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Confidential (FR) Class III FOMC

August 13, 1992

RECENT DEVELOPMENTS

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

CONTENTS

DOMESTIC NONFINANCIAL DEVELOPMENTS

The economic expansion appears to have continued at a tepid pace into the summer. Private final demand appears to be picking up after a lackluster second quarter: Sales of motor vehicles firmed, on balance, in June and July, shipments of business equipment have strengthened, and non-auto retail sales in July more than reversed the June decline. Falling mortgage rates appear to have spawned a wave of refinancings, and housing demand also may be improving. But employment and industrial production have grown little, on net, since May, and the unemployment rate has moved up further. Recent reports on prices and labor costs have been quite favorable.

Employment and Unemployment

The labor market reports for June and July suggest that labor demand has been quite sluggish. Although total payroll employment increased 135,000 between May and July, about half of the rise reflected temporary hiring associated with the federally sponsored summer jobs program enacted in June.[1] Apart from this program, most of the gain in employment between May and July reflected moderate increases in services industries; in contrast, both manufacturing and construction shed workers over this period. The average workweek of production or nonsupervisory workers moved down in June to the bottom of the range seen this year and remained at this level in July. As a result, aggregate hours of production workers in July stood a touch below the second-quarter average.

1. At this point, BLS estimates that the summer jobs program boosted payrolls 75,000 through the July survey week. However, the response rate of local government employment offices to the July payroll survey was unusually low, and late reports could inflate the current estimate of the jobs created by the program last month (and, along with it, the rise in total state and local employment). Another increase in summer jobs could show up in the August employment report, as hiring continued after the July survey week. Most of these employees, however, should be off payrolls in September.

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

	1990	1991	1991 Q4	1992 Q1	1992 Q2	1992 May	1992 June	1992 July
	------------ Average monthly changes ---------							
Nonfarm payroll employment[2]	-5	-79	-46	15	78	119	-63	198
Private	-34	-91	-67	-4	58	115	-82	110
Manufacturing	-47	-36	-28	-17	-18	-4	-52	1
Durable	-36	-33	-30	-16	-18	-11	-36	-26
Nondurable	-11	-3	2	-1	0	7	-16	27
Construction	-23	-26	-23	4	0	27	-29	-15
Retail trade	-8	-35	-36	-7	20	-27	1	35
Finance, insurance, real estate	-1	-3	2	2	-1	-1	-10	-3
Services	44	30	36	28	72	126	27	110
Health services	31	29	29	16	20	25	11	36
Business services	0	3	13	11	40	45	16	21
Total government	29	12	21	19	19	4	19	88
Private nonfarm production workers	-40	-76	-54	18	91	110	-23	57
Manufacturing production workers	-39	-23	-15	1	-9	-2	-31	9
Total employment[3]	-32	-62	-120	207	75	-19	-82	198
Nonagricultural	-39	-54	-87	203	56	13	-156	246
Memo:								
Aggregate hours of production or nonsupervisory workers	.0	-.1	.0	.1	.0	.8	-.7	.
Average workweek (hours)	34.5	34.3	34.4	34.5	34.4	34.6	34.3	34.3

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 Q4	1992 Q1	1992 Q2	1992 May	1992 June	1992 July
Civilian unemployment rate (16 years and older)	5.5	6.7	6.9	7.2	7.5	7.5	7.8	7.7
Teenagers	15.5	18.7	19.0	19.6	21.0	20.0	23.6	21.0
20-24 years old	8.8	10.8	11.4	11.1	11.3	11.8	11.1	11.7
Men, 25 years and older	4.4	5.7	5.8	6.3	6.5	6.5	6.8	6.5
Women, 25 years and older	4.3	5.1	5.3	5.6	5.8	5.6	5.9	5.9
Labor force participation rate	66.4	66.0	65.9	66.2	66.5	66.5	66.6	66.6

The survey of households supports the picture of a lethargic labor market provided by the payroll survey. Total household employment rose 116,000 on net in June and July, similar to the modest net increase in nonfarm payrolls. At the same time, the civilian labor force rose nearly 400,000 in June--the seventh straight month with a notable increase--and then held about steady in July. The resulting jump in the unemployment rate to an average of 7-3/4 percent in June and July may have been overstated somewhat by difficulties in seasonally adjusting the flow of young persons into the labor market in early summer. Even so, most of the recent rise in the jobless rate appears to reflect a genuine shortfall of job creation relative to a pickup in labor supply.

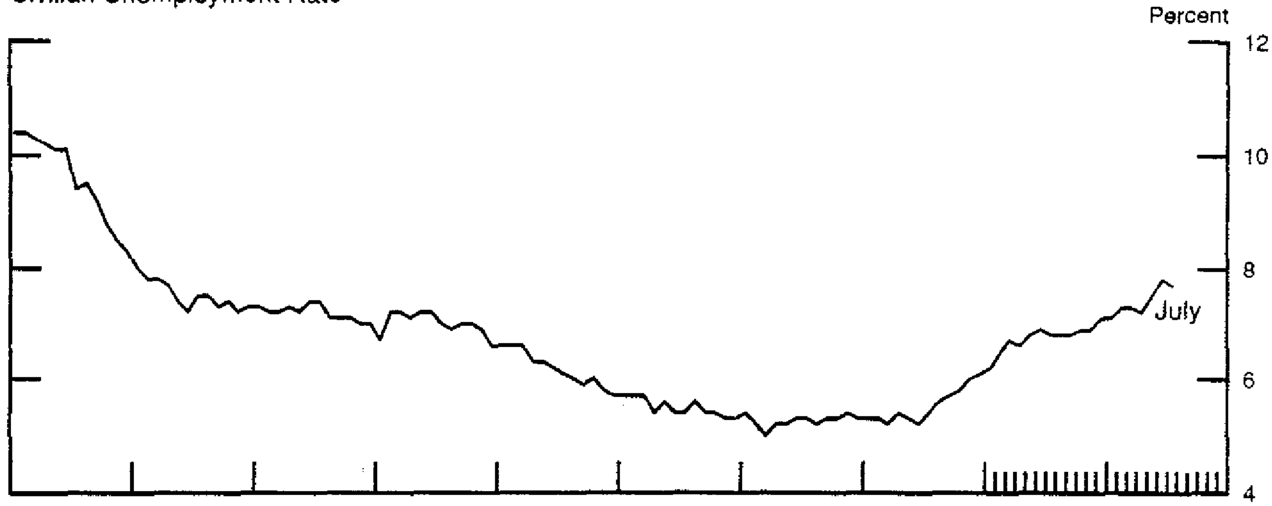
Other indicators from the household survey suggest no material change in labor market conditions over the past two months. The share of the labor force working part time for economic reasons fluctuated in June and July but remained around the relatively high proportion recorded earlier this year. Similarly, the share of the unemployed who are job losers edged down in June and July, but these changes were fairly small compared with the usual monthly variation in the series.

Initial claims for unemployment insurance, which had held between 410,000 and 430,000 during June and the first three weeks of July, jumped to nearly 480,000 during the week of July 25, and then dropped back to 411,000 the following week. The increase in late July was the result of layoffs associated with General Motors' two-week shutdown and provided little information about conditions in the labor market.[2]

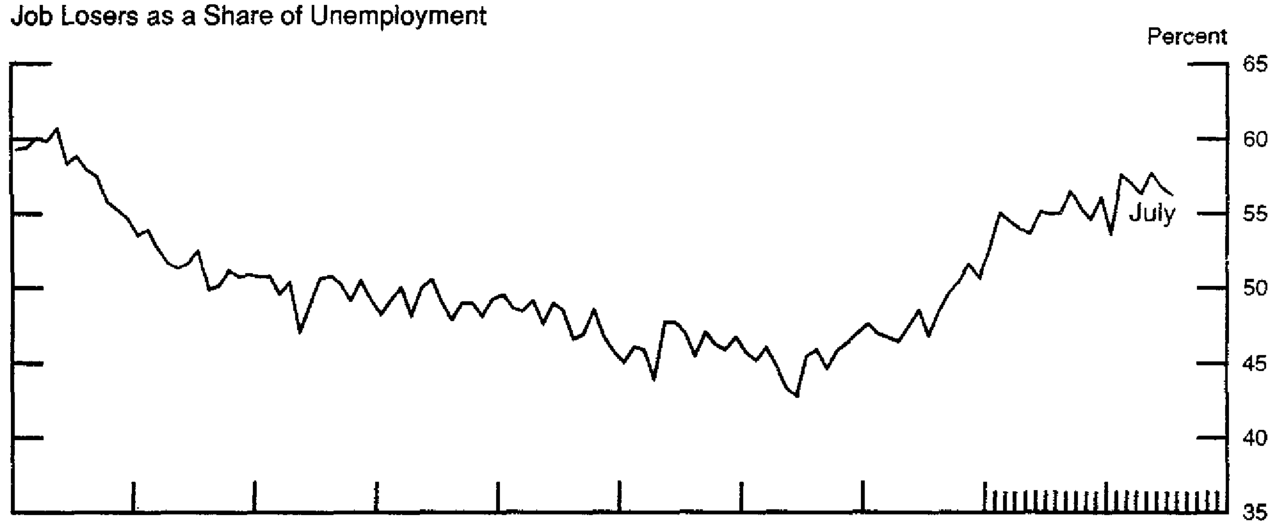
2. The GM shutdown likely will cause claims to spike up again in the week ending August 8, reflecting the delayed processing of the filings in Michigan.

LABOR MARKET INDICATORS

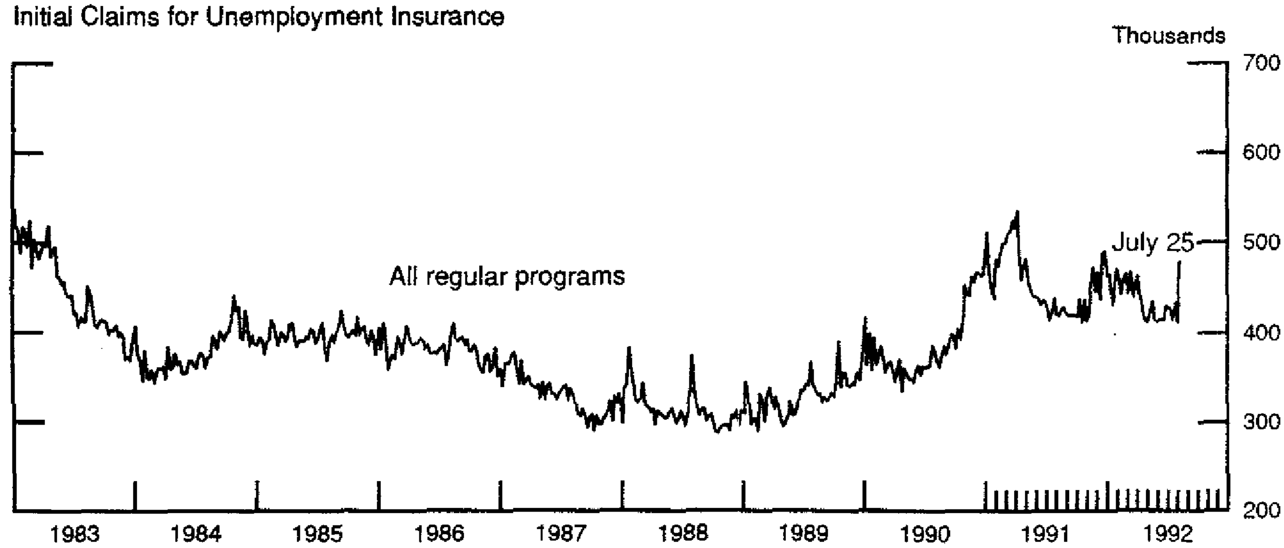
Civilian Unemployment Rate



Job Losers as a Share of Unemployment



Initial Claims for Unemployment Insurance



Industrial Production

Industrial production is estimated to have increased 0.4 percent in July, retracing the June decline. **(THESE DATA ARE CONFIDENTIAL UNTIL RELEASED AT 9:15 A.M. ON AUGUST 14.)** Much of the pickup in July stemmed from increases in mining and utilities, where special factors had held down output in earlier months. Electricity generation, which had been weak in recent months, jumped in July. In addition, coal output rebounded early last month with the resumption of ore shipments after the rail strike. Manufacturing output was unchanged in July after declining 0.2 percent in June.

Production of motor vehicles and parts was a negative for IP again in July; motor vehicle assemblies fell to 9.4 million units at an annual rate (FRB seasonals). Current production schedules call for domestic auto and truck assemblies to increase to about a 10-1/2 million unit rate in August and to remain near that pace in September. Inventories of domestic light vehicles appear to have been reasonably well aligned with sales at the end of July. Barring a significant weakening of sales from the July pace, the scheduled rise in assemblies seems fairly realistic.

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

	1992				1992		
	Q1	Q2	June	July	Aug.	Sep.	Q3
	--------actual---------				----scheduled---		
Domestic production	8.8	10.0	9.9	9.4	10.5	10.3	10.1
Autos	5.2	6.1	6.1	5.7	6.4	6.3	6.1
Trucks	3.6	3.9	3.8	3.7	4.1	4.1	4.0

Apart from motor vehicles, manufacturing output declined 0.1 percent in June and is estimated to have risen by a similar amount in July. Production of consumer durable goods, excluding motor vehicles, declined in both months, while output of consumer

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

	Proportion in total IP 1991:Q4	1991[1]	1992 Q1	1992 Q2	1992 May	1992 June	1992 July
			-Annual Rate--		-----Monthly Rate-----		
Total index	100.0	-.5	-2.9	5.2	.7	-.4	.4
Previous		-.5	-2.9	4.5	.5	-.3	
Motor vehicles and parts	4.2	8.5	-20.0	44.0	4.2	-2.4	-3.3
EXCLUDING MOTOR VEHICLES AND PARTS:							
Total index	95.8	-.9	-2.1	3.8	.5	-.3	.6
Products, total	57.1	-1.3	-1.4	2.2	.3	-.3	.4
Final products	42.9	-.9	-2.1	2.9	.2	-.3	.2
Consumer goods	25.0	2.0	-1.2	2.8	.2	-.3	.3
Durables	3.7	3.2	3.1	10.1	2.4	-.4	-.7
Nondurables	20.9	1.8	-2.1	1.6	-.2	-.3	.5
Excluding energy	18.2	1.7	-.7	.9	-.2	-.2	.2
Business equipment	14.6	-1.9	-1.7	7.9	1.0	.2	.2
Office and computing	2.8	4.2	13.2	22.0	1.4	2.1	2.3
Industrial	3.9	-8.7	-12.1	6.4	1.8	-.7	.3
Other	7.9	-.2	-1.3	3.7	.4	-.1	-.6
Defense and space equip.	4.4	-8.0	-10.9	-9.1	-.5	-.8	-1.6
Intermediate products	14.2	-2.3	.8	.1	.6	-.5	.8
Construction supplies	5.3	-6.4	2.7	4.5	1.4	-.9	.3
Materials	38.7	-.2	-3.2	6.3	.9	-.2	.9
Durables	18.2	-1.8	-1.7	6.3	1.3	-.2	.3
Nondurables	9.0	2.3	-1.4	8.9	.3	1.1	.1
Energy	10.2	.0	-6.0	2.2	.1	-1.3	3.0
Memo:							
Manufacturing excluding motor vehicles and parts	80.8	-.8	-1.1	3.8	.6	-.1	.1
Mining	7.3	-3.3	-7.1	4.9	.8	-1.6	2.8
Utilities	7.7	1.0	-8.5	2.7	-.3	-.7	3.5

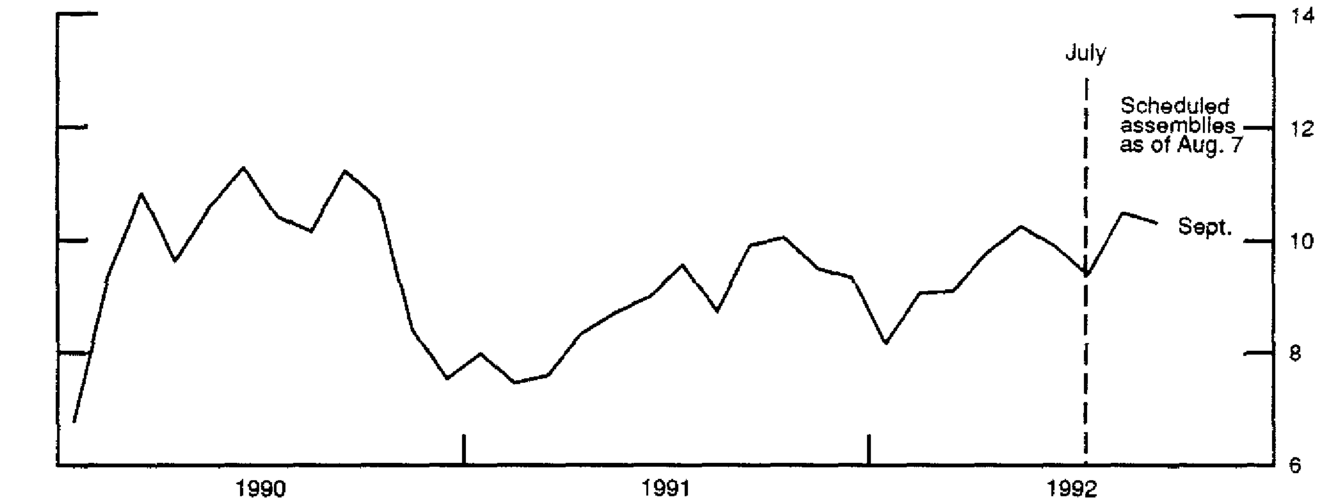
1. From the final quarter of the previous period to the final quarter of the period indicated.

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

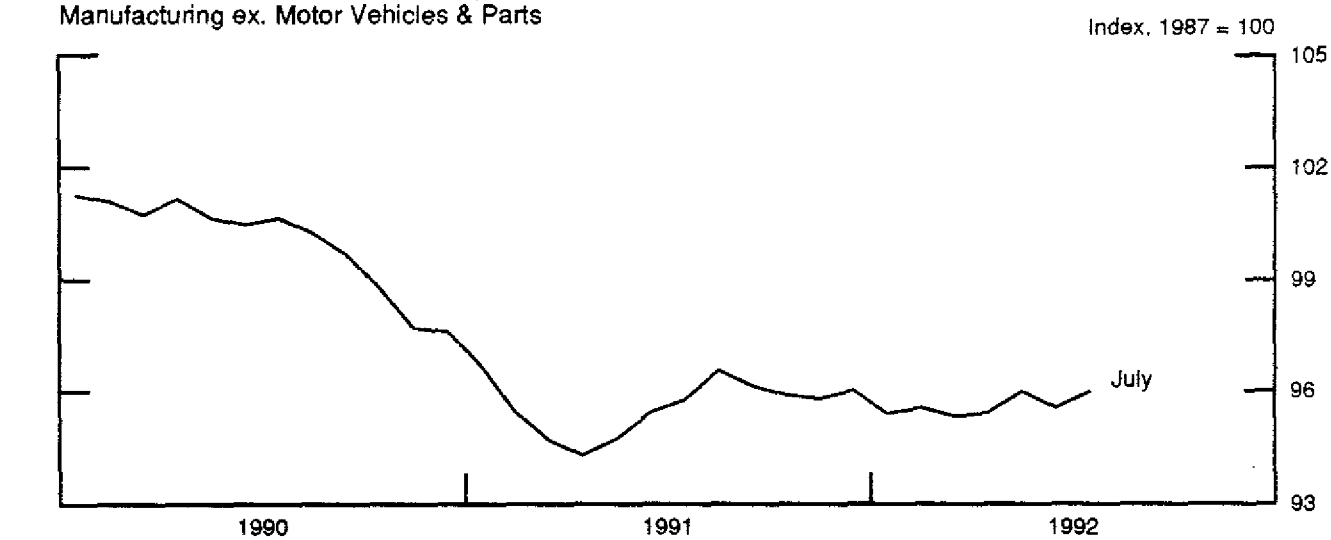
	1967-91 Avg.	1990 July	1992 Q1	1992 Q2	1992 May	1992 June	1992 July
Total industry	82.1	83.8	78.2	78.8	79.1	78.7	78.9
Manufacturing	81.4	83.1	77.3	77.9	78.1	77.8	77.6
Primary processing	82.3	86.1	80.5	81.3	81.4	81.5	81.7
Advanced processing	81.0	81.8	76.0	76.4	76.8	76.3	75.9

MANUFACTURING SECTOR INDICATORS

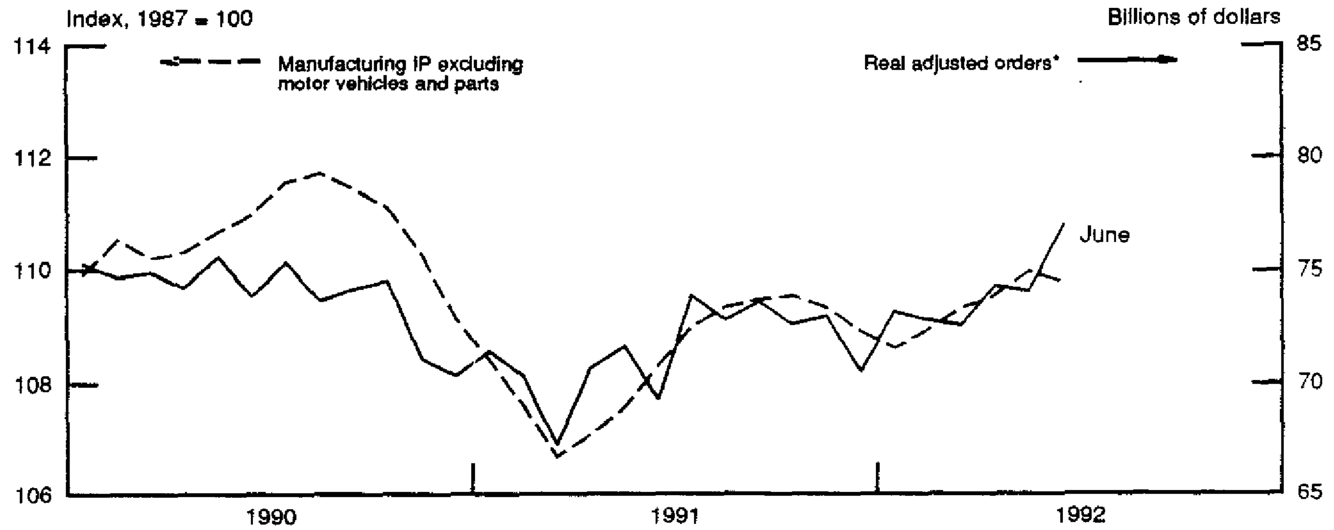
MOTOR VEHICLE ASSEMBLIES
(FRB Seasonals)



PRODUCTION WORKER HOURS (FRB seasonals)
Manufacturing ex. Motor Vehicles & Parts



REAL ADJUSTED DURABLE GOODS ORDERS



*Adjusted durable goods orders equal bookings for durable goods industries that report unfilled orders, excluding orders for defense, nondefense aircraft, and motor vehicle parts. Nominal orders were deflated using a PPI for durable goods except transportation equipment and the BEA deflator for office, computing, and accounting machinery.

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

	1991	1992 Q1	1992 Q2	1992 Apr.	1992 May	1992 June
Total personal income	12.8	21.6	4.9	2.8	13.9	-1.9
Wages and salaries	5.2	11.3	1.3	-5.5	14.4	-4.9
Private	3.8	8.6	-.2	-7.0	12.9	-6.6
Other labor income	1.5	1.4	1.4	1.4	1.5	1.4
Proprietors' income	.1	7.1	-5.3	.7	-11.8	-4.7
Farm	-.3	1.7	-6.4	-1.3	-12.0	-5.8
Rent	.6	-.1	3.6	1.7	4.4	4.8
Dividend	-.8	.1	1.2	1.2	1.2	1.3
Interest	-.6	-8.6	-1.8	-1.9	-1.8	-1.8
Transfer payments	7.8	12.2	5.2	5.5	7.2	2.9
Less: Personal contributions for social insurance	1.1	1.9	.7	.2	1.1	.9
Less: Personal tax and nontax payments	-.1	-5.0	2.5	4.2	2.0	1.3
Equals: Disposable personal income	12.9	26.6	2.5	-1.4	12.0	-3.2
Memo: Real disposable income	1.2	9.8	-4.7	-9.2	3.6	-8.4

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

	1991	1992 Q1	1992 Q2	1992 Apr.	1992 May	1992 June
		-Annual rate-		----Monthly rate----		
Personal consumption expenditures	.0	5.1	-.3	-.1	.2	.4
Durable goods	-2.5	16.5	-2.7	-.6	1.1	2.1
Excluding motor vehicles	-1.0	15.2	-2.2	.2	-.4	.9
Nondurable goods	-1.5	5.5	-1.6	.3	.1	.0
Excluding gasoline	-1.6	5.6	-1.7	.7	-.2	.4
Services	1.6	2.2	1.0	-.1	.0	.2
Excluding energy	1.5	3.0	.4	-.1	.1	.2
Memo: Personal saving rate (percent)	4.7	4.9	5.2	5.4	5.4	4.8

nondurables (other than energy) edged up. Among the major categories of business equipment, the output of information processing equipment continued to rise at a rapid rate; elsewhere, production dropped back after having posted solid increases earlier in the spring. Output of construction supplies posted a small gain in July; this series, though fluctuating from month to month, has been on an uptrend this year. The indexes for durable and nondurable materials both edged up a bit last month.

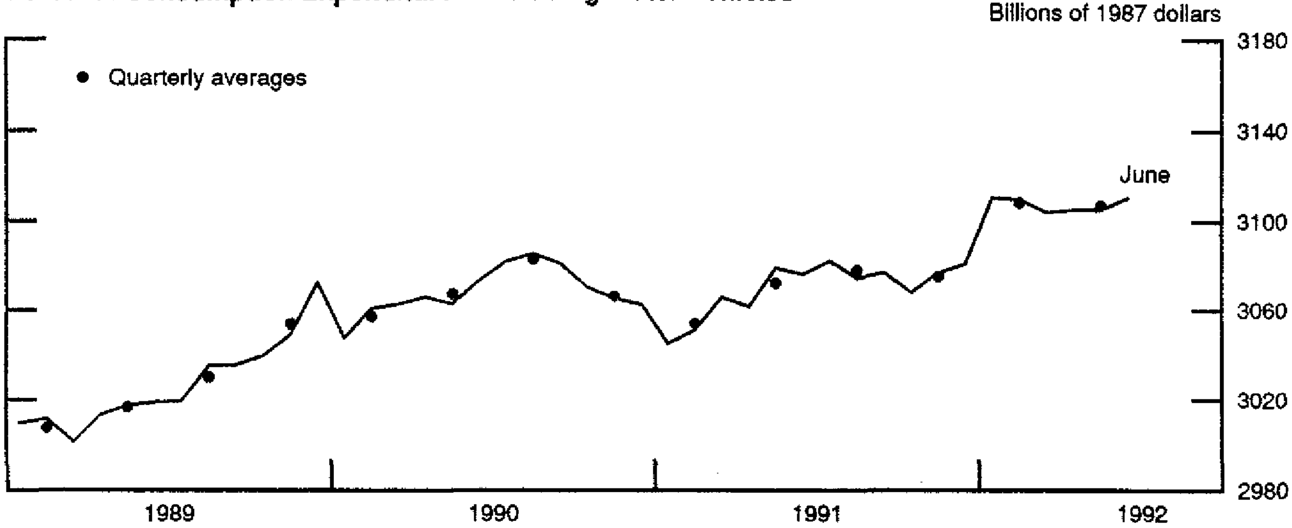
The apparent lull in manufacturing output excluding motor vehicles over June and July follows increases between January and May that averaged 0.4 percent per month. Looking forward, the staff's constructed measure of adjusted durable goods orders, which rose sharply over the second quarter (chart), is consistent with further small gains in this sector in the current quarter.

