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December 15, 1993

RECENT DEVELOPMENTS

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

**DOMESTIC NONFINANCIAL
DEVELOPMENTS**

The incoming data point to a sizable increase in economic activity in the fourth quarter. Employment has continued to post solid gains, and the unemployment rate dropped in November to its lowest level since January 1991. The pickup in output in the industrial sector, spurred importantly by developments in the motor vehicle industry, has been especially impressive. Wage and price data received since the last Greenbook do not point to any break in underlying trends.

The Labor Market

Labor market indicators exhibited notable strength in November. In the establishment survey, payrolls rose about 200,000 after a gain of roughly 150,000 in October. The household survey reported a second straight gain in excess of 450,000,¹ and the civilian unemployment rate dropped 0.4 percentage point to 6.4 percent.²

The increase in payroll employment in November was widespread. In the goods-producing sector, construction posted a second monthly gain of about 30,000--bringing the increase so far this year to almost 200,000 jobs and setting the stage for the first over-the-year increase since 1989. In addition, manufacturing employment posted back-to-back increases in October and November after declining steadily between February and September. Most of the hiring was in durable goods industries--particularly those related

1. Movements in household and payroll employment often diverge considerably over short periods of time. However, during the past year both household and payroll employment have grown by roughly similar amounts. Total payroll employment has increased 1.9 million while household employment (adjusted to match the payroll concept) has risen 2.2 million.

2. Using concurrent seasonal adjustment factors, which take into account the data through the latest month, the unemployment rate was 6.7 percent in October and 6.5 percent in November. The labor market report for December will incorporate the revision that BLS makes every six months to the seasonal factors for the household survey. As a result, we expect the revised data to show a smaller decline in the unemployment rate for November.

CHANGES IN EMPLOYMENT¹
(Thousands of employees; based on seasonally adjusted data)

	1991	1992	1993			1993		
			Q1	Q2	Q3	Sep.	Oct.	Nov.
-----Average monthly changes-----								
Nonfarm payroll employment ²	-72	80	162	179	134	197	147	208
Private	-88	59	155	167	101	102	165	194
Manufacturing	-44	-26	7	-55	-24	-20	12	30
Durable	-39	-22	3	-44	-12	0	14	24
Nondurable	-5	-5	5	-10	-12	-20	-2	6
Construction	-33	-5	7	31	6	-1	33	27
Trade	-30	20	62	51	31	51	6	-6
Finance, insurance, real estate	-9	-2	0	5	9	14	18	27
Services	39	78	77	140	86	52	96	105
Health services	30	29	29	26	24	31	28	32
Business services	4	31	31	41	31	14	80	25
Total government	17	22	7	12	33	95	-18	14
Private nonfarm production workers	-71	74	149	156	94	84	197	145
Manufacturing production workers	-29	-13	16	-39	-14	3	18	41
Total employment ³	-62	130	85	218	79	-253	471	453
Nonagricultural	-53	122	145	237	56	-367	574	307
Memo:								
Aggregate hours of private production workers (percent change)	-.1	.1	.1	.4	.0	-.9	.9	.2
Average workweek (hours)	34.3	34.4	34.4	34.5	34.5	34.3	34.5	34.6
Manufacturing (hours)	40.6	41.1	41.3	41.4	41.4	41.5	41.6	41.7

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			1993		
			Q1	Q2	Q3	Sep.	Oct.	Nov.
Civilian unemployment rate (16 years and older)	6.7	7.4	7.0	7.0	6.7	6.7	6.8	6.4
Teenagers	18.7	20.0	19.6	20.1	17.9	17.4	19.4	18.1
Men, 20 years and older	6.4	7.1	6.5	6.5	6.4	6.3	6.3	5.8
Women, 20 years and older	5.7	6.3	6.0	5.9	5.7	5.7	5.9	5.8
Fulltime workers	6.5	7.1	6.7	6.6	6.5	6.4	6.4	6.0
Labor force participation rate	66.0	66.3	66.0	66.2	66.1	66.0	66.3	66.2
Teenagers	51.7	51.3	51.5	51.9	51.5	51.0	51.3	51.2
Men, 20 years and older	77.4	77.3	76.9	77.0	76.9	76.7	77.1	76.7
Women, 20 years and older	57.9	58.4	58.2	58.3	58.4	58.3	58.6	58.7

to motor vehicles, capital goods, and construction. The factory workweek and overtime hours (at 41.7 hours and 4.4 hours, respectively) both reached postwar highs last month.

Employment in the private service-producing sector increased 138,000 in November. In services, employment rose 105,000, with gains in business and health services leading the way. Jobs also were added in transportation and public utilities, wholesale trade, and in finance, insurance, and real estate (FIRE). In retail trade, however, employment fell 17,000 on a seasonally adjusted basis, reflecting relatively slow hiring at the outset of the holiday shopping season.

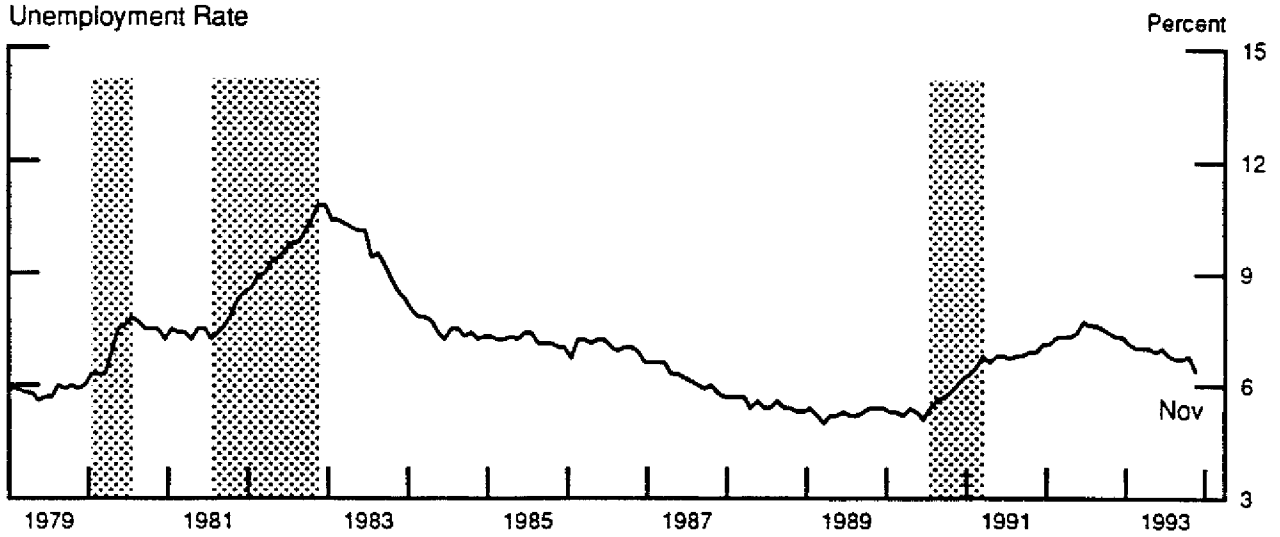
The increases in employment do not appear yet to have drawn a great many more workers into the labor force. The labor force participation rate has been fluctuating in an essentially trendless fashion over the past year or so. Most demographic groups experienced some decline in unemployment last month, but the decrease was most striking among adult men (aged 20 and over), whose jobless rate dropped to 5.8 percent, after declining gradually over the first ten months of the year. The decrease in adult male unemployment in November was exaggerated by a drop in that group's participation rate; it also likely reflected the pickup in hiring in the goods-producing industries, where adult men make up a greater-than-average share of employment.³ The unemployment rate for adult women has fluctuated between 5-3/4 and 6 percent since February.

Most other indicators also suggest sustained strength in the labor market. The Manpower Survey, taken in the last two weeks of October, indicates that hiring is likely to continue at about its

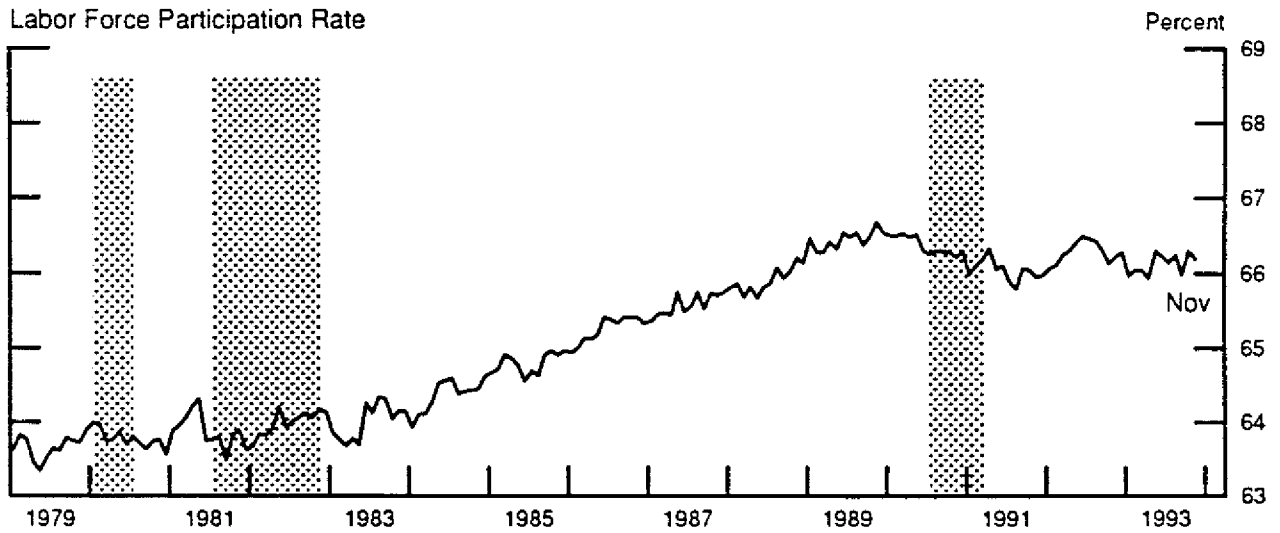
3. Adult men account for more than 65 percent of payroll employment in manufacturing and about 90 percent in construction. Unemployment rates in these sectors have declined appreciably in recent months.

LABOR MARKET INDICATORS

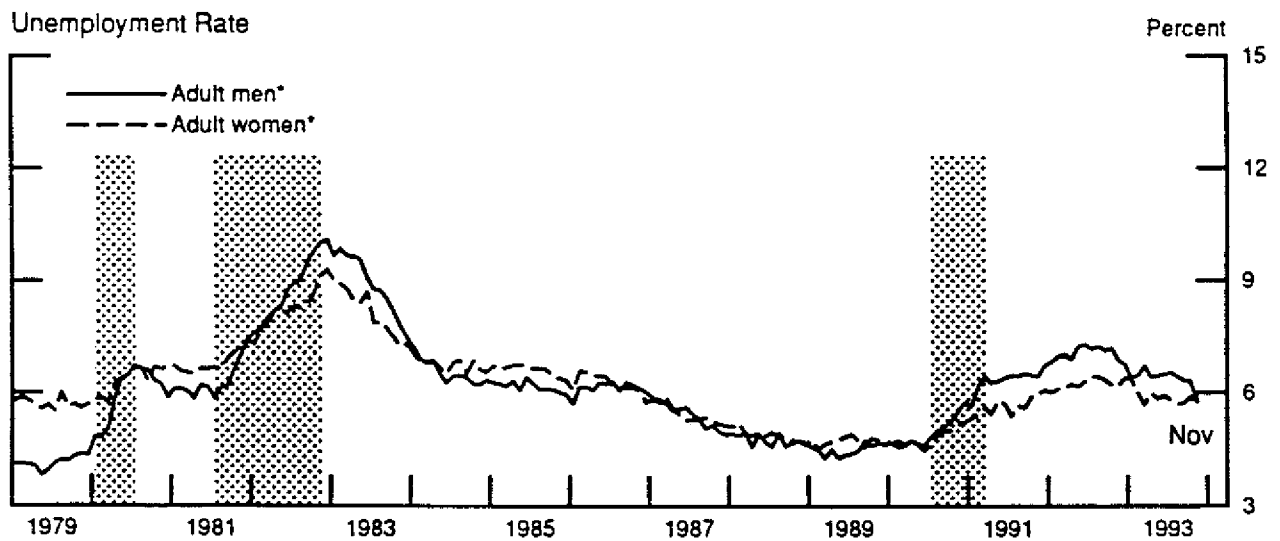
Unemployment Rate



Labor Force Participation Rate



Unemployment Rate



* Aged 20 and over.

recent pace; plans are especially upbeat in durable goods manufacturing, FIRE, and services, and the outlook also is good for construction and retail trade. A survey conducted by the Bureau of National Affairs (BNA) on hiring plans for January through March of next year also suggests a continued improvement in employment opportunities. In addition, although initial claims for unemployment insurance moved back up to 345,000 during the week ended December 4, that reading was among the lowest for the current expansion.

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

	1991	1992	1993			1993	
			Q1	Q2	Q3	Oct.	Nov.
			Annual rate			Monthly rate	
Total private nonfarm	2.9	2.2	3.8	1.1	1.9	.6	.2
FIRE	4.3	3.5	4.4	5.5	4.3	1.1	.3
Trade	3.0	2.1	4.9	.5	.9	.7	.1
Manufacturing	3.0	2.3	2.8	2.1	4.2	-.1	.4

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

Average hourly earnings edged up 0.2 percent in November, after rising 0.6 percent in October. Small increases were widespread by industry last month. Over the twelve months ended in November, hourly earnings were up 2.2 percent--1/2 percentage point less than over the preceding year. Data collected by the BNA suggest that wage growth in the union sector has also continued to slow this year. The median first-year wage adjustment through November was 3 percent, compared with a gain of 3.4 percent in 1992.⁴

⁴ Includes settlements involving 50 or more workers.

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

	Proportion in total IP 1992:4	1992 ¹	1993			1993		
			Q1	Q2	Q3	Sep.	Oct.	Nov.
			---Annual rate---			--Monthly rate---		
Total index	100.0	3.2	5.5	2.3	2.6	.4	.7	.9
Previous		3.2	5.5	2.3	2.4	.4	.8	
Manufacturing	84.6	3.7	6.4	3.4	2.4	.4	.7	1.0
Motor vehicles and parts	4.9	10.2	37.4	-9.5	-19.3	3.9	8.2	6.7
Mining	7.3	-.9	-5.7	3.2	-3.2	2.1	.5	-.3
Utilities	8.2	2.0	4.6	-7.5	10.5	-2.1	.2	.3
Manufacturing excl. motor vehicles and parts	79.7	3.3	4.7	4.3	3.9	.2	.3	.6
Consumer goods	22.0	2.0	1.9	.1	1.7	.1	.5	.2
Durables	3.6	3.7	15.4	3.4	4.2	.0	1.4	.5
Nondurables	18.4	1.7	-.6	-.5	1.2	.1	.3	.2
Business equipment	14.5	9.9	8.9	12.5	11.4	.9	.1	.8
Office and computing	3.2	31.1	31.5	41.4	33.1	1.9	2.0	2.5
Industrial	4.0	6.1	5.6	8.0	8.1	.4	-.1	.5
Other	7.1	4.2	.8	2.9	2.8	.6	-.9	-.1
Defense and space equipment	3.3	-7.8	-7.7	-8.8	-7.5	-.6	-.8	-.3
Construction supplies	4.8	4.5	6.2	2.9	8.2	.6	.3	1.1
Materials	28.2	3.2	7.4	5.0	3.8	.2	.5	.6
Durables	18.9	3.6	9.4	4.1	6.0	.8	.4	.1
Nondurables	9.0	2.3	4.2	7.1	.4	-1.3	.4	1.1

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

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1967-92	1992	1993			1993		
	Avg.	Avg.	Q1	Q2	Q3	Sep.	Oct.	Nov.
Total industry	81.9	79.8	79.2	81.6	81.8	81.9	82.4	83.0
Manufacturing	81.2	78.8	78.1	80.8	80.9	81.1	81.5	82.2
Primary processing	82.2	82.2	81.8	84.3	84.6	84.4	84.7	85.5
Advanced processing	80.7	77.3	76.6	79.2	79.3	79.6	80.2	80.8

RECENT UNION SETTLEMENTS

	Median first-year adjustments ¹ (in percent)			
	1990	1991	1992	1993 ²
All industries	4.0	3.9	3.4	3.0
Manufacturing	3.5	3.4	2.5	2.7
Construction	3.9	3.7	3.0	2.5
Other	4.8	4.5	4.0	3.1

1. Includes all scheduled adjustments during the first twelve months of the contract but excludes potential gains under COLA clauses. Each contract carries equal weight in computing medians.

2. Covers contracts ratified between January and November.

Source: Bureau of National Affairs.

Industrial Production

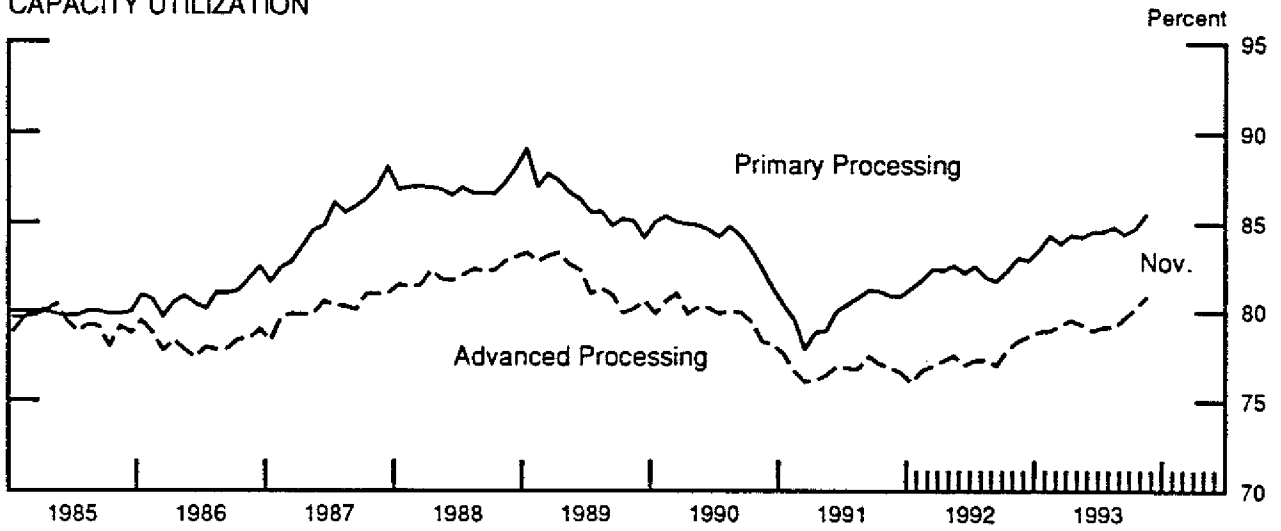
Industrial production rose 0.9 percent in November, after increasing 0.7 percent in October; this is the largest two-month advance in a year. Increases in manufacturing accounted for all of the gain in total output last month, as mining output dropped a bit and utilities output ticked up. With the steep rise in industrial production, the capacity utilization rate moved up to 83.0 percent.⁵

Assemblies of motor vehicles rose to an annual rate of 12.0 million units in November, with increases for both autos and trucks. The higher output of motor vehicles and parts directly contributed 0.4 percentage point to the growth in industrial production, and increases at upstream industries likely added a bit more. Looking ahead, schedules call for assemblies of 12.4 million units in December and more than 13 million units, on average, in the

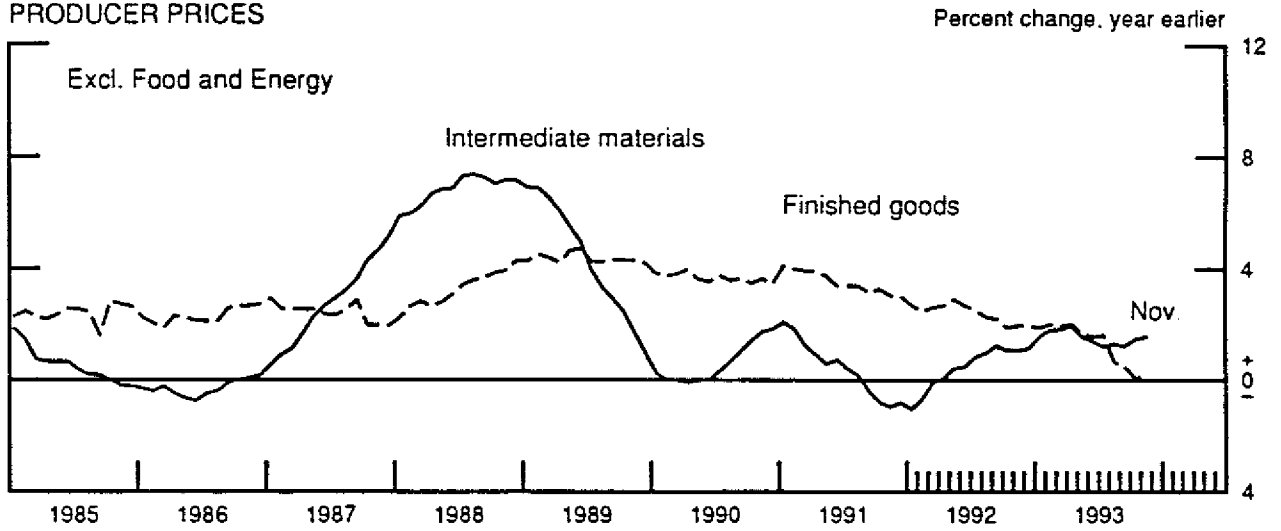
⁵ Revised indexes of industrial production and rates of capacity utilization will be published in February 1994. The revisions to production will reflect primarily the incorporation of more comprehensive source data, review of production factor coefficients, and updated seasonal factors. The revisions to capacity utilization will reflect improved estimates of capital stocks and preliminary results from the Census Survey of Plant Capacity for 1991 and 1992. These revisions probably won't lead to large changes, but the work is still in process.

MANUFACTURING SECTOR

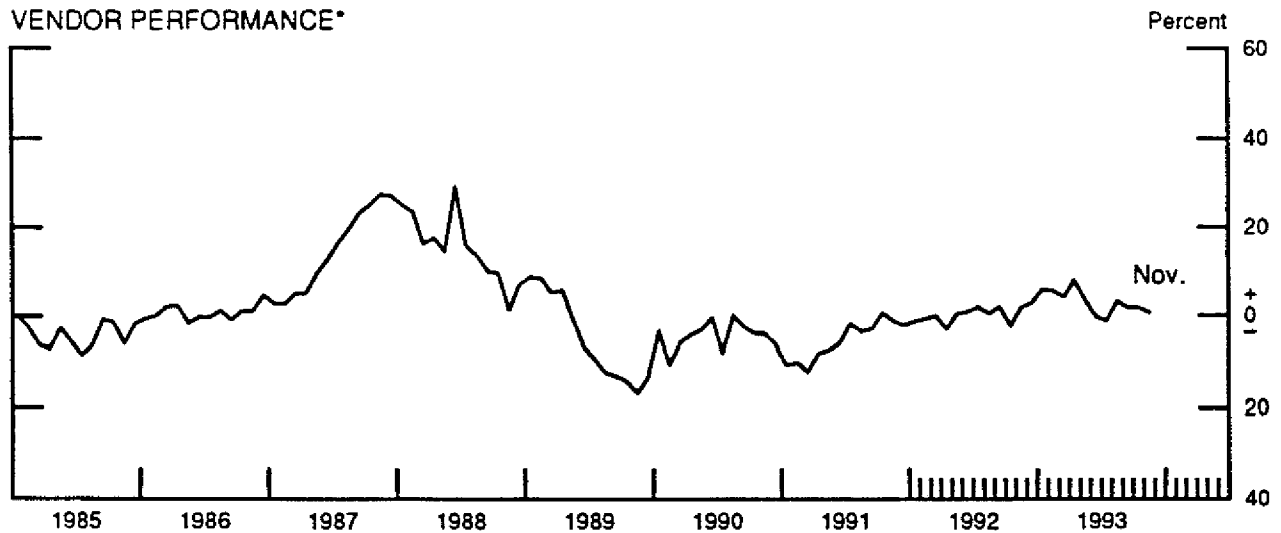
CAPACITY UTILIZATION



PRODUCER PRICES



VENDOR PERFORMANCE*



*Vendor performance is the percent of respondents in the purchasing managers survey reporting slower supplier deliveries minus those reporting faster deliveries, seasonally adjusted.

first quarter of 1994. Despite the pickup in assemblies, the brisk sales of the past few months have left dealer stocks very lean, suggesting that the further scheduled increases may not be unrealistic.

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

	1993			1994	
	Oct.	Nov.	Dec.	Jan.	Q1
				-----scheduled-----	
U.S. production	11.0	12.0	12.4	13.5	13.2
Autos	5.9	6.6	6.8	7.4	7.3
Trucks	5.2	5.4	5.6	6.1	5.9
Days' supply ²					
Autos	55.2	56.2			
Light trucks	59.0	56.5			

1. Components may not sum to totals because of rounding.

2. Data for November are staff estimates.

Outside the motor vehicle industry, factory output climbed 0.6 percent in November, after a 0.3 percent increase in October. Production of business equipment rose 0.8 percent in November, as output of computers continued to surge and production of most other types of capital goods other than aircraft and related equipment continued to trend up. With the improved pace of activity in the construction sector, output of construction supplies rose 1.1 percent in November, bringing the increase over the past six months to 6.4 percent at an annual rate.

The large increases in production in the last two months are consistent with other indicators of manufacturing activity. Real adjusted durable goods orders rose 2.5 percent in October, the fifth straight increase. The Purchasing Managers' Index increased to 55.7 percent in November, with notable gains in new orders and in production.

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

	Share 1993 H1	1993		1993		
		Q2	Q3	Aug.	Sep.	Oct.
Total durable goods	100	-1.7	1.2	2.5	1.1	2.6
Adjusted durable goods ¹	65	-1.0	3.7	.4	2.0	2.4
Office and computing	5	-.7	4.9	1.1	-1.0	6.1
Nondefense capital goods ²	16	1.9	3.2	1.8	4.7	.8
Other	44	-2.0	3.8	-.2	1.2	2.6
Memo:						
Real adjusted durable goods		-.8	4.3	.6	1.8	2.5

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

2. Excludes aircraft and computer industries.

With the sharp increase in industrial production, overall capacity utilization rose 0.6 percentage point to 83.0 percent in November. In the past three months capacity utilization has risen 1.2 percentage points: it is now 1.1 percentage points above its long-term average of 81.9 percent, but still 1.8 percentage points below the ten-year high hit in March 1989. The utilization rate in manufacturing climbed to 82.2 percent, with sharp gains posted in both advanced and primary processing industries (chart, upper panel).

Typically, when operating rates in primary processing industries become high, prices for intermediate materials firm, and materials processors often ration deliveries through nonprice means. So far, however, inflation in primary processing industries generally has remained subdued and vendor performance, as measured by the purchasing managers' survey, has not deteriorated (chart, bottom panel).

Consumption and Personal Income

Consumer spending has continued to move higher, apparently at a good clip. Outlays for motor vehicles have been especially strong, but spending for other goods has risen substantially as well. By contrast, spending on services was unchanged in real terms in October because expenditures for utilities returned to trend after spurting last summer and outlays for other services rose only modestly.

Retail sales are estimated to have increased 0.4 percent in nominal terms in November. The retail control, which excludes auto dealers and building material and supply stores, was up 0.5 percent, after an increase of 0.8 percent in October. The GAF group of stores, which tend to sell discretionary items, posted another solid gain in sales for November, reflecting sharp increases at furniture and appliance dealers and at apparel stores; sales at general merchandise stores dropped back after posting sizable increases over the preceding several months. Spending on other durable goods also was robust last month. Given the CPI data, the staff estimates that real spending for goods other than motor vehicles rose 0.4 percent in November to a level more than 1 percent (not at an annual rate) above the third-quarter average.

Sales of light vehicles--both autos and trucks--have picked up smartly this quarter. After jumping to an annual rate of 14-1/2 million units in October, sales edged higher in November. Sales of vehicles produced in North America remained brisk in early December. Sales in recent months have continued to be influenced by special factors--notably the easing of the supply constraints that crimped sales (especially fleet sales to rental companies) last summer. In addition, buyers are responding to the generous incentives offered by Ford and General Motors as they compete to have the best-selling

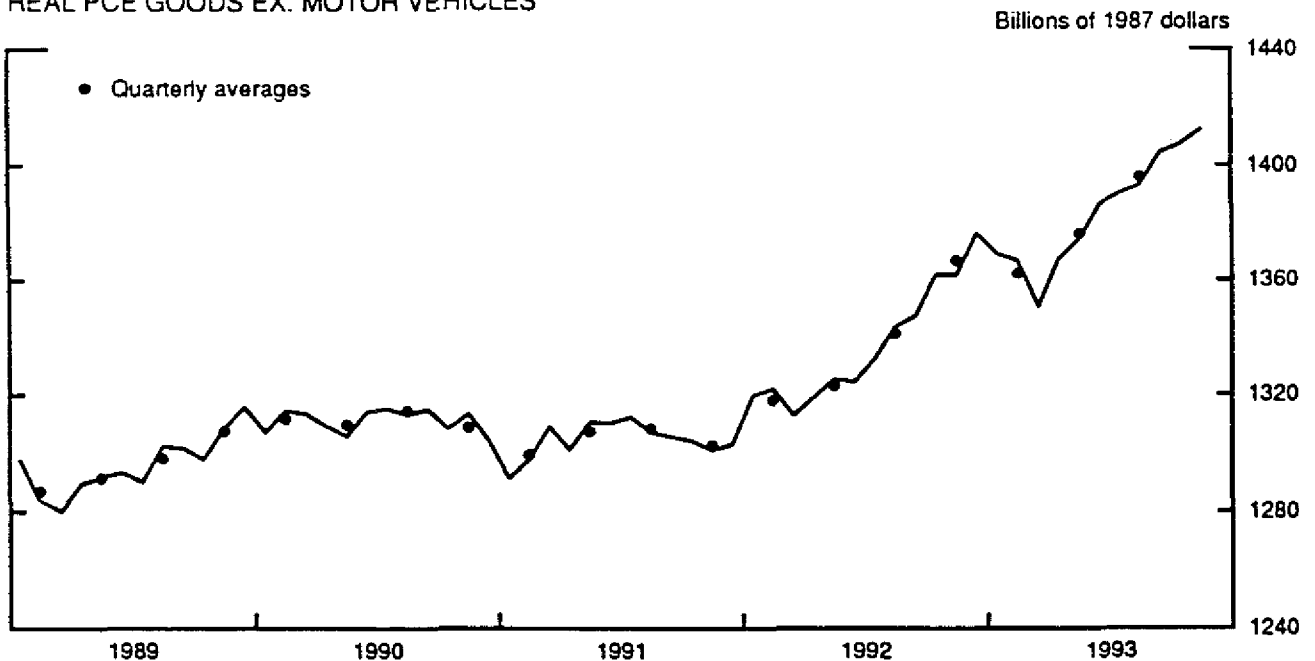
RETAIL SALES

(Percent change from preceding period, seasonally adjusted)

	1993			1993		
	Q1	Q2	Q3	Sep.	Oct.	Nov.
1. Total sales	.5	1.8	1.6	.2	1.8	.4
2. (Previous)			(1.5)	(.1)	(1.5)	
3. Automotive dealers	.6	4.2	3.3	-1.3	5.0	-.1
4. Building material and supply	1.3	3.2	2.7	1.9	3.4	1.1
5. Retail control ¹	.4	1.0	1.0	.5	.8	.5
6. (Previous)				(.4)	(.7)	
7. General merchandise	2.2	1.7	2.6	.9	1.1	-1.0
8. Apparel	-2.4	.3	.8	2.4	.5	1.4
9. Furniture and appliances	.8	2.4	3.6	1.3	.3	3.7
10. Other durables	-1.4	5.1	3.0	-3.4	.8	2.2
11. Gasoline stations	2.6	.2	-3.4	-.6	1.5	.1
12. Other	.4	.3	.3	.7	.6	.3
<i>MEMO:</i>						
13. GAF ²	.8	1.6	2.4	1.3	.8	.6

1 Total excluding auto dealers and building material and supply stores.
 2. General merchandise, apparel, furniture, and appliance stores.

