

## **Prefatory Note**

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,<sup>1</sup> and then making the scanned versions text-searchable.<sup>2</sup> Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

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

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

CONFIDENTIAL (FR)  
CLASS III - FOMC

December 15, 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

## TABLE OF CONTENTS

	Page
<b>THE DOMESTIC NONFINANCIAL ECONOMY</b>	
Industrial production and capacity utilization . . . . .	1
Retail trade inventories . . . . .	4
Producer prices . . . . .	7
 <u>Tables</u>	
Growth in selected components of industrial production . . .	2
Capacity utilization in industry . . . . .	3
Changes in manufacturing and trade inventories . . . . .	5
Inventories relative to sales . . . . .	5
Recent changes in producer prices . . . . .	8
 <u>Chart</u>	
Ratio of inventories to sales . . . . .	6
 <b>THE FINANCIAL ECONOMY</b>	
 <u>Tables</u>	
Monetary aggregates . . . . .	9
Commercial bank credit and short- and intermediate-term business credit . . . . .	10
Selected financial market quotations . . . . .	11
 <b>THE INTERNATIONAL ECONOMY</b>	
U.S. merchandise trade in October . . . . .	12
U.S. current account in 1989:Q3 . . . . .	13
U.S. capital account in 1989:Q3 . . . . .	14
U.S. international financial transactions in October . . . .	16
 <u>Tables</u>	
U.S. merchandise trade: monthly data . . . . .	12
U.S. current account . . . . .	14
Summary of U.S. international transactions . . . . .	15

## SUPPLEMENTAL NOTES

---

### DOMESTIC NONFINANCIAL ECONOMY

#### Industrial Production and Capacity Utilization

Total industrial production is estimated to have edged up 0.1 percent last month, after declines of 0.3 percent in September and 0.6 percent in October. Abstracting from the disruptions caused by the Boeing strike and natural disasters, IP has been down slightly, on balance, in recent months.

Most of the October decline in IP is attributable to the strike against Boeing, which reduced output of aircraft and parts 16-1/2 percent in that month.<sup>1</sup> Production of aircraft in November is estimated to have retraced about 15 percent of the October decline, as most Boeing workers were back on the job by Thanksgiving. This provided a slight boost to November IP (less than 0.1 percentage point). Aircraft production is expected to return to its pre-strike level by early next year. In addition, the California earthquake apparently disrupted output of computers and semiconductors in October; these effects seem to have been retraced almost fully in November.

Auto assemblies declined 500,000 units in November, but this was nearly offset by a 10 percent increase in output of trucks.<sup>2</sup> Output of consumer goods excluding motor vehicles declined 0.2 percent last month, after a 0.6 percent increase in October. Output of these goods advanced at a strong pace during the first half of this year, but has slowed appreciably, on balance, in recent months. Production of durables excluding motor vehicles has been particularly weak. Output of nondurables decelerated markedly

---

1. Aircraft and parts constitutes about 2-1/2 percent of total IP.

2. The current proportion of trucks in total IP is a bit more than 1 percent, only slightly less than that of autos.

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

	Share of total IP <sup>1</sup>	1987 <sup>2</sup>	1988 <sup>2</sup>	1989		1989		
				H1 <sup>2</sup>	Q3 <sup>r</sup>	Sept. <sup>r</sup>	Oct. <sup>r</sup>	Nov. <sup>e</sup>
				-Annual rate-		---Monthly rate---		
Total index	100.0	5.8	5.0	2.7	1.1	-.3	-.6	.1
Previous		5.8	5.0	2.7	1.3	.0	-.7	
Excluding aircraft & parts	95.5	5.9	5.2	2.6	.9	-.3	-.1	.1
Final products	47.1	4.6	5.4	5.0	.0	-.4	-1.2	.4
Consumer goods	24.9	3.2	6.0	3.5	-1.7	-.2	.4	-.2
Motor vehicles	2.7	4.4	8.8	-3.6	-21.6	-1.4	-1.8	.0
Durables ex. motor veh.	3.6	4.0	3.9	6.3	-1.2	-.3	-.5	-.9
Nondurables	18.6	2.8	6.0	4.1	1.4	-.1	.9	-.1
Business equipment	16.5	7.0	8.3	9.5	.5	-.7	-2.7	1.3
Motor vehicles	1.0	3.9	10.7	-13.2	-25.0	-.1	-3.0	-.8
Computers	4.2	9.4	8.7	24.0	-6.4	-.1	-4.4	4.0
Other	11.2	6.4	8.0	6.7	5.9	-.9	-2.1	.4
Manufacturing	3.1	6.2	12.7	7.0	5.6	-1.1	-.2	.5
Civilian aircraft	.8	3.3	7.1	22.7	18.7	-.1	-24.6	6.9
Construction supplies	6.0	4.7	5.2	-0.3	2.7	-.6	.5	.4
Business supplies	8.3	6.7	5.4	5.1	2.5	.6	.4	-.2
Materials	38.6	7.2	4.6	-.1	1.9	-.3	-.2	-.2
Durable	20.2	8.0	6.9	-.3	4.0	-.4	-1.1	-.2
Nondurable	9.7	8.1	4.1	2.5	2.4	-1.2	1.3	-.1
Energy	8.7	4.5	-.1	-2.7	-3.7	.9	.4	-.2
Memo:								
Manufacturing	87.6	5.9	5.6	3.4	1.4	-.4	-.8	.2
Durable	50.8	6.0	6.0	2.8	.1	-.7	-1.8	.5
Nondurable	36.8	5.7	5.1	4.3	3.2	.1	.5	-.2

