

## **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

February 1 1994

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
THE DOMESTIC NONFINANCIAL ECONOMY	
Personal income and outlays . . . . .	1
Purchasing managers' survey . . . . .	1
<u>Tables</u>	
Personal income. . . . .	3
Real personal consumption expenditures . . . . .	3
Business capital spending indicators . . . . .	5
Changes in manufacturing and trade inventories . . . . .	7
Inventories relative to sales. . . . .	7
<u>Charts</u>	
Purchasing managers. . . . .	4
Nonresidential construction and permits. . . . .	6
THE FINANCIAL ECONOMY	
The January 1994 Senior Loan Officer Opinion Survey on Bank Lending Practices . . . . .	8
<u>Table</u>	
Selected financial market quotations . . . . .	14
<u>Chart</u>	
Measures of supply and demand for commercial and industrial loans . . . . .	13

## SUPPLEMENTAL NOTES

### THE DOMESTIC NONFINANCIAL ECONOMY

#### Personal Income and Outlays

Nominal personal income increased 0.6 percent (\$32.8 billion at an annual rate) in December, following a downward-revised 0.5 percent gain in November. Wages and salaries rose \$14.9 billion in December a bit more than the average for the preceding two months. In the category of nonwage income, three sources account for the bulk of December's increase: farm proprietors' income rose \$5.5 billion, transfer payments increased \$6.7 billion, and nonfarm proprietors' income rose \$3.2 billion. The increase in transfer payments largely reflects retroactive payment of social security benefits that resulted from the recalculation of the earnings base underlying benefits for recent retirees. Real disposable income rose 0.5 percent in December.

On average, nominal personal income is estimated to have risen at about a 7-1/2 percent annual rate in the fourth quarter. After adjusting for taxes and inflation, real disposable personal income rose at a 5-1/4 percent annual rate last quarter.

Real personal consumption expenditures increased 0.5 percent in December. Real outlays for durable goods were up 1.9 percent, and spending on nondurables rose 0.4 percent. Services spending edged up 0.1 percent. The personal saving rate for December was 4.2 percent, slightly higher than the average for the fourth quarter as a whole.

#### Purchasing Managers' Survey

The Purchasing Managers' Index (PMI) rose a bit further in January to its highest reading since July 1988. As in the preceding several months, improvements in new orders and production were the main factors behind the rise in the overall PMI. The proportion of

industrial companies reporting higher orders in January exceeded those reporting lower orders by 30.2 percentage points, an extremely wide margin by historical standards. The pickup in orders appears to have come from both domestic and foreign sources. With regard to production, the proportion of companies reporting higher output exceeded those reporting lower output by 23 percentage points, among the best readings in the past two years. Nonetheless, employment and materials inventories appear to have continued to decline.

Prices of materials also firmed markedly in January, with industrial companies paying higher prices outnumbering those paying lower prices by 19.4 percentage points, the highest net difference since November 1990. Survey respondents cited, in particular, higher prices for steel and steel scrap, a few types of nonferrous metals, lumber and grain products. Likely reflecting the tighter market conditions, deliveries of materials and supplies in January were made much less promptly than in preceding months, and imports of materials also increased.

