77th Annual Report 1990

Board of Governors of the Federal Reserve System

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Letter of Transmittal

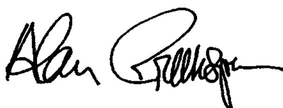
BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington, D.C., April 26, 1991

THE SPEAKER OF
THE HOUSE OF REPRESENTATIVES

Pursuant to the requirements of section 10 of the Federal Reserve Act, I am pleased to submit the Seventy-Seventh Annual Report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during calendar year 1990.

Sincerely,



Chairman

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Part 1

Monetary Policy and the U.S. Economy in 1990

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Introduction

The year 1990 was a difficult one for the U.S. economy and a challenging one for monetary policy. As the year began, policy was aimed at supporting an expanding economy while trying to hold in check, and eventually reduce, the rate of price inflation, which had moved up a notch in the latter part of the 1980s. Through midyear, that delicate balancing act appeared to be succeeding despite problems in some industries and regions. But in early August, Iraq's invasion of Kuwait and a related surge in oil prices bumped the economy off course, giving new impetus to inflation and tilting the economy from a path of slow growth to one of recession. The longest peace-time expansion in the nation's history thus came to an end.

That the oil shock threatened both to raise inflation and to reduce activity was recognized from the outset, but which of those threats posed the greater danger was not immediately clear. The reaction of household and business spending to the oil shock was difficult to predict, as was the degree to which the oil shock would feed more generally into wage and price decisions. Moreover, the extent and duration of the disruption of world oil markets were subject to great uncertainty. By mid-autumn, however, it appeared that the inflationary spillover of the oil shock was being effectively contained and that the risk of an appreciable economic contraction was growing. At that point, the Federal Reserve began to move forcefully toward a more accommodative policy stance.

Earlier in the second half, policy had been eased slightly on two occasions: in July, to offset the effects on the economy of apparent restraint in private credit supplies, and in October, when prospective reductions in federal budget deficits enabled interest rates to decline. Over the balance of the year, money market rates were reduced aggressively through open market operations and, late in the year, through a half-point decrease in the discount rate. In total, short-term rates at the end of 1990 were down more than 1 percentage point from their levels of midyear, and long-term rates also had moved lower. Falling interest rates contributed to an appreciable decline in the foreign exchange value of the U.S. dollar in the second half of the year.

The Federal Reserve's decisions to ease policy in the latter part of 1990 were influenced not only by developments in the economy but also by the behavior of the monetary and credit aggregates. M2 and M3 ended 1990 within the ranges set by the Federal Open Market Committee (FOMC), but they were in the lower parts of those ranges, and their expansion over the fourth quarter continued to be quite sluggish. The sluggishness of the aggregates during this period was worrisome because it suggested that the economy was weaker than anticipated and because it indicated the possibility of some undesirable restraint on future spending from the constricted flow of credit from depository institutions. In particular, the thrift industry was con-

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NOTE. The discussion here and in the following

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come increasingly reluctant to lend, raising interest margins and tightening nonprice terms. To bolster lending incentives, the Federal Reserve in December eliminated the reserve requirements on nonpersonal time deposits and net Eurocurrency liabilities.

To a significant extent, overall credit flows were sustained in 1990 by sources outside depositories: Debt of the domestic nonfinancial sectors grew about 7 percent over the year and ended in the middle of the FOMC's monitoring range. The shift toward nondepository sources of credit made it possible to achieve a greater amount of growth in nominal income and expenditure for a given expansion of the money stock. One facet of this process was a shifting by the public out of assets that are included in the monetary aggregates and into holdings of Treasury issues and other securities. Velocity, the ratio of nominal GNP to the money stock, thus exhibited strength that was unusual, given the circumstances. Although declines in interest rates ordinarily are associated with falling velocity, M2 velocity was about unchanged in 1990, and M3 velocity registered an exceptionally large increase.

As 1990 drew to a close, the immediate concern was that of bringing the recession to a halt and of getting the economy back on a path of expansion. Support for renewed expansion seemed likely to come from lagged effects of the declines in interest rates over the second half of 1990 as well as from a rise in purchasing power brought on by a sharp drop in the price of crude oil after mid-autumn. The prospects for exports continued to look favorable given the improved competitiveness of U.S. producers. At the same time, however, the confidence of households and businesses was low at the end of 1990, and problems in construction and among some financial institutions appeared to be deeply rooted; these factors seemed to have the potential to push back the economic recovery or cause it to be distinctly subpar.

Looking beyond the cyclical processes of recession and recovery, monetary policy will need to continue aiming at the longer-run objective of reducing the rate of price inflation over time. In that regard, price increases in 1990 were larger than those of other recent years, a result that reflected both the surge in oil prices and more general inflation pressures. These inflation pressures seemed to be easing a little in the latter part of the year, however, perhaps setting the stage for a more favorable inflation performance in 1991. Such an outcome clearly would enhance the prospects for achieving maximum sustainable economic growth. ■

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The Economy in 1990

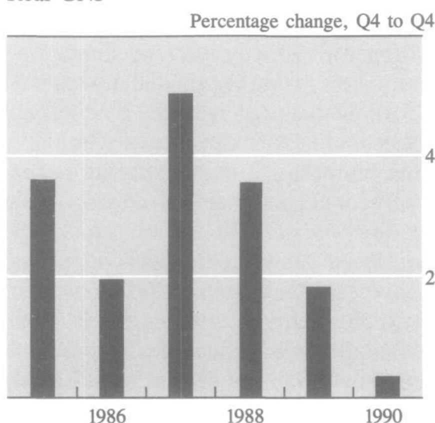
When 1990 began, the economy was in its eighth year of expansion, and it remained on a positive course into the summer. During this period, problems were evident in some sectors of the economy, notably construction, where activity was being damped by the persistence of high vacancy rates; and finance, where a significant number of institutions were encountering difficulties that reduced their ability or willingness to provide credit. Overall, however, production and spending still were on a course of expansion at mid-year; and, while the rate of price increase had not yet started to abate, the conditions for slower inflation appeared to be developing without major disruption to the economy.

Then, in early August, oil prices surged with Iraq's invasion of Kuwait; the price surge gave further impetus to inflation, and it also portended reduced domestic purchasing power and weaker economic activity. Uncertainties about the course of the economy were heightened enormously. Household and business sentiment plummeted almost overnight, a response that perhaps grew in part out of memories of the difficult adjustments that had followed the oil shocks of the 1970s. At the time of the invasion, and on into the autumn, sentiment also was being affected by the considerable uncertainty that had developed regarding the course of fiscal policy.

Actual production and spending held up for a time after the oil shock but started to decline in early autumn. The production cuts reduced real incomes still further and added to the cumulating forces of contraction, which included a continued shift toward caution by lenders. The economy thus fell into recession in the latter part of the year. Real gross national product declined at an annual rate of about 1½ percent in the fourth quarter, according to final estimates from the Department of Commerce, and the gain over the four quarters of the year amounted to only 0.5 percent. The civilian unemployment rate, which had held around 5¼ percent through the first half of the year, moved up steadily in the second half, to 6.1 percent in December.

The consumer price index rose 6.1 percent from December 1989 to December 1990, the largest annual increase in nearly a decade, and a surge in energy prices after the invasion was only one of the factors pushing inflation higher. The year-to-year rate of increase in the CPI excluding food and energy—a rough indicator of basic inflation trends—maintained a gradual upward tilt through the first three quarters of 1990, peaking at a rate of 5.5 percent in August and September; a slight easing of pressures over the

Real GNP



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balance of 1990 brought the rate down to 5.2 percent by year-end. The year-to-year rate of increase in nominal labor compensation, as measured by the employment cost index, also moved up in the first half of 1990. After midyear, however, wage pressures moderated, and the rise in nominal compensation over the year ended up at 4.6 percent, slightly less than the increase recorded in each of the two previous years.

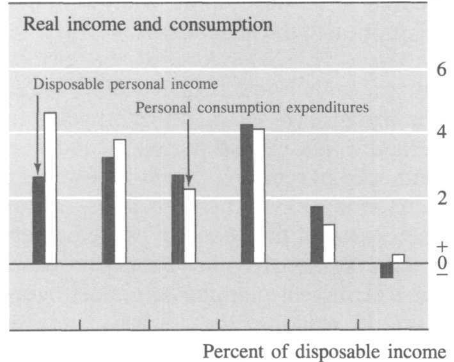
Support for the growth of real activity in 1990 continued to come from the external sector, as real exports of goods and services rose about 5¾ percent over the four quarters of the year. By contrast, gross domestic purchases, the broadest indicator of domestic demand, fell ½ percentage point on net over the year; within this category an increase in government purchases was more than offset by weakness in consumption, homebuilding, and business fixed investment and by a swing in inventories from moderate accumulation late in 1989 to decumulation in the fourth quarter of 1990.

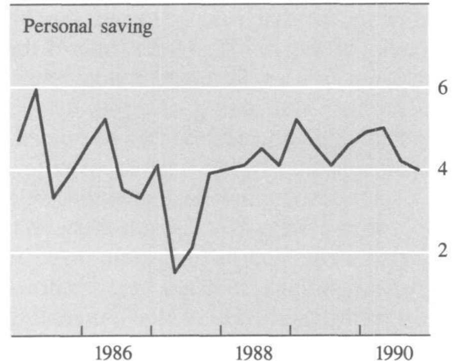
As was true during much of the long expansion of the 1980s, economic trends in 1990 varied appreciably across different regions of the country. The New England economy, which had been very strong through much of the 1980s, slumped in 1990; by year-end, unemployment rates in that region had moved well above the national average. By contrast, the economies of many locales with heavy concentrations of manufacturing—especially capital goods manufacturing—held up fairly well until the oil shock; the continued growth of exports supported activity in those areas. The farm economy was relatively strong again in 1990, although some indications of softening did show up in the second half. Energy producers benefited from the climb in oil prices; exploration and drilling activity was restrained, however, by the great uncertainty regarding the future course of oil prices.

The Household Sector

In midsummer, consumer spending still was on an uptrend, and it edged up a little further after the oil shock, peaking in September. But with real incomes being dragged down by slumping employment and soaring energy prices, the rise in spending eventually ran out of steam. Real outlays fell at an annual rate of about 3½ percent in the fourth quarter; the quarterly drop likely would have been greater but for tax changes that caused

Income, Consumption, and Saving





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some households to make purchases in advance of the turn of the year.

The declines in real income and spending in the latter part of the year essentially reversed the moderate gains made earlier. Over the year, after-tax income was down about ½ percent in real terms; real consumption spending was up over the four quarters of 1990, but only fractionally. The personal saving rate rose over the first half of the year, but then dropped ¾ percentage point over the last two quarters. This drop in the saving rate after midyear was a little surprising from one perspective, in that an unprecedented plunge in consumer attitudes between July and October might have been expected to generate some increase in precautionary saving. Moreover, many households had suffered losses of wealth because of decreases in house prices or in the value of securities they held; these developments would seem to have called for a shift toward reduced consumption out of current income. But while such forces may well have been at work, they apparently were outweighed by a tendency of households to dip into savings in the short run when faced with a sudden surge in expenses for energy.

Patterns of change in the various categories of consumer spending were mixed in 1990. Real outlays for services continued to trend up over the year but at a slower pace than during most years of the expansion; on a quarterly basis, growth in these outlays was quite erratic, largely because of weather-related volatility in gas and electric bills. Real outlays for nondurables fell 2¼ percent over the course of the year, an unusually large decline by historical standards. The drop presumably was brought on in large part by the downturn in real income over the four quarters of 1990, the first such decline since 1974.

The real outlays for consumer durables fell 1¾ percent over the four quarters of 1990; they had fallen about 1½ percent in 1989. Purchases of motor vehicles and parts declined for a second year. In addition, outlays for the other durables – furniture, household equipment, and the like – turned down, after having grown at a moderate pace in 1989. These patterns of change in spending seemed to reflect both macroeconomic forces, notably the slower pace of real income growth after the start of 1989, and the normal workings of household investment cycles. With regard to the latter, household spending for cars, trucks, and other consumer durables over the 1983–88 period were almost 50 percent above the average for the six best years of the 1970s. By 1989 many households may have reached a point where they were in effect "stocked up" and therefore well positioned to delay making new purchases if the timing did not seem right.

Spending for residential construction got a transitory boost from good weather in the first quarter of 1990 but then fell sharply in each of the three subsequent quarters. Over the year as a whole, residential investment outlays declined 10¼ percent in real terms; they had dropped 7 percent in 1989.

This slump in housing investment reflected a variety of influences, most of which appeared to enter on the demand side of the equation. The downshifting of real income growth after the start of 1989 may have led households to view their longer-run prospects in a more cautious light and to hold back from housing investments that they might otherwise have undertaken. In addition, the unwinding in some regions of the country of real estate booms seen in the 1980s tarnished the attractiveness of housing as a longer-term investment. These negative developments came at a time when housing demand already was being restrained by a much slower rate of growth of the adult

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population than was seen in the 1970s and early 1980s.

Builders cut back sharply on new construction in 1990. The annual starts of single-family units fell 11 percent from their 1989 level, and starts of multifamily units declined about 20 percent from an already low level. However, these reductions in starts still were not large enough to balance the market. The ratio of unsold new homes to the pace of sales jumped sharply in the first part of 1990 and then remained high over the rest of the year; the vacancy rate on multifamily rental units also remained high.

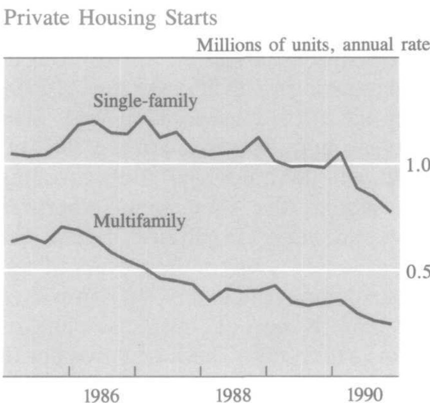
In some instances, prospective builders were deterred from construction in 1990 by the difficulty of obtaining credit. Failures of thrift institutions severed established credit relationships for some builders; the thrift institutions that survived moved toward more conservative lending policies either out of choice or in response to the more stringent capital requirements and lending limits mandated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Banks also were cautious about extending credit to builders; with large volumes of problem loans already on their books, banks were sensitive to the poor conditions in many local housing markets.

In contrast to builders, potential homebuyers did not seem to have serious problems in obtaining financing in 1990; mortgage credit remained readily available, and the spreads between mortgage rates and the rates on other long-term loans actually narrowed. For the most part, consumer credit also appeared to be readily available, with lenders exhibiting only a mild tendency to tighten standards on this generally profitable line of business.

The Business Sector

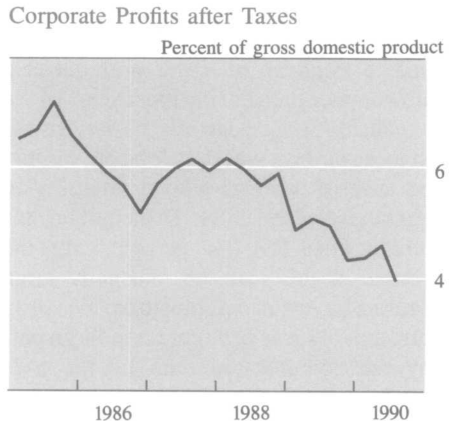
The business sector began 1990 on a rather shaky note. Profits had declined during 1989, and overhangs of business inventories had developed in the second half of that year in some markets, notably autos. In manufacturing, production growth had been restrained late in 1989; a sharp drop in output in January 1990 was led by a steep cutback in auto assemblies. But conditions improved

Private Housing Starts



The data are seasonally adjusted and are from the Department of Commerce.

Corporate Profits after Taxes



Profits of nonfinancial corporations from domestic operations, with adjustments for inventory valuation and capital consumption.

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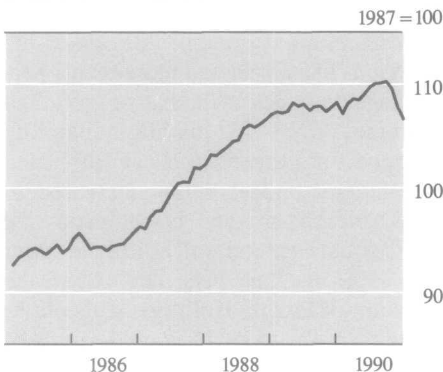
over the next few months. Industrial production rose fairly briskly, in fact, from January into midsummer, and the drop in business profits was halted for a time.

From August on, the business climate was dominated by the oil shock and its attendant uncertainties. After peaking in September, industrial production plummeted over the last three months of 1990, and it closed out the year about 1¼ percent below the level of a year earlier. Over the latter part of the year, the operating rate in industry also fell sharply. Corporate profits went into renewed decline in the second half of the year.

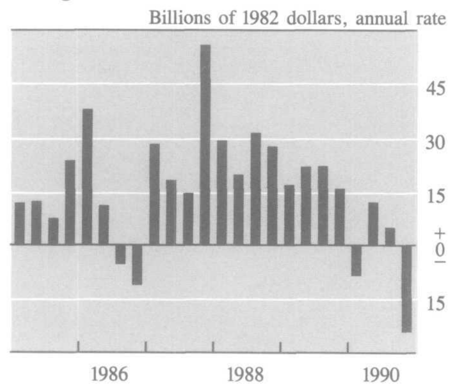
Serious overhangs of business inventories were not apparent when the oil shock hit in August, and prompt production adjustments that followed the shock forestalled stockbuilding in the ensuing months. Indeed, real manufacturing and trade inventories fell moderately on net between the end of July and the end of December. Under the circumstances, however, these reductions clearly were not great enough to get actual stocks down to desired levels. In wholesale and retail trade, sales declined sharply from July to December, and the constant-dollar ratios of inventories to sales in these sectors moved up to levels that matched or exceeded the highs of the previous two or three years. The inventory-sales ratio in manufacturing also increased on net between July and December, and manufacturers continued to cut output through the end of the year. Over 1990 as a whole, the level of real business inventories in the nonfarm sector declined $5 billion. The rapid reductions of nonfarm inventories that were seen in the fourth quarter of 1990 more than accounted for all of that quarter's drop in real GNP.

After relatively strong gains in each year from 1987 to 1989, business outlays for fixed investment slowed in 1990; the gain over the four quarters of the year was 2¼ percent. Spending for equipment was damped by the squeeze on profits, the easing of pressures on capacity, and the heightened uncertainties regarding the business outlook. These influences showed through most clearly in the outlays for industrial equipment, which fell almost 6 percent over the year. Business purchases of motor vehicles bounced around from quarter to quarter but held to essentially the same range that they have been in for the past several

Industrial Production



Changes in Real Business Inventories



Total nonfarm sector. The data are preliminary, seasonally adjusted, and come from the Department of Commerce.

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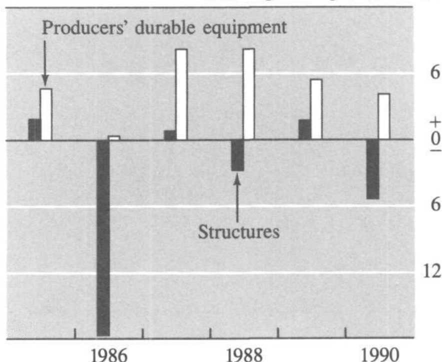
years. By contrast, business outlays for aircraft, which have been strong in recent years, rose further in 1990. Real spending for computers and other information processing equipment also increased, but the gain in this sector was not nearly so large as it was in many other recent years. In total, business outlays for equipment rose about 4½ percent over the year.

Nonresidential construction declined 5½ percent over the four quarters of 1990. Weakness was concentrated mainly in the outlays for offices and other commercial structures, which together account for about one-third of the total. An excess supply of these structures developed in many cities during the building boom of the mid-1980s, and despite sharp cutbacks in construction after 1985, vacancy rates remained high through 1990. Reflecting this continued imbalance—and the reluctance of creditors to finance new projects in this troubled sector of the economy—such indicators of future activity as the data on new contracts and building permits continued to have a decidedly negative cast through the second half of 1990. Spending for industrial structures rose over the first three quarters of 1990 but fell sharply in the fourth quarter, and the indicators of future construction continued to weaken. Investment in oil drilling remained relatively subdued in the second half of 1990 despite the rise in oil prices. In some instances drillers may have been hampered by shortages of experienced crews, but more important, the uncertainty about whether prices would remain high enough to justify stepped-up investment prompted a cautious response.

Signs of mounting financial stress were evident in the business sector in 1990. The number of corporations reducing, omitting, or deferring dividends in the fourth quarter was the highest in more than thirty years. A record dollar amount of corporate bonds went into default in 1990; the default rate, calculated as a percentage of the par amount of noninvestment grade bonds outstanding, was 8.7 percent, the highest in twenty years. While the number of downgradings also reached a record high, most of the downgradings were attributable to deteriorating conditions affecting below-investment-grade nonfinancial corporations and financial institutions.

Real Business Fixed Investment

Percentage change, Q4 to Q4



The data are preliminary, seasonally adjusted, and come from the Department of Commerce.

The Government Sector

In the government sector, budgetary pressures intensified in 1990. At the federal level, the rate of growth of receipts slowed to 4.1 percent in fiscal year 1990, less than half the rate of increase in the previous fiscal year and more than 1 percentage point below the rate of growth in nominal GNP. Meanwhile, spending jumped 9.4 percent in fiscal 1990, and the federal budget deficit increased to $220 billion, up $67 billion from the 1989 fiscal year and well above the target for 1990 that had been laid out in the Gramm–Rudman–Hollings legislation. Finding a way to get back on the track of deficit reduction occupied the Congress

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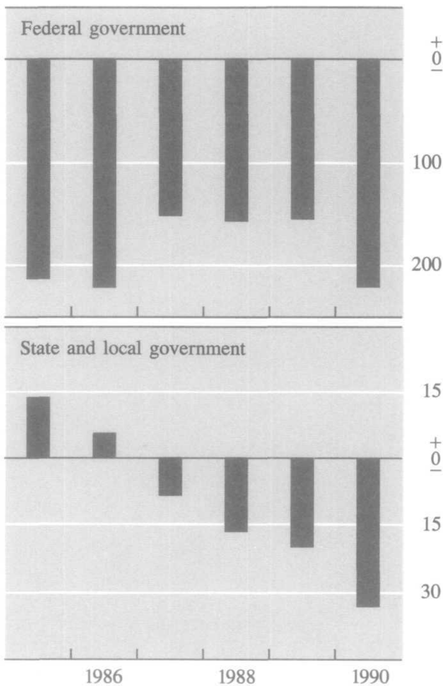
and the Administration through much of 1990; an agreement reached in October prescribed new targets and new procedures for the five-year period starting in the 1991 fiscal year.

Part of the slowing of receipts in the 1990 fiscal year stemmed from the weakness in corporate profits; collections from that source fell almost $10 billion. In addition, the growth of tax receipts drawn from the incomes of individuals slowed appreciably, from 11 percent in 1989 to a bit less than 5 percent in 1990; this slowdown mainly reflected the absence in 1990 of transitory factors that had led to the big jump in these receipts in 1989. On the expenditure side of the ledger, about one-third of the increase of $108 billion in nominal federal outlays in fiscal 1990 was attributable to federal deposit insurance programs; the main portion of these outlays went to honor obligations to holders of deposits in failed thrift institutions. Spending also moved up rapidly in 1990 for entitlements. The outlays for medicare rose 15 percent, pushed up by continued rapid inflation in health costs and an expansion in the number of beneficiaries. Outlays for social security and other income security programs, which together account for close to one-third of total federal spending, rose about 7½ percent in fiscal 1990, a pickup from the pace of recent years. Net interest outlays, which now account for almost 15 percent of total spending, also continued to climb rapidly.

Government Surpluses and Deficits



The data on the federal government are for fiscal years. They are on a unified budget basis and are from the Department of the Treasury.

The data on state and local governments are preliminary. They are for operating and capital accounts on a national income accounts basis and are from the Department of Commerce.

Federal purchases of goods and services, the portion of federal spending that is included directly in GNP, increased 5¼ percent in real terms over the four quarters of 1990. Excluding the volatile changes in the inventories owned or financed by the Commodity Credit Corporation, federal purchases of goods and services increased 4¼ percent on net over the year; nondefense purchases were up 5½ percent and defense purchases, which had declined moderately in each of the three previous years, increased 4 percent in 1990. The rise in defense purchases came mainly in the fourth quarter of the year and apparently reflected, in part, outlays associated with Operation Desert Shield.

The deficit in the combined operating and capital accounts of state and local governments (excluding social insurance funds) averaged $30 billion at an annual rate over the first three quarters of 1990, and it widened considerably in the fourth quarter as the recession cut into tax receipts. State and local budgets first

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moved into deficit in late 1986, and they slipped further into the red in each succeeding year. By 1990, concerns had intensified about the repayment abilities of some state and local governing units; as evidence of this, the downgradings of state and local credit ratings outnumbered upgradings by a wide margin in 1990.

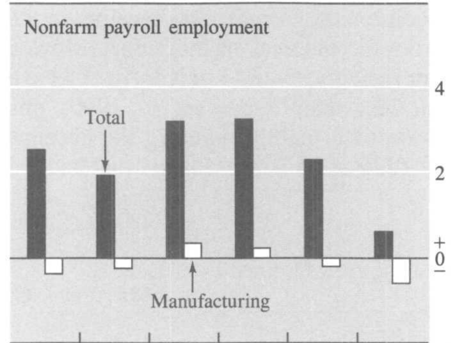
In an effort to strengthen their finances, many state and local governments raised taxes in 1990. Reflecting those increases, total state and local receipts moved up faster than nominal GNP through most of the year, just as they had in 1989. In addition, spending was scaled back from planned levels in many cases. Overall, however, the efforts to control spending collided with the growing demands for services that state and local governments traditionally have provided in areas such as education, public protection, and health and income support. Thus, while the growth of state and local outlays slowed from the rate of rise seen earlier in the expansion, it nonetheless ran above that of total GNP. The nominal rise in state and local purchases of goods and services over the four quarters of 1990 was 8 percent; in real terms, purchases grew 2¾ percent over the year.

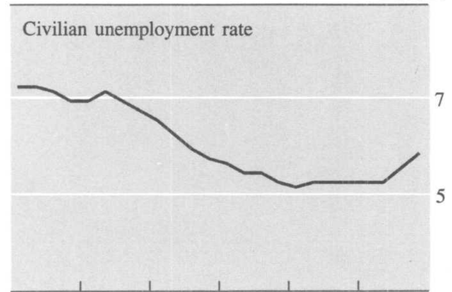
Labor Markets

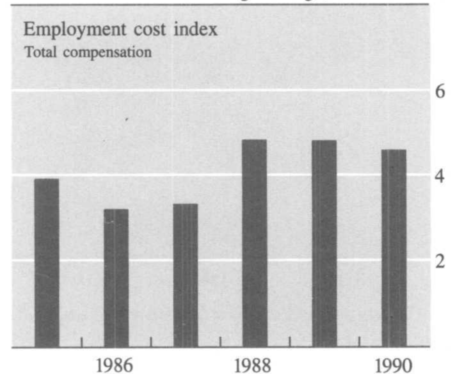
Payroll employment increased in each month in the first half of 1990 and fell in each month of the second half. The declines of July and August, however, reflected layoffs of federal workers who had been hired temporarily to conduct the 1990 census. In the private nonfarm sector, employment continued to edge up through early August and did not turn down decisively until October. More than 600,000 jobs were lost over the final three months of the year. Over the year as a whole (December 1989 to December 1990), the number of jobs in the private nonfarm sector increased about 250,000 on net.

Sectoral patterns of employment change varied considerably in 1990. Employment in manufacturing fell about

Labor Market Conditions







The employment cost index is for private industry excluding farms and households. The data are from the Department of Labor.

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590,000 from December 1989 to December 1990; losses of factory jobs proceeded at a slow and fairly steady pace through the first half but accelerated after the onset of the oil shock. The troubled construction sector shed roughly 230,000 jobs over the course of the year; after a weather-related jump early in the year, the declines went on almost without interruption through December. Employment in retail and wholesale trade was down 50,000 on net over the course of 1990 as small gains through the first seven months of the year were more than offset by sharp declines in the fourth quarter. The number of jobs in the services industries increased in each month of 1990, but the rate of gain slowed progressively over the year; health services was the only major area in which hiring was going on with much vigor at year-end.

Growth in the supply of labor was quite subdued in 1990. The civilian labor force increased only 0.5 percent from December to December, the smallest annual gain in almost thirty years. Part of the explanation for this slow labor force growth is that the working-age population has not been growing very rapidly in recent years. In addition, the share of the working-age population that chose to participate in the work force declined enough in 1990 to cut labor force growth to half of what it would have been had the rate of participation not changed. The sluggishness of the labor markets in 1990 no doubt discouraged some potential entrants from seeking jobs, a phenomenon typical of economic slowdowns. Still, the drop in participation in 1990 left some uncertainties regarding the future trend in the growth of labor supply.

By mid-1990, the unemployment rate had held tightly around 5¼ percent for seven quarters and had stayed below 6 percent for nearly three years. Not since the first half of the 1970s had the unemployment rate been at such low levels for so long. As in other periods of reduced slack in the labor market, this recent period of low unemployment was marked by sharply increased wage inflation. The employment cost index, which includes the cost of workers' benefits as well as wages and salaries, moved up about 4¾ percent in both 1988 and 1989, after rising about 3¼ percent in both 1986 and 1987. And in the first half of 1990, the year-to-year rate of increase in this measure of compensation rose still further, to 5¼ percent.

Factors besides tightness in the labor market were also pushing up wages and compensation between the end of 1987 and the middle of 1990. The updrift in inflation caused workers to press for nominal increases in wages and benefits that were big enough to keep real incomes on a reasonably even keel, and with labor in short supply, businesses found it necessary to accede to hefty increases to attract and keep workers. The actions of government also added to cost pressures: A rise in social security taxes in 1990 added 0.2 percent to total compensation, and a boost in the minimum wage may have added another 0.1 percent.

A marked slowing of wage increases emerged in the second half of 1990, and by the end of the year the twelve-month rate of increase in the employment cost index had dropped to 4½ percent. Although workers' real incomes were battered by the surge in energy prices during this period, attempts to regain those income losses appear to have been overwhelmed by the increase in labor market slack and associated concerns about job security. The efforts of management to contain costs in a time of declining profits probably also were a factor helping to limit wage increases during this period.

Productivity measures in 1990 marked a second successive year of subpar performance. Output per hour in the nonfarm

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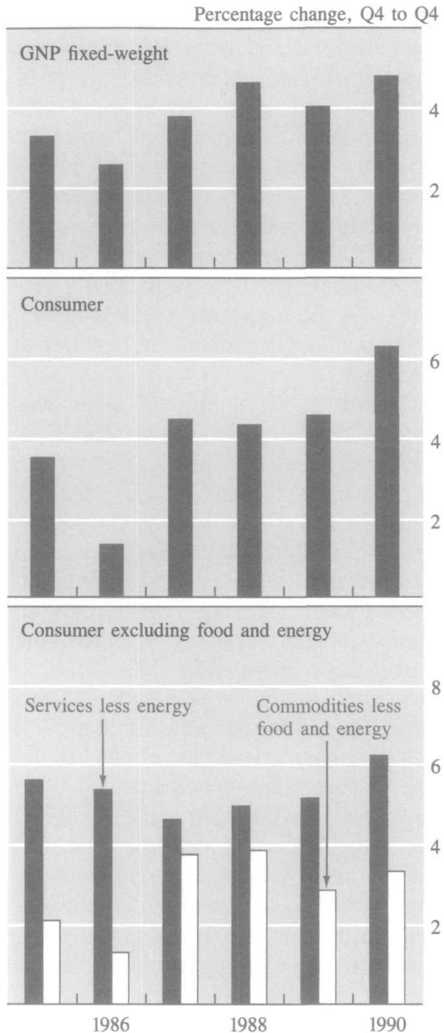
business sector was unchanged over the four quarters of the year, after having dropped 1.6 percent in 1989. More than likely, the poor productivity results during 1989–90 mainly reflected the cyclical slowing of demand in those years – under such circumstances, firms typically cut output faster than they cut hours. Unit labor costs increased about 4½ percent over the four quarters of 1990, the largest annual rise since 1982.

Price Developments

All of the major price measures – the indexes of consumer, producer, and GNP prices – rose faster in 1990 than they did in 1989. In general, the increases seen in 1990 also were the largest since those of the early 1980s. The surge in oil import prices had a particularly strong effect on those indexes, such as the CPI, that measure price changes for goods and services *purchased* by domestic buyers. By contrast, the GNP price indexes cover goods and services *produced* domestically, and they exhibited a less pronounced degree of acceleration this past year.

The CPI for energy rose 18 percent from December 1989 to December 1990. Although the bulk of the 1990 rise came after the start of August, intermittent pressures had surfaced earlier in the year. A severe bout of cold weather at the end of 1989 cut into the inventories of heating oil, disrupted operations at several refineries, and caused the prices of fuel oil and gasoline to soar. After January, fuel oil prices fell back, but gasoline prices remained relatively firm into the summer as still more supply interruptions prevented a rebuilding of stocks.

Iraq's invasion of Kuwait in August set off another round of steep price increases. World oil production dropped temporarily after the invasion, and the uncertainties associated with the tensions in the Persian Gulf set off a scramble for inventories by refiners and others seeking to guard against a possible further disruption in supplies. The price of oil fluctuated widely in this period, but generally maintained an upward trend into early



Consumer prices are for all urban consumers. The data are seasonally adjusted. For GNP fixed-weight prices, the data are preliminary and are from the Department of Commerce; the data for consumer prices are from the Department of Labor.

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October. By then, however, the losses of oil from Iraq and Kuwait were being fully offset by increased production from other countries, and demand was weakening. As a result, oil prices turned down and held on a choppy downward pattern through the end of the year, retracing about half of the runup of the August–October period.

The CPI for fuel oil also turned down over the last two months of the year, but gasoline prices again held firm, supported this time by a December 1 rise of five cents per gallon in the federal excise tax. Over the year, fuel oil prices increased about 30 percent at the consumer level, and gasoline prices were up almost 37 percent. By contrast, increases over the year in the prices of natural gas and electricity were quite small – in the range of 1½ to 2 percent; the reaction of these prices to the oil shock apparently was damped by ample supplies of natural gas and coal, as well as the customary lags in adjusting rate structures at retail.

The consumer price index for food rose 5.3 percent in 1990. This rise was about the same as in 1988 and 1989, but exceeded the pace of the preceding few years, when food price increases had tended to run more in the 3 to 4 percent range. To a considerable degree, the continued sharp increases in food prices in 1990 seemed to reflect underlying inflation processes similar to those at work in other sectors of the economy. In addition, prices were affected by the changing supply conditions in agriculture. Production of beef and pork declined in 1990, and their prices at retail increased 9 percent and 17 percent respectively over the course of the year. Dairy production, which had fallen in 1989, turned up in 1990; but with stocks initially at low levels, the rise in production did not have a damping effect on prices at retail until relatively late in the year. The spell of cold weather late in 1989 led to a surge in the prices of orange juice and fresh vegetables early in 1990; toward the end of 1990, another cold snap destroyed citrus crops in California and boosted citrus prices. By contrast, big wheat crops here and abroad in 1990 caused wheat prices to plunge and led to some rebuilding of stocks; at retail, the rise in the CPI for cereals and bakery products slowed from 7½ percent in 1989 to 4½ percent in 1990.

The CPI for non-energy services, which accounts for more than half of the total CPI, rose 6 percent during 1990, after an increase of 5.3 percent in 1989. Within this broad category, increases were large for a number of items. The prices of medical services, which have been increasing rapidly for many years and had risen 8.6 percent in 1989, were up 9.9 percent in 1990. The cost of tuition, another CPI category in which pressures have been evident for some time, rose more than 8 percent in both 1989 and 1990. Elsewhere in the services sector, prices soared for public transportation and lodging. Airlines, which were hit hard by the surge in energy costs, raised their fares almost 23 percent over the year. Price increases for other forms of public transportation were in the 6 to 7 percent range.

The CPI for commodities excluding food and energy rose 3.4 percent in 1990, up sharply from 2.7 percent in 1989. Within this category, tobacco prices were up especially sharply, about 11 percent in all; the increase reflected the pass-through to consumers of a jump in manufacturers' prices and the continued reliance by governments on higher taxes on tobacco products as an attractive way to boost revenues. The CPI for apparel was up 5 percent in 1990; apparel prices had changed little over the course of 1989, and thus at least part of the 1990 rise may have been an effort to restore margins. Prices of new cars continued to

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go up, even as sales were coming down; by contrast, used car prices declined a bit for a second year. The prices of many household appliances fell in 1990, extending the gradual downward trend seen in previous years.

Apart from energy, increases in producer prices were comparatively moderate in 1990. The producer price index for finished goods excluding food and energy rose 3.5 percent over the year, about ¾ percentage point less than in either of the preceding two years. In manufacturing, the pressures from rising wages and soaring energy costs were partly damped by continued rapid gains in productivity and softening demand. The prices of intermediate materials excluding food and energy rose 1.9 percent during 1990, the second year in a row in which increases for that category have been small; materials prices had increased sharply in 1987 and 1988. The spot prices of raw industrial commodities moved up on net in the first half of 1990, held firm through September, and then fell rapidly in the fourth quarter as the economy weakened. ■

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Monetary Policy and Financial Markets in 1990

Monetary policy held steady in the first half of 1990, but it progressively eased in the second half in resumption of the trend that began in 1989. In moving again toward ease, the Federal Reserve acted against the backdrop of a weakening economy, sluggish money growth, improved inflation prospects, greater fiscal restraint, and indications of tightening credit to private borrowers. Short-term interest rates, in response to the System's actions and to the softening of aggregate demand after the oil shock, fell more than 1 percentage point in the second half, to a level more than 2½ percentage points below the peak that was reached in the spring of 1989. Long-term rates also moved lower over the second half, reversing most of the rise of the first half.

In the formulation of policy in 1990, as in other recent years, the Federal Reserve examined a variety of information bearing on economic activity and prices. In addition, certain developments in financial markets also took on special significance for the economy and monetary policy. The cost and availability of credit was monitored in light of indications that tightening credit supplies were constraining output to a greater degree than was desirable; and considerable attention was paid to changes in the money stock, especially in the latter part of 1990, when money growth virtually stalled. The Federal Reserve recognized that the relation of the monetary aggregates to broad measures of economic performance remained subject to considerable uncertainty, but the marked sluggishness of money growth was seen as suggesting both weak contemporaneous growth of income and spending and the existence of constraints on the availability of credit through depository institutions that could adversely affect spending in the future.

The Implementation of Monetary Policy

During the first half of 1990, the Federal Reserve took no actions in reserve markets designed to produce changes in money market interest rates. Federal funds—overnight interbank loans of immediately available funds—traded around the 8¼ percent level that had been established in December 1989, and other short-term rates were little changed as well. Throughout this period economic activity continued to expand, the unemployment rate held steady, and inflation showed no clear signs of abatement.

Yields on longer-term debt instruments rose considerably during the early months of 1990, restoring the yield curve's usual upward tilt, which had been absent for much of 1989. This rise in long-term rates reflected an economy stronger than some had expected, greater concern about inflation, and higher foreign interest rates. As the second quarter progressed, however, bond rates began to recede, responding to a shift in market sentiment about the strength of the economy and the likely path of monetary policy.

Growth of the broader monetary aggregates began to slow appreciably in the second quarter. To a large extent, the weakness in growth of the aggregates was associated with a redirection of credit flows away from depository institutions. That shifting of credit flows appeared to stem mainly from the ongoing restructuring of the thrift industry, but it also reflected an apparent decrease in the

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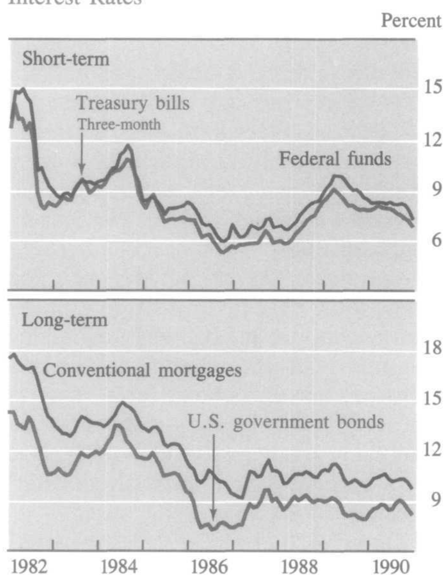
willingness or ability of banks to lend. Because these developments represented an abrupt departure from previous trends, initial assessments of their potential effect on the economy were subject to some extra uncertainty. For the most part, however, the decline in depository credit seemed likely to be taken up by other lenders, with minimal impact on the overall cost and availability of credit. Growth of M3, the aggregate most affected by the reduction in depository credit, was expected to be damped considerably, and M3 velocity was expected to rise substantially. In recognition of these developments, the FOMC at its meeting in early July reduced the annual target range for this aggregate by 1½ percentage points. Shortly thereafter, by mid-July, it had become apparent that the pullback by depositories was constricting credit supplies to some classes of borrowers; in response, the Committee eased reserve conditions to bring down interest rates slightly to offset the effects of this tightening of credit conditions on an already soft economy.

Interest Rates



The data are monthly averages.

The federal funds rate is from the Federal Reserve.

The rate for three-month Treasury bills is the market rate on three-month issues on a coupon-equivalent basis and is from the Department of the Treasury.

The rate for conventional mortgages is the weighted average for thirty-year fixed-rate mortgages with level payments at major financial institutions and is from the Federal Home Loan Mortgage Corporation.

The rate for U.S. government bonds is their market yield adjusted to thirty-year constant maturity by the Treasury.

The invasion of Kuwait at the beginning of August fundamentally altered the environment for monetary policy. World oil prices soared, and a considerable measure of uncertainty was added to the outlook for the economy, complicating the formulation of monetary policy. Business and consumer confidence plummeted, and the adverse effects of high oil prices on the public's spending plans, domestic economic activity, and inflation started to become apparent. As volatility in financial markets increased, investor preference for liquidity and safety was heightened: Treasury bill rates fell during August and September while private short-term rates changed little; money market mutual funds experienced large inflows, boosting growth of the monetary aggregates late in the summer as investors apparently fled stock and bond markets; and the ongoing decline in the foreign exchange value of the dollar was halted for a while by safe-haven demands.

In these circumstances, the benefits of any easing action taken to cushion the possible effects on output in the near term needed to be weighed against the potential for embedding higher energy prices in the price level and, more important, into inflationary expectations, a reaction that ultimately would seriously undercut the prospects for sustainable economic growth. Policy decisions were further complicated by the fact that the military and political situation underlying the oil price shock was so fluid; in fact, it clearly was a war-risk premium rather than a current shortage of supply that was

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maintaining a higher price of crude oil. The possibility existed that any substantial moves in monetary policy might prove ill-advised as circumstances changed, and it appeared that the most constructive role monetary policy might play, until the balance of risks was clarified, would be to foster a sense of stability in the very nervous financial markets.

As it was, financial markets had to contend not only with the Gulf crisis during the late summer and early fall, but also with uncertainties surrounding the timing and extent of a reduction in the federal budget deficit. Yields were buffeted whenever the odds of a meaningful deficit-reduction package appeared to change. For example, Treasury bond rates fell appreciably when an initial budget accord was hammered out but rose when the government was forced to shut down temporarily after the pact failed to win congressional approval. By the end of October, a budget agreement involving a major degree of fiscal restraint over a multiyear horizon had been successfully concluded, and long-term rates had come down again. In light of the budget agreement, which promised greater and more durable fiscal restraint, and with the economy weakening, the Federal Reserve took another step to ease pressures on reserves.

Late in the year, indications accumulated that inflationary pressures, apart from those closely connected to the surge in energy prices, were easing. As the economy softened and wage pressures also diminished, it seemed more likely that the effects of higher oil prices would not be built into ongoing inflation trends. Market interest rates declined across the maturity spectrum; the declines were especially large for government obligations, as investors concerned about credit quality were drawn toward these high-grade assets.

As the economy weakened, more and more lending institutions came under financial strain as problems emerged in many real estate portfolios and as a growing number of highly leveraged firms ran into trouble. Efforts by banks and other lenders to protect or improve their capital positions as their loan portfolios deteriorated were reflected in widespread signs of cutbacks in the availability of credit and increases in its cost, especially to less-than-prime borrowers lacking access to securities markets. While much of the tightening of lending standards was welcome from the standpoint of safety and soundness, it exerted a contractionary influence on the economy and was reflected in slow growth of bank credit and the broad monetary aggregates.

Against this backdrop, the Federal Reserve took additional actions designed to support the economy and to counter the tightening in credit terms. In mid-November, the FOMC moved to lower money market rates through open market operations, and in early December, the Board eliminated the 3 percent reserve requirement on nonpersonal time deposits and net Eurocurrency liabilities. This action was taken in response to the increased restraint on lending by commercial banks: Lower reserve requirements reduce funding costs to depository institutions, encouraging them to expand lending. Ultimately, the lower funding costs are passed through as a combination of lower rates for borrowers and higher rates offered to depositors.

Following the reduction in reserve requirements, further actions were taken in reserve markets to bring down short-term interest rates. These actions included additional steps toward a more accommodative supply of nonborrowed reserves through open market operations and, in December, a reduction of ½ per-

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centage point in the discount rate. All of these moves were made in light of further declines in economic activity, sluggish money and credit growth, and evidence of ebbing inflation pressures. In total, the federal funds rate fell a bit more than 1 percentage point from mid-1990 to the end of the year.

Under the impetus of the easing of monetary policy and the softening of the economy, most other short-term rates also fell significantly in the second half of

Reserves, Money Stock, and Debt Aggregates

Annual rate of change based on seasonally adjusted data unless otherwise noted, in percent[1]

Item	1987	1988	1989	1990				
				Year	Q1	Q2	Q3	Q4
Depository institution reserves[2]								
Total	4.8	2.8	−1.6	.3	2.7	−1.4	−1.4	1.7
Nonborrowed	4.9	2.5	−1.3	.4	1.6	−.8	−2.9	3.9
Required	4.7	2.7	−1.4	.0	2.5	−.9	−1.5	−.2
Monetary base[3]	7.6	6.8	3.4	8.5	8.2	7.4	8.6	9.0
Concepts of money[4]								
M1	6.3	4.2	.6	4.2	5.2	4.2	3.7	3.4
Currency and travelers checks	8.7	8.0	4.6	11.0	10.2	9.7	11.3	11.2
Demand deposits	−.9	−1.3	−2.9	−.6	−.4	−2.7	1.3	−.7
Other checkable deposits	13.7	7.6	1.0	3.5	6.7	6.7	−.3	.7
M2	4.3	5.2	4.7	3.9	6.2	3.9	3.0	2.2
Non-M1 components	3.6	5.5	6.1	3.8	6.5	3.8	2.7	1.8
MMDAs, savings, and small-denomimation time deposits	3.1	5.7	3.8	2.6	4.1	3.5	2.1	.9
General-purpose and broker–dealer money market mutual fund assets	5.9	7.9	30.1	11.4	18.1	4.7	9.9	11.2
Overnight RPs and Eurodollars (n.s.a.)	7.0	−4.9	−8.7	3.0	30.7	−1.3	−5.1	−21.0
M3	5.8	6.3	3.6	1.7	2.9	1.3	1.6	1.1
Non-M2 components	12.2	10.7	−.6	−6.4	−9.7	−9.1	−3.9	−3.7
Large-denomination time deposits	9.4	11.7	4.9	−9.5	−7.3	−10.1	−8.9	−13.0
Institution-only money market mutual fund assets	3.0	−.6	17.0	20.2	9.1	14.7	21.6	30.4
Term RPs (n.s.a.)	36.7	14.7	−13.5	−12.0	−29.2	4.5	1.6	−25.9
Term Eurodollars (n.s.a.)	14.1	11.3	−22.0	−12.8	−52.0	−24.1	12.2	13.6
Domestic nonfinancial sector debt	9.7	9.2	7.7	6.8	6.3	7.0	7.1	6.0
Federal	9.0	8.0	7.5	11.0	6.8	9.7	14.4	11.4
Nonfederal	10.0	9.5	7.8	5.5	6.2	6.2	4.9	4.3

1. Changes are calculated from the average amounts outstanding in each quarter. Annual changes are measured from Q4 to Q4.

2. Data on reserves and the monetary base incorporate adjustments for discontinuities associated with regulatory changes in reserve requirements.

3. The monetary base consists of total reserves plus the currency component of the money stock plus, for institutions without required reserve balances, the excess of current vault cash over the amount applied to satisfy current reserve requirements.

4. M1 consists of currency in circulation excluding vault cash; travelers checks of nonbank issuers; demand deposits at all commercial banks other than those due to depository institutions, the U.S. government, and foreign banks and official institutions, less cash items in the process of collection and Federal Reserve float; and other checkable deposits, which consist of negotiable orders of withdrawal and automatic transfer service accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. M2 is M1 plus money market deposit accounts (MMDAs); savings and small-denomination time deposits at all depository institutions (including retail repurchase agreements), from which have been subtracted all individual retirement accounts (IRAs) and Keogh accounts at commercial banks and thrift institutions; taxable and tax-exempt general-purpose and broker–dealer money market mutual funds, excluding IRAs and Keogh accounts; wholesale overnight and continuing-contract repurchase agreements (RPs) issued by commercial banks and thrift institutions net of money fund holdings; and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks worldwide net of money fund holdings. M3 is M2 plus large-denomination time deposits at all depository institutions other than those due to money stock issuers; assets of institution-only money market mutual funds; wholesale term RPs issued by commercial banks and thrift institutions net of money fund holdings; and term Eurodollars held by U.S. residents in Canada and the United Kingdom and at foreign branches of U.S. banks elsewhere net of money fund holdings.

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1990. The drop in yields on Treasury bills roughly paralleled that in the federal funds rate. Declines in the rates on commercial paper and certificates of deposit were less than those on federal funds or Treasury bills; this widening of yield spreads was additional evidence of investor concern about private credits, though these spreads generally remained narrower than those seen in past economic downturns. In contrast to other short-term rates, the prime rates charged by banks held steady through the end of 1990, a consequence of the tightening of credit supplies.

In the weeks leading up to the end of the year, yields on private money market instruments were pressued upward as the publication dates for financial statements approached; to put their year-end statements in the best light, banks held down credit extensions in order to bolster capital ratios, and lenders in general intensified their focus on asset quality. Spreads soared at times in this period; but with the Federal Reserve injecting large amounts of reserves into the market toward year-end, major dislocation was averted.

In the second half of 1990, rates on longer-term securities came down considerably less than did the rates on short-term paper. Declines in these longer-term yields may have been limited in part by the increased uncertainty and volatility that followed the invasion of Kuwait. In the stock market, indexes of share prices had reached record highs in July 1990, but the uncertain outlook both at home and abroad after the invasion of Kuwait and the slump in economic activity pushed stock prices significantly lower in the ensuing months.

The Monetary Aggregates

M2 grew unexpectedly slowly in 1990; the rise over the four quarters of the year was about 4 percent, well down in the lower half of the FOMC's range. Growth of M2 was robust in the first quarter but weakened markedly over the remainder of the year. M2 was affected by the sharp dropoff in the expansion of nominal income toward the end of 1990, but the slow growth of M2 also reflected the unusual behavior of velocity; M2 velocity was fairly stable through 1990, even though historical relationships suggest that velocity should have fallen given the decline in interest rates.

The shortfall of money growth, relative to historical patterns, probably reflected, in part, the shifting of financial flows associated with the contraction of the thrift industry and the increased reluctance or the inability of commercial banks to expand their balance sheets. Indeed, the slowdown of M2 growth coincided with a pickup in the activity of the Resolution Trust Corporation (RTC), the federal agency responsible for resolving the problems of thrift institutions. Depository credit fell over the year, and although this drop affected M3 the most, it also may have damped M2 by reducing the need of commercial banks and thrift institutions to bid for retail deposits. In addition, the abrogation of some high-rate contracts in the process of closing failed thrift institutions reduced the attractiveness of that type of deposit; also, depositors who were dislodged from existing relationships when thrift institutions were closed may have reallocated their assets away from depositories.

Nevertheless, even after taking account of these factors, M2 growth was much slower than seems explainable, indicating an underlying reevaluation of, and shift away from, M2 assets. One factor behind such a shift may have been concerns generated by the publicity about savings and loan failures and about the problems at banks. To the extent that

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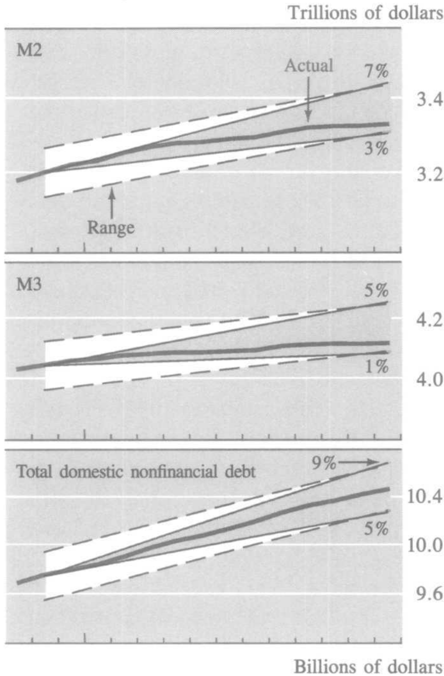
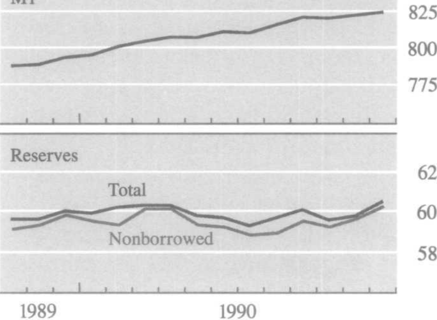
households moved assets to money market funds, which grew rapidly in the second half of the year, M2 was not affected. However, funds may also have been shifted in ways that would affect M2. For example, noncompetitive tenders at Treasury auctions were unusually strong, suggesting a shift toward direct holding of assets that are not included in M2. In addition, M2 growth may have been damped by a tendency of households to lag in adjusting their spending in the face of higher prices for energy products and a sudden plunge in real income; by contrast, households apparently were reluctant to borrow to maintain spending, as growth of consumer credit was especially slow in the fourth quarter.

The slowdown in M2 last year would have been even more pronounced had it not been for the rapid expansion of currency, which was up 11 percent over the year, more than twice the 1989 pace and the most rapid yearly rise of the postwar period. However, the bulk of the pickup appears attributable to increased demands for U.S. currency outside our borders. Information on shipments abroad suggests that demands for U.S. currency were particularly heavy in areas experiencing economic and political turmoil,

Monetary Aggregates, Nonfinancial Sector Debt, and Reserves

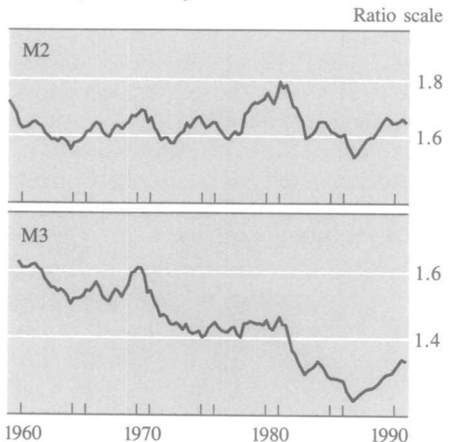




The ranges were adopted by the FOMC for the period from 1989:4 to 1990:4.

Reserves have been adjusted to remove discontinuities associated with changes in reserve requirements. Nonborrowed reserves include extended credit; the difference between total and nonborrowed reserves is used to meet seasonal and adjustment needs.

Velocity of Money



Velocity is the ratio of gross national product, measured in current dollars, to the stock of money. The data are quarterly averages.

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especially Eastern Europe, Latin America, and, after the Iraqi invasion of Kuwait, the Middle East.

The faster growth of currency, along with the effects of lower market interest rates on incentives to hold transactions balances, boosted M1 growth from near zero in 1989 to more than 4 percent in 1990. The monetary base grew 8½ percent over the year, also propelled by strong currency growth. By contrast, the total reserves portion of the monetary base was about unchanged, reflecting little net growth in reservable liabilities; transactions deposits increased slightly, but declines were registered in nonpersonal time deposits and net Eurodollar borrowing (abstracting from the effects of the reserve requirement decrease at year-end).

The growth of M3 in 1990, 1¾ percent, was less than had been anticipated early in the year. In following a quarterly pattern roughly similar to that of M2, growth of M3 fell off noticeably after the first quarter, and the aggregate ended the year somewhat above the lower bound of its target range. That range itself had been lowered by 1½ percentage points in July 1990 amid evidence that the drop in thrift assets was proceeding more rapidly than had been expected and that credit flows were being directed away from depository institutions. Banks acquired a substantial amount of deposits from thrift institutions resolved by the RTC, but in contrast to their behavior in 1989, banks did not use newly acquired deposits to expand their balance sheets. Significant loan losses in 1990 limited the ability of banks to generate capital internally and raised the cost of external capital as investors reevaluated risks. At the same time, banks were facing the prospect of adjusting to new capital standards. Banks used the deposits they acquired from thrift institutions to pay down other liabilities, especially large time deposits; the shift of M2 deposits from thrift institutions to banks thus contributed to sharp declines in M3 managed liabilities at banks.

The Condition of Financial Institutions

By and large, banks remained sound and well capitalized in 1990. Some banks ran into difficulties, however, in large part because of problems in their portfolios of commercial real estate loans. Before the mid-1980s, developers typically arranged permanent financing for construction and land development projects, usually from institutional investors, before obtaining initial bank financing. But with real estate values rising rapidly in the mid-1980s, many banks stopped requiring such prearranged "takeouts." Later, when the real estate market cracked, those banks found themselves holding a substantial volume of undercollateralized loans. At about the same time, prospects declined for many of the highly leveraged transactions (HLTs) that banks had financed in recent years; while bank losses attributable to HLTs were not significant, the virtual disappearance of the market for new low-rated bonds in 1990 implied that many HLT loans would not be repaid as promptly as had been hoped. Growing uneasiness about banks' assets contributed to increases in their cost of capital and, for some banks, the cost of wholesale funding.

Concerns about the weakness of the banking industry intensified in 1990. The General Accounting Office and the Congressional Budget Office issued reports that questioned the financial health of some large banks and explored the possible difficulties that problems in banking might pose for the Bank Insurance Fund. Banks had to make large provisions for loan losses in 1990 as delinquency and loss rates rose on most major categories

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of loans, especially real estate. By mid-September, interest rates on the subordinated debt obligations of some major banking firms had jumped appreciably as investors reevaluated the health of these institutions. Rather than pay sharply higher rates, several major bank holding companies chose to redeem portions of their outstanding auction-rate preferred stock. Spreads between bank and Treasury obligations widened significantly, and bank stock prices tumbled. These price movements began to be reversed toward the latter part of the year, however. Spreads on subordinated and other bank obligations narrowed in the fourth quarter but remained well above their levels of the summer.

Financial institutions other than banks and thrift institutions also encountered difficulty in 1990. Finance companies and insurance companies took a beating in the securities markets beginning in September, as these companies' holdings of commercial real estate and HLT loans were reevaluated in light of expectations of a weaker economy. Yield spreads on the obligations of the companies widened significantly at that time.

Credit Markets

Extraordinary changes took place in the credit markets in 1990. With lending by thrifts continuing to decline and bank lending slowing, growth of the total volume of credit provided by depositories turned slightly negative; this represented a sharp break from past trends. Some borrowers found themselves seeking alternative sources of finance or facing less favorable terms of credit than they had previously. These problems were greatest among borrowers in troubled sectors of the economy like commercial construction, but they also were evident to some extent in other sectors. However, growth of the total debt of all nonfinancial sectors slowed only moderately from the pace of 1989 even as the growth of credit extended by depositories dwindled.

Banks tightened lending standards and raised their margins in 1990 in response to the rising cost of funds, capital shortages, and perceptions of greater risk of default among some classes of borrowers. In the wake of HLT disclosure guidelines, banks imposed caps on their exposure to these types of transactions. Banks with low capital cut back lending; banks that were adequately capitalized maintained credit growth at a substantial pace but appeared to be reluctant to pick up the slack.

The banks' tightening of credit standards and lending terms, together with the weakening economy and attendant softening of the demand for credit, caused the growth of bank assets to slow in 1990, especially in the fourth quarter. Growth of bank loans during the year was roughly half its 1989 pace, with slowing evident in business, real estate, and consumer lending. Regional disparities in the growth of bank lending were substantial. In New England, bank lending turned down sharply at the beginning of 1990, shifting from robust growth to outright decline. Banks in that region were particularly aggressive in selling loans into securities markets; these sales, together with the write-off of problem loans, contributed importantly to the overall drop in loan volume. In the Southwest, the volume of bank lending continued to decline in 1990. In the rest of the country, loan volume continued to grow.

The volume of credit held by thrift institutions shrank rapidly during 1990. The RTC resolved insolvent thrifts, acquiring the bulk of their assets in the process. In addition, many viable thrift institutions shed assets in an effort to meet the new capital guidelines.

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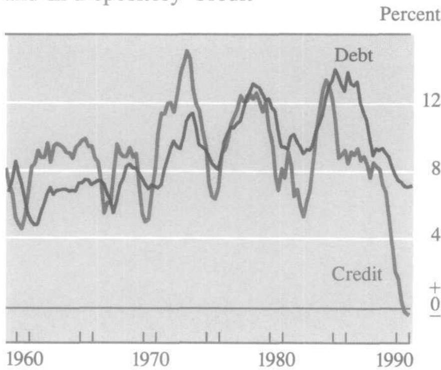
While the weakness of depository credit may have damped total credit growth to some extent, the effect was far less than one for one. Both the secondary market in mortgages and the securitization of consumer loans substituted for bank and thrift intermediation in those sectors. Securitization alone is estimated to have removed more than $40 billion in consumer loans from bank balance sheets during 1990 as banks pared their asset totals to improve capital ratios. With these alternative financial arrangements gaining greater prominence, homebuyers and consumers generally appeared to have continued access to credit, on terms that were no less favorable than before. While spreads on both asset-backed and mortgage-backed securities did widen a bit in the fourth quarter, they remained well within their historical ranges. Thus, the sluggishness that was evident in the growth of these types of credit in 1990 would seem mainly to have come from the demand side of the market and reflected influences such as the slump in sales of automobiles, other consumer durables, and housing.

Business borrowing slowed further in 1990. The credit needed to finance corporate restructuring diminished – as indicated by a falloff in net equity retirements to roughly half the pace of the previous two years. In addition, the gap between corporate capital expenditures and internal funds changed little over the year, on net, thus limiting credit requirements. A tightening of credit availability for all but investment-grade firms became increasingly evident as the year progressed. The pullback in lending to lower-rated borrowers was not limited to domestic banks; U.S. offices of foreign banks, which previously had been aggressive suppliers of funds to U.S. borrowers, also cut back, as did domestic nonbank lenders such as insurance companies. In addition, bond markets remained unreceptive to offerings of below-investment grade issues.

The outstanding debt of state and local governments grew slowly in 1990 as they reduced new borrowing and retired sizable amounts of old debt. At the same time, pressures on their credit ratings increased. The ratings of a significant number of local housing issues were downgraded in response to the slipping credit quality of several banks and insurance companies that provide credit enhancements. Also, late in the year, certain municipalities and some states found themselves paying substantially higher rates in light of their own financial difficulties.

Growth of the debt of all domestic nonfinancial sectors was boosted last year by the federal government, which borrowed in part to fund acquisitions of thrift

Changes in Debt of
the Domestic Nonfinancial Sector
and in Depository Credit



Domestic nonfinancial debt covers borrowing by households, farm businesses, nonfarm noncorporate businesses, corporate nonfinancial businesses, state and local governments, and the federal government.

Depository credit is the sum of credit market funds advanced by savings institutions and commercial banks.

The percentage changes are four-quarter moving averages. They are calculated by first subtracting the level at the end of the previous quarter from the level at the end of a given quarter (flow) and dividing by the level at the end of the previous quarter. The quarterly percentage rates are then used in computing four-quarter moving averages.

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assets by the RTC. Borrowing for the RTC accounted for about ½ percentage point of the roughly 7 percent growth of total debt from December 1989 to December 1990. The growth of total nonfinancial debt has slowed over recent years, but even abstracting from the effects of RTC activity, it continued in 1990 at a pace well in excess of the expansion of nominal GNP. ■

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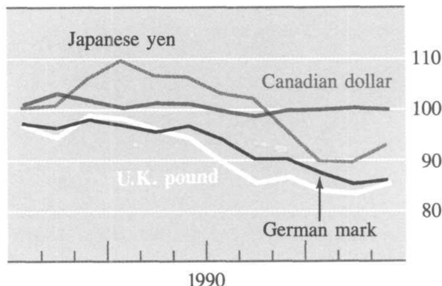
International Developments

Economic growth in the major foreign industrial economies slowed significantly in 1990 as real GNP increased by about 2½ percent, compared with 3¼ in 1989. Economic performance among the industrial countries was quite mixed, with Canada and the United Kingdom, both important U.S. trading partners, moving into recession. Growth in non-OPEC developing countries also slowed, to less than 2½ percent on average; performance there too was quite mixed, with Brazil and Argentina experiencing substantial declines in output. Adjustment of external imbalances was obscured by the increase in oil import bills and by some financial transfers related to the crisis in the Persian Gulf. Nevertheless, the U.S. current account deficit narrowed somewhat to $99 billion in 1990. Japan's current account surplus declined about $20 billion, and Germany's declined $10 billion. The combined surplus of the Asian newly industrialized economies declined almost $10 billion.

The dollar, which depreciated against all major foreign currencies other than the Canadian dollar, fell 12 percent in nominal terms against a trade-weighed average of ten currencies. Adjusted for changes in relative consumer price levels, the dollar's depreciation was smaller because U.S. inflation exceeded foreign inflation by 1¼ percent.

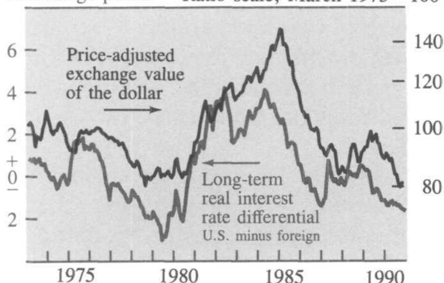
In the first half of the year the dollar declined somewhat against European currencies, but it continued to rise against the yen as the market remained concerned about Japanese political uncertainties and economic policy. This continued weakening of the yen was countered by coordinated intervention by U.S. and Japanese monetary authorities. After midyear, however, the dollar began a sharp decline against all major currencies as U.S. monetary policy eased in the face of weakening U.S. economic activity while

Exchange Value of the Dollar against Selected Currencies



Foreign currency units per dollar. The data are monthly.

Exchange Value of the Dollar and Interest Rate Differential



The exchange value of the U.S. dollar is its weighted average exchange value against currencies of other Group of 10 (G-10) countries using 1972–76 total trade weights adjusted by relative consumer prices.

The interest rate differential is the rate on long-term U.S. government bonds minus the rate on comparable foreign securities, both adjusted for expected inflation estimated by a thirty-six-month moving average of actual consumer price inflation or by staff forecasts where needed.

The data are quarterly.

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monetary policies in European countries and Japan were tightening. The dollar continued to decline into December, when mounting concerns about year-end pressures in dollar funding markets and mounting fears of a military conflict in the Persian Gulf contributed to some dollar strengthening.

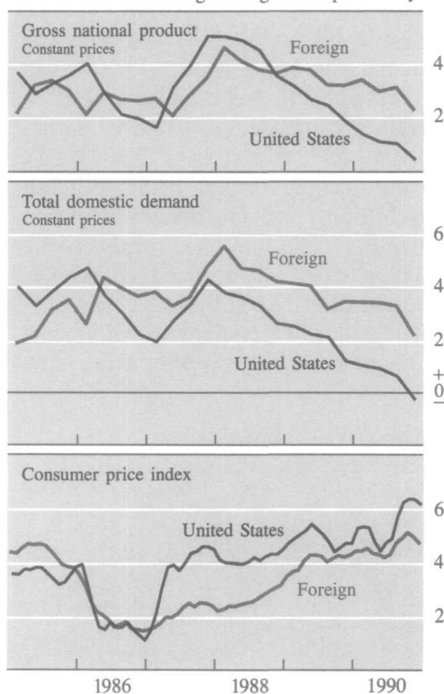
Official exchange market intervention by authorities in fourteen major foreign countries amounted to net dollar sales totaling a little more than $3¼ billion, while U.S. official intervention amounted to net dollar sales of a little more than $1¼ billion.

Foreign Economies

Economic growth in the foreign industrial economies slowed on average last year, as performance in individual countries continued to diverge. Investment demand, which had been an important source of strength, weakened during the year in many countries. Slower growth was a reaction to tight monetary conditions, decelerating activity in the United States, and the repercussions on oil prices and on consumer and investor confidence of developments in the Persian Gulf. The pace of economic growth in Japan and Germany was comparatively strong. Growth in other key European countries was less robust, and both Canada and the United Kingdom experienced recessions in 1990.

Changes in labor market conditions last year reflected differences in cyclical conditions among industrial countries. During 1990 the United Kingdom reversed almost four years of steadily declining unemployment. After reaching a low point of about 5½ percent in the first quarter, the U.K. unemployment rate rose a full percentage point by the end of the year. At the end of 1990, Canadian unemployment was above 9¼ percent, more than 1½ percentage points higher than its level of a year earlier. In contrast, Japanese unemployment rates remained near record low levels last year amid other signs of labor-market tightness, causing heightened concern about inflationary pressures. Unemployment rates moved down during the year in Western Germany as the economy boomed, but in Eastern Germany measures of unemployment and "short-time" employment indicated slack labor-market conditions. Unemployment rates in most other major foreign industrial countries remained steady or continued to move lower last year.

GNP, Demand, and Prices



Foreign data are multilaterally weighted averages for the G-10 countries using 1972–76 total trade weights and are from foreign official sources.

Data for the United States are from the Departments of Commerce and Labor.

For GNP and domestic demand, the data are quarterly and preliminary; for consumer prices, the data are monthly.

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On average during 1990, monetary conditions were tightened slightly as foreign monetary authorities remained cautious with regard to inflationary pressures—particularly following the increase in oil prices in the second half—but important differences emerged among the major industrial countries during the year. Japanese short-term interest rates moved up by more than 1 percentage point, and the discount rate was increased twice by a total of 1¾ percentage points. German monetary conditions also were tightened after mid-year as activity continued to be robust. Although price pressures appeared to ease in the United Kingdom near year-end as the economy slumped, monetary conditions there remained tight, as U.K. entry into the exchange rate mechanism of the European Monetary System in October added an additional constraint on U.K. policy. Reduced inflationary pressure in Canada and softness in the domestic economy provided scope for some monetary easing and lower Canadian interest rates.

In 1990 the combined current account surplus of the foreign G-10 industrial countries narrowed about $40 billion, to $30 billion. About half of that change was accounted for by a $20 billion contraction of the Japanese current account surplus, due in part to increased payments for imported oil. The German current account surplus narrowed about $10 billion, reflecting in part a substantial increase in imports following reunification.

In 1990 the combined current account deficit of developing countries declined about $10 billion, to $9 billion. The large increase in the surplus of oil exporters more than explains the decline in the aggregate deficit of the developing countries as a group. Economic growth in most regions of the developing world slowed in 1990, especially in the Western Hemisphere, where output declined in Brazil and Argentina.

Among subgroups of developing countries, there was another large reduction in the current account surplus of the newly industrializing economies of Asia. The surplus of the four Asian NIEs fell from about $24 billion in 1989 to $14 billion in 1990, with most of the adjustment taking place in Korea, which recorded a current account deficit last year. The reduction in the combined surplus of the NIEs in 1990 resulted from accumulated real appreciations of these currencies and slower growth in major export markets.

The current account deficit of the group of fourteen heavily indebted developing countries was roughly unchanged in 1990 at $7 billion. As a result of higher oil prices and export volumes, Venezuela's surplus widened about $5 billion. Brazil's current account balance declined nearly $4 billion as exports declined and imports showed some increase. Mexico's deficit increased slightly despite increased oil exports, as imports boomed.

Economic performance in the larger heavily indebted developing countries was mixed in 1990. Growth in Mexico accelerated to nearly 4 percent, although inflation also accelerated somewhat. Output declined in Brazil and Argentina as those countries continued to struggle with a variety of programs aimed at combating high inflation.

A number of financing packages involving debt and debt-service reduction were implemented between commercial banks and debtor countries following suggestions of Treasury Secretary Brady in March 1989. Mexico, the Philippines, Costa Rica, and Venezuela completed such deals in 1990.

In June President Bush announced the Enterprise for the Americas initiative. This initiative allows for reductions on bilateral concessional debt owed the

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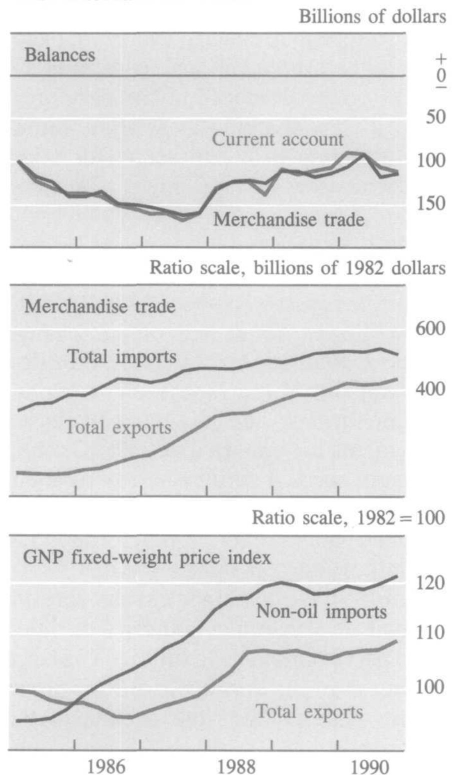
United States by Latin American and Caribbean countries. The initiative suggests liberalizing trade flows between the United States and the region and encourages foreign and domestic investment in the region. It also allows for limited reduction in nonconcessional loans of the Agriculture Department's Commodity Credit Corporation and of the Export-Import Bank to facilitate debt-for-equity swaps. Aspects of the initiative need to be approved by the Congress.

U.S. International Transactions

The deficits in the U.S. merchandise trade account and current account narrowed a bit further in 1990. A $29 billion increase in merchandise exports and a $23 billion increase in merchandise imports yielded a trade deficit of $109 billion for the year, compared with $115 billion in 1989. There was a somewhat larger improvement in the current account balance, as increased net receipts from direct investments abroad and from net service receipts exceeded the rise in net payments of portfolio income to foreigners. Recorded unilateral transfers were affected by several special transactions related to the war in the Middle East. In the fourth quarter, forgiveness of Egyptian debt was recorded as a $7 billion U.S. government grant offset by a $2.1 billion payment of interest by the Egyptians and a $4.9 billion reduction in principal; this transaction increased the U.S. current account deficit by $4.9 billion in 1990. Cash contributions by foreign governments to the United States to help offset costs of the war in the Middle East—recorded as receipts of government grants in the unilateral transactions sector of the current account—were received beginning in the fourth quarter and reduced the size of the current account deficit.

Merchandise exports rose 9 percent over the four quarters of 1990, about the same pace recorded in the preceding year. Virtually all of the increase was in quantity. This growth was supported by significant gains in U.S. price competitiveness. The average dollar price of exports was little changed, held down by moderate increases in the domestic prices of goods that are exported. However, relative to foreign goods, the price of U.S. exports declined sharply, largely because of the substantial depreciation of the dollar over the past year and a half. During 1990, slower economic growth

U.S. International Trade



The data are preliminary; they are quarterly, seasonally adjusted at annual rates, and come from the Department of Commerce.

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abroad, on average, tended to damp the growth of U.S. exports.

By geographical area, the largest (and one of the sharpest) of the increases in nonagricultural exports in 1990 was to Western Europe, which accounts for 30 percent of U.S. nonagricultural exports. Exports to Mexico also rose sharply, particularly automotive parts used by Ford, General Motors, and Chrysler in their Mexican plants. Nonagricultural exports to Canada (22 percent of nonagricultural exports) rose at a much slower rate than in 1989 as that economy entered a recession.

The expansion of exports during 1990 was broadly based across commodity categories. The largest increases were in industrial supplies, capital goods, and consumer goods. Overall, the quantity of nonagricultural exports rose 10 percent in 1990 (Q4 to Q4). Agricultural exports declined in 1990; about half the decline was in quantity.

Merchandise imports rose 7½ percent in value but declined nearly 1 percent in quantity in 1990 (Q4 to Q4). Almost all of the increase in prices resulted from a jump in oil prices (61 percent). Prices of non-oil imports rose only about 3 percent (Q4 to Q4) despite the much larger decline in the dollar's foreign exchange value. Worldwide declines in prices of primary commodities helped hold down

U.S. International Transactions[1]

Billions of dollars, seasonally adjusted

Transaction	Year		Quarter				
			1989	1990			
	1989	1990	Q4	Q1	Q2	Q3	Q4
Merchandise trade, net	−115	−109	−29	−27	−23	−30	−29
Exports	360	389	92	96	97	96	100
Imports	475	498	120	123	120	126	129
Investment income, net	−1	8	1	2	−1	2	4
Direct investment, net	40	49	11	12	10	13	14
Portfolio investment, net	−41	−42	−10	−10	−11	−11	−9
Services, net	21	23	6	6	6	6	6
Military transactions, net	−6	−6	−2	−1	−1	−2	−2
Other services, net	27	29	8	7	7	7	8
Unilateral transfers, private and government, net	−15	−21	−5	−3	−4	−4	−9
Current account balance	**−110**	**−99**	**−27**	**−22**	**−23**	**−26**	**−28**
Private capital flows, net	**103**	**−5**	**31**	**12**	**−11**	**9**	**−15**
Bank-related capital, net (outflows, −)	11	21	4	20	−9	14	−5
U.S. net purchases of foreign securities (−)	−22	−27	−4	−8	−11	−1	−7
Foreign net purchases of U.S. Treasury securities (+)	30	1	6	−1	4	*	−2
Foreign net purchases of U.S. corporate bonds	33	19	12	6	7	1	6
Foreign net purchases of U.S. corporate stock	7	−15	−2	−3	−4	−3	−5
U.S. direct investment abroad	−32	−36	−9	−9	−5	−19	−3
Foreign direct investment in United States	72	26	21	6	7	12	1
Other corporate capital flows, net	4	6	2	2	*	5	0
Foreign official assets in United States (increase, +)	**9**	**31**	**−7**	**−8**	**6**	**14**	**20**
U.S. official reserve assets, net (increase, −)	**−25**	**−2**	**−3**	**−3**	*****	**2**	**−1**
U.S. government foreign credits and other claims, net	**1**	**3**	*****	**−1**	**−1**	*****	**5**
Total discrepancy	**22**	**73**	**6**	**22**	**29**	**2**	**19**
Seasonal adjustment discrepancy	*	*	4	3	−1	−5	3
Statistical discrepancy	22	73	2	19	30	7	16

1. Details may not sum to totals because of rounding.

*In absolute value, greater than zero and less than $500 million.

SOURCE. Department of Commerce, Bureau of Economic Analysis.

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import prices. In the fourth quarter, however, non-oil import prices rose 5 percent at an annual rate after increasing about half that rate on average during the first three quarters; this boost in prices showed up most strongly in prices of imported capital goods and consumer durables. The prices of petroleum-related goods also rose.

The quantity of non-oil imports rose 2 percent in 1990 (Q4 to Q4), less than half the rate of increase recorded in 1989. Excluding computers, non-oil imports grew about ½ percent, reflecting the sluggishness of U.S. domestic spending. Imports of automotive products and industrial supplies showed only small increases. Imports of consumer goods, machinery, and foods declined slightly from levels recorded at the end of 1989.

The value of oil imports rose sharply in 1990, primarily because of a jump in the import price of oil at the end of the year. Prices had declined during the first half, the result of relatively strong OPEC production in the face of flat demand. Prices began to turn around in the middle of July on the announcement of an OPEC accord to limit production, and after Iraq's invasion of Kuwait in August, prices surged. The rise in prices of imported oil lagged the sharp increases in posted and spot prices, a repeat of the pattern in previous oil market disruptions, and peaked in the fourth quarter at an average of $28.47 per barrel.

The quantity of imported oil averaged 8.28 million barrels per day in 1990, slightly more than in the previous year. The quantity imported was strongest in the first three quarters of the year. An extremely cold December in 1989 had pushed stocks of petroleum and products in the United States well below average historical levels by year-end 1989. A scramble by companies to replenish these stocks in the face of an unexpectedly mild first quarter resulted in imports averaging 8.9 million barrels per day in the first quarter (the highest rate of imports since the first quarter of 1979) and a healthy rebound in stocks. Falling world oil prices in the second quarter encouraged additional stock-building from the healthy first quarter levels and, coupled with further declines in U.S. crude oil production (especially in Alaska), kept imports relatively high through July. Oil imports dropped off in the fourth quarter in response to the decline in U.S. economic activity, the effects of mild weather, and the runup in prices.

The counterpart to the U.S. current account deficit in 1990 did not show up in recorded capital flows, so that the statistical discrepancy in the U.S. international transactions accounts reached $73 billion. A positive statistical discrepancy represents some combination of net unrecorded exports of goods, services, and investment income and net unreported capital inflows from abroad.[1] While errors and omissions doubtless exist in the reporting of current account transactions as well as capital account transactions, it seems likely that the increase in the statistical discrepancy from $22 billion in 1989 was largely accounted for by net unreported private capital flows. The past relationship between the changes in relative prices and incomes and changes in the current account provide no reason to believe that the actual current account

1. In principle, the sum of all transactions in the U.S. balance of payments accounts, a double-entry bookkeeping system, should equal zero; for each transaction there should be two equal entries of opposite sign. In practice, the recorded accounts never sum exactly to zero because the data that would reflect the debit and credit counterparts of each single transaction generally are obtained from different sources. The statistical discrepancy is the net of errors and omissions in all the components of the international transactions accounts.

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improved by an additional $50 billion between 1989 and 1990.

Certain omissions from the private capital flows data are obvious. For example, no estimate is included of increases in foreign holdings of U.S. currency. Fragmentary evidence indicates a sharp rise in net bank shipments of currency abroad in 1990, a year of increased political and economic instability in many parts of the world.

However, increased foreign holdings of U.S. currency could explain only part of the statistical discrepancy, and it is difficult to pinpoint exactly where the other errors and omissions occurred. In recent decades, financial innovation, technical change, deregulation of financial markets, and elimination of capital controls have all contributed to the increasing internationalization of financial markets. New channels for capital flows have developed, involving new instruments and new participants; information from current reporting institutions—a limited number of large financial intermediaries and corporations located in the United States—no longer covers the bulk of U.S. capital flows. These developments have made the tracking of international capital flows far more difficult.

The private capital flows that were recorded in 1990 indicate an increase in net inflows reported by banks. However, net inflows resulting from securities transactions and direct investment were down sharply; other recorded capital inflows were small. The decline in U.S. interest rates while rates abroad were rising made dollar assets less attractive relative to yen and mark-denominated assets and made raising funds in the United States more attractive for multinational corporations financing acquisitions and operations. However, as long as the United States runs substantial current account deficits and net official capital inflows are small, the sum of recorded and unrecorded net private capital inflows must be large and positive. Although changes in relative interest rates can affect exchange rates and alter the composition of capital flows, they cannot, initially at least, change the total of realized net capital flows. Over time, as the current account responds to a decline in the dollar's value, realized net capital inflows will tend to decline. The data on capital flows in 1990 should be viewed with suspicion.

Foreign Currency Operations

The foreign exchange intervention operations of U.S. monetary authorities in 1990 were much less frequent and on a much smaller scale than in 1989. U.S. authorities (the Federal Reserve and the Treasury's Exchange Stabilization Fund) sold $2,380 million through April, $2,180 million of which was against Japanese yen and $200 million against German marks.

Of this intervention, $675 million was for the System account and $1,705 million was for the account of the ESF. Some FOMC members expressed concern about sending uncertain signals to the market about the System's intention to achieve price stability and about the level of System balances of foreign currency; in view of this concern, all intervention sales of dollars from March 5 onward were for the ESF account. In the late spring and early summer, the ESF pur-

System Profits and Losses on Foreign Currency Operations
Millions of dollars

Year	Realized	Translation
1987	1,139	666
1988	610	−1,121
1989	0	1,204
1990	0	2,139

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chased $1,000 million against marks in the market and another $1,000 million directly from a foreign monetary authority to adjust ESF balances and to repurchase marks previously warehoused with the System.

At year-end 1990 the System held $32,633 million equivalent of foreign currencies, valued at current exchange rates. Of this amount $4,500 million equivalent represented foreign currency held under the warehousing agreement with the ESF. The warehoused amount was reduced by $4,500 million from its March 1990 peak. System foreign currency holdings were denominated almost entirely in marks and yen.

The System realized no profits or losses on foreign operations in 1990 but recorded a translation gain of $2,139 million from the net appreciation of the mark and the yen against the dollar.

The only activity on the Federal Reserve swap network in 1990 involved the Bank of Mexico, which in February fully repaid the $784.1 million it drew the previous September. In March 1990, the Bank of Mexico drew $700 million, which it repaid in full by July. ■

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Monetary Policy Reports to the Congress

Given below are reports submitted to the Congress on February 20 and July 18, 1990, pursuant to the Full Employment and Balanced Growth Act of 1978.

Report on February 20, 1990

Monetary Policy and the Economic Outlook for 1990

The U.S. economy recorded its seventh consecutive year of expansion in 1989. Although growth was slower than in the preceding two years, it was sufficient to support the creation of 2½ million jobs and to hold the unemployment rate steady at 5¼ percent, the lowest reading since the early 1970s. On the external front, the trade and current account deficits shrank further in 1989. And while inflation remained undesirably high, the pace was lower than many analysts—and, indeed, most members of the Federal Open Market Committee (FOMC)—had predicted, in part because of the continuing diminution in longer-range inflation expectations.

