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CLASS III FOMC

July 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

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THE DOMESTIC NONFINANCIAL ECONOMY

Income and Consumption

Nominal personal income rose \$36.1 billion, or 0.6 percent in May, after an upward-revised increase of 0.6 percent in April. Private wages and salaries advanced \$22 billion in May, while government wages and salaries were up \$5.3 billion. Farm proprietors' income fell \$5 billion, reflecting a drop in federal subsidy payments. Disposable personal income increased 1.2 percent in May, after no change in April. The large May advance reflected a \$24 billion drop in personal tax and nontax payments. These payments had been boosted in April by retroactive tax payments associated with the 1993 Omnibus Budget Reconciliation Act. Excluding these payments, the increases in disposable income would have been 0.6 percent in both May and April.

Real personal consumption expenditures rose 0.2 percent in May, after falling 0.6 percent in April. Outlays for durable goods dropped 1.4 percent last month, reflecting lower spending on motor vehicles; spending on durables excluding motor vehicles grew 0.3 percent. Outlays for nondurable goods edged up 0.1 percent in May, while spending on services increased 0.6 percent.

The Michigan index of consumer sentiment fell slightly in June, and now stands about three points below its recent peak in January. By contrast, the preliminary June reading had shown a small improvement in sentiment during the first part of the month. The drop in the composite index last month reflected less optimistic views about future business conditions and less favorable appraisals of buying conditions for large household appliances. Respondents' assessments of their current personal financial situations were unchanged in June, while expectations of future personal financial

situations improved moderately. Among question not included in the overall index, the index of home buying conditions slipped further in June to its lowest level in more than a year. Meanwhile, the index of car buying conditions edged up in June, and fewer households expected unemployment to increase over the coming year.

### Inventories

Manufacturers' inventory investment picked up in May; factory stocks expanded at a \$22.9 billion annual rate (current cost) last month, following accumulations of \$10.5 billion in April and an average of \$9.4 billion in the first quarter. As in April, the May inventory buildup was concentrated in only a few industries. In particular, manufacturers of machinery (both industrial machinery and electrical and electronic equipment) reported another sizable inventory accumulation (\$9.8 billion), continuing the string of buildups over the past year. Outside of machinery, inventories held by producers of motor vehicles, fabricated metals and food products also expanded. With factory shipments up 0.5 percent from the April level, the manufacturers' inventory-shipments ratio was unchanged at 1.39 months at the end of May, close to the lowest level in recent years.

### Construction

The total nominal value of new construction put in place rose 0.9 percent in May, as moderate gains were recorded in each of the three broad construction sectors. Residential construction spending rose for both single-family and multifamily projects. Despite some recent declines in starts, single-family expenditures have been supported by relatively high costs per start and by spending on projects started earlier. The increase in multifamily expenditures results largely from the recent pickup in starts, which in May reached their highest level in 3-1/2 years. Private nonresidential

construction spending rose moderately in May, following a larger increase in April. Spending on public construction projects also advanced in May, reversing their decline a month earlier.

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

	1993	1993		1994	1994	
		Q3	Q4	Q1	Apr.	May
Total personal income	3.4	22.3	35.8	29.9	35.6	36.1
Wages and salaries	-8.3	11.5	14.5	16.1	18.9	27.7
Private	-10.1	9.0	14.1	13.5	16.8	22.0
Other labor income	2.7	2.7	2.8	3.1	3.3	3.4
Proprietors' income	3.9	.8	15.9	.8	5.4	-1.5
Farm	1.6	-1.1	10.9	-1.1	4.2	-5.0
Rent	1.4	2.0	-.7	4.1	-1.4	.7
Dividend	.3	.4	.1	.8	2.4	1.6
Interest	.0	1.9	-.5	4.2	2.5	2.8
Transfer payments	4.7	3.9	4.8	3.9	5.7	3.2
Less: Personal contributions for social insurance	1.2	.7	1.1	3.2	1.3	1.8
Less: Personal tax and nontax payments	-.1	3.0	4.4	4.7	36.1	-24.0
Equals: Disposable personal income	3.5	19.4	31.4	25.1	-.5	60.2
Memo: Real disposable income	-4.2	11.7	17.3	12.4	-9.9	38.9