Personal Income and Consumption

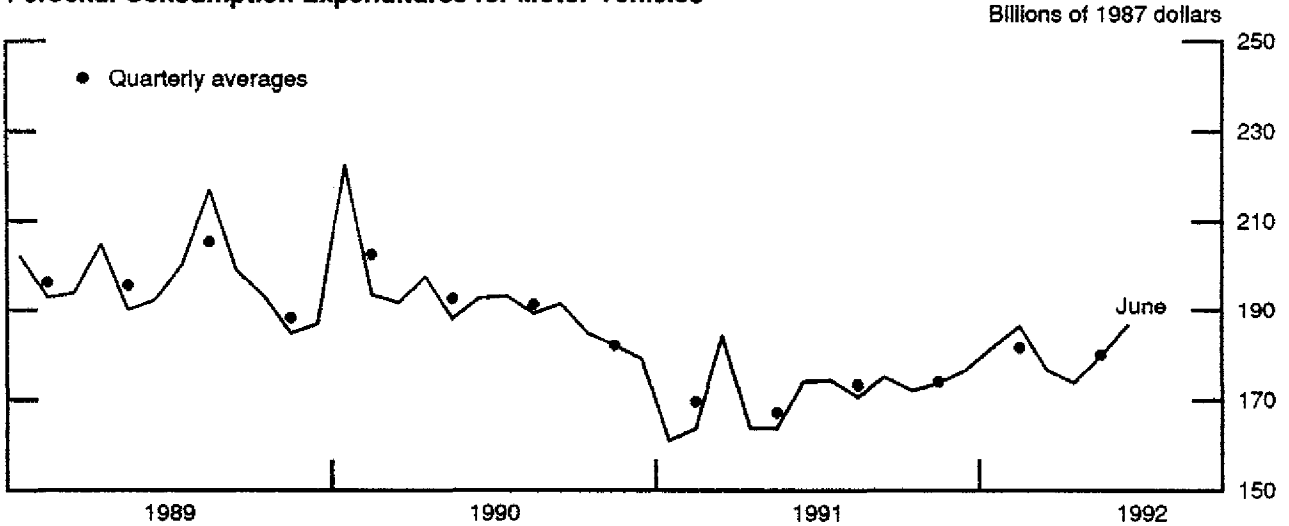
Real disposable personal income edged up at a 0.7 percent annual rate during the second quarter. Although income growth last quarter was held down by a decline in farm subsidy payments, the more fundamental factor was the lack of growth in wage and salary income. The latest labor-market report suggests that private wages and salaries were little changed in July, as both aggregate production worker hours and average hourly earnings were flat last month.

Real personal consumption expenditures edged down, on average, in the second quarter, although spending showed some improvement toward the end of the quarter. Real PCE was up 0.4 percent in June, with broad-based gains led by higher sales of cars and light trucks. With outlays weaker than income, the personal saving rate rose 0.3 percentage point in the second quarter to 5.2 percent. The recent revision to the National Income Accounts indicates that the

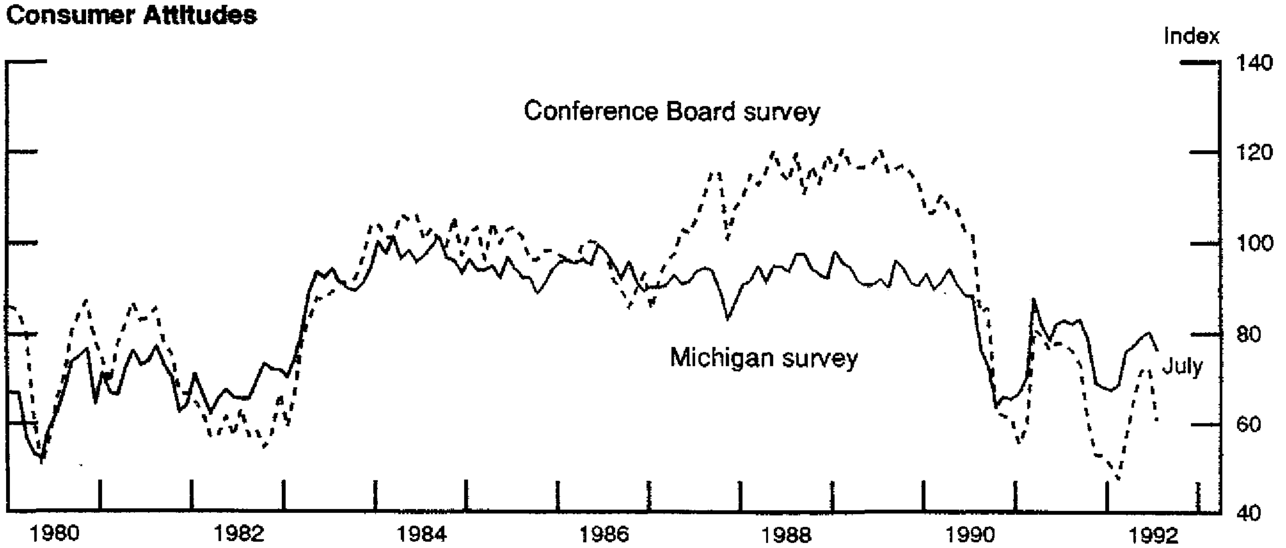
Personal Consumption Expenditures Excluding Motor Vehicles



Personal Consumption Expenditures for Motor Vehicles



Consumer Attitudes



saving rate has trended up over the past few years from the 3-1/2 percent reading in the third quarter of 1989--consistent with the notion that household spending has become more conservative in response to balance sheet problems.

In July, retail sales (excluding those at auto dealers and building material and supply stores) rose 0.7 percent after edging down in June.[3] Within this control grouping, sales rose considerably in both months at apparel outlets and at furniture and appliance stores. In addition, general merchandisers reported a sharp rise in sales last month after little net change since April. After deflation by components of the CPI, we estimate that real spending in the PCE control category in July stood about 1/2 percent above the second-quarter average.

Sales of autos and light trucks dropped back in July to 12.5 million units at an annual rate. However, the decline last month was from an elevated June level, and the average selling pace over the past two months remained well above that observed earlier in the year. Accelerated deliveries of vehicles to daily rental companies, which transferred about 200,000 units of sales from July to June, more than accounted for last month's decline in domestic auto sales. Although sales of North American-produced light trucks dropped 500,000 units to a 3.9 million unit annual rate, that decline followed an unusually brisk pace of sales in June. Sales of foreign-produced light vehicles also moved down last month; the weakness was especially pronounced for European luxury imports.

Consumer sentiment sagged again in July. The Conference Board's index of consumer confidence registered a sharp decline, and the less volatile Michigan index of consumer sentiment posted a more

3. The June change was previously reported as a 0.3 percent increase. This downward revision, combined with an offsetting upward adjustment to May, suggests little change to BEA's advance estimate of real consumer spending in the second quarter.

RETAIL SALES
(Seasonally adjusted percentage change)

	1991	1992		1992		
	Q4	Q1	Q2	Apr.	May	June
Total sales	.0	2.7	.4	.3	.4	.5
Previous estimate		2.7		.4	.2	
Retail control[1]	-.7	2.2	.2	.2	.2	.3
Previous estimate		2.2		.3	.1	
Total excl. automotive group	-.6	2.5	.2	.2	.2	.1
Previous estimate		2.5		.4	.0	
GAF[2]	-1.7	5.5	-.8	-.3	.4	.3
Previous estimate		5.5		.0	.3	
Durable goods stores	.9	3.8	1.0	.6	.8	.7
Previous estimate		3.8		.4	.4	
Bldg. material and supply	-.5	7.5	.0	.3	.1	-2.8
Automotive dealers	2.4	3.2	1.0	.7	1.0	1.7
Furniture and appliances	-1.7	4.0	-.8	-.9	-.5	.4
Other durable goods	-1.3	2.5	3.6	1.8	1.5	.4
Nondurable goods stores	-.5	2.0	.1	.2	.2	.4
Previous estimate		2.0		.4	.0	
Apparel	-2.6	4.0	2.0	.8	1.2	1.8
Food	.3	.2	.2	1.0	-.8	.1
General merchandise[3]	-1.4	6.8	-1.9	-.4	.4	-.4
Gasoline stations	-1.4	-.9	2.0	.2	1.4	1.6
Other nondurables[4]	.0	1.6	.0	-.4	.3	.2

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.

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

			1991	1992		1992		
	1990	1991	Q4	Q1	Q2	May	June	July
Total	13.86	12.30	12.26	12.37	13.00	12.92	13.56	12.51
Autos	9.50	8.39	8.21	8.31	8.50	8.41	8.88	8.34
Light trucks	4.36	3.91	4.05	4.06	4.50	4.51	4.68	4.18
North American[2]	10.84	9.73	9.82	9.86	10.57	10.53	11.11	10.35
Autos	6.90	6.14	6.06	6.07	6.32	6.26	6.66	6.41
Big Three	5.82	4.99	5.00	5.02	5.17	5.18	5.42	5.10
Transplants	1.08	1.14	1.06	1.05	1.15	1.08	1.24	1.31
Light trucks	3.95	3.59	3.76	3.79	4.25	4.26	4.45	3.94
Foreign produced	3.01	2.57	2.45	2.50	2.43	2.39	2.45	2.16
Autos	2.60	2.25	2.15	2.24	2.18	2.15	2.22	1.93
Light trucks	.41	.32	.29	.27	.24	.24	.23	.24
Memo:								
Domestic nameplate								
Market share, total	.72	.70	.72	.72	.73	.73	.73	.72
Autos	.64	.63	.64	.63	.63	.64	.63	.63

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

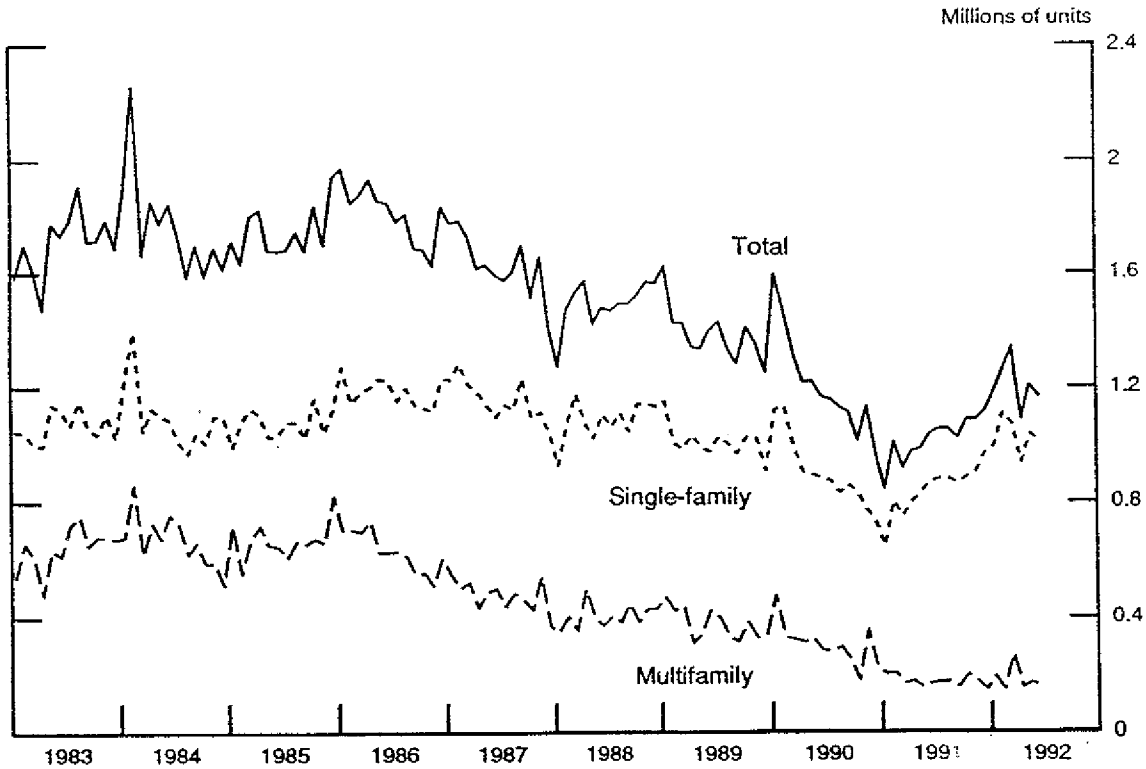
1. Components may not add to totals because of rounding.
2. Excludes some vehicles produced in Canada and Mexico that are classified as imports by the industry.

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

	1991	1991	1992		1992		
	Annual	Q4	Q1	Q2p	Apr.r	Mayr	Junep
All units							
Permits	.95	1.02	1.12	1.05	1.06	1.05	1.04
Starts	1.01	1.10	1.26	1.15	1.09	1.21	1.17
Single-family units							
Permits	.75	.82	.92	.88	.87	.88	.88
Starts	.84	.92	1.06	.99	.93	1.04	1.01
Sales							
New homes	.51	.56	.62	.55	.54	.53	.57
Existing homes	3.22	3.23	3.41	3.44	3.49	3.46	3.36
Multifamily units							
Permits	.20	.20	.19	.17	.19	.18	.16
Starts	.17	.17	.20	.16	.15	.17	.16

p Preliminary. r Revised estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



moderate drop. Declines were widespread among the components of both indexes. Despite the July declines, each index remained considerably above its depressed level around the turn of the year.

Housing Markets

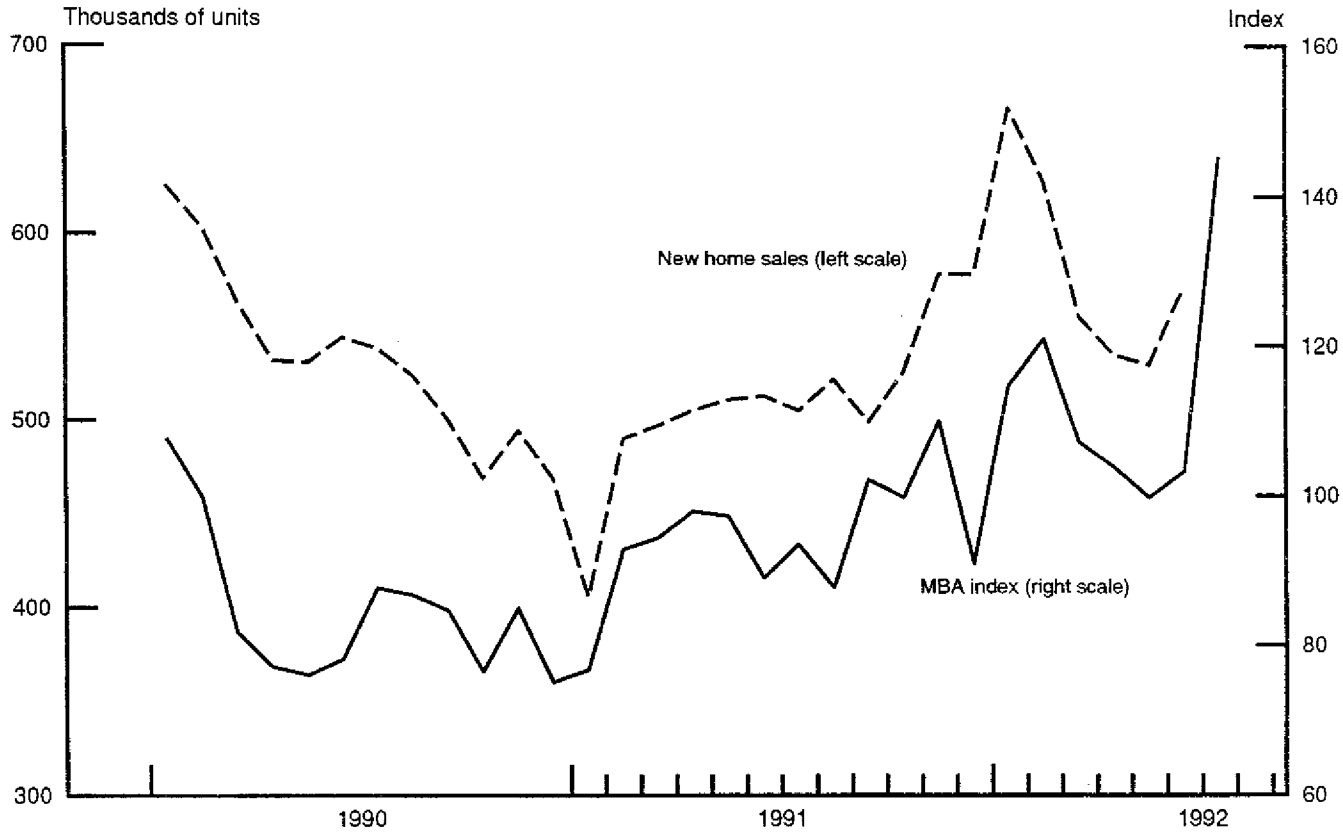
Housing demand appeared to firm again just before midyear. According to revised estimates, sales of new single-family homes leveled off in May, rather than declining, and preliminary data show that sales rose 8 percent in June to 572,000 units at an annual rate. The substantial June increase suggests that the payback from the first-quarter bulge of sales had faded and that homebuyers were responding to the declines in rates on fixed-rate mortgages that occurred between March and June.

The further drop in mortgage interest rates last month could be providing a boost to housing demand. The weekly index of mortgage applications for home purchases compiled by the Mortgage Bankers Association increased 40 percent during July after seasonal adjustment.[4] This index appears to have been closely correlated with new home sales in the past (chart). However, the limited history of the MBA series, and a number of conceptual and practical shortcomings in its construction, suggest that considerable caution should be exercised in interpreting the jump in July.[5] Moreover, as yet, the anecdotal reports on housing activity have not shown the exuberance suggested by the MBA purchase index.

4. The purchase index is seasonally adjusted by the FRB staff using the seasonal factors for new home sales; the two-year history of the index is too short to permit the estimation of seasonal factors. Before seasonal adjustment, the index rose 27 percent in July.

5. The MBA series is based on reports from a small and varying number of mortgage bankers and thus has a weak statistical foundation. In addition, the index is subject to judgmental adjustments that may partly account for the tight correlation with other housing indicators. Recent staff changes at MBA also raise questions about the consistency of recent observations with the historical series. Finally, the index will be an inaccurate guide to changes in new home sales whenever there are shifts in the propensity of borrowers to submit multiple mortgage applications.

Mortgage Bankers Association Purchase Index and New Home Sales
(Seasonally adjusted)



On the production side, single-family starts edged down in June to an annual rate of 1.01 million units, retracing about one-quarter of the sizable increase in May; permit issuance, which is measured with considerably less statistical error than starts, was little changed in May and June. Multifamily housing starts dropped back to a 157,000 unit pace in June, only slightly above the low for the series. Multifamily construction continues to be impeded by a persistent oversupply of rental apartments and the resulting restraint on rents. The vacancy rate for multifamily rental properties increased to 9.6 percent in the second quarter (seasonally adjusted) from an already high 9.4 percent reading in the first quarter.

Business Fixed Investment

Business fixed investment strengthened during the first half of this year. After a moderate increase in the first quarter, real equipment spending jumped more than 20 percent at an annual rate in the second quarter, reflecting continued strength in outlays for computing equipment, a substantial rebound in domestic aircraft deliveries, and a pickup in business purchases of motor vehicles.[6] In addition, outlays for industrial equipment increased modestly last quarter, the first rise in more than three years.

In the current quarter, equipment spending appears well positioned to post another increase. The 5.2 percent jump in shipments of nondefense capital goods (excluding aircraft) in June provides an elevated starting point for third-quarter outlays. In addition, new orders for these goods rose strongly between April and June. Anecdotal reports indicate that the price wars among domestic

6. Revised estimates for shipments of nondefense capital goods during May and June suggest an upward revision of about \$1-3/4 billion to BEA's advance estimate of second-quarter PDE spending.

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

	1991	1992		1992		
	Q4	Q1	Q2	Apr.	May	June
Producers' durable equipment						
Shipments of nondefense capital goods	.9	.5	1.5	-3.3	-.9	7.7
Excluding aircraft and parts	1.2	.2	2.7	-1.8	.4	5.2
Office and computing	6.8	5.0	3.9	1.8	.3	4.7
All other categories	-.3	-1.2	2.4	-2.9	.5	5.4
Shipments of complete aircraft[1]	-23.2	65.0	n.a.	-13.8	-3.9	n.a.
Sales of heavy weight trucks	-1.8	6.6	5.6	7.1	-7.8	2.5
Orders of nondefense capital goods	-4.0	2.5	-.2	-7.0	1.9	2.3
Excluding aircraft and parts	-1.3	4.0	.6	-2.9	1.6	5.3
Office and computing	.4	9.2	4.6	-1.2	4.9	3.0
All other categories	-1.8	2.6	-.5	-3.4	.7	6.0
Nonresidential structures						
Construction put-in-place	-4.2	.6	-.7	-1.5	-1.8	-1.2
Office	-10.8	-4.9	-8.7	-3.4	-5.9	-2.5
Other commercial	-10.4	1.5	.1	-3.1	-.2	2.1
Industrial	2.7	2.4	-6.3	-10.2	-1.3	-4.3
Public utilities	.8	5.2	1.3	3.8	-2.5	-2.9
All other	-4.2	-2.7	6.2	2.2	.1	1.1
Rotary drilling rigs in use	-9.2	-4.7	-1.5	1.3	-.1	-7.4
Footage drilled[2]	-1.3	-15.1	n.a.	-5.7	.3	n.a.
Memo:						
Business fixed investment[3]	-5.2	3.0	13.5	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.

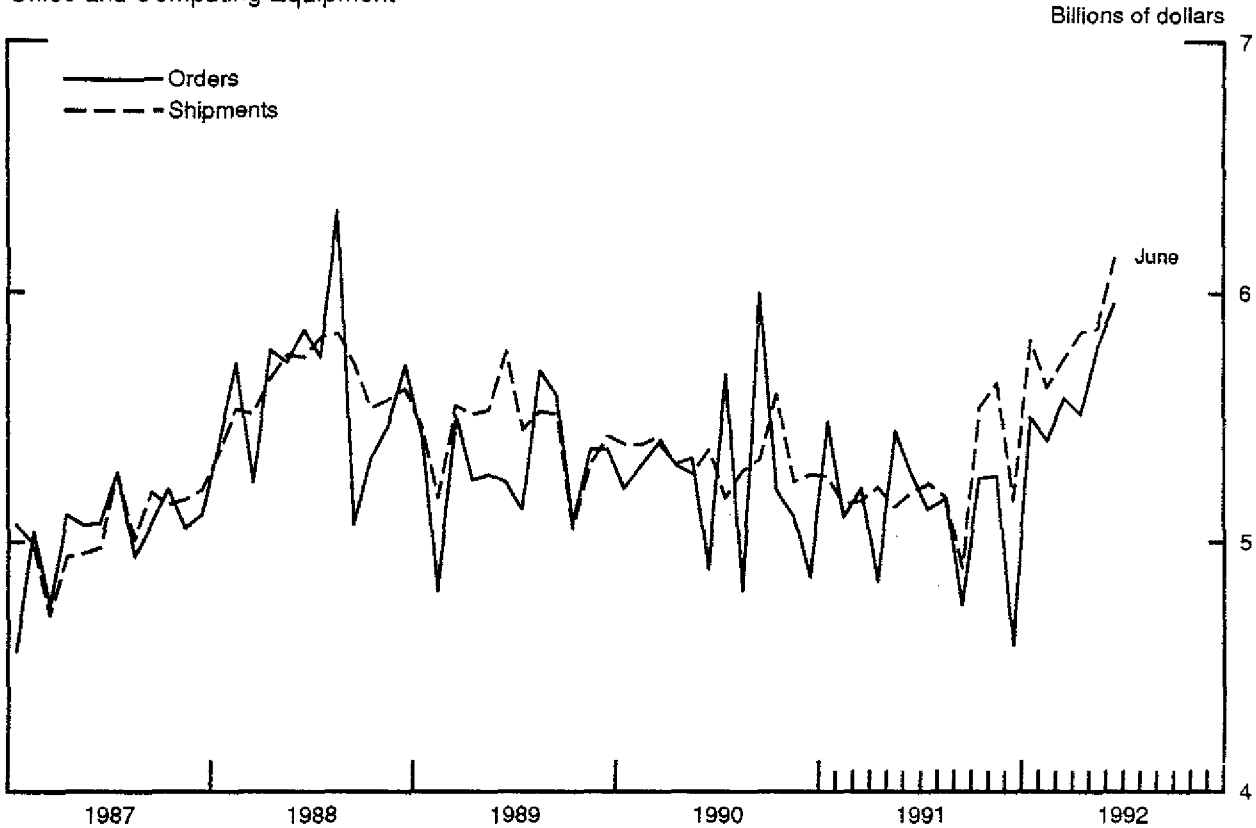
producers of computing equipment, as well as rapid product innovation, are continuing to spur demand for a variety of products--especially personal computers and workstations. More generally, real corporate cash flow has continued to rise, providing greater wherewithal for investment outlays. On the downside, domestic outlays for aircraft jumped in the second quarter to what appears to be an unsustainably high level and probably will retreat somewhat in the current quarter. The longer-term outlook for domestic purchases of aircraft is decidedly negative, as new orders placed with Boeing by domestic airlines have weakened further this year (chart).

Outlays for nonresidential structures were about flat during the first half of this year after declining sharply in 1991. Among the components of construction, spending for commercial buildings other than offices has firmed in recent quarters, and outlays for public utility structures have continued to trend up. However, construction activity in the office sector is still declining, and recent weakness in industrial construction has offset the gains recorded in late 1991 and early this year.

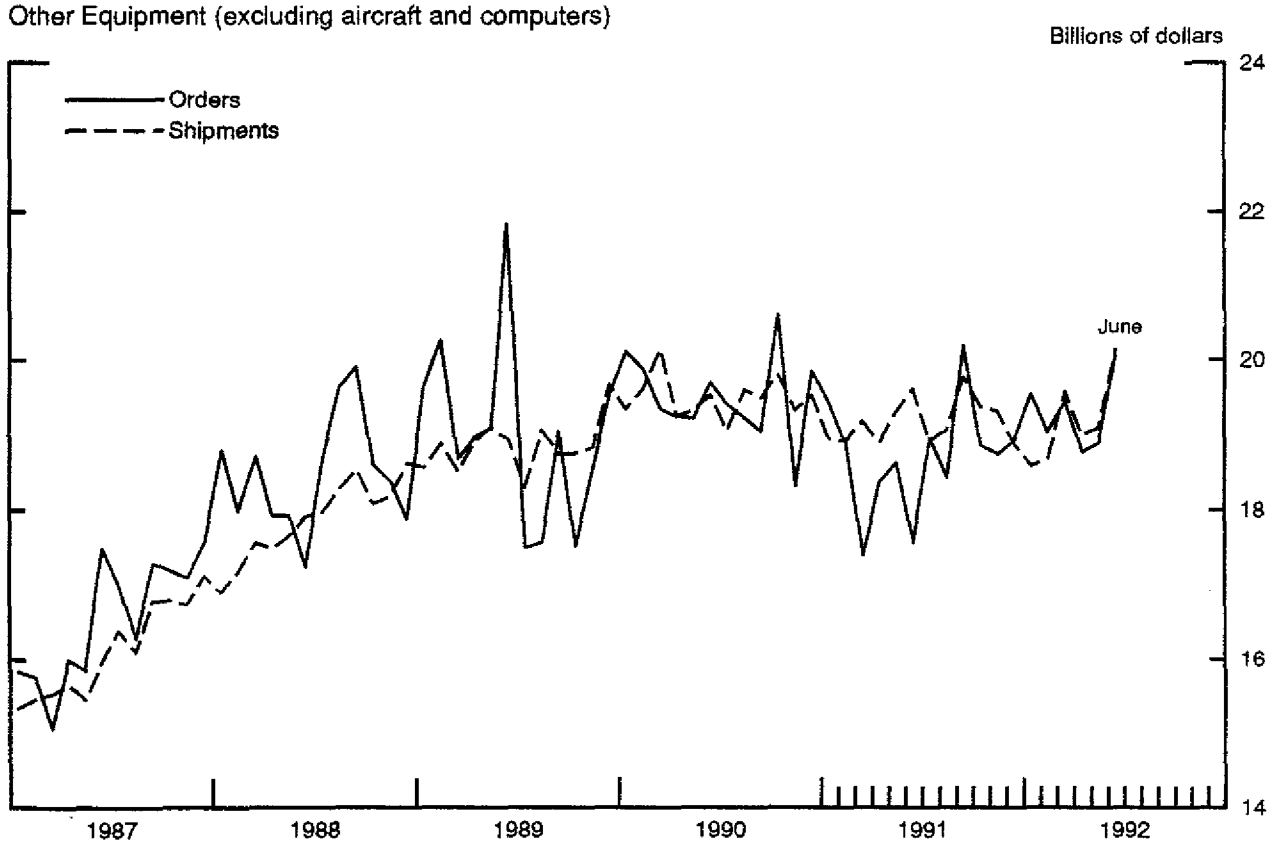
Looking ahead, new contracts for total nonresidential construction have changed little on net for some time now (chart), suggesting that the bulk of the contraction in spending is behind us. Leading indicators for industrial building have actually turned up in recent months, while those for office buildings and other commercial structures have continued to edge down. Coldwell-Banker estimates that the office vacancy rate for the United States as a whole remained around 19-1/2 percent as of June 30, suggesting that little progress has been made in absorbing the huge overhang of vacant space. Even in the healthier industrial sector, the

