating external balance by increasing tariffs. Argentina's trade deficit narrowed considerably in the first four months of 1995, and the government has established two trust funds to strengthen confidence in the banking system. Strong growth and high inflation continue in China,. where exports surged in the first four months of 1995. In Taiwan and Korea, both exports and imports grew rapidly in the first quarter, as strong growth continues. Monthly inflation has slowed in Russia in recent months, and economic activity, though still falling, has been falling more slowly.

Individual Country Notes. In Mexico, there is growing evidence that economic activity has declined sharply in recent months. First-quarter real GDP (n.s.a) declined 0.6 percent from its year-earlier level and 9.1 percent from its level in the fourth quarter of 1994. While GDP usually exhibits a seasonal decline in the first quarter, this year's decline was the sharpest in more than a decade. The downturn was most pronounced in construction and textiles manufacturing. Industrial production in February was 1.1

percent below its year-earlier level, and was 6.2 percent below its January level on a seasonally adjusted basis; although January industrial production had increased 0.9 percent (s.a.) from December, this rise probably was associated with declining sales and increased inventory accumulation. The urban unemployment rate (n.s.a.) rose from 3.2 percent in December to 4.5 percent in January and 5.3 percent in February, confirming anecdotal evidence of widespread layoffs.

There was a marked turnaround in Mexico's trade performance in the first quarter, reflecting both the sharp decline in economic activity and the marked depreciation of the peso. The merchandise trade balance registered a $460 million surplus in March following a $235 million surplus in February (revised downward from a preliminary estimate of $450 million), leading to a surplus of $165 million for the first quarter. Exports were 33 percent higher in the first quarter than a year earlier, while imports were virtually unchanged. Last year, Mexico recorded a $4.3 billion first-quarter trade deficit.

From its low of more than 7 pesos/dollar in late March, the peso has appreciated strongly, reaching about 5.9 pesos/dollar on May 16. Nevertheless, inflationary pressures have remained high. Consumer prices rose 8 percent in April after increasing 5.9 percent in March and 4.2 percent in February, in part reflecting an April 1 increase in the value-added tax. After rising more than 5 percent in the first half of April, however, prices rose only 2.2 percent in the second half, reinforcing expectations that inflation will decline in subsequent months.

Preliminary data indicate that in the first quarter, the fiscal surplus of the non-financial public sector was about 2 percent of GDP. This surplus was well above the targeted 1995 surplus of 0.5 percent announced in the economic adjustment program

March 9. The primary (non-interest) surplus was about 7 percent of GDP, compared with a 1995 target level of 4.4 percent.

Economic policy since the last Greenbook has focused on further implementing the March 9 program. On March 17, a new reserve requirement regime was put in place, allowing commercial banks to hold a zero balance with the Bank of Mexico over a month-long period rather than on a daily basis. On March 31, trading in exchange rate futures by selected Mexican banks was authorized; trading in peso futures on the Chicago Mercantile Exchange began on April 25. The 5 percentage point rise in the value-added tax specified in the March 9 program was put into effect on April 1, and on the same day, the minimum wage was raised by 12 percent, two percentage points higher than announced on March 9. On April 4, the Bank of Mexico began publishing the daily index numbers, or UDIs, to be used to index bank loans, and plans are moving forward on the development of the restructuring program for loans to small- and medium-sized borrowers.

In Brazil, aggregate demand continues to be very strong and inflation has recently risen. Real GDP in the first quarter of 1995 was 9.1 percent higher than its year-earlier level, continuing the strong growth experienced since the enactment of the exchange-rate-based stabilization plan in July 1994. Monthly inflation, which has been 1-2 percent since December 1994, rose to 2.3 percent in April 1995.

Brazil recorded a trade deficit of $0.8 billion in April 1995, reflecting a 77 percent rise in imports and a 6 percent fall in exports over the same month last year. The trade deficit was $2.8 billion in the first four months of 1995, compared with a trade surplus of $4.3 billion in the year-earlier period. In late March 1995, Brazil increased tariffs on over 100 consumer durables from an average of 12 percent to 70 percent, which represented a partial reversal of the trade liberalization enacted in recent years. In late April the government raised reserve requirements and tightened controls in an attempt to reduce credit demand. The *real*/dollar exchange rate has been stable in the lower range of the 0.88-0.93 band established in early March. One-month deposit rates, however, remain relatively high at 60-70 percent per year, and continue to be volatile. Analysts estimate that international reserves in late April were $30-$32 billion, down from $39 billion in November 1994.

Brazilian share prices increased by 25 percent between mid-April and May 16 in response to moves in Brazil's congress towards removing constitutional restrictions on direct foreign investment in mining, telecommunications, and other sectors of the economy. (The Bovespa index, however, was still 23 percent below its pre-Mexican crisis level.) Although the constitutional amendments still have to pass a few more hurdles, it is anticipated that the restrictions will be lifted.

In Argentina, industrial output rose 2.7 percent in the first quarter of 1995 from a year earlier. Consumer prices rose 4.7 percent in April from a year earlier. Austerity measures, including a shortage of credit in the economy, have resulted in a rapid turnaround in Argentina's trade deficit in the last two months. For the first four months of 1995, the trade deficit shrank to $270 million from $2.4 billion for the same period last year. Exports rose 47 percent while imports fell 2 percent.

Gross international reserves stood at $13.7 billion as of May 10, of which $2.3 billion are in dollar-denominated Bonex bonds. The monetary base was $11.8 billion, leaving $1.9 billion in excess reserves. This compares with reserves of $17.7 billion at the beginning of 1995, despite a $1.6 billion payment from the IMF in early April, most of which went to build up reserves. Problems in the banking sector have led to an $8.3 billion decline in total deposits, of which \$4.8 billion were in pesos, since December 20, 1994. Of the \$8.3 billion decline in deposits, at least \$5.6 billion was covered out of reserves, with the rest "financed" by a reduction in the domestic credit of the banking system.