1. As of 1988.

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

r--revised

e--estimated

CAPACITY UTILIZATION IN INDUSTRY<sup>1</sup>  
(Percent of capacity; seasonally adjusted)

	1967-88	1973	1978-79	1988	1989		
	Ave.	Ave.	Ave.	Nov.	Sep.	Oct.	Nov.
Total industry	81.6	87.9	85.0	84.1	83.4	82.8	82.7
Manufacturing	80.7	87.0	84.4	84.4	83.7	82.8	82.7
Primary processing	82.0	91.3	86.3	88.1	86.0	85.8	85.5
Advanced processing	80.2	85.1	83.3	82.6	82.8	81.4	81.4
Durable manufacturing	78.8	86.2	83.5	83.0	82.1	80.4	80.7
Primary metals	79.9	96.6	87.8	90.4	85.3	84.5	82.1
Iron and steel	79.0	97.9	88.2	90.2	82.4	82.6	79.9
Nonferrous metals	81.5	94.2	87.1	90.7	89.2	87.0	85.1
Nonelectrical machinery	78.2	86.6	83.2	82.8	85.8	83.9	85.5
Motor vehicles & parts	78.2	94.5	83.6	85.5	77.2	75.4	74.9
Autos	76.1	89.3	81.7	76.7	70.7	69.8	64.3
Aerosp. & misc. trans. eq.	78.1	75.4	77.6	85.6	86.9	77.7	79.1
Nondurable manufacturing	83.6	88.1	85.7	86.4	85.9	86.1	85.6
Paper and products	88.8	94.2	89.4	93.7	92.4	92.5	92.5
Chemicals and products	79.3	86.9	81.4	89.1	86.6	87.4	87.1
Petroleum products	86.9	97.1	87.8	84.9	87.3	88.6	87.8
Mining	86.5	91.4	90.5	83.3	83.1	83.5	83.8
Utilities	86.7	92.8	85.3	80.8	80.6	81.1	80.9
Memo:							
Industrial materials	82.3	91.1	86.7	85.1	83.5	83.2	82.9
Raw steel	80.7	100.4	90.7	89.3	84.0	84.6	81.8
Aluminum	87.8	93.8	94.0	100.5	96.4	93.5	91.0
Paper materials	92.0	96.8	92.1	96.7	95.2	95.4	95.4
Chemical materials	81.3	91.1	85.9	90.5	86.7	87.9	87.3
Energy materials	88.9	93.7	89.4	86.2	85.1	85.5	85.3

1. Data for iron and steel, nonferrous metals, paper and products, chemicals and products, raw steel, aluminum, paper materials, and chemical materials are unpublished estimates for October.

during the third quarter, but the level of output in November was up 3-1/4 percent (annual rate) from the third-quarter average.

Production of business equipment increased 1.3 percent last month; about 1 percentage point of this gain is attributable to a bounceback in computer output.<sup>3</sup> In addition, a partial rebound in output of aircraft added about 1/4 percentage point to the business equipment index. Excluding motor vehicles, production of capital goods weakened considerably last summer when computer production turned down. More recently, abstracting from special factors, it appears to have flattened out.

Production of materials declined 0.2 percent in November, the third consecutive monthly decline. Part of this weakness stems from declines in auto and truck assemblies, both of which are at much lower levels currently than early last summer.

The manufacturing operating rate edged down 0.1 percentage point in November to 82.7 percent, and has fallen 1-3/4 percentage points since June.

#### Retail Trade Inventories

Retail inventories fell at an annual rate of \$9 billion in current-cost terms in October, largely reflecting a \$29 billion decline in auto dealers' stocks. With a 0.3 percent drop in sales, the retailers' inventory-sales ratio moved up from 1.63 to 1.65 months in October. Excluding auto dealers, the ratio rose from 1.52 to 1.54 months, well above the upper end of the range that has prevailed over the past year (chart). The pickup in October in the rate of accumulation of nonauto retail inventories was widespread. For the broad range of retail establishments in the general merchandise, apparel, and furniture and appliances (G.A.F.) grouping, inventories rose at

---

<sup>3</sup> Computers currently constitute about one-fourth of the business equipment index.

