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[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

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November 10, 1993

RECENT DEVELOPMENTS

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

Economic indicators have generally become more upbeat in recent weeks. Payrolls posted a solid gain in October, and industrial output evidently rose sharply. The motor vehicle sector has strengthened noticeably, with sales and assemblies up smartly. The latest readings on the housing and business equipment sectors also have been distinctly positive. Recent wage and price data have been mixed; notably, however, the increases over the past twelve months in the PPI and CPI, excluding food and energy, suggest that core inflation is at the lowest level in three decades.

Employment and Unemployment

Labor input continues to trend up at a moderate pace. After declining a bit in August, payroll employment rose 162,000 in September and an additional 177,000 in October. The gains in these two months were a little above the average monthly rise over the past year. With an uptick in the length of the workweek augmenting employment gains, aggregate hours of private production or nonsupervisory workers rose 0.7 percent in October, to a level 0.4 percent above the third-quarter average. The unemployment rate was 6.8 percent in October; after holding at about 7 percent during the first half of the year, it has been at around 6-3/4 percent since July.

Private payrolls expanded 185,000 in October. A large part of the gain--84,000--was in business services, mainly the personnel supply category. Thus far in the expansion, employment in business services has risen nearly 17 percent, far outpacing cumulative employment growth of only 2 percent in the private nonfarm economy as a whole. Further job gains also were reported in October in wholesale trade and in finance, insurance, and real estate (FIRE), a

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

	1991	1992	1993 Q1	1993 Q2	1993 Q3	1993 Aug.	1993 Sep.	1993 Oct.
	------------Average monthly changes---------							
Nonfarm payroll employment[2]	-72	80	162	179	122	-33	162	177
Private	-88	59	155	167	97	-19	90	185
Manufacturing	-44	-26	7	-55	-25	-42	-21	12
Durable	-39	-22	3	-44	-14	-22	-4	16
Nondurable	-5	-5	5	-10	-11	-20	-17	-4
Construction	-33	-5	7	31	7	0	2	30
Trade	-30	20	62	51	30	-14	50	11
Finance, insurance, real estate	-9	-2	0	5	8	-2	12	20
Services	39	78	77	140	81	61	38	114
Health services	30	29	29	26	23	17	27	29
Business services	4	31	31	41	28	28	6	84
Total government	17	22	7	12	25	-14	72	-8
Private nonfarm production workers	-71	74	149	156	89	-10	70	176
Manufacturing production workers	-29	-13	16	-39	-14	-35	3	15
Total employment[3]	-62	130	85	218	79	409	-253	471
Nonagricultural	-53	122	145	237	56	467	-367	574
Memo:								
Aggregate hours of private production workers (percent change)	-.1	.1	.1	.4	.1	.6	-.8	.7
Average workweek (hours)	34.3	34.4	34.4	34.5	34.5	34.7	34.4	34.5
Manufacturing (hours)	40.6	41.1	41.3	41.4	41.4	41.4	41.5	41.6

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

SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percent; based on seasonally adjusted data)

	1991	1992	1993 Q1	1993 Q2	1993 Q3	1993 Aug.	1993 Sep.	1993 Oct.
Civilian unemployment rate (16 years and older)	6.7	7.4	7.0	7.0	6.7	6.7	6.7	6.8
Teenagers	18.7	20.0	19.6	20.1	17.9	18.2	17.4	19.4
20-24 years old	10.8	11.3	11.0	10.8	10.4	10.7	9.9	9.8
Men, 25 years and older	5.7	6.4	5.9	5.8	5.8	5.7	5.7	5.8
Women, 25 years and older	5.1	5.7	5.4	5.4	5.3	5.2	5.4	5.5
Fulltime workers	6.5	7.1	6.7	6.6	6.5	6.5	6.4	6.4
Labor force participation rate	66.0	66.3	66.0	66.2	66.1	66.2	66.0	66.3
Teenagers	51.7	51.3	51.5	51.9	51.5	51.6	51.0	51.3
20-24 years old	76.8	77.1	77.3	77.4	77.0	77.0	76.5	76.8
Men, 25 years and older	76.7	76.7	76.1	76.2	76.2	76.3	76.0	76.3
Women, 25 years and older	56.5	57.0	56.8	56.8	57.0	57.2	57.1	57.3

sector in which a gradual uptrend in employment seems to have taken hold over the past year. In retail trade, however, employment edged down in October, after several months of moderate increases.

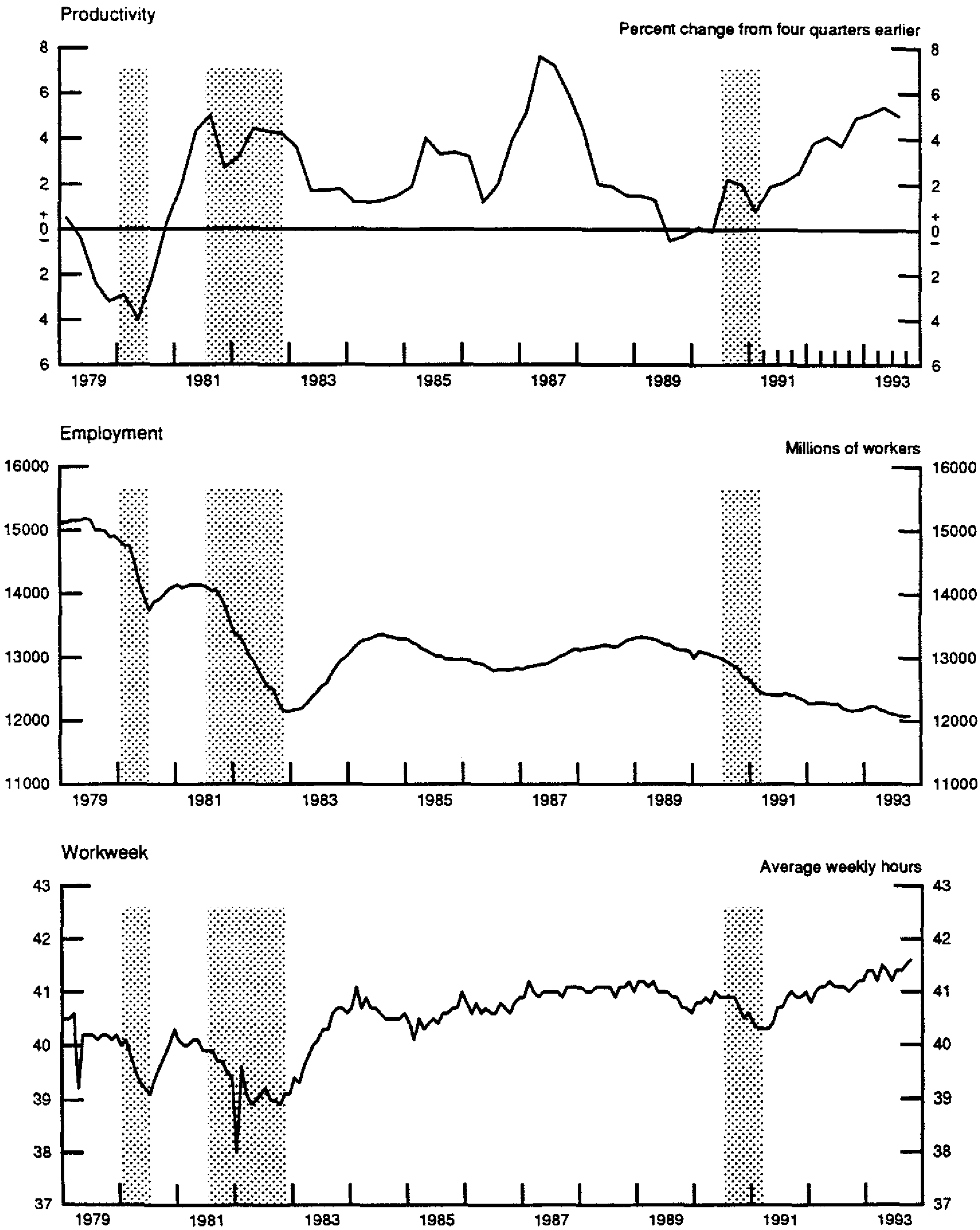
In the goods-producing sector, construction employment increased 30,000 in October; the rise was the largest monthly gain since last spring and seems consistent with other recent indicators that show a strengthening of building activity. In manufacturing, employment rose 12,000 in October, after seven months of declines that had cumulated to a loss of more than 250,000. Small gains were fairly widespread last month among firms that manufacture consumer durables and business equipment, but job cuts continued among the producers of nondurable goods.

The October gain in factory employment notwithstanding, the current business expansion remains unusual for the degree to which manufacturers have been able to meet their output objectives through means other than increased hiring. The number of jobs on manufacturing payrolls has fallen nearly 800,000, on net, since the start of the expansion. Rising productivity, in the context of a slower-than-usual expansion, has been one factor.[1] In addition, manufacturers have been meeting their labor needs through lengthening of the workweek, rather than through expanded hiring. In October, the factory workweek increased an additional 0.1 of an hour to its highest level since February 1966. Weekly overtime rose to a historic high of 4.3 hours last month, up a full hour from its level at the most recent cyclical trough in March of 1991.

In the household survey, employment climbed nearly 475,000 in October, after dropping 250,000 in September. However, unemployment also increased, and the civilian unemployment rate moved up a touch,

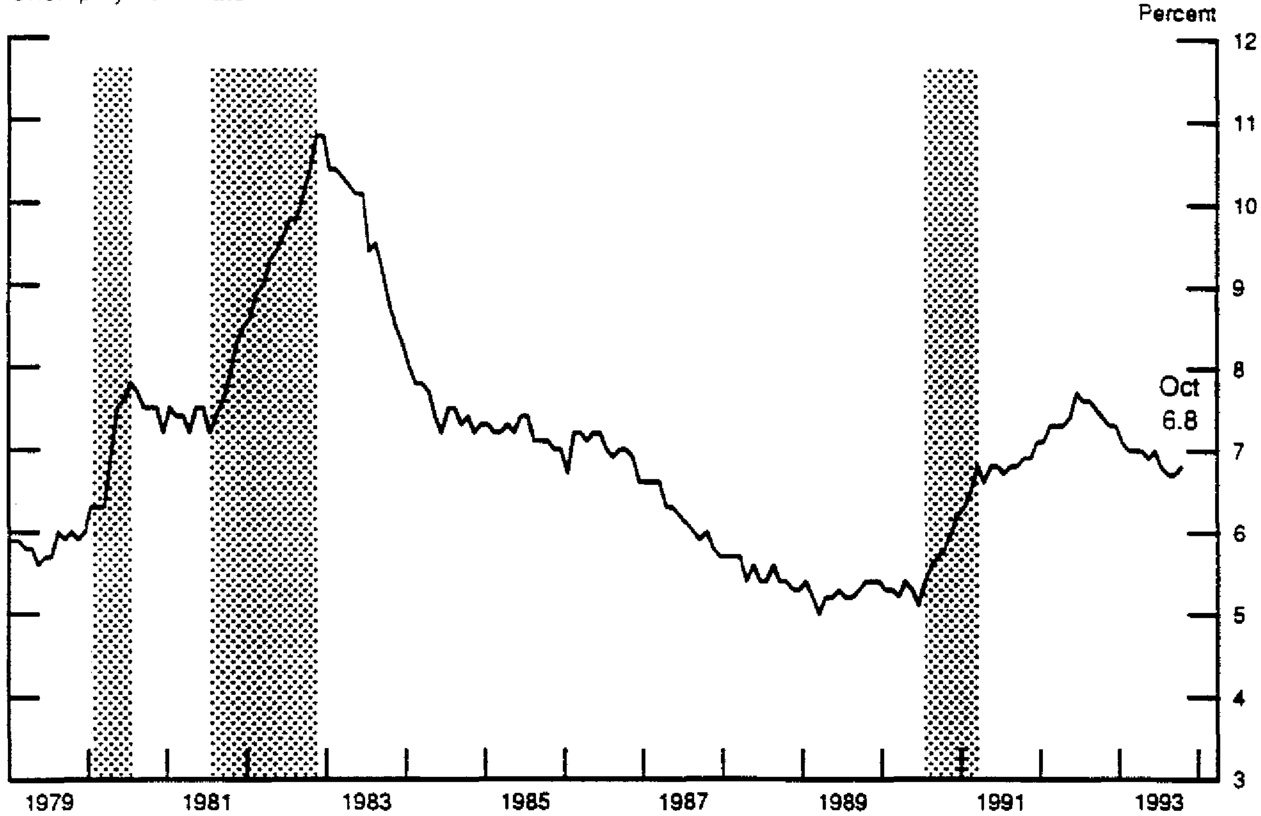
1. We suspect that to some extent the higher factory productivity and lower levels of factory employment in recent years represent greater use of workers supplied by personnel agencies.

Labor Market Indicators for Manufacturing



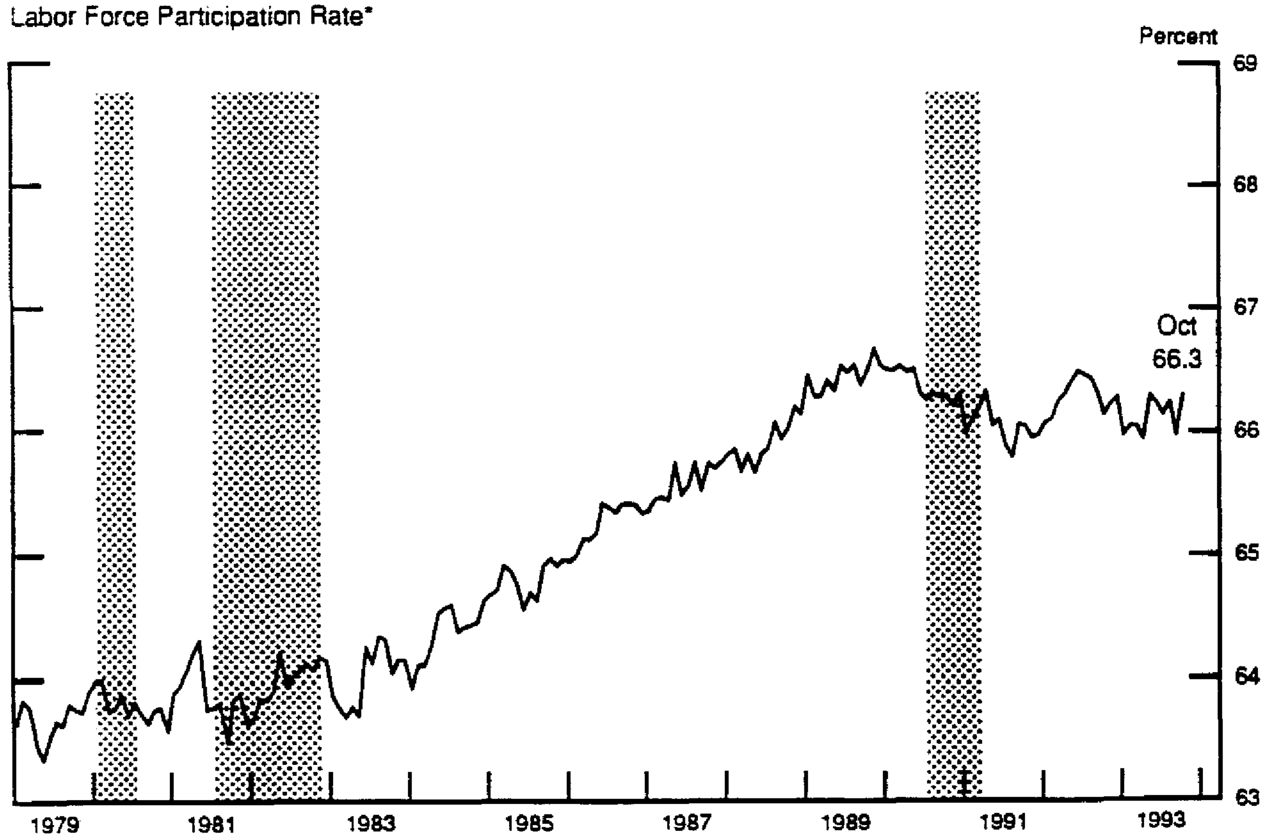
LABOR MARKET INDICATORS: HOUSEHOLD SURVEY

Unemployment Rate*



* Unemployment as a share of civilian labor force.

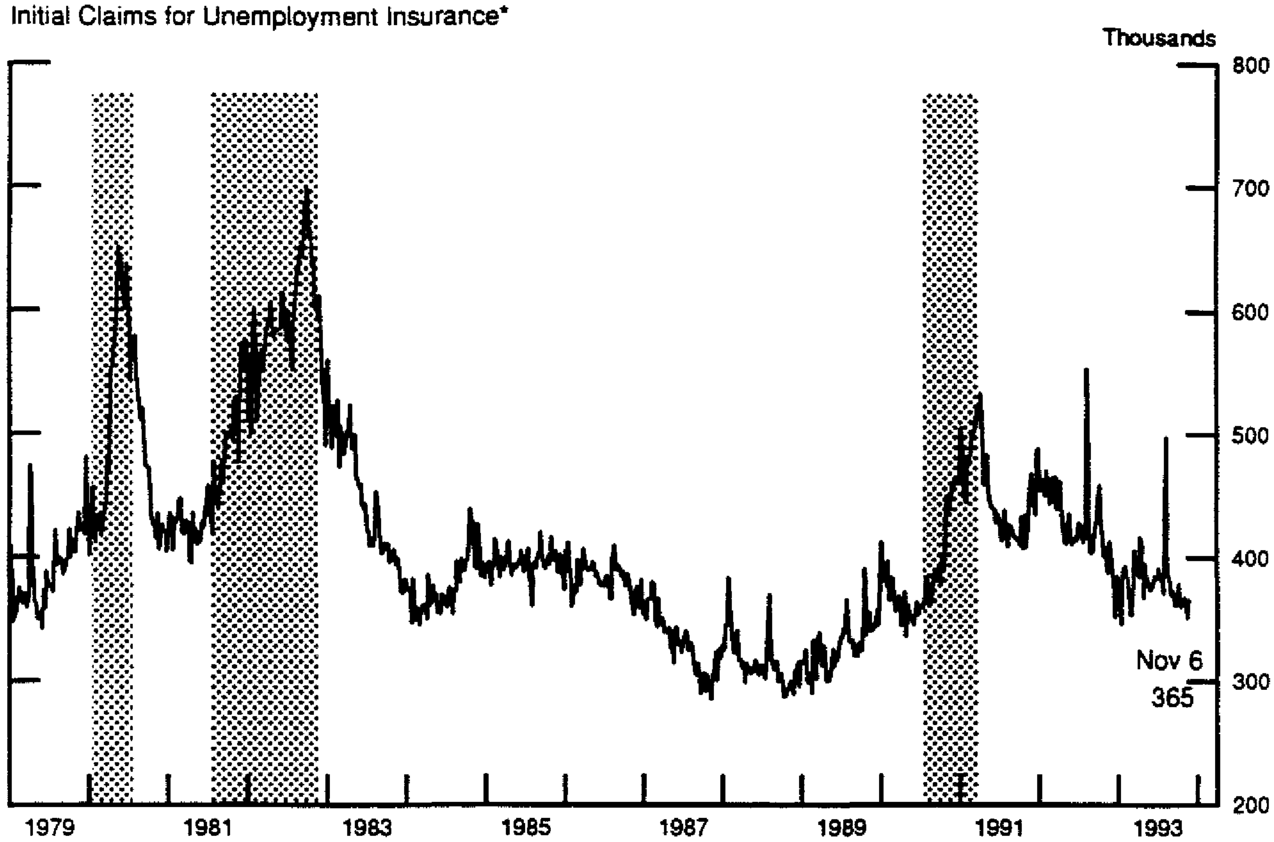
Labor Force Participation Rate*



* Labor force as a share of civilian noninstitutional population, 16 & over.

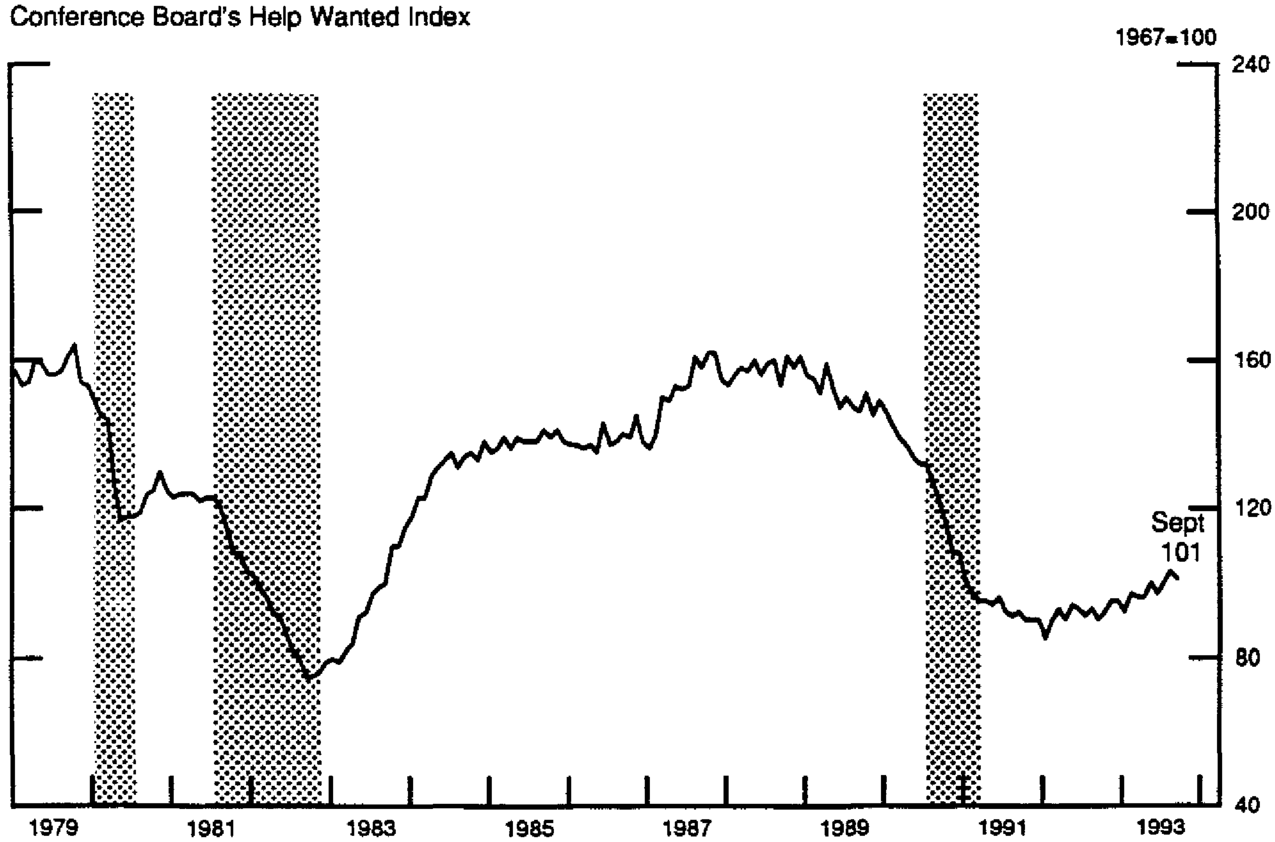
LABOR MARKET INDICATORS

Initial Claims for Unemployment Insurance*



* Includes EUC adjustment.

Conference Board's Help Wanted Index



to 6.8 percent.[2] Most of the October increase in unemployment occurred among those on temporary layoff or those who had left their jobs voluntarily. The number of individuals on permanent layoff edged down last month, and the number of unemployed entrants into the labor force was little changed. The labor force participation rate moved back up to 66.3 percent in October. The rate has fluctuated between 66 percent and 66-1/2 percent since 1989. Much of the increased volatility in the participation rate recently has been concentrated among adult men.

Among other labor market indicators, initial claims for unemployment insurance, including an adjustment for claims filed under the EUC program, have been fluctuating around 365,000 in recent weeks, suggesting a continuation of moderate employment growth.[3] The Conference Board's "help wanted" index declined a bit in September. As is the case for other labor market indicators, the index has been on a trend of gradual improvement for more than a year, but the gains have been slower than those observed during previous expansions.

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2. In an effort to improve the quality of labor force statistics derived from the household survey, the Census Bureau and the Bureau of Labor Statistics will introduce, beginning in January 1994, a redesigned version of the Current Population Survey questionnaire and adopt computer-assisted interviewing methods. An eighteen-month overlap sample from July 1992 to December 1993 has been undertaken to evaluate the effects of these changes on the monthly labor statistics produced by the CPS. BLS will not officially report the results from the overlap survey until next week, but indications are that the new survey will raise the level of the unemployment rate by 1/4 to 1/2 percentage point.

3. The EUC program was closed to new initial claimants on October 2. Individuals who have exhausted their regular benefits may draw EUC benefits for seven weeks if their state's unemployment rate is below 9 percent. If the rate is above 9 percent, participants receive thirteen weeks of benefits. A new extension of the program that is still pending in the Congress would no longer allow individuals the option of filing for regular **or** EUC benefits. If the extension is approved, the EUC adjustment to the initial claims data will no longer be necessary.

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

	Proportion in total IP 1992:4	1992[1]	1993 Q2	1993 Q3	1993 July	1993 Aug.	1993 Sep.
			-Annual rate		---Monthly rate----		
Total index	100.0	3.2	2.3	1.8	.2	.1	.2
Previous		3.2	2.3		.4	.2	
Manufacturing	84.6	3.7	3.4	1.4	.2	.1	.4
Motor vehicles and parts	4.9	10.2	-9.5	-18.9	-3.6	.0	3.9
Mining	7.3	-.9	3.2	1.1	-.8	-.1	1.1
Utilities	8.2	2.0	-7.5	7.0	1.1	.9	-3.1
MANUFACTURING EXCEPT MOTOR VEHICLES AND PARTS	79.7	3.3	4.3	2.8	.4	.1	.2
Consumer goods	22.0	2.0	.1	.3	.4	-.4	.0
Durables	3.6	3.7	3.4	3.3	3.5	-1.5	-.7
Nondurables	18.4	1.7	-.5	-.3	-.3	-.2	.1
Business equipment	14.5	9.9	12.5	9.1	.9	.4	.5
Office and computing	3.2	31.1	41.4	28.6	2.3	1.8	1.3
Industrial	4.0	6.1	8.0	5.6	.9	.1	.1
Other	7.1	4.2	2.9	1.6	.2	-.1	.2
Defense and space equipment	3.3	-7.8	-8.8	-6.5	-.1	-.5	-.2
Construction supplies	4.8	4.5	2.9	6.5	1.7	.0	.6
Materials	28.2	3.2	5.0	3.1	.1	.4	
Durables	18.9	3.6	4.1	4.2	.5	.4	
Nondurables	9.0	2.3	7.1	1.6	-.6	.4	

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

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1967-92 Avg.	1992 Avg.	1993 Q2	1993 Q3	1993 July	1993 Aug.	1993 Sep.
Total industry	81.9	79.8	81.6	81.6	81.6	81.6	81.6
Manufacturing	81.2	78.8	80.8	80.7	80.6	80.6	80.8
Primary processing	82.2	82.2	84.3	84.7	84.6	84.7	84.7
Advanced processing	80.7	77.3	79.2	79.0	79.0	78.9	79.1

Industrial Production

Growth in industrial output remained slow through September, but activity appears to have accelerated in October. The September rise of 0.2 percent was led by gains in motor vehicles, business equipment, and construction supplies. However, output at utilities, which was boosted by the summer heat wave, fell sharply in September as temperatures dropped back to more normal seasonal levels. For the third quarter as a whole, manufacturing output grew at a 1.4 percent annual rate;[4] excluding motor vehicles and parts, factory output rose at a 2.8 annual percent rate. The capacity utilization rate for total industry held steady again in September, at 81.6 percent.

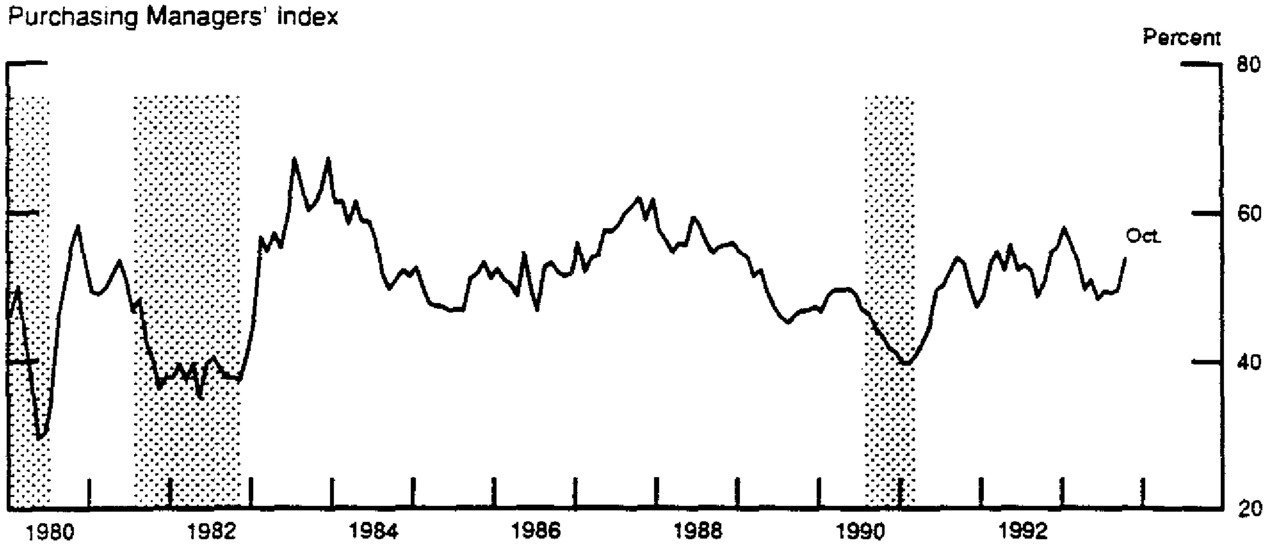
Industrial production apparently increased substantially in October. Motor vehicle production bounced back further, and other available weekly output data, such as coal shipments and electricity generation, also moved up last month. Production worker hours in manufacturing rose 0.2 percent in October (FRB seasonals), reflecting the increases in employment and the factory workweek; the gain in motor vehicles accounted for about half the rise in production worker hours.

Motor vehicle assemblies were up about 8 percent in October. Increases were posted for both autos and light trucks. November and December assembly schedules suggest further strength in production in those months, even after allowing for some potential underbuild. The increase in production of motor vehicles in October was accompanied by an even sharper rebound in sales; consequently, the

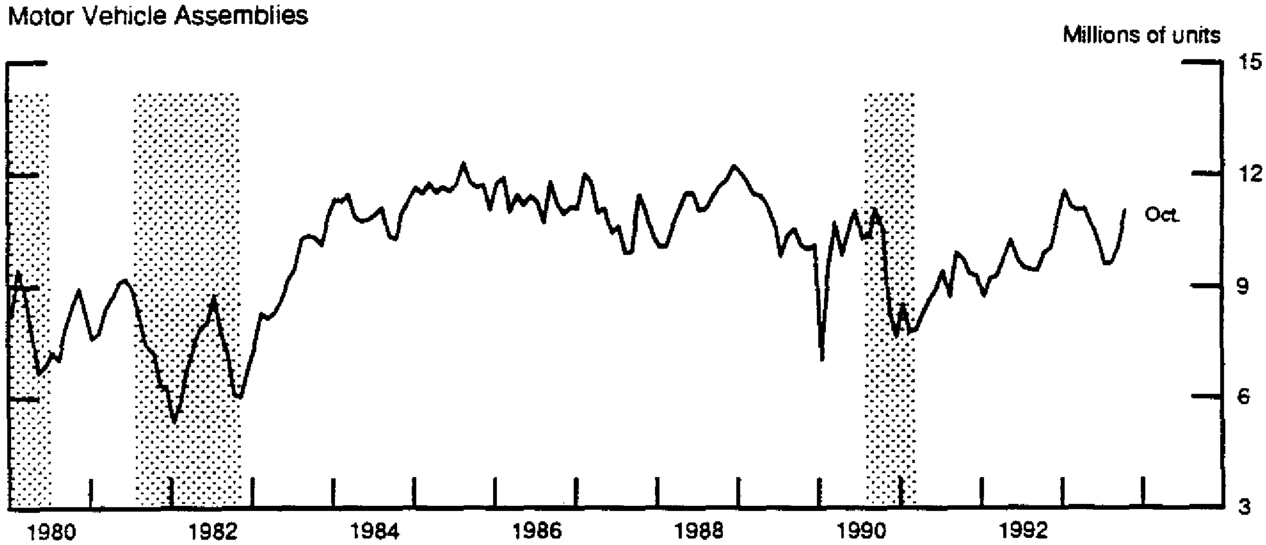
4. In the national income and product accounts, goods GDP grew 5 percent at an annual rate in the third quarter; growth in this category from the third quarter of last year to the the third quarter of this year was about 4-3/4 percent, compared with a gain in manufacturing IP of about 4-1/2 percent. These movements continue the pattern of growth in goods GDP being much more volatile than growth in manufacturing on a quarter-to-quarter basis; over time, however, both measures have grown at about the same rate.

Indicators of Manufacturing Activity

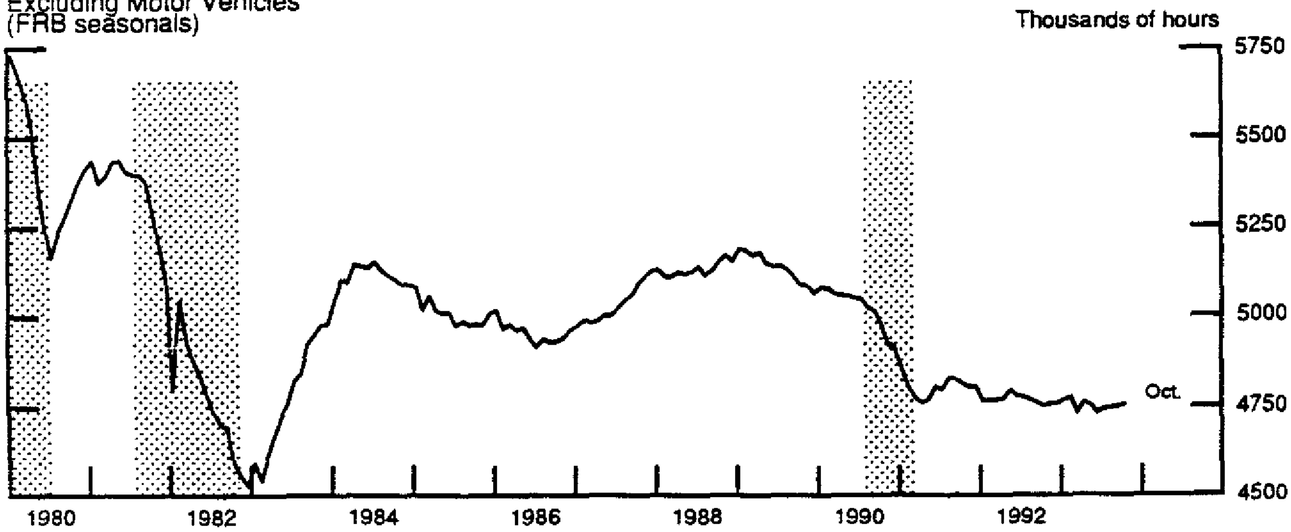
Purchasing Managers' Index



Motor Vehicle Assemblies



Manufacturing Production Worker Hours
Excluding Motor Vehicles
(FRB seasonals)



days' supply of inventories on dealers' lots declined for both autos and trucks.