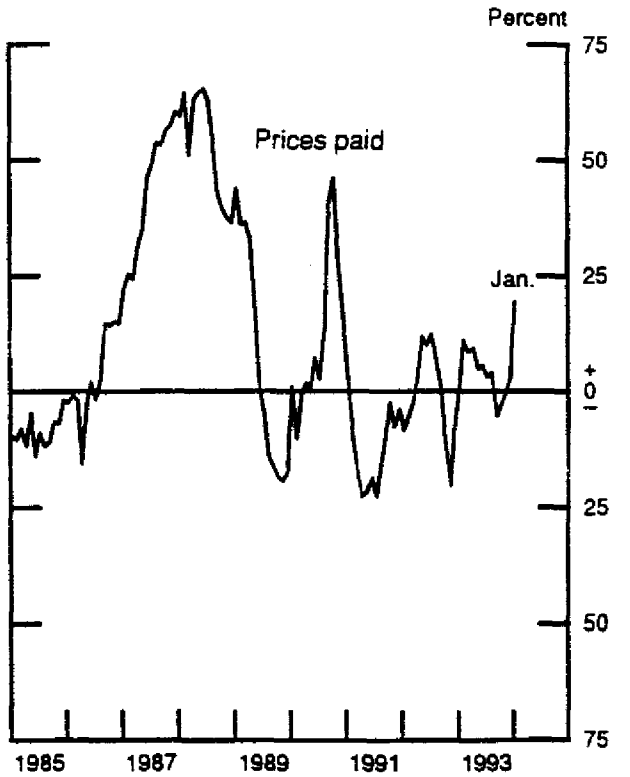
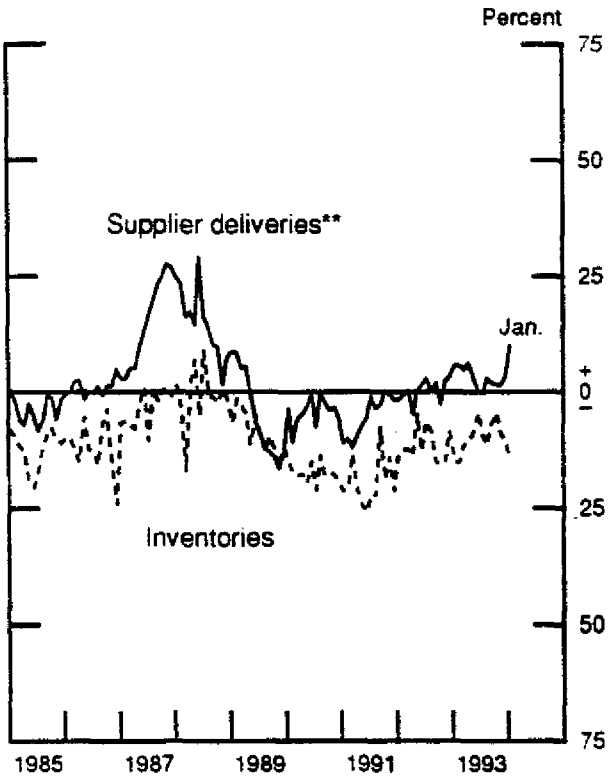
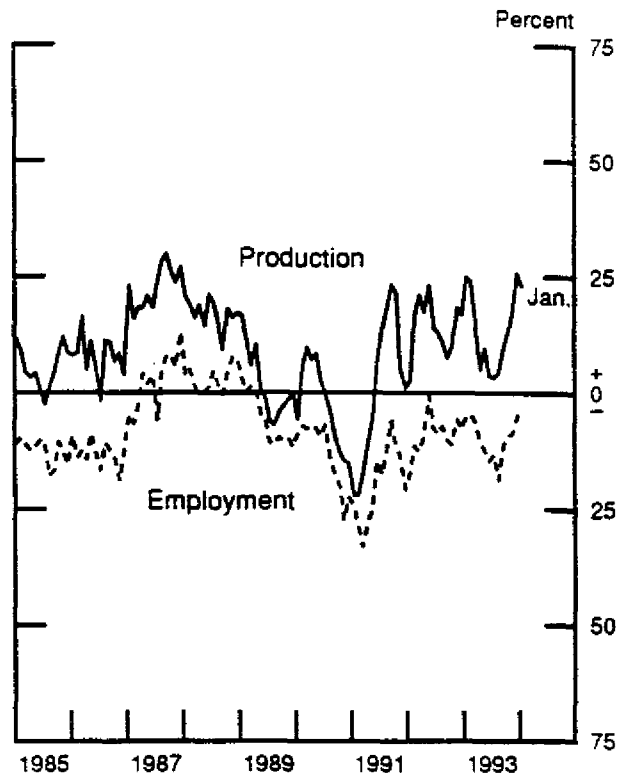
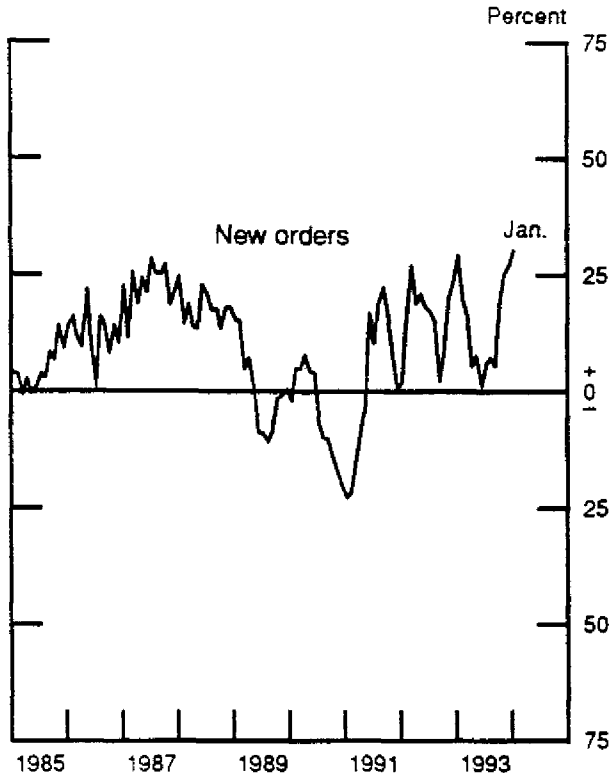
PERSONAL INCOME  
(Average monthly change at an annual rate; billions of dollars)

