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SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the staff
Board of Governors
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SUPPLEMENTAL NOTES

THE DOMESTIC NONFINANCIAL ECONOMY

Retail Sales

Total retail sales in November edged up 0.2 percent from an October level that is substantially lower than originally reported. For the retail control group of stores¹, data now show a 0.9 percent decline in nominal sales for September followed by little change in the subsequent two months. In particular, spending on furniture and appliances is estimated to have fallen sharply in September and October--in marked contrast to the gains reported earlier for those months--and spending in this category moved lower again in November. Outlays for apparel and general merchandise in September and October also were revised down. In November, apparel sales are estimated to have recovered a bit, but spending on general merchandise is shown to be off again.

Wholesale Trade Inventories

Wholesale trade inventories rose in October at an annual rate of \$24-1/2 billion on a current-cost basis, after little net change over the third quarter. About two-thirds of the accumulation was in stocks held by wholesalers of durables, particularly electrical goods, hardware, and machinery. With shipments up 0.4 percent for the month, the inventory-sales ratio for all merchant wholesalers edged up to 1.19, but remained below the average for the year.

1. This category excludes sales at automotive dealers, gasoline stations, and stores selling mainly nonconsumer items.

Producer Prices

Producer prices of finished goods were unchanged, on balance, in November after declining a month earlier. However, at earlier stages of processing, prices of nonfood nonenergy materials continued to advance rapidly.

The PPI for finished consumer goods, other than food and energy, was flat for a second month in November at a level 2-1/4 percent above a year earlier. Manufacturers' prices of domestically produced new cars dropped back at mid-month, prior to the new round of incentive programs, and prices also declined for electronic equipment and most categories of apparel. In contrast, large increases were posted for pharmaceuticals, as has been the case throughout much of the past year. For finished capital goods, prices edged up 0.1 percent in November, as declines in car prices and civilian aircraft were offset by higher prices for heavy trucks and other major categories of machinery.

Finished food prices rose 0.3 percent last month, as bad weather in California and Florida led to an exceptionally large jump in prices of fresh vegetables. Apart from this highly volatile category, food prices dropped 0.9 percent with meat prices continuing to move lower. Falling livestock prices also contributed importantly to the 3 percent drop in the index for crude food.

The PPI for finished energy fell in November for a third month. Although heating oil prices have risen substantially in each of the past two months, this has been offset by large declines in natural gas

prices. Gasoline prices were up slightly in November after falling 7 percent between August and October.

Prices of intermediate materials other than food and energy rose 0.5 percent last month, bringing the year-over-year increase to 4-3/4 percent. Increases continue to be widespread across industries, with especially large over-the-month increases in nonferrous metals, chemicals, plastics, and plywood. At the crude level, sharply higher prices were posted for steel and copper scrap as well as for timber.

RETAIL SALES
(Seasonally adjusted percentage change)

	1987			1987		
	Q1	Q2	Q3	Sept.	Oct.	Nov.
Total sales	-1.1	2.4	1.8	-1.7	-.9	.2
Previous estimate ¹			2.0	-1.1	-.1	--
(REAL) ²	-2.6	1.0	.9	-2.0	-1.3	--
Previous estimate ¹			1.1	-1.4	-.5	--
Total less auto dealers, nonconsumer stores, and gasoline stations	1.7	.7	.5	-.9	-.1	.2
Previous estimate ¹			.6	-.3	.7	--
GAF ³	2.1	.8	1.2	-1.2	.0	-.2
Durable	-6.0	4.2	3.9	-2.8	-2.6	.4
Automotive dealers & parts	-10.9	8.1	5.9	-4.4	-3.5	-.5
Motor vehicle dealers	-11.8	8.8	6.1	-4.6	-3.9	-.4
Furniture and appliances	.0	-1.1	1.3	-1.7	-1.1	-.8
Other durable goods	2.1	.5	1.6	.0	-3.9	4.4
Nondurable	2.1	1.3	.4	-.9	.2	.0
Apparel	2.1	.6	1.8	.0	-.2	.5
Food	.2	.7	-.1	-.8	.3	.0
General merchandise ⁴	3.2	1.8	.9	-1.5	.7	-.3
Gasoline stations	4.4	4.2	2.9	-1.4	-.8	-.1
<u>Memo</u> : Motor vehicle sales ⁵	13.8	15.1	16.4	16.1	13.7	14.9
Autos	9.7	10.3	11.4	11.6	9.1	10.1
Light trucks	4.2	4.8	5.0	4.5	4.6	4.8

1. Based on incomplete sample counts approximately one month ago.

2. BCD series 59. Data are available approximately 3 weeks following the retail sales release.

3. General merchandise, apparel, furniture and appliance stores.

4. General merchandise excludes mail order nonstores; mail order sales are also excluded in the GAF grouping.

5. Millions of units at an annual rate; FRB seasonals.

--Data are unavailable because of a future release date.