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

	1993				
	Aug.	Sep.	Oct.	Nov.	Dec.
				-scheduled--	
U.S. production	9.6	10.1	11.0	12.0	12.1
Autos	5.1	5.3	5.9	6.6	6.6
Trucks	4.5	4.8	5.2	5.4	5.5
Days' supply[2]					
Autos	58.9	61.6	56.0	n.a.	n.a.
Light trucks	63.7	69.2	58.2	n.a.	n.a.

1. Components may not sum to totals because of rounding.
2. End of month. October supply figures are staff estimates.

Supporting the rise in factory production more generally has been a run of several months of solid growth in orders. Real adjusted new orders for durable goods (a measure that excludes both those orders data that are just shipments and those industries that have long lead times) increased sharply again in September, and advanced 4.2 percent (not at an annual rate) for the third quarter as a whole. Gains in new orders and production also have been reported in the purchasing managers' index, which rose to 53.8 percent in October from 49.7 percent in September.

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

	Share 1993 H1	1993 Q2	1993 Q3	1993 July	1993 Aug.	1993 Sep.
Total durable goods	100	-1.7	1.1	-2.8	2.5	.7
Adjusted durable goods[1]	65	-1.0	3.6	1.8	.4	1.5
Office and computing	5	-.7	5.1	6.3	1.1	-.5
Nondefense capital goods[2]	16	1.9	2.9	-1.6	1.8	3.8
Other	44	-2.0	3.7	2.6	-.2	.8
Memo:						
Real adjusted durable goods		-.8	4.2	2.2	.6	1.4

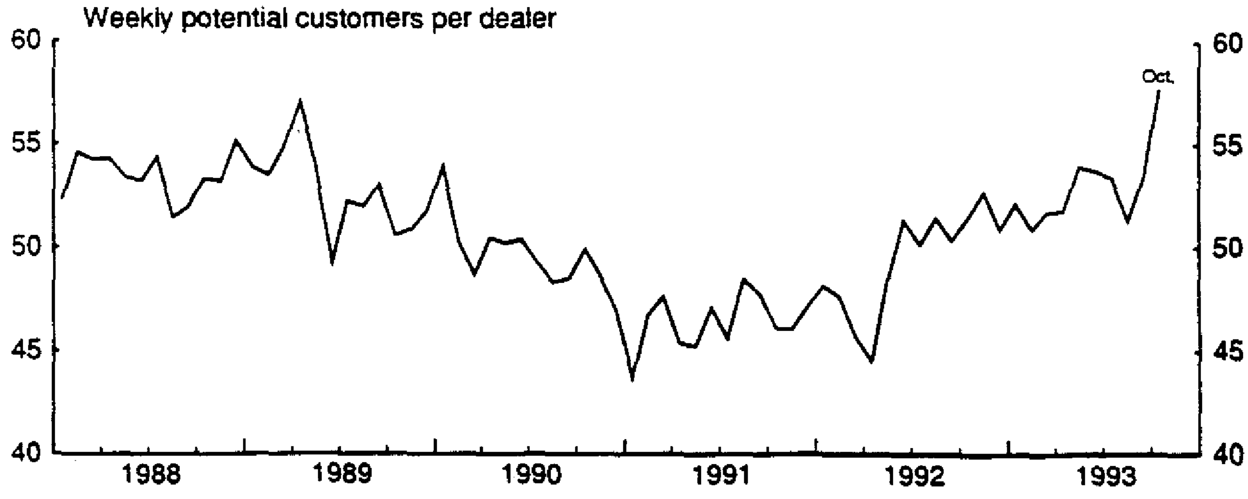
1. Orders excluding defense capital goods, nondefense aircraft, motor vehicle parts, and those not reporting unfilled orders.
2. Excludes aircraft and computers.

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

			1993			1993		
	1991	1992	Q1	Q2	Q3	Aug.	Sep.	Oct.
Total	12.30	12.85	13.31	14.15	13.57	13.61	13.34	14.49
Autos	8.39	8.38	8.36	8.96	8.60	8.65	8.52	8.97
Light trucks	3.91	4.46	4.95	5.20	4.97	4.96	4.83	5.53
North American[2]	9.73	10.51	11.12	11.89	11.40	11.47	11.21	12.47
Autos	6.14	6.28	6.39	6.90	6.63	6.68	6.60	7.10
Big Three	4.99	5.10	5.34	5.69	5.10	5.02	5.07	5.79
Transplants	1.14	1.18	1.05	1.20	1.53	1.66	1.53	1.32
Light trucks	3.59	4.23	4.73	5.00	4.77	4.79	4.61	5.36
Foreign produced	2.57	2.34	2.20	2.26	2.17	2.14	2.14	2.02
Autos	2.25	2.11	1.97	2.06	1.97	1.97	1.92	1.86
Light trucks	.32	.23	.23	.20	.20	.17	.22	.16
Memo:								
Domestic nameplate								
Market share, total	.70	.72	.75	.75	.71	.70	.71	.75
Autos	.63	.63	.66	.66	.62	.61	.62	.66

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.

Monthly Showroom Traffic
(Seasonally adjusted)



Source: Chrysler Corporation
Note: Showroom traffic is defined as the number of potential customers that a dealership's sales staff greets in a week. An individual who visits a dealership more than once will be counted each visit. The showroom traffic survey is made up of selected Chrysler, Dodge, Jeep/Eagle, Chevrolet, Ford, and Toyota dealerships throughout the U.S.

Personal Income and Consumption

Despite continuing weakness in income growth and consumer sentiment, consumption has shown increased strength of late: the overall gain for the third quarter was 4.2 percent at an annual rate. In September, strength was evident in spending for goods other than motor vehicles--assuming, of course, that the advance report on retail sales was an accurate reading. The only spending data available for the fourth quarter show a surge in sales of cars and light trucks in October; sales of these vehicles had declined in the third quarter.

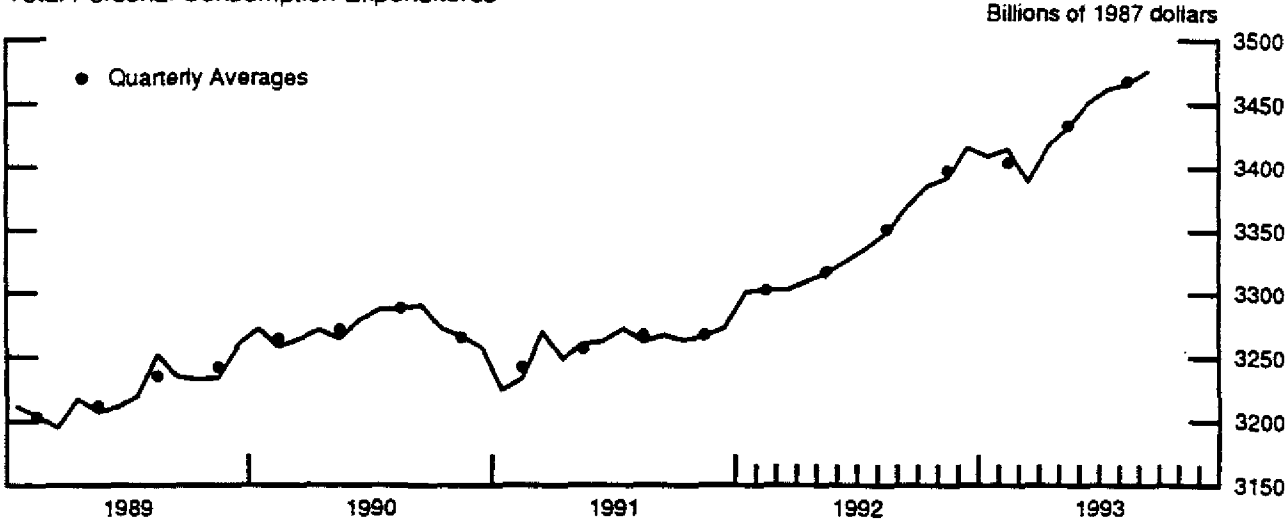
Both the third-quarter decline in sales of light vehicles and the October surge were shaped partly by supply constraints that developed over the summer but that have eased more recently. These supply constraints appear to have led to a flattening of consumer purchases and to absolute declines in daily rental company sales for Ford and GM in the third quarter (the latest available fleet data). Industry sources indicate that consumer purchases (including leases) accounted for a large portion of the October increase in car sales. With regard to light truck sales, problems in the BEA seasonal factors likely resulted in an understatement of sales for September and an overstatement for October.[5] Smoothing through the monthly data, the 5.2 million unit average pace of sales in September and October matches the strong second-quarter pace.

Other auto-market indicators remain positive. Although the Michigan index for consumer attitudes toward buying conditions for

5. Sales contests between Ford and Chevrolet in September and December 1991 caused a boost in those two months, with paybacks in the following month. In our view, the BEA seasonal adjustment procedure does not adequately account for these sales as "unusual events," and thus the BEA seasonal factors expect too many light truck sales in September and December and too few sales in October and January.

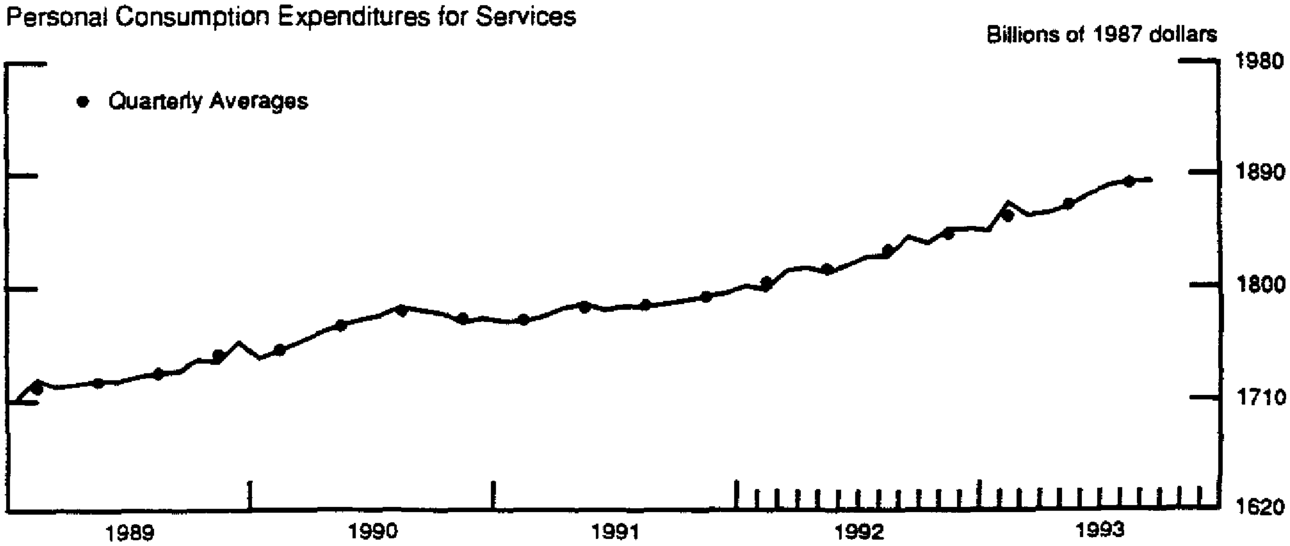
Personal Consumption Expenditures

Total Personal Consumption Expenditures



Personal Consumption Expenditures for Goods

Personal Consumption Expenditures for Services



cars edged down in October, the index is 10 percent above year-ago levels. Another indicator, showroom traffic, strengthened in October. More fundamentally, low finance rates continue to support demand. In addition, firms continue to provide novel financing schemes--such as credit card rebates and other subsidies--to increase the affordability of their vehicles.

Real spending for durable goods other than motor vehicles rose about 1 percent in September and increased 15 percent at an annual rate in the third quarter. Especially large increases continued to be reported for consumer electronics, a reflection, in part, of ongoing price declines for personal computers. Further strong gains for furniture and major household appliances were likely related to the pickup in housing sales and starts. Outside the durable goods category, spending on services increased 3.7 percent at an annual rate in the third quarter, boosted, in part, by weather-related energy expenditures. Spending on nondurable goods grew at a rate of 3.4 percent in real terms.

Real disposable income rose only 1.1 percent at an annual rate in the third quarter. Special factors, most notably the Midwest floods and the Southeast drought, worked to depress growth, but even excluding these effects the rate of growth of real disposable income was only 2.2 percent.[6] Real income growth from the third quarter of 1992 to the third quarter of 1993 was also 2.2 percent, a slowdown of about 3/4 percentage point from the gain of the previous year. However, growth in labor income at least appears to be off to a good start in the current quarter, as a consequence of the October

6. Farm proprietors' income was reduced in July, August, and September to reflect crop damage. Rental income was reduced in July to reflect uninsured losses to nonfarm residential property, and nonfarm proprietors' income was reduced in July to reflect uninsured losses to business property. In total, these effects reduced nominal disposable income in the third quarter by $12.8 billion at an annual rate.

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

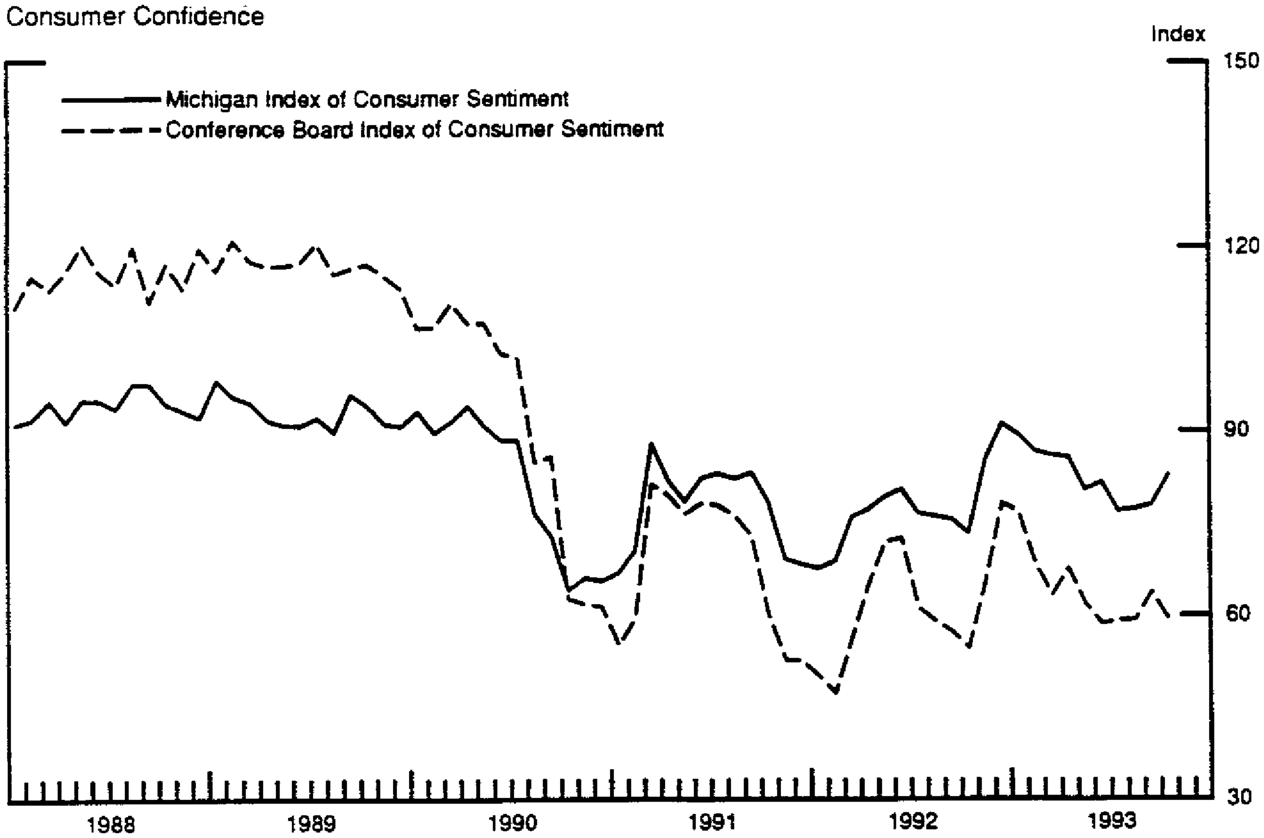
		1993			1993	
	1992	Q1	Q2	Q3	Aug.	Sep.
Total personal income	44.2	-72.7	28.1	22.2	70.5	10.4
Wages and salaries	32.4	-96.0	36.7	11.3	22.8	-2.8
Private	30.4	-98.6	35.0	8.6	20.3	-5.9
Other labor income	2.0	2.7	2.7	2.7	2.7	2.7
Proprietors' income	2.9	12.1	-13.1	2.1	30.0	5.7
Farm	.2	11.9	-15.3	.6	24.1	4.1
Rent	.5	2.8	1.3	2.3	10.4	2.0
Dividend	2.5	.6	.3	.4	.4	.3
Interest	-1.0	-.5	-1.1	1.2	1.3	1.4
Transfer payments	6.0	6.0	4.0	3.0	4.6	.6
Less: Personal contributions for social insurance	1.1	.5	2.7	.7	1.6	-.4
Less: Personal tax and nontax payments	6.0	-15.4	7.7	3.6	5.7	1.1
Equals: Disposable personal income	38.2	-57.4	20.5	18.6	64.8	9.3
Memo: Real disposable income	21.6	-56.2	10.3	10.6	44.4	5.5

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

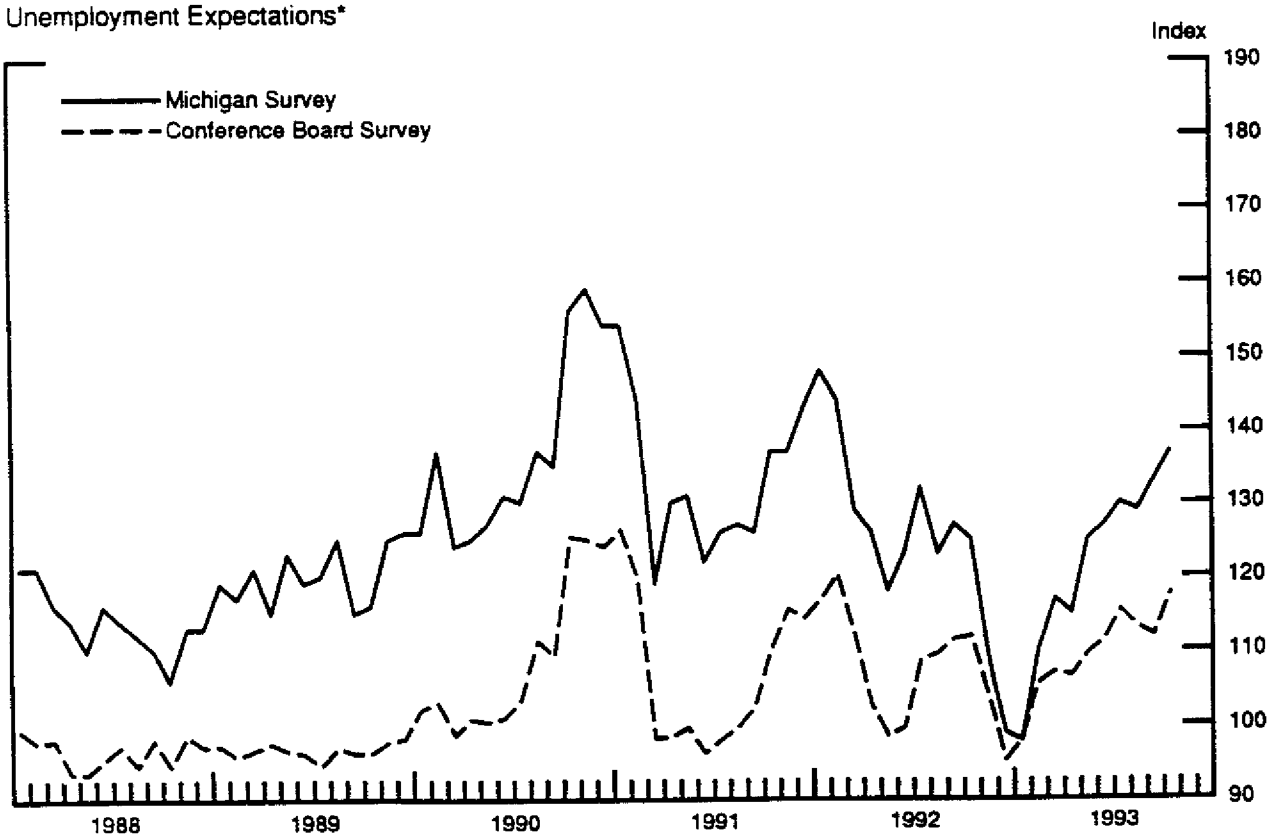
		1993			1993	
	1992	Q1	Q2	Q3	Aug.	Sep.
		------Annual rate-----			Monthly rate	
Personal consumption expenditures	4.0	.8	3.4	4.2	.1	.3
Durable goods	9.7	-1.3	10.8	7.5	.5	-.2
Excluding motor vehicles	10.2	2.0	9.7	15.3	1.0	.9
Nondurable goods	3.6	-2.1	2.7	3.4	-.1	.9
Excluding gasoline	3.7	-2.1	2.8	3.0	-.2	1.0
Services	2.8	3.1	2.1	3.7	.2	.0
Excluding energy	2.7	3.1	2.9	3.1	.2	.2
Memo:						
Personal saving rate (percent)	5.3	3.9	4.4	3.7	4.1	4.0

Indicators of Consumer Sentiment

Consumer Confidence

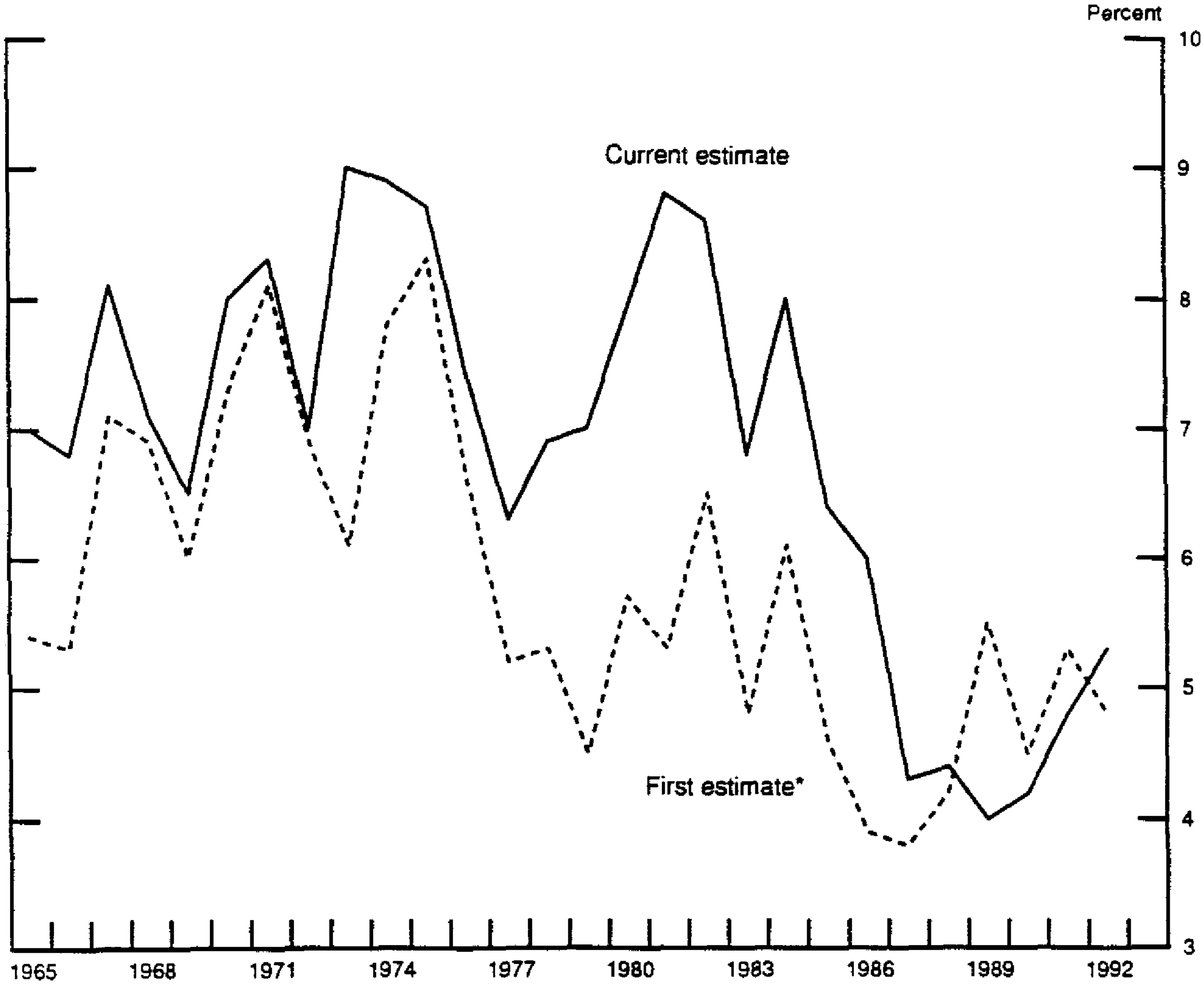


Unemployment Expectations*



*The unemployment expectations indexes represent the fraction of households expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.

PERSONAL SAVING RATE



* First annual estimate, as published by the BEA in January of the next year.

employment gain and the accompanying uptick in average hourly earnings (discussed later).

Surveys of consumer sentiment indicate that the strength in third-quarter spending did not coincide with any improvement in consumers' underlying attitudes. Both the Michigan and the Conference Board sentiment indexes remained flat over the course of the summer, and the two surveys gave conflicting signals in September and October. Unemployment expectations, which econometric evidence suggests may be more highly correlated with consumption growth than are the overall sentiment indexes, appear from both surveys to have deteriorated recently.[7]

The third-quarter surge in consumer spending, coupled with modest income growth, resulted in a decline in the personal saving rate to 3.7 percent from 4.4 percent in the second quarter; the saving rate has averaged about 4 percent over the first three quarters of 1993, down more than a percentage point from the 1992 average. The low saving rate observed so far this year does not appear to be the result of a surge in household wealth. Although stock markets have performed relatively well over the past year, the increases in asset values have not been large enough to explain much of the recent increase in spending. Furthermore, econometric estimates of the effects of wealth on the saving rate typically find that such effects occur quite gradually, with a mean lag of around two years--too slowly to explain the sharp drop in the saving rate this year. Another possibility, of course, is that errors could be present in the reported saving rate for recent quarters, as

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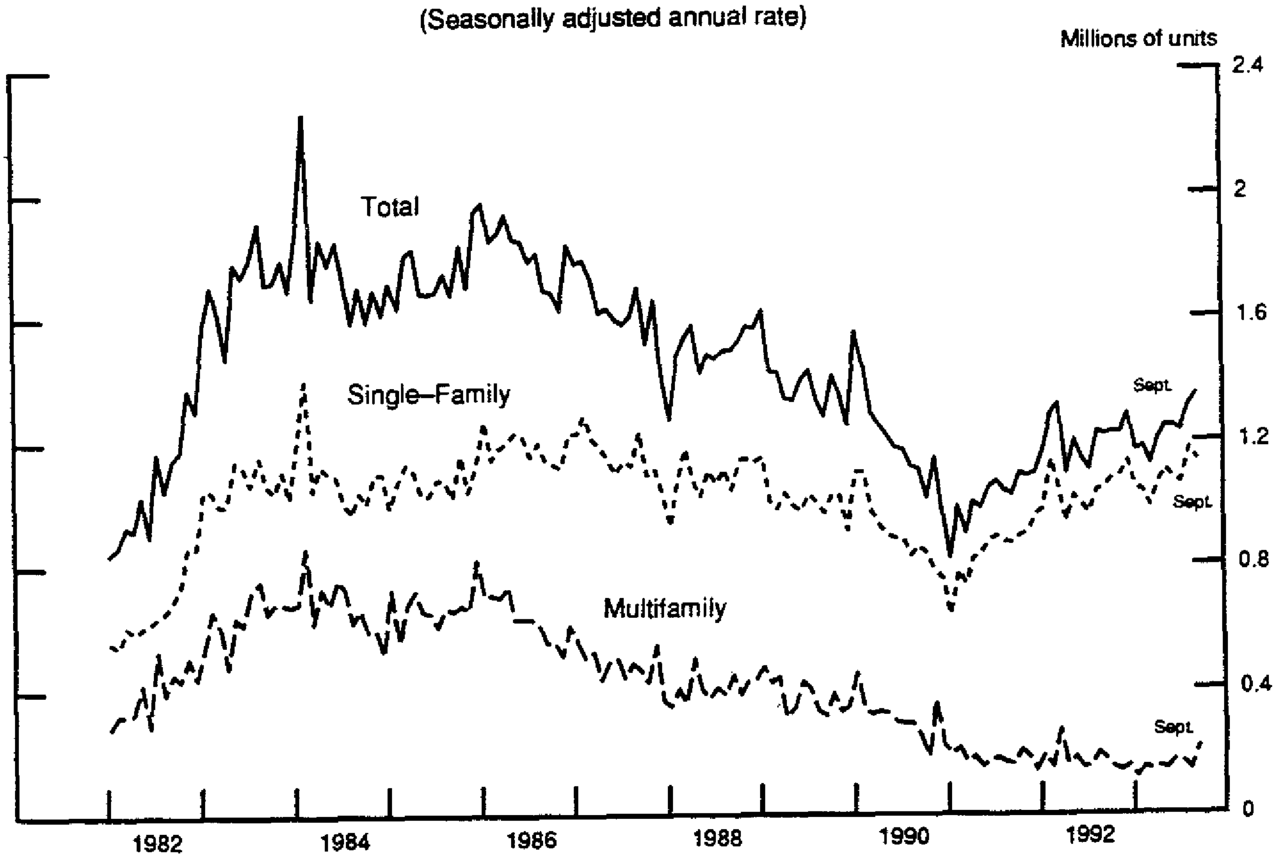
7. The unemployment expectations indexes are constructed as the fraction of respondents who expect unemployment to increase minus the fraction who expect it to decline. The time period of the expectations is the next year for the Michigan survey and the next six months for the Conference Board survey.

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

	1992	1993			1993		
	Annual	Q1	Q2	Q3p	Julyr	Aug.r	Sept.p
All units							
Starts	1.20	1.16	1.23	1.30	1.23	1.31	1.35
Permits	1.11	1.11	1.11	1.22	1.16	1.24	1.25
Single-family units							
Starts	1.03	1.03	1.08	1.13	1.06	1.18	1.14
Permits	.92	.93	.92	1.01	.98	1.02	1.04
Sales							
New homes	.61	.60	.65	.68	.65	.63	.76
Existing homes	3.52	3.54	3.58	3.86	3.86	3.81	3.91
Multifamily units							
Starts	.17	.13	.15	.17	.17	.14	.21
Permits	.19	.18	.19	.21	.19	.23	.21

p Preliminary. r Revised estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



historical revisions often have resulted in sizable upward adjustments (chart).[8]

Housing Markets

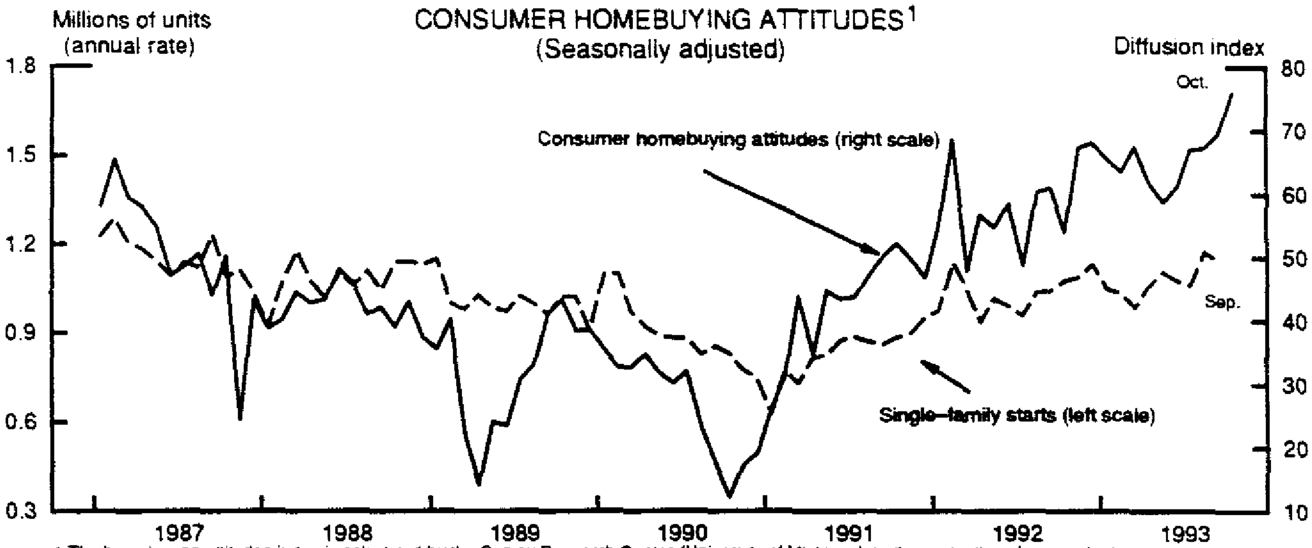
Housing activity strengthened in the third quarter. Starts rose 5-1/4 percent, reflecting increases in single-family and multifamily housing production, and permit issuance increased nearly 10 percent, corroborating the strengthening observed in starts. Sales of new and existing homes moved up further in the third quarter and were especially strong in September.

Starts of single-family homes in August and September were at their highest levels in almost five years. The increase in starts is consistent with indications of expanding demand for single-family homes; sales of new homes rose sharply in September and were at the highest level since late 1986, and sales of existing homes increased to the second-highest level in fourteen years.

Several other housing market indicators suggest that the market for single-family homes has continued to strengthen into the fourth quarter (chart). Bolstered by low mortgage rates, consumer attitudes regarding homebuying conditions improved further in October--the Michigan Survey Research Center series on those attitudes, which dates back to 1968, was at the highest level on record. Similarly, the index of builders' ratings of new home sales in October equaled the high for that series. The index of applications filed at mortgage bankers for loans to purchase a new or existing home has remained in an elevated range in recent weeks.

