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Confidential (FR) Class II FOMC

Part 2

September 29, 1982

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

Confidential (FR) Class II FOMC

September 29, 1982

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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DOMESTIC NONFINANCIAL DEVELOPMENTS

SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest data			Percent change from		
	Period	Release date	Data	Preceding period	Three periods earlier	Year earlier
				(At annual rate)		
Civilian labor force	Aug.	9-3-82	110.6	1.3	-.1	1.7
Unemployment rate (%) 1/	Aug.	9-3-82	9.8	9.8	9.5	7.3
Insured unemployment rate (%) 1/	Aug.	9-12-82	4.6	4.5	4.6	3.4
Nonfarm employment, payroll (mil.)	Aug.	9-3-82	89.5	-2.8	-3.2	-2.0
Manufacturing	Aug.	9-3-82	18.7	-7.3	-8.1	-7.8
Nonmanufacturing	Aug.	9-3-82	70.7	-1.6	-1.9	-.4
Private nonfarm:						
Average weekly hours (hr.) 1/	Aug.	9-3-82	34.9	34.9	35.0	35.2
Hourly earnings ($) 1/	Aug.	9-3-82	7.73	7.70	7.65	7.34
Manufacturing:						
Average weekly hours (hr.) 1/	Aug.	9-3-82	39.0	39.3	39.1	39.9
Unit labor cost (1967=100)	July	8-31-82	232.2	-1.5	7.4	11.2
Industrial production (1967=100)	Aug.	9-15-82	138.0	-6.1	-3.4	-10.2
Consumer goods	Aug.	9-15-82	144.0	-14.0	1.1	-3.7
Business equipment	Aug.	9-15-82	151.4	-17.2	-21.3	-17.9
Defense & space equipment	Aug.	9-15-82	110.0	9.9	8.5	7.0
Materials	Aug.	9-15-82	133.4	.0	-2.7	-14.0
Consumer prices all items (1967=100)	Aug.	9-23-82	292.2	3.3	7.7	5.9
All items, excluding food & energy	Aug.	9-23-82	280.1	6.0	8.0	7.1
Food	Aug.	9-23-82	286.2	-3.3	1.1	3.5
Producer prices: (1967=100)						
Finished goods	Aug.	9-10-82	283.0	7.3	9.0	4.0
Intermediate materials, nonfood	Aug.	9-10-82	315.8	-.8	3.1	.5
Crude foodstuffs & feedstuffs	Aug.	9-10-82	250.8	-12.3	-17.4	-4.2
Personal income ($ bil.) 2/	Aug.	9-20-82	2,601.0	3.9	7.0	5.7
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Aug.	9-22-82	73.4	-4.0	-3.0	-13.4
Capital goods industries	Aug.	9-22-82	25.0	-.2	-.6	-16.5
Nondefense	Aug.	9-22-82	19.5	-4.2	-4.3	-21.7
Defense	Aug.	9-22-82	5.5	17.3	15.1	9.7
Inventories to sales ratio: 1/						
Manufacturing and trade, total	July	9-22-82	1.49	1.48	1.52	1.42
Manufacturing	July	9-22-82	1.70	1.70	1.79	1.63
Trade	July	9-14-82	1.30	1.29	1.29	1.23
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	July	9-22-82	.625	.621	.610	.577
Retail sales, total ($ bil.)	Aug.	9-13-82	88.3	-.9	-2.8	.4
GAF 3/	Aug.	9-13-82	18.5	-1.7	-3.2	-.4
Auto sales, total (mil. units.) 2/	Aug.	9-3-82	7.6	3.0	-10.0	-24.8
Domestic models	Aug.	9-3-82	5.3	4.1	-16.5	-32.8
Foreign models	Aug.	9-3-82	2.2	.7	10.7	5.1
Plant & Equipment expen. ($ bil.) 4/						
Total nonfarm business	1982	9-9-82	323.66	---	---	.7
Manufacturing	1982	9-9-82	124.23	---	---	-2.0
Nonmanufacturing	1982	9-9-82	199.43	---	---	2.4
Capital Appropriations, Mfg.	1982-Q2	9-1-82	20,039	-22.2	---	-29.6
Housing starts, private (thous.) 2/	Aug.	9-17-82	1,002	-16.2	-6.0	5.9
Leading indicators (1967=100)	July	8-31-82	129.8	1.3	2.4	-3.7

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned-Commerce August 1982 Survey.

Economic activity has not yet shown significant signs of recovery. The unemployment rate in August remained at July's postwar record level and industrial production edged lower. Retail sales were weak, as part of the midyear tax cut was offset by slower growth of pretax earnings. In addition, business spending on capital goods continued to decline, but residential construction activity has shown some small improvement. At the same time incoming data on wages and prices remain very encouraging.

Employment and Unemployment

Labor demand weakened again in August as nonfarm employment fell 210,000; moreover weekly data on initial claims for unemployment insurance remained high though mid-September. Substantial layoffs resumed in durable manufacturing industries in August, and the factory workweek fell 0.3 hours, erasing the small gains that had occurred over the April to July period. The losses of factory jobs occurred almost entirely within the major metals and metal-using industries, which were apparently still experiencing difficulties in reducing inventories. These industries, which include primary and fabricated metals, electrical and nonelectrical machinery, and transportation equipment, have accounted for about half of the 2 million overall decline in nonfarm payroll employment since the prerecession peak in July 1981. In nondurable goods industries, employment leveled off. Although trade and government employment growth continued to be weak in August, jobs in finance and services were still expanding.

The unemployment rate held steady in August at 9.8 percent. Over the last several months, joblessness among adult men has risen faster

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

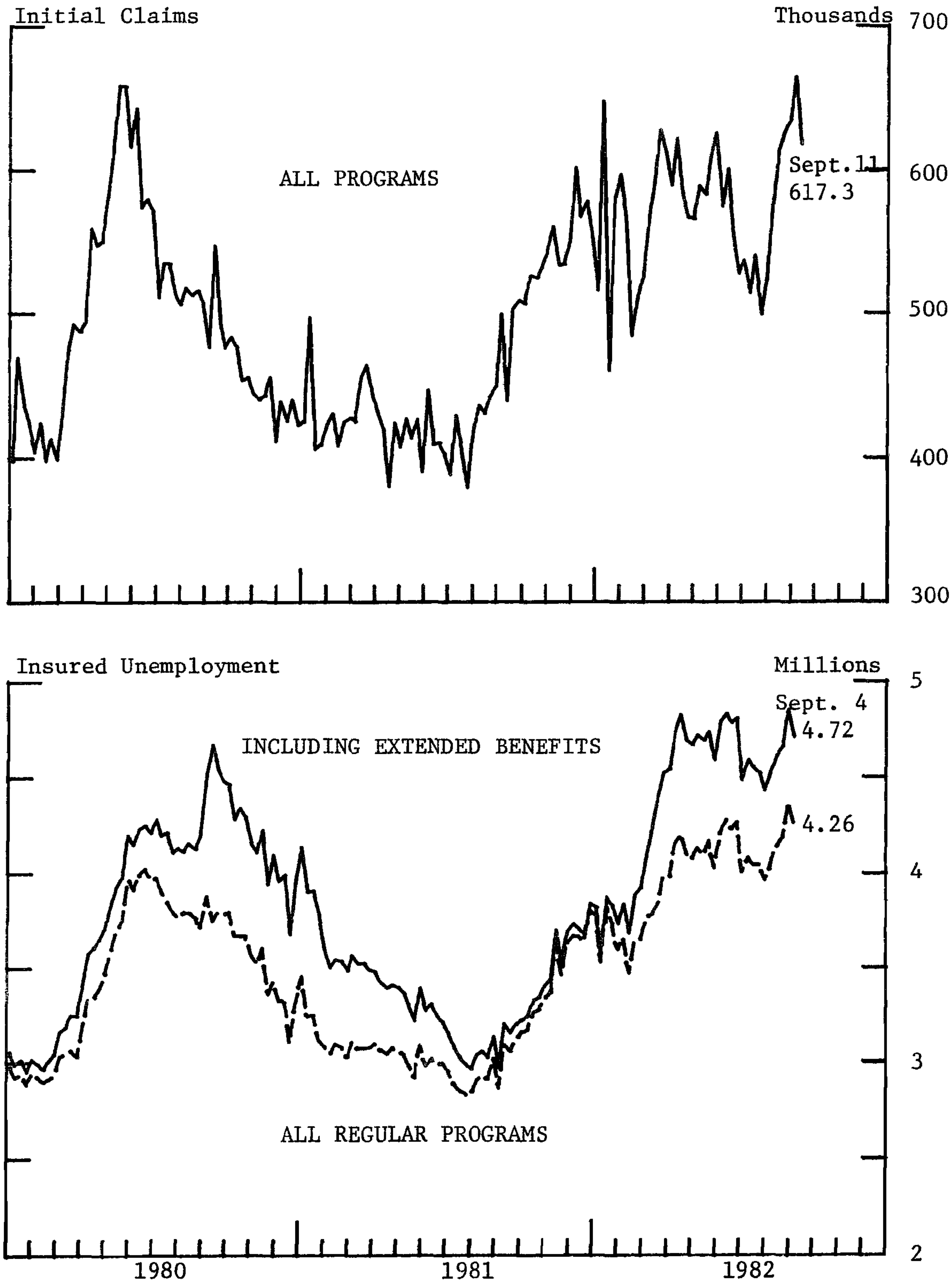
	1980	1981	1982 Q1	1982 Q2	1982 July	1982 Aug.
	-Average monthly changes-					
Nonfarm payroll employment[2]	14	-7	-113	-155	-177	-211
Strike adjusted	8	-8	-111	-141	-191	-211
Manufacturing	-62	-40	-119	-130	-86	-115
Durable	-46	-32	-78	-96	-46	-130
Nondurable	-16	-8	-41	-34	-40	15
Construction	-19	-22	-31	2	-11	-27
Trade	0	16	44	-20	18	-82
Finance and services	81	56	25	33	75	37
Total government	11	-26	-19	-9	-119	-13
Private nonfarm production workers	-23	-8	-90	-124	-46	-222
Manufacturing production workers	-69	-48	-103	-109	-54	-90
Total employment[3]	-27	-2	-40	91	-32	107
Nonagricultural	-35	22	-87	87	-134	132

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments. Strike-adjusted data noted.
3. Survey of households.

SELECTED UNEMPLOYMENT RATES
(Percent; based on seasonally adjusted data)

	1980	1981	1982 Q1	1982 Q2	1982 July	1982 Aug.
Total, 16 years and older	7.1	7.6	8.8	9.5	9.8	9.8
Teenagers	17.8	19.6	22.0	22.8	24.1	24.0
20-24 years old	11.5	12.2	13.9	14.4	14.4	15.2
Men, 25 years and older	4.8	5.1	6.4	7.1	7.5	7.5
Women, 25 years and older	5.5	5.9	6.6	7.3	7.4	7.0
White	6.3	6.7	7.7	8.4	8.7	8.6
Black	13.1	14.2	15.9	17.1	17.3	17.5
Fulltime workers	6.9	7.3	8.6	9.3	9.5	9.6
White-collar	3.7	4.0	4.5	4.9	4.9	4.8
Blue-collar	10.0	10.3	12.6	13.7	14.4	14.2

UNEMPLOYMENT INSURANCE[1]
(Weekly data, seasonally adjusted)



1. Only the state program components of these series are seasonally adjusted.

than among adult women, reflecting employment declines in blue-collar industries. As the period of economic slack has lengthened, more individuals have been unemployed for an extended interval. Over the summer, about 1.7 percent of the labor force had been without a job for more than six months--about the same as the previous high in the fourth quarter of 1975.

Industrial Production and Capacity Utilization

Industrial production edged down 0.5 percent in August. About half of this decline can be attributed to a reduction in auto assemblies from 6.6 to 5.5 million units per year. Output of other consumer goods edged down, and there was a further reduction in the production of business equipment. The overall production index now stands 10 percent below its recent cyclical peak attained in July 1981. With the August decline in output, the rate of capacity utilization in manufacturing dropped to 69.4 percent, only slightly above the postwar record low of 69.0 percent set in 1975.

Output of business equipment fell 1.4 percent in August following larger declines in the five preceding months. Business equipment production was 18 percent below its July 1981 peak; this compares with a drop of 23 percent in the 1957-58 recession and a 14 percent reduction in 1974-75. Cutbacks in business equipment output during August were widespread, with the largest reduction occurring in building and mining equipment, as oil and gas well drilling posted another large decline. On the positive side, output of defense and space equipment continued to trend upward, and the production of construction supplies increased slightly

INDUSTRIAL PRODUCTION
(Percentage change from preceding period;
based on seasonally adjusted data)

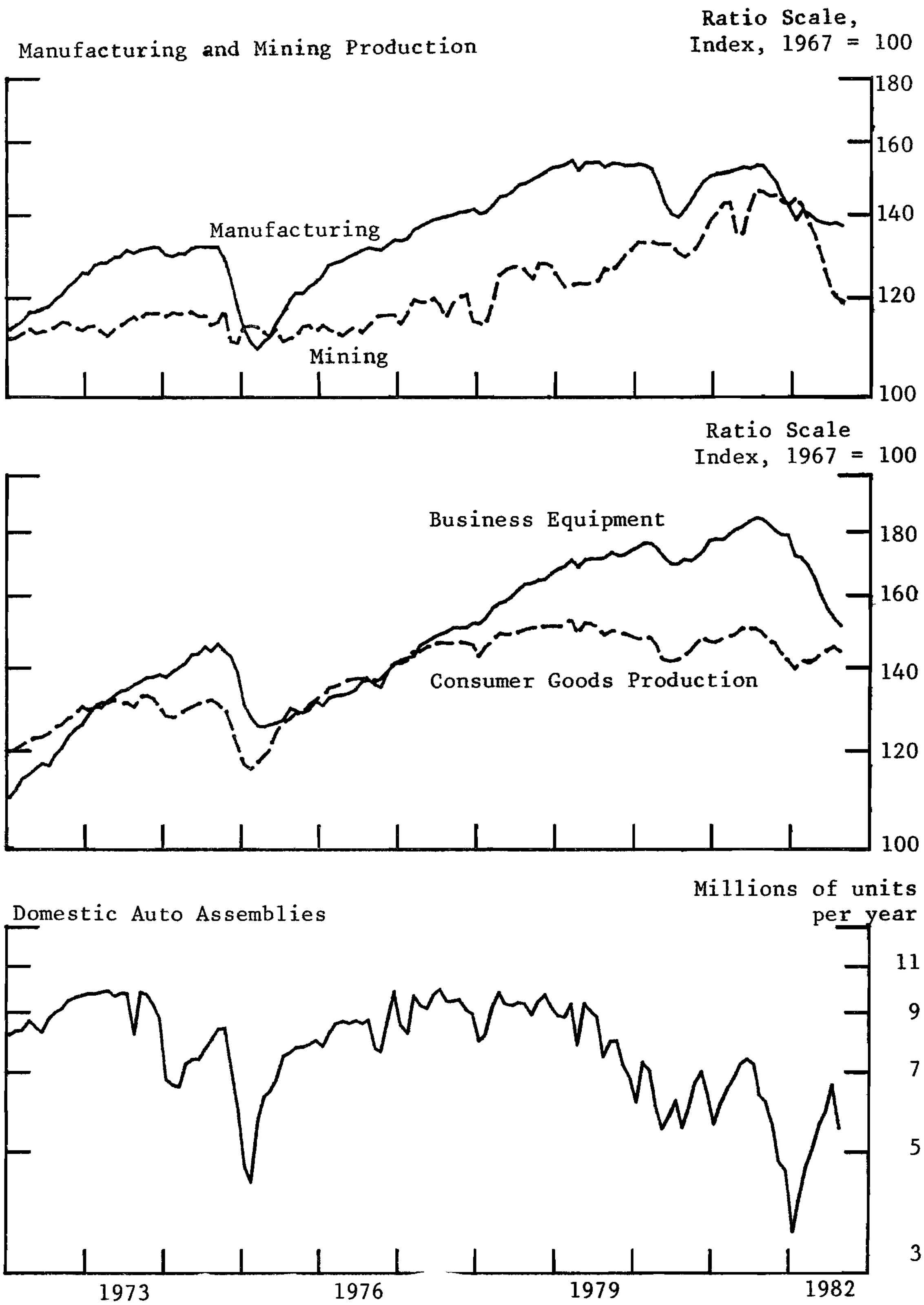
	1981	1982		1982		
	Q4	Q1	Q2	June	July	August
	---annual rate-----			-----monthly rate------		
Total	-16.6	-11.8	-6.7	-.5	.1	-.5
Final products	-9.6	-10.4	-3.2	-.2	.1	-1.0
Consumer goods	-13.2	-8.6	-7.2	.7	.8	-1.2
Durable	-32.6	-14.5	28.7	2.0	1.8	-3.7
Nondurable	-5.0	-6.5	0.6	.3	.3	-.2
Business equipment	-9.4	-17.7	-22.5	-2.2	-1.8	-1.4
Defense and space eq.	11.4	2.4	5.2	.2	1.1	.8
Construction supplies	-29.3	-14.5	-8.7	.7	.3	2
Materials	-24.1	-14.1	-11.0	-.5	-.2	.0
Durable goods	-29.1	-24.0	-11.1	.0	-.4	-.2
Nondurable goods	-23.3	-8.3	-10.0	-1.9	-.2	.5
Energy materials	-10.6	5.8	-12.4	.1	1.0	-.6

