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## **Part 2**

September 20, 1995

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

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

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# **DOMESTIC NONFINANCIAL DEVELOPMENTS**

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Although some sharply conflicting signals have been present in the recent economic indicators--especially those for manufacturing--the data, on balance, point to a moderate step-up in the pace of activity since the spring. Consistent with this view, the civilian unemployment rate has remained near the average level of the second quarter, and just a little above the low for the current expansion. Signs of incipient acceleration in consumer prices that were apparent earlier this year have been followed by more favorable reports in recent months, leaving the inflation rate little changed on a year-to-year basis.

#### Employment and Unemployment

Private nonfarm payroll employment rose 176,000 in August, bringing the cumulative increase in such jobs over the past three months to about 440,000.<sup>1</sup> Aggregate hours of production or nonsupervisory workers remained above the second-quarter average despite a partial reversal of earlier large advances. Since mid-August, initial claims for unemployment insurance have remained in a range that suggests another moderate employment gain in September.

Manufacturing payrolls increased 12,000 in August after having declined about 185,000 over the previous four months, and factory hours rose for the first time since February. Increases in employment among most producers of durable goods more than accounted for the August hiring. The largest additions to payrolls occurred at producers of industrial machinery and electrical equipment. The

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1. An overall increase in payroll jobs of 249,000 in August may have been held down as much as 65,000 by seasonal adjustment problems associated with the timing of the survey week within the month. Total nonfarm payrolls, however, were boosted by a rise of 73,000 in the government sector, more than half of which was in state and local education. BLS said that this rise in education jobs was inflated by the failure of seasonal adjustment factors to fully incorporate movements toward year-round jobs and earlier school openings.

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

	1993	1994		1995		1995		Aug.
		1994	Q4	Q1	Q2	June	July	
-----Average monthly changes <sup>1</sup> -----								
Nonfarm payroll employment <sup>2</sup>	235	294	287	226	82	299	6	249
Private	215	273	283	216	70	259	6	176
Manufacturing	4	30	39	18	-32	-28	-88	12
Durable	3	25	31	20	-12	-14	-33	18
Nondurable	0	5	8	-2	-20	-14	-55	-6
Construction	24	30	30	30	-9	40	-3	2
Trade	57	75	81	20	24	73	69	-13
Finance, insurance, real estate	19	4	-4	2	-3	5	5	15
Services	100	117	115	130	87	154	26	144
Health services	21	21	22	25	19	30	13	28
Business services	36	46	43	28	6	22	14	81
Total government	20	21	4	10	12	40	0	73
Private nonfarm production workers	194	242	243	194	54	192	5	103
Manufacturing production workers	10	31	38	16	-31	-34	-76	20
Memo:								
Aggregate hours of private production workers (percent change)	.3	.4	.3	.1	.0	1.1	.3	-.5
Average workweek (hours)	34.5	34.7	34.7	34.7	34.4	34.4	34.6	34.4
Manufacturing (hours)	41.5	42.0	42.1	42.1	41.5	41.5	41.3	41.5

1. From final month of preceding period to final month of period indicated.
2. Survey of establishments.

HOUSEHOLD EMPLOYMENT AND UNEMPLOYMENT<sup>1</sup>  
(Percent; based on seasonally adjusted data)

	1993	1994		1995		1995		Aug.
		1994	Q4	Q1	Q2	June	July	
Civilian unemployment rate (16 years and older)	6.8	6.1	5.6	5.5	5.7	5.6	5.7	5.6
Teenagers	19.0	17.6	16.7	16.8	17.2	16.4	18.2	17.7
20-24 years old	10.5	9.7	8.9	8.7	8.8	9.0	9.3	9.9
Men, 25 years and older	5.8	4.8	4.4	4.2	4.4	4.3	4.2	4.2
Women, 25 years and older	5.4	4.9	4.5	4.4	4.5	4.5	4.6	4.4
Full-time workers	6.8	6.1	5.6	5.4	5.6	5.5	5.5	5.6
Labor force participation rate	66.2	66.6	66.6	66.9	66.6	66.4	66.7	66.5
Teenagers	51.5	52.7	52.5	53.9	54.0	54.2	53.6	53.4
20-24 years old	77.1	77.0	77.2	77.3	76.7	76.4	76.5	76.2
Men, 25 years and older	76.2	76.0	76.2	76.4	76.0	75.8	75.9	75.7
Women, 25 years and older	57.1	58.1	58.2	58.2	58.1	57.9	58.6	58.4
Memo:								
Household employment <sup>2</sup>	208.8	325.8	308.7	234.7	-263.0	166.0	474.0	-180.0
Unemployment <sup>2</sup>	-89.8	-90.2	-164.0	27.3	49.0	-108.0	175.0	-128.0

1. Data after 1993 are not directly comparable with earlier years because of a redesign of the CPS in January 1994.
2. Average monthly change.

average workweek of durable goods manufacturers also lengthened in August, more than reversing a decline in July. By contrast, the average workweek at factories producing nondurables held steady, and employment at these plants continued to decline, albeit less rapidly than in previous months. Apparel was, once again, a notable area of weakness.

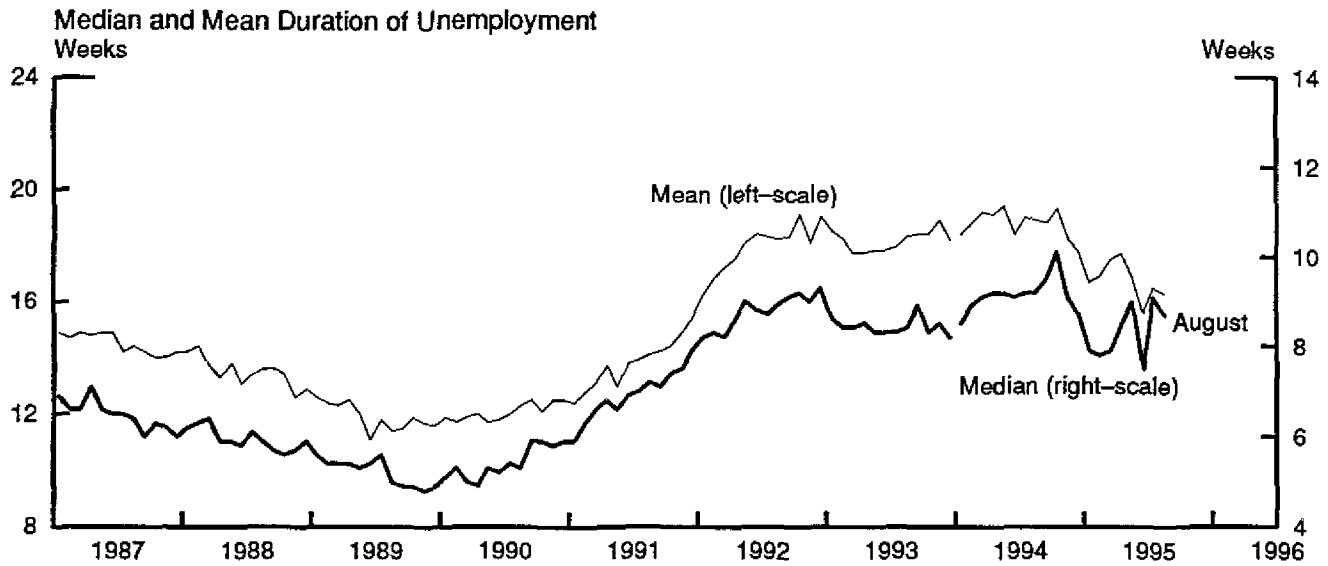
In the service-producing sector, private employment rose 163,000 in August, fairly close to the average for the two previous months and well above the subpar gains reported during the three months ended in May. Employment in business services, which had slowed in the spring, jumped 81,000 last month, bolstered by brisk hiring at firms that supply personnel to other businesses. In contrast, retail and wholesale trade lost a combined 13,000 jobs in August. Eating and drinking establishments showed a sharp decline in employment in August after two months of strong gains, and the number of jobs at apparel retailers continued to fall.

As measured by the household survey, both employment and unemployment moved down in August, and the labor force participation rate remained near its second-quarter average. The August unemployment rate edged down a tenth of a percentage point, to 5.6 percent, near the middle of the relatively narrow range of monthly readings reported so far this year. Other indicators from the household survey, such as the duration of unemployment, the number of persons working part-time for economic reasons, and the data on reasons for unemployment, also have changed little in recent months.

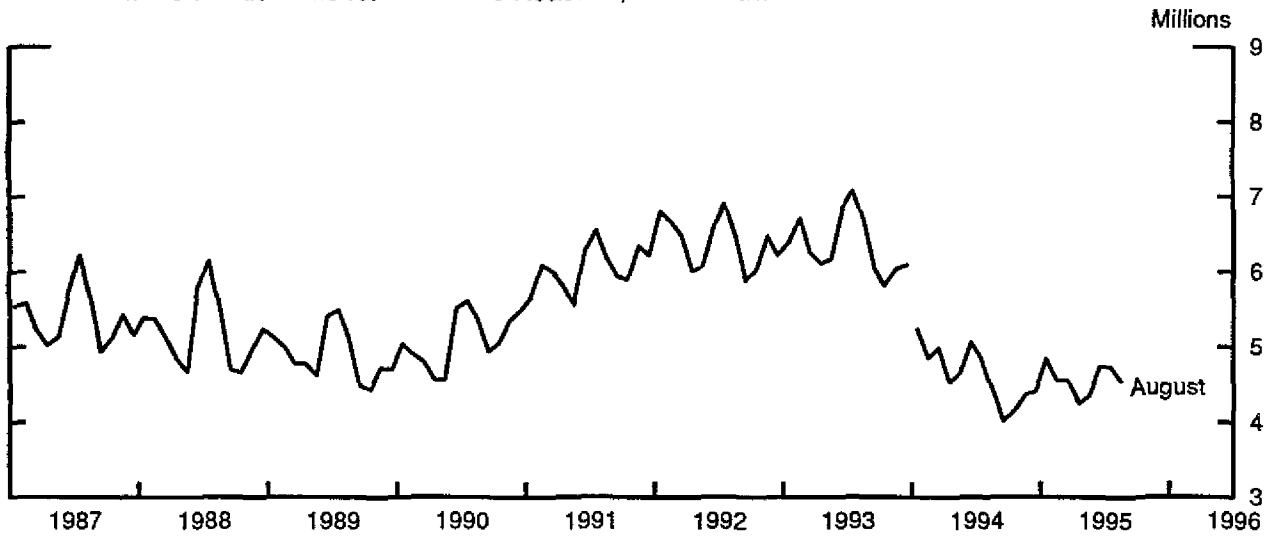
Alternative indicators of labor demand are consistent with moderate employment growth. The Conference Board's help-wanted index rose in July, its first increase since February. In the latest survey of net hiring plans from Manpower, Inc., the

### Indicators from the Survey of Households\*

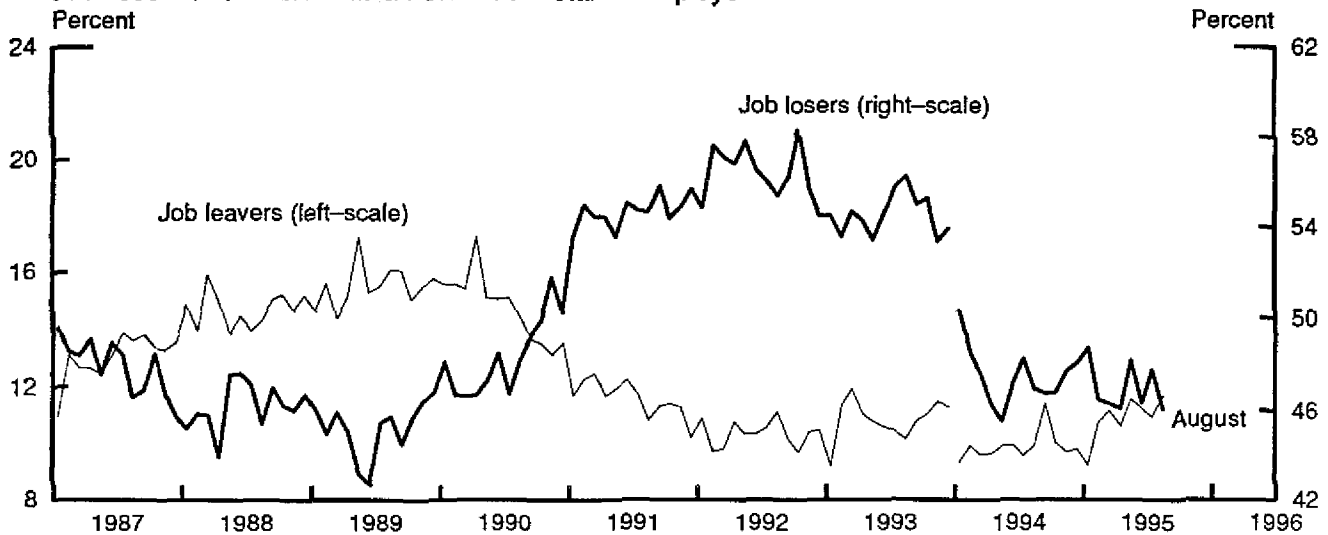
(Breaks in series reflect the redesign of the CPS in January 1994)



**Persons at Work Part-Time for Economic Reasons, All Industries**



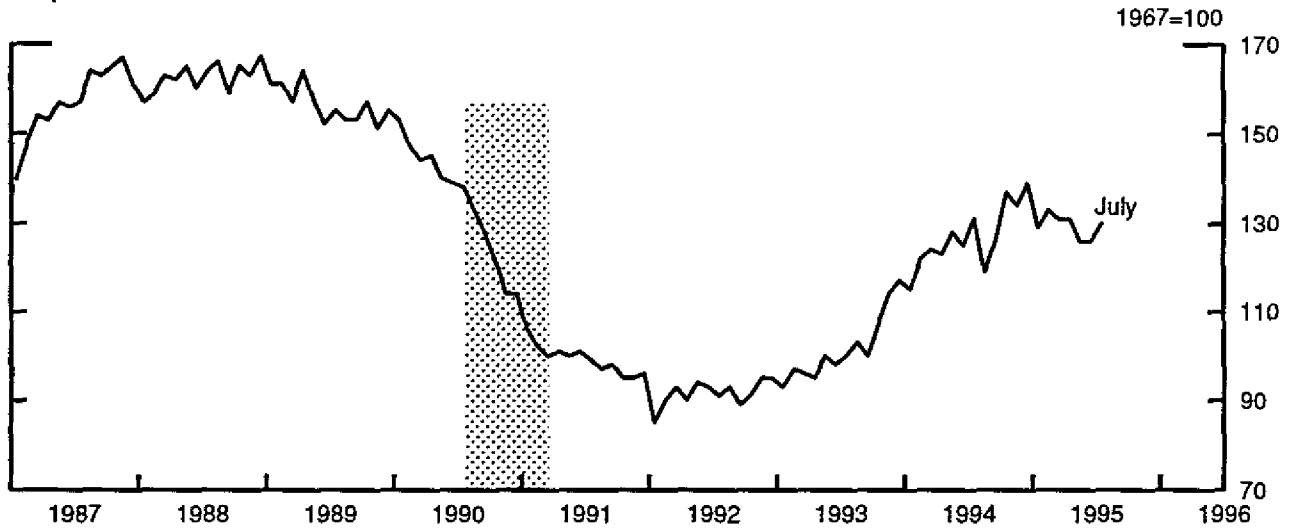
**Job Losers and Leavers as a Percent of Total Unemployed**



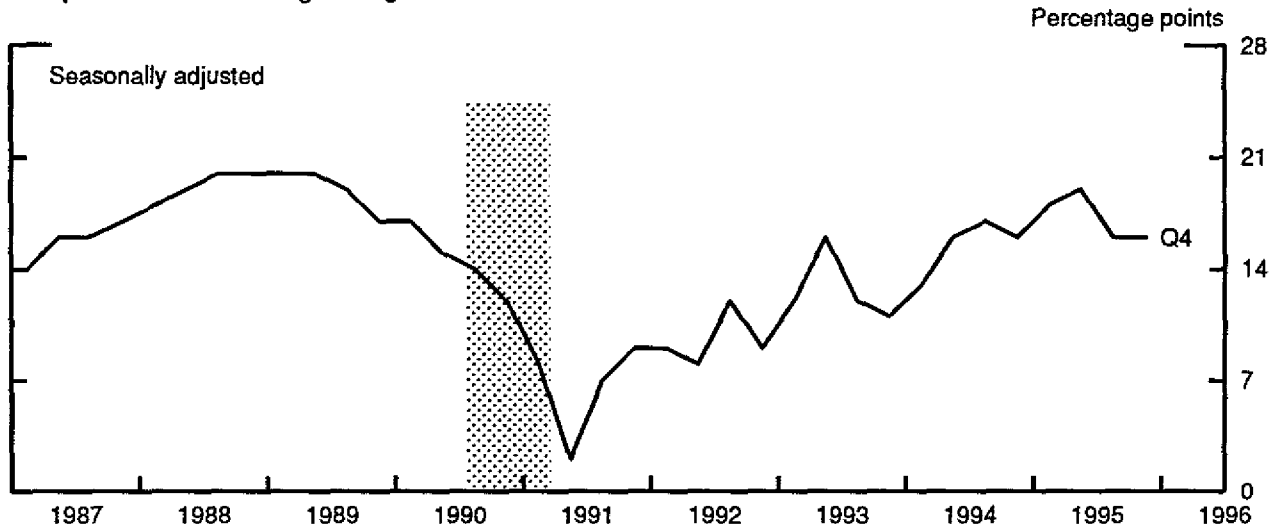
\* Data after 1993 are not directly comparable with earlier years because of a redesign of the CPS in January 1994.

### Labor Market Indicators

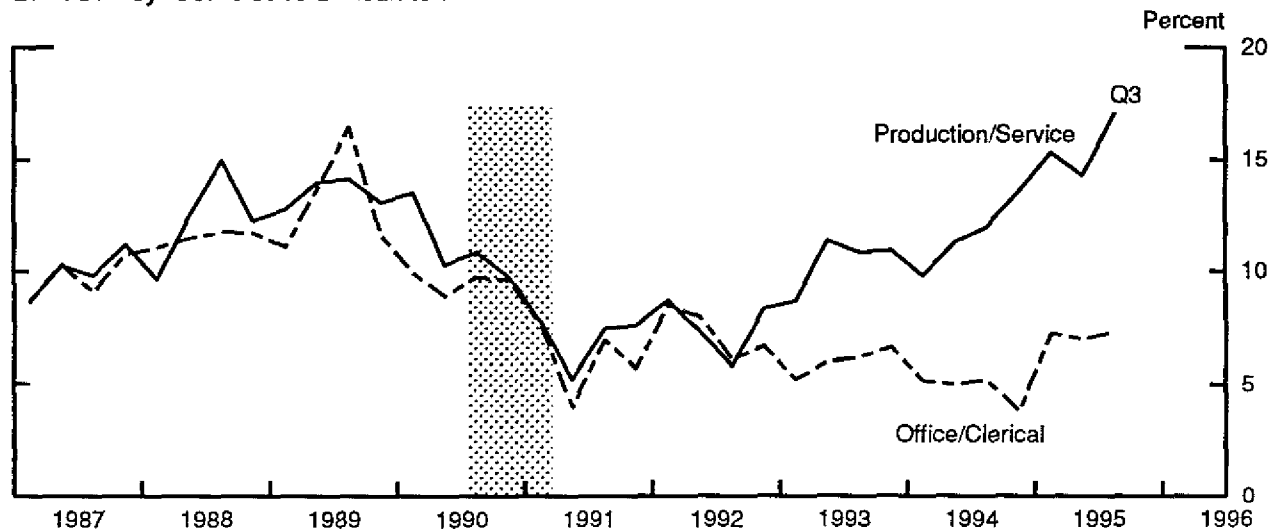
Help Wanted Index



Manpower Inc. Net Hiring Strength



BNA Survey: Some Jobs Difficult to Fill





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

	Proportion in total IP 1994:Q4	1994 <sup>1</sup>	1995		1995		
			Q1	Q2	June	July	Aug.
			-Annual rate-		----Monthly rate----		
Total index	100.0	6.0	5.2	-2.4	-.1	.3	1.1
Previous		6.0	5.2	-2.7	-.1	.1	
Manufacturing	86.8	6.9	5.1	-3.4	-.1	.0	1.0
Motor vehicles and parts	5.7	7.9	13.0	-24.4	.2	-1.5	4.2
Mining	6.1	.8	4.4	1.0	-.2	.7	-1.4
Utilities	7.2	.2	6.8	8.4	-.2	3.5	4.9
Manufacturing excl. motor vehicles and parts	81.1	6.8	4.5	-1.7	-.1	.1	.7
Consumer goods	23.4	3.9	3.1	-1.9	.2	-.4	.6
Durables	3.6	4.8	1.5	-9.1	.3	-.2	1.4
Nondurables	19.8	3.7	3.5	-.5	.2	-.5	.5
Business equipment	13.8	10.1	7.8	5.0	.7	1.0	.9
Office and computing	2.3	20.2	27.3	29.7	2.0	3.7	1.9
Industrial	4.2	8.7	6.3	-1.8	.4	.7	.9
Other	7.3	8.0	3.0	1.5	.3	.2	.6
Defense and space equipment	2.4	-9.4	-5.0	-6.4	.2	-.6	-.2
Construction supplies	5.5	8.4	3.2	-12.2	.2	-.4	.9
Materials	28.9	9.3	6.4	-2.3	-.7	.5	.8
Durables	20.0	10.9	8.9	-.9	-.2	.6	1.0
Nondurables	8.6	5.5	1.2	-5.4	-2.0	.2	.3
Energy	0.2	16.3	-10.1	-9.0	-.4	3.5	-1.0

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

**CAPACITY UTILIZATION**  
(Percent of capacity; seasonally adjusted)

	1988-89	1967-94	1995		1995			
	High	Avg.	Q1	Q2	May	June	July	Aug.
Total industry	84.9	82.0	85.2	83.9	84.0	83.7	83.7	84.3
Manufacturing	85.2	81.3	84.7	83.1	83.1	82.8	82.5	83.0
Primary processing	89.0	82.5	89.5	87.3	87.5	86.4	86.2	86.5
Advanced processing	83.5	80.7	82.8	81.5	81.4	81.4	81.0	81.6

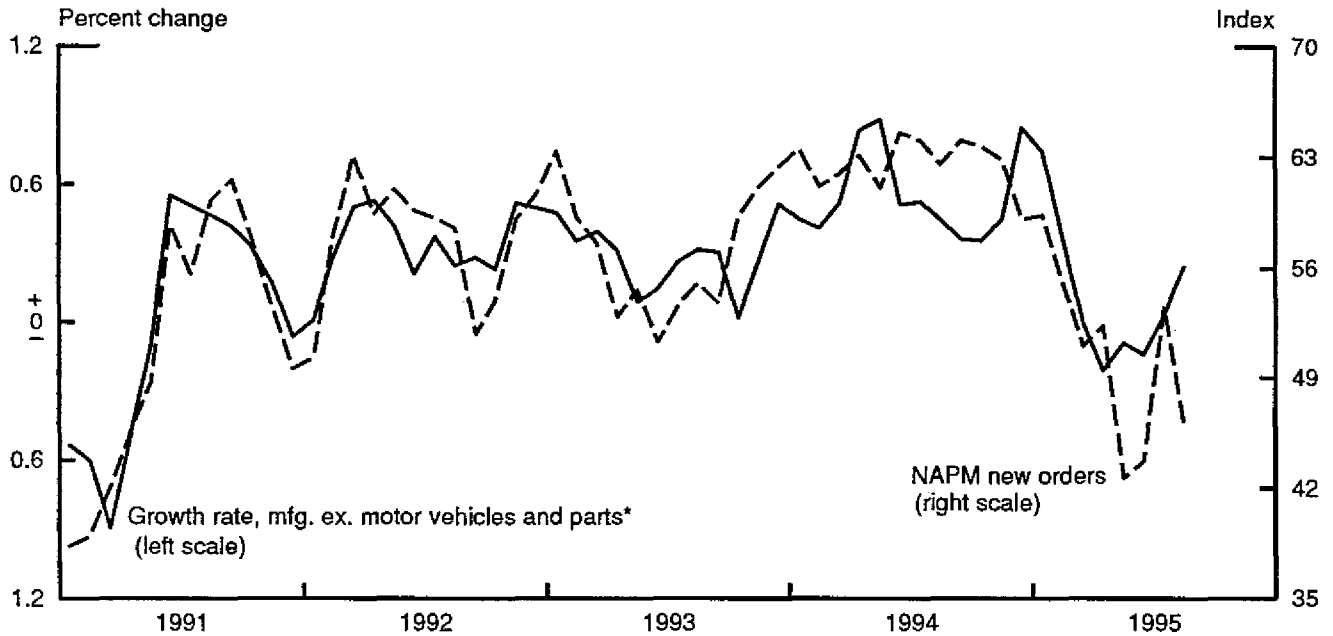
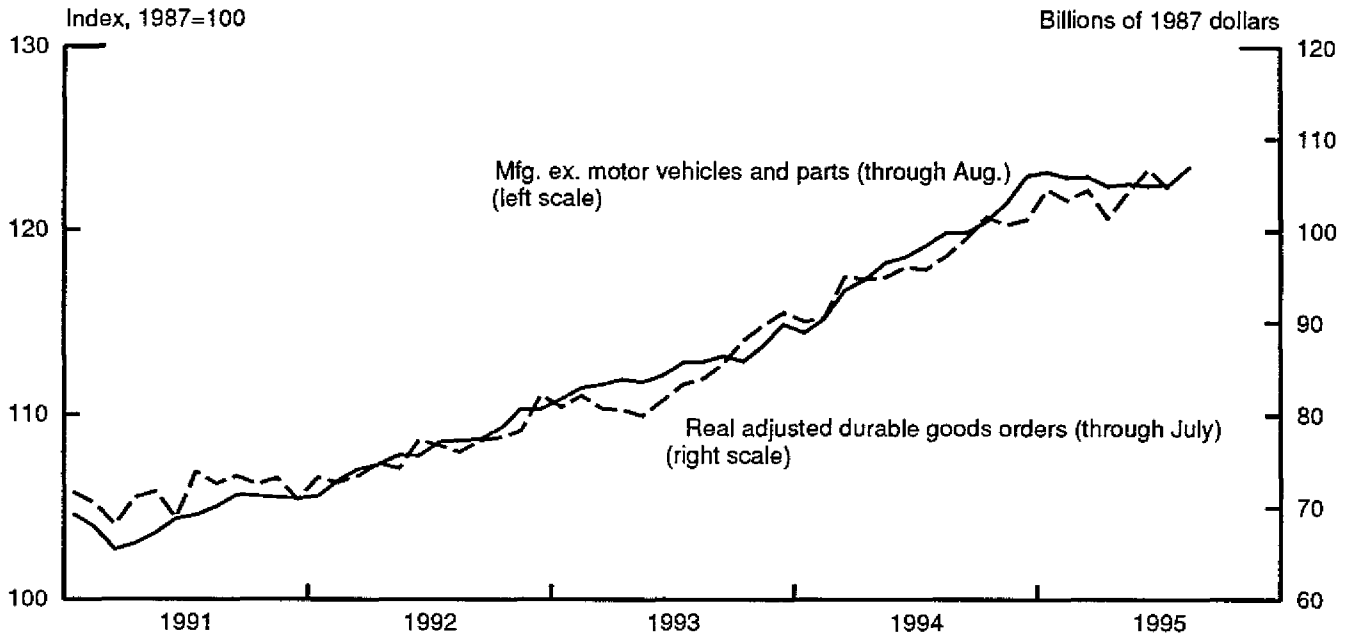
percentage of employers planning to increase their hiring held steady in the fourth quarter after declining in the third quarter. Hiring plans improved in the private service-producing sector and deteriorated in the government and mining sectors; manufacturers reported no change. Finally, the latest quarterly Bureau of National Affairs survey, taken in July and August, indicated an increase in the number of firms reporting that jobs are difficult to fill.

#### Industrial Production

Industrial production rose 1.1 percent in August after an upward-revised gain of 0.3 percent in July. Both physical product data and hours data used in estimating IP showed noticeable step-ups last month. Hot weather boosted utilities output for the second straight month, and manufacturing production rose sharply, posting its first gain since January. As a result, the factory operating rate climbed to 83.0 percent; that rate is about 2-1/4 percentage points below the highs reached at the turn of the year but is about 1-3/4 percentage points above the long-run average rate. In contrast to the IP report, other indicators of demand in the industrial sector--such as new orders--have not displayed corresponding vigor, and the underlying trend of IP growth almost certainly is much more moderate than the growth rate in August.

Utilities output contributed 0.4 percentage point to IP growth in August. The reading for cooling degree days last month was the highest August level since 1947. Over the past two months electricity generation has risen more than 10 percent; but with a return to normal weather, electricity generation will be a significant drag on total IP growth in the coming months. Indeed, weekly data available through September 9 show a large drop.

## Industrial Production and Orders



\* Three-month moving average of IP growth rate, at a monthly rate.

Output of motor vehicles and parts jumped 4.2 percent in August after falling 1.5 percent in July. Outside the motor vehicle sector, manufacturing production rose 0.7 percent last month after having been flat for several months. Led by a run-up in the production of furniture and appliances, the output of manufactured consumer goods other than motor vehicles, a locus of previous weakness, advanced 0.6 percent, moving about half-way back to its December peak. The production of construction supplies rose nearly 1 percent, a reflection of recent improvement in building activity. Materials output moved up for a second month, with notable gains in primary and fabricated metals.

Growth in business equipment output has remained an important area of strength in recent months. Robust growth in high-technology goods--a category that includes computers, semiconductors, communications equipment, and photographic equipment and makes up about 12 percent of IP--accounted for two-tenths of a percentage point of IP growth in August, about the average since January. The production of industrial equipment also posted a notable increase last month.

Other indicators of manufacturing activity remain lackluster and suggest that further large production gains are not in the offing. Real adjusted new orders for durable goods dropped 2.0 percent in July, after two months of strong readings. The purchasing managers' indexes of new orders and production--two series that we find useful in forecasting near-term manufacturing output--turned down in August. Our most recent conversations with industry sources provided mixed reports: Orders for steel sheet, silicon, and other motor vehicle-related products are said to be flat to down, while sales of high-technology goods remained strong.

**SALES OF AUTOMOBILES AND LIGHT TRUCKS<sup>1</sup>**  
(Millions of units at an annual rate; FRB seasonals)

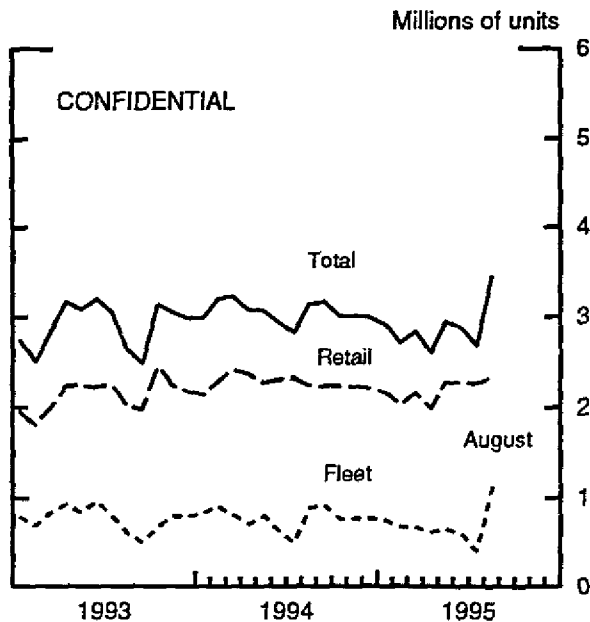
	1993	1994	1994	1995		1995		
			Q4	Q1	Q2	June	July	Aug.
<b>Total</b>	13.9	15.0	15.3	14.9	14.3	14.9	14.2	16.0
(BEA seasonals)	13.9	15.0	15.4	14.9	14.4	14.7	13.7	15.7
<b>Autos</b>	8.7	9.2	9.2	8.9	8.7	9.0	8.5	9.9
<b>Light trucks</b>	5.2	5.8	6.1	6.0	5.7	5.9	5.7	6.0
<b>North American<sup>2</sup></b>	11.7	12.9	13.2	12.9	12.4	12.9	12.4	14.0
Autos	6.7	7.3	7.3	7.1	6.9	7.2	6.9	8.1
Big Three	5.5	5.7	5.8	5.6	5.3	5.5	5.1	5.9
Transplants	1.3	1.5	1.6	1.5	1.6	1.7	1.7	2.2
Light trucks	5.0	5.7	5.9	5.8	5.5	5.7	5.6	5.9
<b>Foreign produced</b>	2.1	2.1	2.0	2.0	2.0	2.0	1.8	2.0
Autos	2.0	2.0	1.8	1.8	1.8	1.8	1.6	1.8
Light trucks	.2	.2	.2	.2	.2	.2	.1	.1

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

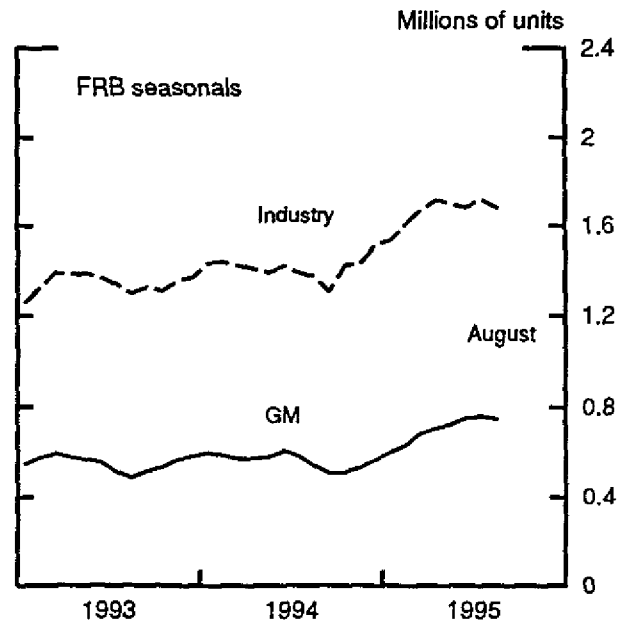
1. Components may not add to totals because of rounding.

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 Fleet and Retail Auto Sales**



**Domestic Automobile Inventories**



Spot prices for industrial materials have softened a bit in September.

Motor Vehicles

Sales of automobiles and light trucks jumped to an annual rate of 16.0 million units in August, well above the 14.2 million unit rate in July. Part of the August rise in sales consisted of a surge (3/4 million units at an annual rate) in General Motors' shipments to fleet customers. (Information on retail and fleet sales is based on confidential data from industry sources.) Although industry sources expect General Motors to continue to rely on fleet customers to purchase stocks now held in inventory, the high August pace of these shipments looks unsustainable. Sales in August may also have received a boost from buyers who were rushing to beat the early-September expiration of heavy incentives offered by Japanese transplant firms. In addition, a source at Toyota says that their August sales figures included some purchases that occurred over the September Labor Day weekend. We estimate that the misreporting artificially boosted August sales 1/4 million units.

Measured against automakers' perceptions of the underlying rate of sales, which currently center on 14-3/4 million units, stocks of light vehicles at the end of August were still above desired levels.

PRODUCTION OF DOMESTIC AUTOS AND TRUCKS  
(Millions of units at an annual rate; FRB seasonal basis)<sup>1</sup>

	1995				
	July	Aug.	Sept.	Q3	Q4
	---actual---		-----scheduled-----		
U.S. production	11.2	11.9	12.0	11.7	11.5
Autos	6.1	6.1	6.2	6.1	6.0
Trucks	5.1	5.8	5.8	5.6	5.5
Days' supply					
Autos	76.8	60.7			
Light trucks	69.2	66.1			

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

## Retail Sales

(Percent change from preceding period, seasonally adjusted)

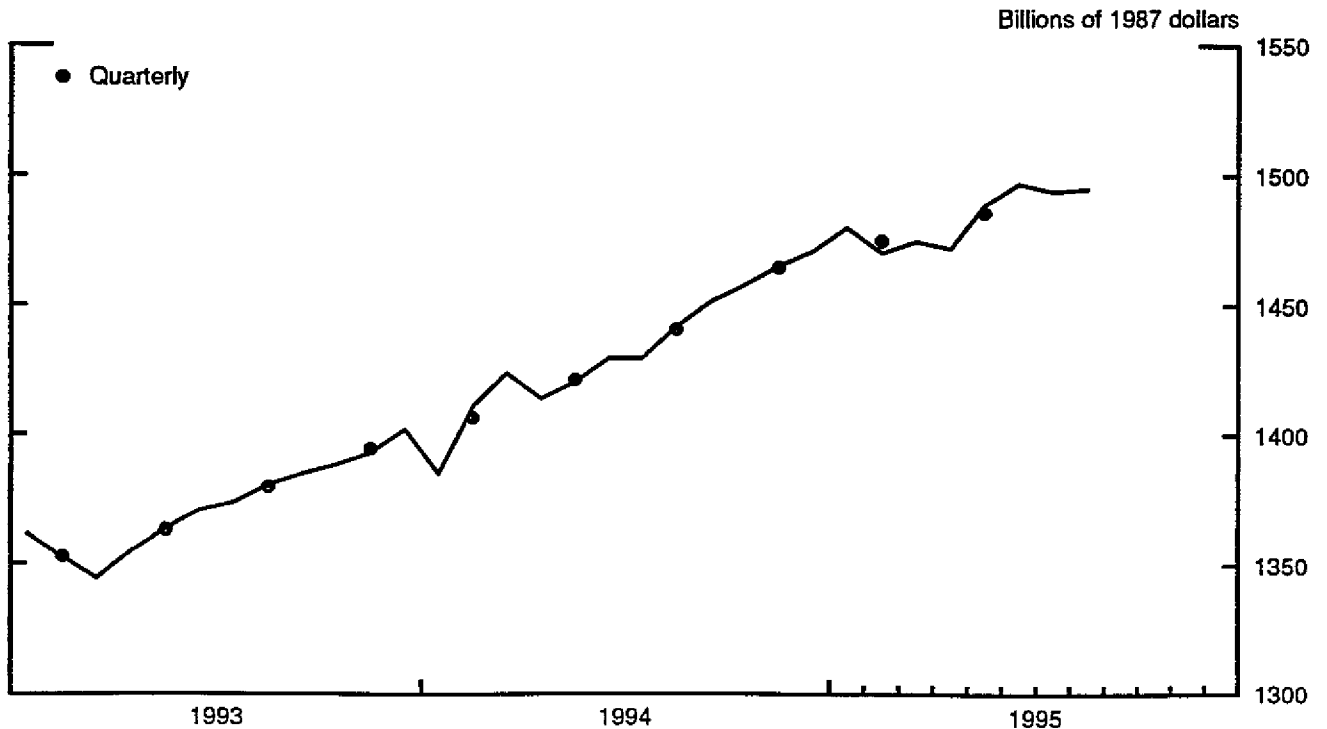
	1995		1995		
	Q1 <sup>1</sup>	Q2 <sup>1</sup>	June	July	Aug.
Total sales	.4	1.1	.9	-.4	.6
(Previous)	(.4)	(1.1)	(.8)	(-.1)	
Building materials and supplies	-1.3	-2.2	.8	.3	-.8
Automotive dealers	-.5	1.9	2.6	-1.5	2.4
Retail control <sup>2</sup>	.9	1.1	.3	.0	.1
(Previous)	(.9)	(1.1)	(.3)	(.3)	
Furniture and appliances	-.6	.1	.5	-.4	1.8
Other durables	.7	3.4	-.6	.9	.5
Apparel	-1.1	-.7	.3	-1.5	-1.5
Memo:					
Sales of light vehicles <sup>3</sup>	14.9	14.4	14.7	13.7	15.7

1. Percent change of quarterly averages.

2. Total excluding auto dealers and building material and supply stores, except auto and home supply stores.

3. Millions of units, annual rate; BEA seasonals.

## PCE Goods Excluding Motor Vehicles



Note. Data for June, July, and August of 1995 are staff estimates.

Producers therefore are adhering to cautious production strategies over the near term. Weekly data in hand for September suggest assemblies could be about 1/2 million units lower than both September schedules and actual production in August. Production disruptions at Ford because of parts shortages explain only part of the shortfall. Although we believe that fourth-quarter schedules of 11.5 million units are slightly understated, upward-adjusted schedules for the fourth quarter would still look modest.

#### Consumption and Personal Income

After strong gains in May and June, growth of consumption expenditures seems to have moderated after mid-year. Based on the preliminary, and still highly tentative, readings on retail sales for July and August, real outlays for goods other than motor vehicles are estimated to have been essentially flat in the last two months. Spending for durable goods other than motor vehicles moved up on net in July and August, but outlays for apparel continued to be quite weak. In terms of quarterly averages, however, the third-quarter rise in real consumption expenditures still could end up looking reasonably strong: We estimate that, because of the lift from the gains of May and June, the average level of real expenditures for goods other than motor vehicles in July and August was up about 2-3/4 percent at an annual rate from the second-quarter average.