	1993				1993	
	1993	Q2	Q3	Q4	Nov.	Dec.
Total personal income	2.9	28.1	22.3	33.7	30.1	32.8
Wages and salaries	-8.5	36.7	11.5	14.0	9.8	14.9
Private	-10.3	35.0	9.0	13.5	9.0	13.1
Other labor income	2.7	2.7	2.7	2.8	2.8	2.9
Proprietors' income	3.3	-13.1	.8	13.5	16.8	8.7
Farm	1.2	-15.3	-1.1	9.2	12.5	5.5
Rent	1.5	1.3	2.0	.0	.1	.1
Dividend	.3	.3	.4	.1	.0	.1
Interest	.3	-1.1	1.9	.7	.6	.6
Transfer payments	4.4	4.0	3.9	3.6	.7	6.7
Less: Personal contributions for social insurance	1.2	2.7	.7	1.1	.7	1.2
Less: Personal tax and nontax payments	-.1	7.7	3.0	4.4	4.0	5.5
Equals: Disposable personal income	2.9	20.5	19.4	29.3	26.0	27.3
Memo: Real disposable income	-4.5	10.3	11.7	16.2	15.8	19.8

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

	1993				1993	
	1993	Q2	Q3	Q4	Nov.	Dec.
		-----Annual rate-----			Monthly rate	
Personal consumption expenditures	3.1	3.4	4.4	4.0	.1	.5
Durable goods	7.7	10.8	7.6	14.3	.5	1.9
Excluding motor vehicles	8.8	9.7	14.8	9.3	1.0	2.0
Nondurable goods	1.7	2.7	3.7	2.6	-.3	.4
Excluding gasoline	1.7	2.8	3.2	3.2	-.6	.7
Services	2.8	2.1	3.9	2.2	.2	.1
Excluding energy	2.9	2.9	3.1	2.5	.0	.3
Memo: Personal saving rate (percent)	4.0	4.4	3.8	4.1	4.1	4.2

### Purchasing Managers\* (Seasonally adjusted)



\* Percent reporting increases are netted with those reporting decreases.  
\*\* Positive entries represent slower deliveries.

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

	1993			1993		
	Q2	Q3	Q4	Oct.	Nov.	Dec.
<u>Producers' durable equipment</u>						
Shipments of nondefense capital goods	1.0	.6	7.3	1.0	4.7	5.1
Excluding aircraft and parts	.8	3.4	8.1	.2	6.5	2.8
Office and computing	-2.2	9.4	5.5	.9	3.4	3.5
All other categories	1.7	1.7	8.9	.0	7.5	2.6
Orders of nondefense capital goods	4.1	-1.2	11.0	5.9	6.3	2.0
Excluding aircraft and parts	1.3	3.6	11.3	3.3	3.8	6.6
Office and computing	-.7	4.9	13.3	7.7	12.2	-7.0
All other categories	1.9	3.2	10.7	2.1	1.3	11.0
Shipments of complete aircraft <sup>1</sup>	31.2	19.1	n.a.	21.4	19.9	n.a.
Sales of heavy-weight trucks <sup>2</sup>	338.5	334.8	363.4	335.4	425.2	329.5
<u>Nonresidential structures</u>						
Construction put-in-place	2.7	1.2	5.0	2.1	2.4	.8
Office	-.3	-1.8	2.7	2.4	8.1	3.3
Other commercial	3.4	-.8	12.9	6.6	1.9	1.6
Institutional	6.4	2.9	-.7	1.6	-3.2	4.7
Industrial	-5.4	4.1	8.4	-.2	4.8	2.2
Public utilities	2.4	1.6	2.6	1.0	3.3	-2.8
Lodging and misc.	22.5	6.7	2.9	-.4	-2.9	-1.5
Rotary drilling rigs in use	692.1	795.3	790.8	809.4	783.5	779.6
Footage drilled <sup>3</sup>	11.0	11.6	n.a.	10.6	9.8	n.a.
Memo:						
Business fixed investment <sup>4</sup>	16.6	7.4	21.0	n.a.	n.a.	n.a.
Producers' durable equipment <sup>4</sup>	19.8	10.0	24.6	n.a.	n.a.	n.a.
Nonresidential structures <sup>4</sup>	8.1	.3	10.7	n.a.	n.a.	n.a.

1. Billions of dollars, annual rate. From the Current Industrial Report 'Civil Aircraft and Aircraft Engines.' Monthly data are seasonally adjusted by FRB staff; the monthly seasonals are constrained such that their quarterly averages equal the BEA seasonals (which only are available on a quarterly basis).

