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CLASS III - FOMC

August 18, 1989

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

#### Consumer Prices

The consumer price index for all urban consumers rose 0.2 percent in July. Energy prices fell 0.7 percent, as gasoline prices dropped 2.2 percent in the wake of recent declines in crude oil costs and high levels of gasoline inventories. Food prices rose 0.3 percent, as declines in prices for pork, poultry, and eggs partially offset moderate increases in the price of fruits and vegetables and most other types of food at home. Poultry prices came down sharply at the farm, producer, and consumer levels in July.

Consumer prices other than food and energy rose 0.4 percent in July, about the same as the average monthly rate of increase in the preceding twelve months. Among the components of this index, service prices continued to rise considerably faster than consumer goods prices, which have been held down by the moderation in import prices. Prices of commodities other than food and energy rose 0.1 percent in July. Apparel prices fell 0.9 percent as retailers, who needed to trim stocks to make room for the fall clothing line, discounted prices more than usual. New car prices fell 0.4 percent as automakers stepped up incentive programs to clear out their inventories before the 1990 models begin to reach showrooms. Non-energy services prices jumped 0.6 percent, led by large increases in the cost of out-of-town lodging, hospital services, and educational services. Residential rent and owners' equivalent rent rose 0.3 percent and 0.4 percent, respectively, the same pace as in the preceding twelve months.

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RECENT CHANGES IN CONSUMER PRICES  
(Percentage change; based on seasonally adjusted data)<sup>1</sup>

	Relative importance Dec. 1988	1987	1988	1989		1989	
				Q1	Q2	June	July
				-Annual rate-		-Monthly rate-	
All items <sup>2</sup>	100.0	4.4	4.4	6.1	5.7	.2	.2
Food	16.2	3.5	5.2	8.2	5.6	.2	.3
Energy	7.3	8.2	.5	10.2	24.8	-1.0	-.7
All items less food and energy	76.5	4.2	4.7	5.2	3.8	.2	.4
Commodities	25.7	3.5	4.0	4.1	2.0	-.1	.1
Services	50.8	4.5	5.0	5.9	4.3	.4	.6
Memorandum:							
CPI-W <sup>3</sup>	100.0	4.5	4.4	6.2	5.7	.2	.2

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

2. Official index for all urban consumers.

3. Index for urban wage earners and clerical workers.

Federal Sector Forecast in the Greenbook

The following table, Federal Sector Accounts, replaces the one included in the August 16 Greenbook, Part 1. That table omitted lines containing High-employment Budget data and projections; these lines have been inserted on the new table.

August 17, 1989

FEDERAL SECTOR ACCOUNTS  
(Billions of dollars)