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

	1988			1989		
	Q1	Q2	Q3	Aug.	Sept.	Oct.
<b>Current-cost basis:</b>						
Total	47.1	61.2	39.1	33.4	2.4	40.0
Excluding autos and aircraft <sup>1</sup>						
Manufacturing	31.1	38.3	24.2	16.0	-3.4	59.0
Wholesale	27.9	21.4	17.6	8.2	-7.2	11.7
Retail	5.5	11.5	1.4	-5.1	-7.7	37.3
Automotive	13.8	28.3	20.1	30.2	17.3	-8.9
Excluding auto	4.9	13.6	9.1	16.4	10.4	-29.2
	8.9	14.7	11.1	13.8	6.9	20.2
<b>Constant-dollar basis:</b>						
Total	10.1	16.2	8.4	23.5	-15.8	n.a.
Excluding autos and aircraft <sup>1</sup>						
Manufacturing	-6.7	13.4	17.2	18.0	-9.8	n.a.
Wholesale	3.8	8.3	13.2	11.3	-9.3	n.a.
Retail	-2.1	5.2	-.3	-2.7	-10.7	n.a.
Automotive	8.4	2.6	-4.5	15.0	4.2	n.a.
Excluding auto	9.0	-3.0	-12.7	4.3	-.7	n.a.
	-.6	5.7	8.2	10.7	4.9	n.a.

1. All manufacturing and trade excluding transportation equipment in manufacturing, and autos and auto parts at retail dealers.  
n.a. Not available.

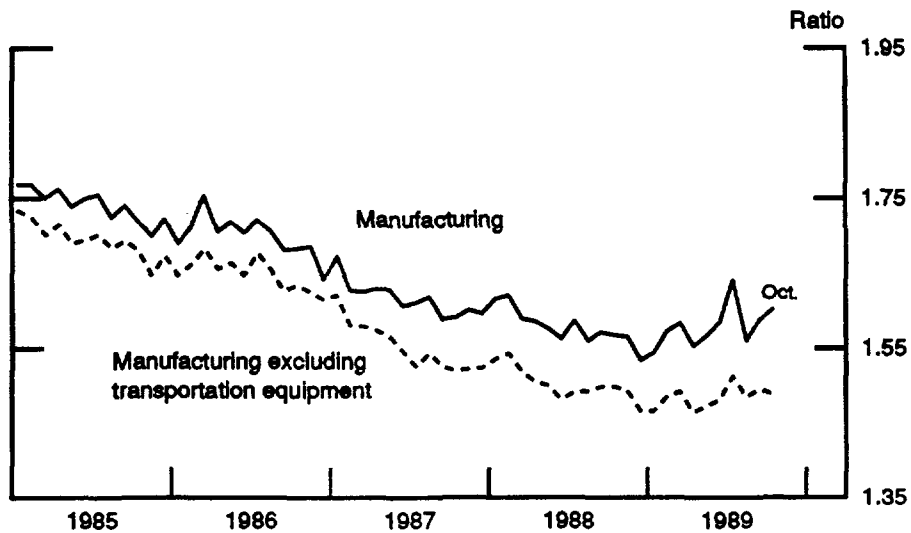
INVENTORIES RELATIVE TO SALES<sup>1</sup>  
(Months supply; based on seasonally adjusted data)

	1988			1989		
	Q1	Q2	Q3	Aug.	Sept.	Oct.
Range in <sup>2</sup> preceding 12 months:						
	Low	High				
<b>Current-cost basis:</b>						
Total	1.48	1.54	1.50	1.51	1.52	1.50
Excluding autos and aircraft <sup>3</sup>						
Manufacturing	1.41	1.44	1.43	1.42	1.44	1.43
Wholesale	1.53	1.64	1.57	1.57	1.59	1.56
Retail	1.27	1.31	1.28	1.28	1.28	1.27
Automotive	1.56	1.63	1.61	1.63	1.64	1.62
Excluding auto	1.83	2.06	1.96	2.05	2.04	2.00
	1.48	1.51	1.51	1.51	1.52	1.52
<b>Constant-dollar basis:</b>						
Total	1.48	1.52	1.50	1.50	1.49	1.48
Excluding autos and aircraft <sup>3</sup>						
Manufacturing	1.42	1.44	1.43	1.43	1.43	1.42
Wholesale	1.52	1.63	1.57	1.57	1.58	1.55
Retail	1.32	1.36	1.33	1.33	1.32	1.32
Automotive	1.50	1.56	1.55	1.55	1.51	1.50
Excluding auto	1.68	1.93	1.93	1.88	1.69	1.68
	1.43	1.46	1.45	1.46	1.46	1.45