CAPACITY UTILIZATION RATES: MANUFACTURING AND MATERIALS
(Percent, seasonally adjusted)

	1978-80	1980	1982		1982	
	High	Low	Q1	Q2	July	August
Manufacturing industries	87.2	74.9[1]	71.6	70.3	69.9	69.4
Primary processing	90.1	71.0	69.1	66.3	65.6	65.5
Advanced processing	86.2	77.2	73.2	72.4	72.2	71.5
Motor vehicles & pts.	94.5	51.0	47.4	56.9	61.3	56.8
Materials producers	88.8	73.8[2]	72.0	69.6	68.7	68.5
Durable goods mats.	88.4	68.2	66.7	64.4	63.7	63.5
Raw steel	100.7	55.3	62.9	49.2	44.7	42.5
Nondurable goods mats.	91.6	77.5	75.0	72.6	70.6	70.8
Energy materials	88.8	82.7	82.9	80.0	80.5	79.9

1. The post World War II low occurred in March 1975 and was 69.0 percent.
2. The March 1975 low was 69.4 percent.

INDUSTRIAL PRODUCTION



in August for the third consecutive month, accompanying the sluggish recovery in residential construction.

Personal Income and Consumer Spending

Disposable personal income rose little in August, following a large increase in July, which was generated by a cost-of-living increase in social security benefits and the midyear tax cut. Reflecting the weakness in labor demand, wages and salaries--which usually account for most of the fluctuations in personal income--rose only $2.7 billion or about one-third the gain in July and well below the average monthly increase of $6.8 billion in the second quarter.

Consumer spending in August remained weak as total retail sales declined 0.9 percent, offsetting most of the gain in July. Excluding automotive outlets and stores that primarily sell nonconsumption items, retail sales increased 1.2 percent in July and only 0.2 percent in August. The personal saving rate averaged 7.3 percent in July and August compared with the second quarter average of 6.7 percent. Some of the recent increase in the saving rate may be attributable to concerns about the unemployment outlook and an unwillingness to incur new debts, as well as the usual delay in adjusting spending to the tax cut. Measures of consumer sentiment for both August and September suggest that spending is being held back by high interest rates and uncertainty about future economic conditions.

The only firm information on consumer spending in September relates to auto sales. Sales of new domestic autos rose to a 6 million unit annual rate in the first 20 days of the month, compared with an average pace of 5 million units in the preceding three months. However, much of

PERSONAL INCOME
(Based on seasonally adjusted data)

	1980	1981	1982 Q1	1982 Q2	1982 June	1982 July	1982 Aug
	- - percentage changes at annual rates<1> - -						
Total personal income	11.1	10.4	2.6	6.9	4.7	12.3	3.9
Wage and salary disbursements	9.9	8.4	2.7	3.9	1.9	5.9	2.1
Private	9.6	8.7	2.1	3.7	1.2	4.1	3.5
Disposable personal income							
Nominal	11.0	10.4	3.0	6.7	1.7	24.0	2.8
Real	.5	2.6	-1.9	3.1	-10.5	16.0	....
	- - changes in billions of dollars<2> - -						
Total personal income	19.2	17.9	7.0	15.9	10.1	26.2	8.5
Wage and salary disbursements	10.8	8.8	4.0	6.8	2.5	7.7	2.7
Private	8.5	7.1	2.7	5.6	1.3	4.3	3.7
Manufacturing	2.4	1.1	-.2	.9	.3	-.1	-1.6
Other income	9.1	10.3	4.2	9.5	7.7	19.2	6.0
Transfer payments	4.3	2.9	1.3	3.1	2.1	12.9	.9
Less: personal contributions for social insurance	.7	1.2	1.3	.4	.1	.7	.2
Memorandum:							
Personal saving rate	5.8	6.4	6.6	6.9	6.6	7.5	7.1

<1> Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly periods are compounded rates of change; monthly changes are not compounded.

<2> Average monthly changes are from the final month of the preceding period to the final month of period indicated; monthly figures are changes from the preceding month.

RETAIL SALES
(Percent change from preceding period except where indicated; based on seasonally adjusted data)

	1981	1982		1982	1982			
	Q4	Q1	Q2	Aug/Q2	May	June	July	Aug
Total sales	-1.3	.1	2.8	-.9	2.9	-3.1	1.2	-.9
(Real)[1]	-2.4	-.7	2.4	---	2.5	-3.9	.7	---
Total, less autos and nonconsumption items	.4	.2	.7	1.4	1.7	-.9	1.2	.2
Total, exc. auto group, gasoline, and nonconsumption items	.4	.5	1.5	.8	1.7	-1.2	1.2	-.1
GAF[2]	-.1	-.3	1.3	-.7	3.9	-3.7	2.3	-1.8
Durable goods	-5.6	.0	7.1	-6.5	5.1	-7.6	.5	-3.5
Automotive	-7.3	.2	11.4	-9.7	7.4	-11.5	1.3	-5.6
Furniture & appliances	-.8	-4.7	2.6	-1.5	.5	-2.2	1.7	-1.9
Nondurable goods	.7	.2	.9	1.7	1.8	-.9	1.5	.3
Apparel	-.9	4.3	-1.8	-2.7	5.4	-5.5	3.3	-3.9
Food	1.7	-.2	2.0	2.3	2.1	-1.6	1.4	1.3
General merchandise[3]	.5	-.5	2.1	.3	4.5	-3.5	2.1	-.9
Gasoline	.4	-2.1	-4.8	6.0	1.4	1.8	1.5	2.7

1. BCD series 59. Data are available approximately 3 weeks following the retail sales release.
2. General merchandise, apparel, and furniture and appliance stores.
3. General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

AUTO SALES
(Millions of units; seasonally adjusted annual rates)

	1982		1982				
	Q1	Q2	May	June	July	Aug.	Sept.[1]
Total	8.1	7.5	8.4	6.9	7.4	7.6	n.a.
Foreign-made	2.2	2.0	2.0	2.2	2.2	2.2	n.a.
U.S.-made	5.9	5.5	6.4	4.8	5.1	5.3	6.0
Small	3.0	2.5	2.9	2.2	2.4	2.6	n.a.
Intermediate & standard	2.8	3.0	3.5	2.6	2.7	2.7	n.a.

Note: Components may not add to totals due to rounding.
1. First 20-days.

the September increase appears to reflect sales that were made in anticipation of the termination of a number of dealer incentive programs. Many such programs were instituted over the summer in order to eliminate excess stocks of 1982 models.

Business Fixed Investment

Capital spending continued to decline through August reflecting weak final demand, low capacity utilization, and high interest rates. Equipment spending moved lower as shipments of nondefense capital goods--a rough measure of about 80 percent of expenditures on producers' durable equipment--fell 1.8 percent in July and 3.0 percent in August. Outlays for nonresidential structures displayed the first signs of a sharp contraction during the recession, as construction spending dropped 3 percent in July. Additional reductions occurred in oil and gas well drilling, which fell in both July and August.

Commitments data for capital spending indicate further reductions in the months ahead. Although orders for nondefense capital goods increased in July, this was largely offset by a reduction in August. Orders were more than 10 percent below shipments in August, suggesting further reductions in shipments over the near term. In the structures category, contracts for commercial buildings fell 22 percent in July (in terms of square footage) after showing substantial reductions since the beginning of 1981. As the accompanying chart shows, these reductions point to appreciable declines in commercial building in the coming months.

Survey results also indicate that business plans to reduce investment spending in the months ahead. The Commerce Department's survey of plant and equipment spending anticipations, taken in late July and early

BUSINESS CAPITAL SPENDING INDICATORS
(Percentage change from preceding comparable period;
based on seasonally adjusted data)

	1981	1982		1982		
	Q4	Q1	Q2	June	July	Aug.
Nondefense capital goods shipments						
Current dollars	-.4	-5.6	-3.1	-2.4	-1.8	-3.0
Addendum: Sales of heavy-weight trucks (thousands)	201	217	173	162	158	183
Nonresidential construction						
Current dollars	.5	1.5	1.1	2.4	-3.0	---
Addendum: Oil and gas well drilling (millions of feet)[1]	34.9	34.9	40.8	37.1	35.6	29.4

1. These data are based on completions and tend to lag ongoing activity reported in the index of industrial production.

BUSINESS CAPITAL SPENDING COMMITMENTS
(Percentage change from preceding comparable period;
based on seasonally adjusted data)

	1981	1982				
	Q4	Q1	Q2	June	July	Aug.
Nondefense capital goods orders						
Current dollars	-6.5	-5.2	-4.9	-5.2	5.4	-4.2
Machinery						
Current dollars	-2.7	-10.7	-4.2	-10.1	1.7	4.5
Addenda: Ratio of current dollar unfilled orders to shipments						
Total	5.84	5.94	5.84	5.86	5.87	5.95
Machinery	4.36	4.30	4.25	4.25	4.27	4.25
Contracts for commercial buildings (mil. sq. ft.)	-2.4	-15.6	-1.7	41.8	-21.7	---

August, reported that businesses have cut their spending plans for 1982 again. The December 1981 survey reported a planned rise in plant and equipment spending for 1982 of 7.4 percent. This was followed by surveys which steadily scaled back these plans: increases of 7.3 percent in February; 2.2 percent in May; and now 0.7 percent in August. In addition, the Conference Board reported in early September that the nation's 1,000 largest manufacturers reduced capital appropriations by 28 percent in the second quarter of 1982.

Housing

New residential construction activity, as measured by housing starts and permits, fell in August, reversing much of the July increase. Nevertheless, housing starts in August still were above the second-quarter average. These developments extended the gradual improvement in housing activity that began last autumn and have paralleled the reduction in the cost of mortgage credit.

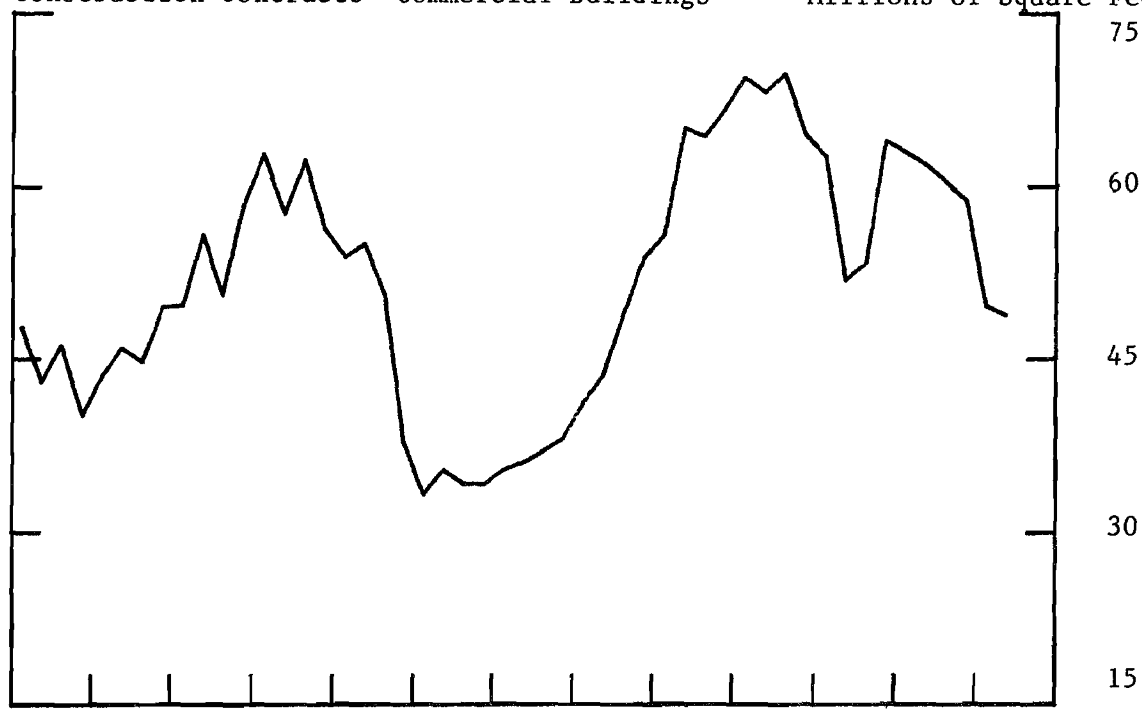
The improvement in housing activity in recent months largely reflects developments within the multifamily sector. Despite a reduction in such activity in August, multifamily starts last month were 13 percent above the second-quarter pace and 24 percent above the trough registered in the third quarter of last year. As much as a third of the increase in multifamily starts in July and August may be attributed to an increase in HUD-subsidized (Section 8) rental construction, while the remainder probably represents construction of condominium and co-op units.