REAL PCE GOODS EX. MOTOR VEHICLES *



* The observations for September, October, and November are staff estimates.

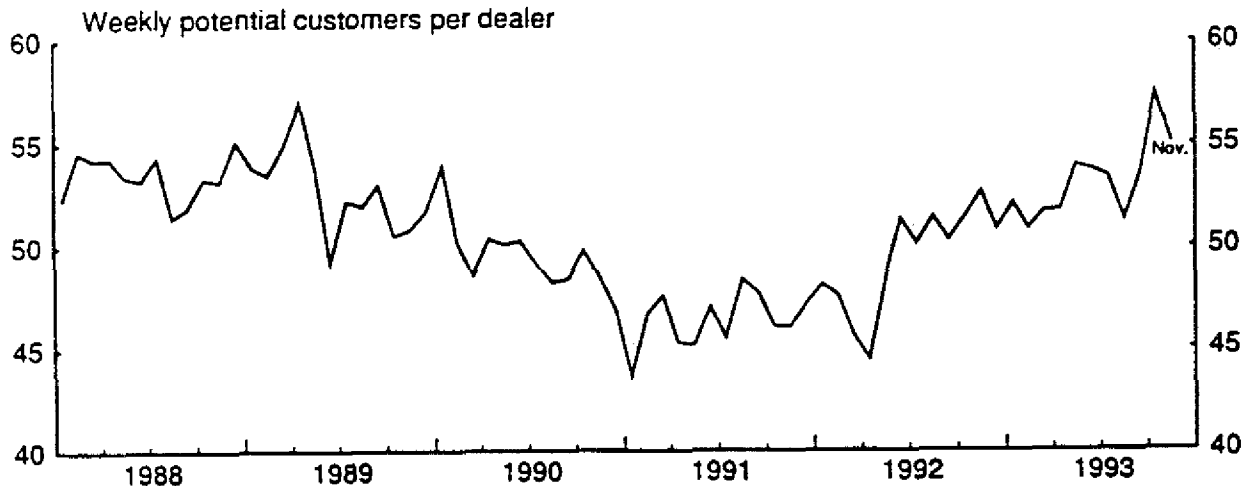
SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate; BEA seasonals)

			1993			1993		
	1991	1992	Q1	Q2	Q3	Sep.	Oct.	Nov.
Total	12.3	12.8	13.3	14.2	13.6	13.3	14.5	14.7
Autos	8.4	8.4	8.4	9.0	8.6	8.5	9.0	9.0
Light trucks	3.9	4.5	5.0	5.2	5.0	4.8	5.5	5.7
North American	9.7	10.5	11.1	11.9	11.4	11.2	12.5	12.7
Autos	6.1	6.3	6.4	6.9	6.6	6.6	7.1	7.1
Big Three	5.0	5.1	5.3	5.7	5.1	5.1	5.8	5.7
Transplants	1.1	1.2	1.0	1.2	1.5	1.5	1.3	1.4
Light trucks	3.6	4.2	4.7	5.0	4.8	4.6	5.4	5.5
Foreign produced	2.6	2.3	2.2	2.3	2.2	2.1	2.0	2.0
Autos	2.2	2.1	2.0	2.1	2.0	1.9	1.9	1.9
Light trucks	.3	.2	.2	.2	.2	.2	.2	.2
Memo:								
Domestic nameplate								
Market share, total	.70	.72	.75	.75	.71	.71	.75	.74
Autos	.63	.63	.66	.66	.62	.62	.66	.65

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)



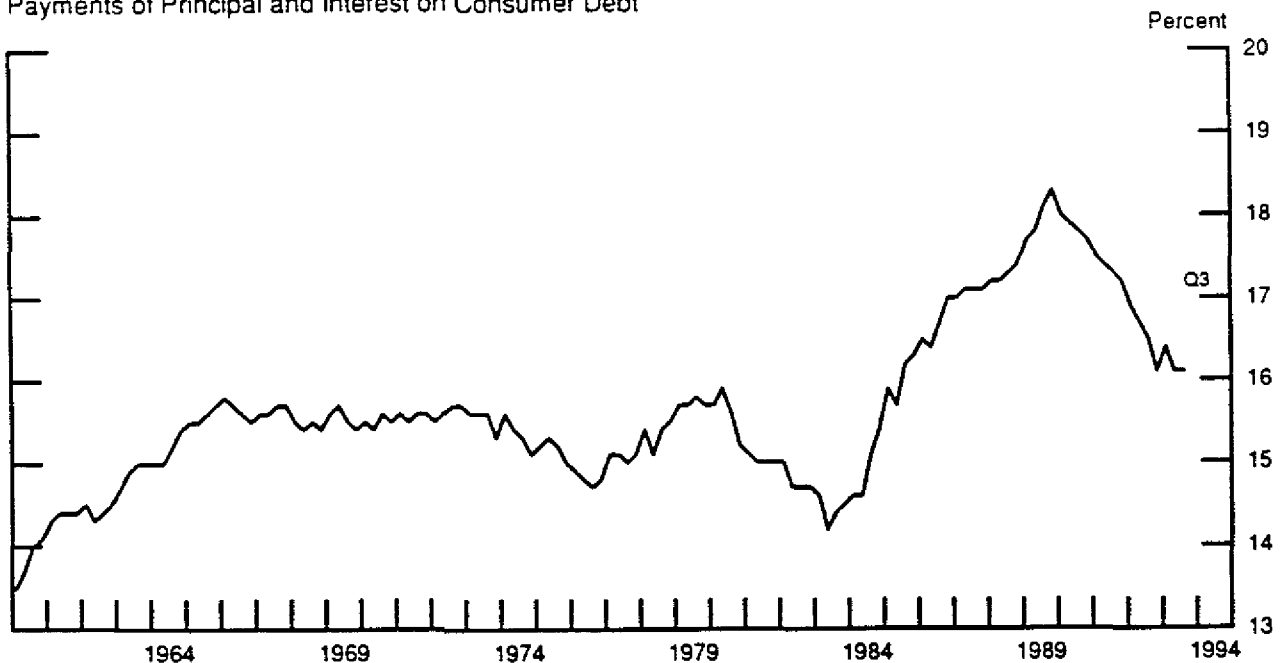
Source: Chrysler Corporation

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

	1992	1993			1993	
		Q1	Q2	Q3	Sep.	Oct.
Total personal income	44.2	-72.7	28.1	21.3	8.0	33.2
Wages and salaries	32.4	-96.0	36.7	11.8	-2.6	15.6
Private	30.4	-98.6	35.0	9.5	-5.4	17.2
Other labor income	2.0	2.7	2.7	2.7	2.7	2.7
Proprietors' income	2.9	12.1	-13.1	.5	2.7	9.2
Farm	.2	11.9	-15.3	-1.1	1.6	5.3
Rent	.5	2.8	1.3	2.2	2.0	.5
Dividend	2.5	.6	.3	.4	.3	.1
Interest	-1.0	-.5	-1.1	1.2	1.4	2.5
Transfer payments	6.0	6.0	4.0	3.3	1.3	3.6
Less: Personal contributions for social insurance	1.1	.5	2.7	.7	-.3	1.1
Less: Personal tax and nontax payments	6.0	-15.4	7.7	3.3	.9	4.7
Equals: Disposable personal income	38.2	-57.4	20.5	18.0	7.1	28.5
Memo: Real disposable income	21.6	-56.2	10.3	10.5	4.2	8.2

Payments of Principal and Interest on Consumer Debt



*Payments as a percent of disposable personal income

pickup truck in America in 1993. More fundamentally, sales apparently are being boosted by the replacement needs and deferred demand of households that put off buying vehicles during the 1990-91 recession and the early recovery period. Financing terms remain favorable, and price increases on the 1994 models--at least adjusted for quality improvements--are relatively small. Indeed, showroom traffic remained heavy through November, and the Michigan survey reading on consumers' views of buying conditions for cars surged in early December.

Real disposable income is likely to post a sizable gain in the fourth quarter: In October, it stood 3/4 percent above the third-quarter average. However, much of the pickup is attributable to a rebound in farm income after the crop losses last summer. And, although the firmer employment gains of late should help to buoy labor income, underlying income does not appear to be growing faster than the moderate uptrend of the past several quarters. Meanwhile, the personal saving rate has continued to hover in the 3-3/4 to 4 percent range after falling sharply over the first half of the year.

The sizable advance in consumption in recent quarters has been accompanied by a stepped-up pace of borrowing. It is uncertain whether that trend will continue, but three years of declining interest rates and improving balance sheets may have made that option more viable. Payments to service consumer debt (including mortgages) declined from a peak of 18.3 percent of disposable income in the fourth quarter of 1989 to an estimated 16.1 percent in the third quarter of 1993 (chart).

Housing Markets

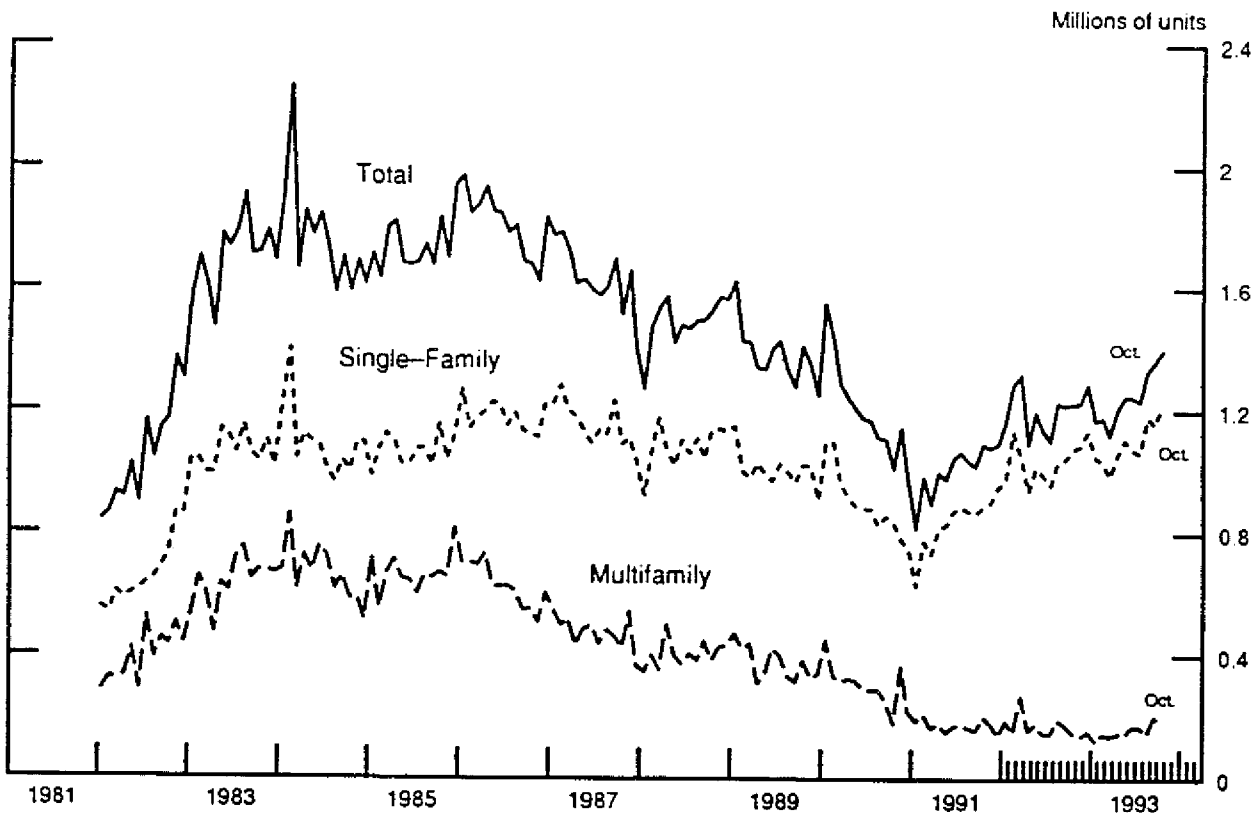
Housing demand and residential construction continued to expand early in the fourth quarter. Housing starts rose for the third

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

	1992	1993			1993		
	Annual	Q1	Q2	Q3 ^r	Aug. ^r	Sept. ^r	Oct.
All units							
Starts	1.20	1.16	1.23	1.31	1.33	1.36	1.40
Permits	1.11	1.11	1.11	1.23	1.24	1.27	1.31
Single-family units							
Starts	1.03	1.03	1.08	1.14	1.18	1.16	1.22
Permits	.92	.93	.92	1.01	1.02	1.05	1.10
Sales							
New homes	.61	.60	.65	.67	.63	.73	.68
Existing homes	3.52	3.54	3.58	3.87	3.81	3.94	4.08
Multifamily units							
Starts	.17	.13	.15	.17	.15	.20	.17
Permits	.19	.18	.19	.21	.23	.22	.21

p Preliminary. r Revised estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



consecutive month in October, reaching their highest level since February 1990. Permit issuance rose about in line with starts--confirming the uptrend in production.

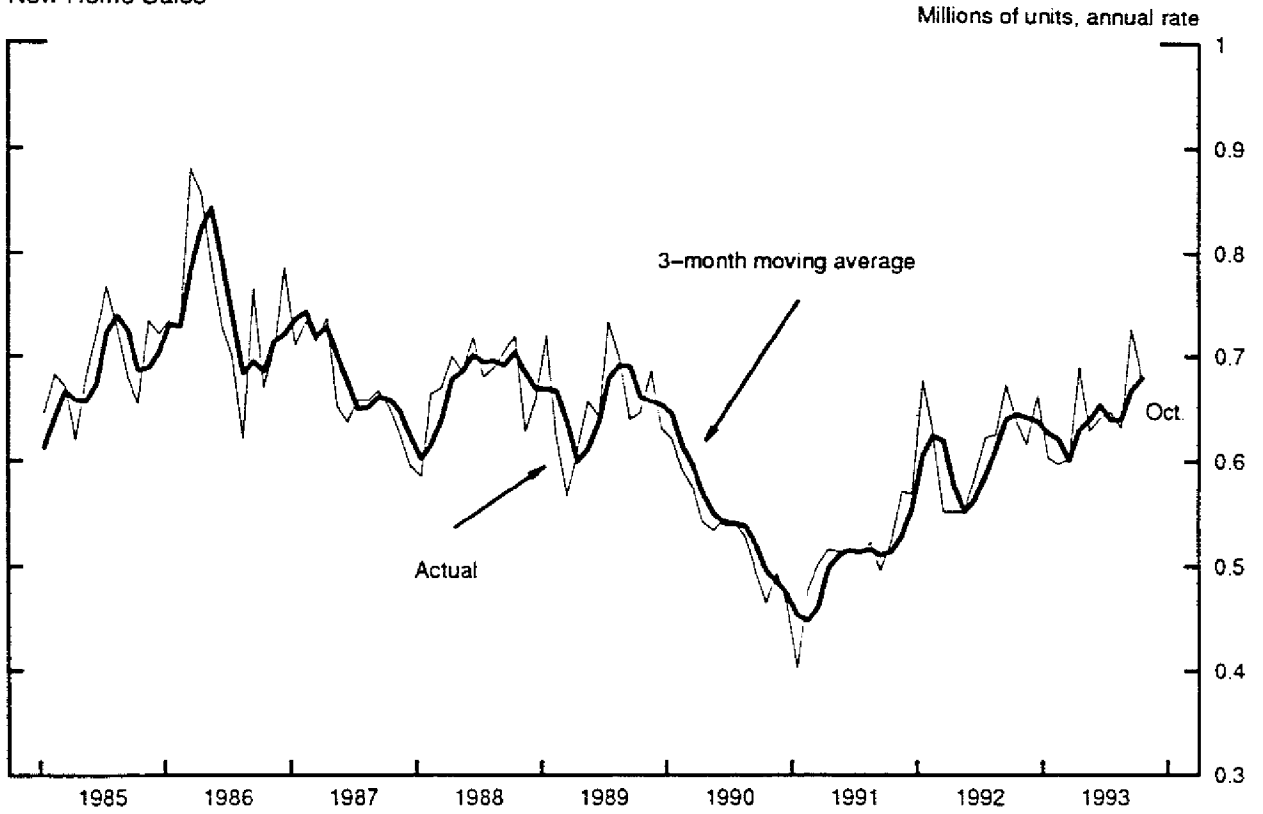
In the single-family segment of the market, starts were at a six-year high in October. New home sales in October remained near their cyclical peak, despite a falloff following September's 15 percent gain. Sales of existing homes broke the 4 million mark in October for only the second time since the 1970s. The stock of single-family homes has grown about 20 percent since then, however, so the turnover rate has yet to approach the high level attained in the late 1970s (chart).

Surveys of builders, consumers and lenders suggest that single-family housing activity remained robust in November and early December. Home builders gave the most positive assessments of current sales in the nine years that this survey has been fielded by the National Association of Home Builders. Similarly, a record percentage of the consumers in the Michigan survey reported positive home buying attitudes in early December, and the proportion of home owners reporting that "It's a good time to sell" has increased as well. Applications for home purchase loans backed off in late November and early December, according to the Mortgage Bankers Association, but the seasonally adjusted index remained near the high readings of the past several months.

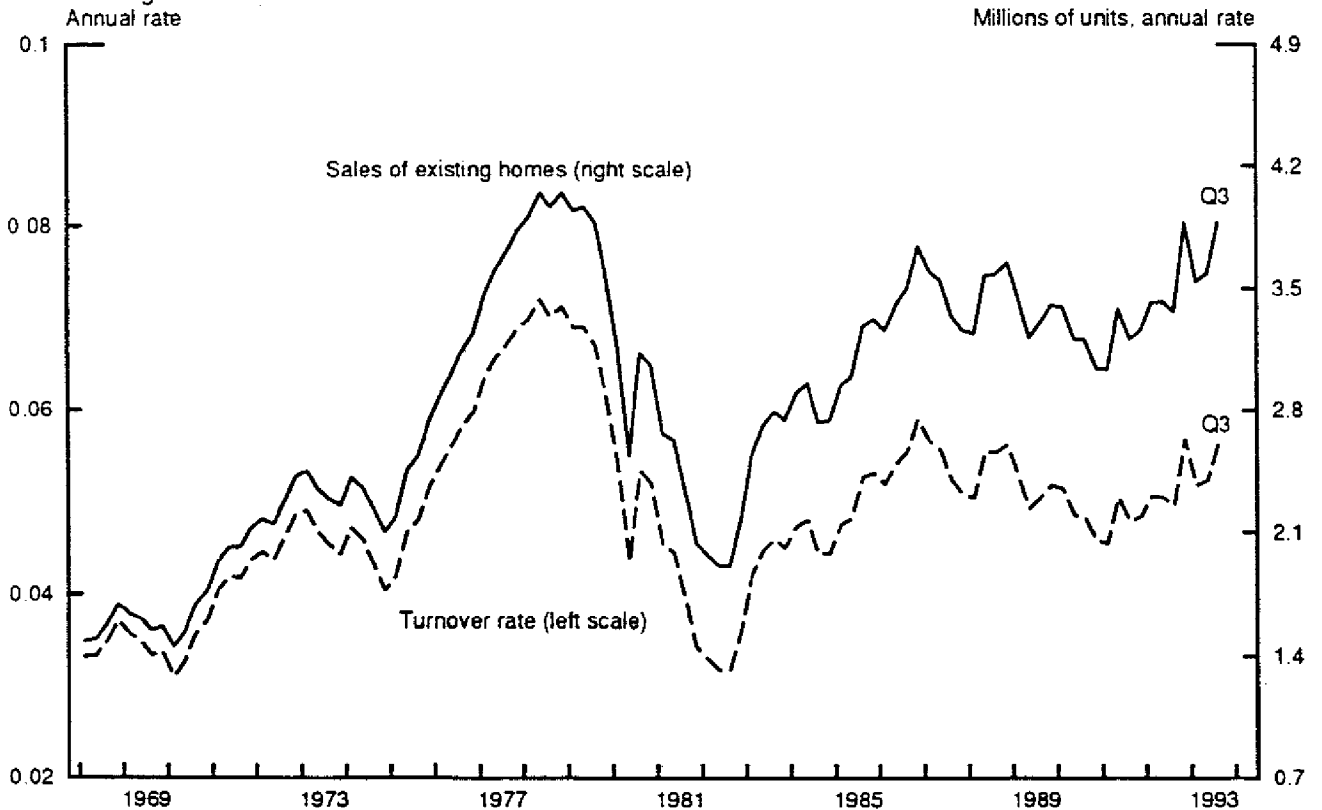
All four regions have contributed to the recovery in housing since the cyclical trough in early 1991 (chart). The percentage gains have been largest in the South and Midwest, and smallest in the Northeast. In the West, a housing boom in several Mountain states has been partially offset by recent weakness in California, where both production and prices are off significantly from a year earlier.

NEW AND EXISTING HOME SALES (seasonally adjusted)

New Home Sales



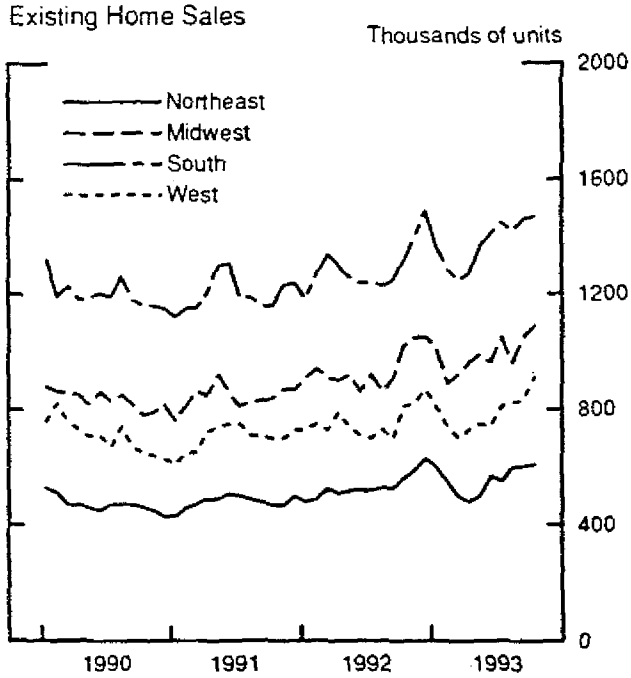
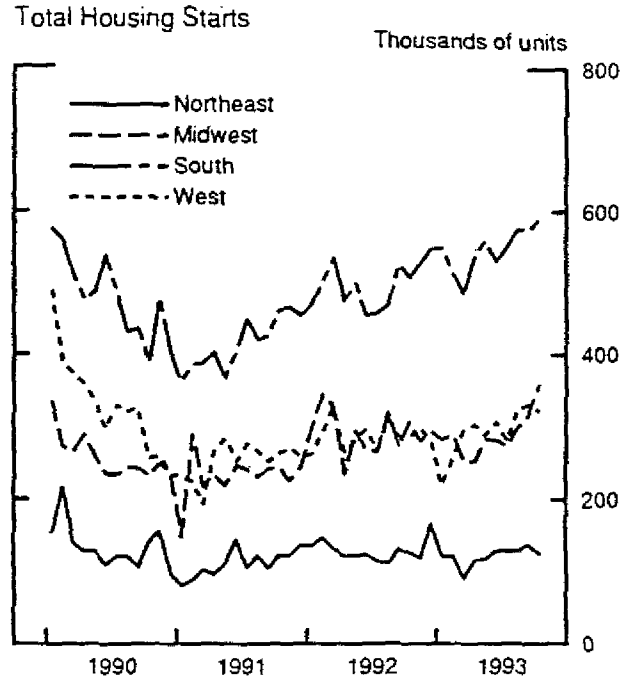
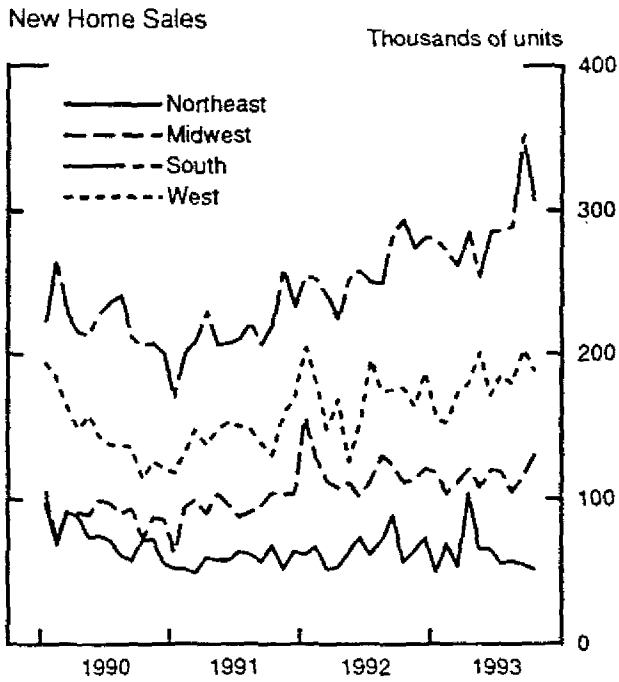
Existing Home Sales and Turnover Rate*
Annual rate



* Turnover rate = sales / stock.

REGIONAL HOUSING INDICATORS

(Seasonally adjusted annual rate; data through October 1993)



Percentage Change
1991Q1 – October 1993

	Starts	New Home Sales	Existing Home Sales
Northeast	39	2	35
Midwest	64	53	35
South	56	60	29
West	50	43	43

BUSINESS CAPITAL SPENDING INDICATORS
 (Percent change from preceding comparable period, except where noted;
 based on seasonally adjusted data, in current dollars)

	1993			1993		
	Q1	Q2	Q3	Aug.	Sep.	Oct.
<u>Producers' durable equipment</u>						
Shipments of nondefense capital goods	1.1	1.0	.6	6.6	-1.3	.4
Excluding aircraft and parts	3.3	.8	3.4	1.2	3.1	-.7
Office and computing	10.1	-2.2	9.4	1.6	.7	.3
All other categories	1.5	1.7	1.7	1.1	3.8	-1.0
Shipments of complete aircraft ¹ (Billions of dollars, annual rate)	33.8	31.3	19.0	27.7	16.9	21.4
Sales of heavy weight trucks (Millions of units, annual rate)	.30	.34	.33	.34	.34	.34
Orders for nondefense capital goods	1.5	4.1	-1.2	6.3	-3.1	4.8
Excluding aircraft and parts	4.4	1.3	3.6	1.7	3.4	2.0
Office and computing	9.0	-.7	4.9	1.1	-1.0	6.1
All other categories	3.1	1.9	3.2	1.8	4.7	.8
<u>Nonresidential structures</u>						
Construction put-in-place	.2	2.7	.8	1.0	.8	.4
Office	-2.2	-.3	-1.8	-2.7	-7.1	-.9
Other commercial	4.9	3.4	-.6	4.5	3.3	3.5
Industrial	6.2	-5.4	3.6	1.3	5.7	-4.3
Public utilities	-4.3	2.4	.1	-1.4	1.2	.8
All other	-.4	10.0	2.2	2.9	-1.0	.8
Rotary drilling rigs in use	-8.3	-5.3	14.9	7.3	4.1	-3.1
Footage drilled ²	4.3	-5.4	8.9	4.2	1.0	-9.8
Memo:						
Business fixed investment ³	14.4	16.6	7.4	n.a.	n.a.	n.a.
Producers' durable equipment ³	19.9	19.8	10.0	n.a.	n.a.	n.a.
Nonresidential structures ³	.5	8.1	.3	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.

2. From Department of Energy.

3. Based on constant-dollar data; percent change, annual rate.

n.a. Not available.

House prices continue to increase less than prices in general. In the new home market, transactions prices of new homes in October were actually down from a year earlier. Most other measures showed small price gains, including sales prices for existing homes and "constant quality" price indexes for both new and existing homes.

