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Confidential (FR) Class III FOMC

June 24, 1992

RECENT DEVELOPMENTS

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

CONTENTS

II DOMESTIC NONFINANCIAL DEVELOPMENTS

Labor market developments.................................... 1
Industrial production.. 9
Personal income and consumption.............................. 13
Housing markets.. 19
Business fixed investment.................................... 23
Business inventories... 29
Federal government... 31
State and local governments.................................. 35
Prices... 37
Background on the rail strike................................ 43

Tables

Changes in employment.. 2
Unemployment and labor force participation rates............. 2
Benchmark revisions to payroll employment.................... 6
Average hourly earnings...................................... 7
Growth in selected components of industrial production....... 8
Capacity utilization... 8
New orders for durable goods................................. 9
Production of domestic autos and trucks...................... 11
Personal income.. 14
Real personal consumption expenditures....................... 14
Retail sales... 15
Sales of automobiles and light trucks........................ 16
Private housing activity..................................... 18
Japanese vehicle price increases and market share............ 19
Business capital spending indicators......................... 22
Changes in manufacturing and trade inventories............... 28
Inventories relative to sales................................ 28
Federal government outlays and receipts...................... 32
Recent changes in consumer prices............................ 38
Recent changes in producer prices............................ 38
Monthly average prices--West Texas Intermediate.............. 40
Price indexes for commodities and materials.................. 41

Charts

Selected labor market indicators............................. 3
Labor force participation rates.............................. 4
Industrial production and real adjusted orders............... 10
Capacity utilization... 10
Personal consumption expenditures............................ 12
Private housing starts....................................... 18
Single-family housing.. 20
Recent data on orders and shipments.......................... 24
Indicators for computers..................................... 25
PDE outlays excluding computers, motor vehicles, and aircraft compared with real cash flow................................. 25
Nonresidential construction and selected indicators.......... 26
Ratio of inventories to sales................................ 30
Federal grants as a percent of state and local receipts..... 36
Daily spot and posted prices of West Texas Intermediate...... 40
Index weights.. 41
Commodity price measures..................................... 42

III DOMESTIC FINANCIAL DEVELOPMENTS

Monetary aggregates and bank credit.......................... 3
Corporate finance.. 7
Treasury and sponsored-agency financing...................... 11

Municipal securities.................................... 13
Mortgage markets.. 15
Consumer credit... 19

<u>Tables</u>
Monetary aggregates..................................... 2
Commercial bank credit and short- and intermediate-term
business credit... 6
Gross offerings of securities by U.S. corporations...... 8
Treasury and agency financing........................... 12
Gross offerings of municipal securities................. 13
Mortgage-backed security issuance....................... 18
Consumer credit... 23
Consumer interest rates................................. 23

<u>Charts</u>
Retail deposit rate spreads............................. 4
MBA indexes of mortgage loan applications............... 16
Home mortgage delinquency rates at all lenders.......... 20
Ratio of consumer debt to disposable personal income.... 22

IV INTERNATIONAL DEVELOPMENTS
Merchandise trade....................................... 1
Prices of non-oil imports and exports................... 4
U.S. current account.................................... 6
U.S. international financial transactions............... 7
Foreign exchange markets................................ 12
Developments in foreign industrial countries............ 14
Developments in East European countries................. 26
Economic situation in other countries................... 28

<u>Tables</u>
U.S. merchandise trade: Monthly data.................... 1
Major trade categories.................................. 2
Oil imports... 3
Import and export price measures........................ 5
U.S. current account.................................... 7
Summary of U.S. international transactions.............. 8
International banking data.............................. 10
Major industrial countries
Real GNP and industrial production...................... 16
Consumer and wholesale prices........................... 17
Trade and current account balances...................... 18

<u>Charts</u>
Weighted average exchange value of the dollar........... 13

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic activity evidently increased somewhat further this spring, buttressed by improved sales and production of motor vehicles. Other segments of private final demand have been mixed, with nonauto retail sales and housing starts dropping below their early-year levels while strong computer shipments continued to boost overall equipment sales. Employment has trended upward, but, with a sizable increase in the labor force, the unemployment rate has reached a new cyclical high. The considerable slack remaining in the economy has damped increases in wages and prices.

Labor Market Developments

Total payroll employment rose for the fourth straight month in May, and the average workweek of all production or nonsupervisory workers edged up to 34.5 hours; all told, aggregate hours increased 0.5 percent, more than offsetting declines in the previous two months. The level of aggregate hours in May stood 0.6 percent (not at an annual rate) higher than the first-quarter average.

The service-producing sector continued to dominate hiring in May. Indeed, an increase of 109,000 in the services industry more than accounted for the 68,000 increment to total jobs. The hiring in this industry reflected, in part, further additions in business services, where gains averaged about 35,000 per month from February through May. Because business service firms are hired by companies throughout the economy, this rise may be signaling improvement in a variety of sectors. Nonetheless, the increase in business services employment may also indicate that firms remain hesitant to hire permanent workers and are resorting to temporary employees until confidence improves. Employment in retail trade fell in May and has shown no clear trend since the beginning of the year.

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

	1990	1991	1991 Q3	1991 Q4	1992 Q1	1992 Mar.	1992 Apr.	1992 May
	----------- Average monthly changes ---------							
Nonfarm payroll employment[2]	-5	-79	22	-46	15	58	182	68
Private	-34	-91	24	-67	-4	12	140	58
Manufacturing	-47	-36	-2	-28	-17	-12	5	-10
Durable	-36	-33	-10	-30	-16	-13	-3	-13
Nondurable	-11	-3	8	2	-1	1	8	3
Construction	-23	-26	-10	-23	4	21	-1	7
Retail trade	-8	-35	-16	-36	-7	-51	83	-44
Finance, insurance, real estate	-1	-3	-4	2	2	2	8	6
Services	44	30	66	36	28	59	59	109
Health services	31	29	32	29	16	14	24	20
Business services	0	3	13	13	11	34	53	39
Total government	29	12	-2	21	19	46	42	10
Private nonfarm production workers	-40	-76	21	-54	18	31	173	53
Manufacturing production workers	-39	-23	4	-15	1	7	7	3
Total employment[3]	-32	-62	60	-120	207	305	327	-19
Nonagricultural	-39	-54	61	-87	203	344	310	13
Memo:								
Aggregate hours of production or nonsupervisory workers	.0	-.1	-.1	.0	.1	-.2	-.1	.5
Average workweek (hours)	34.5	34.3	34.3	34.4	34.5	34.5	34.4	34.5

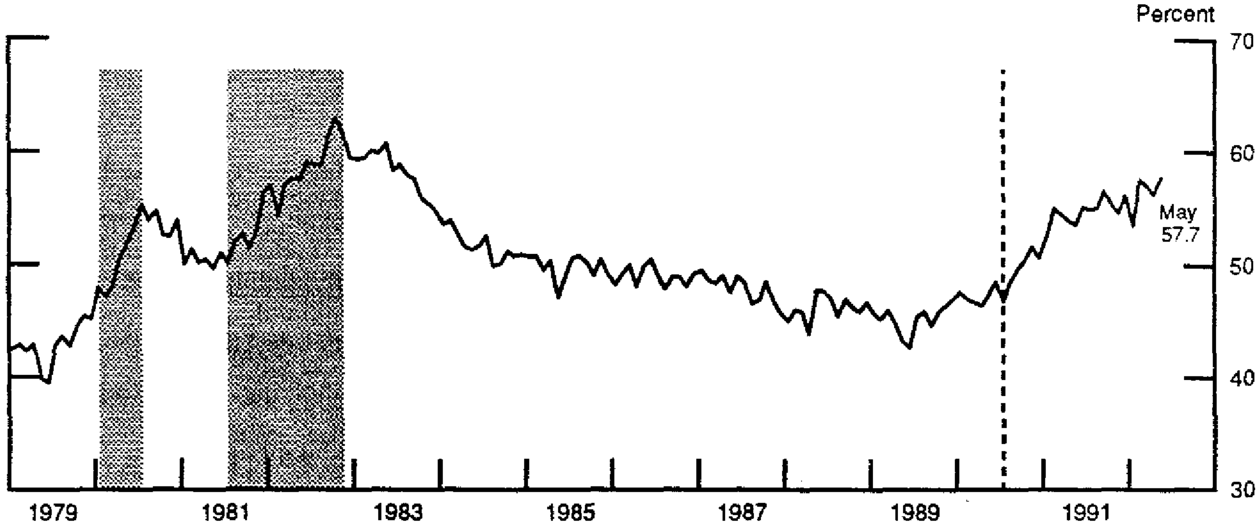
1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households.

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

	1990	1991	1991 Q3	1991 Q4	1992 Q1	1992 Mar.	1992 Apr.	1992 May
Civilian unemployment rate (16 years and older)	5.5	6.7	6.8	6.9	7.2	7.3	7.2	7.5
Teenagers	15.5	18.7	19.0	19.0	19.6	20.6	19.2	20.0
20-24 years old	8.8	10.8	11.0	11.4	11.1	10.8	10.9	11.8
Men, 25 years and older	4.4	5.7	5.8	5.8	6.3	6.3	6.2	6.5
Women, 25 years and older	4.3	5.1	5.0	5.3	5.6	5.8	5.8	5.6
Labor force participation rate	66.4	66.0	65.9	65.9	66.2	66.3	66.3	66.5

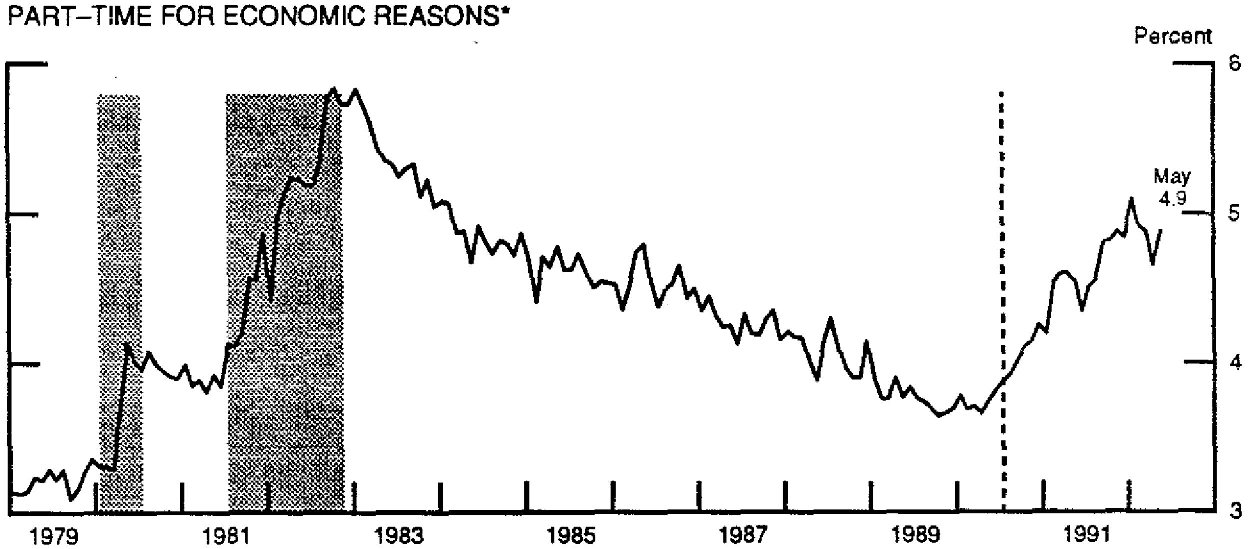
SELECTED LABOR MARKET INDICATORS

JOB LOSERS *



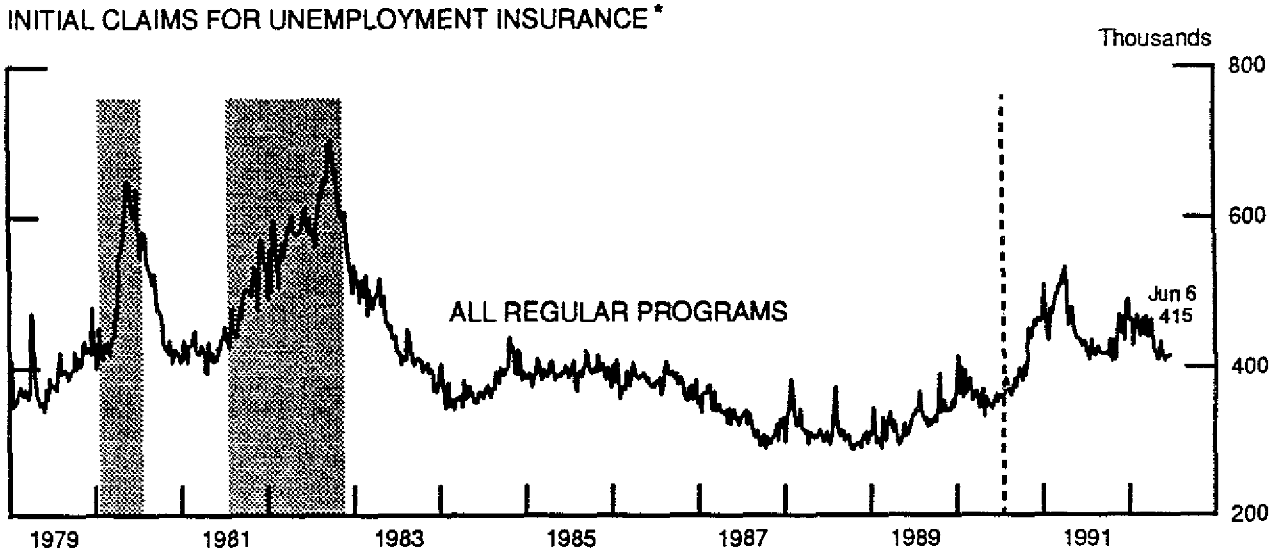
* Job losers as a percent of unemployed.

PART-TIME FOR ECONOMIC REASONS*



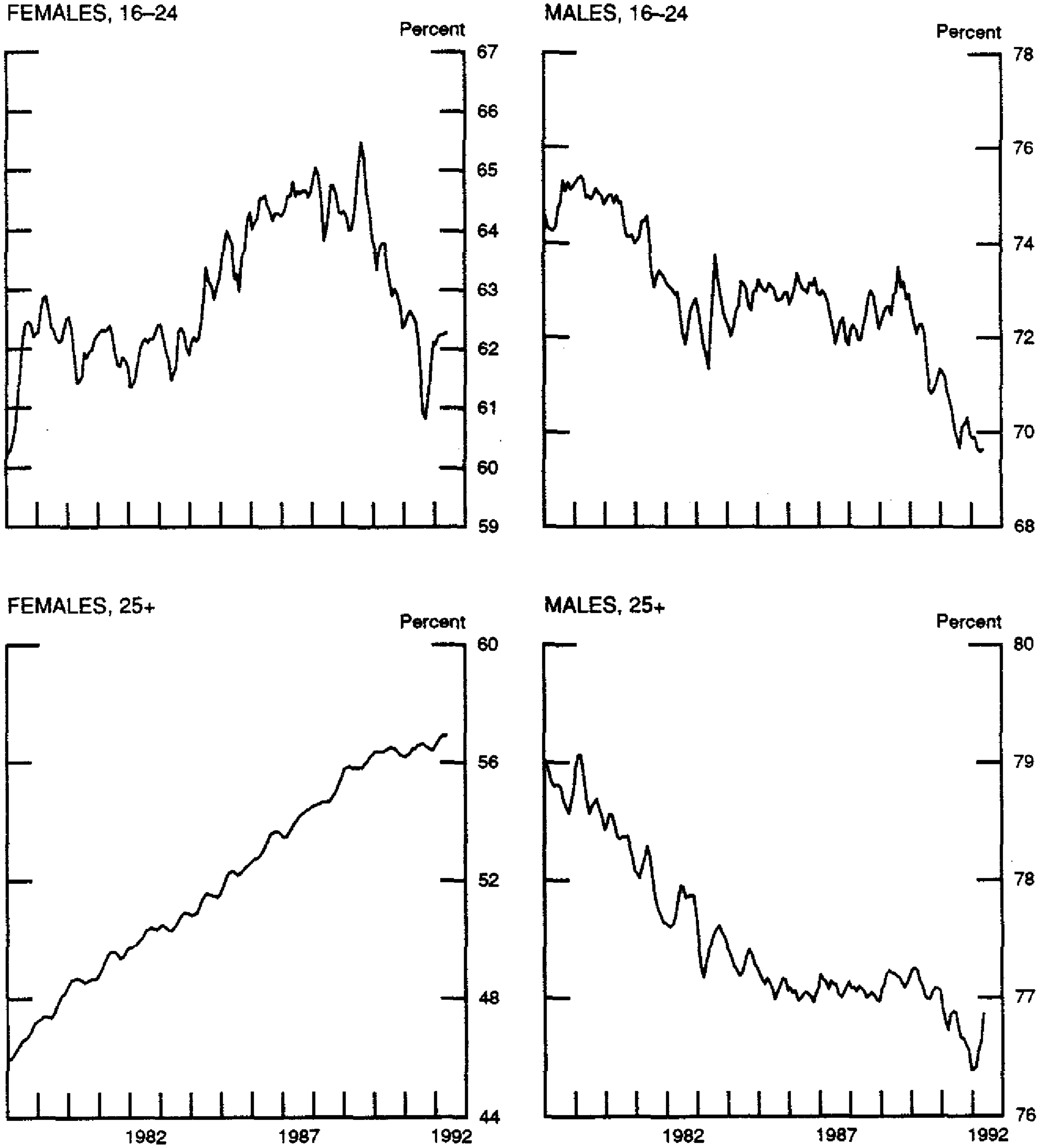
*As a percent of civilian labor force.

INITIAL CLAIMS FOR UNEMPLOYMENT INSURANCE *



* Weekly data; seasonally adjusted, FRB basis.

Labor Force Participation Rates
(3-month moving averages)



In manufacturing, employment slid 10,000 despite the return to work of about 12,000 workers at Caterpillar. However, the manufacturing workweek continued to rise steadily, reflecting increases in overtime hours, and now stands slightly above pre-recession levels. This combination of a relatively long workweek and weak employment is another indication that manufacturers are so far responding cautiously to a gradual increase in demand.

In the May household report, the civilian unemployment rate jumped 0.3 percentage point to 7.5 percent. Employment was essentially unchanged after having risen substantially in prior months, and the number of unemployed increased nearly 350,000. About half of the rise in joblessness occurred among persons aged 16 to 24. Large seasonal flows of these workers into the labor market occur between May and July; this May's increase in summer jobseekers appears to have been larger than the seasonal factors anticipated. To the extent that the seasonal entry of these workers into the labor force occurred earlier than usual, the effect could well be reversed in coming months. However, the May household survey showed somewhat broader signs of weakness than had been apparent in earlier months. The unemployment rate for men above the age of 24 also jumped, the share of the unemployed who were job losers increased again, and the number working part-time for economic reasons rose as well.

The labor force participation rate moved up to 66.5 percent in May, returning to near its pre-recession level. Indeed, the most striking aspect of the household survey since late last year has been the addition to the labor force of about 300,000 persons per month. This rise in the participation rate has been concentrated among young females and adult males (chart). By contrast, the rate for young males, which dropped during the recession, has not increased this year; and the rate for adult females, which leveled off during the recession, has only edged up since the beginning of the year. Some of the recent labor market entry may have been due to improved perceptions about the likelihood of finding a job: the Conference Board's May consumer survey showed that fewer respondents thought jobs were "hard to get" than at any time since September.

Taken as a whole, the data from the May labor market surveys showed continued slow improvement in labor demand. Since the mid-May reference week for those surveys, initial claims for unemployment insurance continued to fluctuate within the lower range established in April and early May.

The payroll employment data now have been officially benchmarked to more comprehensive counts of employment that were derived primarily from unemployment insurance tax records for March 1991. As expected, the level of payroll employment in March 1991 was revised down 640,000 (before seasonal adjustment). This revision was very large by historical standards--roughly three times as large as the average revision over the past ten years (table).

BENCHMARK REVISIONS TO PAYROLL EMPLOYMENT[1]
(Not seasonally adjusted)

	March							
	1984	1985	1986	1987	1988	1989	1990	1991
Size of revision:								
Thousands	353	-3	-467	-35	-326	-47	-229	-640
Percent	.4	-.0	-.5	-.0	-.3	-.0	-.2	-.6

1. The revisions, typically released in June of the following year, benchmarked the level of payroll employment to unemployment insurance records for March of the year indicated.

Much of the discrepancy between the monthly pre-revision payroll estimates and the unemployment insurance records apparently occurred in January 1991, a month in which many states introduced improvements to the way employers fill out their unemployment insurance reports. We believe that much of the downward revision reflects this technical improvement, rather than a dramatic drop in actual employment around January of 1991.

Employment as measured by the household survey has strongly outpaced payroll employment over the past year; together with the historical pattern of payroll survey revisions early in economic expansions, this suggests that next year's benchmark revisions may show some upward revision to payroll employment in the period since March 1991.

Payroll data on average hourly earnings for production or nonsupervisory workers in May suggest that wage increases are continuing to slow. Average hourly earnings were reported to have increased 0.3 percent in May, after a 0.2 percent decline in April. Over the twelve months ended in May, average hourly earnings were up just 2.5 percent, about 3/4 percentage point below the previous twelve-month period. The underlying wage deceleration may even be

AVERAGE HOURLY EARNINGS
(Percent change; based on seasonally adjusted data)[1]

	12 months ended		1991		1992	1992		
	May 1991	May 1992	Q3	Q4	Q1	Mar.	Apr.	May
			--Annual rate--			--Monthly rate--		
Total private nonfarm	3.3	2.5	1.6	2.7	3.5	.4	-.2	.3
Manufacturing	3.1	2.7	2.9	2.5	1.8	.3	.4	.2
Excluding overtime	3.6	2.1	2.3	2.2	1.9	.1	.6	-.1
Services	4.5	2.7	.8	3.5	4.3	.3	-.4	.3

1. Quarterly changes are measured from final month of preceding quarter to final month of quarter indicated.

somewhat understated because of the decline and subsequent rise in overtime hours within manufacturing; because overtime hours are typically paid a premium wage, that pattern held down average hourly earnings during the recession and is boosting them now. However, the Employment Cost Index for wages and salaries, which controls for overtime pay rates, as well as for a variety of other factors,

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

	Proportion in total IP 1991:Q4	1991[1]	1991 Q4	1992 Q1	1992 Mar.	1992 Apr.	1992 May
			-Annual Rate--		-----Monthly Rate-----		
Total index	100.0	-.5	-.7	-2.8	.5	.4	.6
Previous		-.5	-.7	-2.9	.4	.5	
Motor vehicles and parts	4.2	8.5	4.4	-20.0	.4	4.7	3.8
EXCLUDING MOTOR VEHICLES AND PARTS:							
Total Index	95.8	-.9	-.9	-2.0	.5	.2	.4
Products, total	57.1	-1.3	.1	-1.3	.5	.1	.4
Final products	42.9	-.9	.5	-2.0	.5	.1	.5
Consumer goods	25.0	2.0	2.9	-1.1	.6	.0	.3
Durables	3.7	3.2	-3.1	3.2	.7	-.5	2.4
Nondurables	20.9	1.8	4.1	-1.9	.5	.0	-.1
Business equipment	14.5	-2.0	-1.8	-1.9	.6	.6	1.0
Office and computing	2.8	4.2	10.5	13.2	1.5	1.4	1.1
Industrial	3.9	-8.7	-14.6	-12.2	.0	.3	3.1
Other	7.8	-.4	1.0	-1.8	.6	.5	-.1
Defense and space equip.	4.4	-8.0	-4.1	-10.9	-.7	-.6	.2
Intermediate products	14.2	-2.3	-1.2				
Construction supplies	5.3	-6.4	-5.2				
Materials	38.7	-.2	-2.4				
Durables	18.2	-1.8	-.3				
Nondurables	9.0	2.3	.2				
Energy	10.2	.0	-6.7				
Memo:							
Manufacturing excluding Motor Vehicles and Parts	80.8	-.8	.0	-1.0	.4	.2	.5
Mining	7.3	-3.3	-8.0	-6.5	-.5	1.2	-.3
Utilities	7.7	1.0	-3.6	-8.1	1.6	-.4	-.4

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.	1990 July	1991 July	1992 Mar.	1992 Apr.	1992 May
Total industry	82.2	83.8	80.0	78.5	78.7	79.0
Manufacturing	81.5	83.1	78.7	77.5	77.7	78.1
Primary processing	82.4	86.1	81.1	80.9	81.1	81.4
Advanced processing	81.1	81.8	77.8	76.2	76.3	76.8

showed less deceleration over the year ending in March than indicated by average hourly earnings.

Industrial Production

According to our initial estimate, the index of industrial production rose 0.6 percent in May, slightly faster than in the three previous months. Output in May was boosted by increases in motor vehicle assemblies, as well as by large gains in production of other consumer durables and business equipment. The May pickup in production of durable goods other than motor vehicles follows a strengthening earlier in the year of adjusted durable goods orders.

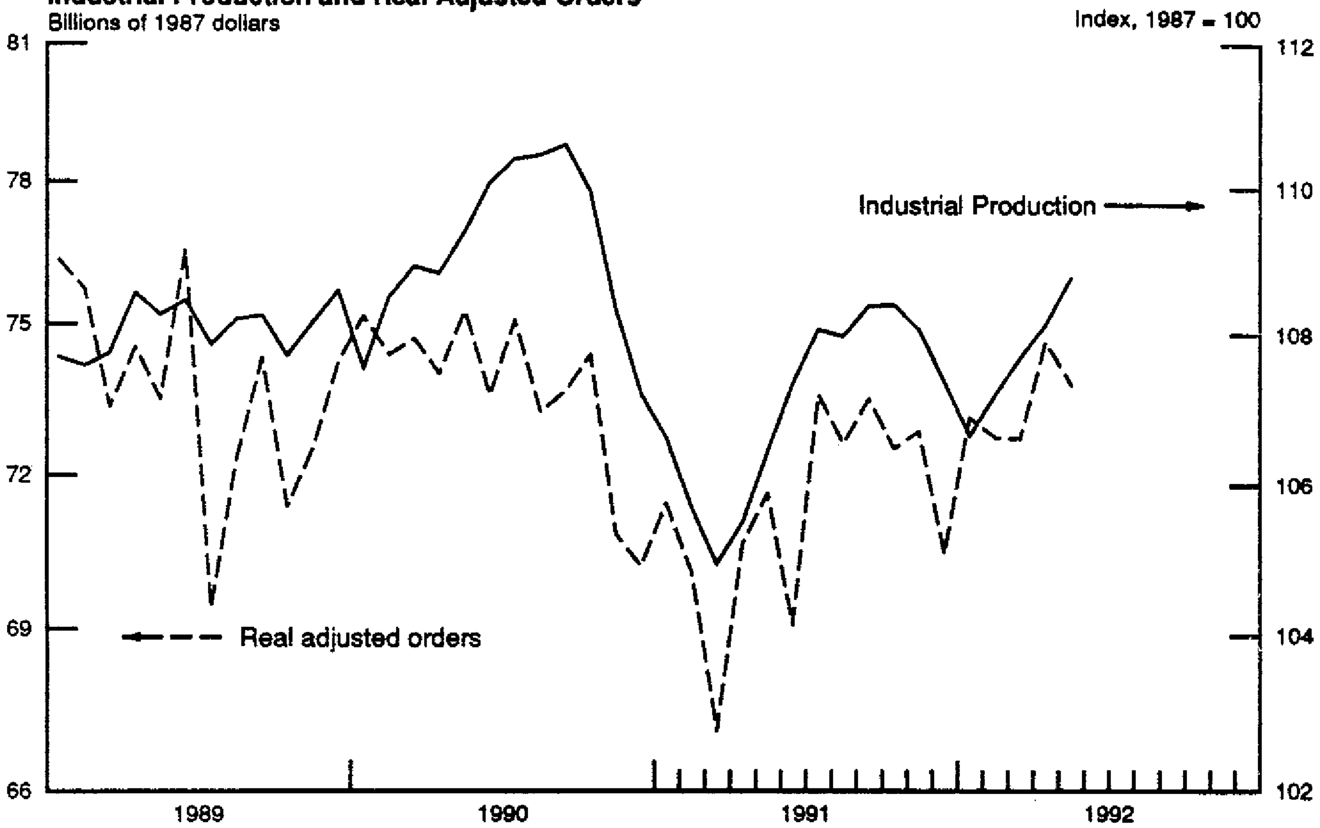
NEW ORDERS FOR DURABLE GOODS
(Percent change from preceding period; seasonally adjusted)

	1991	1992				
	Q4	Q1	Mar.	Apr.	May	Apr-May Q1
Total durable goods	-3.2	.4	2.1	1.9	-2.4	2.0
Adjusted durable goods[1]	-1.9	.8	-.3	2.6	-1.5	1.4
Office and computing equipment	1.4	9.2	3.2	-1.3	4.5	2.5
Other nondefense capital goods[2]	-1.3	2.9	3.3	-3.4	-.4	-2.6
Consumer goods and materials	2.3	-.7	-1.9	5.2	-2.4	2.8
Memo:						
Real adjusted durable goods	-1.8	1.3	.0	2.7	-1.2	1.9

1. Orders excluding defense capital goods, nondefense aircraft, motor vehicle parts, and those not reporting unfilled orders.
2. Excludes aircraft and computers.