In 1989, monetary policy was tailored to the changing contours of the economic expansion and to the potential for inflation. Early in the year, as for most of 1988, the Federal Reserve tightened money market conditions to prevent pressures on wages and prices from building. Market rates of interest rose relative to those on deposit accounts, and unexpectedly large tax payments in April and May drained liquid balances, restraining the growth of the monetary aggregates in the first half of the year. By May, M2 and M3 lay below the lower bounds of the annual target ranges established by the FOMC.

Around midyear, risks of an acceleration in inflation were perceived to have diminished as pressures on industrial capacity had moderated, commodity prices had leveled out, and the dollar had strengthened on exchange markets, reinforcing the signals conveyed by the weakness in the monetary aggregates. In June, the FOMC began a series of steps, undertaken with care to avoid excessive inflationary stimulus, that trimmed 1½ percentage points from short-term interest rates by year-end. Longer-term interest rates moved down by a like amount, influenced by both the System's easing and a reduction in inflation expectations.

Growth of M2 rebounded to end the year at about the midpoint of the 1989 target range. Growth of M3, however, remained around the lower end of its range, as a contraction of the thrift industry, encouraged by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), reduced needs to tap M3 sources of funds. The primary effect of the shrinkage of the thrift industry's assets was a rechanneling of funds in mortgage markets, rather than a reduction in overall credit availability; growth of the aggregate for nonfinancial sector debt that is monitored by the FOMC was just a bit slower in the second half than in the first, and this measure ended the year only a little below the midpoint of its range.

Thus far this year, the overnight rate on federal funds has held at 8¼ percent, but other market rates have risen. Increases of as much as ½ percentage point have been recorded at the longer end of the maturity spectrum. The bond markets responded to indicators suggesting a

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somewhat greater-than-anticipated buoyancy in economic activity—which may have both raised expected real returns on investment and renewed some apprehensions about the outlook for inflation. The rise in yields occurred in the context of a general runup in international capital market yields, which appears to have been in part a response to emerging opportunities associated with the opening of Eastern Europe; this development had particularly notable effects on the exchange value of the West German mark, which rose considerably relative to the dollar, the yen, and other non-European Monetary System currencies.

Monetary Policy for 1990

The Federal Open Market Committee is committed to the achievement, over time, of price stability. The importance of this objective derives from the fact that the prospects for long-run growth in the economy are brightest when inflation need no longer be a material consideration in the decisions of households and firms. The members recognize that certain short-term factors—notably a sharp increase in food and energy prices—are likely to boost inflation early this year, but they anticipate that these factors will not persist. Under these circumstances, policy can support further economic expansion without abandoning the goal of price stability.

To foster the achievement of those objectives, the Committee has selected a target range of 3 to 7 percent for M2 growth in 1990. Growth in M2 may be more rapid in 1990 than in recent years and yet be consistent with some moderation in the rate of increase in nominal income and restraint on prices; in particular, M2 may grow more rapidly than nominal GNP in the first part of this year in lagged response to last year's interest rate movements. Eventually, however, slower M2 growth will be required to achieve and maintain price stability.

The Committee reduced the M3 range to 2½ to 6½ percent to take account of the effects of the restructuring of the thrift industry, which is expected to continue in 1990. A smaller proportion of mortgages is likely to be held at depository institutions and financed by elements in M3; thrift institution assets should continue to decline, as some solvent thrift institutions will be under pressure to meet capital standards and insolvent thrift institutions will continue to be shrunk and closed, with a portion of their assets carried, temporarily, by the government. While some of the assets shed by thrift institutions are expected to be acquired by commercial banks, overall growth in the asset portfolios of banks is expected to be moderate, as these institutions exercise caution in extending credit. An increase in lender—and borrower—caution more generally points to some slowing in the pace at which nonfinancial sectors take on debt relative to their income in 1990. In particular, recent developments suggest that leveraged buyouts and other transactions that substitute debt for equity in corporate capital structures will be noticeably less important in 1990 than in recent years. Moreover, a further decline in the federal sector's deficit is expected to reduce credit growth this year. In light of these considerations, the Committee reduced the monitoring range for debt of the nonfinancial sectors to 5 to 9 percent.

Target Ranges of Growth for Monetary and Debt Aggregates

Percentage change[1]

Aggregate	1988	1989	1990
M2	4 to 8	3 to 7	3 to 7
M3	4 to 8	3½ to 7½	2½ to 6½
Debt[2]	7 to 11	6½ to 10½	5 to 9

1. From average of the fourth quarter of the preceeding year to average of the fourth quarter of the year indicated.
2. Domestic nonfinancial sector.

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The setting of targets for money growth in 1990 is made more difficult by uncertainty about developments affecting thrift institutions. The behavior of M3 and, to a more limited extent, M2 is likely to be affected by such developments, but there is only limited basis in experience to gauge the likely effect. In addition, in interpreting the growth of nonfinancial debt, the Committee will have to take into account the amount of Treasury borrowing (recorded as part of the debt aggregate) used to carry the assets of failed thrift institutions, pending their disposal. With these questions adding to the usual uncertainties about the relationship among movements in the aggregates and output and prices, the Committee agreed that, in implementing policy, they would need to continue to consider, in addition to the behavior of money, indicators of inflationary pressures and economic growth as well as developments in financial and foreign exchange markets.

Economic Projections for 1990

The Committee members, and other Reserve Bank presidents, expect that growth in the real economy will be moderate during 1990. Most project real GNP growth over the four quarters of the year to be between 1¾ and 2 percent—essentially the same increase as in 1989, excluding the bounceback in farm output after the 1988 drought. It is expected that this pace of expansion will be reflected in some easing of pressures on domestic resources; the central tendency of forecasts is for an unemployment rate of 5½ to 5¾ percent in the fourth quarter.

Certain factors have caused an uptick in inflation early this year. Most notably, prices for food and energy increased sharply as the year began, reflecting the effect of the unusually cold weather in December. However, these run-ups should be largely reversed in coming months, and inflation in food and energy prices for the year as a whole may not differ much from increases in other prices.

Given the importance of labor inputs in determining the trend of overall costs, a deceleration in the cost of labor inputs is an integral part of any solid progress toward price stability. Nominal wages and total compensation have grown relatively rapidly during the past two years, while increases in labor productivity have diminished. With prices being constrained by domestic and international

Economic Projections for 1990

Measure	FOMC members and other FRB presidents		Administration	MEMO 1989 actual
	Range	Central tendency		
Percentage change, fourth quarter to fourth quarter[1]				
Nominal GNP	4 to 7	5½ to 6½	7.0	6.4
Real GNP	1 to 2¼	1¾ to 2	2.6	2.4
Consumer price index[2]	3½ to 5	4 to 4½	4.1	4.5
Average level in the fourth quarter (percent)				
Unemployment rate	5½ to 6½	5½ to 5¾	5.4	5.3

1. Average for the fourth quarter of the preceding year to the average for the fourth quarter of the year indicated.

2. Data for 1989 and FOMC forecasts are for all urban consumers; Administration forecast is for urban wage earners and clerical workers.

3. Percentage of total labor force, including armed forces residing in the United States.

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competition, especially in goods markets, profit margins have been squeezed to low levels. A restoration of more normal margins ultimately will be necessary if businesses are to have the wherewithal and the incentive to maintain and improve the stock of plant and equipment.

Unfortunately, the near-term prospects for a moderation in labor cost pressures are not favorable. Compensation growth is being boosted in the first half of 1990 by an increase in social security taxes and a hike in the minimum wage. The anticipated easing of pressures in the labor market should help produce some moderation in the pace of wage increases in the second half of 1990, but the Committee will continue to monitor closely the growth of labor costs for signs of progress in this area.

Finally, the recent depreciation of the dollar likely will constitute another impetus to near-term price increases, reversing the restraining influence exerted by a strong dollar through most of last year. Prices of imported goods, excluding oil, increased in the fourth quarter after declining through the first three quarters of 1989. The full effect of this upturn likely will not be felt on the domestic price level until some additional time has passed.

Despite these adverse elements in the near-term picture, the Committee believes that progress toward price stability can be achieved over time, given the apparently moderate pace of activity. In terms of the consumer price index, most members expect an increase of between 4 and 4½ percent, compared with the 4.5 percent advance recorded in 1989.

Relative to the Committee, the Administration currently is forecasting more rapid growth in real and nominal GNP. At the same time, the Administration's projection for consumer price inflation is at the low end of the Committee's central-tendency range. In its *Annual Report*, the Council of Economic Advisers argues that, if nominal GNP were to grow at a 7 percent annual rate this year—as the Council is projecting—then M2 could exceed its target range, particularly if interest rates fall as projected in the Administration forecast. As suggested above, monetary relationships cannot be predicted with absolute precision, but the Council's assessment is reasonable. And, although most Committee members believe that growth in nominal GNP more likely will be between 5½ and 6½ percent, a more rapid expansion in nominal income would be welcome if it promised to be accompanied by a declining path for inflation in 1990 and beyond.

The Performance of the Economy in 1989

Real GNP grew 2½ percent over the four quarters of 1989, 2 percent after adjustment for the recovery in farm output from the drought losses of the prior year. This rate of growth of GNP constituted a significant downshifting in the pace of expansion from the unsustainably rapid rates of 1987 and 1988, which had carried activity to the point that inflationary strains were beginning to become visible in the economy. As the year progressed, clear signs emerged that pressures on resource utilization were easing, particularly in the industrial sector. Nonetheless, the overall unemployment rate remained at 5.3 percent, the lowest reading since 1973, and inflation remained at 4½ percent despite the restraining influence of a dollar that was strong for most of the year.

The deceleration in business activity last year reflected, to some degree, the monetary tightening from early 1988 through early 1989 that was undertaken with a view toward damping the inflation forces. Partly as a consequence of that

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tightening, the U.S. dollar appreciated in the foreign exchange markets from early 1988 through mid-1989, contributing to a slackening of foreign demand for U.S. products. At the same time, domestic demand also slowed, more for goods than for services. Reflecting these developments, the slowdown in activity was concentrated in the manufacturing sector: Factory employment, which increased a total of 90,000 over the first three months of 1989, declined 195,000 over the remainder of the year, and growth in manufacturing production slowed from 5½ percent in 1988 to only 1¾ percent last year. Employment in manufacturing fell further in January of this year, but that decline was largely attributable to temporary layoffs in the automobile industry, and most of the affected workers have since been recalled.

As noted above, the rate of inflation was about the same in 1989 as it had been in the preceding two years. While the appreciation of the U.S. dollar through the first half of the year helped to hold down the prices of imported goods, the high level of resource utilization continued to exert pressure on wages and prices. In that regard, the moderation in the expansion of real activity during 1989 was a necessary development in establishing an economic environment that is more conducive to progress over time toward price stability.

The Household Sector

Household spending softened significantly in 1989, with a marked weakening in the demand for motor vehicles and housing. Real consumer spending on goods and services increased 2¼ percent over the four quarters of 1989, 1½ percentage points less than in 1988. Growth in real disposable income slowed last year, but continued to outstrip growth in spending, and, as a result, the personal saving rate increased to 5¾ percent in the fourth quarter of 1989.

The slackening in consumer demand was concentrated in spending on goods. Real spending on durable goods was about unchanged from the fourth quarter of 1988 to the fourth quarter of 1989—after jumping 8 percent in the prior year—chiefly reflecting a slump in purchases of motor vehicles. Spending on nondurable goods also decelerated, increasing only ½ percent in 1989 after an advance of 2 percent in 1988. The principal support to consumer spending came from continued large gains in outlays for services. Spending on medical care moved up 7½ percent in real terms last year, and now constitutes 11 percent of total consumption expenditures—up from 8 percent in 1970. Outlays for other services rose 3¼ percent, with sizable increases in a number of categories.

Sales of cars and light trucks fell ¾ million units in 1989, to 14½ million. Most of the decline reflected reduced sales of cars produced by U.S.-owned automakers; a decline in sales of imported automobiles was about offset by an increase in sales of foreign nameplates produced in U.S. plants. The slowing in sales of motor vehicles was most pronounced during the fourth quarter of 1989, reflecting a "payback" for sales that had been advanced into the third quarter and a relatively large increase in sticker prices on 1990-model cars. Although part of this increase reflected the inclusion of additional equipment—notably the addition of passive restraint systems to many models—consumers nevertheless reacted adversely to the overall increase in prices. Beyond these influences, longer-run factors appear to have been damping demand for autos and light trucks during 1989; in particular, the robust pace of sales earlier in the expansion seems to have satisfied demand pent up during the recessionary period of the

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early 1980s. The rebuilding of the motor vehicle stock suggests that future sales are likely to depend more heavily on replacement needs.

Residential investment fell in real terms through the first three quarters of 1989, and with only a slight upturn in the fourth quarter, expenditures decreased 6 percent on net over the year. Construction was weighed down throughout 1989 by the overbuilding that occurred in some locales earlier in the decade. Vacancy rates were especially high for multifamily rental and condominium units. In the single-family sector, affordability problems constrained demand, dramatically so in those areas in which home prices had soared relative to household income.

Mortgage interest rates declined more than a percentage point, on net, between the spring of 1989 and the end of the year, helping to arrest the contraction in housing activity; however, the response to the easing in rates appears to have been muted somewhat by a reduction in the availability of construction credit, likely reflecting, in part, the tightening of regulatory standards in the thrift industry and the closing of several insolvent institutions. Exceptionally cold weather also hampered building late in the year, but a sharp December drop in housing starts was followed by a record jump in activity last month.

The Business Sector

Business fixed investment, adjusted for inflation, increased only 1 percent at an annual rate during the second half of 1989 after surging 7¾ percent during the first half. Although competitive pressures forced many firms to continue seeking efficiency gains through capital investment, the deceleration in overall economic growth made the need for capacity expansion less urgent, and shrinking profits reduced the availability of internal finance.

Spending on equipment moved up briskly during the first half of 1989, with particularly notable gains in outlays for information-processing equipment—computers, photocopiers, telecommunications devices, and the like. However, equipment outlays were flat in the second half of the year; growth in the information processing category slowed sharply, and spending in most other categories was either flat or down. Purchases of motor vehicles dropped sharply in the fourth quarter from the elevated levels of the second and third quarters. There were a few exceptions to the general pattern of weakness during the second half. Spending on aircraft was greater in the second half of 1989 than in the first half, and would have increased still more had it not been for the strike at Boeing. Outlays for tractors and agricultural machinery moved up smartly; spending on farm equipment has been buoyed by the substantial improvements over the past several years in the financial health of the agricultural sector. Over the four quarters of 1989, total spending on equipment increased 6 percent in real terms—about 1 percentage point below the robust pace of 1988.

Business spending for new construction edged down ½ percent in real terms during 1989—the second consecutive yearly decline. Commercial construction, which includes office buildings, was especially weak; vacancy rates for office space remain at high levels in many areas, lowering prospective returns on new investment. Outlays for drilling and mining, which had dropped 20 percent over the four quarters of 1988, moved down further in the first quarter of 1989; later in the year, drilling activity revived as crude oil prices firmed. The industrial sector was the most notable exception to the overall pattern of weakness: Real

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outlays increased 11 percent in 1989, largely because of construction that had been planned in 1987 and 1988 when capacity in many basic industries tightened substantially and profitability was improving sharply.

As noted above, the slowdown in investment spending during the second half of last year likely was exacerbated by the deterioration in corporate cash flow. Before-tax operating profits of nonfinancial corporations dropped 12 percent from the fourth quarter of 1988 to the third quarter of 1989 (latest data available); after-tax profits were off in about the same proportion. Reflecting the increased pressures from labor and materials costs—and a highly competitive domestic and international environment—before-tax domestic profits of nonfinancial corporations as a share of gross domestic product declined to an average level of 8 percent during the first three quarters of 1989, the lowest reading since 1982. At the same time, taxes as a share of before-tax operating profits increased to an estimated 44 percent in the first three quarters of 1989; since 1985, this figure has retraced a bit more than half of its decline from 54 percent in 1980.

Nonfarm business inventory investment averaged $21 billion in 1989. Although the average pace of accumulation last year was slower than in 1988, the pattern across sectors was somewhat uneven. Some of the buildup in stocks took place in industries—such as aircraft—where orders and shipments have been strong for some time now. But inventories in some other sectors became uncomfortably heavy at times and precipitated adjustments in orders and production. The clearest area of inventory imbalance at the end of the year was at auto dealers, where stocks of domestically produced automobiles were at 1.7 million units in December—almost three months' supply at the sluggish fourth-quarter sales pace. In response, the domestic automakers implemented a new round of sales incentives and cut sharply the planned assembly rate for the first quarter of 1990. Elsewhere in the retail sector, inventories moved up substantially relative to sales at general merchandise outlets. Overall, however, most sectors of the economy have adjusted fairly promptly to the deceleration in sales and appear to have succeeded in preventing serious overhangs from developing.

The Government Sector

Budgetary pressures continued to restrain the growth of purchases at all levels of government. At the federal level, purchases fell 3 percent in real terms over the four quarters of 1989, with lower defense purchases accounting for the bulk of the decline. Nondefense purchases also declined in real terms from the fourth quarter of 1988 to the fourth quarter of 1989; increases in such areas as the space program and drug interdiction were more than offset by general budgetary restraint that imposed real reductions on most other discretionary programs.

In terms of the unified budget, the federal deficit in fiscal year 1989 was $152 billion, slightly smaller than in 1988. Growth in total federal outlays, which include transfer payments and interest costs as well as purchases of goods and services, picked up a bit in fiscal year 1989. Outlays were boosted at the end of the fiscal year by the initial $9 billion of spending by the Resolution Trust Corporation. On the revenue side of the ledger, growth in federal receipts also increased in fiscal 1989. The acceleration occurred in the individual income tax category, but strong increases also were recorded in corporate and social security tax payments.

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Purchases of goods and services at the state and local level increased 2½ percent in real terms over the four quarters of 1989, down more than a percentage point from the average pace of the preceding five years. Nonetheless, there were some areas of growth. Spending for educational buildings increased, and employment in the state and local sector rose 350,000 over the year, largely driven by a pickup in hiring by schools. Despite the overall slowdown in the growth of purchases, the budgetary position of the state and local sector deteriorated further over the year; the annualized deficit of operating and capital accounts, which excludes social insurance funds, increased $6 billion over the first three quarters of 1989 and appears to have worsened further in the fourth quarter.

The External Sector

The U.S. external deficits improved somewhat in 1989, but not by as much as in 1988. On a balance-of-payments basis, the deficit on merchandise trade fell from an annual rate of $128 billion in the fourth quarter of 1988 (and $127 billion for the year as a whole) to $114 billion in the first quarter of 1989. Thereafter, there was no further net improvement. The appreciation in the foreign exchange value of the dollar between early 1988 and mid-1989 appears to have played an important role in inhibiting further progress on the trade front. During the first three quarters of 1989, the current account, excluding the influence of capital gains and losses that are largely caused by currency fluctuations, showed a deficit of $106 billion at an annual rate—somewhat below the deficit of $124 billion in the comparable period of 1988.

Measured in terms of the other Group of Ten (G-10) currencies, the foreign exchange value of the U.S. dollar in December 1989 was about 3 percent above its level in December 1988, but the dollar has moved lower thus far in 1990. In real terms, the net appreciation of the dollar during 1989 in terms of the other G-10 currencies was about 5 percent as consumer prices rose somewhat faster here than they did abroad, on average. Over the year, the dollar moved lower on balance against the currencies of South Korea, Singapore, and especially Taiwan. From a longer perspective, the modest uptrend on balance in the dollar over the past two years marked a sharp departure from the substantial weakening seen during the 1985–87 period.

The behavior of the dollar differed greatly between the two halves of 1989. In the first half, the dollar appreciated 12 percent in terms of the other G-10 currencies, while depreciating against the currencies of South Korea and Taiwan. The dollar fluctuated during the summer, and later in the year unwound most of the prior appreciation, as U.S. interest rates eased relative to rates abroad and in response to concerted intervention in exchange markets in the weeks immediately after the September meeting of Group of Seven officials and to events in Eastern Europe. In the second half of the year, the dollar rose against the currencies of South Korea and Taiwan while depreciating in terms of the Singapore dollar. Over the course of 1989, the dollar appreciated nearly 16 percent against the Japanese yen and 14 percent against the British pound, but it depreciated slightly against the German mark, the Canadian dollar, and most other major currencies.

On a GNP basis, merchandise exports increased about 11 percent in real terms over the four quarters of 1989—roughly 4 percentage points less than in 1988. This deceleration took place despite continued strong growth in economic activity in most foreign industrial countries (with the exception of Canada and

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the United Kingdom), and appears to have reflected, in large part, the effect on U.S. competitiveness of the dollar's appreciation and the more rapid U.S. inflation over 1988 and much of 1989. Exports were also depressed in the fourth quarter of 1989 by several special factors, including the Boeing strike. The volume of agricultural exports increased about 11 percent in 1989—a bit faster even than the robust pace of 1988. The value of agricultural exports rose much less, however, as agricultural export prices reversed the drought-induced increases of the previous year.

Merchandise imports excluding oil expanded about 7 percent in real terms during 1989, with much of the rise accounted for by imports of computers. Imports of oil increased 6 percent from the fourth quarter of 1988 to the fourth quarter of 1989, to a rate of 8.3 million barrels per day. At the same time, the average price per barrel increased almost 40 percent, and the nation's bill for foreign oil jumped 45 percent.

The counterpart of the current account deficit of $106 billion at an annual rate over the first three quarters of 1989 was a recorded net capital inflow of about $60 billion at an annual rate and an unusually large statistical discrepancy, especially in the second quarter. More than half of the recorded net inflow of capital reflected transactions in securities, as foreign private holdings of U.S. securities rose nearly $50 billion (half of the increase being in holdings of U.S. Treasury securities), while U.S. holdings of foreign securities increased a bit less than $20 billion. Net direct investment accounted for another substantial portion of the inflow; foreign direct investment holdings in the United States rose more than $40 billion, and U.S. holdings abroad rose only half as much. Over the first three quarters of 1989, foreign official assets in the United States increased almost $15 billion, but this increase was more than offset by the increase in U.S. official holdings of assets abroad, largely associated with U.S. intervention operations to resist the dollar's strength.

Labor Markets

Employment growth slowed in the second half of 1989; nonetheless, nonfarm payrolls increased nearly 2½ million during the year. The bulk of this expansion occurred in the service-producing sector. By contrast, the manufacturing sector shed 100,000 jobs. These job losses were more than accounted for by declines in the durable goods industries and appeared to reflect the slump in auto sales, the weakening in capital spending, and the effects of a stronger dollar on exports and imports.

Despite the slowdown in new job creation, the overall balance of supply and demand in the labor market remained steady over the year. The civilian unemployment rate, which had declined about ½ percentage point over the twelve months of 1988, finished 1989 at 5.3 percent—unchanged from twelve months earlier. Moreover, there was no increase in the number of "discouraged" workers—those who say they would re-enter the labor force if they thought they could find a job. Nor was there any net increase in workers who accepted part-time employment when they would have preferred full-time. The proportion of the civilian population with jobs reached a historic high.

Reflecting the tightness of labor markets and the persistence of inflation expectations in the range of 4 to 5 percent, according to surveys, the employment cost index for wages and salaries in nonfarm private industry increased 4¼ percent over the twelve months of 1989—about the same as in 1988. Benefit

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costs continued to rise more rapidly than wages and salaries last year, with health insurance costs remaining a major factor; nonetheless, the rate of growth in overall benefit costs slowed in 1989, in part because of a smaller increase in social security taxes than in 1988. Total compensation—including both wages and salaries and benefits—rose 4¾ percent during 1989. Compensation growth in the service-producing sector—at 5 percent—continued to outpace the gain in the goods-producing sector by about ¾ percentage point.

A slowdown in the growth of productivity often accompanies a softening in the general economy, and productivity gains were lackluster in 1989. Output per hour in the private nonfarm business sector increased only ½ percent over the four quarters of the year—1 percentage point below the rate of increase in 1988. In the manufacturing sector, productivity gains during the first half of 1989 kept pace with the 1988 average of 3 percent; in the second half, however, productivity growth slowed to an annual rate of 2¼ percent. Reflecting both the persistent growth in hourly compensation and the disappointing developments in productivity, unit labor costs in private nonfarm industry rose 5 percent over the four quarters of 1989—the largest increase since 1982.

Price Developments

Inflation in consumer prices remained in the neighborhood of 4½ percent for the third year in a row, as the level of economic activity was strong and continued to exert pressures on available resources. During the first half of the year, overall inflation was boosted by a sharp run-up in energy prices and a carry-over from 1988 of drought-related increases in food prices. However, inflation in food prices slowed during the second half, and energy prices retraced about a third of the earlier run-up. Prices for imported goods excluding oil were little changed over 1989, on net, and acted as a moderating influence on consumer price inflation.

Food prices increased 5½ percent at the retail level, slightly more than in 1988 when several crops were severely damaged by drought. Continued supply problems in some agricultural markets in 1989—notably a poor wheat crop and a shortfall in dairy production—likely prevented a deceleration from the drought-induced rate of increase in 1988. At the same time, increases in demand, including sharp increases in exports of some commodities, also appear to have played a role. Still another impetus to inflation in the food area last year evidently came from the continuing rise in processing and marketing costs.

Consumer energy prices surged 17 percent at an annual rate during the first six months of 1989, before dropping back 6 percent in the second half. During the first half of the year, retail energy prices were driven up by increases in the cost of crude oil. The increase in gasoline prices at midyear was exaggerated by the introduction of tighter standards governing the composition of gasoline during summer months. Gasoline prices eased considerably in the second half, reflecting a dip in crude oil prices and the expiration of the summertime standards. Taking the twelve months of 1989 as a whole, the increase in retail energy prices came to a bit more than 5 percent. Heating oil prices jumped sharply at the turn of the year, reflecting a surge in demand caused by December's unusually cold weather. The spike in heating fuel prices largely reversed itself in spot markets during January of this year, but crude oil prices remained at high levels.

Consumer price increases for items other than food and energy remained at about 4½ percent in 1989. Developments

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in this category likely would have been less favorable had the dollar not been appreciating in foreign exchange markets through the first half of 1989. The prices of consumer commodities excluding food and energy decelerated sharply, and this slowdown was particularly marked for some categories in which import penetration is high, including apparel and recreational equipment. Given the dollar's more recent depreciation, however, the moderating effect of import prices on overall inflation may be diminishing. Indeed, prices for imported goods excluding oil turned up in the fourth quarter of 1989, after declining earlier in the year. In contrast to goods prices, the prices of nonenergy services—which make up half of the overall consumer price index—increased 5¼ percent in 1989, ¼ percentage point more than in 1988. The pickup in this category was led by rents, medical services, and entertainment services.

At the producer level, prices of finished goods increased 7½ percent at an annual rate during the first half—almost twice the pace of 1988— before slowing to an annual rate of increase of 2½ percent over the second half. In large part, developments in this sector reflected the same sharp swings in energy prices that affected consumer prices. At earlier stages of processing, the index for intermediate materials excluding food and energy decelerated sharply during the first half of the year and then edged down in the second half. For the year as a whole, this index registered a net increase of only 1 percent, compared with more than 7 percent in 1988. The sharp deceleration in this category appears to have reflected a relaxation of earlier pressures on capacity in the primary processing industries, and the influence of the rising dollar through the first half of last year. Also consistent with the weakening in the manufacturing sector and the strength of the dollar, the index for crude nonfood materials excluding energy declined 3¾ percent over the year, and spot prices for industrial metals moved sharply lower during the year, in part because of large declines for steel scrap, copper, and aluminum.

Monetary and Financial Developments during 1989

In 1989, the Federal Reserve continued to pursue a policy aimed at containing and ultimately eliminating inflation while providing support for continued economic expansion. In implementing that policy, the Federal Open Market Committee maintained a flexible approach to monetary targeting, with policy responding to emerging conditions in the economy and financial markets as well as to the growth of the monetary aggregates relative to their established target ranges. This flexibility has been necessitated by the substantial variability in the short-run relationship between the monetary aggregates and economic performance; however, when viewed over a longer perspective, those aggregates are still useful in conveying information about price developments.

As the year began, monetary policy was following through on a set of measured steps begun a year earlier to check inflationary pressures. By then, however, evidence of a slackening in aggregate demand, along with sluggish growth of the monetary aggregates, suggested that the year-long rise in short-term interest rates was noticeably restraining the potential for more inflation. But, after an increase of ½ percentage point in the discount rate at the end of February, the Federal Reserve took no further policy action until June. Over the balance of 1989, the Federal Reserve moved toward an easing of money market conditions, as indications mounted of slack in demand and lessened inflation pressures. The

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easing in reserve availability induced declines in short-term interest rates of 1½ percentage points; money growth strengthened appreciably, and M2 was near the middle of its target range by the end of 1989. The level of M3, on the other hand, remained around the lower bound of its range, with its weakness mostly reflecting the shifting pattern of financial intermediation as the thrift industry retrenched. The growth of nonfinancial debt was trimmed to 8 percent in 1989, about in line with the slowing in the growth of nominal GNP, and ended the year at the midpoint of its monitoring range.

Implementation of Monetary Policy

In the opening months of the year, the Federal Open Market Committee, seeking to counter a disquieting intensification of inflationary pressures, extended the move toward restraint that had begun almost a year earlier. Policy actions in January and February, restraining reserve availability and raising the discount rate, prompted a further increase of ¾ percentage point in short-term market interest rates. Longer-term rates, however, moved up only moderately; the tightening apparently had been widely anticipated and was viewed as helping to avoid an escalation in underlying inflation. Real short-term interest rates—nominal rates adjusted for expected price inflation—likely moved higher, though remaining below peak levels earlier in the expansion; these gains contributed to a strengthening of the foreign exchange value of the dollar over this period, while the growth of the monetary aggregates slowed as the additional policy restraint reinforced the effects of actions in 1988.

As evidence on prospective trends in inflation and spending became more mixed in the second quarter, the Committee refrained from further tightening and in June began to ease pressures on reserve markets. As the information on the real economy, along with the continued rise in the dollar, suggested that the outlook for inflation was improving, most long-term nominal interest rates fell as much as a percentage point from their March peaks; the yield on the bellwether thirty-year Treasury bond moved down to about 8 percent by the end of June. The decline in interest rates outstripped the reduction in most measures of investors' inflation expectations, so that estimated real interest rates fell from their levels earlier in the year. These declines in nominal and real interest rates, however, were not accompanied by declines in the foreign exchange value of the dollar. Rather, because of better-than-expected trade reports and political turmoil abroad, the dollar strengthened further.

In July, when the FOMC met for its semiannual review of the growth ranges for money and credit, M2 and M3 lay at, or a bit below, the lower bounds of their target cones. This weakness, reinforcing the signals from prices and activity, contributed to the Committee's decision to take additional easing action in reserve markets. The Committee reaffirmed the existing annual target ranges for the monetary and debt aggregates and tentatively retained those ranges for the next year, since they were likely to encompass money growth that would foster further economic expansion and moderation of price pressures in 1990.

Late in the summer, longer-term interest rates turned higher, as several releases of economic data suggested reinvigorated inflationary pressures. With growth in the monetary aggregates rebounding, the Committee kept reserve conditions about unchanged until the direction of the economy and prices clarified.

Beginning in October, amid indications of added risks of a weakening in the economic expansion, the FOMC reduced

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pressures on reserve markets in three separate steps, which nudged the federal funds rate down to around 8¼ percent by year-end, about 1½ percentage points below its level when incremental tightening ceased in February. Over those ten months, other short- and long-term nominal interest rates fell about 1 to 1¼ percentage points; and most major stock price indexes reached record highs at the turn of the year, more than recovering the losses that occurred on October 13. Reflecting some reduction in inflation anticipations over the same period, estimated short- and long-term real interest rates fell somewhat less than nominal rates, dropping probably about ½ to ¾ percentage point. Still, most measures of short- and long-term real interest rates remained well above their trough levels of 1986 and 1987—levels that had preceded rapid growth in the economy and a buildup of inflationary pressures.

Over the last three months of the year and into January 1990, the foreign exchange value of the dollar declined substantially from its high, which was reached around midyear and largely sustained through September. The dollar fell amid concerted intervention undertaken by the G-7 countries in the weeks immediately after a meeting of the finance ministers and central bank governors of these countries in September. The dollar continued to decline in response to the easing of short-term interest rates on dollar assets and increases in rates in Japan and Germany. The German currency rate rose particularly sharply as developments in Eastern Europe were viewed as favorable for the West German economy, attracting global capital flows. Rising interest rates in Germany likely contributed to an increase in bond yields in the United States early in 1990, even as U.S. short-term rates remained essentially unchanged. More important, however, for the rise in nominal, and likely real, long-term rates in the United States were incoming data pointing away from recession in the economy and from any abatement in price pressures, especially as oil prices moved sharply higher.

Behavior of Money and Credit

Growth in M2 was uneven over 1989, with marked weakness in the first part of the year giving way to robust growth thereafter. On balance over the year, M2 expanded 4½ percent, down from 5¼ percent growth in 1988, placing it about at the midpoint of its 1989 target range of 3 to 7 percent. The slower rate of increase in M2 reflected some moderation in nominal income growth as well as the pattern of interest rates and associated opportunity costs of holding money, with the effects of increases in 1988 and 1989 outweighing the later, smaller drop in rates.

M2 has grown relatively slowly over the past three years, as the Federal

Growth of Money and Debt
Percentage change[1]

Period	M1	M2	M3	Debt of domestic non-financial sector
Fourth quarter				
1980	7.4	8.9	9.5	9.5
1981	5.4 (2.5)[2]	9.3	12.3	10.2
1982	8.8	9.1	9.9	9.1
1983	10.4	12.2	9.8	11.1
1984	5.4	7.9	10.6	14.2
1985	12.0	8.9	7.8	13.1
1986	15.5	9.3	9.1	13.2
1987	6.3	4.3	5.8	9.9
1988	4.3	5.2	6.3	9.2
1989	.6	4.6	3.3	8.1
Quarter (annual rate)				
1989:1	−.1	2.3	3.9	8.4
2	−4.4	1.6	3.3	7.9
3	1.8	6.9	3.9	7.2
4	5.1	7.1	2.0	8.0

1. From average of the preceding period to average of the period indicated.

2. Figure in parentheses is adjusted for shifts to NOW accounts in 1981.

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Reserve has sought to ensure progress over time toward price stability. There appears to be a fairly reliable long-term link between M2 and future changes in inflation. One method of specifying that link is to estimate the equilibrium level of prices implied by the current level of M2, assuming that real GNP is at its potential and velocity is at its long-run average, and compare that to actual prices. The historical record suggests that inflation tends to rise when actual prices are below the equilibrium level and to moderate when equilibrium prices are below actual. At the end of 1986, the equilibrium level of prices was well above the actual level, reinforcing the view that the risks weighed on the side of an increase in inflation; at the end of 1989, that equilibrium price had moved into approximate equality with the actual price level, indicating that basic inflation pressures had steadied.

In 1989, compositional shifts within M2 reflected the pattern of interest rates, the unexpected volume of tax payments in the spring, and the flow of funds out of thrift deposits and into other instruments. Early in the year, rising market interest rates buoyed the growth of small-denomination time deposits at the expense of more liquid deposits, as rates on the latter accounts adjusted only sluggishly to the upward market movements. The unexpectedly large tax payments in April and May contributed to the weakness in liquid instruments as those balances also were drawn down to meet tax obligations. As market interest rates fell, the relative rate advantage reversed in favor of liquid instruments and the growth in liquid deposits rebounded, boosted as well by the replenishment of accounts drained by tax payments.

The M1 component of M2 was especially affected by the swings in interest rates and opportunity costs last year, and in addition was buffeted by the effects of outsized tax payments in April. After its rise of 4¼ percent in 1988, M1 grew only ½ percent in 1989, with much of the weakness in this transactions aggregate occurring early in the year. By May, M1 had declined at an annual rate of about 2½ percent from its fourth-quarter 1988 level, reflecting a lagged response to earlier increases in short-term interest rates and an extraordinary bulge in net individual tax remittances to the Treasury. From May to December, M1 rebounded at a 4 percent rate as the cumulating effects of falling interest rates and post-tax-payment rebuilding boosted demands for this aggregate. M1 velocity continued the upward trend that resumed in 1987, increasing in the first three quarters before turning down in the fourth quarter of 1989.

The shift of deposits from thrift institutions to commercial banks and money fund shares owed, in part, to regulatory pressures that brought down rates paid by some excessively aggressive thrift institutions. Beginning in August, the newly created Resolution Trust Corporation (RTC) targeted some of its funds to pay down high-cost deposits at intervened thrift institutions and began a program of closing insolvent thrift institutions and selling their deposits to other institutions—for the most part, banks. On balance, the weak growth of retail deposits at thrift institutions appears to have been about offset by the shift into commercial banks and money market mutual funds, leaving M2 little affected overall by the realignment of the thrift industry.

M3 was largely driven, as usual, by the funding needs of banks and thrift institutions; under the special circumstances of the restructuring of the thrift industry, it was a less reliable barometer of monetary policy pressures than is normally the case. After expanding 6¼ percent in 1988, M3 hugged the lower bound of its 3½ to 7½ percent

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target cone in 1989, closing the year about 3¼ percent above its fourth quarter of 1988 base. In 1989, bank credit growth about matched the previous year's 7½ percent increase, but credit at thrift institutions is estimated to have contracted a bit on balance over the year, in contrast to its 6¼ percent growth in 1988. This weakness in thrift credit directly owed to asset shrinkage at savings and loan institutions insured by the Savings Association Insurance Fund; credit unions and mutual savings banks expanded their balance sheets in 1989. In addition, funds paid out by the RTC to thrift institutions and to banks acquiring thrift deposits directly substituted for other sources of funds. As a result, thrift institutions lessened their reliance on managed liabilities, as evidenced by the decline of 14¾ percent over the year in the sum of large time deposits and repurchase agreements at thrift institutions. Institution-only money market mutual funds were bolstered by a relative yield advantage, as fund returns lagged behind declining market interest rates in the second half of the year; these funds provided the major source of growth for the non-M2 component of M3. On balance, the effects of the thrift restructuring dominated the movements in M3, and the rebound in M2 in the second half of the year did not show through to this broader aggregate. As a consequence, the velocity of M3 increased 3 percent in 1989, 1¼ percentage points faster than the growth in M2 velocity, and its largest annual increase in twenty years.

Many of the assets shed by thrift institutions were mortgages and mortgage-backed securities, but this appears to have had little sustained effect on home mortgage cost and availability. The spread between the rate on primary fixed-rate mortgages and the rate on ten-year Treasury notes rose somewhat early in the year, but thereafter remained relatively stable. The share of mortgages held in securitized form again climbed in 1989, facilitating the tapping of a base of investors. Diversified lenders, acting in part through other intermediaries, such as federally sponsored agencies, mostly filled the gap left by the thrift institutions. However, some shrinkage of credit available for acquisition, development, and construction appeared to follow from limits imposed by the FIRREA on loans by thrift institutions to single borrowers, though the reduction in funds available for these purposes probably also reflected problems in some residential real estate markets.

Aggregate debt of the domestic nonfinancial sectors grew at a fairly steady pace over 1989, averaging 8 percent, which placed it near the midpoint of its monitoring range of 6½ to 10½ percent. Although the annual growth of debt slowed in 1989, as it had during the preceding two years, it still exceeded the 6½ percent growth of nominal GNP. Federal sector debt grew 7½ percent, about ½ percentage point below the 1988 increase—and the lowest rate of expansion in a decade—as the deficit leveled off. Debt growth outside the federal sector eased by more to average 8¼ percent, mostly because of a decline in the growth of household debt. Mortgage credit slowed in line with the reduced pace of housing activity, and consumer credit growth, though volatile from month to month, trended down through much of the year. The growth of nonfinancial business debt slipped further below the extremely rapid rates of the mid-1980s. Corporate restructuring continued to be a major factor buoying business borrowing, although such activity showed distinct signs of slowing late in the year as lenders became more cautious and the use of debt to require equity ebbed.

The second half of 1989 was marked by the troubling deterioration in indica-

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tors of financial stress among certain classes of borrowers, with implications for the profitability of lenders, including commercial banks. In the third quarter, several measures of loan delinquency rates either rose sharply or continued on an uptrend. Delinquency rates on closed-end consumer loans at commercial banks and auto loans at "captive" auto finance companies were close to historically high levels. At commercial banks as a whole in 1989, both delinquency and charge-off rates for real estate loans were little changed from the previous year. Still, problem real estate loans continued to be a drag on the profitability of banks in Texas, Oklahoma, and Louisiana; in the second half, such loans emerged as a serious problem for banks in New England. On the other hand, smaller, agriculturally oriented banks continued to recover from the distressed conditions of the mid-1980s. Since 1987, agricultural banks have charged off loans at well below the national rate, and their nonperforming assets represented a smaller portion of their loans than that for the country as a whole.

The upswing in the profitability of insured commercial banks that began in 1988 only extended through the first half of 1989. A slowing in the buildup of loan loss provisions, along with improvements in interest rate margins, contributed to these gains, with the money center banks showing the sharpest turnaround. Information for the second half of 1989, although still incomplete, clearly points to an erosion of these profit gains, in part, because of problems in the quality of loans. Several money center banks sharply boosted their loss provisions on loans to developing countries, while evidence of rising delinquency rates on real estate and consumer loans suggested more widespread weakening. Despite these developments, the spread of rates on bank liabilities, certificates of deposit, and Eurodollar deposits, over comparable Treasury bill rates narrowed early in 1990.

Report on July 18, 1990

Monetary Policy and the Economic Outlook for 1990 and 1991

The Federal Reserve delivered its initial Humphrey-Hawkins report of 1990 to the Congress in February, and the period since then has been an especially challenging one for monetary policy decisionmaking. The already difficult task of moving a quite fully employed economy toward price stability without contractionary mishap has been complicated by a variety of disturbances to business activity and financial markets – among them developments that distorted some of the basic indicators of the Federal Reserve's influence on the economic system.

On the whole, events in the economy have been broadly in line with the projections for 1990 contained in the February monetary policy report. Inflation has been somewhat greater on average than most members of the Federal Open Market Committee (FOMC) and other Reserve Bank presidents expected in February; however, this mainly reflected the influence of transitory factors early in the year, and price increases recently have been more moderate. Meanwhile, the economy has continued to expand, but apparently rather sluggishly overall since the winter.

While these aspects of the economic situation were important elements in the FOMC's review of its policy plans earlier this month, the Committee also gave careful attention to developments in financial markets. Although market interest rates had changed little on net since February, slow growth of the monetary stock and other evidence in hand pointed to a small but significant tightening of

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credit supplies. This implied greater effective restraint on aggregate demand in the months ahead than was thought desirable, and in the past week the System shifted to a slightly more accommodative stance in the provision of reserves to depository institutions. As a result, the overnight federal funds rate, which had fluctuated narrowly around 8¼ percent throughout the first half of the year, has declined to about 8 percent, and other market rates of interest also have eased a bit in recent days.

Developments Thus Far in 1990

In the early part of 1990, economic activity appeared to be regaining momentum, a development that reduced previous concerns about recessionary risks. At the same time, even discounting weather-related spurts in food and energy prices and an unusual bunching of price increases for some other items, there appeared to be no abatement in underlying inflationary pressures. Through the first quarter, M2 remained near the top of the annual range set by the FOMC, and although M3 was near the lower bound of its range, this weakness appeared consistent with the anticipated effects of the restructuring of the thrift industry.

The Federal Reserve maintained a steady pressure on reserve positions during the first quarter, rather than extending the sequence of easing steps that had fostered a drop in the federal funds rate of 1½ percentage points between June and December 1989. However, in keeping with the tenor of most of the economic data released during the quarter, other interest rates generally moved higher, particularly at the long end of the yield curve. This shift suggested that market participants had reevaluated the prospects for moderating inflation and a further easing of monetary policy. Early in the year, bond yields in the United States rose along with rates in Japan and Western Europe, as developments in Eastern Europe suggested a further spur to worldwide economic activity, carrying the potential for greater inflation and heightened pressures on a limited international pool of savings.

In the second quarter, some of the weather-related increases in food and energy prices that had caused inflation to pick up earlier in the year were reversed, and price increases for many other goods and services moderated. Inflation trends remained in the range prevailing over the previous three years, though price pressures in the industrial sector gave signs of some easing. The incoming information pointed to a sluggish pace of economic expansion; most notably, growth in private sector employment slackened, consumer spending flattened, and real estate markets weakened. Moreover, advance indicators in some sectors—particularly durable goods orders and construction contracts—gave no evidence of a significant pickup in the second half. With the economy appearing somewhat less buoyant, over May and June bond yields in the United States retraced some of their earlier increases. Long-term rates in Japan and West Germany also declined, but by much less, with the result that yields in those countries have risen appreciably this year relative to those in the United States.

In foreign exchange markets, the dollar has depreciated somewhat on balance thus far this year, under the influence of a diverse set of economic, financial, and political developments around the world. The dollar has appreciated slightly in terms of the yen, while depreciating somewhat in terms of the German mark and other currencies of the European Monetary System exchange rate mechanism and somewhat more in terms of the Swiss franc and pound sterling.

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The monetary aggregates flattened out during the second quarter, and by midyear M2 was in the lower half of its annual range, and M3 had fallen below the lower bound of its annual range. The weakness in the monetary aggregates mainly, though not wholly, reflected a rechannelling of credit flows away from depository institutions. Total borrowing by domestic nonfinancial sectors moderated only a little in the first half of 1990 from the pace of 1989, and growth in the aggregate debt of these sectors was in the middle of the FOMC's monitoring range. However, the proportion of lending accounted for by depositories was down substantially. Much of the decrease related to the shrinkage of savings and loan associations: Marginal institutions continued to retrench, and the Resolution Trust Corporation (RTC) transferred large volumes of assets to banks and onto its own books in the course of closing failed thrift institutions. Meanwhile, concerns about credit quality and pressures on capital positions led banks to adopt more cautious lending postures and to hold down asset growth.

The weakness in lending by depositories was reflected dramatically in the behavior of M3; this aggregate, encompassing managed liabilities as well as M2 deposits, comprises most of the liabilities used by these institutions to fund credit extensions. With depository credit damped, not only were managed liabilities weak, but banks and thrift institutions did not bid aggressively for retail funds—thereby contributing to reduced growth of M2. In addition, increases in expected returns on stocks and bonds may have restrained expansion of this aggregate, although some portion of the slowdown in M2 remains unexplained by changes in relative yields or income. The weakness in depository credit and the monetary aggregates likely has had, to date, only limited effects on spending: The bulk of the credit formerly supplied by depositories has been provided by other lenders, in part through the securities markets, with little change in the terms to most borrowers.

Monetary Objectives for 1990 and 1991

In reevaluating its ranges for money and credit for 1990 and in establishing tentative ranges for 1991, the FOMC had to take account of the redirection of credit flows away from depository institutions and the resulting effect on the growth of the financial aggregates relative to spending and prices. In February, the Committee expected that the continued shrinkage of the thrift industry would damp growth in M3; to take account of this, it lowered the M3 range for 1990 to 2½ to 6½ percent, 1 percentage point below the range set tentatively in July 1989. However, the contraction of thrift assets has been faster than anticipated, in part because of the step-up in RTC activity, and bank credit has expanded less rapidly. As a consequence, through June, M3 grew at an annual rate of only 1¼ percent from its fourth-quarter 1989 base.

Barring a marked slowdown in RTC activity or a significant strengthening in bank credit, M3 growth is likely to remain sluggish over the balance of the year. As in the first half, the weakness in M3 growth is expected to be associated with a further substantial increase in velocity—the ratio of nominal GNP to money—rather than with substantial restraint on overall credit supplies. Recognizing this unusual behavior of M3 velocity, the FOMC voted in early July to reduce the M3 range for 1990 to 1 to 5 percent. At the same time, the Committee reaffirmed its range of 5 to 9 percent for total growth in the debt of domestic nonfinancial sectors. The Committee

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seeks to ensure that credit will remain available in amounts and at terms compatible with moderate expansion of the economy, and it will continue to assess the implications of developments at depositories for credit conditions more generally.

As noted above, the contraction of the thrift industry and the moderate growth in bank credit also have affected the growth of M2, as potential inflows of retail deposits have outpaced the needs of depository institutions for such funds. The velocity of this aggregate has risen, unexpectedly, but less than that of M3: Growth of M2 from its fourth-quarter base through June was at a 3¾ percent annual rate, within its annual range, though in the lower half. M2 velocity is likely to increase further over the second half of the year; however, a substantial slowing of M2 could suggest more restraint than would be consistent with sustained upward momentum of the economy, and thus the Committee reaffirmed the established range for M2 growth for 1990.

In setting tentative ranges for 1991, the Committee faced more than the usual uncertainty about the growth of money that would foster its objectives of sustained expansion and a gradual abatement of inflation. Developments in credit markets will be shaped not only by the special factors that have altered patterns of intermediation thus far this year, but also by the outcome of the current deliberations regarding the federal budget. At this point, the forces that recently have diminished the role of depository credit seem likely to persist for some time, and they may foster further upward shifts in monetary velocities, albeit probably smaller ones than now appear in train for 1990. To be sure, though, subsequent events may dictate adjustments to the ranges next February, when they are reexamined in light of developments over the second half of this year.

For growth in M2, the Committee tentatively adopted a range of 2½ to 6½ percent – ½ percentage point below the 1990 range. The adjustment is consistent with the Committee's intention to move over time toward the low trend rates of monetary expansion that would be consistent with price stability. At the same time, the range is expected to allow for sufficient expansion of money to sustain moderate growth in the economy. There may be some further upward shift in velocity, but the range should be wide enough to accommodate considerable variation in credit market conditions.

The range for growth of M3 was tentatively set at 1 to 5 percent, the same as that now in effect for 1990. Growth of this aggregate is especially sensitive to the pattern of credit flows. Thus, the continuing downsizing of the thrift industry is likely to result in slower growth of M3 than of M2 again next year, as managed liabilities in the broader aggregate run off. It also is likely to mean a substantial further increase in M3 velocity. Given that growth of this aggregate currently is running along the lower bound of the new range for 1990, even if the pace of credit flows at banks and thrift institutions were to pick up somewhat, M3 growth between 1 and 5 percent should be consistent with the Committee's basic objectives.

For debt, the FOMC adopted a tentative monitoring range of 4½ to 8½ percent, a half percentage point below the range for 1990. The Committee viewed slower growth of debt, more in line with the expansion of nominal income, as a healthy development for the economy. The rapid expansion of debt over the past decade, relative to the ability to service it, occasioned many of the difficulties with asset quality now facing our lending institutions.

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Economic Projections for 1990 and 1991
The members of the FOMC and the Reserve Bank presidents not currently serving as members believe that the monetary ranges for 1990 and 1991 are consistent with achievement of sustainable economic growth and a reduction of inflation over time. Most of them expect that the pace of expansion will be moderate over the remainder of 1990 and through next year, with the central tendency of their forecasts of real GNP growth being 1½ to 2 percent over the four quarters of 1990 and 1¾ to 2½ percent over the course of 1991.

Demand from abroad is likely to provide support for continued growth in U.S. production and employment. At current exchange rates, U.S. producers appear to be in a position to compete effectively in most international markets, and economic activity is growing relatively rapidly on average in other major industrial countries. In time, export demand should be bolstered by the shift toward more open, market-based economic systems in Eastern Europe; although the continental European nations may be most immediately affected by these developments, given the high rates of capacity utilization in those economies, the United States is likely to benefit both directly and indirectly from the increased demand for consumer and capital goods.

In the aggregate, demands from sectors outside of exports are unlikely to provide much impetus to manufacturing activity. Defense procurement is declining in real terms. And there is little prospect of a substantial resurgence in motor vehicle production: High levels of auto sales in the past several years appear to have satisfied demands that were pent up during the deep economic slump of the early 1980s. Demand for construction materials and equipment probably also will remain subdued, because building activity will be damped by the current overhang of vacant residential and commercial space. That overhang, more than any disruption of credit flows, explains the current weakness in construction, and, especially in the case of office building, it will take some time for existing space to be absorbed and to lay the base for a solid upturn in activity.

In sum, the growth of total output projected for 1990 and 1991 probably will involve rather slow gains for the goods-producing sectors of the economy. The service-producing industries are likely to continue to be the locus of important increases in output and, especially, employment. Demands for a wide range of services have remained robust thus far this year, and demographic trends suggest that such sectors as medical care and education will continue to experience appreciable growth.

Target Ranges of Growth for Monetary and Debt Aggregates

Percentage change[1]

Aggregate	1989	1990		Provisional ranges for 1991
		Adopted in February	Adopted in July	
M2	3 to 7	3 to 7	3 to 7	2½ to 6½
M3	3½ to 7½	2½ to 6½	1 to 5	1 to 5
Debt[2]	6½ to 10½	5 to 9	5 to 9	4½ to 8½

1. From average of the fourth quarter of the preceding year to average of the fourth quarter of the year incidated.

2. Domestic nonfinancial sector.

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The overall growth in economic activity forecast by the Board members and Bank presidents for the period ahead is expected to be consistent with a slight easing of pressures on resources and a diminution of inflation. With respect to the labor market, the central tendency of the forecasts for the civilian unemployment rate is 5½ to 5¾ percent in the fourth quarter of this year and 5½ to 6 percent in the final quarter of 1991; the jobless rate has fluctuated narrowly at a little below 5½ percent since late 1988. Moderate growth in demands on industrial capacity should be conducive to an extension of the recent more favorable trends in producer prices for intermediate and finished goods, which were, respectively, virtually unchanged and up just 3 percent in the past twelve months.

Inflation at the retail level also should be damped over the remainder of this year by favorable developments in the energy sector. Despite the very recent upturn in crude oil prices, gasoline prices are widely expected to decline in coming months, as the return of refinery output to normal levels alleviates the tightness that has characterized the product market. With inflation for other goods and services expected to remain below the first-quarter pace, the central tendency of the policymakers' forecasts of the overall consumer price index is for an increase of between 4½ and 5 percent over the four quarters of 1990—compared with the 5¾ percent annual rate of increase recorded during the first five months of the year. The lower trajectory of the consumer price index is projected to be sustained in 1991, with forecasts for the year centering on the 3¾ to 4½ percent range.

The Administration's economic projections, presented in connection with its mid-session update of the budget, indicate similar expectations about inflation trends but a more favorable outlook for

Economic Projections for 1990 and 1991

Measure	FOMC members and other FRB presidents: Range	FOMC members and other FRB presidents: Central tendency	Administration
	1990		
Percentage change, fourth quarter to fourth quarter[1]			
Nominal GNP	5 to 6½	5½ to 6½	6.8
Real GNP	1 to 2	1½ to 2	2.2
Consumer price index[2]	4 to 5	4½ to 5	4.8
Average level in the fourth quarter (percent)			
Civilian unemployment rate	5½ to 6½	5½ to 5¾	5.6[3]
	1991		
Percentage change, fourth quarter to fourth quarter[1]			
Nominal GNP	3½ to 7	5¼ to 6½	7.2
Real GNP	0 to 3	1¾ to 2½	2.9
Consumer price index[2]	3½ to 5	3¾ to 4½	4.2
Average level in the fourth quarter (percent)			
Civilian unemployment rate	5¼ to 7	5½ to 6	5.6[3]

1. Average for the fourth quarter of the preceding year to the average for the fourth quarter of the year indicated.
2. FOMC forecasts are for all urban consumers; Administrative forecast is for urban wage earners and clerical workers.
3. Percentage of total labor force, including armed forces residing in the United States.

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real GNP. As a result, the Administration's projection of nominal GNP growth is somewhat above the central tendency of those of the FOMC participants, and might imply the need for faster monetary growth than is currently contemplated by the Committee. These differences must be regarded as small, however, relative to the degree of uncertainty that attaches to any prediction of the economy—and, in particular, of the short-run relation between growth in GNP and the money stock. More important, the differences do not signal any basic inconsistency between the goals of the Federal Reserve and the Administration, for the Federal Reserve would welcome a more rapid expansion of output that occurred in the context of solid progress toward price stability.

The Performance of the Economy during the First Half of 1990

Activity in many sectors of the economy followed an erratic course during the first half of the year, in part because of transitory factors, such as last winter's unusual weather. On balance, production expanded further during the first half of 1990, but evidently no faster than the reduced pace of 1989. The comparatively slow rate of growth largely reflected weaker spending by domestic businesses and households, while merchandise exports apparently remained on a fairly strong growth path. Although job creation in the private sector of the economy has slowed this year, the civilian unemployment rate has remained near 5¼ percent, the lowest level in nearly twenty years.

Prices rose sharply early in the year, but the increases moderated this spring. In the first quarter, there were large weather-related surges in food and energy prices and a bunching of increases in prices of some other goods and services. Given the character of the spurt, most analysts—and policymakers in the Federal Reserve—judged that the runup in aggregate price indexes overstated underlying inflation trends. In the event, some of the transitory elements of the earlier spurt were reversed in the spring, and inflation moved down. Despite the recent slowing, however, the twelve-month change in the CPI as of May, at 4.4 percent, was about the same as that recorded for each of the past three years. In part, the persistence of inflation during a period of slower economic growth reflects continued cost pressures from relatively tight labor markets and weak productivity performance. However, there have been encouraging signs, particularly at the earlier stages of processing, that an easing of resource constraints in the manufacturing sector is reducing some of the pressures that had boosted prices from 1987 to early 1989.

The Household Sector

Total personal consumption expenditures were buffeted this winter by large swings in outlays for energy items and motor vehicles. Expenditures for home heating declined sharply in the first quarter as unseasonably warm temperatures in January and February followed a December that had been colder than usual. This influence was largely offset by a rise in motor vehicle sales. In late 1989 sales of cars and light trucks had been depressed by a scaling back of incentives and by large price increases for new model-year vehicles. Around the turn of the year, enriched incentive programs revived these sales. To date this year, sales of cars and light trucks have averaged 14 million units (annual rate)—a pace not far below the total for 1989—and seem largely to reflect replacement demand and growth in the driving age population.

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Abstracting from the swings in outlays on home heating and motor vehicles, consumption spending appears to have stagnated this spring after posting a moderate gain in the first quarter of 1990. The recent sluggishness in spending reflects declines in outlays for a wide variety of consumer goods, including furniture and other household durables. In contrast, spending for services other than energy, especially medical services, continues to outpace real income growth.

Growth of consumption has slowed this year against a backdrop of somewhat smaller gains in real disposable personal income. But consumption has slowed even more than income, and the personal saving rate rose above 6 percent in the spring. Consumers may be spending more cautiously as they reassess their income and wealth prospects in light of the slower growth of the economy and a softening of residential property values in many parts of the country. These factors probably have been particularly important in the Northeast, where consumer sentiment has deteriorated markedly. However, other indicators, such as delinquency rates on consumer loans, do not reveal broad pressure on household finances. Nor are there signs that credit availability has been reduced: Federal Reserve surveys of bank lending officers suggest no change in the willingness to lend to consumers.

Residential investment spending also was affected by unusual weather patterns this winter. Housing starts were strong in the first two months of the year, as mild temperatures allowed builders to catch up on work delayed by cold weather in late 1989 and to begin projects that normally would have been started later in the year. Then starts slumped this spring, in part reflecting a "payback" for the winter activity. Averaging over this period, residential construction appears to have weakened; in the first five months of the year, housing starts totaled 1.36 million units (annual rate), somewhat below the pace of activity in 1989. By region, housing markets have been very weak in the Northeast, while homebuilding has been better maintained, albeit at moderate levels, in the North Central and Western regions of the country.

Both demand and supply factors have contributed to the recent weakness in housing construction. Sales of new and existing homes generally have been moving lower for more than a year; in part, demand may have been restrained by slower growth in income and reduced investment motivation for home purchase because of softening house prices. Demand also may have been tempered this spring by some edging up in mortgage rates. Since early May, however, mortgage rates have moved down about ½ percentage point, and there is no evidence that access to home loans has been curtailed.

On the supply side, building is being deterred in some parts of the country by an overhang of unsold or unrented housing units. In addition, it appears that a reduction in credit availability for construction may be playing some role in damping building activity. To a degree, this less favorable credit climate is attributable to the cutback in financing supplied by thrift institutions owing to the closure of savings and loans as well as the more stringent capital requirements and lending limits mandated by the Financial Institutions Reform, Recovery, and Enforcement Act. At the same time, other institutions do not appear to be filling the void completely. In part, the shift in credit availability reflects the elimination of the imprudently aggressive lending that capsized so many thrift institutions. A number of commercial banks also have recently experienced reductions in their lending capacity as they have written off,

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or reserved against, bad loans. But, in addition, the number of sound lending opportunities undoubtedly has shrunk as a consequence of economic weakness and soft property values in specific locales.

The Business Sector

The financial position of the business sector deteriorated further during the early part of 1990. Before-tax profits from current operations of nonfinancial corporations edged down in the first quarter after falling nearly 18 percent over the four quarters of 1989. Profits have been squeezed by a combination of marked increases in wages and benefits during a period of weak growth in productivity, competitive pressures from both home and abroad that have prevented firms from completely passing increases in labor costs through to prices, and higher debt-servicing costs associated in part with increased leverage.

Shrinking profits, which have reduced the availability of internal funds, along with the slower growth of final sales and easing of capacity pressures over the past year, have muted the demand for new plant and equipment. Reflecting these developments, real business fixed investment has decelerated considerably since the first half of 1989.

Although total real spending on producers' durable equipment rose at an annual rate of about 7 percent in the first quarter, spending was boosted by a rebound in outlays for motor vehicles and a resurgence in aircraft shipments after the settlement of the strike last November at Boeing. Excluding these transitory swings, real equipment spending slowed further in the first quarter, and shipments of most types of capital goods—especially industrial machinery—remained soft in April and May. One bright spot in the equipment picture, however, has been the growth in outlays for computers and other information-processing equipment, after some slowing during the second half of 1989.

Nonresidential construction was boosted by favorable weather early in the year, but most of the gain has since been reversed. The weakness is most evident in office and commercial real estate, for which vacancy rates are high, and data on contracts and permits suggest that the outlook for building remains decidedly negative. In some areas, this reflects sluggish growth in the regional economies. However, activity also may be hindered by the shift in the credit climate, as more speculative projects that previously might have been financed no longer qualify. An exception to the weakness in business construction has been in the industrial sector; lead times can be quite long for these projects, however, and much of the continued strength undoubtedly reflects in large part decisions made when capacity pressures were mounting in 1988 and early 1989. Indeed, contracts and permits for new industrial construction have been trending down for about a year.

The emergence of uncomfortably high inventories in some sectors in late 1989 led to corrective actions in the first part of this year. Most prominently, manufacturers of motor vehicles cut production sharply and reinstated widespread sales incentives to eliminate an overhang of stocks on dealer lots. In most other sectors, stocks have been trimmed or have been increased only modestly this year, and they appear to be in good alignment with sales trends. Among the possible exceptions are wholesale distributors of machinery and nonauto retailers, where some mild overhangs appear to have developed this spring; these could precipitate further adjustments, probably affecting both domestic and foreign producers.

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The Government Sector

The federal budget deficit over the first eight months of the fiscal year was $152 billion, up from $113 billion in the year-earlier period. About $15 billion of this increase resulted from spending by the Resolution Trust Corporation, and further RTC outlays during June imply that the year-to-year increase in the deficit is likely to widen. Most of the RTC spending reflects financial transactions in which existing federal insurance obligations to thrift depositors are being recognized in the government's budget outlay and public debt accounts. The RTC's borrowing and spending thus should have little effect on real economic activity or interest rates.

However, several other budget components have contributed to the higher deficit. Spending on Medicare and other health care programs, and some discretionary spending for the space and other programs, has surged. During the same period, revenue growth has lagged as weak corporate profits have cut into receipts and last year's surprisingly large personal income tax collections have not been sustained. The latter suggests that some of last year's receipts reflected special factors, such as the deferral of tax liabilities in response to the phased reduction of income tax rates under the Tax Reform Act of 1986, and the capital gains realized during sharp movements in financial markets.

Federal purchases of goods and services, the part of expenditures that is included directly in GNP, fell in real terms over 1988 and 1989, owing mainly to declines in defense spending. Real defense purchases continued to move lower in the first quarter of 1990; however, the downtrend in total purchases was interrupted by a pickup in nondefense spending, mainly a transitory surge in space expenditures. In the second quarter, compensation for temporary Census workers added to federal purchases.

Real state and local government purchases increased at an annual rate of 4¼ percent in the first quarter, compared with the 3 to 3½ percent pace recorded over the past three years. Revenue growth generally has not kept up with gains in spending, however, and an increasing number of state and local governments face significant budgetary difficulties; indeed, the overall deficit of the sector (excluding social insurance funds) was about $45 billion (annual rate) in the first quarter of 1990, almost $11 billion greater than the deficit recorded in the 1989 calendar year. These difficulties are compounded by growing spending requirements in several important areas. An increase in the number of school-age children has boosted public school enrollments, the number of medicaid recipients has increased, and prison populations have risen rapidly. Meanwhile, legislatures have been reluctant to increase personal income taxes, and federal grants and increases in state excise taxes have failed to prevent the widening of the gap between spending and revenues.

The External Sector

Movements in the exchange rate have been smaller than those in 1989, when the dollar appreciated about 12 percent in terms of the other G-10 currencies over the first half of the year and then depreciated by a similar amount between last summer and this past February. The dollar appreciated approximately 2 percent between February and March this year but has since declined about 4 percent, partly in response to publication of weaker data on U.S. economic activity and the associated washing out of expected increases in interest rates.

While the value of the dollar has not changed dramatically on a trade-weighted

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average basis against the other G-10 currencies this year, there have been some divergences in bilateral exchange rates. On balance, the dollar has depreciated significantly against sterling and the Swiss franc, and somewhat less against the German mark and related currencies. In contrast, the dollar has appreciated against the yen, despite exchange market intervention by the Bank of Japan and other central banks to support the value of the yen early in the year. Against the currencies of our other major trading partners in the Pacific Basin, the dollar has depreciated against the Singapore dollar, but appreciated in terms of the South Korean won and the new Taiwan dollar.

Prices of non-oil imports, which fell at about a 3 percent annual rate between the first and third quarters of last year, rose at a similar pace between the third quarter of 1989 and the first quarter of 1990, partly in response to the drop in the dollar between last summer and the early part of this year. Prices of imported oil surged around the turn of the year, moving above $20 per barrel in January, but since then they have more than retraced this runup. On the export side, prices rose at an annual rate of just 1¾ percent in the first quarter of 1990 after recording little change, on balance, over 1989 as a whole. In the first quarter, prices for agricultural exports fell somewhat, but there was an acceleration in prices for exported consumer and capital goods that appears to have been related to some pickup in prices for these items in domestic markets around the turn of the year.

Merchandise exports continue to provide an important impetus to growth in the domestic economy, although the increases in exports have slowed somewhat from the very rapid advances recorded in the latter part of the 1980s. So far this year, exports have been boosted by strong shipments of aircraft with the rebound in activity at Boeing, as well as by notable increases in other classes of machinery, agricultural products, industrial supplies, and consumer goods. Two factors have contributed to further large gains in the quantity of U.S. exports: Many of our major trading partners abroad have continued to register strong economic growth, and the average dollar prices of U.S. exports have declined somewhat relative to average prices abroad. Movements in nominal exchange rates do not appear to have contributed significantly to either export growth or overall U.S. external adjustment in recent quarters; the effects of the large depreciation of the dollar through 1987 have waned, and any residual positive effects probably have been offset by the average strengthening of the dollar last year. However, the depreciation of the dollar since last summer should lend some stimulus to external adjustment in coming quarters.

Meanwhile, slower import growth has accompanied the slackening pace of activity in the United States. Total imports were boosted by a surge in oil imports in the first quarter, but, on balance, non-oil merchandise imports have edged down this year. The slowdown in imports has been pronounced in automotive products and consumer goods, reflecting both weaker domestic final demands and the inventory adjustments in these sectors of the U.S. economy.

Together, the continued growth in exports and the slowdown in imports narrowed the merchandise trade balance to $105 billion at an annual rate in the first quarter of 1990, its lowest rate since early 1985. The current account deficit was reduced to $92 billion at an annual rate.

Net private capital inflows, and a large statistical discrepancy, provided the counterpart to the current account deficit in

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the first quarter of 1990, as they did for 1989 as a whole. Most of the private capital inflow in the first quarter came through the banking sector. Private foreign investors continued to acquire U.S. corporate bonds in the first quarter; however, they sold a small amount of U.S. Treasury securities, and they continued to sell U.S. corporate stocks as they have since last October. Foreign direct investment flows into the United States slowed markedly in the first quarter to a rate well below that recorded in recent years. Official capital showed a net outflow in the first quarter, as it did throughout most of 1989, reflecting the net sale of dollars in exchange market intervention.

Labor Markets

Job growth was strong early in the year, but has softened recently. In January and February, increases in nonfarm payroll employment averaged more than 350,000, fueled by large increases in service-producing industries as well as by robust hiring in construction during the warmer than normal winter weather. Since March, however, job growth has averaged about 125,000 per month, despite the net addition of about 300,000 temporary workers to help carry out the 1990 Census; private payrolls have increased less than 20,000 per month. Manufacturing employment has continued to shrink this year at about the same rate as in the second half of 1989, and construction payrolls also have declined since the winter. Meanwhile, job growth in the service-producing industries has slowed in recent months. Although hiring gains have continued strong for health services, growth in jobs in business services has moderated, and there have been only small gains in employment at retail establishments.

Growth in the labor force also has been subdued in recent months. To an extent, this reflects longer-run demographic trends; but it may also reflect a tendency for fewer people to seek jobs when the growth of employment opportunities is perceived to have slackened. Survey data suggest that individuals have increasingly viewed jobs as harder to find.

The slower rates of growth in employment and the labor force have been roughly matching, and the civilian unemployment rate has remained near 5¼ percent throughout the year. While unemployment rates have risen noticeably in the Northeast and moved up in some Midwestern states, jobless rates in other regions of the country either have changed little or have edged down.

With labor markets remaining relatively tight by historical standards, pressures on labor costs have not abated. Although the rate of increase in straight-time wages has changed little over the past year and a half, benefit costs, which currently constitute roughly one-fourth of compensation, have picked up markedly. In part, this increase reflected the higher social security taxes that went into effect in January, but benefits also have been boosted by the continued rise of health insurance costs and an acceleration of lump-sum payments and bonuses. All told, employee compensation in private nonfarm industry rose 5¼ percent over the twelve months ended in March, a bit above the pace recorded in the year ended last December.

In addition to gains in hourly compensation, unit labor costs have been boosted by a poor performance in labor productivity, as output per hour in the nonfarm business sector rose just ¼ percent between the first quarter of 1989 and the first quarter of 1990. While productivity has remained strong in the manufacturing sector, rising almost 5 percent at an annual rate in the first quarter, productivity performance outside of manufacturing has been quite weak. As a consequence,

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unit labor costs in the first quarter of 1990 were 5 percent above their level a year earlier, about the same increase as recorded over 1989 as a whole, but well above the rates that prevailed earlier in the expansion.

Price Developments

After surging in the first quarter of 1990, price increases moderated this spring. Food and energy prices were boosted early in the year by weather-related developments, and prices for a wide range of other goods and services also picked up sharply. However, by May, the transitory effects of the weather on inflation largely had been reversed, and price increases for many other items slowed significantly.

Energy prices surged this past winter, as a result of demand pressures from the unseasonably cold weather in December and supply disruptions at U.S. refineries and in Eastern Europe. The posted price of West Texas Intermediate (WTI) oil, the benchmark for U.S. crude prices, rose about $3 per barrel to a peak of $22 in January. Since early February, on balance, the posted price for WTI has moved down substantially, in large part reflecting the effects on crude markets of increased output by OPEC nations. Movements in energy prices at the consumer level normally follow developments in crude oil prices. Gasoline prices, however, remain higher than in December. In part, pump prices have been boosted by the additional costs to refiners of complying with environmental standards. In addition, inventories of gasoline were relatively low during the first half of the year as a result of a variety of supply disruptions at refineries.

Overall, consumer food prices were boosted by sharp increases in prices for fresh fruits and vegetables after the freeze in December, but during the spring these prices retraced most of their earlier climb. The prices for other foods for home consumption have continued on an upward course. In addition, the prices of foods and beverages purchased at restaurants have risen at a 6 percent annual rate so far this year, about 1½ percentage points above the average rate of increase over the past two years; these prices probably have reflected a dwindling supply of entry-level workers and related increases in labor costs, and perhaps in some regions by the higher federal minimum wage.

The CPI excluding food and energy rose about 4¾ percent over the twelve months ending in May, near the upper end of the range experienced during the current expansion. Price increases for consumer goods, particularly apparel, rose sharply early in the year. However, the burst in prices did not carry through to the second quarter, as prices for commodities excluding food and energy changed little in April and May.

In the service sector, inflation rose markedly in the first quarter, in part reflecting some bunching of increases for items whose prices tend to change in irregular jumps, such as public transportation fares and auto registration fees. Although inflation in service prices moderated in the spring, there was little retracing of the earlier increases; indeed, in May, the CPI for nonenergy services was 5½ percent above its level twelve months earlier, the upper end of the range of increases seen over the past three and a half years. As in 1989, increases in prices of rents and medical services contributed importantly to the rise in overall service prices so far this year. However, there also have been widespread pickups in prices for a variety of labor-intensive services, and it is likely that, in addition to strong consumer demands, higher labor costs have boosted service prices.

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The signs of moderating inflation for goods at earlier stages of processing, which had surfaced as capacity utilization rates moved down during 1989, appear to have continued into 1990. After rising 4¼ percent in 1989, the producer price index for finished goods excluding food and energy has increased at an annual rate of about 3¾ percent during the first six months of 1990. Producer prices for intermediate materials excluding food and energy increased at an annual rate of just ¾ percent between December and June, roughly the same rate of increase as recorded over 1989 as a whole. The moderation of inflation for goods at the producer level is perhaps one indication that earlier moves toward monetary restraint and the slower pace of economic activity have worked to ease the resource constraints that had pushed up materials prices between 1987 and early 1989.

Monetary and Financial Developments during the First Half of 1990

Shifts in financial intermediation and credit flows, stemming from the continued restructuring of the thrift industry and a more cautious attitude of banks toward certain credit extensions, exerted a major influence on the monetary aggregates and their relation to economic activity during the first half of 1990. In anticipation of further contraction in the thrift industry, and its associated effects on depository intermediation, the Committee reduced the annual growth range for M3 by a full percentage point in February. In the event, M3 has slowed even more dramatically than had been anticipated, leaving this aggregate below the lower bound of its reduced range. Not only has the thrift industry contracted more rapidly than expected, but commercial banks have picked up little of the lending forgone by thrift institutions and, in fact, have curtailed their own lending in some sectors, thus further depressing depository credit. With little need to fund asset growth, banks and thrift institutions have pursued retail deposits less aggressively, leading to the opening of a sizable gap between yields available in the open market and those on such deposits. Partly as a result, M2 also has slowed, moving down into the lower portion of its annual growth range.

The deceleration of the monetary aggregates mainly reflects a reduction in the share of credit provided by depositories, rather than a sharp slowing of income or total credit flows. The velocities of both M2 and M3 posted sizable increases, particularly in the second quarter. Total debt of domestic nonfinancial sectors grew at an annual rate of 7 percent over the first half of the year—down only slightly from its pace in the latter half of 1989 and in the middle of its monitoring range. However, growth of total debt was boosted by federal government borrowing to support thrift resolutions; the debt of nonfederal sectors grew somewhat less rapidly than it did last year. Uncertainty about the effects of the restructuring of credit flows, and about the reasons for the extent of the slowdown in money growth, underlined the need for the FOMC to assess the behavior of the aggregates in light of information on spending and prices and the likely course of monetary velocities.

The somewhat more cautious lending posture that commercial banks have recently adopted is mainly a response to heightened credit risks caused by the more moderate pace of economic expansion overall and a downturn in several sectors. The resulting loan write-offs and pressures on capital positions may also have induced some tightening of standards. Growing markets for securitized loans largely have filled the vacuum created by the retrenchment of thrift

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institutions in the area of mortgage lending, with little attendant effect on the cost or availability of residential mortgage credit to households. Both banks and thrift institutions have cut back on other types of lending that can less easily be rechannelled, however, including construction and nonresidential real estate loans, loans to highly leveraged borrowers, and loans to small and medium-sized businesses. To offset tighter credit market conditions, which could exert undue restraint on aggregate demand, the Federal Reserve has recently adopted a slightly more accommodative stance with regard to reserve provision, fostering a small decline in market interest rates.

The Implementation of Monetary Policy

The FOMC maintained a steady degree of pressure in reserve markets during the first six months of the year. Policy had been eased in the second half of 1989 amid concerns that the economic slowdown might cumulate and thereby threaten the expansion. In the first half of 1990, however, the Committee viewed the balance of evidence as suggesting that underlying trends were generally consistent with its objectives of sustaining economic growth while containing and eventually reducing inflationary pressures.

In the opening months of the year, incoming information on spending and prices caused markets to reevaluate the prospects for a near-term reduction of inflationary pressures and further easing of monetary policy. As a result, market interest rates rose, despite a steady federal funds rate. The rise was most pronounced at the longer end of the maturity spectrum, and it restored the usual upward tilt to the yield curve that had been absent much of last year. Developments in Eastern Europe, which portended increases in demands on the world's limited pool of savings, also contributed to increases in long-term rates in the United States and abroad. By late April, market participants expected a near-term tightening of U.S. monetary policy.

In early May, the pendulum of market opinion began to swing away from the view that a tightening of U.S. monetary policy was in the offing. Beginning with a lackluster employment report on May 4, economic data have pointed to a somewhat slower pace of activity and reduced price pressures. In addition, a pronounced slowdown in the monetary aggregates began in April, followed by outright declines in May. Although both M2 and M3 recovered a little in June, they remained below the midpoint and the lower bound respectively of their annual ranges at midyear. Evidence also suggested that restricted credit availability, in part the result of tightened credit standards, may have spread beyond commercial real estate, construction, and merger-related lending. In response to this firming of credit conditions, the Federal Reserve began providing reserves slightly more generously through open market operations in mid-July.

Market interest rates, which already had receded somewhat from their early spring highs, declined further with the Federal Reserve's recent easing, though intermediate and long-term rates remained above the levels seen last December. Lower interest rates also bolstered the stock market, and some share price indexes reached record highs this month.

Spreads between high-quality private instruments and Treasury issues narrowed slightly over the first half of 1989. This narrowing reflected the continued availability of funds for investment-grade borrowing as well as increases in the borrowing needs of the RTC, which are met partly through the Treasury. The pickup in Treasury borrowing for the RTC was necessitated by the faster pace of thrift resolutions, which require the

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government to carry thrift assets on its own balance sheet pending their disposition. The market for investment-grade issues continued to function reasonably well, with stable rate spreads between quality tiers and generally well-maintained issuance volumes. On average, however, the business sector faced somewhat higher borrowing costs, largely as the result of numerous downgradings of debt issues. The collapse of Drexel Burnham Lambert had a marginal impact on an already debilitated market for below-investment-grade issues, widening spreads somewhat more between yields on such bonds and those on other long-term securities.

Monetary and Credit Flows

Growth of the monetary aggregates was sluggish over the first half of 1990, with M2 and M3 expanding at annual rates of only 3½ percent and 1¼ percent respectively from the fourth quarter of 1989 through June. The weakness in money growth primarily reflected a redirection of credit extensions away from depository institutions owing to the continued downsizing of the thrift industry and a more cautious lending posture of commercial banks.

The deceleration of M2 growth did not begin until the second quarter of 1990, when growth slowed to a 2¼ percent annual rate from the 6 to 7 percent range seen in the previous three quarters. Retail deposits (which include NOW accounts as well as savings, small time deposits, and similar instruments) had begun to decelerate in the first quarter, slowing to a pace of less than 4 percent from the 5¾ percent rate seen in the fourth quarter of 1989. The effects of this slowdown on M2 were partially masked, however, by a surge in currency growth—apparently owing in part to increased demand from overseas—and a bulge in some of M2's wholesale components, mainly overnight RPs and Eurodollars. By the second quarter, a steep runoff in retail money market mutual fund (MMMF) shares and a sharp decline in demand deposits reinforced weakness in core deposits in damping growth in aggregate M2.

Increases in the opportunity costs of holding M2 balances—that is, the rise in other interest rates relative to those on M2—retarded growth in this aggregate during the first half of the year. This was particularly evident for retail MMMFs. Through much of 1989, the yield curve was inverted, and MMMFs, whose portfolios typically average about 30 to 40 days in maturity, had historically large yield advantages relative to longer-term Treasury bills and short-dated Treasury notes. As a result, MMMFs expanded briskly. As the yield curve began to flatten toward year-end, flows into MMMFs ebbed, though they remained a key element of overall M2 growth. With the steepening of the yield curve in the early part of 1990, MMMF growth stopped in March. The recent rally in the stock market also may have depressed MMMFs, as data through May indicate strong inflows to equity mutual funds, a substantial portion of which may have been transferred from MMMFs.

When yield curves have become more steeply upward sloping in the past, the effect on M2 of weakness in MMMFs and other liquid balances often has been partially offset by strength in retail time deposits, as households lengthen the maturity of their assets. This year, however, retail certificate of deposit (CD) rates were unusually slow to respond to the rise in market rates through April, contributing to unexpected weakness in M2. The reluctance of banks to raise deposit rates in response to rising market rates was particularly evident in the intermediate-term area where, for example, the rise of 100 basis points in the

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yield on the three-year Treasury note during the first four months of the year elicited an increase of less than 20 basis points in rates on bank retail CDs of comparable maturity. Evidence of the rising opportunity cost of holding M2 can be seen in the unusually heavy volume of noncompetitive tenders in Treasury bill and note auctions, which suggest a shift out of M2 balances.

The unwillingness of banks to price their deposits as aggressively as in the past is partly an indirect result of the contraction of the thrift industry. During the first six months of 1990, commercial banks enjoyed $62 billion in retail deposit inflows—about a 10 percent increase at an annual rate—while thrift institutions were shedding $28 billion in retail deposits—about a 5 percent annual rate of contraction. Much of this deflection of deposits toward commercial banks was the direct result of RTC resolutions. In the first half of the year, the RTC resolved 170 thrift institutions holding $32 billion of nonbrokered retail deposits, much of which was immediately assumed by commercial banks.

Although deposit transfers do not directly depress M2, they may have contributed to the weakness in this aggregate by reducing banks' need to raise their offering rates to attract additional deposits at a time when growth in bank credit was slow. Through the first half of 1990, commercial banks were able to fund nearly 80 percent of their total credit growth with retail deposits—almost double the proportion seen in recent years—even though they allowed spreads between market rates and their retail offering rates to widen substantially.

Widening opportunity costs of holding M2 can explain only some of the moderation in this aggregate in the first half of 1990, however. M2 may also have been responding to slower spending, and other factors, some of which may have been associated with deposit restructuring under the RTC. Brokered deposits formerly attracted to thrift institutions by relatively high yields may have been particularly sensitive to the recent sluggishness in deposit pricing; about $7 billion of brokered deposits were held at thrift institutions that were resolved in the first six months of the year, and many of these high-rate contracts were subsequently abrogated or not rolled over by the acquiring institutions. Evidence also suggests that, in light of large deposit inflows from thrift institutions, banks have curtailed marketing and promotional activity designed to attract retail deposits. Finally, the issuance of short-term Treasury paper to fund RTC holdings of former thrift assets has boosted the supply of, and raised the rates on, a close M2 substitute just when deposito-

Growth of Money and Debt

Percentage change[1]

Period	M1	M2	M3	Debt of domestic non-financial sector
Fourth quarter				
1980	7.4	8.9	9.5	9.5
1981	5.4 (2.5)[1]	9.3	12.3	10.2
1982	8.8	9.1	9.9	9.1
1983	10.4	12.2	9.8	11.2
1984	5.4	7.9	10.6	14.2
1985	12.0	8.9	7.8	13.1
1986	15.5	9.3	9.1	13.2
1987	6.3	4.3	5.8	9.9
1988	4.3	5.2	6.3	9.1
1989	.6	4.5	3.3	8.1
Quarter (annual rate)				
1990:1	4.8	6.0	2.7	6.9
2	3.6	2.3	.4	7.0[e]
Half year (annual rate)				
1990:1	4.2	4.2	1.6	7.0

1. From average of the preceding period to average of the period indicated.

2. Figure in parentheses is adjusted for shifts to NOW accounts in 1981.

e Estimated.

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ries were becoming less aggressive in seeking retail deposits. The rise in opportunity costs and these other factors contributed to an increase in the velocity of M2 in the first half of 1990, though some of this increase remains difficult to explain.

The link between changes in depository intermediation and M3 is somewhat more direct. This aggregate encompasses managed liabilities, as well as deposits and other sources of funds in M2, and is thus a better barometer of the overall funding needs of banks and thrift institutions. As has been evident since last summer, the contraction of the thrift industry and the failure of banks fully to pick up the slack have already resulted in a significant slowdown in growth of depository credit relative to that of aggregate nonfinancial sector debt and a concomitant increase in M3 velocity. This trend continued into the first half of 1990, as growth in depository credit all but ceased—though overall debt growth continued at a moderate pace—and M3 fell well below the lower bound of its annual growth cone.

Although the FOMC foresaw some significant damping effects on M3 growth in 1990 in association with the continued shrinkage of the thrift industry, the actual weakness in M3 so far this year has been more pronounced than anticipated. In setting out its expectations for M3 in 1990, the Committee recognized that considerable uncertainties surrounded the thrift industry contraction in terms of the pace of RTC resolutions, the extent of asset shrinkage at capital-impaired thrift institutions, and the desire of commercial banks to step into the breach. To this point, a faster-than-expected shrinkage of thrift assets has been manifested not only in weaker M2 deposit inflows, but also in faster runoffs of large time deposits and other M3 managed liabilities at thrift institutions. In addition, commercial banks apparently have filled less of the void left by thrift institutions than was originally anticipated. As a result, they too have pared their M3 managed liabilities, further depressing this aggregate.