RECENT DATA ON ORDERS AND SHIPMENTS

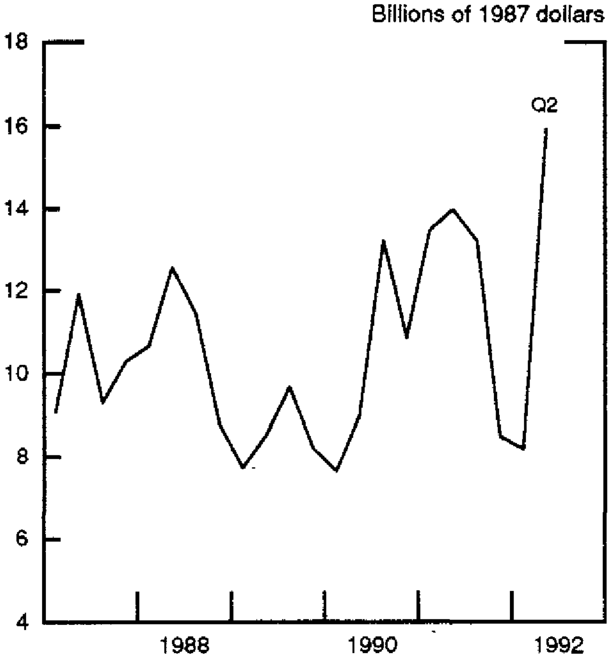
Office and Computing Equipment



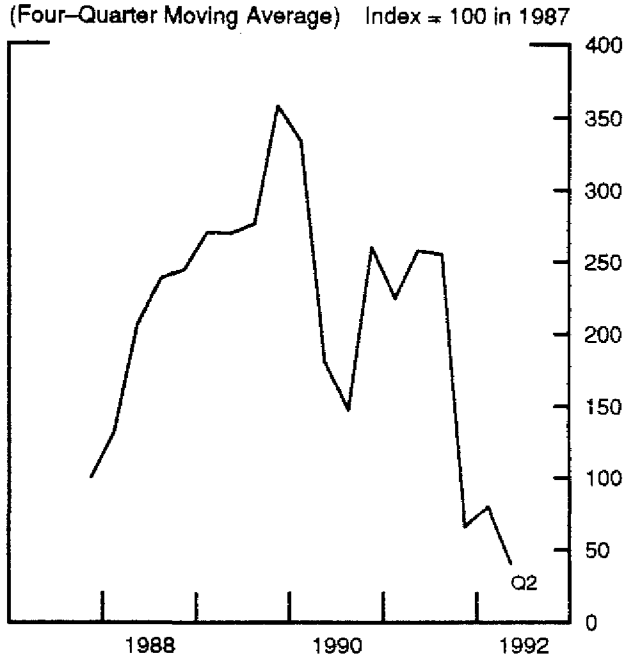
Other Equipment (excluding aircraft and computers)



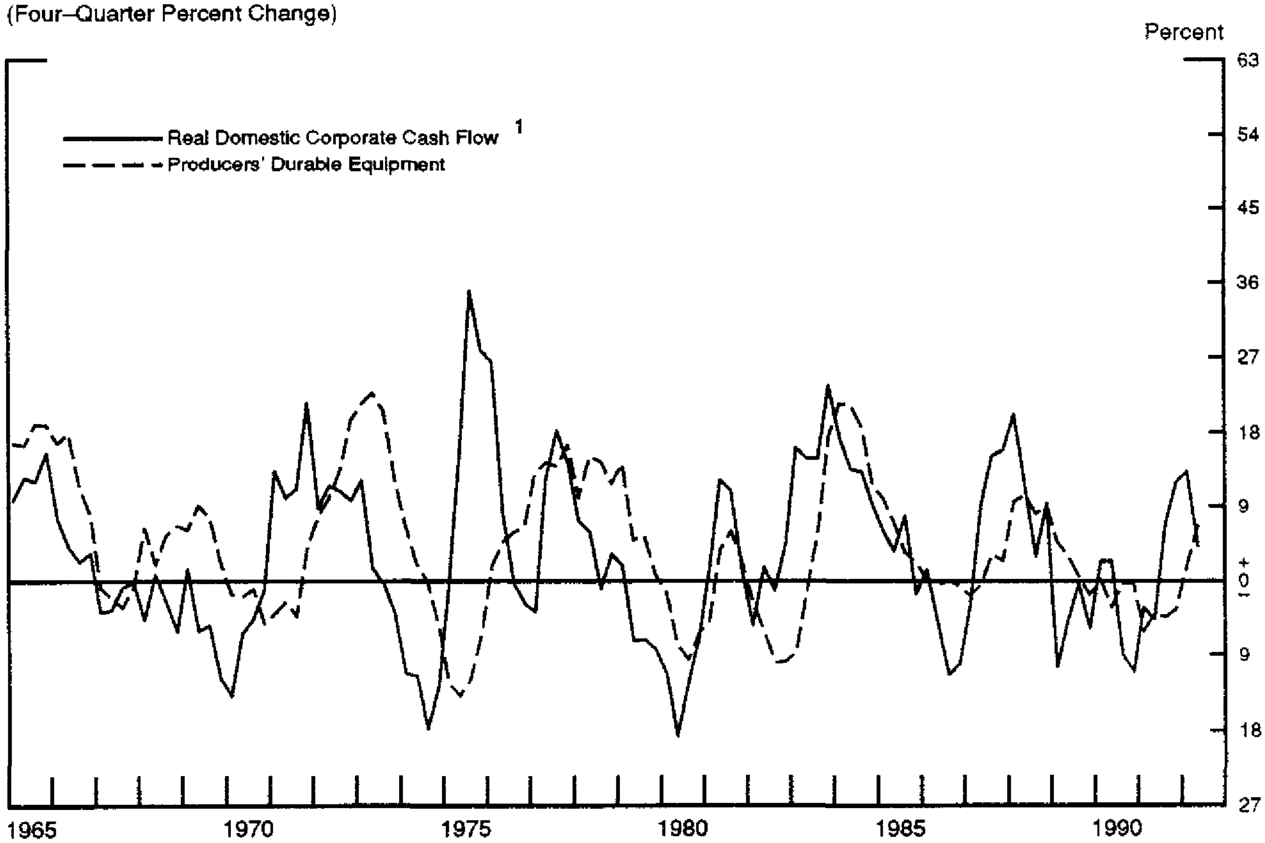
Real PDE Aircraft Outlays



Total Boeing Domestic Orders



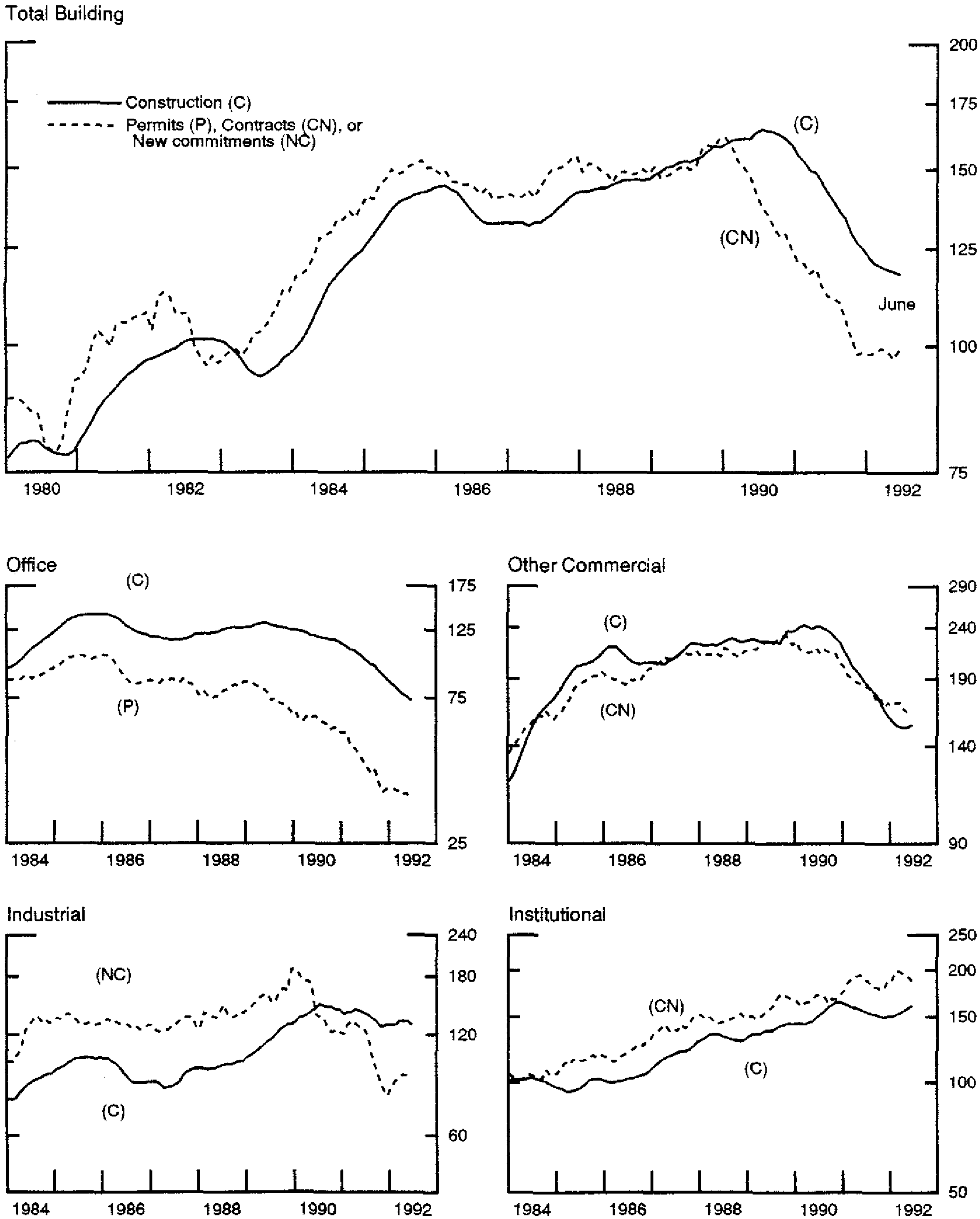
Real Equipment Investment and Cash Flow



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.

relatively low rates of capacity utilization limit the need for new facilities.

Business Inventories

BEA's advance GDP estimate indicated that nonfarm business inventories changed little during the second quarter while final sales of domestic businesses posted a small gain.[7] In constant-dollar terms, the ratio of inventories to final sales for the nonfarm sector was estimated to have edged down to 2.57 months at the end of the second quarter, a relatively low ratio by historical standards.

Manufacturers' inventories, measured in current-cost terms, posted a small decline over the second quarter. Stocks of aircraft and parts continued to be pared, likely a planned adjustment to declining orders for civilian aircraft over the past year and the reductions in defense spending. Outside of the aircraft industry, factory stocks rose moderately from April to June, retracing the decline of the first quarter. The inventory-shipments ratio for manufacturing has been moving down since the end of 1991; the ratio in June was the lowest since July 1979 (chart).

In wholesale trade, inventories expanded sharply in June, with runups reported for a wide range of goods. However, because sales also surged, the wholesalers' inventory-sales ratio edged down in June. On balance, the ratio has not changed much over the past several months, remaining near the high end of the range that has prevailed in recent years.

For retail trade, the data through May indicated that stores were able to reverse some of the unintended stockbuilding that had

7. After the advance estimate was released, incoming data from Census surveys showed that manufacturing and merchant wholesale inventories taken together expanded more rapidly during the second quarter than BEA had assumed. The implied upward revision to the second-quarter inventory change is $4-1/4 billion (annual rate) in current-cost terms, or roughly $3-1/2 billion in constant dollars.

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

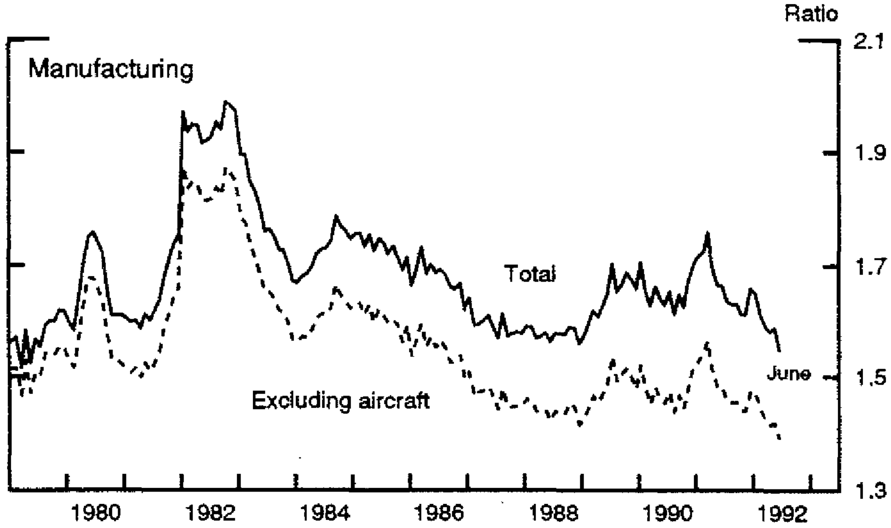
	1991	1992		1992		
	Q4	Q1	Q2	Apr.	May	June
Current-cost basis						
Total	23.1	-7.9	n.a.	29.1	-7.3	n.a.
Excluding auto dealers	22.1	-13.7	n.a.	6.2	-5.5	n.a.
Manufacturing	-14.0	-11.2	-1.4	-12.4	13.0	-4.9
Excluding aircraft	-7.0	-7.1	8.2	.2	16.3	8.2
Wholesale	19.9	-1.2	9.5	-2.9	-12.4	43.9
Retail	17.3	4.5	n.a.	44.4	-7.9	n.a.
Automotive	1.1	5.8	n.a.	22.9	-1.8	n.a.
Excluding auto dealers	16.2	-1.3	n.a.	21.6	-6.1	n.a.
Constant-dollar basis						
Total	16.2	-13.2	n.a.	10.8	-1.6	n.a.
Excluding auto dealers	17.0	-18.0	n.a.	-5.3	-5.0	n.a.
Manufacturing	-11.3	-8.7	n.a.	-16.7	4.5	n.a.
Wholesale	15.2	-4.9	n.a.	-4.0	-1.0	n.a.
Retail	12.3	.5	n.a.	31.6	-5.1	n.a.
Automotive	-.9	4.8	n.a.	16.1	3.3	n.a.
Excluding auto dealers	13.1	-4.4	n.a.	15.5	-8.4	n.a.

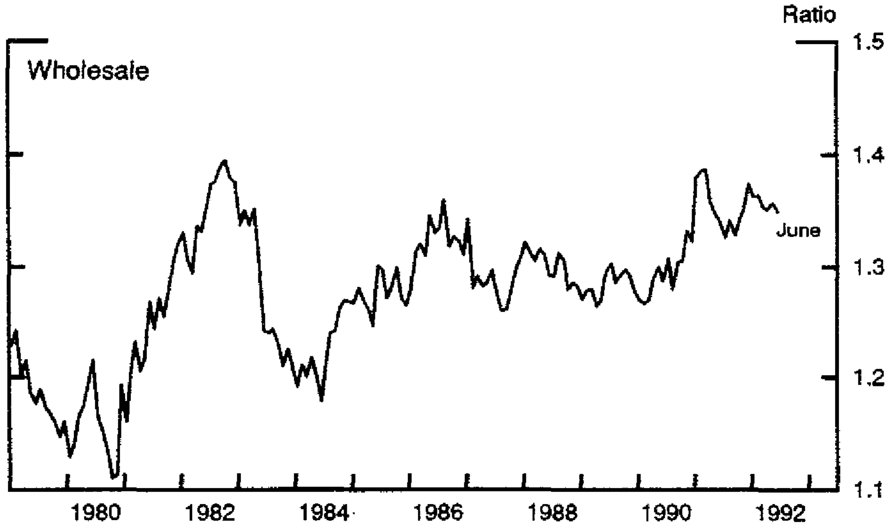
INVENTORIES RELATIVE TO SALES[1]
(Months supply; based on seasonally adjusted data)

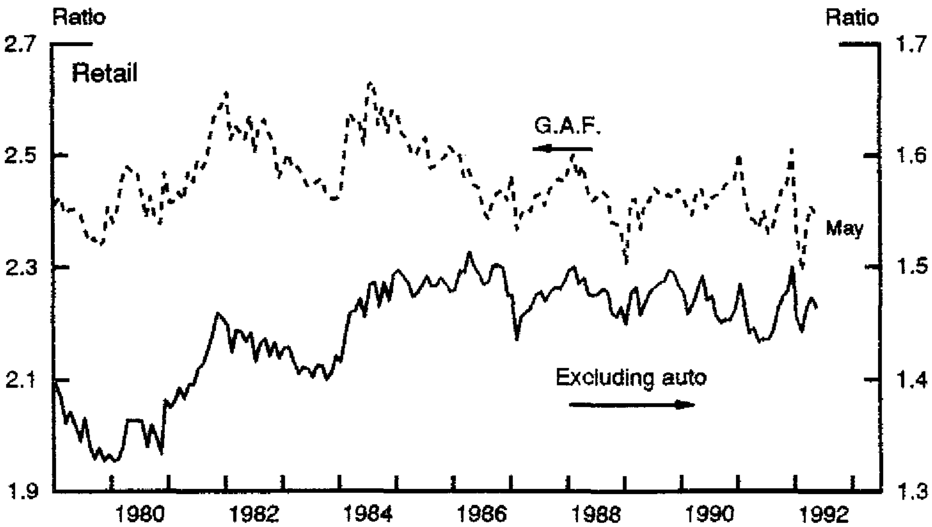
	1991	1992		1992		
	Q4	Q1	Q2	Apr.	May	June
Current-cost basis						
Total	1.54	1.52	n.a.	1.51	1.52	n.a.
Excluding auto dealers	1.52	1.50	n.a.	1.49	1.49	n.a.
Manufacturing	1.62	1.62	1.57	1.58	1.59	1.55
Excluding aircraft	1.45	1.45	1.41	1.42	1.42	1.39
Wholesale	1.37	1.36	1.37	1.35	1.36	1.35
Retail	1.58	1.54	n.a.	1.57	1.56	n.a.
Automotive	1.87	1.85	n.a.	1.92	1.89	n.a.
Excluding auto dealers	1.50	1.46	n.a.	1.47	1.46	n.a.

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

RATIO OF INVENTORIES TO SALES
(Current–cost data)







FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Unified basis, billions of dollars, except where otherwise noted)

	June 1991	June 1992	Fiscal year to date FY1991	FY1992	Dollar change	Percent change
Outlays	106.0	117.1	968.0	1043.3	75.3	7.8
Deposit insurance (DI)	6.0	1.4	30.3	9.3	-21.0	-69.2
Defense Cooperation account (DCA)	-.8	.0	-38.9	-5.2	33.7	-86.7
Outlays excluding DI and DCA	100.7	115.7	976.6	1039.2	62.6	6.4
National defense	22.7	25.9	237.6	225.9	-11.7	-4.9
Net interest	15.7	15.4	144.8	150.3	5.5	3.8
Social security	25.9	27.2	201.2	215.1	13.9	6.9
Medicare and health	14.9	18.8	128.2	153.4	25.1	19.6
Income security	9.8	13.6	129.3	151.0	21.7	16.8
Other	11.6	14.8	135.5	143.5	8.0	5.9
Receipts	103.4	120.9	789.9	815.6	25.7	3.3
Personal income taxes	44.5	53.1	346.7	348.3	1.6	.5
Social insurance taxes	34.8	38.4	300.1	315.5	15.4	5.1
Corporate income taxes	16.5	20.8	76.4	78.0	1.6	2.1
Other	7.6	8.7	66.7	73.7	7.1	10.6
Deficit(+)	2.6	-3.8	178.1	227.7	49.6	27.9
Excluding DI and DCA	-2.7	-5.2	186.7	223.6	36.9	19.7

Details may not add to totals because of rounding.

occurred in the preceding two months; inventory-sales ratios in May did not appear especially high by historical standards. An update on retail inventories will be included in the Supplement.

Federal Sector

On an NIPA basis, real federal purchases were about flat in the second quarter; a small decline in outlays for national defense was offset by increases in nondefense purchases. The revised data, which incorporate updated budget estimates from OMB, indicate that the rise in nondefense outlays since the end of 1990--at about a 6 percent annual rate--has been somewhat more rapid than previously thought. Even so, the new data show that total real federal purchases fell about 4-1/2 percent over the year ended in the second quarter, reflecting the marked downtrend in defense outlays.

The unified federal budget deficit over the first nine months of FY1992 totaled $228 billion, up $50 billion from the comparable period a year earlier. The data for the most recent months do not alter the trends that have been evident over the course of FY1992--anemic growth in receipts and rapidly rising outlays for entitlement programs.

So far this fiscal year, receipts have increased only 3 percent from the level recorded during the first nine months of FY1991. Social Security taxes account for the bulk of the increase. Personal tax payments through June were little changed from the same period a year earlier because of the slow pace of recovery and lower withholding rates. Corporate income tax receipts have moved up in recent months, likely owing to the rebound in profits, but the year-to-date increase has been only 2 percent.

Among the components of outlays, spending on health programs has increased nearly 20 percent during FY1992, and spending for unemployment insurance and other income-security programs has risen

ADMINISTRATION POLICY BUDGET PROJECTIONS
(Billions of dollars)

	Fiscal years					
	1992	1993	1994	1995	1996	1997
Outlays	1407	1504	1527	1545	1620	1701
Receipts	1074	1163	1253	1326	1402	1464
Deficit						
Mid-Session projection	334	341	274	218	218	237
(February projection)	400	350	212	194	181	188
Deficit ex deposit insurance and Desert Storm contributions						
Mid-Session projection	328	282	253	248	241	271
(February projection)	325	284	237	221	203	220
Memo:						
Deposit insurance	11	59	21	-30	-23	-34
Desert Storm contributions(-)	-5	0	0	0	0	0

ADMINISTRATION ECONOMIC ASSUMPTIONS

	Calendar years					
	1992	1993	1994	1995	1996	1997
	------Percent change, Q4 to Q4-------					
Real GDP	2.7	3.0	3.0	3.0	2.9	2.8
GDP deflator	3.0	3.2	3.1	3.1	3.1	3.0
CPI-U	3.1	3.3	3.2	3.2	3.2	3.1
	--------Percent, annual average--------					
Civilian unemployment rate	9.1	8.4	8.0	7.6	7.1	7.2
Interest rates						
Treasury bills	3.9	4.7	5.3	5.3	5.2	5.1
Treasury notes	7.3	6.9	6.7	6.6	6.6	6.6

Source: OMB, Mid-Session Review: The President's Budget and Economic Growth Agenda, July 1992.

almost as fast. In contrast, spending on deposit insurance has fallen sharply because funding for the RTC lapsed at the end of March, and outlays for national defense (excluding foreign contributions for Operation Desert Storm) have dropped almost 5 percent thus far in FY1992.

The Administration's Mid-Session Review of the budget revised down the deficit estimate for FY1992 to $334 billion, compared with the $400 billion projection in February. Outlays for deposit insurance are now estimated to be lower not only because of the shortfall in RTC funding, but also because of the somewhat firmer condition of the depository sector. The deficit estimate for FY1993 was adjusted down slightly to $341 billion, while the estimates for FY1994 and beyond were increased because of deferred RTC spending, downward adjustments to tax receipts, and higher estimates of benefit payments for Medicare, Social Security, and other transfer programs. Revisions to the economic projections underlying the budget projections were minor.

The CBO released its August update of the budget outlook, which contained revisions that were largely similar to the Administration's. CBO now projects a FY1992 deficit of $314 billion, $20 billion below the Administration's estimate; the difference reflects the latter's assumption of a tax cut in FY1992 and technical differences in revenues and health-related spending. On a current services basis, the two sets of deficit estimates for FY1993 through FY1997 are very close; the Administration's deficit estimates shown in the table are lower because they assume enactment of deficit reduction measures while CBO's estimates do not.

In legislative activity, the Senate began debate on a wide-ranging tax bill that would establish tax-favored enterprise zones; repeal the luxury tax on boats, planes, jewelry, and furs; index the

CBO BUDGET ESTIMATES[1]
(Billions of dollars)

	Fiscal years					
	1992	1993	1994	1995	1996	1997
Outlays	1402	1493	1511	1567	1644	1745
Receipts	1088	1162	1242	1323	1390	1455
Deficit	314	331	268	244	254	290
Deficit ex deposit insurance and Desert Storm contributions	306	282	251	239	261	307
Memo:						
Deposit insurance	13	49	17	5	-7	-16
Desert Storm contributions(-)	5	0	0	0	0	0

CBO ECONOMIC ASSUMPTIONS

	Calendar years					
	1992	1993	1994	1995	1996	1997
	-------Percent change, year over year---					
Real GDP	1.9	3.1	2.8	2.6	2.4	2.2
GDP deflator	2.5	3.0	3.0	3.0	3.0	3.0
CPI-U	3.2	3.4	3.4	3.4	3.4	3.4
	----------Percent, annual average---------					
Civilian unemployment rate	7.5	6.8	6.1	5.9	5.7	5.6
Interest rates						
Treasury bills	3.6	3.7	4.8	5.4	5.5	5.6
Treasury notes	7.1	6.9	6.9	7.0	7.1	7.1

Source: CBO, Economic and Budget Outlook: An Update, August,1992.

1. The projections assume that revenues and outlays for major benefit programs evolve according to laws in effect at the time the projections are made, and that appropriations for other programs are consistent with the discretionary spending caps. The projections include Social Security and the Postal Service, which are off-budget.

price level above which the luxury tax is assessed on cars; and extend a number of expiring tax breaks. The bill also includes several provisions similar to the "economic-growth measures" proposed by the Administration earlier this year. Among these items are a $2,500 credit for first-time homebuyers, the restoration of passive-loss deductions for real estate, and a liberalization of IRA accounts; the bill does not include a cut in the capital gains tax rate. As required by the budget rules, the bill is revenue neutral over a five-year horizon, although it likely would result in sizable revenue losses in later years. Work on this bill will resume after the Senate returns from recess September 8. If passed by the full Senate, the bill would have to be reconciled with the narrower tax bill approved by the House in early July.[8]

State and Local Government Sector

Real purchases of goods and services by state and local governments likely declined in the second quarter after a sharp increase in the first quarter.[9] On balance, purchases by these governments have risen at only a 1-1/4 percent annual rate since the end of 1990, a sharp slowing from the 3-3/4 percent pace averaged between 1985 and 1990. The efforts of state and local governments to hold the line on spending also can be seen in the marked reduction in the growth of their payrolls since 1990 (chart). Despite these actions, the revised NIPA data suggest that these jurisdictions have made very little progress in reducing their fiscal imbalances: Entitlement expenditures have continued to soar, and tax receipts have been damped by the subdued pace of economic

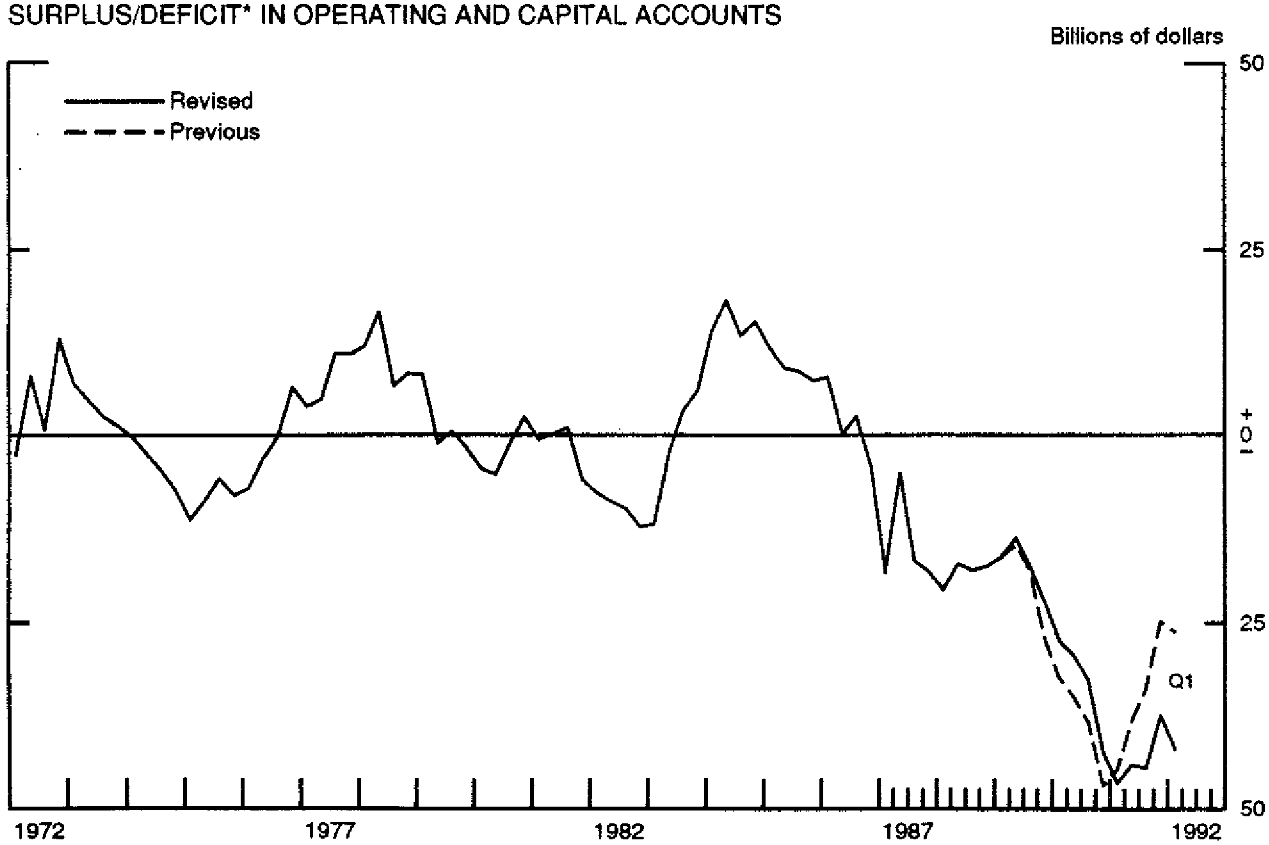
8. The House bill lacks the various "economic-growth measures" included in the Senate bill; otherwise, the two bills are broadly similar.