	Fiscal Year 1988a	FY1989p			FY1990p			FRB Staff Projection								
		Admin <sup>1</sup>	CBO <sup>2</sup>	FRB Staff	Admin <sup>1</sup>	CBO <sup>2</sup>	FRB Staff	1988 IVa	1989			1990				
									Ia	IIa	III	IV	I	II	III	IV
Not seasonally adjusted																
<b>BUDGET</b>																
Budget receipts <sup>3</sup>	909	996	983	993	1080	1069	1069	222	220	308	244	228	248	329	265	249
Budget outlays <sup>3</sup>	1064	1144	1142	1162	1179	1215	1179	289	280	285	306	295	297	298	290	314
Surplus/deficit (-) to be financed <sup>3</sup>	-155	-148	-159	-168	-99	-146	-110	-68	-61	23	-63	-66	-49	31	-25	-64
(On-budget)	-194	-202	-215	-221	-164	-214	-176	-73	-77	0	-70	-76	-69	8	-40	-74
(Off-budget)	39	53	56	53	65	68	66	6	16	23	8	9	19	23	15	10
<b>Means of financing:</b>																
Borrowing	162	n.a.	n.a.	143	n.a.	n.a.	107	54	38	10	41	67	27	-1	15	62
Cash decrease	-8	n.a.	n.a.	13	n.a.	n.a.	-3	11	19	-29	12	4	12	-25	5	10
Other <sup>4</sup>	1	n.a.	n.a.	13	n.a.	n.a.	6	3	4	-4	9	-5	10	-5	6	-8
Cash operating balance, end of period	44	n.a.	n.a.	32	n.a.	n.a.	35	34	15	44	32	27	15	40	35	25
Seasonally adjusted annual rates																
<b>NIPA FEDERAL SECTOR</b>																
Receipts	958	n.a.	1037	1034	n.a.	1133	1112	995	1036	1051	1055	1072	1107	1124	1145	1162
Expenditures	1103	n.a.	1177	1188	n.a.	1255	1245	1162	1184	1198	1209	1216	1245	1257	1262	1276
Purchases	377	n.a.	395	404	n.a.	416	413	405	399	404	407	405	415	418	416	417
Defense	297	n.a.	302	300	n.a.	311	300	301	299	302	300	297	301	301	300	299
Nondefense	80	n.a.	93	104	n.a.	105	114	106	100	102	107	108	113	117	116	117
Other expend.	726	n.a.	782	784	n.a.	839	831	756	785	794	802	811	830	839	846	859
Surplus/deficit	-145	n.a.	-140	-154	n.a.	-122	-133	-168	-148	-147	-154	-144	-138	-133	-117	-114
<b>FISCAL INDICATORS<sup>5</sup></b>																
High-employment (HEB) surplus/deficit (-)	-155	n.a.	n.a.	-175	n.a.	n.a.	-144	-186	-172	-168	-173	-161	-152	-142	-122	-114
Change in HEB, percent of potential GNP	.3	n.a.	n.a.	.4	n.a.	n.a.	-.6	1	-.3	-.1	.1	-.2	-.2	-.2	-.4	-.1
Fiscal impetus measure (FI), percent	.2 *	n.a.	n.a.	-4.1 *	n.a.	n.a.	-7.3 *	1	-2.7	-.1	-.7	-3.1	-3.7	-.1	-1	-2

a--actual

p--projection

\*--calendar year

n.a.--not available

Note: Details may not add to totals due to rounding.

1. The Administration figures are from the Mid-Session Review of the Budget (July 18, 1989), which incorporates the Bipartisan Budget Agreement but does not include on-budget RTC spending in FY1989.
2. The CBO figures are baseline budget estimates from An Analysis of President Reagan's Budgetary Proposals for Fiscal Year 1990 (February 1989). New CBO estimates will be released August 17, 1989.
3. Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law.
4. Other means of financing are checks issued less checks paid, accrued items and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