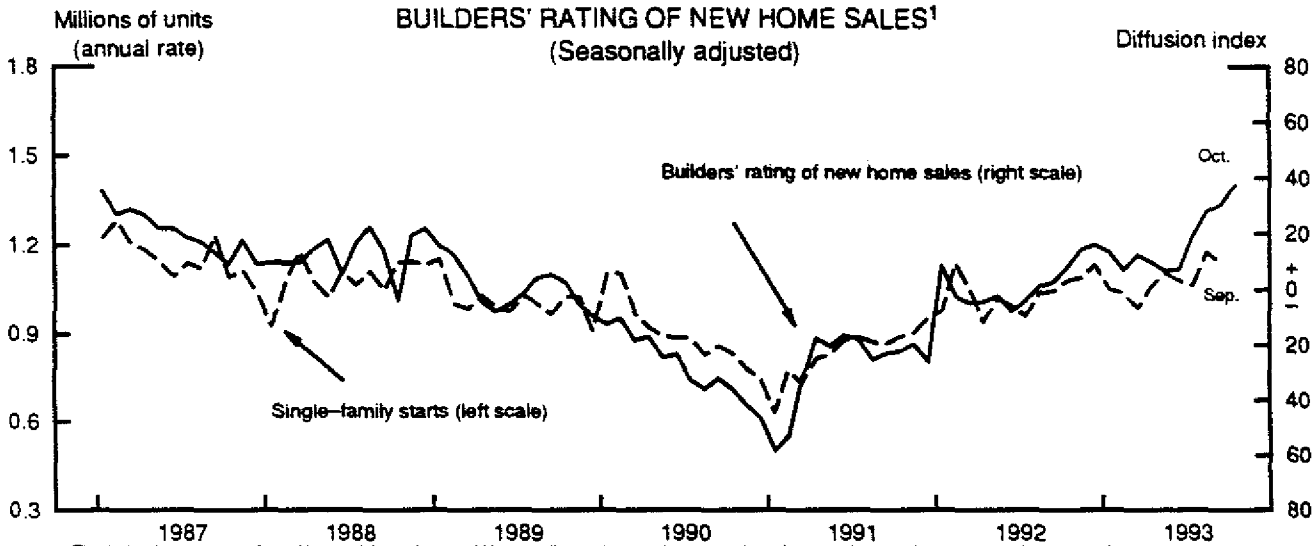
8. The BLS has reported that preliminary tabulations from unemployment insurance tax records for the first quarter of 1993 suggest that in June 1994 the March 1993 level of payroll employment will be revised up by 250,000; on a monthly basis, upward changes to employment growth likely will be wedged back into the second half of 1992. In estimating income for 1992, the BEA used wage and salary data from U.I. tax records through December 1992, which were, in part, already consistent with higher levels of employment. However, the potential remains large for revisions to the income data from more complete information on nonwage sources of income.

CONSUMER HOMEBUYING ATTITUDES[1]
(Seasonally adjusted)



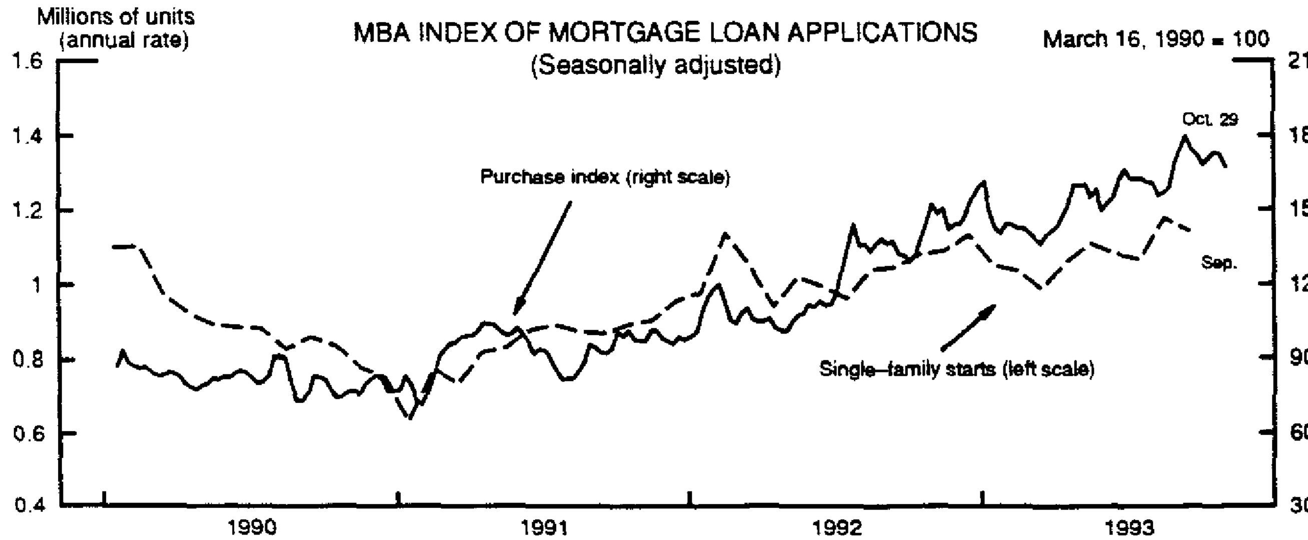
1 The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

BUILDERS' RATING OF NEW HOME SALES[1]
(Seasonally adjusted)



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

MBA INDEX OF MORTGAGE LOAN APPLICATIONS
(Seasonally adjusted)



In the multifamily sector, starts moved up in September to 210,000 units (annual rate), one of the best readings since late 1990 for this depressed sector. However, part of the increase likely reflected the signing in early August of the Omnibus Budget Reconciliation Act of 1993 (OBRA-93), which reinstated and made permanent the tax credit for low-income rental housing that had expired in mid-1992. According to the National Association of Home Builders, housing development agencies in some states quickly allocated these tax credits, contributing to the surge in starts. Because of a requirement that at least 10 percent of the subsidized investment in new housing be made by the end of the calendar year in which the tax credit is granted, other states are likely to allocate tax credits to builders in coming months, thus providing some additional impetus to multifamily starts.

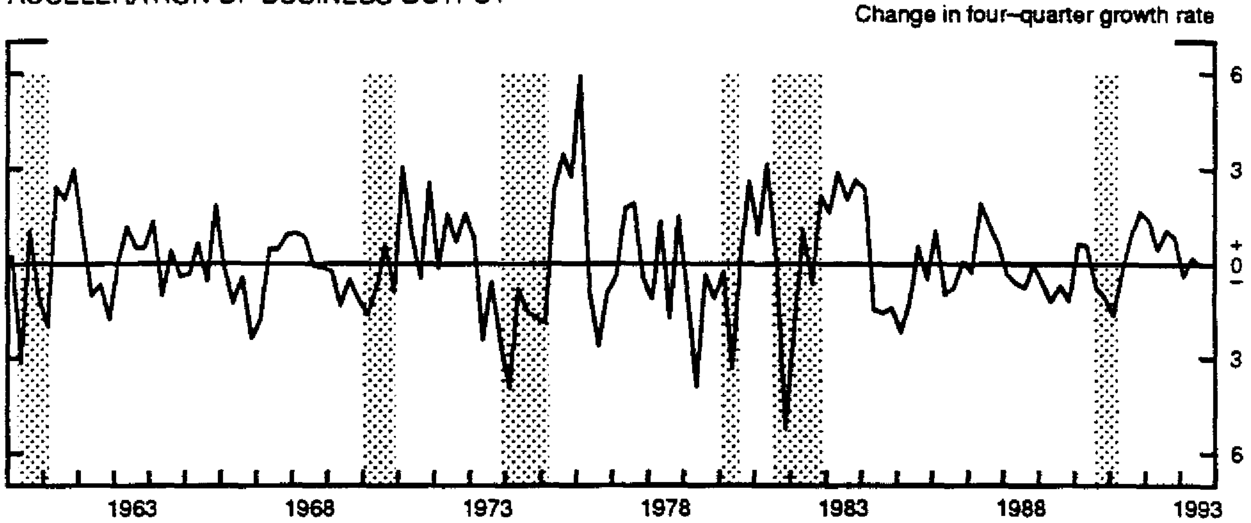
Apart from the effect of the tax credit, scattered signs of improvement in the multifamily market have been evident in some local markets in recent months, judging from the anecdotal reports of rising rents and increased multifamily construction activity. In addition, the national vacancy rate fell in the third quarter; it remains at a high level, however, and real residential rent (CPI measure) has continued to fall, suggesting that conditions are not yet conducive to a widespread strengthening of unsubsidized multifamily construction.

Business Fixed Investment

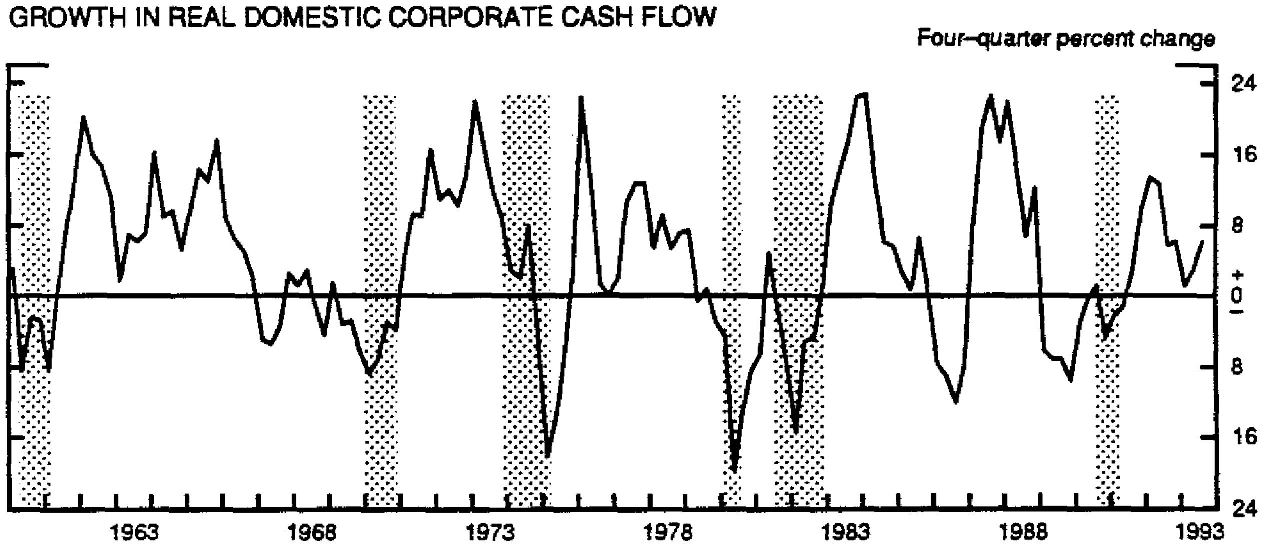
Real outlays for business fixed investment increased at an annual rate of 6-1/4 percent in the third quarter, considerably less than their first-half pace. Spending for producers' durable equipment was up 9 percent last quarter, about half the rate of increase posted earlier this year; equipment outlays were held down by declines in the aircraft and motor vehicle components, but

FUNDAMENTAL DETERMINANTS OF BUSINESS FIXED INVESTMENT

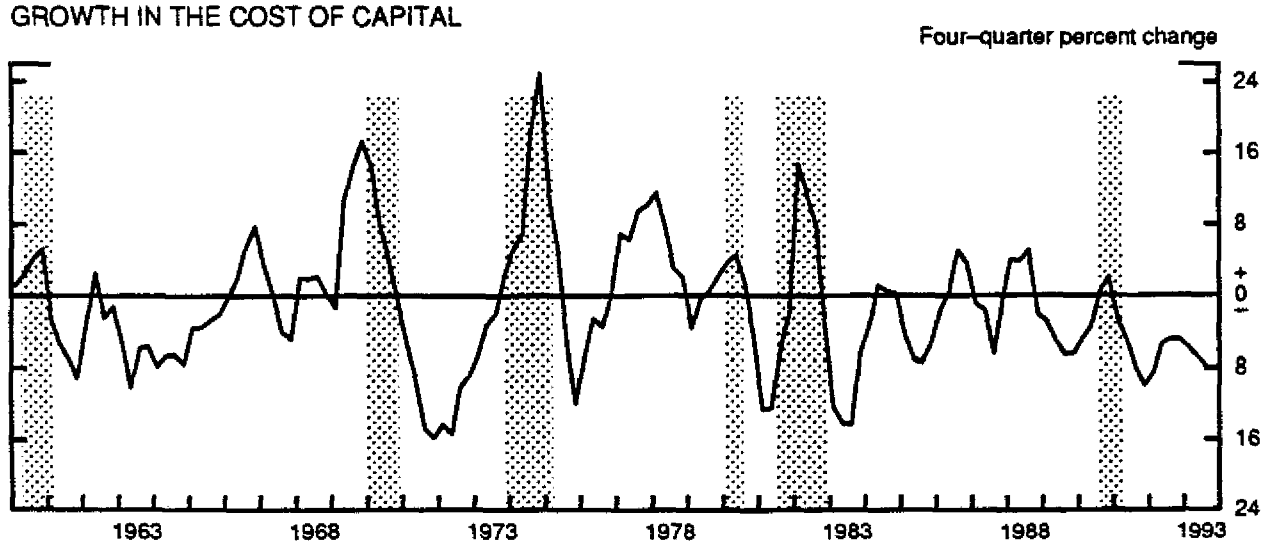
ACCELERATION OF BUSINESS OUTPUT



GROWTH IN REAL DOMESTIC CORPORATE CASH FLOW



GROWTH IN THE COST OF CAPITAL



spending for computing equipment and for other capital goods (for example, communications and industrial equipment) scored large gains. Outlays for nonresidential structures, which turned up during the first half of this year, dropped back a bit in the third quarter.[9]

The influence of the "accelerator effect" on investment has waned, as growth of business output has leveled off since earlier in the cyclical expansion. However, two other key determinants have been more favorable of late. Cash flow has recorded strong gains in the current expansion and, after decelerating late last year and early this year, appears to have picked up recently. In addition, the cost of capital has continued to drop, reflecting ongoing reductions in computer prices, lower interest rates, and increases in equity prices.

With regard to equipment spending, business purchases of motor vehicles, which bounded up during the first half of this year, fell back in the third quarter. Part of the decline apparently stemmed from the supply disruption at General Motors. As noted previously, businesses, especially rental companies, apparently bore the brunt of the production shortfall for light vehicles over the summer months; however, fleet sales apparently improved a bit in October.[10] Sales of heavy trucks were about unchanged last quarter but have increased substantially since mid-1991; according to industry sources, domestic producers are bumping up against

9. The September report on shipments of durable goods, which was not incorporated into BEA's advance GDP estimate, suggests a small upward revision (a bit less than $1 billion in 1987 dollars) to third-quarter PDE. In addition, we received the September report on construction put-in-place after the advance GDP estimate. For the third quarter as a whole, these data were just a bit stronger than BEA had assumed and suggest an upward revision to outlays for nonresidential structures of about $1/2 billion.

10. Actual growth in PDE for motor vehicles is likely to be overstated in the third quarter because leases by consumers are included in PDE.

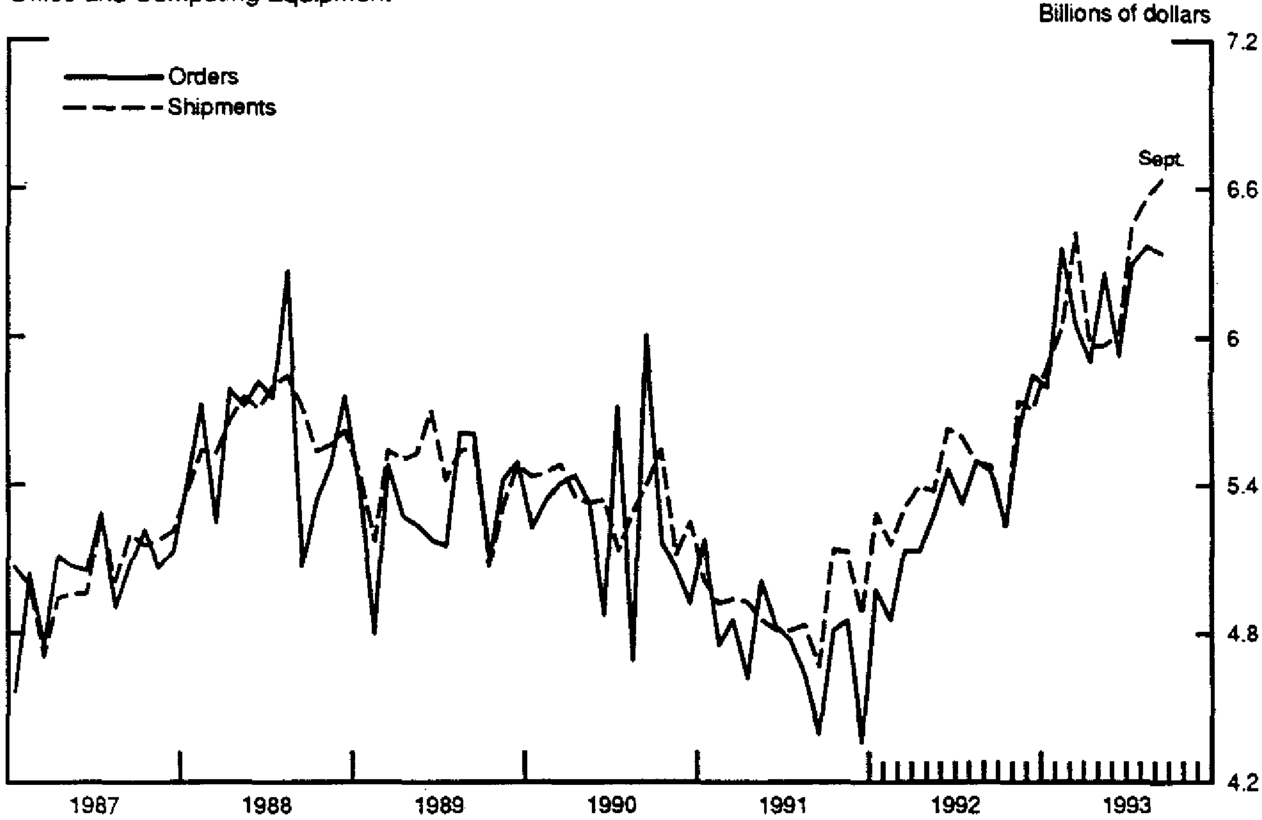
BUSINESS CAPITAL SPENDING INDICATORS
(Based on seasonally adjusted data, in billions of current dollars)

	1993			1993		
	Q1	Q2	Q3	Aug.	Sep.	Oct.
Producers' durable equipment						
Shipments of nondefense capital goods	32.46	32.78	33.08	33.83	33.69	n.a.
Excluding aircraft and parts	26.81	27.03	27.93	27.78	28.57	n.a.
Office and computing	6.12	5.98	6.55	6.57	6.63	n.a.
All other categories	20.69	21.05	21.38	21.21	21.94	n.a.
Shipments of complete aircraft[1]	2.82	2.81	n.a.	2.44	n.a.	n.a.
Sales of heavy weight trucks	.30	.34	.33	.34	.34	n.a.
Orders of nondefense capital goods	30.17	31.41	31.08	31.99	31.15	n.a.
Excluding aircraft and parts	26.91	27.26	28.17	28.06	28.86	n.a.
Office and computing	6.07	6.03	6.34	6.37	6.34	n.a.
All other categories	20.84	21.23	21.84	21.69	22.52	n.a.
Nonresidential structures						
Construction put-in-place	129.6	133.1	133.4	133.8	133.5	n.a.
Office	15.4	15.4	15.2	15.4	14.6	n.a.
Other commercial	26.2	27.1	26.4	26.7	26.5	n.a.
Industrial	20.7	19.6	20.2	20.0	20.7	n.a.
Public utilities	38.7	39.6	39.7	39.3	39.9	n.a.
All other	28.5	31.4	31.9	32.4	31.8	n.a.
Rotary drilling rigs in use	730.5	692.1	795.3	802.3	835.5	809.4
Footage drilled[2]	10.28	10.64	n.a.	n.a.	n.a.	n.a.
Memo:						
Business fixed investment[3]	562.3	584.3	593.3	n.a.	n.a.	n.a.
Producers' durable equipment[3]	414.1	433.2	442.6	n.a.	n.a.	n.a.
Nonresidential structures[3]	148.2	151.1	150.8	n.a.	n.a.	n.a.

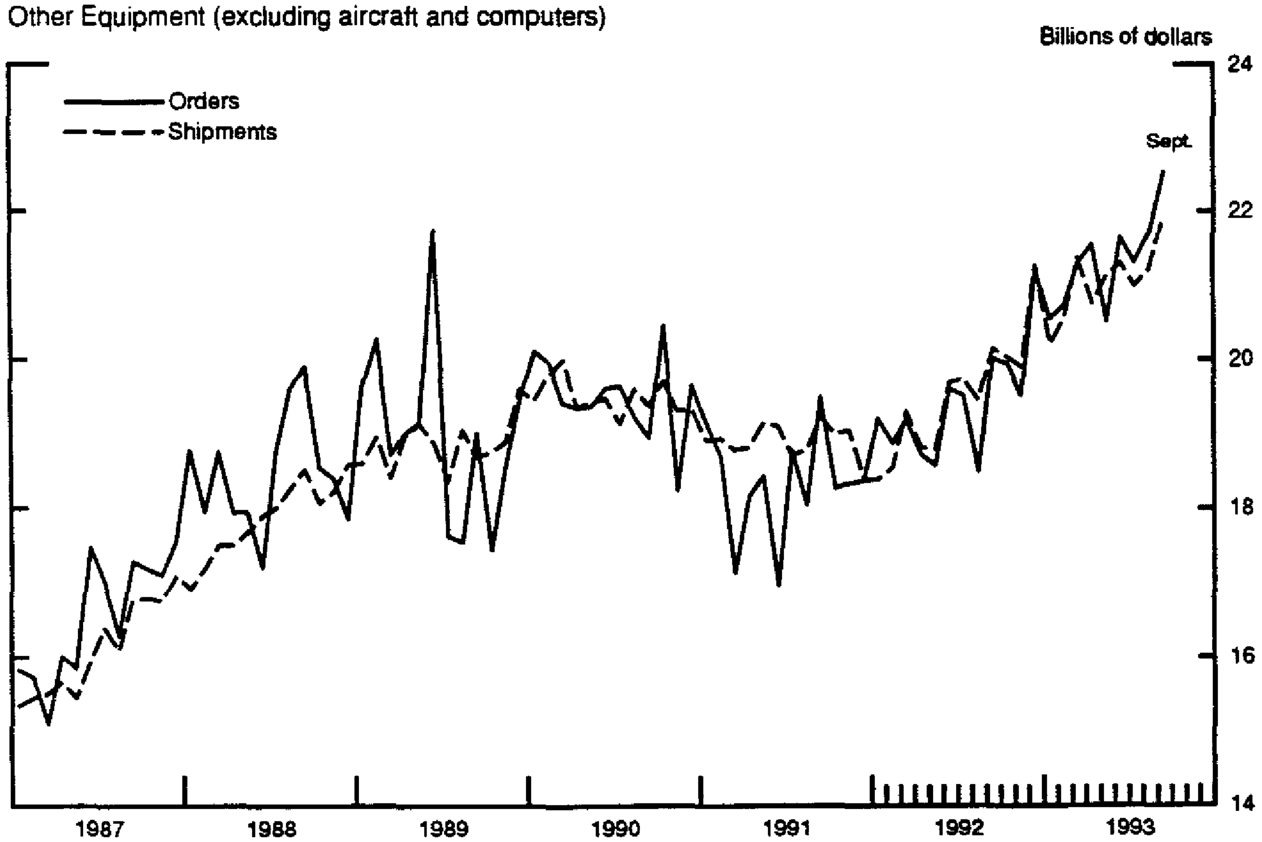
1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines." Monthly data are seasonally adjusted using FRB seasonal factors constrained to BEA quarterly seasonal factors. Quarterly data are seasonally adjusted using BEA seasonal factors.
2. From Department of Energy.
3. Based on constant-dollar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

RECENT DATA ON ORDERS AND SHIPMENTS

Office and Computing Equipment

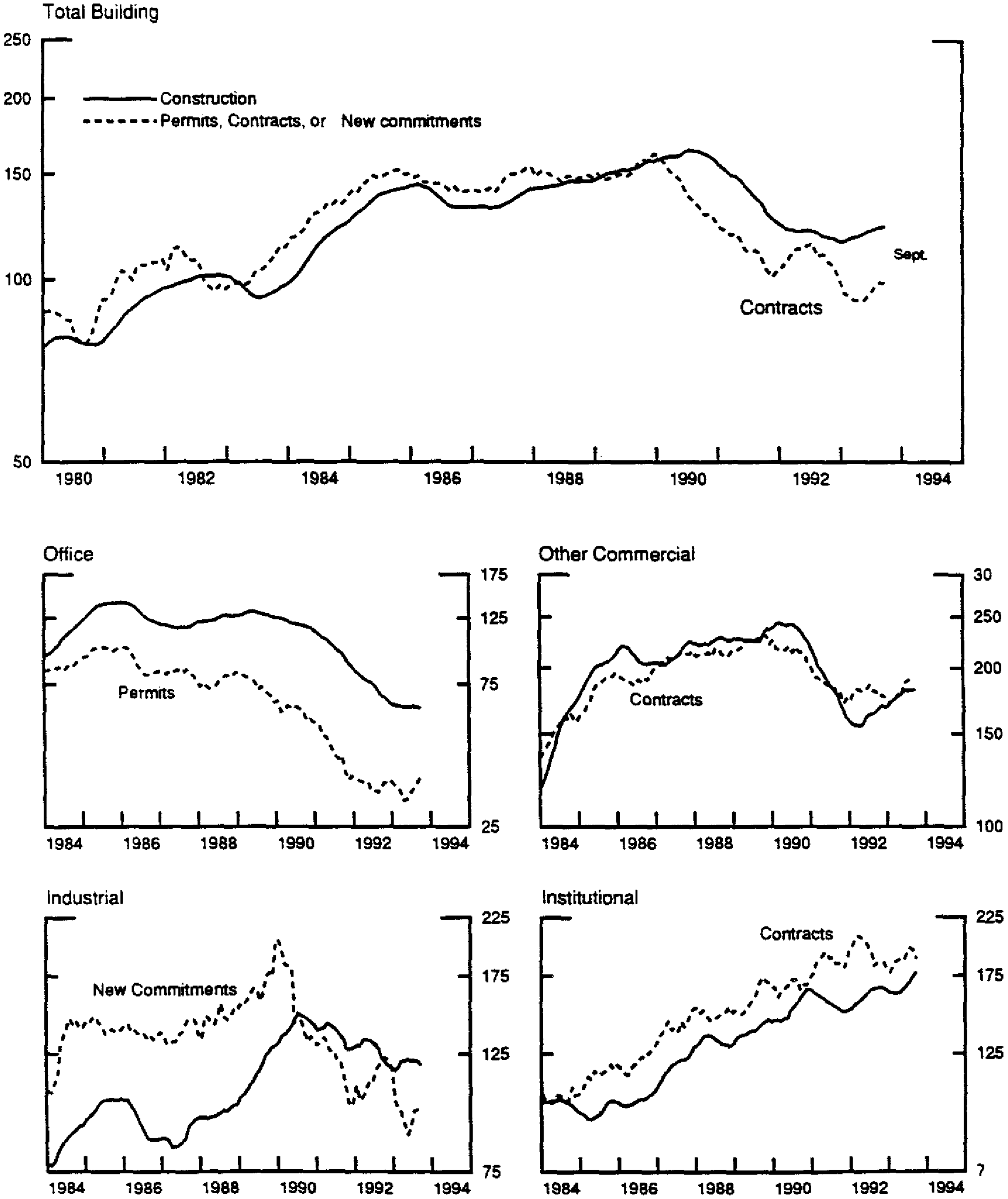


Other Equipment (excluding aircraft and computers)



NONRESIDENTIAL CONSTRUCTION AND SELECTED INDICATORS*

(Index, Dec. 1982 = 100, ratio scale)



*Six-month moving average for all series. For contracts, individual sectors include private and public buildings; for permits, private buildings only. New commitments are the sum of permits and contracts.

capacity, a factor that will likely constrain further increases in production and sales, at least in the near term.

Domestic aircraft purchases dropped about $2 billion (1987 dollars) last quarter to a level at the low end of the range seen during the past couple of years. These outlays have bounced around a lot during the past year but have not shown a clear downtrend; according to industry contacts, a sharp decline is expected during the next year or two.

Elsewhere, spending for computing equipment surged more than 50 percent at an annual rate in the third quarter. These outlays have been trending up at a 33 percent annual rate since the early part of 1991 and have accounted for close to two-thirds of the gain in total equipment outlays during this period. The computing sector has been boosted by waves of innovations in both hardware and software. Ongoing price wars among manufacturers also have boosted sales. A number of new products recently have been introduced, for example, machines based on Intel's Pentium processor, Digital Equipment's Alpha chip, and the line of Power PCs from the IBM-Apple-Motorola alliance. These machines are just starting to roll off the assembly lines, and trade sources report that manufacturers expect to ship large volumes next year.

Real outlays for other types of capital goods, for example, communications equipment and industrial equipment, have been trending up at about a 6-1/2 percent rate during the past year. Spending in the current quarter should gain support from recent increases in new orders for nondefense capital goods other than aircraft and computers; those orders rose 3 percent (not at an annual rate) in the third quarter.

After declining in 1991 and 1992, outlays for nonresidential structures appear to have turned the corner this year. Cross-

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

	1993			1993		
	Q1	Q2	Q3	July	Aug.	Sep.
Current-cost basis						
Total	39.9	20.5	n.a.	-7.4	19.4	n.a.
Excluding auto dealers	20.6	20.9	n.a.	23.9	27.3	n.a.
Manufacturing	1.2	7.1	-4.2	2.8	-2.0	-13.5
Defense aircraft	-4.4	-.2	-.6	-2.7	1.6	-.5
Nondefense aircraft	.0	-3.1	-2.9	1.4	-13.7	3.7
Excluding aircraft	5.6	10.5	-.8	4.2	10.1	-16.6
Wholesale	5.1	6.2	17.7	14.2	23.5	15.4
Retail	33.6	7.2	n.a.	-24.4	-2.0	n.a.
Automotive	19.3	-.3	n.a.	-31.3	-7.8	n.a.
Excluding auto dealers	14.3	7.5	n.a.	6.8	5.8	n.a.
Constant-dollar basis						
Total	23.0	14.0	n.a.	15.3	16.2	n.a.
Excluding auto dealers	6.4	14.4	n.a.	28.3	33.5	n.a.
Manufacturing	-.8	5.0	n.a.	8.4	4.6	n.a.
Wholesale	-.1	5.9	n.a.	12.3	22.5	n.a.
Retail	24.0	3.0	n.a.	-5.4	-10.8	n.a.
Automotive	16.6	-.5	n.a.	-13.1	-17.3	n.a.
Excluding auto dealers	7.4	3.5	n.a.	7.6	6.5	n.a.

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

	1993			1993		
	Q1	Q2	Q3	July	Aug.	Sep.
Current-cost basis						
Total	1.47	1.47	n.a.	1.47	1.46	n.a.
Excluding auto dealers	1.44	1.44	n.a.	1.45	1.44	n.a.
Manufacturing	1.48	1.49	1.48	1.52	1.49	1.46
Defense aircraft	5.07	5.25	5.29	5.06	5.52	5.31
Nondefense aircraft	5.08	4.87	5.29	6.56	4.45	5.32
Excluding aircraft	1.34	1.35	1.34	1.37	1.35	1.32
Wholesale	1.33	1.32	1.34	1.33	1.33	1.33
Retail	1.60	1.58	n.a.	1.55	1.54	n.a.
Automotive	1.99	1.90	n.a.	1.78	1.74	n.a.
Excluding auto dealers	1.49	1.49	n.a.	1.49	1.49	n.a.
Constant-dollar basis						
Total	1.56	1.56	n.a.	1.57	1.55	n.a.
Excluding auto dealers	1.53	1.54	n.a.	1.55	1.54	n.a.
Manufacturing	1.59	1.60	n.a.	1.63	1.60	n.a.
Wholesale	1.42	1.42	n.a.	1.43	1.44	n.a.
Retail	1.64	1.62	n.a.	1.59	1.58	n.a.
Automotive	1.91	1.85	n.a.	1.78	1.72	n.a.
Excluding auto dealers	1.56	1.55	n.a.	1.54	1.54	n.a.

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

currents still are present, however. In the office sector, vacancy rates have come down only slightly during the past year or two, and price declines for office space have not moderated. Nonetheless, permits for new office buildings have flattened out, albeit at a very low level, suggesting that this sector may be close to bottoming out. Industrial construction, which includes warehouse space, also has been trending down, consistent with high vacancy rates in this sector and declining property values.

NATIONAL REAL ESTATE INDEX
(Annual percent change)

	1990	1991	1992	1993
Office buildings	-3.2	-2.4	-10.2	-11.6
Retail stores	.7	-3.2	-7.8	-2.3
Warehouses	.4	-2.6	-7.2	-4.8

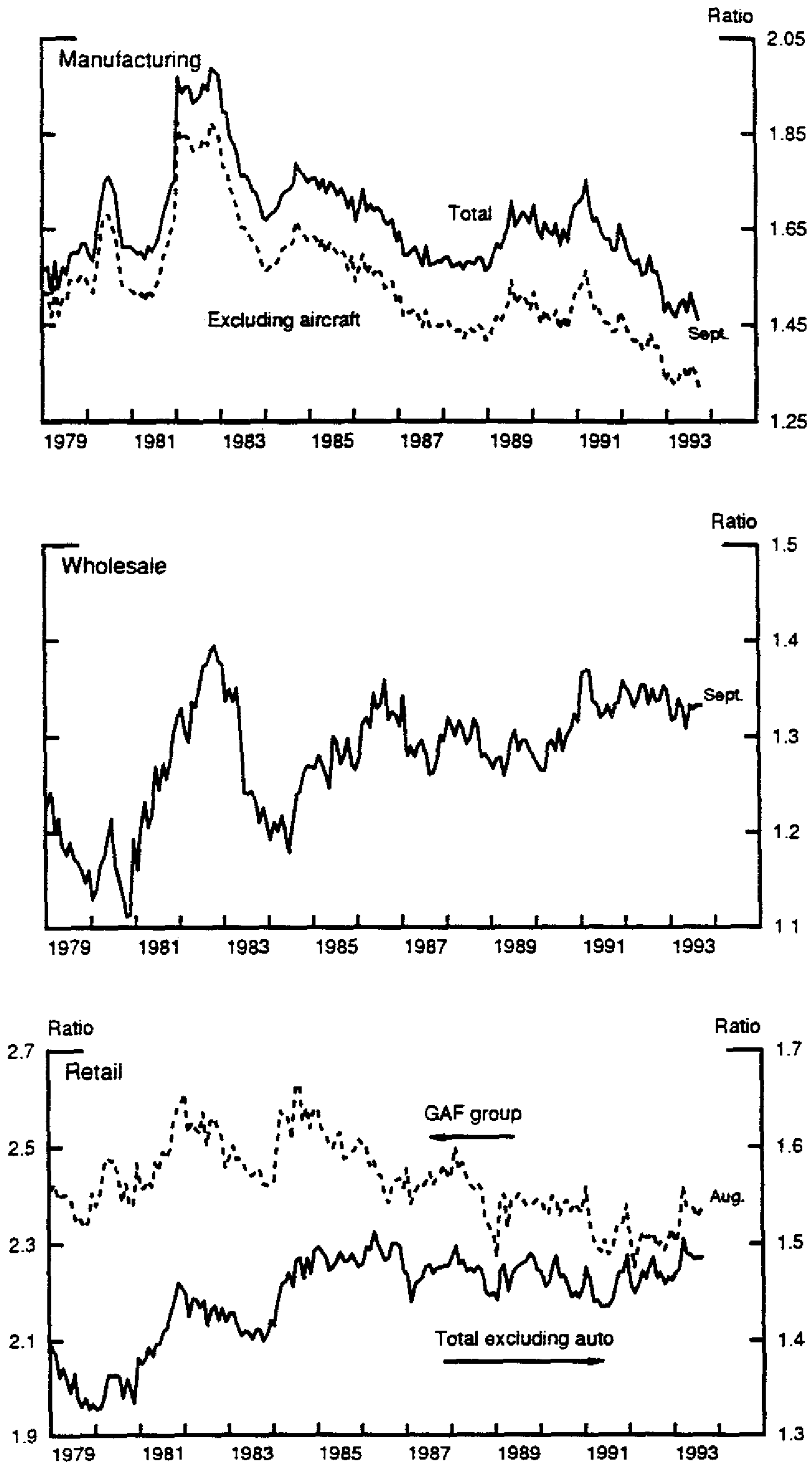
Note: Changes are from second quarter to second quarter.