Elsewhere, some pickup in consumer expenditures on motor vehicles probably occurred in August, although the surge in auto sales last month apparently reflected in large part increased purchases by businesses.<sup>2</sup> In addition, outlays for services were

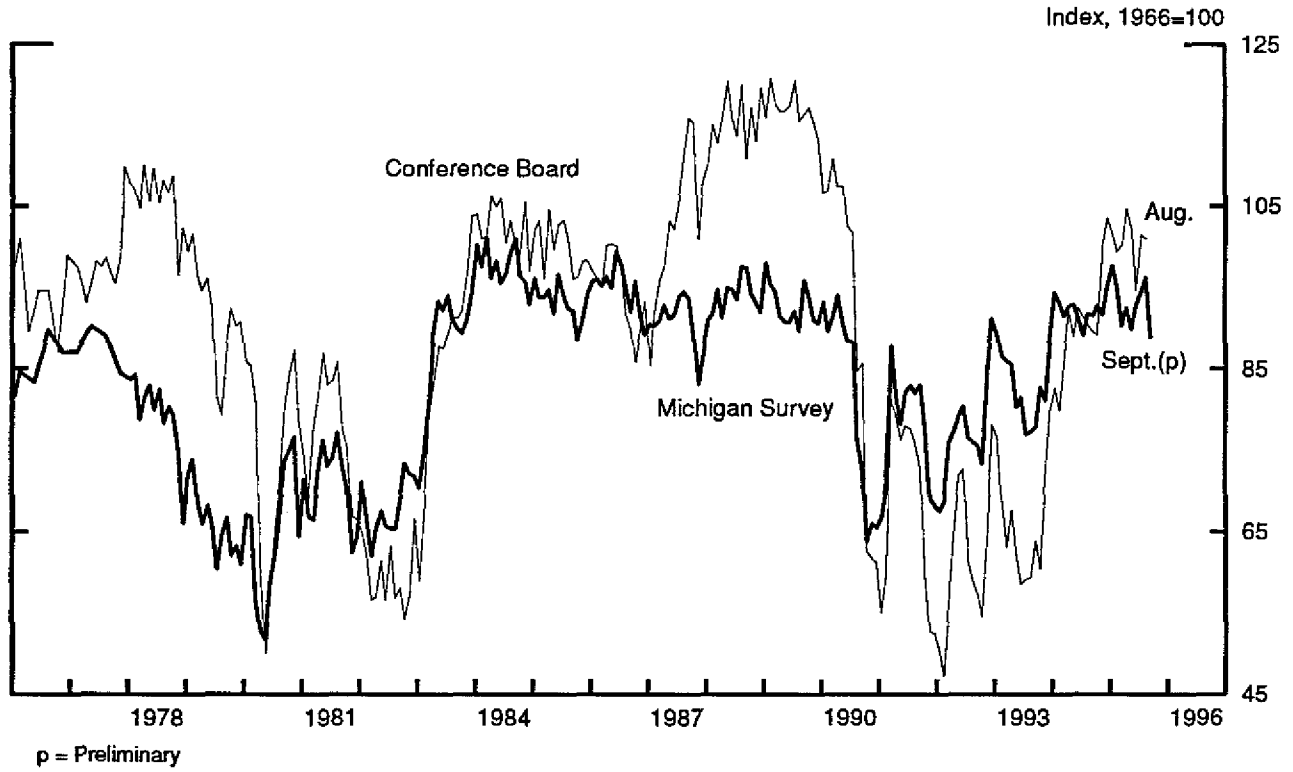
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2. Our reading of business purchases of cars and trucks is based on confidential fleet sales data from GM and Ford, which indicated that fleet sales accounted for about 80 percent of the August sales gain at those two automakers. In contrast, in constructing the NIPAs, registration data are used to allocate motor vehicle sales (Footnote continues on next page)

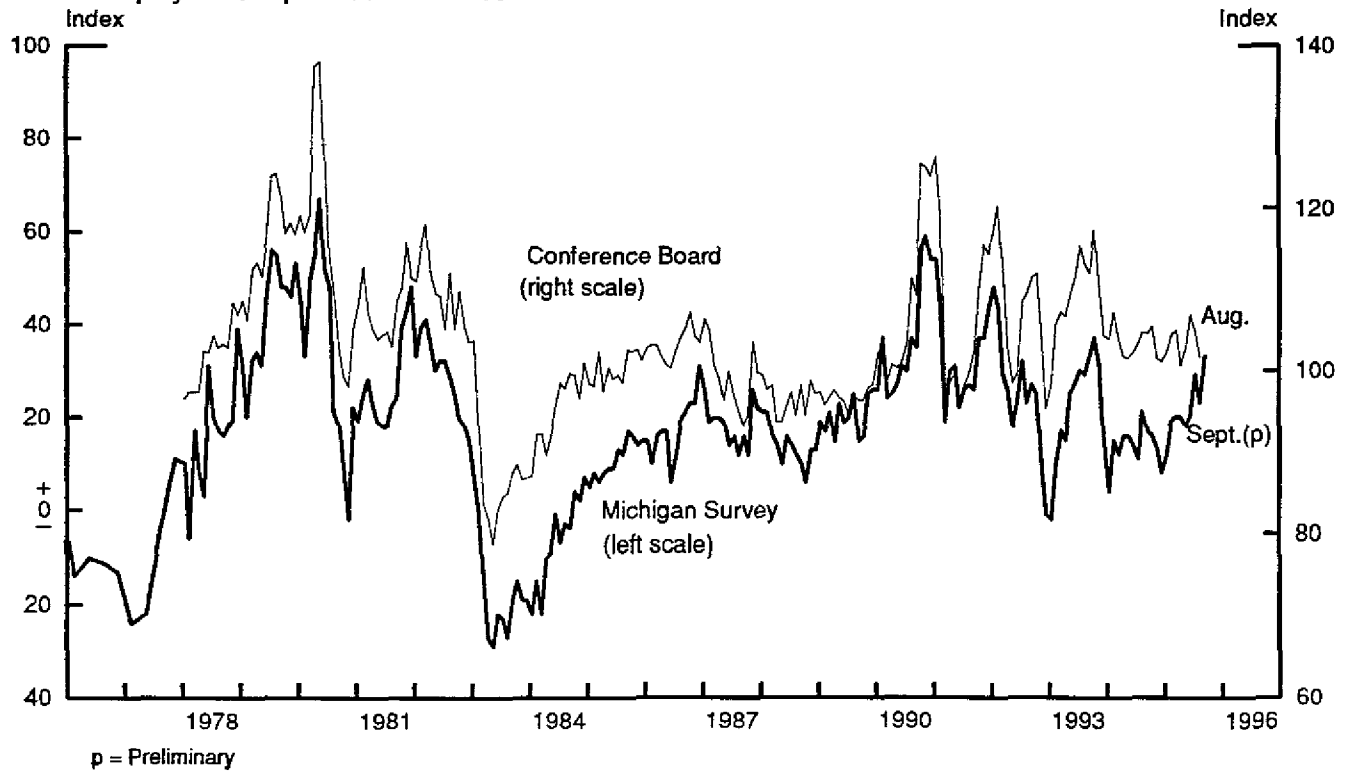


# Consumer Surveys

## Consumer Sentiment



## Unemployment Expectations Indexes



up 0.4 percent in July, boosted in part by high demand for energy-related services due to the unseasonably warm weather; high temperatures likely continued to push up spending on services in August.

Income has been volatile in recent months around a moderately rising trend. After plunging in April because of a spike in payments associated with the retroactive tax increases of OBRA-93, real disposable income increased sharply in May, June, and July. In August, however, declines in hours worked and average hourly earnings point to weakness in wage and salary income. Averaging through the monthly numbers (and adjusting for the April spike in tax payments), income was about flat in the second quarter, but income in July and August appears to have been noticeably above the second-quarter average.

Recent indicators of consumer sentiment have been mixed. The Conference Board index of consumer confidence was at an elevated level in both July and August, and the Michigan SRC index in those two months was near the upper end of the range that has prevailed since the end of 1993. But preliminary results from the Michigan survey for September showed a sharp decline that brought the index of sentiment to the lower end of its post-1993 range. Furthermore, SRC respondents' expectations of the change in unemployment over the next twelve months--one of the series that we have found to be

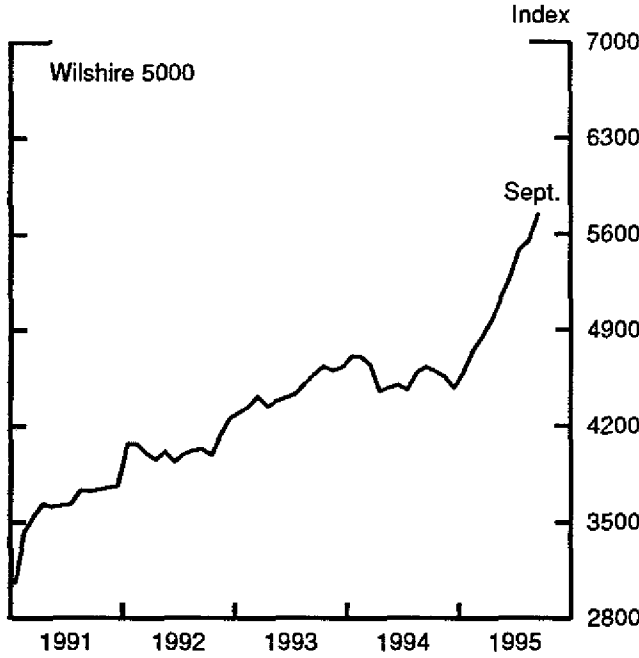
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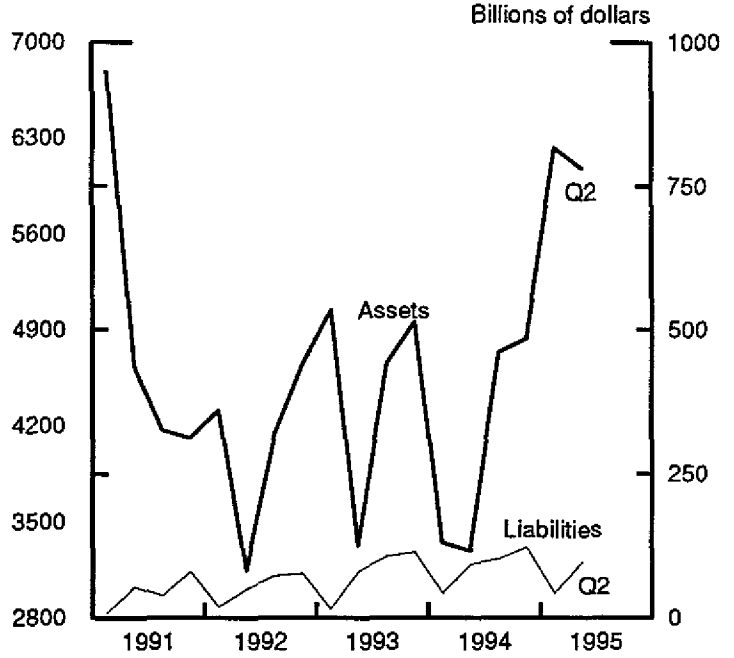
between consumer and business expenditures. Because these data are available with a lag, BEA generally uses recent average registration rates when constructing the first estimate of monthly PCE. Accordingly, we would not be surprised if the initial estimate of PCE in August--scheduled for publication on October 2--includes a large jump in outlays for motor vehicles. Actual registration data for August will be available later next month, so any earlier misallocation of motor vehicle sales between PCE and PDE ought to be corrected by the time of the advance estimate of third-quarter GDP on October 27.

## Household-Sector Wealth Indicators

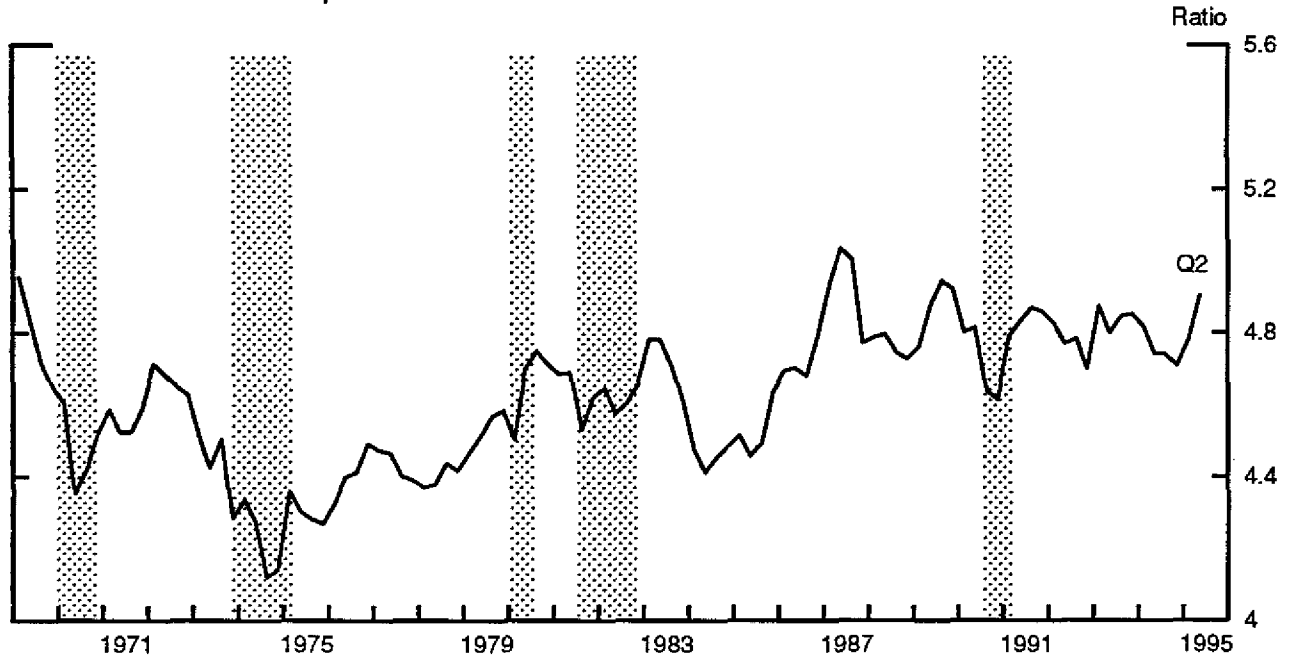
Stock Market



Change in Total Assets and Liabilities



Net Worth as Share of Disposable Personal Income



statistically significant in explaining consumption growth--jumped substantially. On net, unemployment expectations rose considerably over the summer, reaching their highest level since the fall of 1993. Why expectations of unemployment have taken this adverse turn in the SRC survey is not clear. Results of the Conference Board survey show perceptions of labor market conditions holding steady through August.

The aggregate net worth of households has risen substantially this year. The broad-based Wilshire 5000 stock-market index was up 17-1/2 percent during the first half of 1995 and has gained another 8-3/4 percent since the end of June. According to the flow of funds accounts, the value of corporate equities held by households either directly or through mutual funds was boosted \$732 billion by capital gains during the first two quarters of 1995. All told, assets of the household sector, both financial and nonfinancial, increased about \$1.6 trillion during the first half. Over the same period, household liabilities rose about \$141 billion. Increased consumer credit accounted for roughly 30 percent of the increase in liabilities, and higher mortgage debt, including home equity lines of credit, accounted for nearly 60 percent. Netting the increases in assets and liabilities, the net worth of the household sector at the end of the second quarter was 4.9 times disposable income, up considerably from the level at the end of 1994 and at the high end of the range so far in this expansion.

#### Housing Markets

Single-family housing activity has been strong in recent months. Multifamily activity, however, has been flat.

Starts of single-family units moved up 6 percent in July and edged up further to an annual rate of 1.1 million units in August, the highest reading since last December. Permit issuance for

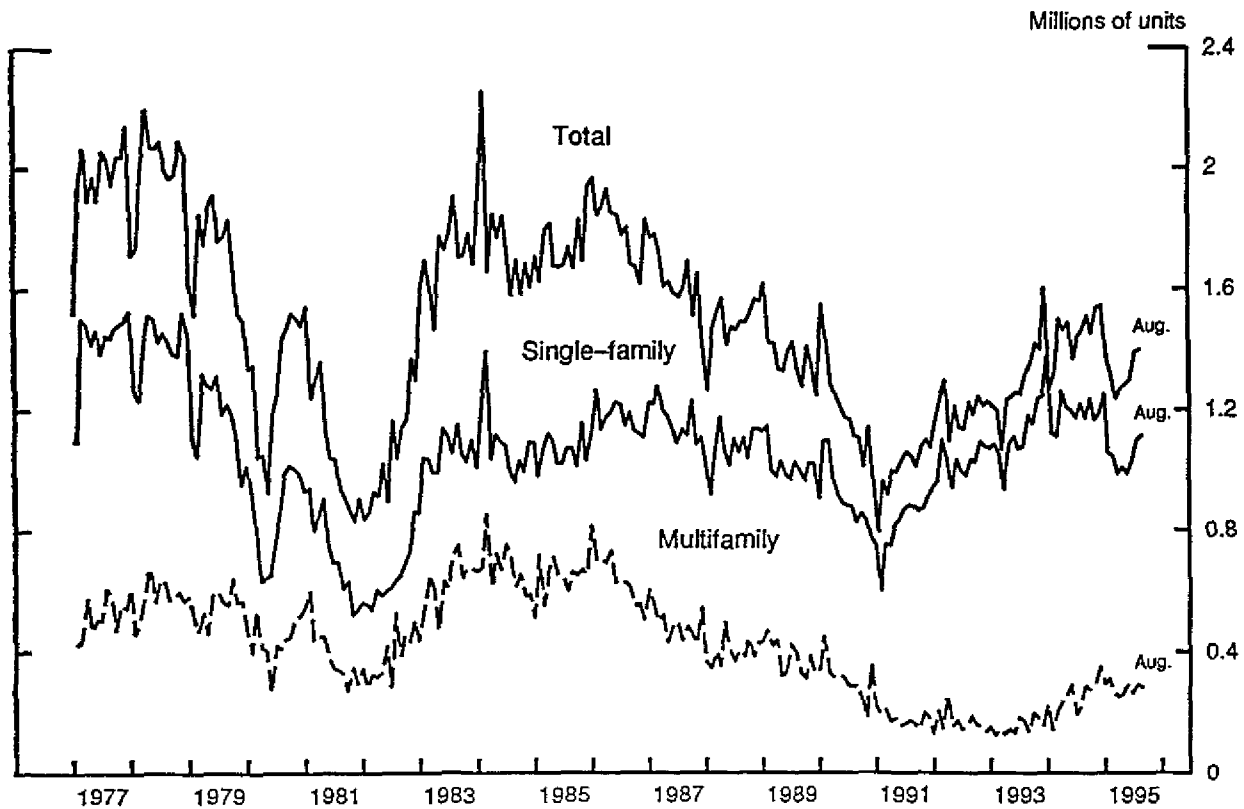
PRIVATE HOUSING ACTIVITY  
(Millions of units; seasonally adjusted annual rate)

	1994			1995		1995		
	Annual	Q3	Q4	Q1	Q2	June <sup>r</sup>	July <sup>r</sup>	Aug. <sup>p</sup>
<u>All units</u>								
Starts	1.46	1.47	1.51	1.31	1.28	1.30	1.39	1.40
Permits	1.37	1.39	1.39	1.27	1.25	1.28	1.36	1.36
<u>Single-family units</u>								
Starts	1.20	1.21	1.20	1.03	1.01	1.03	1.10	1.11
Permits	1.07	1.06	1.06	.94	.93	.96	1.01	1.05
New-home sales	.67	.66	.66	.61	.66	.71	.72	n.a.
Existing-home sales	3.95	3.91	3.76	3.55	3.58	3.80	3.99	n.a.
<u>Multifamily units</u>								
Starts	.26	.26	.31	.28	.27	.26	.29	.29
Permits	.31	.33	.33	.33	.32	.32	.34	.31

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

**Private Housing Starts**

(Seasonally adjusted annual rate)



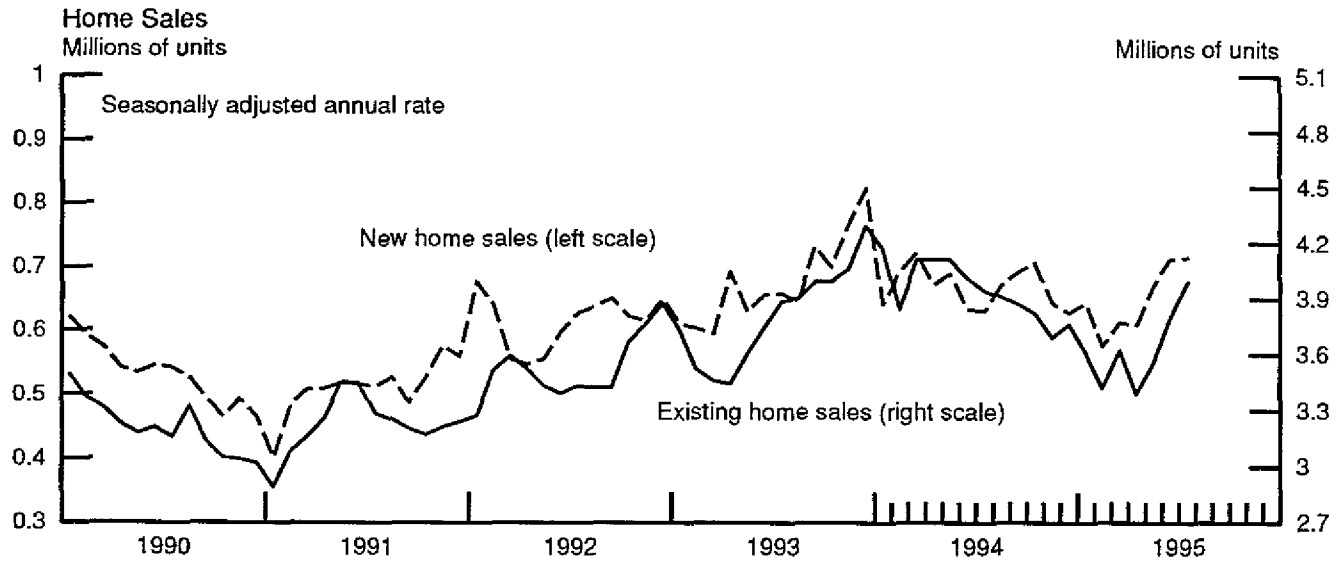
single-family houses has risen somewhat more rapidly than starts, corroborating the strength in the production estimates. Sales of both new homes and existing homes increased in July to the highest levels in more than a year. Stocks have tightened: The inventory of new homes for sale was about a six-month supply at the end of July, a stock slightly leaner than average.

The chief impetus for the recent strengthening in housing obviously has been the downswing in mortgage interest rates that extended through mid-July. These declines pushed the proportion of average household disposable income required to carry a new fixed-rate mortgage back toward its recent low in late 1993. Mortgage rates did turn up temporarily in late July and August, but that upswing has been mostly reversed by a decline in rates over the first two weeks of September.

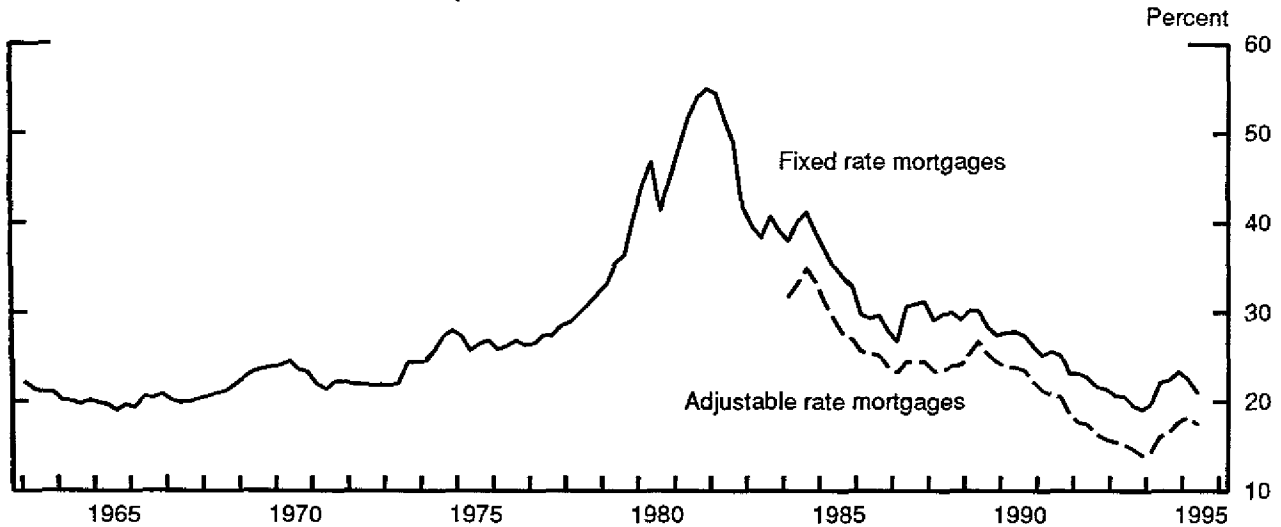
Against this financial backdrop, the attitudes of homebuyers and builders have remained favorable. A sampling of consumers in early September by the Survey Research Center showed that homebuying attitudes held in a highly favorable range, and assessments by homebuilders of the strength of new home sales continued to improve. Moreover, the MBA index of loan applications for home purchase in early September was at one of the highest levels on record for the series, which began in early 1990.

Multifamily housing starts inched down in August, from an upward-revised July estimate. Moreover, issuance of multifamily permits dropped nearly 10 percent to the lowest level since last January. The absence of any sustained rise in multifamily construction this year likely reflects a continued excess supply of multifamily housing units relative to demand. Indicators of this imbalance include the continued high rental vacancy rate for multifamily housing, a persistent slow decline in real residential

# Single-Family Housing

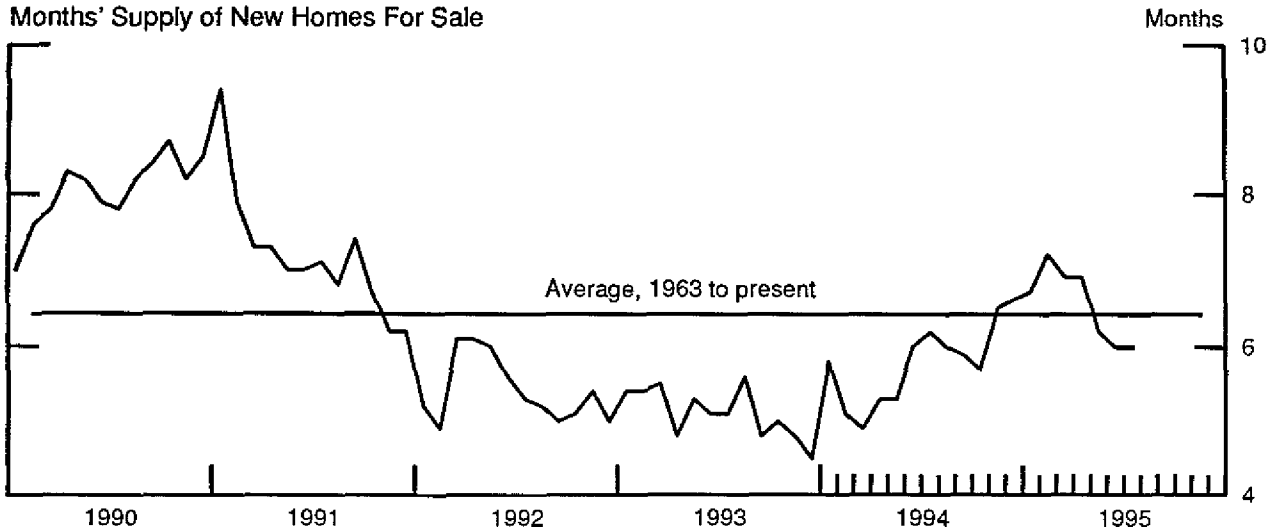


## Cash-Flow Burden of Homeownership



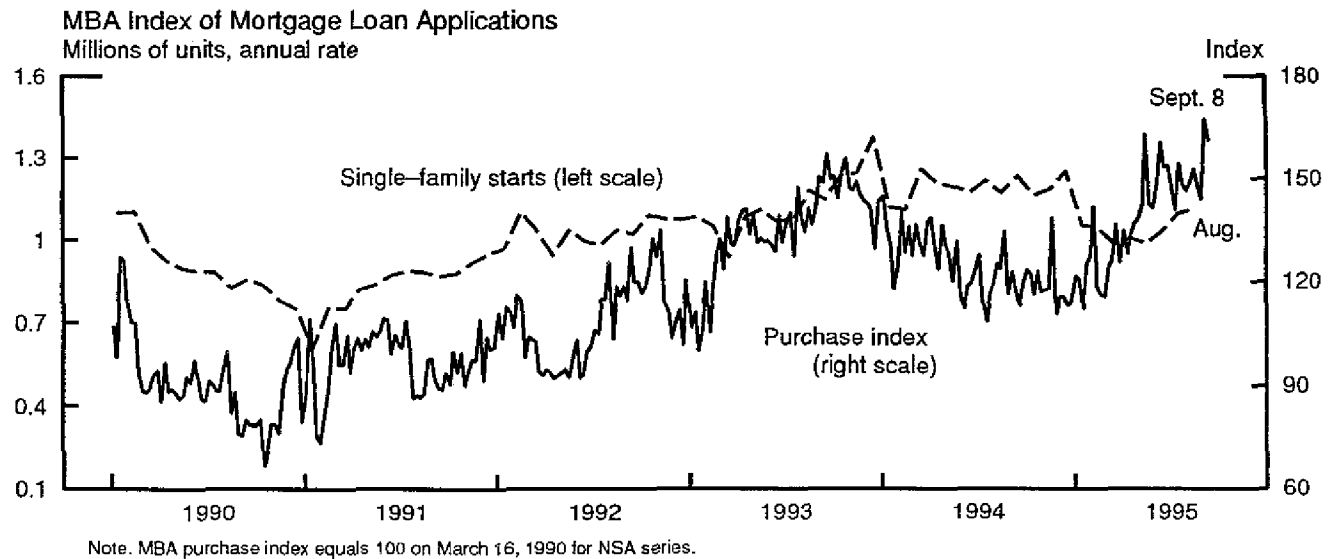
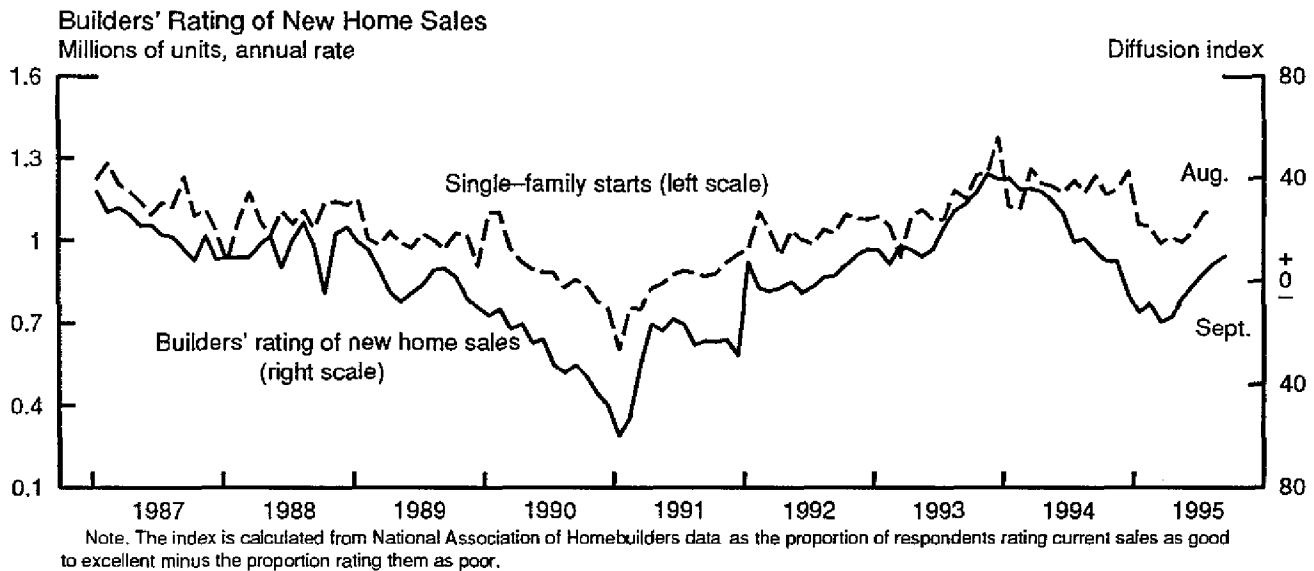
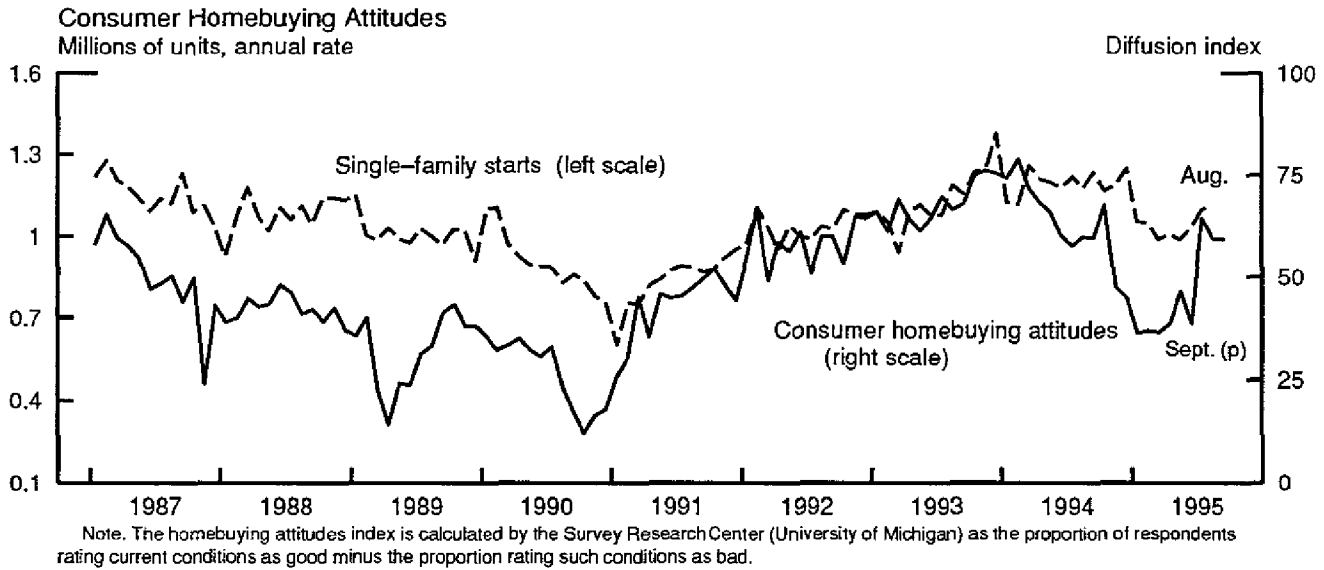
Note. Cash-flow burden is defined as the financing cost of a constant-quality new home as a percentage of average household disposable income.

## Months' Supply of New Homes For Sale



## Indicators of Housing Demand

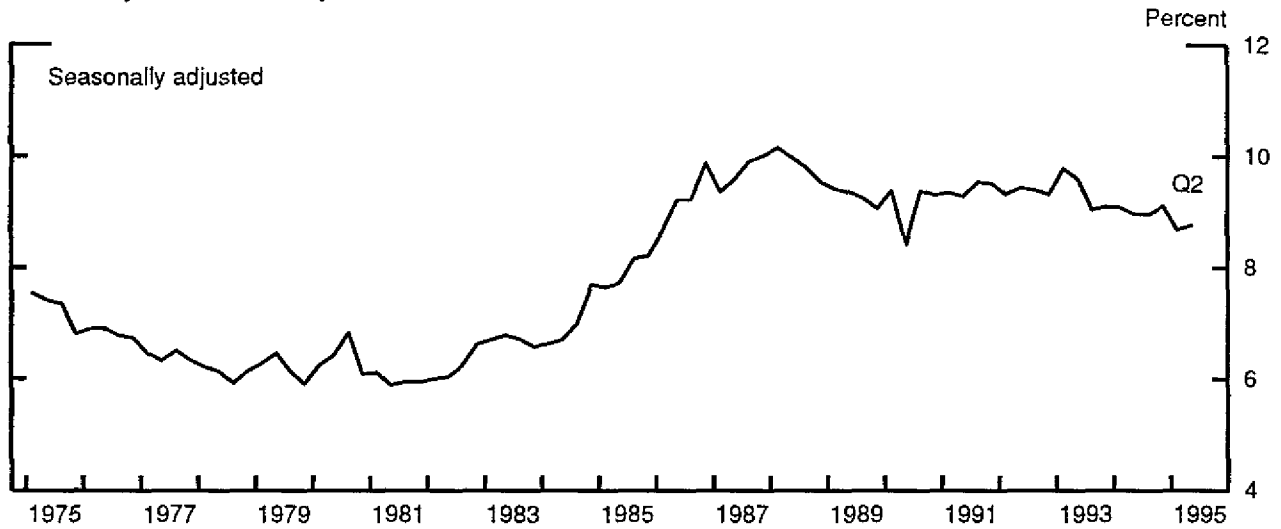
(Seasonally adjusted; FRB seasonals except starts)



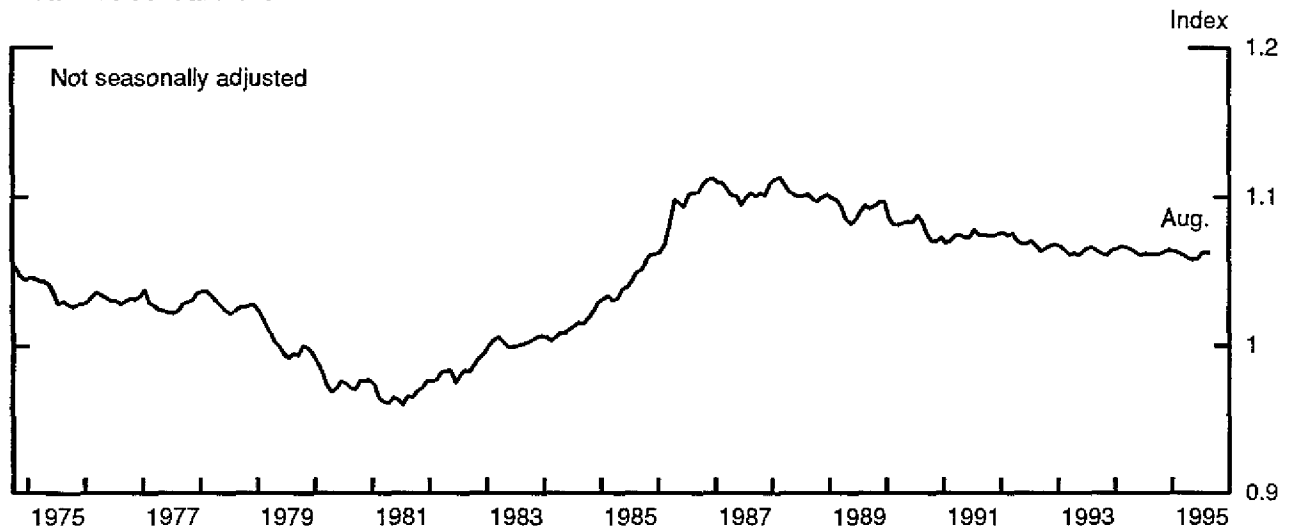


## Multifamily Housing

Multifamily Rental Vacancy Rate

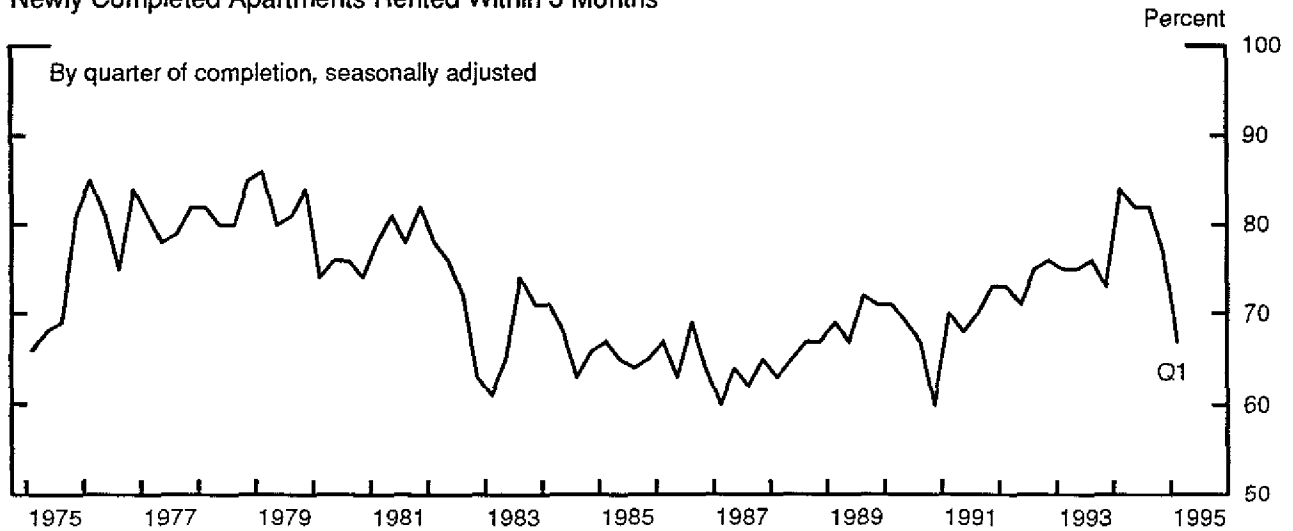


Real Residential Rent



Note. Ratio of CPI rent to the CPI ex. housing.

Newly Completed Apartments Rented Within 3 Months



rent, and, for apartments that were completed in the first quarter of 1995, a drop in the share that was rented within three months.

#### Business Fixed Investment

Recent monthly indicators of investment spending have been mixed, but the fundamental determinants still look reasonably strong.

