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May 13, 1992

RECENT DEVELOPMENTS

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

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DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic activity is uneven, but on the whole appears to be expanding moderately in the second quarter. Employment increased in April, especially in the service-producing sector, and the unemployment rate edged down to 7.2 percent. Retail sales and homebuying appear to have softened after very sharp gains earlier in the year, but contracts and orders data suggest some firming in business capital spending. On the inflation front, consumer prices showed no further deceleration, on average, in March and April, and the same was true of the employment cost index in the first quarter; measured over longer time spans, however, the general trend of inflation still appears to be gradually downward, owing to the considerable slack in the economy.

Employment and Unemployment

Private payroll employment, which had dipped 18,000 in March, rose 112,000 in April. Service establishments picked up 72,000 jobs in April, as health services and business services both posted notable gains. Retail trade, which has moved erratically of late, also showed a relatively strong increase in jobs last month and appears to have trended upward over the past few months. Employment at state and local governments was revised up in March and rose further in April. Manufacturing employment edged up for the third straight month, after posting large losses over the preceding several months. Construction employment, which was down last month, has been about unchanged on net since the beginning of the year, despite the rebound in housing activity.

The workweek fell 0.1 hour last month; this overshadowed the rise in private employment and led to a 0.3 percent decline in aggregate hours of production or nonsupervisory workers. The April level of hours was about equal to the first-quarter average.

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

	1990	1991	1991 Q3	1991 Q4	1992 Q1	1992 Feb.	1992 Mar.	1992 Apr.
	Average monthly changes							
Nonfarm payroll employment[2]	36	-62	60	-61	8	106	39	126
Private	3	-75	71	-91	-10	115	-18	112
Manufacturing	-48	-38	12	-40	-16	7	1	8
Durable	-39	-35	-1	-39	-12	13	-1	-2
Nondurable	-9	-4	13	-1	-4	-6	2	10
Construction	-23	-27	-4	-37	2	-24	16	-11
Trade	-10	-42	-9	-47	2	118	-41	46
Finance, insurance, real estate	1	-3	-4	3	1	8	3	6
Services	72	42	75	40	11	2	16	72
Health services	34	34	38	40	18	26	20	30
Business services	13	6	19	-3	-5	-2	25	21
Total government	33	13	-11	30	18	-9	57	14
Private nonfarm production workers	-9	-62	64	-78	21	75	33	71
Manufacturing production workers	-41	-25	15	-27	-2	20	14	15
Total employment[3]	-32	-62	60	-120	207	-74	305	327
Nonagricultural	-39	-54	61	-87	203	-140	344	310
Memo:								
Aggregate hours of production or nonsupervisory workers	.0	-.1	.1	-.2	.1	1.2	-.3	-.3
Average workweek (hours)	34.5	34.3	34.3	34.4	34.5	34.7	34.5	34.4

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households.

UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; seasonally adjusted)

	1990	1991	1991 Q3	1991 Q4	1992 Q1	1992 Feb.	1992 Mar.	1992 Apr.
Civilian unemployment rate (16 years and older)	5.5	6.7	6.8	6.9	7.2	7.3	7.3	7.2
Teenagers	15.5	18.7	19.0	19.0	19.6	20.0	20.6	19.2
20-24 years old	8.8	10.8	11.0	11.4	11.1	11.2	10.8	10.9
Men, 25 years and older	4.4	5.7	5.8	5.8	6.3	6.3	6.3	6.2
Women, 25 years and older	4.3	5.1	5.0	5.3	5.6	5.6	5.8	5.8
Labor force participation rate	66.4	66.0	65.9	65.9	66.2	66.2	66.3	66.3

The monthly survey of households has given a more upbeat view of the labor market than has the payroll survey in recent months; household employment rose 327,000 in April, bringing the increase since the beginning of the year to more than 900,000. While we would not be inclined to lean heavily on the household employment statistics, we should note the possibility that job opportunities are opening up at newer firms that are not captured adequately in the payroll data. In addition, the number of persons reporting that they are working part-time for economic reasons fell for the third consecutive month in April.

Other independent indicators of labor demand are positive, but much less strongly. The Conference Board index of help-wanted advertising turned up slightly in February and March, but remained at a low level; as reported in the Consumer Confidence index, the percentage of households viewing jobs as "hard to get" has come down a bit, but the proportion who see jobs as "plentiful" has changed little. Initial claims for unemployment insurance moved down to an average of 415,000 during April, after averaging around 450,000 since late last year.

The labor force participation rate has risen in the past few months, retracing much of the decline that occurred between the end of 1989 and the end of 1991. While economic necessity could be pushing some individuals back into the job market, enhanced employment opportunities may also be exerting some pull. The rise in participation has coincided with a sharp drop in the number of persons who describe themselves as "keeping house and not wanting a job." The number of so-called discouraged workers has dropped only slightly.

Industrial Production

Industrial production apparently posted its third consecutive monthly increase in April, and the recent increases in durable goods

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

	Proportion in total IP 1991:4	1991[1]	1991 Q4	1992 Q1	1992 Jan.	1992 Feb.	1992 Mar.
			-Annual rate-		----Monthly rate-----		
Total index	100.0	-.5	-.7	-4.1	-.9	.5	.2
Motor vehicles and parts	4.2	8.5	4.4	-20.1	-8.0	7.7	.4
Utilities	7.7	1.0	-3.6	-7.1	-1.0	-.3	2.1
EXCLUDING MOTOR VEHICLES AND PARTS AND UTILITIES							
Total index	88.1	-1.1	-.7	-3.0	-.6	.2	.1
Products, total	54.8	-1.4	-.6	-2.0	-.4	.2	.1
Final products	42.1	-.9	-.3	-2.4	-.4	.1	.1
Consumer goods	22.6	1.9	2.5	-1.4	-.1	.0	.1
Durables	3.7	3.2	-3.1	-.2	.2	.7	.2
Nondurables	18.9	1.7	3.6	-1.6	-.2	-.1	.1
Business equipment	14.5	-2.0	-1.8	-1.9	-.6	.4	.2
Office and computing	2.8	4.2	10.5	11.3	.9	1.0	.5
Industrial	3.9	-8.7	-14.6	-12.3	-1.7	.6	.1
Other	7.8	-.4	1.0	-1.0	-.6	.1	.2
Defense and space equipment	4.4	-8.0	-4.1	-10.3	-1.4	-.7	-.6
Intermediate products	12.7	-2.7	-1.3	-.3	-.4	.2	.2
Construction supplies	5.3	-6.4	-5.2	-.8	.3	.0	-.2
Materials	33.3	-.5	-1.0	-4.8	-.8	.3	.0
Durables	18.2	-1.8	-.3	-3.7	-1.0	.4	.[illegible]
Nondurables	9.0	2.3	.2	-6.6	-.8	.1	

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

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1967-90 Avg.	1988-89 High	1990 Aug.	1992 Jan.	1992 Feb.	1992 Mar.
Total industry	82.2	85.0	83.7	77.8	78.0	78.1
Manufacturing	81.5	85.1	82.9	76.9	77.1	77.0
Primary processing	82.4	89.0	86.1	79.7	79.8	79.7
Advanced processing	81.1	83.6	81.6	75.7	76.0	75.9

orders and motor vehicle production schedules bode well for further gains in the near term.

Motor vehicle assemblies rose from a 9.1 million unit annual rate in March to a 9.8 million unit pace in April, contributing 0.2 percentage point to the growth rate for total IP. Schedules call for increases in output of both autos and trucks in May. While another rise in auto assemblies seems plausible, the planned increase in total truck production is less certain: Inventories of light trucks stood at a relatively high 84-days' supply at the end of April.

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

	1991 Q4	1992 Q1	1992 Mar.	1992 Apr.	1992 May	1992 June
					-schedules-	
U.S. production	9.6	8.8	9.1	9.8	10.3	10.1
Autos	5.7	5.2	5.2	5.9	6.1	6.1
Trucks	3.9	3.6	3.9	3.9	4.2	3.9

Outside of motor vehicles, increases in April appear likely in industries such as fabricated metals and rubber and plastic products, in which higher output may be related to the rise in motor vehicle production. Elsewhere, the limited available physical product data were mixed: Output of paper and paperboard, as well as petroleum refining, strengthened somewhat, but electricity generation was little changed, and production of home appliances and steel dipped. The return of striking workers at Caterpillar in the latter half of April had virtually no effect on last month's data.

Taking a somewhat longer perspective, the gains in total industrial production since its recent low in January have been moderate, on balance, and have retraced only part of the drop over the preceding three months. Much of the rebound has been attributable to increased production of motor vehicles and parts and to the return of utilities output to more normal levels after a

RETAIL SALES
(Seasonally adjusted percentage change)

	1991		1992	1992		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total sales	.3	-.1	2.8	1.6	-1.0	.9
Previous estimate			2.8	1.3	-.4	
Retail control[1]	.3	-.9	2.3	1.2	-.8	.2
Previous estimate			2.1	.8	-.5	
Total excluding automotive group	.3	-.8	2.7	1.3	-.7	.4
Previous estimate			2.6	1.1	-.6	
GAF[2]	.9	-2.2	5.7	2.4	-1.9	-.2
Previous estimate			5.4	1.9	-1.8	
Durable goods stores	.1	.9	4.1	2.0	-.8	1.9
Previous estimate			4.5	2.1	.2	
Building material and supply	-.3	-.7	7.9	2.6	.5	2.8
Automotive dealers	.1	2.5	3.4	2.6	-1.9	2.6
Furniture and appliances	.4	-2.3	5.1	.2	1.9	-1.5
Other durable goods	.7	-.8	1.9	.3	-.4	1.2
Nondurable goods stores	.3	-.7	2.1	1.4	-1.1	.3
Previous estimate			1.9	.9	-.7	
Apparel	.1	-3.0	3.9	2.6	-1.5	1.6
Food	-.4	.2	.3	-.3	-.1	.5
General merchandise[3]	1.6	-1.8	6.7	3.3	-3.6	-.4
Gasoline stations	-.8	-1.2	-.1	3.0	-1.2	.8
Other nondurables[4]	.9	-.2	1.6	1.1	-.2	.1
Memo:						
Motor vehicle sales[5]	12.7	12.2	12.3	12.5	12.5	12.4
Autos	8.6	8.2	8.3	8.5	8.4	8.2
Light trucks	4.1	4.0	4.0	4.0	4.1	4.3

1. Total retail sales less building material and supply stores and automotive dealers, except auto and home supply stores.
2. General merchandise, apparel, furniture, and appliance stores.
3. General merchandise excludes mail order nonstores; mail order sales are also excluded in the GAF grouping.
4. Includes sales at eating and drinking places, drug and proprietary stores.
5. Millions of units at an annual rate; BEA seasonals.

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

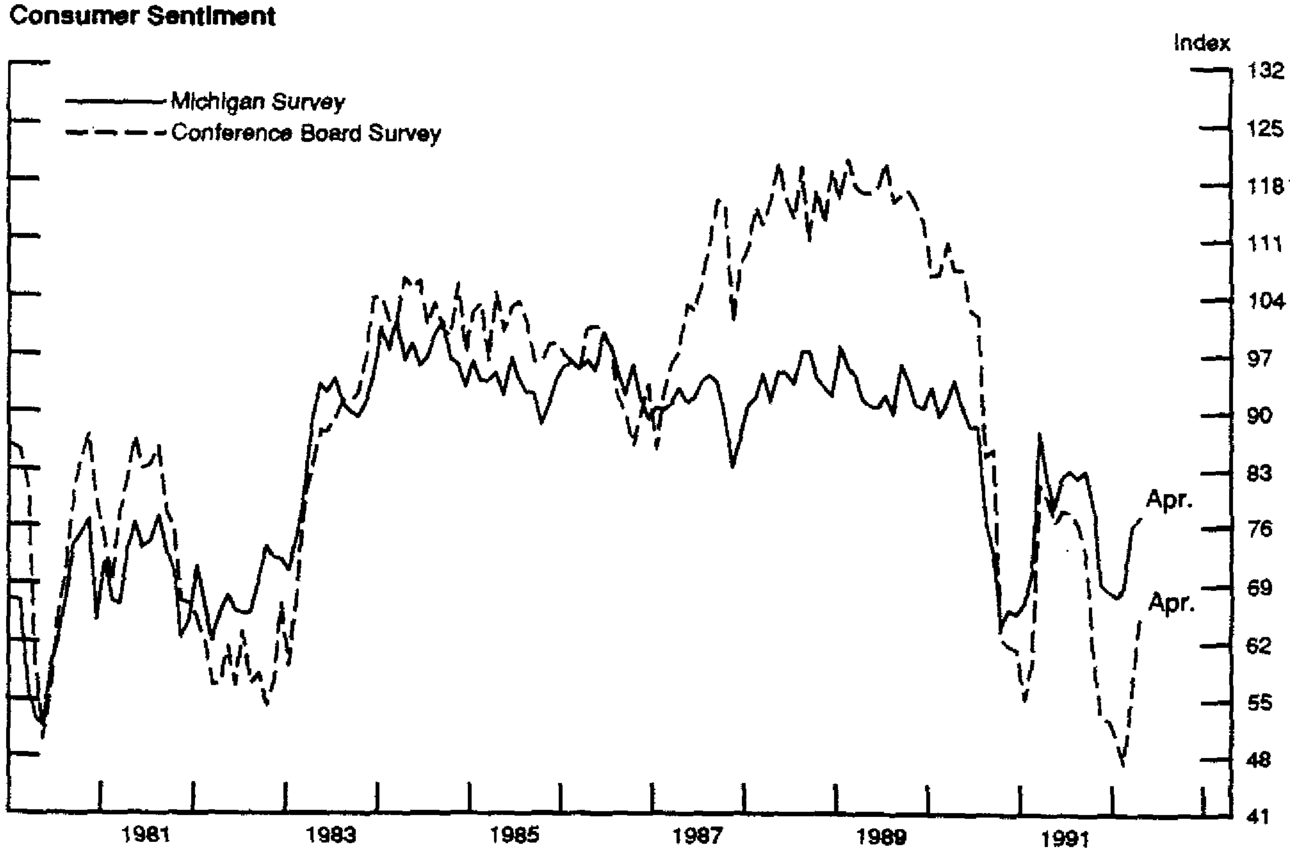
			1991		1992	1992		
	1990	1991	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total	13.86	12.30	12.69	12.22	12.27	12.49	12.50	12.43
Autos	9.50	8.39	8.60	8.19	8.28	8.53	8.36	8.16
Light trucks	4.36	3.91	4.09	4.03	4.00	3.96	4.14	4.28
North American[2]	10.84	9.73	10.06	9.79	9.76	9.90	9.89	9.98
Autos	6.90	6.14	6.31	6.06	6.03	6.19	6.01	5.96
Big Three	5.82	4.99	5.02	5.00	4.98	5.12	4.95	4.85
Transplants	1.08	1.14	1.29	1.06	1.04	1.06	1.06	1.10
Light trucks	3.95	3.59	3.75	3.73	3.73	3.71	3.88	4.03
Foreign produced	3.01	2.57	2.63	2.42	2.51	2.59	2.61	2.45
Autos	2.60	2.25	2.29	2.13	2.25	2.34	2.35	2.20
Light trucks	.41	.32	.34	.29	.26	.25	.26	.25
Memo:								
Domestic nameplate								
Market share, total	.72	.70	.70	.72	.71	.71	.71	.72
Autos	.64	.63	.62	.64	.63	.63	.62	.62

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

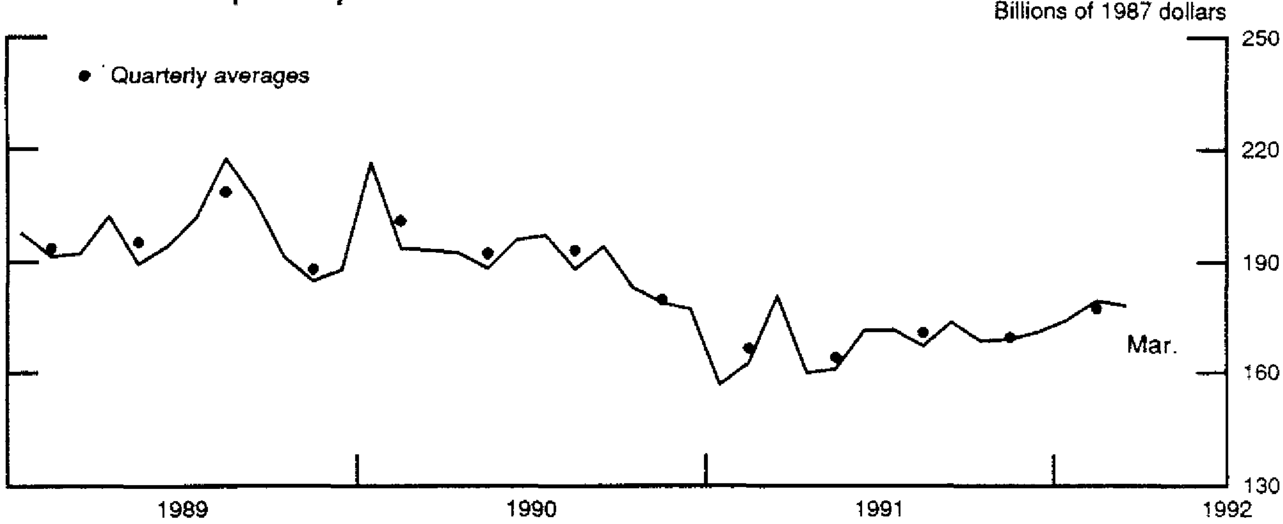
1. Components may not add to totals due to rounding.

2. Excludes some vehicles produced in Canada and Mexico that are classified as imports by the industry.

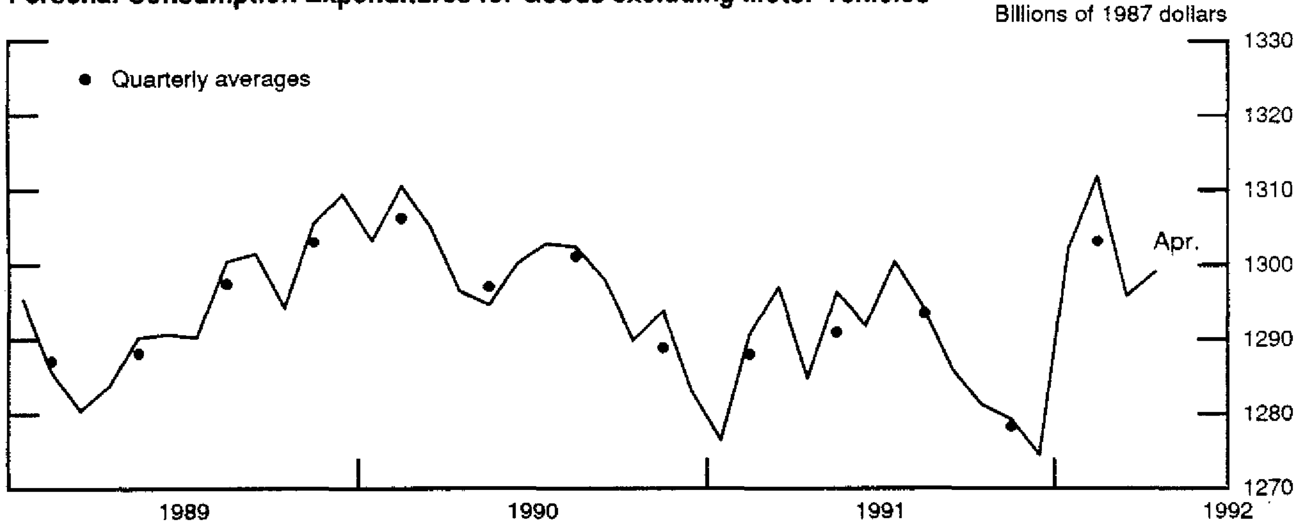
Consumer Sentiment



Personal Consumption Expenditures for Motor Vehicles

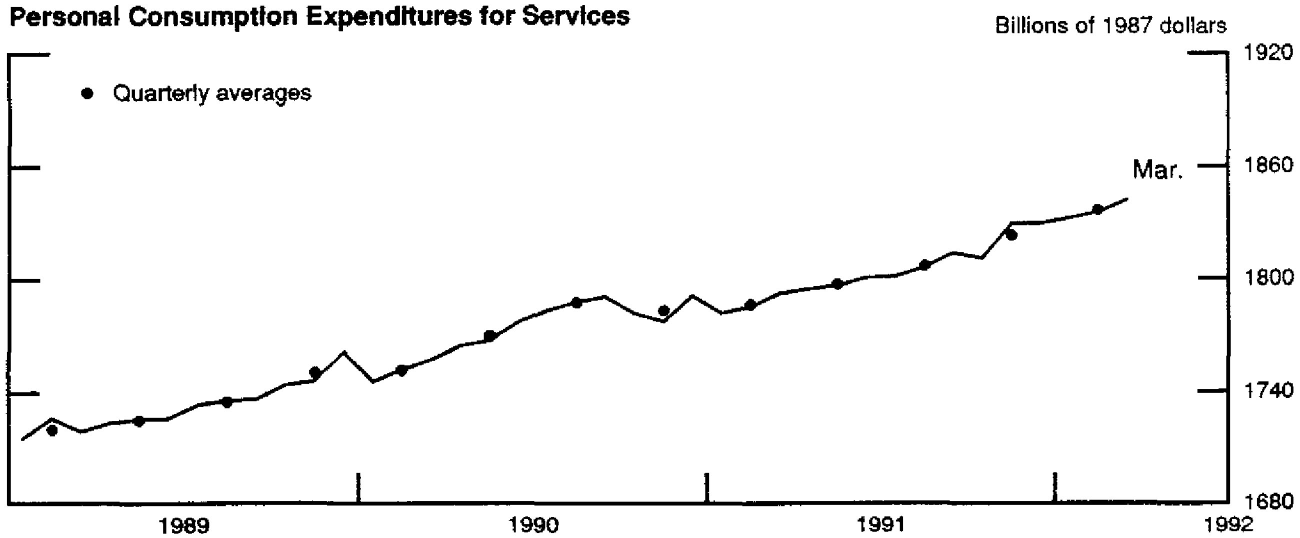


Personal Consumption Expenditures for Goods excluding Motor Vehicles*



*February, March and April are FRB estimates.

Personal Consumption Expenditures for Services



relatively warm winter. Apart from these categories, output of consumer durables has shown moderate growth, and production of business equipment has risen somewhat, reflecting further gains in output of office and computing machinery and the recent upturn in production of industrial equipment. However, output of materials has risen only slightly.

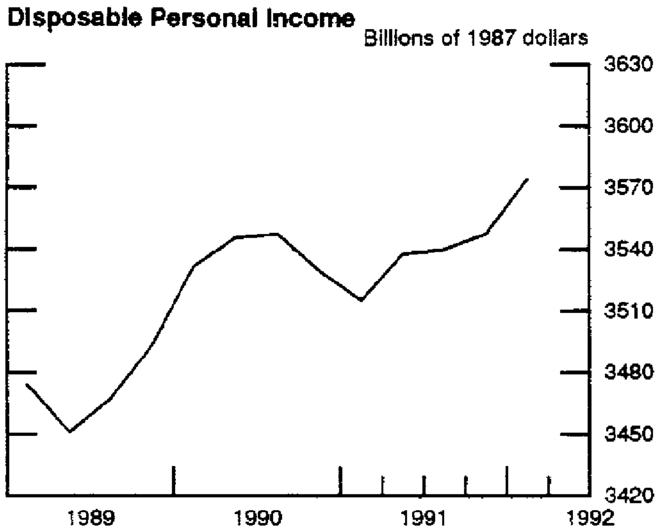
Personal Income and Consumption

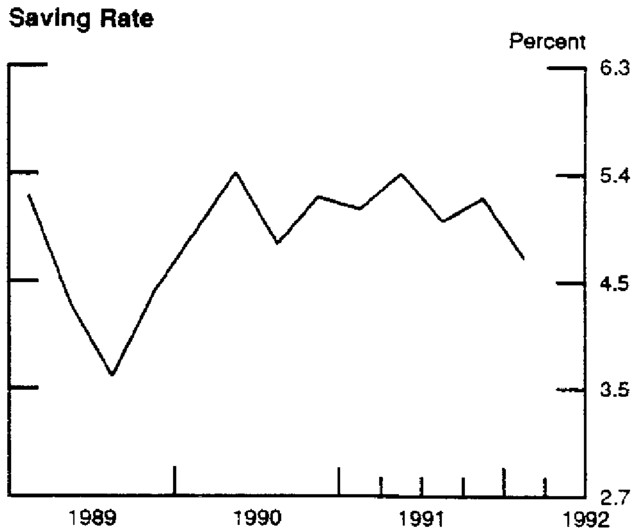
Personal consumption expenditures accelerated sharply in the first quarter, and consumer confidence has moved above its lows of a few months ago. The gain in spending, perhaps spurred in part by the lagged effects of the rise in household wealth over the past year, outpaced the increase in real disposable income. As a result, the saving rate dropped to 4.7 percent, after several quarters in the area of 5 to 5-1/2 percent.

The strength in spending in the first quarter was concentrated in January and February, and outlays dropped noticeably in March.[1] In April, sales of motor vehicles were essentially unchanged at a 12.4 million unit annual pace, and retail sales at the control group of stores, which exclude sales at auto dealers and building material and supply stores, rose only 1/4 percent in nominal terms--insufficient to retrace the March decline. With the CPI for these items about unchanged in April, real PCE for goods other than motor vehicles also probably grew 1/4 percent last month, but remained a tad below the first-quarter average.

Real disposable personal income picked up in the first quarter, increasing 3 percent at an annual rate, after only fractional gains in the second half of last year. However, most of the first-quarter rise was attributable to one-time adjustments in transfer payments and taxes. Notably, transfer payments were boosted significantly by

1. This pattern was exaggerated by the revised data on retail sales.





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

	1991	1991 Q4	1992 Q1	1992 Jan.	1992 Feb.	1992 Mar.
Total personal income	11.3	17.6	21.6	-10.9	48.5	27.3
Wages and salaries	4.7	5.6	9.8	-16.0	33.6	11.7
Private	3.1	3.9	7.0	-20.4	30.9	10.5
Other labor income	1.4	1.4	1.4	1.4	1.4	1.3
Proprietors' income	2.1	3.7	7.0	-9.1	14.8	15.2
Farm	-.5	2.0	2.9	-12.0	9.4	11.4
Rent	.1	2.3	-.8	-1.2	-1.5	.2
Dividend	.1	.1	.1	-.3	.3	.3
Interest	-3.1	-4.9	-6.1	-7.1	-6.1	-5.0
Transfer payments	7.1	9.9	12.0	23.1	8.4	4.4
Less: Personal contributions for social insurance	1.0	.4	1.7	1.9	2.3	.8
Less: Personal tax and nontax payments	-.8	.5	-4.4	-1.5	8.1	-19.7
Equals: Disposable personal income	12.2	17.1	26.0	-9.4	40.4	47.0
Memo: Real disposable income	1.7	7.1	10.0	-10.5	18.4	22.2

cost-of-living adjustments for social security beneficiaries and federal retirees, as well as by the extension of special unemployment insurance benefits. In addition, the revisions to withholding tax schedules in March contributed almost a percentage point (annual rate) to the growth in real DPI for the quarter. Because the lower withholding will increase take-home pay, it may provide a boost to the spending by liquidity-constrained households; however, on the whole, the effect is likely to be relatively small.

Apart from transfers and tax adjustments, incomes were relatively weak in the first quarter. Given the softness in payroll employment, wages and salaries increased at only about a 3-1/2 percent annual rate in nominal terms, or roughly 3/4 percent in real terms. Meanwhile, personal interest income fell further in early 1992, bringing the cumulative decline since late 1990 to almost 7 percent.

Housing Markets

Indicators of single-family housing activity softened in March, after posting sharp gains earlier in the year. The slowing likely reflects, in part, the upturn in mortgage rates since January. In addition, the unusually warm weather--and perhaps the prospect of a tax credit for first-time homebuyers--may have imparted a greater boost to activity in January and February than we had initially thought.