While single-family housing activity has edged up from the quarterly low of 537,000 units reached in the fourth quarter of 1981, the continued absence of a recovery in sales of existing and new homes has restrained the

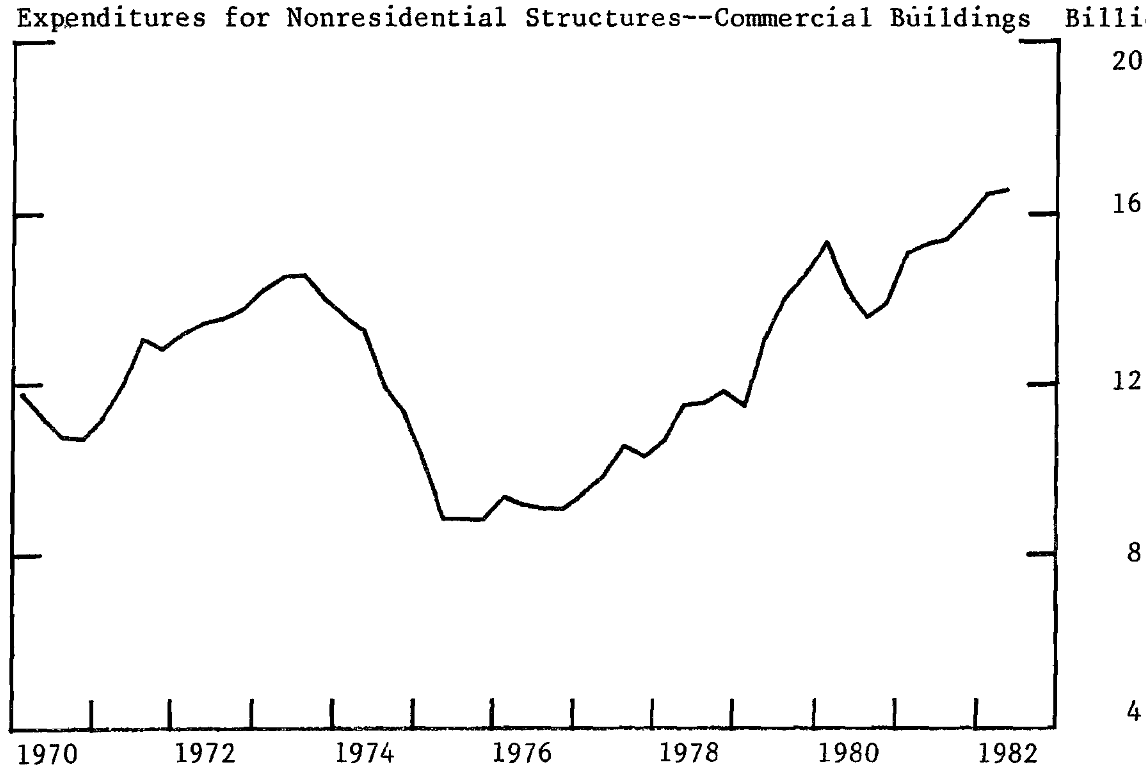
CONTRACTS AND EXPENDITURE FOR

NONRESIDENTIAL COMMERCIAL STRUCTURES

Construction Contracts--Commercial Buildings[1]   Millions of Square Feet



Expenditures for Nonresidential Structures--Commercial Buildings Billions of 72$



1. Source: F.W. Dodge Division of McGraw-Hill.

PRIVATE HOUSING ACTIVITY
(Seasonally adjusted annual rates, millions of units)

	1981		1982				[1]
	Annual	Q4	Q1	Q2	June	July	Aug.
All units							
Permits	.99	.76	.82	.92	.93	1.06	.89
Starts	1.08	.87	.92	.95	.91	1.20	1.00
Single-family units							
Permits	.56	.42	.45	.49	.52	.50	.49
Starts	.71	.54	.59	.61	.62	.63	.61
Sales							
New homes	.44	.40	.39	.37	.37	.35	n.a.
Existing homes	2.35	1.92	1.93	1.93	1.98	1.89	1.79
Multifamily units							
Permits	.42	.34	.37	.43	.41	.56	.39
Starts	.38	.33	.33	.35	.29	.57	.40
Mobile home shipments	.24	.21	.24	.25	.26	.25	n.a.

1. Preliminary estimates.
n.a.--Not available.

growth in single-family starts. Sales of existing homes fell 5 percent in August, and new home sales through July were close to their recent cyclical trough. However, measured inventories of unsold units are at an 11-year low, and any significant improvement in sales might quickly be translated into new production. According to industry reports, such an upturn in sales may have commenced in late August and early September as mortgage interest rates fell more than they had in the month before.

Inventory Investment

Manufacturing and trade inventories increased in July at an annual rate of $4.7 billion in constant dollars, the second consecutive month of accumulation. All of the accumulation occurred in trade inventories, but the liquidation of manufacturing inventories slowed to an annual rate of $1.7 billion from an $8.7 billion pace in the preceding month. The July accumulation was concentrated in automotive products, reflecting weak auto sales in June and July. This pushed inventory-sales ratios higher in both wholesale and retail trade.

Constant-dollar liquidation of manufacturing inventories occurred in durable stocks, while nondurable stocks increased in July. Sizable overhangs persist in a number of durable goods industries, particularly in metals and machinery. In constant-dollar terms, the stock-to-sales ratio for nonelectrical machinery continued to climb in July, reaching its highest level in the current cycle; the ratio for primary metals also remained high in July.

Federal Government

The federal deficit totaled over $35 billion on a unified budget basis during July and August. Adjustment for normal seasonal factors

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars at annual rates)

	1980	1981	1981 Q4	1982 Q1	1982 Q2	1982 May	1982 June	1982 July(r)
Book Value Basis								
Total	38.4	37.5	18.5	-29.0	-.1	-54.3	28.8	5.1
Manufacturing	23.0	19.1	3.8	-12.4	-19.8	-30.4	-16.0	-2.4
Durable	14.1	13.8	3.0	-9.5	-7.1	-12.6	-7.0	-5.9
Nondurable	8.9	5.4	.8	-2.9	-12.7	-17.9	-9.0	3.5
Wholesale trade	10.6	6.7	9.5	-7.2	15.7	-14.2	21.0	-.3
Retail trade	4.9	11.6	5.3	-9.4	4.1	-9.7	23.8	7.8
Constant Dollar Basis								
Total	-1.7	7.1	1.7	-15.5	-3.2	-23.9	7.6	4.7
Manufacturing	.9	2.6	-3.6	-8.1	-7.3	-8.1	-8.7	-1.7
Wholesale trade	.5	1.5	4.8	-3.4	2.8	-9.7	7.7	4.3
Retail trade	-3.0	3.1	.6	-4.0	1.3	-6.1	8.6	2.1

INVENTORIES RELATIVE TO SALES[1]

	1974 Cyclical Peak[2]	1980 Cyclical Peak[2]	1981 Q4	1982 Q1	1982 Q2	1982 May	1982 June	1982 July(r)
Book Value Basis								
Total	1.64	1.52	1.51	1.51	1.49	1.46	1.48	1.49
Manufacturing	1.95	1.76	1.75	1.79	1.73	1.72	1.70	1.70
Durable	2.51	2.37	2.35	2.41	2.35	2.33	2.34	2.33
Nondurable	1.39	1.17	1.16	1.18	1.12	1.13	1.10	1.11
Wholesale trade	1.24	1.19	1.16	1.14	1.18	1.14	1.18	1.21
Retail trade	1.57	1.46	1.45	1.42	1.40	1.35	1.41	1.40
Constant Dollar Basis								
Total	1.76	1.76	1.76	1.76	1.73	1.70	1.73	1.74
Manufacturing	2.18	2.11	2.12	2.15	2.10	2.09	2.08	2.08
Wholesale trade	1.40	1.47	1.45	1.43	1.42	1.37	1.42	1.45
Retail trade	1.52	1.45	1.47	1.46	1.45	1.40	1.47	1.47

1. Ratio of end-of-period inventories to average monthly sales for the period.
2. Highs are specific to each series and are not necessarily coincident.
r Revised estimates.
p Preliminary estimates.

would reduce this deficit to about $26 billion--or $156 billion at an annual rate. On the receipts side of the budget, individual withholding has been reduced by the July 1 tax cut. In addition, the pace of corporate tax receipts has slowed as a result of substantial refunds on prior-year tax payments. Federal outlays over this period were increased by the July cost-of-living adjustment for social security benefits. And, as the table below shows, defense outlays (other than compensation) have been adding to the rise in total outlays in recent months, after relatively little growth early this year.

Defense Outlays
(Unified budget, billions of dollars at annual rates)

	FY1981			FY1982			
	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-March	Apr.-June	July and August
Procurement	32.1	36.8	38.6	40.9	40.5	46.8	44.9
Operations and maintenance	51.3	51.8	56.5	57.4	59.3	58.3	63.2
Other defense[1]	33.5	35.0	31.3	36.4	35.1	39.5	40.3
Total defense excluding compensation[2]	116.9	123.6	126.4	134.7	134.9	144.6	148.4

1. Primarily compensation and research and development.
2. Military outlays by the Department of Defense.

Congressional action on the FY 1983 budget continues to lag behind the timetable established in the 1974 Budget Act. At most, four of the thirteen appropriations bills are expected to be completed during the current week before the beginning of a congressional recess on October 2. A continuing resolution that will provide interim funding for the government until December 15 has passed the House; the Senate is expected to take up the continuing resolution this week. The resolution funds most programs at current levels; defense expenditures would be funded at the higher level approved by the House appropriations committee. The President has called for a special session of Congress after the November elections to complete the appropriations process.

State and Local Government

State and local purchases remain sluggish, with revised second-quarter data showing no change in real spending. Construction spending rose a little in June and July, but was still 3.6 percent below a year earlier. The only observed strength occurred in highway expenditures.

Preliminary data indicated that state and local government employment declined by over 100,000 in July, and stayed at that level in August. Previously, employment had held steady from January to May, followed by a 32,000 reduction in June. The recent sharp drop in jobs appears rather unusual, but could be related to problems in measuring school employment over the summer months.

Prices

The price data for August suggest that the acceleration in prices earlier this summer mainly reflected temporary developments in markets for energy, food, and housing, rather than a widespread pickup of inflation. The consumer price index rose at a 3-1/2 percent annual rate in August, its smallest increase since April; CPI increases have averaged about 5 percent at an annual rate so far this year. Prices of most producer goods also rose moderately in August. Moreover, the widespread weakness in materials prices this year and the continued deceleration in wages point to an underlying trend toward lower inflation rates.

RECENT CHANGES IN CONSUMER PRICES[1]
(Percentage change at annual rates; based on seasonally adjusted data)[2]

	Relative importance Dec. 1981	1980	1981	1982 Q1	1982 Q2	1982 July	1982 Aug.
All items	100.0	12.4	8.9	1.0	9.3	7.0	3.3
Food	16.6	10.2	4.3	3.9	7.3	-.8	-3.3
Energy	11.1	18.1	11.9	-8.0	12.9	16.9	.0
Homeownership	26.1	16.5	10.1	-2.4	19.8	5.3	4.7
All items less food, energy, and homeownership[3]	49.8	9.9	9.4	5.4	6.9	7.7	4.8
Used cars	3.3	18.3	20.3	5.5	3.5	19.4	11.4
Other commodities[3]	19.9	8.1	6.1	4.8	3.7	7.4	1.1
Other services[3]	26.6	10.3	10.6	6.3	8.0	9.3	6.7
Memorandum:							
Experimental CPI[4]	100.0	10.8	8.5	2.7	5.8	9.6	3.2

1. Based on index for all urban consumers (CPI-U).
2. Changes are from final month of preceding period to final month of period indicated; monthly changes at simple annual rates.
3. Includes the home maintenance and repair items of homeownership costs.
4. BLS experimental index for "All items"--CPI-U-X1--which uses a rent substitution measure for homeownership costs.

RECENT CHANGES IN PRODUCER PRICES
(Percentage change at annual rates; based on seasonally adjusted data)[1]

	Relative importance Dec. 1981	1980	1981	1982 Q1	1982 Q2	1982 July	1982 Aug.
Finished goods	100.0	11.8	7.1	.9	4.1	6.9	7.3
Consumer food	21.9	7.5	1.4	6.1	11.5	-17.7	1.4
Consumer energy	12.7	27.8	14.1	-18.5	-15.7	69.0	14.6
Other consumer goods	44.6	10.4	7.1	3.9	5.3	3.6	7.7
Capital equipment	20.8	11.4	9.2	2.4	6.2	5.6	8.1
Intermediate materials[2]	94.7	12.4	7.3	-1.8	-1.4	6.1	-.8
Exc. energy	77.6	10.1	6.6	.1	.4	-1.2	-1.2
Crude Materials							
Food	50.7	8.6	-14.0	23.3	24.3	-32.7	-12.3
Energy	33.6	26.9	22.8	-5.8	2.0	11.5	2.4
Other	15.7	7.5	-11.4	-40.3	24.9	12.6	-7.5

1. Changes are from final month of preceding period to final month of period indicated; monthly changes at simple annual rates.
2. Excludes materials for food manufacturing and animal feeds.

One factor that boosted inflation rates in the early summer was a rebound in energy prices. Although the pickup in energy inflation will boost aggregate price measures for the third quarter, monthly data show that the rise in gasoline prices proved to be short-lived. At the retail level, energy prices slowed substantially in July and then leveled off in August. Gasoline prices fell slightly in August and were below their levels of a year earlier. There is substantial slack in world oil markets, which should continue to ease near-term pressure on energy prices.

In the food sector, just as in the energy sector, an upturn in inflation in early summer proved to be temporary. The CPI measure of food prices fell at a 2 percent annual rate from June to August after rising at a 7-1/4 percent rate over the three preceding months. In addition, prices of crude foods have dropped sharply over the summer, reflecting both sluggish demand and another year of exceptionally good harvests.

The rise in homeownership costs--a third factor that had boosted the CPI earlier in the summer--also slowed in August as house prices leveled off. Recent declines in mortgage interest rates are expected to show up in the CPI beginning in September. Starting in January, the All-Urban CPI will no longer include mortgage interest rates or the current house price measure, which has become increasingly unreliable because of a shrinking FHA-insured sample base. Excluding food, energy, and homeownership, the August CPI increase was at about a 5 percent annual rate.

Labor Costs

Wage inflation decreased considerably this year, reflecting the downtrend in the overall rate of inflation and the erosion of employment

SELECTED MEASURES OF LABOR COSTS
IN THE NONFARM BUSINESS SECTOR
(Percentage change at annual rates; quarterly changes based on seasonally adjusted data)

	1980	1981	1981 Q3	1981 Q4	1982 Q1	1982 Q2	Year-to-date
Hourly Earnings Index, wages - production workers[1]							Dec. 1981-Aug. 1982
Total private nonfarm	9.6	8.4	8.5	7.3	6.5	6.4	6.5
Manufacturing	10.9	8.8	8.7	7.7	8.7	6.6	7.3
Contract construction	7.7	8.1	8.9	8.8	9.0	2.3	4.6
Transportation and public utilities	9.3	8.5	6.4	7.7	7.4	6.0	5.7
Trade	8.8	7.1	8.0	4.3	3.8	6.4	4.7
Services	9.5	9.1	9.3	9.2	5.1	7.6	7.5
Employment Cost Index, wages and salaries - all persons[2]							1981-Q4 to 1982-Q2
Total	9.1	8.8	8.4	7.9	7.4	4.8	6.1
By occupation:							
White collar	8.7	9.1	7.8	8.9	7.6	5.0	6.3
Blue collar	9.5	8.6	9.3	7.1	6.4	3.7	5.1
Service workers	8.2	8.3	8.8	6.7	8.5	7.7	8.1
By bargaining status:							
Union	10.9	9.6	10.3	8.9	7.8	5.5	6.6
Nonunion	8.1	8.5	7.7	7.7	7.0	3.8	5.3
Major Collective Bargaining Settlements[3]							1982-H1
Contracts with COLAs	8.0	8.2					1.4
Contracts without COLAs	11.7	10.8					7.2
Labor Costs and Productivity - all persons[1]							1981-Q4 to 1982-Q2
Compensation per hour	10.6	8.8	9.0	7.3	7.7	6.0	6.7
Output per hour	.3	-.1	-.3	-3.5	.6	.5	.4
Unit labor costs	10.2	8.9	9.3	11.2	7.1	5.5	6.4
Employment Cost Index, Compensation							last 12 months
Compensation per hour	9.8	9.8					7.2

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Quarterly changes are at compound rates; monthly changes are not compounded.
2. Percent change from final month of preceding period to final month of period indicated. Quarterly changes are compounded; seasonal adjustment by FRB staff.
3. First-year adjustments.

opportunities. From December to August, the hourly earnings index for production workers, a fixed-weighted measure of wage rates covering about four-fifths of all nonfarm workers, rose 6-1/2 percent at an annual rate, down from 8-1/2 percent for 1981. The more comprehensive employment cost index, which includes white-collar workers as well as production workers, provides more perspective on how widespread this deceleration has become. White-collar earnings had risen close to 9 percent for most of the last two years, but in the first half of 1982, they rose at only a 6.3 percent rate. Blue-collar earnings in this index also have decelerated from 8.6 percent in 1981 to a rate of 5.1 percent in the first half of 1982. Average hourly compensation, which includes wages as well as fringe benefits, rose 6-3/4 percent in the first half of 1982, about the same rate of increase as for wages alone and 2 percentage points below last year's pace.

Improvement in productivity performance during the first half of 1982 helped to offset the effect of increases in compensation on labor costs. Output per hour advanced at a 1/2 percent annual rate in the first and second quarters following a cyclical decline in the last half of 1981, and increases in unit labor costs in the private nonfarm sector averaged about 6-1/2 percent over the past two quarters, down considerably from an increase of nearly 9 percent in 1981.