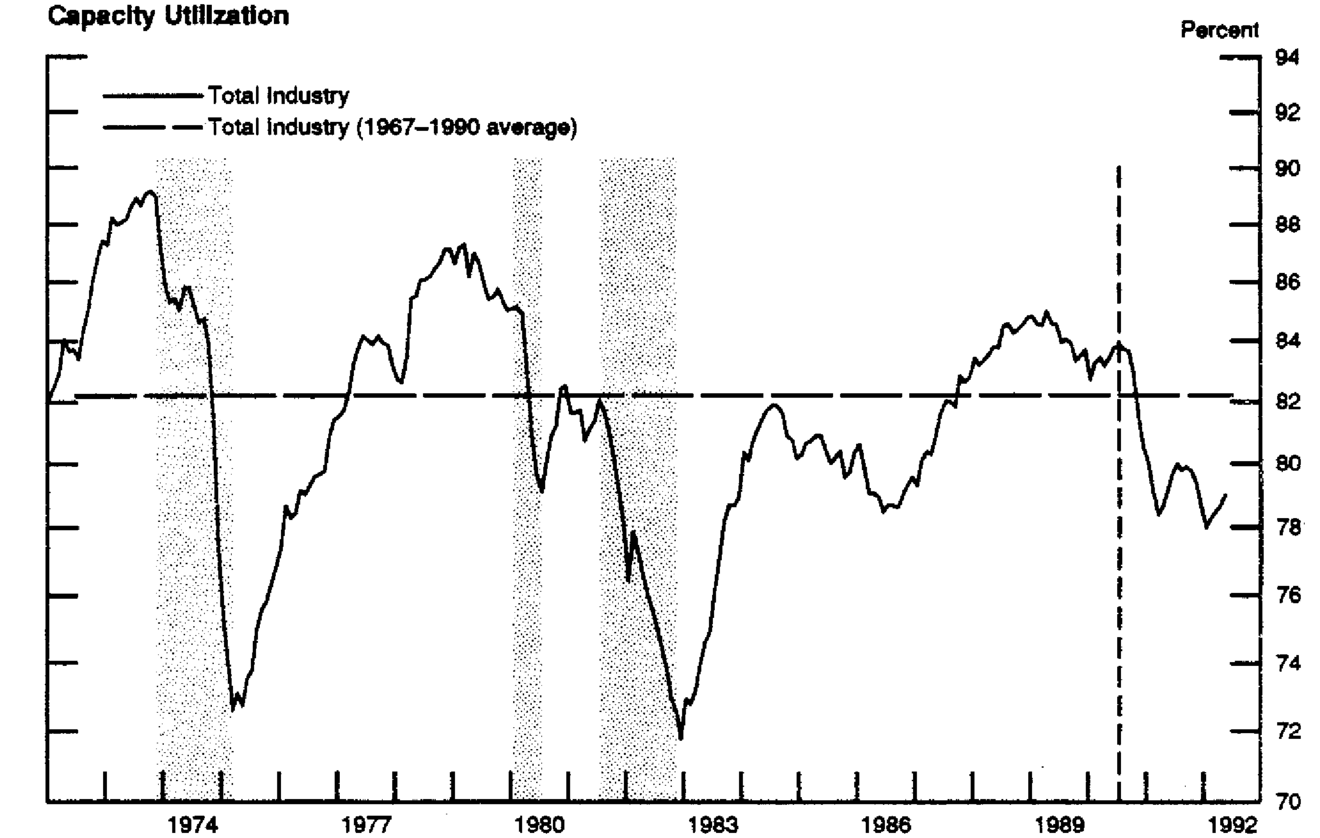
Motor vehicle assemblies moved up to 10.2 million units (annual rate) in May, the highest monthly pace since October of 1990; production of related parts and materials also has improved in recent months. Assemblies in June are running at about that same level, and schedules call for a further increase to an average of 10.8 million units (annual rate) for the third quarter as a whole. With inventories at relatively comfortable levels, the recent firming in sales makes those schedules look realistic.

Industrial Production and Real Adjusted Orders*



* Real adjusted orders exclude defense capital goods, nondefense aircraft, and motor vehicles.

Capacity Utilization



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

	1991	1992	1992				
			-- actual --		--- schedules ---		
	Q4	Q1	Apr.	May	June	Q2	Q3
Total production	9.6	8.8	9.8	10.2	10.3	10.1	10.8
Autos	5.7	5.2	5.9	6.2	6.4	6.1	6.5
Trucks	3.9	3.6	3.9	4.1	4.0	4.0	4.2

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

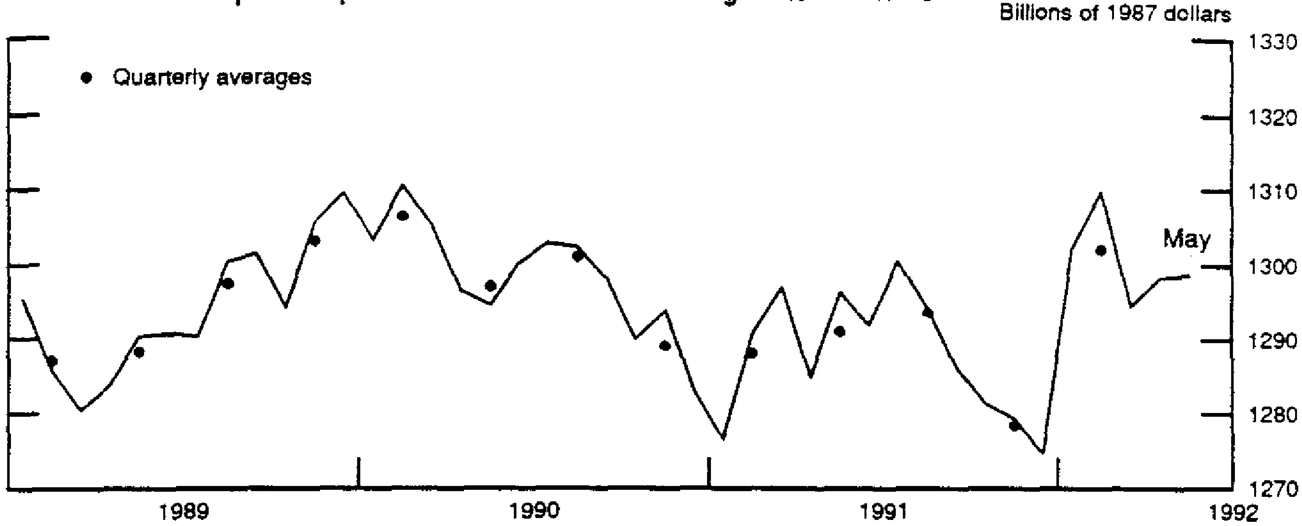
Production of durable consumer goods excluding motor vehicles increased 2.4 percent in May; the increase was broadly based, with particular strength in household appliances and furniture. Among consumer nondurables, output of both clothing and food items edged down 0.1 percent, and consumer energy production declined 0.9 percent in May, likely owing to cool weather.

Production of business equipment excluding autos and trucks rose 1 percent in May. More than half of this increase originated in the industrial equipment sector, where output increased 3.1 percent, owing chiefly to the end of the strike at Caterpillar. Nonetheless, even abstracting from this one-time effect, production of industrial equipment apparently grew moderately in May.

Materials production moved up steadily for the fourth straight month in May, with broad-based gains among all categories of durable materials. Output of durable materials rose 0.9 percent in May, boosted by strong demand for parts and supplies used in equipment and consumer durables. Nondurable materials output was little changed; increases in production of textiles and chemicals were offset by a drop in the output of paper.

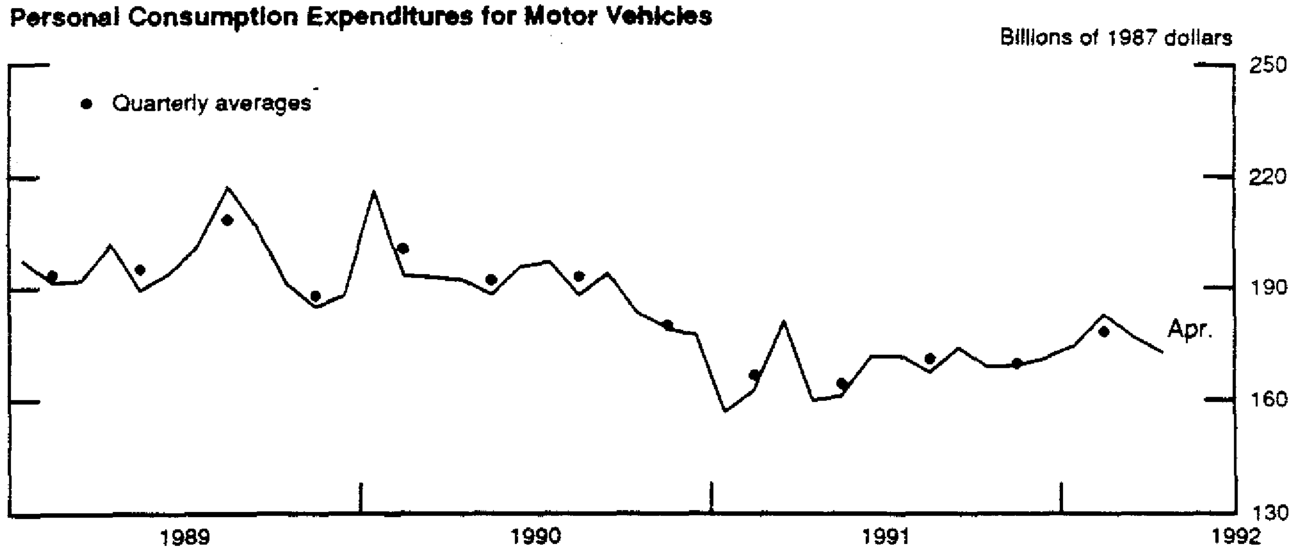
For the manufacturing sector as a whole, the recent increases in production have boosted capacity utilization to 78.1 percent. Nonetheless, considerable slack still is evident: Current utilization is a bit below the operating rate of July 1991--when the

Personal Consumption Expenditures for Goods excluding Motor Vehicles*

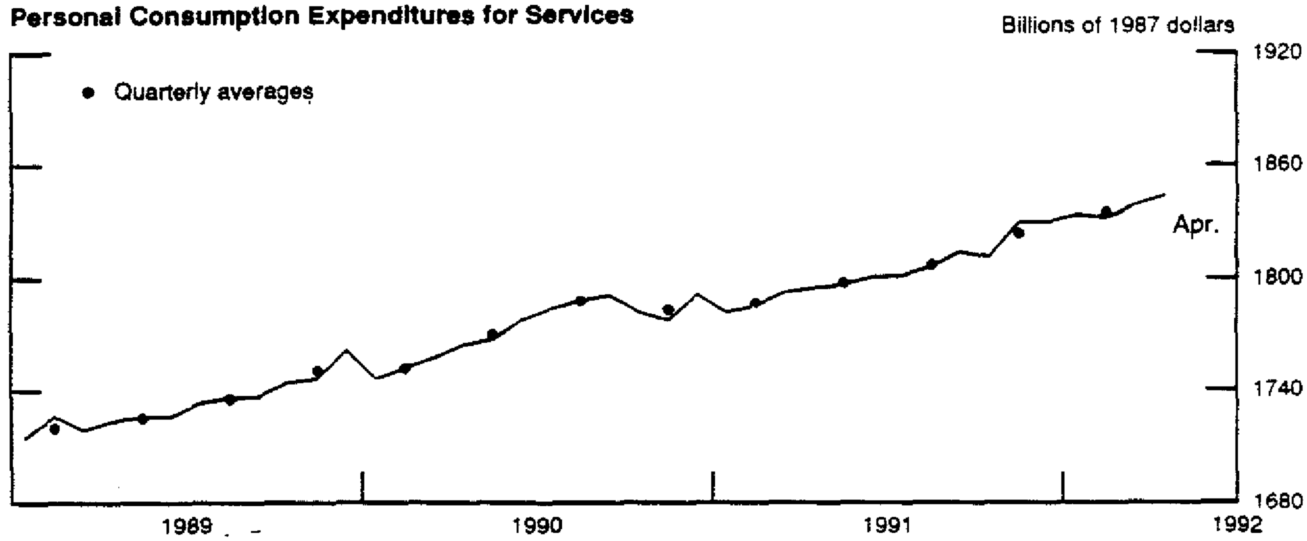


*March, April, and May are FRB estimates.

Personal Consumption Expenditures for Motor Vehicles



Personal Consumption Expenditures for Services



recovery in manufacturing faltered--and a full 5 percentage points below the peak utilization rate of July 1990 (chart).

Personal Income and Consumption

Real personal consumption has failed to sustain the higher level reached in the January-February burst of spending. But while nonauto retail sales are estimated to have been weak from March through May, some positive signs have emerged recently in the consumer sector. Notably, against a backdrop of improved confidence, rising employment, and lower loan rates, the demand for new motor vehicles has strengthened. With expenditures on services continuing to post moderate increases, total real PCE appears headed for a small gain in the current quarter.

Nominal personal income barely rose in April, after sizable gains the previous two months. Private wages and salaries were about unchanged, while personal interest income fell for the sixteenth consecutive month. Transfer payments, proprietors' income, and other labor income posted small gains. After accounting for taxes and inflation, real disposable personal income declined a bit in April. The picture for May appears better. Last month's labor market report points to a strong rebound in wages and salaries, and we estimate the April-May average of nominal wages and salaries to have been 1 percent (not at an annual rate) above the first-quarter average. With consumption prices up about 0.2 percent over the same period, real labor income seems likely to post an increase for the quarter.

Total nominal retail sales increased just 0.2 percent in May. Sales in the retail control category--which excludes spending at automotive dealers and at building material and supply stores--hardly changed. These sales figures suggest that real personal consumption expenditures on goods other than motor vehicles in April

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

	1991	1991 Q4	1992 Q1	1992 Feb.	1992 Mar.	1992 Apr.
Total personal income	11.3	17.6	20.6	49.4	22.2	2.8
Wages and salaries	4.7	5.6	9.1	33.6	9.3	-.3
Private	3.1	3.9	6.5	31.3	8.6	-1.2
Other labor income	1.4	1.4	1.4	1.4	1.3	1.4
Proprietors' income	2.1	3.7	6.1	14.7	12.2	1.4
Farm	-.5	2.0	2.2	9.4	9.2	.4
Rent	.1	2.3	-1.1	-2.1	-.4	-1.5
Dividend	.1	.1	.1	.3	.3	1.1
Interest	-3.1	-4.9	-5.6	-5.6	-4.5	-4.0
Transfer payments	7.1	9.9	12.3	9.4	4.7	4.7
Less: Personal contributions for social insurance	1.0	.4	1.6	2.3	.6	.1
Less: Personal tax and nontax payments	-.8	.5	-7.3	5.6	-22.6	4.1
Equals: Disposable personal income	12.2	17.1	27.9	43.7	44.9	-1.3
Memo: Real disposable income	1.7	7.1	12.2	22.9	20.4	-6.7

REAL PERSONAL CONSUMPTION EXPENDITURES
(Percent change from the preceding period)

	1991	1991 Q4	1992 Q1	1992 Feb.	1992 Mar.	1992 Apr.
		-Annual rate-		----Monthly rate----		
Personal consumption expenditures	.6	.0	5.4	.4	-.5	.1
Durable goods	-2.8	-5.7	18.4	1.9	-2.0	-.9
Excluding motor vehicles	-.7	-7.7	16.6	.0	-1.0	.1
Nondurable goods	-.9	-3.9	5.4	.7	-1.3	.3
Excluding gasoline	-.9	-4.2	6.6	1.1	-1.7	.3
Services	2.2	3.7	2.5	-.1	.4	.3
Excluding energy	2.2	3.4	3.8	.0	.1	.2
Memo:						
Personal saving rate (percent)	5.2	5.2	4.9	4.6	5.6	5.4

RETAIL SALES
(Seasonally adjusted percentage change)

	1991		1992	1992		
	Q3	Q4	Q1	Mar.	Apr.	May
Total sales	.1	.0	2.7	-1.2	.4	.2
Previous estimate		-.1	2.8	-1.0	.9	
Retail control[1]	.1	-.7	2.2	-.8	.3	.1
Previous estimate		-.9	2.3	-.8	.2	
Total excl. automotive group	.2	-.6	2.5	-.8	.4	.0
Previous estimate		-.8	2.7	-.7	.4	
GAF[2]	.7	-1.7	5.5	-2.3	.0	.3
Previous estimate		-2.2	5.7	-1.9	-.2	
Durable goods stores	.0	.9	3.8	-1.4	.4	.4
Previous estimate		.9	4.1	-.8	1.9	
Bldg. material and supply	-.2	-.5	7.5	-.7	1.4	-1.2
Automotive dealers	.0	2.4	3.2	-2.6	.4	.7
Furniture and appliances	.3	-1.7	4.0	.2	-.7	.4
Other durable goods	.4	-1.3	2.5	1.2	.6	1.1
Nondurable goods stores	.2	-.5	2.0	-1.0	.4	.0
Previous estimate		-.7	2.1	-1.1	.3	
Apparel	-.4	-2.6	4.0	-1.7	.7	-.8
Food	-.3	.3	.2	-.3	1.1	-.2
General merchandise[3]	1.3	-1.4	6.8	-3.6	-.1	.7
Gasoline stations	-1.4	-1.4	-.9	.2	-.3	-.1
Other nondurables[4]	.7	.0	1.6	-.4	.2	.1
Memo:						
Motor vehicle sales[5]	12.7	12.2	12.3	12.5	12.4	13.0
Autos	8.6	8.2	8.3	8.4	8.1	8.4
Light trucks	4.1	4.0	4.0	4.1	4.3	4.5

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.

Special note: The "previous estimate" lines are based on information available prior to Census Bureau's release of benchmark revised data in late May.

SALES OF AUTOMOBILES AND LIGHT TRUCKS[1]
(Millions of units at a seasonally adjusted annual rate)

			1991		1992	1992		
	1990	1991	Q3	Q4	Q1	Apr.	May	June[2]
Total	13.86	12.30	12.69	12.22	12.27	12.42	12.97	
Autos	9.50	8.39	8.60	8.19	8.28	8.14	8.42	
Light trucks	4.36	3.91	4.09	4.03	4.00	4.27	4.55	
North American[3]	10.84	9.73	10.06	9.79	9.76	9.98	10.59	11.14
Autos	6.90	6.14	6.31	6.06	6.03	5.96	6.29	6.67
Light trucks	3.95	3.59	3.75	3.73	3.73	4.02	4.31	4.47
Foreign Produced	3.01	2.57	2.63	2.42	2.51	2.44	2.37	
Autos	2.60	2.25	2.29	2.13	2.25	2.19	2.13	
Light trucks	.41	.32	.34	.29	.26	.25	.24	
Memo:								
Domestic Nameplate								
Market Share, Total	.72	.70	.70	.72	.71	.72	.73	
Autos	.64	.63	.62	.64	.63	.62	.64	

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. Average sales over the first two ten-day periods in June.
3. Excludes some vehicles produced in Canada and Mexico that are classified as imports by the industry.

and May were roughly a quarter percent (not at an annual rate) below the average in the first three months of this year. By contrast, real expenditures on services have continued to rise by 2 to 3 percent (annual rate) in recent quarters; beginning in June, the transportation component of services spending should receive some additional impetus from the surge in air travel that is expected to result from recent cuts in airfares.

Sales of autos and light trucks rose in May to almost 13 million units at an annual rate. Sales of light trucks posted the fourth consecutive monthly increase, reaching a 4.6 million unit rate, a pace not seen since the autumn of 1989. Auto sales also rose, but more modestly, to an 8.4 million unit rate--still shy of February levels. The strong May performance did not appear to be the result of any special factors (such as enhanced incentive programs). Sales of domestically produced light vehicles in the first 20-day period of June continued strong, outpacing the level for May by 1/2 million units.

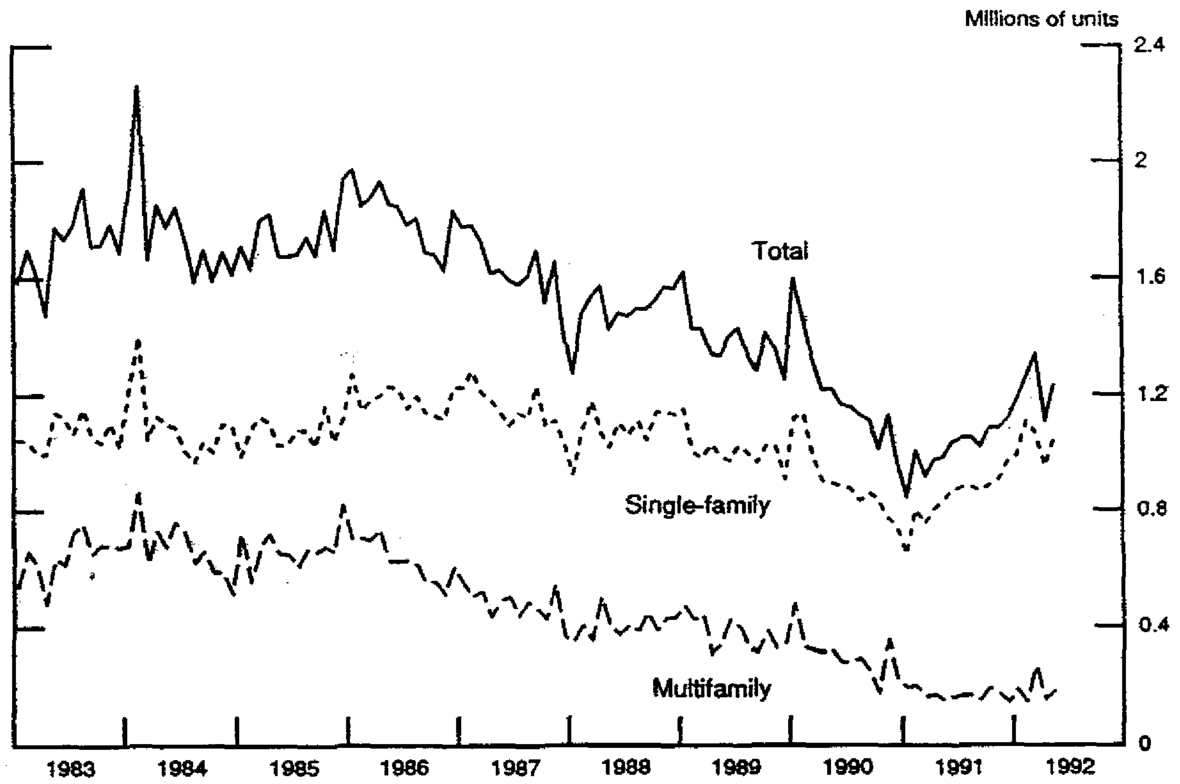
The increase in light vehicle demand for May was met by vehicles produced by the Big Three; sales of vehicles with foreign nameplates remained close to April levels. Price increases on Japanese vehicles, announced in March, took effect in April and May, and perhaps contributed to the increase in Big Three market share. Although the price increases averaged only 2.8 percent, the data suggest that consumers may have reacted to the highly publicized increases. Of the six largest Japanese automakers, Subaru was the only firm to run customer incentive programs in May and was one of only two Japanese automakers to maintain market share. Mazda, which posted the largest price increase of 5.1 percent, experienced the largest relative drop in market share.

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

	1991	1991		1992	1992		
	Annual	Q3	Q4	Q1	Mar[r]	Apr[r]	May[p]
All units							
Permits	.95	.96	1.02	1.12	1.09	1.06	1.05
Starts	1.01	1.04	1.10	1.26	1.34	1.11	1.23
Single-family units							
Permits	.75	.78	.82	.92	.91	.87	.88
Starts	.84	.88	.92	1.06	1.07	.95	1.05
Sales							
New homes	.51	.51	.56	.60	.52	.53	n.a.
Existing homes	3.22	3.19	3.23	3.41	3.51	3.50	n.a.
Multifamily units							
Permits	.20	.19	.20	.19	.19	.19	.17
Starts	.17	.17	.17	.20	.27	.16	.19

p Preliminary. r Revised estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



JAPANESE PRICE INCREASES AND MARKET SHARE

Maker	Price change (percent of sticker price)	Market share Q1	Market share May
Mazda	5.1	2.7	2.2
Toyota	3.2	8.6	7.7
Nissan	3.0	4.2	4.2
Subaru	2.1	0.8	0.8
Mitsubishi	2.0	1.4	1.1
Honda	1.7	5.9	5.7

The preliminary reading on the University of Michigan's index of consumer sentiment edged up slightly in the first half of June, due to a more favorable assessment of current conditions; expectations about future conditions were virtually unchanged. Most of the detailed components of the survey (not included in the index) were little changed, but consumers' appraisals of buying conditions for cars and large household appliances improved sharply.

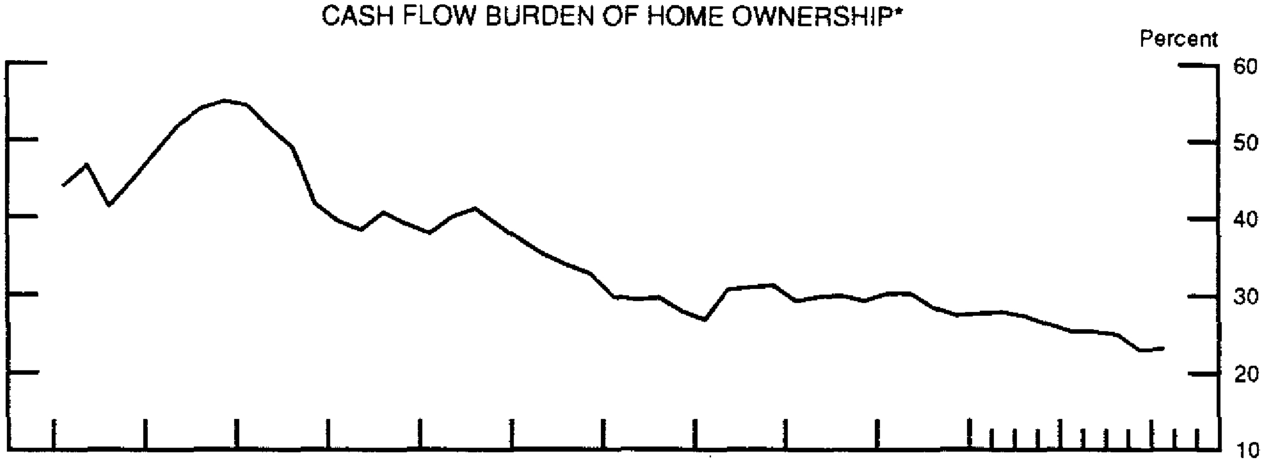
Housing Markets

The pace of single-family housing activity dropped back this spring after a surge early in the year, and the underlying trend in single-family consruction remains difficult to discern. Monthly readings on housing activity early in the year were distorted by unseasonably favorable weather and consumers' responses to tax proposals for first-time buyers. A brief dip of mortgage rates to near 8 percent also may have temporarily boosted activity. Single-family home building retreated in April, but then rebounded in May, to a level of 1.05 million units (annual rate), close to the first-quarter average. Permit issuance, however, was little changed over the month, which suggests that the estimated increase in starts may overstate the actual pickup in construction activity.[1]

1. Issuance of building permits is measured with less sampling error than is the level of starts, making permit issuance a more stable indicator of the onset of construction. Almost two-thirds of all single-family starts in permit-issuing places occur in the month the permit is issued, and most of the remaining starts occur in the month following permit issuance.

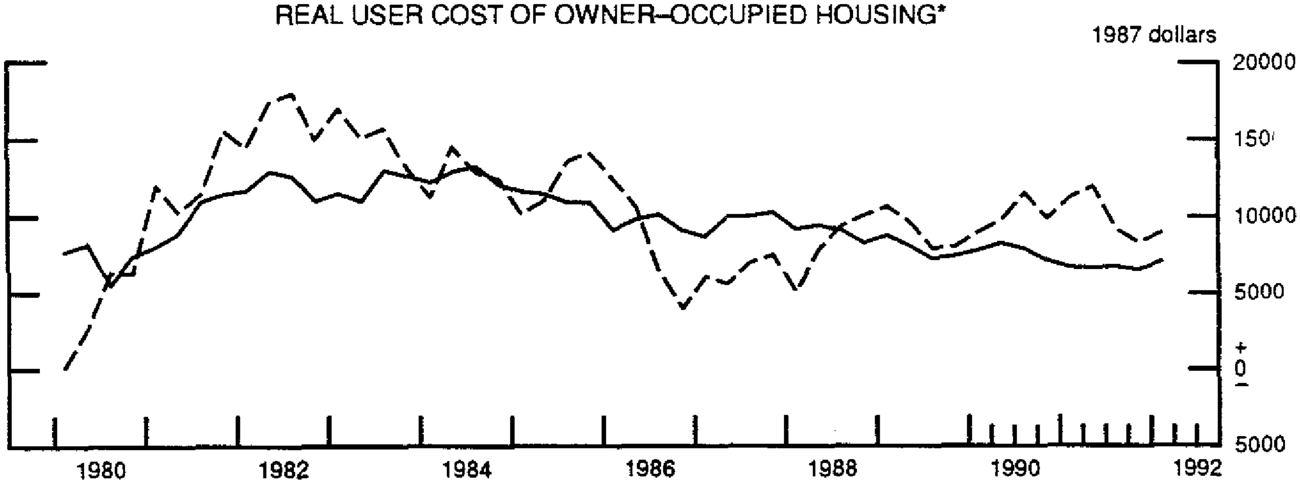
Single–Family Housing

CASH FLOW BURDEN OF HOME OWNERSHIP*



* Financing cost of a constant–quality new home, as a percentage of average household income. Financing cost calculated as scheduled payment of principal and interest on a fixed–rate mortgage for 80% of the purchase price.

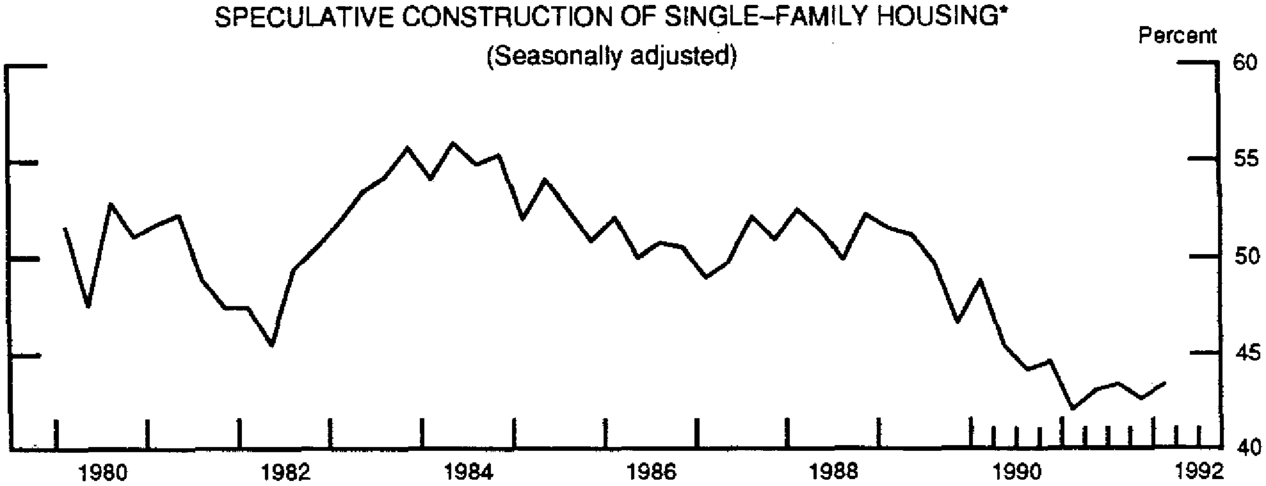
REAL USER COST OF OWNER–OCCUPIED HOUSING*



* Price in 1987 dollars of a constant–quality new home, multiplied by the fixed–rate mortgage rate less expected house price inflation. The solid line takes expected house price inflation to be the average experience of the previous three years. The dotted line assumes expectations are set by the experience of the previous year. This simplified measure of user costs abstracts from operating costs, depreciation, and tax considerations.