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

	1988 <sup>1</sup>	1989 Q1	1989 Q2	1989 May	1989 Jun	1989 Jul p	Growth Q4 88- Jul 89p
-----Percent change at annual rates-----							
1. M1	4.3	-0.4	-5.6	-15.0	-4.3	10.4	-1.9
2. M2	5.2	1.8	1.0	-3.6	6.1	12.1	3.0
3. M3	6.2	3.7	2.8	-1.5	5.5	9.3	4.0
-----Percent change at annual rates-----							Levels bil. \$ Jul 89p
<u>Selected components</u>							
4. M1-A	2.5	-0.2	-3.3	-6.4	-5.5	10.6	504.0
5. Currency	8.1	7.0	4.1	2.8	5.5	2.8	217.9
6. Demand deposits	-1.2	-5.5	-8.7	-13.6	-13.8	17.0	278.9
7. Other checkable deposits	7.7	-0.7	-9.7	-31.0	-1.8	10.2	273.2
8. M2 minus M1 <sup>2</sup>	5.5	2.6	3.3	0.3	9.6	12.6	2340.2
9. Overnight RPs and Eurodollars, NSA	-5.8	13.6	-29.8	-27.6	31.6	64.9	78.0
10. General purpose and broker/dealer money market mutual fund shares, NSA	7.4	20.5	20.8	-0.9	28.7	43.0	274.6
11. Commercial banks	6.9	5.4	5.4	-1.1	6.2	7.0	1017.5
12. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	1.4	-8.4	-14.9	-28.5	0.7	6.8	512.6
13. Small time deposits	14.7	22.4	29.0	28.2	12.1	7.4	505.0
14. Thrift institutions	4.6	-3.0	-1.1	1.5	6.1	4.5	969.6
15. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	-4.3	-14.0	-24.6	-33.5	-9.9	-3.1	348.4
16. Small time deposits	11.7	4.3	14.0	22.5	15.6	8.6	621.1
17. M3 minus M2 <sup>4</sup>	10.2	10.4	9.1	5.9	3.3	-0.4	883.3
18. Large time deposits	11.0	12.7	14.1	9.5	1.9	1.7	574.0
19. At commercial banks, net <sup>5</sup>	12.2	18.1	17.8	10.1	2.1	5.7	398.5
20. At thrift institutions	8.8	1.2	6.0	8.2	1.4	-7.5	175.5
21. Institution-only money market mutual fund shares, NSA	-0.8	10.6	12.2	53.4	45.9	39.1	98.2
22. Term RPs, NSA	13.7	5.8	0.3	1.9	-2.8	-56.7	120.9
23. Term Eurodollars, NSA	11.2	-1.2	-5.5	-9.4	-15.4	3.6	100.0

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

MEMORANDA:<sup>6</sup>

24. Managed liabilities at commercial banks (25+26)	4.9	4.7	7.9	6.9	17.8	6.9	688.6
25. Large time deposits, gross	3.3	5.8	4.0	4.1	1.9	3.0	461.7
26. Nondeposit funds	1.6	-1.1	3.9	2.8	15.9	3.9	226.9
27. Net due to related foreign institutions, SA	-0.4	0.5	-0.1	-3.0	8.0	3.2	11.1
28. Other <sup>7</sup>	2.0	-1.6	4.0	5.7	7.9	0.6	215.7
29. U.S. government deposits at commercial banks <sup>8</sup>	0.0	-1.5	2.3	6.2	0.2	-4.6	22.7

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 June and July at rates of -5.9 percent and 2.6 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during June and July at rates of -9.2 percent and -6 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.
  6. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis.
  7. 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.
  8. Consists of Treasury demand deposits and note balances at commercial banks.
- p - preliminary



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

	1987:Q4	1989					Levels
	to 1988:Q4	Q1	Q2	May	June	July p	bil.\$ July p
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	7.6	7.9	5.2	7.5	5.0	10.0	2518.3
2. Securities	4.8	2.2	.7	4.3	-.9	-1.1	559.1
3. U.S. government securities	7.3	8.2	5.4	9.1	1.0	1.6	374.3
4. Other securities	.5	-8.9	-8.2	-5.1	-3.9	-6.5	184.8
5. Total loans	8.5	9.6	6.5	8.4	6.7	13.1	1959.1
6. Business loans	6.8	10.6	4.6	11.0	-2.7	15.2	632.4
Security loans	-5.7	53.0	-22.9	-60.0	97.9	-23.4	40.3
8. Real estate loans	14.0	11.8	11.7	10.3	11.2	12.1	719.6
9. Consumer loans	8.5	5.6	6.1	8.3	2.0	1.6	367.0
10. Other loans	-.4	-2.7	1.2	7.6	12.5	40.4	199.8
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	6.9	11.0	4.6	10.5	-2.7	15.1	629.7
12. Loans at foreign branches <sup>2</sup>	30.3	51.9	32.8	69.1	32.7	4.5	26.5
13. Sum of lines 11 & 12	7.6	12.4	5.6	12.7	-1.3	14.6	656.1
14. Commercial paper issued by nonfinancial firms	15.5	37.5	38.2	37.8	27.7	.0	124.0
15. Sum of lines 13 & 14	8.6	16.0	10.5	16.6	3.3	12.3	780.1
16. Bankers acceptances: U.S. trade related <sup>3,4</sup>	-6.8	17.9	8.0	10.3	17.0	n.a.	35.7 <sup>5</sup>
17. Line 15 plus bankers acceptances: U.S. trade related	7.8	16.0	10.5	16.3	4.0	n.a.	808.4 <sup>5</sup>
18. Finance company loans to business <sup>3</sup>	12.3	8.0	14.7	14.4	10.8	n.a.	247.6 <sup>5</sup>
19. Total short- and intermediate-term business credit (sum of lines 17 & 18)	8.9	14.1	11.5	15.9	5.6	n.a.	1056.0 <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. June data.