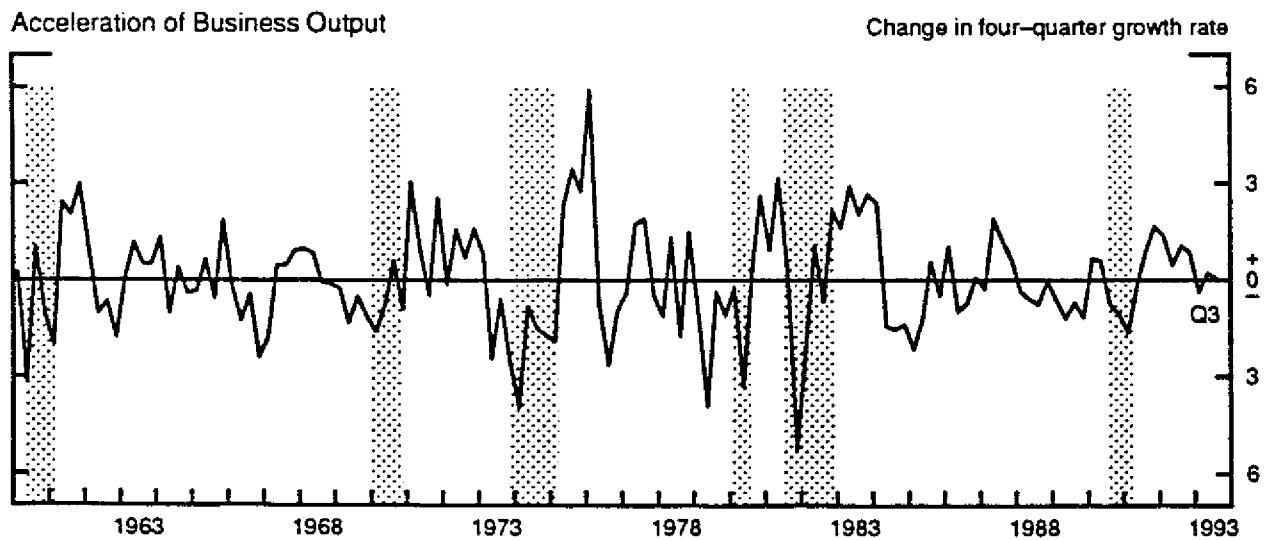
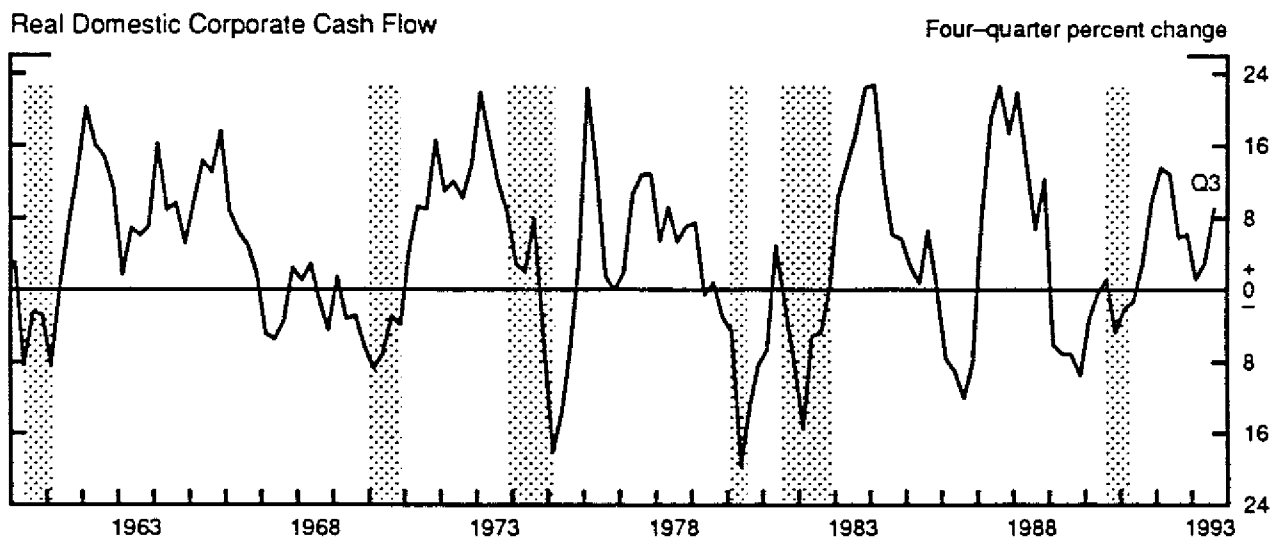
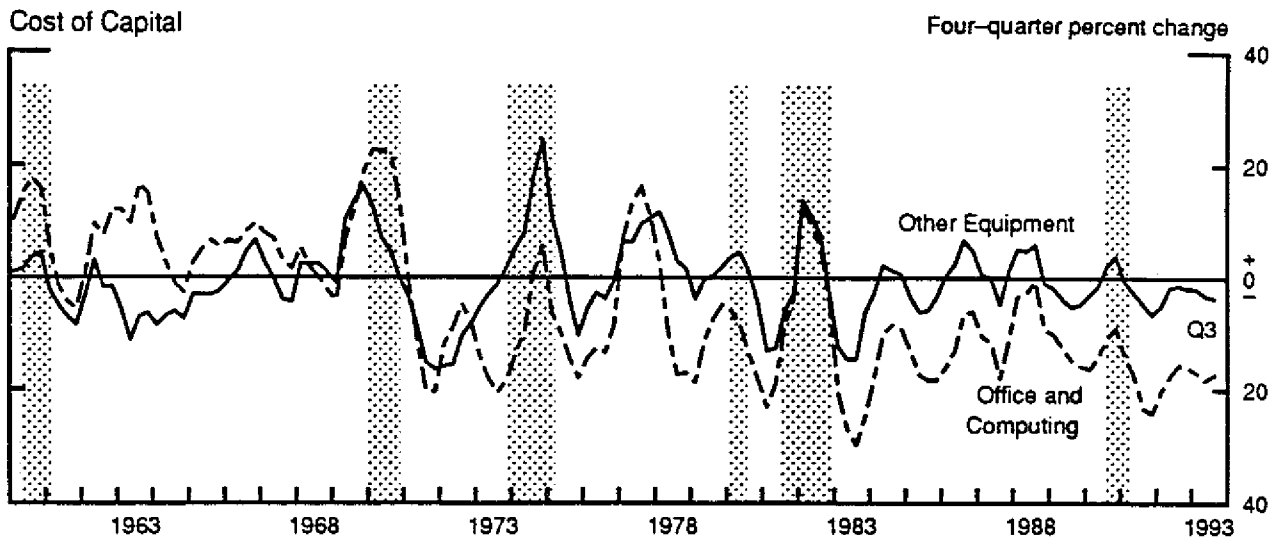
Multifamily housing starts, which were boosted in September by the reinstatement of the tax credit for low-income rental housing, fell back in October. Permit issuance edged down further in October, providing additional evidence that much of the tax stimulus was transitory. Moreover, vacancy rates and rents have yet to show any generalized tightening that might signal a sustained recovery in multifamily construction. During the past year, this market segment has accounted for less than 5 percent of total residential investment spending--the lowest share in at least 35 years.

Business Fixed Investment

The strong expansion in real outlays for producers' durable equipment likely continued in the fourth quarter. Shipments of computing equipment, which jumped 9-1/2 percent in the third quarter, edged up in October to a level 1-1/2 percent above their average in the third quarter, and reports in the trade press suggest that demand for PCs, workstations, and related equipment remains strong. Shipments of nondefense capital goods other than computers and aircraft fell 1 percent in October; however, this decline followed large increases in August and September, and the level of October shipments was 1-3/4 percent above the third-quarter average. Moreover, new orders and order backlogs for these goods have been rising, which suggests that shipments will increase further in coming months.

As for transportation equipment, the increase in light vehicle sales in October and November probably reflects stronger demand from

FUNDAMENTAL DETERMINANTS OF BUSINESS FIXED INVESTMENT



both businesses and households. The demand for heavy trucks is strong, although increases in deliveries are being limited by capacity constraints. Data from Boeing suggest that domestic outlays for aircraft, which fell last quarter, will be about flat in the fourth quarter. Nonetheless, a sharp contraction in aircraft outlays is almost certain next year, a point underscored by Boeing's recent announcement of further cuts in production rates.

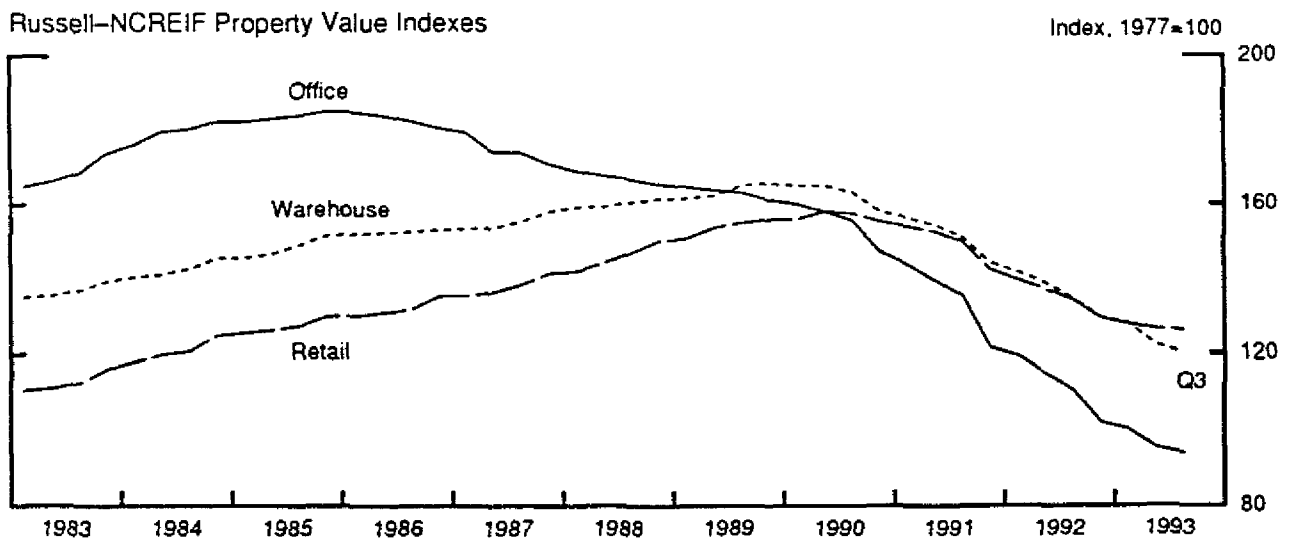
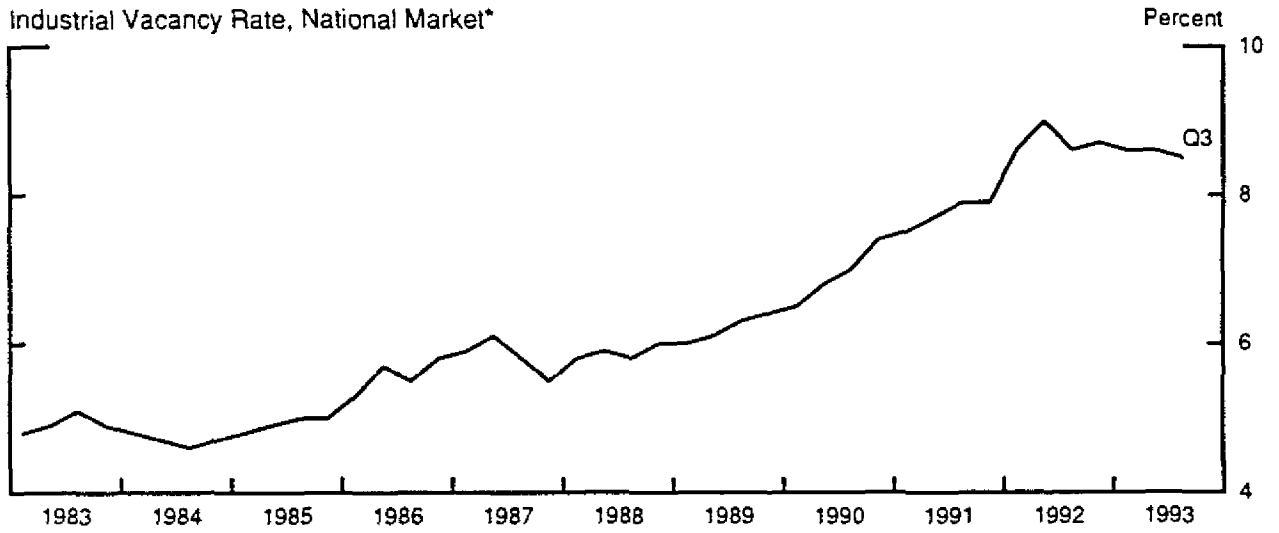
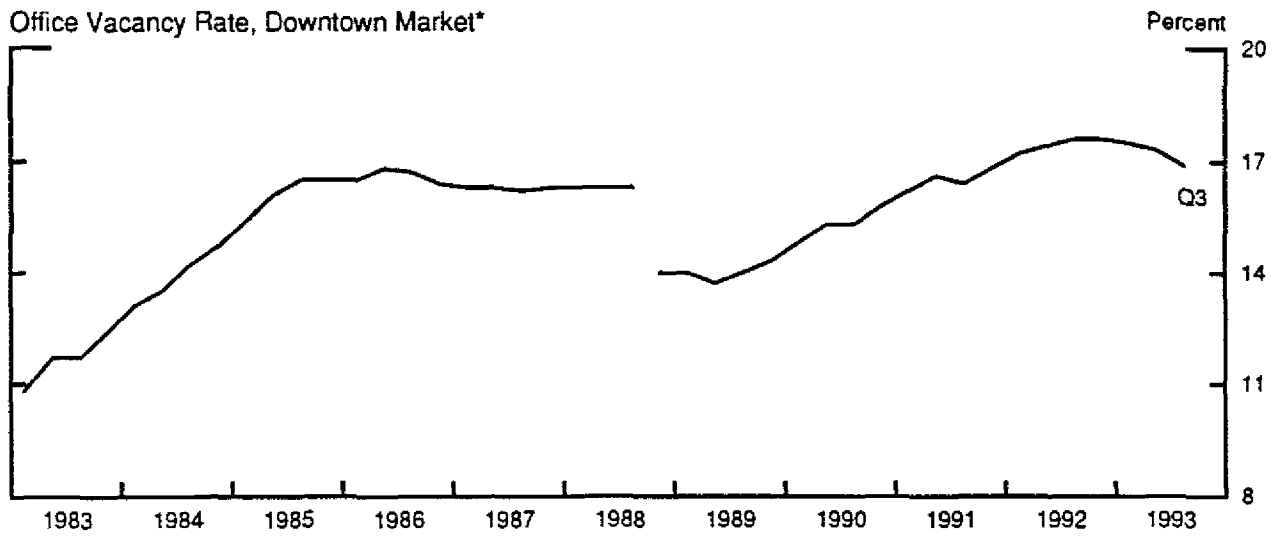
Equipment investment probably has been boosted in recent quarters by a number of factors (chart). Notably, the cost of capital has continued to decline--especially for computers, where quality-adjusted prices have dropped rapidly. In addition, cash flow generally has been strong. On the other hand, the impetus from the 1991-92 acceleration in output probably is beginning to wane.

Outlays for nonresidential structures were about unchanged last quarter after a gain of more than 4 percent at an annual rate during the first half. The imbalances in this sector appear to have been alleviated somewhat during the past year or two, reflecting both a sharp contraction in new supply and a moderate increase in demand.

Construction put-in-place for buildings increased 1/2 percent in October and has been on a decided uptrend since late last year. Among sectors, office construction still is declining. However, construction in the "other commercial" sector, which includes retail outlets, has been increasing for more than a year, although its current level still is well below that seen in the late 1980s. Elsewhere, construction in the institutional sector, which includes structures related to health care and private educational buildings, has been trending up, and industrial construction has flattened out.

The office sector still appears to be plagued by excess capacity: According to CB Commercial, vacancy rates for office

SELECTED INDICATORS OF MARKET CONDITIONS IN NONRESIDENTIAL STRUCTURES



* Vacancy rate data are from CB Commercial. The national downtown office vacancy rate from 1988:Q4 onward is a weighted average of regional weights; prior to that time, the rate was based on an unweighted average.

buildings have edged down this year, but are still quite high by historical standards, especially in downtown areas (chart).⁶

Consistent with high vacancy rates, the Russell-NCREIF index of appraised values for office properties still is declining. Among regions, prices for office buildings recently have stabilized in the South and appear to have firmed some in the Midwest and the Northeast; however, property values still are plunging in the West.

The industrial vacancy rate also is quite high relative to the levels seen in the early and mid-1980s, although it has come down a bit during the past year or two. The Russell-NCREIF index of the value of industrial structures has been falling since mid-1990.

Appraised values of retail space declined substantially in 1991 and 1992, but recent data indicate some firming of prices, and retail construction activity is perking up. Analysts have attributed part of the pickup to the aggressive expansion efforts of retail "super stores," such as Walmart and Sam's. Although vacant retail space is available, most of the existing structures are not large enough to accommodate these behemoths, which require massive amounts of floor space and large parking lots. The uptrend in institutional construction has been driven by the health-related component, mainly hospitals. These outlays have been primarily for large-scale renovations or expansions of existing facilities. Hospitals are revamping their facilities to accommodate the latest technology; they also appear to be competing to attract patients, many of whom seem to choose hospitals largely on the basis of amenities rather than cost.

6. In June of this year, CB Commercial introduced a change in the method it uses to aggregate office vacancy rates across metropolitan areas. Revised data are available only back to the fourth quarter of 1988.

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

	1993			1993		
	Q1	Q2	Q3	Aug.	Sep.	Oct.
Current-cost basis						
Total	39.9	20.5	12.7	27.9	17.5	2.9
Excluding auto dealers	20.6	20.9	22.3	27.4	15.6	-1.9
Manufacturing	1.2	7.1	-2.5	-2.0	-8.4	-5.3
Defense aircraft	-4.4	-.2	-.8	1.6	-1.1	-8.1
Nondefense aircraft	.0	-3.1	-3.3	-13.7	2.5	-3.2
Excluding aircraft	5.6	10.5	1.5	10.1	-9.8	6.0
Wholesale	5.1	6.2	12.2	23.5	-1.2	-11.7
Retail	33.6	7.2	3.0	6.5	27.1	19.8
Automotive	19.3	-.3	-9.6	.5	1.9	4.8
Excluding auto dealers	14.3	7.5	12.7	6.0	25.2	15.1
Constant-dollar basis						
Total	23.0	14.0	15.8	5.9	31.6	n.a.
Excluding auto dealers	6.4	14.4	26.0	27.9	21.2	n.a.
Manufacturing	-.8	5.0	.6	3.0	-10.3	n.a.
Wholesale	-.1	5.9	13.5	18.2	9.9	n.a.
Retail	24.0	3.0	1.7	-15.4	32.0	n.a.
Automotive	16.6	-.5	-10.2	-22.1	10.5	n.a.
Excluding auto dealers	7.4	3.5	11.9	6.7	21.6	n.a.

INVENTORIES RELATIVE TO SALES¹
(Months supply; based on seasonally adjusted data)

	1993			1993		
	Q1	Q2	Q3	Aug.	Sep.	Oct.
Current-cost basis						
Total	1.47	1.47	1.47	1.46	1.46	1.45
Excluding auto dealers	1.44	1.44	1.45	1.44	1.43	1.43
Manufacturing	1.48	1.49	1.49	1.49	1.46	1.46
Defense aircraft	5.07	5.25	5.22	5.52	5.11	4.73
Nondefense aircraft	5.08	4.87	5.39	4.45	5.71	5.29
Excluding aircraft	1.34	1.35	1.35	1.35	1.32	1.33
Wholesale	1.33	1.32	1.34	1.33	1.34	1.34
Retail	1.60	1.58	1.56	1.54	1.55	1.53
Automotive	1.99	1.90	1.78	1.76	1.78	1.71
Excluding auto dealers	1.49	1.49	1.50	1.48	1.49	1.48
Constant-dollar basis						
Total	1.56	1.56	1.56	1.55	1.55	n.a.
Excluding auto dealers	1.53	1.54	1.55	1.55	1.53	n.a.
Manufacturing	1.59	1.60	1.59	1.59	1.57	n.a.
Wholesale	1.42	1.42	1.48	1.47	1.47	n.a.
Retail	1.64	1.62	1.59	1.57	1.59	n.a.
Automotive	1.91	1.85	1.74	1.69	1.75	n.a.
Excluding auto dealers	1.56	1.55	1.55	1.54	1.54	n.a.

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

Business Inventories

Business inventories were little changed in current cost terms in October, as reductions in manufacturing and wholesale stocks were about offset by increases in the retail level. On the whole, inventories seem to be in line with market demand; no major imbalances were apparent at the end of October.

Manufacturers' inventories decreased moderately further in October. The decline was concentrated at producers of aircraft and parts, where stocks have been contracting for more than two years. Inventories held by most other durable goods producers expanded in October: buildups in stocks of industrial machinery and electronic and electrical equipment, where orders have been firm since late summer, were especially notable. Stocks in most nondurable goods industries were either little changed or continued to decline.

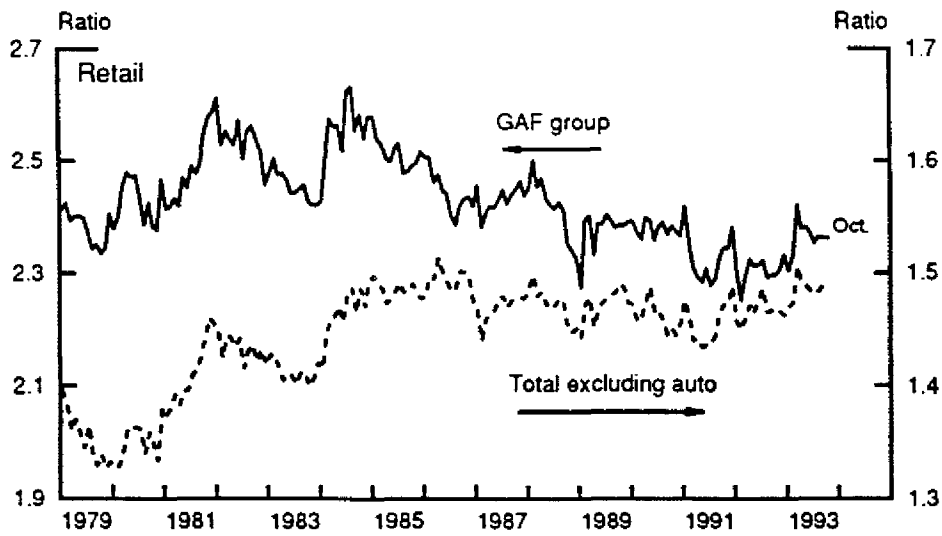
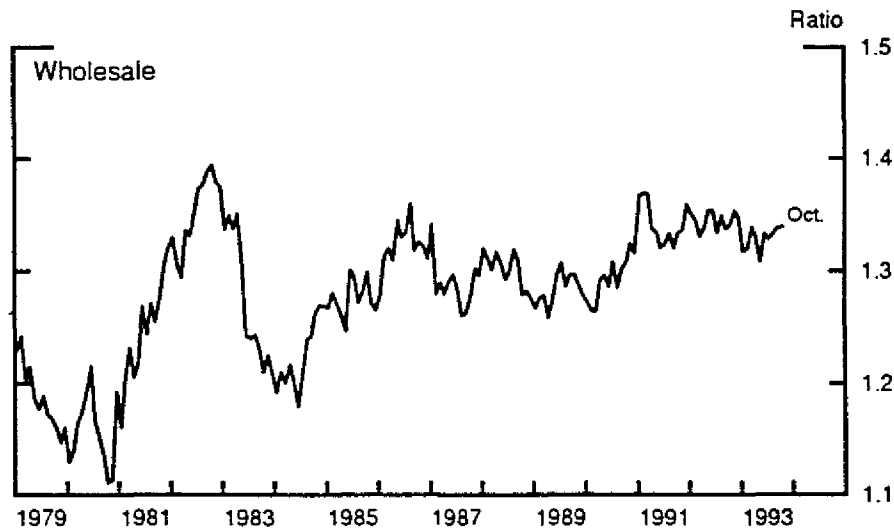
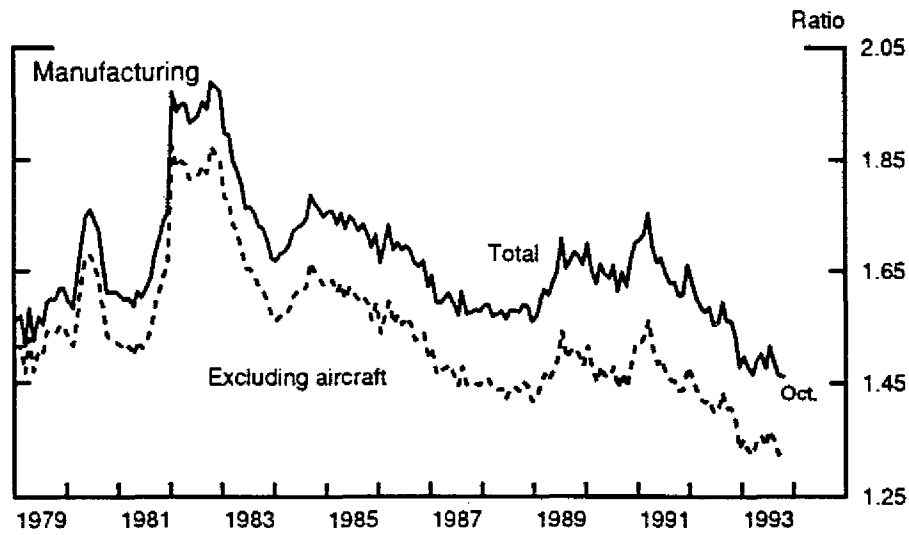
In the trade sector, wholesale inventories posted widespread reductions in October, and the September estimate, which previously had shown a sizable increase, was revised to show essentially no change. In retail trade, inventories rose further in October, after a considerable increase in the preceding month. However, despite the recent buildups, the inventory-sales ratio for nonauto retailers has been virtually unchanged since March. For stores in the general merchandise, apparel, and furniture and appliance (GAF) grouping, inventories have risen persistently over the past several months, but sales have also been brisk. A good part of the recent GAF inventory accumulation was in furniture and appliances--a category in which retail sales have been quite vigorous lately, in line with the pickup in housing activity.

Federal Sector

The federal budget deficit, on a unified basis, narrowed to \$45.3 billion in October from last year's level of \$48.8 billion.

RATIO OF INVENTORIES TO SALES

(Current-cost data)



However, the October 1992 deficit was boosted by a shifting forward of payments from November; for example, military personnel received three bi-weekly paychecks last October. Adjusting for these extra payments and excluding deposit insurance, the deficit was nearly unchanged: Receipts in October were only 2-1/2 percent above their year-earlier level, while outlays grew even more slowly-- 1-1/2 percent. The increases in both receipts and adjusted outlays were well below the trends evident in FY1993; however, the monthly data are volatile and it would be unwise to read much into these numbers.

As the 1993 legislative session closed, Congress enacted and the President signed several important budget-related bills, including the thirteen regular appropriations bills for FY1994. According to the OMB's sequestration report, they are within the discretionary spending limits established in the 1993 reconciliation act; there also will be no need to sequester mandatory spending to meet the pay-as-you-go constraints on mandatory spending and receipts. In addition, the Congress appropriated what is hoped to be a final \$18 billion for the cleanup of failed thrift institutions by the RTC: the funds were obtained by retroactively lifting an April 1, 1992, deadline for use of funds that had been appropriated in November 1991, but were not spent before the deadline.⁷

Meanwhile, emergency unemployment benefits for long-term unemployed workers were extended until February 5, 1994. The cost of the additional outlays (\$1.1 billion) is expected to be offset by savings from state actions to move individuals off the unemployment

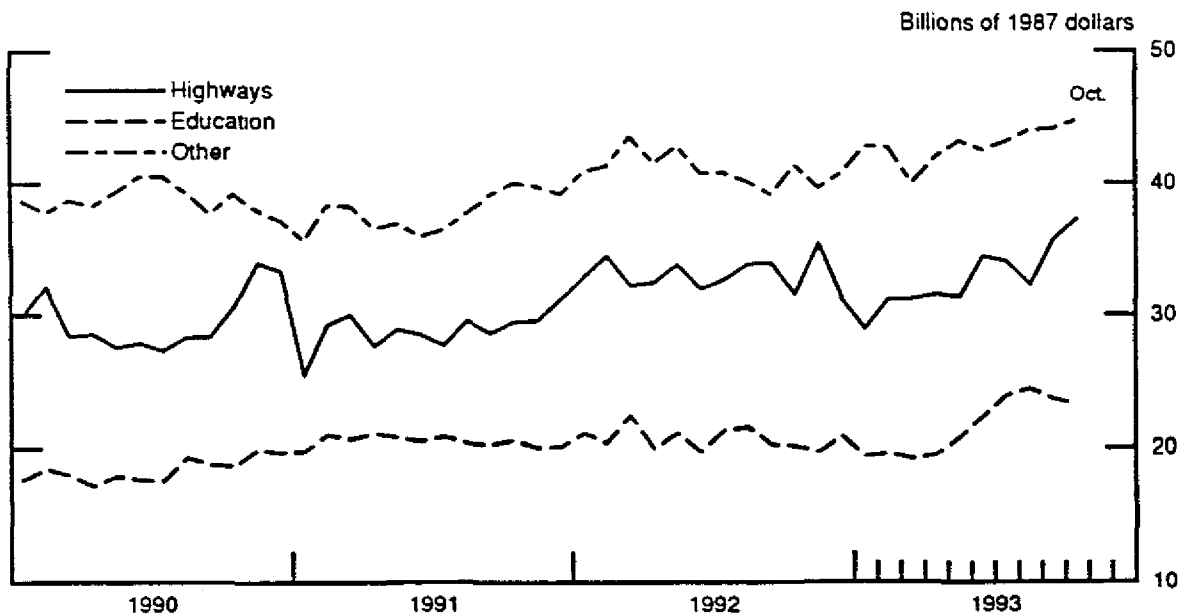
7. Congress did not appropriate any funds for the thrift industry's new deposit insurance fund, the Savings Association Insurance Fund (SAIF), which will start handling thrift failures in 1995. The Treasury and Sponsored Agency Financing section (page III-13) discusses the circumstances under which unused RTC appropriations can be transferred to SAIF.