2. Thousands of units, annual rate. BEA seasonal factors.

3. From the Department of Energy.

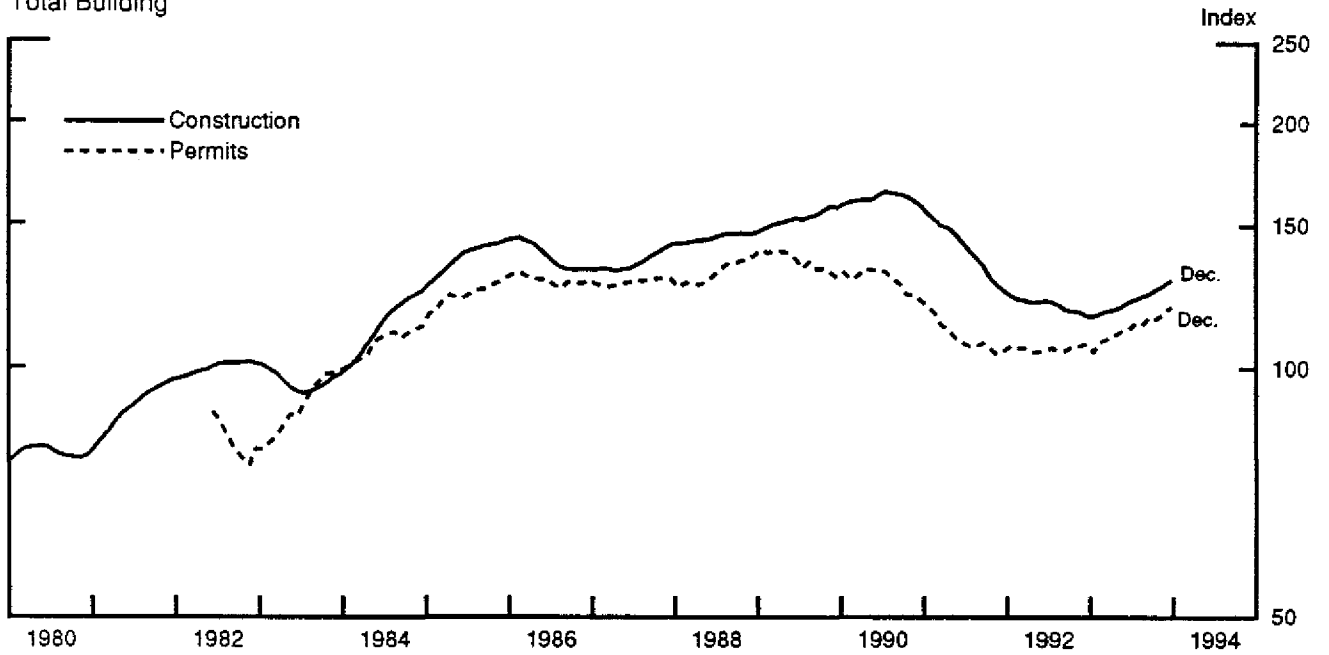
4. Based on constant-dollar data; percent change, annual rate.



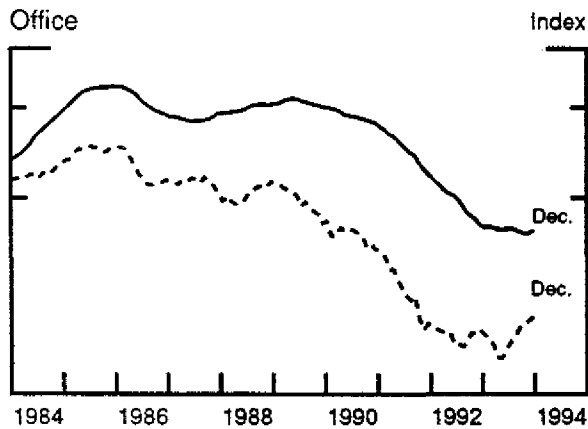
### NONRESIDENTIAL CONSTRUCTION AND PERMITS\*

(Index, Dec. 1982 = 100, ratio scale)

