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November 9, 1994

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 economy appears to have entered the current quarter with a substantial amount of forward momentum. Growth in aggregate hours of production workers surged in October, and industrial output likely posted a large increase. Sizable gains in employment and in income as well as upbeat sentiment bode well for household demand. Contracts and orders point to hefty growth in business fixed investment, and there is no evidence that the surge in inventory investment over the past two quarters left firms feeling overstocked. While there have been hints of wage acceleration as labor markets tightened further, growth in labor compensation through the third quarter was little changed as firms succeeded in further reining in medical benefit costs. Mounting pressures on manufacturing capacity have continued to push up prices of goods at early stages of processing, but these increases, as yet, have not been reflected in a clear pickup in core consumer price inflation.

Employment and Unemployment

Total nonfarm payroll employment increased 194,000 in October.[1] Private payrolls rose 198,000, a shade below the third-quarter pace, but still a sizable gain. In addition, the workweek surged so that aggregate hours of production or nonsupervisory workers rose 1 percent--to a level almost 1-1/2 percent (not annual rate) above the third-quarter average.

The October gains in payroll employment were widespread. Manufacturing employment rose 40,000, owing partly to continued growth in automobile-related and construction-related industries.[2] But, payrolls also increased in textiles, paper,

1. The level of payroll employment was revised up 53,000 in September, reflecting higher employment in construction, manufacturing, trade, and government.

2. Some of the manufacturing industries related to construction are lumber, furniture, and stone, clay, and glass.

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

	1992	1993	1994 Q1	1994 Q2	1994 Q3	1994 Aug.	1994 Sept.	1994 Oct.
	-----------Average monthly changes---------							
Nonfarm payroll employment[2]	96	194	229	345	276	290	248	194
Private	76	179	222	320	233	226	189	198
Manufacturing	-14	-11	13	21	16	50	-2	40
Durable	-14	-7	12	21	18	41	16	30
Nondurable	0	-4	0	0	-1	9	-18	10
Construction	-1	19	23	40	14	-2	28	5
Trade	10	42	44	96	79	45	81	62
Finance, insurance, real estate	4	10	4	6	-3	4	-12	-2
Services	78	116	133	146	121	118	93	96
Health services	22	23	23	22	19	33	7	27
Business services	31	46	61	57	57	50	48	32
Total government	20	15	8	26	43	64	59	-4
Private nonfarm production workers	86	164	211	300	194	206	170	135
Manufacturing production workers	-3	-1	22	24	18	47	5	39
Total employment[3]	127	209	459	131	399	714	462	608
Nonagricultural	120	219	349	195	341	549	497	522
Memo:								
Aggregate hours of private production workers (percent change)	.1	.3	.4	.4	.3	-.3	.7	1.0
Average workweek (hours)	34.4	34.5	34.6	34.7	34.5	34.4	34.6	34.9
Manufacturing (hours)	41.1	41.5	41.7	42.1	42.0	42.0	42.0	42.1

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households. Data for 1994 are not directly comparable with earlier years because of a redesign of the CPS in January 1994.

SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES[1]
(Percent; based on seasonally adjusted data)

	1992	1993	1994 Q1	1994 Q2	1994 Q3	1994 Aug.	1994 Sept.	1994 Oct.
Civilian unemployment rate (16 years and older)	7.4	6.8	6.6	6.2	6.0	6.1	5.9	5.8
Teenagers	20.0	19.0	18.0	18.4	17.4	17.5	17.0	17.3
20-24 years old	11.3	10.5	10.6	9.6	9.8	10.2	9.5	8.9
Men, 25 years and older	6.4	5.8	5.3	4.8	4.8	4.8	4.6	4.6
Women, 25 years and older	5.7	5.4	5.3	5.0	4.8	4.9	4.8	4.6
Full-time workers	7.4	6.8	6.7	6.2	6.0	6.1	5.9	5.9
Labor force participation rate	66.3	66.2	66.6	66.5	66.5	66.6	66.6	66.8
Teenagers	51.3	51.5	52.7	53.6	52.2	53.0	51.1	52.6
20-24 years old	77.1	77.1	77.0	77.0	76.7	77.0	76.9	77.4
Men, 25 years and older	76.6	76.2	76.3	75.8	75.8	75.8	75.9	76.2
Women, 25 years and older	57.0	57.1	58.0	57.9	58.2	58.2	58.6	58.4

1. Data for 1994 are not directly comparable with earlier years because of a redesign of the CPS in January 1994.

printing, and rubber and plastics. Construction added 5,000 jobs in October after gaining more than 25,000 in September. Employment rose in residential construction, and further gains were reported at special trade contractors (electricians, plumbers, carpenters and other crafts).

Payrolls in the private service-producing sector rose 157,000 in October. Retail trade was up 51,000, with especially large gains occurring at automotive dealers and at furniture and home furnishing stores. Similarly, in wholesale trade, much of the October increase in employment was in durable goods distribution: motor vehicles, lumber, and construction. Employment in services was up 96,000. Moderate gains continued in health and business services. Although rising 15,000 in October, growth in personnel supply services has slowed in recent months and has accounted for a smaller share of overall employment growth than it did a year ago.

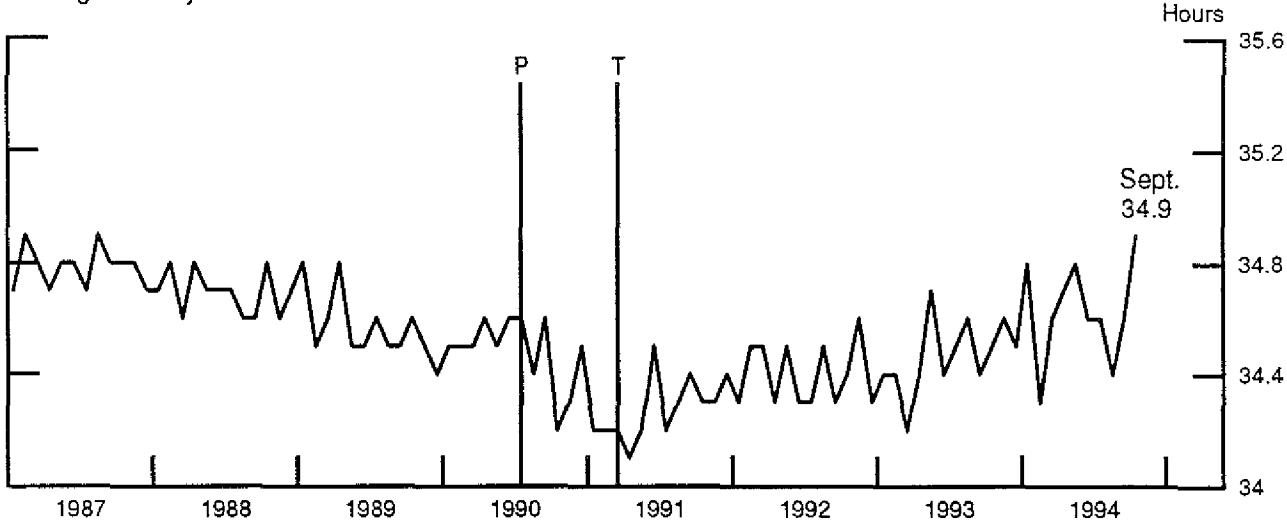
The Bureau of Labor Statistics (BLS) recently announced that the level of total nonfarm payroll employment in March 1994 will be revised up 760,000 or about 0.7 percent.[3] This revision would be the largest since 1978 (in percentage terms) and appears to be broadly based. Data from state unemployment insurance records suggest that estimates of payroll employment from the BLS establishment survey began to substantially underestimate employment growth in December of 1993. However, following its usual benchmarking procedure, the BLS plans to wedge the revision in between April 1993 and March 1994. The BLS has not announced whether this revision will affect payroll employment growth after March 1994.

The average workweek of production or nonsupervisory workers jumped 0.3 hour to a cyclical high of 34.9 hours in October,

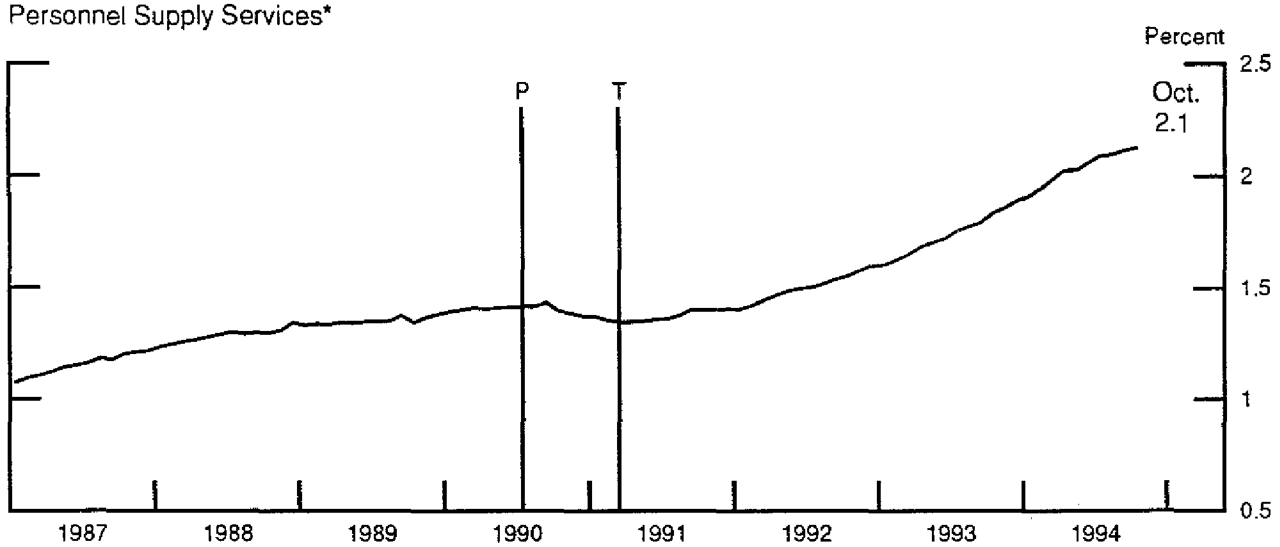
3. Revised estimates of payroll employment will be released in June 1995.

OTHER LABOR MARKET INDICATORS

Average Weekly Hours of Production Workers

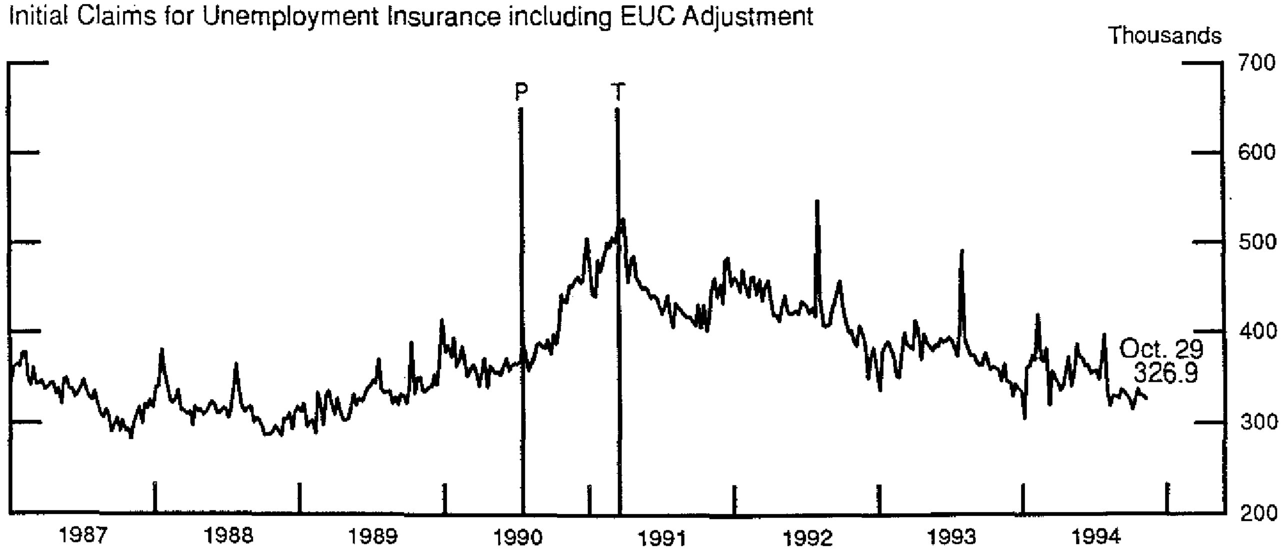


Personnel Supply Services*



* As a share of total payroll employment.

Initial Claims for Unemployment Insurance including EUC Adjustment



reflecting increases in almost all major sectors. The average workweek has changed 0.3 hour (up or down) or more in only one out of ten months since the series began in 1964. Indeed, the workweek has been especially volatile this year. Between 1964 and 1993, the monthly absolute change in the workweek averaged 0.1 hour, but so far this year, the absolute change has averaged more than 0.2 hour.[4] However, experience has shown that large movements in the workweek tend to be partly reversed (or partly revised away) in later months.

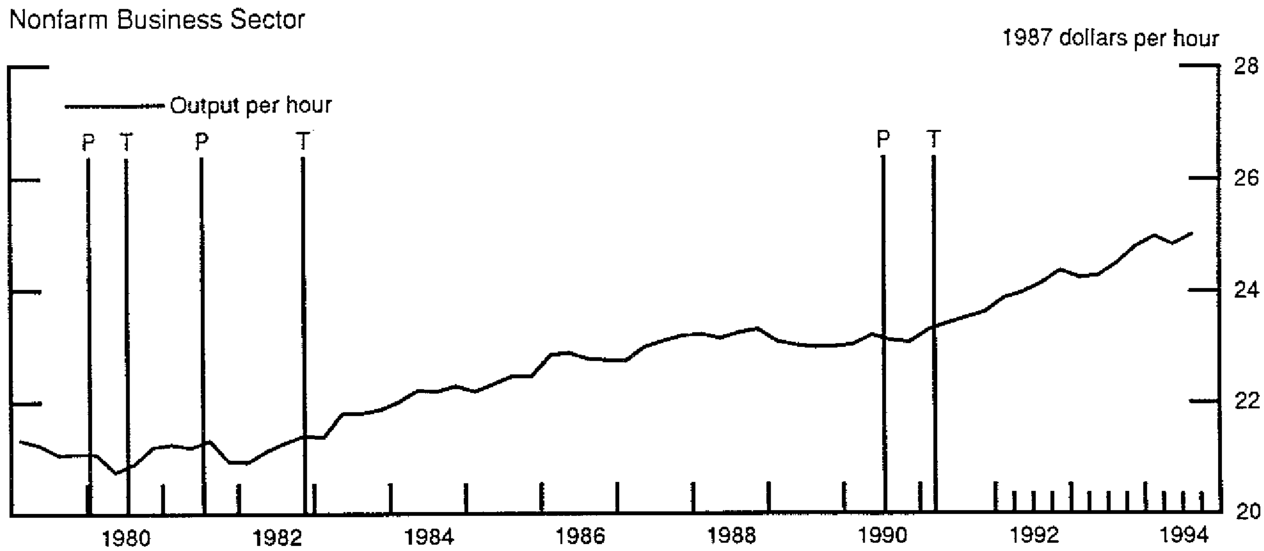
Initial claims for unemployment insurance averaged 330,000 in late October. This is in the middle of the range of 315,000 to 340,000 per week that has prevailed since late July and points to another substantial payroll increase in the November survey.

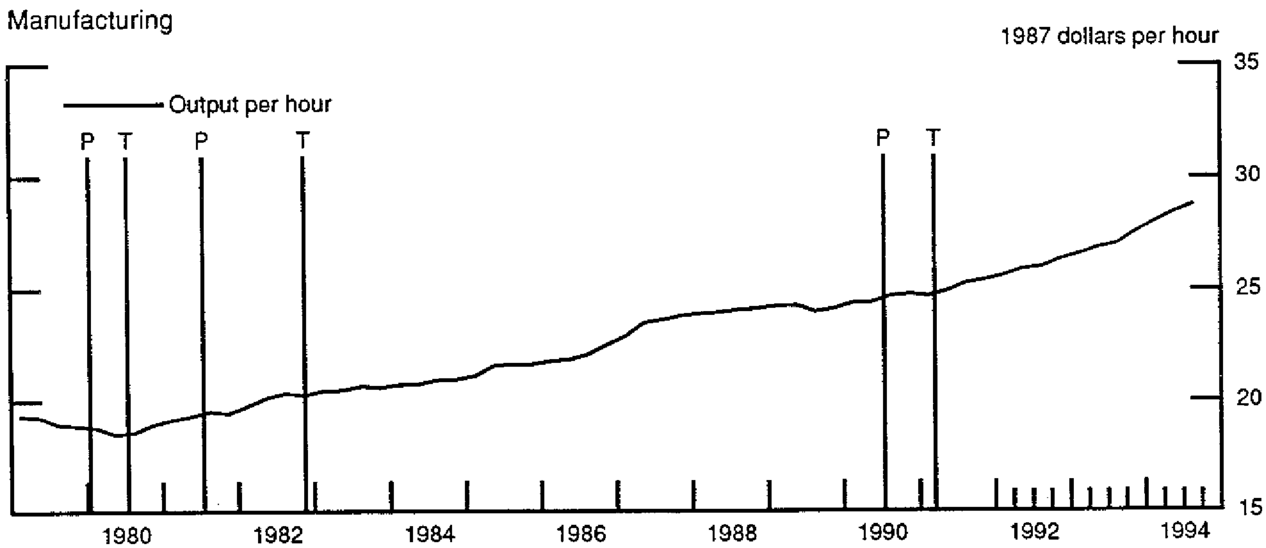
Employment, as measured by the household survey, jumped 608,000 in October, and the aggregate unemployment rate fell 0.1 percentage point to 5.8 percent. The decline in unemployment was concentrated among individuals aged 20 to 54; unemployment rates rose for teenagers and those aged 54 and over. The labor force increased 493,000 in October, and the labor force participation rate rose to 66.8 percent, the highest rate recorded this year. The increase in participation last month mostly reflected higher rates for men.

Growth in labor productivity in the nonfarm business sector, which is highly volatile on a quarterly basis, rebounded in the third quarter--rising 2.7 percent at an annual rate. The gain reflected a 3.9 percent increase in output and a 1.2 percent increase in the hours worked of all persons. Over the year ended in the third quarter--one of accelerated output growth--labor productivity rose 2.1 percent, well above the staff's estimated trend rate of growth of 1.4 percent per annum. In manufacturing,

4. Of course, the recent data have not yet been through as extensive a revision process as the earlier numbers.

LABOR PRODUCTIVITY
(Nonfarm Business Sector)





LABOR PRODUCTIVITY)
(Nonfarm business sector; percent change at an annual rate)

	1992	1993	1994 Q1	1994 Q2	1994 Q3	1993:Q3 to 1994:Q3
Labor productivity						
Nonfarm business	3.2	1.8	2.9	-2.1	2.7	2.1
Manufacturing	3.6	4.6	6.9	5.7	5.3	6.4
Output						
Nonfarm business	3.8	4.6	5.2	3.2	3.9	5.1
Manufacturing	3.7	5.2	8.0	7.3	7.1	7.8

productivity increased 5.3 percent (annual rate) in the third quarter, and over the past four quarters, it has increased 6.4 percent.

Industrial Production

Available indicators suggest that industrial production posted a large gain in October following growth at a 6.0 percent annual rate in the third quarter. Accordingly, capacity utilization in manufacturing, mining, and utilities probably moved up considerably above the September rate of 84.6 percent.

Manufacturers assembled motor vehicles at an 11.9 million unit annual rate in October--little changed from the assembly rate in September. However, that pace ended up to be about 1/2 million units short of the rate scheduled at the beginning of the month. Most of the shortfall reflected a temporary shutdown of lines at General Motors (GM), Ford, and Chrysler in order to address quality control problems.[5] Following the shortfall in October, production schedules for the fourth quarter as a whole were revised up 100,000 units to an annual rate of 12.5 million units. General Motors, which continues to be plagued by production problems, has lowered assembly plans, while other domestic manufacturers (both U.S. and transplants) have raised their schedules.[6]

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

	1994			1994	
	Q3	Sept.	Oct.	Nov.	Dec.
				---scheduled---	
U.S. production	11.8	12.0	11.9	12.7	12.8
Autos	6.2	6.3	6.4	7.0	7.2
Trucks	5.6	5.7	5.5	5.7	5.7

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

5. A brief strike at GM in late September lowered October output as well.

6. GM is having trouble maintaining adequate supplies of some parts, and it is having difficulty at the vehicle assembly stage of production.

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

	Proportion in total IP 1993:Q4	1994 Q2	1994 Q3	1994 July	1994 Aug.	1994 Sept.
		-Annual	Rate-	----Monthly	rate----	
Total index	100.0	5.4	6.0	.3	.7	.0
Previous		5.2		.3	.7	
Motor vehicles and parts	5.6	-21.7	3.2	-2.2	7.2	-1.6
EXCLUDING MOTOR VEHICLES AND PARTS:						
Total index	94.4	7.4	6.2	.5	.4	.1
Products, total	55.4	6.8	6.7	.7	.1	.1
Final products	41.8	6.6	7.7	.8	.2	.2
Consumer goods	23.5	4.5	5.9	.8	-.3	-.2
Durables	3.7	2.6	10.7	2.7	-1.1	-.7
Nondurables	19.8	4.9	5.0	.4	-.2	.0
Excluding energy	17.0	8.9	4.4	.5	.1	.1
Business equipment	14.9	12.5	14.1	1.3	1.1	.9
Office and computing	4.2	12.0	23.5	2.1	2.1	2.0
Industrial	3.9	16.3	12.5	1.4	.6	.7
Other	6.8	10.6	9.1	.8	.8	.2
Defense and space equipment	2.8	-6.5	-7.3	-.9	.0	-.8
Intermediate products	13.6	7.5	3.7	.3	-.1	-.1
Construction supplies	5.2	11.4	5.4	.8	.6	-.3
Materials	39.0	8.2	5.5	.2	.7	.0
Durables	19.8	12.8	9.4	1.0	.8	.4
Nondurables	9.2	6.7	5.5	.2	1.1	-.2
Energy	10.0	.7	-2.2	-1.5	-.1	-.6
Memo:						
Manufacturing	85.2	7.3	7.0	.5	1.0	.1
Manufacturing excluding motor vehicles and parts	79.6	9.7	7.3	.7	.6	.2
Mining	6.9	4.8	-5.3	-1.0	-.5	-.5
Utilities	7.9	-10.4	4.8	-1.0	-1.6	-.6

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

CAPACITY UTILIZATION
(Percent of capacity; seasonally adjusted)

	1988-89 High	1967-93 Avg.	1993 Avg.	1994 Q2	1994 Q3	1994 July	1994 Aug.	1994 Sept.
Total industry	84.8	81.9	81.5	84.0	84.6	84.4	84.8	84.6
Manufacturing	85.1	81.2	80.6	83.3	84.1	83.7	84.3	84.2
Primary processing	89.1	82.2	84.0	87.4	87.9	87.4	88.2	88.1
Advanced processing	83.3	80.6	79.1	81.6	82.5	82.2	82.7	82.6

Outside of motor vehicle production, manufacturing activity rose sharply in October. Production worker hours in manufacturing surged 1/2 percent last month (FRB seasonal basis), with the increases widespread among industries. After accounting for typical gains in productivity, the hours data point to continued strong growth in output of industrial machinery and some categories of electrical machinery, and a rebound in production of nondurable materials such as textiles and chemicals. Physical product data indicate that production of steel posted a large increase in October, but that output of household appliances fell for the second consecutive month following hefty increases earlier in the summer. Production was little changed, on balance, in the few other industries in which physical product data are available.

With strong increases in manufacturing activity in the past year, the factory operating rate in September was 84.2 percent, only about 1 percentage point below the last cyclical peak, and the rate evidently increased noticeably further in October. Utilization rates are high in most industries, and only aluminum producers and aerospace equipment manufacturers have operating rates that have moved down significantly in the past year. The former reflects, at least in part, an international agreement to curb production and raise prices.

Other indicators also point to tight resources in the manufacturing sector. As measured by the purchasing managers' index of vendor performance, deliveries have slowed considerably in recent months (lower-left panel of chart). And unfilled orders for real adjusted durable goods have moved up sharply (lower-right panel).[7]

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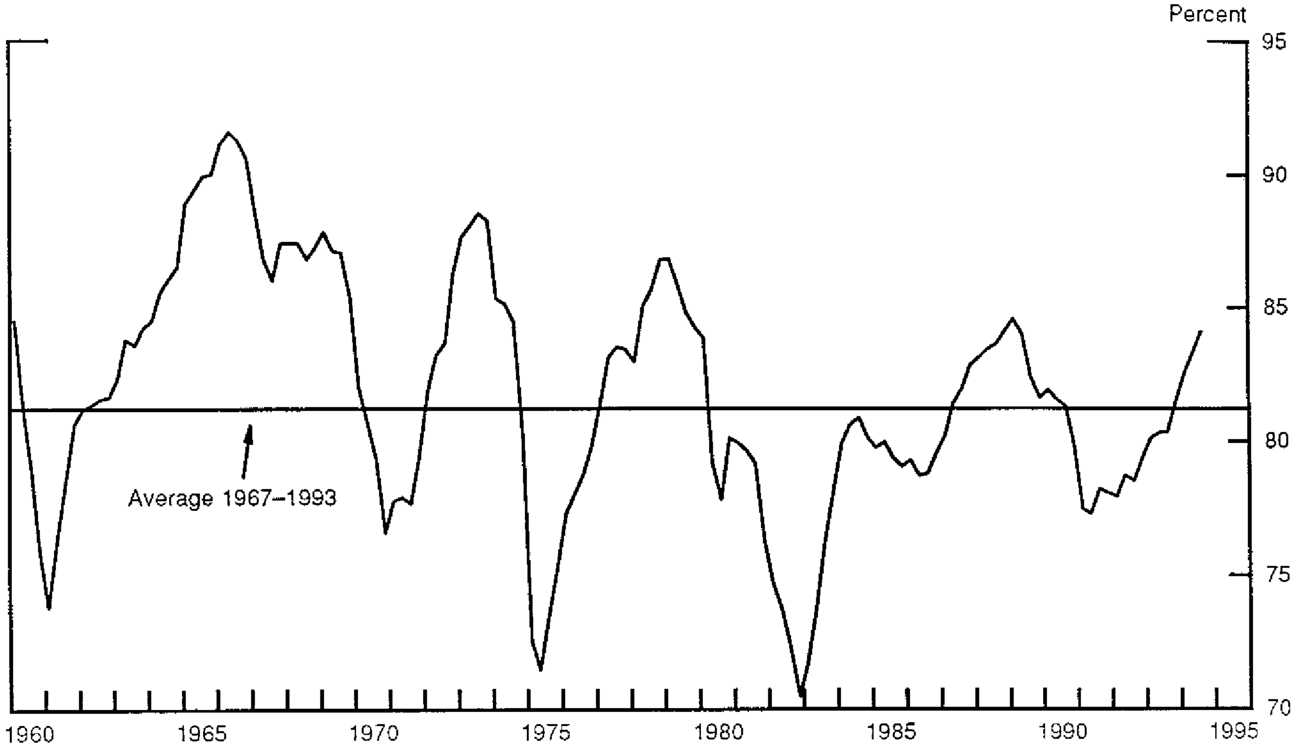
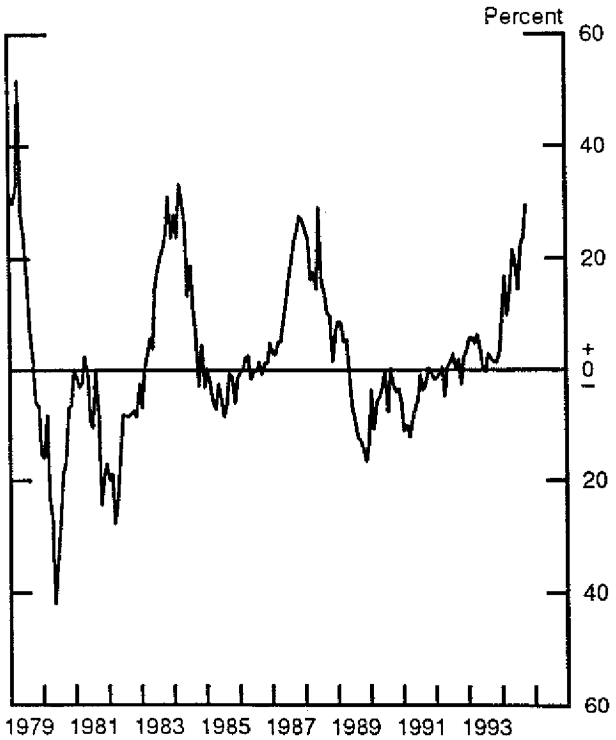
7. These orders data equal bookings for durable goods industries that report unfilled orders excluding orders for defense capital goods and nondefense aircraft--items with particularly long lead times--and for motor vehicle parts.

CAPACITY UTILIZATION

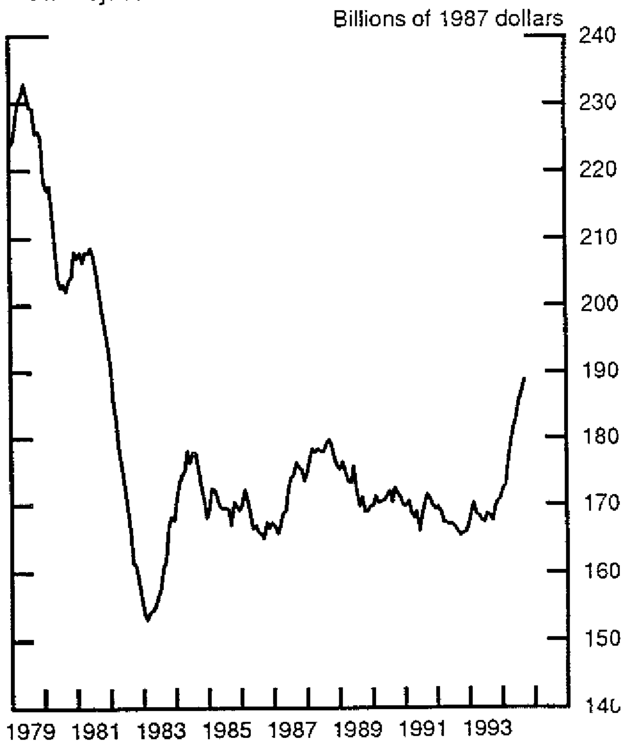
Manufacturing Capacity Utilization



Vendor Performance*



Real Adjusted Unfilled Orders



*Percent of respondents in the purchasing managers' survey reporting slower supplier deliveries minus those reporting faster deliveries, seasonally adjusted.

Motor Vehicles

Sales of new light vehicles held firm into early autumn. In October, sales of automobiles and light trucks averaged 15.4 million units at an annual rate (FRB seasonal basis)--about unchanged from August and September. Sales of light trucks were quite strong last month, rising to a 6.3 million unit annual rate. In contrast, car sales fell 400,000 in October, with most of the decline occurring at the Big Three. At Ford, the drop in auto sales likely reflected the expiration of some sales incentives, while supply problems may have held down sales at GM and Chrysler.

Prices of light vehicles have posted larger increases this year than last, reflecting both supply factors and demand pressures. Transaction prices for new motor vehicles--as measured by the CPI--rose 4.1 percent over the year ended in September, up from the 3 percent increase recorded over the previous twelve-month period. Not enough detail is available in the CPI to distinguish price changes at the Big Three auto makers from those at foreign producers. However, independent industry information on sticker price changes for comparably equipped vehicles indicates that part of the price increase in light vehicles since last fall can be traced to the continued appreciation of the yen, which has boosted prices of Japanese makes and raised demand for Big Three vehicles.

STICKER PRICE INCREASES FOR COMPARABLY EQUIPPED LIGHT VEHICLES
(Percent change)

	At '94 model year introduction[1]	Over '94 model year[2]	At '95 model year introduction[1]
Big Three	1.2	1.1	1.9
Japanese	3.5	2.4	2.4

1. Introductory price increases for 1994 models and 1995 models are relative to prices at the end of the previous model year.
2. Change from the introductory price of 1994 models to the price of 1994 models at the end of the model year.
Source: Automotive News

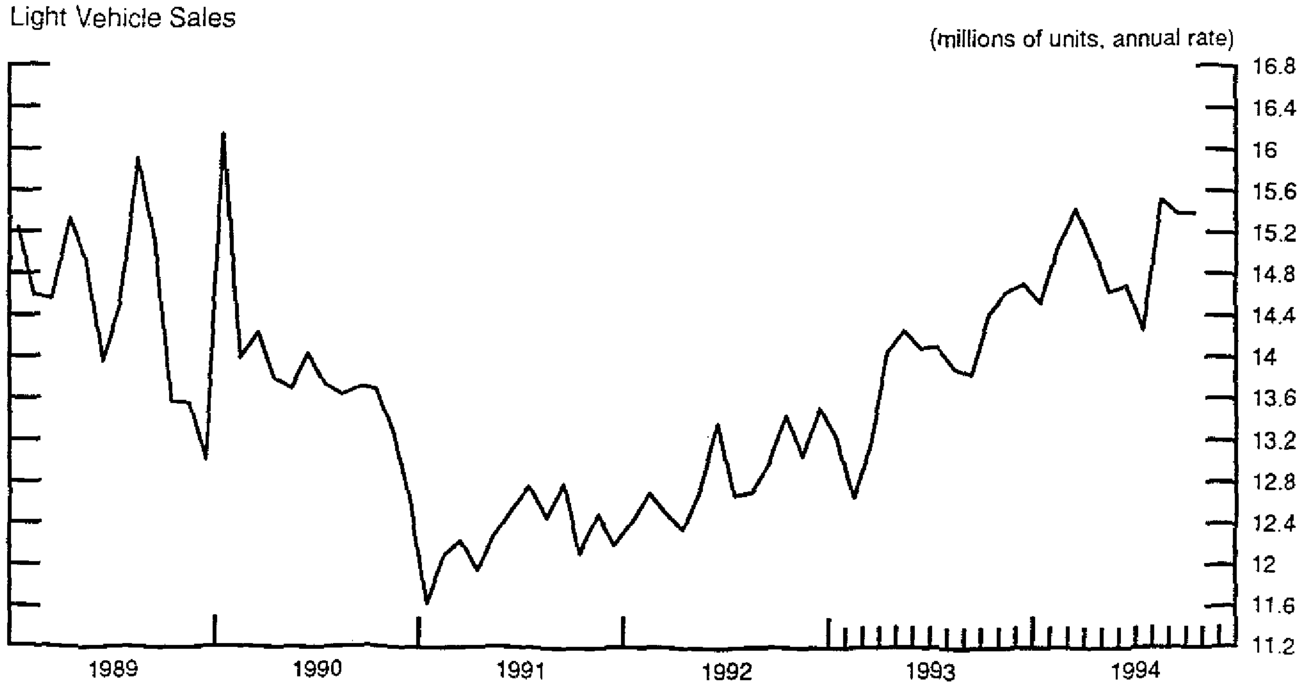
SALES OF AUTOMOBILES AND LIGHT TRUCKS[1]
(Millions of units at an annual rate; FRB seasonals)

			1994			1994		
	1992	1993	Q1	Q2	Q3	Aug.	Sept.	Oct.
Total	12.9	13.9	15.0	14.8	15.1	15.5	15.4	15.4
(BEA Seasonals)	12.9	13.9	15.5	14.7	14.6	15.3	14.9	15.3
Autos	8.4	8.7	9.2	9.1	9.3	9.6	9.5	9.1
Light trucks	4.5	5.2	5.8	5.6	5.8	5.9	5.9	6.3
North American[2]	10.5	11.7	12.9	12.6	12.8	13.1	13.2	13.2
Autos	6.3	6.7	7.3	7.2	7.2	7.4	7.6	7.2
Big Three	5.1	5.5	5.9	5.7	5.6	5.6	6.0	5.6
Transplants	1.2	1.3	1.4	1.5	1.6	1.8	1.6	1.6
Light trucks	4.2	5.0	5.6	5.5	5.6	5.7	5.7	6.0
Foreign produced	2.3	2.1	2.1	2.1	2.2	2.4	2.1	2.2
Autos	2.1	2.0	2.0	2.0	2.0	2.2	1.9	1.9
Light trucks	.2	.2	.1	.2	.2	.2	.2	.2
Memo: domestic name-plate market share								
Total	.72	.74	.74	.73	.71	.69	.73	.73
Autos	.63	.65	.65	.63	.61	.59	.64	.62

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

1. Components may not add to totals because of rounding.
2. Excludes some vehicles produced in Canada that are classified as imports by the industry; before January 1994, some vehicles produced in Mexico were also excluded.

