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October 30, 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

#### Sales of new homes.

Sales of new homes declined about 5 percent in September to 656,000 units at an annual rate. For the third quarter as a whole, new home sales were unchanged from the second quarter, but remained 7 percent below the robust first-quarter pace. The reduction in new home sales during September reflected the 1/2 percentage point rise in interest rates on conventional fixed-rate mortgages during that month. Despite the drop in sales, the inventory of new homes was essentially unchanged in September at 359,000 units, nearly a seven-month supply at the current sales pace. The inventory figures have changed very little in the past year.

The median and average prices of new homes sold in the third quarter were \$108,700 and \$132,700, respectively, both up about 16 percent from a year earlier. These price statistics are not adjusted for changes in house quality or location of sales. Adjusted prices are not yet available for the third quarter; second-quarter information indicated that over four-fifths of the recorded price increase was attributable to house quality improvements and to changes in the regional mix of sales.

#### Consumer surveys

The University of Michigan Survey of Consumer Attitudes showed a sizable drop in consumer confidence among those respondents polled on or after October 19. About one-third of the October sample (153 out of

500) were called after the stock market crash. Prior to October 19, the overall sentiment index value was running at 92.5--about the same as the September reading; after October 19, the index fell to 82.4. The 10 point drop in the index is comparable to the fall off that occurred in March 1980 after the imposition of credit controls. The drop is entirely due to changed expectations of business conditions and buying plans.

The latest Michigan figures should be interpreted with caution. First, the results stand in contrast to a post-October 19 reading from the Conference Board survey, which showed little change in its index of consumer confidence. Second, within the Michigan survey, some of the post-October 19 results are puzzling. In particular, evaluations of current personal finances actually rose a bit in the latter part of the month and expected personal finances were essentially unchanged. However, despite the favorable responses on personal finances, the index of buying conditions dropped sharply.

THE MARKET FOR NEW HOUSES

	1986	1987		1987		
		Q2	Q3 <sup>P</sup>	July <sup>r</sup>	Aug. <sup>r</sup>	Sept. <sup>P</sup>
<u>Sales Volume</u>						
Thousands of units, SAAR	748	674	674	675	692	656
<u>Sales Price</u>						
Average (\$1,000, NSA)	112.1	126.8	132.7	128.7	129.6	139.8
(Percent change from year earlier)	(11.1)	(13.2)	(15.7)	(10.2)	(14.5)	(22.6)
Median (\$1,000, NSA)	92.0	104.0	108.7	104.0	106.5	115.6
(Percent change from year earlier)	(9.2)	(12.9)	(16.3)	(10.5)	(16.4)	(21.7)
<u>Inventory</u>						
Units for sale (Thousands of units, end of period)	357	358	359	358	360	359
Months' supply (At current sales rate)	5.8	6.5	6.6	6.5	6.4	6.8

Note: Months' supply data derived by Census Bureau by seasonal adjustment of the ratio of homes for sale to homes sold. It may, therefore, not agree with the seasonally adjusted components shown on the table.

r--revised.

p--preliminary.

University of Michigan Index of Consumer Sentiment

	1987			
	August	September	October	
			Pre-19th	Post-19th
1. <b>Total (Feb. 1966=100)</b>	<b>94.4</b>	<b>93.6</b>	<b>92.5</b>	<b>82.4</b>
2. Current personal finances	122	119	117	121
3. Expected personal finances	127	124	128	129
4. Near term business conditions	125	122	113	87
5. Long term business conditions	93	92	98	72
6. Buying conditions	157	162	156	134

NOTE: Figures on financial business, and buying conditions are the percent saying "good times" (or "better") minus the percent saying "bad times" (or "worse"), plus 100/

Errata

Shown on the next three pages are tables that were omitted from the Appendix to Part II of the Greenbook. These tables should follow page II-A-5 of the Greenbook.



Table 1

Deficit Targets in the Gramm-Rudman-Hollings Balanced Budget Act  
(Fiscal years, billions of dollars)

	1986	1987	1988	1989	1990	1991	1992	1993
Original law <sup>1</sup>	172	144	108	72	36	0	n.a.	n.a.
Amended law <sup>2</sup>	n.a.	n.a.	144	136	100	64	28	0
Memo:								
CBO baseline deficit	221 <sup>a</sup>	157	183	192	176	165	151	n.a.
OMB current services deficit	221 <sup>a</sup>	159	161	166	147	123	105	n.a.

a--actual

1. The original non-automatic spending cut mechanism was supposed to go into effect if the projected "snapshot" deficit exceeded the target by more than \$10 billion for 1986 through 1990. This "margin for error" was not allowed for the final year (1991).

2. The restored automatic spending cut mechanism would be triggered if the "snapshot" deficit projection exceeds the target by more than \$10 billion for 1988 through 1992. This "margin for error" is not allowed for the final year (1993).

