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Confidential (FR) Class II FOMC

September 28, 1983

RECENT DEVELOPMENTS

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

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INTERNATIONAL DEVELOPMENTS IV

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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.	9-02-83	112.3	4.1	5.5	1.5
Unemployment rate (%) 1/	Aug.	9-02-83	9.5	9.5	10.1	9.9
Insured unemployment rate (%) 1/	July	8-29-83	3.6	3.8	4.4	4.5
Nonfarm employment, payroll (mil.)	Aug.	9-02-83	89.8	-5.5	1.7	.6
Manufacturing	Aug.	9-02-83	18.8	1.8	6.0	.6
Nonmanufacturing	Aug.	9-02-83	71.0	-7.4	.5	.6
Private nonfarm:						
Average weekly hours (hr.) 1/	Aug.	9-02-83	35.0	35.0	35.1	34.8
Hourly earnings ($) 1/	Aug.	9-02-83	7.97	8.03	7.97	7.73
Manufacturing:						
Average weekly hours (hr.) 1/	Aug.	9-02-83	40.3	40.2	40.0	39.0
Unit labor cost (1967=100)	July	8-31-83	92.4	-11.6	-11.8	-8.4
Industrial production (1967=100)	Aug.	9-15-83	150.5	10.5	16.9	8.7
Consumer goods	Aug.	9-15-83	155.9	7.0	14.6	8.2
Business equipment	Aug.	9-15-83	152.8	1.6	13.8	-.7
Defense & space equipment	Aug.	9-15-83	122.1	15.9	15.3	11.5
Materials	Aug.	9-15-83	148.3	13.1	18.6	11.7
Consumer prices all items (1967=100)	Aug.	9-23-83	300.0	5.2	4.2	2.5
All items, excluding food & energy	Aug.	9-23-83	288.5	5.4	5.3	3.1
Food	Aug.	9-23-83	291.6	2.5	-.8	1.6
Producer prices: (1967=100)						
Finished goods	Aug.	9-09-83	286.4	4.6	3.8	1.4
Intermediate materials, nonfood	Aug.	9-09-83	318.8	5.3	6.5	1.0
Crude foodstuffs & feedstuffs	Aug.	9-09-83	254.2	47.1	-1.3	3.0
Personal income ($ bil.) 2/	Aug.	9-20-83	2,755.2	2.8	5.3	6.5
				(Not at annual rates)		
Mfgrs. new orders dur. goods ($ bil.)	Aug.	9-22-83	88.5	.3	4.8	21.3
Capital goods industries	Aug.	9-22-83	27.2	-4.6	.6	11.4
Nondefense	Aug.	9-22-83	4.3	-37.4	-9.7	-23.6
Defense	Aug.	9-22-83	22.9	5.9	2.8	22.0
Inventories to sales ratio: 1/						
Manufacturing and trade, total	July	9-14-83	1.36	1.35	1.44	1.50
Manufacturing	July	8-30-83	1.50	1.48	1.58	1.69
Trade	July	9-14-83	1.25	1.24	1.32	1.33
Ratio: Mfgrs.' durable goods inventories to unfilled orders 1/	July	8-30-83	.551	.556	.567	.605
Retail sales, total ($ bil.)	Aug.	9-13-83	97.6	-1.4	-.8	9.6
GAF 3/	Aug.	9-13-83	20.4	-.2	-.8	7.7
Auto sales, total (mil. units.) 2/	Aug.	9-06-83	9.0	-8.6	-1.7	18.6
Domestic models	Aug.	9-06-83	6.6	-8.7	-3.4	24.3
Foreign models	Aug.	9-06-83	2.3	-8.3	3.2	4.8
Plant & Equipment expen. ($ bil.)4/						
Total nonfarm business	1983	9-08-83	306.57	—	—	-3.1
Manufacturing	1983	9-08-83	113.97	—	—	-4.8
Nonmanufacturing	1983	9-08-83	192.60	—	—	-2.1
Capital Appropriations, Mfg.	1983-Q2	9-06-83	20,955	3.9	—	4.6
Housing starts, private (thous.) 2/	Aug.	9-19-83	1,935	8.4	7.1	85.0
Leading indicators (1967=100)	July	8-31-83	157.7	.3	3.5	15.8

1/ Actual data used in lieu of percent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.
4/ Planned-Commerce July and August 1983 Survey.

The pace of the recovery slowed somewhat in August from the fast rate of July and the second quarter. Industrial production and employment posted further sizable gains in August, and housing starts and equipment spending remained at high levels. But after little change in July, real consumer spending declined in August, primarily due to weak auto sales. Recent wage and price developments have remained generally favorable, but prices of farm products have increased sharply owing to the drought.

Industrial Production

Industrial production rose an estimated 0.9 percent in August, after increases in June and July of 1.3 and 2.0 percent, respectively. Since the trough of the recession in November 1982, industrial production has risen 11.6 percent, and now is only 2.2 percent below the previous peak reached in July 1981. Capacity utilization stood at 76.7 percent in August, which is 7 percentage points above the historical low reached last November, but still well below its post-war average.

Output gains in August were widespread and were especially sharp in the production of home goods and construction supplies. In addition, unseasonably hot weather in August stimulated electricity use, boosting the total index by about 0.1 percent. Strike activity at Western Electric held output of business equipment to only a fractional rise in August, however. Excluding the strike, business equipment probably would have increased about 1-1/2 percent. Auto assemblies edged up to an annual rate of 7.5 million units in August, and industry schedules call for a 7.8 million rate in September. Capacity utilization in the motor

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

	1982 Q4	1983 Q1	1983 Q2	1983 June	1983 July	1983 Aug.
	-----Annual rate-----			-----Monthly rate---		
Total	-8.2	10.1	18.3	1.3	2.0	.9
Final products	-6.5	2.2	15.0	1.3	1.7	.6
Consumer goods	-6.9	5.5	18.9	1.3	1.8	.6
Durable	-22.2	29.7	36.9	2.5	3.1	1.4
Nondurable	-.9	-1.8	12.8	.8	1.3	.3
Business equipment	-14.5	-7.6	11.7	2.0	1.3	.1
Defense and space equipment	16.5	9.8	5.0	.3	2.1	1.3
Construction supplies	-8.0	24.6	30.5	2.5	2.2	1.7
Materials	-11.3	20.4	22.0	1.3	2.2	1.1
Durable goods	-22.2	30.5	34.3	1.9	2.7	1.3
Nondurable goods	5.1	18.3	20.3	.9	.9	1.0
Energy materials	-7.3	2.4	-2.4	.6	3.0	.8

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

	1982 low	1983 Q1	1983 Q2	1983 June	1983 July	1983 Aug.
Total industry	69.6	71.2	73.9	74.7	76.1	76.7
Manufacturing, total	68.8	70.7	73.8	74.8	76.2	76.7
Advanced processing	70.0	71.1	73.4	74.4	75.8	76.1
Motor vehicles	46.1	62.0	67.8	70.8	74.0	75.6
Primary processing	66.2	70.5	74.6	75.5	76.9	77.9
Materials, total	66.6	70.1	73.5	74.4	76.0	76.7
Durable goods materials	59.8	64.2	68.9	70.1	72.0	72.9
Metal materials	46.2	56.1	60.9	61.7	62.8	63.8
Nondurable goods materials	70.7	75.2	78.4	79.3	79.9	80.6
Energy materials	78.5	79.5	78.7	78.8	81.1	81.7

vehicles and parts industry now is somewhat below the historical average, but little spare capacity remains in plants producing the popular large cars. In the materials sector, output rose 1.1 percent in August; this was markedly slower than in the previous month and reflected smaller increases for coal, steel, and parts for consumer durables.

Employment and Unemployment

The demand for labor strengthened further in August, although at a slower rate than in the previous two months. Both the household and payroll measures of employment rose about 300,000 in August--after adjusting the establishment survey for the number of workers on strike--compared with average gains of 400,000 in the preceding three months. The civilian unemployment rate remained at 9.5 percent after a sharp decline in the previous month.

Although reported nonfarm payroll employment fell 400,000, strike activity, primarily in the Bell Telephone System, accounted for a drop of 700,000 workers in the establishment count. Strike-adjusted, manufacturing employment rose 85,000 with the largest gains occurring in lumber and fabricated metals, and the factory workweek edged up one-tenth of an hour for the third consecutive month. Employment in services increased by more than 100,000 for a third straight month, and construction employment rose 50,000.

Unemployment rates for most demographic groups exhibited little change from July to August. Although unemployment rates generally have declined since last December, the jobless rate for blacks, which is usually slow to respond to a recovery, has shown little overall change. However, the number of long-term unemployed (persons without jobs for more than 26 weeks) has fallen 1/2 million over the past two months,

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

	1981	1982	1983 Q1	1983 Q2	1983 June	1983 July	1983 Aug.
	--Average monthly changes--						
Nonfarm payroll employment[2]	-6	-172	50	343	423	358	-411
Strike adjusted	-7	-170	52	340	423	389	295
Manufacturing	-40	-127	25	105	89	160	28
Strike adjusted	-40	-125	27	99	96	156	85
Durable	-33	-99	19	76	56	118	32
Nondurable	-8	-28	5	29	33	42	-4
Construction	-21	-20	-19	59	73	38	53
Trade	8	-18	31	48	138	34	16
Finance and services	59	31	55	124	138	115	123
Transportation and public utilities	6	172	-15	10	-1	-6	-655
Strike adjusted	7	170	-9	10	0	9	5
Total government	-25	-13	-11	-1	-23	5	18
Private nonfarm production workers	-7	-146	42	327	409	320	-452
Manufacturing production workers	-47	-108	27	97	84	150	30
Total employment[3]	2	-49	3	561	1229	499	278
Nonagricultural	25	-65	16	512	1074	494	316

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)

	1981	1982	1983 Q1	1983 Q2	1983 June	1983 July	1983 Aug.
Civilian, 16 years and older	7.6	9.7	10.3	10.1	10.0	9.5	9.5
Teenagers	19.6	23.2	22.8	23.3	23.6	22.8	23.0
20-24 years old	12.2	14.8	15.9	15.1	14.4	13.8	14.5
Men, 25 years and older	5.1	7.5	8.4	8.2	7.8	7.6	7.5
Women, 25 years and older	5.9	7.3	7.8	7.6	7.9	7.2	7.0
White	6.7	8.6	9.1	8.8	8.6	8.2	8.2
Black	15.6	18.9	18.5	18.8	18.9	17.9	18.1
Fulltime workers	7.3	9.6	10.3	9.9	9.7	9.4	9.4
Memo:							
Total national[1]	7.5	9.5	10.2	10.0	9.8	9.3	9.4

1. Includes resident Armed Forces as employed.

and the mean duration of unemployment--a lagging economic indicator--has dropped two weeks. As usual for a recovery, expanded employment opportunities this year have led to an increase in labor force participation. From a comparatively low rate in the spring, the percentage of the population in the labor force rose to 64.4 percent in August, slightly above the average participation rate of the last three years.

Personal Income and Consumption

Growth in nominal personal income slowed in August to a 2.8 percent annual rate, largely owing to the telephone strike and hurricane damage. Adjusted for special factors, personal income would have grown at a 6.3 percent annual rate, a gain in line with the average for this year. In real terms income declined somewhat in August, but given the large tax cut in July, real disposable income in August is estimated to be 1.4 percent greater than the second-quarter average.

Personal consumption expenditures fell $7 billion in August compared with average monthly increases of $23 billion during the preceding four months. This drop mainly reflected a sharp decline in purchases of durable goods, especially in the automotive area. Unit sales of cars fell to a 9.0 million annual rate in August, off more than 1/2 million from the average of the preceding three months. The weakness in sales, which continued into early September, apparently reflected very tight inventories for some popular models and the phasing out of dealers' incentives and interest subsidies. But the inventory situation has been alleviated somewhat by the introduction of 1984 models, and domestic sales recovered in mid-September. Purchases of furniture and appliances also declined in August.

PERSONAL INCOME AND EXPENDITURES
(Based on seasonally adjusted data)

	1981	1982	1983 Q1	1983 Q2	1983 June	1983 July	1983 Aug.
	- - Percentage changes at annual rates[1] - -						
Total Personal Income							
Nominal	11.1	4.6	4.0	8.7	5.9	7.1	2.8
Real[2]	3.4	-.3	1.8	3.9	6.4	-.3	-2.0[e]
Disposable personal income							
Nominal	11.1	5.1	5.2	8.2	4.5	20.7	2.6
Real	3.4	.2	2.9	3.5	4.7	13.5	-2.2[e]
Expenditures							
Nominal	9.3	7.5	5.2	15.1	4.7	6.8	-3.9
Real	1.7	2.5	2.9	10.0	4.9	-.4	-8.7[e]
	- - Changes in billions of dollars[3] - -						
Total personal income	18.9	10.6	8.4	20.8	13.3	16.1	6.5
Wages and salaries	8.8	5.1	8.3	14.7	8.7	12.2	6.8
Private	7.0	3.4	6.9	13.3	11.1	10.8	1.8
Manufacturing	1.0	-.6	3.7	4.4	3.7	4.8	2.1
Other income	11.3	6.0	1.3	7.0	5.3	4.5	-.3
Disposable personal income							
Nominal	15.8	10.0	9.1	15.3	8.6	39.9	5.0
Expenditures	12.8	12.0	8.2	26.7	8.4	12.3	-7.0
Durables	.5	2.5	-.5	8.2	5.5	1.4	-10.4
Nondurables	4.1	1.9	2.1	9.2	3.3	.6	4.1
Services	8.2	7.6	6.6	9.4	-.4	10.3	-.7
Personal saving rate (percent)	6.6	5.8	5.4	4.0	3.7	4.7	5.2

e--staff estimate
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. Total personal income is deflated by the personal consumption expenditure deflator.
3. 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 previous period;
based on seasonally adjusted data)

	1982	1983				
	Q4	Q1	Q2	June	July	Aug.
Total sales	2.8	.3	5.9	.8	-.2	-1.4
(Real)[1]	2.4	.3	4.9	.6	-.6	n.a.
Total, less automotive group and nonconsumer stores	1.0	.6	3.0	.3	.0	.6
Total, less automotive group, nonconsumer stores, and gasoline stations	1.2	1.3	2.9	.5	-.1	.4
GAF[2]	1.8	1.2	4.2	.8	-1.4	-.2
Durable	7.7	.4	12.4	1.7	-.7	-4.9
Automotive Group	11.8	-2.6	17.6	2.2	-.8	-9.2
Furniture & appliances	2.6	3.2	4.0	-.3	1.5	-.4
Nondurable	.7	.3	3.0	.3	.0	.4
Apparel	.2	-.4	7.2	-1.0	-2.5	-1.8
Food	.6	-.3	2.6	-.1	.8	.0
General merchandise[3]	2.1	1.2	3.1	2.0	-2.0	.5
Gasoline stations	-.7	-4.3	3.8	-.7	1.2	2.1

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

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

	1982	1983					
	Q4	Q1	Q2	June	July	Aug.	Sept.
Total	8.6	8.5	9.1	9.7	9.8	9.0	n.a.
Imports	2.5	2.4	2.3	2.5	2.5	2.3	n.a.
Domestic	6.1	6.1	6.8	7.2	7.3	6.6	6.8[1]
Small	2.8	2.5	3.0	3.3	3.0	2.6	n.a.
Intermediate & Standard	3.3	3.6	3.9	3.8	4.2	4.0	n.a.

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

Spending for nondurable goods in August rose 0.4 percent in nominal terms, following little change in the previous month; sales of gasoline posted a large increase. Service expenditures are estimated to have edged down in August after a rapid increase in July, but part of the decline is attributable to reduced telephone installations and other temporary factors. Overall, with the tax cut boosting nominal disposable income and consumption slowing, the saving rate in July and August rose to the 5 percent range, a percentage point above the second quarter level, but still well below the average rate that has prevailed since 1975.

Consumers remain much more optimistic than they were a year ago, according to surveys conducted in August by both the Michigan Survey Research Center and the Conference Board. Both institutions' measures of confidence show consumer optimism well above the levels of a year ago, although the public's evaluation of market conditions for house, car, and large appliance purchases was slightly less favorable than that expressed in July. Respondents expressed concern about higher interest rates, but were more willing to use savings or credit to make a major purchase than at any other time in the past three years.