The July data on orders and shipments of capital goods were quite weak. Shipments of nondefense capital goods excluding aircraft decreased 4.4 percent; both office and computing equipment and other equipment posted declines that more than offset June advances. Orders for capital goods other than aircraft and computers dropped 7.1 percent in July. With the level of orders slightly below that of shipments, the orders backlog for this category fell 0.3 percent, the first drop in some time. New bookings for office and computing equipment fell 11.1 percent in July.

Although the fundamental determinants of investment have been pointing to a slowdown in the growth in equipment spending from the robust rates recorded over the past few years, their recent levels are still consistent with further growth. While both the "accelerator" and the growth of cash flow have receded from the high levels that they reached earlier in the expansion, both indicators still are at levels that typically have been associated with a solid expansion of investment. Meanwhile, declines in long-term interest rates and the rise of the stock market since the start of the year have led to a favorable turn in the user cost of capital. The user cost of capital for equipment other than computers has turned down, and the user cost of capital for computers has fallen at a faster pace of late.

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

	1994	1995		1995		
	Q4	Q1	Q2	June	July	Aug.
<u>Producers' durable equipment</u>						
Shipments of nondefense capital goods	2.7	5.3	3.3	2.7	-4.8	n.a.
Excluding aircraft and parts	3.3	4.8	3.8	2.4	-4.4	n.a.
Office and computing	4.9	3.1	6.8	-.8	-3.2	n.a.
All other categories	2.9	5.2	2.9	3.4	-4.8	n.a.
Shipments of complete aircraft <sup>1</sup>	-12.8	12.5	-5.0	41.9	-39.6	n.a.
Sales of heavy trucks	8.2	8.8	-3.6	2.1	-17.0	10.9
Orders of nondefense capital goods	3.4	8.3	-.3	-.4	-7.1	n.a.
Excluding aircraft and parts	2.7	6.4	.3	3.0	-8.1	n.a.
Office and computing	2.0	2.8	3.3	11.0	-11.1	n.a.
All other categories	2.9	7.4	-.5	.8	-7.1	n.a.
<u>Nonresidential structures</u>						
Construction put-in-place	2.4	.5	2.3	3.2	3.3	n.a.
Office	10.2	.1	4.1	1.5	7.3	n.a.
Other commercial	4.0	5.7	-1.9	11.7	.0	n.a.
Institutional	1.5	-.1	.2	-4.0	7.4	n.a.
Industrial	10.0	.4	6.2	-1.2	2.0	n.a.
Public utilities	-6.6	-14.2	13.9	3.5	2.7	n.a.
Lodging and miscellaneous	8.7	9.1	1.4	4.4	7.3	n.a.
Rotary drilling rigs in use	-5.3	-1.7	1.3	-6.2	3.9	2.5
Memo:						
Business fixed investment <sup>2</sup>	17.6	21.5	11.8	n.a.	n.a.	n.a.
Producers' durable equipment <sup>2</sup>	19.6	24.5	12.3	n.a.	n.a.	n.a.
Nonresidential structures <sup>2</sup>	11.0	11.5	10.1	n.a.	n.a.	n.a.

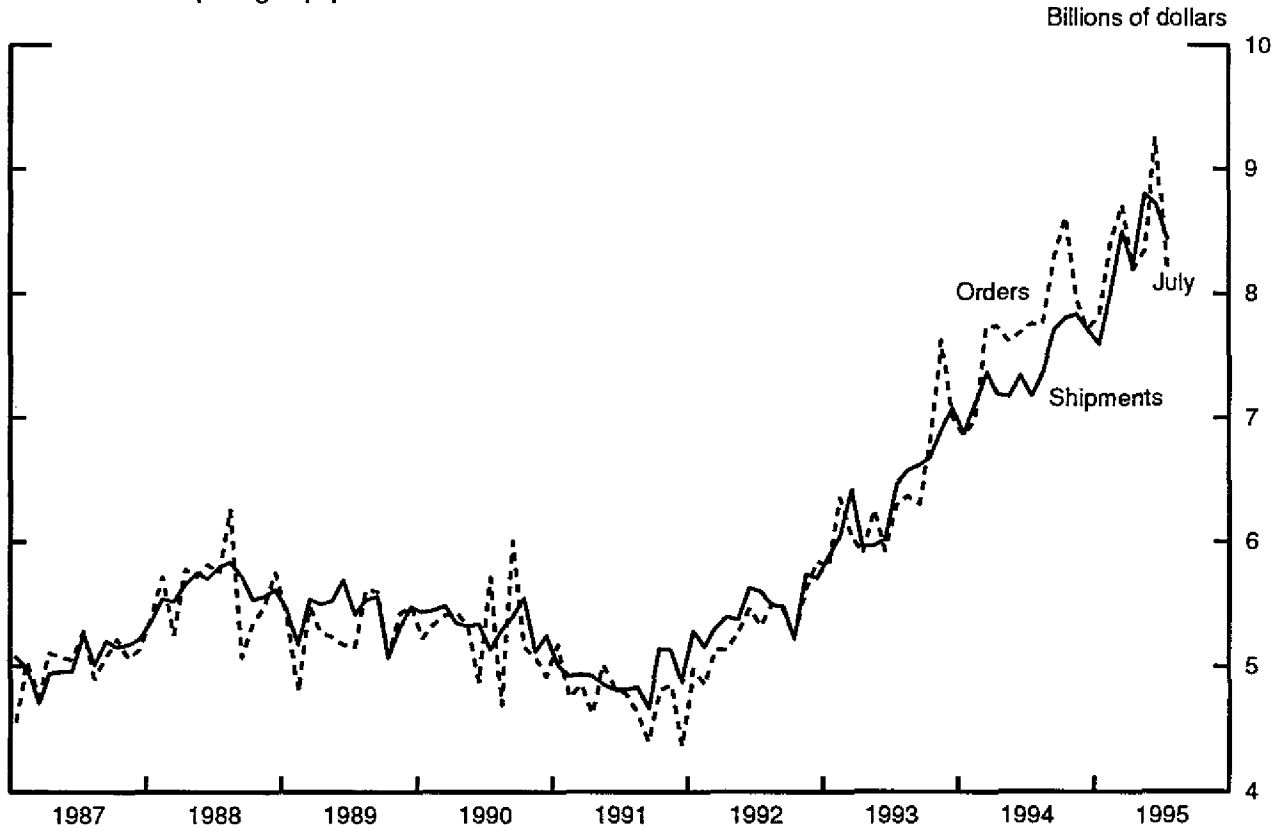
1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines." Monthly data are seasonally adjusted using FRB seasonal factors constrained to BEA quarterly seasonal factors. Quarterly data are seasonally adjusted using BEA seasonal factors.

2. Based on constant-dollar data; percent change, annual rate.

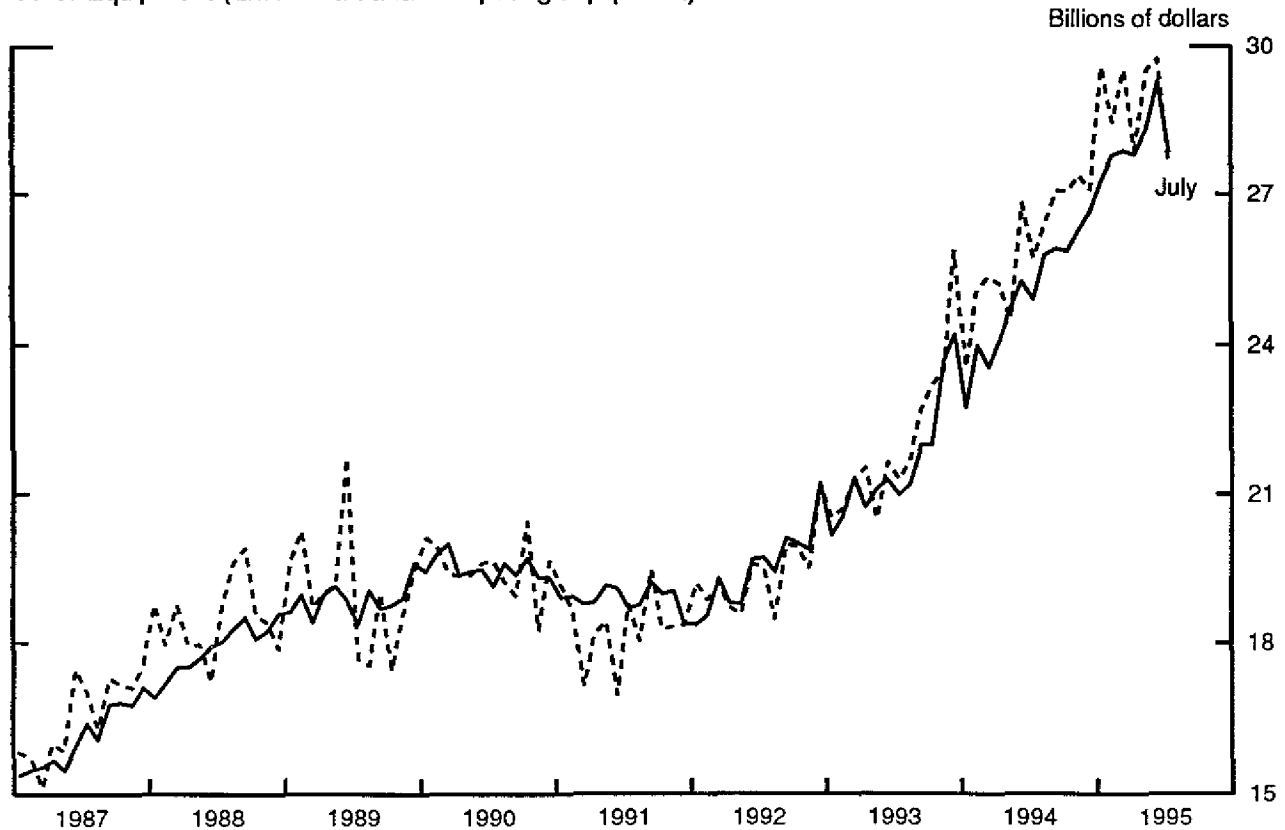
n.a. Not available.

# Orders and Shipments of Nondefense Capital Goods

Office and Computing Equipment

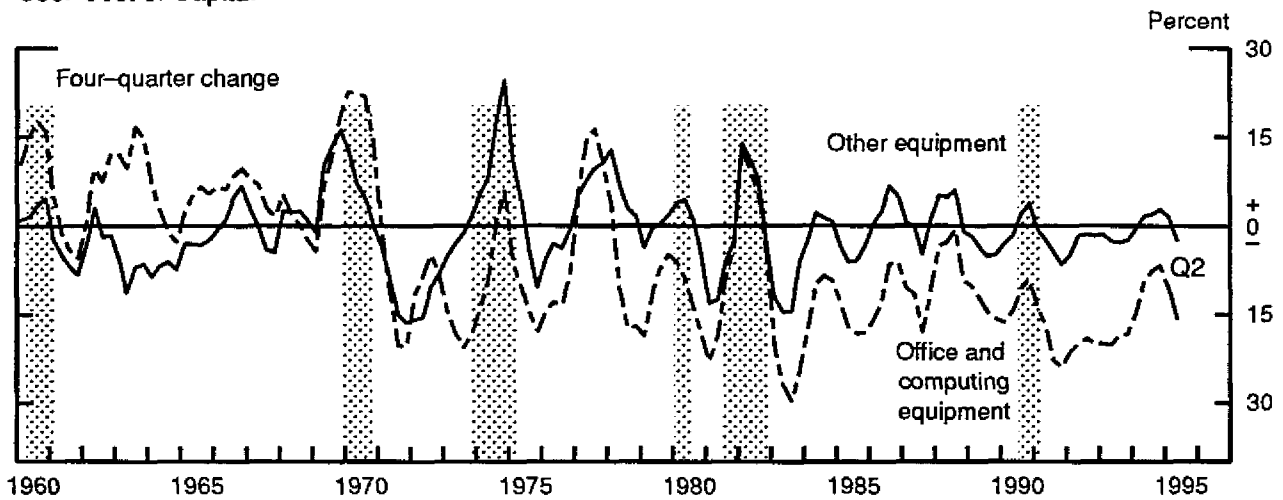


Other Equipment (Ex. Aircraft and Computing Equipment)

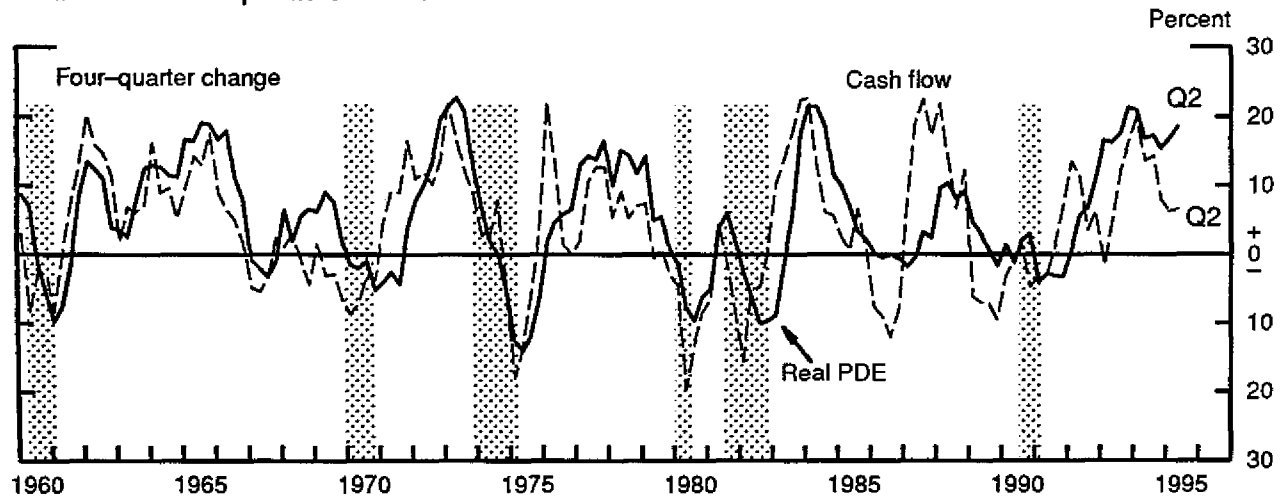


## Fundamental Determinants of Equipment Spending

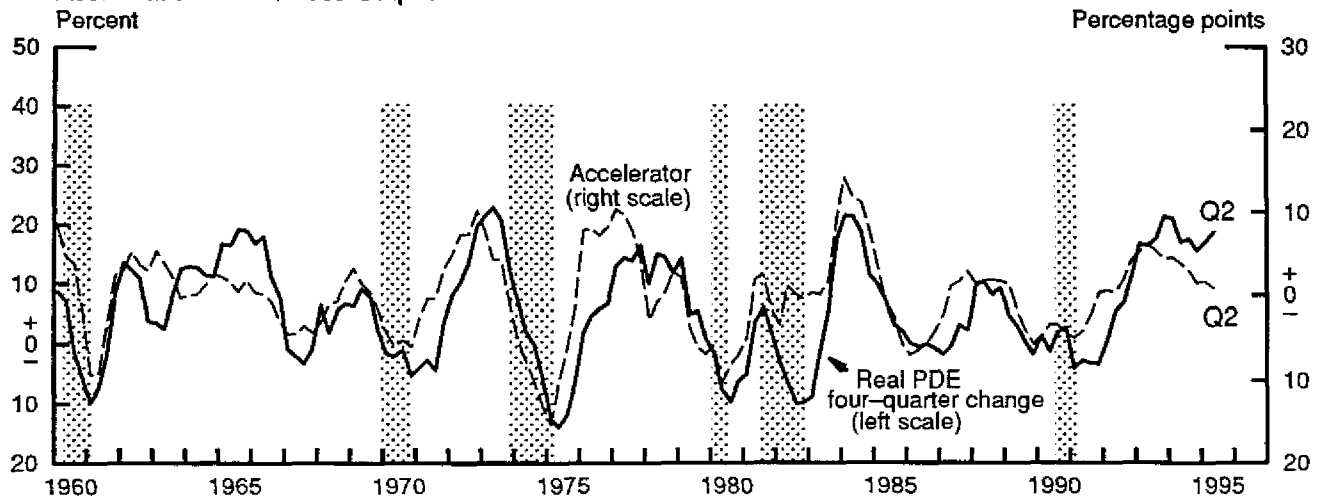
User Cost of Capital



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.

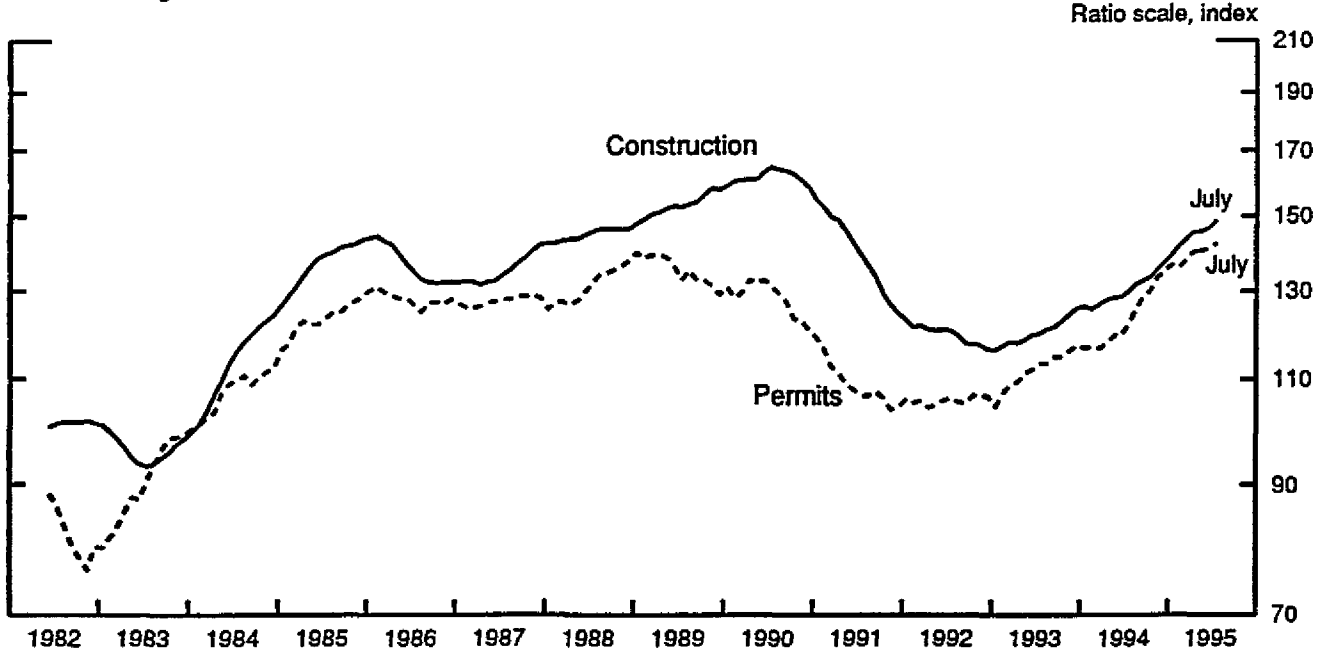
The ongoing decline in the cost of capital for computers is but one reason to suspect that the July drop in computer orders was just another example of the month-to-month volatility that frequently has shown up in that series, rather than a signal of emerging weakness in computer investment. Although IBM and Apple Computers have reported that parts shortages recently have held up shipments, anecdotal reports from most industry sources suggest that demand is holding up well. In addition, the Semiconductor Industry Association's book-to-bill ratio was at a very high level by historical standards in July and August. While this ratio does not always match up well with short-term data on orders and shipments, it has been a fairly reliable indicator of underlying trends in the computer business.

In the transportation sector, sales of motor vehicles boosted capital spending significantly in 1994 but have dropped off appreciably so far this year despite the August bulge in fleet sales. The bulk of this year's decline can be explained by a drop in auto leasing that has accompanied the general softening in the consumer market for automobiles. Sales of heavy-weight trucks ticked up in August but remained below their second-quarter average. New orders for trucks have fallen sharply recently. Backlogs of orders for trucks have turned down, but their level is high and should keep deliveries from plunging. Shipments of completed aircraft have been bumpy over the past two months, although a pickup in bookings for deliveries some years into the future appears to be emerging.

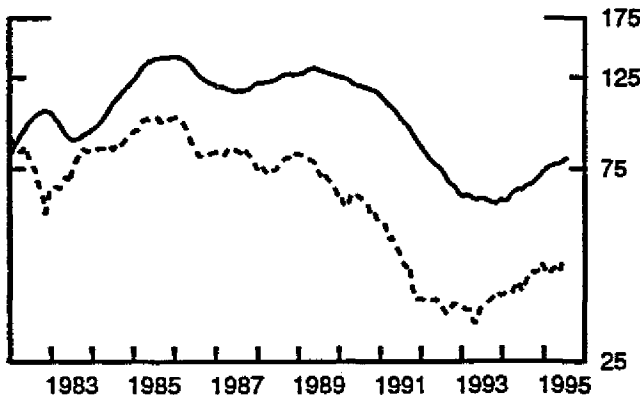
Turning to nonresidential structures, construction put-in-place advanced 3.3 percent in July. Outlays for office, institutional, and industrial structures posted healthy increases, while construction of other commercial buildings was flat. Smoothing

## Nonresidential Construction and Permits (Six-month moving average)

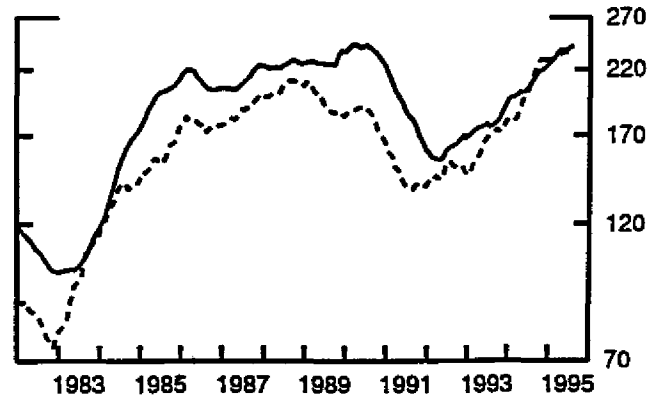
Total Building



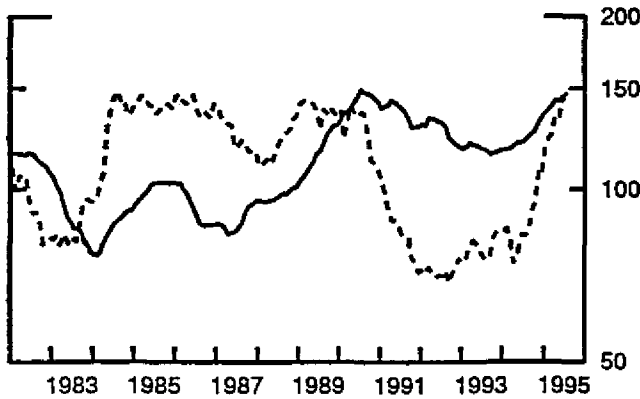
Office



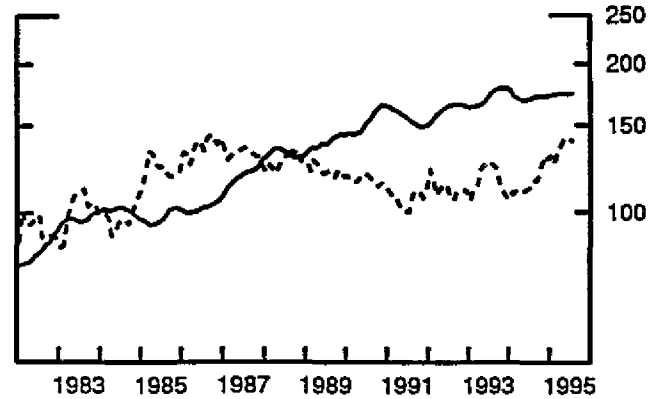
Other Commercial



Industrial



Institutional



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

through the monthly volatility of these series, construction activity continues to trend up at about the same rate registered in 1994.

Other indicators of commercial construction activity continue to exhibit a positive tilt. The National Real Estate Index (NREI) reported price increases over the past year for retail structures, warehouses, and office buildings. The price increase for office buildings is especially notable given the sharp declines in office property values witnessed in recent years. The FDIC's August survey of real estate conditions was also fairly upbeat; most respondents reported that conditions are holding steady or improving. Finally, according to the most recent Coldwell Banker survey, both downtown and suburban office vacancy rates continued to edge down in the second quarter.

#### Business Inventories

Business inventory investment has slowed from the very rapid pace of early 1995. Although stockpiling continued at a brisk pace in manufacturing and wholesale trade in July, retail stocks were drawn down.

In both manufacturing and wholesale trade, a sizable portion of the July inventory accumulation was in the capital goods sectors, as can be seen in the table below.<sup>3</sup> July additions to stocks were sizable among manufacturers of telecommunications equipment and electronic components, as were the increases in inventories among wholesalers of industrial, professional, and business equipment. Because these run-ups were accompanied by declines in shipments and sales, inventory-to-sales ratios in the capital goods sectors moved

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3. For manufacturing, capital goods consist of nondefense machinery and equipment, and automotive products; for wholesale trade, capital goods include industrial machinery, professional and business equipment, and one half of motor vehicles.



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

	1994	1995		1995		
	Q4	Q1	Q2	May	June	July
<b>Total</b>	57.7	104.8	69.7	51.4	43.7	32.0
Excluding wholesale and retail motor vehicles	55.2	75.2	61.7	43.7	52.3	52.2
Manufacturing	21.1	41.1	31.7	31.3	20.7	29.3
Wholesale	25.5	35.0	25.4	10.0	25.3	27.7
Excluding motor vehicles	25.9	28.9	19.1	1.7	24.6	31.9
Retail	11.1	28.7	12.5	10.0	-2.3	-25.0
Automotive	2.9	23.4	1.7	-6	-9.3	-15.9
Excluding auto dealers	8.2	5.3	10.8	10.7	7.0	-9.0
<b>Constant-dollar basis</b>						
<b>Total</b>	33.8	43.2	27.3	7.0	24.5	n.a.
Excluding motor vehicles	22.7	29.0	25.7	15.1	20.7	n.a.
Manufacturing	4.1	12.0	14.8	15.6	10.7	n.a.
Wholesale	14.1	21.5	11.0	1.1	7.0	n.a.
Excluding motor vehicles	14.9	16.4	4.9	-5.5	3.2	n.a.
Retail	15.6	9.7	1.6	-9.7	6.8	n.a.
Automotive	11.8	8.9	-3.7	-13.4	1.1	n.a.
Excluding auto dealers	3.8	.8	5.3	3.7	5.7	n.a.

INVENTORIES RELATIVE TO SALES<sup>1</sup>  
(Months' supply; based on seasonally adjusted data at book value)

	1994	1995		1995		
	Q4	Q1	Q2	May	June	July
<b>Total</b>	1.38	1.40	1.42	1.41	1.41	1.43
Excluding wholesale and retail motor vehicles	1.36	1.36	1.38	1.37	1.37	1.40
Manufacturing	1.35	1.35	1.38	1.37	1.37	1.41
Wholesale	1.31	1.33	1.34	1.33	1.33	1.35
Excluding motor vehicles	1.29	1.30	1.32	1.31	1.31	1.33
Retail	1.51	1.54	1.54	1.54	1.53	1.52
Automotive	1.68	1.81	1.79	1.81	1.75	1.75
Excluding auto dealers	1.46	1.46	1.46	1.46	1.45	1.45
<b>Constant-dollar basis</b>						
<b>Total</b>	1.44	1.44	1.46	1.46	1.45	n.a.
Excluding motor vehicles	1.42	1.42	1.44	1.43	1.43	n.a.
Manufacturing	1.39	1.38	1.41	1.41	1.40	n.a.
Wholesale	1.40	1.42	1.44	1.44	1.43	n.a.
Excluding motor vehicles	1.39	1.40	1.42	1.42	1.41	n.a.
Retail	1.55	1.57	1.56	1.56	1.55	n.a.
Automotive	1.62	1.72	1.68	1.68	1.65	n.a.
Excluding auto dealers	1.53	1.53	1.53	1.53	1.52	n.a.

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

up noticeably. However, the ratios remained low by standards of the past several years.

Excluding capital goods, the manufacturers' inventory buildup in July was below the average for other recent months. Within this category, accumulation of stocks continued to be substantial at

INVENTORY INVESTMENT IN MANUFACTURING AND WHOLESALE TRADE  
(Book value, billions of dollars at annual rate)

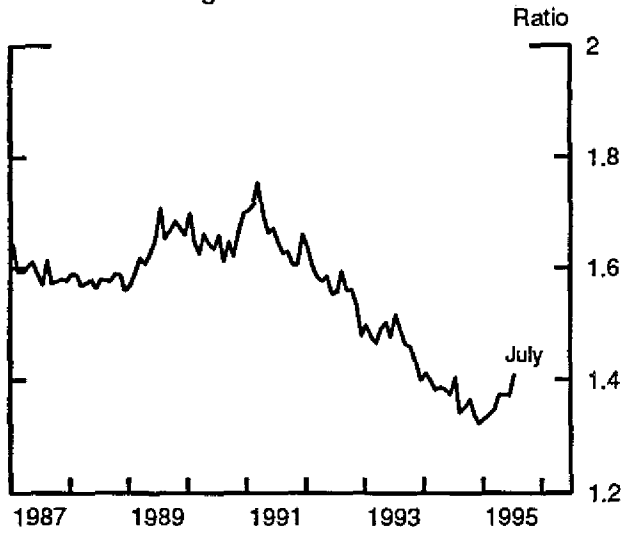
	1994	1995		1995		
	Q4	Q1	Q2	May	June	July
Manufacturing and wholesale	46.6	76.0	57.1	41.4	46.0	57.0
Capital goods	15.1	21.1	14.3	14.6	8.5	26.1
All other goods	31.6	55.0	42.9	26.8	37.5	30.9
Manufacturing	13.7	29.2	25.7	21.5	21.9	15.7
Wholesale	17.9	25.8	17.2	5.3	15.6	15.2
Memo: Capital goods as percentage of total	.324	.277	.250	.353	.185	.457

industries where a sizable portion of the finished products are for industrial or commercial use--lumber, chemicals, paper and allied products, and primary metals. Elsewhere in manufacturing, inventories in July were little changed. In wholesale trade, inventories of non-capital goods showed a hefty rise in book-value terms in July, but virtually all the increase was in farm products and groceries and may reflect the surge in the prices of foodstuffs and feedstuffs around midyear rather than real inventory accumulation.

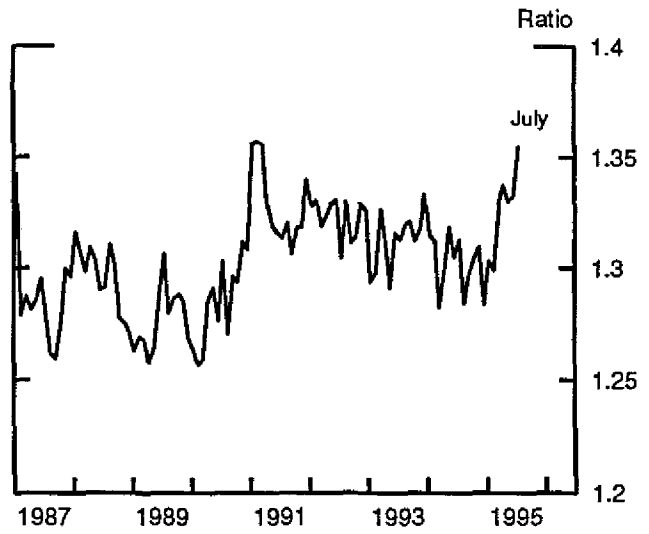
In manufacturing, the slump in shipments of durable goods in July--and the accompanying rise in inventory-sales ratios--may have been exaggerated by problems of seasonal adjustment. As shown in the table below, shipments in durable manufacturing have fallen sharply in July in each of the past two years only to rebound in August. This pattern in the shipments data has carried through to inventory-sales ratios, which have tended to tick up in July only to

### Inventory-Sales Ratios Manufacturing and Wholesale Trade

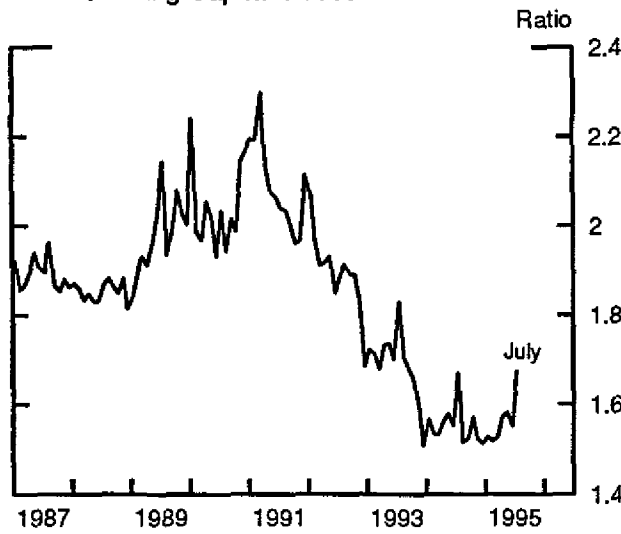
All Manufacturing



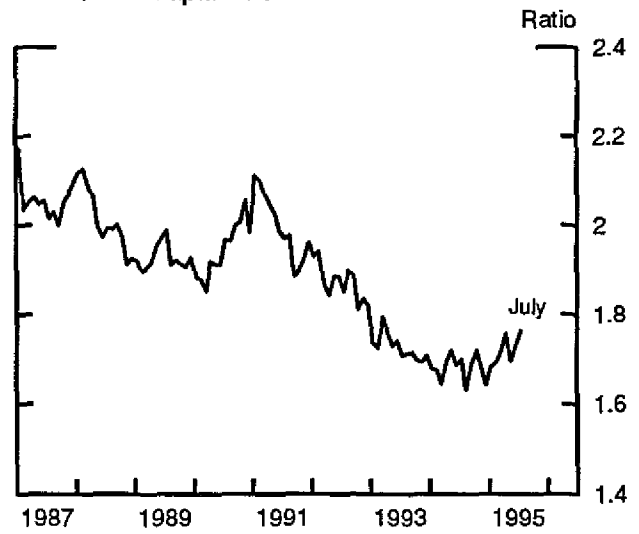
Wholesale



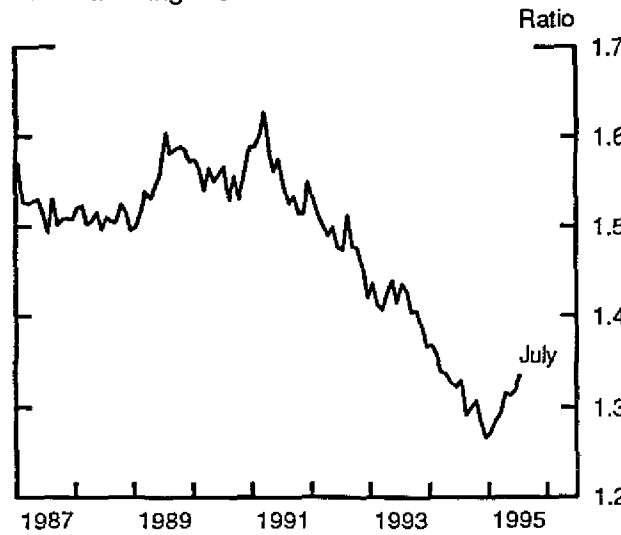
Manufacturing Capital Goods



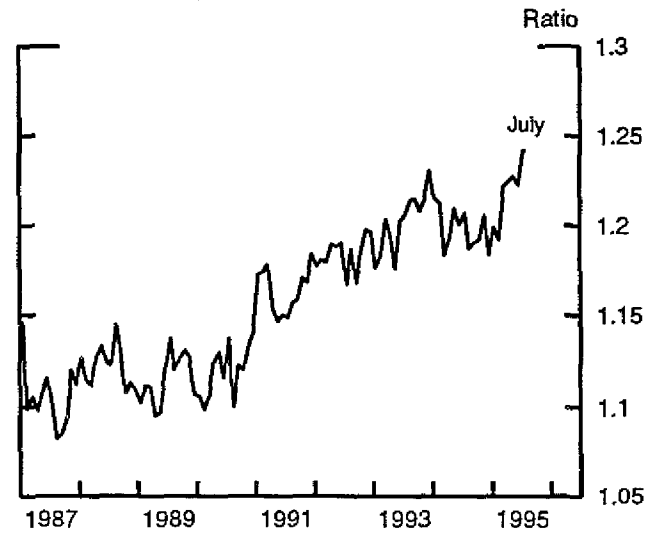
Wholesale Capital Goods



Manufacturing - Other



Wholesale - Other



turn back down in August. Transportation equipment, in particular, has exhibited spectacular swings in sales in July and August in recent years, but a similar pattern has appeared, to some degree, in a number of other durable goods categories. The possibility that sales in July were not as weak as the data indicate would help to explain why firms did not hesitate to expand production and employment in August.

SALES AND INVENTORIES IN SUMMER MONTHS OF RECENT YEARS

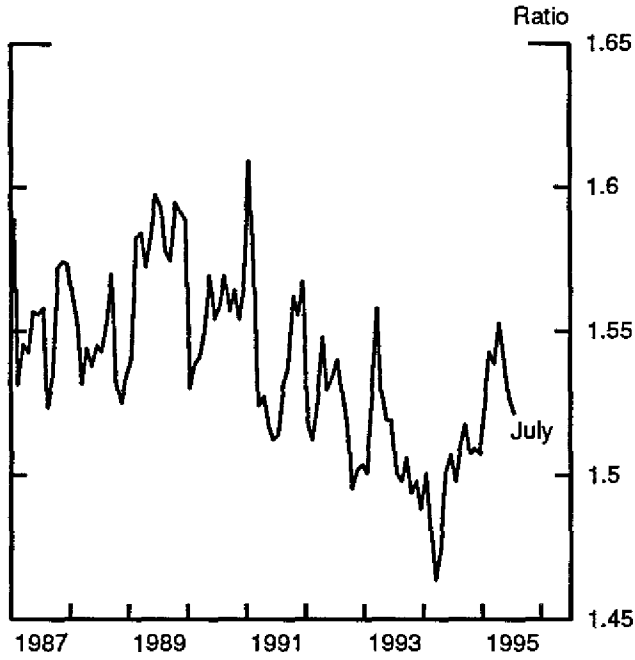
	Year	Percent change in shipments or sales		Ratio of inventories to sales		
		July	August	June	July	August
Durable mfg.	1993	-4.3	4.1	1.76	1.84	1.77
	1994	-2.4	6.2	1.61	1.66	1.57
	1995	-3.3		1.60	1.67	
Trans. equip.	1993	-12.9	10.6	1.84	2.11	1.88
	1994	-10.2	17.1	1.56	1.75	1.48
	1995	-8.6		1.55	1.71	
Other durables	1993	-1.2	2.0	1.73	1.76	1.73
	1994	.4	2.9	1.62	1.64	1.60
	1995	-1.6		1.62	1.66	

In contrast to the large runups in manufacturing and wholesale stocks, retail stocks declined in July. Total retail inventories fell at an annual rate of \$25 billion in July, and revised data for June show a drop as well. Inventories at automotive dealers dropped about \$16 billion at an annual rate in July, and stocks excluding automotive dealers fell at a rate of \$9 billion. At apparel outlets, stocks declined in July for a second month, and the inventory-sales ratio of apparel retailers dropped to 2.56 months, well below the April peak. Stocks also were trimmed in most other categories of retail outlets. Inventories at general merchandisers continued to rise, but at a slower pace than in previous months.