SPECULATIVE CONSTRUCTION OF SINGLE–FAMILY HOUSING*

(Seasonally adjusted)



* units started before sale as a percent of single–family starts.

Sales of new homes were weak in both March and April, even after allowing for distortions in monthly timing caused by the weather and tax proposals. The weakness was surprising given the positive forces at work: Cash-flow burdens of homeownership are at their lowest levels since the 1970s (chart, top panel), and broader measures of homeownership costs that attempt to include expectations of capital gains are near the midpoints of the ranges that have prevailed over the past decade (middle panel). Consumer attitudes toward home buying have continued to be quite positive. Furthermore, household growth remains substantial among the prime home-buying age groups.

A possible explanation for soft single-family demand may be the surplus supply of multifamily housing. Vacancy rates for multifamily rental housing remain well above equilibrium levels in many local markets, putting downward pressure on rents and enticing some renters to postpone the move to homeownership. Age-specific homeownership rates have been declining in recent years, holding the aggregate ownership rate at 64 percent despite the increasing concentration of population growth in age groups with above-average ownership rates.

Although the credit crunch is a possible contributor to the recent shortfall in starts, an inadequate supply of construction loans does not appear to be a major factor in the key single-family market. The proportion of single-family starts that is speculative construction, which should be most severely affected by lending constraints, has not fallen much below the cyclical low in the early 1980s. The proportion has stabilized in recent quarters (bottom panel). Furthermore, if there were important supply constraints on housing production, those constraints should have been reflected in

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

	1991		1992	1992		
	Q3	Q4	Q1	Mar.	Apr.	May
Producers' durable equipment						
Shipments of nondefense capital goods	-.1	.9	.5	3.3	-3.3	-1.0
Excluding aircraft and parts	-.4	1.2	.2	4.1	-1.8	.1
Office and computing	-1.6	6.8	5.0	2.1	1.8	.6
All other categories	-.1	-.3	-1.2	4.6	-2.9	-.1
Shipments of complete aircraft[1]	-4.5	-23.2	65.0	.8	-13.8	n.a.
Sales of heavy-weight trucks	1.6	-1.8	6.6	3.1	7.1	-6.8
Orders of nondefense capital goods	14.5	-4.0	2.5	9.2	-7.1	1.4
Excluding aircraft and parts	3.2	-.9	4.2	3.2	-2.9	.7
Office and computing	-3.2	.4	9.2	3.2	-1.3	4.5
All other categories	5.0	-1.3	2.9	3.3	-3.4	-.4
Nonresidential structures						
Construction put-in-place	-5.6	-2.7	.0	1.1	-.9	n.a.
Office	-9.0	-9.7	-7.8	-.2	-4.0	n.a.
Other commercial	-8.8	-7.1	-1.6	.4	-1.8	n.a.
Industrial	-6.4	6.6	3.2	4.0	-2.2	n.a.
Public utilities	.3	-.3	3.1	-.1	-.6	n.a.
All other	-6.3	-3.1	.4	1.5	2.2	n.a.
Rotary drilling rigs in use	-12.1	-9.2	-4.7	.0	1.3	-.1
Footage drilled[2]	-2.0	-2.4	-14.2	15.2	-5.7	n.a.
Memo:						
Business fixed investment[3]	-3.7	-3.4	1.7	n.a.	n.a.	n.a.

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

upward pressure on house prices. In fact, prices for new homes have remained soft.

Business Fixed Investment

Real outlays for business fixed investment increased 1-3/4 percent at an annual rate in the first quarter, the first rise since mid-1990. Outlays for computers and office equipment posted another solid gain last quarter, but business purchases of motor vehicles continued to decline and outlays for industrial equipment were about unchanged. Outlays for nonresidential structures continued to fall in the first quarter, although at a more moderate pace than in the last two years.

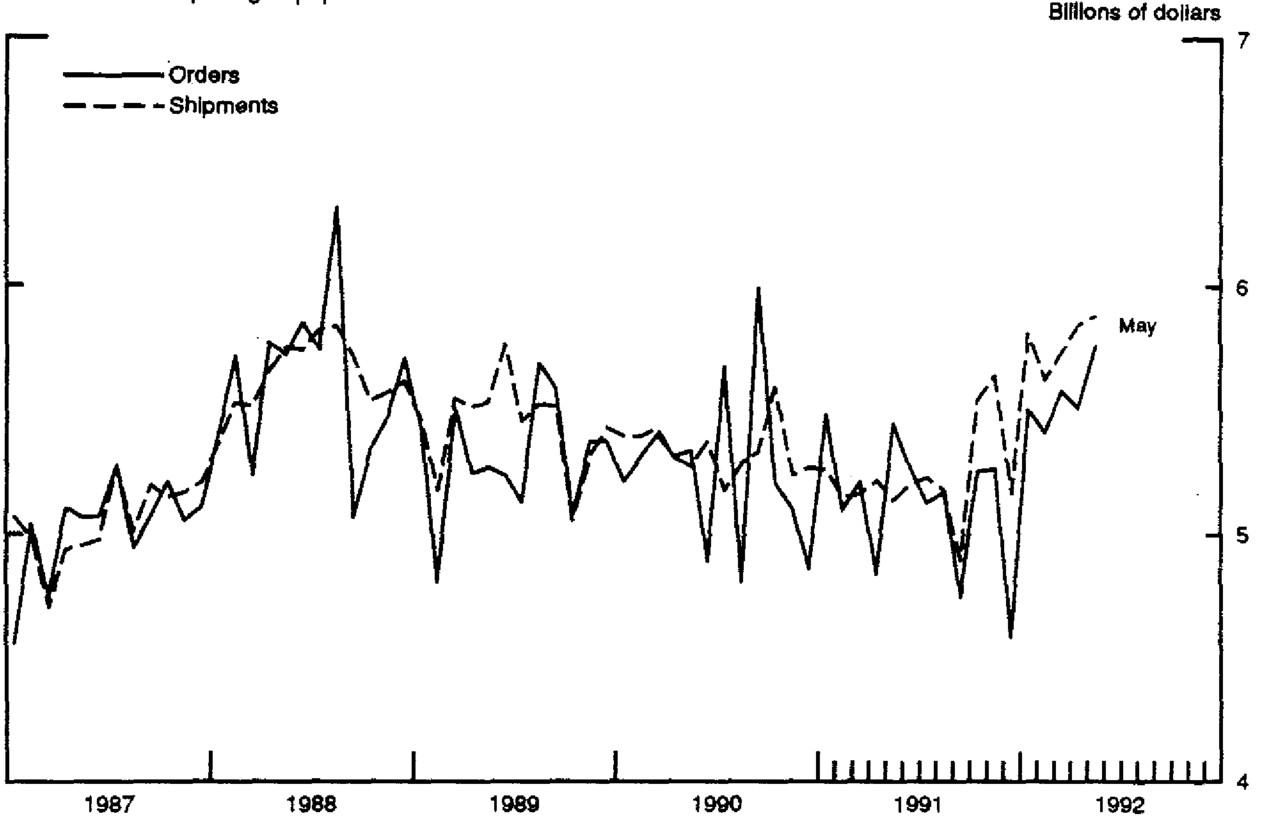
For equipment, the most recent orders and shipments data suggest a sizable increase in current-quarter spending: Nondefense capital goods shipments, excluding aircraft, in April and May averaged close to 3/4 percent above the first-quarter level. Further increases for office and computing machines account for most of this rise. Since last fall, the considerable price declines for these types of goods--that have resulted, in part, from fierce competition among producers--has stimulated both export and domestic demand.[2] In addition, higher business purchases of motor vehicles are likely contributing to the rebound in sales of autos and light trucks this quarter.

Shipments of other types of equipment (excluding aircraft), were about unchanged in April and May relative to the first-quarter average. Export demand for these types of equipment has been relatively flat. Domestic spending for these goods, which has changed little since last fall, usually lags a recovery in overall

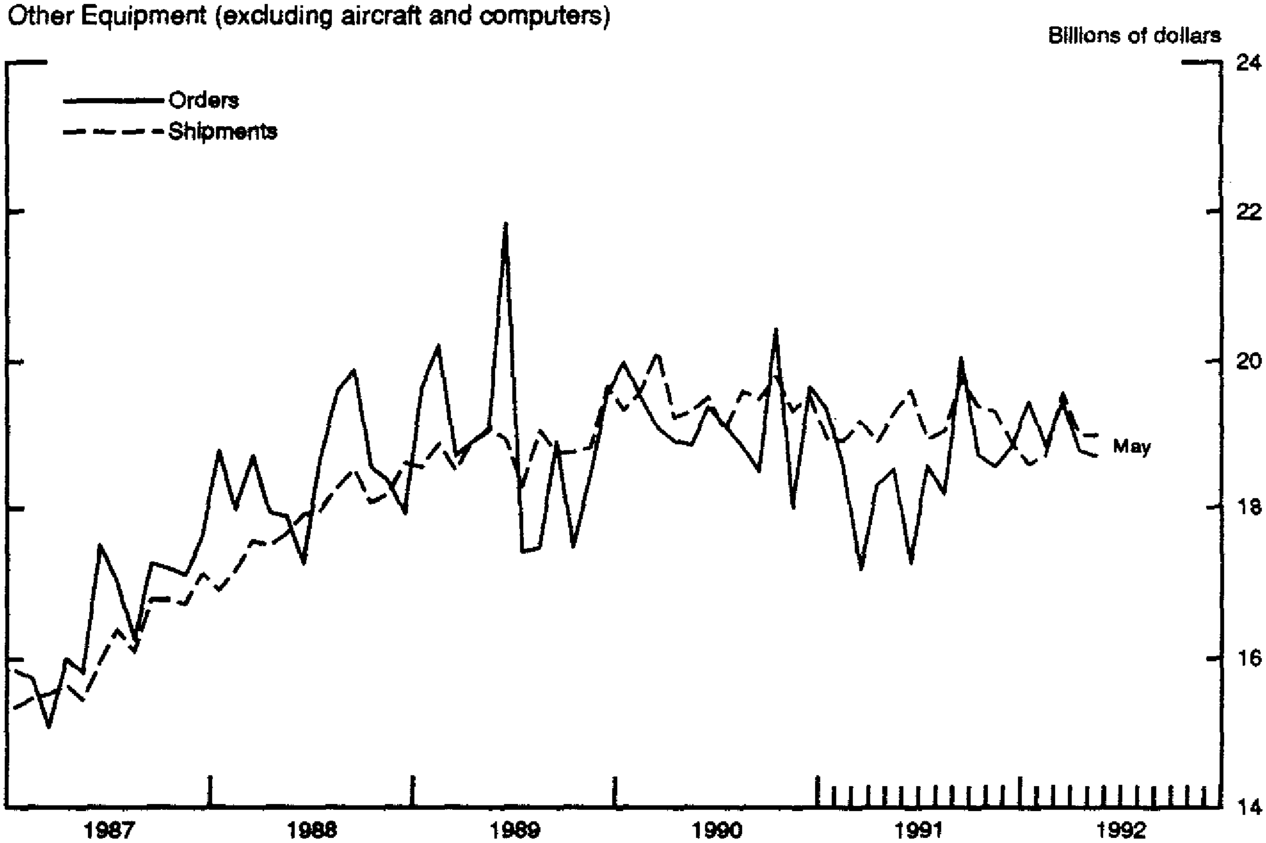
2. Price cuts have been reported for a wide range of products, including workstations and personal computers, and for peripherals and parts, especially 486 chips. As a result, the April and May average of the PPI measure of prices for computers fell 17 percent at an annual rate relative to the first-quarter average.

RECENT DATA ON ORDERS AND SHIPMENTS

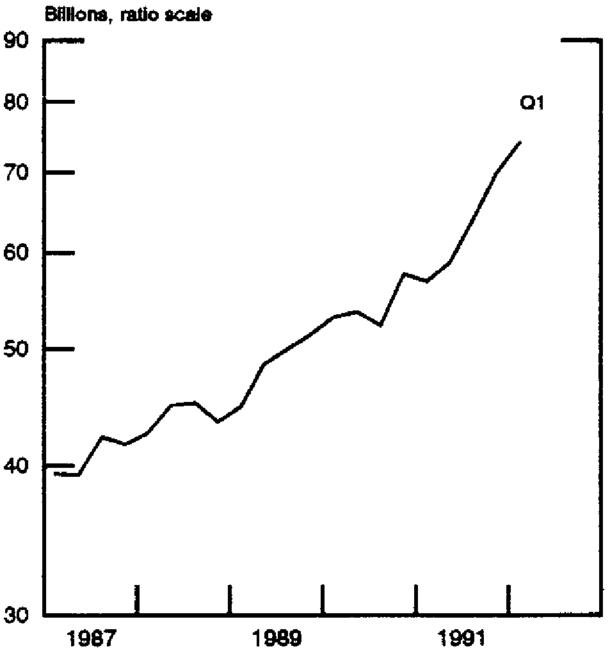
Office and Computing Equipment



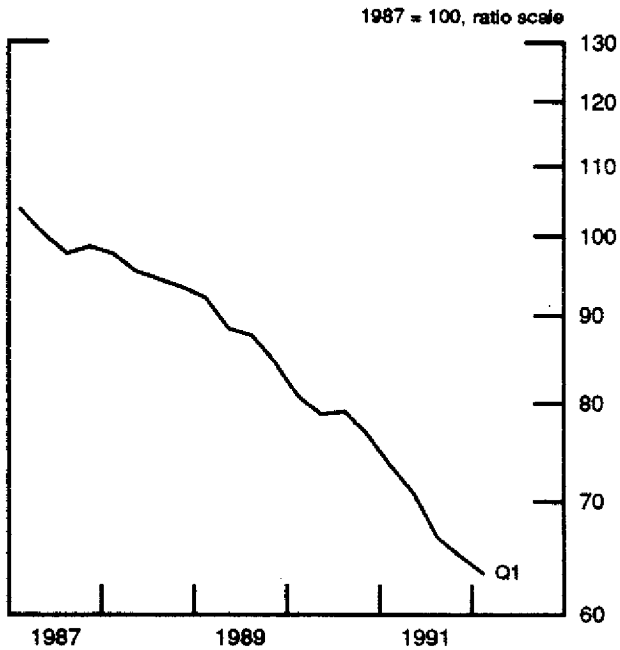
Other Equipment (excluding aircraft and computers)



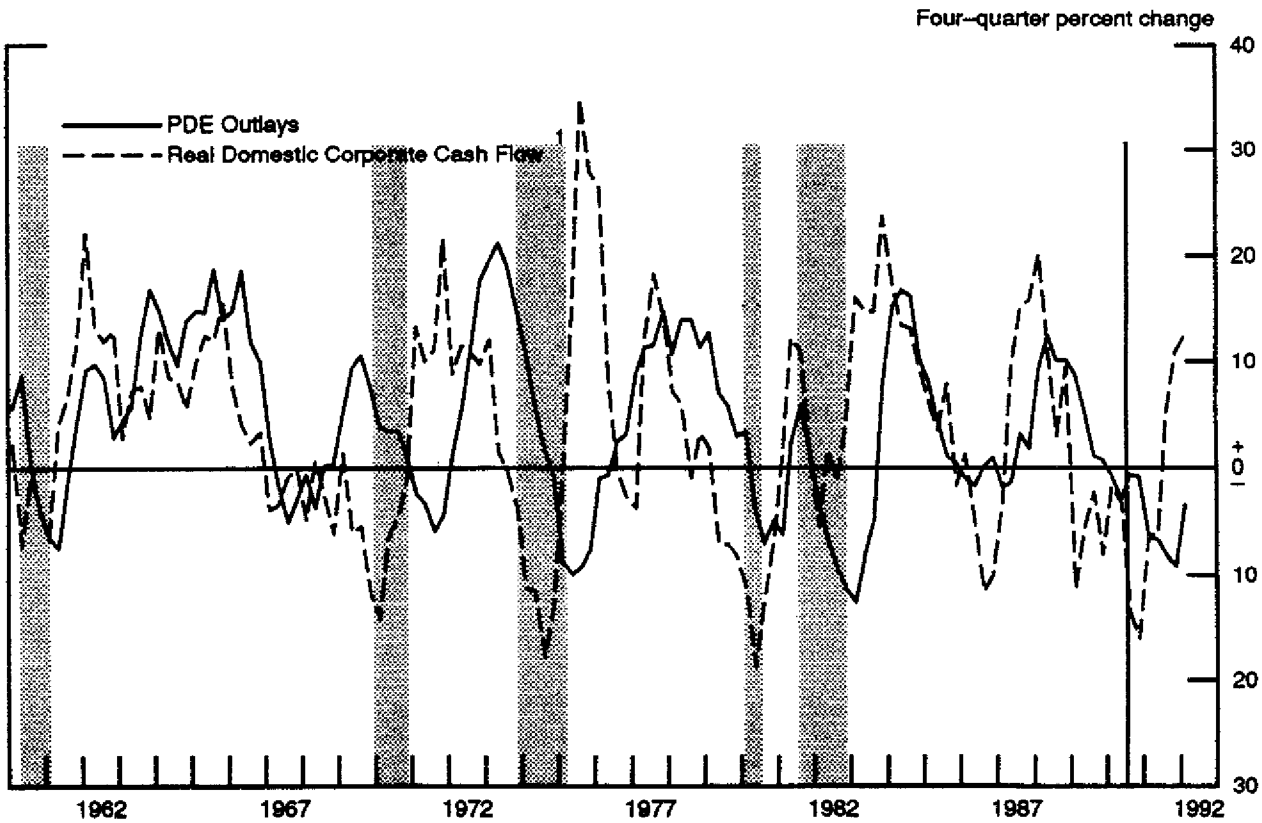
OUTLAYS FOR COMPUTERS
(1987 dollars, seasonally adjusted)



DEFLATOR FOR COMPUTERS
(Seasonally adjusted)

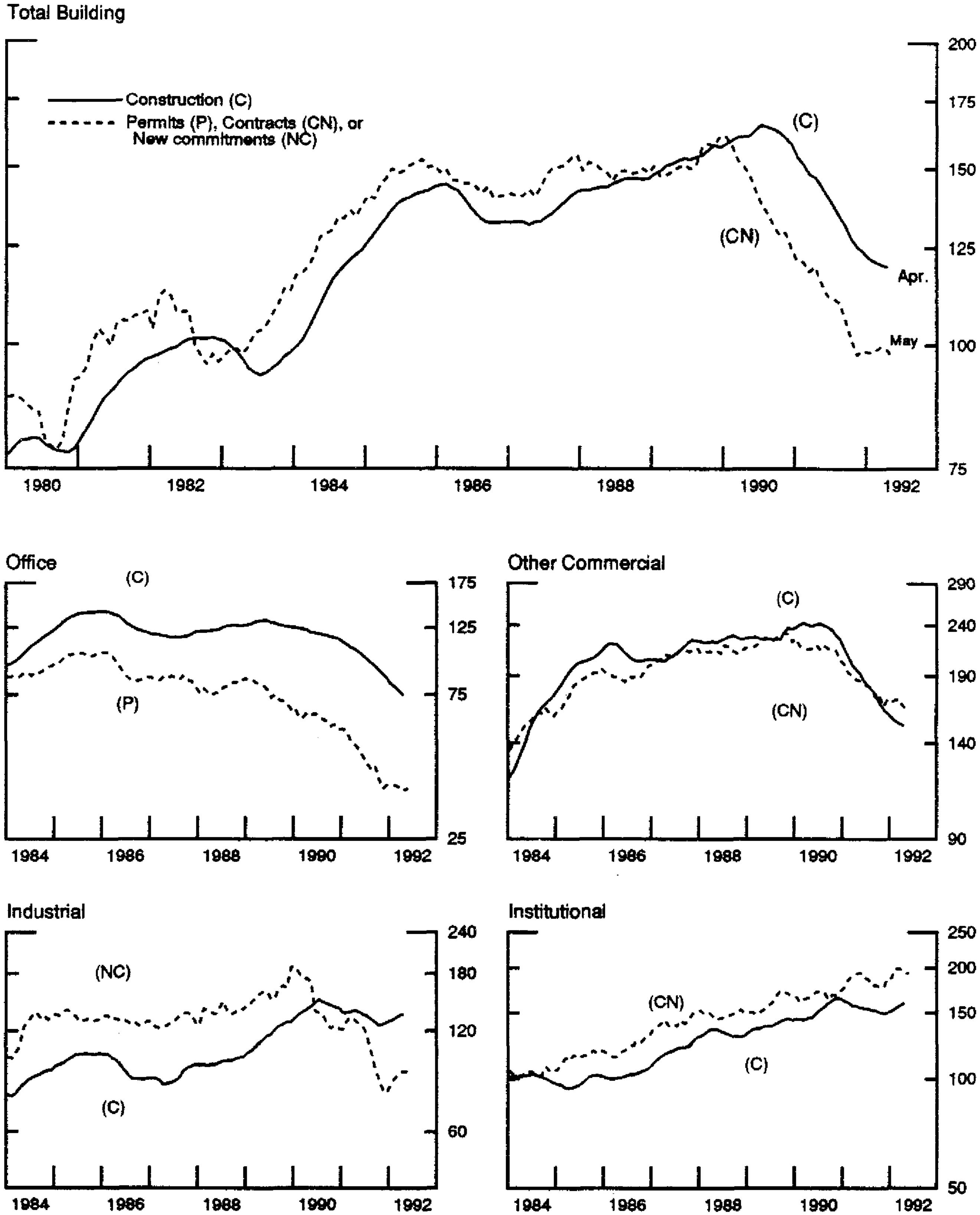


PDE OUTLAYS EXCLUDING COMPUTERS, MOTOR VEHICLES, AND AIRCRAFT
COMPARED WITH REAL CASH FLOW



1. Excluding dividends. With inventory valuation adjustment.

NONRESIDENTIAL CONSTRUCTION AND SELECTED INDICATORS*
(Index, Dec. 1982 = 100, ratio scale)



*Six-month moving average for all series shown. For contracts, total only includes private, while individual sectors include private and public. New commitments are the sum of permits and contracts. Contracts and permits extend through May.

activity. These outlays tend to be fairly closely correlated with lagged corporate cash flow over the course of the business cycle (chart). Hence the recent increase in shipments may partly reflect the improving cash flow of corporations in the first quarter.

Domestic outlays for aircraft, which averaged $12.5 billion (1987 dollars, annual rate) during the first three quarters of 1991, averaged only $7.3 billion in the fourth quarter of last year and the first quarter of this year. A good part of the decline in domestic purchases was matched by a surge in exports. In the current quarter, aircraft deliveries to domestic businesses are expected to revive somewhat while exports fall back to a more normal level. Nonetheless, domestic orders for new aircraft have dried up during the past year, which suggests that, as existing backlogs decline, domestic purchases will begin to trend lower, maybe starting later this year.

Outlays for nonresidential structures were little changed in the first quarter, following a 14-3/4 percent decline in 1991. Still hampered by an overhang of office space, construction of new office buildings continued to plummet. The near-term outlook remains bleak: Coldwell-Banker estimates that the national vacancy rate for office buildings in March was 19.6 percent, not much different from the average during the past few years. However, spending for both industrial and institutional structures has turned up since late last year, and the descent in other commercial construction slowed markedly in the first quarter. Looking ahead, contracts for new construction have firmed over the past year, suggesting that the worst of the decline in nonresidential building is behind us.

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

	1991		1992	1992		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Current-cost basis						
Total	8.2	23.1	-7.9	5.5	19.1	3.7
Total, excluding retail auto	1.0	22.1	-13.7	-4.7	1.8	-13.0
Manufacturing	-5.9	-14.0	-11.2	-14.1	-.2	-15.9
Excluding aircraft and food	-8.0	-8.3	-8.0	-10.7	-1.3	3.0
Wholesale	-2.3	19.9	-1.2	8.2	-8.9	-11.9
Retail	16.4	17.3	4.5	11.4	28.2	31.5
Automotive	7.1	1.1	5.8	10.2	17.3	16.7
Excluding auto	9.3	16.2	-1.3	1.2	10.9	14.8
Constant-dollar basis						
Total	-1.0	12.4	-18.6	-25.1	12.1	n.a.
Total, excluding retail auto	-1.0	20.5	-9.7	-14.6	14.0	n.a.
Manufacturing	-4.1	-11.4	-9.6	-12.0	-1.3	n.a.
Wholesale	-3.0	16.5	4.3	3.9	6.5	n.a.
Retail	6.2	7.2	-13.3	-17.0	6.9	n.a.
Automotive	.0	-8.1	-8.9	-10.4	-1.9	n.a.
Excluding auto	6.1	15.3	-4.4	-6.6	8.8	n.a.

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

	1991		1992	1992		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Current-cost basis						
Total	1.53	1.54	1.52	1.52	1.51	1.52
Total, excluding retail auto	1.50	1.52	1.50	1.50	1.49	1.49
Manufacturing	1.64	1.62	1.62	1.61	1.59	1.58
Excluding aircraft and food	1.55	1.53	1.53	1.53	1.50	1.50
Wholesale	1.33	1.37	1.36	1.36	1.35	1.37
Retail	1.55	1.58	1.54	1.51	1.55	1.56
Automotive	1.91	1.87	1.85	1.78	1.87	1.91
Excluding auto	1.46	1.50	1.46	1.44	1.46	1.46

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

Business Inventories

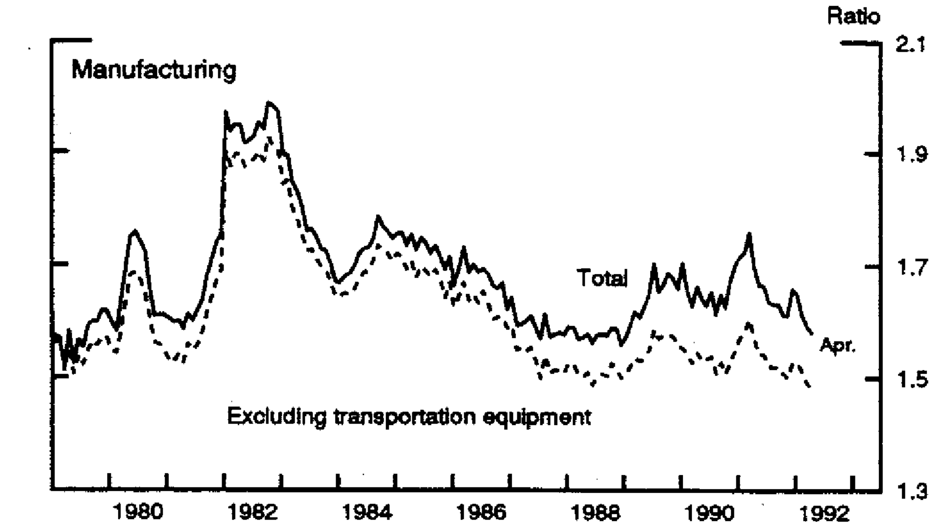
Recent data suggest that some businesses are beginning to shift away from the aggressive liquidation of inventories that has prevailed since the turn of the year. In manufacturing and trade, inventory paring is no longer so widespread, and anecdotal reports indicate that inventories are close to desired levels in most industries.

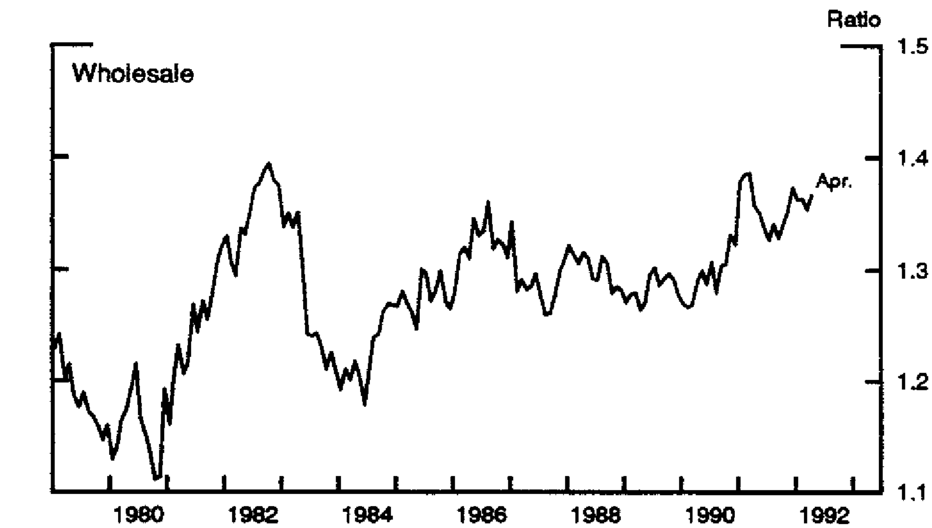
The slowing pace of liquidation by April was most notable in manufacturing, especially when volatile and noncyclical inventory changes are taken out. Specifically, excluding aircraft and food, the pace of factory inventory liquidation moderated from a $17.6 billion annual rate in December to a $1.3 billion pace in March; these stocks edged up $3 billion in April (all figures in current-cost terms). This appears to have been a planned inventory response to the firming in industrial production because orders were rising as inventory liquidation declined. With shipments rising, factory stock-sales ratios at the end of April were well below their recent peaks posted last winter. Indeed, for both total manufacturing and for manufacturing excluding transportation equipment, the overall ratio in April was the lowest observed in more than a decade (chart, upper panel).

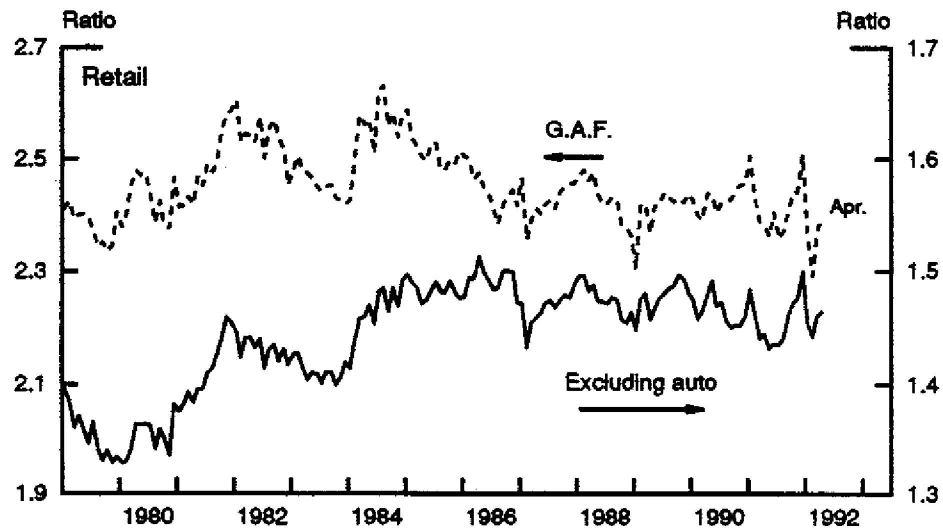
In the trade sector, wholesale inventories were excessive in early spring. Inventory liquidation increased in April, especially at distributors of motor vehicles, machinery, and farm products. However, inventory-sales ratios remained near the high end of the range over the past several years, and some further trimming of stocks is likely in coming months.