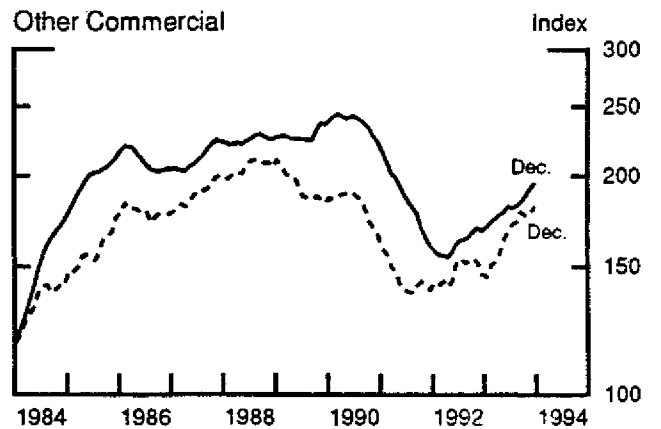
Total Building



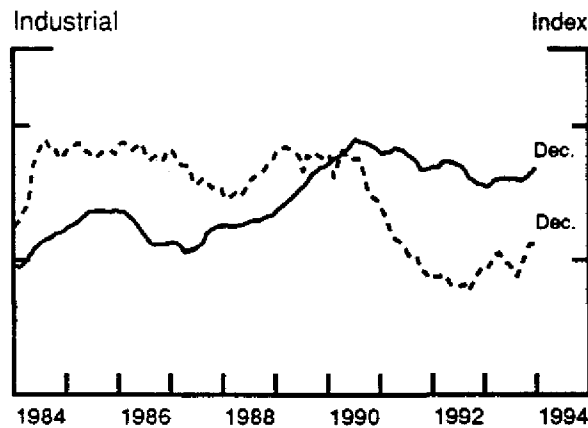
Office



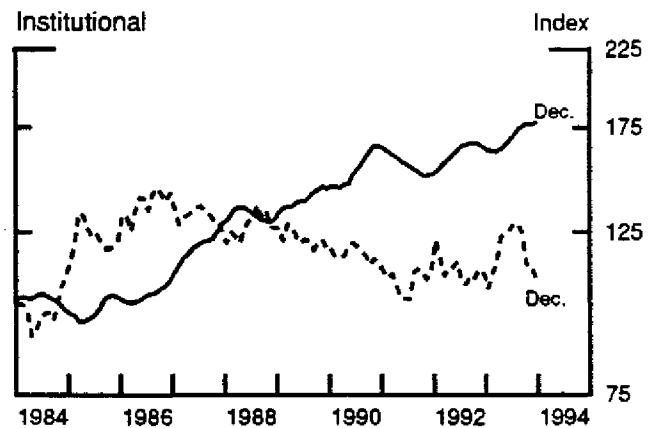
Other Commercial



Industrial



Institutional



\*Six-month moving average for all series.

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

	1993			1993		
	Q1	Q2	Q3	Sep.	Oct.	Nov.
<b>Current-cost basis</b>						
Total	39.9	20.5	12.7	17.5	27.8	59.2
Excluding auto dealers	20.6	20.9	22.3	15.6	16.5	40.9
Manufacturing	1.2	7.1	-2.5	-8.4	-4.7	.7
Defense aircraft	-4.4	-.2	-.8	-1.1	-7.8	4.7
Nondefense aircraft	.0	-3.1	-3.3	2.5	-2.8	-.0
Excluding aircraft	5.6	10.5	1.5	-9.8	6.0	-4.0
Wholesale	5.1	6.2	12.2	-1.2	-1.3	13.2
Retail	33.6	7.2	3.0	27.1	33.8	45.3
Automotive	19.3	-.3	-9.6	1.9	11.3	18.3
Excluding auto dealers	14.3	7.5	12.7	25.2	22.5	27.0
<b>Constant-dollar basis</b>						
Total	23.0	14.0	16.4	33.7	5.3	36.0
Excluding auto dealers	6.4	14.4	23.5	13.0	11.7	36.2
Manufacturing	-.8	5.0	3.1	-4.1	-.1	8.3
Wholesale	-.1	5.9	8.5	-4.6	-5.4	6.5
Retail	24.0	3.0	4.8	42.4	10.8	21.2
Automotive	16.6	-.5	-7.1	20.7	-6.3	-.2
Excluding auto dealers	7.4	3.5	11.8	21.6	17.2	21.3

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

	1993			1993		
	Q1	Q2	Q3	Sep.	Oct.	Nov.
<b>Current-cost basis</b>						
Total	1.47	1.47	1.47	1.46	1.45	1.44
Excluding auto dealers	1.44	1.44	1.45	1.43	1.43	1.42
Manufacturing	1.48	1.49	1.49	1.46	1.46	1.43
Defense aircraft	5.07	5.25	5.22	5.11	4.75	5.64
Nondefense aircraft	5.08	4.87	5.39	5.71	5.35	5.65
Excluding aircraft	1.34	1.35	1.35	1.32	1.33	1.29
Wholesale	1.33	1.32	1.34	1.34	1.33	1.33
Retail	1.60	1.58	1.56	1.55	1.54	1.55
Automotive	1.99	1.90	1.78	1.78	1.71	1.72
Excluding auto dealers	1.49	1.49	1.50	1.49	1.49	1.51
<b>Constant-dollar basis</b>						
Total	1.56	1.56	1.55	1.54	1.53	1.52
Excluding auto dealers	1.53	1.54	1.54	1.52	1.52	1.51
Manufacturing	1.59	1.60	1.60	1.57	1.57	1.55
Wholesale	1.42	1.42	1.42	1.42	1.42	1.41
Retail	1.64	1.62	1.60	1.59	1.57	1.58
Automotive	1.91	1.85	1.76	1.77	1.66	1.63
Excluding auto dealers	1.56	1.55	1.55	1.54	1.55	1.56

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

THE FINANCIAL ECONOMY

The January 1994 Senior Loan Officer Opinion Survey  
on Bank Lending Practices

The January 1994 Senior Loan Officer Opinion Survey on Bank Lending Practices posed questions about changes in bank lending standards and terms, about changes in loan demand by businesses and households, and about several bank balance sheet items. Included in the survey were fifty-nine domestic commercial banks and eighteen U.S. branches and agencies of foreign banks.