Housing Markets

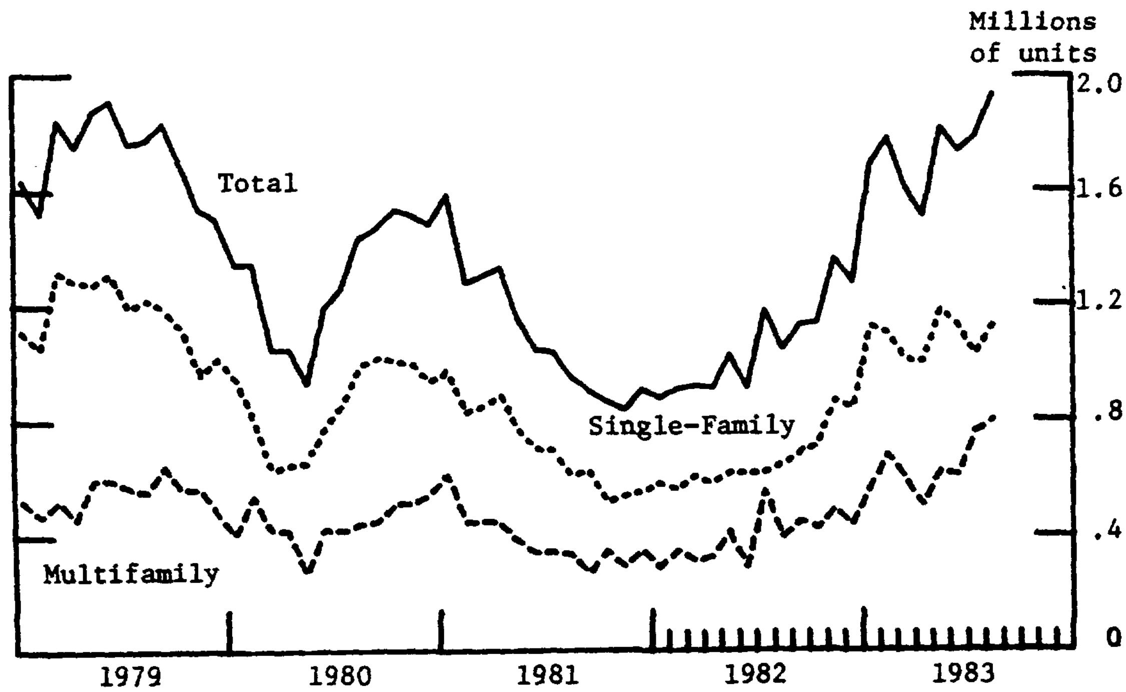
Housing activity has continued to show a mixed response to the higher mortgage interest rates that have prevailed since May. In August private housing starts rose to a seasonally adjusted annual rate of 1.94 million units, following three months in the 1-3/4 million unit range. Gains were recorded in both single- and multifamily units, probably owing in part to favorable financing commitments negotiated earlier. By

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

	1982	1983 Q1	1983 Q2	1983 June	1983 July	1983 Aug.[1]
All units						
Permits	1.00	1.46	1.64	1.76	1.78	1.67
Starts	1.06	1.69	1.68	1.74	1.79	1.94
Single-family units						
Permits	.55	.85	.93	1.01	.92	.91
Starts	.66	1.08	1.11	1.13	1.03	1.14
Sales						
New homes	.41	.61	.65	.66	.62	n.a.
Existing homes	1.99	2.58	2.86	2.94	2.79	2.71
Multifamily units						
Permits	.45	.61	.71	.75	.86	.75
Starts	.40	.62	.58	.61	.76	.80
Mobile home shipments	.24	.28	.30	.31	n.a.	n.a.

1. Preliminary estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



contrast, newly-issued residential building permits, usually a less volatile measure of homebuilding activity, declined in August after four consecutive monthly increases. Nearly all the drop was accounted for by permits for multifamily structures and for units in the South.

Sales of homes have declined recently, probably portending a downward adjustment in single-family starts. Existing-home sales fell 5 percent in July and 3 percent in August, while sales of new houses declined 6.5 percent in July (latest data). Recent surveys by the Federal Reserve Banks as well as by the National Association of Home Builders suggest that part of this slowing in housing sales and mortgage credit demand has been interest-rate induced. In line with these sales developments, the stock of unsold new houses edged up in July, although inventories remain low by historical standards.

Business Fixed Investment

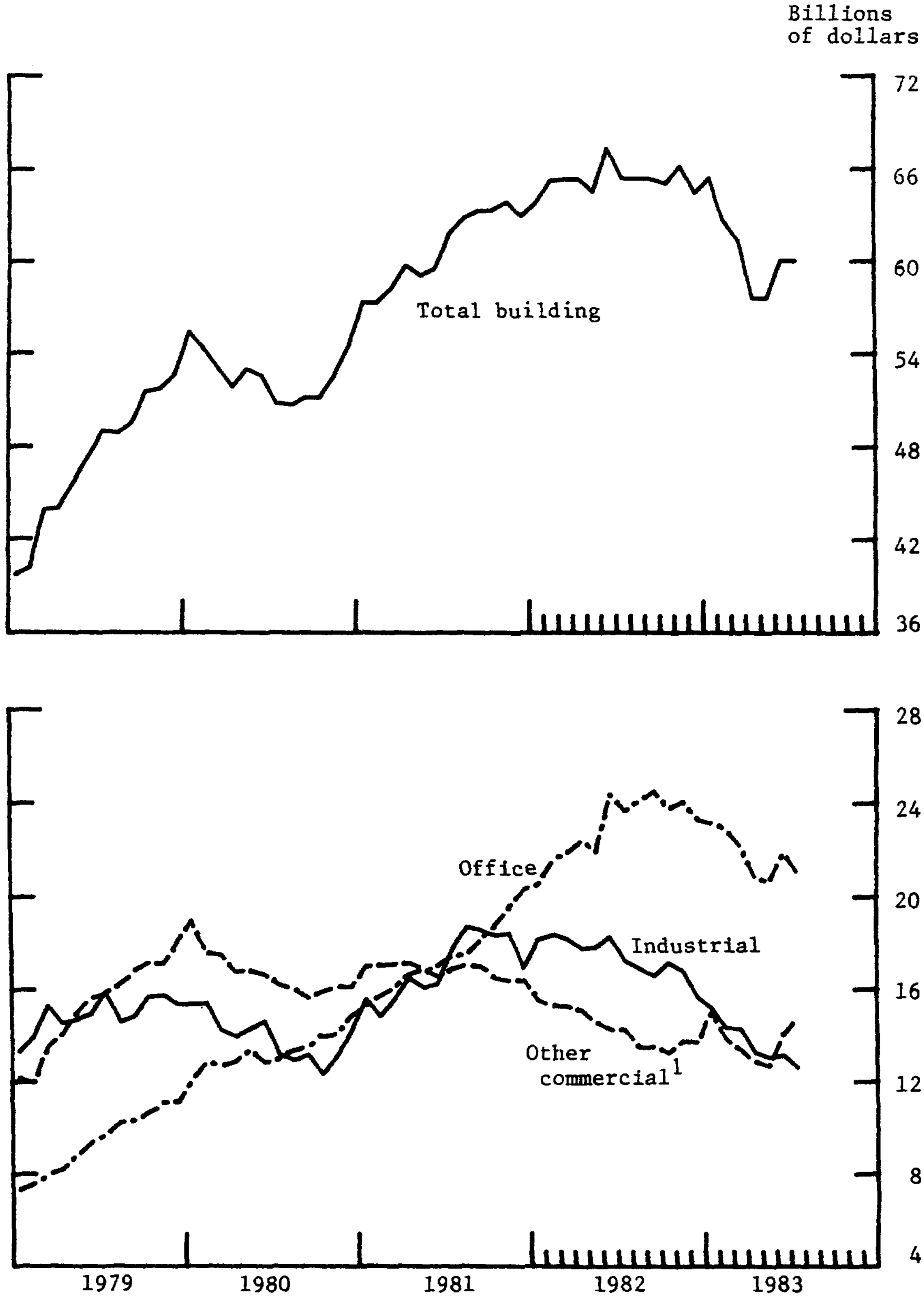
Spending for business fixed investment in July and August remained near the advanced level of June. The growth in equipment expenditures has moderated somewhat from the rapid second-quarter rate, but is still relatively strong. In addition, the decline in overall nonresidential construction appears to be ending.

Shipments of nondefense capital goods, excluding the volatile aircraft category fell 2.9 percent in August, after rising 7 percent in June and remaining unchanged in July. Despite the decline last month, shipments in July and August were about 3 percent above the second-quarter level, with the advance coming mainly in office and computing equipment and industrial and service machinery. Sales of heavy trucks also remained

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

	1982	1983				
	Q4	Q1	Q2	June	July	Aug.
Producers' durable equipment						
Nondefense capital goods						
Shipments	-3.8	.0	5.3	9.3	-4.4	-0.6
Excluding aircraft & parts	-6.0	.3	6.1	7.0	.0	-2.9
Nondefense capital goods						
Orders	1.5	-.1	15.7	9.3	-11.2	5.9
Excluding aircraft & parts	-.7	2.5	12.1	6.1	-4.8	1.2
Addenda:						
Ratio of unfilled orders to shipments (months)	5.77	5.56	5.36	5.10	5.29	5.34
Excluding aircraft & parts (months)	4.23	4.12	3.95	3.78	3.75	3.87
Sales of heavy-weight trucks (thousands of units, annual rate)	162	173	180	200	185	204
Nonresidential structures						
Nonresidential construction	-.3	-4.6	-4.0	2.6	-.1	n.a.

NONRESIDENTIAL BUILDING CONSTRUCTION



1. Includes shopping centers, department stores, banks, drugstores, and warehouses.

strong with the July-August average 8 percent above the second-quarter average. New orders excluding aircraft rose 1.2 percent in August after a 4.8 percent decline in July. Orders are now at a relatively high level, having risen about 20 percent over the first eight months of the year.

Investment in nonresidential structures has stabilized in recent months, as construction increased 2.5 percent in June and fell only slightly in July. Most of the increase between May and July was in the "other" commercial category, which includes shopping centers and warehouses. This type of construction has been on a downtrend since the end of the shopping-mall boom around 1980; however, building of shopping centers often responds to the kind of improvement in housing markets that has occurred this year. Most other types of investment in structures were little changed between May and July, although climbing office vacancy rates should continue to discourage starts of new offices.

The Commerce Department survey of planned plant and equipment spending conducted in August showed a decline in nominal terms of 3.1 percent in 1983 compared with 1982. Because reported spending in the first half of the year was down about 5 percent from the second half of 1982, this survey implies a substantial increase in investment outlays over the second half of this year. In addition, the Conference Board reported that capital appropriations net of cancellations of the nation's 1,000 largest manufacturers rose 10-1/2 percent in the second quarter, bringing the cumulative increase from the trough in the third quarter of 1982 to about 30 percent. Appropriations tend to lead expenditures by an average of about a year, suggesting that capital spending for these companies is likely to continue to increase at least through mid-1984.

Business Inventories

Recent data suggest that the rebuilding phase of the inventory cycle is beginning. Manufacturing and trade inventories rose at an annual rate of $6.7 billion in constant-dollar terms in July, leaving the overall business inventory-sales ratio only fractionally higher than the June value of 1.55. This level, the lowest since November 1973, together with the current strength in production, points to a continued restocking.

Although many manufacturing industries stepped up their inventory rebuilding efforts in July, some key durable goods industries continued to draw down their stocks. Two of these, primary metals and nonelectrical machinery, have been slow in reducing their excess stocks in the current recovery. However, stock depletions in July brought inventory-shipments ratios close to their pre-recession lows, and an inventory buildup in these two industries appears likely.

In the trade sector, retail auto stocks were drawn down further in July but rose in August. Inventories at most non-auto retail outlets overall were little changed in July, but merchant wholesalers reported a $7.4 billion accumulation. Despite this increase, wholesale stocks are still low relative to sales.

The Government Sector--Federal, State, and Local

Growth in federal outlays continued to slow during July and August. As a result, spending for the fiscal year to date is about 10 percent above the corresponding outlays of one year ago, significantly less than

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

	1981	1982	1983 Q1	1983 Q2	1983 May	1983 June[r]	1983 July[p]
Book value basis							
Total	33.3	-14.2	-34.9	9.2	10.3	-1.6	11.9
Manufacturing	18.2	-17.4	-30.4	0.3	9.0	-9.1	9.4
Durable	11.7	-11.0	-23.3	1.9	11.0	-10.7	-1.8
Nondurable	6.5	-6.4	-7.1	-1.5	-2.0	1.6	11.2
Wholesale trade	4.6	1.8	-8.8	-3.8	-19.7	-2.7	10.3
Retail trade	10.4	1.4	4.3	12.7	21.0	10.2	-7.8
Automotive	2.1	.1	1.5	2.7	-.6	1.7	-10.6
Constant dollar basis							
Total	5.3	-8.2	-14.5	-2.1	4.0	-6.0	6.7
Manufacturing	2.0	-8.4	-12.3	-0.8	4.1	-4.2	2.7
Wholesale trade	.9	.6	-5.3	-2.9	-5.1	-2.8	7.4
Retail trade	2.4	-.5	3.1	1.7	5.0	1.0	-3.4
Automotive	-.2	-.4	.2	-1.6	-3.3	-1.7	-3.1

INVENTORIES RELATIVE TO SALES[1]

	Cyclical reference points[2] June 1981	Cyclical reference points[2] 1982 peak	1983 Q1	1983 Q2	1983 May	1983 June[r]	1983 July[p]
Book value basis							
Total	1.42	1.54	1.46	1.39	1.39	1.36	1.36
Manufacturing	1.59	1.78	1.61	1.53	1.54	1.48	1.50
Durable trade	2.07	2.48	2.16	2.04	2.07	1.96	1.98
Nondurable trade	1.11	1.18	1.09	1.03	1.03	1.00	1.02
Wholesale trade	1.14	1.31	1.25	1.19	1.19	1.15	1.16
Retail trade	1.39	1.45	1.40	1.36	1.34	1.34	1.33
Automotive	1.79	1.92	1.66	1.45	1.43	1.41	1.37
Constant dollar basis							
Total	1.63	1.77	1.66	1.60	1.59	1.55	1.56
Manufacturing	1.92	2.14	1.93	1.85	1.85	1.79	1.79
Wholesale trade	1.38	1.53	1.48	1.42	1.41	1.37	1.39
Retail trade	1.37	1.45	1.40	1.36	1.35	1.33	1.33
Automotive	1.70	1.79	1.50	1.34	1.35	1.27	1.26

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

the rate of expansion seen earlier this year. Continuation of this trend implies that for this fiscal year outlays could fall $10 billion short of the administration's July projection of $810 billion. This shortfall would reflect lower expenditures for unemployment insurance and related items caused by the stronger economy, as well as a slower than expected pace of defense outlays and farm subsidy payments.

The economic recovery also has led to improvements on the revenue side of the budget. Largely reflecting reductions in tax rates, collections have been running below their levels of a year earlier throughout the current fiscal year, but recent strong income growth has narrowed the gap between this and last year's receipts. Moreover, preliminary data indicate a substantial rise in corporate tax collections in September, suggesting that this gap will narrow further.

At this date a considerable amount of work remains to be done on the fiscal year 1984 budget. Of the 13 budget appropriation bills, four have been enacted into law, and Senate and House conferees have agreed on another three. But action by one or both houses is still required on six bills that account for three-fourths of all spending subject to the annual appropriations process. It thus appears likely that by October 1 Congress again will have to fund some departments and agencies through a continuing resolution. So far, congressional actions imply fiscal year 1984 spending that is within the limits set by the Congressional First Budget Resolution. However, Congress has shown resistance to approving the $12 billion in revenue increases also contained in the budget resolution.