In the retail sector, the inventory situation was somewhat more encouraging this spring. Although retail stocks showed relatively sharp increases in March and April, more than half of the reported

RATIO OF INVENTORIES TO SALES
(Current–cost data)







buildup was reported by auto dealers, where sales of new vehicles have picked up in recent weeks and inventories of new cars and trucks still appear fairly comfortable.[3] GAF stores also saw large increases in stocks in March and April; but that rise may have partly represented some desired rebuilding after the drawdowns in January and February pushed the inventory-sales ratio for GAF stores to a near-record low (chart, lower panel, dotted line). From a broader perspective, the April buildup of nonauto retail stocks was accompanied by drawdowns upstream in the manufacturing and wholesale sectors. (For all manufacturing and trade, the net accumulation was only $3-3/4 billion in April.) On the whole, the inventory-sales ratio for nonauto retail establishments, was about unchanged in April, and still well below its recent peak reached in late 1991 (chart, lower panel, solid line).

Federal Government

The federal government recorded a $32 billion unified budget deficit in April and May combined, up $9 billion from a year earlier. Excluding contributions to the Defense Cooperation Account (DCA) and outlays for deposit insurance (DI), the deficit increased $5 billion; outlays excluding DI and DCA were nearly flat--partly because of artificially high 1991 outlays--and receipts declined 1.6 percent.

On the tax receipts side of the ledger, withheld taxes were lower than expected in April and May, but were within the bounds of normal month-to-month variation. For the fiscal year to date,

3. In estimating GDP, BEA does not use Census survey results for auto dealers' inventories. Instead, it estimates changes in the physical stocks of all automotive products based on unit production, sales, and imports, adjusted for changes in inventories of motor vehicles in the manufacturing and wholesale trade sectors. By this method of calculation, retail dealers' inventories declined at an annual rate of nearly $10 billion in 1987 dollars during the first quarter, and probably did not rise as much in April as the Census retail trade survey indicated. BEA's auto inventory figures for April will be released on June 26.

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

	April and May			Fiscal year through May		
	1991	1992	Percent change	1991	1992	Percent change
Outlays	227.3	233.0	2.5	862.1	926.3	7.5
Deposit insurance (DI)	8.0	2.0	-74.4	24.6	7.9	-67.5
Defense cooperation account (DCA) contributions	-11.0	-.8	-92.7	-38.1	-5.2	-86.4
Outlays ex DI and DCA	230.3	231.8	.7	875.6	923.6	5.5
National defense ex DCA	57.7	49.1	-15.0	214.9	200.0	-6.9
Net interest	32.8	33.9	3.3	129.1	134.9	4.5
Social security	45.1	48.0	6.6	175.2	187.9	7.2
Medicare and health	31.5	34.2	8.6	113.3	134.5	18.7
Income security	32.3	36.0	11.3	119.4	137.4	15.1
Other	30.9	30.6	-.7	123.6	128.9	4.2
Receipts	204.0	200.6	-1.6	686.5	694.6	1.2
Personal income and social insurance taxes	174.8	167.8	-4.0	567.5	572.3	.8
Withheld and FICA	125.2	121.2	-3.2	501.0	513.1	2.4
Nonwithheld	63.4	59.4	-6.4	98.8	98.0	-.8
Refunds	-38.9	-38.9	.0	-72.5	-77.8	-7.3
Other	25.1	26.1	3.9	40.2	39.0	-2.9
Corporate income	15.3	16.9	10.4	59.9	57.3	-4.4
Other	13.9	16.0	15.0	59.1	65.1	10.1
Deficit	23.3	32.3	38.8	175.6	231.7	32.0
Deficit ex DI and DCA	26.3	31.2	18.6	189.1	229.0	21.1

withheld taxes are in line with the year-over-year growth in wages and salaries and the new withholding schedules that are estimated to reduce withheld taxes by about $2 billion per month. Nonwithheld taxes in April and May, which largely represent final settlements on 1991 liabilities, were $4 billion below a year earlier, confirming the weakness that was recorded earlier in daily Treasury statements. Detailed data on the source of the shortfall in nonwithheld tax collections will not be available until the IRS releases its analysis of 1991 tax returns in 1993. However, one possible explanation for this drop is that the distress in real estate markets held down both net capital gains realizations and 1991 tax liabilities.

Outlays excluding deposit insurance (DI) and the Defense Cooperation Account (DCA) were up less than 1 percent in April and May relative to a year earlier. The growth in spending was damped by shifts in the monthly timing of defense payroll expenditures and of transfer payments that artificially boosted outlays for the 1991 period by about $6 billion. But even excluding this special factor, the year-over-year increase in April-May outlays was only about 3 percent, well below the average earlier this fiscal year. After accounting for the timing of payrolls, defense expenditures in April-May were down about 10-1/2 percent relative to 1991 and continue to lag the expenditure pace projected by OMB and CBO earlier this year.

On May 21 Congress approved a budget resolution for FY1993. The resolution sets outlays at $1.5 trillion and, using CBO's March economic assumptions, projects receipts at $1.173 trillion and the deficit at $327 billion. Relative to the spending caps set in the 1990 budget act, the resolution cuts defense outlays about $7 billion; discretionary domestic spending is at the cap. The budget resolution implies a decline between FY1992 and FY1993 in real defense outlays of about 11 percent and an increase in real discretionary domestic spending of about 1-1/2 percent.[4] For the pay-as-you-go category, the budget resolution cuts entitlements by $2 billion and requires that new tax legislation be revenue-neutral. Work on detailed budget legislation now begins in the appropriations committees.

The House rejected a balanced budget amendment to the Constitution. Immediately after the negative vote, the House leadership announced plans to begin work on a new deficit-reduction enforcement bill. In other congressional action, the House and Senate have passed bills that would maintain temporary extended unemployment benefits beyond their July 4 expiration date; the House program would expire at the end of the year, and the Senate program would expire on March 6, 1993. Both bills also modify the trigger for regular extended benefits so that it depends on a state's total unemployment rate, rather than on the insured unemployment rate; the change, which the Administration has threatened to veto, could make regular extended benefits more widely available during times of high unemployment. Also, the Congress passed an emergency supplemental bill for urban assistance that allocates $756 million to subsidize disaster loans to businesses and local governments,[5] $500 million for summer youth employment programs in inner cities nationwide, and $8 million for law enforcement in Los Angeles. The President is

4. The calculation is based on CBO's March projection for nominal spending in FY1992. The deflator for real defense spending is from the Department of Defense, and the deflator for domestic spending is CBO's March projection for the GDP deflator.

5. Of this total, $495 million has already been spent out of loan funds at the Small Business Administration and the Federal Emergency Management Agency.

expected to sign the bill. The Congress is now working on a second bill for urban enterprise zones and a "weed and seed" program.[6]

State and Local Governments

Indicators of state and local government purchases suggest renewed weakness in the second quarter, after a large increase in the first quarter. In April, outlays for real construction fell to a level 1.6 percent (not at an annual rate) below their first-quarter average. The largest drop was in expenditures for educational facilities, which had risen, on net, over the preceding few months. In contrast to construction, state and local employment rose in April and May, although most of the gains were due to temporary hiring for primary elections.

The state and local deficit on operating and capital accounts, excluding social insurance funds, edged up to $27 billion in the first quarter, after falling steadily last year. Much of the deficit reduction last year resulted from the combination of substantial tax hikes and spending restraint. Also, federal payments to state and local governments rose appreciably during the past two years. Essentially all of the acceleration in federal payments was in grants for Medicaid, which make up about 40 percent of federal aid to states; grants for all other programs were little changed (chart). Part of the rise in federal contributions for Medicaid resulted from tactics used by states to increase the federal share of Medicaid payments. The federal government has recently made rule changes designed to reverse some of this increase in the federal share.

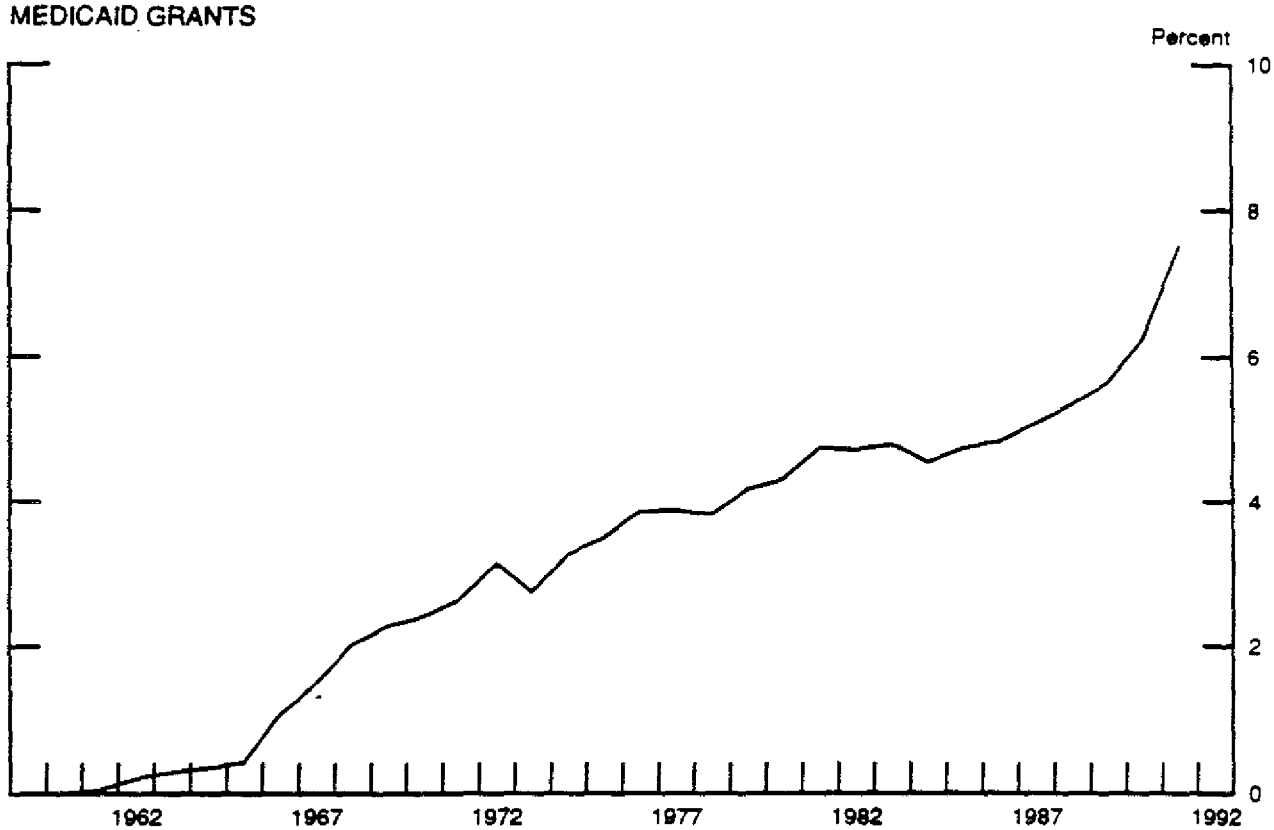
The deficit-correcting actions taken by states this year now appear smaller than those in 1990 and 1991. Anecdotal reports

6. "Weed and seed" programs coordinate initiatives to improve public services (primarily education, employment, and health services) with law enforcement activities to clear neighborhoods of crime and drugs.

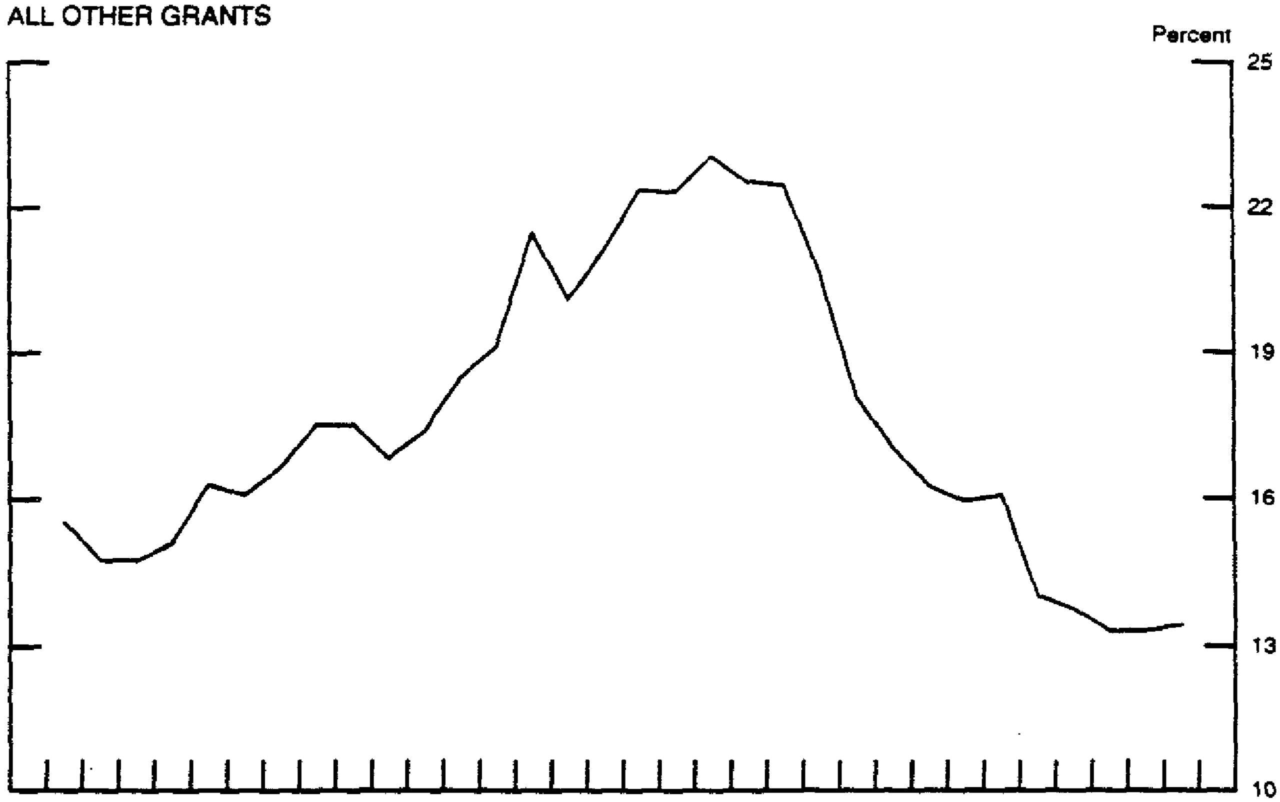
FEDERAL GRANTS AS A PERCENT OF STATE AND LOCAL RECEIPTS*

(Fiscal years, NIPA basis)

MEDICAID GRANTS



ALL OTHER GRANTS



*Excluding social insurance funds.

suggest that the states' receipts from increased taxes will be only around a third of the $15 billion raised in 1991. Meanwhile, on the spending side, pressures on budgets for education, corrections, and health remain intense. In particular, outlays for Medicaid continue to surge, owing in part to the federally mandated expansion of coverage for children and pregnant women.

Prices

The May CPI report was quite favorable, despite a relatively large increase in energy prices; food prices retreated, other prices only edged up, and the overall index rose but 0.1 percent. The CPI excluding food and energy advanced a modest 0.2 percent in May; our assessment is that the underlying inflation rate for this "core" component of the CPI is currently running at a little less than 4 percent, about a half percentage point below the pace in 1991. By contrast, the PPI for finished goods moved up more rapidly in May than earlier this year not only because of higher energy prices but also because of anomalous jumps in prices of cigarettes and aircraft.[7] Those increases accounted for most of the 0.6 percent increase in the PPI excluding food and energy.

Both spot and posted prices of crude oil have been rising since February, and they moved up sharply late last month when OPEC ministers agreed to leave the production ceiling unchanged in the third quarter. The OPEC action came too late to affect the May CPI and PPI; the May increases in the energy components of the CPI and

7. This spring, manufacturers acted earlier than they typically have done to make one of their periodic adjustments in prices of tobacco products--more than 5 percent before seasonal adjustment. Because the PPI seasonal factors anticipated that those increases would occur a bit later, the index, on a seasonally adjusted basis, overstated the increase in May and likely will retrace part of that increase in the next two months. The index for civilian aircraft also registered a large increase, much of which, according to a BLS analyst, actually occurred in earlier months. The PPI for each month is revised four months later to take account of such corrections and late reports.

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

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

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

	Relative importance Dec. 1991	1990	1991	1991 Q3	1991 Q4	1992 Q1	1992 Apr.	1992 May
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	5.7	-.1	1.3	1.0	.7	.2	.4
Consumer foods	21.9	2.6	-1.5	-4.4	-1.0	.7	-.3	-.4
Consumer energy	13.8	30.7	-9.6	3.7	-.5	-7.0	.5	.9
Other finished goods	64.3	3.5	3.1	2.8	2.1	2.7	.2	.6
Consumer goods	39.5	3.7	3.4	3.6	2.4	3.0	.4	.7
Capital equipment	24.8	3.4	2.5	1.3	1.9	1.9	.2	.5
Intermediate materials[2]	95.2	4.6	-2.7	.4	-1.7	.0	.1	.4
Excluding food and energy	81.7	1.9	-.8	-1.3	.0	1.7	.0	.1
Crude food materials	41.2	-4.2	-5.8	-6.6	-4.9	12.6	-1.4	.9
Crude energy	40.0	19.1	-16.6	-.5	5.3	-21.2	2.7	2.5
Other crude materials	18.6	.6	-7.6	-4.9	-5.9	13.6	.2	.9

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

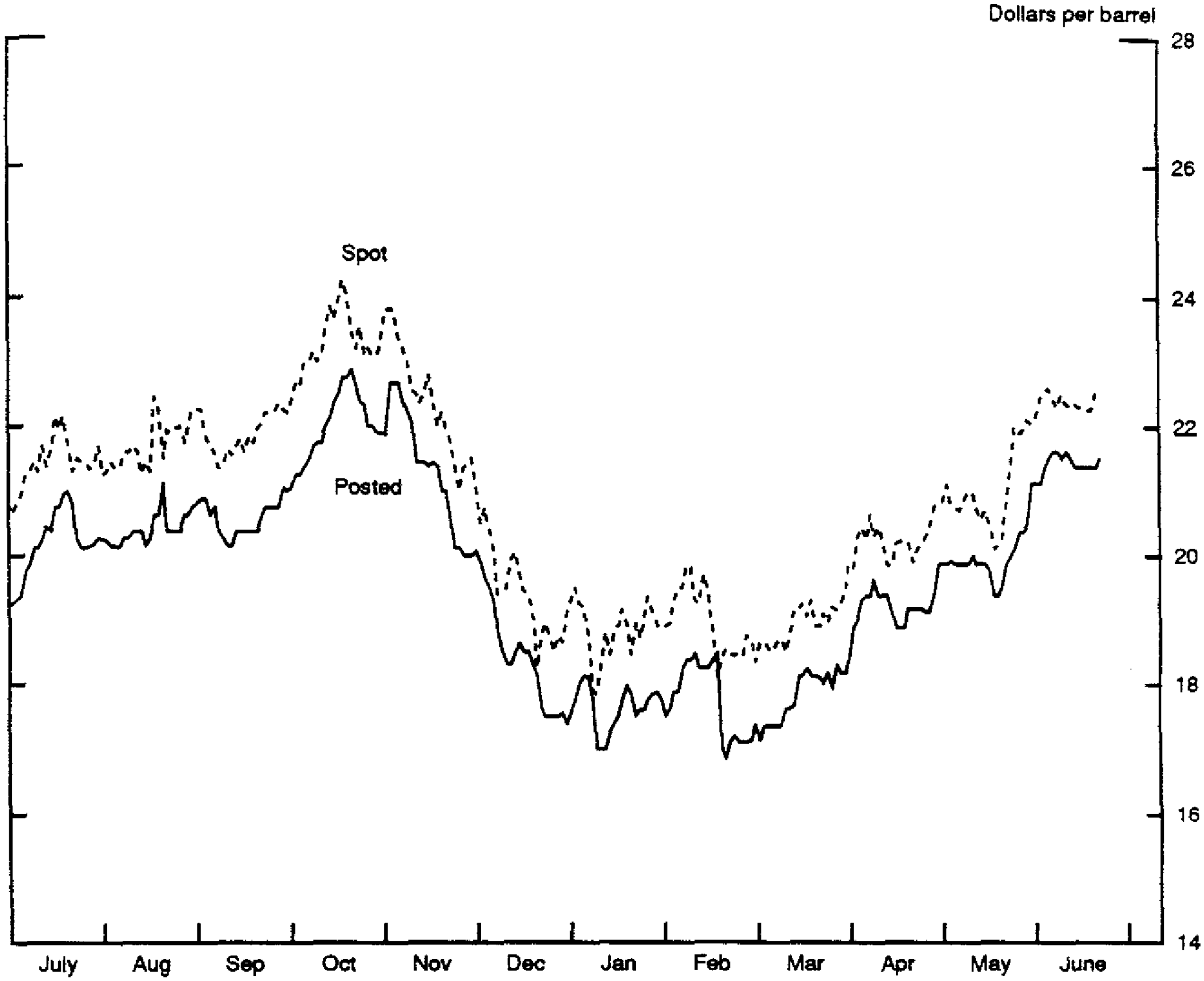
PPI were, instead, largely the result of higher crude oil costs in April. So far this month, spot prices of domestic crude oil have averaged more than $22 per barrel--and posted prices about $21-1/2--up about $1-1/2 from May and about $3-1/2 from their average level during the first three months of this year. Private survey data for early June point to a large increase in retail gasoline prices this month as well as to further advances at the wholesale level.

The CPI for food fell 0.4 percent in May, reflecting a particularly steep decline in prices of fresh vegetables. As a result, the index for fruits and vegetables has about retraced its February-March runup. On average, prices of other foods continued to post small increases. Concerns about weather in several growing regions around the country have caused the prices of some crops to become more volatile recently, but thus far these prices have not broken out of the trading range seen earlier in the year.

The increase in the CPI excluding food and energy in May was held down by a second month of small increases in rents. Increases in several other service categories, notably entertainment, were modest. Moreover, airfares declined about 3 percent. That decline reflected the restructuring of airfares announced in April by the major airlines; the deep discounts offered at the end of May occurred too late in the month to be picked up last month and were in effect for too short a time to have much influence on the June index.[8] By contrast, the CPI for nonfood, nonenergy commodities was boosted in May, though much less than the PPI, by the increase in cigarette prices.

8. Airfares were up in the April CPI, resulting in a net decline of 2 percent over both months. In the CPI, airfares are sampled at the time of purchase and are based on consumer rather than business travel, thus limiting the impact on the index of the recent developments.

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		
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	19.90	20.94
June [1]	21.40	22.36

1. Price through June 23.

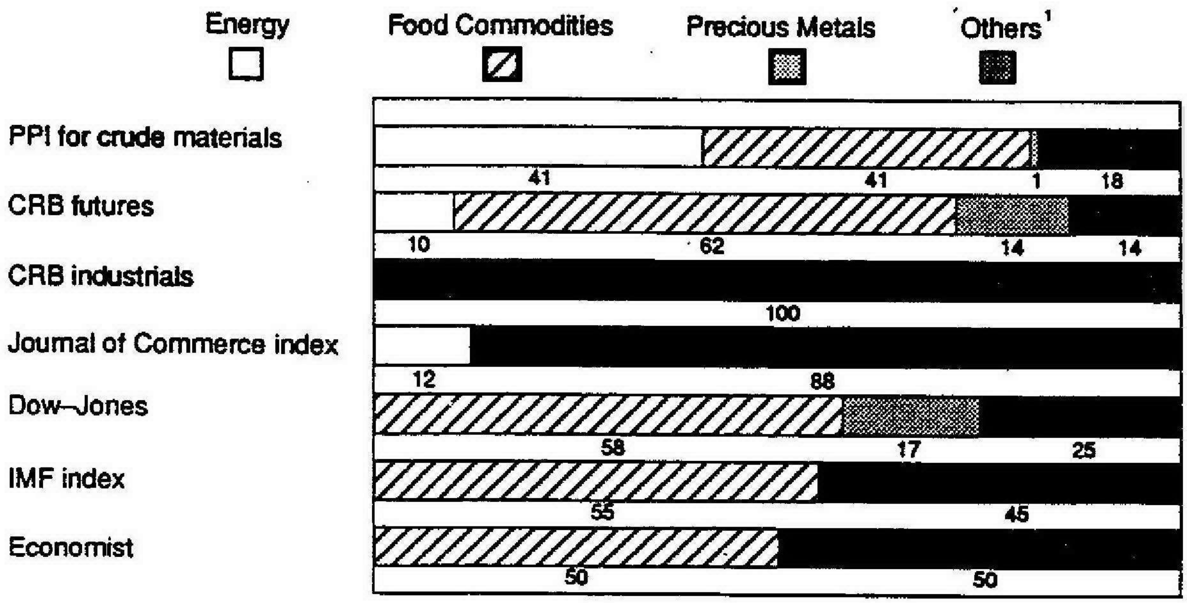
PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

	Last observation	Percent change[2] 1990	1991	1992 To May 12[3]	1992 May 12[3] to date	Memo: Year earlier to date
1. PPI for crude materials[4]	May	6.0	-11.6	3.4	n.a.	-1.1
1a. Foods and feeds	May	-4.2	-5.8	6.5	n.a.	-.5
1a. Energy	May	19.1	-16.6	-.8	n.a.	-2.3
1b. Excluding food and energy	May	.6	-7.6	5.3	n.a	-1.7
1c. Excluding food and energy, seasonally adjusted	May	.7	-7.6	4.3	n.a.	-1.7
2. Commodity Research Bureau						
2a. Futures prices	June 23	-2.7	-6.5	.3	.2	-.8
2b. Industrial spot prices	June 22	.6	-11.3	5.3	.9	.2
3. *Journal of Commerce* industrials	June 23	-2.4				.0
3a. Metals	June 23	-3.9				1.5
4. Dow-Jones Spot	June 23	-1.7	-12.1	7.5	1.5	-7.4
5. IMF commodity index[4]	May	-5.2	.7	-.8	n.a.	1.7
5a. Metals	May	-1.1	-8.9	3.9	n.a.	-1.9
Nonfood agriculture	May	-3.5	1.3	1.9	n.a.	4.6
6. *Economist* (U.S. dollar index)	June 16	-4.4	-9.1	4.1	1.2	.0
6a. Industrials	June 16	-3.2	-14.9	8.2	1.4	-1.6

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

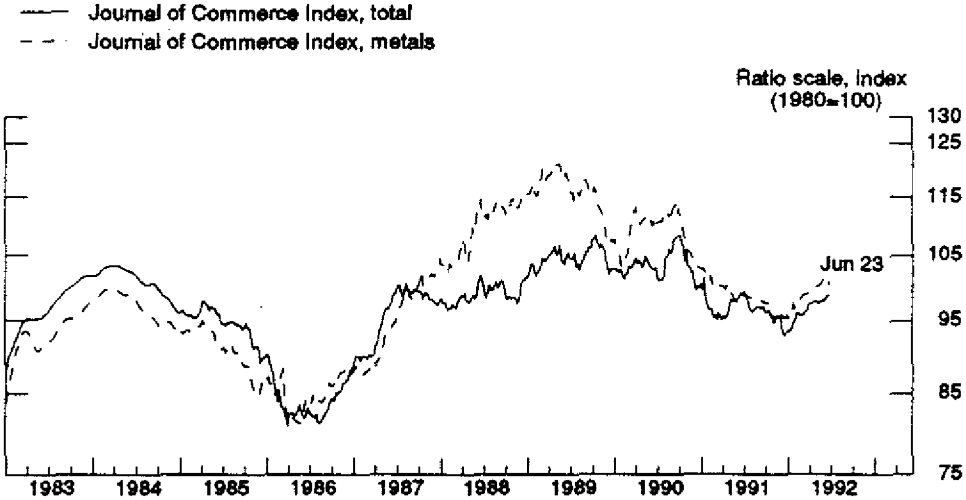
n.a. Not available

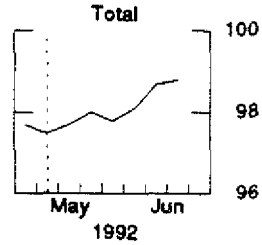
Index Weights

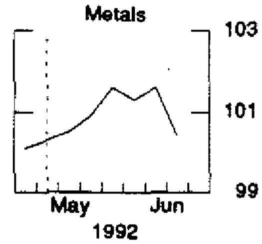


1. Forest products, industrial metals, and other industrial materials.

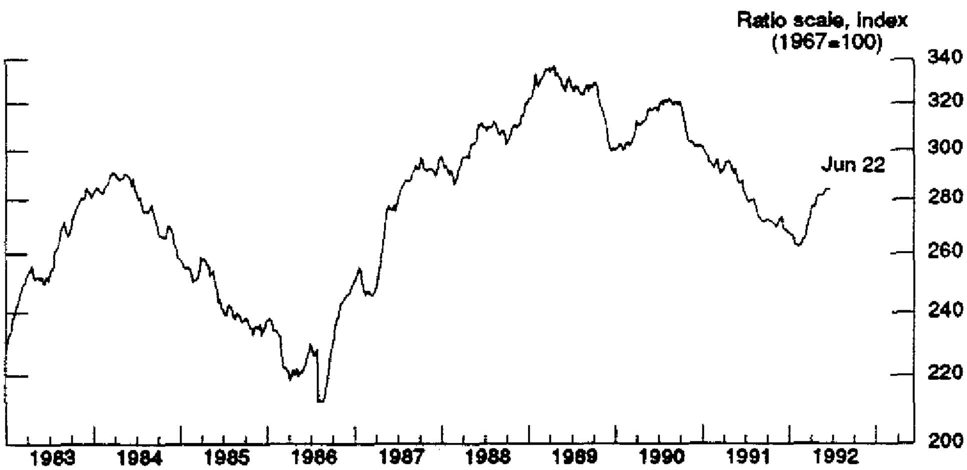
COMMODITY PRICE MEASURES *

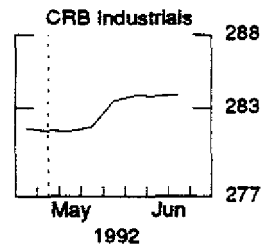




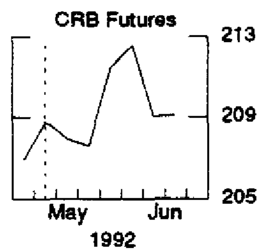


CRB Spot Industrials





CRB Futures



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

Dotted lines indicate week of last Greenbook.

