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March 27, 1987

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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SUPPLEMENTAL NOTES

THE DOMESTIC NONFINANCIAL ECONOMY

Consumer prices

The consumer price index rose 0.4 percent in February, after a sharper 0.7 percent increase a month earlier. Prices of gasoline and fuel oil posted further sizable increases last month—about in line with the expected passthrough of higher crude petroleum costs to the retail level. Other energy prices were again little changed. Food prices, which were up 0.3 percent, continued to rise at about the same pace that has prevailed since last September. Prices of fresh vegetables—a particularly volatile category—jumped again last month, but this was offset by lower prices for meats, eggs, and coffee.

Excluding energy and food, consumer prices rose 0.3 percent in February, down a bit from the 0.5 percent rise posted in January. One factor was the introduction of price and financing incentives for motor vehicles. But, price increases for other consumer goods and services also averaged somewhat less in February than in January, despite further large markups for apparel and tobacco.

RECENT CHANGES IN CONSUMER PRICES
(Percentage change; based on seasonally adjusted data)¹

	Relative Importance Dec. 1986	1985	1986	1986		1987	
				Q3	Q4	Jan.	Feb.
				-Annual rate-		-Monthly rate-	
All items ²	100.0	3.8	1.1	2.0	2.5	.7	.4
Food	16.2	2.7	3.8	8.4	4.1	.4	.3
Energy	7.4	1.8	-19.7	-21.0	-9.9	3.0	1.9
All items less food and energy	76.4	4.4	3.8	3.7	3.7	.5	.3
Commodities	26.1	2.1	1.4	2.6	1.4	.6	.0
Services	50.3	5.7	5.2	4.3	5.1	.5	.4
Memorandum: CPI-W ³	100.0	3.6	.7	1.7	2.2	.7	.4

1. Changes are from final month of preceding period to final month of period indicated.

2. Official index for all urban consumers.

3. Index for urban wage earners and clerical workers.

MONETARY AGGREGATES
(Based on seasonally adjusted data unless otherwise noted)¹

March 27, 1987

	1985:04 to 1986:04		1986		1987			Growth from 04 1986 to Mar. 1987 ^{pe}
			H1	H2	Jan.	Feb.	Mar. ^{pe}	
----- Percentage change at annual rates -----								
1. M1	15.3	12.3	17.1	11.7	-0.7	6	11	
2. M2	8.9	7.4	10.0	9.5	-0.3	3	5-1/4	
3. M3	8.8	8.3	8.9	9.1	1.3	3	5-1/2	
								Levels in billions of dollars Feb. 1987
<u>Selected components</u>								
4. Currency	7.5	7.0	7.7	16.3	7.7	5	187.2	
5. Demand deposits	11.6	9.7	12.9	-12.5	-17.3	-4	300.7	
6. Other checkable deposits	28.6	21.7	32.0	39.8	13.5	18	242.7	
7. M2 minus M1 ²	6.9	5.9	7.6	8.8	-0.2	1	2084.1	
8. Overnight RPs and Eurodollars, NSA	14.6	1.5	27.4	99.4	-55.9	-29	79.8	
9. General purpose and broker/dealer money market mutual fund shares, NSA	17.3	19.7	13.6	8.1	10.3	7	210.8	
10. Commercial banks	6.8	6.6	6.7	10.6	-1.1	2	905.4	
11. Savings deposits, SA, plus MMDAs, NSA ³	16.0	11.6	19.3	18.0	2.9	9	542.8	
12. Small time deposits	-4.2	0.7	-9.0	0.0	-7.2	-7	362.5	
13. Thrift institutions	4.3	4.4	4.2	4.6	5.1	6	899.8	
14. Savings deposits, SA, plus MMDAs, NSA ³	12.0	6.8	16.5	16.0	16.7	15	415.1	
15. Small time deposits	-1.2	2.6	-4.9	-4.7	-4.7	-2	484.7	
M3 minus M2 ⁴	8.3	11.7	4.6	7.8	7.4	5	698.1	
16. Large time deposits	3.0	7.2	-1.2	7.0	-4.8	5	447.8	
17. At commercial banks, net ⁵	2.8	6.2	-0.6	16.0	0.0	12	295.8	
18. At thrift institutions	3.3	9.0	-2.3	-10.1	-14.0	-7	152.0	
19. Institution-only money market mutual fund shares, NSA	30.3	32.1	24.5	-1.4	10.0	6	84.7	
20. Term RPs, NSA	28.6	33.7	20.1	-19.0	38.6	-10	83.5	
21. Term Eurodollars, NSA	2.3	7.2	-2.5	46.2	56.9	31	90.5	

-- Average monthly change in billions of dollars --

MEMORANDA:

23. Managed liabilities at commercial banks (24+25)	2.0	1.7	2.5	13.8	4.9	n.a.	509.3
24. Large time deposits, gross	0.6	0.6	0.7	4.5	0.9	3	351.1
25. Nondeposit funds	1.4	1.1	1.8	9.3	4.0	n.a.	158.2
26. Net due to related foreign institutions, NSA	0.6	0.4	0.8	4.0	3.1	n.a.	-11.9
27. Other ⁶	0.9	0.7	1.0	5.2	0.9	n.a.	170.1
28. U.S. government deposits at commercial banks ⁷	0.4	0.2	0.6	0.1	1.9	-5	23.2

1. Semi-annual growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis.

2. Nontransactions M2 is seasonally adjusted as a whole.

3. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs increased during February and March 1987 at rates of 34.5 percent and 27 percent, respectively. At thrift institutions, savings deposits excluding MMDAs increased during February and March 1987 at rates of 33.2 percent and 26 percent, respectively.