DOMESTIC FINANCIAL DEVELOPMENTS

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1981	1982			Change from:	
	Highs	Early summer Highs	FOMC Aug. 24	Sept. 28	Early summer Highs	FOMC Aug. 24
Short-term rates						
Federal funds[2]	20.06	14.81	9.04	10.16p	-4.65	1.12
Treasury bills						
3-month	17.01	13.19	7.61	7.48	-5.71	-.13
6-month	15.93	13.40	8.94	8.97	-4.43	.03
1-year	15.21	13.12	9.52	9.58	-3.54	.06
Commercial paper						
1-month	18.63	14.89	8.11	9.85	-5.04	1.74
3-month	18.29	15.00	9.00	10.25	-4.75	1.25
Large negotiable CDs[3]						
1-month	18.90	14.99	8.95	10.02	-4.97	1.07
3-month	19.01	15.58	9.63	10.42	-5.16	.79
6-month	18.50	15.70	10.67	10.91	-4.79	.24
Eurodollar deposits[2]						
1-month	19.80	15.66	9.76	11.18	-4.48	1.42
3-month	19.56	16.28	10.36	11.61	-4.67	1.25
Bank prime rate	21.50	16.50	13.50	13.50	-3.00	0
Treasury bill futures						
Dec. 1982 contract	14.20	13.69	10.09	8.75	-4.94	-1.34
June 1983 contract	14.07	13.67	11.18	10.64	-3.03	-.54
Intermediate- and long-term rates						
U.S. Treasury (constant maturity)						
3-year	16.59	14.98	11.81	11.66	-3.32	-.15
10-year	15.84	14.73	12.35	11.85	-2.88	-.50
30-year	15.20	14.26	12.16	11.76	-2.50	-.40
Municipal (Bond Buyer)	13.30	12.63	10.82[4]	10.58[4]	-2.05	-.24
Corporate--Aaa utility						
Recently offered	17.72	16.19	13.70e	13.27p	-2.92	-.43
S&L fixed-rate mortgage commitment	18.63	16.93	16.21[5]	15.19[5]	-1.74	-1.02

	1981	1982		Percent change from:	
	Highs	FOMC Aug. 24	Sept. 28	1981 Highs	FOMC Aug. 24
Stock Prices					
Dow-Jones Industrial	1,024.05	874.90	919.33	-10.2	5.1
NYSE Composite	79.14	66.10	70.70	-10.7	7.0
AMEX Composite	380.36	265.28	288.70	-24.1	8.8
NASDAQ (OTC)	223.47	172.23	189.04	-15.4	9.8

1. One-day quotes except as noted.
2. Averages for statement week closest to date shown.
3. Secondary market.
4. One-day quotes for preceding Thursday.
5. One-day quotes for preceding Friday.
p--preliminary. e--estimated.

M1 rebounded in August after three months of small declines and continued to expand rapidly in September, moving this aggregate back above the upper end of its 1982 growth range. Expansion in M2 and M3 accelerated in August from already rapid growth rates and, even with a marked slowdown in September, these aggregates remained well above their longer-run ranges.

Reflecting some tightening in reserve availability accompanying the recent strength in M1, the federal funds rate has risen over the intermeeting period. At the time of the August FOMC meeting, the funds rate had fallen to the 9 percent area, well below the discount rate, as market participants were anticipating further System action to ease money market conditions. More recently, funds have traded primarily between 9-3/4 and 10-1/2 percent.

Private short-term market rates in the one- to three-month maturity range have risen 3/4 to 1-3/4 percentage points during the intermeeting period, but Treasury bill rates are about unchanged. The widening spread between Treasury bills and private instruments is probably explained by heightened concern about credit quality. Recently, this concern seems to have been accentuated by the exposure of domestic banks to potential losses on their foreign loans. Large quality spreads in commercial paper rates also attest to continued market nervousness about the financial health of domestic corporations, although such spreads have receded somewhat from the exceptionally high levels reached in late August.

Bond yields have fallen about 25 to 50 basis points since the August FOMC meeting. The Treasury yield curve is still steeply upward sloping in

MONETARY AGGREGATES
(Based on seasonally adjusted data unless otherwise noted)[1]

	1981	1982					QIV. '81 to
	Q4	Q1	Q2	June	July	Aug.	Aug. '82
	--Percentage change at annual rates--						
Money stock measures							
1. M1	5.7	10.4	3.3	-0.3	-0.3	10.4	5.6
2. (M1)[2]	5.5	9.5	3.6	2.9	-4.0	13.9	5.8
3. M2	8.9	9.8	9.5	6.6	9.7	14.2	10.2
4. M3	9.3	8.7	10.7	8.8	12.6	18.4	11.3
Selected components							
5. Currency	4.3	7.9	9.3	9.4	3.7	6.5	8.1
6. Demand deposits	-0.2	-0.5	-5.8	-8.8	-2.1	2.6	-2.7
7. Other checkable deposits	27.6	49.5	19.6	6.9	-1.4	38.4	28.3
8. M2 minus M1 (9+10+11+14)	9.9	9.5	11.5	8.7	12.9	15.4	11.7
9. Overnight RPs and Eurodollars, NSA[3]	-44.1	63.6	-8.4	8.4	8.4	35.9	27.3
10. General purpose and broker/dealer money market mutual fund shares,NSA	74.2	33.8	20.9	31.4	19.2	60.9	32.7
11. Commercial banks	10.3	9.4	17.2	9.9	14.4	12.3	13.5
12. savings deposits	-11.9	8.7	2.0	-3.7	-22.5	-8.4	-0.3
13. small time deposits	20.8	9.7	23.8	15.8	29.1	20.3	19.6
14. Thrift institutions	1.5	1.6	6.0	2.4	11.0	4.8	4.9
15. savings deposits	-11.7	10.2	0.6	-3.2	-17.7	-5.8	0.8
16. small time deposits	6.6	-1.5	8.1	4.5	21.7	8.6	6.5
17. M3 minus M2 (18+21+22)	11.2	3.3	16.9	19.8	26.9	38.4	16.7
18. Large time deposits	3.5	8.9	19.1	25.0	27.4	12.9	17.0
19. at commercial banks, net[4]	0.2	6.1	19.9	20.3	32.6	11.7	17.0
20. at thrift institutions	19.5	21.6	15.5	20.5	4.0	18.1	16.9
21. Institutions-only money market mutual fund shares, NSA	132.8	-2.5	15.2	32.9	106.8	209.3	47.9
22. Term RPs, NSA	0.0	-29.9	6.2	-51.5	-69.2	122.4	-9.2
	--Average monthly change in billions of dollars--						
MEMORANDA:							
23. Managed liabilities at commercial banks[4] (24+25)	0.2	0.6	6.3	10.7	6.1	5.2	3.9
24. Large time deposits, gross[5]	-0.2	2.7	5.8	8.4	10.6	6.8	4.8
25. Nondeposit funds[5]	0.4	-2.1	0.5	2.3	-4.5	-1.6	-0.9
26. Net due to related foreign institutions, NSA[5]	-2.3	-2.1	0.4	1.6	-4.8	-4.1	-1.7
27. Other[5,6]	2.6	0.0	0.1	0.7	0.4	2.4	0.8
28. U.S. government deposits at commercial banks[7]	0.8	1.9	-2.5	-5.4	-1.5	0.8	-0.3

1. Quarterly growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda for quarterly changes are calculated on an end-month-of-quarter basis.
2. M1 seasonally adjusted using alternative model-based procedure applied to weekly data.
3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers. Excludes retail RPs, which are in the small time deposit components.
4. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
5. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to June 1982.
6. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve and unaffiliated foreign banks), loans sold to affiliates, loan RPs and other minor items. Data are partially estimated.
7. Consists of Treasury demand deposits at commercial banks and Treasury note balances.

the maturity range out to 2 years. This configuration suggests market expectations of a rise in rates in the months ahead as a recovery in economic activity and the resulting growth in private money and credit demands along with the prospect of continued massive federal borrowing outweigh the improved inflation outlook.

The Treasury raised a record $60 billion in the market in the third quarter, financing a large deficit and building up its cash balance. State and local governments also have continued to borrow heavily, primarily in the form of revenue bonds. In contrast, borrowing by nonfinancial corporations appears to have diminished, particularly in short-term markets. Bond offerings, however, have picked up in response to improved conditions in long-term capital markets. Household borrowing in the mortgage and consumer installment credit markets has remained sluggish.

Monetary Aggregates and Bank Credit

With all components gaining strength, M1 increased at a 10-1/2 percent annual rate in August and still more rapidly in September, after three consecutive months of weakness.[1] (Data on the monetary aggregates in September will be included in the Greenbook Supplement.) Demand deposits increased in August for the first time since January of this year and accelerated sharply in September. This increase, along with renewed growth in other checkable deposits after a net decline between April and July, seems partly due to the recent large decline in market interest rates.[2] In

1. The alternative model-based seasonal adjustment procedure indicates an even sharper turnaround in narrow money growth from July to September.
2. One way in which declines in interest rates probably affect money holdings is by increasing the balances banks require corporations to hold in conpensation for receiving services. An Appendix to the Greenbook Supplement will report on an informal survey conducted recently by System staff concerning bank practices contributing to the responsiveness of compensating balances to changes in interest rates.

addition, increased stock market transactions in August may have contributed to the strength of demand balances in early September.

M2 grew in August at the fastest rate since April 1981, as the bulge in its M1 component was augmented by a pickup in growth of its nontransactions component. This acceleration mainly reflected a surge in general purpose and broker-dealer money fund shares as returns on the funds lagged declines in market rates. In addition, overnight RPs strengthened--as bank dealer positions rose--and runoffs of savings deposits moderated, likely reflecting the reduced opportunity cost of holding such instruments as well as prevailing economic uncertainties. Small time deposit inflows at commercial banks and thrifts dropped, particularly in the shorter maturities.[1]

Following the August surge, growth of the nontransaction component of M2 has slowed sharply in September. In early September, as market rates backed up, money market fund shares leveled off and are expected to register only a moderate increase on a month average basis.[2] Although savings deposits appear to have edged upward this month, small time deposit inflows evidently weakened further.[3]

1. Commercial banks continue to issue substantially more small time deposits than thrifts except in the longer maturities. The longer maturity accounts include the 2-1/2 year and over small saver certificate--the only account at present where thrifts benefit from a ceiling differential--and the ceiling-free 3-1/2 year certificate.
2. Money market mutual funds do not appear to be as vulnerable to outflows of shares as they were in the late summer of 1980, when they lost 10 percent of their assets in 4-1/2 months as interest rates rose. The average maturity currently is 37 days, compared with 51 days in August of 1980, which should allow fund managers to take advantage of any rise in rates more quickly than in 1980.
3. Inflows at S&Ls to the new 7 to 31 day accounts were $400 million in the first 10 days of September. Inflows to commercial banks may be stronger as there currently is no ceiling differential for thrifts. In addition, scattered reports imply some interest by commercial enterprises, who would be more likely to deposit funds in a commercial bank than in a thrift institution.

M3 grew in August at a near-record 18.4 percent rate, but growth in September appears to be to the slowest since the spring of 1980. Its non-M2 components accelerated in August as a pickup in growth of institution-only money funds, along with a resumption of growth of term RPs, more than offset a slowdown in issuance of large CDs. The increase in term RPs was concentrated at commercial banks and may in part have reflected financing of increased holdings of Treasury securities in trading accounts. The slowdown in M3 in September reflected not only weak M2 growth but also a small decline in large time deposits, a runoff of term RPs, and a sharp slowdown in the growth of institution-only money funds.

Bank credit growth in August continued at about the moderate July pace, somewhat slower than in the first half of the year. Acquisitions of securities picked up, but loan growth slowed and was well below the rate of expansion in the first half of the year. Consumer and real estate lending remained sluggish, and business loan growth dropped to the lowest rate since last November. A slowing in bank credit growth is indicated by partial data for September. Business loan growth at large banks picked up through mid-September, but this was more than offset by slower growth in other loans and investments at these banks and by weaker credit extensions at U.S. agencies and branches of foreign banks and at small banks. A significant portion of the strengthening in business loans at large banks seems to have been associated with takedowns for mergers.[1]

1. Takedowns involving two acquisitions have been reported to date. The first, by R. J. Reynolds, involved a credit of $250 million on September 2 and is believed to have been booked primarily at U.S. banking offices. The second, by Occidental Petroleum, involved two credits totalling $1.75 billion. Financing of the Bendix - Martin Marietta - Allied deal boosted bank credit in the second half of September.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)[1]

	1981	1982					QIV '81 to
	Q4	Q1	Q2	June	July	Aug.	Aug. '82
			—Commercial Bank Credit—				
1. Total loans and investments at banks[2,3]	6.4	10.1	7.9	5.1	6.4	6.4	9.5
2. Investments	4.8	5.7	4.7	1.7	2.4	8.5	5.8
3. Treasury securities	-7.8	11.5	4.9	-5.2	7.3	13.4	8.5
4. Other securities	11.2	2.8	4.8	5.1	0.0	6.1	4.5
5. Total loans[2,3]	6.9	11.5	9.0	6.4	7.6	5.8	10.8
6. Business loans[2,3]	9.2	16.8	14.8	14.2	9.9	3.3	15.4
7. Security loans	58.6	-18.3	-26.8	-64.1	92.3	22.9	4.3
8. Real estate loans	7.3	7.8	6.6	7.3	0.8	4.4	7.4
9. Consumer loans	4.1	2.8	3.0	2.6	5.7	2.5	4.1
		—Short- and Intermediate-Term Business Credit—					
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	13.8	15.2	13.1	10.6	14.2	n.a.	n.a.
11. Business loans net of bankers acceptances[3]	9.3	16.5	15.7	17.7	11.3	2.1	15.8
12. Commercial paper issued by nonfinancial firms[5]	21.3	30.0	16.8	2.0	38.2	-1.9	27.4
13. Sum of line 11 & 12	10.8	18.2	15.9	15.6	14.9	1.8	17.3
14. Line 13 plus loans at foreign branches[6]	14.0	18.4	15.7	13.6	15.2	5.3	18.2
15. Finance company loans to business [7]	7.6	1.0	1.5	10.5	17.8	n.a.	n.a.
16. Total bankers acceptances outstanding[7]	20.9	11.7	10.2	-6.6	0.0	n.a.	n.a.

1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.
2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.
3. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to June 1982.
4. Growth of bank credit from the FOMC's December-January base through August 1982, not adjusted for shifts of assets from domestic offices to IBFs, was at an annual rate of 7.6 percent. Adjusted for such shifts after January, growth over this period was 8.4 percent.
5. Average of Wednesdays.
6. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
7. Based on average of current and preceding ends of month.
n.a.—not available.

Available evidence indicates that public awareness of problem loans at commercial banks likely had some impact on investor willingness to purchase bank CDs as the quality spread between CD and Treasury bill rates has widened recently and remains substantially above the average for the first half of this year. Prior to September, actual runoffs of CDs were concentrated largely at those banks receiving the most widespread publicity. Three such banks, Continental, Seattle First, and to a lesser extent, Chase, appear to have had difficulty rolling over CDs in both July and August. These banks, however, were apparently able to rely on the interbank market--principally by borrowing through their foreign branches and International Banking Facilities--to make up for these outflows and their lending did not slacken appreciably relative to other large banks during the period. In September the decline in CD issuance was more general among large banks, as the weakening in loan growth at small banks augmented the supply of funds in the domestic interbank market.