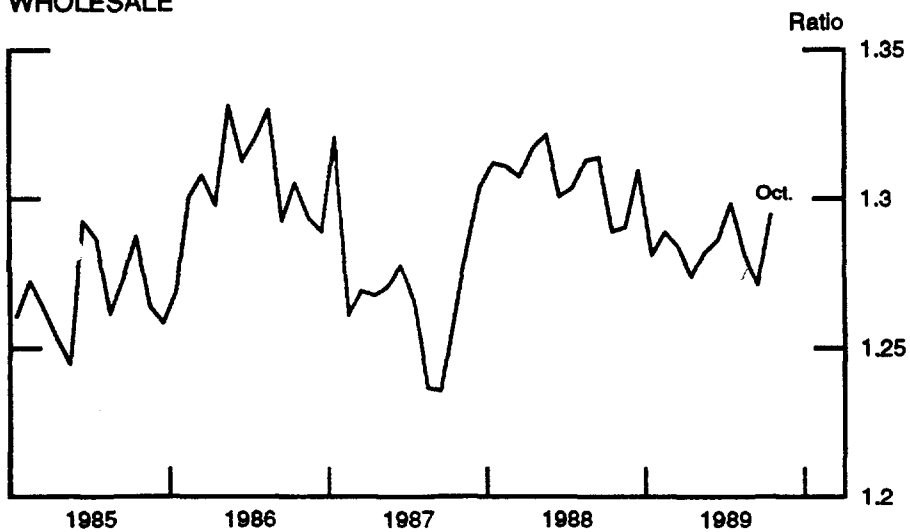
1. Ratio of end-of period inventories to average monthly sales for the period.  
2. Highs and lows are specific to each series and are not necessarily coincidental. Range is for the 12-month period preceding the latest month for which data are available.  
3. All manufacturing and trade excluding transportation equipment in manufacturing, and autos and auto parts at retail dealers.  
n.a. Not available.



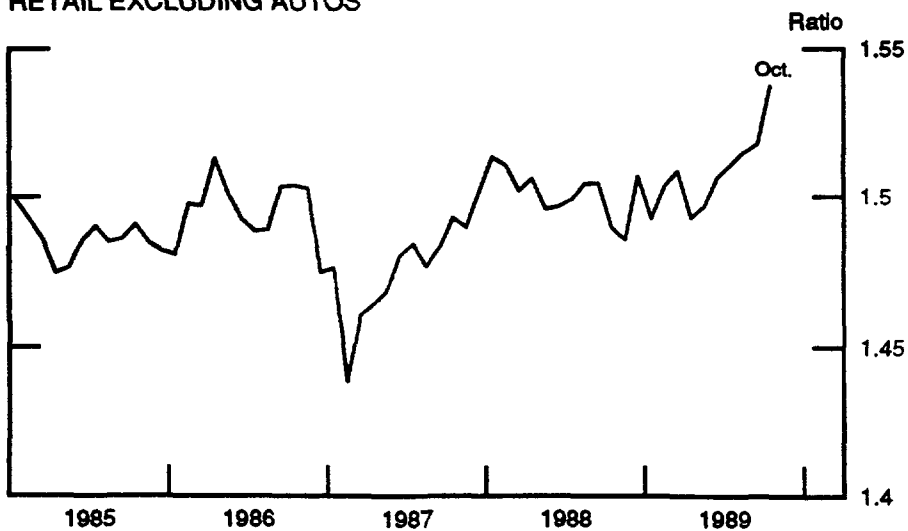
### Ratio of Inventories to Sales (Current-cost data)



### WHOLESALE



### RETAIL EXCLUDING AUTOS



a \$6.5 billion annual rate in October. Flat sales left the inventory-sales ratio for stores in the G.A.F. grouping at 2.47 months in October--somewhat higher than the average of 2.43 months over the past year.

For all manufacturing and trade, inventories rose at an annual rate of \$40 billion in October, about the same as in the third quarter. The inventory-sales ratio rose to 1.53 months in October for all manufacturing and trade, and to 1.44 months when aircraft manufacturers and retail auto dealers are excluded.

#### Producer Prices

The producer price index for finished goods edged down 0.1 percent in November, held down by a 3-1/4 percent decrease in finished energy prices. Reflecting recent swings in crude oil costs, gasoline prices fell 7-3/4 percent in November, and retraced much of the large runup in September and October. Food prices increased substantially for a second month, rising 0.8 percent in November. The November increase reflected sharp jumps in the prices of beef and veal, pork, and dairy products that were partly offset by a 15 percent drop in the price of fresh and dried vegetables. Excluding food and energy, finished goods prices rose 0.2 percent, held down by a 0.3 percent decrease in prices of new cars and a 1 percent drop in prices of light trucks. Prices of capital equipment increased 0.3 percent in November, as declines in truck prices only partly offset widespread increases in the prices of industrial machinery and a 1.6 percent increase in the index for civilian aircraft.

Prices of intermediate materials other than food and energy were unchanged in November, as they have been since the spring. Increases in prices of components for manufacturing and materials for nondurable manufacturing were offset by declines in prices of some industrial metals.