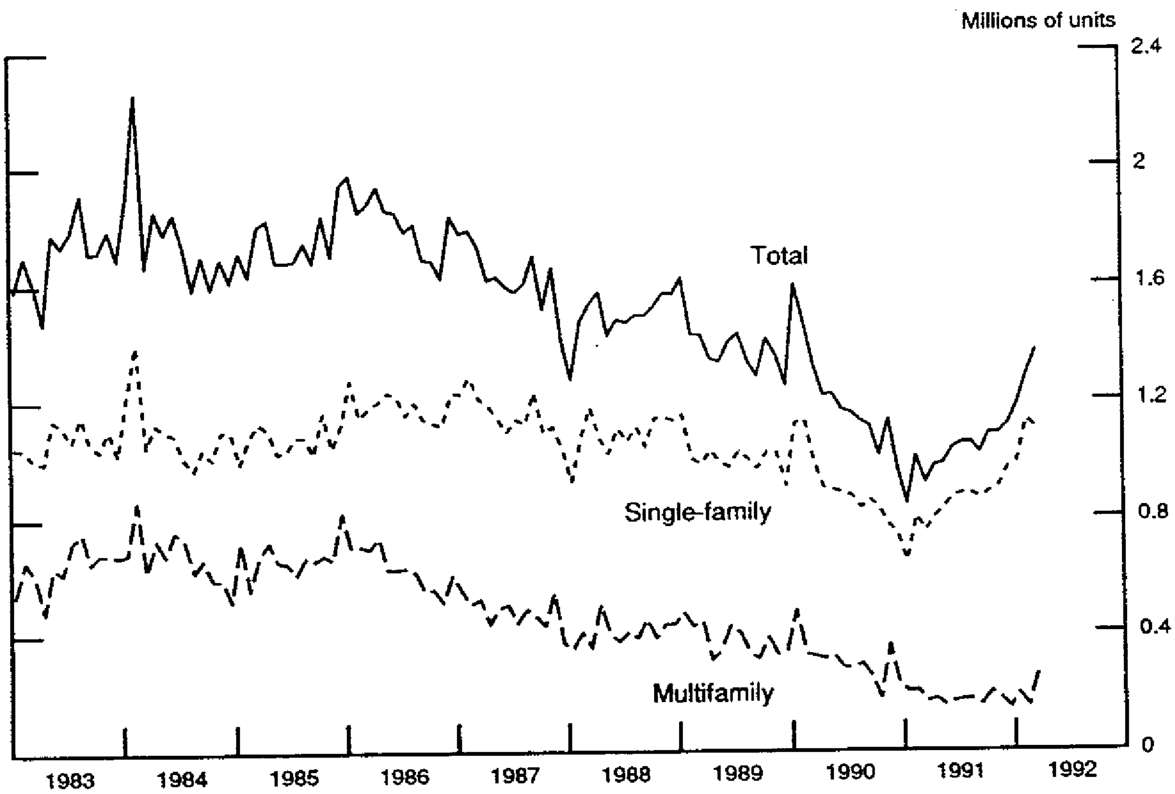
Single-family housing starts declined a bit in March, but remained around 1.1 million units, the highest level in two years. However, permit issuance for single-family homes fell somewhat more; given that measure's greater statistical reliability, it may indicate that the drop-off in single-family building was greater than suggested by the starts figure.

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

	1991[r] Annual	1991 Q3[r]	1991 Q4	1992 Q1[p]	1992 Jan.[r]	1992 Feb.[r]	1992 Mar.[p]
All units							
Permits	.96	.98	1.03	1.12	1.11	1.17	1.09
Starts	1.01	1.04	1.10	1.28	1.18	1.28	1.37
Single-family units							
Permits	.76	.78	.81	.93	.91	.97	.90
Starts	.84	.88	.92	1.07	.99	1.13	1.10
Sales							
New homes	.51	.51	.56	.59	.65	.60	.51
Existing homes	3.22	3.19	3.23	3.40	3.22	3.49	3.49
Multifamily units							
Permits	.20	.20	.21	.20	.20	.20	.19
Starts	.17	.17	.17	.20	.19	.15	.27

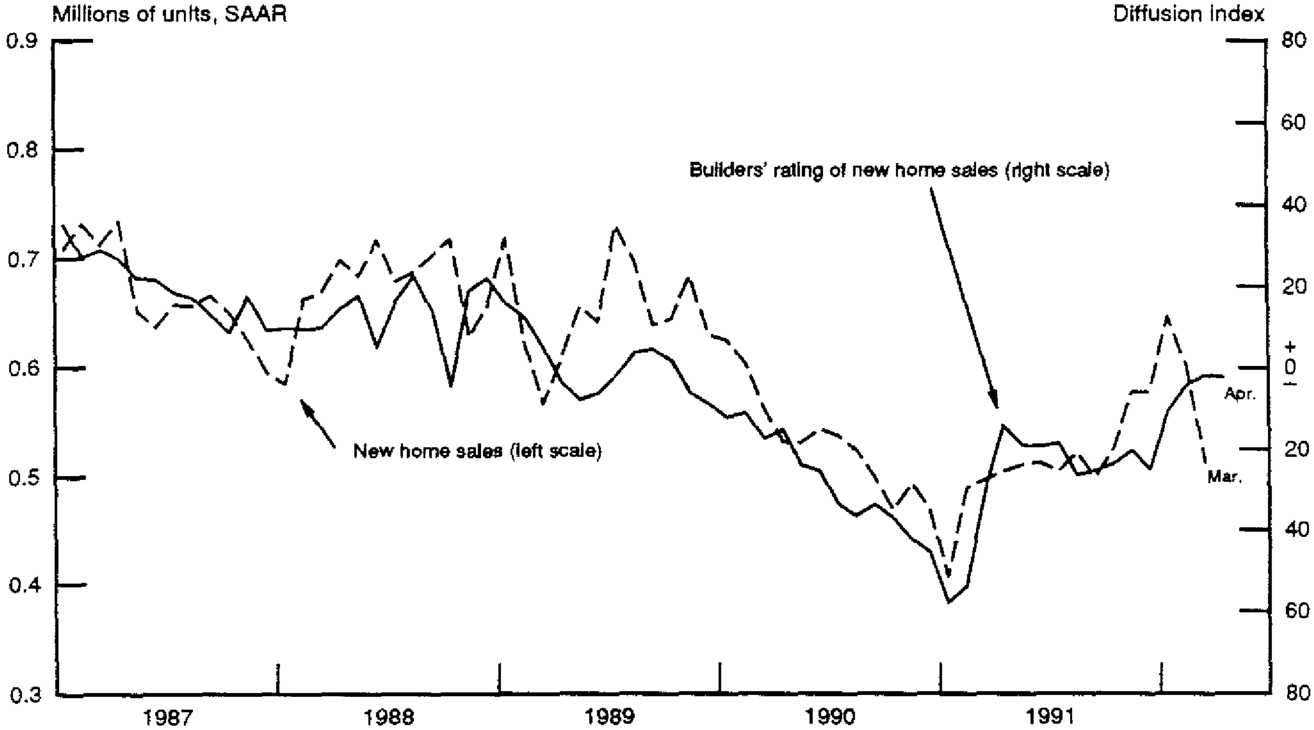
p Preliminary. r Revised estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



BUILDERS' RATING OF NEW HOME SALES[1]

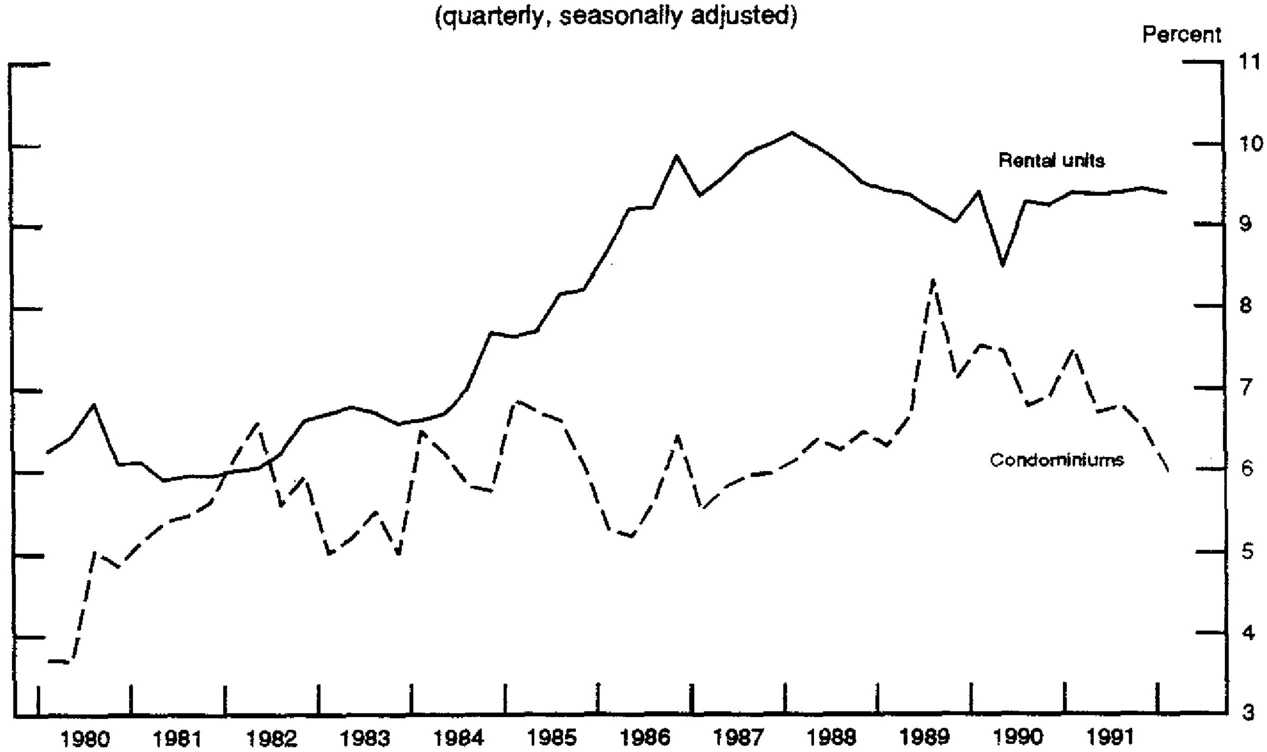
(seasonally adjusted)



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

VACANCY RATE FOR MULTIFAMILY RENTAL UNITS AND CONDOMINIUMS

(quarterly, seasonally adjusted)



Note: seasonally adjusted by Board staff.

New home sales plunged 15 percent in March, more than reversing the gains posted in the preceding two months. However, this drop likely overstates the weakening in the market. The preliminary estimates for new home sales have been subject to large, predominantly upward revisions owing to late reports and to the unanticipated importance of pre-sold homes.[2] In addition, the sharp drop in new home sales is at odds with builders' reports in the monthly survey of the National Association of Home Builders, which showed little change in activity in either March or April (chart). Sales of existing homes remained at their two-year high in March; however, most existing home sales are recorded at the time the transaction "closes" and thus lag the readings on new home sales, which are recorded at the time a contract is signed or when a nonrefundable deposit is made prior to signing a contract.

In the multifamily sector, housing starts jumped to 265,000 units in March, a rate far above those seen in recent months and one that is unlikely to be sustained. Permits for multifamily housing construction fell about 8 percent in March, and vacancy rates for rental units, which account for 90 percent of the multifamily housing stock, have been stuck at more than 9 percent for some time (chart). Vacancy rates for owner-occupied condominiums have come down in recent quarters, but remain above the historical average.

Business Fixed Investment

Business fixed investment appears to have firmed in the first quarter, after declining moderately over the preceding several

2. The Census Bureau routinely imputes values for late reports and for units sold prior to permit issuance, but these imputations have been insufficient of late. The revisions have raised the preliminary monthly estimates nearly 7 percent, on average, during the past six months.

quarters.[3] Moreover, advance indicators point to a more noticeable pickup in spending over the near term.

Outlays for producers' durable equipment posted a small increase in the first quarter, largely on the strength of another sharp advance in real purchases of computers, which rose about 25 percent at an annual rate. As in the fourth quarter, stepped-up deliveries of IBM's new line of mainframe computers probably accounted for some of the growth in computer shipments. However, according to industry sources, demand for other types of office and computing machinery has strengthened significantly since the middle of last year, spurred in part by the rapid pace of technological innovation, especially for workstations and network equipment. Elsewhere, outlays for transportation equipment fell further in the first quarter, as the share of light vehicles purchased by businesses dropped sharply and deliveries of aircraft to domestic firms failed to rebound from the extraordinarily low fourth-quarter level. Outside of computers and transportation, equipment spending was essentially flat in the first quarter after declining appreciably during 1991.

On the whole, advance indicators point to a pickup in equipment spending over the coming months. Gains in real computer outlays are likely to slow from the very rapid pace of recent quarters. However, with orders for a broad range of industrial equipment up noticeably in recent months, higher shipments of noncomputer capital goods appear to be in train for the next few quarters. Outlays for aircraft also should revive somewhat in coming months, though the

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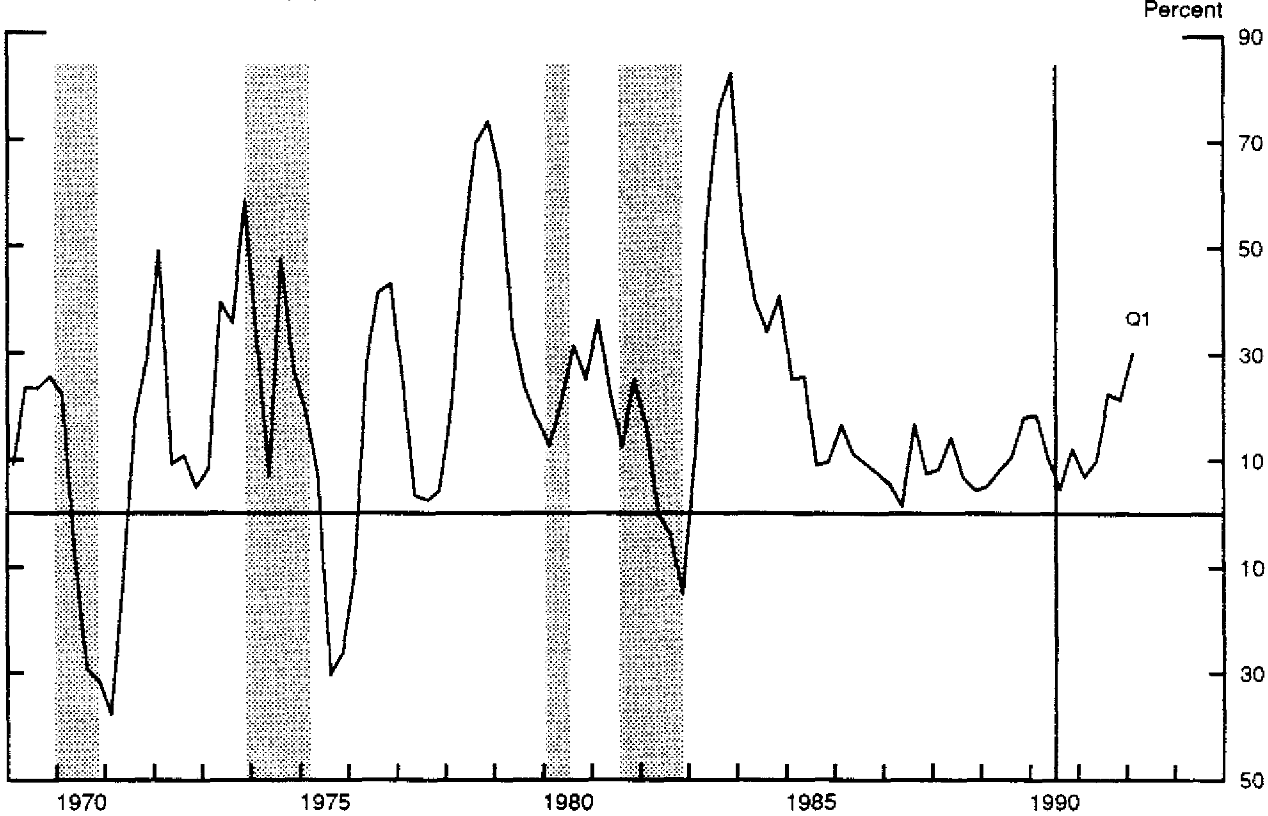
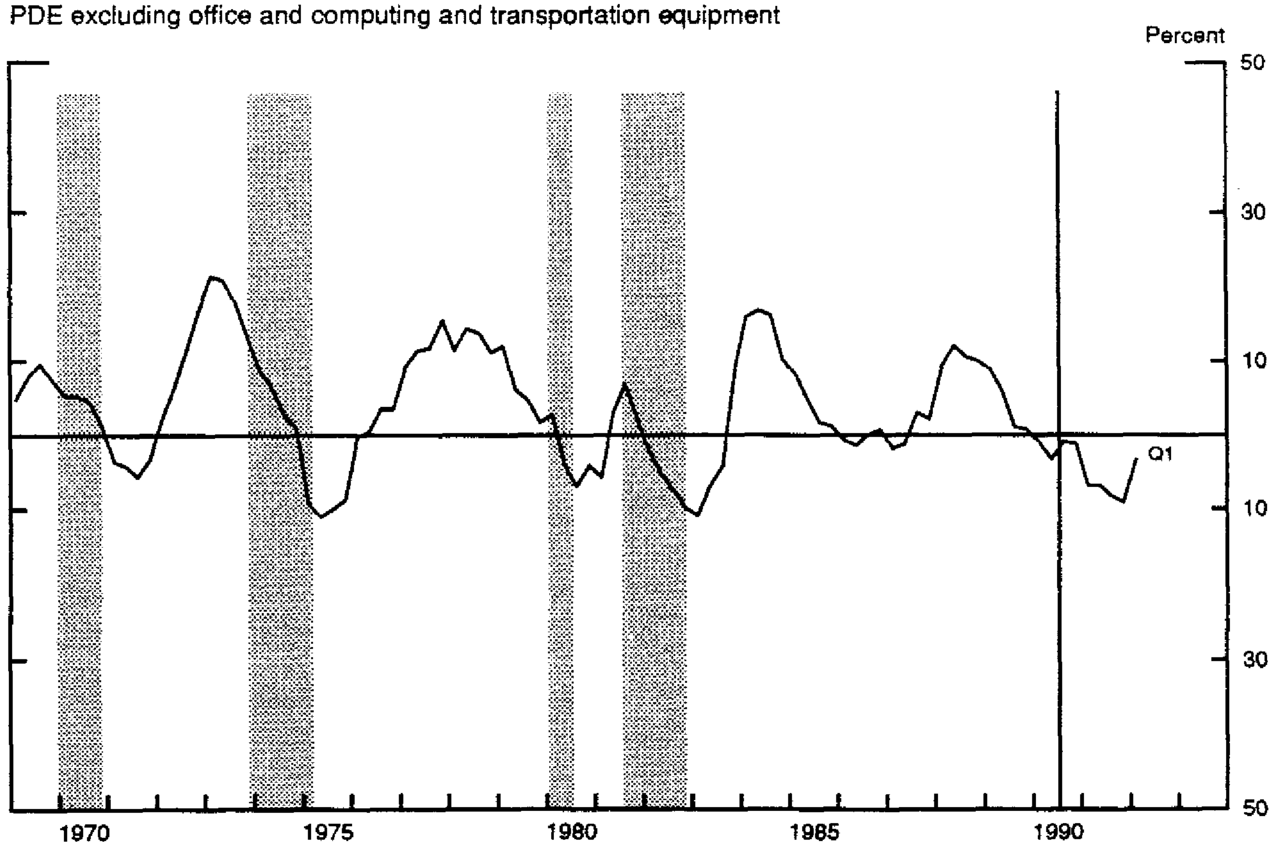
3. According to BEA's advance estimate, real BFI declined at a 1-1/2 percent annual rate in the first quarter as a further contraction in nonresidential structures more than offset a small rise in outlays for equipment. However, more recent data suggest that outlays for structures fell somewhat less, and those for equipment rose somewhat more, than BEA had anticipated. Accordingly, total BFI probably will be revised up to show a modest increase in the first quarter--the first rise since mid-1990.

GROWTH IN OUTLAYS FOR SELECTED COMPONENTS OF PDE
(Four–quarter Percent Change)

Office and computing equipment



PDE excluding office and computing and transportation equipment



Note: Based on constant–dollar data.

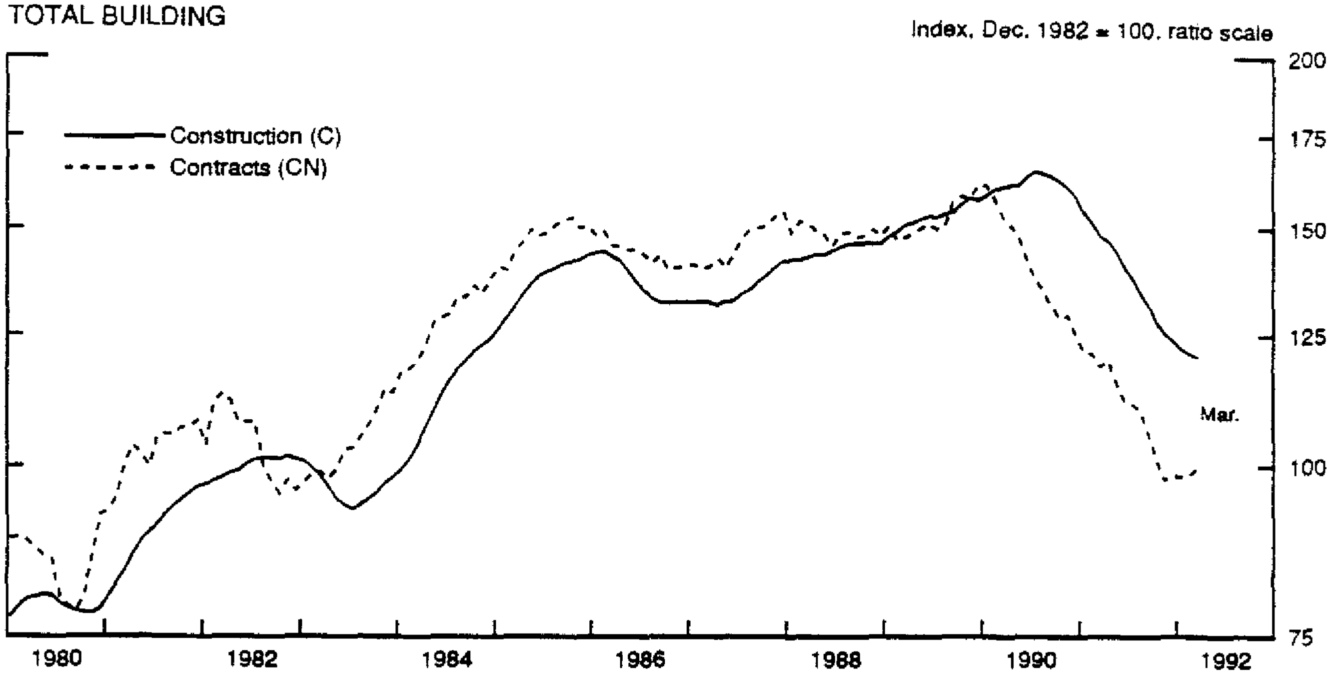
BUSINESS CAPITAL SPENDING INDICATORS
(Percentage change from preceding comparable periods;
based on seasonally adjusted data)

	1991		1992	1992		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Producers' durable equipment						
Shipments of nondefense capital goods	-.2	1.5	.6	2.4	2.8	3.3
Excluding aircraft and parts	-.5	1.9	.4	1.7	-.4	4.1
Office and computing	-2.0	7.8	4.6	11.4	-2.4	1.8
All other categories	.0	.2	-.9	-1.2	.3	4.9
Shipments of complete aircraft[1]	-4.5	-23.2	65.0	83.4	.0	.8
Sales of heavy-weight trucks	1.6	-1.8	6.6	-7.0	3.4	3.1
Orders of nondefense capital goods	13.6	-2.9	2.1	9.4	-1.4	9.2
Excluding aircraft and parts	2.8	.2	3.3	4.5	-2.0	2.9
Office and computing	-4.2	1.3	8.6	18.7	-1.0	3.2
All other categories	5.0	-.1	1.8	.8	-2.3	2.8
Nonresidential structures						
Construction put-in-place	-5.6	-2.7	-.4	.2	1.0	-.0
Office	-9.0	-9.7	-9.1	-6.4	7.6	-5.3
Other commercial	-8.8	-7.1	-1.6	.8	.0	.6
Industrial	-6.4	6.6	3.6	-.2	-.5	4.8
Public utilities	.3	-.3	2.2	4.1	-.8	-1.7
All other	-6.3	-3.1	.2	-.1	1.3	1.1
Rotary drilling rigs in use	-12.1	-9.2	-4.7	-2.7	-.4	-.0
Footage drilled[2]	-2.7	-5.1	n.a.	-.7	-13.8	n.a.

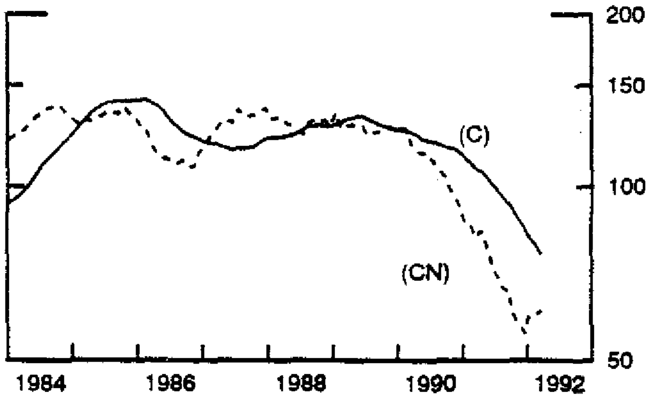
1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines." Monthly data are seasonally adjusted using FRB seasonal factors constrained to BEA quarterly seasonal factors. Quarterly data are seasonally adjusted using BEA seasonal factors.
2. From Department of Energy. Not seasonally adjusted.
n.a. Not available.

Nonresidential Construction and Contracts <1>

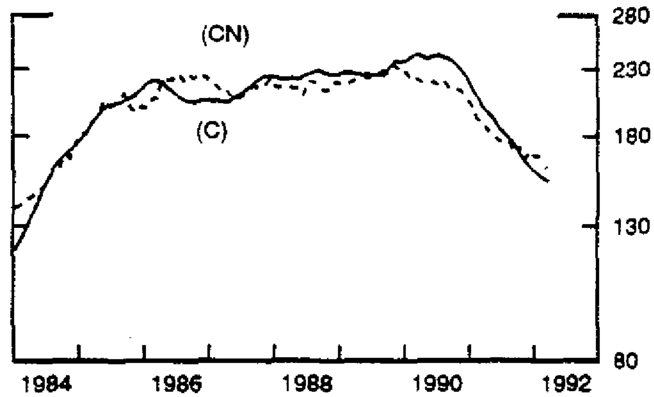
TOTAL BUILDING



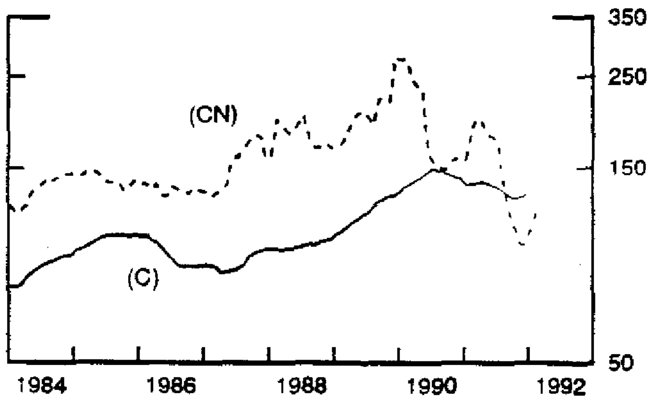
OFFICE



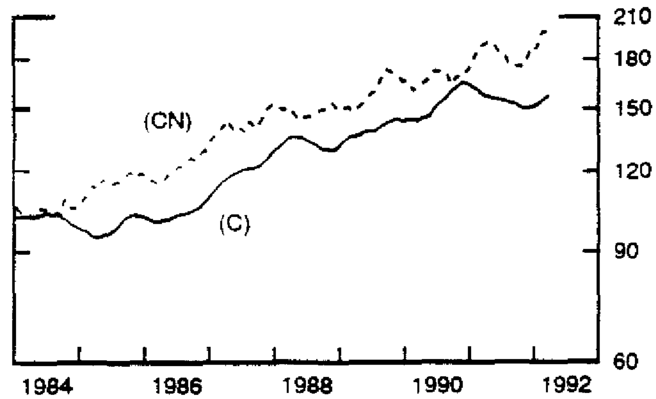
OTHER COMMERCIAL



INDUSTRIAL



INSTITUTIONAL



<1> Six-month moving average for all series shown. For contracts, total only includes private, while individual sectors include private and public.

improvement may not be very durable, given the substantial excess capacity among domestic airlines and the sharp drop in their orders in recent quarters.

