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May 10, 1991

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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### THE DOMESTIC NONFINANCIAL ECONOMY

#### Producer Prices in April

Producer prices of finished goods rose 0.2 percent in April, after four months of energy-related declines. Energy prices in April fell much less than in the preceding months, while food prices rose 0.4 percent, boosted by a steep climb for fresh vegetables. Prices of finished goods excluding food and energy rose 0.2 percent for the second month, after larger increases in January and February. Over the first four months of the year, this PPI measure has risen at an annual rate of 3-3/4 percent, slightly above the pace in 1990.

The PPI for finished energy declined 0.3 percent in April. Refinery prices of fuel oil and gasoline fell 4.5 and 0.7 percent, respectively, while prices of residential gas turned up. Private survey data for gasoline indicate significant increases in wholesale and retail prices since the PPI pricing date.

Fresh vegetable prices surged 34 percent in April, reflecting a gap in supplies that likely will be short-lived. The influence on the PPI was partly offset by declines in prices of some other foods, notably meats, chickens, and eggs. As of early May, wholesale prices of major fresh vegetables had reversed a substantial portion of the climb reflected in the April PPI.

Excluding food and energy items, the PPI for finished consumer goods increased 0.4 percent in April, boosted by a hike of 2.7 percent in prices of tobacco products. Large increases also were registered for

pharmaceuticals, but prices dropped back 2.2 percent for light trucks and also declined for a number of other items. Passenger car prices edged down 0.2 percent. Prices of motor vehicles had risen markedly over the preceding five months. Capital equipment prices were down 0.2 percent in April, largely reflecting the declines for motor vehicles.

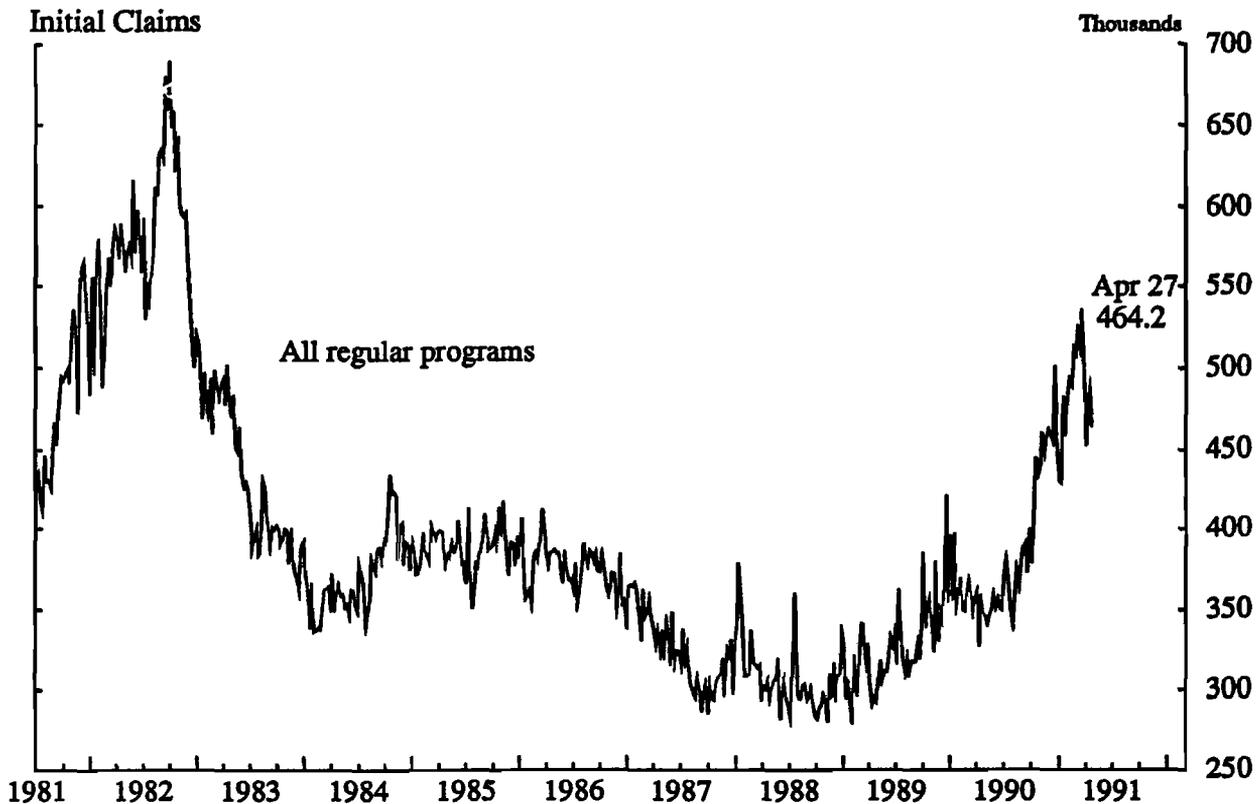
At earlier stages of processing, prices of intermediate materials (nonfood, nonenergy) declined 0.2 percent further in April. Prices continued to retreat for plastics and some other petroleum-based materials, as well as for products of the metals and paper industries. The PPI for crude nonfood materials less energy fell 0.5 percent, mainly reflecting declines for metal scrap.