Rates on large time deposits, like those on retail deposits, have remained low relative to yields on Treasury bills. Facing a substantial deterioration in the quality of their assets and constraints on capital, banks apparently have attempted to bolster profit margins and have not aggressively pursued new lending opportunities. Not only have deposit rates been held down, but loan rates also appear to have been raised slightly relative to market rates and nonprice terms have tightened for certain types of credits.

The pullback in credit supplies, together with some leveling out of demands for credit, likely contributed to a deceleration of bank asset growth. Over the second quarter, growth of bank credit slowed to a 5¾ percent pace from the near 7 percent rate of growth seen over the first quarter of 1990 and the second half of 1989, with much of the deceleration centered in real estate and consumer lending. Although the slowdown in real estate lending has been especially pronounced in New England, this type of lending remains sluggish in several other regions as well. Some of the deceleration in consumer lending represents sales of loans by banks attempting to bolster capital–asset ratios. Even adjusted for these sales, however, growth of consumer loans at banks slowed further in the second quarter from an already reduced first-quarter pace. The weakness in consumer borrowing this year is due primarily to sluggish retail sales, particularly of automobiles and other durable goods; banks evidently have remained willing lenders to households, and interest rates on consumer loans have changed little.

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Bank lending to businesses also has been depressed this year. Surveys of commercial bank lending officers through early May suggest that the slowdown in bank credit largely reflects diminished demand for credit and deteriorating conditions in the real estate market, although tighter lending terms and more stringent credit standards were frequently cited for borrowers below investment grade, including many small businesses. Banks seem to have raised lending rates somewhat to small firms, judging from the slight increase in the spread between rates on small business loans and on federal funds. Separate surveys in which small businesses were queried about general credit availability have pointed to some recent increases in the difficulty these firms face in obtaining credit, though on balance they found credit availability little changed from mid-1989. The slowdown in bank business lending this year has mainly reflected reduced merger activity. Bank retrenchment in this area is consistent with other private credit judgments, as evidenced by the major slump in the market for bonds below investment grade.

The reduced volume of corporate restructurings, coupled with a diminished household demand for credit, has slowed the growth of the aggregate debt of domestic nonfinancial sectors to a 7 percent annual rate from the fourth quarter of 1989 through May of this year, compared with the 8 percent rate seen last year. Debt growth is currently in the middle of its monitoring range and broadly consistent with growth in nominal GNP. With the increasing leverage and the attendant dramatic declines in debt velocity witnessed in the 1980s apparently ending, the Committee reduced the 1990 monitoring range for debt by 1½ percentage points in February.

Debt growth decelerated in the first half of the year despite a spike in U.S. government borrowing, which owed primarily to the growing working capital needs of the RTC. RTC spending, net of capital raised off-budget by the Resolution Funding Corporation, jumped to $31 billion in the second quarter, up from the $4 billion to $5 billion levels of the previous two quarters. This spending is financed through the Treasury and is therefore included in the debt aggregate.

The pace of household borrowing slowed considerably in the first six months of 1990, reflecting decelerations in both mortgage and consumer credit. The recent slowing of home mortgage borrowing appears to be largely the result of reduced demand, owing to increases in interest rates earlier in the year and weakening economic activity in some regions of the country. Although banks have picked up only some of the slack for thrift institutions in the area of mortgage lending, the expanding market for securitized mortgages has facilitated an orderly flow of mortgage credit. In fact, spreads of mortgage-backed securities over comparable Treasury issues remain low by historical standards and rates on home loans have not risen noticeably relative to other long-term rates.

Consistent with households' sluggish spending, overall consumer installment credit has risen at a 2¾ percent rate from the fourth quarter of 1989 through May of this year, well below the 5½ percent clip in 1989. Some of this deceleration reflects substitution of home equity loans for previously existing consumer indebtedness; households apparently continue to recognize the lower relative after-tax cost of mortgage debt since the 1986 tax reform, which phased out the interest deductibility of non-mortgage household indebtedness. The slowdown in consumer loans on the books of depositories has been even more pronounced, reflecting a marked pickup in securitizations. The trend toward securitization of con-

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sumer loans, which has been evident in the past few years, appears to have accelerated in 1990, possibly because depositories are making efforts to reduce assets in order to meet the new risk-based capital requirements.

Through the first half of the year, the total borrowing of nonfinancial firms has been maintained at about the same pace as in the last half of 1989, despite a sharp drop in equity retirements. Although business lending by banks has slowed, commercial paper issuance picked up the slack, particularly in the first few months of the year. More recently, in light of declines in bond yields, firms have stepped up their issuance of bonds and slowed their use of commercial paper. Despite a recent slight narrowing of spreads relative to investment-grade securities, issuance of below-investment-grade bonds has remained in the doldrums. Spreads between investment-grade paper and Treasury issues are still low by historical standards, held down in part by supply pressures in the Treasury market.

In the municipal market, the increase in market interest rates and the downgradings of a number of key issuers during the first half of 1990 combined to slow refunding issuance to a crawl. As a result, the total debt of state and local governments expanded at only an annual rate of 3 percent in the second quarter, compared with 4½ percent in 1989. ■

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Part 2

Records, Operations, and Organization

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Record of Policy Actions of the Board of Governors

Regulation D (Reserve Requirements of Depository Institutions)

November 28, 1990—Amendments

The Board amended Regulation D to increase the amount of transaction balances to which the lower reserve requirement applies.

Votes for this action: Mr. Greenspan, Ms. Seger, and Messrs. Angell, Kelley, LaWare, and Mullins.[1]

Under the Monetary Control Act of 1980, depository institutions, Edge and agreement corporations, and U.S. agencies and branches of foreign banks are subject to reserve requirements set by the Board. Initially, the Board set reserve requirements at 3 percent of an institution's first $25 million in transaction balances and at 12 percent of balances above that level. The act directs the Board to adjust annually the amount subject to the lower reserve requirement to reflect changes in transaction balances nationwide. By the beginning of 1990, the amount was $40.4 million. Recent increases in transaction balances warranted an increase of $0.7 million. The Board therefore amended Regulation D to increase to $41.1 million the amount of transaction balances to which the lower reserve requirement applies.

1. Throughout this chapter, note 1 indicates that a vacancy existed on the Board when the action was taken.

The amendment is effective with the reserve computation period beginning December 25, 1990, for institutions that report weekly and December 18, 1990, for institutions that report quarterly.

The Garn–St Germain Depository Institutions Act of 1982 established a zero percent reserve requirement on the first $2 million of an institution's reservable liabilities. The act also provides for annual adjustments to that exemption based on deposit growth nationwide. By the beginning of 1990, that amount had been increased to $3.4 million. Because of a lack of growth in deposits this year, no adjustment was made to the exemption.

December 3, 1990—Amendments

The Board amended Regulation D to eliminate reserve requirements on certain short-term nonpersonal time deposits and on Eurocurrency liabilities.

Votes for this action: Mr. Greenspan, Ms. Seger, and Messrs. Angell, Kelley, LaWare, and Mullins.[1]

The Board reduced from 3 percent to zero percent the required reserve ratio on nonpersonal time deposits with original maturities of eighteen months or less and on net Eurocurrency liabilities. The Board took this action to ease credit conditions and to encourage lending by depository institutions.

For institutions that report weekly, the reduction would be phased in over two

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reserve maintenance periods, with reserve requirements of 1½ percent applicable during the first period, and zero percent reserve requirements applicable the following period. For other institutions, the new reserve requirements would be effective January 17, 1991.

Regulation H (Membership of State Banking Institutions in the Federal Reserve System)

December 17, 1990 – Amendments

The Board amended provisions in Regulation H governing the payment of dividends.

Votes for this action: Mr. Greenspan, Ms. Seger, and Messrs. Angell, Kelley, and LaWare. Absent and not voting: Mr. Mullins.[1]

The Board amended Regulation H by adding a new section to clarify the circumstances under which state member banks may pay dividends and to make the calculation of their ability to pay dividends align more closely with current regulatory reporting standards and generally accepted accounting principles. The rule specifies that a bank may pay a dividend if the payment will not impair its capital and if it can be paid from recent earnings. Proposed dividend payments that do not satisfy those requirements must be approved by the Federal Reserve.

Most of the provisions are effective January 25, 1991, except for the portion governing capital limitations on the payment of dividends. Those provisions are effective December 20, 1990, to allow banks the option of applying the rule to dividend payments in 1990.

Regulation H (Membership of State Banking Institutions in the Federal Reserve System) and Regulation Y (Bank Holding Companies and Change in Bank Control)

June 20, 1990 – Amendments

The Board amended Regulations H and Y to adopt real estate appraisal standards, effective August 9, 1990, and July 1, 1991.

Votes for this action: Messrs. Greenspan and Johnson, Ms. Seger, and Messrs. Angell, Kelley, LaWare, and Mullins.

Provisions of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 required federal regulators of financial institutions to establish standards for the performance of appraisals of all federally related transactions requiring the services of an appraiser. The Board, therefore, amended Regulations H and Y, as follows: (1) to stipulate those transactions covered by the new standards – those transactions not covered by the new standards would be governed by the existing interagency appraisal guidelines; (2) to provide minimum standards for performing an appraisal; and (3) to distinguish those transactions that require the services of an appraiser certified by the state from those that require a licensed appraiser. Transactions of less than $100,000 would not require an appraisal performed by a licensed or certified appraiser. The amendments specify that a state-certified appraiser is required for all real estate transactions valued at $1 million or more, and for nonresidential transactions and complex one- to four-family residential properties valued at $250,000 or more. For other transac-

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tions, the services of a licensed appraiser would suffice.

The appraisal standards are effective August 9, 1990, and the certification and licensing standards are effective July 1, 1991.

After adoption of these standards, the Board sought comment on a possible amendment that would lower from $100,000 to $50,000 the transaction amount below which an appraisal by a licensed or certified appraiser would not be required.

Also on June 20, the Board amended Regulations H and Y, effective September 7, 1990, to adopt transition guidelines and a leverage constraint for the new risk-based capital standards.

Votes for this action: Messrs. Greenspan and Johnson, Ms. Seger, and Messrs. Angell, Kelley, LaWare, and Mullins.

In early 1989 the Board, as well as other U.S. and foreign regulators, announced new international risk-based capital standards that would become effective at the end of 1992. At that time, the Board indicated that after 1990, transitional standards would be phased in and that a new leverage constraint also might be adopted.

The Board adopted transition standards to assist banks and bank holding companies in developing their capital plans and in strengthening their capital base. The Board also adopted a leverage constraint as a supplement to the risk-based capital framework. In adopting these measures, the Board indicated that the standards are minimums. An institution that has a high level of risk is expected to operate well above the minimum standards. When an institution proposes to expand, engage in new activities, or otherwise faces unusual risks, the Board will consider the organization's capital and its leverage ratio in making an assessment of the organization's overall capital position.

Regulation J (Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers through Fedwire)

September 28, 1990—Revision

The Board revised subpart B of Regulation J, governing funds transferred over Fedwire, effective January 1, 1991.

Votes for this action: Messrs. Greenspan, Angell, Kelley, LaWare, and Mullins. Absent and not voting: Ms. Seger.[1]

The Board revised subpart B of the regulation to make it consistent with new provisions—article 4A—of the Uniform Commercial Code. In addition, the revisions will: (1) provide a more comprehensive set of rules for funds transfers involving Federal Reserve Banks; (2) make the subpart consistent with state laws applicable to funds transfers, as individual states adopt article 4A; and (3) help ensure that the Reserve Banks, subject to their central banking responsibilities, compete on an equitable basis with private-sector providers of funds transfer services.

Regulation T (Credit by Brokers and Dealers)

March 21, 1990—Amendments

The Board amended Regulation T, effective April 30, 1990, to accommodate the settlement and clearance of transactions in foreign securities and to make foreign securities eligible for margin credit by brokers and dealers under certain conditions.

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Voting for this action: Messrs. Greenspan and Johnson, Ms. Seger, and Messrs. Angell, Kelley, and LaWare.[1]

The amendments to Regulation T permit foreign equity and debt securities that meet the prescribed criteria to be eligible for margin credit at broker–dealers on the same basis as domestic securities. In addition, brokers may isolate and recognize debt denominated in foreign currencies and may use that debt as margin without converting it to dollars. The amendments also ease the restrictions on payment and settlement for foreign securities to recognize differences in trading practices in the market in which the trade occurs. Broker–dealers also may arrange with foreigners to extend credit on foreign securities.

Under the revised regulation, a foreign equity security is eligible for margin credit if it meets the following conditions: (1) it has been traded for at least six months on a recognized exchange or market outside the United States; (2) U.S. broker–dealers have continuous access to quotations of both bid and asked, or last sale, prices through an electronic system; (3) the aggregate value of the stock is at least $1 billion; (4) weekly trading volume in the security averages at least 200,000 shares or $1 million; and (5) the issuer of the security, or a predecessor, has been in existence at least five years.

The revisions to the regulation make foreign debt securities eligible for margin credit under the following conditions: (1) the issue is not in default, (2) the issue is rated in one of the two highest rating categories, and (3) at least $100 million was outstanding after the initial offering of the securities.

The Board will publish a "List of Foreign Margin Stocks"—foreign equity securities eligible for margin credit—in connection with the quarterly publication of its "List of Marginable OTC Stocks."

Regulation Y (Bank Holding Companies and Change in Bank Control)

November 7, 1990—Amendment

The Board amended Regulation Y, effective December 18, 1990, to permit banks to offer reduced-rate credit cards under certain conditions.

Votes for this action: Mr. Greenspan, Ms. Seger, and Messrs. Angell, Kelley, LaWare, and Mullins.[1]

Previously, Regulation Y had prohibited banks from offering discounts or other reduced consideration if, to obtain that consideration, customers also had to purchase other services from the bank or its holding company affiliate. Because of the significant amount of competition in the national credit card market, the Board decided to provide an exemption to permit reduced-rate credit cards under certain conditions. The Board, therefore, amended Regulation Y to allow banks to offer a price reduction on credit cards when a customer also purchases any of certain additional products or services from another subsidiary of the holding company. The exemption is available only on the condition that both the credit card and the other products or services offered in the arrangement can be purchased separately.

November 9, 1990—Amendment

The Board amended Regulation Y, effective immediately, to reduce filing requirements under the Change in Bank Control Act.

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Votes for this action: Messrs. Greenspan, Angell, Kelley, LaWare, and Mullins. Absent and not voting: Ms. Seger.[1]

The portions of Regulation Y that implement the Change in Bank Control Act identify several circumstances under which a person will be presumed to be acquiring control of a bank or bank holding company and for which the acquiring person must file notice with the Federal Reserve. Under the current provisions of Regulation Y, a person must file a notice under the act before acquiring 10 percent of the voting shares of an institution, and must file again each time additional shares are acquired, until the person owns or controls 25 percent or more of the institution's voting shares, if no other person will own a greater portion of the shares immediately after the transaction.

That requirement created unnecessary regulatory burden in two types of situations: (1) when an acquiring person who already has been subject to regulatory review seeks to acquire a small number of additional shares, and (2) when the redemption of shares by another shareholder increases the person's percentage ownership, even though that person has not acquired additional shares. The Board decided to amend Regulation Y to remove the requirement that a person who already has received authority to acquire 10 percent or more of the shares of a bank or bank holding company file additional notices for subsequent acquisitions that result in ownership of between 10 percent and 25 percent of the bank or its holding company. Notices are still required, however, when a person initially acquires 10 percent or more of the shares of a bank holding company, or when making any acquisition that results in the ownership of 25 percent or more of a bank or bank holding company.

Regulation Z (Truth in Lending)

September 12, 1990—Amendments

The Board amended provisions of Regulation Z relating to home equity lines of credit.

Votes for this action: Messrs. Greenspan, Angell, Kelley, LaWare, and Mullins. Absent and not voting: Ms. Seger.[1]

The Board amended Regulation Z to stipulate that creditors who want to freeze a line of credit when the interest rate cap on that line is reached must specifically provide for that event in the credit agreement. Previously, the regulation had not expressly required creditors to state in the loan contract that they had retained the right to freeze a line of credit when the rate cap is reached.

The regulation also was amended to remove a provision that had permitted creditors to delay providing certain disclosures about the repayment phase of home equity plans until after the plan is opened. The regulation now requires that creditors provide the disclosure at the time of application.

The amendments are effective September 19, 1990; compliance is not mandatory, however, until October 1, 1991.

Regulation BB (Community Reinvestment)

May 2, 1990—Amendments

The Board amended Regulation BB to implement changes in the Community Reinvestment Act required by recent legislation.

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Votes for this action: Messrs. Greenspan and Johnson, Ms. Seger, and Messrs. Angell, Kelley, and LaWare.[1]

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 amended the Community Reinvestment Act (CRA) to require regulatory agencies to make certain additional disclosures. Accordingly, the Board and the other federal agencies that regulate financial institutions made the following revisions to their implementing regulations: The agencies will use a four-tiered descriptive rating system, instead of the five-tiered system currently in use, in their assessments of institutions' compliance with the act. Also, the agencies will publish institutions' CRA ratings, as well as the evaluations that support those ratings, for examinations conducted after July 1, 1990.

Regulation CC (Availability of Funds and Collection of Checks)

May 21, 1990—Amendments

The Board approved certain technical amendments to Regulation CC.

Votes for this action: Messrs. Greenspan and Johnson, Ms. Seger, and Messrs. Angell, Kelley, and LaWare.[1]

The revisions include changes to the model forms as well as technical and clarifying amendments to the regulation and the official commentary. Most of the changes were effective May 22, 1990. In taking this action, the Board decided not to adopt a proposal that would have shortened the amount of time within which a depository institution must notify a customer that a check for a large amount ($2,500) has been returned unpaid.

December 5, 1990—Amendment

The Board amended Regulation CC, effective September 1, 1990, to implement recent legislation.

Votes for this action: Mr. Greenspan, Ms. Seger, and Messrs. Angell, Kelley, LaWare, and Mullins.[1]

Provisions of the Cranston–Gonzales National Affordable Housing Act amended the Expedited Funds Availability Act by extending for two years the availability schedules for deposits at nonproprietary automated teller machines. The legislation was enacted in November, with a retroactive effective date of September 1, 1990.

Provisions of the Expedited Funds Availability Act specified the time period within which funds deposited at an automated teller machine (ATM) must be made available for withdrawal. The act distinguished between deposits made at a proprietary ATM and a nonproprietary ATM. (An ATM is considered to be proprietary if it is located at or near the receiving institution or if it is owned or operated by, or exclusively for, the receiving institution.) The act had provided, on a temporary basis, different availability schedules for deposits at each type of ATM because of the special operating limitations related to deposits at nonproprietary ATMs. The temporary schedules were set to expire August 31, 1990, and it had been expected that a viable technology would be developed within the two-year period during which the temporary schedules were in effect to address the special operating limitations of nonproprietary ATMs. Since an operational solution has not yet been developed, the Congress extended the temporary schedules for an additional two years. The Board, therefore, made conforming changes to

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Regulation CC on an interim basis and sought comment on the rule.

Other Actions

In March the Board reported to the Congress for a second time on the Expedited Funds Availability Act and Regulation CC, summarizing related activities undertaken by the Federal Reserve since the first report, issued in July 1989. The report described improvements in the check collection and return system and summarized data on bank compliance with the act and Regulation CC. The Board made legislative recommendations in the report to reduce the risk of fraud in accepting checks for deposit and facilitate compliance with the act. Another recommendation sought to clarify the Board's authority to allocate liability among entities such as states, their political subdivisions, or other nonbank payors for losses such as those resulting from the mishandling of a returned check.

In July the Board issued the third and final report to the Congress, as required by the Expedited Funds Availability Act, on deposits at nonproprietary automated teller machines (ATMs). As in the October 1989 report, the Board recommended that the Congress amend the act so that, under the permanent schedule of availability, banks could treat checks deposited at nonproprietary ATMs as if they were nonlocal checks (that is, provide availability not later than the fifth business day following the banking day of deposit). The proposed amendment would help ensure that deposit-taking at nonproprietary ATMs would not be restricted or discontinued by those institutions that need the flexibility to place longer holds on these deposits to limit their risk.

Policy Statements and Other Actions

May 2, 1990 – Revisions to Payment System Policies

The Board approved modifications to its policy statements pertaining to risks on the payment systems.

Votes for these actions: Messrs. Greenspan and Johnson, Ms. Seger, and Messrs. Angell, Kelley, and LaWare.[1]

The Board approved a number of operating changes governing transactions on Fedwire and other large-dollar payment systems, to reduce the risks associated with such systems. Following are the primary changes:

- The new risk-based capital measures will be substituted for adjusted primary capital when calculating sender net debit caps for U.S. depository institutions.
- Net debits incurred on the Clearing House Interbank Payments System (CHIPS) by U.S. and foreign institutions will be excluded from the amount of daylight overdraft credit subject to cross-system sender net-debit caps when CHIPS adopts settlement finality. (After issuance of this statement, CHIPS adopted settlement finality. Accordingly, CHIPS net debits will be excluded from the calculation of cross-system caps beginning January 10, 1991.)
- Healthy institutions whose overdrafts are less than $10 million or less than 20 percent of their risk-based capital are exempt from the self-evaluation and cap-filing requirements.
- The frequency test and the dollar limit will no longer be used for meeting the requirements of the de minimis cap; only the 20 percent capital limit will be used.
- The net debit cap will be applied to overdrafts caused both by funds transfers

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and by book-entry transfers of U.S. government and agency securities.

- Institutions that frequently and materially exceed their caps because of overdrafts arising from book-entry securities transactions are required to pledge collateral for those overdrafts; other institutions may exclude book-entry securities overdrafts from their caps if the overdrafts are collateralized.
- For U.S. agencies and branches of foreign institutions that are headquartered in countries that are participating in the Basle accord, the uncollateralized Fedwire cap will be calculated using a "U.S. capital equivalency" of 10 percent of the worldwide capital that would meet the Basle risk-based capital accord.

These revisions are effective January 10, 1991.

1990 Discount Rates

The Board approved one change in the basic discount rate during 1990, a reduction from 7 percent to 6½ percent in December. During the year the Board also voted at two meetings to disapprove requests for increases or decreases in the basic rate submitted by two Federal Reserve Banks. In early November the Board decided to restructure, effective January 1992, the rate imposed on seasonal borrowing by linking it to market rates; until then, the Reserve Banks will continue to charge the basic rate on such credit.

The reasons for the Board's decisions are reviewed below. Those decisions were made in the context of the policy actions of the Federal Open Market Committee (FOMC) and the related economic and financial developments that are covered in more detail elsewhere in this REPORT. A listing of the Board's actions on the discount rate during 1990, including the votes on those actions, follows this review.

Actions on the Basic Discount Rate

During the first half of 1990, the Board considered but took no action on requests from three Reserve Banks to lower or raise the basic discount rate. The rate had been maintained at a level of 7 percent since February 1989. One Bank submitted requests to lower the rate to 6½ percent, while two Banks proposed increases to 7¼ and 7½ percent respectively. One or more of these requests were pending during most of the period.

In the early months of the year, the economic expansion appeared to have strengthened somewhat, and sharp increases in food and energy prices associated with adverse weather conditions pushed broad measures of inflation considerably higher. In the first quarter, M2 expanded at a pace near the top of the FOMC's growth range for the year, though the expansion of M3 was held down by the effects of the restructuring of thrift depository institutions. Both the pace of the business expansion and the rate of inflation moderated somewhat in the second quarter, and monetary growth slowed markedly. Problems clearly evident in some industries and regions tended to cloud the outlook for business activity at midyear, but the economy was still expanding and the core rate of inflation did not appear to be trending down. Throughout this period, the policy of the FOMC was directed at maintaining a steady degree of pressure on reserve positions following a sequence of easing steps implemented during the second half of 1989. In the circumstances, the Board endorsed the view of the majority of the Reserve Banks in deciding that, on balance, economic and financial developments pointed to the desirability of an unchanged basic discount rate.

In mid-July the Board turned down pending requests by the Federal Reserve Banks of Cleveland and Dallas to raise

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and to lower, respectively, their basic discount rates by ½ percentage point. In reaching its decision, the Board took into account an earlier decision by the FOMC to implement some slight easing of reserve conditions. However, because of the minor tightening that appeared to have occurred in the general availability of credit, such easing was viewed in effect as serving to maintain the overall degree of monetary restraint that the FOMC had sought since late 1989. In these circumstances, the Board concluded that a change in the discount rate in either direction would not be appropriate.

Iraq's invasion of Kuwait in early August precipitated a surge in oil prices that added to existing inflationary pressures and threatened a cutback in spending as higher oil prices eroded disposable incomes. Business and consumer confidence deteriorated sharply, although overall spending and production held up for a time. An unsettled political and military situation in the Middle East and increased volatility in financial markets added to the already considerable uncertainties that surrounded the economic outlook. Under these conditions, monetary policy was directed in late summer and early fall at maintaining a steady course and providing a sense of stability until a clearer picture emerged of the balance of risks between greater inflation and a weakening economy.

In mid-August, one Reserve Bank submitted a request to lower the basic discount rate by ½ percentage point; that request was periodically renewed, and starting in late October several other Reserve Banks submitted similar requests. Near the end of October, the FOMC acted to ease pressures on reserve conditions in light of accumulating indications of a weakening economy and a congressional budget agreement that called for a major degree of fiscal restraint over a multiyear horizon. Over the balance of the year, evidence of worsening business conditions continued to mount and inflationary pressures appeared to be easing. At the same time, more and more lending institutions were encountering increasing financial difficulties largely because of growing problems in their real estate portfolios, and a rising number of highly leveraged business firms also were experiencing financial strain. Efforts by banks and other lenders to protect and improve their capital positions as their loan portfolios deteriorated were reflected in widespread indications of cutbacks in the availability of credit and more stringent lending terms.

Against this background and taking special account of the sluggish monetary growth in the closing months of the year, the FOMC moved in a series of steps to ease conditions in reserve markets appreciably further. In early December, the Board acted to eliminate the 3 percent reserve requirement on nonpersonal time deposits and net Eurocurrency liabilities partly to bolster lending incentives for depository institutions. Financial conditions and developments in the economy also led the Board on December 18 to approve a reduction in the discount rate from 7 percent to 6½ percent. The reduction also served in part to realign the basic discount rate with market interest rates, which had declined considerably.

Structure of Discount Rates

The basic discount rate is the rate charged on loans to depository institutions for short-term adjustment credit and for credit extended under the seasonal program; under the latter program, loans may be provided for periods longer than those permitted under adjustment credit to assist smaller institutions in meeting

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regular needs arising from certain seasonal movements in their deposits and loans.

A higher, flexible rate may be charged on extended-credit loans (for other than seasonal purposes) to depository institutions that are under sustained liquidity pressure and are not able to obtain funds on reasonable terms from other sources. The flexible rate is somewhat higher than the market rates to which it is linked, but it is always at least 50 basis points above the basic discount rate. The flexible rate is adjusted periodically, subject to Board approval. The first thirty days of borrowing on extended credit may be at the basic rate, but further borrowings ordinarily are charged the flexible rate. The highest rate applicable to any credit extended to depository institutions will be assessed on exceptionally large adjustment-credit loans that arise from computer breakdowns or other operating problems, unless the difficulty clearly is beyond the reasonable control of the borrowing institution; under the current structure, that rate is the flexible rate.

At the end of 1990 the structure of discount rates was as follows: a basic rate of 6½ percent for short-term adjustment credit and for credit under the seasonal program and a flexible rate of 8.05 percent. During 1990 the flexible rate ranged from a high of 8.90 percent to a low of 8.05 percent.

Change in Seasonal Credit Program

On November 7, 1990, the Board modified its seasonal credit program by replacing the basic discount rate charged on seasonal borrowing with a market-related rate, effective January 9, 1992. The new rate will be tied to the level of the federal funds rate and the rate in the secondary market for ninety-day certificates of deposit. Since the program's inception in 1973, changes in statutes, regulations, and financial markets had tended to broaden the access of small banks to alternative sources of funding. In these circumstances, the Board concluded that a market-related rate would be appropriate for the longer-term credit offered under the seasonal program. The Board decided to delay the effective date of the change to give banks more opportunity to adjust their funding patterns in a period when some banks might be subject to tightened availability of funds.

Board Votes

Under the provisions of the Federal Reserve Act, the boards of directors of the Reserve Banks are required to establish rates on loans to depository institutions at least every fourteen days and to submit such rates to the Board of Governors for review and determination. Reserve Bank actions on the discount rate include requests to renew the formula for calculating the flexible rate on extended credit. The votes of the Board of Governors listed below involved changes in the basic discount rate. Votes relating to the reestablishment of existing rates or the updating of market-related rates under the extended credit program are not shown. All votes taken during 1990 were unanimous.

Votes on the Basic Discount Rate

July 9, 1990. The Board disapproved an action taken on June 28 by the directors of the Federal Reserve Bank of Cleveland to raise the basic discount rate from 7 percent to 7½ percent.

Votes for this action: Messrs. Greenspan, Angell, Kelley, and Mullins. Votes against this action: None.

July 11, 1990. The Board disapproved an action taken on June 28 by the directors

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of the Federal Reserve Bank of Dallas to lower the basic discount rate from 7 percent to 6½ percent.

Votes for this action: Messrs. Greenspan, Angell, Kelley, and Mullins. Votes against this action: None.

December 18, 1990. Effective December 19, 1990, the board approved actions taken by the directors of all the Reserve Banks to reduce the basic discount rate from 7 percent to 6½ percent.

Votes for this action: Mr. Greenspan, Ms. Seger, and Messrs. Angell, Kelley, LaWare, and Mullins. Votes against this action: None.[1]

Votes on the Seasonal Credit Program

November 7, 1990. Effective January 9, 1992, the Board approved the charging of a market-related rate of interest instead of the basic discount rate on borrowings under the seasonal credit program.

Votes for this action: Mr. Greenspan, Ms. Seger, and Messrs. Angell, Kelley, LaWare, and Mullins. Votes against this action: None.[1] ■

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Record of Policy Actions of the Federal Open Market Committee

The record of policy actions of the Federal Open Market Committee is presented in the ANNUAL REPORT of the Board of Governors pursuant to the requirements of section 10 of the Federal Reserve Act. That section provides that the Board shall keep a complete record of the actions taken by the Board and by the Federal Open Market Committee on all questions of policy relating to open market operations, that it shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying each such action, and that it shall include in its annual report to the Congress a full account of such actions.

The pages that follow contain entries relating to the policy actions at the meetings of the Federal Open Market Committee held during the calendar year 1990, including the votes on the policy decisions made at those meetings as well as a résumé of the basis for the decisions. The summary descriptions of economic and financial conditions are based on the information that was available to the Committee at the time of the meetings, rather than on data as they may have been revised later.

It will be noted from the record of policy actions that in some cases the decisions were made by unanimous vote and that in other cases dissents were recorded. The fact that a decision in favor of a general policy was by a large majority, or even that it was by unanimous vote, does not necessarily mean that all members of the Committee were equally agreed as to the reasons for the particular decision or as to the precise operations in the open market that were called for to implement the general policy.

During 1990 the policy record for each meeting was released a few days after the next regularly scheduled meeting and was subsequently published in the *Federal Reserve Bulletin*.

Policy directives of the Federal Open Market Committee are issued to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System Open Market Account. In the area of domestic open market activities, the Federal Reserve Bank of New York operates under two separate directives from the Open Market Committee: an Authorization for Domestic Open Market Operations and a Domestic Policy Directive. (A new Domestic Policy Directive is adopted at each regularly scheduled meeting.) In the foreign currency area, the Committee operates under an Authorization for Foreign Currency Operations and a Foreign Currency Directive. These four instruments are shown below in the form in which they were in effect at the beginning of 1990. Changes in the instruments during the year are reported in the records for the individual meetings.

Authorization for Domestic Open Market Operations

In Effect January 1, 1990

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to

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carry out the most recent domestic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $6.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) When appropriate, to buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers acceptances with maturities of up to nine months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers acceptances held at any one time shall not exceed $100 million;

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

3. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U.S. Government securities to such foreign and international accounts on the bases set forth in paragraph 1(a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1(c), repurchase agreements in U.S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

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Domestic Policy Directive

In Effect January 1, 1990[1]

The information reviewed at this meeting suggests that economic activity is expanding slowly in the current quarter. Total nonfarm payroll employment has increased at a reduced pace on average over the past several months, with declines continuing in the manufacturing sector. The civilian unemployment rate edged up to 5.4 percent in November. Industrial production rose slightly in November after a decline in October resulting from strike activity and other disruptions. Nominal retail sales excluding motor vehicles strengthened in November, but continued weak sales of vehicles held total retail sales for the month to a level that was little changed from the third-quarter average. Housing starts fell in November but for the October–November period were up somewhat on average from their third-quarter level. Indicators of business capital spending suggest a weakening in expenditures after a substantial increase earlier in the year. The preliminary data indicate that the nominal U.S. merchandise trade deficit widened appreciably in October from an upward revised September rate. Broad measures of inflation suggest that prices have risen more slowly on balance since midyear, partly reflecting sharp reductions in energy prices, but the latest data on labor compensation suggest no significant change in prevailing trends.

Interest rates have changed little on balance since the Committee meeting on November 14. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined substantially over the intermeeting period, with a particularly pronounced depreciation against the German mark and related European currencies in the last week of the period.

M2 continued to grow fairly briskly in November, largely reflecting strength in its retail deposit components; M2 has expanded this year at a pace near the midpoint of the Committee's annual range. Growth of M3 picked up in November but has remained more restrained than that of M2, as assets of thrift institutions and their associated funding needs apparently continued to contract; for the year to date, M3 has grown at a rate a little above the lower bound of the Committee's annual range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at its meeting in July reaffirmed the ranges it had established in February for growth of M2 and M3 of 3 to 7 percent and 3½ to 7½ percent, respectively, measured from the fourth quarter of 1988 to the fourth quarter of 1989. The monitoring range for growth of total domestic nonfinancial debt also was maintained at 6½ to 10½ percent for the year. For 1990, on a tentative basis, the Committee agreed in July to use the same ranges as in 1989 for growth in each of the monetary aggregates and debt, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The behavior of the monetary aggregates will continue to be evaluated in the light of movements in their velocities, developments in the economy and financial markets, and progress toward price level stability.

In the implementation of policy for the immediate future, the Committee seeks to decrease slightly the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint or slightly lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from November through March at annual rates of about 8½ and 5½ percent respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

1. Adopted by the Committee at its meeting on Dec. 18–19, 1989.

Authorization for Foreign Currency Operations

In Effect January 1, 1990

1. The Federal Open Market Committee authorizes and directs the Federal Reserve

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Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Treasury, with the U.S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings	Italian lire
Belgian francs	Japanese yen
Canadian dollars	Mexican pesos
Danish kroner	Netherlands guilders
Pounds sterling	Norwegian kroner
French francs	Swedish kronor
German marks	Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an overall open position in all foreign currencies not exceeding $21.0 billion. For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.[2]

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	
Regular	700
Special	125*
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

*Expired Feb. 15, 1990.

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. All transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates. For the purpose of providing an investment return on System holdings of foreign currencies, or for the purpose of adjusting interest rates paid or received in connection with swap drawings, transactions with foreign central banks may be undertaken at non-market exchange rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any

2. Adopted by the Committee at its meeting on Dec. 18-19, 1989.

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specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in liquid form, and generally have no more than 12 months remaining to maturity. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U.S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported promptly to the Foreign Currency Subcommittee and the Committee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager for Foreign Operations, for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3 G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

Foreign Currency Directive

In Effect January 1, 1990

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

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Meeting Held on February 6–7, 1990

1. Domestic Policy Directive

The information reviewed at this meeting suggested continued but sluggish expansion in overall economic activity, with conditions uneven across sectors. Industrial activity remained weak, partly because of the depressing effects of an inventory correction on manufacturing output, while the service-producing sector of the economy continued to grow moderately. Aggregate price measures had increased more slowly over most of the second half of 1989, but unusually cold weather in December put temporary upward pressure on food and energy prices. The latest data on labor compensation suggested no significant change in prevailing trends.

Total nonfarm payroll employment increased substantially in January after growing at a reduced pace on average in previous months. Employment surged in the service-producing sector, and unusually warm weather brought a rebound in hiring in the construction industry. These increases more than offset a large decline in factory jobs associated with sizable short-term layoffs in the motor vehicle and related industries. The civilian unemployment rate remained at the 5.3 percent level that had prevailed over most of 1989.

Partial data for January indicated that industrial production fell sharply. Automobile producers cut back temporarily on assemblies to help reduce bulging inventories of unsold vehicles, and the January thaw in the weather apparently brought a reduction in the generation of electricity that more than reversed a December surge. Abstracting from a number of transitory factors affecting production in recent months, industrial activity had changed little since the third quarter, although recent orders data suggested some underlying support for manufacturing output over the near term. Total industrial capacity utilization remained at a relatively high level in the fourth quarter but was down somewhat from its level a year earlier.

Adjusted for inflation, consumer spending was little changed in the fourth quarter. Strong gains in spending for services offset declines in purchases of consumer goods, especially new cars and light trucks. Although some of the strength in the services category reflected temporarily high energy-related expenditures, spending for medical and transportation services apparently remained strong throughout the fourth quarter. Near the end of the year, consumers responded positively to incentive programs introduced by automakers to reduce bloated inventories, and higher sales of domestically produced cars carried over to January. Residential construction in the fourth quarter was little changed from its third-quarter level, partly because December's unusually cold weather depressed single-family housing starts in that month. Multifamily starts remained at a low level as vacancy rates for such units moved still higher.

Business capital spending, adjusted for inflation, declined in the fourth quarter because of strike activity in the aircraft industry and sharply lower outlays for motor vehicles. Spending for equipment other than motor vehicles and aircraft rose; sizable increases were registered for computers and communications equipment, and moderate gains were evident for a wide variety of heavy machinery. A pickup toward the end of 1989 in new orders for equipment other than aircraft, and the return to work of striking aircraft workers, pointed to some improvement in equipment spending in the current quarter. Nonresidential construction activity apparently weakened a

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little in the fourth quarter, partly reflecting the persisting high vacancy rates for office and other commercial space. Manufacturers' inventories fell in December after moderate increases in the two previous months; for the fourth quarter as a whole, increases in factory stocks were well below those for previous quarters in 1989. By contrast, nonauto retail stockbuilding accelerated late in the year, and there were reports that inventory–sales ratios at general merchandisers were higher than desired.

The nominal U.S. merchandise trade deficit rose slightly in November from a revised October level. For the two months together, the deficit was up substantially from the averages for both the third quarter and the first nine months of 1989. Total exports for the two-month period were little changed from their third-quarter level as a reduction in exports of aircraft, resulting from strike activity, offset moderate increases in a broad array of other products. Total imports increased rapidly in October–November, with imports of capital goods being especially strong. Indicators of economic activity in major foreign industrial countries were mixed during the fourth quarter of 1989. Growth continued strong in Japan, and most indicators pointed to renewed strength for Germany, Italy, and France. By contrast, growth was sluggish in the United Kingdom and Canada.

Producer prices for finished goods jumped in December, largely reflecting higher prices for energy products, most notably for heating oil. Abstracting from food and energy items, producer prices rose faster in December than in November, but the rate of increase in the fourth quarter as a whole remained at the reduced third-quarter pace. At the consumer level, prices rose somewhat more rapidly toward the end of 1989, and food and energy prices apparently increased substantially further in January. Among nonfood, non-energy categories, discounting of apparel and home furnishings was more than offset by a sharp rise in prices of new cars and by another month of sizable price increases for services.

At its meeting on December 18–19, 1989, the Committee adopted a directive that called for a slight easing in the degree of pressure on reserve positions but that provided for giving equal weight to subsequent developments that might require some easing or tightening during the intermeeting period. Accordingly, the Committee agreed that slightly greater or slightly lesser reserve restraint would be acceptable during the intermeeting period, depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The contemplated reserve conditions were expected to be consistent with growth of M2 and M3 over the four-month period from November 1989 to March 1990 at annual rates of about 8½ percent and 5½ percent respectively.[1]

1. These growth rates and all subsequent data on the monetary aggregates reflect annual benchmarks and seasonal factors as published on February 8, 1990.

The monetary aggregates are defined as follows: M1 comprises demand deposits at commercial banks and thrift institutions, currency in circulation, travelers checks of nonbank issuers, negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at banks and thrift institutions, and credit union share draft accounts. M2 contains M1 and savings and small-denomination time deposits (including money market deposit accounts (MMDAs) at all depository institutions, overnight repurchase agreements (RPs) at commercial banks, overnight Eurodollars held at foreign branches of U.S. banks by U.S. residents other than banks, and money market mutual fund shares other than those restricted to institutions). M3 is M2 plus large-denomination time deposits at all depository institutions, large-denomination term RPs at commercial banks and savings and loan associations,

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Immediately after the Committee meeting, open market operations were directed toward implementing the slight easing in the degree of pressure on reserve positions called for by the Committee. Reserve conditions then remained essentially unchanged over the rest of the intermeeting period. Adjustment plus seasonal borrowing averaged a little more than $300 million for the intermeeting period; the volume was boosted by reserve shortfalls, borrowing by large banks over the long holiday weekends, and, in the latter part of the interval, borrowing by a sizable bank whose normal access to liquidity had been impaired. The federal funds rate declined from about 8½ percent at the time of the December meeting to around 8¼ percent shortly thereafter; except for some firming in the last week of 1989 owing to reserve shortfalls and year-end pressures, the funds rate remained in the vicinity of that lower level. Other private short-term market rates also declined over the period, including a ½ percentage point drop in the prime rate to 10 percent, while Treasury bill rates increased somewhat.

Yields on intermediate- and long-term debt instruments rose considerably over the intermeeting period. Some stronger-than-anticipated economic data and rising food and energy prices were interpreted in the financial markets as pointing away from recession and as suggesting little if any moderation in underlying inflation trends. Increases in interest rates abroad probably also had an influence on U.S. interest rates. Stock prices approached new highs at the start of the year but have fallen substantially since then.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined further over the intermeeting period, as monetary conditions abroad tightened somewhat on average while those in the United States eased slightly. The dollar's movements against individual currencies were mixed; most of its depreciation occurred against the German mark, which continued to be buoyed by developments in Eastern Europe, and against related European currencies. On net, the U.S. dollar remained relatively firm against the yen and the Canadian dollar; the latter declined sharply as Canadian short-term interest rates edged lower amid signs of slow growth in the Canadian economy and a consequent easing of inflation pressures.

Growth of M2, measured on a benchmarked and seasonally revised basis, remained relatively strong in the fourth quarter of 1989; for the year, this aggregate expanded at a rate a little below the middle of the Committee's annual range. Partly as a result of further contraction in the assets and associated funding needs of thrift institutions, M3 grew more slowly in the fourth quarter and, for the year, expanded at a rate just below the lower bound of its annual range. In January, both of the broader aggregates increased at slower rates. A sharp drop in transactions deposits damped expansion of M2, even though retail-type savings deposits remained strong and money market funds evidently benefited from funds flowing out of weakening stock and bond markets. Growth of M3 in January slowed by less than that of M2.

The staff projection prepared for this meeting suggested that the economy was likely to expand relatively slowly over the next several quarters. In the near term, production adjustments to eliminate excess inventories, most notably in the motor vehicles industry, were expected

institution-only money market mutual funds, and term Eurodollars held by U.S. residents in Canada and the United Kingdom and at foreign branches of U.S. banks elsewhere.

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to depress manufacturing activity and overall growth; some pickup in the expansion was anticipated after the inventory correction was completed, but final sales were projected to continue growing at a relatively sluggish pace. Homebuilding might rebound somewhat in the near term after being disrupted by December's cold weather, but prevailing interest rates and possible cutbacks in construction lending by thrift institutions likely would restrain residential construction activity throughout the year. The projection assumed that fiscal policy would be moderately restrictive and that net exports would make little contribution to growth of domestic production in 1990. The expansion of consumer demand would be damped by slow gains in employment and associated limited growth in real disposable incomes. With pressures on labor and other production resources expected to ease only gradually, little improvement was anticipated in the underlying trend of inflation over the next several quarters.

In their discussion of the economic situation and outlook, the Committee members generally agreed that continuing growth in economic activity remained a reasonable expectation for the year ahead. Several observed that, on the whole, recent indicators of business conditions provided some assurance that the expansion was no longer weakening and indeed that a modest acceleration might be under way from the considerably reduced growth experienced in the fourth quarter. The members acknowledged that there were considerable risks, stemming mainly from the financial side, of a weaker-than-projected expansion, and some did not rule out the possibility of a downturn. In the latter connection, several commented that they had observed a sense of unease and fragility in the business and financial communities arising from such factors as declining profit margins, heavy debt burdens, and problems in certain sectors of the financial markets that were contributing to greater caution on the part of lenders and a reduced availability of credit to some borrowers. With regard to the outlook for inflation, members remained generally optimistic that moderating pressures on labor and other resources would lead in time to a lower rate of inflation. However, most members saw little prospect that significant progress, if any, would be made in reducing the underlying rate of inflation in the quarters immediately ahead. Indeed, in part because of temporary pressures in the food and energy sectors, key measures of inflation might well register larger increases in the near term before turning down later.

In keeping with the usual practice at meetings when the Committee establishes its longer-run ranges for growth of the monetary and debt aggregates, the members of the Committee and the Federal Reserve Bank presidents not currently serving as members had prepared projections of economic activity, the rate of unemployment, and inflation for the year 1990. In making these forecasts, the members took account of the Committee's policy of continuing restraint on demand to resist any increase in inflation pressures and to foster price stability over time. For the period from the fourth quarter of 1989 to the fourth quarter of 1990, the forecasts for growth of real GNP had a central tendency of 1¾ to 2 percent, a pace close to that experienced in 1989 excluding the direct effects of the rebound in farm output after the drought in 1988. Estimates of the civilian rate of unemployment in the fourth quarter of 1990 were concentrated in a range of 5½ to 5¾ percent. The associated pressures on prices resulted in projected increases in the consumer price index centered on rates of 4 to 4½ percent for the year, compared with a rise of 4½ percent in

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1989. Forecasts for growth of nominal GNP had a central tendency of 5½ to 6½ percent. The forecasts assumed that changes in the foreign exchange value of the dollar would not be of sufficient magnitude to have a significant effect on the economy or prices during 1990.

In the Committee's discussion of developments bearing on the economic outlook, the members emphasized that despite indications of continuing growth in overall business activity, there were obvious areas of weakness in the economy, notably in manufacturing across much of the nation and in construction in many localities. Business sentiment appeared to have deteriorated in some areas, perhaps more than was justified by actual developments. While local business conditions were clearly uneven, business activity was generally characterized as growing on an overall basis in the various regions, including recent evidence of a modest pickup in some previously depressed parts of the country.

With regard to individual sectors of the economy, the outlook for retail sales was clouded to some extent by the uncertain prospects for motor vehicles and the financial problems being experienced by some major retailers; nonetheless, in the context of expected further gains in disposable incomes, many members expected overall consumer spending to be relatively well maintained. Business inventories probably were falling in the current quarter, largely reflecting sharp declines in stocks of motor vehicles, but once the correction in that industry was completed, some renewed increases in overall inventory investment were anticipated in line with expanding sales. Current indicators suggested that business fixed investment might be reasonably well maintained, but it also was noted that overbuilding of commercial real estate in many areas would restrain overall nonresidential construction and more generally that depressed profits and cash flows could limit gains in business investment. Concerning the outlook for residential construction, conditions in local housing markets varied markedly and the prospects for the nation were difficult to assess. Negative developments included higher mortgage interest rates, a reduced availability of financing for many developers, and the overhang of large inventories of housing units held by the Resolution Trust Corporation (RTC). Nonetheless, housing demand was holding up in many areas and booming in a few, and on balance most members expected little change this year in overall expenditures for residential construction. A number commented that the prospects for exports were relatively bright; foreign demand was reported to be robust for many types of goods, and overall exports would be given some impetus over time by the depreciation of the dollar over the past several months.

Turning to the outlook for inflation, members noted that broad measures of labor compensation did not suggest any lessening of pressures. Unit labor costs appeared to be rising at a faster pace recently than the underlying rate of inflation, squeezing profit margins. Commodity prices displayed mixed changes but generally remained on a high plateau. Business contacts and broader surveys indicated a widespread expectation that the current rate of inflation would continue. Moreover, with higher social security taxes and a rising minimum wage adding to labor costs and earlier increases in producer food and energy costs not yet fully transmitted to retail prices, some measures of inflation were expected to show sharper increases over the near term. On the other hand, reports from a number of business contacts indicated that input prices, especially for raw materials, had stabilized or declined in recent months. More generally, a number

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of members commented that continued limited growth in business activity at a time of uncertainties and concerns associated with various financial problems and declining real estate values in many areas should contribute to some restraint in overall inflationary behavior.

Against the background of the members' views on the economic outlook and in keeping with the requirements of the Full Employment and Balanced Growth Act of 1978 (the Humphrey–Hawkins Act), the Committee reviewed the ranges that it had established on a tentative basis in July 1989 for growth of the monetary and debt aggregates in 1990. The tentative ranges, which were unchanged from those for 1989, included expansion of 3 to 7 percent for M2 and 3½ to 7½ percent for M3, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The monitoring range for growth of total domestic nonfinancial debt had been set at 6½ to 10½ percent, also unchanged from 1989.

With regard to M2, on which much of the discussion was focused, a majority of the members concluded that retention of the tentative range of 3 to 7 percent would best assure the flexibility that the Committee was likely to need to implement its policy objectives during the year. A staff analysis prepared for this meeting indicated that, were interest rates to remain near recent levels, a somewhat higher rate of M2 growth than had occurred in any of the past three years was likely to be consistent with some reduction in the expansion of nominal GNP. According to this analysis, the lagged effects of earlier declines in market interest rates would continue to boost M2 growth in the first part of 1990, and the velocity of M2 was likely to fall for the year as a whole. To the extent that the projected weakness in M2 velocity turned out to be correct, it implied M2 growth toward the upper end of the tentative range on the basis of the central tendency of the members' forecasts of nominal GNP.

Given this outlook, an unchanged range for M2 still left considerable leeway for the Committee to embark on a more aggressive policy to restrain inflation, should developments during the year suggest an intensification of inflationary pressures or provide an opportunity to tilt the implementation of policy toward greater restraint and faster progress against inflation without impairing the forward momentum of the economy. Thus, although the Committee recognized that over time lower ranges and slower M2 growth would be compatible with price stability, retention of the current range did not signal a diminished determination to move toward the objective of price stability.

Preferences for slightly higher or somewhat lower ranges for M2 also were expressed. The arguments in favor of a higher range focused on the risks of a weaker economy than was anticipated currently and the related desirability of more maneuvering room for an easing of short-run policy if such were needed to help avert a cumulative deterioration in economic activity. In those circumstances, faster monetary growth would not be inconsistent with the Committee's long-term commitment to price stability. Other members believed that a somewhat reduced range would allow adequate growth in M2 to sustain moderate expansion in economic activity and would provide a desirable signal of the System's commitment to an anti-inflationary policy. In this connection, the credibility of the System's anti-inflationary policy was seen as an important channel for reducing inflationary expectations directly and thereby lessening the economic costs and time needed to achieve price stability. These members expressed concern that growth around the upper end of a 3 to

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7 percent range might well preclude any progress in reducing inflation this year and might make it more difficult to achieve such progress later. For some of these members, however, a 3 to 7 percent range would be acceptable if its upper limit was viewed as a firm constraint on actual growth and if a clear explanation was made of the Committee's commitment to achieve price stability over time.

Turning to the ranges for M3 and debt, most of the members indicated that they favored or could accept reductions from the tentative ranges that had been adopted in July 1989 for this year. Some reduction in the range for M3 was thought to be consistent with an unchanged range for M2 for technical reasons associated with the restructuring of the thrift industry and related shrinkage in thrift institution balance sheets. Declines in thrift institution assets and associated funding needs, including liabilities in M3, now seemed likely to be larger in 1990 than had been anticipated last summer, reflecting continued efforts of solvent institutions to meet capital standards as well as the closing of insolvent institutions. Beyond that, while a reduction in the M3 range, especially if it was limited, might have little implication for policy, many members believed that the Committee should take advantage of every opportunity to reduce its ranges toward levels that were consistent with price stability. With regard to the monitoring range for total domestic nonfinancial debt, the members expected the expansion of such debt to moderate for a fourth year in 1990, in large measure because of anticipated reductions in debt creation associated with corporate merger and acquisition activities but also because of some probable ebbing in the growth of household debt. The prospect of slower growth of debt was welcome, given concerns about strains associated with highly leveraged borrowers and high debt servicing obligations.

A few members indicated a preference for retaining the somewhat higher ranges for M3 and debt that had been adopted on a tentative basis for this year. In their view, lowering those ranges would tend to send potentially confusing signals, raising questions as to why the M2 range was not reduced also. Also, disparate adjustments in the ranges for the various aggregates could foster an unwarranted impression of the precision with which the Committee felt it could evaluate the ranges.

The members generally agreed that setting 1990 target ranges for M2 and particularly for M3 was rendered more difficult by uncertainty about developments affecting thrift institutions, especially given the relatively limited basis in past experience for gauging the likely impact of such developments. The establishment of an appropriate range for the growth of nonfinancial debt also was complicated by uncertainty about the extent to which Treasury borrowing would be used to carry the assets of failed thrift institutions as opposed to funding from financial-sector sources through the RTC. With these questions adding to the usual uncertainty about the relationship of movements in the aggregates to broad measures of economic performance, the Committee decided to retain the 4 percentage point width of the ranges. It also agreed that the implementation of policy should continue to take into account, in addition to monetary growth and its velocity, indications of inflationary pressures in the economy, the strength of business activity, and developments in domestic and international financial markets.

At the conclusion of the Committee's discussion, a majority of the members indicated that they favored or could accept the M2 range for 1990 that had

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been established on a tentative basis in July 1989 and reductions of one percentage point and 1½ percentage points respectively in the tentative ranges for M3 and nonfinancial debt. Accordingly, the Committee approved the following paragraph relating to its 1990 ranges for inclusion in the domestic policy directive:

> The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at this meeting established ranges for growth of M2 and M3 of 3 to 7 percent and 2½ to 6½ percent respectively, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The monitoring range for growth of total domestic nonfinancial debt was set at 5 to 9 percent for the year. The behavior of the monetary aggregates will continue to be evaluated in the light of progess toward price stability, movements in their velocities, and developments in the economy and financial markets.

> Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Johnson, Kelley, and LaWare. Votes against this action: Mr. Hoskins, Ms. Seger, and Mr. Stern.

Messrs. Hoskins and Stern dissented because they wanted a lower range for M2. They were concerned that growth around the upper end of a 3 to 7 percent range would not be compatible with progress in reducing the rate of inflation this year. An upper limit of 6 percent would be preferable and would provide adequate room in their view for policy to foster sustained economic expansion. Mr. Hoskins also stressed the desirability of a predictable and credible monetary policy, which he believed should include persistent reductions in the ranges to levels that would be consistent with stable prices. The favorable effects of such a policy on inflationary expectations would tend to lessen the costs and also accelerate the achievement of price stability.

Ms. Seger dissented because she believed that the M2 range should be raised to at least 3½ to 7½ percent. In her view, the considerable downside risks to the expansion called for some added room to accommodate the possible need for a more stimulative policy and somewhat faster M2 growth than was contemplated by an unchanged range. In particular, a shortfall in aggregate demands during the first half of the year might well require some easing of policy aimed at countering developing weakness in the economy. In such circumstances, M2 growth somewhat above 7 percent would not be inconsistent with the Committee's anti-inflation objective. She could accept unchanged ranges for growth of M3 and nonfinancial debt, given the outlook for somewhat slower expansion of both aggregates in relation to M2 than the Committee had anticipated in July 1989.

Turning to policy implementation for the intermeeting period ahead, a majority of the members favored steady reserve conditions. Given indications of some pickup in activity from the latter part of 1989, such a policy offered the best prospects at this point of reconciling the Committee's objective of acceptable and sustained economic growth with that of some reduction over time in inflationary pressures on labor and other resources. A tightening of policy might have some advantages in terms of moderating monetary growth and improving inflationary expectations, but in this view such a policy would incur too much risk of creating financial conditions that could lead to a weaker economy. Conversely, significantly lower interest rates could have inflationary consequences in an economy that already was operating at relatively high employment levels, partly through their effects on the dollar in the foreign exchange markets. Conditions in the economy and in financial markets, both in the United States and abroad,

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suggested that monetary policy needed to convey a sense of stability.

Other members acknowledged that adjustments in monetary policy needed to be made with a special degree of caution in current circumstances, but on balance they assessed the risks and the related advantages and disadvantages of a change in policy somewhat differently. In one view, the risks of a recession argued for a prompt adjustment toward somewhat less monetary restraint, especially given the need to bolster relatively interest-sensitive sectors of the economy such as housing and motor vehicles. A differing view focused on the desirability of a somewhat tighter policy at this juncture, particularly in light of the outlook for relatively little progress against inflation as the business expansion tended to strengthen. One member gave special emphasis to the desirability of limiting M2 growth to a path closer to the middle of the Committee's range for 1990 to help assure that progress would be made this year in moderating inflationary pressures.

In the Committee's consideration of possible adjustments to the degree of reserve pressure during the intermeeting period, a majority of the members supported a directive that did not contain any bias toward tightening or easing. They felt that a symmetric instruction was consistent at this point with their general preference for a stable policy and that an intermeeting adjustment should be made only in the event of particularly conclusive economic or financial evidence, including a substantial deviation in monetary growth from current expectations. One member who preferred a slightly tighter policy indicated that an unchanged policy that was biased toward restraint would be acceptable.

Members noted that seasonal borrowing was likely to turn up from its January lows so that some increase in the total of adjustment plus seasonal borrowing would be associated with a given degree of reserve restraint and a given federal funds rate. It was understood that some increase in the borrowing assumption would be made at the start of the intermeeting period and that further adjustments might be made later during the period, subject to the Chairman's review. In keeping with the usual practice, persisting borrowings by troubled depository institutions that had not been classified as extended credit would be treated as nonborrowed reserves in setting target growth paths for reserves. More generally, in light of the uncertainties that were involved, the Manager would continue to exercise flexibility in his approach to the borrowing assumption.

At the conclusion of the Committee's discussion, a majority of the members indicated that they favored or could accept a directive that called for an unchanged degree of pressure on reserve positions. Some firming or some easing of reserve conditions would be acceptable during the intermeeting period depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with growth of M2 and M3 at annual rates of around 7 and 3½ percent respectively over the three-month period from December to March. The members agreed that the intermeeting range for the federal funds rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 6 to 10 percent.

At the conclusion of the Committee's meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

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The information reviewed at this meeting suggests that economic activity is continuing to expand despite weakness in the industrial sector. Total nonfarm payroll employment increased substantially in January after growing at a reduced pace on average in previous months; a surge in the service-producing sector and a weather-related rebound in construction were only partly offset by a large decline in the manufacturing sector. The civilian unemployment rate was unchanged at 5.3 percent. Partial data suggest that industrial production in January was appreciably below its average in the fourth quarter. Adjusted for inflation, strong gains in consumer spending on services in the fourth quarter offset declines in consumer purchases of goods, especially motor vehicles. Unusually cold weather depressed housing starts appreciably in December, and residential construction in the fourth quarter was little changed from its third-quarter level. Business capital spending, adjusted for inflation, declined in the fourth quarter as a result of lower expenditures on motor vehicles and strike activity in the aircraft industry; spending on other types of capital goods was strong, however, and new orders for equipment picked up toward the end of the year. The nominal U.S. merchandise trade deficit widened in October–November from the third-quarter rate. Consumer prices had risen somewhat more rapidly toward the end of 1989, and prices of food and energy apparently increased substantially further in January. The latest data on labor compensation suggest no significant change in prevailing trends.

Interest rates have risen in intermediate- and long-term debt markets since the Committee meeting on December 18–19; in short-term markets, the federal funds rate has declined, and other short-term rates show mixed changes over the period. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined further over the intermeeting period; most of the depreciation was against the German mark and related European currencies, and there was little change against the yen.

Growth of M2 slowed in January, almost entirely reflecting a drop in transaction deposits. Growth of M3 also slowed in January as assets of thrift institutions and their associated funding needs apparently continued to contract. For the year 1989, M2 expanded at a rate a little below the middle of the Committee's annual range, and M3 grew at a rate slightly below the lower bound of its annual range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at this meeting established ranges for growth of M2 and M3 of 3 to 7 percent and 2½ to 6½ percent respectively, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The monitoring range for growth of total domestic nonfinancial debt was set at 5 to 9 percent for the year. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint or slightly lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from December through March at annual rates of about 7 and 3½ percent respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

Votes for the paragraph on short-term policy implementation: Messrs. Greenspan, Corrigan, Angell, Boehne, Johnson, Kelley, LaWare, and Stern. Votes against this action: Messrs. Boykin and Hoskins and Ms. Seger.

While taking account of the various elements of weakness and fragility in the economy, Mr. Boykin dissented because he preferred a policy directive tilted toward increased reserve pressures

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should economic and financial conditions warrant. This view was based on his concerns regarding the lagged effects of policy actions and the risks of delaying decisions until there was full confirmation of inflationary pressures. In this context, Mr. Boykin expressed his preference for dealing promptly with inflation if the Committee wished to make progress toward its long-stated goal of lowering the rate of inflation.

Mr. Hoskins dissented because he preferred some firming of reserve conditions. He recognized that there was some financial fragility in the economy, but he believed that underlying inflation pressures were relatively strong and that the balance of risks pointed to a need for greater monetary restraint to curb such inflation. He emphasized the desirability of tightening monetary policy gradually to reduce monetary growth to a pace closer to the midpoint of the Committee's range for the year.

Ms. Seger's dissent reflected a preference for some easing of reserve conditions at this point. In her view, even a limited decline in interest rates would provide timely assistance to relatively weak, interest-sensitive sectors of the economy such as housing and motor vehicles and would tend to sustain the expansion itself without adding to inflation risks in the economy.

2. Review of Continuing Authorizations

The Committee followed its customary practice of reviewing all of its continuing authorizations and directives at this first regular meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning January 1, 1990. The Committee reaffirmed the authorization for foreign currency operations, the foreign currency directive, and the procedural instructions with respect to foreign currency operations in the forms in which they were currently outstanding.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Johnson, Kelley, LaWare, Ms. Seger and Mr. Stern. Votes against this action: None.

3. Authorization for Domestic Open Market Operations

On the recommendation of the Manager for Domestic Operations, the Committee amended paragraph 1(a) of the authorization for domestic open market operations to raise from $6 billion to $8 billion the limit on intermeeting changes in System account holdings of U.S. government and federal agency securities. The increase was the first permanent change in the limit since March 1985 when it was raised from $4 billion to $6 billion. The Manager indicated that temporary increases had been authorized more frequently in recent years and that the existing limit also was approached more often during intermeeting intervals when no temporary increase was requested. A permanent increase to $8 billion would reduce the number of occasions requiring special Committee action, while still calling needs for particularly large changes to the Committee's attention. The Committee concurred in the Manager's view that a $2 billion increase would be appropriate.

Accordingly, effective February 6, 1990, paragraph 1(a) of the authorization for domestic open market operations was amended to read as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy

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directive adopted at a meeting of the Committee:

(a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $8.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Johnson, Kelley, and LaWare, Ms. Seger, and Mr. Stern. Votes against this action: None.

Meeting Held on March 27, 1990

1. Domestic Policy Directive

The information reviewed at this meeting suggested some pickup in the expansion of economic activity from the upward-revised but still sluggish pace now indicated for the fourth quarter. Although the strengthening reflected, at least in part, favorable weather and a rebound from strike-related disturbances late in 1989, underlying demands appeared to be continuing to expand at a moderate pace. Revised data signaled more momentum in final sales near year-end than had been indicated previously, and robust employment growth in January and February suggested that output, especially in the service-producing sector, was being well maintained. Despite a rebound in the motor vehicles industry, manufacturing activity remained sluggish. Consumer prices rose more rapidly over January and February, only partly as a result of increases in the prices of food and energy items; wage data pointed to no significant change in prevailing trends.

Total nonfarm payroll employment increased sharply in the first two months of the year after growing at a reduced pace on average in previous months. Employment in construction jumped, apparently as a result of unusually good weather, and job gains in the services industries continued strong, notably in health services. In the manufacturing sector, employment was down on balance over the January–February period despite the return to work in February of auto workers laid off at the start of the year; job losses were evident in a number of industries, including electrical equipment, machinery, and lumber. The civilian unemployment rate remained at 5.3 percent in both January and February.

In February, industrial production retraced more than half of a sharp January decline, reflecting a swing in the production of motor vehicles. Abstracting from a variety of transitory influences associated with unusual winter weather, a strike in the aircraft industry late last year, and an inventory correction in the motor vehicles sector, industrial production had been flat on balance since last autumn. In February, total industrial capacity utilization partially recovered from a substantial January decline but remained below the high level of a year earlier.

Real personal consumption expenditures, abstracting from swings in spending for motor vehicles and energy-related items, were about flat in January after

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expanding at a relatively slow pace in the two previous months. Outlays for goods other than fuel oil and motor vehicles had been weak while expenditures for services had remained strong. Total retail sales rose on balance in January and February, but adjusted for recent increases in prices, sales in February probably were little changed from the fourth-quarter average. Unusually mild weather contributed to a higher level of housing starts in January and February. Single-family construction was strong in both months; in the multifamily sector, starts fell sharply in February but averaged somewhat above the fourth-quarter pace over the two months.

Business capital spending, adjusted for inflation, appeared to have turned up after a decline in the fourth quarter. Shipments of nondefense capital goods rose sharply in February following a sizable advance in January associated with a rebound in shipments of aircraft to domestic firms after the strike late in the fourth quarter. The February increase reflected greater purchases of communications equipment and many types of industrial machinery, as well as a further rise in shipments of aircraft. New orders for nondefense capital goods, excluding aircraft, rose in February and were considerably above their fourth-quarter level. Nonresidential construction activity rebounded in January from a substantial December decline, as the weather turned unseasonably warm; however, data on construction contracts and building permits continued to suggest a soft outlook for coming months. Manufacturers' inventories rose in January, largely because of increases in stocks of work-in-process in the transportation equipment sector. Outside of transportation equipment, the inventory-to-shipments ratio had changed little on balance since mid-1988. At the retail level, reductions in auto dealers' stocks more than accounted for declines in inventories in December and January.

The nominal U.S. merchandise trade deficit widened in January from a sharply lower December rate, as the value of imports rose more than that of exports. Nevertheless, the deficit remained essentially unchanged from the fourth-quarter average. Much of the sharp increase in the value of imports in January reflected a jump in imports of oil; however, imports of consumer goods, foods, and industrial supplies also rose strongly. Exports increased substantially in January to a level well above their fourth-quarter average. Indicators of economic activity in the major foreign industrial countries generally suggested strength in the continental European economies, notably France, Germany, and Italy. Among other industrial countries, growth had slowed in Japan and had remained sluggish in the United Kingdom and Canada.

Producer prices for finished goods were unchanged in February, as energy prices partially retraced their sharp rise in January and food prices rose more slowly. At the consumer level, prices rose less rapidly in February than in January, but the increases in both months were substantial and the pickup from 1989 was only partly the result of increases in prices of food and energy items. Among other goods and services, several components posted sizable increases. Average hourly earnings fluctuated considerably in January and February, owing to shifts in employment status among manufacturing and construction workers, but the year-over-year increase remained in the range evident since late 1988.

At its meeting on February 6–7, 1990, the Committee had adopted a directive that called for maintaining the existing degree of pressure on reserve positions and that provided for giving equal weight to developments that might require an

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adjustment in either direction during the intermeeting period. The Committee had agreed that some firming or some easing in reserve conditions would be equally acceptable during the intermeeting period, depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The contemplated reserve conditions were expected to be consistent with growth of M2 and M3 over the period from December through March at annual rates of about 7 and 3½ percent respectively.

Reserve conditions had remained essentially unchanged over the period since the February meeting. Excluding some special-situation borrowing early in the intermeeting period that was related to liquidity pressures at one sizable bank, adjustment plus seasonal borrowing had averaged about $160 million in the three full reserve maintenance periods since the meeting. The federal funds rate held steady at about 8¼ percent over the period, but other short- and intermediate-term interest rates edged higher, apparently reflecting the interpretation by financial markets of incoming economic data as pointing, on balance, to some firming of economic activity and to persisting price pressures. Treasury bond yields fluctuated over a fairly wide range, falling slightly on balance over the period, while major indexes of stock prices rose somewhat. The collapse of a major securities firm had little effect on investment-grade financial markets, but the failure, along with potential sales of low-rated bonds by some large institutional holders, contributed to a further widening of the yield spread between noninvestment-grade instruments and other long-term securities.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose over the intermeeting period. The dollar's appreciation occurred at a time when short- and long-term interest rates abroad were increasing relative to interest rates in the United States. Much of the rise of the dollar was against the yen and the pound sterling, but the dollar also gained relative to the mark. The strength of the dollar apparently owed in part to perceptions that the U.S. economy might be strengthening and to market concerns regarding various political and financial difficulties in key foreign countries.

Growth of M2 rose in February from a reduced January pace, reflecting strength in transaction and other liquid accounts; partial data suggested some moderation in March. On balance, the expansion of M2 had been damped somewhat in early 1990 by the rise in opportunity costs of holding M2 instruments, as offering rates on retail deposits, especially at shorter maturities, had not been adjusted upward in line with the rise in market rates. Growth of M3 also picked up in February but remained below that of M2. The expansion of this aggregate continued to be curbed by the apparent ongoing contraction in the assets and associated funding needs of thrift institutions.

The staff projection prepared for this meeting suggested that the economy was likely to expand at a somewhat faster pace over the next several quarters than in the fourth quarter of 1989. Consumer demand was expected to pick up substantially from the fourth-quarter pace but to grow at a more moderate rate later. Business capital spending was likely to increase, though the rise could be limited by further downward pressure on profit margins associated with relatively sluggish growth of final demands. Greater caution on the part of lenders might tend to restrain spending, especially for commercial real estate, and some of the recent weather-related boost to nonresidential

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construction activity and homebuilding was expected to be reversed in coming months. Net exports were projected to make little contribution to growth of domestic production over the rest of the year. The projection assumed moderate restraint on expenditures at all levels of government. On balance, the need to contain inflation might involve some additional pressures in financial markets. Price pressures were expected to ease only gradually, and little improvement was anticipated in the underlying trend of inflation over the projection horizon.

In the Committee's discussion of the economic situation and outlook, members observed that the latest information, including recent revisions to data released earlier, suggested a somewhat stronger economic performance than had been apparent at the time of the February meeting. The employment statistics for January and February exhibited particular strength, but members cautioned that the latter had to be weighed against indications of relatively restrained growth in overall spending. Several commented that it was more difficult than usual to discern underlying economic trends because of the temporary effects of unusual weather conditions and other special factors in recent months. Developments on the financial side, including the possibility of reduced credit availability, constituted a risk to the continuing expansion. On balance, however, the members viewed sustained growth in business activity as a reasonable expectation for the next several quarters. With regard to the outlook for inflation, they recognized that much of the recent surge in key measures of inflation could be attributed to transitory, weather-related factors that had resulted in sharp increases in the prices of food and energy, but they also expressed a great deal of concern about the apparent lack of improvement in underlying inflation trends. While the economy seemed to be on a course that should prove consistent with reduced inflationary pressures over time, given appropriate fiscal and monetary policies, recent developments suggested that little or no progress toward lower inflation was likely to be made during the quarters immediately ahead.

Members reported that business conditions remained uneven in different sectors of the economy and in different parts of the country, depending on the mix of local industries, but overall activity appeared to be growing at least modestly in most if not all regions. Further expansion for the nation as a whole was likely to be sustained mainly by consumer expenditures, though growth in the latter might well moderate somewhat over the quarters ahead in conjunction with reduced gains in disposable incomes. In addition, the agricultural and energy sectors of the economy, which appeared to have strengthened in some regions, could provide important support to the overall expansion in business activity. Foreign trade was characterized by some members as the area of greatest uncertainty in the business outlook. Foreign demand was helping to maintain production in a number of industries that were experiencing reduced domestic demand, and some improvement in the overall trade balance was anticipated in response to the earlier depreciation of the dollar and to stronger economic growth in a number of foreign countries. Business fixed investment could continue to be inhibited by weak profit margins and an excess of commercial space in many parts of the country, though members reported that substantial commercial building activity remained under way in several regions. Residential construction had been relatively vigorous in recent months, reflecting exceptionally favorable weather conditions in many parts of the country; however, current mortgage rates

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together with financing difficulties being experienced by some builders and depressed housing markets in many areas were seen as pointing to weaker housing activity over the quarters ahead. With regard to the government sector, growth in federal spending for goods and services was projected to be relatively restrained; in addition, many state and local governments were experiencing budgetary problems that were likely to lead them to curb spending or to raise taxes.

Financial developments introduced a degree of uncertainty into the current economic situation; on the whole, they were likely to exert some restraining influence on overall economic activity, though it was difficult to judge their quantitative significance. Interest rates had increased noticeably since year-end; this rise probably reflected growing concerns about inflation in conjunction with a stronger near-term outlook for the economy, but higher interest rates likely would damp demand, especially in construction and other interest-sensitive sectors. In addition, members had heard numerous reports of reduced availability of credit to smaller businesses, notably home builders. Credit terms also were reported to have been tightened by some lenders on new auto loans and home equity loans. However, outside of lending for corporate restructuring purposes and certain real estate transactions, it was difficult to find firm indications of greater credit rationing in aggregate financial statistics. Some tightening of credit standards probably was a desirable development in terms of correcting for past excesses and adjusting to a more moderate pace of business activity, but a number of members expressed concern that significant further restraint on credit availability, should it occur, could have adverse consequences for the overall economy.

Turning to the outlook for prices and wages, members commented that, while increases in key measures of inflation were likely to moderate after their recent spurt, the prospects for inflation remained the most disturbing aspect of the economic outlook. Apart from what appeared to be transitory hikes in food and energy costs in late 1989 and early 1990, a number of other prices had increased somewhat more rapidly than earlier, and that development tended to underscore the deeply embedded nature of the current inflation problem. Despite relatively tight conditions in labor markets, the trend in labor compensation costs did not appear to be worsening, but some members expressed concern that wage pressures might increase if inflation did not recede from its recent pace. On the other hand, the intensity of competition in many markets made it difficult or impossible for affected businesses to pass on cost increases in the form of higher prices, and the addition of new plant capacity would heighten competition in a number of industries. On balance, little or no progress in reducing inflation appeared to be in prospect for the quarters immediately ahead, but if recent developments did not lead to a worsening of inflationary expectations, a decline in cost pressures and the underlying rate of inflation still appeared likely for the longer run in the context of sustained, moderate growth in economic activity.

In the Committee's discussion of policy for the intermeeting period ahead, most of the members indicated a preference for maintaining an unchanged degree of pressure on reserve positions. While recent economic information could be interpreted as pointing to a reduced risk of a recession and to greater or at least more deeply embedded inflationary pressures than were foreseen earlier, these members concluded that it would be premature to tighten reserve conditions

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on the basis of a few months of data, particularly in light of the special factors at work that made it difficult to assess underlying trends. Some of these members also noted that various developments, including the rise in most interest rates since the beginning of the year, the more recent strength of the dollar in foreign exchange markets, indications of some slowing in monetary growth, and the apparent tightening of credit standards could be viewed as having the same effects on the economy as a modest firming of reserve conditions. Because a firming of policy would be unexpected, it could prove unsettling in the foreign exchange markets and in financial markets more generally. On balance, in light of the uncertainties that were involved, these members preferred to maintain a steady policy course for now, subject to a careful evaluation during the intermeeting period of developments that might signal some intensification of inflationary pressures. A few members, who were particularly concerned about the outlook for inflation, preferred an immediate move to somewhat tighter reserve conditions, especially if the directive for this meeting did not include a presumption that any intermeeting adjustments were more likely to be in the direction of some tightening. In their view, the risks to the expansion of some modest firming were minimal under current conditions, and those risks needed to be accepted to place monetary policy more firmly on an anti-inflationary course consistent with the Committee's objectives.

During the Committee's discussion, members referred to a staff analysis that pointed to some reduction in the expansion of M2 over the months ahead on the assumption of an unchanged degree of reserve pressures. It was recognized that the rate of M2 growth could fluctuate over a relatively wide range during the second quarter, as balances were adjusted in conjunction with large seasonal tax payments. Additional uncertainty related to the possibility of a major increase in expenditures by the Resolution Trust Corporation, associated with resolving the affairs of intervened thrift institutions, that would tend to depress monetary growth, especially M3, by substituting in effect Treasury financing for monetary liabilities. Apart from such special factors, monetary growth could be expected to moderate somewhat in lagged response to the earlier updrift in interest rates and less rapid expansion of nominal GNP. A number of members commented that M2 growth at a rate somewhat below the pace that had prevailed on average since mid-1989 and more comfortably within the Committee's range for the year would be a welcome development; such growth would enhance the prospects of reconciling the objectives of sustained economic expansion with the need for progress in bringing inflation under control.

In regard to possible intermeeting adjustments in the degree of reserve pressure, a majority of the members indicated that they preferred a directive that did not bias prospective operations toward tightening or easing. Many of these members agreed that the risks of a recession appeared to have receded and that intermeeting developments should be watched with special attention to potential developments that might signal an intensification of inflationary pressures. Nonetheless, because of the considerable uncertainty surrounding the near-term outlook, they did not want to include a presumption in the directive about the likely direction of any adjustment. In addition, adoption of a directive tilted toward some firming could be viewed as having greater policy implications than usual because it would represent a change from recent directives and from the thrust of policy since the spring of 1989. It also would be inconsistent

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with the preference of a number of members for making any intermeeting adjustment toward tightening at this stage only on the basis of relatively conclusive economic, financial, or money supply developments. Other members indicated that their concerns about the prospects for inflation inclined them to favor a directive that was tilted toward possible firming during the intermeeting period. It was noted in this connection that even in the absence of any firming during the period ahead, the subsequent release of such a directive would underscore the Committee's readiness to take prompt and appropriate steps to bring inflation under control.

At the conclusion of the Committee's discussion, all but two of the members indicated that they preferred or could accept a directive that called for maintaining the current degree of pressure on reserve positions and that did not include any presumption about the likely direction of any intermeeting adjustments in policy. Accordingly, slightly greater or slightly lesser reserve restraint would be appropriate during the period ahead depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The unchanged reserve conditions contemplated at this meeting were expected to be consistent with growth of M2 and M3 at annual rates of about 6 percent and 4 percent respectively over the three-month period from March through June. The intermeeting range for the federal funds rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, was left unchanged at 6 to 10 percent.

At the conclusion of the meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests some pickup in the expansion of economic activity from the sluggish rate in the fourth quarter. Total nonfarm payroll employment increased sharply in January and February after growing at a reduced pace on average in previous months; a surge in the service-producing sector and a weather-related rebound in construction were only partly offset by a net decline in manufacturing. The civilian unemployment rate remained at 5.3 percent. In February, production in the manufacturing sector retraced its large January decline, reflecting a swing in the production of motor vehicles. Consumer spending has been affected in recent months by fluctuations in expenditures for motor vehicles and energy-related items but on balance has expanded at a relatively slow pace; outlays for goods have been weak while expenditures for services have remained strong. Unusually mild weather contributed to a higher level of housing starts in January and February. Business capital spending, adjusted for inflation, appears to have turned up after a decline in the fourth quarter, reflecting a pickup in expenditures on motor vehicles and aircraft. The nominal U.S. merchandise trade deficit widened in January from its low December rate but remained at roughly its fourth-quarter average. Consumer prices rose more rapidly over January and February, only partly as a result of increases in prices of food and energy.

Most short- and intermediate-term interest rates have risen a little since the Committee meeting on February 6–7; rates in long-term debt markets show mixed changes over the period. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose over the intermeeting period; much of the appreciation of the dollar was against the yen.

Growth of M2 and M3 picked up considerably in February, reflecting strength in transaction and other liquid accounts; partial data for March suggested some slowing from the February pace.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives,

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the Committee at its meeting in February established ranges for growth of M2 and M3 of 3 to 7 percent and 2½ to 6½ percent respectively, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The monitoring range for growth of total domestic nonfinancial debt was set at 5 to 9 percent for the year. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint or slightly lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from March through June at annual rates of about 6 and 4 percent respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Johnson, Kelley, and LaWare, Ms. Seger, and Mr. Stern. Votes against this action: Messrs. Boykin and Hoskins.

Mr. Boykin dissented because he felt that the risks were on the side of accelerating inflation, and he therefore preferred a policy directive tilted toward increased reserve pressures should there be indications of greater-than-anticipated strength in economic activity during the intermeeting period. He stated that an asymmetric directive leaning toward firmer reserve pressures would convey important and stabilizing information to the financial markets about the seriousness of the Federal Reserve in pursuing its goal of price stability.

Mr. Hoskins dissented because he preferred an immediate firming of reserve conditions. In his view, inflation pressures remained relatively strong and suggested that greater monetary restraint was necessary to facilitate progress toward the Committee's long-term goal of price stability. He was concerned that any delay in tightening policy might lead to the need for more aggressive actions later.

2. Authorization for Domestic Open Market Operations

The Committee approved a temporary increase of $4 billion, to a level of $12 billion, in the limit between Committee meetings on changes in System Account holdings of U.S. government and federal agency securities. The increase amended paragraph 1(a) of the Authorization for Domestic Open Market Operations and was effective for the intermeeting period ending with the close of business on May 15, 1990.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Johnson, Kelley, and LaWare, Ms. Seger, and Mr. Stern. Votes against this action: None.

This action was taken on the recommendation of the Manager for Domestic Operations. The Manager had advised that the current leeway of $8 billion for changes in System Account holdings might not be sufficient over the intermeeting period because of a large projected rise in Treasury balances at the Federal Reserve Banks after the tax payment date in mid-April.

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3. Authorization for Foreign Currency Operations

At this meeting, the Committee reviewed its operations in the foreign currency markets. Transactions for the System Open Market Account in those markets are carried out within the general framework of policy on exchange rates established by the U.S. Treasury in consultation with the Federal Reserve and are implemented at the Federal Reserve Bank of New York, typically in conjunction with similar transactions for the U.S. Treasury's Exchange Stabilization Fund (ESF). Members commented that such operations at times can serve a useful purpose, especially in helping to avert or to correct disorderly conditions in the foreign exchange markets. At the same time, many expressed strong skepticism that intervention operations can by themselves have a lasting effect on the value of the dollar in foreign currency markets, given that the effects of these operations on bank reserves are routinely sterilized. However, some argued that even sterilized intervention can, in some circumstances, have desired effects on exchange rates, especially if carried out in concert with parallel operations by the monetary authorities of other nations or if such operations signal adjustments to fiscal or monetary policies.

Over the past year, very large purchases of foreign currencies had raised System Account holdings to historically high levels, although relative to U.S. imports such holdings were still moderate compared with those of other countries. Some members expressed concern that the increased System Account holdings carried the risk of sizable losses if the dollar were to strengthen substantially.

While recognizing the potential difficulties that were involved, a majority of the members agreed that continued System operations in the foreign exchange markets in association with Treasury transactions can serve a useful purpose. Such operations can contribute to national economic objectives under certain circumstances, and the System should continue to participate in the formulation of exchange rate policy. However, they also felt that the cumulative amount of foreign currency operations for the System Account might have been more limited than had been the case over the past year.

At the conclusion of this discussion, the Committee approved an increase from $21 billion to $25 billion in the limit on holdings of foreign currencies that is specified in paragraph 1.D of the Committee's Authorization for Foreign Currency Operations. That limit applies to the overall open position in all foreign currencies held in the System Open Market Account and is based on historical acquisition costs. The limit had been increased in steps from $12 billion in May 1989 to $21 billion in December 1989. While purchases of foreign currencies had been relatively limited in recent months, such purchases in combination with accruing interest on holdings had raised the total to nearly $21 billion at the time of the meeting.

> Votes for this action: Messrs. Greenspan, Corrigan, Boehne, Boykin, Johnson, and Kelley, Ms. Seger, and Mr. Stern. Votes against these actions: Messrs. Angell, Hoskins, and LaWare.

Messrs. Angell, Hoskins, and LaWare dissented because they did not want to provide System funding for additional intervention in the foreign exchange markets. They were uncomfortable with the large holdings of foreign currencies now in the System Account and felt that aggressive intervention policies could lead to sizable additional increases in such holdings. Messrs. Angell and Hoskins expressed concern that the inter-

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vention carried out over the past year had undermined the credibility of the System's monetary policy by contributing to uncertainty concerning the System's priority toward achieving price level stability. Mr. Hoskins also believed that intervention was ineffective unless accompanied by changes in monetary policy that would be inconsistent with price stability objectives. Mr. LaWare felt that massive and frequent operations tended to reduce the effectiveness of intervention when the latter might otherwise prove useful in countering disorderly conditions in the exchange markets.

4. Agreement to "Warehouse" Foreign Currencies

On September 19, 1989, the Committee had approved an increase from $5.0 billion to $10.0 billion in the amount of eligible foreign currencies that the System was prepared to "warehouse" for the Treasury and the ESF. Currently, a total of $9.0 billion of such currencies was being warehoused for the ESF. The purpose of the facility is to supplement as needed the resources of the Treasury and the ESF for financing their purchases of foreign currencies. Warehousing involves spot purchases of foreign currencies from the Treasury or the ESF and simultaneous forward sales of the same currencies at the same exchange rates to the Treasury or the ESF. Under a longstanding interpretation by the Committee and its General Counsel, warehousing transactions are open market operations in foreign currencies that are authorized under the Federal Reserve Act. Warehousing is included under paragraphs 1.A and 1.B of the Committee's Authorization for Foreign Currency Operations and its use is referenced under paragraph 3.B of the Committee's Foreign Currency Directive.