WHOLESALE TRADE INVENTORIES: CHANGE IN BOOK VALUE
(Billions of dollars; seasonally adjusted; annual rate)

	1986	1987			1987			
	Q4	Q1	Q2	Q3	July	Aug.	Sept. ^r	Oct. ^p
Total	-4.9	8.8	14.1	.6	-5.3	-17.1	24.3	24.6
(Previous)							24.9	
Durable	-6.0	7.1	8.1	-4.1	-4.9	-13.4	6.0	16.5
Nondurable	1.1	1.6	6.1	4.7	-.5	-3.7	18.3	8.1
Excluding farm	4.0	1.2	2.5	5.8	2.4	-.4	15.4	5.4
Farm	-2.9	.4	3.6	-1.1	-2.9	-3.3	2.8	2.7

Note: Totals may not add because of rounding.

WHOLESALE TRADE INVENTORY-TO-SALES RATIO

	1987	1987			1987			
	Q4	Q1	Q2	Q3	July	Aug.	Sept. ^r	Oct. ^p
Total	1.25	1.24	1.23	1.20	1.21	1.18	1.18	1.19
Durable	1.67	1.67	1.67	1.60	1.63	1.60	1.58	1.59
Nondurable	.85	.83	.83	.82	.82	.79	.81	.82

r--Revised.

p--Preliminary.

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

	Relative Importance		1987			1987	
	Dec. 1986	1986	Q1	Q2	Q3	Oct.	Nov.
			--Annual rate--			--Monthly rate--	
Finished goods	100.0	-2.3	4.3	3.9	2.7	-.2	.0
Consumer foods	26.3	2.9	-6.7	12.8	-1.7	-.1	.3
Consumer energy	8.6	-38.0	59.8	5.5	2.0	-1.0	-.8
Other consumer goods	40.6	3.0	4.2	-.2	4.9	.0	.0
Capital equipment	24.5	2.1	.4	1.2	4.4	-.4	.1
Intermediate materials ²	95.0	-4.5	7.8	5.7	4.6	.5	.4
Exc. energy	82.9	.1	3.3	4.6	5.0	.9	.5
Crude food materials	42.5	-1.4	-10.3	34.8	-6.2	1.3	-3.0
Crude energy	40.9	-27.5	50.0	11.4	6.1	-1.7	-1.1
Other crude materials	16.6	1.7	15.9	31.9	37.1	4.1	.9

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

2. Excludes materials for food manufacturing and animal feeds.

THE FINANCIAL ECONOMY

December Senior Loan Officer Opinion SurveySummary

In order to obtain additional information about the effects on bank credit of the stock market crash, a Senior Loan Officer Opinion Survey on Bank Lending Practices was conducted in early December, focusing on changes since October 19 in the supply and demand for major categories of bank credit. According to the responses, the stock market crash has had some damping impact on the demand for bank credit to finance corporate restructurings and for residential mortgages. A considerable number of respondents indicated they had become less willing to finance corporate restructurings and some banks are also now less willing to make nonresidential real estate loans. Many non-money center banks reported a reduced willingness to lend to brokers and dealers. Loan officers saw little effect so far on the quality of banks' loan portfolios, although some deterioration is foreseen.

Details

About 80 percent of respondents reported that, as of December 1, demand for C&I loans at their banks had not changed much since the plunge in equity prices six weeks earlier. However, of the banks that did find demands to have changed, those reporting weakening outnumbered those reporting strengthening by more than two to one. The most common reason cited for reduced demand was a cutback in financing needs for LBOs and other corporate restructurings.

Over 40 percent of respondents indicated that they had become less willing to extend LBO credit in the three months ending with the survey

date; in addition, 30 percent said they were now less willing to extend credit to finance other forms of corporate restructuring. Respondents' willingness to make C&I loans for purposes other than corporate restructuring was unchanged on balance in the three months ending with the survey date. Those banks that did report reduced willingness to provide financing for corporate restructurings indicated that they have implemented this policy mainly through tightened standards of creditworthiness; several banks also mentioned reduced limits on the amounts they will lend to borrowers of a particular class of creditworthiness; very few banks indicated that reduced willingness to lend had caused them to widen spreads of loan rates over funding costs.