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

	Relative importance Dec. 1990	1989	1990	1990		1991	1991	
				Q3	Q4	Q1	Mar.	Apr.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	4.9	5.7	11.3	5.1	-4.5	-.3	.2
Consumer foods	23.7	5.2	2.6	2.3	1.3	.6	.2	.4
Consumer energy	16.8	9.5	30.7	118.7	21.1	-37.2	-3.2	-.3
Other finished goods	59.5	4.2	3.5	3.5	3.5	4.4	.2	.2
Consumer goods	36.4	4.4	3.7	3.5	3.4	5.3	.2	.4
Capital equipment	23.1	3.8	3.4	3.6	3.3	3.2	.2	-.2
Intermediate materials <sup>2</sup>	95.2	2.5	4.6	13.4	4.2	-9.5	-1.1	-.4
Excluding food and energy	78.5	.9	1.9	4.0	2.3	-1.9	-.4	-.2
Crude food materials	34.7	2.8	-4.2	-7.8	-7.3	1.1	1.2	-1.0
Crude energy	50.4	17.9	19.1	305.8	-18.8	-53.5	-7.3	.0
Other crude materials	14.9	-3.6	.6	5.9	-18.1	-3.0	-1.1	-.5

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

### Unemployment Insurance (Weekly data; seasonally adjusted, FRB basis <1>)



<1> Only the state program components of these series are seasonally adjusted.

THE FINANCIAL ECONOMY

The May 1991 Senior Loan Officer Opinion Survey on Bank Lending Practices

The May 1991 Senior Loan Officer Opinion Survey on Bank Lending Practices continued a series of questions dealing with changes in the willingness of respondent banks to lend and the reasons for those changes. For the three months ending in early May, the results suggest a further tightening both of standards to approve applications for business loans and of terms on loans that are being made. However, the degree of tightening was considerably less than that reported in earlier surveys. A similar shift was reported for commercial real estate lending, as the number of banks tightening credit standards in the last three months was well below the comparable number in January. Lending standards for mortgages to finance residential homes also continued to be tightened on balance in the May survey, but again the number of banks doing so declined. For consumer credit, banks on balance reported no change in their willingness to lend in the last three months, compared with some reduced willingness to lend in the three months ending in late January.

**Nonmerger-Related C&I Loans**

Credit standards. The number of banks reporting tighter lending standards for approving loan applications for nonmerger-related purposes was substantially lower than in the survey taken in late January. This drop is part of a downtrend in the number of banks reporting tighter standards. The decline was particularly notable for branches and agencies of foreign banks, a large majority of which had reported tightening standards in the last survey. Nevertheless, in the May survey, more foreign banks than domestic

banks reported tightening. For domestic banks, the reduced evidence of further restriction likely owes in part to the recent marked improvement in their ability to raise capital. With bank share prices up and with spreads of yields on bank debt over Treasury securities down, domestically chartered banks have issued a large volume of debt and equity thus far in 1991. Of those domestic banks that did report tightening in the May survey, virtually none mentioned pressures on capital positions or deteriorating loan portfolios as a reason; in earlier surveys, a number of banks had cited these factors as motivating tightening. As in previous surveys, the primary reasons given by domestic banks for tightening in May remained concerns about the economic outlook and industry-specific problems. U.S. branches and agencies of foreign banks, on the other hand, ranked capital pressures and concerns about the quality of their loan portfolios as equal in importance to concern about the economy as reasons for tightening lending standards over the late January to early May period.