9. Although BEA's advance estimate showed real state and local purchases about unchanged in the second quarter, subsequent data on construction put-in-place suggest a downward revision of about $1-3/4 billion to spending.

STATE AND LOCAL SECTOR

EMPLOYMENT

SURPLUS/DEFICIT* IN OPERATING AND CAPITAL ACCOUNTS



*NIPA basis. Excludes social insurance funds.

activity. Instead of falling roughly $20 billion over the past five quarters, the deficit of operating and capital accounts, excluding social insurance funds, is now estimated to have shrunk only slightly since early 1991 (chart). The upward revision to the deficit during the first half of this year largely reflects substantially higher payments for Medicaid and a lower estimate of interest income from the sector's holdings of securities.

Although fiscal difficulties continue to plague many states, legislatures have not taken particularly aggressive steps of late in trying to redress the structural imbalances that remain. Because it is an election year, many governments have tried to avoid sizable tax hikes and spending cuts. However, in California, this approach has led to fiscal chaos. The state still did not have a budget in place by mid-August, one and a half months into the fiscal year. The current budget gap in California is estimated at nearly $11 billion. Officials are reluctant to raise taxes after enacting more than $6 billion in tax hikes last year, and legislators continue to reject the significant reductions in spending on primary and secondary education proposed by the governor.

Labor Costs

Continued slack in labor markets and moderating price inflation have led to further slowing of compensation costs. The Employment Cost Index (ECI) for hourly compensation for private industry workers increased just 2.5 percent at a seasonally adjusted annual rate over the March to June period--substantially less than in previous quarters. Over the twelve months ended in June, hourly compensation increased 3.7 percent, 0.7 percentage point less than over the preceding twelve months; both the wage and salary component and the benefits component of the ECI decelerated notably over this period. However, the deceleration in benefits partly reflected a

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

	1991				1992	
	Mar.	June	Sep.	Dec.	Mar.	June
Total compensation costs:						
Private industry workers	4.9	4.5	4.1	4.0	4.0	2.5
By industry:						
Goods-producing	4.6	4.9	4.1	4.4	5.1	2.5
Service-producing	4.9	4.5	4.1	4.0	3.3	2.1
By occupation:						
White-collar	6.1	4.9	4.0	2.9	4.3	2.9
Blue-collar	4.6	4.1	4.9	3.7	4.4	3.2
Service workers	3.8	6.1	6.3	3.3	4.3	2.5
By bargaining status:						
Union	5.0	4.9	4.9	3.7	7.4	3.2
Nonunion	5.7	4.9	4.1	2.5	4.4	2.5
Memo:						
Wages and salaries	4.2	4.2	3.0	3.3	3.3	1.8
Benefits	5.6	6.6	6.9	5.7	6.0	3.4

1. Changes are from final month of preceding period to final month of period indicated. Percent changes are seasonally adjusted by the BLS. Data by bargaining status are not seasonally adjusted.

EMPLOYMENT COST INDEX
(Private industry workers; twelve-month percent changes)

			1991			1992	
	1990	1991	June	Sep.	Dec.	Mar.	June
Total compensation costs:							
Private industry workers	4.6	4.4	4.4	4.5	4.4	4.2	3.7
By industry:							
Goods-producing	4.8	4.6	4.4	4.5	4.6	4.6	4.1
Service-producing	4.6	4.3	4.4	4.5	4.3	4.0	3.5
By occupation:							
White-collar	4.9	4.5	4.5	4.4	4.5	4.0	3.5
Blue-collar	4.4	4.3	4.1	4.4	4.3	4.3	4.0
Service workers	4.7	4.8	4.8	5.5	4.8	4.8	3.9
By bargaining status:							
Union	4.3	4.6	4.5	4.8	4.6	5.2	4.8
Nonunion	4.8	4.3	4.4	4.3	4.3	4.0	3.4
Memo:							
Wages and salaries	4.0	3.7	3.7	3.7	3.7	3.4	3.0
Benefits	6.6	6.2	6.2	6.4	6.2	6.3	5.5

decline in contributions to employee pension funds between March and June, a pattern that is unlikely to be repeated in coming quarters.

By industry, the service-producing sector accounted for virtually all the slowdown of hourly compensation over the twelve months ended in June (chart). The deceleration in this sector, though widespread, was especially marked in retail trade, business services, finance, and real estate. These industries employ relatively large numbers of workers in white-collar and sales occupations, which explains, in part, why increases in compensation costs for these workers have slowed more than have the increases for blue-collar workers. Another factor is the persistence of rapid increases in benefits costs for workers in the goods-producing industries, which contrasts with the slowing in the service sector.

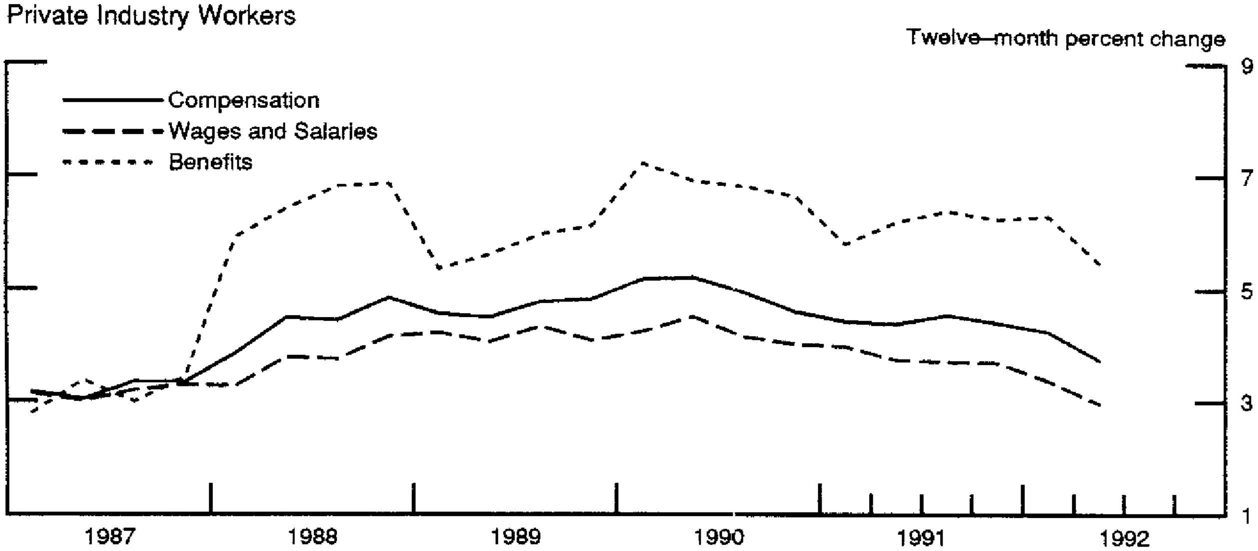
Compensation costs in the state and local sector picked up to a 5-3/4 percent pace in the second quarter. In large part, the upturn stemmed from the restoration of contributions to employee pension funds by several jurisdictions that had lowered or suspended contributions last year. Despite this rebound, hourly compensation in the state and local sector increased only 3-1/4 percent over the year ended in June, nearly 2 percentage points less than the increase in the preceding year.

By bargaining status, union compensation gains in the ECI outpaced nonunion gains by nearly 1-1/2 percentage points over the twelve months ended in June, reversing the trend that had prevailed for nearly a decade. Indeed, compensation increases for unionized workers have actually picked up over the past year, as benefits costs have accelerated and wage increases have edged down only slightly (chart).

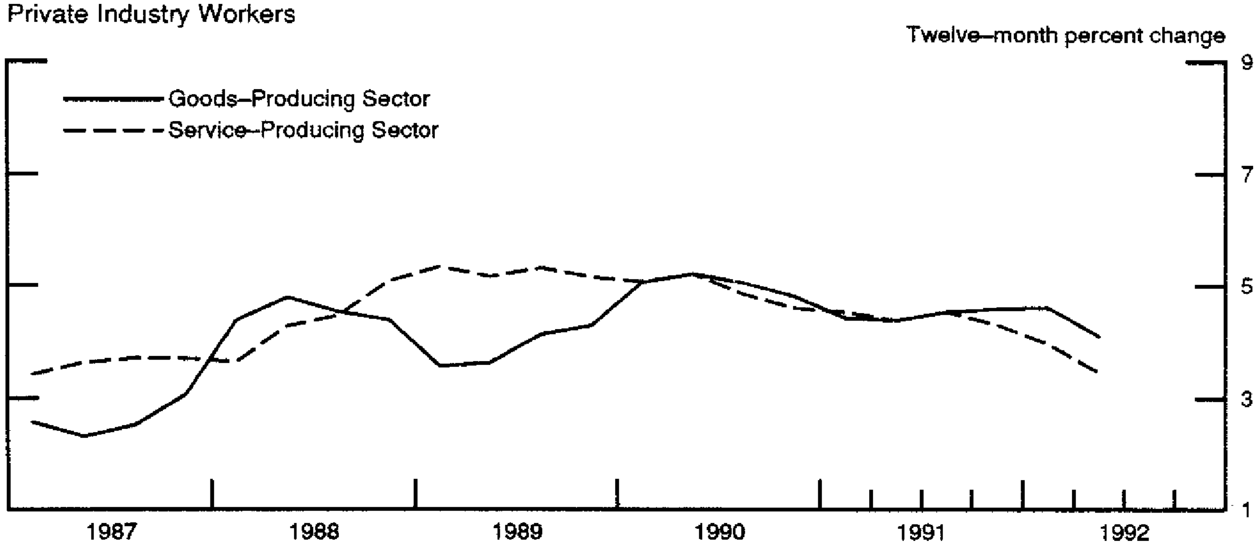
Separate data on new major collective bargaining agreements also indicate little deceleration in unionized sector wages. The

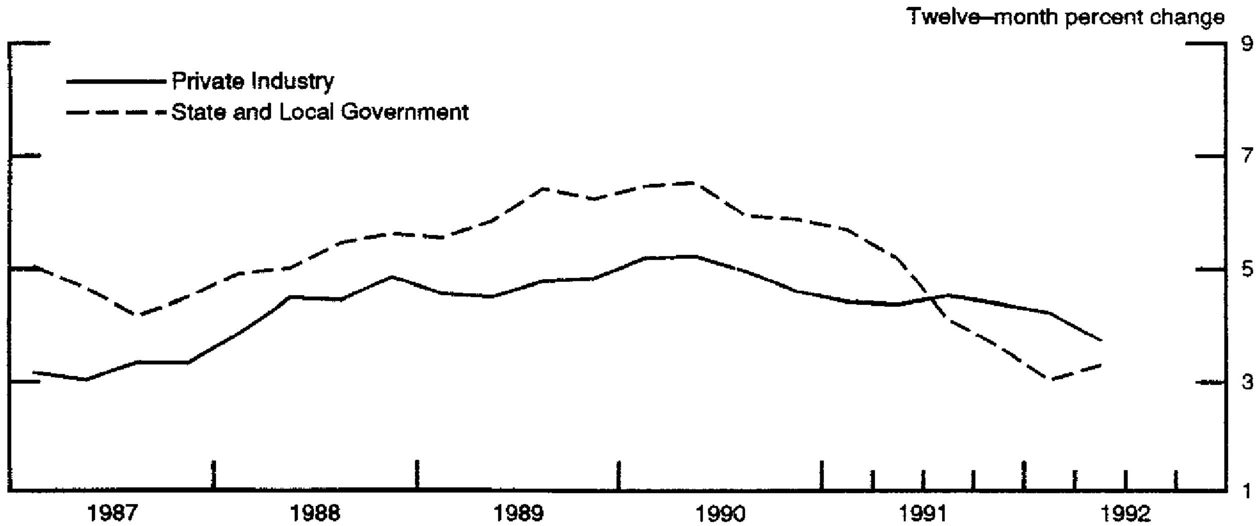
Employment Cost Index

Private Industry Workers

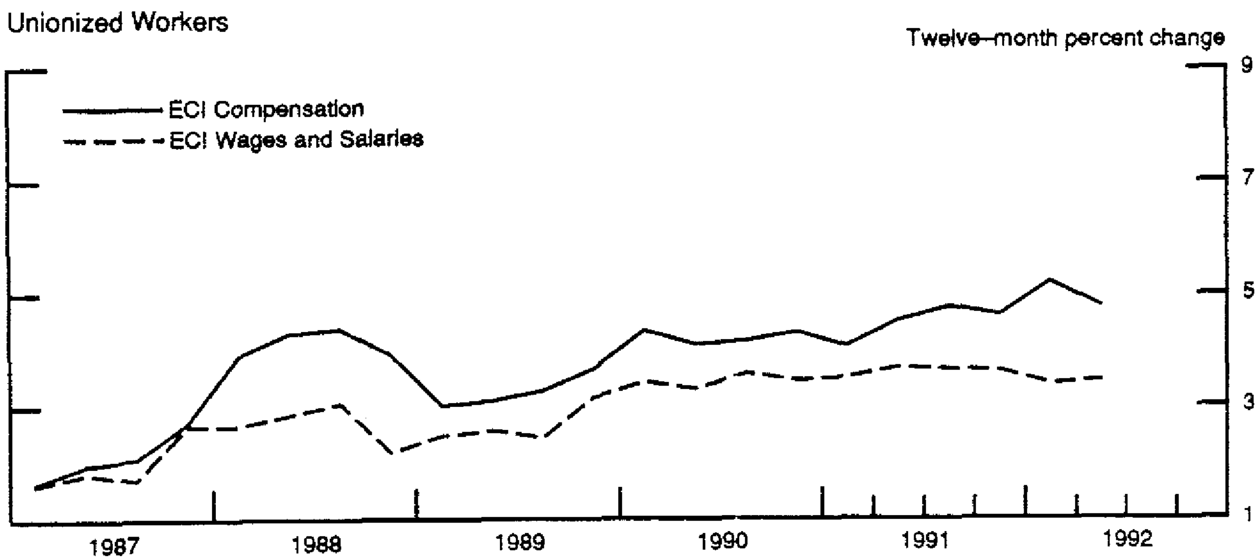


Private Industry Workers





Compensation in Union Contracts



CHANGES IN NEGOTIATED WAGE AND COMPENSATION RATES UNDER MAJOR COLLECTIVE BARGAINING SETTLEMENTS[1]
(Percent change)

			1992		
	1990	1991	Q1	Q2	Q2 parties under prior settlements
Wage rate changes (all industries)[2]					
First-year adjustments	4.0	3.6	2.9	2.9	3.0
Average over life of contract	3.2	3.2	3.0	3.0	3.2
Workers affected (in thousands)	2,004	1,744	127	448	---
Compensation rate changes (all industries)[3]					
First-year adjustments	4.6	4.1	2.5	3.8	---
Average over life of contract	3.2	3.4	3.5	3.5	---
Workers affected (in thousands)	1,278	1,155	51	184	---

1. Estimates exclude lump-sum payments and potential gains under cost-of-living clauses.
2. Contracts covering 1,000 or more workers.
3. Contracts covering 5,000 or more workers.

EFFECTIVE WAGE CHANGE IN MAJOR UNION CONTRACTS AND COMPONENTS OF CHANGE

	1987	1988	1989	1990	1991	1992:Q2[1]
Total effective wage change	3.1	2.6	3.2	3.5	3.6	3.3
Contribution of:						
New settlements	.7	.7	1.2	1.3	1.1	.9
Prior settlements	1.8	1.3	1.3	1.5	1.9	2.0
COLAs	.5	.6	.7	.7	.5	.4

1. Changes over the four quarters ended this period.

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

	Relative importance Dec. 1991	1990	1991	1991 Q4	1992 Q1	1992 Q2	1992 June	1992 July
				-----Annual rate	------	------	-Monthly rate-	
All items[2]	100.0	6.1	3.1	3.2	3.5	2.6	.3	.1
Food	16.0	5.3	1.9	2.7	1.5	-1.2	.1	-.1
Energy	7.4	18.1	-7.4	3.6	-6.9	12.5	2.0	.3
All items less food and energy	76.6	5.2	4.4	3.1	4.8	2.8	.2	.2
Commodities	24.8	3.4	4.0	.6	5.3	2.1	.0	.2
Services	51.9	6.0	4.6	4.3	4.8	2.9	.3	.3
Memorandum:								
CPI-W[3]	100.0	6.1	2.8	3.3	3.0	2.7	.3	.2

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

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

	Relative importance Dec. 1991	1990	1991	1991 Q4	1992 Q1	1992 Q2	1992 June	1992 July
				-----Annual rate	------	------	-Monthly rate-	
Finished goods	100.0	5.7	-.1	1.0	1.0	3.0	.2	.1
Consumer foods	21.9	2.6	-1.5	-1.0	.3	-1.6	.2	.0
Consumer energy	13.8	30.7	-9.6	-.5	-7.0	16.1	2.3	-.4
Other finished goods	64.2	3.5	3.1	2.1	3.7	1.8	-.1	.2
Consumer goods	39.5	3.7	3.4	2.4	3.6	2.4	-.3	.2
Capital equipment	24.7	3.4	2.5	1.9	3.5	.9	-.1	.2
Intermediate materials[2]	95.3	4.6	-2.7	-1.7	.0	5.0	.7	.1
Excluding food and energy	81.7	1.9	-.8	.0	1.7	1.3	.2	.2
Crude food materials	41.2	-4.2	-5.8	-4.9	11.8	1.5	.8	-1.7
Crude energy	40.0	19.1	-16.6	5.3	-26.6	44.8	2.3	1.1
Other crude materials	18.7	.6	-7.6	-5.9	15.0	3.5	.2	1.3

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

series on effective wage change in agreements covering 1,000 or more workers rose 3.3 percent for the year ended in June, only 1/4 percentage point less than the increases recorded in 1990 and 1991. This measure of wage change--which includes the effects of first-year adjustments from new settlements and the deferred adjustments and COLAs under prior settlements--is conceptually similar to the ECI for wages and salaries. Although first-year adjustments in new settlements have moderated, sizable deferred adjustments under earlier contracts have kept the effective wage change from decelerating much.

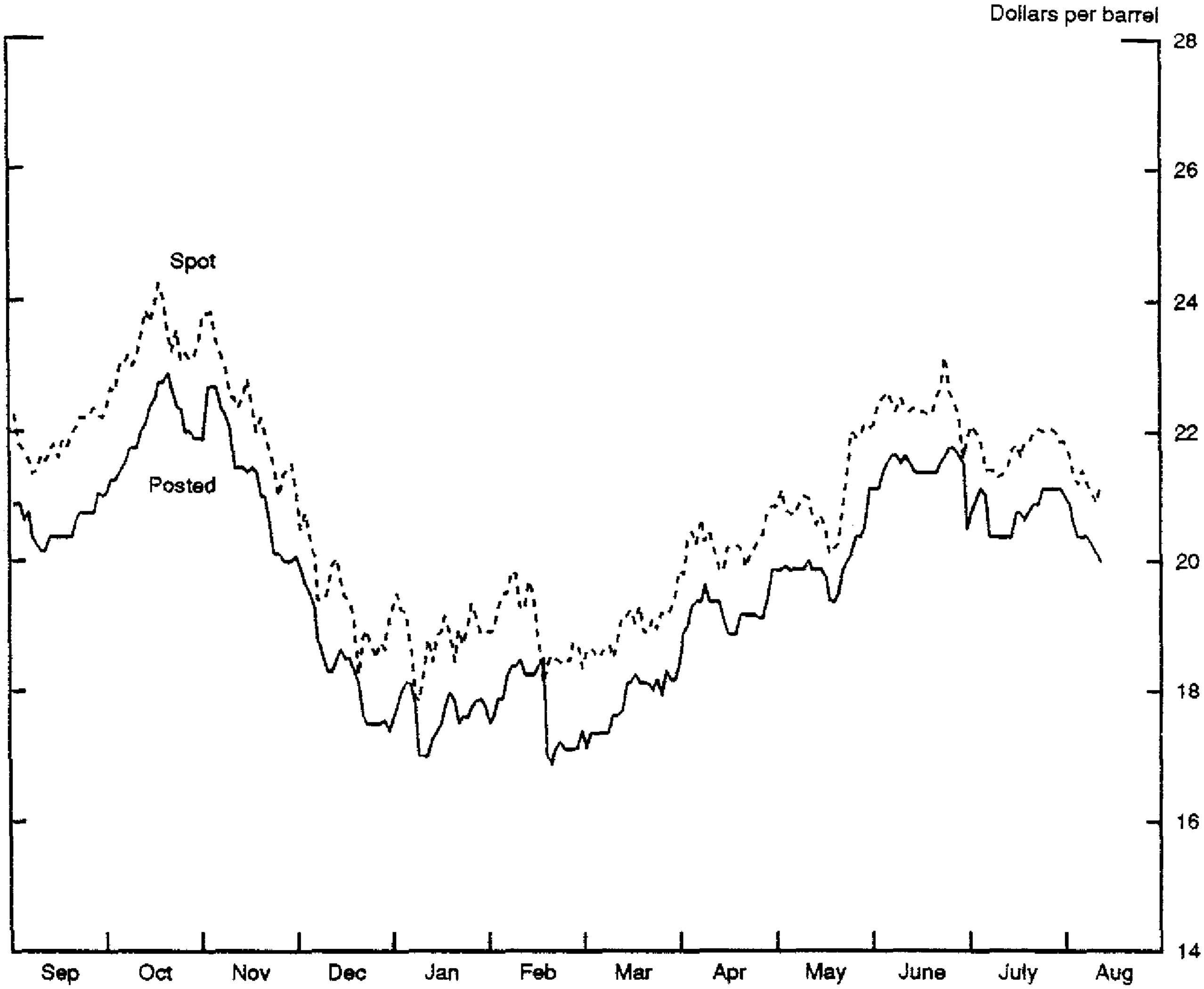
Looking ahead, the average wage increase over the life of new settlements signed so far this year was 3 percent, roughly the same as the first-year adjustment. In addition, the average increase for total compensation over the life of new settlements--available only for those agreements covering 5,000 or more workers--was 3.5 percent for the settlements signed during the first half of this year.

Average hourly earnings for production or nonsupervisory workers were unchanged in July, after an increase of only 0.2 percent in June. Over the twelve months ended in July, average hourly earnings were up 2.2 percent, about 3/4 percentage point below the increase in the previous twelve-month period.

Prices

Recent monthly readings point to a further slowing in price inflation, reflecting moderation in labor cost increases, continued slack in industrial capacity, and limited upward pressure from materials costs. Consumer prices rose only 0.1 percent in July, after a 0.3 percent increase in June that was boosted by a short-lived bulge in energy prices. Food prices continued to restrain overall consumer price inflation, and prices of other goods and services advanced only 0.2 percent in both June and July. At the

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		
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	21.46	22.38
July	20.77	21.76
August[1]	20.38	21.23

1. Price through August 12.

producer level, the PPI for finished goods increased 0.2 percent in June and 0.1 percent in July; excluding food and energy, this measure has risen 2-1/2 percent over the past year, markedly under its pace in the preceding few years.

The CPI for energy rose 2 percent in June and moved up a bit further in July, as previous increases in crude oil costs reached the retail level. However, prices of crude oil have eased, on balance, since June, and refinery prices of petroleum products declined in July. Private survey data suggest that retail gasoline prices turned down in early August.

Consumer food prices were flat on balance over June and July, and the PPI for finished foods increased only slightly over this period. Increases in output have led to declines in the retail prices of meats and those of fruits and vegetables in recent months, and the average price increases for other food categories have continued to be small. In total, the CPI for food was up only 1/2 percent over the year ended in July.

Outside of food and energy, prices of consumer goods were flat in June and then rose 0.2 percent in July. Prices of apparel fell in both months, owing to early markdowns on summer merchandise, while tobacco prices partially retraced their large increase in May. Price increases for new cars and light trucks moderated a bit, but used car prices rose sharply for the fourth straight month. Prices of nonenergy services rose 0.3 percent in both June and July, held down by a relatively small increase in rents over the two months. Airfares declined sharply in June, and then reversed about half of this decline in July.[10]

10. More recently, major airlines have announced substantial new discounts, pointing to renewed downward pressures on airfares this month.

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	July 1990	July 1991	July 1992
CPI	5.0	4.8	3.7
Services	5.9	5.1	4.0
Owners' equivalent rent	6.0	3.3	3.5
Tenants' rent	4.3	3.6	2.3
Other renters' costs	7.2	12.1	6.1
Auto finance charges	-1.9	-1.8	-10.6
Airline fares	11.4	3.3	-.9
Medical care	9.4	8.6	7.7
Entertainment	5.3	5.4	3.0
Goods	3.5	4.2	3.0
excluding used cars	3.8	4.4	2.9
Alcoholic beverages	4.8	10.4	3.0
New vehicles	1.4	4.5	2.4
Apparel	4.9	3.5	3.2
Housefurnishings	1.2	1.1	1.3
Housekeeping supplies	3.5	2.4	.9
Entertainment	3.8	3.4	2.3
PPI Finished goods	3.8	3.4	2.5
Consumer goods	3.9	3.6	2.9
Capital equipment, excluding motor vehicles and computers	3.5	3.8	2.5
PPI intermediate materials	.3	.4	.8
PPI crude materials	2.0	-8.9	3.4
Factors Affecting Price Inflation			
ECI hourly compensation[1]	5.2	4.4	3.7
Goods-producing	5.2	4.4	4.1
Service-producing	5.2	4.4	3.5
Civilian unemployment rate[2]	5.4	6.8	7.7
Capacity utilization[2] (manufacturing)	83.1	78.7	77.6[3]
Inflation expectations[4]	4.7	3.8	3.9
Non-oil import prices[5]	.5	1.9	1.2
Consumer goods, excluding autos, food, and beverages	3.3	.9	3.0
Autos	-.8	5.6	2.0

1. Private industry workers, periods ended in June.
2. End-of-period value.
3. June level.
4. University of Michigan Survey, twelve-month horizon.
5. BLS import price index (not seasonally adjusted), periods ended in June.

The underlying trend of inflation--as measured by the twelve-month change in the CPI excluding food and energy--has moved down to about 3-3/4 percent, a marked slowing from the 5 percent range observed for the years ended in July 1990 and 1991 (table). This slowing has been most apparent in the prices of nonenergy services, which rose 4 percent over the latest twelve-month period, compared with increases of about 6 percent and 5 percent, respectively, during the years ended in July 1990 and July 1991. Moderation in rent increases, reflecting weakness in housing markets, contributed importantly to this deceleration. Declines in auto finance charges and airfares also have held down the pace of services inflation this year. In addition, prices have been rising less rapidly in some service categories for which labor costs are important, in particular, entertainment and medical care. The slowing in hourly compensation gains in service-producing industries, discussed above, likely has paved the way for some of the recent deceleration in inflation of prices for services.

Inflation in goods prices at retail also has slowed, although the timing and composition have been more uneven. For items other than used cars, the CPI for goods (nonfood, nonenergy) has risen about 3 percent over the past year, in line with the increases shown in domestic producer prices and in import prices for these goods.[11] This CPI component had risen 4-1/2 percent during the year ended in July 1991, boosted in part by higher federal excise taxes (mainly on alcoholic beverages); during the preceding year, prices for this component increased about 3-3/4 percent.

Producer prices of capital equipment also have reflected the slowing in labor costs and excess capacity in manufacturing.

11. We have excluded used cars because their price movements, in the short run, do not reflect current trends in labor and materials costs.