Business Finance

The weakening in business demands for short-term credit has extended beyond business loans at banks to commercial paper issuance. However, the falloff in short-term financing has been largely matched by a pickup in long-term borrowing as declining interest rates elicited a sizable increase in bond offerings. Gross public offerings of corporate bonds in U.S. markets reached $5.3 billion in August on a seasonally adjusted basis, compared to a monthly average rate of $2.2 billion in the first half of the year. In September such offerings are estimated to have edged down only slightly to $5.0 billion.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly totals or monthly averages, millions of dollars)

	1981	1982				
	Year	Q1	Q2	July	Aug.[p]	Sept.[f]
	----------------Seasonally adjusted----------------					
Corporate securities--total	6,348	6,100	6,350	5,691	9,890	8,330
Securities sold in U.S.	5,833	4,718	4,973	5,352	8,714	6,830
Publicly offered bonds	3,138	2,088	2,279	2,568	5,300	5,000
Privately placed bonds	582	725	461	604	600	600
Stocks	2,113	1,905	2,233	2,180	2,814	1,230
Securities sold abroad[1]	515	1,382	1,377	339	1,176	1,500
	----Domestic offerings, not seasonally adjusted---					
Publicly offered bonds--total[2]	3,138	1,873	2,824	2,868	5,000	4,000
By industry						
Utility	1,079	693	938	558	1,080	700
Industrial	1,192	464	577	1,509	2,210	1,640
Financial	867	716	1,309	801	1,710	1,660
By quality[3]						
Aaa and Aa	1,182	694	956	1,330	2,145	1,390
A and Baa	1,448	796	1,086	1,118	2,405	1,615
Less than Baa	226	133	227	202	25	310
No rating (or unknown)	282	250	555	218	425	685
Memo items:						
Convertible bonds	357	47	178	60	100	122
Original discount bonds						
Par value	808	910	1,129	400	1,180	120
Gross proceeds	358	297	394	153	218	101
Stocks--total[4]	2,112	1,865	2,170	1,927	2,100	1,400
By industry						
Utility	676	660	510	368	1,100	800
Industrial	1,054	964	1,011	720	700	300
Financial	382	241	649	839	300	300

p--preliminary.
f--forecast.
1. Notes and bonds, not seasonally adjusted.
2. Total reflects gross proceeds rather than par value of original discount bonds.
3. Bonds categorized according to Moody's bond ratings.
4. Includes equity issues associated with swaps of equity for debt.

The mix of bond offerings in the third quarter has shifted toward industrial concerns, which had sold relatively few bonds earlier in the year. Although firms continue to emphasize short- and intermediate-term issues, the most recent financings have included a greater number of bonds maturing in 20 to 30 years, including a few large industrial issues. In addition to funds raised in domestic markets, close to $1.2 billion of Eurobond offerings were sold by U.S. companies in August. The pace of such offerings has strengthened further in September, as foreign investors have been willing to purchase such bonds at more favorable yields than those in U.S. markets.

If corporations are to restore measures of balance sheet liquidity to more "normal" levels, the volume of future bond issuance will have to be huge. The combined amount of 415 shelf registrations plus the recent backlog of conventionally registered issues that could be brought to market without prior notice currently totals about $20 billion, but this represents only a small portion of the funding activity that might be undertaken once firms feel the time is right. To date, bond issuance has been fairly restrained as finance officers evidently have been reluctant to pass up the immediate interest savings made possible by comparatively low short-term rates and are perhaps hoping for still lower long-term rates.

The decline in interest rates through late August helped spark a strong and broadly-based rally in equity prices. Since the rally began the major composite indexes have risen 18 to 22 percent, in heavy trading reportedly dominated by institutions. The continuation of the rally through September, albeit on a much less steep trajectory, suggests that factors other than interest rates also have exerted a positive influence.

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

	1982				
	Q2	Q3 f	July	Aug. e	Sept. f
Treasury financing					
Combined surplus/deficit(-)	-8.2	-42.6	-21.0	-16.8	-4.9
Means of financing deficit:					
(1) Net cash borrowing from the public	9.0	57.0	14.4	21.1	21.5
Marketable borrowings/ repayments(-)	11.5	59.2	15.3	22.0	21.9
Bills	-.4	22.2	6.2	11.1	4.9
Coupons	11.9	37.0	9.1	10.9	17.0
Nonmarketable	-2.5	-2.2	-.9	-.9	-.4
(2) Decrease in the cash balance	2.0	-17.5	.6	2.4	-20.4
Memo: Cash balance at end of period	11.0	28.5	10.4	8.0	28.4
(3) Other[2]	-2.8	3.1	6.0	-5.5	3.8
Federally sponsored credit agencies net cash borrowing[3]	9.1	5.4	3.8	0	1.6
FHLB	3.0	-.4	.2	-.3	-.3
FNMA	3.4	4.0	2.9	.2	.9
Farm Credit Banks	2.1	1.2	.6	-.2	.8
Other	.6	.6	.1	.3	.2

e--estimated.
f--forecast.
1. Numbers reported on a not seasonally adjusted, payment basis.
2. Includes checks issued less checks paid, accrued items and other transactions.
3. Includes debt of Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, the Federal Farm Credit Bank System, and the Student Loan Marketing Association. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

It is possible that investors have revised downward their expectations of future inflation; lower inflation rates should eliminate some of the factors that damped corporate profitability and raised investors' risk premiums over the past decade.

The rise in share prices prompted increased stock issuance in August, primarily offerings by utilities which were boosted by a sizable AT&T issue. Merger deals, however, continue to absorb outstanding stock.

Government Finance

Federal sector. In September the Treasury raised a record $21.9 billion of new cash in the market, to finance a $4.9 billion combined deficit and an extraordinary buildup in its cash balance. The bulk of this borrowing--$17.0 billion--was done in the coupon market, the remainder being accomplished by enlarging the size of the regular weekly and monthly bill auctions.

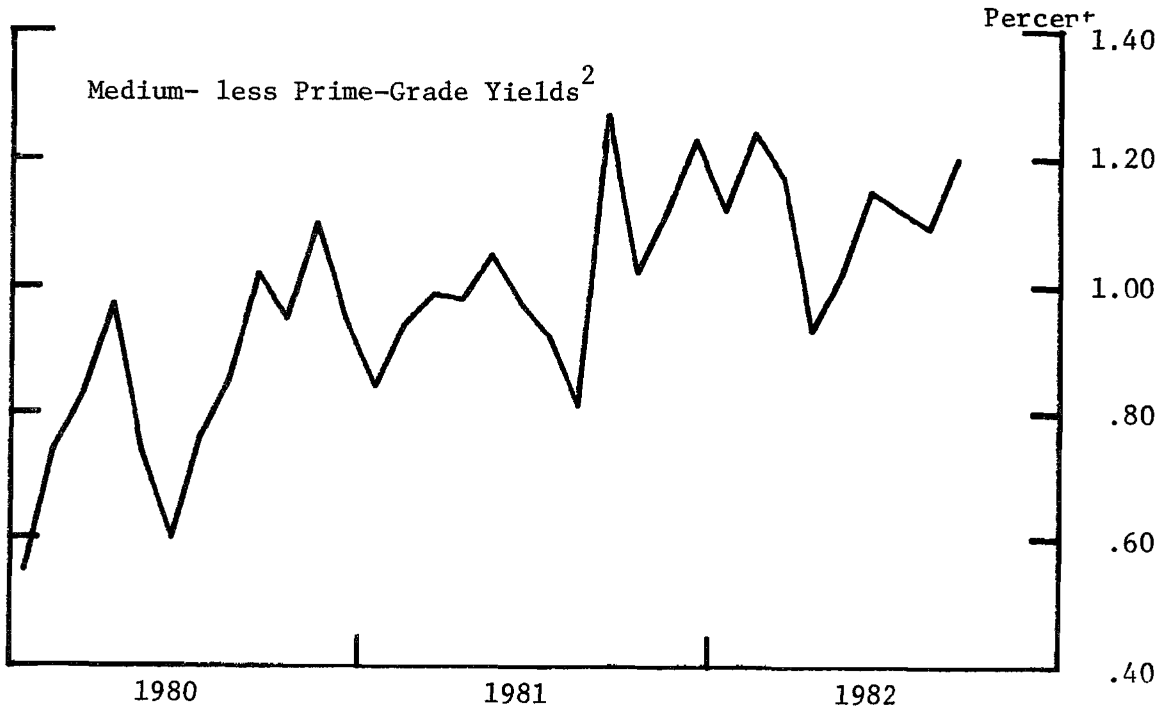
The Treasury compressed the auction schedule of its 4- and 7-year notes and 20-year bonds into a shorter time period than usual in an effort to increase bidding interest in the issues. In addition, the Treasury moved the settlement dates of the 7-year note and 20-year bond into September--thus magnifying the increase in the cash balance in September--in light of the impending expiration of the temporary debt ceiling. Congress subsequently approved legislation to increase the debt ceiling to $1.3 trillion for fiscal year 1983. The 20-year issue in September was the first bond sold since this past February, when the Treasury exhausted its authority to issue bonds with coupons greater than 4-1/4 percent; expanded authority was included in the August tax bill.

STATE & LOCAL GOVERNMENT SECURITY OFFERINGS
(Monthly averages, billions of dollars)

	1981	1982				
	Year	Q1	Q2	July	August[e]	September[f]
	------ Seasonally adjusted ------					
Total	6.80	8.45	9.40	9.10	11.20	9.80
Long-term	4.00	5.25	5.25	6.00	6.80	6.70
Short-term	2.80	3.20	4.15	3.10	4.40	3.10
	------ Not seasonally adjusted ------					
Total	6.40	7.05	10.25	8.80	10.70	10.00
Long-term	3.60	4.40	6.00	5.80	6.50	6.50
Mortgage revenue	.60	.30	.95	2.35	1.20	1.50
Short-term	2.80	2.65	4.25	3.00	4.20	3.50

e--estimate. f--forecast.

RISK PREMIUM ON TAX-EXEMPT BONDS
(monthly[1])



1. Estimate for September 1982.
2. Salomon Brother's medium-grade (Baa+ to A) yield minus prime-grade (Aa+ to Aaa) yield.

Federally sponsored credit agencies did essentially no net new borrowing in August, although they are estimated to have borrowed $1.6 billion in September. The FHLBs have reduced outstanding debt over the past couple of months because of sizable repayments of advances by thrift institutions. Mortgage purchases by FNMA have been substantial over the past two months, but the agency has financed a large part of its purchases by reductions in liquid assets which had reached an abnormally high level at the end of July.

State and Local Sector. The gross volume of municipal bond issuance was a record $6.8 billion (seasonally adjusted) in August and about that again in September. Recently, offerings of municipal securities have been boosted by the sale of a large volume of mortgage revenue bonds, averaging about $1.7 billion per month for the third quarter. The decline in interest rates over this period may have prompted a number of issuers to come to market. In addition, federal law restricts the total value of mortgage bonds that can be sold by tax-exempt housing authorities within any given state for any given year; thus, any part of a state's quota not sold during the year is lost. Also, mortgage revenue bond issuance has become more attractive because of an IRS ruling and a change in the tax law that have increased the spread allowed between the yields on these bonds and on the mortgages or other investments purchased with their proceeds.

Spreads between yields on general obligation and revenue issues have narrowed considerably over the past month from the historically high 150 basis point gap that had opened up in August. Investors at that time may have been attracted to general obligations in the wake of the bankruptcy of Lombard-Wall, since municipal authorities had been prominent among the

RP creditors in this firm.[1] Within the general obligation market itself, quality spreads between yields on prime- and medium-grade securities are comparatively wide by historical standards, but lower-rated issuers still have access to the market. With its economy and state revenues especially dependent on the cyclically-sensitive automobile industry, Michigan has evoked the most concern among investors. Michigan is the only state that presently has a MIG-3 rating on its notes, which would be expected to raise significantly the costs of its scheduled offering of $500 million of short-term debt in October.[2] The state, however, has tentatively acquired a letter of credit from five Japanese banks that will enhance the quality of these notes and reduce interest costs.

Mortgage Markets

In the primary market, interest rates on new commitments for 30-year, fixed-rate conventional home mortgages at savings and loan associations have declined since the August FOMC meeting by about a percentage point to 15.19 percent. Declining yields in secondary mortgage markets produced relatively narrow discounts on GNMA-guaranteed securities, prompting a 50 basis point cut in the ceiling rate for level-payment FHA/VA home loans to 13-1/2 percent, effective September 24.

Rates posted by both FNMA and FHLMC for the purchase of some types of adjustable-rate home mortgages have come down markedly since mid-year.

1. Several issuers of revenue securities, notably the New York State Dormitory Authority, invested funds in repurchase agreements with Lombard-Wall. Expeditious release of the money to these authorities by the courts may have alleviated the concern of market participants as to the potential problems resulting from lengthy bankruptcy proceedings.
2. The bond ratings of Washington, New Hampshire, and Minnesota were also reduced this year. Municipal note ratings range from MIG (Moody's Investors Grade)-1, the highest, down to MIG-4.

The largest reductions have been made for those programs with short-term rate indexes and few constraints on future changes to mortgage rates or payments. At FNMA, for example, the rate posted for adjustable rate mortgages indexed to 6-month Treasury bills and having no limits on rate or payment adjustments was 13.44 percent on September 22, down by about 4 percentage points from June 30.

Despite the decline in mortgage rates, available evidence indicates that mortgage market activity continued sluggish through August at savings and loan associations. New and outstanding mortgage commitments edged up, but stayed within the narrow bands that have prevailed since late last year. The net change in total mortgage assets at S&Ls declined by about 10 percent in August to the lowest level of the year; as in other recent months holdings of mortgage backed securities increased substantially while the volume of mortgage loans declined. This change in portfolio composition primarily reflected large swaps of conventional mortgages for more liquid federally underwritten pass-through securities that are eligible collateral for borrowing under repurchase agreements.

The quality of home mortgage credit clearly has deteriorated further owing to slack overall economic activity and weaker home prices. Delinquency rates on home mortgages climbed to new highs during the second quarter of this year; foreclosure rates remained at the elevated levels shown in the first quarter, but they still were below the highs reached in 1973-75, according to the Mortgage Bankers Association.

Consumer Credit

Growth in consumer installment credit, which had risen during the second quarter to almost a 5 percent annual rate, slowed to a 2 percent annual rate in July, mainly because of flatness in loans for autos and non-auto consumer goods. Moreover, available bank data suggests that installment credit growth was weak again in August.

CONSUMER INSTALLMENT CREDIT
(Seasonally adjusted)

	1980	1981	1982 Q1	1982 Q2	1982 June	1982 July
	----Percent annual rate of growth----					
Change in outstandings -- total	0.5	6.4	1.8	4.8	4.9	2.1
By type:						
Automobile credit	0.4	8.2	-0.7	5.8	6.2	0.6
Revolving credit	2.5	8.1	-0.3	10.4	10.1	12.1
All other	-0.3	4.1	4.9	1.5	1.6	-0.9
	--------------Percent--------------					
Delinquency rates:[1]						
Closed-end credit at commercial banks	2.61	2.38	2.37	2.19	2.16	n.a.
Auto loans at finance companies	2.27	1.89	1.77	1.61	1.51	1.60

1. Number of loans delinquent 30 days or more, as percent of total.
n.a.--not available.

Consumer installment credit has expanded at an unusually slow pace during the business cycle downturn not only because of weaker demands, but also because many lenders have maintained relatively stringent credit policies since the 1980 recession and the consumer credit restraint program. Several recent financial developments, however, appear to favor more rapid growth in consumer financing in the near term. The yield spread between consumer loan rates and the marginal cost of deposit funds rose during the second and third quarters, and survey data and other reports indicate a greater willingness by larger commercial banks to extend consumer loans. In addition, the continued decline to new lows of delinquency rates on both outstanding closed-end loans at commercial banks and automobile credit at finance companies, which also reflected in part the cautious lending practices evident since 1980, may provide added impetus to growth in consumer credit.

INTERNATIONAL DEVELOPMENTS

Foreign Exchange Markets

As shown by the chart on the next page, the weighted average value of the dollar has appreciated slightly further during the third quarter, despite the sharp declines in dollar interest rates relative to foreign interest rates. During the periods when the declines in dollar interest rates were most pronounced -- in particular, for several weeks following the FOMC meeting at the beginning of July, and again during the weeks just prior to the August FOMC meeting -- the exchange value of the dollar declined markedly, but only temporarily. From its trough at the time of the August FOMC meeting to the 13-year peak that it reached on September 27-28, the weighted average value of the dollar appreciated by about 5 percent. This weighted-average change reflected appreciations of roughly 7 percent against the yen and Swiss franc, 5-1/2 percent against the mark, 4-1/2 percent against the pound, and 1/4 percent against the Canadian dollar. In part, the dollar's appreciation since late August has been associated with an increase of around 125 basis points in relative dollar interest rates, reflecting an upturn in dollar interest rates and a continued gradual decline in the average of foreign interest rates. In addition, an important part of the dollar's strength during recent months has been related to major uncertainties about financial and political conditions throughout the world. The report of an August U.S. trade deficit that was much greater than most market participants expected had only a temporary downward impact on the value of the dollar.