Light Vehicle Sales



Personal Income and Consumption

Real consumer spending is estimated to have risen at a 3 percent annual rate in the third quarter. This gain in consumer spending was supported by the solid trend in personal income growth and the continued high levels of overall consumer confidence.

Consumer spending on durable goods aside from motor vehicles grew rapidly in the third quarter, advancing at a double-digit rate for the fourth time in the past five quarters. Furniture and household equipment purchases expanded nearly 15 percent at an annual rate, with particularly large gains in sales of computers and other home electronic equipment.[8] Spending on other nonauto durable goods grew at a somewhat slower, though still appreciable, rate. In contrast, consumer outlays for motor vehicles barely crept up; as noted in previous Greenbooks, spending on motor vehicles likely was held down in part this summer by limited supplies.

Growth in real spending on nondurable goods was 2.1 percent at an annual rate in the third quarter. Most of this growth can be attributed to a large increase in apparel purchases, in which sizable gains earlier in the summer more than offset a September

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8. When available, the Bureau of Economic Analysis (BEA) estimates consumer spending on computers using the Bureau of Labor Statistics' Consumer Expenditure Survey. However, at this point, the survey data are available only through 1992. For more recent periods, BEA estimates nominal growth in computer sales using a weighted average of growth in retail sales at various types of stores that sell computers. The weights are based on the proportion of computers in total sales at these stores in 1987. Because this fraction likely has grown since 1987, BEA's estimate of nominal growth in computer sales likely is understated.

The misallocation of nominal computer sales probably also causes BEA's estimates of total real consumer spending to be understated: Because computer prices have fallen relative to prices of other goods, nominal sales of computers that have been incorrectly classified in other categories of spending are being overdeflated. However, part of this understatement may be offset by a problem with the raw retail sales data. Some of the computers sold at retail stores are bought for use by businesses; these sales should be counted as investment rather than consumption. Although the Census Bureau attempts to correct for this phenomenon, they are concerned that they might not be making a large enough adjustment.

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

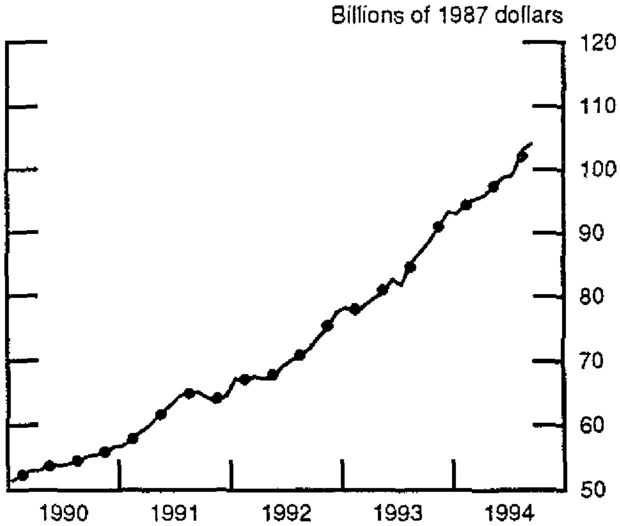
	1993	1994 Q1	1994 Q2	1994 Q3	1994 Aug.	1994 Sept.
Total personal income	.1	30.3	22.5	27.3	22.1	32.3
Wages and salaries	-8.8	19.8	15.6	12.8	6.3	16.6
Private	-10.2	17.0	14.0	11.6	5.1	15.1
Other labor income	2.5	1.8	1.7	1.8	1.8	1.8
Proprietors' income	2.9	.5	-4.0	.7	1.5	2.9
Farm	.7	-1.7	-5.5	-1.3	-1.4	.7
Rent	1.9	2.3	-1.9	.7	.7	.9
Dividend	.8	.9	2.1	1.8	1.9	1.8
Interest	-2.7	3.2	7.5	6.7	6.7	7.0
Transfer payments	4.6	4.9	2.8	3.8	3.8	2.7
Less: Personal contributions for social insurance	1.1	3.1	1.3	1.0	.6	1.2
Less: Personal tax and nontax payments	.1	5.2	4.1	2.6	1.4	3.5
Equals: Disposable personal income	.0	25.1	18.4	24.6	20.7	28.8
Memo: Real disposable income	-6.4	11.8	5.9	9.9	11.5	14.8

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

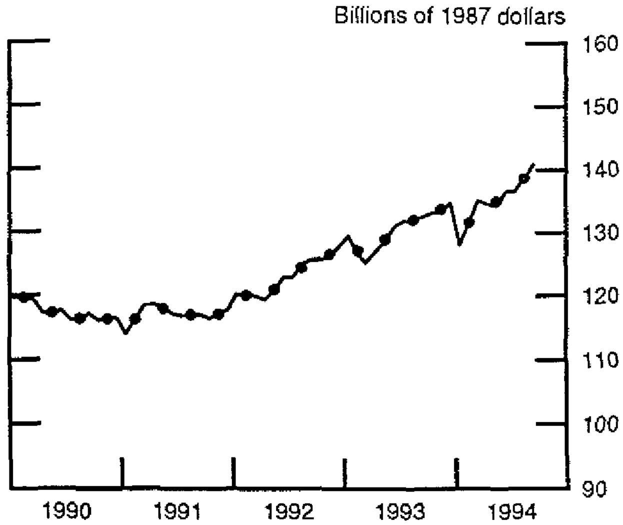
	1993	1994 Q1	1994 Q2	1994 Q3	1994 Aug.	1994 Sept.
		------Annual rate-----			Monthly rate	
Personal consumption expenditures	3.0	4.7	1.3	3.0	.7	-.0
Durable goods	9.0	8.8	.4	7.9	4.6	-.4
Excluding motor vehicles	9.1	2.5	12.1	12.8	2.4	1.2
Nondurable goods	1.3	3.8	2.2	2.1	.0	.1
Excluding gasoline	1.3	4.4	2.2	2.1	.0	.2
Services	2.5	4.0	1.1	2.1	.1	-.0
Excluding energy	2.5	3.9	1.3	2.8	.2	.2
Memo:						
Personal saving rate (percent)	4.1	3.6	4.1	4.0	3.7	4.1

SELECTED CATEGORIES OF PCE EXCLUDING MOTOR VEHICLES

Computers and Other Electronics

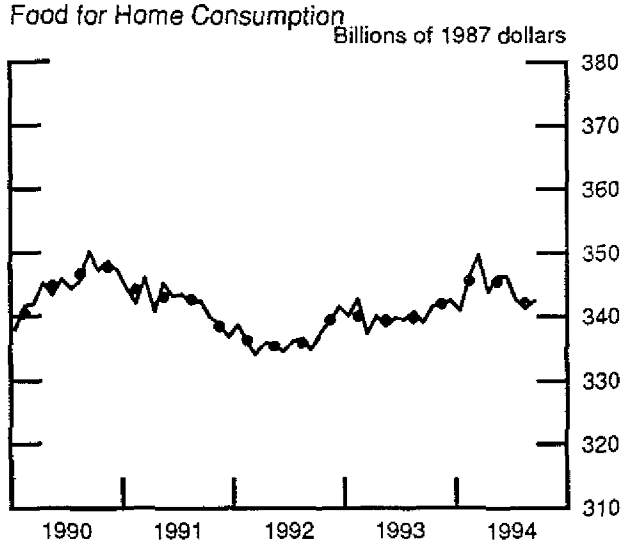


Furniture and Other Household Equipment

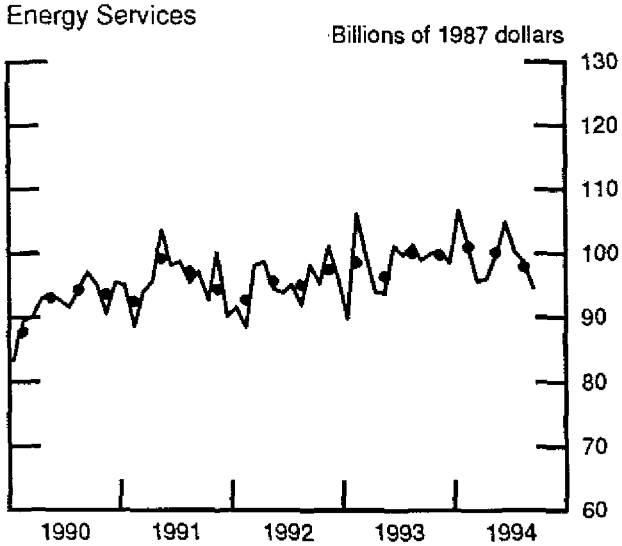


Clothing and Shoes

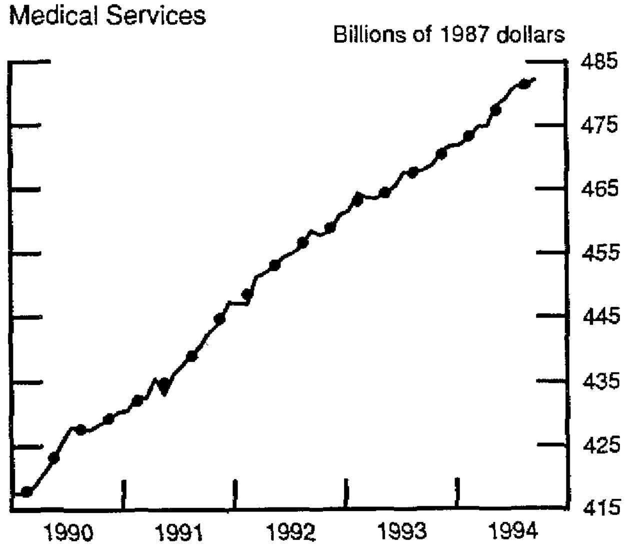
Food for Home Consumption



Energy Services

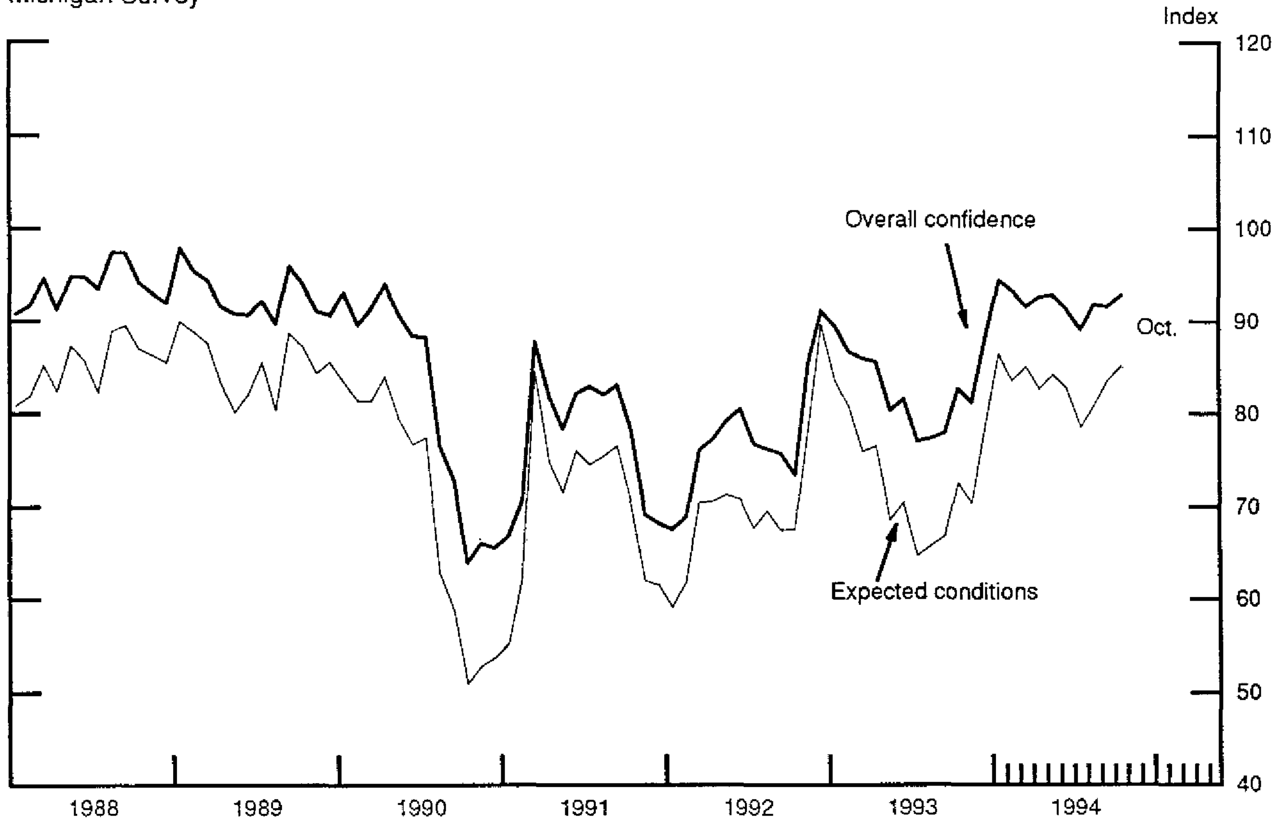


Medical Services

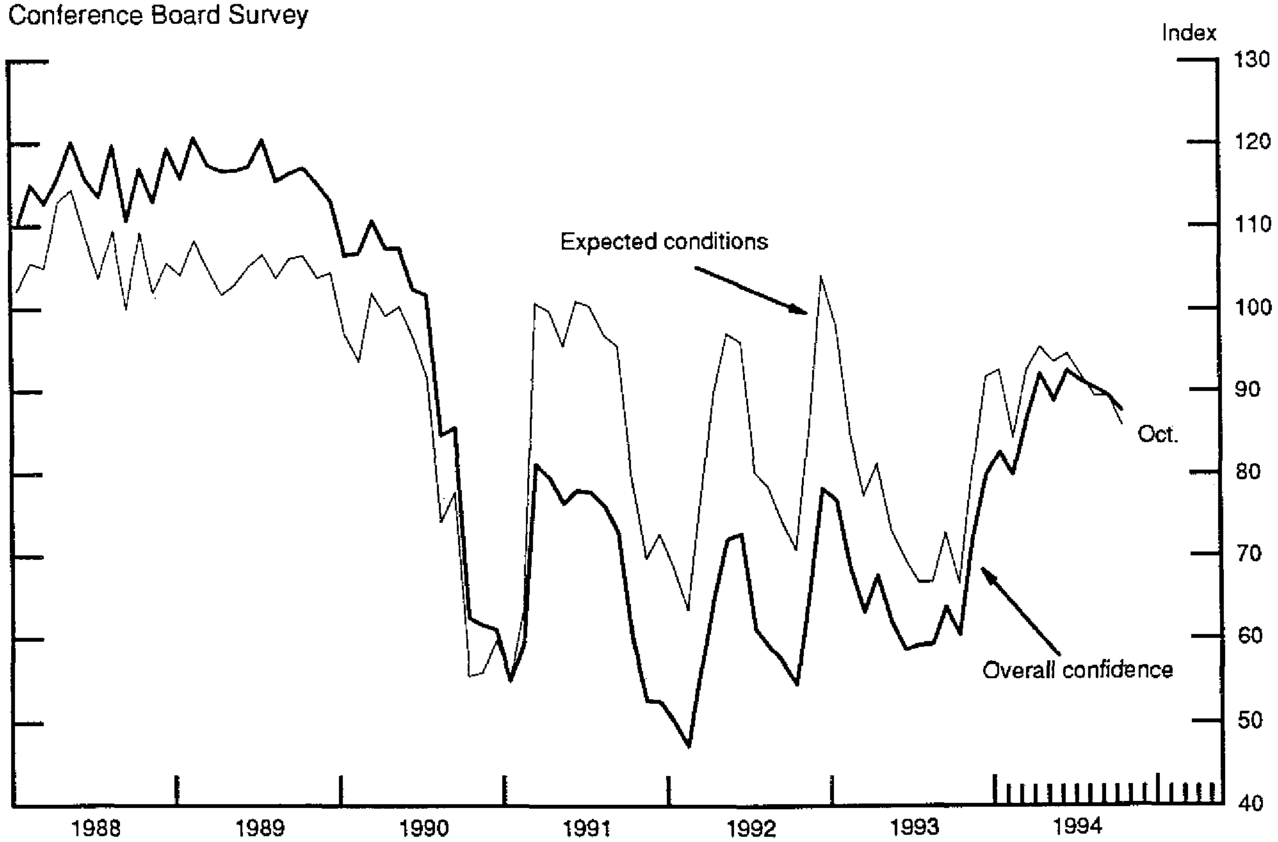


CONSUMER CONFIDENCE

Michigan Survey



Conference Board Survey



decline. Meanwhile, outlays for other nondurable goods rose just 0.7 percent at an annual rate, held down by a decline in spending on food for home consumption.

Consumer outlays for services also grew moderately in the third quarter. Real spending on energy services declined nearly 9 percent, as cooler-than-normal temperatures in August and September held down the demand for residential electricity. Consumer spending on non-energy services grew 2.8 percent at an annual rate last quarter, reflecting growth in medical, recreational, and net foreign travel services.

The gains in consumer spending have been accompanied by solid growth in real disposable personal income. In the third quarter, real disposable personal income grew 2.7 percent at an annual rate, and the most recent employment data suggest a very large increase in wage and salary income in October. The personal saving rate has been essentially flat at 4.0 percent since the fourth quarter of 1993.

Some of the recent strength in disposable personal income can be attributed to a substantial pickup in growth of personal interest income. Since interest rates began to rise in the fourth quarter of 1993, real interest income has increased about 9 percent at an annual rate. In the most recent quarter, growth in interest income accounted for roughly 30 percent of total growth in disposable personal income. However, the influence of this pickup in interest income growth on spending likely has been offset in part by higher interest payments on consumer and mortgage debt.[9]

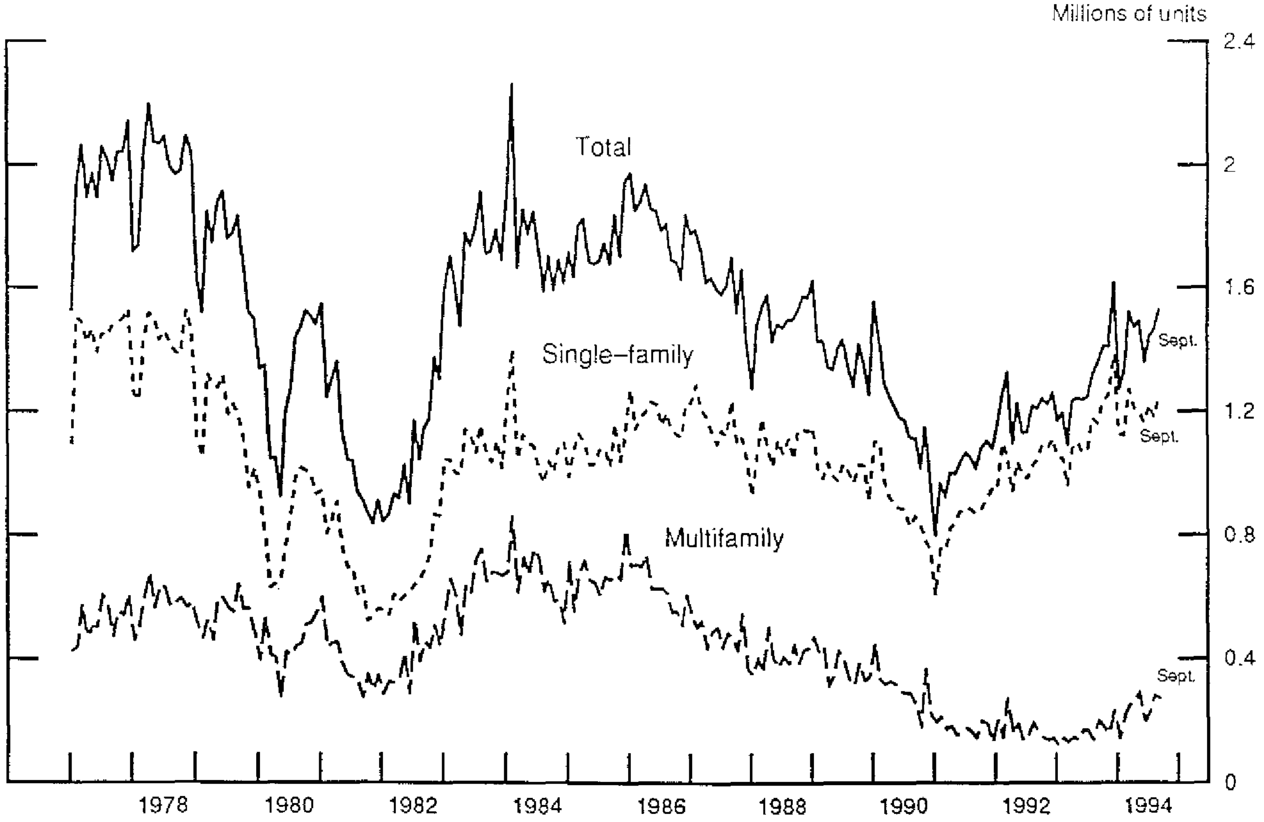
9. Between the fourth quarter of 1993 and the third quarter of 1994, nominal personal interest income increased $42.5 billion. Over the same period, nominal personal interest payments rose $10.6 billion and net mortgage interest payments (which are an unpublished subtraction in rental income) were up $7 billion.

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

	1993	1994					
	Annual	Q1	Q2[r]	Q3[p]	July[r]	Aug.[r]	Sept.[p]
All units							
Starts	1.29	1.37	1.44	1.48	1.44	1.46	1.53
Permits	1.20	1.29	1.35	1.38	1.34	1.35	1.44
Single-family units							
Starts	1.13	1.17	1.19	1.22	1.22	1.18	1.25
Permits	.99	1.06	1.07	1.05	1.03	1.05	1.06
New-home sales	.67	.69	.66	.67	.64	.69	.70
Existing-home sales	3.80	4.05	4.06	3.96	3.97	3.93	3.97
Multifamily units							
Starts	.16	.20	.25	.26	.22	.28	.27
Permits	.21	.23	.29	.33	.30	.31	.39

Note. p Preliminary. r Revised. n.a. Not available.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



Both the Michigan and Conference Board consumer confidence indexes remain at the high end of the range seen in the past four years. The most recent movements in the series, however, have been mixed. According to the Michigan survey, consumer confidence improved slightly between July and October; in the Conference Board survey, consumer confidence turned down a bit. The different patterns reflect divergent movements in the expected conditions components in the two surveys. The Michigan index of expected conditions has increased, boosted by more optimism about personal financial situations over the next year and business conditions over the next year and over the next five years. The Conference Board index of expected conditions has fallen, with respondents reporting less optimism about employment, income, and business conditions over the coming six months. However, to this point, the divergence in the indexes has been relatively small.

Housing Markets

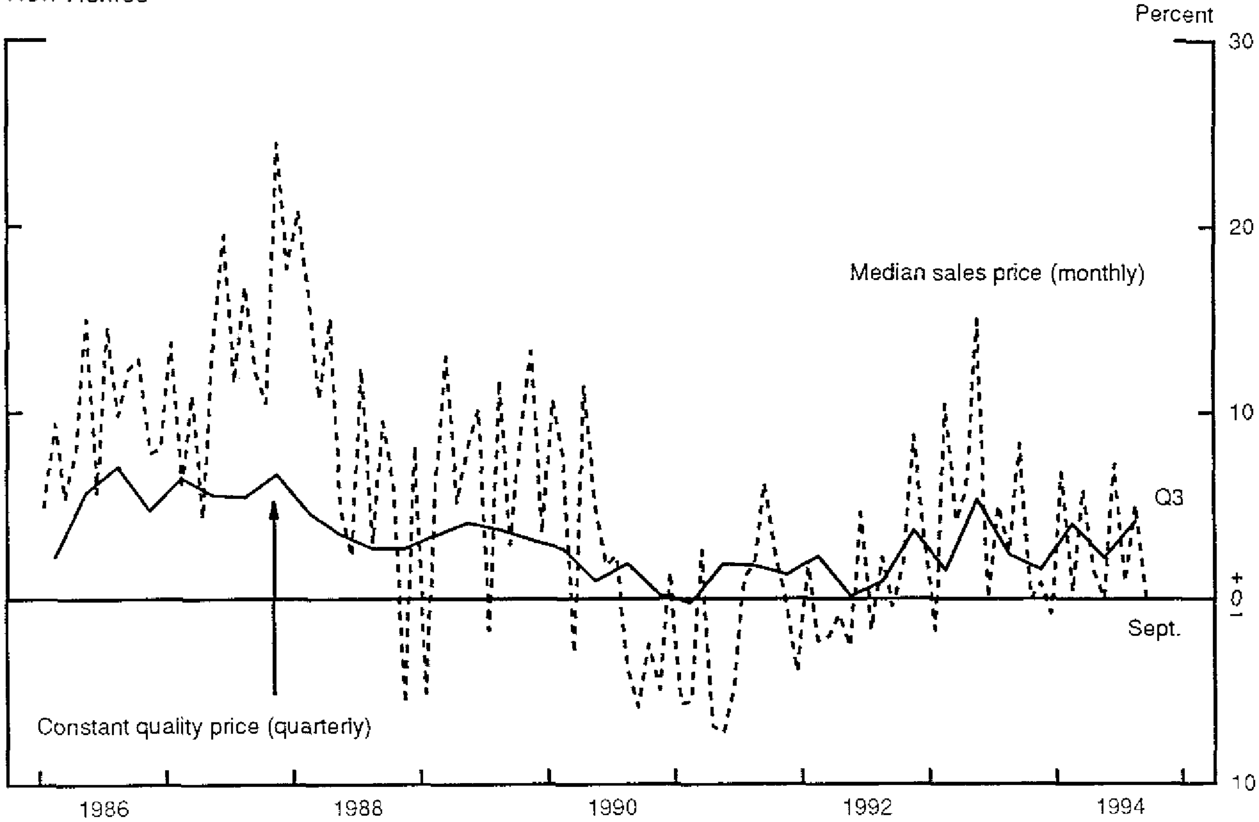
Housing demand and construction were surprisingly strong in the third quarter, given the increase in mortgage interest rates over the past year.[10] Total housing starts rose 4.4 percent in September to their highest level of the year. Both single-family and multifamily construction contributed to the third-quarter increase.

The single-family housing market has proven to be considerably more resilient than anticipated. Single-family starts edged up in the third quarter, despite this year's hikes of 150 to 200 basis

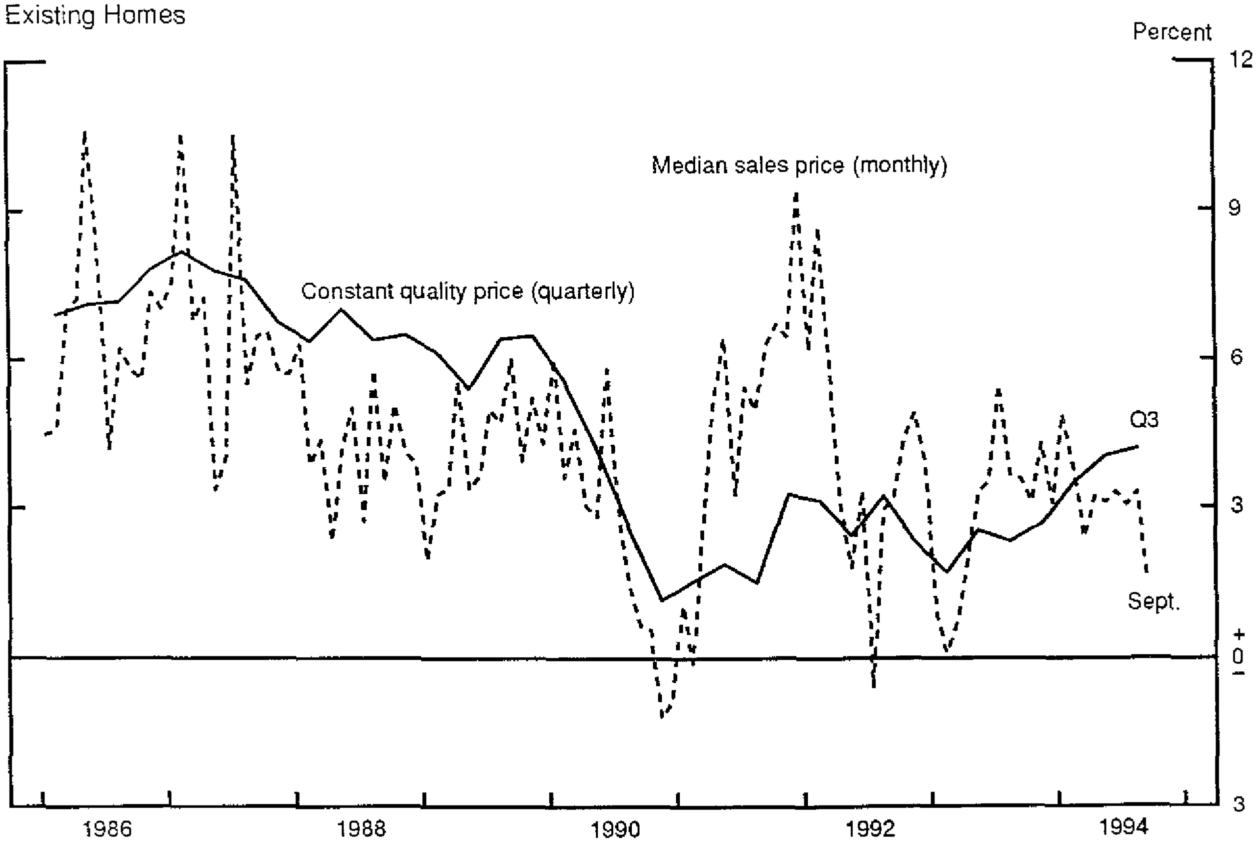
10. Despite increases in starts in both the second and third quarters, BEA estimates that residential investment expenditures in the NIPA declined 7.2 percent in the third quarter. Such a discrepancy is unusual, because most of this component of GDP is estimated mechanically from lagged starts and cost per unit started. Nonetheless, because of incomplete data, BEA must project several inputs to the total at the time of the advance GDP release. Most of these projections for the third quarter appear to have been conservative, and we would not be surprised to see residential investment revised up as more data are received.

YEAR-TO-YEAR PERCENT CHANGE OF HOME PRICES

New Homes



Existing Homes



points in rates on both fixed- and adjustable-rate mortgages. In September alone, single-family starts jumped 6 percent. Permit issuance suggests that estimates of single-family starts might overstate the true level of activity during the third quarter to some extent. But, even allowing for possible mismeasurement, home construction still has been stronger than expected.

Demand for single-family housing also has held up well. New home sales increased 1-1/2 percent in the third quarter, rising in each month. In the market for existing homes, sales declined about 2-3/4 percent last quarter, but were off only 5 percent from the record high reached in the fourth quarter of last year. House prices also indicate strong demand. As measured by constant-quality indexes, year-to-year increases in the prices of new and existing homes sold in the third quarter were about 4 percent--at the top of the range of recent readings (chart). Transactions prices, which partially reflect mix shifts, have risen somewhat less.

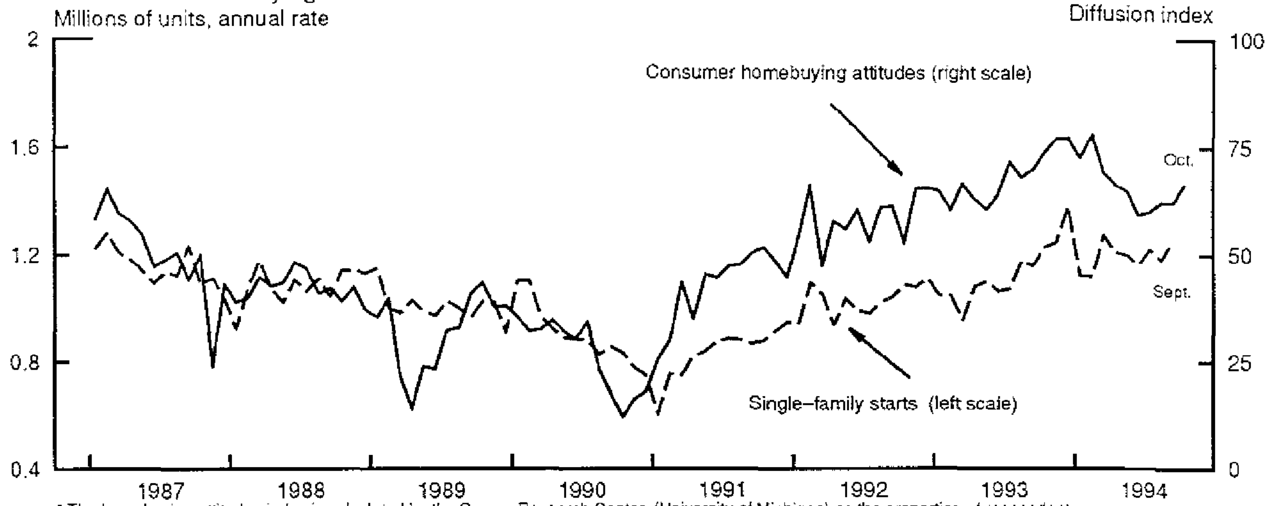
A number of factors may be offsetting the effect of higher mortgage interest rates on housing demand. Home sales likely have been buoyed by the continued solid pace of job and income growth and the corresponding elevated level of overall consumer confidence. In addition, standards for approving home mortgage loans may have eased. Loan-to-value ratios for home purchase loans have risen to their highest levels since at least the early 1980s, and senior loan officers at some commercial banks report making home mortgage credit more available in recent months.