Table 2  
 Timetable for Sequestration Procedures<sup>1</sup>

Action	Fiscal year	
	1988	1989-1993
Earliest enactment date for deficit reduction actions.	January 1, 1987	Jan.1 (before fiscal year begins.
President submits the Mid-session Review of the budget (establishing the economic and technical assumptions).	Not applicable	July 15
Initial OMB/CBO "snapshot."	October 10	August 15
CBO issues initial report to OMB and Congress.	October 15	August 20
OMB issues initial report to the President and Congress.	October 20	August 25
President issues initial order.	October 20	August 25
<b>Fiscal year begins</b> and initial order becomes effective.	October 1 (order becomes effective on Oct. 20, when issued)	October 1
CBO issues revised report to OMB and Congress.	November 15	October 10
OMB issues revised report to the President and Congress.	November 20	October 15
President issues final order, which becomes effective immediately.	November 20	October 15
House and Senate majority leaders may introduce a joint resolution modifying the final order.	Within 10 session-days of revised OMB report	Within 10 session-days of revised OMB report
Comptroller General issues compliance order.	December 15	November 15

1. The amended Act also includes a procedure, not summarized on this table, that allows the President to modify, with congressional approval, the impact of a sequester order on various defense accounts.

Table 3  
Regular Budget Process

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Budget action	Deadline
President submits budget request.	First Monday after January 3
CBO reports to budget committees on fiscal policy and budget priorities.	February 15
Senate budget committee reports budget resolution to floor.	April 1
Congress completes action on budget resolution.	April 15
House appropriations committee reports last annual appropriations bill.	June 10
Congress completes action on reconciliation legislation.	June 15
House completes action on appropriation bills.	June 30

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MONETARY AGGREGATES

(Based on seasonally adjusted data unless otherwise noted)<sup>1</sup>

	1985:Q4		1987			Growth from Q4 1986 to Sept. 1987 <sup>P</sup>	
	to 1986:Q4	Q2	Q3 <sup>P</sup>	July	Aug.		Sept. <sup>P</sup>
	----- Percentage change at annual rates -----						
1. M1	15.3	6.4	-0.1	1.6	5.3	0.5	6.1
2. M2	9.0	2.3	2.9	2.6	6.1	5.2	4.1
3. M3	8.9	4.2	4.9	2.3	7.3	5.5	5.4
							Levels in billions of dollars
							Sept. 1987 <sup>P</sup>
<u>Selected components</u>							
4. M1-A	10.0	2.7	-2.3	-0.5	3.2	-1.7	495.7
5. Currency	7.5	6.6	6.7	6.3	6.9	8.1	194.5
6. Demand deposits	11.6	0.0	-8.1	-4.8	0.8	-9.3	294.1
7. Other checkable deposits	28.5	14.0	4.5	6.2	9.5	4.7	255.5
8. M2 minus M1 <sup>2</sup>	6.9	0.8	4.0	2.9	6.3	6.9	2123.3
9. Overnight RPs and Eurodollars, NSA	14.7	-24.3	9.0	3.2	48.2	32.4	79.8
10. General purpose and broker/dealer money market mutual fund shares, NSA	17.3	-1.1	6.1	1.1	17.2	20.9	216.5
11. Commercial banks	6.8	-1.4	1.6	2.7	2.9	0.3	907.6
12. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	16.0	0.8	-2.4	-2.9	0.7	-3.8	540.4
13. Small time deposits	-4.2	-4.6	7.9	11.0	6.3	6.2	367.2
14. Thrift institutions	4.3	5.0	3.8	3.4	5.0	1.7	923.3
15. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	12.0	9.7	-4.0	-7.6	-4.3	-10.0	418.0
16. Small time deposits	-1.2	1.0	10.5	13.0	12.6	11.3	505.2
17. M3 minus M2 <sup>4</sup>	8.7	12.1	12.6	1.6	11.7	6.8	747.3
18. Large time deposits	3.0	9.3	6.3	-0.3	4.4	6.9	469.4
19. At commercial banks, net <sup>5</sup>	2.7	18.3	4.4	-4.6	0.0	1.9	314.2
20. At thrift institutions	3.4	-8.4	10.4	8.8	13.5	17.3	155.2
21. Institution-only money market mutual fund shares, NSA	30.3	-11.4	1.9	31.0	0.0	-38.8	80.7
22. Term RPs, NSA	31.1	70.7	23.3	-5.6	2.3	16.9	108.1
23. Term Eurodollars, NSA	3.2	-0.5	26.3	-42.9	93.2	65.8	98.1

-- Average monthly change in billions of dollars --

MEMORANDA:

24. Managed liabilities at commercial banks (25+26)	2.0	6.9	2.0	8.5	4.6	9.9	544.8
25. Large time deposits, gross	0.6	6.3	-0.8	-1.1	-1.0	-0.3	370.5
26. Nondeposit funds	1.4	0.6	2.8	-7.4	5.6	10.2	174.3
27. Net due to related foreign institutions, NSA	0.6	1.5	4.2	-5.8	6.3	12.2	10.9
28. Other <sup>6</sup>	0.8	-0.9	-1.4	-1.6	-0.7	-2.0	163.4
29. U.S. government deposits at commercial banks <sup>7</sup>	0.4	3.4	-1.5	-3.2	4.4	-5.8	23.3

1. 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 August at a rate of a 9.5 percent and were unchanged for September. At thrift institutions, savings deposits excluding MMDAs increased during August at a rate of 9.0 percent and decreased at a 3.0 percent rate in September.

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

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

6. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase, and other liabilities for borrowed money (including 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.

p--preliminary.

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

	1985:Q4 to 1986:Q4	1987					Levels in bil. of dollars Sept.
		Q2	Q3	July	Aug.	Sept.	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	9.8	7.7	7.3	1.3	10.8	9.7	2206.7
2. Securities	14.2	4.4	8.5	3.0	15.8	6.4	526.3
3. U.S. government securities	11.9	3.3	18.7	11.0	33.0	11.3	331.7
4. Other securities	18.0	6.1	-7.9	-9.8	-12.2	-1.8	194.6
5. Total loans	8.4	8.7	7.0	0.8	9.2	10.7	1680.4
6. Business loans	6.6	4.6	1.9	-5.2	0.2	10.6	560.5
7. Security loans	-3.7	40.7	26.5	-14.2	66.2	27.3	45.0
8. Real estate loans	14.1	19.3	13.6	13.8	16.1	10.4	556.2
9. Consumer loans	7.3	0.5	6.5	3.1	8.8	7.6	318.9
10. Other loans	5.4	0.2	0.0	-17.4	4.2	13.3	199.8
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	6.3	4.0	1.4	-4.8	-1.7	10.9	554.2
12. Loans at foreign branches <sup>2</sup>	-8.6	-14.7	25.5	45.9	73.6	-41.6	16.7
13. Sum of lines 11 & 12	5.8	3.4	2.1	-3.4	0.6	9.1	570.9
14. Commercial paper issued by nonfinancial firms	-0.8	17.6	-11.4	-14.9	-16.6	-3.1	78.2
15. Sums of lines 13 & 14	4.9	5.1	0.4	-4.8	-1.7	7.8	649.1
16. Bankers acceptances: U.S. trade related <sup>4</sup>	-3.9	23.8	22.5	46.2	27.4	-6.7	35.7
17. Line 15 plus bankers acceptances: U.S. trade related	4.4	6.1	1.5	-2.3	-0.2	7.1	684.8
18. Finance company loans to business <sup>3</sup>	11.7	17.9	n.a.	16.7	15.2	n.a.	191.3 (Aug)
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	5.8	8.6	n.a.	1.8	3.2	n.a.	872.1 (Aug)

1. Average of Wednesdays.

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

3. Based on average of data for current and preceding ends of month.

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

n.a.--not available.

p--preliminary.

SELECTED FINANCIAL MARKET QUOTATIONS<sup>1</sup>  
(Percent)

	1987				Change from:		
	Spring highs	Sept. 3 <sup>2</sup>	FOMC Sept. 22	Oct. 16 <sup>3</sup>	Oct. 27	Oct. 16 <sup>3</sup>	FOMC Sept. 22
<b>Short-term rates</b>							
Federal funds <sup>4</sup>	6.90	6.85	7.20	7.59	7.09	-.50	-.11
Treasury bills <sup>5</sup>							
3-month	6.02	6.19	6.49	6.93	5.23	-1.70	-1.26
6-month	6.28	6.30	6.75	7.58	6.01	-1.57	-.74
1-year	6.80	6.98	7.11	7.74	6.37	-1.37	-.74
Commercial paper							
1-month	6.96	6.88	7.34	7.94	7.04	-.90	-.30
3-month	7.16	6.97	7.44	8.65	7.38	-1.27	-.06
<b>Large negotiable CDs<sup>5</sup></b>							
1-month	7.07	6.90	7.36	7.92	7.03	-.89	-.33
3-month	7.33	7.01	7.43	8.90	7.51	-1.39	.08
6-month	7.65	7.35	7.80	9.12	7.58	-1.54	-.22
<b>Eurodollar deposits<sup>6</sup></b>							
1-month	7.05	7.01	7.36	7.79	7.86	.07	.50
3-month	7.36	7.11	7.44	8.69	8.81	.12	1.37
Bank prime rate	8.25	8.25	8.75	9.25	9.00	-.25	.25
<b>Intermediate- and long-term rates</b>							
<b>U.S. Treasury (constant maturity)</b>							
3-year	8.35	8.48	8.64	9.52	8.06	-1.46	-.58
10-year	8.92	9.29	9.37	10.23	8.92	-1.31	-.45
30-year	9.07	9.47	9.53	10.24	9.04	-1.20	-.49
<b>Municipal revenue<sup>7</sup></b>							
(Bond Buyer)	8.68	8.47	8.65	9.59	9.01	-.58	.36
<b>Corporate A utility</b>							
(recently offered)	10.27	10.60e	10.96e	11.50	10.70e	-.80	-.26
<b>Home mortgage rates<sup>8</sup></b>							
S&L fixed-rate	10.81	10.63	10.99	11.58	11.36	-.22	.37
S&L ARM, 1-yr.	8.01	7.84	7.99	8.45	8.37	-.08	.38
<hr/>							
	<u>1986</u>	<u>1987</u>		<u>Change from:</u>			
	Highs	Record highs	FOMC Sept. 22	Oct. 27	Record highs	FOMC Sept. 22	
<b>Stock prices</b>							
Dow-Jones Industrial	1955.57	2722.42	2568.05	1846.49	-32.17	-28.10	
NYSE Composite	145.75	187.99	178.48	130.51	-30.58	-26.88	
AMEX Composite	285.19	365.01	351.33	238.52	-34.65	-32.11	
NASDAQ (OTC)	411.16	455.26	437.90	296.34	-34.91	-32.33	