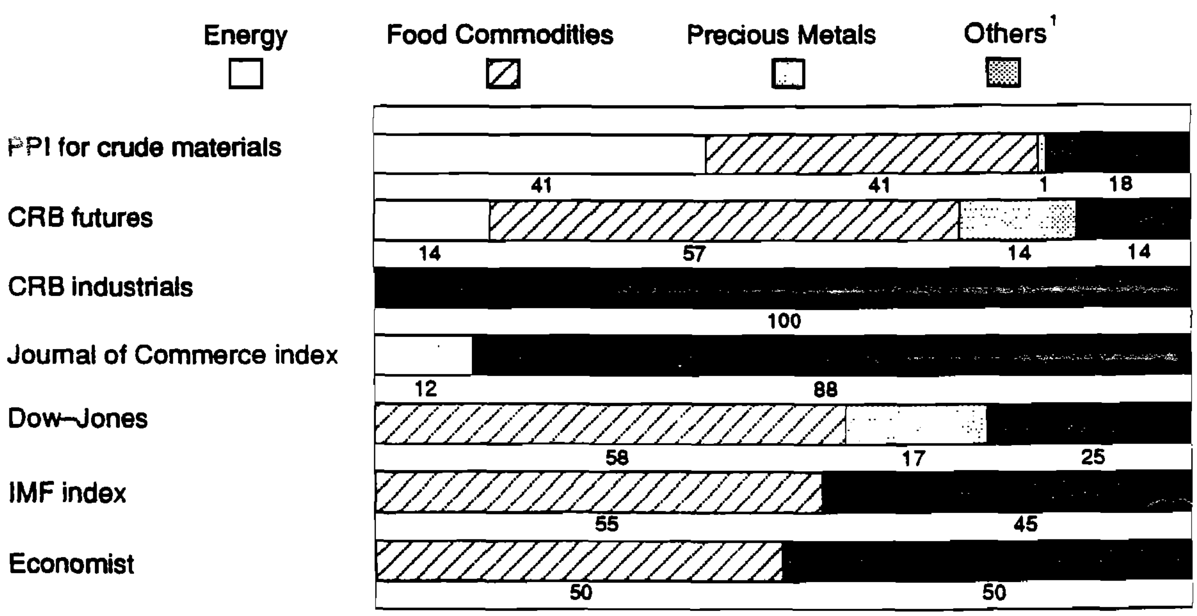
Table 1

PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

	Last observation	Percent change[2] 1990	1991	1992 To June 23[3]	1992 June 23[3] to date	Memo: Year earlier to date
1. PPI for crude materials[4]	July	6.0	-11.6	3.9	.2	1.8
1a. Foods and feeds	July	-4.2	-5.8	5.6	-2.1	-.1
1a. Energy	July	19.1	-16.6	1.5	1.1	2.3
1b. Excluding food and energy	July	.6	-7.6	5.0	1.1	3.4
1c. Excluding food and energy, seasonally adjusted	July	.7	-7.6	4.5	1.3	3.4
2. Commodity Research Bureau						
2a. Futures prices	Aug. 11	-2.7	-6.5	.3	4.4	-4.2
2b. Industrial spot prices	Aug. 10	.6	-11.3	5.3	.0	2.1
3. *Journal of Commerce* industrials	Aug. 11	-2.4	-7.2	4.6	-.3	2.0
3a. Metals	Aug. 11	-3.9	-7.1	4.9	2.5	4.5
4. Dow-Jones Spot	Aug. 11	-1.7	-12.1	7.5	-2.6	-.2
5. IMF commodity index[4]	June	-5.2	.7	.0	n.a.	1.9
5a. Metals	June	-1.1	-8.9	4.9	n.a.	1.7
5b. Nonfood agriculture	June	-3.5	1.3	3.3	n.a.	2.3
6. *Economist* (U.S. dollar index)	Aug. 4	-4.4	-9.1	4.5	.1	.5
6a. Industrials	Aug. 4	-3.2	-14.9	8.9	1.9	4.9

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

Index Weights



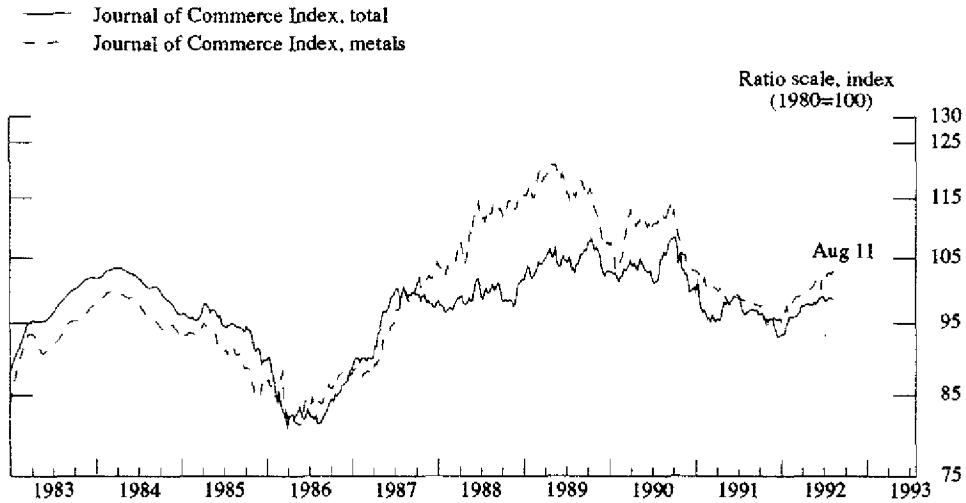
1. Forest products, industrial metals, and other industrial materials.

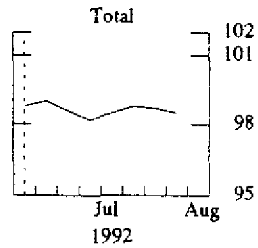
Excluding motor vehicles and computers (the latter was absent from the PPI before 1991), the PPI for capital equipment was up only 2-1/2 percent during the year ended in July, well under the pace registered during the preceding two years.

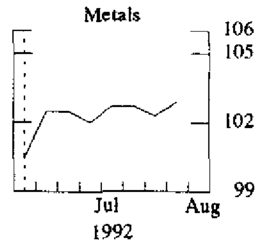
Spot measures of industrial commodity prices, such as the Journal of Commerce index, have risen on net so far in 1992. Although broad indexes of these prices have changed relatively little since the last Greenbook, the prices of several nonferrous metals have moved up further. In contrast, the CRB futures index has fallen sharply during the intermeeting period, mainly because of declines in the prices of agricultural crops.

The declines in crop prices have been driven by the marked improvement in U.S. crop conditions since midyear. The Department of Agriculture's latest output projections, which are based on conditions as of August 1, show corn production up 17 percent this year, to a near-record level of 8.8 billion bushels. Soybean output is expected to rise 5 percent this year, and production of spring wheat is expected to attain a new high. The production of cotton, though likely to be down from that of last year, will be larger than in other recent years. Because of the cool summer, however, development of the crops is lagging, and they may be more vulnerable than usual to the threat of early frost. In addition, the prospects for grain production elsewhere in the world have declined since midyear, according to the USDA's latest assessment.

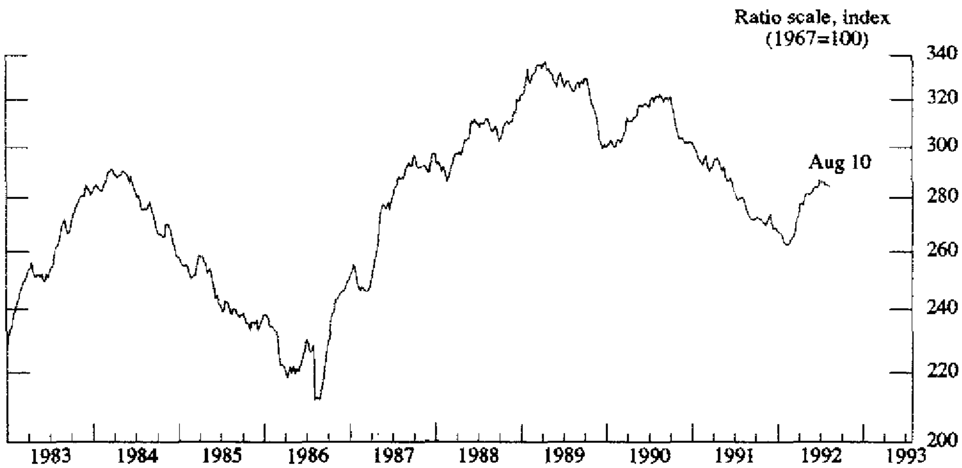
COMMODITY PRICE MEASURES *

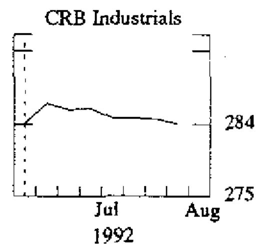




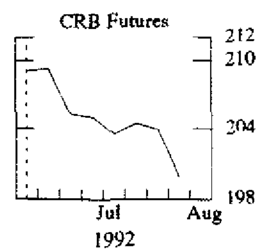


CRB Spot Industrials





CRB Futures



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

Dotted lines indicate week of last Greenbook.

DOMESTIC FINANCIAL DEVELOPMENTS

III-T-1

SELECTED FINANCIAL MARKET QUOTATIONS [1]

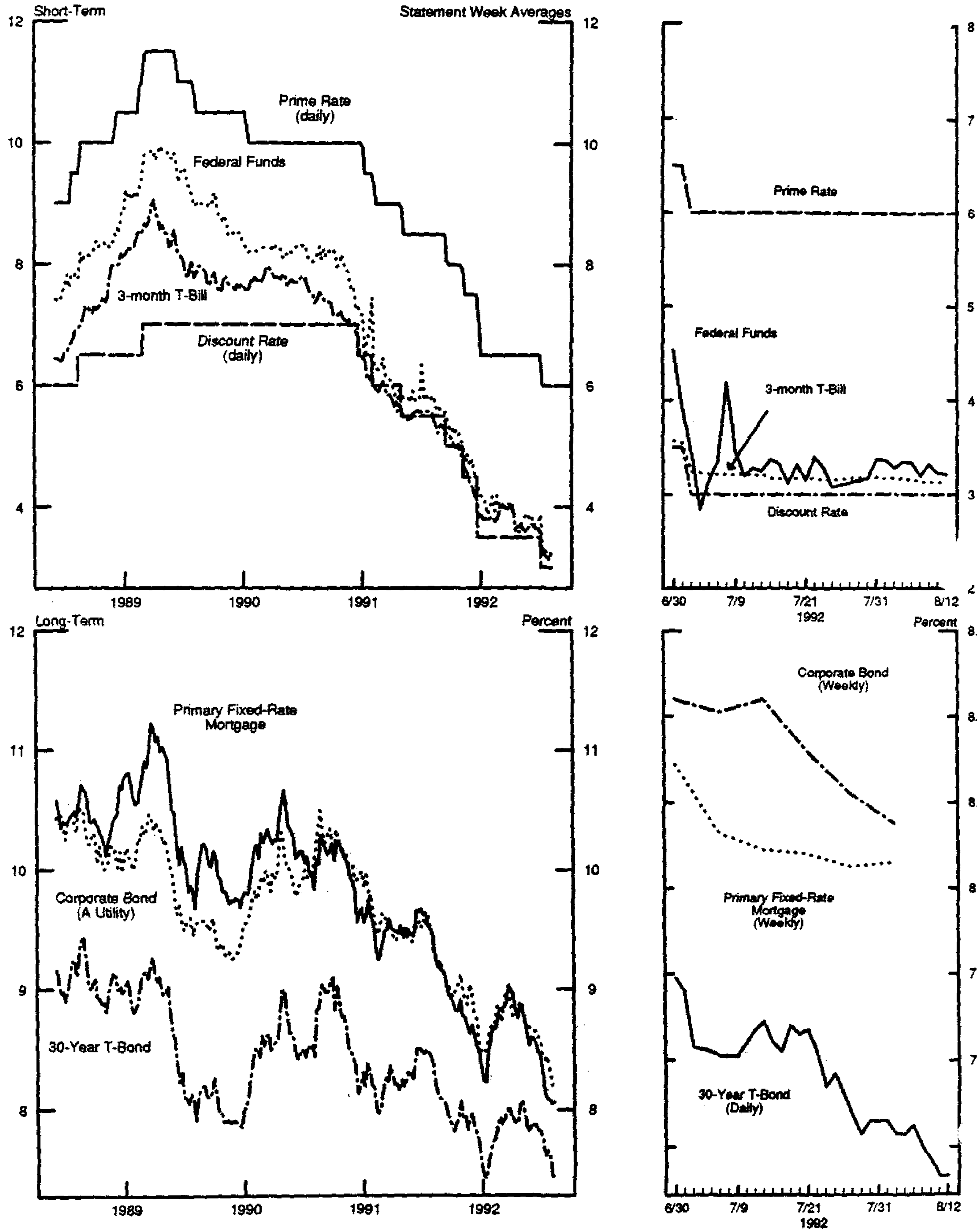
(percent)

	1992	1992	1992	1992	Change from:		
	Dec-Jan Lows	FOMC Jul 1	Jul 2	Aug 12	Dec-Jan Lows	FOMC Jul 1	Jul 2
Short-term rates							
Federal funds[2]	3.94	3.56	3.56	3.24	-.70	-.32	-.32
Treasury bills[3]							
3-month	3.72	3.55	3.24	3.12	-.60	-.43	-.12
6-month	3.76	3.63	3.34	3.20	-.56	-.43	-.14
1-year	3.81	3.87	3.55	3.30	-.51	-.57	-.25
Commercial paper							
1-month	4.01	3.89	3.53	3.35	-.66	-.54	-.18
3-month	3.94	3.88	3.56	3.36	-.58	-.52	-.20
Large negotiable CDs[3]							
1-month	3.95	3.80	3.55	3.27	-.68	-.53	-.28
3-month	3.89	3.82	3.55	3.28	-.61	-.54	-.27
6-month	3.89	3.97	3.67	3.35	-.54	-.62	-.32
Eurodollar deposits[4]							
1-month	3.94	3.81	3.75	3.25	-.69	-.56	-.50
3-month	3.88	3.81	3.75	3.31	-.57	-.50	-.44
Bank prime rate	6.50	6.50	6.00	6.00	-.50	-.50	.00
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	5.05	5.38	5.15	4.71	-.34	-.67	-.44
10-year	6.71	7.10	6.93	6.48	-.23	-.62	-.45
30-year	7.39	7.76	7.63	7.33	-.06	-.43	-.30
Municipal revenue[5] (Bond Buyer)	6.53	6.58	6.55	6.24	-.29	-.34	-.31
Corporate--A utility recently offered	8.46	8.55	8.55	8.09	-.37	-.46	-.46
Home mortgage rates[6]							
FHLMC 30-yr. FRM	8.23	8.43	8.43	8.06	-.17	-.37	-.37
FHLMC 1-yr. ARM	5.79	5.78	5.78	5.30	-.49	-.48	-.48

	Record highs	Date	1989 Lows Jan 3	1992 FOMC Jul 1	1992 Aug 12	Percent change from: Record highs	1989 lows	FOMC Jul 1
Stock prices								
Dow-Jones Industrial	3413.21	6/1/92	2144.64	3354.10	3320.83	-2.71	54.84	-.99
NYSE Composite	233.66	8/3/92	154.00	226.75	229.99	-1.57	49.34	1.43
AMEX Composite	418.99	2/12/92	305.24	383.01	386.46	-7.76	26.61	.90
NASDAQ (OTC)	644.92	2/12/92	378.56	568.99	570.85	-11.49	50.80	.33
Wilshire	4121.28	1/15/92	2718.59	3971.45	4025.31	-2.33	48.07	1.36

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 August 19, 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 August 7, statement weeks through August 5.

Bond markets rallied over the intermeeting period in the wake of the July 2 cut in the discount rate and incoming information pointing to a hesitant recovery and improved disinflationary prospects. On July 2, money market interest rates declined about 30 basis points in response to the 1/2 percentage point reduction in the discount rate and the associated drop in the federal funds rate. Over the entire intermeeting period short-term interest rates fell 40 to 60 basis points. Treasury coupon yields are down by comparable amounts with the largest declines in the three- to ten-year maturities. Mortgage rates also are down appreciably over the period, although recent declines in bond yields have not passed through fully to fixed-rate mortgages, mostly because a surge in refinancing activity has heightened investor concern about prepayment risk. The discount rate cut prompted banks to lower the prime rate by an equal amount, but the spread over funding costs remains wide and lending standards evidently have not softened. Meanwhile, broad indexes of stock prices have edged up, supported by the declines in interest rates.

Falling long-term interest rates have sparked activity in capital markets, though much has been associated with refinancing higher cost debt. Businesses--including below-investment grade firms--have been tapping the public bond markets in volume, with the proceeds mostly covering bond calls and the paydown of bank loans and commercial paper. The more favorable climate for bond offerings and a less attractive market for IPOs have slowed deleveraging activity. Households, too, evidently have rushed recently to take advantage of the decline in mortgage rates, although this has yet to show up in closings, and net mortgage originations have been slow. Consumer credit declined again in June and weakness likely extended

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

	1991[1]	1992 Q1	1992 Q2	1992 May	1992 Jun	1992 Jul p	Growth Q4 91- Jul 92p
	------------Percent change at annual rates------------						
1. M1	8.0	16.5	9.8	14.6	-3.1	11.6	11.9
2. M2	2.8	4.3	0.0	0.5	-3.8	-1.3	1.1
3. M3	1.2	2.2	-1.9	-0.7	-4.4	-1.8	-0.5
	------------Percent change at annual rates------------						Levels bil. $ Jul 92p
Selected components							
4. M1-A	5.6	14.9	9.1	10.1	-5.4	14.7	602.4
5. Currency	8.4	7.4	5.8	4.8	6.6	11.7	278.9
6. Demand deposits	3.4	22.2	12.5	15.0	-15.6	17.7	315.6
7. Other checkable deposits	12.4	19.2	11.0	22.3	0.7	6.7	358.7
8. M2 minus M1[2]	1.1	0.0	-3.7	-4.8	-4.0	-6.2	2493.9
9. Overnight RPs and Eurodollars, NSA	-7.9	15.4	-35.5	-66.1	26.9	-8.8	67.9
10. General purpose and broker/dealer money market mutual fund shares	3.9	1.0	-7.3	3.0	-5.7	-11.9	349.8
11. Commercial banks	7.1	0.9	0.4	-3.1	-3.8	-2.1	1259.8
12. Savings deposits (including MMDAs)	13.3	19.2	12.0	7.8	4.7	9.5	716.3
13. Small time deposits	1.1	-18.9	-13.3	-16.7	-14.6	-16.8	543.6
14. Thrift institutions	-6.9	-3.6	-6.6	-2.9	-6.3	-7.3	816.2
15. Savings deposits (including MMDAs)	9.3	22.4	18.9	18.8	5.2	5.2	418.0
16. Small time deposits	-16.8	-24.2	-29.1	-24.0	-17.8	-20.1	398.2
17. M3 minus M2[3]	-5.6	-7.3	-10.5	-6.4	-7.5	-4.3	696.9
18. Large time deposits	-11.7	-20.4	-18.6	-14.2	-14.1	-19.4	389.8
19. At commercial banks, net[4]	-5.1	-18.2	-14.4	-8.0	-12.0	-22.1	320.4
20. At thrift institutions	-31.7	-29.6	-37.0	-40.7	-25.2	-6.9	69.4
21. Institution-only money market mutual fund shares	33.4	27.0	20.1	35.5	30.2	48.1	207.7
22. Term RPs, NSA	-21.7	-6.0	-5.0	-11.6	-26.8	-48.0	67.2
23. Term Eurodollars, NSA	-11.0	-27.1	-24.1	-50.2	-31.9	-25.7	50.2
	-----Average monthly change in billions of dollars----						
MEMORANDA:[5]							
24. Managed liabilities at commercial banks (25+26)	-0.6	-2.8	-2.6	-2.6	-1.0	-4.5	684.0
25. Large time deposits, gross	-0.2	-5.7	-4.8	-3.2	-4.3	-6.6	385.8
26. Nondeposit funds	-0.5	2.8	2.3	0.6	3.3	2.1	298.2
27. Net due to related foreign institutions	0.4	2.1	5.2	5.2	5.9	1.6	62.8
28. Other[6]	-0.9	0.7	-3.0	-4.5	-2.8	0.6	235.4
29. U.S. government deposits at commercial banks[7]	0.2	-1.5	1.3	-2.9	8.8	-3.7	22.1

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 esti
7. Consists of Treasury demand deposits and note balances at commercial banks.
p - preliminary

into July, judging from data on consumer loans at banks. State and local governments also have been availing themselves of reduced bond rates by large refunding offerings. Finally, while the RTC has been dormant, federal borrowing has remained strong in recent months owing to persistently large deficits.

With credit demands concentrated in longer-term markets, bank credit was about flat, and the broad monetary aggregates declined further in July. M1 rebounded, but households continued to draw down their M2 balances and to limit increases in debt, as well as to take advantage of the higher yields available on capital market instruments. This process has been aided by aggressive cuts in retail deposit rates by banks as their loans continued to contract.

Monetary Aggregates and Bank Credit

M2 is estimated to have fallen at a 1-1/4 percent annual rate in July, despite the further decline in short-term market interest rates, which boosted liquid deposits. M3, posting its fifth consecutive monthly decline, fell at a 1-3/4 percent annual pace. Both broad aggregates lie well below their annual target ranges.

Growth in retail deposits in July was moderated by sharp cuts in deposit interest rates, likely motivated by a surfeit of retail deposits in relation to weak lending. In addition, however, it is possible that deposit rates are being pulled down by newly effective provisions of the FDIC Improvement Act (FDICIA), which, beginning in mid-June, impose ceilings on deposit rates that can be offered by institutions that are not well capitalized. Further, FDICIA restrictions that preclude inadequately capitalized institutions from issuing brokered deposits may have contributed to the contraction of retail time deposits over June and July. Finally, the steepness of the yield curve continued to play a prominent role

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	1992 Q1	1992 Q2	1992 May.	1992 Jun.	1992 Jul. p	Level (billions of dollars) 1992 Jul. p
			Commercial bank credit				
1. Total loans and securities at banks	3.9	2.1	2.1	-0.8	1.8	-0.2	2,869.3
2. Securities	17.6	6.6	14.6	11.8	11.2	14.5	789.3
3. U.S. government	23.8	11.1	19.5	15.6	17.6	14.6	614.8
4. Other	1.4	-7.7	-2.1	-0.7	-11.0	13.9	174.5
5. Loans	-0.2	0.5	-2.4	-5.5	-1.8	-5.6	2,080.0
6. Business	-2.8	-6.4	-7.2	-7.3	-8.2	-5.0	596.6
7. Real estate	2.9	2.6	0.5	1.1	-1.4	-2.6	878.7
8. Consumer	-3.9	-0.9	-2.2	-5.0	1.3	-1.3	359.6
9. Security	21.6	45.4	24.3	-60.5	44.4	-67.0	60.9
10. Other	-2.7	3.0	-8.9	-11.5	-3.9	-9.1	184.2
		Short- and intermediate-term business credit					
11. Business loans net of bankers acceptances	-2.5	-6.7	-7.0	-7.8	-7.2	-6.5	589.6
12. Loans at foreign branches[2]	-1.6	-40.9	26.3	-5.3	84.6	44.4	25.2
13. Sum of lines 11 and 12	-2.4	-8.0	-5.7	-7.7	-3.7	-4.7	614.8
14. Commercial paper issued by nonfinancial firms	-10.4	14.9	-3.9	-12.7	6.0	-5.1	139.8
15. Sum of lines 13 and 14	-3.9	-4.0	-5.4	-8.6	-1.9	-4.8	754.6
16. Bankers acceptances, U.S. trade-related[3]	-16.2	-22.9	-27.3	-27.7	-37.8	n.a.	24.6[5]
17. Finance company loans to business[4]	1.4	-1.9	-1.5	0.0	5.6	n.a.	298.8[5]
18. Total (sum of lines 15, 16, and 17)	-2.9	-3.9	-4.9	-6.7	-0.9	n.a.	1,080.9[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. June 1992 data.
p--Preliminary.
n.a.--Not available.

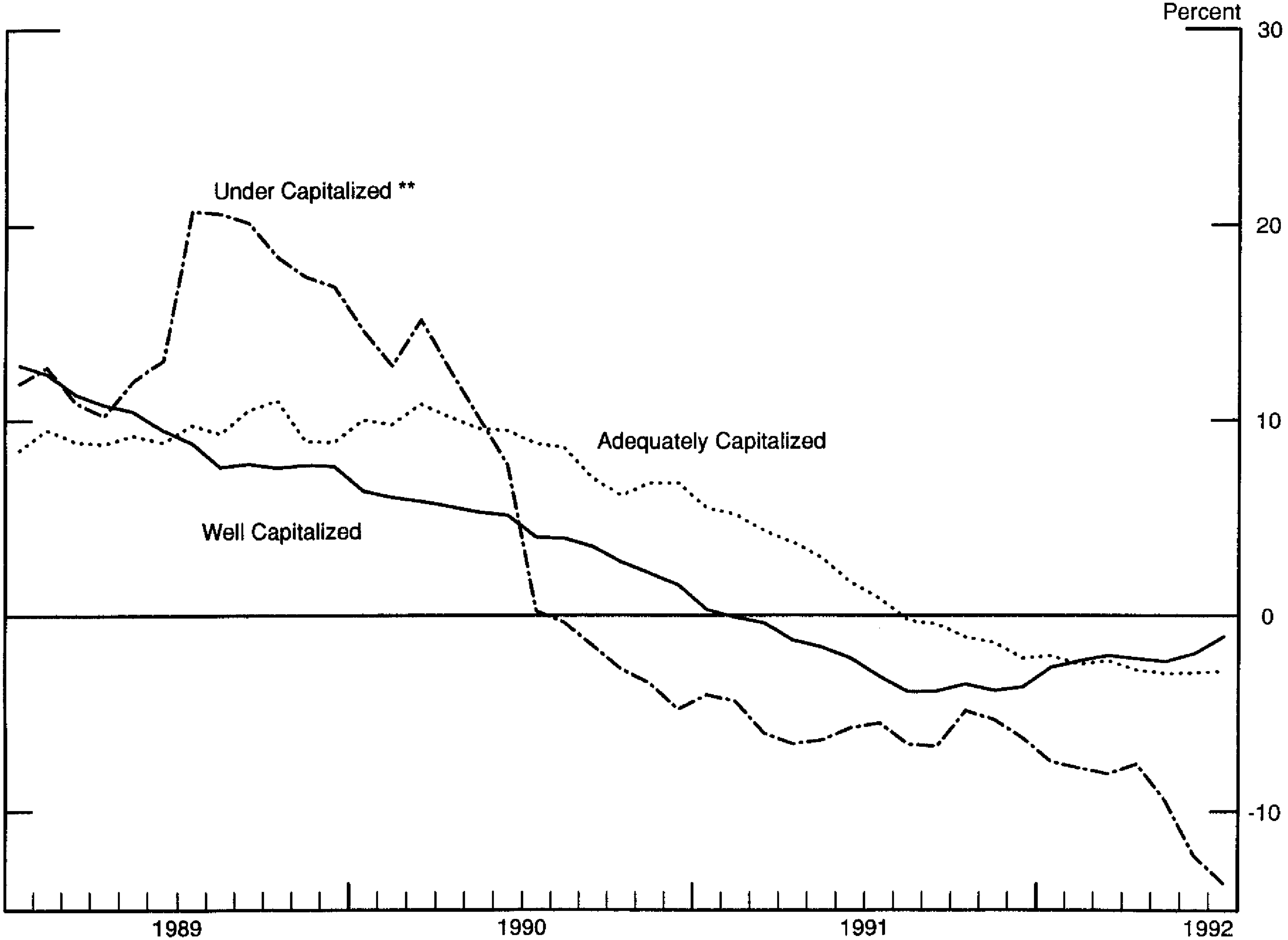
in drawing balances from M2 to higher yielding capital market instruments.

Incentives for shifting out the yield curve were manifested in the July contraction in M2-type money funds. Typically, these funds are boosted by declining market rates, because their yields lag behind. But last month investors apparently eschewed the temporary yield differential favoring money funds, and instead continued to seek returns posted at the long end of the yield curve. Net flows into stock and bond mutual funds totalled $17 billion in June, and anecdotal reports indicate an even larger volume in July. Some banks are encouraging their depositors to transfer balances to stock and bond funds with which the banks have management or service contracts.

In contrast to the behavior of M2-type money funds, institution-only money funds saw stronger inflows in July in response to the decline in short-term market rates. Like M2-type money funds, institution-only money funds typically see temporary gains from declining market rates. However, investors in institution-only money funds are motivated primarily by cash management needs and thus may be less willing to shift out the yield curve into capital market instruments. With depositories facing weak credit demands, runoffs of large time deposits accelerated in July, thus providing some offset in M3 to the acceleration in institution-only money funds. On balance, the non-M2 component of M3 declined in July, but less rapidly than the previous month.

Bank credit was about unchanged in July, with a decline in loans offset by a modest pickup in securities acquisitions. In part, the rise in securities acquisitions reflected the issuance of warrants, which the state of California is using as a stop-gap

Loans at Weekly Reporting Banks Selected by Capital Status *
(Growth from year-earlier month)



* C[illegible]al status is determined as of the Call Report for 3/31/92.
** In[illegible]s undercapitalized, significantly undercapitalized, and c[illegible]lly undercapitalized banks.

source of payment to creditors until it can pass a 1993 budget.[1] Business loans continued to shrink, although at a somewhat slower pace than in recent months because of a pickup at branches and agencies of foreign banks. That rise was concentrated at European and Canadian institutions, who have had relatively comfortable capital positions, while loans at Japanese branches and agencies remained flat. Consumer loans fell in July, but after adjusting for securitizations, grew at a 3 percent annual rate. Real estate loans contracted for the second straight month; anecdotal evidence points to loan sales and securitizations as key reasons for the weakness, chargeoffs in excess of seasonal norms also may be a factor.

Results of the August Senior Loan Officer Opinion Survey were consistent with the view that weak loan demand is the primary factor behind weak loan growth at banks. Although roughly 12 percent of respondents reported a pickup in loan demand over the last three months, about 17 percent reported that demand weakened. The vast majority of respondents indicated no change in underwriting standards since the May survey and various lending terms were reported as unchanged in contrast to earlier surveys, which had indicated some tightening.