In contrast to the recent construction and sales data, other indicators of single-family activity have not been so robust. Although the overall level of consumer confidence remains high, data on attitudes towards home buying from the Michigan Survey are considerably less bullish than they were late last year, despite a

INDICATORS OF HOUSING DEMAND

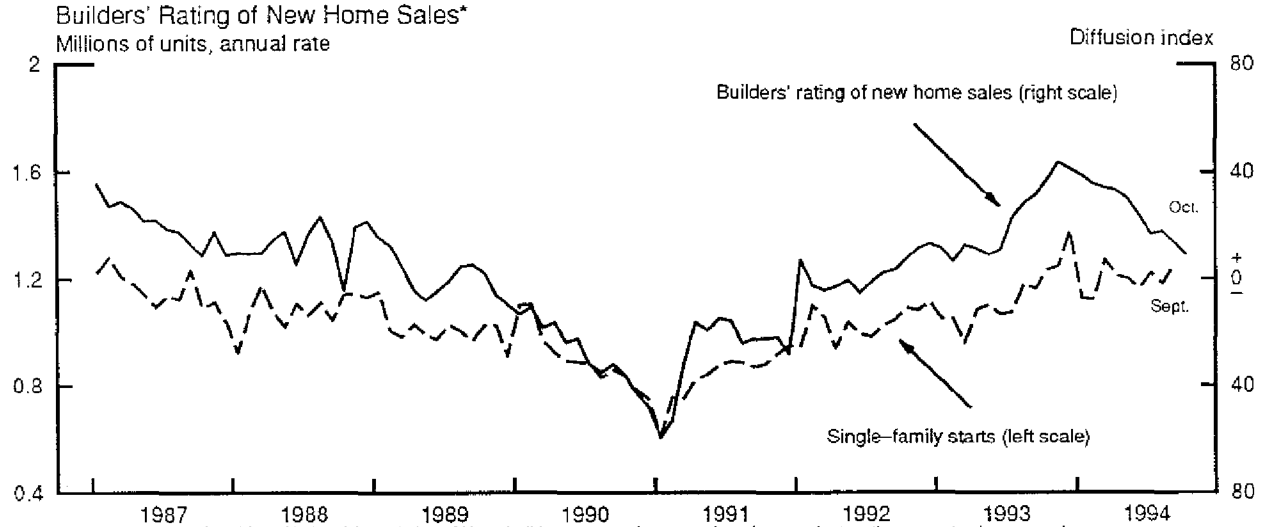
(Seasonally adjusted)

Consumer Homebuying Attitudes*



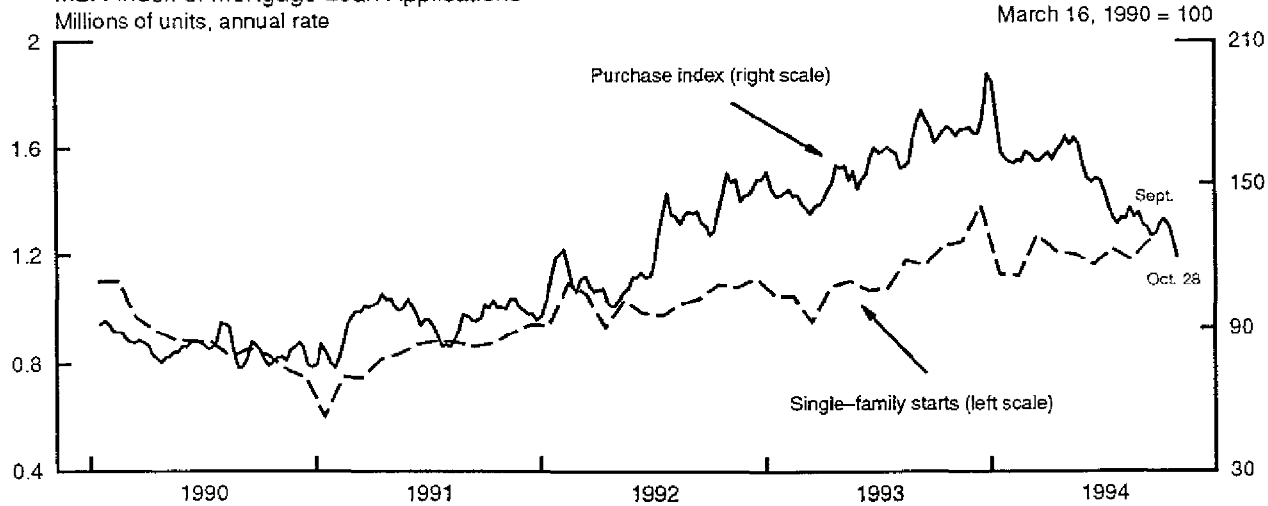
* The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

Builders' Rating of New Home Sales*

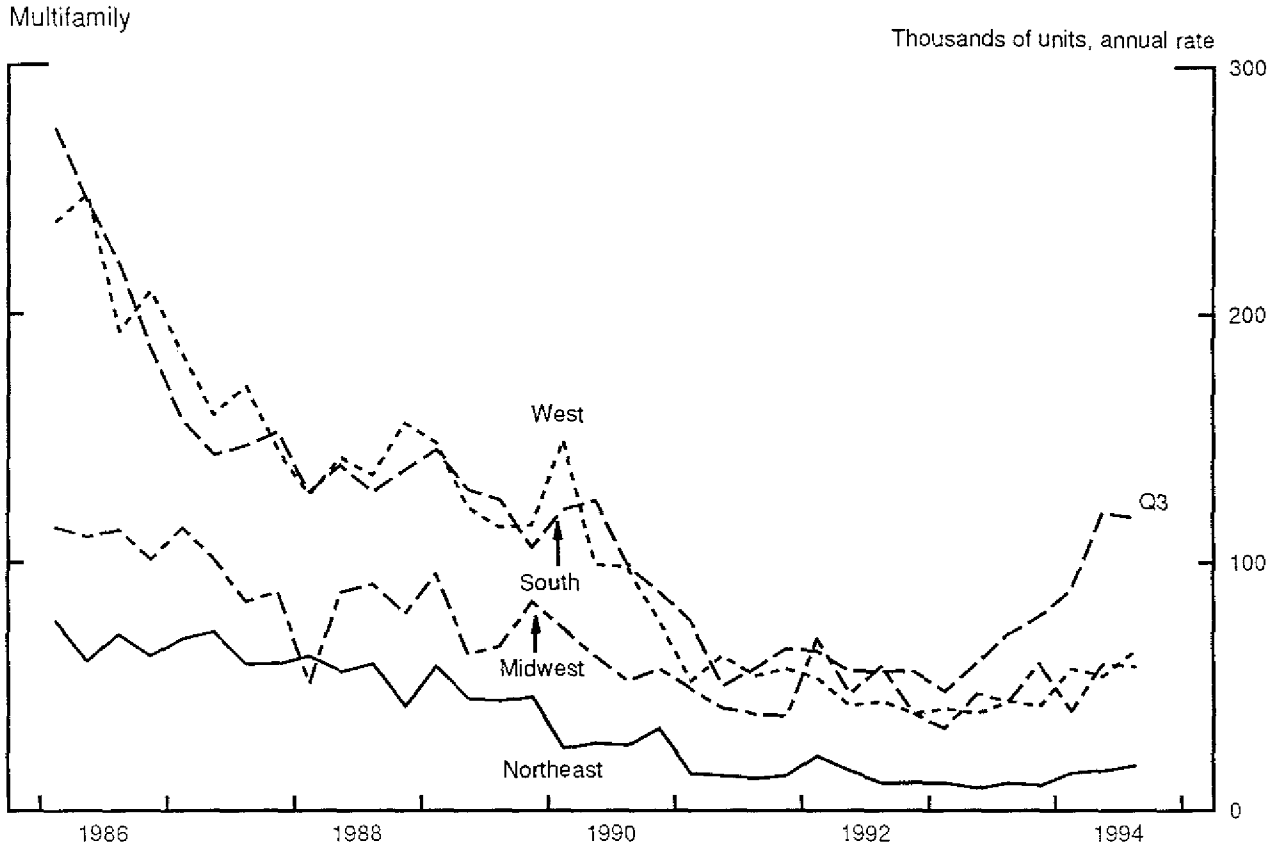


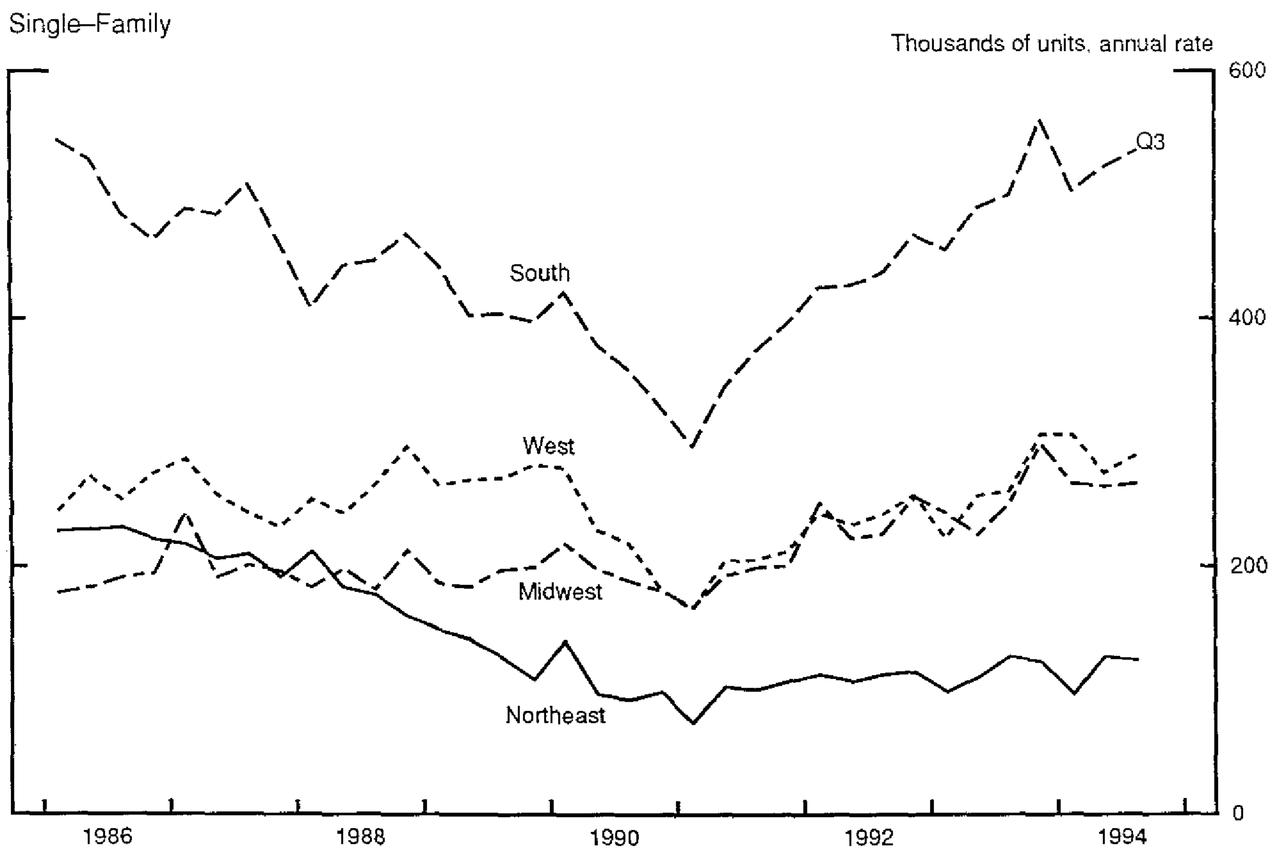
* The index is calculated from National Association of Homebuilders data as the proportion of respondents rating current sales as good to excellent minus the proportion rating them as poor.

MBA Index of Mortgage Loan Applications



REGIONAL STARTS
(Seasonally adjusted)





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

	1994			1994		
	Q1	Q2	Q3	July	Aug.	Sept.
Producers' durable equipment						
Shipments of nondefense capital goods	1.0	2.3	3.0	-1.7	3.3	.5
Excluding aircraft and parts	1.2	4.6	2.8	-1.6	3.3	.4
Office and computing	3.3	1.7	1.8	-2.2	2.6	2.5
All other categories	.5	5.4	3.1	-1.4	3.5	-.2
Shipments of complete aircraft[1]	10.1	-33.1	-5.1	-51.5	68.4	10.0
Sales of heavy trucks	-1.0	5.3	1.3	-12.9	17.2	-6.7
Orders of nondefense capital goods	6.2	.2	2.7	-4.6	3.5	2.1
Excluding aircraft and parts	1.7	4.2	2.9	-3.0	2.1	1.8
Office and computing	.8	6.7	2.0	1.0	-.1	3.2
All other categories	1.9	3.5	3.1	-4.2	2.7	1.4
Nonresidential structures						
Construction put-in-place	-3.1	3.6	2.2	-.3	.5	3.3
Office	-.3	3.7	4.4	.8	4.6	4.6
Other commercial	-6.0	11.9	1.4	.5	-3.6	3.9
Institutional	-6.7	7.4	-1.1	-3.2	-3.1	3.3
Industrial	1.0	6.6	5.1	.0	6.4	5.2
Public utilities	-2.2	-4.5	4.3	.7	1.0	1.8
Lodging and miscellaneous	-2.7	-.6	-9.4	-6.0	1.5	1.0
Rotary drilling rigs in use	.8	2.2	-.8	.3	-1.6	3.1
Memo:						
Business fixed investment[2]	10.9	9.2	7.0	n.a.	n.a.	n.a.
Producers' durable equipment[2]	18.6	6.1	11.0	n.a.	n.a.	n.a.
Nonresidential structures[2]	-11.8	20.6	-5.4	n.a.	n.a.	n.a.

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

recent uptick.[11] In addition, homeowners' assessments of market conditions in the Michigan Survey for selling a home--an indicator of potential demand in the trade-up market--were off a bit in the third quarter. Home builders' evaluations of their current sales have trended down throughout the year, and applications for home purchase loans received by mortgage bankers have fallen roughly 25 percent this year.[12] Part of this latter decline may reflect mortgage bankers' specialization in fixed-rate mortgages, which have been losing market share to adjustable-rate loans.

Multifamily construction also strengthened in the third quarter, and this sector remains on the gradual recovery path that began early last year. Permit issuance has been strong relative to starts, providing further evidence of firming in this market. Gains in multifamily construction since the trough in early 1993 have been concentrated in the South, where starts have doubled. In the third quarter, the South accounted for nearly half of the national total (chart, top panel). By contrast, the increase in single-family construction during that period has been more proportionally distributed across the four regions (bottom panel).

Business Fixed Investment

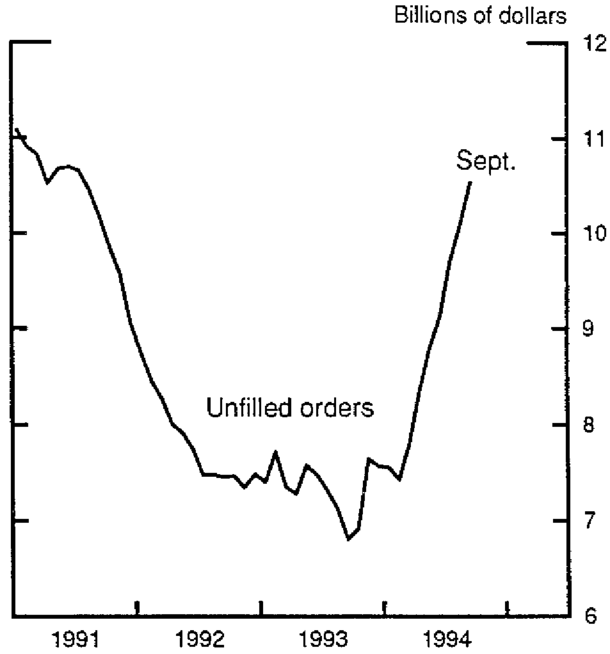
According to BEA's advance estimate, real business fixed investment advanced at an annual rate of 7 percent in the third quarter. Spending for producers' durable equipment (PDE) was up 11 percent at an annual rate while outlays for nonresidential structures (NRS) fell at a 5.4 percent annual rate. However, the September construction put-in-place data were significantly stronger than BEA's assumption in the advance GDP release, and imply that

11. Home buying plans are not a component of the Michigan composite index.

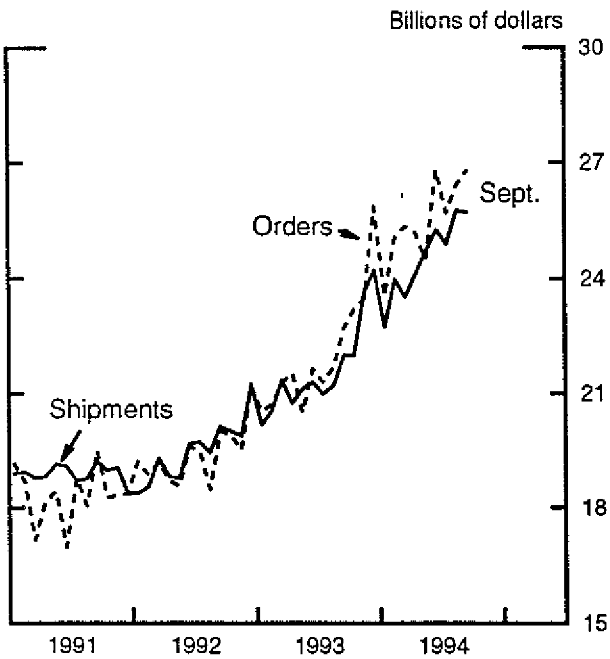
12. The attitudes expressed by home builders appear at odds with the strength of sales this year. Analysts at the National Association of Home Builders, the sponsor of the survey, have no explanation for the discrepancy.

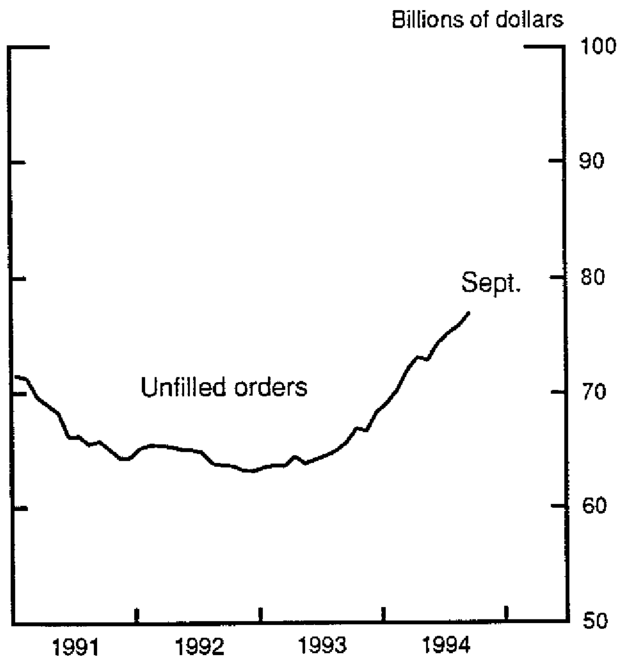
ORDERS AND SHIPMENTS OF NONDEFENSE CAPITAL GOODS

Office and Computing Equipment



Other Equipment (Excluding Aircraft and Computing Equipment)





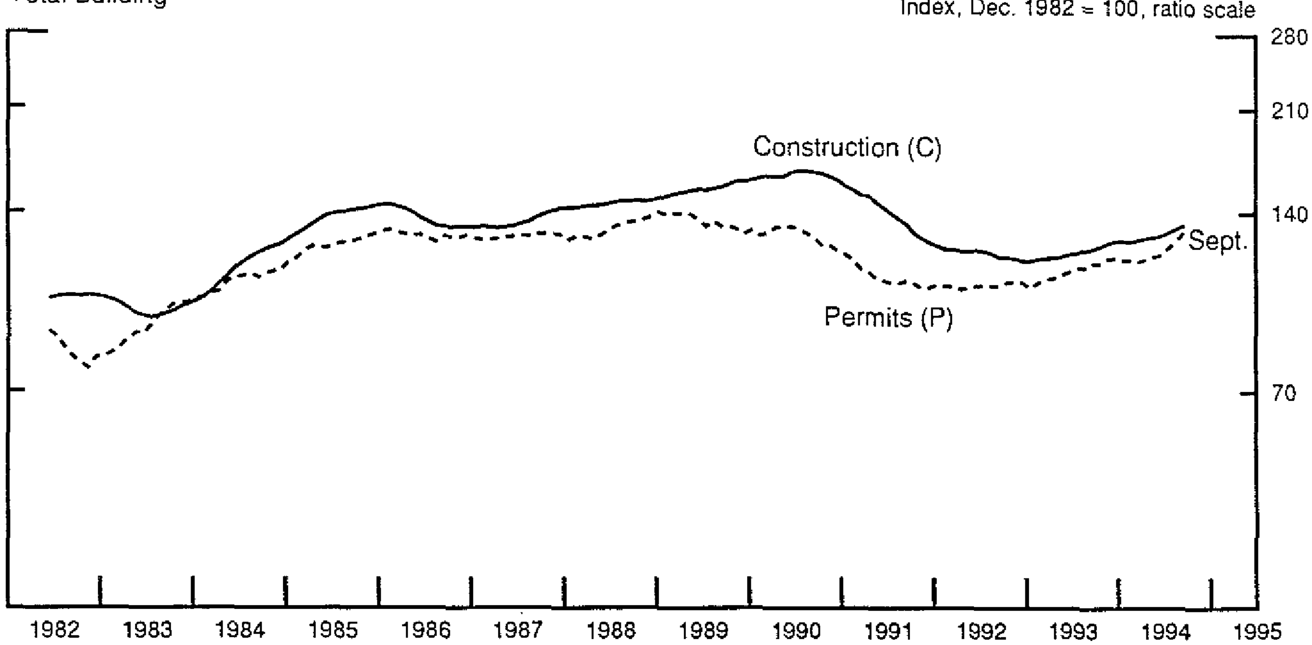
third-quarter NRS will be revised up to roughly a 5 percent (annual rate) increase. In addition, revisions to September shipments of nondefense capital goods imply a modest upward revision to third-quarter PDE. Taking these data into account, the staff estimates that growth in business fixed investment last quarter will be revised up to a 10 percent annual rate.

Taking a somewhat longer perspective, growth in business capital spending, while still brisk, has slowed somewhat from the extremely rapid rate witnessed last year. The slower growth of capital spending in 1994 is explained by a sharp decline in the growth rate of office and computing equipment purchases. In 1993, real office and computing outlays grew almost 60 percent, adding roughly $48 billion--or 1 percentage point--to real GDP growth. So far this year, real outlays for office and computing equipment have grown at an annual rate of about 10 percent, adding only $12 billion to growth over the first three quarters of the year.

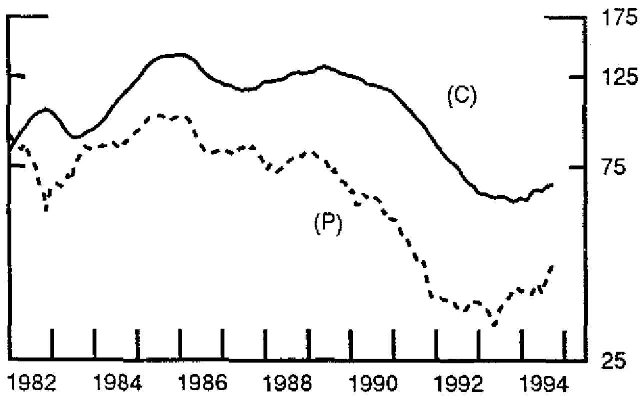
Most of the deceleration in real outlays for office and computing equipment reflects smaller gains in nominal spending; after advancing 35 percent in 1993, nominal computer outlays have risen only 6 percent (annual rate) so far this year. Most analysts attribute the slower growth to two main factors. First, computer shipments appear to have been limited by scattered capacity constraints. Second, upgrading activity for personal computers appears to have slowed considerably. In 1993, many firms switched to machines based on the 486 microprocessor in order to effectively run Windows software. While the current cutting-edge processors are significantly faster than the 486, many firms believe that 486 processors are fast enough for their applications and have deferred upgrades. The deceleration in real computer expenditures also, in part, reflects a slowing in the rate of decline in BEA's computer

NONRESIDENTIAL CONSTRUCTION AND PERMITS
(Six–month moving average)

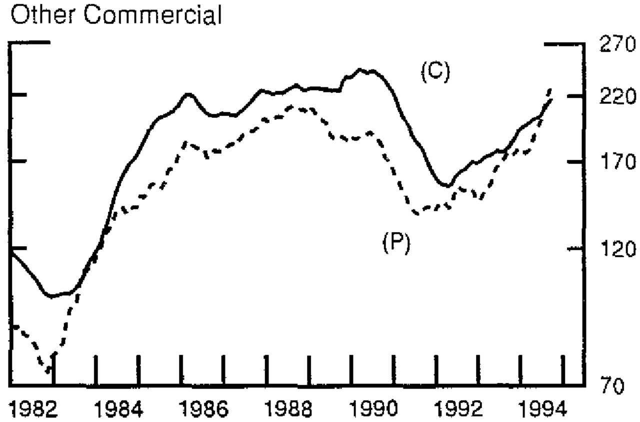
Total Building



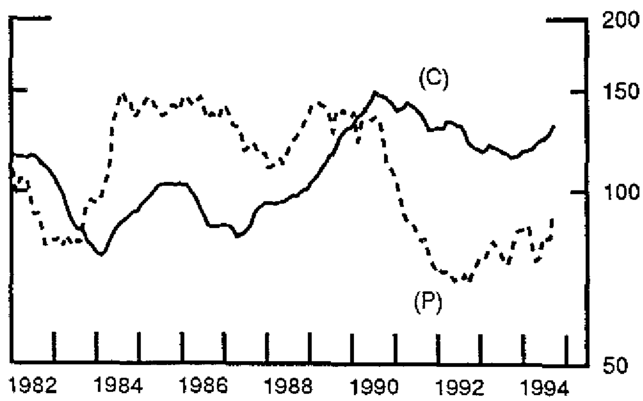
Office



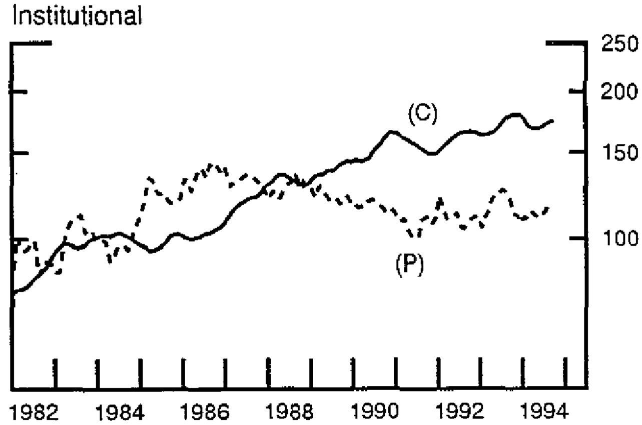
Other Commercial



Industrial



Institutional



deflator, which has fallen 5-1/4 percent at an annual rate so far this year, compared with the decline of roughly 15 percent recorded in the previous two years. As mentioned in previous Greenbooks, we believe that the slowdown in the decline in the deflator has been exaggerated by price mismeasurement.[13]

The demand for other nondefense capital goods has continued to be quite strong. Orders for nondefense capital goods excluding aircraft and computers increased 1.4 percent in September, while shipments were flat. With orders remaining well above shipments, backlogs are large and growing for most types of equipment. The recent growth in orders has been especially strong for communication equipment, where among other things, the demand for digital equipment from telephone companies has surged.

Business purchases of transportation equipment grew at a healthy pace in the third quarter. Purchases of motor vehicles, which dropped off in the second quarter, headed back up in the third. Sales to daily rental fleets generally have been solid. Also, heavy truck sales have continued at a very high level, and manufacturers are increasing capacity in order to meet demand. Shipments of complete aircraft, however, fell a bit further in the third quarter.

Given the expected upward revision to investment in nonresidential structures in the third quarter--and smoothing through the volatility so far this year--nonresidential construction looks to be increasing a little faster than last year. Construction of industrial and commercial buildings has been fairly strong, while outlays for hotels have dropped back a great deal since the

13. The deflator is based upon the PPI for office and computing equipment. The BLS only changes the basket of computers used to construct the index every two years, with the next change scheduled for January 1995. As a result, the basket used to gauge computer price movements currently contains relatively outmoded computers, whose prices were already low at the start of this year.

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

	1994			1994		
	Q1	Q2	Q3	July	Aug.	Sept.
Current-cost basis						
Total	18.4	75.6	n.a.	67.1	95.4	n.a.
Excluding auto dealers	15.9	65.3	n.a.	79.2	54.2	n.a.
Manufacturing	9.4	13.3	12.8	42.5	4.4	-8.3
Defense aircraft	-4.4	-4.7	-1.9	.9	-4.9	-1.6
Nondefense aircraft	-1.4	3.7	-.6	.3	2.0	-3.9
Excluding aircraft	15.2	14.4	15.3	41.4	7.3	-2.8
Wholesale	3.1	23.0	21.2	42.5	11.5	9.7
Retail	5.9	39.4	n.a.	-17.9	79.4	n.a.
Automotive	2.6	10.4	n.a.	-12.2	41.1	n.a.
Excluding auto dealers	3.4	29.0	n.a.	-5.7	38.3	n.a.
Constant-dollar basis						
Total	9.9	39.0	n.a.	73.6	24.0	n.a.
Excluding auto dealers	7.3	41.0	n.a.	51.6	39.9	n.a.
Manufacturing	9.9	.7	n.a.	27.2	-2.9	n.a.
Wholesale	-2.0	16.0	n.a.	31.8	13.4	n.a.
Retail	2.0	22.3	n.a.	14.7	13.6	n.a.
Automotive	2.5	-1.9	n.a.	22.0	-15.9	n.a.
Excluding auto dealers	-.5	24.2	n.a.	-7.3	29.5	n.a.

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

	1994			1994		
	Q1	Q2	Q3	July	Aug.	Sept.
Current-cost basis						
Total	1.41	1.41	n.a.	1.42	1.39	n.a.
Excluding auto dealers	1.39	1.40	n.a.	1.40	1.37	n.a.
Manufacturing	1.40	1.39	1.36	1.40	1.34	1.35
Defense aircraft	4.80	4.85	4.68	4.90	4.49	4.87
Nondefense aircraft	4.98	5.85	5.59	5.77	5.62	5.49
Excluding aircraft	1.28	1.26	1.25	1.28	1.23	1.23
Wholesale	1.31	1.33	1.32	1.33	1.30	1.31
Retail	1.50	1.54	n.a.	1.52	1.54	n.a.
Automotive	1.61	1.67	n.a.	1.66	1.70	n.a.
Excluding auto dealers	1.47	1.50	n.a.	1.48	1.49	n.a.
Constant-dollar basis						
Total	1.46	1.46	n.a.	1.48	1.44	n.a.
Excluding auto dealers	1.45	1.45	n.a.	1.46	1.43	n.a.
Manufacturing	1.44	1.43	n.a.	1.45	1.40	n.a.
Wholesale	1.39	1.41	n.a.	1.42	1.40	n.a.
Retail	1.53	1.56	n.a.	1.57	1.56	n.a.
Automotive	1.56	1.57	n.a.	1.66	1.59	n.a.
Excluding auto dealers	1.52	1.55	n.a.	1.54	1.55	n.a.

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

beginning of the year. Looking ahead, permits for new nonresidential construction were strong in the third quarter, which bodes well for fourth-quarter construction. Elsewhere, oil and gas exploration has been down slightly so far this year. Natural gas producers are optimistic about the demand for gas over the next decade, but the large drop in gas prices last summer has delayed some drilling plans.[14]

Manufacturing and Trade Inventories

According to BEA's advance estimate, real nonfarm inventory investment was $56 billion in the third quarter, up from an already robust $52 billion pace in the second quarter. However, Census data for September--which were not available at the time of the advance GDP estimate--and revisions to data for August point to a $12 billion downward revision to BEA's estimate of real inventory investment in the manufacturing and wholesale trade sectors last quarter.[15]

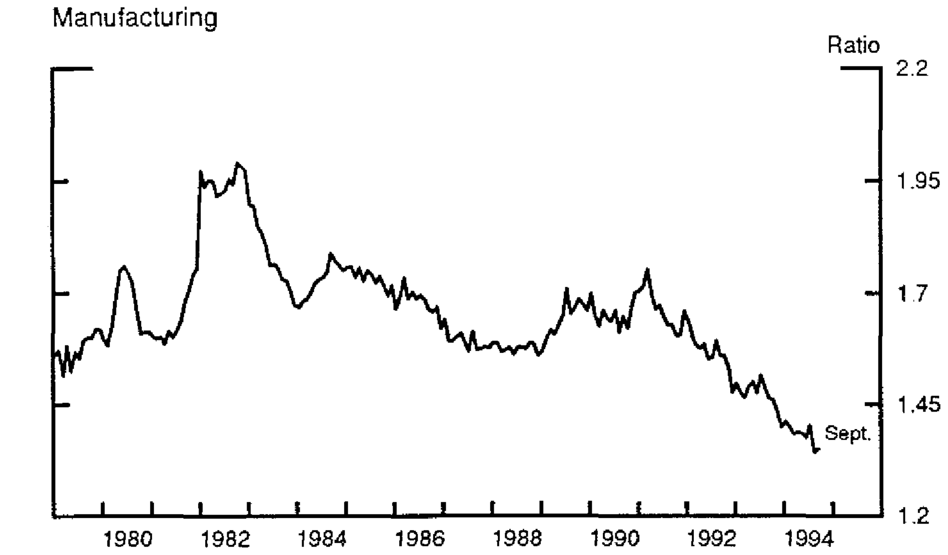
By sector, manufacturing inventories rose only $4 billion at an annual rate in current-cost terms in August and then declined at an $8 billion annual rate in September. Over the two months, stocks in the aircraft and parts category ran off further, while inventories of computers and office equipment were down sharply in September.[16] (This drop was accompanied by a 2.5 percent jump in computer shipments in September.) Aside from these factors,

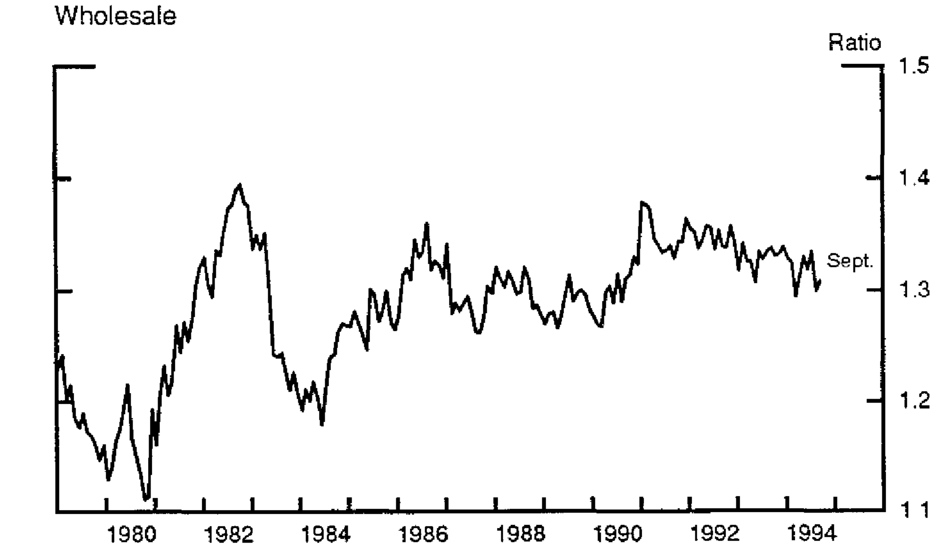
14. The recent flooding in eastern Texas damaged two pipelines that transport gasoline and heating oil from Houston to the Northeast. Although the disruption of supplies may have had a significant impact on energy prices, the necessary repairs to the pipelines--which will show up in NRS--are reported to have been relatively minor.

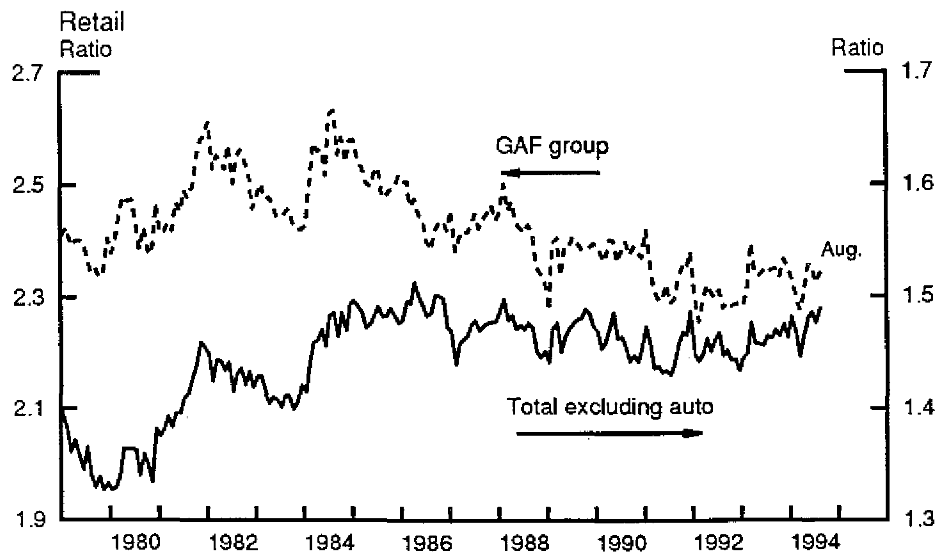
15. Census current-cost retail inventory data for September will become available November 16. In the advance GDP estimate, BEA assumed a $15-1/2 billion accumulation in retail inventories (excluding automotive dealers).

16. Inventories held by producers of aircraft and parts have been trending down since early 1991, reflecting ongoing sluggishness in the commercial aviation market and retrenchment in defense spending.

RATIO OF INVENTORIES TO SALES
(Current–cost data)







manufacturing inventories increased moderately in August and September, led by increases in stocks of telecommunication equipment, electronic components, and service industry machinery. For most industries, inventory-shipments ratios in September were still at or near their historical lows.

In the trade sector, merchant wholesalers continued to build their stocks in August and September, but at $10-1/2 billion (current-cost terms), the pace of accumulation has slowed from early summer. Recent increases in wholesale stocks generally have occurred in types of goods for which orders have been strong upstream in manufacturing--for example, in selected machinery and capital equipment, motor vehicles and accessories, and electrical goods. Data on retail inventories are available only through August. In August, retail stocks surged, following a small decline in July. Outside of auto dealers, a sizable portion of retailers' August inventory buildup was in stocks held by furniture and appliance dealers, where sales have been brisk in recent months. In general, retailers' inventories appear to be in satisfactory condition at present. Inventory-sales ratios for many types of retail establishments in August were below the recent highs observed around the turn of the year, and the inventory-sales ratio at G.A.F. (general merchandise, apparel, and furniture) stores in August remained in line with recent norms.