Nonresidential construction spending fell again in the first quarter. Outlays for office buildings continued to plummet; this sector continues to be burdened by a huge overhang of unoccupied space, and further reductions in spending are likely through the remainder of the year. In contrast, the declines in the non-office commercial sector, which consists primarily of warehouses and other retail properties, may be starting to ease. The first-quarter drop in spending on these structures was the smallest in some time, and the decline in contracts in this sector appears to have ended. Meanwhile, construction put-in-place data point to another sizable gain in industrial structures in the first quarter.

Manufacturing and Trade Inventories

There was a sizable liquidation of nonfarm inventories in the first quarter, although the drawdown likely was much smaller than the $26 billion annual rate estimated by BEA in its advance GDP report. Declines in inventory-sales ratios were widespread at factories and retail establishments, suggesting that the imbalances that developed late last year have been lessened significantly. In contrast, stocks held by merchant wholesalers are still high.

Manufacturers' inventories were reduced in January and February and were little changed in March. Stock-sales ratios for many industries, notably primary metals, nonelectrical machinery, transportation equipment, textiles, and rubber and plastics, have fallen to their lowest levels in some time.

In the trade sector, the inventory situation is uneven. With the surge in sales in early 1992, excess stocks at many retail establishments were reduced: Non-auto retail inventories fell at an

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

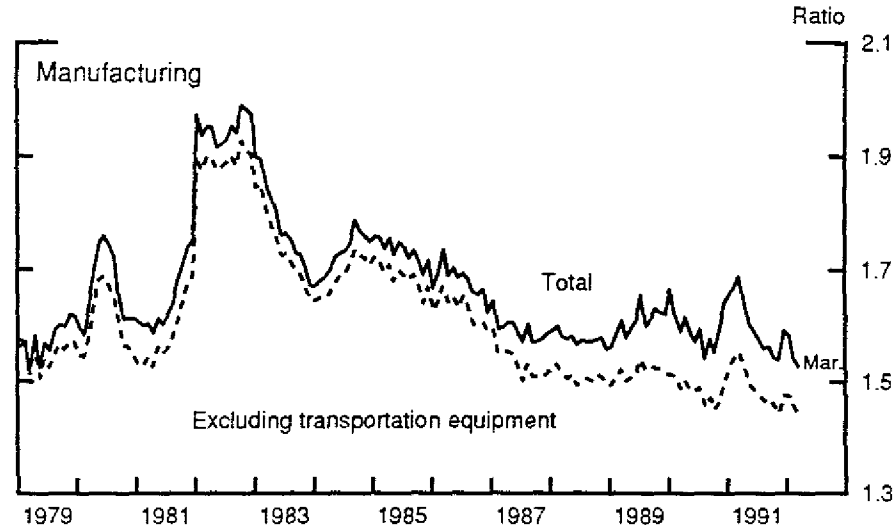
	1991		1992	1992		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Current-cost basis						
Total	10.8	27.6	n.a.	-44.3	-5.3	n.a.
Total, excluding retail auto	1.8	26.5	n.a.	-32.2	-11.4	n.a.
Manufacturing	-4.5	-12.5	-11.4	-20.5	-14.3	.6
Wholesale	-3.3	20.0	8.7	4.3	8.9	12.9
Retail	18.6	20.1	n.a.	-28.1	.1	n.a.
Automotive	9.0	1.1	n.a.	-12.1	6.1	n.a.
Excluding auto	9.6	19.0	n.a.	-15.9	-6.1	n.a.
Constant-dollar basis						
Total	-1.0	12.4	n.a.	-39.4	-5.3	n.a.
Total, excluding retail auto	-1.0	20.5	n.a.	-28.0	-11.4	n.a.
Manufacturing	-4.1	-11.4	n.a.	-15.6	-12.7	n.a.
Wholesale	-3.0	16.5	n.a.	2.4	8.1	n.a.
Retail	6.2	7.2	n.a.	-26.2	-.6	n.a.
Automotive	.0	-8.1	n.a.	-11.3	6.1	n.a.
Excluding auto	6.1	15.3	n.a.	-14.8	-6.7	n.a.

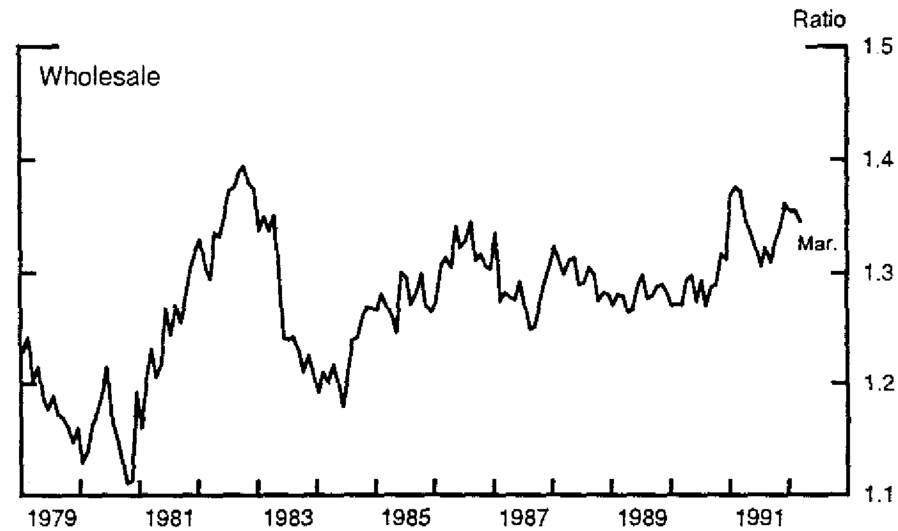
INVENTORIES RELATIVE TO SALES[1]
(Months supply; based on seasonally adjusted data)

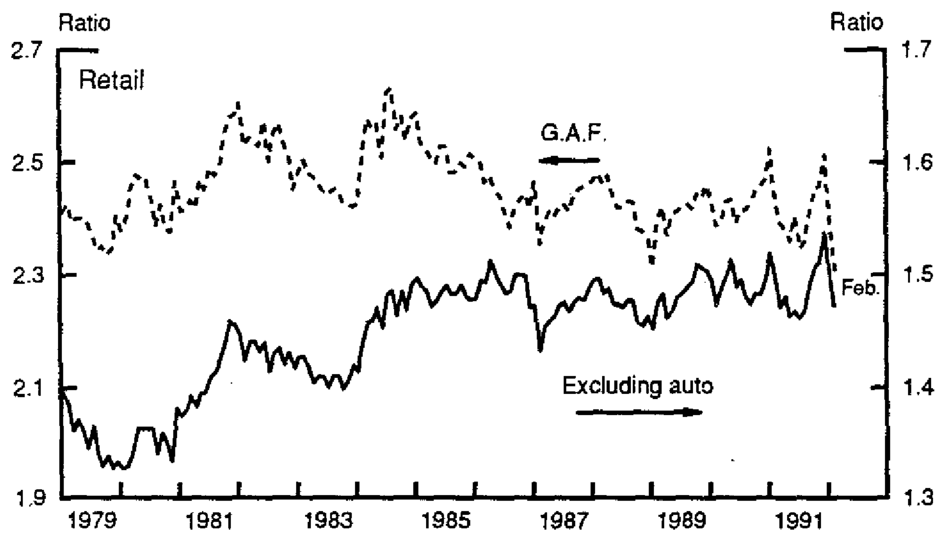
	1991		1992	1992		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Current-cost basis						
Total	1.50	1.51	n.a.	1.51	1.49	n.a.
Total, excluding retail auto	1.47	1.49	n.a.	1.50	1.47	n.a.
Manufacturing	1.57	1.55	1.55	1.58	1.54	1.53
Wholesale	1.31	1.36	1.36	1.35	1.36	1.35
Retail	1.57	1.61	n.a.	1.56	1.54	n.a.
Automotive	1.91	1.87	n.a.	1.80	1.78	n.a.
Excluding auto	1.48	1.54	n.a.	1.49	1.47	n.a.

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

RATIO OF INVENTORIES TO SALES
(Current-cost data)



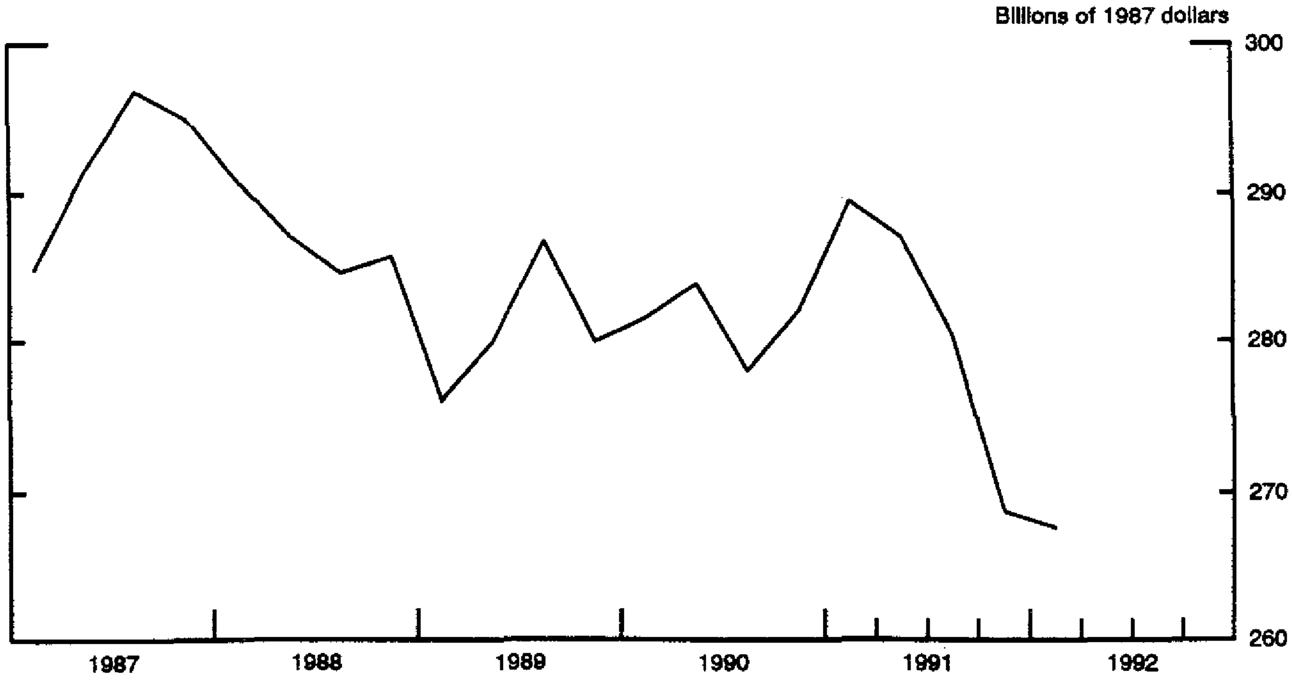




FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Unified basis, billions of dollars, not seasonally adjusted, except where otherwise noted)

	Fiscal year through March		
	1991	1992	Percent change
Outlays	634.8	690.9	8.8
Deposit insurance (DI)	16.7	5.9	-64.7
Defense cooperation account (DCA) contributions	-27.1	-4.3	-84.1
Outlays ex DI and DCA	645.2	689.3	6.8
National defense ex DCA	157.2	150.9	-4.0
Net interest	96.2	100.9	4.9
Social security	130.2	139.8	7.4
Medicare and health	81.8	100.4	22.7
Income security	87.1	100.7	15.6
Other	92.7	96.5	4.1
Receipts	482.6	494.0	2.4
Personal income and social insurance taxes	392.7	404.5	3.0
Refunds	-33.5	-38.9	15.9
Nonwithheld	35.5	38.7	9.0
Other	390.8	404.7	3.6
Corporate income	44.6	40.4	-9.4
Other	45.3	49.1	8.4
Deficit	152.2	196.9	29.3
Deficit ex DI and DCA	162.6	195.3	20.1

REAL DEFENSE PURCHASES
(NIPA basis)



average annual rate of $11 billion on a current-cost basis in January and February. The improvement was especially notable for the general merchandise, apparel, and furniture (GAF) grouping of stores, where stocks had climbed significantly in late 1991; the inventory-sales ratio for GAF stores fell in February to its lowest level in many years.

In contrast, inventories held by wholesalers remained quite high relative to sales at the end of the first quarter. For the quarter as a whole, stocks rose another $9 billion, after an even larger gain during the fourth quarter. However, sales increased considerably in the first quarter, and the inventory-sales ratio for merchant wholesalers was about unchanged.

Federal Government

The federal government recorded a $197 billion unified budget deficit for the first half of the fiscal year, up $45 billion from a year earlier. The falloff in foreign contributions to the Defense Cooperation Account (DCA) accounted for $23 billion of this increase and was only partly offset by the marked slowdown in deposit insurance (DI) outlays. Outlays excluding DCA and DI increased about 7 percent, paced by sizable increases in spending on Medicaid and Medicare and on unemployment insurance and other cyclically sensitive income-support programs. In contrast, defense spending (excluding DCA) was about 4 percent below year-earlier levels. Meanwhile, receipts were only about 2 percent higher than in the first six months of FY1991, held down by slow over-the-year income growth and faster-than-usual disbursements of individual tax refunds through March. Corporate tax receipts were also weak.

Daily Treasury Statements indicate that net final settlements on CY1991 individual income tax liabilities were below the previous year's level. These data, in conjunction with the information on declarations and withheld taxes, suggest that personal income tax liabilities for CY1991 are about the same as they were for 1990, despite a rise of about 2 percent in taxable income, on a National Income and Product Accounts basis, and the $7 billion in individual income tax increases that were enacted in the 1990 budget agreement.[4]

With six months of data in hand, the estimated FY1992 deficit clearly looks like it will be much smaller than the $400 billion figure estimated by the Administration last winter. The main reason is that outlays for deposit insurance will fall far short of the $80 billion estimated by OMB for this fiscal year; so far, spending has been only $6 billion, on net, and the RTC currently is hampered by a lack of spending authority. Spending for several other areas also appears to be running appreciably lower than would be consistent with OMB's full-year estimates. In particular, defense spending (excluding DCA) has averaged only about $25 billion per month over the past six months. It would have to pick up to a $27 billion average pace over the remainder of the year to reach OMB's FY1992 total; although the possibility of somewhat higher spending in coming months cannot be ruled out, a jump of this magnitude would be unusual.[5]

House and Senate conferees are meeting to hammer out a budget resolution for FY1993. The only major area of contention is defense spending; relative to the caps legislated in the 1990 Budget Act,

4. One possible explanation for the discrepancy is that capital gains realizations may have been quite low in 1991, perhaps reflecting the weakness in real estate markets. Because the National Income and Product Accounts do not include capital gains and losses, NIPA-based income measures could have looked substantially stronger than true taxable income.

5. On an NIPA basis, real defense purchases edged down in the first quarter, after a sharp drop in the fourth quarter of 1991. The level of purchases in the first quarter was 6 percent below the average for FY1991 as a whole. By contrast, the President's budget implied a drop in real defense purchases of only about 3 percent for FY1992.

the House budget resolution cuts $15 billion in budget authority for defense and $10 billion in outlays, while the Senate budget resolution, like the Administration's FY1993 budget, would make reductions of roughly half that magnitude. Debates about national security needs in the post-cold war period have, predictably, become muddled with concerns about local job preservation. Both budget resolutions devote cuts in defense spending to deficit reduction and set discretionary domestic spending at the cap legislated in the 1990 Budget Act.

Momentum is building in Congress to submit to the states for ratification an amendment to the Constitution that would restrict Congress's ability to incur deficits. The proposals currently being discussed would require that deficit spending be approved by 60 percent of each house beginning as early as FY1995. In addition, some members of Congress are pushing for a requirement that tax increases also be approved by 60 percent of each house. Current indications are that congressional approval of some form of a balanced-budget amendment is likely.[6] However, obtaining approval will be more difficult if Representative Panetta, chairman of the House Budget Committee, makes good on his promise to link any vote for a balanced-budget amendment in the House to a specific plan for achieving budget balance between now and the time that the amendment becomes effective.

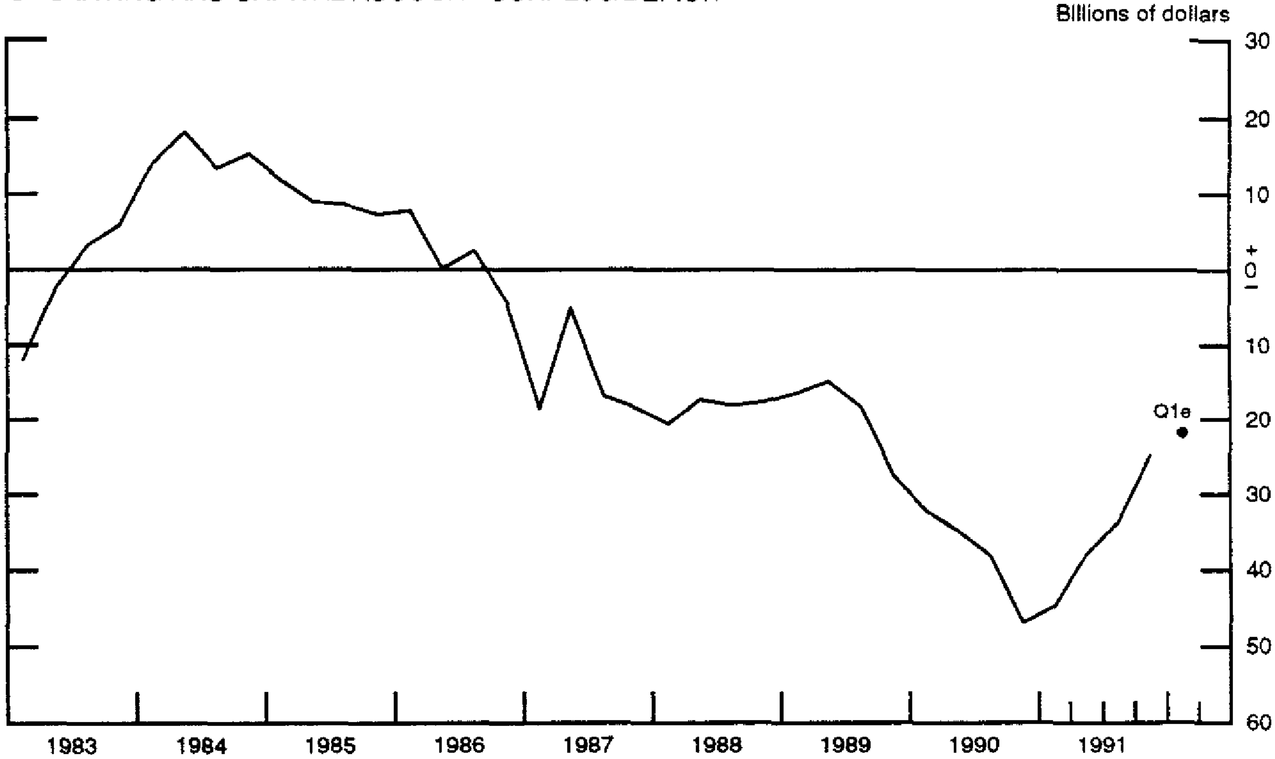
State and Local Government

According to BEA's advance estimate, real purchases of goods and services by state and local governments rose at a 3.2 percent annual rate in the first quarter, after a much smaller increase in

6. A constitutional amendment requires approval of two-thirds of each house and ratification by three-quarters of state legislatures.

STATE AND LOCAL GOVERNMENT SECTOR

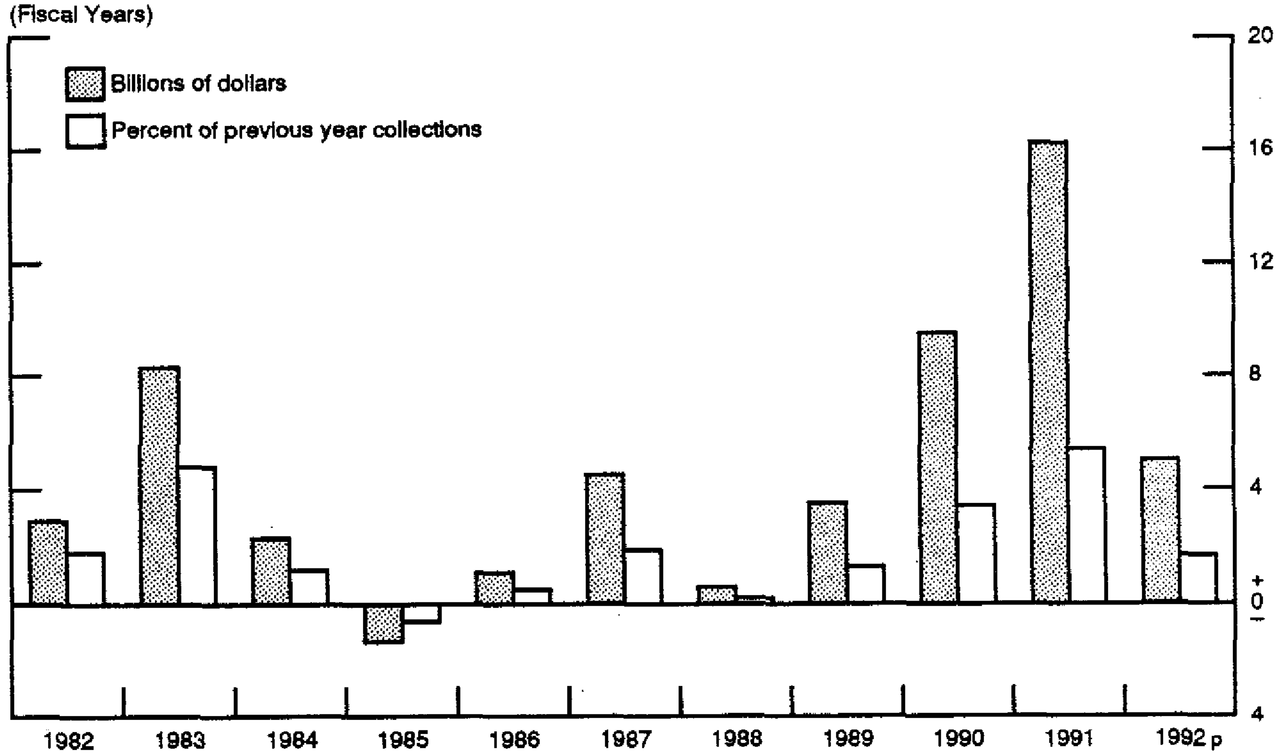
OPERATING AND CAPITAL ACCOUNT SURPLUS/DEFICIT*



*Excludes social insurance funds. 1992 Q1 is estimated by the staff.

NET STATE TAX CHANGES BY YEAR OF ENACTMENT

(Fiscal Years)



p: Projected by the National Association of State Budget Officers.
Source: NCSL staff compilations for data 1985–1991; The Tax Foundation for data 1982–1984.

the fourth quarter.[7] These gains have now retraced the decline that occurred over the first three quarters of 1991. Most of the rise in the first quarter, as well as the drop in 1991, was in construction, which tends to be volatile; the sharpest increases in the first quarter were in spending for educational facilities and highways. On balance, real purchases outside of construction were essentially flat in the first quarter and have been little changed, on net, since early 1991; typically these outlays--largely employee compensation--make up the bulk of states' general fund budgets and thus come within the purview of their balanced budget requirements.

Despite the increase in purchases, the deficit in operating and capital accounts, excluding social insurance funds, fell a bit further to an estimated $22 billion (annual rate) in the first quarter (chart). Even so, it remains quite large in historical terms and has been exacerbated in many states this year by spending overruns--particularly for Medicaid and other welfare programs--and by revenue shortfalls. Receipts have been coming in below expectations in thirty-five states. So far, only a few legislatures have passed, or are proposing, major tax increases for enactment in fiscal year 1992, and collections from new tax hikes are expected to total only around $5 billion, or about one-third the level seen last year (chart).

Labor Costs

In April, average hourly earnings of production or nonsupervisory workers fell 0.1 percent, reducing the past twelve-month change to 2-1/2 percent--down from nearly 3-1/2 percent as of a year ago. This was a more favorable reading on the progress on labor-cost disinflation than was provided by the more comprehensive

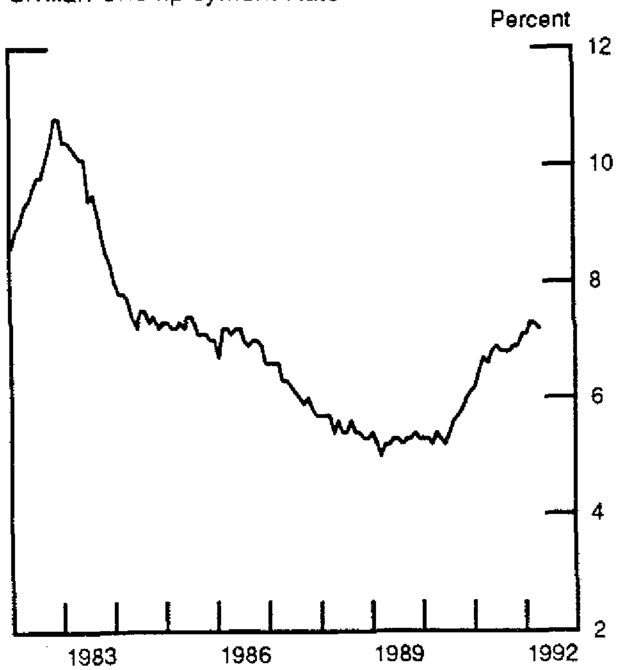
7. The figure probably will be revised upward somewhat when BEA incorporates data on construction in March into the next GDP estimate.

EMPLOYMENT COST INDEX
(Percent change from preceding period at compound annual rates; based on seasonally adjusted data[1])

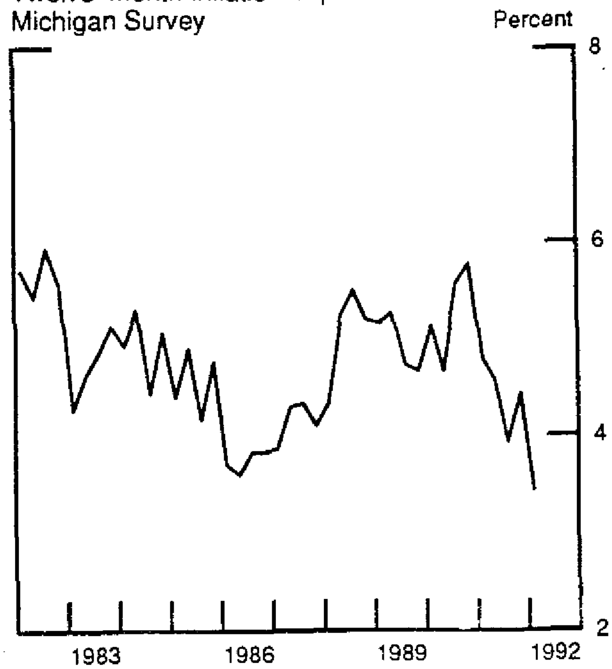
	1990	1991				1992
	Dec.	Mar.	June	Sep.	Dec.	Mar.
Total compensation costs:						
Private industry workers	3.8	4.9	4.5	4.1	4.0	4.0
By industry:						
Goods-producing	3.8	4.6	4.9	4.1	4.4	5.1
Service-producing	4.2	4.9	4.5	4.1	4.0	3.3
By occupation:						
White-collar	2.7	6.1	4.9	4.0	2.9	4.3
Blue-collar	3.8	4.6	4.1	4.9	3.7	4.4
Service workers	5.4	3.8	6.1	6.3	3.3	4.3
Memo:						
Wages and salaries	3.1	4.2	4.2	3.0	3.3	3.3
Benefits	6.0	5.6	6.6	6.9	5.7	6.0

1. Changes are from final month of preceding period to final month of period indicated. Percent changes are seasonally adjusted by the BLS.

Civilian Unemployment Rate



Twelve–month Inflation Expectations: Michigan Survey



employment cost index data through the first quarter. The ECI for hourly compensation in private industry rose 4 percent (annual rate) over the December-to-March period, about the same pace as during the second half of 1991. Over the twelve months ended in March, compensation costs increased 4-1/4 percent, about 1/4 percentage point less than in the preceding twelve-month period.