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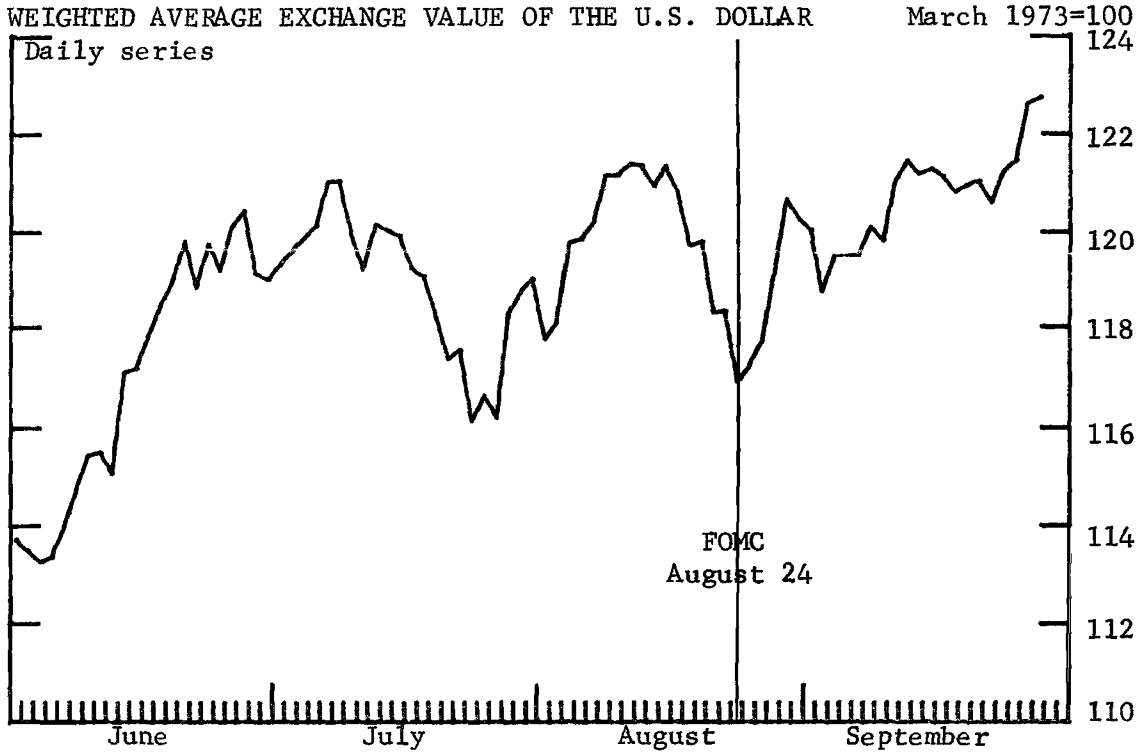
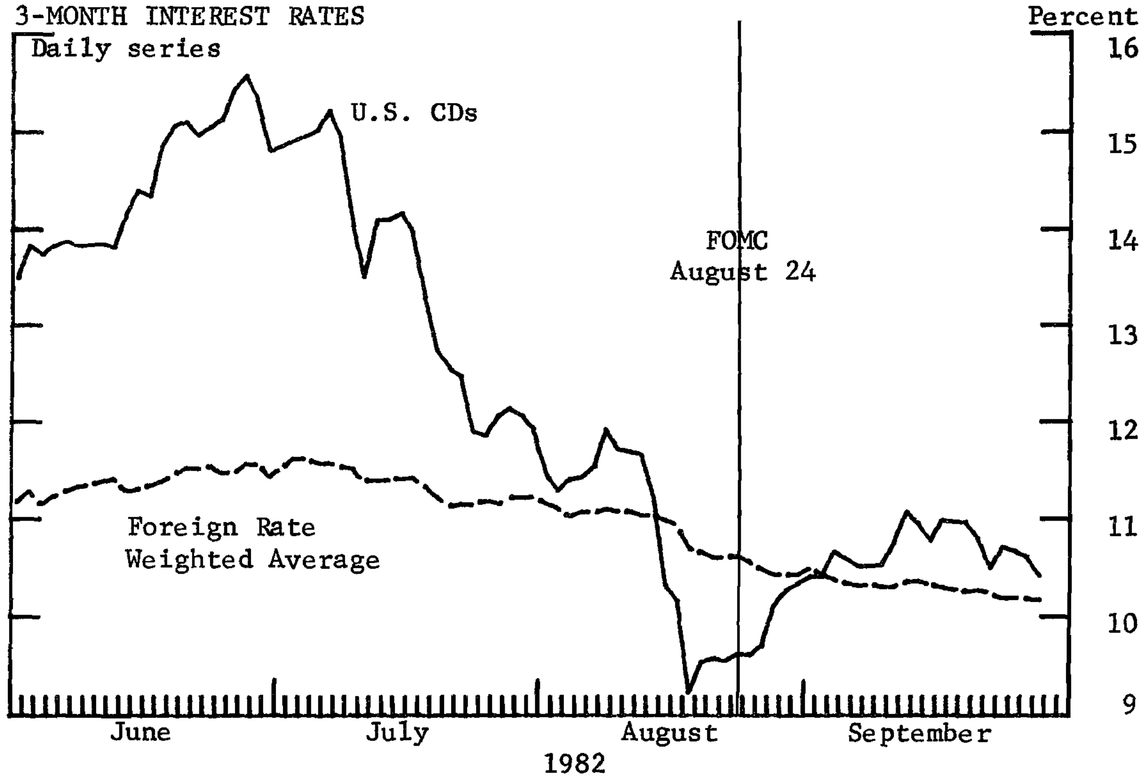
WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR



3-MONTH INTEREST RATES



. Subsequently, French officials announced that they were arranging a $4 billion Eurocurrency credit to supplement their reserves available for supporting the franc. The prospective collapse of the Schmidt government (see the discussion on German developments below) contributed to a moderate strengthening of the mark against other EMS currencies during September as market participants anticipated that German economic policy might become somewhat more conservative. At the end of September the Belgian franc was the weakest currency in the EMS band, about 1/2 percent above its intervention floors against the Dutch guilder and Irish pound.

Interbank trading in Mexican pesos has virtually halted since the August FOMC meeting following the Mexican Government's decisions to nationalize private Mexican banks and to impose comprehensive foreign exchange controls. Mexico's outstanding international debts for the large part have been rolled over and Mexico has been engaged in negotiating a credit program with the International Monetary Fund. At the end of August it was announced that a $1.85 billion short-term credit line had been extended to Mexico from the United States and member countries of the Bank for International Settlements.

. The Mexican crisis has contributed to intensified concerns about the ability of a number of other Latin American countries to make scheduled external payments, and Bolivia has fallen into arrears on a relatively small amount of debt.

Prices of precious metals have fluctuated widely since the August FOMC meeting. After trading in a relatively narrow range around $350 per ounce from mid-July through mid-August, gold appreciated to more than $500 an ounce at times during the second week of September, subsequently depreciating to about $415 an ounce currently.

Foreign lending by U.S. banks. Claims on foreigners held by domestic offices and foreign branches of U.S.-chartered banks increased only about \$7 billion in the first half of 1982 compared with \$31 billion in the same period one year earlier. About one-third to one-half of the slowdown resulted from the appreciation of the U.S. dollar in the first half of 1982, which reduced the dollar value of the foreign currency assets of the foreign branches. The appreciation primarily affected local-currency claims at branches in G-10 countries, reducing the dollar value of their claims by \$8-10 billion. (An even larger such reduction occurred a year earlier.)

U.S. bank claims on smaller industrial countries increased in the first half of 1982 about in line with recent past behavior, and claims on OPEC also rose. But there was a marked slowing in net new lending to non-OPEC developing countries. Net lending to Mexico and Brazil continued strong in the first half, but net lending to Argentina, Korea, Philippines, and Chile slowed sharply or became negative. U.S. bank claims on Eastern European countries, especially Poland, declined significantly in the first half. The decline for Poland largely reflected the assumption by the CCC of bank credits that the U.S. government had guaranteed.

The clouded outlook for future international lending by U.S. and foreign banks, especially affected by the difficulties of Mexico and other Latin American countries in repaying debts, is shown by Morgan Guaranty data indicating a low level of announced syndicated Eurocurrency bank credits for developing countries in both July and August, particularly for Latin American borrowers. These data suggest a growing reluctance by bankers to commit themselves to provide additional medium-term credits to these countries.

CLAIMS ON FOREIGNERS OF U.S.-CHARTERED BANKS
(Billions of dollars)

	Net Increase					
	Yearly		Half-Yearly			Out-standing
			1981		1982	
Claims on	1980	1981	1st H	2nd H	1st H	June 1982
Total, all countries	48.1	60.3	30.8	29.5	6.9	419.2
G-10 and Switzerland	23.7	11.8	6.2	5.6	-3.6	170.3
Smaller industrial countries	1.7	6.8	3.2	3.6	3.2	31.6
OPEC countries of which:	-.2	1.7	-.5	2.2	.9	25.3
Venezuela	.4	.5	-.3	.8	-.2	9.4
Others	-.8	1.2	-.2	1.4	1.1	15.9
Non-OPEC developing countries of which:	14.4	18.4	7.4	11.0	4.2	100.0
Mexico	3.9	5.6	2.3	3.3	2.4	23.9
Brazil	1.0	2.8	1.3	1.5	1.2	20.2
Argentina	1.7	1.4	.6	.8	-.4	8.9
Korea	2.9	2.3	1.7	.6	-.6	8.8
Philippines	.9	.9	*/	.9	.2	6.2
Chile	1.2	2.1	1.1	1.0	.2	6.0
Taiwan	.8	.9	.4	.5	.7	5.8
Others	2.0	2.4	*/	2.4	.5	20.2
Eastern Europe of which:	.1	.3	.3	*/	-1.3	6.4
Bulgaria	.1	-.1	-.1	*/	-.1	.2
Czechoslavakia	-.1	.1	.1	*/	*/	.2
East Germany	*/	-.1	-.1	-.2	-.2	.7
Hungary	-.1	.1	*/	.1	-.2	.7
Poland	.1	.3	*/	.3	-.4	1.6
Romania	*/	*/	*/	*/	-.1	.3
USSR	-.2	.2	.1	.1	-.2	.4
Yugoslavia	.5	.2	.2	*/	-.2	2.3
Offshore banking centers	6.6	16.6	12.3	4.3	3.7	67.3
Miscellaneous and unclassified	2.3	4.7	1.7	3.0	-.4	18.3

*/ Change of less than $0.1 or -$0.1.

U.S. International Transactions

Merchandise trade. In August the U.S. merchandise trade deficit was substantially larger than in July primarily because the value of non-oil imports rose sharply. The August nonoil import increase was spread over a broad range of manufactured items (from machinery to clothing); a marginal rise in the value of foreign car imports accounted for a small fraction of the total nonoil import increase.

For July-August combined, the trade deficit was more than twice the size of the second-quarter rate; a 4-1/2 percent drop in exports was combined with a 9 percent increase in imports. Most of the decline

U.S. Merchandise Trade*

	1981		1982				
	Year	Q4	Q1	Q2	July/Aug. (Est.)	July	Aug. (Est.)
Value (Bil. $, SAAR)							
Exports	236.3	230.4	223.1	220.4	210.3	207.7	213
Agricultural	44.3	42.4	42.0	42.7	34.9	34.5	35
Nonagricultural	192.0	188.0	181.1	177.7	175.4	173.1	178
Imports	264.1	267.1	246.6	243.5	265.2	244.8	285
Petroleum	77.6	72.4	62.6	53.7	71.7	71.4	72
Nonpetroleum	186.5	194.7	184.0	189.8	193.5	173.5	213
Trade Balance	-27.8	-36.7	-23.5	-23.1	-54.9	-37.1	-72
Volume (Bil, 72$, SAAR)							
Exports - Agric.	18.1	18.6	18.5	19.3	n.a.	16.0	n.a.
- Nonagric.	70.5	66.6	62.8	62.1	n.a.	60.6	n.a.
Imports - Petroleum	5.9	5.8	5.0	4.5	n.a.	5.9	n.a.
- Nonpetrol.	72.1	76.3	69.8	72.7	n.a.	66.6	n.a.

*/ International Transactions and GNP basis. Monthly data are estimated.

in exports was in agricultural shipments, particularly wheat and corn. Export prices for agricultural products continued to weaken in July and August in response to generally good crops and sluggish demand; some traditional purchasers of U.S. wheat and corn have sought other suppliers who offered either better prices or easier credit terms; Japan sought easier prices, and Brazil and Eastern Europe sought easier credit. Since May, the U.S.S.R. has not purchased any additional U.S. wheat or feedgrain; deliveries on the May order were completed in July. The decline in non-agricultural exports was spread over industrial supplies (particularly coal and metals), machinery and consumer goods as continued sluggish demand from major trading partners and effects of a strong dollar were reflected in shipments.

The July-August rise in imports was largely in oil. The volume of oil imports in both July and August was 6.3 million barrels per day, one-third higher than in the second quarter. U.S. oil consumption was apparently somewhat lower in the third quarter than in the second but there was some buildup in total petroleum and product inventories (on a seasonally adjusted basis). Oil import prices were about 75 cents per barrel higher in July-August than in the second quarter reflecting the

Oil Imports	1981 4Q	1982 1Q	1982 2Q	1982 July/Aug. (Est.)	1982 June	1982 July	1982 Aug. (Est.)
Volume (mbd, SA)	5.99	5.33	4.82	6.26	5.38	6.26	6.26
Price ($/BBL)	34.42	32.17	30.53	31.30	30.94	31.25	31.40
Value (Bil. $, SAAR)	72.4	62.6	53.7	71.7	61.4	71.3	72.0

delayed impact of the increase in spot prices during late spring. Since June, spot crude oil prices have been somewhat lower. For nonoil imports, the increase was largely in manufactured goods, ranging from chemicals to machinery and consumer goods. The value of foreign car imports in July-August was marginally less than in the second quarter. Steel imports dropped sharply from second-quarter rates.

Capital-Account Transactions. Net liabilities of U.S. banking offices (including IBFs) to their own foreign offices fell, on a monthly average basis, by about $4 billion in August (see line 1(a) of the table below). Data for the first eight days of September indicate a further sizable reduction in net liabilities; in fact, U.S.-chartered banks shifted to a position of net supplier of funds to their foreign offices (line 1(b)). Regional U.S. banks have generally maintained or increased net placements with their foreign offices as yields in the Eurodollar interbank market have remained attractive when compared with the cost of funds raised through domestic CDs. Banks also continued to increase their net claims on unaffiliated foreigners through July.

Loans to U.S. nonbank residents from foreign branches of U.S. banks (line 2 of the table) accelerated during August on a daily average basis. As outlined in previous Greenbooks, bank loans booked at foreign branches tend to increase when the prime rate exceeds LIBOR by substantial amounts; in August, the spread between those rates rose to as much as 330 basis points. By mid-September, however, incentives had changed considerably: the prime rate exceeded LIBOR by less than 150 basis points.

Though there have been reports that investors have recently begun favoring low-risk assets such as U.S. Treasury issues and high-grade U.S. corporate debt and equity, there is no evidence yet that private foreign investors have shifted substantial amounts into such instruments. For example, available data for August indicate that private foreign holdings of U.S. Treasury obligations may have declined somewhat. Net foreign purchases of U.S. corporate stock appear from preliminary data to have been no larger in August than they were on average during the first seven months of 1982, shown in 1982 (line 2(b), page IV-12 in the Summary Table of U.S. International Transactions. These data are consistent with information acquired in conversations with several brokerage houses, which indicated that foreign participation in the sharp stock market surge during August was noticeable only briefly and in small volume.