About a third of the respondents that originate and sell C&I loans on an ongoing basis reported that their customers had become less willing to purchase loans since the stock market crash, particularly loans to finance LBOs.¹ Since LBO loans have been an important part of the market for sales of loans and loan participations, this lowered customer willingness to buy likely contributed to the reduced willingness of large banks to make such loans.² Respondents that regularly purchase loans reported that their own willingness to buy had not changed on balance since October 19.³

1. Some respondents also indicated a reduced customer willingness to purchase broker loans.

2. The market for sales of loans and loan participations, and the importance of LBO loans in this market, are described in the summaries of the Senior Loan Officer Opinion Surveys conducted in February 1987 and June 1987.

3. Of the three respondent banks indicating that their own willingness to purchase loans had decreased, two mentioned LBO loans and one mentioned broker loans as the types of loans involved.

According to respondents, the surge in security loans in the days following October 19 stemmed from a variety of causes. At money center banks, the most common reasons were lack of alternative dealer financing sources and increased dealer funding needs owing to customers' inability to meet margin calls; high dealer inventories also were cited, and some brokers apparently overborrowed in order to assure liquidity. Almost two-fifths of respondents indicated that they had become less willing to make security loans in the three months ending with the survey date; however, this retrenchment mostly occurred at medium-sized banks, and the money center banks accounting for the bulk of this lending indicated no reduction in their willingness to lend.

A sizable minority of respondents--over one-third--experienced weakening in demand for residential mortgages in the last three months. For their part, banks' willingness to make such loans was unchanged to stronger over this period. About a fifth of respondents--mainly very large banks--reported a reduced willingness to make nonresidential mortgages.⁴

Only a few banks responded to the invitation to describe any loan categories not explicitly covered in the survey that were affected by the stock market crash; one bank mentioned reduced demand for credit to finance risk arbitrage activities; some others indicated a reduced

4. Respondents are regularly asked to describe changes in their willingness to extend consumer credit. According to the results from the November 10, 1987 Lending Practices Survey, the number of banks indicating that they had become "more willing" to extend consumer credit in the three months ending with the survey date was somewhat below the number of banks reporting "more willingness" in earlier surveys in 1987. This may suggest that banks have become less enthusiastic about making consumer loans since the stock market crash.

willingness to make stock-secured loans to individuals and loans to real estate developers.

About a quarter of the respondents expected that the stock market decline would have some negative impact on their loan portfolios. In virtually all cases, the degree of deterioration was expected to be minor. The types of loans involved were diverse and included C&I loans (including LBO loans), broker loans, auto dealer loans, and consumer loans. A number of banks expected an impact on the quality of their loan portfolios only if the stock market crash were followed by a recession. Only a couple of respondents expected that fourth quarter loan-loss provisions would be affected by the crash.

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES
 AT SELECTED LARGE BANKS IN THE UNITED STATES
 (Status of policy as of December 1, 1987)
 (Number of banks and percent of banks answering question)
 (By volume of total domestic assets, in \$ billions, as of June 30, 1987)

1. How would you describe the demand for C&I loans at your bank, adjusting for normal seasonal variation, in the six weeks since the stock market crash?

	Much Stronger		Somewhat Stronger		About Unchanged		Somewhat Weaker		Much Weaker		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	0	(0.0)	3	(5.1)	48	(81.4)	8	(13.6)	0	(0.0)	59
\$7.5 and Over	0	(0.0)	1	(3.1)	26	(81.3)	5	(15.6)	0	(0.0)	32
Under \$7.5	0	(0.0)	2	(7.4)	22	(81.5)	3	(11.1)	0	(0.0)	27

2. (i) If C&I loan demand has strengthened since October 19, what are the principal reasons? (More than one may apply.)