At the producer level, price increases for finished goods excluding food and energy generally remain modest (apart from the anomalies indicated above), consistent with continued relatively low capacity utilization in manufacturing. Prices of intermediate materials excluding food and energy have edged up, on balance, since late last year, and the PPI for crude nonfood materials less energy rose in May for the fourth consecutive month (but has not yet retraced its decline over the preceding year). These increases in materials prices appear to mirror the modest improvement in industrial demand.

Since mid-May, spot prices of industrial materials have continued their upward drift. The Journal of Commerce index of industrial prices rose about 1 percent over the six-week period, and its metals component was about unchanged. Prices for tin, and to a lesser extent, for copper, have moved up notably, but prices eased, on net, for aluminum and steel scrap, in part reflecting slow summer demand.

Background on the Rail Strike

At midnight on Tuesday, machinists struck CXS; the strike was quickly followed by lockouts at 39 other freight railroads, disrupting freight transportation throughout the United States. The dispute involves rail unions that were not covered by the settlement pattern imposed by the Congress last year on other railroad workers. Many of the workers affected by the current negotiations are maintenance workers employed by Amtrak or Conrail; these workers did not walk off the job last night but are free to do so at any time.

In the past, railroad strikes have invariably been quite brief, and the economic consequences minimal, because the Congress typically has acted promptly to force the strikers back to work. We expect this type of scenario to play out again in coming days. A longer strike, however, could cause problems for producers that either receive or ship output by rail. Many shippers have already lined up alternative transportation in the trucking industry. However, the available shipping from trucking--which already is reportedly close to capacity--is by no means sufficient to make up for a major rail strike.

Coal shipments are likely to be affected almost immediately by the stoppage, but utilities (the big user of coal) report that they have stockpiled enough to get through a short strike without disruption. Chemical raw materials also typically are shipped by rail, and a breakdown in the transportation network could quickly affect production of a wide variety of products that use these materials. In the automobile industry, heavy use of railroad shipping and an increasing reliance on just-in-time inventories leave motor vehicle production vulnerable to severe disruptions from a protracted strike. However, this is the time of year when many automobile plants are shut down for model changeover, and thus the effects of a short strike are likely to be quite small. Ford, for example, expects no major disruptions from a brief stoppage because many of their plants will be idled anyway; GM appears somewhat more concerned, and has indicated that half of their operations would be affected within 24 hours of a strike. On balance, we think that a short strike (4 days or less) would have only a small effect on aggregate production. If the strike persists, however, the effects on output could accumulate rapidly, especially in the industrial sector.

DOMESTIC FINANCIAL DEVELOPMENTS

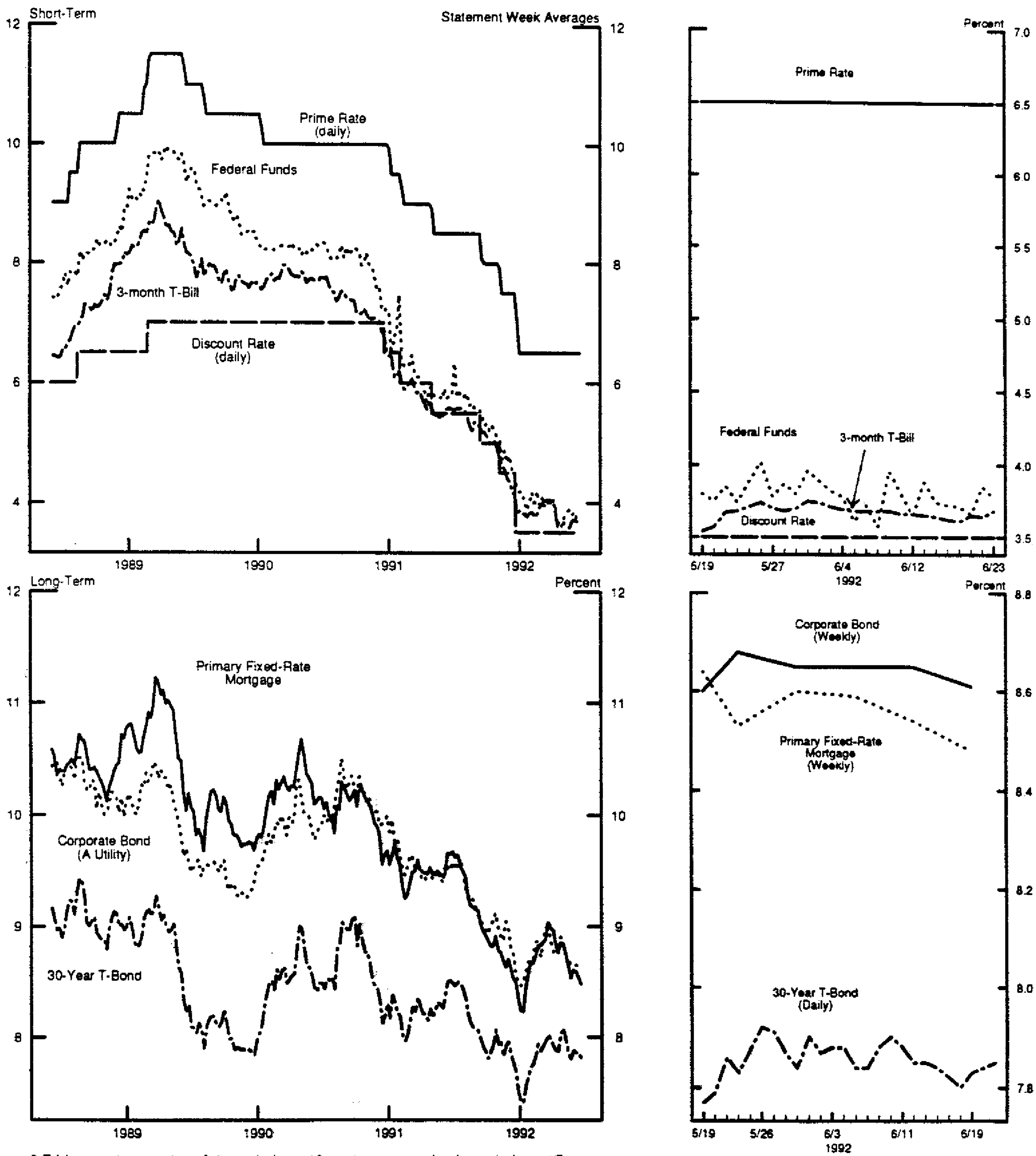
SELECTED FINANCIAL MARKET QUOTATIONS
(percent)

	1989 March highs	1992 FOMC May 19	1992 Dec-Jan Lows	1992 Jun 23	Change from: Mar 89 highs	Change from: Dec-Jan Lows	Change from: FOMC May 19
Short-term rates							
Federal funds[2]	9.85	3.80	3.94	3.72	-6.13	-.22	-.08
Treasury bills[3]							
3-month	9.10	3.54	3.72	3.68	-5.42	-.04	.14
6-month	9.11	3.62	3.76	3.80	-5.31	.04	.18
1-year	9.05	3.81	3.81	4.01	-5.04	.20	.20
Commercial paper							
1-month	10.05	3.81	4.01	3.90	-6.15	-.11	.09
3-month	10.15	3.82	3.94	3.91	-6.24	-.03	.09
Large negotiable CDs[3]							
1-month	10.07	3.74	3.95	3.82	-6.25	-.13	.08
3-month	10.32	3.75	3.89	3.86	-6.46	-.03	.11
6-month	10.08	3.85	3.89	3.96	-6.12	.07	.11
Eurodollar deposits[4]							
1-month	10.19	3.75	3.94	3.81	-6.38	-.13	.06
3-month	10.50	3.81	3.88	3.88	-6.62	.00	.07
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	5.59	5.05	5.58	-4.30	.53	-.01
10-year	9.53	7.20	6.71	7.25	-2.28	.54	.05
30-year	9.31	7.77	7.39	7.85	-1.46	.46	.08
Municipal revenue[5] (Bond Buyer)	7.95	6.70	6.53	6.62	-1.33	.09	-.08
Corporate--A utility recently offered	10.47	8.60	8.46	8.64	-1.83	.18	.04
Home mortgage rates[6]							
FHLMC 30-yr. FRM	11.22	8.64	8.23	8.48	-2.74	.25	-.16
FHLMC 1-yr. ARM	9.31	5.97	5.79	5.86	-3.45	.07	-.11

	Record highs	Date	1989 Lows Jan 3	1992 FOMC May 19	1992 Jun 23	Percent change from: Record highs	Percent change from: 1989 lows	Percent change from: FOMC May 19
Stock prices								
Dow-Jones Industrial	3413.21	6/1/92	2144.64	3397.99	3285.62	-3.74	53.20	-3.31
NYSE Composite	231.85	1/15/92	154.00	229.32	221.99	-4.25	44.15	-3.20
AMEX Composite	418.99	2/12/92	305.24	392.37	376.74	-10.08	23.42	-3.98
NASDAQ (OTC)	644.92	2/12/92	378.56	578.05	553.36	-14.20	46.17	-4.27
Wilshire	4121.28	1/15/92	2718.59	4025.84	3885.32	-5.73	42.92	-3.49

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 June 24, 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*



* Friday weeks are plotted through June 19, statement weeks through June 17.

Most short-term interest rates are a shade higher now than they were at the time of the May 19 FOMC meeting. Federal funds have continued to trade around 3-3/4 percent, and the combination of press reports about the Committee's directive, statements by policymakers, and incoming news about the economy has on balance lowered the perceived probability of another easing by the System.

Long-term bond yields are essentially unchanged, but mortgage rates have eased a touch--possibly reflecting the slackening of activity in that market after the first-quarter burst of refinancings. The stock market appears to have suffered a bout of acrophobia recently; since the Dow reached a new high of 3413 on June 1, it has backed off nearly 3-1/2 percent as commentary has focused on the possibility that second-quarter earnings reports will bring some disappointments.

The broad monetary aggregates continue weak. M2 and M3 were about flat in May, and data for early June suggest renewed declines. Runoffs of time deposits--wholesale and retail--combined to drag down the aggregates. M1 strengthened in May, likely reflecting an unwinding of the earlier depressing effect of low tax payments; M1, however, has flattened in June.

Debt growth in the domestic nonfederal sectors also appears to have remained sluggish in May and early June. Gross public issuance of bonds by nonfinancial corporations and state and local governments has been heavy, mainly to refinance at lower rates previously issued debt; companies also issued large volumes of equities in May, as they further repaired balance sheets. Households, too, have continued to exhibit a hesitancy to take on debt, with a notable contraction in installment credit in April.

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

	1991[1]	1992 Q1	1992 Q2pe	1992 Apr	1992 May	1992 Jun pe	Growth Q4 91- Jun 92pe
	------------Percent change at annual rates---------------------						
1. M1	8.0	16.5	10	5.0	14.8	-1	12¼
2. M2	2.8	4.3	0	-2.1	0.6	-3	1½
3. M3	1.2	2.2	-1½	-3.9	-0.4	-3	0
	------------Percent change at annual rates------------						Levels bil. $ May 92
Selected components							
4. M1-A	5.6	14.9	9¼	6.9	10.1	-4	597.9
5. Currency	8.4	7.4	6	7.9	5.3	7	274.8
6. Demand deposits	3.4	22.2	12¾	6.2	15.0	-14	315.2
7. Other checkable deposits	12.4	19.2	11½	1.7	22.6	4	356.6
8. M2 minus M1[2]	1.1	0.0	-3½	-4.7	-4.8	-3	2515.1
9. Overnight RPs and Eurodollars, NSA	-7.9	15.4	-36½	-41.0	-61.2	14	67.0
10. General purpose and broker/dealer money market mutual fund shares	3.9	1.0	-7	-13.1	3.0	-4	355.0
11. Commercial banks	7.1	0.9	½	4.5	-3.3	-3	1265.7
12. Savings deposits (including MMDAs)	13.3	19.2	12¼	13.8	7.8	6	707.9
13. Small time deposits	1.1	-18.9	-13½	-7.0	-17.2	-16	557.8
14. Thrift institutions	-6.9	-3.6	-6¼	-12.6	-2.9	-5	825.6
15. Savings deposits (including MMDAs)	9.3	22.4	19¾	15.8	19.4	8	414.6
16. Small time deposits	-16.8	-24.2	-29	-39.3	-24.3	-17	411.0
17. M3 minus M2[3]	-5.6	-7.2	-9	-13.0	-5.1	-4	706.6
18. Large time deposits	-11.7	-20.4	-18½	-20.9	-13.3	-14	401.2
19. At commercial banks, net[4]	-5.1	-18.2	-14	-17.5	-7.2	-10	329.9
20. At thrift institutions	-31.7	-29.6	-37½	-36.3	-42.3	-30	71.2
21. Institution-only money market mutual fund shares	33.4	27.0	20¼	25.3	35.5	37	194.8
22. Term RPs, NSA	-21.7	-6.0	-3¼	-22.8	-10.0	-13	71.7
23. Term Eurodollars, NSA	-10.6	-25.7	-7	-32.7	-31.5	-15	55.6
	-----Average monthly change in billions of dollars----						
MEMORANDA:[5]							
24. Managed liabilities at commercial banks (25+26)	-0.6	-2.8	-3½	-4.7	-2.4	-3	689.1
25. Large time deposits, gross	-0.2	-5.7	-4½	-7.1	-3.2	-3	396.6
26. Nondeposit funds	-0.5	2.8	1	2.4	0.8	0	292.5
27. Net due to related foreign institutions	0.4	2.0	3¾	4.5	5.3	2	55.1
28. Other[6]	-0.9	0.8	-2¾	-2.1	-4.5	-2	237.4
29. U.S. government deposits at commercial banks[7]	0.2	-1.5	½	-1.9	-2.9	6	17.0

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 t Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estima
7. Consists of Treasury demand deposits and note balances at commercial banks.

pe - preliminary estimate

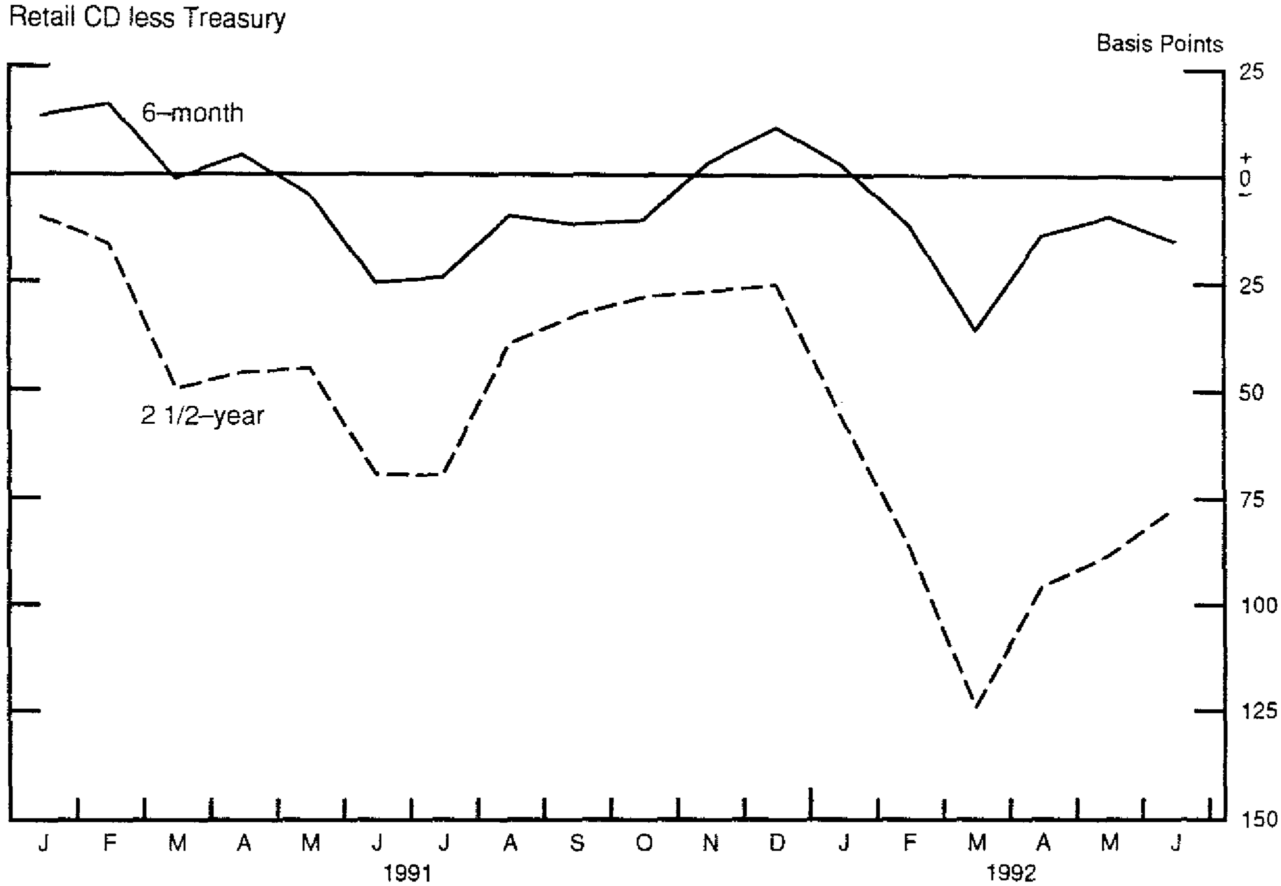
Monetary Aggregates and Bank Credit

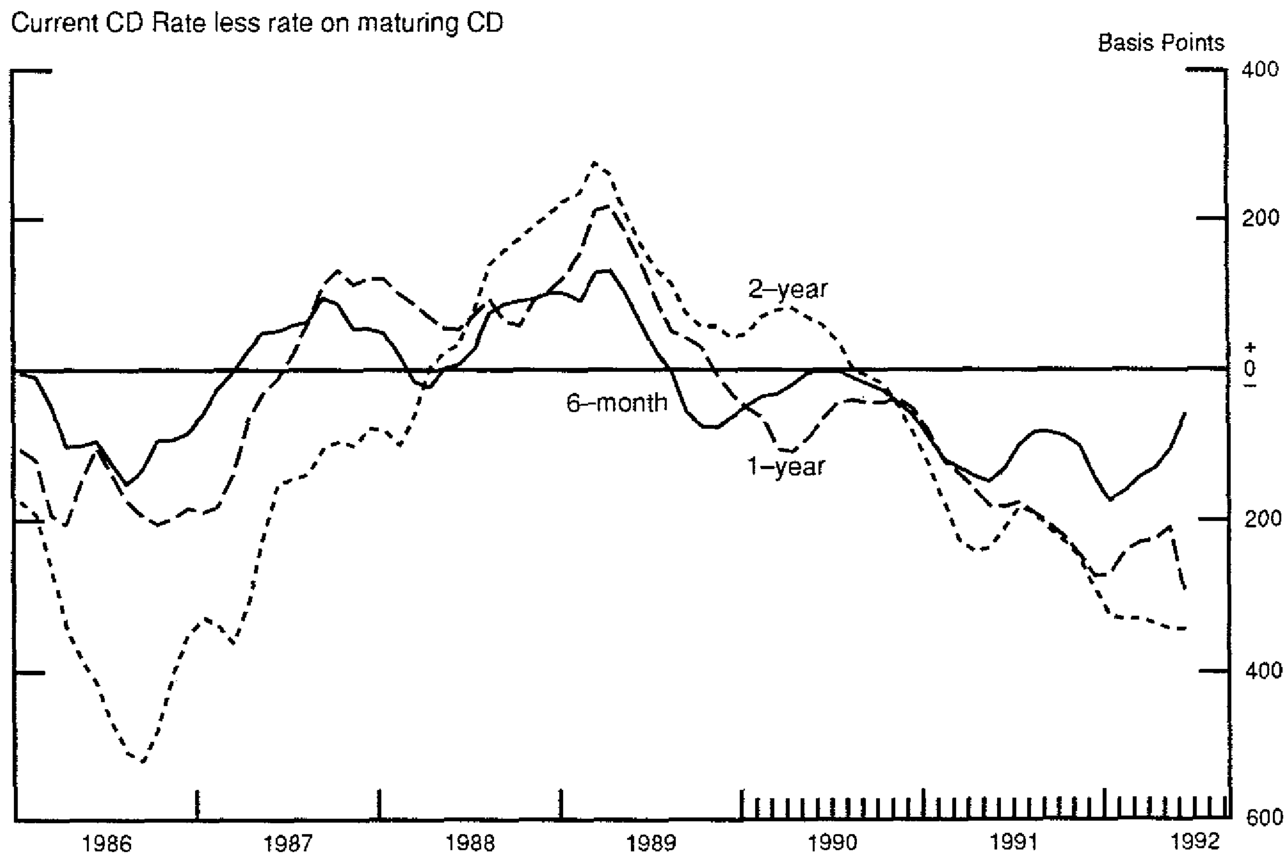
The broad monetary aggregates have shown few signs of life lately. After leveling out in May from April's runoff, the broader aggregates appear to have turned down again in June. Smoothing through the distortions induced by the flows of tax payments and refunds, M2 growth likely will be at a virtual standstill in the second quarter. This anemic performance, which has pulled M2 to just below the lower bound of its annual growth range, is sharply at odds with the predictions of standard money-demand models.

No new candidates are available to explain the weakness in M2 beyond those long suspected to have been at work. As far as can be determined, three special factors continue to limit the growth of this aggregate: the use of M2 assets to repay costly debt, the pursuit of higher returns outside M2, and an unwillingness or inability on the part of banks to compete aggressively for funds. An important element explaining earlier weakness was absent in late May and June, namely RTC activity; the resolution of additional thrift institutions has been stalled by the failure of the Congress to provide necessary funding.

The weakness in M2 over the past few months can be accounted for arithmetically by a runoff in small time deposits, which have contracted at a more than 20 percent annual rate so far this year. These relative flows accord with the movements of deposit prices. Rates on retail CDs remain well below comparable market rates, particularly for longer-maturity deposits (chart). This widening spread, along with the pronounced drop in market interest rates over the last year, has meant that depositors rolling over maturing CDs have been confronted with substantially lower rates. The extent of this falloff in return has been particularly pronounced at one- and two-year maturities (chart). For example, an investor rolling over

Retail Deposit Rate Spreads





a two-year CD that matured in June would earn a deposit rate 3-1/2 percentage points below that earned on the original investment. In such an environment, the advertised returns of stock and bond funds may appear particularly attractive, despite the capital risk of these funds. Indeed, capital market funds have posted brisk inflows through much of the year.

M1 accelerated to a 14 percent rate of growth in May, up from a 5 percent pace in April, but this rapid growth was still somewhat below its first-quarter rate of 16-1/2 percent. The pickup in M1 reflected a rebound in demand deposits and, more important, in other checkable deposits (OCDs). Nonwithheld taxes (net of refunds) over the past three months have come in well below the levels seen in recent years. Consequently, OCD growth likely was depressed in March and April--when households probably built up their balances less than anticipated by the usual seasonal factors--and then was boosted in May, when fewer tax checks were cleared. In June, M1 growth has dropped back, as demand deposits declined significantly, partly because of a falloff in mortgage refinancing activity.

The strength in M1 in May showed through to M3, which was about flat after contracting in March and April. This aggregate also benefitted from some slowing in the erosion of large time deposits and a slight pickup in the already brisk flow of funds into institutional money market mutual funds. M3 may be weaker in June, however, moving that aggregate further below the lower bound of its annual growth range.

The low deposit interest rates appear to reflect the low level of bank funding needs. Bank credit contracted at a 1 percent annual rate in May, as the pace of security acquisitions by banks slowed. Total loans contracted in May, with the weakness spread across all major loan categories. Business loans declined at a 7-1/2 percent

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 Mar.	1992 Apr.	1992 May. p	Level (billions of dollars) 1992 May. p
	Commercial bank credit						
1. Total loans and securities at banks	3.9	7.0	2.1	2.6	5.2	-0.9	2,863.4
2. Securities	17.6	24.6	6.6	8.3	20.1	11.4	773.4
3. U.S. government	23.8	30.4	10.8	16.6	24.7	16.7	598.9
4. Other	1.5	7.1	-6.8	-18.3	4.8	-6.2	174.5
5. Loans	-0.2	1.1	0.5	0.6	-0.2	-5.4	2,090.1
6. Business	-2.9	-2.1	-6.3	-4.7	-5.9	-7.5	602.1
7. Real estate	2.9	2.5	2.4	1.5	1.6	1.4	881.1
8. Consumer	-3.9	-4.1	-0.8	-4.6	-3.0	-5.0	359.7
9. Security	21.9	36.0	44.0	71.5	89.3	-59.1	61.8
10. Other	-3.0	6.3	4.3	1.9	-13.3	-12.8	185.3
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-2.5	-2.3	-6.3	-4.6	-5.6	-7.8	595.6
12. Loans at foreign branches[2]	-1.6	34.2	-40.9	-30.8	0.0	-5.3	22.7
13. Sum of lines 11 and 12	-2.5	-1.0	-7.7	-5.5	-5.4	-7.9	618.2
14. Commercial paper issued by nonfinancial firms	-10.4	-6.3	14.9	18.9	-5.1	-12.7	139.7
15. Sum of lines 13 and 14	-3.9	-1.9	-3.8	-1.3	-5.2	-8.6	758.0
16. Bankers acceptances, U.S. trade-related[3]	-16.2	-4.2	-22.9	-31.0	-18.2	-27.7	25.4
17. Finance company loans to business[4]	1.4	-4.2	-1.9	-9.5	-9.6	n.a.	297.5[5]
18. Total (sum of lines 15, 16, and 17)	-2.9	-2.6	-3.7	-4.3	-6.8	n.a.	1,087.0[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. April 1992 data.

p--Preliminary.
n.a.--Not available.

rate, a bit faster than the pace seen in the early part of the year. While banks reportedly have ceased tightening standards and terms on business loans, there have been few signs that they are ready to ease. Even though the federal funds rate has fallen 25 basis points since early this year, interest rates on fixed-rate noncommitment loans larger than $1 million had fallen through early May by only 10 basis points. Spreads of floating-rate commitment loans over the federal funds rate also widened a bit. Real estate loans expanded at a sluggish 1-1/2 percent rate again last month. The decline in consumer loans accelerated somewhat in May at a time when a number of banks were expressing more willingness to lend, as a pickup in the pace of securitizations removed more loans from bank balance sheets. Data for early June show few, if any, signs of a recovery in lending.

Corporate Finance

The further declines in bank loans, combined with runoffs in commercial paper outstandings in April and May and declines in finance companies loans in April, indicate that aggregate demands for business credit remain weak. Although gross public issuance of new corporate securities continued at a strong pace in May and early June, most of the proceeds again are going to refinance debt and improve balance sheets.

A noteworthy share of public bond issuance has continued in the speculative-grade sector as firms seek to refinance high-coupon debt and as investors, including those returning to junk bond mutual funds, reach for higher yields. Junk bond issuance has been $14.8 billion in 1992 through May, already surpassing the total issuance in 1991 of $12.4 billion. In May, B-rated firms were again a significant presence, accounting for more than half of the speculative-grade bond offerings. Several firms issued reset notes,

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

	1990	1991	-1991- Q4	-1992- Q1[p]	Apr.[p]	May[p]	June[e]
Corporate securities - total[1]	19.82	32.15	34.36	40.65	29.21	40.90	36.19
Public offerings in U.S.	17.68	29.36	31.80	37.30	27.34	36.92	33.75
Stocks--total[2]	1.95	5.44	8.48	7.53	5.34	6.92	8.25
Nonfinancial	1.03	3.72	6.07	5.14	3.65	5.59	5.25
Utility	.35	.42	.36	.79	.96	1.08	.70
Industrial	.68	3.30	5.72	4.35	2.69	4.51	4.55
Financial	.92	1.72	2.41	2.38	1.69	1.32	3.00
Bonds	15.73	23.92	23.32	29.78	22.00	30.00	25.50
Nonfinancial	5.62	9.51	9.52	13.23	12.00	12.70	11.50
Utility	1.98	2.96	3.36	4.83	5.50	5.50	5.30
Industrial	3.64	6.55	6.16	8.41	6.50	7.20	6.20
Financial	10.11	14.41	13.80	16.54	10.00	17.30	14.00
By quality[3]							
Aaa and Aa	3.42	3.72	3.63	4.10	1.30	3.90	2.00
A and Baa	6.44	12.09	11.37	15.66	13.07	14.35	11.98
Less than Baa	.15	1.03	1.92	2.50	2.65	3.00	4.30
No rating (or unknown)	.04	.02	.00	.10	.04	.01	.02
Memo items:							
Equity-based bonds[4]	.40	.63	.46	1.01	.27	.55	.54
Mortgage-backed bonds	2.43	2.99	2.97	4.83	4.55	2.79	4.20
Other asset-backed	3.27	4.08	3.43	2.63	.40	5.95	3.00
Variable-rate notes	.80	.84	.81	.90	.99	1.74	1.70
Bonds sold abroad - total	1.92	2.33	2.06	2.61	1.40	2.95	1.70
Nonfinancial	.46	1.00	.32	.96	.50	1.30	.80
Financial	1.46	1.33	1.73	1.64	.90	1.65	.90
Stocks sold abroad - total	.22	.46	.51	.74	.47	1.04	.74
Nonfinancial	.10	.38	.43	.53	.33	1.02	.60
Financial	.12	.08	.07	.21	.14	.01	.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. e--staff estimate.

which were a popular way to finance LBOs during the late 1980s. The recent issuers of reset notes now seem mostly to be taking advantage of the steep yield curve as the initial coupon is set relative to short-term rates.

Yield spreads of investment-grade bonds relative to Treasuries narrowed for most nonfinancial categories in May and early June. A prominent exception was the major airlines, all of which were downgraded recently by Standard and Poor's. The outlook for most of the airline companies is negative as concerns have been raised about continued price competition and sluggish business travel; recent oil price increases are an added adversity.

Equity issuance by nonfinancial firms was strong in May at $5.6 billion, the second highest monthly total this year. Offerings included General Motor's $2.1 billion of common stock and more than $500 million by both Federated Department Stores and Marion Merrill Dow. In the first three weeks of June, several large equity offerings were marketed, including $560 million of PERCS by Westinghouse, and issues by Browning-Ferris, Amerada Hess, General Instruments, and USX-U.S. Steel. Moreover, many nonfinancial firms have large equity offerings on the calendar. In contrast to strong issuance by established companies, initial public offerings were down by about one-third from April to May, in part because of further declines in prices for biotech and healthcare stocks.