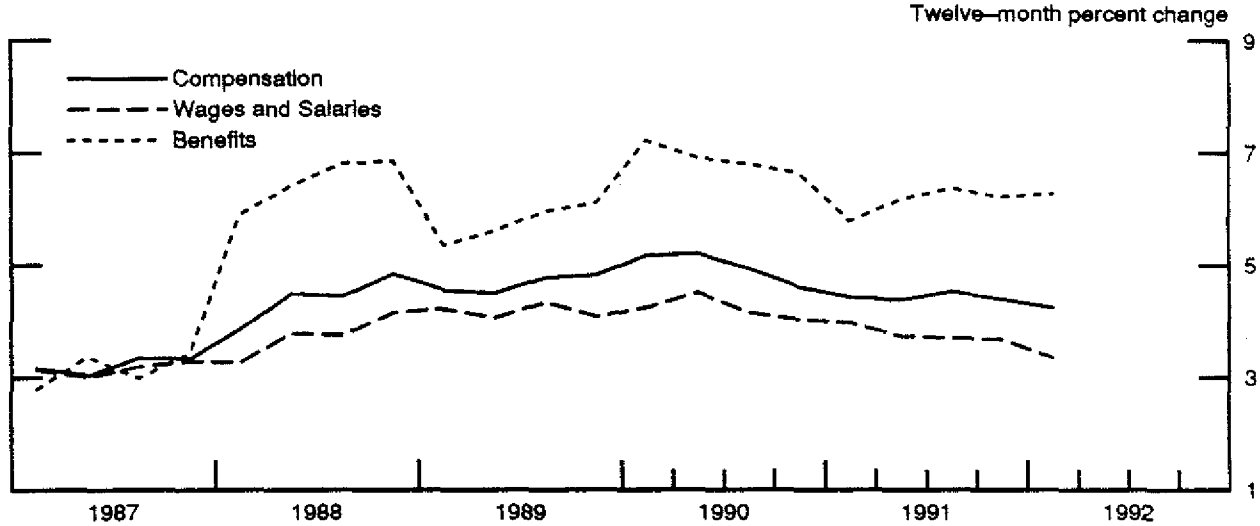
Taking a somewhat longer perspective, ECI compensation has slowed about a percentage point since mid-1990. The slowing to date in compensation has been on the low side of what we might have expected, given the amount of slack in labor markets since late 1990 and the decline in inflation expectations that has occurred over this period.[8] Nevertheless, barring a sharp reversal of inflation expectations or tightening of labor markets, we expect a further diminution of labor cost pressures in coming quarters.

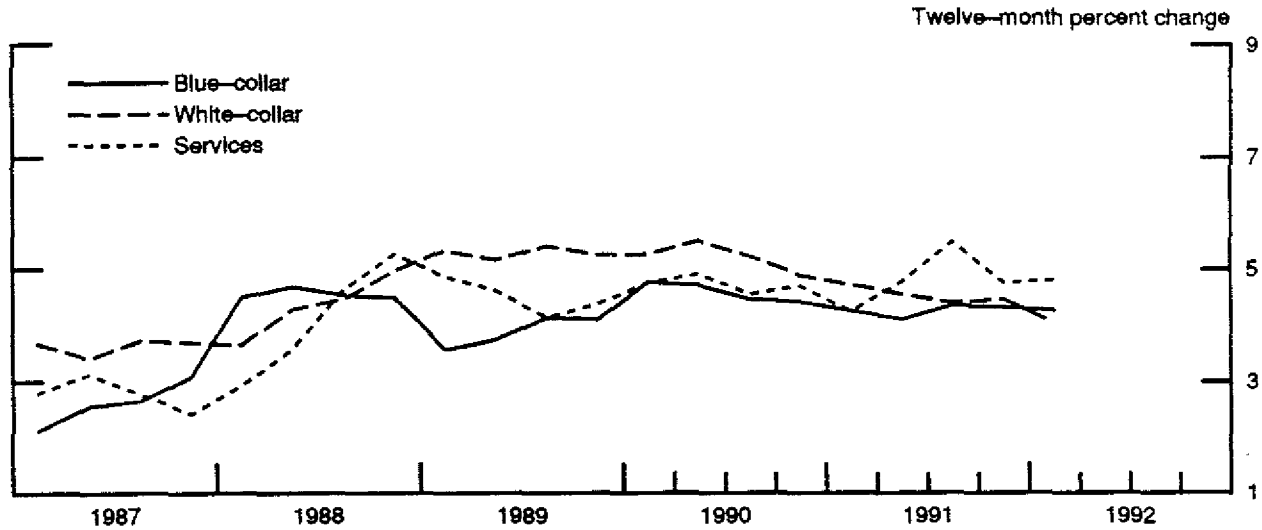
As a matter of arithmetic, continued upward momentum in benefit costs has been a major factor in the comparatively slow deceleration in labor costs. Benefit costs have been rising at a little over a 6 percent annual rate over the past two years, largely because soaring expenses for medical care have continued to drive up both premiums for health insurance and payments for legally required workers' compensation programs. As employers attempt to control total labor costs, one might have expected to see some offset in the form of lower wage increases. But, if anything, the deceleration in wages and salaries--from about 4-1/2 percent in mid-1990 to around 3-1/2 percent by early 1992--also has been on the small side.

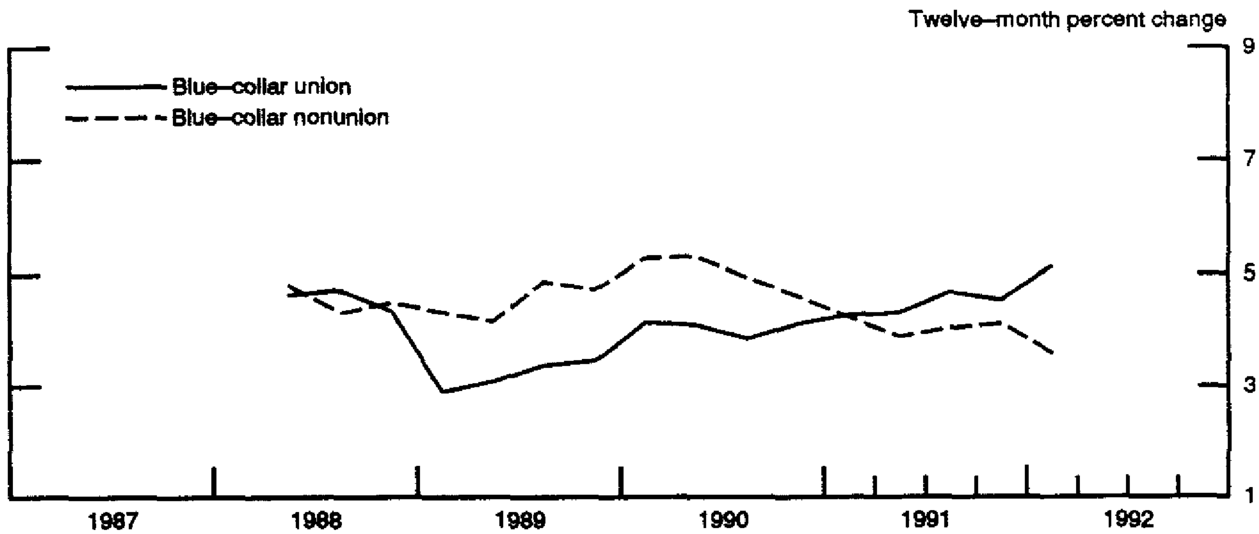
By occupational groups, the deceleration in compensation over the past two years has been concentrated in white-collar jobs. Within that category, the index for sales workers has seen the

8. In addition, the increase in social security taxes at the beginning of 1990 had added 0.2 percentage point to the increase in compensation over the four quarters ended in 1990:2.

Employment Cost Index







sharpest slowing--more than 2 percentage points since mid-1990 and roughly 5 percentage points from its 1989 peak. But, compensation of workers in other white-collar jobs, notably professionals and executives, also has decelerated more than 1 percentage point over the past two years. Among blue-collar occupations, workers in nonunion jobs have experienced a deceleration similar to that for white-collar occupations. However compensation gains for unionized jobs have picked up, with the acceleration owing entirely to sharp increases in benefit costs.[9] Apparently, unionized firms have been unable to hold down benefit costs--either because they are locked into labor contracts or because unions have been successful in protecting health insurance benefits--or to offset them with smaller wage hikes. Union wage increases in the ECI, while at a moderate 3-1/2 percent pace, have not slowed noticeably over the past two years.

Prices

The CPI rose 0.2 percent in April after a jump of 0.5 percent in March. Energy prices climbed further in April, but food prices edged down and the rate of increase in the prices of other goods and services moderated. Over the past 12 months, the CPI excluding food and energy has risen about 4 percent. The PPI excluding food and energy rose 0.2 percent in April, about the same as the average monthly increase over the preceding six months.

The CPI for energy rose 0.4 percent in April--after advancing 0.6 percent in March--as a result of increases for natural gas and gasoline. The higher gasoline prices retraced part of the declines posted in preceding months and reflected some firming in domestic demand and the rising cost of crude oil. Wholesale price data for

9. Jobs are classified as "union" in the ECI if the majority of workers are union members and if wages are determined by collective bargaining.

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

	Relative importance Dec. 1991	1990	1991	1991 Q3	1991 Q4	1992 Q1	1992 Mar.	1992 Apr.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	6.1	3.1	3.0	3.2	3.5	.5	.2
Food	16.0	5.3	1.9	-2.3	2.7	1.5	.5	-.1
Energy	7.4	18.1	-7.4	1.2	3.6	-6.9	.6	.4
All items less food and energy	76.6	5.2	4.4	4.6	3.1	4.8	.5	.3
Commodities	24.8	3.4	4.0	4.4	.6	5.3	.5	.2
Services	51.9	6.0	4.6	4.6	4.3	4.8	.5	.3
Memorandum:								
CPI-W[3]	100.0	6.1	2.8	2.7	3.3	3.0	.5	.2

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

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

	Relative importance Dec. 1991	1990	1991	1991 Q3	1991 Q4	1992 Q1	1992 Mar.	1992 Apr.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	5.7	-.1	1.3	1.0	.7	.2	.2
Consumer foods	21.9	2.6	-1.5	-4.4	-1.0	.7	-.5	-.3
Consumer energy	13.8	30.7	-9.6	3.7	-.5	-7.0	1.2	.5
Other finished goods	64.3	3.5	3.1	2.8	2.1	2.7	.2	.2
Consumer goods	39.5	3.7	3.4	3.6	2.4	3.0	.2	.4
Capital equipment	24.8	3.4	2.5	1.3	1.9	1.9	.2	.2
Intermediate materials[2]	95.3	4.6	-2.7	.4	-1.7	.0	.0	.1
Excluding food and energy	81.7	1.9	-.8	-1.3	.0	1.7	.2	.0
Crude food materials	41.4	-4.2	-5.8	-6.6	-4.9	12.6	-1.2	-1.4
Crude energy	40.0	19.1	-16.6	-.5	5.3	-21.2	-3.4	2.7
Other crude materials	18.6	.6	-7.6	-4.9	-5.9	13.6	2.2	.2

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

early May point to further increases in retail prices of petroleum products this month.

Consumer food prices declined 0.1 percent in April, after rising 0.5 percent in March. The prices of fruits and vegetables, which had risen sharply in February and March, fell 1 percent in April; a further decline may be in store in May. Average price increases for other foods have continued to be small so far this year, and the twelve-month rate of change in the CPI for food has been running in the range of 1 to 2 percent for the past several months. Nor are price pressures much in evidence at earlier points in the food sector. The PPI for finished foods declined in April for a second month, and it was little changed, on net, over the first four months of 1992. The PPI for crude foods also declined in both March and April; the April reading was 3-1/4 percent below the level of a year earlier.

Excluding food and energy, the CPI for goods advanced 0.2 percent in April, down from 0.5 percent in March. Apparel prices fell 0.8 percent, after increases in February and March that reflected the introduction of new seasonal clothing into the CPI sample.[10] New car prices also registered a sizable increase for the second month, perhaps reflecting the higher prices previously announced by Japanese manufacturers.

The CPI for nonenergy services was up 0.3 percent in April, after rising 0.5 percent in March. Airfares rose another 1.2 percent after a large increase in March.[11] In addition, rents, which increased sharply in March, were little changed

10. Changes in BLS methods and related difficulties with seasonal adjustment have contributed to this monthly pattern in recent years.

11. The mid-April restructuring of airfares should have a limited effect on the CPI measure, which is designed to represent consumer travel and is, therefore, based mainly on discount fares. The steepest of the announced reductions were for first-class and regular coach fares.

INFLATION RATES EXCLUDING FOOD AND ENERGY
(Percent changes)

	From twelve months earlier		From six months earlier, CAR	
	April 1990	April 1991	Oct. 1991	April 1992
CPI	4.8	5.1	3.7	4.1
Goods	3.4	4.0	2.7	3.1
excluding used cars	3.8	4.3	2.6	3.2
Alcoholic beverages	4.8	11.2	2.8	3.8
New vehicles	1.6	4.0	1.9	3.0
Apparel	4.8	2.4	2.4	2.2
Housekeeping supplies	3.6	4.0	.2	.0
Housefurnishings	1.5	.8	.6	3.7
Services	5.6	5.8	4.2	4.5
Owners' equivalent rent	5.3	4.4	3.2	4.0
Tenants' rent	4.3	4.0	2.3	2.9
Other renters' costs	7.1	16.3	5.6	4.1
Auto finance charges	-1.7	.8	-8.6	-15.6
Airline fares	11.5	5.2	-7.1	18.5
Medical care	8.9	9.5	7.7	7.8
PPI Finished goods	4.0	3.9	2.2	2.4
Consumer goods	4.1	4.2	2.4	3.0
Capital equipment, excluding motor vehicles	4.3	3.1	1.2	1.0
PPI intermediate materials	-.1	.8	-1.0	1.2
PPI crude materials	-2.4	-3.7	-10.5	4.7
Factors Affecting Price Inflation				
ECI hourly compensation[1]	5.2	4.4	4.3	4.0
Civilian unemployment rate[2]	5.4	6.6	6.9	7.2
Capacity utilization[2] (manufacturing)	82.5	77.5	78.7	77.0[3]
Inflation expectations[4]	4.5	4.3	4.7	3.7
Non-oil import prices[5]	.2	2.9	-3.3	3.7
Consumer goods, excluding autos, food, and beverages	3.3	2.0	-1.0	4.8
Autos	.0	4.5	-.7	3.5
Capital goods, excluding automotive and computers	2.1	5.3	-5.1	5.0

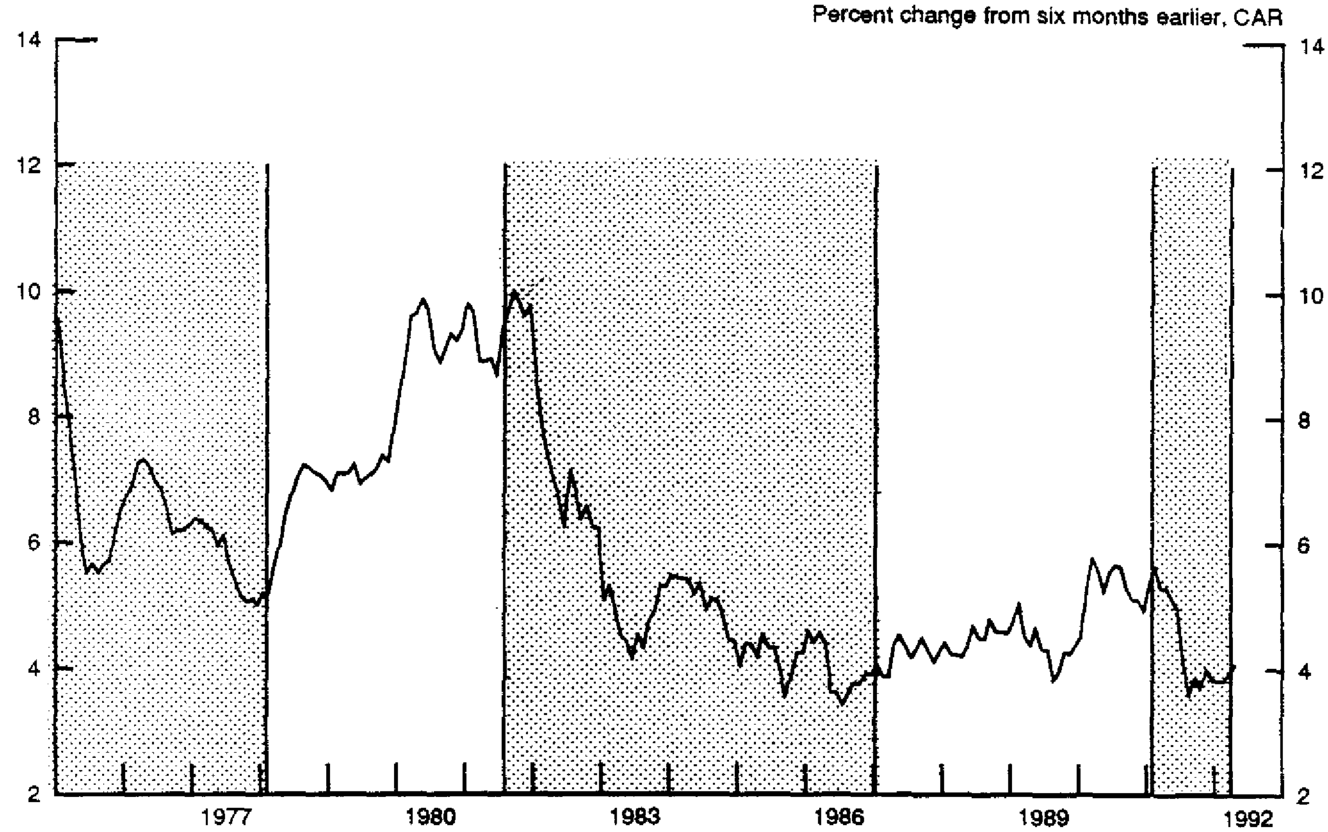
1. Twelve-month periods ending in March, six-month periods ending in September and March.
2. End-of-period value.
3. March.
4. University of Michigan Survey, twelve-month horizon.
5. BLS import price index (not seasonally adjusted). Twelve-month periods ending in March, six-month periods ending in September and March.

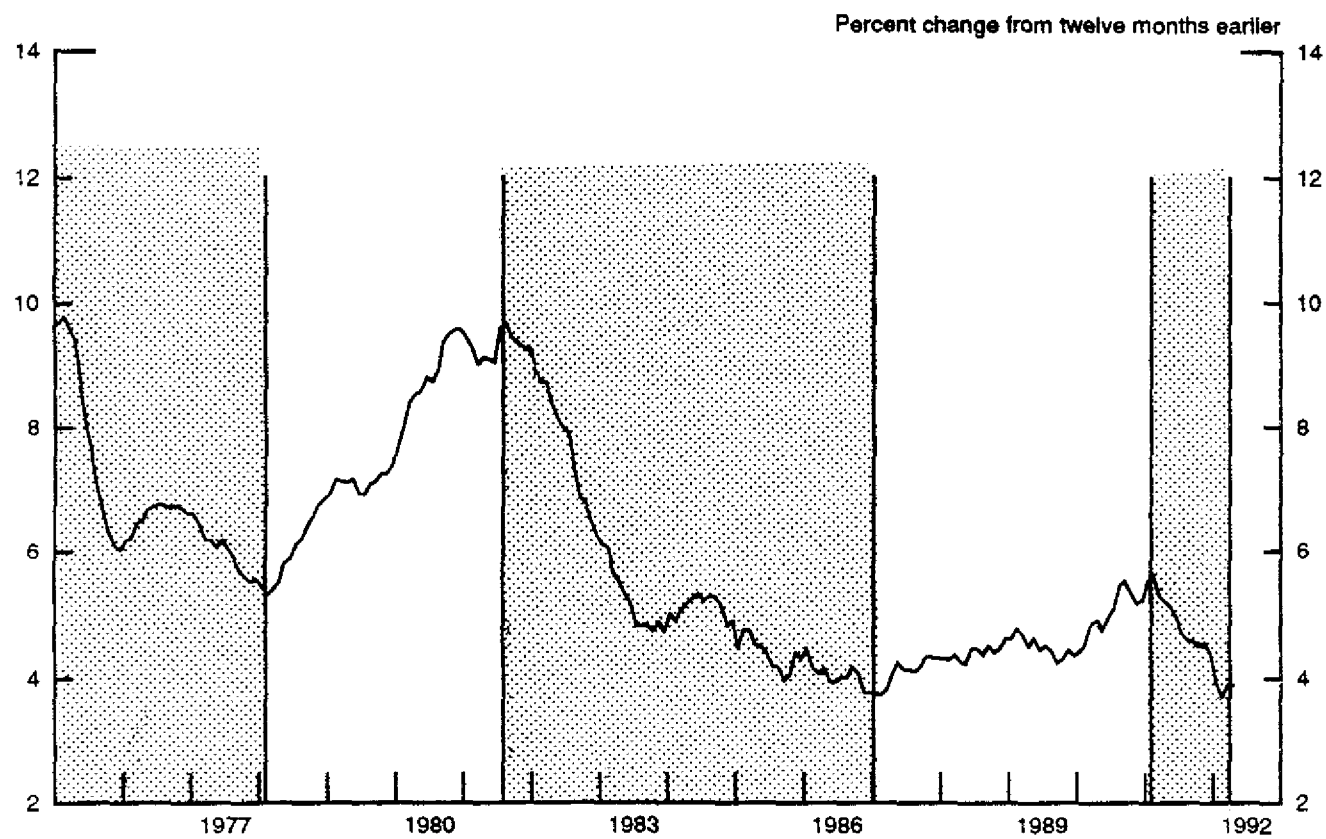
in April. By contrast, other renters' costs rose 1 percent last month.

The underlying trend of inflation, as proxied by the twelve-month change in the CPI excluding food and energy, currently is running at about 4 percent, roughly a percentage point less than at this time last year. However, the slowing in this measure occurred during 1991, and the most recent monthly readings have flattened out or edged up. As shown in the table on the opposite page, the rise in prices during the six months ending in April was about 1/2 percentage point greater than during the preceding six months, with some acceleration evident for most broad categories of goods and services. The pickup in goods prices may reflect, in part, higher import prices as well as actions by retailers to rebuild profit margins at a time of unexpectedly strong sales.

Nonetheless, the higher CPI inflation rates recently are difficult to square with the gradual slowing in labor costs, ample capacity, and a further unwinding of inflation expectations. One possibility is that the movement in the CPI excluding food and energy both overstated the underlying rate of inflation around the beginning of 1991--reflecting hikes in excise taxes, the passthrough of higher energy prices to airfares, and seasonal adjustment difficulties for apparel and some other commodities--and understated it subsequently, as the drop in energy prices after the Gulf War pushed down airfares and seasonal adjustment problems were reversed. More fundamentally, it is not unusual to experience a temporary pickup in prices during a longer period of disinflation (see the chart on the next page). Given the favorable trends in the determinants of prices, the recent pickup in the CPI excluding food and energy seems more likely to be such a transitory setback to the

CPI EXCLUDING FOOD AND ENERGY*





* Before 1983, based on an unpublished experimental BLS series that substitutes the rent index for the former homeownership measure. Shaded ares denote periods of price deceleration as measured by the twelve-month percent change.

disinflation process rather than a sign that inflation again is heating up.

At earlier stages of processing, prices of intermediate materials less food and energy also have firmed somewhat in recent months, in line with industrial demand. Nevertheless, with capacity utilization still at relatively low levels, this PPI measure remains little changed from its level of a year earlier. The PPI for crude nonfood materials less energy also has picked up in the past few months, mainly owing to higher prices for metal scrap, but is still below its level in April 1991.

In the commodity markets, spot prices of industrial materials have risen somewhat further since the last Greenbook, with increases of about 1 percent in both the Journal of Commerce index of industrial prices and its sub-index for metals.[12] However, most of the increases occurred early in the period. Among the metals, prices have moved up notably for zinc and also have risen for some other metals, but copper and aluminum have posted relatively small net changes. To some extent, the limited recovery in these prices, particularly the nonferrous metals traded on world markets, may be reflecting soft demand abroad as well as, for aluminum, a continued flow of imports from the former Soviet republics.

12. Over the same period, the CRB spot industrials index registered a much larger increase, boosted in part by a jump in the quotation for lead scrap used in this measure. Moreover, aluminum prices are not included in the index.

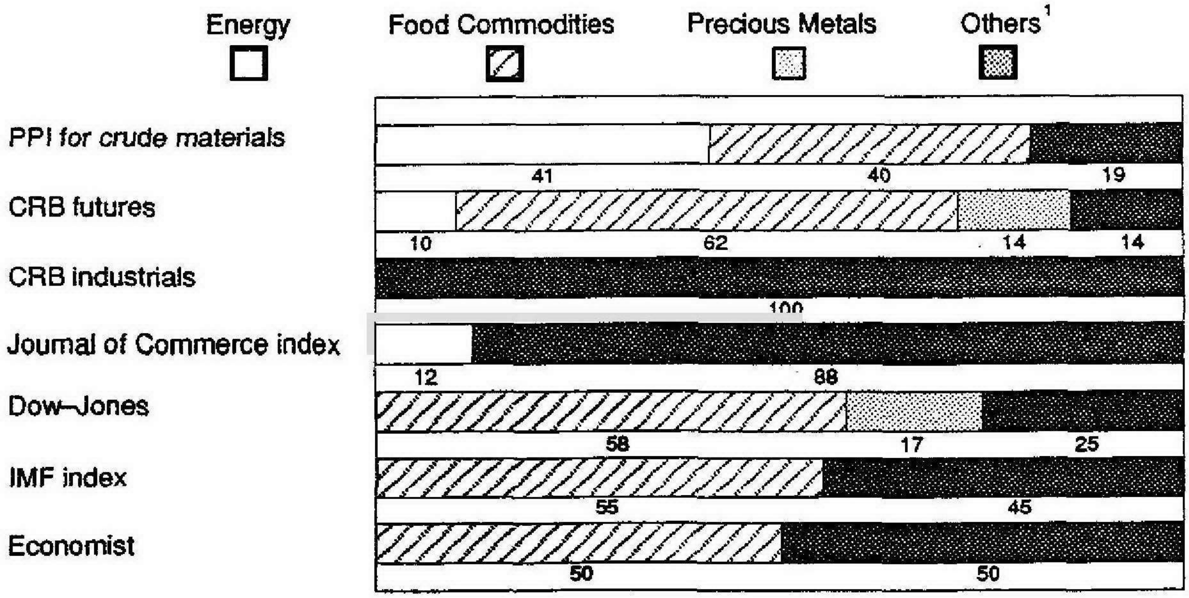
PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

	Last observation	Percent change[2] 1990	1991	1992 To Mar. 24[3]	1992 Mar. 24[3] to date	Memo: Year earlier to date
1. PPI for crude materials[4]	April	6.0	-11.6	.9	.3	-1.9
1a. Foods and feeds	April	-4.2	-5.8	5.8	-1.9	-3.2
1a. Energy	April	19.1				-1.6
1b. Excluding food and energy	April	.6				-3.2
1c. Excluding food and energy, seasonally adjusted	April	.7	-7.6	3.2	.2	-3.2
2. Commodity Research Bureau						
2a. Futures prices	May 12	-2.7	-6.5	1.6	-1.3	-2.6
2b. Industrial spot prices	May 12	.6	-11.3	1.6	3.4	-3.3
3. *Journal of Commerce* industrials	May 12	-2.4	-7.2	3.5	1.0	-.2
3a. Metals	May 12	-3.9	-7.1	3.6	1.3	1.5
4. Dow-Jones Spot	May 12	-1.7	-12.1	7.4	.1	-8.4
5. IMF commodity index[4]	March	-5.6	.5	.6	n.a	.9
5a. Metals	March	-3.0	-9.5	2.2	n.a	-7.3
5b. Nonfood agriculture	March	-3.5	1.3	-1.7	n.a	4.7
6. *Economist* (U.S. dollar index)	May 5	-4.4	-9.1	3.7	-.2	-1.5
6a. Industrials	May 5	-3.2	-14.9	6.9	1.2	-3.1

1. Not seasonally adjusted.
2. Change is measured to end of period, from last observation of previous period.
3. Week of the March Greenbook.
4. Monthly observations. IMF index includes items not shown separately.