Price and nonprice terms of credit. The drop in the number of respondents that reported tightening their loan terms was generally somewhat smaller than the drop in the number that reported tightening standards to approve loan applications. Significant minorities of both domestic and foreign bank respondents continued to report decreases in the maximum size of credit lines and increases in spreads of loan rates over funding costs.

Reaction of business borrowers. As in earlier surveys, potential customers that were turned away by banks' tightening moves most commonly ended up obtaining credit at another bank or from a nonbank source--the credit markets for large borrowers and finance companies for medium and

smaller borrowers. The third most common reaction was to cut back, postpone, or cancel spending plans.

#### **Commercial Real Estate**

The number of banks indicating they had tightened credit standards for commercial real estate was also down in this survey. About one-fourth of domestic respondents indicated they had tightened standards for approving construction and land development loans in the last three months, down from one-half in the January survey and two-thirds in the October 1990 survey. Less than one-quarter of foreign banks reported tightening this type of credit, whereas virtually all did so in the last survey. A similar situation obtained for permanent financing, with about 20 to 25 percent of domestic and foreign bank respondents tightening standards to approve applications for various types of nonfarm nonresidential real estate loans. In January, these percentages were in the 40 to 50 percent range for domestic banks and the 80 to 90 percent range for foreign banks.

#### **Household Loans**

Residential mortgages. Just over one-fifth of domestic respondents reported that they had tightened credit standards for approving mortgage applications from individuals to purchase homes, down from one-third in the January survey. This tightening apparently took place in an environment of rising demand: Two-thirds of respondents indicated that the demand for residential mortgages had risen in the last three months compared to the preceding three months, after accounting for normal seasonal variations.

Consumer loans. The willingness of respondent banks to make consumer loans was about unchanged on balance in the late January to early May

period, with a few banks reporting increased willingness and a few reporting decreased willingness. In the previous survey, respondent banks on balance reported becoming somewhat less willing to lend to consumers during the preceding three months.

Table 1

**Nonmerger-Related Business Lending**  
 (Percent of domestic respondent banks reporting  
 tighter lending standards or terms)

<u>Criterion</u>	<u>Survey period</u>	<u>Size of borrowing firm <sup>1</sup></u>			<u>Memo: Branches &amp; agencies of foreign banks</u>
		<u>Large</u>	<u>Medium</u>	<u>Small</u>	
Standards for approving loan applications	Aug.90-Oct.90	49	46	41	72
	Oct.90-Jan.91	33	37	32	89
	Jan.91-May 91	15	17	9	28
Maximum size of credit lines	Aug.90-Oct.90	45	30	12	55
	Oct.90-Jan.91	46	40	7	70
	Jan.91-May 91	35	17	5	39
Cost of credit lines	Aug.90-Oct.90	54	50	37	72
	Oct.90-Jan.91	55	51	34	76
	Jan.91-May 91	62	46	24	56
Spreads of loan over base rates	Aug.90-Oct.90	56	50	35	72
	Oct.90-Jan.91	58	60	39	88
	Jan.91-May 91	48	43	27	67
Covenants	Aug.90-Oct.90	50	55	40	45
	Oct.90-Jan.91	41	37	41	70
	Jan.91-May 91	32	28	17	39
Collateral requirements	Aug.90-Oct.90	30	49	33	45
	Oct.90-Jan.91	30	44	33	65
	Jan.91-May 91	18	19	22	39

1. The middle market is often categorized as consisting of firms with annual sales between \$50 and \$250 million. "Large" firms are those larger than middle market firms and "small" businesses are those that are smaller. Not all respondents used the same criteria to distinguish among size of customers.

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

	1990 <sup>1</sup>	1990 Q4	1991 Q1	1991 Feb	1991 Mar	1991 Apr pe	Growth Q4 90- Apr 91pe
-----Percent change at annual rates-----							
1. M1	4.2	3.4	5.8	14.1	9.3	-1	5½
2. M2	3.8	2.1	3.6	8.7	7.5	3	4½
3. M3	1.7	1.0	4.3	10.8	2.7	0	3½
-----Percent change at annual rates-----							Levels bil. \$ Mar 91