Federal Sector

Real federal purchases increased 9.8 percent at an annual rate in the third quarter. Real defense purchases rose at an 8.6 percent rate after sharp declines earlier in the fiscal year had left spending below levels consistent with legislated appropriations. Part of the increase in defense purchases last quarter also reflected increased purchases of ammunition, food, and clothing,

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

	Sept. 1993	Sept. 1994	Fiscal year to date FY1993	FY1994	Dollar change	Percent change
Outlays	119.0	131.9	1408.5	1460.6	52.0	3.7
Deposit insurance (DI)	-.4	.9	-27.9	-7.2	20.7	-74.9
Outlays excluding DI	119.4	131.0	1436.4	1467.8	31.4	2.2
National defense	25.4	27.7	291.1	281.5	-9.6	-3.4
Net interest	15.4	16.9	198.8	203.0	4.1	2.1
Social security	25.6	26.9	304.6	319.6	15.0	4.9
Medicare and health	20.5	22.1	230.1	251.2	21.1	9.3
Income security	14.9	17.1	207.3	214.0	6.7	3.2
Other	17.6	20.3	204.5	198.5	-6.1	-3.0
Receipts	127.5	135.9	1153.2	1257.2	104.0	9.0
Personal income taxes	55.7	58.0	509.7	542.7	33.1	6.5
Social insurance taxes	37.8	40.4	428.3	461.5	33.2	7.7
Corporate income taxes	24.5	27.3	117.5	140.4	22.9	19.5
Other	9.6	10.3	97.7	112.7	15.0	15.3
Deficit(+)	-8.5	-4.0	255.3	203.4	-51.9	-20.3
Excluding DI	-8.1	-4.9	282.9	210.3	-72.6	-25.7

Details may not add to totals because of rounding.

which may have been due to the military operation in Haiti. In fiscal year 1994, the Office of Management and Budget (OMB) estimates that the costs of the Haiti operation and taking care of the detainees was $483.5 million, with roughly three-quarters of this sum being spent in September. To date, OMB has not provided estimates for FY1995. Nondefense purchases in the third quarter also rebounded strongly from an unusually low second-quarter level.[17]

The deficit for FY1994 was $203 billion, compared with $255 billion in FY1993. Excluding deposit insurance outlays, the deficit fell $72 billion this past fiscal year. Receipts rose 9 percent in FY1994, and outlays excluding deposit insurance increased 2 percent; deposit insurance outlays were about $20 billion less negative, on net, than in the previous fiscal year.

In FY1994, all receipt categories registered strong growth. Personal income taxes and social insurance taxes grew 6.5 percent and 7.7 percent, respectively. Corporate tax receipts grew an especially robust 19.5 percent, reflecting both strong income growth and a probable increase in the effective corporate tax rate.

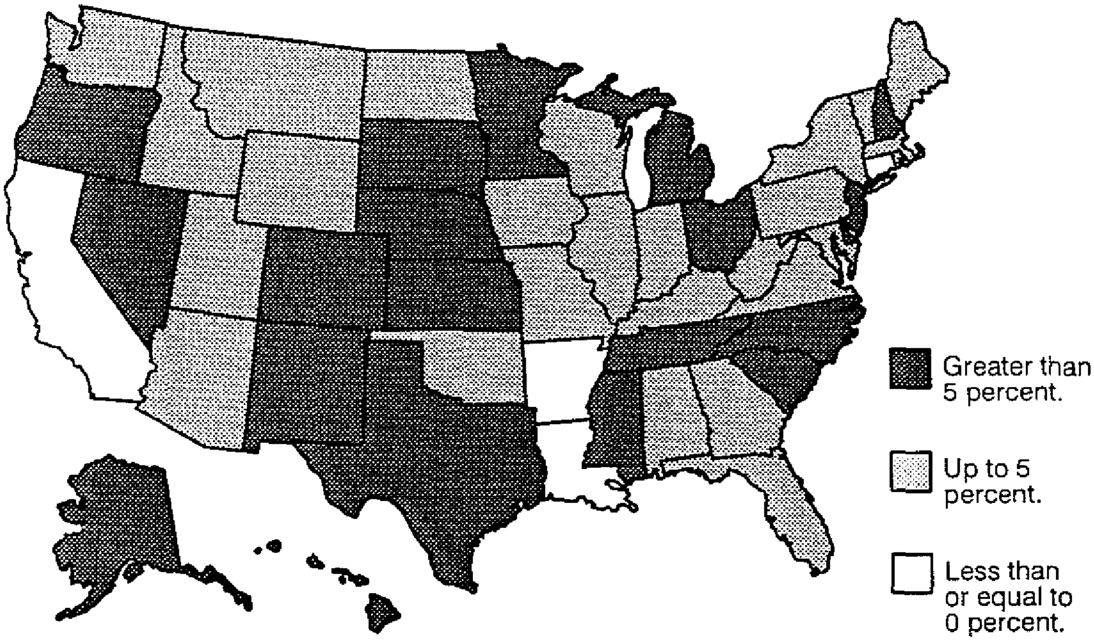
On the outlay side, all major spending categories except net interest showed less growth in FY1994 than in FY1993. Defense spending fell 3-1/2 percent and other spending (excluding deposit insurance) rose 3-1/2 percent. At 9.4 percent, growth in health-related spending was still high in FY1994; nevertheless, it was 2 percentage points lower than in FY1993.

17. Two special factors depressed nondefense compensation in the second quarter. First, the day off given federal workers for the funeral of former President Nixon reduced hours worked of government workers, thereby reducing real federal compensation. Second, nondefense civilian buyouts were first authorized in the second quarter, and agencies concentrated all of their FY1994 buyouts in that quarter so as to maximize fiscal year savings on compensation.

STATE AND LOCAL SECTOR

End–of–Year Balance as a Percent of General Fund Expenditures

(Fiscal year 1994)



Source: National Conference of State Legislatures

In September, individual nonwithheld tax payments were about unchanged from a year earlier. September contains one of the four "due dates" for estimated tax payments, and these payments normally are a useful indicator of total individual income tax liabilities for the year. This year, however, changes in estimated payments rules have altered the timing of receipts, making these data difficult to interpret.[18]

On the legislative front, all thirteen regular appropriations bills for FY1995 have been signed by the President. Each bill is in close accord with the President's total spending request and complies with the spending limits set in OBRA-93.

State and Local Governments

Real purchases of goods and services by state and local governments increased at a 3.8 percent annual rate in the third quarter, the largest quarterly gain in a year. Purchases of goods and services were up at a 2-1/2 percent annual rate. Construction spending rose at a 10.4 percent clip: Growth has been robust for water and sewer systems and other buildings (a category that includes prisons, offices, courtrooms, and the like), while construction of highways has remained flat all year.

State government employment fell 4,000 in October. Employment in education dropped back 9,000--possibly because the late survey week in September picked up some gains that normally would not have appeared until October. At the local government level, employment was unchanged. Employment in local education also fell in October,

18. Under current safe-harbor provisions, taxpayers with adjusted gross income in 1993 of less than $150,000 can avoid IRS penalties for late payment if payments in 1994 are at least as great as the lesser of 90 percent of this years' tax liability or 100 percent of last year's tax liability. For other taxpayers, the previous year's safe harbor is 110 percent of last year's tax liability. Under last year's law, some taxpayers were denied the option of the previous year's liability safe harbor entirely.

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

	1993		1994		
	Sept.	Dec.	Mar.	June	Sept.
	-----Quarterly percent change------- (compound annual rate)				
Total hourly compensation:[1]	3.4	3.4	2.7	3.7	3.3
Wages and salaries	3.5	3.2	2.1	3.5	3.1
Benefit costs	4.2	4.5	3.5	3.7	4.6
By industry:					
Construction	2.4	0.3	7.0	4.8	3.7
Manufacturing	3.4	3.7	1.3	4.0	4.0
Transportation and public utilities	3.1	3.8	4.8	1.3	5.8
Wholesale trade	2.1	4.5	-0.3	5.2	4.4
Retail trade	2.8	3.1	2.4	4.1	4.8
FIRE	9.5	2.4	4.5	0.0	2.7
Services	3.7	3.0	4.0	2.6	2.3
By occupation:					
White-collar	3.8	3.4	3.4	3.7	3.3
Blue-collar	3.4	3.4	2.0	3.0	3.7
Service occupations	2.4	2.7	3.4	1.3	2.3
Memo:					
State and local governments	2.0	2.7	3.3	3.6	2.6
	-----Twelve-month percent change----				
Total hourly compensation:	3.7	3.6	3.3	3.4	3.3
Excluding sales workers	3.8	3.7	3.3	3.2	3.3
Wages and salaries	3.1	3.1	2.9	3.1	2.9
Benefit costs	5.4	5.0	4.4	3.9	4.0
By industry:					
Construction	3.3	2.4	3.2	3.6	3.9
Manufacturing	4.2	4.1	3.3	3.2	3.2
Transportation and public utilities	3.5	3.5	3.8	3.3	3.9
Wholesale trade	3.0	3.0	2.3	2.8	3.4
Retail trade	2.9	3.0	2.6	3.1	3.6
FIRE	4.1	4.6	4.5	4.1	2.4
Services	3.8	3.5	3.6	3.3	2.9
By occupation:					
White-collar	3.7	3.7	3.5	3.6	3.4
Blue-collar	3.8	3.7	3.2	3.0	3.0
Service occupations	3.0	3.1	2.9	2.5	2.4
Memo:					
State and local governments	3.0	2.8	2.8	2.9	3.0

1. Seasonally adjusted by the BLS.

but local government employment outside of education rose 5,000, after a gain of more than 40,000 in September.

In the third quarter, the NIPA estimate of the deficit of operating and capital accounts remained at around $40 billion, a level that has prevailed for about a year. This aggregate deficit has gradually trended down as a share of GDP in recent years, indicating some improvement in the fiscal position of state and local governments taken as a group. This year, the greatest deficit reductions appear to have been in states' general fund accounts (largely operating accounts) mainly because revenues were stronger than expected.

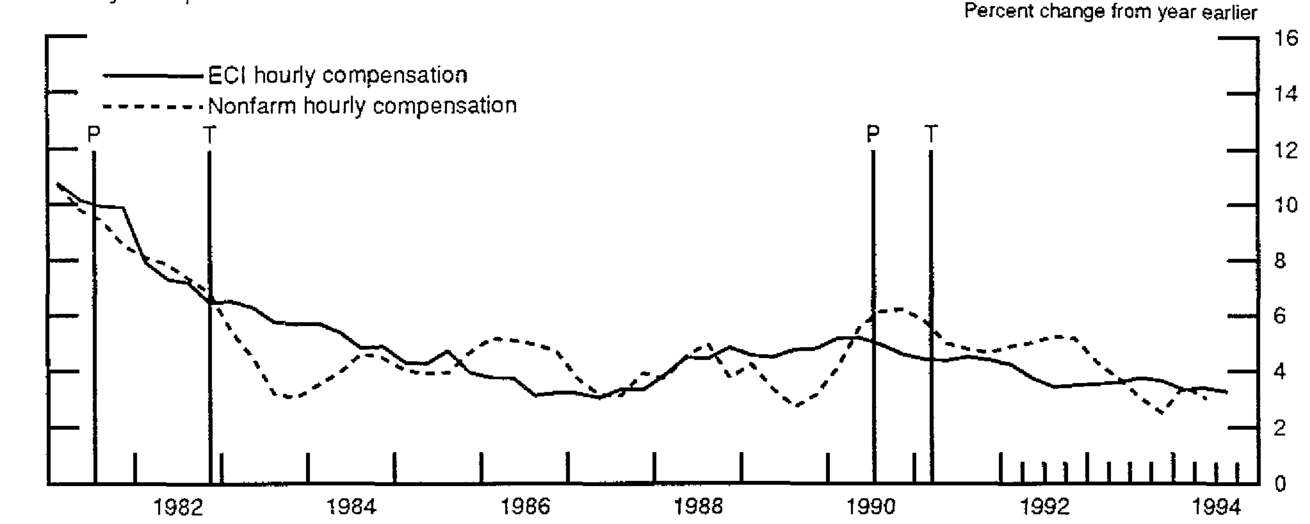
States' end-of-year "balances" often are the focus of fiscal analysis. These balances include funds carried over from the preceding years' balances as well as the excess of current-period revenues over expenditures. According to a recent survey by the National Conference of State Legislatures, general funds balances for the states taken together increased in FY1993 and in FY1994 after dipping in the previous two fiscal years. For FY1994, which ended in June, the end-of-year general fund balance was 3-1/2 percent of expenditures--still below the 5 percent level considered prudent by market analysts, but more than double the share expected when FY1994 budgets were in the planning stage. As seen in the chart, positive balances were reported by most states; furthermore, there was less variation across states in fiscal balances relative to recent years. However, California continued to record a negative balance, and three other states showed a zero balance.

Labor Costs

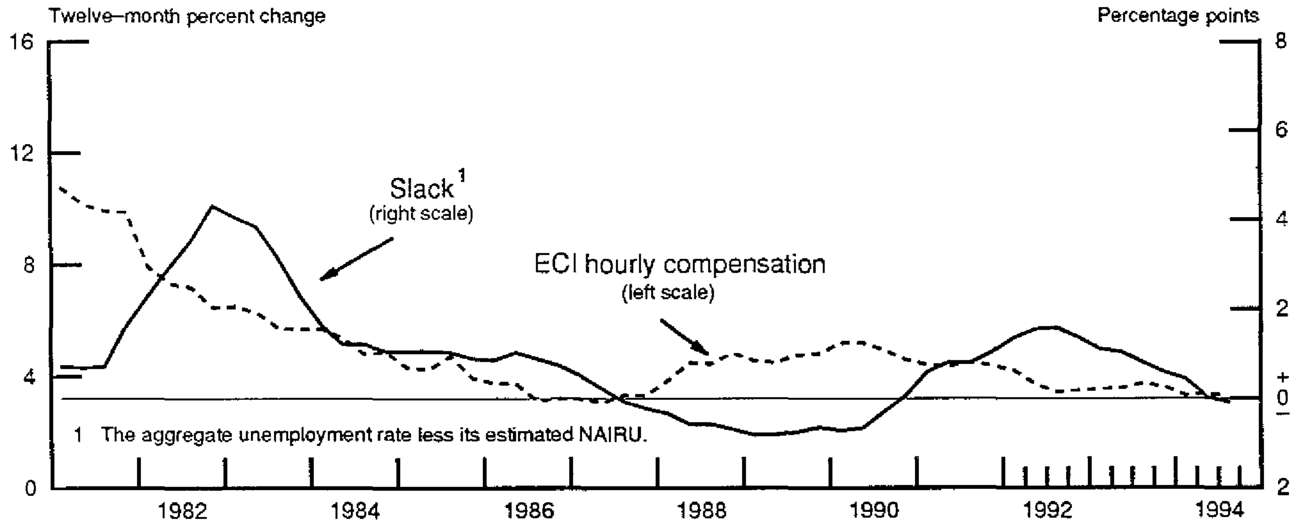
Growth in overall hourly compensation was still moderate as of the third quarter. Over the twelve months ended in September 1994,

LABOR COSTS AND LABOR MARKET SLACK

Hourly Compensation

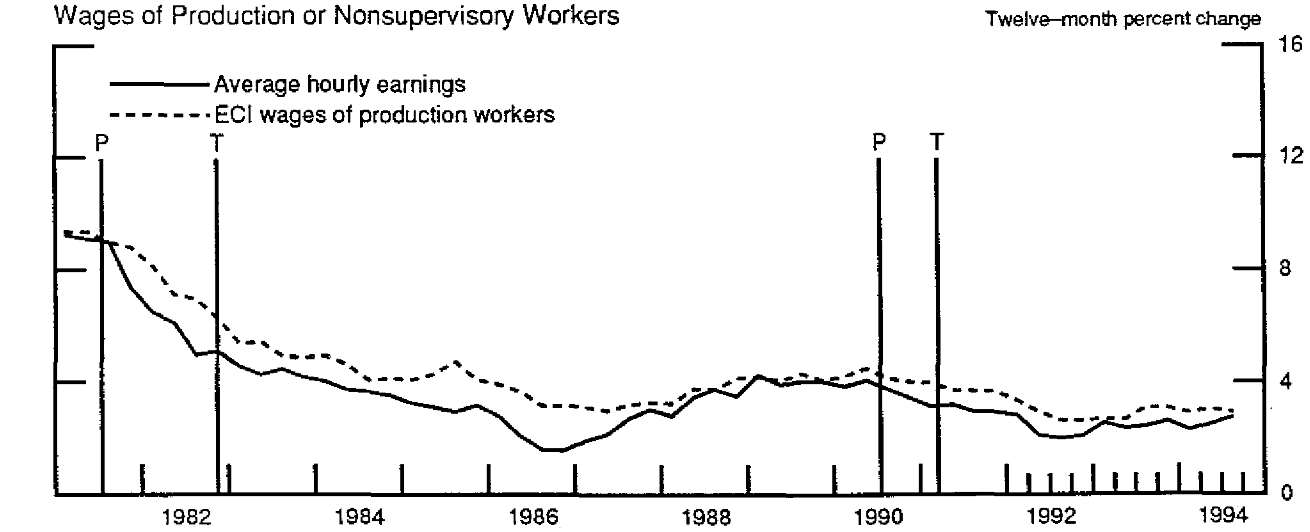


Compensation Growth and Labor Market Slack



1 The aggregate unemployment rate less its estimated NAIRU.

Wages of Production or Nonsupervisory Workers



ECI hourly compensation rose 3.3 percent--down from 3.7 percent over the same period a year ago. However, in October, average hourly earnings (AHE) of production or nonsupervisory workers jumped 0.7 percent, and the twelve-month percent change in AHE moved up to 2.9 percent--the highest reading since February 1992.

The slowing in overall ECI compensation over the past year occurred despite the rapid decline in the unemployment rate from 6.7 percent in October 1993 to 5.8 percent in October 1994.[19] As seen by the solid line in the middle panel of the chart, the aggregate unemployment rate was above the staff's estimate of the NAIRU throughout most of this period. Historically, given inflation expectations, hourly compensation growth begins to accelerate--and then rather gradually--only after the unemployment rate drops below the NAIRU. And, even though econometric models generally do indicate that the <u>change</u> in the unemployment rate has some effect on growth in hourly compensation, the effect is minor compared with that attributable to the gap between the <u>level</u> of the unemployment rate and the NAIRU.

Compensation growth over the past year slowed or was little changed in almost all major occupations and in a number of industries. Among industries, hourly compensation in manufacturing slowed more than 1 percentage point over the past year to 3.2 percent. Compensation also slowed in utilities, services, and finance, insurance, and real estate (FIRE). However, hourly compensation in transportation accelerated 1-1/2 percentage points to 4-1/4 percent. In addition, there are signs that the strength in residential construction over the past year is boosting

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19. Unemployment rates in 1994 are not directly comparable with earlier values because of the redesign of the Current Population Survey (CPS). Our working assumption is that the redesign of the CPS and new population controls added 0.15 percentage point to the level of the unemployment rate on the old basis.

EMPLOYMENT COST INDEX OF HOURLY WAGES AND SALARIES
FOR PRIVATE INDUSTRY WORKERS
(Twelve-month percent changes)

	1993		1994		
	Sept.	Dec.	Mar.	June	Sept.
Hourly wages and salaries	3.1	3.1	2.9	3.1	2.9
By industry:					
Construction	2.4	2.0	2.5	2.9	3.0
Manufacturing	3.0	3.2	2.9	3.0	3.2
Transportation and public utilities	3.1	3.2	3.1	2.8	3.7
Wholesale trade	2.9	2.6	2.0	2.8	3.3
Retail trade	2.9	2.9	2.3	2.8	3.1
FIRE	3.8	4.2	4.0	3.6	1.3
Services	3.2	3.0	3.2	3.1	2.8
By occupation:					
White-collar	3.4	3.3	3.1	3.3	3.0
Blue-collar	2.7	2.9	2.8	2.9	3.0
Service occupations	2.1	2.1	2.5	2.4	2.3
Memo:					
State and local governments	2.9	2.7	2.7	2.8	2.9

EMPLOYMENT COST INDEX OF HOURLY BENEFIT COSTS
FOR PRIVATE INDUSTRY WORKERS
(Twelve-month percent changes)

	1993		1994		
	Sept.	Dec.	Mar.	June	Sept.
Hourly benefit costs[1]	5.4	5.0	4.4	3.9	4.0
Insurance costs	6.8	6.4	5.1	4.4	3.9
Health care	7.2	6.9	5.7	5.0	4.3
Supplemental pay	4.8	2.8	5.3	5.5	6.2
Retirement and savings	4.6	4.9	9.5	9.6	10.2
Paid leave	3.7	3.4	2.9	2.8	3.2
Legally required	4.6	4.4	3.7	3.1	2.9
By industry:					
Goods-producing	6.3	5.6	4.2	3.8	3.7
Service-producing	4.4	4.5	4.5	4.1	4.4
By occupation:					
White-collar occupations	4.8	4.6	4.7	4.5	4.7
Blue-collar occupations	5.9	5.5	4.0	3.3	3.3
Service occupations	5.5	5.5	4.1	2.9	2.8
Memo:					
State and local governments	3.2	2.9	3.0	3.2	3.2

1. The detail on benefit costs is from unpublished data from the BLS.

compensation. Hourly compensation in construction rose 3.9 percent over the twelve months ended in September--up 3/4 percentage point over the same period of a year ago. Earlier this year, the pickup in compensation growth in construction appeared to be concentrated among white-collar occupations: Despite strong growth in trades employment, compensation growth of blue-collar workers in construction remained moderate. However; the third-quarter ECI data suggest that compensation growth has begun to pick up in many blue-collar occupations. Indeed, over the twelve months ended in October, average hourly earnings of production or nonsupervisory workers in construction rose 3.1 percent--up almost 1-1/2 percentage points relative to the pace over the same period a year ago.

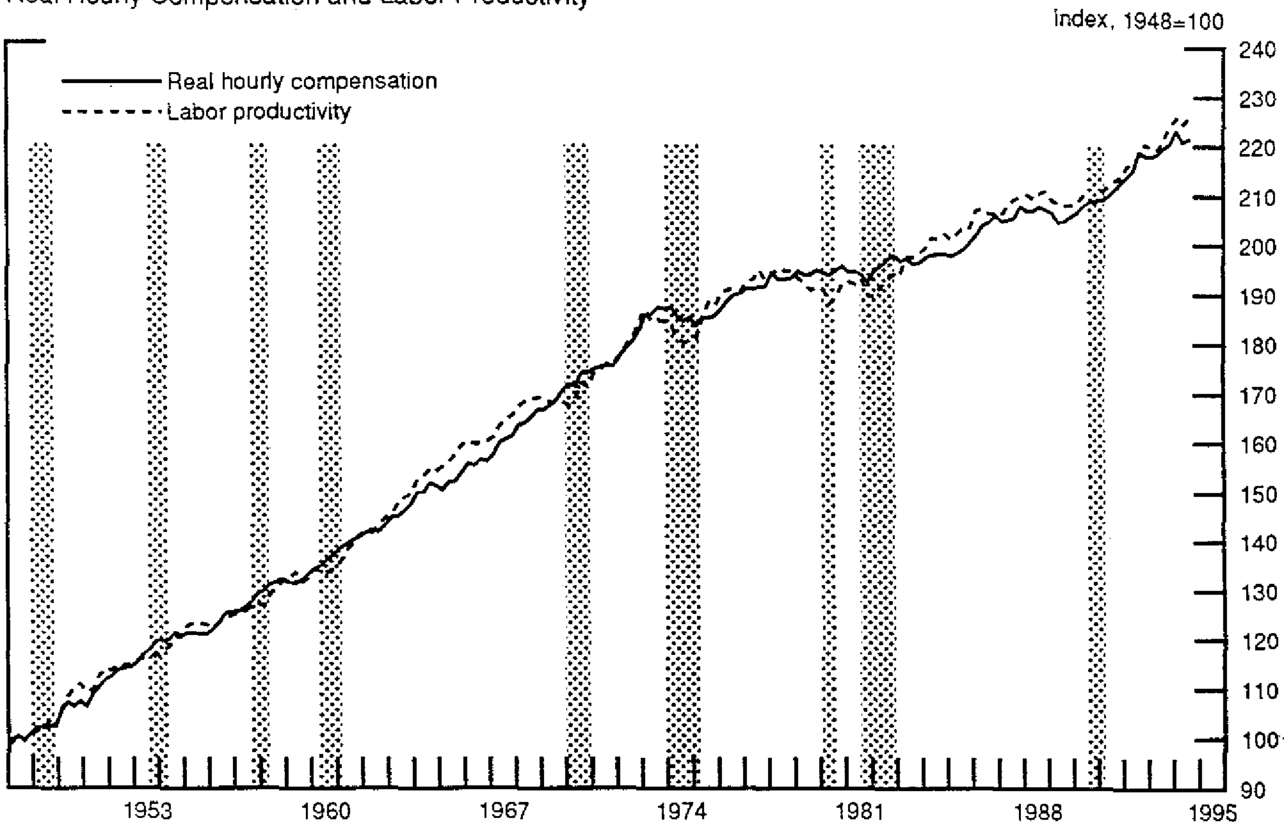
Growth in ECI wages and salaries slowed 0.2 percentage point over the past twelve months to 2.9 percent. Growth in benefit costs slowed considerably more than wages did: Over the twelve months ended in September, ECI hourly benefit costs rose 4 percent, down nearly 1-1/2 percentage points from the same period of a year ago. Growth in employers' hourly costs for health insurance slowed nearly 3 percentage points to 4.3 percent. Also, increases in legally required benefits were down considerably, reflecting smaller increases for unemployment insurance and workers' compensation. In contrast, over the twelve months ended in September, pension benefits increased 11-1/2 percent compared to a gain of about 4 percent over the same period a year ago.[20] Employers' increased demand for overtime was reflected in a pickup in growth of premium pay rates from 3.3 percent to 5 percent over the twelve months ended

20. We had expected a $2.5 billion contribution from GM to its pension fund to boost ECI benefit costs in the third quarter. However, GM did not report this contribution in the ECI because it fell outside of the definition of labor costs established by the Financial Accounting Standards Board.

LABOR COSTS

(Nonfarm business sector; seasonally adjusted data)

Real Hourly Compensation and Labor Productivity [1]



1 Hourly compensation deflated by the nonfarm business sector deflator.

LABOR PRODUCTIVITY AND COSTS
(Nonfarm business sector; percent change at an annual rate)

	1992	1993	1994 Q1	1994 Q2	1994 Q3	1993:Q3 to 1994:Q3
Hourly compensation						
Nonfarm business	5.1	2.4	6.1	.7	2.9	3.0
Manufacturing	4.2	2.9	4.0	-1.4	3.1	2.4
Unit labor costs						
Nonfarm business	1.9	.6	3.1	2.9	.1	.9
Manufacturing	.6	-1.6	-2.8	-6.8	-2.1	-3.8
Labor productivity						
Nonfarm business	3.2	1.8	2.9	-2.1	2.7	2.1
Manufacturing	3.6	4.6	6.9	5.7	5.3	6.4

in September.[21] Nonproduction bonuses also accelerated over the year to a rate of 8-1/2 percent.

ECI hourly compensation growth slowed in all four major regions over the past year, and the dispersion in growth rates narrowed. Over the twelve months ended in September 1993, hourly compensation growth ranged from 3.2 percent in the West to 4.2 percent in the Midwest; over the twelve months ended in September 1994, hourly compensation growth ranged from 3 percent in the West to 3.7 percent in the Midwest.

ECI HOURLY COMPENSATION BY MAJOR REGION
(Twelve-month percent change)

			1993		1994		
	1992	1993	Q3	Q4	Q1	Q2	Q3
Northeast	3.5	3.7	4.1	3.7	3.2	3.1	3.2
South	3.2	3.5	3.5	3.5	3.3	3.2	3.1
Midwest	3.5	4.4	4.2	4.4	4.2	3.6	3.7
West	3.6	2.8	3.2	2.8	2.8	3.5	3.0

The fixed-weighted ECI hourly compensation index is designed to measure labor cost inflation. In contrast, hourly compensation of all workers in the nonfarm business sector is an average of all workers' compensation, and thus is affected by employment shifts among industries and occupations as well as changes in overtime hours. In the third quarter, nonfarm hourly compensation rose 2.9 percent in the third quarter, and over the four quarters ended in 1994:Q3, nonfarm hourly compensation was up 3 percent. Given growth in labor productivity of 2.1 percent over the past year, unit labor costs rose only 0.9 percent.

21. Premium pay rates are the product of hourly pay rates and the overtime premium: The pickup in growth in premium pay reflected increases in the overtime premium. Fluctuations in the number of overtime hours are not reflected in the ECI. However, total overtime earnings are reflected in income measures like nonfarm hourly compensation.

In the third quarter, real product hourly compensation rose 1.1 percent.[22] Over the past year, real product compensation increased about 1 percent, lagging productivity growth of 2 percent over the same period. As seen in the chart, although real product compensation and labor productivity share longer-run trends, they can diverge for considerable periods of time. For example, during both the 1960s and 1980s, the level of real compensation remained below the level of labor productivity over much of each expansion.

In our first reading of wages in the fourth quarter, average hourly earnings of production or nonsupervisory workers rose 0.7 percent in October. The large increase in AHE did not appear to reflect shifts in the industrial mix of employment. Earnings rose in all major sectors, and the BLS's chain-weighted hourly earnings measure also rose 0.7 percent.[23]

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

			1994			1994	
	1992	1993	Q1	Q2	Q3	Sept.	Oct.
Total private	2.1	2.6	2.2	2.2	2.9	.3	.7
Construction	1.2	1.2	1.7	5.6	4.2	.7	.4
Manufacturing	2.2	3.2	2.4	1.0	3.0	.3	.2
Trade	2.0	2.3	2.4	2.3	1.9	.1	.9
Transportation and public utilities	1.6	1.3	1.8	-.3	3.2	.1	.8
FIRE	3.6	5.5	2.8	1.7	5.6	.8	1.5
Services	2.4	2.2	2.2	3.0	2.9	.3	.9

1. Annual changes are measured from final quarter of preceding year to final quarter of year indicated.

Prices

Inflation remained moderate at the consumer level in September, as both the overall CPI and the CPI excluding food and energy rose

22. Real product hourly compensation is growth in nonfarm hourly compensation less growth in the implicit price deflator for the nonfarm business sector.

23. The chain-weighted series holds the industrial mix of employment constant from one month to the next at the three-digit SIC level.

0.2 percent. At the finished level, producer prices also were restrained in September, as the overall PPI fell 0.5 percent and the index excluding food and energy edged up just 0.1 percent. But prices of intermediate materials other than food and energy rose 0.6 percent in September--their fourth consecutive increase of around 1/2 percent--as high capacity utilization rates in manufacturing continue to generate pressures on prices.

Retail energy prices fell 0.7 percent in September, following large increases in the previous two months. Gasoline prices fell 0.6 percent, in part reflecting the decline in crude oil prices between July and September. Lower crude costs helped push down heating oil prices as well. Fees for natural gas and electricity, which make up half of the CPI energy index, also fell in September, by 1.0 and 0.5 percent respectively. Mild summer weather, which held down the usual seasonal spike in electricity demand, likely contributed to the moderation in both prices.[24] So far this year, lower prices of natural gas and electricity have helped hold down increases in overall energy prices to a 3-1/2 percent pace, despite crude oil price increases of about $3 per barrel, on net, between December 1993 and September 1994.

As mentioned earlier, the flood in eastern Texas caused some damage to the pipeline system in the Houston area on October 20th, disrupting transportation lines from the Gulf Coast to the Northeast. These lines supply nearly half of the motor and heating fuels used in the Northeast region of the country. Coming on the eve of the reformulated gasoline program, the pipeline ruptures have added to supply uncertainties and contributed to price increases. Since the flood, wholesale gasoline prices on spot and futures

24. Natural gas is an important "swing fuel" for electricity production because many utilities bring relatively higher cost natural-gas-fired generators on line to meet peaks in electricity demand.

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

	Relative importance, Dec. 1993	1992	1993	1994 Q1	1994 Q2	1994 Q3	1994 Aug.	1994 Sept.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	2.9	2.7	2.5	2.5	3.6	.3	.2
Food	15.8	1.5	2.9	-1.1	2.8	5.1	.4	.3
Energy	7.0	2.0	-1.4	4.7	-4.9	10.9	1.4	-.7
All items less food and energy	77.2	3.3	3.2	2.9	3.1	2.6	.3	.2
Commodities	24.4	2.5	1.6	.6	4.2	.6	-.1	.1
Services	52.8	3.7	3.9	4.2	2.4	3.6	.4	.2
Memo:								
CPI-W[3]	100.0	2.9	2.5	2.5	2.5	3.6	.4	.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. 1993	1992	1993	1994 Q1	1994 Q2	1994 Q3	1994 Aug.	1994 Sept.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	1.6	.2	3.6	-.3	2.6	.6	-.5
Consumer foods	22.9	1.6	2.4	-.6	-5.8	4.2	.7	-.2
Consumer energy	13.3	-.3	-4.1	15.4	-2.6	4.8	1.7	-2.9
Other finished goods	63.7	2.0	.4	3.0	2.1	2.1	.4	.1
Consumer goods	40.3	2.1	-.4	2.0	1.5	2.0	.4	.1
Capital equipment	23.4	1.7	1.8	4.3	3.6	1.8	.1	.1
Intermediate materials[2]	95.2	1.1	.8	2.8	2.8	6.2	.7	.3
Excluding food and energy	82.3	1.2	1.6	1.9	3.9	6.2	.5	.6
Crude food materials	44.1	3.0	7.2	-4.5	-20.9	-12.6	-1.4	.2
Crude energy	34.4	2.3	-12.3	10.1	26.9	-24.2	-.1	-5.3
Other crude materials	21.5	5.7	10.7	22.7	-2.1	20.4	1.4	1.3

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

markets are up about 5 cents to 6 cents per gallon on average; heating oil prices, however, have been little affected so far. Colonial Pipeline installed a bypass line on November 2, and has announced that the bypass has restored normal capacity for shipments of gasoline and distillates.

The CPI for food rose 0.3 percent in September following larger increases in July and August. A flattening of coffee prices after increases of 22 percent in each of the two preceding months more than accounted for the moderation in food price increases.

Prices of consumer commodities other than food and energy were about unchanged in September, their third consecutive small monthly change. After posting large declines in July and August, apparel prices were about unchanged in September. So far this year, apparel prices have fallen, on balance, at the retail level. Producer prices of apparel manufactured in the United States have been unchanged over this period, while prices of imported apparel have increased only modestly--at a 1 percent annual rate--despite the decline in the dollar. As mentioned earlier, prices of new motor vehicles have accelerated in 1994--rising at a 4-3/4 percent annual pace so far this year.

Prices of services other than energy rose 0.2 percent in September, down from a 0.4 percent increase in August, but the same as the increase in the preceding four months. Over the past twelve months, non-energy service prices have increased 3.5 percent, compared with 4.0 percent over the preceding twelve-month period. The moderate September increase for non-energy services came despite a 0.5 percent increase in owners' equivalent rent, the largest service component. In part, the increase in owners' equivalent rent was offset by a 1-1/2 percent decline in hotel fees. A large decline in tuition and other school fees also helped hold down

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Sept. 1992	Sept. 1993	Sept. 1994
CPI	3.3	3.2	3.0
Goods	2.5	1.5	1.9
Alcoholic beverages	2.5	1.3	1.0
New vehicles	2.8	3.0	4.1
Apparel	1.3	0.9	-0.6
House furnishings	1.0	0.8	1.4
Housekeeping supplies	0.3	0.7	1.5
Medical commodities	5.3	3.5	2.8
Entertainment	0.9	1.8	2.5
Tobacco	8.9	-4.0	2.6
Services	3.6	4.0	3.5
Owners' equivalent rent	3.0	3.4	3.5
Tenants' rent	1.8	2.6	2.6
Other renters' costs	8.0	1.2	2.3
Airline fares	-3.0	23.8	2.4
Medical care	7.3	6.3	5.1
Entertainment	3.3	2.8	3.1
Auto financing	-13.6	-7.8	13.9
Tuition	7.8	7.6	6.1
PPI finished goods	1.9	0.4	1.9
Consumer goods	2.2	-0.5	1.8
Capital goods, excluding computers	2.3	2.3	2.7
Computers	-16.2	-12.5	-5.4
PPI intermediate materials	1.2	1.2	3.5
PPI crude materials	3.8	7.2	13.7
<u>Factors affecting price inflation</u>			
ECI hourly compensation[1]	3.4	3.7	3.3
Goods-producing	3.9	4.0	3.3
Service-producing	3.1	3.6	3.2
Civilian unemployment rate[2,3,4]	7.3	6.7	5.8
Capacity utilization[2] (manufacturing)	78.4	80.4	84.2
Inflation expectations[3,5]			
Michigan Survey	3.6	4.0	3.9
Conference Board	4.6	4.8	4.2
Non-oil import price[6]	2.8	0.3	3.1
Consumer goods, excluding autos, food, and beverages	4.0	0.6	0.7
Autos	2.3	1.6	3.5

1. Private industry workers, periods ended in September.
2. End-of-period value.
3. Latest reported value: October.
4. Data for 1994 are not directly comparable with earlier values because of a redesign of the CPS in January 1994.
5. One-year-ahead expectations.
6. BLS import price index (not seasonally adjusted), periods ended in September.

service-price increases in September. Tuition and fees have decelerated 1-1/2 percentage points over the past year. Data from the College Board indicate that the deceleration has been concentrated in tuition of public colleges and universities--likely reflecting the improved fiscal situation of many state governments. Among other services, cable television fees fell 1.0 percent in September and are down 3-1/2 percent over the past twelve months. Medical services prices rose 0.4 percent for the fifth consecutive month in September; nonetheless, on a twelve-month-change basis, medical fees continued to decelerate.