Declines in loans have occurred throughout the year at banks with widely varying capital positions, suggesting that weak credit demands have played a role. Recently, though, disparities have become more pronounced between loan growth at under-capitalized banks and those with stronger capital positions, perhaps indicating that better capitalized banks are becoming poised for renewed loan growth. On a year-over-year basis, weekly reporting banks that are

1. In July, depositories accepted nearly $2 billion of these warrants from creditors of the state of California. The effect, on a month average basis, was to boost securities acquisitions in July by some $800 million. To date, none of the California warrants has been redeemed.

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

	1990	1991	1992 Q1	1992 Q2[p]	1992 May[p]	1992 June[p]	1992 July[p]
Corporate securities - total[1]	19.82	32.15	40.97	41.28	46.42	48.36	44.69
Public offerings in U.S.	17.68	29.36	37.63	38.01	42.42	44.40	42.48
Stocks--total[2]	1.95	5.44	7.53	7.08	6.92	9.00	6.48
Nonfinancial	1.03	3.72	5.14	4.99	5.59	5.74	3.02
Utility	.35	.42	.79	1.24	1.08	1.67	.56
Industrial	.68	3.30	4.35	3.75	4.51	4.07	2.46
Financial	.92	1.72	2.38	2.09	1.32	3.25	3.46
Bonds	15.73	23.92	30.10	30.93	35.50	35.40	36.00
Nonfinancial	5.62	9.52	13.41	12.34	12.50	13.50	19.00
Utility	1.98	2.96	4.98	5.45	5.30	6.20	9.40
Industrial	3.64	6.56	8.43	6.89	7.20	7.30	9.60
Financial	10.11	14.40	16.69	18.59	23.00	21.90	17.00
By quality[3]							
Aaa and Aa	3.42	3.72	4.13	2.88	4.20	2.75	6.45
A and Baa	6.44	12.09	15.81	15.04	15.11	16.95	16.45
Less than Baa	.15	1.03	2.64	3.31	3.10	4.12	4.13
No rating (or unknown)	.04	.02	.10	.02	.01	.02	.03
Memo items:							
Equity-based bonds[4]	.40	.63	1.01	.52	.55	.74	.16
Mortgage-backed bonds	2.43	2.99	4.83	6.41	7.13	8.14	5.00
Other asset-backed	3.27	4.08	2.63	3.26	5.95	3.42	3.94
Variable-rate notes	.80	.84	.90	2.14	2.92	2.41	.30
Bonds sold abroad - total	1.92	2.33	2.61	2.48	2.97	3.10	2.00
Nonfinancial	.46	1.00	.96	1.06	1.13	1.85	.80
Financial	1.46	1.33	1.64	1.42	1.84	1.25	1.20
Stocks sold abroad - total	.22	.46	.74	.79	1.04	.86	.21
Nonfinancial	.10	.38	.53	.67	1.02	.66	.09
Financial	.12	.08	.21	.12	.01	.21	.12

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.

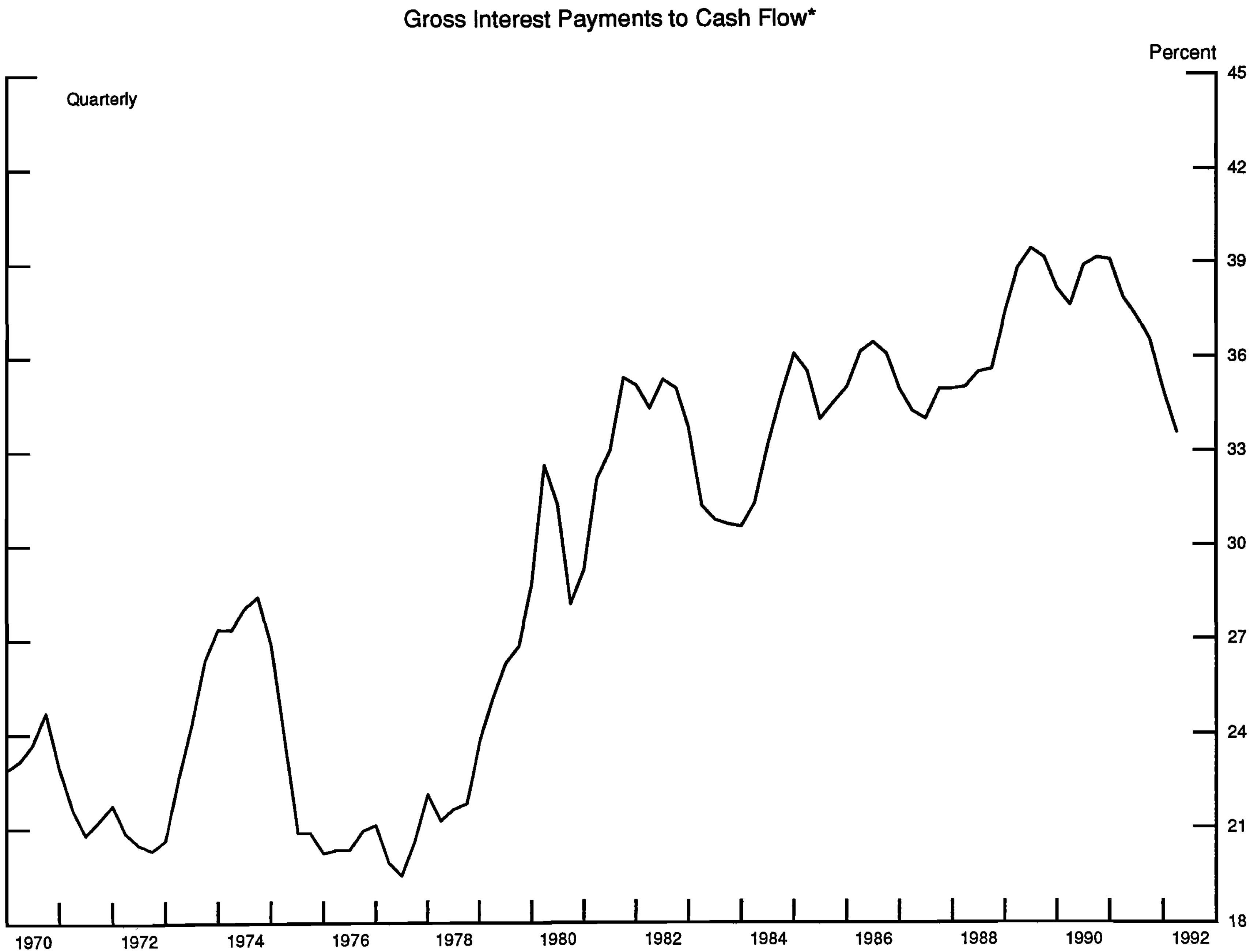
well capitalized under FDICIA are now seeing slower runoffs than in recent months (chart). Adequately capitalized banks are running off loans at about the same rate as earlier this year, but runoffs in loans at under-capitalized banks have accelerated, especially over the last few months.

Business Finance

Corporate bond yields fell in July to their lowest levels since the early 1970s, prompting nonfinancial corporations to bring to market a record $19 billion of public bond offerings. A large portion of the bonds issued in July were earmarked for replacing existing higher cost debt. For example, a number of firms called bonds issued in the 1960s and early 1970s and simultaneously offered new debt. In addition, some portion undoubtedly was used to pay down short-term obligations, thereby contributing to the weakness in short-term business credit last month.

Adding to July's strong bond issuance was heavy junk bond issuance. As in the first half of the year, most of last month's junk bond issues were dedicated to refinancing higher cost bank debt and bonds. However, unlike earlier this year and in 1991, many of the firms issuing junk bonds did so without also accessing the public equity market. Equity investors have become more selective, causing several proposed reverse LBOs--including those of Dr. Pepper and Revlon--to be postponed or cancelled.

A reduced pace of reverse LBOs contributed to an overall slowing in public equity offerings by nonfinancial corporations. Besides reverse LBOs, other initial public offerings (IPOs) weakened, as investors were soured by the poor performance of recent IPOs in the subsequent secondary market. Furthermore, July saw only a smattering of large offerings by established companies, which had bolstered issuance in previous months. Indeed, only General Motors



*Economic profits before taxes plus gross interest payments and depreciation and Freeport-McMoran, with preferred offerings, came to the public market in any significant size in July. A large, private issue of preferred stock by Unocal offset, to some extent, the slowdown in public issuance. The volume of public offerings picked up somewhat in the first week of August, pointing toward a stronger month than July.

After languishing throughout most of July, major stock price indexes rebounded sharply in the last few days of July with the fall in long-term interest rates. Stock prices have since backed off, as worries about the economic outlook returned to the forefront. On balance, the broader indexes are up 1/2 to 1-1/2 percent since the last FOMC meeting.

Other incoming signals of the health of businesses were generally positive. Bond defaults in the first half of this year ran at a 5 percent annual rate, down from the 10 percent level of the past two years. Furthermore, during the second quarter, the number of downgraded firms dropped to its lowest level since the third quarter of 1988, and upgrades maintained their slow upward march. Falling rates have eased the interest payment burdens of firms; interest expense as a share of business cash flow now stands at a level last seen in the mid-1980s (chart). Finally, business failures fell slightly in the first quarter of 1992, though they remain at a high level.

The financial strength of U.S. commercial banks continued to improve during the second quarter, but areas of concern remain. Profits grew as further declines in interest rates boosted net interest margins. Loan credit quality also improved; nonperforming loans at nineteen of the top twenty-five banking organizations declined as a percent of total assets.

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

	1992				
	Q2	Q3[p]	July	Aug.[p]	Sept.[p]
Treasury financing					
Total surplus/deficit (-)	-28.4	-81.6	-41.1	-34.5	-6.0
Means of financing deficit:					
Net cash borrowing from the public	62.5	76.6	28.6	37.2	10.8
Marketable borrowings/ repayments (-)	52.8	78.9	32.9	35.7	10.2
Bills	2.4	21.2	14.1	4.6	2.4
Coupons	50.4	57.7	18.8	31.1	7.8
Nonmarketable	9.7	-2.3	-4.3	1.5	.6
Decrease in the cash balance	-27.2	2.6	9.5	2.0	-8.9
Memo: Cash balance at end of period	47.0	44.4	37.5	35.5	44.4
Other[2]	-6.9	2.4	3.0	-4.7	4.2
Federally sponsored credit agencies, net cash borrowing[3]	8.1	--	--	--	--
FHLBs	-.5	--	--	--	--
FHLMC[4]	2.5	--	--	--	--
FNMA	7.7	--	--	--	--
Farm Credit Banks	-.8	--	--	--	--
SLMA	-1.2	--	--	--	--
FAMC[5]	.5	--	--	--	--

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.
4. Data for April and May only.
5. Federal Agricultural mortgage Corporation.
p--projected.
Note: Details may not add to totals due to rounding.

As capital markets warmed to banks earlier this year, they issued a large volume of both equity and debt. Banks already have raised about the same amount of equity funds as they raised in all of 1991. Even in July, when the performance of bank shares was relatively weak, equity issuance by banks continued unabated. Banks have responded to the sharp decline in spreads on bank debt this year by issuing debt at a pace ahead of last year's record. The need to bolster capital ratios in order to pursue acquisitions and access to the brokered CD market likely have been two factors spurring banks to tap the subordinated debt and equity markets.

Treasury and Sponsored Agency Financing

The projected third quarter deficit of $82 billion will likely be financed by $77 billion of marketable borrowing, leaving the Treasury's cash balance little changed on the quarter. A projected $14 billion increase in marketable borrowing during the third quarter largely reflects a seasonal bounceback from a second quarter level of borrowing that had been depressed by paydowns of large cash management bills following the April tax season. Gross weekly bill auctions are expected to be unchanged over the third quarter, while gross coupon auction sizes are likely to be unchanged to up $250 million. The $4.15 trillion debt ceiling affords the Treasury about $225 billion of room for new issuance. The staff anticipates that the debt ceiling will be reached around the end of the first quarter of 1993.

Three sources of uncertainty about Treasury issuance plans have been the focus of market participants' attention over the intermeeting period. First, ambiguous comments by Treasury officials renewed speculation that the Treasury would scale back its long-term debt issuance, shortening its average maturity to take advantage of the steep yield curve and perhaps to encourage some decline in long-term rates. In the event, the Treasury announced that the composition and total amount of its midquarter refunding would be unchanged from the previous two refundings; bond yields backed up slightly on the announcement. Second, debt restructuring agreements by Argentina and Brazil left open the possibility that those governments would be large net purchasers in the market of long-dated Treasury zero-coupon securities. As yet, they have not appeared in the market. Third, Treasury officials reported that a decision on the setup of an experiment with single-price auction awards would be made within the next two months, but trials with more involved iterative auctions may be several years away.

Municipal Securities

Over the intermeeting period, the ratio of tax-exempt to taxable bond yields dropped to its lowest level since the enactment of the Tax Reform Act of 1986.[2] Since the end of last year, the ratio has moved steadily downward, as the result of both strong household demand for tax-exempt securities and weak net issuance by state and local governments. The downward movement in the ratio accelerated in July with an unusually large volume of bond redemptions, which are estimated to have amounted to about 1 percent of the outstanding stock of municipal bonds. The ratio should continue to face downward pressure, as the volume of redemptions will remain heavy over the course of the year. The high level of redemptions reflects bonds issued in 1982 that had since been pre-funded. Market analysts expect the volume of redemptions in the third quarter to total about $20 billion, nearly equal to the entire amount in 1991.

2. On an after-tax basis, the relative attractiveness of tax-exempt bonds decreased with the reduction in marginal tax rates in the Act.

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

	1990	1991	1991 Q4	1992 Q1	1992 Q2	1992 May	1992 June	1992 July[p]
Total offerings[1]	13.49	16.60	17.00	16.37	21.04	14.85	29.30	18.39
Total tax-exempt	13.24	16.18	16.59	15.82	20.29	14.50	28.54	18.30
Long-term	10.26	12.84	14.96	14.20	16.60	14.16	20.50	15.91
Refundings[2]	1.68	3.11	3.47	5.12	5.81	4.90	6.41	7.53
New capital	8.58	9.73	11.49	9.08	10.79	9.26	14.09	8.38
Short-term	2.98	3.34	1.63	1.62	3.69	.34	8.04	2.39
Total taxable	.25	.42	.41	.55	.75	.35	.76	.09

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

Changes in long-term debt ratings in the second quarter present a mixed picture of the credit quality trend in the municipal sector. Standard & Poor's upgraded 25 more issues than it downgraded; however, most of its upgrades owed to improved ratings for two large utilities. Moody's upgraded about the same number of issues that it downgraded.

The credit ratings of two major states, California and Illinois, have been lowered in the past month. Standard & Poor's and Moody's both downgraded the state of California, primarily because the inability of the legislature and state administration to come to agreement on a budget for fiscal year 1993, which began on July 1.[3] As a result, California has been forced to pay most creditors, including state employees, with registered warrants. Although local banks were accepting these warrants for deposit in July, several of the largest banks recently have announced that they will no longer accept them, portending a possible disruption of state government operations. Standard & Poor's dropped Illinois'

3. Moody's cut the rating on California general obligation bonds from Aa1 to Aa. Standard & Poor's followed shortly thereafter with a rating cut to A+ from AA. California had been rated AAA by both issuers until near the end of 1991, when the state's budget process began to unravel.

STANDARD AND POOR'S MUNICIPAL LONG-TERM DEBT RATING ACTIONS
(Number of rating revisions by region)

Region	1985	1986	1987	1988	1989	1990	1991	1992:1	1992:2
West									
Up	12	86	31	13	28	39	22	6	7
Down	14	74	41	22	25	48	251	17	24
Southwest									
Up	22	19	19	10	16	11	22	5	9
Down	8	55	76	41	8	48	55	6	24
Northwest									
Up	0	8	11	1	1	16	18	3	7
Down	6	9	11	2	6	8	7	3	0
Midwest									
Up	20	188	20	26	50	27	21	8	27
Down	19	62	30	43	22	92	96	20	8
Southeast									
Up	22	30	27	27	45	29	36	121[1]	35
Down	39	67	73	46	13	101	66	11	5
Northeast									
Up	25	31	46	37	30	18	26	7	10
Down	20	29	38	31	64	168	132	93	9
Total									
Up	101	362	154	114	170	140	145	150	95
Down	106	296	269	185	138	465	607	145	70
Memo: Volume (billions of dollars)									
Up	n.a.	38.9	17.0	18.0	13.4	18.8	8.1	6.1	7.7
Down	n.a.	11.6	25.0	22.6	24.0	47.8	51.5	20.5	2.3

Source: Standard and Poor's Credit Week

1. Of these upgrades, 88 represent Kentucky school districts that were upgraded as a result of state-implemented funding reforms.

rating from AA to AA- last month, pointing to a $1 billion deficit in the 1992 operating budget and the prospect of another budget deficit in fiscal 1993. Moody's also is considering downgrading Illinois.

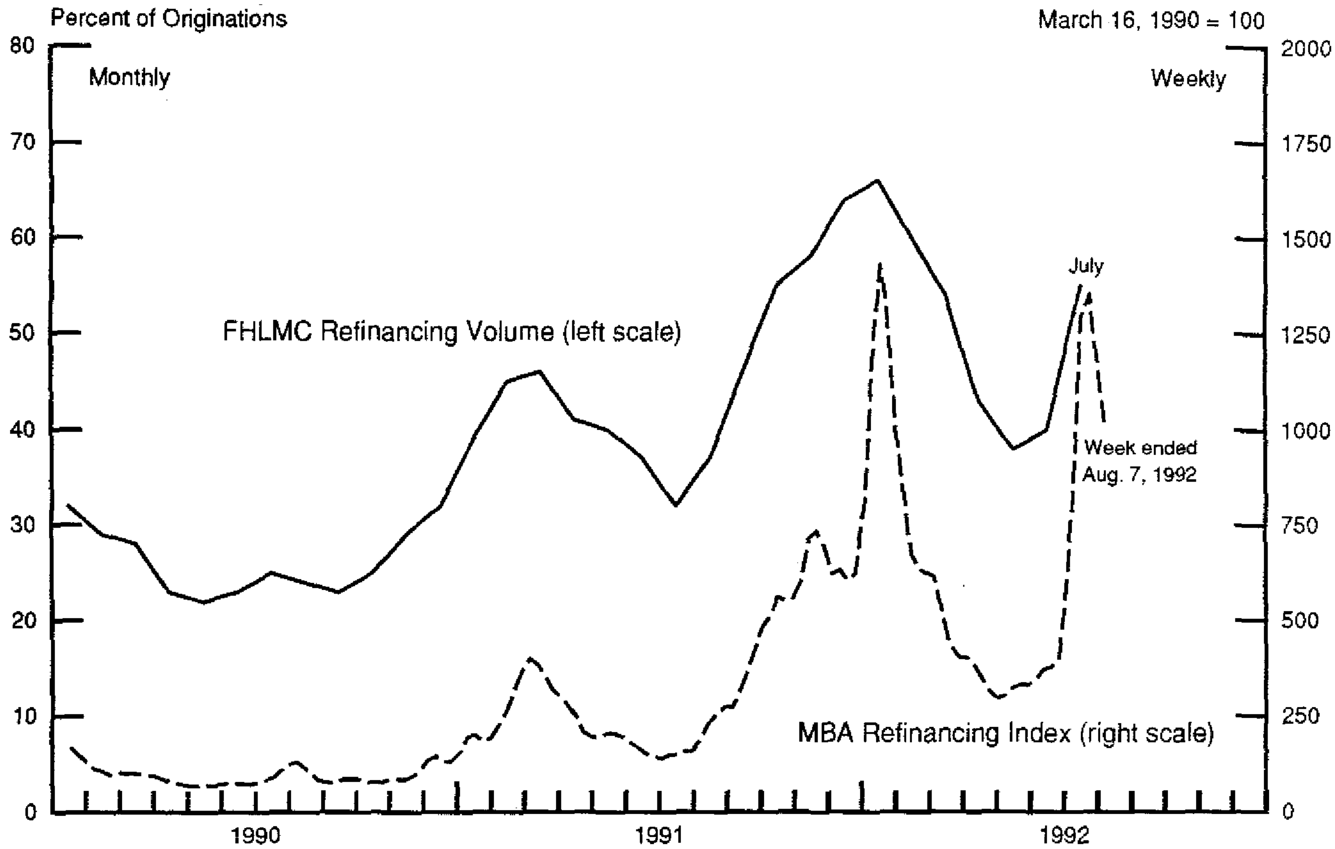
Mortgage Markets

Over the intermeeting period, interest rates on conventional fixed-rate mortgages declined by nearly 40 basis points to 8.06 percent, with the bulk of the decline occurring before mid-July. Since that time, mortgage rates have not moved down with rates on Treasury coupons owing to concerns about prepayment risk. This decline in mortgage interest rates has prompted a resurgence of mortgage refinancings. The Mortgage Bankers Association's weekly index of refinancing activity (nsa) spiked in July--to a level close to that recorded in January--before easing slightly in early August (chart). A Freddie Mac index, based on a broader survey of mortgage lenders, also indicates that the proportion of refinancing applications rose markedly in July.

The latest MBA data indicate that just over one-half of total mortgage applications at mortgage banking companies have been to refinance outstanding mortgages. Anecdotal reports from mortgage bankers also suggest that the current "fallout" rate on new applications is lower than in January, with the bulk of applications leading to contract closings.[4] The recent decline in interest rates on both fixed and adjustable rate mortgages, plus the resulting higher levels of refinancing activity, have raised staff

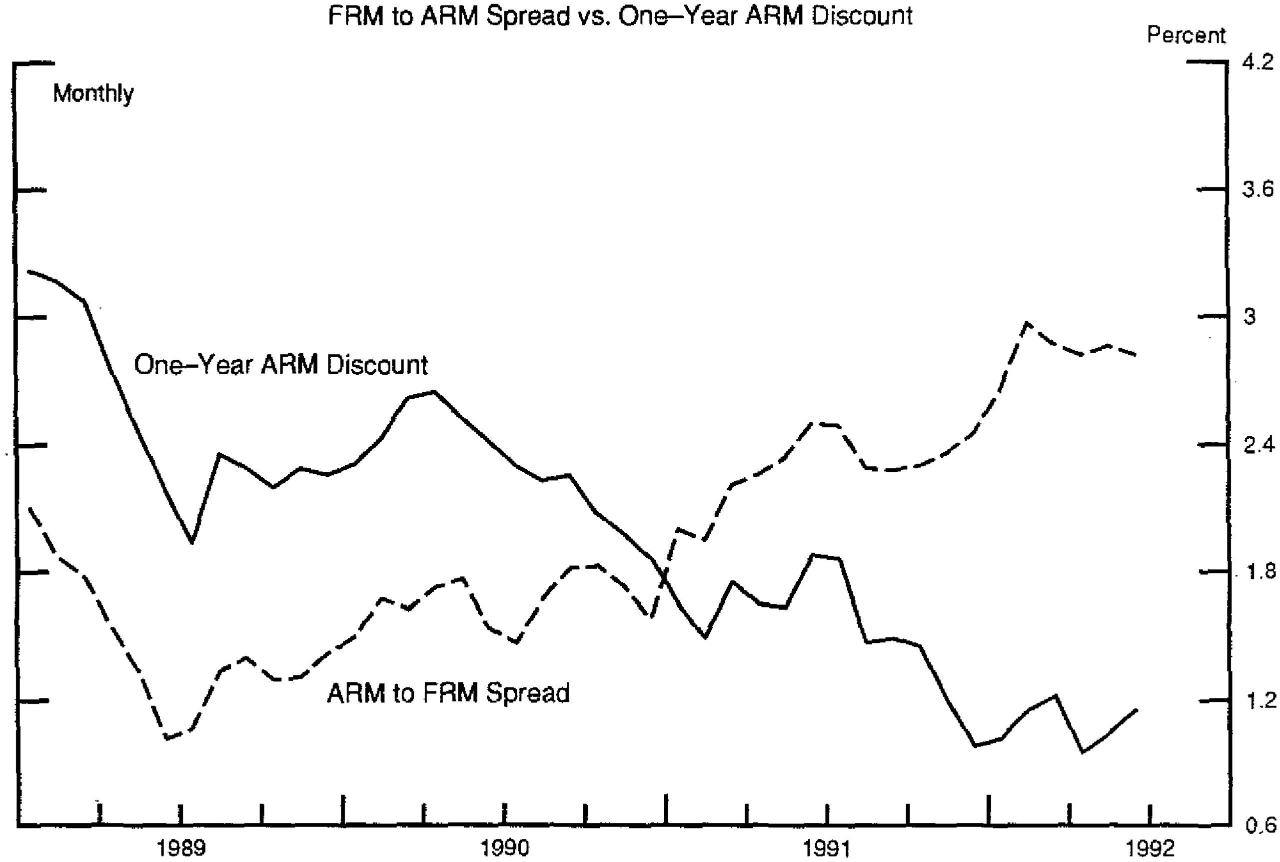
4. In January, lenders reported that many borrowers, expecting further declines in mortgage rates, were submitting applications at more than one lender without locking in a rate. When mortgage rates unexpectedly increased, borrowers did not take their applications to closing. Lenders refer to the proportion of applications that do not lead to a loan as the fallout rate. Following the disappointing experience of borrowers earlier in the year, lenders now report that borrowers are locking in available rates more quickly, resulting in a lower fallout rate and preventing--at least temporarily--origination bottlenecks at mortgage lenders.

Refinancing Indexes (N.S.A.)



Source: Mortgage Bankers Association; Federal Home Loan Mortgage Corporation.

FRM to ARM Spread vs. One–Year ARM Discount



Source: Federal National Mortgage Association.

estimates of mortgage interest savings for households. Owing to the cumulative refinancing of FRMs and resetting of ARMs in 1991 and 1992, total interest savings at an annual rate (not adjusting for closing costs) are estimated to be about $18.5 billion in 1992 and $25 billion in 1993, assuming no further change in rates.

Prices of mortgage securities in the secondary market, too, have weakened relative to prices of comparable maturity Treasuries owing to greater prepayment premiums. In particular, yield spreads on current coupon agency pass-throughs have widened about 20 to 25 basis points since mid-July. Investors' concerns in the secondary market have been most apparent in the interest-only (IO) mortgage strips sector, where prices have dropped by 20 percent to 30 percent or more since the beginning of July. IO prices are particularly sensitive to accelerating mortgage prepayments because the value of IO cash flows depends almost entirely on how long the mortgage loans are outstanding.

The spread between interest rates on thirty-year, fixed-rate mortgages (FRMs) and initial rates on adjustable-rate mortgages (ARMs) remains above 250 basis points, but has narrowed slightly since the beginning of the year, as long-term Treasury rates have declined and lenders have reduced discounts offered on ARM start rates (chart). With the near-record interest rate spread between ARMs and fixed-rate mortgages, the origination volume of ARMs has picked up in recent months, although their share of total originations remained relatively small. According to Fannie Mae, the share of thirty-year fixed-rate mortgages stabilized around 50 percent in May and June, as the rise in the proportion of fifteen-year, fixed-rate mortgages halted.

The available data for mortgage credit indicate that growth remained weak in recent months. Real estate loans at commercial

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-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
Q2 p	42.2	36.7	3.6	33.2	5.4	14.4	12.4	1.0
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	44.3	37.0	3.0	24.8	3.9	9.2	11.7	.0
May r	47.5	39.6	4.0	39.9	7.1	19.1	13.0	.7
June p	34.6	33.5	3.8	34.9	5.3	14.8	12.6	2.2

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

banks rose at only a 1/2 percent pace in the second quarter, and, as noted above, declined in July. Gross issuance of federal agency pass-throughs declined to a seasonally adjusted $34.6 billion in June, down from May's record pace of $47.5 billion (table). Net issuance, while rising in the second quarter, remained at a low level owing to the sluggish housing market.

Gross agency MBS issuance in the first half of 1992 was 85 percent ahead of the same period last year. Moreover, offerings of private-label mortgage securities in the first half of 1992 exceeded levels in last year's first half by 120 percent, owing partly to increased sales by the RTC. Part of the rise represented stronger issuance of adjustable-rate pass-throughs, which was up 135 percent for agency securities and 100 percent for private-label issues compared to the same period last year. At the half-way mark, it appears that both pass-through and CMO offerings for the agency and private-label sectors will set new records in 1992, despite somewhat subdued mortgage originations, as securitizations account for a still greater share of financings.

Consumer Credit

Consumer installment credit outstanding contracted at a 1-3/4 percent seasonally adjusted annual rate in June, following declines of 6 percent and 1-1/2 percent in April and May, respectively. The decline was concentrated in auto credit, which fell sharply in June. Revolving credit grew at a 4-1/4 percent rate in June, somewhat faster than the pace of the previous two months, but still well below even the reduced pace of 1991. For the second quarter as a whole, consumer installment credit declined at a 3 percent annual rate, the steepest quarterly drop since the second quarter of 1980.