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

	1993	1993		1994	1994	
		Q3	Q4	Q1	Apr.	May
		-----Annual rate-----			Monthly rate	
Personal consumption expenditures	3.2	4.4	4.4	5.2	-.6	.2
Durable goods	7.9	7.5	15.3	10.1	-1.1	-1.4
Excluding motor vehicles	9.3	14.7	11.1	2.0	.1	.3
Nondurable goods	1.7	3.7	2.7	4.3	-.9	.1
Excluding gasoline	1.7	3.1	3.2	5.0	-1.2	-.0
Services	2.9	4.0	2.6	4.5	-.3	.6
Excluding energy	3.0	3.1	2.8	4.4	-.1	.3
Memo: Personal saving rate (percent)	4.0	3.8	4.0	3.5	3.9	4.7

July 1, 1994

UNIVERSITY OF MICHIGAN SURVEY RESEARCH CENTER: SURVEY OF CONSUMER ATTITUDES  
(Not seasonally adjusted)

	1993 Oct	1993 Nov	1993 Dec	1994 Jan	1994 Feb	1994 Mar	1994 Apr	1994 May	1994 Jun (f)
<b>Indexes of consumer sentiment (Feb. 1966=100)</b>									
Composite of current and expected conditions	82.7	81.2	88.2	94.3	93.2	91.5	92.6	92.8	91.2
Current conditions	98.7	98.2	102.9	106.6	108.3	101.4	108.1	106.3	104.5
Expected conditions	72.5	70.3	78.8	86.4	83.5	85.1	82.6	84.2	82.7
<b>Personal financial situation</b>									
Now compared with 12 months ago*	104	107	113	115	114	105	116	111	111
Expected in 12 months*	119	121	122	123	127	125	124	123	127
<b>Expected business conditions</b>									
Next 12 months*	95	83	107	126	121	121	117	119	112
Next 5 years*	76	77	87	99	88	96	91	96	93
<b>Appraisal of buying conditions</b>									
Cars	132	139	144	148	155	147	150	143	144
Large household appliances*	151	147	153	162	167	158	164	165	160
Houses	170	172	174	174	176	176	170	167	161
Willingness to use credit	43	55	50	50	52	50	58	57	50
Willingness to use savings	58	81	63	70	70	69	71	75	76
Expected unemployment change - next 12 months	137	131	115	104	115	112	116	116	114
Expected inflation - next 12 months	4.0	3.6	3.8	3.5	3.7	4.4	4.5	3.9	4.1
Expected inflation - next 5 to 10 years	4.8	4.5	4.8	4.8	4.7	5.4	5.0	4.6	4.8

\* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.

(p) -- Preliminary

(f) -- Final

Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall.

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

	1993		1994		1994	
	Q3	Q4	Q1	Mar.	Apr.	May
Current-cost basis						
Total	16.1	18.8	17.2	-14.8	22.8	n.a.
Excluding auto dealers	23.5	5.5	14.6	-14.9	23.8	n.a.
Manufacturing	-2.5	-13.1	9.4	-3.6	10.5	22.9
Total machinery	3.8	4.5	10.8	9.4	11.1	9.8
Fabricated metal	1.0	-.8	-.9	-3.5	1.2	1.2
Wholesale	12.0	6.1	1.8	-12.5	10.4	n.a.
Motor vehicles	1.8	1.6	-5.2	-10.0	5.8	n.a.
Excluding motor vehicles	10.2	4.5	7.1	-2.5	4.6	n.a.
Retail	6.6	25.8	5.9	1.2	1.9	n.a.
Excluding auto dealers	14.0	12.5	3.4	1.2	3.0	n.a.
Constant-dollar basis						
Total	16.4	5.4	11.7	-11.3	12.3	n.a.
Excluding auto dealers	23.5	3.0	2.9	-26.2	15.4	n.a.
Manufacturing	3.1	-5.3	5.9	-6.9	5.1	n.a.
Wholesale	8.5	-.4	-1.9	-17.5	8.3	n.a.
Motor vehicles	1.5	1.3	-4.9	-9.2	4.8	n.a.
Excluding motor vehicles	7.0	-1.7	3.0	-8.3	3.5	n.a.
Retail	4.8	11.1	7.7	13.1	-1.0	n.a.
Excluding auto dealers	11.8	8.6	-1.2	-1.7	2.1	n.a.