The major stock market indexes dropped more than 3 percent over the intermeeting period, although the Dow Jones industrials touched a record high on June 1. Most sectors experienced declines as market participants lost hope of a System easing and saw the prospects of a stronger OPEC cartel and higher oil prices developing. In the past week, concern also emerged about the possibility of disappointing earnings reports for the second quarter. The S&P price-earnings ratio has edged down, but was still a lofty 25 in mid-June.

Banks continued to issue equity at a fairly strong pace in May and early June. Chemical Bank and First Chicago each raised more than $300 million and First Interstate and Chase Manhattan completed $150 million offerings. Banks also were active issuers of bonds in May, raising nearly $2.5 billion as spreads over Treasuries narrowed 20 basis points. Offerings of bank notes surged, with Morgan managing to raise funds at rates roughly equal to Treasuries.

Public issuance of asset-backed securities has risen sharply in recent weeks. Offerings were boosted by GMAC's presence in the auto-loan-backed sector, steady securitization of home equity lines of credit, and Citicorp's global offering of credit-card-backed securities in mid-June. Despite the increased supply of asset-backed securities, spreads have narrowed to historical lows.

Life insurance companies experienced continued deterioration of their commercial real estate assets in the first quarter of 1992. Among all life insurers, commercial mortgage loan delinquencies in the first quarter increased to 6.4 percent, from 5.9 percent at year-end 1991, and commercial mortgage loans in process of foreclosure rose to 3.2 percent, from 2.9 percent. Moody's recently downgraded the claims-paying ability of Travelers from A2 to Baa1 and that of New England Mutual from Aa3 to A1, citing significant exposure to depressed commercial real estate. At year-end 1991, 15 percent of Travelers' mortgages were delinquent, and only 26 percent of its mortgage loans maturing in 1991 were repaid as scheduled. Both companies are expected to suffer client withdrawals and nonrenewals of group annuity business.

Treasury and Sponsored-Agency Financing

The federal deficit is projected to be $34 billion in the second quarter. The Treasury is expected to finance the deficit and build up its cash balance by issuing $53 billion of marketable borrowing and $9 billion of nonmarketable borrowing, largely SLGS (state and local government series) to municipalities. The projected decrease in net marketable borrowing from the first-quarter volume is more than accounted for by a $44 billion decline in cash management bills outstanding. The Treasury did, however, auction three short-dated cash management bills that matured within the quarter to cover low points in the cash balance. The gross size of weekly bill auctions was raised to $23.2 billion from $22.8 billion during the second quarter. Gross auction sizes of coupons have been unchanged to up $250 million.

Agency spreads (over comparable Treasury rates) have been near historical lows during the intermeeting period as the Federal Home Loan Bank System has continued to shrink. In recent weeks, three of the government sponsored enterprises--the FHLB System, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation--have sold new debt by awarding an entire issue to a syndicate of one to three dealers, rather than to a large number of sellers. Some of these recent issues have been structured as callable step-up bonds. For example, FHLMC sold an issue with a five-year maturity and a coupon of 5-3/4 percent that is callable at par in two years. If the call is not exercised, the coupon is reset to 7-5/8 percent for the remaining three years. This bond can be thought of as a combination of two securities: a two-year bullet and a put option owned by the issuer to put a three-year bond to the investor in two years. These callable step-up bonds are part of

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

	1992				
	Q1	Q2p	Apr.	May	Junep
Treasury financing					
Total surplus/deficit (-)	-115.5	-33.5	14.6	-46.9	-1.2
Means of financing deficit:					
Net cash borrowing from the public	82.5	61.4	6.3	33.8	21.3
Marketable borrowings/ repayments (-)	80.7	52.6	1.9	31.2	19.4
Bills	25.4	2.3	-17.4	21.7	-2.0
Coupons	55.2	50.3	19.3	9.5	21.4
Nonmarketable	1.9	8.9	4.4	2.6	1.9
Decrease in the cash balance	28.9	-24.8	-21.3	21.0	-24.6
Memo: Cash balance at end of period	19.8	37.1	41.1	20.1	44.7
Other[2]	4.1	-3.1	.4	-7.9	4.4
Federally sponsored credit agencies, net cash borrowing[3]	2.6	--	--	--	--
FHLBs	-1.0	--	.5	--	--
FHLMC	-5.1	--	--	--	--
FNMA	7.4	--	4.5	--	--
Farm Credit Banks	.5	--	.3	--	--
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.

swap-related deals that allow the agencies to finance at floating rates below LIBOR.

Municipal Securities

Gross offerings of long-term municipal bonds were a substantial $14 billion in May and are expected to reach $17 billion in June. With municipal bond yields near their lowest levels in thirteen years, refunding volume has remained particularly heavy. For the first five months of 1992, the average monthly volume of $5.3 billion of refunding issuance is near the record pace of 1986, when interest rates and anticipated limits on pre-refunding spurred issuance. Sales of short-term debt are expected to rise sharply in June as states and municipalities finish budget plans and issue notes in anticipation of revenue to be collected during fiscal year 1993, which begins July 1 for many issuers. Los Angeles County, with about $2.5 billion of short-term debt, and New York City, with about $1.5 billion, are expected to be the largest issuers.

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

			1991		1992			
	1990	1991	Q3	Q4	Q1	April	May[p]	June[e]
Total[1]	13.49	16.60	19.54	16.95	16.37	18.96	14.85	---
Total tax-exempt	13.24	16.18	18.72	16.54	15.82	17.82	14.50	22.00
Long-term	10.26	12.84	13.51	14.93	14.20	15.14	14.16	17.00
Refundings[2]	1.68	3.11	3.09	3.44	5.12	6.12	4.90	---
New capital	8.58	9.73	10.42	11.49	9.08	9.02	9.26	---
Short-term	2.98	3.34	5.21	1.61	1.62	2.68	.34	5.00
Total taxable	.25	.42	.82	.41	.55	1.14	.35	---

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

California issued $475 million of short-term obligations to cover a cash shortage through the end of June. This debt will mature in July, when the state plans to issue $4 billion in notes if the governor and legislature have reached agreement on a budget.[1] State lawmakers have had difficulty in forming a budget because of steady erosion of the state's fiscal position by continuing shortfalls in tax receipts. The most recent projection of the state's deficit for fiscal year 1993 has risen almost $4 billion, to more than $10 billion. Market participants indicate that some investors have backed away from the state's (AA-rated) debt, and yields on its general obligation issues have risen from 5 basis points below to more than 5 basis points above similarly rated issues. The rating agencies also have expressed concern about the state's financial condition and have indicated that downgradings are possible.

Serious budget problems also face New Jersey. Standard & Poor's recently warned that New Jersey's credit rating, currently AA+, is in danger of a downgrading. The rating agency cited the refusal by the federal government to pay about $450 million in retroactive medicaid reimbursements to the state, thereby nearly ensuring that the state will end the current fiscal year with a deficit. S&P also noted a $600 million increase in the state's projected budget shortfall for the next fiscal year, to

1. The failure to adopt the 1993 budget forced the state to issue warrants rather than revenue anticipation notes. Without a budget, the state cannot anticipate the revenue required to repay revenue anticipation notes. The warrants are payable from unencumbered monies in the general fund and could come from transfers from the reserve fund, loans from other special funds, and proceeds from revenue anticipation notes. The state appears to have the means to redeem the warrants when they come due in July, even if a budget has not been adopted. Nonetheless, to gain the highest credit rating on the warrants, the state entered into standby agreements with Bank of America and Guaranty Trust requiring them to bid for additional warrants if funds are not sufficient to retire the original warrants. When the state runs out of cash--probably by early July if no budget is adopted--it would be forced to pay its bills with scrip as well.

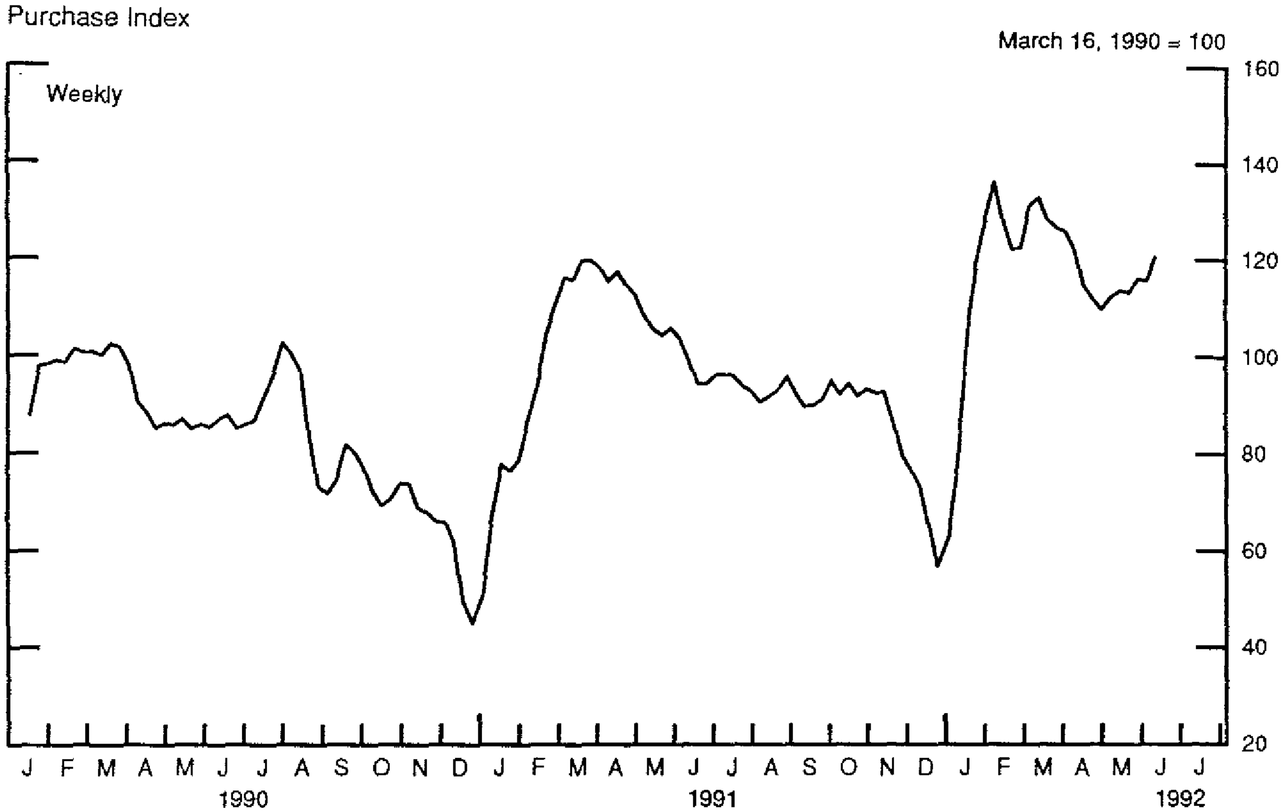
$1.3 billion, because of a 1 percentage point reduction in the sales tax rate.

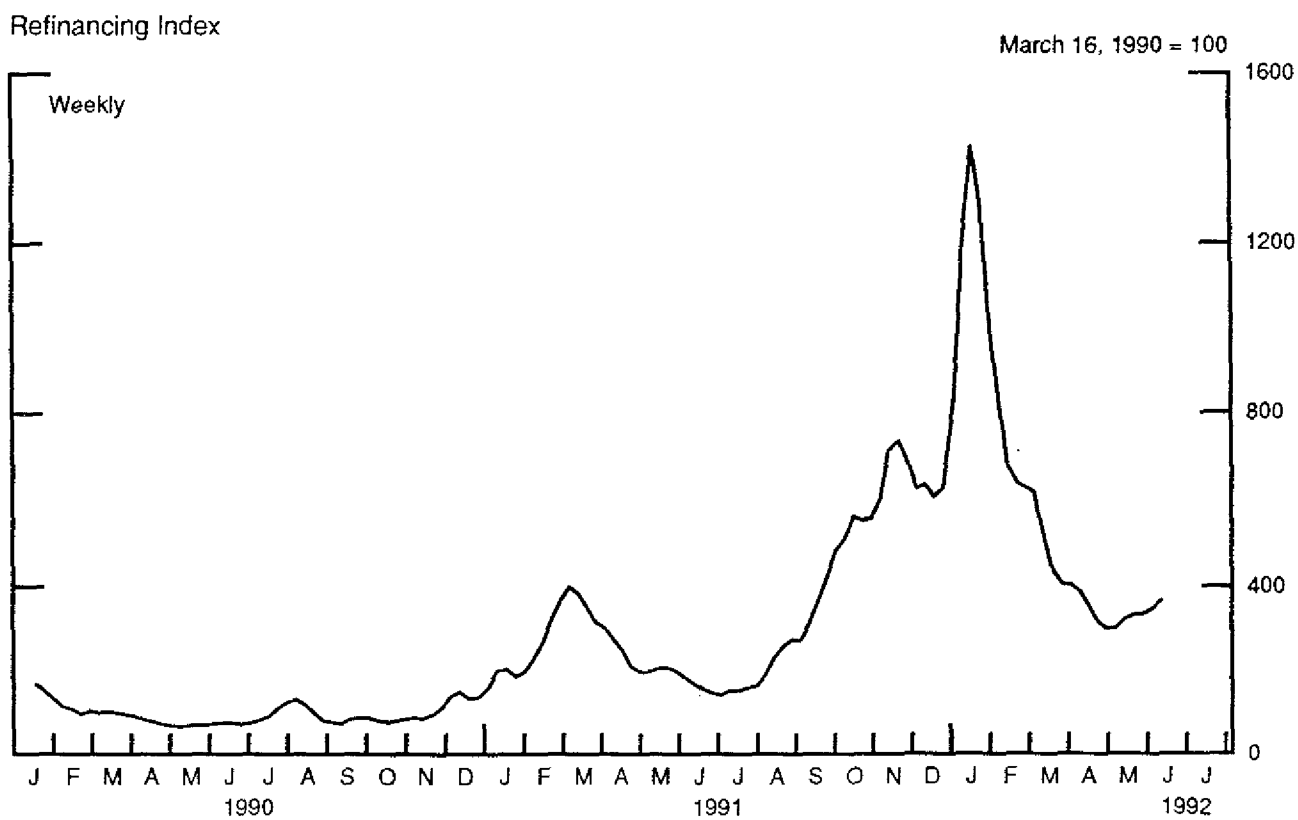
More than $10 billion of municipal debt likely will be redeemed on July 1, retiring more than 1 percent of outstanding municipal debt. Market observers estimate that this will be the single largest redemption day in the history of the municipal market. The pace of retirements thus far this year is dramatically faster than that of the past several years and is likely to remain so throughout 1992, because of calls of bonds sold in 1982 at relatively high yields and since refunded. Some analysts expect more than $30 billion in municipal issues to be called in 1992, about $10 billion more than were called in 1991. These analysts expect calls to continue at the 1992 pace through at least 1995.

Mortgage Markets

Available data suggest that total mortgage credit growth probably has not picked up in the current quarter from the subdued first-quarter pace. Mortgage debt outstanding grew at an estimated 3 percent annual rate in the first quarter, led by the single-family category. Multifamily and farm mortgage debt increased at annual rates of 1-3/4 and 3/4 percent, respectively, while commercial mortgage debt contracted at roughly a 3 percent annual rate. Thus far in the second quarter, growth of real estate loan at commercial banks has averaged about 1-1/2 percent, seasonally adjusted, down slightly from the first-quarter pace, while gross issuance of mortgage pools has been running at a record pace. Meanwhile, the Mortgage Bankers Association's purchase index, a measure of new mortgage loan applications and an indicator of prospective mortgage flows, has declined significantly from its level at the end of the first quarter, although it has edged up in recent weeks (chart). Refinancing activity at mortgage banking companies has declined more

MBA Indexes of Mortgage Loan Applications
(Not Seasonally Adjusted)





than 16 percent since the first quarter, based on changes in the MBA's refinancing index.

During the intermeeting period, contract rates on conventional mortgage loans have declined about 16 basis points, on net, and are now roughly equal to their average level in the first quarter--though still 25 basis points above their January low. The initial rate advantage of ARMs over fixed-rate mortgages remains nearly 2-3/4 percentage points, but according to the Federal Housing Finance Board's monthly survey of major institutional lenders, ARMs have accounted for only about 20 percent of conventional loan originations through April. Data from the MBA's weekly survey, which provide a more recent estimate, confirm a continuing low share for ARMs among all mortgage loan applications at mortgage bankers.

Trade reports suggest that the most active segment of the ARM secondary market has been the FHA ARM, which has 1 percent annual and 5 percent lifetime interest rate caps. These risk-reducing features are more popular with borrowers than the annual and lifetime caps of 2 percent and 6 percent respectively, common with conventional ARMs indexed to the one-year constant maturity Treasury yield. Evidence supporting the reports of success by mortgage bankers in promoting FHA ARMs is found in the increased volume of GNMA ARM-backed securities. Issuance of GNMA ARM-backed pass-throughs totaled a record $5 billion through the first five months of 1992, about 17 percent of all GNMA securities issued during the period. This volume exceeds the $3.5 billion in GNMA ARMs produced in 1991 as a whole, and is well above the 1990 total of less than $1 billion.

Gross issuance of federally related pass-through securities continued at a record pace in April, reaching a seasonally adjusted $44 billion (table). Preliminary data indicate that pass-through issuance increased further in May, because of continued heavy issuance by Fannie Mae and Freddie Mac. Volume in both months reflected the surge in mortgage applications in the first quarter prompted by the large decline in rates. Industry data show that intermediate-term mortgages continue to account for an increasing share of agency pass-through issuance. In the mortgage derivative market, REMIC issuance also strengthened in May. The aggressive REMIC bid for pass-through collateral has continued to put upward pressure on pass-through prices, keeping yield spreads over Treasuries near historical lows.

A relatively new area of real estate loan securitization has been given a boost by the Department of Veterans Affairs, as part of an ongoing effort to trim its loan portfolio. The VA scheduled for sale this month a $400 million pool of vendee home loans--loans made by the agency to purchasers of properties acquired through foreclosures on VA-guaranteed loans. For the first time, the VA

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	11.5	2.4	5.1	3.4	.6
1991	22.2	20.4	2.0	18.4	3.0	8.5	6.0	.9
1991-Q2	23.7	21.4	1.7	18.3	3.3	8.2	6.8	.0
Q3	24.5	23.7	2.0	22.6	3.6	10.4	7.1	1.5
Q4	22.6	22.4	2.5	23.5	2.9	11.2	7.3	2.1
1992-Q1	35.1	29.1	2.0	23.5	4.8	11.1	7.0	.6
1992-Jan.	32.8	25.4	1.5	20.3	4.7	11.0	4.1	.5
Feb.	33.9	28.6	1.7	17.6	5.5	7.3	4.2	.6
Mar.	38.6	33.4	2.8	32.1	4.2	14.8	12.5	.6
Apr.[r]	44.0	36.7	3.0	25.5	4.6	9.2	11.7	.0
May[p]	48.3	40.4	4.0	35.2	2.4	19.1	13.0	.7

1. Exclude pass-through securities wth senior/subordinated structures.
p--preliminary r--revised n.a.--not available

will guarantee timely payment of principal and interest on the securities, giving investors the full faith and credit of the U.S. government. Since 1988, the VA has securitized more than 83,000 vendee loans, with an aggregate principal value of about $3.6 billion.

Delinquency rates on home mortgages declined rather sharply in the first quarter, according to seasonally adjusted data from the MBA. The thirty-day "all loan" delinquency rate dropped for the third consecutive quarter to 4.52 percent, down 0.26 percentage point from the previous quarter and only marginally above the low point of the past decade, which was registered in the first quarter of 1990 (chart). Delinquency rates on mortgages past due sixty days or more, a measure of more serious payment problems, declined 0.08 percentage point, to 1.48 percent, also its lowest level since late 1990.

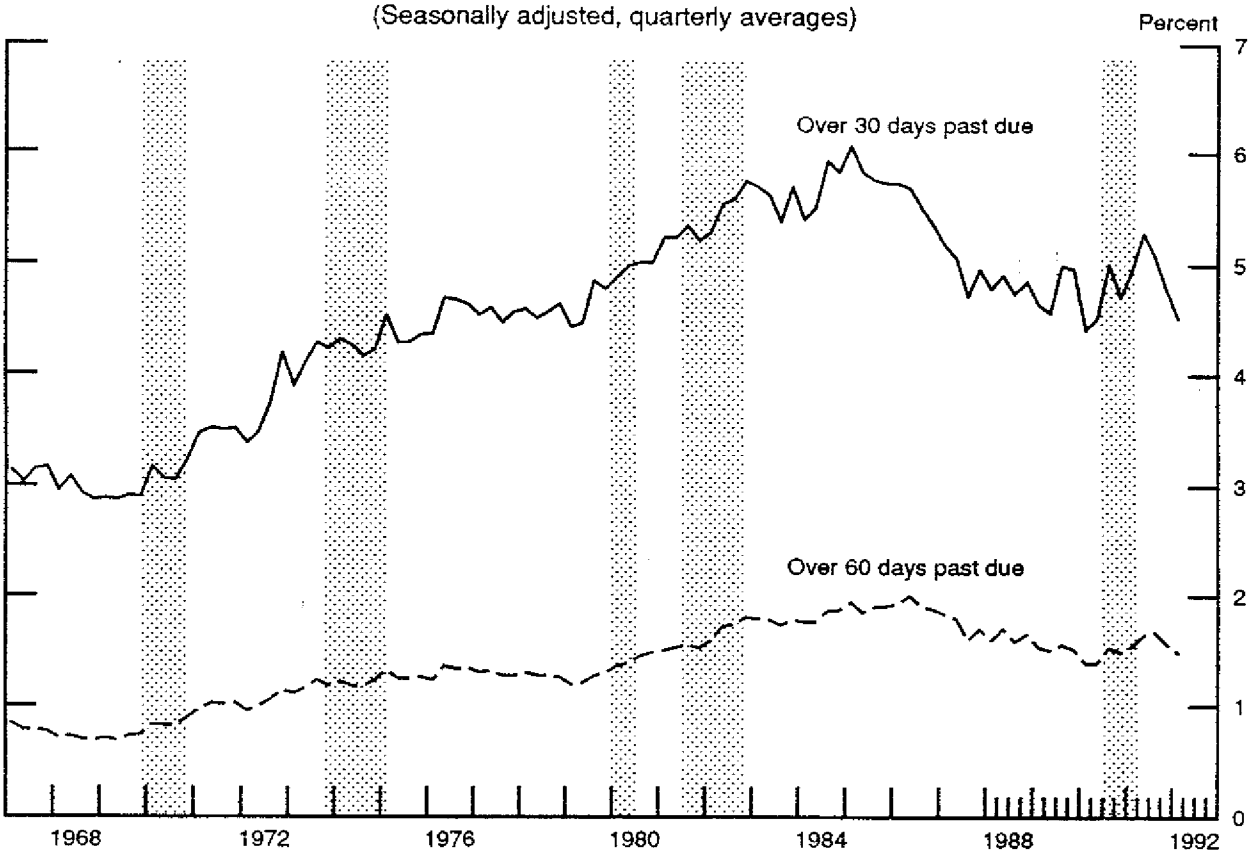
Consumer Credit

Consumer installment credit outstanding declined in April at a 6-1/4 percent annual rate, its weakest performance for any month during its downswing of the past year and a half. Automobile credit fell at a 9 percent rate, contrasting with smaller declines over the previous few months; revolving credit, with growth at a 3 percent annual rate, continued the substantially weaker pattern that emerged for that component late last year.[2]

Unlike past periods of economic recovery when consumer credit has rebounded quickly and sharply, consumer credit outstanding has declined during the current recovery. For most of the period, this

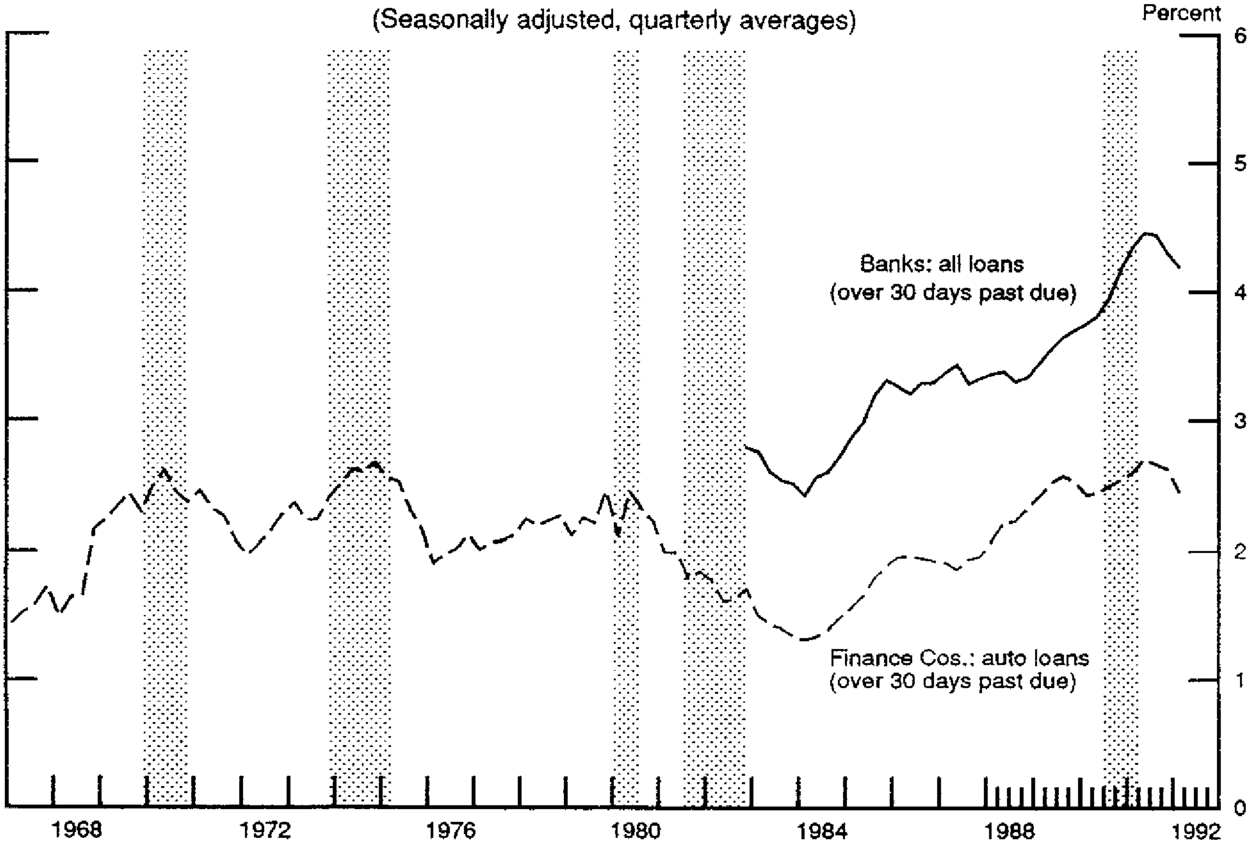
2. The consumer credit statistics have been revised back to 1985, incorporating the results of a benchmark survey for finance companies conducted every five years as well as data from the bank Call Report and other sources. The revisions had little net effect on growth in aggregate consumer credit, as less rapid growth in auto credit over the past two years was largely offset by growth in revolving credit that was faster than originally published.

HOME MORTGAGE DELINQUENCY RATES AT ALL LENDERS
(Seasonally adjusted, quarterly averages)



Source: Mortgage Bankers Association.

CONSUMER LOAN DELINQUENCY RATES
(Seasonally adjusted, quarterly averages)

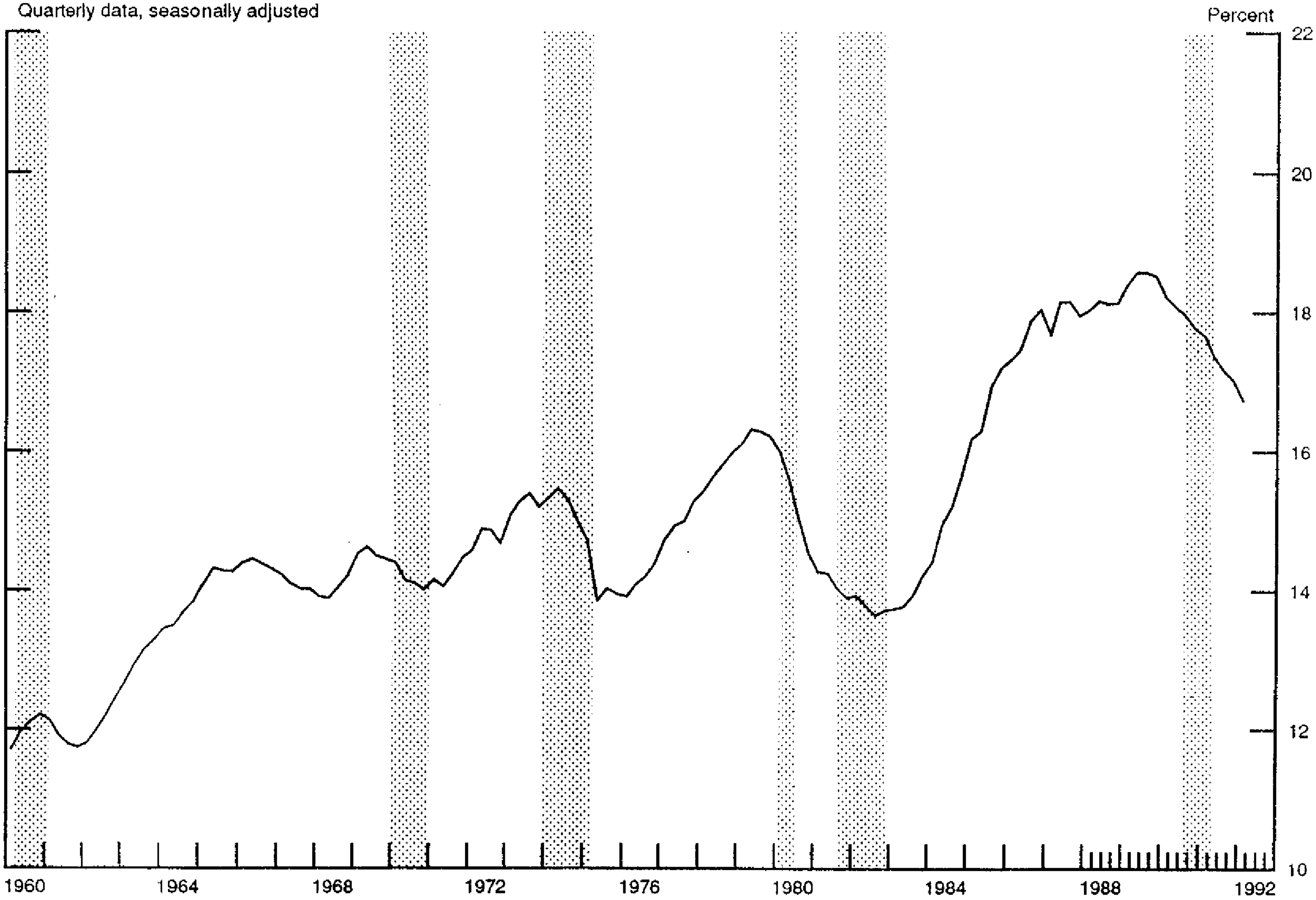


pattern has been consistent with the unusually sluggish recovery in outlays for consumer durable goods, particularly when account is taken of some shifting by consumers to substitutes for installment credit, such as auto leasing and home equity lines of credit. The degree of weakness in consumer credit since the beginning of the year, however, seems more pronounced than can be accounted for by these factors alone. Households apparently have been paying off existing debts more rapidly than has been customary; especially large unscheduled paydowns of consumer loans in April were noted by several banks in the consumer credit reporting panel. For some time, the high level of the aggregate debt-to-income ratio has suggested that households would need to reduce their payment burdens. Measurable progress is being achieved in that regard as consumer debt declines (chart, next page).