The survey results again show an easing of terms and standards on loans to businesses and households by a significant proportion of respondents. Banks reported easing terms and standards on commercial and industrial loans to firms of all sizes, although somewhat fewer banks reported such easing than did so in the November survey. Standards for commercial real estate loans were little changed. Respondents reported increased willingness to make loans to individuals and a small net easing of standards on home mortgage loans.

A significant number of respondents reported an increase in credit demand over the past three months. The number of respondents reporting stronger demand for commercial and industrial loans increased sharply relative to the November survey; firms of all sizes increased their demand. The banks also reported a small net increase in demand for credit lines over the past three months. Household demand for credit, particularly installment credit, was stronger at several banks.

Special questions on the survey addressed the distribution of bank loans by type of loan, bank holdings of state and local tax-exempt securities, and bank loans to brokers and dealers.

## Business Lending

Commercial and industrial loans. About an eighth of the domestic survey respondents reported having eased standards for approving commercial and industrial loans and lines of credit for customers of all sizes. By contrast, in the November survey more banks reported having eased standards for large and middle-market firms than did so for small businesses (chart). The fraction of U.S. branches and agencies of foreign banks that reported having eased lending standards was somewhat larger than the fraction of domestic banks that did so.

Many banks reported having reduced credit line costs and spreads over base rates, although the number doing so was somewhat lower than in the November survey. Roughly half of the respondents eased these terms for large and middle-market customers, but less than a quarter did so for small businesses. Smaller fractions of respondents eased other terms, including the sizes of credit lines, loan covenants, and collateralization requirements. The percentage of foreign respondents that eased lending terms was somewhat smaller than the percentage of domestic banks that eased terms for large and middle-market firms.

The respondents indicated that the easing of lending terms and standards was primarily the result of a more favorable economic outlook. A substantial number of respondents also pointed to an improvement in their bank's expected capital position.

Considerably larger fractions of the domestic respondents than in the November survey reported stronger demand for business loans by firms in all size groups. Loan demand of large businesses, which was relatively weak in the last survey because of increased bond and stock issuance, showed a substantial rebound (chart). The respondents generally attributed the stronger demand to borrower

needs to finance inventories and investment in plant and equipment. Branches and agencies of foreign banks also reported a net increase in demand for commercial and industrial loans, although it was more limited than the one that the domestic respondents reported. A few domestic and foreign respondents also noted an increase in demand for lines of credit, as opposed to loans, over the past three months.

**Real estate loans.** Domestic and foreign respondents both indicated that credit standards for commercial real estate loans had eased slightly. On net, the domestic respondents reported a small easing of standards for all types of commercial real estate loans—the first such easing since the questions were added to the survey in 1990. These responses are consistent with indications of firming markets for commercial real estate in some parts of the country and with the decline in delinquency rates on bank real estate loans over the past two years. Foreign respondents reported a small net easing of standards on construction and land development loans and loans to finance other nonfarm, nonresidential real estate. Their terms for other types of commercial real estate loans were unchanged.

#### **Lending to Households**

The fraction of domestic banks reporting increased willingness to make consumer loans in the January survey was about twice as large as in November. Nearly 30 percent of respondents reported greater willingness to make consumer installment loans, and a similar percentage was more willing to make general purpose consumer loans, including home equity loans. In contrast, only a few banks reported having eased standards for approving mortgage applications for purchasing houses over the past three months.

Demand for household credit appears to have strengthened from November to January. More than 20 percent of the respondents noted

stronger demand for consumer installment loans, while more than 15 percent indicated that demand for mortgages to purchase houses had picked up. These percentages, however, were somewhat below the levels they had attained in the November survey. The respondents also reported no net decline in demand for home equity loans over the past three months. In November, the banks had reported a net decline in demand for home equity loans, possibly because of paydowns employing the proceeds from refinancings of first mortgages.

#### **Bank Balance Sheet Items**

The January survey asked for information on several balance sheet items. First, the respondents were asked to provide the distribution of their business loan portfolios among four categories. The domestic banks reported that "floating-rate loans with stated maturities" accounted for nearly 60 percent of their business loans at the end of 1993. "Fixed rate loans with stated maturities excluding overnight loans" were the next biggest category, followed by "demand loans." The smallest category was "overnight loans," which accounted for less than 5 percent of the total. The foreign respondents generally reported larger shares of fixed-rate loans and smaller shares of demand loans. On average, demand loans were reported to remain on banks' books for about a year.