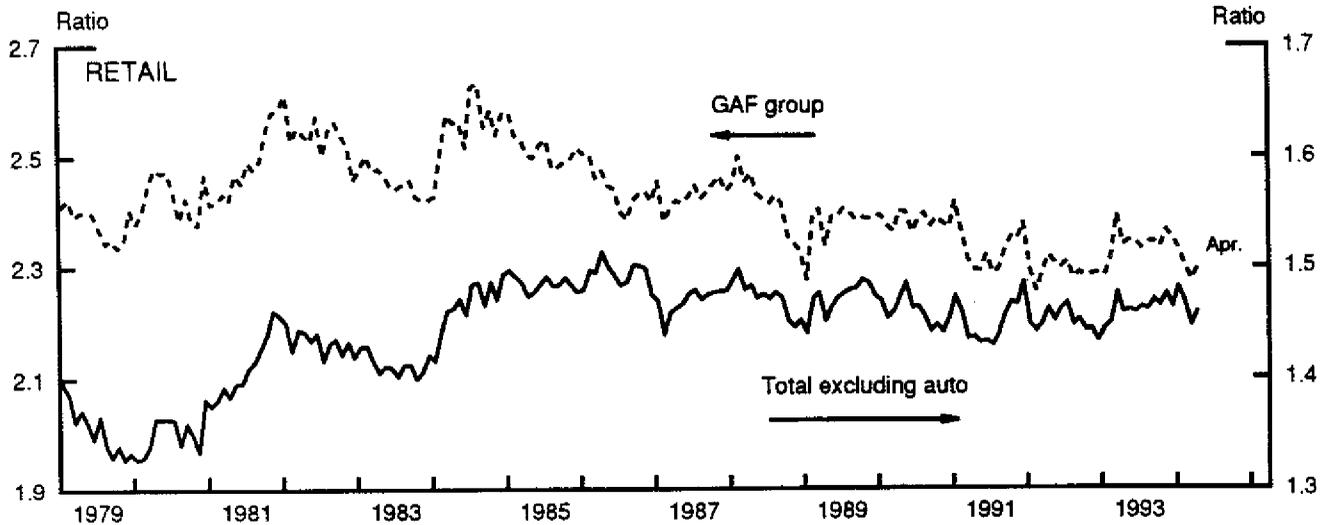
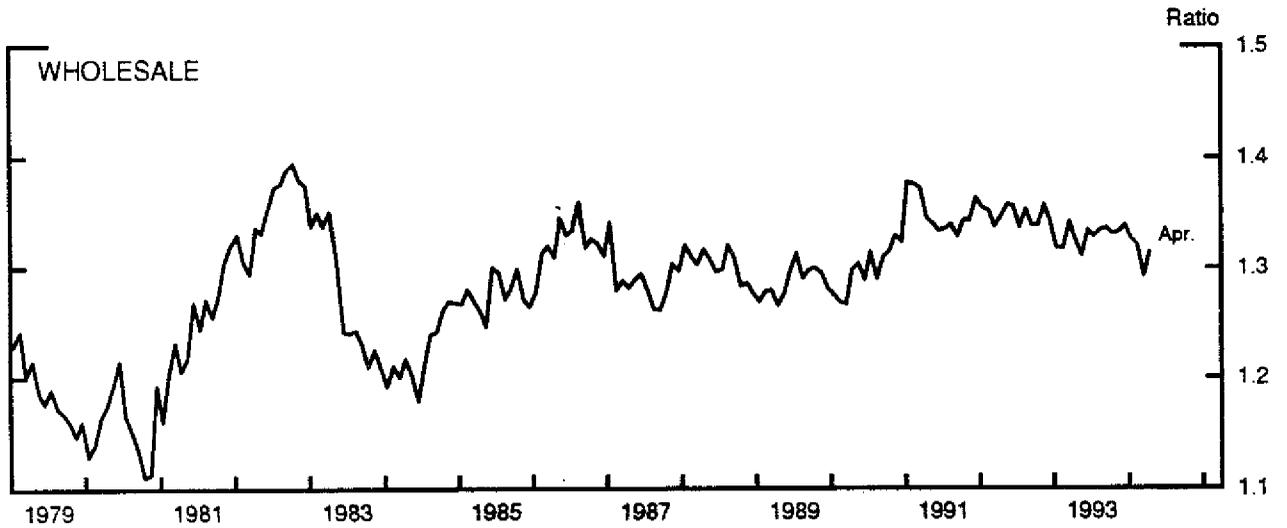
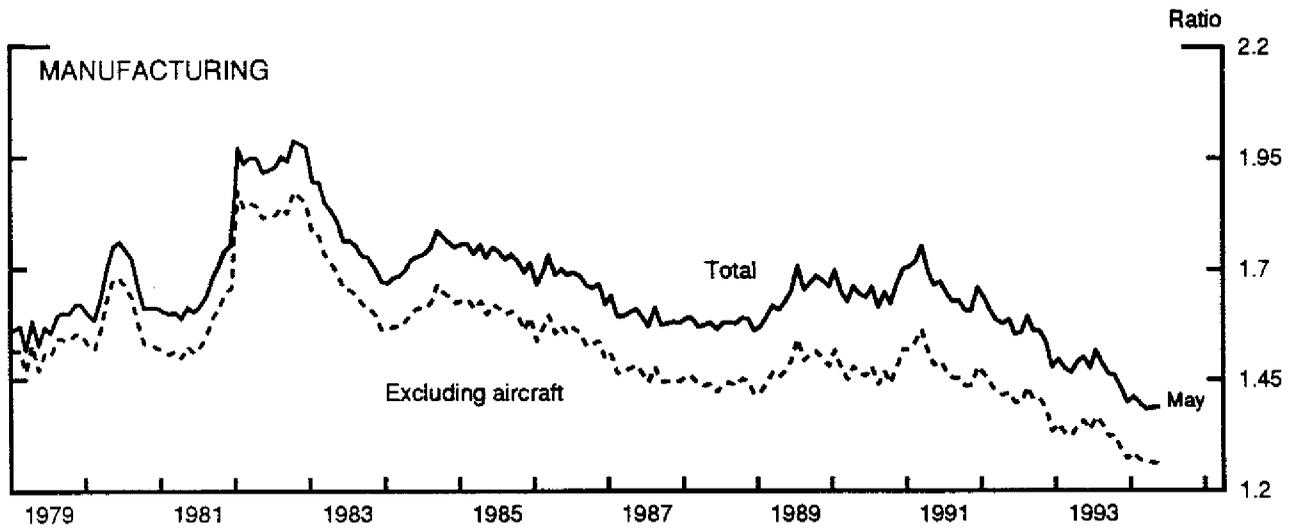
INVENTORIES RELATIVE TO SALES<sup>1</sup>  
(Months' supply; based on seasonally adjusted data)