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

	Relative importance Dec. 1988	1987	1988	1989			1989	
				Q1	Q2	Q3	Oct.	Nov.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	2.2 <sup>v</sup>	4.0	10.2	5.8	-.3	.4	-.1
Consumer foods	25.8	-.2	5.7	13.1	-1.3	-1.3	1.4	.8
Consumer energy	8.8	11.2	-3.6	41.0	31.8	-16.8	.2	-3.3
Other finished goods	65.3	2.1	4.3	5.1	5.1	3.3	.1	.2
Consumer goods	39.6	2.7	4.8	5.4	5.7	2.6	.2	.0
Capital equipment	25.8	1.3	3.6	4.6	4.5	4.8	-.3	.3
Intermediate materials <sup>2</sup>	94.8	5.4	5.3	8.7	2.9	-1.1	.1	-.1
Excluding food and energy	83.4	5.2	7.2	5.5	.3	-.7	.1	.0
Crude food materials	43.8	1.8	14.2	16.9	-17.8	-2.2	-.6	1.7
Crude energy	36.9	10.7	-9.5	48.3	23.6	-6.5	.5	.3
Other crude materials	19.3	22.6	7.5	10.3	-9.3	-.6	.3	-2.3

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

RECENT CHANGES IN PRODUCER PRICES -- RELATIVE CONTRIBUTION<sup>1</sup>  
(Percentage change; based on seasonally adjusted data)<sup>2</sup>

	Relative importance Dec. 1988	1987	1988	1989			1989	
				Q1	Q2	Q3	Oct.	Nov.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	2.2	4.0	10.2	5.8	-.3	.4	-.1
Consumer foods	25.8	-.1	1.5	3.3	-.3	-.3	.3	.2
Consumer energy	8.8	.9	-.3	3.2	2.7	-1.8	.0	-.3
Other finished goods	65.3	1.4	2.8	3.3	3.2	2.1	.1	.1
Consumer goods	39.6	1.0	1.9	2.1	2.2	1.0	.1	.0
Capital equipment	25.8	.3	.9	1.2	1.1	1.2	-.1	.1
Memorandum:								
Beef and veal	2.2	.1	.3	.4	-.4	.2	.0	-.1
Pork	1.2	-.2	.0	.7	-.2	-.3	.1	.1
Dairy products	3.7	.0	.2	.1	.1	.8	.1	.1
Fresh and dried vegetables	.7	.0	.0	.3	.2	-.8	.1	-.1

1. Data may not add due to rounding.
2. Changes are from final month of preceding period to final month of period indicated.

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

	1988 <sup>1</sup>	1989 Q2	1989 Q3	1989 Sep	1989 Oct	1989 Nov p	Growth Q4 88- Nov 89p
-----Percent change at annual rates-----							
1. M1	4.3	-5.6	1.5	5.7	10.1	3.5	0.3
2. M2	5.2	1.2	7.3	7.5	7.8	8.4	4.6
3. M3	6.3	2.9	4.6	1.0	4.5	6.0	3.9
-----Percent change at annual rates-----							Levels bil. \$ Nov 89p
<b>Selected components</b>							
4. M1-A	2.5	-3.3	1.2	1.9	8.6	-1.7	506.7
5. Currency	8.1	4.1	3.7	5.5	1.6	3.3	220.3
6. Demand deposits	-1.2	-8.7	-0.4	-0.9	13.4	-6.4	278.9
7. Other checkable deposits	7.7	-9.8	2.2	12.7	13.0	12.8	283.3
8. M2 minus M1 <sup>2</sup>	5.5	3.5	9.3	8.1	7.1	10.0	2409.1
9. Overnight RPs and Eurodollars, NSA	-5.7	-24.2	1.1	-41.7	19.9	-16.3	72.5
10. General purpose and broker/dealer money market mutual fund shares, NSA	7.4	21.0	36.5	39.1	27.3	33.0	309.8
11. Commercial banks	6.9	5.4	6.9	7.4	11.1	13.8	1054.8
12. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	1.4	-14.9	3.6	10.2	9.4	22.5	537.1
13. Small time deposits	14.7	29.0	10.4	4.7	12.9	4.9	517.7
14. Thrift institutions	4.6	-1.1	4.0	-0.4	-5.8	-0.1	967.9
15. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	-4.3	-24.6	-6.0	4.1	4.8	9.6	354.4
Small time deposits	11.7	14.0	9.8	-2.9	-11.8	-5.8	613.4
M3 minus M2 <sup>4</sup>	10.2	9.2	-4.9	-22.3	-7.8	-3.1	848.4
18. Large time deposits	11.0	14.0	-1.6	-11.4	-6.0	-1.9	560.0
19. At commercial banks, net <sup>5</sup>	12.2	17.8	1.9	-3.6	6.4	8.1	400.6
20. At thrift institutions	8.8	5.8	-9.5	-29.3	-34.3	-27.2	159.4
21. Institution-only money market mutual fund shares, NSA	-0.8	12.2	34.1	-17.9	-4.8	40.1	102.0
22. Term RPs, NSA	14.5	2.8	-32.2	-43.7	-35.9	6.5	110.9
23. Term Eurodollars, NSA	11.2	-6.7	-13.5	-46.7	-43.5	15.9	91.6
-----Average monthly change in billions of dollars-----							
<b>MEMORANDA:<sup>6</sup></b>							
24. Managed liabilities at commercial banks (25+26)	5.0	9.0	3.4	5.8	11.7	5.5	713.1
25. Large time deposits, gross	3.3	4.0	-0.3	-2.4	1.3	2.0	461.3
26. Nondeposit funds	1.7	4.9	3.7	8.2	10.4	3.5	251.8
27. Net due to related foreign institutions	-0.4	-0.2	0.6	0.4	0.3	-1.2	8.7
28. Other <sup>7</sup>	2.1	5.1	3.0	7.8	10.1	4.7	243.1
29. U.S. government deposits at commercial banks <sup>8</sup>	0.0	2.4	-1.2	0.9	-3.9	0.4	20.3