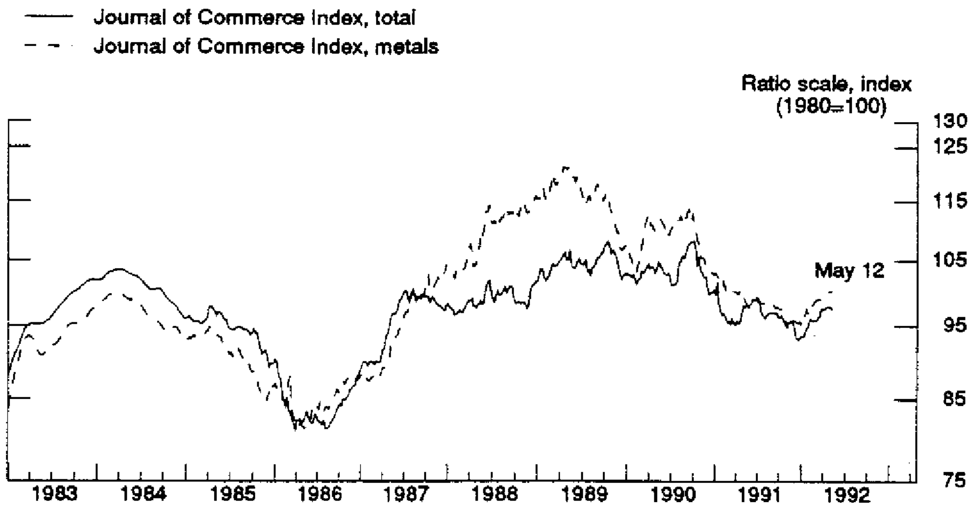
n.a. Not available

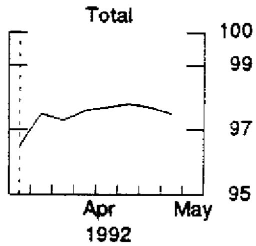
Index Weights

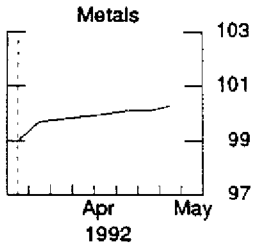


1. Forest products, industrial metals, and other industrial materials.

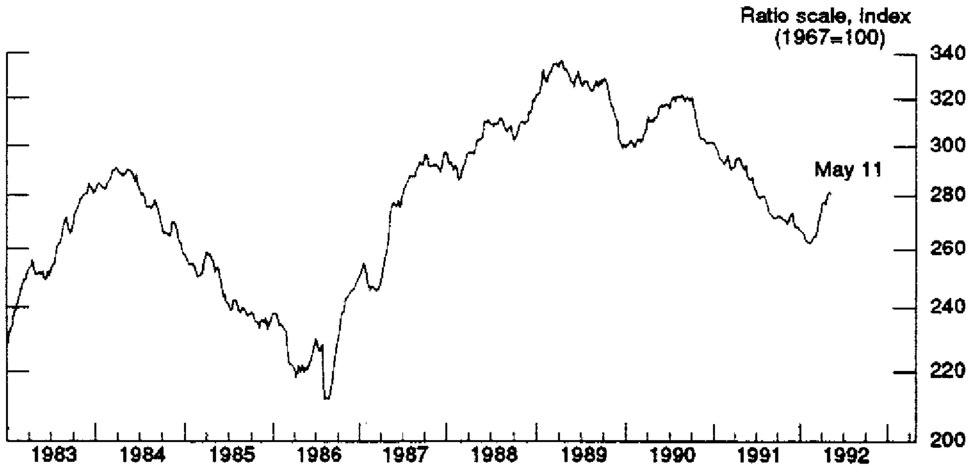
COMMODITY PRICE MEASURES *

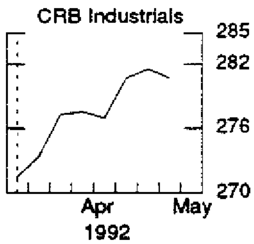




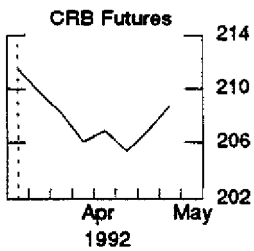


CRB Spot Industrials





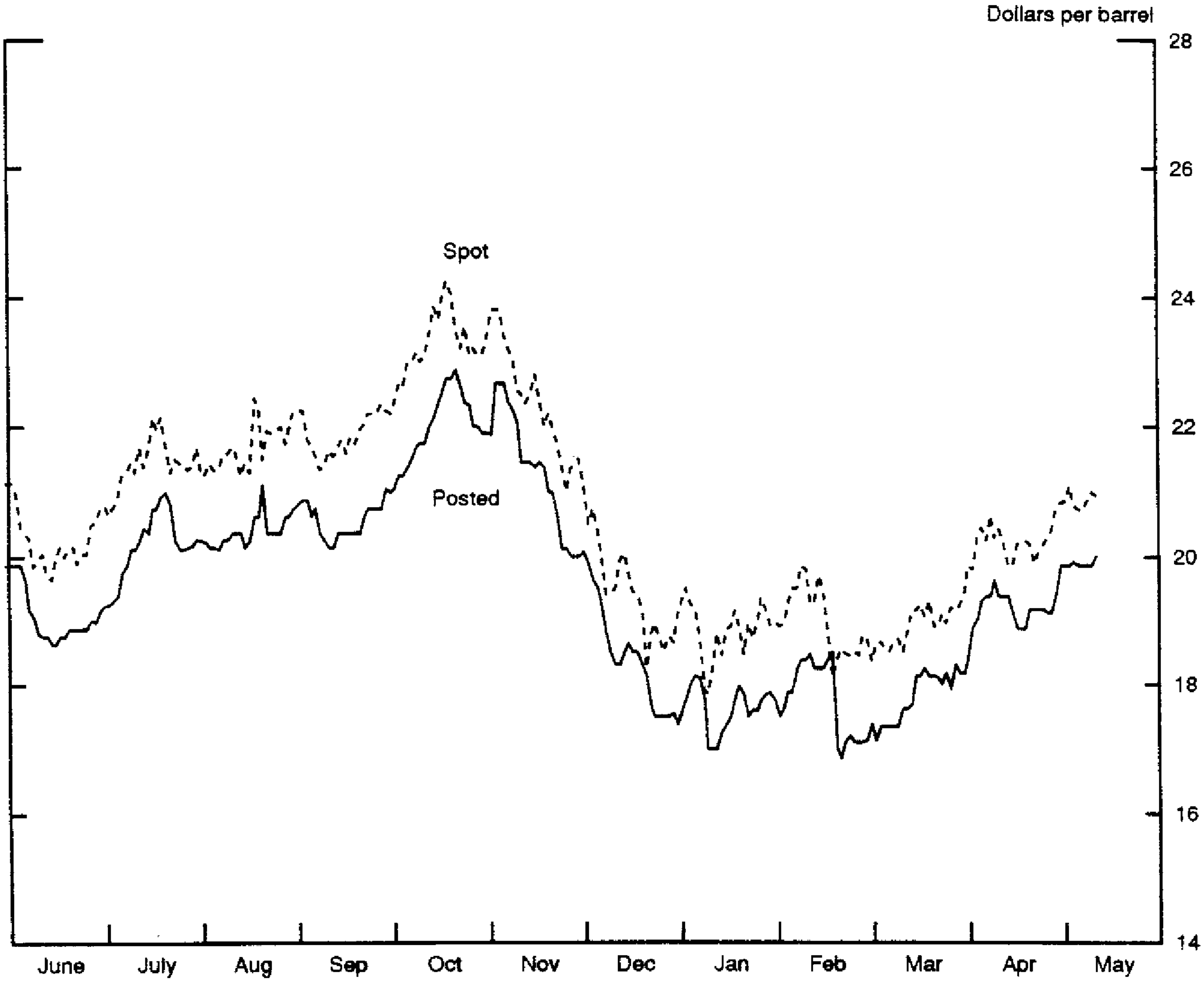
CRB Futures



* Weekly data, Tuesdays; Journal of Commerce data monthly before 1985

Dotted lines indicate week of last Greenbook.

Daily Spot and Posted Prices of West Texas Intermediate [1]



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

MONTHLY AVERAGE PRICES—WEST TEXAS INTERMEDIATE

Year and Month	Posted	Spot
1991		
June	19.04	20.20
July	20.15	21.42
August	20.40	21.69
September	20.55	21.86
October	21.96	23.23
November	21.40	22.47
December	18.47	19.52
1992		
January	17.63	18.82
February	17.72	19.00
March	17.81	18.92
April	19.20	20.24
May [1]	19.90	20.88

1. Price through May 12.

DOMESTIC FINANCIAL DEVELOPMENTS

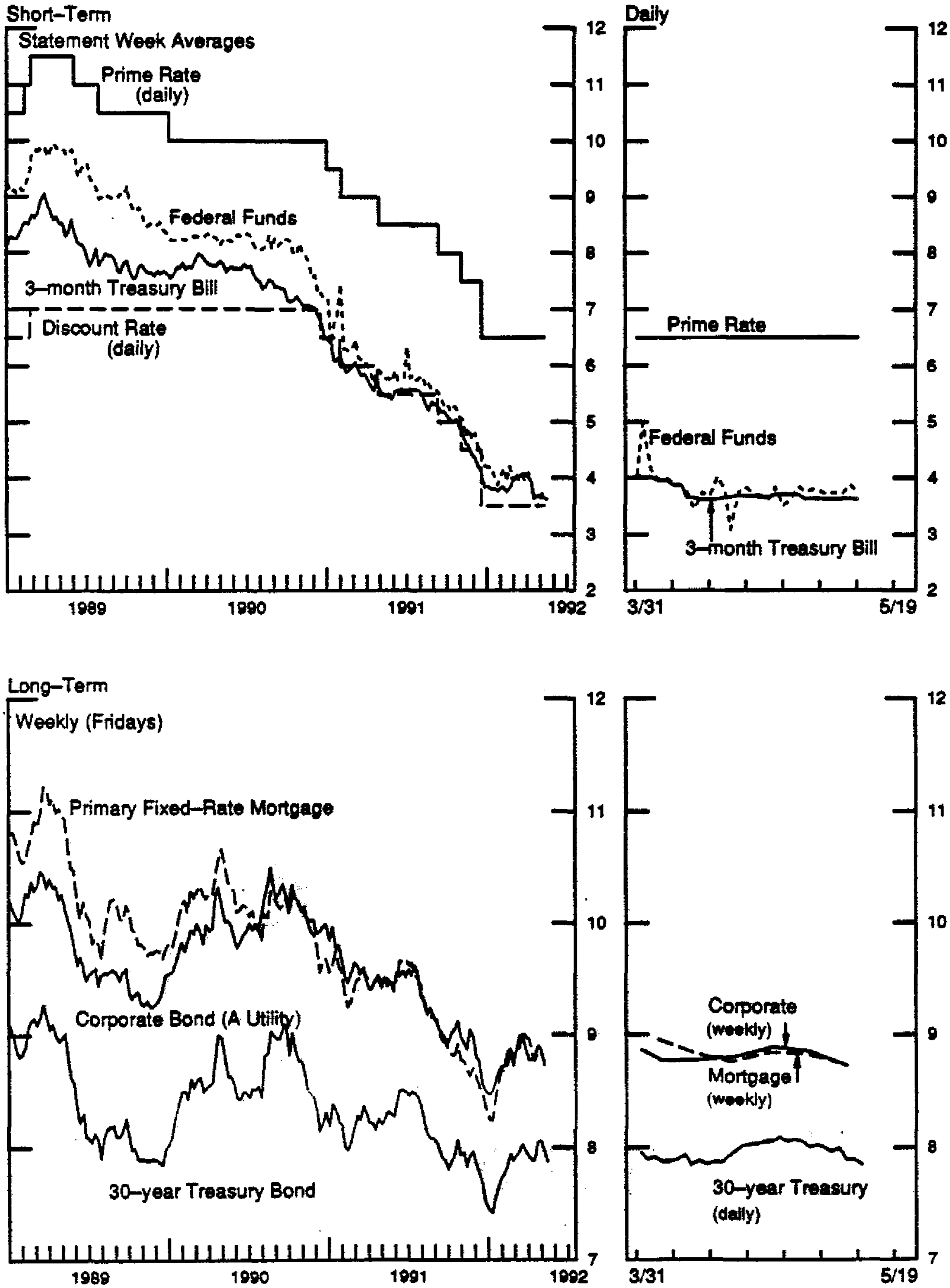
SELECTED FINANCIAL MARKET QUOTATIONS[1]
(percent)

	1989 March highs	1992 FOMC Mar 31	Dec-Jan Lows	1992 May 12	Change from: Mar 89 highs	Dec-Jan Lows	FOMC Mar 31
Short-term rates							
Federal funds[2]	9.85	3.94	3.94	3.76	-6.09	-.18	-.18
Treasury bills[3]							
3-month	9.10	4.05	3.72	3.62	-5.48	-.10	-.43
6-month	9.11	4.17	3.76	3.72	-5.39	-.04	-.45
1-year	9.05	4.31	3.81	3.96	-5.09	.15	-.35
Commercial paper							
1-month	10.05	4.28	4.01	3.85	-6.20	-.16	-.43
3-month	10.15	4.28	3.94	3.85	-6.30	-.09	-.43
Large negotiable CDs[3]							
1-month	10.07	4.16	3.95	3.71	-6.36	-.24	-.45
3-month	10.32	4.23	3.89	3.76	-6.56	-.13	-.47
6-month	10.08	4.39	3.89	3.89	-6.19	.00	-.50
Eurodollar deposits[4]							
1-month	10.19	4.13	3.94	3.69	-6.50	-.25	-.44
3-month	10.50	4.25	3.88	3.81	-6.69	-.07	-.44
Bank prime rate	11.50	6.50	6.50	6.50	-5.00	.00	.00
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	9.88	6.17	5.05	5.78	-4.10	.73	-.39
10-year	9.53	7.54	6.71	7.36	-2.17	.65	-.18
30-year	9.31	7.96	7.39	7.86	-1.45	.47	-.10
Municipal revenue[5] (Bond Buyer)	7.95	6.87	6.53	6.77	-1.18	.24	-.10
Corporate--A utility recently offered	10.47	8.87	8.46	8.69	-1.78	.23	-.18
Home mortgage rates[6]							
FHLMC 30-yr. FRM	11.22	8.98	8.23	8.75	-2.47	.52	-.23
FHLMC 1-yr. ARM	9.31	6.19	5.79	6.02	-3.29	.23	-.17

	Record highs	Date	1989 Lows Jan 3	1992 FOMC Mar 31	1992 May 12	Percent change from: Record highs	1989 lows	FOMC Mar 31
Stock prices								
Dow-Jones Industrial	3397.58	5/11/92	2144.64	3235.47	3385.12	-.37	57.84	4.63
NYSE Composite	231.85	1/15/92	154.00	223.25	229.45	-1.04	48.99	2.78
AMEX Composite	418.99	2/12/92	305.24	395.04	393.46	-6.09	28.90	-.40
NASDAQ (OTC)	644.92	2/12/92	378.56	603.77	583.96	-9.45	54.26	-3.28
Wilshire	4121.28	1/15/92	2718.59	3961.55	4033.05	-2.14	48.35	1.80

1/ One-day quotes except as noted.
2/ Average for two-week reserve maintenance period closest to date shown. Last observation is average to date for maintenance period ending May 13, 1992.
3/ Secondary market.
4/ Bid rates for Eurodollar deposits at 11 a.m. London time.
5/ Based on one-day Thursday quotes and futures market index changes
6/ Quotes for week ending Friday previous to date shown.

Selected Interest Rates*
(percent)



* Friday weeks are plotted through May 8, statement weeks through May 6.

Demands for money and credit have been exceptionally weak over the past couple of months, and interest rates have declined on balance since the March 31 FOMC meeting. The easing at the short end of the market was encouraged by a largely unexpected quarter-point reduction in the federal funds rate in early April, but it has amounted to 40 to 50 basis points at three- and six-month maturities. Meanwhile, longer-term bond yields have fallen 10 to 20 basis points. Although Chemical Bank lowered its prime rate a quarter point following the System's easing, other banks stayed at 6-1/2 percent, maintaining a fairly wide spread over money market rates. Stock prices generally have remained at high levels, buoyed by evidence of improving profits as well as lower interest rates. Bank shares in particular have performed well as first-quarter earnings reports were seen as further confirming that asset quality problems have begun to recede.

M2 and M3 contracted in March and April, as special factors that earlier had boosted deposit growth dissipated. The weakness in the broad monetary aggregates is related in part to the continuing contraction of depository credit. Credit demands from businesses and households remained quiescent. Businesses have satisfied their limited financing needs in the stock and bond markets, while households evidently have remained cautious borrowers. Net borrowing by state and local governments has remained sluggish, as fairly large gross offerings of bonds primarily have been to refinance outstanding debt. The federal sector's borrowing requirement has diminished seasonally. Overall, growth of debt of domestic nonfederal sectors, which had been slower than that of nominal income in the first quarter, remained anemic in April.

MONETARY AGGREGATES
(based on seasonally adjusted data unless otherwise noted)

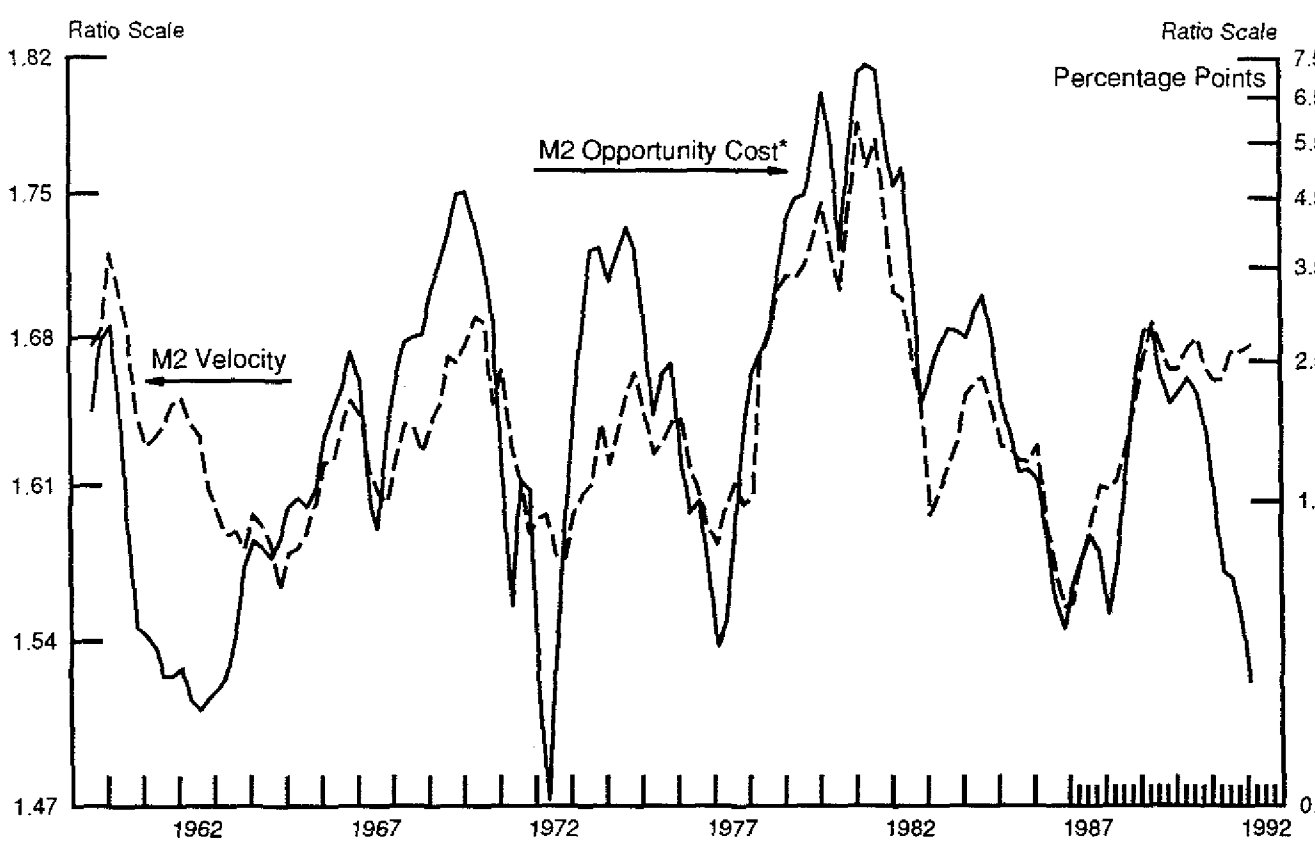
	1991[1]	1991 Q4	1992 Q1	1992 Feb	1992 Mar	1992 Apr pe	Growth Q4 91-Apr 92pe
	-----------Percent change at annual rates-----------						
1. M1	8.0	11.0	16.5	27.2	10.3	5	14½
2. M2	2.8	2.3	4.2	9.4	-0.6	-2	2¾
3. M3	1.2	1.0	2.2	7.2	-2.9	-3	½
	-----------Percent change at annual rates-----------						Levels bil. $ Mar 92
Selected components							
4. M1-A	5.6	8.7	14.9	28.1	9.6	7	589.5
5. Currency	8.4	7.4	7.4	9.8	0.9	8	271.8
6. Demand deposits	3.4	10.0	22.2	45.7	18.1	6	309.7
7. Other checkable deposits	12.4	15.0	19.2	25.5	11.1	3	349.4
8. M2 minus M1[2]	1.1	-0.6	-0.1	3.1	-4.6	-5	2534.5
9. Overnight RPs and Eurodollars, NSA	-7.6	39.9	17.0	-1.6	-53.0	-39	73.6
10. General purpose and broker/dealer money market mutual fund shares	3.9	-4.0	0.9	12.3	-18.8	-13	358.0
11. Commercial banks	7.1	3.9	0.9	1.3	-0.6	5	1264.5
12. Savings deposits (including MMDAs)	13.3	16.0	19.2	22.9	11.1	14	695.3
13. Small time deposits	1.1	-8.5	-18.9	-23.5	-14.4	-5	569.3
14. Thrift institutions	-6.9	-8.8	-4.0	-3.0	-3.7	-14	835.4
15. Savings deposits (including MMDAs)	9.3	10.2	22.4	30.5	23.4	16	402.7
16. Small time deposits	-16.8	-22.5	-24.8	-31.6	-28.2	-41	432.6
17. M3 minus M2[3]	-5.6	-5.2	-7.4	-3.5	-14.1	-10	716.4
18. Large time deposits	-11.7	-18.9	-20.4	-20.2	-22.0	-20	413.0
19. At commercial banks, net[4]	-5.1	-14.4	-18.2	-16.3	-17.2	-16	336.8
20. At thrift institutions	-31.7	-36.7	-29.6	-33.9	-45.[illegible]	-36	76.1
21. Institution-only money market mutual fund shares	33.4	37.0	27.0	38.2	-18.[illegible]	25	185.3
22. Term RPs, NSA	-21.6	-23.6	-6.5	20.3	26.5	-24	73.7
23. Term Eurodollars, NSA	-10.6	-11.5	-28.3	6.5	38.6	-33	57.8
	-----Average monthly change in billions of dollars----						
MEMORANDA:[5]							
24. Managed liabilities at commercial banks (25+26)	-0.6	6.5	-2.6	2.0	-6.4	-7	696.8
25. Large time deposits, gross	-0.2	-4.0	-5.7	-2.3	-6.8	-7	406.9
26. Nondeposit funds	-0.4	10.5	3.0	4.3	0.4	0	289.9
27. Net due to related foreign institutions	0.4	6.3	2.0	-1.1	2.7	3	45.3
28. Other[6]	-0.9	4.2	1.0	5.4	-2.3	-3	244.6
29. U.S. government deposits at commercial banks[7]	0.2	0.9	-1.5	-8.3	2.3	-2	21.8

1. Amounts shown are from fourth quarter to fourth quarter.
2. Nontransactions M2 is seasonally adjusted as a whole.
3. The non-M2 component of M3 is seasonally adjusted as a whole.
4. Net of large denomination time deposits held by money market mutual funds and thrift institutions.
5. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis.
6. Consists of borrowing from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase, and other liabilities for borrowed money (including borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estim
7. Consists of Treasury demand deposits and note balances at commercial banks.
pe - preliminary estimate

Monetary Aggregates and Bank Credit

After posting substantial gains earlier in the year, M2 fell at a 1/2 percent annual rate in March and at a 2 percent pace in April. From the fourth quarter of 1991 to April, M2 grew at about a 2-3/4 percent annual rate, placing it just above the lower bound of its 1992 range. Even the faster pace of growth in the first quarter as a whole fell short of that of nominal GDP, and velocity rose further despite declines in opportunity costs (chart). Recent weakness in M2 has occurred in the face of still small opportunity costs. The contraction in M2 and further runoffs of large-time deposits pushed M3 down at about a 3 percent annual rate in March and April, leaving it a shade below the lower bound of its annual target range.

M2 Velocity and Opportunity Cost



*Two-quarter moving average

Demand deposits, the engine of growth for the aggregates in the first part of the year, sputtered in March and April. Respondents to the Senior Financial Officer Survey, taken in mid-March, attributed the earlier strength in demand deposits mainly to increased compensating balance requirements and higher balances held by mortgage servicers because of mortgage prepayments. With compensating balances catching up to the sizable reductions in short-term interest rates at the beginning of the year and short-term rates backing up slightly in February and March, some of that impetus disappeared. Mortgage refinancing applications have declined substantially from their peak early this year, presumably feeding through to a decline in mortgage prepayments and lessened deposit holdings by mortgage servicers.

The growth of M2 also was weakened in March and April by a pickup in RTC activity, which disrupts depositor relationships. In addition, the pattern of this year's tax refunds and payments may explain some of the movement in liquid household accounts. Refunds were stronger in January and February and weaker in March and April than would be expected from historical patterns, so that, after seasonal adjustment, such accounts likely were boosted in the first two months of the year and depressed in the next two months. Individual nonwithheld tax payments came in below last year's already depressed level producing a smaller buildup in checkable deposits in March and early April and presumably a smaller runoff at the end of the month and in early May.

Abstracting from these special factors, underlying growth in M2 appears to have remained basically weak, as the nontransaction component of M2 has dropped this year, resuming its slide in March and April after a spurt in February. While depositories continue to price savings deposits and short-term CDs competitively with market rates, medium- and long-term CD rates remain well below comparable Treasury yields. The lack of aggressive pricing for these deposits evidently has encouraged investors to move from retail CDs into stock and bond mutual funds in order to take advantage of higher anticipated returns.

M3 was depressed not only by the drop in M2 over March and April but also by heightened runoffs in its non-M2 components. While institution-only money funds rebounded in April, large time deposits continued to decrease. Some of the drop in large time deposits occurred at foreign-related institutions; Japanese banks, facing investor resistance and higher risk premia, cut their outstanding Yankee CDs and replaced them largely with Eurodollar borrowings.

The weakness in the broader monetary aggregates accords with the asset side of depository balance sheets. Although bank credit picked up in both March and April, loans were about flat. Thus, the share of government securities in total bank credit rose further, to 20-1/2 percent or about four percentage points above the previous peak in 1983 (chart). The steady accumulation of securities over the last four years has significantly enhanced liquidity, suggesting that banks are well-positioned to meet increasing loan demands when they occur.

