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September 16, 1988

SUPPLEMENT  
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

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## SUPPLEMENTAL NOTES

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### DOMESTIC NONFINANCIAL ECONOMY

#### Retail Sales and Inventories

Total retail sales edged down in August after little change in July. Sales in the control category<sup>1</sup> were flat in August; the control figure was revised up slightly for June to 0.9 percent, but was unrevised for July at 0.2 percent. On balance, the August level of nominal spending for the retail control was about 1-1/4 percent above the second-quarter average.

The weakest category in August sales was the automotive group, which posted a decline of 1.8 percent, in part reflecting the decline in unit sales of automobiles from 10.8 million units in July to an estimated 10.3 million units in August at an annual rate (BEA basis). In addition, furniture and appliance stores posted a large decline in sales for a second month, after strong gains earlier this year. Sales at nondurable goods establishments were generally lackluster.

On a current-cost basis, retail inventories fell \$2.1 billion at an annual rate in July after a \$22.8 billion accumulation in the second quarter. The July decline was almost entirely in auto dealers' stocks; the current market value of nonauto retail inventories was little changed. Most types of retail establishments reported small inventory changes in July. For stores in the G.A.F. grouping, inventory

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1. The retail control category, which excludes sales at automotive dealers, building material and supply stores, and gasoline stations, is used by the BEA in constructing personal consumption expenditures.

accumulation slowed to just under \$1 billion at an annual rate, compared with increases of \$4.5 billion in the second quarter and nearly \$8 billion in the first quarter. On the whole, the inventory-sales ratios for stores in this broad category have edged down somewhat in recent months.

For all manufacturing and trade, the current market value of inventories rose \$26.5 billion at an annual rate in July, about half the pace seen in the second quarter. The overall inventory-sales ratio for manufacturing and trade, at 1.50 months in July, was unchanged from June but notably below the 1.53 average around the turn of the year.

RETAIL SALES  
(Seasonally adjusted percentage change)

	1987	1988		1988		
	Q4	Q1	Q2	June	July	Aug.
Total sales	-.6	2.2	1.8	.6	.1	-.2
Previous estimate <sup>1</sup>			1.7	.4	.5	
(REAL) <sup>2</sup>	-1.2	2.3	.7	.3	-.5	--
Previous estimate <sup>1</sup>			.6	.2	-.1	
Total less auto dealers, nonconsumer stores, and gasoline stations	.5	1.2	2.1	.9	.2	.0
Previous estimate <sup>1</sup>			2.0	.6	.2	
GAF <sup>3</sup>	.3	1.1	2.2	1.2	-.3	-.4
Durable	-2.1	4.9	1.8	.6	-.5	-1.0
Automotive dealers	-3.7	5.9	.4	.5	.2	-1.8
Furniture and appliances	-2.1	5.7	5.3	1.7	-2.1	-1.2
Other durable goods	2.2	1.2	2.2	2.0	-.3	.9
Nondurable	.4	.6	1.8	.6	.5	.2
Apparel	-.3	-1.0	2.0	.7	1.4	.4
General merchandise <sup>4</sup>	1.6	-.2	.8	1.2	-.1	-.4
Other nondurables	-1.5	1.1	3.1	2.9	2.1	-.9
<u>Memo</u> : Motor vehicle sales <sup>5</sup>	14.7	15.6	15.6	15.9	15.4	15.4
Autos	10.0	10.8	10.8	11.1	10.4	10.2
Light trucks	4.7	4.8	4.8	4.8	5.0	5.2
Autos <sup>6</sup>	9.9	10.8	10.6	11.0	10.8	10.3

1. Based on incomplete sample counts approximately one month ago.

2. BCD series 59. Data are available approximately 3 weeks following the retail sales release.

3. General merchandise, apparel, furniture, and appliance stores.

4. General merchandise excludes mail order nonstores; mail order sales are also excluded in the GAF grouping.

5. Millions of units at an annual rate; FRB seasonals.

6. BEA seasonals.

--Data are unavailable because of a future release date.