Selected components

4. M1-A	4.6	4.9	5.7	15.1	5.6	-3	542.0
5. Currency	11.0	11.1	15.3	16.7	7.5	0	256.7
6. Demand deposits	-0.6	-0.7	-2.5	14.5	4.3	-6	277.2
7. Other checkable deposits	3.5	0.7	6.0	11.8	16.6	3	300.9
8. M2 minus M1 <sup>2</sup>	3.7	1.7	2.8	6.9	6.9	4	2535.4
9. Overnight RPs and Eurodollars, NSA	3.2	-20.3	-37.7	-10.0	-8.4	2	70.6
10. General purpose and broker/dealer money market mutual fund shares	11.4	11.2	19.4	14.1	18.0	3	365.9
11. Commercial banks	9.9	7.8	8.3	11.5	10.7	4	1202.7
12. Savings deposits plus MMDAs <sup>3</sup>	7.5	4.1	7.5	15.1	17.0	16	594.7
13. Small time deposits	12.4	11.5	8.9	8.0	4.6	-7	608.0
14. Thrift institutions	-5.5	-8.1	-6.6	-3.3	-3.1	1	894.8
Savings deposits plus MMDAs <sup>3</sup>	-2.2	-7.4	-0.6	8.5	15.9	22	345.0
Small time deposits	-7.3	-8.6	-10.2	-10.5	-14.7	-12	549.8
17. M3 minus M2 <sup>4</sup>	-6.4	-3.5	7.1	20.1	-17.4	-11	795.3
18. Large time deposits	-9.5	-12.9	0.9	9.6	-11.2	-13	511.0
19. At commercial banks, net <sup>5</sup>	-3.5	-8.4	11.7	21.6	-4.2	-8	399.5
20. At thrift institutions	-23.9	-26.3	-32.1	-31.5	-36.6	-32	111.4
21. Institution-only money market mutual fund shares	20.2	30.4	49.9	84.9	23.3	30	142.0
22. Term RPs, NSA	-12.0	-25.9	-29.9	-12.2	-43.8	-14	84.4
23. Term Eurodollars, NSA	-12.1	15.9	10.2	16.7	-16.4	-48	72.0

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

MEMORANDA:<sup>6</sup>

24. Managed liabilities at commercial banks (25+26)	-0.1	-2.4	-1.4	-2.3	-0.5	-2	715.3
25. Large time deposits, gross	-2.6	-3.9	6.3	9.5	0.3	0	450.7
26. Nondeposit funds	2.4	1.6	-7.7	-11.8	-0.8	-1	264.6
27. Net due to related foreign institutions	2.2	4.4	-1.5	-8.6	5.2	1	30.0
28. Other <sup>7</sup>	0.2	-2.8	-6.2	-3.0	-6.2	-2	234.5
29. U.S. government deposits at commercial banks <sup>8</sup>	0.3	-0.5	3.1	7.7	0.4	-12	33.8

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 March and April at rates of 15.3 percent and 17 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during March and April at rates of 14.1 percent and 21 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.
  6. 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.
  7. Consists of Treasury demand deposits and note balances at commercial banks.
  8. Consists of Treasury demand deposits and note balances at commercial banks.
- pe - preliminary estimate

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT

(Percentage changes at annual rates, based on seasonally adjusted data)

	1989:Dec.	1990		1991			Levels bil.\$ Apr.
	to 1990:Dec.	Q4	Q1	Feb.	Mar.	Apr.	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	5.3	2.3	4.0	6.3	6.8	-.1	2751.5
2. Securities	8.6	.5	12.5	7.4	25.7	10.5	654.8
3. U.S. government securities	13.9	3.6	15.0	10.3	34.8	19.1	479.1
4. Other securities	-3.1	-7.4	5.9	.0	2.0	-12.8	175.7
5. Total loans	4.3	2.9	1.5	6.0	1.1	-3.4	2096.6
6. Business loans	1.9	3.1	-.7	.4	3.5	-9.9	640.0
7. Real estate loans	9.5	6.1	3.4	6.6	3.6	5.4	850.8
8. Consumer loans	1.3	.6	-2.6	5.8	-4.8	-3.8	374.1
9. Security loans	4.1	-7.8	-15.8	2.8	-117.2	27.8	39.7
10. Other loans	-1.8	-4.6	11.6	21.0	19.4	-19.7	193.2
----- Short- and Intermediate-Term Business Credit -----							
Business loans net of bankers acceptances	1.9	3.2	.2	1.9	4.0	-10.0	634.0
12. Loans at foreign branches <sup>2</sup>	19.3	37.0	-3.1	-13.7	-9.2	-51.2	24.7
13. Sum of lines 11 & 12	2.5	4.4	.1	1.3	3.4	-11.6	658.7
14. Commercial paper issued by nonfinancial firms	12.2	-3.2	-5.1	-15.1	-3.2	12.9	150.2
15. Sum of lines 13 & 14	4.2	3.0	-.9	-1.8	2.2	-7.1	808.9
16. Bankers acceptances: U.S. trade related <sup>3,4</sup>	-9.6	17.8	-24.3	-7.3	-69.5	n.a.	30.9 <sup>5</sup>
17. Line 15 plus bankers acceptances: U.S. trade related	3.6	3.5	-1.8	-2.0	-.6	n.a.	845.4 <sup>5</sup>
18. Finance company loans to business <sup>3</sup>	13.1	12.0	4.5	3.3	2.0	n.a.	294.3 <sup>5</sup>
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	5.9	5.6	-.2	-.6	.0	n.a.	1139.7 <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