	1993		1994		1994	
	Q3	Q4	Q1	Mar.	Apr.	May
Current-cost basis						
Total	1.46	1.43	1.41	1.39	1.40	n.a.
Excluding auto dealers	1.44	1.41	1.39	1.37	1.38	n.a.
Manufacturing	1.49	1.42	1.40	1.38	1.39	1.39
Total machinery	1.81	1.74	1.75	1.72	1.72	1.71
Fabricated metal	1.65	1.58	1.53	1.52	1.53	1.53
Wholesale	1.34	1.34	1.31	1.29	1.31	n.a.
Motor vehicles	1.63	1.68	1.47	1.45	1.46	n.a.
Excluding motor vehicles	1.31	1.30	1.29	1.28	1.30	n.a.
Retail	1.52	1.51	1.50	1.47	1.49	n.a.
Excluding auto dealers	1.48	1.47	1.47	1.45	1.46	n.a.
Constant-dollar basis						
Total	1.55	1.52	1.49	1.47	1.49	n.a.
Excluding auto dealers	1.54	1.50	1.48	1.46	1.48	n.a.
Manufacturing	1.60	1.53	1.51	1.49	1.50	n.a.
Wholesale	1.42	1.42	1.39	1.37	1.39	n.a.
Motor vehicles	1.60	1.65	1.46	1.43	1.45	n.a.
Excluding motor vehicles	1.40	1.40	1.38	1.36	1.39	n.a.
Retail	1.60	1.57	1.56	1.54	1.56	n.a.
Excluding auto dealers	1.55	1.54	1.53	1.51	1.52	n.a.