BUSINESS INVENTORIES  
(Change at annual rates in seasonally  
adjusted current cost; billions of dollars)

	1987		1988		1988			
	Q3	Q4	Q1	Q2	Apr.	May	June	July
Manufacturing and trade (Previous)	35.8	82.4	39.7	56.9	45.2	57.8	67.8 58.8	26.5
Manufacturing	19.2	29.0	22.3	21.1	14.9	25.7	22.7	18.7
Trade, total	16.6	53.4	17.4	35.9	30.3	32.1	45.1	7.8
Wholesale	1.8	23.8	26.5	13.1	21.6	-1.3	19.0	9.9
Retail	14.8	29.6	-9.1	22.8	8.7	33.5	26.1	-2.1
Ex autos	9.2	15.3	12.5	9.9	.7	11.6	17.5	.4
Durable	8.0	22.2	-17.3	15.9	8.6	26.4	12.7	-2.2
Auto	5.5	14.2	-21.6	12.8	8.0	21.9	8.6	-2.5
Nondurable	6.8	7.4	8.2	6.9	.1	7.1	13.5	.1

Totals may not add because of rounding.

INVENTORY/SALES RATIOS

	1987		1988		1988			
	Q3	Q4	Q1	Q2	Apr.	May	June <sup>r</sup>	July <sup>p</sup>
Manufacturing and trade	1.50	1.53	1.53	1.52	1.51	1.51	1.50	1.50
Manufacturing	1.61	1.61	1.62	1.58	1.59	1.58	1.56	1.58
Trade, total	1.41	1.46	1.45	1.46	1.45	1.45	1.44	1.44
Wholesale	1.23	1.27	1.31	1.30	1.30	1.30	1.28	1.28
Retail	1.59	1.65	1.60	1.62	1.59	1.60	1.61	1.60
Excluding auto	1.51	1.54	1.55	1.55	1.54	1.53	1.53	1.53

r--Revised.

p--Preliminary.

Erratum

The sentence in Part 1 describing the staff CPI projection for 1989 (page I-9, lines 4 to 6) should read: The CPI, which is not affected by the pay adjustment, shows a more stable rate of inflation of around 4-3/4 percent for the year.



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

	1987 <sup>1</sup>	1988 Q1	1988 Q2	1988 Jun	1988 Jul	1988 Aug p	Growth Q4 87- Aug 88p
-----Percent change at annual rates-----							
1. M1	6.2	3.8	6.3	9.8	9.1	0.2	5.2
2. M2	4.0	6.8	7.7	5.8	3.8	2.5	6.2
3. M3	5.4	7.1	7.5	7.7	6.4	4.0	6.9
-----Percent change at annual rates-----							Levels bil. \$ Aug 88p
<b>Selected components</b>							
4. M1-A	2.8	1.4	3.9	9.2	4.8	0.7	504.4
5. Currency	8.7	9.4	8.4	7.7	8.2	5.2	207.2
6. Demand deposits	-1.0	-4.4	1.0	10.4	2.9	-2.5	290.0
7. Other checkable deposits	13.6	8.3	10.6	11.0	17.1	-0.9	278.1
8. M2 minus M1 <sup>2</sup>	3.3	7.8	8.3	4.4	2.0	3.3	2250.1
9. Overnight RPs and Eurodollars, NSA	4.1	-11.8	3.0	3.0	-38.5	45.9	81.4
10. General purpose and broker/dealer money market mutual fund shares, NSA	5.8	19.3	3.1	-14.5	3.1	7.3	230.9
11. Commercial banks	2.5	7.2	6.8	9.0	5.0	3.8	961.7
12. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	1.8	2.8	3.2	11.1	2.2	-2.8	547.6
13. Small time deposits	3.5	13.7	11.8	6.2	8.8	12.9	414.2
14. Thrift institutions	3.5	8.7	9.1	3.0	1.6	2.3	974.7
Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	0.8	-7.3	2.3	4.8	2.1	-1.8	403.5
Small time deposits	5.6	21.3	14.0	1.7	1.3	5.3	571.2
17. M3 minus M2 <sup>4</sup>	11.2	8.4	6.8	15.1	16.0	9.4	813.1
18. Large time deposits	8.5	7.3	7.5	15.2	18.6	13.4	515.8
19. At commercial banks, net <sup>5</sup>	11.2	3.4	6.7	23.4	27.3	21.4	347.9
20. At thrift institutions	3.4	15.7	8.8	0.0	1.4	-2.9	167.9
21. Institution-only money market mutual fund shares, NSA	3.0	44.0	-30.6	-49.3	-20.9	-11.3	84.0
22. Term RPs, NSA	32.8	6.6	25.1	27.1	7.9	-19.5	121.0
23. Term Eurodollars, NSA	13.8	-23.4	19.4	18.4	12.9	71.6	99.5