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 October and November at rates of 5.9 percent and 14.3 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during October and November at rates of 3.8 percent and 7.6 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.  
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	Q2	Q3	Sept.	Oct.	Nov. p	bil.\$ Nov. p
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	7.6	5.2	8.0	6.2	15.2	4.0	2584.0
2. Securities	4.8	.7	1.6	4.7	27.1	6.9	577.7
3. U.S. government securities	7.3	5.4	5.4	7.0	40.9	17.5	397.4
4. Other securities	.5	-8.2	-6.2	.7	-1.3	-15.8	180.3
5. Total loans	8.5	6.5	9.9	6.6	11.8	3.1	2006.2
6. Business loans	6.8	4.6	8.3	.4	8.1	.7	641.5
7. Real estate loans	14.0	11.7	13.7	12.9	11.9	10.7	747.7
8. Consumer loans	8.5	6.1	6.1	9.1	7.4	8.3	377.0
9. Security loans	-5.7	-21.1	-6.8	21.1	50.2	-25.5	41.4
10. Other loans	-.4	1.2	10.6	-6.0	23.0	-21.4	198.6
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	6.9	4.6	7.9	-.2	6.6	1.1	637.4
Loans at foreign branches <sup>2</sup>	30.3	32.8	-83.3	-192.8	-51.7	.0	20.0
1 Sum of lines 11 & 12	7.6	5.6	4.1	-7.5	4.8	1.3	657.5
14. Commercial paper issued by nonfinancial firms	15.5	38.2	10.3	41.0	-4.7	15.2	128.3
15. Sum of lines 13 & 14	8.6	10.5	5.1	.0	3.1	3.5	785.7
16. Bankers acceptances: U.S. trade related <sup>3,4</sup>	-6.8	6.9	-1.1	-6.7	-23.7	n.a.	34.8 <sup>5</sup>
17. Line 15 plus bankers acceptances: U.S. trade related	7.8	10.4	4.9	-.1	2.1	n.a.	818.3 <sup>5</sup>
18. Finance company loans to business <sup>3</sup>	12.3	14.7	14.1	18.1	12.6	n.a.	259.0 <sup>5</sup>
19. Total short- and intermediate-term business credit (sum of lines 17 & 18)	8.9	11.4	7.0	4.2	4.6	n.a.	1077.3 <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. October data.

p--preliminary.

n.a.--not available

SELECTED FINANCIAL MARKET QUOTATIONS 1/  
(percent)

	1987		1989			Change from:	
	2/ Oct 16		March Highs	FOMC Nov 14	Dec 14	Mar 89 Highs	FOMC Nov 14
<b>Short-term rates</b>							
Federal funds 3/	7.59		9.85	8.57	8.50	-1.35	-0.07
Treasury bills 4/							
3-month	6.93		9.09	7.66	7.62	-1.47	-0.04
6-month	7.58		9.11	7.43	7.39	-1.72	-0.04
1-year	7.74		9.05	7.20	7.21	-1.84	0.01
Commercial paper							
1-month	7.94		10.05	8.43	8.65	-1.40	0.22
3-month	8.65		10.15	8.35	8.35	-1.80	0.00
Large negotiable CD's 4/							
1-month	7.92		10.07	8.39	8.71	-1.36	0.32
3-month	8.90		10.32	8.36	8.41	-1.91	0.05
6-month	9.12		10.08	8.18	8.21	-1.87	0.03
Eurodollar deposits 5/							
1-month	8.00		10.19	8.44	8.75	-1.44	0.31
3-month	9.06		10.50	8.25	8.50	-2.00	0.25
Bank prime rate	9.25		11.50	10.50	10.50	-1.00	0.00
<b>Intermediate- and long-term rates</b>							
U.S. Treasury (constant maturity)							
3-year	9.52		9.88	7.75	7.70	-2.18	-0.05
10-year	10.23		9.53	7.87	7.79	-1.74	-0.08
30-year	10.24		9.31	7.90	7.85	-1.46	-0.05
Municipal revenue 6/ (Bond Buyer index)	9.59		7.95	7.45	7.29	-0.66	-0.16
Corporate—A utility Recently offered	11.50		10.47	9.27	9.33	-1.14	0.06
Home mortgage rates 7/							
Fixed-rate	11.58		11.22	9.79	9.76	-1.46	-0.03
ARM, 1-year	8.45		9.31	8.52	8.39	-0.92	-0.13

	1987		1989			Percent change from:			
	Highs	Lows	Oct 12	FOMC Nov 14	Dec 14	1987 Highs	1987 Lows	1989 Oct 12	FOMC Nov 14
<b>Stock prices</b>									
Dow-Jones Industrial	2722.42	1738.74	2759.84	2610.25	2753.63	1.15	58.37	-0.23	5.49
NYSE Composite	187.99	125.91	196.98	187.51	193.97	3.18	54.05	-4.81	3.45
AMEX Composite	365.01	231.90	395.01	371.52	376.82	3.24	62.49	-5.95	1.43
NASDAQ (OTC)	455.26	291.88	482.19	454.03	447.48	-1.71	53.31	-5.84	-1.44
Wilshire	3299.44	2188.11	3485.24	3308.81	3396.59	2.94	55.23	-5.06	2.65

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. Last observation is average for the maintenance period ending December 13, 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.