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

	Oct. FY1993	Oct. FY1994	Dollar change	Percent change
Outlays	125.6	124.0	-1.6	-1.3
Deposit insurance (DI)	-2.6	.1	2.6	n.m.
Outlays excluding DI	128.2	124.0	-4.3	-3.3
National defense	27.2	24.3	-2.9	-10.6
Net interest	16.5	17.1	.6	3.8
Social security	24.3	25.5	1.2	5.1
Medicare and health	19.0	20.0	1.0	5.3
Income security	18.3	17.3	-1.0	-5.4
Other	22.9	19.7	-3.2	-14.2
Receipts	76.6	78.7	1.8	2.4
Personal income and social insurance taxes	66.9	68.5	1.6	2.4
Corporate income taxes	3.1	2.2	-.1	-2.9
Other	6.6	8.0	1.2	18.0
Deficit(+)	48.8	45.3	-3.4	-7.1
Excluding DI	51.4	45.3	-6.1	-11.9

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

STATE AND LOCAL CONSTRUCTION
(Construction Put-In-Place)



rolls faster and from tightening the criteria that allow recent legal immigrants to qualify for Supplemental Security Insurance.

NAFTA is expected to be deficit-neutral, on net, over the next five years. The combination of lost tariff revenues, assistance to dislocated workers, and loan guarantees to finance the cleanup of polluted border areas is expected to total nearly \$3 billion. However, the cost will be offset by increasing the fees paid by cruise and airline passengers crossing U.S. borders and speeding up the collection of tax receipts from Government Demand Deposit accounts at depository institutions. The Treasury will issue regulations next year specifying how the speed-up in collections, which will be phased in over the next five years, will be implemented.

Finally, the House is considering a second round of budget cuts. Last month, it narrowly defeated a bill introduced by Representatives Penny and Kasich that would have reduced the deficit by a cumulative \$90 billion over five years. The Penny-Kasich bill included sizable reductions in mandatory programs, which would have been "locked in" by provisions preventing the savings from being used to finance other entitlements; the bill would have also lowered the caps on discretionary spending below the levels specified in OBRA93. Instead, the House approved an alternative plan backed by the Administration that contains savings of \$37 billion over five years. Most of the savings in the alternative plan are slated to come from a reduction in the civilian federal work force of 252,000 employees (including the 100,000 jobs targeted for elimination in the Administration's FY94 budget); unlike Penny-Kasich, this bill has no mechanism to prevent the savings from being used to meet the existing discretionary caps and to fund new initiatives.

State and Local Governments

Real purchases of goods and services by state and local governments have picked up in recent quarters. The NIPA data for the third quarter were revised up to show an increase of about 3-1/2 percent at an annual rate, and the available information on employment and construction points to a further rise in the fourth quarter. Employment of state and local workers has been erratic from month to month but generally has continued to expand; in November, it stood nearly 50,000 above the average level for the third quarter.

Much of the growth in purchases has been in the volatile construction category, where spending rose at an annual rate of about 20 percent in real terms, on average, in the second and third quarters, after declining over the preceding year. Moreover, according to the advance data, construction put-in-place rose further in October. Since early 1993, outlays for highways and educational buildings have posted sizable increases, while spending for other projects has continued to trend up at about the modest pace that has been evident for the past couple of years. Highway construction has been particularly strong in the past couple of months--especially in the Midwest, where roads are being rebuilt after last summer's floods.

According to a recent survey by the National Association of State Budget Officers (NASBO), states are planning to raise their general fund spending about 1 percent in real terms in fiscal 1994, only a bit faster than the average increase over the preceding three years. Twelve states plan to reduce outlays for Medicaid this year, and many are restructuring AFDC programs to provide greater incentives for individuals to find jobs or go to school. Twenty states plan to trim their work forces (on a full-time equivalent

basis, the largest declines in percentage terms between fiscal years 1992 and 1994 are expected to be in Maine, California, and Oklahoma); many are also reducing employee benefits. Once again, many states reportedly are cutting aid to local governments, revamping management practices, and privatizing services.

Prices

Most price measures indicate that inflation has remained subdued despite the recent acceleration in real activity. Over the twelve months ending in November, consumer prices increased 2.7 percent--down from 3.0 percent for the year-earlier period--while the twelve-month change in the CPI excluding food and energy slowed to 3.1 percent, 0.3 percentage point less than over the preceding year. The PPI for finished goods was flat over the year ending in November, but at earlier stages of production prices firmed for some commodities and industrial materials.

Retail food prices rose 0.4 percent in November, after a jump of 0.6 percent in October. The CPI for fresh fruits and vegetables rose sharply for the fourth month in a row, and meat prices advanced for a second month. By contrast, increases for other foods were quite small--only 0.1 percent, on average. The twelve-month change in the CPI for food moved up a touch in November, but only to 2.6 percent, suggesting that flood and drought losses have had only a small impact on food prices overall. The potential for a larger price response in 1994 still is present, however. The USDA's November crop report led to further sharp increases in the prices of corn and soybeans, and with inventories of those crops likely to be tight in coming months, agricultural markets probably will be unusually sensitive to any developments that might hint at another poor crop in the coming year.

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

	Relative importance, Dec. 1992	1991	1992	1993			1993	
				Q1	Q2	Q3	Oct.	Nov.
				-----Annual rate-----			-Monthly rate-	
All items ²	100.0	3.1	2.9	4.0	2.2	1.4	.4	.2
Food	15.8	1.9	1.5	2.6	1.4	1.7	.6	.4
Energy	7.3	-7.4	2.0	3.1	-3.8	-3.4	1.9	-1.3
All items less food and energy	76.9	4.4	3.3	4.3	2.9	1.9	.3	.3
Commodities	24.7	4.0	2.5	4.6	.6	-.3	.3	.2
Services	52.2	4.6	3.7	4.4	4.1	2.7	.3	.3
Memo:								
CPI-W ³	100.0	2.8	2.9	4.1	2.0	.8	.5	.1

1. Changes are from final month of preceding period to final month of period indicated.

2. Official index for all urban consumers.

3. Index for urban wage earners and clerical workers.

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

	Relative importance, Dec. 1992	1991	1992	1993			1993	
				Q1	Q2	Q3	Oct.	Nov.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	-.1	1.6	4.3	.0	-1.9	-.2	.0
Consumer foods	22.4	-1.5	1.6	-1.6	1.6	4.2	-.5	.8
Consumer energy	13.9	-9.6	-.3	16.6	-3.0	-7.4	1.3	-2.7
Other finished goods	63.7	3.1	2.0	3.6	.3	-2.9	-.5	.4
Consumer goods	40.6	3.4	2.1	3.2	.6	-5.9	-.5	.3
Capital equipment	23.1	2.5	1.7	4.4	.3	2.2	-.4	.2
Intermediate materials ²	95.4	-2.7	1.1	5.7	.3	-.3	-.1	-.3
Excluding food and energy	81.8	-.8	1.2	4.7	.0	.6	.0	.1
Crude food materials	41.2	-5.8	3.0	1.9	-1.9	12.6	-1.5	3.8
Crude energy	39.5	-16.6	2.3	-10.1	17.5	-26.5	4.9	-3.8
Other crude materials	19.3	-7.6	5.7	24.3	11.5	-8.5	.9	1.7

1. Changes are from final month of preceding period to final month of period indicated.

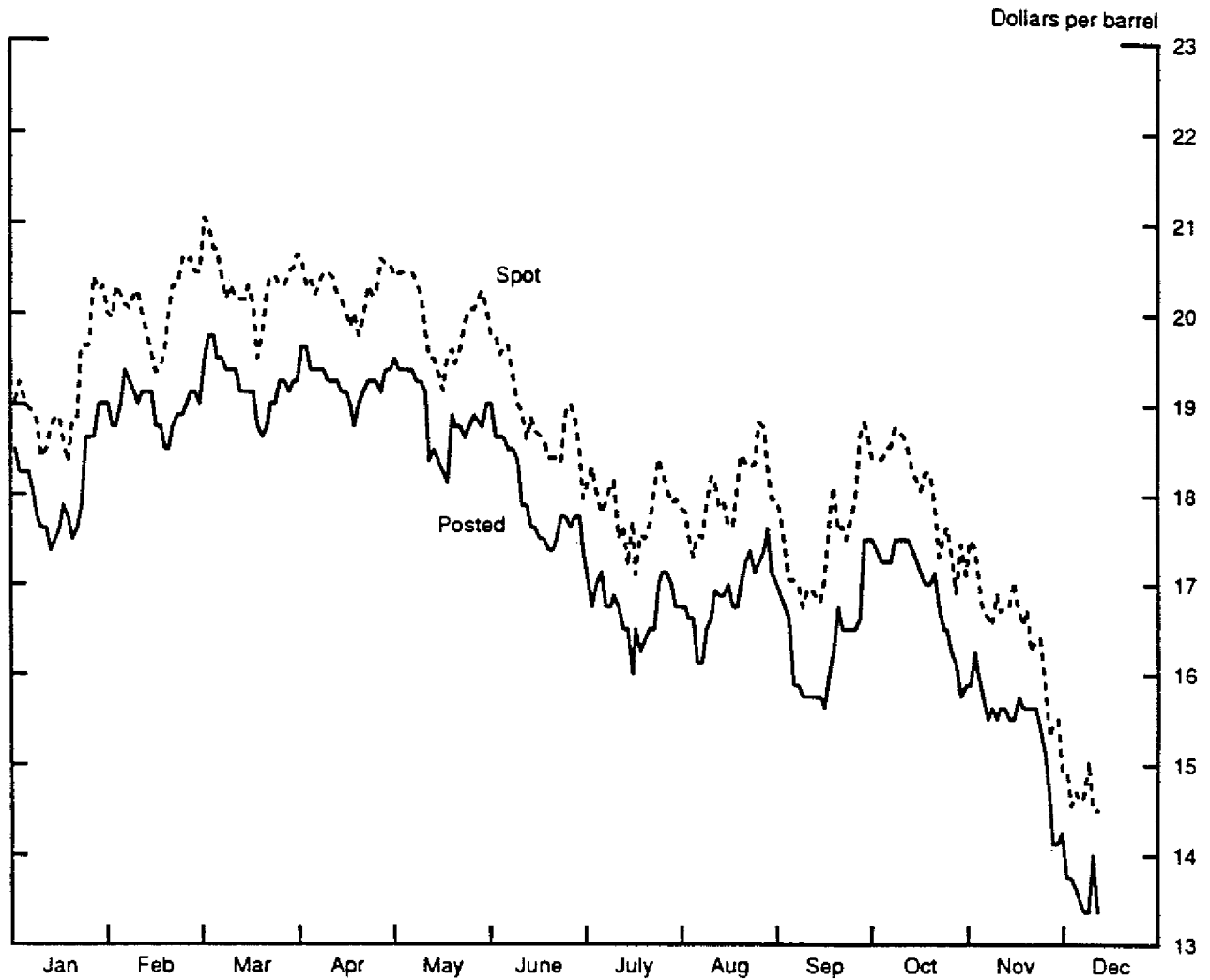
2. Excludes materials for food manufacturing and animal feeds.

All of the major components of the energy index fell in November, and overall energy prices slipped 1.3 percent. The declines among petroleum products have continued into December and largely reflect developments in the world oil market--the sluggish crude oil demand and strong non-OPEC production, especially from the North Sea. Downward pressure on prices has been exacerbated by rumors of a possible re-entry of Iraq as an oil exporter and the failure of the OPEC ministers to reach an agreement to restrict production at their November 24 meeting. The decline in world crude oil prices has overwhelmed the additional costs of EPA requirements to use oxygenated gasoline, which went into effect on November 1.

Excluding food and energy, the CPI moved up 0.3 percent last month, after a similar increase in October. Among nonfood nonenergy goods, consumer prices increased only 1.6 percent in the year ending in November, down from 2.5 percent for the previous twelve-month period. The decline in tobacco prices accounted for the bulk of the slowing, although there also was a significant deceleration in the prices of medical care commodities. In contrast, increases in the CPI for new motor vehicles picked up about 1/2 percentage point over the past year.

Unlike goods prices, service prices have shown only slight deceleration over the past year. Airline fares increased almost 15 percent in the twelve months ending in November, with the surviving carriers boosting ticket prices to stem their losses. However, the carriers started a new round of discount fares in early December. Rent of shelter, which accounts for about half of nonenergy services, slowed only about 0.2 percentage point from its year-earlier pace. Nevertheless, some service industries showed significant deceleration from last year. The twelve-month change in prices of medical care services decelerated by more than a

Daily Spot and Posted Prices of West Texas Intermediate ¹



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

MONTHLY AVERAGE PRICES—WEST TEXAS INTERMEDIATE

Year and Month	Posted	Spot
1993		
January	18.01	19.08
February	18.92	20.05
March	19.20	20.35
April	19.24	20.27
May	18.91	19.94
June	18.05	19.07
July	16.79	17.87
August	16.87	18.01
September	16.33	17.51
October	17.10	18.15
November	15.55	16.68
December ¹	13.71	14.80

¹ Price through December 14.

percentage point, although it was still running double the core rate of inflation, and tuition increases were down a percentage point.

Surveys of consumer price expectations have come down in recent months. The preliminary Michigan survey for December showed average expectations of inflation for the next twelve months at 3.7 percent, 1 percentage point less than the third-quarter average for this survey. In the Conference Board survey, expected inflation fell to 4.3 percent in November from 4.8 percent a month earlier.

At earlier stages of processing, the PPI for intermediate goods excluding food and energy was little changed for a third month in November. The index of prices of materials used in construction continued to advance, but prices of materials for manufacturing posted another month of little change. Meanwhile, the index for crude materials other than food and energy was up 1.7 percent in November after a 0.9 percent increase in October. Another large increase was posted for prices of iron and steel scrap. In addition, prices increased for logs, bolts, copper ores, and cattle hides.

Scattered price pressures continue to be evident in the commodity markets. Prices of steel scrap, which had risen sharply earlier this autumn, have edged up a bit further in December. The current high level of steel prices probably is associated in part with strong demand from the motor vehicle sector. In addition, lumber prices have continued to rise and are approaching the highs reached last March--market participants reportedly have reduced their assessments of near-term lumber supply in the face of continued strong demand. Prices for a number of other industrial commodities also have risen since the week of the November Greenbook, but generally by only small amounts. Gold and silver prices have strengthened recently, retracing declines that occurred

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Nov 1991	Nov 1992	Nov 1993
CPI	4.5	3.4	3.1
Goods	4.4	2.5	1.6
Alcoholic beverages	10.0	2.9	1.2
New vehicles	3.7	2.6	3.2
Apparel	4.4	0.9	1.1
House furnishings	0.9	1.4	1.2
Housekeeping supplies	2.5	0.5	1.3
Medical commodities	7.9	5.1	3.3
Entertainment	3.7	1.8	1.6
Tobacco	11.6	7.7	-4.7
Services	4.5	3.9	3.7
Owners' equivalent rent	3.7	3.0	3.0
Tenants' rent	3.1	2.5	2.0
Other renters' costs	7.8	5.9	3.1
Airline fares	-5.2	9.0	14.5
Medical care	7.9	7.3	5.9
Entertainment	5.1	2.8	3.7
Auto financing	-5.6	-14.0	-5.7
Tuition	9.8	8.2	7.3
PPI finished goods	3.1	2.0	0.3
Consumer goods	3.4	2.2	-0.6
Capital goods, excluding computers	3.3	2.7	2.3
Computers	n.a.	-15.7	-13.7
PPI intermediate materials	-1.0	1.1	1.5
PPI crude materials	-8.3	3.0	11.3
<u>Factors affecting price inflation</u>			
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	7.3	6.4
Capacity utilization ² (manufacturing)	78.0	79.7	82.2
Inflation expectations ^{3,4}			
Mean of responses	4.0	3.3	3.7
Median, bias-adjusted ⁵	3.7	3.7	3.9
Non-oil import price ⁶	0.4	2.8	0.3
Consumer goods, excluding autos, food, and beverages	0.6	4.0	0.6
Autos	4.3	2.3	1.6

1. Private industry workers, periods ended in September.

2. End-of-period value.

3. Michigan Survey one-year ahead expectations.

4. Latest reported value: December.

5. Median adjusted for average downward bias of 0.9 percentage points, relative to actual inflation, since 1978.

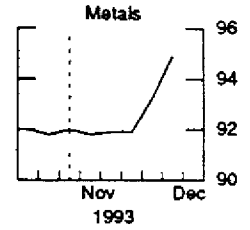
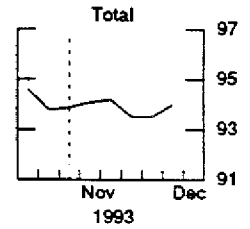
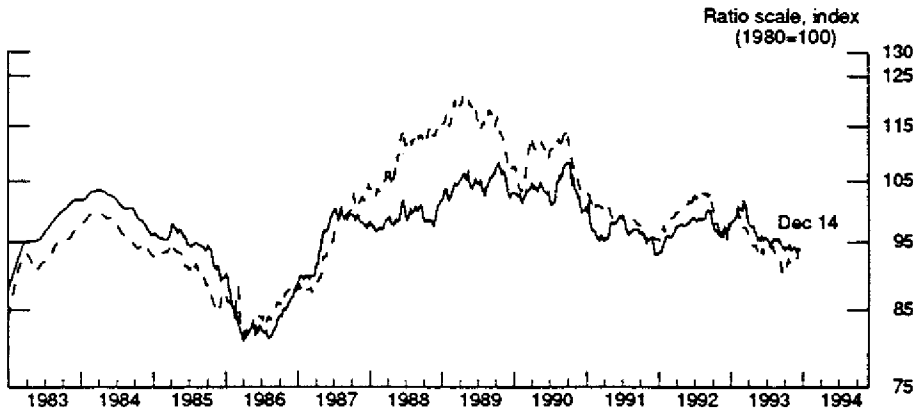
6. BLS import price index (not seasonally adjusted), periods ended in September.

n.a. Not available.

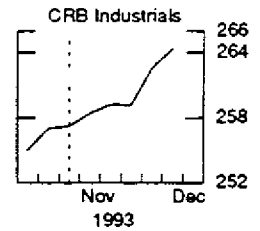
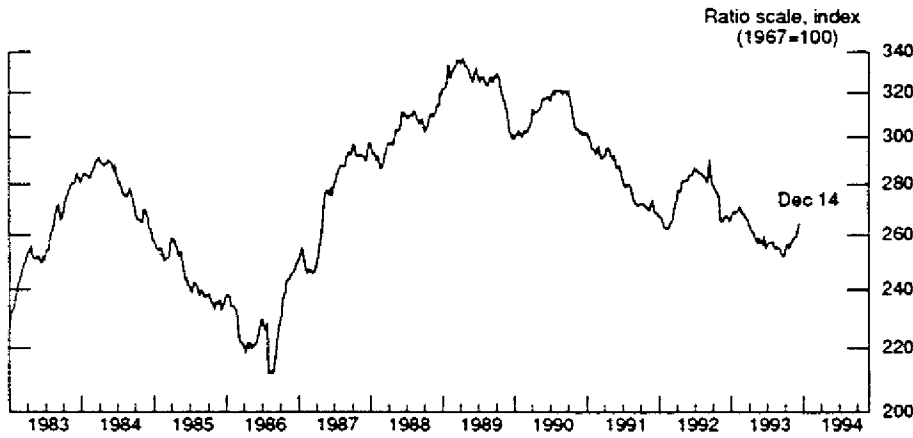
during the summer and early autumn. Indexes of commodity prices have increased since the week of the last Greenbook, by 3 to 5 percent in most cases.

COMMODITY PRICE MEASURES •

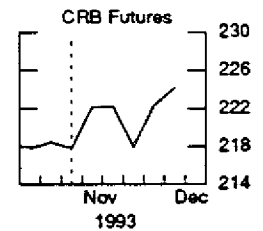
— Journal of Commerce Index, total
 - - Journal of Commerce Index, metals



CRB Spot Industrials



CRB Futures



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

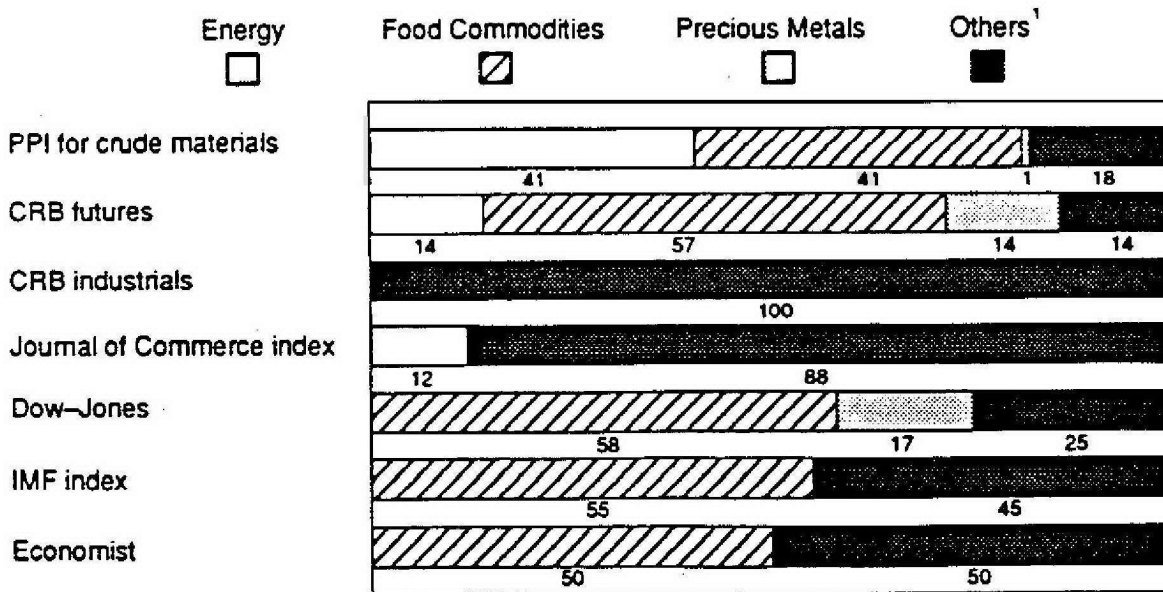
Dotted lines indicate week of last Greenbook.

SPOT PRICES OF SELECTED COMMODITIES

	Last observ- ation	-----Percent change ² -----				Year earlier to date
		1991	1992	Dec 92 to Nov 09 ³	Nov 09 ³ to date	
1. PPI for crude materials	Nov	-11.6	3.3	1.6	n.a.	0.7
1a. Foods and feeds	Nov	-5.8	3.0	4.7	n.a.	6.5
1b. Energy	Nov	-16.6	2.3	-5.3	n.a.	-9.8
1c. Excluding food and energy	Nov	-7.6	5.7	9.0	n.a.	11.3
1d. Excluding food and energy, seasonally adjusted	Nov	-7.7	6.0	8.9	n.a.	11.3
2. Commodity Research Bureau						
2a. Futures prices	Dec 14	-6.5	-2.9	7.8	3.0	10.8
2b. Industrial spot prices	Dec 14	-11.3	-0.7	-3.1	2.8	-1.1
3. Journal of Commerce industrials	Dec 14	-7.2	5.0	-4.1	0.1	-1.8
3a. Metals	Dec 14	-7.1	1.9	-5.5	3.2	-1.4
4. Dow-Jones Spot	Dec 14	-12.1	10.4	-0.7	3.7	2.2
5. IMF commodity index ⁴	Oct	0.7	-2.6	n.a.	n.a.	-3.1
5a. Metals	Oct	-8.9	-3.1	n.a.	n.a.	-19.7
5b. Nonfood agricultural	Oct	1.3	2.4	n.a.	n.a.	-2.5
6. Economist (U.S. dollar index)	Dec 07	-9.1	1.6	2.1	5.1	9.5
6a. Industrials	Dec 07	-14.9	4.5	-3.6	5.5	5.0

- 1. Not seasonally adjusted.
- 2. Change is measured to end of period, from last observation of previous period.
- 3. Week of the November 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.

**DOMESTIC FINANCIAL
DEVELOPMENTS**

1

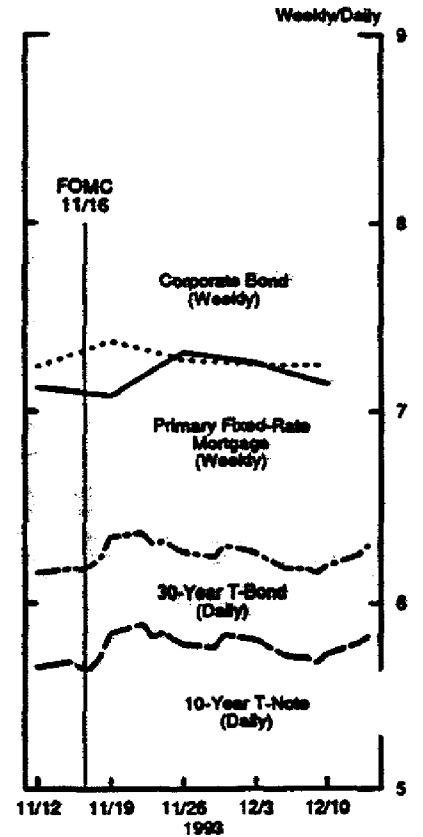
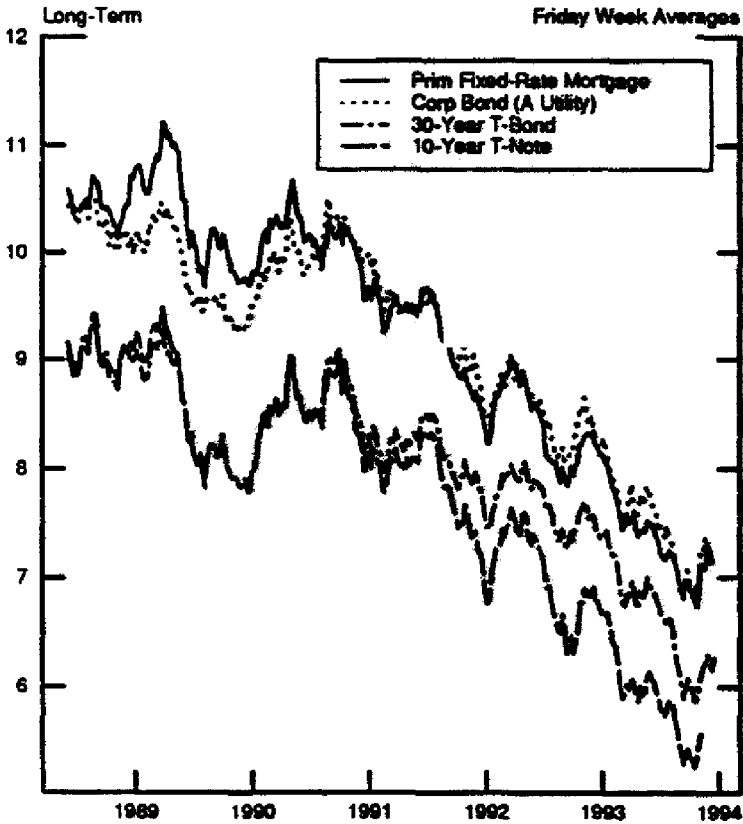
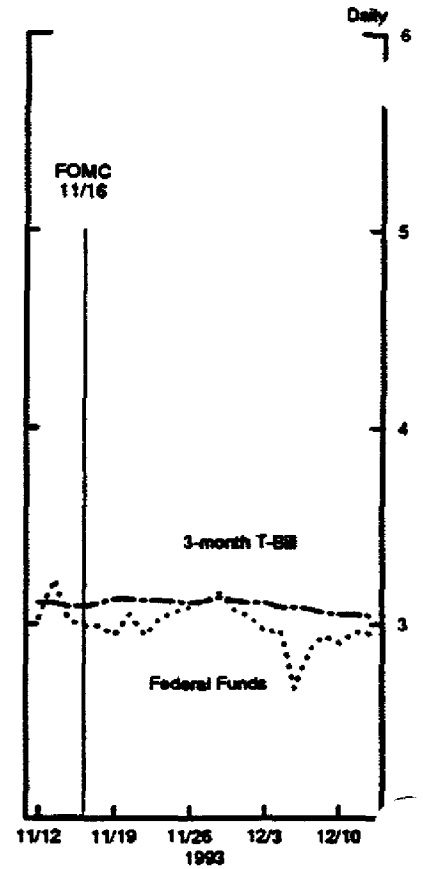
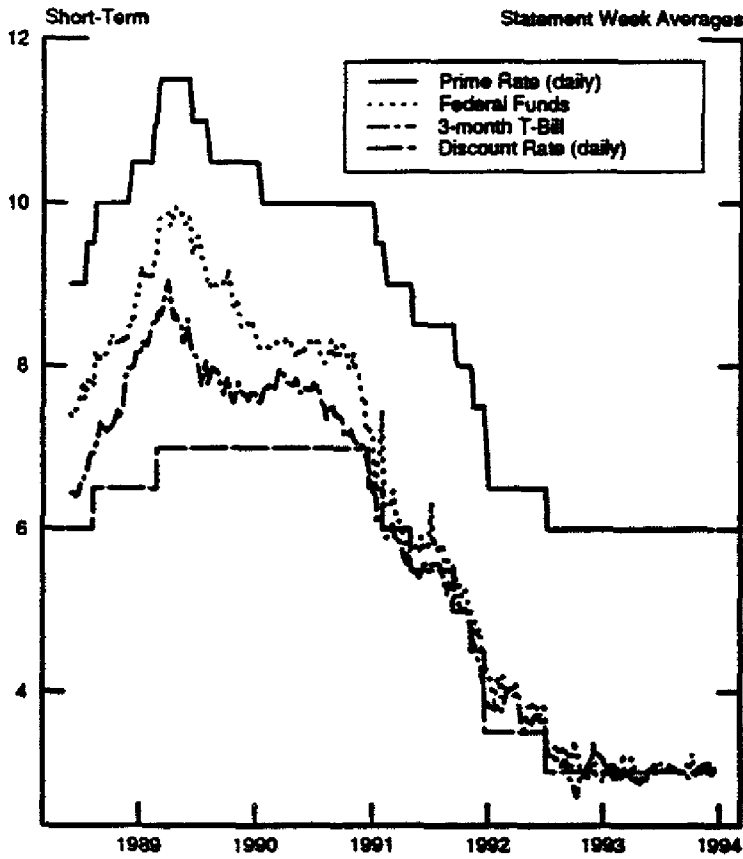
SELECTED FINANCIAL MARKET QUOTATIONS
(Percent except as noted)

Instrument	1992		1993			Change to Dec 14, 1993		
	Sept. 4	Mid-Oct lows	FOMC. Nov 16	Dec 14	From Mid-Oct lows	From FOMC. Nov 16		
SHORT-TERM RATES								
Federal funds ²	3.19	3.07	3.00	2.93	-.14	-.07		
Treasury bills ³								
3-month	2.92	3.01	3.09	3.04	.03	-.05		
6-month	2.96	3.09	3.24	3.25	.16	.01		
1-year	3.06	3.23	3.37	3.49	.26	.12		
Commercial paper								
1-month	3.22	3.13	3.15	3.35	.22	.20		
3-month	3.22	3.23	3.40	3.35	.12	-.05		
Large negotiable CDs ³								
1-month	3.06	3.08	3.08	3.25	.17	.17		
3-month	3.06	3.22	3.32	3.26	.04	-.06		
6-month	3.11	3.23	3.35	3.37	.14	.02		
Eurodollar deposits ⁴								
1-month	3.31	3.06	3.00	3.19	.13	.19		
3-month	3.31	3.25	3.31	3.25	.00	-.06		
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	4.06	4.45	4.59	.53	.14		
10-year	6.40	5.19	5.66	5.82	.63	.16		
30-year	7.29	5.78	6.17	6.29	.51	.12		
Municipal revenue ⁵ (Bond Buyer)	6.31	5.41	5.69	5.60	.19	-.09		
Corporate--A utility, recently offered	8.06	6.79	7.27	7.36	.57	.09		
Home mortgages ⁶								
FHLMC 30-yr. fixed rate	7.84	6.74	7.12	7.14	.40	.02		
FHLMC 1-yr. adjustable rate	5.15	4.14	4.28	4.25	.11	-.03		
Stock exchange index	Record high		1989	1993		Percentage change to Dec 14		
	Level	Date	Low. Jan. 3	FOMC. Nov 16	Dec 14	From record high	From 1989 low	From FOMC. Nov 16
Dow-Jones Industrial	3764.43	12/13/93	2144.64	3710.77	3742.63	-.58	74.51	.86
NYSE Composite	260.48	10/15/93	154.00	257.80	256.19	-1.65	66.36	-.62
NASDAQ (OTC)	787.42	10/15/93	378.56	771.69	751.47	-4.57	98.51	-2.62
Wilshire	4701.68	10/15/93	2718.59	4642.64	4593.41	-2.30	68.96	-1.06

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 December 22, 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 Dec 8; Friday weeks through Dec 10, 1993.