At this meeting, the Committee agreed to accommodate any further Treasury and ESF requests for financing under the warehousing facility up to a limit of $15 billion.

Votes for this action: Messrs. Greenspan, Corrigan, Boehne, Boykin, Johnson, and Kelley, Ms. Seger, and Mr. Stern. Votes against these actions: Messrs. Angell, Hoskins, and LaWare.

Messrs. Angell, Hoskins, and LaWare indicated that in light of the significant policy issues raised by the duration and scale of the intervention activity, they were unable to concur, as a matter of policy, with the Committee's decisions to increase further the authorization for warehousing foreign currencies. Messrs. Angell and Hoskins also were concerned that substantial increases in the authorized limits on holdings of foreign currencies by the Federal Reserve System for the U.S. Treasury and the ESF under the warehousing authority were inappropriate in the absence of a definitive indication of congressional intent in this area. The transactions in question, which are repurchase agreements that have the characteristics of a loan to the Treasury, could be viewed as avoiding the congressional appropriations process called for under the Constitution.

Meeting Held on May 15, 1990

Domestic Policy Directive

The information reviewed at this meeting suggested that economic activity was continuing to expand at a moderate pace. The service-producing sector remained the mainstay for growth in income and employment; manufacturing was still sluggish, and construction activity was slipping after the weather-related bulge

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earlier in the year. Some broad measures of prices reflected a partial unwinding of the earlier surge in prices of food and energy; however, underlying trends in consumer prices and labor costs suggested no weakening in inflationary pressures.

Total nonfarm payroll employment increased more slowly in March and April after sharp weather-related advances earlier in the year; job growth thus far in 1990 had averaged a little above that in the second half of last year, in part because of the hiring of temporary workers for the census. In the private sector, nonfarm employment fell in both March and April, partly owing to an unwinding of an earlier surge in construction jobs during unseasonably mild winter weather. Job losses also were widespread in manufacturing; and, with the notable exception of health services, hiring in the services industries weakened considerably from the strong pace of 1989 and early 1990. In April, the civilian unemployment rate edged up to 5.4 percent.

Industrial production declined in April, reflecting a cutback in the manufacture of motor vehicles that was intended to bring inventories of new cars into better balance with sales. Industrial activity had been buffeted by a variety of transitory influences in previous months, including strike activity in the aircraft industry, inventory adjustments in the motor vehicle industry, and unusual winter weather patterns that had affected the energy output of utilities; nevertheless, production in April was about unchanged from the levels of last December and a year earlier. Total industrial capacity utilization slipped in April after a small rise in March; operating rates in manufacturing had trended down over the twelve months ending in April as capacity increased while production remained about unchanged.

Real personal consumption expenditures edged lower in March, reversing a small net rise in the two previous months. Spending for goods was weak on balance over the three-month period, especially for food and apparel items; outlays for services continued to be robust, with notably strong gains for spending on medical care. Retail sales fell in April as a result of reduced purchases of motor vehicles, but upward revisions to data for the two previous months suggested a little more strength in consumption in the first quarter than had been indicated previously. Housing starts fell sharply in March after surging earlier in the year. The March decline likely reflected the effect of higher mortgage interest rates along with some payback for unusually strong housing construction activity in the two previous months of atypically mild winter weather.

Business capital spending strengthened in the first quarter of 1990 from a temporarily depressed fourth-quarter level. Outlays for nondefense capital goods rose sharply, partly as a result of a rebound in shipments of aircraft to domestic firms after a strike late in the fourth quarter. Spending for information-processing equipment, notably computers, also increased while acquisitions of industrial equipment continued to languish. New orders for business equipment other than aircraft advanced at a slower pace in the first quarter. Favorable weather aided nonresidential construction activity in January and February; however, the pace of construction activity fell off in March, and construction permits and contracts continued to trend down. Manufacturing inventories were reduced considerably in February and March as factory shipments rebounded; declines were widespread among producers of durable goods, primary metals, fabricated metal products, nonelectrical machinery, and motor vehicles. For most

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industries, the inventory-to-shipments ratio was lower in March than at year-end. At the retail level, many types of establishments, including auto dealers, retail apparel, and general merchandise stores had trimmed their inventories substantially.

The nominal U.S. merchandise trade deficit narrowed in February as imports declined sharply and exports were little changed from January levels. For the January–February period, exports were moderately higher than in the fourth quarter, led by a rebound in shipments of aircraft. Over the same time period, the value of imports fell; a sizable decline in non-oil imports that was widespread across commodity categories outweighed higher imports of oil associated with the rebuilding of stocks depleted during the unusually cold weather in December. Indicators of economic activity in the major foreign industrial nations suggested a continuation of moderate growth in real economic activity in most major West European countries and Japan. Declines in industrial production in the United Kingdom and Canada appeared to be signaling some slowing of economic growth in these countries.

Producer prices for finished goods dropped somewhat further in April, reflecting additional unwinding of the earlier surge in prices of food and energy. Producer prices for items other than food and energy had increased through April at a slower rate than in 1989. By contrast, consumer prices continued to rise in March at a faster pace than in 1989. Weather-related jumps in prices of food and energy accounted for much of the pickup in consumer price inflation in the first quarter, but prices for a wide range of other goods and services also increased more rapidly. Labor compensation, as measured by the employment cost index, rose at a faster rate over the twelve months ended in March than in the year-earlier period; wage increases remained fairly stable, but the cost of benefits jumped, only partly because of the January hike in social security taxes. Average hourly earnings increased a little more slowly in April, partly reflecting a sharp drop in employment in the relatively high-wage construction industry.

At its meeting on March 27, 1990, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions and that did not include any presumption regarding the likely direction of any intermeeting adjustments in policy. The Committee agreed that some firming or easing in reserve conditions would be appropriate during the intermeeting period depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. With unchanged reserve conditions, M2 and M3 were expected to grow at annual rates of about 6 and 4 percent respectively over the period from March through June.

Open market operations in the interval since the March 27 meeting had been directed at keeping reserve conditions essentially unchanged. Adjustment plus seasonal borrowing levels moved up to about $300 million by the end of the intermeeting period from the $150 million range prevailing initially, reflecting a normal rise in seasonal borrowing. The federal funds rate remained in the vicinity of 8¼ percent over the period, although funds generally had traded a little below this level since late April as shortfalls in federal tax receipts tended to keep nonborrowed reserves at higher-than-expected levels. Responding to shifting sentiment regarding the strength of the economy, inflation prospects, and the likelihood of a near-term tightening of monetary policy, other market interest rates initially rose in the intermeeting

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period and then fell sharply. Short-term rates declined a little on balance over the period while rates in long-term debt markets were somewhat higher.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined considerably over the intermeeting period. Much of the decline occurred following the release in early May of weaker-than-expected U.S. employment data for April and the related drop in U.S. interest rates. Foreign interest rates showed mixed movements over the intermeeting period; the Japanese stock market rebounded substantially from its low in early April. The dollar was weak against the German mark, which strengthened against most currencies as developments appeared to relieve some concerns about the outlook for inflation in Germany. Very late in the intermeeting period the dollar weakened against the yen as well.

Growth of M2 slowed further in April; the expansion of this aggregate was damped by the sizable opportunity costs of holding retail deposits as interest rates offered on these accounts continued to lag behind earlier increases in market rates. At thrift institutions, conservative rate-setting reflected the ongoing contraction of their funding needs during a period of asset reduction. Banks also held down their deposit rates, as inflows of retail deposits were proving sufficient to fund credit expansion. The apparently steeper contraction of thrift assets, along with slow credit expansion at banks, held down overall needs for funds at depository institutions and resulted in relatively weak M3 growth in April. Expansion of M2 and M3 through April was a little above the midpoint and around the lower end respectively of the ranges established by the Committee for 1990.

The staff projection prepared for this meeting suggested that the economy was likely to expand at a moderate pace over the balance of the year. Consumer demand, especially for services, was expected to be a major source of support for continued growth of the economy. Business capital spending was projected to increase further in 1990, but the extent of the rise could be limited somewhat by low profit margins associated with relatively slow growth in final demands and lower levels of capacity utilization. Nonresidential construction activity was expected to be held down by the overbuilt condition of many commercial real estate markets around the country along with greater caution on the part of lenders. Homebuilding was projected to be damped by the somewhat higher mortgage rates now in place. Net exports of goods and services were expected to increase only modestly in real terms over the rest of the year. The projection assumed moderate restraint on expenditures at all levels of government. Price inflation was expected to ease substantially in the months ahead, following the bulge earlier in the year; but little improvement was anticipated in the underlying trend of inflation over the next several quarters, and reductions in price pressures might ultimately involve some additional pressures in financial markets.

In the Committee's discussion of the economic situation and outlook, members generally agreed that the current information on business conditions pointed on balance to relatively moderate but sustained economic expansion. Final demands appeared to be expanding further, though not rapidly, and available information suggested that business inventories were quite lean. Fiscal policy was an important source of uncertainty in the outlook, though there was some basis for optimism in light of the discussions on deficit reductions that were just getting under way between the Administration and the Congress. Credit conditions constituted another major area of uncer-

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members believed it was premature to reach a firm conclusion on this issue. Moreover, despite its slowing in recent months, growth of M2 for the year to date was close to the midpoint of the Committee's range, reflecting relatively robust expansion in late 1989 and early 1990.

With respect to possible adjustments in the degree of reserve pressure during the period before the next Committee meeting in early July, a majority of the members expressed a preference for a directive that did not bias prospective operations toward tightening or easing but made an intermeeting adjustment, if any, equally likely in either direction, depending on economic and financial developments and the behavior of the monetary aggregates. Other members preferred a directive that was tilted toward possible tightening, given their desire to respond promptly to any indications of greater inflationary pressures and their judgment that in the current inflationary environment the next policy move was likely to be in the tightening direction. Some of these members commented that such a bias in the directive would tend, as it became known, to enhance the credibility of the System's anti-inflationary policy and help to make that policy more effective over time. However, given the risks to the economy and the uncertainties in the outlook, these members also could accept a symmetric directive with regard to intermeeting adjustments.

At the conclusion of the Committee's discussion, all except one member indicated that they preferred or could accept a directive that called for maintaining the existing degree of pressure on reserve positions and that did not include any presumption about the likely direction of adjustments in policy, if any, during the intermeeting period. With regard to the factors that were important in considering the need for any intermeeting changes in reserve conditions, the Committee continued to give primary weight to those bearing on the inflation outlook. Accordingly, slightly more or slightly less pressure on reserve positions would be appropriate during the period ahead depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The maintenance of steady reserve conditions was expected to be consistent with somewhat slower monetary expansion in the current quarter than the members had anticipated at the time of the March meeting, including growth of M2 and M3 at annual rates of about 4 and 3 percent respectively over the three-month period ending in June. The intermeeting range for the federal funds rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, was left unchanged at 6 to 10 percent.

At the conclusion of the meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that economic activity is continuing to expand moderately. Total nonfarm payroll employment increased more slowly in March and April after sharp advances earlier in the year; its average growth thus far this year has been above that in the second half of 1989, in part because of the hiring of temporary workers for the census. In April, the civilian unemployment rate moved up to 5.4 percent. Industrial production declined in April, reflecting what appears to be a temporary cutback in the manufacture of motor vehicles. Consumer spending has been sluggish on balance in recent months; outlays for goods have been weak while expenditures for services have remained strong. Business spending for equipment has been rising, but construction activity, both residential and nonresidential, appears to have weakened after a temporary boost early in the year. The

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nominal U.S. merchandise trade deficit narrowed somewhat in January and February from its average rate in the fourth quarter. Consumer prices continued to rise at a faster pace in March than in 1989; producer prices were down somewhat further in April, reflecting additional unwinding of the earlier surge in prices of food and energy. The latest data on employment costs suggest some deterioration in underlying trends.

Short-term interest rates have declined a little on balance since the Committee meeting on March 27, while rates in long-term debt markets have risen slightly over the period. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined considerably over the intermeeting period.

Growth of M2 slowed in April and that of M3 remained relatively weak. Through April, expansion of M2 and M3 was a little above the midpoint and around the lower end, respectively, of the ranges established by the Committee for 1990.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at its meeting in February established ranges for growth of M2 and M3 of 3 to 7 percent and 2½ to 6½ percent respectively, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The monitoring range for growth of total domestic nonfinancial debt was set at 5 to 9 percent for the year. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint or slightly lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from March through June at annual rates of about 4 and 3 percent respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Johnson, Kelley, and LaWare, Ms. Seger, and Mr. Stern. Vote against this action: Mr. Hoskins.

Mr. Hoskins dissented because he preferred a tightening of reserve conditions to help assure that progress would be made toward a reduced rate of inflation and the Committee's ultimate objective of price stability. Although price pressures appeared to be receding from the pace of early in the year, inflation remained too high. He recognized that M2 growth had slowed and there were potential financial developments that might have adverse consequences for the expansion, but he believed that growth of M2 in the bottom half of the 1990 target range would be desirable in order to achieve a gradual reduction in inflation in 1991 and thereafter. Moreover, a timely move toward greater monetary restraint would enhance the credibility and effectiveness of monetary policy in countering the persisting strength of inflationary pressures.

Meeting Held on July 2–3, 1990

Domestic Policy Directive

The information reviewed at this meeting suggested that economic activity was continuing to expand but at a relatively slow pace. Final demands seemed sluggish; while exports had increased further, consumer expenditures had been flat and notable weakness was evident in new housing and nonresidential structures.

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Overall increases in business inventories appeared to have been moderate, even though the production of goods had picked up. The unemployment rate had remained in a relatively low range despite limited growth in employment. An unwinding in recent months of the earlier jump in the prices of food and energy had damped the rise in producer and consumer prices, but the latest data on wages suggested continued pressure on costs.

Total nonfarm payroll employment rose moderately in May after a small decline in April. Job gains in services were muted over the two months, following strong increases earlier; factory employment continued to ebb; and construction payrolls, after surging during unseasonably mild winter weather, slipped below their level of last fall. Nonfarm payroll employment had grown relatively slowly on average since February, and hiring by the Census Bureau had accounted for all of the increase. Despite the sluggish expansion of employment in recent months, the civilian unemployment rate was 5.3 percent in May and had remained near that level for more than a year.

Industrial production increased substantially in May, largely reflecting a rebound in the manufacture of motor vehicles, and the April level of activity was revised upward. Production of consumer goods had been relatively sluggish thus far in 1990; however, output of business equipment had firmed as notable gains were recorded in the production of aircraft and information-processing equipment, and the output of other business equipment retraced a decline that had occurred in the second half of last year. Recent data on orders for durable goods appeared to be consistent with a further modest rise in manufacturing activity in coming months. Total industrial capacity utilization edged higher in May to nearly its level at the end of 1989; in manufacturing, operating rates had changed little on balance this year as gains in factory output had about matched the expansion of capacity.

Real personal consumption expenditures in April and May were little changed on balance from their level in the first quarter. Expenditures for non-energy services rose more slowly in May, extending the pattern of smaller increases that had been registered on balance this year. Outlays for motor vehicles declined, and spending for goods other than motor vehicles fell for the third straight month. Housing starts were about unchanged in May after a substantial decline in April. The average level of starts in the April–May period was substantially below the first-quarter pace. This recent drop in starts evidently reflected in part a retracing of the earlier surge in residential construction associated with mild winter weather, but higher mortgage rates and some tightening of credit availability to builders also appeared to exert a constraining effect.

Business capital spending appeared to have slackened in recent months. After a pickup in the first quarter that was paced by strong purchases of office and computing equipment, outlays for nondefense capital goods slowed in April and May, with notable weakness evident in purchases of nonelectrical equipment. Other than for aircraft and computers, new orders for nondefense capital goods had advanced little on balance this year. Following the sizable gain earlier in the year associated with unseasonably mild weather, nonresidential construction activity slowed on average in March and April. Construction of office and other commercial buildings was especially weak in the March–April period, and permits and other indicators of future activity suggested continued softness. At manufacturing and trade establishments, inventories increased somewhat in April

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after a decline in the first quarter associated with a sharp paring of stocks of automobiles. In the manufacturing and wholesale sectors, inventory-to-shipments ratios were down in April from year-end levels and were around the middle of the ranges prevailing in 1989. Among retailers of goods other than automobiles, recent increases in inventories in conjunction with sluggish consumer spending had led to a reversal of an earlier decline in inventory-sales ratios.

The nominal U.S. merchandise trade deficit narrowed further in April from its reduced average rate for the first quarter. Both imports and exports fell, partly as a result of less trade in automotive products with Canada. The value of oil imports also declined in April as oil prices moved lower and the volume of imports slackened after surging earlier in the year. In April, the value of exports retraced part of its sharp March rise but nonetheless remained at a higher rate than in the first quarter. Measures of economic activity in the major foreign industrial nations indicated some pickup in growth in the first quarter. Expansion was especially strong in Germany and Japan, but preliminary data for these two countries for the early part of the second quarter suggested a return to more moderate growth. Inflation in the foreign industrial countries remained little changed on average recently.

Producer prices of finished goods were unchanged on balance over April and May as energy prices declined and food prices registered no net change. The rate of increase for goods other than food and energy items was held down by manufacturers' discounts for motor vehicles. Partly because of declines in food and energy prices, consumer prices rose more slowly in April and May; however, the average rate of increase thus far this year remained above the 1989 pace. Over the April–May period, prices of nonfood, non-energy goods were little changed while prices of non-energy services rose less rapidly than earlier in the year. Average hourly earnings rose further in May, with large increases recorded in construction and in overtime in manufacturing. The latest data on total employer costs for compensation indicated that labor costs had increased more rapidly in the twelve months ended in March than in the year-earlier period.

At its meeting on May 15, 1990, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions and that did not include any presumption regarding the likely direction of any intermeeting policy adjustments. In considering the possible need for such adjustments, the Committee agreed that primary weight would continue to be given to developments bearing on the inflation outlook; accordingly, the directive indicated that slightly more or less pressure on reserve positions would be appropriate during the period ahead depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. Unchanged reserve conditions were expected to be consistent with somewhat slower monetary expansion in the second quarter than had been anticipated at the time of the March meeting, including growth of M2 and M3 at annual rates of about 4 and 3 percent respectively over the period from March through June.

Open market operations in the interval since the May 15 meeting were directed at maintaining unchanged reserve conditions. Adjustment plus seasonal borrowing averaged nearly $600 million over the three complete reserve maintenance periods in the intermeeting interval, well above the level registered in the maintenance period that ended just after the

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May meeting. Much of the sharp rise in borrowing reflected the continued upswing in seasonal borrowing, for which several technical adjustments were made to assumed levels of borrowing, and a funding need at a large bank experiencing a temporary operational problem over a long holiday weekend. The federal funds rate stayed close to 8¼ percent over the intermeeting period, and other short-term market rates changed little from their mid-May levels. In long-term debt markets, interest rates declined somewhat on balance as markets responded to evidence of some slowing in the economy and to indications that the chances for substantial reductions in federal budget deficits had improved. These factors also contributed to a decline on balance over the intermeeting interval in the trade-weighted value of the dollar in terms of the other G-10 currencies.

Both M2 and M3 declined in May; available data suggested a partial rebound in June for M2 and little change in M3. The continuing contraction of deposits at thrift institutions that was resulting from the restructuring of the thrift industry was one of the factors damping the growth of M2 and especially of M3. Through June, expansion of M2 was estimated to be in the lower portion of its range for 1990, and growth of M3 somewhat below its range for the year. Growth of total domestic nonfinancial debt appeared to have been at the midpoint of its monitoring range.

The staff projection prepared for this meeting suggested that the economy would expand over the remainder of 1990 at around the rate estimated for the first half of the year and at a slightly faster pace in 1991. Consumer demand was projected to pick up a bit after a weak second quarter, with spending on services expected to continue increasing moderately and outlays for goods to rebound somewhat. Business capital spending was projected to strengthen a little; however, the extent of the bounce-back would be constrained by low profit margins associated with relatively slow growth in final demands and reduced levels of capacity utilization along with weakness in nonresidential construction activity arising from the overbuilt condition of many commercial real estate markets around the country and greater caution on the part of lenders. The pace of homebuilding was expected to remain low, damped by slow growth in household incomes and relatively high borrowing costs. Exports of goods and services were projected to increase substantially but to be accompanied by an acceleration of imports. Moderate restraint on expenditures at all levels of government was assumed. Price inflation was expected to ease somewhat further, following the bulge earlier in the year, but little improvement was anticipated in the underlying trend of inflation.

In the Committee's discussion of the economic situation and outlook, the members generally saw sustained but subdued growth in economic activity as a reasonable expectation for the next several quarters. While business conditions were relatively depressed in some sectors of the economy and parts of the country, business activity was better maintained in other areas, and the economy as a whole gave no current indications of slipping into a recession. Many members commented, however, that the risks appeared to be weighted in the direction of a weaker-than-projected economic performance, especially in the context of changing conditions in credit markets stemming from the financial difficulties of many borrowers and lending institutions. With regard to the outlook for inflation, increases in key price measures had moderated since earlier in the year, but there was little evidence of significant change in the trend rate of inflation.

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Nonetheless, the members generally remained confident that some progress would begin to be made in reducing the underlying rate of inflation during the period ahead, given their expectations of diminished pressures on labor and capital resources. Some also emphasized that the moderate rate of money growth experienced this year, and indeed for an extended period, was indicative of a sustained period of monetary restraint that eventually should produce a lower rate of inflation.

In conformance with the usual practice at meetings when the Committee considers its long-run objectives for growth of the monetary and debt aggregates, the members of the Committee and the Federal Reserve Bank presidents not currently serving as members provided individual projections of growth in real and nominal GNP, the rate of unemployment, and the rate of inflation for 1990 and 1991. These forecasts took account of the Committee's policy of continuing moderate restraint on aggregate demand to constrain inflationary pressures over time. With regard to growth of real GNP, the projections had central tendencies of 1½ to 2 percent for 1990 as a whole and 1¾ to 2½ percent for 1991. Forecasts of nominal GNP converged on growth rates of 5½ to 6½ percent for 1990 and 5¼ to 6½ percent for 1991. With output expanding below potential, the members anticipated that unemployment would edge up to rates centering around 5½ to 5¾ percent in the fourth quarter of 1990 and 5½ to 6 percent in the fourth quarter of 1991. Some easing of pressures on resources would help to damp inflation slightly by 1991. For the consumer price index, the projections had central tendencies of 4½ to 5 percent for 1990 and 3¾ to 4½ percent for 1991.

Turning to the prospects for individual sectors of the economy, members commented that, with the possible exception of exports, none appeared likely to provide appreciable impetus to the expansion over the forecast period. Retail sales were weak in many parts of the country; and there were indications of some decline in consumer confidence that seemed to be associated with concerns about weakening real estate values in many parts of the country, reduced employment opportunities, and persistent reports of financial problems in the economy. In the circumstances, growth in consumer spending was expected to remain relatively sluggish, and while retail sales might well pick up from their recently depressed levels, there was considerable uncertainty regarding the outlook for expenditures for motor vehicles and other consumer durables. Construction activity was being inhibited in many areas by an overhang of excess capacity, notably in commercial real estate but also in housing, and to some extent by the difficulties being experienced by builders in securing financing. Some members expressed concern that building activity might weaken further, and in any event this sector of the economy was believed likely to remain depressed over the forecast horizon. At the same time, the outlook for spending on capital equipment appeared to be somewhat more promising, at least for the near term, judging from the recent pattern of new orders, order backlogs, and reports from industry contacts. In addition, business inventories appeared to be at acceptable levels in most industries and, unlike the experience in earlier business cycles, seemed to be providing an element of stability in a period of adjustments in major industries such as motor vehicles and construction. In the view of many members, the outlook was favorable for further sizable increases in exports that would help to support U.S. production and employment. On balance, however, final demands, including de-

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mands from abroad, appeared likely to support only sluggish gains in the goods-producing sectors of the economy, and the service industries were likely to continue to account for much of the anticipated increases in output and employment.

There also was discussion of two special factors that added to the uncertainties bearing on the economic outlook. One related to the unknown timing and extent of a possible reduction in the federal budget deficit that the members hoped would emerge from current discussions between congressional and Administration officials. Another was the uncertain degree to which lenders had cut back on the availability of credit to creditworthy borrowers. The members continued to hear numerous reports that some businesses were finding it more difficult to obtain credit from banks, notably builders in many areas but also other businesses, including auto dealers, in some parts of the country. On the basis of still fragmentary information, reduced credit availability appeared to have had some, but quite limited, effects on the economy. However, a tightening of credit standards could affect credit flows and spending with a lag; and, in addition, there was some concern that the trend to greater restraint in the provision of credit might continue.

With regard to the outlook for prices and wages, the apparent lack of progress in reducing the underlying rate of inflation was a major source of disappointment, but the members continued to anticipate some deceleration in the core rate of inflation during the year ahead. Among the favorable portents were the impact of the softness in house prices on inflation attitudes, the still highly competitive conditions in many markets for goods, the related emphasis on cost-cutting efforts by businesses to compensate for their difficulty or inability to raise prices, and some evidence that wage inflation was no longer worsening. Of particular significance in the view of some members was the relatively restrained monetary growth over the last few years associated with a policy that had been resisting inflation. This policy was likely to damp inflation over time; moreover, as the public's perceptions of the System's anti-inflationary stance became more firmly held, progress in reducing inflation would tend to accelerate. On the unfavorable side, persisting inflation pressures in many service industries and relatively tight labor markets in some areas remained a source of concern. Moreover, as evidenced by recent increases in the prices of motor vehicles despite weak sales, inflation psychology still was a serious problem in at least some segments of the business community.

In keeping with the requirements of the Full Employment and Balanced Growth Act of 1978 (the Humphrey–Hawkins Act), the Committee at this meeting reviewed the ranges for growth in the monetary and debt aggregates that it had established in February for 1990 and decided on tentative ranges for growth of those aggregates in 1991. The current ranges for the period from the fourth quarter of 1989 to the fourth quarter of 1990 included expansion of 3 to 7 percent for M2 and 2½ to 6½ percent for M3. The monitoring range for growth of total domestic nonfinancial debt had been set at 5 to 9 percent.

In its consideration of the ranges for 1990 and 1991, the Committee took account of the much slower-than-anticipated expansion of M2 and M3 in the first half of the year and the possible implications for spending and prices. To a large extent, the weakness in monetary growth was associated with a redirection of credit flows away from depository institutions to market channels, and total

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borrowing by domestic nonfinancial sectors did not moderate appreciably in the first half of 1990 from the pace of 1989. Much of the slower growth in lending by depository institutions in turn reflected continued shrinkage of the savings and loan industry—to an important extent because of a step-up in government assumption of thrift assets by the Resolution Trust Corporation (RTC) and related transfers of deposits and assets to commercial banks. Expansion of commercial bank credit had remained moderate, reflecting pressures on bank capital positions and bank concerns about the credit quality of borrowers. The members generally anticipated that these special factors would continue to depress the growth of M2 and M3 in the second half of this year and in 1991, though perhaps to a lesser extent next year. These factors were exerting their largest and most direct influence on M3, which includes the bulk of bank and thrift funding sources, but also were affecting M2. Such developments had few if any precedents, and there was substantial uncertainty about their duration and effects on the economy.

Against this background, most of the members were in favor of reaffirming the ranges for M2 and nonfinancial debt for 1990 that the Committee had established at its February meeting, while others indicated a preference for reducing the range for M2. Members who preferred to maintain the current ranges pointed out that the expansion of these aggregates was within their respective ranges in the first half of the year, though toward the lower end of the range in the case of M2. With regard to the latter, it was suggested that the 4-percentage-point width of the current range should be enough to encompass likely and desirable outcomes for the year. Several members also commented that, as a general rule, they preferred not to adjust current ranges at midyear, in part to avoid conveying an impression of unwarranted precision—particularly if the adjustments were relatively small—or of changes being made simply to reflect the actual data. A shortfall from the current ranges should be kept under careful scrutiny to judge whether policy was indeed tighter than intended or desired. If ultimately the Committee elected to tolerate a shortfall from the current ranges, it would accept the useful discipline of explaining the reasons for the deviations in its reports to the Congress. Members also noted that the reasons for the shortfall in M2 were not entirely understood, and in the circumstances a downward adjustment to the range might not be appropriate in terms of furthering the Committee's basic objectives for the economy. Those who favored a lower range for M2 observed that, despite the uncertainties that were involved, enough was known to suggest that velocity had increased for technical reasons and that M2 growth lower than previously contemplated would be consistent with the Committee's objectives. One member also indicated that a lower range would coincide with a continuing preference, first expressed in February, for a range that in this view appeared to be more consistent with the Committee's long-run, anti-inflation strategy.

With regard to the 1990 range for M3, a majority of the members favored some reduction, though there were differences with regard to the precise amount. A lower range was deemed to be warranted by the strong indications that M3 growth would fall below its current range for the year to an important extent because of continuing RTC activity in resolving insolvent thrift institutions. While the Committee had anticipated some slowing in M3 growth and had reduced the M3 range in February, the shortfall in the first half of the year was considerably greater than expected. It represented

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mostly a restructuring of credit flows rather than an overall reduction in credit availability, though there were signs of some tightening of credit terms. In the circumstances, a lower range would be a technical adjustment and would not be indicative of added restraint in overall credit availability or an intention by the Committee to increase the degree of monetary restraint. A few members expressed reservations about lowering the M3 range, or at least lowering it substantially, in part because a higher range might be needed in later years when special factors were no longer depressing the growth of this aggregate. In this view, to avoid potential misinterpretation of the Committee's policy, the ranges should not be moved up and down to fit special circumstances; instead, they should be reduced steadily but gradually to levels that were consistent with the Committee's long-run objective of sustainable, noninflationary economic growth.

At the conclusion of this discussion, the Committee voted to reaffirm the 1990 ranges that it had established in February for growth of M2 and nonfinancial debt and to lower the 1990 range for M3 by 1½ percentage points to 1 to 5 percent. The Committee approved the following statement for inclusion in its domestic policy directive:

The Committee reaffirmed at this meeting the range it had established in February for M2 growth of 3 to 7 percent, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The Committee also retained the monitoring range of 5 to 9 percent for the year that it had set for growth of total domestic nonfinancial debt. With regard to M3, the Committee recognized that the ongoing restructuring of thrift depository institutions had depressed its growth relative to spending and total credit more than anticipated. Taking account of the unexpectedly strong M3 velocity, the Committee decided to reduce the 1990 range to 1 to 5 percent.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Kelley, LaWare, Mullins, and Stern. Vote against this action: Ms. Seger. Absent and not voting: Mr. Johnson.

Ms. Seger dissented because she wanted to reaffirm the existing range for M3 as well as those for M2 and nonfinancial debt. In her view, the shortfall in M3 growth reflected not only technical factors, related in large part to the ongoing restructuring of the savings and loan industry, but an undesirable tightening in the availability of credit. In the circumstances, she was concerned that tolerating M3 growth at a rate near the lower end of the 1 to 5 percent range would be associated with credit conditions that presented too great a risk to the current economic expansion.

Turning to the provisional ranges for 1991, a majority of the members argued for some reduction in the ranges for M2 and nonfinancial debt, and most favored a relatively low range for M3. Reductions in the ranges for M2 and debt would serve to implement the Committee's strategy of gradually lowering the ranges to levels that were consistent with its long-run goals. Additionally, a lower range for M2 seemed appropriate in light of the prospect that the velocity of this aggregate, which like that of M3 had risen to an unexpected extent this year, might rise somewhat further in 1991 in conjunction with the ongoing restructuring of thrift institutions. In the view of many members, a reduction in the range for M2 also was desirable because it would underscore the Committee's commitment to an anti-inflationary policy and by potentially enhancing the credibility of that policy possibly increase its effectiveness. Several members indicated that while a small reduction in the M2 range was acceptable, a greater reduction might imply tolerance of slower monetary growth than would be consistent

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with sustained economic expansion. Moreover, the M2 range already had been reduced substantially over the past several years and was getting close to the level that might be desirable over the long run.

Some members preferred not to change the 1991 range for M2 at this meeting. They did not disagree with the strategy of gradually reducing the Committee's ranges over time, but they felt that current uncertainties warranted approaching any reduction with a special degree of caution. There was a possibility of a major shift in fiscal policy, and ongoing changes in financial flows were affecting the relationship of the monetary aggregates to spending. By next February, the Committee was likely to be in a much better position to judge the implications of these factors for the economy and appropriate money growth as well as to have in clearer focus the usual factors bearing on the outlook for economic activity and the financial system.

With regard to the range for M3, the factors that were tending to depress M3 growth relative to income in 1990 could well persist through 1991. In these circumstances, a majority of the members favored a range that was equal to or lower than the revised range of 1 to 5 percent for 1990. Members who expressed a preference for some further reduction believed that a lower range was more likely to encompass the actual outcome and was consistent with the monetary-policy restraint signaled by the reductions favored by most members in the M2 and debt ranges for 1991. Other members preferred not to adopt a range that would accommodate essentially no growth in M3, even if technical factors suggested a relatively high probability of such an outcome. In this view, such a range would be below the one likely to be warranted for the longer term and would therefore have to be raised at some point, possibly even for 1991 depending on economic, financial, and fiscal policy developments prior to the Committee's review of the ranges early next year.

At the conclusion of this discussion, the Committee approved provisional ranges for 1991 that involved reductions of ½ percentage point for M2 and nonfinancial debt from the 1990 ranges and no further change in the M3 range from the reduced 1990 range. The Committee voted to incorporate the following statement regarding the 1991 ranges in its domestic policy directive:

For 1991, the Committee agreed on provisional ranges for monetary growth, measured from the fourth quarter of 1990 to the fourth quarter of 1991, of 2½ to 6½ percent for M2 and 1 to 5 percent for M3. The Committee tentatively set the associated monitoring range for growth of total domestic nonfinancial debt at 4½ to 8½ percent for 1991. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Kelley, Mullins, and Stern. Votes against this action: Ms. Seger and Mr. LaWare. Absent and not voting: Mr. Johnson.

Mr. LaWare dissented because he preferred a somewhat lower range for M3 in 1991. He did not view such a range as implying greater monetary restraint next year but as warranted by technical factors, notably the further shrinkage in prospect for the savings and loan industry, that pointed to a further rise in the velocity of M3 and to little or no growth in this aggregate in 1991. Moreover, he believed that a further reduction in the M3 range for next year would be more consistent with the lower ranges tentatively adopted for M2 and nonfinancial debt.

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Ms. Seger dissented because she wanted to retain this year's ranges, at least tentatively, for 1991. She was not opposed to gradual reductions in the ranges over time, and she would be prepared to make adjustments in February if intervening developments warranted. However, she continued to believe that the inevitable uncertainties in assessing the economic outlook over an extended period of time argued for not changing the ranges at midyear but waiting until February. Such uncertainties loomed especially large at this time because of the possibility of a major adjustment in fiscal policy and the critical questions that remained concerning the outlook for credit conditions.

In the Committee's discussion of policy implementation for the weeks ahead, all of the members supported a proposal to maintain unchanged conditions in reserve markets at least initially following this meeting, and a majority favored a directive that could accommodate some slight easing of reserve conditions fairly soon unless incoming indicators suggested appreciably stronger monetary growth and greater inflationary pressures than the members currently expected. The degree of monetary restraint sought by the Committee since late 1989 remained appropriate, but despite a steady policy course, credit conditions appeared to have tightened at least marginally in recent months. The evidence of such tightening, while not conclusive, had become more persuasive and was a source of increasing concern; the marked slowing in monetary growth in the second quarter in particular suggested the possibility of more restraint than the Committee intended. Nonetheless, in the view of nearly all the members, the persistence of inflation argued for caution and against any adjustment that would have the effect of easing the overall thrust of policy unless incoming information on the monetary aggregates and the economy pointed to a significantly weaker outlook for economic activity.

The members who preferred not to bias the Committee's directive toward a slight reduction in the degree of reserve pressure believed that more evidence would be helpful to assess the performance of the economy and the extent of any inadvertent and inappropriate tightening in overall credit conditions. They emphasized that the persistence of inflationary pressures and the related need to maintain the credibility of the System's anti-inflationary policy warranted particular caution against any premature easing or any policy move that might be interpreted as such. However, a number of these members acknowledged that they too were concerned by the very sluggish monetary growth in recent months, at least to the extent that it could not be explained by technical factors and might therefore be signaling a weaker economy or an inappropriately restrictive monetary policy.

According to a staff analysis prepared for this meeting, growth of M2 was likely to resume over the third quarter, but only to a pace that would keep this aggregate near the lower end of the Committee's range for the year, assuming steady money market conditions and an economic performance in line with the members' expectations. The expansion of M3 was projected to remain very sluggish as components of this aggregate continued to respond to thrift industry and related developments that had inhibited their growth.

At the conclusion of the Committee's discussion, all of the members indicated that they favored or could accept a directive that called for maintaining the existing degree of pressure on reserve positions for at least a short period after this meeting. Subsequently, some slight easing of reserve conditions could be

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implemented unless incoming data on the monetary aggregates and the economy evidenced greater strength; because of the minor firming that appeared to have occurred in general credit conditions, such easing in the availability of reserves would in effect serve to maintain the overall degree of monetary restraint that the Committee had sought to implement since late 1989. In keeping with this approach to policy, the directive provided that slightly greater reserve restraint might be acceptable during the intermeeting period or somewhat lesser restraint would be acceptable depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated at this meeting were expected to be consistent with growth of M2 and M3 at annual rates of 3 and 1 percent respectively over the three-month period from June to September. The intermeeting range for the federal funds rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, was left unchanged at 6 to 10 percent.

At the conclusion of the meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that economic activity is continuing to expand but at a relatively slow pace. Total nonfarm payroll employment has increased at a much reduced rate in recent months. Nevertheless, the civilian unemployment rate has remained in a narrow range for an extended period and was 5.3 percent in May. Industrial production increased substantially in May, largely reflecting a rebound in the manufacture of motor vehicles. Consumer spending has been sluggish in recent months; outlays for goods have declined while expenditures for services have increased at a slower pace. Business capital spending appears to have slackened a bit in the spring after a pickup earlier in the year. Residential construction has fallen to a relatively low level in recent months. The nominal U.S. merchandise trade deficit narrowed in April from its average rate in the first quarter. Partly reflecting an unwinding of the earlier jump in prices of food and energy, consumer prices rose at a slower rate in April and May, while producer prices were unchanged over the two months. The latest data on wages suggest no improvement in underlying trends.

Short-term interest rates have changed little on balance since the Committee meeting on May 15, while rates in long-term debt markets have declined somewhat over the intermeeting period. The trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies was somewhat higher over much of the period but declined late in the period to a level slightly below that prevailing at the time of the May meeting.

M2 and M3 declined in May; available data for June suggest a partial rebound in M2 and little change in M3. Growth of M2 and especially of M3 has been damped by the continuing contraction of deposits of thrift institutions resulting from the restructuring of the thrift industry. Through June, expansion of M2 was estimated to be in the lower portion of its range for 1990 and growth of M3 somewhat below its range for the year. Expansion of total domestic nonfinancial debt appears to have been at the midpoint of its monitoring range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives the Committee reaffirmed at this meeting the range it had established in February for M2 growth of 3 to 7 percent, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The Committee also retained the monitoring range of 5 to 9 percent for the year that it had set for growth of total domestic nonfinancial debt. With regard to M3, the Committee recognized that the ongoing restructuring of thrift depository institutions had depressed its growth relative to spending and total credit more than anticipated. Taking account of the unexpectedly strong M3 velocity, the Committee decided to reduce the 1990 range to 1 to 5 percent. For 1991, the

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Committee agreed on provisional ranges for monetary growth, measured from the fourth quarter of 1990 to the fourth quarter of 1991, of 2½ to 6½ percent for M2 and 1 to 5 percent for M3. The Committee tentatively set the associated monitoring range for growth of total domestic nonfinancial debt at 4½ to 8½ percent for 1991. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint might or somewhat lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from June through September at annual rates of about 3 and 1 percent respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

Votes for the paragraph on short-run policy implementation: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Kelley, LaWare, and Mullins, Ms. Seger and Mr. Stern. Votes against this action: None. Absent and not voting: Mr. Johnson.

Meeting Held on August 21, 1990

Domestic Policy Directive

The information reviewed at this meeting suggested that economic activity was continuing to expand at a relatively slow pace. Growth in exports and some expansion in consumer spending were supporting final demands. At the same time, business capital spending appeared sluggish, and the demand for new housing had weakened further. Labor demand had softened on balance since the spring and the unemployment rate had risen recently, but labor costs showed no sign of decelerating. Underlying trends in inflation appeared to be little changed.

Total nonfarm payroll employment registered a large decline in July after having risen considerably over the two previous months. Much of the July drop resulted from layoffs of temporary census workers; however, payrolls shrank in manufacturing, construction, and business services, and hiring remained slow elsewhere. The civilian unemployment rate rose to 5.5 percent in July, just above the narrow range that had prevailed for an extended period. In contrast to the employment data, hours worked by production and nonsupervisory workers edged up in July, and initial claims for unemployment insurance continued to fluctuate narrowly around the average pace of the first half of the year.

After rising appreciably in the second quarter, industrial production was unchanged in July. Output of goods other than motor vehicles rose at about the moderate pace evident thus far this year. Total industrial capacity utilization retraced its June rise but remained somewhat above its level at the start of the year. The operating rate in manufacturing also slipped in July, though it stayed in the narrow range that had prevailed this year after an appreciable reduction in 1989.

After declining in earlier months, nominal retail sales rose considerably on balance over June and July. There were substantial upward revisions to sales for both May and June; nevertheless, for the second quarter as a whole, gains in total personal consumption expenditures appeared to have been relatively limited. In July, housing starts fell for the sixth

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straight month. Most of the decline was in multifamily units, but starts in the single-family segment of the market edged lower as sales of new homes continued sluggish and inventories of unsold homes remained relatively large.

Shipments of nondefense capital goods rose sharply in June after a decline, on balance, in April and May; most of the gain in June reflected higher outlays for aircraft and for office and computing equipment. Over the past four quarters, however, equipment outlays had changed little as increases in spending on computers had been offset by reduced purchases of industrial equipment and motor vehicles. A net decline in the nominal value of orders for nondefense capital goods in recent months pointed to sluggishness in equipment spending in the near term. Nonresidential construction activity strengthened in June, especially for office buildings, but the downtrend in permits and contracts for new construction suggested continued softness in this sector. Business inventory investment had been moderate in the second quarter, and there was no general indication of inventory imbalances in relation to sales. At manufacturing and wholesale establishments, inventories fell appreciably in June, and the ratio of inventories to shipments edged lower. At the retail level, nonauto stocks climbed somewhat further in June, but with recent gains in sales, inventory-sales ratios dropped back after widespread increases in the two previous months.

The nominal deficit in U.S. merchandise trade narrowed sharply in June. The value of exports rose substantially from the May level, with most of the increase occurring in civilian aircraft and parts, consumer goods, and agricultural products. The value of imports was down somewhat; about half of the decrease resulted from declines in the price and quantity of oil imports. The trade deficit for the second quarter was substantially reduced from its first-quarter rate and was the lowest quarterly average since 1983. Measures of economic activity for the second quarter suggested that growth had remained robust in Japan and West Germany but had slowed somewhat in other major foreign industrial countries. Measured inflation rates were unchanged or had declined slightly in major industrial nations other than the United Kingdom, although the recent rise in oil prices, among other factors, raised concerns about renewed inflationary pressures.

Crude oil prices had risen sharply in spot markets in the weeks before the Committee meeting, largely in response to the Iraqi invasion of Kuwait. Available aggregate measures of producer and consumer prices predated the increase in oil prices, and these data suggested persisting price pressures outside the food and energy categories. Producer prices of finished goods were little changed on balance in June and July as declines in the prices of food and energy products offset a further rise in the prices of other finished goods. Consumer prices rose appreciably further in July, reflecting an acceleration in prices of nonfood, nonenergy items. The latest data on total labor costs indicated that hourly compensation for private industry workers had increased more rapidly in the twelve months ended in June than in the year-earlier period.

At its meeting on July 2–3, 1990, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions for at least a short period after the meeting and that provided for some slight easing subsequently unless incoming data on the monetary aggregates and the economy evidenced greater strength. Accordingly, slightly greater reserve restraint might be acceptable or somewhat lesser reserve restraint would be acceptable during the

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intermeeting period, depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. In the circumstances, M2 and M3 were expected to grow at annual rates of about 3 and 1 percent respectively over the period from June through September.

After the Committee meeting, open market operations were directed initially at maintaining unchanged reserve conditions. Later, in mid-July, pressures on reserve positions were eased slightly as restrictions on credit supplies at banks, signaled in part by lagging money growth, suggested that credit conditions were tighter than appropriate at a time when the economy already was growing very slowly. Adjustment plus seasonal borrowing averaged about $500 million in the three reserve maintenance periods completed since the July meeting. In late July and early August, technical adjustments were made to assumed levels of such borrowing to reflect the continued upswing in seasonal borrowing. The federal funds rate averaged about 8¼ percent at the time of the July meeting but, after the easing of reserve conditions in mid-July, federal funds traded around the 8 percent level. Most other short-term interest rates had dropped somewhat since the July meeting, largely in reaction to easier reserve conditions but also to some extent in reflection of expectations of some further easing in light of additional indications of a relatively sluggish economy. Bond yields had remained unchanged on balance through the end of July, but the invasion of Kuwait at the beginning of August and the associated rise in energy prices propelled long-term rates upward. Broad measures of stock prices, some of which had reached record highs earlier in the intermeeting interval, were off substantially on net over the period.

The trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies declined considerably over the intermeeting period. Tighter monetary conditions in Japan and West Germany and some easing of short-term interest rates in the United States, along with market perceptions that these divergent trends might continue, contributed to downward pressures on the dollar. The dollar declined more sharply against the German mark than the Japanese yen. Late in the intermeeting period, uncertainty associated with the Iraqi invasion of Kuwait provided a short-lived boost for the dollar.

M2 grew slowly in June and July, while M3 changed little; available data for August suggested that growth of both aggregates was rebounding. Growth of M2 and especially of M3 had been damped by the continuing contraction of deposits at thrift institutions resulting from the restructuring of the thrift industry. Through July, expansion of both M2 and M3 was estimated to be in the lower portions of their respective ranges for 1990. Expansion of total domestic nonfinancial debt appeared to have been near the midpoint of the Committee's monitoring range.

The staff projection prepared for this meeting recognized that the recent steep rise in oil prices could have important adverse effects on economic activity and inflation. It was not possible, though, to determine with any confidence how oil prices might evolve over time, and this was clouding further an already uncertain economic outlook. Under a variety of plausible assumptions about oil prices, economic activity was likely to expand over the balance of the year, but at a weaker pace than had been forecast earlier. The retarding effects of higher energy prices on the growth of disposable

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incomes were expected to damp consumer purchases of goods, notably consumer durables, over the quarters immediately ahead. If the price of oil were to fall back somewhat next year, a strengthening of disposable incomes would tend to boost economic growth toward a pace that was closer to the economy's long-run potential by the latter part of next year. If oil prices were to stay at high levels, however, the recovery in consumer spending and economic growth would be delayed for several quarters. In either event, the staff anticipated considerable growth in exports over the next several quarters in conjunction with continuing economic expansion in some major foreign industrial nations and the depreciation that had already occurred in the foreign exchange value of the dollar. Business capital spending was projected to remain relatively sluggish in the quarters ahead, though expenditures on producers durable equipment could strengthen were oil prices to drop back and retail sales to improve. Moderate restraint in expenditures at all levels of government was assumed. The rise in oil prices was expected to boost price inflation to an appreciable degree for the next few quarters; the extent and duration of these effects would depend on the future behavior of oil prices, but the adverse effect on inflation expectations and on wage and price inflation over the longer run would be limited by reduced pressures on resources.

In its discussion of the economic situation and outlook, the Committee focused on both the state of the economy before the increase in oil prices and the likely consequences for real output and inflation of that rise. Available data, which pertained to business conditions prior to the invasion of Kuwait, pointed to continuing slow economic growth, even though business activity was slipping in various sectors of the economy and some regions of the country. At the same time, broad measures of prices and labor costs suggested that the underlying rate of inflation—abstracting from swings in food and energy costs—had not turned down despite slow monetary expansion and the apparent growth of the economy at a pace below potential over the past several quarters. For some members, these data pointed to a relatively even balance, prior to the surge in oil prices, between the risks of a weakening economy and rising inflation. For others, a deterioration in consumer and business attitudes even before the Iraqi invasion of Kuwait and the indications of continuing restrictions on credit availability at banks, among other factors, suggested that the risks had been tilted toward some potential further weakening of the economy.

The steep rise in oil prices was expected to have a retarding effect on economic activity during the months immediately ahead and to exacerbate inflationary pressures. The increase in oil prices also added greatly to the uncertainties about the prospects for economic activity and inflation over time, because the outcomes would depend on the response of consumers to reductions in real disposable incomes, the reaction of businesses to potentially lower sales, and the extent of acceptance by workers of declines in their real wages associated with a higher price of oil. Nonetheless, in the absence of more pronounced or long-lasting disturbances from events in the Middle East, the members generally felt that limited growth in economic activity remained a reasonable expectation, and in the circumstances they would anticipate some decline in the rate of inflation, though progress was likely to occur only after a nearer-term setback.

In their review of business conditions in specific sectors of the economy and regions of the country, members observed that continuing expansion in

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consumer spending and further growth in net exports appeared likely to sustain at least limited expansion in overall economic activity. Revised data suggested that total retail sales had been reasonably well maintained in recent months despite mixed reports from different parts of the country. However, as evidenced by surveys conducted immediately after the Iraqi invasion of Kuwait, consumer sentiment could deteriorate rapidly. Apparently, consumer attitudes already had been adversely affected by the softening in home prices and worsening of employment prospects in many parts of the country; moreover, higher costs for energy were likely to limit any increase in discretionary spending. With regard to the prospects for foreign trade, a number of members expressed some optimism that the nation's trade balance would continue to improve, given the outlook for further economic growth in a number of major industrial countries. The report of a substantial decline in the trade deficit for the second quarter was viewed as an encouraging sign, and contacts in many parts of the country indicated that export demand was helping to sustain manufacturing activity at many firms. Higher oil prices would adversely affect foreign economies, but many other countries had trimmed their energy consumption considerably, and the reduction in oil supplies, if it persisted, should not disrupt in a major way the upward momentum of their expansion.

On the other hand, the prospects for business capital spending were less favorable, at least in the absence of faster growth in final demand than the members now anticipated. Business sentiment seemed to have deteriorated in several parts of the country. Commercial construction activity continued to be depressed by high vacancy rates in many areas and appeared to be softening in some others where previously it had been relatively well maintained. Housing construction in the view of some members might weaken somewhat further before it began to stabilize. With regard to the outlook for fiscal policy, members were concerned that the prospects for a political compromise leading to a substantial reduction in the federal budget deficit had deteriorated as a consequence of the invasion of Kuwait. It might prove more difficult to curb spending or to raise taxes in a period of weak economic expansion or in conjunction with any surge in military expenditures. At the state and local level, by contrast, the worsening budgetary situation in many jurisdictions seemed likely to induce spending curbs and higher taxes.

In the course of the Committee's discussion, members commented on continuing indications of tightened credit standards. The results of a survey showed that credit availability had been reduced since the spring, but some members sensed that lending institutions as a group had not tightened credit terms further in recent weeks. Many lenders reported that they were making credit readily available to good credit risks, and it was clear that a sizable portion of the weakness in lending could be attributed to reduced loan demand on the part of borrowers, including consumers, rather than to a curtailed supply of loans. Nonetheless, contacts in many areas indicated that some business borrowers, notably builders, were continuing to experience serious problems in obtaining credit and that riskier borrowers were facing more stringent standards at banks at a time when markets for securities of less than investment grade had virtually disappeared. Members remained concerned about the exposure of many financial institutions and of heavily indebted business firms and individuals to adverse economic developments.

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Turning to the outlook for inflation, the members continued to express disappointment over the lack of evidence of a decline in the core rate of inflation; of particular concern was the failure of increases in labor costs to moderate. By some measures, inflation could be judged to have worsened marginally even before the recent surge in oil prices. The future course of oil prices was highly uncertain, but the recent rise in these prices would undoubtedly raise the measured inflation rate in the period ahead. Moreover, the depreciation of the dollar over the course of previous months would exert upward pressures on prices. Whether these pressures from oil prices and the dollar would be translated into higher inflation rates over longer periods of time would depend not only on their near-term pass-through into prices and wages but more fundamentally on their influence on inflation expectations. In this regard, the slack that seemed to be developing in resource utilization, while regrettable in some respects, would help to forestall a more permanent increase in wage and price inflation.

In the Committee's discussion of policy for the weeks ahead, members commented that the heightened uncertainties and the prospectively less satisfactory performance of the economy stemming from events in the Middle East had greatly complicated the formulation of an effective monetary policy. Uncertainties about the developments in the Middle East made it difficult to judge an appropriate policy stance, and those uncertainties had been reflected in unusually volatile financial markets. More fundamentally, with the surge in oil prices tending to weaken economic activity while also intensifying inflationary pressures, an easing in policy would incur the risk of overcompensating for potential weakness in the economy at the expense of greater inflation, while a tightening move to counter inflation might stall an already weak economic expansion. In these circumstances, the members generally concluded that the Federal Reserve could best contribute to the nation's economic goals by fostering a stable policy environment. The prospective performance of the economy was very likely to be dominated by events that were outside the Committee's control, including not only developments in the Middle East but decisions to be made with regard to the federal budget deficit.

While acknowledging the current uncertainties and policy limitations that the Committee was facing, several members underscored the need to avoid any paralysis of policy as conditions evolved in the weeks and months ahead and circumstances permitted an effective policy response. In the opinion of several members, events appeared likely to unfold in a direction that would require an easing of policy at some point to counter weakening tendencies in the economy that had been in train before the oil price increase. The timing and circumstances of any such easing would have to be weighed carefully, however, to avoid an unfavorable impact on inflationary attitudes and associated upward pressure on long-term interest rates, especially since the dollar had been under downward pressure in the foreign exchange markets. A number of other members viewed the risks to the economy as more evenly balanced. These members saw a substantial risk of some intensification in inflationary pressures, particularly in the context of higher energy prices. The downward movement of the dollar since the fall of 1989, flat or even mildly rising commodity prices, and the now upward sloping yield curve argued for a relatively restrictive monetary policy, pending further developments. For the present, all the members indicated that they could support a steady policy, given the current uncertainties

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and the possibility of unsettlement in foreign exchange and domestic financial markets.

In the course of the discussion, the members took account of a staff analysis, which suggested that, on the assumption of an unchanged degree of reserve restraint, growth in M2 and M3 was likely to pick up to some extent from the pace in recent months, in part because of a narrowing in the opportunity costs of holding assets included in those monetary measures. Members noted that the very recent strengthening of the monetary aggregates tended to reinforce the staff assessment and to diminish the case for any near-term easing of reserve conditions, though it also was recognized that some of the strength represented a greater preference for liquidity in an uncertain environment. Given the particular difficulty of charting an appropriate course for monetary policy in current circumstances, some members suggested that the behavior of the monetary aggregates needed to be monitored with special care and that greater-than-usual emphasis should be given to fostering desired rates of monetary growth.

While all the members could support an unchanged policy stance for at least some initial period after today's meeting, their somewhat differing assessments of the most likely course for monetary policy were associated with some differences in their views with regard to the possible need to adjust reserve conditions later during the intermeeting period. A majority indicated a preference for a directive that was tilted toward potential easing. Some of these members indicated that they had been leaning toward an easing move prior to the events in the Middle East, and they now felt that reserve conditions should be eased promptly if conditions in domestic financial and foreign exchange markets provided an appropriate opportunity. Tightening would be especially inappropriate in this view, given the current indications of weaknesses in the economy and the vulnerability of many financial institutions and heavily indebted borrowers to higher interest costs. Other members acknowledged the threat of a deteriorating economy, but because they also saw a considerable risk that underlying inflationary pressures might worsen, they preferred a symmetrical directive that gave equal weight to possible intermeeting adjustments in either direction. A few members would not rule out the possibility of some tightening, which might foster some decline in long-term interest rates by having quite beneficial effects on inflation expectations and by reinforcing the public's perception of the Committee's commitment to its price-stability objective.

At the conclusion of the Committee's discussion, all the members indicated that they favored or could accept a directive that called for maintaining unchanged conditions of reserve availability, at least initially, in the intermeeting period ahead and that provided for giving emphasis to potential developments that might require some easing during the intermeeting period. Accordingly, slightly greater reserve restraint might be acceptable during the intermeeting period, while some easing of reserve pressure would be acceptable, depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with somewhat faster near-term growth in money than the members had anticipated earlier, including growth in M2 and M3 at annual rates of about 4 and 2½ percent respectively over the three-month period from June to September.

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The intermeeting range for the federal funds rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, was left unchanged at 6 to 10 percent.

At the conclusion of the meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that economic activity is continuing to expand at a relatively slow pace. After a sizable rise in May and June, total nonfarm payroll employment registered a large decline in July, much but not all of which reflected layoffs of temporary census workers. The civilian unemployment rate rose to 5.5 percent in July, just above the narrow range that had prevailed for an extended period. Industrial production was unchanged in July after rising appreciably in the second quarter. Retail sales rose considerably on balance over June and July after declines in earlier months. Available indicators point to a sluggish trend in business capital spending. Residential construction weakened further in July. The nominal U.S. merchandise trade deficit narrowed sharply in June; for the second quarter, the trade deficit was substantially reduced from its first-quarter rate. Consumer prices rose appreciably further in June and July, while producer prices were about unchanged over the two months. The latest data on labor costs suggest no improvement in underlying trends. Crude oil prices have risen sharply over the last several weeks.

Short-term interest rates have fallen somewhat since the Committee meeting on July 2–3, while rates in bond markets have risen appreciably, as oil prices have increased. The trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies declined considerably over the intermeeting period.

M2 grew slowly in June and July, while M3 was little changed; available data for August suggest a partial rebound in both aggregates. Growth of M2 and especially of M3 has been damped by the continuing contraction of deposits at thrift institutions resulting from the restructuring of the thrift industry. Through July, expansion of both M2 and M3 was estimated to be in the lower portions of their respective ranges for 1990. Expansion of total domestic nonfinancial debt appears to have been near the midpoint of its monitoring range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at its meeting in July reaffirmed the range it had established in February for M2 growth of 3 to 7 percent, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The Committee in July also retained the monitoring range of 5 to 9 percent for the year that it had set for growth of total domestic nonfinancial debt. With regard to M3, the Committee recognized that the ongoing restructuring of thrift depository institutions had depressed its growth relative to spending and total credit more than anticipated. Taking account of the unexpectedly strong M3 velocity, the Committee decided in July to reduce the 1990 range to 1 to 5 percent. For 1991, the Committee agreed on provisional ranges for monetary growth, measured from the fourth quarter of 1990 to the fourth quarter of 1991, of 2½ to 6½ percent for M2 and 1 to 5 percent for M3. The Committee tentatively set the associated monitoring range for growth of total domestic nonfinancial debt at 4½ to 8½ percent for 1991. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint might or somewhat lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from June through September at annual rates of about 4 and 2½ percent respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before

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the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Kelley, LaWare, and Mullins, Ms. Seger, and Mr. Stern. Votes against this action: None.

Meeting Held on October 2, 1990

Domestic Policy Directive

The information reviewed at this meeting suggested that economic activity had expanded at a slow pace in the third quarter. The available data provided only limited evidence of a retarding effect of the recent large increase in oil prices on production and aggregate spending. Key measures of inflation had been boosted by the rise in oil prices, but on the consumer level the upward march in prices of items other than food and energy also appeared to have quickened somewhat. Data on labor costs suggested no improvement in underlying trends.

Total nonfarm payroll employment declined in July and August, largely because of layoffs of temporary census workers. Employment in the private sector was little changed over the two months as widespread declines in jobs at manufacturing and construction establishments offset limited gains in the service-producing sector. In the weeks after the August employment survey, initial claims for unemployment insurance moved into a slightly higher range than had prevailed in the preceding few months. The civilian unemployment rate edged up to 5.6 percent in August.

After showing strong gains over the previous two months, industrial production was about flat on balance in July and August. Output of construction supplies continued to fall, but production of consumer goods other than motor vehicles firmed a bit on balance after declining earlier in the year. Total industrial capacity utilization slipped in July and August. In manufacturing, operating rates declined further in most industries and were appreciably below year-earlier levels.

Consumer spending in real terms was up slightly on balance in July and August; however, averaged over the two months, spending was significantly above the level for the second quarter. Outlays for services rose in August at a pace well below that registered over the previous several months. Spending for motor vehicles and parts fell, but outlays for other consumer goods posted moderate increases. Major surveys of consumer attitudes indicated a sharp deterioration in the confidence of consumers. Total private housing starts declined for the seventh consecutive month. Single-family starts slid further, evidently in response to continued weakness in sales of new homes.

In August, shipments of nondefense capital goods retraced part of a large July decline. Average shipments for the July–August period were below their second-quarter level, which suggested that overall equipment spending remained in a relatively flat trend. Shipments of office and computing equipment appeared to be somewhat weaker, while shipments of aircraft in July were well above their second-quarter average. New orders for nondefense capital goods changed little in July and August from their level in the second quarter, which pointed to continued sluggish equipment spending in coming months. Nonresidential construction put in place increased in June and July, but anecdotal information and other indicators suggested a downward trend in nonresidential building activity, reflecting the persistence of high vacancy rates for commercial properties and the financial

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pressures on builders and their lenders. Manufacturing inventories rebounded in July from a sizable June decline; the stock–shipments ratio remained near the lows of the current business expansion. Wholesale and nonauto retail trade inventories expanded in July at a pace near the average rate of accumulation over the second quarter.

The nominal U.S. merchandise trade deficit widened sharply in July from the revised, unusually low rate in June. The value of exports more than retraced its sizable June pickup, with decreases widespread among major trade categories that had risen in June. The value of imports increased in July for a range of commodities, but the total remained below peak monthly rates reached earlier in the year. Higher oil imports in July reflected a rise in the quantity of oil imported as prices paid edged lower that month before turning up in August and September in response to developments in the Middle East.

Markedly higher domestic oil prices in August contributed to substantial increases that month in producer and consumer prices. Producer prices of finished goods reflected a rapid pass-through of the higher oil costs into consumer energy products. Prices of non-energy, nonfood items rose in August at about the moderate average monthly pace evident thus far this year. Consumer prices surged in August, largely reflecting the higher oil prices. Excluding food and energy items, consumer inflation picked up in July and August from the second-quarter rate; the acceleration resulted from price advances for non-energy services as prices of commodities flattened out in August after rising moderately in July. Average hourly earnings rose in August at a little slower pace; however, over the twelve months ended in August, hourly earnings increased at about the same rate as that recorded during the previous twelve months.

At its meeting on August 21, the Committee adopted a directive that called for maintaining unchanged conditions of reserve availability, at least initially, in the intermeeting period ahead and that provided for giving emphasis to potential developments that might require some easing later in the period. Accordingly, the directive indicated that slightly greater reserve restraint might be acceptable during the intermeeting period, while some easing of reserve pressure would be acceptable, depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with growth of M2 and M3 at annual rates of about 4 and 2½ percent respectively over the three-month period from June to September.

With price pressures, even outside of the energy sector, not abating and the economy continuing to advance, albeit slowly, open market operations during the intermeeting period were directed at maintaining unchanged reserve conditions. In the three reserve maintenance periods completed since the August meeting, adjustment plus seasonal borrowing averaged about $800 million, an amount inflated by circumstances that gave rise to sharply higher federal funds rates and unusually heavy adjustment credit extensions on the final day of each of these maintenance periods. The federal funds rate generally remained near 8 percent over the intermeeting period, but it edged higher late in the period in the context of quarter-end pressures and more cautious reserve management policies at some banks. Treasury bill rates fell somewhat over the intermeeting period, apparently reflecting heightened investor preference

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for liquidity and safety, while rates on private market instruments changed little on balance. In the bond markets, yields on investment-grade securities edged down. Interest rates on lower-rated instruments rose considerably, as higher oil prices were seen as presaging a sluggish real economy and greater strains on issuers of such debt. In addition, yields on subordinated debt obligations of some major banking organizations increased sharply, reflecting growing investor concerns about the effects of softening real estate values and sluggish economic activity on the quality of bank loan portfolios. Broad indexes of stock prices moved lower over the period.

The trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies declined slightly further on balance from the low level reached at the time of the August meeting. The dollar changed little against most major currencies, but it depreciated substantially against the yen as monetary conditions were tightened further in Japan in response to continued strength in economic activity and potential price pressures in that country. Economic growth in the other G-10 countries slowed, on average, in the second quarter, but recent indicators suggested a rebound in some of those countries.

M2 expanded at an appreciably faster rate in August, and available data suggested continued strength in September. M3 also accelerated in August, but its growth appeared to have slowed somewhat in September. More rapid expansion of M1 and a surge in money market funds, as investors apparently switched out of the stock and bond markets, contributed to the greater strength of the broader aggregates over the two months. Through September, expansion of M2 was estimated to be a little below the middle of the Committee's range for the year, and growth of M3 was in the lower portion of its range. Expansion of total domestic nonfinancial debt appeared to have been near the midpoint of its monitoring range.

The staff projection was prepared against the background of unpredictable developments in the Middle East and the substantial adverse effects of high oil prices on domestic inflation and economic activity. While it was recognized that a range of plausible assumptions could be made about the prospective behavior of oil prices, the projection assumed no further major disruption to oil supplies and an appreciable drop in oil prices in the first half of next year as production expanded worldwide to fill the void left by Kuwait and Iraq. In the interim, the retarding effects of higher energy costs would depress the growth of real disposable incomes and consumer spending. Weaker consumer demand along with uncertainty about the outlook would retard business capital spending. Construction spending—both residential and nonresidential—was expected to continue to decline, reflecting the effects of softer housing prices, reduced credit availability, and high vacancy rates for commercial structures. Under the circumstances, a mild downturn in overall economic activity was projected for the near term. However, the staff continued to anticipate considerable growth in exports over the next several quarters in conjunction with further economic expansion in several major foreign industrial nations and in response to the substantial depreciation that had occurred in the foreign exchange value of the dollar. The impetus from the external sector and a rebound in consumer expenditures fostered by the assumed drop in oil prices in coming quarters would bring a resumption of moderate economic growth. The projection assumed that deficit reduction measures about in line with the proposal now before the Congress would be adopted.

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The outlook for inflation remained clouded by the very uncertain prospects for oil prices. The sizable decline in oil prices projected for next year along with the opening up of slack in resource utilization would foster a lower rate of consumer price inflation, but the improvement would be limited by the lagged effects of the decline that had occurred in the foreign exchange value of the dollar.

In the Committee's discussion of the economic situation and outlook, members commented that despite weaknesses in some sectors of the economy and parts of the country, overall economic activity appeared to be continuing to expand, although at a relatively slow pace. Many of the members observed that, insofar as could be judged on the basis of traditional indicators, the available data did not point to cumulating weakness and the onset of a recession. At the same time, however, the risks of a recession were felt to have increased. These risks stemmed to an important extent from developments in the Middle East and the continuing financial strains in the economy that were adding to stringency in credit markets. Business and consumer confidence appeared to have deteriorated considerably, especially since early August. The members generally agreed that some tendency for economic growth to moderate and inflation to worsen for a time could not be avoided as a result of oil price developments.

Despite the relatively limited growth of the economy and the apparent fragility of the expansion, the prospects for inflation were viewed with concern. To a considerable extent, recent increases in key measures of inflation reflected the pass-through effects of the surge in oil prices, but many of the members felt that the underlying rate of inflation also had worsened even apart from the effects of higher oil prices. Reduced pressures on resources would help to contain inflationary forces, but there was still some risk that upward movements of oil and import prices would intensify inflationary expectations, fostering increases in wages and other costs that would become more deeply embedded in the cost structure of the economy.

Many of the members observed that the recently negotiated federal budget proposal incorporated a significant degree of fiscal restraint, a potentially workable enforcement mechanism, and a desirable multi-year commitment. Final enactment of a budget along the lines of the proposal would establish a sounder basis for a satisfactory performance of the economy. However, the federal budget deficit would still be extraordinarily large, and the commitment to enforce fiscal restraint measures in the future remained to be tested.

In the course of the Committee's discussion, members focused considerable attention on developments in credit markets. The financial strains being experienced currently by many lending institutions reflected especially the problems in the real estate sector, although the buildup in earlier years of debt owed by less developed countries and the tenuous condition of some highly leveraged domestic business firms tended to aggravate current difficulties. Efforts by banks and other lenders to protect or improve their capital positions in the face of deteriorating loan portfolios were reflected in widespread signs of growing constraints on the availability of credit and increases in its cost, especially to less than prime borrowers that lack direct access to securities markets. This pullback was not limited to domestic lenders; foreign institutions, which previously had been quite aggressive suppliers of funds to U.S. credit markets, now seemed less willing to fill the gap left by domestic lenders. It was difficult to judge the extent of the reduced availability of credit

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because the weakness in loan growth also reflected an apparently substantial cutback in the demand for credit. In the view of a number of members, the exposure of the economy to a severe downturn in business activity did not stem in present circumstances from potential adjustments of the usual cyclical kind to overcapacity and overproduction, including excessive inventories in relation to orders and sales, but from the possible aggravation of the strains in financial markets, further retrenchment in lending by banks and others, and the increased difficulty of many heavily indebted businesses and individuals to meet and service their debt obligations in a sluggish economy. On the positive side, the financial system and the economy continued to display a remarkable degree of resiliency, and in important respects many financial institutions had improved their ability to resist adverse developments by raising capital and taking corrective measures, such as adjusting their lending policies and loan portfolios.

In their review of developments in key sectors of the economy and parts of the country, many of the members stressed that a considerable divergence appeared to have developed between available economic indicators, which suggested continued if only sluggish growth, and deteriorating business confidence. Such business attitudes in association with adverse credit market conditions could lead to efforts to curb inventories and cut back on investments and thus trigger the recessionary conditions that underlay current concerns. While business activity clearly seemed to have weakened in some areas of the country, slow to moderate growth continued to characterize business conditions in most parts of the nation.

The prospects for consumer spending remained a key element in the outlook for the economy. Available data indicated that real consumer outlays in July and August were well above the second-quarter average. Nonetheless, there was evidence that consumer sentiment had worsened considerably in response to a variety of developments including a decline in the value of many consumer assets, especially homes in numerous parts of the country, the heavy debt burdens of many consumers, declining employment opportunities in a number of areas, and more generally the reduced purchasing power associated with rising prices of energy. These developments appeared likely to hold down consumer spending for some period of time. With regard to the outlook for business capital spending, commercial construction would continue to be curtailed by widespread overbuilding and constraints on credit availability. More generally, business concerns about a possible recession and sluggish consumer spending had induced a cautious approach to planned investment spending, although many producers of capital goods reported that their orders, including demand from abroad, were continuing to hold up. Nonetheless, even in the oil industry the sharp rise in oil prices had elicited a quite limited investment response to date apparently because of the uncertainties that continued to surround the outlook for oil prices and the difficulty of obtaining skilled labor, at least in the short run. The outlook for housing construction also was restrained by soft housing markets and the difficulties that many builders continued to experience in securing construction loans. On the other hand, business inventories generally appeared to be at or near desired levels, and while business contacts around the country pointed to increasingly cautious inventory management policies, there was little evidence of any current or impending cyclical inventory adjustments of the sort that had characterized past recessions.

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Areas of current or potential strength in the economy included agricultural conditions in many parts of the country and demand for exports that continued to buttress many industries. The substantial decline in the foreign exchange value of the dollar over the past year and the prospects for relatively strong economic growth in some major industrial countries pointed to further improvement in the nation's exports, although some members questioned the potential strength of further expansion in some key foreign countries.

With regard to the outlook for inflation, several members commented that inflation appeared to have intensified even apart from the direct effects of the higher oil prices. There were reports of business efforts to raise prices in markets where demand was relatively vigorous, though it was unclear to what extent competitive forces would permit sizable increases in prices to be sustained. More generally, members expected the decline in the value of the dollar to be reflected over time in greater pressure on domestic prices. Under foreseeable circumstances and assuming no sharp movements in oil prices, whose course remained highly uncertain, overall prices were likely to remain under upward pressure for some time, but the members still anticipated eventual progress in reducing inflation as continued sluggish demand was reflected in diminished pressures on production resources. A major concern in the interim was that the rise in oil prices would become more firmly entrenched in the cost structure of the economy, thereby making more difficult and delaying progress toward price stability.

In the Committee's discussion of policy, a majority of the members were in favor of easing reserve conditions at least slightly during the intermeeting period ahead. In their view, an easing move was warranted in light of the indications that there was a significant risk of a much weaker economy, partly as a consequence of some further tightening in the availability of credit since midsummer; in this context, moreover, the budget proposal, if enacted, would provide a degree of fiscal restraint. Some of these members emphasized that the stronger expansion of the monetary aggregates in recent months did not seem to reflect a healthier intermediation process or a more accommodative monetary policy, but rather sizable increases in components of M2, notably currency and money market funds, that under prevailing circumstances appeared to be related to uncertainty about economic and financial prospects and unsettlement in some foreign countries. Growth in the core components of M2 had remained sluggish, and in the view of these members that development tended to reinforce the conclusion that the overall availability of credit had continued to tighten. In these circumstances, many of the members concluded that some modest easing of reserve pressure would represent a stable monetary policy in the sense that such a move would serve to maintain the appropriate degree of overall credit restraint. In the view of most members, any change in reserve pressures should be limited in light of the danger of leaning too far in either direction in circumstances that were characterized by a sluggish economy and upward pressures on prices. It was argued that the Committee should not try to offset, indeed it could not avoid, some tendency for economic growth to moderate and for inflation to intensify as a result of the oil price developments. One member gave more weight to the recessionary risks in the economy and called for the prompt easing of reserve conditions, preferably by more than a modest amount, although an acceptable compromise in this view would be a slight easing move at this meeting to be

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followed by some further easing upon passage of the new budget.

Members who favored some easing of reserve conditions agreed that it would be desirable to hold such a move until passage of the federal budget package was more certain. The reasons for the easing were not keyed to the enactment of the new federal budget alone but more broadly to developments in credit markets and the economy, with the prospects for fiscal restraint only one element in the outlook. Nonetheless, market participants expected a monetary policy response to the fiscal policy actions, and a change in monetary policy while the latter were still under consideration might create unnecessary uncertainty and unwarranted reactions in financial markets. The easing could give rise to expectations of a further move once the budget package was enacted. In the view of some members, however, associating any easing move too closely with a fiscal policy action might set an undesirable precedent in terms of producing expectations of similar monetary policy adjustments in the future.

A number of members expressed strong reservations about any easing of reserve conditions under prevailing circumstances. In their view, even a modest move toward ease would be undesirable or at least premature in the weeks ahead. These members acknowledged the risks of a weakening economy, but they believed that policy should continue to focus on controlling inflation. In the absence of more evidence that economic activity might deteriorate substantially, such a focus was likely to involve unchanged reserve conditions for a time. In the prevailing circumstances, they were concerned that any easing in the near term would worsen inflationary expectations by tending to erode the credibility of the System's anti-inflationary effort. Thus, such easing might well have the unintended effects of generating upward pressures on long-term interest rates and adding to the downward pressures on the dollar in foreign exchange markets. In support of this view, some members expressed satisfaction that the overall expansion of M2 for the year was well within the Committee's target ranges and according to a staff forecast was likely to remain comfortably within that range through year-end.

The members also discussed whether any further adjustments in policy should be contemplated for the intermeeting period in the event that a decision was made to implement some modest easing in the near term. A majority opinion emerged in favor of retaining a bias in the directive toward some further easing, but any such move would need to take account of the response to the initial easing as well as developments in the economy and credit markets.

At the conclusion of the Committee's discussion, a majority of the members indicated that they favored or could accept a directive that called for maintaining the existing degree of pressure on reserve positions for at least a short period after this meeting. It was presumed that some slight easing would be implemented later in the intermeeting period, assuming passage of a federal budget resolution calling for a degree of fiscal restraint comparable to that now being negotiated and the absence of major unexpected economic or financial developments. Subsequently, some slight further easing of reserve conditions could be implemented if such a move was deemed to be warranted by incoming data on economic and financial conditions in the context of an already sluggish economy. On the other hand, the Committee did not rule out the potential need for some slight firming should inflationary pressures appear to be intensifying. In keeping with this policy, the directive provided that

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slightly greater reserve restraint might be acceptable during the intermeeting period or somewhat lesser reserve restraint would be acceptable depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The intermeeting range for the federal funds rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, was left unchanged at 6 to 10 percent.

At the conclusion of the meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that economic activity expanded at a slow pace in the third quarter. The recent large increase in oil prices has boosted key measures of inflation and eroded real personal income; however, data available thus far provide only limited evidence of a retarding effect on production and aggregate spending. Total nonfarm payroll employment declined in July and August, reflecting layoffs of temporary census workers; employment in the private sector changed little over the two months. The civilian unemployment rate edged up to 5.6 percent in August. Consumer spending appeared to be about unchanged in real terms over July and August but was at a level significantly above the average for the second quarter. Advance indicators of business capital spending point to some softening in investment in coming months. Residential construction weakened further in August. The nominal U.S. merchandise trade deficit increased sharply in July from the low rate in June. Markedly higher oil prices contributed to substantial increases in consumer and producer prices in August; excluding energy and food items, consumer inflation has picked up from the second-quarter rate. Data on labor costs suggest no improvement in underlying trends.

In short-term debt markets, Treasury bill rates have fallen somewhat since the Committee meeting on August 21, while rates on private market instruments are little changed. In the bond markets, most rates have edged lower on balance over this period. The trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies has declined slightly further on balance from the low level reached at the time of the August meeting.

M2 and M3 expanded at appreciably faster rates in August; available data for September suggest continued strength in M2 and some slowing in the growth of M3. More rapid expansion of M1 and money market funds has contributed to the greater strength in the broad aggregates over the two months. Through September, expansion of M2 was estimated to be a little below the middle of the Committee's range for the year and growth of M3 in the lower portion of its range. Expansion of total domestic nonfinancial debt appears to have been near the midpoint of its monitoring range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at its meeting in July reaffirmed the range it had established in February for M2 growth of 3 to 7 percent, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The Committee in July also retained the monitoring range of 5 to 9 percent for the year that it had set for growth of total domestic nonfinancial debt. With regard to M3, the Committee recognized that the ongoing restructuring of thrift depository institutions had depressed its growth relative to spending and total credit more than anticipated. Taking account of the unexpectedly strong M3 velocity, the Committee decided in July to reduce the 1990 range to 1 to 5 percent. For 1991, the Committee agreed on provisional ranges for monetary growth, measured from the fourth quarter of 1990 to the fourth quarter of 1991, of 2½ to 6½ percent for M2 and 1 to 5 percent for M3. The Committee tentatively set the associated monitoring range for growth of total domestic nonfinancial debt at 4½ to 8½ percent for 1991. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

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In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint might or somewhat lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from September through December at annual rates of about 4 and 2 percent respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

Votes for this action: Messrs. Greenspan, Corrigan, Boehne, Kelley, LaWare, Mullins, and Stern. Votes against this action: Messrs. Angell, Boykin, and Hoskins and Ms. Seger.

Ms. Seger dissented because she favored an immediate easing of reserve conditions. In her view, such a move was needed at this time in light of the spreading weakness in the economy, the growing difficulty being experienced by many borrowers in obtaining credit, and more generally the increasing fragility of the financial system. She also felt that enactment of the deficit-reduction measures now under consideration would provide a desirable opportunity for some additional easing later during the intermeeting period.

Messrs. Angell, Boykin, and Hoskins dissented because they were opposed to the easing of reserve conditions contemplated by the majority. Not only was there a presumption of some easing in the near term, but the bias in the language of the directive suggested the possibility of some further easing later in the intermeeting period. To a considerable extent, this policy seemed to be a response to short-run softening in the economy that was an inevitable outcome of the disruption to oil supplies. By paying close attention to those near-term developments, the Committee risked losing sight of its fundamental objective of controlling and ultimately bringing down inflation. Moreover, the timing of the prospective easing was linked to fiscal policy actions, and such a linkage could establish an undesirable precedent that could limit the flexibility of monetary policy in the future. Mr. Hoskins also questioned the adequacy of the fiscal policy measures being considered in the Congress and the desirability of adjusting monetary policy in response to the enactment of those measures.

Meeting Held on November 13, 1990

Domestic Policy Directive

The information reviewed at this meeting suggested that economic activity was weakening in the fourth quarter. A substantial decline in real disposable income and falling consumer confidence pointed to some softening in consumer demand, and advance indicators of business capital spending signaled considerable sluggishness in investment expenditures. At the same time, businesses appeared to be keeping a tight rein on their inventories, partly through recent sharp cuts in output. Industrial production had turned down after rising moderately during the summer, and recent declines in nonfarm payroll employment and average workweeks indicated some emerging slack in labor markets. Broad measures of prices continued to be boosted by the surge in energy prices, but the trend in labor costs appeared to have improved slightly.

Total nonfarm payroll employment declined further in October. Job losses were widespread across industries but

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were particularly notable in the manufacturing and construction sectors. Employment also contracted at wholesale and retail trade establishments for the third straight month. In October, the civilian unemployment rate held steady at 5.7 percent while initial claims for unemployment insurance rose steeply.

After rising moderately during the summer, industrial production declined substantially in October. Part of the drop reflected a slower pace of motor-vehicle assemblies; however, reductions in output were widespread in other industries as well, especially in those producing non-auto consumer goods and construction supplies. Total industrial capacity utilization fell in October after edging up on balance in the previous two quarters.

Consumer spending was estimated to have leveled out in real terms over August and September, when a surge in energy prices caused a substantial drop in real disposable income. Nevertheless, over the third quarter as a whole, the pace of spending was substantially higher than in the previous quarter. Major surveys of consumer attitudes continued to indicate a sharp deterioration in consumer confidence. Total private housing starts edged lower in September; sales of new and existing homes continued to weaken, and the vacancy rate for rental apartments persisted at a high level.

Shipments of nondefense capital goods rose on balance over the August–September period; the gain resulted in part from increases for office and computing equipment. New orders for business equipment pointed to a considerable softening in spending for such goods in coming months. Nonresidential construction activity fell appreciably in August and September, retracing the increases recorded in the two previous months. Persisting high vacancy rates for commercial properties in many areas, financial pressures on builders and their lenders, and the downward trend in construction permits and contracts suggested that nonresidential building activity would remain sluggish. Manufacturing inventories posted only modest increases over the August–September period, and the ratio of stocks to shipments edged lower. At the retail level, non-auto inventories changed little on balance over July and August, and inventory–sales ratios remained within the range that had prevailed for an extended period.

The nominal U.S. merchandise trade deficit widened slightly in August from the revised July rate; for the two months combined, the deficit was substantially higher than its average rate for the second quarter. In August, a sharp increase in the price of imported oil was only partly offset by a decline in the quantity imported; the value of non-oil imports was little changed from the elevated July level. Exports picked up somewhat in August but remained within the range recorded in the first half of the year. The performance of the major foreign industrial economies had been mixed. In Western Germany and Japan, the pace of economic activity remained robust in the third quarter, and growth in France picked up after a weak second quarter. In Canada and the United Kingdom, by contrast, economic activity appeared to be declining. Measures of consumer price inflation had risen for almost all of the major industrial countries, reflecting mainly the effects of higher energy prices.

Producer prices of finished goods rose sharply in October, boosted for the third consecutive month by the effects of higher oil prices; food prices also advanced and reversed their September decline. Producer prices of non-energy, nonfood finished goods increased in September and October at about the moderate average pace evident in previous months of the year. At earlier stages of processing, the prices of metals and some raw mate-

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rials had fallen considerably, despite the depreciation of the dollar on foreign exchange markets. Higher oil prices continued to push up consumer prices, which rose in September at the elevated August rate. Excluding energy and food items, consumer inflation slowed a little in September, but the rate of increase over the first nine months of the year was appreciably above the pace during 1989. The growth in total compensation costs for private industry workers decelerated in the third quarter, reflecting smaller gains in wages and salaries. Measured on a year-over-year basis, twelve-month changes in total labor compensation had fallen a bit below the rates recorded earlier in the year, when increases in payroll taxes and the minimum wage exerted their initial effect on labor costs. Average annual earnings of production or nonsupervisory workers were unchanged in October.

At its meeting on October 2, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions for at least a short period after the meeting. It was presumed that some slight easing would be implemented later in the intermeeting period, assuming passage of a federal budget resolution calling for a degree of fiscal restraint comparable to that under consideration at the time of the meeting and the absence of major unexpected economic or financial developments. After such an easing, the directive provided that slightly greater reserve restraint might be acceptable during the remainder of the intermeeting period or somewhat lesser reserve restraint would be acceptable depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with growth of M2 and M3 at annual rates of about 4 and 2 percent respectively over the period from September through December.

After the Committee meeting, open market operations were directed initially at maintaining unchanged reserve conditions. In late October, against the background of a weakening economy and in light of the conclusion of a budget agreement involving large reductions in the federal deficit over the next several years, pressures on reserve conditions were eased slightly. Over the course of the intermeeting period, several technical adjustments also were made to assumed levels of adjustment plus seasonal borrowing to reflect the declines in seasonal borrowing activity that typically occur during the autumn. Adjustment plus seasonal borrowing fell from about $500 million in the reserve maintenance period completed immediately after the October meeting to an average of roughly $250 million thus far in the maintenance period ending the day after this meeting. In the context of more cautious reserve management policies at some banks and some carryover of end-of-quarter pressures, the federal funds rate generally remained near 8¼ percent in the early part of the intermeeting period. Subsequently, as end-of-quarter pressures receded, the funds rate edged down to 8 percent; late in the period, after the slight easing of reserve conditions, the funds rate slipped further to 7¾ percent or a bit below. Most other market interest rates also declined over the intermeeting period; however, the reductions tended to be greater for Treasury than for private issues, reflecting increased demand for high-grade assets by investors concerned about credit quality. Yields on Treasury bonds rose appreciably shortly after the October meeting when a budget accord initially failed to receive congressional approval; they more than retraced these

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increases as prospects for fiscal restraint grew brighter, clearer signs of a softer economy emerged, and investors sought higher-quality investments.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined considerably further over the intermeeting period. The long budget stalemate, indications of additional weakness in the U.S. economy, concerns about the U.S. financial system, and associated expectations of an easing in U.S. monetary policy contributed to the drop in the dollar. The decline was intensified by signs that monetary policy remained restrictive in Japan and might tighten in Germany.