-----Average monthly change in billions of dollars-----

**MEMORANDA:<sup>6</sup>**

24. Managed liabilities at commercial banks (25+26)	6.1	1.5	7.9	4.8	4.0	11.2	610.8
25. Large time deposits, gross	3.5	2.3	1.5	4.1	6.2	6.8	413.5
26. Nondeposit funds	2.7	-0.8	6.4	0.7	-2.2	4.4	197.3
27. Net due to related foreign institutions, NSA	2.9	-6.1	4.0	-0.8	2.2	7.9	19.1
28. Other <sup>7</sup>	-0.2	5.3	2.4	1.6	-4.4	-3.5	178.2
29. U.S. government deposits at commercial banks <sup>8</sup>	0.3	-0.4	-1.0	-2.7	-1.8	-4.4	15.8

1. Amounts shown are from fourth quarter to fourth quarter.
2. Nontransactions M2 is seasonally adjusted as a whole.
3. Commercial bank savings deposits excluding MMDAs grew during July and August at rates of 9.6 percent and 7 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during July and August at rates of 6.5 percent and 5 percent, respectively.
4. The non-M2 component of M3 is seasonally adjusted as a whole.
5. Net of large denomination time deposits held by money market mutual funds and thrift institutions. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis. Consists of borrowing from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase, and other liabilities for borrowed money (including borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estimated.
6. Consists of Treasury demand deposits and note balances at commercial banks.
- p - preliminary

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT,  
(Percentage changes at annual rates, based on seasonally adjusted data)<sup>1</sup>

	1986:Q4	1988					Levels
	to						bil.\$
	1987:Q4	Q1	Q2	June	July	P Aug.	P Aug.
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	7.9	7.8	11.9	11.1	4.9	6.7	2366.7
2. Securities	5.0	5.4	8.9	10.6	-9.6	5.3	546.3
3. U.S. government securities	9.1	6.8	12.9	13.5	-17.2	8.7	347.3
4. Other securities	-1.3	2.9	2.0	5.5	3.6	-.6	199.0
5. Total loans	8.8	8.6	12.9	11.2	9.4	7.2	1820.4
6. Business loans	7.5	2.7	16.7	14.3	12.7	1.6	601.5
7. Security loans	1.0	76.6	-12.1	-6.2	-18.7	44.2	39.4
8. Real estate loans	18.1	10.8	13.8	12.3	11.6	13.4	631.9
9. Consumer loans	4.9	10.4	7.2	5.3	3.5	5.6	343.2
10. Other loans	-2.3	5.4	13.2	11.9	7.6	.6	204.4
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	7.6	2.3	17.0	14.4	12.8	1.4	597.9
12. Loans at foreign branches <sup>2</sup>	-4.1	115.8	4.1	-35.3	-48.5	63.2	20.0
13. Sum of lines 11 & 12	7.2	5.2	16.6	12.5	10.8	3.1	617.8
14. Commercial paper issued by nonfinancial firms	-1.6	8.8	12.2	-7.8	-23.3	9.4	90.4
15. Sum of lines 13 & 14	6.0	5.7	16.0	10.0	6.5	3.9	708.2
16. Bankers acceptances: U.S. trade related <sup>3,4</sup>	13.3	-11.6	-9.5	-10.9	-7.3	n.a.	32.6 <sup>5</sup>
17. Line 15 plus bankers acceptances: U.S. trade related	6.3	4.9	14.8	9.0	5.9	n.a.	738.5 <sup>5</sup>
18. Finance company loans to business <sup>3</sup>	16.6	8.4	12.1	8.7	9.2	n.a.	222.9 <sup>5</sup>
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	8.4	5.6	14.2	17.2	6.7	n.a.	961.4 <sup>5</sup>