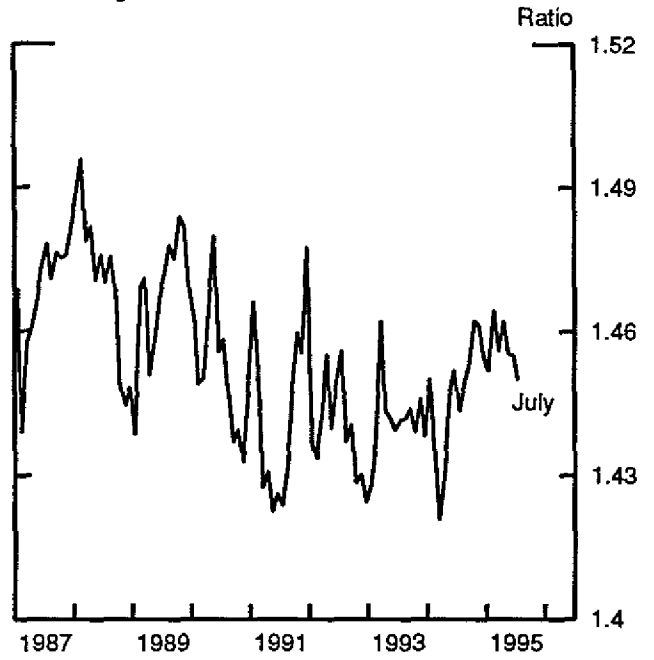
# Inventory-Sales Ratios

Retail Trade

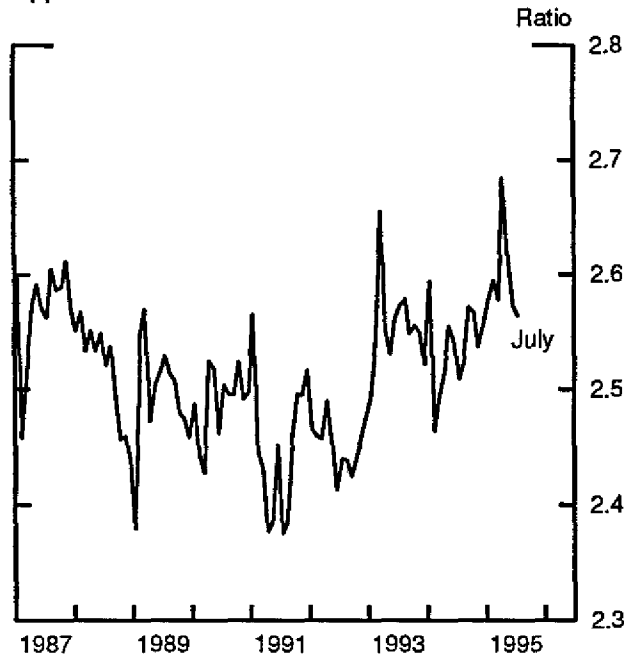
Total Retail



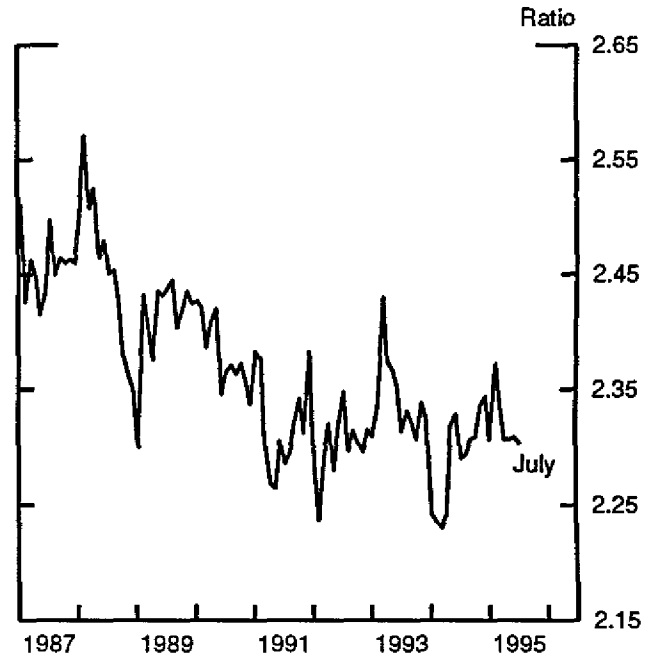
Excluding Autos



Apparel



General Merchandise



Federal Sector

Incoming Treasury data continue to point to a narrowing of the federal budget deficit in the fiscal year now drawing to a close. After adjusting for special factors, the unified budget deficit in the first ten months of fiscal 1995 was 11 percent lower than in the comparable period of fiscal 1994.<sup>4</sup> Although adjusted outlays through July increased 5-1/2 percent, receipts grew 8-1/2 percent. The actual budget deficit for July was \$14 billion, less than half that in July a year earlier.

With the exception of a revision to defense spending, the picture for outlays appears little changed from the last Greenbook. Higher interest rates have pushed net interest outlays up from last year's level. For the fiscal year through July, outlays for Medicare and health were up about 9 percent from a year earlier, a pace of growth a bit slower than in the two previous years. Defense spending declines have continued to damp outlay growth, but the drop in defense spending this fiscal year will not be so great as earlier data suggested. The July monthly treasury statement contained an unusually large \$4 billion upward revision to defense outlays, mostly to spending levels earlier in the fiscal year. As yet, BEA has not changed its estimates of defense purchases in the national income and product accounts to reflect the revised monthly data.

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4. The auction of spectrum rights and increased proceeds related to federal deposit insurance were two special factors improving the deficit over the first ten months of the fiscal year, relative to the comparable year-earlier period. On September 15, the FDIC refunded approximately \$1.5 billion of deposit insurance premiums to member banks, but this refund will offset only part of the proceeds of previous months. The FDIC now estimates that the Bank Insurance Fund had attained its target level of 1.25 percent of insured deposits in June, allowing it to retroactively reduce the insurance premium rate.

The year-to-date deficit was also held down by the shift of certain payroll and benefits payments into September, 1994 because their scheduled payment date of October 1 occurred on a weekend. A similar timing shift occurred between June and July, but it had no effect on the year-to-date totals.

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS  
(Unified basis; billions of dollars except as noted)

	Fiscal years through July					
	July		1994	1995	Dollar change	Percent change
	1994	1995				
Outlays	118.0	106.3	1207.3	1248.0	40.7	3.4
Deposit insurance (DI)	-.6	-.8	-4.4	-16.6	-12.2	277.9
Spectrum auction (SA)	.0	-7.0	.0	-7.6	-7.6	n.a.
Other	118.8	114.2	1211.7	1272.3	60.6	5.0
Receipts	84.8	92.7	1024.2	1110.8	86.6	8.5
Deficit(+)	33.2	13.6	183.1	137.2	-45.8	-25.0
Adjusted for payment timing shifts <sup>1</sup> and excluding DI and SA						
Outlays	118.6	120.1	1211.7	1278.2	66.5	5.5
National defense	22.1	20.8	230.1	224.9	-5.1	-2.2
Net interest	18.0	20.2	167.7	192.6	24.9	14.9
Social security	26.7	28.0	265.9	279.7	13.8	5.2
Medicare and health	20.8	20.8	207.5	225.5	18.1	8.7
Income security	17.0	17.1	180.0	185.5	5.5	3.0
Other	14.0	13.1	160.5	169.8	9.3	5.8
Receipts	84.8	92.7	1024.2	1110.8	86.6	8.5
Personal income and social insurance taxes	71.4	79.3	823.7	890.1	66.3	8.1
Corporate	3.8	3.4	110.0	122.0	12.0	10.9
Other	9.6	10.0	90.5	99.2	8.7	9.7
Deficit(+)	33.8	27.3	187.5	167.4	-20.1	-10.7

n.a. Not applicable.

1. A shift in payment timing occurs when the first of the month falls on a weekend or holiday. The monthly and fiscal year to date outlays for defense, income security, and "other" have been adjusted to account for this shift. Components may not sum to totals because of rounding.

However, all else equal, we would expect to see a smaller decline in real defense spending in the first quarter of calendar 1995 and a larger decline in the second quarter when BEA releases its comprehensive revision later this year.

In its recently released budget update, CBO's current-policy projection shows an improved outlook for deficits in the near term, but the longer-term outlook is little changed. The CBO projects that deficits will rise from \$161 billion in fiscal 1995 to \$460 billion in fiscal 2005. A \$13 billion downward revision for fiscal 1995 was largely a result of higher-than-expected receipts and of lower-than-expected outlays for the Earned Income Tax Credit and other mandatory programs. For the longer term, downward revisions to outlays and upward technical revisions to receipts more than offset decreased revenues resulting from a lower projected level of nominal GDP.

A substantial amount of work remains on the budget for fiscal year 1996. The House has passed twelve of the thirteen regular appropriations bills, but six are still under consideration in the Senate. None is ready to be sent to the President. As a result, the President and Congressional leaders have begun discussing the scope of a continuing resolution to provide interim funding for discretionary programs; issues to be resolved include the length of time the resolution will cover, the level of funding it will provide, and the possibility that the Congress will attach legislative riders. Meanwhile, committees with jurisdiction over mandatory spending programs are meeting this week to draft legislation that will implement the budget resolution adopted in June. However, some are reportedly having difficulty coming up with the required spending reductions, and the September 22 deadline specified in the budget resolution is likely to slip.



## CBO BUDGET AND ECONOMIC PROJECTIONS

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Budget projections (Billions of dollars; fiscal years)											
Outlays	1518	1602	1686	1766	1873	1982	2087	2211	2341	2480	2637
Receipts	1357	1413	1468	1537	1612	1694	1779	1870	1966	2066	2175
Deficit	161	189	218	229	261	288	308	340	375	414	462
-----											
Memorandum											
April baseline deficit	175	210	230	232	266	299	316	349	384	422	472
Economic assumptions (Calendar years)											
-----Percentage change, year over year-----											
Real GDP	2.6	1.9	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
GDP deflator	2.1	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
CPI-U	3.1	3.4	3.4	3.3	3.2	3.2	3.2	3.2	3.2	3.2	3.2
-----Percent, annual average-----											
Unemployment rate	5.7	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Yield on selected Treasuries											
Three-month	5.4	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Ten-year	6.5	6.4	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7

Note. The projections assume that revenues and outlays for major benefit programs evolve according to laws in effect at the time the projections are made, and that appropriations for other programs are consistent with discretionary spending caps through fiscal year 1998 and rise at the rate of inflation thereafter. The projections include social security and the Postal Service, which are off-budget.

Source. The Economic and Budget Outlook: An Update, Congressional Budget Office, August, 1995.

State and Local Government Sector

State and local government purchases appear to have picked up in the third quarter. Led by a sharp rise in highway construction, real spending on structures rose more than 1-1/2 percent in July, bringing construction to a level nearly 3 percent above the second-quarter average. Relatively dry weather in the West and Northeast probably led to faster completion of some projects.

State and local government employment surged in August after remaining essentially unchanged in July. On balance, the average for the two-month period stands 54,000 above the second-quarter level, about twice the increase seen in the first two quarters of the year. About half of the August employment gain came from a rise in education workers. Historically, monthly changes in the employment of state and local education workers have been fairly erratic, and a jump like that of August probably says little about underlying trends in the sector. Indeed, the August increase in employment of state and local education workers left the year-to-year change at about 2 percent, well within the range of annual growth rates reported for this category over the past few years.

Prices

After a step-up early in the year, price increases recently have eased. The consumer price index rose 0.1 percent in August, and the core CPI increased 0.2 percent. Over the past four months, the core index has risen at a compound annual rate of 2.4 percent, well below the 4.2 percent rate of increase during the first four months of the year. The moderation largely reflects a downturn in the indexes for used cars and automobile finance charges and a slowing in the rise of airline fares. The core CPI in August was up 2.9 percent from the level of a year earlier; its increase over the previous twelve-month period also was 2.9 percent. Price pressures

RECENT CHANGES IN CONSUMER PRICES  
(Percent change; based on seasonally adjusted data)<sup>1</sup>

	Relative importance, Dec. 1994	1993	1994	1994	1995		1995	
				Q4	Q1	Q2	July	Aug.
				-----Annual rate-----			-Monthly rate-	
All items <sup>2</sup>	100.0	2.7	2.7	1.9	3.2	3.2	.2	.1
Food	15.8	2.9	2.9	3.9	.0	3.6	.2	.2
Energy	7.0	-1.4	2.2	.4	-1.1	5.4	-.8	-.8
All items less food and energy	77.2	3.2	2.6	2.0	4.1	3.0	.2	.2
Commodities	24.1	1.6	1.4	.3	2.6	.6	.1	.4
Services	53.1	3.9	3.2	2.6	4.8	4.3	.3	.1
Memo:								
CPI-W <sup>3</sup>	100.0	2.5	2.7	2.2	3.6	2.7	.1	.1

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

RECENT CHANGES IN PRODUCER PRICES  
(Percent change; based on seasonally adjusted data)<sup>1</sup>

	Relative importance, Dec. 1994	1993	1994	1994	1995		1995	
				Q4	Q1	Q2	July	Aug.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	.2	1.7	2.2	3.2	.9	.0	-.1
Consumer foods	22.8	2.4	1.1	9.2	-1.2	-4.9	1.2	.0
Consumer energy	13.6	-4.1	3.5	.0	11.3	2.0	-2.5	-.9
Other finished goods	63.7	.4	1.6	.3	2.9	2.9	.2	.1
Consumer goods	40.2	-.4	1.4	.6	2.9	3.2	.2	.1
Capital equipment	23.5	1.8	2.0	-.3	3.0	2.4	.1	.1
Intermediate materials <sup>2</sup>	95.6	.8	4.8	7.2	10.6	3.9	.0	-.1
Excluding food and energy	82.9	1.6	5.2	8.3	10.5	4.2	.3	.1
Crude food materials	40.4	7.2	-9.4	-1.2	-4.6	-.4	4.1	.7
Crude energy	34.5	-12.3	-.1	-7.6	-4.5	15.3	-5.4	-3.8
Other crude materials	25.1	10.7	17.3	27.9	21.9	4.1	-1.8	-.9

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

at earlier stages of processing also have abated, as producer price increases for intermediate goods and crude materials have dropped back from the rapid pace earlier in the year.

Consumer energy prices dropped 0.8 percent in July and August, retracing all of the run-up during the previous three months. The decline in July and August reflects decreases in crude oil prices in May and June. Although oil prices since have turned up, the Lundberg survey points to a further decline in pump prices in September. Natural gas prices resumed their downward trend in August after an uptick in July; they have fallen 5.7 percent over the past twelve months.

The August increase in food prices of 0.2 percent marked the fourth consecutive month of small increases. Most food categories continue to show little inflation. The major exceptions of late are egg prices, which were pushed up sharply in July and August as unusually hot weather in the East hurt production, and the prices of some cereal and bakery products, one of the few categories to be visibly affected by rising grain prices. The index for prices of food away from home, which accounts for nearly 40 percent of the food index, increased 2.4 percent over the past twelve months, a bit faster than the year-earlier increase. The total food index also increased 2.4 percent over the past twelve months, down slightly from the year-earlier period.

The index for goods other than food and energy rose 0.4 percent in August--well above its 0.1 percent per month rate of increase during the previous twelve months. Above-trend increases were widespread among nondurables. Household paper products increased a further 1.0 percent, a reflection of increases at earlier stages of production. Larger-than-usual increases were also posted for apparel, tobacco, and alcoholic beverages. Prices of durable goods

INFLATION RATES EXCLUDING FOOD AND ENERGY  
(Percentage change from twelve months earlier)

	Aug. 1993	Aug. 1994	Aug. 1995
CPI	3.3	2.9	2.9
Goods	2.0	1.5	1.5
Alcoholic beverages (2.0) <sup>1</sup>	1.4	1.1	2.1
New vehicles (6.6)	2.9	3.9	2.0
Apparel (6.6)	1.1	-0.9	-0.9
House furnishings (4.5)	0.5	1.8	.0
Housekeeping supplies (1.4)	-0.7	2.3	4.4
Medical commodities (1.7)	3.8	2.9	1.5
Entertainment (2.5)	1.3	2.4	1.8
Tobacco (2.1)	2.9	-2.7	2.6
Used cars (1.7)	8.8	4.7	9.0
Services	4.0	3.5	3.6
Owners' equivalent rent (26.3)	3.2	3.3	3.3
Tenants' rent (7.5)	2.6	2.5	2.4
Other renters' costs (2.8)	1.7	4.0	3.8
Airline fares (1.3)	21.7	4.2	2.2
Medical care (7.7)	6.4	5.0	5.1
Entertainment (3.1)	3.0	3.5	3.2
Auto financing (0.8)	-9.1	11.1	13.3
Tuition (3.4)	8.1	6.5	6.2
PPI finished goods	0.6	1.9	2.0
Consumer goods	-0.1	1.7	2.1
Capital goods, excluding computers	2.4	2.5	1.9
Computers	-14.4	-5.3	-10.3
PPI intermediate materials	1.3	2.8	7.0
PPI crude materials	6.9	12.9	10.6
<u>Factors affecting price inflation</u>			
ECI hourly compensation <sup>2</sup>	3.6	3.4	2.8
Goods-producing	4.2	3.3	2.4
Service-producing	3.3	3.3	3.1
Civilian unemployment rate <sup>3,4</sup>	6.7	6.0	5.6
Capacity utilization <sup>3</sup> (manufacturing)	80.6	83.8	83.0
Inflation expectations <sup>5,6</sup>			
Michigan Survey	4.8	4.6	3.6
Conference Board	4.7	4.3	4.0
Non-oil import price <sup>7</sup>	0.8	2.4	4.7
Consumer goods, excluding autos, food, and beverages	1.1	0.6	2.0
Autos	2.0	3.2	3.9

1. Relative-importance weight in CPI excluding food and energy.
2. Private industry workers, periods ended in June.
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: September for the Michigan Survey; August for the Conference Board Survey.
7. BLS import price index (not seasonally adjusted).

increased 0.2 percent in August, about the same pace as during the previous twelve months. Before seasonal adjustment, the price of new motor vehicles fell 0.2 percent, less than usual for August; thus, the index rose 0.1 percent on an adjusted basis. Used car prices fell another 0.7 percent in August, the fourth consecutive month of substantial declines. Despite the drop, used car prices are still 9 percent above a year earlier.

Prices of nonenergy services increased only 0.1 percent in August. Prices for lodging while out of town, a volatile category, fell 0.9 percent, but service price increases were also held down by below-trend increases in both owners' equivalent rent and renters' rent. Among services excluding energy and shelter, auto finance charges fell another 0.4 percent; the cumulative 6.9 percent decline in this index since April offsets only part of the nearly 32 percent increase over the previous twelve months. Airline fares fell 3.5 percent last month after a 20.4 percent increase (not annualized) during the first half of this year.

In the PPI, price increases among intermediate goods excluding food and energy have slowed to 0.2 percent per month, on average, in the past four months, after having risen 8 percent over the previous twelve months. Although price pressures in markets for softwood lumber and plywood seem to have picked up and are persisting in markets for paper and paper products, most intermediate-goods prices increased more slowly in the latest two months than for the past year as a whole. Among finished goods, the price of capital goods inched up only 0.1 percent in August; it was held down by a decline in the price of heavy trucks. Prices increased for railroad equipment, tools and dies, and metal-cutting machine tools. Over the past year, the PPI for finished consumer goods excluding food

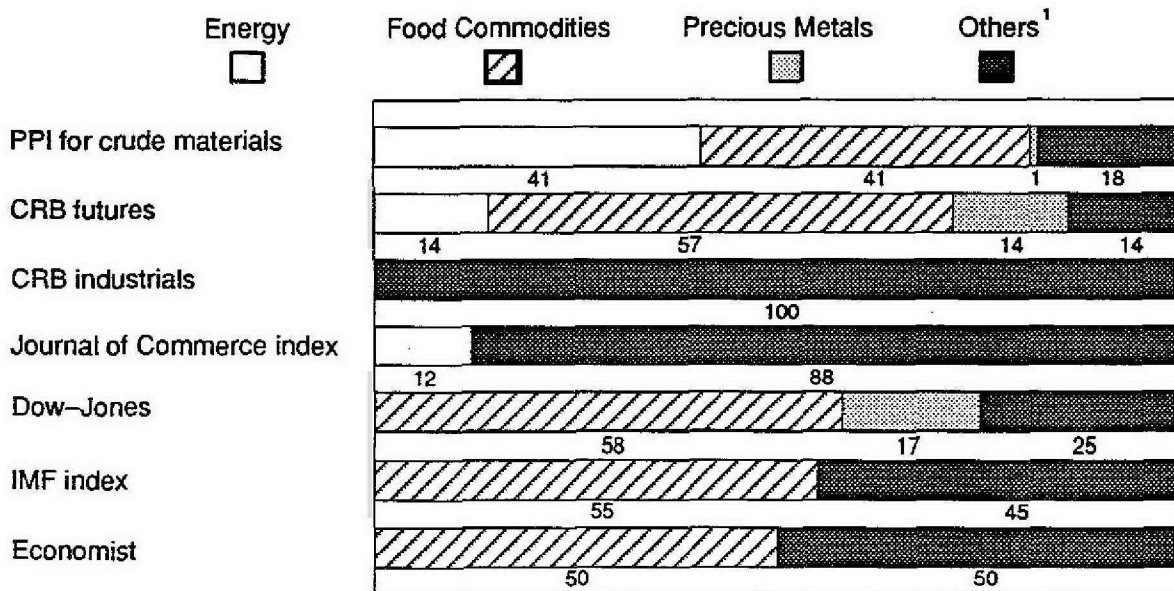
COMMODITY PRICE INDEXES

	Last observ- ation	-----Percent change <sup>1</sup> -----				Memo: Year earlier to date
		1993	1994	Dec. 94 to Aug. 15 <sup>2</sup>	Aug. 15 <sup>2</sup> to date	
PPI for crude materials <sup>3</sup>	Aug.	0.1	-0.5	-0.3	n.a.	-1.7
Foods and feeds	Aug.	7.2	-9.4	3.0	n.a.	2.8
Energy	Aug.	-12.3	-0.1	-6.9	n.a.	-13.9
Excluding food and energy	Aug.	10.7	17.3	3.7	n.a.	10.6
Excluding food and energy, seasonally adjusted	Aug.	10.5	17.6	3.2	n.a.	10.6
Commodity Research Bureau						
Futures prices	Sep. 19	11.6	4.8	-0.8	3.9	5.4
Industrial spot prices	Sep. 19	-0.0	29.1	-1.2	-1.6	5.7
Journal of Commerce industrials	Sep. 19	-2.9	22.1	0.7	-0.9	3.8
Metals	Sep. 19	-1.8	31.9	3.2	-4.6	9.8
Dow-Jones spot	Sep. 19	5.1	14.8	3.2	-1.2	-1.5
IMF commodity index <sup>3</sup>	Aug.	2.4	15.2	17.8	n.a.	25.5
Metals	Aug.	-14.4	39.1	-1.3	n.a.	18.0
Nonfood agricultural	Aug.	0.2	14.8	-0.4	n.a.	5.0
Economist (U.S. dollar index)	Sep. 12	9.1	31.0	-3.2	-3.5	-6.0
Industrials	Sep. 12	4.4	38.6	-2.1	-3.3	7.9

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 August Greenbook.
  3. Monthly observations. IMF index includes items not shown separately.
- n.a. Not available.

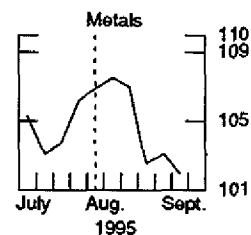
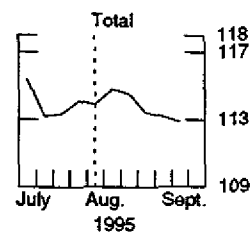
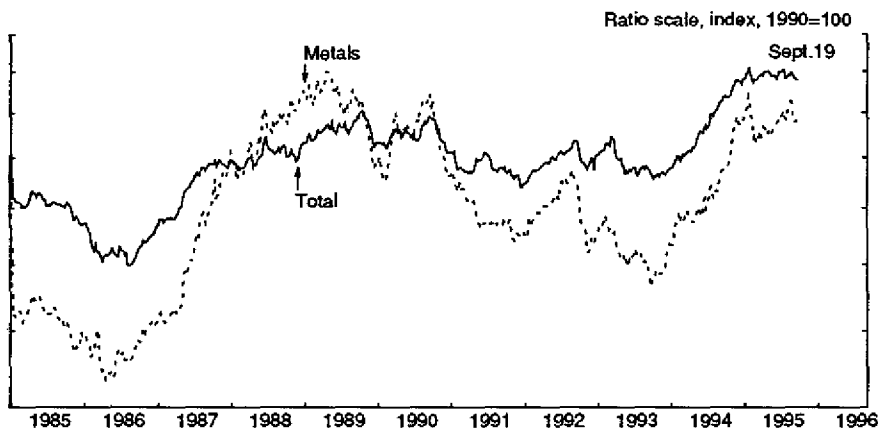
Index Weights



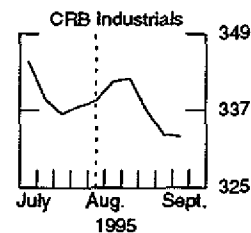
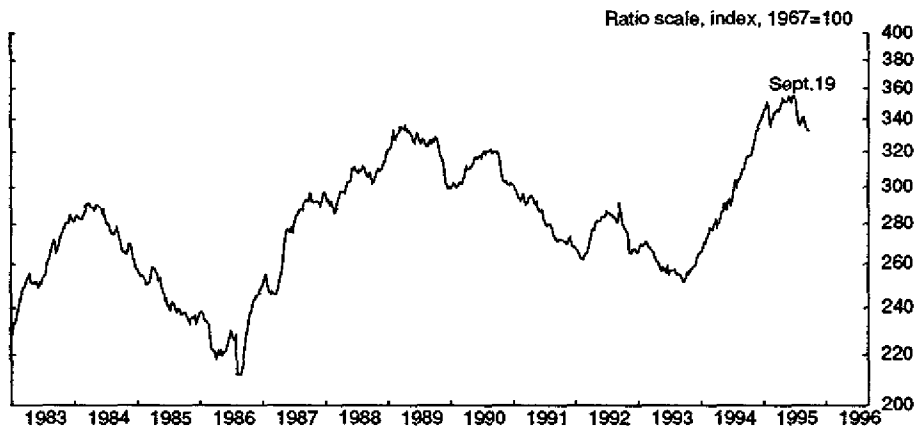
1. Forest products, industrial metals, and other industrial materials

## Commodity Price Measures

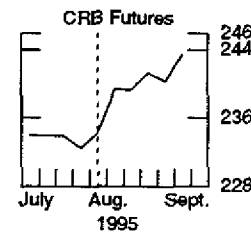
### Journal of Commerce Index



### 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.



## SPOT PRICES OF SELECTED COMMODITIES

	Current price (\$)	-----Percent change <sup>1</sup> -----				Memo: Year earlier to date
		1993	1994	To Aug. 15 <sup>2</sup>	Aug. 15 <sup>2</sup> to Sept. 19	
-----INDUSTRIAL COMMODITIES-----						
<b>Metals</b>						
Copper (lb.)	1.350	-19.0	64.9	.7	-4.9	7.1
Steel scrap (ton)	143.500	46.8	2.9	2.1	-2.0	6.7
Aluminum, London (lb.)	.796	-10.7	73.5	.1	-8.5	10.1
Lead (lb.)	.418	3.0	20.7	.6	-.2	7.2
Zinc (lb.)	.494	-7.5	23.6	-11.7	-3.2	.6
Tin (lb.)	4.205	-14.1	21.4	15.3	-8.2	17.2
<b>Textiles and fibers</b>						
Cotton (lb.)	.909	19.6	38.5	-2.4	8.3	28.1
Burlap (yd.)	.318	8.2	10.2	7.9	.8	14.2
<b>Miscellaneous materials</b>						
Hides (lb.)	.823	1.3	14.2	-9.1	.3	-13.4
Rubber (lb.)	.710	-7.3	75.4	-14.6	6.0	6.3
-----OTHER COMMODITIES-----						
<b>Precious metals</b>						
Gold (oz.)	384.850	16.6	-1.7	1.4	-.4	-2.3
Silver (oz.)	5.440	38.8	-5.0	12.7	.7	-2.8
Platinum (oz.)	439.600	8.0	7.5	1.5	4.5	4.8
<b>Forest products</b>						
Lumber (m. bdft.)	288.000	75.8	-37.1	-21.2	25.2	-5.6
Plywood (m. sqft.)	367.000	-6.3	1.5	10.0	1.1	-5.9
<b>Petroleum</b>						
Crude oil (barrel)	17.200	-25.0	15.6	.8	9.3	9.2
Gasoline (gal.)	.592	-31.0	32.4	9.5	10.3	30.8
Fuel oil (gal.)	.510	-22.4	12.7	-1.8	5.4	8.2
<b>Livestock</b>						
Steers (cwt.)	64.000	-7.3	-3.4	-12.1	4.1	-.8
Hogs (cwt.)	49.500	.6	-12.9	40.8	-1.0	39.4
Broilers (lb.)	.614	6.1	-4.9	25.6	-.3	12.1
<b>U.S. farm crops</b>						
Corn (bu.)	2.885	41.7	-23.2	20.2	8.9	42.5
Wheat (bu.)	4.958	5.8	11.4	7.8	5.5	23.0
Soybeans (bu.)	6.325	24.5	-19.6	3.3	9.7	19.1
<b>Other foodstuffs</b>						
Coffee (lb.)	1.185	-2.3	153.1	-7.2	-21.8	-46.4
<b>Memo:</b>						
Exchange value of the dollar (March 1973=100)	86.967	3.4	-5.5	-4.6	1.2	-1.1
Yield on Treasury bill, 3-month <sup>3</sup>	5.200	-14	247	-8	-25	58

1. Changes, if not specified, are to the last week of the year indicated and from the last week of the preceding year.

2. Week of the August Greenbook.

3. Changes are in basis points.

and energy has risen 2.1 percent--up from a 1.7 percent increase over the previous twelve months.

Price indexes for industrial commodities have declined somewhat since the August Greenbook. The *Journal of Commerce* commodity price index has slid 0.9 percent in the past five weeks. Lower prices for a variety of metals have accounted for most of the drop; prices of other industrial commodities are mostly unchanged or higher over the past few weeks. Over 1995, the trend in the *Journal of Commerce* index has been essentially flat; last year, by contrast, the index rose more than 20 percent. An alternative index of industrial commodity prices, produced by the Commodity Research Bureau, rose nearly 30 percent in 1994 but has dropped about 3 percent in 1995.

Prices of agricultural commodities have increased, on balance, since mid-August. Hot, dry weather reduced yield prospects in late summer, and the Department of Agriculture's September update of its crop production forecasts showed moderate downward revisions to yields of corn, wheat, and most other crops except soybeans. Because stocks of some crops--notably corn and wheat--are likely to be drawn down to quite low levels over the year ahead, prices in coming months may be unusually sensitive to any shocks that might arise. In that regard, crop markets this week are responding to forecasts of an early-autumn freeze in the Midwest. In livestock markets, price changes have been mixed since mid-August. Cattle prices have moved up from midsummer lows; hog prices and broiler prices have held steady recently after advancing earlier in the summer.

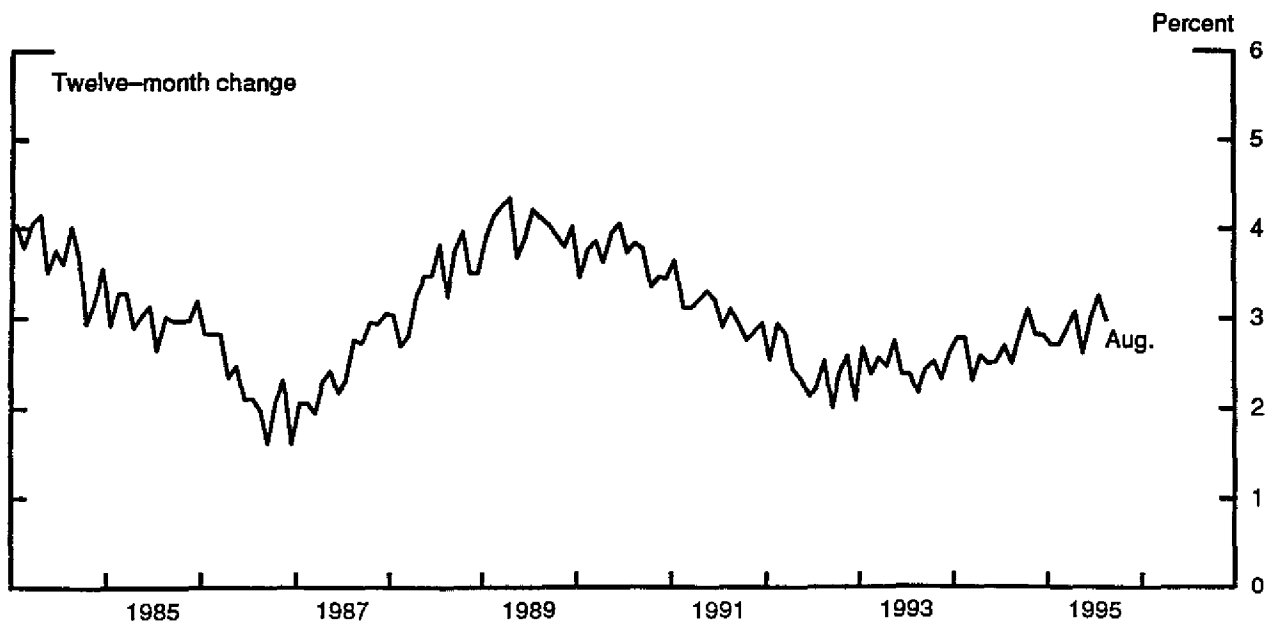
#### Labor Costs

Average hourly earnings of production or nonsupervisory workers fell 0.2 percent in August after having risen 0.5 percent in June and July. Average hourly earnings is a volatile series from month

### Average Hourly Earnings (Percent change based on seasonally adjusted data)

Period	Total private nonfarm	Construction	Manufacturing	Total trade	Services	FIRE	
<i>12-month change, Aug. to Aug., not seasonally adjusted</i>							
1991	3.1	1.8	3.4	3.2	4.0	4.1	
1992	2.5	1.5	2.4	2.2	3.2	4.7	
1993	2.2	1.5	2.2	2.3	1.9	5.2	
1994	2.5	2.3	2.6	2.4	2.3	3.0	
1995	3.0	2.4	2.7	3.2	3.0	4.3	
<i>Changes over the quarter at compound annual rates</i>							
1994	Q1	2.6	2.2	2.0	2.8	1.8	3.1
	Q2	2.2	4.5	1.3	3.3	3.0	2.4
	Q3	3.3	3.3	3.0	2.3	3.3	4.5
	Q4	3.3	-3	2.0	3.7	3.6	3.7
1995	Q1	2.5	2.5	2.3	1.8	3.3	5.1
	Q2	3.2	5.5	2.3	3.2	2.9	4.7
<i>Monthly changes not at annual rates</i>							
1995	Mar.	.2	.1	.1	.2	.2	.6
	Apr.	.5	.3	.2	.6	.8	1.0
	May	-3	.3	.0	-1	-4	-7
	June	.5	.7	.3	.3	.3	.9
	July	.5	.0	.6	.6	.5	1.1
	Aug.	-2	-1	.1	.1	-4	-8

### Average Hourly Earnings



to month, and strings of increases often are interrupted from time to time by a decline. Over the past twelve months, average hourly earnings have increased 3.0 percent--up from a 2.5 percent increase over the previous twelve months and a 2.2 percent rise over the twelve months ended August 1993. By comparison, the employment cost index for production and nonsupervisory workers in private industry rose 3.0 percent over the twelve months ended in June, up 0.1 percentage point from the increase over the previous twelve months. The ECI for all workers in the private nonfarm sector, however, slowed 0.2 percentage point over the same period.

Revised data on labor productivity and costs in the nonfarm business sector--prompted chiefly by revisions to output growth in the NIPA--indicate that productivity rose 4.8 percent at an annual rate in the second quarter, 1.8 percentage points more than previously estimated.<sup>5</sup> As noted in the last Greenbook, the growth rate in hours in the second quarter was depressed by an inexplicably low workweek in May and a steep decline in the number of self-employed workers in the second quarter, the latter a historically volatile series. Both measures have since rebounded. We therefore continue to believe that productivity growth in the second quarter may have been overstated. Over the year ended in the second quarter, productivity increased 3.6 percent; since the last expansion ended, it has increased at an average annual rate of 2.0 percent.<sup>6</sup>

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5. Growth of nonfarm business output, which is derived from data on payments to the factors of production, was revised up considerably more than was GDP growth in the preliminary NIPA report for the second quarter of 1995. Corporate profits, which are not published in the advance GDP release, provided a stronger boost to factor payments than the BEA had implicitly estimated when it prepared the advance estimate of nonfarm output.

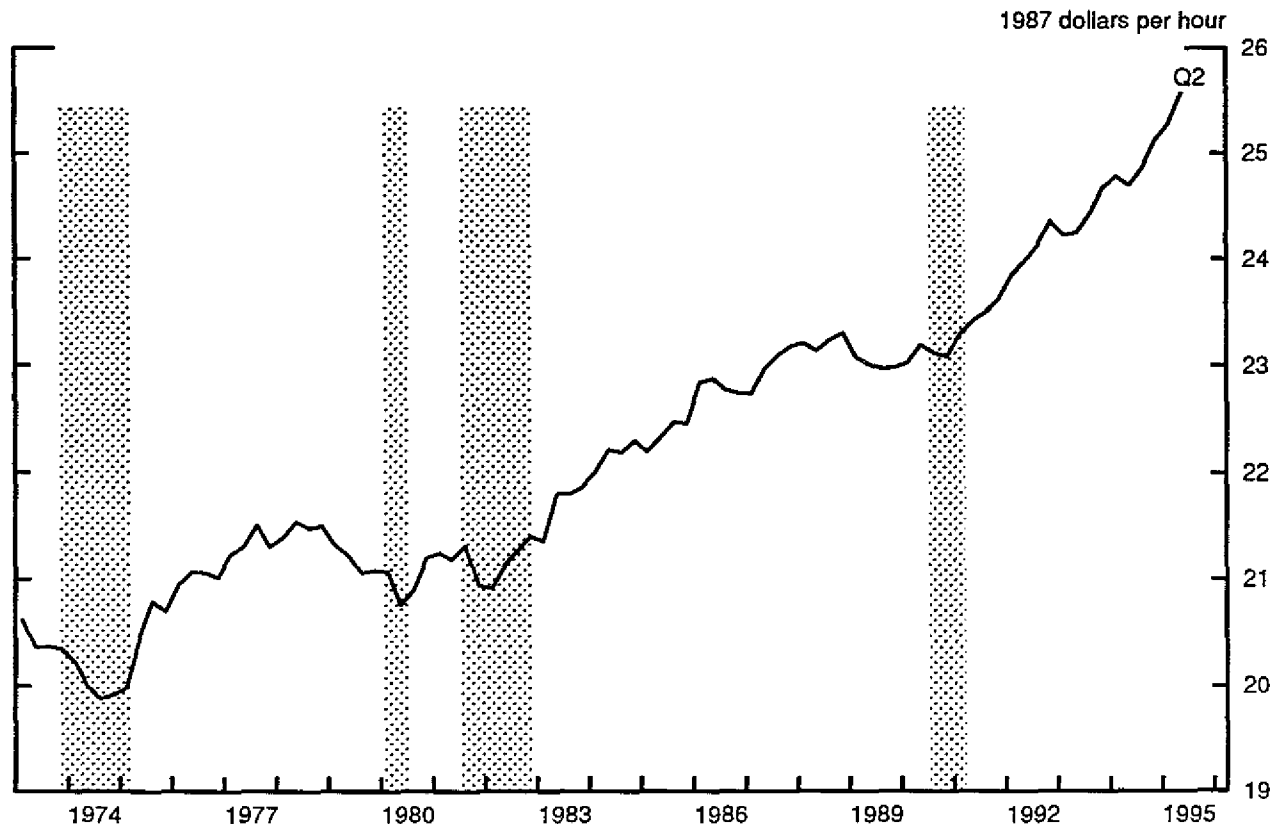
6. Beginning in December, the BLS will report productivity and costs data on a chain-weighted basis rather than on a 1987 dollar basis. As the data now stand, the chain-weighted figures show a substantially lower rate of productivity growth since the end of the last expansion--1.2 percent at an annual rate.

**LABOR PRODUCTIVITY AND COSTS**  
 (Nonfarm Business Sector; Percent change at an annual rate)

	1993 <sup>1</sup>	1994 <sup>1</sup>	1994		1995		1994:Q2 to 1995:Q2
			Q3	Q4	Q1	Q2	
Output per hour Previous	1.3	1.8	2.7	4.3	2.5	4.8 3.0	3.6
Compensation per hour Previous	1.9	3.2	2.7	3.8	4.1	3.5 3.6	3.6
Unit labor costs Previous	0.5	1.4	0.0	-0.4	1.6	-1.2 0.6	0.0
Output Previous	4.6	5.1	4.3	7.7	4.5	2.3 0.6	4.7
Hours Previous	3.2	3.3	1.6	3.3	2.0	-2.3 -2.4	1.1

1. Annual data are percent change from the fourth quarter of preceding year to the fourth quarter of the year shown. Quarterly data are seasonally adjusted percent change at an annual rate.

**Productivity in the Nonfarm Business Sector**



The revised second-quarter data on hourly compensation in the nonfarm business sector were little changed from the previous estimate. Hourly compensation rose at an annual rate of 3.5 percent in the second quarter, down 0.6 percentage point from the first-quarter increase but about average for the past year.

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# **DOMESTIC FINANCIAL DEVELOPMENTS**

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## III-T-1

Selected Financial Market Quotations<sup>1</sup>

(Percent except as noted)

Instrument	1994		1995		Change to Sep. 19, 1995 from:			
	Feb. 3	High	FOMC,	Sep. 19	1994	1994	FOMC,	
			Aug. 22		Feb. 3	high	Aug. 22	
<b>Short-term Rates</b>								
Federal Funds <sup>2</sup>	3.07	5.66	5.72	5.80	2.73	.14	.08	
Treasury Bills <sup>3</sup>								
3-month	3.13	5.78	5.46	5.20	2.07	-.58	-.26	
6-month	3.27	6.38	5.45	5.22	1.95	-1.16	-.23	
1-year	3.52	6.84	5.54	5.23	1.71	-1.61	-.31	
Commercial paper								
1-month	3.16	6.13	5.84	5.81	2.65	-.32	-.03	
3-month	3.25	6.32	5.83	5.70	2.45	-.62	-.13	
Large negotiable CDs <sup>3</sup>								
1-month	3.11	6.10	5.77	5.71	2.60	-.39	-.06	
3-month	3.25	6.39	5.78	5.69	2.44	-.70	-.09	
6-month	3.41	6.89	5.82	5.67	2.26	-1.22	-.15	
Eurodollar deposits <sup>4</sup>								
1-month	3.06	6.06	5.78	5.69	2.63	-.37	-.09	
3-month	3.25	6.38	5.81	5.69	2.44	-.69	-.12	
Bank Prime Rate	6.00	8.50	8.75	8.75	2.75	.25	.00	
<b>Intermediate- and Long-term Rates</b>								
U.S. Treasury (constant maturity)								
3-year	4.60	7.82	6.21	5.83	1.23	-1.99	-.38	
10-year	5.81	8.04	6.57	6.14	.33	-1.90	-.43	
30-year	6.31	8.16	6.89	6.49	.18	-1.67	-.40	
Municipal revenue (Bond Buyer) <sup>5</sup>	5.49	7.37	6.44	6.09	.60	-1.28	-.35	
Corporate-A Utility, recently offered	7.35	9.05	7.87	7.50	.15	-1.55	-.37	
Home mortgages <sup>6</sup>								
FHLMC 30-yr fixed rate	6.97	9.25	7.94	7.60	.63	-1.65	-.34	
FHLMC 1-yr adjustable rate	4.12	6.79	5.95	5.80	1.68	-.99	-.15	
<b>Stock Exchange Index</b>								
	Record high		1989	1995		Percentage change to Sep. 19 from:		
	Level	Date	Low, Jan. 3	FOMC, Aug. 22	Sep. 19	Record high	1989 low	FOMC, Aug. 22
Dow-Jones Industrial	4801.80	9/14/95	2144.64	4620.42	4767.04	-.72	122.28	3.17
NYSE Composite	313.11	9/19/95	154.00	300.16	313.11	.00	103.32	4.31
NASDAQ (OTC)	1067.40	9/13/95	378.56	1025.29	1060.32	-.66	180.09	3.42
Wilshire	5819.13	9/19/95	2718.59	5574.66	5819.13	.00	114.05	4.39

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 September 13, 1995.