Other components of the nonresidential structures sector have been trending up. Institutional construction has been driven by gains in hospitals (mainly for additions and modernization) and nursing homes, which have more than offset weakness in educational structures. "Other commercial" construction, which includes retail stores, has been rising for about a year, and recent data on contracts suggest that this trend will continue. Prices for retail stores still are declining, according to the National Real Estate Index, but at a much slower rate than previously. In addition, the utilities sector has flattened out this year after a strong increase in 1992. Outlays in the drilling and mining sector have been boosted by increased exploration for natural gas.

Business Inventories

Inventory investment was essentially a neutral element in the BEA's advance estimate of real GDP growth for the third quarter, but September data on stocks held by manufacturers and by wholesalers

RATIO OF INVENTORIES TO SALES
(Current-cost data)



came in well to the low side of assumptions that BEA had built into its estimate. A sizable downward revision to the third quarter inventory estimate thus appears likely, unless non-auto retail stocks--for which data will be released early next week--posted a large increase.

In current-cost terms, the September drop in manufacturers' inventories amounted to $13.5 billion at an annual rate and followed a string of modest changes from June to August. Many key industries that reported large stock drawdowns in September--notably, primary metals, machinery, and motor vehicles--also experienced sizable increases in shipments that month. Inventory-shipment ratios thus fell further in those sectors.

In the trade sector, wholesale inventory accumulation slowed in September, after a substantial rise in August; even so, the ratio of inventories to sales in this sector has remained flat for several months. Among durable goods, the rate of inventory accumulation picked up, led by increases in motor vehicles, electrical goods, machinery, and miscellaneous durables. However, inventories of nondurables were trimmed in September, owing primarily to a drawdown in stocks of farm products. Outside of automotive products, data on retail inventories are only available through August. As of that date, nonauto stocks had changed only slightly, on net, over several months, and the inventory-sales ratio for the sector had been virtually unchanged since early spring.

Federal Sector

Declines in federal purchases continue to be a source of restraint on the economy. Real defense purchases fell at an annual rate of 8.3 percent in the third quarter, after a slight uptick in the second quarter. Nondefense purchases, excluding CCC purchases, were flat in the latest quarter.

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

	August and FY1992	September FY1993	Fiscal years FY1992	FY1993	Dollar change	Percent change
Outlays	215.7	229.0	1380.8	1408.0	27.2	2.0
Deposit insurance (DI)	-6.1	-3.7	2.9	-27.6	-30.5	n.m.
Defense Cooperation account (DCA)	.0	.0	.0	.0	.0	n.m.
Outlays excluding DI and DCA	221.8	232.7	1377.9	1435.6	57.7	4.2
National defense	47.1	46.2	298.2	290.9	-7.3	-2.5
Net interest	32.8	32.9	199.4	198.9	-.5	-.3
Social security	48.2	51.1	287.5	304.6	17.0	5.9
Medicare and health	36.2	39.7	208.6	229.8	21.2	10.2
Income security	29.2	30.6	197.3	208.9	11.5	5.8
Other	28.1	32.2	186.8	202.6	15.8	8.5
Receipts	196.3	214.2	1090.5	1153.2	62.7	5.8
Personal income and social insurance taxes	156.7	169.5	889.7	938.0	48.3	5.4
Corporate income taxes	21.5	26.5	100.3	117.5	17.2	17.2
Other	18.1	18.2	100.5	97.7	-2.9	-2.8
Deficit(+)	19.4	14.8	290.3	254.8	-35.5	-12.2
Excluding DI and DCA	25.5	18.4	287.4	282.4	-5.0	-1.7

Details may not add to totals because of rounding.
n.m. not meaningful

The unified budget deficit for August and September, the last two months of the fiscal year, dropped to $15 billion in FY1993 from $19 billion in FY1992. Although outlays in those two months were nearly 5 percent above the level of a year earlier, the rise was more than offset by an increase in receipts.

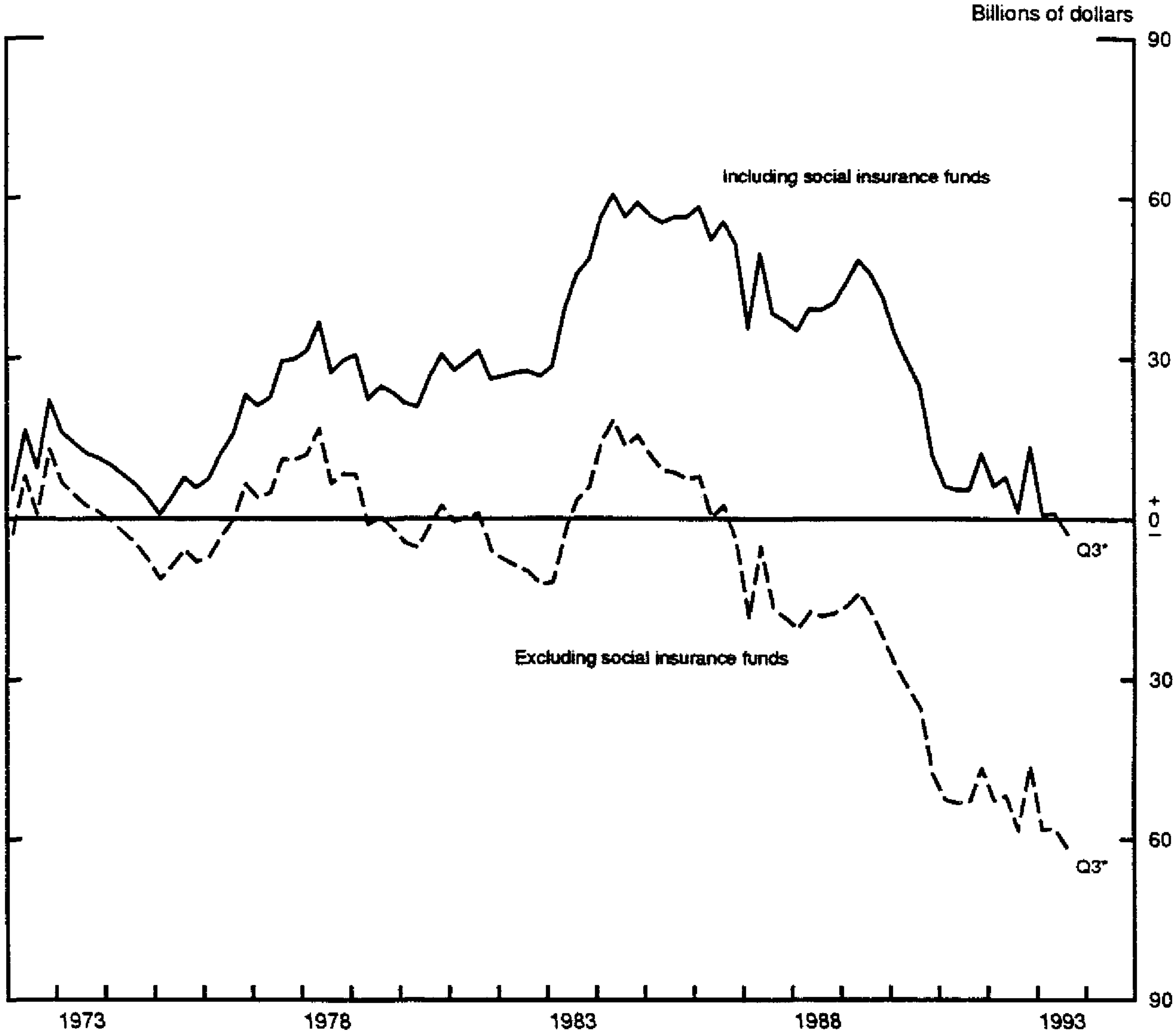
For FY1993 as a whole, the deficit was $255 billion, about $35 billion less than in FY1992. A drop in deposit insurance outlays accounted for nearly all the decrease in the deficit. The FY93 deficit was $30 billion lower than the Administration had projected in September when it released the Mid-Session Review of the Budget; about one-third of the error was due to an underestimate of receipts, and about two-thirds was due to an overestimate of outlays, particularly those for Medicare and Medicaid. The FY1993 deficit was also lower than the Congressional Budget Office's September projection of $266 billion.

Receipts in FY1993 were 6 percent higher than in FY1992, about the same as the increase in nominal GDP. Corporate tax receipts rose 17 percent in FY1993, reflecting strong growth in the corporate tax base and, more than likely, an increase in the effective corporate tax rate. (The actual effective corporate tax rate will not be known until third-quarter corporate profits are reported by BEA.) A smaller rise, of about 5 percent, was posted for personal income and social insurance taxes.

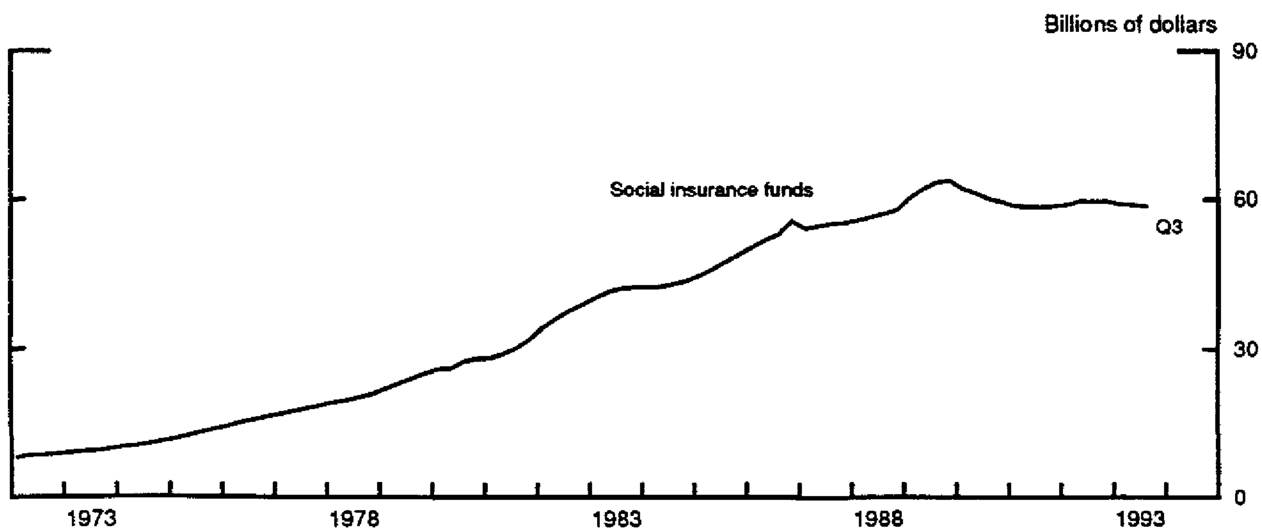
Outlays in FY1993, excluding deposit insurance, were 4.2 percent higher than in FY1992. Spending for Medicare and other health programs was up markedly again last year, growing more than 10 percent, but this rise was only about half the rate of increase posted in FY1992. Elsewhere, outlays were boosted by sharp increases in the price support portion of agricultural spending and in the financial assistance portion of educational spending. Net

STATE AND LOCAL GOVERNMENT ACCOUNTS

(Surplus/Deficit)



* 1993 Q3 is a staff forecast.



interest payments were down slightly, the first decline since 1961, and outlays for national defense fell about 4 percent in nominal terms.

Turning to recent legislation, the Administration recently submitted to Congress its proposal for health care reform and its "October package" of budget savings measures. The Administration now predicts that its health care proposals will result in $58 billion of deficit reduction from FY1995 through FY2000, down $33 billion from earlier estimates. The "October package" of savings measures consists primarily of proposals made in Vice President Gore's National Performance Review report. The package is projected to yield $15 billion in savings over five years if acted on this year. In continuing legislative activity, eleven of the thirteen regular appropriation bills for the FY1994 budget have been signed, and two are awaiting final passage. The appropriations bills are expected to comply with the OBRA caps, but a final tally will not be known until all the bills are passed. Finally, both the Senate and the House have passed bills extending eligibility for federal emergency unemployment benefits, which had expired October 2; however, the bill's future remains in doubt because a means-testing amendment in the Senate bill has been strongly opposed in the House.

State and Local Government Sector

BEA's advance estimate of third-quarter GDP showed real purchases of goods and services by state and local governments increasing at a 2.1 percent annual rate, well below the pace of last spring but about in line with the average rate of growth over the past year. Small increases were apparent in several categories. Real spending on construction was little changed in the third quarter, but data for September, which became available since the

NIPA release, suggest that the figure will be revised up by around $3 billion. In October, employment of state and local workers fell 10,000, following a large advance in September; these movements appear to reflect seasonal adjustment problems related to educational workers.

On the receipts side, state and local revenues from income taxes and federal aid rose only a little in the quarter. As a result, according to staff estimates, the deficit of operating and capital accounts, excluding social insurance funds, widened a bit further, to more than $60 billion at an annual rate.

The combined account of the state and local sector--i.e., including social insurance funds--has been hovering around the zero mark in recent quarters. By comparison, this measure of fiscal balance had been in surplus by an average of around $45 billion per year during the expansion of the 1980s. The deterioration reflects not only a worsening in the operating and capital accounts since the mid-1980s but also a leveling out in recent years of the surplus flowing into the state and local social insurance funds.[11] The flattening out of these surpluses has resulted primarily from a slowing in interest and dividend earnings, especially in 1990 and 1991, and from continued steady growth in benefit payouts. At the same time, growth in the governments' contributions to these funds has slowed owing partly to concern about retaining funds for operating accounts.

11. Retirement systems constitute approximately 90 percent of all the social funds, which in some states also include workers' compensation and temporary disability insurance. As of the middle of 1993, public employee retirement systems alone controlled nearly $1 trillion in assets, roughly one-third of all pension assets. Inflows to the social insurance systems accrue from contributions by employers and employees as well as from interest earnings and dividends. Offsetting the revenues are transfer payments to retirees and other annuitants.

Prices

The recent price reports hint at a continued trend of gradual disinflation, with favorable monthly readings on core inflation persisting into early autumn. The overall CPI was unchanged in September but jumped 0.4 percent in October, when the new gas tax was implemented. Over the past twelve months, consumer prices have increased 2.7 percent--down from 3.2 percent during the year-earlier period.

Food prices at the retail level increased little in September but food jumped sharply in October. The CPI for fresh fruit rose considerably in October for the fourth month in a row, and price increases picked up in a number of other categories as well. Despite the October jump, the twelve-month change in the CPI for food has remained on the low side of the trend in core inflation, in part because of a very favorable trend in labor costs in the food sector: The twelve-month change in the ECI for hourly compensation at retail food stores has decelerated a full percentage point over the past year, and in the third quarter, that ECI measure actually edged down a bit. Nonetheless, with further deterioration of farm crop conditions reported by the USDA in both October and November--and corn prices on the rise once again--the risk of acceleration in the trend of food price inflation still appears to be present.

Energy prices rose nearly 2 percent in October, mainly reflecting the influence of the 4.3 cents per gallon gasoline tax that took effect on the first of the month. Private survey data indicate weakness in gasoline prices in early November despite environmental regulations that require the use of oxygenated fuel (to reduce carbon monoxide emissions) in some areas after November 1.

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

	Relative importance, Dec. 1992	1991	1992	1993 Q1	1993 Q2	1993 Q3	1993 Sep.	1993 Oct.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	3.1	2.9	4.0	2.2	1.4	.0	.4
Food	15.8	1.9	1.5	2.6	1.4	1.7	.1	.6
Energy	7.3	-7.4	2.0	3.1	-3.8	-3.4	-.4	1.9
All items less food and energy	76.9	4.4	3.3	4.3	2.9	1.9	.1	.3
Commodities	24.7	4.0	2.5	4.6	.6	-.3	-.4	.3
Services	52.2	4.6	3.7	4.4	4.1	2.7	.2	.3
Memo:								
CPI-W[3]	100.0	2.8	2.9	4.1	2.0	.8	.0	.5

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. 1992	1991	1992	1993 Q1	1993 Q2	1993 Q3	1993 Sep.	1993 Oct.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	-.1	1.6	4.3	.0	-1.9	.2	-.2
Consumer foods	22.4	-1.5	1.6	-1.6	1.6	4.2	.7	-.5
Consumer energy	13.9	-9.6	-.3	16.6	-3.0	-7.4	.0	1.3
Other finished goods	63.7	3.1	2.0	3.6	.3	-2.9	.0	-.5
Consumer goods	40.6	3.4	2.1	3.2	.6	-5.9	.0	-.5
Capital equipment	23.1	2.5	1.7	4.4	.3	2.2	.0	-.4
Intermediate materials[2]	95.4	-2.7	1.1	5.7	.3	-.3	.1	-.1
Excluding food and energy	81.8	-.8	1.2	4.7	.0	.6	.0	.0
Crude food materials	41.2	-5.8	3.0	1.9	-1.9	12.6	.1	-1.5
Crude energy	39.5	-16.6	2.3	-10.1	17.5	-26.5	-1.2	4.9
Other crude materials	19.3	-7.6	5.7	24.3	11.5	-8.5	.0	.9

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

Excluding food and energy, the CPI moved up 0.3 percent in October, after a 0.1 percent increase in September. For the twelve months ending in October, the CPI excluding food and energy rose 3.0 percent--a half percentage point below its year-earlier pace. Apart from a brief period in mid-1983, the last time the twelve-month change in the CPI excluding food and energy was as low as 3 percent was the first half of 1973.[12] In the PPI, the twelve-month rate of change in the index for finished goods other than food and energy was 0.1 percent in October, the lowest reading in the history of the series (which goes back to 1973).

Among nonfood, non-energy goods, consumer prices have increased only 1.6 percent in the past year, down from 2.7 percent for the previous twelve-month period. Tobacco prices have declined dramatically over the past year, owing to pass-through of the 25 percent price cut implemented by the major cigarette makers in August. In addition, apparel prices have increased only 0.6 percent over the past year; stable import prices have no doubt been an important factor, as much apparel is purchased from abroad. The CPI for new motor vehicles rose 0.2 percent in October, to a level 3.3 percent above that of a year earlier. New model year cars and trucks began to be incorporated into the CPI in October, and phase-in of the prices of those new models will continue for several months.

Unlike goods prices, service prices have shown only slight deceleration over the past year. Airline fares have increased about 15 percent in the past year, with the surviving carriers boosting ticket prices to stem their losses. Rent of shelter has increased at about the same rate in the past twelve months as in the previous

12. The official CPI excluding food and energy was held down in 1983 by sharp declines in mortgage interest rates and no doubt understates the underlying rate of retail price inflation in that year.

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Oct 1991	Oct 1992	Oct 1993
CPI	4.4	3.5	3.0
Goods	4.1	2.7	1.6
Alcoholic beverages	10.3	2.6	1.3
New vehicles	3.9	2.6	3.3
Apparel	3.4	1.5	0.6
House furnishings	0.3	1.2	0.9
Housekeeping supplies	2.5	0.7	1.5
Medical commodities	8.1	5.3	3.6
Entertainment	3.8	1.2	2.1
Services	4.6	3.9	3.7
Owners' equivalent rent	3.3	3.2	3.1
Tenants' rent	2.9	2.4	2.3
Other renters' costs	10.2	6.8	2.4
Airline fares	-3.9	6.8	14.7
Medical care	8.1	7.4	6.2
Entertainment	5.3	3.0	3.1
Auto financing	-4.2	-14.2	-7.5
Tuition	9.8	8.2	7.3
PPI finished goods	3.3	2.1	0.1
Consumer goods	3.7	2.3	-0.7
Capital goods, excluding computers	3.4	2.7	2.2
Computers	n.a.	-16.0	-12.6
PPI intermediate materials	-0.8	1.1	1.4
PPI crude materials	-9.4	2.7	8.9
Factors affecting price inflation			
ECI hourly compensation[1]	4.5	3.4	3.7
Goods-producing	4.5	3.9	4.0
Service-producing	4.5	3.1	3.6
Civilian unemployment rate[2]	6.9	7.4	6.8
Capacity utilization[2,3] (manufacturing)	78.6	78.4	80.8
Inflation expectations[4]			
Mean of responses	4.7	3.6	4.0
Median, bias-adjusted[5]	4.2	3.8	4.3
Non-oil import price[6]	0.4	2.8	0.3
Consumer goods, excluding autos, food, and beverages	0.6	4.0	0.5
Autos	4.3	2.3	1.7

1. Private industry workers, periods ended in September.
2. End-of-period value.
3. September values.
4. Michigan Survey one-year-ahead expectations.
5. Median adjusted for average downward bias of 0.9 percentage points, relative to actual inflation, since 1978.
6. BLS import price index (not seasonally adjusted), periods ended in September.
n.a. Not available.

year. The twelve-month change in prices of medical care services has decelerated by a full percentage point in the past year, although it still is running double the core rate of inflation. One "service" that has fallen in price is auto financing, as interest rates have come down further in the past year.

Recent reports on consumers' expectations of inflation have been mixed. The Michigan survey for October showed average expectations of inflation for the next twelve months declining to 4.0 percent, from the 4.8 percent reading of September. However, the latest reading from the Conference Board survey showed average expectations moving up from 4.4 to 4.9 percent. Neither survey provides a reason to think that expectations of inflation have been much affected by the recent stretch of favorable news on actual price developments.

A slowing of inflation in producer prices still is evident in the recent data. The PPI for finished goods rose 0.2 percent in September, but then fell by the same amount in October; its level in October was only fractionally above that of a year earlier. Excluding food and energy, the PPI was pulled down in October by sharp declines in the (seasonally adjusted and quality-adjusted) prices of cars and trucks. The index for passenger cars was up 1.9 percent from a year earlier; excluding the quality adjustments, the rise in car prices was about twice that large. The October PPI for light trucks was about 4-3/4 percent higher than a year-ago; over the summer, the twelve-month change in truck prices had been running in the 6 percent to 7 percent range.[13] The prices of intermediate materials excluding food and energy were unchanged again in October. They have been essentially flat over the past six months, after a moderate run-up in the first few months of the year.

13. In contrast to its treatment for cars, BLS does not publish its calculation of quality changes for light trucks.

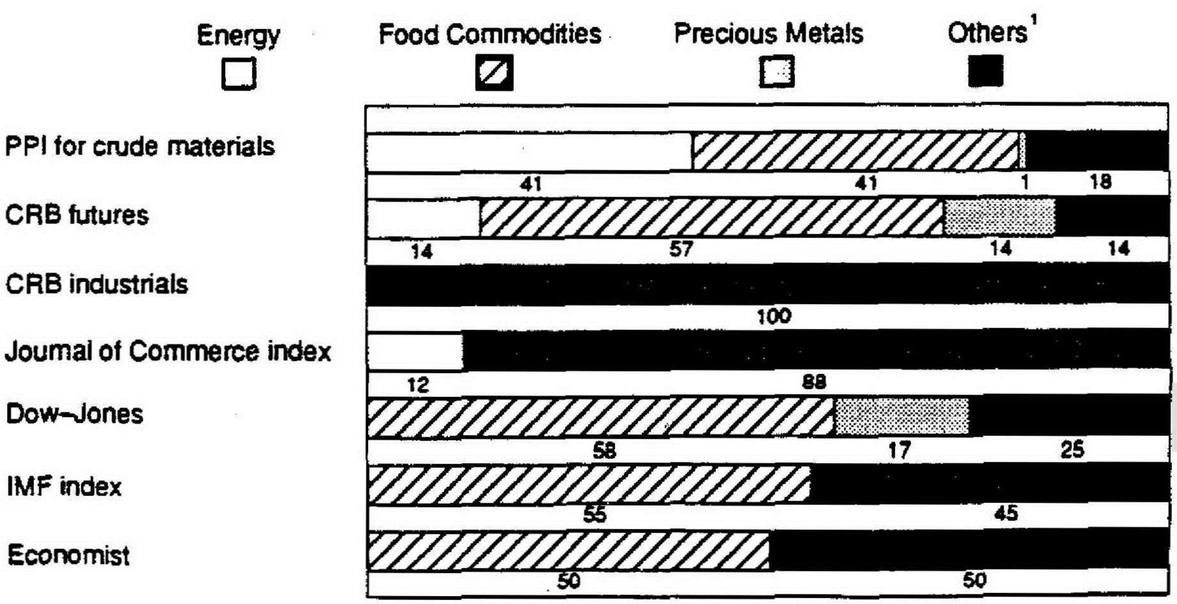
PRICE INDEXES FOR COMMODITIES AND MATERIALS[1]

	Last observation	Percent change[2]: 1991	1992	Dec 92 to Sep 14[3]	Sep 14[3] to date	Memo: Year earlier to date
1. PPI for crude materials	Oct	-11.6	3.3	0.1	1.2	0.3
1a. Foods and feeds	Oct	-5.8	3.0	2.8	-1.8	1.8
1b. Energy	Oct	-16.6	2.3	-6.1	4.9	-5.2
1c. Excluding food and energy	Oct	-7.6	5.7	7.1	0.5	8.9
1d. Excluding food and energy, seasonally adjusted	Oct	-7.7	6.0	6.1	0.9	8.9
2. Commodity Research Bureau						
2a. Futures prices	Nov 09	-6.5	-2.9	5.1	2.5	9.1
2b. Industrial spot prices	Nov 09	-11.3	-0.7	-4.6	1.5	-3.3
3. Journal of Commerce industrials	Nov 09	-7.2	5.0	-3.3	-0.8	-2.1
3a. Metals	Nov 09	-7.1	1.9	-6.3	0.8	-3.5
4. Dow-Jones Spot	Nov 09	-12.1	10.4	0.4	-1.1	5.5
5. IMF commodity index[4]	Sep	0.7	-2.6	-3.6	n.a.	-5.3
5a. Metals	Sep	-8.9	-3.1	-14.9	n.a.	-22.5
5b. Nonfood agricultural	Sep	1.3	2.4	-2.3	n.a.	-3.3
6. Economist (U.S. dollar index)	Oct 19	-9.1	1.6	-0.4	-1.4	1.7
6a. Industrials	Oct 19	-14.9	4.5	-6.8	-2.0	-5.5

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

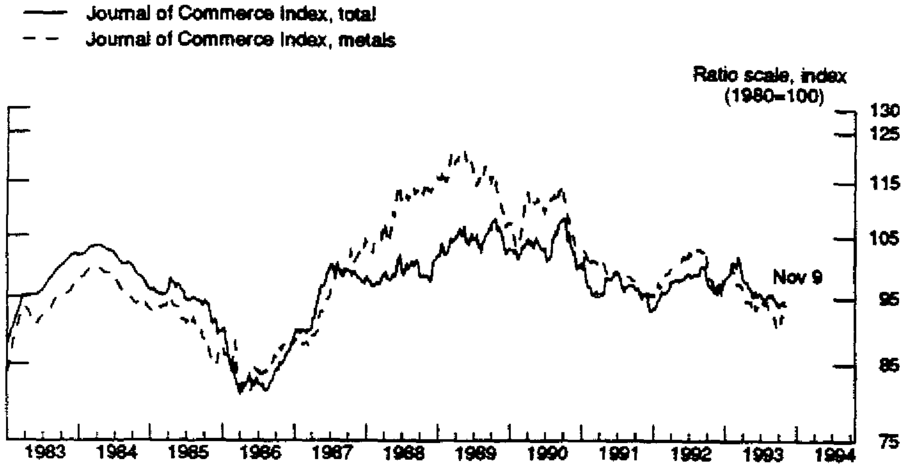
n.a. Not available

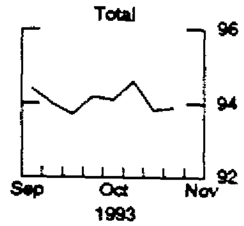
Index Weights

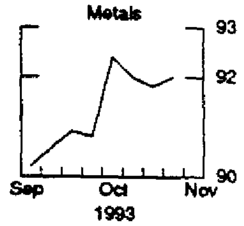


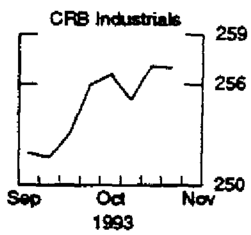
1. Forest products, industrial metals, and other industrial materials.

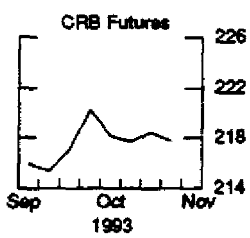
COMMODITY PRICE MEASURES *











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

Dotted lines indicate week of last Greenbook.

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

	1992		1993		
	Sep.	Dec.	Mar.	June	Sep.
	-----Quarterly percent change------- (compound annual rate)				
Total hourly compensation:[1]	3.2	3.5	4.2	3.5	3.4
Wages and salaries	2.5	2.9	3.2	2.5	3.5
Benefit costs	5.5	5.0	7.0	5.9	3.2
By industry:					
Construction	5.1	2.5	3.9	3.9	2.8
Manufacturing	3.5	4.2	5.2	4.1	3.4
Transportation and public utilities	3.6	3.6	3.2	4.3	2.8
Wholesale trade	1.1	5.0	1.4	2.5	3.5
Retail trade	3.3	3.2	4.3	1.8	2.5
FIRE	1.1	0.7	4.8	1.8	9.5
Services	3.8	4.5	3.4	3.7	3.7
By occupation:					
White-collar	3.2	2.8	5.3	3.1	3.8
Blue-collar	3.6	3.2	4.6	3.8	3.8
Service occupations	3.5	2.1	4.6	3.1	2.4
Memo:					
State and local governments	3.1	3.8	2.7	3.4	2.0
	-----Twelve-month percent change----				
Total hourly compensation:	3.4	3.5	3.5	3.6	3.7
Excluding sales workers	3.6	3.5	3.7	3.9	3.8
Wages and salaries	2.7	2.6	2.7	2.7	3.1
Benefit costs	5.2	5.2	5.6	5.8	5.4
By industry:					
Construction	3.5	3.5	3.9	3.8	3.3
Manufacturing	4.0	3.8	4.0	4.4	4.2
Transportation and public utilities	3.6	3.5	3.3	3.7	3.5
Wholesale trade	2.3	3.0	2.5	2.6	3.0
Retail trade	2.5	2.6	3.3	3.1	2.9
FIRE	1.3	1.2	0.8	2.1	4.1
Services	4.2	4.3	4.2	3.9	3.8
By occupation:					
White-collar	3.3	3.3	3.5	3.6	3.7
Blue-collar	3.7	3.6	3.6	3.8	3.8
Service occupations	3.5	3.1	3.3	3.3	3.0
Memo:					
State and local governments	3.5	3.7	3.6	3.4	3.0

1. Seasonally adjusted by the BLS.

Scattered upward pressures have emerged in the commodity markets in recent weeks, with the prices of steel scrap and lumber up particularly sharply. The jump in steel prices seems to reflect the recent pickup in orders for steel mill products, much of which may be coming from the motor vehicle sector, while the rise in lumber prices probably is related in large part to the recent strength in homebuilding. In other industrial markets, commodity price changes have been mixed in recent weeks--zinc and tin prices have firmed a bit since September, while copper and aluminum prices have fallen further, on net. Continued pressure from Russian exports still appears to be an important influence on aluminum prices. Precious metals prices have rebounded since the end of September, reversing a portion of their third-quarter declines. Farm commodity prices weakened into mid-October but have strengthened appreciably since then. Of the various commodity indexes, the CRB futures index, which gives heavy weight to agricultural products, has been showing the most strength since mid-September. The metals portion of the Journal of Commerce index has also moved up since the last Greenbook, but the broader index of commodity prices has declined somewhat.

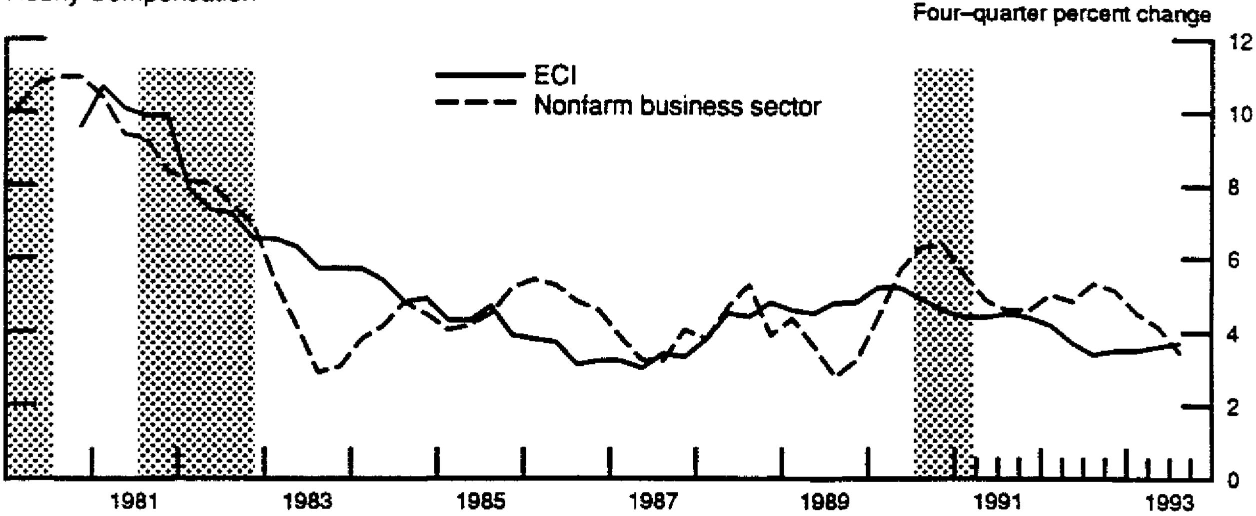
Labor Productivity and Costs

Recent data indicate that the trend in labor compensation increases has remained essentially flat. As measured by the employment cost index (ECI), hourly compensation increased 3.4 percent at an annual rate over the June to September period, about the same as the rise over the previous three months. Over the twelve months ended in September, ECI hourly compensation increased 3.7 percent--slightly more than the rise during the previous year.