The 0.5 percent drop in the PPI for finished goods in September was the largest monthly decline since August 1993. As with the CPI, the PPI was pulled down by energy prices, which fell 2.9 percent. Also, finished food prices edged down 0.2 percent, pushed down by a 10 percent decline in coffee prices. Among categories excluding food and energy, prices increased just 0.1 percent in September; passenger car prices fell 1.1 percent in September, partially offsetting the 1-1/2 percent increase over the preceding two months, while tobacco prices rose 2 percent, following a 1-1/2 percent increase in August.

The moderate increases in finished goods prices have continued despite the pickup in price increases at intermediate stages of processing. Intermediate materials make up about half of variable costs of finished goods manufactures in the nonfood, non-energy sector. With demand high, manufacturers of finished goods will be unlikely to continue to allow their profit margins to erode. Accordingly, finished goods price increases may pick up in coming months.

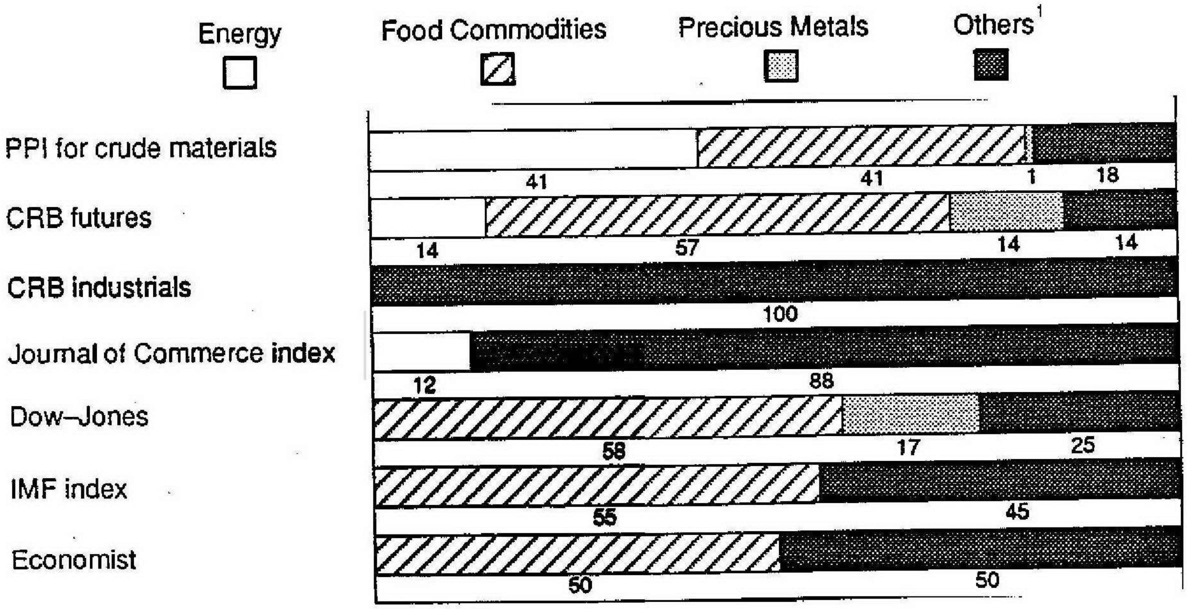
Since the last Greenbook, prices of many industrial materials have increased sharply. Among metals, the most notable price

COMMODITY PRICE INDEXES[1]

	Last observ-ation	Percent change[2]: 1992	1993	Dec. 93 to Sept.20[3]	Sept.20[3] to date	Memo: Year earlier to date
PPI for crude materials[4]	Sept.	3.3	0.1	-1.5	n.a.	-1.5
Foods and feeds	Sept.	3.0	7.2	-9.7	n.a.	-6.0
Energy	Sept.	2.3	-12.3	1.4	n.a.	-4.7
Excluding food and energy	Sept.	5.7	10.7	10.7	n.a.	13.7
Excluding food and energy, seasonally adjusted	Sept.	6.1	10.6	9.7	n.a.	13.7
Commodity Research Bureau						
Futures prices	Nov. 08	-2.9	11.6	2.5	1.3	7.4
Industrial spot prices	Oct. 25	-0.7	-0.0	18.7	1.4	25.3
Journal of Commerce industrials	Nov. 08	5.0	-4.0	14.7	1.4	16.4
Metals	Nov. 08	1.9	-2.6	8.9	5.5	18.5
Dow-Jones Spot	Nov. 08	10.4	5.1	18.9	-4.1	20.7
IMF commodity index[4]	Sept.	-2.6	2.4	11.9	n.a.	18.8
Metals	Sept.	-3.1	-14.4	21.2	n.a.	22.0
Nonfood agricultural	Sept.	2.4	0.2	9.8	n.a.	12.6
Economist (U.S. dollar index)	Nov. 01	1.6	9.1	30.3	-0.5	39.9
Industrials	Nov. 01	4.5	4.4	20.9	8.7	44.4

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

INDEX WEIGHTS



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

increases were for zinc, tin, and aluminum.[25] On balance, the price of rubber has moved up even further in recent weeks, and is now nearly 60 percent higher than its level at the end of last year. The price of steel scrap, however, has edged down since the last Greenbook. Precious metals prices also are down, on net. Prices of domestically produced agricultural products have been mixed since the last Greenbook. Coffee prices remain volatile, but have moved down, on net, since the last Greenbook; nonetheless, their level is about three times higher than at the beginning of the year.

25. Spot prices for aluminum have risen dramatically over the past year. This may reflect, in part, the impact of voluntary supply limitations by world producers rather than domestic capacity constraints. Russia, along with producers in several other countries, agreed to limit supply earlier this year after plants in the former Soviet Union flooded world markets with aluminum in 1993 and drove prices sharply lower.

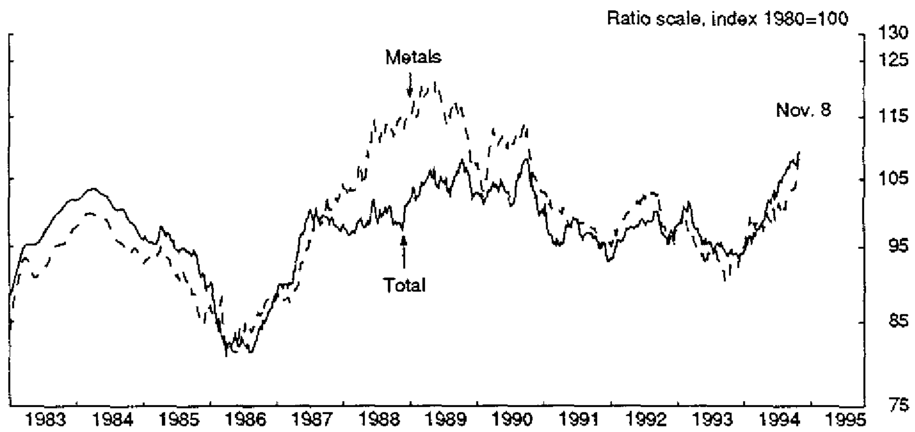
SPOT PRICES OF SELECTED COMMODITIES

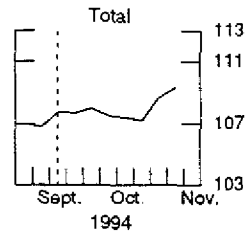
	Current price ($)	Percent change[1]: 1992	1993	To Sept. 20[2]	Sept. 20[2] to Nov. 08	Memo: Year earlier to Date
	INDUSTRIAL COMMODITIES					
Metals						
Copper (lb.)	1.290	4.1	-19.0	47.4	2.4	61.3
Steel scrap (ton)	133.500	1.1	46.8	-3.6	-.7	-2.9
Aluminum, London (lb.)	.834	9.9	-10.7	44.3	15.5	78.5
Lead (lb.)	.409	-4.3	3.0	13.0	4.7	21.9
Zinc (lb.)	.590	-10.3	-7.5	5.1	20.2	32.7
Tin (lb.)	4.110	6.5	-14.1	9.7	14.5	26.3
Textiles and fibers						
Cotton (lb.)	.711	-3.2	19.6	14.2	.2	32.5
Burlap (yd.)	.290	-9.6	8.2	4.9	4.1	17.0
Miscellaneous materials						
Hides (lb.)	.930	11.4	1.3	20.3	-2.1	16.3
Rubber (lb.)	.710	12.3	-7.3	49.3	6.3	57.8
	OTHER COMMODITIES					
Precious metals						
Gold (oz.)	384.650	-5.9	16.6	1.6	-2.3	2.3
Silver (oz.)	5.255	-5.7	38.8	11.0	-6.1	16.3
Platinum (oz.)	410.000	5.5	8.0	8.8	-2.3	8.5
Forest products						
Lumber (m. bdft.)	315.000	47.5	75.8	-34.3	3.3	-19.2
Plywood (m. sqft.)	390.000	53.5	-6.3	20.0	.0	26.6
Petroleum						
Crude oil (barrel)	17.350	1.4	-25.0	16.7	10.2	14.1
Gasoline (gal.)	.553	-2.9	-31.0	22.3	22.0	23.7
Fuel oil (gal.)	.509	21.9	-22.4	7.8	8.0	2.3
Livestock						
Steers (cwt.)	70.000	10.6	-7.3	-11.0	8.5	-3.4
Hogs (cwt.)	28.000	10.4	.6	-12.9	-21.1	-36.4
Broilers (lb.)	.485	-5.3	6.1	6.3	-11.6	-8.9
U.S. farm crops						
Corn (bu.)	2.015	-16.1	41.7	-29.4	-.5	-18.6
Wheat (bu.)	4.318	-11.7	5.8	3.0	7.1	19.3
Soybeans (bu.)	5.490	1.1	24.5	-23.5	3.4	-11.1
Other foodstuffs						
Coffee (lb.)	1.825	17.9	-2.3	242.6	-17.4	180.8
Memo:						
Exchange value of the dollar (March 1973=100)	86.140	10.1	3.4	-7.7	-2.0	-9.7
Yield on Treasury bill, 3-month[3]	5.230	-68	-14	156	61	212

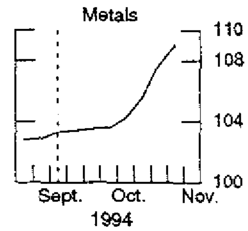
1. Changes, if not specified, are to the last week of the year indicated and from the last week of the preceding year.
2. Week of the September Greenbook.
3. Changes are in basis points.

COMMODITY PRICE MEASURES

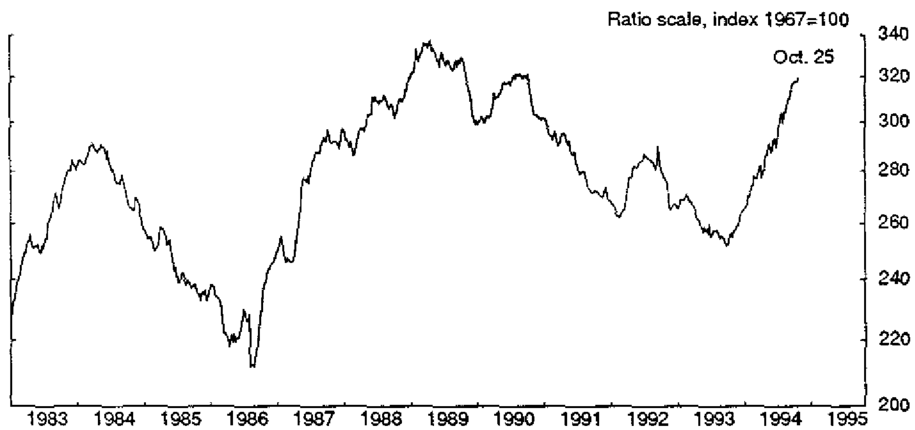
Journal of Commerce Index

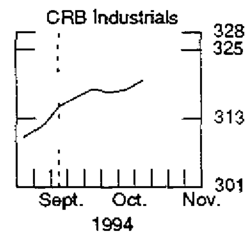




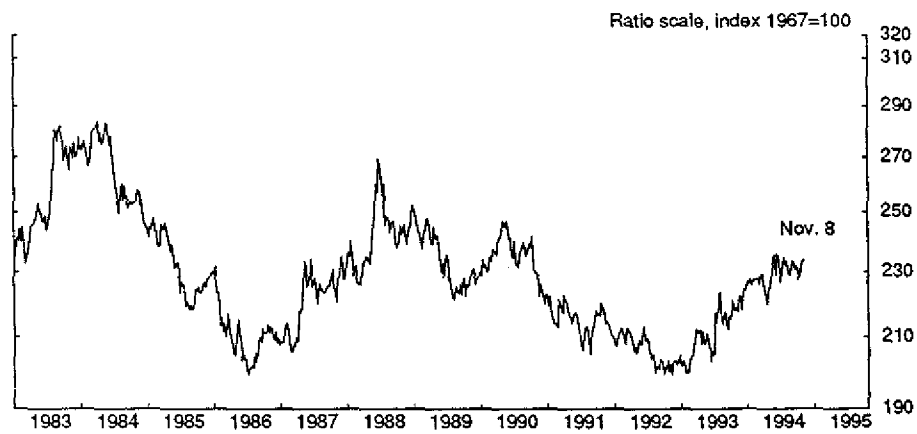


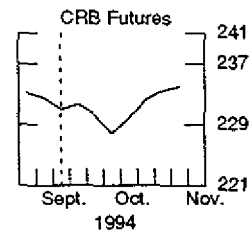
CRB Spot Industrials





CRB Futures





Note. Weekly data, Tuesdays; Journal of Commerce data monthly before 1985. Vertical lines on small panels indicate week of last Greenbook. The Journal of Commerce index is based almost entirely on industrial commodities, with a small weight given to energy commodities, and the CRB spot price index consists entirely of industrial commodities, excluding energy. The CRB futures index gives about a 60 percent weight to food commodities and splits the remaining weight roughly equally among energy commodities, industrial commodities and precious metals.

APPENDIX

REVISIONS TO THE CPI

Starting with the January 1995 CPI, to be released in February, the Bureau of Labor Statistics (BLS) will make several changes to the consumer price index. The most important changes will occur in the rent-of-shelter and food-at-home components. Taken together, the BLS estimates that these changes will reduce measured consumer price inflation about 0.1 percentage point per year.[1]

The BLS is making two changes in the indexes for the rent of shelter. First, in both renters' rent and owners' equivalent rent, the BLS will switch from using a weighted average of reported one-month and six-month rental changes (with the bulk of the weight on the one-month change) in calculating the monthly rental index, to using only the six-month change. Currently, the sum of the one-month changes has generally been less than the six-month change. The BLS believes that this difference reflects downward bias in the one-month changes, since the one-month changes are based on tenants' recall, whereas the six-month change is based on a comparison of actual rents.[2] The BLS estimates that this revision will boost reported annual changes in renters' rent 0.2 percentage point and reported annual changes in owners' equivalent rent 0.1 percentage point.

More than offsetting this upward revision is a change in the formula used to aggregate the individual rents used to construct owners' equivalent rent. The current formula takes a simple average of the price changes from the various rental units in a sampling area (usually about the size of a county). The new formula first calculates an average rent <u>level</u> across all the units in the area and then calculates the six-month percentage change in the average rental rate. The old formula had severe deficiencies that led to an upward bias. The BLS estimates that this revision will lower increases in owners' equivalent rent index 0.5 percentage point per year.

To keep the outlets in the CPI sample up to date with current shopping patterns, on a rotating basis, the BLS surveys consumers in the various metropolitan areas on where they shop. From this survey, the BLS draws a new sample of stores every five years for each metropolitan area. Unfortunately, under the BLS's current procedures, the cutover to the new survey causes price changes to be biased upward in the first few months after sample rotation. This bias is particularly acute in the food-at-home category.

To address this problem, the BLS will begin collecting two parallel samples for the first three months after sample rotation. During this transition period, the old sample will be used in the official index. The BLS estimates that by avoiding the use of the

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1. The BLS will also begin introducing generic prescription drugs more rapidly into the CPI sample, but this is not expected to have a noticeable effect on the overall index.
2. The BLS surveys rental units every six months and asks for both the current rent and the tenants' recollections of rent the month before. The BLS believes that too many people assume that the rent the month before was the same as the current month's rent.

price change from the new sample during the first three months after sample rotation, most of the bias will be eliminated.

The net effect of the two rent-of-shelter changes will be to reduce the measured increase in the CPI excluding food and energy by about 0.08 percentage point per year, and the overall CPI by about 0.06 percentage point per year. The BLS estimates that sample rotation bias in the food-at-home category boosts overall inflation by about 0.04 percentage point per year. So, the overall effect of these changes will be to reduce measured CPI inflation by 0.10 percentage point per year beginning in January 1995.

DOMESTIC FINANCIAL DEVELOPMENTS

SELECTED FINANCIAL MARKET QUOTATIONS
(Percent except as noted)

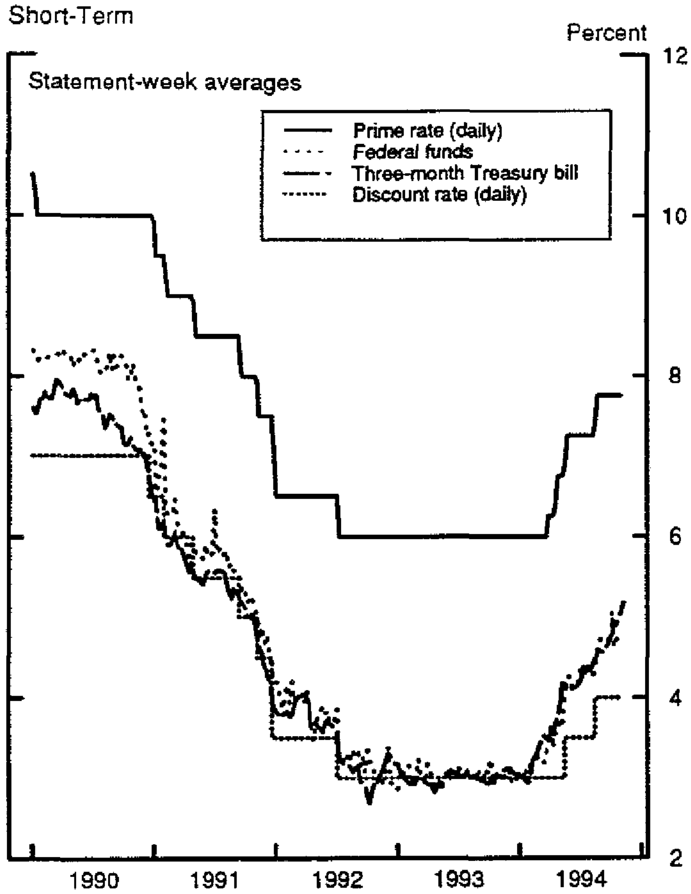
Instrument	1993 Oct lows	1994 Feb 3	1994 FOMC, Sep 27	1994 Nov 8	Change to Nov 8, 1994: From Oct 93 lows	From Feb 3	From FOMC Sep 27
SHORT TERM RATES							
Federal funds[2]	3.07	3.07	4.70	4.71	1.64	1.64	.01
Treasury bills[3]							
3-month	3.01	3.13	4.71	5.23	2.22	2.10	.52
6-month	3.09	3.27	5.20	5.65	2.56	2.38	.45
1-year	3.23	3.52	5.56	5.99	2.76	2.47	.43
Commercial paper							
1-month	3.13	3.16	5.03	5.24	2.11	2.08	.21
3-month	3.23	3.25	5.18	5.73	2.50	2.48	.55
Large negotiable CDs[3]							
1-month	3.08	3.11	5.00	5.21	2.13	2.10	.21
3-month	3.22	3.25	5.18	5.73	2.51	2.48	.55
6-month	3.23	3.41	5.60	6.02	2.79	2.61	.42
Eurodollar deposits[4]							
1-month	3.06	3.06	5.00	5.19	2.13	2.13	.19
3-month	3.25	3.25	5.19	5.75	2.50	2.50	.56
Bank prime rate	6.00	6.00	7.75	7.75	1.75	1.75	.00
INTERMEDIATE- AND LONG-TERM RATES							
U.S. Treasury (constant maturity)							
3-year	4.06	4.60	6.83	7.39	3.33	2.79	.56
10-year	5.19	5.81	7.61	8.01	2.82	2.20	.40
30-year	5.78	6.31	7.85	8.12	2.34	1.81	.27
Municipal revenue[5] (Bond Buyer)	5.41	5.49	6.66	7.16	1.75	1.67	.50
Corporate--A utility, recently offered	6.79	7.35	8.73	9.00	2.21	1.65	.27
Home mortgages[6]							
FHLMC 30-yr fixed rate	6.74	6.97	8.73	9.05	2.31	2.08	.32
FHLMC 1-yr adjustable rate	4.14	4.12	5.56	5.91	1.77	1.79	.35

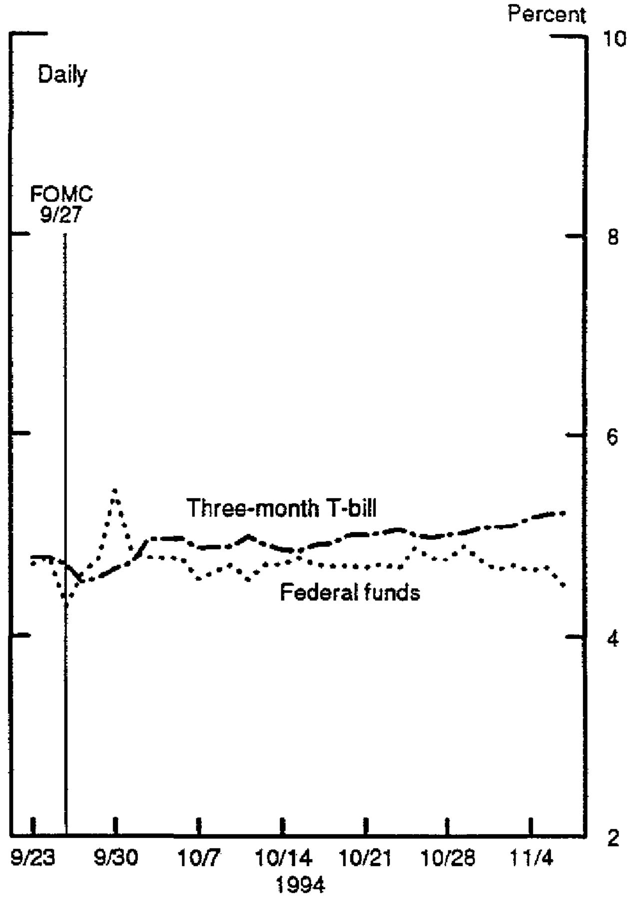
Stock exchange index	Record high: Level	Record high: Date	1989 Low, Jan. 3	1994 FOMC, Sep 27	1994 Nov 8	Percentage change to Nov 8: From record high	From 1989 low	From FOMC, Sep 27
Dow-Jones Industrial	3978.36	1/31/94	2144.64	3863.04	3830.74	-3.71	78.62	.84
NYSE Composite	267.71	2/2/94	154.00	254.87	255.28	-4.64	65.77	.16
NASDAQ (OTC)	803.93	3/18/94	378.56	755.37	767.54	-4.53	102.75	1.61
Wilshire	4804.31	2/2/94	2718.59	4582.41	4612.19	-4.00	69.65	.65

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 Nov 9, 1994.
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.

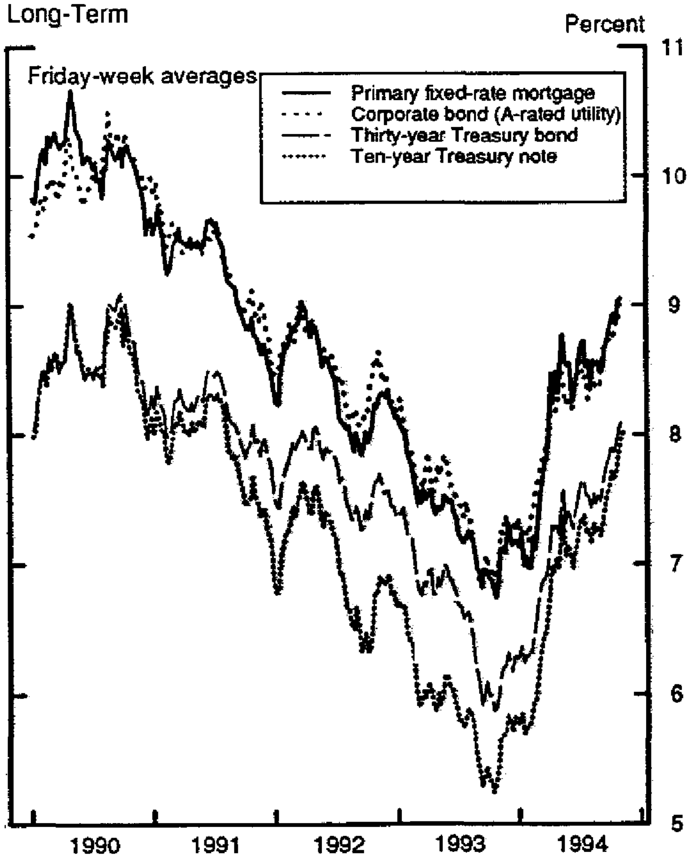
SELECTED INTEREST RATES

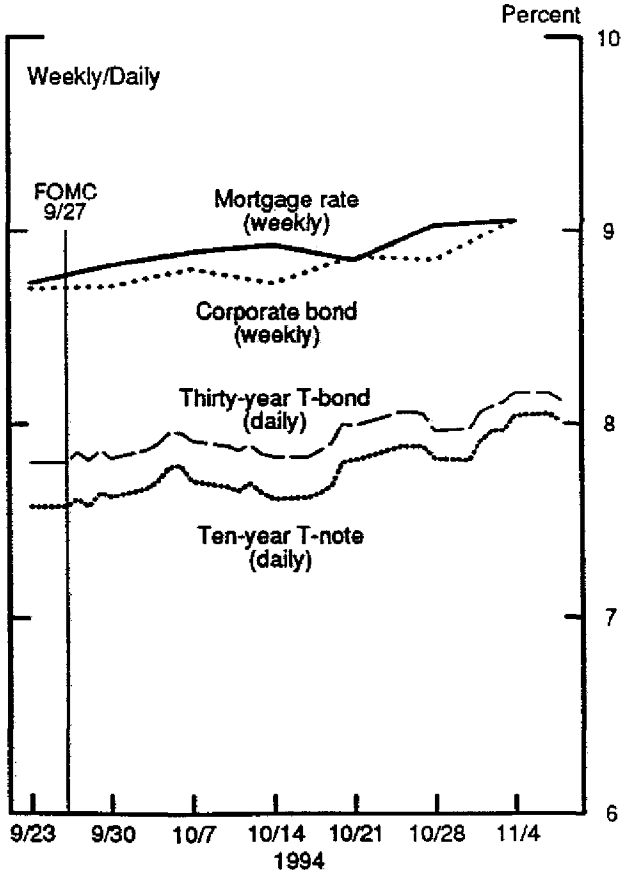
Short-Term





Long-Term





Note: Statement weeks are plotted through Nov. 2; Friday weeks through Nov 4.

Although the federal funds rate has remained unchanged over the intermeeting period, other market interest rates have risen appreciably. Strong economic data and the slumping dollar have heightened concerns about inflationary pressures; market participants generally have raised their sights for prospective Fed tightening actions, some expressing the view that the System had fallen "behind the curve." Three-month market rates have risen more than 50 basis points, while the thirty-year Treasury yield is up more than 25 points to 8 12 percent. Meanwhile, stock price indexes have changed little, on net, over the intermeeting period, as the effect of the rise in interest rates has been offset by news of surprisingly robust corporate earnings.

M2 shrank further in October as rates on liquid deposits continued to lag the rise in market yields. Bond mutual funds continued to experience heavy redemptions, and the rise in stock mutual funds slowed; however, noncompetitive tenders for Treasury securities attracted a large volume of funds. Despite the weakness in M2, M3 expanded at a moderate pace, boosted by strength in large time deposits and institution-only money market mutual funds.

Growth of debt of the domestic nonfederal sectors appears to have remained moderate in recent months. Businesses have continued to shun the bond markets, turning to bank loans and commercial paper issues. Corporate cash flow evidently has remained fairly ample, and much of business borrowing has been related to mergers and acquisitions. While there is little information available on recent household sector debt growth, at commercial banks mortgage lending slowed in October and consumer loans remained robust. State and local government debt is estimated to be falling, as gross issuance of bonds remains subdued and retirements apparently continue to be

MONETARY AGGREGATES
(Based on seasonally adjusted data, except where noted)

	Aggregate or component	1993	1994 Q2	1994 Q3	1994 Aug	1994 Sept	1994 Oct (p)	1993:Q4 to Oct 94 (p)	Level (bil. $) Oct 94 (p)
	Aggregate	Percentage change (annual rate)[1]							
1	M1	10.5	1.9	3.0	-2.1	0.9	-3.5	2.6	1148.6
2	M2	1.4	1.9	0.7	-2.0	-0.5	-1.1	1.0	3592.5
3	M3	0.7	0.7	1.7	-2.1	1.2	3.5	1.0	4259.5
	Selected components								
4.	Currency	10.3	10.6	9.1	7.7	6.6	9.0	10.4	349.9
5.	Demand deposits	13.3	-2.5	1.1	-4.9	1.5	-6.5	1.1	385.9
6	Other checkable deposits	8.4	-1.1	-0.4	-7.9	-4.7	-11.2	-2.0	404.4
7	M2 minus M1	-2.3	2.0	-0.4	-2.0	-1.2	0.0	0.3	2443.9
8	Savings deposits	2.9	-2.1	-6.6	-7.7	-8.2	-13.5	-3.5	1173.3
9.	Small time deposits	-10.5	-2.9	4.4	7.9	8.3	15.6	0.4	793.3
10	Retail money market funds	-2.1	17.8	1.0	-2.0	-2.0	8.9	5.8	365.0
11.	Overnight RPs, n.s.a.	21.2	16.9	22.1	27.1	23.7	17.8	23.2	88.9
12	Overnight Eurodollars, n.s.a	-15.5	31.5	114.6	-28.6	-14.6	113.6	56.7	26.6
13	M3 minus M2	-3.3	-6.2	7.0	-2.8	10.8	28.9	1.2	667.0
14	Large time deposits, net[4]	-6.9	-3.2	9.2	10.7	21.8	28.7	4.9	355.2
15.	Institution-only money market mutual funds	-5.4	-22.8	-5.8	-11.2	-9.9	52.9	-11.2	175.3
16.	Term RPs, n.s.a	18.8	24.6	12.2	-23.4	14.3	0.0	6.2	101.6
17	Term Eurodollars, n.s.a	0.0	15.3	18.8	-9.3	-7.0	11.8	10.2	51.4
	Memo								
18.	Monetary base	10.4	8.3	7.4	6.5	5.3	6.7	8.4	413.3
19	Household M2[2]	-0.1	1.7	-0.7	-1.9	-1.2	-0.7	0.1	3084.6
		Average monthly change (billions of dollars)[3]							
	Memo								
20	Managed liabilities at commercial banks (lines 22 + 23)	5.5	12.2	16.8	13.5	20.8	-1.6	. .	985.4
21.	Large time deposits, gross	-2.3	1.6	4.3	4.3	5.5	6.1	.	357.5
22.	Nondeposit funds	7.8	10.7	12.5	9.2	15.3	-7.7		627.9
23.	Net due to related foreign institutions	4.5	8.7	10.4	10.6	4.3	1.2	. .	216.9
24	Other[5]	3.3	2.0	2.1	-1.3	10.9	-8.9	. . .	411.0
25.	U.S. government deposits at commercial banks	0.2	-0.4	-1.1	-1.8	3.3	-1.2	. .	17.3

1. For the years shown, fourth quarter-to-fourth quarter percent change. For the quarters shown, based on quarterly averages.
2. Sum of seasonally adjusted currency, retail money funds, and other checkable, savings, and small time deposits.
3. For years, "average monthly change" is based on the dollar change from December to December. For quarters, it is based on the dollar change across the last months of quarters.
4. Net of holdings of money market mutual funds, depository institutions, U.S. government, and foreign banks and official institutions.
5. Borrowing from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase, and other liabilities for borrowed money (including borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs, and other minor items). Data are partially estimated.

p Preliminary. n.s.a. Not seasonally adjusted.

sizable. In the federal sector, net borrowing has risen about seasonally this quarter, the majority of the debt issuance occurring in the bill sector.

Monetary Aggregates and Bank Credit

M2 edged down 1 percent at an annual rate in October, after declining a bit in both August and September. This contraction dropped the aggregate to the 1 percent lower bound of its annual range as of last month.

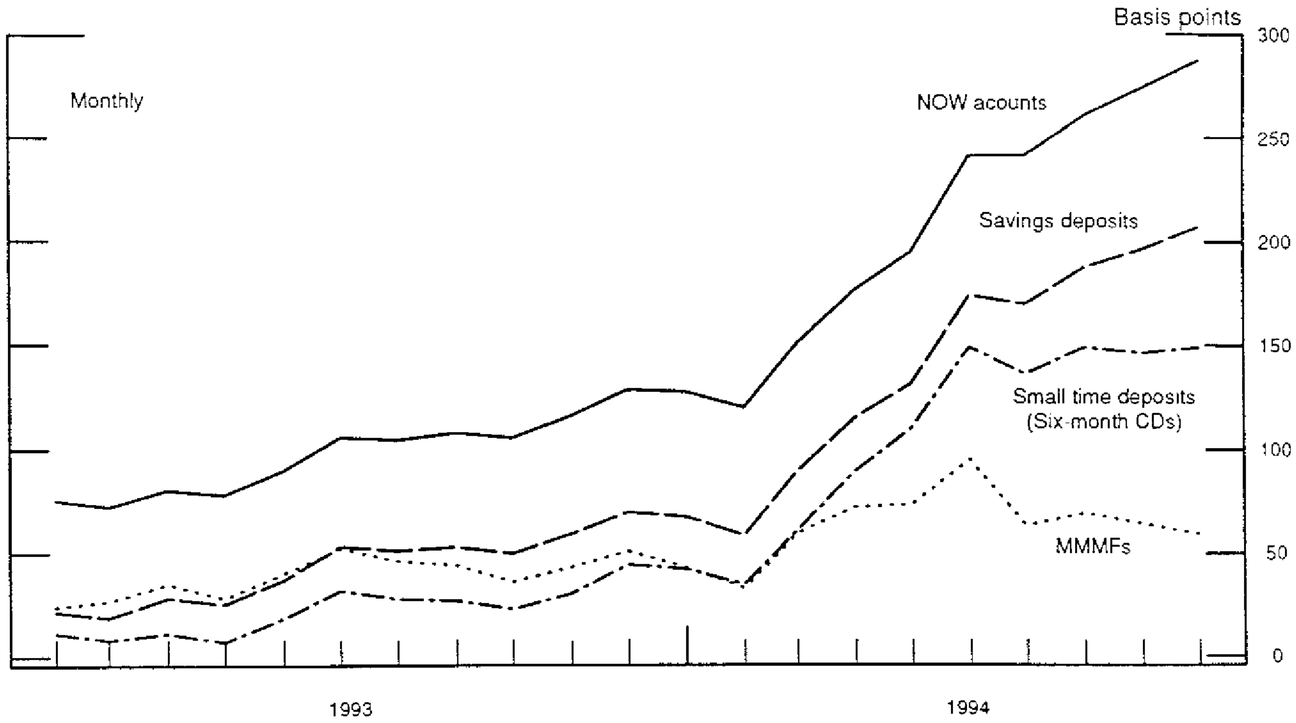
The weakness in M2 last month reflected primarily outflows of liquid deposits. Rates offered on these instruments have moved up little this year and have been virtually unchanged since the policy tightening in August. For example, rates on savings deposits and MMDAs, the largest component of M2, rose only about 1/4 percentage point between February and October, a period over which money market rates increased about 1-3/4 percentage points. Not surprisingly, these deposits continued to run off last month.

Among the other components of M2, M1 deposits were especially weak, depressed not only by rising opportunity costs but by several special factors as well. For example, reductions in mortgage refinancings have had a negative effect on the growth of demand deposits; in October this component declined at a 6-1/2 percent annual rate. In addition, the contraction of OCDs in part reflected the sweep of investors' NOW account balances into MMDAs at

; the spread of sweep accounts is estimated to have lowered the annualized growth of OCDs 4-1/2 percentage points in September and 2 percentage points in October.

Retail money market mutual funds (MMMFs), which declined in August and September, rebounded in October at a 9 percent growth rate. In contrast to the returns on liquid deposits, rates on such funds and on retail CDs have risen more in line with market interest

TREASURY RATES LESS RATES ON SELECTED BANK DEPOSITS



Note: Three-month Treasury bill rate less the rate on the stated account, except the six-month Treasury bill rate less the six-month CD rate, through September.