3. Secondary market.

4. Bid rates for Eurodollar deposits at 11 a.m. London time.

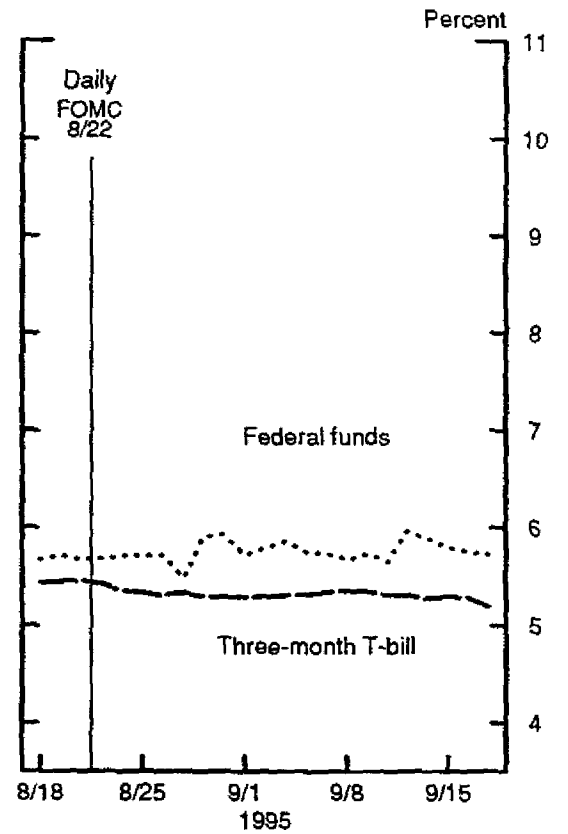
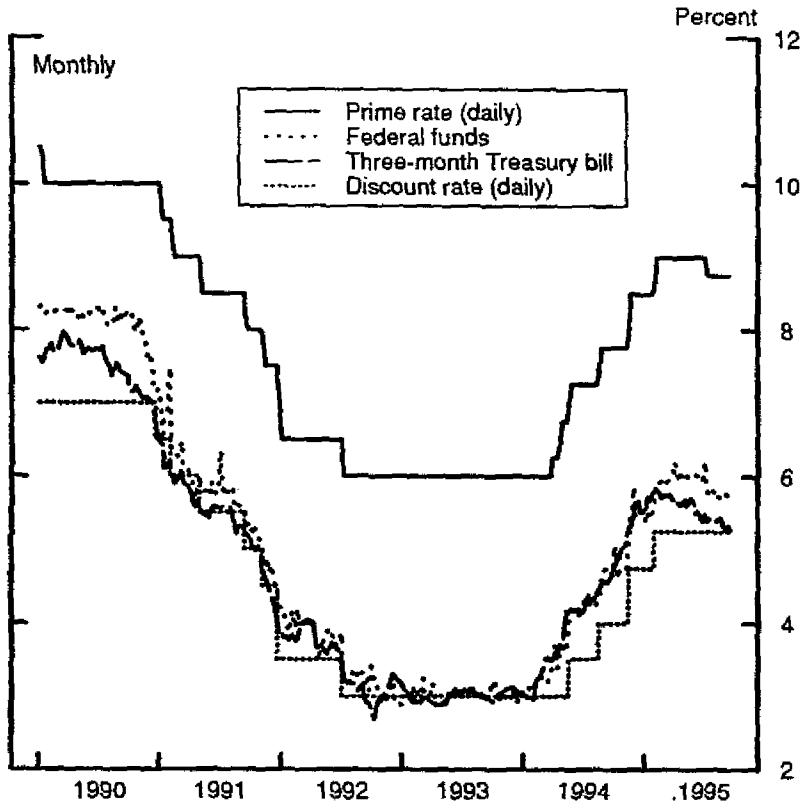
5. Most recent observation based on one-day Thursday quote and futures market index changes.

6. Quotes for week ending Friday previous to date shown.

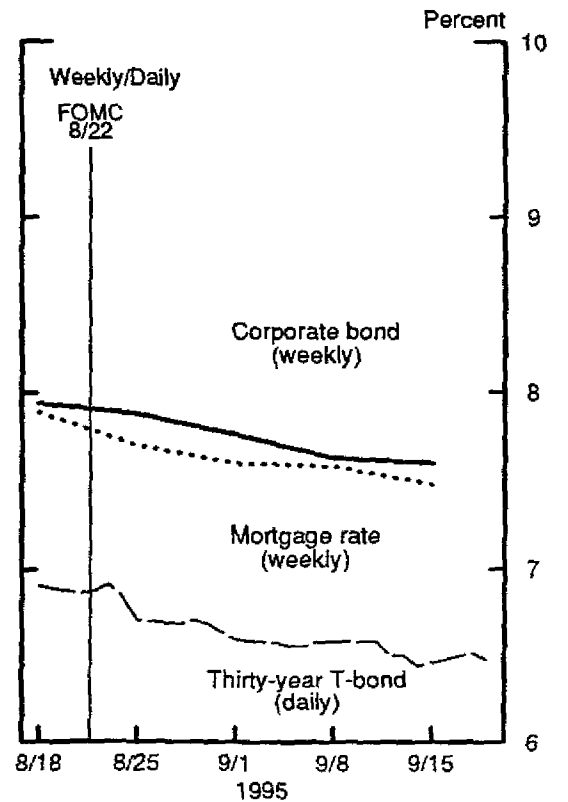
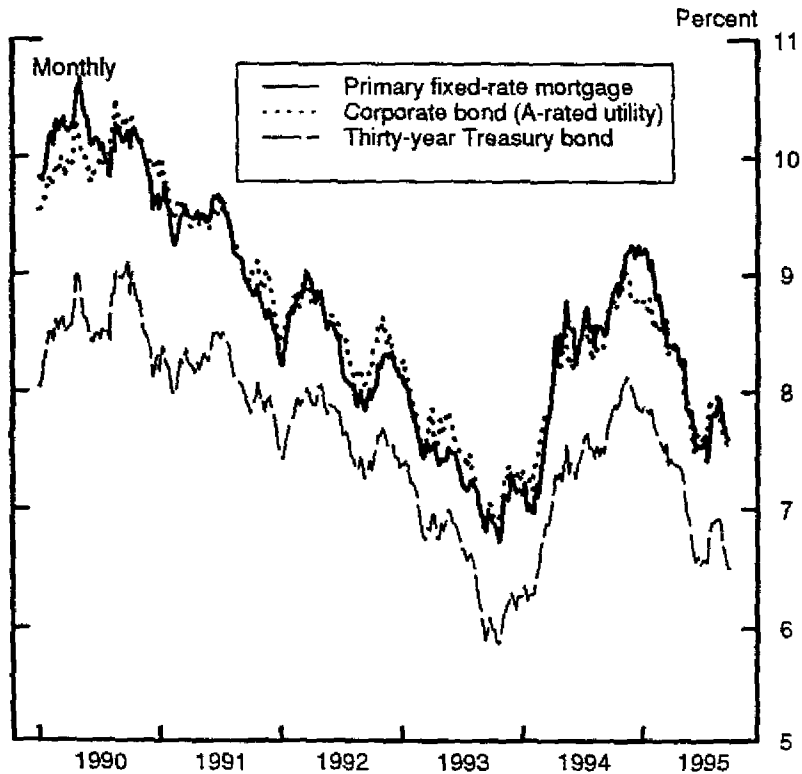


# Selected Interest Rates

## Short-Term



## Long-Term



## DOMESTIC FINANCIAL DEVELOPMENTS

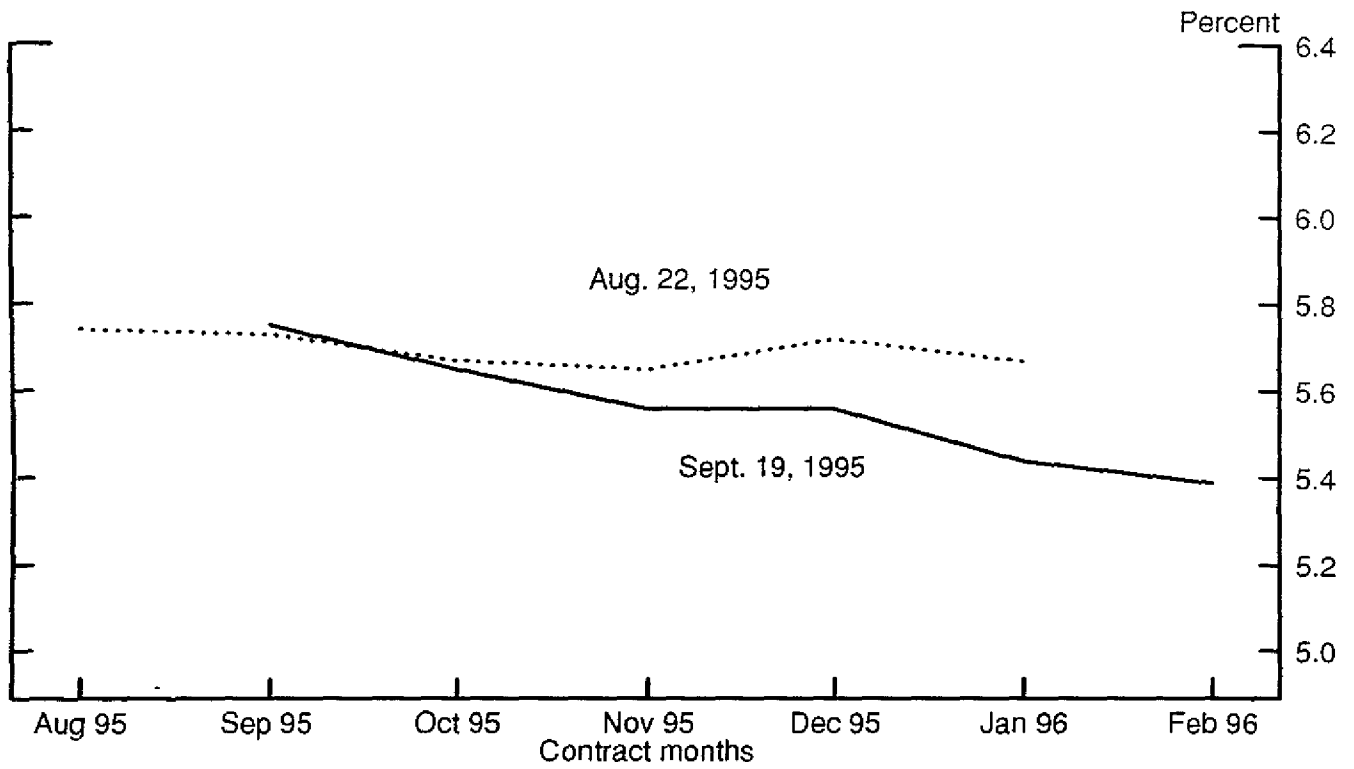
Yields on Treasury securities declined over the intermeeting period, by 20 to 30 basis points at the short end and about 40 basis points at the long end. The decline in interest rates occurred amid reports suggesting that economic activity had firmed from the weak second-quarter pace but that the step-up was moderate and presented few inflationary risks. Against that backdrop, and with a firming dollar, market participants now see the odds as favoring another easing by the System in the coming months. Futures rates on federal funds and Eurodollars have a noticeable downward tilt into early 1996 (chart).

Other long-term interest rates followed rates on Treasuries downward. With corporate earnings continuing, on average, to meet or exceed expectations, the stock market rallied along with the bond market. Major indexes have gained about 3 percent to 4-1/2 percent since the August FOMC meeting and stand close to record highs.

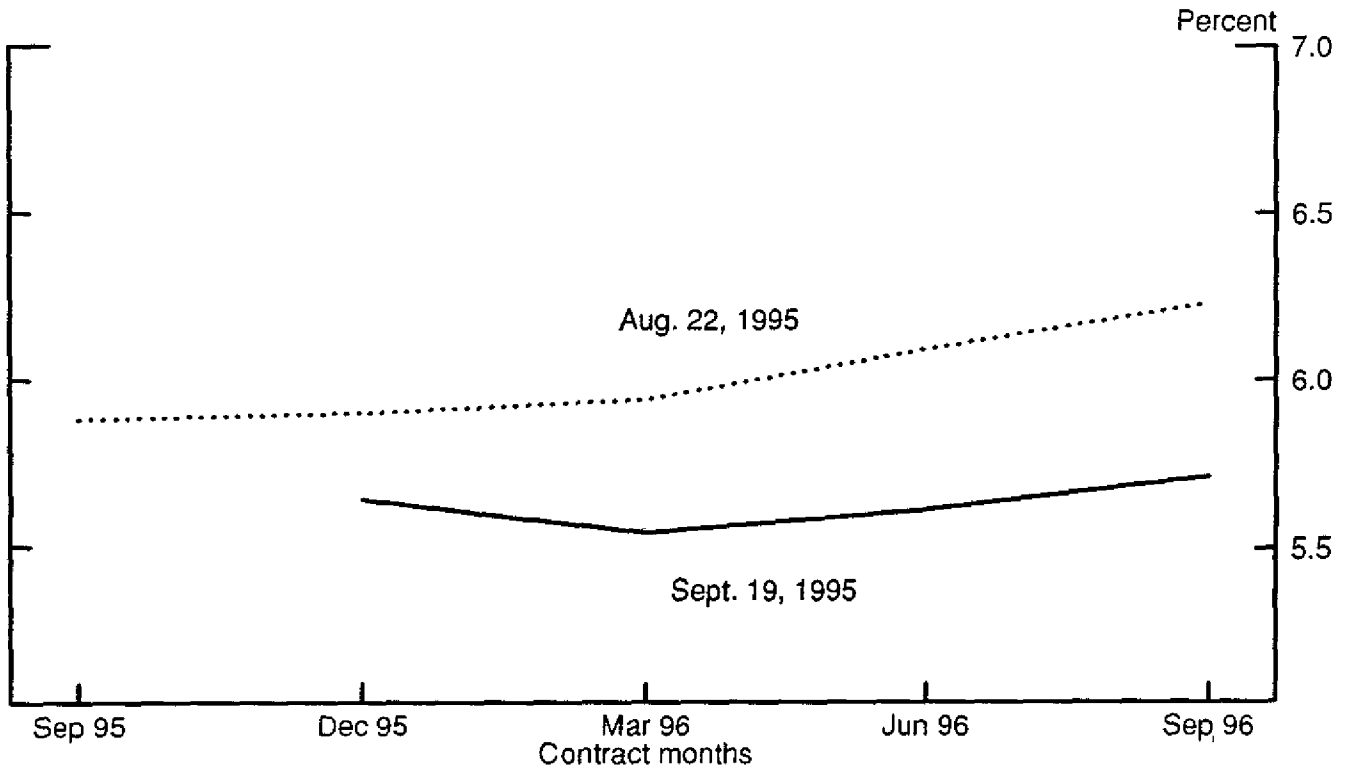
The growth of debt of nonfederal sectors seems to have slowed in recent months. Bank loans to businesses have grown less rapidly, at a time when bond issuance has been subdued (although there are indications of a pickup in bond volume this month). Household borrowing may have slowed a bit, too; consumer credit decelerated in July, and data from commercial banks (adjusted for securitization) suggest a further slowing in August. State and local government debt continued to contract because of retirements of prerefunded bonds.

The federal government has been able to cover a good portion of its third-quarter deficit by drawing down the Treasury's cash balance. Treasury debt subject to statutory limit was \$18 billion shy of the current debt ceiling at the end of August, and this leeway should be exhausted before long. Financial markets have

### Federal Funds Futures Rates



### 3-Month Eurodollar Futures Rates



begun to pay more attention to the issue of a default by the Treasury, but yields on bills maturing around mid-November remain in line with yields on those maturing sooner, suggesting that investors are not currently giving much weight to that possibility.

The broad monetary aggregates continued to expand robustly in August, pushing M2 closer to the upper bound of its 1 percent to 5 percent annual range and M3 further above the top of its 2 percent to 6 percent range. M1, in contrast, continued to shrink as more banks offered sweep accounts to their retail customers, pulling down reservable deposits. Bank credit picked up last month despite a slowing in most loan components.

#### Money and Bank Credit

M1 contracted near a 1-1/2 percent annual rate in August, with other checkable deposits continuing to run off (table). OCDs are about \$35 billion below their level at the end of 1993, in large part because of the spread of programs to sweep these funds into MMDAs. Since [redacted] introduced its sweep program early last year, at least eight additional bank holding companies have followed suit, with four starting up last month. These arrangements to avoid reserve requirements have been an important factor in a drop in total reserves of more than \$4 billion since December 1993.

M2, which is unaffected by OCD sweeps, picked up to an 8-1/4 percent annual rate in August. Expansion was sustained by another strong showing by retail money market mutual funds, whose returns continued to lag the decline in market rates. The major factors accounting for the pickup in M2 growth, however, were turnarounds in overnight RPs--perhaps associated with increased holdings of government securities by banks--and in Eurodollar deposits. Households continued to favor M2 assets over direct acquisition of debt securities, as suggested by the lack of

MONETARY AGGREGATES  
(Based on seasonally adjusted data)

Aggregate or component	1994	1995		1995			1994:Q4	Level
		Q1	Q2	June	July	Aug.	to	(bil. \$)
						(p)	Aug. 95	Aug. 95
							(p)	(p)
<u>Aggregate</u>	<u>Percentage change (annual rate)<sup>1</sup></u>							
1. M1	2.4	0.1	-0.9	0.9	1.2	-1.4	-0.5	1143.6
2. M2	1.1	1.7	4.3	11.7	6.0	8.3	4.7	3740.0
3. M3	1.4	4.3	7.0	12.7	8.3	8.0	6.9	4517.5
<u>Selected components</u>								
4. Currency	10.2	8.2	8.2	-2.3	-1.0	3.9	6.0	368.3
5. Demand deposits	0.5	0.6	-0.8	19.5	8.4	1.5	2.4	390.0
6. Other checkable deposits	-2.1	-7.7	-9.9	-13.7	-3.8	-9.2	-9.1	376.5
7. M2 minus M1	0.5	2.4	6.7	16.6	8.2	12.6	7.1	2596.4
8. Savings deposits	-4.5	-15.7	-9.8	10.8	0.4	7.9	-6.8	1098.7
9. Small time deposits	2.5	22.9	24.2	9.0	5.5	3.0	18.7	924.0
10. Retail money market funds	7.3	7.9	18.0	61.0	44.0	37.0	24.7	455.1
11. Overnight RPs, n.s.a.	14.5	15.7	-2.3	15.2	-38.3	29.7	4.9	87.0
12. Overnight Eurodollars, n.s.a.	42.2	24.5	-36.5	-12.0	-8.1	81.6	1.7	31.4
13. M3 minus M2	3.5	18.5	20.7	17.1	18.9	7.0	18.8	777.5
14. Large time deposits, net <sup>2</sup>	7.0	14.7	16.0	12.1	21.2	9.7	15.9	400.0
15. Institution-only money market mutual funds	-8.2	10.0	27.2	66.5	39.7	-9.0	22.2	210.8
16. Term RPs, n.s.a.	7.0	33.2	25.7	-18.7	-46.1	24.0	18.0	117.5
17. Term Eurodollars, n.s.a.	14.4	20.3	34.3	19.8	25.3	-7.6	23.6	62.6
<u>Memo</u>								
18. Monetary base	8.4	6.3	6.2	-2.8	-0.3	3.4	4.6	430.8
19. Household M2 <sup>3</sup>	0.5	1.0	5.1	12.3	7.1	8.0	4.9	3222.3
<u>Average monthly change (billions of dollars)<sup>4</sup></u>								
<u>Memo</u>								
<u>Selected managed liabilities at commercial banks:</u>								
20. Large time deposits, gross	2.1	5.1	5.5	4.7	5.5	8.9	. . .	420.1
21. Net due to related foreign institutions	7.5	9.4	-2.1	5.7	-8.4	12.3	. . .	249.1
22. U.S. government deposits at commercial banks	0.0	-0.8	0.8	1.2	12.8	-15.3	. . .	19.3

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.

p Preliminary. n.s.a. Not seasonally adjusted.

noncompetitive tenders at Treasury auctions, and over indirect purchases in the form of shares of bond mutual funds, which have posted only meager growth of late (chart). In contrast, stock funds experienced strong inflows again last month.

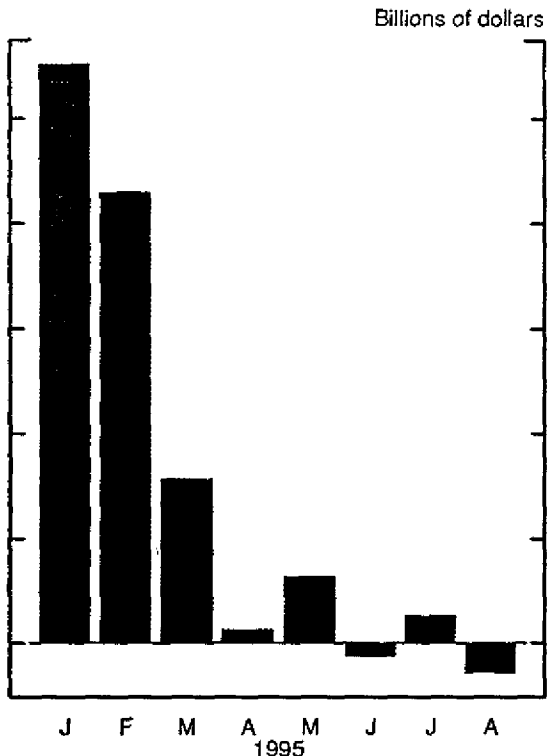
M3 growth slowed in August but remained substantial. This year M3 growth has been supported in part by an increased reliance on deposits in relation to nondeposit sources (chart). Nonetheless, deposits in M3 remain a relatively less important source for funding credit growth than at any time before 1992.

Growth in bank credit picked up a bit in August, to a 5-1/4 percent annual rate (table). Securities holdings recovered after three months of run-off, more than offsetting a noticeable slowing in loan growth. Unlike many months of this year, growth in August was not affected very much by changes in the market value of securities or in the value of off-balance-sheet items.

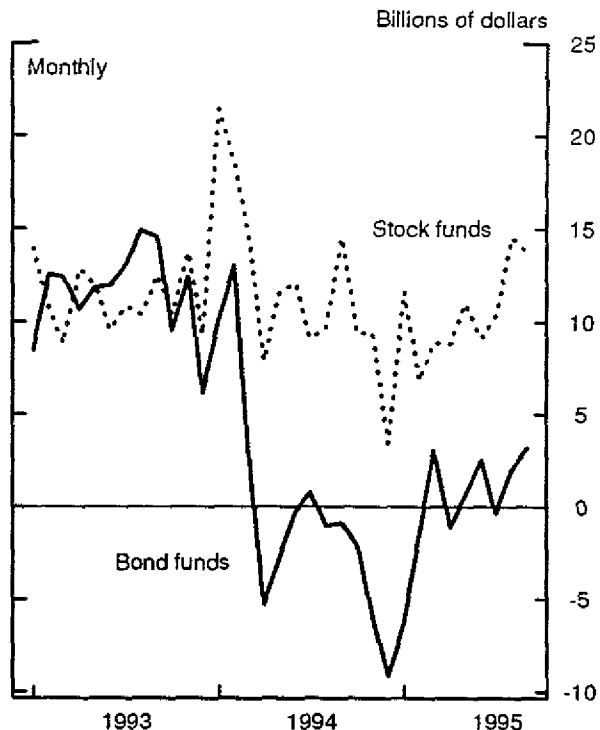
Weakening was evident in most major loan components in August. A drop in business loan growth was consistent with last month's Senior Loan Officer Opinion Survey, which showed a sizable decline in the net number of banks reporting increased business loan demand. Paydowns of bank debt using the proceeds of bond issuance and commercial paper programs likely also played a role. Consistent with weaker demand in the face of largely unchanged supply conditions, data from the latest Survey of Terms of Bank Lending to Business show that the spread of average loan rates over the federal funds rate edged down in the third quarter. The volatility of these data, however, counsel against reading too much into small, single-quarter movements. On balance, spreads have remained around the narrow levels seen over the past several quarters.

Real estate loans cooled off from their July pace, although some of the slowdown can be accounted for by a drop in acquisitions

**Net Noncompetitive Tenders**

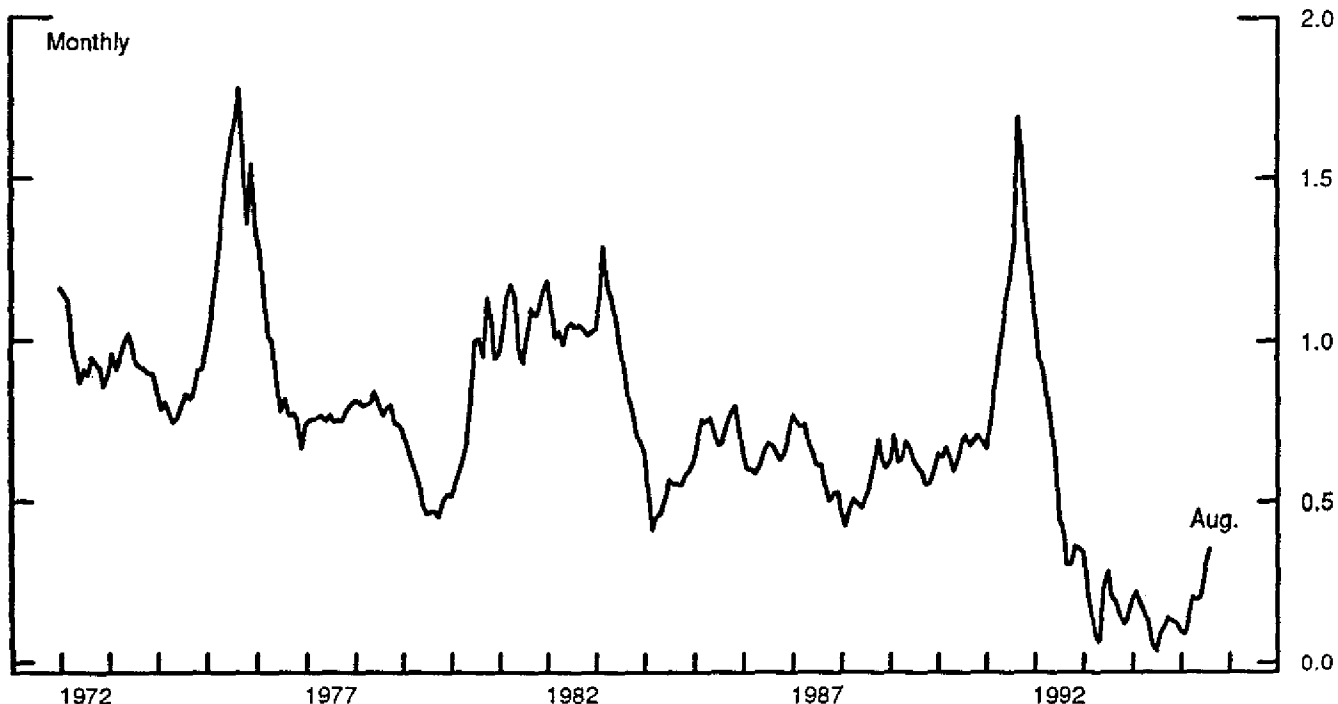


**Net Sales of Mutual Funds**



Note. Last observations are staff estimates for August 1995.

**Flow of M3 Deposits at Banks Relative to Flow of Bank Credit**



Note. 12-month change in M3 deposits at banks relative to 12-month change in bank credit.

**Commercial Bank Credit and Short- and Intermediate-Term Business Credit**  
(Percentage change: seasonally adjusted annual rate)<sup>1</sup>

Type of credit	1994	1995 Q1	1995 Q2	1995 Jun	1995 Jul	1995 Aug	Level, Aug 1995 (billions of \$)
Commercial bank credit							
1. Total loans and securities	6.8	7.8	13.1	4.7	3.3	5.3	3,519.6
2. Securities	4.9	-5.0	17.3	-2.2	-13.5	8.4	975.6
3. U.S. government	0.0	-6.0	-5.1	-2.4	-12.8	6.9	702.0
4. Other	24.0	-2.1	88.2	-1.3	-15.7	12.4	273.6
5. Loans	7.6	13.0	11.4	7.4	9.8	4.1	2,544.1
6. Business	9.2	16.8	11.2	4.4	7.0	3.1	694.7
7. Real estate	6.5	11.9	7.4	8.4	11.1	5.9	1,061.8
8. Consumer	15.2	12.8	11.7	13.2	8.3	14.0	487.3
9. Security	-17.2	-9.1	69.3	11.4	-26.9	-57.8	79.0
10. Other	3.6	15.0	12.7	-1.7	31.2	-.5	221.2
Short- and intermediate-term business credit							
11. Business loans net of bankers acceptances	9.4	17.8	11.5	3.5	6.3	4.0	687.9
12. Loans at foreign branches <sup>2</sup>	5.1	17.6	21.9	9.6	14.3	0.0	25.5
13. Sum of lines 11 and 12	9.2	17.8	11.9	3.6	6.6	3.9	713.4
14. Commercial paper issued by nonfinancial firms	1.2	22.1	20.7	-29.1	27.8	30.4	185.9
15. Sum of lines 13 and 14	7.6	18.6	13.7	-3.0	10.9	9.3	899.3
16. Bankers acceptances, U.S. trade-related <sup>3,4</sup>	-8.3	-21.2	-4.5	-13.6	-6.9	n.a.	17.3 <sup>5</sup>
17. Loans at finance companies <sup>4</sup>	12.6	20.3	14.8	11.6	4.0	n.a.	387.4 <sup>5</sup>
18. Total (sum of lines 15, 16, and 17)	8.7	18.5	13.7	1.2	8.5	n.a.	1,297.1 <sup>5</sup>

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. July 1995.

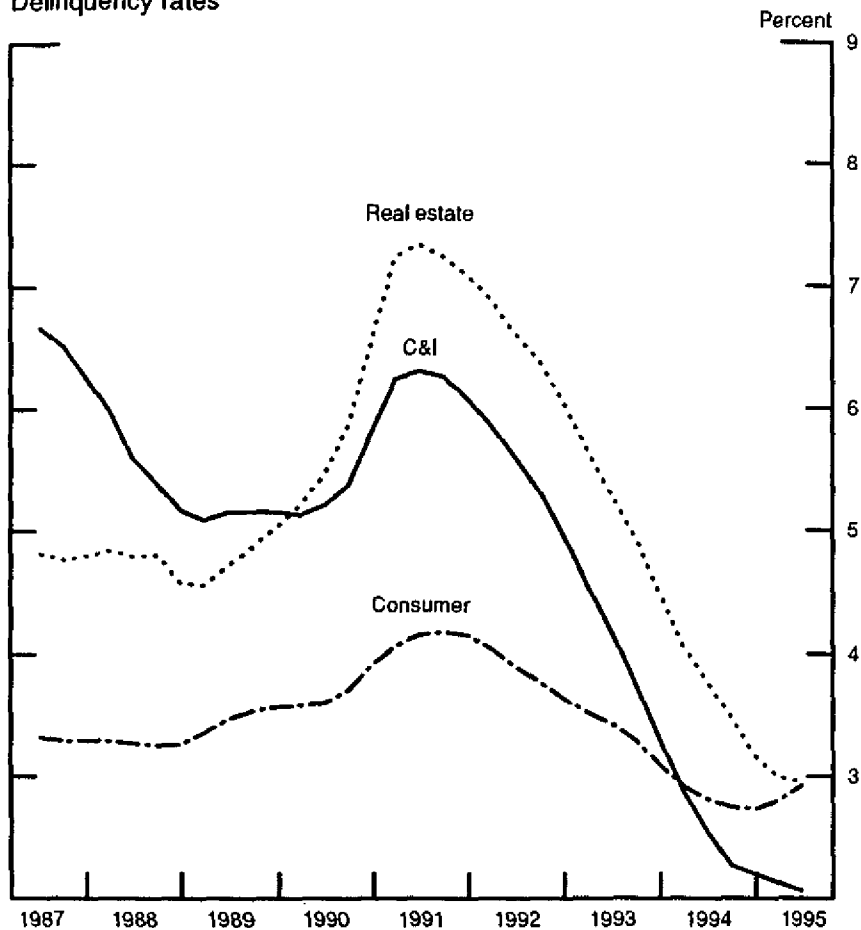
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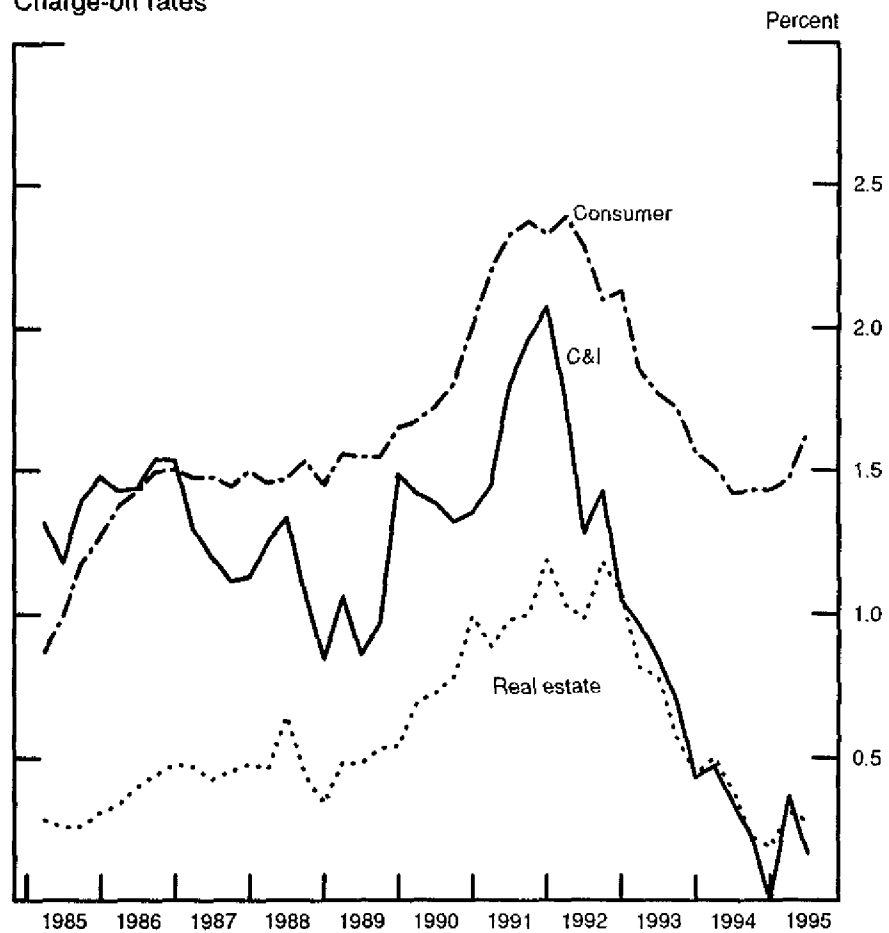
## Loan Performance at Commercial Banks

(Quarterly, seasonally adjusted)

Delinquency rates



Charge-off rates



8-III

Note: Data are from FFIEC's quarterly Reports of Condition. Delinquent loans include those past due 30 days or more and still accruing interest, as well as those on nonaccrual status. Charge-off rates are annualized, net of recoveries. Before 1987, the data on delinquency rates are for domestic loans only.

of assets from thrift institutions. Growth of consumer loans on bank balance sheets rose to a 14 percent clip in August, as securitizations of consumer receivables dipped. Adjusted for securitizations, however, consumer loans decelerated from 14-1/2 percent in July to 13 percent in August. Security loans fell sharply in August, perhaps reflecting a drop in the financing needs of securities dealers in light of the subdued pace of issuance in capital markets.

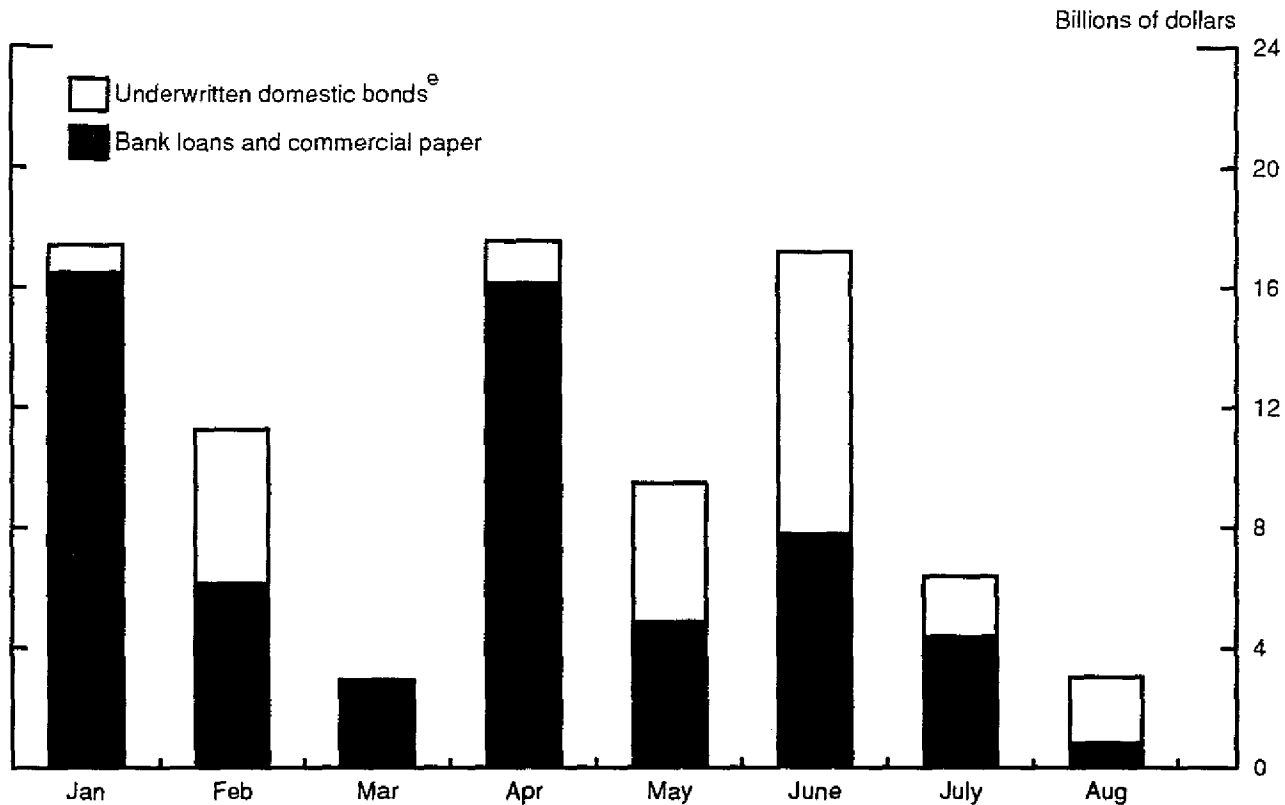
Indicators of bank loan quality were mixed in the second quarter (chart). The Call Report shows that delinquency rates for business and real estate loans edged down from already low levels but that delinquency rates on consumer loans rose; net charge-off rates followed the same pattern. With clear evidence that the quality of consumer loan portfolios has begun to deteriorate, the question is whether an erosion will also occur in other loan types. The banking industry seems well-supplied with capital to handle such an event, however. On balance, the quality of assets has remained high, allowing banks to hold down provisions for loan losses, thereby helping to maintain healthy profits. Net interest margins remained wide in the second quarter, although somewhat below their exceptional levels in 1993 and 1994.

#### Business Finance

The staff estimates that overall borrowing by nonfinancial corporations was lighter in August (chart), after firms raised substantial funds in bond markets in the second quarter. Borrowing appears to be picking up a bit in September, however.