FEDERAL RECEIPTS AND OUTLAYS
(Unified budget, cumulative monthly data, billion of dollars)

Month	Receipts (Cumulative, fiscal year to date)			Outlays (Cumulative, fiscal year to date)		
	FY1982	FY1983	Percent Change[1]	FY1982	FY1983	Percent Change[1]
October	45.2	40.5	-10.4	63.3	66.7	5.4
November	89.2	82.5	-7.5	117.9	132.9	12.7
December	146.0	137.0	-6.2	194.2	205.3	5.7
January	201.3	194.5	-3.4	240.1	272.4	13.5
February	244.3	233.4	-4.5	298.0	336.5	12.9
March	289.6	276.9	-4.4	361.5	406.1	12.3
April	365.4	343.1	-6.1	427.6	475.6	11.2
May	402.1	376.9	-6.3	483.3	538.7	11.5
June	468.5	443.4	-5.4	542.9	601.8	10.8
July	513.1	487.3	-5.0	607.4	667.1	9.8
August	558.1	537.0	-3.8	667.0	734.3	10.1
Memo:						
Fiscal year total - actual or Administration midyear projection	617.8	599.9	-2.9	728.4	809.8	11.2

1. Percentage change of FY1983 cumulative year-to-date (receipts or outlays) from corresponding FY1982 levels.

Outlays in the state and local government sector appear to have picked up a bit since the beginning of the year. Construction spending, the smallest but most volatile component of state and local purchases, was up in June and July from the low levels seen earlier in the year. Although employment has remained near the 13 million level for the past year, wage gains for these workers continue to be greater than for those in the private sector, pushing up outlays for compensation. On the revenue side, the economic recovery and recent tax legislation continue to improve this sector's finances. Large budget surpluses (net of social insurance fund accumulations) were recorded in the first half of 1983, and personal tax collections in August were 4.4 percent above the second-quarter average. Much of this tax increase is attributable to increased tax rates.

Net Exports

The foreign sector continues to be a restraining influence on the domestic economy. In July, the merchandise trade deficit worsened to $71.2 billion (annual rate), up from a second quarter average of $58.6 billion. Beginning in the second quarter, imports turned up in both nominal and real terms across a broad range of commodities as the domestic economy strengthened and the strong dollar continued to hold down the relative price of imports. Exports (both nominal and real) have changed little this year, largely reflecting sluggish economic activity in major trading-partner countries and the effects of a strong dollar on the price competitiveness of U.S. goods. For a more complete discussion of international developments, see Part IV.

Wage and Labor Costs

High unemployment rates and low price inflation continue to moderate wage increases. The hourly earnings index for production workers actually fell 0.1 percent in August with part of the decline reflecting the telephone industry strike; but even excluding this sector, average wage gains in August were very small. So far this year wages have risen only at a 3.1 percent annual rate, in contrast to 1981 and 1982 when they rose 8.4 and 6.0 percent, respectively. Wage increases for white-collar workers, as measured by the employment cost index, also have eased, rising at a 5.5 percent annual rate in the first half of this year, compared with 6.4 percent during 1982.

Major collective bargaining agreements were quite moderate again in the third quarter. Because of high wages relative to nonunion and international competitors, and because of depressed conditions in certain unionized industries, union workers continued to accept pay cuts or freezes, notably in new contracts negotiated in the construction and airline industries, and at steel firms outside the master contract. In addition, the recent telephone settlement provides considerably smaller wage adjustments than were negotiated in the previous contract three years earlier. Wage increases will average 5.5 percent in the first year followed by 1-1/2 percent plus a COLA during both the second and third year of the contract. In the auto industry, however, strong pressures to restore wage parity with other autoworkers resulted in an unusually large settlement at Chrysler. Under the new two-year settlement, the gap between Chrysler's wages and those at Ford and GM was reduced from $2 to $1 immediately and a further narrowing should occur in 1985.

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

	1980	1981	1982	1983 Q1	1983 Q2	1983 H1
Hourly earnings index, wages of production workers[1]						
Total private nonfarm	9.6	8.4	6.0	5.3	3.3	4.3
Manufacturing	10.9	8.8	6.1	4.5	1.3	2.9
Contract construction	7.7	8.1	5.2	6.1	-.5	2.8
Transportation and public utilities	9.3	8.5	6.1	8.3	2.9	5.6
Trade	8.8	7.1	4.8	4.6	5.1	4.8
Services	9.5	9.1	6.6	3.6	6.4	5.0
Employment cost index, wages and salaries of all persons						
Total	9.0	8.8	6.3	3.9	5.3	4.6
By occupation:						
White collar	8.7	9.1	6.4	4.3	6.6	5.4
Blue collar	9.6	8.6	5.6	4.5	3.8	4.1
Service workers	8.1	8.3	8.5	-2.1	5.9	1.8
By bargaining status:						
Union	10.9	9.6	6.5	5.8	4.5	5.2
Nonunion	8.0	8.5	6.1	2.5	5.8	4.1
Major collective bargaining settlements, first-year wage adjustments[2]						
Contracts with COLAs	8.0	8.0	2.2	--	--	-2.7
Contracts without COLAs	11.7	10.6	7.0	--	--	3.8
Labor costs and productivity, all persons						
Compensation per hour	10.8	9.0	7.2	6.8	4.6	5.7
Output per hour	.2	1.2	.8	3.7	4.3	4.0
Unit labor costs	10.5	7.7	6.3	3.0	.2	1.6
Employment cost index, compensation[3]						
Compensation per hour	9.8	9.8	6.4	7.0	4.7	5.9

1. Changes are from final quarter of preceding period to final quarter of period indicated. Quarterly changes at compound rates.
2. Data are for contracts covering 1,000 or more workers.
3. Not seasonally adjusted.

As usual for the early stages of a recovery, productivity grew rapidly in the first half--at a 4.8 percent annual rate--contributing to a sizable rebound in corporate profits. The recent productivity gains appear consistent with a trend growth rate slightly above 1 percent--a modest improvement from the experience of the 1970s. The rapid rise in productivity growth in the first half of this year, along with an easing of hourly compensation growth from 7-1/4 percent last year to 5-1/2 percent, have contributed to a significant slowing of unit labor costs.

Prices

Although moderate labor costs and five consecutive quarters of declining import prices have helped to restrain inflation, unfavorable developments in the farm sector have boosted producer prices and are likely to end the restraining influence that food prices have had on retail prices. The consumer price index rose at a 5 percent annual rate in July and August, after about a 3 percent average during the previous six months. Producer prices of finished goods advanced at annual rates of only 1.3 percent in July but 4.6 percent in August.

The effect of the summer drought has been sharp and prompt at the farm level. The producer price index for crude foods jumped nearly 4 percent in August after three months of decline. Prices of soybeans climbed nearly 22 percent, and large increases were registered for corn, hogs, poultry, and fresh vegetables. At the consumer level, the CPI food index advanced 0.2 percent in August after two months of decline, as sharp increases for fresh vegetables and poultry were largely offset by further declines in meats. Over the past 12 months the CPI food component has risen less than 2 percent, helping to hold down the overall CPI.

Energy prices have eased after their second-quarter spurt. Although gasoline prices rose in August, natural gas rates have been flat recently after nearly two years of rapid increases. With continued stability in crude oil markets, the energy sector should represent a relatively favorable element in the near-term inflation outlook.

Outside the food and energy areas, consumer prices rose at annual rates of 6.7 percent in July and 5.4 percent rate in August. Both rates were boosted by large increases for cigarettes and used cars. New car prices also rose substantially in August, in part reflecting the end of incentive programs as well as the absence of the customary year-end discounts; nonetheless, the CPI measure of car prices, which attempts to adjust for quality change, is less than only two percent above the year-ago level. At the producer level, the price increase for cars was a significant factor in the August acceleration in the capital equipment component.

There also has been some pickup in inflation at the intermediate materials level. Over the past three months, the producer price index for intermediate materials less food and energy--a measure that is significantly influenced by labor costs as well as by prices for primary inputs--has risen at a 4.7 percent annual rate, similar to the pace for finished goods excluding food and energy items. Previously the intermediate materials series, affected by slack demand, had been virtually flat for more than a year, the longest such period in almost two decades. Price increases for crude materials less food and energy, an extremely volatile index, appear to be slowing since midyear.

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

	Relative Importance: Dec. 1982	1981	1982	1983 Q1	Q2	July	Aug.
All items[2]	100.0	8.9	3.9	.4	5.4	4.8	5.2
Food	19.0	4.3	3.1	2.8	1.7	-1.2	2.5
Energy	12.4	11.9	1.3	-25.1	21.0	4.0	8.8
All items less food and energy[3]	68.6	9.4	6.0	4.4	3.9	6.7	5.4
Commodities[3]	26.2	7.9	5.0	5.7	2.9	8.0	5.9
Services[3]	42.4	10.6	7.0	3.7	4.6	5.3	5.0
Memorandum:							
CPI-W[4]	100.0	8.7	3.9	.3	4.9	4.0	6.0

1. Changes are from final month of preceding period to final month of period indicated; monthly changes are not compounded.
2. Official index for all urban consumers, based on a rental equivalence measure for owner-occupied housing after December 1982.
3. Data not strictly comparable. Before 1983, they are based on unofficial series that exclude the major components of homeownership; beginning in 1983, data include a rental equivalence measure of homeowners' costs.
4. Index for urban wage earners and clerical workers.

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

	Relative Importance Dec. 1982	1981	1982	1983 Q1	Q2	July	Aug.
Finished goods	100.0	7.1	3.7	-4.7	2.9	1.3	4.6
Consumer foods	23.7	1.4	2.1	4.1	-.3	-7.4	5.1
Consumer energy	13.2	14.1	-.1	-35.5	12.0	2.9	3.3
Other consumer goods	40.5	7.1	5.3	-2.0	2.5	5.5	3.0
Capital equipment	22.5	9.2	3.9	2.0	2.1	1.7	7.9
Intermediate materials[2]	95.2	7.3	.3	-4.7	3.6	3.4	5.3
Exc. energy	78.8	6.6	.6	.8	2.8	4.1	4.9
Crude food materials	51.2	-14.0	1.5	18.1	.8	-30.6	47.1
Crude energy	34.4	22.8	2.6	-9.2	-4.8	-7.1	-1.8
Other crude materials	14.4	-11.4	-7.6	-16.2	59.3	27.0	12.0

1. Changes are from final month of preceding period to final month of period indicated; monthly changes are not compounded.
2. Excludes materials for food manufacturing and animal feeds.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent)

	1982		1983				Change from:	
	Highs	FOMC Dec. 21	Recent low	FOMC July 13	FOMC Aug. 23	Sept. 27	Recent low	FOMC Aug. 23
Short-term rates								
Federal funds[2]	15.61	8.69	8.48	9.21	9.41	9.04p	.56	-.37
Treasury bills								
3-month	14.57	7.90	7.96	9.10	9.19	8.73	.77	-.46
6-month	14.36	8.01	7.97	9.30	9.33	8.88	.91	-.45
1-year	13.55	8.11	7.95	9.39	9.37	9.01	1.06	-.36
Commercial paper								
1-month	15.73	8.48	8.17	9.19	9.24	8.88	.71	-.36
3-month	15.61	8.43	8.13	9.30	9.34	8.97	.84	-.37
Large negotiable CDs[3]								
1-month	15.94	8.59	8.26	9.33	9.37	9.10	.84	-.27
3-month	16.14	8.62	8.26	9.58	9.50	9.18	.92	-.32
6-month	16.18	8.78	8.29	10.00	9.81	9.35	1.06	-.46
Eurodollar deposits[2]								
1-month	16.36	9.44	8.68	9.70	9.73	9.44	.76	-.29
3-month	16.53	9.56	8.71	10.05	10.04	9.50	.79	-.54
Bank prime rate	17.00	11.50	10.50	10.50	11.00	11.00	.50	0
Treasury bill futures								
Dec. 1983 contract	13.97	8.98	8.21	9.83	9.61	8.92	.71	-.69
June 1984 contract	13.50	9.56	8.53	10.17	10.09	9.59	1.06	-.50
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	15.16	9.87	9.36	10.91	11.02	10.83	1.47	-.19
10-year	14.95	10.54	10.12	11.40	11.57	11.45	1.33	-.12
30-year	14.80	10.53	10.27	11.44	11.56	11.44	1.17	-.12
Municipal (Bond Buyer)	13.44	10.05[4]	8.78	9.55[4]	9.70[4]	9.42[4]	.64	-.28
Corporate--Aaa utility Recently offered	16.34	11.96e	11.03	12.38e	12.50e	12.22e	1.19	-.28
S&L fixed-rate mortgage commitment	17.66	13.63[5]	12.55	13.30[5]	13.89[5]	13.72[5]	1.17	-.17

	1982	1983				Percent change from:	
	Lows	Highs	FOMC July 13	FOMC Aug. 23	Sept. 27	1983 high	FOMC Aug. 23
Stock prices							
Dow-Jones Industrial	776.92	1248.30	1197.82	1192.89	1247.97	0	4.6
NYSE Composite	58.80	99.01	95.90	94.27	97.47	-1.6	3.4
AMEX Composite	118.65	246.38	241.07	229.67	234.51	-4.8	2.1
NASDAQ (OTC)	159.14	328.91	314.59	293.66	300.78	-8.6	2.4

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.

Short-term rates of interest generally have declined by 1/4 to 1/2 percentage point since the August FOMC meeting, while long-term rates have fallen 1/8 to 1/4 of a point. Conditions in the reserves market have eased somewhat as monetary expansion has remained on the slow side and economic indicators have continued to point to a moderation in the pace of expansion. Recent money stock movements have put all of the aggregates clearly within their longer-run ranges, which has helped to alleviate investor concerns that there might be further near-term tightening actions by the System.

Credit growth also appears to be running well within the FOMC's monitoring range for the year. Treasury debt continues to grow rapidly--though at a slower pace on a seasonally adjusted basis than in the first half--while aggregate debt growth of private domestic nonfinancial sectors remains moderate. The federal deficit in the third quarter has been somewhat smaller than anticipated, but the Treasury has not altered its market borrowing schedule enough to prevent a further buildup in its already large cash balance.