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

### RATIO OF INVENTORIES TO SALES

(Current-cost data)



NEW CONSTRUCTION PUT IN PLACE

	Billions of dollars, seasonally adjusted annual rate						Percent change from prior month <sup>2</sup>	
	1993	1994	1994				1994	
	Q4 <sup>r</sup>	Q1 <sup>r</sup>	Mar. <sup>r</sup>	Apr. <sup>P</sup>	Apr. <sup>r</sup>	May <sup>P</sup>	Apr.	May
<u>Current dollars</u>								
Total	489.3	490.1	496.0	508.5	499.5	504.2	0.7	0.9
Private	359.3	365.8	371.7	382.7	377.1	379.6	1.5	0.7
Residential <sup>1</sup>	222.5	233.3	236.8	241.2	238.8	240.6	0.8	0.8
Single family	143.3	152.6	155.0	157.1	156.3	156.9	0.9	0.3
Multifamily	11.1	11.4	12.0	12.7	12.6	13.2	4.7	5.0
Nonresidential <sup>1</sup>	136.8	132.5	134.9	141.5	138.3	139.0	2.5	0.5
Industrial	19.6	19.9	19.9	22.0	21.3	21.6	7.1	1.4
Office	15.7	15.7	17.0	15.8	16.5	16.4	-2.7	-0.7
Commercial	30.1	28.3	29.6	30.6	30.6	30.6	3.1	0.1
Public	130.0	124.3	124.4	125.9	122.4	124.6	-1.6	1.8
State & local	115.9	109.6	110.8	113.1	109.1	110.8	-1.6	1.6
Federal	14.2	14.8	13.5	12.7	13.3	13.7	-1.4	3.1
<u>1987 dollars</u>								
Total	412.2	409.1	413.1	422.4	416.3	419.1	0.8	0.7
Private	299.3	302.2	306.3	314.9	311.2	312.2	1.6	0.3
Public	112.9	106.9	106.7	107.5	105.1	106.9	1.5	1.7

1. Contains components not shown separately.

2. Percent changes calculated from more digits than shown in table.

r - revised.

\ -preliminary

July 1 1994

Mortgage and Consumer Finance

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

Type of credit	Dec. 1992 to Dec. 1993	1994 Q1	1994 Q2 p	1994 Apr.	1994 May	1994 Jun. p	Level, May 1994 (\$billions)
Commercial bank credit							
1. Total loans and securities	5.3	7.9	5	10.1	2.0	2	3,197.9
2. Securities	8.5	17.2	7	21.2	-1.9	1	965.4
3. U.S. government	9.6	11.5	2	18.0	-10.6	-0	752.1
4. Other	4.4	39.5	23	33.8	29.4	5	213.2
5. Loans	4.0	4.0	4	5.4	3.8	2	2,232.6
6. Business	-1.8	8.3	8	13.7	7.8	4	606.4
7. Real estate	4.5	.1	4	2.8	1.7	6	944.6
8. Consumer	9.0	10.6	12	18.2	9.7	7	410.7
9. Security	35.1	-18.3	-36	-92.2	9.4	-26	77.5
10. Other	-.6	6.5	-9	8.0	-13.5	-22	193.3
Short- and intermediate-term business credit							
11. Business loans net of bankers acceptances	-2.1	8.3	8	11.4	8.5	4	596.9
12. Loans at foreign branches <sup>2</sup>	-12.1	-7.4	19	45.1	16.3	-5	22.4
13. Sum of lines 11 and 12	-2.5	7.8	8	12.6	8.8	3	619.3
14. Commercial paper issued by nonfinancial firms	4.4	-12.2	-7	-11.0	-14.3	6	149.7
15. Sum of lines 13 and 14	-1.1	3.6	5	7.9	4.4	4	769.1
16. Bankers acceptances, U.S. trade-related <sup>3,4</sup>	-12.2	17.9	n.a.	11.4	n.a.	n.a.	21.2 <sup>5</sup>
17. Loans at finance companies <sup>4</sup>	-.5	9.4	n.a.	15.3	n.a.	n.a.	317.0 <sup>5</sup>
18. Total (sum of lines 15, 16, and 17)	-1.2	5.6	n.a.	10.0	n.a.	n.a.	1,104.4 <sup>5</sup>