DOMESTIC FINANCIAL DEVELOPMENTS

The federal funds rate has remained near 3 percent and long-term interest rates are up about 10 to 15 basis points on net since the November FOMC meeting. Early in the intermeeting period, the yield on the thirty-year Treasury bond moved up about 20 basis points, as incoming readings suggested a vigor to the economy that sparked concerns about upcoming credit demands and the potential for a pickup in inflation. This rise was subsequently retraced, partly in response to the drop in oil prices, but yields have turned up again more recently. Private rates have generally moved in line with Treasuries, except for those on below-investment-grade corporate bonds and on tax-exempt bonds, which have declined slightly.

Most major stock indexes are down between 1 and 3 percent over the intermeeting period. The exception is the Dow Jones Industrial Average, which is up from the November FOMC meeting and currently near a record high. Reflecting higher commodities prices, basic materials stocks posted increases, while energy sector stocks have declined on the weakness in oil prices.

M2 strengthened in November as M1 growth remained brisk and savers cut back on purchases of bond funds at least partly in favor of additional investments in money market mutual funds. Faster growth in M2 showed through to M3 which was also boosted by a surge in term Eurodollar deposits. Both M2 and M3 are now somewhat above the lower bounds of their annual targets.

Incoming information suggests that net borrowing by the nonfederal sectors is growing at a moderate pace. The strongest credit demands this quarter have come from households; consumer credit evidently is continuing to expand at a brisk pace, while

III-2

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

Aggregate or component	1992 ¹	1993 Q2 ²	1993 Q3 ²	1993 Sep.	1993 Oct.	1993 Nov. (pe)	1992:Q4 to Nov. 93 (pe)	Lev (bil. Oct. 93)
	Percentage change (annual rate)							
Aggregate	Percentage change (annual rate)							
1. M1	14.3	10.5	12.9	13.6	10.4	11	10%	1116.1
2. M2	1.7	2.2	3.1	4.0	0.8	5	1%	3535.0
3. M3	0.2	2.3	1.2	3.5	2.0	4	%	4184.6
Selected components								
4. M1-A	13.7	13.1	14.2	16.5	9.3	12	12	705.9
5. Currency	9.1	9.7	11.6	14.6	6.8	6	10%	318.2
6. Demand deposits	18.0	16.0	17.2	18.5	11.2	17	13%	379.9
7. Other checkable deposits	15.4	6.3	10.7	8.6	12.4	7	8%	410.2
8. M2 minus M1 ³	-2.7	-1.3	-1.1	-0.3	-3.6	2	-2%	2418.9
9. Overnight RPs and Eurodollars, n.s.a.	2.7	-10.3	36.1	50.6	35.3	19	13	84.0
10. General-purpose and broker- dealer money market funds	-5.2	-0.7	-0.6	-6.8	2.2	14	-2	333.0
11. Commercial banks	-0.1	-0.4	-1.0	-0.1	-2.9	1	-1	1250.1
12. Savings deposits	14.5	4.6	5.3	5.1	1.2	8	4%	778.0
13. Small time deposits	-15.8	-7.9	-10.7	-8.5	-9.8	-10	-8%	472.0
14. Thrift institutions	-5.8	-4.3	-4.0	-5.2	-5.4	-6	-5%	755.1
15. Savings deposits	14.8	0.7	2.9	1.1	0.0	-1	1	431.6
16. Small time deposits	-22.1	-10.4	-12.7	-13.4	-12.5	-12	-12%	323.6
17. M3 minus M2 ³	-6.7	3.3	-9.0	1.1	8.4	4	-4	64
18. Large time deposits	-16.5	-1.7	-8.4	-5.7	2.2	-6	-7%	334.4
19. At commercial banks ⁴	-15.8	0.1	-8.8	-7.1	3.1	-6	-7%	271.3
20. At thrift institutions	-19.5	-10.3	-6.8	-1.9	0.0	-6	-8%	63.1
21. Institution-only money market mutual funds	18.2	0.4	-12.6	5.0	15.5	1	-5%	196.6
22. Term RPs, n.s.a.	7.9	38.8	25.6	-1.2	-15.0	-6	17%	95.0
23. Term Eurodollars, n.s.a.	-22.6	7.7	-31.9	32.7	18.5	133	8%	46.0
Average monthly change (billions of dollars)								
Memo								
24. Managed liabilities at com'l. banks (lines 25 + 26)	-2.1	4.2	8.3	6.6	4.3	-9	...	717.5
25. Large time deposits, gross	-4.6	-1.0	-5.7	-4.2	0.0	1	...	335.5
26. Nondeposit funds	2.5	5.3	14.0	10.8	4.3	-10	...	382.0
27. Net due to related foreign institutions	2.7	2.4	11.2	4.4	5.0	-3	...	123.6
28. Other ⁵	-0.2	2.9	2.8	6.4	-0.7	-7	...	258.4
29. U.S. government deposits at commercial banks ⁶	-0.5	2.4	-0.6	-5.2	-7.5	-1	...	16.7

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 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.

rising housing starts and sales probably kept home mortgage debt growing at a good clip. Business and state and local government net borrowing appears to be subdued, with the backup in interest rates from the October lows also damping refinancing activity in these sectors.

Monetary Aggregates and Bank Credit

After pausing in October, the monetary aggregates grew appreciably in November. M2 expanded at a 5 percent rate, boosted by double-digit growth in its M1 component and a step-up in flows to money market mutual funds.

Growth in M1 was spurred last month by the recent wave of mortgage refinancings.¹ Beyond its M1 components, only money funds and commercial bank savings deposits added significantly to the expansion of M2 last month. M2-type money funds, which grew at a 14 percent pace, likely benefitted from a slowdown in inflows to long-term bond funds. Returns on these funds were hit by the decline in bond prices after mid-October. Net purchases of bond fund shares fell sharply in November from October's rapid \$12 billion pace. The weakening in bond funds, however, was not reflected in strength in time deposits, which continued to run off at a rapid pace.

M3 increased at a 4 percent annual rate in November largely on the strength of M2, after posting a 2 percent rate of growth in October. A spike in term Eurodollar deposits, one of the more volatile components, also contributed to the expansion in M3.

Bank credit grew at a 6 percent annual rate in November after

1. Although applications for refinancings evidently have fallen off in recent weeks, closings on earlier applications will remain high for a few months.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT¹
 (Percentage change at annual rate, based on seasonally adjusted data)

Type of credit	Dec. 1991 to Dec. 1992	1993 Q2	1993 Q3	1993 Sep.	1993 Oct.	1993 Nov. p	Level, Nov. 1993 p (\$billions)
Commercial bank credit							
1. Total loans and securities at banks	3.6	7.3	5.5	4.0	0.0	6.1	3,072.0
2. Securities	13.0	11.3	7.9	7.8	-5.5	1.9	899.7
3. U.S. government	17.5	13.1	8.3	9.1	-4.0	2.2	718.9
4. Other	-1.1	4.7	6.2	2.6	-11.2	.7	180.8
5. Loans	.2	5.6	4.5	2.3	2.3	7.9	2,172.3
6. Business	-3.2	-1.1	-1.6	-5.5	.2	.4	586.4
7. Real estate	2.1	5.3	3.7	3.8	4.6	4.4	921.2
8. Consumer	-1.8	7.0	8.6	4.5	12.8	9.1	383.3
9. Security	18.4	44.9	62.2	43.7	-48.0	112.1	86.6
10. Other	1.2	12.0	-2.2	-1.8	-1.2	1.9	194.8
Short- and intermediate-term business credit							
11. Business loans net of bankers acceptances	-3.3	-1.3	-1.9	-3.9	-1.2	1.5	577.5
12. Loans at foreign branches ²	2.0	-5.2	-31.3	-22.2	5.7	22.5	21.7
13. Sum of lines 11 and 12	-3.1	-1.4	-3.0	-4.6	-1.0	2.4	599.3
14. Commercial paper issued by nonfinancial firms	9.5	15.8	22.5	4.5	-8.9	-.7	160.4
15. Sum of lines 13 and 14	-.8	2.0	2.2	-2.7	-2.7	1.7	759.7
16. Bankers acceptances, U.S. trade-related ^{3,4}	-16.9	-14.2	-11.1	11.5	-5.7	n.a.	21.0
17. Finance company loans to business ⁴	1.8	-.4	3.0	5.5	1.6	n.a.	305.8
18. Total (sum of lines 15, 16, and 17)	-.5	1.0	2.1	-.1	-1.5	n.a.	1,085.4

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. October 1993.

p Preliminary.

n.a. Not available.

being flat in October.² The expansion reflected a pickup in loan growth, which posted its most rapid monthly rate since July, and a rebound in securities acquisitions, albeit at a pace considerably below that of the first three quarters of 1993. Much of the acceleration in bank loans was the result of very rapid growth in the volatile security loan category.

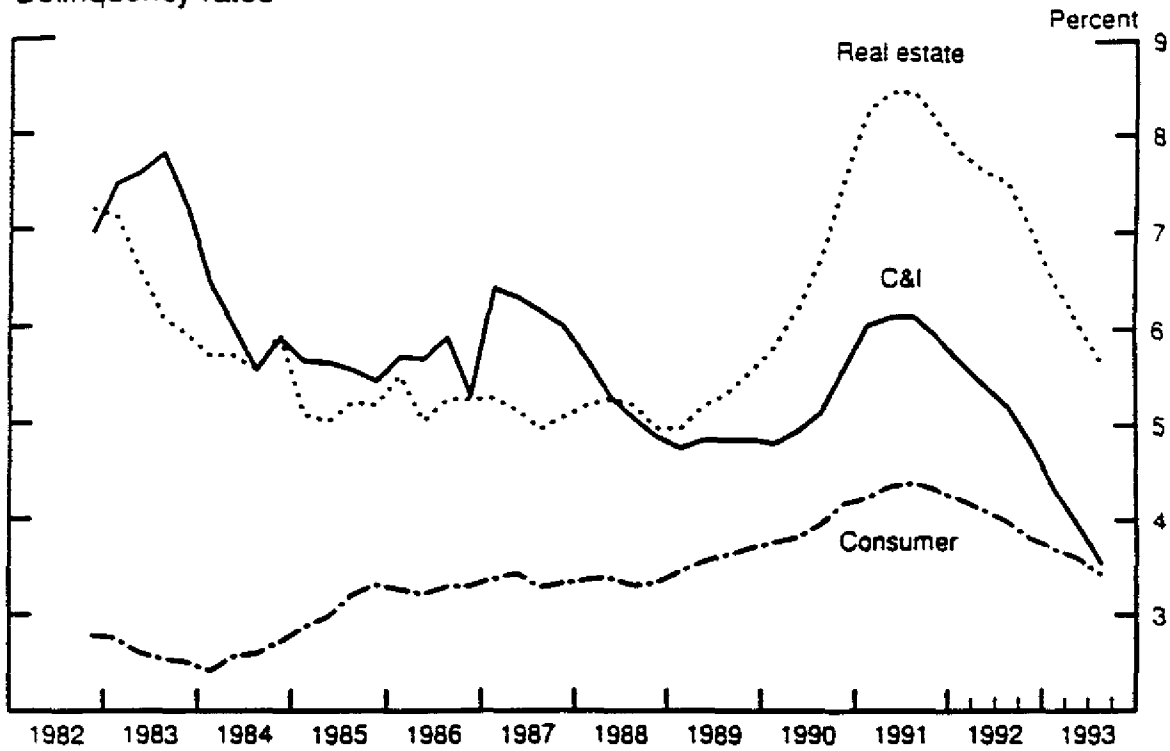
The expansion of consumer loans on bank balance sheets slowed from October's rapid pace, but, adjusted for securitizations, consumer loan growth was still over 10 percent, about the rate recorded in the third quarter. Real estate loans continued to increase at about the moderate rate of the previous two months. Bank commercial and industrial loans were little changed in November, as they had been in October. Net of bankers acceptances and including loans at foreign branches, however, business loans rose at more than a 2 percent annual rate. Lending by large banks rose after four months of runoffs, consistent with a slackening in the refinancing of bank loans with corporate bonds in response to the backup in market interest rates. November's Survey of Terms of Bank Lending to Business, recent Senior Loan Officer Surveys and other evidence continues to suggest that banks are becoming somewhat more accommodative in their terms and standards on business loans.

According to call report data, banks increased their holdings of municipal securities in the second and third quarters, after having allowed these assets to run off since 1986. The runoff was in response to a provision in the Tax Reform Act that largely eliminated the ability of banks to deduct interest for carrying tax-exempt securities. The recent net purchase of these securities

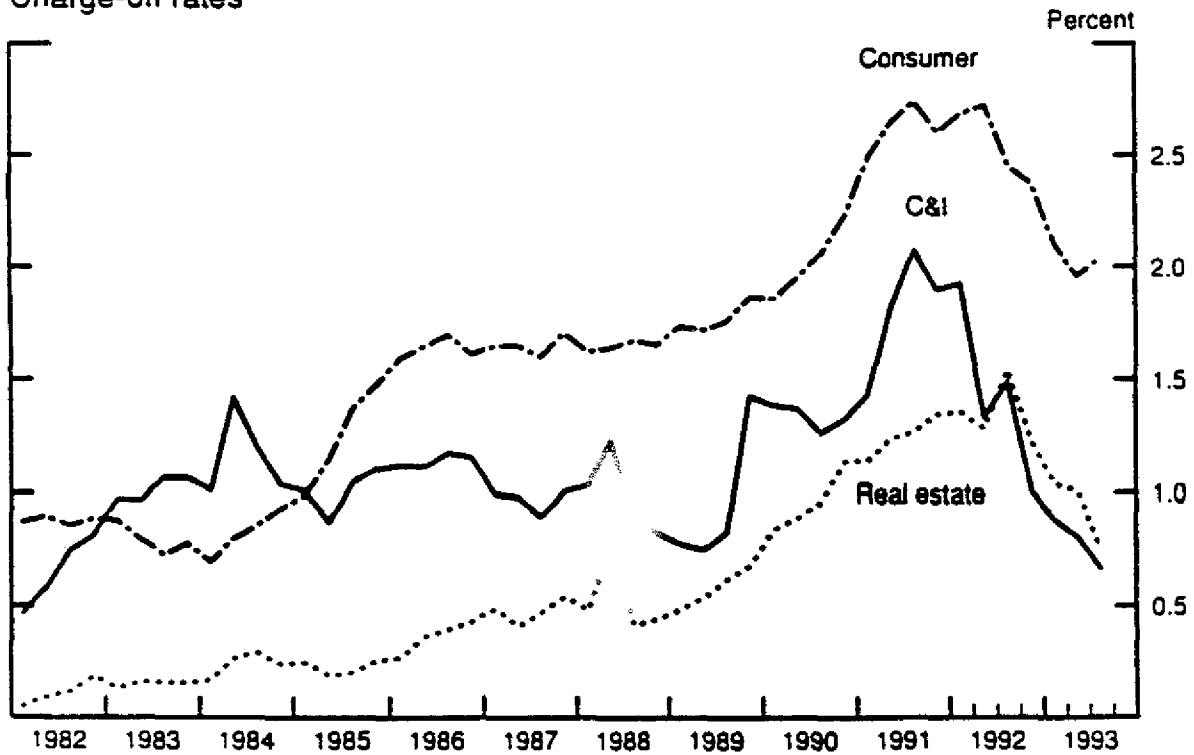
2. Growth in October was pulled down by Nationsbank's spinoff of its primary dealer into a Section 20 affiliate; absent that shift, bank credit would have expanded at about a 3-1/2 percent pace for the month.

Delinquency and Charge-Off Rates at Large Banks, SA
(By Type of Loan)

Delinquency rates



Charge-off rates



appears to be partly in response to the unusually high ratio of tax-exempt to taxable yields that has prevailed since mid summer.

Evidence on improving credit quality of bank asset portfolios continues to accumulate. Delinquencies on real estate and consumer loans have fallen to the levels of the late 1980s, while rates for business loans have reached a low for the more than ten-year time span such data have been available (chart). Charge-off rates have also declined from their peaks.

Business Finance

Available data suggest that overall short- and intermediate-term borrowing by nonfinancial firms has been subdued in recent months. Issuance of nonfinancial commercial paper was about flat. Together, bank business loans and commercial paper grew at around a 1-1/2 percent annual rate, down slightly from the pace recorded in the second and third quarters. Finance company business loans rose at a 1-1/2 percent annual rate in October, the most recent month for which data are available. Finance company lending, while still somewhat sluggish, has been the strongest component of short- and intermediate-term credit over the past few months, with growth concentrated primarily in the equipment and auto leasing sectors.

Gross public issuance of bonds by nonfinancial corporations dropped in November to around \$11 billion from October's \$17 billion rate. Thus far in December, issuance appears to be around its November pace. The backup in long-term rates after mid October appears to have slowed refinancing activity somewhat. Although junk bond issuance declined from its heavy October pace, it remains strong. Junk bond yields, in contrast to investment-grade bonds, are little changed from two months ago, as spreads have narrowed significantly. Market participants report that substantial inflows

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS¹
 (Billions of dollars; monthly rates, not seasonally adjusted)

	1991	1992	-----1993-----				
			Q2	Q3 ^P	SEP ^P	OCT ^P	NOV ^P
All U.S. corporations	32.14	40.81	50.18	57.41	65.64	55.32	50.15
Stocks ²	5.90	7.04	8.70	11.91	11.74	12.67	12.35
Bonds	26.24	33.77	41.48	45.50	53.90	42.65	37.80
<u>Nonfinancial corporations</u>							
Stocks ²	4.09	4.42	5.01	6.21	6.46	6.23	7.31
Sold in U.S.	3.71	4.03	4.73	5.11	5.79	5.21	6.73
Utility	0.43	0.87	0.99	1.05	1.39	1.25	1.62
Industrial	3.28	3.16	3.75	4.05	4.40	3.96	5.12
Sold abroad	0.38	0.39	0.27	1.10	0.67	1.02	0.57
Bonds	10.52	13.65	16.28	15.35	14.13	17.40	11.18
Sold in U.S.	9.52	12.81	15.32	14.43	12.53	16.80	11.00
Utility	2.99	5.33	7.25	7.64	7.65	6.80	4.60
Industrial	6.54	7.47	8.08	6.79	4.88	10.00	6.40
Sold abroad	1.00	0.84	0.96	0.92	1.61	0.60	0.18
By quality ³							
Aaa and Aa	1.89	2.18	2.71	1.86	2.16	3.73	1.77
A and Baa	6.61	7.73	8.57	8.70	7.67	6.96	6.76
Less than Baa	1.01	2.84	4.00	3.60	1.95	5.95	2.45
Unrated or rating unknown	0.02	0.09	0.05	0.11	0.26	0.16	0.02
<u>Financial corporations</u>							
Stocks ²	1.81	2.62	3.69	5.63	5.09	6.40	4.78
Sold in U.S.	1.73	2.51	3.52	4.73	4.61	5.29	4.41
Sold abroad	0.08	0.11	0.18	0.91	0.48	1.12	0.37
Bonds	15.72	20.13	25.20	30.15	39.77	25.25	26.62
Sold in U.S.	14.39	18.67	22.45	27.29	36.48	23.20	24.00
Sold abroad	1.33	1.46	2.75	2.86	3.29	2.05	2.62
By quality ³							
Aaa and Aa	1.83	1.55	1.77	2.98	2.10	2.50	1.50
A and Baa	5.48	6.77	8.07	8.01	8.65	8.00	6.70
Less than Baa	0.11	0.31	0.44	0.55	0.19	0.47	1.01
Unrated or rating unknown.	0.02	0.04	0.05	0.08	0.03	0.03	0.01

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.

p Preliminary.

to junk bond mutual funds over the last two months have sustained robust demand for below-investment-grade issues. Gross public offerings of junk bonds are likely to top \$50 billion this year, versus the previous record of \$42 billion in 1986. Not included in the total for the public market is perhaps another \$6 to \$7 billion of public-like junk bond issuance in 1993 in the private, Rule 144A, market.³ Recently, firms have been taking advantage of the speed with which their bonds can be offered in the private market and then exchanged for otherwise identical publicly registered bonds in a formal exchange offer. This "registered exchange" technique for accessing the public junk market has supplanted the traditional method whereby private bonds are publicly registered with the SEC and which involves much more burdensome regulatory requirements.

Gross public issuance of equity by nonfinancial firms hit a record high in November at more than \$6-1/2 billion and appears to be almost as strong so far in December. Volume in November was buoyed by a number of large issues and strength in initial public offerings (IPOs). IPOs by nonfinancial firms exceeded \$2 billion in November, the highest for this year, and the IPO calendar reportedly remains heavy. Nonfinancial IPO volume this year has already surpassed that in 1992. Unlike previous years, however, only a small proportion of total IPO issuance has been in the form of reverse LBOs, spin-offs or divestitures by large firms; the bulk of issuance has been from smaller companies tapping the public markets for the first time (table). The staff estimates that the surge in gross equity issuance by nonfinancial firms in the fourth quarter is likely to be roughly matched by increased retirements related to an

3. Rule 144A, adopted by the S.E.C. in 1990, permits unrestricted secondary trading of private placements among sophisticated institutional investors. Securities firms have since begun to underwrite private placements on a firm commitment basis, sparking the development of the new 144A market.

uptick in merger and acquisition activity; net equity issuance is thus projected to remain around its heavy third-quarter annual rate of \$30 billion.

PUBLIC GROSS DOMESTIC NONFINANCIAL EQUITY ISSUANCE

(Billions of dollars, annual rates)

	1990	1991	1992	1993	
				H1	H2*
1. Total IPOs	4.0	11.9	15.0	15.2	22.6
2. Small company IPOs	3.2	6.0	9.3	12.3	17.8
3. Other IPOs ¹	.8	5.9	5.7	2.9	4.8
Memo:					
4. Total equity issuance	12.4	44.5	48.4	54.8	64.1

* Data through November at an annual rate.

1. Reverse LBOs, spin-offs, divestitures and carve-outs.

Source: Federal Reserve Board

In response to a glut of new real estate investment trust (REIT) issues and the backup in rates, REIT prices have fallen, damping investor enthusiasm for one of the hottest markets in the second half of the year. Several proposed REIT offerings have recently been pulled from the market. REIT equity issues had been surging in recent months. REIT offerings were \$400 million in the first six months of the year but have since topped \$6 billion in the second half of the year through November. Until recently, equity REIT managers reportedly had been aggressively acquiring more real estate assets to take advantage of the perceived demand for REIT offerings.

Reflecting the desire of financial institutions to slim their balance sheets by year-end, issuance of asset-backed securities (ABS) was also strong in November, with a number of large offerings backed by credit card receivables. The ABS calendar

reportedly remains heavy, but the widening of spreads over treasuries that typically has occurred prior to the year-end has yet to materialize.

Municipal Securities

Gross offerings of tax-exempt bonds totaled an estimated \$16.2 billion in November, down sharply from \$21.5 billion in October, as a runup in municipal bond rates in October and early November put a dent in refunding volume. Yields have since declined a bit, but remain well above the lows of October and, consequently, refunding volume has continued at a slower pace in December, as has overall issuance. Even if interest rates were to decline significantly next year, the strong refunding activity witnessed in the market this year has almost certainly run much of its course; the vast majority of high coupon debt outstanding has already been refinanced, and federal law limits most municipal bonds to only one refunding.

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

	1993						
	1991	1992	Q2	Q3	Sept	Oct ^p	Nov ^p
Total offerings ¹	16.68	21.78	33.67	29.16	28.02	24.29	17.07
Total tax-exempt	16.26	21.21	32.76	28.65	27.65	23.47	16.77
Long-term	12.87	17.93	26.01	23.90	23.35	21.51	16.19
Refundings ²	3.12	7.91	18.58	15.37	14.53	14.05	10.23
New capital	9.75	10.02	7.43	8.53	8.82	7.46	5.96
Short-term	3.39	3.28	6.75	4.75	4.30	1.96	.58
Total taxable	.42	.57	.91	.51	.37	.82	.30

1. Includes issues for public and private purposes.

2. Includes all refunding bonds, not just advance refundings.

p -- preliminary.

The Municipal Securities Rulemaking Board has moved to end the use of political contributions by dealers to influence the awarding of business in negotiated offerings of new securities. Under a rule adopted in November, which also must be reviewed by the SEC, a municipal securities dealer would not be allowed to conduct business with any issuer for two years after the dealer or any of its employees in its public finance unit made a contribution to an official of the issuer. The rule has drawn protests from numerous elected officials and local governmental associations that are concerned about its infringement on participation of individuals in the electoral process.

This action by the MSRB is in response to ongoing investigations of political influence peddling involving the selection of underwriters and the awarding of business in negotiated offerings. The allegations of wrongdoing first surfaced last spring, and since then a number of state and local governmental units have announced plans to rely more heavily on competitive offerings. Only recently, however, have the first signs of these plans become apparent. In October and November, the dollar volume of competitive offerings jumped to about 30 percent of all long-term issuance, up from about 20 percent over the first nine months of the year.

Competitive offerings are, however, unlikely to supplant negotiated offerings altogether. Underwriters indicate, for example, that most advance refundings and offerings containing derivative securities would have lower underwriting spreads in negotiated offerings. Such issues require considerable time and expense for an underwriter to bring to market: if sold competitively, commissions would likely increase to compensate for the added risk of not winning the bidding. Similarly, offerings of

infrequent and lesser-known borrowers would be more costly to issue competitively because of the considerable pre-marketing effort required to sell them. Finally, negotiated offerings provide issuers with greater flexibility to control the timing of issues, which can be crucial in producing targeted interest savings in advance refundings.

Treasury and Sponsored Agency Financing

The staff anticipates that the Treasury will finance the projected \$97 billion fourth-quarter budget deficit by borrowing \$88 billion in the market and by allowing the cash balance to decline \$15 billion. With the elimination of the seven-year note and the absence of a thirty-year bond from the November mid-quarter refunding, the Treasury has relied heavily on bills, which are expected to raise \$56 billion this quarter. Gross sizes of Treasury bill auctions had been boosted from \$23.6 billion at the beginning of the quarter to \$27.6 billion, although recent auctions have fallen to \$26 billion. In contrast, the Treasury has raised only slightly the size of coupon auctions and, in the case of the 5-year issues, left them unchanged.

The latest data on STRIPS indicate that net stripping of Treasury coupon securities averaged about \$1-1/2 billion in October and November, following net reconstitutions of \$5 billion in September. Nevertheless, the most recent pace is well below the \$5-1/4 billion rate registered for the first eight months of the year. The strips market has been supported in part by strong municipal bond defeasance demand for intermediate maturities and by a demand for securities with long durations.

Congress has approved an additional \$18.3 billion for the RTC to resolve the remaining sixty-four RTC conservatorships and any failures of SAIF-insured thrifts during the next twelve to eighteen

TREASURY FINANCING¹
(Total for period; billions of dollars)

	1993				
	Q3	Q4 ^P	Oct.	Nov. ^P	Dec. ^P
<u>Treasury financing</u>					
Total surplus/deficit (-)	-54.5	-97.1	-45.3	-42.8	-9.0
Means of financing deficit:					
Net cash borrowing from the public	46.0	88.2	4.3	71.7	12.2
Marketable borrowings/ repayments (-)	44.5	84.8	3.3	69.7	11.8
Bills	-.9	56.3	10.3	40.5	5.5
Coupons	45.4	28.5	-7.0	29.2	6.3
Nonmarketable	1.6	3.3	.9	2.0	-.4
Decrease in the cash balance	8.1	14.8	33.6	-13.5	-5.4
Memo: Cash balance at end of period	52.5	37.7	18.9	32.3	37.7
² Other	.4	-5.9	7.4	-15.5	2.2

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 add to totals due to rounding.