- a) A reduced volume of bonds issued to pay down short-term debt
 b) Postponement of asset sales slated to pay down short-term debt
 c) Increased financing needs associated with corporate stock buy backs
 d) Increased financing needs for LBOs
 e) Increased financing needs for other corporate restructurings (such as mergers and acquisitions)
 f) Increased inventory financing needs
 g) Other

	Reduced vol. of bonds		Postponed asset sales		Stock buy-backs		LBOs		Other corp. restructuring		Inventory financing		Other		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	0	(0.0)	0	(0.0)	1	(33.3)	0	(0.0)	0	(0.0)	2	(66.7)	1	(33.3)	3
\$7.5 and Over	0	(0.0)	0	(0.0)	1	(100.0)	0	(0.0)	0	(0.0)	1	(100.0)	0	(0.0)	1
Under \$7.5	0	(0.0)	0	(0.0)	0	(0.0)	0	(0.0)	0	(0.0)	1	(50.0)	1	(50.0)	2

- (ii) If loan demand was boosted by financing needs for corporate restructurings (choices d and e above), to what extent has this reflected a reduction in bridge loan financing available from investment banks?

(No respondents)

- (iii) If C&I loan demand has weakened since October 19, what are the principal reasons? (More than one may apply.)

- a) A cutback in financing needs for LBOs
 b) A cutback in financing needs for other corporate restructurings (such as mergers and acquisitions)
 c) Reduced inventory financing needs
 d) Other

	Cutback in LBO needs		Other corp. restructurings		Inventory financing		Other		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	6	(75.0)	6	(75.0)	2	(25.0)	2	(25.0)	8
\$7.5 and Over	4	(80.0)	4	(80.0)	1	(20.0)	2	(40.0)	5
Under \$7.5	2	(66.7)	2	(66.7)	1	(33.3)	0	(0.0)	3

3. (i) How would you describe your bank's willingness to extend credit for purposes of financing LBOs now as opposed to three months ago?

	Much More Willing		Somewhat More Willing		Unchanged		Somewhat Less Willing		Much Less Willing		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	0	(0.0)	1	(1.8)	30	(52.6)	26	(45.6)	0	(0.0)	57
\$7.5 and Over	0	(0.0)	0	(0.0)	19	(61.3)	12	(38.7)	0	(0.0)	31
Under \$7.5	0	(0.0)	1	(3.8)	11	(42.3)	14	(55.8)	0	(0.0)	26

Note: As of June 30, 1987, 32 respondents had domestic assets of \$7.5 billion or more; combined assets of these banks totalled \$670 billion, compared to \$810 billion for the entire panel of 60 banks and \$2.5 trillion for all federally insured commercial banks.

(ii) How would you describe your bank's willingness to extend credit for purposes of financing other corporate restructurings now as opposed to three months ago?

	Much More Willing		Somewhat More Willing		Unchanged		Somewhat Less Willing		Much Less Willing		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	0	(0.0)	0	(0.0)	40	(69.0)	18	(31.0)	0	(0.0)	58
\$7.5 and Over	0	(0.0)	0	(0.0)	22	(68.8)	10	(31.3)	0	(0.0)	32
Under \$7.5	0	(0.0)	0	(0.0)	18	(69.2)	8	(30.8)	0	(0.0)	26

(iii) How would you describe your bank's willingness to extend C&I credit for purposes other than corporate restructurings now as opposed to three months ago?

	Much More Willing		Somewhat More Willing		Unchanged		Somewhat Less Willing		Much Less Willing		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	0	(0.0)	4	(6.8)	51	(86.4)	4	(6.8)	0	(0.0)	59
\$7.5 and Over	0	(0.0)	2	(6.3)	28	(87.5)	2	(6.3)	0	(0.0)	32
Under \$7.5	0	(0.0)	2	(7.4)	23	(85.2)	2	(7.4)	0	(0.0)	27

4. If your bank has become less willing to extend C&I loans (for any of the purposes above) has this policy been reflected in (more than one may apply)

- More stringent standards of creditworthiness to qualify for a loan?
- Wider spreads over funding costs for a given degree of creditworthiness?
- More restrictive covenants in loan agreements?
- A reduction in the maximum amount your bank is willing to lend a borrower in a given risk class?
- Tighter collateral requirements?
- Other (please specify)

	Tighter standards		Wider spreads		More restrictions		Reduced maximum		Tighter collateral		Other		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	19	(82.6)	3	(13.0)	4	(17.4)	9	(39.1)	4	(17.4)	1	(4.3)	23
\$7.5 and Over	10	(83.3)	1	(8.3)	2	(16.7)	4	(33.3)	1	(8.3)	1	(8.3)	12
Under \$7.5	9	(81.8)	2	(18.2)	2	(18.2)	5	(45.5)	3	(27.3)	0	(0.0)	11

5. (i) If your bank is involved in originating and selling C&I loans on an ongoing basis has your customers' willingness to purchase C&I loans changed (other than seasonally) since October 19?