In the state and local sector, long-term bond offerings have remained substantial but well under the unprecedented volumes in the spring; mortgage revenue issues have continued to be important and so have refunding issues, the proceeds of which have been largely invested in Treasury securities. Strong growth in profits has helped to hold down business cash needs, and overall business borrowing has remained limited while net equity issuance has run somewhat below the record pace of the first half. With bond yields still considerably above their spring lows, corporations have focused their borrowing more on short-term markets. Household borrowing has continued

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

	1982 Q4	1983 Q1	1983 Q2	1983 June	1983 July	1983 Aug.	Growth from base period to Aug. 1983[2]
	------- Percentage change at annual rates ------						
Money stock measures							
1. M1	13.1	14.1	12.2	10.2	8.9	2.8	9.1
2. (M1)[3]	(14.5)	(13.8)	(12.7)	(7.6)	(3.3)	(7.0)	(7.5)
3. M2	9.3	20.3	10.1	10.4	6.6	6.2	8.1
4. M3	9.5	10.2	8.1	10.9	5.5	8.7	9.1
Selected components							Level in billions of dollars Sept. 1983p
5. Currency	7.4	10.9	10.6	8.6	5.1	7.7	141.8
6. Demand deposits	8.4	2.7	4.0	7.4	8.9	-6.3	244.5
7. Other checkable deposits	34.0	46.2	30.6	17.9	14.7	15.5	125.8
8. M2 minus M1 (9+10+11+14)	8.1	22.4	9.4	10.4	5.9	7.2	1620.2
9. Overnight RPs and Eurodollars, NSA[4]	23.9	34.2	47.3	17.4	-68.7	-6.8	52.4
10. General purpose and broker/dealer money market mutual fund shares, NSA	15.3	-57.5	-44.0	-12.8	-10.3	2.6	138.7
11. Commercial banks	9.9	57.8	16.5	14.6	13.1	9.3	688.0
12. Savings deposits, SA, plus MMDAs, NSA[5]	35.5	296.1	62.4	25.5	2.4	-2.7	355.7
13. Small time deposits	-0.5	-48.5	-24.1	2.6	24.8	22.4	332.2
14. Thrift institutions	3.9	14.7	12.4	10.2	8.6	6.4	748.3
15. Savings deposits, SA, plus MMDAs, NSA[5]	30.3	171.0	56.8	18.1	-3.9	-10.0	332.6
16. Small time deposits	-6.0	-51.0	-18.0	3.6	18.8	20.0	415.7
17. M3 minus M2 (18+21+22)	10.4	-36.5	-2.3	13.9	-0.6	23.1	391.6
18. Large time deposits	4.2	-43.0	-0.5	19.7	7.1	23.1	311.8
19. At commercial banks, net[6]	-1.5	-49.9	-15.6	11.1	-14.7	3.7	226.7
20. At thrift institutions	29.3	-14.6	55.4	46.3	73.3	78.1	85.1
21. Institution-only money market mutual fund shares, NSA	32.7	-32.7	-41.9	-35.6	-18.4	-6.2	38.4
22. Term RPs, NSA	34.4	19.4	31.2	-21.2	-45.8	56.1	44.8
	-- Average monthly change in billions of dollars --						
MEMORANDA:							
23. Managed liabilities at commercial banks (24+25)	-2.7	-19.0	-0.1	-2.7	-14.0	4.8	365.6
24. Large time deposits, gross	-4.0	-16.5	-4.3	-0.2	-2.1	-0.7	284.2
25. Nondeposit funds	1.3	-2.5	4.2	-2.5	-11.9	5.5	81.4
26. Net due to related foreign institutions, NSA	-0.7	-4.9	2.4	2.7	-3.7	7.4	-51.4
27. Other[7]	2.0	2.5	1.7	-5.3	-8.1	-1.9	132.8
28. U.S. government deposits at commercial banks[8]	0.3	0.2	0.2	1.7	11.0	-3.4	20.6

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. The base for M1 is the second-quarter 1983 average. The base period for M2 is the February-March 1983 average. The base period for M3 is the fourth-quarter 1982 average.
3. M1 seasonally adjusted using an experimental model-based procedure applied to weekly data.
4. Overnight and continuing contract RPs issued to the nonbank public by commercial banks plus overnight Eurodollar deposits issued by branches of U.S. banks to U.S. nonbank customers, both net of amounts held by money market mutual funds. Excludes retail RPs, which are in the small time deposit component.
5. Beginning December, 1982, growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs, were unchanged in June and declined at rates of 10.2 percent in July and 11.2 percent in August. At thrift institutions, saving deposits excluding MMDAs increased during June at an annual rate of 12.5 percent and declined during July and August at rates of 2.0 and 0.7 percent respectively.
6. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
7. 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.
8. Consists of Treasury demand deposits at commercial banks and Treasury note balances.

strong, but with indications of some slackening over the the course of the quarter as car and home sales moderated.

Monetary Aggregates and Bank Credit

Growth in M1 slowed to a 2-3/4 percent annual rate in August, and appears to be continuing at around that pace in September. The demand deposit component of this aggregate has been especially weak, declining over the past two months. On the whole, M1 is estimated to be expanding at around a 9 percent rate on a quarterly average basis in the third quarter, the still-rapid increase mainly reflecting the arithmetic effect of the steep climb in May and June. M1 velocity probably will register a small rise in the third quarter, its second consecutive increase, but it remains below its level in the fourth quarter of last year when the current economic upswing began--an unprecedented development in the postwar years.

M2 growth in September appears likely to run a little below the already rather sluggish pace of July and August. Between June and September, the nontransactions component has grown at a 6-1/2 percent annual rate, the slowest rate over any three-month span in 2-1/2 years. The rise in market interest rates since May would not seem large enough to have prompted such a slowing in M2, and no available data on financial flows point to any identifiable asset reallocation that might explain the recent weakness of M2; moreover, personal and business saving are estimated to have risen in the current quarter.

Within the nontransactions component of M2, the third quarter was marked by a decided shifting away from MMDAs, and toward small time deposits. Six-month MMCs and 2-1/2-year deposits attracted sizable volumes of funds

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

	1982	1983					Levels in bil. of dollars
	Q4	Q1	Q2	June	July	Aug.	Aug. 1983
	Commercial Bank Credit						
1. Total loans and securities at banks[2]	6.3	10.7	9.9	9.9	9.7	11.2	1515.7
2. Securities	15.9	25.0	23.9	18.4	4.1	8.9	422.2
3. Treasury securities	43.0	61.1	53.5	36.8	11.9	10.4	174.4
4. Other securities	2.5	5.3	5.8	6.4	-1.0	8.3	247.8
5. Total loans[2]	3.0	5.7	4.8	6.8	11.5	11.9	1093.5
6. Business loans[2]	-0.3	3.9	-1.3	6.4	12.2	10.4	404.6
7. Security loans	37.2	-34.0	-5.3	-56.4	75.3	-40.5	22.9
8. Real estate loans	4.8	7.1	9.7	13.0	9.1	11.6	322.5
9. Consumer loans	4.9	6.3	10.3	11.5	19.8	14.2	205.5
	Short- and Intermediate-Term Business Credit						
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	-3.0	-3.1	-1.5	5.6	10.5	n.a.	n.a.
11. Business loans net of bankers acceptances	0.5	3.6	-0.4	7.2	11.3	10.3	396.2
12. Commercial paper issued by nonfinancial firms[3]	-39.6	-33.1	-23.5	2.7	-13.4	10.8	44.7
13. Sum of lines 11 & 12	-4.6	-0.4	-2.9	6.7	8.6	10.4	440.9
14. Line 13 plus loans at foreign branches[4]	-4.9	0.3	-2.3	6.7	7.7	9.5	457.2
15. Finance company loans to business[5]	-15.2	4.0	7.8	10.2	11.5	n.a.	n.a.
16. Total bankers acceptances outstanding[5]	22.9	-30.9	-7.3	-8.5	27.3	n.a.	n.a.

n.a.--not available.
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. Average of Wednesdays.
4. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
5. Based on average of current and preceding ends of month.

as their rates rose relative to those posted on MMDAs.[1] Outflows from money market mutual funds meanwhile diminished as their yields, too, became more attractive relative to those on MMDAs.

M3 has grown more rapidly than M2 over the past two months, as depository institutions evidently have moved to offset some of the weakness in core deposits through the use of managed liabilities. The non-M2 component of M3 has risen at around a 20 percent annual rate in August and September, with big increases in term RPs at banks and in large CDs at thrift institutions.[2] Banks also turned to their foreign branches in August to raise $7-1/2 billion. Reportedly, this pattern reflected the activities of a few large banks seeking to add to their term liabilities; these banks apparently sought funds abroad because the market for term federal funds is thinner than the market for term Eurodollars. Through mid-September there has been some reversal of this funding pattern.

Bank credit growth in August, at an 11 percent annual rate, was a bit above the advanced pace of previous months. As in July, net acquisition of U.S. government securities was far smaller than in the preceding nine months, and loan growth was comparatively strong. Real estate, consumer and business loans continued to grow rapidly. Fragmentary data for September, primarily for large banks, suggest a deceleration in bank credit, with the slowing occurring mainly in the loan category--especially business and consumer loans.

Over the course of the cyclical upswing to date, growth in bank consumer and real estate loans has considerably outstripped that of bank business

1. Depository institutions have begun to advertise for the new ceiling-free accounts which can be issued starting October 1. These developments are described in Appendix A.
2. Thrifts have issued large CDs to finance repayment of relatively costly FHLB advances as well as to fund lending.

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

	1982	1983				
	Year	Q1	Q2	July p	Aug. p	Sept. f
	Seasonally adjusted					
Corporate securities--total	8,153	10,872	11,467	8,491	7,062	7,200
Securities sold in U.S.	7,017	9,935	10,834	7,885	6,700	6,200
Publicly offered bonds[1]	3,653	4,621	4,975	2,585	2,300	2,500
Privately placed bonds	817	700e	700e	700e	700e	700
Stocks[2]	2,547	4,614	5,159	4,600	3,700	3,000
Securities sold abroad[3]	1,136	937	633	606	362	1,000
	Domestic offerings, not seasonally adjusted					
Publicly offered bonds--total[1]	3,653	4,575	5,092	2,550	2,550	2,300
By industry						
Utility	976	986	1,385	1,570	355	--
Industrial	1,236	1,292	2,300	288	600	--
Financial	1,441	2,297	1,407	692	1,595	--
By quality[4]						
Aaa and Aa	1,370	1,757	1,210	414	1,410	--
A and Baa	1,505	1,885	2,219	1,756	410	--
Less than Baa	286	563	825	221	225	--
No rating (or unknown)	492	370	838	159	505	--
Memo items:						
Equity based bonds[5]	302	861	1,271	1,231	457	--
Original discount bonds						
Par value	952	163	440	20	0	--
Gross proceeds	281	133	366	16	0	--
Stocks--total[2]	2,547	4,734	4,949	4,000	3,000	3,100
By industry						
Utility	871	1,203	693	430	400	--
Industrial	1,119	2,148	3,064	2,500	2,300	--
Financial	557	1,383	1,192	1,070	300	--

1. Total reflects gross proceeds rather than par value of original discount bonds.
2. Includes equity issues associated with debt/equity swaps.
3. Notes and bonds, not seasonally adjusted.
4. Bonds categorized according to Moody's bond ratings.
5. Includes bonds convertible into equity and bonds with warrants attached where the warrants entitle the holder to purchase equity in the future.

p--preliminary. f--forecast. e--estimate.

loans. This is consistent with the pattern in the early stages of other recent recoveries. So, too, is the relatively rapid expansion of security portfolios.

Business Finance

The pace of business balance sheet restructuring slowed appreciably in the third quarter. As interest rates rose after their troughs in early May, corporate bond issuance contracted and has been at low levels since June. With a smaller volume of funds being raised in the long-term markets and with firms beginning to build inventories, corporations increased their reliance on short-term debt. The combined growth of business loans at commercial banks and commercial paper of nonfinancial firms strengthened progressively from May through August before apparently moderating in September.

Total (publicly offered) corporate bond sales have been below $3 billion every month since June, compared with an average monthly issuance of about $4-3/4 billion in the first half of this year. In August, three issuers--General Motors Acceptance Corp., Citicorp, and Merrill Lynch--accounted for about 40 percent of the total bond volume and for the relatively large amount of funds raised by financial firms. Most of the longer-term nonfinancial issues have been sold by utilities or have been backed by mortgages. Despite the easing in bond rates recently, they remain about 1-1/4 percentage points above their spring lows, and there has yet to be any noticeable pickup in bond issuance.

Overall business debt growth has remained moderate in the current quarter, partly because cash flows have continued ample relative to outlays and partly because equity financing has remained attractive. Stock prices have risen since the last FOMC meeting, with the major market indexes increasing

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

	1983				
	FY83	Aug.[p]	Sept.[f]	Q3[f]	Q4[f]
Treasury financing					
Combined surplus/deficit(-)	-208.8	-18.8	-1.8	-43.3	-66.2
Means of financing deficit:					
Net cash borrowing from the public	212.4	20.5	15.5	47.9	46.6
Marketable borrowings/ repayments(-)	200.3	19.7	13.3	44.6	44.4
Bills	62.9	2.8	.4	6.5	12.4
Coupons	137.4	16.9	12.9	38.1	32.0
Nonmarketable	12.1	.8	2.2	3.3	2.2
Decrease in the cash balance	-7.6	3.2	-18.5	-9.0	18.9
Memo: Cash balance at end of period	37.0	18.5	37.0	37.0	18.1
Other[2]	4.0	-4.9	4.8	4.4	.7
Federally sponsored credit agencies net cash borrowing[3]	-1.8	1.2	.1	2.3	2.3
FHLB	-8.8	.0	.0	.2	.9
FNMA	5.0	.5	.2	1.0	1.2
Farm Credit Banks	-.6	.4	-.5	.6	-.6
FHLMC	1.2	.1	.1	-.1	.3
SLMA	1.4	.2	.3	.6	.5

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 National Mortgage Association, the Federal Farm Credit Bank System, the Federal Home Loan Mortgage Corporation, and the Student Loan Marketing Association. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
p--preliminary. f--forecast.

2 to 4-1/2 percent. Nonetheless, the market has been showing less exuberance than earlier--with greater caution especially toward the more speculative "high tech" issues--and new equity issuance has diminished from its earlier record pace. In the third quarter gross stock offerings are expected to average $3.7 billion per month (seasonally adjusted), compared with a monthly average of $4.8 billion in the first half of the year.

Government Finance

Federal Sector. The staff expects a third-quarter combined federal deficit of $43-1/4 billion, about $8-1/2 billion less than earlier staff projections. The Treasury will have borrowed about $48 billion net in the third quarter, with $45 billion of this borrowing in the market; "other means of finance" (including float and other bookkeeping adjustments) is expected to provide as much as $4-1/2 billion, leaving an unprecedented end-of-quarter cash balance of $37 billion.

The large runup in the cash balance in the third quarter resulted primarily from lower-than-expected outlays at the same time as the Treasury about maintained its normal financing schedule.[1] During the quarter, the Treasury raised $38 billion through the sale of coupon securities and about $6-1/2 billion through the sale of bills.

Over the past two years, the Treasury has allowed fluctuations in its borrowing needs, arising from seasonal and other sources as well as from forecast errors, to show through in substantial swings in its cash balance with only minimal response in financing activity. Further, a desire to lengthen the maturity of the debt appears to have led the Treasury to

1. The Treasury balance ended the second quarter somewhat higher than had been expected, largely because of sales of nonmarketable securities to state and local governments.

proportionately larger increases in offerings of the 7- and 20-year issues in the end-of-quarter financing and the 10- and 30-year issues in the mid-quarter refunding. The Treasury reportedly will attempt to lengthen the maturity of its debt further; it is also reviewing the sources of volatility in its cash balance and possibilities for expanding the amount of its balance that can be kept in tax and loan accounts.

In the fourth quarter, the staff expects that the Treasury will borrow $44-1/2 billion in the market to finance a deficit of about $66 billion. This amount of borrowing is $15 to $20 billion less than the amount that the Treasury anticipated in mid-August; the cash balance is projected to decline to about $18 billion by year-end.

Federally sponsored credit agencies borrowed about $2-1/4 billion in the third quarter after no net borrowing in the second. About half this borrowing was accounted for by FNMA, with the balance shared between the Farm Credit Banks and SLMA. With lending activity remaining weak, housing agencies have added to their liquid balances, according to available data[1]. At the Farm Credit Banks lending activity also remains low, and they are expected to run off debt in September.

State and Local Sector. Gross offerings of tax-exempt bonds totaled about $6.4 billion (seasonally adjusted) in August, well above the July level but below the $8.0 billion monthly average over the second quarter.

1. While FNMA continues to purchase mortgages at a rate in excess of $1 billion per month, liquidations remain historically high. Sources at FNMA report that "normal" liquidations (foreclosure, amortization and repayments in full) continued to be substantial in the third quarter, accounting for the major share of liquidations. Moreover, FNMA has also continued to sell mortgages from its portfolio through the issuance of mortgage-backed securities.

The volume of such offerings in September appears to have remained comparatively moderate.

GROSS OFFERINGS OF SECURITIES BY STATE AND LOCAL GOVERNMENTS
(Monthly totals or monthly averages; billions of dollars)

	1982	1983				
	Year	QI	QII	July[e]	Aug.[e]	Sept.[f]
	Seasonally adjusted					
Total	10.29	10.30	10.89	7.56	11.45	7.60
Long-term	6.58	7.21	8.01	4.41	6.40	5.30
Short-term[1]	3.71	3.09	2.88	3.15	5.05	2.30
	Not seasonally adjusted					
Total	10.29	8.65	13.09	7.08	10.80	7.50
Long-term	6.58	6.23	9.11	4.08	5.80	5.00
Refundings	.27	.94	1.95	.44	1.60	--
Mortgage revenue	1.24	1.07	1.26	1.37	1.60	--
Short-term[1]	3.71	2.42	3.98	3.00	5.00	2.50

1. These figures do not include tax-exempt commercial paper.
e--estimate. f--forecast.

As shown in the table, a sizable portion of the August volume comprised refunding issues. Because funds raised for refunding purposes are subject to investment yield restrictions under the arbitrage provisions of the federal tax code, the proceeds from many of these issues likely will be invested in specially tailored nonmarketable Treasury securities (S.L.G.S.) until refunding occurs. During the first eight months of this year, the Treasury issued more than $8 billion of S.L.G.S. to accommodate much of the $9.3 billion in state and local government refunding offerings that came to market over a comparable period.