In October, M2 grew only slightly after two months of relatively rapid expansion, while M3 was about unchanged. The sluggishness of M2 in October owed partly to a contraction in its transactions and liquid savings components. The managed-liability components of M3 also were weak, reflecting restrained asset growth at banks and stepped-up thrift resolution activity around the end of the quarter. Through October, expansion of M2 was estimated to be somewhat below the middle of the Committee's range for the year and growth of M3 near the lower end of its range. The expansion of total domestic nonfinancial debt appeared to have been near the midpoint of its monitoring range.

The staff projection was prepared against the background of continuing uncertainties associated with the situation in the Persian Gulf region. The staff continued to assume that no major further disruption to world oil supplies would occur and that oil prices would drop appreciably in the first half of next year. The staff also assumed continuing constraints on the supply of credit, reflected in tighter terms and reduced availability, in response to perceptions of increased credit risks in a relatively weak economy and the problems facing many financial intermediaries. In the near term, higher energy costs would damp real disposable income and consumer spending, and reduced credit availability would be among the factors restraining outlays for business equipment and spending for residential and nonresidential construction. In these circumstances, a mild downturn in overall activity was projected for the near term, but growth was expected to resume during the first half of 1991, aided in part by the assumed decline in oil prices. The staff anticipated that exports would grow relatively rapidly over the next several quarters in association with continued expansion on average in the economies of major foreign industrial nations and the increased international competitiveness of U.S. goods owing to the dollar's depreciation over the past year. As business sales and orders improved, production could be expected to pick up and business investment outlays to rise. The outlook for inflation remained clouded by the uncertainties regarding oil prices, but given the assumption of a sizable decline in the latter and some increased slack in resource utilization, the staff projected a slower rise in prices and labor costs.

In the Committee's discussion of the economic situation and outlook, members focused on the growing indications of a softening economy. Some key measures of business conditions suggested a decline in the economy, and business and consumer sentiment appeared to have deteriorated appreciably; however, the available data on recent developments were still limited, particularly with respect to consumer and business capital spending, and as a consequence were still inconclusive. Moreover, some developments that typically can contribute to a recession, such as a substantial buildup in inventories, did not seem to be a factor in the current economic situation. Assuming

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lower oil prices in the months ahead and given the outlook for further strength in exports stemming especially from the substantial decline that had occurred in the foreign exchange value of the dollar, a relatively mild downturn followed by a limited rebound next year was viewed as a reasonable expectation.

Many of the members noted that, while the most likely outcome was a relatively mild and brief downturn, there were risks of a more severe or prolonged contraction in economic activity. The substantial decline that had occurred in business and consumer confidence likely reflected not only the course of events in the Middle East, but perhaps also uncertainty about developments in that area and their implications for oil prices. A cutback in spending that more fully reflected these attitudes could be greater than currently appeared to be under way. Another source of risks that also could be contributing to the decline in confidence was the state of the financial system, including concerns about the condition of many financial institutions, a curtailed supply of credit to many borrowers, and more generally a widespread perception of relatively fragile financial conditions. Bank loan officers appeared to be reacting increasingly to what they perceived as rising credit risks in a softening economy; their incentives to restrict their lending were strengthened by concerns about the capital positions of their own banks and the possibility that their institutions could face a reduced availability or higher cost of funds. To an important extent, banker attitudes were being influenced by developments in the real estate markets; further, or more widespread, weakening in those markets would add to problem loans in bank portfolios and could foster further cutbacks in bank lending activity more generally. Financial institutions other than banks also were experiencing funding and other difficulties, raising concerns that they might become less willing suppliers of credit. For now, growth in credit and related expansion in money were sluggish but did not seem to be collapsing. Nonetheless, members remained concerned that supplies of credit might prove inadequate to the needs of many qualified borrowers, thereby deepening any downturn and impeding a satisfactory rebound in economic activity.

Members continued to report uneven conditions in different parts of the country and sectors of the economy, but signs of some weakening in business activity were increasing in most areas. Moreover, in keeping with broad survey results, contacts indicated that business and consumer confidence had deteriorated in virtually all parts of the country, including areas that were experiencing at least modest growth in overall business activity. At the same time, conditions were reported to be generally favorable in agriculture, export demands were growing, and on the whole business inventories were indicated to be close to desired levels, at least given current levels of demand.

Members noted that the adverse effects of sharply higher oil prices on disposable incomes and consumer sentiment appeared among other developments to have arrested the growth in real consumer spending in recent months; retail sales, notably of automobiles and other durables, were expected to remain weak and possibly decline over the next several months, although the prospective increase in federal excise taxes on certain luxury items might well boost sales of such goods through year-end at the expense of sales early next year. Members agreed that in the absence of further disturbances in oil markets, growth in real consumer spending could be expected to resume, especially if oil prices were to decline; indeed, such growth was

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likely to provide a major impetus for some strengthening in the economy next year. Net exports also appeared to be positioned to contribute to expanding business activity as a result of the substantial declines that had occurred in the foreign exchange value of the dollar and sustained expansion in a number of major foreign industrial countries. Business contacts reported that demands from abroad were continuing to buttress manufacturing activity in many areas, although there were indications of some slippage in such demands from some countries. The prospects for business investment remained less promising for a number of reasons, including the uncertain outlook for sales and profits and the weakness in commercial construction associated with earlier overexpansion. With regard to the outlook for fiscal policy, the difficult and extended process of securing the recent budget agreement and the still massive deficits projected for the nearer term appeared to have had an adverse effect at least temporarily on attitudes, and perhaps as a consequence financial markets had not yet fully recognized the appreciable degree of enforceable restraint that was built into that agreement.

Turning to the outlook for inflation, members referred to accumulating indications that the core rate of inflation, excluding the discernible effects of the surge in energy prices, might have stabilized. There were signs of diminished wage pressures in the aggregate data, and the latter were confirmed by reports from several parts of the country. In the context of reduced pressures on productive resources, it now seemed more likely that the effects of higher oil and import prices would not be built into the general price and wage structure. Nonetheless, members cautioned that an extended period probably would be needed before substantial progress was achieved in reducing inflation, given the strength of inflationary expectations.

In the Committee's discussion of policy for the intermeeting period ahead, all of the members indicated that they favored or could support a proposal calling for some slight immediate easing of reserve conditions; one member expressed a preference for somewhat greater easing while another saw advantages in delaying the easing move. The growing signs of a softening economy, the related vulnerability of many business and financial firms to added financial strains, and the increased reluctance of institutional lenders to accommodate less than prime business borrowers suggested that the Committee should remain especially alert during the weeks ahead to signals that some further easing was appropriate. The lack of significant monetary growth over the course of recent months also was seen as pointing in the same direction. However, the weakness in the economy reflected in part an external shock whose effects could not be entirely offset without exacerbating a still substantial inflation, and the dollar had been under considerable downward pressure in the foreign exchange markets. In this situation, any easing needed to be approached with caution. While there were some differences in emphasis, the members agreed that a limited degree of easing at this juncture would provide some insurance against a deep and prolonged recession without incurring a substantial risk in current circumstances of fostering intensified inflationary pressures.

In their discussion, members took account of a staff analysis that pointed to weaker monetary growth in the current quarter than had been anticipated at the time of the previous meeting. The slower expansion in M2 and M3 appeared to reflect the tightening supply of credit through depository institutions and the associated damping of asset expansion

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and funding needs at those institutions. In addition, slower projected growth in nominal GNP in the current quarter implied reduced demands for money and credit. Some members commented that the projected expansion of both M2 and M3 within the Committee's ranges for the year suggested that monetary policy on balance had been on an appropriate course. However, the recent weakness in monetary growth was becoming a matter of increasing concern and was an important consideration for some members in their support of some easing of reserve conditions.

In regard to possible intermeeting adjustments in the degree of reserve pressure, most of the members indicated a preference for retaining the current bias in the directive toward potential easing. In support of this view, it was noted that in prevailing circumstances an intermeeting move, if any, was more likely to be toward some easing than the reverse. A few members questioned, however, whether such a bias was desirable in light of the slight easing that the members already contemplated, especially since any additional move would represent the third easing action by the Committee in a relatively short period. In the circumstances, it was understood that a tilt toward ease in the directive would not imply any commitment to a second easing action during the intermeeting period; in particular, the potential desirability of any additional easing would need to be assessed in the light of market reactions to the initial action, especially the behavior of the dollar in the foreign exchange markets.

At the conclusion of the Committee's discussion, all of the members indicated their acceptance of a directive that called for a slight reduction in the degree of pressure on reserve positions. The directive also called for giving weight to potential developments that might require some slight further easing during the intermeeting period. Accordingly, slightly greater reserve restraint might be acceptable during the intermeeting period or somewhat lesser reserve restraint would be acceptable depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets.

At the conclusion of the meeting the following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests a weakening in economic activity. Total nonfarm payroll employment declined further in October, reflecting sizable job losses in manufacturing and construction; the civilian unemployment rate held steady at 5.7 percent. Industrial production declined sharply in October after rising moderately during the summer. Consumer spending is estimated to have flattened out in real terms over August and September when a surge in energy prices caused a substantial drop in real disposable income. Advance indicators of business capital spending point to considerable softening in investment in coming months. Residential construction weakened further in the third quarter. The nominal U.S. merchandise trade deficit widened substantially in July–August from its average rate in the second quarter as imports strengthened. Markedly higher oil prices have boosted consumer and producer prices in recent months. The latest data on labor costs suggest some slight improvement from earlier trends.

Most interest rates have fallen somewhat since the Committee meeting on October 2. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies has declined considerably further over the intermeeting period.

In October, M2 grew only slightly after two months of relatively rapid expansion, while M3 was about unchanged. Through October, expansion of M2 was estimated to be somewhat below the middle of the Committee's range for the year and growth of M3 near the lower end of its range. Expansion of total domestic nonfinancial debt appears to have

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been near the midpoint of its monitoring range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at its meeting in July reaffirmed the range it had established in February for M2 growth of 3 to 7 percent, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The Committee in July also retained the monitoring range of 5 to 9 percent for the year that it had set for growth of total domestic nonfinancial debt. With regard to M3, the Committee recognized that the ongoing restructuring of thrift depository institutions had depressed its growth relative to spending and total credit more than anticipated. Taking account of the unexpectedly strong M3 velocity, the Committee decided in July to reduce the 1990 range to 1 to 5 percent. For 1991, the Committee agreed on provisional ranges for monetary growth, measured from the fourth quarter of 1990 to the fourth quarter of 1991, of 2½ to 6½ percent for M2 and 1 to 5 percent for M3. The Committee tentatively set the associated monitoring range for growth of total domestic nonfinancial debt at 4½ to 8½ percent for 1991. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

In the implementation of policy for the immediate future, the Committee seeks to decrease slightly the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint might or somewhat lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of both M2 and M3 over the period from September through December at annual rates of about 1 to 2 percent.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Kelley, LaWare, and Mullins, Ms. Seger, and Mr. Stern. Votes against this action: None.

At this meeting, the Committee reviewed its practice of including a sentence in the operational paragraph of the directive that referred to the possibility of a Committee consultation to be called at the Chairman's discretion during an intermeeting period in the event that the federal funds rate fluctuated persistently outside a relatively wide range. That range had been set at 4 percentage points for many years and was a legacy of now outdated operating procedures that had been in place in the early 1980s. The members agreed that under current procedures the directive sentence in question served no real purpose, at least in its present form, in terms of providing guidance for holding intermeeting consultations. Such consultations are based on understandings that vary over time, depending on surrounding circumstances. Accordingly, all of the members favored or found acceptable a proposal calling for deletion of the sentence. The members noted that the deletion would have no implications for the implementation of monetary policy or for the Committee's understandings or procedures with respect to what reserve market, financial, or economic conditions would call for consultations between meetings.

At the conclusion of this discussion, the members voted to delete the sentence incorporating the federal funds range from the operational paragraph.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Kelley, LaWare, and Mullins, Ms. Seger, and Mr. Stern. Votes against this action: None.

Meeting Held on December 18, 1990

1. Domestic Policy Directive

The information reviewed at this meeting suggested that economic activity had

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fallen appreciably in recent months. A depressed level of consumer confidence and a decline in real disposable income had contributed to sluggish consumer spending. In response to apparent weakness in final demands, businesses had reduced production and employment; these cutbacks were most evident in the motor vehicle and construction sectors, but a broad range of other industries had been affected to some degree. Consumer inflation had moderated recently, largely as a result of some softening in oil prices. Despite the substantial increases in living costs this year, wage gains appeared to have slowed somewhat in recent months.

After a progressive weakening during the first three quarters of the year, total nonfarm payroll employment fell sharply further in October and November. Job losses were widespread across industries in November but were especially pronounced in manufacturing and construction. In the service-producing sector, which had generated most of the employment gains earlier in the year, the health industry was one of the few to post significant increases in jobs. The civilian unemployment rate rose to 5.9 percent in November.

Industrial output declined markedly for a second straight month in November. Production cutbacks were broadly distributed across industries but were especially pronounced in motor vehicles and parts, non-auto consumer goods, and construction supplies. Reflecting the sizable decline in manufacturing production, the rate of capacity utilization in manufacturing dropped further below the midyear high.

In October and November, retail sales in real terms were below the downward revised September level. Real disposable incomes had been reduced by a decrease in total hours worked and by the effects of higher energy prices, and major surveys of consumer attitudes in November indicated that consumer confidence remained at depressed levels. In October, total private housing starts declined substantially further; almost all of the drop reflected additional weakness in starts of multifamily units. Sales of both new and existing houses fell in September and October.

Shipments of nondefense capital goods edged lower in October after changing little on balance in previous months. A sizable drop in shipments of aircraft and parts more than offset further increases in the office and computing equipment category. New orders for nondefense capital goods pointed to a considerable softening in business equipment spending in coming months. Nonresidential construction activity fell for a third straight month, and permits and contracts for new construction remained in a downtrend. Manufacturing inventories posted a small increase in October, and the ratio of stocks to sales continued to edge down. At the retail level, non-auto inventories rose moderately after two months of little change; the inventory-to-sales ratio remained within the range that had prevailed for an extended period.

Reflecting a sharper rise in the value of imports than in that of exports, the nominal U.S. merchandise trade deficit widened in October from its average rate in the third quarter. After moderating somewhat in September, non-oil imports surged in October; the value of oil imports also rose as a sharp increase in prices offset a small decline in volume. Nonagricultural exports registered a sizable increase that more than offset a further drop in exports of agricultural products. Economic growth in the major foreign industrial countries was mixed in the third quarter. Growth remained strong in Western Germany and appeared to have rebounded in France. Some slowing from the rapid rise early in the year had occurred in Japan, while declines in

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economic activity were recorded in the United Kingdom and Canada. Some moderation in consumer price inflation appeared to be in progress for the major foreign economies, reflecting the nearly completed pass-through to the retail level of the earlier rise in oil prices.

In November, increases in producer prices of finished goods moderated from the rapid pace of previous months; the prices of finished foods again advanced sharply, but declines in the prices of refined petroleum products damped the overall rise in producer prices. Over October and November, producer prices of non-energy, nonfood finished goods increased at about the third-quarter rate, which in turn was somewhat below that in the first half of the year. The pace of consumer inflation also slowed in November, mostly as a result of a smaller rise in energy prices. Excluding food and energy items, consumer prices rose in November at the more moderate pace seen in the previous two months. Average hourly earnings of production or nonsupervisory workers were unchanged on balance over October and November; this represented a considerable slowing from the increases recorded in earlier months of the year.

At its meeting on November 13, the Committee adopted a directive that called for a slight immediate reduction in the degree of pressure on reserve positions and that also called for giving weight to potential developments that might require some slight further easing during the intermeeting period. The reserve conditions contemplated by the Committee were expected to be consistent with growth of both M2 and M3 at annual rates of about 1 to 2 percent over the period from September through December.

Following the meeting, open market operations were directed toward implementing the slight easing of reserve market conditions sought by the Committee. Subsequently, in early December, in light of further indications of a softening economy and continuing weakness in the monetary aggregates, another slight easing in reserve pressures was carried out. In addition, a number of technical adjustments were made to assumed levels of adjustment plus seasonal borrowing to reflect the declines in seasonal borrowing activity that typically occur late in the year. Adjustment plus seasonal borrowing fell from about $260 million for the reserve maintenance period that ended the day after the November meeting to a little over $100 million for the period completed prior to this meeting. In the early part of the intermeeting period, in the context of continued cautious reserve management by banks and the settlement of the midquarter Treasury refunding, the federal funds rate averaged near 7¾ percent. Late in the period, after the slight additional easing of policy and as concerns about a year-end squeeze on the availability of short-term funds abated somewhat, the federal funds rate averaged around 7¼ percent. Other market interest rates also declined on balance over the intermeeting period, in some cases substantially, as markets responded to mounting evidence that the economy was slowing significantly and to the easing of monetary policy. Lower interest rates and optimism over a possible peaceful resolution of the Persian Gulf situation contributed to a rise in broad stock market indexes.

The easing of concerns about year-end pressures appeared to have been helped by the announcement by the Board of Governors on December 4, 1990, of the elimination of reserve requirements on nonpersonal time deposits and net Eurocurrency liabilities. These reserve requirements were phased down in two steps, with the second occurring in the reserve maintenance period spanning

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year-end. This action was not expected to affect underlying pressures on reserves or federal funds rates but was intended to help counter the tightening by depository institutions of credit terms for many types of borrowers by providing those institutions with added incentive to lend to creditworthy borrowers.

In the foreign exchange markets, the dollar fluctuated in value over the intermeeting period in response to changing perceptions regarding the Persian Gulf situation, the release of U.S. employment data for November, and the further easing of U.S. monetary policy. On balance over the period, the trade-weighted value of the dollar rose slightly in terms of the other G-10 currencies. The dollar appreciated more against the yen and sterling; the recent decreases in oil prices along with expectations of slowing or negative economic growth had sparked large rallies in bond markets in Japan and the United Kingdom. The dollar increased less against the mark, which was generally firm on the basis of continuing strong economic growth in Western Germany and heightened market expectations of further tightening of German monetary policy.

M2 was about unchanged over October and November after growing at a relatively limited pace on balance in earlier months of the year, while M3 declined slightly in both months. The weakness in M2, which persisted despite an earlier decline in opportunity costs, perhaps reflected very weak expansion of nominal income in recent months as well as damped credit growth at depository institutions. From the fourth quarter of 1989 through November, expansion of M2 was estimated to be in the lower half of the Committee's range for the year and M3 near the lower end of its range. Expansion of total domestic nonfinancial debt appeared to have been near the midpoint of its monitoring range.

The staff projection prepared for this meeting pointed to a mild further decline in economic activity over the near term and an upturn before mid-1991. The projection was prepared against the background of persisting uncertainties regarding the prospects for a peaceful resolution of the situation in the Persian Gulf region. The staff assumed that there would be no major further disruption to world oil supplies and that oil prices would drop appreciably further in the first half of next year. The projection took into account the constraints on the supply of credit and an expectation that such constraints would persist to some degree through the year ahead. Consumer outlays were expected to continue to be damped in the near term by the erosion of real disposable income associated with a reduction in hours worked and the effects of higher energy prices; in light of weak consumer demands, business equipment spending was projected to be sluggish and commercial construction to decline further, given the oversupply of currently available space. Economic growth was expected to resume during the first half of 1991 in association with the effects of the assumed reduction in oil prices on consumer spending and the support provided by further gains in exports. Subsequently, as business sales and orders improved, production and business investment outlays were expected to pick up. The outlook for inflation remained clouded by the uncertainties regarding oil prices but, based on the assumption of a substantial decline in oil prices and some added slack in resource utilization, the staff projected a slower rise in prices and labor costs.

In the Committee's discussion of the economic situation and outlook, members commented that a relatively mild and short recession remained a reasonable expectation, but they emphasized the risks of a more severe and prolonged

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contraction in economic activity. Generally lean business inventories, favorable conditions for the further growth of exports, and appreciable declines in oil prices from their recent peaks all promised to buoy spending and activity over coming quarters. However, the key to a near-term rebound in the economy was a pickup in consumer spending. Even under the assumption that the Persian Gulf situation would be more settled and oil prices lower, restoration of the degree of confidence needed to induce a substantial upturn in spending was not assured. The financial difficulties of many borrowers and financial intermediaries, especially banks, could continue to damage confidence as well as to constrain further the availability of credit to many borrowers and contribute to additional declines of asset values in commercial and real estate markets. In general, the economy and financial markets were undergoing a process of adjustment to earlier excesses in leveraging by borrowers and speculative increases in asset prices; while the course and effects of that adjustment were difficult to predict, there clearly had been an increase in the downside risks to the economy as a result. With regard to the outlook for inflation, members saw growing indications that a disinflationary process might be getting under way, and some viewed recent price and wage developments as consistent with an outlook for faster progress in reducing inflation than they had anticipated some months ago.

Regional business developments continued to indicate uneven conditions ranging from modest further growth in some parts of the country, including areas that were benefiting from a relatively strong agricultural sector, to declining activity in an increasing number of regions. Indications of softening economic conditions were widespread, however, even in regions where overall business activity still appeared to be expanding. Business sentiment was negative in much of the nation, and business contacts suggested that it was worsening in many areas. Many state and local governments, notably in relatively depressed areas, were facing severe budgetary problems and were curbing expenditures in response to lagging tax receipts and impaired access to financial markets. Consumer caution was widespread and was evidenced by reports of generally soft retail sales thus far in the holiday season. Some members commented, however, that while its timing remained uncertain, an improvement in consumer sentiment associated possibly with more settled conditions in the Middle East and an upturn in real disposable income would be likely to generate considerable strengthening in deferred consumer spending, particularly for motor vehicles, and to foster a rebound in overall economic activity. Other comments focused on the possibility that consumer sentiment might well remain bearish and consumer spending restrained for an extended period, perhaps even in the context of favorable developments in the Middle East, as consumers continued to adjust to the adverse wealth effects of weak housing markets, heavy debt loads, concerns about the well publicized difficulties of many financial institutions, and fears about their employment prospects. Weak housing prices affected household spending especially by reducing perceived wealth, but also by eroding the margin of unborrowed equity available to be liquified for spending on other goods and services.

Many of the members stressed that business investment spending was likely to remain relatively weak, particularly the construction of office and other commercial facilities that were overbuilt in many metropolitan areas. To date, the manufacture of capital goods appeared to

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have held up relatively well in key capital-producing sections of the country, though the output of some types of capital equipment had turned down. Statistical and anecdotal reports suggested that inventories generally remained under tight control, even in relatively depressed industries and regions, and a pickup in overall demand was therefore likely to lead fairly promptly to stronger production activity.

Members commented that, apart from the key role of consumer spending, current forecasts of a rebound in overall economic activity relied to an important extent on expectations of appreciable further growth in net exports over the next several quarters. The substantial depreciation of the dollar in terms of other key currencies over the past year, especially since mid-1990, would encourage exports and curb imports. Some members noted, however, that economic activity in a number of major trading nations might be somewhat weaker than was anticipated earlier, thereby tending to limit the growth in U.S. exports. That view was reinforced by comments from some domestic exporters who now saw more limited export opportunities in the year ahead, at least to some countries.

Turning to financial developments, members commented that economic recovery would depend to an important degree on the availability of credit. While credit terms and conditions were not projected to tighten appreciably further, the possibility of such a development represented a risk to the economy that could not be ruled out. A major source of financial pressures was the decline in real estate values in many areas and the inability of many heavily indebted borrowers to service their real estate debts. The difficulties in the real estate sector and the related vulnerability of many lending institutions obviously would be aggravated by a prolonged recession. Many business borrowers with less than prime credit ratings continued to report problems in securing financing, even from their usual lenders, and those problems seemed to be increasing in at least some parts of the country in conjunction with bank efforts to rebuild their capital positions and limit their lending risks in a weak economy. At the same time, there were indications of greater efforts by banks in some areas to increase their loans in order to improve their profits; moreover, many large banks appeared to have made significant progress in adjusting the pricing of their loans to take better account of lending risks; those efforts also could lead to improved profits and to a better availability of credit to many potential borrowers.

The softness in real estate prices was having a pronounced effect on inflationary sentiment, and against the background of reduced pressures on production resources and an extended period of limited monetary growth most of the members believed that substantial progress toward lower inflation was a likely prospect over the next several quarters. Rising unemployment in some areas of the country was clearly reflected in downward adjustments to the wages of some categories of workers. More generally, the rise in broad wage measures appeared to have peaked in an atmosphere of concern about reduced employment opportunities; it was noted in this connection that current unemployment rates probably underestimated actual unemployment, as discouraged potential workers abandoned efforts to secure employment. Members also commented that competitive pressures, including competition from foreign producers, remained strong in retail markets around the country and also in markets for many producer goods.

In the Committee's discussion of policy for the intermeeting period ahead, all of

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the members indicated that they favored or could accept a directive calling for some slight easing in reserve conditions. Members noted that monetary policy had been eased in several steps over the course of recent weeks; while substantial additional easing might not be needed under prevailing conditions, a limited further move would provide some added insurance in cushioning the economy against the possibility of a deepening recession and an inadequate rebound in the economy without imposing an unwarranted risk of stimulating inflation later. The members favored a cautious approach to further policy moves in light of the appreciable easing in reserve conditions that already had been implemented and the considerable decline that had occurred in market interest rates. The stimulus provided by the recent easing actions had not yet been felt in the economy, and given the lags that were involved, there was some risk of overdoing the easing of policy at some point, with potential inflationary consequences once the economic recovery got under way. Most of the members viewed such a risk as relatively remote and one that could be dealt with, should the need arise, by a future tightening of policy, although it was recognized that moves toward restraint could be difficult. Persisting weakness in the monetary aggregates tended to reinforce the view that policy was not moving in a way that would promote a resurgence in inflation. In evaluating the behavior of the monetary aggregates, members stressed the need for policy to provide adequate liquidity in a period of declining economic activity in order to encourage economic recovery.

Growth of M2 had displayed an uneven pattern but had tended to weaken over the course of the year, especially in recent months. The behavior of M2 was not fully understood, but it appeared to be associated, at least in the past year, with the constrained availability of credit from depository institutions and with lagging income growth. In addition, other factors, such as perceptions of increased risks in holding deposit balances in current financial circumstances, seemed to be affecting monetary expansion. A staff projection prepared for this meeting pointed to a pickup in M2 growth over the months immediately ahead, reflecting in part a projected upturn in the expansion of nominal GNP and the lagged effects of the recent declines in market rates on demands for money balances. Members noted that for the year 1990 as a whole, M2 would increase at a rate within the Committee's range, albeit in the lower half of that range and that M2 growth had now been within the Committee's ranges consistently in recent years. While monetary policy might still be viewed as somewhat restrictive from the standpoint of monetary growth, members cited other indicators such as the decline in interest rates, the shape of the yield curve, and conditions in the commodity and foreign exchange markets as indicative of an adequate provision of liquidity and a basically satisfactory policy in current circumstances. Nonetheless, members stressed the need to maintain an appropriate rate of monetary expansion, and they generally concluded that the behavior of the monetary aggregates would need to be monitored with special care in the period ahead for any indication that their growth might be falling significantly short of current expectations.

During this discussion, members noted the potential interactions between open market policy and a possible, near-term reduction in the discount rate. Most of the Federal Reserve Banks had proposed a reduction of ½ percentage point in the discount rate, and in light of their concerns about the narrowing spread between the discount rate and short-term market rates, the members generally

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favored Board approval of that reduction to implement an easing of conditions in money markets. Ordinarily, a reduction in the discount rate would show through fully in lower short-term market rates. However, because of their desire to ease reserve conditions only slightly in the near term, the members generally supported a proposal to gear open market operations toward allowing only about one-half of the proposed cut in the discount rate to be reflected immediately in the money market. If the discount rate were not reduced, the Manager for Domestic Operations would execute the slight easing of policy through open market operations alone. With regard to any further adjustment in the degree of reserve pressure later in the intermeeting period, nearly all the members expressed a preference for retaining a bias in the directive toward potential easing, especially given the recessionary tendencies in the economy, current fragilities in the financial system, and the weakness in the monetary aggregates.

At the conclusion of the Committee's discussion, all of the members indicated that they could support a directive that called for some slight further easing in the degree of pressure on reserve positions and that also provided for giving emphasis to potential developments that might require some additional easing during the intermeeting period. It was recognized that open market operations initially might need to take account of a possible reduction in the discount rate. Subsequent to the initial easing, slightly greater reserve restraint might be acceptable during the intermeeting period or somewhat lesser reserve restraint would be acceptable depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with some pickup in monetary growth, including expansion of M2 and M3 at annual rates of about 4 and 1 percent respectively over the four-month period from November to March.

At the conclusion of the meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests appreciable weakening in economic activity. Total nonfarm payroll employment fell sharply further in November, reflecting widespread job losses that were especially pronounced in manufacturing and construction; the civilian unemployment rate rose to 5.9 percent. Industrial output declined markedly in October and November, in part because of sizable cutbacks in the production of motor vehicles. Retail sales were weak in real terms in October and November; real disposable income has been reduced not only by a decrease in total hours worked but also by the effects of higher energy prices. Advance indicators of business capital spending point to considerable softening in investment in coming months. Residential construction has declined substantially further in recent months. The nominal U.S. merchandise trade deficit widened in October from its average rate in the third quarter as non-oil imports rose more sharply than exports. Increases in consumer prices moderated in November largely as a result of a softening in oil prices. The latest data on labor costs suggest some improvement from earlier trends.

Most interest rates have fallen appreciably since the Committee meeting on November 13. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose slightly on balance over the intermeeting period.

M2 was about unchanged on balance over October and November after several months of relatively limited expansion, while M3 declined slightly in both months. From the fourth quarter of 1989 through November, expansion of M2 was estimated to be in the lower half of the Committee's range for the year and growth of M3 near the lower end of its range. Expansion of total domestic nonfi-

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nancial debt appears to have been near the midpoint of its monitoring range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at its meeting in July reaffirmed the range it had established in February for M2 growth of 3 to 7 percent, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The Committee in July also retained the monitoring range of 5 to 9 percent for the year that it had set for growth of total domestic nonfinancial debt. With regard to M3, the Committee recognized that the ongoing restructuring of thrift depository institutions had depressed its growth relative to spending and total credit more than anticipated. Taking account of the unexpectedly strong M3 velocity, the Committee decided in July to reduce the 1990 range to 1 to 5 percent. For 1991, the Committee agreed on provisional ranges for monetary growth, measured from the fourth quarter of 1990 to the fourth quarter of 1991, of 2½ to 6½ percent for M2 and 1 to 5 percent for M3. The Committee tentatively set the associated monitoring range for growth of total domestic nonfinancial debt at 4½ to 8½ percent for 1991. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

In the implementation of policy for the immediate future, the Committee seeks to decrease slightly the existing degree of pressure on reserve positions, taking account of a possible change in the discount rate. Depending upon progress toward price stability, trends in economic activity, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint might or somewhat lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from November through March at annual rates of about 4 and 1 percent, respectively.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Kelley, LaWare, and Mullins, Ms. Seger, and Mr. Stern. Votes against this action: None.

2. Authorization for Domestic Open Market Operations

The Committee approved a temporary increase of $6 billion, to a level of $14 billion, in the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities. The increase amended paragraph 1(a) of the Authorization for Domestic Open Market Operations and was effective for the intermeeting period ending with the close of business on February 6, 1991.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Kelley, LaWare, and Mullins, Ms. Seger, and Mr. Stern. Votes against this action: None.

The Manager for Domestic Operations advised the Committee that the current leeway of $8 billion for changes in System Account holdings was not likely to be sufficient to accommodate the potentially very large need to drain reserves over the intermeeting period ahead. That need would reflect a bulge in available reserves stemming from the elimination of reserve requirements on nonpersonal time deposits and net Eurocurrency liabilities combined with the effects of seasonal reductions in currency in circulation and in required reserves over the intermeeting period. ■

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Consumer and Community Affairs

The Home Mortgage Disclosure Act and the Community Reinvestment Act were the focus of significant activity in the Division of Consumer and Community Affairs during the year. More lending institutions became subject to the reporting requirements of HMDA, and those requirements also expanded the information that covered institutions must report about the loans and applications they receive for the purchase or improvement of homes. Regarding the CRA, evaluations and ratings under the act became public for examinations performed after July 1.

This chapter presents the Board's efforts under these laws to promote fair lending and detect illegal discrimination. This chapter also presents the Board's implementation in 1990 of new statutory protections for consumers; reports on the examination of institutions for compliance with consumer laws—by the Federal Reserve and other financial regulatory agencies—and on the System's handling of consumer complaints; discusses the community affairs program of the Board and Reserve Banks; details the activities of the Board's Consumer Advisory Council; and reports on testimony.

Regulatory Matters

The Board amended the home equity rules of Regulation Z to require, at the time of application, detailed disclosures about the repayment phase and to continue to allow creditors, under certain conditions, to suspend borrowing privileges on an account once the interest rate on the account reaches the maximum specified in the contract (the rate cap).

The Board amended Regulation CC to reflect the permanent availability schedule that went into effect in September and extended for two years the schedules that apply to deposits at nonproprietary automated teller machines.

The Board preempted inconsistent state laws under Regulation Z and Regulation B and exempted state-chartered institutions in Massachusetts from Regulation C.

The Board also issued a new pamphlet about mortgage discrimination and revised its brochure regarding business credit for women, minorities, and small firms.

Regulation Z (Truth in Lending): Home Equity Lines of Credit

In September the Board amended the Regulation Z rules on home equity lines of credit in response to a lawsuit, by Consumers Union, that challenged the rules issued earlier.[1] Under the amendments, creditors may freeze the line of credit when the rate cap is reached if the contract specifically permits such action. Previously, lenders could freeze the credit line without a contractual clause; they continue to be required to state in the Truth in Lending disclosures the circumstances in which they may suspend borrowing privileges on accounts.

The amendments also require lenders to include, at the time of the credit application,detailed disclosures about repayment plans. Previously, lenders

1. The district court ruled in favor of the Board, and Consumers Union appealed the decision (see the chapter on litigation).

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could delay giving these disclosures until the repayment phase was about to begin.

Regulation Z: Preemptions

In July the Board preempted provisions of Wisconsin law that it found to be inconsistent with Regulation Z. The state provisions deal with disclosures for home equity plans and the acceleration of payments on an outstanding balance when a nonapplicant spouse terminates the credit plan.

Regarding disclosures, the Board determined that a provision of Wisconsin law employed a term appearing in federal law, annual percentage rate, but used it to represent rates that in some circumstances differed from the rates that federal law would specify.

Regarding accelerated payments, Wisconsin law gives a nonapplicant spouse the right to terminate a credit plan, and the Board concluded that valid reasons exist for not preempting this right. The Board determined, however, that a provision permitting the creditor to require accelerated payment of an outstanding balance once the nonapplicant spouse terminates the plan is inconsistent with federal law.

In October the Board published a proposed determination that a New Mexico law requiring disclosures for certain credit transactions is consistent with Regulation Z and is not preempted because a creditor can comply with the state law without violating federal law. The Board also held that having a separate remedy for violations of state law does not by itself contradict federal law. Final action is expected in early 1991.

Regulation CC (Expedited Funds Availability)

In May the Board adopted several amendments to Regulation CC and its official commentary. The act and the regulation address access to deposits and, among other things, impose specific time periods within which depository institutions must make deposited funds available. One amendment lengthened the time that funds may be held when an exception to the availability schedules applies. This action was taken because the check-clearing process had not improved sufficiently before the permanent schedules took effect on September 1, 1990.

The exceptions give institutions more time to determine whether a check will be paid, but they may be used only in special cases (for example, for redeposited checks and deposits exceeding $5,000 in a day). Under the temporary schedule, institutions could add four extra days to the three days allowed for local checks to clear and to the seven days for nonlocal checks. Starting September 1, institutions may add five extra days to the two-day availability for local checks and six days to the five-day availability for nonlocal checks set by the permanent schedule. Thus, the availability periods for exception items remain at seven and eleven days, respectively. The Board also made changes to the model forms, principally to reflect the shortened time periods of the permanent schedule, but also to guide institutions in disclosing changes in policy resulting from the permanent schedule.

In December the Board issued interim amendments to implement a change to the statute. For a two-year period, institutions may treat deposits at nonproprietary automated teller machines as nonlocal checks under the permanent schedule (thus allowing an institution to delay availability until the fifth business day after the day of deposit). The amendments, signed into law in November, were retroactive to September 1, 1990. After public comment, the Board expects to issue a final rule in early 1991.

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Regulation C (Home Mortgage Disclosure)

On January 1, 1990, new rules took effect under the Board's Regulation C, which implements the Home Mortgage Disclosure Act (HMDA). Regulation C generally applies to mortgage lenders located in metropolitan areas if their assets exceed $10 million.

Previously, lenders that made or purchased mortgage and home improvement loans had to report the type of loan and the census-tract location of the home. Amendments signed into law in 1989 expanded the information required to include the race, sex, and income of the applicants and, for loans the lender sells, the type of purchaser. These data will help the Board and other regulatory agencies monitor the compliance of lenders with fair lending laws.

The first HMDA reports under the new rules are due on March 1, 1991; more than 15,000 reports are expected to contain up to 10 million loan entries.

During 1990, the Board and the other agencies that enforce HMDA made extensive preparations for collecting and tabulating the data that will be submitted. The Federal Financial Institutions Examination Council (FFIEC) published samples of the tables that will constitute the new disclosure statements for individual financial institutions as well as the aggregate reports for each metropolitan statistical area. The FFIEC updated its "Guide to HMDA Reporting: Getting it Right!" to help lenders understand and comply with the new amendments taking effect in 1990. The agencies published technical standards and took other steps to encourage electronic filing.

Besides making available the HMDA disclosure statements for each institution, the FFIEC will make edited raw data available to the public, thereby giving community groups and others access to a larger body of data about lending patterns than under the old system. In September the Board hosted a meeting of community-group representatives and other HMDA data users on how best to make the HMDA data accessible to the public.

Regulation C: Exemptions

In August the Board granted an exemption from Regulation C for state-chartered financial institutions in Massachusetts. The Board found that the Massachusetts law is substantially similar to federal law and has adequate provisions for state enforcement. The exemption means that institutions will file their mortgage data with the state banking commission instead of submitting reports to both federal and state regulators. The state agency will send the data to the FFIEC for processing and aggregation.

In December the Board published a proposed exemption for state-chartered financial institutions in Connecticut.

Regulation B (Equal Credit Opportunity): Preemption

In July the Board preempted certain provisions of Ohio law. The Board determined that the provisions were contrary to Regulation B and the Equal Credit Opportunity Act because they could be construed, first, to prohibit favorable treatment of persons age 62 or older and, second, to allow age discrimination in real estate transactions. Moreover, Ohio law permitted special credit programs that take age into account only if they were sponsored by a government agency; federal law permits such programs to be offered by both the public and private sectors if the programs meet certain criteria.

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Consumer Brochures

In September the Board issued a new brochure entitled, "Home Mortgages: Understanding the Process and Your Rights." The brochure describes how to shop for a mortgage and what to look for, outlines the application process, and tells potential homebuyers how to register complaints in cases of discriminatory treatment. The brochure also lists potentially discriminatory practices and outlines some of the laws that protect consumers.

In September the Board issued a revised version of its brochure entitled "A Guide to Business Credit for Women, Minorities, and Small Businesses," which explains the commercial credit process and gives guidance on how to prepare the necessary documents for loan application. The guide points out the responsibilities of lenders and borrowers and suggests some sources for assistance and recourse if an application is denied.

Interpretations

In 1990 the Board continued to offer legal interpretations and guidance on Regulation B (Equal Credit Opportunity), Regulation E (Electronic Fund Transfers), and Regulation Z (Truth in Lending) through official staff commentaries. Published by April 1 of each year, these commentaries help financial institutions and others apply the regulations to specific situations.

Community Reinvestment Act

The Community Reinvestment Act (CRA) requires the Board to encourage financial institutions under its jurisdiction to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, in a manner consistent with safe and sound banking practices. The Board assesses the CRA performance of state member banks during regular compliance examinations and takes the CRA record into account, along with other factors, when acting on applications from state member banks and bank holding companies.

The Federal Reserve System maintains a three-faceted program for enforcing and fostering better bank performance under the CRA: (1) examinations of institutions to assess compliance, (2) dissemination of information on community development techniques to bankers and the public through community affairs offices at the Reserve Banks, and (3) CRA analyses in processing applications from banks and bank holding companies.

Federal Reserve examiners review performance in fair lending, community revitalization, and other areas relevant to assessing CRA compliance. During the 1990 reporting period (July 1, 1989, through June 30, 1990), they examined 649 state member banks and, when appropriate, suggested ways to improve CRA performance.

During calendar year 1990, adverse CRA ratings were at issue in forty-two bank and bank holding company applications, the same number as in 1989; twenty such applications posed CRA issues in 1988. The number of applications protested because of CRA performance rose from sixteen in 1989 to twenty-seven in 1990. At year-end, seventeen of the protested applications had been approved, four were returned to the applicant or withdrawn, and six were still pending.

Community Affairs

Implementation of amendments to the CRA that require public disclosure of CRA ratings and evaluations significantly increased the activities of the Federal Reserve's Community Affairs program

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during 1990. Members of the Community Affairs staff at the Board and Federal Reserve Banks continued to focus attention on community development lending through training, education, and the dissemination of information to financial institutions, community advocates, and government representatives.

New procedures developed by the FFIEC for disclosing CRA ratings and evaluations of banks increased the interest in CRA among community groups, civil rights organizations, and consumer advocates as well as housing and small business organizations and local government officials. As a result, Community Affairs staff members at the Board and Reserve Banks responded to a growing number of inquiries and requests for information regarding the CRA and the new public disclosure process.

To further educate the public and the banking community on these topics, Reserve Banks sponsored 117 Community Affairs conferences and seminars. The Reserve Banks' outreach programs often focused on the new CRA procedures and their implications for banks, supervisory agencies, and consumer and community groups. Members of the Community Affairs staff at the Board and the Reserve Banks spoke at 356 other conferences, seminars, and meetings hosted by banking, community, and other organizations on community development or CRA topics.

CRA training for consumer compliance examiners was a major priority for the Federal Reserve's Community Affairs program during 1990. Expanding on training efforts begun in 1989, Community Affairs staff members at the Board and at the Federal Reserve Banks of Chicago and New York held five week-long sessions on advanced CRA examination techniques. More than 125 examiners representing the 12 Reserve Banks completed the course. Board staff members also participated in training Federal Reserve commercial examiners to acquaint them with the key concepts of community development lending and the objectives of the CRA.

Banks are increasingly interested in the relationship of community development finance activities to their CRA performance. Members of the Community Affairs staff responded to numerous requests from banks and holding companies for information about participation in local housing programs and in community and economic development efforts.

Some Reserve Banks worked directly with banks and state banker associations in helping to fashion finance programs and to train bankers in community development techniques. The Richmond Bank assisted bankers associations in its district in training sessions. The Boston Bank worked closely with the Massachusetts Bankers Association in its creation (in conjunction with the state government) of statewide lending programs for community development. The San Francisco Bank supported efforts by banks to create a statewide, multibank consortium that will finance low- and moderate-income housing in California and other western states.

The interest shown by bank holding companies in forming community development corporations (CDCs) and in other community development equity investments also grew, judging by the increase in their requests for information and assistance from the System's Community Affairs staff. The Federal Reserve authorized 13 bank holding companies to make community development investments during 1990. Although many new CDCs and investments continued to focus on low-income housing, a growing number of bank holding companies requested approval to establish or invest in CDCs that will undertake eco-

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nomic development and small business assistance.

FFIEC Activities

The Federal Financial Institutions Examination Council is an interagency body that prescribes uniform principles, standards, and report forms for the examination of financial institutions by the federal supervisory agencies. The member agencies of the council include the Board, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the National Credit Union Administration (NCUA).

During 1990 the FFIEC approved several initiatives to implement amendments to the Community Reinvestment Act contained in the FIRREA legislation. For examinations conducted after July 1, 1990, financial institutions must disclose to the public the written evaluation of their CRA performance and the CRA rating assigned under a new four-tiered rating system.

In April the FFIEC issued guidelines that included a uniform CRA rating system and uniform methods for disclosing the ratings and presenting the written evaluations. The evaluations will state the examiner's conclusions and supporting facts for each assessment factor set out in the CRA regulations. Interagency training sessions to familiarize examiners with these new CRA provisions and the guidelines for implementation were conducted in Atlanta, San Francisco, Pittsburgh, and Dallas for more than 800 examiners from the Federal Reserve, the OCC, the FDIC, and the OTS.

A joint temporary rule to implement the new public disclosure requirements of the CRA was put in place by the agencies effective July 1. The FFIEC issued a pamphlet, "Community Reinvestment Act Performance Evaluations," to inform the public about the structure and scope of the written evaluations. At year-end, the agencies planned to make public, at least quarterly, lists of the institutions whose CRA performance evaluations have become available. The FFIEC also adopted a policy for sharing community contact information among the agencies.

Other FFIEC initiatives, described earlier, were undertaken to accommodate the 1989 amendments to the Home Mortgage Disclosure Act.

The FFIEC revised examination procedures to incorporate amendments to Regulation Z involving home equity lines of credit and credit cards. It also issued examination procedures for adjustable rate mortgages. At year-end, all member agencies were reviewing the extent to which errors occur in lender calculations of adjustments to variable rate mortgage loans and how such errors should be treated. To support this effort, Board staff members were assessing the extent of errors at state member banks and reviewing the legal authority under the Truth in Lending Act for dealing with such errors.

Compliance with Consumer Regulations

Federal regulators annually report on the extent to which the institutions they supervise comply with consumer regulations. The most recent reporting period was July 1, 1989, to June 30, 1990. The data indicate that compliance with the Truth in Lending Act rose from 1989 levels, while compliance with the Electronic Fund Transfer Act remained unchanged. For the Equal Credit Opportunity Act and the Expedited Funds Availability Act, compliance declined from last year's levels.

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Truth in Lending Act (Regulation Z)

The Board, the FDIC, the OCC, the OTS, and the NCUA reported that 37 percent of examined institutions were in full compliance with the regulation, up from 30 percent in 1989. The Board, the FDIC, the OCC, and the NCUA all noted improvements in compliance, while the OTS reported a decline in the level of compliance by savings associations. Data gathered from the agencies that could provide frequency ranges (the Board, the OCC, and the NCUA) indicate that, among the financial institutions that were not in full compliance, about half had between one and five violations.

The five most frequent violations of Regulation Z were the failure to disclose accurately the finance charge, the amount financed, the annual percentage rate, and the number, amounts, and timing of payments scheduled to repay the obligation; and the failure to provide a separate written itemization of the amount financed or to disclose the consumer's right to ask for an itemization.

The FDIC and the OTS each issued a cease-and-desist order involving violations of Regulation Z. In addition, the OTS placed a savings association under a supervisory agreement, in part for violations of Regulation Z, and fined another savings association for violating the provisions of a supervisory agreement. Under the Interagency Enforcement Policy on Regulation Z, a total of 408 institutions supervised by the Board, the FDIC, the OCC, and the OTS made reimbursements to consumers that totaled $4.5 million on 52,344 accounts. This compares with roughly $8 million reimbursed on 87,447 accounts in 1989.

The Federal Trade Commission (FTC) continued its program of seeking voluntary compliance to enforce the credit-advertising requirements of Regulation Z, focusing on real estate and automobile credit. Companies contacted through the FTC's monitoring program promptly brought their programs into compliance. Three enforcement cases involved violations in which annual percentage rates had been understated.

The FTC continued its enforcement program against improper telemarketing techniques and other frauds against consumers involving credit card overcharges. It brought actions in federal district court alleging violations of Truth in Lending requirements for prompt notification of returns and crediting of refunds on credit card accounts. The FTC filed consent agreements in two telemarketing cases involving the unauthorized use of consumers' credit accounts.

Efforts to educate consumers and businesses of their rights and responsibilities continued to be an integral part of the FTC's enforcement activities. The FTC issued a revised and expanded version of its manual, "How to Advertise Consumer Credit," and published a brochure for home buyers about various mortgage financing options.

The Department of Transportation reported a satisfactory level of compliance with Regulation Z by foreign and domestic carriers. Consumer inquiries investigated during the reporting period resulted in no formal enforcement proceedings for violations.

The Farm Credit Administration reported a satisfactory level of compliance with Regulation Z among the institutions it supervises. Examinations and enforcement activities produced formal enforcement actions against sixteen institutions for violations of Truth in Lending; most of them are now in substantial compliance. Violations declined more than 24 percent from the 1989 reporting period.

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The Packers and Stockyards Administration of the Department of Agriculture received no complaints and initiated no enforcement actions during the 1990 reporting period. Individuals and firms it regulates are believed by the agency to be in substantial compliance.

Equal Credit Opportunity Act (Regulation B)

The five financial regulatory agencies reported a decline in the level of compliance with Regulation B, from 60 percent in 1989 to 57 percent for the 1990 reporting period. The three agencies that could provide a breakdown of the violation frequency (the Board, the OCC, and the NCUA), reported that 73 percent of the institutions that were not in full compliance had between one and five violations. The most frequent violations involved the failure to meet the following requirements:

- Notify the applicant of action taken within 30 days after the creditor received a completed application.
- Provide a written notice of adverse action that contains a statement of the action taken, the name and address of the creditor, the ECOA notice, and the name and address of the federal agency that enforces compliance.
- Provide the specific reasons for adverse action, or a notice of the right to request the reasons.
- Request information for monitoring purposes about race or national origin and sex on credit applications for the purchase or refinancing of a primary dwelling, and note the information based on visual observation or surname if an applicant chooses not to provide it.

The FTC continued an investigatory program in which testers pose as credit applicants to monitor compliance with ECOA. The FTC filed complaints in federal court in two cases that involved practices in violation of ECOA and obtained consent decrees in two other cases.

The Farm Credit Administration reported a satisfactory level of compliance with ECOA by the institutions it supervises. Its examination and enforcement activities led to formal enforcement actions against eight institutions for violations of the act; most of them are now in substantial compliance. Violations increased 13 percent from 1989.

The other agencies that enforce ECOA—the Department of Transportation, the Interstate Commerce Commission, the Small Business Administration, the Packers and Stockyards Administration of the Department of Agriculture, and the Securities and Exchange Commission (SEC)—reported substantial compliance among the entities they supervise.

Electronic Fund Transfer Act (Regulation E)

The five financial regulatory agencies reported that 84 percent of examined institutions were in full compliance with Regulation E, the same percentage as last year. The following rules were the most frequently violated:

- Provide, in a timely manner, written disclosures outlining the terms and conditions of the EFT service.
- Provide a monthly statement of EFT activity or a quarterly statement in the absence of such activity.
- Adhere to procedures for promptly investigating and resolving alleged errors.
- Maintain evidence of compliance with the regulation for two years.
- Provide a periodic notice of the procedures for resolving alleged errors.

The other agencies that are responsible for enforcing the Electronic Fund Transfer Act—the FTC and the SEC—reported a satisfactory level of compliance.

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Expedited Funds Availability Act (Regulation CC)

The five financial regulatory agencies reported that 80 percent of examined institutions were in full compliance with Regulation CC. In 1989 (the first year in which information was collected) the Board, the FDIC, and the OCC reported that 90 percent of the institutions examined were in full compliance. The three agencies that could provide a breakdown of the violation frequency (the Board, the OCC, and the NCUA) reported that 72 percent of the institutions that were not in full compliance had between one and five violations. The most frequent violations involved the failure to meet the following requirements:

- Provide next-day availability for required items.
- Disclose the availability policy followed in most cases.
- Train employees adequately and devise procedures to ensure compliance.
- Post the availability policy at locations where employees accept deposits.
- Print an availability notice on deposit slips printed with the customer's name and account number.

Economic Effect of the Electronic Fund Transfer Act

In keeping with a statutory mandate, the Board monitors the effect of the Electronic Fund Transfer Act on the compliance costs and consumer benefits of EFT services. The economic effect of the act increased in 1990 as a result of continued growth in availability and use of EFT services. About two-thirds of the depository institutions in the United States offer EFT services and are covered by the act and Regulation E.

Automated teller machines are the most widely used EFT service in the United States. Most of the nation's banks and thrift institutions offer ATM services to consumers, and about half of all households currently have ATM access cards. The availability of ATM services has been widened by the expansion of shared networks; the number of ATM terminals participating in shared networks increased from 85 percent in 1989 to 95 percent in 1990. The average monthly number of ATM transactions increased about 12 percent, from 437.4 million in 1989 to 474.9 million in 1990. During the same period, the number of ATM terminals rose about 6 percent.

The number of point-of-sale (POS) systems is growing rapidly, but the devices still account for only a small fraction of EFT transactions. In 1990, the number of POS terminals rose 14 percent, to 53,300, and the average monthly number of POS transactions rose 21 percent, to 15.9 million.

Direct deposit is another widely used EFT service. In the public sector, about half of all social security payments and two-thirds of federal salary and retirement payments are made by direct deposit. Private-sector use is lower, but it grew substantially during 1990. The 1990 paychecks of 17 percent of private-sector workers were deposited automatically into bank accounts, compared to 12 percent the year before.

The benefits to consumers from the Electronic Fund Transfer Act are difficult to measure because they cannot be isolated from consumer protections that would have been provided in the absence of regulation. Examination reports suggest no widespread violations of consumer rights established by the act. In 1990, about 84 percent of depository institutions examined by federal agencies were in full compliance with the act. Statistics indicate that institutions not in full compliance generally had fewer than five violations. The most common viola-

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tion was the failure to provide initial disclosure statements.

Data from the Board's Consumer Complaint Control System provide no evidence of serious consumer problems with electronic transactions. In 1990, forty-five of the complaints processed involved electronic transactions. The Federal Reserve System forwarded twenty-three, which did not involve state member banks, to other agencies for resolution. Of the remaining twenty-two, none involved a violation of the regulation.

Because the industry practices that would have evolved in the absence of statutory requirements are unknown, the incremental costs associated with the act are difficult to quantify. Cost estimates from 1981 suggest that the ongoing compliance cost of an electronic transaction at that time was not high enough to compromise the cost advantage of such transactions over check-based transactions. Since then, few changes have been made in the regulation and transaction volume has increased, allowing financial institutions to exploit scale economies in compliance costs. Thus, it is likely that the regulation has less effect on EFT costs now than it did in 1981.

Complaints about State Member Banks

The Board and Federal Reserve Banks investigate complaints against state member banks and forward to appropriate enforcement agencies those that involve other creditors or businesses. In 1990 the Board developed an on-line system for tracking consumer complaints and inquiries, to be implemented in 1991. The new system will provide more complete and up-to-date information about complaints, improve the Federal Reserve's ability to monitor consumer concerns, and improve its ability to identify trends and problems.

In 1990 the System received 2,003 complaints against state member banks, nonmember banks, and other creditors and businesses: 1,742 by mail, 255 by telephone, and 6 in person (see the accompanying table). The Federal Reserve investigated and resolved the 771 complaints against state member banks. The Board also received 207 written inquiries concerning consumer credit and banking policies and practices. In responding, Board staff members gave consumers brochures on the general

Consumer Complaints Received by the Federal Reserve System, by Subject, 1990

Subject	State member banks	Other lenders[1]	Total
Regulation B (Equal Credit Opportunity)	70	53	123
Regulation E (Electronic Fund Transfers)	22	23	45
Regulation M (Consumer Leasing)	6	6	12
Regulation Q (Interest on Deposits)	29	50	79
Regulation Z (Truth in Lending)	186	271	457
Regulation BB (Community Reinvestment)	1	19	20
Regulation CC (Expedited Funds Availability)	10	22	32
Fair Credit Reporting Act	20	58	78
Fair Debt Collection Practices Act	6	17	23
Fair Housing Act	0	3	3
Municipal Securities Dealer Regulation	0	1	1
Transfer agents	0	1	1
Unregulated bank practices	421	597	1,018
Other[2]	0	111	111
Total	**771**	**1,232**	**2,003**

1. Referred by the Federal Reserve to the appropriate agencies.

2. Primarily miscellaneous complaints against business entities.

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issues plus explanations of laws, regulations, and banking practices specific to their complaints or inquiries.

Board staff members regularly review the System's handling of complaints by sending follow-up questionnaires to complainants. In 1990, 46 percent of the complainants returned the questionnaires. Approximately 65 percent reported that the explanations received were clear and understandable; 65 percent were satisfied with the promptness in handling; 100 percent said they were treated courteously by Federal Reserve staff members; 95 percent said they would contact the Federal Reserve again if they had another problem with a bank; and 70 percent found the resolution of their complaints acceptable.

A classification of the 771 complaints against state member banks according to bank function (see the corresponding table) shows that 57 percent concerned loan functions, 9 percent alleged discrimination on a prohibited basis, and 48 percent concerned credit denial on nonprohibited bases (such as length of residency) and other unregulated lending practices (such as release or use of credit information). About 25 percent involved disputes about interest on deposits and general practices concerning deposit accounts.

Consumer Complaints Received by the Federal Reserve System, by Function, Institution, and Resolution, 1990

Type of institution and resolution	Total	Function					
		Loans		Deposits	Electronic fund transfers	Trust services	Other
		Discrimination	Other				
Complaints about state member banks, by type							
Insufficient information[1]	22	2	11	3	0	0	6
Information furnished to complainant[2]	91	13	55	8	1	3	11
Bank legally correct							
No accommodation	275	31	117	71	10	4	42
Accommodation made[3]	106	7	67	24	0	1	7
Clerical error, corrected	101	6	55	22	5	0	13
Factual dispute[4]	50	1	11	28	0	2	8
Bank violation, resolved[5]	6	1	2	3	0	0	0
Possible bank violation, unresolved[6]	5	0	2	2	0	0	1
Customer error	11	1	5	2	0	0	3
Pending, December 31	104	9	41	29	6	1	18
Total, state member banks	771	71	366	192	22	11	109
Percent	100	9	48	25	3	1	14
Complaints referred to other agencies[7]	1,232	75	565	226	23	8	335
Total	**2,003**	**146**	**931**	**418**	**45**	**19**	**444**

1. The staff has been unable, after follow-up correspondence with the consumer, to obtain sufficient information to process the complaint.

2. When it appears that the complainant does not understand the law and that there has been no violation on the part of the bank, the Federal Reserve System explains the law in question and provides the complainant with other pertinent information.

3. In these cases the bank appears to be legally correct but has chosen to make an accommodation.

4. These cases involve factual disputes not resolvable by the Federal Reserve System and contractual disputes that can be resolved only by the courts. Consumers wishing to pursue the matter may be advised to seek legal counsel or legal aid or to use small claims court.

5. In these cases a bank appears to have violated a law or regulation and has taken corrective measures voluntarily or as indicated by the Federal Reserve System.

6. When a bank appears to have violated a law or regulation, customers are advised to seek civil remedy through the courts. Cases that appear to involve criminal irregularity are referred to the appropriate law enforcement agency.

7. Complaints about nonmember institutions.

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Unregulated Practices

In 1990 the Board continued to monitor, under section 18(f) of the Federal Trade Commission Act, complaints about banking practices that are not subject to existing regulations to focus on those that may be unfair or deceptive. Two categories each accounted for about 5 percent of the 1,018 complaints: credit denial based on credit history (56) and discrepancies in deposit accounts (51).

Many of the complaints about credit denials based on credit history indicated that the applicant underestimated the importance lenders give to a poor credit history or a lack of borrowing experience when considering the applicant's creditworthiness. The complaints about discrepancies in deposit accounts usually involved cases in which consumers had noticed errors on their savings or checking account statements.

Consumer Advisory Council

The Consumer Advisory Council (CAC) met in March, June, and October to advise the Board on its responsibilities under the consumer credit protection laws and to discuss other issues dealing with financial services to consumers. The council's thirty members come from consumer and community-based organizations, financial institutions, academia, and state government. Council meetings are open to the public.

In 1990 the council considered issues related to CRA, electronic delivery of government benefits, amendments to the Home Mortgage Disclosure Act, discrimination in mortgage lending, expedited funds availability, and affordable housing.

A number of issues involved the public disclosure of CRA ratings. In March members offered views on draft guidelines issued by the FFIEC for examiners to follow in CRA evaluations – FIRREA legislation requires CRA ratings and evaluations to be made public for examinations conducted after July 1, 1990. In October the council's CRA committee made preliminary observations about the CRA performance evaluations it had reviewed.

Electronic benefit transfers (EBT) refers to the use of electronic means by government agencies to disburse cash or other benefits (such as food stamps) to recipients. In March the council's Depository and Delivery Systems Committee briefed CAC members on the advantages of EBT over paper-based systems – in minimizing fraud, theft, and diversion of benefits; increasing recipient satisfaction; keeping down administrative costs; and providing uninterrupted benefits to recipients without stable mailing addresses, including the homeless.

At its June meeting the council unanimously adopted a resolution urging the Federal Reserve to pursue the development of EBT. In October the council received a first-hand report on a pilot EBT program run by the state of Maryland and a briefing by Board staff members on regulatory issues related to EBT.

In June the council explored the problem of detecting unlawful discrimination in mortgage lending. Members raised the possible use of testers, in which teams of white and minority persons claiming nearly identical family and financial characteristics would approach mortgage lenders to assess how they are treated. In October the council adopted a resolution seeking information from the Board on the possible scope and approximate cost of a testing project.

A roundtable discussion among members of the council and the Board members, known as the "Members Forum," gives council members the opportunity to offer their views on a variety of topics. During 1990 the council discussed mat-

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ters such as how best to ensure that the public understands the significance of the CRA rating, which is distinct from the safety and soundness rating of the institution. Members also offered views on consumer credit; on financial schemes that defraud consumers, especially the elderly; on deposit insurance reform; on how best to encourage consumers to increase their saving rate; and on council members' perceptions of the current availability of commercial and real estate credit in their local markets.

During the year, the council also considered the following issues:

- Amendments to Regulation C
- Proposed amendments to the Expedited Funds Availability Act to retain the three-day hold period for local checks
- The administration of the Affordable Housing Disposition Program by the Resolution Trust Corporation
- Proposals before the Congress to amend the Fair Credit Reporting Act, which governs the use of consumers' credit histories.

Testimony and Legislative Recommendations

The Board testified in May 1990 before a Senate Banking subcommittee on the Federal Reserve's progress in ensuring equal access to home loans and stimulating private investment in low- and moderate-income communities. The main points of the Board's testimony are summarized below.

CRA and HMDA Revisions

The Board noted the FFIEC's development of interagency CRA guidelines to help the agencies achieve uniformity in assigning ratings, preparing readily understandable evaluations, and facilitating public access. Extensive training of agency examiners was under way together with revisions of examination procedures.

The Board observed that the new HMDA requirements should help to determine whether mortgage credit standards are being fairly applied and to evaluate a lender's efforts in the context of the entire mortgage market.

Mortgage Lending Initiatives

The Board gave the following update on FFIEC initiatives previously brought to the subcommittee's attention. The FFIEC has continued to explore ways that lenders can increase access to mortgages in low-income and minority neighborhoods. The agencies are looking at mortgage review boards, in which groups of lenders and community representatives offer a second chance to applicants who have been turned down for mortgages. The agencies are also examining a Philadelphia mortgage plan in which a group of large banks have agreed not to reject a mortgage applicant until a credit committee (representing the banks) reviews the application, possibly placing the loan with another lender.

The Board also reported on two educational brochures. One will help potential homebuyers learn more about the mortgage lending process and their right to fair lending. The other, which the FFIEC is developing, will advise mortgage lenders about practices that could result, unintentionally, in unfair lending patterns or in the appearance of discrimination.

The Board reported that new procedures will help the agencies trade information from CRA interviews with community contacts like consumer advocacy and housing organizations, local businesses, trade associations, realtors, and government offices.

And finally, as a means of providing HMDA information to institutions in a concise format, examination reports will

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contain an executive summary that will allow a bank to compare its home lending patterns by race and income with the lending record of all local lenders as a whole. The summary is being developed along with new computer applications to process the expanded HMDA data. The Federal Reserve is testing a preliminary model.

Federal Reserve Fair Lending Activities

The Board highlighted its efforts to address fair lending concerns. In May the Board sent letters to several hundred fair housing and civil rights groups and to state and local fair lending enforcement authorities to explain the Federal Reserve's role in protecting the legal rights of applicants. It asked for their help in identifying complainants that the Board might assist.

The Board testified about its updated statistical analysis concerning possible racial discrimination by mortgage lenders in Atlanta and Detroit. Data show disparities, with predominantly white middle-income neighborhoods receiving more home purchase loans per single family housing unit and minority middle-income neighborhoods receiving more home improvement loans. Although these data suggest problems in home lending, the Board could not conclude definitively that discrimination was at work.

The Board also testified about the on-line tracking system for consumer complaints, which it will implement in 1991.

Reserve Bank Initiatives

The Board testified about the work by Federal Reserve Banks to promote fair lending to low- and moderate-income communities. For example, the Atlanta Bank has developed a computer model showing how various tools available to lenders (like grants or subsidies to the buyer, or changes in the interest rates and underwriting criteria) can produce home loans that are both bankable and affordable to low- and moderate-income buyers.

The Boston Bank co-hosted, with the Boston Federal Home Loan Bank, a symposium for more than 300 members of the National Association of Affordable Housing Lenders.

The San Francisco Bank helped launch the California Community Reinvestment Corporation (a lender consortium pooling more than $100 million for long-term financing of affordable housing development) and has been asked to help bankers and community organizers in Hawaii and Nevada with similar programs.

The Chicago Bank convened a seminar for about 250 area bankers to share CRA policies and activities that have been successful in the District.

The Philadelphia Bank is working on a video about CRA experiences.

Recommendations of Other Agencies

The agencies that have enforcement responsibilities under Regulations B, E, and Z made no recommendations in 1990 for changes to the regulations or to the underlying statutes. ■

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Litigation

During 1990, the Board of Governors was named in twenty-seven pending lawsuits, compared with thirty-nine in 1989. Of the thirteen new lawsuits filed in 1990, five raised questions under the Bank Holding Company Act, compared with eight in 1989. As of December 31, 1990, sixteen cases were pending, seven of which involved questions under the Bank Holding Company Act.

Bank Holding Companies – Antitrust Action

In *United States v. First Hawaiian, Inc.*, No. 90-00904 (D. Hawaii, filed December 28, 1990), the Department of Justice is challenging the acquisition by First Hawaiian, Inc., a Hawaiian bank holding company, of First Interstate of Hawaii, Inc., under the antitrust laws. The Board had approved the transaction on November 30, 1990 (77 *Federal Reserve Bulletin* 52 (1991)). The case is pending.

Bank Holding Company Act – Review of Board Actions

In *Lewis v. Board of Governors*, Nos. 87-3455 and 87-3545 (11th Circuit, filed June 25, August 3, 1987), petitioner sought review of Board orders dated May 29, 1987, and July 1, 1987, approving applications of Chemical New York Corporation and of Manufacturers National Corporation to expand activities of trust company subsidiaries in Florida (73 *Federal Reserve Bulletin* 609 and 735). The cases were dismissed by stipulation on July 3, 1990, following the Supreme Court's decision in a related case, *Lewis v. Continental Illinois Corp.*, 110 S. Ct. 1249 (1990).

In *Independent Insurance Agents of America, Inc. v. Board of Governors*, No. 89-4030 (2nd Circuit, filed March 9, 1989), petitioner sought review of a Board order dated March 3, 1989, granted at the request of Merchants National Corporation, determining that the nonbanking prohibitions of the Bank Holding Company Act do not apply to activities of banks (75 *Federal Reserve Bulletin* 388). The Court of Appeals for the Second Circuit upheld the Board's order on November 29, 1989 (890 F.2d 1275), and the Supreme Court denied certiorari on October 1, 1990 (111 S. Ct. 44). A second case raising the identical issue was dismissed by stipulation on January 8, 1990 (*Independent Insurance Agents of America v. Board of Governors*, No. 89-4046, 2nd Circuit, filed April 6, 1989).

In *Synovus Financial Corporation v. Board of Governors*, No. 89-1394 (D.C. Circuit, filed June 21, 1989), petitioner seeks review of a Board order dated May 22, 1989, approving the application of SouthTrust Corporation to acquire a national bank in Georgia by relocating an Alabama national bank subsidiary across state lines pursuant to 12 U.S.C. §30 (75 *Federal Reserve Bulletin* 516). The case is pending.

In *Babcock and Brown Holdings, Inc. v. Board of Governors*, No. 89-70518 (9th Circuit, filed November 22, 1989), petitioners seek review of a Board order dated October 25, 1989, in which the Board requested the Federal Deposit Insurance Corporation to condition de-

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posit insurance for a proposed District bank on Board approval of the acquisition of control of the bank by Babcock and Brown Holdings, Inc., a brokerage firm. The case is pending.

In *Woodward v. Board of Governors*, No. 90-3031 (11th Circuit, filed January 16, 1990), and *Kaimowitz v. Board of Governors*, No. 90-3067 (11th Circuit, filed January 23, 1990), petitioners, raising issues under the Community Reinvestment Act, seek review of a Board order dated December 22, 1989, approving an application by First Union Corporation to acquire Florida National Banks (76 *Federal Reserve Bulletin* 83). The *Woodward* case was dismissed on the Board's motion on June 26, 1990. The *Kaimowitz* case is pending.

In *California Association of Life Underwriters v. Board of Governors*, No 90-70123 (9th Circuit, filed March 15, 1990), petitioner sought review of a Board order dated February 16, 1990, approving the acquisition by BankAmerica Corporation of a bank subsidiary to engage in insurance activities pursuant to state law (76 *Federal Reserve Bulletin* 244). The case was voluntarily dismissed on June 29, 1990.

In *Citicorp v. Board of Governors*, No. 90-4124 (2nd Circuit, filed October 4, 1990), petitioner seeks review of a Board order requiring Citicorp to terminate certain insurance activities by a nonbank subsidiary of Citicorp's subsidiary bank in Delaware (76 *Federal Reserve Bulletin* 977). The case is pending.

Other Litigation Involving Challenges to Board Procedures and Regulations

In 1990, seven actions were commenced, were pending, or were dismissed under the Financial Institutions Supervisory Act and the Glass-Steagall Act.

Financial Institutions Supervisory Act

In *MCorp v. Board of Governors*, No. 89-2816 (5th Circuit, filed May 2, 1989), the Board appealed a preliminary injunction entered by the district court enjoining pending and future enforcement actions against a bankrupt bank holding company (101 Bankr. 483, S.D. Texas 1989). On May 15, 1990, the Court of Appeals vacated the injunction in part and affirmed it in part (900 F.2d 852). On December 10, 1990, both parties filed petitions for certiorari in the Supreme Court (Nos. 90-913 and 90-914). The case is pending. A related case, *MCorp v. Board of Governors*, No. CA3-88-2693-F (N.D. Texas, filed October 28, 1988), is stayed pending the outcome of the Fifth Circuit appeal.

In *BankTEXAS Group, Inc. v. Board of Governors*, No. CA-3-90-0236-R (N.D. Texas, filed February 2, 1990), plaintiff sought to enjoin the Board from enforcing a temporary order to cease and desist, which required injection of capital into the plaintiff's subsidiary banks. The court granted a preliminary injunction on June 5, 1990, in light of the Fifth Circuit's decision in *MCorp*. On December 20, 1990, the parties submitted an agreed order of dismissal after settlement of the administrative action.

In *Burke v. Board of Governors*, No. 90-9505 (10th Circuit, filed February 27, 1990), petitioners seek review of Board orders assessing civil money penalties and issuing orders of prohibition. The case is pending.

In *Stanley v. Board of Governors*, No. 90-3183 (7th Circuit, filed October 3, 1990), petitioners seek review of a Board order imposing civil money penalties. The case is pending.

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Glass–Steagall Act

In *Securities Industry Association v. Board of Governors*, No. 89–1127 (D.C. Circuit, filed February 16, 1989), the petitioner sought review of a Board order dated January 18, 1989, which expanded the scope of securities that could be underwritten and dealt in by bank holding companies to include all types of debt and equity securities, subject to certain conditions (75 *Federal Reserve Bulletin* 192). The Board's order was issued at the request of J.P. Morgan & Co., The Chase Manhattan Corporation, Bankers Trust New York Corporation, Citicorp, and Security Pacific Corporation. On April 10, 1990, the Court of Appeals upheld the Board's order (900 F.2d 360).

In *Securities Industry Association v. Board of Governors*, No. 89–1730 (D.C. Circuit, filed November 29, 1989), the petitioner sought review of a Board order dated October 30, 1989, approving an application by Bankers Trust New York Corporation for its subsidiary to act as agent in the placement of all types of securities and to buy and sell all types of securities on the order of investors as a "riskless principal" (75 *Federal Reserve Bulletin* 829). The case was dismissed by stipulation.

Other Actions

In *Cohen v. Board of Governors*, No. 88–1061 (D. New Jersey, filed March 7, 1988), plaintiff sought to require disclosure of documents under the Freedom of Information Act. In *Fidata Trust Company New York v. Board of Governors*, No. 88–4846 (D. New Jersey, filed November 9, 1988), plaintiff sought to enjoin the Board from disclosing certain documents involved in the *Cohen* case. The *Fidata* case was dismissed by stipulation on January 30, 1990, and the *Cohen* case was dismissed by stipuation on June 25, 1990.

In *White v. Board of Governors*, No. 88–623 (D. Nevada, filed July 29, 1988), the plaintiff alleges discriminatory practices under the Age Discrimination in Employment Act. The case is pending.

In *Laufman v. State of California*, No. CIVS-89-1755 (E.D. California, filed April 2, 1990), plaintiff sought to require bank regulatory agencies, including the Board, to examine or bring enforcement action against a bank. The case was dismissed on July 25, 1990.

In *Consumers Union of U.S., Inc. v. Board of Governors*, No. 90–5156 (D.C. Circuit, filed May 2, 1990), appellant appeals a district court decision granting summary judgment for the Board in connection with a challenge to various amendments to Regulation Z implementing the Home Equity Loan Consumer Protection Act. The appeal is pending.

In *May v. Board of Governors*, No. 90–1316 (D. District of Columbia, filed June 5, 1990), the plaintiff challenged the Board's response to his Freedom of Information Act and Privacy Act requests. The District Court granted the Board's motion to dismiss on July 17, 1990; plaintiff's appeal (No. 90–5235) to the D.C. Circuit is pending.

In *Kuhns v. Board of Governors*, No. 90–1398 (D.C. Circuit, filed July 30, 1990), petitioner seeks review of a Board order denying a request for attorney's fees under the Equal Access to Justice Act. The case is pending.

In *Rutledge v. Board of Governors*, No. 90–7599 (11th Circuit, filed August 21, 1990), appellant appealed a district court grant of summary judgment for the Board in connection with his challenge to Board and Reserve Bank supervisory actions under a number of tort theories. The Court of Appeals summarily affirmed the lower court on January 17, 1991.

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In *Sibille v. Federal Reserve Bank of New York, et al.*, No. 90-CIV-5898 (S.D. New York, filed September 12, 1990), plaintiff seeks review of a denial of a request made under the Freedom of Information Act. The case is pending.

In *State of Illinois v. Board of Governors*, No. 90-C-6863 (N.D. Illinois, filed November 27, 1990), the State of Illinois filed suit to prevent disclosure of state examination reports provided to the Board under a confidentiality agreement. The documents were the subject of a congressional subpoena. On December 28, 1990, the district court preliminarily enjoined disclosure of the reports. ■

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Legislation Enacted

In 1990 the following legislation directly affecting the Federal Reserve or the institutions it regulates was enacted.

Market Reform Act of 1990

Public Law 101-432, the Market Reform Act of 1990, was enacted on October 16, 1990. The act gives the Securities and Exchange Commission (SEC) new powers over the trading of securities, including the ability to halt trading in emergencies and to require more extensive reporting. Section 5 of the act provides for improvements in the coordination of securities clearing. The SEC is given authority to adopt rules concerning the transfer and pledge of certificated and uncertificated securities, other than government securities under the Federal Reserve's book-entry system, if it makes certain findings concerning the necessity and effects of a uniform federal rule. Before adopting rules, the SEC is required to consider the recommendations of the Board, the Secretary of the Treasury, and the Advisory Committee created under this section. The Advisory Committee will comprise members appointed by the SEC, the Secretary of the Treasury, and the Board.

Under section 8 of the act, the Board, along with the SEC, the Commodity Futures Trading Commission (CFTC), and the Secretary of the Treasury, is required to make annual reports to the Congress on the coordination of regulatory actions concerning payment and market systems, as well as on the adequacy of margin levels and other issues relating to the integrity of the financial markets. The SEC, the CFTC, and the Board are also required to submit a report within two years of the enactment of the act on the development of linked settlement systems for securities, futures contracts, options, and related products.

Cranston-Gonzales National Affordable Housing Act

The Cranston-Gonzales National Affordable Housing Act, Public Law 101-647, was enacted on November 28, 1990. Although the provisions of the act primarily concern affordable housing and programs to increase home ownership, they also amend the Expedited Funds Availability Act. The amendments allow depository institutions to place holds of four intervening days on deposits made at nonproprietary automated teller machines before November 28, 1992, when the permanent schedule for these deposits will take effect.

Crime Control Act of 1990

The Crime Control Act of 1990, Public Law 101-647, was enacted on November 29, 1990. The act contains diverse measures intended to address a variety of crime problems, including provisions in title I concerning money laundering. The provisions require a representative of the Board, along with representatives of the Treasury, the Bureau of Engraving and Printing, the Secret Service, and other agencies, to participate in a task force to study the feasibility of electronic scanning of U.S. currency notes.

Title XXV contains the Comprehensive Thrift and Bank Fraud Prosecution and Taxpayer Recovery Act of 1990.

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This title has several new provisions and amendments to existing civil and criminal laws that affect the manner in which the Federal Reserve and other federal financial institution supervisory agencies conduct their regulatory responsibilities, as well as the conduct of the Department of Justice's criminal law enforcement duties relating to financial institutions.

Subtitle A of title XXV establishes or increases criminal penalties as follows:

- Establishes penalties for concealing assets from a conservator, receiver, or liquidator of a financial institution, or for obstructing an examiner
- Increases penalties for bank fraud and embezzlement and for major bank crime cases
- Extends the prohibition on participation in the affairs of an insured depository institution by persons convicted of certain criminal offenses to persons that have entered a pretrial diversion or other program, and establishes a minimum ten-year prohibition for persons convicted of certain offenses.

Subtitle B of title XXV protects the assets of an insured depository institution from wrongful disposition as follows:

- Authorizes the Federal Reserve and other federal supervisory agencies of depository institutions to apply for judicial restraining orders to prevent the transfer of assets by persons subject to administrative enforcement actions that may involve civil money penalties, money damages, or restitution, and establishes the standards for the issuance of such orders
- Prevents holding companies of depository institutions from using bankruptcy proceedings to evade capital commitments made to the Federal Reserve or other federal depository institution regulators with regard to insured depository institutions. The provisions also prevent use of bankruptcy proceedings by individuals convicted of criminal offenses involving financial institutions to evade restitution orders
- Authorizes the Federal Deposit Insurance Corporation (FDIC) to prohibit or limit the payment of "golden parachute" or indemnity payments made by depository institutions or their holding companies to institution-affiliated parties under certain circumstances. Subtitle B also prohibits the prepayment of salary or legal expenses of an institution-affiliated party in contemplation of insolvency or to prevent the proper application of the institution's assets.
- Adds civil and criminal forfeiture provisions for fraud relating to the sale of assets by a depository institution under a conservatorship or receivership
- Provides that persons convicted of certain offenses relating to a depository institution or that are in default to the depository institution may not purchase assets of the institution from the receiver or conservator of the institution
- Provides expedited procedures for appeals from orders in cases brought by the FDIC against a depository institution's officers and directors
- Gives the FDIC or other federally appointed conservator the authority to void certain transfers of assets made with intent to hinder, delay, or defraud the depository institution, the FDIC, a conservator, or a federal depository institution regulatory agency.

Subtitle C of title XXV makes the following provisions for handling bank-related cases:

- Permits wiretaps in cases relating to bank fraud and other financial institution-related offenses
- Allows the Board or other federal banking agencies to obtain assistance from foreign banking authorities and maintain offices outside the United States in connection with an investigation, examination, or enforcement action

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• Permits the Board or other federal banking agencies to assist investigations conducted by foreign banking authorities pertaining to violations of foreign laws or regulations relating to banking or currency transactions

• Provides a ten-year statute of limitations for civil penalty actions brought in connection with certain criminal violations relating to depository institutions

• Clarifies the subpoena authority of the FDIC and the Resolution Trust Corporation when they act as receiver or conservator.

Subtitle D of title XXV requires the formation of a unit in the Department of Justice to deal with fraud in financial institutions and establishes an interagency task force on financial institution fraud comprising representatives of the Board, the Department of Justice, the Department of the Treasury, and all other federal banking agencies.

Subtitle E of title XXV expands reporting and recordkeeping requirements as follows:

• Requires the Department of Justice to maintain extensive records and to file reports with the Congress concerning civil and criminal investigations, prosecutions; and enforcement and recovery proceedings relating to criminal activities at financial institutions

• Expands the requirements for public disclosure of formal enforcement actions. Any written agreement or statement that may be enforced by the agencies must be disclosed, as must the modification or termination of such agreements, unless public disclosure is determined to be contrary to the public interest. Disclosure of final orders may be delayed if the agency finds that public disclosure would threaten the safety and soundness of an insured depository institution

• Provides that all hearings on the record concerning any notice of charges issued by a federal banking agency will be open to the public unless the agency determines that a public hearing would be contrary to the public interest

• Requires that transcripts and documentary evidence from such hearings will generally be made available to the public unless disclosure is deemed to be contrary to the public interest

• Requires each federal banking agency to report to the Congress quarterly regarding any determinations made not to publish any order or written agreement or not to hold a public hearing

• Provides that federal banking agencies must retain for a minimum of six years all formal and informal agreements, statements, orders, and supporting documents relating to administrative enforcement proceedings.

Subtitle F of title XXV establishes a National Commission on Financial Institution Reform, Recovery, and Enforcement to study the problems in the savings and loan industry, to make recommendations on reforms needed to prevent reoccurrences of such problems in the banking industry, and to authorize appropriations relating to civil and criminal proceedings involving financial institutions.

Subtitle H, the Financial Institutions Anti-Fraud Enforcement Act of 1990, establishes a mechanism that would allow private individuals under some limited circumstances to bring actions on behalf of the government to collect civil penalties in cases involving violations of law by financial institutions. Under this subtitle, such individuals could receive rewards for successful actions involving the recovery of assets. Individuals could also receive rewards when they provide information that forms the basis of a criminal conviction.

Subtitle I of title XXV clarifies the fact that the Board has the same enforcement powers with regard to foreign financial institutions, their branches, agencies, and

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associated persons doing business in the United States as it has with regard to domestic financial institutions and associated persons. This subtitle expands the definition of the term *financial institution* as it is used in numerous bank fraud provisions to include Federal Reserve Banks, Edge corporations, Agreement companies, and branches and agencies of foreign banks. The amendment also extends coverage of bank fraud statutes relating to theft, embezzlement, or misapplication of funds to holding companies of depository institutions. ■

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Banking Supervision and Regulation

During 1990, the Federal Reserve addressed many critical supervisory and policy issues. Early in the year, the Federal Reserve received reports that, because of tightened lending standards, bank credit was becoming difficult to obtain in some areas of the country. The Federal Reserve responded by conducting surveys to determine the nature and extent of these conditions and by meeting with banking groups to gain further information and to encourage lenders to make sound loans. In the second half of the year, conditions continued to tighten while economic activity showed signs of slowing. The Federal Reserve, partly in response to these developments, acted to ease overall credit conditions by increasing reserve availability, reducing the discount rate, and lowering reserve requirements.

The Federal Reserve continued to be involved in implementing important elements of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). As mandated by title XI of FIRREA, the Board, along with other federal financial institution regulatory agencies, issued appraisal regulations for real estate lending activities of state member banks and bank holding companies. The Board also participated in the start-up of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council. Board staff members were assigned to serve temporarily on the subcommittee and on its staff, pending permanent appointments to these positions. As required by section 1215 of FIRREA, the Board submitted on August 9, 1990, the first of its annual reports to the Congress on capital and accounting standards used by federal agencies that supervise federally insured depository institutions. Also, the Board's supervisory staff joined with other Board staff members to assist the Treasury in its FIRREA-mandated study of the deposit insurance system. Finally, the Board's Staff Director of the Division of Banking Supervision and Regulation served as acting president and chief executive officer of the Oversight Board of the Resolution Trust Corporation for several months early in the year.

The initial phase-in of the risk-based capital guidelines of the Basle Committee on Banking Supervision occurred on December 31, 1990. The guidelines had been adopted by the Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency in early 1989. Throughout 1990, banking organizations took steps to achieve compliance with the interim standards specified for the phase-in date, with many endeavoring to be in compliance with the more stringent standards set for December 31, 1992. In August 1990, the Board announced that, over the remainder of the year, organizations could adhere either to the primary capital standard (to be phased out at year-end) or to the interim risk-based capital standard (to be phased in at year-end). At the same time, the Board adopted a new capital leverage standard that requires organizations generally to maintain a ratio of tier 1 capital (as defined in the 1992 risk-based capital standard) to total assets of 3 percent plus 100 to 200 basis points. Only organizations in the strongest condition and with no significant plans for growth are permitted to operate at the minimum level of 3 percent.