p--preliminary.

n.a.--not available

Note: Data have been revised to reflect new benchmark adjustments.

SELECTED FINANCIAL MARKET QUOTATIONS 1/  
(percent)

	1987		1989			Change from:			
	2/ Oct 16		March Highs	Jul-Aug lows	FOMC July 6	Aug 17	Mar 89 Highs	Jul-Aug lows July 6	FOMC July 6
<b>Short-term rates</b>									
Federal funds 3/	7.59		9.85	8.97	9.56	9.03	-0.82	0.06	-0.53
Treasury bills 4/									
3-month	6.93		9.09	7.63	7.77	7.88	-1.21	0.25	0.11
6-month	7.58		9.11	7.34	7.55	7.83	-1.28	0.49	0.28
1-year	7.74		9.05	7.10	7.41	7.73	-1.32	0.63	0.32
Commercial paper									
1-month	7.94		10.05	8.52	9.18	8.84	-1.21	0.32	-0.34
3-month	8.65		10.15	8.24	8.92	8.64	-1.51	0.40	-0.28
Large negotiable CD's 4/									
1-month	7.92		10.07	8.45	9.17	8.85	-1.22	0.40	-0.32
3-month	8.90		10.32	8.26	8.99	8.72	-1.60	0.46	-0.27
6-month	9.12		10.08	8.12	8.78	8.64	-1.44	0.52	-0.14
Eurodollar deposits 5/									
1-month	8.00		10.19	8.44	9.25	8.88	-1.31	0.44	-0.37
3-month	9.06		10.50	8.31	9.06	8.75	-1.75	0.44	-0.31
Bank prime rate	9.25		11.50	10.50	11.00	10.50	-1.00	0.00	-0.50
<b>Intermediate- and long-term rates</b>									
U.S. Treasury (constant maturity)									
3-year	9.52		9.88	7.51	7.92	8.22	-1.66	0.71	0.30
10-year	10.23		9.53	7.74	8.08	8.18	-1.35	0.44	0.10
30-year	10.24		9.31	7.83	8.10	8.16	-1.15	0.33	0.06
Municipal revenue 6/ (Bond Buyer index)	9.59		7.95	7.17	7.32	7.39	-0.56	0.22	0.07
Corporate—A utility Recently offered	11.50		10.47	9.45	9.56	9.56	-0.91	0.11	0.00
Home mortgage rates 7/									
Fixed-rate	11.58		11.22	9.68	10.07	9.96	-1.26	0.28	-0.11
ARM, 1-year	8.45		9.31	8.60	8.92	8.62	-0.69	0.02	-0.30
<hr/>									
	1987		1989			Percent change from:			
	Highs	Lows	FOMC July 6	Aug 17		1987 Highs	1987 Lows	FOMC July 6	
<b>Stock prices</b>									
Dow-Jones Industrial	2722.42	1738.74	2462.44	2679.63		-1.57	54.11	8.82	
NYSE Composite	187.99	125.91	179.82	191.95		2.11	52.45	6.75	
AMEX Composite	365.01	231.90	361.11	378.34		3.65	63.15	4.77	
NASDAQ (OTC)	455.26	291.88	439.57	460.83		1.22	57.88	8.00	

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 Feb. low which is the average to the statement week ended Feb. 10, 1988. Last observation is average to date for maintenance period ending August 23, 1989.