FEDERALLY SPONSORED CREDIT AGENCIES
Net Cash Borrowing¹
(billions of dollars)

	1993					
	Q1	Q2	Q3	Jul.	Aug.	Sept.
FHLBs	0.5	12.0	5.3	-1.8	4.4	2.8
FHLMC	11.6	-5.6	17.1	6.7	13.1	-2.7
FNMA	-0.5	10.7	19.3	4.2	4.2	10.9
Farm Credit Banks	0.3	0.1	0.0	0.0	-0.2	0.2
SLMA ₂	-0.9	0.1	-0.1	-1.1	0.6	0.4
FAMC ²	0.0	0.0	0.0	0.0	0.0	0.0

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

months.⁴ The RTC is expected to use \$8 to \$12 billion to resolve the remaining conservatorships; any leftover funds can be passed on to SAIF under certain conditions. One condition is that the FDIC Chairperson certify that SAIF members are unable to pay higher deposit insurance premiums without suffering adverse consequences, and that the premium increases could reasonably be expected to result in greater losses to the government. The legislation also permits the SAIF insurance fund to receive an additional \$8 billion, subject to Congressional appropriation, if these same conditions are met.

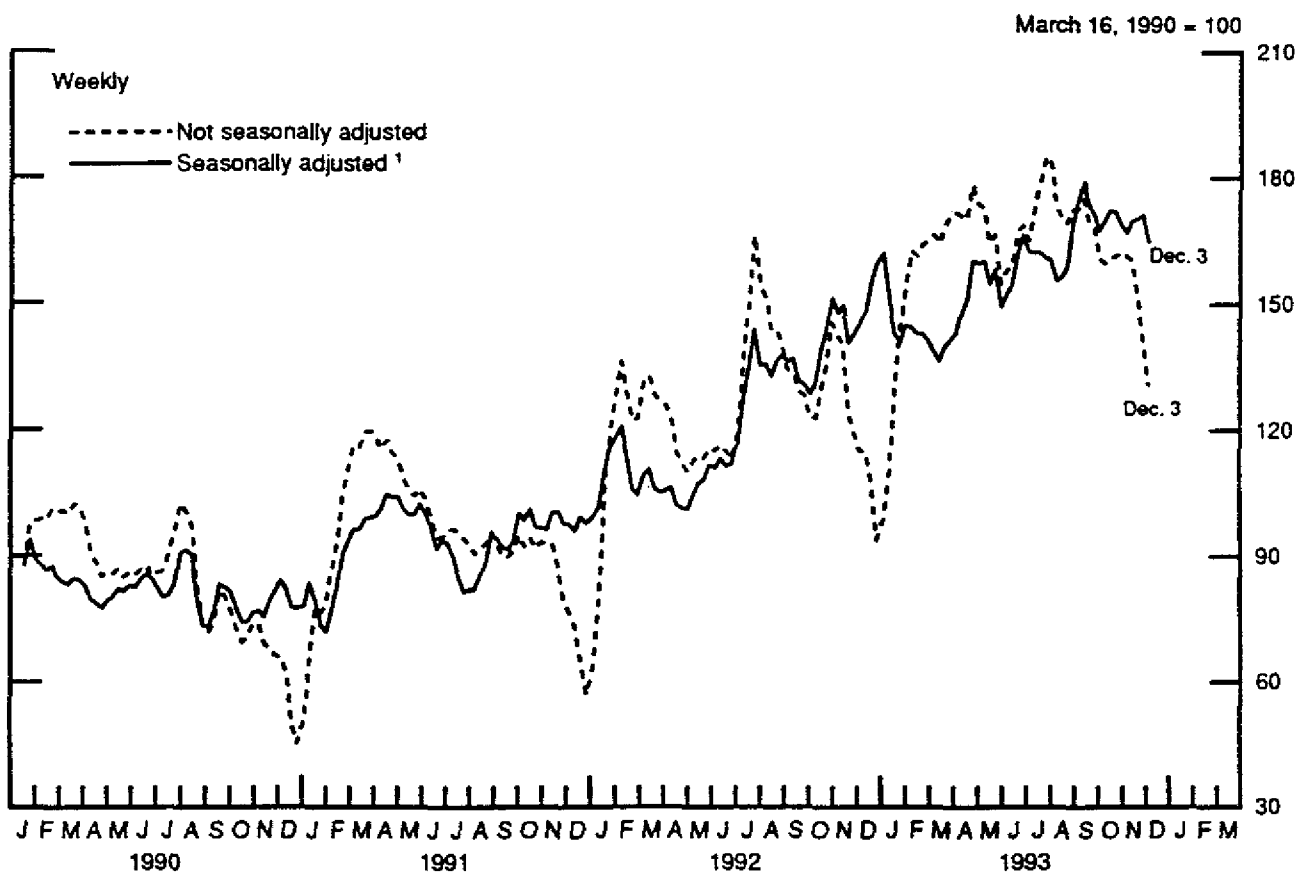
Mortgage Markets

Contract rates on conventional fixed-rate mortgage loans are about unchanged from the November FOMC meeting. In the adjustable-rate mortgage sector, the average initial rate on conventional loans indexed to the Treasury one-year constant maturity yield has risen about 8 basis points from a series low of 4.17 percent set in early November. However, the spread over the one-year Treasury yield has narrowed, continuing the trend that began in late 1992, and reflecting the need for ARM lenders to price adjustable-rate loans fairly aggressively to offset the popularity of fixed-rate loans in the current low interest rate environment.

The rise in the Mortgage Bankers Association's index of purchase loan mortgage applications in the early autumn (chart), along with other indicators of housing activity, point to growth in total mortgage debt in the fourth quarter at around the stepped-up pace of the previous quarter. Available data show that real estate loan growth at commercial banks averaged about 4-1/2 percent on a seasonally adjusted basis in October and November, up slightly from

4. The Chairperson of the Thrift Depositor Protection Board will select a date between January 1, 1995, and July 1, 1995, after which the RTC can no longer accept conservatorships.

MBA Index of Purchase Loan Applications



1. Seasonally adjusted by Federal Reserve Board staff.

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

	Pass-through securities				Multiclass securities				
	Total (SA)	Federal agency		Private	Total	Non-agency ²	FNMA REMICs	FHLM REMICs	Agency strips
		Fixed-rate (SA)	ARM-backed (SA)	Non-agency ¹					
1989	17.4	14.0	2.8	.7	7.4	.6	3.1	3.2	.4
1990	20.1	17.2	2.2	.6	10.6	1.4	5.1	3.4	.7
1991	23.7	20.2	1.9	1.6	18.1	2.6	8.5	6.0	1.1
1992	40.1	34.7	3.2	2.2	30.4	5.3	12.9	11.0	1.3
1992 Q4	47.4	41.4	3.2	2.8	28.3	4.6	9.9	12.9	.9
1993 Q1	39.8	33.2	5.1	1.5	27.0	5.6	10.6	6.8	3.9
Q2	42.9	37.8	4.0	1.1	32.9	5.1	12.3	10.6	4.9
Q3 r	53.7	45.9	5.3	2.5	43.6	7.1	17.1	12.6	6.7
1993 Jul	54.0	47.3	5.6	1.2	37.5	6.1	14.6	10.2	6.6
Aug r	48.6	42.5	4.9	1.1	48.2	6.8	16.5	17.2	7.7
Sep r	58.5	47.8	5.4	5.3	45.1	8.5	20.2	10.5	5.9
Oct p	56.3	49.4	5.2	1.7	38.6	6.7	14.3	14.3	3.2

1. Collateralized by adjustable-rate mortgages.
 2. Collateralized by fixed-rate mortgages.
 p Preliminary. r Revised.

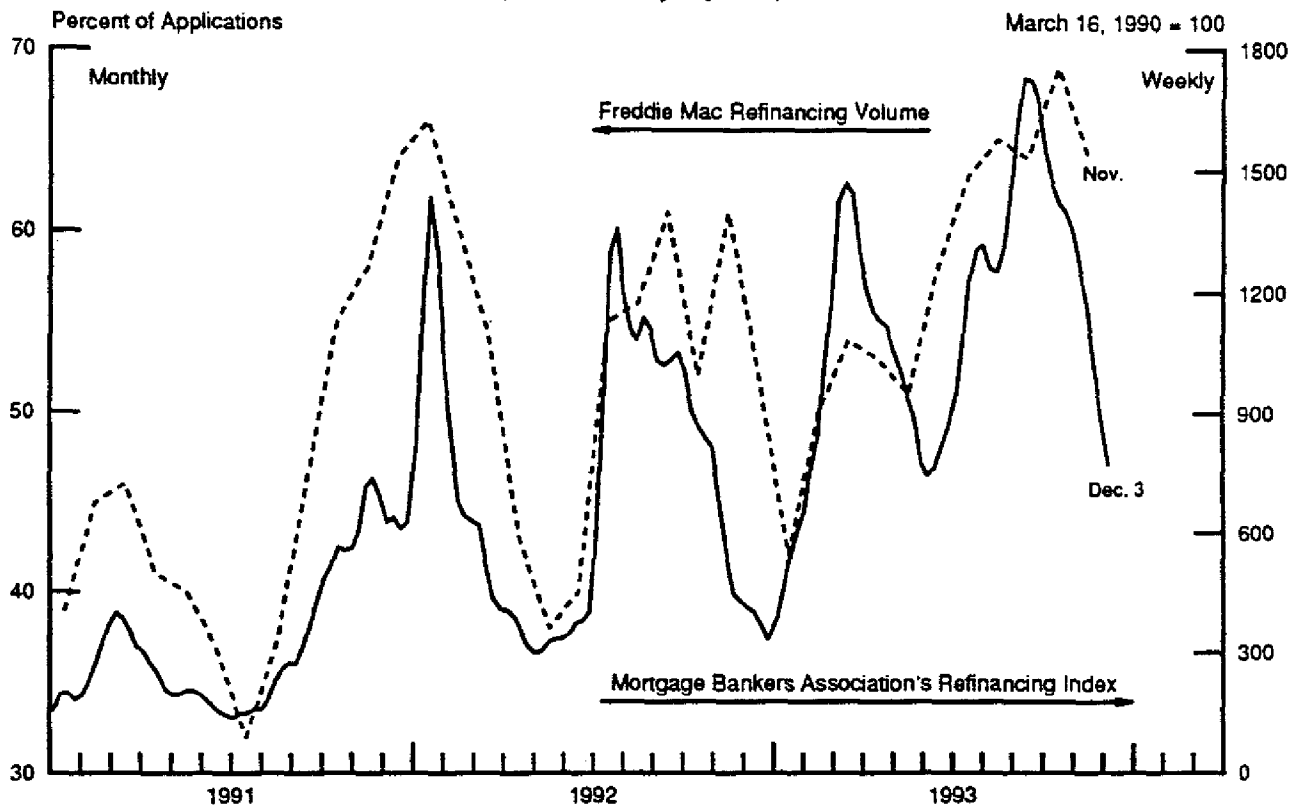
the third quarter. In the third quarter, total mortgage debt outstanding grew at an estimated 6 percent annual rate, the largest quarterly rise in 2-1/2 years, and was led by growth of about 8 percent in the single-family category. In addition, the runoff in mortgage debt outstanding on commercial properties slowed, while mortgage debt on multifamily and farm properties edged higher.

In the secondary mortgage market, gross issuance of agency pass-through securities has remained on a record pace so far in the fourth quarter (table). Issuance has been spurred by continued heavy refinancing activity. With large numbers of borrowers refinancing into fixed-rate loans, a sizable volume of conforming loans has been available for pooling. However, with mortgage rates up from their lows recorded earlier in the fall, applications for refinancings have begun to diminish (chart). Monthly data from Freddie Mac's Primary Mortgage Market survey also show a drop-off in refinancing applications.

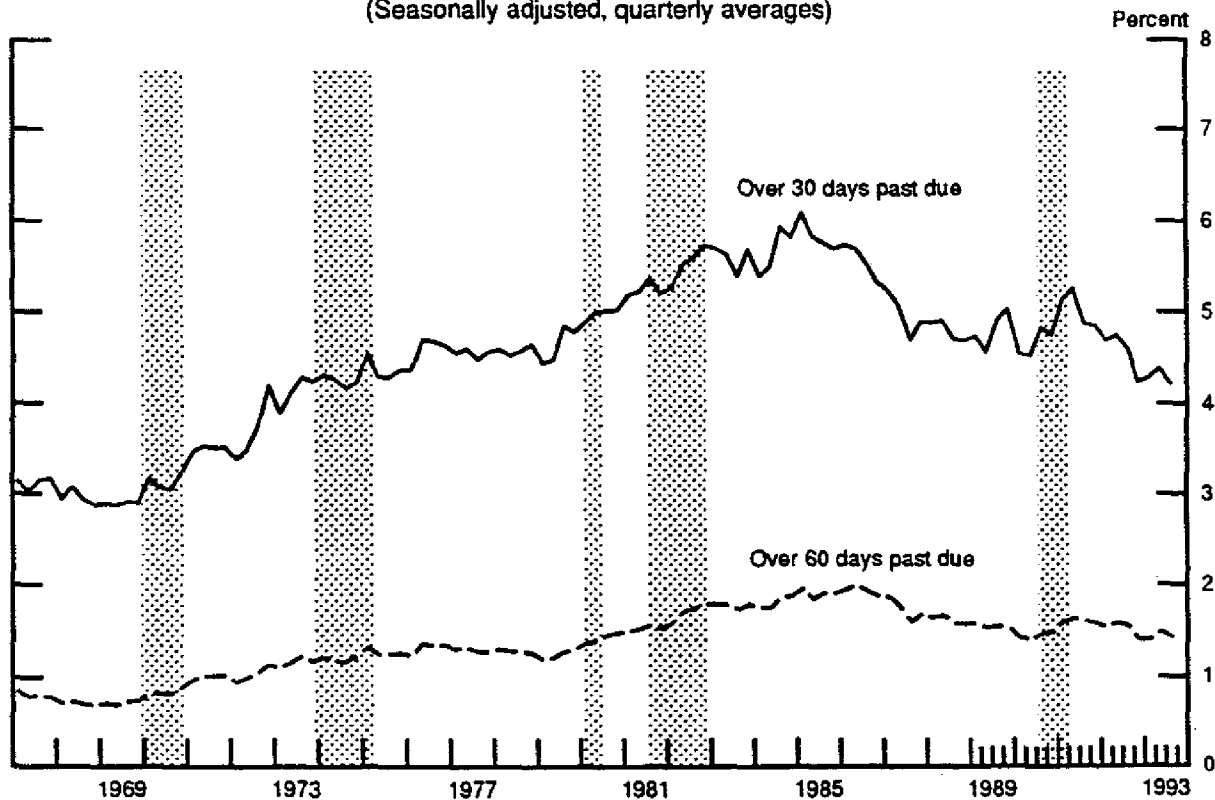
Delinquency rates on home mortgages declined in the third quarter, according to seasonally adjusted data from the MBA (chart). As measured by mortgages over thirty days past due, delinquency rates are now at their lowest level since the third quarter of 1974. The less volatile sixty-day past due measure also edged down in the third quarter.

The Federal Housing Finance Board announced last month that the national average single-family house price in October 1993 was down 3.2 percent from a year earlier. Federal law requires that increases in the maximum size of home loans that may be purchased or securitized by Fannie Mae and Freddie Mac be based on movements in this series. However, the law does not say that decreases in the price series must also be matched by Fannie and Freddie.

Refinancing Indicators (Not seasonally adjusted)



Home Mortgage Delinquency Rates at All Lenders (Seasonally adjusted, quarterly averages)



Source: Mortgage Bankers Association.

Consequently, both agencies have announced that they will retain the current limit of \$203.150, despite the drop in the home price index.

Consumer Credit

Consumer installment credit outstanding increased at a 12-3/4 percent seasonally adjusted annual rate in October, continuing the brisker growth of the past few months. Auto credit more than doubled its third-quarter pace to grow at a 17-1/2 percent annual rate, while revolving credit advanced at a 13-3/4 percent rate, somewhat less rapidly than in the third quarter.

The resurgence in consumer installment credit has come later than usual in the current economic expansion, and even the recent pace has still been well below peak rates reached during earlier expansions (chart). Growth in installment credit normally starts to climb in the first or second quarter of a recovery, reaching growth rates of 15 to 20 percent at some point in the expansion. During the current upturn, installment credit continued to contract through the fifth quarter of recovery; its growth rate did not attain double digits until this latest reading.

An unusually slow pickup in spending on consumer durables was the principal factor underlying the sluggish behavior of installment credit in the early stages of the current expansion (chart).⁵ In recent months, durable goods consumption has turned stronger, providing a stimulus to growth in installment credit once again.

The effect of stronger sales on debt growth has been bolstered by several other expansive influences (chart). Interest rates on

5. Credit growth was also curtailed somewhat--up to an estimated 2 percentage points at an annual rate in some quarters--by shifts to alternative means of finance, mainly home equity credit and automobile leasing. Historically wide spreads in 1992 between average interest rates consumers were paying on outstanding loans and the interest rates they could earn on new financial assets apparently further delayed the upturn in consumer debt, as some people elected to pay down debts with maturing assets rather than roll them over at extremely low yields.

CONSUMER CREDIT
(Seasonally adjusted)

	Percent change (Annual rate)							Memo: Outstandings ¹ (Billions of dollars)
	1990	1991	1992	1993				1993
				H1	Q3 ^r	Sep. ^r	Oct. ^p	Oct. ^p
Installment	2.0	-.7	1.0	3.1	8.6	9.6	12.7	776.7
Auto	-2.7	-8.4	-.5	4.4	8.0	8.4	17.5	274.6
Revolving	12.1	9.5	4.4	7.1	15.7	13.1	13.8	276.9
Other	-.8	-1.0	-.8	-3.1	.9	6.7	5.4	225.2
Noninstallment	-4.6	-15.1	3.0	1.9	-8.7	34.6	-25.7	50.3
Total	1.5	-1.8	1.2	3.0	7.5	11.1	10.3	827.0

1. Components may not sum to totals because of rounding.
r Revised. p Preliminary.

CONSUMER INTEREST RATES
(Annual percentage rate)

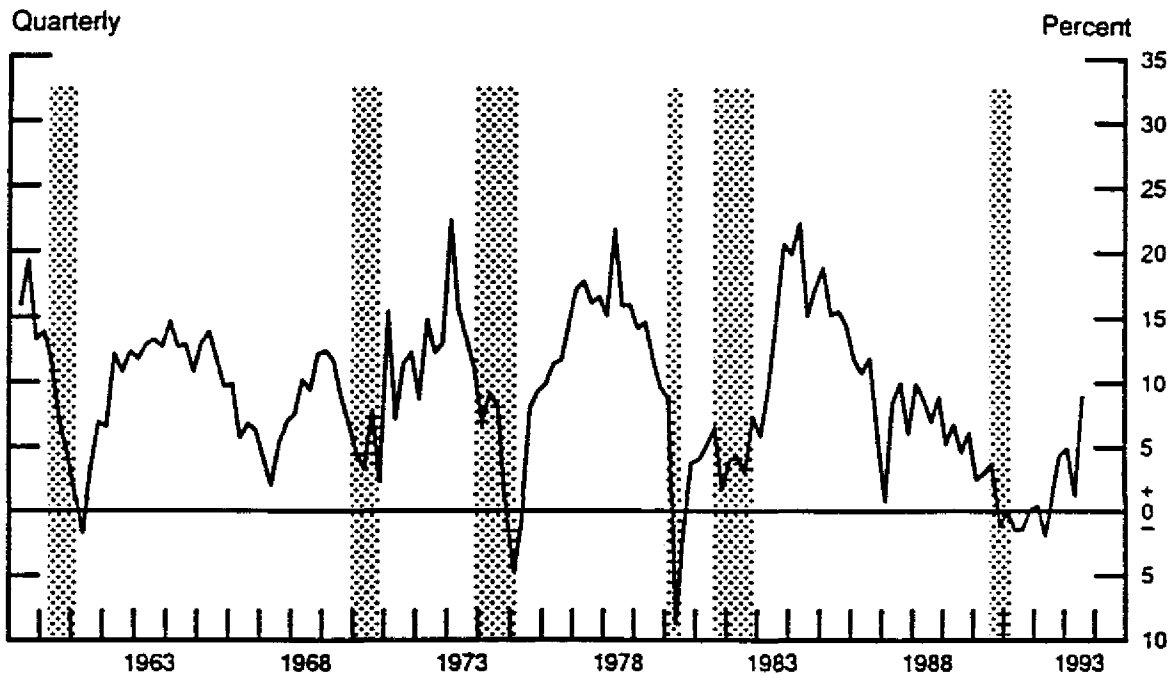
	1990	1991	1992	1993				
				Feb.	May	Aug.	Oct.	Nov.
At commercial banks ¹								
New cars (48 mo.)	11.78	11.14	9.29	8.57	8.17	7.98	...	7.63
Personal (24 mo.)	15.46	15.18	14.04	13.57	13.63	13.45	...	13.22
Credit cards	18.17	18.23	17.78	17.26	17.15	16.59	...	16.30
At auto finance cos. ²								
New cars	12.54	12.41	9.93	10.32	9.51	9.21	9.25	...
Used cars	15.99	15.60	13.79	13.90	12.61	12.48	12.58	...

1. Average of "most common" rate charged for specified type and maturity during the first week of the middle month of each quarter.

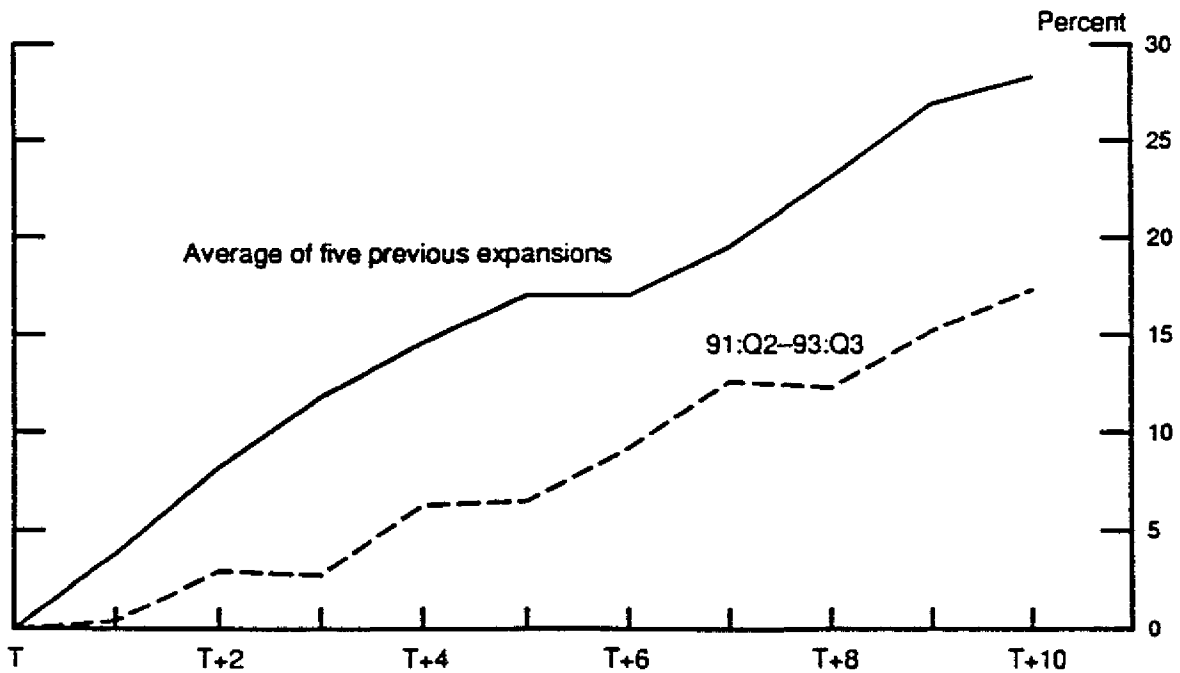
2. For monthly data, rate for all loans of each type made during the month regardless of maturity.

Note: Annual data are averages of quarterly data for commercial bank rates and of monthly data for auto finance company rates.

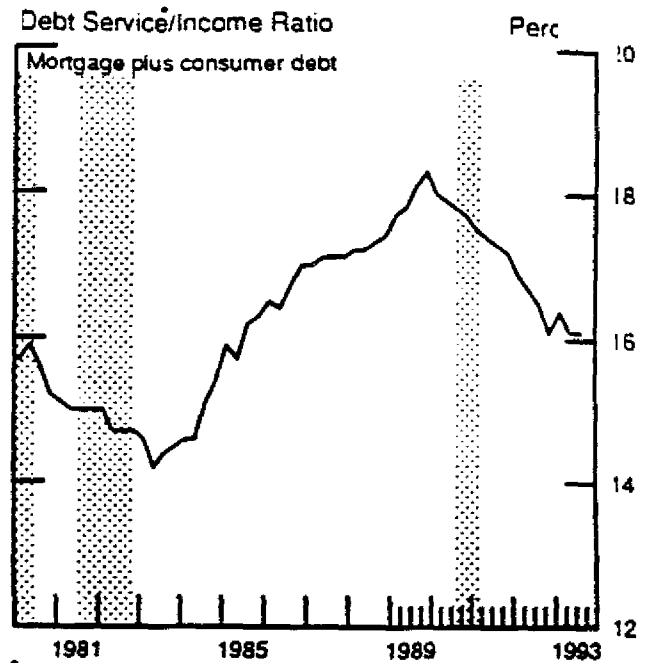
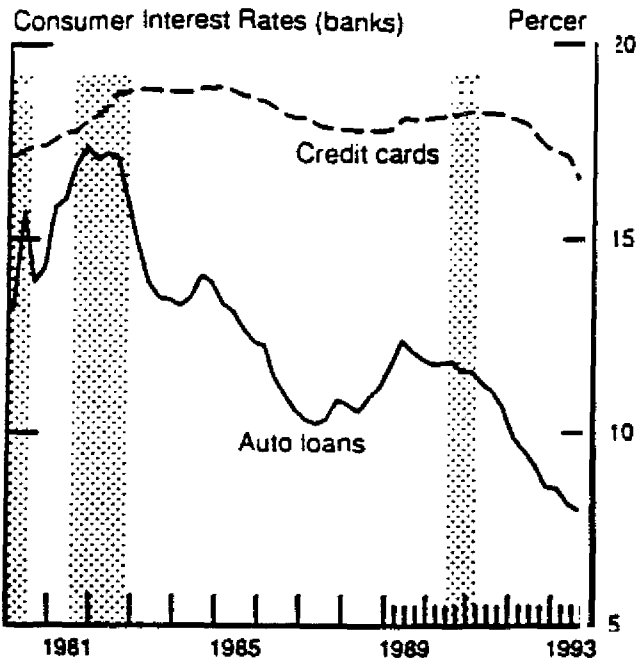
CONSUMER INSTALLMENT CREDIT
 (Percent change, seasonally adjusted annual rate)



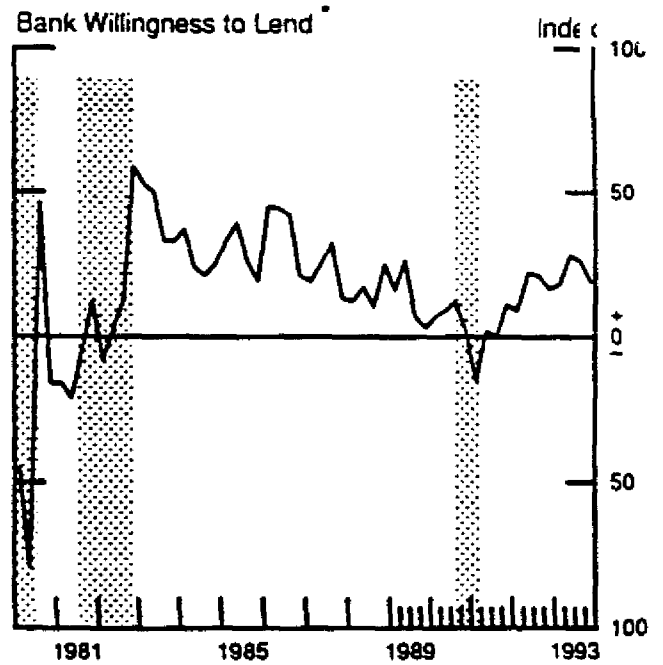
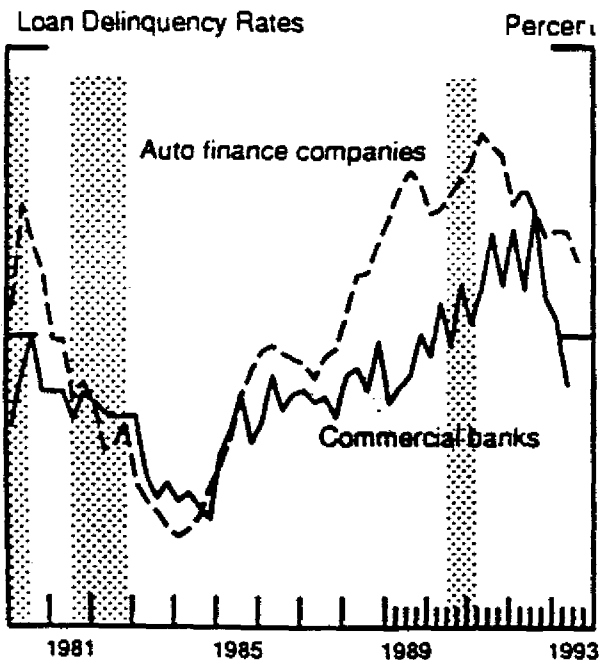
CONSUMER DURABLES CONSUMPTION, INCREASE FROM RECESSION TROUGH



FACTORS AFFECTING CONSUMER DEBT GROWTH



* Staff estimates of scheduled payment of principal and interest, relative to disposable personal income.