5. March data.

shipment and storage of goods.

preliminary.

not available

1

SELECTED FINANCIAL MARKET QUOTATIONS  
(percent)

	1989		1990		1991		Change from:	
	March highs	Dec lows	Aug highs	FOMC Mar 26	May 9	Aug 90 highs	FOMC Mar 26	
<b>Short-term rates</b>								
Federal funds <sup>2</sup>	9.85	8.45	8.21	6.13	5.78	-2.43	-0.35	
<b>Treasury bills<sup>3</sup></b>								
3-month	9.09	7.53	7.59	5.86	5.48	-2.11	-0.38	
6-month	9.11	7.29	7.51	5.86	5.63	-1.88	-0.23	
1-year	9.05	7.11	7.45	5.99	5.76	-1.69	-0.23	
<b>Commercial paper</b>								
1-month	10.05	8.51	8.10	6.36	5.92	-2.18	-0.44	
3-month	10.15	8.22	8.05	6.29	5.93	-2.12	-0.36	
<b>Large negotiable CDs<sup>3</sup></b>								
1-month	10.07	8.52	8.14	6.33	5.87	-2.27	-0.46	
3-month	10.32	8.22	8.18	6.33	5.92	-2.26	-0.41	
6-month	10.08	8.01	8.25	6.42	6.04	-2.21	-0.38	
<b>Eurodollar deposits<sup>4</sup></b>								
1-month	10.19	8.38	8.13	6.31	5.88	-2.25	-0.43	
3-month	10.50	8.25	8.19	6.31	5.94	-2.25	-0.37	
Bank prime rate	11.50	10.50	10.00	9.00	8.50	-1.50	-0.50	
<b>Intermediate- and long-term rates</b>								
<b>U.S. Treasury (constant maturity)</b>								
3-year	9.88	7.69	8.50	7.40	7.12	-1.38	-0.28	
10-year	9.53	7.77	9.05	8.13	8.02	-1.03	-0.11	
30-year	9.31	7.83	9.17	8.31	8.21	-0.96	-0.10	
<b>Municipal revenue<sup>5</sup></b>								
(Bond Buyer)	7.95	7.28	7.80	7.33	7.09	-0.71	-0.24	
Corporate--A utility recently offered	10.47	9.29	10.50	9.58	9.45	-1.05	-0.13	
<b>Home mortgage rates<sup>6</sup></b>								
S&L fixed-rate	11.22	9.69	10.29	9.59	9.47	-0.82	-0.12	
S&L ARM, 1-yr.	9.31	8.34	8.39	7.44	7.23	-1.16	-0.21	
<hr/>								
			1989	1991		Percent change from:		
	Record highs	Date	Lows Jan 3	FOMC Mar 26	May 9	Record highs	1989 lows	FOMC Mar 26
<hr/>								
<b>Stock prices</b>								
Dow-Jones Industrial	3004.46	4/17/91	2144.64	2914.85	2971.15	-1.11	38.54	1.93
NYSE Composite	213.21	4/17/91	154.00	205.55	209.48	-1.75	36.03	1.91
AMEX Composite	397.03	10/10/89	305.24	356.92	366.36	-7.72	20.02	2.64
NASDAQ (OTC)	511.31	4/17/91	378.56	478.57	497.81	-2.64	31.50	4.02
Wilshire	3731.48	4/17/91	2718.59	3581.55	3659.59	-1.93	34.61	2.18

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 the maintenance period ending May 15, 1991.

3/ Secondary market.

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

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

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