Housing issues accounted for a good part of the new capital (nonrefunding) volume during August, continuing the step-up in such issues that began in July. Apparently, issuers have been accelerating mortgage bond issuance in an effort to fund single-family housing before constraints imposed by the Mortgage Subsidy Bond Act of 1980 become binding. This act prohibits issuance of single-family revenue bonds after the end of the year.

Until recently, public power utilities had issued no tax-exempt bonds since June, evidently in response to the uncertainty concerning the default of the Washington Public Power Supply System (WPPSS). However, in early September the Michigan Public Power Agency sold a $590 million issue to finance part of a coal-fired electric generating plant. Because the revenue streams that would repay bondholders are subject to take-or-pay contracts, the rate was somewhat higher than otherwise comparable utility bonds without take-or-pay provisions.[1]

Rates in the long-term tax-exempt market have declined slightly since the last meeting of the FOMC; the Bond Buyer index of yields on general obligation issues stood at 9.42 percent last week, down 28 basis points from its late-August level. The ratio of tax-exempt to Treasury bond yields continued its downward trend during the intermeeting period, falling to 80 percent in September, substantially below the fourth-quarter 1982 peak of more than 90 percent.

Mortgage Markets

The average contract interest rate on new commitments for fixed-rate conventional home mortgages at savings and loan associations has fallen by 17 basis points, to 13.72 percent, from the recent high reached just prior to the August FOMC meeting. On August 23, the ceiling rate on level-payment FHA/VA home loans was reduced by 1/2 percentage point to 13 percent as discounts

1. Four investor-owned utilities are involved with WPPSS Project No.3. One of these recently came to market with a taxable bond and paid an incremental risk premium of about 70 basis points.

in primary and secondary markets fell to about one point.[1] By late September, discounts on GNMA-guaranteed pass-through securities issued against pools of 13 percent FHA/VA mortgages had edged down to about two points.[2]

In July outstanding mortgage commitments of S&Ls reached a record $47 billion, and the net change in S&L mortgage assets also reached a record (see table on page III-14). Holdings of both mortgage loans and mortgage-backed securities increased substantially. As a result, the mortgage-asset share of S&L portfolios edged up for the second consecutive month, following a continuous decline (by about 10 percentage points) between late 1981 and May of this year. S&Ls also increased their holdings of cash and nonmortgage investments during July and, at 12.8 percent, their liquidity ratio remained high.[3]

In August, as well as in July, packaging of mortgage assets into pool securities continued to grow briskly. New issues of mortgage pass-throughs guaranteed by federal agencies (GNMA) or federally sponsored enterprises (FNMA and FHLMC) have been historically large in recent periods, totaling $8.5 billion in August. Issuance of GNMAs was particularly robust, hitting a record $6 billion.

Securities issued by FNMA and FHLMC under their swap programs recently have accounted for a major proportion of all pass-throughs issued and guaranteed by these agencies--over 90 percent in both July and August. However, institutional motives for swapping have been changing since late last year. Until that time, swaps usually were done by depository institutions to convert low-rate mortgages to securities eligible (or acceptable) for RPs. More

1. The ceiling had been raised by a full percentage point, to 13-1/2 percent, on August 1 as discounts approached 8 points.
2. The ceiling reduction on August 23 increased discounts by nearly 3 points.
3. August data on savings and loan association activities are expected to be available in time for the Greenbook supplement.

MORTGAGE ACTIVITY AT FEDERALLY INSURED SAVINGS AND LOAN ASSOCIATIONS[1]
(Billions of dollars, seasonally adjusted)

	Mortgage commitments		Net change in mortgage assets		
	New (1)	Outstanding[2] (2)	Total (3)	Mortgage loans (4)	Mortgage-backed securities (5)
1983-Jan.	10.7	32.2	2.4	0.5	1.9
Feb.	12.6	35.2	5.9	2.5	3.4
Mar.	13.3	38.0	5.5	1.3	4.2
Apr.	12.1	40.8	3.9	2.6	1.3
May	12.8	43.1	3.6	2.3	1.3
June r	14.7	44.9	7.2	3.8	3.4
July p	13.7	47.0	7.8	5.5	2.3

1. Insured S&Ls account for approximately 98 percent of the assets of all operating S&Ls. Net changes in mortgage assets reflect adjustments to account for conversions of S&Ls to savings banks.
2. Includes loans in process.
r--revised. p--preliminary.

NEW ISSUES OF FEDERALLY GUARANTEED MORTGAGE PASS-THROUGH SECURITIES
(Monthly averages, millions of dollars, n.s.a.)

Period	All issues	GNMAs	FHLMCs	FNMAs	Memo: FNMA and FHLMC swap issues
1982-Q1	3281	1066	1436	691	1963
Q2	3483	1187	1644	600	2013
Q3	4916	1305	2249	1218	3149
Q4	6725	1779	2727	2147	3795
1983-Q1	7113	3810	1955	1326	2203
Q2	7458	4930	1392	1136	1793
July	7660	4518	1491	1651	2835
August	8488	5996	1440	1052	2303

recently, some institutions have been selling the FNMA or FHLMC issues out of portfolio. In early September, in fact, a large West Coast S&L sold $1.5 billion in FHLMC-guaranteed certificates obtained earlier through a swap, reportedly the largest single financing transaction in U.S. corporate history.

There is some evidence of increased importance of adjustable-rate lending by thrift institutions recently. It appears that the upturn in rates has underscored the vulnerability of thrift earnings margins and encouraged them to market ARMs more aggressively. Preliminary data indicate that thrifts had only moderately positive earnings in the first half of 1983--and second-quarter results benefited greatly from extraordinary income associated with capital gains on assets previously marked to market values.

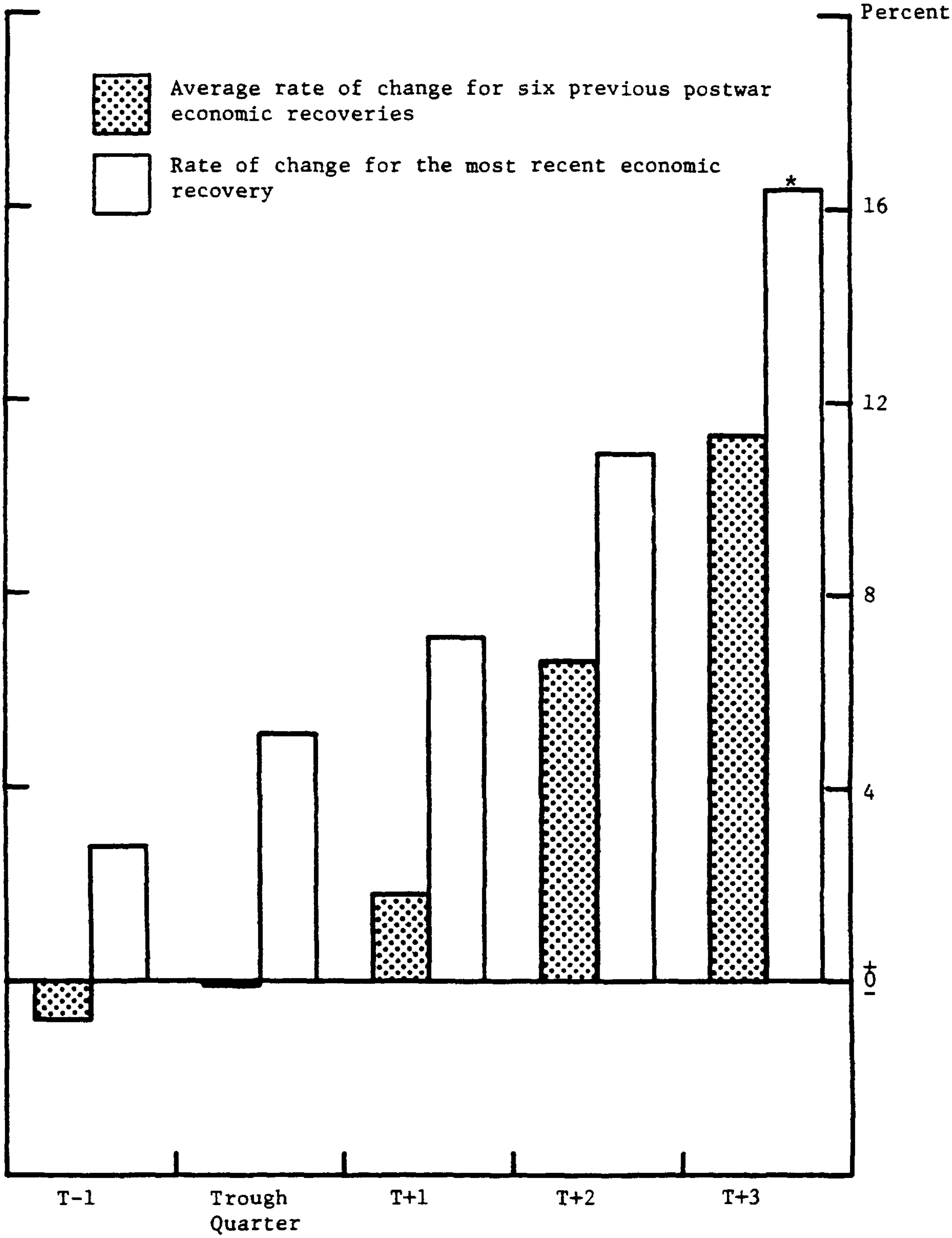
Consumer Credit

During July, consumer installment debt outstanding expanded at a 16-1/2 percent annual rate, more rapidly than in any month since early 1979. Growth during the third quarter as a whole probably trailed the July pace, however, as new car sales declined during August and early September. Also, large commercial banks have reported slower expansion of consumer loans during August and early September.

Growth of installment credit since mid-1982 has consistently outpaced the typical pattern during similar phases of past cycles (see chart on page III-16). Slow increases in such debt during 1980-82 helped reduce consumer installment indebtedness relative to personal income, and the recent surge is tending to restore historically more normal debt-to-income ratios.

An upturn in the proportion of total consumer installment credit outstanding held by commercial banks this year followed a four-year period of decline. Commercial bank attitudes toward consumer lending have grown more

COMPARISON OF CYCLICAL GROWTH PATTERNS
IN CONSUMER INSTALLMENT CREDIT
(Quarterly percent change at an annual rate)



* July 1983 only.

favorable during the past year, in part because the spread over funds costs has widened. The profitability of consumer lending also has been aided by some relaxation of statutory limits on finance rates and by a low incidence of repayment problems on debt outstanding.

Repayment difficulties on consumer installment credit contracts continued to decline during the second quarter. The delinquency rate for closed-end consumer installment loans at commercial banks fell to the lowest level in ten years, and auto loan delinquencies at major auto finance companies were at an all-time low for the 17-year series. Mortgage delinquency rates, by contrast, have remained at or near record highs. During the first half of 1983, personal bankruptcies were down 6 percent compared with the corresponding 1982 period, and during July they were 13 percent below the year-earlier experience.

CONSUMER INSTALLMENT CREDIT

	1981	1982	1983 Q1	1983 Q2	1983 May	1983 June	1983 July
	--------- Percent rate of growth, SAAR ---------						
Change in outstandings--total	5.8	4.0	7.1	10.9	9.3	15.1	16.4
By type:							
Automobile credit	7.3	3.9	5.0	12.1	11.9	17.7	21.4
Revolving credit	7.7	7.0	7.1	16.5	9.5	22.2	14.8
All other[1]	4.5	2.6	9.1	7.4	6.9	9.7	12.6
	----------- Billions of dollars, SAAR -----------						
Change in outstandings--total	18.2	13.1	24.2	37.5	32.4	52.9	58.1
By type:							
Automobile credit	8.5	4.9	6.5	15.9	15.8	23.7	29.1
Revolving credit	4.5	4.4	4.4	10.6	6.2	14.5	9.9
All other[1]	5.3	3.8	13.3	11.0	10.4	14.7	19.2
By major holder:							
Commercial banks	-0.1	4.8	10.2	20.6	18.5	29.1	33.2
Finance companies	13.4	4.6	6.8	1.3	4.3	5.6	10.9
All other	5.4	3.9	7.1	15.7	9.6	18.2	14.0
	------------- Annual percentage rate -------------						
Interest rates							
At commercial banks[2]							
New cars, 48 mos.[3]	16.54	16.83	14.81	13.90	13.90	n.a.	13.50[5]
Personal, 24 mos.	18.09	18.65	17.59	16.57	16.57	n.a.	16.28[5]
Credit cards	17.78	18.51	18.89	18.79	18.79	n.a.	18.75[5]
At auto finance companies[4]							
New cars	16.17	16.15	12.12	11.80	11.94	11.57	12.77[5]
Used cars	20.00	20.75	19.83	18.75	18.76	18.58	18.25[5]

1. Includes primarily personal cash loans, home improvement loans, and sales finance contracts for non-automotive consumer durable goods.
2. Average of "most common" rates charged, on loans of specified type and maturity, during the first week in the middle month of each quarter.
3. Data for periods prior to 1983-Q1 are for new-car loans at a 36-month maturity.
4. Average rate for all loans of each type made during the period, regardless of maturity.
5. Data shown are for August 1983.
n.a.--not available.

APPENDIX A*

SUMMARY OF FINDINGS OF RESERVE BANK STAFF ON
OCTOBER 1 DEREGULATION OF TIME DEPOSITS

At its meeting of June 30 the Depository Institutions Deregulation Committee removed many of the remaining restrictions on small time deposits with original maturities or notice periods greater than 31 days. Appendix Table 1 presents a summary of these changes. The removal of interest rate ceilings may not be viewed as a major change because existing regulation permit depositories to offer rates on several account categories subject to market-indexed ceilings or ceiling-free. Nevertheless, the newly-deregulated deposit accounts could have an impact in two areas: the monetary aggregates and the balance sheets of depository institutions. Growth of the broader money stock measures could be affected, to the degree that funds were shifted from non-money stock sources, and the liquidity of the public's money holdings could be affected, by changes in early withdrawal penalties and alterations in the maturity of money balances. The deregulation offers banks and thrifts more flexibility in changing the maturity structure of their small time deposits, since they may now offer any maturity in the 32-day to 18-month range.

In order to assess the effects of the deregulation, Reserve Bank Staff has been asked to report on the intentions of depository institutions in their Districts. Specifically, the Bank Contact Group has been requested to describe the strength of promotional campaigns to attract deposits to the newly deregulated accounts and to report on intended pricing policies.

Initial responses imply little impact on deposit flows, since depository institutions, at least at the outset, are not planning to market these new instruments aggressively, and their proposed terms are in line with market interest rates. For the same reasons, the maturity structure of banks and thrift liabilities should not change significantly. Nationwide, marketing efforts so far are much less aggressive than those introducing MMDAs last year; indeed, in half of the Districts no media advertising was found. Three Districts reported one or two institutions offering price promotions, either a cash bonus or a "bridge" account paying above above market rates. A nearly unanimous response from the Contact Group was that most depository institutions were adopting a "wait and see" approach. Because of the success of MMDAs and relatively weak loan demand, institutions evidently do not have a pressing need for new deposits. Still, the situation could change quickly. Comments seem to suggest that although no one wants a rate war, no one is willing to lose one.

* Prepared by Paul O'Brien, Economist, Banking Section, Division of Research and Statistics.

An interesting feature of early promotional materials is the emphasis on the flexibility available to the depositor, rather than on higher rates.