NET SALES OF MUTUAL FUNDS CLASSIFIED BY TYPE
(Billions of dollars, monthly rate)

	1993	1994						Memo:
	Q4	Q1	Q2	Q3	Aug.	Sept.	Oct.[e]	Assets Sept 30, 1994
Total stock	14.7	13.7	10 9	11.2	14.5	9.4	6.7	867 4
International	5.8	6.2	3.0	3.9	5.5	2.8	2.5	164.7
Domestic	8.9	7.5	7.9	7.3	9.0	6.6	4.2	702.7
Total bond	9.5	3.7	-0.8	-1.4	-0.8	-2.2	-6.8	754.8
GNMA	-0.9	-1.6	-1.4	-1.0	-0.9	-1.0	-1.3	58.3
Government	0.1	-1.1	-1.6	-1.5	-1.3	-1.5	-2.3	93.7
High-yield	1.1	0.0	0.5	0.1	0.3	0.1	-0.4	46.6
Tax-exempt	2.7	1.0	-0.3	0.0	-0.2	-1.0	-1.8	277.8
Income	5.4	4.9	2.2	1.6	1.7	2.1	-0.4	218.0
Other	1.1	0.5	-0.2	-0.6	-0.4	-0.9	-0.6	60.4

e Estimate

Source: Investment Company Institute

rates of late (chart), leading to some substitution between these components and liquid deposits. The effective annual yield on some money funds is now above 5 percent for the first time since February 1992. Growth of overnight RPs and Eurodollar deposits also helped boost M2 in October.

It seems unlikely that M2 growth is being held down by shifts to longer-term mutual funds. Net inflows into stock funds moderated in September and October, with the slowing distributed across domestic and international funds. Bond funds registered sizable net redemptions in September and apparently even more rapid runoffs in October. Although the reductions continued to be particularly large in GNMA and government bond funds, other types of bond funds also posted outflows in October; in the case of "income" funds--which invest primarily in corporate and agency bonds--the outflow in October was the first this year. While bond mutual funds contracted, direct purchases of government securities through noncompetitive tenders at Treasury auctions were robust, at $2.7 billion in October; this continued a trend begun in May.

M3 grew at a 3-1/2 percent pace last month, with the strength of the non-M2 components placing it in the lower portion of its annual range. Institution-only money market mutual funds spurted upward, as their returns have about closed the gap with market interest rates. M3 also was buoyed by strong issuance of large time deposits. To some extent, these deposits may have replaced nondeposit funds, which are estimated to have declined in October.

Bank credit rose at a 3 percent annual rate in October, as banks continued to draw down their holdings of government securities, while loan expansion remained brisk. Consumer loans expanded at a rapid 18 percent rate in October, sustaining the pace of the third quarter. The rise in real estate loans in October was

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

Type of credit	Dec. 1992 to Dec. 1993	1994 Q2	1994 Q3	1994 Aug	1994 Sep	1994 Oct p	Level, Oct 1994 p ($billions)
	Commercial bank credit						
1. Total loans and securities	5.3	5.8	6.8	3.9	3.4	2.9	3,286.3
2. Securities	8.6	6.3	-3.4	-9.4	-5.2	-10.8	958.2
3. U.S. government	9.6	2.6	-6.1	-7.8	-10.0	-17.8	729.0
4. Other	4.8	19.3	5.9	-14.8	10.7	12.2	229.2
5. Loans	4.0	5.5	11.2	9.6	7.0	8.6	2,328.1
6. Business	-1.8	10.1	11.7	9.1	8.7	11.7	634.1
7. Real estate	4.5	5.4	9.5	10.8	9.1	5.3	983.0
8. Consumer	9.0	13.5	18.1	17.3	13.4	17.9	441.3
9. Security	35.8	-34.5	-36.7	-41.7	-92.8	52.0	72.2
10. Other	-.6	-7.2	21.8	8.5	15.1	-20.3	197.5
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-2.1	9.7	11.7	8.9	8.8	12.8	624.9
12. Loans at foreign branches[2]	-12.1	18.8	17.9	15.9	21.0	-46.4	22.4
13. Sum of lines 11 and 12	-2.5	10.0	11.9	9.3	9.0	10.7	647.3
14. Commercial paper issued by nonfinancial firms	4.4	-9.2	11.0	7.2	15.8	31.3	157.5
15. Sum of lines 13 and 14	-1.1	6.2	11.8	8.7	10.5	14.6	804.9
16. Bankers acceptances, U.S. trade-related[3,4]	-12.2	-13.3	-3.9	11.9	-11.8	n.a.	20.1 [5]
17. Loans at finance companies[4]	1.3	13.5	7.2	5.8	22.0	n.a.	339.1 [5]
18. Total (sum of lines 15, 16, and 17)	-.7	7.9	10.1	8.0	13.3	n.a.	1,154.3 [5]

1. Except as noted, levels are averages of Wednesday data and percentage changes are based on averages of Wednesday data; data are adjusted for breaks caused by reclassification; changes are measured from preceding period to period indicated.
2. Loans to U.S. firms made by foreign branches of domestically chartered banks.
3. Acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.
4. Changes are based on averages of month-end data.
5. September 1994.
p Preliminary.
n.a. Not available.

at a 5 percent annual rate--about half that of the third quarter. The slowing reflected in part an acceleration in the runoff of commercial loans at branches and agencies of foreign banks

Business loans expanded at almost a 12 percent annual rate in October. According to market reports, banks have continued to ease their terms on C&I loans, including extending loan maturities to accommodate borrowers who may be deterred from entering the capital markets because of the rise in bond rates. Aggressive loan pricing may be on the wane, however. Market reports indicated that some syndicated loan deals had to be repriced to find sufficient buyers and that a major money center bank which is a leading loan syndicator indicated it would pass up deals rather than reduce its yields.

The November senior loan officer opinion survey showed a continuation of trends apparent in recent surveys. A significant fraction of the respondents reported a further easing in terms and standards for business firms of all sizes, owing to increased competition for loans and to an improved economic outlook. In addition, a substantial number of respondents reported a further pickup in the demand for business loans. Some banks also reported increased willingness to lend to consumers. By contrast, most respondents continued to report little change in commercial real estate lending standards.

The rise in loans has been funded in part by a decline in security holdings at banks. Government securities ran off at nearly an 18 percent pace in October, the fourth consecutive month of decline. Marking to market likely accounted for a significant part of this decline. Purchases of municipal and other securities, as well as an upward revaluation of off-balance-sheet positions, more

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS[1]
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1992	1993	1994 Q2	1994 Q3^p	1994 Aug^p	1994 Sept.^p	1994 Oct^p
All U.S. corporations	40.84	53.20	43.29	33.43	38.28	31.59	29.88
Stocks[2]	7.04	9.43	5.50	4.15	3.42	4.42	3.38
Bonds	33.80	43.77	37.79	29.28	34.86	27.17	26.50
Nonfinancial corporations							
Stocks[2]	4.42	5.18	3.36	1.79	1.71	2.33	1.81
Sold in U.S.	4.03	4.91	3.17	1.65	1.64	2.03	1.77
Utility	.87	1.05	.44	.20	.23	.30	.08
Industrial	3.16	3.82	2.73	1.45	1.41	1.73	1.69
Sold abroad	.39	.27	.19	.14	.07	.30	.04
Bonds	13.67	16.19	6.91	5.85	7.04	5.82	6.33
Sold in U.S.	12.83	15.55	5.96	5.06	6.10	5.50	5.00
Utility	5.33	7.34	1.90	1.16	1.00	1.50	1.20
Industrial	7.50	8.21	4.06	3.90	5.10	4.00	3.80
Sold abroad	.84	.64	.96	.79	.94	.32	1.33
By quality[3]							
Aaa and Aa	2.18	2.56	.59	.41	.17	.98	.80
A and Baa	7.74	8.70	3.33	3.65	4.97	3.45	3.77
Less than Baa	2.86	4.17	1.99	.93	.72	1.07	.43
Unrated or rating unknown	.09	.09	.01	.00	.01	.00	.00
Financial corporations							
Stocks[2]	2.62	4.31	2.14	2.36	1.71	2.09	1.57
Sold in U.S.	2.51	4.06	1.98	1.80	1.69	1.32	1.52
Sold abroad	.11	.25	.15	.56	.02	.77	.05
Bonds	20.13	27.58	30.87	23.44	27.82	21.35	20.17
Sold in U.S.	18.67	25.02	26.79	20.45	24.35	18.50	17.00
Sold abroad	1.46	2.56	4.08	2.98	3.47	2.85	3.17
By quality[3]							
Aaa and Aa	1.55	1.78	6.12	2.56	2.43	1.26	1.85
A and Baa	6.77	9.01	9.66	7.54	8.67	7.69	4.86
Less than Baa	.31	.49	.17	.14	.21	.20	.20
Unrated or rating unknown	.04	.08	.11	.00	.00	.00	.00

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 & Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
p Preliminary.

than offset the decline in the value of other securities when marked to market.[1]

Business Finance

The rise in bond yields, substantial internal funds, and relatively attractive terms on short-term financing continued to damp public bond issuance by nonfinancial firms through early November. Junk bond issuance has been especially weak, declining in October from the already low third-quarter level.

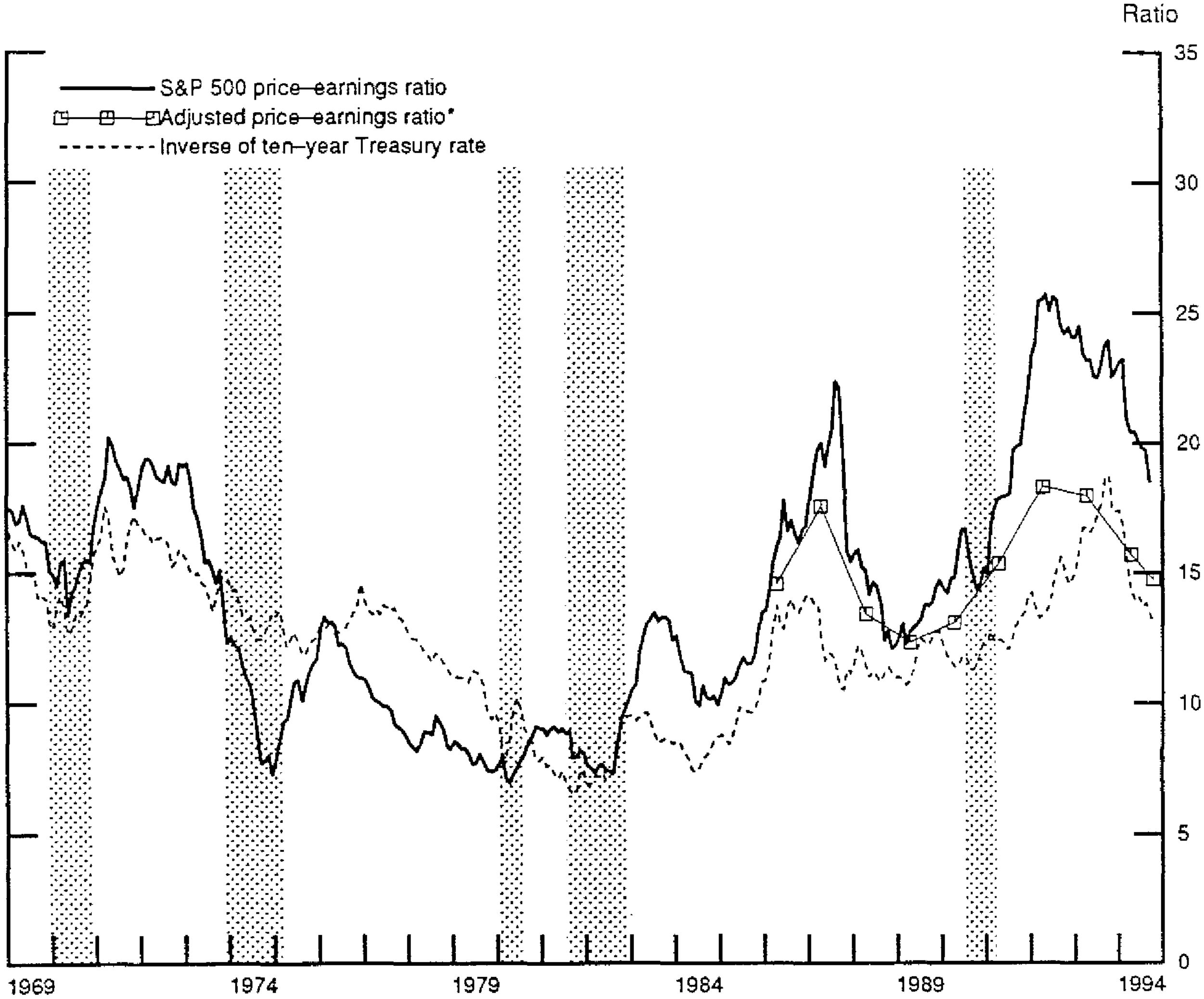
Gross public equity issuance by nonfinancial corporations was up only slightly in September and October from the depressed levels of late summer. IPO issuance is expected to be heavier in November as potential issuers sense an improved tone of the market. In contrast to the situation during the summer, recent issues have been priced within or above filing ranges (the expected range for the price of the issue before it is marketed), and some issues have recorded large returns on the initial trading day.

For financial firms, bond issuance has been better maintained; gross issuance of asset-backed securities so far in 1994 already exceeds last year's total. These securities are attractive to investors when interest rates are rising because they have relatively short maturities and often offer floating interest rates. Equity issuance by financial corporations declined in October, as many proposed REIT offerings were cancelled or postponed.

Corporate earnings statements for the third quarter have been strong, with a majority of reports exceeding analysts' expectations. Earnings per share for the nonfinancial sector increased more than 20 percent for the year ended in the third quarter. The financial sector has registered less improvement. Data from the third-quarter

1. Securities that must be marked to market--those held in trading accounts and those "available for sale"--account for about half of bank securities. A recent survey found that most banks mark to market on the last business day of the month.

S & P 500 PRICE–EARNINGS RATIO
(Monthly)



*Based upon Goldman Sachs' estimates of operating earnings per share.

Call Report are not yet available, but press reports on earnings at major bank holding companies are mixed Despite slightly narrower net interest margins, many banks managed to increase profits by expanding their lending. However, banks with large trading operations saw related revenues dwindle in the last quarter. Altogether, earnings for bank holding companies appear to have grown 12 percent over the year ended in the third quarter.

The S&P 500 price index has changed little on net over the past year. As a result, the ratio of the S&P 500 price index to the twelve-month trailing earnings of companies in that index fell from about 24 in October of 1993 to about 18 this October (chart). The price-earnings ratio adjusted for non-recurring restructuring charges exhibits a similar, though less steep, decline.[2]

The credit quality of financial corporations rose slightly on balance in the third quarter. According to ratings changes by Moody's, financial companies experienced nineteen upgrades and seven downgrades, providing the seventh consecutive quarter of improvement in this sector. When measured by the value of rated debt, the improvement for the financial sector was even more striking; upgrades exceeded downgrades by a margin of ten to one. In the nonfinancial sector, downgrades continued to exceed upgrades, but by a smaller margin than in the first half of the year. The modest slippage in the third quarter reflected further downgrades of electric utilities as well as some net deterioration of ratings for industrial companies. Among investment-grade companies, rating changes were about offsetting. However, for speculative-grade companies, downgrades outnumbered upgrades, continuing the pattern

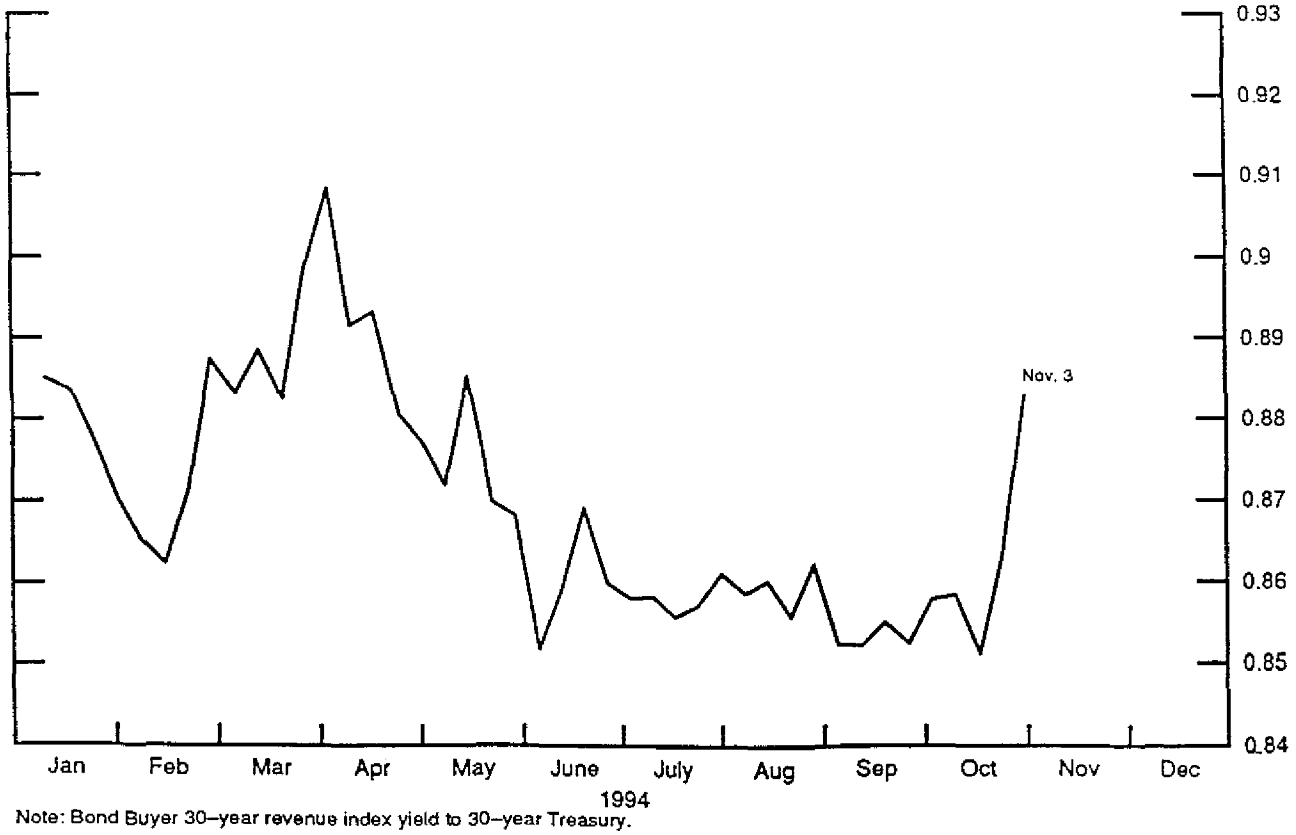
2. The adjusted price-earnings ratio is based on a measure of operating earnings provided by Goldman Sachs. Operating earnings represent reported earnings adjusted for large nonrecurring expenses incurred by companies that have restructured their operations. The restructuring charges have been most prevalent in recent years.

GROSS OFFERINGS OF MUNICIPAL SECURITIES[1]
(Monthly rates, not seasonally adjusted, billions of dollars)

	1992	1993	1994 Q2	1994 Q3	1994 Aug	1994 Sept.	1994 Oct.
Total tax-exempt	21.2	27.2	16.1	15.7	18.7	8.9	11.3
Long-term	18.9	23.3	12.4	10.8	12.3	7.6	9.8
Refundings[2]	10.4	15.7	3.4	1.8	1.7	1.6	1.4
New capital	8.5	7.6	9.0	9.0	10.6	6.0	8.4
Short-term	3.3	3.9	3.7	4.9	6.4	1.3	1.5
Total taxable	.6	.7	.5	.3	.2	.6	2.5

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

TAX–EXEMPT TO TAXABLE YIELD RATIO
(Weekly)



Note: Bond Buyer 30–year revenue index yield to 30–year Treasury.

set in the second quarter. Most notably, USAir--with more than $3-1/2 billion of rated debt outstanding--was downgraded from B1 to B2.

Merger activity has remained brisk since the previous FOMC meeting, with the announcements of five deals, each valued at more than $1 billion, that are expected to close in 1995. The two largest of these involve hospital chains, extending the trend toward consolidation among health-care providers. As has been the case throughout the year, the recently announced mergers will be financed largely by stock swaps; nonetheless, cash-financed transactions have been occurring with some frequency, which has boosted the amount of merger-related share retirements.

To finance a few of the recent large mergers, acquirers have accessed the commercial paper market for interim funds. Over the six weeks ended October 26, total nonfinancial commercial paper outstanding increased about $12 billion, of which approximately four-fifths was merger related. Dealers expect that an additional $10 to $15 billion of merger-related commercial paper will be issued before the end of the year.

State and Local Government Finance

Gross issuance of long-term tax-exempt debt has remained sluggish, averaging about $9 billion in September and October, less than half the rate during 1993. A lack of refunding activity largely accounted for this sluggishness. With retirements estimated to have exceeded gross issuance in September and October, the outstanding stock of long-term tax-exempt debt likely continued to decline.

Meanwhile, Los Angeles County sold $2 billion of taxable bonds in October, a record amount. The bonds allowed the county to reduce the expected costs of funding its pension plan. At least one more

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

Item	1994 Q3	1994 Q4[p]	1994 Oct.[e]	1994 Nov[p]	1994 Dec[p]
Total surplus/deficit (-)	-53.4	-75.2	-31.4	-43.4	-.4
Means of financing deficit:					
Net cash borrowing/repayments(-)	37.1	60.7	27.1	38.5	-4 9
Nonmarketable	-3.4	.6	-.6	-.8	2.0
Marketable	40.5	60.0	27.7	39.3	-6.9
Bills	-1.2	36.2	20.2	22.9	-6 9
Coupons	41.7	23.9	7.5	16.4	.0
Decrease in the cash balance	15.0	7.9	-.5	11.7	-3 3
Other[2]	1.2	6.6	4.8	-6.9	8.7
Memo:					
Cash balance, end of period	35.9	28.1	36.4	24 7	28.1

1. Data reported on a payment basis.
2. Includes checks issued less checks paid, accrued items, and other transactions.
p projected. e estimated.
Note: Details may not add to totals because of rounding.

NET CASH BORROWING OF GOVERNMENT SPONSORED ENTERPRISES[1]
(Billions of dollars)

Agency	1993 Q4	1994 Q1	1994 Q2	Jul.	Aug.	Sept.
FHLBs	8.9	5.7	13.5	5.3	3.1	--
FHLMC	-2.7	12.9	10.4	5.6	2.3	2.7
FNMA	5.3	15.3	11.5	2.6	7.1	1.8
Farm Credit Banks	1.5	-0.7	1.3	-1.4	1.6	0.5
SLMA	1.0	1.3	6.8	.1	0.2	1.4

1. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

California county plans to issue a taxable pension bond before year-end.

Gross issuance of short-term tax-exempt debt fell in September and October from the brisk pace in the summer, when a number of states and municipalities had been in the market to replace maturing debt. On balance, retirements of short-term debt have continued to exceed gross issuance, and the amount outstanding fell to about $32 billion at the end of October from a record $43 billion at the end of June.

The ratio of long-term tax-exempt yields to Treasuries remained low through mid-October, held down by the limited supply of debt. However, in November, the yield ratio has risen sharply, boosted by heavy net sales of municipal bonds by mutual funds (chart).

Downgrades of municipal debt exceeded upgrades during the third quarter, but this deterioration mainly reflected finances in California. The three major credit agencies downgraded almost $20 billion in California debt during July; this accounted for about 90 percent of the municipal debt downgraded last quarter. Outside of California, upgrades exceeded downgrades, as financial conditions of most other state and local governments were buoyed by the strength in the economy.

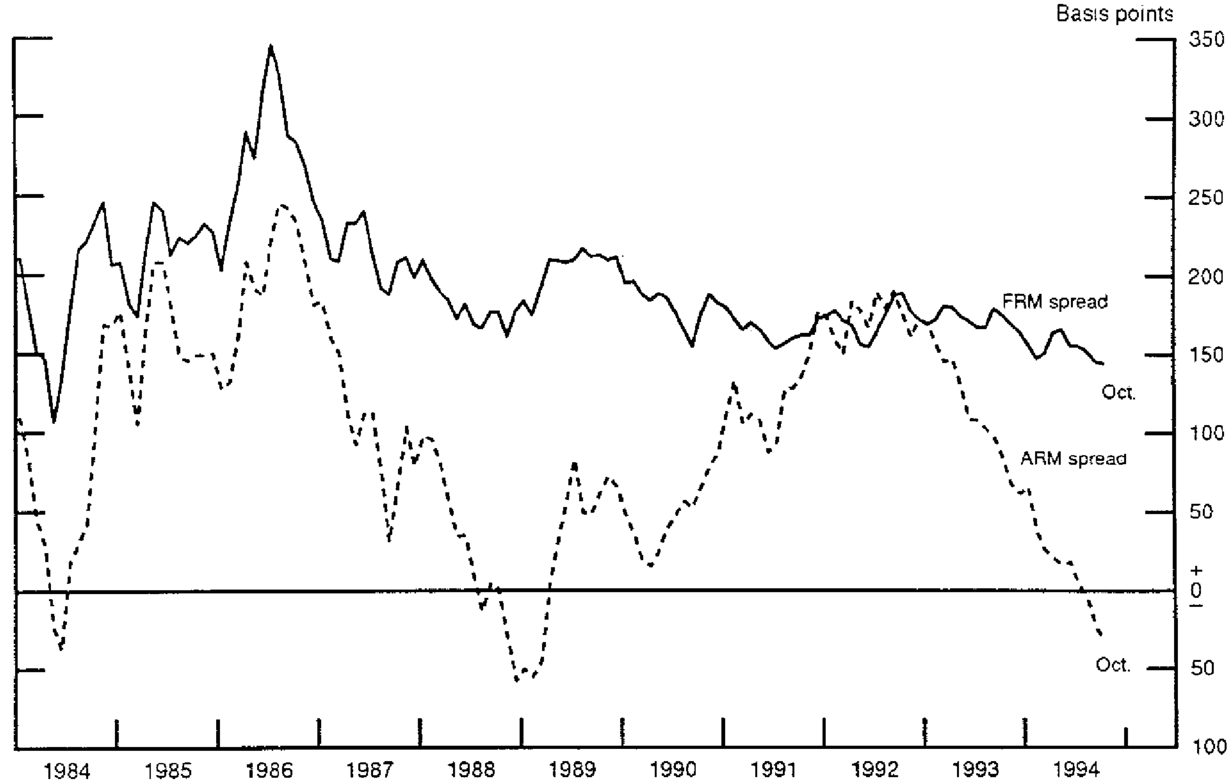
Treasury and Government-Sponsored Enterprises Financing

The staff anticipates that the Treasury will finance most of the projected $75 billion fourth-quarter fiscal deficit by borrowing $61 billion from the public and by drawing down its cash balance $8 billion.

Recently the Treasury announced that it would issue $17 billion in three-year notes and $12 billion in ten-year notes at the midquarter refunding on November 15; there will be no bond, as this is the off quarter under the current schedule. The Treasury will

FRM RATE SPREAD AND ARM RATE SPREAD

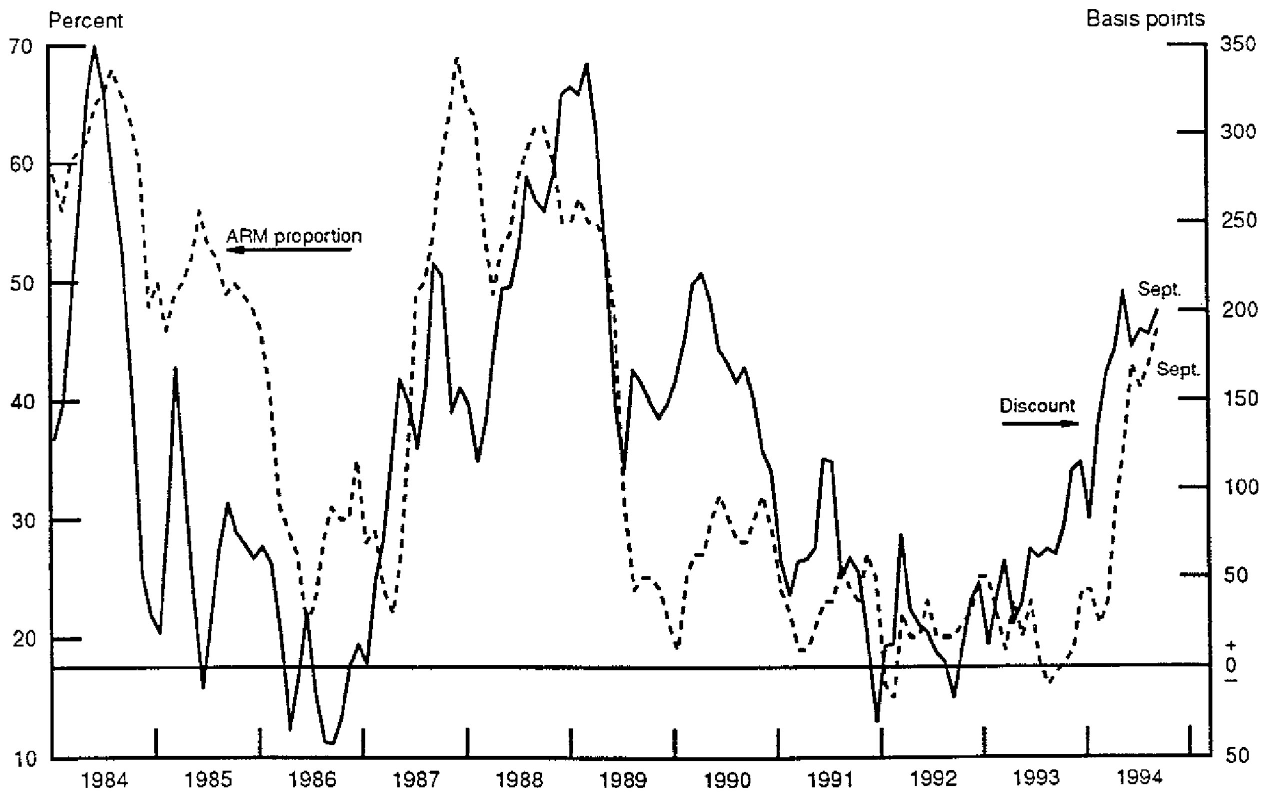
(Monthly; not seasonally adjusted)



Note: FRM spread is the yield on the thirty-year fixed-rate mortgage less the average yield on the ten-year and seven-year Treasury notes. The ARM spread is the ARM rate less the rate on the one-year Treasury note.

ARM RATE DISCOUNT AND ORIGINATION PROPORTION

(Monthly; not seasonally adjusted)



Source: Federal Housing Finance Board

rely on bills for more than half the funds raised this quarter. Since the end of September, the Treasury has increased the weekly bill auctions from $23.2 billion to $27.2 billion.

Fannie Mae and Freddie Mac have continued to finance a sizable expansion of their mortgage portfolios with debt issuance. Fannie Mae's outstanding debt grew 20 percent from September 1993 to September 1994; Freddie Mac's debt, currently one-third the size of Fannie Mae's, increased 60 percent in the same period. Most newly issued debt has been conventional debentures with call options. Meanwhile, yield spreads of agencies over Treasuries, in the two-to-three-year sector of the maturity spectrum, have widened considerably, from less than 3 basis points a year ago to around 15 basis points now. Spreads in the seven-year sector have remained at 25 to 30 basis points. Agencies have not issued much debt with longer maturities.

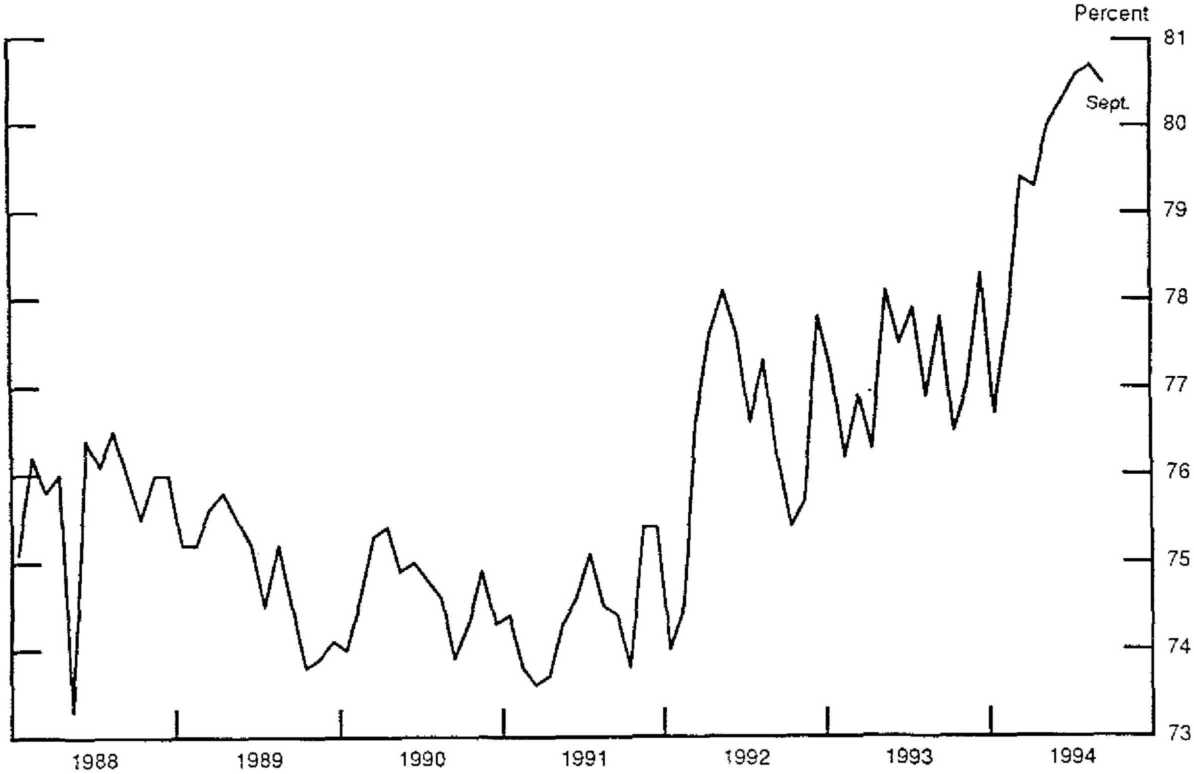
Mortgage Markets

Interest rates on home mortgages have increased considerably over the intermeeting period. The average contract rate on conventional fixed-rate mortgages (FRMs) rose to 9.05 percent in the first week of November, the highest level in more than three years, and 32 basis points higher than at the time of the September FOMC meeting.

The average initial rate on adjustable-rate mortgages (ARMs) indexed to the one-year Treasury has increased about 35 basis points since the September meeting. Portfolio lenders, aided by very low rates on marginal deposit funds, have boosted the initial discount on ARMs in an effort to combat the loss of volume stemming from rising rates and to gain market share. This intense price competition has held start rates on ARMs below those on the one-year Treasuries. Until recently, the ARM spread series, which dates back

LOAN-TO-PRICE RATIO FOR ALL LOANS CLOSED

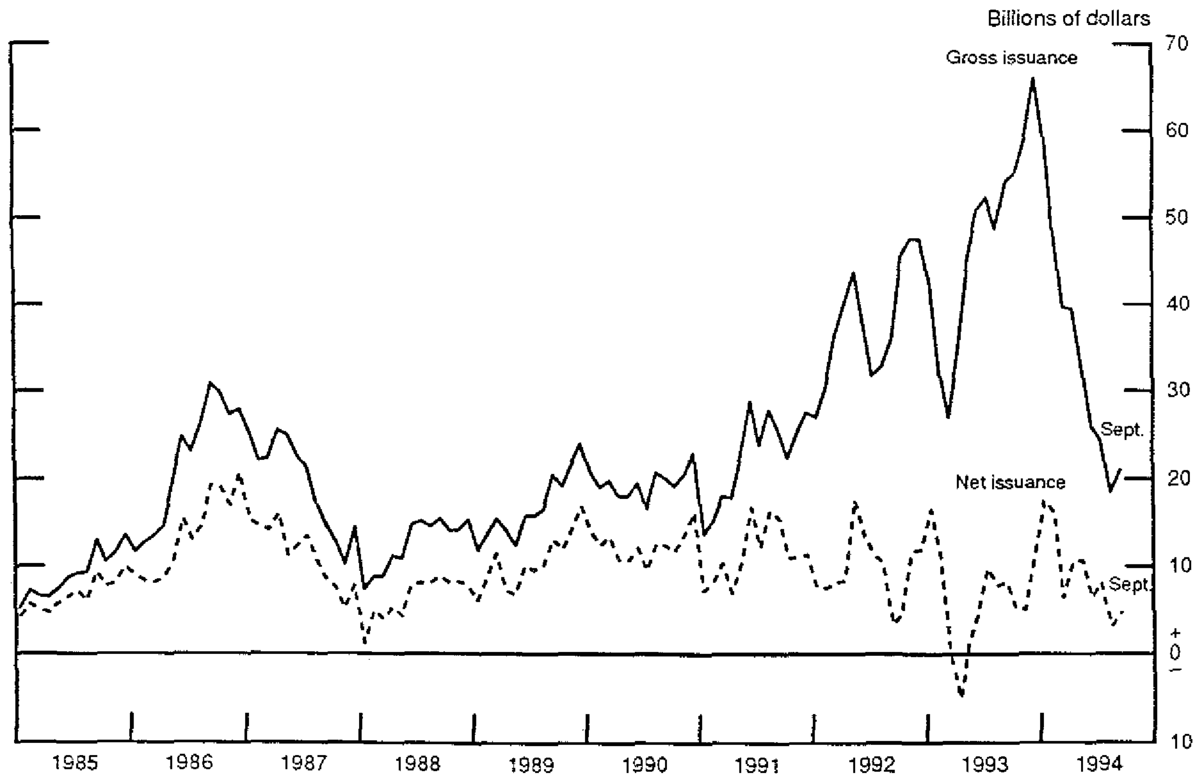
(Monthly; not seasonally adjusted)



Source: Federal Housing Finance Board

ISSUANCE OF AGENCY MORTGAGE PASS-THROUGH SECURITIES

(Not seasonally adjusted)



to late 1983, had been negative only briefly in 1984 and for a longer period in late 1988 and early 1989 (chart) Such aggressive pricing helped raise the ARM share of mortgage originations to 46 percent in September, the highest level since June 1989 (chart).