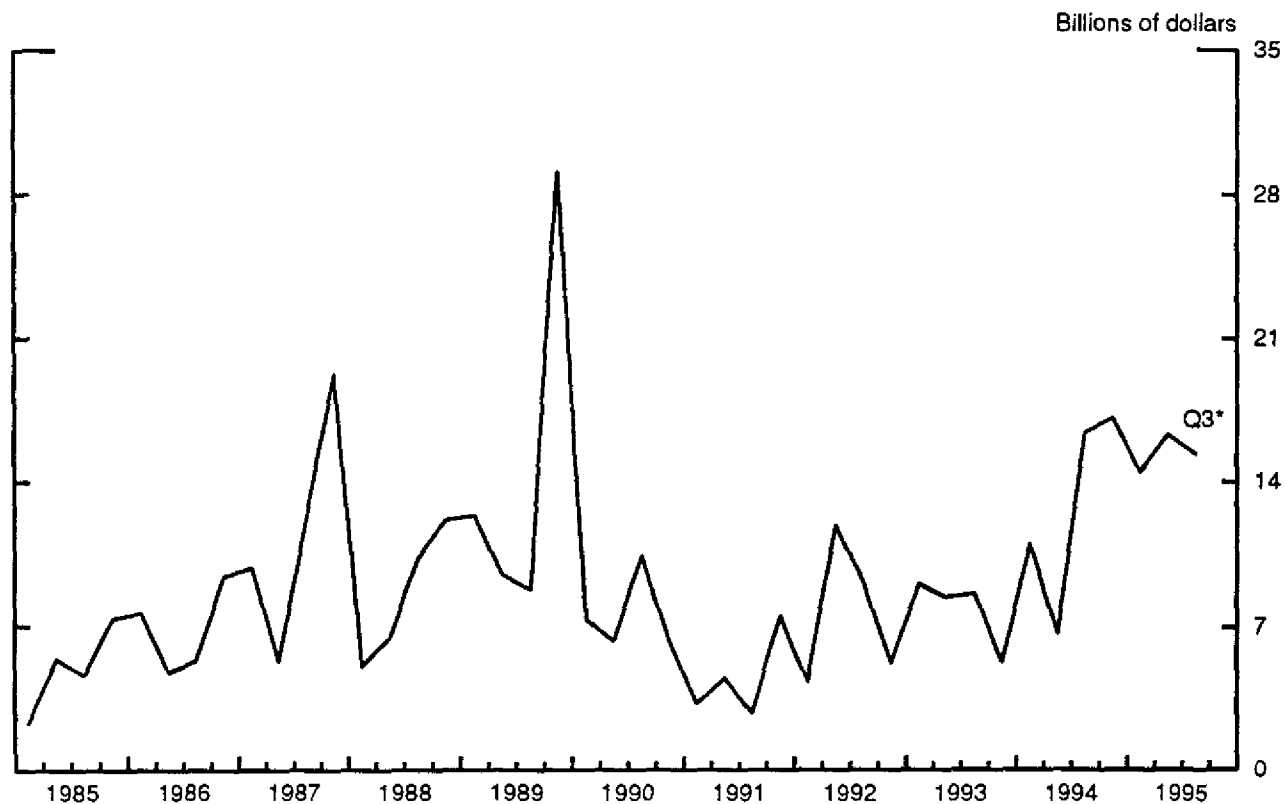
Gross public bond offerings by nonfinancial corporations were sluggish in August (table), as they had been in July after the backup in long-term interest rates. However, the decline in bond rates since late August has prompted a pickup in gross issuance of

### Net Borrowing by Nonfinancial Corporations



Note. Month-end to month-end change in outstandings.  
 e - Staff estimate.

### Announced Stock Repurchase Programs at Nonfinancial Corporations



Source: Securities Data Company  
 \* Staff estimate based on data through Sept. 11, 1995.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS<sup>1</sup>  
 (Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1993	1994	1995				
			Q1	Q2 <sup>p</sup>	June <sup>p</sup>	July <sup>p</sup>	Aug. <sup>p</sup>
All U.S. corporations	52.89	40.61	39.91	45.98	55.67	36.92	39.28
Stocks <sup>2</sup>	9.12	5.50	3.83	5.77	7.34	4.36	5.69
Bonds	43.77	35.11	36.08	40.21	48.34	32.56	33.59
<u>Nonfinancial corporations</u>							
Stocks <sup>2</sup>	5.04	3.14	2.78	3.97	5.08	3.28	3.56
Sold in U.S.	4.64	2.92	2.51	3.75	4.84	3.11	3.33
Utility	1.05	.37	.38	.24	.18	.19	.17
Industrial	3.82	2.55	2.13	3.50	4.66	2.92	3.16
Sold abroad	.40	.22	.27	.22	.24	.18	.23
Bonds	16.19	7.35	6.63	11.91	16.18	8.14	7.93
Sold in U.S.	15.55	6.44	5.33	10.92	15.72	7.20	5.77
Utility	7.34	2.19	1.31	3.83	5.17	2.07	2.06
Industrial	8.21	4.26	4.02	7.09	10.55	5.13	3.72
Sold abroad	.64	.90	1.30	.99	.46	.94	2.16
By quality <sup>3</sup>							
Aaa and Aa	2.56	.58	.69	1.69	2.59	.00	.92
A and Baa	8.70	3.82	3.37	6.96	10.19	5.11	2.86
Less than Baa	4.17	2.01	1.24	2.26	2.94	.85	1.97
Unrated or rating unknown	.09	.01	.02	.00	.00	.14	.02
<u>Financial corporations</u>							
Stocks <sup>2</sup>	4.08	2.36	1.05	1.80	2.26	1.07	2.13
Sold in U.S.	3.83	2.11	1.04	1.79	2.26	1.07	2.13
Sold abroad	.25	.25	.01	.00	.00	.00	.00
Bonds	27.58	27.76	29.45	28.40	32.16	24.43	25.66
Sold in U.S.	25.02	23.98	23.47	24.87	28.07	20.89	20.69
Sold abroad	2.56	3.78	5.98	3.53	4.08	3.53	4.97
By quality <sup>3</sup>							
Aaa and Aa	1.78	3.72	4.29	3.93	3.85	3.32	3.32
A and Baa	9.01	9.02	10.81	11.19	11.58	8.39	8.37
Less than Baa	.49	.31	.04	.13	.26	.10	.25
Unrated or rating unknown	.08	.10	.07	.30	.00	.80	.07

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.

investment-grade bonds in recent weeks. Although there have been no public offerings of high-yield debt so far this month, dealers expect a spate of issues to come to market shortly. This expectation and the recent defaults of a few speculative-grade companies have caused spreads on junk bonds to widen since the August FOMC. Nonetheless, the spreads remain narrow by historical standards, and this year's default rate, while up from the levels recorded over the past few years, is still low.

Commercial paper outstanding at U.S. nonfinancial corporations rose in August. More than half of the growth was attributable to the establishment of new programs by two companies, and in one case some of the proceeds were used to pay down a large bank loan. Both new programs reflected the tendency this year to use commercial paper primarily to meet core short-term borrowing needs, in contrast to its heavy use last year for financing mergers and acquisitions.

Gross equity issuance by nonfinancial corporations was little changed in August from the moderate July pace. Spurred by the rally in technology stocks this year, computer-related companies accounted for about a third of funds raised in equity markets in August. Announcements for the third quarter indicate that nonfinancial corporations plan to continue repurchasing their own shares at a rapid rate (chart). Recently, both Chrysler and IBM announced a doubling of the size of their ongoing programs--to \$2 billion and \$5 billion, respectively. These two large programs have been undertaken to satisfy shareholder demands that managements pay out part of their sizable cash holdings. Merger and acquisition activity, which has been strong this year, also seems poised to continue at a rapid pace. Seven large mergers have been announced since mid-August, all to be financed with stock swaps, thereby resulting in no significant borrowing. Substantial debt financing

will be needed, however, to complete the Disney/Capital Cities-ABC and Westinghouse/CBS mergers, with the former relying on a combination of commercial paper and bond issues, and the latter mainly on bank debt. With share retirements from previously announced repurchases and merger activity, net equity issuance has continued negative in the current quarter and should remain so for several quarters.

Corporate earnings for the second quarter exceeded the expectations of market analysts, on balance. The improved earnings picture placed the S&P 500 price-earnings ratio at the end of August at 16.2, down slightly from 16.9 at the beginning of the year. Fueled by merger activity and by expectations of lower interest rates, share prices of financial companies outpaced the broader market averages over the intermeeting period.

#### State and Local Government Borrowing

Boosted by a few large refunding issues, gross offerings of municipal securities increased in August (table), but preliminary data for the first half of September suggest a return to the slower pace that has characterized most of this year. Through August, gross issuance for 1995 was 22 percent below the rate for the same period in 1994, reflecting the falloff in refunding volume.

Bond retirements continued to overwhelm gross issuance, causing further shrinkage in the stock of outstanding municipal debt. From year-end 1994 through August, the stock of long-term debt fell \$41 billion, or more than 4 percent. To a large extent, the debt retired was prerefunded in the early 1990s. Because the stock of such debt yet to be retired may be more than \$300 billion, retirements should be large, and net issuance negative, for some time to come.

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

	1993	1994	1995				
			Q1	Q2	June	July	August
Total tax-exempt	27.2	16.1	10.9	16.4	26.9	13.8	16.7
Long-term	23.3	12.8	9.0	12.8	18.0	9.8	12.3
Refundings <sup>1</sup>	15.7	4.0	1.7	3.2	4.2	1.4	5.2
New capital	7.6	8.8	7.3	9.6	13.8	8.4	7.1
Short-term	3.9	3.3	1.9	3.6	8.9	4.0	4.4
Total taxable	.7	.7	.4	.7	1.1	.3	.9

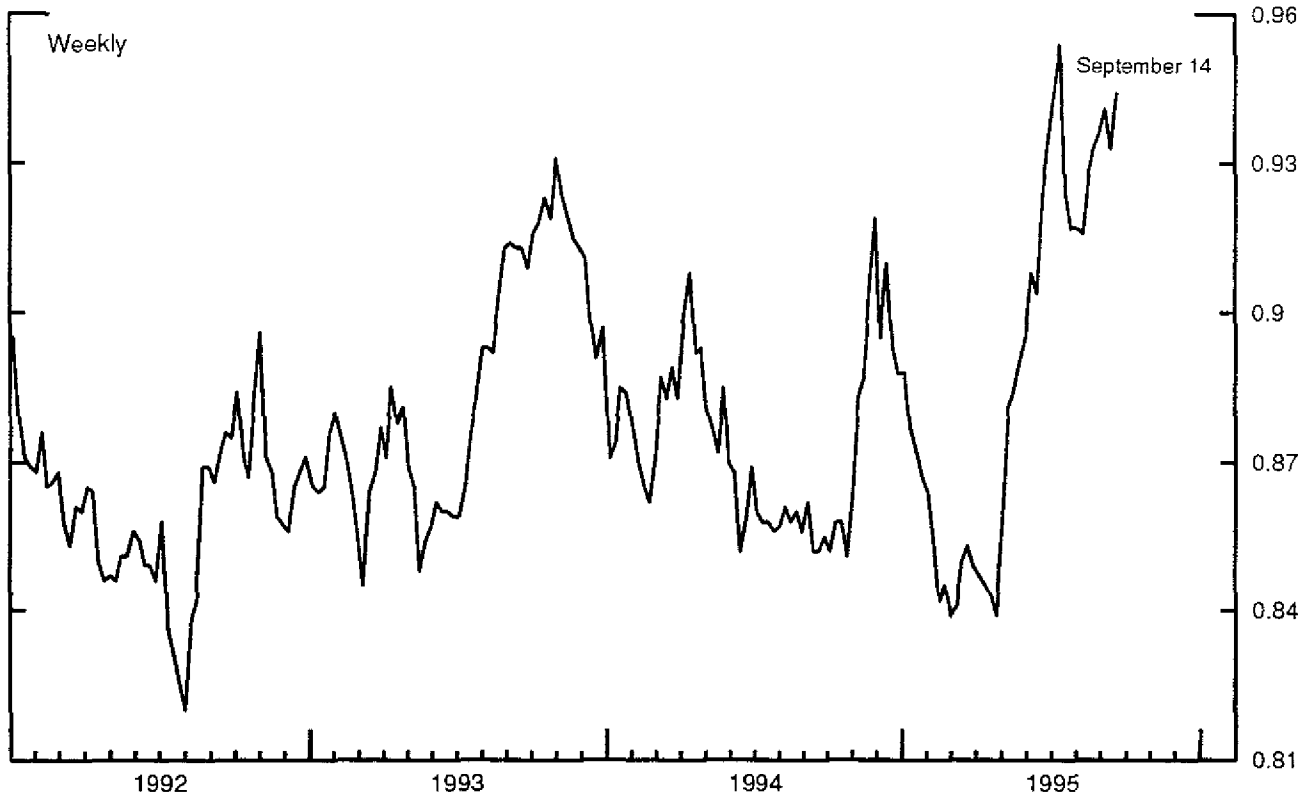
Note. Includes issues for public and private purposes.

1. Includes all refunding bonds, not just advance refundings.

Although rates on tax-exempt debt declined over the intermeeting period, the ratio of yields on thirty-year tax-exempt bonds to yields on thirty-year Treasury bonds has remained very high (chart). One factor boosting yield ratios since April is the concern about reforms that would reduce or eliminate the tax-exempt status of municipal debt. When several such proposals were unveiled in mid-April, the tax-exempt to taxable ratios rose even for debt with short maturities (chart). Later, the ratio for short-term debt fell back, as the market recognized that these securities would likely mature before implementation of any reforms. In contrast, the ratio for thirty-year debt has not fallen at all, presumably because there remains a perceived risk to the tax preference for municipal bond income. The ratio for ten-year debt has declined somewhat from its peak but remains higher than it was in mid-April, consistent with the expectation that tax reform may not be enacted for several years.

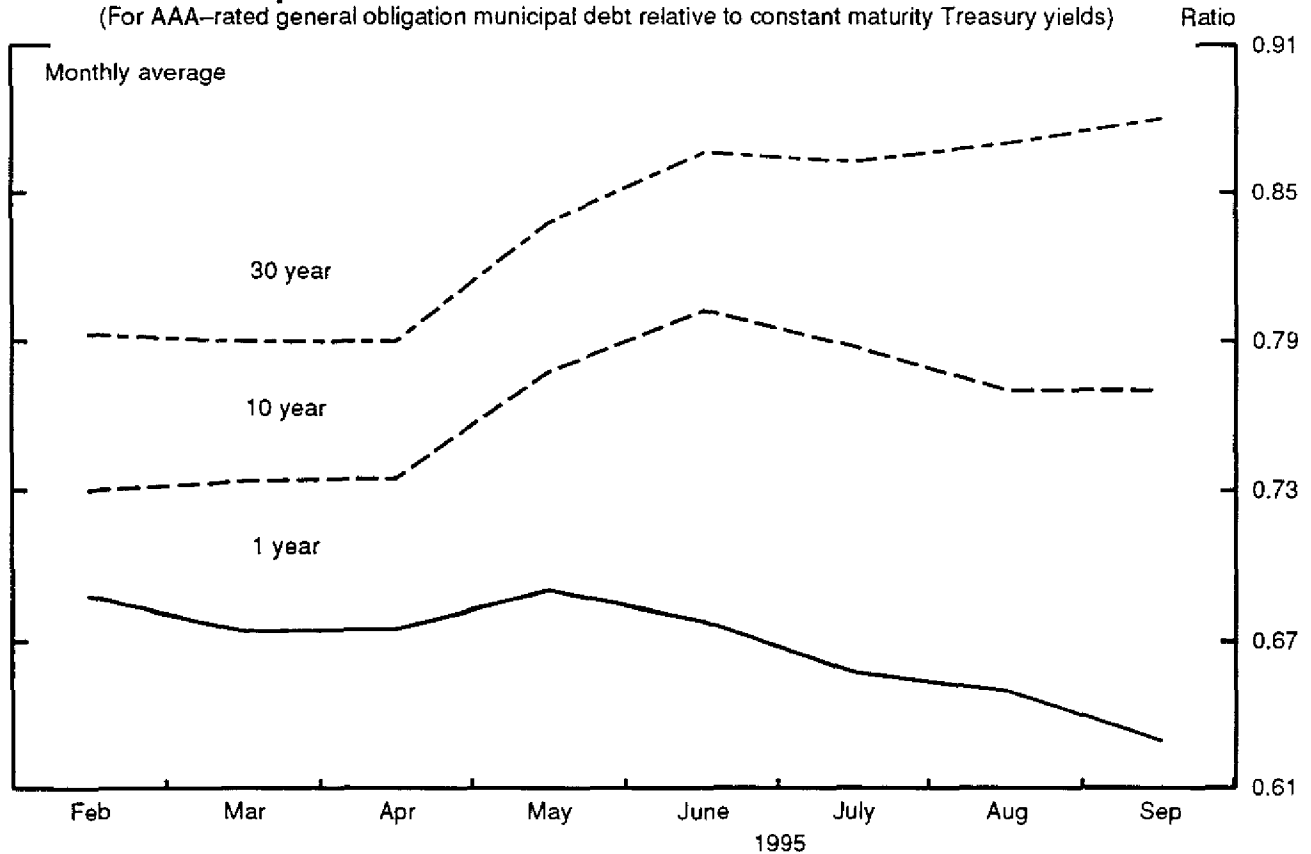
### Ratio of Tax-Exempt to Treasury Yields

(Bond Buyer municipal 30-year revenue bond yield relative to 30-year Treasury bond yield)



### Tax-Exempt to Taxable Yield Ratios at Different Maturities

(For AAA-rated general obligation municipal debt relative to constant maturity Treasury yields)



Source: Bloomberg; September data are through September 15.



A second, but less important, factor boosting yield ratios is a perception of increased credit risk in municipal securities. Although rating changes, on net, were favorable during the first half of 1995, the bankruptcy of Orange County and the budget woes of Los Angeles and the District of Columbia have caused quality spreads to widen in the municipal market since the spring.

California state legislators approved a plan (already endorsed by the Orange County Board of Supervisors and major non-county participants in the investment pool) that would take Orange County out of bankruptcy. The plan involves a combination of funding sources--new debt issues, restructuring of existing debt, asset sales, diversion of tax revenues, and proceeds from litigation--to repay claimants, grouped by seniority. Although holders of Orange County bonds and vendors are nearly assured of payment, claimants with lower priority may not receive dollar-for-dollar compensation because financing for some of these claims relies on the successful outcomes of pending lawsuits.

#### Federal Government Borrowing

The projected third-quarter deficit of \$38 billion has been financed by drawing down the Treasury's substantial cash balance and by borrowing from the public (table). Because the August midquarter refunding included a thirty-year bond, and because auction sizes for the three-, ten-, and thirty-year issues were raised, recent borrowing has been tilted toward coupon issues and saw net redemptions of nearly \$9 billion in Treasury bills. At present, the sizes of the weekly bill auctions stand at \$24 billion, down only marginally from gross sizes at the time of the August FOMC but down \$3 billion since the end of the second quarter.

TREASURY FINANCING  
(Billions of dollars; total for period)

Item	1995				
	Q2 <sup>e</sup>	Q3 <sup>p</sup>	July <sup>e</sup>	Aug. <sup>e</sup>	Sept. <sup>p</sup>
Total surplus/deficit (-)	23.0	-38.0	-13.6	-30.6	6.2
Means of financing deficit					
Net cash borrowing and repayments (-)	25.6	17.1	10.6	16.4	-9.9
Nonmarketable	-2.7	-5.9	-7.7	1.2	0.7
Marketable	28.3	23.0	18.3	15.2	-10.5
Bills	-8.3	-8.7	11.0	-9.2	-10.5
Coupons	36.6	31.7	7.3	24.4	0.0
Decrease in cash balance	-42.4	21.6	11.6	30.8	-20.8
Other <sup>1</sup>	-6.1	-0.7	-8.7	-16.5	24.5
Memo:					
Cash balance, end of period	60.5	39.0	48.9	18.1	39.0

Note. Data reported on a payment basis. Details may not sum to totals because of rounding.

p Projection.

e Estimate.

1. Accrued items, checks issued less checks paid, and other transactions.

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

Agency	1995				
	Q1	Q2	May	June	July
FHLBs	4.4	12.9	6.2	5.0	0.0
FHLMC	8.4	6.8	1.3	0.8	2.9
FNMA	1.4	12.3	4.8	7.9	-2.5
Farm Credit Banks	0.8	0.0	0.4	-0.1	0.7
SLMA	1.2	-0.3	-0.8	1.3	0.0

Note. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

n.a. Not available.

With Treasury debt subject to statutory limit drawing close to the \$4,900 billion ceiling, remaining borrowing authority should be exhausted around the end of October, even if bill auction sizes are trimmed further and the October five-year note auction is canceled. Without legislation to lift the ceiling, the Treasury faces a shortfall in cash to meet its obligations no later than November 15, when \$25 billion of coupon payments come due and \$33 billion of securities are scheduled to mature. Financial markets, however, are giving little weight to the possibility of a Treasury default. Yields on bills maturing around November 15 are in line with yields on bills maturing before that date, revealing the money market's opinion that an extension of the debt ceiling (though perhaps a temporary one) will not be held hostage in the battle over the budget.

Overall borrowing by government-sponsored enterprises slowed in July after a strong second quarter, and anecdotal information indicates that borrowing was sluggish in August as well. In domestic markets, government-sponsored enterprises continued to call existing debt. With the decline in demand for exotic structured notes, new issues have tended to be noncallable debentures or notes with simple call structures. In global markets, government-sponsored enterprises continued to be active. Recent issues by Freddie Mac, Sallie Mae, and Fannie Mae (all with five-year maturities) amounted to \$1-3/4 billion, with the Sallie Mae issue denominated in yen. Another issuer in global markets, the Tennessee Valley Authority, was the subject of a recent GAO report to Congress expressing concern that unless TVA reduced its \$26 billion in debt outstanding, it might ultimately require direct government support. Last year, nearly 35 percent of TVA's current revenue was used to

service debt, compared with about 16 percent at private-sector utilities.

#### Consumer Borrowing

Growth in installment credit slowed in July to an 11 percent annual rate, a bit below the range of the past few quarters (table). A moderation in the growth of revolving credit accounted for most of the deceleration. Whether the slowdown in revolving credit signals a new trend is unclear at this point; its steep rise over the past two years has been punctuated by other one-month interruptions of similar size.

The auto component of consumer credit strengthened in July despite a drop in unit new-car sales that month. However, technical differences often prevent a close matching of monthly movements in the series on auto credit and new-car sales: The credit data reflect activity in used-car as well as new-car markets, and the booking of loans typically lags the recording of sales transactions by a few days. Aside from these differences, heavy use of price rebates on new cars in July may have induced a shift away from leasing toward buying, with loans as the means of finance.

Some lenders reportedly have become more cautious about extending credit-card debt because of poorer payment performance recently. Delinquencies on credit card accounts have increased from very low rates near the end of last year (chart). Call Report data, which are based on dollar amounts at all commercial banks, showed a rise in the second quarter. According to a survey of about 500 banks by the American Bankers Association (ABA), the number of delinquent accounts, having increased sharply in 1994-Q4 and 1995-Q1, moved up further in the second quarter, to 3.24 percent. Charge-offs on the Call Report also moved up noticeably. Delinquency and charge-off measures for credit card accounts in

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

Type of credit	1993	1994	1995		1995		Memo: Outstanding July 1995 (billions of dollars)
			Q1	Q2 <sup>r</sup>	June <sup>r</sup>	July <sup>p</sup>	
Installment	8.1	14.2	13.7	15.7	13.9	10.9	979.6
Auto	9.0	13.1	7.9	11.9	10.1	15.8	337.6
Revolving	11.0	16.7	21.8	23.6	21.1	10.3	376.8
Other	3.7	12.5	10.1	10.1	8.8	5.5	265.2
Noninstallment	-4.7	10.1	22.9	.4	9.3	28.7	63.2
Total	7.2	14.0	14.2	15.1	13.7	12.0	1,042.7

r Revised.  
p Preliminary.

INTEREST RATES ON CONSUMER LOANS  
(Annual percentage rate)

Type of loan	1993	1994	1994		1995		
			Nov.	Feb.	May	July	Aug.
At commercial banks <sup>1</sup>							
New cars (48 mo.)	8.1	8.1	8.8	9.7	9.8	n.a.	9.4
Personal (24 mo.)	13.5	13.2	13.6	14.1	14.0	n.a.	13.8
Credit cards	16.8	16.2	n.a.	n.a.	n.a.	n.a.	n.a.
Credit cards <sup>2</sup>							
All accounts	n.a.	n.a.	15.7	16.1	16.2	n.a.	n.a.
Accounts assessed interest	n.a.	n.a.	15.8	15.3	16.2	n.a.	n.a.
At auto finance cos. <sup>3</sup>							
New cars	9.5	9.8	10.5	11.9	11.4	11.0	n.a.
Used cars	12.8	13.5	14.2	15.1	14.8	14.4	n.a.

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).

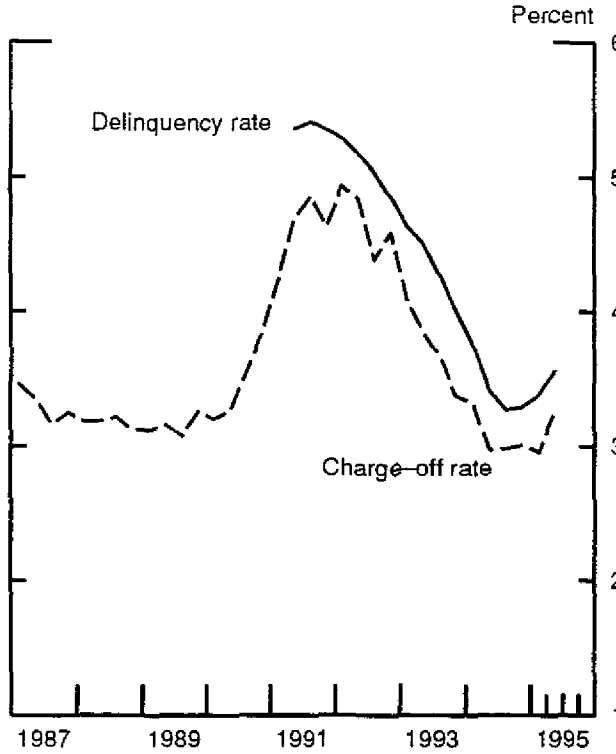
3. For monthly data, rate for all loans of each type made during the month regardless of maturity.

n.a. Not available.

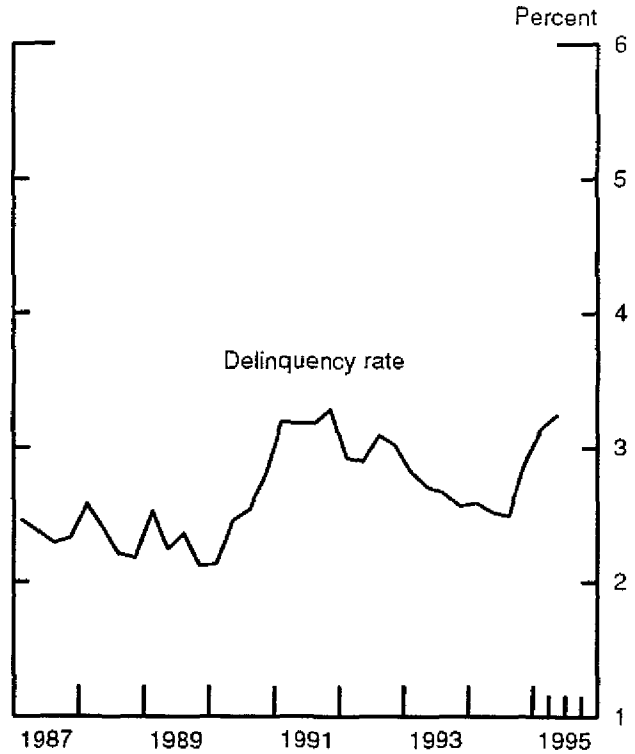
### Credit Card Loan Performance at Commercial Banks

(Quarterly; seasonally adjusted)

Call Report Series

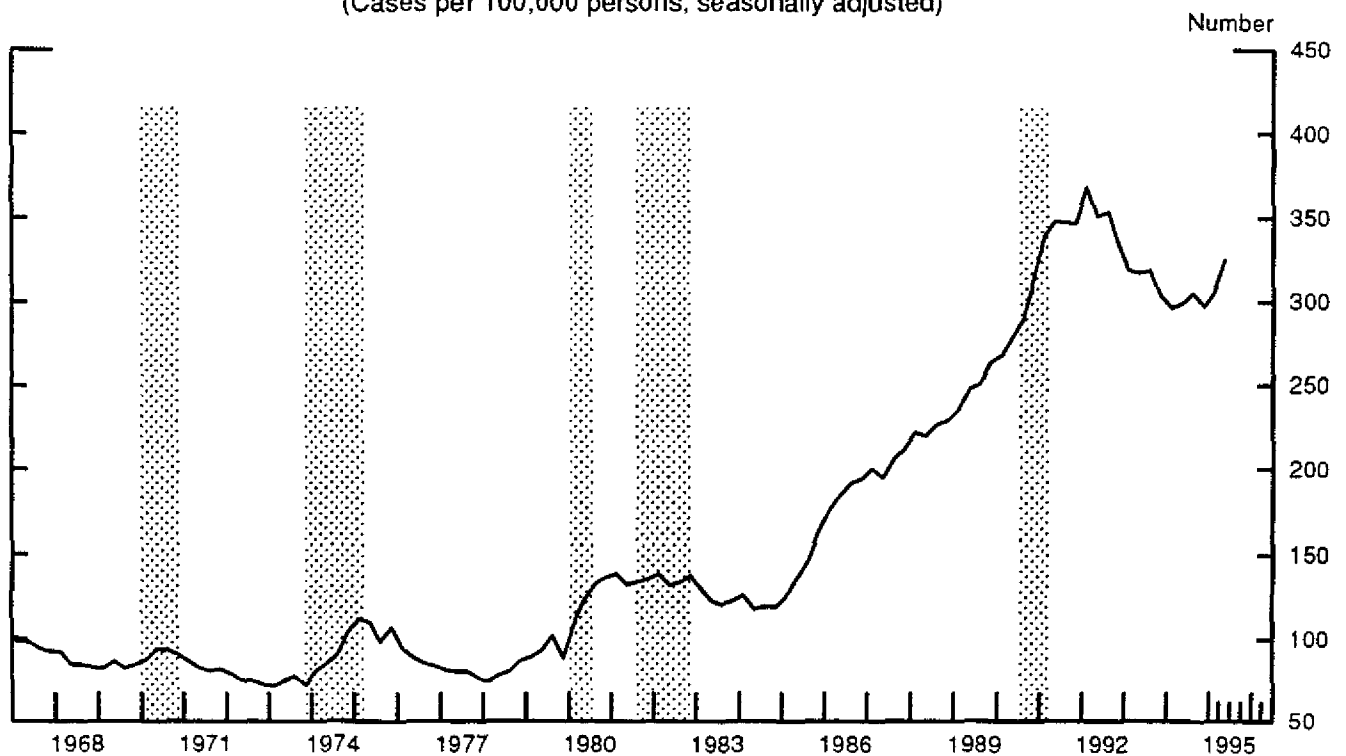


ABA Series



### Nonbusiness Bankruptcy Filings

(Cases per 100,000 persons, seasonally adjusted)



Source: Administrative Office of the U.S. Courts.

securitized pools, tracked by Moody's (not shown), exhibit a pattern of small increases from low levels, similar to that of the Call Report.

According to some large card issuers, a rising number of bankruptcies--often of cardholders with previously untarnished payment records--has pushed credit losses higher in recent months. Indeed, personal bankruptcies increased moderately over the first half of 1995 after several quarters of decline. Before then, bankruptcies had risen almost fourfold from the mid-1980s through 1992. That surge appeared to reflect a change in the relative attractiveness of bankruptcy as a means to solve debt problems. Changes in federal and state law that protected a larger amount of assets from liquidation in bankruptcy proceedings, a general lessening of the social stigma of bankruptcy, and vigorous advertising of bankruptcy services by lawyers all played a role.

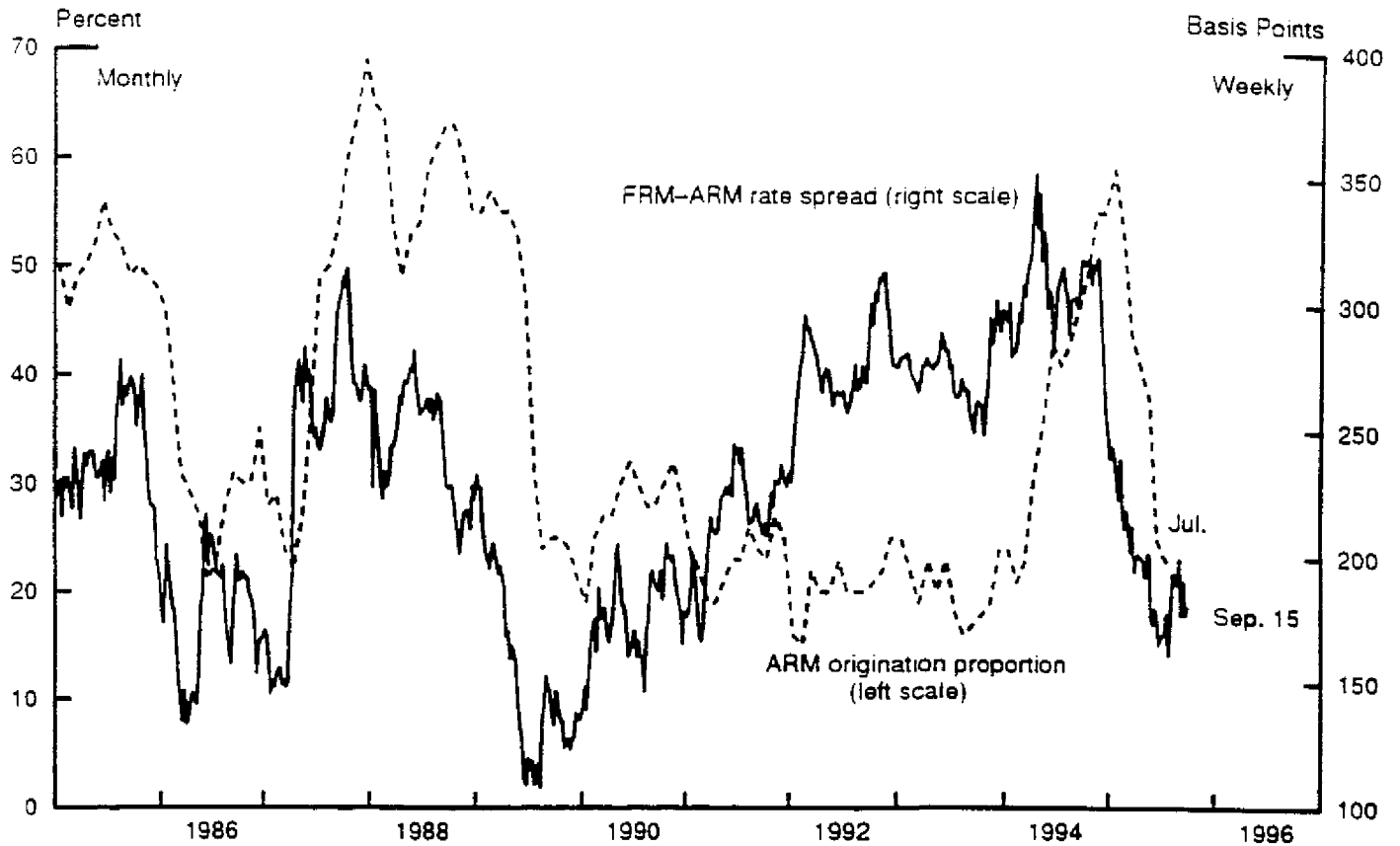
Evidence of increased payment difficulties has also cropped up in auto loans. The major auto finance companies have been reporting rising delinquencies on car loans for several quarters, and commercial banks surveyed by the ABA reported a sharp rise in auto loan delinquencies during the second quarter, reversing a long downtrend. Delinquencies were up moderately on other types of closed-end loans, according to the ABA series. On the Call Report, however, delinquency rates outside the credit card area were little changed.

#### Mortgage Borrowing

Rates on conventional home mortgage loans declined over the intermeeting period. Having retraced most of its August run-up, the average contract rate on thirty-year fixed-rate mortgages is down about 35 basis points, to 7.60 percent, and now stands just above its June lows. Initial rates on adjustable rate mortgages (ARM)

## ARM Origination Proportion and FRM-ARM Spread

(Not seasonally adjusted)



Growth in Mortgage Debt Outstanding  
(Percent, seasonally adjusted annual rate)

Period	Total	Single Family	Multi Family	Nonresidential	Farm
1990	5.9	8.4	.9	.6	-2.0
1991	4.3	6.1	-.8	.1	.5
1992	3.3	6.4	-3.7	-5.7	1.8
1993	4.2	6.1	-1.2	-1.4	.6
1994:1	4.2	6.2	1.3	-3.2	.7
1994:2	4.3	5.1	2.9	1.0	3.6
1994:3	5.4	6.8	3.6	-.1	2.7
1994:4	4.5	6.1	-1.0	-.4	1.7
1995:1	5.6	6.2	1.8	4.6	2.1
1995:2	3.7	4.5	3.2	.2	4.6



indexed to the one-year Treasury constant maturity yield declined about 15 basis points, further narrowing the FRM-ARM rate spread (chart). A narrowing of the spread usually implies a shift toward fixed-rate mortgages, and this effect seems to have continued in the current quarter. Corroborating evidence of the shift to fixed-rate loans can be found in increased issuance of federally related pass-through securities (not shown). Increased issuance at Fannie Mae and Ginnie Mae offset a slowing at Freddie Mac and boosted gross issuance in July. Net issuance picked up to about a \$6 billion pace. In the collateralized mortgage obligation market, the volume of agency offerings has remained depressed, as it has been since late last year because of investor concern about the risks of holding derivative securities.

Borrowers may have begun to respond to the recent declines in mortgage interest rates. The Mortgage Bankers Association (MBA) home purchase index has ratcheted upward this year as rates have declined. The MBA refinancing index stood at 167 in the week ended September 8. This level was well below the peak level of 900 reached during the early 1990s refinancing boom, but it was substantially above the year-ago level of 57.

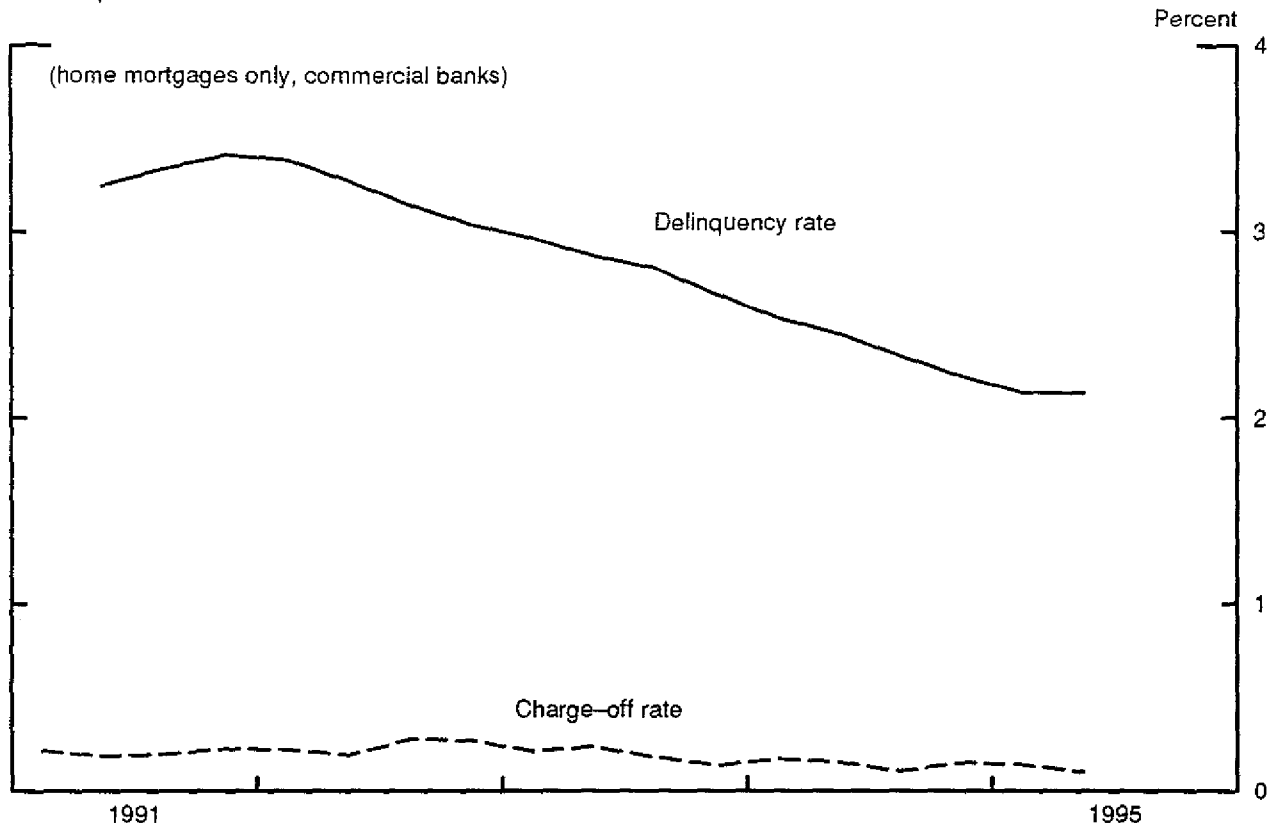
Preliminary estimates for total mortgage debt growth in the second quarter show a slowing in overall activity on a seasonally adjusted basis (table). In the residential category, growth in mortgage debt outstanding on single-family homes edged down to an annual rate of 4-1/2 percent, while growth in debt on multifamily residences nearly doubled from its first-quarter pace. The slowdown in nonresidential debt was accounted for by a run-off at thrift institutions and life insurance companies and a slowing at commercial banks. Farm mortgage debt accelerated somewhat.

The evidence on real estate loan delinquency rates in the second quarter was mixed (chart). Call Report data for dollar amounts of home mortgages at banks showed a very slight drop, but MBA data, which are for the number of home mortgages at a sample of all lenders, showed a slight rise. Nonetheless, both measures remained quite low by recent historical standards.