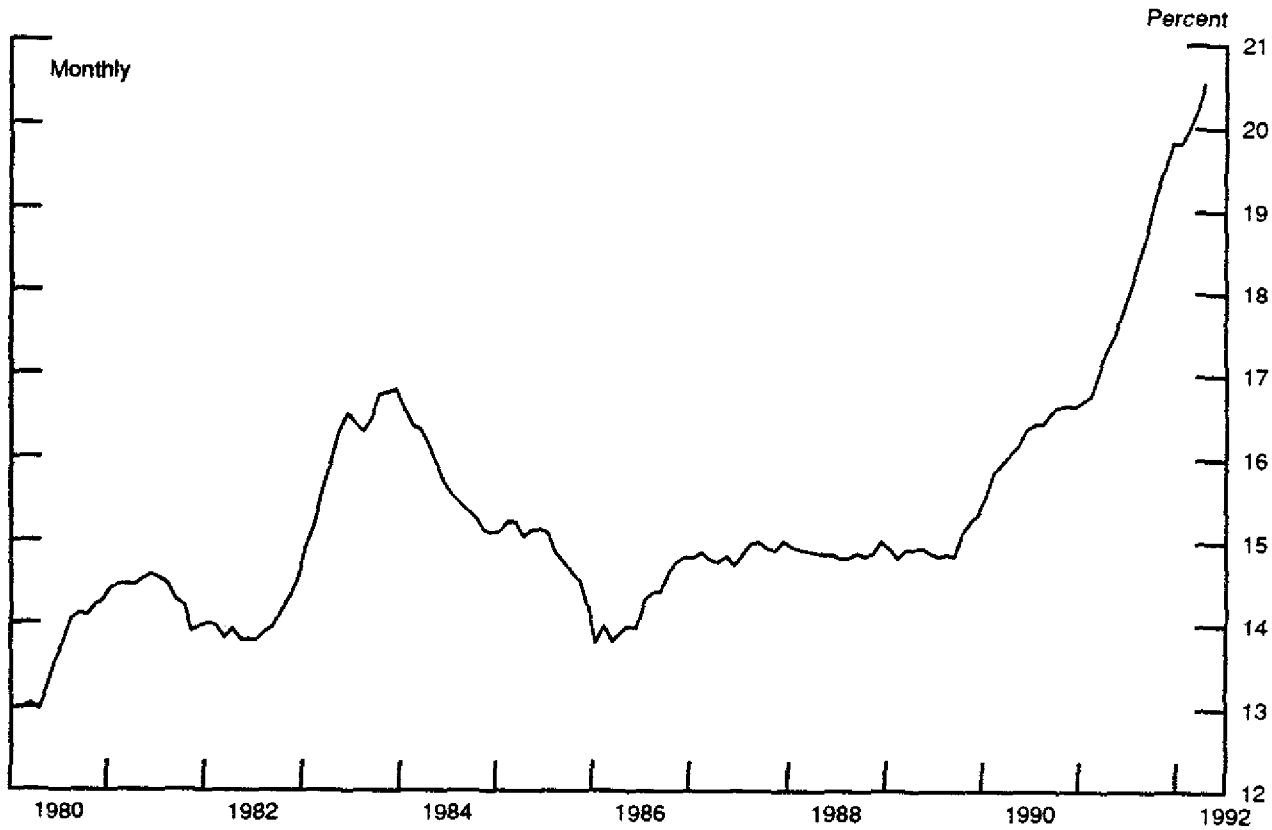
Among the loan categories, real estate loans, which expanded slowly in March, were about flat in April. Consumer loans adjusted for estimated securitizations were down slightly in March and were about unchanged in April. Business loans continued to run off in March and April, but those made at smaller banks, which had declined steadily since late 1990, showed signs of turning around. The recent survey of senior loan officers at large banks further

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

Category	Dec. 1990 to Dec. 1991	1991 Q4	1992 Q1	1992 Feb.	1992 Mar.	1992 Apr.	Levels bil.$ 1992 Apr.
	Commercial bank credit						
1. Total loans and securities at banks	3.9	7.0	1.9	0.0	2.6	5.2	2,863.6
2. Securities	17.6	24.5	6.0	6.9	8.5	19.8	765.1
3. U.S. government	23.8	30.3	9.7	8.7	16.2	24.3	588.4
4. Other	1.6	7.1	-5.2	1.3	-15.5	4.1	176.7
5. Loans	-0.2	1.1	0.5	-2.4	0.5	0.1	2,098.6
6. Business	-2.8	-2.0	-6.0	-8.2	-4.3	-6.3	604.7
7. Real estate	2.9	2.3	2.2	4.5	1.1	1.5	879.9
8. Consumer	-3.9	-3.9	-1.0	2.0	-4.3	-2.6	361.6
9. Security	22.2	36.0	43.3	-46.5	71.6	91.4	65.0
10. Other	-3.2	6.1	4.5	-10.1	2.5	-10.2	187.5
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-2.5	-2.3	-6.1	-9.1	-4.2	-6.0	598.3
12. Loans at foreign branches[2]	-1.6	34.2	-40.9	-81.3	-30.8	0.0	22.8
13. Sum of lines 11 and 12	-2.4	-0.9	-7.5	-11.8	-5.4	-6.0	621.0
14. Commercial paper issued by nonfinancial firms	-10.4	-6.3	14.9	13.0	18.9	-4.2	141.3
15. Sum of lines 13 and 14	-3.9	-1.9	-3.6	-7.3	-1.1	-5.5	762.3
16. Bankers acceptances, U.S. trade-related[3]	-16.2	-4.2	-22.9	-26.0	-31.0	n.a.	26.4[5]
17. Finance company loans to business[4]	6.8	5.7	-4.2	-3.1	-0.4	n.a.	307.4[5]
18. Total (sum of lines 15, 16, and 17)	-1.6	0.1	-4.2	-6.6	-1.5	n.a.	1,099.7[5]

1. Average of Wednesdays. Data are adjusted for breaks caused by reclassifications.
2. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.
3. Consists of acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods. Based on average of data for current and preceding ends of month.
4. Based on average of data for current and preceding ends of month.
5. March 1992 data.
p--Preliminary.
n.a.--Not available.

Holdings of U.S. Government Securities as a Share of Bank Credit
All Commercial Banks



confirms that the tightening of underwriting standards for making loans has come to an end. Indeed, likely reflecting improved capital positions and more evident profit opportunities, some respondents indicated greater willingness to make loans to consumers and, to a lesser extent, to small businesses. Little change was reported in willingness to make construction and commercial real estate loans, implying that a highly restrictive posture toward such lending remains.

Business Finance

For the first quarter of 1992, net borrowing by nonfinancial corporations is estimated to have been at a subdued $44 billion

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly rates, not seasonally adjusted, billions of dollars)

	1990	1991	-1991- Q4	-1992- Q1[p]	Feb[p]	Mar[p]	Apr[p]
Corporate securities - total[1]	19.82	32.15	34.36	40.72	38.34	38.17	29.01
Public offerings in U.S.	17.68	29.36	31.80	37.37	35.74	35.06	27.34
Stocks--total[2]	1.95	5.44	8.48	7.56	9.54	6.36	5.34
Nonfinancial	1.03	3.72	6.07	5.20	6.30	5.18	3.65
Utility	0.35	0.42	0.36	0.78	0.57	0.95	0.96
Industrial	0.68	3.30	5.72	4.41	5.74	4.23	2.69
Financial	0.92	1.72	2.41	2.37	3.23	1.18	1.69
Bonds	15.73	23.92	23.32	29.81	26.20	28.70	22.00
Nonfinancial	5.62	9.52	9.52	13.24	10.40	13.90	12.00
Utility	1.97	2.99	3.36	4.83	4.99	2.82	5.50
Industrial	3.65	6.53	6.16	8.41	5.41	11.08	6.50
Financial	10.11	14.40	13.80	16.57	15.80	14.80	10.00
By quality[3]							
Aaa and Aa	3.42	3.72	3.63	4.10	3.50	2.61	1.00
A and Baa	6.44	12.09	11.37	15.69	14.49	13.38	13.67
Less than Baa	0.15	1.03	1.92	2.50	1.44	4.93	2.65
No rating (or unknown)	0.04	0.01	0.00	0.07	0.08	0.13	0.04
Memo items:							
Equity-based bonds[4]	0.40	0.63	0.46	1.01	0.63	1.63	0.27
Mortgage-backed bonds	2.43	2.99	2.97	4.83	5.52	4.22	4.25
Other asset-backed	3.27	4.08	3.43	2.63	1.17	3.44	0.40
Variable-rate notes	0.80	0.84	0.81	0.90	1.40	0.69	0.99
Bonds sold abroad - total	1.92	2.33	2.06	2.60	1.63	2.50	1.20
Nonfinancial	0.46	1.00	0.32	1.10	0.11	1.80	0.50
Financial	1.46	1.33	1.73	1.50	1.52	0.70	0.70
Stocks sold abroad - total	0.22	0.46	0.51	0.74	0.98	0.61	0.47
Nonfinancial	0.10	0.38	0.43	0.54	0.68	0.56	0.33
Financial	0.12	0.08	0.07	0.21	0.30	0.05	0.14

1. Securities issued in the private placement market are not included. Total reflects gross proceeds rather than par value of original discount bonds.
2. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings. Such swaps totaled $9.4 billion in 1990.
3. Bonds categorized according to Moody's bond ratings, or to Standard and Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.
p--preliminary.

annual rate. Corporate needs for borrowed funds apparently were damped by strong profit flows and weaker capital spending, especially for inventories, as well as by continued heavy equity issuance. Credit demands were focused on the bond market, as many corporations apparently took advantage of the relatively low long-term rates to secure funds in anticipation of future needs. The uptick in long-term rates in February and March, however, induced some large, creditworthy businesses to shift temporarily to the commercial paper market. In April, net borrowing appears to have remained slow. Commercial paper issuance by nonfinancial firms dropped back after a spurt in February and March. Gross public bond and stock issuance at nonfinancial corporations slackened only a bit from the heavy pace in March, but the proceeds in many cases continued to be used to retire debt.

Investors continued to show interest in lower-rated corporate bonds; public offerings in April slipped slightly from elevated level in March, but remained well above the average of last year. Balance sheet restructurings and declining default rates have burnished the reputation of this sector. Indeed, the share of new issues in the lower tiers of the below-investment-grade category has continued to increase and the ranks of issuers have included more cyclical firms, such as home builders. Rate spreads on high-yield bonds relative to Treasuries were about unchanged in April, but have drifted lower more recently.

The aversion of some life insurance companies to lower-rated private placements reportedly has eased a bit, in part because their abstinence over the past two years has left some with room to buy limited amounts. Overall in the private placement market, reports from market participants on gross issuance this year range from about unchanged to down a bit from last year's pace.[1] New sources of funds to the private placement market from outside the insurance industry have begun to emerge this year as investors in publicly offered lower-rated debt have shown some interest in private issues.

Gross equity issuance continued fairly strong in April, but initial public offerings (IPOs) stumbled. Anecdotal reports suggest that investors have become more cautious about IPOs, and at least one large recapitalization plan was canceled in recent weeks. While reverse LBO activity has slowed, many highly leveraged firms have plans to raise equity in the near future. In addition, General Motors announced plans to raise more than $2 billion in common equity this quarter after having raised $2 billion in three separate preferred stock offerings in the past year. GM was one of several major industrial companies whose debt was downgraded in the first quarter of 1992.

In total, Moody's downgraded 55 nonfinancial companies in the quarter, compared to only 29 upgradings. However, the number of upgradings was the highest in two years and the number of downgradings has abated considerably from the trough of the recession. Many of the improved ratings were the result of equity infusions, especially among speculative-grade issuers. For several investment-grade issuers, additional capital was only sufficient to prevent a further drop in credit standing.

The condition of U.S. banks appears to be improving, partly reflecting wider net interest margins. Downgradings of debt eased in the first quarter, while the number of upgradings increased. Moody's cited progress in dealing with real estate loan problems as

1. Gross issuance in the private placement market by all U.S. corporations is estimated to have been $75 billion in 1991, down 14 percent from the level in 1990.

a reason for the improvement in the sector ratings. The stock market was pleasantly surprised by higher earnings at Citicorp, Wells Fargo, and Chase Manhattan, and bank stocks generally rose substantially on the news. Bank stock prices showed little initial reaction to the May 12 announcement that the FDIC intends to raise deposit insurance premiums, from an average of 23 cents per $100 of deposits to 28 cents per $100 of deposits.

Other sectors also have fared well in the stock market since the last FOMC, raising the Dow Jones average to a record and holding the S&P 500 and NYSE averages near their peak levels. The NASDAQ average has performed less well, and is down a little in recent weeks as investor ardor for high-tech growth stocks has cooled. Price indexes for cyclically sensitive companies have been strong, supported by incoming signs of a strengthening economy, along with higher than expected first-quarter earnings.

The rise in stock prices drove the ratio of current prices to four-quarter trailing earnings for the S&P 500 to a record 26 in mid-April. Most earnings forecasts suggest this measure will fall appreciably as the year progresses, but to a level that would scarcely be low by historical standards.

Treasury and Sponsored Agency Financing

The staff anticipates that a federal deficit of $42 billion in the second quarter will be financed by $51 billion of marketable borrowing as the Treasury builds up its cash balance in advance of larger shortfalls expected over the summer and fall. The projected $30 billion decrease in marketable borrowings from the first quarter largely is accounted for by paydowns in cash management bills. Gross auction sizes have been little changed from first-quarter levels, with the exception of weekly bill auctions which have been increased from $22.8 to $23.2 billion. The size and composition of

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

	1992				
	Q1	Q2p	Apr.p	Mayp	Junep
Treasury financing					
Total surplus/deficit (-)	-113.8	-41.6	20.5	-56.1	-6.0
Means of financing deficit:					
Net cash borrowing from the public	82.5	56.4	5.3	30.9	20.2
Marketable borrowings/ repayments (-)	80.7	51.2	1.9	30.6	18.6
Bills	25.4	1.1	-17.4	21.2	-2.6
Coupons	55.2	50.0	19.3	9.4	21.2
Nonmarketable	1.9	5.3	3.4	.3	1.6
Decrease in the cash balance	28.9	-8.8	-21.3	26.5	-14.0
Memo: Cash balance at end of period	19.8	28.7	41.1	14.6	28.7
Other[2]	2.3	-6.0	-4.6	-1.2	-.2
Federally sponsored credit agencies, net cash borrowing[3]	2.6	--	--	--	--
FHLBs	-1.0	--	--	--	--
FHLMC	-5.1	--	--	--	--
FNMA	7.4	--	--	--	--
Farm Credit Banks	.5	--	--	--	--
SLMA	.9	--	--	--	--

1. Data reported on a not seasonally adjusted, payment basis.
2. Includes checks issued less checks paid, accrued items and other transactions.
3. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
p--projected.
Note: Details may not add to totals due to rounding.

the May midquarter refunding package was unchanged from that of February, when Treasury reduced the size of its long-term bond offering by $2 billion relative to the prior refunding.

The Treasury left unclear the debt management consequences of potential Brady plan debt-restructuring agreements with Argentina and Brazil. A common feature of such debt-relief agreements is some form of credit enhancement in which the debtor country sets up an escrow account of zero-coupon Treasury securities to guarantee the repayment of principal. The Treasury announced that it was willing to issue zero-coupon securities directly to those countries, as it had for Mexico, but encouraged them to purchase zeroes in the market. Some market participants have asserted that the possibility of such large purchases has depressed yields at the long end of the maturity spectrum.

Municipal Securities

Gross offerings of long-term municipal bonds remained robust in April, though down somewhat from the rapid March pace. Refunding volume was strong last month, as it has been throughout the year. Short-term volume picked up in April, relative to the slow pace of issuance in the previous month, largely as a result of a $2.3 billion issue by New York State. The state was able to price the short-term issue to yield about 5 basis points less than similarly rated issues, evidencing increased investor confidence in its fiscal condition. Market participants evidently believe that the state is less likely to end the fiscal year with a shortfall. In the past, New York has used notes to cover shortfalls, which was the principal

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

	1990	1991	1991 Q3	1991 Q4	1992 Q1	1992 Feb.	1992 Mar.[p]	1992 Apr.[p]
Total offerings[1]	13.49	16.60	19.54	16.95	15.59	15.60	17.93	16.79
Total tax-exempt	13.24	16.18	18.72	16.54	15.22	15.21	17.41	16.37
Long-term	10.26	12.84	13.51	14.93	13.61	12.26	15.96	13.38
Refundings[2]	1.68	3.11	3.09	3.44	5.12	4.57	5.30	5.00
New capital	8.58	9.73	10.42	11.49	8.49	7.69	10.66	8.38
Short-term	2.98	3.34	5.21	1.61	1.60	2.95	1.45	2.99
Total taxable	.25	.42	.82	.41	.38	.39	.52	.42

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

MUNICIPAL LONG-TERM DEBT RATING ACTIONS
(Number of rating revisions by region)

Region	1985	1986	1987	1988	1989	1990	1991	1992:1
West								
Up	12	86	31	13	28	39	22	6
Down	14	74	41	22	25	48	251	17
Southwest								
Up	22	19	19	10	16	11	22	5
Down	8	55	76	41	8	48	55	6
Northwest								
Up	0	8	11	1	1	16	18	3
Down	6	9	11	2	6	8	7	3
Midwest								
Up	20	188	20	26	50	27	21	8
Down	19	62	30	43	22	92	96	20
Southeast								
Up	22	30	27	27	45	29	36	121[1]
Down	39	67	73	46	13	101	66	11
Northeast								
Up	25	31	46	37	30	18	26	7
Down	20	29	38	31	64	168	132	93
Total								
Up	101	362	154	114	170	140	145	150
Down	106	296	269	185	138	465	607	145
Memo: Volume (billions of dollars)								
Up	n.a.	38.9	17.0	18.0	13.4	18.8	8.1	6.1
Down	n.a.	11.6	25.0	22.6	24.0	47.8	51.5	20.5

Source: Standard and Poor's Credit Week
1. Of these upgrades, 88 represent Kentucky school districts that were upgraded as a result of state-implemented funding reforms.

problem cited by the credit agencies in the state's recent downgrading.[2]

Credit rating changes in the first quarter of 1992 present a mixed picture of credit quality developments in the municipal sector (table). On the one hand, Standard and Poor's upgraded about as many issues as it downgraded, a distinct improvement compared with the previous two years when the number of downgrades far exceeded the number of upgrades.[3] On the other hand, the dollar volume of downgradings continued to outstrip upgradings by a sizable margin. The downgradings were concentrated among general obligation issues; Northeast municipalities, especially, remained under stress, once again accounting for a disproportionate share of the downgradings. Nonetheless, many analysts expect the financial condition of state and local units in this region to stabilize soon.

California's fiscal position continues to deteriorate, and the credit agencies recently warned that the state could face further downgradings. Even before the damage associated with the riots in early May, the agencies noted that the state faces a budget deficit for fiscal 1993 of approximately $3.7 billion, up $1.5 billion from December's projections. Further, the new projection of state revenue suggests that the state's deficit for fiscal 1992, beginning July 1, may rise to $6 billion. California's budget difficulties

2. Trading of the short-term deficit note issued by New York State in March nearly came to a halt recently as a result of a lower state court ruling that the sale of these notes was unconstitutional. The court ruled that the $531 million issue violated the state's constitutional prohibition against incurring debt without voter approval. After the court refused to order the state to retire the notes, trading resumed, at about the same yields as before the ruling.

3. A large number of the recent upgradings occurred in Kentucky where state-implemented funding reforms resulted in higher credit ratings of local school districts. The number of upgradings in the first quarter excluding Kentucky school districts still represents a substantial increase, when annualized, compared to the number in 1990 and 1991 for the years as a whole.

stem primarily from disappointing tax receipts owing to its weak economy.

The decline in Japanese share prices has caused some concern about the credit quality of tax-exempt bonds backed with letters of credit issued by Japanese banks. These banks had issued about 40 percent of the municipal letters of credit extended since 1982, backing more than $70 billion of debt. With the value of their credit enhancement diminished, trading in these bonds has slowed somewhat and spreads have widened.

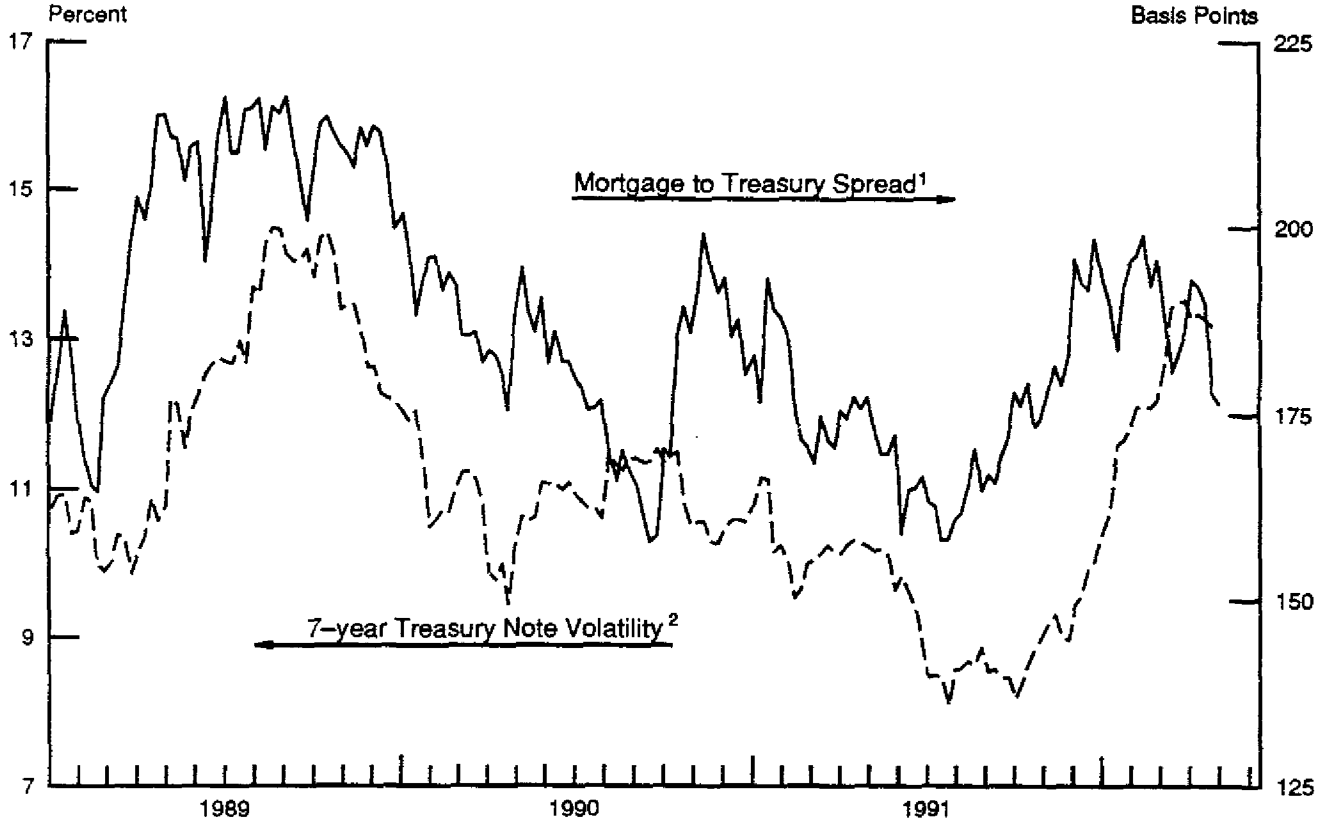
Mortgage Markets

Contract rates on conventional fixed-rate mortgages have decreased nearly 1/4 percentage point since the end of March, but still remain about 1/2 percentage point above their January lows. Spreads over Treasuries have narrowed somewhat in recent weeks, after widening late last year in response to higher levels of interest rate volatility and growing prepayment risk (chart). Starting rates on adjustable rate mortgages (ARMs) fell about 15 basis points, leaving them about 275 basis points below the thirty-year fixed-rate mortgage rate.

Despite the recent decline in mortgage interest rates, lending activity remains subdued compared to earlier in the year. The latest data from the Mortgage Bankers Association's weekly survey show that the volume of loan applications at mortgage bankers has fallen further from the peak earlier in the year. Applications for home purchase mortgages have declined to levels last seen in January, while refinancing applications have unwound by more, dropping to the level of last September.

Although the total volume of mortgage originations has slowed, the relative volumes of different types of mortgage products varies

Mortgage Yield Spreads and Volatility



1. Spread is FRM yield less 7-year Treasury yield.

2. Volatility is the standard deviation of daily percentage changes in yield over previous 120 days, annualized.

widely (table). In particular, ARMs have lost market share despite very attractive starting rates because of the competition from still relatively low rates on fixed-rate mortgages and because Fannie Mae and Freddie Mac now require lenders to qualify borrowers at a minimum 7 percent interest rate. The more significant change in market share, however, has come in intermediate-term mortgage products, including five- and seven-year mortgages with balloon and reset features. With the introduction of balloon mortgages, intermediate-term mortgage originations grew to 26 percent of Fannie

RELATIVE VOLUMES OF FANNIE MAE AND FREDDIE MAC
SINGLE-FAMILY PASS-THROUGH ORIGINATIONS BY MORTGAGE TYPE
(Percent of total originations)

	30-Year Fixed Rate	Intermediate Term[1]	Adjustable Rate
1987	73.2	17.2	9.6
1988	58.6	13.0	28.4
1989	66.9	10.5	22.7
1990	67.5	15.8	16.7
1991	64.1	26.1	9.8
1991-Q1	62.5	23.7	13.8
Q2	64.5	26.9	8.7
Q3	66.2	25.6	8.2
Q4	62.4	27.4	10.2
1992-Q1	53.6	41.1	5.3

1. Intermediate-term includes all mortgages with maturities between 10 and 20 years and all 5-and 7-year ballon/reset mortgages.

MORTGAGE-BACKED SECURITY ISSUANCE
(Monthly averages, billions of dollars, NSA unless noted)

	Federally related pass-through securities			Multiclass securities				
	Total (SA)	Fixed-Rate	ARM-backed	Total	Private issues[1]	FNMA REMICs	FHLMC REMICS	Agency strips
1988	12.4	10.2	2.3	6.8	5.0	.9	.9	n.a.
1989	16.5	14.1	2.7	8.4	1.6	3.1	3.2	.3
1990	19.7	17.2	2.4	11.4	2.4	5.1	3.4	.5
1991	22.2	20.4	2.0	19.0	3.0	9.0	6.0	.9
1991-Q2	23.7	21.4	1.7	18.8	3.3	8.2	6.8	.5
Q3	24.5	23.7	2.0	24.6	3.6	11.9	7.1	2.0
Q4 r	22.6	22.4	2.5	23.2	2.9	12.0	7.3	1.0
1992-Q1 p	35.3	29.3	2.0	28.1	4.6	15.3	7.0	1.2
1992-Jan. r	32.8	25.4	1.5	28.9	4.7	19.3	4.1	.8
Feb. p	33.9	28.7	1.7	21.6	5.5	11.6	4.2	.3
Mar. p	39.0	33.8	2.8	33.4	3.7	14.8	12.5	2.5

1. Excludes pass-through securities with senior/subordinated structures.
p--preliminary r--revised

Mae and Freddie Mac single-family pass-through originations in 1991 and surged to 41 percent in the first quarter of 1992. The steeper yield curve has allowed lenders to offer lower rates on intermediate-term mortgages, thereby permitting borrowers to shorten the maturity of their mortgage without increasing their monthly payments. The recent pickup in these products also owes to strong investor demand from banks and insurance companies attracted to shorter duration mortgage-backed securities to supplement their purchases of CMOs.

Issuance of mortgage-backed securities set a record in the first quarter, reaching a seasonally adjusted monthly average rate of $35 billion (table). March saw an all-time monthly high of $39 billion, as the mortgages extended in the refinancing boom that peaked around mid-January were packaged into marketable assets. Issuance of derivative mortgage securities also rebounded in March from a relatively weak level in February. Market reports suggest that pass-through issuance remained strong in April, although the March pace probably was not sustained, owing to slower mortgage refinancing volumes in recent months.

Consumer Credit

Outstanding consumer installment credit declined at about a 2-3/4 percent seasonally adjusted annual rate in March, following nearly a 1 percent decline in February (table). Revolving credit flattened out in March, after posting moderate gains earlier in the year, while auto loans continued their runoff.