* Weighted responses of banks more willing to lend minus those less willing to lend.

most types of consumer loans have dropped substantially over the past few years (upper left panel). Rates on auto loans at banks averaged about 7-1/2 percent in November, based on survey data, about 2-1/2 percentage points under the low recorded in 1972 shortly after the series was begun. Even the series on credit card rates, which has typically shown very little movement, by November had dropped 2 percentage points from its recent high in early 1991.⁶

The subdued growth of both mortgage and consumer debt over the past few years combined with declining mortgage and consumer interest rates, has reduced the ratio of scheduled debt service payments to disposable income by nearly 2-1/2 percentage points from the historical highs of late 1989 (upper right). As a result, individuals may feel more comfortable about taking on new debt again; indeed, in recent months, the University of Michigan's survey of consumer sentiment has indicated a fairly sharp rise in the proportion of respondents willing to use credit. Declining trends in consumer loan delinquency rates (lower left), which suggest that the burden of debt has eased in the household sector, likely have had a favorable impact on lender attitudes as well.⁷ According to Senior Loan Officer Opinion Surveys, banks have significantly increased their willingness to make consumer loans since early last year (lower right).

6. The actual drop has probably been a bit larger than 2 percentage points, but the way the series is measured has not fully captured the effect of lower rates that many card issuers have made available to selected subsets of their customers. The selectively lower rates generally have been based on good payment performance and level of activity. The Board's survey obtains information only on the "most common" rate charged by each respondent bank, and that rate is usually the higher rate charged on the bank's standard plan. A proposal to modify the report form to collect more comprehensive data is currently in process.

7. The charted series is taken from bank call reports and the Board's survey of auto finance companies. In addition, the American Bankers Association series on delinquency rates showed a further decline in the third quarter to levels not seen since the mid 1980s.

Another factor contributing to the surge this year in revolving credit has been the heavy promotion of credit cards with rebates and other incentives tied to the volume of transactions. For example, outstanding debt on the General Motors MasterCard, through which credits of up to \$500 per year can be accumulated towards purchase of a GM vehicle, increased from \$2.8 billion in April to around \$4.8 billion at the end of October. This \$2 billion expansion amounts to about 12 percent of the growth in total revolving credit over that time.

APPENDIX

GROWTH OF MONEY AND CREDIT IN 1993

Summary

The broad monetary aggregates advanced in 1993 at about the same sluggish pace as in 1992, even though nominal income growth slowed and the earlier stimulative effects of falling short-term interest rates were largely absent. From the fourth quarter of 1992 through November, M2 grew 1-1/2 percent, somewhat above the lower bound of its 1 to 5 percent growth range. M3 grew 1/2 percent, also somewhat above the lower bound of its 0 to 4 percent growth range. Both ranges had been lowered at mid-year in light of the extent and persistence of increases in velocity. With the slowdown in nominal GDP, though, the rise in the velocities of the broader aggregates, which had surged in 1992, moderated. As in 1992, M2 growth was held down by massive flows into stock and bond mutual funds. Credit growth at depositories remained lackluster in 1993, although a bit higher than in 1992, and deposit rates fell further in response to earlier declines in market rates. M3 was damped as well by banks and thrifts turning to nondeposit sources for a larger share of their funds. Although flows into transaction accounts slowed, as opportunity costs edged up, M1 growth remained brisk.

From the fourth quarter of 1992 through October, domestic nonfinancial debt expanded at a 4-3/4 percent annual rate, about the same as last year, placing it in the bottom half of its 4 to 8 percent monitoring range. Federal debt, though scaled back from last year, continued to grow faster than the total. Nonfederal debt expanded at a slightly higher rate than last year, but growth remained moderate by recent historical standards. Business debt, which was essentially unchanged last year, edged up less than 1 percent, as investment expenditures were met by equity issuance and internal cash flow. The trend of household borrowing, on the other hand, turned up noticeably in the latter part of 1993. All nonfederal sectors took advantage of the further decline in long-term interest rates by refinancing large amounts of existing debt.

M1

M1 continued to expand rapidly in 1993, but at a rate below last year's near-record pace. Nonetheless, growth in M1 outstripped growth in nominal GDP by a substantial margin for the third consecutive year. With short-term market interest rates little changed since last fall, the opportunity cost of holding demand deposits held steady in 1993. The opportunity cost of other checkable deposits rose, damping their growth, as offering rates continued to fall in a lagged response to the earlier declines in market rates. In 1992, by contrast, declines in market rates had lowered opportunity costs and added to M1 growth. Again in 1993, a large volume of mortgage refinancings raised the level and growth of M1, as mortgage servicers placed prepayments in demand deposits until the funds were passed on to investors. Currency continued to grow briskly in 1993, surging in the third quarter, as the effect of shipments of currency abroad peaked, before beginning to slow early in the fourth quarter. Even adjusted for various special factors boosting M1 growth, the income velocity of this aggregate continued to decline.

The monetary base expanded at about the same double-digit rate as in 1992, buoyed by the rapid growth in currency, its main component. The growth of total reserves was robust but significantly slower than last year, as required reserves decelerated along with transaction deposits.

M2

M2 fell at a 1-3/4 percent annual rate in the first quarter of 1993, the first quarterly decline since the official series began in 1959. This exceptional weakness resulted from a sharp slowing in liquid deposit growth, in part related to a temporary lull in mortgage refinancing, large runoffs of M2 money fund assets, continued declines in small time deposits, and some distortions in seasonal factors.¹ Although M2 recovered to grow at a 2-3/4 percent rate over the remainder of the year, growth from the fourth quarter of 1992 through November 1993 was 1-1/2 percent, in line with last year's weak performance.

Within the non-M1 portion of M2, the pattern of the past two years--increases in savings deposits and declines in small time deposits--continued in 1993, but at reduced speeds partly because of changes in opportunity costs. The rate of expansion of savings deposits slowed dramatically, in part because rates offered on savings continued to fall, in a lagged adjustment to previous declines in market rates, while short-term market rates held steady. Through November 1993, small time deposits ran off at about half the rate for 1992 as a whole. Offering rates on these deposits edged down further over the year, but, for maturities over one year, did not keep pace with declines in intermediate-term market rates.

Through November, the non-M1 portion of M2 ran off further, as M2 deposits continued to be diverted to the capital markets by investors seeking higher yields. Net inflows to stock and bond mutual funds occurred at about the same rate as last year, but greater capital gains accounted for a noticeable acceleration in the total value of these funds. These M2 substitutes now amount to about \$700 billion, almost as much as total small time deposits. In part, this rechanneling of intermediation outside the depository sector was facilitated by banks, themselves, as they sought new sources of fee income and actively promoted the sale of mutual funds to retail customers. Although the recent backup in market rates has raised investor awareness of possible capital losses, and apparently has slowed inflows to bond mutual funds, the sum of M2 plus retail bond and stock mutual funds expanded at an estimated 6 percent rate through November, up from the 4-1/4 percent rate for all of last year.

M3

M3 also declined in the first quarter of 1993, but recovered to grow at a 2 percent rate over the rest of the year. On balance, growth from the fourth quarter of 1992 through November was 1/2 percent, about 1/4 percentage point above last year's pace. Depository credit accelerated, but was not fully reflected in M3 growth since much of the additional credit growth was funded from

1. Policy easing in late 1990 and late 1991 engendered subsequent increases in money growth that affected the seasonal factors used to adjust incoming data for 1993. The upcoming annual revision of seasonal factors likely will modify the first-quarter decline in M2.

sources not in this aggregate. Further hikes in premiums for deposit insurance, associated with the implementation of risk-based premiums in January, and continuing incentives to boost capital contributed to this shift. At banks, for example, increases in total deposits funded about one-sixth of the 1993 expansion of credit through November. Increases in nondeposit sources accounted for about one-half, as branches and agencies of foreign banks substantially boosted their net borrowing from related foreign offices and both banks and thrifts made more use of advances from Federal Home Loan Banks. Increases in residual sources of funds accounted for about one-third.² M3 growth was also held down by a contraction in institution-only money market mutual funds.

In 1993, thrift assets ran off more slowly than in 1992, as the health of the industry continued to improve and the trend toward consolidation eased somewhat. RTC resolutions, which were quite subdued in 1992, slowed even further as the agency was hampered by a lack of funds. Bank lending picked up in 1993. Throughout the year evidence emerged that banks were easing standards and terms on business loans, particularly for larger, more creditworthy borrowers. Even so, growth in business loans was retarded as firms used internal funds and the proceeds of capital market issues to pay down existing bank loans. Banks did, however, garner a substantial share of increased credit demands by consumers.

Domestic nonfinancial debt

Through October 1993, domestic nonfinancial debt grew at a 4-3/4 percent annual rate, about at last year's pace. Reduced growth in federal debt, from 10-3/4 percent in 1992 to 8-1/4 percent so far this year, slightly outweighed a pickup in nonfederal debt growth.

Through the first three quarters of 1993, household sector debt grew at about the 5-3/4 percent annual rate recorded for 1992 as a whole. Home mortgage borrowing rose over the year, as housing construction and home sales picked up. Consumer credit ran well above the depressed pace of 1992.

Nonfinancial business debt grew only slightly, after almost no growth in 1992. Investment expenditures by corporations as a group exceeded internally generated funds, leading to a slight increase in external financing needs. Borrowing, however, was held down again in 1993 by new issues of stock, which exceeded retirements by a wide margin. Declines in long-term interest rates for most of 1993 provided firms with further opportunities to substitute long-term for short-term borrowing and to refinance higher-cost bonds. The recent backup in long rates seems to have slowed activity in the bond market somewhat.

Stimulated by low interest rates, gross debt issuance by state and local governments rose to record levels this year. The bulk of gross issuance was for refunding, however, leaving net borrowing down from last year.

2. Residual sources include equity capital and other liabilities minus cash assets, and other assets.

MONETARY AND CREDIT AGGREGATES
(Q4 to Q4 averages, seasonally adjusted unless otherwise noted)

Aggregate	1989	1990	1991	1992	1993 ¹	Memo: Recent 1993 ¹ levels (\$ billions)
Growth (percent)						
M1	.6	4.3	8.0	14.3	10.7	1125.7
M2	4.7	4.0	2.8	1.7	1.6	3547.9
M3	3.7	1.8	1.1	.2	.6	4198.8
Domestic nonfinancial debt	7.8	6.6	4.6	5.0	4.7	12178.9
Bank credit	7.5	5.6	3.4	3.8	4.7	3081.7
Thrift credit	-4.3	-8.1	-11.0	-5.4	-3.1	1314.3
Flow (\$ billions)						
M1	4.5	33.6	65.9	127.3	108.5	1125.7
Currency	10.1	24.2	20.4	24.3	29.9	319.9
Demand deposits	-8.3	-1.7	9.3	51.8	46.5	385.3
Other checkable deposits	2.8	10.2	36.5	50.6	32.4	412.6
M2	145.0	128.8	92.9	59.0	54.2	3547.9
Nontransactions M2	140.5	95.1	27.1	-68.3	-54.3	2422.2
Savings & MMDAs	-45.8	35.0	109.0	150.2	35.6	1214.6
Small time deposits	120.5	21.8	-90.6	-200.7	-92.2	788.1
M2 money funds 2/	73.2	35.7	14.7	-18.8	-7.2	336.9
Overnight RPs 3/	-7.5	-1.8	-6.6	.8	13.2	67.9
Overnight Eurodollars 3/	.5	4.3	1.2	1.2	-3.5	17.2
M3	142.6	74.7	45.1	9.9	26.7	4198.8
Non-M2 component	-2.5	-53.9	-47.9	-49.1	-27.5	650.9
Large time deposits	28.2	-53.3	-64.6	-71.5	-28.2	332.6
M3 money funds 4/	16.2	23.6	44.1	31.8	-10.7	196.7
Term RPs 3/	-16.4	-13.2	-18.9	5.9	13.9	94.5
Term Eurodollars 3/	-23.9	-10.7	-7.3	-13.7	3.3	50.3

1. For monetary aggregates and bank credit, through November; for domestic nonfinancial debt, through October; for thrift credit, through September.
2. Assets of general purpose and broker/dealer money market mutual funds.
3. Not seasonally adjusted and net of holdings by money market mutual funds.
4. Assets of institution-only money market mutual funds.

INTERNATIONAL DEVELOPMENTS

INTERNATIONAL DEVELOPMENTS

Merchandise Trade

The merchandise trade deficit in September was \$10.9 billion (seasonally-adjusted, Census-basis), slightly larger than in August. The deficit for the third quarter as a whole was marginally larger than in the second quarter. Data for October will be released Thursday, December 16, and will be included in the Greenbook supplement.

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

	Exports			Imports			Balance
	Total	Ag.	NonAg.	Total	Oil	NonOil	
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	38.1	3.4	34.6	48.1	4.0	44.1	-10.0
Sep	38.9	3.6	35.2	49.8	4.3	45.5	-10.9

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

Exports rose 2 percent in September, but declined 1 percent for the quarter as a whole. The decline in the third quarter primarily reflected a temporary drop in shipments of aircraft, along with smaller declines in exports of automotive products and fuels. In the automobile industry, model change-over and labor negotiations affected both imports and exports in the third quarter, as shipments between U.S. companies and their affiliates in Canada and Mexico fell in July and then returned to more normal levels in August and September. Small gains were recorded in other export categories in the third quarter, particularly consumer goods, computers, semiconductors, and other machinery. By area, the largest declines

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

	Year	1992		1993			S Change	
	1992	Q3	Q4	Q1	Q2	Q3	Q3-Q3	Q3-Q2
Trade Balance	-96.1	-110.4	-103.8	-117.2	-137.5	-145.1	-34.7	-7.6
Total U.S. Exports	440.1	438.0	456.0	446.1	452.5	447.6	9.7	-4.8
Agric. Exports	44.0	44.7	45.5	43.4	43.1	42.4	-2.3	-0.7
Nonagric. Exports	396.1	393.3	410.4	402.7	409.4	405.2	11.9	-4.1
Industrial Suppl.	101.8	102.3	104.5	102.6	103.5	104.6	2.3	1.1
Gold	4.5	3.6	7.2	6.4	7.5	9.2	5.6	1.7
Fuels	13.6	13.5	13.4	12.6	12.5	10.5	-3.0	-2.0
Other Ind. Suppl.	83.7	85.2	83.8	83.6	83.4	84.8	-0.4	1.4
Capital Goods	176.9	173.3	182.0	177.8	183.3	178.6	5.3	-4.6
Aircraft & Parts	37.7	33.4	37.1	33.1	36.4	27.1	-6.3	-9.3
Computers & Parts	28.8	28.8	30.0	28.8	28.0	29.6	0.7	1.5
Other Machinery	110.4	111.1	114.9	115.9	118.8	122.0	10.9	3.2
Automotive Goods	47.1	47.8	50.9	51.2	51.3	48.4	0.6	-3.0
To Canada	23.8	24.2	25.6	26.4	27.1	25.9	1.7	-1.2
To Other	23.2	23.6	25.4	24.8	24.2	22.4	-1.1	-1.8
Consumer Goods	50.4	51.0	53.3	51.5	52.2	54.3	3.3	2.1
Other Nonagric.	20.0	19.0	19.7	19.6	19.1	19.4	0.4	0.3
Total U.S. Imports	536.3	548.4	559.8	563.4	590.0	592.8	44.3	2.8
Oil Imports	51.6	57.2	54.9	51.0	57.3	50.3	-6.8	-6.9
Non-Oil Imports	484.7	491.2	505.0	512.3	532.7	542.4	51.2	9.7
Industrial Suppl.	88.6	88.3	93.5	94.1	98.8	103.4	15.1	4.6
Gold	3.8	2.7	6.7	5.3	8.4	11.6	8.9	3.2
Other Fuels	4.6	5.0	4.7	4.5	4.8	5.5	0.4	0.6
Other Ind. Suppl.	80.3	80.6	82.1	84.2	85.6	86.4	5.8	0.8
Capital Goods	134.2	137.8	141.8	142.6	150.7	152.7	14.9	2.0
Aircraft & Parts	12.6	12.3	13.0	10.5	11.8	10.5	-1.8	-1.3
Computers & Parts	31.8	33.6	34.6	35.9	37.2	39.1	5.5	1.9
Other Machinery	89.8	91.9	94.2	96.2	101.7	103.1	11.2	1.4
Automotive Goods	91.8	91.8	95.1	100.5	102.1	100.1	8.4	-2.0
From Canada	31.7	31.6	32.3	36.8	36.9	37.0	5.5	0.1
From Other	60.1	60.2	62.8	63.7	65.2	63.1	2.9	-2.1
Consumer Goods	123.0	126.7	126.5	128.9	132.9	138.3	11.6	5.4
Foods	27.9	28.1	27.6	27.4	27.5	28.4	0.3	0.8
All Other	19.3	18.5	20.6	18.9	20.6	19.4	0.9	-1.2

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

in exports were to Canada (only part of which was automobiles) and to Western Europe, reflecting continuing weakness in the continental economies.

A 3 percent rise in imports in September was spread across all major trade categories. For the third quarter as a whole, imports rose slightly, despite a sharp drop in the value of imported oil. A nearly \$2 per barrel decline in oil prices accounted for almost all of the 12 percent fall in the value of imported petroleum. Non-oil imports rose moderately, as small increases in imports of consumer goods, computers, semiconductors, steel, and foods offset declines in imports of aircraft and autos. By area, a fall in non-oil imports from Canada was partially offset by increased imports from Asia, particularly China and Japan.

OIL IMPORTS
(BOP basis, seasonally adjusted annual rates)

	1993			Months			
	Q1	Q2	Q3	Jun	Jul	Aug	Sep
Value (Bil. \$)	51.04	57.28	50.34	57.91	52.24	47.57	51.22
Price (\$/BBL)	16.44	17.07	15.23	16.67	15.60	15.17	14.91
Quantity (mb/d)	8.50	9.19	9.05	9.51	9.17	8.59	9.41

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

Oil Imports. The quantity of oil imports reported by the Commerce Department rebounded in September, returning to rates last seen in June. However, preliminary data for September from the Department of Energy (DOE) indicate a drop in quantity in September. The two data sources have different geographic coverage, and the discrepancy between the two suggests large stockbuilding activity in Puerto Rico and the Virgin Islands. Preliminary DOE data for October show a large increase in oil imports on the strength of stockbuilding in the continental United States.

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

	Year		Quarters			Months	
	1993-Q3	1992-Q3	1993			1993	
			Q1	Q2	Q3	Sep	Oct
	(Quarterly Average, AR)					(Monthly Rates)	
-----BLS Prices-----							
<u>Imports, Total</u>	-1.2	-5.1	3.3	-3.1		0.1	0.6
Foods, Feeds, Bev.	2.2	-5.5	3.2	8.7		0.7	1.1
Industrial Supplies	-6.6	-9.2	4.5	-16.2		-0.4	0.2
Ind Supp Ex Oil	-1.2	-1.9	0.1	-2.4		0.2	-0.3
Capital Goods	-0.1	-4.4	1.9	2.5		0.0	0.5
Automotive Products	1.8	-2.8	5.1	1.8		0.3	1.5
Consumer Goods	0.8	-3.1	2.3	1.0		0.3	0.3
Memo:							
Oil	-16.2	-23.6	12.3	-35.3		-1.2	1.3
Non-oil	0.5	-3.3	2.5	1.4		0.3	0.5
<u>Exports, Total</u>	0.5	1.2	1.6	0.2		-0.1	0.0
Foods, Feeds, Bev.	4.2	5.7	0.7	15.1		-0.4	-0.4
Industrial Supplies	0.2	1.9	4.7	-3.0		-0.5	-0.4
Ind Supp Ex Ag	--	1.6	5.6	-2.9		-0.5	-0.3
Capital Goods	-0.3	-0.7	0.1	-0.1		0.2	0.0
Automotive Products	0.9	1.2	0.5	-0.7		0.3	0.6
Consumer Goods	1.5	3.1	0.3	-0.5		0.1	0.1
Memo:							
Agricultural	3.8	5.6	-1.4	14.8		-0.6	-0.3
Nonagricultural	0.1	0.6	1.9	-1.4		0.0	0.0
-----Prices in the NIPA Accounts-----							
<u>Fixed-Weight</u>							
Imports, Total	-1.1	-5.2	4.0	-3.2		--	--
Oil	-17.8	-28.9	16.0	-36.4		--	--
Non-oil	0.7	-2.8	3.2	0.7		--	--
Exports, Total	0.7	1.1	1.8	0.0		--	--
Ag	4.3	4.8	-2.1	17.3		--	--
Nonag	0.3	0.4	2.6	-2.2		--	--
<u>Deflators</u>							
Imports, Total	-3.6	-7.8	1.6	-6.6		--	--
Oil	-17.9	-28.8	16.1	-36.8		--	--
Non-oil	-2.0	-5.4	0.4	-3.1		--	--
Exports, Total	-1.5	-1.1	0.8	-5.0		--	--
Ag	3.8	5.3	-3.7	9.7		--	--
Nonag	-2.0	-1.6	1.2	-6.4		--	--

The September drop in the oil import unit value continued the decline that began in June. Since the last Greenbook, spot and futures oil prices have fallen about \$1.50 per barrel; the near-term West Texas Intermediate contract on the New York Mercantile Exchange is currently trading at \$14.52 per barrel. The recent weakness in oil prices stems from sluggish demand and strong production. As a result of these developments, the oil import unit value is likely to continue to decline, reaching roughly \$13.30 per barrel in December.

Prices of Exports and Non-oil Imports

Non-oil import prices (BLS) rose 0.5 percent in October, the largest monthly increase since the preceding October. The biggest part of this increase was accounted for by automotive products, the prices of which rose 1-1/2 percent at a monthly rate (passenger cars rose 2-1/2 percent), reflecting the introduction of 1994 models. This was partially offset by a drop in prices of non-oil industrial supplies, particularly a continuing decline in prices of unfinished metals.

Non-agricultural export prices remained unchanged on balance in October. The increase in export prices of automotive products was offset by decreases in the prices of foods and industrial supplies, particularly metals other than iron and steel. Prices of agricultural exports declined for the second consecutive month.

U.S. Current Account

The U.S. current account deficit in the third quarter of 1993 was \$111.9 billion (seasonally-adjusted, annual rate), slightly larger than the second quarter. A worsening of the trade deficit along with a small decline in the surplus on services outweighed a sizeable increase in the surplus on net investment income.

The merchandise trade deficit increased for the third consecutive quarter, as exports declined and imports rose slightly. The surplus on services transactions fell slightly, due to both small increases in services payments (primarily services of affiliated firms and financial services) and a small drop in receipts (largely a reduction in military exports).

Net investment income receipts rose by \$6.8 billion (SAAR) from the second to the third quarter. Receipts on U.S. direct investment abroad increased, mostly as a result of increased earnings for manufacturing affiliates in Latin America, while payments on foreign direct investment in the United States fell, reflecting a decrease in operating earnings by manufacturing affiliates in the United States. Receipts on U.S. portfolio assets abroad increased, while payments on foreign assets in the United States declined.

U.S. Current Account
(Billions of dollars, seasonally adjusted annual rates)

Year	Trade Balance	Services net	Investment Income, net	Transfers net	Current Acct. Bal.	
					Pub.	Ex Special Grants 1/
1990	-109.0	30.7	20.3	-33.8	-91.9	-89.0
1991	-73.8	45.9	13.0	6.6	-8.3	-45.6
1992	-96.1	56.4	6.2	-32.9	-66.4	-67.6
Quarters						
1992-1	-71.1	56.2	17.7	-29.6	-26.7	-28.5
2	-99.2	54.6	3.6	-32.0	-73.0	-76.0
3	-110.4	61.1	6.8	-28.6	-71.1	-71.1
4	-103.8	53.7	-3.2	-41.4	-94.7	-94.7
1993-1	-117.2	58.5	-0.1	-30.3	-89.2	-89.2
2	-137.5	57.8	0.2	-29.2	-108.7	-108.7
3	-145.1	56.4	7.0	-30.2	-111.9	-111.9

1/ Excludes foreign cash grants to the United States to cover costs of the war in the Persian Gulf. These grants amounted to \$4.3 billion in 1990, \$42.6 billion in 1991, and \$1.3 billion in 1992; they are shown in the accounts as positive unilateral transfers. Also excludes special U.S. grants to foreign countries amounting to \$7.2 billion in 1990 and \$5.2 billion in 1991.

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

U.S. International Financial Transactions

Banks reported large capital inflows in October of nearly \$19 billion (line 1 of the Summary of International Transactions table). More than three-fourths of the total was accounted for by inflows into foreign agencies, branches, and their IBFs. Monthly-average data for November indicate that the inflows have not continued. (See lines 1 and 1b of the International Banking Data table).

In October, there were large net flows in all categories of private security transactions (lines 2a, 2b and 2c of the Summary table). At \$9.1 billion, U.S. net purchases of foreign stocks and bonds continued high by historical standards, but fell off from the August and September levels (line 2c); declines in the rate of accumulation of foreign bonds more than accounted for the change. Purchases of foreign stocks remained strong, with notable purchases in Europe, Asia, and Latin America. Foreign net purchases of U.S. stocks were also very strong (line 2b); \$4.4 billion was the highest monthly addition to foreign holdings since 1987. Foreign net purchases of U.S. corporate and agency bonds picked up to \$9.1 billion; almost half of the total was for U.S. agency bonds, while net purchases of lower yielding U.S. Treasury obligations were minuscule.

Direct investment flows in the third quarter were heavily influenced by changes in companies' financing patterns. Capital outflows associated with U.S. direct investment abroad moderated to \$5.6 billion (line 6); however, the overall figure was reduced by approximately \$5 billion by a one-time transaction between an affiliate in the United Kingdom and its U.S. parent. Direct investment inflows into the United States were very modest at \$1.9

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

	1992	1992	1993			1993		
	Year	Q4	Q1	Q2	Q3	Aug.	Sept.	Oct.
<u>Private Capital</u>								
Banks								
1. Change in net foreign positions of banking offices ¹ in the U.S. (+ = inflow)	35.8	-0.9	-6.7	-0.2	24.2	26.1	-5.7	18.9
Securities								
2. Private securities transactions, net ²	-21.1	-6.8	-17.5	-9.9	-29.5	-5.2	-6.6	4.4
a) foreign net purchases (+) of U.S. corporate bonds ³	34.4	8.5	6.4	14.8	14.6	5.6	7.6	9.1
b) foreign net purchases (+) of U.S. corporate stocks	-3.7	4.2	3.9	0.4	2.8	2.5	0.8	4.4
c) U.S. net purchases (-) of foreign securities	-51.9	-19.5	-27.8	-25.1	-46.9	-13.3	-15.0	-9.1
3. Foreign net purchases (+) of U.S. Treasury obligations	37.4	21.4	14.2	-0.5	3.8	14.1	-13.9	0.7
<u>Official Capital</u>								
4. Changes in foreign official reserves assets in U.S. (+ = increase)	38.1	5.0	11.4	17.3	18.4	10.2	8.8	-1.7
a) By area								
G-10 countries	4.8	-4.7	-1.9	17.8	9.1	6.8	5.8	0.7
OPEC	4.9	1.7	0.5	-1.7	-3.1	-1.2	-0.1	-1.5
All other countries	28.5	7.9	12.7	1.2	12.3	4.5	3.2	-0.9
b) By type								
U.S. Treasury securities	18.5	-7.4	1.1	5.7	18.9	8.4	6.4	2.5
Other ⁴	19.7	12.4	10.3	11.7	-0.5	1.8	2.5	-4.2
5. Changes in U.S. official reserve assets (+ = decrease)	3.9	1.5	-1.0	1.5	-0.5	*	-0.1	-0.1
Other transactions (Quarterly data) ⁵								
6. U.S. direct investment (-) abroad	-34.8	-11.5	-8.3	-11.5	-5.6	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	2.4	3.1	8.6	10.3	1.9	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) ⁶	16.9	-3.4	12.7	6.1	9.8	n.a.	n.a.	n.a.
9. U.S. current account balance	-66.4	-23.7	-22.3	-27.2	-28.0	n.a.	n.a.	n.a.
10. Statistical discrepancy	-12.2	15.3	8.9	14.1	5.5	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 -36.3 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 1/
(Billions of dollars)

	1991	1992				1993				
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept	Oct.	Nov. 3/
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	-114.6	-123.1	-120.6
a. U.S.-chartered banks	12.4	3.2	8.3	12.8	17.0	8.9	16.8	12.5	6.7	6.4
b. Foreign-chartered banks	-48.3	-44.6	-65.1	-70.9	-88.6	-86.0	-97.2	-127.1	-129.8	-127.0
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	21.6	21.9
3. Eurodollar holdings of U.S. nonbank residents 2/	102.9	100.3	91.2	86.3	90.0	89.5	86.1	77.0	78.3	81.0

1/ 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.

2/ Includes term and overnight Eurodollars held by money market mutual funds.

3/ Through November 29.

billion, as a large number of affiliates reduced intercompany debts to their foreign parents (line 7).

The statistical discrepancy for the third quarter was a moderate \$5.5 billion (line 10). For the first three quarters of the year, however, the cumulative statistical discrepancy has mounted to over \$28 billion. A significant factor contributing to the positive 1993 total has been a pickup in net shipments of U.S. currency abroad by banks; these shipments are not captured in the balance-of-payments accounts.

Foreign Exchange Markets

The weighted average value of the dollar, shown in the chart, traded in a narrow range during the intermeeting period, and ended the period up 1/2 percent on balance. The dollar rose by nearly 2-1/2 percent against the yen, 1-1/4 percent against the Canadian dollar, and 1/2 percent against the mark.

The yen declined on weak industrial production data, a poor Tankan report, and heightened expectations for further monetary easing. This monetary stimulus is expected in part because of the government's apparent inability to swiftly pass further fiscal stimulus measures.

The Canadian dollar weakened on news that the 1993 and 1994 budget deficits in Canada would be much greater than had been previously projected, and on rumors that the Province of Ontario's debt would be downgraded.