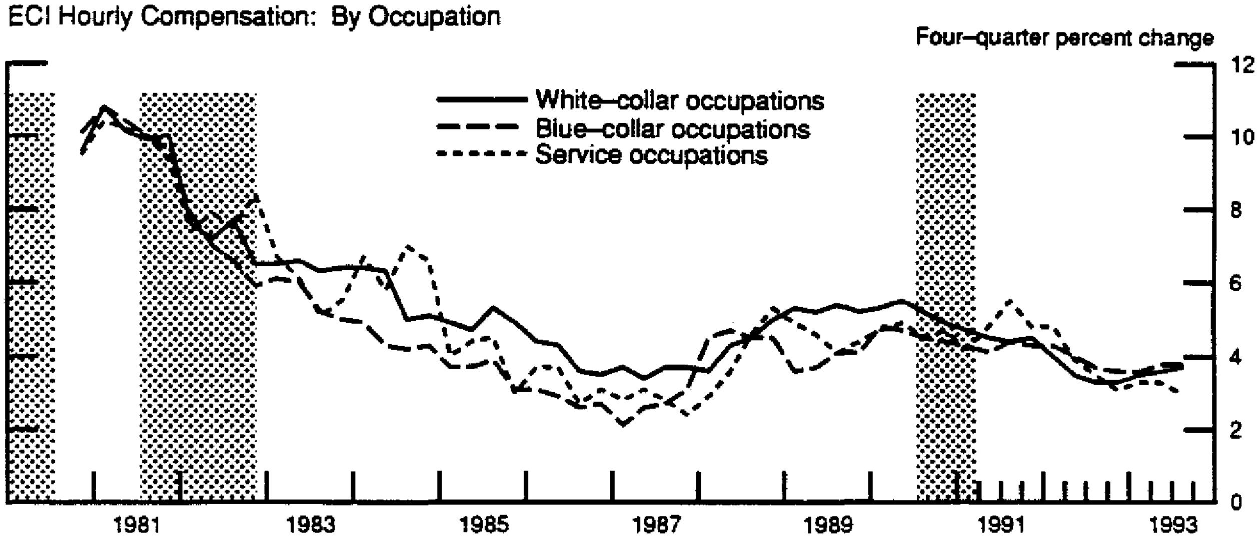
Breakdowns of the ECI data by industry and occupation generally show only small changes in compensation trends in recent quarters.

MEASURES OF HOURLY COMPENSATION AND WAGE RATES

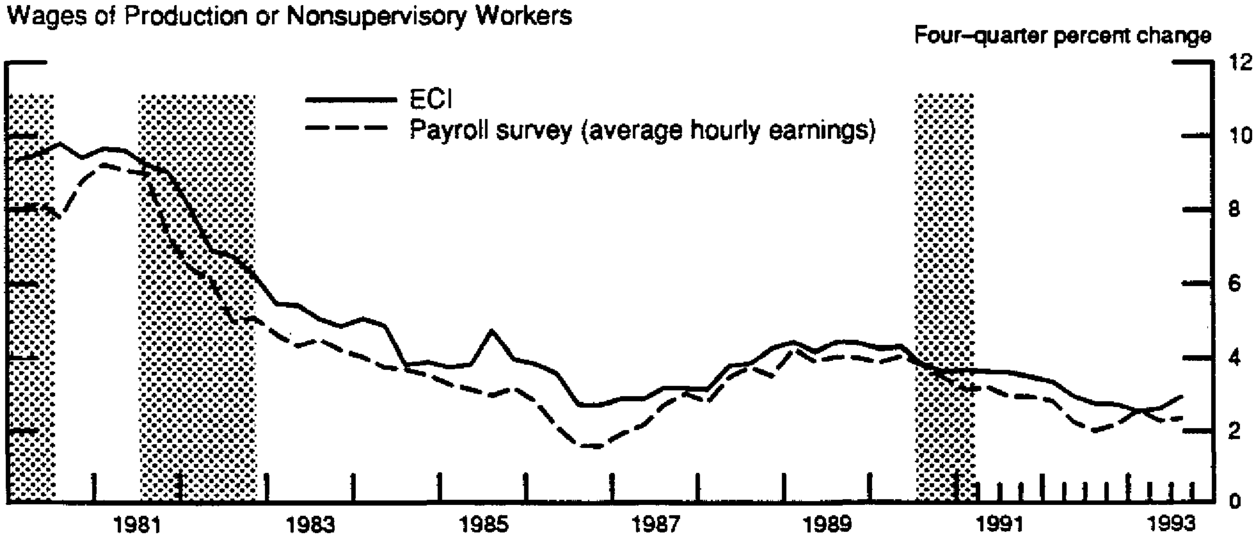
Hourly Compensation



ECI Hourly Compensation: By Occupation



Wages of Production or Nonsupervisory Workers



Among the exceptions, the ECI for workers in finance, insurance, and real estate jumped in the third quarter, owing largely to a pickup of compensation gains in the real estate business. By contrast, steady deceleration continued to be evident in health services, a sector in which the twelve-month rate of compensation change has fallen by about a percentage point over the past year.

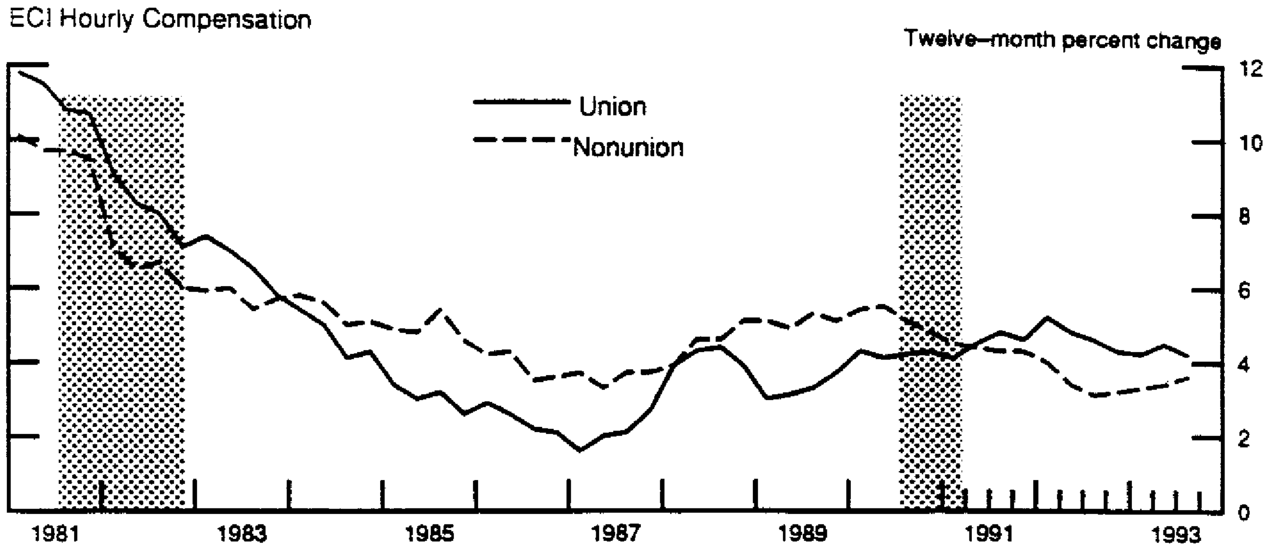
According to the breakdown of ECI data by workers' bargaining status, compensation has continued to rise more rapidly in the union sector than in the nonunion sector this past year.[14] However, the difference between the two rates of increase is narrowing, with the compensation of nonunion workers picking up slightly and the gains of unionized workers continuing to slow. Wages and salaries in the union sector rose less than 3 percent over the past year.

Further evidence of an easing of wage pressures in the union sector was contained in the most recent quarterly report on major collective bargaining agreements. In the major contracts ratified in the third quarter, wage adjustments (excluding lump-sum payments and COLAs) in the first-year and annually over the life of the contract averaged only 1 percent and 1.6 percent respectively.[15] When these same parties negotiated two or three years ago, their wage adjustments averaged 3.6 percent in the first year and 2.9 percent annually over the life of the contract. The effective wage change for all workers covered by major settlements increased 2.6 percent over the latest year, down from 3.2 percent in the

14. Workers at a given establishment are classified as unionized in the ECI if a majority of the workers in their occupation at that establishment are covered by binding collective bargaining agreements.

15. These data cover collective bargaining units with 1,000 or more workers in private industry. The 430,000 workers who ratified contracts in the third quarter represent about 29 percent of the 1.5 million workers under covered settlements reached during the twelve months ended in September.

COMPENSATION IN THE UNION SECTOR



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

		1993			
	1992	Q1	Q2	Q3	Q3 parties under prior settlements
Wage rate changes (all industries)[2]					
First-year changes	2.7	2.6	2.6	1.0	3.6
Average over life of contract	3.0	2.9	2.5	1.6	2.9
Workers affected (in thousands)	1608	207	459	430	--

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

EFFECTIVE WAGE CHANGE IN MAJOR UNION CONTRACTS AND COMPONENTS OF CHANGE

		Contribution of:		
	Total effective wage change	Prior settlements	New settlements	COLAS
1988	2.6	1.3	.7	.6
1989	3.2	1.3	1.2	.7
1990	3.5	1.5	1.3	.7
1991	3.6	1.9	1.1	.5
1992	3.1	1.9	.8	.4
1992:Q3[1]	3.2	1.9	.9	.4
1993:Q3[1]	2.6	1.8	.5	.3

1. Changes over the four quarters ended this period.

previous year; this result, which takes account of COLA adjustments as well as current and previous wage settlements, is similar to the slowing of union wages reported in the ECI.

The agreement between the United Auto Workers (UAW) union and Ford was included in the third-quarter data on major settlements and covered about 100,000 workers, or about one-quarter of workers who ratified major agreements last quarter. Since then, an agreement between the UAW and Chrysler has been ratified and a tentative settlement has been reached with GM. The Chrysler and GM contracts followed the pattern set by the UAW-Ford contract: Wages increase 3 percent in the first year followed by lump-sum payments of 2-1/2 or 3 percent in the second and third years--Ford and Chrysler workers get a $600 Christmas bonus each year of the contract. The new agreements maintain the COLA that essentially passes about 80 percent of increases in the CPI-W into wages. In addition, the automakers will continue to pay the full cost of union members' health insurance. The contracts also retain provisions related to income protection, which provide workers laid off due to a plant closing 95 percent of their regular earnings for up to two years. The average monthly pension benefit will be increased about 13 percent over the life of the contract.[16]

16. In other provisions of the new agreements, auto makers will be able to hire new workers at 75 percent of the standard wage rather than the current 85 percent rate. In addition, new workers will more slowly move to parity with more senior employees. This clause benefits Ford, which is poised to expand employment over the term of the new contract. However, it is of little benefit to GM, which is seeking to cut its work force about 65,000 within the next few years and reportedly has a $2,000 per car cost disadvantage with Ford. GM had sought changes in the pattern agreement that would have allowed it to achieve substantial reductions in its labor costs; although the company was unsuccessful in obtaining major changes, it did achieve some minor ones. Namely, laid-off workers will now have to transfer to a job within 75 miles (rather than 50 miles) or accept lower supplemental unemployment benefits. Also, union members will have to use one week of their vacation time during the company's annual two week shutdown for model changeovers. On the downside for GM are the pension enhancements in the new settlement--these are expected to boost GM's unfunded pension liability significantly.

LABOR PRODUCTIVITY AND COSTS
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

	1991[1]	1992[1]	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1992:Q3 to 1993:Q3
Output per hour							
Total business	2.1	3.8	3.8	-1.6	.0	3.3	1.3
Nonfarm business	2.2	3.6	4.2	-1.8	-.4	3.9	1.4
Manufacturing	2.5	4.9	7.0	5.0	5.9	2.4	5.0
Nonfinancial corporations[2]	3.0	4.4	4.5	-4.0	3.9	NA	NA
Compensation per hour							
Total business	4.6	5.1	4.6	3.3	2.5	3.7	3.5
Nonfarm business	4.7	5.2	4.6	2.9	1.9	3.5	3.2
Manufacturing	5.3	4.0	5.8	-2.3	4.9	3.6	2.9
Nonfinancial corporations[2]	4.5	4.5	4.0	2.2	2.4	NA	NA
Unit labor costs							
Total business	2.5	1.3	.7	5.0	2.5	.4	2.1
Nonfarm business	2.5	1.5	.4	4.8	2.3	-.4	1.8
Manufacturing	2.8	-.8	-1.1	-7.0	-1.0	1.2	-2.0
Nonfinancial corporations[2]	1.5	.1	-.5	6.4	-1.5	NA	NA

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, finance and insurance companies; the sector accounts for about two-thirds of business employment.

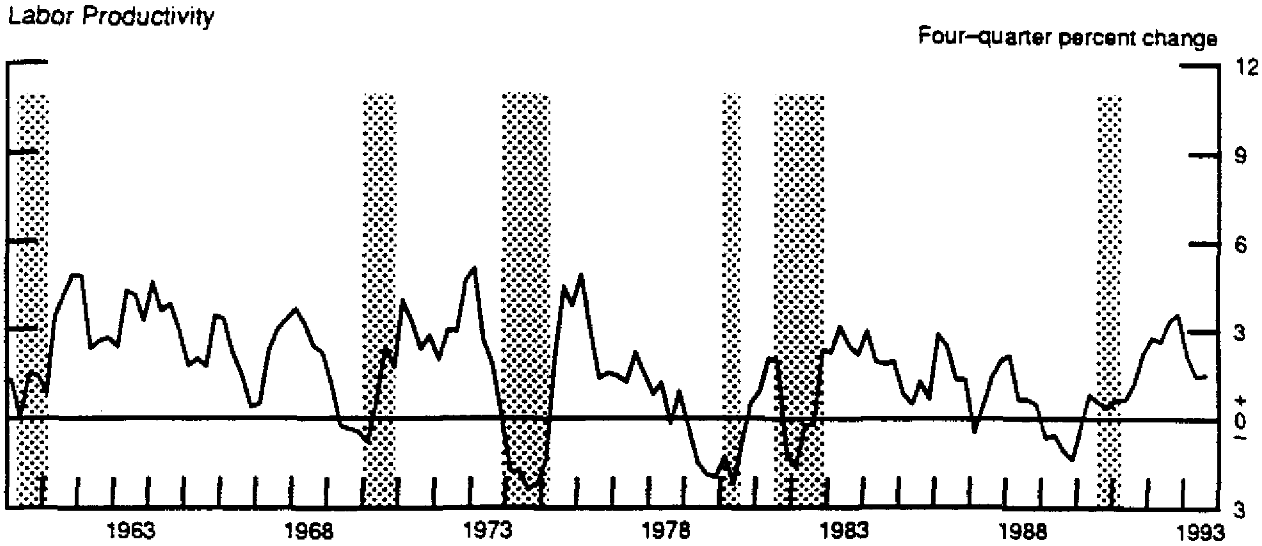
Labor productivity in the nonfarm business sector jumped nearly 4 percent at an annual rate in the third quarter, reflecting a 4.1 percent increase in output and a 0.2 percent increase in hours. Output per hour had fallen in both the first and second quarters of this year, after surging in the second half of last year. Over the four quarters ended in 1993:Q3, labor productivity rose almost 1-1/2 percent.

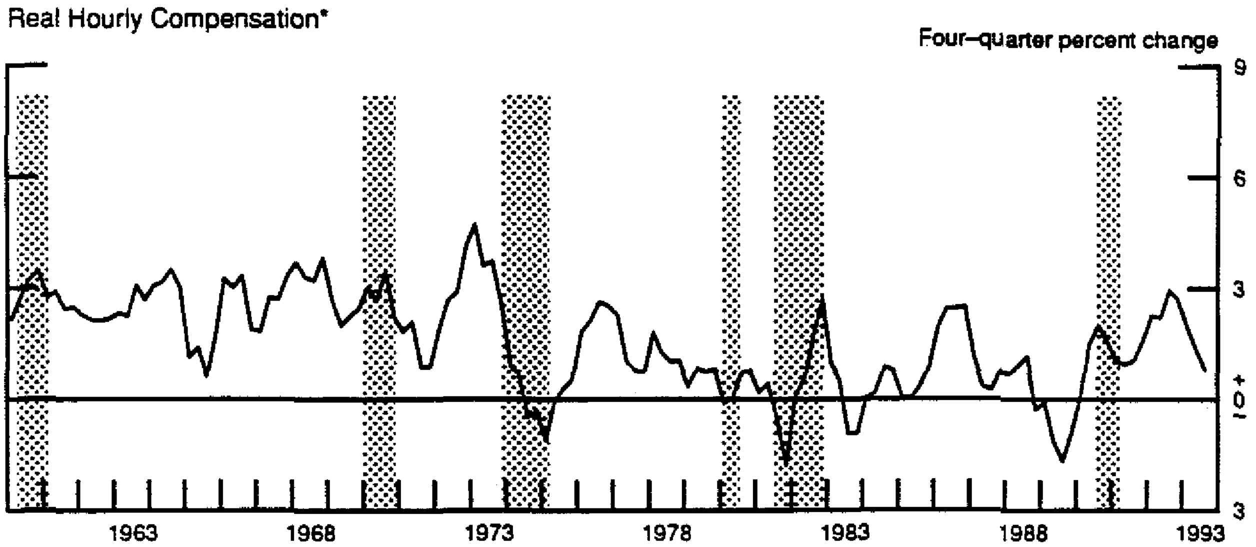
Nonfarm hourly compensation rose 3.5 percent in the third quarter, and the four-quarter change was 3.2 percent. In contrast with ECI hourly compensation, nonfarm compensation has decelerated more than 2 percentage points over the past year. The two measures of compensation growth diverged considerably in 1992 when the ECI increased 3.5 percent and nonfarm compensation rose 5.2 percent. However, more recently, nonfarm compensation has moved more closely in line with the ECI. Of course, the two series have diverged considerably before--and the recent discrepancy is not outside the range of historical experience.

With the past year's rise in hourly compensation partly offset by the growth of labor productivity, unit labor costs in the nonfarm business sector increased only 1.8 percent over the four quarters ended in 1993:Q3, the same as the rise during the previous year. Pressures on prices thus have been damped.

The benefits of rising productivity also are mirrored in the recent trends in _real_ hourly compensation--measured by the difference between the rise in nominal hourly compensation and the rise in the price of business output (chart). Real hourly compensation increased at an annual rate of 1.6 percent from 1990 to 1993, virtually the same as the rise in nonfarm labor productivity over that same period and well above the average rate of rise for the 1980s.

LABOR PRODUCTIVITY AND REAL COMPENSATON GROWTH





* Growth in nonfarm business hourly compensation less growth in nonfarm business sector deflator.

REAL COMPENSATION GROWTH
(Average annual growth rates)

	Nonfarm hourly compensation	Productivity	Prices[1]	Real compensation[2]
1960-69	5.2	2.4	2.6	2.6
1970-79	8.4	1.3	7.0	1.4
1980-89	5.4	0.9	4.8	0.6
1990-93[3]	4.7	1.7	3.1	1.6

1. Nonfarm business sector less housing deflator.
2. Growth in hourly compensation less growth in the nonfarm business sector less housing deflator.
3. Values for 1993 are growth over the first three quarters of the year at annual rates.

Data from the survey of establishments indicate that average hourly earnings of production or nonsupervisory workers rose 0.5 percent in October. Over the twelve months ended in October, hourly earnings were up about 2-1/2 percent--unchanged relative to the same period of a year ago and only a bit below the 2.9 percent increase in ECI wages of production workers over the September-to-September period.

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

	1991	1992	1993 Q1	1993 Q2	1993 Q3	1993 Sept.	1993 Oct.
			-Annual rate-			Monthly rate	
Total private nonfarm	2.9	2.2	3.8	1.1	2.2	.1	.5
FIRE	4.3	3.5	4.4	5.5	4.3	-.9	.9
Trade	3.0	2.1	4.9	.5	1.4	-.2	.8
Manufacturing	3.0	2.3	2.8	2.1	4.2	.6	.0

1. Changes over periods longer than one month are measured from final month of preceding period to final month of period indicated.

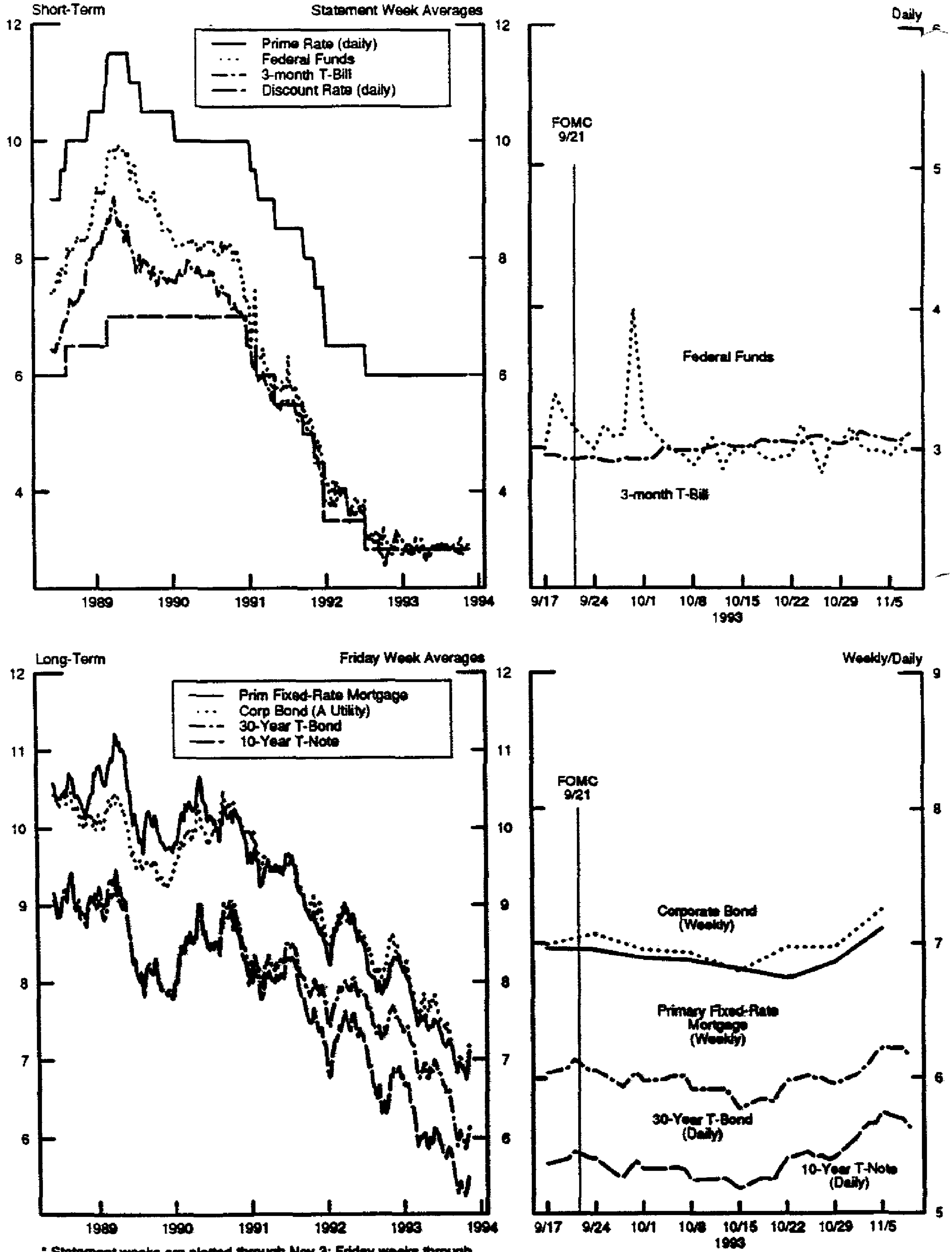
SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent except as noted)

Instrument	1992	1993			Change to Nov 9, 1993	
	Sept. 4	FOMC, Sep 21	Mid-Oct lows	Nov 9	From FOMC, Sep 21	Mid-Oct lows
SHORT-TERM RATES						
Federal funds[2]	3.19	3 01	3.07	3 01	00	-.06
Treasury bills[3]						
3-month	2.92	2.92	3.01	3.11	.19	10
6-month	2 96	3.05	3.09	3.26	21	17
1-year	3 06	3 25	3 23	3.38	13	15
Commercial paper						
1-month	3.22	3.15	3.13	3.14	- 01	.01
3-month	3.22	3 16	3.23	3.39	23	16
Large negotiable CDs[3]						
1-month	3.06	3.11	3.08	3.09	- 02	.01
3-month	3 06	3.12	3.22	3.33	21	11
6-month	3.11	3.25	3.23	3.36	11	.13
Eurodollar deposits[4]						
1-month	3.31	3.06	3.06	3.06	00	00
3-month	3.31	3.06	3.25	3.38	.32	.13
Bank prime rate	6.00	6.00	6.00	6.00	.00	.00
INTERMEDIATE- AND LONG-TERM RATES						
U S. Treasury (constant maturity)						
3-year	4.38	4.21	4.06	4.47	26	41
10-year	6.40	5.47	5.19	5.64	.17	45
30-year	7.29	6.14	5.78	6.16	02	38
Municipal revenue[5] (Bond Buyer)	6.31	5.49	5 41	5.72	23	.31
Corporate--A utility, recently offered	8.06	7.10	6.79	7.21	11	.42
Home mortgages[6]						
FHLMC 30-yr. fixed rate	7.84	6.96	6.74	7.11	.15	.37
FHLMC 1-yr. adjustable rate	5.15	4.36	4.14	4.17	-.19	.03

Stock exchange index	Record high		1989	1993		Percentage change to Nov 9		
	Level	Date	Low, Jan. 3	FOMC, Sep 21	Nov 9	From record high	From 1989 low	From FOMC, Sep 21
Dow-Jones Industrial	3697.64	11/2/93	2144.64	3537.24	3640.07	-1.56	69.73	2.91
NYSE Composite	260.48	10/15/93	154.00	251.59	254.97	-2.12	65.56	1.34
NASDAQ (OTC)	787.42	10/15/93	378.56	733.56	769.84	-2.23	103.36	4.95
Wilshire	4701.68	10/15/93	2718.59	4515.06	4596.77	-2.23	69.09	1.81

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 November 10, 1993.
3. Secondary market.
4. Bid rates for Eurodollar deposits at 11 a.m. London time.
5. Most recent observation based on one-day Thursday quote and futures market index changes.
6. Quotes for week ending Friday previous to date shown.

Selected Interest Rates*
(percent)



* Statement weeks are plotted through Nov 3; Friday weeks through Nov 5, 1993.

Bond markets have been volatile in recent weeks in response to data first suggesting subdued inflationary pressures and then stronger economic activity. The constant-maturity thirty-year Treasury yield reached a record low of 5.78 percent on October 15, but subsequently rose and is unchanged on balance since the September FOMC meeting. Other Treasury coupon rates have risen 15 to 25 basis points. Private long-term rates have generally moved up with Treasury rates.

Although federal funds have continued to trade near 3 percent, other short-term interest rates have increased over the intermeeting period. Rates on Treasury bills have risen 15 to 20 basis points as the federal government covers its sizable fourth-quarter deficit mainly through bill sales. In addition, yields on private three-month instruments rose as maturities moved beyond the turn of the year; current pricing suggests that borrowers are willing to pay a 6 or 7 percentage point premium at year-end to secure funding over that three-day weekend.

Major stock price indexes have posted net gains of from 1 percent to 5 percent since the last FOMC meeting. Growth stocks led the markets early in the intermeeting period, whereas cyclical stocks showed strength more recently as the economic outlook improved. Since the beginning of November, however, most indexes have generally moved down, reflecting the increase in market interest rates.

Businesses, households, and state and local governments have continued to take advantage of reduced long-term interest rates by refinancing existing debt, although the backup in rates after mid-October appears to have slowed this activity somewhat. The broad

MONETARY AGGREGATES
(Based on seasonally adjusted data except as noted)

Aggregate or component	1992[1]	1993 Q2[2]	1993 Q3[2]	1993 Aug.	1993 Sep.	1993 Oct. (pe)	1992:Q4 to Oct. 93 (pe)	Level (bil. $) Sep. 93
Aggregate	Percentage change (annual rate)							
1. M1	14.3	10.5	13.2	10.5	14.0	10	10¾	1107.6
2. M2	1.7	2.2	3.3	1.9	4.4	1	1½	3535.3
3. M3	0.2	2.5	1.3	0.9	3.7	2	½	4181.1
Selected components								
4. M1-A	13.7	13.1	14.3	14.1	16.5	9	11¼	700.6
5. Currency	9.1	9.7	11.6	11.6	14.6	7	10½	316.4
6. Demand deposits	18.0	16.0	17.3	16.4	18.8	11	13¾	376.5
7. Other checkable deposits	15.4	6.3	11.3	4.8	9.2	12	8¾	406.9
8. M2 minus M1[3]	-2.7	-1.4	-1.0	-1.8	0.0	-4	-2½	2427.8
9. Overnight RPs and Eurodollars, n.s.a.	2.7	-10.3	38.3	50.7	54.8	36	14	82.5
10. General-purpose and broker-dealer money market funds	-5.2	-0.7	-0.6	-5.7	-6.8	2	-3½	332.4
11. Commercial banks	-0.1	-0.4	-0.9	0.1	0.2	-3	-1¼	1253.6
12. Savings deposits	14.5	4.6	5.3	6.9	5.1	1	3¾	777.2
13. Small time deposits	-15.8	-7.9	-10.5	-10.7	-7.8	-10	-8½	476.4
14. Thrift institutions	-5.8	-4.3	-3.9	-3.9	-5.0	-5	-5½	758.7
15. Savings deposits	14.8	0.7	2.9	1.7	1.1	0	1	431.6
16. Small time deposits	-22.1	-10.4	-12.5	-11.1	-13.1	-13	-13	327.1
17. M3 minus M2[3]	-6.7	4.1	-9.1	-4.8	0.0	10	-4½	645.7
18. Large time deposits	-16.5	-1.7	-8.5	0.4	-6.4	3	-8	333.5
19. At commercial banks[4]	-15.8	0.1	-8.9	2.2	-7.5	4	-7¾	270.4
20. At thrift institutions	-19.5	-10.3	-6.8	-9.4	0.0	-4	-9½	63.1
21. Institution-only money market mutual funds	18.2	0.4	-12.6	-10.5	5.0	15	-5¾	194.1
22. Term RPs, n.s.a.	7.8	38.3	24.3	-5.0	-7.5	-14	18¾	95.4
23. Term Eurodollars, n.s.a.	-22.6	20.4	-31.6	35.2	23.7	8	-¼	46.5

	Average monthly change (billions of dollars)							
Memo								
24. Managed liabilities at com'l. banks (lines 25 + 26)	-2.1	6.5	9.9	6.1	7.1	1	...	736.6
25. Large time deposits, gross	-4.6	-1.0	-5.7	-4.9	-4.3	0	...	335.4
26. Nondeposit funds	2.5	7.5	15.6	11.0	11.4	1	...	401.2
27. Net due to related foreign institutions	2.7	2.6	11.2	14.5	4.8	0	...	120.7
28. Other[5]	-0.2	5.0	4.4	-3.5	6.5	1	...	280.4
29. U.S. government deposits at commercial banks[6]	-0.5	2.4	-0.6	-0.7	-5.2	-8	...	24.2

1. "Percentage change" is percentage change in quarterly average from fourth quarter of preceding year to fourth quarter of specified year. "Average monthly change" is dollar change from December to December, divided by 12.
2. "Percentage change" is percentage change in quarterly average from preceding quarter to specified quarter. "Average monthly change" is dollar change from the last month of the preceding quarter to the last month of the specified quarter, divided by 3.
3. Seasonally adjusted as a whole.
4. Net of holdings of money market mutual funds, depository institutions, U.S. government, and foreign banks and official institutions.
5. Borrowing from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase, and other liabilities for borrowed money (including borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs, and other minor items). Data are partially estimated.
6. Treasury demand deposits and note balances at commercial banks.

monetary aggregates and bank credit were held down in October by the spinoff of a large bank's trading unit into a subsidiary. Underlying monetary growth remained lackluster as well, however, as flows to stock and bond mutual funds continued at a substantial pace. Bank credit remained fundamentally weak, even though consumer loans and, to a lesser extent, real estate loans have shown some strength.

Monetary Aggregates and Bank Credit

M2 stalled in October after advancing in September at the fastest rate since May. Growth was depressed last month by a slowdown in M1 growth and by a contraction in the nontransactions component, as NationsBank spun off its primary dealer into a section 20 subsidiary, removing the dealer's RPs from M2 and M3.[1] Even abstracting from this temporary factor, however, the underlying trend in M2 remained sluggish, damped by continued runoffs in small time and savings deposits. Thus far this year, M2 has grown at a 1-1/2 percent annual rate, placing the aggregate a bit above the lower bound of its target cone.

The continuing weakness in M2 likely reflects the efforts of retail investors to stretch for yield, as inflows to bond and stock funds, though dipping a bit, remained large in September, and they reportedly picked up again in October. The slowdown in September was most pronounced for bond funds, as inflows to tax-exempt funds fell to half their rapid year-to-date pace and high-yield corporate bond funds experienced a temporary outflow.

M3 growth weakened in October, reflecting the slowing in M2. The non-M2 component picked up, however, boosted by substantial inflows to institution-only money funds and an increase in large

1. Since NationsBank purchased the dealer in July, these transactions have no net impact on monetary growth for the year as a whole.

GROWTH OF LONG-TERM MUTUAL FUNDS
(Percent annual rates)

Type of fund	1992	1993 Q1	1993 Q2	1993 Q3	1993 July	1993 Aug	1993 Sep	Dec 92 to Sep 93	Level of Fund Assets Sep 93 $billions
Total assets[1]	30.6	37.2	35.0	35.0	28.2	55.2	19.1	39.0	1365.3
Total net inflows[2]	24.9	25.4	23.7	22.9	24.2	25.1	17.6	26.2	
Capital gains[3]	5.7	11.8	11.2	12.1	4.0	30.1	1.5	12.8	
Net inflows by type of fund:[2]									
Equity funds	28.9	32.0	28.6	27.6	24.8	31.2	24.6	32.5	512.2
Domestic	30.0	33.7	25.5	19.8	19.5	20.7	18.3	28.6	431.6
International	21.0	19.2	51.0	77.2	58.7	95.7	59.8	61.8	80.6
Bond funds	23.1	21.1	20.0	18.9	23.1	21.7	11.0	21.2	600.4
Government & agency	26.5	12.8	10.8	10.5	16.5	9.8	4.9	11.7	194.0
Tax-exempt	22.5	27.5	23.1	20.5	21.0	26.6	12.9	25.6	247.5
Corporate	29.2	33.7	31.7	22.0	32.8	22.8	9.2	31.8	123.0
Investment grade	31.9	28.9	31.1	30.7	33.7	27.3	27.9	32.9	78.9
High yield	24.7	42.3	32.6	7.8	31.4	15.2	-22.6	29.9	44.2
International	-5.9	-9.5	14.3	47.3	42.8	52.1	38.4	16.5	35.8
Other[4]	43.5	45.5	44.6	43.8	48.8	38.7	35.4	52.3	137.1
Memo:									
$M2^+$-type funds[5]	24.6	29.9	30.3	31.1	25.3	50.9	15.0	32.8	659.3
$M3^+$-type funds[6]	45.8	40.7	44.9	48.0	48.2	63.7	26.9	49.7	354.6

1. The growth rate of total fund assets is calculated on an end-of-period basis.
2. The rate of total net inflows is total inflows over the period divided by the level of fund assets at the beginning of the period.
3. The rate of capital gains is the difference between the growth rate of total assets and the rate of net inflows.
4. Includes combined stock and equity funds, and precious metal funds.
5. Excludes IRA/Keogh and institutional funds.
6. Excludes cash holdings of institutional funds.

time deposits. Since the fourth quarter of last year, M3 has grown at a 1/2 percent annual rate, placing the aggregate a bit above the lower bound of its growth cone.