In their planned pricing policies, depository institutions are hoping to retain as much discretion as possible. Interest rates are to be set subjectively to keep the cost of these deposits in line with their overall cost of funds. Some smaller institutions plan to tie their rates to those on comparable Treasury securities, but most will use the Treasury rates as guides only. Minimum deposits of $500 to $1,000 were reported in most Districts, with the lower figure applying to maturities beyond one year. In keeping with the theme of flexibility, some institutions intend to offer more favorable terms for large deposits. The consensus is that interest rates offered will stay in line with market rates.

Prior to deregulation, most institutions are offering 91-day, 26-week, 18-month, and 30-month certificates. Among those institutions that have already made a decision, a common policy is to drop the 18- and 30-month certificates and replace them with maturities of 1, 2, 3, 4 and 5 years. In several Districts, institutions plan to offer certificates in any maturity the depositor selects, in one case up to 20 years, but there appears to be a tendency to limit these "tailored" accounts to special customers only. Only two institutions mentioned an interest in using the newly-authorized accounts to alter their deposit maturity structure. For the most part, maturity decisions are being based on marketing rather than liability management grounds.

There were few reported differences between the plans of thrifts and commercial banks. Thrifts, and smaller institutions in general, were more likely to continue offering interest rates directly pegged to Treasury securities while maintaining the current maturity structure or lowering minimum balances. One S&L in the Sixth District expressed the fear that the deregulation could result in a further shift of deposits to shorter maturities.

The information reported by the Contact Group reveals two themes. First depository institutions hope to retain as much flexibility as possible in pricing. Second, there is an effort toward product differentiation and market segmentation. Institutions hope to compete more on non-price terms, such as maturities offered, and to segregate depositors on the basis of deposit size and desired maturity.

Appendix Table 1

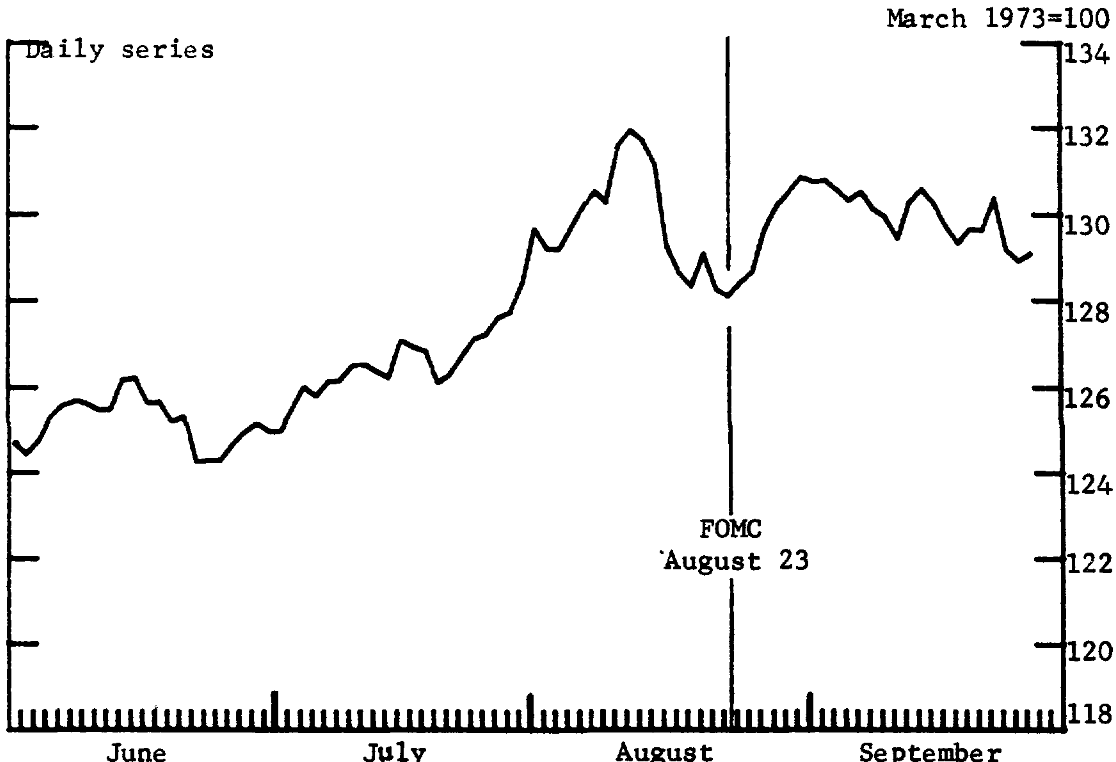
Summary of Time Deposit Regulations

Deposit Maturity Range	Before October 1, 1983	As of October 1, 1983
7 to 31 days	No interest rate ceiling on 7- to 31-day deposits, must be nonnegotiable	May be negotiable
	$2,500 minimum deposit	$2,500 minimum deposit
	Early withdrawal penalty of at least half the interest due	Early withdrawal penalty of at least half the interest due
32 days to 1 year	2 maturities available: 91-day and 26-week	Any maturity
	$2,500 minimum deposit	No required minimum deposit
	Interest rate ceiling tied to Treasury bill yield. No compounding	No restrictions on interest rates
	Early withdrawal penalty of 3 months' interest	Early withdrawal penalty of 30 day's interest
Over 1 year to less than 2-1/2 years	Any maturity in range 18-months up to 30-months	Any maturity
	Interest rate ceiling tied to Treasury coupon yield	No restriction on interest rates
	Early withdrawal penalty of 6 months' interest	Early withdrawal penalty of 3 months' interest
	No required minimum deposit	No required minimum deposit
	No interest rate ceiling or minimum deposit on IRA/Keogh deposits over 18 months	No longer a distinction
2-1/2 years and more	Early withdrawal penalty of 6 months' interest	Early withdrawal penalty of 3 months' interest
	(No other restrictions)	(No other restrictions)

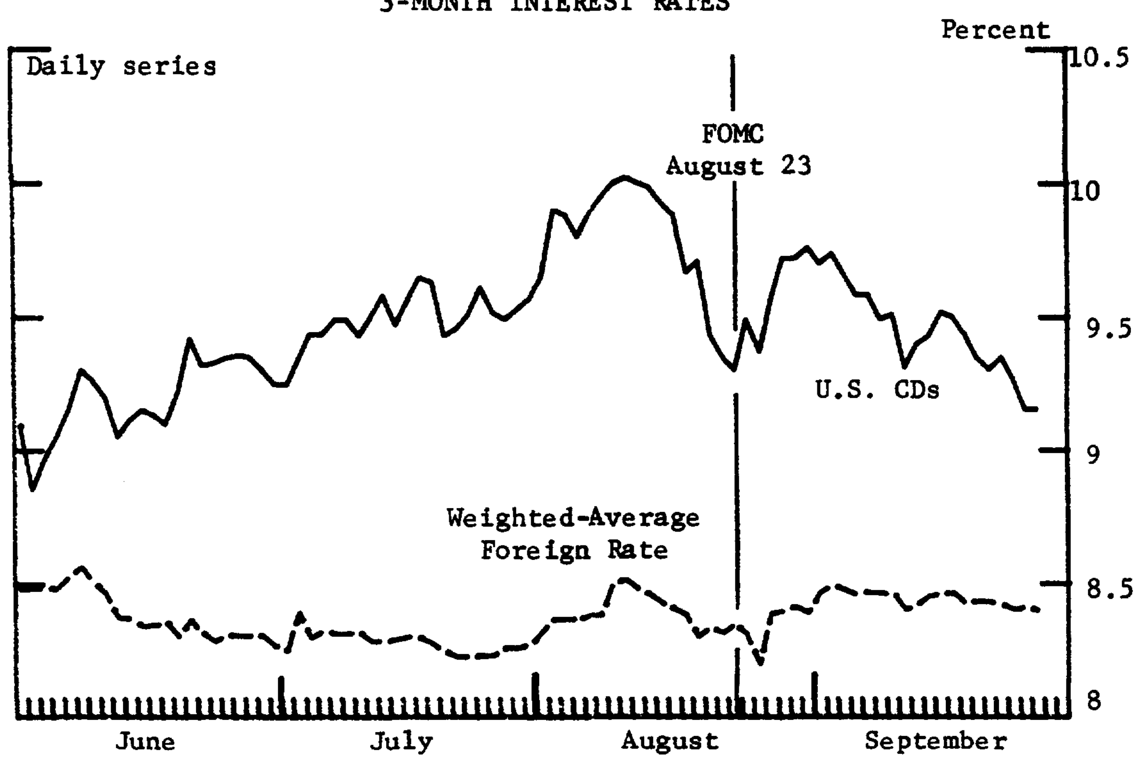
Foreign Exchange Markets

Since the last FOMC meeting, dollar exchange rate movements have often paralleled day to day changes in domestic interest rates. As shown in the top panel on the next page, the weighted average value of the dollar has fluctuated within a two percent range. The dollar firmed moderately in late August, but has since depreciated to its earlier levels following declines in dollar interest rates and a slight firming in foreign interest rates. Recent statistics showing a growing U.S. current account deficit may also have contributed to recent weakness in the dollar. Foreign interest rates increased by about 15 basis points on average, as the Bundesbank raised its Lombard rate by 1/2 percent, and the Austrian and Dutch central banks similarly increased their discount rates. On a bilateral basis, the dollar has changed little overall against the mark and other EMS currencies, while depreciating by three percent against the yen and appreciating by two percent against the pound.

WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR



3-MONTH INTEREST RATES



Gold prices varied within a range of $400 to $425 an ounce, and showed surprisingly little reaction to international crises such as the KAL jetliner shooting and the renewed fighting in Lebanon.

U.S. banks' foreign lending in the second quarter. The claims of U.S.-chartered banks on non-OPEC developing countries and smaller developed countries rose slightly in the second quarter of 1983, while claims on the G-10 countries and Switzerland declined by a large amount.

Claims on the non-OPEC developing countries rose $0.9 billion (slightly under 1 percent) in the second quarter, about twice the rise in the first quarter. For the first half of 1983 claims on these countries rose $1.3 billion compared with a $7.4 billion increase a year earlier. Claims on Latin American countries rose $0.4 billion in the second quarter. While claims on Argentina, Colombia, and Peru increased, there were decreases in claims on Brazil and Chile. The net decline of $0.6 billion in claims on Brazil resulted from non-renewals or repayments on credits to some banks, combined with Brazil's inability to draw at end-May on the $4.4 billion 8-year commercial bank loan because of failure to meet certain IMF performance criteria. Repayment by Brazil of a $383 million installment on a 1982 bridge loan was also delayed. Claims on Mexico rose only $0.1 billion, reflecting Mexico's decision to wait until July and August to draw $1.1 billion on the $5 billion 6-year commercial bank loan obtained in early March, and repayment of private sector debt.

Claims on the smaller developed countries rose $0.6 billion after increasing throughout 1982 and early 1983, and claims on Eastern Europe fell further. Claims on the G-10 countries and Switzerland fell $5.6 billion (3 percent) in the second quarter, mainly reflecting reductions in interbank deposits.

TABLE 1. CLAIMS ON FOREIGNERS OF U.S.-CHARTERED BANKS
(Billions of dollars)

Claims on:	Change (no sign = increase) 1982 Q-1	Q-2	Q-3	Q-4	1983 Q-1	Q-2	Outstanding 6/30/83
Total, all countries	4.4	15.3	2.7	0.7	1.1	-3.6	435.5
Non-OPEC developing countries	1.2	6.2	0.3	3.0	0.4	0.9	108.2
OPEC countries	0.7	1.0	0.9	0.2	1.0	-0.4	28.1
Eastern Europe	-0.6	-0.5	-0.4	-0.1	0	-0.2	6.0
Smaller developed countries	2.3	1.4	0.6	1.0	0.2	0.6	34.5
G-10 countries and Switzerland	-1.1	1.7	-0.9	4.1	1.6	-5.6	175.2
Offshore banking centers	2.1	6.0	0	-5.1	-0.5	1.7	67.8
Miscellaneous	-0.3	-0.1	1.9	-2.4	-1.6	-0.6	15.7

TABLE 2. CLAIMS OF U.S.-CHARTERED BANKS ON NON-OPEC DEVELOPING COUNTRIES
(Billions of dollars)

Claims on:	Change (no sign = increase) 1982 Q-1	Q-2	Q-3	Q-4	1983 Q-1	Q-2	Outstanding 6/30/83
Latin America	2.2	4.8	0.8	-0.1	0.2	0.4	72.8
of which:							
Argentina	0.6	-0.3	-0.5	-0.3	0.1	0.4	9.4
Brazil	0.5	1.7	1.1	0.5	0.2	-0.6	22.5
Chile	0.2	0.4	-0.2	0.1	-0.3	-0.2	5.8
Colombia	-0.3	0.3	0.2	0.3	-0.2	0.3	3.2
Mexico	1.3	2.2	-0.2	-0.4	0.4	0.1	25.0
Peru	-0.1	0.6	0.1	-	-0.2	0.2	2.6
Others	-	-0.1	0.3	-0.3	0.2	0.1	4.3
Asia and Africa	-1.0	1.4	-0.5	3.1	0.2	0.5	35.4
of which:							
Korea	-0.8	0.3	0.4	1.6	-0.1	-	10.8
Philippines	-0.1	0.4	-0.3	0.3	0.3	-0.2	6.4
Taiwan	-	-0.1	-0.1	0.3	-0.1	-0.1	5.0
Others	-0.1	0.8	-0.5	0.9	0.1	0.8	13.2
Total	1.2	6.2	0.3	3.0	0.4	0.9	108.2

Comments may not add to totals because of rounding.

U.S. International Financial Transactions

In August, U.S. banking offices (including IBFs) borrowed about $5 billion, net, from their affiliated foreign offices (see line 1(a) of the International Banking Data Table). Partial data suggest that this capital inflow was largely reversed in early September. Several factors appear to have contributed to the capital inflow in August, which was accounted for largely by the nine largest U.S.-chartered banks. First, in the July-August period a number of these large banks reportedly expected a backup in interest rates steeper than that implicit in the yield curve. Accordingly, they sought to increase the maturities of their interbank borrowings by substituting term borrowings in the Eurodollar markets for borrowings in the domestic

INTERNATIONAL BANKING DATA
($ billion)

	1981	1982				1983						
	Dec.	Mar.	June	Sept.	Dec.	Mar.	Apr.	May	June	July	Aug.
1. U.S. Banking Offices' Positions Vis-a-Vis Own Foreign Offices 1/											
(a) Total	9.2	10.7	16.6	6.9	8.4	-5.6	-6.3	-4.7	-.4	-1.7	3.2
(b) U.S.-Chartered Banks	-8.9	-2.8	1.3	-4.4	-3.1	-17.5	-16.6	-13.4	-11.6	-11.4	-5.8
(c) Foreign Chartered Banks	18.1	13.5	15.3	11.3	11.5	11.9	10.2	8.7	11.3	9.8	9.1
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks 2/											
(a) Total	13.2	13.8	14.1	16.1	15.7	16.4	16.0	16.8	16.8	16.6	16.3
(b) NY Banks Only	8.8	9.1	9.7	11.4	11.2	12.2	11.9	12.3	12.2	12.1	11.7
3. Eurodollar Holdings of U.S. Nonbank Residents 3/ 4/	93.6	104.2	116.0	111.5	110.3	114.1	117.6	119.9	119.7	n.a.	n.a.

1/ Average of Wednesdays, net due to own foreign office = (+). IBFs are included in U.S. offices.
2/ Daily averages.
3/ End of month.
4/ Holdings at all banking offices in Canada and the United Kingdom and at branches of U.S. banks worldwide.

federal funds market, which is predominantly an overnight market. Substitution of term borrowing for overnight borrowing was also evident in the domestic RP markets as term RPs rose sharply in August, while overnight RPs declined somewhat.

Second, in the July-August period some of the parent holding companies of these large banks may have channeled funds to their domestic offices through their affiliated foreign offices. Deposits by U.S. bank holding companies at their affiliated foreign offices increased by over $2 billion in July, continuing a trend which has seen such deposits grow from $11.6 billion at the beginning of the year to $17.1 billion at the end of July. Virtually all of this increase was accounted for by the holding companies of the nine largest banks.