The second set of questions was about banks' holdings of tax-exempt municipal securities. After six years of contraction following tax law changes in 1986, holdings of these securities have increased in recent months.<sup>1</sup> According to the respondents, more

---

<sup>1</sup> Until the 1986 changes, banks were allowed to deduct 80 percent of the costs of funding tax-exempt securities from taxable income. For most tax-exempt instruments acquired after August 7, 1986, banks are not allowed to deduct any of the funding costs.

than half of the tax-exempt securities on their books were purchased before the 1986 tax changes and so are grandfathered under the old tax rules. The bulk of the remaining holdings are "bank-qualified" securities.<sup>2</sup> The banks indicated that their increased holdings of tax-exempt securities represent primarily purchases of bank-qualified instruments. The few respondents reporting increased holdings of standard tax-exempt instruments indicated that they had purchased them because the yields on these instruments had increased relative to those on comparable taxable securities and also because improved profitability at their banks made tax-exempt securities more attractive.

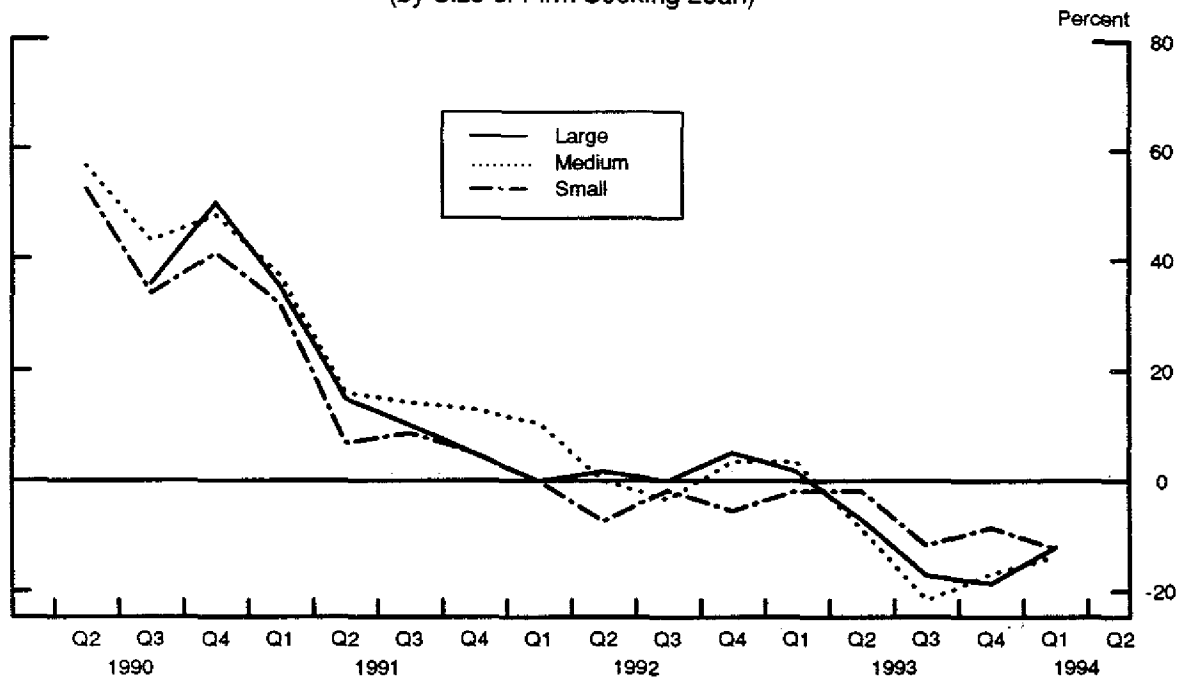
A third set of questions focused on the surge in security loans during 1993. Most of the banks reporting growth in security loans indicated that it resulted primarily from increased funding needs of brokers and dealers. A few respondents also noted that broker and dealer financing had shifted away from other sources, in some cases because their bank offered more aggressive terms.