1. Average of Wednesdays.

2. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.

3. Based on average of data for current and preceding ends of month.

4. Consists of acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.

5. July data.

n.a.--not available

--preliminary

SELECTED FINANCIAL MARKET QUOTATIONS 1/  
(percent)

	1987		1988			Change from:
	Jan-Feb lows	2/ Oct 16	Feb lows	FOMC Aug 16	Sept 15	FOMC Aug 16
<b>Short-term rates</b>						
Federal funds 3/	5.95	7.59	6.38	7.80	8.14	0.34
Treasury bills 4/						
3-month	5.30	6.93	5.59	7.06	7.17	0.11
6-month	5.31	7.58	5.77	7.54	7.38	-0.16
1-year	5.35	7.74	6.10	7.69	7.43	-0.26
Commercial paper						
1-month	5.81	7.94	6.41	8.26	8.04	-0.22
3-month	5.73	8.65	6.45	8.42	8.11	-0.31
Large negotiable CD's 4/						
1-month	5.85	7.92	6.44	8.24	8.10	-0.14
3-month	5.80	8.90	6.49	8.55	8.17	-0.38
6-month	5.78	9.12	6.55	8.85	8.40	-0.45
Eurodollar deposits 5/						
1-month	6.00	7.79	6.60	8.31	8.16	-0.15
3-month	6.00	8.69	6.69	8.59	8.27	-0.32
Bank prime rate	7.50	9.25	8.50	10.00	10.00	0.00
<b>Intermediate- and long-term rates</b>						
U.S. Treasury (constant maturity)						
3-year	6.34	9.52	7.28	8.84	8.51	-0.33
10-year	7.01	10.23	8.11	9.35	8.91	-0.44
30-year	7.29	10.24	8.32	9.40	9.00	-0.40
Municipal revenue 6/ (Bond Buyer index)	6.92	9.59	7.76	8.18	7.88	-0.30
Corporate—A utility Recently offered	8.78	11.50	9.63	10.53	10.17	-0.36
Home mortgage rates 7/						
Fixed-rate	9.10	11.58	9.84	10.57	10.53	-0.04
ARM, 1-year	7.52	8.45	7.59	8.00	8.14	0.14
	1986	1987		1988		Percent change from:
	Year end	Record highs	Lows	FOMC Aug 16	Sept 15	FOMC Aug 16
<b>Stock prices</b>						
Dow-Jones Industrial	1895.95	2722.42	1738.74	2021.51	2092.28	3.50
NYSE Composite	138.58	187.99	125.91	147.49	151.60	2.79
AMEX Composite	263.27	365.01	231.90	294.57	297.70	1.06
NASDAQ (OTC)	348.83	455.26	291.88	375.66	382.70	1.87

1/ One-day quotes except as noted.

2/ Last business day prior to stock market decline on Monday Oct. 19, 1987.

3/ Average for two-week reserve maintenance period closest to date shown except lows shown which are one-week averages ending Feb. 25 and Feb. 10, respectively. Last observation is average to date for maintenance period ending Sept. 21, 1988.

4/ Secondary market.

5/ Average for statement week closest to date shown.

6/ One-day quotes for Thursday.