In an effort to strengthen confidence in the banking system, the government has established two separate trust funds, financed by loans from the World Bank and the IDB, and a deposit guarantee fund, financed by a \$2 billion "Argentine Bond." The World Bank and the IDB have already approved \$725 and \$750 million, respectively, from a total of \$1.3 billion each, for provincial financial sector reforms, privatizing 15 out of the 20 provincial banks and giving assistance to private banks that are in need of liquidity. The BIS in late April approved a bridge loan of up to \$1 billion to be repaid out of the World Bank and IDB disbursements. A deposit guarantee fund was established on April 19 under which deposits up to 90 days will be guaranteed to a maximum of 10,000 pesos (\$10,000), and deposits for more than 90 days will be guaranteed up to a maximum of 20,000 pesos. The system will be funded by a charge to banks of 0.03-0.06 percent of their deposits (about \$2.5 billion).

Despite these new funds, Argentina's banking troubles remain. On April 14, the Central Bank temporarily suspended the operations of six more commercial banks and financial institutions that were having trouble paying back depositors. About 50 banks and financial institutions have merged with other banks since late February, but so far only one bank has actually failed.

On May 14, Argentina re-elected President Menem, from the Justicialist (Peronist) Party, for a second term. Menem won the election in the first round with about 50 percent of the vote; the second-place candidate received about 31 percent of the vote.

In Venezuela, consumer price inflation was 4.1 percent in April, up from 3.2 percent in March. Total reserves excluding gold stood at an estimated $7.8 billion on April 14, little changed from the beginning of 1995. Foreign investment in Venezuela's non-traditional sectors (that is, sectors other than oil, mineral, banking, and insurance) was $71 million in the first quarter of 1995, compared with $22 million in the same period last year. Venezuela registered a trade deficit of $650 million in the first two months of 1995, with exports rising 34 percent and imports rising 22 percent.

The government is currently negotiating an anti-inflation pact with business and labor, in which the government would commit itself to fiscal and monetary discipline in exchange for a moderation of wage and price increases on the part of the private sector. It appears unlikely, however, that this agreement will be signed soon. The government also announced that it will not privatize its electric plant complex (Planta Centro) or the remaining shares, 49 percent, of its phone company (CANTV).

Real GDP in China rose 11.2 percent in the first quarter of 1995 from the year-earlier period, after rising 12 percent overall in 1994. Industrial value-added was up 15 percent in April from the year-earlier period, after rising 14.4 percent in the first quarter. Consumer prices at the end of March 1995 were 21.3 percent higher than a year earlier. Strong export growth led to a trade surplus of $8.8 billion in the first four months of 1995. Exports rose 53 percent from the year-earlier period, while imports rose 15 percent.

In early May, China's National People's Congress approved a new commercial bank law, scheduled to take effect July 1. The goal of the new law is to turn China's major banks into independent, commercial entities, giving banks the right to refuse to extend credit to borrowers they consider poor credit risks. In particular, the new law seeks to guarantee that China's major banks are independent of local or provincial authorities, who often direct banks to provide credit to favored borrowers. The new law also sets asset, loan, and liquidity ratios.

In Taiwan, industrial production rose 9.1 percent in the first quarter of 1995 from the year-earlier period. Consumer prices at the end of March were 4.4 percent higher than a year earlier. In the first quarter, Taiwan ran a trade surplus of $1.5 billion, with exports rising 23 percent and imports rising 18 percent from the year-earlier period.

Economic activity in Korea continued to expand rapidly during the first quarter of 1995: output of manufactured goods rose 14 percent from its year-earlier level. Consumer prices in April were 5.1 percent higher than their year-earlier level. Although consumer price inflation has thus remained moderate, controlling inflation is a principal concern of Korean policymakers, given both strong growth in aggregate demand and substantial increases in imported goods prices in recent months.

Korea's exports in the first quarter of 1995 increased by about 32 percent (in dollar terms) from their year-earlier level. However, imports increased by 34 percent over the same period due to strong domestic demand and rising import prices. This contributed to a widening of Korea's current account deficit to $3.8 billion in the first quarter of the year, compared to a deficit of $2.2 billion in the first quarter last year.

Russian monthly consumer price inflation fell to 8 percent in April and 9 percent in March, from 18 percent in January and 11 percent in February, due primarily to a tightening of monetary policy. During the first quarter of 1995, broad money grew by only 1 percent a month, down from 9 percent average monthly growth during all of 1994. On May 16, the Central Bank reduced its monthly refinance rate slightly, from 16.7 percent to 16.3 percent; given the recent decline in inflation, however, the real refinance rate remains strongly positive.

Falling inflation and tighter monetary policy have allowed the ruble to stabilize. After declining against the dollar by about 10 percent a month during the first quarter of 1995, the ruble fell by less than 5 percent during April. During the first half of May, the ruble *appreciated* against the dollar by 2 percent. On May 17, the MICEX ruble-dollar exchange rate closed at 5,038.

The rate of decline of economic activity continues to slow. During the first four months of 1995, real GDP and industrial production were each about 5 percent below their year-earlier levels. By contrast, during the first four months of 1994, industrial production plunged 25 percent and real GDP declined 17 percent from a year earlier.

On April 11, the IMF Executive Board approved a $6.8 billion equivalent stand-by arrangement for Russia, with an initial disbursement of about $1.1 billion. The agreement calls for the 1995 budget deficit to fall to about 6 percent of GDP, down from 10 percent of GDP in 1994, and for inflation to average 1 percent a month during the second half of the year.