	Much More Willing		Somewhat More Willing		Unchanged		Somewhat Less Willing		Much Less Willing		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	0	(0.0)	0	(0.0)	23	(67.6)	11	(32.4)	0	(0.0)	34
\$7.5 and Over	0	(0.0)	0	(0.0)	10	(47.6)	11	(52.4)	0	(0.0)	21
Under \$7.5	0	(0.0)	0	(0.0)	13	(100.0)	0	(0.0)	0	(0.0)	13

(ii) If customer willingness has changed, please mention the particular type(s) of loans and/or sector(s) of purchasers that are important in explaining this change.

(See text)

(iii) If your bank is involved in purchasing C&I loans on an ongoing basis, has your willingness to purchase loans changed (other than seasonally) since October 19?

	Much More Willing		Somewhat More Willing		Unchanged		Somewhat Less Willing		Much Less Willing		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	0	(0.0)	2	(7.4)	22	(81.5)	3	(11.1)	0	(0.0)	27
\$7.5 and Over	0	(0.0)	0	(0.0)	11	(100.0)	0	(0.0)	0	(0.0)	11
Under \$7.5	0	(0.0)	2	(12.5)	11	(68.8)	3	(18.8)	0	(0.0)	16

(iv) If your willingness has changed, please indicate what type(s) of C&I loans are involved and why your policies have changed.

(See text)

- (i) Security loans--defined as loans to brokers and dealers plus any other loan (other than those to depository institutions) for the purposes of purchasing or carrying securities--surged in the reporting week ending October 21. If demand for this type of credit was strong at your bank in that week, can you identify the principal cause(s) for this increased borrowing?

- a) Brokers/dealers needed financing owing to the inability of some of their customers to meet margin calls
 b) Dealers encountered difficulties in accessing alternative sources of funding, such as the RP market
 c) Inventories of securities at brokers/dealers were high
 d) Mutual funds took down temporary credit to help finance customer share redemptions
 e) Other (please specify)

	Inability to meet margin calls		No alternative sources		High inventories		Mutual fund redemptions		Other		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	12	(60.0)	13	(65.0)	11	(55.0)	5	(25.0)	8	(40.0)	20
\$7.5 and Over	9	(64.3)	11	(78.6)	9	(64.3)	4	(28.6)	7	(50.0)	14
Under \$7.5	3	(50.0)	2	(33.3)	2	(33.3)	1	(16.7)	1	(16.7)	6

- (ii) How would you describe your bank's willingness to extend credit to brokers and dealers or to others for the purpose of purchasing or carrying securities now as opposed to three months ago?

	Much More Willing		Somewhat More Willing		Unchanged		Somewhat Less Willing		Much Less Willing		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	0	(0.0)	1	(2.1)	28	(59.6)	16	(34.0)	2	(4.3)	47
\$7.5 and Over	0	(0.0)	1	(3.7)	18	(66.7)	7	(25.9)	1	(3.7)	27
Under \$7.5	0	(0.0)	0	(0.0)	10	(50.0)	9	(45.0)	1	(5.0)	20

7. How would you describe the demand for new mortgage applications for single family homes at your bank, adjusting for normal seasonal variation, since the stock market crash?

	Much Stronger		Somewhat Stronger		About Unchanged		Somewhat Weaker		Much Weaker		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	0	(0.0)	2	(3.7)	32	(59.3)	15	(27.8)	5	(9.3)	54
\$7.5 and Over	0	(0.0)	0	(0.0)	18	(60.0)	9	(30.0)	3	(10.0)	30
Under \$7.5	0	(0.0)	2	(8.3)	14	(58.3)	6	(25.0)	2	(8.3)	24

8. (i) Please indicate your bank's willingness to extend credit secured by residential real estate now as opposed to three months ago.

	Much More Willing		Somewhat More Willing		Unchanged		Somewhat Less Willing		Much Less Willing		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	0	(0.0)	5	(8.9)	51	(91.1)	0	(0.0)	0	(0.0)	56
\$7.5 and Over	0	(0.0)	4	(13.3)	26	(86.7)	0	(0.0)	0	(0.0)	30
Under \$7.5	0	(0.0)	1	(3.8)	25	(96.2)	0	(0.0)	0	(0.0)	26

- (ii) Please indicate your bank's willingness to extend credit secured by nonresidential real estate now as opposed to three months ago.