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (at annual rate)							Memo: Outstandings (billions of dollars)
				1992		1992		1992
	1989[1]	1990	1991	Q1	Q2[p]	May[r]	June[p]	June[p]
Installment	5.8	2.6	-1.0	-.2	-3.0	-1.5	-1.7	721.9
Auto	1.4	-2.4	-7.6	-1.3	-7.8	-2.5	-12.9	257.0
Revolving	15.2	11.9	8.9	4.1	3.0	1.5	4.2	247.1
Other	4.2	.8	-2.3	-3.6	-4.0	-3.7	5.1	217.8
Noninstallment	3.9	-3.5	-10.0	17.5	.5	9.6	-19.2	55.1
Total	5.6	2.1	-1.7	1.0	-2.8	-.7	-2.9	777.1

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

CONSUMER INTEREST RATES
(Annual percentage rate)

				1992				
	1989	1990	1991	Feb.	Mar.	Apr.	May	June
At commercial banks[1]								
New cars (48 mo.)	12.07	11.78	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	12.41	10.19	10.92	11.07	10.67	10.25
Used cars	16.18	15.99	15.60	14.00	14.19	14.11	14.01	13.89

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.

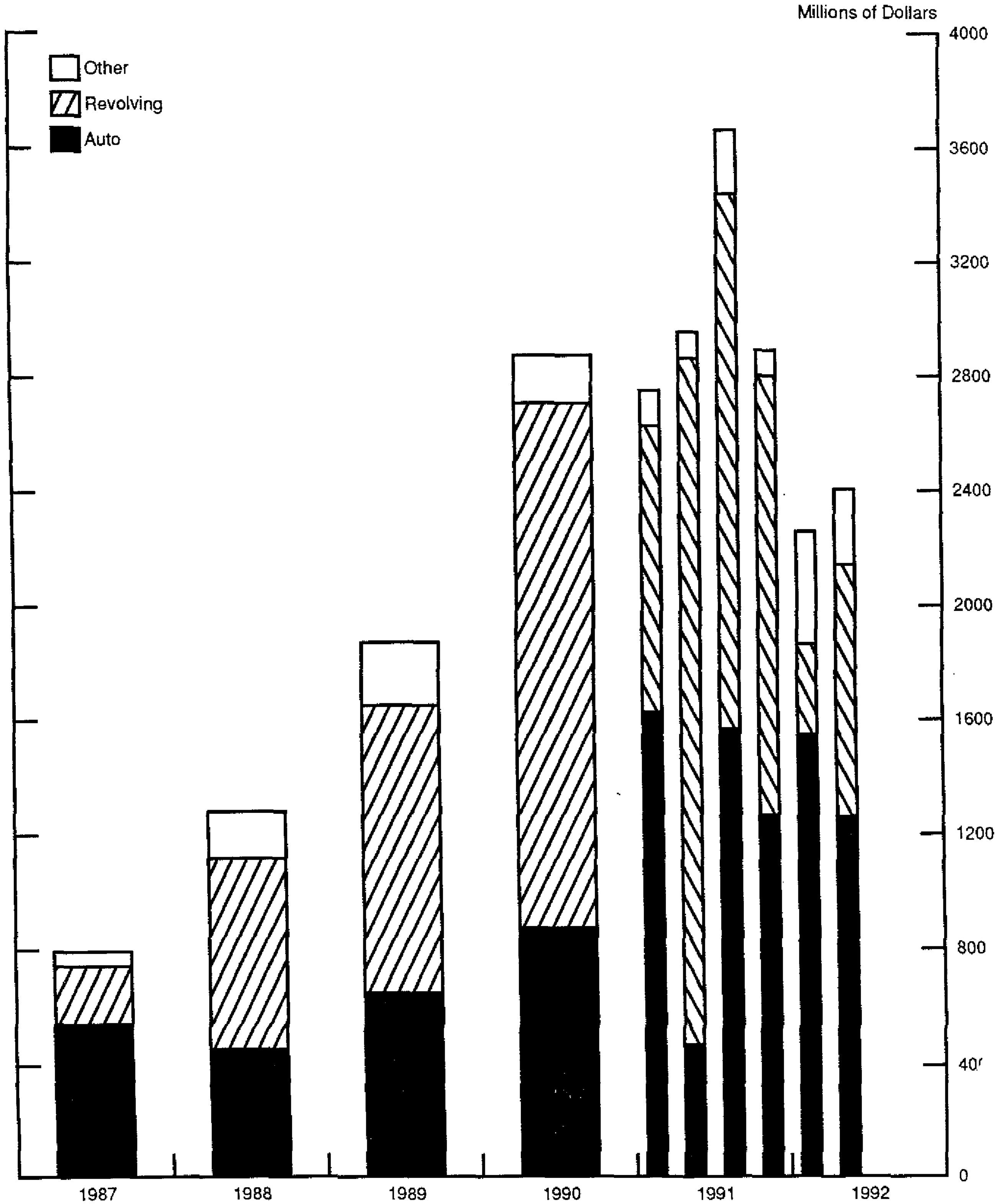
August 7, 1992
Mortgage and Consumer Finance

The June decline in auto credit is consistent with anecdotal evidence suggesting that households continue to substitute leasing or home equity borrowing for more traditional loans when financing auto purchases. Home equity lending at commercial banks grew at a five percent rate in June. Although there are no comprehensive data on the aggregate volume of consumer leasing activity, motor vehicle leasing (passenger cars and commercial vehicles) at domestic finance companies has been rising steadily over the past four months; in June, leasing was up about 3-1/2 percent from the May level.

Although data on consumer loan rates for July and August will not be available until late this month, anecdotal reports suggest that auto loan rates may have eased further following the July 2 discount rate cut. Interest rates on new car loans at the domestic captive auto finance companies dropped in the April-June period after rising in the first quarter. Used car loan rates at these companies have shown a similar pattern. Credit card issuers also appear to continue to lower rates selectively to more creditworthy borrowers.

Issuance of securities backed by consumer loans in the second quarter about matched the pace seen in the first quarter, but was well under that of 1990 and 1991 (chart). Credit card-backed issues have been particularly slow this year, with only three banks placing a total of $2.4 billion. In part, this slowdown reflects sluggish growth in consumer debt; moreover, improved capital ratios and cheaper on-balance-sheet financing have also reduced the needs of banks to securitize these assets. In contrast, auto finance companies, faced with increasing auto sales and seeking lower funding costs, have relied heavily on the asset-backed market this year. Spreads have recently been very tight between yields on securities backed by auto loans and Treasury securities of

Gross Public Issuance of Consumer Asset-Backed Securities
(Monthly Averages)



comparable maturity. As a result, securitization of auto loans was brisk in the first quarter, and fell only slightly off this pace in the second quarter. To the extent that these spreads remain tight, and auto sales continue at their recent pace, industry sources expect issuance of auto loan-backed securities to grow in coming months.

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

The U.S. merchandise trade deficit in May was $7.4 billion (seasonally adjusted, Census basis) compared with $7.1 billion (revised) in April. Nonagricultural exports fell $1/2 billion in May, the third consecutive month of decline; the decreases in April and May were primarily in exports of aircraft. Non-oil imports declined $3/4 billion in May with the decrease spread among most major trade categories. A drop in the quantity of imported oil in May was more than offset by an increase in its price (by about $1.20 per barrel). Data for June will be released on August 19.

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

	Exports			Imports			
	Total	Ag.	NonAg.	Total	Oil	Non-oil	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	32.7	43.5	4.0	39.5	-7.1
May	35.5	3.3	32.2	42.9	4.1	38.7	-7.4

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

For April-May combined, exports declined 3 percent from the first-quarter average and imports rose 4 percent. As a result, the deficit increased to an annual rate that was the largest quarterly deficit since 1990-Q4.

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

	Year	1991			1992		$ Change	
	1991	Q2	Q3	Q4	Q1	Q2-e	Q2e-Q2	Q2e-Q1
Trade Balance	-73.4	-65.6	-80.7	-74.2	-69.9	-100.2	-34.6	-30.3
Total U.S. Exports	416.0	413.3	416.6	431.4	431.3	420.3	7.0	-11.0
Agricultural Exports	40.1	37.5	40.7	43.2	43.2	41.6	4.1	-1.6
Nonagric. Exports	375.8	375.8	375.9	388.2	388.1	378.7	2.9	-9.4
Industrial Suppl.	101.8	101.3	100.5	100.0	99.7	98.4	-2.9	-1.3
Gold	3.6	3.2	3.4	3.6	3.8	3.4	0.2	-0.4
Fuels	14.3	13.0	12.7	14.7	13.9	13.0	0.1	-0.9
Other Ind. Suppl.	83.9	85.2	84.3	81.8	82.0	82.0	-3.2	-0.0
Capital Goods	167.0	169.4	166.7	176.3	176.3	168.6	-0.8	-7.7
Aircraft & Parts	36.4	38.7	35.4	40.8	42.6	34.6	-4.2	-8.1
Computers & Parts	27.3	27.2	26.8	27.9	27.4	28.1	0.9	0.8
Other Machinery	103.3	103.4	104.5	107.5	106.3	105.9	2.5	-0.4
Automotive Products	40.0	39.7	43.7	41.7	42.9	45.5	5.8	2.6
To Canada	22.8	21.9	25.0	23.1	20.8	22.6	0.7	1.8
To Other	17.5	17.8	18.7	18.6	22.1	22.9	5.1	0.8
Consumer Goods	45.9	44.5	44.9	48.2	47.9	47.5	3.0	-0.4
Other Nonagric.	21.0	20.9	20.1	22.1	21.3	18.7	-2.3	-2.6
Total U.S. Imports	489.4	478.9	497.3	505.6	501.2	520.5	41.6	19.4
Oil Imports	51.2	51.7	52.5	48.8	41.4	48.7	-3.0	7.3
Non-Oil Imports	438.2	427.1	444.8	456.8	459.8	471.8	44.7	12.1
Industrial Suppl.	83.9	80.4	80.0	83.3	84.4	87.5	7.1	3.1
Gold	2.9	3.0	2.3	3.1	2.2	3.0	0.0	0.8
Other Fuels	3.9	3.9	3.8	4.8	4.4	4.4	0.5	0.0
Other Ind. Suppl.	77.1	73.5	73.9	75.4	77.8	80.1	6.6	2.3
Capital Goods	120.7	120.4	121.3	122.1	125.2	129.8	9.5	4.6
Aircraft & Parts	11.7	12.2	12.5	11.5	12.1	13.3	1.1	1.2
Computers & Parts	26.1	25.8	27.1	26.8	27.7	30.0	4.2	2.3
Other Machinery	82.9	82.4	81.7	83.8	85.4	86.5	4.1	1.1
Automotive Products	84.9	79.1	90.8	88.6	87.8	90.1	11.0	2.3
From Canada	28.8	28.1	33.1	30.1	30.9	31.1	3.0	0.1
From Other	56.2	51.0	57.7	58.5	56.9	59.0	8.0	2.1
Consumer Goods	108.0	101.6	109.9	118.7	116.3	117.8	16.2	1.5
Foods	26.5	27.6	26.3	26.4	26.8	28.1	0.5	1.3
All Other	14.1	18.0	16.5	17.7	19.2	18.5	0.4	-0.8

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

Exports to Western Europe and Japan edged down in April-May as economic activity in such key markets as the United Kingdom, Germany, and Japan turned down in the second quarter. Shipments to developing countries in both Asia and Latin America flattened out. Exports to Canada and Mexico continued to move up, supported in large part by automotive shipments. By trade category, the largest decline was in exported civilian aircraft which decreased from a very strong first-quarter level; deliveries of aircraft have been particularly volatile in recent months. The remaining decline in exports in April-May was in industrial supplies (coal, metals, building materials) and agricultural products (particularly wheat and corn). Other categories of exports recorded increases, especially automotive products, computers, and chemicals.

Non-oil imports were 2.5 percent higher in April-May than the first-quarter average, with the increase spread among all major trade categories. From the fourth quarter of last year through April-May, the quantity of non-oil imports expanded at a 6 percent annual rate. Imported computers and semiconductors accounted for two-thirds of the overall rise. The quantity of other non-oil imports increased at a 2-1/2 percent annual rate over the same period. The categories that grew most were household appliances, apparel, passenger cars, civilian aircraft, industrial machinery, metals, paper, and fruits and vegetables.

An 18 percent increase in the value of oil imports in April-May was split between increased quantity and higher prices. A normal seasonal switch to stockbuilding pushed up the quantity of oil imports in April-May. Imports in the first quarter had been restrained by mild weather and stock drawdowns. Preliminary Department of Energy data suggests that imports in June fell slightly from the April-May rate; preliminary figures also suggest a rebound of consumption in July which could push imports well above 8 mb/d.

In May, oil import prices continued to respond to OPEC production restraint, especially on the part of Saudi Arabia, which had begun to push spot prices up in March. Spot prices of West

OIL IMPORTS
(BOP basis, adjusted 1/ annual rates)

	1991	1992		Months			
	Q4	Q1	A/M	Feb	Mar	Apr	May
Value (Bil. $)	48.78	41.42	48.72	39.76	40.92	47.83	49.60
Price ($/BBL)	18.05	15.28	16.78	15.18	15.18	16.16	17.39
Quantity (mb/d)	7.40	7.42	7.96	7.17	7.38	8.11	7.81

1/ Oil imports are not seasonally adjusted: they are adjusted only for the number of days in the month.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Texas Intermediate crude (WTI) continued to rise through late June, before holding steady at approximately $22.00 per barrel throughout July. More recently, spot prices have eased somewhat with the unwinding of tensions over U.N. surveillance of Iraq; spot WTI currently stands at slightly above $21.00 per barrel. This pattern of spot prices suggests that import prices will likely rise through July, to roughly $19.50 per barrel.

Prices of Exports and Non-oil Imports

Prices of U.S. exports rose 0.1 percent in June bringing the increase for the second quarter to 1.6 percent at an annual rate (BLS prices). This increase contrasts with a decline of similar magnitude in the first quarter. The increase in the second quarter was attributable primarily to higher prices of exported industrial supplies (especially fuels and building materials), with smaller increases recorded for consumer goods and automotive products. Prices of agricultural exports (notably wheat and corn) declined in the second quarter.

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

	Year 1992-Q2 / 1991-Q2	Quarters 1991 Q4	1992 Q1	1992 Q2	Months 1992 May	Jun
		(Quarterly Average, AR)			(Monthly Rates)	
	BLS Prices					
Exports, Total	0.0	2.5	-1.4	1.6	0.3	0.1
Foods, Feeds, Bev.	1.7	17.6	-1.3	-2.1	-0.1	0.2
Industrial Supplies	-3.2	-3.0	-6.5	5.3	0.8	-0.2
Capital Goods	1.1	2.2	0.7	-0.1	0.1	0.3
Automotive Products	2.0	3.0	1.6	1.0	0.0	0.1
Consumer Goods	1.9	2.5	5.9	1.6	0.6	-0.3
Memo:						
Agricultural	-0.7	10.8	-3.3	-1.0	0.2	0.6
Nonagricultural	0.0	1.2	-1.3	2.1	0.3	0.0
Imports, Total	0.4	5.2	-1.2	1.1	0.6	1.1
Foods, Feeds, Bev.	-1.7	3.7	10.0	-15.1	-2.5	0.3
Industrial Supplies	-1.9	3.1	-15.1	13.4	2.5	2.4
Ind Supp Ex Oil*	-2.0	-4.3	4.7	-0.7	0.0	0.2
Capital Goods	0.7	6.5	4.7	-3.6	-0.1	0.7
Automotive Products	1.1	7.4	0.9	-2.6	-0.3	0.7
Consumer Goods	2.7	5.1	6.2	0.4	0.3	0.4
Memo:						
Oil	-1.8	19.5	-45.0	50.3	7.7	6.6
Non-oil	0.6	3.9	4.4	-2.7	-0.2	0.5
	Prices in the NIPA Accounts					
Fixed-Weight						
Exports, Total	-0.1	2.2	-0.7	0.7	--	--
Ag	-1.5	10.4	-4.1	-2.5	--	--
Nonag	0.1	1.1	-0.4	1.1	--	--
Imports, Total	1.5	4.1	-4.2	9.0	--	--
Oil	-0.7	20.1	-48.9	60.3	--	--
Non-oil	1.8	2.2	1.8	5.4	--	--
Deflators						
Exports, Total	-1.2	1.1	-1.1	-1.8	--	--
Ag	-2.2	4.6	-5.2	-1.5	--	--
Nonag	-1.1	0.6	-0.7	-1.8	--	--
Imports, Total	-1.4	2.3	-6.9	3.8	--	--
Oil	-0.6	20.4	-48.6	59.1	--	--
Non-oil	-1.6	0.2	-1.5	-0.2	--	--

*/ Months for this series are not for publication.

An increase in prices of non-oil imports in June slowed the decline in prices for the second quarter on average to 2.7 percent at an annual rate. The downward swing in prices in the second quarter, after two quarterly increases, reflected, in part, a lagged adjustment to the rise in the exchange value of the dollar during the first quarter of this year. While the largest declines were registered in foods, significant decreases were also reported for imported capital goods, passenger cars, and recreational and home entertainment equipment.

U.S. International Financial Transactions

Capital transactions thus far recorded for the second quarter register large inflows, especially through foreign private purchases of U.S. Treasury securities and increases in foreign official reserves in the United States. (See lines 1-5 of the Summary Table of U.S. International Transactions.) Data for direct investment and certain other capital flows are not yet available, but for those categories that are available recorded net inflows totaled almost $30 billion in the second quarter, compared with $20 billion in the first quarter. This increase in net capital inflows more than offsets our projected deterioration in the current account, suggesting that the large negative statistical discrepancy recorded in the first quarter was likely not reversed in the second.

Foreign official reserves in the United States rose rapidly in May and June

. For the second quarter as a whole, official reserves in the United States increased $21 billion (line 4). Most of the increase was attributable to non-G-10

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

	1990 Year	1991 Year	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Apr.	1992 May	1992 June
Private Capital									
Banks									
1. Change in net foreign positions of banking offices[1] in the U.S. (+ = inflow)	36.6	-19.2	11.1	-2.0	3.9	-5.5	0.3	3.7	-9.5
Securities									
2. Private securities transactions, net[2]	-29.1	-11.4	-2.5	-6.7	-4.3	2.3	-0.2	0.2	2.3
a) foreign net purchases (+) of U.S. corporate bonds[3]	16.2	25.7	8.2	6.5	7.7	11.9	4.1	3.7	4.1
b) foreign net purchases (+) of U.S. corporate stocks	-13.7	10.1	2.3	-1.5	-2.8	-0.8	-0.3	0.1	-0.5
c) U.S. net purchases (-) of foreign securities	-31.6	-47.3	-13.0	-11.8	-9.2	-8.8	-4.0	-3.6	-1.3
3. Foreign net purchases (+) of U.S. Treasury obligations	-1.0	17.8	-1.2	1.5	-0.7	10.4	5.1	-5.1	10.5
Official Capital									
4. Changes in foreign official reserves assets in U.S. (+ = increase)	32.1	16.0	3.4	13.3	21.1	20.6	4.0	9.0	7.6
a) By area									
G-10 countries	10.0	-17.6	-1.9	0.5	2.4	3.3	-1.5	2.8	2.0
OPEC	1.2	-5.8	-4.4	1.2	2.8	-2.6	-0.3	-3.1	0.9
All other countries	20.8	39.3	9.8	11.6	15.9	19.8	5.8	9.3	4.7
b) By type									
U.S. Treasury securities	29.6	14.8	5.6	12.6	14.9	11.6	2.6	5.6	3.4
Other[4]	2.5	1.1	-2.2	0.7	6.2	9.0	1.4	3.4	4.1
5. Changes in U.S. official reserve assets (+ = decrease)	-2.2	5.8	3.9	1.2	-1.1	1.8	-0.2	2.0	*
Other transactions (Quarterly data)[5]									
6. U.S. direct investment (-) abroad	-32.7	-27.1	-7.1	-11.7	-11.3	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	45.1	11.5	*	5.7	0.7	n.a.	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow)[6]	-5.8	11.4	5.0	3.5	12.7	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance	-90.4	-3.7	-11.1	-7.2	-5.3	n.a.	n.a.	n.a.	n.a.
10. Statistical discrepancy	47.4	-1.1	-1.5	2.4	-15.7	n.a.	n.a.	n.a.	n.a.
MEMO:									
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-108.9	-73.4	-20.2	-18.5	-17.5	n.a.	n.a.	n.a.	n.a.

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

*--Less than $50 million.

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

countries, primarily Spain and Taiwan, and to the BIS. Argentina and Chile also recorded noticeable increases. Thailand's reserves in the United States rode the wake of this spring's political unrest by rising $3-3/4 billion in May and falling $2-1/4 billion in June. Partial data for July from the FRBNY indicate further large inflows of official capital.

Private foreign net purchases of U.S. corporate and agency bonds remained brisk in May and June and totaled $12 billion for the second quarter (see line 2a), as U.S. corporations continued to issue debt at a record-setting pace. Foreigners resumed selling U.S. equities on a modest scale in June, bringing the total sales for the quarter to $3/4 billion (line 2b). Japanese residents made small net purchases of U.S. equities in June, their first monthly net purchases since last November.

Private foreigners' net purchases of Treasury securities were large but erratic during the second quarter. Purchases of $5 billion in April were offset by equally large sales in May (line 3). In June purchases totaled more than $10 billion. The sales in May were concentrated in the United Kingdom while the purchases in June were primarily by Japan, the World Bank, and offshore financial centers.

U.S. residents continued to purchase foreign securities on a large scale in May and June, bringing the total for the second quarter to $9 billion (line 2c). Unlike earlier in the year when net purchases were evenly split between bonds and equities, the bulk of the purchases in May and June were in foreign bonds, coinciding with exceptionally large issuance of Yankee bonds.

Banks in the United States, especially Japanese-based banks, continued to rely on their own foreign offices for funds in the

INTERNATIONAL BANKING DATA
(Billions of dollars)

	1990				1991				1992		
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	July */
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	-56.8	-55.0
(a) U.S.-chartered banks	12.2	7.2	5.7	5.5	7.6	5.4	11.0	12.4	3.2	8.3	9.4
(b) Foreign-chartered banks	-23.9	-18.2	-21.3	-36.9	-31.3	-19.2	-25.2	-48.3	-44.6	-65.0	-64.4
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	24.5	25.0
3. Eurodollar Holdings of U.S. Nonbank Residents 1/	110.6	106.5	109.1	116.1	114.6	105.8	100.8	102.9	100.3	90.0	88.4

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.

*/ Includes data through only July 27.

second quarter. On a monthly average basis, net claims on own foreign offices and IBFs decreased by $15 billion between March and June. (See line 1 of the table of International Banking Data.) Partial data for July indicate only a slight increase in net claims. This pattern is distorted in the month-end data reported in line 1 of the Summary Table due to an extraordinary increase in net claims on the last day of June that was then reversed early in July.

Foreign Exchange Markets

The weighted-average foreign-exchange value of the dollar, in terms of the other G-10 currencies, has declined about 2-1/2 percent on balance since June 30, the first day of the last FOMC meeting, as shown in the top panel of the accompanying chart. On July 2, the day after the FOMC meeting, the dollar declined in response to weak U.S. June employment data and the subsequent 1/2 percentage point reduction in the U.S. discount and federal funds rates. Later, the dollar moved lower following the German discount rate hike and unfavorable U.S. trade data for May. The dollar reached a low on July 20 of DM 1.4470, just above the all-time low of DM 1.4430.

.

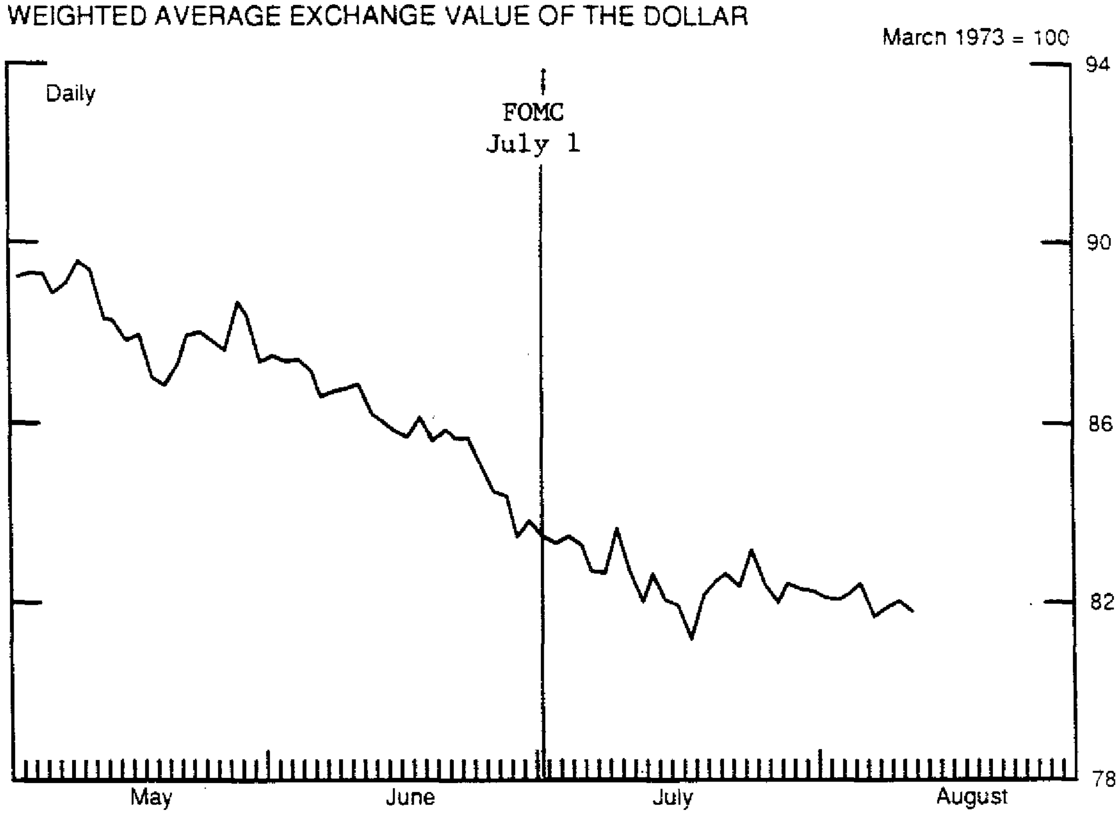
. The dollar later moved above DM 1.50 on tensions between Iraq and the United Nations, but moved back when those tensions abated. Following U.S. July employment data that showed less improvement than some had expected, the dollar moved below DM 1.47 on August 7, and the Desk intervened again.

. In total, the Desk has purchased $770 million against marks.

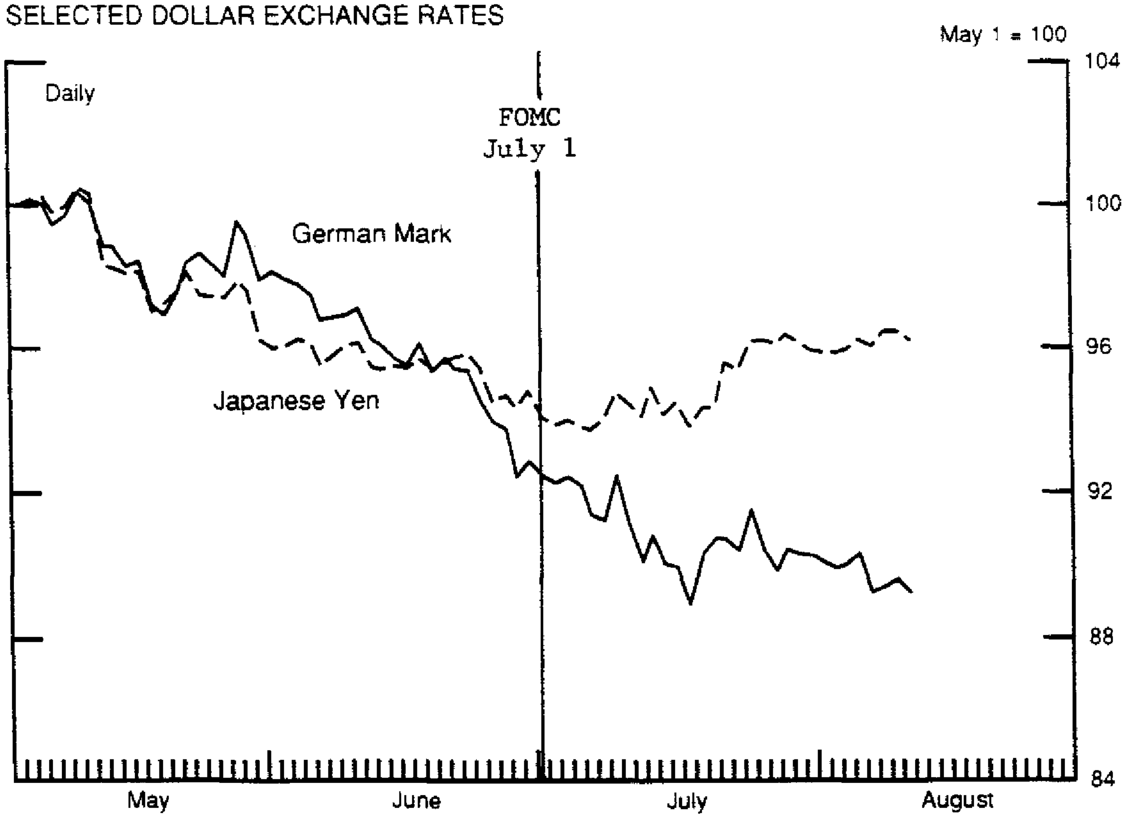
As shown in the bottom panel, the dollar has declined about 4 percent on net against the mark since June 30, as German interest rates firmed slightly while U.S. rates declined. The Bundesbank raised its discount rate 3/4 percentage point on July 16, to 8-3/4 percent, while leaving the Lombard rate unchanged at 9-3/4 percent. By reducing the amount of subsidy that German banks receive from being able to borrow up to a given quota at the below-market discount rate, the Bundesbank's move was expected to reduce bank profits and possibly slow the pace of credit expansion. The move should not by itself have had any direct effect on German money market rates, because it did not change the marginal cost of funds to banks. However, perhaps because the action was seen as raising the likelihood of an eventual increase in the Lombard rate, the mark strengthened against other EMS currencies, prompting moderate interest rate hikes by several other European central banks. The Netherlands Bank raised its rate on special advances twice, by a total of 30 basis points, to 9.60 percent. The Belgian advances rate was increased 15 basis points to 9.45 percent. The Italian discount rate was raised from 13 percent to 13-3/4 percent, but later was lowered to 13-1/4 percent following an agreement between the government and labor unions to end Italy's system of automatic wage indexation.