1. One-day quotes except as noted.  
 2. Day prior to increase in discount rate on Sept. 4, 1987.  
 3. Last business day prior to stock market decline on Monday, Oct. 19, 1987.  
 4. Average for two-week reserve maintenance periods closest to date shown, except Sept. 3 which is one-week average ending Sept. 2, and last observation, which is the average to date

for the week ending Oct. 28, 1987.  
 5. Secondary market.  
 6. Averages for statement week closest to date shown.  
 7. One-day quotes for closest Thursday.  
 8. Quotes for week ending Friday closest to date shown.  
 e--estimate.

INTERNATIONAL DEVELOPMENTS

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Import and Export Prices

Price increases for U.S. exports and imports slowed somewhat during the third quarter, according to data released on October 29 by the Bureau of Labor Statistics. Import prices rose at an annual rate of 7 percent in the third quarter, while export prices increased 1.2 percent.

BLS IMPORT AND EXPORT PRICE MEASURES<sup>1</sup>  
(percentage change from previous period, annual rates)

	1986		1987			1987Q3
	Q3	Q4	Q1	Q2	Q3	1986Q3
Exports	-6.6	4.9	4.1	11.7	1.2	5.4
Imports	3.2	10.4	28.6	17.0	7.0	15.5
Oil	-37.5	94.3	200.6	49.7	16.1	78.5
Non-oil	12.1	2.4	10.4	10.8	5.3	7.1
Food	17.9	-13.3	-17.9	7.4	3.2	-5.8
Chemicals	0.4	-0.8	12.1	12.6	3.2	6.5
Crude Materials	12.1	1.6	20.2	10.0	11.7	10.7
Intermediate						
mfg. products	10.0	1.6	8.2	15.6	15.6	10.2
Machinery and						
transport eq.	10.0	7.4	13.0	7.4	0.8	7.0
Passenger Cars	7.0	14.3	8.2	4.9	-1.2	14.3
Miscellaneous						
mfg. articles	19.3	0.4	18.3	13.9	5.7	9.4

1. Not seasonally adjusted, surveyed last month of each quarter.

Prices of non-oil imports rose 5.3 percent at an annual rate in the third quarter. This rate was down from the 10.8 percent increase recorded in the second quarter. Prices of crude materials accelerated, partly the consequence of large increases in the prices of wood and rubber imports.

Prices for machinery and transport equipment rose only 0.8 percent in the third quarter, the smallest quarterly increase since March 1985. From March 1985 to June 1987 the quarterly increases had averaged 10 percent. The decline in the price of passenger cars more noticeably

reflects the effects of a slight appreciation of the dollar during the calculation period.

Prices of imported fuel rose 16.1 percent in the third quarter after sharper increases in the three previous quarters. Prices of crude oil imports rose 21.1 percent over the quarter, while prices of products declined 0.4 percent. The disparity between the movements in the prices of crude oil and products is partly explained by the longer delivery lag, due to generally greater shipping distances for crude oil.

The rise in export prices was smaller than in the previous three quarters. Prices of food exports were down 20.2 percent, and prices of chemicals, after rising at an annual rate of over 21 percent in the previous six months, rose just 4.1 percent over the quarter. Coal prices rose 11.7 percent in the third quarter, the largest quarterly increase in more than five years.

The BLS prices are part of the data used to calculate the GNP export and import deflators. The BLS prices for the third quarter are consistent with estimates used by the Bureau of Economic Analysis for the recent GNP press release.