	Much More Willing		Somewhat More Willing		Unchanged		Somewhat Less Willing		Much Less Willing		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	0	(0.0)	1	(1.8)	45	(78.9)	11	(19.3)	0	(0.0)	57
\$7.5 and Over	0	(0.0)	1	(3.2)	22	(71.0)	8	(25.8)	0	(0.0)	31
Under \$7.5	0	(0.0)	0	(0.0)	23	(88.5)	3	(11.5)	0	(0.0)	26

9. Has the stock market crash importantly affected either the demand for, or your bank's willingness to supply, any type(s) of bank credit not covered in the above questions? If so, please explain.

(See text)

10. Do you expect the stock market crash and its ramifications to have any impact on the quality of your bank's loan portfolio?

	Yes		No		Total
	Banks	Pct	Banks	Pct	Banks
All Respondents	13	(22.8)	44	(77.2)	57
\$7.5 and Over	6	(18.8)	26	(81.3)	32
Under \$7.5	7	(28.0)	18	(72.0)	25

If so, please indicate what types of loans are likely to be affected and if the expected effect is minor, moderate, or substantial.

(See text)

Do you expect any impact on your bank's loan loss provisions for the fourth quarter?

	Yes		No		Total
	Banks	Pct	Banks	Pct	Banks
All Respondents	2	(3.5)	55	(96.5)	57
\$7.5 and Over	1	(3.1)	31	(96.9)	32
Under \$7.5	1	(4.0)	24	(96.0)	25

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

	1985:Q4 to		1987				Growth from Q4 1986 to Nov. 1987 ^P
	1986:Q4	Q2	Q3	Sept.	Oct.	Nov.	
	----- Percentage change at annual rates -----						
1. M1	15.3	6.4	0.0	0.3	15.0	-6.6	5.8
2. M2	9.0	2.3	3.1	5.7	7.2	-0.1	4.1
3. M3	8.9	4.3	4.9	5.7	8.0	4.7	5.6
							Levels in billion: of dollars Oct. 1987
<u>Selected components</u>							
4. M1-A	10.0	2.7	-2.2	-1.9	19.1	-6.2	501.0
5. Currency	7.5	6.6	6.7	8.1	10.5	13.5	198.4
6. Demand deposits	11.6	0.0	-8.1	-9.3	25.7	-18.8	295.7
7. Other checkable deposits	28.5	14.0	4.6	4.7	7.5	-7.9	255.5
8. M2 minus M1 ²	6.9	0.9	4.3	7.6	4.3	2.2	2137.5
9. Overnight RPs and Eurodollars, NSA	16.1	-24.3	18.0	56.1	39.1	79.9	79.9
10. General purpose and broker/dealer money market mutual fund shares, NSA	17.3	-1.1	6.1	20.9	15.5	12.6	221.6
11. Commercial banks	6.8	-1.4	1.7	0.3	2.4	7.4	915.1
12. Savings deposits, SA, plus MMDAs, NSA ³	16.0	0.8	-2.4	-3.8	-8.4	-5.4	534.2
13. Small time deposits	-4.2	-4.6	8.0	6.2	18.6	25.4	380.9
14. Thrift institutions	4.3	5.0	3.6	1.3	0.4	2.6	924.8
15. Savings deposits, SA, plus MMDAs, NSA ³ Small time deposits	12.0	9.7	-3.9	-9.7	15.2	-25.3	404.1
	-1.2	1.0	10.2	10.3	13.3	25.2	520.7
16. M3 minus M2 ⁴	8.7	12.2	11.8	5.5	11.1	23.3	766.0
18. Large time deposits	3.0	9.3	6.2	5.4	18.7	24.7	486.0
19. At commercial banks, net ⁵	2.7	18.3	4.1	-0.4	13.0	23.8	323.3
20. At thrift institutions	3.4	-8.4	10.7	17.2	29.4	27.2	162.7
21. Institution-only money market mutual fund shares, NSA	30.3	-11.4	1.9	-38.8	13.4	101.5	88.5
22. Term RPs, NSA	31.1	73.0	26.4	18.9	-30.6	31.4	109.7
23. Term Eurodollars, NSA	3.1	-0.0	15.8	57.6	-19.1	-27.3	90.3
-- Average monthly change in billions of dollars --							

MEMORANDA:

24. Managed liabilities at commercial banks (25+26)	2.1	5.9	2.9	12.4	6.2	1.3	557.4
25. Large time deposits, gross	0.6	6.3	-0.8	-0.4	7.3	7.2	385.0
26. Nondeposit funds	1.5	0.6	3.7	12.8	-1.1	-3.3	172.4
27. Net due to related foreign institutions, NSA	0.6	1.5	4.3	12.2	-0.6	-3.6	6.7
28. Other ⁶	1.0	-0.9	-0.6	-0.9	-0.6	0.3	165.7
29. U.S. government deposits at commercial banks ⁷	0.4	3.4	-1.5	-5.8	12.3	3.0	38.6

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 decreased in October and November at rates of 3.4 percent. At thrift institutions, savings deposits excluding MMDAs

decreased in October and November at rates of 9.9 percent and 22.1 percent, respectively.