Downturns in several loan delinquency rate series further suggest that households have experienced less financial stress recently. The consumer loan delinquency rate on the bank Call Report, covering both credit cards and all forms of closed-end installment loans, dropped fairly sharply in the first quarter after two smaller declines in the second half of last year (chart, left). Delinquencies on auto loans at finance companies have followed a similar pattern, declining since mid-1991, with a fairly substantial first-quarter drop.

Meanwhile, interest rates charged on new loans have been dropping, making new debt more affordable. Rates on new-car loans at banks fell in May to an average level of 9-1/2 percent, their lowest reading since the series was begun in 1972. Conventional measures of credit card rates have remained quite sticky; however, there has been more rate competition among card issuers in recent months than reflected in the Board series or other published series.

RATIO OF CONSUMER DEBT TO DISPOSABLE PERSONAL INCOME



CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (at annual rate)							Memo: Outstandings (billions of dollars)
				1991	1992	1992		1992
	1989[1]	1990	1991	Q4	Q1	Mar.	Apr.[p]	Apr.[p]
Installment	5.8	2.6	-1.0	.3	-.5	-1.6	-6.3	723.6
Auto	1.4	-2.4	-7.6	-2.3	-1.7	2.1	-9.0	260.2
Revolving	15.2	11.9	8.9	6.4	4.0	-3.5	3.0	245.9
Other	4.2	.8	-2.3	-3.1	-3.9	-4.0	-13.5	217.5
Noninstallment	3.9	-3.3	-10.0	-26.7	17.5	-25.0	9.8	55.5
Total	5.6	2.1	-1.6	-1.6	.8	-3.3	-5.2	779.1

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

CONSUMER INTEREST RATES
(Annual percentage rate)

				1992				
	1989	1990	1991	Jan.	Feb.	Mar.	Apr.	May
At commercial banks[1]								
New cars (48 mo.)	12.07	11.81	11.14	...	9.89	...	...	9.52
Personal (24 mo.)	15.44	15.46	15.18	...	14.39	...	...	14.28
Credit cards	18.02	18.17	18.23	...	18.09	...	...	17.97
At auto finance cos.[2]								
New cars	12.62	12.54	12.40	10.04	10.19	10.92	11.07	...
Used cars	16.18	15.99	15.60	14.34	14.00	14.19	14.11	...

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.

In particular, card issuers have been segmenting their markets more than in the past, offering lower rates to selected classes of their customers. The Board series reflects only the "most common" rate charged, which is usually the highest rate. Within the past six to nine months, First Chicago, Citibank, and other big issuers have been offering reduced rates to customers with good payment records and relatively high volumes of purchases. Also, although some issuers have always offered relatively low regular rates, aggressive pricing in recent months on the part of the variable-rate AT&T card has stepped up the intensity of rate competition.

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

In April, the preliminary U.S. merchandise trade deficit widened to $7.0 billion (seasonally adjusted, Census basis) from a revised $5.6 billion in March. Nonagricultural exports fell by $1 billion in April, mostly attributable to a decline in exports of aircraft. Non-oil imports increased only marginally in April, following a strong increase in March, as a modest decline in imports of consumer goods was more than offset by an increase in imports of capital goods. An increase in both the price and quantity of imported oil accounted for most of the April $0.7 billion gain in total imports.

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

	Exports			Imports			
	Total	Ag.	NonAg.	Total	Oil	NonOil	Balance
1991-Jul	35.2	3.4	31.8	40.8	4.1	36.8	-5.6
Aug	34.5	3.3	31.2	41.1	4.5	36.5	-6.6
Sep	35.3	3.3	32.0	41.8	4.5	37.2	-6.5
Oct	36.8	3.6	33.3	42.7	4.1	38.6	-5.9
Nov	37.3	3.5	33.7	41.4	4.1	37.2	-4.1
Dec	36.1	3.7	32.3	41.7	3.9	37.8	-5.6
1992-Jan	35.5	3.6	31.9	41.3	3.6	37.6	-5.8
Feb	37.7	3.7	33.9	40.9	3.3	37.6	-3.3
Mar	37.1	3.5	33.6	42.7	3.4	39.2	-5.6
Apr	36.4	3.8	32.6	43.4	4.0	39.4	-7.0

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

For the first quarter, the value of the U.S. merchandise trade deficit (BOP basis) narrowed by $4.3 billion, but the partial (excluding agricultural exports and oil imports) trade balance widened by $3.1 billion. Nonagricultural exports registered their first decline (albeit a small one) in a year, while non-oil

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

	Year	1991				1992	$ Change	
	1991	Q1	Q2	Q3	Q4	Q1	Q1-Q1	Q1-Q4
Trade Balance	-73.4	-73.3	-65.6	-80.7	-74.2	-69.9	3.4	4.3
Total U.S. Exports	416.0	402.5	413.3	416.6	431.4	431.3	28.8	-0.1
Agricultural Exports	40.1	39.2	37.5	40.7	43.2	43.2	4.0	0.0
Nonagric. Exports	375.8	363.3	375.8	375.9	388.2	388.1	24.7	-0.2
Industrial Suppl.	101.8	105.4	101.3	100.5	100.0	99.7	-5.8	-0.3
Gold	3.6	4.1	3.2	3.4	3.6	3.8	-0.3	0.2
Fuels	14.3	17.0	13.0	12.7	14.7	13.9	-3.1	-0.8
Other Ind. Suppl.	83.9	84.4	85.2	84.3	81.8	82.0	-2.4	0.3
Capital Goods	167.0	155.7	169.4	166.7	176.3	176.3	20.6	-0.0
Aircraft & Parts	36.4	30.8	38.7	35.4	40.8	42.6	11.8	1.8
Computers & Parts	27.3	27.2	27.2	26.8	27.9	27.4	0.2	-0.6
Other Machinery	103.3	97.7	103.4	104.5	107.5	106.3	8.6	-1.3
Automotive Products	40.0	35.1	39.7	43.7	41.7	42.9	7.8	1.2
To Canada	22.8	20.1	21.9	25.0	23.1	20.8	0.8	-2.2
To Other	17.5	15.1	17.8	18.7	18.6	22.1	7.0	3.5
Consumer Goods	45.9	46.2	44.5	44.9	48.2	47.9	1.8	-0.2
Other Nonagric.	21.0	20.9	20.9	20.1	22.1	21.3	0.4	-0.8
Total U.S. Imports	489.4	475.8	478.9	497.3	505.6	501.2	25.3	-4.4
Oil Imports	51.2	51.7	51.7	52.5	48.8	41.4	-10.3	-7.4
Non-Oil Imports	438.2	424.2	427.1	444.8	456.8	459.8	35.6	3.0
Industrial Suppl.	83.9	79.7	80.4	80.0	83.3	84.4	4.7	1.1
Gold	2.9	3.3	3.0	2.3	3.1	2.2	-1.0	-0.8
Other Fuels	3.9	3.1	3.9	3.8	4.8	4.4	1.3	-0.5
Other Ind. Suppl.	77.1	73.4	73.5	73.9	75.4	77.8	4.4	2.4
Capital Goods	120.7	119.2	120.4	121.3	122.1	125.2	6.0	3.1
Aircraft & Parts	11.7	10.8	12.2	12.5	11.5	12.1	1.3	0.6
Computers & Parts	26.1	24.8	25.8	27.1	26.8	27.7	2.9	0.9
Other Machinery	82.9	83.6	82.4	81.7	83.8	85.4	1.8	1.6
Automotive Products	84.9	81.2	79.1	90.8	88.6	87.8	6.6	-0.8
From Canada	28.8	23.8	28.1	33.1	30.1	30.9	7.1	0.8
From Other	56.2	57.4	51.0	57.7	58.5	56.9	-0.5	-1.6
Consumer Goods	108.0	101.8	101.6	109.9	118.7	116.3	14.4	-2.5
Foods	26.5	25.6	27.6	26.3	26.4	26.8	1.2	0.4
All Other	14.1	16.5	18.0	16.5	17.7	19.2	2.7	1.5

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

imports increased for the fourth consecutive quarter. A drop in shipments to developing countries brought about the decline in nonagricultural exports. These exports to developing countries, particularly of capital goods, had registered an increase for seven consecutive quarters, although the rate of increase had been slowing since the second quarter of 1991.

Imports of capital goods excluding aircraft increased in the first quarter, the third consecutive quarter of increase. Imports of consumer goods fell in the first quarter after large increases in the third and fourth quarters of 1991. In recent years movements in imports of consumer goods have been similar to movements in non-auto inventories (since 1987 the simple correlation coefficient between the change in these two series is 0.42). The large increases in imports of consumer goods during the second half of last year were matched by large increases in non-auto retail trade inventories. In the first quarter of 1992, although retail trade inventories did not fall, they rose at a much slower rate than in the previous two quarters.

Strong OPEC production and mild weather pushed oil import prices down sharply in the first quarter. OPEC production restraint, especially on the part of Saudi Arabia, began to push spot prices up in March, with import prices responding in April.

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1991		1992	Months			
	Q3	Q4	Q1	Jan	Feb	Mar	Apr
Value (Bil. $)	52.49	48.78	41.42	43.58	39.76	40.92	47.66
Price ($/BBL)	17.31	18.05	15.28	15.45	15.18	15.18	16.13
Quantity (mb/d)	8.30	7.40	7.42	7.72	7.17	7.38	8.09

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

Spot prices of West Texas Intermediate crude (WTI) continued to rise through early June, reaching $22.60 per barrel on speculation that Saudi Arabia's concurrence to a rollover of OPEC's second-quarter quota signalled a change in the Kingdom's commitment to low and stable oil prices. Oil prices retreated in recent weeks, until the the latest round of talks between the United Nations and Iraq concluded. Spot WTI currently stands just below $23.00 per barrel. Given these movements in spot prices, import prices will likely rise at least through July, to roughly $19.50 per barrel.

A small rise in oil consumption, coupled with the first building of petroleum stocks in five months, pushed the quantity of oil imports up in April. Imports in the first quarter had been restrained by mild weather and seasonally typical stockdraws. Preliminary Department of Energy data suggest that imports in May will fall slightly from the April rate.

Prices of Exports and Non-oil Imports

Prices of U.S. exports fell 0.2 percent in April, the result of declines in prices of exports of wheat, corn, and soybeans. Prices of nonagricultural exports rose 0.2 percent in April. For the first quarter, nonagricultural export prices fell at an annual rate of 1.1 percent, led by declines in prices of exports of industrial supplies and materials (mainly fuels and agricultural materials). Prices of exports of consumer goods rose at an annual rate of 5.9 percent in the first quarter.

Prices of non-oil imports fell 0.7 percent in April, the second consecutive month of decline. The largest declines were registered in the foods, feeds, and beverages category. For the first quarter, prices of non-oil imports rose at an annual rate of 4.5 percent.

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

	Year 1992-Q1 / 1991-Q1	Quarters 1991 Q3	1991 Q4	1992 Q1	Months 1992 Mar	1992 Apr
		(Quarterly Average, AR)			(Monthly Rates)	
	--------------------BLS Prices--------------------					
Imports, Total	-1.9	-3.5	5.2	-1.5	-0.3	-0.2
Foods, Feeds, Bev.	3.2	-3.5	3.7	10.1	1.0	-3.4
Industrial Supplies	-10.0	-6.7	3.1	-15.7	-0.2	1.1
Ind Supp Ex Oil*	-2.9	-7.3	-4.3	4.8	-0.2	0.0
Capital Goods	0.2	-4.4	6.5	4.6	-0.6	-0.7
Automotive Products	2.0	-1.0	7.4	0.7	-0.8	-0.6
Consumer Goods	1.5	-0.6	5.1	6.2	0.0	-0.4
Memo:						
Oil	-22.8	-5.9	19.5	-46.5	-0.3	4.1
Non-oil	0.6	-3.2	3.9	4.5	-0.4	-0.7
Exports, Total	-0.6	-2.5	2.5	-1.3	0.1	-0.2
Foods, Feeds, Bev.	4.3	-5.8	17.6	-1.2	0.6	-2.2
Industrial Supplies	-7.4	-8.0	-3.0	-6.4	0.4	0.5
Capital Goods	2.0	1.6	2.2	0.6	-0.2	-0.1
Automotive Products	2.2	2.1	3.0	1.6	-0.2	0.1
Consumer Goods	3.0	-2.3	2.5	5.9	-0.5	0.3
Memo:						
Agricultural	1.1	-8.5	10.8	-3.3	0.0	-1.8
Nonagricultural	-1.1	-1.8	1.2	-1.1	0.1	0.2
	------------Prices in the NIPA Accounts-----------					
Fixed-Weight						
Imports, Total	-1.8	-1.4	4.0	-0.4	--	--
Oil	-24.7	-1.2	22.0	-49.4	--	--
Non-oil	1.0	-1.4	2.5	6.2	--	--
Exports, Total	-0.2	-3.6	2.6	1.8	--	--
Ag	1.3	-9.1	11.6	-5.1	--	--
Nonag	-0.4	-2.9	1.9	2.6	--	--
Deflators						
Imports, Total	-3.3	-2.9	4.0	-2.8	--	--
Oil	-24.9	-1.5	21.7	-49.5	--	--
Non-oil	-0.8	-3.2	1.9	3.3	--	--
Exports, Total	-1.5	-3.9	0.7	0.0	--	--
Ag	-1.7	-6.3	6.3	-6.0	--	--
Nonag	-1.5	-3.9	0.3	0.5	--	--

*/ Months not for publication.

Aside from the volatile foods, feeds, and beverages category, the largest increases in the first quarter were for prices of imports of consumer goods, especially recreational equipment and durable household goods. The more recent monthly declines in prices of non-oil imports may reflect a lagged adjustment to the rise in the exchange value of the dollar during the first quarter of this year.

U.S. Current Account. The U.S. current account balance recorded a deficit of $5.3 billion in the first quarter of 1992, compared with $7.2 billion deficit (revised) in the fourth quarter of 1991. A narrowing of the merchandise trade deficit and increases in surpluses from service transactions and investment income were partly offset by an increased outflow of unilateral transfers.

As of the latest Bureau of Economic Analysis press release, data on the U.S. current account now incorporate new source data, improved methodologies, and changes in definitions. The revisions introduced were significant; the current account deficit for 1991 was narrowed by $4.9 billion. Data on the U.S. current account for the last five quarters are shown in the table on the next page; the amount of the revision for each of the items is shown in the memorandum line at the bottom of the table. The revisions did not reverse the direction of quarter-to-quarter changes during 1991 for any of the series shown in the table, with the exception of the change in net services from the third to the fourth quarter.

The recent revisions to the data on services and investment income were extensive, but were only highlighted in the press release. Data on services transactions now make use of Mexican source data for travel receipts and payments and incorporate revisions to Canadian data on travel receipts and payments. Canadian, United Kingdom, and Federal Reserve data have been substituted for Treasury data on U.S. nonbanks' deposits abroad, raising estimated interest income. Investment payments and receipts are now reported gross of nonresident withholding taxes with an offset to these taxes now recorded under unilateral transfers. Data on dividend receipts are now calculated by applying an estimated yield to the stock of equity holdings. Additionally, returns on holdings of foreign currency are more precisely estimated. For all accounts, aggregate figures for earlier years and supporting detail for current and earlier years will be available July 2.

U.S. Current Account
(billions of dollars, seasonally adjusted)

	Merchandise Trade, net	Services net	Investment Income, net	Transfers net	Current Acct Bal Pub.	Current Acct Bal Ex Foreign Grants 1/
Year						
1991	-73.4	45.3	16.4	8.0	-3.7	-46.2
Quarters						
1991-1	-73.2	37.6	28.0	56.8	48.8	-42.0
2	-65.6	43.2	15.6	16.4	9.6	-36.8
3	-80.8	48.0	12.4	-24.0	-44.4	-62.8
4	-74.0	52.4	10.0	-17.2	-28.8	-43.6
1992-1	-70.0	56.8	18.8	-26.8	-21.2	-23.2
Memo: Amount of Revision:						
1991	0.2	9.4	7.1	-11.7	4.9	4.9

1/ Excludes foreign cash grants to the United States to cover costs of the war in the Persian Gulf. These grants amounted to $42.5 billion in 1991 and are shown in the accounts as positive unilateral transfers.

U.S. International Financial Transactions

Substantial net capital inflows were recorded for April. Official reserve assets in the United States climbed by $3.7 billion, largely as the result of increases in holdings by Spain, Taiwan, and Mexico. (See line 4 of the Summary of U.S. International Transactions Table.)

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

	1990 Year	1991 Year	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Feb.	1992 Mar.	1992 Apr.
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	4.5	-0.1	4.5	0.2
Securities									
2. Private securities transactions, net[2]	-29.1	-11.1	3.4	-2.6	-6.8	-4.5	1.6	-1.8	0.2
a) foreign net purchases (+) of U.S. corporate bonds[3]	16.2	26.0	7.9	8.0	6.6	7.7	3.3	2.5	4.4
b) foreign net purchases (+) of U.S. corporate stocks	-13.7	10.2	7.7	2.3	-1.5	-2.8	0.2	-0.7	-0.3
c) U.S. net purchases (-) of foreign securities	-31.6	-47.3	-12.2	-12.9	-11.9	-9.4	-1.9	-3.6	-3.8
3. Foreign net purchases (+) of U.S. Treasury obligations	-1.0	17.8	13.4	-1.2	1.5	-0.7	3.5	-5.4	5.0
Official Capital									
4. Changes in foreign official reserves assets in U.S. (+ = increase)	32.1	20.0	-3.3	3.5	13.3	21.1	3.0	6.3	3.7
a) By area									
G-10 countries	10.0	-17.5	-4.7	-1.9	0.5	2.4	0.2	1.9	-1.5
OPEC	1.2	-5.8	-2.9	-4.4	1.2	2.8	1.6	0.1	-0.3
All other countries	20.8	43.3	4.2	9.8	11.6	15.9	1.2	4.3	5.5
b) By type									
U.S. Treasury securities	29.6	18.8	-2.3	5.6	12.6	14.9	1.9	4.3	2.5
Other[4]	2.5	1.1	-1.0	-2.2	0.7	6.2	1.1	2.0	1.2
5. Changes in U.S. official reserve assets (+ = decrease)	-2.2	5.8	1.4	3.9	1.2	-1.1	-0.5	-0.3	-0.2
Other transactions (Quarterly data)[5]									
6. U.S. direct investment (-) abroad	n.a.	-27.1	3.7	-7.1	-11.7	-11.3	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	n.a.	11.5	7.3	*	5.7	0.7	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow)[6]	n.a.	8.5	-0.9	5.0	4.0	12.3	n.a.	n.a.	n.a.
9. U.S. current account balance	n.a.	-3.7	2.4	-11.1	-7.2	-5.3	n.a.	n.a.	n.a.
10. Statistical discrepancy	n.a.	-1.1	1.7	-1.5	2.4	-15.7	n.a.	n.a.	n.a.
MEMO:									
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-108.9	-73.4	-16.4	-20.2	-18.5	-17.5	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 ar official transactions not shown elsewhere. In addition, it includes amounts resulting from adjustments to the data made l 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.

Net purchases of U.S. Treasury securities by private foreigners were also strong in April, amounting to $5 billion (line 3). Almost two-thirds of the total net purchases were accounted for by Bermuda (the location of a number of investment funds that are active in trading U.S. Treasury securities); substantial net purchases were also recorded for the United Kingdom and Japan. In addition, private foreigners purchased more than $4 billion net of U.S. corporate and government agency bonds (line 2a). On the other hand, foreigners continued to make net sales of U.S. corporate stocks (line 2b). Net purchases of foreign stocks and bonds by U.S. residents amounted to almost $4 billion (line 2c), largely from Europe.

More recent data suggest that both U.S. purchases of foreign bonds and foreign purchases of U.S. corporate bonds remained strong in May. In particular, new Eurobond issues by U.S. corporations were substantial in May and foreign bond issues in the United States reached near record levels. In addition to the usual large number of Canadian borrowers, medium-term note issues by several German banks were noteworthy.

Net bank-reported flows in April were small (line 1). There were substantial net outflows from financial institutions in April resulting from RP transactions with Bermuda and the United Kingdom, probably helping to finance the large net purchases of U.S. Treasury securities recorded for these countries. Countering these outflows were substantial net inflows into banks from related foreign offices.

U.S. residents have sharply reduced their holdings of Eurodollar deposits since March, largely at the Caribbean branches of U.S. banks. (See line 3 of the International Banking Data Table.) In contrast, according to the FRBNY survey, foreign

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1990				1991				1992		
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	Apr.	May
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	-44.3	-53.4
(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	6.3
(b) Foreign-chartered banks	-23.9	-18.2	-21.3	-36.9	-31.3	-19.2	-25.2	-48.3	-44.6	-51.6	-59.7
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	23.2
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	101.0	96.2	92.4

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.

commercial paper outstanding in the United States increased sharply in April, by more than $5 billion.

Data recently released by the Department of Commerce on U.S. capital flows in the first quarter of 1992 are shown in lines 6 through 10 of the Summary of U.S. International Transactions Table (page IV-8). U.S. direct investment abroad (line 6) remained very strong, largely as the result of intercompany debt flows to affiliates in Canada and the United Kingdom. Foreign direct investment inflows (line 7) declined to virtually zero, reflecting the slowdown in merger and acquisition activity and poor profits resulting in negative reinvested earnings.

The large inflow in the first quarter recorded for other capital flows (line 8) consisted largely of net inflows into banks as the result of changes in foreign-currency denominated claims and liabilities (particularly changes in positions of the U.S. offices of Japanese banks vis-a-vis Japan) and a decline in banks' custody claims on foreigners (largely holdings of negotiable and readily transferable instruments). The statistical discrepancy in the international accounts (line 10) swung to negative $16 billion.

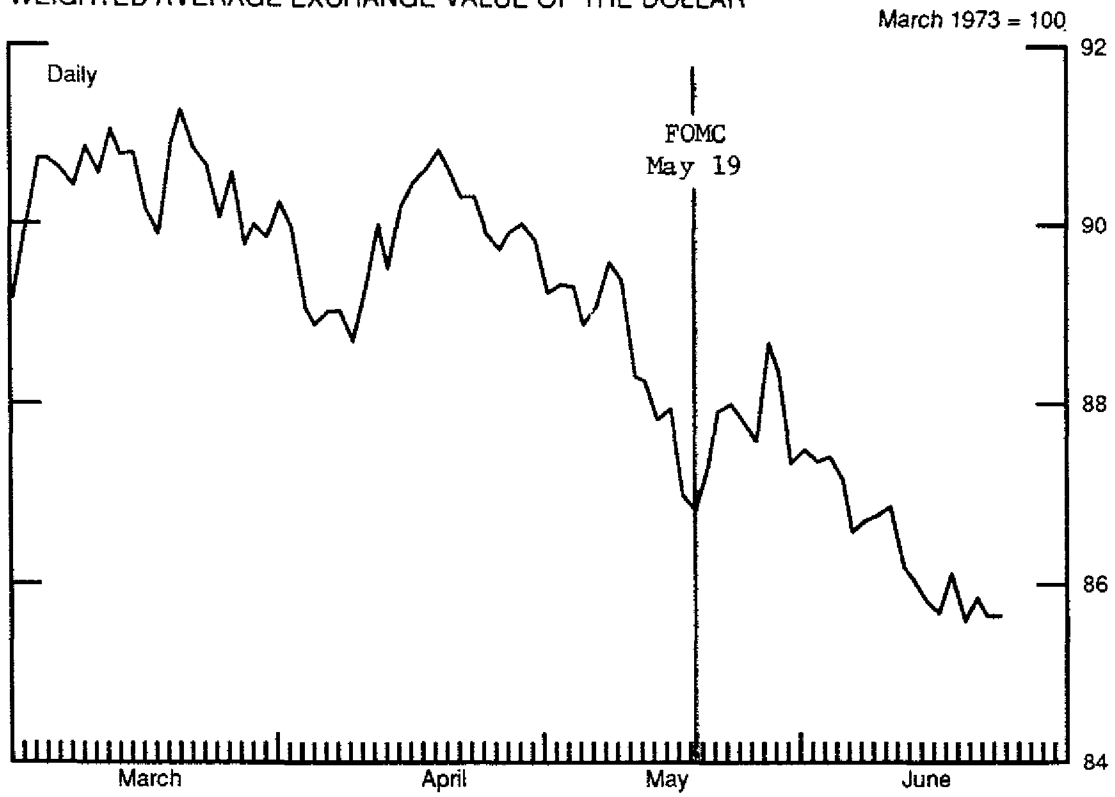
Revised data for 1991 were also recently released by the Department of Commerce. (Revised data for earlier years will not be available until July 2.) In some cases the changes were substantial; new data sources, improved methodologies, and changes in definitions along with revisions in reported data accounted for these changes. The revisions were particularly large for U.S. nonbanks claims on foreigners (included in line 8) because of the substitution of Federal Reserve, Bank of England, and Bank of Canada data on bank deposits for data collected in the Treasury International Capital (TIC) Reports. There was also a substantial downward revision to foreign direct investment in the United States (line 7); part of this revision was the result of changes in definitions, but the bulk was the result of amended reports which indicated that capital inflows previously reported in 1991 had actually occurred in 1990.

Foreign Exchange Markets

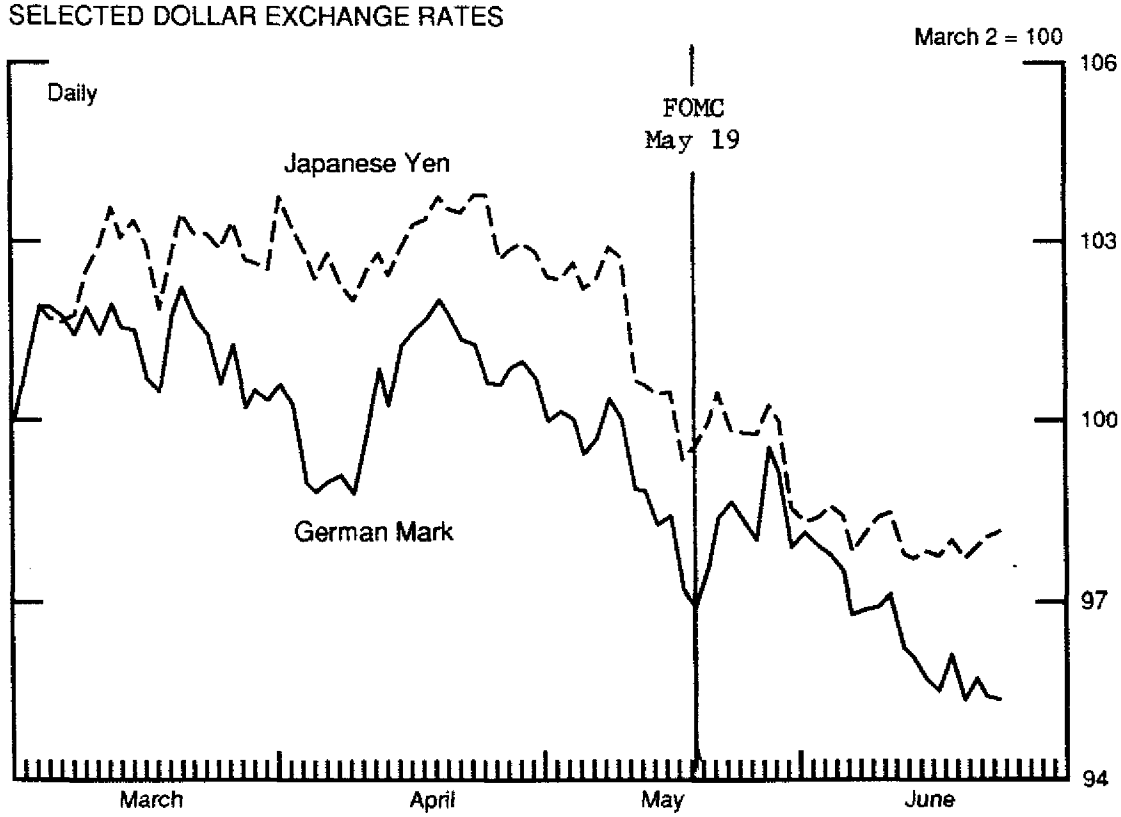
The weighted-average foreign-exchange value of the dollar, in terms of the other G-10 currencies, has declined about 2 percent on balance since the May 19 FOMC meeting, as shown in the accompanying chart. The dollar rose through the first week of the intermeeting period amid positive U.S. economic data but has declined since late May, on somewhat weaker than expected U.S. economic indicators and a larger than expected U.S. trade deficit. The dollar has moved nearly 2 percent lower versus the Japanese yen, with most of that decline occurring at the end of May; Japanese authorities encouraged the yen's appreciation through intervention sales of dollars on several occasions, but the overall effect of these operations appears to have been limited.

The defeat of the Danish referendum on the Maastricht treaty on June 2 threw into doubt plans for European union and economic convergence. The mark, regarded as the most stable European currency, was seen as benefitting from uncertainty over the future of European monetary union. The dollar has lost more than 3-1/4 percent against the mark since the Danish vote, for a net decline of about 2-1/4 percent versus the German currency since the last FOMC meeting. Other European currencies were hurt by the uncertain future of the Maastricht treaty, though a small part of the effect of the Danish vote apparently was reversed by the victory of the Irish referendum on June 18. The Spanish peseta has declined about 1 percent on net against the mark, while sterling and the Italian lira have each lost about 1/2 percent against the mark. The lira

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



SELECTED DOLLAR EXCHANGE RATES



also has been weakened by the delay in naming an Italian prime minister.