4. The non-M2 component of M3 is seasonally adjusted as a whole.

5. Consists of large-denomination time deposits held by money market mutual funds and thrift institutions.

6. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold agreements to repurchase, and other liabilities for borrowed money (including borrowings from the Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estimated.

7. Consists of Treasury demand deposits and note balances at commercial banks.

pe--preliminary estimate

n.a.--not available

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)¹

March 27, 1987

	1986				1987		Levels in bil. of dollars February
	02	03	04	Dec.	Jan.	Feb.	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	3.9	13.5	9.5	17.4	18.4	2.2	2114.5
2. Securities	4.9	31.9	6.0	7.0	0.1	7.2	505.6
3. U.S. government securities	7.9	28.4	20.1	16.9	18.6	8.8	316.2
4. Other securities	0.7	37.3	-14.5	-8.6	-29.2	4.5	189.4
5. Total loans	3.6	7.8	10.6	20.7	24.2	0.7	1608.9
6. Business loans	2.0	2.8	19.4	38.5	32.0	-1.7	550.4
7. Security loans	-62.7	18.8	-64.7	-83.8	38.6	34.3	39.6
8. Real estate loans	13.3	13.6	17.1	24.7	24.2	12.8	501.5
9. Consumer loans	6.7	5.6	5.4	7.3	5.0	0.4	314.4
10. Other loans	-1.6	9.2	-1.6	7.1	30.7	-27.7	203.0
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	1.0	2.7	19.8	39.4	31.8	-1.3	545.5
12. Loans at foreign branches ²	-21.5	9.1	-28.9	-61.4	-93.4	70.1	16.3
Sum of lines 11 & 12	0.2	2.9	18.1	36.0	28.0	0.6	561.8
Commercial paper issued by nonfinancial firms ³	-12.7	7.3	-19.1	-39.3	3.0	-42.1	77.1
15. Sums of lines 13 & 14	-1.6	3.5	13.0	25.9	24.8	-4.7	638.9
16. Bankers acceptances: U.S. trade related ^{4,5}	17.6	3.6	-27.4	-37.2	-11.5	n.a.	30.9 (Jan)
17. Line 15 plus bankers acceptances: U.S. trade related	-0.6	3.5	10.9	22.8	22.9	n.a.	672.3 (Jan)
18. Finance company loans to business ⁴	11.4	3.4	10.5	8.4	6.3	n.a.	172.6 (Jan)
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	1.9	3.4	10.9	20.0	19.5	n.a.	844.9 (Jan)

n.a.--not available.

p--preliminary

1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.

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

3. Average of Wednesdays.

4. Based on average of current and preceding ends of month.

5. Consists of acceptances that finance U.S. imports, U.S. exports and domestic shipment and storage of goods.

SELECTED FINANCIAL MARKET QUOTATIONS 1/
(percent)

	1984	1985	1986		1987	Change from:	
	Highs	March highs	June highs	FOMC Feb 11	Mar 26	June highs	FOMC Feb 11
Short-term rates							
Federal funds 2/	11.63	8.58	6.90	6.18	6.11	-0.79	-0.07
Treasury bills 3/							
3-month	10.67	8.80	6.52	5.86	5.57	-0.95	-0.29
6-month	10.77	9.13	6.57	5.84	5.60	-0.97	-0.24
1-year	11.13	9.25	6.62	5.77	5.70	-0.92	-0.07
Commercial paper							
1-month	11.42	8.94	6.87	6.29	6.31	-0.56	0.02
3-month	11.35	9.12	6.81	6.18	6.23	-0.58	0.05
Large negotiable CD's 3/							
1-month	11.52	8.89	6.88	6.18	6.25	-0.63	0.07
3-month	11.79	9.29	6.91	6.17	6.22	-0.69	0.05
6-month	12.30	9.92	6.97	6.17	6.22	-0.75	0.05
Eurodollar deposits 4/							
1-month	11.89	8.89	7.01	6.21	6.38	-0.63	0.17
3-month	12.20	9.58	7.01	6.24	6.36	-0.65	0.12
Bank prime rate	13.00	10.50	8.50	7.50	7.50	-1.00	-
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	13.49	11.22	7.86	6.74	6.61	-1.25	-0.13
10-year	13.99	12.02	8.39	7.37	7.24	-1.15	-0.13
30-year	13.94	11.97	7.93	7.64	7.56	-0.37	-0.08
Municipal revenue 5/ (Bond Buyer index)	11.44	10.25	8.57	6.98	7.11	-1.46	0.13
Corporate—A utility Recently offered	15.30	13.23	9.70	8.94	8.87	-0.83	-0.07
Home mortgage rates 6/							
S&L fixed-rate	14.68	13.29	10.76	9.11	9.08	-1.68	-0.03
S&L ARM, 1-yr.	12.31	11.14	8.65	7.58	7.55	-1.10	-0.03
	1984	1985	1986		1987	Percent change from:	
	Low	March low	Highs	FOMC Feb 11	Mar 26	1986 highs	FOMC Feb 11
Stock prices							
Dow-Jones Industrial	1086.57	1247.35	1955.57	2171.96	2372.59	21.32	9.24
NYSE Composite	85.13	102.46	145.75	158.47	170.77	17.17	7.76
AMEX Composite	187.16	222.28	285.19	314.45	338.41	18.66	7.62
NASDAQ (OTC)	225.30	276.18	411.16	408.25	438.71	6.70	7.46

1/ One-day quotes except as noted.

2/ Averages for two-week reserve maintenance period closest to date shown. Last observation is the average for the maintenance period ending March 25, 1987.

3/ Secondary market.

4/ Averages for statement week closest to date shown.

5/ Thursday quotes.

6/ Friday quotes.

e—estimate