4. M3 minus M2 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 estimate.

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

	1985:Q4 to 1986:Q4	1987			Levels in bil. of dollars		
		Q2	Q3	Sept.	Oct.	Nov. ^P	Nov. ^P
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	9.8	7.7	7.3	9.7	10.4	-0.8	2224.3
2. Securities	14.2	4.4	8.5	6.4	0.5	2.6	527.8
3. U.S. government securities	11.9	3.3	18.7	11.3	2.2	-3.6	331.3
4. Other securities	18.0	6.1	-7.9	-1.8	-2.5	13.6	196.5
5. Total loans	8.4	8.9	7.0	10.7	13.5	-2.0	1696.5
6. Business loans	6.6	4.6	1.9	10.6	11.4	3.4	567.3
7. Security loans	-3.7	40.7	26.5	27.3	10.7	-185.0	38.4
8. Real estate loans	14.1	19.3	13.6	10.4	17.5	13.8	570.8
9. Consumer loans	7.3	1.2	6.5	7.6	5.6	4.9	321.7
10. Other loans	5.4	0.2	0.0	13.3	22.2	-30.6	198.3
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	6.3	4.0	1.4	10.9	11.0	4.3	561.3
12. Loans at foreign branches ²	-8.6	-17.2	28.2	-41.6	21.6	7.1	17.1
13. Sum of lines 11 & 12	5.8	3.5	2.1	9.3	11.4	4.4	578.4
14. Commercial paper issued by nonfinancial firms	-0.8	17.6	-11.4	-3.1	1.5	10.7	79.0
15. Sums of lines 13 & 14	4.9	5.1	0.5	7.8	10.2	5.1	657.4
16. Bankers acceptances: U.S. trade related ^{3,4}	-3.9	23.8	23.7	-3.3	26.8	n.a.	36.6 (Oct)
17. Line 15 plus bankers acceptances: U.S. trade related	4.4	6.0	1.6	7.2	11.0	n.a.	691.2 (Oct)
18. Finance company loans to business ³	11.7	17.9	14.2	10.0	18.7	n.a.	195.9 (Oct)
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	5.8	8.6	4.3	7.8	12.7	n.a.	887.1 (Oct)

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 QUOTATIONS¹
(Percent)

	1987					Change from:	
	Jan.-Feb.		Oct. 16 ³	FOMC		Oct. 16 ³	FOMC Nov. 3
	lows	Sept. 3 ²		Nov. 3	Dec. 10		
Short-term rates							
Federal funds ⁴	5.95	6.85	7.59	6.81	6.84	-.75	.03
Treasury bills ⁵							
3-month	5.30	6.19	6.93	5.63	5.92	-1.01	.29
6-month	5.31	6.30	7.58	6.08	6.47	-1.11	.39
1-year	5.35	6.98	7.74	6.42	6.81	-.93	.39
Commercial paper							
1-month	5.81	6.88	7.94	6.93	7.83	-.11	.90
3-month	5.73	6.97	8.65	7.36	7.71	-.94	.35
Large negotiable CDs ⁵							
1-month	5.85	6.90	7.92	6.93	7.91	-.01	.98
3-month	5.80	7.01	8.90	7.46	7.77	-1.13	.31
6-month	5.78	7.35	9.12	7.51	7.80	-1.32	.29
Eurodollar deposits ⁶							
1-month	6.00	7.01	7.79	7.08	8.04	.25	.96
3-month	6.00	7.11	8.69	7.73	7.84	-.85	.11
Bank prime rate	7.50	8.25	9.25	9.00	8.75	-.50	-.25
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	6.34	8.48	9.52	8.02	8.29	-1.23	.27
10-year	7.01	9.29	10.23	8.91	9.23	-1.00	.32
30-year	7.29	9.47	10.24	9.03	9.40	-.84	.37
Municipal revenue ⁷ (Bond Buyer)	6.92	8.47	9.59	8.78	8.57	-1.02	-.21
Corporate A utility (recently offered)	8.78	10.60e	11.50	10.60e	10.51e	-.99	-.09
Home mortgage rates ⁸							
S&L fixed-rate	9.10	10.63	11.58	10.97	10.60	-.98	-.37
S&L ARM, 1-yr.	7.52	7.84	8.45	8.20	7.95	-.50	-.25