. Subsequent to the German

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



SELECTED DOLLAR EXCHANGE RATES



discount rate hike, rates on the Bundesbank's repurchase tenders were nudged up 5 basis points. The upward trend in interest rates weighed on European stock prices; price indexes declined about 11 percent in the United Kingdom, Germany, and Italy, and about 7 percent in France.

The dollar has gained about 1 percent against the Japanese yen since the last FOMC meeting. Following Japanese parliamentary elections, the Bank of Japan responded to further signs of economic weakness by lowering its official discount rate 1/2 percentage point to 3-1/4 percent, with the overnight call money rate allowed to decline by a similar amount. The Bank of Japan attempted to mitigate the yen's decline by selling dollars against yen. The Nikkei stock price index fell to new six-year lows despite the rate cut. On balance, the Nikkei index is about 7 percent lower over the intermeeting period.

Developments in Foreign Industrial Countries

Activity in most major foreign industrial countries appears to have slowed in recent months. In Japan, evidence from the second quarter, including further softening of labor market conditions in June, points to deceleration of activity and demand. Recent west German indicators (such as retail sales, orders, and another increase in the unemployment rate in July) suggest that underlying growth has weakened, and real GDP is estimated to have fallen about 3 percent (s.a.a.r.) in the second quarter following its unusually strong first-quarter performance. France and Italy have shown signs of modest growth, but the United Kingdom appears to have remained in recession in the second quarter. The Canadian recovery recently has been confined largely to the external sector where exports have been strong; the unemployment rate (s.a.) stayed above 11-1/2 percent in

July, and other indicators suggest that domestic demand and activity have been soft.

Measured rates of year-over-year inflation have continued to edge down in many countries, although in some cases the reduction is attributable to special factors. Other evidence, however, including deceleration of wages, suggests that underlying inflationary pressure has lessened.

Several countries recorded wider current account deficits in June, contrary to the general narrowing trend this year in countries in deficit. In Japan, the current account surplus (s.a.) has continued to expand to an annual rate nearing $115 billion.

Individual country notes. In Japan, recent economic indicators point to further weakening in the pace of economic activity. Industrial production (s.a.) increased 2.1 percent in June, but this mainly represented recovery from the 1.9 percent decline of the previous month when a number of plants were temporarily closed for inspections. For the second quarter as a whole, industrial production was 2.4 percent below its first-quarter level. The inventory-to-shipments ratio (s.a.) declined 2.3 percent in June, but remained nearly 18 percent above its low point of October 1990. The capacity utilization rate (s.a.) declined an additional 1.4 percent in May, falling 11.8 percent below its October 1990 peak. The value of retail sales showed a 12-month decline of 4.4 percent in June. Construction orders fell 15.4 percent from a year earlier in June, and new machinery orders (s.a.) fell 13.1 percent in May. New passenger car registrations (s.a.) increased 7.3 percent in June, but this only partially reversed a sharp decline in the previous month; for the second quarter as a whole, new car registrations were down 6.7 percent from the first quarter. Housing

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

	Q4/Q4	Q4/Q4	1991		1992		1992					Latest 3 months
	1990	1991	Q3	Q4	Q1	Q2	Feb.	Mar.	Apr.	May	June	from year ago 2
Canada												
GDP	-2.0	-.0	.1	.0	.4	n.a.	*	*	*	*	*	1.9
IP	-6.3	-1.4	.7	-1.1	-.5	n.a.	.4	.5	.2	-.7	n.a.	.1
France												
GDP	1.5	1.7	1.1	.1	1.0	n.a.	*	*	*	*	*	2.7
IP	-.3	1.9	.6	-.2	.1	n.a.	-.8	-.3	1.4	-1.6	n.a.	1.2
West Germany												
GNP	5.3	.9	-.4	-.5	1.8	n.a.	*	*	*	*	*	.8
IP	5.4	.3	-.5	-1.2	2.8	-2.2	1.2	-1.8	-.7	-.1	-2.1	-1.1
Italy												
GDP	1.6	1.8	.3	.4	.6	n.a.	*	*	*	*	*	2.0
IP	-3.8	-.5	-.3	1.1	2.5	n.a.	2.3	-.3	-5.5	4.2	n.a.	2.1
Japan												
GNP	4.7	3.2	.5	-.0	1.0	n.a.	*	*	*	*	*	2.2
IP	6.9	-1.6	.1	-1.2	-3.1	-2.4	-.5	-2.6	.1	-1.9	2.1	-6.4
United Kingdom												
GDP	-.7	-1.7	.2	-.4	-.4	n.a.	*	*	*	*	*	-1.5
IP	-3.1	-.8	1.0	-.1	-.8	-.2	1.1	-.7	.5	-.9	.2	-.2
United States												
GNP	-.5	.1	.3	.1	.7	.3	*	*	*	*	*	1.5
IP	.3	-.5	1.6	-.2	-.7	1.1	.5	.4	.5	.5	-.3	1.8

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	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Apr.	1992 May	1992 June	1992 July	Latest 3 months from year ago
Canada													
CPI	4.9	4.1	2.9	.7	.6	-.1	.4	.5	.1	.2	.2	n.a.	1.4
WPI	1.9	-3.2	-.3	-1.6	-.9	-.4	.5	.6	-.2	.6	.0	n.a.	-.3
France													
CPI	3.6	2.9	.5	.7	.8	.9	.6	.7	.2	.3	.1	n.a.	3.1
WPI	.7	-3.6	-.5	-1.5	-.7	-1.0	.1	n.a.	*	*	*	*	-3.1
West Germany													
CPI	3.0	3.9	.8	.9	1.5	.7	1.2	1.1	.3	.4	.2	.0	4.1
WPI	.9	1.6	.5	.3	.7	.2	.4	.5	.3	.0	-.1	n.a.	1.7
Italy													
CPI	6.3	6.1	1.9	1.4	1.0	1.7	1.4	1.2	.4	.5	.3	.2	5.5
WPI	9.9	1.1	.2	-1.0	.5	1.4	.0	n.a.	.8	.2	n.a.	n.a.	2.5
Japan													
CPI	3.2	3.2	.8	.8	.4	1.1	-.3	1.3	1.0	.1	.0	-.4	2.3
WPI	1.9	-1.3	.1	-.4	-.4	-.7	-.4	.0	-.1	-.1	-.2	n.a.	-1.4
United Kingdom													
CPI	10.0	4.2	.6	2.1	.4	1.0	.5	2.2	1.5	.4	.0	n.a.	4.2
WPI	5.9	4.9	1.8	1.9	.6	.5	1.4	1.1	.4	.1	.0	.1	3.5
United States													
CPI (SA)	6.3	3.0	.8	.6	.7	.9	.7	.8	.2	.1	.3	.1	3.1
WPI (SA)	6.4	-.1	-.4	-.2	.0	.5	.0	.6	.1	.4	.2	.1	1.5

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	1991				1992		1992			
			Q1	Q2	Q3	Q4	Q1	Q2	Apr.	May	June	July
Canada												
Trade	9.4	5.0	1.5	1.7	.9	1.0	1.7	n.a.	.5	1.0	n.a.	n.a.
Current account	-18.9	-25.5	-5.6	-6.0	-6.6	-7.3	-5.9	n.a.	*	*	*	*
France												
Trade	-9.3	-5.5	-2.7	-1.5	-1.5	.3	.9	2.0	1.4	.8	-.2	n.a.
Current account	-9.5	n.a.	-4.0	-1.6	-.2	n.a.	n.a.	n.a.	*	*	*	*
Germany 2												
Trade (NSA)	65.2	12.9	4.4	-1.1	2.8	6.7	4.4	3.4	1.4	.7	1.3	n.a.
Current Account (NSA)	46.4	-19.5	-5.6	-5.8	-5.8	-2.2	-5.6	-6.4	-1.2	-2.5	-2.7	n.a.
Italy												
Trade	-12.2	-13.0	-1.3	-3.6	-4.8	-3.3	-2.0	-4.0	-1.2	-1.4	-1.5	n.a.
Current account (NSA)	-14.4	-21.5	-8.1	-4.6	-3.7	-5.0	n.a.	n.a.	*	*	*	*
Japan												
Trade	51.8	78.8	17.4	18.8	20.8	21.9	28.0	24.5	6.9	9.7	7.9	8.5
Current account	35.8	72.6	12.8	18.7	19.6	21.5	28.5	28.6	9.3	10.9	8.4	n.a.
United Kingdom												
Trade	-32.6	-18.0	-5.8	-3.8	-4.0	-4.5	-5.4	-5.6	-2.4	-1.5	-1.7	n.a.
Current account	-26.8	-8.2	-4.4	-.5	-2.1	-1.1	-3.8	-4.5	-2.0	-1.1	-1.3	n.a.
United States												
Trade	-108.9	-73.4	-18.3	-16.4	-20.2	-18.5	-17.5	n.a.	-8.1	-8.6	n.a.	n.a.
Current account	-90.4	-3.7	12.2	2.4	-11.1	-7.2	-5.3	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.

starts (s.a.), which had increased strongly earlier in the year, have leveled off recently, edging down 0.3 percent in June and showing only a 0.9 percent increase during the second quarter. The unemployment rate (s.a.) remained steady at 2.1 percent in June, but the job-offers-to-applicants ratio (s.a.) dropped 5-1/4 percent to 1.08.

Price pressures have continued to ease on balance. Tokyo consumer prices (n.s.a.) declined 0.4 percent in July and were 2 percent above their level twelve months earlier. Wholesale prices (n.s.a.) were down 0.2 percent in June and showed a 12-month decline of 1.5 percent, reflecting in large part a 7.4 percent reduction in import prices over this period.

The trade surplus (customs basis, s.a.) expanded somewhat in July, and for the first seven months of the year was in surplus by almost $105 billion (a.r.); the current account surplus (s.a.a.r.) in the first half of the year was nearly $115 billion.

Real GDP in western Germany is estimated to have fallen in the second quarter about 3 percent (s.a.a.r.), following very robust growth in the first quarter that was due in large part to strength in construction activity encouraged by mild weather. West German industrial production (s.a.) fell 2.1 percent in June after declining 0.7 percent in the previous two months, and the average level of industrial production in the second quarter was 2.2 percent below its first-quarter level. The volume of new orders for west German manufactured goods (s.a.) also fell (1.8 percent) in June for the fourth consecutive month, as domestic orders (including orders from eastern Germany) tumbled 3 percent.

The west German unemployment rate has increased 0.1 percentage point in each of the past five months and in July stood at 6.7 percent. Although unemployment has risen, the number of jobs in western Germany has been expanding slowly. Capacity utilization in June was 0.7 percentage point below its level in March, and, at 85 percent, was 5-1/2 percentage points below its December 1990 peak.

Industrial production in eastern Germany (n.s.a.) fell 8 percent in April, but on a year-over-year basis continued its upward trend and recorded a 12-month growth rate of 3 percent.

Consumer-price inflation in western Germany has moderated somewhat in recent months. Consumer prices (n.s.a.) were unchanged in July after advancing 0.2 and 0.4 percent in the previous two months. On a year-over-year basis, consumer prices were up 3.3 percent in July, compared with 4.3 percent in June. Most of this decline reflects elimination of the impact of excise tax increases introduced in July 1991 on year-over-year measures of CPI inflation. The pan-German current account deficit widened in the second quarter to more than $25 billion (a.r.) primarily because of slower exports.

Through June, M3 (s.a.) in western and eastern Germany had increased at a revised annual rate of 8.7 percent in 1992 relative to the fourth quarter of 1991. Although the June increase was below growth rates near 9-1/2 percent registered earlier in the year, June's figure was still 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 banks' balance sheets remains strong, and the supply of funds to the banking sector has shifted toward shorter maturities in reaction to Germany's inverted yield curve. In response to rapid money growth and concerns about inflation, the Bundesbank raised its discount rate by 3/4 percentage point on July 16, but did not alter its Lombard rate.

In recent weeks, the German government has shown a renewed sense of urgency regarding progress towards fiscal consolidation, preferably without tax increases. On July 1, the Cabinet approved a proposed 1993 Federal budget and medium-term financial plan that would restrict the annual growth of nominal expenditures to 2.5 percent during the next four years.

In France, monthly indicators suggest that GDP growth slowed in the second quarter from the rapid 4 percent pace (s.a.a.r.) registered in the first quarter. Industrial production (s.a.) fell 1.6 percent in May, negating a 1.4 percent increase in April. However, much of the drop was due to a fall in energy production; manufacturing output declined only 0.4 percent, following a rise of 0.3 percent in the previous month. The latest monthly business survey by the Bank of France indicates that industrial production rose slightly in June and foreign orders remained strong, but retail sales contracted.

Consumer prices rose 3 percent in June from their year-earlier level, down slightly from the 3.1 percent rate registered in both April and May. This favorable inflation performance was supported by further deceleration of wages. Hourly wages in the June survey were only 3.1 percent above their year-earlier level, down significantly from the 4.3 percent increase recorded in April.

France registered a monthly trade deficit of $180 million (s.a.) in June, the first this year, as imports surged 8 percent from their level in May while exports rose only 3 percent. The increase in imports was attributed to a rise in imported investment goods, which constitute roughly one-third of total imports. Over the first half of this year the trade surplus was $2.9 billion, compared with a deficit of $4.3 billion during the same period in 1991; exports rose 6.3 percent, and imports declined slightly over this period.

The government has announced that a referendum on the Maastricht Treaty will be held on September 20; polls continue to show a majority in favor of the treaty.

In Italy, the economy continues to grow at a modest pace after recording real GDP growth of 2.4 percent (s.a.a.r.) in the first quarter (up from 1.8 percent in the previous quarter). Industrial production (s.a.) rose 4.2 percent in May after a sharp decline in April; the average for the two months was down 3.1 percent from the first-quarter level. Auto sales were up 10.4 percent in the second quarter from the same period a year earlier, but most of the gain went to imports; sales by Italian auto manufacturers rose only 5 percent.

Inflation has eased recently. Consumer prices (n.s.a.) increased only 0.2 percent in July, while the 12-month rise remained at 5.4 percent, down from about 6 percent at the beginning of the year. Wholesale prices (n.s.a.) in May were 3 percent above a year earlier, the same as in April. The cumulative trade deficit during the first six months of 1992 was $11 billion (s.a.a.r.), up from $9.7 billion in the same period in 1991.

The new government of Prime Minister Giuliano Amato that took office in early July has moved swiftly to try to gain control of Italy's burgeoning budget deficit. Downward pressure on the lira within the EMS that led the Bank of Italy to raise its discount rate twice during July (partly reversed by a cut in early August) was an important factor pushing the government to act. A supplementary budget package that contains various one-time tax increases and a freeze on public-sector wages was approved by the Italian parliament in early August. A number of government-owned firms have been converted to joint-stock companies in preparation for partial privatization, a step that the government intends to carry out before the end of the year. Longer-term budget reforms reportedly are being considered for the 1993 budget proposal, which will be made public in September. Also, in August the government signed a key accord with trade unions and employers that will reform the process of wage negotiation.

Recent data shed doubt on whether economic recovery has begun in the United Kingdom. Total industrial production (s.a.) rose 0.2 percent in June after contracting 0.9 percent in the previous month; however, the second-quarter average was down 0.2 percent from the first-quarter level and from the level a year ago. Manufacturing production also rose 0.2 percent in June, but the second-quarter average level was only 0.4 percent above the first quarter. After recovering strongly in the first five months of the year, consumer confidence fell in June and July. Retail sales volume turned down in June, leaving the second-quarter average 0.5 percent above the average first-quarter level. Business confidence, which had been recovering, also deteriorated in June and July. The unemployment rate (s.a.) rose in July to 9.7 percent.

Retail prices were steady in June and stood 3.9 percent above their year-earlier level. Excluding mortgage interest rates, consumer prices edged up to a level 4.8 percent above their level of June 1991. Producers' output prices increased only 0.1 percent in July to a level 3.4 percent above a year ago. Underlying wage inflation fell to an annual rate of 6-1/4 percent in June, and recent pay settlements (a more forward looking indicator of wage inflation) are in the neighborhood of 4-1/4 percent.

In June, the trade deficit widened to $1.7 billion bringing the cumulative deficit to $23 billion (s.a.a.r.) for the first half of 1992 compared with a deficit of $19 billion in the previous half-year. The current account deficit (s.a.) deteriorated from $5.7

billion in the second half of 1991 to $16.7 billion in the first half of this year.

In Canada, available second-quarter data on economic activity suggest a tepid but ongoing recovery. Industrial production (s.a.) for April and May, taken together, was 0.3 percent above its first-quarter average. Second-quarter housing starts (s.a.) increased 9 percent. However, many May indicators suggested continued sluggishness, as real GDP at factor cost (s.a.) slipped 0.1 percent, retail sales (s.a.) fell 0.7 percent, factory shipments (s.a.) were off 0.5 percent, and new orders (s.a.) dropped 2.4 percent, after April increases in all four series. In June, motor vehicle sales (s.a.) were virtually unchanged for the fourth straight month. In addition, in July the unemployment rate (s.a.) was unchanged from its eight-year high of 11.6 percent.

The CPI, excluding food and energy (n.s.a.), was unchanged in June, lowering twelve-month inflation from 2 percent to 1.9 percent. The all-items CPI increased only 1.1 percent over this period. Wholesale prices (n.s.a.) were unchanged in June and stood 0.2 percent higher than a year earlier. The annual rate of increase in wages engendered by May collective bargaining agreements was 1.3 percent (a.r.), the lowest in more than 20 years.

Canada's current account deficit (s.a.a.r.) decreased $5.5 billion in the first quarter to $23.8 billion, as merchandise exports rose briskly. The merchandise trade surplus (s.a.a.r.) for April and May, taken together, was $9.2 billion, above its first-quarter level of $6.8 billion.

Quebec and the English-speaking provinces will hold formal constitutional negotiations on August 20, the first since 1990. Should these talks fail to produce an agreement, Quebec premier

Robert Bourassa has promised to hold a referendum on the province's political future by October 26, 1992.

Developments in East European Countries and Russia

In Poland, Hanna Suchocka was appointed prime minister in mid-July, following unsuccessful attempts by her predecessor to form a government. Despite domestic political turmoil, the real economy has performed surprisingly well so far in 1992, with increased industrial sales, moderating inflation, rising exports, and increased international reserves. The new finance minister has confirmed the government's intention to keep the budget deficit to 5 percent of GDP this year, as previously agreed with the IMF. However, the budgetary situation remains highly uncertain. The IMF is currently conducting negotiations with the new government on a 15-month stand-by arrangement that could be implemented later this year.

In late July, Czech and Slovak leaders publicly confirmed that the federation would break up; the dissolution had been widely expected following the Slovak nationalist election victory in June. While the leaders claimed agreement had been reached on several basic principles of coexistence following the split, including a customs union and a free trade zone, details remain vague. Furthermore, the leaders acknowledged that agreement on common budgetary, fiscal, and monetary policies was more difficult.

On August 5, the IMF Executive Board approved a $1 billion first-credit-tranche stand-by arrangement for Russia. This program represents a more modest level of initial IMF lending to Russia than earlier expectations of an upper-credit-tranche program. As a condition for approval of this arrangement, the Russian government has agreed to implement a policy program that will limit further macroeconomic deterioration, In the first half of the year, industrial output fell 13.5 percent. Although the rate of inflation has declined after a 250 percent jump in January following price liberalization, it was still high in June at 25 percent (monthly rate). From January through June, the government deficit amounted to 8.1 percent of GDP, considerably higher than projected. Russia has agreed to adopt measures to reduce the fiscal deficit, tighten monetary policy, settle growing inter-enterprise arrears, and rationalize relations with other republics of the former Soviet Union that use the ruble as their currency.

On July 16, the Chairman of the Central Bank of Russia, Georgy Matyukhin, resigned, and former Soviet Gosbank Chairman, Viktor Geraschenko, was named acting head of the central bank. After he publicly criticized the central bank's intervention policy to support the ruble, the ruble depreciated at the weekly currency auctions, but more recently its value has steadied. The central bank also has announced that subsidized credits will be provided to selected industrial firms, but under the program agreed with the IMF the amount is to be sharply limited.

Economic Situation in Other Countries

In Mexico, the current account deficit widened in the first quarter and private capital inflows have slowed in recent months. On August 12, President Bush announced that the North American Free Trade Agreement (NAFTA) negotiations have been completed. However, ratification cannot occur before 1993. Brazil reached preliminary agreement on a Brady-style debt restructuring package with creditor banks July 9, but in light of political turmoil and Brazil's non-compliance with the fiscal performance criteria of its IMF stand-by arrangement, it is not clear when the agreement will be implemented. In Argentina, economic activity has been booming, inflation remains relatively low, and performance under the IMF stand-by arrangement has been satisfactory. However, the Argentine trade surplus has dwindled due to rapid import expansion. Real GDP growth has slowed slightly in Korea and growth in industrial output has slowed markedly in Taiwan. On July 24, the Philippines signed a Brady-style debt agreement with bank creditors.

Individual country notes. Mexico's current account deficit widened to $4.4 billion in the first quarter of 1992 from $1.8 billion in the same period of 1991. This reflected mainly a widening of the trade deficit. The current account deficit is likely to exceed $17.5 billion for 1992 as a whole, up from $13.3 billion in 1991.

The capital account surplus narrowed to $5.6 billion in the first quarter of 1992 from $6.5 billion in the same period of 1991. Indications are that capital inflows slowed further in the second quarter, when delays in completing the North American Free Trade Agreement negotiations and a number of negative reports concerning the Mexican Telephone Company fueled investor pessimism. This led to a stock market sell-off in June that was reportedly accompanied by some capital outflows.

Treasury-bill interest rates rose further in late June and early July. They leveled off thereafter, as the Bank of Mexico sold less of the 28-day bills than the amounts on offer at four of the last five auctions and more of the longer-term bills than the amounts on offer at eight of the last nine auctions. At the August 12 auction, the rate for 28-day T-bills was 16.9 percent, 244 basis points higher than in mid-June, while interest rates on longer-term bills (having maturities of 91 days and over) rose by more than 325 basis points over the same period.

With interest rates 5 to 6 percentage points above their March lows (depending on the maturity of the instruments), banks and brokerage houses holding large quantities of three- and five-year bonds had large unrealized capital losses. Many of them had financed these assets with short-term funds raised abroad and were forced to realize the losses when the availability of foreign funds declined. These losses led to a drop in bank stock prices by 20 percent between July 21 and July 27, contributing to a 12 percent fall in the Mexico City stock market index over this period, but they do not appear to foreshadow failures of banks or brokerage houses. Over the last four days of July, the stock market rebounded by 7 percent, in large part because it was expected that the NAFTA negotiations would be completed by August 3. However, when no announcement came, the index dropped 4 percent. After the announcement on August 12, the index was only fractionally higher.

The CPI rose 0.7 percent in June and 0.6 percent in July, when it was 15.6 percent above a year earlier.

In Brazil, growing political turmoil is making an already difficult economic situation worse. Political and popular support for President Collor has eroded greatly over the past few weeks and Congress is expected to consider in late August whether to impeach him. The allegations include influence peddling, Collor's acceptance of illegal payments from a business associate, and a cover-up.

Press reports indicate that Central Bank President Gros has threatened to resign rather than succumb to pressures to loosen monetary policy, which has been depressing aggregate demand. The central bank has been attempting to maintain a high interest rate policy since October 1991. Real interest rates on 28- to 35- day central bank securities were roughly 4 percent per month the week of

August 3, which is very high, even for Brazil. (The high real interest rates in large part reflect investors' perceptions that the government will again default on its domestic debt.) Economy Minister Moreira is under pressure to increase public spending, but he has denied rumors that he will step down.

Anecdotal evidence indicates that economic activity remains depressed. According to a private institute, the unemployment rate in the city of Sao Paulo, Brazil's largest industrial center, was 16 percent in June, the highest level since Collor took office. Inflation is expected to reach 25 percent per month in September, compared with monthly inflation rates of 20-22 percent in recent months, as a result of a scheduled 117 percent increase in the minimum wage. Stock prices have dropped 30 percent since mid-June. The cumulative trade surplus through July was $9.6 billion, compared with a surplus of $7.9 billion over the same period in 1991. Foreign reserves are estimated unofficially to have been as high as $19 billion in June; the latest official reserve figure at the end of April was $15 billion.

On July 9, Brazil reached preliminary agreement with its Bank Advisory Committee on a Brady-style restructuring package on its estimated $44 billion of commercial bank debt and on the estimated $5 billion in interest arrears that have accumulated since January 1991. Under the agreement, creditors would exchange debt for one of several options, including a reduced interest par bond, discount bond, a temporary interest reduction bond (FLIRB), and a bond that offers low interest rates for several years and capitalizes the difference between 8 percent and these interest rates. There is also a new money option. Collateral for principal and interest on the par and discount bonds and for interest on the FLIRBs would be phased in over a 2-year period after the initial exchange date.

In light of the uncertainty over when a solution to Brazil's pressing fiscal and monetary problems will be found, it is not clear when the initial exchange will take place. Brazil needs to come up with $3.2 billion for collateral at the initial exchange date; part of this amount is expected to come from the IMF and other multilateral sources. However, Brazil did not meet the fiscal performance criteria under its $2.1 billion IMF stand-by arrangement over the first two quarters of the year. Discussions between Brazil and the Fund are on hold until there is a political consensus on fiscal reform. The price of Brazilian debt on the secondary market was $0.31 on August 12, down from $0.35 in mid-July.

In Argentina, economic activity surged in the first half of 1992, when industrial output was 16 percent higher than in the year-earlier period. However, leading indicators suggest that the expansion is slowing. Consumer prices rose 1.5 percent in July and were 16.6 percent higher than a year earlier. In the first five months of 1992, the trade surplus was $160 million, compared with a surplus of $2.1 billion in the same period a year earlier. Strong domestic demand coupled with an appreciating real exchange rate has led to rapid import growth.

Argentina is arranging to borrow about $3 billion from international financial institutions and bilateral sources to finance the collateral needed for its commercial bank financing package.

On July 20, the IMF Executive Board concluded that Argentina was performing well under its IMF stand-by arrangement. The successful review allows Argentina to continue to draw Fund resources. On July 22, the Paris Club of bilateral official creditors rescheduled about $2.7 billion in payments falling due from Argentina through 1995 over 16 years, with four years of grace.

Korea's GDP rose a revised 7.8 percent in the first quarter of 1992 from a year earlier, slightly higher than real GDP growth in 1991 (Q4/Q4). Inflation continues the downward trend registered since the beginning of the year; the consumer price index was 7 percent higher in June than a year earlier, down from an increase of 8.1 percent in the year ending January 1992. In the first half of 1992, due to a pickup in exports, the current account deficit fell to $4.1 billion from $5.5 billion in the same period of 1991.

In early July, Korea widened the band of daily exchange rate fluctuation from 0.6 to 0.8 percent on either side of the mid-rate in accordance with its five-year plan to liberalize the financial sector. The mid-rate is set by the Bank of Korea each morning based on trading movement and volume of the previous day's interbank spot trade.

In Taiwan, the industrial production index rose 3.3 percent in June 1992 from the same period a year earlier, compared with a 6.2 percent increase in the year ending January 1992. Price developments have been mixed; in June, consumer prices were up 5.2 percent from a year earlier, compared with a 4.3 percent increase in the year ending January 1992, while wholesale prices appear to be continuing to fall. Taiwan's cumulative trade surplus over the first 6 months of 1992 was $5.3 billion, virtually the same as the surplus over the same period in 1991.

In the Philippines, consumer prices rose 9.2 percent over the year ending July 1992. On July 24, the Philippines signed a comprehensive $4.8 billion Brady-style debt package with foreign bank creditors. Under the terms of the agreement, banks will exchange $3.6 billion of the country's $11.4 billion commercial bank debt for a range of new bonds. A $1.3 billion buy-back completed in

May was also part of the package. The plan is expected to reduce interest payments by up to $1.6 billion over the next six years.

On August 10, the government announced that all foreign exchange controls will be lifted at the end of the month. Exporters will be allowed to retain 100 percent of their foreign exchange earnings, compared with 40 percent currently. Foreign exchange will be allowed to be purchased from commercial banks without prior approval of the central bank.