INTERNATIONAL DEVELOPMENTS

U.S. Merchandise Trade in October

The U.S. merchandise trade deficit was \$10.2 billion in October (on a seasonally adjusted Census basis, customs valuation), compared with a revised \$8.5 billion deficit in September.

Most of the widening of the deficit in October resulted from a sharp increase in imports of industrial supplies. While the October

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

	Exports			Imports			Balance
	Total	Ag.	Nonag.	Total	Oil	Non-oil	
					(nsa)		
1988-Oct.	27.9	3.1	24.8	37.1	2.9	34.2	-9.2
Nov.	27.6	3.2	24.3	38.1	2.9	35.2	-10.5
Dec.	28.9	3.3	25.6	39.7	3.3	36.4	-10.8
1989-Jan.	29.0	3.2	25.7	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	30.5	3.5	27.0	40.5	4.7	35.8	-10.1
Jun.	31.3	3.3	28.0	39.3	4.2	35.1	-8.0
Jul.	30.5	3.3	27.2	38.7	4.3	34.4	-8.2
Aug.	30.6	3.0	27.5	40.7	4.3	36.4	-10.1
Sept. <sup>r</sup>	30.7	3.2	27.4	39.2	4.0	35.2	-8.5
Oct.	31.0	3.2	27.8	41.2	4.4	36.8	-10.2

r-Revised

p-Preliminary

increase in imports of industrial supplies largely reverses declines in the previous three months, the rate of those imports in October was still about 3 percent higher than the rate recorded in either the first or second quarters. Among the different categories, the strength of imports of paper, steel, and textiles were most notable. Smaller increases were recorded in October for food and oil imports. The

average price of oil imports rose 4 percent (about 70 cents per barrel) while the quantity increased about 1/2 percent. Prices of imports of non-oil industrial supplies declined slightly on average in October.

Exports showed a small (1 percent or less) increase in October for the third month in a row. Exports of aircraft declined sharply, while exports of automotive products and industrial supplies rose.

U.S. Current Account in 1989:Q3

The U.S. current account deficit narrowed to \$91 billion (saar) in the third quarter, from \$128 billion (revised) in the second quarter (table below). Nearly all of the improvement was attributable to a swing from reported capital losses to reported capital gains on net direct investment assets (line 6), reflecting changes in the exchange value of the dollar.

Excluding capital gains and losses, the current account narrowed by \$6 billion in the third quarter, entirely the result of increased net service receipts (lines 7-10 in the table). The largest increases resulted from recovery of insured losses (from Hurricane Hugo) from foreign reinsurers (part of line 10), and increased military sales (line 9). There were also smaller increases in direct investment income other than capital gains (line 7) and in net portfolio income (line 8).

Outlook for the Current Account. Incorporating the new information for services into the staff forecast would result in a small positive adjustment to the outlook -- attributable to increased net service receipts of about \$3 billion for 1990 and \$2 billion for 1991.



U.S. CURRENT ACCOUNT  
(Billions of dollars, annual rates, seasonally adjusted)

	1989 Q1	1989 Q2-r	1989 Q3-p	\$ Change Q3-Q2
1. Trade Balance	-113.5	-110.2	-111.0	-0.8
2. Exports	351.7	365.7	366.3	0.6
3. Imports	465.2	475.9	477.3	1.4
4. Investment Income, net	-9.7	-24.5	10.4	34.9
5. Direct Investment, net	23.9	12.2	46.0	33.8
6. Capital Gains or Losses <sup>1</sup>	-13.9	-21.1	10.9	32.0
7. Other Direct Investment	37.8	33.3	35.1	1.8
8. Portfolio Income, net	-33.5	-36.7	-35.5	1.2
9. Military, net	-6.0	-6.1	-3.9	2.2
10. Other Services, net	21.7	23.9	28.3	4.4
11. Unilateral Transfers	-14.1	-11.5	-14.6	-3.2
Current Account Balance:				
12. Published	-121.6	-128.3	-90.8	37.6
13. Excluding Capital Gains and Losses	-107.7	-107.2	-101.6	5.6

1. Gains or losses on net financial assets includes both realized capital gains (or losses) resulting from the sale of assets for more (or less) than book value, and unrealized gains (or losses) largely resulting from the revaluation at current exchange rates of assets and liabilities denominated in foreign currencies.