Long-term interest rates have changed little on net in the United States, Germany, and Japan since the last FOMC meeting. Three-month interest rates in the United States have backed up slightly while German three-month rates have eased 10 basis points and Japanese rates have eased more than 20 basis points in anticipation of a small easing in Japanese monetary policy. Following the Danish vote, long-term bond yields have risen about 1/4 percentage point in France, Italy, and the United Kingdom and more than 1/2 percentage point in Spain.

Japanese stock prices, as measured by the Nikkei index, have declined more than 15 percent since the last FOMC meeting (about 11-1/2 percent according to the broader Topix index), with the government delaying in formulating its plans for a supplemental budget package and with the Bank of Japan seen as reluctant to ease monetary policy significantly despite signs of persistent weakness in the Japanese economy. Over the intermeeting period, stock prices have declined nearly 7 percent in the United Kingdom, most of that since the Danish vote, but German stock prices have moved only slightly lower.

Developments in Foreign Industrial Countries

Output growth picked up in several foreign industrial countries in early 1992, but in Canada the pace of recovery remained modest, and in the United Kingdom, the recession continued at least through the first quarter. In Germany and Japan, output rose 7.3 and 4.3 percent (s.a.a.r.), respectively, during the first quarter of 1992, following declines in the previous quarter. In both countries the first-quarter turnaround was exaggerated by special factors; in Japan, industrial production actually fell during the first quarter. Monthly indicators for the second quarter point to moderate growth in most countries.

Inflation remains elevated in Germany, but has declined further in Canada and has remained fairly stable in the other countries. Wage pressures continue in Germany, but a recent series of strikes was settled without a dramatic worsening of these pressures.

On June 2, voters in Denmark unexpectedly rejected the Maastricht Treaty in a nationwide referendum. The rejection encouraged opponents of the move toward greater European unity, but at present, most political leaders in Europe are determined to move ahead with ratification. On June 18, voters in Ireland endorsed the treaty by a wide margin. On June 24, the French Senate and National Assembly ratified the Treaty in a joint vote.

Individual country notes. In Japan, real GNP increased 4.3 percent (s.a.a.r.) in the first quarter, after a 0.3 percent decline in the fourth quarter. Domestic demand rose at a 3.6 percent annual rate in the first quarter, due mainly to a 3.4 percent rise in consumption that was possibly boosted by the extra business day because of leap year. Plant and equipment investment declined for the second consecutive quarter (down 0.2 percent), and residential investment declined for the sixth consecutive quarter (down 0.4 percent). Inventories made a 0.9 percent positive contribution to growth, mainly reflecting changes in government rice holdings. The external sector made a 0.8 percent positive contribution to growth

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	1992 Jan.	1992 Feb.	1992 Mar.	1992 Apr.	1992 May	Latest 3 months from year ago 2
Canada												
GDP	-2.0	-.0	1.3	.1	.0	.4	*	*	*	*	*	1.9
IP	-6.3	-1.4	1.1	.7	-1.1	-.5	.3	.3	.4	.5	n.a.	.7
France												
GDP	1.6	1.8	.7	1.0	.1	n.a.	*	*	*	*	*	1.8
IP	-.3	1.9	.8	.6	-.2	.1	1.7	-.8	-.4	1.5	n.a.	1.6
West Germany												
GNP	5.3	.9	-.1	-.4	-.5	1.8	*	*	*	*	*	.8
IP	5.4	.3	-.1	-.5	-1.2	2.8	5.2	1.2	-1.8	.3	n.a.	1.4
Italy												
GDP	1.6	1.5	.5	.2	.3	n.a.	*	*	*	*	*	1.5
IP	-3.8	-.5	-1.9	-.3	1.1	2.5	3.6	2.3	-.3	-5.7	n.a.	1.8
Japan												
GNP	4.7	3.2	.7	.5	-.1	1.1	*	*	*	*	*	2.2
IP	6.9	-1.6	-.6	.1	-1.2	-3.1	-1.2	-.5	-2.6	.1	n.a.	-5.4
United Kingdom												
GDP	-.7	-1.7	-.9	.2	-.4	-.4	*	*	*	*	*	-1.5
IP	-3.2	-.8	-1.3	1.0	-.3	-.9	-1.2	1.4	-.7	.7	n.a.	-.6
United States												
GNP	-.1	.3	.3	.5	.1	.6	*	*	*	*	*	1.5
IP	.3	-.5	.6	1.6	-.2	-.7	-.7	.5	.5	.4	.6	2.4

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 Feb.	1992 Mar.	1992 Apr.	1992 May	Latest 3 months from year ago
Canada													
CPI	4.9	4.1	1.4	2.9	.7	.6	-.1	.4	.1	.3	.1	.2	1.5
WPI	1.9	-3.2	1.2	-.3	-1.6	-.9	-.4	.5	.7	.2	-.3	n.a.	-1.6
France													
CPI	3.6	2.9	1.0	.5	.7	.8	.9	.6	.3	.3	.2	.3	3.1
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	.6	.4	.3	.3	4.6
WPI	.9	1.6	.4	.5	.3	.7	.2	.4	.6	.0	.3	n.a.	1.9
Italy													
CPI	6.3	6.1	2.0	1.9	1.4	1.0	1.7	1.4	.2	.4	.4	.5	5.5
WPI	9.9	1.1	4.3	.2	-1.0	.5	1.4	.0	.3	-.2	.8	n.a.	1.7
Japan													
CPI	3.2	3.2	1.2	.8	.8	.4	1.1	-.3	-.2	.5	1.1	.1	2.5
WPI	1.9	-1.3	.7	.1	-.4	-.4	-.7	-.4	.1	.3	-.1	-.1	-1.4
United Kingdom													
CPI	10.0	4.2	1.6	.6	2.1	.4	1.0	.5	.5	.3	1.5	.4	4.2
WPI	5.9	4.9	1.1	1.8	1.9	.6	.5	1.4	.3	.8	.4	.1	4.0
United States													
CPI (SA)	6.3	3.0	1.7	.8	.6	.7	.9	.7	.3	.5	.2	.1	3.2
WPI (SA)	6.4	-.1	2.4	-.4	-.2	.0	.5	-.1	.1	.2	.2	.4	1.0

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 Q4	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Feb.	1992 Mar.	1992 Apr.	1992 May
Canada												
Trade	9.4	6.4	2.3	2.2	2.5	.9	.8	2.4	1.1	.6	.6	n.a.
Current account	-18.9	-25.5	-4.6	-5.6	-6.0	-6.6	-7.3	-5.9	*	*	*	*
France												
Trade	-9.3	-5.5	-3.1	-2.7	-1.5	-1.5	.3	.9	.1	.2	1.4	.8
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	4.4	1.4	3.0	1.4	n.a.
Current Account (NSA)	46.4	-19.5	7.7	-5.6	-5.8	-5.8	-2.2	-5.6	-1.2	-.2	-1.4	n.a.
Italy												
Trade	-12.2	-13.0	-4.5	-1.2	-3.6	-4.8	-3.3	-1.9	-1.3	-.3	-1.2	n.a.
Current account (NSA)	-14.2	-21.5	-3.7	-8.1	-4.6	-3.7	-5.0	n.a.	*	*	*	*
Japan												
Trade	51.8	78.8	8.5	17.4	18.8	20.8	21.9	28.0	10.4	9.1	6.9	9.7
Current account	35.8	72.6	6.4	12.8	18.7	19.6	21.5	28.5	9.6	11.7	9.3	n.a.
United Kingdom												
Trade	-32.6	-18.0	-6.1	-5.8	-3.8	-4.0	-4.5	-5.4	-1.8	-1.5	-3.5	-1.5
Current account	-26.8	-8.1	-4.4	-4.4	-.5	-2.1	-1.1	-3.8	-1.3	-1.0	-2.0	-1.2
United States												
Trade	-108.9	-73.4	-27.8	-18.3	-16.4	-20.2	-18.5	-17.5	-4.3	-6.8	-8.0	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.

which was entirely attributable to an increase in net factor income. Companies reportedly increased their repatriation of profits from overseas affiliates ahead of the end of the business accounting year in March in order to make up for poor domestic earnings. Excluding special factors, first-quarter GNP growth was probably only about 1-1/2 percent at an annual rate.

Indicators of activity so far in the second quarter have been generally negative. Industrial production (s.a.) increased only 0.1 percent in April, and this increase followed six consecutive monthly declines that lowered the index by a cumulative total of 5.9 percent. The inventory to shipments ratio (s.a.) was up a further 0.7 percent in May, raising its 12-month increase to 10.6 percent. Retail sales at large stores (n.s.a.) showed a 12-month decline of 0.2 percent in April. New machinery orders (s.a.) fell 12.5 percent in April, more than reversing their first-quarter increase of 3 percent. New passenger car registrations (s.a.) dropped 10.1 percent in May, and were 14.9 percent lower than a year earlier. The number of bankruptcies (s.a.) was up 7.9 percent in May, raising their 12-month increase to 33.5 percent. The unemployment rate (s.a.) eased to 2 percent in April. However, the job offers to applicants ratio (s.a.) declined a further 4.1 percent in May, to a level 19.9 percent below a year earlier. The strongest indicator continued to be housing starts (s.a.), which increased 1.7 percent in April after a 7.5 percent rise in the first quarter. Housing starts showed a 12-month increase for the first time since October 1990.

Inflationary pressures have remained moderate. Consumer prices in the Tokyo area (n.s.a.) were up only 0.1 percent in May and their 12-month increase declined to 2.4 percent. Through the first five months of the year, consumer prices, seasonally adjusted and excluding perishable food items, increased at a 2.6 percent annual rate. Wholesale prices (n.s.a.) declined 0.1 percent in May and were 1.4 percent below their year-earlier level. Overall wholesale prices have been held down by declining import prices, which in May were 6.3 percent below their year-earlier level.

The trade surplus (s.a.) increased further in May. Through the first five months of the year, the trade surplus was $106.9 billion (a.r.), up from a $70.1 billion surplus in the same period last year. Over this period, export volume (s.a.) was up 3.5 percent while import volume increased only 0.4 percent.

Real GNP in western Germany increased 7.3 percent (s.a.a.r.) in the first quarter due primarily to special factors. Growth was boosted by the elimination of calendar effects (unusually large leave-taking around the mid-week Christmas and New Year holidays) that depressed output in the fourth quarter. In addition, mild winter weather contributed to a surge in seasonally-adjusted construction activity.

West German industrial production (s.a.) increased 0.3 percent in April after falling 1.8 percent in March. April's modest increase follows a period of sharp monthly swings--December through March--caused by special factors. For the first quarter as a whole industrial production increased 2.8 percent, but comparing the level of industrial production in March and April with that in October and November suggests that there has been only modest growth in underlying economic activity since the fourth quarter.

The volume of new orders for west German manufactured goods (s.a.) fell sharply in both March and April after increasing earlier in the year. Domestic orders (including orders from eastern Germany) fell 3.9 percent and 0.8 percent in March and April, respectively, after increasing 4.7 percent and 0.7 percent in

January and February. Foreign orders were down 4 percent in April after increasing steadily between November and March.

In spite of the declines in output in the second half of 1991, little slack has emerged in west German labor markets. The west German unemployment rate (s.a.) increased 0.1 percentage points in each of the last three months and stood at 6.5 percent in May. However, employment has continued to increase, in part because of labor agreements that mandate reductions in weekly hours.

Industrial production in eastern Germany (n.s.a.) rose 12 percent in March, while new orders for east German manufactured goods jumped 9 percent.

Consumer price inflation in western Germany has remained strong in recent months. Consumer prices (n.s.a.) increased 0.3 percent in May, after increases of 0.4 percent and 0.3 percent in March and April. Over the three months to May consumer prices (s.a.) increased at an annual rate of 4 percent, compared with 2.5 percent for the three-month period ending in February.

Negotiations over wage agreements for 1992 are essentially complete. In the engineering sector an agreement was reached giving workers a 5.8 percent increase in wages and one-time payments for the period April 1992 through March 1993. The agreement also calls for a 3.4 percent wage increase for the remaining 9 months of 1993. The extension of the contract for the rest of 1993 was not expected and was generally viewed as a positive development.

After improving in February and March, the pan-German current account deficit (n.s.a.) widened from $0.2 billion in March to $1.4 billion in April. Merchandise exports (s.a.) fell 5 percent in April, while imports (s.a.) increased slightly.

Through May, M3 (s.a.) in western and eastern Germany had increased at an annual rate of 9 percent in 1992, relative to the fourth quarter of 1991, up slightly from a revised 8.9 percent increase in April. May's figure is well above the Bundesbank's target range of 3-1/2 to 5-1/2 percent growth for 1992. Demand on the asset side of the banking system remains strong due to strong investment in both parts of Germany and declines in internally generated funds within the corporate sector. In addition, the supply of funds to the banking sector has shifted towards shorter maturities in response to Germany's inverted yield curve. German banks appear to be competing more actively for deposits in anticipation of increased competition from non-German banks once the EC internal market project is fully implemented.

On June 18 the lower house of the German Parliament gave final approval to the government's plan to restructure the Bundesbank. The number of Land Central Banks--roughly equivalent to our Federal Reserve District Banks--will be reduced from 11 to 9 and their regions will be expanded to include the five new east German states. In addition, the maximum size of the Bundesbank Directorate--roughly equivalent to the Board of Governors--will be reduced from 10 to 8. These changes will take effect unless one of the German states challenges the legislation in Germany's constitutional court. Such a challenge is not expected.

In France, real marketable GDP, a preliminary indicator of total GDP that excludes most government services, grew 4.5 percent (s.a.a.r.) in the first quarter largely because of very strong export growth. Consumption growth was moderate at 2.8 percent, while investment declined slightly. In April, industrial production rose 1.5 percent (s.a) from its March level while manufacturing production, which excludes food and energy, rose 0.4 percent. Industrial production rose only slightly in the first quarter because unusually warm weather caused a sharp drop in energy output.

The unemployment rate rose to 10 percent (s.a.) in April from 9.9 percent in March.

Consumer prices in May were 3.1 percent above their year-earlier level, the same change as in the previous month. Hourly wages in April were 1.3 percent (n.s.a.) above their level in the January survey, and stood 4.5 percent above their year-earlier level. France registered a cumulative trade surplus of $3.2 billion (s.a.) in the first five months of 1992, compared with a deficit of $3.5 billion in the same months of the previous year.

Following the Danish rejection of the Maastricht Treaty President Mitterrand announced that a referendum on the Treaty would be held in France, probably in September. The Senate and National Assembly ratified the Treaty by the necessary three-fifths majority in a joint vote on June 23. A referendum is not required by the constitution. Commentary in France suggests that the referendum was called to exploit divisions over the treaty between the two mainstream parties on the right, headed by Jacques Chirac and Giscard d'Estaing.

In Italy, the economy appears to be growing slowly. Fourth-quarter GDP rose 1.2 percent (s.a.a.r.), up from only 0.8 percent in the previous quarter. Industrial production (s.a.) rose 2.5 percent in the first quarter but was weak in April, falling 5.7 percent. Auto sales were up 4.8 percent in the first five months of 1992 from the same period a year earlier, but all of the gain went to imports; sales by Italian manufacturers fell 2 percent.

Inflation has picked up recently, following a sharp decline earlier in the year. The 12-month rise in consumer prices (n.s.a.) was 5.6 percent in May, up from 5.5 percent in March and April, and 5.3 percent in February. Wholesale prices (n.s.a.) in April were

3 percent above a year earlier, compared with a 1.6 percent rise in March.

The cumulative trade deficit during the first four months of 1992 was $9.3 billion (s.a.a.r.), up modestly from $8.5 billion in the same period in 1991. The current account deficit widened substantially during 1991, reaching $21.5 billion, compared with a deficit of $14.2 billion during 1990.

Political paralysis continues to stymie policy initiatives. Since the general election of early April, a caretaker government has been in office while Italian politicians have wrangled over the composition of a new government. Giuliano Amato, a leader of the Socialist Party who authored bank reform legislation in 1990 that bears his name, has been designated to try to form a new coalition.

Recent monthly data suggest that economic recovery is finally underway in the United Kingdom, but it seems to be less buoyant than previous recoveries. The recession continued in the first quarter, with real GDP falling 1.8 percent (s.a.a.r.). The post-election rebound in consumer spending appears to be weaker than expected. The volume of retail sales (s.a.) rose 0.8 percent in April and 0.3 percent in May, reversing a pre-election decline. The average level for the two months was 0.4 percent above the first-quarter average. Unemployment (s.a.) rose in May to a rate of 9.6 percent, up from 9.5 percent in April. Total industrial production (s.a.) rose 0.7 percent in April after declining 0.7 percent the previous month. Manufacturing production was up for the third month in a row. Construction orders (s.a.) rose 3 percent in the first quarter and were up 4 percent from the same period last year.

Consumer prices rose 0.4 percent (n.s.a.) in May. The 12-month rise remained at 4.3 percent. Excluding mortgage interest rates, consumer prices rose 0.3 percent and stood 5.3 percent above their

May 1991 level. Producers' output prices edged up 0.1 percent in May, to a level 3.6 percent above a year earlier.

In May, the trade deficit narrowed somewhat, but the cumulative current account deficit for the first five months of 1992 was $16.9 billion (s.a.a.r.), compared with a deficit of $6.8 billion in the last five months of 1991. The deterioration in the current account position since the beginning of this year has given rise to worries that increased import spending will slow down the recovery.

In Canada, first-quarter GDP growth (s.a.a.r.) was 1.7 percent. Largely because of a 0.4 percent (s.a.a.r.) decline in consumption and a sharp decrease in inventories, total domestic demand fell 3.9 percent. However, the external sector made a large positive contribution to growth, as exports surged 15 percent and imports fell 3 percent.

Available second-quarter data suggest that the economy is continuing to recover. Retail sales (s.a.) increased 0.8 percent in April. Although the unemployment rate rose from 11.0 percent (s.a.) in April to 11.2 percent in May, total employment (s.a.) rose 0.3 percent, its first increase since last October. Factory shipments (s.a.) rose 1.1 percent in April, and new orders (s.a.) were up 1.4 percent. However, May housing starts (s.a.) slipped 2.4 percent.

Recent price data show continued success for the Bank of Canada's efforts to reduce base inflation. The CPI excluding food and energy (n.s.a.) rose 0.2 percent in May, lowering the 12-month rise from 2.2 percent in April to 2 percent in May. The 12-month rise in the all-items CPI was only 1.3 percent in May. Wholesale prices (n.s.a.) fell 0.3 percent in April, and stood 1.1 percent lower than a year earlier. First-quarter wage settlements increased 2.9 percent (a.r.), compared with a 3.6 percent average for all of 1991.

Canada's current account deficit (s.a.a.r.) narrowed $5.5 billion in the first quarter to $23.8 billion, as merchandise exports rose sharply. In April, the merchandise trade surplus fell slightly to $6.7 billion (s.a.a.r.), down from $7 billion in March.

Recently, there has been substantial uncertainty about Canada's political future due to a lack of consensus in discussions of the National Unity Plan constitutional reform proposals announced by the federal government last September. The Cabinet plans to submit specific constitutional amendments to Parliament by the end of June, the result of discussions in which the English-speaking provinces took part. The provincial government of Quebec has promised to hold a referendum on the proposals by the end of October. Recent statements by Quebec Premier Robert Bourassa hint that rejection of the proposals by Quebec voters would not necessarily lead to the province's secession.

Developments in East European Countries

Recent political developments in Eastern Europe have increased uncertainty on the future course of economic policy in the region. The Czech and Slovak Federal Republic appears to be headed for a break-up, following a Slovak nationalist victory in elections held earlier this month for the Slovak parliament. Some press reports indicate that an interim federal government to negotiate a smooth breakup will be established for a minimum term of one and a half years. More recent reports, however, suggest that the split could occur as early as this fall, before annual budgets have to be prepared. This development raises concerns over the future of the Czech and Slovak regional economies, although no immediate changes in economic policy have resulted. Reports indicate that potential foreign investors are delaying investment decisions in light of this political uncertainty.

In Poland, following the confirmation of Peasant Party (PSL) chairman Waldemar Pawlak as Prime Minister, the lower house of Parliament passed the 1992 budget, which restricts the fiscal deficit to $4.79 billion. This figure is equivalent to 5 percent of projected GDP and represents a slight decline from last year. Passage of the budget was necessary to continue discussions with the IMF concerning a proposed 20-month standby arrangement. In the IMF's view, this budget is consistent with non-accelerating inflation, and the Fund management has shown a willingness to endorse the program, provided that Poland keeps to its budget. At this time Pawlak has not established whether his economic program will continue the anti-inflationary policies of his predecessor Jan Olszewski, or will favor the program consistently proposed by his Polish Peasant Party of subsidies and protection for agriculture.

On June 1, Russia signed the Articles of Agreements of the IMF, making it a full member of the Fund. It appears that a Fund arrangement is unlikely to be put in place before September. Perceived backsliding of the Russian reform program, delays in producing fiscal projections, and lack of agreement on monetary arrangements among the republics of the former Soviet Union have hampered conclusion of a stand-by arrangement. President Yeltsin has appointed four new ministers with the intent of bringing "industrial technocrats" into his government, while elevating First Deputy Prime Minister Gaydar to Acting Prime Minister. Yeltsin has continued to emphasize his commitment to the reform program.

In mid-May, the government agreed to raise but still retain control over oil and gas prices for industrial consumers. Yeltsin has reportedly said that energy prices will not be freed before year end.

The budget deficit in the first quarter of the year was reportedly about 8 percent of GDP. The government is under increasing pressure to increase wages in various sectors, to bail out faltering industrial enterprises, to grant tax exemptions, and to provide more for a social safety net.

The Central Bank of Russia (CBR) maintained a tight credit policy early in the year, but this was relaxed considerably by the end of the first quarter. Non-Russian central banks in the various former republics have continued to extend credit at a rapid rate. At the end of May, the CBR raised its lending rate to 80 percent, up from the previous rate of 50 percent. Inter-enterprise debts have been building up, reflecting the belief that the government will eventually finance the debt. The situation at the CBR remains unsettled after Chairman Matyukhin submitted his resignation, but both the government and the Parliament refused to accept it.

Although exchange rates are scheduled to be unified and allowed to float on July 1, this now appears unlikely because of the delays associated with the IMF program and the absence of necessary steps to implement the change in the exchange rate regime.

Economic Situation in Other Countries

In Mexico, economic growth appears to be less robust than earlier expected. Since mid-April, capital inflows have tended to slow, the peso has weakened somewhat against the dollar, and interest rates have risen further. Argentine industrial production was sharply higher in the first quarter than a year earlier, while year-over-year inflation continues to fall. In May, the government announced plans to reform Argentina's inefficient port system. Economic activity remains strong in Korea and Taiwan and sluggish in Brazil and the Philippines. Brazil missed the first-quarter fiscal performance criteria of its IMF stand-by arrangement and is likely to miss the second-quarter criteria. Negotiations with foreign commercial banks are moving slowly. Korea's trade deficit is narrowing, while Taiwan's trade surplus is growing. In May, the Philippines completed a debt buyback from commercial banks.

Individual Country Notes. In Mexico, economic growth appears to be less robust than earlier expected. The chemical, steel, food, and transportation equipment industries had lower sales in the first quarter than in the same period of 1991. The official first-quarter GDP was 4.2 percent higher than a year earlier, but this rate is not adjusted for the higher number of working days in March 1992, when there were no holidays, than in March 1991, when Holy Week slowed production. Most observers expect that 1992 growth will be close to the 1991 rate of 3.6 percent, rather than significantly higher as previously believed. The official forecast of 1992 growth has now been lowered to 3 percent from the 4 percent estimate put forward in President Salinas' budget message last November.

Despite slower growth, first-quarter imports were 28 percent higher than a year earlier, after a 23 percent increase in 1991 as a whole. Capital goods and consumer goods imports rose by 42 and 22 percent, respectively, after rising by 24 and 11 percent in 1991 as a whole. In contrast, total first-quarter exports were only 2 percent higher than a year earlier. Manufactured goods exports were 17 percent higher, but flood damage and other natural causes lowered agricultural exports by 24 percent, and lower prices caused a 13 percent fall in oil exports and a 40 percent fall in mineral exports. As a result, the first-quarter trade deficit was $3 billion, up from $0.9 billion in the same period of 1991.

The twenty-eight-day Treasury bill rate rose further in May and early June, and was 14.6 percent at the June 17 auction, up from 13.3 percent at the May 6 auction. Since mid-April, capital inflows from abroad have tended to slow, as some banks repaid part of their external borrowings to conform with new Bank of Mexico restrictions. This put pressure on the floating exchange rate. At the same time, firms have begun to make payments into the newly created pension system, further squeezing liquidity. The authorities have partially countered this trend by repurchasing ten-year bonds from commercial banks, but they have accepted higher interest rates to stimulate capital inflows and as a means of restraining economic activity and slowing inflation. Achieving single-digit twelve-month inflation rates by early 1993 is a priority government objective. The government is confident that this is possible and has announced plans to drop three zeros from the currency on January 1, 1993. The CPI rose by 0.7 percent in May when it was 16.3 percent above May 1991. Most observers expect twelve-month inflation of about 12 percent by December.

Since June 1, uncertainty generated by weakness of the exchange rate has been reinforced by delays in completing the North American Free Trade Agreement negotiations, and by a rumor, later denied, that the telephone workers union, which is engaged in difficult negotiations with the telephone company, was about to sell its large stake in the company. These factors combined to depress the Mexican stock market, which closed on June 23 about 15 percent below the June 1 peak. Market losses were especially large for the telephone company, which is widely held abroad. Several new stock issues scheduled to be offered in international markets in coming days will now raise less than had been expected.

If the stock market sell-off leads to a further slowing of capital inflows, the short-run impact on international reserves may be substantial. Reserves, excluding gold, were about $18 billion at the end of January, when they were last published, but capital inflows are said to have been large in February-early March. Given the unsettled situation since mid-April, reserves now are probably only slightly higher than $18 billion.

In Argentina, preliminary data indicate that industrial production in the first quarter of 1992 was 22.8 percent above its year-earlier level; consumer durables experienced the strongest growth. Monthly consumer price inflation dropped to 0.7 percent in May from 1.3 percent in April. Year-over-year inflation declined to 22.4 percent in May, its lowest rate since the 1970s. Despite continued inflation, the nominal exchange rate has remained fixed against the dollar since March 1991. As a consequence, the real exchange rate has appreciated substantially over the past year.

To reduce export costs and help maintain export competitiveness and to lower the domestic prices of imports and thereby help to restrain inflation, the government announced in late May plans to deregulate and restructure Argentina's inefficient port system. The plans include the privatization of many port functions, elimination of restrictive regulations adding to operating costs, and renegotiation of collective bargaining agreements.

The IMF mission that visited Argentina in May confirmed that Argentina met its 1992 first-quarter performance criteria under the IMF Extended Fund Facility approved in March. On June 23, agreement was reached on a term sheet for the Brady Plan commercial bank debt restructuring agreed in principle on April 7.

In Brazil, statistical information available through March and anecdotal evidence on more recent developments indicate that economic activity remains sluggish. Real GDP was 5.8 percent higher in the first quarter than in the extremely depressed first quarter of 1991, largely because of sizeable increases in agricultural output and in agricultural exports. On a seasonally adjusted annual rate basis, real GDP was 2.9 percent higher in the first quarter than in the fourth quarter of 1991. The lack of a credible fiscal adjustment program and tight monetary policies have led to very high real domestic interest rates, dampening domestic demand.

The cumulative trade surplus through May was $6.2 billion, unchanged from the same period of 1991. Inflation remains persistently high, in the range of 20-25 percent per month.

Brazil missed its first-quarter fiscal performance criteria under the IMF stand-by arrangement approved last January and is unlikely to meet the second-quarter criteria. Very high real interest rates, which greatly increase the government's cost of servicing its domestic debt, have exacerbated the fiscal problem. Lack of action on the fiscal front prompted IMF Managing Director Camdessus to make an appeal for political support for fiscal changes while attending the Environmental Conference in Rio in mid-June.

The government continues to face challenges to its proposals for fiscal reform. Its proposal to restructure the inefficient port system was rejected by port workers who went on strike in early June. Recent accusations of corruption against President Collor's top advisors are further undermining the government's political and popular support. They have led to a congressional inquiry into Collor's role in these dealings and calls for his impeachment. His approval rating has dropped precipitously. Partly in response to these political developments, the stock markets have fallen on the order of 27 percent since mid-June. The price of Brazil's external debt paper in secondary markets was 32.6 percent of face value on June 23, down from 39.6 percent on June 4.

Negotiations with commercial banks have moved slowly since the last Greenbook. Disagreement persists over how much Brazil will provide to collateralize the par and discount bonds, over the terms of the par bonds, and over whether to place a limit on the amount of debt that might be tendered for these bonds. Given the slow pace of fiscal reform, Brazil may be unable to obtain sufficient funds for the collateral from outside sources to supplement what it might provide from its own reserves. According to the Brazilian press, the government is considering increasing interest payments to banks from 30 percent of interest due to 50 percent.

Korea's GDP rose 7.5 percent in the first quarter of 1992 from a year earlier, compared with an increase of 9.1 percent over the previous four quarters. Inflation has slowed somewhat this year; consumer prices were 7.3 percent higher in May than a year earlier, down from 8.7 percent in the year ending May 1991. In the first 4 months of 1992, due to a pickup in exports, the current account deficit fell to $3.5 billion from $4.9 billion in the same period of 1991, and the trade deficit fell to $2.7 billion from $4.4 billion in the same period of 1991.

In Taiwan, GDP rose a preliminary 7 percent in the first quarter of 1992 from a year earlier after a rise of 6.2 percent in the first quarter of 1991 from the same period in 1990. Price developments are mixed; in May, consumer prices were up 6.1 percent from a year earlier, compared with a 2.6 percent increase in the year ending May 1991, while wholesale prices fell 3.5 percent compared with an increase of 1.8 percent a year earlier. Taiwan's trade surplus in the first 5 months of 1992 expanded to $4.9 billion from $3.6 billion in the same period of 1991, as export growth picked up largely due to booming trade with China. The current account surplus was $2.4 billion in the first quarter of 1992, about the same as in the first quarter of 1991.

In the Philippines, GDP was 0.5 percent higher in the first quarter of 1992 than in the same period of 1991. This was the first year-over-year quarterly increase after five quarterly decreases. Prices rose 9.2 percent in the year ending April 1992, compared with 8.7 percent in the year ending in March mostly due to spending linked to the May 11 presidential election. Former Defense Secretary Fidel Ramos, who won the election, has pledged to continue the economic policies of President Aquino. In May, the Philippines completed a debt buyback from commercial banks that retired almost $1.3 billion in face value, nearly all at a discount of 48 percent.