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During the year, the Board adopted inspection procedures for companies that underwrite and deal in equity securities in accordance with section 20 of the Glass-Steagall Act. In September 1990, the Board, for the first time, authorized a bank holding company to commence this activity.

In the international policy area, the Federal Reserve published for comments proposed revisions to Regulation K (International Banking Operations). The revisions include proposals to improve the competitiveness of U.S. banks overseas; and they also deal with the operations of foreign banks in the United States. Numerous comments were received and were being evaluated at year-end. Also, the Federal Reserve, in conjunction with the Basle Committee on Banking Supervision, continued to consider whether further convergence of regulatory standards is possible in the area of market risk—particularly risk involving interest rates, foreign exchange, and securities positions. Members of the Federal Reserve staff also attended joint meetings of securities and insurance supervisors held under the auspices of the Basle Committee. These joint meetings, the first such with insurance supervisors and the third such with securities supervisors, explored possible resolutions of common problems, such as the sharing of prudential information among supervisors.

Members of the Federal Reserve's staff continued to work closely with enforcement authorities and state bank supervisory authorities to resolve several problems relating to offices of foreign banks in the United States.

The Federal Reserve also developed and distributed a new procedures manual for examining merchant bank activities. After consultation with state bank supervisory authorities, the Federal Reserve introduced a revised rating system, closely paralleling the CAMEL system, for the international activities of U.S. banks.[1]

Board staff members contributed to the international attack on money laundering by participating on the U.S. Department of the Treasury's Financial Action Task Force, conducting seminars on U.S. bank regulatory practices in this area for delegations from several developing countries, and providing resources to U.S. government task forces.

Scope of Supervisory and Regulatory Responsibilities

The Federal Reserve is the primary federal supervisor and regulator of state chartered commercial banks that are members of the Federal Reserve System and of all U.S. bank holding companies. In its supervision of the general operations of these organizations, the Federal Reserve primarily seeks to promote their safety and soundness and their compliance with laws and regulations, including the Bank Secrecy Act and consumer and civil rights laws.[2] The following specialized activities of these institutions are also reviewed: electronic data processing, fiduciary activities, government

1. In the CAMEL rating system, examiners evaluate an institution's capital adequacy, asset quality, management, earnings, and liquidity.

2. The Board's Division of Consumer and Community Affairs has the responsibility of coordinating the Federal Reserve's supervisory activities with regard to the compliance of banking organizations with consumer and civil rights laws. To carry out this responsibility, institutions are examined by specially trained Reserve Bank examiners. The chapter of this REPORT covering consumer and community affairs describes these regulatory responsibilities. Compliance with other statutes and regulations, which is treated in this chapter, is the responsibility of the Board's Division of Banking Supervision and Regulation and the Reserve Banks, whose examiners check for safety and soundness.

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securities dealing and brokering, municipal securities dealing and clearing, and securities underwriting and dealing through section 20 securities subsidiaries.

The Federal Reserve also has responsibility for the supervision of (1) all Edge and agreement corporations (organizations chartered by the Federal Reserve Board to provide all segments of the U.S. economy with a means of financing international trade, especially exporting), (2) the international operations of state member banks and U.S. bank holding companies, and (3) the operations of foreign banking organizations in the United States.

Through its administration of the Bank Holding Company Act, the Bank Merger Act, and—for bank holding companies and state member banks—the Change in Bank Control Act, the Federal Reserve exercises important regulatory influence over the structure of the U.S. banking system. The Federal Reserve is also responsible for regulating margin requirements on securities transactions. The Federal Reserve coordinates its supervisory activities with other federal and state regulatory agencies and with the bank regulatory agencies of other nations.

Supervision for Safety and Soundness

To ensure the safety and soundness of banking organizations, the Federal Reserve conducts on-site examinations and inspections, off-site surveillance and monitoring, and enforcement and other supervisory actions.

Examinations and Inspections

The on-site review of operations is an integral part of ensuring the safety and soundness of financial institutions. Examinations of state member banks and Edge and agreement corporations and inspections of bank holding companies and their subsidiaries entail (1) an appraisal of the quality of the institution's assets; (2) an evaluation of management, including internal policies, operations, and procedures; (3) an assessment of the key financial factors of capital, earnings, asset and liability management, and liquidity; and (4) a review for compliance with applicable laws and regulations.

State Member Banks

At the end of 1990, there were 1,014 state member banks, 33 fewer than in 1989. These banks represented about 8 percent of all insured commercial banks and accounted for about 17 percent of their assets.

The Federal Reserve in 1986 increased the frequency of scheduled examinations and inspections of state member banks and bank holding companies. The guidelines call for state member banks to be examined at least annually by either a Reserve Bank or a state banking agency. Large or troubled banks must be examined at least annually by a Reserve Bank. Because of the reassignment in 1990 of bank examiners to address other emerging problems in the banking industry, scheduled examinations of 27 healthy, well-managed banks were deferred into 1991. All other state member banks were examined at least once in 1990. Because of the requirement that some banks should be examined more than once, the Federal Reserve conducted 764 examinations (some of them jointly with state agencies), and state agencies conducted 301 independent examinations. Also, under policy guidelines, Reserve Bank officials held 307 meetings with directors of either the largest state member banks or those that displayed significant weaknesses.

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Bank Holding Companies
At year-end 1990, the number of bank holding companies totaled 6,425, 19 fewer than in 1989. These organizations control about 8,700 commercial banks, which hold approximately 94 percent of the assets of all insured commercial banks in the United States.

Large bank holding companies and smaller companies with significant nonbank assets are to be inspected annually under the revised guidelines for frequency and scope of examination. Medium-sized companies are inspected at least every three years. For the smallest companies, those without nonbank assets, inspections are conducted on a sample basis.

The inspection focuses on the operations of the parent holding company and its nonbank subsidiaries. In judging the condition of subsidiary banks, Federal Reserve examiners consult the examination reports of the federal and state banking authorities that have primary responsibility for the supervision of these banks. Of the 2,173 inspections conducted in 1990, Federal Reserve System examiners made 2,080 on-site inspections, and state examiners inspected 93 bank holding companies, 28 more than in 1989. Also, 161 off-site inspections were completed. Because members of the examining staff were assigned to work with other industry problems in 1990, 53 bank holding company inspections were deferred until 1991. During 1990, Reserve Bank officials held 478 meetings with the boards of directors of bank holding companies to discuss supervisory concerns.

Enforcement Actions, Civil Money Penalties, and Significant Criminal Referrals

In 1990, the Federal Reserve Banks recommended, and members of the Board's staff initiated and worked on, 175 formal enforcement cases that involved 382 separate actions, such as written agreements, cease-and-desist orders, removals, prohibitions, and civil money penalties, most dealing with unsafe or unsound banking practices and violations of law. Of these, 50 cases involving 72 actions were completed by year-end. The Board completed 21 civil money penalty actions and assessed, either by the issuance of consent orders or after the completion of contested proceedings, a total of $3,119,000. By year-end 1990, the Board had collected $270,975, with most of the remainder of the assessments under review by the appropriate courts of appeals or to be paid in accordance with agreed-upon payment schedules. The Board also ordered two insiders to pay restitution totaling $500,000 to their affiliated banking organizations.

A description of all formal supervisory actions undertaken during the year and the reasons for them are available to the public in the Board's yearly "Report on Formal Enforcement Actions." Also, all final enforcement orders issued by the Board of Governors after August 9, 1989, and all written agreements executed after November 29, 1990, are available to the public. In 1990, the Federal Reserve Banks initiated 298 informal enforcement actions and completed 220 of them through instruments such as memoranda of understanding with state member banks, bank holding companies, and foreign financial institutions subject to the jurisdiction of the Federal Reserve.

In 1990, the staff of the Division of Banking Supervision and Regulation forwarded 181 criminal referrals to the Fraud Section of the Criminal Division of the Department of Justice for inclusion in its significant referral tracking system.

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Specialized Examinations

The Federal Reserve conducts specialized examinations in the following areas of bank activity: electronic data processing, fiduciary activities, government securities dealing and brokering, municipal securities dealing and clearing, and securities underwriting and dealing through section 20 securities subsidiaries.

Electronic Data Processing

Under the Interagency EDP Examination Program, the Federal Reserve examines the electronic data processing (EDP) activities of state member banks, Edge and agreement corporations, and independent centers that provide EDP services to these institutions. In 1990, System examiners conducted 302 on-site EDP reviews. In addition, the Federal Reserve reviews reports of EDP examinations issued by other bank regulatory agencies on organizations that provide data processing services to state member banks.

Fiduciary Activities

The Federal Reserve System has supervisory responsibility for institutions that hold more than $4.1 trillion of discretionary and nondiscretionary assets in various fiduciary capacities. This group of institutions includes 333 state chartered member banks and trust companies and 153 trust companies and investment advisory companies that are subsidiaries of bank holding companies.

On-site examinations are essential to ensure the safety and soundness of financial institutions that have fiduciary operations. The scope of these examinations includes (1) an evaluation of management, policies, audit procedures, and risk management; (2) an appraisal of the quality of trust assets; (3) an assessment of earnings; (4) a review for conflicts of interest; and (5) a review for compliance with laws, regulations, and general fiduciary principles.

During 1990, Federal Reserve System examiners conducted on-site trust examinations of 169 state member banks and state member trust companies and 32 inspections of bank holding company subsidiaries engaged in fiduciary activities. The institutions examined in 1990 held more than $1.7 trillion in fiduciary assets.

Government Securities Dealers and Brokers

The Board is responsible for examining the activities of state member banks and some foreign banks that are government securities dealers and brokers for compliance with the Government Securities Act of 1986 and with the Treasury Department's regulations. Forty-three state member banks, three state branches of foreign banks, and one state agency of a foreign bank currently have on file with the Board notices that they are government securities dealers or brokers that are not otherwise exempt from Treasury Department regulations.

Municipal Securities Dealers and Clearing Agencies

The Securities Act Amendments of 1975 made the Board responsible for supervising state member banks and bank holding companies that act as municipal securities dealers or as clearing agencies. Forty-four banks that act as municipal securities dealers and four clearing agencies that act as custodians of securities involved in transactions settled by bookkeeping entries are registered with the Board. In 1990, the Board examined all four of the clearing agencies and twenty of the banks that deal in municipal securities.

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Securities Subsidiaries of Bank Holding Companies

Section 20 of the Banking Act of 1933, commonly known as the Glass–Steagall Act, prohibits the affiliation of a member bank with a company that is "engaged principally" in underwriting or dealing in securities. The Board in 1987 approved proposals by banking organizations to underwrite and deal on a limited basis in specified classes of bank "ineligible" securities (that is, commercial paper, municipal revenue bonds, conventional residential mortgage-related securities, and securitized consumer loans) in a manner consistent with the Glass–Steagall Act and the Bank Holding Company Act. At that time, the Board limited revenues from these newly approved activities to no more than 5 percent of total revenues for each securities subsidiary.

In January 1989, the Board approved applications by five U.S. bank holding companies to underwrite and deal in corporate and sovereign debt and equity securities, subject in each case to reviews of managerial and operational infrastructure and other conditions and requirements specified by the Board. Four of these organizations subsequently received authorization to underwrite and deal in corporate and sovereign debt securities. In September 1989, the Board increased the revenue limit from 5 percent to 10 percent. In 1990, the Board approved applications by five foreign banking organizations to engage in the expanded underwriting powers, and in September 1990, a bank holding company received authorization to commence underwriting of equity securities. At year-end 1990, proposals by several other banking organizations to commence equity underwriting were pending.

Currently, thirty bank holding companies have section 20 subsidiaries that have received authority to underwrite and deal in ineligible securities. Specialized inspection procedures have been developed for use in reviewing the operations of these securities subsidiaries.

Transfer Agents

Federal Reserve System examiners conducted separate reviews of state member banks and bank holding companies that act as transfer agents. Transfer agents countersign and monitor the issuance of securities, register their transfer, and exchange or convert them. During 1990, System examiners reviewed 80 of the 167 banks and bank holding companies registered as transfer agents with the Board.

Surveillance and Monitoring

The Federal Reserve monitors the financial condition of state member banks and bank holding companies through a quarterly surveillance program to supplement the Federal Reserve's on-site examinations. This program consists of automated screening systems that identify organizations with poor or deteriorating financial profiles. Banking organizations submit financial statements from which the screening systems compute numerous financial ratios. These ratios are then analyzed by the staff members of the division and of the Reserve Banks to determine whether the organizations have emerging problems that may require the commitment of examiner resources for on-site examinations or other appropriate supervisory responses. The Federal Reserve supplements the quarterly surveillance programs with ad hoc screening reports on specific areas of supervisory concern.

To enhance the timeliness and quality of the surveillance processes, the current system is being revised and will include an early-warning model to continually

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evaluate a banking organization's supervisory rating based on the most current financial information available.

International Activities

The Federal Reserve is responsible for supervising several international activities.

Edge and Agreement Corporations
Edge corporations are international banking organizations chartered by the Board to provide all segments of the U.S. economy with a means of financing international trade, especially exports. An agreement corporation is a company that enters into an agreement with the Board not to exercise any power that is impermissible for an Edge corporation. In 1990, the Federal Reserve examined 100 Edge and agreement corporations.

Foreign-Office Operations of U.S. Banking Organizations
The Federal Reserve examines the international operations of state member banks, Edge corporations, and bank holding companies, principally at the U.S. head offices of these organizations where the ultimate responsibility for their foreign offices lies. The Federal Reserve also conducts on-site reviews of important foreign offices at least every three years to supplement the results of the head-office examinations. In 1990, the Federal Reserve examined seven foreign branches of state member banks and twenty-eight foreign subsidiaries of Edge corporations and bank holding companies. In 1990, the Federal Reserve, in coordination with the Office of the Comptroller of the Currency, conducted extensive on-site examinations of U.S. banking organizations in the United Kingdom, Germany, Spain, Hong Kong, and Brazil. All the examinations abroad were conducted with the cooperation of the supervisory authorities of the countries in which the examinations took place. Also, examiners conducted five reviews of the operations of overseas offices to evaluate compliance with corrective measures previously required.

U.S. Activities of Foreign Banks
Foreign banks continue to be significant participants in the U.S. banking system. As of year-end 1990, 307 foreign banks operated 497 state-licensed branches and agencies, of which 48 are insured by the Federal Deposit Insurance Corporation. At year-end, these foreign banks also operated 90 branches and agencies licensed by the Office of the Comptroller of the Currency, of which 9 have FDIC insurance. Foreign banks also directly owned 18 Edge corporations and 10 commercial lending companies. In addition, foreign banks held a 25 percent or more interest in 90 U.S. commercial banks. Altogether, foreign banks at year-end controlled approximately 22 percent of U.S. banking assets.

The Federal Reserve has broad authority to supervise and regulate foreign banks that engage in banking in the United States through branches, agencies, commercial lending companies, Edge corporations, or banks. In exercising this authority, the Federal Reserve relies on examinations conducted by the appropriate federal or state regulatory agency. Although states have primary authority for examining state-licensed uninsured branches and agencies, the Federal Reserve conducted or participated in the examination of 125 such offices during the past year.

Supervisory Policy

During 1990, the Board made many changes to its supervisory policies to

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implement the requirements of FIRREA and to anticipate the phase-in of risk-based capital standards. The Board also took several steps to strengthen its examination policies and procedures in view of conditions in the banking system. The following sections summarize these changes and review other activities initiated in 1990 to enhance the Board's supervisory programs.

Contribution to Treasury Study

As required by title X of FIRREA, the Federal Reserve provided consultation to the Department of the Treasury in connection with the study of the federal deposit insurance system mandated by the Congress. Federal Reserve staff members made significant contributions to the study by providing supporting materials and information on several critical supervisory issues. The Treasury's study was published in February 1991.

Real Estate Appraisals

As mandated by title XI of FIRREA, the Board and the other federal financial institutions regulatory agencies issued real estate appraisal regulations. The regulations establish minimum appraisal standards and require depository institutions and bank holding companies engaged in real estate lending to use appraisers certified or licensed by the state. The Board's regulations became effective on August 9, 1990. Examiners are reviewing financial institutions' appraisal policies and procedures to ensure compliance.

The Federal Reserve participated in the start-up of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council. Members of the Board's staff have been assigned temporarily to assist the subcommittee, pending the appointment of a permanent staff. The subcommittee was established pursuant to title XI of FIRREA to monitor the overall implementation of real estate appraisal reform. Among the subcommittee's assigned tasks are to assure that the procedures followed by state agencies to regulate real estate appraisals comply with title XI and to coordinate the federal agencies' regulatory activities related to appraisals. Also, Federal Reserve staff members were instrumental in the completion of the Appraisal Data Availability Study, a report mandated by title XI of FIRREA. This study summarized and evaluated the information on real estate transactions that is available throughout the country to assist in the conduct of real property appraisals.

Report on Capital and Reporting Standards

As required by section 1215 of FIRREA, the Federal Reserve, together with the other federal banking agencies, is required to prepare an annual report to the Congress discussing any differences in capital and accounting standards used by federal bank and thrift regulatory agencies for federally insured depository institutions. The first annual report was delivered to the Congress on August 9, 1990.

According to the report, the three federal bank regulatory agencies – the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) – for several years have employed the same ratio of capital to total assets (leverage ratio) in assessing the capital adequacy of commercial banking organizations. More recently, the federal banking agencies have adopted a common risk-based capital framework (see below) based on the international Capital Accord

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developed by the Basle Committee on Banking Supervision. This risk-based framework includes a common definition of regulatory capital, a uniform system of risk weights and categories, and uniform minimum capital ratios. The report also indicated that the accounting and reporting requirements applicable to commercial banks are uniform among the three federal banking agencies. This annual reporting requirement provides a framework within which the depository institution regulatory agencies can address any differences that exist between the accounting and capital standards applied to commercial banks and thrift institutions.

Risk-Based Capital Standards at Year-End 1990

The risk-based capital standard provides for a two-year phase-in period beginning December 31, 1990. As of that date, banking organizations were expected to maintain total capital equal to at least 7.25 percent of risk-adjusted assets. This minimum standard increases to 8.0 percent at year-end 1992. The risk-based capital standard was developed in cooperation with the FDIC and OCC, along with members of the Basle Committee on Banking Supervision. The standard had been reviewed and endorsed by the ten central bank governors of the G-10 countries and was adopted by all G-10 countries and Luxembourg in 1988.

The risk-based capital framework encourages banking organizations to strengthen their capital positions. The standard offers the advantages of differentiating, in a broad way, among the relative riskiness of banking assets and taking into account off-balance-sheet risks. Because of its acceptance by countries with major international banking centers, the risk-based capital standard helps to promote a level playing field for U.S. banking organizations as they compete with banks in other countries.

Continuing International Efforts to Improve the Risk-Based Capital Framework

When the Basle Committee on Banking Supervision adopted the risk-based capital standards in 1988, the committee expected that further efforts would be required to incorporate certain noncredit risks into the risk-based framework. In this connection, the Federal Reserve participated in 1990 in various efforts under way at the international level to strengthen the capital positions of internationally active banking organizations. These efforts include incorporating into the risk-based capital framework a capital charge for risks arising from changes in interest rates (interest rate risk exposure) and from changes in foreign exchange rates (foreign exchange position risk).

Leverage Ratio

The Board issued a new capital-to-total assets (leverage) standard in 1990, establishing a minimum ratio of tier 1 capital to total assets. This leverage ratio replaced the leverage standards that had been in place since the early 1980s, which had specified the ratio of primary and total capital to total assets. Organizations experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible tier 1 capital positions, well above the minimum levels. Only institutions in strong financial condition, with the highest supervisory ratings, and with no financial or operating deficiencies are permitted to operate at or near the minimum supervisory level.

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Dividend Payments

In 1990, the Board adopted a revision to regulations concerning the payment of dividends by state member banks. The revised rule brings the calculation of a bank's dividend-paying capacity into better alignment with the institution's capital position. The rule also makes the treatment of loan-loss allowances and provisions for dividend payment purposes consistent with current regulatory reporting standards and generally accepted accounting principles (GAAP).

Highly Leveraged Transactions

A common definition of highly leveraged transactions was issued by the Federal Reserve, the FDIC, and the OCC in 1989. In 1990, in response to questions and comments received on the interagency definition of highly leveraged transactions (HLTs), the agencies provided interpretive guidelines for use in the supervision and examination of commercial banking organizations. These guidelines increased the original de minimis test, provided guidance in reviewing past transactions, clarified the leverage test, and provided criteria for removing loans from HLT status.

Revised Examination and Inspection Reports

The Federal Reserve revised the formats of its examination and inspection report forms in 1990. The objectives of the revisions are to communicate more effectively examiners' findings and conclusions to banking organizations' management and boards of directors and to improve the timeliness of examination reports. By presenting narrative and financial information in a more concise manner, these objectives will be accomplished without sacrificing the depth or thoroughness of on-site examinations.

Sale of Uninsured Obligations on Retail Banking Premises

The Federal Reserve reiterated its long-standing policy prohibiting the sale on the retail banking premises of commercial banks of uninsured debt obligations issued by bank holding companies, nonbank affiliates, and state member banks. This prohibition applies to both long- and short-term debt obligations of a bank holding company and any nonbank affiliate as well as to uninsured debt securities issued by state member banks or their subsidiaries. Commercial paper and all other short-term and long-term debt securities, such as thrift notes and subordinated debentures, are also subject to this restriction. Examiners will evaluate banking organizations for compliance with the policy during on-site examinations.

Funding and Liquidity of Bank Holding Companies

The Federal Reserve in 1990 reiterated and reinforced its policy on the funding and liquidity practices of bank holding companies. Under this policy, bank holding companies are expected to develop and maintain funding programs that are consistent with their lending and investment activities and that provide adequate liquidity to the parent company and its nonbank subsidiaries. A bank holding company's funding strategy should rely on capital and long-term sources of funds to support capital investments in subsidiaries and other long-term assets. Further, bank holding companies are to avoid over-reliance or excessive

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dependence on any single short-term or potentially volatile source of funds in developing and carrying out funding programs.

Deposit Sweep Accounts

The Federal Reserve provided guidance in 1990 to examiners on the appropriate use by bank holding companies of the proceeds obtained from overnight funding obligations, such as deposit sweep arrangements. Under these arrangements, funds in customer accounts at subsidiary banks are reinvested in overnight obligations, including commercial paper, program notes, and master notes of the parent bank holding company. The Federal Reserve's supervisory policy limits the parent's use of the proceeds of deposit sweep arrangements to short-term bank obligations, short-term U.S. government securities, or other highly liquid, readily marketable, investment-grade assets that can be disposed of with minimal loss.

Reporting Requirements for Section 20 Nonbank Subsidiaries

The Board authorized in 1990 a new report, "Financial Statements for a Bank Holding Company Engaged in Ineligible Securities Underwriting and Dealing" (FR Y-20). The purpose of the report is to provide the Federal Reserve with financial information to determine that the section 20 nonbank subsidiaries are not engaged primarily in underwriting and dealing in ineligible securities. The report also permits the Federal Reserve to determine that the underwriting activities are being conducted in a manner consistent with the orders issued by the Board authorizing such activities. Further, the report enables the Federal Reserve to assess the capital adequacy of the consolidated bank holding company and the support provided by the holding company to its subsidiary banks.

Revisions to Bank Holding Company Reports

The Board approved significant revisions to the reporting requirements for bank holding companies. To provide crucial supervisory information on capital adequacy, bank holding companies now must submit data on risk-based assets and the components of tier 1 and tier 2 capital, on exposure to highly leveraged transactions, and on the level of exposure to real estate lending activities.

Interest Rate Risk

The Federal Reserve issued supervisory guidelines and examination procedures for managing the interest rate risk of state member banks. The guidelines seek to ensure that commercial banks monitor the interest rate sensitivity of assets and liabilities of state member banks and have adequate policies and systems in place for controlling these risks.

Staff Training

The training of System staff members emphasizes analytical and supervisory themes common to the four areas of supervision and regulation—examinations, inspections, applications, and surveillance—and stresses the interdependence among these areas. During 1990, the Federal Reserve conducted a variety of schools and seminars, and Federal Reserve staff members participated in several courses offered by or cosponsored with other agencies, as shown in the accompanying table. In 1990, the Federal Reserve trained 1,281 persons in System schools, 1,117 in FFIEC schools, and 64 in other schools, for a total of

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2,462 students, including 133 representatives from foreign banks.

The Federal Reserve System also provided scholarship assistance to the states for training their examiners in Federal Reserve and FFIEC schools. Through this program, 592 state examiners were trained: 197 in Federal Reserve courses, 386 in FFIEC programs, and 9 in other courses.

Federal Financial Institutions Examination Council

The Federal Reserve Board took the following actions in 1990 based on recommendations of the Federal Financial Institutions Examination Council (FFIEC).[3]

3. The FFIEC consists of representatives from the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the National Credit Union Administration, and the Office of the Comptroller of the Currency.

The Federal Reserve adopted for state member banks on the call report the risk-based capital reporting requirements initiated by the FFIEC. An important feature of these reporting requirements is a simplified capital calculation that banks with less than $1 billion in total assets will use to determine whether they have adequate risk-based capital and are therefore exempt from reporting more detailed information.

The members of the FFIEC, including the Federal Reserve Board, unanimously approved a report to the Congress on the council's plans to conduct risk-management training for industry executives and on the issue of developing a program for certification of risk management analysts. This report was done in accordance with FIRREA requirements.

The five agencies represented on the council issued an advance notice of proposed rulemaking to address recourse arrangements affecting regulatory capital and reporting standards. Members of the

Training Programs for Banking Supervision and Regulation, 1990

Agency and type of training	Number of sessions	
	Total	Regional
Schools or seminars conducted by the Federal Reserve		
Banking I	4	1
Banking II	7	3
Banking III	4	1
Senior forum for current banking and regulatory issues	2	1
Risk-based capital and FIRREA	2	...
Cash flow, forecasting, and highly leveraged transactions[1]	1	...
Effective writing for banking supervision staff	18	16
Credit analysis	9	7
Bank holding company applications	7	
Bank holding company inspection	7	6
Basic entry-level trust	1	...
Consumer compliance	4	...
Seminar for senior supervisors of foreign central banks[2]	2	1
Other agencies conducting courses[3]		
Federal Financial Institutions Examination Council	110	...
Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency	16	...
Federal Bureau of Investigation[4]	5	...

1. One-time seminar.
2. Conducted jointly with the World Bank. One session was held overseas.
3. Open to Federal Reserve employees.
4. Cosponsored by the Federal Reserve, Federal Deposit Insurance Corporation, Office of Thrift Supervision, Office of the Comptroller of the Currency, and Resolution Trust Corporation.

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Federal Reserve staff are participating in a detailed study of these matters.

Regulation of the U.S. Banking Structure

The Board administers the Bank Holding Company Act, the Bank Merger Act, and the Change in Bank Control Act for bank holding companies and state member banks. In doing so, the Federal Reserve acts on a variety of proposals that directly or indirectly affect the structure of U.S. banking at the local, regional, and national levels. The Board also has primary responsibility for regulating the international operations of domestic banking organizations and the overall U.S. banking operations of foreign banks, whether conducted directly through a branch or agency or indirectly through a subsidiary commercial lending company. In addition, the Board has established regulations for the interstate banking activities of these foreign banks and for foreign banks that control a U.S. subsidiary commercial bank.

Bank Holding Company Act

By law, a company must obtain the Board's approval if it is to form a bank holding company by acquiring control of one or more banks. Moreover, once formed, a bank holding company must receive the Board's approval before acquiring additional banks or nonbanking companies.

In reviewing an application filed by a bank holding company, the Board considers such factors as the financial and managerial resources of the applicant, the prospects of both the applicant and the firm to be acquired, the convenience and needs of the community to be served, the potential public benefits, and the competitive effects of the proposal.

Bank Holding Company Decisions by the Federal Reserve, Domestic Applications, 1990

Proposal	Direct action by the Board of Governors		Action under authority delegated by the Board of Governors: Staff Director of Division of Banking Supervision and Regulation		Office of the Secretary	Federal Reserve Banks		Total[1]
	Approved	Denied	Approved	Denied	Approved	Approved	Permitted	
Formation of holding company	21	2	1[2]	0	1	261	0	286
Merger of holding company	6	0	0	0	1	35	0	42
Retention of bank	0	0	0	0	0	0	0	0
Acquisition								
Bank	29	1	0	0	12	238	0	280
Nonbank	191	5	144[3]	0	69	249	126	784
Bank service corporation	0	0	0	0	0	0	0	0
Other	0	0	17	0	0	0	0	17
Total[1]	**247**	**8**	**162**	**0**	**83**	**783**	**126**	**1,409**

1. Includes applications related to the sale of failed thrift institutions by the Resolution Trust Corporation.
2. This action was delegated by the Board to the Staff Director of the Division of Banking Supervision and Regulation and to the General Counsel of the Board for joint action.
3. Each of these actions represents the acquisition of a savings association that was subsequently merged into an existing subsidiary of a bank holding company, as permitted by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

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In 1990, the Federal Reserve acted on 1,409 bank holding company and related applications. The Federal Reserve System approved 284 proposals to organize a bank holding company and denied 2; approved 279 bank acquisitions by existing bank holding companies and denied 1; approved 779 requests by existing companies to acquire nonbank firms engaged in activities closely related to banking and denied 5; and approved 59 other applications. Data on these and related bank holding company decisions are shown in the accompanying table.

Bank Merger Act

The Bank Merger Act requires that the appropriate federal banking agency act on all proposed mergers of insured depository institutions. If the institution surviving the merger is a state member bank, the Federal Reserve has primary jurisdiction. Before acting on a proposed merger, the Federal Reserve considers factors relating to the financial and managerial resources of the applicant, the future prospects of the existing and proposed institutions, the convenience and needs of the community to be served, and the competitive effects of the proposal. The Board must also consider the views of certain other agencies on the competitive factors involved in the transaction.

During 1990, the Federal Reserve System approved eighty-eight merger applications. As required by law, each merger is described in this REPORT (in table 16 of the Statistical Tables chapter).

When the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the Director of the Office of Thrift Supervision has jurisdiction over a merger, the Board comments on the competitive factors to ensure comparable enforcement of the antitrust provisions of the act. The financial institutions regulatory agencies have adopted standard terminology for assessing competitive factors in proposed mergers of banks to ensure consistency in administering the act. On behalf of the Board, the Reserve Banks submitted 771 reports on competitive factors to the other federal banking agencies in 1990.

Change in Bank Control Act

The Change in Bank Control Act requires persons seeking control of a bank or bank holding company to obtain approval from the appropriate federal banking agency before the transaction occurs. Under the act, the Board is responsible for reviewing changes in the control of state member banks and of bank holding companies. In so doing, the Board must review the financial condition, competence, experience, and integrity of the acquiring person; consider the effect on the financial condition of the bank or bank holding company to be acquired; and determine the effect on competition in any relevant market.

The appropriate federal banking agencies must publish notice of each proposed change in control and invite public comment, particularly from persons located in the markets served by the institution to be acquired. The federal banking agencies also must assess the qualifications of each person seeking control of a bank or bank holding company. In each case, the Board routinely makes such a determination and verifies information contained in the proposal.

In 1990, the Federal Reserve System acted on 248 proposed changes in control of state member banks and bank holding companies. Late in the year, the Board amended Regulation Y (Bank Holding Companies and Change in Bank Control) to reduce the filing requirements for individuals purchasing additional shares of a banking organization. The effect will

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be to reduce materially the number of notices filed under the act, thereby reducing the regulatory burden on individuals, particularly those buying small quantities of shares.

Public Notice of Board Decisions

The Board announces each decision that involves a bank holding company, bank merger, change in control, or international banking proposal through orders or releases. Orders state the decision, along with the essential facts of the application and the basis for the decision; announcements state only the decision. All orders and announcements are released immediately to the public and are subsequently reported in the Board's weekly H.2 statistical release and in the monthly *Federal Reserve Bulletin*. The H.2 release also contains announcements of applications and notices received by the System that have not yet been acted on.

Timely Processing of Applications

The Federal Reserve maintains target dates and procedures for the processing of applications. These target dates promote efficiency at the Board and at the Reserve Banks and reduce the burden on applicants. The time allowed for a decision is sixty days; during 1990, about 95 percent of the decisions met this standard.

Delegation of Applications

The Board has delegated certain regulatory functions—including the authority to approve, but not to deny, certain types of applications—to the Reserve Banks, to the Staff Director of the Board's Division of Banking Supervision and Regulation, and to the Secretary of the Board.

The delegation of responsibility for applications permits staff members to work more efficiently at both the Board and the Reserve Banks by removing routine cases from the Board's agenda. In 1990, 88 percent of the applications were decided under delegated authority. During the year, the Board increased the types of cases that may be acted on by the Reserve Banks under delegated authority without prior review, which should increase the speed and efficiency with which many proposals are processed in the future.

Board Policy Decisions and Developments in Bank-Related Activities

During 1990, the Board permitted a bank holding company to commence the underwriting of equity securities under authority granted in January 1989. The original approval had deferred commencement of equity underwriting activities until proper managerial and operational infrastructures were in place. At year-end 1990, the Board was considering whether to permit several other banking organizations to commence equity underwriting activities as well. In 1990, the Board also approved several new financially related nonbanking activities for individual bank holding companies and had under consideration other nonbanking proposals.

Approval of Permissible Nonbanking Activities

During 1990, the Board approved a proposal by a domestic bank holding company to engage in asset management, servicing, and collection activities with regard to assets of failed or troubled financial institutions. The Board also permitted several domestic and foreign organizations to engage in leasing transactions in a manner consistent with expanded national bank leasing powers authorized by the Competitive Equality Banking Act of 1987.

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The Board, for the first time, also approved the following activities for individual bank holding companies: (1) acting as a tax refund agent in connection with a state's tax-free shopping program for foreign visitors, and (2) acting as agent in the sale of variable- and fixed-rate annuities.

The Board approved proposals by several foreign banks to engage in the private placement of all types of securities, an activity previously approved for large domestic banking organizations.

Proposals to Engage in New Nonbanking Activities

During 1990, the Board requested public comment on proposals to expand the list of generally permissible nonbanking activities for bank holding companies. The proposal included (1) combined investment advisory and securities brokerage activities, (2) financial advisory activities, and (3) higher residual value leasing activities. The Board also sought public comment on proposals to modify the Board's investment advisory policy statement and to modify the current limitations on the securities underwriting powers of bank holding companies to permit certain joint marketing activities and common management officials.

At year-end, the Board had under consideration a proposal to rescind a rule that permits bank holding companies to establish or acquire indirectly, through their state-chartered bank subsidiaries, nonbank operations subsidiaries engaged in activities that may be conducted by the parent bank.

Applications by State Member Banks

State member banks must obtain the permission of the Board to open new domestic branches, to make investments in bank premises that exceed 100 percent of capital stock, and to add to their capital bases from sales of subordinated debt. State member banks must also give six months' notice of their intention to withdraw from membership in the Federal Reserve, although the Board may shorten or eliminate the notice period in specific cases. These matters are normally handled by the Federal Reserve Banks under delegated authority.

Stock Repurchases by Bank Holding Companies

A bank holding company sometimes purchases its own shares from its shareholders, which results in a decrease in equity. When the company borrows the money to buy its shares, its debt increases. Borrowing large amounts to purchase its own shares therefore may undermine the financial condition of a bank holding company and its bank subsidiaries. The Board's regulations require holding companies to give advance notice of repurchases that retire 10 percent or more of their consolidated equity capital. The Board may object to stock repurchases by holding companies that fail to meet certain standards, including the Board's capital guidelines. During 1990 the Federal Reserve reviewed 103 proposed stock repurchases by bank holding companies, all of which were acted on by the Reserve Banks on behalf of the Board.

International Activities of U.S. Banking Organizations

The Board has several statutory responsibilities in supervising the international operations of U.S. banking organizations. The Board must provide authorization and regulation of foreign branches of member banks; of overseas investments by member banks, Edge corporations, and bank holding companies; and of

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investments by bank holding companies in export trading companies. In addition, the Board is required to charter and regulate Edge corporations and their investments.

Foreign Branches of Member Banks

Under provisions of the Federal Reserve Act and of Regulation K (International Banking Operations), member banks in most cases must seek Board approval to establish branches in foreign countries. In reviewing proposed foreign branches, the Board considers the requirements of the law, the condition of the bank, and the bank's experience in international business. In 1990, the Board approved the opening of ten foreign branches.

By the end of 1990, 126 member banks were operating 819 branches in foreign countries and overseas areas of the United States; 99 national banks were operating 702 of these branches, and 27 state member banks were operating the remaining 117 branches.

Edge and Agreement Corporations

Under sections 25 and 25(a) of the Federal Reserve Act, Edge and agreement corporations may engage in international banking and foreign financial transactions. These corporations, which are usually subsidiaries of member banks, provide their owner organizations with the following powers: (1) They may conduct a deposit and loan business in states other than that of the parent, provided that the business is strictly related to international transactions; and (2) they may make foreign investments that are broader than those of member banks because they can invest in foreign financial organizations, such as finance companies and leasing companies, as well as in foreign banks. By the end of 1990, there were 100 Edge corporations, which had 40 branches. The Board requires each Edge corporation that is engaged in banking to maintain a ratio of equity to risk assets of at least 7 percent.

Foreign Investments

Under authority of the Federal Reserve Act and the Bank Holding Company Act, U.S. banking organizations may engage in activities overseas with the authorization of the Board. Significant investments require prior review by the Board, although pursuant to Regulation K, most foreign investments may be made under general-consent procedures that involve only after-the-fact notification to the Board.

Export Trading Companies

In 1982, the Bank Export Services Act amended section 4 of the Bank Holding Company Act to permit bank holding companies, their subsidiary Edge or agreement corporations, and bankers' banks to invest in export trading companies, subject to certain limitations and after Board review. The purpose of this amendment was to allow effective participation by bank holding companies in the financing and development of export trading companies. The Export Trading Company Act Amendments of 1988 provide additional flexibility for bank holding companies engaging in export trading company activities. Since 1982, the Board has acted affirmatively on notifications by forty-seven bank holding companies to establish export trading companies.

Enforcement of Other Laws and Regulations

This section describes the Board's responsibilities for the enforcement of laws, rules, and regulations other than those

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specifically related to bank safety and soundness and the integrity of the banking structure.

Bank Secrecy Act

The Federal Reserve has continued its program of monitoring the institutions it supervises for compliance with the requirements of the Currency and Foreign Transactions Reporting Act (the Bank Secrecy Act). The Bank Secrecy Act was enacted primarily as a means of creating and maintaining records of various transactions that otherwise would not be identifiable. The records required by the Bank Secrecy Act provide useful data for aiding in the detection of unlawful activity as well as determining the safety and soundness of financial institutions.

During 1990, the Federal Reserve continued its efforts to promote compliance with the Bank Secrecy Act and to see that those who do not comply are prosecuted. The Federal Reserve enhanced its training in this area by developing, for new examiners, courses in activities related to the Bank Secrecy Act, money laundering, and fraud, as well as refresher courses for seasoned examiners. The Federal Reserve also continued its practice of regularly examining financial institutions under its supervision for violations of the Bank Secrecy Act and providing quarterly reports of violations discovered during such examinations to the Department of the Treasury.

In January 1990, the Federal Reserve established a Systemwide committee to provide enhanced coordination and direction for Federal Reserve activities related to the Bank Secrecy Act and money laundering. The committee has been extremely successful in developing innovative measures for addressing the Federal Reserve's role in such activities. Also, the Federal Reserve has continued to cooperate and provide assistance to law enforcement agencies conducting criminal investigations of financial institutions related to Bank Secrecy Act violations.

When the Department of the Treasury adopted a regulation under the Bank Secrecy Act that requires financial institutions to record sales of monetary instruments for cash in amounts between $3,000 and $10,000, the Federal Reserve established examination procedures to audit for compliance with the regulation. The Federal Reserve has also undertaken a study to evaluate and update, if necessary, all examination procedures related to compliance with the Bank Secrecy Act.

Securities Regulation

Under the Securities Exchange Act of 1934, the Board is responsible for regulating credit in certain transactions involving the purchase or carrying of securities. The Board limits the amount of credit that may be provided by securities brokers and dealers (Regulation T), by banks (Regulation U), and by other lenders (Regulation G). Regulation X extends these credit limitations, or margin requirements, to certain borrowers and to certain credit extensions, such as credit obtained from foreign lenders by U.S. citizens.

Several regulatory agencies enforce compliance with the securities credit regulations. The Securities and Exchange Commission, the National Association of Securities Dealers, and the national securities exchanges examine brokers and dealers for compliance with Regulation T. The federal banking agencies examine banks under their respective jurisdictions for compliance with Regulation U. The compliance of other lenders with Regulation G is examined by the Board, the National Credit Union Admin-

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istration, the Farm Credit Administration, or the Office of Thrift Supervision, according to the jurisdiction involved. At the end of 1990, there were 616 lenders registered under Regulation G, of which 344 came under the Board's supervision. Of these 344, the Federal Reserve regularly inspects 211 either biennially or triennially, according to the type of credit they extended. During 1990, Federal Reserve examiners inspected 50 lenders for compliance with Regulation G.

In general, Regulations G and U impose credit limits on loans secured by publicly held securities when the purpose of the loan is to purchase or carry those or other publicly held equity securities. Regulation T limits the amount of credit that brokers and dealers may extend when the credit is used to purchase or carry publicly held debt or equity securities. Collateral for such loans at brokers and dealers must be securities in one of the following categories: those traded on national securities exchanges, certain over-the-counter (OTC) stocks that the Board designates as having characteristics similar to those of stocks listed on national exchanges, or bonds that meet certain requirements.

The staff of the Federal Reserve monitors the market activity of all OTC stocks to determine which of them are subject to the Board's margin regulations. The Board publishes the resulting "List of Marginable OTC Stocks" quarterly. In 1990, the list was revised in February, May, August, and November. The November list contained 2,773 stocks.

In March 1990, the Board adopted amendments to Regulation T to accommodate the increasing international integration of the securities markets. The amendments (1) permit the eligibility of certain foreign equity and debt securities for margin at broker–dealers on the same basis as domestic margin securities, (2) eliminate the current requirement that all accounting be in U.S. dollars, (3) ease restrictions on payment for foreign securities to accommodate the settlement practices of the market where the trade occurs, and (4) allow a broker–dealer subject to Regulation T to arrange for credit on foreign securities. After the effective date of the amendments, the Board published the first "List of Foreign Margin Stocks" in August. Stocks on this list receive the same treatment as domestic margin securities at broker–dealers subject to Regulation T. The list was revised in November and contained 276 foreign stocks. Future revisions will be published in conjunction with the Board's "List of Marginable OTC Stocks."

In July the Board issued an interpretation on the applicability of Regulation T to unregistered securities sold and traded pursuant to the Securities and Exchange Commission's new Rule 144A. The interpretation clarifies that broker–dealers may purchase debt securities from an issuer for resale pursuant to rule 144A and may make markets in such securities under the investment banking service exception to the arranging section in Regulation T.

Under section 8 of the Securities Exchange Act, a nonmember domestic or foreign bank may lend to brokers or dealers posting registered securities as collateral only if the bank has filed an agreement with the Board that it will comply with all the statutes, rules, and regulations applicable to member banks regarding credit on securities. The Board processed no new agreements in 1990.

In 1990, the Securities Regulation Section of the Board's Division of Banking Supervision and Regulation issued fifty-six interpretations of the margin regulations. Those that presented sufficiently important or novel issues were published in the *Securities Credit Transactions Handbook*, which is part of the Federal Reserve Regulatory Service.

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These interpretations serve as a guide to margin regulations.

Financial Disclosure by State Member Banks

State member banks must disclose certain information of interest to investors, including financial reports and proxy statements, if they issue securities registered under the Securities Exchange Act of 1934. By statute, the Board's financial disclosure rules must be substantially similar to those issued by the Securities and Exchange Commission. At the end of 1990, thirty-eight state member banks, most of which are small or medium sized, were registered with the Board under the Securities Exchange Act.

Loans to Executive Officers

Under section 22(g) of the Federal Reserve Act, state member banks must include with each quarterly report of condition a report of all extensions of credit made by the bank to its executive officers since the date of the bank's previous report of condition. The accompanying table summarizes this information beginning with the last quarter of 1989 and continuing through the first three quarters of 1990.

Federal Reserve Membership

At the end of 1990, 5,047 banks were members of the Federal Reserve System, a decrease of 209 from the previous year. Member banks operated 33,305 branches on December 31, 1990, a net increase of 407 for the year.

Member banks accounted for 41 percent of all commercial banks in the United States and for 66 percent of all commercial banking offices. ■

Loans by State Member Banks to their Executive Officers, 1989–90

Period	Number	Amount (dollars)	Range of interest rates charged (percent)
October 1–December 31, 1989	896	18,516,000	6.0–19.2
January 1–March 31, 1990	840	16,826,000	6.0–21.0
April 1–June 30, 1990	944	35,899,000	5.5–22.4
July 1–September 30, 1990	781	20,060,000	5.5–21.0

SOURCE. Call Report data for the period.

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Regulatory Simplification

In 1978 the Board of Governors established the Regulatory Improvement Project in the Office of the Secretary. The project's charge was to help minimizethe burdens imposed by regulation. Reaffirming its commitment to regulatory improvement, the Board in 1986 renamed the project the Regulatory Review Section and created a subcommittee of the Board called the Regulatory Policy and Planning Committee. The goals of the section and the subcommittee are to ensure that the economic effect of regulation on small business is considered, to afford interested parties the opportunity to participate in designing regulations and to comment on them, and to ensure that regulations are written in simple and clear language. Staff members of the Board continually review regulations for their adherence to these objectives.

Foreign Securities Transactions

In March the Board approved amendments to Regulation T (Credit by Brokers and Dealers) to accommodate the settlement and clearance of transactions in foreign securities and to permit marginability of foreign securities at broker-dealers. The amendments

- Permit foreign equity and debt securities that meet prescribed criteria to be eligible for margin at broker-dealers on the same basis as margin securities
- Permit recognition and isolation of debt denominated in foreign currencies and allowed foreign securities denominated in that currency to be used as margin for the debt without conversion into dollars
- Ease restrictions on the payment and settlement for foreign securities to accommodate the practices of the market where the trade occurs
- Allow broker-dealers subject to Regulation T to arrange with foreign persons to extend credit on foreign securities.

Funds Transfers on Fedwire

In October the Board approved a comprehensive revision to subpart B of Regulation J (Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers through Fedwire) governing funds transfers through Fedwire. The revision was designed to make Regulation J consistent with the new article 4A of the Uniform Commercial Code, which governs the rights, responsibilities, and liabilities of parties to wholesale funds transfers.

The revision, which became effective on January 1, 1991, will provide a more comprehensive set of rules for funds transfers involving Federal Reserve Banks, make subpart B consistent with state laws applicable to funds transfers as states adopt article 4A, and help ensure that, subject to their central banking responsibilities, Federal Reserve Banks compete on an equitable basis with private providers of funds-transfer services.

Price Reductions on Credit Cards

In November the Board approved an amendment to Regulation Y (Bank Holding Companies and Change in Bank Control) to allow banks owned by bank holding companies to offer a price reduction on credit cards issued to their customers if the customer also obtains a

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traditional banking service from any affiliate of the credit card bank. The change permitted bank holding companies to consolidate their credit card operations into card-issuing banks without losing the ability to offer price reductions to customers using products from the card-issuing bank's affiliates.

Section 106 of the Bank Holding Company Act prohibits banks from offering reduced prices for credit on the condition of obtaining additional services from affiliates. Section 106, however, authorizes the Board to grant exemptions that are not contrary to the act's purpose of preventing anticompetitive practices; given the lack of economic evidence of anticompetitive effects, the Board acted under this authority in approving the amendment.

Changes in Bank Control

In November the Board approved an amendment to Regulation Y to reduce the filing requirements under the Change in Bank Control Act. With the amendment, a person who has received regulatory clearance to acquire 10 percent or more of the shares of a state member bank or bank holding company need not file additional notices for subsequent acquisitions resulting in ownership of up to 25 percent of the institution.

Nonbanking Activities

During 1990 the Board proposed for public comment the addition of three activities to the list of permitted activities under Regulation Y for nonbank subsidiaries of bank holding companies: (1) non-full-payout leasing, (2) financial advice to financial and nonfinancial institutions and to individuals with high net worth, and (3) investment advice combined with securities brokerage.

The list of permissible activities simplifies applications by bank holding companies to form or acquire subsidiaries engaging in the listed activities. ■

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Federal Reserve Banks

The new Regional Delivery System for over-the-counter savings bonds, which the Federal Reserve began implementing on behalf of the Department of the Treasury in 1989, expanded to nine Federal Reserve Districts in 1990. Begun in Ohio in 1987 as a pilot project managed by the Pittsburgh Branch of the Cleveland Federal Reserve Bank, the Regional Delivery System was, by the end of 1990, fully implemented in Cleveland, Richmond, St. Louis, and Kansas City and partially implemented in Boston, New York, Philadelphia, Chicago, and Minneapolis.

The Federal Reserve Banks are the fiscal agents of the United States, and the largest component of their fiscal agency services is savings bond processing. When completed in 1993, the Regional Delivery System (RDS) will reduce the number of issuing agents for over-the-counter savings bonds from nearly 40,000 institutions to eleven Reserve Bank offices. And with full implementation of the RDS, the Treasury has estimated that annual savings to the taxpayer will be more than $18 million.

Under the RDS, depository institutions receive applications from the public for Series EE savings bonds and forward them to a regional Federal Reserve office, which then inscribes and delivers the bonds. With the encouragement of the Reserve Banks, some institutions in each of the nine participating Districts are sending their RDS applications in automated form, and nearly one-third of all RDS volume is automated.

The progress of such automation to date has meant that the RDS will require approximately 350 new positions at the Reserve Banks rather than the original estimate of 400 (the net increase will be even lower because of reductions in the number of staff members assigned to other savings bond activities). And current automation together with technological innovations under investigation by the System are likely to put the ultimate savings to U.S. taxpayers from the RDS even higher than the original estimate of $18 million per year.

According to the Treasury, sales of savings bonds have not suffered under the new delivery system, and the RDS has found widespread public acceptance. For their part, financial institutions prefer the new method because it frees them from the burden of maintaining unissued savings bond stock.

Other Developments in Federal Reserve Services

As mandated in the Monetary Control Act of 1980, the Federal Reserve System endeavors to recover all its costs of providing services. In 1990, revenues from all priced services were $885.7 million, and costs were $857.1 million, resulting in net revenue of $28.6 million and a recovery rate of 103.3 percent; in 1989 the System recovered 100.0 percent of its service costs.[1]

1. For the elements of revenues, costs, and net revenue, see the pro forma income statement at the end of this chapter.

Revenues are the sum of income from services and investment income.

Costs are the sum of production expenses, imputed costs, earnings credits, imputed income taxes, and the targeted return on equity.

Net revenue is net income less the targeted return on equity.

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Check Collection

The operating and imputed costs of check collection by the Federal Reserve in 1990 were $526.1 million (see the pro forma income statement for priced services, by service, at the end of this chapter). Check services for the year generated $558.1 million in revenue and a net of $13.8 million in other income and expenses. Income from operations after imputed costs was $32.0 million. The number of checks that the Federal Reserve Banks handled increased 3.2 percent, to 18.6 billion, from 1989.

In August the Board issued for public comment a proposed change to the fee structure for shipping checks via the Interdistrict Transportation System (ITS). The change would introduce a cap on the cumulative amount of per-item fees paid to ship checks from one Reserve Bank office to another via ITS. In October the Board extended the comment period to January 1991. The proposed fee structure was designed to better mirror the underlying costs of interdistrict check transportation.

In November the Board issued for public comment modifications to the criteria for offering a tiered pricing structure for check collection. The changes would enable the Reserve Banks to set fees that more precisely reflect their costs to collect checks drawn on paying banks within a given collection zone.

During 1990 the Federal Reserve continued to pursue processing and technological innovations in the collection of checks. Three districts participated in a pilot program for accepting intermingled deposits of returned and forward collection checks. In addition, the Federal Reserve continues to investigate the use of digitized image technology in the check collection process. Government check processing and returned check operations are expected to be the initial areas of application for image technology.

Electronic Payments

As part of its strategic study of electronic payments services in the 1990s, the Federal Reserve completed its pilot tests of two alternative production processes, one relying on distributed processing using fault-tolerant machines and the other relying on mainframe computers. The Federal Reserve has selected the alternative that involves improving the existing architecture to minimize operational risk to the Federal Reserve and to depository institutions; it will also provide flexible and cost-effective automation and communications solutions for both the Federal Reserve and depository institutions.

The Federal Reserve continued to expand its electronic network for delivery of Federal Reserve services, and it introduced a product that offers a lower cost alternative for depository institutions receiving low volumes of automated clearinghouse output.

Automated Clearinghouse

Operating and imputed costs of providing automated clearinghouse (ACH) services in 1990 were $49.3 million; revenues were $52.7 million. The Reserve Banks processed 915.3 million commercial transactions during the year, an increase of 23.6 percent over 1989.

In December the Board published for public comment a proposal to require depository institutions to originate or receive commercial ACH transactions through the Federal Reserve Banks via electronic connections. This proposal will allow the Federal Reserve to improve significantly its ACH service by increasing the speed of delivery of ACH payments and reducing the risks associated

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with ACH transactions. These improvements could not be achieved if a portion of ACH endpoints continue to send and receive ACH transactions via nonelectronic media.

Under the proposal, a per-transaction surcharge would be assessed on commercial ACH transactions originated or received by depository institutions using nonelectronic ACH deposit or delivery alternatives beginning January 1, 1993. Beginning July 1, 1993, the Federal Reserve would provide only electronic commercial ACH services. ACH service fees pertaining to physical input or output media, including paper, diskettes, or magnetic tape, are expected to rise significantly beginning in 1992 to further encourage the transition to an all-electronic ACH.

Wire Transfer of Funds and Net Settlement

The number of wire transfers originated during 1990 increased 3.2 percent over 1989, to 62.6 million. The number of net settlement entries in 1990 was 800,000. Operating and imputed costs totaled $67.9 million, and revenue was $78.6 million.

In April the Board approved changes to the Fedwire operating schedule to establish a uniform opening time of 8:30 a.m. eastern time for the funds transfer service and to establish a uniform deadline of 6:00 p.m. eastern time for third-party funds transfers. These changes became effective August 1, 1990.

In September the Board approved a proposal regarding telephone notice to recipients of off-line Fedwire transfers. Issued for comment in April, the approved proposal requires that Reserve Banks give same-day telephone notice of the receipt of incoming Fedwire third-party funds transfers (including non-value messages related to a transfer of funds) to all depository institutions that do not have electronic access to Fedwire. Such notice to off-line banks would promote efficiency in the payments mechanism by providing timely information, which permits prompt crediting of funds to the account of the beneficiary. The telephone notice service became effective January 1, 1991.

In June the Board issued for comment a comprehensive revision to subpart B of Regulation J, which governs funds transfers through Fedwire, and in September the Board adopted it. The revision, which became effective January 1, 1991, made Regulation J consistent with the new article 4A of the Uniform Commercial Code, which governs the rights, responsibilities, and liabilities of parties to wholesale funds transfers.

In October the Board approved a proposal for the Federal Reserve Bank of San Francisco to provide net settlement services to depository institutions that plan to participate in a national, multilateral ACH clearing arrangement.

By year-end 1990 all on-line depository institutions had converted their communication links for funds transfers to the System's standard protocols.

Currency and Coin

In its currency and coin operations the Federal Reserve continued to focus on the effectiveness of controls, efficiency in processing, and the maintenance of high quality in circulating currency.

The revenue from priced cash services was $14.3 million in 1990, and the cost was $13.8 million. In 1990, four Federal Reserve Districts provided transportation of cash by armored carrier and three Districts provided wrapped coin to depository institutions.

In March the System found Recognition Equipment, Inc., to be in default of the 1987 contract to provide equipment

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for verification, counting, sorting, and destruction of currency. In November the Board awarded a new contract to Giesecke and Devrient, Inc., to manufacture and maintain this equipment, which is expected to meet the System's needs for currency processing through the 1990s.

The Federal Reserve System continued to work with the Departments of Treasury and Justice and with others to deter the counterfeiting and laundering of U.S. currency.

Definitive Securities and Noncash Collection

The System received $15.9 million in revenue for definitive safekeeping and noncash collection services in 1990; the cost of these services was $14.8 million. The average number of definitive securities issues and deposits maintained in safekeeping accounts at the Reserve Banks decreased 25.4 percent in 1990, to 82,000. The number of noncash collection items processed decreased 10.3 percent, to 2.9 million.

With declining volumes, Reserve Banks continue to streamline and consolidate both definitive and noncash collection operations. Further, the System is developing a long-range plan to guide the Federal Reserve's involvement in the definitive safekeeping service, and efforts to consolidate noncash collection processing across district lines have begun.

Securities and Fiscal Agency Services

The Federal Reserve provides book-entry securities services for the debt issues of the federal government and of certain federally sponsored agencies such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Book-entry services for federal agency securities are treated as a Federal Reserve priced service; these services incurred costs of $9.6 million and earned revenue of $10.6 million in 1990. The Federal Reserve processed 2.6 million such transfers during the year, an increase of 0.7 percent over 1989. Industry efforts, supported by the Federal Reserve, to net securities transactions among participants in private clearing and settlement arrangements have resulted in smaller volumes to be processed by the Federal Reserve.

And, as noted at the outset of this chapter, the Reserve Banks continue the implementation of the Regional Delivery System for over-the-counter savings bonds.

Float

Federal Reserve float decreased to a daily average of $431 million in 1990, compared with $588 million in 1989. The costs of all Federal Reserve float associated with priced services are recovered each year.

Examinations

The Board's Division of Reserve Bank Operations and Payment Systems examines the twelve Reserve Banks and their twenty-five Branches each year as required by section 21 of the Federal Reserve Act. The results of the audits are reported to the management and directors of the respective Banks and to the Board of Governors. Also, to assess conformance with the policies issued by the Federal Open Market Committee, the division annually audits the accounts and holdings of the Federal Reserve Open Market Account at the Federal Reserve Bank of New York and the foreign currency operations conducted by that Bank. The division furnishes copies of these reports to the Committee. The examination procedures used by the division are

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reviewed each year by a private firm of certified public accountants.

Income and Expenses

The accompanying table summarizes the income, expenses and distribution of net earnings of the Federal Reserve Banks for 1990 and 1989.

Income was $23,477 million in 1990 and $22,249 million in 1989. Total expenses were $1,454 million ($1,211 million in operating expenses, $139 million in earnings credits granted to depository institutions, and $104 million in assessments for expenditures by the Board of Governors). The cost of currency was $193 million. Income from financial services was $730 million.

The profit and loss account showed a net addition of $2,201 million, primarily a result of gains from the revaluation of assets denominated in foreign currencies to market exchange rates. Statutory dividends to member banks totaled $141 million, $11 million more than in 1989. The rise reflected an increase in the capital and surplus of member banks and a consequent increase in the paid in capital stock of the Reserve Banks.

Payments to the U.S. Treasury in the form of interest on Federal Reserve notes totaled $23,608 million, compared with $21,646 million in 1989. The payments consist of all net income after the deduction of dividends and after the deduction of the amount necessary to bring the surplus of the Banks to the level of capital paid-in.

In the Statistical Tables chapter of this REPORT, table 6 details income and expenses of each Federal Reserve Bank for 1990, and table 7 shows a condensed statement for each Bank for 1914–90. A detailed account of the assessments and expenditures of the Board of Governors appears in the next chapter.

Holdings of Securities and Loans

The table on the next page presents holdings, earnings, and average interest rates on securities and loans of the Federal Reserve Banks for the years 1988–90.

Average daily holdings of securities and loans during 1990 were $237,444 million, an increase of $3,995 million from 1989. From 1989 to 1990 holdings of U.S. government securities increased

Income, Expenses, and Distribution of Net Earnings of Federal Reserve Banks, 1990 and 1989[1]

Thousands of dollars

Item	1990	1989
Current income	23,476,604	22,249,276
Current expenses	1,349,726	1,332,161
Operating expenses[2]	1,211,029	1,184,253
Earnings credits granted	138,697	147,907
Current net income	22,126,878	20,917,115
Net addition to (deduction from) current net income	2,201,470	1,295,623
Cost of unreimbursed services to Treasury	102,142	41,009
Assessments by the Board of Governors	296,759	264,623
For expenditures of Board	103,752	89,580
For cost of currency	193,007	175,044
Net income before payments to Treasury	23,929,447	21,907,105
Dividends paid	140,758	129,885
Payments to Treasury (interest on Federal Reserve notes)	23,608,398	21,646,417
Transferred to surplus	180,292	130,802

1. Details may not sum to totals because of rounding.
2. Operating expenses include a net periodic credit for pension costs of $60 million in 1990 and $47 million in 1989.

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$4,211 million, and loans decreased $216 million.

Also, during the period from 1989 to 1990, the average rate of interest decreased from 8.64 percent to 8.45 percent on holdings of U.S. government securities and decreased from 8.70 percent to 7.88 percent on loans.

Volume of Operations

Table 9, in the Statistical Tables chapter of this REPORT, shows the volume of operations in the principal departments of the Federal Reserve Banks for the years 1987–90.

Federal Reserve Bank Premises

During 1990 the Board of Governors authorized the construction of the new headquarters building for the Dallas Bank. The construction of the new operations center for the New York Bank continued and the construction of a new building for the Helena Branch was completed. Other on-going construction projects include the renovation of the main lobby of the St. Louis Bank and the renovation of the main auditorium of the New York Bank. The upgrading of the mechanical and electrical systems of the Kansas City Bank was completed.

Table 8, in the Statistical Tables chapter of this REPORT, shows the cost and book values of premises owned or occupied by the Federal Reserve Banks and Branches and of real estate acquired for future banking-house purposes.

Financial Statements for Priced Services

The tables on the following pages show pro forma statements for priced services for 1989, including a balance sheet, income statements, and a breakdown of volumes.

Securities and Loans of Federal Reserve Banks, 1988–90

Millions of dollars, except as noted

Item and year	Total	U.S. government securities[1]	Loans
Average daily holdings[2]			
1988	233,796	231,442	2,354
1989	233,449	232,312	1,137
1990	237,444	236,523	921
Earnings			
1988	18,358	18,180	179
1989	20,163	20,065	99
1990	20,067	19,995	73
Average interest rate (percent)			
1988	7.85	7.85	7.59
1989	8.64	8.64	8.70
1990	8.45	8.45	7.88

1. Includes federal agency obligations.

2. Based on holdings at opening of business.

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Pro forma balance sheet for priced services, December 31, 1990 and 1989[1]

Millions of dollars

Item	1990		1989	
Short-term assets[2]				
Imputed reserve requirement on clearing balances	270.4		203.8	
Investment in marketable securities	1,982.6		1,494.2	
Receivables	60.4		58.2	
Materials and supplies	6.2		6.4	
Prepaid expenses	15.4		11.1	
Items in process of collection	2,474.1		3,652.3	
Total short-term assets		4,809.1		5,426.0
Long-term assets[3]				
Premises	319.9		289.8	
Furniture and equipment	158.0		123.9	
Leases and leasehold improvements	18.3		6.2	
Prepaid pension costs	71.1		52.1	
Total long-term assets		567.3		427.1
Total assets		**5,376.4**		**5,898.0**
Short-term liabilities				
Clearing balances and balances arising from early credit of uncollected items	2,726.8		2,584.8	
Deferred availability items	2,000.3		2,765.5	
Short-term debt	82.0		75.7	
Total short-term liabilities		4,809.1		5,426.0
Long-term liabilities				
Obligations under capital leases	1.2		1.2	
Long-term debt	157.4		133.2	
Total long-term liabilities		158.6		134.4
Total liabilities		**4,967.7**		**5,560.4**
Equity		408.7		337.7
Total liabilities and equity[4]		**5,376.4**		**5,898.0**

1. Details may not sum to totals because of rounding.

2. The imputed reserve requirement on clearing balances held at Reserve Banks by depository institutions reflects a treatment comparable to that of compensating balances held at correspondent banks by respondent institutions. The reserve requirement imposed on respondent balances must be held as vault cash or as nonearning balances maintained at a Reserve Bank; thus, a portion of priced services clearing balances held with the Federal Reserve is shown as required reserves on the asset side of the balance sheet. The remainder of clearing balances is assumed to be invested in three-month Treasury bills, shown as investment in marketable securities. Receivables are (1) amounts due the Reserve Banks for priced services and (2) the share of suspense-account and difference-account balances related to priced services. Materials and supplies are the inventory value of short-term assets. Prepaid expenses include salary advances and travel advances for priced service personnel. Items in process of collection (CIPC) is gross Federal Reserve CIPC stated on a basis comparable to that of a commercial bank. It reflects adjustments for intra-System items that would otherwise be double-counted on a consolidated Federal Reserve balance sheet; for items associated with nonpriced items, such as those collected for government agencies; and for items associated with providing fixed availability or credit before items are received and processed. Among the costs to be recovered under the Monetary Control Act is that of float, or net CIPC during the period (the difference between gross CIPC and deferred-availability items, which is the portion of gross CIPC that involves a financing cost), valued at the federal funds rate.

3. Long-term assets used solely in priced services, the priced services portion of long-term assets shared with nonpriced services, and an estimate of the assets of the Board of Governors used in the development of priced services. Effective Jan. 1, 1987, the Reserve Banks implemented Financial Accounting Standards Board Statement No. 87, Employers' Accounting for Pensions. Accordingly, in 1989 the Reserve Banks recognized a credit to expenses of $14.7 million and a corresponding increase in this asset account.

4. Under the matched-book capital structure for assets that are not "self-financing," short-term assets are financed with short-term debt. Long-term assets are financed with long-term debt and equity in a proportion equal to the ratio of long-term debt to equity for the twenty-five largest bank holding companies, which are used in the model for the private sector adjustment factor (PSAF). The PSAF consists of the taxes that would have been paid and the return on capital that would have been provided had priced services been furnished by a private-sector firm. Other short-term liabilities include clearing balances maintained at Reserve Banks and deposit balances arising from float. Other long-term liabilities consist of obligations on capital leases.

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Pro forma income statement for Federal Reserve priced services, calendar years 1990 and 1989[1]

Millions of dollars

Item	1990		1989	
Income from services provided to depository institutions[2]		730.2		702.4
Production expenses[3]		597.1		599.4
Income from operations		133.1		103.1
Imputed costs[4]				
Interest on float	33.2		50.8	
Interest on debt	17.0		16.9	
Sales taxes	8.0		7.6	
FDIC insurance	5.0	63.2	1.6	76.9
Income from operations after imputed costs		70.0		26.2
Other income and expenses[5]				
Investment income	155.5		163.4	
Earnings credits	139.2	16.3	147.1	16.2
Income before income taxes		86.2		42.4
Imputed income taxes[6]		24.0		8.7
Net income		**62.3**		**33.7**
MEMO				
Targeted return on equity[7]		33.6		32.9

1. Details may not add to totals because of rounding.

2. Income for priced services is realized from direct charges to an institution's account or from charges against accumulated earnings credits.

3. Production expenses include direct, indirect, and other general administrative expenses of the Reserve Banks for priced services and the expenses of staff members of the Board of Governors working directly on the development of priced services, which were $1.7 million in 1990 and $1.4 million in 1989. The credit to expenses under FASB 87 is reflected in production expenses (see the pro forma balance sheet, note 3).

4. Interest on float is derived from the value of float to be recovered, either explicitly or through per-item fees, during the period. Float costs include those for checks, book-entry securities, noncash collection, ACH, and wire transfers.

Interest is imputed on debt assumed necessary to finance priced service assets. The sales taxes and FDIC insurance assessment that the Federal Reserve would have paid had it been a private-sector firm are among the components of the PSAF (see the pro forma balance sheet, note 4).

The following list shows the daily average recovery of float by the Reserve Banks for 1989 in millions of dollars.

Total float	754.6
Unrecovered float	59.7
Float subject to recovery	694.9
Sources of recovery of float	
Income on clearing balances	87.2
As-of adjustments	323.1
Direct charges	99.6
Per-item fees	185.0

Unrecovered float includes that generated by services to government agencies or by other central bank services. Float recovered through income on clearing balances is the result of the increase in investable clearing balances; the increase is produced by a deduction for float for cash items in process of collection, which reduces imputed reserve require ments. The income on clearing balances reduces the float to be recovered through other means. As-of adjustments and direct charges are midweek closing float and interterritory check float, which may be recovered from depositing institutions through adjustments to the institution's reserve or clearing balance or by valuing the float at the federal funds rate and billing the institution directly. Float recovered through per-item fees is valued at the federal funds rate and has been added to the cost base subject to recovery in 1989.

5. Investment income is on clearing balances and represents the average coupon-equivalent yield on three-month Treasury bills applied to the *total* clearing balance maintained, adjusted for the effect of reserve requirements on clearing balances. Expenses for earnings credits granted to depository institutions on their clearing balances are derived by applying the average federal funds rate to the *required* portion of the clearing balances, adjusted for the net effect of reserve requirements on clearing balances.

6. Calculated at the effective tax rate derived from the PSAF model.

7. The after-tax rate of return on equity that the Federal Reserve would have earned had it been a private business firm, as derived from the PSAF model.

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Pro forma income statement for Federal Reserve priced services, by service, 1990[1]

Millions of dollars

Item	Total	Commercial check collection	Wire transfer and net settlement	Commercial ACH	Definitive safekeeping and noncash collection	Book-entry securities	Cash services
Income from services	730.2	558.1	78.6	52.7	15.9	10.6	14.3
Operating expenses	597.1	471.1	63.9	47.0	13.8	8.9	13.7
Income from operations	133.1	87.0	14.7	5.8	2.1	1.7	.6
Imputed costs[2]	63.2	55.0	4.0	2.3	1.0	.7	.1
Income from operations after imputed costs	70.0	32.0	10.7	3.5	1.1	1.0	.5
Other income and expenses, net[3]	16.3	13.8	1.1	.8	.2	.2	.2
Income before income taxes	86.2	45.8	11.8	4.2	1.3	1.1	.7

1. Details may not sum to totals because of rounding. The effect of implementing FASB 87 (see the pro forma balance sheet, note 3) is reported only in the "total" column in this table and has not been allocated to individual priced services. Taxes and the aftertax targeted rate of return on equity, as shown on the overall pro forma income statement, have not been allocated among services because these elements relate to the organization as a whole.

2. Includes float, interest on debt, sales taxes, and the FDIC assessment. Float costs are based on the actual float incurred in each priced service. Other imputed costs are allocated among priced services according to the ratio of operating costs less shipping costs in each service to the total costs of all services less the total shipping costs of all services.

3. Income on clearing balances and the cost of earnings credits. Because clearing balances relate directly to the Federal Reserve's offering of priced services, the income and cost associated with these balances are allocated to each service based on the ratio of income from each service to total income.

Activity in Federal Reserve priced services, calendar years 1990, 1989, and 1988[1]

Thousands of items, except as noted

Service	1990	1989	1988	Percent change 1990–89	Percent change 1989–88
Fund transfers	62,559	60,645	56,334	3.2	7.7
Commercial ACH	915,257	740,623	602,406	23.6	22.9
Commercial checks	18,594,652	18,014,301	17,617,744	3.2	2.3
Securities transfers	2,555	2,536	2,236	.7	13.4
Definitive safekeeping	82	110	138	−25.4	−20.4
Noncash collection	2,854	3,180	3,337	−10.3	−4.7
Cash transportation	330	322	341	2.5	−5.6

1. Activity is defined as follows: for wire transfer of funds, the number of basic transactions originated; for ACH, total number of commercial items processed; for commercial checks, total number of commercial checks collected, including both processed and fine-sort items; for securities, number of basic transfers originated on line; for definitive safekeeping, average number of issues or receipts maintained; for noncash collection, number of items on which fees are assessed; and for cash transportation, number of armored-carrier stops.

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Revenue and expenses of locally priced Federal Reserve services, by District, 1990[1]
Millions of dollars

District	Total revenue	Operating cost	Float cost	Total cost	Net revenue
	Commercial check collection				
Boston	40.4	32.4	1.6	34.0	6.4
New York	70.3	56.6	3.6	60.2	10.1
Philadelphia	25.4	32.3	2.0	34.3	−8.9
Cleveland	32.4	25.7	1.6	27.3	5.1
Richmond	54.7	43.5	2.5	46.0	8.7
Atlanta	71.6	59.2	2.6	61.8	9.8
Chicago	73.2	59.1	3.5	62.6	10.6
St. Louis	24.2	19.7	1.7	21.4	2.8
Minneapolis	31.7	25.9	*	25.9	5.8
Kansas City	35.7	30.4	1.5	31.9	3.8
Dallas	38.5	32.7	2.2	34.9	3.6
San Francisco	59.9	52.1	2.8	54.9	5.0
System total	**558.1**	**469.6**	**25.6**	**495.2**	**62.8**
	Definitive safekeeping and noncash collection				
Boston	.7	.6	*	.6	.1
New York	2.6	2.3	*	2.3	.3
Philadelphia	1.1	.9	*	.9	.2
Cleveland	1.8	1.3	.1	1.4	.4
Richmond	.8	.8	*	.8	*
Atlanta	2.1	1.9	*	1.9	.2
Chicago	2.5	2.0	*	2.0	.5
St. Louis	.8	.7	*	.7	.1
Minneapolis	.8	.8	*	.8	*
Kansas City	1.3	1.2	*	1.2	.1
Dallas	1.4	1.3	.1	1.4	*
San Francisco	*	*	*	*	*
System total	**15.9**	**13.8**	**.2**	**14.0**	**1.9**
	Cash services				
Boston	*	...	...	*	*
New York	*	...	...	*	*
Philadelphia	1.8	...	...	1.7	.1
Cleveland	1.8	...	...	1.8	*
Richmond	.1	...	...	.1	*
Atlanta	*	...	...	*	*
Chicago	.5	...	...	.4	.1
St. Louis	.1	...	...	.1	.0
Minneapolis	3.0	...	...	2.5	.5
Kansas City	.5	...	...	.5	*
Dallas	*	...	...	*	*
San Francisco	6.5	...	...	6.5	.0
System total	**14.3**	...	...	**13.6**	**.7**

1. Details may not sum to totals because of rounding; also, expenses related to research and development projects are reported at the System level, and therefore the sum of expenses for the twelve Districts may not equal the System total. The financial results for each Reserve Bank shown here do not include the dollars to be recovered through the PSAF and the net income on clearing balances. To reconcile net revenue by priced service shown in this table with that shown in the income statement by service, adjustments must be made for imputed interest on debt, sales taxes, FDIC assessment, Board expenses for priced services, and net income on clearing balances.

*In absolute value, greater than zero and less than $50,000.

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Board of Governors Financial Statements

The financial statements of the Board were examined by Coopers & Lybrand, independent public accountants, for 1990 and 1989.

Report of Independent Accountants

To the Board of Governors of the
Federal Reserve System

We have audited the accompanying balance sheets of the Board of Governors of the Federal Reserve System (the Board) at December 31, 1990 and 1989 and the related statements of revenues and expenses and fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit s in accordance with generally accepted auditing standards and the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Governors of the Federal Reserve System as of December 31, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Washington, D.C.
February 8, 1991

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS

	As of December 31,	
	1990	1989
ASSETS		
CURRENT ASSETS		
Cash	$ 9,256,285	$ 6,911,025
Accounts receivable	1,146,044	830,753
Prepaid expenses and other assets	827,876	932,776
Total current assets	11,230,205	8,674,554
PROPERTY, BUILDINGS AND EQUIPMENT, Net (Note 3)	50,841,923	53,297,829
Total assets	$62,072,128	$61,972,383
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts payable	$ 4,208,717	$ 4,860,780
Accrued payroll and related taxes	3,673,252	3,031,416
Accrued annual leave	4,760,513	4,338,262
Unearned revenues and other liabilities	1,042,167	903,140
Total current liabilities	13,684,649	13,133,598
COMMITMENTS (Note 5)		
FUND BALANCE	48,387,479	48,838,785
Total liabilities and fund balance	$62,072,128	$61,972,383

The accompanying notes are an integral part of these statements.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF REVENUES AND EXPENSES AND FUND BALANCE

	For the years ended December 31,	
	1990	1989
Board Operating Revenues		
Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures	$103,752,200	$ 89,579,700
Other revenues (Note 4)	4,217,225	4,474,753
Total operating revenues	107,969,425	94,054,453
Board Operating Expenses		
Salaries	69,562,505	61,281,560
Retirement and insurance contributions	9,529,726	8,269,511
Depreciation and net losses on disposals	5,968,909	7,432,273
Travel	3,466,251	3,345,743
Utilities	3,460,224	3,113,889
Postage and supplies	3,358,071	2,986,854
Contractual services and professional fees	3,048,327	3,281,235
Repairs and maintenance	2,709,196	2,787,101
Printing and binding	2,202,823	2,678,987
Software	2,125,800	2,599,191
Other expenses (Note 4)	2,988,899	2,772,246
Total operating expenses	108,420,731	100,548,590
Board Operating Revenues (Under) Expenses	(451,306)	(6,494,137)
Issuance and Redemption of Federal Reserve Notes		
Assessments levied on Federal Reserve Banks for currency costs	193,006,998	174,313,207
Expenses for currency printing, issuance, retirement, and shipping	193,006,998	174,313,207
Currency Assessments (Under) Over Expenses	–	–
Total Revenues (Under) Expenses	(451,306)	(6,494,137)
Fund Balance, Beginning of year	48,838,785	55,332,922
Fund Balance, End of year	$ 48,387,479	$ 48,838,785

The accompanying notes are an integral part of these statements.

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Federal Reserve Bank of St. Louis

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash

	For the years ended December 31,	
	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES		
Board operating revenues (under) expenses	$ (451,306)	$(6,494,137)
Adjustments to reconcile operating revenues (under) expenses to net cash provided by operating activities:		
Depreciation and net losses on disposals	5,968,909	7,432,273
Increase in accounts receivable, and prepaid expenses and other assets	(210,391)	(173,373)
Increase in accrued annual leave	422,251	49,998
Increase in accounts payable, accrued payroll and related taxes, and unearned revenue and other liabilities	128,800	1,025,844
Net cash provided by operating activities	5,858,263	1,840,605
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals of furniture and equipment	8,900	2,453,537
Capital expenditures	(3,521,903)	(4,695,963)
Net cash used in investing activities	(3,513,003)	(2,242,426)
NET INCREASE (DECREASE) IN CASH	2,345,260	(401,821)
CASH BALANCE, Beginning of year	6,911,025	7,312,846
CASH BALANCE, End of year	$ 9,256,285	$ 6,911,025

The accompanying notes are an integral part of these statements.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

NOTES TO FINANCIAL STATEMENTS

(1) Significant Accounting Policies

Board Operating Revenues and Expenses – Assessments made on the Federal Reserve Banks for Board operating expenses and capital expenditures are calculated based on expected cash needs. These assessments, other operating revenues, and operating expenses are recorded on the accrual basis of accounting.

Issuance and Redemption of Federal Reserve Notes – The Board incurs expenses and assesses the Federal Reserve Banks for the cost of printing, issuing, shipping and retiring Federal Reserve Notes. These assessments and expenses are separately reported in the statements of revenues and expenses because they are not Board operating transactions.

Property, Buildings and Equipment – The Board's property, buildings and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 10 years for furniture and equipment and from 10 to 50 years for building equipment and structures. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized.

(2) Retirement Benefits

Substantially all of the Board's employees participate in either the Retirement Plan for Employees of the Federal Reserve System or the Civil Service Plan. The System's Plan is a multiemployer plan which covers employees of the Federal Reserve Banks, the Board, and the Plan Administrative Office. Employees of the Board who entered on duty before 1984 are covered by a contributory defined benefits program under the Plan. Employees of the Board who entered on duty after 1983 are covered by a non-contributory defined benefits program under the Plan. The Civil Service Plan is a defined contribution plan.

Contributions to the System's Plan are actuarially determined and funded by participating employers at amounts prescribed by the Plan's administrator. No separate accounting is maintained of assets contributed by the participating employers and net pension cost for the period is the required contribution for the period. As of January 1, 1990, actuarial calculations showed that the fair value of the assets of the System's Plan exceeded the projected benefit obligations by 72 percent. Based on these calculations and similar calculations performed for 1989, it was determined that employer funding contributions were not required for the years 1990 and 1989 and the Board was not assessed a contribution for these years. Excess Plan assets will continue to fund future years' contributions.

Board contributions to the Civil Service Plan directly match employee contributions. The Board's contributions to the Civil Service Plan totaled $639,600 in 1990 and $585,600 in 1989.

Employees of the Board may also participate in the Federal Reserve System's Thrift Plan. Under the Thrift Plan, members may contribute up to a fixed percentage of their salary. Board contributions are based upon a fixed percentage of each member's basic contribution and were $2,107,700 in 1990 and $1,751,100 in 1989.

The Board also provides certain health benefits for retired employees. The cost of providing the benefits is recognized by expensing the insurance premiums which were $367,300 in 1990 and $323,800 in 1989.

(3) Property, Buildings and Equipment

The following is a summary of the components of the Board's fixed assets, at cost, net of accumulated depreciation.

	As of December 31, 1990	1989
Land and improvements	$ 1,301,314	$ 1,301,314
Buildings	63,573,336	63,556,144
Furniture and equipment	32,768,173	30,920,877
	97,642,823	95,778,335
Less accumulated depreciation	46,800,900	42,480,506
Total property, buildings and equipment	$ 50,841,923	$ 53,297,829

(4) Other Revenues and Other Expenses

The following are summaries of the components of Other Revenues and Other Expenses.

	For the years ended December 31, 1990	1989
Other Revenues		
Data processing revenue	$2,002,546	$ 935,996
Subscription revenue	1,681,241	1,736,244
Assistance to Federal agencies	332,658	551,000
Miscellaneous	200,780	373,142
Contingency Processing Center fees	–	878,371
Total other revenues	$4,217,225	$4,474,753

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(4) OTHER REVENUES AND OTHER EXPENSES—Cont.

Other Expenses		
Cafeteria operations, net	$ 694,047	$ 654,051
Tuition, registrations and membership fees	615,534	524,934
Equipment and facility rentals	544,187	515,558
Subsidies and contributions	529,289	413,020
Miscellaneous	605,842	664,683
Total other expenses	$2,988,899	$2,772,246

Through June 30, 1989, the Board operated on behalf of the Federal Reserve System a contingency processing center to handle data processing requirements during emergency situations. The Board recovered from the Federal Reserve Banks a proportionate amount of the operating expenses of the center in the form of fees. Beginning on July 1, 1989, the equipment and the responsibility for operating the center were transferred to the Federal Reserve Bank of Richmond. Effective July 1, 1989, the Board began reimbursing the Federal Reserve Bank of Richmond for the Board's share of the center's operating expenses.

(5) COMMITMENTS

The Board has entered into several operating leases to secure office, classroom, and warehouse space for periods ranging from two to ten years. Minimum future rental commitments under those operating leases having an initial or remaining noncancelable lease term in excess of one year at December 31, 1990, are as follows:

1991	$ 529,300
1992	580,100
1993	527,900
1994	402,900
1995	353,900
	$2,394,100

Rental expenses under these operating leases were $471,500 and $243,400 in 1990 and 1989, respectively.

(6) FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

The Board is one of the five member agencies of the Federal Financial Institutions Examination Council (the "Council"). During 1990 and 1989, the Board paid $146,200 and $259,780, respectively, in assessments for operating expenses of the Council. These amounts are included in subsidies and contributions for 1990 and 1989.

The Board serves as custodian for the Council's cash account. This cash is not reflected in the accompanying financial statements. It also processes accounting transactions, including payroll for most of the Council employees, and performs other administrative services for which the Board was reimbursed $34,000 and $30,300 for 1990 and 1989, respectively.

The Board is not reimbursed for the costs of personnel who serve on the Council and on the various task forces and committees of the Council. ∎

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Statistical Tables

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Federal Reserve Bank of St. Louis

1. Detailed Statement of Condition of All Federal Reserve Banks Combined, December 31, 1990[1]

Thousands of dollars

ASSETS				
Gold certificate account				11,058,359
Special drawing rights certificate account				10,018,000
Coin				535,132
Loans and securities				
Loans to depository institutions			189,549	
Federal agency obligations				
Bought outright			6,341,556	
Held under repurchase agreement			1,340,750	
U.S. Treasury securities				
Bought outright				
Bills	112,519,895			
Notes	91,406,519			
Bonds	31,163,174			
Total bought outright		235,089,588		
Held under repurchase agreement		17,013,250		
Total securities			252,102,838	
Total loans and securities				259,974,693
Items in process of collection				
Transit items			5,185,181	
Other items in process of collection			921,118	
Total items in process of collection				6,106,299
Bank premises				
Land		141,671		
Buildings (including vaults)	666,467			
Building machinery and equipment	186,496			
Construction account	104,110			
Total bank premises		957,073		
Less depreciation allowance		227,082	729,991	
Bank premises, net				871,662
Other assets				
Furniture and equipment		755,347		
Less depreciation		425,079		
Total furniture and equipment, net			330,268	
Denominated in foreign currencies[2]			32,632,862	
Interest accrued			3,111,078	
Premium on securities			1,394,731	
Due from Federal Deposit Insurance Corporation			484,966	
Overdrafts			216,677	
Prepaid expenses			276,746	
Suspense account			355,637	
Real estate acquired for banking-house purposes			16,751	
Other			192,962	
Total other assets				39,012,678
Total assets				327,576,823

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1.—Continued

LIABILITIES		
Federal Reserve Notes		
Outstanding (issued to Federal Reserve Banks)	304,829,370	
Less held by Federal Reserve Banks	37,172,227	
Total Federal Reserve notes, net		**267,657,143**
Deposits		
Depository institutions		**38,657,562**
U.S. Treasury, general account		**8,960,212**
Foreign, official accounts		**368,799**
Other deposits		
Officers' and certified checks	20,285	
International organizations	79,736	
Other [3]	141,792	
Total other deposits		**241,813**
Deferred credit items		**3,540,076**
Other liabilities		
Discount on securities	2,915,740	
Sundry items payable	52,788	
Suspense account	31,564	
All other	304,822	
Total other liabilities		**3,304,914**
Total liabilities		**322,730,519**
CAPITAL ACCOUNTS		
Capital paid in		**2,423,152**
Surplus		**2,423,152**
Other capital accounts [4]		**0**
Total liabilities and capital accounts		**327,576,823**

1. Amounts in boldface type indicate items in the Board's weekly statement of condition of the Federal Reserve Banks.
2. Of this amount $7,951.8 million was invested in securities issued by foreign governments, and the balance was invested with foreign central banks and the Bank for International Settlements.
3. In closing out the other capital accounts at year-end, the Reserve Bank earnings that are payable to the Treasury are included in this account pending payment.
4. During the year, includes undistributed net income, which is closed out on Dec. 31.