An important trend in the ARM market is the growing use of contracts that have fixed-rate periods lasting several years, after which the mortgages become one-year adjustable loans. These mortgages are attractive to home buyers because of somewhat lower rates than those available on fixed-rate mortgages. Reflecting this development, the average number of months before the first scheduled rate adjustment on ARMs has more than doubled from nineteen months in September 1992 to forty-eight months in September 1994, according to estimates provided by the Federal Housing Finance Board.

Another manifestation of heightened competition in the market for home mortgages has been a softening of nonrate credit terms. The average loan-to-value (LTV) ratio on conventional home mortgages (FRM and ARM) at a cross-section of lenders climbed from just below 77 percent in January to a series high of nearly 81 percent in August, and remained near that level in September (chart). This increase likely reflects both concessions made by lenders in an effort to retain market share and efforts to provide financing to marginally qualified borrowers by easing downpayment requirements. Loan-to-value ratios rose more rapidly for mortgages on existing homes and for mortgage loans at the lower end of the size spectrum, market segments where demand by buyers seeking starter homes is concentrated.

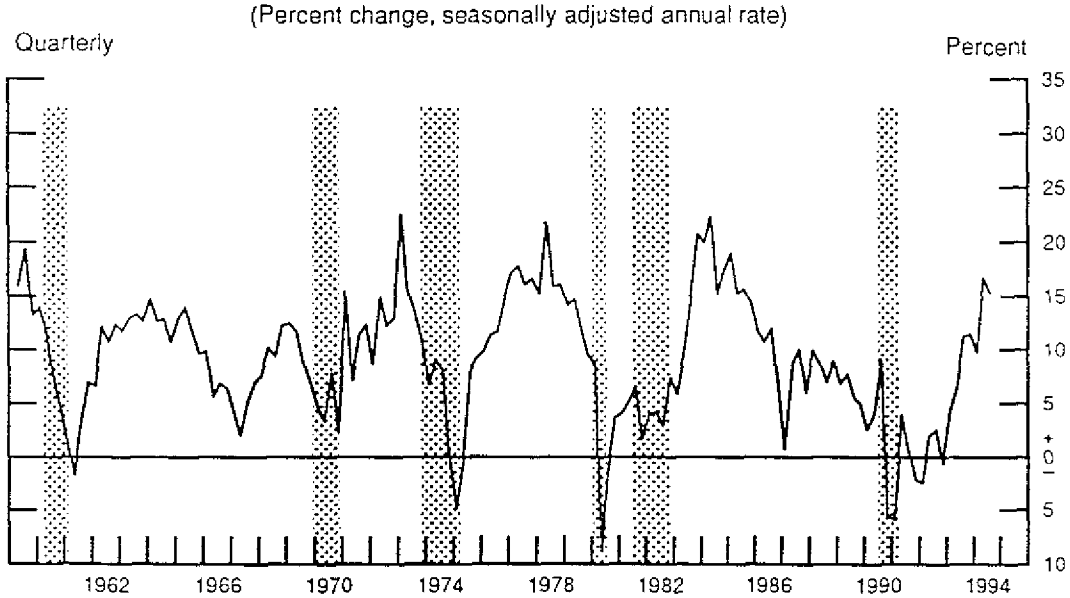
The growth in ARMS likely contributed to recent strength in mortgage loans at commercial banks where real estate loans rose at a 9-1/2 percent annual rate in the third quarter. In contrast, because mortgage bankers are not portfolio lenders, they have less

GROWTH OF CONSUMER CREDIT
(Percent change: seasonally adjusted annual rate)

Type of credit	1992[r]	1993[r]	1994 H1[r]	1994 Q3[p]	1994 Aug.[r]	1994 Sept.[p]	Memo: Outstanding Sept. 1994 (Billions of dollars)
Installment	.4	8.6	13.5	15.3	21.3	14.6	880.2
Auto	-.7	9.5	15.2	15.5	17.8	21.7	315.3
Revolving	4.9	11.9	15.0	18.3	29.7	8.6	323.7
Other	-3.3	3.8	9.2	11.1	14.5	13.5	241.2
Noninstallment	6.4	-4.9	-1.8	-8.2	-29.5	17.7	51.6
Total	.8	7.7	12.5	14.0	18.4	14.8	931.8

r Revised.
p Preliminary.

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



INTEREST RATES ON CONSUMER LOANS
(Annual percentage rate)

Type of loan	1991	1992	1993	1994 Feb.	1994 May	1994 Aug.	1994 Sept.
At commercial banks[1]							
New cars (48 mo.)	11.1	9.3	8.1	7.5	7.8	8.4	...
Personal (24 mo.)	15.2	14.0	13.5	12.9	13.0	13.3	...
Credit cards	18.2	17.8	16.8	16.1	16.2	16.3	.
At auto finance cos.[2]							
New cars	12.4	9.9	9.5	8.9	9.9	10.3	10.1
Used cars	15.6	13.8	12.8	12.2	13.5	13.9	14.0

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.

flexibility to adjust standard loan terms, and their activity likely has slowed, as evidenced by continued low net issuance of pass-through securities in the secondary mortgage markets (chart).

Consumer Credit

Growth in consumer installment credit slowed in September from the exceptionally rapid August pace; for the third quarter, consumer credit grew at a 15 percent annual rate based on revised data.[3] The third-quarter gain was only slightly below that of the second quarter, which was the strongest advance of the current economic expansion. Consumer credit growth has reached the 15-to-20 percent range attained at some point during most previous expansions (chart). Such levels were reached sooner in past upswings, but an unusually slow pickup in spending on consumer durables in the early stages of this expansion kept credit growth sluggish for several quarters. In recent months, however, outlays for autos and other durable goods have been brisk, providing a significant boost to credit expansion.

The continued vigor in consumer credit during the third quarter was accounted for by growth rates of 16 percent in the automobile component and 18 percent in revolving credit (primarily credit card debt). Recent growth in auto credit has tracked new-car sales much as it has in the past. Part of the strength in revolving credit stems from the continued proliferation of programs that tie rebates and other rewards to the volume of charges made to an account. The change in payment habits that these programs encourage adds uncertainty to the interpretation of the growth in consumer credit.

3. The finance company component of consumer credit has been revised from June 1990 through August 1994 to reflect both a new estimation procedure and revised reports. Recent call report data for savings institutions and credit unions have been incorporated; seasonal factors have also been recalculated. The net effects of the revisions on overall consumer installment credit were small; the largest revision for any year was to lower overall growth 0.4 percentage points in 1993.

Clearly, a cardholder has an incentive to run as many transactions as possible through an account that rewards charge volume. Such usage tends to increase the measured level of aggregate outstandings because at any given time the balance in an account used this way will be larger than if fewer charges were passing through the account.[4] As a rough estimate, the staff believes that as much as a third of the recent growth in revolving credit can be reasonably attributed to the use of credit cards to complete transactions in order to obtain volume-related incentive benefits.

4. Even if an account is figured into the aggregate on the day a "full" payment is received, the balance may still be large because of the accumulation of charges debited to the account between the time of billing and the receipt of the payment by the card issuer.

INTERNATIONAL DEVELOPMENTS

U.S. International Trade in Goods and Services

In August, the U.S. trade deficit in goods and services narrowed to $9.7 billion, with exports increasing faster than imports. Still, the July-August trade deficit, when expressed at an annual rate, was substantially larger than in the second quarter

NET TRADE IN GOODS & SERVICES
(Billions of dollars, seasonally adjusted)

	Year	Quarters			Months		
	1993	94Q1	94Q2	94Q3e	Jun	Jul	Aug
		(annual rates)			(monthly rates)		
Real NIPA 1/ Net Exports of G&S	-73.9	-104.0	-111.8	-118.3	--	--	--
Nominal BOP Net Exports of G&S	-75.7	-97.3	-107.5	-125.6	-9.0	-11.2	-9.7
Goods, net	-132.6	-147.8	-166.5	-181.5	-14.0	-15.9	-14.3
Services, net	56.8	50.5	59.0	55.9	5.0	4.8	4.6

1/ In billions of 1987 dollars, SAAR.
e/ BOP data are two months at an annual rate.
Source: U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census.

Exports of goods and services rebounded in August; the increase was spread among automotive products to Canada (primarily parts), aircraft (partially offsetting a seasonal drop in July), agricultural products (largely soybeans), machinery, and consumer goods. The July-August average level of exports increased at a 2 percent annual rate relative to the second quarter. Large gains in machinery and consumer goods mostly reflected increases in quantity, while an increase in industrial supplies was almost entirely due to increases in prices.

The level of imported goods and services jumped in August, primarily in automotive vehicles from Canada. The July-August average level rose at nearly a 4 percent annual rate relative to the

U.S. International Trade in Goods & Services

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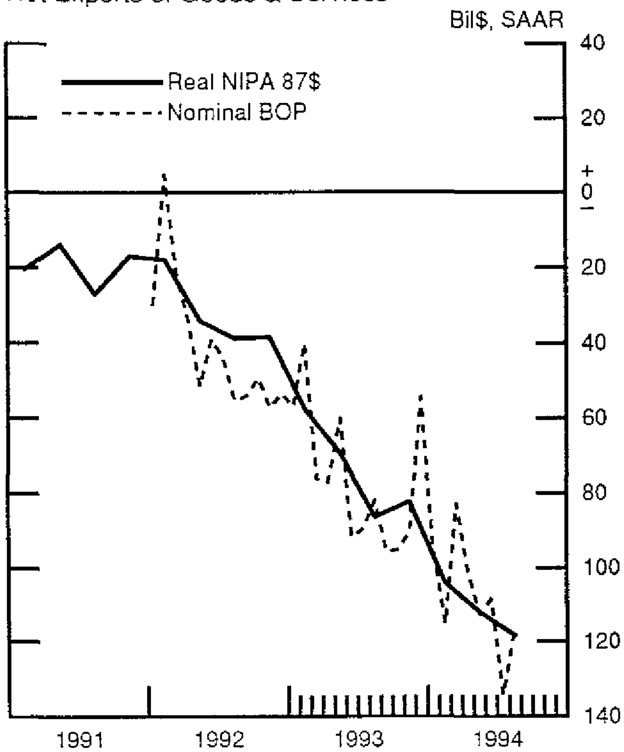
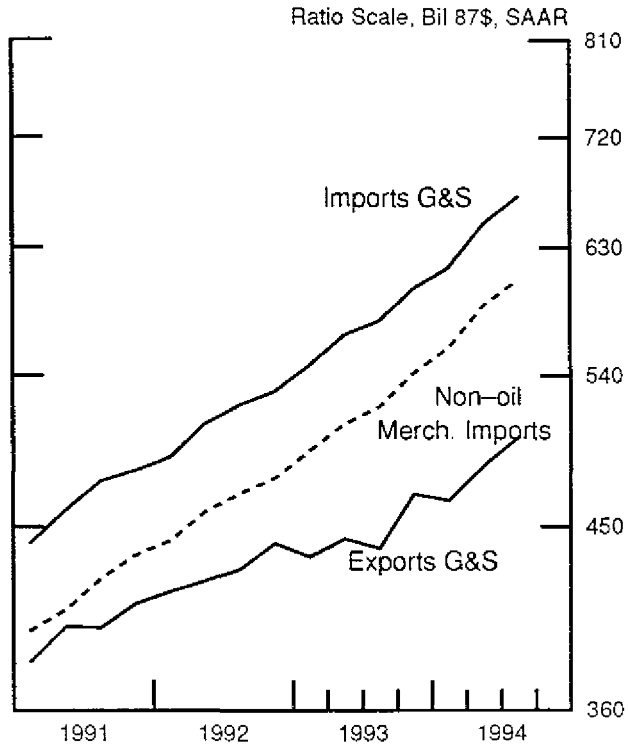
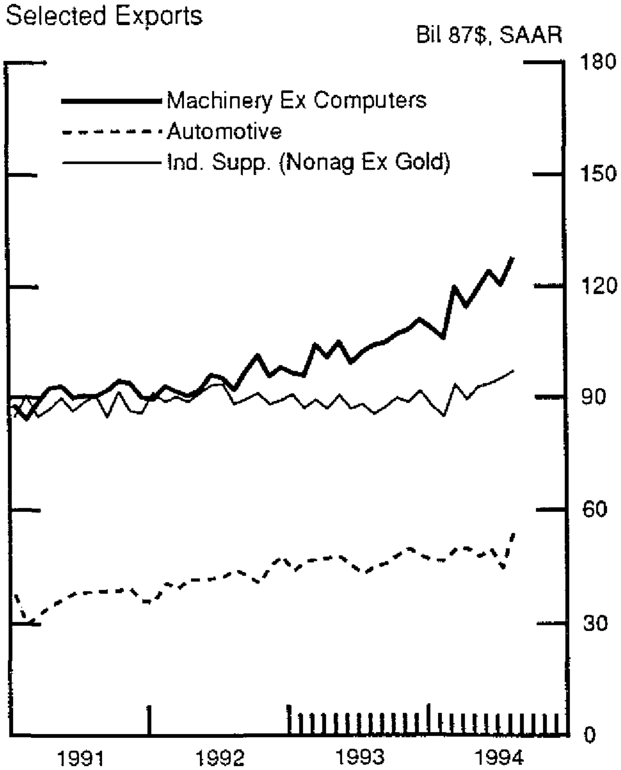
Net Exports of Goods & Services



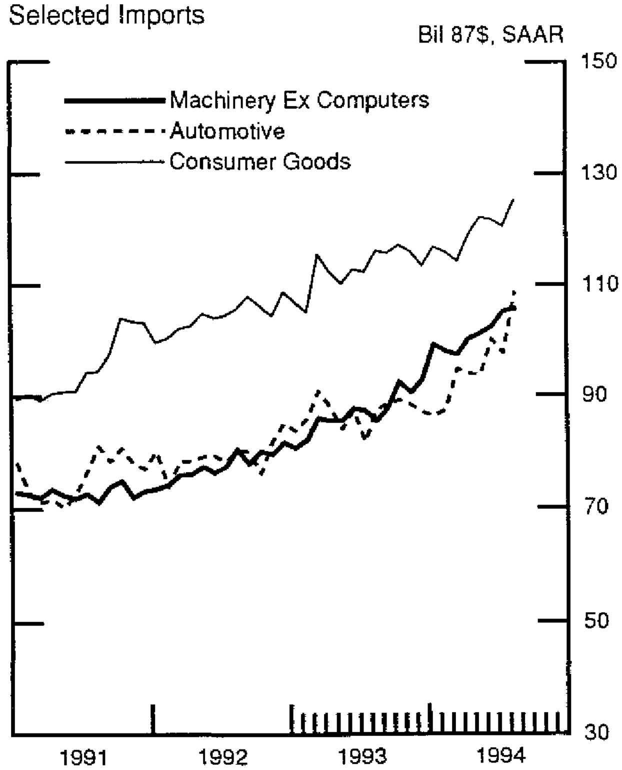
Real NIPA Goods & Services



Selected Exports



Selected Imports



U.S. EXPORTS AND IMPORTS OF GOODS AND SERVICES
(Billions of dollars, SAAR, BOP basis)

	Quarters				Months		
	Levels		$Change 1/		Levels		$Chg 1/
	94Q2	94Q3e/	Q2	Q3e/	Jul	Aug	Aug
Exports of G&S	684.6	696.7	25.1	12.1	675.9	717.5	41.6
Goods Exports	490.7	504.1	18.6	13.4	481.6	526.6	45.0
Agricultural	43.8	46.0	0.1	2.2	42.5	49.5	7.0
Gold	5.7	5.5	-3.6	-0.2	4.6	6.4	1.8
Computers	31.9	33.4	0.6	1.5	33.1	33.7	0.7
Other Goods	409.3	419.2	21.6	9.9	401.4	436.9	35.5
Aircraft & Pts	34.1	26.6	-0.2	-7.4	23.2	30.1	6.8
Semiconductors	24.0	24.6	0.6	0.6	23.7	25.5	1.8
Other Cap Gds	114.1	118.7	8.5	4.6	115.4	121.9	6.5
Automotive	55.9	56.8	1.6	0.9	51.3	62.3	11.0
to Canada	30.6	31.2	1.7	0.5	26.5	35.8	9.3
to Mexico	8.4	7.3	0.5	-1.1	6.9	7.8	0.9
to ROW	16.9	18.3	-0.6	1.4	17.9	18.8	0.9
Ind Supplies	102.3	110.9	6.1	8.6	109.3	112.6	3.3
Consumer Goods	58.3	60.9	2.9	2.6	58.3	63.5	5.2
All Other	20.5	20.6	2.1	0.1	20.1	21.0	0.9
Services Exports	193.9	192.6	6.5	-1.3	194.3	190.9	-3.4
Imports of G&S	792.1	822 3	35.3	30.2	810.2	834 4	24 2
Goods Imports	657.2	685.6	37.3	28.3	673.0	698.2	25.2
Petroleum	51.5	61.4	9.9	9.9	61.1	61.7	0.6
Gold	4.7	3.2	-4.1	-1.5	2.6	3.7	1.1
Computers	44.3	45.4	2.6	1.1	44.6	46.2	1.6
Other Goods	556.7	575.6	29.0	18.9	564.7	586.6	21.9
Aircraft & Pts	12.3	9.4	1.0	-2.9	10.0	8.8	-1.1
Semiconductors	23.7	26.3	0.6	2.6	25.3	27.3	2.0
Other Cap Gds	98.6	102.0	4.2	3.4	102.4	101.6	-0.8
Automotive	116.5	125.8	8.4	9.3	118.9	132.7	13.7
from Canada	41.2	43.7	4.3	2.4	37.0	50.4	13.4
from Mexico	14.2	13.0	0.8	-1.2	11.1	14.9	3.9
from ROW	61.1	69.1	3.3	8.0	70.9	67.4	-3.5
Ind Supplies	106.5	110.8	5.2	4.2	109.7	111.8	2.1
Consumer Goods	144.5	146.9	6.7	2.5	144.3	149.6	5.3
FFB	30.5	32.0	1.1	1.5	31.5	32.5	1.0
All Other	24.2	22.4	1.7	-1.7	22.5	22.3	-0.1
Services Imports	134.9	136.7	-2.0	1.9	137.2	136.2	-1.0
Memo:							
Oil Qty (mb/d)	9.59	10.12	0.59	0.53	10.10	10.15	0.05

1/ Change from previous quarter or month. e/ Average of two months.
Source: U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census

second quarter. The strongest gains were in automotive products, industrial supplies, and oil.

The quantity of oil imports remained above 10.0 mb/d for the third consecutive month in August as a result of higher consumption. Preliminary Department of Energy statistics indicate that while consumption eased and production rose in September, inventory accumulation accelerated with inventories at above normal levels at end-September. While imports are projected to decline from the historic highs of the past three months, they are expected to remain above 9 mb/d in September. During the third quarter, the value of oil imports is projected to have risen from second quarter levels, as both the price and quantity of imported oil rose.

Prices of Merchandise Imports and Exports

The price of imported oil rose a modest $0.10 per barrel -- averaging $16.65 per barrel in August -- after rising $1.00 per barrel each month since April. In September, OPEC production increased as Nigerian production rebounded from its strike-depressed levels and as North Sea oilfield maintenance ended. Consequently, the price of imported oil fell, on the order of $1.00 per barrel, to about $15.60 per barrel. During the third quarter, the price of imported oil should average approximately $1.65 per barrel above the second quarter price.

Spot oil prices (West Texas Intermediate (WTI)) rebounded in late September on the Brazilian oil workers' strike. Prices continued to firm as Iraqi troops massed near the Kuwaiti border, but closed as low as $16.95 per barrel when fears of an Iraqi invasion abated. More recently, the price of WTI strengthened due to an anticipated increase in refinery demand, as ruptured Houston pipelines carrying refined petroleum products come back online and

PRICES OF U.S. IMPORTS AND EXPORTS
(percent change from previous period)

	Quarters			Months		
	94Q1	94Q2	94Q3	Jul	Aug	Sep
	(annual rates)			(monthly rates)		
	BLS Prices					
Merchandise Imports	-2.1	7 4	7.7	1.0	0.5	-0.8
Oil	-30 2	67 5	31.3	5.1	-1.2	-10.2
Non-Oil	1.3	2.8	5.3	0.5	0 6	0.3
Foods, Feeds, Bev.	0.8	16.0	37.4	4.3	2.3	0 4
Ind Supp Ex Oil	5.4	4.4	8.9	0.7	1.1	1 1
Computers	-5.1	-6.7	-8.5	-1.6	-0.3	0.3
Capital Goods Ex Comp	-0.1	2.7	4.2	0.3	0.7	-0.1
Automotive Products	2.0	2.4	2.3	0.1	0.5	0.1
Consumer Goods	-0.1	1.0	1.0	0.2	0.1	0.1
Memo:						
Oil Imports ($/bbl)	12.67	14.67	16.61	16.56	16 65	--
Merchandise Exports	4.1	1.4	2.1	0.2	0 2	0.3
Agricultural	19.9	-7.4	-14.4	-2.2	-1.2	0 5
Nonagricultural	2.2	2.9	4.4	0.5	0.3	0.3
Ind Supp Ex Ag	7.8	9.4	17.3	1.9	1.3	0 8
Computers	-10.0	-6.2	-11.2	-0.4	-2.6	0.0
Capital Goods Ex Comp	0.9	-0.2	0.4	0.0	0.0	0.0
Automotive Products	1.5	0.9	1.2	0.2	0.0	0.1
Consumer Goods	0.8	0.4	-0.5	-0.2	0.2	0.2
	Prices in the NIPA Accounts					
Fixed-Weight						
Imports of Gds & Serv.	-2.8	7.8	9.1	--	--	--
Non-oil Merch Ex Comp	0.5	3.6	5.8	--	--	--
Exports of Gds & Serv.	4.4	2.2	2 9	--	--	--
Nonag Merch Ex Comp	2.9	3 5	5.7	--	--	--

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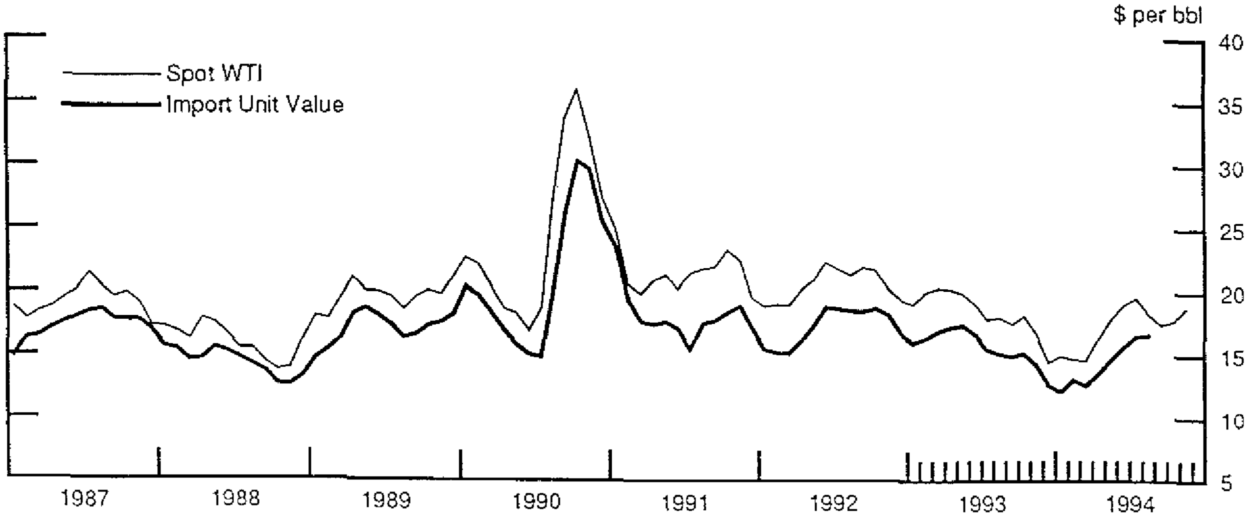
Oil Prices



in light of an EPA-mandated switch to reformulated gasoline on January 1. In addition, new shipping rules to be implemented on December 28, requiring tankers to prove their ability to compensate pollution victims in the event of an oil spill, have raised concerns of possible disruptions in crude shipments to the U.S. As a consequence, the spot price of WTI has been pushed to 12-week highs, closing at $18.93 per barrel on November 2. Currently, spot WTI is trading at $18.33 per barrel.

Prices of nonoil imports rose 0.3 percent in September, significantly less than in July and August. While there was a sharp rise in the price of imported industrial supplies in September, the deceleration of import prices primarily reflected a slowdown in food prices (largely coffee). For the third quarter as a whole, nonoil import prices rose at a 5.3 percent annual rate, somewhat faster than in the second quarter and largely due to prices of industrial supplies.

Prices of nonagricultural exports increased in September, at about the same pace that was set in August. For the third quarter, prices of nonagricultural exports increased at a 4.4 percent annual rate, well above the rate in the first half of the year and led by significant increases in prices of industrial supplies. Prices of agricultural exports moved up in September after three consecutive monthly declines. Still, prices of agricultural exports fell on balance in the third quarter; the weaker prices largely reflect the prospects for bountiful corn and soybean harvests.

U.S. International Financial Transactions

Capital inflows through banks slowed markedly in the third quarter from the heady pace recorded in the second. This smaller inflow was offset by larger private foreign purchases of U.S. securities, smaller U.S. purchases of foreign securities, and a substantial increase in foreign official reserve accumulation in the United States.

Net inflows through banks declined by $28 billion in the third quarter (line 3 of the Summary of U.S. International Transactions Table). In transactions with non-bank foreigners, U.S. banks (and securities dealers) on net lent almost $7 billion in the third quarter after borrowing more than $14 billion in the second, resulting in a $21 billion reduction in net banking inflows between the quarters. A substantial portion of this reduction was by U.S. securities dealers and likely reflects smaller RP financing. In interbank transactions, U.S. banks brought funds in at about the same pace as in the second quarter. As shown on line 1 of the International Banking Data Table, net claims on own foreign offices and IBFs declined $25 billion in the third quarter, on a monthly-average basis; almost all of this inflow was at U.S.-chartered banks and most of it occurred in July and August. Foreign-chartered banks brought in some funds in July and August, but increased net claims on own foreign offices in September. Partial data for October indicate small inflows through foreign-chartered banks and sizable inflows through U.S.-chartered banks.

Private foreign purchases of U.S. securities picked up markedly in the third quarter (line 4 of the Summary Table). Most of the pickup was in Treasury securities, which swung from large net sales in the second quarter to net purchases in the third. Transactions with the United Kingdom more than account for the swing. Net purchases of Treasury securities by Japanese residents fell to less than $1 billion in the third quarter after totaling more than $10 billion in the second. Private foreign purchases of U.S. corporate

SUMMARY OF U S INTERNATIONAL TRANSACTIONS[1]
(Billions of dollars, not seasonally adjusted except as noted)

	Year		Quarter				Month		
			1993	1994			1994		
	1992	1993	Q4	Q1	Q2	Q3	July	Aug.	Sept
Official capital									
1. Changes in foreign official reserve assets in U.S. (+ = increase)	38.3	70.2	23.3	10.3	8.7	17.0	14.6	1.4	.9
a G-10 countries	4.8	29.9	4.8	10 8	15.7	8 6	6 2	3 3	- 8
b OPEC countries	4.9	-5.1	-.9	-2.3	-4.7	3 3	1 5	1 1	7
c All other countries	28 6	45.4	19 4	1.9	-2 4	5.0	6 9	-2 9	1 1
2. Changes in U.S. official reserve assets (+ = decrease)	3.9	-.7	-.7	-.1	3.5	-.2	-.2	- 1	-.1
Private capital									
Banks									
3. Change in net foreign positions of banking offices in the U.S.[2]	35.6	8.7	4.7	39.0	37.0	8.7	10.4	-8.5	6 9
Securities[3]									
4. Foreign net purchases of U.S. securities (+)	68.1	105.5	45.8	31.1	6.3	20.2	4.7	19.1	5 8
a Treasury securities[4]	37 4	24 7	8 1	9.5	-7 3	5 8	-9 4	9 9	5 3
b Corporate and other bonds[5]	34 3	61 2	25 5	13 7	14 8	13 1	5 4	6 2	1 6
c Corporate stocks	-3 7	19 6	12.2	8 0	-1 3	1 3	- 7	3 0	-1 0
5 U.S net purchases (-) of foreign securities	47.9	-132.8	-34.6	-25.1	-18.0	-5.3	-5 3	1	1
a Bonds	-15 6	-69 5	-13 9	-6 6	-5 3	1 6	-2 2	1 4	8
b Stocks	-32 3	-63 3	20 7	-18 5	-12 7	-3 7	3 1	-1 3	7
Other flows (quarterly data, s.a)									
6 U S direct investment (-) abroad	-41 0	-57 9	-22 7	-24 8	-7 8	n a.	n a	n a	n a
7 Foreign direct investment in U S	9 9	21 4	8 1	12 0	3 9	n a	n a	n a	n a
8 Other (+ = inflow)[6]	18 1	68 4	2 7	4 4	6.9	n a.	n a	n a	n a
U.S. current account balance (s.a.)	-67 9	-103 9	-30 6	-32.3	-37 0	n a	n a	n a	n a
Statistical discrepancy (s.a.)	-17 1	21 1	4 0	-14 5	-3 5	n a	n a	n a	n a

1 The sum of official capital, private capital, the current account balance, and the statistical discrepancy is zero. Details may not sum to totals becuse of rounding.

2 Changes in dollar-denominated positions of all depository institutions and bank holding companies plus certain transactions between broker-dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements) Includes changes in custody liabilities other than U S Treasury bills.

3 Includes commissions on securities transactions and therefore does not match exactly the data on U S international transactions published by the Department of Commerce.

4 Includes Treasury bills.

5 Includes U S government agency bonds

6 Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business

n a Not available * Less than $50 million.

INTERNATIONAL BANKING DATA 1/
(Billions of dollars)

	1991 Dec	1992 Dec.	1993 Dec.	1994 Mar.	June	Aug.	Sep.	Oct. 2/
1. Net claims of U.S. banking offices (excluding IBFs) on own foreign offices and IBFS	-35.8	-71.6	-122.1	-157.5	-175.4	-199.2	-200.7	-211.9
a U.S.-chartered banks	12.4	17.0	4 2	-15.1	-29.9	-48.8	-53.0	-61.9
b. Foreign-chartered banks	-48.3	-88.6	-126.3	-142.4	-145.6	-150.3	-147.7	-150 0
2. Credit extended to U.S nonbank residents								
a. By foreign branches of U S banks	23 9	24.8	21 8	21 4	22.2	22.6	23 2	22 8
b. By Caribbean offices of foreign-chartered banks	n.a.	n.a.	90.9	88 6	83.9	n.a.	n.a.	n a
3 Eurodollar holdings of U S nonbank residents								
a. At all U.S - chartered banks and foreign chartered banks in Canada and the United Kingdom	102 9	90 0	77.8	75.1	73 6	80 0	80.9	82 6
b. At the Caribbean offices of foreign-chartered banks	n a.	n.a.	79.2	84.2	82.1	n.a.	n.a.	n a
MEMO: Data as recorded in the U.S. international transactions accounts								
4. Credit extended to U.S. nonbank residents	179	192	202	207	n a	n.a.	n.a.	n a
5. Eurodeposits of U.S. nonbank residents	239	237	235	234	n.a.	n.a.	n a	n a.

1. Data on lines 1 through 3 are from Federal Reserve sources and sometimes differ in timing from the banking data incorporated in the U.S. international transactions accounts.
Lines 1a, 1b, and 2a are averages of daily data reported on the FR 2950 and FR 2951
Lines 2b and 3b are end-of-period data reported quarterly on the FFIEC 002s.
Line 3a is an average of daily data (FR 2050) supplemented by the FR 2502 and end of quarter data supplied by the Bank of Canada and the Bank of England. There is a break in the series in April 1994.
Lines 4 and 5 are end-of-period data estimated by BEA on the basis of data provided by the BIS, the Bank of England, and the FR 2502 and FFIEC 002s It includes some foreign-currency denominated deposits and loans Source: SCB
2. Data for October is a monthly average through October 24.

and agency bonds remained brisk in the third quarter and foreign purchases of U.S. equities swung to small net purchases. Japanese residents continued to acquire U.S. equities in the quarter and more than account for the total net purchases.

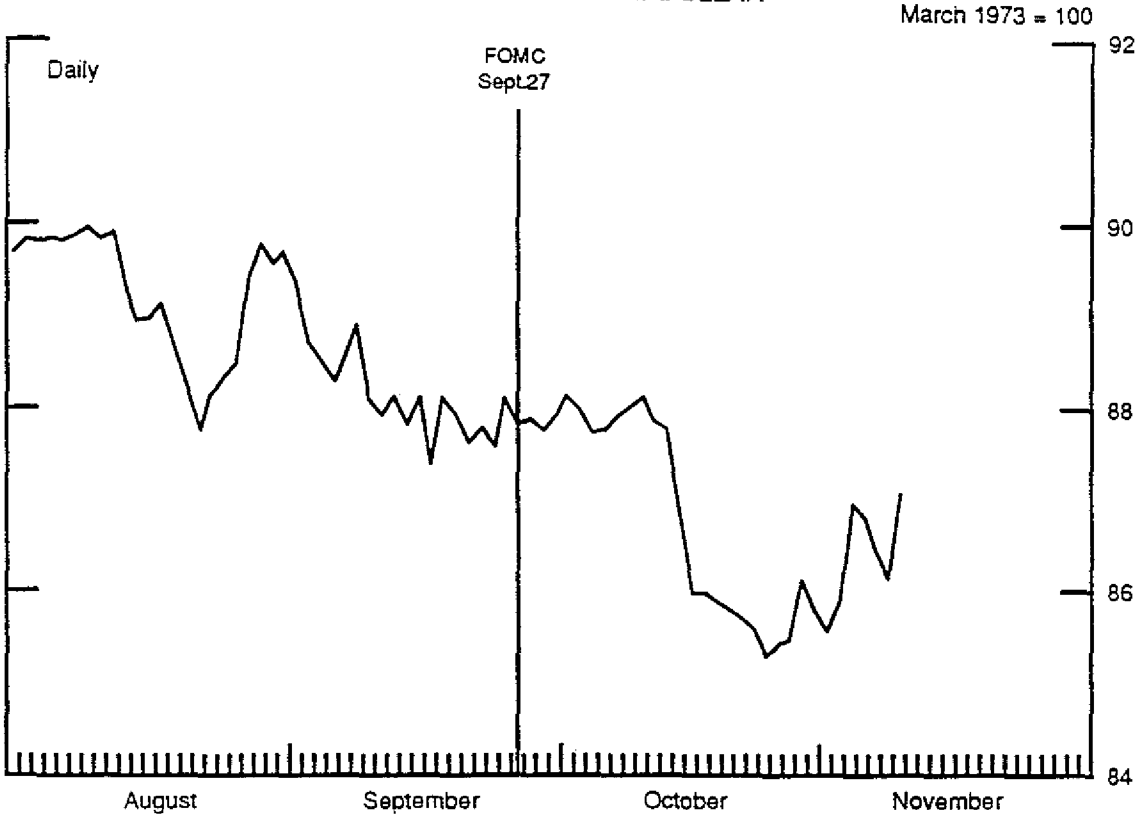
U S. net purchases of foreign securities continued to slow in the third quarter (line 5). However, the recorded slowing in net equity purchases is exaggerated by the aquisition of Syntex (technically a Panamanian company) by Roche (Swiss), which was recorded as a $5 billion sale by U.S. holders to Panama. Elsewhere, U S. purchases of European equities rose in the quarter; in Japan, U.S. residents on net sold equities, after purchasing more than $4 billion in the second quarter.