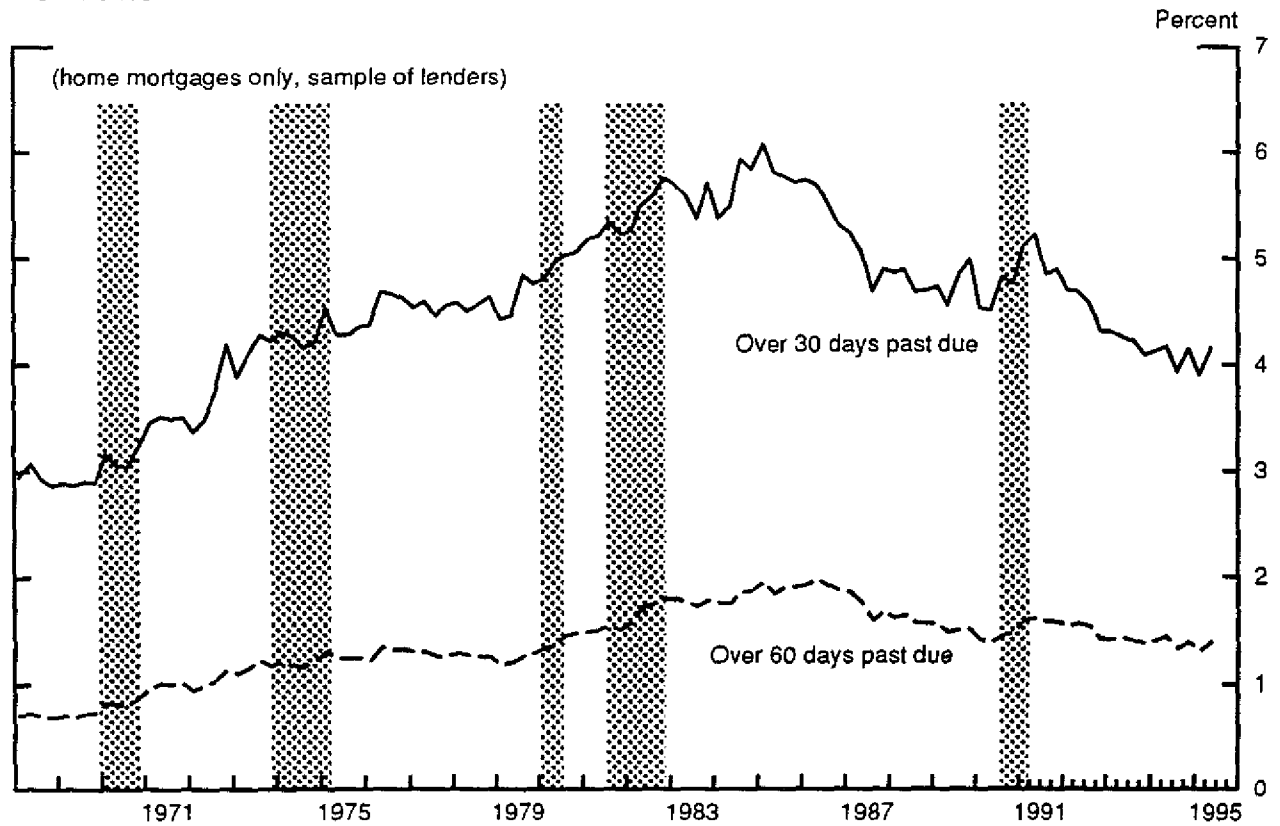
# Real Estate Loan Performance

(Quarterly, seasonally adjusted)

Call Report Series



MBA Series



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# **INTERNATIONAL DEVELOPMENTS**

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INTERNATIONAL DEVELOPMENTS

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U.S. International Trade in Goods and Services

In July, the deficit in trade in goods and services was about the same as in June (revised) as both exports and imports declined. For exports, the largest decreases were in industrial supplies (primarily gold and chemicals, both from unusually strong levels) and capital goods (largely aircraft). For imports, the declines were almost entirely in automotive products (for the third months in a row) and oil (both price and quantity). The total quantity of oil imported in July fell reflecting a strong pick-up in production and an easing of consumption. Preliminary DOE statistics indicate that in August oil imports probably rebounded as production fell off.

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

	1994	Annual Rates			Monthly Rates		
		1994	1995		1995		
		Q4	Q1-r	Q2-r	May-r	Jun-r	Jul
Real NIPA 1/ Net Exports of G&S	-110.0	-107.1	-118.5	-126.8	--	--	--
Nominal BOP Net Exports of G&S	-106.2	-109.9	-116.0	-132.6	-10.8	-11.3	-11.5
Goods, net	-166.1	-174.0	-178.4	-195.2	-16.0	-16.5	-16.6
Services, net	59.9	64.1	62.4	62.7	5.2	5.2	5.1

1/ In billions of 1987 dollars, SAAR.

Source: U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census.

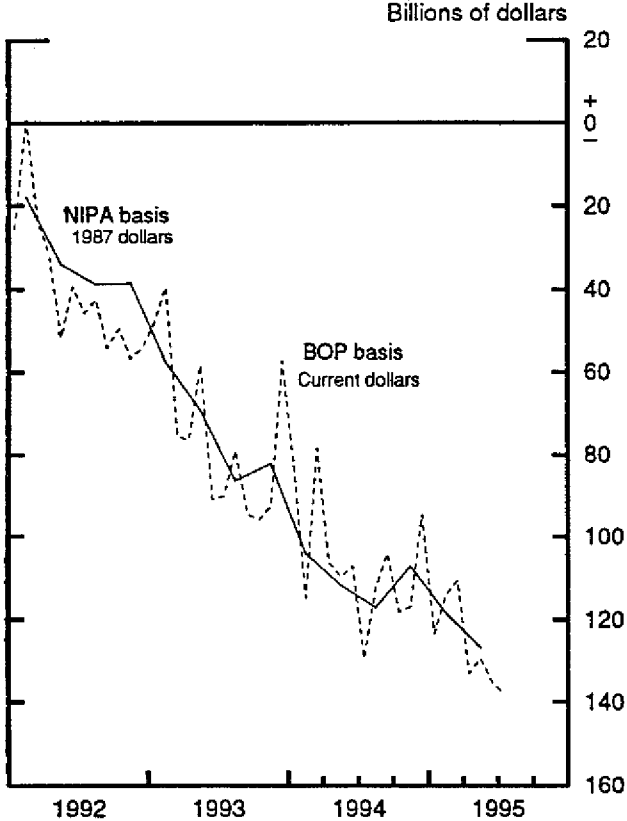
In the second quarter, the nominal trade deficit was substantially larger than in the first quarter. The value of exports of goods and services was 2-1/2 percent higher than in the first quarter. About two-thirds of the rise was in quantity, with the sharpest increases recorded for capital goods.

The value of imports of goods and services in the second quarter was 4 percent higher than in the first quarter with increases spread across most major trade categories, except automotive products from Canada. For non-oil imports other than computers, the quantity in the second quarter was about 2 percent

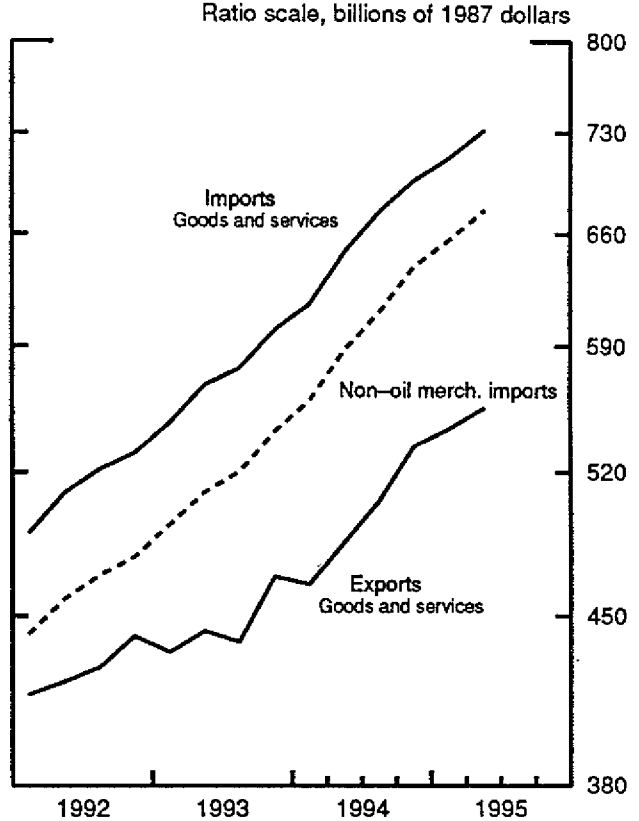
# U.S. International Trade in Goods and Services

(Seasonally adjusted annual rate)

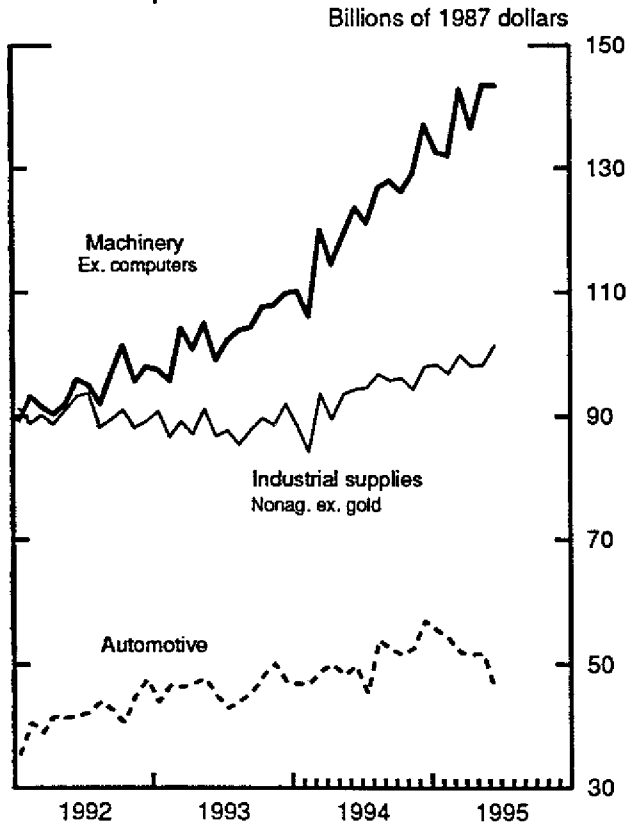
Net Exports



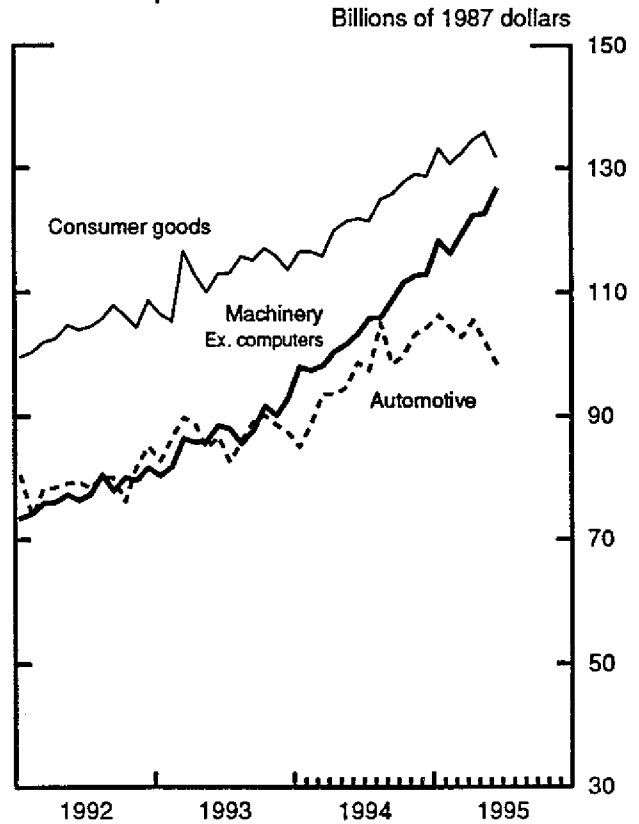
NIPA Exports and Imports



Selected Exports



Selected Imports



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

	Levels				Amount Change 1/			
	1995		1995		1995		1995	
	Q1-r	Q2-r	Jun-r	Jul	Q1-r	Q2-r	Jun-r	Jul
<u>Exports of G&amp;S</u>	758.5	778.4	775.2	757.1	19.0	19.9	-12.0	-18.1
Goods Exports	554.0	571.4	568.6	552.7	18.3	17.4	-11.1	-15.8
Agricultural	56.1	53.6	51.0	54.1	1.9	-2.5	-2.6	3.2
Gold	5.6	7.7	8.7	3.9	2.2	2.1	0.8	-4.7
Computers	36.3	37.1	38.0	40.0	0.5	0.7	0.7	2.0
Other Goods	456.0	473.0	470.9	454.7	13.7	17.0	-10.1	-16.3
Aircraft & Pts	25.2	31.1	30.8	22.4	-4.2	5.9	0.6	-8.4
Semiconductors	30.0	32.6	34.6	34.3	2.3	2.6	1.8	-0.3
Other Cap Gds	125.2	129.9	130.4	131.4	3.2	4.7	-1.8	1.0
Automotive	63.5	58.8	54.5	52.9	1.8	-4.7	-6.6	-1.6
to Canada	35.8	31.3	29.2	27.9	0.9	-4.5	-2.8	-1.3
to Mexico	7.4	6.6	6.6	5.6	-1.2	-0.7	-0.5	-1.0
to ROW	20.4	20.9	18.7	19.4	2.1	0.5	-3.3	0.7
Ind Supplies	125.7	131.8	134.7	129.6	9.0	6.1	3.7	-5.1
Consumer Goods	63.1	64.5	64.6	62.5	-0.6	1.4	-1.1	-2.1
All Other	23.2	24.2	21.3	21.5	2.1	1.0	-4.3	0.2
Services Exports	204.5	207.0	206.6	204.3	0.7	2.5	-0.8	-2.3
<u>Imports of G&amp;S</u>	874.5	911.0	910.5	895.0	25.1	36.5	-6.0	-15.5
Goods Imports	732.4	766.6	766.5	751.8	22.8	34.2	-4.9	-14.7
Petroleum	52.3	58.3	61.1	56.6	1.2	6.0	0.7	-4.5
Gold	4.4	10.8	10.5	2.0	1.7	6.4	-1.9	-8.5
Computers	50.8	53.0	55.1	55.4	0.2	2.2	3.2	0.3
Other Goods	624.9	644.5	639.8	637.8	19.7	19.6	-6.9	-2.0
Aircraft & Pts	10.5	11.2	10.9	9.8	-1.3	0.6	-0.3	-1.1
Semiconductors	32.0	37.2	39.8	40.9	1.8	5.3	2.3	1.1
Other Cap Gds	112.5	117.9	118.9	120.1	5.4	5.4	2.3	1.2
Automotive	129.8	128.6	124.6	120.3	2.7	-1.3	-4.1	-4.2
from Canada	48.3	42.8	41.1	34.2	0.8	-5.5	-3.3	-6.9
from Mexico	17.8	17.6	18.1	16.1	0.6	-0.2	0.1	-2.0
from ROW	63.8	68.2	65.4	70.0	1.3	4.4	-0.9	4.7
Ind Supplies	122.8	127.6	124.6	125.5	5.7	4.8	-3.2	0.9
Consumer Goods	159.1	163.1	161.1	161.8	4.9	4.0	-4.1	0.7
Foods	34.1	32.7	33.0	33.0	2.2	-1.4	0.7	-0.1
All Other	24.0	26.2	26.8	26.4	-1.7	2.1	-0.5	-0.4
Services Imports	142.1	144.4	144.1	143.3	2.4	2.3	-1.0	-0.8
Memo:								
Oil Qty (mb/d)	8.95	9.08	9.54	9.47	-0.26	0.13	0.33	-0.07

1/ Change from previous quarter or month.

Source: U.S. Dept. of Commerce, Bureaus of Econ. Analysis and Census

higher than in the first; this was nearly the same rate of increase as in the first quarter and slower than in any quarter of last year

Prices of Oil

The prices of imported oil fell sharply in July. As in June, this decline was in line with the drop in spot oil prices over the previous few months prompted largely by rising production by OPEC and non-OPEC producers. As a result of an earlier run-up in prices, however, the average price of imported oil was considerably higher in the second quarter than in the first quarter.

More recently, spot oil prices (West Texas Intermediate) have rebounded, reflecting unusually low petroleum and product inventories in the United States and uncertainty surrounding the events in Iraq (the defection of two high level Iraqi government officials and the U.S. military build-up in the Gulf Region). These factors, as well as concern over the effect of several hurricanes on key Caribbean refineries, have also supported oil prices in September to date. Spot WTI averaged \$18.03 per barrel in August, compared with \$17.30 per barrel in July. Currently, spot WTI is trading around \$18.96 per barrel.

Prices of Merchandise Non-oil Imports and Exports

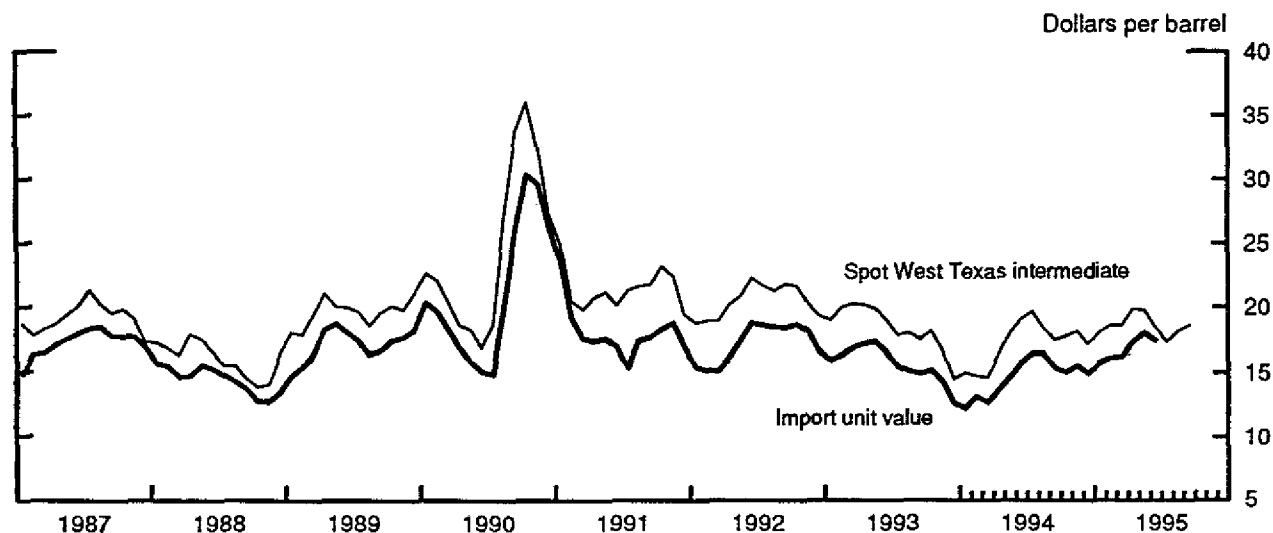
In July, prices of U.S. non-oil imports resumed increasing after a one-month pause. As was the case during most of the past year, the primary contribution to this increase was the rising price of industrial supplies. For the second quarter of 1995, prices rose at rates similar to those recorded in the third and fourth quarters of 1994. There were increases in all categories with the exception of food (due in part to a sharp drop in coffee prices in June). Prices of exports increased slightly in July, largely driven by price increases for agricultural products. In the second quarter, export prices rose 7 percent (AR), only slightly less than in the first quarter. In both the first and second quarters the increase



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

	Annual Rates			Monthly Rates		
	1994	1995		1995		
	Q4	Q1	Q2	May	Jun	Jul
	-----BLS Prices-----					
<u>Merchandise Imports</u>	3.8	4.4	8.4	0.9	-0.5	-0.6
Oil	-10.9	15.2	36.6	3.2	-3.1	-9.4
Non-Oil	5.5	3.3	5.8	0.6	-0.1	0.4
Foods, Feeds, Bev.	7.9	-0.4	-3.9	1.2	-0.9	0.2
Ind Supp Ex Oil	15.2	15.3	10.2	0.8	-0.3	1.0
Computers	-6.2	-3.5	-4.6	-0.7	-0.1	0.0
Capital Goods Ex Comp	2.6	0.6	9.4	1.0	0.0	0.3
Automotive Products	6.2	0.7	5.2	0.5	-0.1	0.3
Consumer Goods	1.6	1.3	3.5	0.6	0.0	0.1
Memo:						
Oil Imports (\$/bbl)	15.19	16.01	17.55	17.95	17.41	--
<u>Merchandise Exports</u>	5.9	8.6	7.1	0.3	0.2	0.3
Agricultural	7.0	11.8	17.2	0.7	1.4	3.6
Nonagricultural	5.9	8.3	6.0	0.2	0.1	-0.2
Ind Supp Ex Ag	18.8	23.5	13.8	0.8	-0.5	-0.8
Computers	-6.3	-5.6	-2.3	-0.3	-0.3	-0.4
Capital Goods Ex Comp	0.0	3.0	3.9	0.1	0.4	0.2
Automotive Products	2.3	1.0	-0.1	0.0	0.2	0.1
Consumer Goods	1.2	1.9	2.9	0.2	-0.1	0.1
	-----Prices in the NIPA Accounts-----					
<u>Fixed-Weight</u>						
Imports of Gds & Serv.	3.2	4.5	8.4	--	--	--
Non-oil Merch Ex Comp	5.4	3.6	5.2	--	--	--
Exports of Gds & Serv.	6.9	9.3	7.0	--	--	--
Nonag Merch Ex Comp	7.1	9.7	6.3	--	--	--

### Oil Prices



was pushed up largely by prices of industrial supplies and agricultural products. Prices of exported capital goods and consumer goods rose at only a 3 percent annual rate in the second quarter.

Data for August will be released on September 29.

U.S. Current Account through 1995-Q2

In the second quarter of 1995, the U.S. current account deficit widened \$18.4 billion, SAAR, from the level reported (revised) for the first quarter. Most of the change between the first and second quarters was from larger net deficits in trade and in investment income.

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

	Goods & Services Balance	Investment Income, net	Transfers net	Current Acct Balance
<b>Years</b>				
1993	-74.8	9.0	-34.1	-99.9
1994	-106.2	-9.3	-35.8	-151.2
<b>Quarters</b>				
1994-1	-92.1	0.5	-29.5	-121.1
2	-107.7	-9.1	-35.1	-151.9
3	-115.2	-10.1	-33.5	-158.9
4	-109.9	-18.3	-45.0	-173.1
1995-1	-117.8	- 7.8	-30.5	-156.1
-2	-133.5	-11.5	-29.5	-174.5
<b>Memo:</b>				
\$ Change				
Q1-Q4	-7.9	10.4	14.5	17.0
Q2-Q1	-15.7	-3.7	1.0	-18.4

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

The larger net deficit in investment income was more than accounted for by income on portfolio investment; it reflected continued growth in U.S. net portfolio indebtedness and a bunching of coupon payments on foreign holdings of U.S. securities that is not yet adequately reflected in the BEA's seasonal adjustment. In contrast, direct investment receipts increased more rapidly than

payments. Robust growth in receipts from U.S. direct investment abroad continued across all industries. Increases in payments from foreign direct investment in the United States were most pronounced in manufacturing.

#### U.S. International Financial Transactions

Recorded capital inflows through both foreign official reserve accumulations in the United States and foreign private purchases of U.S. securities accelerated further in July. Recorded capital outflows through U.S. private purchases of foreign securities rose slightly in July from their already robust pace in June. Banking recorded a small net capital inflow in the month as borrowing under RP arrangements offset a reduction in net interbank borrowing.

Official reserve accumulation by countries outside of the G-10 accounted for nearly all of the official inflow in July (line 1 of the Summary of U.S. International Transactions table). Argentina, Brazil, Singapore, and China increased their reserves in the United States substantially. Partial data from the FRBNY for August and the first half of September show a small official inflow since the end of July. Although Japan accounts for most of this latter inflow, it is much smaller than Japan's recorded exchange market intervention over the period.

Foreign private purchases of U.S. securities picked up further in July from their already heady pace in June (line 4). Most of the increase in foreign purchases was in Treasuries and this was concentrated in the United Kingdom (with the ultimate purchasers therefore unknown). As in the previous two months, recorded Japanese net purchases of Treasuries were large in July--above \$6 billion--bringing the total for the May-July period to almost \$19 billion. During 1993 and 1994 Japanese monthly net purchases of Treasuries averaged about \$1 billion and only twice exceeded \$4 billion.

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

	1993	1994	1994		1995			
			Q3	Q4	Q1	Q2	June	July
<u>Official capital</u>								
1. Change in foreign official reserve assets in U.S. (increase, +)	70.4	37.3	19.2	-1.1	22.5	37.3	19.7	23.9
a. G-10 countries	30.1	28.9	8.9	-6.1	16.9	14.4	4.1	2.4
b. OPEC countries	-5.1	-3.3	3.3	.4	.4	-.2	.3	4.6
c. All other countries	45.5	11.7	7.0	4.6	5.2	23.0	15.3	16.9
2. Change in U.S. official reserve assets (decrease, +)	-1.4	5.3	3.5	-.2	-5.3	-2.7	.8	-2.5
<u>Private capital</u>								
<u>Banks</u>								
3. Change in net foreign positions of banking offices in the U.S. <sup>1</sup>	17.2	105.3	10.7	18.9	-14.2	-20.0	-28.0	2.3
<u>Securities<sup>2</sup></u>								
4. Foreign net purchases of U.S. securities (+)	105.8	94.5	20.6	36.5	46.1	51.5	21.1	27.3
a. Treasury securities <sup>3</sup>	24.8	34.6	5.6	26.0	30.1	30.5	11.9	16.5
b. Corporate and other bonds <sup>4</sup>	61.4	55.5	14.0	12.9	19.6	18.6	8.6	8.8
c. Corporate stocks	19.6	4.4	1.0	-2.4	-3.5	2.4	.6	2.0
5. U.S. net purchases (-) of foreign securities	-143.1	-56.6	-10.0	-17.9	-7.9	-22.3	-11.4	-13.2
a. Bonds	-80.4	-9.3	-3.0	-8.5	-3.8	-12.4	-7.3	-5.0
b. Stocks	-62.7	-47.2	-7.0	-9.3	-4.1	-9.9	-4.2	-8.2
<u>Other flows (quarterly data, s.a.)</u>								
6. U.S. direct investment (-) abroad	-72.6	-49.4	-10.1	-11.9	-22.5	-16.1	n.a.	n.a.
7. Foreign direct investment in U.S.	41.1	49.4	19.7	19.6	17.2	11.3	n.a.	n.a.
8. Other (inflow, +) <sup>5</sup>	46.5	-20.3	-1.6	-14.3	-16.4	.1	n.a.	n.a.
<u>U.S. current account balance (s.a.)</u>	-99.9	-151.2	-39.7	-43.3	-39.0	-43.6	n.a.	n.a.
<u>Statistical discrepancy (s.a.)</u>	36.0	-14.3	-12.1	13.7	19.5	4.5	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. government 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.

U.S. purchases of foreign securities also accelerated in July, as a large increase in U.S. purchases of foreign equities more than offset a reduction in U.S. net purchases of foreign bonds (line 5). The increase in equities purchases was primarily in the developed countries with purchases in Japan jumping from \$1.3 billion in June to \$3.8 billion in July.

Transactions by banks and securities dealers on net recorded a small inflow in July, in sharp contrast to the large outflows recorded earlier in the year (line 3). This inflow was more than accounted for by borrowing by securities dealers in the United States. In interbank transactions, both U.S.-based and foreign-based banks in the United States continued to reduce their level of net borrowing from abroad. Available data for August indicate a net inflow through interbank transactions, on a month average basis (line 1 of the International Banking Data table).

Balance of payments data for the second quarter record robust direct investment capital flows both into and out of the United States (lines 6 and 7 of the Summary table above). In the first half of this year, U.S. direct investment abroad was well above last year's pace. In the first half, direct investment to Europe exceeded its total for last year, and investment flows to other regions, including Latin America, were near last year's pace. Direct investment flows to Mexico, which fell off sharply in the first quarter, rebounded strongly in the second. Foreign direct investment into the United States is also running ahead of last year's pace, as large inflows from Europe more than offset a sizable decline in inflows from Japan.

The statistical discrepancy in the international accounts remained positive in the second quarter, indicating net unrecorded capital inflows. The discrepancy was significantly smaller than in

INTERNATIONAL BANKING DATA  
(Billions of dollars)

	1992	1993	1994		1995			
	Dec.	Dec.	June	Dec.	Mar.	June	July	August
1. Net claims of U.S. banking offices (excluding IBFs) on own foreign offices and IBFS	-71.6	-122.1	-175.4	-224.0	-242.7	-235.3	-235.0	-241.4
a. U.S.-chartered banks	17.0	4.2	-29.9	-70.1	-88.6	-88.7	-82.7	-87.9
b. Foreign-chartered banks	-88.6	-126.3	-145.5	-153.9	-154.1	-147.6	-152.2	-153.4
2. Credit extended to U.S. nonbank residents								
a. By foreign branches of U.S. banks	24.8	21.8	22.2	23.1	23.5	25.2	25.2	25.3
b. By Caribbean offices of foreign-chartered banks	n.a.	90.9	81.0	78.4	80.3	85.3	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	90.0	77.8	77.5	85.6	90.5	92.3	93.6	94.9
b. At the Caribbean offices of foreign-chartered banks	n.a.	79.2	81.1	86.0	96.3	108.9	n.a.	n.a.
MEMO: Data as recorded in the U.S. international transactions accounts								
4. Credit extended to U.S. nonbank residents	197	204	204	200	209	n.a.	n.a.	n.a.
5. Eurodeposits of U.S. nonbank residents	235	229	241	260	270	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

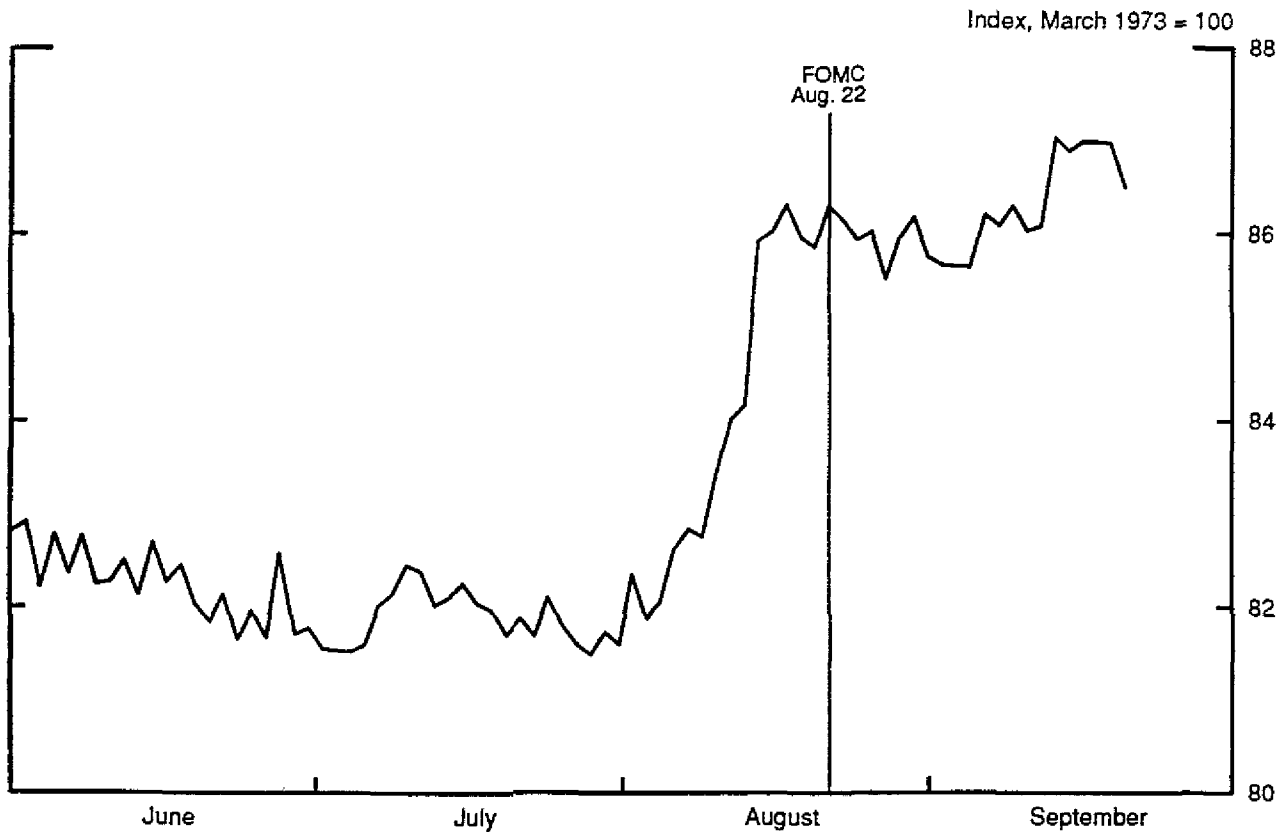
the first quarter, however, in part reflecting much smaller net currency shipments to foreigners.

#### Foreign Exchange Markets

The weighted-average dollar is about unchanged on balance since the August 22 FOMC meeting. Over the intermeeting period the dollar strengthened 6-3/4 percent further against the yen, in part reflecting monetary easing, massive dollar purchases by the Bank of Japan, and smaller Japanese current account figures. Statements by various Japanese officials may also have convinced some market participants that Japanese authorities are willing to take additional steps to effect more yen depreciation. Although the Bundesbank, and many other European central banks, eased official interest rates over the intermeeting period, the dollar is 1 percent lower on balance against the mark and most other European currencies. After depreciating against the Canadian dollar early in the intermeeting period, the U.S. dollar recently has strengthened and currently stands 1/4 percent higher on balance since the August 22 FOMC meeting. Recent jitters ahead of Quebec's sovereignty referendum on October 30 have put downward pressure on the Canadian dollar.

After drifting somewhat higher following the August 22 FOMC meeting, the dollar shot up 1-1/4 percent against the yen on September 6 when the Bank of Japan purchased very large amount of dollars following the release of data that showed a smaller-than-expected Japanese current account surplus in July. On September 8, the dollar rose 3/4 percent further when the Bank of Japan, in a widely anticipated move, reduced its discount rate by 1/2 percentage point to 1/2 percent and guided the call money rate about 35 basis points lower to trade a bit below the discount rate. Moreover, the Bank on that day broke its previous record, set on August 2, for single-day dollar purchases. Since September 8, the dollar has risen 3-1/2 percent more as various Japanese officials have suggested that further yen depreciation is desirable.

## Weighted Average Exchange Value of the Dollar (Daily data)



### Interest Rates in Major Industrial Countries

	Three-month rates			Ten-year bond yields		
	Aug. 22	Sept. 20	Change	Aug 22	Sept. 20	Change
Germany	4.40	4.05	-0.35	6.70	6.44	-0.26
Japan	0.87	0.50	-0.37	3.34	2.79	-0.55
United Kingdom	6.69	6.72	0.03	8.05	7.81	-0.24
Canada	6.45	6.80	0.35	8.29	7.89	-0.40
France	5.76	5.67	-0.09	7.29	7.21	-0.08
Italy	10.31	10.19	-0.12	11.54	11.16	-0.38
Belgium	4.44	4.11	-0.33	7.19	6.91	-0.28
Netherlands	4.02	3.88	-0.14	6.75	6.46	-0.29
Switzerland	2.81	2.75	-0.06	4.45	4.26	-0.19
Sweden	9.24	8.87	-0.37	10.14	9.20	-0.94
Weighted-average foreign	5.16	4.99	-0.17	7.14	6.81	-0.33
United States	5.78	5.75 <sup>P</sup>	-0.03	6.57	6.16 <sup>P</sup>	-0.41

Note. Change is in percentage points.      p Preliminary



Due largely to expectations, and subsequent realization, of monetary easing by the Bank of Japan, the Japanese 3-month interest rate has fallen about 35 basis points over the intermeeting period. Long-term interest rates in Japan have tumbled 55 basis points.

On August 24, the Bundesbank announced reductions of 50 basis points in its discount and lombard rates to 3.50 percent and 5.50 percent, respectively. This action in Germany was followed immediately by official rate reductions in Austria, Belgium, Denmark, and the Netherlands. However, the dollar's rise against the mark following the Bundesbank's announcement was reversed within hours due in part to weaker-than-expected data on U.S. durable goods orders in July that may have led some market participants to revise downward their assessment of the underlying strength of the U.S. economy. Since August 24, the dollar has declined 1 percent against the mark.

The Swedish krona, which came under significant downward pressure earlier this year, has strengthened against the mark and the dollar over the intermeeting period. The krona has benefited from expectations that Sweden soon may adopt credible fiscal consolidation plan, and by Swedish inflation rates that, on a year-on-year basis, recently have declined.

Short-term interest rates in most European countries have fallen since the August 22 FOMC meeting largely in sympathy with the cumulative 33 basis point reduction in the Bundesbank's repo rate. Long-term interest rates in most European countries have declined also. The decline in long-term rates has been most pronounced in Sweden, where factors mentioned above have helped spur a bond market rally. Short-term interest rates in Canada rose sharply last week, but have retreated somewhat in recent days, as the Canadian dollar came under downward pressure.

The Mexican peso has declined 1-3/4 percent against the dollar over the intermeeting period. Interest rates on most cetes maturities have continued to drift lower. The remaining outstanding loans from the Bank of Mexico's FOBOPROA window, which, at the height of the Mexican financial crisis in March reached nearly \$4 billion and have declined steadily since, were repaid on September 6. Since the August 22 FOMC meeting, the Mexican stock market has risen 3 percent. Spreads on Mexican Brady bond have widened about 1/4 percentage point.

#### Developments in Foreign Industrial Countries

Data on real activity in major foreign industrial countries on average confirm that the slowing from the pace of growth in 1994 persisted through the first half of this year. Growth in Japan was moderate in the second quarter, following a slight decline in the first quarter. Available information suggests that the slowing of output growth in the United Kingdom continued into the third quarter. In Canada, the second-quarter contraction in activity left the level of output essentially unchanged from the fourth quarter of last year. In contrast, German growth picked up substantially in the second quarter from a sluggish first quarter, and indicators for the third quarter are positive on balance. Private consumption spending buoyed activity in both Germany and France, while investment was surprisingly weak.

Inflation pressures remain subdued, owing in part to declines in the prices of food and energy. Price deflation at the consumer and wholesale levels continues in Japan, while a new measure of consumer prices in western Germany indicated inflation of only 1.5 percent in August. French inflation is low as well, with a blip in August entirely attributable to an increase in the VAT. U.K. inflation remains just under 3 percent, and the recent slowdown in producer price inflation will reduce the inflationary pressure on retail margins. Canadian inflation has edged down in recent months to 2-1/4 percent.

New fiscal packages were announced in Japan and France. The supplemental measures in Japan--amounting to ¥14.2 trillion or \$138 billion--are expected to add ¥6-7 trillion in new government spending beginning in the fourth quarter. In France, budget plans for 1996 are intended to reduce the government deficit, and make progress toward meeting the Maastricht criterion.

Individual country notes. GDP advanced at a pace of 3.1 percent (SAAR) in Japan during the second quarter, after a revised decline of 0.1 percent in the first quarter. Growth was led by private consumption and investment. Available indicators for the third quarter indicate weakness in private-sector activity, however. Industrial

JAPANESE REAL GDP  
(Percent change from previous period, SAAR)<sup>1</sup>

	1994	1994		1995	
		Q3	Q4	Q1	Q2
GDP	0.5	3.7	-3.9	-0.1	3.1
Total Domestic Demand	0.9	3.9	-2.7	0.5	3.2
Consumption	1.1	4.3	-2.6	0.4	3.3
Investment	1.1	3.7	-5.0	-1.4	4.5
Government Consumption	2.3	6.6	0.4	9.2	-5.1
Exports	5.3	0.7	10.0	0.3	17.0
Imports	8.0	4.4	18.7	3.9	18.0
Net Exports (contribution)	-0.3	-0.5	-0.3	-0.5	-0.4

1. Annual changes are Q4/Q4.

production fell again in July as did new machinery orders. After registering a sizable decline in the second quarter, new car registrations--an important indicator of durable consumption--continued to decline in July. The unemployment rate has held steady since April at or near its post-war high of 3.2 percent, and the job offers/applicants ratio has levelled out in recent months as well.

Japanese consumer prices fell in August to a level 0.5 percent below year-earlier levels. Wholesale prices rose 0.7 percent in August, but were still 1 percent lower than 12 months earlier.

In the Bank of Japan's August survey (Tankan), the index of business sentiment of major manufacturing firms was down slightly from the previous survey taken in May. This was the first decrease after five

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

	1994		1995				
	Q4	Q1	Q2	Q3	June	July	Aug
Industrial Production	2.0	1.3	0.0	n.a.	-0.7	-2.4	n.a.
Housing Starts	-0.1	-1.9	-7.8	n.a.	-4.9	2.7	n.a.
Machinery Orders	-1.7	5.1	-5.2	n.a.	15.7	-4.9	n.a.
New Car Registrations	-4.0	10.9	-8.9	n.a.	3.8	-2.1	n.a.
Unemployment Rate (%)	2.9	3.0	3.2	n.a.	3.2	3.2	n.a.
Job Offers Ratio <sup>1</sup>	0.64	0.66	0.63	n.a.	0.61	0.61	n.a.
Business Sentiment <sup>2</sup>	-29	-21	-16	-18	--	--	n.a.
Consumer Prices <sup>3</sup>	0.8	0.0	-0.1	n.a.	0.0	-0.2	-0.5
Wholesale Prices <sup>3</sup>	-1.2	-0.9	-1.7	n.a.	-1.8	-1.4	-1.0

1. Level of indicator.

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

3. NSA; percent change from previous year.

consecutive quarters of increases. However, the yen has depreciated more than 10 percent since the survey was taken; thus, the index may understate current business sentiment.