When providing funds to its subsidiary bank a holding company will often place the funds in a foreign office of the bank rather than a domestic office in order to minimize required reserves.[1/] In the past the U.S. commercial paper market has often been the source of funds deposited by these bank holding companies at their foreign affiliates. However, in the July-August period outstanding commercial paper issued by the parent holding companies of the nine largest banks increased by only $1 billion. For 1983 as a whole the increase in issuance of such paper has been only a small fraction of the

1/ Depending on its maturity, a deposit at a domestic office will be subject to either a 12 percent reserve requirement on transactions balances or a 3 percent reserve requirement on nonpersonal time deposits; but a deposit at a foreign office can result in an increase in required reserves only if it is relent to a U.S. nonbank resident or to the U.S. head office. Even in the latter case the current reserve requirement on Eurocurrency liabilities is only 2-5/8 percent. Moreover, for most large banks the Eurocurrency reserve requirement is not binding currently because it is applied to the sum of net borrowings from affiliated foreign office (including IBFs) and branch loans to U.S. nonbank residents, which for most of these banks is negative.

increase in deposits at foreign affiliates. Another possible source of these holding-company deposits was the sizable volume of adjustable-rate preferred stock that was issued by these firms early in the year.

The growth of deposits by bank holding companies at affiliated foreign offices is one factor behind the renewed growth of total Eurodollar holdings of U.S. nonbanks (line 3 of the International Banking Data Table), which increased by nearly $10 billion in the first half of the year, despite a $4 billion decline over that period in the holdings of money market mutual funds. Total Eurodollar holdings had contracted by about $6 billion in the second half of 1982, when a series of shocks to international financial markets apparently prompted concerns about the safety of offshore deposits.

Foreign official reserve assets held in the United States increased by $1 billion in July. Partial data, based on holdings at the FRBNY, indicate a foreign official capital outflow of $4 billion in August,

. OPEC holdings at the FRBNY also declined by $2 billion in August, bringing the cumulative decline in OPEC official reserve holdings in the United States during 1983 to an estimated $7 billion.

U.S. official reserve assets were about unchanged, on balance, in the July-August period. The U.S. reserve position at the IMF increased by $500 million over this period as a result of the provision of dollars in connection with drawings on the Fund. Foreign exchange market intervention increased holdings of German marks and Japanese yen in August, but net holdings of foreign currencies declined because of the final repayment of outstanding swap drawings by Mexico.

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS
(Billions of dollars)

	1981	1982		1983				
	Year	Year	Q-IV	Q-I	Q-II	May	June	July
Private Capital								
Banks								
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	-34.3	-40.7	-10.2	-7.5	1.0	4.4	-5.6	10.5
a) with own foreign offices	-2.7	-9.6	-3.1	-9.6	1.0	-2.0	-2.4	10.8
b) all other	-31.3	-31.1	-7.1	2.1	2.0	6.4	3.1	-0.3
Securities								
2. Private securities transactions, net	1.2	-1.4	-1.5	1.2	-0.8	-0.6	*	0.1
a) Foreign net purchases (+) of U.S. corp. bonds	2.1	2.8	0.1	0.1	0.8	0.5	0.1	0.1
b) Foreign net purchases (+) of U.S. corp. stocks	4.8	3.6	1.9	2.9	1.7	0.4	0.4	0.6
c) U.S. net purchases (-) of foreign securities	-5.7	-7.9	-3.5	-1.8	-3.2	-1.5	-0.5	-0.7
3. Foreign net purchases (+) of U.S. Treasury obligations 1/	2.5	6.5	2.1	2.8	2.8	1.4	2.0	-1.8
Official Capital								
4. Changes in foreign official reserve assets in U.S. (+ = increase)	5.5	2.7	1.8	0.3	2.3	1.7	0.1	1.0
a) By area								
G-10 countries and Switzerland	-10.8	-12.7	-2.8	2.7	2.0	1.2	-1.0	4.1
OPEC	12.7	6.6	-0.8	-1.4	-3.6	-1.0	-1.7	-0.1
All other countries	3.6	8.8	5.4	-0.9	3.9	1.5	0.9	-3.1
b) By type								
U.S. Treasury securities	5.0	5.8	4.3	3.0	2.0	0.9	0.2	3.6
Other 2/	0.5	-3.1	-2.6	-2.7	0.3	0.8	-0.1	-2.6
5. Changes in U.S. official reserve assets (+ = decrease) 3/	-5.2	-5.0	-2.0	-0.8	*	-0.1	-0.1	0.1
Other transactions (Quarterly data)								
6. U.S. direct investment (-) abroad	-9.7	3.0	2.0	0.3	-0.6	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	22.0	10.4	2.8	2.0	1.5	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) 4/ 5/	-10.8	-5.7	-3.1	-3.5	-3.1	n.a.	n.a.	n.a.
9. U.S. current account balance 5/	4.6	-11.2	-6.6	-3.6	-9.7	n.a.	n.a.	n.a.
10. Statistical Discrepancy 5/	24.2	41.4	14.7	8.8	0.4	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-28.1	-36.4	-11.4	-8.8	-14.7	-5.6	-4.8	-5.9

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.

U.S. Merchandise Trade

The U.S. merchandise trade deficit increased to nearly $60 billion at an annual rate in the second quarter from rates of $35-45 billion in the previous two quarters. In July the trade deficit rose to $71 billion at an annual rate. Preliminary August trade data were released by the Commerce Department on Wednesday afternoon, September 28; this information will be summarized in the Greenbook Supplement.

Beginning in the second quarter, the value and volume of imports turned up across a broad range of commodity categories and from most geographic areas as U.S. economic activity strengthened and as the price competitiveness of imported items continued to benefit from the dollar's appreciation. In July, the increase was about half in oil and half in other items, especially machinery.

U.S. MERCHANDISE TRADE*

	1982		1983			
	Year	4Q	1Q	2Q	June	July
Value (Bil. $, SAAR)						
Exports	211.2	193.4	198.0	195.7	195.7	197.8
Agricultural	37.2	33.1	36.0	35.3	36.8	36.9
Nonagricultural	174.0	160.3	162.0	160.3	158.9	161.0
Imports	247.6	238.8	233.3	254.3	253.8	269.0
Oil	61.2	60.5	42.0	52.1	54.3	60.8
Nonoil	186.4	178.3	191.3	202.2	199.4	208.2
Trade Balance	-36.4	-45.4	-35.2	-58.6	-58.1	-71.2
Volume (Bil. 72$, SAAR)						
Exports - Agric.	17.1	15.9	16.9	16.1	16.6	16.7
- Nonagric.	61.2	56.3	56.0	56.1	55.7	55.8
Imports - Oil	5.0	5.0	3.6	4.8	5.0	5.6
Nonoil	71.8	70.0	75.6	79.9	78.6	83.1

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

On a seasonally adjusted basis, the volume of oil imports rose to nearly 6 million barrels per day (mbd) in July while the average price was just under $28 per barrel. The volume of oil imports was unusually low in the first four months of the year in response to several temporary market situations, but beginning in May the volume of imports increased as the influence of the temporary factors ended and as U.S. economic activity picked up. Prices of oil imports, which had declined during the first four months, edged up in May and June and steadied in July. Prices in the spot markets which had increased steadily from March to early August, have eased slightly in recent weeks but are still mostly at or slightly above official prices. OPEC crude oil production is estimated to average 18.0-18.5 mbd in the third quarter, 0.5-1.0 mbd above the official "ceiling".

OIL IMPORTS

	1982		1983			
	Year	4Q	1Q	2Q	June	July
Volume (mbd, SA)	5.36	5.35	3.91	5.16	5.32	5.96
Price ($/BBL)	31.26	30.97	29.41	27.69	28.03	27.94
Value (Bil$ SAAR)	61.2	60.5	42.0	52.1	54.3	60.8

For exports, neither the value nor the volume has changed very much during the past three quarters or in July, largely reflecting sluggish economic activity in major trading-partner countries and the effects of a strong dollar on the price competitiveness of U.S. goods. The volume of exports of machinery and industrial supplies dropped by more than 20 percent from the fourth quarter of last year to the second quarter of this year. In July, machinery exports rose somewhat as did exports of consumer goods (together these two categories account for 40 percent of all non-agricultural exports). However declines in exports of other types of goods in July, such as industrial supplies, nearly offset the increases.

The small increase in the value of agricultural exports since the fourth quarter of last year was almost entirely the result of higher prices of exports. The first quarter run-up in volume was largely attributable to the bunching of wheat deliveries to the U.S.S.R. In June and July, higher levels of shipments of soybeans and cotton helped offset declines in the volume of other commodities, particularly corn.

U.S. Current Account and Statistical Discrepancy

The U.S. current account was in deficit by $39 billion at an annual rate in the second quarter, nearly three times the size of the first- quarter deficit and larger than deficits recorded in the second half of last year. (See the table below)

Most of the second-quarter increase in the current account deficit was attributable to merchandise trade. Exports declined marginally from first-quarter rates (largely lower exports of industrial supplies and machinery) while imports rose by 9 percent (widely spread through all major commodity categories). There was also a small decline in net military sales from an unusually strong first quarter rate, and in other miscellaneous transactions.

Partly offsetting these changes was an increase in net income receipts from U.S. direct investments abroad from relatively low first-quarter rates. First quarter direct investment income receipts were reduced by unusually large capital losses (primarily exchange rate translation losses).

Preliminary indications are that the statistical discrepancy was very small in the second quarter.

U.S. Current Account
billions of dollars, SAAR

	Year	1982		1983		$ Change
	1982	Q3	Q4	Q1r	Q2	1Q83 to 2Q83
Current Account Balance	-11.2	-26.4	-26.5	-14.3	-38.8	-24.5
Trade Balance	-36.4	-52.3	-45.4	-35.2	-58.6	-23.4
Exports	211.2	209.0	193.4	198.0	195.7	-2.3
Imports	247.6	261.3	238.8	233.3	254.3	+21.0
Investment Income, net	27.3	27.3	24.0	20.4	23.7	+3.3
Direct, net	18.0	17.7	16.9	10.9	15.3	+4.4
Portfolio, net	9.3	9.6	7.1	9.5	8.5	-1.0
Military, net	0.2	0.2	-0.1	2.1	0.8	-1.3
Other Services, net	5.7	5.4	4.7	4.6	2.7	-1.9
Unilateral Transfers	-8.0	-7.0	-9.7	-6.2	-7.4	-1.2
Memo Item: Statistical Discrepancy in the BOP account.	41.4	60.3	58.6	35.3	1.5	-33.8

Foreign Economic Developments. Economic activity in major foreign industrial countries continues to revive, in general, though the pace of the recovery varies widely. Real GNP in the second quarter rose sharply in Canada, while increases in Germany and Japan were more moderate. Canada and Germany experienced a significant pickup of residential construction, and in Canada there was also a rapid advance in investment in plant and equipment. In Japan the second quarter rise reflected mainly growth of public spending and net exports as well as an increase in investment in plant and equipment to the level of the fourth quarter of last year. Real GDP in the second quarter declined in the United Kingdom after a sharp rise in the revised data for the first quarter. Real output in the second quarter advanced marginally in France and declined sharply in Italy. In the United Kingdom and Canada, unemployment at the end of the summer was somewhat below the peak rates attained last spring, while in Germany, France and Italy, unemployment rates remain at or close to record levels. The stance of fiscal policy in the major foreign industrial countries remains restrictive. In Japan, however, the weakness of domestic demand and the expanding external surplus is expected to increase pressure for expansionary measures.

Inflationary pressures abroad have remained moderate in recent months. Inflation rates in Canada, Germany, and the United Kingdom have increased from the low rates of the first quarter. In Italy, consumer and wholesale price increases have slowed somewhat this year from the high levels of the past several years.

Trade balances in Japan, France, and Italy continue to strengthen, September 28, 1983

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

		Q4/Q4 1981	Q4/Q4 1982	1982 Q3	1982 Q4	1983 Q1	1983 Q2	1983 APR.	1983 MAY	1983 JUN.	1983 JUL.	1983 AUG.	LATEST 3 MONTHS FROM YEAR AGO+
CANADA:	GNP	1.5	-5.0	-.8	-.7	1.8	1.8	*	*	*	*	*	2.2
	IP	-3.4	-11.8	-2.5	-3.1	5.2	2.8	1.1	1.1	1.7	N.A.	N.A.	2.1
FRANCE:	GDP	1.8	1.3	-.6	.9	.0	.2	*	*	*	*	*	.5
	IP	-.5	-2.6	-2.1	.8	.5	1.0	.8	2.3	-2.3	N.A.	N.A.	.3
GERMANY:	GNP	.6	-2.1	-.8	-.3	.6	1.1	*	*	*	*	*	.5
	IP	-.3	-5.6	-2.8	-1.9	1.3	2.6	.0	1.0	2.9	-.9	N.A.	1.9
ITALY:	GDP	.5	-2.4	-2.2	-.2	.4	-1.7	*	*	*	*	*	-3.7
	IP	.4	-6.1	-7.6	2.2	-.6	-2.7	-4.5	4.7	-2.1	.6	N.A.	-7.1
JAPAN:	GNP	2.7	3.7	.9	.4	.2	.9	*	*	*	*	*	2.5
	IP	5.7	-1.7	1.7	-.8	.5	1.6	-.2	.2	1.0	.2	2.8	3.5
UNITED	GDP	-.1	1.1	.2	.8	2.1	-.7	*	*	*	*	*	2.4
KINGDOM:	IP	-.6	.9	.7	-.2	1.3	.1	.5	.5	-1.8	2.2	N.A.	2.1
UNITED	GNP	2.0	-1.7	-.2	-.3	.6	2.3	*	*	*	*	*	2.4
STATES:	IP	-1.7	-7.5	-.9	-2.1	2.4	4.3	1.9	1.3	1.3	2.0	.9	7.2

* DATA NOT AVAILABLE ON A MONTHLY OR QUARTERLY BASIS.

+ IF QUARTERLY DATA, LATEST QUARTER FROM YEAR AGO.