Although much of the weakness in consumer credit over the past two years can be attributed to sluggish growth of consumption expenditures, the first quarter pickup in spending did not show through to consumer borrowing (chart). Relatively high costs of consumer credit, desires to trim debt levels, and attractive terms

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (at annual rate)								Memo: Outstandings (billions of dollars)
				1991		1992			1992
	1989[1]	1990	1991	Q3	Q4[r]	Q1[p]	Feb.[r]	Mar.[p]	Mar.[p]
Installment	5.9	2.3	-.8	-.8	.2	-1.1	-.8	-2.7	727.4
Auto	1.3	-2.1	-5.9	-6.2	-3.4	-.6	-2.2	-1.2	267.5
Excluding auto	9.2	5.2	2.4	2.5	2.3	-1.4	.1	-3.5	459.9
Revolving	15.2	10.6	6.5	7.6	4.2	2.6	5.8	0.3	236.0
All other	4.5	.6	-1.5	-2.6	.3	-5.5	-5.9	-7.5	223.9
Noninstallment	2.6	-4.9	-19.2	-34.0	-31.0	18.5	26.7	-15.9	50.1
Total	5.8	1.7	-2.2	-3.2	-1.9	.1	1.0	-3.5	777.5

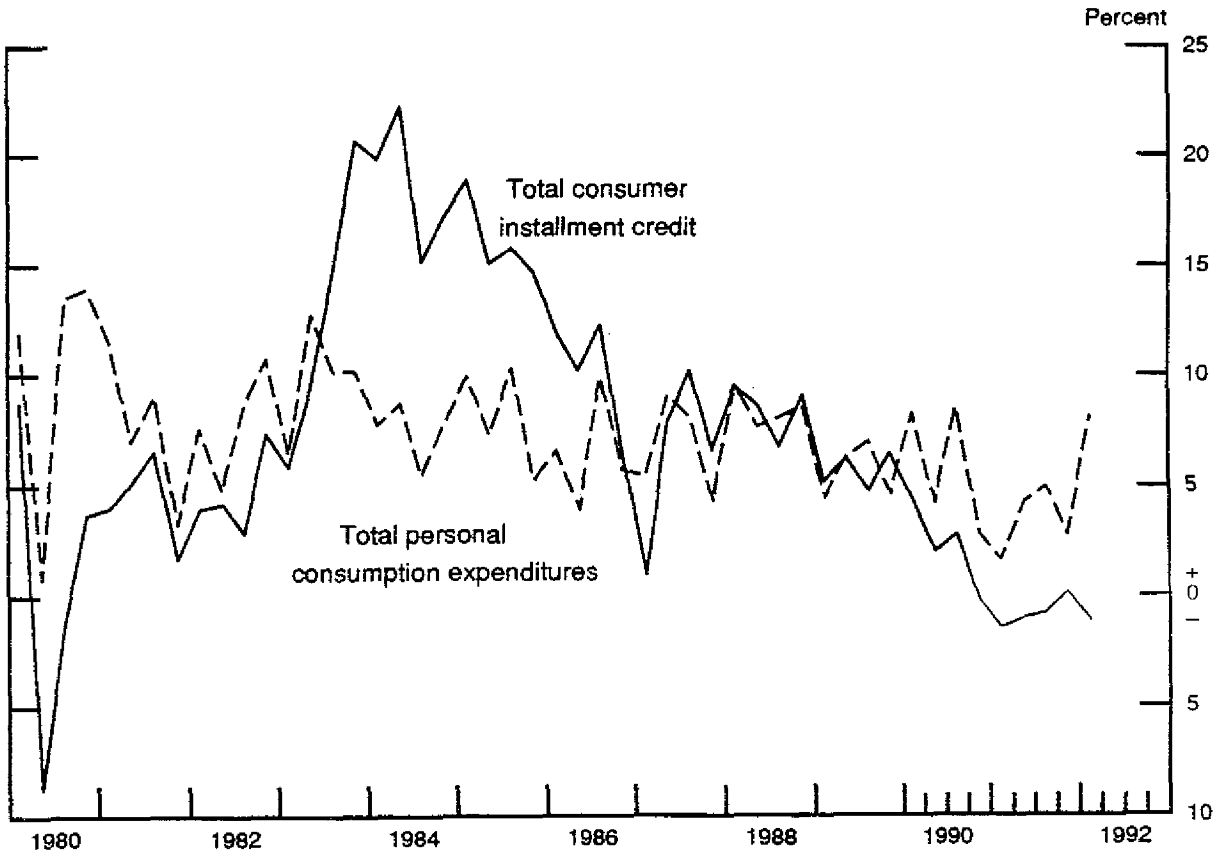
1. Growth rates are adjusted for discontinuity in data between December 1988 and January 1989.
r--revised. p--preliminary.
Note: Details may not add to totals due to rounding.

CONSUMER INTEREST RATES
(Annual percentage rate)

				1991		1992		
	1989	1990	1991	Nov.	Dec.	Jan.	Feb.	Mar
At commercial banks[1]								
New cars (48 mo.)	12.07	11.81	11.14	10.61	...	...	9.89	...
Personal (24 mo.)	15.44	15.46	15.18	14.88	...	...	14.39	...
Credit cards	18.02	18.17	18.23	18.19	...	...	18.09	...
At auto finance cos.[2]								
New cars	12.62	12.54	12.40	10.79	10.41	10.04	10.19	10.92
Used cars	16.18	15.99	15.60	15.06	14.90	14.34	14.00	14.19

1. Average of "most common" rate charged for specified type and maturity during the first week of the mid-month of each quarter.
2. Average rate for all loans of each type made during the month regardless of maturity.

Growth In Personal Consumption And Consumer Credit
(Percent; At Annual Rates)



GROSS PUBLIC ISSUANCE OF CONSUMER ASSET-BACKED SECURITIES
(Monthly averages in billions of dollars, not seasonally adjusted)

	TOTAL	Type of Collateral: Auto	Credit Cards	Other[1]	Type of Issuer: Commercial Bank	Finance Company	Other[2]
1988	1.29	.46	.66	.16	.67	.25	.36
1989	1.88	.65	1.00	.22	.92	.64	.31
1990	2.87	.87	1.83	.17	1.83	.80	.25
1991	3.07	1.23	1.70	.13	1.70	1.05	.31
1991 Q3	3.66	1.57	1.87	.22	1.12	2.12	.43
Q4	2.89	1.27	1.54	.09	1.21	1.54	.14
1992 Q1	2.31	1.60	.32	.39	1.91	.32	.08

1. Includes boat, recreation vehicle, mobile home and personal loans.
2. Includes retailers and savings and loan institutions.
Note: Details may not add to totals due to rounding.

on automobile leases evidently continued to restrain such borrowing; some households may have tapped home equity lines or cash from mortgage refinancings to cover expenditures.

Gross public issuance of securities backed by consumer loans averaged $2.3 billion per month in the first quarter of 1992--the smallest volume since the third quarter of 1989 (table). In the first quarter, automobile issues averaged $1.6 billion per month, with the bulk coming from GMAC alone. The downgrading of the commercial paper of both GMAC and GM significantly increased their cost of funds and made securitization an attractive alternative. Also in the first quarter, the RTC securitized a portion of the mobile home loans in its portfolio.

Only two credit card-backed issues were brought to market; the cutback owed to the generally lower cost of on-balance-sheet funding, the improved state of bank balance sheets, and the sluggish growth in new loans. Additionally, many banks may already have securitized as much of their portfolio as is practicable. Of the $54 billion in outstanding balances of securitized commercial bank credit card loans, $52 billion (96 percent) originally was on the books of 17 banks.

Recent weeks also have seen a number of large, nationwide credit card issuers announce new pricing strategies. Credit card rates for the most common credit card programs have been edging down slowly in recent quarters, but the decline has been much less than for other types of consumer loans. The new pricing strategies offer different rates to various segments of the customer base and will result in lower rates for large numbers of customers. In particular, active cardholders who have good payment records will have their rates reduced some 4 or 5 percentage points below those charged to customers with greater perceived risk.

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

The U.S. merchandise trade deficit in February declined to $3.4 billion (seasonally adjusted, Census basis), from the revised $5.9 billion deficit in January, as exports increased $2.4 billion and imports remained roughly constant. In February, most of the increase in exports was in capital goods, with aircraft particularly strong, followed by smaller increases in automotive products and other consumer goods. March trade data will be released on May 20th.

U.S. MERCHANDISE TRADE: MONTHLY DATA
(Billions of dollars, seasonally adjusted, Census basis)

	Exports			Imports			
	Total	Ag.	NonAg.	Total	Oil	NonOil	Balance
1991-Jul-r	35.2	3.4	31.8	40.8	4.1	36.8	-5.6
Aug-r	34.5	3.3	31.2	41.1	4.5	36.5	-6.6
Sep-r	35.3	3.3	32.0	41.8	4.5	37.2	-6.5
Oct-r	36.8	3.6	33.3	42.7	4.1	38.6	-5.9
Nov-r	37.3	3.5	33.7	41.4	4.1	37.2	-4.1
Dec-r	36.1	3.7	32.3	41.7	3.9	37.8	-5.6
1992-Jan	35.4	3.6	31.8	41.4	3.6	37.7	-5.9
Feb	37.8	3.8	34.0	41.2	3.3	37.9	-3.4

Source: U.S. Department of Commerce, Bureau of the Census.

For January and February combined, exports were about unchanged from the strong fourth-quarter rate, but more than 7 percent higher than a year earlier. Most of the increase in exports over the past year was in capital goods, split about evenly between aircraft and other machinery. Automotive exports have also risen in the past year, especially to Mexico, Kuwait and Saudi Arabia. Two thirds of the increase in exports in the past year went to less developed countries, with Mexico accounting for a third of the total increase. Exports to the Asian NIEs dropped off in January-February.

Imports in January and February were 2 percent lower than in the fourth quarter. Most of this decline came from a fall in oil import prices (discussed below). Non-oil imports also fell below the fourth-quarter rate as imports of consumer goods dropped off somewhat from a very strong fourth-quarter pace. Retail inventories, which had swelled in the fourth quarter, appear to have been drawn down in the first quarter, reflecting both increased consumer spending and somewhat lower imports of consumer products by retailers. Despite this recent decline, however, non-oil imports in January-February were still more than 7 percent above the first quarter of 1991, reflecting a strong expansion of imports of consumer goods over the past year.

Oil Imports

The value of imported oil in January and February combined was 14 percent less than in the fourth quarter, as a $2.75 per barrel price decline swamped a small increase in quantity. Prices fell in the first quarter (January-February) on continued mild winter weather and sluggish economic activity.

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1991		1992	Months			
	Q3	Q4	Q1-e	Nov	Dec	Jan	Feb
Value (Bil. $)	52.41	48.84	41.76	49.59	47.57	43.58	39.95
Price ($/BBL)	17.26	18.04	15.33	18.82	17.06	15.45	15.21
Quantity (mb/d)	8.31	7.41	7.46	7.21	7.64	7.72	7.19

e--Average of first 2 months of quarter at an annual rate.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Following the relatively unsuccessful mid-February OPEC ministerial meeting, spot prices fell further to $18.10 per barrel. Since March, prices have risen on OPEC production restraint (particularly Saudi Arabia), signs of strengthening economic

MAJOR TRADE CATEGORIES
(Billions of dollars, BOP basis, SAAR)

	Year	1991				1992	$ Change	
	1991	Q1	Q2	Q3	Q4	Q1-e	Q1e-Q1	Q1e-Q4
Trade Balance	-73.6	-74.2	-62.2	-83.4	-74.6	-65.9	8.3	8.8
Total U.S. Exports	416.5	402.2	415.6	416.1	432.2	431.3	29.1	-1.0
Agricultural Exports	40.1	39.3	37.7	40.2	43.3	44.0	4.7	0.7
Nonagric. Exports	376.4	362.9	377.8	375.9	389.0	387.3	24.3	-1.7
Industrial Suppl.	101.7	105.0	101.7	100.0	99.9	101.2	-3.8	1.3
Gold	3.6	4.1	3.3	3.4	3.7	4.1	0.1	0.4
Fuels	14.3	16.8	13.0	12.7	14.7	14.8	-2.0	0.1
Other Ind. Suppl.	83.8	84.2	85.5	83.9	81.6	82.3	-1.8	0.7
Capital Goods	167.0	155.8	170.5	166.0	175.7	175.8	20.0	0.1
Aircraft & Parts	36.5	30.8	38.8	35.5	40.9	40.9	10.0	-0.1
Computers & Parts	27.3	27.3	27.3	26.6	27.8	27.7	0.4	-0.2
Other Machinery	103.2	97.7	104.4	103.9	106.9	107.2	9.6	0.3
Automotive Products	39.8	33.7	39.8	43.9	42.0	41.4	7.8	-0.6
To Canada	22.3	19.1	21.9	24.9	23.3	20.3	1.2	-3.0
To Other	17.5	14.5	17.9	19.0	18.7	21.1	6.6	2.5
Consumer Goods	45.8	45.9	44.5	44.7	48.4	48.4	2.5	0.0
Other Nonagric.	22.1	22.6	21.3	21.3	22.9	20.4	-2.2	-2.5
Total U.S. Imports	490.1	476.3	477.7	499.5	506.9	497.2	20.8	-9.7
Oil Imports	51.4	52.9	51.7	52.4	48.8	41.8	-11.1	-7.1
Non-Oil Imports	438.7	423.5	426.0	447.1	458.0	455.4	31.9	-2.7
Industrial Suppl.	80.8	80.0	80.5	80.1	82.5	84.4	4.3	1.9
Gold	2.7	3.3	3.0	2.3	2.4	2.3	-1.0	-0.2
Other Fuels	3.9	3.8	4.1	3.7	3.9	5.2	1.4	1.3
Other Ind. Suppl.	74.2	73.0	73.4	74.2	76.1	76.9	3.9	0.8
Capital Goods	121.3	119.2	121.1	122.0	122.9	123.6	4.4	0.7
Aircraft & Parts	12.0	11.2	12.4	12.5	11.7	11.5	0.3	-0.2
Computers & Parts	26.1	24.2	26.0	27.7	26.7	26.9	2.7	0.2
Other Machinery	83.2	83.8	82.7	81.9	84.5	85.2	1.4	0.7
Automotive Products	84.8	81.5	78.1	91.4	88.3	87.6	6.1	-0.7
From Canada	28.7	23.2	28.1	33.8	29.8	29.9	6.7	0.1
From Other	56.1	58.4	50.1	57.6	58.5	57.8	-0.6	-0.8
Consumer Goods	108.1	100.6	100.4	110.6	120.7	115.1	14.6	-5.5
Foods	26.5	25.5	27.9	26.3	26.3	26.5	1.0	0.3
All Other	17.2	16.6	18.0	16.6	17.5	18.1	1.6	0.7

e--Average of first 2 months of quarter at an annual rate.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

activity, and uncertainty over exports from Libya and the former Soviet Union. Spot prices currently (May 12) stand at almost $21.00 per barrel. Given shipping and contract lags, prices of imported oil probably will record a $0.50 per barrel increase in March and perhaps another $1.00 in April to about $16.80 per barrel.

The quantity of oil imported in January-February was little changed from the fourth quarter as mild winter weather held down demand. Weekly data for March indicate continued declines in stocks, which, coupled with a gain in consumption, should leave imports at about the February rate.

Prices of Exports and Non-oil Imports

BLS prices of non-oil imports declined slightly in March after increasing for six consecutive months. For the entire first quarter non-oil import prices rose 4.5 percent (AR), following a 3.9 percent increase in the fourth quarter of 1991. On a NIPA basis, non-oil import prices show smaller increases in the third and fourth quarters than did the BLS data, although the NIPA estimate for the first quarter were released prior to the March BLS data. In the first quarter, prices increased in all major non-oil import categories. Over the past four quarters, changes in import prices have been associated with movements in the dollar, and perhaps more recently with an anticipated rise in domestic demand.

Prices of non-agricultural exports rose slightly in March but for the first quarter declined by 1.1 percent (AR). This price decline came about as a large and continuing decline in the price of exports of industrial supplies of 6.4 percent more than offset a 5.9 percent rise in the price of exports of consumer goods.

IMPORT AND EXPORT PRICE MEASURES
(percent change from previous period, annual rate)

	Year	Quarters			Months	
	1992-Q1	1991		1992	1992	
	1991-Q1	Q3	Q4	Q1	Feb	Mar
		(Quarterly Average, AR)			(Monthly Rates)	
	--------------------BLS Prices--------------------					
Imports, Total	-1.8	-3.5	5.2	-1.4	0.1	-0.4
Foods, Feeds, Bev.	3.2	-3.5	3.7	10.1	-0.1	1.0
Industrial Supplies	-10.0	-6.7	3.1	-15.7	-0.9	-0.2
Ind Supp Ex Oil*	-2.9	-7.3	-4.3	4.8	-0.1	-0.2
Capital Goods	0.2	-4.4	6.5	4.6	-0.1	-0.6
Automotive Products	2.2	-1.0	7.4	1.3	1.2	-1.1
Consumer Goods	1.5	-0.6	5.1	6.2	0.4	0.0
Memo:						
Oil	-22.8	-5.9	19.5	-46.5	-2.8	-0.3
Non-oil	0.6	-3.2	3.9	4.5	0.4	-0.4
Exports, Total	-0.6	-2.5	2.5	-1.3	0.7	0.1
Foods, Feeds, Bev.	4.3	-5.8	17.6	-1.2	3.8	0.6
Industrial Supplies	-7.4	-8.0	-3.0	-6.4	0.4	0.4
Capital Goods	2.0	1.6	2.2	0.6	0.1	-0.2
Automotive Products	2.2	2.1	3.0	1.6	0.5	-0.2
Consumer Goods	3.0	-2.3	2.5	5.9	0.2	-0.5
Memo:						
Agricultural	1.1	-8.5	10.8	-3.3	3.1	0.0
Nonagricultural	-1.1	-1.8	1.2	-1.1	0.3	0.1
	------------Prices in the NIPA Accounts-----------					
Fixed-Weight						
Imports, Total	-2.5	-1.4	4.0	-3.2	--	--
Oil	-23.8	-1.2	22.0	-46.9	--	--
Non-oil	0.1	-1.4	2.5	2.5	--	--
Exports, Total	-0.8	-3.6	2.6	-0.7	--	--
Ag	2.0	-9.1	11.6	-2.4	--	--
Nonag	-1.2	-2.9	1.9	-0.7	--	--
Deflators						
Imports, Total	-3.6	-2.9	4.0	-4.0	--	--
Oil	-23.8	-1.5	21.7	-46.6	--	--
Non-oil	-1.2	-3.2	1.9	1.5	--	--
Exports, Total	-1.7	-3.9	0.7	-1.0	--	--
Ag	-1.8	-6.3	6.3	-6.5	--	--
Nonag	-1.8	-3.9	0.3	-0.6	--	--

*/ Months not for publication.

U.S. International Financial Transactions

For the first quarter, foreign official reserves held in the United States rose by almost $21 billion (line 4 of the Summary of U.S. International Transactions table). As was the case throughout 1991, the increases were concentrated in countries other than the G-10 and OPEC; notable increases were registered by Taiwan and Mexico. Among the G-10, Germany showed a substantial increase and Japan a moderate decrease.

Private foreign net purchases of U.S. securities (lines 2a, 2b and 3) were dominated by nearly $8 billion in net purchases of U.S. corporate and agency bonds (line 2a). These foreign purchases accompanied a very high level of bond issuance by U.S. corporations. On the other hand, private foreigners made net sales of U.S. stocks amounting to almost $3 billion and reduced their holdings of U.S. Treasury securities another $0.5 billion (lines 2b and 3).

These latter changes were more than accounted for by reductions in Japanese residents' holdings of U.S. stocks and Treasury securities. In the first quarter, Japanese residents sold net over $3 billion of U.S. stocks ($500 million in March) and almost $4 billion of U.S. Treasury securities ($2 billion in March); they also reduced their holdings of corporate bonds slightly.

U.S. residents continued their high level of purchases of foreign securities, totaling over $9 billion in the first quarter (line 2c). Almost $8 billion of the total was for foreign stocks, including $1-1/2 billion for Japanese stocks.

In contrast to the capital outflows associated with the adjustment of Japanese portfolios of U.S. stocks and bonds, there were large inflows from Japan into banks located in the United States--$12 billion in the first quarter and $9 billion in March

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

	1990 Year	1991 Year	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Jan.	1992 Feb.	1992 Mar.
Private Capital									
Banks									
1. Change in net foreign positions of banking offices[1] in the U.S. (+ = inflow)	36.6	-20.6	-29.1	11.1	-2.4	3.9	0.1	-0.5	4.4
Securities									
2. Private securities transactions, net[2]	-29.1	-11.1	3.4	-2.6	-6.8	-4.4	-4.4	1.6	-1.6
a) foreign net purchases (+) of U.S. corporate bonds[3]	16.2	26.0	7.9	8.0	6.6	7.6	1.9	3.3	2.4
b) foreign net purchases (+) of U.S. corporate stocks	-13.7	10.2	7.7	2.3	-1.5	-2.9	-2.4	0.2	-0.7
c) U.S. net purchases (-) of foreign securities	-31.6	-47.3	-12.2	-12.9	-11.9	-9.2	-3.9	-1.9	-3.3
3. Foreign net purchases (+) of U.S. Treasury obligations	-1.0	17.8	13.4	-1.2	1.5	-0.5	1.2	3.5	-5.2
Official Capital									
4. Changes in foreign official reserves assets in U.S. (+ = increase)	32.1	20.0	-3.3	3.5	13.3	20.8	11.8	3.0	6.0
a) By area									
G-10 countries	10.0	-17.5	-4.7	-1.9	0.5	2.5	0.2	0.2	2.0
OPEC	1.2	-5.8	-2.9	-4.4	1.2	2.8	1.1	1.6	0.1
All other countries	20.8	43.3	4.2	9.8	11.6	15.5	10.4	1.1	3.9
b) By type									
U.S. Treasury securities	29.6	18.8	-2.3	5.6	12.6	14.6	8.7	1.9	4.0
Other[4]	2.5	1.1	-1.0	-2.2	0.7	6.1	3.0	1.1	2.0
5. Changes in U.S. official reserve assets (+ = decrease)	-2.2	5.8	1.4	3.9	1.2	-1.1	-0.3	-0.5	-0.3
Other transactions (Quarterly data)[5]									
6. U.S. direct investment (-) abroad	-33.4	-29.5	-2.0	-6.7	-8.8	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	37.2	22.2	7.5	6.1	4.2	n.a.	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow)[6]	-11.6	7.1	-3.0	1.7	7.3	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance	-92.1	-8.6	2.9	-11.6	-10.3	n.a.	n.a.	n.a.	n.a.
10. Statistical discrepancy	63.5	-3.1	8.8	-4.2	0.8	n.a.	n.a.	n.a.	n.a.
MEMO:									
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-108.1	-73.6	-15.5	-20.8	-18.7	n.a.	n.a.	n.a.	n.a.

1. Includes changes in positions of all depository institutions, bank-holding companies, and certain transactions between brokers/dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements.)
2. These data have not been adjusted to exclude commissions on securities transactions and, therefore, do not match exactly the data on U.S. international transactions as published by the Department of Commerce.
3. Includes all U.S. bonds other than Treasury obligations.
4. Includes deposits in banks, commercial paper, acceptances, borrowing under repurchase agreements, and other securities.
5. Seasonally adjusted.
6. Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, and other banking and official transactions not shown elsewhere. In addition, it includes amounts resulting from adjustments to the data made by the Department of Commerce and revisions to the data in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.
*--Less than $50 million.
NOTE: Details may not add to total because of rounding.

alone. Approximately $5 billion of the net inflow from Japan in the first quarter was to Japanese agencies and branches in the United States or their IBFs (over $7 billion in March). This latter first-quarter inflow largely reflected a reduction of the claims of Japanese banks in the United States on unaffiliated banks in Japan, possibly in response to pressures imposed by capital adequacy guidelines. Bank-reported transactions with other regions showed a net outflow in the first quarter, as the net inflow overall was only about $4 billion (line 1 of the Summary table). For April, monthly average data reported on the International Banking Data table indicate a continued inflow from own foreign offices and IBFs (line 1); this is more than accounted for by the net inflow to U.S. offices of foreign-chartered banks (mostly Japanese) from their IBFs and offices abroad (line 1b).

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1990				1991				1992	
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	Apr. */
1. Net Claims of U.S. Banking Offices (excluding IBFS) on Own Foreign Offices and IBFS	-11.7	-11.0	-15.6	-31.3	-23.8	-13.7	-14.1	-35.8	-41.4	-42.8
(a) U.S.-chartered banks	12.2	7.2	5.7	5.5	7.6	5.4	11.0	12.4	3.2	7.3
(b) Foreign-chartered banks	-23.9	-18.2	-21.3	-36.9	-31.3	-19.2	-25.2	-48.3	-44.6	-50.1
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	21.8	22.2	24.0	24.7	26.0	23.9	23.7	23.9	23.3	23.0
3. Eurodollar Holdings of U.S. Nonbank Residents 1/	110.6	106.5	109.1	116.1	114.6	105.8	100.8	102.9	100.1	95.0

1. Includes term and overnight Eurodollars held by money market mutual funds. Note: These data differ in coverage and timing from the overall banking data incorporated in the international transactions accounts. Line 1 is an average of daily data reported to the Federal Reserve by U.S. banking offices. Line 2 is an average of daily data. Line 3 is an average of daily data for the overnight component and an average of Wednesday data for the term component.

*/ Data through April 27.

Foreign Exchange Markets

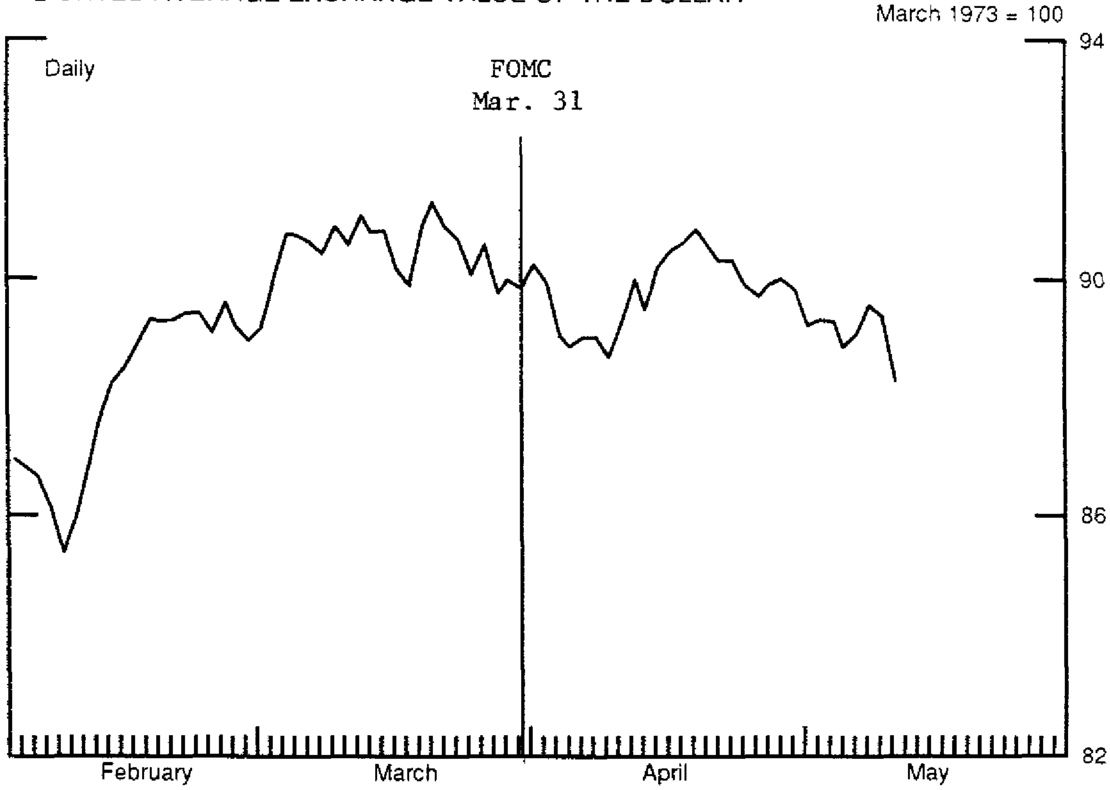
The trade weighted average value of the dollar, shown in the figure, declined just over 2-1/2 percent, on balance, from the March FOMC meeting through May 13. The dollar's movements during most of the period have been influenced by concerns over the prospects for the U.S. recovery. Early in the period, the dollar declined on the basis of weaker than expected employment data for March, and the subsequent Federal Reserve easing. Toward the end of the period the dollar continued to decline as the market has come to expect further Federal Reserve easing.

Events in Germany and Japan also had a significant influence on exchange rates, especially in the second half of the period. The mark appreciated against the dollar as high levels of German M3 growth and the possibility of large wage increases in current labor negotiations postponed the possibility of lower rates in Germany. M3 growth in March was 9.7 percent over the fourth-quarter base, well above the Bundesbank's growth target of 3-1/2 to 5-1/2 percent. In addition, German public sector workers tentatively agreed agreed to a package that would increase compensation by 5.7 percent.

The yen strengthened against the dollar following the April 26 G-7 meeting, as the G-7 communique and comments by finance ministers in the aftermath of the meeting characterized the yen's recent weakness and the large Japanese trade surplus as a matter of concern. The Bank of Japan also intervened on several occasions following the G-7 meeting to support the yen.

An additional concern during the period has been the weakness of Japan's economy and equity markets. On April 1, the day after the last FOMC meeting, Japanese officials announced an emergency

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



fiscal package to support Japan's economy. On the following day the official discount rate was cut by 75 basis points. Despite these measures, and minor additional measures aimed specifically at supporting the stock market, the Nikkei stock index declined sharply and had been as much as 10-1/2 percent below its level at the beginning of the intermeeting period. However, the Nikkei index later recovered and was unchanged, on balance, during the period.

Interest rates during the period remained steady in Germany. In Japan, since the end of March, the call money rate eased 90 basis points in response to Bank of Japan easing; the three-month rate declined by only 10 basis points as Japan's easing action had been largely discounted by market participants; and the yield on the bellwether bond increased by about 15 basis points. This bond yield increase may be partly attributable to the weakness of Japan's stock market. The stock market's weakness has reduced the attractiveness of corporate financing through the use of equity and equity-linked securities such as convertible and warrant linked bonds. The reduced attraction of equity financing has placed upward pressure on yields for other types of financing, including bond financing.