The current account surplus (seasonally adjusted) was \$9.6 billion in July, down significantly from June. In July, the trade surplus (seasonally adjusted) was \$8.1 billion.

On September 20, authorities announced a supplementary budget package worth ¥14.2 trillion (about \$138 billion) equivalent and 3 percent of GDP), a somewhat larger amount than had been expected. About half of the package is earmarked for public investment expenditure; other components include land purchases, increased loans for housing and

small businesses, assistance to farmers, and spending on telecommunications and other technical/scientific programs. The package also contains some tax measures aimed at revitalizing securities markets. The portion of the package representing real stimulus to the economy is estimated to be about ¥6-7 trillion (about 1-1/2 percent of GDP), most of which should take effect in 1996. Financing the new package will require issuance of about ¥8 trillion in new national and local government bonds.

In Germany, real GDP advanced at a pace of roughly 2-1/2 percent (SAAR) in the first half of 1995, about the same rate as in the second half of 1994. Although average growth was about in line with market expectations, the quarterly pattern of growth and the main source of strength (consumption, not investment) was surprising, as well as the sharp downward revision to the fourth quarter of 1994.

GERMAN REAL GDP  
(Percent change from previous period, SAAR)<sup>1</sup>

	1994	1994		1995	
		Q3	Q4	Q1	Q2
GDP	3.7	2.5	2.5	0.8	4.3
Total Domestic Demand	4.0	4.7	3.1	0.2	2.4
Consumption	0.3	4.0	0.2	2.1	3.1
Investment	8.8	6.5	10.4	-6.1	3.4
Government Consumption	1.7	1.6	-3.2	6.7	2.4
Inventories (contribution)	1.5	0.6	1.4	-0.8	-0.7
Exports	8.9	-1.3	5.0	-6.2	16.0
Imports	9.9	7.2	7.3	-8.2	7.4
Net Exports (contribution)	-0.3	-2.1	-0.6	0.6	2.0

1. Annual changes are Q4/Q4.

Indicators for the third quarter are limited, but industrial production and orders for July suggest some rebound from the weakness evidenced in June. (Data on real activity are unreliable, owing to new

statistical methods that aim to bring German statistics into line with EU standards.) The labor market remains stagnant, with little change in unemployment rates this year. The redefined measure of consumer prices indicates that inflation in western Germany slowed to 1.5 percent in August on a 12-month basis. According to the new measure, 12-month inflation has been at or below 2 percent each month since January.

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

	1995						
	Q1	Q2	Apr	May	June	July	Aug
Industrial Production	-3.8	1.2	2.5	0.1	0.0	3.3	n.a.
Orders	-4.1	0.6	-0.8	2.9	-3.3	4.1	n.a.
Unemployment Rate (%) <sup>1</sup>	9.3	9.3	9.3	9.3	9.3	9.3	9.4
Western Germany	8.2	8.2	8.2	8.2	8.3	8.3	8.4
Eastern Germany <sup>1</sup>	13.8	13.7	13.8	13.6	13.9	13.8	13.8
Capacity Utilization <sup>2</sup>	85.2	85.9	--	--	--	--	--
Production Plans <sup>2,3</sup>	16.3	1.3	1.0	4.0	-1.0	0.0	n.a.
Retail Sales <sup>4</sup>	-2.3	n.a.	1.0	0.0	-3.0	-4.0	n.a.
Consumer Prices <sup>2,4</sup>	2.0	1.9	2.0	1.8	1.9	1.9	1.5

1. Seasonally adjusted by the staff.

2. Western Germany.

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

4. NSA; percent change from previous year.

In France, GDP growth slowed to 1.4 percent (SAAR) in the second quarter from 2.7 percent in the first quarter. The slowdown in the second quarter reflected a surprisingly large drop in investment growth from its moderate pace in the first quarter, sharply lower growth of exports, and a substantial drawdown of inventories. Second-quarter growth was sustained by strong consumption, which largely reflects purchases in advance of the expiration of the government's auto subsidy program and the 2 percentage point increase in the VAT (to 20.6 percent) on August 1.

FRENCH REAL GDP  
(Percent change from previous period, SAAR)<sup>1</sup>

	1994	1994		1995	
		Q3	Q4	Q1	Q2
GDP	2.9	3.6	3.7	2.7	1.4
Total Domestic Demand	3.1	4.1	2.7	1.1	1.8
Consumption	1.5	2.7	0.3	1.5	6.6
Investment	1.6	8.0	3.8	3.8	-2.7
Government Consumption	1.1	1.9	1.3	2.1	2.8
Inventories (contribution)	1.7	0.5	1.5	-0.9	-2.0
Exports	5.9	3.3	16.5	8.9	0.1
Imports	6.8	5.2	12.6	3.4	1.4
Net Exports (contribution)	-0.2	-0.5	0.9	1.5	-0.4

1. Annual changes are Q4/Q4.

Consumer prices in August were 1.9 percent above their year earlier level, up from the 1.5 percent increase registered in July. The rise in inflation was due entirely to the increase in the VAT.

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

	1994			1995			
	Q4	Q1	Q2	May	June	July	Aug
Industrial Production	-0.0	1.2	0.7	2.7	-0.4	n.a.	n.a.
Capacity Utilization	84.2	84.8	84.8	--	--	--	--
Unemployment Rate (%) <sup>1</sup>	12.0	11.8	11.6	11.6	11.5	11.4	n.a.
Consumption of Manufactured Product	-0.1	-0.1	2.8	1.6	4.0	n.a.	n.a.
Consumer Prices <sup>2</sup>	1.6	1.7	1.6	1.6	1.6	1.5	1.9

1. Break in series starting in March due to annual benchmark revision. Historical data are not yet available.
2. NSA; percent change from previous year. Includes the increase in the VAT on August 1, 1995.

On September 20, Prime Minister Juppé presented to parliament his government's budget for 1996. The budget contains tax increases and expenditure measures intended to reduce the 1996 central government

budget deficit to 3.6 percent of GDP from a target of 4.2 percent in 1995. Juppé also proposed measures to cut the deficit in the social security budget (which is separate from the central government budget) in half to  $\frac{1}{3}$  of one percent of GDP in order to reduce the general government budget deficit to 4 percent from 5 percent in 1995. The objective is to reduce the general government deficit to 3 percent in order to meet the Maastricht criterion by 1997. Most of the actual deficit reduction is to be achieved by expenditure restraint, although spending to support job creation rises sharply. The budget eliminates or narrows a number of tax breaks for saving. These tax measures are to be part of a reform of the income tax system, to be announced by the end of the year, that will include significant cuts in payroll taxes and a broadening of the income tax base.

Real GDP growth for the United Kingdom slowed to 1.9 percent (SAAR) in the second quarter, while the growth of GDP excluding oil and gas extraction was unchanged at 2.3 percent. Domestic demand rose rapidly in part due to a strong rebound in investment and a large positive contribution from inventory accumulation. The contribution from net exports was quite negative.

Third-quarter data suggest a slight slowdown in the pace of growth. In July, industrial production was little changed from its second-quarter average despite a surge in oil and gas extraction; manufacturing output fell 0.2 percent from its second-quarter average. Furthermore, in August, the purchasing-managers' survey indicated the smallest growth of output in three years.

Retail sales fell sharply in August, leaving average sales in July-August 0.2 percent above their second-quarter average level. The unemployment rate fell slightly to 8.2 percent in August, after remaining unchanged in the previous four months. Production plans (revealed in CBI surveys) have fallen from their first-quarter peak but were fairly strong in August.



UNITED KINGDOM REAL GDP  
(Percent change from previous period, SAAR)<sup>1</sup>

	1994	1994		1995	
		Q3	Q4	Q1	Q2
GDP	4.0	3.7	2.8	2.7	1.9
Total Domestic Demand	3.4	1.8	5.5	-2.3	5.6
Consumption	2.7	3.2	3.4	-0.6	3.1
Investment	2.9	-0.9	6.2	-0.8	5.2
Government Consumption	1.4	-0.2	-0.6	-0.1	2.5
Inventories (contribution)	0.9	0.0	2.4	-1.8	2.2
Exports	9.8	9.7	10.5	3.3	n.a.
Imports	7.1	3.0	20.4	-13.0	n.a.
Net Exports (contribution)	0.5	1.7	-2.6	5.0	-3.6
Non-oil GDP	3.9	4.0	2.7	2.3	2.3

1. Annual changes are Q4/Q4.

After remaining fairly stable over most of this year, consumer price inflation has edged up in recent months. In August, targeted inflation, measured as the 12-month change in retail prices excluding

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

	1994		1995				
	Q4	Q1	Q2	May	June	July	Aug
Industrial Production	-0.1	0.7	0.2	0.2	-0.4	0.3	n.a.
Retail Sales	0.3	-0.7	0.9	-0.2	0.4	0.4	-0.7
Unemployment Rate (%)	8.8	8.5	8.3	8.3	8.3	8.3	8.2
Consumer Prices <sup>1</sup>	2.2	2.7	2.7	2.7	2.8	2.8	2.9
Producer Input Prices <sup>2</sup>	8.4	11.6	11.1	10.8	10.3	9.6	8.9
Average Annual Earnings	3.8	3.6	3.6	3.5	3.5	3.5	3.3

1. Retail prices excluding mortgage interest payments. NSA; percent change from previous year.

2. NSA; percent change from previous year.

mortgage interest payments, was 2.9 percent. A slowdown in average earnings inflation has helped to mitigate the inflationary impact of the

large runup in producer input prices this year. In recent months, input price inflation has slowed and expectations of price increases in the CBI survey have fallen back considerably since their peak in January.

In Italy, consumer price inflation on a 12-month basis rose further in August to 5.8 percent, up from 5.6 percent in July. Inflationary pressures were more evident at the wholesale level, as prices increased 11.5 percent in July on a 12-month basis. Wage inflation remained relatively moderate at 3.2 percent in July.

The government is expected to announce its 1996 budget plan before the end of September, complete with measures necessary to achieve a target deficit of 5.8 percent of GDP. The budget is likely to include deficit reduction worth \$20 billion, evenly split between new revenues and expenditure cuts. The 1995 budget deficit is projected to be 8 percent of GDP, down from 9.7 in 1994.

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

	1994		1995				
	Q4	Q1	Q2	May	June	July	Aug
Industrial Production	1.2	0.3	1.1	0.5	0.2	n.a.	n.a.
Cap. Utilization (%)	77.6	78.2	78.6	--	--	--	--
Unemployment Rate (%)	11.9	12.2	11.9	--	--	--	--
Consumer Confidence <sup>1</sup>	112.7	112.2	113.2	114.8	115.2	116.5	--
Bus. Sentiment <sup>2</sup> (%)	20	30	18	16	15	n.a.	n.a.
Consumer Prices <sup>3</sup>	3.8	4.4	5.5	5.5	5.8	5.6	5.8
Wholesale Prices <sup>3</sup>	4.6	7.5	11.7	11.4	12.4	11.5	n.a.

1. Level of index, NSA.

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

3. NSA; percent change from previous year.

Economic activity in Canada contracted in the second quarter, after a sharp deceleration in the first quarter. Preliminary indicators for the third quarter suggest that growth remains weak. Employment for July and August on average was unchanged from the second quarter. Housing starts recovered somewhat in August, but remain well below pre-

recession levels. Retail sales and manufacturing shipments declined in July, while new orders picked up for the first time in six months. Consumer price inflation has moderated in recent months, in large part reflecting lower gasoline and food prices.

CANADIAN REAL GDP  
(Percent change from previous period, SAAR)<sup>1</sup>

	1994	1994		1995	
		Q3	Q4	Q1	Q2
GDP	5.4	5.7	4.6	0.9	-1.0
Total Domestic Demand	2.7	0.1	3.3	3.3	0.8
Consumption	3.3	1.6	3.9	0.1	0.9
Investment	6.1	-0.2	8.3	-1.8	0.3
Government Consumption	-1.8	0.0	-1.4	0.9	-0.8
Inventories (contribution)	-0.2	-0.8	-0.4	3.4	0.3
Exports	20.4	25.5	30.7	4.6	-13.0
Imports	13.0	10.0	25.0	10.2	-7.3
Net Exports (contribution)	2.4	5.0	1.8	-2.1	-2.5

1. Annual changes are Q4/Q4.

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

	1994			1995			
	Q4	Q1	Q2	May	June	July	Aug
Industrial Production	1.7	0.8	-0.6	0.4	-1.0	n.a.	n.a.
Manufacturing Survey:							
Shipments	4.9	3.6	-1.5	0.4	-0.4	-0.1	n.a.
New Orders	4.3	3.4	-2.9	-0.2	-1.6	3.1	n.a.
Retail Sales	2.1	-0.1	0.1	0.6	0.4	-0.3	n.a.
Housing Starts	-8.7	-10.0	-14.9	-10.1	13.1	-15.4	10.6
Employment	0.7	0.3	0.1	0.0	0.1	-0.1	0.2
Unemployment Rate (%)	9.7	9.7	9.5	9.5	9.6	9.8	9.6
Consumer Prices <sup>1</sup>	0.0	1.6	2.7	2.9	2.7	2.5	2.3

1. Percent change from year earlier.

The Quebec government announced that the referendum on Quebec sovereignty will be held on October 30. The referendum asks Quebec voters whether Quebec should become sovereign and make a formal offer to Canada for a new economic and political partnership. Recent polls suggest that support for the no vote is slightly higher than for the yes vote, with about 15 percent undecided or undeclared.

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

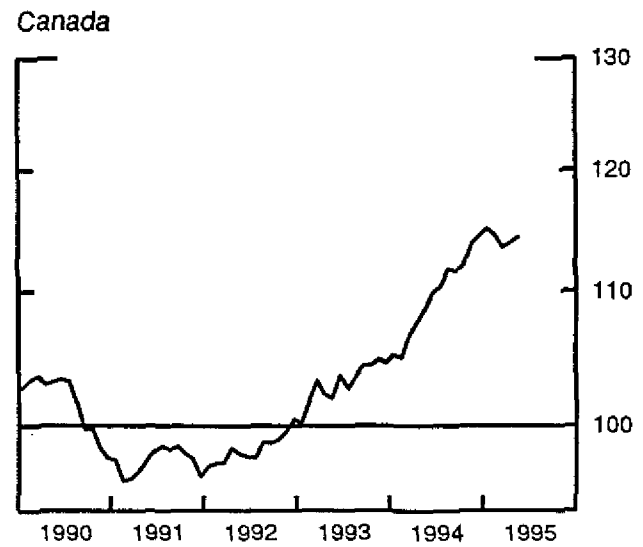
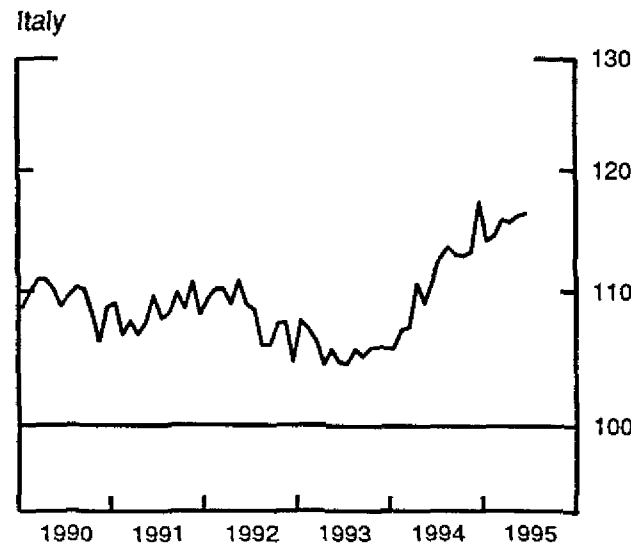
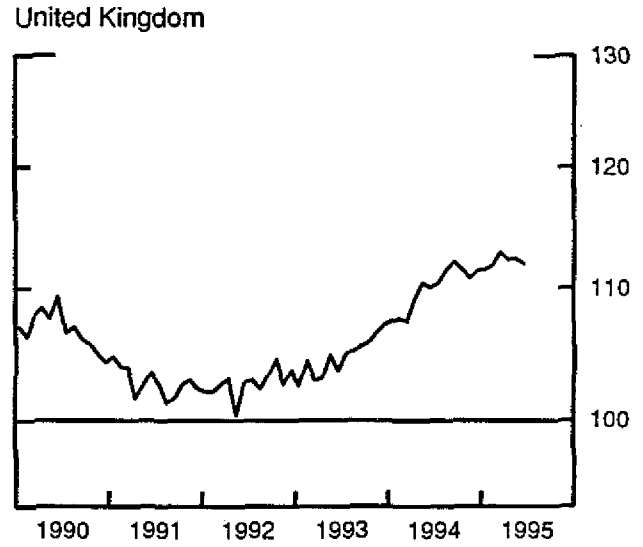
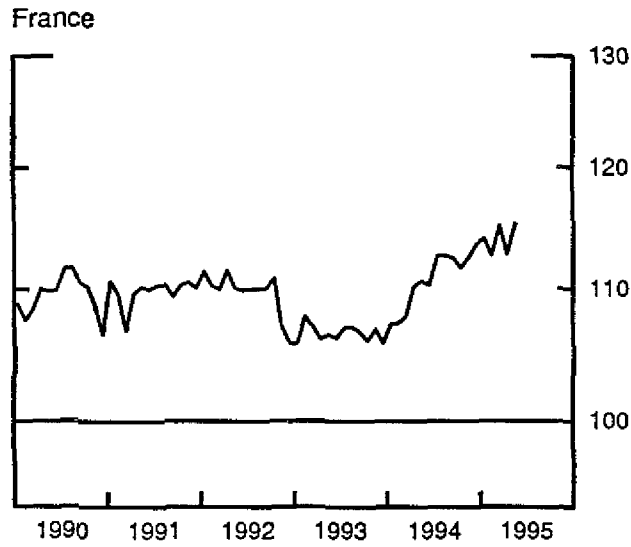
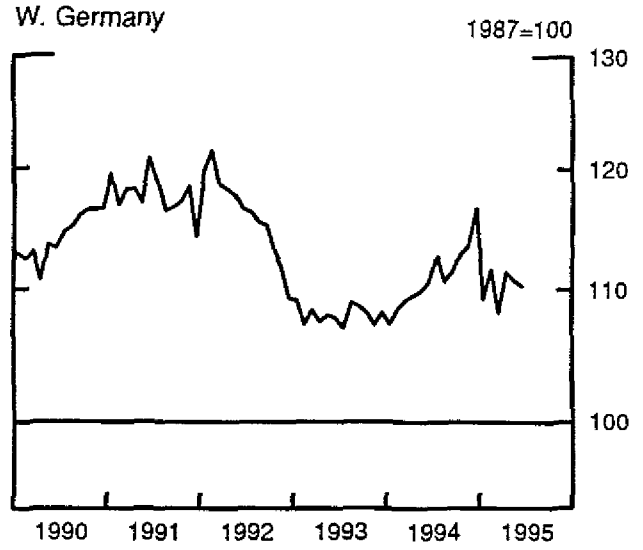
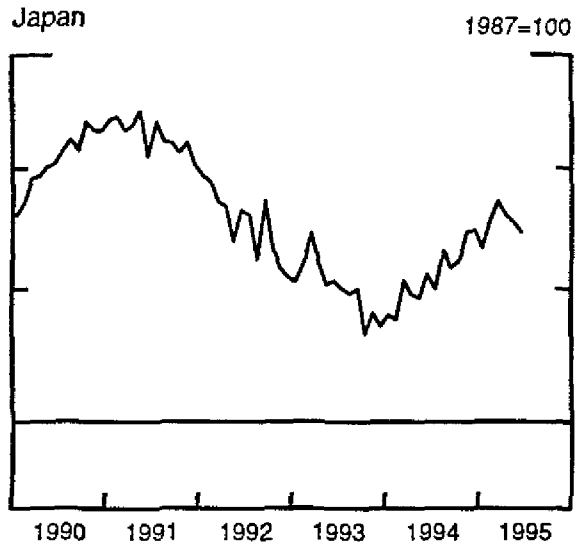
	1994		1995						
		Q4	Q1	Q2	Apr	May	June	July	
Japan: trade	121.0	31.4	27.4	32.7	11.1	10.4	11.2	8.1	
current account	129.5	29.5	29.6	31.2	8.2	10.6	12.3	9.6	
Germany: trade	45.4	11.9	14.1	17.4	5.2	6.1	6.1	n.a.	
current account <sup>1</sup>	-21.1	-5.4	-2.5	-1.9	-1.2	-0.1	-0.6	n.a.	
France: trade	15.1	4.9	5.9	6.4	2.5	1.7	2.2	n.a.	
current account <sup>1</sup>	0.8	3.4	n.a.	n.a.	--	--	n.a.	n.a.	
U.K.: trade	-16.2	-4.6	-3.1	-5.2	2.2	-1.6	-1.4	n.a.	
current account	-2.5	-0.8	-0.7	n.a.	--	--	--	--	
Italy: trade	21.8	3.4	7.4	n.a.	2.2	n.a.	n.a.	n.a.	
current account <sup>1</sup>	15.6	4.8	2.6	7.4	1.8	2.7	2.9	1.8	
Canada: trade	11.0	4.0	3.9	3.7	1.3	1.1	1.3	0.9	
current account	-16.3	-2.9	-3.4	-4.0	--	--	--	--	

1. Not seasonally adjusted.

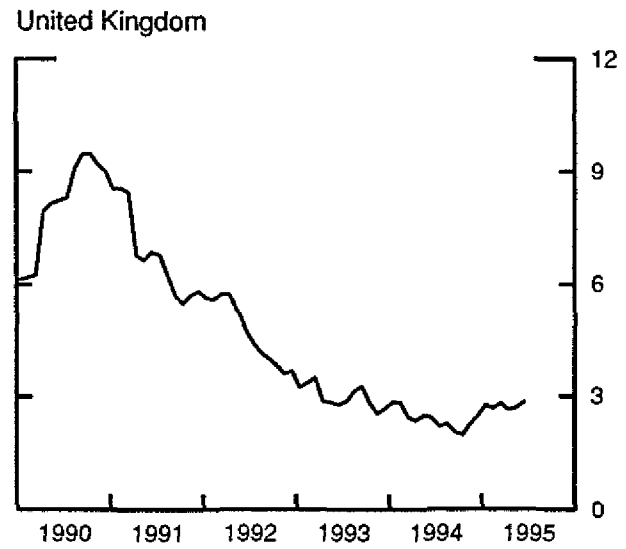
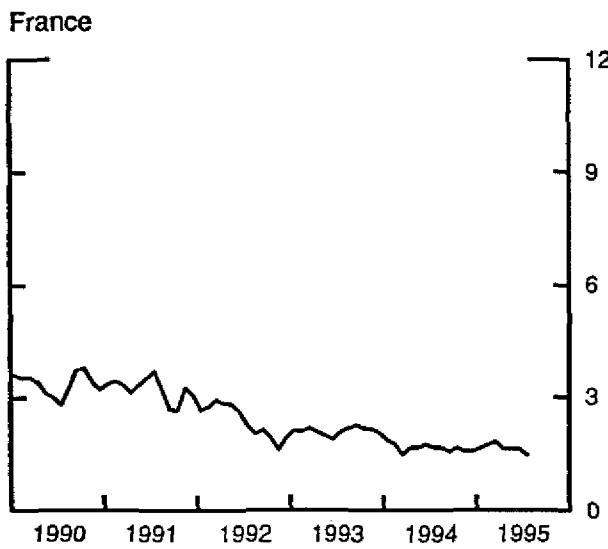
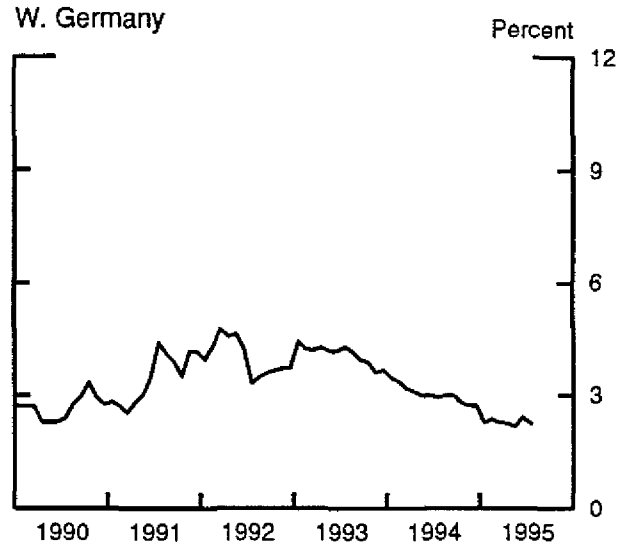
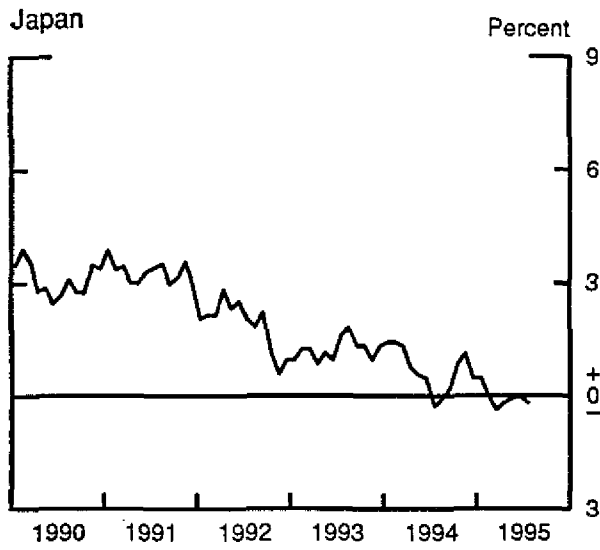
-- Data not available on a monthly basis.

# Industrial Production in Selected Industrial Countries

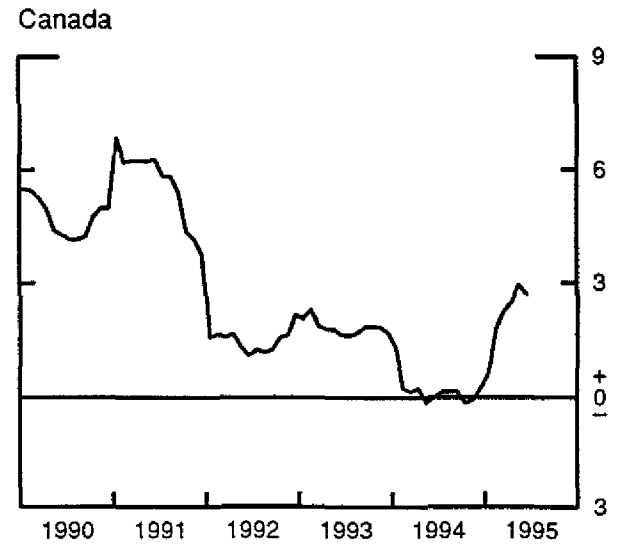
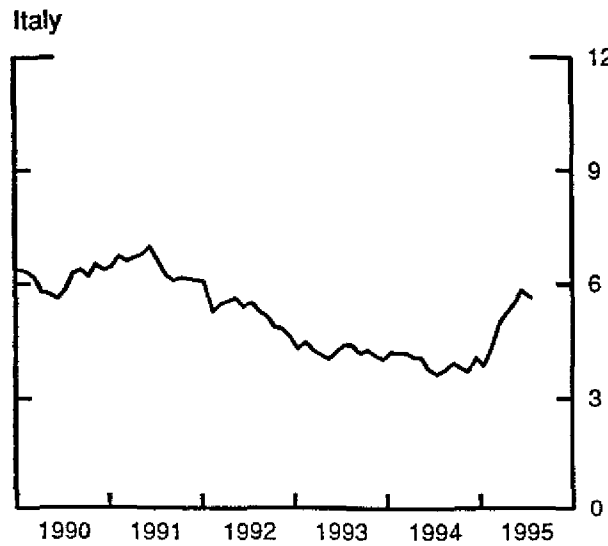
(Monthly data; seasonally adjusted; ratio scale, index)



### Consumer Price Inflation in Selected Industrial Countries (12-month change)



Note: Excludes mortgage interest payments.



Economic Situation in Other Countries

Economic activity in Mexico, Argentina, and Venezuela remained weak in the second quarter, while growth began to slow in Brazil. Growth remained strong in the major Asian developing countries, although the pace has moderated recently in some cases. In Russia, economic activity appears to have stabilized.

The contraction in economic activity in Mexico and Argentina has contributed to the turnaround in these countries' trade balances. Strong export growth has also played an important role in both Mexico and Argentina in the improved trade performance of both countries. However, in both Brazil and Venezuela import growth was high. Exports grew rapidly in the Asian developing countries, while import growth has been mixed.

The continued recessions in Argentina, Mexico, and Venezuela have led to declines in their respective inflation rates, while inflation in Brazil remains low by Brazilian standards. Inflation in the Asian countries and in Russia continues to slow.

Individual country notes. In Mexico, economic activity fell sharply in the second quarter. Mexican real domestic demand plummeted 21.4 percent from its year-earlier level while GDP fell 10.5 percent. The smaller decline in GDP than in domestic demand reflected the tremendous shift in Mexico's trade balance, with real exports (NIA basis) rising 27 percent from a year earlier and imports declining by 30 percent. Of the components of domestic demand, gross fixed investment fell most rapidly at 35 percent. Private consumption fell 16 percent, while government consumption declined almost 6 percent. Industrial production was down about 12 percent from its year-earlier level in June, while the unemployment rate remained flat. Inflation remains high relative to pre-crisis levels, but continues to decline in response to depressed economic activity and the stability of the peso in foreign exchange markets.

Mexico's nominal trade balance has improved as well. Over the first 7 months of 1995, exports were 32 percent above their year-earlier level, while imports were down 7.5 percent. Based on this strong performance, the current account registered a \$455 million surplus in the second quarter, following a revised \$1,075 million deficit in the first quarter.

MEXICAN ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	May	Jun	Jul
Real GDP	3.5	-0.6	-10.5	--	--	--
Industrial Production (s.a.)	3.8	-0.7	-1.1	-8.9	-11.8	--
Unemployment Rate (%)	3.2	5.2	6.5	6.6	6.6	--
Consumer Prices <sup>1</sup>	7.1	14.5	16.1	4.2	3.2	2.0
Current Account <sup>2</sup>	-28.9	-1.1	0.5	--	--	--
Trade Balance <sup>2</sup>	-18.5	0.6	2.4	0.9	0.6	0.6
Imports <sup>2</sup>	79.4	18.2	17.0	6.0	6.0	5.5
Exports <sup>2</sup>	60.8	18.8	19.5	7.0	6.6	6.1

1. Percentage change from previous period.

2. Billions of U.S. dollars, n.s.a.

Mexico's fiscal balance of the non-financial public sector registered a surplus of about 2 percent of GDP in the first half of 1995, while the primary surplus, which does not include public sector interest payments, was about 6 percent of GDP. These surpluses are well in excess of the non-financial public sector balance of 0.5 percent of GDP and primary balance of 4.4 percent of GDP specified in Mexico's economic program, which forms the basis for its IMF stand-by arrangement. As a result, Mexico received a further \$1.65 billion disbursement from the IMF on August 28, raising its gross reserves to \$15.2 billion as of September 8 compared with \$13.9 billion on July 31.

In late August, mounting pressure from small debtors prompted the authorities to announce a new program that would cap interest rates paid on small business and personal loans to below-market levels. The government will pay the banks the difference between those rates and the cost of funds plus a specified spread. The government hopes that the



banks will benefit as the lower interest rates for borrowers encourage improved loan-servicing performance.

In Argentina, consumer prices rose 2.8 percent in August from a year earlier. The continued fall in economic activity in conjunction with a consumption boom in Brazil have contributed to a rapid turnaround in Argentina's trade deficit. In the first seven months of 1995, exports rose by 44 percent over a year earlier, while imports declined by 7.6 percent. Gross international reserves fell as well and stood at \$14.9 billion as of September 13, of which \$1.5 billion are in dollar-denominated Bonex bonds. The monetary base was \$11.5 billion, leaving \$3.4 billion in excess reserves.

ARGENTINE ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	Jun	Jul	Aug
Real GDP	7.1	2.6	--	--	..	..
Industrial Production (nsa)	2.7	3.5	-4.0	-5.1	..	..
Unemployment Rate (%) <sup>2</sup>	11.7	--	18.6	--	..	..
Consumer Prices <sup>1</sup>	3.9	0.8	0.3	-0.2	0.4	-0.2
Current Account <sup>3</sup>	-9.9	--	--	--	..	..
Trade Balance <sup>3</sup>	-4.0	0.0	1.9	0.7	0.6	..

1. Percentage change from previous period.

2. Unemployment figures available only in May and October of each year. The figure for 1994 is the average of the two surveys.

3. Billions of U.S. dollars, n.s.a.

In an effort to increase credit in the economy, Argentina unified its reserve requirements -- lowering some and increasing others. In addition, banks will now be allowed to earn interest on all of their required reserves by investing them in a new domestic bond issued by the Treasury, or on part of their reserves by investing in selected international bonds such as OECD country bonds. The new "liquidity requirements" will be phased in over the next three months and will reach 15 percent in November. Argentina issued a \$1 billion yen-denominated five-year Eurobond at an interest rate of 5.5 percent in late August. The proceeds will be used to retire \$964 million of domestic bonds. In

mid-August, Argentina reached an agreement with the IMF on a new fiscal target of an overall balanced budget instead of the \$2 billion fiscal surplus that was previously agreed on. The stock market fell 14 percent between August 16 and August 30, due to fierce political infighting that led to strong rumors that Finance Minister Cavallo would be ousted. As of September 15, the stock market had recovered about 5 percent.

In Brazil, real GDP in the second quarter was up 5.8 percent over its year-earlier level. However, seasonally adjusted data point to a decline in economic activity beginning in the second quarter. Monthly inflation has remained relatively low since the enactment of the exchange rate-based stabilization program in July 1994.

BRAZILIAN ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	Jun	Jul	Aug
Real GDP	5.7	10.5	5.8	--	..	..
Industrial Production (s.a.) <sup>1</sup>	7.8	-1.2	-7.5	6.5	..	..
Open Unemployment Rate (%)	5.1	4.0	4.5	4.6	4.8	..
Consumer Prices <sup>1</sup>	929	4.1	6.9	2.2	2.5	1.0
Current Account <sup>2</sup>	-1.5	-5.4	-6.0	--	..	..
Trade Balance <sup>2</sup>	10.5	-2.3	-2.0	-0.8	0.0	..

1. Percentage change from previous period.

2. Billions of U.S. dollars, n.s.a.

Brazil recorded a trade balance in July, after eight months of sizeable trade deficits. The current account deficit for the first half of the year deteriorated to 4 percent of GDP at an annual rate from a small deficit over the same period in 1994, reflecting mostly the near doubling of imports. The capital account surplus was half the current account deficit, resulting in a decline in international reserves, but strong net capital inflows in July raised reserves past their level at the end of 1994.

In early September, the Central Bank reduced the overnight interest rate from 57 to 48 percent in response to the weakening of the economy. In recent weeks, the Central Bank has also reduced reserve

requirements and loosened credit restrictions to help the banking system, which has come under increased pressure since the Central Bank's takeover of Banco Economico in mid-August.

In **Venezuela**, 12-month consumer price inflation was 53 percent in August, almost unchanged from July. International reserves excluding gold have been falling slightly recently and stood at \$6.6 billion at the end of July, down from about \$7 billion at the end of June. Venezuela registered a trade deficit of \$2.7 billion for the first half of 1995, up from a deficit of \$2 billion during the same period in 1994, reflecting a 24 percent increase in imports and a 14 percent increase in exports.

VENEZUELAN ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	Jun	Jul	Aug
Real GDP	-3.3	1.6	--	..	--	..
Unemployment Rate (%)	8.5	11.4	--	..	--	..
Consumer Prices <sup>1</sup>	70.8	9.0	12.2	2.7	2.8	3.1
Current Account <sup>2</sup>	4.1	--	--	..	--	..
Trade Balance <sup>2</sup>	8.0	-1.0	-1.7	-0.7	..	..

1. Percentage change from previous period.

2. Billions of U.S. dollars, n.s.a.

On September 8, Venezuela raised its domestic gasoline price from 21.2 bolivars per gallon (12.5 cents) to a maximum of 53 bolivars (31.2 cents). On August 22, the Financial Emergency Board approved the takeover of Banco Empresarial, a small commercial bank with about \$30 million in deposits.

In **China**, industrial production growth and consumer price inflation continue to slow. Exports surged in the first-half of 1995, but in recent months export growth has slowed. Exports rose 44 percent in the first half, but only 21 percent in July-August, compared with the same periods a year earlier. Import growth, by contrast, has remained roughly constant this year, rising 15 percent in the first half and 14 percent in July-August.

CHINESE ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	Jun	Jul	Aug
Real GDP <sup>1</sup>	11.8	11.2	10.3	--	--	--
Industrial Production	22.0	17.5	16.8	16.5	14.3	--
Consumer Prices	25.5	21.3	18.3	18.2	16.7	14.5
Current Account <sup>2</sup>	7.7	--	--	--	--	--
Trade Balance <sup>2,3</sup>	5.2	7.1	6.1	3.1	1.1	1.0

1. Cumulative from the beginning of the year

2. Billions of U.S. dollars, n.s.a.

3. Customs basis, with exports f.o.b. and imports c.i.f.

In order to improve supervision of nonbank financial institutions, China's central bank in September 1995 announced that all such institutions must reregister and be examined within the next year. In August, the Chinese authorities also ordered the four major state banks to detach themselves from their nonbank financial subsidiaries. In the past, the banks had evaded regulatory restrictions and undertaken speculative investments through those subsidiaries.

In Taiwan, output growth remains strong, though growth was slightly slower in the second quarter than the first. In the first eight months of 1995, the trade surplus was down slightly from the same period in 1994; the dollar value of exports rose 24 percent from a year earlier, while the dollar value of imports rose 27 percent.

TAIWAN ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	June	July	Aug
Real GDP	6.5	7.0	6.5	--	--	--
Industrial Production	6.6	8.3	2.8	3.5	5.4	--
Consumer Prices <sup>1</sup>	2.6	3.9	4.7	4.7	3.9	1.7
Current Account <sup>2</sup>	6.0	1.2	-0.5	--	--	--
Trade Balance <sup>2</sup>	12.0	1.5	0.3	-0.5	0.7	1.0

1. Percentage change from a year earlier.

2. Billions of U.S. dollars, n.s.a.

In September, Taiwan raised the ceiling on local stock market investment by foreign financial institutions from 12 percent of total market capitalization to 15 percent. In August, the authorities also

relaxed restrictions on which foreign institutions are allowed to invest in the Taiwanese market.

Real GDP in Korea continued to expand at a rapid rate during the second quarter, although the Bank of Korea has pursued a less accommodative monetary policy since last fall. Despite robust growth, consumer price inflation in August fell to its lowest rate in nearly a decade.

Strong domestic demand, particularly for equipment investment, contributed to a substantial widening of Korea's current account deficit during the first seven months of 1995. Imports rose by 38 percent over the period from a year earlier, while exports -- strengthened by the appreciation of the Japanese yen during the first half of the year -- grew by 36 percent.

KOREAN ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	Jun	Jul	Aug
Real GDP	8.4	9.9	9.6	--	..	..
Industrial Production	10.7	14.0	13.0	10.0	..	..
Consumer Prices	5.6	4.7	4.3	4.3	3.8	3.5
Current Account <sup>1</sup>	-4.7	-3.8	-2.0	-0.3	-0.5	..
Trade Balance <sup>1</sup>	-3.1	-2.6	-1.7	-0.5	-0.1	..

1. Billions of U.S. dollars, n.s.a.

In Russia, economic activity appears to have stabilized. Real GDP and industrial production during May-August were essentially unchanged from their year-earlier levels, after four years of sharp decline. Exports during the first half of 1995 were up 24 percent from the same period last year, while imports increased by 16 percent. Monthly inflation during August remained at 5 percent.

RUSSIAN ECONOMIC INDICATORS  
(Percent change from year earlier except where noted)

	1994	1995				
		Q1	Q2	Jun	Jul	Aug
Real GDP	-15	-5	-2	-1	-1	-1
Industrial Production	-21	-5	-3	0	2	0
Consumer Prices <sup>1</sup>	10	13	8	7	5	5
Ruble Depreciation <sup>1</sup>	9	10	-3	-10	-3	0
Current Account <sup>2</sup>	0.6	1.7	-0.8	--	--	..
Trade Balance <sup>2</sup>	11.9	4.3	2.0	--	--	..

1. Monthly Rate.

2. Billions of U.S. dollars, excludes intra-FSU transactions.

Since the implementation of the ruble band in early July, the MICEX ruble-dollar exchange rate has been stable, closing at 4468 on September 19. The government announced in late August that the ruble band will remain in place until the end of the year. Trading on the Russian interbank ruble market is slowly recovering, following a liquidity crisis in the end of August in which a number of banks were unable to repay their borrowings in the interbank market. The lasting effects of the crisis appear limited, although it revealed deep structural problems in the interbank market.

Russia has satisfied all end-June performance criteria and all end-July quantitative indicative targets outlined in its IMF stand-by arrangement. The growth of the monetary aggregates during the second quarter exceeded program projections, but the Russian government and the IMF have agreed to a revised framework that anticipates a sharp reduction in money growth. In mid-September, Russia completed the first quarterly review and the fourth monthly review under the stand-by.