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2. Statement of Condition of Each Federal Reserve Bank, December 31, 1990 and 1989

Millions of Dollars[1]

Item	Total		Boston	
	1990	1989	1990	1989
ASSETS				
Gold certificate account	11,058	11,059	750	699
Special drawing rights certificate account	10,018	8,518	711	531
Coin	535	456	41	26
Loans				
To depository institutions	190	481	14	5
Other	0	0	0	0
Acceptances held under repurchase agreements	0	0	0	0
Federal agency obligations				
Bought outright	6,342	6,525	426	406
Held under repurchase agreements	1,341	525	0	0
U.S. Treasury securities				
Bought outright[2]	235,090	226,775	15,794	14,112
Held under repurchase agreements	17,013	1,592	0	0
Total loans and securities	259,975	235,898	16,233	14,523
Items in process of collection	6,106	8,903	287	470
Bank premises	872	790	90	91
Other assets				
Denominated in foreign currencies[3]	32,633	31,333	1,207	1,097
All other	6,376	7,465	287	311
Interdistrict Settlement Account	0	0	1,909	2,705
Total assets	**327,573**	**304,422**	**21,515**	**20,453**
LIABILITIES				
Federal Reserve notes	267,657	241,739	18,879	17,166
Deposits				
Depository institutions	38,658	38,327	2,109	2,510
U.S. Treasury, general account	8,960	6,217	0	0
Foreign, official accounts	369	590	6	5
Other	242	1,298	3	52
Total deposits	48,228	46,430	2,118	2,567
Deferred credit items	3,540	7,773	132	376
Other liabilities and accrued dividends[4]	3,301	3,994	192	178
Total liabilities	**322,727**	**299,935**	**21,320**	**20,286**
CAPITAL ACCOUNTS				
Capital paid in	2,423	2,243	97	83
Surplus	2,423	2,243	97	83
Other capital accounts	0	0	0	0
Total liabilities and capital accounts	**327,573**	**304,423**	**21,515**	**20,453**
FEDERAL RESERVE NOTE STATEMENT				
Federal Reserve notes outstanding (issued to Bank)	304,829	279,665	21,409	19,741
Less: Held by Bank	37,172	37,926	2,530	2,575
Federal Reserve notes, net	**267,657**	**241,739**	**18,879**	**17,166**
Collateral for Federal Reserve notes				
Gold certificate account	11,058	11,059	...	...
Special drawing right certificate account	10,018	8,518	...	...
Other eligible assets	0	...	...	...
U.S. Treasury and federal agency securities	246,581	222,162	...	...
Total collateral	**267,657**	**241,739**	...	...

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2.—Continued

New York		Philadelphia		Cleveland		Richmond	
1990	1989	1990	1989	1990	1989	1990	1989
3,501	3,410	384	400	688	661	1,008	943
3,395	2,896	319	247	645	508	961	745
16	13	31	33	39	35	105	78
23	27	24	45	0	261	6	3
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
2,341	2,300	185	188	380	375	590	541
1,341	525	0	0	0	0	0	0
86,783	79,934	6,846	6,544	14,084	13,046	21,881	18,794
17,013	1,592	0	0	0	0	0	0
107,501	84,378	7,055	6,778	14,464	13,682	22,476	19,338
570	1,070	527	442	257	311	341	534
76	47	45	46	36	34	122	127
8,844	8,398	1,468	1,535	1,795	1,692	2,023	1,817
2,373	2,125	179	254	332	305	906	408
−1,044	−928	−702	862	1,077	1,214	−5,674	3,702
125,233	**101,408**	**9,307**	**10,597**	**19,332**	**18,441**	**22,270**	**27,692**
102,697	81,921	7,078	7,703	17,005	15,566	18,904	23,180
9,934	8,130	1,774	1,943	1,817	2,107	2,654	3,456
8,960	6,217	0	0	0	0	0	0
259	480	7	7	8	8	9	9
156	498	2	38	2	62	16	88
19,310	15,324	1,782	1,988	1,827	2,178	2,679	3,553
382	822	132	619	83	288	119	447
1,511	2,126	84	87	167	163	271	233
123,899	**100,192**	**9,077**	**10,397**	**19,082**	**18,194**	**21,974**	**27,413**
667	608	115	100	125	124	148	139
667	608	115	100	125	124	148	139
0	0	0	0	0	0	0	0
125,233	**101,408**	**9,307**	**10,597**	**19,332**	**18,441**	**22,270**	**27,692**
108,722	86,003	8,380	9,601	18,651	17,776	24,543	26,559
6,026	4,082	1,302	1,898	1,646	2,210	5,639	3,379
102,697	**81,921**	**7,078**	**7,703**	**17,005**	**15,566**	**18,904**	**23,180**
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2. Statement of Condition of Each Federal Reserve Bank, December 31, 1990 and 1989—Continued

Millions of Dollars[1]

Item	Atlanta		Chicago	
	1990	1989	1990	1989
ASSETS				
Gold certificate account	465	508	1,377	1,361
Special drawing rights certificate account	303	330	1,336	1,100
Coin	54	46	33	36
Loans				
To depository institutions	12	27	20	10
Other	0	0	0	0
Acceptances held under repurchase agreements	0	0	0	0
Federal agency obligations				
Bought outright	221	298	773	775
Held under repurchase agreements	0	0	0	0
U.S. Treasury securities				
Bought outright[2]	8,209	10,358	28,672	26,940
Held under repurchase agreements	0	0	0	0
Total loans and securities	8,443	10,682	29,465	27,725
Items in process of collection	581	763	759	851
Bank premises	58	59	110	110
Other assets				
Denominated in foreign currencies[3]	3,198	2,914	4,079	4,042
All other	336	241	759	612
Interdistrict Settlement Account	2,887	−3,167	2,974	1,787
Total assets	**16,325**	**12,376**	**40,892**	**37,624**
LIABILITIES				
Federal Reserve notes	11,768	7,315	36,047	32,241
Deposits				
Depository institutions	3,723	3,773	3,511	3,710
U.S. Treasury, general account	0	0	0	0
Foreign, official accounts	15	14	19	19
Other	3	73	31	189
Total deposits	3,740	3,860	3,560	3,918
Deferred credit items	226	630	343	561
Other liabilities and accrued dividends[4]	100	132	342	343
Total liabilities	**15,834**	**11,938**	**40,292**	**37,062**
CAPITAL ACCOUNTS				
Capital paid in	246	219	300	281
Surplus	246	219	300	281
Other capital accounts	0	0	0	0
Total liabilities and capital accounts	**16,325**	**12,376**	**40,892**	**37,624**
FEDERAL RESERVE NOTE STATEMENT				
Federal Reserve notes outstanding (issued to Bank)	15,085	11,148	39,007	35,397
Less: Held by Bank	3,317	3,833	2,960	3,156
Federal Reserve notes, net	**11,768**	**7,315**	**36,047**	**32,241**

1. Components may not add to totals because of rounding.
2. Includes securities loaned—fully guaranteed by U.S. Treasury securities pledged with Federal Reserve Banks—and excludes securities sold and scheduled to be bought back under matched sale-purchase transactions.
3. Valued monthly at market exchange rates.
4. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign-exchange commitments.

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2.—Continued

St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
346	370	203	198	422	494	585	613	1,329	1,402
307	290	172	153	334	362	463	433	1,072	922
36	30	13	12	33	30	44	39	89	77
28	53	6	9	10	15	23	28	25	0
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
184	201	101	110	207	261	226	274	706	796
0	0	0	0	0	0	0	0	0	0
6,817	6,982	3,755	3,818	7,672	9,069	8,391	9,528	26,185	27,652
0	0	0	0	0	0	0	0	0	0
7,028	7,235	3,862	3,936	7,890	9,345	8,640	9,829	26,917	28,447
280	387	365	434	478	1,478	977	754	685	1,409
28	23	33	27	54	52	72	25	149	150
881	877	979	1,003	1,273	1,285	2,480	2,350	4,405	4,324
146	153	107	85	168	202	224	1,736	559	1,032
183	−140	−189	−405	−926	−2,110	986	−1,511	−1,482	−2,008
9,235	**9,226**	**5,546**	**5,444**	**9,725**	**11,138**	**14,472**	**14,268**	**33,722**	**35,756**
7,507	7,420	3,929	4,147	7,799	8,052	11,481	11,166	24,563	25,863
1,410	1,201	1,028	686	1,202	1,316	1,757	1,949	7,741	7,547
0	0	0	0	0	0	0	0	0	0
4	4	5	5	6	6	11	11	20	21
1	31	6	31	9	44	7	62	7	129
1,415	1,236	1,039	721	1,217	1,367	1,775	2,022	7,768	7,697
105	360	395	390	430	1,428	746	617	448	1,235
80	87	46	52	95	115	100	121	313	357
9,108	**9,103**	**5,408**	**5,309**	**9,540**	**10,962**	**14,102**	**13,927**	**33,092**	**33,152**
64	61	69	67	93	88	185	171	315	302
64	61	69	67	93	88	185	171	315	302
0	0	0	0	0	0	0	0	0	0
9,235	**9,226**	**5,546**	**5,444**	**9,725**	**11,138**	**14,472**	**14,268**	**33,722**	**35,756**
9,163	9,009	4,698	5,003	9,910	10,306	13,926	14,620	31,335	34,502
1,656	1,589	769	857	2,111	2,254	2,445	3,454	6,773	8,639
7,507	**7,420**	**3,929**	**4,147**	**7,799**	**8,052**	**11,481**	**11,166**	**24,563**	**25,863**

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3. Federal Reserve Open Market Transactions, 1990[1]

Millions of dollars

Type of transaction	Jan.	Feb.	Mar.	Apr.
U.S. TREASURY SECURITIES				
Outright transactions (excluding matched transactions)				
Treasury bills				
Gross purchases	423	108	543	5,796
Gross sales	1,489	3,384	0	0
Exchanges	15,960	18,113	21,551	17,286
Redemptions	1,000	400	0	0
Others within 1 year				
Gross purchases	0	0	100	0
Gross sales	0	0	0	0
Maturity shift	1,201	2,845	1,876	993
Exchanges	−2,489	−5,418	0	−4,304
Redemptions	0	0	0	0
1 to 5 years				
Gross purchases	0	0	100	100
Gross sales	0	0	0	0
Maturity shift	−1,163	−1,713	1,876	−739
Exchanges	2,373	4,743	0	4,081
5 to 10 years				
Gross purchases	0	0	0	0
Gross sales	0	0	0	0
Maturity shift	−38	−451	0	−254
Exchanges	116	450	0	223
More than 10 years				
Gross purchases	0	0	0	0
Gross sales	0	0	0	0
Maturity shift	0	−681	0	0
Exchanges	0	226	0	0
All maturities				
Gross purchases	423	108	743	5,896
Gross sales	1,489	3,384	0	0
Redemptions	1,000	400	0	0
Matched transactions				
Gross sales	127,729	116,220	99,104	97,970
Gross purchases	121,411	120,637	97,128	98,643
Repurchase agreements[2]				
Gross purchases	16,185	0	8,050	6,409
Gross sales	17,777	0	6,627	7,832
Net change in U.S. Treasury securities	−9,975	740	190	5,145
FEDERAL AGENCY OBLIGATIONS				
Outright transactions				
Gross purchases	0	0	0	0
Gross sales	0	0	0	0
Redemptions	0	0	0	78
Repurchase agreements[2]				
Gross purchases	1,741	0	1,966	2,595
Gross sales	2,266	0	1,457	3,104
Net change in agency obligations	−525	0	509	−588
Total net change in System Open Market Account	**−10,500**	**740**	**699**	**4,558**

1. Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings. Details may not sum to totals because of rounding.

2. In July 1984 the Open Market Trading Desk discontinued accepting bankers acceptances in repurchase agreements.

*Less than $500,000 in absolute value.

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3. – Continued

May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
3,365	1,732	287	4,264	631	933	6,658	0	24,739
0	0	0	68	0	0	0	2,350	7,291
22,894	16,279	16,159	21,912	19,041	19,271	25,981	16,939	231,386
0	0	0	0	0	0	0	3,000	4,400
0	50	0	0	0	0	325	0	475
0	0	0	0	0	0	0	0	0
4,387	1,314	1,321	3,235	1,010	1,934	3,531	1,991	25,638
−2,771	0	−3,577	−4,550	0	0	−4,315	0	−27,424
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	200
0	0	0	0	0	0	0	0	0
−3,607	−1,314	−1,234	−2,188	−1,010	−1,677	−3,258	−1,991	−21,770
2,521	0	3,577	4,200	0	0	3,915	0	25,410
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
−530	0	−87	−697	0	−256	127	0	−2,186
0	0	0	0	0	0	0	0	789
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
−250	0	0	−350	0	0	−400	0	−1,681
250	0	0	350	0	0	400	0	1,226
3,365	1,782	287	4,264	631	933	6,983	100	25,514
0	0	0	68	0	0	0	2,550	7,491
0	0	0	0	0	0	0	3,000	4,400
121,596	107,896	95,144	113,647	120,036	127,265	116,601	125,844	1,369,052
121,218	110,042	95,787	110,635	120,280	129,722	114,488	123,442	1,363,434
3,959	11,242	13,106	26,700	31,996	19,844	36,457	45,684	219,632
3,959	11,242	11,447	23,764	34,932	19,844	34,105	31,022	202,551
2,987	3,928	2,590	4,121	−2,060	3,390	7,222	6,808	25,086
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	33	37	0	34	0	1	183
2,314	3,221	4,697	7,130	7,394	5,913	2,774	2,091	41,836
2,314	3,221	4,137	5,944	8,580	5,913	2,504	1,021	40,461
0	0	527	1,149	−1,186	−34	270	1,070	1,192
2,987	**3,928**	**3,117**	**5,270**	**−3,247**	**3,356**	**7,492**	**7,878**	**26,278**

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4. Federal Reserve Bank Holdings of U.S. Treasury and Federal Agency Securities, December 31, 1988–90[1]

Millions of dollars

Description	December 31			Increase or decrease (−)	
	1990	1989	1988	1990	1989
U.S. Treasury securities, total	**252,103**	**228,367**	**238,422**	**23,736**	**−10,055**
By term					
1–15 days[2]	22,530	9,413	9,935	13,117	−522
16–90 days	57,538	55,523	58,448	2,015	−2,925
91 days to 1 year	75,428	70,687	75,236	4,741	−4,549
1–5 years	58,749	53,509	55,326	5,240	−1,817
5–10 years	13,121	12,529	12,568	592	−39
More than 10 years	24,736	26,706	26,909	−1,970	−203
By type of holding					
Held outright					
Treasury bills[3]	112,010	104,581	112,782	7,430	−8,201
Treasury notes	91,407	91,381	90,950	25	431
Treasury bonds	31,163	30,814	29,929	350	884
Held under RPs	17,013	1,592	4,760	15,421	−3,168
Federal agency obligations, total	**6,342**	**6,525**	**6,966**	**−183**	**−442**
By term					
1–15 days[2]	200	153	170	47	−17
16–90 days	737	568	697	169	−129
91 days to 1 year	1,639	1,346	1,492	293	−146
1–5 years	2,555	3,198	3,419	−643	−221
5–10 years	1,022	1,071	1,000	−49	71
More than 10 years	188	188	189	0	−1
By type of holding					
Held outright					
Federal Farm Credit Banks	1,563	1,630	1,997	−67	−367
Federal Home Loan Banks	2,161	2,251	2,251	−90	0
Federal Home Loan Financing Corporation	0	0	0	0	0
Federal Home Loan Mortgage Corporation	0	0	0	0	0
Federal Intermediate Credit Banks[4]	0	0	0	0	0
Federal Land Banks	108	130	130	−22	0
Federal Home Administration	0	0	35	0	−35
Federal National Mortgage Association	2,364	2,347	2,387	17	−40
Federal National Sinking Fund	0	0	0	0	0
Government National Mortgage Association participation certificates[4]	0	0	0	0	0
U.S. Postal Service	37	37	37	0	0
Washington Metropolitan Area Transit Authority	117	117	117	0	0
General Services Administration	12	13	14	−1	−1
Held under RPs	1,341	525	2,101	816	−1,576

1. Details may not sum to totals because of rounding.
2. Includes the effects of temporary transactions (repurchase agreements and matched sale-purchase agreements).
3. Includes the effects of matched sale-purchase agreements.
4. There were no outstanding issues as of December 31, 1989.

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5. Number and Salaries of Officers and Employees of Federal Reserve Banks, December 31, 1990

Federal Reserve Bank (including) branches	President	Other officers		Employees			Total	
	Annual salary (dollars)	Number	Annual salaries (dollars)	Number: Full-time	Number: Part-time	Annual salaries (dollars)	Number	Annual salaries (dollars)
Boston	152,000	58	5,122,400	1,259	266	43,305,054	1,584	48,579,454
New York	231,500	162	15,451,800	3,752	48	124,647,431	3,963	140,330,731
Philadelphia	167,500	55	4,393,800	1,211	159	36,327,403	1,426	40,888,703
Cleveland	163,500	63	4,509,200	1,336	71	35,415,957	1,471	40,088,657
Richmond	175,600	82	6,174,000	1,881	145	48,966,676	2,109	55,316,276
Atlanta	186,700	72	5,440,600	2,188	69	58,112,098	2,330	63,739,398
Chicago	200,000	95	7,363,500	2,428	35	70,469,923	2,559	78,033,423
St. Louis	170,500	49	3,473,500	1,096	90	28,855,514	1,236	32,499,514
Minneapolis	154,000	50	3,763,000	974	128	27,894,906	1,153	31,811,906
Kansas City	170,000	61	4,525,500	1,597	43	42,787,259	1,702	47,482,759
Dallas	161,000	60	4,569,200	1,579	47	43,670,048	1,687	48,400,248
San Francisco	195,700	103	8,568,470	2,467	52	75,459,052	2,623	84,223,222
Total	**2,128,000**	**910**	**73,354,970**	**21,768**	**1,153**	**635,911,321**	**23,843**	**711,394,291**

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6. Income and Expenses of Federal Reserve Banks, 1990

Dollars

Item[1]	Total	Boston	New York	Philadelphia	Cleveland
CURRENT INCOME					
Loans	117,880,135	40,249,682	5,464,905	1,139,773	773,106
U.S. Treasury and federal agency securities	19,994,508,215	1,306,870,543	7,365,276,260	577,158,997	1,176,904,432
Foreign currencies	2,603,894,184	96,019,740	705,168,806	117,823,929	143,052,007
Priced services	730,186,109	49,907,873	101,758,531	34,801,129	43,460,030
Other	30,135,008	1,446,638	18,987,456	751,767	623,088
Total	**23,476,603,651**	**1,494,494,476**	**8,196,655,958**	**731,675,595**	**1,364,812,663**
CURRENT EXPENSES					
Salaries and other personnel expenses	735,493,281	47,515,067	146,498,114	40,195,918	42,434,690
Retirement and other benefits[2]	103,289,945	10,759,140	29,524,292	9,649,825	9,364,895
Fees	14,240,661	1,774,207	2,064,370	477,548	2,919,355
Travel	29,034,262	1,355,731	3,380,971	1,410,768	2,222,684
Software expenses	33,036,021	1,959,097	6,932,128	2,333,050	1,599,642
Postage and other shipping costs	83,469,068	4,698,513	10,697,727	4,749,278	5,682,049
Communications	10,515,853	888,668	2,331,254	562,665	565,649
Materials and supplies	53,429,530	3,034,794	9,089,781	3,088,159	3,077,771
Building expenses					
Taxes on real estate	22,430,224	4,169,506	3,817,714	1,761,760	1,324,457
Property depreciation	33,544,757	2,577,025	3,675,115	1,736,233	1,684,906
Utilities	25,485,512	2,034,009	3,512,892	2,726,802	1,729,422
Rent	22,029,168	591,891	15,137,216	45,162	390,890
Other	19,996,030	923,873	2,864,504	1,217,055	782,139
Equipment					
Purchases	6,266,935	259,909	3,315	276,083	178,209
Rentals	20,978,038	424,117	4,092,647	650,406	1,073,840
Depreciation	84,412,879	6,198,427	16,868,964	4,107,162	5,938,152
Repairs and maintenance	51,197,499	3,115,571	7,995,893	2,141,221	3,540,608
Earnings-credit costs	138,696,901	9,265,041	14,357,035	12,304,551	10,432,184
Other	40,145,704	2,370,076	5,846,209	11,757,050	2,255,672
Shared costs, net[3]	0	(1,031,130)	374,458	2,285,312	608,389
Recoveries	(35,204,879)	(8,565,482)	(3,990,803)	(2,750,438)	(3,293,745)
Expenses capitalized[4]	(2,441,365)	(171,964)	(6,317)	(39,324)	(368,473)
Total	**1,490,046,024**	**94,146,086**	**285,067,479**	**100,686,246**	**94,143,385**
Reimbursements	(140,320,212)	(5,973,230)	(28,216,330)	(16,768,465)	(14,193,063)
Net expenses	1,349,725,812	88,172,856	256,851,149	83,917,781	79,950,322

For notes see end of table.

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6. – Continued

Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
20,038,180	1,222,030	2,087,399	5,552,980	5,596,473	1,607,339	32,125,189	2,023,079
1,791,699,651	754,680,400	2,405,484,721	586,281,665	322,274,531	690,057,809	744,950,684	2,272,868,522
160,792,748	254,370,767	326,135,464	70,467,315	78,441,171	101,876,219	197,733,785	352,012,233
64,590,430	87,925,707	95,255,549	30,802,461	40,885,955	47,558,582	49,787,046	83,452,816
757,145	1,019,513	2,716,550	438,178	450,663	480,395	728,160	1,735,455
2,037,878,154	**1,099,218,417**	**2,831,679,683**	**693,542,599**	**447,648,793**	**841,580,344**	**1,025,324,864**	**2,712,092,105**
56,837,128	66,832,802	81,070,631	34,041,937	32,900,836	49,667,628	49,959,388	87,539,142
13,374,977	16,133,375	18,028,116	7,814,086	7,567,243	11,656,552	11,033,952	18,877,557
737,277	1,293,314	735,962	599,958	1,221,787	487,344	601,107	1,328,432
2,232,110	2,597,069	3,649,191	1,738,101	1,642,836	2,365,119	2,266,996	4,172,686
3,114,658	1,868,807	4,536,470	1,499,814	2,041,052	1,478,037	2,142,351	3,530,915
7,001,867	9,646,123	9,205,692	3,793,571	5,575,392	5,775,017	4,413,846	12,229,993
677,257	1,046,536	1,088,629	517,051	428,917	678,321	823,891	907,015
5,146,708	5,589,045	6,037,754	3,253,717	2,328,309	3,751,885	3,548,880	5,482,727
2,132,801	1,855,033	3,247,884	457,535	(512,222)	815,680	759,975	2,600,101
4,275,631	2,843,413	4,540,872	1,347,604	1,070,750	2,616,875	1,504,911	5,671,422
2,348,364	2,359,780	2,431,704	1,577,412	862,384	1,531,046	1,134,661	3,237,036
635,099	626,277	2,098,123	424,233	301,122	291,847	1,275,902	211,406
2,024,388	2,085,518	4,446,000	715,635	727,843	954,877	891,627	2,362,571
696,310	570,159	809,927	306,922	891,745	302,592	526,377	1,445,387
1,084,527	2,533,938	3,978,779	489,331	567,201	2,042,096	1,502,356	2,538,800
8,199,616	8,059,587	11,740,795	2,768,897	3,681,210	2,940,260	5,223,149	8,686,660
5,344,284	5,991,957	8,038,433	2,090,245	2,659,913	1,973,210	2,606,325	5,699,839
12,372,510	13,094,898	22,943,253	5,491,021	6,426,341	10,119,796	6,847,610	15,042,660
1,569,550	3,176,159	4,893,725	1,575,550	1,303,245	1,892,206	1,975,755	1,530,507
(3,729,457)	1,544,040	(6,878,249)	1,436,415	2,103,013	1,191,877	1,316,229	779,103
(4,007,755)	(2,263,906)	(2,709,274)	(1,446,307)	(795,238)	(811,021)	(798,616)	(3,772,294)
(262,789)	(308,915)	(272,671)	(85,670)	(40,330)	(425,325)	(350,692)	(108,895)
121,805,061	**147,175,009**	**183,661,746**	**70,407,058**	**72,953,349**	**101,295,919**	**99,205,980**	**179,992,770**
(9,168,663)	(10,572,072)	(13,168,250)	(8,149,074)	(4,705,348)	(9,037,973)	(6,336,848)	(14,030,896)
112,636,398	136,602,937	170,493,496	62,257,984	68,248,001	92,257,946	92,869,132	165,961,874

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6. Income and Expenses of Federal Reserve Banks, 1990 – Continued

Dollars

Item[1]	Total	Boston	New York	Philadelphia	Cleveland
PROFIT AND LOSS					
Current net income	22,126,877,836	1,406,321,620	8,000,298,873	647,757,814	1,284,862,341
Additions to and deductions from current net income					
Profits on sales of U.S. Treasury and federal agency securities	62,929,318	4,232,357	23,246,076	1,832,900	3,772,191
Profit on foreign exchange transactions	2,139,391,108	79,157,471	579,774,990	96,272,600	117,666,511
Other additions	375,560	718	25,801	3,128	11,432
Total additions	2,202,695,985	83,390,545	603,046,867	98,108,628	121,450,134
Total deductions	(1,225,589)	(561)	(541,196)	(1,325)	(1,712)
Net additions to or deductions (–) from current net income	2,201,470,397	83,389,984	602,505,671	98,107,303	121,448,422
Cost of unreimbursed Treasury services	102,141,926	4,836,318	15,561,379	14,618,868	11,878,601
Assessments by Board					
Board expenditures[5]	103,752,200	3,832,500	28,184,700	4,531,200	5,676,400
Cost of currency	193,006,998	13,705,231	65,406,596	6,150,167	12,427,914
Net income before payment to U.S. Treasury	23,929,447,109	1,467,337,555	8,493,651,869	720,564,882	1,376,327,848
Dividends paid	140,757,879	5,235,308	38,420,160	6,268,895	7,488,534
Payments to U.S. Treasury (interest on Federal Reserve notes)	23,608,397,730	1,448,087,847	8,395,856,909	699,100,887	1,366,983,763
Transferred to surplus	180,291,500	14,014,400	59,374,800	15,195,100	1,855,550
Surplus, January 1	2,242,860,100	83,267,100	607,678,250	99,978,900	123,500,150
Surplus, December 31	2,423,151,600	97,281,500	667,053,050	115,174,000	125,355,700

1. Details may not sum to totals because of rounding.
2. The effect of the 1987 implementation of Financial Accounting Standards Board Statement No. 87—Employers' Accounting for Pensions—is recorded in the Total column only and has not been distributed to each District. Accordingly, the sum of the Districts will not equal the Total column for this category or for Total net expenses, and New York will not sum to current net income. The effect of FASB 87 on the Reserve Banks was a reduction in expenses of $60,494,065.
3. Includes distribution of costs for projects performed by one Bank for the benefit of one or more other Banks.
4. Includes expenses for labor and materials temporarily capitalized and charged to activities when the products are consumed.
5. For additional details, see the last four pages of the preceding section: Board of Governors, Financial Statements.

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6.—Continued

Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
1,925,241,756	962,615,479	2,661,186,186	631,284,615	379,400,792	749,322,398	932,455,734	2,546,130,229
5,866,672	2,187,369	7,678,024	1,822,998	1,004,423	2,046,761	2,240,131	6,999,416
132,642,249	209,660,329	267,423,888	57,763,560	64,181,733	83,436,253	162,593,724	288,817,800
13,033	169,900	9,672	6,401	86,130	164	41,452	7,728
138,521,954	212,017,597	275,111,585	59,592,959	65,272,286	85,483,178	164,875,307	295,824,944
(16,064)	(30,901)	(24,716)	(10,373)	(82,569)	(149,759)	(2,421)	(363,991)
138,505,890	211,986,696	275,086,868	59,582,586	65,189,717	85,333,420	164,872,886	295,460,953
6,766,915	7,439,483	10,162,026	4,674,951	3,893,281	6,853,796	4,278,286	11,178,022
6,446,700	10,157,200	12,908,700	2,834,800	3,094,200	4,051,400	7,937,300	14,097,100
18,507,249	5,840,582	25,741,345	5,923,963	3,311,034	6,428,486	8,914,997	20,649,434
2,032,026,782	1,151,164,911	2,887,460,983	677,433,487	434,291,993	817,322,136	1,076,198,037	2,795,666,626
8,693,667	14,123,790	17,329,763	3,772,407	4,061,449	5,407,333	11,027,264	18,929,309
2,014,703,415	1,110,356,270	2,850,606,670	671,682,930	429,101,544	807,648,854	1,050,998,473	2,763,270,166
8,629,700	26,684,850	19,524,550	1,978,150	1,129,000	4,265,950	14,172,300	13,467,150
139,430,700	218,822,250	280,506,350	61,582,150	67,382,400	88,237,400	170,564,500	301,909,950
148,060,400	245,507,100	300,030,900	63,560,300	68,511,400	92,503,350	184,736,800	315,377,100

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7. Income and Expenses of Federal Reserve Banks, 1914–90[1]

Dollars

Period, or Federal Reserve Bank	Current income	Net expenses	Net additions or deductions (−)	Assessments by Board of Governors	
				Board expenditures	Costs of currency
All Banks					
1914–15	2,173,252	2,018,282	5,875	302,304	...
1916	5,217,998	2,081,722	−193,001	192,277	...
1917	16,128,339	4,921,932	−1,386,545	237,795	...
1918	67,584,417	10,576,892	−3,908,574	382,641	...
1919	102,380,583	18,744,815	−4,673,446	594,818	...
1920	181,296,711	27,548,505	−3,743,907	709,525	...
1921	122,865,866	33,722,409	−6,314,796	741,436	...
1922	50,498,699	28,836,504	−4,441,914	722,545	...
1923	50,708,566	29,061,539	−8,233,107	702,634	...
1924	38,340,449	27,767,886	−6,191,143	663,240	...
1925	41,800,706	26,818,664	−4,823,477	709,499	...
1926	47,599,595	24,914,037	−3,637,668	721,724	1,714,421
1927	43,024,484	24,894,487	−2,456,792	779,116	1,844,840
1928	64,052,860	25,401,233	−5,026,029	697,677	805,900
1929	70,955,496	25,810,067	−4,861,642	781,644	3,099,402
1930	36,424,044	25,357,611	−93,136	809,585	2,175,530
1931	29,701,279	24,842,964	311,451	718,554	1,479,146
1932	50,018,817	24,456,755	−1,413,192	728,810	1,105,816
1933	49,487,318	25,917,847	−12,307,074	800,160	2,504,830
1934	48,902,813	26,843,653	−4,430,008	1,372,022	1,025,721
1935	42,751,959	28,694,965	−1,736,758	1,405,898	1,476,580
1936	37,900,639	26,016,338	485,817	1,679,566	2,178,119
1937	41,233,135	25,294,835	−1,631,274	1,748,380	1,757,399
1938	36,261,428	25,556,949	2,232,134	1,724,924	1,629,735
1939	38,500,665	25,668,907	2,389,555	1,621,464	1,356,484
1940	43,537,805	25,950,946	11,487,697	1,704,011	1,510,520
1941	41,380,095	28,535,547	720,636	1,839,541	2,588,062
1942	52,662,704	32,051,226	−1,568,208	1,746,326	4,826,492
1943	69,305,715	35,793,816	23,768,282	2,415,630	5,336,118
1944	104,391,829	39,659,496	3,221,880	2,296,357	7,220,068
1945	142,209,546	41,666,453	−830,007	2,340,509	4,710,309
1946	150,385,033	50,493,246	−625,991	2,259,784	4,482,077
1947	158,655,566	58,191,428	1,973,001	2,639,667	4,561,880
1948	304,160,818	64,280,271	−34,317,947	3,243,670	5,186,247
1949	316,536,930	67,930,860	−12,122,274	3,242,500	6,304,316
1950	275,838,994	69,822,227	36,294,117	3,433,700	7,315,844
1951	394,656,072	83,792,676	−2,127,889	4,095,497	7,580,913
1952	456,060,260	92,051,063	1,583,988	4,121,602	8,521,426
1953	513,037,237	98,493,153	−1,058,993	4,099,800	10,922,067
1954	438,486,040	99,068,436	−133,641	4,174,600	6,489,895
1955	412,487,931	101,158,921	−265,456	4,194,100	4,707,002
1956	595,649,092	110,239,520	−23,436	5,339,800	5,603,176
1957	763,347,530	117,931,908	−7,140,914	7,507,900	6,374,195
1958	742,068,150	125,831,215	124,175	5,917,200	5,973,240
1959	886,226,116	131,848,023	98,247,253	6,470,600	6,384,083
1960	1,103,385,257	139,893,564	13,874,702	6,533,700	7,455,011
1961	941,648,170	148,253,719	3,481,628	6,265,100	6,755,756
1962	1,048,508,335	161,451,206	−55,779	6,654,900	8,030,028
1963	1,151,120,060	169,637,656	614,835	7,572,800	10,062,901
1964	1,343,747,303	171,511,018	725,948	8,655,200	17,229,671
1965	1,559,484,027	172,110,934	1,021,614	8,576,396	23,602,856
1966	1,908,499,896	178,212,045	996,230	9,021,600	20,167,481
1967	2,190,403,752	190,561,166	2,093,876	10,769,596	18,790,084
1968	2,764,445,943	207,677,768	8,519,996	14,198,198	20,474,404
1969	3,373,360,559	237,827,579	−557,553	15,020,084	22,125,657

For notes see end of table.

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7.—Continued

Dividends paid	Payments to U.S. Treasury			Transferred to surplus (section 13b)	Transferred to surplus (section 7)
	Franchise tax	Under section 13b	Interest on Federal Reserve notes		
217,463	. . .	. . .	. . .	. . .	. . .
1,742,775	. . .	. . .	. . .	. . .	. . .
6,804,186	1,134,234	. . .	. . .	. . .	1,134,234
5,540,684	. . .	. . .	. . .	. . .	48,334,341
5,011,832	2,703,894	. . .	. . .	. . .	70,651,778
5.654,018	60,724,742	. . .	. . .	. . .	82,916,014
6,119,673	59,974,466	. . .	. . .	. . .	15,993,086
6,307,035	10,850,605	. . .	. . .	. . .	−659,904
6.552.717	3.613.056	. . .	. . .	. . .	2,545,513
6,682,496	113,646	. . .	. . .	. . .	−3,077,962
6,915,958	59,300	. . .	. . .	. . .	2,473,808
7,329,169	818,150	. . .	. . .	. . .	8,464,426
7,754,539	249,591	. . .	. . .	. . .	5,044,119
8,458,463	2,584,659	. . .	. . .	. . .	21,078,899
9,583,911	4,283,231	. . .	. . .	. . .	22,535,597
10,268,598	17,308	. . .	. . .	. . .	−2,297,724
10,029,760	. . .	. . .	. . .	. . .	−7,057,694
9,282,244	2,011,418	. . .	. . .	. . .	11,020,582
8,874,262	. . .	. . .	. . .	. . .	−916,855
8,781,661	. . .	. . .	. . .	−60,323	6,510,071
8,504,974	. . .	297,667	. . .	27,695	607,422
7,829,581	. . .	227,448	. . .	102,880	352,524
7,940,966	. . .	176,625	. . .	67,304	2,616,352
8,019,137	. . .	119,524	. . .	−419,140	1,862,433
8,110,462	. . .	24,579	. . .	−425,653	4,533,977
8,214,971	. . .	82,152	. . .	−54,456	17,617,358
8,429,936	. . .	141,465	. . .	−4,333	570,513
8,669,076	. . .	197,672	. . .	49,602	3,554,101
8,911,342	. . .	244,726	. . .	135,003	40,327,237
9,500,126	. . .	326,717	. . .	201,150	48,409,795
10,182,851	. . .	247,659	. . .	262,133	81,969,625
10,962,160	. . .	67,054	. . .	27,708	81,467,013
11,523,047	. . .	35,605	75,283,818	86,772	8,366,350
11,919,809	. . .	. . .	166,690,356	. . .	18,522,518
12,329,373	. . .	. . .	193,145,837	. . .	21,461,770
13,082,992	. . .	. . .	196,628,858	. . .	21,849,490
13,864,750	. . .	. . .	254,873,588	. . .	28,320,759
14,681,788	. . .	. . .	291,934,634	. . .	46,333,735
15,558,377	. . .	. . .	342,567,985	. . .	40,336,862
16,442,236	. . .	. . .	276,289,457	. . .	35,887,775
17,711,937	. . .	. . .	251,740,721	. . .	32,709,794
18,904,897	. . .	. . .	401,555,581	. . .	53,982,682
20,080,527	. . .	. . .	542,708,405	. . .	61,603,682
21,197,452	. . .	. . .	524,058,650	. . .	59,214,569
22,721,687	. . .	. . .	910,649,768	. . .	−93,600,791
23,948,225	. . .	. . .	896,816,359	. . .	42,613,100
25.569,541	. . .	. . .	687,393,382	. . .	70,892,300
27,412,241	. . .	. . .	799,365,981	. . .	45,538,200
28,912,019	. . .	. . .	879,685,219	. . .	55,864,300
30,781,548	. . .	. . .	1,582,118,614	. . .	−465,822,800
32,351,602	. . .	. . .	1,296,810,053	. . .	27,053,800
33,696,336	. . .	. . .	1,649,455,164	. . .	18,943,500
35,027,312	. . .	. . .	1,907,498,270	. . .	29,851,200
36,959,336	. . .	. . .	2,463,628,983	. . .	30,027,250
39,236,599	. . .	. . .	3,019,160,638	. . .	39,432,450

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7. Income and Expenses of Federal Reserve Banks, 1914–90 – Continued

Dollars

Period, or Federal Reserve Bank	Current income	Net expenses	Net additions or deductions (−)	Assessments by Board of Governors	
				Board expenditures	Costs of currency
1970	3,877,218,444	276,571,876	11,441,829	21,227,800	23,573,710
1971	3,723,369,921	319,608,270	94,266,075	32,634,002	24,942,528
1972	3,792,334,523	347,917,112	(49,615,790)	35,234,499	31,454,740
1973	5,016,769,328	416,879,377	(80,653,488)	44,411,700	33,826,299
1974	6,280,090,965	476,234,586	(78,487,237)	41,116,600	30,190,288
1975	6,257,936,784	514,358,633	(202,369,615)	33,577,201	37,130,081
1976	6,623,220,383	558,128,811	7,310,500	41,827,700	48,819,453
1977	6,891,317,498	568,851,419	(177,033,463)	47,366,100	55,008,163
1978	8,455,309,401	592,557,841	(633,123,486)	53,321,700	60,059,365
1979	10,310,148,406	625,168,261	(151,148,220)	50,529,700	68,391,270
1980	12,802,319,335	718,032,836	(115,385,855)	62,230,800	73,124,423
1981	15,508,349,653	814,190,392	(372,879,185)	63,162,700	82,924,013
1982	16,517,385,129	926,033,957	(68,833,150)	61,813,400	98,441,027
1983	16,068,362,117	1,023,678,474	(400,365,922)	71,551,000	152,135,488
1984	18,068,820,742	1,102,444,454	(412,943,156)	82,115,700	162,606,410
1985	18,131,982,786	1,127,744,490	1,301,624,294	77,377,700	173,738,745
1986	17,464,528,361	1,156,867,714	1,975,893,356	97,337,500	180,779,673
1987	17,633,011,623	1,146,910,699	1,796,593,917[2]	81,869,800	170,674,979
1988	19,526,431,297	1,205,960,134	(516,910,320)	84,410,500	164,244,653
1989	22,249,275,725	1,332,160,712	1,295,622,583	89,579,700	175,043,736
1990	23,476,603,651	1,349,725,812	2,201,470,397	103,752,200	193,006,998
Total, 1914–90	**284,236,363,958**	**20,423,722,746**	**5,496,337,185**	**1,464,346,608**	**2,335,561,744**
Aggregate for each Bank, 1914–90					
Boston	14,819,792,498	1,348,728,618	187,713,374	52,818,886	139,494,542
New York	85,066,294,030	4,033,851,718	1,482,746,976	380,879,986	617,769,128
Philadelphia	11,228,465,209	1,089,448,550	247,243,866	71,030,818	101,777,200
Cleveland	18,896,798,643	1,356,254,562	257,762,578	108,676,590	147,188,090
Richmond	22,574,814,791	1,613,537,792	312,713,511	77,874,176	218,917,796
Atlanta	12,094,473,444	1,794,720,302	515,239,405	113,352,460	133,585,728
Chicago	40,342,775,285	2,672,799,574	667,047,416	204,871,672	323,445,239
St. Louis	9,555,068,162	1,073,911,136	140,778,979	44,999,172	87,111,870
Minneapolis	5,160,526,333	953,155,521	173,170,964	43,744,015	40,766,714
Kansas City	12,066,279,870	1,309,632,616	224,704,610	62,084,409	108,804,008
Dallas	16,045,788,680	1,194,448,489	466,842,818	97,422,373	134,430,902
San Francisco	36,385,287,014	2,139,623,275	820,372,683	206,592,051	282,270,527
Total	**284,236,363,958**	**20,423,722,746**[4]	**5,496,337,185**	**1,464,346,608**	**2,335,561,744**

1. Details may not add to totals because of rounding.
2. For 1987 and subsequent years, includes the cost of services provided to the Treasury by Federal Reserve Banks for which reimbursement was not received.
3. The $2,551,844,799 transferred to surplus was reduced by direct changes of $500,000 for charge-off on Bank premises (1927), $139,299,557 for contributions to capital of the Federal Deposit Insurance Corporation (1934) and $3,657 net upon elimination of sec. 13b surplus (1958); and was increased by transfer of $11,131,013 from reserves for contingencies (1945), leaving a balance of $2,400,910,572 on Dec. 31, 1990.
4. See note 2, table 6.

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7.—Continued

Dividends paid	Payments to U.S. Treasury			Transferred to surplus (section 13b)	Transferred to surplus (section 7)
	Franchise tax	Under section 13b	Interest on Federal Reserve notes		
41,136,551	...	...	3,493,570,636	...	32,579,700
43,488,074	...	...	3,356,559,873	...	40,403,250
46,183,719	...	...	3,231,267,663	...	50,661,000
49,139,682	...	...	4,340,680,482	...	51,178,300
52,579,643	...	...	5,549,999,411	...	51,483,200
54,609,555	...	...	5,382,064,098	...	33,827,600
57,351,487	...	...	5,870,463,382	...	53,940,050
60,182,278	...	...	5,937,148,425	...	45,727,650
63,280,312	...	...	7,005,779,497	...	47,268,200
67,193,615	...	...	9,278,576,140	...	69,141,200
70,354,516	...	...	11,706,369,955	...	56,820,950
74,573,806	...	...	14,023,722,907	...	76,896,650
79,352,304	...	...	15,204,590,947	...	78,320,350
85,151,835	...	...	14,228,816,297	...	106,663,100
92,620,451	...	...	16,054,094,674	...	161,995,900
103,028,905	...	...	17,796,464,292	...	155,252,950
109,587,968	...	...	17,803,894,710	...	91,954,150
117,499,115	...	...	17,738,879,542	...	173,771,400
125,616,018	...	...	17,364,318,571	...	64,971,100
129,885,339	...	...	21,646,417,306	...	130,802,300
140,757,879	...	...	23,608,397,730	...	180,291,500
2,430,673,709	**149,138,300**	**2,188,893**	**260,232,076,858**	**(3,657)**	**2,551,844,799**[3]
98,977,610	7,111,395	280,843	13,245,968,994	135,411	107,376,325
659,326,690	68,006,262	369,116	80,220,302,070	(433,412)	704,309,621
129,276,071	5,558,901	722,406	9,929,448,907	290,661	129,504,222
190,320,129	4,842,447	82,930	17,193,399,680	(9,906)	138,589,493
125,553,280	6,200,189	172,493	20,681,716,898	(71,517)	153,940,208
174,102,814	8,950,561	79,264	10,123,604,008	5,491	250,773,640
332,448,031	25,313,526	151,045	37,121,127,568	11,682	315,359,654
76,116,890	2,755,629	7,464	8,335,226,905	(26,515)	68,700,928
68,911,904	5,202,900	55,615	4,143,832,049	64,874	72,388,613
100,634,045	6,939,100	64,213	10,596,634,663	(8,674)	96,643,300
152,351,555	560,049	102,083	14,737,191,458	55,337	189,014,278
322,654,689	7,697,341	101,421	33,903,623,656	(17,089)	325,244,517
2,430,673,709	**149,138,300**	**2,188,893**	**260,232,076,858**	**(3,657)**	**2,551,844,799**

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8. Acquisition Costs and Net Book Value of Premises of Federal Reserve Banks and Branches, December 31, 1990[1]

Dollars

Federal Reserve Bank or Branch	Acquisition costs				Net book value	Other real estate[4]
	Land	Buildings (including vaults)[2]	Building machinery and equipment	Total[3]		
BOSTON	22,073,501	80,947,942	5,449,161	108,470,604	89,563,208	...
Annex	27,840	91,092	44,538	163,470	136,646	...
NEW YORK	3,436,277	66,104,026	21,735,584	91,275,887	72,142,664	...
Annex	447,863	1,136,219	745,855	2,359,936	747,628	...
Buffalo	887,844	2,728,294	2,465,047	6,081,185	3,202,065	...
PHILADELPHIA	2,251,556	52,644,356	5,903,704	60,799,616	44,951,528	...
CLEVELAND	1,074,281	10,555,784	7,164,337	18,794,403	13,061,875	1,224,363
Cincinnati	2,246,599	13,680,428	7,618,302	23,545,329	12,209,947	...
Pittsburgh	1,658,376	8,475,758	3,331,608	13,465,742	10,850,028	...
RICHMOND	3,912,575	57,281,864	14,314,313	75,508,751	53,224,023	...
Annex	572,128	3,725,466	3,924,584	8,222,179	3,656,874	...
Baltimore	6,476,335	26,826,903	3,842,189	37,145,427	31,134,085	...
Charlotte	3,129,645	27,402,251	4,698,497	35,230,393	34,186,433	...
ATLANTA	1,209,360	12,273,853	4,319,451	17,802,664	14,196,241	13,071,576
Birmingham	3,115,938	1,905,770	1,072,438	6,094,146	4,182,986	...
Jacksonville	1,665,439	16,395,261	2,281,437	20,342,137	18,760,205	912,813
Miami	3,717,791	12,120,564	2,181,400	18,019,755	14,427,379	...
Nashville	592,342	1,474,678	1,434,027	3,501,048	1,468,518	...
New Orleans	3,087,693	3,371,593	1,476,257	7,935,543	5,172,620	292,710
CHICAGO	4,511,942	104,200,254	16,898,497	125,610,692	101,639,918	...
Annex	53,066	969,147	426,419	1,448,632	1,230,892	...
Detroit	797,734	4,361,309	4,102,944	9,261,987	7,214,914	...
ST. LOUIS	700,378	13,352,013	5,298,206	19,350,597	16,653,007	...
Little Rock	1,148,492	2,082,669	1,003,022	4,234,183	2,545,971	...
Louisville	700,075	3,469,379	1,131,238	5,300,692	3,215,547	...
Memphis	1,135,623	5,004,438	2,280,473	8,420,534	5,441,458	...
MINNEAPOLIS	1,394,384	26,961,832	7,843,033	36,199,249	20,607,294	...
Helena	1,306,268	10,902,290	41,170	12,249,727	12,232,483	...
KANSAS CITY	1,798,804	20,568,975	9,241,472	31,609,251	23,440,441	149,948
Denver	3,187,962	4,078,149	3,648,311	10,914,422	8,330,024	...
Oklahoma City	646,386	3,379,543	2,172,989	6,198,918	4,149,157	...
Omaha	6,534,583	10,987,009	1,401,083	18,922,675	17,641,804	1,100,000
DALLAS	32,795,882	25,554,433	3,737,706	62,088,020	59,896,413	...
El Paso	262,477	1,477,716	404,946	2,145,140	1,986,655	...
Houston	2,205,500	3,248,771	1,400,175	6,854,446	6,048,944	...
San Antonio	482,284	2,609,708	1,409,162	4,501,154	3,619,224	...
SAN FRANCISCO	15,541,937	68,266,726	17,402,808	101,211,472	81,836,313	...
Los Angeles	3,891,887	49,540,237	8,334,890	61,767,014	56,119,371	...
Portland	207,381	3,800,542	1,028,879	5,036,801	4,318,432	...
Salt Lake City	480,222	4,178,378	1,448,400	6,107,000	3,550,313	...
Seattle	274,772	2,442,008	1,836,988	4,553,768	2,668,707	...
Total	**141,671,420**	**770,577,626**	**186,495,542**	**1,098,744,587**	**871,662,236**	**16,751,410**

1. Details may not sum to totals because of rounding.
2. Includes expenditures for construction at some offices, pending allocation to appropriate accounts.
3. Excludes charge-offs of $17,698,968 before 1952.
4. Covers acquisitions for banking-house purposes and bank premises formerly occupied and being held pending sale.

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9. Operations in Principal Departments of Federal Reserve Banks, 1987–90

Operation	1990	1989	1988	1987
Millions of pieces (except as noted)				
Loans (thousands)	15	22	22	25
Currency received and counted	19,462	19,857	17,580	16,881
Currency verified and destroyed	6,561	6,319	5,910	5,217
Coin received and counted	12,072	12,668	17,137	19,871
Checks handled				
U.S. government checks	547	541	547	568
Postal money orders	162	147	144	146
All other	18,598	18,014	17,623	17,006
Issues, redemptions, and exchanges of U.S. Treasury and federal agency securities[1,2]	44	40	186	191
Transfer of funds	63	60	56	52
Food stamps redeemed	2,899	2,334	2,327	2,210
Millions of dollars				
Loans	194,538	229,358	537,952	151,323
Currency received and counted	252,430	246,598	195,647	216,151
Currency verified and destroyed	65,863	59,985	47,184	44,907
Coin received and counted	1,734	1,828	3,684	3,517
Checks handled				
U.S. government checks	623,008	635,064	608,307	610,678
Postal money orders	16,485	14,284	13,189	12,511
All other	12,519,171	12,321,576	11,789,787	11,453,158
Issues, redemptions, and exchanges of U.S. Treasury and federal agency securities[1,3]	102,332,172	98,130,603	89,516,419	90,056,338
Transfer of funds	199,067,200	182,575,303	160,730,050	152,453,528
Food stamps redeemed	14,517	11,714	10,748	10,322

1. Before 1988, data included book-entry securities transfers both sent and received. After 1987, the data include only the transfers sent.

2. Agents' savings bonds transactions are not included after 1988.

3. Agents' savings bonds transactions, although excluded after 1988, are small in dollar amounts.

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10. Federal Reserve Bank Interest Rates, December 31, 1990

Bank	Loans to depository institutions		
	Adjustment credit and seasonal credit [1]	Extended credit [2]	
		First 30 days of borrowing	After 30 days of borrowing [3]
All Federal Reserve Banks . .	6.5	6.5	8.05

1. Adjustment credit is available on a short-term basis to help depository institutions meet temporary needs for funds that cannot be met through reasonable alternative sources. After May 19,1986, the highest rate established for loans to depository institutions may be charged on adjustment credit loans of unusual size that result from a major operating problem at the borrower's facility.

Seasonal credit is available to help smaller depository institutions meet regular, seasonal needs for funds that cannot be met through special industry lenders and that arise from a combination of expected patterns of movement in their deposits and loans.

See section 201.3(b)(1) of Regulation A.

2. Extended credit is available to depository institutions, if similar assistance is not reasonably available from other sources, when exceptional circumstances or practices involve only a particular institution or when an institution is experiencing difficulties adjusting to changing market conditions over a longer period of time. See section 201.3(b)(2) of Regulation A.

3. For extended-credit loans outstanding more than 30 days, a flexible rate somewhat above rates on market sources of funds ordinarily will be charged, but in no case will the rate charged be less than the basic discount rate plus 50 basis points. The flexible rate is reestablished on the first business day of each two-week reserve maintenance period. At the discretion of the Federal Reserve Bank, the time period for which the basic discount rate is applied may be shortened.

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11. Reserve Requirements of Depository Institutions [1]

Type of deposit, and deposit interval [2]	Depository institution requirements after implementation of the Monetary Control Act	
	Percent of deposits	Effective date
Net transaction accounts [3,4]		
$0 million–$41.1 million	3	12/18/90
More than $41.1 million	12	12/18/90
Nonpersonal time deposits [5,6]	0	12/27/90
Eurocurrency liabilities [7]	0	12/27/90

1. Reserve requirements in effect on Dec. 31, 1990. Required reserves must be held in the form of deposits with Federal Reserve Banks or vault cash. Nonmember institutions may maintain reserve balances with a Federal Reserve Bank indirectly on a pass-through basis with certain approved institutions. For previous reserve requirements, see earlier editions of the *Annual Report* or the *Federal Reserve Bulletin*. Under provisions of the Monetary Control Act, depository institutions include commercial banks, mutual savings banks, savings and loan associations, credit unions, agencies and branches of foreign banks, and Edge corporations.

2. The Garn–St Germain Depository Institutions Act of 1982 (Public Law 97-320) requires that $2 million of reservable liabilities of each depository institution be subject to a zero percent reserve requirement. The Board is to adjust the amount of reservable liabilities subject to this zero percent reserve requirement each year for the succeeding calendar year by 80 percent of the percentage increase in the total reservable liabilities of all depository institutions measured on an annual basis as of June 30. No corresponding adjustment is to be made in the event of a decrease. On Dec. 20, 1988, the exemption was raised from $3.2 million to $3.4 million. In determing the reserve requirements of depository institutions, the exemption shall apply in the following order: (1) net NOW accounts (NOW accounts less allowable deductions); and (2) net other transaction accounts. The exemption applies only to accounts that would be subject to a 3 percent reserve requirement.

3. Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, and telephone and preauthorized transfers in excess of three per month for the purpose of making payments to third persons or others. However, MMDAs and similar accounts subject to the rules that permit no more than six preauthorized, automatic, or other transfers per month, of which no more than three can be checks, are not transaction accounts (such accounts are savings deposits).

4. The Monetary Control Act of 1980 requires that the amount of transaction accounts against which the 3 percent reserve requirement applies be modified annually by 80 percent of the percentage change in transaction accounts held by all depository institutions, determined as of June 30 each year. Effective Dec. 18, 1990 for institutions reporting quarterly and Dec. 25, 1990 for institutions reporting weekly, the amount was increased from $40.4 million to $41.1 million.

5. The reserve requirements on nonpersonal time deposits with an original maturity of less than 1½ years were reduced from 3 percent to 1½ percent on the maintenance period that began Dec. 13, 1990, and to zero for the maintenance period that began Dec. 27, 1990, for institutions that report weekly. The reserve requirement on nonpersonal time deposits with an original maturity of 1½ years or more has been zero since Oct. 6, 1983.

6. For institutions that report quarterly, the reserves on nonpersonal time deposits with an original maturity of less than 1½ years will be reduced from 3 percent to zero on Jan. 17, 1991.

7. The reserve requirements on Euroccurency liabilities were reduced from 3 percent to zero in the same manner and on the same dates as were the reserves on nonpersonal time deposits with an original maturity of less than 1½ years (see notes 5 and 6).

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12. Initial Margin Requirements under Regulations T, U, G, and X[1]

Percent of market value

Effective date	Margin stocks	Convertible bonds	Short sales, T only[2]
1934, Oct. 1	25–45	...	...
1936, Feb. 1	25–55	...	...
Apr. 1	55	...	...
1937, Nov. 1	40	...	50
1945, Feb. 5	50	...	50
July 5	75	...	75
1946, Jan. 21	100	...	100
1947, Feb. 21	75	...	75
1949, Mar. 3	50	...	50
1951, Jan. 17	75	...	75
1953, Feb. 20	50	...	50
1955, Jan. 4	60	...	60
Apr. 23	70	...	70
1958, Jan. 16	50	...	50
Aug. 5	70	...	70
Oct. 16	90	...	90
1960, July 28	70	...	70
1962, July 10	50	...	50
1963, Nov. 6	70	...	70
1968, Mar. 11	70	50	70
June 8	80	60	80
1970, May 6	65	50	65
1971, Dec. 6	55	50	55
1972, Nov. 24	65	50	65
1974, Jan. 3	50	50	50

1. These regulations, adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry "margin securities" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements on securities other than options are the difference between the market value (100 percent) and the maximum loan value of collateral as prescribed by the Board. Regulation T was adopted effective Oct. 15, 1934; Regulation U, effective May 1, 1936; Regulation G, effective Mar. 11, 1968; and Regulation X, effective Nov. 1, 1971.

On Jan. 1, 1977, the Board of Governors for the first time established in Regulation T the initial margin required for writing options on securities, setting it at 30 percent of the current market value of the stock underlying the option. On Sept. 30, 1985, the Board changed the required initial margin, allowing it to be the same as the option maintenance margin required by the appropriate exchange or self-regulatory organization; such maintenance margin rules must be approved by the Securities and Exchange Commission. Effective June 6, 1988, the SEC approved new maintenance margin rules, permitting margins to be the price of the option plus 20 percent of the market value of the stock underlying the option.

2. From Oct. 1, 1934, to Oct. 31, 1937, the requirement was the margin "customarily required" by the brokers and dealers.

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13. Principal Assets and Liabilities and Number of Insured Commercial Banks, by Class of Bank, June 30, 1990 and 1989[1]

Asset and liability items shown in millions of dollars

Item	Total	Member banks			Nonmember banks
		Total	National	State	
	June 30, 1990				
Loans and investments	2,397,535	1,764,200	1,430,081	334,119	633,335
Gross loans	1,850,521	1,387,190	1,134,705	252,485	463,331
Net loans	1,838,093	1,378,584	1,127,800	250,783	459,509
Investments	547,014	377,010	295,376	81,634	170,005
U.S. Treasury and federal agency securities	398,798	274,686	218,947	55,739	124,112
Other	148,216	102,323	76,429	25,895	45,893
Cash assets, total	208,095	161,116	129,473	31,643	46,979
Deposits, total	2,223,873	1,607,549	1,314,078	293,471	616,324
Interbank	48,283	41,506	31,007	10,500	6,777
Other transaction	590,923	435,685	352,317	83,368	155,238
Other nontransaction	1,789,730	1,272,269	1,050,083	222,186	517,461
Equity capital	211,833	150,801	119,348	31,453	61,032
Number of banks	12,436	5,065	4,049	1,016	7,371
	June 30, 1989				
Loans and investments	2,259,724	1,670,985	1,356,609	314,376	588,740
Gross loans	1,757,586	1,327,599	1,088,040	239,559	429,987
Net loans	1,744,053	1,317,906	1,080,141	237,765	426,147
Investments	502,138	343,386	268,569	74,817	158,753
U.S. Treasury and federal agency securities	341,591	229,994	183,622	46,372	111,597
Other	160,548	113,392	84,948	28,445	47,156
Cash assets, total	216,074	167,913	134,291	33,622	48,161
Deposits, total	2,093,348	1,520,418	1,235,267	285,151	572,930
Interbank	52,657	45,449	33,420	12,029	7,208
Other demand	579,765	429,752	344,296	85,456	150,013
Other time and savings	1,650,352	1,176,123	967,596	208,527	474,229
Equity capital	202,278	146,044	113,650	32,395	56,234
Number of banks	12,876	5,305	4,269	1,036	7,571

1. All insured commercial banks in the United States.
Details may not sum to totals because of rounding.

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14. Reserves of Depository Institutions, Federal Reserve Bank Credit, and Related Items—Year-End 1918–90, and Month-End 1990[1]

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock[5]	Special drawing rights certificate account	Treasury currency outstanding[6]
	U.S. Treasury and federal agency securities			Loans	Float[2]	All other[3]	Other Federal Reserve assets[4]	Total			
	Total	Bought outright	Held under repurchase agreement								
1918	239	239	0	1,766	199	294	0	2,498	2,873	...	1,795
1919	300	300	0	2,215	201	575	0	3,292	2,707	...	1,707
1920	287	287	0	2,687	119	262	0	3,355	2,639	...	1,709
1921	234	234	0	1,144	40	146	0	1,563	3,373	...	1,842
1922	436	436	0	618	78	273	0	1,405	3,642	...	1,958
1923	134	80	54	723	27	355	0	1,238	3,957	...	2,009
1924	540	536	4	320	52	390	0	1,302	4,212	...	2,025
1925	375	367	8	643	63	378	0	1,459	4,112	...	1,977
1926	315	312	3	637	45	384	0	1,381	4,205	...	1,991
1927	617	560	57	582	63	393	0	1,655	4,092	...	2,006
1928	228	197	31	1,056	24	500	0	1,809	3,854	...	2,012
1929	511	488	23	632	34	405	0	1,583	3,997	...	2,022
1930	739	686	43	251	21	372	0	1,373	4,306	...	2,027
1931	817	775	42	638	20	378	0	1,853	4,173	...	2,035
1932	1,855	1,851	4	235	14	41	0	2,145	4,226	...	2,204
1933	2,437	2,435	2	98	15	137	0	2,688	4,036	...	2,303
1934	2,430	2,430	0	7	5	21	0	2,463	8,238	...	2,511
1935	2,431	2,430	1	5	12	38	0	2,486	10,125	...	2,476
1936	2,430	2,430	0	3	39	28	0	2,500	11,258	...	2,532
1937	2,564	2,564	0	10	19	19	0	2,612	12,760	...	2,637
1938	2,564	2,564	0	4	17	16	0	2,601	14,512	...	2,798
1939	2,484	2,484	0	7	91	11	0	2,593	17,644	...	2,963
1940	2,184	2,184	0	3	80	8	0	2,274	21,995	...	3,087
1941	2,254	2,254	0	3	94	10	0	2,361	22,737	...	3,247
1942	6,189	6,189	0	6	471	14	0	6,679	22,726	...	3,648
1943	11,543	11,543	0	5	681	10	0	12,239	21,938	...	4,094
1944	18,846	18,846	0	80	815	4	0	19,745	20,619	...	4,131
1945	24,252	24,252	0	249	578	2	0	15,091	20,065	...	4,339
1946	23,350	23,350	0	163	580	1	0	24,093	20,529	...	4,562
1947	22,559	22,559	0	85	535	1	0	23,181	22,754	...	4,562
1948	23,333	23,333	0	223	541	1	0	24,097	24,244	...	4,589
1949	18,885	18,885	0	78	534	2	0	19,499	24,427	...	4,598
1950	20,778	20,725	53	67	1,368	3	0	22,216	22,706	...	4,636
1951	23,801	23,605	196	19	1,184	5	0	25,009	22,695	...	4,709
1952	24,697	24,034	663	156	967	4	0	25,825	23,187	...	4,812
1953	25,916	25,318	598	28	935	2	0	26,880	22,030	...	4,894
1954	24,932	24,888	44	143	808	1	0	25,885	21,713	...	4,985
1955	24,785	24,391	394	108	1,585	29	0	26,507	21,690	...	5,008
1956	24,915	24,610	305	50	1,665	70	0	26,699	21,949	...	5,066
1957	24,238	23,719	519	55	1,424	66	0	25,784	22,781	...	5,146
1958	26,347	26,252	95	64	1,296	49	0	27,755	20,534	...	5,234
1959	26,648	26,607	41	458	1,590	75	0	28,771	19,456	...	5,311
1960	27,384	26,984	400	33	1,847	74	0	29,338	17,767	...	5,398
1961	28,881	30,478	159	130	2,300	51	0	31,362	16,889	...	5,585
1962	30,820	28,722	342	38	2,903	110	0	33,871	15,978	...	5,567
1963	33,593	33,582	11	63	2,600	162	0	36,418	15,513	...	5,578
1964	37,044	36,506	538	186	2,606	94	0	39,930	15,388	...	5,405

For notes see last two pages of table.

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14. – Continued

Factors absorbing reserve funds											
Currency in circulation	Treasury cash holdings [7]	Deposits, other than reserves, with Federal Reserve Banks			Other Federal Reserve accounts [4]	Required clearing balances	Other Federal Reserve liabilities and capital [4]	Member bank reserves [8]			
		Treasury	Foreign	Other				With Federal Reserve Banks	Currency and coin [9]	Required [10]	Excess [10]
4,951	288	51	96	25	118	0	0	1,636	0	1,585	51
5,091	385	51	73	28	208	0	0	1,890	0	1,822	68
5,325	218	57	5	18	298	0	0	1,781	0	0	0
4,403	214	96	12	15	285	0	0	1,753	0	1,654	99
4,530	225	11	3	26	276	0	0	1,934	0	0	0
4,757	213	38	4	19	275	0	0	1,898	0	1,884	14
4,760	211	51	19	20	258	0	0	2,220	0	2,161	59
4,817	203	16	8	21	272	0	0	2,212	0	2,256	−44
4,808	201	17	46	19	293	0	0	2,194	0	2.250	−56
4,716	208	18	5	21	301	0	0	2,487	0	2,424	63
4,686	202	23	6	21	348	0	0	2,389	0	2,430	−41
4,578	216	29	6	24	393	0	0	2,355	0	2,428	−73
4,603	211	19	6	22	375	0	0	2,471	0	2,375	96
5,360	222	54	79	31	354	0	0	1,961	0	1,994	−33
5,388	272	8	19	24	355	0	0	2,509	0	1,933	576
5,519	284	3	4	128	360	0	0	2,729	0	1,870	859
5,536	3,029	121	20	169	241	0	0	4,096	0	2,282	1,814
5,882	2,566	544	29	226	253	0	0	5,587	0	2,743	2,844
6,543	2,376	244	99	160	261	0	0	6,606	0	4,622	1,984
6,550	3,619	142	172	235	263	0	0	7,027	0	5,815	1,212
6,856	2,706	923	199	242	260	0	0	8,724	0	5,519	3,205
7,598	2,409	634	397	256	251	0	0	11,653	0	6,444	5,209
8,732	2,213	368	1,133	599	284	0	0	4,026	0	7,411	6,615
11,160	2,215	867	774	586	291	0	0	12,450	0	9,365	3,085
15,410	2,193	799	793	485	256	0	0	13,117	0	11,129	1,988
20,499	2,303	579	1,360	356	339	0	0	12,886	0	11,650	1,236
25,307	2,375	440	1,204	394	402	0	0	14,373	0	12,748	1,625
28,515	2,287	977	862	446	495	0	0	15,915	0	14,457	1,458
28,952	2,272	393	508	314	607	0	0	16,139	0	15,577	562
28,868	1,336	870	392	569	563	0	0	17,899	0	16,400	1,499
28,224	1,325	1,123	642	547	590	0	0	20,479	0	19,277	1,202
27,600	1,312	821	767	750	106	0	0	16,568	0	15,550	1,018
27,741	1,293	668	895	565	714	0	0	17,681	0	16,509	1,172
29,206	1,270	247	526	363	746	0	0	20,056	0	19,667	389
30,433	1,270	389	550	455	777	0	0	19,950	0	20,520	−570
30,781	761	346	423	493	839	0	0	20,160	0	19,397	763
30,509	796	563	490	441	907	0	0	18,876	0	18,618	258
31,158	767	394	402	554	925	0	0	19,005	0	18,903	102
31,790	775	441	322	426	901	0	0	19,059	0	19,089	−30
31,834	761	481	356	246	998	0	0	19,034	0	19,091	−57
32,193	683	358	272	391	1,122	0	0	18,504	0	18,574	−70
32,591	391	504	345	694	841	0	0	18,174	310	18,619	−135
32,869	377	485	217	533	941	0	0	17,081	2,544	18,988	637
33,918	422	465	279	320	1,044	0	0	17,387	2,544	18,988	96
35,338	380	597	247	393	1,007	0	0	17,454	3,262	20,071	645
37,692	361	880	171	291	1,065	0	0	17,049	4,099	20,677	471
39,619	612	820	229	321	1,036	0	0	18,086	4,151	21,663	574

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14. Reserves of Depository Institutions, Federal Reserve Bank Credit, and Related Items – Year-End 1918–90, and Month-End 1990[1] – Continued

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock[5]	Special drawing rights certificate account	Treasury currency outstanding[6]
	U.S. Treasury and federal agency securities			Loans	Float[2]	All other[3]	Other Federal Reserve assets[4]	Total			
	Total	Bought outright[12]	Held under repurchase agreement								
1965	40,768	40,478	290	137	2,248	187	0	43,340	13,733	...	5,575
1966	44,316	43,655	661	173	2,495	193	0	47,177	13,159	...	6,317
1967	49,150	48,980	170	141	2,576	164	0	52,031	11,982	...	6,784
1968	52,937	52,937	0	186	3,443	58	0	56,624	10,367	...	6,795
1969	57,154	7,154[3]	0	183	3,440	64	2,743	64,584	10,367	...	6,852
1970	62,142	62,142	0	335	4,261	57	1,123	67,918	10,732	400	7,147
1971	70,804	69,481	1,323	39	4,343	261	1,068	76,515	10,132	400	7,710
1972	71,230	71,119	111	1,981	3,974	106	1,260	78,551	10,410	400	8,313
1973	80,495	80,395	100	1,258	3,099	68	1,152	86,072	11,567	400	8,716
1974	85,714	84,760	954	299	2,001	999	3,195	92,208	11,652	400	9,253
1975	94,124	92,789	1,335	211	3,688	1,126	3,312	102,461	11,599	500	10,218
1976	104,093	100,062	4,031	25	2,601	991	3,182	110,892	11,598	1,200	10,810
1977	111,274	108,922	2,352	265	3,810	954	2,442	118,745	11,718	1,250	11,331
1978	118,591	117,374	1,217	1,174	6,432	587	4,543	131,327	11,671	1,300	11,831
1979	126,167	124,507	1,660	1,454	6,767	704	5,613	140,705	11,172	1,800	13,083
1980	130,592	128,038	2,554	1,809	4,467	776	8,739	146,383	11,160	2,518	13,427
1981	140,348	136,863	3,485	1,601	1,762	195	9,230	153,136	11,151	3,318	13,687
1982	148,837	144,544	4,293	717	2,735	1,480	9,890	63,659	11,148	4,618	13,786
1983	160,795	159,203	1,592	918	1,605	418	8,728	172,464	11,121	4,618	15,732
1984	169,627	167,612	2,015	3,577	833	0	12,347	186,384	11,096	4,618	16,418
1985	191,248	186,025	5,223	3,060	988	0	15,302	210,598	11,090	4,718	17,075
1986	221,459	205,454	16,005	1,565	1,261	0	17,475	241,760	11,084	5,018	17,567
1987	231,420	226,459	4,961	3,815	811	0	15,837	251,883	11,078	5,018	18,177
1988	247,489	240,628	6,861	2,170	1,286	0	18,803	269,748	11,060	5,018	18,799
1989	235,417	233,300	2,117	481	1,093	0	39,631	276,622	11,059	8,518	19,620
1990	242,643	239,499	3,144	313	1,727	0	40,011	284,697	11,058	10,018	20,368

1. For a description of figures and discussion of their significance, see *Banking and Monetary Statistics, 1941–1970* (Board of Governors of the Federal Reserve System, 1976), pp. 507–23. Components may not add to totals because of rounding.

2. Beginning with 1960, figures reflect a minor change in concept; see *Federal Reserve Bulletin*, vol. 47 (February 1961), p. 164.

3. Principally acceptances and, until Aug. 21, 1959, industrial loans, authority for which expired on that date.

4. For the period before Apr. 16, 1969, includes the total of Federal Reserve capital paid in, surplus, other capital accounts, and other liabilities and accrued dividends, less the sum of bank premises and other assets, and was reported as "Other Federal Reserve accounts"; thereafter, "Other Federal Reserve assets" and "Other Federal Reserve liabilities and capital" are shown separately.

5. For the period before Jan. 30, 1934, includes gold held in Federal Reserve Banks and in circulation.

6. Includes currency and coin (other than gold) issued directly by the Treasury. The largest components are fractional and dollar coins. For details see "Currency and Coin in Circulation," *Treasury Bulletin*.

7. Coin and paper currency held by the Treasury, as well as any gold in excess of the gold certificates issued to the Reserve Bank.

8. Beginning in November 1979, includes reserves of member banks. Edge corporations, and U.S. agencies and branches of foreign banks. Beginning on Nov. 13, 1980, includes reserves of all depository institutions.

9. Between Dec. 1, 1959, and Nov. 23, 1960, part was allowed as reserves; thereafter all was allowed.

10. Estimated through 1958. Before 1929, data were available only on call dates (in 1920 and 1922 the call dates were Dec. 29). Beginning on Sept. 12, 1968, the amount is based on close-of-business figures for the reserve period two weeks before the report date.

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14. – Continued

Factors absorbing reserve funds												
Currency in circulation	Treasury cash holdings[7]	Deposits, other than reserves, with Federal Reserve Banks			Other Federal Reserve accounts[4]	Required clearing balances	Other Federal Reserve liabilities and capital[4]	Member bank reserves[8]				
		Treasury	Foreign	Other				With Federal Reserve Banks	Currency and coin[9]	Required[10]	Excess[10,13]
42,056	760	668	150	355	211	0	0	18,447	4,163	22,848	−238
44,663	1,176	416	174	588	−147	0	0	19,779	4,310	24,321	−232
47,226	1,344	1,123	135	563	−773	0	0	21,092	4,631	25,905	−182
50,961	695	703	216	747	−1,353	0	0	21,818	4,921	27,439	−700
53,950	596	1,312	134	807	0	0	0	22,085	5,187	28,173	−901
57,903	431	1,156	148	1,233	0	0	1,986	24,150	5,423	30,033	−460
61,068	460	2,020	294	999	0	0	2,131	27,788	5,743	32,496	1,035
66,516	345	1,855	325	840	0	0	2,143	25,647	6,216	32,044	98[13]
72,497	317	2,542	251	1,419[14]	0	0	2,669	27,060	6,781	35,268	−1,360
79,743	185	2,113	418	1,275[14]	0	0	2,935	25,843	7,370	37,011	−3,798
86,547	483	7,285	353	1,090	0	0	2,968	26,052	8,036	35,197	−1,103[15]
93,717	460	10,393	352	1,357	0	0	3,063	25,158	8,628	35,461	−1,535
103,811	392	7,114	379	1,187	0	0	3,292	26,870	9,421	37,615	−1,265
114,645	240	4,196	368	1,256	0	0	4,275	31,152	10,538	42,694	−893
125,600	494	4,075	429	1,412	0	0	4,957	29,792	11,429	44,217	−2,835
136,829	441	3,062	411	617	0	0	4,671	27,456	13,654	40,558	675
144,774	443	4,301	505	781	0	117	5,261	25,111	15,576	42,145	−1,442
154,908	429	5,033	328	1,033	0	436	4,990	26,053	16,666	41,391	1,328
171,935	479	3,661	191	851	0	1,013	5,392	20,413	17,821	39,179	−945
183,796	513	5,316	253	867	0	1,126	5,952	20,693	n.a.	n.a.	n.a.
197,488	550	9,351	480	1,041	0	1,490	5,940	27,141	n.a.	n.a.	n.a.
211,995	447	7,588	287	917	0	1,812	6,088	46,295	n.a.	n.a.	n.a.
230,205	454	5,313	244	1,027	0	1,687	7,129	40,097	n.a.	n.a.	n.a.
247,649	395	8,656	347	548	0	1,605	7,683	37,742	n.a.	n.a.	n.a.
260,453	450	6,217	589	1,298	0	1,626	8,486	36,701	n.a.	n.a.	n.a.
283,000	552	5,809	251	226	0	1,846	9,170	33,746	n.a.	n.a.	n.a.

11. Beginning on Dec. 1, 1966, includes federal agency obligations held under repurchase agreements and beginning on Sept. 29, 1971, federal agency issues bought outright.

12. Includes, beginning in 1969, securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and excludes securities sold and scheduled to be bought back under matched sale-purchase transactions.

13. Beginning with week ending Nov. 15, 1972, includes $450 million of reserve deficiencies on which Federal Reserve Banks are allowed to waive penalties for a transition period in connection with bank adaptation to Regulation J as amended, effective Nov. 9, 1972. Allowable deficiencies are as follows (beginning with first statement week of quarter, in millions): 1973–Q1, $279; Q2, $172; Q3, $112; Q4, $84; 1974–Q1, $67; Q2, $58. The transition period ended with the second quarter of 1974.

14. For the period before July 1973, includes certain deposits of domestic nonmember banks and foreign-owned banking institutions held with member banks and redeposited in full with Federal Reserve Banks in connection with voluntary participation by nonmember institutions in the Federal Reserve System program of credit restraint.

As of Dec. 12, 1974, the amount of voluntary nonmember bank and foreign-agency and branch deposits at Federal Reserve Banks that are associated with marginal reserves are no longer reported. However, two amounts are reported: (1) deposits voluntarily held as reserves by agencies and branches of foreign banks operating in the United States and (2) Eurodollar liabilities.

15. Adjusted to include waivers of penalties for reserve deficiencies, in accordance with change in Board policy effective Nov. 19, 1975.

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14. Reserves of Depository Institutions, Federal Reserve Bank Credit, and Related Items – Year-End 1918–90, and Month-End 1990[1] – Continued

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock[5]	Special drawing rights certificate account	Treasury currency outstanding[6]
	U.S. Treasury and federal agency securities			Loans	Float[2]	All other[3]	Other Federal Reserve assets[4]	Total			
	Total	Bought outright[12]	Held under repurchase agreement								
1990											
Jan....	222,417	221,432	985	412	978	0	39,455	263,262	11,059	8,518	19,666
Feb ...	215,796	215,796	0	1,428	1,059	0	39,284	257,567	11,059	8,518	19,734
Mar...	219,454	219,148	306	2,143	431	0	39,846	261,874	11,059	8,518	19,802
Apr ...	223,806	223,445	361	1,655	659	0	39,984	266,104	11,060	8,518	19,878
May...	224,529	224,344	185	1,304	720	0	40,085	266,638	11,063	8,518	19,951
June...	229,682	228,752	930	888	486	0	40,404	271,460	11,065	8,518	20,024
July ...	231,647	230,592	1,055	768	674	0	39,840	272,927	11,065	8,518	20,093
Aug ...	233,505	231,366	2,139	885	566	0	39,133	274,089	11,064	8,518	20,145
Sept...	236,501	233,704	2,797	664	752	0	40,785	279,366	11,064	8,518	20,196
Oct....	235,638	234,588	1,050	411	704	0	41,568	278,321	11,061	8,566	20,261
Nov ...	241,193	238,788	2,405	231	482	0	39,803	281,709	11,060	10,018	20,321
Dec ...	242,643	239,499	3,144	313	1,727	0	40,011	284,697	11,058	10,018	20,368

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14.—Continued

Factors absorbing reserve funds												
Currency in circulation	Treasury cash holdings [7]	Deposits, other than reserves, with Federal Reserve Banks			Other Federal Reserve accounts [4]	Required clearing balances	Other Federal Reserve liabilities and capital [4]	Member bank reserves [8]			
		Treasury	Foreign	Other				With Federal Reserve Banks	Currency and coin [9]	Required [10]	Excess [10,13]
256,685	468	302	255	364	0	1,624	8,928	36,375	↑	↑	↑
254,662	494	5,867	214	325	0	1,501	8,913	32,962			
256,791	524	5,349	215	339	0	1,722	8,997	35,822			
260,024	549	4,351	230	316	0	1,606	9,033	37,883			
262,397	572	5,054	214	334	0	1,764	9,468	34,797			
265,784	582	5,078	250	289	0	1,768	9,788	36,034			
268,968	568	5,408	243	243	0	1,765	9,176	34,914	n.a.	n.a.	n.a.
270,536	544	5,415	265	236	0	1,605	9,219	34,610			
272,888	525	6,358	258	279	0	1,735	9,909	35,621			
274,668	529	5,544	250	309	0	1,732	9,375	34,242			
278,216	552	5,543	250	240	0	1,767	9,380	35,543			
283,000	552	5,809	251	226	0	1,846	9,170	33,746	↓	↓	↓

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15. Changes in Number of Banking Offices in the United States, 1990[1]

Type of office and change	Total	Commercial banks[2]						Mutual savings banks	
		Total	Member			Nonmember			
			Total	National	State	Insured	Non-insured[3]	Insured	Non-insured
Banks, Dec. 31, 1989	13,387	13,011	5,253	4,179	1,074	7,498	260	376	0
Changes during 1990									
New banks	196	194	84	64	20	92	18	2	0
Ceased banking operation	−199	−191	−109	−99	−10	−65	−17	−8	0
Banks converted into branches	−383	−374	−187	−154	−33	−187	0	−9	0
Other[4]	33	32	6	0	6	9	17	1	0
Net change	−353	−339	−206	−189	−17	−151	18	−14	0
Banks, Dec. 31, 1990	**13,034**	**12,672**	**5,047**	**3,990**	**1,057**	**7,347**	**278**	**362**	**0**
Branches and additional offices, Dec. 31, 1989	51,665	48,771	31,764	26,034	5,730	16,899	108	2,894	0
Changes during 1990									
De novo	2,786	2,660	1,556	1,366	190	1,101	3	126	0
Banks converted into branches	383	373	225	195	30	148	0	10	0
Discontinued	−729	−680	−490	−390	−100	−188	−2	−49	0
Sale of branch	0	58	26	45	−19	32	0	−58	0
Other[4]	42	60	223	146	77	−165	2	−18	0
Net change[4]	2,482	2,471	1,540	1,362	178	928	3	11	0
Branches and additional offices, Dec. 31, 1990	**54,147**	**51,242**	**33,304**	**27,396**	**5,908**	**17,827**	**111**	**2,905**	**0**

1. Preliminary. Final data will be available in the *Annual Statistical Digest, 1990*, forthcoming.
2. Includes stock savings banks, nondeposit trust companies, private banks, industrial banks, and nonbank banks.
3. As of Dec. 31, 1988, includes noninsured national trust companies.
4. Includes interclass changes.

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16. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1990

Ohio Citizens, Toledo, Ohio *to acquire certain assets and liabilities of the* **Fremont Branch of Diamond Savings and Loan, Findlay, Ohio**

SUMMARY REPORT BY THE ATTORNEY GENERAL (1/16/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (1/19/90)
Ohio Citizens (Applicant) has assets of $1.1 billion and the Fremont branch (Branch) has assets of $10 million. Applicant and Branch do not operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Manufacturers & Traders Trust Company, Buffalo, New York, *to merge with* **Monroe Savings Bank, FSB, Rochester, New York**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of Monroe Savings Bank, FSB.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (1/29/90)
Manufacturers & Traders Trust Company (Applicant) has assets of $4.0 billion and Monroe Savings Bank (Bank) has assets of $546.5 million. The FDIC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Bank.

Iron & Glass Bank, Pittsburgh, Pennsylvania, *to acquire the assets and assume the liabilities of the* **South Park Township branch of Landmark Savings Association, Pittsburgh, Pennsylvania**

SUMMARY REPORT BY THE ATTORNEY GENERAL (2/2/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (2/23/90)
Iron & Glass Bank (Applicant) has assets of $99.5 million and the South Park Township branch (Branch) has assets of $10.9 million. Applicant and Branch operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Kent City State Bank, Kent City, Michigan *to acquire the assets and assume the liabilities of the* **Coopersville branch of Ameribank Federal Savings Bank, Muskegon, Michigan**

SUMMARY REPORT BY THE ATTORNEY GENERAL (12/22/89)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (3/2/90)
Kent City State Bank (Applicant) has assets of $64.8 million and Coopersville branch (Branch) has assets of $4.9 million. Applicant and Branch operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Bank of Livingston, Livingston, Texas, *to acquire the assets and assume the liabilities of* **Community State Bank of Onalaska, Onalaska, Texas**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of Community State Bank.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (3/5/90)
Bank of Livingston (Applicant) has assets of $19 million and Community State Bank (Bank) has assets of $9.9 million. The FDIC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Bank.

Crestar Bank, Richmond, Virginia *to acquire the* **Shore Drive branch, Virginia Beach, and the Coliseum Crossing branch, Hampton, of Perpetual Savings Bank, FSB, McLean, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (2/9/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (3/5/90)
Crestar Bank (Applicant) has assets of $10.2 billion and the Shore Drive and Coliseum Crossing

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branches (Branches) have assets of $36.6 million. Applicant and Branches operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Pacific Western Bank, San Jose, California, *to acquire the assets and assume the liabilities of eight branches of the* **Northern California Division of Household Bank, FSB, Newport Beach, California**

SUMMARY REPORT BY THE ATTORNEY GENERAL (1/25/90)

The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (3/8/90)

Pacific Western Bank (Applicant) has assets of $1.1 billion and the Northern California Division (Branches) has assets of $221.5 million. Applicant and Branches operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Texas Bank, Weatherford, Texas, *to merge with* **Citizens National Bank, Weatherford, Texas**

SUMMARY REPORT BY THE ATTORNEY GENERAL

No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of Citizens National Bank.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (3/9/90)

Texas Bank (Applicant) has assets of $170.7 million and Citizens National Bank (Bank) has assets of $18.6 million. The FDIC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Bank.