Bank credit was flat in October.[2] Like the broad monetary aggregates, it was affected by the NationsBank reconfiguration, which depressed securities holdings and security loans. Adjusting for this event, bank credit grew at an annual rate of 3-1/2 percent in October, about the same rate as in the previous two months. Business loans were about unchanged, after declining in September, as increases at small banks offset runoffs at large banks and foreign agencies and branches. Total real estate loan growth picked up to a 4-3/4 percent annual rate in October. Consumer loans accelerated sharply, extending the robust growth in this category that began in the first quarter.

With only a couple of medium-sized banks following Morgan Guaranty's unexpected 50 basis point prime rate cut, the spread between the prevailing prime rate and the federal funds rate remains at an elevated level. The stickiness of the prime rate has been partially offset by some accommodations by banks in pricing prime-based loans, but has also resulted in reduced demand for such loans. Although rate spreads on small loans remain large, the average spread over prime on all prime-based loans has been on a downward course since 1989, declining nearly 90 basis points on balance (chart). The share of gross extensions of floating-rate loans priced off the prime rate has fallen about a third, from 75 percent in 1988 to just over 50 percent this year. This decline likely reflects the ability of many large and middle-market borrowers to opt for lower-cost credit by selecting their base rate and spread from a menu offered by the lender.

2. Bank credit data have been benchmarked to the June 1993 Call Report.

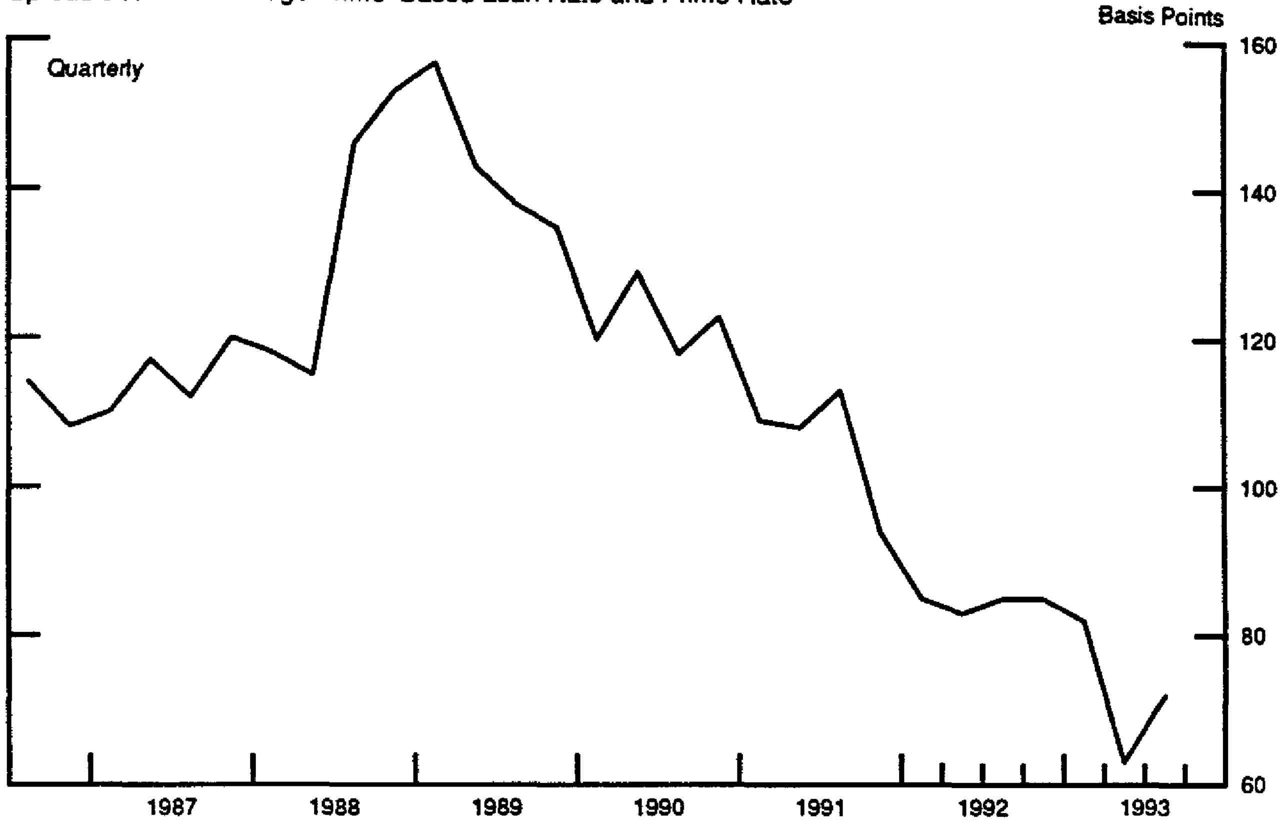
COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT[1]
(Percentage change at annual rate, based on seasonally adjusted data)

Type of credit	Dec. 1991 to Dec. 1992	1993 Q2	1993 Q3	1993 Aug.	1993 Sep.	1993 Oct. p	Level, Oct. 1993 p ($billions)
	Commercial bank credit						
1. Total loans and securities at banks	3.6	7.2	5.5	3.2	4.0	.0	3,056.3
2. Securities	13.0	11.2	8.0	9.6	7.8	-5.7	898.0
3. U.S. government	17.5	12.9	8.6	9.5	9.7	-4.5	717.4
4. Other	-1.1	4.7	5.3	9.3	.7	-10.5	180.6
5. Loans	.2	5.6	4.5	.6	2.4	2.5	2,158.3
6. Business	-3.2	-1.2	-2.1	0.0	-4.9	0.0	585.5
7. Real estate	2.1	5.2	3.7	2.5	3.8	4.7	917.7
8. Consumer	-1.8	7.1	8.7	8.4	4.2	13.4	380.8
9. Security	18.4	44.9	62.7	-27.9	43.7	-50.8	79.1
10. Other	1.2	12.0	-.8	-9.1	-1.8	.6	195.3
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-3.3	-1.4	-2.4	-.8	-3.5	-1.2	576.1
12. Loans at foreign branches[2]	2.0	-5.2	-31.3	-48.0	-22.2	-5.7	21.1
13. Sum of lines 11 and 12	-3.1	-1.5	-3.5	-2.4	-4.2	-1.4	597.2
14. Commercial paper issued by nonfinancial firms	9.5	15.8	22.5	23.5	4.5	-9.6	160.4
15. Sum of lines 13 and 14	-.8	1.9	1.7	3.0	-2.4	-3.2	757.6
16. Bankers acceptances, U.S. trade-related[3,4]	-16.9	-14.2	-11.1	-11.4	11.5	n.a.	21.1[5]
17. Finance company loans to business[4]	1.8	-.4	3.0	4.8	5.5	n.a.	305.4[5]
18. Total (sum of lines 15, 16, and 17)	-.5	.9	1.8	3.2	.1	n.a.	1,086.1[5]

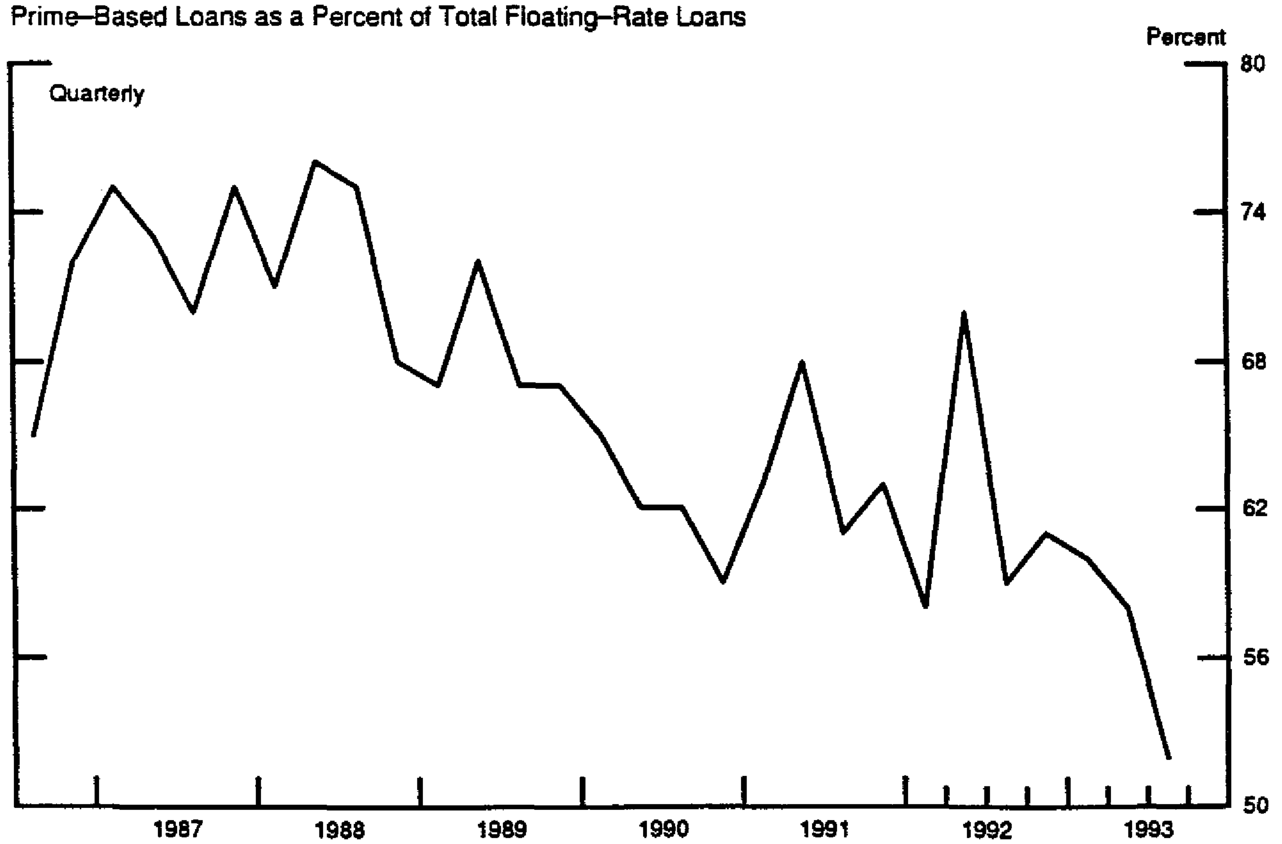
1. Except as noted, levels are averages of Wednesday data and percentage changes are based on averages of Wednesday data; data are adjusted for breaks caused by reclassification; changes are measured from preceding period to period indicated.
2. Loans to U.S. firms made by foreign branches of domestically chartered banks.
3. Acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.
4. Changes are based on averages of month-end data.
5. September 1993.
p Preliminary.
n.a. Not available.

Prime-Based Lending

Spread Between Average Prime-Based Loan Rate and Prime Rate



Prime-Based Loans as a Percent of Total Floating-Rate Loans



Source: Quarterly Survey of Terms of Bank Lending

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

	1991	1992	1993 Q2	1993 Q3p	1993 Augp	1993 Sepp	1993 Octp
Corporate securities - total	32.14	40.81	50.18	57.79	57.41	65.42	50.97
Public offerings in U.S.	29.35	38.01	46.02	51.90	50.26	59.38	47.56
Stocks--total	5.44	6.54	8.25	9.80	9.26	10.38	7.56
Nonfinancial	3.71	4.03	4.73	5.04	4.52	5.68	5.21
Utility	0.43	0.87	0.99	1.02	1.10	1.34	0.78
Industrial	3.15	3.16	3.75	4.02	3.42	4.34	4.43
Financial	1.73	2.51	3.52	4.69	4.73	4.50	2.35
Bonds	23.91	31.47	37.77	42.10	41.00	49.00	40.00
Nonfinancial	9.52	12.81	15.32	14.48	15.10	12.53	16.80
Utility	2.99	5.33	7.25	7.62	6.63	7.65	6.80
Industrial	6.54	7.47	8.08	6.86	8.48	4.88	10.00
Financial	14.39	18.67	22.45	27.62	25.90	36.48	23.20
By quality							
Aaa and Aa	3.72	3.73	4.49	4.84	4.32	4.26	6.33
A and Baa	12.09	14.50	16.64	16.71	16.58	16.48	18.02
Less than Baa	1.03	3.10	4.45	4.21	6.48	2.14	6.29
No rating (or unknown)	0.02	0.08	0.07	0.27	0.13	0.53	0.19
Memo items:							
Equity-based bonds	0.63	0.63	0.77	0.59	0.33	0.68	2.91
Mortgage-backed bonds	2.99	6.07	7.90	11.36	8.22	18.71	3.76
Other asset-backed	4.07	4.00	4.24	4.71	5.27	6.89	5.40
Variable-rate notes	0.84	1.89	2.63	5.84	4.22	9.09	4.73
Bonds sold abroad - total	2.33	2.30	3.71	3.78	3.80	4.90	2.62
Nonfinancial	1.00	0.84	0.96	0.92	0.45	1.61	0.74
Financial	1.33	1.46	2.75	2.86	3.35	3.29	1.88
Stocks sold abroad - total	0.46	0.50	0.45	2.10	3.35	1.14	0.80
Nonfinancial	0.38	0.39	0.27	1.19	2.19	0.66	0.48
Financial	0.08	0.11	0.18	0.91	1.16	0.48	0.32

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.
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.

More generally, the high prime rate appears to be masking an increased willingness of banks to make commercial and industrial loans. Senior Loan Officer Surveys since May have shown that many banks have eased terms on business loans and that some have eased lending standards as well. Preliminary data from the most recent survey, taken earlier this month, show a continuation of this trend. The fraction of respondents reporting easier loan terms increased a bit from the August survey: nearly half the respondents reported that fees and spreads on credit lines provided to large and middle-market customers had declined over the past three months, and nearly a quarter of them indicated that these costs had fallen for small borrowers. Standards for approving commercial and industrial loans were eased by 10 percent to 20 percent of the respondents, with more banks reporting easing standards for larger customers.[3] These survey results are consistent with recent press reports that banks are pricing loans more aggressively. Despite recent evidence of easing, however, banks still appear to be lending somewhat cautiously compared with the late 1980s.

Business Finance

Other sources of short- and intermediate-term business credit have been mixed in recent months. Finance company business loans expanded at a 5-1/2 percent pace--the highest this year--in September, the most recent month for which data are available. Growth would have been higher still but for a large decline in wholesale automobile loans, as lower inventories reduced dealers' financing needs. In contrast, nonfinancial commercial paper outstanding, which grew rapidly during the summer, slowed in September and declined in October. The premium for year-end funds is currently about 600 basis points in the commercial paper market,

3. A full analysis of the Bank Lending Practices Survey is included in a Greenbook supplement.

while the quality spread on A2/P2 paper, at about 17 basis points, remains near its historical low.

Gross issuance of stocks and bonds by nonfinancial corporations in October was substantial, suggesting that firms continued to take advantage of favorable financing costs in long-term markets to pay down short-term debt. Partial data for early November suggest that stock and bond issuance remains strong in spite of the recent backup in interest rates. In October, gross public issuance of equity was more than $5 billion, down only a bit from September's rapid pace. The volume of initial public offerings totaled $1.6 billion in September and continued at a robust pace in October. Gross bond offerings picked up in October, reaching almost $17 billion, after moderating during September. Junk bond issuance slowed sharply in September, apparently in response to increased yield spreads, but rebounded in October. Market participants report that inflows to junk bond funds resumed over the past few weeks, leading to a narrowing of spreads and the pickup in issuance.

The pace of merger activity has increased this year. In contrast to the 1980s, however, nearly all the recent mergers could be characterized as "strategic" in nature, that is, aimed at increasing market power in an industry or at entering an industry with business synergies. For example, both Bell Atlantic's friendly takeover of TCI and the battle between Viacom and QVC for Paramount fit this pattern. With the exception of the bidding for Paramount, large mergers have generally been completed using stock swaps rather than cash payments--a sharp contrast to the cash deals that predominated in the 1980s.

Quality spreads measured relative to the thirty-year Treasury bond have widened somewhat over the intermeeting period as the premium commanded by the on-the-run thirty-year bond relative to the previous issue increased 5 to 10 basis points, to almost one-quarter percentage point, since the last FOMC meeting. Indeed, market participants report that the on-the-run bond has become relied upon less as a benchmark for pricing long-term corporate issues.

For the first time in five years, Moody's reported more upgrades than downgrades of U.S. firms last quarter. The broad industrial pattern of the rating changes, however, was little changed from recent quarters. Downgrades continued to outnumber upgrades for nonfinancial firms, with computer companies--including IBM, Apple, Tandy, Hewlett-Packard, and Tandem--taking the brunt of the negative actions. In addition, both Moody's and Standard & Poor's recently increased their assessments of the business risk facing more than forty large electric utilities; principal factors cited by the rating agencies were expectations of increased competition as the industry is deregulated and generally slow growth in demand. Financial institutions continued to show substantial improvement, with nineteen firms receiving upgrades, including several money center and large regional banks.

Major stock indexes rose over the intermeeting period, with most touching record highs in mid-October. Growth stocks showed large gains in late September and early October but cooled off late in the month. In contrast, stocks of cyclical firms--especially those in consumer-oriented industries--were weak early in the intermeeting period but picked up at the end of October on strong earnings reports and data suggesting more robust economic growth. As a consequence, the Dow Jones Industrial Average moved to a record high in early November before backing off with the jump in bond yields. In contrast, bank stocks declined over the intermeeting period, despite strong growth in reported earnings and substantial positive earnings surprises at some money center and regional banks.

Utility stocks fell sharply after the ratings agencies announced a weaker outlook for the industry.

Municipal Securities

Gross issuance of long-term, tax-exempt securities slowed a bit in October, to $19.5 billion, down from more than $21 billion in August and September. Although the volume last month was the third lowest this year, it was high by historical standards and brought the total for 1993 to $226 billion, topping the record $216 billion in 1992. Refunding volume weakened slightly in October and dropped off appreciably in early November, as the backup in long-term rates caused some issuers to postpone offerings.

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

			1993				
	1991	1992	Q2	Q3	Aug.	Sept.p	Oct.p
Total offerings[1]	16.68	21.78	32.69	25.44	25.50	24.60	22.03
Total tax-exempt	16.26	21.21	31.77	25.08	24.96	24.42	21.28
Long-term	12.87	17.93	25.56	21.47	21.26	21.56	19.46
Refundings[2]	3.12	7.91	17.28	13.63	14.23	12.81	12.15
New capital	9.75	10.02	8.28	7.84	7.03	8.75	7.31
Short-term	3.39	3.28	6.21	3.61	3.70	2.86	1.82
Total taxable	.42	.57	.92	.36	.54	.18	.75

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

During the third quarter, Standard & Poor's upgraded more local issuers' credit ratings than it downgraded, marking the first time since the fourth quarter of 1992 that upgrades outpaced downgrades. Over the first three quarters of the year, downgrades exceeded upgrades by about one quarter, roughly the same margin as in 1992, but a large improvement over the roughly four-to-one ratio of downgrades to upgrades posted in 1991. No states experienced a rating change during the third quarter.

Local government finance in California continued to suffer from that state's economic troubles. Moody's lowered the rating on the City of Los Angeles, citing the prospect for continued weakness in the city's economy resulting from the depressed real estate market and the loss of defense industry jobs. Moody's also placed all of California's county governments under review for possible downgrade, reflecting a lowering of property tax revenues, offset only in part by increased sales taxes. Moody's views the higher volatility of sales tax revenues as a distinct negative.

In contrast, the rating on Massachusetts's general obligation debt was raised from A to A+ in October by Standard & Poor's; the agency based the upgrade on the strengthening of the state's economy as well as its adoption of a conservative budget for 1994. This is the second upgrade the state has received from Standard & Poor's since September 1992, when its debt was the lowest rated of all states (a distinction now held by Louisiana).

In the aftermath of numerous allegations and several federal investigations of political influence peddling, seventeen of the largest municipal bond underwriters have voluntarily agreed to curb political contributions to state and local officials representing governmental units with which the underwriters have business relationships. The SEC is encouraging bond lawyers, regional underwriters, and other market participants to join the voluntary ban.[4]

4. In addition, the Municipal Securities Rulemaking Board proposed a rule in late August that would ban business-related contributions by underwriters.

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

	1993				
	Q3	Q4^p	Oct.^p	Nov.^p	Dec.^p
Treasury financing					
Total surplus/deficit (-)	-54.5	-93.9	-42.9	-44.2	-6.8
Means of financing deficit:					
Net cash borrowing from the public	46.0	87.5	4.3	69.5	13.7
Marketable borrowings/ repayments (-)	44.5	85.3	3.3	68.1	13.9
Bills	-.9	58.6	10.3	40.2	8.1
Coupons	45.4	26.7	-7.0	27.9	5.8
Nonmarketable	1.6	2.3	1.0	1.5	-.2
Decrease in the cash balance	8.1	16.2	33.6	-8.5	-9.0
Memo: Cash balance at end of period	52.5	36.3	18.9	27.4	36.3
Other[2]	.4	-9.8	5.0	-16.8	2.1

1. Data reported on a not seasonally adjusted, payment basis.
2. Includes checks issued less checks paid, accrued items and other transactions.
p Projected.
NOTE: Details may not total due to rounding.

FEDERALLY SPONSORED CREDIT AGENCIES
Net Cash Borrowing[1]
(Billions of dollars)

	1993					
	Q1	Q2	Q3	July	Aug.	Sept.
FHLBs	.5	12.0	5.3	-1.8	4.4	2.8
FHLMC	11.6	-5.6	17.1	6.7	13.1	-2.7
FNMA	-.5	10.7	19.3	4.2	4.2	10.9
Farm Credit Banks	.3	.1	.0	.0	-.2	.2
SLMA	-.9	.1	-.1	-1.1	.6	.4
FAMC[2]	.0	.0	.0	.0	.0	.0

1. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
2. Federal Agricultural Mortgage Corporation.

Treasury and Sponsored Agency Financing

The staff anticipates that the Treasury will finance the projected $94 billion fourth-quarter fiscal deficit by borrowing $88 billion from the public and reducing its cash balance. With the seven-year note dropped from the auction cycle and with no long-term bond scheduled for the upcoming midquarter refunding, the Treasury will rely on bills for two-thirds of its funds this quarter. Since the beginning of the quarter, the Treasury has increased the gross size of the weekly bill auctions from $23.6 billion to $27.6 billion. It also auctioned two cash management bills totaling $24 billion to help bridge upcoming seasonal financing needs. At the November midquarter refunding, the Treasury increased the size of the three- and ten-year note issues by $500 million and $1 billion, respectively, and chose to reopen the on-the-run ten-year note, which had been "on special" in the RP market and trading at an 8 basis point premium to the yield curve.

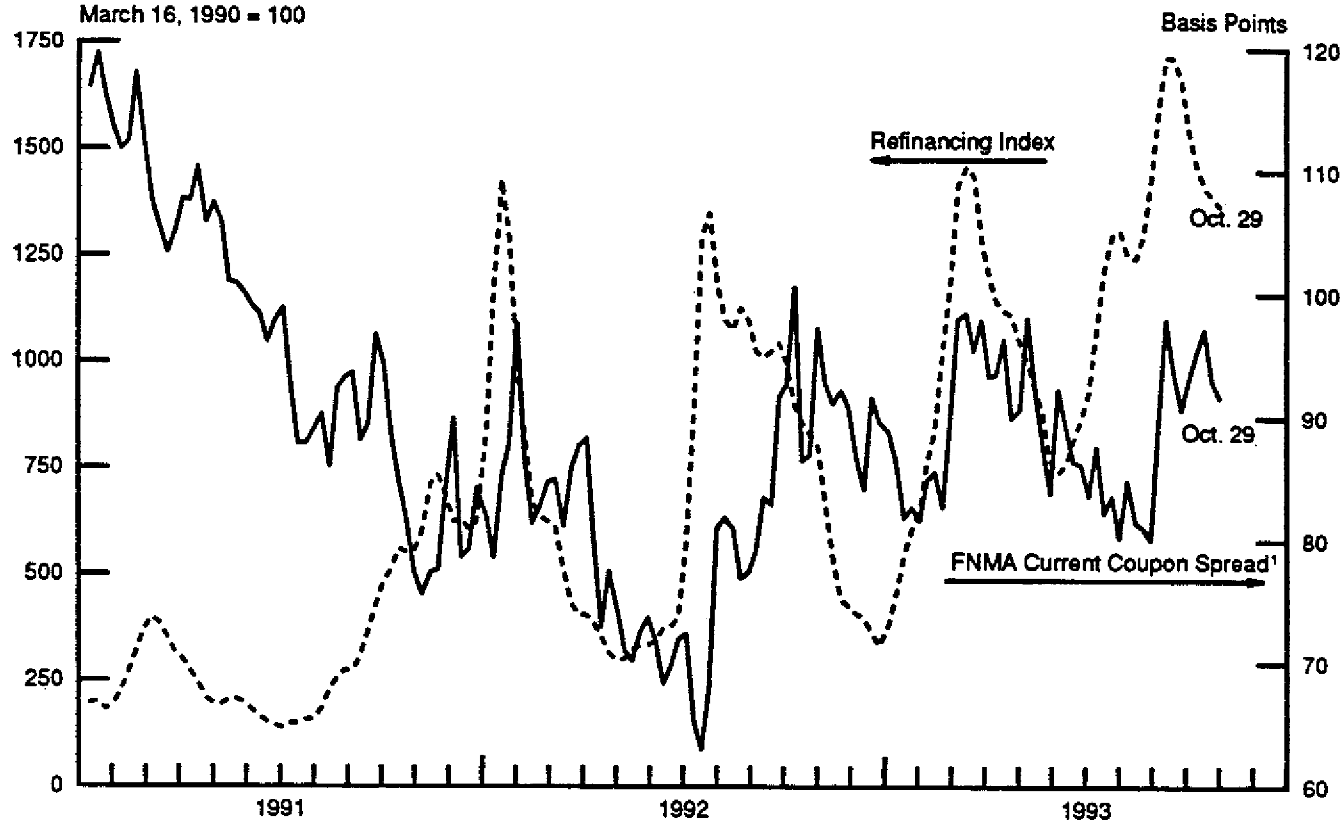
In the agency market, spreads remain on the narrow side, despite brisk issuance that included a modest increase in callable debt. Heavy third-quarter issuance by Fannie Mae and Feddie Mac reflected, in part, the increase in their mortgage investment portfolios. These investments have been funded with a mixture of short-term securities and long-term callable securities. This funding mix allows the agencies to securitize these mortgages rather than hold them on their books if funding costs change.

Mortgage Markets

Responding to the recent sell-off in the Treasury market, interest rates on conventional thirty-year, fixed-rate mortgages have risen sharply. The spread of thirty-year conventional mortgages over the ten-year Treasury note is little changed on balance since the September meeting. Secondary market yield spreads

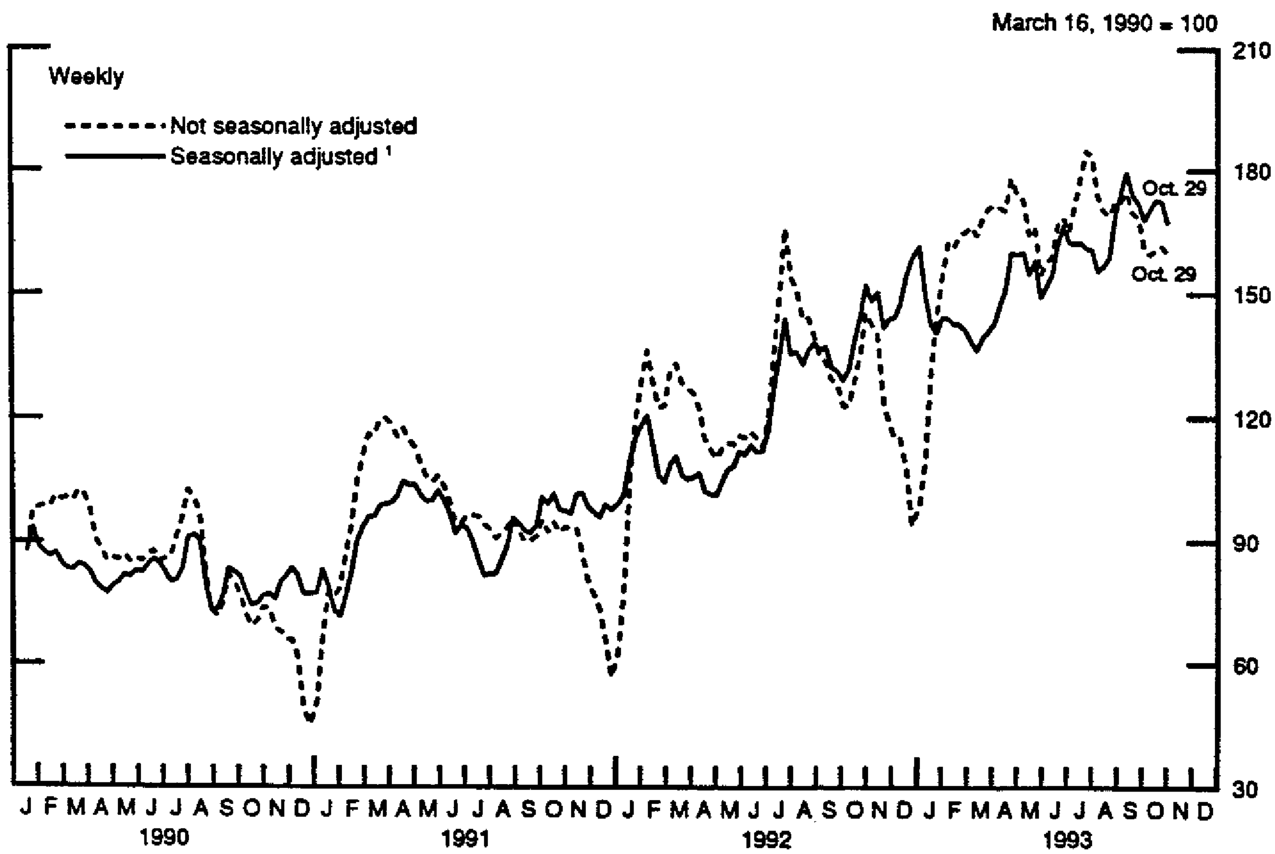
MBA Refinancing Index vs. FNMA 30–Year Mortgage–Backed Security Current Coupon Spread

(Weekly; nsa)



1. FNMA Current Coupon Spread Relative to 10–Year Treasury Rate

MBA Purchase Index



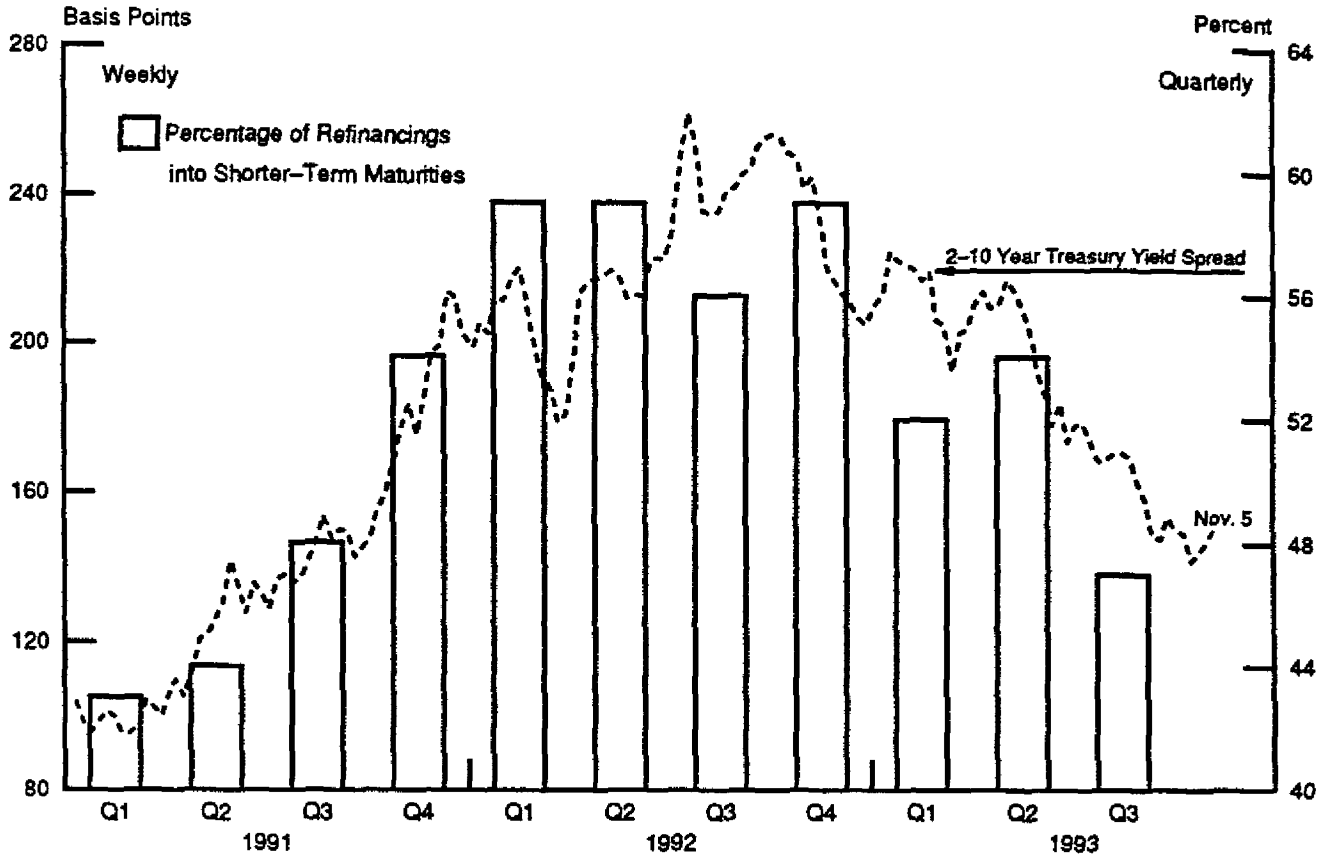
1. Seasonally adjusted by Federal Reserve Board staff.

on newly originated conventional loans remain about 10 basis points wider than in late summer, owing in part to unexpectedly high prepayment rates and increased uncertainty about future prepayments (chart)--both of which have been affected by the now wide availability of "no-point" mortgage loans. Rates on adjustable-rate mortgages declined 14 basis points over the intermeeting period to 4.17 percent, another record low.