International Banking Data
(billions of dollars)

	1980	1981	1982				
	Dec.	Dec.	Mar.	June	July	Aug.	Sept. 4/
1. U.S. Offices' Banking Positions Vis-a-vis Own Foreign Offices 1/							
(a) Total	6.5	9.2	11.0	16.6	14.6	10.5	4.7
(b) U.S.-Chartered Banks	-15.2	-8.9	-4.2	2.8	1.7	-0.7	-6.4
(c) Foreign-Chartered Banks	21.7	18.1	15.2	13.8	12.9	11.2	11.1
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. banks 2/							
(a) Total	4.2	13.2	13.8	14.2	14.4	15.9	16.2
(b) New York Banks Only	2.7	8.8	9.1	9.7	10.1	11.0	11.3
3. Eurodollar Holdings of U.S. Nonbank Residents 3/	60.8	93.6	103.9	114.5	n.a.	n.a.	n.a.

1/ Average of Wednesdays; net due to own foreign office = (+).
2/ Daily Averages.
3/ End of month.
4/ Through September 8.

U.S. Current Account. In the second quarter, the U.S. current account surplus increased to an $8 billion annual rate; this was about twice the size of the surplus in the first quarter. Much of the higher current account surplus was attributable to a rise in net income from portfolio investments (line 7 in the table below): income receipts from U.S. claims on foreigners rose more than income payments to foreigners on foreign portfolio holdings in the United States. Net direct investment income receipts, line 6, was little changed from the relatively low levels of 1Q82, largely reflecting weak economic conditions abroad. The merchandise trade deficit was about the same in second quarter as in the first quarter with the value of both exports and imports declining marginally.

U.S. Current Account
(Bil. $, seasonally adjusted annual rates)

	Year	1981		1982		$ change
	1981	Q3	Q4	Q1	Q2	Q2 - Q1
1. Current Account Balance	4.5	3.0	-3.7	4.4	8.2	+3.8
2. Trade Balance	-27.9	-31.3	-36.7	-23.5	-23.1	+0.4
3. Exports	236.3	230.8	230.4	223.1	220.4	-2.7
4. Imports	264.1	262.2	267.1	246.6	243.5	-3.1
5. Investment Income, net	33.0	32.7	34.1	27.4	30.7	+3.3
6. Direct, net	24.1	21.8	24.2	17.3	17.7	+0.4
7. Portfolio, net	9.0	10.9	10.0	10.1	13.0	+2.9
8. Other Services, net	6.0	8.9	6.4	8.7	7.5	-1.2
9. Unilateral Transfers	-6.6	-7.2	-7.5	-8.2	-6.9	+1.3

Note: Details may not add to total because of rounding.

Summary of U.S. International Transactions
(in billions of dollars)

	1981 Year	1981 Q-3	1981 Q-4	1982 Q-1	1982 Q-2	1982 May	1982 June	1982 July
Private Capital								
Banks								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	-34.7	3.3	-19.9	-1.0	-14.0	-4.9	-5.0	-8.6
a) with own foreign offices	-3.3	5.1	.8	6.6	-2.6	.9	-.2	-5.4
b) all other	-31.3	-1.7	-20.8	-7.5	-11.3	-5.7	-4.8	-3.2
Securities								
2. Private securities transactions, net	1.4	.1	-2.5	.8	2.1	1.5	-.2	-.2
a) Foreign net purchases (+) of U.S. corp. bonds	2.1	.6	.1	.6	1.7	.8	-.2	.2
b) Foreign net purchases (+) of U.S. corp. stocks	4.7	.1	.2	.7	.8	.3	.3	.1
c) U.S. net purchases (-) of foreign securities	-5.5	-.6	-2.9	-.5	-.4	.3	-.7	-.5
3. Foreign net purchases (+) of U.S. Treasury obligations 1/	2.5	-.8	1.1	1.3	2.0	-.7	1.6	-1.3
Official Capital								
4. Changes in foreign official reserve assets in U.S. (+ = increase)	5.1	-5.5	8.1	-2.9	1.6	1.5	1.4)	1.6
a) By area								
G-10 countries and Switzerland	-10.8	-5.5	.9	-6.8	-4.6	-1.0	.5	1.3
OPEC	12.7	2.5	1.9	5.0	2.7	.5	.6	.5
All other countries	3.3	-2.5	5.4	-1.1	3.5	1.9	.2	-.2
b) By type								
U.S. Treasury securities	5.0	-4.6	4.4	-1.3	-2.1	.1	.5	4.7
Other 2/	.1	-.9	3.7	-1.6	3.7	1.4	.9	-3.1
5. Changes in U.S. official reserve assets (+ = decrease) 3/	-3.3	-.1	-.4	.1	-.7	.6	.2	-.5
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	-8.7	-1.0	-1.0	-0.1	2.3	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	21.3	4.5	9.3	1.2	2.7	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 4/ 5/	-13.9	-1.6	-3.3	-5.5	0.5	n.a.	n.a.	n.a.
9. U.S. current account balance 5/	4.5	0.8	-0.9	1.1	2.1	n.a.	n.a.	n.a.
10. Statistical Discrepancy 5/	25.8	-0.4	9.5	5.0	1.4	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-27.9	-7.8	-9.2	-5.9	-5.8	-2.1	-3.0	-2.6

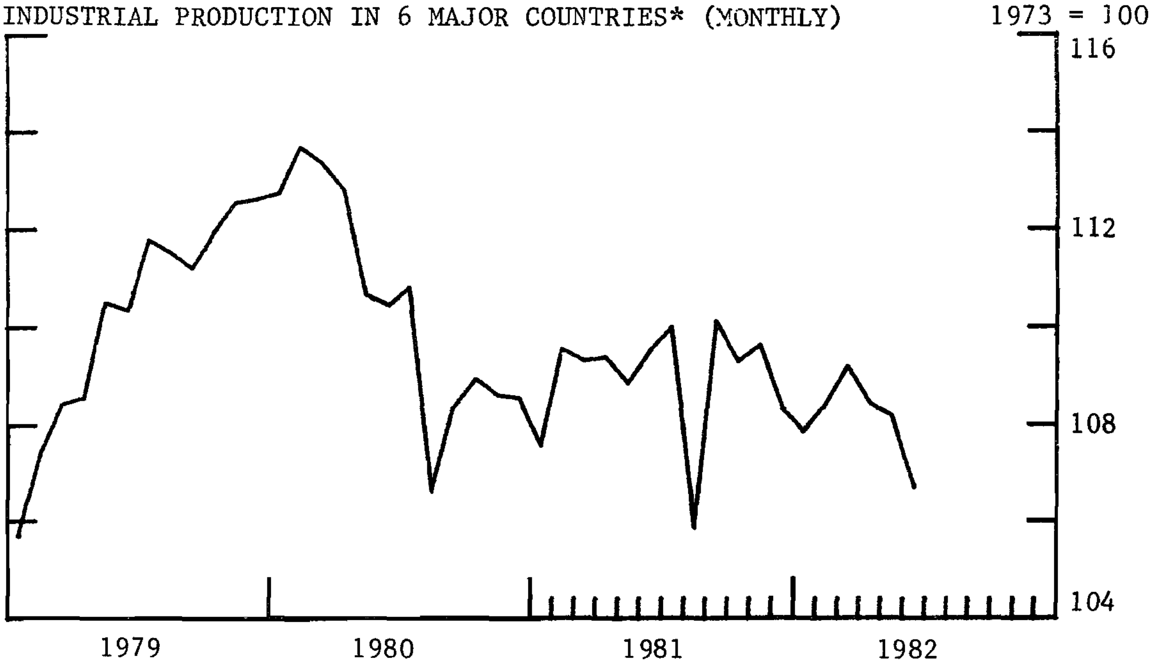
1/ Includes U.S. Treasury notes publicly issued to private foreign residents.
2/ Includes deposits in banks, commercial paper, acceptances, & borrowing under repurchase agreements.
3/ Includes newly allocated SDR's of $1.1 billion in January 1981.
4/ Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, allocations of SDRs, and other banking and official transactions not shown elsewhere.
5/ Includes seasonal adjustment for quarterly data.
*/ Less than $50 million.

NOTE: Details may not add to total because of rounding.

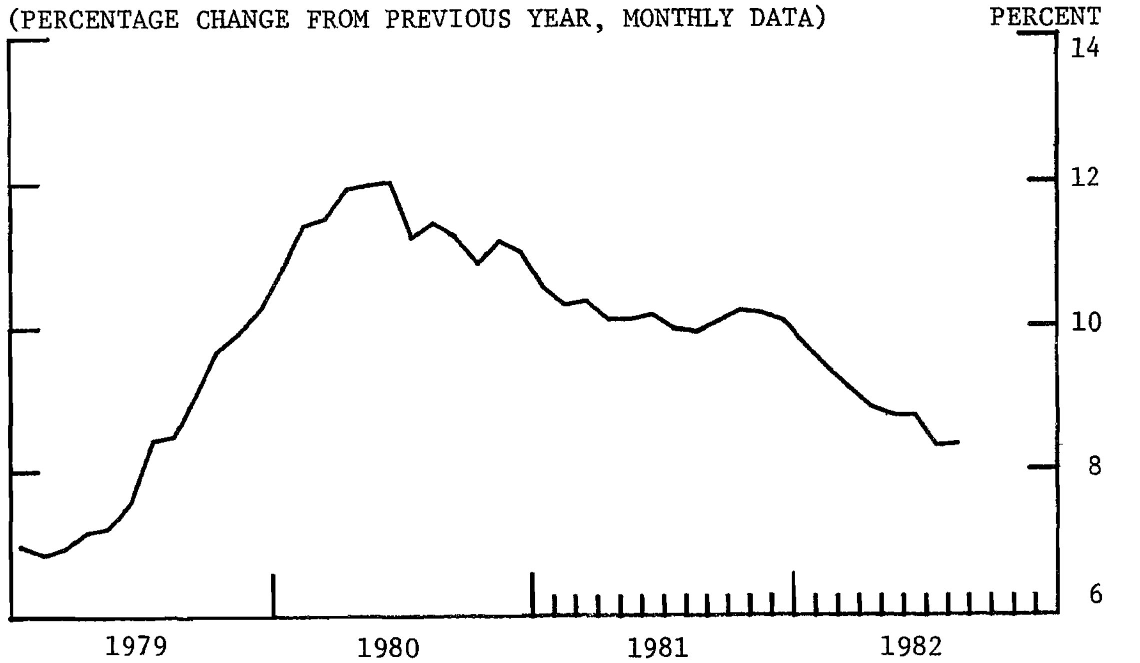
Foreign Economic Developments. Foreign economic activity remains generally sluggish, with no firm evidence of a sustained recovery. Although real GDP rose strongly in Japan and France in the second quarter, more recent indicators suggest that this strength has not continued. Real GDP in the second quarter edged up slightly in the United Kingdom, declined somewhat in Germany, and fell sharply in Canada and Italy. In the major foreign industrial countries, industrial production has generally been depressed (see chart). The rate of unemployment in August rose to 9.6 percent (11 million people) in the EC and to 12.2 percent in Canada. Investment surveys in the major foreign industrial economies suggest that investment spending will be weak this year. Economic activity has also been depressed in the major Latin American countries. In Mexico, real GDP growth has virtually stopped this year following four years of increases of over 8 percent per year. Real GDP declined last year in Brazil and Argentina; in the first half of 1982, real GDP was weak in Brazil and declined in Argentina and Chile. Total imports of these four countries are being drastically reduced this year.

The deceleration of consumer price inflation in major foreign countries continued on average (see chart), but remains uneven. Consumer prices accelerated in Italy this summer, though they are still rising more slowly than last year. Consumer price inflation has not abated significantly in Germany in the last year, despite the low rates of increase in July and August, while in France the recent deceleration appears to be explained by price controls and a VAT reduction. In the United Kingdom, the twelve-month inflation rate has continued its decline.

INDUSTRIAL PRODUCTION IN 6 MAJOR COUNTRIES* (MONTHLY)



RATES OF CHANGE OF CONSUMER PRICES IN 6 MAJOR COUNTRIES*
(PERCENTAGE CHANGE FROM PREVIOUS YEAR, MONTHLY DATA)



* Trade-weighted average of Canada, France, Germany, Italy, Japan, U.K.

The external position of several of the major foreign countries continues to reflect the relative weakness of these economies. The trade and current balances for Canada and Germany have risen from last year; in Italy (where current account data are not yet available for the second quarter) the trade deficit has declined in the first seven months of this year, compared with the same period in 1981. France and the United Kingdom are the only major foreign countries in which the cumulative trade balance this year is significantly below the corresponding figure for 1981.

Individual Country Notes. Second-quarter GNP in Germany was 0.4 percent (s.a.) below the level of the first quarter, and the average level for the first half of this year was virtually unchanged from last year's first half. Industrial production continued to decline in July for the fourth consecutive month; the latest three-month average of the industrial production index was about equal to its 1978 level. The rate of unemployment reached 7.9 percent (s.a.) in August, two percentage points above the level of August 1981. The volume of orders, which earlier this year had been supported by strong orders from abroad, has declined in recent months as foreign orders weakened. Bankruptcies this year have been occurring at a rate 50 percent above last year's rate. Despite the general weakness of demand, the rate of consumer price inflation has declined only slightly from last year's relatively high level.

Germany's current account this year provides the only bright spot in the economy. During the first eight months, the deficit was reduced to $2.2 billion compared to last year's $10.8 billion for the same period. This large improvement was due to rapid growth in export volume earlier this year and more recently, as export volume growth slowed, to sustained improvement in the terms of trade.

The Bundesbank has continued on its course -- begun late last year -- of a cautious lowering of interest rates. In a series of steps, the last of which took place on August 27, the Lombard rate was lowered from 12 to 8 percent. Central Bank money growth, having been close to the upper limit of the 4 to 7 percent target range through July, slowed somewhat in August. On September 23, the Bundesbank lowered reserve requirements on all categories of deposits by 10 percent; the required reserve ratio on sight deposits is now 10-1/8 percent, down from 11¼ percent.

On September 15, the Bundestag passed a supplementary federal budget that increased the 1982 deficit by DM 7.2 billion to DM 33.9 billion (2¼ percent of GDP). The supplement was induced by the ongoing recession. Nevertheless, fiscal policy remains relatively tight; this year's public sector deficit, now estimated at DM 70 to 75 billion, will be smaller than last year's DM 80 billion (5¼ percent of GDP).

On September 17, the Social Democrat - Free Democrat coalition government collapsed with the resignation of all FDP cabinet members and the withdrawal of that party from the government. On October 1, the Bundestag is expected to elect the leader of the conservative Christian Democrat party, Helmut Kohl as new chancellor. Mr Kohl will form a conservative-liberal coalition government which will include once more the FDP. National elections are expected to be called by March 1983.

The pace of economic activity in Japan continues to be slow, while the policy debate over measures to stimulate the economy has intensified.

Data on real GNP in the second quarter showed surprising strength -- a 5 percent rate of growth (s.a.a.r.). The more rapid growth of GNP was led by strength in private consumption and government investment, which in the latter case was attributable to the heavy front-loading of public works expenditure under the FY 1982 budget. Despite this advance, second-quarter GNP was only 2½ percent above its year-previous level, and more recent indicators of activity suggest that the domestic economy is in a much less bouyant state than that suggested by the new GNP numbers. Industrial production (s.a.) in August declined by almost 1 percent; its average level for the three months ending in August was about 3 percent (s.a.a.r.) above the average of the previous three months. New machinery orders (s.a.), particularly orders from abroad, were down sharply in July. The latest assessments of the economy by both the Bank of Japan and the Economic Planning Agency stressed that plant and equipment investment by small and medium-scale firms and housing have been particularly weak, but that personal consumption has shown some signs of recovering.

Wholesale prices have risen slightly more rapidly in recent months, largely due to the yen's weakness, but the three-month average (for June-August) was only 1.7 percent (a.r.) above its level of the previous three months. Despite an increase of almost 1 percent in August, which was attributed mainly to recent typhoon damage to crops, the corresponding three-month average for the CPI was virtually unchanged.

Japan's current-account surplus (s.a.) was halved in July to $570 million, bringing the cumulative surplus for the year so far to about $4 billion. Both imports and exports contracted in July -- the latter for the third consecutive month. Preliminary data suggests that demand for exports continued to be weak in August.