---

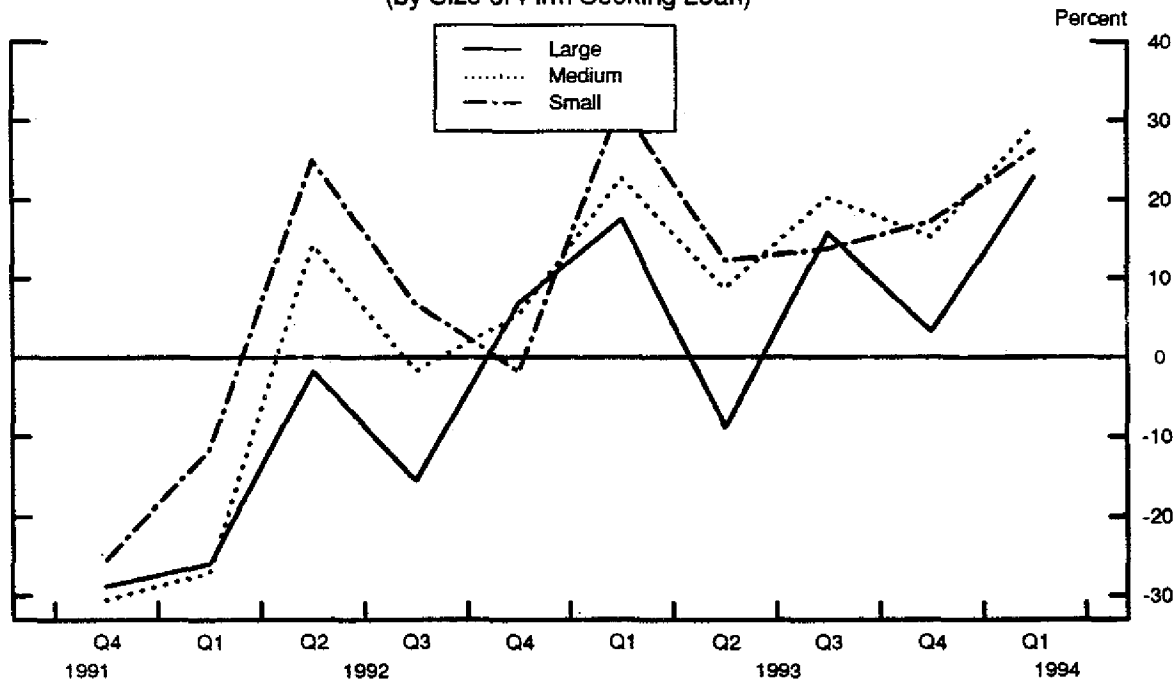
2. Bank-qualified tax-exempt securities are those issued by municipalities whose annual issuance is less than \$10 million. These instruments retain the favorable pre-1987 tax treatment of municipals.

## Measures of Supply and Demand For Commercial and Industrial Loans

Net Percentage of Domestic Respondents  
Tightening Standards for C&I Loans  
(by Size of Firm Seeking Loan)



Net Percentage of Domestic Respondents  
Reporting Stronger Demand for C&I Loans  
(by Size of Firm Seeking Loan)





1

SELECTED FINANCIAL MARKET QUOTATIONS  
(Percent except as noted)

Instrument	1989	1993		1994	Change to Jan 31 1994	
	Mar highs	Mid-Oct lows	FOMC Dec 21	Jan 31	From Mid-Oct lows	From FOMC Dec 21
<b>SHORT-TERM RATES</b>						
Federal funds <sup>2</sup>	9.85	3.07	2.96	3.04	-0.03	0.08
Treasury bills <sup>3</sup>						
3-month	9.10	3.01	3.07	2.96	-0.05	-0.11
6-month	9.12	3.09	3.24	3.14	0.05	-0.10
1-year	9.05	3.23	3.47	3.37	0.14	-0.10
Commercial paper						
1-month	10.05	3.13	3.31	3.10	-0.03	-0.21
3-month	10.15	3.23	3.30	3.15	-0.08	-0.15
Large negotiable CDs <sup>3</sup>						
1-month	10.07	3.08	3.16	3.06	-0.02	-0.10
3-month	10.32	3.22	3.19	3.13	-0.09	-0.06
6-month	10.68	3.23	3.34	3.26	0.03	-0.08
Eurodollar deposits <sup>4</sup>						
1-month	10.19	3.06	3.06	3.00	-0.06	-0.06
3-month	10.50	3.25	3.19	3.13	-0.12	-0.06
Bank prime rate	11.50	6.00	6.00	6.00	0.00	0.00
<b>INTERMEDIATE AND LONG-TERM RATES</b>						
U.S. Treasury (constant maturity)						
3-year	9.88	4.06	4.58	4.44	0.38	-0.14
10-year	9.53	5.19	5.85	5.70	0.51	-0.15
30-year	9.31	5.78	6.32	6.23	0.45	-0.09
Municipal revenue <sup>5</sup> (Bond Buyer)	7.95	5.41	5.62	5.50	0.09	-0.12
Corporate: A utility, recently offered <sup>6</sup>	10.47	6.79	7.35	7.16	0.37	-0.19
Home mortgages						
FHLMC 30-yr fixed rate	11.22	6.74	7.17	6.97	0.23	-0.20
FHLMC 1-yr adjustable rate	9.31	4.14	4.20	4.16	0.02	-0.04

Stock exchange index	Record high		1989	1993	1994	Percentage change to Jan 31		
	Level	Date	Low, Jan. 3	FOMC, Dec 21	Jan 31	From record high	From 1989 low	From FOMC, Dec 21
Dow-Jones Industrial	3978.36	1/31/94	2144.64	3745.15	3978.36	0.00	85.50	6.23
NYSE Composite	267.10	1/31/94	154.00	257.14	267.10	0.00	73.44	3.87
NASDAQ (OTC)	800.47	1/31/94	378.56	755.63	800.47	0.00	111.45	5.93
Wilshire	4798.08	1/31/94	2718.59	4610.31	4798.07	0.00	76.49	4.07

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 February 2, 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.