The more dramatic exchange rate movements during the period were within the EMS where the French and Belgian currencies appreciated to trade within their 2-1/4 percent exchange bands against the mark. The French franc rose on recent progress in the GATT negotiations that has reduced the likelihood that France will be isolated within the European Community. The Belgian currency

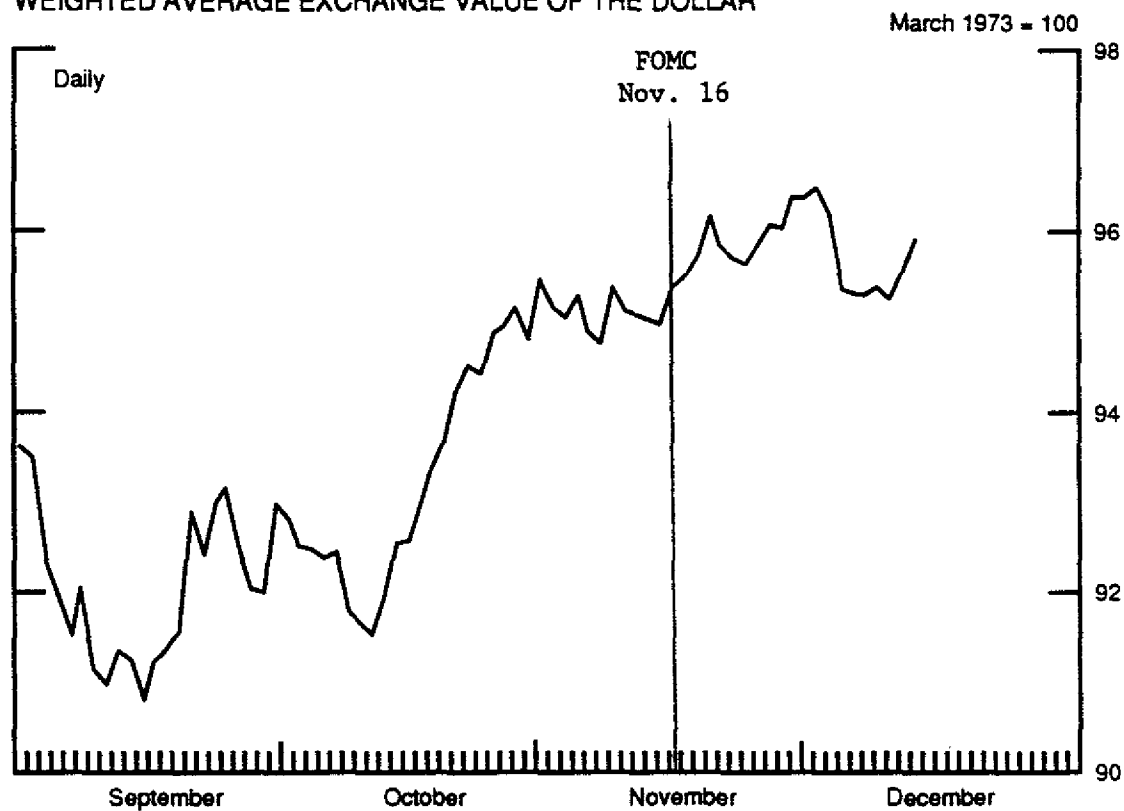
strengthened after the government introduced a social pact designed to reduce the Belgian debt and deficit. The Belgian franc appreciated even though the central bank has allowed short-term rates in Belgium to decline 125 basis points.

In the rest of Europe short-term interest rates declined 10 to 50 basis points as the Bundesbank and other European central banks guided their money market intervention rates lower. Long-term rates in Europe declined 10 to 40 basis points, reflecting the declines in short term rates and reflecting further evidence of economic weakness. In Japan, short and long-term rates declined 25-40 basis points in response to expected Bank of Japan easing and further signs of economic deterioration.

The table below the exchange rate chart is a new addition to greenbook that presents data on spot and futures three-month interest rates for Germany and Japan. Abstracting from liquidity premia and costs of carry, the three-month futures rate is the market's expectation of the three-month Euro-interest rate on the settlement date. The table is useful for examining whether economic developments during the period have caused market participants to revise the expected path of monetary easing that is embedded in three-month futures rates.

For example, the table shows that although spot three-month rates declined in Germany, neither these rate declines nor other economic developments during the intermeeting period substantially altered the expected path of three-month German interest rates through June 1994. By contrast, developments during the intermeeting period did cause market participants to revise down the expected path of three-month Japanese interest rates, by nearly 40 basis points through June 1994, and by more through December 1994.

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR

3-MONTH SPOT AND FUTURES EURO-CURRENCY
DEPOSIT RATES

	<u>Japan</u>			<u>Germany</u>		
	11/16/93	12/14/93	Change	11/16/93	12/14/93	Change
Spot	2.31	2.06	-0.25	6.13	6.00	-0.13
March 1994	2.17	1.84	-0.33	5.37	5.47	0.10
June 1994	2.17	1.79	-0.38	4.91	4.90	-0.01
September 1994	2.24	1.79	-0.45	4.70	4.52	-0.18
December 1994	2.32	1.79	-0.53	4.54	4.52	-0.02

Equity markets in Japan declined 4 to 5 percent during the intermeeting period on evidence of continued economic weakness. Japan's stock market was highly volatile during this period in part because mixed comments by government officials have led to on-again off-again speculation over whether the government would take steps to prevent the stock market from falling. Equity markets in most European countries rose modestly during the intermeeting period.

Developments in Foreign Industrial Countries

Output has been rising in all of the foreign major industrial countries in recent quarters, although early indications for the fourth quarter suggest a return to negative growth in Japan and Germany. In Japan, real GDP increased in the third quarter, reversing a second-quarter decline. Output in western Germany, France, and the United Kingdom grew moderately in the third quarter following similar increases in the second quarter. Canada's relatively fast pace of growth slowed in the third quarter, and output growth in Italy appears to have slowed from its high second-quarter rate as well. Most foreign industrial countries have seen small declines in inflation in recent months.

Individual Country Notes. In Japan, real GDP rose 2.0 percent (s.a.a.r.) in the third quarter after falling by the same amount in the second quarter. Domestic demand accounted for most of the increase. A moderate increase in private consumption and a surge in residential investment more than offset the continued decline of private non-residential investment. The growth of public investment, an important factor in slowing the decline of output in previous quarters, fell from almost 18 percent in the second quarter

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

	1991	1992	1992				1993					Latest three months from year ago 2/
			Q4	Q1	Q2	Q3	JUL	AUG	SEP	OCT	NOV	
JAPAN												
GDP	3.6	-0.3	-0.3	0.9	-0.5	0.5	*	*	*	*	*	0.5
IP	-1.8	-7.7	-2.8	0.4	-1.5	0.1	-0.2	-1.2	2.2	-5.1	NA	-4.4
WEST GERMANY												
GDP	2.7	0.0	-1.0	-1.6	0.6	0.6	*	*	*	*	*	-1.4
IP	0.1	-4.6	-4.1	-2.9	-0.0	0.7	-0.8	2.2	0.0	-0.4	NA	-5.0
FRANCE												
GDP	1.3	0.6	-0.4	-0.7	0.2	0.2	*	*	*	*	*	-0.7
IP	2.1	-2.5	-2.2	-1.0	-0.5	0.4	0.5	0.0	-0.3	NA	NA	-3.3
UNITED KINGDOM												
GDP	-1.6	0.2	0.3	0.5	0.5	0.6	*	*	*	*	*	1.9
IP	-0.8	-0.5	0.6	0.1	1.0	1.0	1.0	-0.1	0.1	0.7	NA	2.2
ITALY												
GDP	1.7	-0.3	-0.5	-0.1	0.8	NA	*	*	*	*	*	-0.6
IP	-0.3	-3.1	-1.4	-0.3	-1.0	0.6	1.5	1.2	-1.4	NA	NA	-2.1
CANADA												
GDP	-0.1	0.8	0.7	0.8	0.9	0.6	*	*	*	*	*	3.0
IP	-1.1	1.9	1.5	1.9	0.8	0.8	-1.0	0.9	0.6	NA	NA	5.1
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	0.7	0.3	0.2	0.4	0.7	0.9	4.6

* 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			1993			1993				Latest month from year ago 2/
			Q2	Q3	Q4	Q1	Q2	Q3	AUG	SEP	OCT	NOV	
JAPAN													
CPI	3.2	0.9	1.3	-0.1	0.0	0.0	1.1	0.5	0.3	-0.0	-0.1	-0.7	0.9
WPI	-1.7	-1.5	0.0	-0.2	-0.9	-0.5	-1.4	-1.0	-0.6	-0.0	-0.2	-0.1	-3.4
WEST GERMANY													
CPI	3.9	3.7	1.1	0.5	0.9	1.8	1.0	0.4	0.0	0.1	0.2	0.2	3.6
WPI	1.6	-1.9	0.5	-2.0	-0.8	0.7	0.1	-0.6	-0.4	-0.5	-0.2	0.3	-0.3
FRANCE													
CPI	2.9	1.8	0.8	0.0	0.5	0.8	0.6	0.2	0.0	0.4	0.2	0.1	2.2
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	0.4	0.4	-0.1	-0.1	1.4
WPI	3.9	3.1	1.3	0.1	0.7	1.4	1.7	0.3	0.0	0.0	0.2	0.0	3.6
ITALY													
CPI	6.1	4.8	1.2	0.7	1.3	1.0	1.1	0.9	0.1	0.1	0.7	0.5	4.2
WPI	1.1	3.0	0.8	-0.5	2.8	1.6	1.3	0.5	0.4	0.3	NA	NA	6.6
CANADA													
CPI	4.1	1.8	0.5	0.4	0.4	0.7	0.2	0.4	0.1	0.1	0.2	NA	1.9
WPI	-3.2	3.3	0.6	0.8	1.2	1.2	-0.0	0.5	0.5	0.2	0.4	NA	2.7
UNITED STATES													
CPI (SA)	3.0	3.1	0.8	0.7	0.8	0.9	0.7	0.3	0.3	0.0	0.4	0.2	2.7
WPI (SA)	-0.1	1.5	0.8	0.4	0.2	0.6	0.7	-0.7	-0.6	0.2	-0.2	0.0	0.3

* 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)

	1991	1992	1992			1993			1993			
			Q2	Q3	Q4	Q1	Q2	Q3	AUG	SEP	OCT	NOV
JAPAN												
TRADE	78.5	107.3	24.5	26.2	28.6	29.7	29.9	29.5	8.9	9.4	10.5	8.8
CURRENT ACCOUNT	73.1	117.2	28.8	28.1	31.7	36.0	31.8	32.0	9.5	11.2	10.4	NA
GERMANY												
TRADE (NSA)	13.6	21.4	3.4	8.6	5.0	5.9	7.9	8.1	2.2	3.5	NA	NA
CURRENT ACCOUNT (NSA)	-19.5	-25.5	-6.4	-8.6	-5.2	-5.7	-3.8	-10.3	-4.0	-1.4	NA	NA
FRANCE												
TRADE	-5.3	5.6	1.9	1.3	1.3	2.5	3.9	4.2	0.5	1.7	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	-4.4	-4.7	-3.6	-0.5	-1.5	NA	NA
CURRENT ACCOUNT	-13.7	-15.1	-4.5	-3.1	-3.9	-3.6	-3.7	NA	*	*	*	*
ITALY												
TRADE	-13.0	-10.5	-4.4	-1.8	-1.8	4.6	5.1	5.3	-0.0	2.0	NA	NA
CURRENT ACCOUNT (NSA)	-21.7	-26.8	-5.7	-6.8	-4.8	-2.9	2.8	3.8	1.8	-1.5	NA	NA
CANADA												
TRADE	4.3	7.4	1.4	1.7	2.9	2.5	2.3	2.3	0.6	0.8	NA	NA
CURRENT ACCOUNT	-25.3	-23.0	-6.1	-5.6	-4.6	-5.2	-5.1	-4.8	*	*	*	*
UNITED STATES												
TRADE	-73.8	-96.1	-24.8	-27.6	-26.0	-29.3	-34.4	-36.3	-11.5	-13.0	NA	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.

to 3.6 percent in the third quarter. Real net exports rose strongly as exports increased moderately and imports declined slightly.

Recent data point to a weakening of activity in the fourth quarter. In October, industrial production (s.a.) declined 5.1 percent, while housing starts, machinery orders, and new car registrations also fell. Labor market conditions deteriorated further in October as the ratio of job offers to applicants declined again and the unemployment rate rose to 2.7 percent. In September, the index of leading indicators fell significantly below its boom/bust demarcation line of 50. The Bank of Japan's November Tankan survey indicated a significant further worsening of business sentiment regarding future economic conditions. Moreover, firms predicted a 7.5 percent decline in investment in the fiscal year that began in April.

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

	1993				Sep.	Oct.	Nov.
	Q1	Q2	Q3	Q4			
Machinery Orders	16.0	-9.5	2.3	--	7.3	-15.2	--
New Car Registrations	10.7	-11.8	2.1	--	6.4	-11.7	5.7
Job Offers Ratio*	0.91	0.80	0.70	--	0.69	0.67	--
Index Leading Ind.*	75.6	46.2	44	--	36.4	--	--
Business Sentiment**	-49	-49	-51	-56	--	--	--

* Level of indicator.

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

Consumer price inflation in the Tokyo area (s.a.) continued to ease, registering 0.9 percent on a 12-month basis in November. The decline partially reflected a reversal of the surge in fresh food prices that had boosted consumer prices over the summer. In part due to appreciation of the yen, wholesale prices continued to decline in November.

The trade surplus (customs basis, s.a.) declined to \$8.8 billion in November, although the cumulative surplus to date is running well above last year's pace. The current account surplus (s.a.) declined to \$10.4 billion in October; the current account surplus for the first ten months of 1993 was \$132 billion (a.r.), up from \$117 billion for all of 1992.

On December 8, the lower house of the Japanese parliament passed a second supplementary budget for the fiscal year ending March 1994, approving 709 billion yen (less than 0.2 percent of GDP) in borrowing that in part will finance the expenditure package announced in September. Continued weak activity and the plunge in the stock market have bolstered expectations of additional government stimulus. On November 19, a government advisory body recommended a cut in personal taxes to be offset subsequently by an increased consumption tax, but did not detail the magnitude or timing of these changes. More recently, government officials announced that new economic measures would be considered simultaneously with completion of the draft budget for the 1994/95 fiscal year starting next April. However, efforts to achieve parliamentary approval of political reform legislation may delay completing the budget until early next year. On December 14, the government scored a symbolic victory for economic reform by announcing a limited opening of its rice markets in the context of Uruguay Round talks.

In the third quarter, ~~west German~~ real GDP grew 2.6 percent (at a calendar and seasonally adjusted annual rate) after expanding 2.3 percent in the second quarter. Unlike second-quarter growth, which was largely accounted for by inventory accumulation, growth in the third quarter was broadly based. Private consumption grew 6.8 percent after contracting in the second quarter, public consumption

continued to fall, and total fixed investment recovered 5 percent after a 14.4 percent decline in the second quarter. Net exports also made a positive contribution to growth: exports were up more than 10 percent in the third quarter while imports declined slightly.

Data available for the fourth quarter point to a weakening pace of activity. Industrial production (s.a.) fell 0.4 percent in October after stagnating in September, although it was still slightly above the average third-quarter level. Unusually cold weather in November likely reduced construction output and may have had a negative impact on industrial production. Real retail sales (s.a.) plunged 3.3 percent in October and were 4.0 percent below their year-earlier level. The volume of new orders for western German manufactured goods (s.a.) fell slightly in October as domestic orders dropped 2.7 percent while foreign orders rose 4.3 percent. The unemployment rate rose further in November.

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

	1992	1993					
	Q4	Q1	Q2	Q3	Sep.	Oct.	Nov.
Capacity Utilization	-3.1	-2.4	-0.3	-0.5	--	--	--
Total Orders	-7.1	-0.9	0.5	1.5	2.2	-0.3	--
Unemployment Rate (%)	7.2	7.6	8.0	8.5	8.6	8.9	9.0
Production Plans* (%)	-33.3	-25.7	-21.7	-15.0	-16.0	-11.0	--

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

Consumer prices (n.s.a.) in western Germany increased 3.6 percent on a 12-month basis in November, the fourth consecutive decline. Wholesale, producer, and import prices remained subdued in recent months. Preliminary readings on upcoming wage negotiations have been quite positive. In the first settlement of the current

round of wage bargaining, the insurance industry agreed on a 2 percent increase for 1994.

In October, M3 was up a revised 6.9 percent (s.a.a.r) from the average of the fourth quarter of 1992, slightly above the 6-1/2 percent ceiling of the target range. The Bundesbank is expected to announce its 1995 target range on December 16, at its last Council meeting of the year.

On November 26, the Federal budget for 1994 and the medium-term financial plan were approved by the Bundestag. While the plan holds the Federal deficit to DM 69 billion in 1994 (about 2-1/4 percent of GDP and down slightly from a record projected deficit of DM 73 billion, about 2-1/2 percent of GDP, this year), it is based on optimistic assumptions about next year's economic growth, and a supplementary budget may be needed. Further fiscal consolidation is projected for 1995 and 1996.

In France, GDP rose 0.8 percent (s.a.a.r.) in the third quarter, the same as in the second quarter. This moderate recovery is due largely to a 2.8 percent increase in consumption. Net exports made a small positive contribution in the third quarter while investments and inventories made negative contributions. Monthly indicators suggest, on balance, that growth has slowed in the fourth quarter. In October, consumption of manufactured products, equal to one third of total consumption, fell 1.2 percent, reversing much of the third-quarter gain. The unemployment rate (s.a.) rose to 12 percent in October from 11.8 percent in the previous month.

The consumer price index in November was 2.2 percent (n.s.a.) above its year-earlier level. The increase in inflation from an average of roughly 2 percent in the first half of the year reflects increases in excise taxes on gasoline, tobacco, and alcohol.

France's trade surplus (s.a.) widened to a record \$4.2 billion surplus for the third quarter. Imports have remained roughly constant throughout most of the year, reflecting the continued weakness of the economy, while exports have risen at a moderate rate. The cumulative surplus for the first nine months of 1993 was about \$11 billion (s.a.), well above last year's pace.

In the United Kingdom, the preliminary estimate for real GDP growth (s.a.a.r.) in the third quarter was revised up slightly to 2.5 percent. The U.K. recovery appears to have continued into the fourth quarter. Industrial production (s.a.) in October was 0.7 percent above the third-quarter average, while retail sales (s.a.) in November were 1.2 percent above the third-quarter average. The unemployment rate (s.a.) edged down slightly to 10.2 percent in October. In November, the Purchasing Managers' Index registered another sharp increase in output, but new orders edged down slightly. Business sentiment in November was up from October but unchanged from the third-quarter average. In contrast, consumer confidence in November remained at the October level, which was considerably weaker than the second-quarter average.

In November, consumer prices (n.s.a.) were 1.4 percent above year-earlier levels. Excluding mortgage interest payments, consumer price inflation was 2.5 percent on a 12-month basis, the lowest rate in over 25 years. Producers' input prices increased rapidly after sterling's September 1992 devaluation but have fallen subsequently, leaving input prices in November 5.7 percent higher than in August 1992. Increases in labor costs have moderated as well.

The cumulative trade deficit (s.a.) for the first nine months of the year was only \$17 billion (a.r.) compared with \$23 billion for all of 1992, reflecting a reduction in the deficit with other EC countries. In October, the trade deficit with non-EC trading

partners (the only figures available) fell considerably from the third-quarter average due to a surge in export volumes.

In the first change since January, the government set a minimum lending rate of 5.5 percent on November 23 that resulted in a 50 basis-point cut in base lending rates. On November 30, Chancellor of the Exchequer Kenneth Clarke delivered the British government's first budget that consolidates tax and spending measures. For the current fiscal year, the projected public sector borrowing requirement (PSBR) was left unchanged at nearly -50 billion (8 percent of GDP), but for the 1994-95 fiscal year beginning in April, it was lowered to -38 billion (6-1/2 percent of GDP), primarily through spending cuts. The PSBR was projected to be eliminated entirely by the end of this decade. The government forecast real GDP growth at 2-1/2 percent in 1994, with underlying inflation (excluding mortgage interest payments) remaining within the government's 1-4 percent target.

Although the recession in Italy appears to be ending, with real GDP having grown 3.1 percent (s.a.a.r.) in the second quarter, there are scant signs of a strong, sustained recovery. Industrial production (s.a.) rose only slightly in the third quarter after declining in the second quarter. The unemployment rate (n.s.a.) dipped slightly to 13.6 percent in the third quarter. Consumer and business confidence have remained depressed, and real retail sales have been flat.

Weakness in economic activity has helped to restrain inflation. In November, CPI inflation registered 4.2 percent on a 12-month basis, down from 4.8 percent a year earlier, despite the 22 percent effective depreciation of the lira since September 1992.

The falling lira and weak economic activity have produced a dramatic change in the external accounts. Although the current

account (n.s.a.) showed a \$1.5 billion deficit in September, the surplus for the year to date totals about \$4 billion compared with a \$22 billion deficit over the same period last year.

In local elections on December 5, the ex-communists won the mayoral races in the major Italian cities, giving them strong momentum for the national elections, which likely will be held in early spring 1994.

Economic activity in Canada was mixed in the third quarter. Real GDP increased 2.4 percent (s.a.a.r.), down from a revised 3.8 percent rise in the second quarter. As in the past several quarters, much of the growth came from exports, which increased 7.8 percent, while imports fell following two quarters of strong growth. Domestic demand remained weak, increasing only 1.2 percent. Consumption expenditures rose 1.3 percent, well below their growth in the previous two quarters. Machinery and equipment investment grew strongly, but declines in construction restricted total investment to a 3.2 percent increase. Government spending fell 1.5 percent.

Conditions in the labor market improved slightly on average in the first two months of the fourth quarter. Total employment fell in October but rose in November to its highest level in three years. About half of the November increase was in full-time jobs, reversing the loss in full-time jobs in October. The unemployment rate (s.a.) fell to 11.0 percent in November from its 1993 peak of 11.6 percent in July.

The industrial product price index rose 2.7 percent on a 12-month basis in October, in part reflecting the over 6 percent decline in the Canadian dollar against the U.S. dollar in the past year. However, weak domestic demand has helped restrain growth in consumer price inflation. The 12-month increase in CPI excluding

food and energy was just over 2 percent on average in September and October.

Paul Martin, the new Minister of Finance, announced that the federal budget deficit for fiscal year 1992-93 was C\$41 billion (nearly 6 percent of GDP), considerably above the C\$33 billion estimate of last spring. For fiscal year 1993-94, the deficit is expected to increase to about C\$45 billion. Martin also announced a revised official forecast for real GDP growth in 1993 of 2.5 percent, down from the previous estimate of 2.9 percent.

Economic Situation in Other Countries

Output growth slowed in a number of countries in the third quarter. Among major developing economies, only Korea appears to have had stronger economic growth than in the previous quarter.

Mexico has largely surmounted the foreign exchange crisis suffered before the vote on NAFTA. Brazil signed an agreement with creditor banks to restructure its \$35 billion commercial bank debt. It remains unclear, however, whether Brazil will qualify for an IMF program, which would facilitate the implementation of the package by the April deadline.

Venezuela elected a new president, Rafael Caldera. Caldera campaigned against recent free-market reforms and hinted that he may seek to renegotiate foreign debt payments. On December 12, Russians approved a new constitution and elected members of a new legislature.

Individual country notes. Mexico has largely overcome the foreign exchange crisis that erupted in early November over concerns about the fate of NAFTA. The peso, which had depreciated 4 percent against the dollar at the height of the turmoil, is now back at its end-of-October level. Treasury bill rates, which rose sharply as exchange-market pressures increased, fell to new lows for the year

in mid-December. The 28-day Treasury bill rate was 11.85 percent at the auction of December 15, down 119 basis points from the October 27 level. The stock market index, which fell 4 percent from late October to early November, closed December 14 more than 16 percent above its pre-crisis level.

Real GDP was 1.2 percent lower in the third quarter than in the same period of 1992, reflecting tight monetary and fiscal policies as well as reduced investment because of uncertainty about NAFTA. For the first nine months of the year, real GDP was only 0.5 percent higher than in the same period of 1992.

The slowing of real GDP growth has reduced import growth and narrowed the trade deficit. In the first nine months of 1993, the trade deficit was \$10.4 billion, \$1 billion less than in the same period of 1992. Exports were up 11 percent from a year earlier, while imports were up only 6 percent. Lower oil prices in 1993 have led to an 8 percent fall in petroleum exports; non-oil exports were 16 percent higher.

The economic stimulus package announced in October will likely lead to an overall public sector deficit in 1994, surpassing the small deficit expected for 1993. Its effects, combined with the ratification of NAFTA, should help to revive private investment.

In Brazil, growth in real GDP has slowed in recent quarters, and was 2.3 percent lower in the third quarter than in the second quarter. Over the last 12 months, the general price index has increased 1900 percent.

On November 29, the Bank Advisory Committee and Brazil signed the restructuring package for the \$35 billion commercial bank debt. Creditor banks holding 93 percent of the debt had signed the package as of early December. It remains unclear, however, whether Brazil

will qualify for an IMF program, which would facilitate the implementation of the package by the April deadline.

In early December, Finance Minister Cardoso outlined an economic package aimed at reducing the budget deficit and inflation in 1994. It is unclear whether Congress will approve the plan, however, and several new political scandals have distracted legislative attention from Brazil's pressing economic problems.

Argentina continues to experience falling inflation, slowing industrial production, and a rising trade deficit. Consumer prices rose 7.7 percent during the twelve months ending in November, down from 18 percent a year earlier. Industrial production during the first three quarters of 1993 was 2.4 percent higher than in the same period of 1992, down from 9.8 percent growth a year earlier. Merchandise imports through September were 8.4 percent higher than a year earlier, while merchandise exports were 6.3 percent higher. The automobile industry accounts for most of the recent growth in industrial production and exports, reflecting strong domestic auto sales and provisions in the bilateral trade agreement with Brazil.

A package of constitutional reforms has been approved by leaders of both President Menem's Peronist Party and the opposition Radical Party. The reforms remove the current prohibition on consecutive presidential terms, allowing Menem to run for reelection in 1995. The reforms also restrict the scope of presidential decrees and increase judiciary independence.

In Venezuela, Rafael Caldera was elected President on December 5. Caldera's campaign emphasized opposition to the scope and pace of recent free-market reforms. In his first press conference after the election, Caldera stated that foreign creditors should reconsider Venezuela's debt repayments because of low oil prices. He also vowed to repeal the newly implemented value-added tax.

Caldera's victory was widely expected, and financial markets have so far declined only slightly. Caldera inherits an economy with falling production and rising inflation. Preliminary reports indicate that real GDP was 1.6 percent lower in the third quarter than in the same period of 1992; consumer prices were 44 percent higher in November 1993 than they were a year earlier.

In China, leaders appear at least temporarily to have abandoned the economic retrenchment program begun in July, despite continuing high rates of industrial production growth and inflation and further increases in the trade deficit. Industrial production was 19 percent higher in November than a year earlier. Twelve-month inflation, measured by urban prices, was 21 percent in both September and October. There was a trade deficit in the first 11 months of 1993 of \$7.7 billion, compared with a surplus of \$6.4 billion for the same period last year. Exports were 6.2 percent higher in value, while imports were 27.8 percent higher. Despite some evidence that policy disputes continue within the party hierarchy, credit conditions have probably remained easy in the fourth quarter.

China has announced a plan for major tax reform, to take effect January 1994. The plan, which aims to reverse the central government's declining share of tax revenues, introduces a value added tax and a graduated individual income tax, and unifies corporate tax rates at 33 percent. The authorities promise, though, that foreign-invested enterprises will continue receiving preferential tax treatment. China's lax accounting standards and lack of qualified auditors, however, are problems for implementing the tax reform.

Taiwan's GNP growth slowed to 5.8 percent in the third quarter from a year ago, compared with 6.1 percent growth in the second

quarter. This slowdown reflects continued slow export growth and cutbacks in government infrastructure spending. Inflation remains low: in November, the CPI was 3.1 percent higher than a year earlier. Through November, Taiwan's 1993 merchandise trade surplus was \$7.5 billion. Exports were 4.1 percent higher than in the same period of 1992 while imports, which have slowed sharply in recent months, were 6.8 percent higher. The slower import growth helped raise the current account surplus to \$1.5 billion in the third quarter, from \$575 million in the third quarter of 1992.

Real GDP in Korea was 6.5 percent higher in the third quarter of 1993 than a year earlier--Korea's strongest output growth in six quarters. Fixed investment rebounded modestly, increasing 7.9 percent in the third quarter from a year earlier after decreasing 2.4 percent in the first half. The Bank of Korea allowed money growth to surge in August and early September, in order to ease temporary upward pressure on interest rates caused by the real name reform. The Bank significantly reduced money growth in October and November. Interest rates have stabilized in recent weeks, and inflation remains moderate. The consumer price index was 5.2 percent higher in November than a year earlier.

Merchandise exports were 6.3 percent higher in the first 10 months of 1993 than in the first 10 months of 1992, while imports were only 0.6 percent higher. This narrowed the current account deficit through October 1993 to \$740 million, from \$4.8 billion over the same period of 1992.

In Russia, industrial production fell only 2 percent in October, after falling more than one-fifth between July and September.

Preliminary data suggest that Russia tightened monetary policy in September and October. The average monthly growth of M2 was 7

percent, compared with 15 percent monthly growth from January through August. In part, this slower growth reflects a reduction in central bank credit to other FSU republics. Monetary tightening helped reduce inflation from 26 percent in August to 21 percent in October and an estimated 15 percent in November.

The ruble depreciated 5 percent against the dollar over the past six weeks, trading at 1247 per dollar in the Moscow MICEX auction of December 15. Armenia, Kazakhstan, and Uzbekistan recently took steps to issue their own national currencies, because they could not reach agreement with Russia on the terms of a new ruble zone.

Elections for a new Russian legislature and a referendum on a proposed new constitution took place December 12. Half of the members of the lower house of the legislature were elected from party lists; half represent single-member districts. The constitution, which was approved, will significantly increase the power of the Presidency relative to the legislature. Incomplete returns indicate that parties favoring rapid economic reform will probably not command a majority in the legislature. However, these parties are likely to have enough votes to block legislative vetoes of actions by President Yeltsin.