1. Except as noted, levels are averages of Wednesday data and percentage changes are based on averages of Wednesday data; data are adjusted for breaks caused by reclassification; changes are measured from preceding period to period indicated.

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

3. Acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.

4. Changes are based on averages of month-end data.

5. April 1994.

p Preliminary.

n.a. Not available.

III-T-1  
SELECTED FINANCIAL MARKET QUOTATIONS  
(Percent except as noted)

Instrument	1993	1994			Change to Jun 30, 1994:			
	Mid-Oct lows	Feb 3	FOMC.* May 17	Jun 30	From Mid-Oct lows	From Feb 3	From FOMC.* May 17	
<b>SHORT-TERM RATES</b>								
Federal funds	3.07	3.07	3.73	4.41	.34	.34	0.68	
Treasury bills <sup>3</sup>								
3-month	3.01	3.13	4.15	4.15	1.14	1.02	0.00	
6-month	3.09	3.27	4.65	4.65	1.56	1.38	0.00	
1-year	3.23	3.52	5.11	5.22	1.99	1.70	0.11	
Commercial paper								
1-month	3.13	3.16	4.37	4.50	1.37	1.34	0.13	
3-month	3.23	3.25	4.70	4.74	1.51	1.49	0.04	
Large negotiable CDs <sup>3</sup>								
1-month	3.08	3.11	4.28	4.44	1.36	1.33	0.16	
3-month	3.22	3.25	4.61	4.73	1.51	1.48	0.12	
6-month	3.23	3.41	5.05	5.11	1.88	1.70	0.06	
Eurodollar deposits <sup>4</sup>								
1-month	3.06	3.06	4.25	4.44	1.38	1.38	0.19	
3-month	3.25	3.25	4.63	4.75	1.50	1.50	0.12	
Bank prime rate	6.00	6.00	6.75	.25	1.25	1.25	0.50	
<b>INTERMEDIATE AND LONG-TERM RATES</b>								
U.S. Treasury (constant maturity)								
3-year	4.06	4.60	6.40	6.52	2.46	1.92	0.12	
10-year	5.19	5.81	7.24	7.34	2.15	1.53	0.10	
30-year	5.78	6.31	7.46	7.63	1.85	1.32	0.17	
Municipal revenue <sup>5</sup> (Bond Buyer)	5.41	5.49	6.60	6.56	1.15	1.07	-0.04	
Corporate--A utility, recently offered	6.79	7.35	8.20	8.41	1.62	1.06	0.21	
Home mortgages <sup>6</sup>								
FHLMC 30-yr fixed rate	6.74	6.97	8.77	8.46	1.72	1.49	-0.31	
FHLMC 15-yr adjustable rate	4.14	4.12	5.54	5.41	1.27	1.29	-0.13	
<b>Stock Exchange Index</b>								
Stock exchange index	Record high		1989	1994		Percentage change to Jun 30:		
	Level	Date	Low. Jan. 3	FOMC.* May 17	Jun 30	From record high	From 1989 low	From FOMC.* May 17
Dow-Jones Industrial	3978.36	1/31/94	2144.64	3671.50	3624.96	-8.88	69.02	-1.27
NYSE Composite	267.71	2/2/94	154.00	245.78	245.16	-8.42	59.19	-0.25
NASDAQ (OTC)	803.93	3/18/94	378.56	711.91	705.96	-12.19	86.49	-0.84
Wilshire	4804.31	2/2/94	2718.59	4404.46	4395.22	-8.52	61.67	-0.21

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 Jul 6, 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.

Rates are as of the close on May 16, 1994.