Crestar Bank, Richmond, Virginia, *to acquire the assets and assume the liabilities of the* **Virginia Beach branch of Perpetual Savings Bank, FSB, McLean, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (4/13/90)

The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (4/26/90)

Crestar Bank (Applicant) has assets of $10.2 billion and the Virginia Beach branch (Branch) has assets of $10.7 million. Applicant and Branch operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

United Nebraska, North Platte, Nebraska, *to merge with* **North Platte Trust Company, North Platte, Nebraska**

SUMMARY REPORT BY THE ATTORNEY GENERAL (3/23/90)

The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (5/7/90)

United Nebraska Bank (Applicant) has assets of $51.2 million and North Platte Trust Company (Bank) has assets of $2.3 million. Applicant and Bank operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Consolidated Bank & Trust Company, Richmond, Virginia, *to acquire the assets and assume the liabilities of* **Peoples Savings and Loan Association, Hampton, Virginia and Community Federal Savings and Loan, Newport News, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL

No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of the Peoples Savings & Loan Association and Community Federal Savings and Loan.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (5/18/90)

Consolidated Bank & Trust Company (Applicant) has assets of $64 million and Peoples Savings and Loan Association and Community Federal Savings and Loan (Thrifts) have assets of $31 million. The RTC has recommended immediate action by the Federal Reserve to prevent the probable failure of Thrifts.

Marine Bank of Monticello (formerly Deland State Bank), Deland, Illinois, *to acquire the assets and assume the liabilities of the* **Monticello, Illinois, office of Citizens Federal Bank, Miami, Florida**

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SUMMARY REPORT BY THE ATTORNEY GENERAL (4/20/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (5/25/90)
Deland State Bank (Applicant) has assets of $82.9 million and the Monticello branch (Branch) has assets of $19.2 million. Applicant and Branch operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Pacific Western Bank, San Jose, California, *to acquire the assets and assume the liabilities of* **Saratoga Federal Savings and Loan Association, San Jose, California**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of the Saratoga Federal Savings and Loan Association.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (6/1/90)
Pacific Western Bank (Applicant) has assets of $1.1 billion and Saratoga Federal Savings and Loan Association (Thrift) has assets of $92.1 million. The OTS has recommended immediate action by the Federal Reserve System to prevent the probable failure of Thrift.

Mercantile Bank, Kansas City, Missouri, *to acquire the assets and liabilities of the* **Blue Springs branch of Blue Valley Federal Savings & Loan Association, Kansas City, Missouri**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of the Blue Valley Federal Savings & Loan Association.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (6/6/90)
Mercantile Bank (Applicant) has assets of $490.6 million and Blue Springs branch (Branch) has assets of $696.5 million. The RTC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Branch.

Northern Neck State Bank, Warsaw, Virginia, *to acquire the assets and assume the liabilities of the* **Lappahannock branch of Perpetual Savings Bank, FSB, Alexandria, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (6/15/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (6/19/90)
Northern Neck State Bank (Applicant) has assets of $86.0 million and the Lappahannock branch (Branch) has assets of $12.3 million. Applicant and Branch operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Arkansas Bank & Trust Company, Hot Springs, Arkansas, *to acquire the assets and assume the liabilities of* **Arkansas Trust Savings Bank (formerly Landmark Savings Bank, FSB), Hot Springs, Arkansas**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of Landmark Savings Bank.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (6/22/90)
Arkansas Bank & Trust Company (Applicant) has assets of $294 million and Landmark Savings Bank (Thrift) has assets of $173.8 million. The RTC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Thrift.

First Exchange Bank of North St. Louis County, Florrisant, Missouri, *to acquire the assets and assume the liabilities of* **Cass Federal Savings and Loan Association of St. Louis, Florrisant, Florrisant, Missouri**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the

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depositors of Cass Federal Savings and Loan Association of St. Louis.

Basis for Approval by the Federal Reserve (6/22/90)
First Exchange Bank of North St. Louis County (Applicant) has assets of $75.6 million and Cass Federal Savings and Loan Association (Thrift) has assets of $58.1 million. The RTC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Thrift.

Citizens Trust and Savings Bank, South Haven, Michigan, *to acquire the assets and assume the liabilities of the* **Allegan and Paw Paw branches of Fidelity Federal Savings and Loan Association, Kalamazoo, Michigan**

Summary Report by the Attorney General (5/4/90)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve (6/28/90)
Citizens Trust and Savings Bank (Applicant) has assets of $141.2 million and the Allegan and Paw Paw branches (Branches) have assets of $25.8 million. Applicant and Branches operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Valley Bank of Nevada, Las Vegas, Nevada, *to acquire the* **Dayton Nevada branch of Comstock Bank, Carson City, Nevada**

Summary Report by the Attorney General (6/1/90)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve (7/2/90)
Valley Bank of Nevada (Applicant) has assets of $2.8 billion and the Dayton branch (Branch) has assets of $4.1 million. Applicant and Branch operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Sulphur Springs State Bank, Sulphur Springs, Texas, *to merge with* **American National Bank, Greenville, Texas**

Summary Report by the Attorney General
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of American National Bank.

Basis for Approval by the Federal Reserve (7/12/90)
Sulphur Springs State Bank (Applicant) has assets of $135.7 million and American National Bank (Bank) has assets of $29.1 million. The OCC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Bank.

Albermarle Bank and Trust Company, d/b/a F&M Bank-Charlottesville, Charlottesville, Virginia, *to merge with* **Peoples Bank of Central Virginia, Lovingston, Virginia**

Summary Report by the Attorney General (6/22/90)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve (7/19/90)
Albermarle Bank and Trust Company (Applicant) has assets of $2.4 million and Peoples Bank of Central Virginia (Bank) has assets of $35.6 million. Applicant and Bank do not operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Signet Bank/Virginia, Richmond, Virginia, *to acquire the assets and assume the liabilities of the* **First Colonial branch of Perpetual Savings Bank, FSB, McLean, Virginia**

Summary Report by the Attorney General (6/29/90)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve (7/20/90)
Signet Bank/Virginia (Applicant) has assets of $8.8 billion and the First Colonial branch (Branch) has assets of $8.5 million. Applicant and Branch operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

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First Virginia Bank–Planters, Bridgewater, Virginia, *to acquire the assets and assume the liabilities of the* **Harrisonburg branch of CorEast Savings Bank, FSB, Harrisonburg, Virginia**

Summary Report by the Attorney General (8/17/90)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve (8/6/90)
First Virginia Bank-Planters (Applicant) has assets of $79.2 million and the Harrisonburg branch (Branch) has assets of $28.6 million. Applicant and Branch operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

First City, Texas–Corpus Christi, Texas, *to merge with* **First National Bank of Corpus Christi, Corpus Christi, Texas**

Summary Report by the Attorney General
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of First National Bank of Corpus Christi.

Basis for Approval by the Federal Reserve (8/24/90)
First City, Texas, Corpus Christi (Applicant) has assets of $583 million and First National Bank of Corpus Christi (Bank) has assets of $116.6 million. The OCC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Branch.

Citizens First State Bank of Walnut, Walnut, Illinois, *to acquire the assets and assume the liabilities of the* **Princeton branch of Chillicothe First Savings and Loan Association, Chillocothe, Illinois**

Summary Report by the Attorney General
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of the Princeton branch.

Basis for Approval by the Federal Reserve (8/24/90)
Citizens First State Bank (Applicant) has assets of $28 million and the Princeton branch (Branch) has assets of $6 million. The RTC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Branch.

Peoples Bank of Montross, Virginia, *to acquire the assets and assume the liabilities of a branch of* **Newport News Savings Bank, Newport News, Virginia**

Summary Report by the Attorney General (8/17/90)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve (8/24/90)
Peoples Bank of Montross (Applicant) has assets of $43.8 million and the branch (Branch) has assets of $8.7 million. Applicant and Branch do not operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Centura Bank, Rocky Mount, North Carolina, *to merge with* **Planters National Bank & Trust Company, Rocky Mount, North Carolina; Peoples Bank & Trust Company, Rocky Mount, North Carolina; and Peoples Bank Triad, Winston-Salem, North Carolina**

Summary Report by the Attorney General (8/17/90)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve (8/30/90)
Centura Bank (Applicant) will derive its assets from the banks (Banks) which have assets of $2.6 billion. Applicant and Banks operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

AmSouth Bank of Tennessee, Columbia, Tennessee, *to merge with* **First Bank of Maury County, Columbia, Tennessee**

Summary Report by the Attorney General
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve (9/10/90)
AmSouth Bank of Tennessee (Applicant) will derive

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its assets from First Bank of Maury County (Bank) which has assets of $5 million. Applicant and Bank operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Valley Bank & Trust Company, Grand Forks, North Dakota, *to acquire the assets and assume the liabilities of* **New Grand Forks State Bank (formerly Midwest Federal Savings Bank of Minot, Minot, North Dakota), Grand Forks, North Dakota**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of Midwest Federal Savings Bank of Minot.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (9/20/90)
Valley Bank & Trust Company (Applicant) has assets of $82.5 million and Midwest Federal Savings Bank (Thrift) has assets of $497.8 million. The RTC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Thrift.

Bank of Forest, Forest, Mississippi *to acquire the assets and assume the liabilities of* **Forest Bank for Savings, FSB (formerly Central Savings Bank), Jackson, Mississippi**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of Central Savings Bank.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (9/28/90)
Bank of Forest (Applicant) has assets of $142 million and Central Savings Bank, FSB (Thrift) has assets of $27.9 million. The RTC has recommended immediate action by the Federal Reserve System to safeguard the depositors of Thrift.

Chemical Bank, New York, New York, *to acquire the assets and assume the liabilities of a branch of* **The Greater New York Savings Bank, New York, New York**

SUMMARY REPORT BY THE ATTORNEY GENERAL (8/14/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (9/28/90)
Chemical Bank (Applicant) has assets of $48.4 billion and the branch (Branch) has assets of $118.0 million. Applicant and Branch operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Comerica Bank-Detroit, Detroit, Michigan *to acquire the assets and assume the liabilities of eighteen Michigan branches of* **Empire Federal Bank of America, Buffalo, New York**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of the 18 Michigan branches.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (9/28/90)
Comerica Bank (Applicant) has assets of $9.7 billion and the 18 Michigan branches (Branches) have assets of $1.1 billion. The RTC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Empire Federal Savings Bank of America.

Crestar Bank, Richmond, Virginia *to acquire the assets and assume the liabilities of* **Seasons Federal Savings Bank, Richmond, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of Seasons Federal Savings Bank.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (9/28/90)
Crestar Bank (Applicant) has assets of $10.9 billion and Seasons Federal Savings Bank (Thrift) has assets of $186.1 million. The RTC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Thrift.

UniSouth Banking Corporation, Columbus, Mississippi, *to acquire the assets and assume the*

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liabilities of the **Tupelo and Fulton, Mississippi, branches of Eastover Bank for Savings, Jackson, Mississippi**

SUMMARY REPORT BY THE ATTORNEY GENERAL (8/17/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (10/2/90)
UniSouth Banking Corporation (Applicant) has assets of $141.3 million and the Tupelo and Fulton branches (Branches) have assets of $12 million. Applicant and Branches do not operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Trust Company Bank, Atlanta, Georgia, *to acquire the assets and assume the liabilities of 18 Georgia branches of* **Anchor Savings Bank, Hewlett, New York**

SUMMARY REPORT BY THE ATTORNEY GENERAL (8/17/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (10/22/90)
Trust Company Bank (Applicant) has assets of $31.2 billion and the branches (Branches) have assets of $403 million. Applicant and Branches do not operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Banco de Ponce, Puerto Rico, *to merge with* **Banco Popular, Hato Rey, Puerto Rico**

SUMMARY REPORT BY THE ATTORNEY GENERAL (7/26/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (11/5/90)
Banco de Ponce (Applicant) has assets of $2.9 billion and Banco Popular (Bank) has assets of $5.8 billion. Applicant and Bank operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

The Peoples Bank, Pratt, Kansas, *to acquire the assets and assume the liabilities of the* **Pratt branch of Valley Savings, Hutchinson, Kansas**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factor was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of Valley Savings.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (11/9/90)
Peoples Bank (Applicant) has assets of $142.9 million and the Pratt branch (Branch) has assets of $4.8 million. The RTC has recommended immediate action by the Federal Reserve System to prevent the probable failure of Valley Savings.

Crestar Bank, Richmond, Virginia, *to merge with* **Community Trust Bank, Portsmouth, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (11/9/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (11/14/90)
Crestar Bank (Applicant) has assets of $10.9 billion and Community Trust Bank (Bank) has assets of $22 million. Applicant and Bank do not operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

State Bank of Croswell, Croswell, Michigan, *to acquire the assets and assume the liabilities of the* **Port Huron branch of First Federal State Bank and Trust, Pontiac, Michigan**

SUMMARY REPORT BY THE ATTORNEY GENERAL (10/26/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (11/16/90)
State Bank of Croswell (Applicant) has assets of $74.9 million and the Port Huron branch (Branch) has assets of $16.4 million. Applicant and Branch do not operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

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The Ohio Bank, Findlay, Ohio, *to merge with* **Citizens Community Bank, Mount Blanchard, Ohio**

SUMMARY REPORT BY THE ATTORNEY GENERAL (9/26/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (11/29/90)
The Ohio Bank (Applicant) has assets of $234.7 million and Citizens Community Bank (Bank) has assets of $23 million. Applicant and Bank do not operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

Bank of Lakeview, Lakeview, Michigan, *to acquire the assets and assume the liabilities of the* **Morley branch of Independent Bank-West Michigan, Rockford, Illinois**

SUMMARY REPORT BY THE ATTORNEY GENERAL (11/20/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (11/30/90)
Bank of Lakeview (Applicant) has assets of $62.1 million and the Morley branch (Branch) has assets of $2.3 million. Applicant and Branch do not operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

American State Bank, Great Bend, Kansas, *to acquire the assets and assume the liabilities of the* **Great Bend branch of First Federal Savings Bank of Kansas, Wellington, Kansas**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of First Federal Savings Bank of Kansas.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (12/14/90)
American State Bank (Applicant) has assets of $106 million and the Great Bend branch (Branch) has assets of $56 million. The OTS has recommended immediate action by the Federal Reserve System to prevent the probable failure of First Federal Savings Bank of Kansas.

American Trust & Savings Bank, Dubuque, Iowa, *to acquire the assets and assume the liabilities of the* **Dyersville branch of Midland Savings Bank, FSB, Des Moines, Iowa**

SUMMARY REPORT BY THE ATTORNEY GENERAL (10/10/90)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (12/14/90)
American Trust & Savings Bank (Applicant) has assets of $283.5 million and the Dyersville branch (Branch) has assets of $11.8 million. Applicant and Branch do not operate in the same market.

The banking factors and considerations relating to the convenience and needs of the community are consistent with approval.

The Stock Exchange Bank, Caldwell, Kansas, *to acquire the assets and assume the liabilities of the* **Caldwell branch of First Federal Savings Bank of Kansas, Wellington, Kansas**

SUMMARY REPORT BY THE ATTORNEY GENERAL
No report received. Request for report on the competitive factors was dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve System to act immediately to safeguard the depositors of First Federal Savings Bank of Kansas.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE (12/14/90)
The Stock Exchange Bank (Applicant) has assets of $24 million and the Caldwell branch (Branch) has assets of $3 million. The OTS has recommended immediate action to prevent the probable failure of First Federal Savings Bank of Kansas.

Mergers Approved Involving Wholly Owned Subsidiaries of the Same Bank Holding Company

The following transactions involve banks that are subsidiaries of the same bank holding company. In each case, the summary report by the Attorney General indicates that the transaction would not have a significantly adverse effect on competition because the proposed merger is essentially a corporate reorganization. The Board of Governors, the Federal Reserve Bank, or the Secretary of the Board of Governors, whichever approved the

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application, determined that the competitive effects of the proposed transaction, the financial and managerial resources and prospects of the banks concerned, as well as the convenience and needs of the community to be served were consistent with approval.

Institution [1]	Assets (millions of dollars)	Date of approval
First Illini Bank,Galesburg, Illinois	178	1/13/90
Merger		
Madison Park Bank, Peoria, Illinois	45	
Abingdon Bank & Trust Company, Abingdon, Illinois	17	
Community Bank & Trust Company, Canton, Illinois	37	
First Virginia Bank, Damascus, Virginia	58	3/2/90
Merger		
First Virginia Bank, Cumberlands, Clintwood, Virginia	63	
First Virginia Bank South Central, Lynchburg, Virginia	58	3/2/90
Merger		
First Virginia Bank South, Hurt, Virginia	94	
United Jersey Bank/Commerical Trust, Jersey City, Jersey	1,000	3/19/90
Merger		
United Jersey Bank, Hackensack, New Jersey	5,300	
Deland State Bank, Deland, Illinois	6	4/6/90
Merger		
National Bank of Monticello, Monticello, Virginia	77	
First of America Bank–North Michigan, Traverse City, Michigan	286	5/10/90
Merger		
First of America Bank, Alpence, Michigan	120	
Caliber Bank (formerly Business Bank), Phoenix, Arizona	47	6/1/90
Merger		
VOC Acquisition Bank, Phoenix, Arizona	118	
Trust Company Bank, Atlanta, Georgia	5,797	6/12/90
Merger		
Trust Company of Douglas County, Georgia	94	
Bank of Commerce, Hamtramck, Michigan	430	6/16/90
Merger		
The State Bank of Fraser, Fraser, Michigan	137	
Boatmen's Bank of Carthage, Carthage, Missouri	88	7/11/90
Merger		
Boatmen's National Bank of Neosho, Neosho, Missouri	57	
First America Bank–No. Michigan,	278	7/19/90
Merger		
First America Bank–Manistee, Lewiston, Michigan	64	

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Institution[1]	Assets (millions of dollars)	Date of approval
Crestar Bank, Richmond, Virginia	11,000	8/13/90
Merger		
The National Bank of Northern Virginia, Sterling, Virginia	24	
Star Bank, Kenton County, Covington, Kentucky	256	9/10/90
Merger		
Star Bank, Northern Kentucky, Verona, Kentucky	30	
North Shore Bank of Commerce, Duluth, Minnesota	67	10/11/90
Merger		
Airport State Bank of Duluth, Duluth, Minnesota	17	
Trust Company Bank, Atlanta, Georgia	6,500	12/18/90
Merger		
Trust Company of Carroll County, Bowder, Georgia	74	
Trust Company of Cobb County, N.A., Atlanta, Georgia	360	
Trust Company of Henry County, N.A., McDonough, Georgia	109	
Trust Company of Clayton County, Jonesboro, Georgia	132	
Trust Company of Gwinnett, Lawrenceville, Georgia	248	
Trust Company of Rockdale, Conyers, Georgia	197	
Montana Bank of Billings, Billings, Montana	14	12/27/90
Merger		
Montana Bank of Baker, Baker, Montana	17	
Montana Bank of Bozeman, N.A., Bozeman, Montana	38	
Montana Bank of Butte, N. A., Butte, Montana	45	
Montana Bank of Circle, Circle, Montana	17	
Montana Bank of Forsyth, Forsyth, Montana	8	
Montana Bank of Livington, Livingston, Montana	7	
Montana Bank of South Missoula, Missoula, Montana	68	
Montana Bank of Red Lodge, Red Lodge, Montana	19	
Montana Bank of Roundup, N. A., Roundup, Montana	14	
Montana Bank of Sidney, Sidney, Montana	28	
Montana Bank of Mineral County, Superior, Montana	17	

1. Each proposed transaction was to be effected under the charter of the first-named bank. The entries are in chronological order of approval.

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Federal Reserve Bank of St. Louis

16. – Continued

Mergers Approved Involving a Nonoperating Institution and an Existing Bank

The following transactions have no significant effect on competition; they merely facilitate the acquisition of the voting shares of a bank (or banks) by a holding company. In such cases, the summary report by the Attorney General indicates that the transaction will merely combine an existing bank with a nonoperating institution; in consequence, and without regard to the acquisition of the surviving bank by the holding company, the merger would have no effect on competition. The Board of Governors, the Federal Reserve Bank, or the Secretary of the Board, whichever approved the application, determined that the proposal would, in itself, have no adverse competitive effects and that the financial factors and considerations relating to the convenience and needs of the community were consistent with approval.

Institution[1]	Assets (millions of dollars)[2]	Date of approval
New Bank, Cockeysville, Maryland	...	1/26/90
Merger		
Clifton Trust Bank, Cockeysville, Maryland	66	
Metro Interim Bank, Atlanta, Georgia	...	1/26/90
Merger		
Metro Bank, Atlanta, Georgia	98	
Citizens Interim Bank, Sandusky, Ohio	...	3/19/90
Merger		
Castalia Banking Company, Castalia, Ohio	46	
Peoples Interim Bank, Inc., Mullens, West Virginia	...	3/21/90
Merger		
Peoples Bank of Mullens,	88	
Clanton Interim Bank, Clanton, Alabama	...	8/17/90
Merger		
Peoples Savings Bank, Clanton, Alabama	78	
Manufacturers & Traders Interim Bank, Buffalo, New York	...	9/28/90
Merger		
Manufacturers & Traders Trust Company, Buffalo, New York	4,296	
Plaza Merger Company, Miami, Florida	...	12/19/90
Merger		
Plaza Bank of Miami, Miami, Florida	64	

1. Each proposed transaction was to be effected under the charter of the first-named bank. The entries are in chronological order of approval.

2. Where no assets are listed, the bank is newly organized and not in operation.

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Federal Reserve Directories and Meetings

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Federal Reserve Bank of St. Louis

Board of Governors of the Federal Reserve System

December 31, 1990

	Term expires
ALAN GREENSPAN of New York, *Chairman*[1]	January 31, 1992
MARTHA R. SEGER of Michigan	January 31, 1998
WAYNE D. ANGELL of Kansas	January 31, 1994
EDWARD W. KELLEY, JR., of Texas	January 31, 2004
JOHN P. LAWARE of Massachusetts	January 31, 2002
DAVID W. MULLINS JR., of Missouri	January 31, 1996
VACANCY	January 31, 2000

OFFICE OF BOARD MEMBERS

Joseph R. Coyne, *Assistant to the Board*
Donald J. Winn, *Assistant to the Board*
Bob Stahly Moore, *Special Assistant to the Board*
Diane E. Werneke, *Special Assistant to Board for Congressional Liaison*

DIVISION OF MONETARY AFFAIRS

Donald L. Kohn, *Director*
David E. Lindsey, *Deputy Director*
Brian F. Madigan, *Assistant Director*
Richard D. Porter, *Assistant Director*
Normand R.V. Bernard, *Special Assistant to the Board*

OFFICE OF STAFF DIRECTOR FOR MANAGEMENT

S. David Frost, *Staff Director*
William C. Schneider, Jr., *Project Director*
Portia W. Thompson, *Equal Employment Opportunity Programs Officer*

OFFICE OF STAFF DIRECTOR FOR FEDERAL RESERVE BANK ACTIVITIES

Theodore E. Allison, *Staff Director*

OFFICE OF THE EXECUTIVE DIRECTOR FOR INFORMATION RESOURCES MANAGEMENT

Allen E. Beutel, *Executive Director*
Stephen R. Malphrus, *Deputy Executive Director*
Marianne M. Emerson, *Assistant Director*
Edward T. Mulrenin, *Assistant Director*

OFFICE OF THE SECRETARY

William W. Wiles, *Secretary*
Jennifer J. Johnson, *Associate Secretary*
Barbara R. Lowrey, *Associate Secretary*

LEGAL DIVISION

J. Virgil Mattingly, Jr., *General Counsel*
Richard M. Ashton, *Associate General Counsel*
Oliver Ireland, *Associate General Counsel*
Ricki R. Tigert, *Associate General Counsel*
Scott G. Alvarez, *Assistant General Counsel*
MaryEllen A. Brown, *Assistant to the General Counsel*

DIVISION OF RESEARCH AND STATISTICS

Michael J. Prell, *Director*
Edward C. Ettin, *Deputy Director*
Thomas D. Simpson, *Associate Director*
Lawrence Slifman, *Associate Director*
David J. Stockton, *Associate Director*
Martha Bethea, *Deputy Associate Director*
Peter A. Tinsley, *Deputy Associate Director*
Myron L. Kwast, *Assistant Director*
Patrick M. Parkinson, *Assistant Director*
Martha S. Scanlon, *Assistant Director*
Joyce K. Zickler, *Assistant Director*
Levon H. Garabedian, *Assistant Director (Administration)*

1. The designation as Chairman expires on August 10, 1991, unless the services of this member of the Board shall have terminated sooner. The designation of Vice Chairman had not been assigned as of Dec. 31, 1990.

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Federal Reserve Bank of St. Louis

DIVISION OF INTERNATIONAL FINANCE

Edwin M. Truman, *Staff Director*
Larry J. Promisel, *Senior Associate Director*
Charles J. Siegman, *Senior Associate Director*
David H. Howard, *Deputy Associate Director*
Robert F. Gemmill, *Staff Adviser*
Donald B. Adams, *Assistant Director*
Dale W. Henderson, *Assistant Director*
Peter Hooper, III, *Assistant Director*
Karen H. Johnson, *Assistant Director*
Ralph W. Smith, Jr., *Assistant Director*

DIVISION OF FEDERAL RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS

Clyde H. Farnsworth, Jr., *Director*
David L. Robinson, *Deputy Director*
Bruce J. Summers, *Deputy Director*[2]
Charles W. Bennett, *Assistant Director*
Jack Dennis, Jr., *Assistant Director*
Earl G. Hamilton, *Assistant Director*
John H. Parrish, *Assistant Director*
Louise L. Roseman, *Assistant Director*
Florence M. Young, *Assistant Director*

DIVISION OF BANKING SUPERVISION AND REGULATION

William Taylor, *Staff Director*
Don E. Kline, *Associate Director*
Frederick M. Struble, *Associate Director*
William A. Ryback, *Deputy Associate Director*
Stephen C. Schemering, *Deputy Associate Director*
Richard Spillenkothen, *Deputy Associate Director*
Herbert A. Biern, *Assistant Director*
Joe M. Cleaver, *Assistant Director*
Roger T. Cole, *Assistant Director*
James I. Garner, *Assistant Director*
James D. Goetzinger, *Assistant Director*
Michael G. Martinson, *Assistant Director*
Robert S. Plotkin, *Assistant Director*
Sidney M. Sussan, *Assistant Director*
Laura M. Homer, *Securities Credit Officer*

2. On loan from Federal Reserve Bank of Richmond.

DIVISION OF CONSUMER AND COMMUNITY AFFAIRS

Griffith L. Garwood, *Director*
Glenn E. Loney, *Assistant Director*
Ellen Maland, *Assistant Director*
Dolores S. Smith, *Assistant Director*

DIVISION OF HUMAN RESOURCES MANAGEMENT

David L. Shannon, *Director*
John R. Weis, *Associate Director*
Anthony V. DiGioia, *Assistant Director*
Joseph H. Hayes, Jr., *Assistant Director*
Fred Horowitz, *Assistant Director*

DIVISION OF SUPPORT SERVICES

Robert E. Frazier, *Director*
George M. Lopez, *Assistant Director*
David L. Williams, *Assistant Director*

OFFICE OF THE CONTROLLER

George E. Livingston, *Controller*
Stephen J. Clark, *Assistant Controller*
Darrell R. Pauley, *Assistant Controller*

DIVISION OF HARDWARE AND SOFTWARE SYSTEMS

Bruce M. Beardsley, *Director*
Day W. Radebaugh, *Assistant Director*
Elizabeth B. Riggs, *Assistant Director*

DIVISION OF APPLICATIONS DEVELOPMENT AND STATISTICAL SERVICES

William R. Jones, *Director*
Robert J. Zemel, Associate Director
Pokyung Kim, *Assistant Director*
Raymond H. Massey, *Assistant Director*
Richard C. Stevens, *Assistant Director*

OFFICE OF THE INSPECTOR GENERAL

Brent L. Bowen, *Inspector General*
Barry R. Snyder, *Assistant Inspector General*

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Federal Open Market Committee

December 31, 1990

Members

ALAN GREENSPAN, *Chairman*, Board of Governors
E. GERALD CORRIGAN, *Vice Chairman*, President, Federal Reserve Bank of New York
WAYNE D. ANGELL, Board of Governors
EDWARD G. BOEHNE, President, Federal Reserve Bank of Philadelphia
ROBERT H. BOYKIN, President, Federal Reserve Bank of Dallas
W. LEE HOSKINS, President, Federal Reserve Bank of Cleveland
EDWARD W. KELLEY, JR., Board of Governors
JOHN P. LAWARE, Board of Governors
DAVID W. MULLINS JR., Board of Governors
MARTHA R. SEGER, Board of Governors
GARY H. STERN, President, Federal Reserve Bank of Minneapolis

Alternate Members

ROBERT B. BLACK, President, Federal Reserve Bank of Richmond
ROBERT P. FORRESTAL, President, Federal Reserve Bank of Atlanta
SILAS KEEHN, President, Federal Reserve Bank of Chicago
ROBERT T. PARRY, President, Federal Reserve Bank of San Francisco
JAMES H. OLTMAN, First Vice President, Federal Reserve Bank of New York

Officers

DONALD L. KOHN,
Secretary and Economist
NORMAND R.V. BERNARD,
Assistant Secretary
GARY P. GILLUM,
Deputy Assistant Secretary
J. VIRGIL MATTINGLY,
General Counsel
ERNEST T. PATRIKIS,
Deputy General Counsel
MICHAEL J. PRELL,
Economist
EDWIN M. TRUMAN,
Economist
JOHN M. DAVIS,
Associate Economist
RICHARD G. DAVIS,
Associate Economist
RICHARD W. LANG,
Associate Economist
DAVID E. LINDSEY,
Associate Economist
LARRY J. PROMISEL,
Associate Economist
ARTHUR J. ROLNICK,
Associate Economist
HARVEY ROSENBLUM,
Associate Economist
CHARLES J. SIEGMAN,
Associate Economist
THOMAS D. SIMPSON,
Associate Economist
DAVID J. STOCKTON,
Associate Economist

PETER D. STERNLIGHT, *Manager for Domestic Operations, System Open Market Account*
SAM Y. CROSS, *Manager for Foreign Operations, System Open Market Account*

During 1990, the Federal Open Market Committee held eight regularly scheduled meetings (see Record of Policy Actions of the Federal Open Market Committee in this REPORT.)

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Federal Reserve Bank of St. Louis

Federal Advisory Council

December 31, 1990

Members

District 1 – IRA STEPANIAN, *Chairman and Chief Executive Officer*, Bank of Boston, Boston, Massachusetts

District 2 – WILLARD C. BUTCHER, *Chairman and Chief Executive Officer*, The Chase Manhattan Bank, N.A., New York, New York

District 3 – TERRENCE A. LARSEN, *Chairman, President, and Chief Executive Officer*, CoreStates Financial Corp., Philadelphia, Pennsylvania

District 4 – THOMAS H. O'BRIEN, *Chairman, President, and Chief Executive Officer*, PNC Financial Corp, Pittsburgh, Pennsylvania

District 5 – FREDERICK DEANE, JR., *Chairman Emeritus and Chairman of the Executive Committee*, Signet Banking Corporation, Richmond, Virginia

District 6 – Vacancy

District 7 – B. KENNETH WEST, *Chairman and Chief Executive Officer*, Harris Bankcorp, Inc. and Harris Trust and Savings Bank, Chicago, Illinois

District 8 – DAN W. MITCHELL, *Chairman*, Old National Bancorp and Old National Bank of Evansville, Evansville, Indiana

District 9 – LLOYD P. JOHNSON, *Chairman and Chief Executive Officer*, Norwest Corporation, Minneapolis, Minnesota

District 10 – JORDAN L. HAINES, *Chairman*, Fourth Financial Corporation and BANK IV Wichita, Wichita, Kansas

District 11 – RONALD G. STEINHART, *Chairman and Chief Executive Officer*, Team Bank, Dallas, Texas

District 12 – PAUL HAZEN, *President and Chief Operating Officer*, Wells Fargo and Co., San Francisco, California

Officers

THOMAS H. O'BRIEN, *President*

PAUL HAZEN, *Vice President*

HERBERT V. PROCHNOW, *Secretary*

WILLIAM J. KORSVIK, *Associate Secretary*

Directors

B. KENNETH WEST

LLOYD P. JOHNSON

The Federal Advisory Council met on February 1–2, May 3–4, September 6–7, and November 1–2, 1990. The Board of Governors met with the council on February 2, May 4, September 7, and November 2, 1990. The council, which is composed of one representative of the banking industry from each of the twelve Federal Reserve Districts, is required by law to meet in Washington at least four times each year and is authorized by the Federal Reserve Act to consult with, and advise, the Board on all matters within the jurisdiction of the Board.

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Consumer Advisory Council

December 31, 1990

Members

GEORGE H. BRAASCH, *Corporate Credit Counsel*, Spiegel, Inc., Oak Brook, Illinois

BETTY TOM CHU, *Chairman and Chief Executive Officer*, Trust Savings Bank, Arcadia, California

CLIFF E. COOK, *Vice President and Compliance Officer*, Puget Sound National Bank, Tacoma, Washington

JERRY D. CRAFT, *Executive Vice President*, First National Bank of Atlanta, Atlanta, Georgia

DONALD C. DAY, *President*, New England Securities Corporation, Boston, Massachusetts

R. B. DEAN, JR., *Administrator*, Community and Consumer Affairs, South Carolina National Bank, Columbia, South Carolina

WILLIAM C. DUNKELBERG, *Dean*, School of Business and Professor of Economics, Temple University, Philadelphia, Pennsylvania

JAMES FLETCHER, *President and Director*, South Shore Bank-Chicago, Chicago, Illinois

GEORGE C. GALSTER, *Professor of Economics*, The College of Wooster, Wooster, Ohio

E. THOMAS GARMAN, *Professor of Consumer Studies*, Virginia Polytechnic Institute and State University, Blacksburg, Virginia

DEBORAH B. GOLDBERG, *Reinvestment Specialist*, Center for Community Change, Washington, D.C.

MICHAEL M. GREENFIELD, *Professor of Law*, Washington University, St. Louis, Missouri

ROBERT HESS, *President*, Wright Patman Congressional Federal Credit Union, Washington, D.C.

BARBARA KAUFMAN, *Co-Director*, KCBS Call for Action, San Francisco, California

KATHLEEN E. KEEST, *Staff Attorney*, National Consumer Law Center, Boston, Massachusetts

A. J. KING, *Chairman and Chief Executive Officer*, Valley Bank of Kalispell, Kalispell, Montana

COLLEEN D. MCCARTHY, *Executive Director*, Kansas City Neighborhood Alliance, Kansas City, Missouri

MICHELLE S. MEIER, *Counsel for Government Affairs*, Consumers Union, Washington, D.C.

LINDA K. PAGE, *President and Chief Operating Officer*, Star Bank Central, Columbus, Ohio

BERNARD F. PARKER JR., *Executive Director*, Community Resource Projects, Detroit, Michigan

SANDRA PHILLIPS, *Executive Director*, Pittsburgh Partnership for Neighborhood Development, Pittsburgh, Pennsylvania

VINCENT P. QUAYLE, *Director*, St. Ambrose Housing Aid Center, Baltimore, Maryland

CLIFFORD N. ROSENTHAL, *Executive Director*, National Federation of Community Development Credit Unions, New York, New York

NANCY HARVEY STEORTS, *President*, Nancy Harvey Steorts and Associates, Dallas, Texas

ALAN M. SILBERSTEIN, *Executive Vice President*, Chemical Bank, New York, New York

RALPH E. SPURGIN, *President and Chief Executive Officer*, Limited Credit Services, Inc., Columbus, Ohio

DAVID B. WARD, *Of Counsel*, Gebhardt and Kiefer, Clinton, New Jersey

LAWRENCE WINTHROP, *President*, Consumer Credit Counseling Service of Oregon, Inc., Portland, Oregon

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Consumer Advisory Council – Continued

Officers

WILLIAM E. ODOM, *Chairman* JAMES W. HEAD, *Vice Chairman*

The Consumer Advisory Council met with members of the Board of Governors on March 29, June 28, and October 25, 1990. The council is composed of academics, state government officials, representatives of the financial industry, and representatives of consumer and community interests. It was established pursuant to the 1976 amendments to the Equal Credit Opportunity Act to advise the Board on consumer financial services.

Thrift Institutions Advisory Council

December 31, 1990

Members

CHARLOTTE CHAMBERLAIN, *Vice Chairman*, NewAmerica Saving, Los Angeles, California

DAVID L. HATFIELD, *President*, Fidelity Federal Savings and Loan Association, Kalamazoo, Michigan

LYNN W. HODGE, *President and Chief Executive Officer*, United Savings Bank Inc., Greenwood, South Carolina

ADAM A. JAHNS, *Chairman and President*, Cragin Federal Bank for Savings, Chicago, Illinois

H. C. KLEIN, *President and Chief Executive Officer*, Little Rock Air Force Base Federal Credit Union, Jacksonville, Arkansas

ELLIOT K. KNUTSON, *Chairman and Chief Execuive Officer*, Washington Federal Savings and Loan Association, Seattle, Washington

JOHN WM. LAISLE, *President and Chief Executive Officer*, MidFirst Bank SSB, Oklahoma City, Oklahoma

PHILIP E. LAMB, *Chairman and Chief Executive Officer*, Springfield Institution for Savings, Springfield, Massachusetts

MARION O. SANDLER, *President and Chief Executive Officer*, World Savings and Loan Association, Oakland, California

DONALD B. SHACKELFORD, *Chairman of the Board*, State Savings Bank, Columbus, Ohio

CHARLES B. STUZIN, *Chairman, President, and Chief Executive Officer*, Citizens Federal Savings and Loan Association, Miami, Florida

Officers

DONALD B. SHACKELFORD, *President* MARION O. SANDLER, *Vice President*

The members of the Thrift Institutions Advisory Council met with the Board of Governors on February 27, May 8, September 18, and November 27, 1990. The council, which is composed of representatives from credit unions, savings and loan associations, and savings banks, consults with and advises the Board on issues pertaining to the thrift industry and on various other matters within the Board's jurisdiction.

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Federal Reserve Bank of St. Louis

Officers of Federal Reserve Banks, Branches, and Offices

December 31, 1990[1]

BANK, Branch, or *facility*	Chairman[2] Deputy Chairman	President First Vice President	Vice President in charge of Branch
BOSTON[3]	Richard N.Cooper Richard L. Taylor	Richard F. Syron Robert W. Eisenmenger	
NEW YORK[3]	Cyrus R. Vance Ellen V. Futter	E. Gerald Corrigan James H. Oltman	
Buffalo	Mary Ann Lambertsen		James O. Aston
PHILADELPHIA	Peter A. Benoliel Vacancy	Edward G. Boehne William H. Stone, Jr.	
CLEVELAND[3]	Charles W. Parry John R. Miller	W. Lee Hoskins William H. Hendricks	
Cincinnati	Kate Ireland		Charles A. Cerino[4]
Pittsburgh	Robert P. Bozzone		Harold J. Swart[4]
RICHMOND[3]	Hanne M. Merriman Anne Marie Whittemore	Robert P. Black Jimmie R. Monhollon	
Baltimore	John R. Hardesty, Jr.		Robert D. McTeer, Jr.[4]
Charlotte	William E. Masters		Albert D. Tinkelenberg[4]
Culpeper			John G. Stoides[4]
ATLANTA	Larry L. Prince Edwin A. Huston	Robert P. Forrestal Jack Guynn	Donald E. Nelson
Birmingham	A. G. Trammell		Fred R. Herr[4]
Jacksonville	Lana Jane Lewis-Brent		James D. Hawkins[4]
Miami	Robert D. Apelgren		James T. Curry, III
Nashville	Victoria B. Jackson		Melvyn K. Purcell
New Orleans	Andre M. Rubenstein		Robert J. Musso
CHICAGO[3]	Marcus Alexis Charles S. McNeer	Silas Keehn Daniel M. Doyle	
Detroit	Phyllis E. Peters		Roby L. Sloan[4]
ST. LOUIS	H. Edwin Trusheim Robert H. Quenon	Thomas C. Melzer James R. Bowen	
Little Rock	L. Dickson Flake		Karl W. Ashman
Louisville	Raymond M. Burse		Howard Wells
Memphis	Katherine Hinds Smythe		Raymond Laurence
MINNEAPOLIS	Michael W. Wright Delbert W. Johnson	Gary H. Stern Thomas E. Gainor	
Helena	J. Frank Gardner		John D. Johnson

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BANK, Branch, or *facility*	Chairman[2] Deputy Chairman	President First Vice President	Vice President in charge of Branch
KANSAS CITY	Fred W. Lyons, Jr.	Roger Guffey	
	Burton A. Dole, Jr.	Henry R. Czerwinski	
Denver	Barbara B. Grogan		Kent M. Scott
Oklahoma City	John F. Snodgrass		David J. France
Omaha	Herman Cain		Harold L. Shewmaker
DALLAS	Bobby R. Inman	Robert H. Boykin	
	Hugh G. Robinson	William H. Wallace	
El Paso	Donald G. Stevens		Sammie C. Clay
Houston	Andrew L. Jefferson, Jr.		Robert Smith III[4]
San Antonio	Roger R. Hemminghaus		Thomas H. Robertson
SAN FRANCISCO	Robert F. Erburu	Robert T. Parry	
	Carolyn S. Chambers	Carl E. Powell	
Los Angeles	Yvonne B. Burke		Thomas C. Warren[5]
Portland	William A. Hilliard		Angelo S. Carella[4]
Salt Lake City	Don M. Wheeler		E. Ronald Liggett[4]
Seattle	Bruce R. Kennedy		Gerald R. Kelly[4]

1. A current list of these officers appears each month in the *Federal Reserve Bulletin*.
2. The Chairman of a Federal Reserve Bank, by statute, serves as Federal Reserve Agent.
3. Additional offices of these Banks are located at Lewiston, Maine; Windsor Locks, Connecticut; Cranford, New Jersey; Jericho, New York; Utica at Oriskany, New York; Columbus, Ohio; Columbia, South Carolina; Charleston, West Virginia; Des Moines, Iowa; Indianapolis, Indiana; and Milwaukee, Wisconsin.
4. Senior Vice President.
5. Executive Vice President.

Conference of Chairmen

The Chairmen of the Federal Reserve Banks are organized into the Conference of Chairmen, which meets to consider matters of common interest and to consult with, and advise, the Board of Governors. Such meetings, attended also by the Deputy Chairmen, were held in Washington on May 30 and 31, and on November 28 and 29, 1990.

The Executive Committee of the Conference of Chairmen during 1990 comprised Cyrus R. Vance, Chairman; Peter A. Benoliel, Vice Chairman; and Bobby R. Inman, member.

On November 29, 1990, the Conference elected its Executive Committee for 1991, naming Peter A. Benoliel as Chairman, Hugh G. Robinson as Vice Chairman, and Larry L. Prince as the third member.

Conference of Presidents

The presidents of the Federal Reserve Banks are organized into the Conference of Presidents, which meets periodically to consider matters of common interest and to consult with, and advise, the Board of Governors.

Robert P. Forrestal, President of the Federal Reserve Bank of Atlanta, served as Chairman of the Conference in 1990, and Thomas C. Melzer, President of the Federal Reserve Bank of St. Louis, served as its Vice Chairman. Christopher G. Brown, of the Federal Reserve Bank of Atlanta, served as its Secretary, and Frances E. Sibley, of the Federal Reserve Bank of St. Louis, served as its Assistant Secretary.

Conference of First Vice Presidents

The Conference of First Vice Presidents of the Federal Reserve Banks was organized in 1969 to meet periodically for the consideration of operations and other matters.

On November 14, 1988, the Conference elected James R. Bowen, First Vice President of the Federal Reserve Bank of St. Louis, as its Chairman for 1990, and Jimmie R. Monhollon, First Vice President of the Federal Reserve Bank of Richmond, as its Vice Chairman. The Conference appointed Frances E. Sibley, of the Federal Reserve Bank of St. Louis, as its Secretary, and Marsha S. Shuler,

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Federal Reserve Bank of St. Louis

of the Federal Reserve Bank of Richmond, as its Assistant Secretary.

Directors

The following list of directors of Federal Reserve Banks and Branches shows for each director the class of directorship, the principal business affiliation, and the date the term expires. Each Federal Reserve Bank has nine members on its board of directors: three Class A and three Class B directors, who are elected by the stockholding member banks, and three Class C directors, who are appointed by the Board of Governors of the Federal Reserve System. Directors are chosen without discrimination as to race, creed, color, sex, or national origin.

Class A directors represent the stockholding member banks in each Federal Reserve District. Class B and Class C directors represent the public and are chosen with due, but not exclusive, consideration to the interests of agriculture, commerce, industry, services, labor, and consumers; they may not be officers, directors, or employees of any bank or bank holding company. In addition, Class C directors may not be stockholders of any bank or bank holding company.

For the election of Class A and Class B directors, the Board of Governors classifies the member banks of each Federal Reserve District into three groups. Each group, which comprises banks with similar capitalization, elects one Class A director and one Class B director. The Board of Governors designates one Class C director as chairman of the board of directors and Federal Reserve Agent of each District Bank and appoints another Class C director as deputy chairman.

Federal Reserve Branches have either five or seven directors, a majority of whom are appointed by the parent Federal Reserve Bank; the others are appointed by the Board of Governors. One of the directors appointed by the Board is designated annually as chairman of the board of that Branch in a manner prescribed by the parent Federal Reserve Bank.

For the name of the chairman and deputy chairman of the board of directors of each Reserve Bank and of the chairman of each Branch, see the preceding table, "Officers of Federal Reserve Banks, Branches, and Offices."

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Federal Reserve Bank of St. Louis

		Term expires Dec. 31
DISTRICT 1 – BOSTON		
Class A		
Richard D. Wardell	President and Chief Executive Officer, National Iron Bank of Salisbury, Salisbury, Connecticut	1990
William H. Chadwick	Vice Chairman of the Board and Chief Operating Officer, Banknorth Group, Inc., Burlington, Vermont	1991
Terrence Murray	Chairman of the Board, President, and Chief Executive Officer, Fleet/Norstar Financial Group, Inc., Providence, Rhode Island	1992
Class B		
Stephen R. Levy	Chairman of the Board and Chief Executive Officer, Bolt Beranek and Newman, Inc., Cambridge, Massachusetts	1990
Edward H. Ladd	Chairman and Chief Executive Officer, Standish, Ayer and Wood, Inc., Boston, Massachusetts	1991
Joan T. Bok	Chairman of the Board, New England Electric System, Westborough, Massachusetts	1992
Class C		
Richard L. Taylor	President, Taylor Properties, Inc., Boston, Massachusetts	1990
Dr. Jerome H. Grossman	Chairman of the Board and Chief Executive Officer, New England Medical Center, Inc., Boston, Massachusetts	1991
Richard N. Cooper	Maurits C. Boas Professor of International Economics, Harvard University, Cambridge, Massachusetts	1992
DISTRICT 2 – NEW YORK		
Class A		
J. Kirby Fowler	President and Chief Executive Officer, The Flemington National Bank and Trust Company, Flemington, New Jersey	1990
John F. McGillicuddy	Chairman of the Board and Chief Executive Officer, Manufacturers Hanover Trust Company, New York, New York	1991
Victor J. Riley, Jr.	Chairman of the Board, President, and Chief Executive Officer, KeyCorp, Albany, New York	1992
Class B		
John F. Welch, Jr.	Chairman of the Board and Chief Executive Officer, GE, Fairfield, Connecticut	1990
Richard L. Gelb	Chairman of the Board and Chief Executive Officer, Bristol-Myers Squibb Company, New York, New York	1991

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		Term expires Dec. 31
DISTRICT 2, *Class B*—Continued		
John A. Georges	Chairman of the Board and Chief Executive Officer, International Paper, Purchase, New York	1992
Class C		
Ellen V. Futter	President, Barnard College, New York, New York	1990
Maurice R. Greenberg	Chairman, American International Group, Inc., New York, New York	1991
Cyrus R. Vance	Presiding Partner, Simpson Thacher & Bartlett, New York, New York	1992
BUFFALO BRANCH		
Appointed by the Federal Reserve Bank		
Norman W. Sinclair	Chairman of the Board, Lockport Savings Bank, Lockport, New York	1990
Richard H. Popp	Operating Partner, Southview Farm, Castile, New York	1991
Robert G. Wilmers	Chairman of the Board and Chief Executive Officer, Manufacturers and Traders Trust Company, Buffalo, New York	1991
Wilbur F. Beh	President and Chief Executive Officer, FNB Rochester Corp., Rochester, New York	1992
Appointed by the Board of Governors		
Paul E. McSweeney	Executive Vice President, United Food and Commercial Workers, District Union Local One, AFL-CIO, Amherst, New York	1990
Mary Ann Lambertsen	Vice President–Human Resources and Information Systems, Fisher-Price, Division of The Quaker Oats Company, East Aurora, New York	1991
Herbert L. Washington	HLW Fast Track, Inc., Rochester, New York	1992
DISTRICT 3—PHILADELPHIA		
Class A		
Constantinos I. Costalas	Chairman of the Board, President, and Chief Executive Officer, Glendale National Bank of New Jersey, Voorhees, New Jersey	1990
H. Bernard Lynch	President and Chief Executive Officer, The First National Bank of Wyoming, Wyoming, Delaware	1991
Samuel A. McCullough	Chairman of the Board and Chief Executive Officer, Meridian Bancorp, Inc., Reading, Pennsylvania	1992
Class B		
Charles F. Seymour	Chairman of the Board, Jackson-Cross Company, Philadelphia, Pennsylvania	1990

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		Term expires Dec. 31
DISTRICT 3, *Class B*—Continued		
Nicholas Riso	Executive Vice President, AHOLD, U.S.A., Harrisburg, Pennsylvania	1991
David W. Huggins	President, R M S Technologies, Inc., Marlton, New Jersey	1992
Class C		
Jane G. Pepper	President, The Pennsylvania Horticultural Society, Philadelphia, Pennsylvania	1990
Vacancy		1991
Peter A. Benoliel	Chairman of the Board, Quaker Chemical Corporation, Conshohocken, Pennsylvania	1992
DISTRICT 4—CLEVELAND		
Class A		
William H. May	Chairman of the Board and President, First National Bank of Nelsonville, Nelsonville, Ohio	1990
William T. McConnell	President, The Park National Bank, Newark, Ohio	1991
Frank Wobst	Chairman of the Board and Chief Executive Officer, Huntington Bancshares Incorporated, Columbus, Ohio	1992
Class B		
Verna K. Gibson	President, The Limited Stores, Inc., Columbus, Ohio	1990
Douglas E. Olesen	President and Chief Executive Officer, Battelle Memorial Institute, Columbus, Ohio	1991
Laban P. Jackson, Jr.	Chairman of the Board, Clearcreek Properties, Lexington, Kentucky	1992
Class C		
Robert D. Storey	Partner, Burke, Haber & Berick, Cleveland, Ohio	1990
John R. Miller	Former President and Chief Operating Officer, The Standard Oil Company (Ohio), Cleveland, Ohio	1991
Charles W. Parry	Retired Chairman and Chief Executive Officer, Aluminum Company of America, Pittsburgh, Pennsylvania	1992
CINCINNATI BRANCH		
Appointed by the Federal Reserve Bank		
Jack W. Buchanan	President, Sphar & Company, Inc., Winchester, Kentucky	1990
Jerry L. Kirby	Chairman of the Board, President, and Chief Executive Officer, Citizens Federal Savings & Loan Assn., Dayton, Ohio	1990

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DISTRICT 4 – CINCINNATI BRANCH

Appointed by the Federal Reserve Bank – Continued

Allen L. Davis	President and Chief Executive Officer, The Provident Bank, Cincinnati, Ohio	1991
Clay Parker Davis	President and Chief Executive Officer, Citizens National Bank, Somerset, Kentucky	1992

Appointed by the Board of Governors

Marvin Rosenberg	Partner, Towne Properties, Ltd., Cincinnati, Ohio	1990
Kate Ireland	National Chairman of the Board, Frontier Nursing Service, Wendover, Kentucky	1991
Eleanor Hicks	Advisor for International Liaison Protocol and Services, and Associate Professor of Political Science, University of Cincinnati, Cincinnati, Ohio	1992

PITTSBURGH BRANCH

Appointed by the Federal Reserve Bank

George A. Davidson, Jr.	Chairman of the Board and Chief Executive Officer, Consolidated Natural Gas Company, Pittsburgh, Pennsylvania	1990
Stephen C. Hansen	President and Chief Executive Officer, Dollar Bank, F.S.B., Pittsburgh, Pennsylvania	1990
E. James Trimarchi	President and Chief Executive Officer, First Commonwealth Financial Corporation, Indiana, Pennsylvania	1991
William F. Roemer	President and Chief Executive Officer, Integra Financial Corporation, Pittsburgh, Pennsylvania	1992

Appointed by the Board of Governors

Milton A. Washington	President and Chief Executive Officer, Allegheny Housing Rehabilitation Corporation, Pittsburgh, Pennsylvania	1990
Jack B. Piatt	Chairman of the Board and President, Millcraft Industries, Inc., Washington, Pennsylvania	1991
Robert P. Bozzone	President and Chief Operating Officer, Allegheny Ludlum Corporation, Pittsburgh, Pennsylvania	1992

DISTRICT 5 – RICHMOND

Class A

John F. McNair III	Director, Wachovia Bank & Trust Company, N.A. and Wachovia Corporation, Winston-Salem, North Carolina	1990
C. R. Hill, Jr.	Chairman of the Board and President, Merchants & Miners National Bank, Oak Hill, West Virginia	1991

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DISTRICT 5, *Class A*—Continued

Name	Position	Term expires Dec. 31
A. Pierce Stone	Chairman, President, and Chief Executive Officer, Virginia Community Bank, Louisa, Virginia	1992

Class B

Name	Position	Term expires Dec. 31
Jack C. Smith	Chairman of the Board and Chief Executive Officer, K-VA-T Food Stores, Inc., Grundy, Virginia	1990
Edward H. Covell	President, The Covell Company, Easton, Maryland	1991
R. E. Atkinson, Jr.	Chairman, Dilmar Oil Company, Inc., Florence, South Carolina	1992

Class C

Name	Position	Term expires Dec. 31
Hanne Merriman	Retail Business Consultant, Washington, D.C.	1990
Anne Marie Whittemore	Partner, McGuire, Woods, Battle & Boothe, Richmond, Virginia	1991
Henry J. Faison	President, Faison Associates, Charlotte, North Carolina	1992

BALTIMORE BRANCH

Appointed by the Federal Reserve Bank

Name	Position	Term expires Dec. 31
Raymond V. Haysbert, Sr.	President and Chief Executive Officer, Parks Sausage Company, Baltimore, Maryland	1990
H. Grant Hathaway	Chairman of the Board, Maryland National Bank, Baltimore, Maryland	1991
Joseph W. Mosmiller	Chairman of the Board, Loyola Federal Savings and Loan Association, Baltimore, Maryland	1991
Richard M. Adams	Chairman and Chief Executive Officer, United Bankshares, Inc., Parkersburg, West Virginia	1992

Appointed by the Board of Governors

Name	Position	Term expires Dec. 31
Gloria L. Johnson	Deputy Director of Administration, The Baltimore Museum of Art, Baltimore, Maryland	1990
Thomas R. Shelton	President, Case Foods, Inc., Salisbury, Maryland	1991
John R. Hardesty, Jr.	President, Preston Energy, Inc., Kingwood, West Virginia	1992

CHARLOTTE BRANCH

Appointed by the Federal Reserve Bank

Name	Position	Term expires Dec. 31
James M. Culberson, Jr.	Chairman and President, The First National Bank of Randolph County, Asheboro, North Carolina	1990
Crandall C. Bowles	President, The Springs Company, Lancaster, South Carolina	1991

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		Term expires Dec. 31
DISTRICT 5, CHARLOTTE BRANCH		
Appointed by the Federal Reserve Branch—Continued		
James G. Lindley	Chairman, President, and Chief Executive Officer, South Carolina National Corporation and The South Carolina National Bank, Columbia, South Carolina	1991
David B. Jordan	President, Chief Executive Officer and Director, Omni Capital Group, Inc. and Home Federal Savings Bank, Salisbury, North Carolina	1992
Appointed by the Board of Governors		
William E. Masters	President, Perception, Inc., Easley, South Carolina	1990
Harold D. Kingsmore	President and Chief Operating Officer, Graniteville Company, Graniteville, South Carolina	1991
Anne M. Allen	President, Anne Allen & Associates, Greensboro, North Carolina	1992
DISTRICT 6—ATLANTA		
Class A		
E. B. Robinson, Jr.	Chairman of the Board and Chief Executive Officer, Deposit Guaranty National Bank and Deposit Guaranty Corporation, Jackson, Mississippi	1990
Virgil H. Moore, Jr.	Chairman of the Board and Chief Executive Officer, First Farmers and Merchants National Bank, Columbia, Tennessee	1991
W. H. Swain	Chairman of the Board, First National Bank, Oneida, Tennessee	1992
Class B		
Gary J. Chouest	President and Chief Executive Officer, Edison Chouest Offshore, Inc., Galliano, Louisiana	1990
Saundra H. Gray	Co-Owner, Gemini Springs Farm, DeBary, Florida	1991
J. Thomas Holton	Chairman of the Board and President, Sherman International Corporation, Birmingham, Alabama	1992
Class C		
Edwin A. Huston	Senior Executive Vice President–Finance, Ryder System, Inc., Miami, Florida	1990
Larry L. Prince	Chairman and Chief Executive Officer, Genuine Parts Company, Atlanta, Georgia	1991
Leo Benatar	Chairman of the Board and President, Engraph, Inc., Atlanta, Georgia	1992

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DISTRICT 6—Continued

BIRMINGHAM BRANCH

Appointed by the Federal Reserve Bank

Harry B. Brock, Jr.	Chairman of the Board and Chief Executive Officer, Central Bank of the South, Birmingham, Alabama	1990
Shelton E. Allred	Chairman of the Board, President, and Chief Executive Officer, Frit Industries, Inc., Ozark, Alabama	1991
William F. Childress	President, First American Federal Savings and Loan Association, Huntsville, Alabama	1991
Robert M. Barrett	Chairman and President, The First National Bank, Wetumpka, Alabama	1992

Appointed by the Board of Governors

A. G. Trammell	President, Alabama Labor Council, AFL-CIO, Birmingham, Alabama	1990
Roy D. Terry	President and Chief Executive Officer, Terry Manufacturing Company, Inc., Roanoke, Alabama	1991
Nelda P. Stephenson	President, Nelda Stephenson Chevrolet, Inc., Florence, Alabama	1992

JACKSONVILLE BRANCH

Appointed by the Federal Reserve Bank

Hugh H. Jones, Jr.	Chairman of the Board and Chief Executive Officer, Barnett Bank of Jacksonville, N.A., Jacksonville, Florida	1990
Perry M. Dawson	President and Chief Executive Officer, Suncoast Schools Federal Credit Union, Tampa, Florida	1991
Samuel H. Vickers	Chairman, President and Chief Executive Officer, Design Containers, Inc., Jacksonville, Florida	1991
Merle L. Graser	Chairman and Chief Executive Officer, First National Bank of Venice, Venice, Florida	1992

Appointed by the Board of Governors

Joan Dial Ruffier	General Partner, Sunshine Cafes, and Vice President, Vista Landscaping, Orlando, Florida	1990
Hugh M. Brown	President and Chief Executive Officer, BAMSI, Inc., Titusville, Florida	1991
Lana Jane Lewis-Brent	Vice Chairman of the Board, President, and Chief Executive Officer, Sunshine Jr. Stores, Inc., Panama City, Florida	1992

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DISTRICT 6—Continued

MIAMI BRANCH

Appointed by the Federal Reserve Bank

Robert M. Taylor	Chairman of the Board and Chief Executive Officer, The Mariner Group, Inc., Fort Myers, Florida	1990
Frederick A. Teed	President and Chief Executive Officer, Community Savings, F.A., North Palm Beach, Florida	1990
Roberto G. Blanco	Vice Chairman of the Board and Chief Financial Officer, Republic National Bank of Miami, Miami, Florida	1991
A. Gordon Oliver	Chairman, President and Chief Executive Officer, Citizens and Southern National Bank of Florida, Fort Lauderdale, Florida	1992

Appointed by the Board of Governors

Robert D. Apelgren	President, Apelgren Corporation, Pahokee, Florida	1990
Dorothy C. Weaver	Executive Vice President, Intercap Investments, Inc., Coral Gables, Florida	1991
Jose L. Saumat	President, Greater Miami Trading, Inc., Miami, Florida	1992

NASHVILLE BRANCH

Appointed by the Federal Reserve Bank

Vincent K. Hickam	President and Chief Executive Officer, Executive Park National Bank, Kingsport, Tennessee	1990
William Baxter Lee III	Chairman of the Board and President, Southeast Services Corporation, Knoxville, Tennessee	1991
Edwin W. Moats, Jr.	Chairman of the Board and Chief Executive Officer, Metropolitan Federal Savings and Loan Association, Nashville, Tennessee	1991
James A. Rainey	Chairman of the Board, Sovran Financial Corporation/Central South, Nashville, Tennessee	1992

Appointed by the Board of Governors

Victoria B. Jackson	President and Chief Executive Officer, Diesel Sales and Service, Inc. and Prodiesel, Inc., Nashville, Tennessee	1990
Shirley A. Zeitlin	President, Shirley Zeitlin & Co. Realtors, Nashville, Tennessee	1991
Harold A. Black	Professor and Head, Department of Finance, College of Business Administration, University of Tennessee, Knoxville, Tennessee	1992

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DISTRICT 6—Continued

NEW ORLEANS BRANCH

Appointed by the Federal Reserve Bank

Ronald M. Boudreaux	President and Chief Executive Officer, First National Bank of St. Landry Parish, Opelousas, Louisiana	1990
Joel B. Bullard, Jr.	President, Joe Bullard Automotive Companies, Mobile, Alabama	1991
Stanley S. Scott	President, Crescent Distributing Company, Harahan, Louisiana	1991
Earl W. Lundy	Chairman of the Board and Chief Executive Officer, First National Bank of Vicksburg, Vicksburg, Mississippi	1992

Appointed by the Board of Governors

Victor Bussie	President, Louisiana AFL-CIO, Baton Rouge, Louisiana	1990
Andre M. Rubenstein	Chairman of the Board and Chief Executive Officer, Rubenstein Brothers, Inc., New Orleans, Louisiana	1991
James A. Hefner	President, Jackson State University, Jackson, Mississippi	1992

DISTRICT 7—CHICAGO

Class A

Barry F. Sullivan	Chairman of the Board, First Chicago Corporation, Chicago, Illinois	1990
John W. Gabbert	President and Chief Executive Officer, First of America Bank-LaPorte, N.A., LaPorte, Indiana	1991
B. F. Backlund	Chairman of the Board and Chief Executive Officer, Bartonville Bank, Bartonville, Illinois	1992

Class B

Edward D. Powers	Chief Executive Officer, Fire Brick Engineers, Milwaukee, Wisconsin	1990
Max J. Naylor	President, Naylor Farms, Inc., Jefferson, Iowa	1991
Paul J. Schierl	Financial Consultant, Green Bay, Wisconsin	1992

Class C

Marcus Alexis	Visiting Professor, Department of Economics, Northwestern University, Evanston, Illinois	1990
Charles S. McNeer	Chairman of the Board and Chief Executive Officer, Wisconsin Energy Corporation, Milwaukee, Wisconsin	1991
Richard G. Cline	Chairman of the Board, President, and Chief Executive Officer, NICOR, Inc., Naperville, Illinois	1992

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DISTRICT 7—Continued

DETROIT BRANCH

Appointed by the Federal Reserve Bank

James A. Aliber	Retired Chairman of the Board and Chief Executive Officer, First Federal of Michigan, Detroit, Michigan	1990
Frederik G. H. Meijer	Chairman of the Executive Committee, Meijer, Incorporated, Grand Rapids, Michigan	1990
Robert J. Mylod	Chairman of the Board, President, and Chief Executive Officer, Michigan National Corporation, Farmington Hills, Michigan	1991
Norman F. Rodgers	President and Chief Executive Officer, Hillsdale County National Bank, Hillsdale, Michigan	1992

Appointed by the Board of Governors

Beverly Beltaire	President, P R Associates, Inc., Detroit, Michigan	1990
Phyllis E. Peters	Director, Professional Standards Review, Deloitte & Touche, Detroit, Michigan	1991
J. Michael Moore	Chairman of the Board and Chief Executive Officer, Invetech Company, Detroit, Michigan	1992

DISTRICT 8—ST. LOUIS

Class A

H. L. Hembree III	Chairman of the Executive Committee, Merchants National Bank, Fort Smith, Arkansas	1990
Henry G. River, Jr.	President and Chief Executive Officer, First National Bank in Pinckneyville, Pinckneyville, Illinois	1991
W. E. Ayres	Chairman of the Board and Chief Executive Officer, Simmons First National Bank of Pine Bluff, Pine Bluff, Arkansas	1992

Class B

Roger W. Schipke	President, Ryland Company, Columbia, Maryland	1990
Thomas F. McLarty III	Chairman of the Board and Chief Executive Officer, Arkla, Inc., Little Rock, Arkansas	1991
Frank M. Mitchener, Jr.	President, Mitchener Farms, Inc., Sumner, Mississippi	1992

Class C

Janet McAfee Weakley	President, Janet McAfee, Inc., Clayton, Missouri	1990
Robert H. Quenon	Chairman, Peabody Holding Company, Inc., St. Louis, Missouri	1991
H. Edwin Trusheim	Chairman of the Board and Chief Executive Officer, General American Life Insurance Company, St. Louis, Missouri	1992

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		Term expires Dec. 31

DISTRICT 8—Continued

LITTLE ROCK BRANCH

Appointed by the Federal Reserve Bank

David Armbruster	President, First America Federal Savings Bank, Fort Smith, Arkansas	1990
W. Wayne Hartsfield	President and Chief Executive Officer, First National Bank, Searcy, Arkansas	1990
Barnett Grace	President and Chief Executive Officer, First Commercial Bank, N.A., Little Rock, Arkansas	1991
Patricia M. Townsend	President, Townsend Company, Stuttgart, Arkansas	1992

Appointed by the Board of Governors

William E. Love	President, Sound-Craft Systems, Inc., Morrilton, Arkansas	1990
James R. Rodgers	Airport Manager, Little Rock Regional Airport, Little Rock, Arkansas	1991
L. Dickson Flake	President, Barnes, Quinn, Flake & Anderson, Inc., Little Rock, Arkansas	1992

LOUISVILLE BRANCH

Appointed by the Federal Reserve Bank

Irving W. Bailey II	Chairman of the Board, President, and Chief Executive Officer, Capital Holding Corporation, Louisville, Kentucky	1990
Wayne G. Overall, Jr.	President, First Federal Savings Bank, Elizabethtown, Kentucky	1990
Douglas M. Lester	Chairman of the Board, President, and Chief Executive Officer, Trans Financial Bancorp, Inc., Bowling Green, Kentucky	1991
Morton Boyd	Chairman, President and CEO, First Kentucky National Corporation, Louisville, Kentucky	1992

Appointed by the Board of Governors

Raymond M. Burse	Partner, Wyatt, Tarrant and Combs, Louisville, Kentucky	1990
Lois H. Gray	Chairman of the Board, James N. Gray Construction Company, Inc., Glasgow, Kentucky	1991
Daniel L. Ash	President and Plant Manager (Retired), Rohm and Haas Kentucky Incorporated, Louisville, Kentucky	1992

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DISTRICT 8 – Continued

MEMPHIS BRANCH

Appointed by the Federal Reserve Bank

Thomas M. Garrott	President and Chief Operating Officer, National Bank of Commerce and National Commerce Bancorporation, Memphis, Tennessee	1990
Larry A. Watson	Chairman of the Board and President, Liberty Federal Savings Bank, Paris, Tennessee	1990
Ray U. Tanner	Chairman of the Board and Chief Executive Officer, Jackson National Bank and Volunteer Bancshares, Inc., Jackson, Tennessee	1991
Michael J. Hennessey	President, Munro & Company, Inc., Wynne, Arkansas	1992

Appointed by the Board of Governors

Seymour B. Johnson	Owner, Kay Planting Company, Indianola, Mississippi	1990
Katherine Hinds Smythe	President, Memorial Park, Inc., Memphis, Tennessee	1991
Sandra B. Sanderson-Chesnut	President and Chief Executive Officer, Sanderson Plumbing Products, Inc., Columbus, Mississippi	1992

DISTRICT 9 – MINNEAPOLIS

Class A

Joel S. Harris	President, Yellowstone Bank, Billings, Montana	1990
James H. Hearon III	Chairman of the Board and Chief Executive Officer, National City Bank, Minneapolis, Minnesota	1991
Rodney W. Fouberg	Chairman of the Board, Farmers and Merchants Bank and Trust Co., Aberdeen, South Dakota	1992

Class B

Earl R. St. John, Jr.	President, St. John Forest Products, Inc., Spalding, Michigan	1990
Duane E. Dingmann	President, Trubilt Auto Body, Inc., Eau Claire, Wisconsin	1991
Bruce C. Adams	Partner, Triple Adams Farms, Minot, North Dakota	1992

Class C

Delbert W. Johnson	President and Chief Executive Officer, Pioneer Metal Finishing, Minneapolis, Minnesota	1990
Michael W. Wright	Chairman of the Board, Chief Executive Officer, and President, Super Valu Stores, Inc., Minneapolis, Minnesota	1991

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DISTRICT 9, *Class C*—Continued

Gerald A. Rauenhorst	Chairman of the Board and Chief Executive Officer, Opus Corporation, Minneapolis, Minnesota	1992

HELENA BRANCH

Appointed by the Federal Reserve Bank

Noble E. Vosburg	President and Chief Executive Officer, Pacific Hide and Fur Corporation, Great Falls, Montana	1990
Robert H. Waller	President and Chief Executive Officer, First Interstate Bank of Billings, N.A., Billings, Montana	1990
Beverly D. Harris	President, Empire Federal Savings and Loan Association, Livingston, Montana	1991

Appointed by the Board of Governors

J. Frank Gardner	President, Montana Resources, Inc., Butte, Montana	1990
James E. Jenks	Jenks Farms, Hogeland, Montana	1991

DISTRICT 10—KANSAS CITY

Class A

Roger L. Reisher	Co-Chairman of the Board, FirstBank of Westland, N.A., Lakewood, Colorado	1990
Robert L. Hollis	Chairman of the Board and Chief Executive Officer, First National Bank and Trust Co., Okmulgee, Oklahoma	1991
Harold L. Gerhart, Jr.	Chairman and Chief Executive Officer, First National Bank, Newman Grove, Nebraska	1992

Class B

S. Dean Evans, Sr.	Partner, Evans Grain Company, Salina, Kansas	1990
Frank J. Yaklich, Jr.	President, CF & I Steel Corporation, Pueblo, Colorado	1991
Frank A. McPherson	Chairman of the Board and Chief Executive Officer, Kerr-McGee Corporation, Oklahoma City, Oklahoma	1992

Class C

Thomas E. Rodriguez	President and General Manager, Thomas E. Rodriguez & Associates, P.C., Aurora, Colorado	1990
Burton A. Dole, Jr.	Chairman of the Board and President, Puritan-Bennett Corporation, Overland Park, Kansas	1991
Fred W. Lyons, Jr.	President, Marion Merrell Dow Inc., Kansas City, Missouri	1992

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DISTRICT 10—Continued

Denver Branch

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Appointed by the Federal Reserve Bank		
Junius F. Baxter	Denver, Colorado	1990
Norman R. Corzine	President and Chief Executive Officer, First National Bank in Albuquerque, Albuquerque, New Mexico	1991
W. Richard Scarlett III	Chairman of the Board and Chief Executive Officer, Jackson State Bank, Jackson Hole, Wyoming	1991
Henry A. True III	Partner, True Companies, Casper, Wyoming	1992
Appointed by the Board of Governors		
Gilbert Sanchez	President, New Mexico Highlands University, Las Vegas, New Mexico	1990
Barbara B. Grogan	President, Western Industrial Contractors, Inc., Denver, Colorado	1991
Sandra K. Woods	Vice President, Corporate Real Estate, Adolph Coors Company, Golden, Colorado	1992

Oklahoma City Branch

Appointed by the Federal Reserve Bank		
W. Dean Hidy	Chairman of the Board and Chief Executive Officer, Triad Bank, N.A., Tulsa, Oklahoma	1990
John Wm. Laisle	President, MidFirst Bank, SSB, Oklahoma City, Oklahoma	1990
C. Kendric Fergeson	Chairman of the Board and Chief Executive Officer, The National Bank of Commerce, Altus, Oklahoma	1991
Appointed by the Board of Governors		
John F. Snodgrass	President and Trustee, The Samuel Roberts Noble Foundation, Inc., Ardmore, Oklahoma	1990
Ernest L. Holloway	President, Langston University, Langston, Oklahoma	1991

Omaha Branch

Appointed by the Federal Reserve Bank		
John R. Cochran	President and Chief Executive Officer, Norwest Bank Nebraska, N.A., Omaha, Nebraska	1990
Sheila Griffin	Associate Director for Audience and Program Development, Lied Center for Performing Arts, University of Nebraska-Lincoln, Lincoln, Nebraska	1991
John T. Selzer	Chairman of the Board and Chief Executive Officer, FirsTier Bank, N.A., Scottsbluff, Nebraska	1991

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DISTRICT 10, OMAHA BRANCH—Continued		
Appointed by the Board of Governors		
Herman Cain	President and Chief Executive Officer, Godfather's Pizza, Inc., Omaha, Nebraska	1990
Leroy William Thom	President, T-L Irrigation Company, Hastings, Nebraska	1991
DISTRICT 11—DALLAS		
Class A		
T. C. Frost	Chairman of the Board, Frost National Bank, San Antonio, Texas	1990
Charles T. Doyle	Chairman of the Board and Chief Executive Officer, Gulf National Bank, Texas City, Texas	1991
Robert G. Greer	Chairman of the Board, Tanglewood Bank, N.A., Houston, Texas	1992
Class B		
Robert L. Pfluger	Rancher, San Angelo, Texas	1990
Peyton Yates	President, Yates Drilling Company, Artesia, New Mexico	1991
Gary E. Wood	President, Texas Research League, Austin, Texas	1992
Class C		
Bobby R. Inman	Austin, Texas	1990
Hugh G. Robinson	Chairman of the Board and Chief Executive Officer, The Tetra Group, Inc., Dallas, Texas	1991
Leo E. Linbeck, Jr.	Chairman of the Board and Chief Executive Officer, Linbeck Construction Corporation, Houston, Texas	1992
EL PASO BRANCH		
Appointed by the Federal Reserve Bank		
Henry B. Ellis	President and Chief Credit Officer, MBank El Paso, N.A., El Paso, Texas	1990
Ethel Ortega Olson	Owner, NAMBE of Ruidoso, Ruidoso, New Mexico	1990
Humberto F. Sambrano	President, SamCorp General Contractors, El Paso, Texas	1991
Wayne Merritt	Claydesta National Bank, Midland, Texas	1992
Appointed by the Board of Governors		
Diana S. Natalicio	President, The University of Texas at El Paso, El Paso, Texas	1990
Donald G. Stevens	Owner, Stevens Oil Company, Roswell, New Mexico	1991
W. Thomas Beard III	President, Leoncita Cattle Company, Alpine, Texas	1992

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DISTRICT 11—Continued

Houston Branch

		Term expires Dec. 31
Appointed by the Federal Reserve Bank		
Clive Runnells	President and Director, Runnells Cattle Company, Bay City, Texas	1990
David E. Sheffield	Financial Consultant, Victoria, Texas	1990
Jeff Austin, Jr.	President, First National Bank of Jacksonville, Jacksonville, Texas	1991
Jenard M. Gross	President, Gross Builders, Inc., Houston, Texas	1992
Appointed by the Board of Governors		
Andrew L. Jefferson, Jr.	Attorney, Jefferson and Mims, Houston, Texas	1990
Gilbert D. Gaedcke, Jr.	Chairman of the Board and Chief Executive Officer, Gaedcke Equipment Company, Houston, Texas	1991
Judy Ley Allen	Partner and Administrator, Allen Investments, Houston, Texas	1992

San Antonio Branch

Appointed by the Federal Reserve Bank		
Javier Garza	Executive Vice President, The Laredo National Bank, Laredo, Texas	1990
Sam R. Sparks	President, Sam R. Sparks, Inc., Santa Rosa, Texas	1990
Jane Flato Smith	Investor and Rancher, San Antonio, Texas	1991
Gregory W. Crane	Chairman of the Board, President, and Chief Executive Officer, Broadway National Bank, San Antonio, Texas	1992
Appointed by the Board of Governors		
Erich Wendl	President, Maverick Markets, Inc., Corpus Christi, Texas	1990
Roger R. Hemminghaus	Chairman of the Board, President, and Chief Executive Officer, Diamond Shamrock, Inc., San Antonio, Texas	1991
Lawrence E. Jenkins	Vice President (Retired), Austin Division, Lockheed Missiles and Space Co., Austin, Texas	1992

DISTRICT 12—San Francisco

Class A		
R. Blair Hawkes	President and Chief Executive Officer, Ireland Bank, Malad City, Idaho	1990
William E. B. Siart	Chairman of the Board, President, and Chief Executive Officer, First Interstate Bank of California, Los Angeles, California	1991

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DISTRICT 12, *Class A*—Continued

Name	Position	*Term expires Dec. 31*
Warren K. K. Luke	President and Director, Hawaii National Bancshares, Inc., and Vice Chairman of the Board, Hawaii National Bank, Honolulu, Hawaii	1992
Class B		
John N. Nordstrom	Co-Chairman of the Board, Nordstrom, Inc., Seattle, Washington	1990
William L. Tooley	Chairman, Tooley & Company, Investment Builders, Los Angeles, California	1991
James A. Vohs	Chairman of the Board, President, and Chief Executive Officer, Kaiser Foundation Health Plan, Inc., and Kaiser Foundation Hospitals, Oakland, California	1992
Class C		
Cordell W. Hull	Executive Vice President and Director, Bechtel Group, Inc., San Francisco, California	1990
Carolyn S. Chambers	President and Chief Executive Officer, Chambers Communications Corp., Eugene, Oregon	1991
Robert F. Erburu	Chairman of the Board and Chief Executive Officer, The Times Mirror Company, Los Angeles, California	1992

LOS ANGELES BRANCH

Name	Position	Term expires
Appointed by the Federal Reserve Bank		
Ross M. Blakely	Chairman of the Executive Committee of the Board, Coast Savings and Loan, Los Angeles, California	1990
David R. Lovejoy	Vice Chairman of the Board, Security Pacific National Bank, Los Angeles, California	1991
Ignacio E. Lozano, Jr.	Editor-in-Chief, La Opinion, Los Angeles, California	1991
Fred D. Jensen	Chairman of the Board, President, and Chief Executive Officer, National Bank of Long Beach, Long Beach, California	1992
Appointed by the Board of Governors		
Richard C. Seaver	Chairman, Hydril Company, Los Angeles, California	1990
Harry W. Todd	Managing Partner, Carlisle Enterprises, L.P., Coronado, California	1991
Yvonne Brathwaite Burke	Partner, Jones, Day, Reavis & Pogue, Los Angeles, California	1992

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		Term expires Dec. 31

DISTRICT 12—Continued

PORTLAND BRANCH

Appointed by the Federal Reserve Bank

Stephen G. Kimball	President and Chief Executive Officer, Baker Boyer Bancorp, Walla Walla, Washington	1990
G. Dale Weight	Dean, George H. Atkinson Graduate School of Management, Willamette University, Salem, Oregon	1990
Stuart H. Compton	Chairman of the Board and Chief Executive Officer, Pioneer Trust Bank, N.A., Salem, Oregon	1991
E. Kay Stepp	President, Portland General Electric, Portland, Oregon	1992

Appointed by the Board of Governors

Sandra A. Suran	President, The Suran Group, Portland, Oregon	1990
William A. Hilliard	Editor, The Oregonian, Portland, Oregon	1991
Wayne E. Phillips, Jr.	Vice President, Phillips Ranch, Inc., Baker, Oregon	1992

SALT LAKE CITY BRANCH

Appointed by the Federal Reserve Bank

Curtis H. Eaton	Vice President; Manager, Community Banking Area; and Member of the Board of Directors, First Security Bank of Idaho, N.A., Twin Falls, Idaho	1990
Virginia P. Kelson	Partner, Ralston & Associates, Salt Lake City, Utah	1990
Gerald R. Christensen	President and Chairman, First Federal Savings Bank, Salt Lake City, Utah	1991
Ronald S. Hanson	President, Zions First National Bank, Salt Lake City, Utah	1992

Appointed by the Board of Governors

Don M. Wheeler	President, Wheeler Machinery Company, Salt Lake City, Utah	1990
D. N. Rose	President and Chief Executive Officer, Mountain Fuel Supply Company, Salt Lake City, Utah	1991
Gary G. Michael	Vice Chairman, Chief Financial and Corporate Development Officer, Albertson's, Inc., Boise, Idaho	1992

SEATTLE BRANCH

Appointed by the Federal Reserve Bank

B. R. Beeksma	Chairman of the Board, InterWest Savings Bank, Oak Harbor, Washington	1990

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		Term expires Dec. 31
DISTRICT 12, SEATTLE BRANCH		
Appointed by the Federal Reserve Bank—Continued		
Gerry B. Cameron	President and Chief Operating Officer, U.S. Bank of Washington, N.A., Seattle, Washington	1990
Robert P. Gray	President, National Bank of Alaska, Anchorage, Alaska	1991
H. H. Larison	President, Columbia Paint & Coatings, Spokane, Washington	1992
Appointed by the Board of Governors		
George F. Russell, Jr.	Chairman, President and Chief Executive Officer, Frank Russell Company, Tacoma, Washington	1990
Bruce R. Kennedy	Chairman and Chief Executive Officer, Alaska Air Group, Inc., Seattle, Washington	1991
Judith M. Runstad	Co-Managing Partner, Foster Pepper and Shefelman, Seattle, Washington	1992

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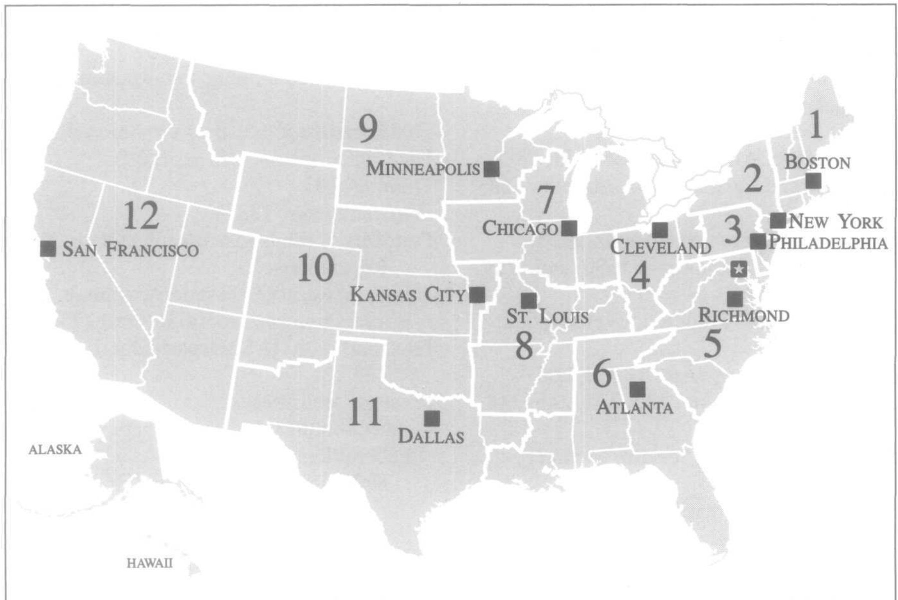

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- — Branch boundary

NOTE

The Federal Reserve officially identifies Districts by number and Reserve Bank city (shown on both pages) and by letter (shown on the facing page).

In the 12th District, the Seattle Branch serves Alaska, and the San Francisco Bank serves Hawaii.

The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The Board of Governors revised the boundaries of the System most recently in August 1986.

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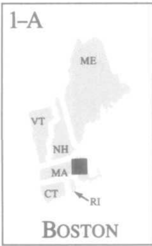

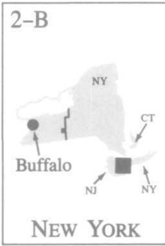

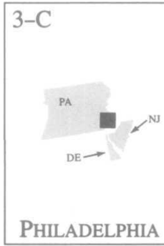

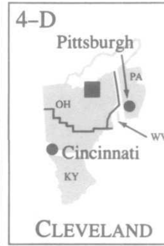

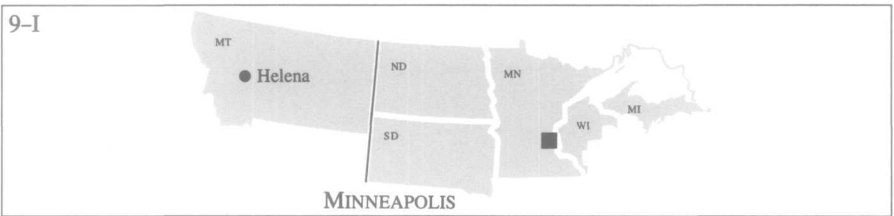

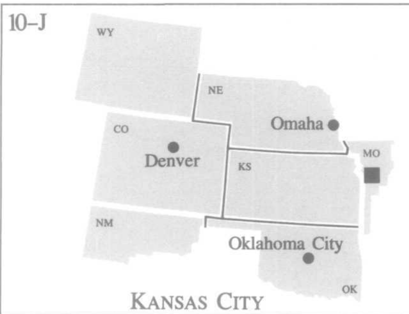

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