September 28, 1983

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

		Q4/Q4 1981	Q4/Q4 1982	1982 Q1	1982 Q2	1982 Q3	1982 Q4	1983 Q1	1983 Q2	1983 MAY	1983 JUN.	1983 JUL.	1983 AUG.	LATEST 3 MONTHS FROM YEAR AGO
CANADA:	CPI	12.3	9.7	2.5	3.1	2.2	1.6	.6	1.4	.3	1.1	.4	.5	5.5
	WPI	8.5	4.5	1.4	1.9	.8	.3	.7	1.5	.5	.4	.4	N.A.	3.5
FRANCE:	CPI	14.1	9.5	2.8	3.1	1.4	1.9	2.6	2.9	.7	.5	.9	.6	9.4
	WPI	12.7	8.5	2.7	2.6	1.9	1.0	2.4	4.0	1.0	1.0	.0	N.A.	9.6
GERMANY:	CPI	6.5	4.7	1.5	1.4	1.1	.7	.5	.6	.4	.4	.4	.3	2.6
	WPI	10.4	3.1	1.8	1.3	.0	.0	-2.0	.8	.6	.7	-.5	.8	-1.0
ITALY:	CPI	18.4	16.6	4.0	3.0	4.1	4.5	3.6	2.9	.8	6	.8	.4	14.6
	WPI	18.7	12.4	3.3	2.0	3.2	3.3	1.6	1.6	.5	.5	.7	N.A.	9.9
JAPAN:	CPI	1.0	2.9	.3	1.1	.5	1.0	-.1	.9	1.2	-.9	.0	-.5	2.0
	WPI	-.1	1.3	.2	.2	.9	-.1	-1.9	-1.0	-.3	.3	.2	-.2	-2.4
UNITED KINGDOM:	CPI	11.9	6.2	1.7	3.2	.5	.7	.5	2.0	.4	.2	.5	.4	4.1
	WPI	9.6	6.5	2.5	1.6	1.0	1.2	1.4	2.0	.6	.2	.1	.2	5.6
UNITED STATES:	CPI (SA)	9.6	4.5	.7	1.3	1.9	.5	-.1	1.0	.5	.2	.4	.4	2.5
	WPI (SA)	7.3	3.7	.7	.3	1.5	1.1	-.7	.2	.2	.5	.1	.4	1.6

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

				1982				1983		1983			
		1981	1982	Q1	Q2	Q3	Q4	Q1	Q2	MAY	JUN.	JUL.	AUG.
CANADA:	TRADE	5.8	14.8	2.9	3.8	4.0	4.1	3.3	4.2	1.4	1.2	1.1	N.A.
	CURRENT ACCOUNT	-4.8	2.4	-.1	.8	.9	.9	.2	.9	*	*	*	*
FRANCE:	TRADE+	-9.3	-14.0	-3.0	-4.0	-4.2	-2.9	-3.5	-1.7	-1.0	-.5	-.4	-.0
	CURRENT ACCOUNT+	-4.7	-12.0	-2.1	-4.4	-3.2	-2.3	-3.8	-1.1	*	*	*	*
GERMANY:	TRADE	11.9	20.6	5.0	5.3	5.2	5.1	5.3	3.9	1.4	1.5	1.2	N.A.
	CURRENT ACCOUNT (NSA)	-7.3	3.6	-.4	.9	-1.6	4.7	1.7	.8	.6	.2	-1.2	-1.3
ITALY:	TRADE	-15.9	-14.6	-6.2	-2.8	-3.2	-2.4	-1.5	-1.9	.2	-.7	-.4	N.A.
	CURRENT ACCOUNT (NSA)	-8.6	-5.8	-4.6	-.9	.4	-.7	-2.0	N.A.	*	*	*	*
JAPAN:	TRADE+	20.1	18.8	4.3	5.5	5.1	4.0	6.5	8.1	3.3	2.0	3.0	N.A.
	CURRENT ACCOUNT	4.8	6.9	.9	2.8	2.3	1.6	3.5	6.0	2.3	1.4	2.1	N.A.
UNITED KINGDOM:	TRADE	6.4	3.7	.4	.2	1.0	2.1	-.4	-1.0	-.8	.3	-.5	-.2
	CURRENT ACCOUNT+	12.7	8.2	1.2	2.3	1.7	3.0	1.2	-.5	-.6	.4	-.3	.0
UNITED STATES:	TRADE	-28.1	-36.4	-6.1	-5.9	-13.1	-11.4	-8.8	-14.7	-5.6	-4.8	-5.9	N.A.
	CURRENT ACCOUNT	4.6	-11.2	.6	1.4	-6.6	-6.6	-3.6	-9.7	*	*	*	*

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 OR QUARTERLY CURRENT ACCOUNT DATA ARE NOT PUBLISHED.

reflecting in part the weakness of domestic demand in these countries. Elsewhere, trade balances have been deteriorating somewhat as the recovery has progressed.

Individual Country Notes. In Japan, the increase in real GDP growth in the second quarter is an encouraging sign that recovery may have finally taken hold, but private domestic demand is lagging. Recently released GNP figures for the second quarter show that real output advanced at a 3.6 percent rate (s.a.a.r.), up sharply from revised growth of only 0.9 percent in the first quarter. Most of the advance derived, however, from increases in public spending and an expanding real external surplus (both of which contributed an amount equal to about half of the total gain). Real exports grew by almost 11 percent (s.a.a.r.) in the quarter. Although private domestic demand -- and private consumption, in particular -- were still relatively sluggish, the improved performance of investment in plant and equipment in the quarter (4 percent growth, s.a.a.r.) and continued advances in industrial production suggest that recovery is underway.

There are no signs of any significant upward price pressures in Japan. In fact, consumer prices fell by 0.5 percent in August to a level virtually unchanged from that at the beginning of the year. Wholesale prices, which also declined in August, were some 3 percent below their year-previous level.

The Japanese current account continued in July its advance to record levels. The July surplus was $2.1 billion (s.a.), bringing the 7-month total to more than $11-1/2 billion (s.a.). Although exports fell slightly in July, imports reversed the strong gain seen in June and fell by over $1 billion.

German real GNP rose by 4 percent (s.a.a.r.) in the second quarter. The level of real GNP has now risen for two quarters, after an eleven quarter period of decline or stagnation. Recovery in the first quarter was based on domestic private consumption, while investment, especially in construction, rose strongly in the second quarter. Industrial production has risen in the three months to July to a level 6 percent above the end of last year. Unemployment in August remained at the 9.4 percent rate (s.a.) recorded in July.

Inflation has accelerated somewhat from very low rates earlier this year. During the four months ending in August consumer prices rose at an annual rate of 4.3 percent, perhaps in part reflecting a one percentage point increase in the VAT in July. Also, the import price index has risen strongly since early this summer, reflecting the strength of the dollar and the world recovery. Wholesale prices rose by almost 1 percent in August.

The current account showed a $1.3 billion deficit (n.s.a.) in August, bringing the current account so far this year into rough balance, compared with a small deficit for the same period last year. Although the merchandise trade balance weakened compared with last year, the services balance has improved.

On September 8, the Bundesbank raised its Lombard rate from 5 percent to 5-1/2 percent, citing the strong growth of Central Bank Money. From the fourth quarter of 1982 through August, CBM growth was 8-1/2 percent (a.r.) compared with a target range of 4-7 percent between fourth quarters.

The 1984 federal budget has been submitted to the legislature by the government. Expenditures are scheduled to grow by 2 percent, implying a decline in real terms. The government deficit is projected to fall from an estimated DM 41 billion this year to DM 37 billion in 1984.

French real GDP increased by less than 1 percent (s.a.a.r.) in the second quarter after remaining unchanged in the first quarter. Industrial production in June decreased by 2.3 percent (s.a.), completely reversing the increase of the previous month and falling 0.8 percent below its year-earlier level. Private surveys and government forecasts suggest that economic activity is expected to weaken in the second half of the year as the government's austerity measures initiated in March are increasingly felt.

Inflationary pressures appear to have moderated in recent months. While consumer prices increased an average of 1 percent per month in the first four months of the year, the average monthly increase was 0.7 percent over the next four month period. In August consumer prices were 9.8 percent above their year earlier level. The government's announced goal is to reduce the inflation rate to 8 percent this year and 5 percent by the end of next year.

Both the trade and current account deficits increased substantially in the first quarter and declined sharply in the second quarter, a pattern reflecting in part distortions arising from the March devaluation of the franc. For the first half of the year, the current account was in deficit by $9.7 billion (s.a.a.r.), less than the $12 billion current account deficit recorded last year. The trade deficit in the first eight months of 1983 was $8.4 billion (s.a.a.r.), compared with a $14 billion trade deficit in 1982.

On September 14 the government announced details of its 1984 budget proposal. As officials had indicated previously, the budget will aim at limiting the deficit to 3 percent of GDP, approximately the same level as this year. The increase in government expenditure will be held to 6.3 percent, about half the rate of increase of government spending in the 1983 budget. Several "temporary" tax increases imposed earlier this year have been extended for an additional year. These include a one percentage point surtax on all taxable income and an additional surtax (equal to 5 percent to 8 percent of tax liabilities) applied only to approximately the upper 10 percent of income earners.

In the United Kingdom real GDP in the first half of the year averaged more than 3 percent higher than its level in the first six months of 1982, but concerns about a possible slowing in the pace of recovery remain. Based on newly revised data using 1980 prices, the average of the output, income, and expenditure measures of real GDP fell 2.8 percent (s.a.a.r.) in the second quarter after a revised increase of 8-1/2 percent in the first. The three GDP measures give somewhat conflicting evidence about the shape of GDP expansion during the first half of 1983 and this ambiguity has contributed to the concern that the recovery may be faltering. Industrial production rose 2.2 percent (s.a.) in July after falling by 1.8 percent in June. Although still strong, the volume of retail sales (s.a.) fell from June through August. Housing starts similarly were lower in the May-July period than they were in the previous three months. The unemployment rate declined marginally in August to 12.3 percent. The retail price index in August was 4.6 percent above the year earlier level while the producer price index was 5.4 percent higher.

Revised estimates, particularly for the earnings of the invisibles account, now show the U.K. current-account balance moving from a $1.2 billion surplus in the first quarter to a $0.5 billion deficit in the second quarter of this year. The trade balance showed a $2 billion deficit for the first 8 months of this year, compared with a $1 billion surplus in the corresponding period of 1982.

Economic activity in Italy remains weak. After expanding by about 1-1/2 percent (s.a.a.r.) in the first quarter, real GDP fell by about 7 percent in the second quarter. Declines in real investment and private consumption account for much of the weakness. Inflation has continued its slow moderation, aided in part by the weak economy. Wholesale price inflation decelerated to 9-1/2 percent in July (year/year), compared with a 13 percent rate in the 12-month period ending in July 1982. Consumer prices in August were less than 14 percent above their year-earlier level; the increase in consumer prices in the 12-month period ending in the previous August was about 17 percent.

On September 12, the Craxi government announced decree laws which, if approved by Parliament, will reduce state pension benefits and health benefits by about 5 trillion lire in 1984. The enlarged public sector deficit (EPSD) this year is expected to reach 85-90 trillion lire, or about 16 percent of GDP. Reducing the deficit is one of the main goals of the present government. Since several temporary indirect tax increases expire in December, many observers are projecting an EPSD of 100-120 trillion lire (16-19 percent of GDP) next year in the absence of further measures. Additional fiscal policy proposals are expected to be announced shortly. In July, the government issued indexed bonds for the first time. The first issue of these certificates, worth 1 billion lire, paid a real interest rate of 2.5 percent.

Canadian real economic activity continues to expand at a strong pace: real GNP rose by 7.5 percent (s.a.a.r.) in the second quarter, virtually the same rate recorded in the first quarter. While real consumption expenditures have grown by 4.7 percent (s.a.a.r.) over the first half of 1983, residential construction jumped by 24 percent over the level of the first half of 1982. A drop in July housing starts, however, suggests a moderation of these rapid advances. In the second quarter, real investment in plant and equipment advanced by 8.2 percent (s.a.a.r.) after posting declines for the previous five consecutive quarters. Runoffs in inventories continued through the second quarter although at a much reduced rate compared with 1982.

Export growth, particularly to the United States, continues to be an important element in Canada's rapid economic expansion. Real exports of goods and services have been expanding at a rate of 23 percent (s.a.a.r.) over the first half of 1983. Trade account surpluses, though high by historical standards, have shown a downward trend since April of 1983, reflecting a recovery of import demand from recession levels.

The level of inflation remains at a rate less than half the double-digit levels reached in the previous two years. From January through August of this year the CPI has risen 5.4 percent (a.r.). Average non-indexed wage increases in major settlements continued to fall in the second quarter to reach a 5.9 average annual percent increase.

The narrow monetary aggregates have continued to grow at rapid rates after declines in late 1981 and the first half of 1982. In the first eight months of this year, M1 and M1-A grew at 15.5 and 18.8 percent (s.a.a.r.), respectively. However, July and August have shown a moderation from the rates of the second quarter. During the same period, M2 and M3 have grown at much lower rates of 6.6 and minus 1.9 percent, respectively.

The Debt Problem Situation in Important Developing Countries

Mexico, Chile, Peru and Ecuador are operating successfully under IMF programs. However, continuing problems in arranging external financing confront Brazil, Argentina and Venezuela. The Philippines is finding it difficult to reach agreement with the IMF on the country's economic program.

On August 23, Mexico repaid on schedule the $1.2 billion balance still outstanding of the emergency credits that it received a year ago from the BIS, the U.S. Treasury and the Federal Reserve. Mexico became eligible on August 15 to draw another $1.1 billion from the $5 billion commercial bank credit signed last March, but because of an easing foreign exchange situation delayed doing so and drew only $600 million on September 13. Mexico also announced that $560 million of private sector interest arrears owed to banks would be paid, half on September 30 and half by December 15. Mexico recorded a $2.6 billion current account surplus in the first half of 1983, mainly because imports were 60 percent lower than in the same period of 1982. With imports now recovering slowly, it is likely that the current account will be roughly in balance in the second half. The consumer price index, which has doubled in the past year, rose by less than 4 percent in August--the second smallest monthly increase this year. Deposit interest rates have been gradually reduced since June as the monthly inflation rate eased. On September 22 Mexico announced that it would depreciate the "free" rate for the peso gradually by 13 centavos per day. From the recent level of about 150 pesos to the dollar, this would mean a devaluation of 8 percent if continued through the rest of 1983.

Brazil has signed a new letter of intent with the IMF. However, the IMF is not expected to make any disbursements until early November, following the end of the time period during which the Brazilian Congress could overturn the decree law which reduces wage indexation. With no new money from the IMF or banks, Brazil's gross public sector arrears have grown to about $3 billion. Brazil faces a combined 1983-84 financing gap of about $11 billion, which it hopes to meet through a combination of a Paris Club rescheduling of payments to official creditors (almost $2 billion), additional bank credit ($6.5 billion), and further coordinated foreign official financial assistance in the form of $2.5 billion in increased export guarantees that are now under negotiation.

Late in August, Argentina drew the last $300 million of the $1.1 billion bridge loan signed last December, and used the proceeds to bring interest payments current up to the end of July. After the IMF approved

Argentina's August 8 action lifting its discriminatory restrictions against British remittances, the banks signed the $1.5 billion medium-term loan contract that had been under negotiation for several months. However, the first disbursement of $500 million was held up. A number of banks initially refused to sign a model debt restructuring agreement with Argentine Airlines--a precondition to the disbursement--and to extend by 30 days the repayment of $350 million due on September 15 under the bridge loan until Argentina followed through on promises to modify a provision of its bankruptcy law that gave preferred status to domestic creditors over foreign creditors and to provide equal access to the private sector in the foreign exchange market. The banks have now received satisfaction on these points. The 30-day extension on the bridge loan that was eventually granted, was needed to allow time to complete the signing of the model debt restructuring agreement. The disbursement is now planned for early October. Argentina's August drawing from the IMF is being held up pending: (i) completion of a formal review of its adherence to the IMF's performance criteria; (ii) a waiver on its temporary use of an export tax rebate which constitutes a multiple currency practice; and, (iii) elimination of arrears other than those to be refinanced. The IMF is delaying steps (i) and (ii) because of the imminent danger that Argentina, which has been in compliance with the quantitative criteria of its IMF stand-by agreement, will fall out of compliance early in the fourth quarter. The risk of non-compliance has increased since late August when Argentina increased government expenditures, cut taxes, and raised the minimum wage by substantially more than recent increases in the CPI.

Venezuela's economic authorities will not ask for a CFF drawing or Fund program before the December presidential elections, although they are still considering whether to negotiate a stand-by arrangement with the Fund for 1984. Banks would like to have an IMF program in place as a pre-condition to the renegotiation of the country's $34 billion of foreign debt, of which $16 billion is due by the end of 1984. Venezuelan authorities are resisting a liberalization of price controls and a unification of the exchange rate system as part of an IMF-approved program. The floating exchange rate depreciated sharply from 11.2 bolivars per dollar on July 1 to 16.8 bolivars per dollar on August 10, before stabilizing at 13 per dollar in September. The exchange rate was 4.3 bolivars per dollar in February. On September 26 a Presidential decree was approved allowing payments of foreign debt at the preferential exchange rate of 4.3 bolivars per dollar in order to resolve an estimated $400 million of interest arrears.

Chile and its creditor banks are completing negotiations on the restructuring of $3.4 billion of debt coming due in 1983 and 1984, with a model agreement scheduled for signing in October. Chile drew $500 million from a $1.3 billion bank loan on August 31, and repaid $310 million out of a $400 million bridge loan from the BIS. Chile will be eligible to draw another $570 million on the bank credit at the end of September.

An IMF mission visited the Philippines during the second week of September, but the mission was unable to reach agreement with the authorities regarding the economic policies that should be pursued under the one-year stand-by program approved last February. It is not yet clear whether the Philippines is out of compliance with the Fund program. Since mid-August several measures have been taken by the Philippines to restrain inflationary pressures and reduce the deficit in the balance of payments. Commercial bank reserve requirements on demand and time deposits are being raised, and in addition, the central bank has announced a tightening of its restraints on credit expansion from the target levels specified earlier. Lastly, the limits on the amount of permissible holdings of foreign exchange by commercial banks will be reduced by roughly three-fourths.