Plus = gains; minus = losses.

r=Revised      p=Preliminary

U.S. Capital Account in 1989:Q3

U.S. direct investment abroad increased sharply in the third quarter of 1989; but the increase was more than accounted for by the movement from unrealized currency translation losses to gains. (See line 6 of the Summary of U.S. International Transactions table that follows.) Foreign direct investment in the United States (line 7) dropped off further from the very high rates recorded early in the year;

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

	1987	1988	1988		1989			1989		
	Year	Year	Q3	Q4	Q1	Q2	Q3	Aug.	Sept.	Oct.
<b>Private Capital</b>										
<b>Banks</b>										
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	47.5	21.3	-0.4	9.6	-1.4	0.3	13.8	8.4	6.3	-2.8
<b>Securities</b>										
2. Private securities transactions, net <sup>1</sup>	36.4	15.5	5.8	3.4	5.8	3.7	0.1	1.6	1.7	3.3
a) foreign net purchases (+) of U.S. corporate bonds <sup>2</sup>	26.4	26.9	6.4	9.0	8.8	6.2	5.8	1.4	1.7	4.2
b) foreign net purchases (+) of U.S. corporate stocks	16.8	0.4	1.3	-2.0	0.1	3.7	5.1	0.9	2.5	1.3
c) U.S. net purchases (-) of foreign securities	-6.9	-11.8	-1.9	-3.5	-3.0	-6.2	-10.8	-0.7	-2.5	-2.3
3. Foreign net purchases (+) of U.S. Treasury obligations	-7.3	20.6	3.5	5.5	8.7	2.4	12.9	11.7	5.4	-0.2
<b>Official Capital</b>										
4. Changes in foreign official reserves assets in U.S. (+ = increase)	47.7	40.2	-2.0	10.7	8.0	-5.6	12.6	10.3	3.0	-0.6
a) By area										
G-10 countries (incl. Switz.)	38.8	15.5	-6.8	5.3	0.3	-9.5	6.0	5.6	-0.6	-3.7
OPEC	-8.9	-3.4	-0.8	0.7	6.8	0.3	4.6	3.3	0.5	-0.6
All other countries	17.8	28.0	5.7	4.6	0.9	3.6	2.1	1.3	-3.1	3.6
b) By type										
U.S. Treasury securities	43.2	41.7	-3.8	11.9	4.6	-9.7	12.8	10.6	-1.2	-5.9
Other <sup>3</sup>	4.5	-1.6	1.8	-1.3	3.4	4.1	-0.1	-0.3	-1.8	5.2
5. Changes in U.S. official reserve assets (+ = decrease)	9.1	-3.6	-7.4	2.3	-4.0	-12.1	-6.0	-1.2	-4.0	-2.3
<b>Other transactions (Quarterly data)<sup>4</sup></b>										
6. U.S. direct investment (-) abroad	-44.2	-17.5	-4.9	-8.9	-5.5	-5.8	-11.0	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	46.9	58.4	11.9	23.0	19.2	13.3	11.4	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) <sup>5</sup>	5.7	2.2	1.8	2.5	2.1	2.4	-8.5	n.a.	n.a.	n.a.
9. U.S. current account balance	-143.7	-126.5	-32.3	-28.7	-30.4	-32.1	-22.7	n.a.	n.a.	n.a.
10. Statistical discrepancy	1.9	-10.6	24.0	-19.4	1.7	33.5	-2.6	n.a.	n.a.	n.a.

MEMO:

U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-159.5	-127.2	-30.3	-32.0	-28.4	-27.6	-27.8	n.a.	n.a.	n.a.
---	--------	--------	-------	-------	-------	-------	-------	------	------	------

1. These data have not been adjusted to exclude commissions on securities transactions and, therefore, do not match exactly the data on U.S. international transactions as published by the Department of Commerce.

2. Includes all U.S. bonds other than Treasury obligations.

3. Includes deposits in banks, commercial paper, acceptances, borrowing under repurchase agreements, and other securities.

4. Seasonally adjusted.

Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, and other banking and financial transactions not shown elsewhere. In addition, it includes amounts resulting from adjustments to the data made by Department of Commerce and revisions to the data in lines 1 through 5 since publication of the quarterly data in the

Survey of Current Business.

\*--Less than \$50 million.

NOTE: Details may not add to total because of rounding.

intercompany debt flows between foreign banks and their finance affiliates in the United States were responsible for much of the decline in inflows in the third quarter. A single transaction (the merger of SmithKline and Beecham) accounted for more than half of the increase in foreign equity in U.S. affiliates. The statistical discrepancy (line 10) fell sharply from the revised second quarter level.

U.S. International Financial Transactions in October

Data currently available for October show net capital inflows through securities transactions. It is interesting to note that during this month of turbulence in financial markets, private foreigners continued to add on balance to their holdings of U.S. stocks (line 2b); they also added net to their holdings of corporate and U.S. government agency bonds (line 2a), but not to their holdings of U.S. Treasury securities (line 3). Inflows that had been recorded by banks in September were partially reversed in October. Foreign monetary authorities reduced their holdings of reserve assets in the United States, reflecting heavy intervention sales by the G-10 countries.