	1986	1987		Change from:		
	Year end	Record highs	FOMC Nov. 3	Dec. 10	Record highs	FOMC Nov. 3
Stock prices						
Dow-Jones Industrial	1895.95	2722.42	1963.53	1855.44	-31.85	-5.50
NYSE Composite	138.58	187.99	140.11	131.07	-30.28	-6.45
AMEX Composite	263.27	365.01	255.49	241.04	-33.96	-5.66
NASDAQ (OTC)	348.83	455.26	320.66	300.81	-33.93	-6.19

1. One-day quotes except as noted.
2. Day prior to increase in discount rate on September 4, 1987.
3. Last business day prior to stock market decline on Monday, October 19, 1987.
4. Average for two-week reserve maintenance period closest to date shown, except Jan.-Feb. low, which is one-week average ending Feb. 25, and Sept. 3 which is one-week average ending Sept. 2. Last observation is average to date for maintenance period ending Dec. 16, 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

U.S. Merchandise Trade in October.

The U.S. merchandise trade deficit in October was \$17.6 billion (n.s.a., CIF valuation; \$212 billion at an annual rate), according to figures released today by the Commerce Department. The deficit was larger than in any previous month, and reflects, in part, large seasonal swings in both exports and imports.

Exports in October were 3.7 percent higher than in September (n.s.a.); this is about the same rate of increase as recorded in September. About half of the rise was in agricultural exports, especially soybeans. There is a strong seasonal surge in agricultural exports each October; on a seasonally adjusted basis, agricultural exports are estimated to be about the same in October as in September. The rise in nonagricultural exports in October (n.s.a.) appears to have been less than seasonal. Growth occurred in shipments of a variety of products to Canada while there was a drop in exports of commercial aircraft.

Imports were 12.3 percent higher in October than in September. A small part of the increase was in oil imports; the volume of oil rose to 7.5 mbd from 7.1 mbd in September and the average price of oil increased about 10 cents per barrel. About 90 percent of the October increase was in non-oil products, particularly passenger cars from Japan, Canada, and Korea, and machinery imports. There were also increases in a wide range of other imported goods. A good part of the increase in non-oil imports can be attributed to a normal seasonal rise that occurs each October.

RESTRICTED (FR)

December 10, 1987

U.S. Merchandise Trade
(Billions of dollars, annual rates)

Years	Census Basis (Revised) Not seasonally adjusted			BOP Basis Seasonally adjusted			
	Exports 1/	Imports	Balance	Exports 2/	Imports	Balance	
	(1)	(2)	(3)	(4)	(5)	(6)	
1984	224	346	-122	220	332	-113	
1985	219	352	-134	216	338	-122	
1986	227	383	-156	224	369	-144	
Quarters							
1986 -	1	212*	364	-152*	216	355	-140
	2	221*	384	-163*	228	362	-135
	3	207*	386	-179*	226	375	-148
	4	226*	398	-172*	228	382	-154
1987 -	1	232	388	-157	228	383	-155
	2	250	420	-171	240	393	-158
	3	249	434	-185	n.a.	n.a.	n.a.
Months							
1986 -	Jan.	201	344	-143	213	380	-167
	Feb.	232	405	-172	227	380	-153
	Mar.	261	416	-155	244	389	-145
	Apr.	246	402	-156	238	386	-148
	May	249	418	-168	234	394	-160
	June	254	442	-189	249	416	-167
	July	252	450	-198	267	431	-164
	Aug.	243	431	-188	256	414	-158
	Sept	252	421	-169	261	416	-155
	Oct.	261	473	-212	n.a.	n.a.	n.a.

*/Does not include data for undocumented exports to Canada (\$10 billion in 1986).

1./ Beginning with the August press release, adjustments have been added to Census basis data for undocumented exports to Canada. These adjustments are available for the months of 1987 and only for annual data for previous years.

2./ BOP basis data (and GNP data) have always included estimates for undocumented exports to Canada. The new Census basis adjustment should improve the BOP-basis estimate.

3./ Monthly data on a BOP basis are for official use only.

SOURCE: U.S. Department of Commerce.