Capital inflows through official reserve accumulation slowed in August and September, but were still up sharply for the third quarter as a whole (line 1). Inflows from G-10 countries slowed in the quarter while OPEC and other countries swung from net outflows in the second quarter to net inflows in the third. Partial data for October from FRBNY show further inflows from G-10 and other countries.

Foreign Exchange Markets

The weighted average foreign exchange value of the dollar, shown in the chart, declined nearly 1 percent on balance during the intermeeting period. The dollar declined about 1-1/4 percent on balance against the mark and 3/4 percent against the yen. During the early part of the period the dollar fluctuated in a narrow range, before falling sharply in mid-October. The dollar's mid-October drop can partially be attributed to the market's pricing in of the narrow conservative victory in German elections on October 16. However, a large part of the dollar's mid-October decline does not appear to have a fundamental explanation.

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



INTEREST RATES IN THE MAJOR INDUSTRIAL COUNTRIES

	Three-month Rates			10-year Bond Yields		
	Sept. 27	Nov. 9	Change	Sept. 27	Nov. 9	Change
Germany	4.95	5.10	0.15	7.57	7.51	-0.06
Japan	2.30	2.33	0.03	4.45	4.67	0.22
United Kingdom	5.88	6.06	0.18	8.95	8.65	-0.30
Canada	5.43	5.65	0.22	8.99	9.14	0.15
France	5.50	5.50	0.00	8.16	8.19	0.03
Italy	8.56	8.75	0.19	11.65	12.00	0.35
Belgium	5.25	5.06	-0.19	8.55	8.29	-0.26
Netherlands	5.05	5.16	0.11	7.55	7.57	0.02
Switzerland	3.88	3.88	0.00	5.48	5.37	-0.11
Sweden	8.25	8.60	0.35	11.04	11.49	0.45
Weighted-average foreign	4.98	5.07	0.09	7.75	7.79	0.04
United States	5.18	5.78	0.60	7.61	7.93	0.32

For most of the second half of October the dollar drifted lower, weakened in part by concerns that the Federal Reserve was falling behind the curve. The dollar also weakened on comments of U.S. and foreign officials that called into question the willingness of U.S. and foreign monetary authorities to support the dollar via foreign exchange intervention. The dollar rebounded somewhat on October 28, in response to a lower than expected implicit GDP deflator for the third quarter. In early November, the dollar began to decline again, in part in response to the stronger than expected purchasing managers index for October, and in part in response to the failure to reach agreement on flat glass during bilateral U.S./Japan trade talks.

On November 2, after the dollar reached a two-year low of DM1.4907 and a new postwar low of 96.12, U.S. monetary authorities intervened, purchasing dollars against marks and yen on November 2 and 3. During the intervention operations on November 2, Treasury Secretary Bentsen issued a statement indicating that "continuation of recent foreign exchange trends would be counterproductive for the United States and the world economy." Over the two days, U.S. monetary authorities purchased $1.3 billion against marks and $1.3 billion against yen, evenly split between System and Treasury. The Bank of Japan purchased dollars against yen on both days, but the intervention operation was not joined by other foreign monetary authorities.

Following the intervention, the dollar rose 1-1/2 percent but then gave up about one-half of these gains ahead of U.S. elections on November 8. Following the U.S. election, the dollar moved 1-1/4 percent higher. From the dollar's lows on November 2, the dollar rose 2-1/2 percent on balance against the mark and 1-3/4 percent on balance against the yen.

Long-term bond yields declined 10 basis points in Germany, France, and the United Kingdom after the U.S. election. For the intermeeting period as a whole, the German ten-year bellwether bond yield declined about 5 basis points. From September 27 through October 18 the bellwether bond yield declined 30 basis points in anticipation of a victory by Kohl's coalition. Subsequent to the German election, however, long-term bond yields rebounded on worries that the new coalition has too narrow a majority to significantly pare back the budget deficit. Higher than expected M3 growth in September may also have contributed to the back-up in long-term rates. Three-month rates in Germany rose 15 basis points during the period.

In the United Kingdom, the bellwether bond yield declined 30 basis points on balance. Long-term U.K. rates had declined by more earlier in the period, in response to both the lower than expected U.S. September PPI figures, as well as to lower than expected U.K. September retail price inflation. In the second half of the period, however, long-term rates rose, on balance, in response to survey data and September industrial production figures that show the U.K. economy is continuing to expand at a rapid clip.

Long-term bond yields elsewhere in Europe were mixed, with yields down 10 to 30 basis points in Belgium and Switzerland, and unchanged to up about 40 basis points elsewhere. In Italy long-term rates rose 35 basis points on balance in response to the current government's political difficulties, as well as to uncertainty over whether the proposed budget will remain intact as it makes it way through parliament. In Sweden, long-term rates rose 45 basis points on rising concerns that voters would reject membership in the

European Union in a referendum vote on November 13. Three-month rates in most European countries were unchanged to up 40 basis points.

The Japanese ten-year bellwether bond yield rose about 20 basis points during the intermeeting period reflecting a strengthening Japanese economy. Three-month rates in Japan were about unchanged during the period. Call money rates rose 5 basis points during the period, and have risen about 15 basis points since mid-August, suggesting an apparent monetary tightening by the Bank of Japan.

In Canada, the bellwether bond yield rose about 15 basis points. A part of this rise occurred on disappointment over government proposals to cut social expenditures that lacked specific measures. Short-term rates in Canada rose 20 basis points.

U.S. monetary authorities' purchases of $1.3 billion against marks and $1.3 billion against yen accounted for all U.S. intervention during the period.

Developments in Foreign Industrial Countries

Economic recovery appears to have continued into the third quarter in the major foreign industrial countries, although probably at a more moderate pace than in the first half of the year. In continental Europe, where the staff estimates that the cyclical troughs were reached in early to mid-1993, growth accelerated in the first half of this year and available data suggest that the expansions are continuing in the second half. The Japanese recovery started later and is still relatively weak, but activity appears to have picked up again in the third quarter following a second-quarter decline. The economies in the United Kingdom and Canada are still growing at rates above potential in the third year of the current recovery.

Consumer-price inflation remains generally subdued in most of the major foreign industrial countries despite the revival in economic activity. Unemployment rates have either levelled off or begun to come down, although they are still at relatively high levels, while wage growth has remained moderate.

Individual country notes. The recovery that began early this year in Japan is still not firmly established, although the economy appears be continuing to expand in recent months. Industrial production generally has continued to trend up, despite a small decline in September. Growth in housing starts moderated in the summer, but the July-August average level was still a little above the second-quarter pace. In addition, new car registrations rose sharply in August and September, and for the third quarter were nearly 6 percent above the previous-year level. In general, consumption was likely boosted in the third quarter by unusually hot weather and sizable tax rebates. Orders for new machinery rebounded strongly in the summer months following a sharp decline in the second quarter and in August were about 4 percent above their previous year's level.

The labor market remains weak. The unemployment rate rose to 3 percent in the third quarter, slightly above its level in the first half of the year, while the job offers/applicants ratio fell a bit in the third quarter. Inflation remains subdued, with the third-quarter Tokyo CPI slightly below its year-earlier level. (A 0.8 percent increase in the CPI in October was due primarily to increases in food prices that are expected to be reversed.)

On October 1, the United States and Japan reached agreement in principle on opening Japan's insurance and public procurement markets under their economic framework talks. However, no agreement was obtained regarding the car and car parts markets. The United

States has initiated a probe of Japan's replacement parts market under Section 301, which could lead to sanctions.

JAPANESE ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1993	1994						
	Q4	Q1	Q2	Q3	June	July	Aug.	Sept.
Industrial Production	-3.7	1.9	1.1	1.6	2.7	-1.7	3.9	-1.5
Housing Starts	-2.0	3.7	1.7	n.a.	0.3	-2.3	4.1	n.a.
Machinery Orders	-0.7	6.9	-16.5	n.a.	9.4	9.3	1.8	n.a.
New Car Registrations	-3.3	8.5	-7.5	8.9	7.4	-0.2	7.8	1.6
Unemployment Rate (%)	2.7	2.8	2.8	3.0	2.9	3.0	3.0	3.0
Job Offers Ratio*	0.66	0.66	0.64	0.63	0.63	0.62	0.63	0.64
Business Sentiment**	-56	-56	-50	-39	--	--	--	--

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

In western Germany, economic activity has continued to expand in recent months, following a substantial increase in real GDP in the second quarter. Industrial production rose 0.6 percent in the third quarter according to preliminary September data. (The monthly pattern this summer was affected by the fact that more holidays fell in August, and fewer in July, than is usually the case.) A rather sizable upward revision in the September level of the index is expected; this would raise the quarterly growth rate to about 1 percent. Capacity utilization in manufacturing also increased again in the third quarter. On the expenditure side, retail sales for the months of July and August were 0.4 percent above their second-quarter level. The unemployment rate has remained stubbornly high, however, as output growth so far in the recovery has been achieved mainly through strong productivity gains.

Forward-looking indicators of activity are generally positive, although there are some indications that the pace of the expansion may be slowing. Manufacturing orders were up about 2 percent in the third quarter, less than their average rate of increase in the first half of the year. Foreign orders showed a particularly sharp

WEST GERMAN ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1993	1994						
	Q4	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Industrial Production	-0.3	0.3	2.7	0.6	1.2	-2.6	-0.2	n.a.
Manufacturing Orders	-0.7	2.5	4.0	1.8	-0.2	-2.0	4.8	n.a.
Capacity Utilization	78.1	79.5	81.4	82.9	--	--	--	--
Retail Sales Volume	-1.8	1.2	-3.2	n.a.	-2.1	2.0	n.a.	n.a.
Unemployment Rate (%)	8.9	9.2	9.3	9.2	9.2	9.3	9.2	9.2
Production Plans*	-8.0	3.3	7.7	8.7	9.0	6.0	11.0	n.a.

* Percent of manufacturing firms planning to increase production in the next three months minus those planning to decrease production.

deceleration, rising at a rate of about 1 percent in the third quarter following increases averaging 4-1/2 percent in the first half, while domestic orders continued to rise at a moderate pace. Production plans in manufacturing rose sharply in the first half of the year and remained at a high level in the third quarter. Similarly, firms' assessment of their inventory situation continued to improve over the summer, although at a slower rate than earlier in the year.

Inflation as measured by the consumer price index has shown a gradual deceleration this year, to 2.8 percent on a year-over-year basis in October, compared with 3.5 percent last January. Wage moderation has been a significant factor in the slowdown in the inflation rate, as earnings per hour rose a little less than 2 percent in the year ending in August, about half the rate of increase in the previous year. Import prices (n.s.a.) rose in September but were still only about 2 percent above the previous-year level.

Production in <u>eastern Germany</u> has continued to expand at a rapid rate, with industrial production in August up 14 percent from its year-earlier level. Orders for manufactured goods have also continued to rise and were 26 percent above their previous-year level in August. Most of the strength continues to be in domestic orders, although foreign orders also showed an increase in August. The unemployment rate fell in October to 13.3 percent, 2 percentage points below its year-earlier level.

In France, monthly indicators for the third quarter suggest that GDP growth continued at its rapid second-quarter pace. The July/August average of industrial production was 2.3 percent above its second-quarter level, roughly the same size as the increase registered in the second quarter. Much of this summer's strength in output was in construction and autos, which benefited from temporary government subsidies. Consumption of manufactured goods (one-third of total consumption) rose 1.5 percent in the third quarter, similar to the second-quarter gain. Most of this increase occurred early in the quarter, as auto sales rose. Expenditures then fell back along with a drop in auto sales in September, as the impact of the subsidy wore off.

FRENCH ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1993	1994						
	Q4	Q1	Q2	Q3	June	July	Aug.	Sept.
Industrial Production	-0.5	1.0	2.7	n.a.	-0.4	2.3*		n.a.
Unemployment Rate (%)	12.3	12.5	12.6	12.6	12.6	12.6	12.6	12.7
Consumption of Manufactured Products	-1.9	0.7	1.5	1.5	0.9	1.3	0.4	-0.7
Consumer Prices (NSA)	0.5	0.4	0.6	0.1	0.0	0.0	0.0	0.3

* French statistical authorities release an average for July and August.

INSEE's October business survey showed that production of other consumer goods remained strong, while business confidence continued to improve. Foreign orders were particularly strong, but orders for capital goods remained weak. The consumer price index (n.s.a.) rose in September for the first time in several months largely as a result of an increase in food prices. Despite this increase, year-over-year inflation slowed to 1.6 percent in September, compared with 1.7 percent in the previous month.

The unemployment rate rose back to its peak level of 12.7 percent in September. The increase was primarily due to a sharp rise in labor force participation, as employment continued to improve. The labor ministry suggested that this rise was due to "discouraged workers" reentering the labor market in response to signs of economic recovery.

In the United Kingdom, the pace of real non-oil GDP growth slowed to 2.7 percent (SAAR) in the third quarter, following increases averaging 4 percent in the first half of the year. The slowdown was most apparent in the manufacturing sector, while activity in the services and construction sectors accelerated.

Other indicators also suggest that the underlying momentum in the U.K. economy remains strong. Industrial production, which paused in July and August owing to sharp drops in oil production and refining, rebounded strongly in September. Retail sales were brisker than expected in September, and the unemployment rate continued to fall. In October, the latest CBI quarterly survey of British businesses again pointed to increased optimism about production plans, investment spending, and export orders. The survey reported that rates of capacity utilization, already well above their long-run average levels, continued to rise in October. The October Purchasing Managers' Survey also showed that the manufacturing sector continues to grow rapidly and that purchasing managers, expecting a further rise in prices, are building up extra stocks in anticipation.

In September, targeted inflation, measured as 12-month changes in retail prices excluding mortgage interest payments, fell to 2 percent, the lowest rate in over 25 years. However, producers' input prices (n.s.a.) have risen significantly in recent months. In its November inflation report, the Bank of England said that the

UNITED KINGDOM ECONOMIC INDICATORS
(percent change from previous period, SA, except where noted)

	1993		1994					
	Q3	Q4	Q1	Q2	Q3	July	Aug.	Sept.
GDP (SAAR)	3.5	3.6	3.7	4.6	2.7	--	--	--
Non-oil GDP (SAAR)	2.9	2.4	3.2	4.0	2.8	--	--	--
Industrial Production	1.3	1.4	0.9	2.2	1.2	0.6	0 1	1.1
Retail Sales	1.1	0.8	1.1	0.9	0.8	0.7	-0.1	0.5
Unemployment Rate (%)	10.4	10.0	9.8	9.4	9.2	9.3	9.2	9.1
RPI ex. MIP *	3.1	2.7	2.7	2.4	2.2	2.2	2.3	2.0
Input Prices *	5.4	-0.7	-3.0	0.6	4.3	3.3	3.9	5.7

* NSA percent change from preceding year.

outlook for inflation has improved since the previous quarterly report, but underlying inflation is still expected to rise from its current level.

In Italy, the recovery that began late last year gathered momentum in the second quarter. Real GDP rose nearly 6 percent at an annual rate, as domestic demand surged on the strength of inventory accumulation. For the first time in over two years, net exports made a negative contribution to growth as exports declined and imports grew at a rate of nearly 10 percent (SAAR).

ITALIAN REAL GDP
(percent change from previous period, SAAR)

	1992	1993	1993		1994	
	Q4/Q4	Q4/Q4	Q3	Q4	Q1	Q2
GDP	-0.6	0.4	-2.3	4.2	1.7	5.7
Total Domestic Demand	-2.2	-3.5	-4.2	2.6	0.9	9.5
Net Exports (contribution)	1.7	4.0	1.9	1.6	0.7	-3.6

Available indicators from the third quarter suggest that the recovery is continuing. Industrial production registered strong gains in July and August, following a substantial increase in the second quarter, and the unemployment rate fell sharply as employment rose. Consumer and business confidence remained at high levels.

ITALIAN ECONOMIC INDICATORS
(non-seasonally adjusted except where noted)

	1993	1994					
	Q4	Q1	Q2	Q3	July	Aug.	Sep.
Industrial Production*	0.2	0.1	4.6	n.a.	2.0	4.7	n.a.
Capacity Utilization (%)	74.4	74.5	76.0	n.a.	--	--	--
Unemployment Rate (%)	11.3	11.3	11.6	11.0	--	--	--
Consumer Confidence	96.3	100.6	112.8	117.1	116.8	117.1	117.4
Business Sentiment** (%)	4	19	17	n.a.	16	21	n.a.

* Percent change from earlier period (seasonally adjusted).
** Percent of manufacturing firms having a favorable view of business conditions minus those with an unfavorable outlook.

On September 30, the Berlusconi government submitted its proposed 1995 budget to Parliament. By trimming 50 trillion lire (nearly 3 percent of GDP) from the baseline budget deficit, the proposal would reduce the deficit from 9.7 percent of GDP in 1994 to 8 percent in 1995.

In Canada, indicators for the third quarter suggest that economic activity increased at a robust pace. Industrial production, factory shipments, and new orders remained strong through August. The average volume of retail sales for July and August increased only slightly over the second-quarter average, but both business and consumer confidence strengthened. The decrease in employment in October was concentrated in part-time jobs, while full-time employment edged up following strong gains in the third quarter. Excluding the effects of recent tax cuts, 12-month consumer price inflation was 1.6 percent over the quarter.

CANADIAN ECONOMIC INDICATORS
(percent change from previous period except where noted, SA)

	1993	1994						
	Q4	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Industrial Production	1.0	0.7	3.2	n.a	0.7	1.1	n.a.	n.a.
Retail Sales	1.0	3.2	1.3	n.a.	-1.6	0.9	n.a.	n a.
Consumer Attitudes	10.6	4.5	-1.3	4.4	--	--	--	--
Business Confidence*	10.0	8.8	12.3	3.9	--	--	--	--
Employment	0.3	0.4	0.8	1.0	0.5	0.2	0.5	-0.2
Unemployment Rate (%)	11.1	11.0	10.7	10.2	10.2	10.3	10.1	10.0
Consumer Prices**	1.8	0.6	0.0	0.2	0.2	0.2	0.2	n.a.

* NSA.
** Percent change from year earlier.

EXTERNAL BALANCES
(Billions of U.S. dollars, seasonally adjusted)

	1994						
	Q1	Q2	Q3	Jun.	Jul.	Aug.	Sep.
Japan: trade	31.3	30.9	28.3	10.7	11.6	8.3	8.4
current account	33.8	34.2	n.a.	11.8	12.0	9.5	n.a.
Germany: trade	8.6	13.0	n.a.	4.3	2.6	4.9	n.a.
current account*	-6.6	-3.1	n.a.	0.2	-8.5	-4.2	n.a.
France: trade	2.8	3.9	n.a.	1.1	0.9	1.4	n.a.
current account	3.5	n.a.	n.a.	--	--	--	--
U.K.: trade	-4.5	-3.6	n.a.	-1.1	-0.9	-1.0	n.a.
current account	-1.9	-1.0	n.a.	--	--	--	--
Italy: trade	6.9	6.1	n.a.	1.6	n.a.	n.a.	n.a.
current account*	1.3	3.3	n.a.	1.1	2.4	2.1	n.a.
Canada: trade	1.4	2.0	n.a.	1.1	1.6	0.7	n.a.
current account	-5.5	-5.5	n.a.	--	--	--	--

* Not seasonally adjusted.
-- Data not available on a monthly basis.

Chart 1

November 9, 1994

Industrial Production for Major Foreign Countries

Ratio Scale, Seasonally Adjusted, Monthly

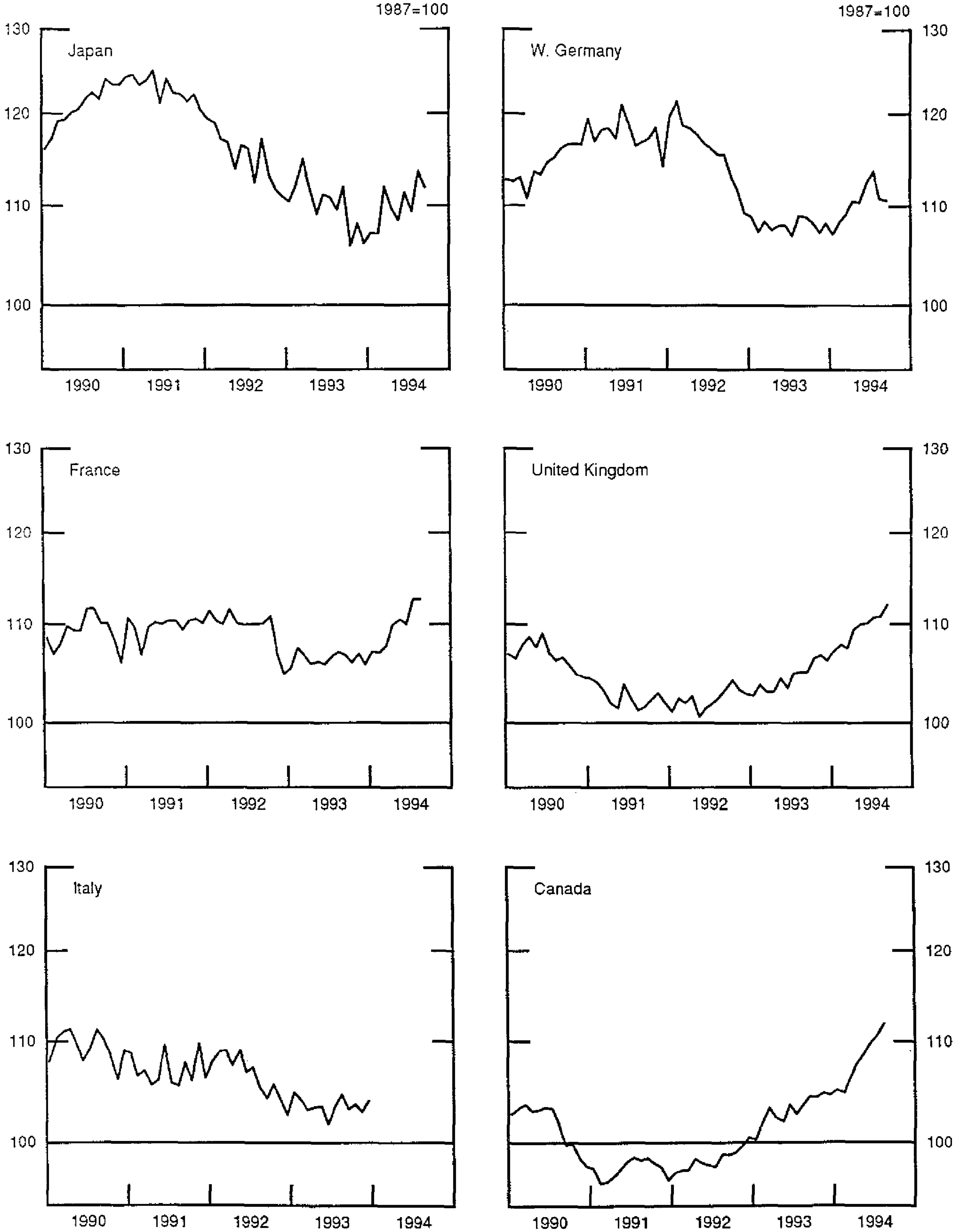
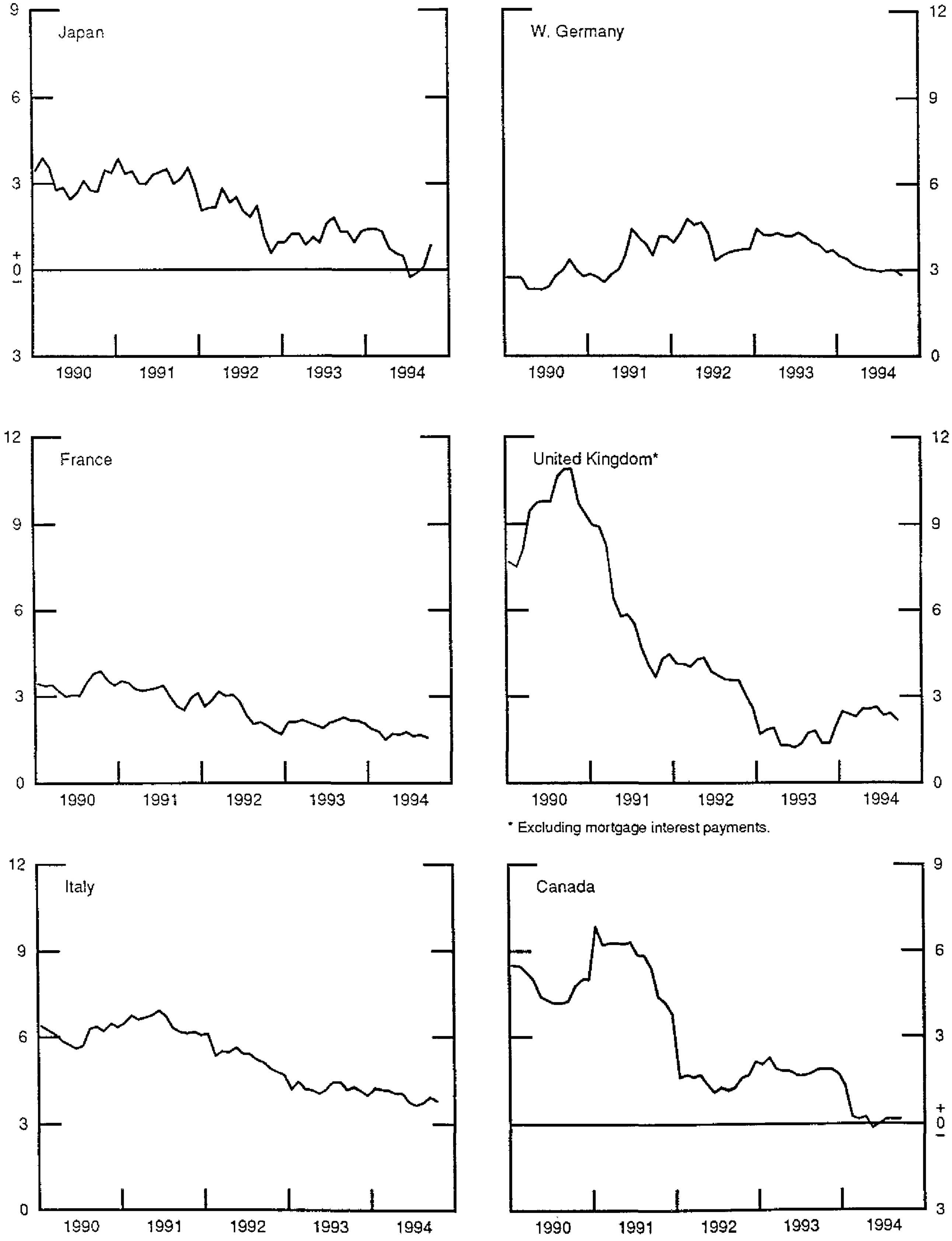


Chart 2

November 9, 1994

Consumer Price Inflation for Major Foreign Countries

12-Month Percent Change



* Excluding mortgage interest payments.

Economic Situation in Other Countries

Economic activity appears strong in major developing countries and countries in transition, with the exceptions of Venezuela and Russia.

In Mexico, strong growth in industrial output suggests a further recovery in economic activity while inflation has continued to decline. In Brazil, growth has been strong while inflation has risen. In Argentina, economic activity has been robust, and inflation has stayed low. In China, rapid growth has been accompanied by persistently high inflation. In Taiwan, growth has been steady while a rise in inflation reflects the temporary effects of typhoons last summer. In Korea, growth remains high, and reducing inflation has become a focus of macroeconomic policy. Economic problems continue to plague Venezuela and Russia. In Venezuela, economic activity continues to contract while inflation has risen. In Russia, the ruble has plunged against the dollar, inflation has risen, and real GDP continues to contract.

Individual country notes. In Mexico on September 24, representatives of government, business, and labor renewed the annual social pact--known as the pacto--that has been used to guide inflation down since 1987. The new pact sets ambitious goals for 1995, including roughly 4 percent real GDP growth, 4 percent consumer price inflation, and a balanced budget. It provides a number of tax incentives for investment, a rebate for low-income workers, and continued federal subsidies. The new pact commits the government to continue devaluing the "lower" limit of the exchange rate band by .0004 pesos per day, or by about 4 percent annually. In view of the downward pressure on the peso earlier this year, as well as growing concerns that the peso was overvalued, some observers had anticipated that the depreciation of the "lower" limit might be accelerated to give the peso more room to move in the event of future pressures.

Industrial production in July was 4.5 percent above its year-earlier level, suggesting further recovery of economic activity. In early November, President Salinas predicted that real GDP growth would reach 4 percent in the second half of this year, which would be well above the first half's 2.2 percent pace. Consumer price inflation has continued to decline, registering 6.7 percent on a 12-month basis in September.

Mexico's merchandise trade deficit in the January-August period was $12.1 billion, well above its year-earlier level of $9.3 billion, reflecting a 17 percent growth in exports and a 20 percent growth in imports over the period. Largely as a result, Mexico's current account deficit for the first half of this year registered $14.2 billion, up from an $11.4 billion deficit in the first half of 1993.

international reserves were $17.2 billion as of end-October, well below their end-1993 level of $25.1 billion.

In Brazil, economic activity expanded rapidly after a monetary reform was implemented on July 1 as part of the stabilization program called the *Plano Real*. In Sao Paulo, industrial sales in September were 33 percent above a year earlier in real terms. Growth in retail sales appears to have slowed since the central bank imposed credit controls in October to dampen aggregate demand and mitigate inflationary pressures. Monthly inflation was less than 2 percent in September, compared with 50 percent in June, but it rose slightly in October and is expected to rise further in November. The government also accelerated the schedule of tariff reductions under the Mercosur trade agreement, which is to go into effect January 1, 1995, to contain inflationary pressures in the tradable goods sector.

In July, the central bank committed only to maintain the new currency at no lower than one *real* per dollar. However, since September, the central bank has intervened, apparently in small amounts, to ease upward pressures on the *real*; as of November 8, the *real*-dollar exchange rate was 0.83. (Estimates of Brazil's holdings of international reserves in October ranged from $41 billion to $43 billion.) In October, the central bank also imposed taxes on capital inflows and removed some controls on capital outflows. In recent months, the rapid expansion in the monetary base, combined with the uncertainty about the prospects for fiscal reform, has raised concerns that the central bank is losing monetary control. In October, a governmental decree raised the ceiling on the central bank's fourth-quarter target for the monetary base by 70 percent.

Brazil's cumulative trade surplus for the year through September was $10.7 billion, little changed from last year, reflecting a 12 percent growth in exports and a 13 percent growth in imports.

Former Finance Minister Henrique Cardoso won the October 3 presidential election by a wide margin and takes office January 1. Cardoso's victory owed to the plunge in inflation after the monetary reform was enacted in July; the monetary reform was part of the anti-inflation program that was launched almost a year ago when Cardoso was finance minister.

In Argentina, growth appears strong while inflation remains low. Industrial production during the first eight months of 1994 was up 5.3 percent from a year earlier. Consumer prices were 3.7 percent higher in September than a year earlier. The cumulative trade deficit for the year through August was $3.8 billion, compared to its year-earlier level of $1.5 billion, reflecting a 36 percent growth in imports and a 16 percent growth in exports.

Argentina and the IMF agreed to forego the last two disbursements of its March 1992 three-year Extended Fund Facility, and the program will expire as scheduled. The agreement resulted from Argentina's desire not to have to meet Fund fiscal performance criteria in upcoming months (1995 is an election year). In recent months, the budget surplus has shrunk and is expected to shift to a deficit. In August, the government discontinued auctions of three-month, peso- and dollar-denominated Treasury bills after rejecting all bids several times, but has recently indicated that it will resume the auctions before the end of the year. The government also announced that the privatization of all airports was underway; it is hoped that the asset sales will reduce fiscal pressures over the short-term.

In Venezuela, the highly expansionary monetary policy followed by the central bank in recent months has not stopped the decline in economic activity. The urban unemployment rate reached 13.5 percent in the third quarter of 1994, up from 9.1 percent the previous quarter. Consumer price inflation was 5.1 percent in October, up from 4.0 percent in September and monthly rates of about 3 percent last year, despite the imposition of price controls in late June.

The cumulative trade deficit for the year through August was $2.7 billion, down from the deficit of $5.5 billion recorded over the same period in 1993, reflecting a 31 percent decline in imports and a 14 percent growth in exports. The fall in imports reflects weak aggregate demand and strict foreign exchange controls imposed in June 1994. The central bank's official reserves, excluding gold, stood at an estimated $8 billion at the end of September.

Economic activity in China has been robust and inflation remains persistently high. In the first three quarters of 1994, real GDP rose 11.4 percent from the same period a year earlier, down from 13.4 percent growth in the first three quarters of 1993. In both September and October 1994, however, industrial production rose 26 percent from a year earlier, the highest monthly growth rates since December 1993. In the twelve months ending in September 1994, retail prices rose 25 percent while urban prices rose 28 percent.

In early November, the People's Bank of China officially announced monetary statistics for the first three quarters of 1994. Although Chinese authorities have sporadically announced monetary statistics in the past, the new figures provide greater detail than previous announcements, and the authorities have promised to provide such figures regularly in the future. At the end of the third quarter, M2 was 37 percent higher than a year earlier while M1 was 33 percent higher.

In the first three quarters of 1994, China ran a trade surplus of $1.4 billion, compared with a deficit of $7.0 billion for the same period of 1993, reflecting export growth of 30 percent and import growth of 15 percent over the period. Foreign exchange reserves nearly doubled over the first nine months of 1994, reaching $40 billion at end-September.

In Taiwan, industrial production in September was 5.4 percent above a year earlier. Consumer prices in September were 6.7 percent higher than a year earlier, reflecting largely the temporary effects of typhoons during the summer. The trade surplus for the January-October period was $6.0 billion, down slightly from its year-earlier level, reflecting a 7 percent growth in exports and an 8 percent growth in imports over the period.

In Korea, economic activity remains very robust. Manufacturing output expanded by 8.7 percent in the third quarter from the same quarter last year. Reducing inflation has become a principal focus of macroeconomic policy. Consumer prices rose by 5.7 percent in October from a year earlier, compared with a 5 1 percent rise in October 1993.

Merchandise exports increased by 12 percent in the first nine months of 1994, with a substantial fraction of the increase accounted for by higher exports of technologically sophisticated manufactured goods. However, merchandise imports rose by 18 percent over the same period, mainly because of extremely rapid growth in imports of capital goods. Hence, the current account deficit for the first nine months of this year widened to $4.4 billion, from $0.7 billion a year earlier.

The Korean authorities recently announced that the ceiling on foreign participation in the equity market will be raised from 10 percent to 12 percent of a company's outstanding stock effective December 1, and to 15 percent in 1995.

In Russia, loose monetary policy, a deteriorating fiscal situation, and resulting increases in inflation expectations caused the ruble to plunge against the dollar by 17 percent during September and 14 percent during October. The October decline was also accompanied by significant volatility; the ruble fell by 22 percent on October 11 but rebounded by 25 percent two days later. The Russian currency has since depreciated by about 1 percent a week. On November 9, the ruble-dollar exchange rate on the MICEX auction closed at 3102.

The ruble's plunge generated considerable political fallout. President Yeltsin asked Parliament to dismiss Central Bank of Russia Chairman Gerashchenko; in response, Gerashchenko resigned. Yeltsin has nominated CBR Deputy Chairman Tatyana Paramonova as the new chairman of the central bank. Yeltsin also fired acting Finance Minister Dubinin, replacing him on November 4 with Vladimir Panskov. Deputy Prime Minister Shokhin resigned in protest over Panskov's nomination, since Shokhin was not consulted beforehand. Yeltsin has since promoted Deputy Prime Minister Chubais to First Deputy Prime Minister; Chubais will apparently assume the bulk of Shokhin's former duties.

Monthly inflation in October was 15 percent, up sharply from 8 percent in September and 5 percent in August, apparently reflecting loose economic policies and the weakening of the ruble. It is now uncertain whether the Russian government will reduce monthly inflation to 7 percent by December, the target stipulated in Russia's Systemic Transformation Facility with the IMF.

According to Russian official statistics, real GDP during the first nine months of 1994 contracted by 16 percent, compared with the same period last year, and industrial production was 23 percent below its year-earlier level. These figures, however, fail to capture the burgeoning growth of the private sector.