4/ Secondary market.

5/ Bid rates for Eurodollar deposits at 11 a.m. London time.

6/ Based on one-day Thursday quotes and futures-market index changes.

7/ Quotes for week ending Friday closest to date shown.

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INTERNATIONAL DEVELOPMENTS

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U.S. Merchandise Trade

In June, the U.S. merchandise trade deficit was \$8.2 billion (seasonally adjusted, Census basis, customs valuation), compared with \$10.1 billion (revised) in May. For the second quarter, the deficit was somewhat smaller than in the first quarter.

Exports in June were 1.5 percent higher than in May, primarily a result of increases in capital and consumer goods. Exports in the second quarter rose 4.8 percent, bringing the level of exports to 15 percent above that of a year earlier. This recent strength in exports has been spread among industrial supplies, capital goods (particularly machinery, but also aircraft and computers), and consumer goods.

Imports declined 3.6 percent in June, largely because of a drop in the value of oil. There was a decline in both the price of imported oil (by 73 cents per barrel) and quantity (by 5 percent) from peak May levels. Nonetheless, the value of oil imports in the second quarter was 25 percent higher than in the first quarter with most of the increase in prices. Non-oil imports in the second quarter were at about the same level as in the first quarter; increases in imports of capital goods (primarily aircraft and computers) and consumer goods were largely offset by declines in the value of imports of automotive products and food.

July 17, 1989

U.S. Merchandise Trade  
(billions of dollars, seasonally adjusted)

	Exports			Imports			Balance
	Total	Ag	Nonag	Total	Oil (nsa)	Non-oil	
<b>Years:</b>							
1987	254.1	29.1	225.0	406.2	42.3	363.9	-152.1
1988	322.4	37.6	284.8	441.0	38.5	402.5	-118.5
<b>Quarters (a.r.):</b>							
1987 - 4	278.4	30.2	248.2	428.9	44.8	384.1	-150.5
1988 - 1	305.1	35.1	270.0	431.3	39.3	392.0	-126.2
2	320.8	37.4	283.4	435.2	40.1	395.1	-114.4
3	326.7	39.4	287.3	437.8	38.3	399.5	-111.1
4	337.2	38.5	298.7	459.5	36.3	423.3	-122.3
1989 - 1	351.5	42.0	309.5	462.6	41.7	420.9	-111.1
2	368.5	41.9	326.6	474.7	52.0	422.6	-106.1
<b>Months:</b>							
1988 - Apr	26.0	3.3	22.7	35.4	3.1	31.9	-8.5
May	27.4	3.1	25.2	36.1	3.6	32.5	-8.7
June	26.7	2.9	23.8	37.3	3.3	34.0	-10.6
July	26.6	3.0	23.6	35.1	3.1	31.9	-8.5
Aug	27.5	3.3	24.2	37.6	3.4	34.2	-10.1
Sept	27.6	3.5	24.1	36.8	3.0	33.7	-9.2
Oct	27.9	3.1	24.1	37.1	2.9	34.2	-9.2
Nov	27.5	3.1	24.4	38.1	2.9	35.2	-10.5
Dec	28.9	3.4	25.5	39.7	3.3	36.4	-10.8
1989 - Jan	29.0	3.2	25.8	37.9	3.5	34.4	-8.9
Feb	28.8	3.4	25.4	38.2	3.2	35.0	-9.4
Mar	30.1	3.9	26.2	39.5	3.7	35.9	-9.5
Apr	30.8	3.7	27.1	39.0	4.0	35.0	-8.3
May-r	30.5	3.5	27.0	40.5	4.7	35.8	-10.1
June-p	30.9	3.3	27.6	39.1	4.2	34.9	-8.2

p/ preliminary

r/ revised

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