Faced with the prospect of reduced government revenues, Prime Minister Suzuki announced a reversal of his previous stand on reconstruction of government finances and said that the government would float an additional ¥3 trillion ($11 billion equivalent) in government bonds to cover the expected FY1982 deficit. The authorities also are reported to be considering a proposal for additional expenditures.

Latest data for the United Kingdom indicate a continuation of the sluggish recovery in economic activity and a further deceleration of prices. In July, industrial production rose 1 percent (s.a.); in the six months to July, the production index increased some 3 percent (s.a.a.r.). Real GDP in the second quarter of this year was ½ percent (s.a.a.r.) above the level registered in the first quarter and 1 percent above its year-earlier level. Despite recent increases, real GDP in the second quarter was 5 percent below the previous peak reached in the second quarter of 1979.

Consumer prices in July and August essentially were unchanged. Between April and August, the annual rate of increase in consumer prices was only 3 percent. During the same four-month period, wholesale prices rose 6 percent (a.r.).

After two consecutive monthly surpluses, the U.K.'s trade balance moved into deficit in August. The cumulative trade balance for the first eight months of 1982 was $1 billion (s.a.). During the same period, the current account registered a surplus of some $3 billion.

Nominal interest rates in the United Kingdom have continued to decline. At the end of August, the London clearing banks lowered their base rates from 11 percent to 10½ percent. As has been the case in recent months, Bank of England actions to lower short-term money market rates preceded the reduction in the clearing banks' base rates. In the six months to August, growth in each of the U.K.'s three targeted monetary aggregates was within the authorities' 8-12 percent target range.

French GDP grew by 1 percent (s.a.) in the second quarter while industrial production rose by 1¼ percent, reversing declines in each measure in the previous quarter. GDP was 1-3/4 percent above its level of a year earlier while IP was virtually unchanged. July surveys indicate both actual and anticipated production is nearly stagnant. Stocks, although below last year's peak, are still excessive and have been rising recently; while orders, although above last year's lows, are still weak and recently have been falling. Unemployment has continued to increase throughout this year and in August was 8.9 percent compared with 8.3 percent at the end of last year.

Price controls in France seem to be working better than had been expected. In July and August the annual rate of inflation (n.s.a.) was only 3½ percent. Part of the decline of the inflation rate can be ascribed to a redcution in the VAT on some commodities.

The current-account deficit in the first half of 1982 was nearly $6½ billion (s.a.) compared with a deficit of less than $1½ billion for the first half of last year and a deficit of $5 billion for the whole of 1981. The second quarter deficit of $4.4 billion was over twice the first quarter deficit of $2.1 billion. The trade-balance deficit for the first eight months of this year was nearly $10 billion, compared with only $5 billion in 1981.

The draft budget for 1983 was presented in early September and contained no surprises. Expenditure will increase by about 12 percent and revenue by about 9 percent. Although the budget is characterized officially as an austerity measure, the deficit will remain at about 3 percent of GDP. The budget also includes tax changes to encourage saving and to direct it toward investment in equity.

Real GDP in Italy fell by 1.5 percent (s.a.) in the second quarter after rising by a revised 1.2 percent in the previous quarter. Industrial production remains weak: in July, industrial production was 4½ percent below its year-earlier level and almost 7 percent below its peak in 1980. The business conditions survey at the end of June showed a substantial deterioration from that recorded three months earlier. The deterioration in outlook was across the board, but most significantly with respect to new foreign orders, forecasts of new total orders, and forecasts of production.

Although wholesale price inflation has moderated this year, consumer price inflation has accelerated in the last three months, contrary to the usual seasonal pattern. Part of the increase is attributable to VAT increases. In August, the CPI was almost 18 percent above its year-earlier level. The trade account has improved in the first seven months of the year with a $8.2 billion deficit compared with a deficit of $11 billion in the corresponding period of last year.

On August 25, the Bank of Italy lowered its discount rate by 1 percentage point to 18 percent. This change was expected earlier in the month when an increase in indirect taxes was decreed, but was postponed by the fall of the first Spadolini government. The Spadolini government was promptly reconstituted with the same five-party coalition and the same cabinet. This lack of change of the government was seen as an indication that the tax measures will be approved by Parliament.

The absence of an agreement on the wage indexation system has delayed the settlement of new contracts for over one-half of the labor force. In the absence of contractual increases, wage inflation has decelerated: in May, wages were 17 percent above their level of the previous year, compared with rates of increase of 22-24 percent for most of 1980 and 1981.

In Canada, real GNP fell sharply in the second quarter and by more than was generally expected. The second quarter decline of 8½ percent (s.a.a.r.) -- which represents the fourth consecutive quarter of declines -- leaves the level of real GNP more than 6 percent below the level reached in the second quarter of last year. Weakness was widespread, although there was some recovery of personal expenditure and of merchandise exports which rose sharply following three quarters of decline. A sharp run down of inventories of $3.1 billion (2.4 percent of GNP) and a sharp decline in business investment of about 8.3 percent were the major contributors to the drop in real GNP in the second quarter. Liquidity problems, low profits, excess capacity, a fall off of foreign investment and strikes were the main factors behind the weak inventory and investment performances. The mid-year survey of investment intentions, which was taken in May and June and showed intentions well below those at the start of the year, suggests that there would be virtually no real growth in investment spending this year.

Consumer price inflation for the most recent three-month period (June to August) averaged 10.9 percent (a.r.), down slightly from the 11.6 percent pace of the preceding three months. Sharp increases in the price of food were the main elements in the continued rapid rise in the consumer price index.

The current-account balance (s.a.) for the first half of this year posted a surplus of almost $700 million, compared with a deficit of $2.9 billion for the same period last year. The first half surplus reflects primarily weak economic activity and, in the second quarter, a recovery in merchandise exports.

On September 19, the Socialist Democrats were elected to return to power in Sweden following six years of rule by a three-party coalition. A major issue in the campaign was the high rate of unemployment, which was officially 3.7 percent in August. If the part of the labor force in job retraining programs, relief work, and subsidized labor programs is included, the unemployment rate would be almost double the official rate. Real GDP in the first quarter was 1¼ percent below the previous cyclical peak (1980:Q4), and industrial production has been flat in the twelve months ending in May. However, the rate of consumer price inflation has improved markedly in the past year: in August, the CPI was 7-3/4 percent above its year-earlier level, compared with a 13-3/4 percent rise in the corresponding period last year.

The continued weakness of real economic activity in Belgium led to a further rise in the unemployment rate in July. In response to relative stability of the Belgian franc on the exchange markets, depressed domestic activity, and reduced interest rates abroad, the Belgian National Bank lowered its discount rate in late August and again in September to 12.5 percent.

In the Netherlands, industrial production during the second quarter of this year averaged slightly higher than its first quarter level, but was unchanged from the final quarter of 1981. Unemployment rose further in the summer, and inflation appears to be slowing. The slow pace of domestic activity contributed to modest import demand and a trade surplus of $2.4 billion for the first half of the year. In response to declines in interest rates at home and abroad, the Netherlands Bank lowered its discount rate one percentage point to 7 percent on August 27.

GROWTH OF TARGETED MONETARY AGGREGATES
(PERCENTAGE CHANGE)

COUNTRY	TARGETED AGGREGATE	TARGET PERIOD	TARGET	FROM TARGET BASE PERIOD	OVER LAST 12 MONTHS	OVER LAST 6 MONTHS	OVER LAST 3 MONTHS	LAST OBSERVATION
CANADA	M1	PRESENT / AUG.-OCT. 1980	4-8%	1.2	-.2	-2.1	-16.9	AUGUST
FRANCE	M2	DEC. 1982 / DEC. 1981	12.5-13.5%	17.2	12.1	14.9	16.8	JULY
GERMANY	CBM	Q4 1982 / Q4 1981	4-7%	6.4	5.0	6.0	5.8	AUGUST
JAPAN	M2*	Q3 1982 / Q3 1981	9%	8.9	9.1	5.0	11.4	JULY
SWITZERLAND	ADJUSTED CBM	1982 / 1981	3%	.4	.6	3.0	3.8	JULY
UNITED KINGDOM	M1	APR. 1983 / FEB. 1982	8-12%	8.1	7.8	8.1	17.5	AUGUST
	£M3	APR. 1983 / FEB. 1982	8-12%	10.8	11.5	10.8	12.2	AUGUST
	PSL2	APR. 1983 / FEB. 1982	8-12%	8.6	9.2	8.6	7.1	AUGUST
UNITED STATES	M1	Q4 1982 / Q4 1981	2.5-5.5%	5.7	5.6	3.6	3.3	AUGUST
	M2	Q4 1982 / Q4 1981	6-9%	10.2	9.8	10.9	10.7	AUGUST

*FORECAST GROWTH OF M2. TARGETS ARE NOT SET.

ALL DATA SEASONALLY ADJUSTED EXCEPT FOR SWITZERLAND.
ALL GROWTH RATES COMPOUNDED AND ANNUALIZED.

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(PERCENTAGE CHANGE FROM PREVIOUS PERIOD, SEASONALLY ADJUSTED)

					1980	1981				1982		1982			
		1979	1980	1981	Q4	Q1	Q2	Q3	Q4	Q1	Q2	MAY	JUN.	JUL.	AUG.
CANADA:	GNP	2.9	.5	3.1	1.9	1.2	1.6	-1.1	-.9	-2.3	-2.1	*	*	*	*
	IP	5.3	-2.0	1.3	2.2	1.0	2.6	-3.1	-4.6	-2.9	-2.3	1.5	-2.5	-2.9	N.A.
FRANCE:	GDP	3.7	1.1	.2	-.2	-.6	1.2	.2	.7	-.2	1.0	*	*	*	*
	IP	4.5	-1.1	-2.3	-1.0	-1.5	.5	.3	1.3	-2.5	1.3	.8	.0	N.A.	N.A.
GERMANY:	GNP	4.4	1.8	-.3	-.4	.5	-.5	.7	.1	-.2	-.4	*	*	*	*
	IP	5.3	-.1	-2.1	-1.2	.9	-.3	.0	-1.2	1.3	-.9	-.9	-2.8	-1.9	N.A.
ITALY:	GDP	5.0	4.0	-.2	2.3	.8	-1.1	-1.7	2.6	1.2	-1.5	*	*	*	*
	IP	6.9	4.5	-2.5	3.6	-.7	1.5	-4.9	4.5	1.0	-1.4	-.6	-4.0	3.0	N.A.
JAPAN:	GNP	5.2	4.2	3.0	.7	.7	1.2	.7	-.7	1.0	1.3	*	*	*	*
	IP	8.3	7.1	3.0	1.6	1.7	-.3	1.6	2.6	-.9	-1.7	-1.7	2.4	.6	-.8
UNITED	GDP	1.7	-2.4	-2.2	-.9	-.4	-.2	.2	.5	.4	.1	*	*	*	*
KINGDOM:	IP	2.7	-6.6	-4.7	-2.4	-1.4	.3	1.0	.4	-.5	.2	.5	-1.5	1.1	N.A.
UNITED	GNP	2.8	-.4	1.9	1.1	1.9	-.4	.5	-1.3	-1.3	.5	*	*	*	*
STATES:	IP	4.4	-3.6	2.6	4.5	2.0	.5	.3	-4.4	-3.1	-1.7	-.7	-.5	.1	-.5

*GNP DATA ARE NOT PUBLISHED ON MONTHLY BASIS.

CONSUMER AND WHOLFSALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(PERCENTAGE CHANGE FROM PREVIOUS PERIOD)

		1981				1982		1982				MEMO: LATEST 3 MONTHS FROM YEAR AGO
		Q1	Q2	Q3	Q4	Q1	Q2	MAY	JUN.	JUL.	AUG.	
CANADA:	CPI	3.2	3.1	3.0	2.5	2.5	3.1	1.4	1.0	.5	.5	10.9
	WPI	2.7	2.2	2.1	1.2	1.4	2.0	.4	.5	.2	-.1	5.8
FRANCE:	CPI	3.0	3.3	3.9	3.2	2.8	3.1	.8	.7	.3	.3	12.1
	WPI	1.4	4.3	4.1	2.3	2.7	2.6	.1	.9	.6	N.A.	11.3
GERMANY:	CPI	2.2	1.8	1.2	1.2	1.5	1.4	.6	.9	.2	-.2	5.5
	WPI	3.9	2.3	2.1	1.8	1.8	1.3	1.1	.6	.2	-1.3	6.4
ITALY:	CPI	5.2	4.4	3.0	4.6	4.0	3.2	1.1	1.6	1.5	1.8	16.9
	WPI	5.0	5.1	3.5	4.0	3.3	2.0	.5	.3	1.5	N.A.	12.8
JAPAN:	CPI	1.1	1.5	.0	1.3	.5	1.0	.1	.1	-.8	.8	2.8
	WPI	-.7	1.1	1.4	-.1	.2	.2	-.6	.2	.6	.3	1.1
UNITED KINGDOM:	CPI	2.4	4.9	1.7	2.5	1.7	3.2	.7	.3	.0	.0	8.6
	WPI	3.0	3.4	2.1	2.3	2.2	1.7	.5	.4	.7	.3	8.2
UNITED STATES:	CPI (SA)	2.6	1.9	2.8	1.9	.8	1.1	1.0	1.0	.6	.3	6.5
	WPI (SA)	2.5	2.3	1.1	1.2	.7	.2	-.1	1.0	.6	.6	3.7

TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES#
(BILLIONS OF U.S. DOLLARS; SEASONALLY ADJUSTED)

				1981				1982		1982		
		1980	1981	Q1	Q2	Q3	Q4	Q1	Q2	JUN.	JUL.	AUG.
CANADA:	TRADE	6.7	5.7	1.4	.8	.6	2.8	2.9	3.8	1.6	1.2	N.A.
	CURRENT ACCOUNT	-1.6	-5.2	-1.2	-1.8	-2.1	-.2	.2	.5	*	*	*
FRANCE:	TRADE+	-14.2	-10.7	-2.5	-1.9	-1.9	-3.1	-2.8	-4.3	-2.0	-1.3	-1.3
	CURRENT ACCOUNT+	-7.8	-4.8	-1.7	.2	-1.3	-2.1	-2.1	-4.4	*	*	*
GERMANY:	TRADE	4.9	11.9	.2	3.1	3.1	5.5	5.0	5.3	2.0	N.A.	N.A.
	CURRENT ACCOUNT (NSA)	-16.5	-7.6	-4.4	-2.3	-4.9	4.1	-.8	.6	.0	-.7	N.A.
ITALY:	TRADE	-22.3	-16.0	-4.6	-5.0	-4.0	-2.5	-6.0	-1.8	-.2	-.4	N.A.
	CURRENT ACCOUNT (NSA)	-8.4	-9.1	-5.8	-2.3	.3	-.9	N.A.	N.A.	*	*	*
JAPAN:	TRADE+	2.1	20.1	3.3	5.5	6.3	5.0	4.4	5.3	1.7	1.7	N.A.
	CURRENT ACCOUNT	-10.7	4.6	-1.0	2.0	2,5	1.1	.9	2.5	1.0	.6	N.A.
UNITED	TRADE	2.9	N.A.	3.9	2.4	N.A.	.9	.6	.1	.0	.3	-.1
KINGDOM:	CURRENT ACCOUNT+	7.4	N.A.	5.9	4.4	N.A.	2.6	1.3	.9	.3	.6	.3
UNITED	TRADE	-25.3	-27.9	-4.3	-6.5	-7.8	-9.2	-5.9	-5.8	-3.0	-2.6	N.A.
STATES:	CURRENT ACCOUNT	1.5	4.5	3.2	1.4	.8	-.9	1.1	2.1	*	*	*

THE CURRENT ACCOUNT INCLUDES GOODS, SERVICES, AND PRIVATE AND OFFICIAL TRANSFERS.
+ QUARTERLY DATA ARE SUBJECT TO REVISION AND ARE NOT CONSISTENT WITH ANNUAL DATA.
* COMPARABLE MONTHLY CURRENT ACCOUNT DATA ARE NOT PUBLISHED.