The Mortgage Bankers Association's indexes of mortgage applications to purchase and to refinance homes remain in record territory, although the latest survey data may not fully reflect the effects of the recent jump in mortgage rates (chart). While the refinancing index has declined from its record level at the time of the last FOMC meeting, refinancing applications still account for about 60 percent of the volume of mortgage originations. Actual mortgage prepayment rate experience suggests that, barring further declines in mortgage rates, refinancing applications will subside as the remaining stock of high-rate loans that have not been refinanced falls.

Data from Freddie Mac on refinancing transactions for which Freddie Mac both owned the original loan and purchased the new loan show that borrowers are choosing to refinance with longer-maturity mortgages. In the third quarter, 47 percent of thirty-year borrowers who refinanced selected shorter maturity loans, down from about 59 percent in 1992 (chart). The share of thirty-year loans being refinanced with twenty-year loans--which was negligible a year ago--grew to 7 percent last quarter. In contrast, the proportion choosing fifteen-year loans has declined from more than 40 percent in 1992 to near 30 percent this year. This shift toward longer-maturity loans may be, in part, the result of the flattening of the Treasury yield curve since late last year.

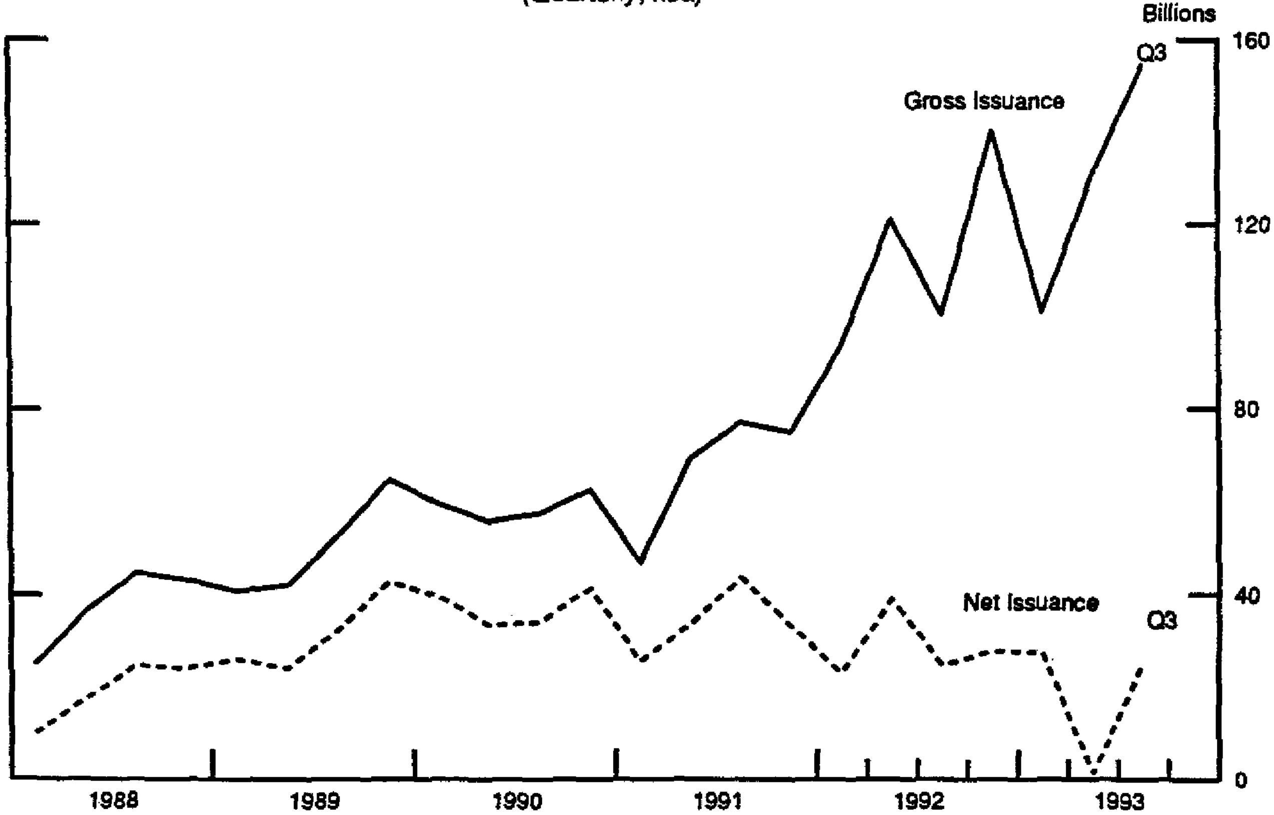
Percentage of 30-Year Mortgage Refinancing into Shorter-Term Maturities Compared to Slope of Yield Curve (10-Year Treasury minus 2-Year Treasury)



1. Source of refinancing data is Federal Home Loan Mortgage Corporation

Total Agency Mortgage Pass-Through Issuance

(Quarterly; nsa)



Analysis of refinancing transactions by Fannie Mae indicates that, with the shift toward longer maturities, the average monthly mortgage payment for homeowners refinancing all types of fixed- and adjustable-rate mortgages fell about 2 percent in the third quarter. This decline contrasts with refinancings in 1991 and 1992 when average monthly mortgage payments of households that refinanced actually increased owing to higher amortization payments and to shifts from adjustable-rate to fixed-rate mortgages.

Growth of mortgage credit appears to have strengthened a bit recently from its sluggish first half pace. Net issuance of agency pass-through securities bounced back from near zero in the second quarter to above $25 billion in the third (chart). In addition, Fannie Mae and Freddie Mac added $13 billion to their combined mortgage investment portfolios in the third quarter, likely, in part, to smooth out the high level of pass-through issuance. At commercial banks, partial data indicate growth of total real estate loans excluding home equity loans increased to a 5-3/4 percent annual rate in October following a 4-1/4 percent pace in the third quarter.

The Department of Housing and Urban Development has finalized 1993 and 1994 lending goals for Fannie Mae and Freddie Mac. Fannie Mae will be required to increase the share of dwelling units it finances (including securitizations) that are low- and moderate-income from 28 percent in 1992 to 30 percent in 1993 and 1994, while Freddie Mac must increase its share from 24 percent in 1992 to 28 percent in 1993 and 30 percent in 1994. Similar increases have been established for lending in central cities. To help achieve these goals, Fannie Mae has introduced a program under which it will package and issue securities backed by senior claims on multifamily mortgages.

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (Annual rate)							Memo: Outstandings[1] (Billions of dollars)
				1993				1993
	1990	1991	1992	H1	Q3[p]	Aug.[r]	Sept.[p]	Sept.[p]
Installment	2.0	-.7	1.0	3.1	8.9	8.0	10.5	769.2
Auto	-2.7	-8.4	-.5	4.4	8.6	5.9	10.2	271.1
Revolving	12.1	9.5	4.4	7.1	15.9	17.1	13.5	273.8
Other	-.8	-1.0	-.8	-3.1	1.1	-.5	7.3	224.3
Noninstallment	-4.6	-15.1	3.0	1.9	-18.2	-53.7	4.7	50.2
Total	1.5	-1.8	1.2	3.0	7.1	4.0	10.2	819.4

1. Components may not total because of rounding.
r Revised.
p Preliminary.

CONSUMER INTEREST RATES
(Annual percentage rate)

				1993				
	1990	1991	1992	Feb.	May	July	Aug.	Sept.
At commercial banks[1]								
New cars (48 mo.)	11.78	11.14	9.29	8.57	8.17	...	7.98	...
Personal (24 mo.)	15.46	15.18	14.04	13.57	13.63	...	13.45	...
Credit cards	18.17	18.23	17.78	17.26	17.15	...	16.59	...
At auto finance companies[2]								
New cars	12.54	12.41	9.93	10.32	9.51	9.37	9.21	9.21
Used cars	15.99	15.60	13.79	13.90	12.61	12.46	12.48	12.52

1. Average of "most common" rate charged for specified type and maturity during the first week of the middle month of each quarter.
2. For monthly data, rate for all loans of each type made during the month regardless of maturity.
Note: Annual data are averages of quarterly data for commercial bank rates and of monthly data for auto finance company rates.

Consumer Credit

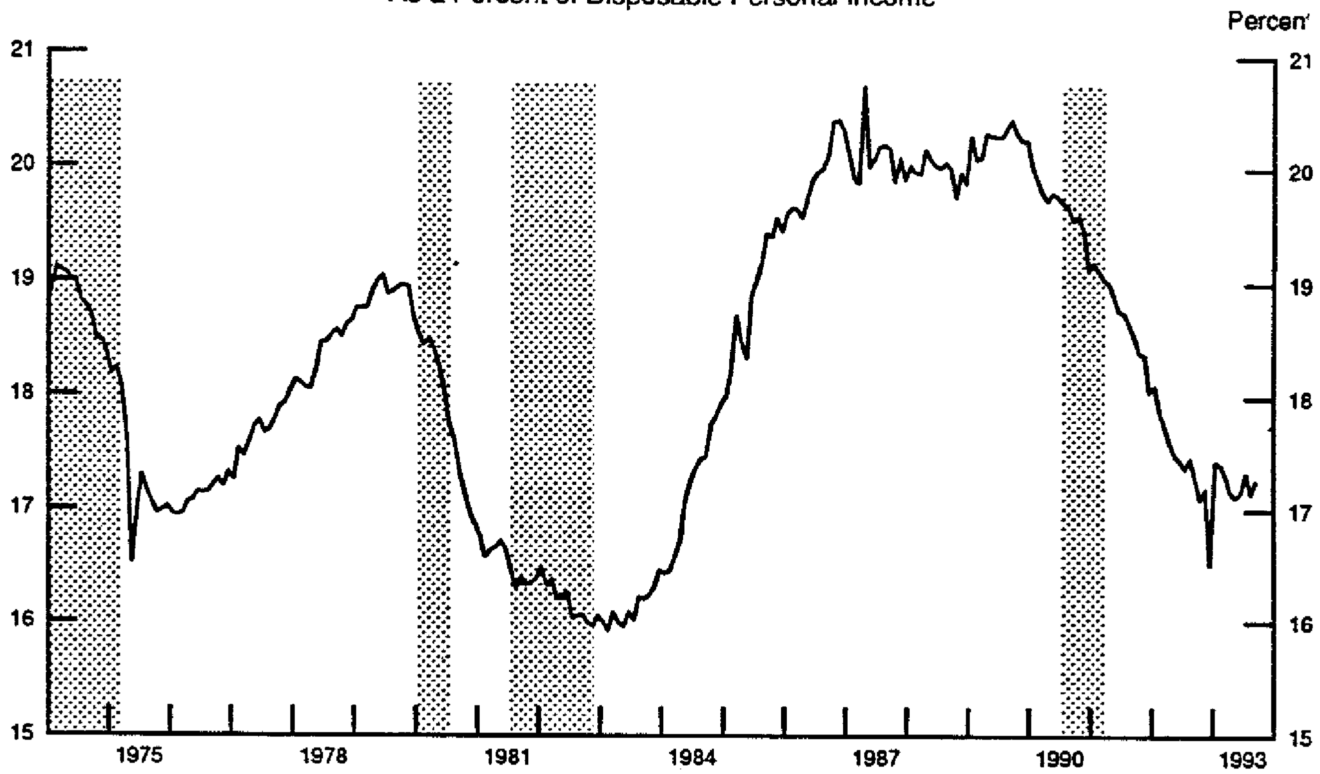
Consumer installment credit outstanding grew at a 10-1/2 percent seasonally adjusted annual rate in September, up from an 8 percent rate in August. Revolving credit (mainly credit cards) remains the fastest growing component of consumer credit. Anecdotal evidence suggests that some of the 1993 pickup in this component may be the result of increasing "convenience" use--particularly of cards with rebate features. Auto credit growth has also strengthened this year, while "other" credit outstanding has run off a bit further.

Reflecting the pickup in consumer credit growth, the ratio of outstanding consumer credit (installment plus noninstallment) to disposable personal income has stabilized this year after declining sharply over the previous three years (chart).

Through September, gross public issuance of securities backed by consumer loans has continued at a pace near that of the past few years. However, the volume of these instruments outstanding has declined for the first time since this market developed in 1985. Securities backed by automobile loans have been somewhat stronger than other types of consumer asset-backed securities reflecting the difficulties Chrysler and General Motors face in the commercial paper market.

The overall decline in outstandings this year owes largely to a substantial volume of credit card-backed securities entering paydown status. When securities collateralized with credit card receivables reach maturity, or reach the date at which they begin to pay back principal to the investors, the underlying loan balances revert to the books of the issuing institution. As a result, commercial banks--by far the largest issuers--must either hold capital against these loans or issue new securities to remove the loans from their balance sheets again. It appears that much of the gross issuance of

Total Consumer Credit
As a Percent of Disposable Personal Income



Note: Shaded areas are periods of economic recession.

CONSUMER ASSET-BACKED SECURITIES[1]
(Billions of dollars, not seasonally adjusted)

	1989	1990	1991	1992	1993[2]	Amount Outstanding Sept. 1993
Total						118.9
Gross new issues	22.5	34.5	36.8	32.9	31.8	
Change in outstandings	16.5	28.8	24.5	16.8	-1.5	
Auto						36.1
Gross new issues	7.8	10.5	14.8	16.7	19.4	
Change in outstandings	3.1	6.0	4.3	5.0	2.3	
Credit card						72.6
Gross new issues	12.0	22.0	20.4	13.5	10.1	
Change in outstandings	12.7	20.7	18.0	10.6	-1.6	
Other						10.1
Gross new issues	2.7	2.0	1.6	2.7	2.3	
Change in outstandings	3.8	2.1	2.3	1.2	-2.2	

1. The level of gross new issues includes <u>only</u> public issues. The end-of-period to end-of period change in outstandings includes changes in outstandings of both public and private issues of commercial banks and finance companies.
2. 1993 changes are December 31, 1992 through September 30, 1993, not annualized.

credit card-backed securities this year is simply rolling over the sizable volume of securities issued in 1989 and 1990 in preparation for risk-based capital standards. A total of $3.7 billion of these securities reached paydown status in 1992: such issues are expected to total $14.7 billion this year and $6.7 billion in 1994.

Merchandise Trade

In August, the merchandise trade deficit was $9.7 billion (seasonally adjusted, Census-basis), smaller than recorded in the previous two months. For July-August combined the deficit at an annual rate was about the same as recorded in the second quarter. Data for September will be released on November 17.

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

	Exports			Imports			
	Total	Ag.	NonAg.	Total	Oil	NonOil	Balance
1993-Jan	37.5	3.5	34.0	45.2	4.2	40.9	-7.7
Feb	36.9	3.7	33.3	44.8	4.1	40.8	-7.9
Mar	38.9	3.6	35.3	49.3	4.5	44.9	-10.5
Apr	38.5	3.7	34.7	48.7	4.9	43.7	-10.2
May	38.9	3.6	35.3	47.3	4.6	42.7	-8.4
Jun	37.6	3.4	34.2	49.7	4.8	44.9	-12.1
Jul	37.1	3.6	33.5	47.5	4.4	43.2	-10.4
Aug	38.2	3.4	34.8	47.9	4.0	43.9	-9.7

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

Exports rose in August following two months of declines. Aircraft and automotive products accounted for most of the increase in August, just as they accounted for the decline in July. For July-August combined exports were slightly lower than in the second quarter, primarily reflecting temporarily lower shipments of aircraft and automotive products. Deliveries of aircraft vary sharply from month to month and exports in July were particularly low. A decline in shipments of automotive products between U.S. companies and their affiliates in Canada and Mexico in July, and a return to more usual levels in August, affected both exports and imports and reflected the effects of model change-over and labor negotiations. On the other hand, increased exports were recorded in

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

	Year	1992		1993			$ Change	
	1992	Q3	Q4	Q1	Q2	Q3-e	Q3e-Q3	Q3e-Q2
Trade Balance	-96.1	-110.4	-103.8	-117.2	-137.5	-137.3	-26.8	0.3
Total U.S. Exports	440.1	438.0	456.0	446.1	452.5	445.0	7.0	-7.5
Agric. Exports	44.0	44.7	45.5	43.4	43.2	41.9	-2.8	-1.3
Nonagric. Exports	396.1	393.3	410.4	402.7	409.4	403.1	9.8	-6.3
Industrial Suppl.	101.8	102.3	104.5	102.6	103.5	102.5	0.3	-0.9
Gold	4.5	3.6	7.2	6.4	7.5	7.4	3.8	-0.2
Fuels	13.6	13.5	13.4	12.6	12.5	10.8	-2.7	-1.7
Other Ind. Suppl.	83.7	85.2	83.8	83.6	83.4	84.4	-0.8	1.0
Capital Goods	176.9	173.3	182.0	177.8	183.3	178.1	4.9	-5.1
Aircraft & Parts	37.7	33.4	37.1	33.1	36.3	27.7	-5.7	-8.7
Computers & Parts	28.8	28.8	30.0	28.8	28.0	29.3	0.5	1.3
Other Machinery	110.4	111.1	114.9	115.9	118.9	121.2	10.1	2.3
Automotive Goods	47.1	47.8	50.9	51.2	51.4	47.8	-0.0	-3.6
To Canada	23.8	24.2	25.6	26.4	27.1	25.6	1.3	-1.6
To Other	23.2	23.6	25.4	24.8	24.3	22.2	-1.4	-2.1
Consumer Goods	50.4	51.0	53.3	51.5	52.2	53.7	2.7	1.4
Other Nonagric.	20.0	19.0	19.7	19.6	19.0	20.9	1.9	1.9
Total U.S. Imports	536.3	548.4	559.8	563.4	590.1	582.2	33.8	-7.8
Oil Imports	51.6	57.2	54.9	51.0	57.2	50.1	-7.1	-7.1
Non-Oil Imports	484.7	491.2	505.0	512.3	532.8	532.1	40.9	-0.7
Industrial Suppl.	88.6	88.3	93.5	94.1	98.9	100.9	12.6	2.1
Gold	3.8	2.7	6.7	5.3	8.4	9.9	7.2	1.5
Other Fuels	4.6	5.0	4.7	4.5	4.8	5.4	0.4	0.6
Other Ind. Suppl.	80.3	80.6	82.1	84.2	85.6	85.6	5.0	-0.0
Capital Goods	134.2	137.8	141.8	142.6	150.9	151.0	13.2	0.2
Aircraft & Parts	12.6	12.3	13.0	10.5	11.8	10.1	-2.2	-1.7
Computers & Parts	31.8	33.6	34.6	35.9	37.2	39.0	5.4	1.8
Other Machinery	89.8	91.9	94.2	96.2	101.8	101.9	9.9	0.1
Automotive Goods	91.8	91.8	95.1	100.5	102.1	97.9	6.1	-4.2
From Canada	31.7	31.6	32.3	36.8	36.9	35.7	4.2	-1.2
From Other	60.1	60.2	62.8	63.7	65.2	62.2	2.0	-3.0
Consumer Goods	123.0	126.7	126.5	128.9	132.8	135.4	8.7	2.6
Foods	27.9	28.1	27.6	27.4	27.5	27.9	-0.2	0.4
All Other	19.3	18.5	20.6	18.9	20.6	18.9	0.4	-1.7

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

July-August for computers, semiconductors, and consumer goods. By area, most of the decline in July-August was to Canada and Western Europe. Small increases were recorded in exports to Japan and developing countries in Asia.

Imports in August rose less than 1 percent. A sharp increase in imports of automotive products from Canada and consumer goods (both reversing declines recorded in July) was partly offset by a decline in imports of capital goods and oil. For July-August combined imports were less than in the second quarter primarily because of declines recorded in the value of imported oil and automotive products. However, imported consumer goods grew at an 8 percent annual rate in July-August, similar to growth rates recorded in the first and second quarters, and there were sizable increases in imported computers and semiconductors. In addition, imported machinery (excluding computers and semiconductors) continued at relatively high levels having expanded strongly earlier this year.

Oil Imports. Both the price and the quantity of oil imports fell in August, and declined as well in July-August compared to the second quarter. Prices of oil imports have fallen for three consecutive months, reflecting the slack demand and strong OPEC production that characterized the oil market through most of the summer. Preliminary data from the Department of Energy (DOE) suggest that the declining volumes evident in July and August were

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1993			Months			
	Q1	Q2	Q3-e	May	Jun	Jul	Aug
Value (Bil. $)	51.04	57.25	50.10	54.78	57.82	52.24	47.96
Price ($/BBL)	16.44	17.07	15.39	17.35	16.67	15.60	15.17
Quantity (mb/d)	8.50	9.18	8.91	8.64	9.49	9.17	8.66

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

largely the result of a slowing in the robust rate of stockbuilding in the second quarter. The DOE data show another decline in the quantity of imported oil in September.

Since the last Greenbook, spot and futures oil prices have moved in an uneven pattern, with little change on balance. The agreement reached at the late September OPEC ministerial pushed the near-term West Texas Intermediate (WTI) price up roughly $1.00 per barrel to almost $19.00 per barrel. However, in the past several weeks spot WTI has retreated about $1.50 per barrel on market perceptions of weak demand. Currently, the near-term WTI contract is trading near $16.75 per barrel. Given these movements in the price of the near-term contract, the oil import unit value is likely to remain near $15.15 per barrel through October.

Prices of Non-oil Imports and Exports

Prices of U.S. non-oil imports rose 0.2 percent in September bringing the increase for the third quarter to 1.5 percent at an annual rate on average; this was the second consecutive quarter in which a price rise was recorded. In the third quarter, price increases were recorded for imported capital goods, automotive products, and foods; price declines occurred for non-oil industrial supplies, apparel, footwear, and household goods.

Prices of nonagricultural products were unchanged on balance in September, but declined 1.4 percent at an annual rate for the third quarter on average; this was the first quarterly decline since the fourth quarter of 1992. Decreases were recorded in all major trade categories in the third quarter led by declines in prices of exported building materials and automotive products. The decline in prices of exported consumer goods was the first since the third quarter of 1991. Prices of U.S. agricultural exports declined 0.7 percent in September, the first decline in three months.

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

	Year 1993-Q3 / 1992-Q3	Quarters 1993 Q1	Q2	Q3	Months 1993 Aug	Sep
		(Quarterly Average, AR)			(Monthly Rates)	
	--------------------BLS Prices--------------------					
Imports, Total	-1.1	-5.1	3.3	-2.9	-0.1	0.1
Foods, Feeds, Bev.	2.1	-5.5	3.2	8.5	1.6	0.6
Industrial Supplies	-6.5	-9.2	4.5	-16.0	-0.8	-0.1
Ind Supp Ex Oil	-1.2	-1.9	0.1	-2.4	-0.2	0.2
Capital Goods	-0.1	-4.4	1.9	2.5	0.2	0.0
Automotive Products	1.9	-2.8	5.1	2.4	0.1	0.3
Consumer Goods	0.7	-3.1	2.3	0.9	-0.2	0.2
Memo:						
Oil	-16.1	-23.6	12.3	-34.7	-1.8	-0.4
Non-oil	0.5	-3.3	2.5	1.5	0.1	0.2
Exports, Total	0.5	1.2	1.6	0.2	-0.1	-0.1
Foods, Feeds, Bev.	4.1	5.7	0.7	15.0	0.4	-0.5
Industrial Supplies	0.1	1.9	4.7	-3.1	0.0	-0.6
Ind Supp Ex Ag	--	1.6	5.6	-2.9	-0.1	-0.5
Capital Goods	-0.3	-0.7	0.1	-0.1	-0.1	0.2
Automotive Products	0.8	1.2	0.5	-0.9	-0.2	0.3
Consumer Goods	1.5	3.1	0.3	-0.5	0.0	0.1
Memo:						
Agricultural	3.8	5.6	-1.4	14.6	0.3	-0.7
Nonagricultural	0.1	0.6	1.9	-1.4	-0.1	0.0
	-------------Prices in the NIPA Accounts-----------					
Fixed-Weight						
Imports, Total	-0.9	-5.2	4.0	-2.1	--	--
Oil	-17.6	-28.9	16.0	-35.8	--	--
Non-oil	0.9	-2.8	3.2	1.4	--	--
Exports, Total	0.7	1.1	1.8	0.0	--	--
Ag	3.3	4.8	-2.1	12.9	--	--
Nonag	0.5	0.4	2.6	-1.4	--	--
Deflators						
Imports, Total	-3.4	-7.8	1.6	-5.9	--	--
Oil	-17.6	-28.8	16.1	-35.8	--	--
Non-oil	-1.9	-5.4	0.4	-2.5	--	--
Exports, Total	-1.2	-1.1	0.8	-3.8	--	--
Ag	4.5	5.3	-3.7	12.8	--	--
Nonag	-1.7	-1.6	1.2	-5.2	--	--

U.S. International Financial Transactions

Very large U.S. net purchases of foreign securities (line 2c of the Summary of U.S. International Transactions Table) continued in September, bringing the total for the third quarter to $46 billion. Of this total, $25 billion were purchases of foreign stocks and $21 billion were purchases of foreign bonds.

About two-thirds of U.S. net purchases of foreign stocks in the third quarter were from industrial countries, particularly the United Kingdom. Other net purchases were scattered among Latin American countries and Asian economies; the largest of these were almost $2 billion from Hong Kong.

U.S. net purchases of foreign bonds in the third quarter were even more concentrated. Purchases from the United Kingdom accounted for the bulk of the total. However, since London is a Eurobond center, it is likely that the borrowers were residents of a wider range of countries. The volume of U.S. net purchases of foreign bonds was swelled in September by large new issues of Yankee bonds by the governments of Italy and Israel.

Net private foreign purchases of U.S. securities were also strong in the third quarter. Private foreigners added $8 billion to their holdings of U.S. government agency bonds and $7 billion to their holdings of U.S. corporate debt (both included in line 2a). The net increase in holdings of U.S. Treasury securities was more modest (see line 3); however, the monthly movements were quite volatile. Large foreign net purchases in August (coinciding with the issue of long-term Treasury securities at the mid-quarter refunding) were almost completely reversed in September. Almost half the net purchases of U.S. Treasury securities in August were recorded through Caribbean financial centers. Moreover, foreigners

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

	1992 Year	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 July	1993 Aug.	1993 Sept.
Private Capital								
Banks								
1. Change in net foreign positions of banking offices[1] in the U.S. (+ = inflow)	35.8	-0.9	-6.7	-0.2	23.2	3.7	26.2	-6.7
Securities								
2. Private securities transactions, net[2]	-21.1	-6.8	-17.5	-9.9	-28.8	-17.8	-5.1	-5.9
a) foreign net purchases (+) of U.S. corporate bonds[3]	34.4	8.5	6 4	14 8	15.0	1.4	5.6	8.0
b) foreign net purchases (+) of U.S. corporate stocks	-3.7	4.2	3.9	0.4	2.7	-0.6	2.5	0.8
c) U.S. net purchases (-) of foreign securities	-51.9	-19.5	-27.8	-25.1	-46.5	-18.6	-13.1	-14 8
3. Foreign net purchases (+) of U.S. Treasury obligations	37.4	21.4	14.2	-0.5	4.2	3.7	13.9	-13.4
Official Capital								
4. Changes in foreign official reserves assets in U.S. (+ = increase)	38.1	5.0	11.4	17.3	18.3	-0.7	10.0	9.0
a) By area								
G-10 countries	4.8	-4.7	-1.9	17.8	9.2	-3.5	6.9	5.9
OPEC	4.9	1.7	0.5	-1.7	-3.1	-1.7	-1.2	-0.1
All other countries	28.5	7.9	12.7	1.2	12.2	4.6	4.3	3.3
b) By type								
U.S. Treasury securities	17.5	-7.4	1.0	5.7	18.8	4.1	8.4	6.3
Other[4]	20.7	12.4	10.3	11.7	-0.5	-4.8	1.6	2.7
5. Changes in U.S. official reserve assets (+ = decrease)	3.9	1.5	-1.0	1.5	-0.5	-0.4	*	-0.1
Other transactions (Quarterly data)[5]								
6. U.S. direct investment (-) abroad	-34.8	-11.5	-8.3	-10.8	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	2.4	3.1	8.6	8.3	n.a.	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow)[6]	16.9	-3.4	12.7	7.1	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance	-66.4	-23.7	-22.3	-26.9	n.a.	n.a.	n.a.	n.a.
10. Statistical discrepancy	-12.2	15.3	8.9	14.1	n.a.	n.a.	n.a.	n.a.
MEMO:								
U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-96.1	-26.0	-29.3	-34.4	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.

INTERNATIONAL BANKING DATA
(Billions of Dollars)

	1991	1992				1993			
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept	Oct.
1. Net Claims of U.S. Banking Offices (excluding IBFS) on Own Foreign Offices and IBFS	-35.8	-41.4	-56.8	-58.1	-71.6	-77.1	-80.4	-114.5	-123.0
(a) U.S.-chartered banks	12.4	3.2	8.3	12.8	17.0	8.9	16.8	12.5	6.7
(b) Foreign-chartered banks	-48.3	-44.6	-65.1	-70.9	-88.6	-86.0	-97.2	-127.0	-129.8
2. Credit Extended to U.S. Nonbank Residents by Foreign Branches of U.S. Banks	23.9	23.3	24.5	24.8	24.8	23.5	23.1	21.4	21.5
3. Eurodollar Holdings of U.S. Nonbank Residents 1/	102.9	100.3	91.2	86.3	90.0	89.5	86.1	77.0	77.9

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.

were also substantial net purchasers of U.S. corporate stocks in August and September.

Banks (line 1) reported very large net capital inflows in the third quarter. Almost two-thirds of the net inflows occurred at foreign agencies and branches and were associated with a shift from U.S. to foreign sources of funding rather than asset growth. More recent data on the net claims of U.S. banking offices on their own foreign offices and IBFs suggest that inflows have continued on a monthly average basis in October. (See line 1 of the International Banking Data Table).

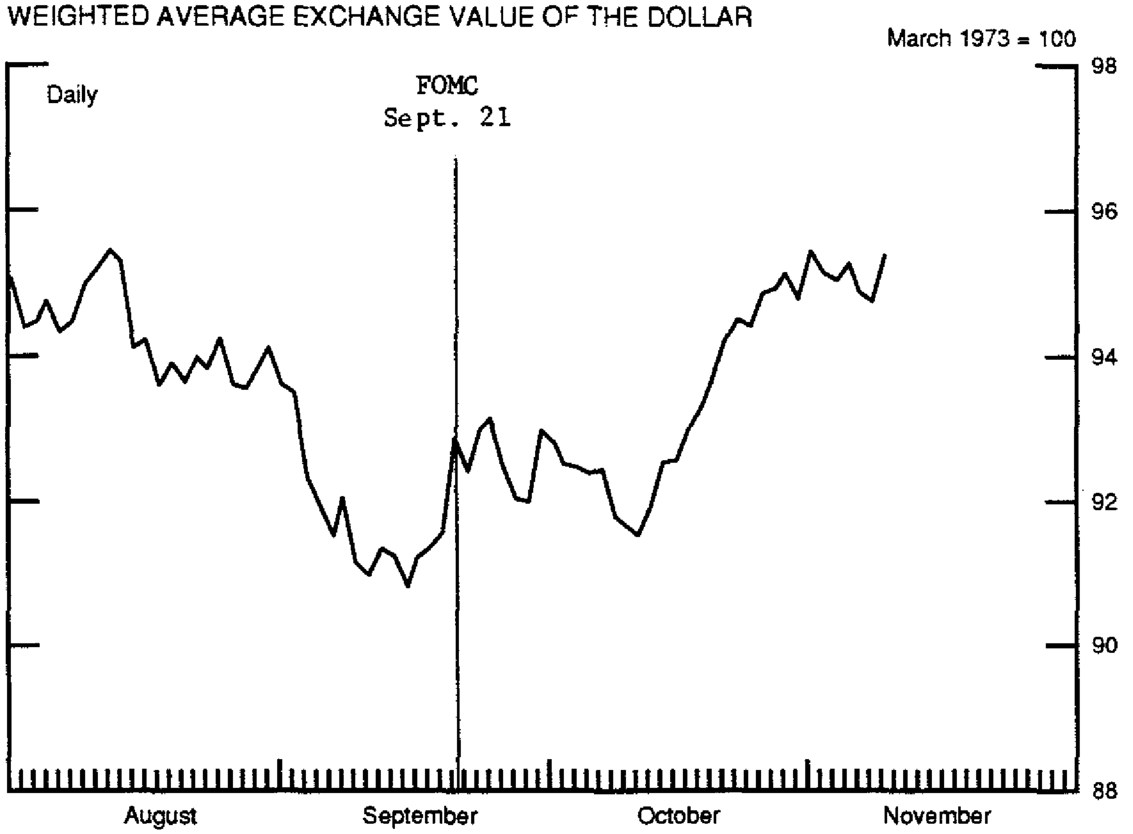
Foreigners also increased their claims on the United States in the form of U.S. currency in recent months. Reports from selected banks to the FRBNY indicate that net shipments to foreign countries through September amounted to more than $15 billion this year, a substantial unrecorded capital inflow in the U.S. international transactions accounts.

Foreign official inflows were very substantial in the third quarter. (See line 4 of the Summary of U.S. International Transactions Table.) Japan and Spain accounted for much of the net increase in official holdings during the quarter. However, holdings of Argentina and Mexico also increased by significant amounts. Additional G-10 official inflows in October seem likely since reported net intervention purchases of dollars were substantial.