7/ Quotes for week ending Friday closest to date shown e—estimate

## INTERNATIONAL DEVELOPMENTS

U.S. Merchandise Trade Through July

In July, the seasonally adjusted U.S. merchandise trade deficit was substantially smaller than the deficit recorded for June and was the lowest monthly deficit recorded since March 1985. At an annual rate, the July deficit was \$110 billion, well below the \$120 billion annual rate deficit recorded in the second quarter (column 7 in the table that follows). Month-to-month changes in the trade deficit are volatile; nonetheless, the July figures appear to be part of a steady improving trend that emerged at the beginning of the year.

Virtually all of the improvement in the trade deficit in July was due to a reduction in imports. Imports, which had risen strongly in June, declined even more in July to a rate last recorded in the third quarter of 1987 (column 4 in the table). Oil imports declined slightly in July with the volume easing a bit and the price of imports dropping by about \$0.45 per barrel from June levels. Imports of other industrial supplies decreased in July from the stronger levels recorded in May and June, and were less than the average for either the first or second quarters (by 2 to 5 percent); the July decline was partly in chemicals and partly in various metals. Imports of capital goods in July declined 10 percent from an unusually strong June level, returning to the average rate recorded in each of the preceding four months (and the average of the first quarter). Deliveries of large jets to U.S. customers declined from a high level in June. The decline in imports of machinery was spread over a broad range of categories. Imports of semiconductors in

July were an exception, being only marginally less than the strong June rate; steady increases throughout the year have raised the value of these imports 15 percent between January and July. Imports of automotive products from Canada dropped sharply in July (these shipments are subject to sharp seasonal swings in July and August). While imports of automotive products from the rest of the world increased somewhat in July, the rate of imports during the last four months was less than during the first quarter. Imports of consumer goods dropped sharply in July to a level that was about 3 to 4 percent below the average for both the first and second quarters. Nearly half of the decline was in apparel and in footwear, which did not rise as strongly this July as in previous Julys; the seasonal factor for apparel peaks in July, jumping to the 125 to 200 range for various items.

The value of exports in July was lower than the June rate, and somewhat under the average for the second quarter (column 1 in the table). There were increases in the value of agricultural exports in July; higher exports of soybeans and corn were only partly offset by declines in wheat and cotton exports. While a 5 percent increase in exports of capital goods in July was from a relatively low June level, the amount of exports in July was higher than the averages for either the first or second quarters (by 2 to 5 percent); about one-fourth of the increase in July was in exports of computers. Exports of industrial supplies were as strong in July as they were in June (which was about 4 percent above the average in the first quarter). Exports of consumer goods in July were as high as in May and June (and about 15 percent

above the first-quarter rate). Exports of automotive products declined sharply in July to the lowest level recorded since last July (reflecting strong seasonal movements only imperfectly captured in seasonal factors).

U.S. Merchandise Trade  
Billions of Dollars, Seasonally Adjusted Annual Rates

	<u>Balance-of-Payments Accounts</u>						<u>Monthly Press Release</u>		
	<u>Exports</u>			<u>Imports</u>			<u>Customs</u>	<u>GIF</u>	
	<u>Total</u>	<u>Agric.</u>	<u>Nonagric.</u>	<u>Total</u>	<u>Oil</u>	<u>Non-oil</u>	<u>Value</u>	<u>Value</u>	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
<u>Years</u>									
1986	224	27	197	369	34	334	-145	-138	-155
1987	250	30	220	410	43	357	-160	-152	-170
<u>Quarters</u>									
1987 - 1	227	26	201	387	35	352	-159	-151	-168
2	240	28	211	398	40	357	-158	-149	-170
3	260	33	227	418	51	367	-159	-154	-172
4	272	31	242	437	45	392	-165	-154	-172
1988 - 1	301	36	265	442	40	402	-141	-131	-150
2	319	39	280	438	41	397	-120	-115	-133
<u>Months</u>									
1988 - April	313	40	272	426	39	387	-113	-106	-124
May	322	39	283	436	44	392	-113	-99	-117
June	320	37	284	453	40	412	-133	-140	-158
July	312	39	273	422	39	384	-110	-97	-114

Note: Monthly data on a Balance-of-Payments Basis are estimates, and are for Official Use Only.