In Canada, the call money rate and three-month rate both declined about 75 basis points during the period, and the yield on the bellwether bond declined by about 40 basis points. These rate declines contributed to the weakness of the Canadian dollar, which has fallen about 3/4 percent against the U.S. dollar.

In Europe, the Portuguese escudo entered the ERM in a +/- 6 percent exchange rate band. The other major developments in Europe during the period were the reduction in British interest rates following the Conservative Party's surprise election victory, and the announcement by the Bank of France of a reduction in reserve requirements.

Sterling, which had been weakened by political uncertainty during the period leading up to the election on April 9, strengthened significantly after the election. Sterling's strength prompted the Bank of England to lower its money market dealing rates 50 basis points. On balance, financial markets have responded positively to the Conservative's election victory. During the intermeeting period sterling rose 5-1/2 percent against the dollar and 3-1/2 percent against the mark, stock prices in the United Kingdom rose nearly 14 percent, and the yield on the bellwether bond declined about 3/4 of a percentage point.

The Bank of France announced a reduction in reserve requirements towards the end of the period. Although the Bank of France did not reduce official interest rates, commercial banks reduced their base rates by 50 basis points, perhaps in anticipation of a forthcoming cut in official rates. Three-month interest rates have declined by about 15 basis points since the announcement. The French franc was little affected by the reduction in reserve requirements, and appreciated about 1 percent against the mark during the intermeeting period.

Developments in Foreign Industrial Countries

Indicators of economic activity were mixed in the first quarter of 1992, as signs of recovery in economic activity in Europe were offset by continued weakness in Japan and Canada. Recent estimates indicate that German GDP increased 6 percent (s.a.a.r.) in the first quarter, following a decline in the previous quarter. However, part of this increase was attributed to effects of exceptionally warm weather on construction activity. Monthly indicators in France, Italy, and the United Kingdom point, on balance, to a recovery in output in the first quarter. In contrast, in Japan and Canada most monthly indicators declined.

Inflation rates have been relatively stable in all the foreign G-7 countries except Germany. German wage inflation has increased significantly over the past year, and wage negotiations between the government, industry, and the unions suggest that wages will continue to be a source of inflationary pressure in 1992.

National elections in the United Kingdom returned the Conservative Party to power, though with a reduced majority. In Italy, a sharp drop in support for the ruling four-party coalition in national elections and the resignation of President Cossiga is making the formation of a new government difficult. The 15 republics of the former Soviet Union became members of the IMF. The Russian government intends to allow the ruble to float and make it convertible for current account transactions on July 1, and to stabilize the ruble in the fall.

Individual country notes. In Japan, activity appears to have remained weak in the first quarter. Industrial production (s.a.) declined 2.8 percent in March and 3.3 percent for the first quarter as a whole. The inventory to shipments ratio (s.a.) increased 1.2 percent in March and was 9.2 percent above its year-earlier level. Retail sales at large department stores (s.a.) in March were 1 percent below their year-earlier level, the first such decline in three years. In February, new manufacturing orders (s.a.) declined 1.7 percent, and housing starts (s.a.) were down by 1.2 percent. The unemployment rate (s.a.) was 2 percent in February, unchanged from its year-earlier level. However, the job-

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period, seasonally adjusted) 1

	Q4/Q4 1990	Q4/Q4 1991	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1991 Nov.	1991 Dec.	1992 Jan.	1992 Feb.	1992 Mar.	Latest 3 months from year ago 2
Canada												
GDP	-1.1	-.2	1.3	.1	-.2	n.a.	*	*	*	*	*	-.2
IP	-6.3	-1.5	1.1	.7	-1.4	n.a.	-.4	-1.6	.2	.2	n.a.	-.9
France												
GDP	1.6	1.8	.7	1.0	.1	n.a.	*	*	*	*	*	1.8
IP	-.3	1.9	1.1	.6	-.3	n.a.	-.7	-1.2	2.0	-.9	n.a.	1.3
West Germany												
GNP	5.3	1.0	-.6	-.5	-.4	n.a.	*	*	*	*	*	1.0
IP	5.4	.3	-.1	-.5	-1.2	2.4	.4	-4.0	5.2	1.2	-2.8	.6
Italy												
GDP	1.6	1.5	.5	.2	.3	n.a.	*	*	*	*	*	1.5
IP	-3.8	-.5	-1.9	-.3	1.1	n.a.	5.5	-6.2	n.a.	n.a.	n.a.	-.5
Japan												
GNP	4.7	3.2	.7	.5	-.0	n.a.	*	*	*	*	*	3.2
IP	6.9	-1.6	-.7	.3	-1.1	-3.3	.0	-1.3	-.8	-1.0	-2.8	-4.6
United Kingdom												
GDP	-.7	-1.7	-.7	.2	-.3	n.a.	*	*	*	*	*	-1.7
IP	-3.2	-.6	-1.2	1.0	-.2	n.a.	-.5	-.3	-1.4	1.2	n.a.	-.9
United States												
GNP	-.1	.3	.3	.5	.1	.5	*	*	*	*	*	1.4
IP	.3	-.5	.6	1.6	-.2	-1.0	-.3	-.6	-.9	.5	.2	1.0

1. Asterisk indicates that monthly data are not available.
2. For quarterly data, latest quarter from year ago.

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period) 1

	Q4/Q4 1990	Q4/Q4 1991	1990 Q4	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Jan.	1992 Feb.	1992 Mar.	1992 Apr.	Latest 3 months from year ago
Canada													
CPI	4.9	4.1	1.4	2.9	.7	.6	-.1	.4	.5	.1	.3	n.a.	1.6
WPI	1.9	-3.2	1.2	-.3	-1.6	-.9	-.4	.5	.1	.7	.3	n.a.	-2.4
France													
CPI	3.6	2.9	1.0	.5	.7	.8	.9	.6	.2	.3	.3	n.a.	3.0
WPI	.7	-3.6	1.1	-.5	-1.5	-.7	-1.0	n.a.	*	*	*	*	-3.6
West Germany													
CPI	3.0	3.9	.9	.8	.9	1.5	.7	1.2	.4	.6	.4	2.3	5.3
WPI	.9	1.6	.4	.5	.3	.7	.2	.4	.3	.6	.0	.3	1.9
Italy													
CPI	6.3	6.1	2.0	1.9	1.4	1.0	1.7	1.4	.8	.2	.4	.4	5.4
WPI	9.9	1.1	4.3	.2	-1.0	.5	1.4	n.a.	.5	.3	n.a.	n.a.	.8
Japan													
CPI	3.2	3.2	1.2	.8	.8	.4	1.1	-.3	.0	-.2	.5	1.1	2.4
WPI	1.9	-1.3	.7	.1	-.4	-.4	-.7	-.4	-.6	.1	.3	n.a.	-1.8
United Kingdom													
CPI	10.0	4.2	1.6	.6	2.1	.4	1.0	.5	-.1	.5	.3	n.a.	4.1
WPI	5.9	4.9	1.1	1.8	1.9	.6	.5	1.3	.7	.4	.8	.4	4.2
United States													
CPI (SA)	6.3	3.0	1.7	.8	.6	.7	.9	.7	.1	.3	.5	.2	3.1
WPI (SA)	6.4	-.1	2.4	-.4	-.2	.0	.5	-.1	-.3	.2	.2	.2	.7

1. Asterisk indicates that monthly data are not available.

TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES [1]
(Billions of U.S. dollars, seasonally adjusted except where otherwise noted)

	1990	1991	1990	1991				1992	1991	1992		
			Q4	Q1	Q2	Q3	Q4	Q1	Dec.	Jan.	Feb.	Mar.
Canada												
Trade	9.4	6.4	2.3	2.2	2.5	.9	.8	n.a.	.6	.8	1.2	n.a.
Current account	-18.9	-23.4	-4.6	-4.8	-5.0	-6.5	-7.1	n.a.	*	*	*	*
France												
Trade	-9.3	-5.5	-3.1	-2.7	-1.5	-1.5	.3	1.0	-.5	.7	.1	
Current account	-9.5	n.a.	-2.0	-4.0	-1.6	-.2	n.a.	n.a.	*	*	*	
Germany [2]												
Trade (NSA)	65.2	12.9	10.1	4.4	-1.1	2.8	6.7	n.a.	3.3	.1	1.4	n.a
Current Account (NSA)	47.3	-21.8	8.5	-5.6	-5.8	-5.8	-4.6	n.a.	-1.6	-4.2	-1.2	n.a
Italy												
Trade	-12.2	-13.0	-4.5	-1.0	-3.9	-4.9	-3.2	-1.6	-.5	-.2	-1.3	-.1
Current account (NSA)	-14.2	-20.9	-3.7	-7.6	-4.7	-3.8	-4.8	n.a.	*	*	*	*
Japan												
Trade	51.8	78.8	8.5	17.4	18.8	20.8	21.9	28.0	7.9	8.4	10.4	9.2
Current account	35.8	72.6	6.4	12.8	18.7	19.6	21.5	28.5	7.9	7.2	9.6	11.7
United Kingdom												
Trade	-32.7	-17.8	-6.2	-5.8	-3.7	-4.0	-4.4	-5.4	-1.3	-2.1	-1.8	-1.5
Current account	-26.4	-8.3	-4.3	-4.7	-.4	-2.1	-1.1	-3.8	-.1	-1.6	-1.3	-1.0
United States												
Trade	-108.1	-73.6	-27.7	-18.5	-15.5	-20.8	-18.7	n.a.	-7.0	-6.8	-4.1	n.a
Current account	-92.1	-8.6	-23.4	10.4	2.9	-11.6	-10.3	n.a.	*	*	*	*

1. The current account includes goods, services, and private and official transfers. Asterisk indicates that monthly data are not available.
2. Before July 1990, West Germany only.

offers-to-applicants ratio (s.a.) declined 2.3 percent in February and was 14.4 percent below its year-earlier level.

Consumer prices in the Tokyo area (n.s.a.) in April rose 1.1 percent and were 2.9 percent above their year-earlier level. However, when perishable foods are excluded, the monthly increase was only 0.3 percent (s.a.). Wholesale prices (n.s.a.) increased 0.3 percent in March, but were down 1.4 percent from their year-earlier level.

The trade surplus rose in the first quarter to $112 billion (s.a.a.r.) from $88 billion in the fourth quarter.

Equity prices dropped sharply in April. Since the March FOMC, the Nikkei index was unchanged, on balance. Real estate prices have also continued to fall; the National Land Agency recently announced that land prices fell roughly 5 percent in 1991, the first decline in 17 years.

On March 31, the government announced a package of measures aimed at boosting the pace of economic activity. The overall macroeconomic impact of these measures appears to be fairly small, with the most significant change consisting of a shift in budgeted spending into the first half of the current fiscal year, which began April 1.

Recent estimates of West German GNP indicate an increase of roughly 6 percent (s.a.a.r.) in the first quarter, following a fall of 1.4 percent in the fourth quarter. However, this increase was largely due to special factors, and may be partially reversed in the second quarter. A large first-quarter increase in West German industrial production (s.a.) of 2.4 percent was also largely due to these special factors. Construction activity increased 4.4 percent in the first quarter of 1991, largely due to mild weather. Looking through these special factors, the level of economic activity at the end of the first quarter was up only modestly from the fourth quarter of 1991.

The volume of new orders for west German manufactured goods (s.a.) increased sharply in January and February. Domestic orders (including orders from eastern Germany) increased 6.6 percent in January and 0.1 percent in February, after falling 4.9 percent in December. Foreign orders also increased significantly. Labor market conditions in west Germany remain tight. The west German unemployment rate (s.a.) rose to 6.4 percent in April from 6.3 percent in March.

Evidence of recovery in eastern Germany continues to accumulate. East German industrial production (n.s.a.) increased 5.3 percent in the fourth quarter, while new orders for east German manufactured goods jumped 7.9 percent. Unofficial data indicate that output per hour in east German industry increased by 76 percent between January and December of last year, fully offsetting the impact of wage increases on unit labor costs. Surveys of investment intentions indicate that gross fixed investment in eastern Germany is expected to increase between one quarter and one third in 1992, and continue to show growing optimism regarding business conditions in 1992.

Consumer prices in western Germany (s.a.) in April were 4.6 percent above their year-earlier level, down only slightly from their 4.7 percent rise in March. Over the three months to April, consumer prices increased at an annual rate of 3.9 percent, compared with 3.3 percent for the three-month period ending in December.

Accelerating labor costs in western Germany continue to be a source of concern. Average hourly earnings in western Germany (s.a.) increased 7.9 percent (s.a.a.r.) in the six months between August and February, compared with an increase of 5.9 percent during the six months to August 1991. On May 7, the government and the public-sector unions agreed on a 5.4 percent wage increase with additional payments worth about 1/4 percentage point, slightly less than what was proposed by an arbitration panel three weeks ago. Negotiations between the metalworkers union--IG Metall--and employers remain deadlocked. After a series of warning strikes during the past two weeks, union officials threatened to call a vote on a full-scale strike.

M3 (s.a.) increased at an annual rate of 9.7 percent in the first quarter. This relatively rapid M3 growth was largely due to strong demand for bank loans.

In France, economic activity showed renewed signs of strength in the first quarter following a slowdown in real total GDP growth to 0.4 percent (s.a.a.r.) in the fourth quarter (from a revised 4 percent in the third quarter). Consumption of manufactured products, equal to roughly one-third of total consumption, rose 0.9 percent (s.a.) in the first quarter. Industrial production fell 0.9 percent (s.a) in February, following a strong 2 percent increase in January. The February decline resulted from a sharp drop in energy output due to unusually warm weather, and industrial production excluding energy rose slightly. Business orders and retail sales were flat in March, after increasing in January and February. The government statistical institute, INSEE, raised its forecast for growth in the first half of 1992 to 2-1/2 percent, although survey data indicate that investment is likely to remain stagnant in the first half of 1992. Unemployment remained constant in March, after rising to 9.9 percent in February.

Consumer prices in March were 3.2 percent above their level a year earlier, up from 3 percent in the previous month.

The sharp drop in support for the governing Socialist Party in regional elections held on March 22 led President Mitterrand to replace Prime Minister Cresson with former Finance Minister Pierre Beregovoy. The Finance Ministry was reorganized so that the Ministers of the Budget and of Industry report directly to Beregovoy rather to the new Finance Minister, Michel Sapin, thereby maintaining Beregovoy's influence over economic policy.

Prime Minister Pierre Beregovoy announced a sharp increase in the estimate of the 1992 central government budget deficit from FF90 billion (1.2 percent of GDP) to FF135 billion (2 percent of GDP). This revision was primarily due to a reduction in estimated tax receipts in response to lower-than-anticipated receipts in 1991. He also stated that the increase in expenditures would be limited to 3.5 percent, but that automatic stabilizers would be allowed to operate. Revenues from privatization and budgetary saving from an expenditure freeze in non-priority areas will be used to finance new training programs to reduce unemployment and a cut in the VAT on luxury items and cars from 22 to 18.6 percent. The VAT cut was moved forward one year to provide some mild fiscal stimulus.

In Italy, the economy appears to be growing sluggishly. Fourth-quarter GDP rose 1.2 percent (s.a.a.r.), up from 0.8 percent in the previous quarter. The average level of industrial production (n.s.a.) in January and February, adjusted for the number of working days, was 0.6 percent above its year-earlier level. Auto sales in March were 2.1 percent above their year-earlier level, following an increase in February of 3.7 percent. Household confidence rose sharply in March, following a decline in the previous month.

Consumer prices in April were 5.5 percent above their year-earlier level, the same as the March increase. Wholesale prices in February were 0.4 percent above their year-earlier level.

Italy's ruling four-party coalition suffered a setback in the general election held in early April when its share of the vote fell five percentage points. The coalition did retain a slim majority in Parliament but, given relatively weak party discipline, is not likely to be able to form a government strong enough to enact necessary economic reforms. The big winner was the Lombard League, a regional party based in the north that favors greater autonomy for northern Italy. It gained 8.7 percent of the vote, up from 0.5 percent in 1987. The political situation was further complicated by the resignation of President Cossiga in late April, two months before the end of his term; the president plays a role in selecting the premier.

In the United Kingdom, recent data point to a moderate recovery in economic activity. The Purchasing Managers' Index (based on new orders, output, and employment) rose in April for the third month in a row. Business failures in April dropped to their lowest level since December 1990. Survey data indicate that consumer and business confidence recovered in the first quarter. Also, the financial positions of the personal and corporate sectors have improved, leaving them in better shape to increase spending. However, the volume of retail sales (s.a.) in the first quarter was only slightly above that of the fourth quarter, as a decline in March almost offset modest rises of the previous two months. Unemployment (s.a.) stabilized in March at 9.4 percent. Industrial production (s.a.) in February rose 1.2 percent, after declining 1.4 percent the previous month.

The inflation rate has more than halved during the past year; consumer prices (n.s.a.) rose 4 percent in March from their year-earlier level, compared with an increase of 8.2 percent in March 1991. Excluding mortgage interest rates, consumer prices in March stood 5.7 percent above their year-earlier level. Producers' output prices were up 0.4 percent in April, to stand 3.8 percent above year-earlier levels. Wages continued to increase at an underlying rate of 7-1/4 percent in February. However, recent wage settlements have been below 5 percent.

The Conservative Party retained power in the general election held April 9, winning 336 seats for an overall majority of 21 seats, down from their previous majority of 84, but sufficient to ensure five more years of Conservative government. Prime Minister Major announced that Norman Lamont would remain Chancellor of the Exchequer and appointed Michael Heseltine head of the Department of Trade and Industry. After spending several months near the bottom of the ERM, the pound rallied following the election, while the stock market has soared almost 13 percent.

In Canada, first-quarter data show continued weakness on balance. Average industrial production (s.a.) in January and February was 0.9 percent below its fourth-quarter average. January and February retail sales (s.a.) were virtually unchanged from their low December level, and motor vehicle sales (s.a.) slipped 4.7 percent in February. However, housing starts rose 11 percent (s.a.) in April, after plunging 17 percent in the first quarter. Factory shipments (s.a.) rose 1.1 percent in February, and new orders (s.a.) were up 2.2 percent in February, the first increase in six months in either measure. Unemployment (s.a.) in April fell slightly to 11 percent, from 11.1 percent in March, but remains above 1991 levels.

Canada's inflation performance continues to improve. The CPI increased only 1.6 percent in the first quarter from its level a year earlier, though excluding food and energy the increase was 2.6 percent. Wholesale prices (n.s.a.) stand 2.4 percent lower than their year-earlier level.

There is substantial uncertainty about Canada's political future due to a lack of agreement on constitutional reform, and the secession of Quebec is a possibility. The provincial government of Quebec has promised to hold a referendum on "Quebec sovereignty" by the end of October if it is not satisfied with the constitutional amendments that the federal government is to submit to parliament this month. Canadian Prime Minister Brian Mulroney expressed concern that the wording of this referendum might mislead Quebeckers into believing that the province could simultaneously become "sovereign" and remain a part of Canada, and that he might be forced to preempt the Quebec referendum with a Canada-wide plebiscite.

Developments in East European Countries

The applications of Russia and the other 14 republics of the former Soviet Union to join the IMF were approved by the IMF Executive Board in early May. Russia's quota is 3 percent, while the 14 other republics combined will receive 1.76 percent. Russia is the most advanced in its economic reform efforts and could be expected to draw from the IMF perhaps as early as this summer.

At the Congress of People's Deputies meeting in early April, the Russian government's program came under criticism from conservative anti-market forces. In response, the government modified certain aspects of the program, but stressed that this would not undermine the overall reform effort. These changes include loosening of central bank credit to commercial banks, selective loosening of fiscal policy, and increased emphasis on restructuring of industry. In early May, the Russian government announced that the ruble would become convertible for current account transactions and will be allowed to float beginning July 1. In the fall, a fixed central exchange rate will be established, and the ruble will be allowed to fluctuate around this central rate within a 15 percent band. The Russian government hopes that the $6 billion ruble stabilization fund recently endorsed by the G-10 will contribute to confidence in the ruble. The stabilization fund will only be activated after Russia has obtained a stand-by program from the IMF, and will be financed through the IMF's General Arrangements to Borrow (GAB).

In Poland, on May 6, Finance Minister Andrzej Olechowski resigned when the parliament cancelled two 1991 laws that would have limited state pensions and public employee salaries. The 1991 laws had been ruled unconstitutional by a judicial tribunal and the parliament failed to muster the two-thirds majority needed to overturn the tribunal's decision and enact the laws. The parliament's decision to allow large increases in government spending will push the 1992 budget deficit well above the 5 percent of GDP target contained in the government's program that was endorsed, in principle, by the IMF. If the measures are not reversed, it will be difficult to reach an agreement with the IMF on a new program.

Economic Situation in Other Countries

Mexico is expected to receive a one-year extension of the three-year EFF arrangement with the IMF that was due to expire May 25. Because international reserves have increased significantly to $17.7 billion at end-1991, Mexican officials have told the IMF that they would not draw on the additional resources unless conditions worsen. Argentina and the Bank Advisory Committee have reached preliminary agreement on a Brady Plan debt restructuring. Argentina is believed to have met its first-quarter fiscal targets under the EFF arrangement that the IMF approved in March. Brazil appears to have missed its first-quarter fiscal targets under the IMF stand-by arrangement approved in January. Negotiations with its commercial bank creditors on a Brady Plan debt restructuring continue to be stalled over disagreement concerning the amount that Brazil should initially provide in enhancements. Economic activity remains strong in Korea and in Taiwan, as well as in Mexico and Argentina.

Individual country notes. Mexico has asked the IMF to extend for one year the three-year EFF arrangement that was due to expire May 25. IMF Executive Board approval is expected May 20. The option to extend the EFF for a fourth year was agreed between the IMF and Mexico when the EFF was approved in 1989. The Mexican authorities have told the IMF that, barring unforeseen adverse developments, they do not intend to use the SDR 466.2 million (about $640 million) in resources that would be made available by the extension.

Mexico's 1991 current account deficit was $13.3 billion, up from $7.1 billion in 1990, because the trade deficit widened to $6.9 billion from $0.8 billion in 1990. However, international reserves, excluding gold, rose by $7.9 billion during the year and stood at $17.7 billion at year-end, thanks to a capital account surplus of about $21 billion.

The capital account surplus included foreign investment inflows of $12.3 billion, of which $4.8 billion were direct investments and $7.5 billion were portfolio investments. Mexican commercial banks also borrowed more than $5 billion in international markets, mainly through Euro-CD placements. Because nearly half of these CDs have maturities of under a year and because banks used a large proportion of the funds raised through these placements to make peso loans, the Bank of Mexico worried about the disruptions to the economy that could result from a sudden loss of investor confidence in Mexican assets. Accordingly, on April 1, it required that at least 15 percent of the bank funds raised abroad be invested in liquid foreign securities and that the rest be lent in foreign currency to companies that have foreign-currency earnings. To cushion the impact of this measure on Mexican banks, the Bank bought back from banks 4 percent of the 10-year peso government bonds that banks must hold in an amount equivalent to 25 percent of their August 1991 deposits.

The 28-day Treasury bill rate rose from 11 percent at the March 10 auction to 13.3 percent at the May 6 auction. The increase reflected a reported withdrawal of foreign funds from Mexico that brokers attributed to Japanese year-end window-dressing in the last half of March and, more recently, to growing pessimism regarding the prospects for an early signing of a North American Free Trade Agreement. The higher interest rates also reflected increased doubts that inflation can be reduced to less than 10 percent this year, as forecast by the government. The CPI rose by 1 percent in March and by 0.9 percent in April, when it was still 16.7 percent higher than a year earlier.

The peso/dollar exchange rate moved closer to the mid-point of the range within which the peso has been floating in late April and in early May. (Over the past few months, the peso/dollar rate had remained close to the more appreciated end of the range.)

Business surveys indicate that the manufacturing sector is optimistic concerning the business climate in 1992. Private sources forecast real GDP growth at 4.4 percent in 1992, compared with real GDP growth of 3.6 percent in 1991.

On April 7, <u>Argentina</u> and the Bank Advisory Committee reached preliminary agreement on a Brady Plan debt restructuring. To normalize the status of approximately $8 billion in interest arrears, Argentina has agreed to make a downpayment of $400 million in cash and to deliver Argentine zero-coupon bonds, fully backed by

U.S. Treasury bonds, with a present value of $300 million; the remaining $7.3 billion of the arrears will be converted into 12-year non-collateralized bonds paying LIBOR plus 13/16 percent interest. About $23 billion in principal will be exchanged, at the option of the banks, for either (1) a 30-year discount bond, to be issued at 65 percent of the face value of the original debt, paying LIBOR + 13/16 percent interest; or (2) a 30-year bond to be issued at par with an interest rate rising in steps from 4 percent in the first year to 6 percent after 6 years. The principal and 12 months' interest payments (on a rolling basis) for both options will be collateralized. Individual banks are currently subscribing to the new package.

The consumer price index rose 1.3 percent in April, continuing the deceleration since January. Industrial production in the first quarter of 1992 was 17 percent above its year-earlier level. Argentina is believed to have met its 1992 first-quarter fiscal target under the IMF Extended Fund Facility approved in March. It was especially successful in raising revenues from asset sales. The March 22 auction to the public of the government's remaining 30 percent stake in the northern half of the privatized phone company earned $1.2 billion. This was well over the $850 million in revenue earned from the December 1991 sale of the government's remaining shares in the southern half of the privatized phone company.

Brazil appears to have missed its first-quarter fiscal targets under the IMF stand-by arrangement approved last January. As a result, a formal performance review is not likely to take place and the second tranche from the stand-by is not likely to be disbursed. Brazilian officials have told IMF management that they are confident that fiscal performance will improve by the end of June. Fund management is expected to wait and see whether the fiscal picture improves by June before further disbursements are considered.

Much of the first-quarter fiscal shortfall is the result of a 14 percent drop in the federal government's tax revenues, partly because changes in the Brazilian tax code have reduced taxable corporate profits. In addition, revenues accruing from an important sales tax have been put into an escrow account because the constitutionality of the tax has been challenged. The continued stagnation in economic activity may also have resulted in a more-than-anticipated fall in tax receipts. The government's cost of servicing its domestic debt has also exceeded expectations.

The consumer price index rose 20.8 percent in April compared with an increase of 21.6 percent in March.

Negotiations with commercial bank creditors continue to be stalled because of disagreement on the initial enhancement money that Brazil should provide to close a deal. Estimates of the total cost of providing enhancements vary from $4.6 billion to close to $6 billion. On May 11, Brazil proposed to provide as much as $1.4 billion from its international reserves in initial enhancement funds, but this outlay would be contingent upon Brazil securing at least $1.6 billion in a combination of new money and initial enhancements from IFIs. The rest of the money required for enhancements would be phased in over time. So far, banks have expressed skepticism that Brazil will be able to secure the initial enhancement funds.

The banks have been pressing Brazil to commit $3.5 billion in initial enhancement money, in part, because international reserves have risen from $9 billion at end-November 1991 to an estimated $14 billion in early May, thanks to heavy capital inflows. Capital inflows have resulted from the central bank's policy of maintaining interest rates at very high levels. In April, the central bank lowered interest rates, apparently, in part, to slow capital inflows. Brazilian officials have been worried about the potential for a destabilizing attack on reserves, particularly because much of the capital inflows have been in short-term instruments. In early May, the central bank announced that it would intervene when necessary to stabilize the foreign exchange market.

Brazil's cumulative trade surplus for the year through March 1992 was $3.5 billion, compared with a surplus of $2.4 billion for the same period in 1991.

Korea's GNP rose an estimated 7.6 percent in the first quarter of 1992 from a year earlier, compared with an increase of 8.7 percent in the first quarter of 1991 from a year earlier. Korea's first-quarter 1992 current account deficit fell to $3.2 billion from $3.8 billion in the first quarter of 1991 due to a pickup in exports. Inflation has fallen off somewhat this year; consumer prices were 7.2 percent higher in April than a year earlier, down from 10.1 percent in the year ending April 1991.

In Taiwan, industrial production increased 5.4 percent in the first quarter of 1992, nearly unchanged from the rate of expansion in the first quarter of 1991. Price developments are mixed; in April, consumer prices were up 6.1 percent from a year earlier, compared with a 3.5 percent increase in the year ending April 1991, while wholesale prices fell 3.5 percent compared with an increase of 2.7 percent in the year ending April 1991. In part due to the April consumer price data, Taiwan's central bank increased its rediscount rate by one fourth percentage point to 6-1/8 percent on May 9, the first increase since August 1989. Taiwan's trade surplus in the first four months expanded to $4 billion from $1.9 billion in the same period of 1991, as export growth picked up and import growth slowed.