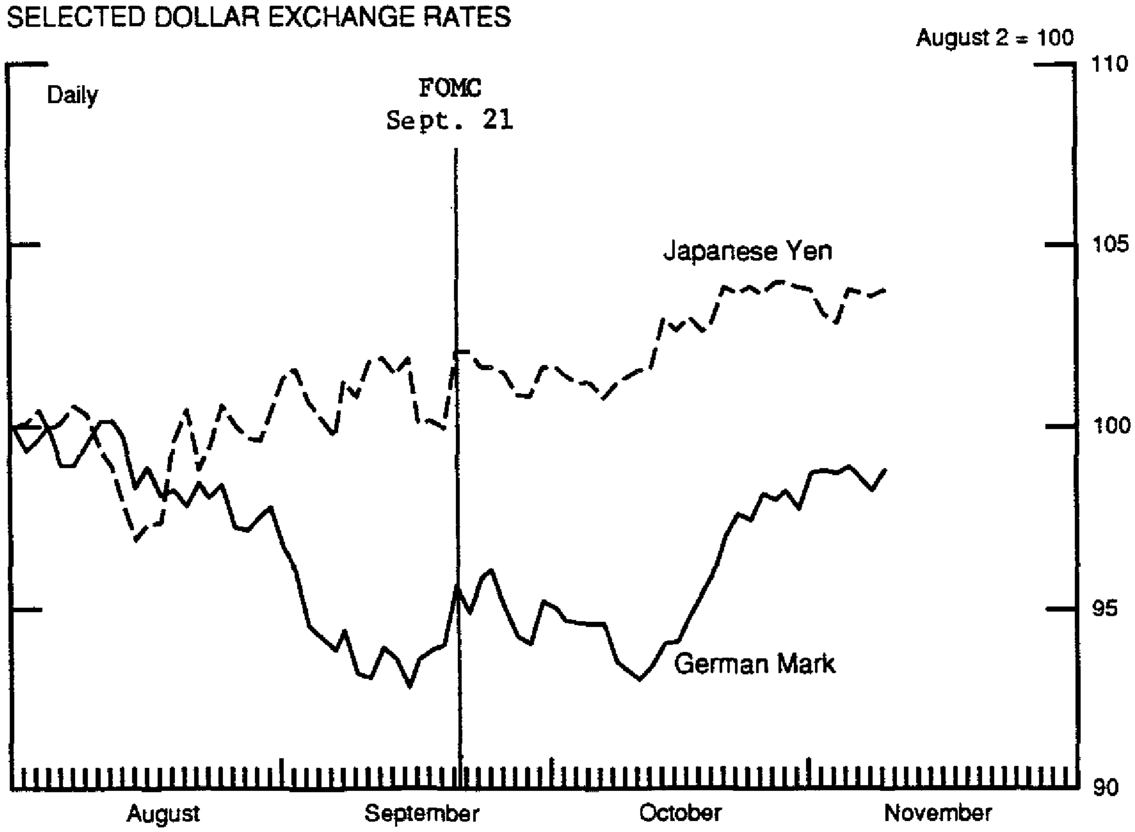
Foreign Exchange Markets

The weighted-average foreign exchange value of the dollar has increased 2-1/2 percent since the September 21 FOMC meeting. The dollar's strength in recent weeks has been due in large part to the release of data which the market interpreted as indicating a stronger U.S. economic expansion. This shift in market sentiment toward a more optimistic outlook for U.S. growth also has been

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



SELECTED DOLLAR EXCHANGE RATES



reflected in the recent rise in U.S long-term interest rates. Since September 21, the yield on the U.S. ten-year Treasury bond has increased 20 basis points on balance. In contrast, the outlook for growth in the major foreign industrial economies has deteriorated recently, contributing to a 25 basis point decline in the weighted-average of foreign long-term interest rates over this period.

The dollar has risen by 3-1/4 percent relative to the mark since the last FOMC meeting. The dollar initially moved sharply higher against the mark in reaction to the Russian political crisis triggered by President Yeltsin's dissolution of the Russian parliament on September 21. However, with the subsequent easing of Russian political tensions, the safe haven premium on the dollar was unwound. Almost all of the dollar's net rise against the mark has taken place since the Bundesbank announced reductions in its official interest rates on October 21. The discount and Lombard rates were reduced 50 basis points, to 5-3/4 percent and 6-3/4 percent, respectively. The Bundesbank also lowered the rate at which it supplies funds to the German money market through repurchase operations by 30 basis points to 6.4 percent. In subsequent days, interest rate reductions of a similar magnitude were also announced by nearly all other European central banks.

Since the September 21 FOMC meeting, the German three-month interest rate has declined by a little over 20 basis points to just above 6.3 percent. Over this period, reductions in three-month interest rates ranging from 10 to 60 basis points have been recorded in France, Italy, the Netherlands, Belgium, the United Kingdom and Switzerland.

The dollar has appreciated by 3/4 percent against the yen since the September FOMC meeting. The yen has weakened in part due to growing pessimism over the outlook for the Japanese economy.

Reduced prospects for a near-term recovery have also fueled a sharp drop in Japanese stock prices in recent weeks. The commonly cited Nikkei 225 index has fallen by over 11 percent since the September FOMC meeting, while the broader Topix index has declined by 7 percent. Japanese short-term interest rates have edged down only slightly further since the September 21 announcement by the Bank of Japan of a 75 basis point reduction in its discount rate to 1-3/4 percent. The Japanese three-month CD rate has declined 5 basis points since September 21 to a record low level just over 2.3 percent.

The U.S. dollar has depreciated by 1 percent relative to the Canadian dollar since the September 21 FOMC meeting. Political developments related to the October 25 general election dominated movements in the Canadian currency. The market appears on balance to have been reassured that the new Liberal government has a stable parliamentary majority and that the economic portfolios in the new cabinet have gone to moderates.

The Mexican peso came under strong downward pressure last week in response to growing concerns about the prospects for NAFTA.

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Since late October, the peso has depreciated 3-1/2 percent against the dollar; the Mexican stock market has remained about unchanged on balance.

. There was no intervention by U.S. authorities.

Developments in Foreign Industrial Countries

Available data for the major foreign industrial countries give a mixed picture of economic activity in recent months. In Japan, recent indicators suggest that economic activity remained weak in the third quarter following a decline in real GDP in the second quarter. Real economic activity in western Germany appears to have stagnated in the third quarter after increasing moderately in the second quarter. Recent indicators suggest that the recessions in France and Italy may have bottomed out. The United Kingdom's modest recovery continued in the third quarter, while the pace of Canada's recovery appears to have slowed.

Inflation in the foreign industrial countries continues to hold steady. In Japan, small increases in the rate of inflation earlier this year resulted primarily from special factors and have largely been reversed. In western Germany, consumer price inflation has started to slow as price pressures in services and housing have begun to moderate.

The German constitutional court on October 12 ruled that the Maastricht Treaty on European Union does not violate Germany's constitution, and on November 1 the Maastricht Treaty went into effect. Frankfurt was chosen as the site of the European Monetary Institute, which will eventually be replaced by an EC central bank. Alexandre Lamfalussy, currently General Manager of the BIS, was nominated to be the first president of the European Monetary Institute.

Individual Country Notes. In Japan, data suggest that economic activity remained weak in the third quarter following a 1.6 percent (s.a.a.r.) decline in real GDP in the second quarter. Industrial production (s.a.) was nearly unchanged in the July-September period after declining 1.5 percent in the second quarter. Retail sales

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

	1991	1992	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 MAY	1993 JUN	1993 JUL	1993 AUG	1993 SEP	Latest three months from year ago 2/
JAPAN												
GDP	3.0	0.0	-0.2	0.6	-0.4	NA	*	*	*	*	*	-0.5
IP	-1.6	-7.7	-2.9	-0.1	-1.5	-0.1	-2.6	1.9	-0.2	-1.2	1.5	-4.5
WEST GERMANY												
GDP	2.7	0.0	-1.0	-1.6	0.6	NA	*	*	*	*	*	-2.4
IP	0.1	-4.6	-4.1	-2.9	-0.0	0.0	0.7	-0.3	-0.8	2.2	-2.0	-7.0
FRANCE												
GDP	1.3	0.6	-0.3	-0.7	0.0	NA	*	*	*	*	*	-1.0
IP	1.8	-2.3	-2.6	-0.9	-0.4	NA	0.1	-0.2	1.2	0.0	NA	-3.1
UNITED KINGDOM												
GDP	-1.6	0.3	0.3	0.5	0.6	0.6	*	*	*	*	*	2.0
IP	-0.8	-0.7	0.5	0.3	0.8	NA	1.4	-1.0	0.9	0.1	NA	2.7
ITALY												
GDP	1.7	-0.3	-0.5	-0.1	0.8	NA	*	*	*	*	*	-0.6
IP	-0.3	-3.1	-1.2	-0.3	-1.1	NA	0.0	-1.8	0.9	NA	NA	-4.8
CANADA												
GDP	-0.1	0.8	0.7	0.9	0.8	NA	*	*	*	*	*	2.4
IP	-1.1	1.9	1.5	1.9	0.8	NA	-0.2	1.6	-1.1	0.6	NA	5.3
UNITED STATES												
GDP	0.3	3.9	1.4	0.2	0.5	0.7	*	*	*	*	*	2.8
IP	-0.3	3.2	1.6	1.4	0.6	0.4	-0.2	0.2	0.2	0.1	0.2	4.1

* Data not available on a monthly or quarterly basis.
1/ Yearly data are Q4 to Q4 percent change.
2/ For quarterly data, latest quarter from a year ago.

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

	1991	1992	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 JUL	1993 AUG	1993 SEP	1993 OCT	Latest month from year ago 2/
JAPAN													
CPI	3.2	0.9	1.3	-0.1	0.0	0.0	1.1	0.5	0.3	0.3	-0.0	-0.2	1.2
WPI	-1.7	-1.5	0.0	-0.2	-0.9	-0.5	-1.4	-1.0	-0.1	-0.6	-0.0	NA	-3.7
WEST GERMANY													
CPI	3.9	3.7	1.1	0.5	0.9	1.8	1.0	0.4	0.1	0.0	0.1	0.2	3.9
WPI	1.6	-1.9	0.5	-2.0	-0.8	0.7	0.1	-0.6	-0.2	-0.4	-0.5	NA	-0.5
FRANCE													
CPI	2.9	1.8	0.8	0.0	0.5	0.8	0.6	0.2	0.1	0.0	0.4	NA	2.3
WPI	-3.6	-2.1	0.4	-0.4	-2.3	0.0	NA	NA	*	*	*	*	-2.3
UNITED KINGDOM													
CPI	4.2	3.1	2.2	-0.1	0.4	-0.7	1.6	0.3	-0.2	0.4	0.4	NA	1.8
WPI	3.9	3.1	1.3	0.1	0.7	1.4	1.7	0.3	0.2	0.0	0.0	0.2	4.0
ITALY													
CPI	6.1	4.8	1.2	0.7	1.3	1.0	1.1	0.9	0.4	0.1	0.1	0.7	4.3
WPI	1.1	3.0	0.8	-0.5	2.8	1.6	1.3	NA	0.2	0.4	NA	NA	6.5
CANADA													
CPI	4.1	1.8	0.5	0.4	0.4	0.7	0.2	0.4	0.2	0.1	0.1	NA	1.9
WPI	-3.2	3.3	0.6	0.8	1.2	1.2	-0.0	0.5	0.1	0.5	0.1	NA	2.7
UNITED STATES													
CPI (SA)	3.0	3.1	0.8	0.7	0.8	0.9	0.7	0.3	0.1	0.3	0.0	0.4	2.7
WPI (SA)	-0.1	1.5	0.8	0.4	0.2	0.6	0.7	-0.7	0.0	-0.6	0.2	-0.2	0.2

* Data not available on a monthly or quarterly basis.
1/ Yearly data are Q4 to Q4 percent change.
2/ For quarterly data, latest quarter from year ago.

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

			1992			1993			1993			
	1991	1992	Q2	Q3	Q4	Q1	Q2	Q3	JUN	JUL	AUG	SEP
JAPAN												
TRADE	78.5	107.3	24.5	26.2	28.6	29.7	29.9	29.7	8.6	11.2	8.9	9.6
CURRENT ACCOUNT	73.1	117.2	28.8	28.1	31.7	36.0	31.8	32.0	9.0	11.2	9.5	11.2
GERMANY												
TRADE (NSA)	13.6	21.4	3.4	8.6	5.0	6.0	7.9	NA	3.8	1.7	1.8	NA
CURRENT ACCOUNT (NSA)	-19.5	-25.5	-6.4	-8.6	-5.2	-5.7	-3.8	NA	-0.3	-5.0	-4.4	NA
FRANCE												
TRADE	-5.3	5.6	1.9	1.3	1.3	2.5	3.9	NA	0.8	1.8	NA	NA
CURRENT ACCOUNT	-5.8	3.8	1.5	0.1	3.2	-1.5	NA	NA	*	*	*	*
UNITED KINGDOM												
TRADE	-18.3	-23.4	-5.3	-6.1	-6.8	-5.2	-5.5	NA	-1.8	-2.4	NA	NA
CURRENT ACCOUNT	-13.7	-15.1	-4.5	-3.1	-3.9	-4.4	-4.5	NA	*	*	*	*
ITALY												
TRADE	-13.0	-10.5	-4.3	-2.0	-1.8	4.6	5.2	NA	1.1	3.4	-0.2	NA
CURRENT ACCOUNT (NSA)	-21.4	-25.9	-5.4	-6.8	-4.8	-2.9	2.8	NA	*	*	*	*
CANADA												
TRADE	4.3	7.4	1.4	1.7	2.9	2.5	2.3	NA	0.8	1.0	0.5	NA
CURRENT ACCOUNT	-25.3	-23.0	-6.1	-5.6	-4.6	-4.9	-5.3	NA	*	*	*	*
UNITED STATES												
TRADE	-73.8	-96.1	-24.8	-27.6	-26.0	-29.3	-34.4	NA	-13.1	-11.7	-11.1	NA
CURRENT ACCOUNT	-8.3	-66.4	-18.3	-17.8	-23.7	-22.3	-26.9	NA	*	*	*	*

* Data not available on a monthly or quarterly basis.
1/ The current account includes goods, services, and private and official transfers.

(n.s.a.) declined 4.3 percent in the third quarter from their year-earlier level, down marginally from the second quarter. The ratio of job offers to applicants (s.a.) declined over the third quarter to 0.69 in September, while the unemployment rate rose slightly to 2.6 percent. Among more positive indicators, new machinery orders (s.a.) rose 2.3 percent in the third quarter after falling 9.5 percent in the second quarter. The index of leading indicators returned to the boom/bust demarcation line of 50 in August, after a low of 30.8 in June. Housing starts (s.a.) were 9.3 percent higher in the third quarter than in the second, while new car registrations (s.a.) were up 2.1 percent.

JAPANESE ECONOMIC INDICATORS
(percent change from previous period except where noted, s.a.)

	1992	1993					
	Q4	Q1	Q2	Q3	Jul.	Aug.	Sep.
Machinery Orders	-14.8	16.0	-9.5	2.3	-5.8	4.3	7.3
New Car Registrations	-5.6	10.7	-11.8	2.1	-2.7	1.5	6.4
Job Offers Ratio*	0.94	0.91	0.80	0.70	0.72	0.70	0.69
Index Leading Ind.*	26.2	75.6	46.2	--	45.5	50.0	--
Business Sentiment**	-44	-49	-49	-51	--	--	--

* Level of indicator.
** Percent of manufacturing firms having a favorable view of business conditions minus those with an unfavorable outlook.

The growth of consumer prices in the Tokyo area (n.s.a.) declined to 1.2 percent on a 12-month basis in October, reflecting a reversal of the surge in fresh food prices that had boosted overall consumer prices over the summer. Excluding perishables, Tokyo consumer prices also rose 1.2 percent on a 12-month basis in October, below the rate in the first half of 1993. In part reflecting the cumulative appreciation of the yen, wholesale prices continued to decline in September, falling 3.7 percent below their year-earlier level.

The trade surplus (customs basis, s.a.) moved up to $9.6 billion in September from $8.9 billion in August. The September current account surplus (s.a.) rose to $11.2 billion from $9.5 billion in August; the cumulative surplus for the first nine months of 1993 was $133 billion at an annual rate, up considerably from last year.

The protracted slowdown in economic activity, as well as the appreciation of the yen over the last year, led the Bank of Japan to lower its discount rate on September 21 by 75 basis points to 1.75 percent; it was the seventh reduction since June 1991 and brought the discount rate to its lowest level in the post-war period. This move, which followed the September 16 announcement of a 6 trillion yen (about 1.3 percent of GDP) stimulus package, has not sufficed to reduce official concerns about the economic outlook. It is anticipated that in a preliminary report scheduled for release on November 16, the Government Tax Council, an advisory body to the prime minister, will recommend a 5 to 6 trillion yen cut in personal taxes, to be offset by an increase in the consumption tax rate one or two years later.

In western Germany, real economic activity appears to have stagnated in the third quarter after increasing moderately in the second quarter. This reinforces the view that much of the gain in real GDP in the second quarter may have resulted from unintended accumulation of inventories. Industrial production (s.a.) remained unchanged on average in the second and third quarters. After increasing 2.2 percent in August, production fell back 2 percent in September to a level 7.6 percent below its year-earlier level. In the third quarter, capacity utilization slipped to a 10-year low. In the first three quarters of the year, west German car production plummeted, and new passenger car registrations dropped sharply. The volume of new orders for western German manufactured goods (s.a.) has shown some signs of improvement recently, increasing 1.2 percent in the third quarter from the second-quarter average. The unemployment rate (s.a., as a percent of the dependent labor force) rose to 8.8 percent in October. Rising unemployment has put downward pressure on wage growth, which has moderated considerably this year and should continue to slow in the upcoming wage negotiations.

WESTERN GERMAN ECONOMIC INDICATORS
(percent change from previous period except where noted, s.a.)

	1992	1993					
	Q4	Q1	Q2	Q3	Aug.	Sep.	Oct.
Capacity Utilization	-3.1	-2.4	-0.3	-0.5	--	--	--
Total Orders	-7.1	-0.9	0.5	1.2	-2.1	1.2	--
Unemployment Rate (%)	7.2	7.6	8.1	8.4	8.4	8.6	8.8
Production Plans* (%)	-33.3	-25.7	-21.7	--	-11.0	--	--

* Percent of mining and manufacturing firms that expect to increase production minus those that expect to decrease it.

Consumer prices in western Germany increased 3.9 percent in October from a year earlier. This is the first time inflation has been below 4 percent since the increase in the value-added tax at the beginning of this year. Wholesale, producer, and import prices (n.s.a.) remained on a downward trend in September.

In September, M3 was 6.8 percent (s.a.a.r) higher than the average of the fourth quarter of 1992. This is down somewhat from growth rates recorded in July and August, but still slightly above the 4-1/2 to 6-1/2 percent target range.

According to preliminary figures, the pan-German current account deficit (n.s.a.) in the first eight months of 1993 was $18.8 billion, about the same as the deficit recorded in the corresponding period last year, despite a large increase in the trade surplus over this period.

In France, real GDP was flat in the second quarter as a modest increase in consumption offset negative contributions from investment and inventories. In the third quarter, there were signs of a recovery in economic activity. The July-August average of industrial production (s.a.) was 1.1 percent above its second-quarter average. In September, industrial production appeared to be flat according to a Bank of France survey. In the third quarter, consumption of manufactured products (s.a.), a third of total consumption, was 2.1 percent above its second-quarter average. However, the unemployment rate (s.a.) has continued to rise, reaching 11.8 percent in September.

Recent increases in French inflation are likely to prove transitory. Consumer prices (n.s.a.) in September were 2.3 percent higher than a year earlier, up slightly from 2.2 percent in August. Most of the rise in inflation from an average of roughly 2 percent in the first half of the year can be attributed to increases in excise taxes on tobacco and gasoline.

France's trade surplus (s.a.) increased to $1.8 billion in July, up from a revised $774 million in June and down only slightly from the record $2 billion registered in May. The cumulative surplus for the first seven months of 1993 was $8.2 billion, double the surplus registered over the same period last year. The improvement is due to a large drop in imports associated in part with the collapse of investment in the first half of the year. France also registered a record bilateral trade surplus with Germany of $278 million in July. (In the past, France has typically run a trade deficit with Germany).

The French government privatised BNP, France's largest bank, selling $4.8 billion worth of shares to 2.8 million shareholders. A portion of BNP shares were reserved for a "hard core" of investors committed to holding their shares for a long period and to overseeing management operations. This hard core includes foreign as well as French firms. The initial subscription was oversubscribed by 12 times, in part because the issue price was significantly below the market price, leading the government to reduce the portion of shares reserved for the hard core to accommodate some of this demand. The government also intends to privatise the chemical company Rhone-Poulenc this year and should be able to reach its target level of revenues of $7-1/2 billion.

In the United Kingdom, real GDP increased 2.3 percent (s.a.a.r.) in the second quarter, up from 2.1 percent in the first quarter. The U.K.'s modest recovery appears to have continued into the third quarter. According to provisional estimates, real GDP growth continued at 2.3 percent (s.a.a.r.) in the third quarter. Robust growth in services and energy production offset declines in manufacturing production. The unemployment rate (s.a.) edged down slightly to 10.3 percent in September. Business sentiment (s.a.) fell back somewhat in the third quarter from the strong second-quarter average. In October, M0 was 5.4 percent above its level a year earlier; the increase, the largest in over three years, may indicate continued recovery in domestic expenditure. The Purchasing Managers' Index indicated a sharp increase in output and new orders in October. In contrast, consumer confidence (s.a.) weakened considerably further in October, after falling in the third quarter from its strong second-quarter average.

In September, consumer prices (n.s.a.) increased 1.8 percent on a 12-month basis. Excluding mortgage interest rates, consumer prices were 3.3 percent above their level of September 1992. Cost pressures associated with the depreciation of sterling continued to ease. Producers' input prices stabilized in October after falling for the previous six months and stood 0.9 percent higher than their level a year earlier (and 4.9 percent higher than in August 1992, prior to sterling's devaluation). In addition, labor costs continue to moderate. In August, the underlying rate of inflation in earnings was 3.5 percent, down from 5.8 percent in August 1992.

In July, the trade deficit (s.a.) worsened to $2.4 billion from an average monthly balance of $1.8 billion in the second quarter. The cumulative deficit for the first seven months of 1993 was $13 billion, up slightly from the same period last year despite the large depreciation of the pound. Domestic-currency prices of exports have increased nearly in line with the effective depreciation of the pound, giving little boost to the competitiveness of U.K. goods. In August and September, the trade deficit with non-EC trading partners (the only figures available) continued to worsen due to rapid growth of imports.

In Italy, economic activity may be nearing its cyclical trough. Following three consecutive quarters of negative change, real GDP rose 3.1 percent (s.a.a.r.) in the second quarter. However, the components suggest underlying weakness. Domestic demand climbed 2.2 percent only on the strength of inventory accumulation and stronger government spending, which, given the government's desire to reduce the budget deficit, is unlikely to persist. Private consumption and fixed investment fell for the fourth and sixth consecutive quarter, respectively. Net exports added 0.9 percentage points to GDP growth as imports fell more than exports.

More recent indicators remain mixed. Industrial production (s.a.) rose 0.9 percent in July but remains 0.3 percent below the second-quarter average. The unemployment rate (n.s.a.) dipped slightly to 13.6 percent in the third quarter. Consumer and business confidence remain depressed, and real retail sales are flat.

Due largely to the 20 percent effective depreciation of the lira since September 1992, wholesale and producer price inflation rates have increased. In the year to August, wholesale and producer price inflation (n.s.a.) averaged 5.2 percent and 3.7 percent, respectively, up from rates registered in 1992. However, weakness in economic activity has contributed to a slowing in consumer price inflation. In the year to October, consumer price rises (n.s.a.) averaged 4.3 percent, down from the average rate of 5.3 percent recorded in 1992.

The falling lira and weak economic activity produced seven consecutive monthly trade surpluses through July. Although Italy incurred a trade deficit (s.a.) of $200 million in August, the cumulative trade surplus for the year totaled $13 billion. During the same period in 1992, Italy recorded an $8 billion trade deficit. The current account deficit (n.s.a.) in the first half of 1993 totalled $100 million, down from $14.3 billion recorded in the first half of 1992.

Economic indicators for Canada suggest that the pace of the recovery slowed in the third quarter. The July-August average of monthly GDP at factor cost (s.a.) rose only 0.3 percent above the second-quarter level, a considerably slower rate than those in the first and second quarters. In addition, the growth of industrial production has slowed substantially from the rapid first-quarter rate. After three successive quarterly increases, business confidence dropped sharply in the third quarter from the previous quarter, but is still up 6.4 percent from its level a year earlier. Indicators of household demand show moderate growth, as retail trade in July and August increased slightly from the second-quarter level, and consumer confidence grew marginally after large increases in the first half of the year. The housing market remains sluggish.

Conditions in the labor market remain weak. Average total civilian employment (s.a.) for the third quarter grew slightly over the second-quarter level. However, employment growth was accompanied by an increase in labor force participation, and the average unemployment rate (s.a.) for the third quarter was unchanged from the second quarter at 11.4 percent. Most of the gains in employment have been for youths; adult employment has been little changed since June.

Inflation remains moderate, despite some upward pressure on prices from the decline in the Canadian dollar. The 12-month change in the CPI excluding food and energy was 2.2 percent (n.s.a.) in September, up from 1.8 percent in both July and August largely due to special factors. Inflation remains below the Bank of Canada's target of 2-1/2 percent for mid-1994.

Merchandise exports increased slightly on average in July and August, well below the pace of the first quarter, while imports grew strongly in August, and the trade surplus narrowed. An encouraging note is that much of the August increase in imports was for machinery and equipment.

Jean Chretien led the Liberal Party to a sweeping victory in the October 25 general election, capturing a sizable majority of Parliament seats. The Progressive Conservative party held on to only two seats, while large gains were made by the Quebec separatist party, the Bloc Quebecois, and another regional party, Reform. Chretien appointed Paul Martin, a moderate within the Liberal Party, as Finance Minister. Martin indicated on November 4 that maintaining low inflation is an important concern of the Liberal government.

Economic Situation in Other Countries

Mexico announced an economic stimulus package to be implemented in January 1994, amid indications that economic activity continued to slow during the third quarter. Mexico's financial markets are showing signs of nervousness as the U.S. Congress prepares to vote on NAFTA.

Brazil's consumer prices increased 37 percent during September, continuing the climb seen in recent months. Argentina, however, has achieved its lowest inflation rate in two decades, with consumer prices rising only 8.1 percent in the year ending October. In China, the twelve-month urban inflation rate fell slightly in August, but remained above 20 percent. Chinese officials appear to be wavering in their commitment to the retrenchment program announced in July. Inflation in Korea and Taiwan remains at low levels.

During the first half of 1993, Taiwan experienced its weakest current account performance in ten years. China's trade deficit increased to $7 billion during the first nine months of this year, a sharp reversal of last year's $5 billion surplus for the comparable period.

Individual country notes. Mexico's real GDP growth in the third quarter appears to have been weaker than the second-quarter growth of 0.3 percent and may have been negative. Economic activity this year has been slowed by tight monetary and fiscal policies designed to control inflation and improve the balance of payments position. Uncertainty about the fate of NAFTA in the U.S. Congress has contributed to weaker growth by discouraging investment.

In response to the slowdown, the government has announced an economic stimulus package to take effect January 1, 1994. The package includes cuts in individual and corporate tax rates, larger exemptions and credits for low income taxpayers, and accelerated depreciation for investments in anti-pollution equipment. How this package fits into the total fiscal picture will not be known until the 1994 budget is unveiled in mid-November. For 1993, a small overall deficit appears likely. The fiscal balance, which was in surplus in the first half of the year, went into deficit in the third quarter.

On November 3, when the financial markets reopened after being closed for holidays, the peso/dollar exchange rate, which had changed little for about a year, came under strong pressure. On November 10, the exchange rate was 3.3 percent below its October 29 level, and 2.6 percent above the lower limit of its fluctuation band. Market participants have evidently become nervous about the forthcoming U.S. Congress vote on NAFTA and have begun to sell Mexican investments and to buy foreign exchange. On November 9, the Mexican stock market closed 3.3 percent below its pre-holiday level.

Pressure has also been evident in the government securities market. On November 10, the 28-day rate was 17.23 percent, 377 basis points higher than a week earlier. Since November 3, the Bank of Mexico has purchased large amounts of peso-denominated Treasury bills in the secondary market in an attempt to moderate this increase. On November 9, the Bank's reported purchases included 1 billion pesos of one-day bills at a price yielding 23 percent.

Secondary market prices of Mexican long-term public sector debt, expressed as a percentage of face value, fell by more than 4 percentage points between October 29 and November 9.

International reserves, including about $200 million in gold, were $23 billion at the end of October, $400 million more than in August, but an estimated $1.7 billion less than the April peak.

In October, the CPI increased 0.4 percent, the smallest monthly increase in twenty years; this leaves consumer prices 9.1 percent higher than a year earlier.

In Brazil, business surveys and anecdotal evidence suggest that economic activity has stagnated in recent weeks. Additionally, inflation continues to climb. The CPI rose by 37 percent during September, compared with monthly increases of 33.5 percent in August and 30 percent in July. Cumulative imports for the year through September were 28.2 percent above a year earlier. Cumulative exports through September were 10.6 percent higher than in 1992. As a result, Brazil's cumulative trade surplus fell to $10 billion from the $11.4 billion surplus registered during the same period in 1992.

In late October 1993, Brazil's Senate approved a resolution outlining repayment options for the country's $35 billion Brady-style commercial bank debt restructuring agreement. To conclude this agreement, scheduled to be signed in late November, Brazil must either obtain an IMF stand-by arrangement or purchase the collateral (U.S. Treasury bonds) using its international reserves. In early November, the deadline for implementation of the package was moved from February 1994 to April 1994, due to Brazil's recurrent failure to obtain an IMF stand-by arrangement and its unwillingness to purchase the collateral (this is the third time the implementation date has been postponed).

There continues to be a lack of political commitment to implement needed fiscal and monetary reforms. A number of fiscal reforms were to be considered during the review of the 1988 constitution, scheduled to last from early October to early December 1993. However, in recent weeks, Brazil's latest political scandal (over 30 prominent politicians have been accused of corruption) has diverted the attention of the political elite from the country's pressing economic problems.

In Argentina, consumer price inflation for the year ending October 1993 fell to 8.1 percent, down significantly from the 18 percent rate registered a year earlier. The trade balance, however, continued to deteriorate. During the first eight months of 1993, the trade deficit reached $1.6 billion (including a $483 million deficit in August alone), compared with a $1.2 billion deficit during January-August 1992.

In late September, the Argentine congress gave final approval to a package of social security reforms. This legislation strengthens incentives to pay social security taxes by allowing employees to direct their contributions to private pension funds and by requiring each individual to make contributions for at least 30 years to qualify for retirement benefits. These reforms are expected to raise the level of domestic saving and to facilitate the enforcement of payroll tax compliance by employers. The package also raises the retirement age and reduces the level of publicly guaranteed benefits.

As part of Argentina's Brady-style agreement with commercial bank creditors, about 85 percent of outstanding interest arrears were settled in late October. At that time, $6.6 billion in 12-year non-collateralized floating-rate bonds and a cash payment of $636 million were released from escrow. Remaining arrears should be cleared by mid-December when final reconciliation is completed.

Chinese authorities appear to have backtracked from the tight credit path announced in the July retrenchment program. Although M2 growth (year-on-year) fell in the third quarter to 22.1 percent from 25.9 percent in the second quarter, the central bank injected 100 billion yuan of base money (about 10 percent of the end-June monetary base) into the economy during August and September in an attempt to alleviate credit shortages. Authorities also project an increase of 200 billion yuan of new credit in the fourth quarter to pay for agricultural harvests and year-end enterprise demand for funds.

Despite the central bank's wavering, the retrenchment efforts appear to have had some impact. Industrial production in September was 19.1 percent higher than a year earlier, a slower rate of growth than August's 23.4 percent increase and markedly slower than the record-setting 30.2 percent rise registered in June. Urban inflation was 22.2 percent for the year ending in August, a decline from July's 23.3 percent increase. The retrenchment also seems to have quashed speculative real estate bubbles that had developed in several regions. Anecdotal evidence suggests, however, that the credit slowdown has hurt a variety of state-owned and private firms and has caused inter-enterprise arrears to reappear as a significant economic problem (as during 1988-89).

Through September, the Chinese merchandise trade deficit stood at $7 billion, compared with a $5 billion surplus for the same period in 1992. This reversal has been due primarily to a 30 percent increase in imports. The exchange value of the yuan has stabilized at around 8.7 yuan to the dollar in the country's swap exchange markets.

In Taiwan, real GDP grew 6.1 percent in the first half of 1993, continuing a modest slowdown reflecting relatively weak growth in world demand for the country's exports. Taiwan's merchandise trade surplus stood at $6.4 billion between January and October, as exports grew 4.7 percent and imports grew 8.6 percent. The current account surplus for the first six months of 1993 was $3 billion, the smallest total since the first half of 1983. Notably, however, trade with China has grown robustly. During the first eight months of 1993, Chinese-Taiwanese trade was 21.3 percent above its 1992 level. Inflation has continued at a moderate rate, with the CPI in October only 1.2 percent higher than a year ago (a typhoon caused a temporary increase in consumer prices during autumn 1992). On November 5, the central bank reduced its discount rate by 12.5 basis points to 5.5 percent, after lowering reserve requirements for various deposits by about 1 percent in September. These measures, however, appear too modest to have a significant effect on the economy.

Although economic activity in Korea has remained weak relative to historical standards, tight credit conditions resulting from the mid-August "real-name" reform appear to have eased. The Bank of Korea has attempted to cushion the impact of the reform by adopting a less stringent monetary policy and has achieved a significant reduction in interest rates in recent weeks. Despite the looser monetary policy, inflation seems to have remained stable: the consumer price index was 5.1 percent higher in October than a year earlier.

In the first nine months of 1993, exports grew 7.3 percent and imports increased only 1 percent from the same period a year earlier. As a result, the current account deficit over the first nine months of 1993 narrowed to $1 billion from $4.8 billion over the same period in 1992.

On November 1, the Korean government implemented the second stage of its four-step plan to deregulate interest rates. This reform, at least in principle, allows financial institutions to set interest rates on deposits with a maturity exceeding two years, on corporate bonds with a maturity of less than two years, and on all loans except for policy loans (policy loans account for about 40 percent of total loans). The first stage of this deregulation plan, implemented in November 1991, freed interest rates on most money market instruments including bank overdrafts, large-scale repurchase agreements, certificates of deposit, and corporate bonds with a maturity of more than two years.

Economic activity in Russia has declined sharply in recent months. Measured real GDP in the third quarter of 1993 was 11 percent lower than a year earlier. Monthly industrial production, which was roughly stable over the first seven months of the year, has reportedly fallen by 22 percent between July and September.

This economic contraction partially reflects a tightening of monetary policy. The Russian central bank gradually raised its monthly refinance rate from 6.7 percent in January to 17.5 percent in October. Average monthly growth of ruble M2 fell from 20 percent for March-May to 11 percent for June-August. Monthly inflation declined from 29 percent in August to 21 percent in September.

The ruble traded at 1,176 per dollar in the Moscow MICEX auction of November 8. The currency plummeted during the early-October confrontation between President Yeltsin and Russian parliamentarians, but has now recovered about half of its losses against the dollar. Russia, Armenia, Belarus, Kazakhstan, Tajikstan and Uzbekistan agreed in principle last month to continue to use the ruble as their currency. However, difficulties in completing this agreement subsequently led Kazakhstan and Uzbekistan to develop plans to issue their own currencies by the end of 1993.

Russia's uneven macroeconomic performance over the last several months has precluded the disbursement of another $1.5 billion under the IMF's Structural Transformation Facility and has impeded efforts to obtain an IMF stand-by arrangement. Yeltsin's recent political successes may enable Russia to implement macroeconomic reform more consistently over the next several months, opening the way for further IMF assistance.

In Poland, the Democratic Left Alliance and the Polish Peasant Party (PSL) have formed a coalition government led by Waldemar Pawlak of the PSL. Despite its communist roots, the Pawlak government has been cautious in its approach to economic policy. Initial indications suggest that it will not deviate significantly from the approach of its predecessor: the new government has endorsed privatization and vowed to continue the fight against inflation. The details of the government's economic plan, however, will not be known until the 1994 budget is released on December 29.

After months of debate with the Ministry of Finance, the National Bank of Poland (NBP) agreed on November 2 to finance an additional $400 million of the government's budget deficit. The NBP asserted that this action will not push 1993 inflation beyond 32-35 percent, the NBP's previously announced target. Money creation this year has been less than planned, and several expected inflationary impulses have not materialized.