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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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Monetary Aggregates

Continuing at the pace of August, M2 and M3 are estimated to have grown at around 7 and 2 percent annual rates, respectively, in September. Preliminary data indicate that M1 expanded at about a 5 percent rate, up from the 3/4 percent pace of August.

The impact of the thrift crisis on the composition of growth in the broader aggregates persisted into September. As in August, retail deposit inflows were skewed toward commercial banks, with little growth in retail balances at thrifts. Money market mutual funds continued to expand rapidly. As thrift institutions have worked toward complying with the industry's new capital standards, they have been running off assets and the accompanying managed liabilities. In September, the decline in large time deposits at thrifts reached about a 26 percent annual rate, and their term RPs also dropped sharply. Commercial bank issuance of managed liabilities remained subdued, in light of the strength of their M2 deposits.

MONETARY AGGREGATES
(based on seasonally adjusted data unless otherwise noted)

	1988 ¹	1989 Q2	1989 Q3pe	1989 Jul	1989 Aug	1989 Sep pe	Growth Q4 88- Sep 89pe
-----Percent change at annual rates-----							
1. M1	4.3	-5.6	1½	10.7	0.8	5	-1
2. M2	5.2	1.2	7½	11.5	7.2	7	4
3. M3	6.3	2.9	4½	9.0	1.9	2	3½
-----Percent change at annual rates-----							
							Levels bil. \$ Aug 89

Selected components

4. M1-A	2.5	-3.3	1½	10.6	-1.9	1	503.2
5. Currency	8.1	4.1	3½	3.3	2.2	5	218.4
6. Demand deposits	-1.2	-8.7	-½	17.0	-5.6	-2	277.6
7. Other checkable deposits	7.7	-9.8	2	11.1	5.7	11	274.5
8. M2 minus M1 ²	5.5	3.5	9½	11.6	9.4	8	2358.6
9. Overnight RPs and Eurodollars, NSA	-5.7	-23.7	0	22.1	-40.3	-45	74.8
10. General purpose and broker/dealer money market mutual fund shares, NSA	7.4	20.8	36½	43.0	47.6	39	285.5
11. Commercial banks	6.9	5.4	7	7.5	11.1	7	1027.2
12. Savings deposits, SA, plus MMDAs, NSA ³	1.4	-14.9	3½	7.5	14.0	10	518.8
13. Small time deposits	14.7	29.0	10½	7.4	7.8	4	508.3
14. Thrift institutions	4.6	-1.1	3½	4.8	3.0	0	972.3
15. Savings deposits, SA, plus MMDAs, NSA ³ Small time deposits	-4.3	-24.6	-6½	-3.1	1.4	4	348.9
	11.7	14.0	9½	9.1	4.1	-2	623.4
■ M3 minus M2 ⁴	10.2	9.1	-4½	0.3	-17.1	-19	873.1
18. Large time deposits	11.0	14.0	-2	0.0	-9.0	-12	568.7
19. At commercial banks, net ⁵	12.2	17.8	1½	3.9	-3.3	-6	396.6
20. At thrift institutions	8.8	5.8	-9½	-8.2	-22.6	-26	172.1
21. Institution-only money market mutual fund shares, NSA	-0.8	12.2	34½	39.1	29.3	-16	100.6
22. Term RPs, NSA	14.5	2.5	-26	-39.0	-52.8	-23	119.6
23. Term Eurodollars, NSA	11.2	-6.7	-13½	6.0	-31.3	-38	97.2

-----Average monthly change in billions of dollars-----

MEMORANDA:⁶

24. Managed liabilities at commercial banks (25+26)	5.0	9.0	2½	4.1	0.2	2	690.1
25. Large time deposits, gross	3.3	4.0	-½	2.8	-1.1	-2	460.5
26. Nondeposit funds	1.7	5.0	2½	1.3	1.3	4	229.6
27. Net due to related foreign institutions, SA	-0.4	-0.1	-½	3.2	-1.8	-3	9.3
28. Other ⁷	2.1	5.1	2½	-2.0	3.2	7	220.3
29. U.S. government deposits at commercial banks ⁸	0.0	2.4	-1½	-4.7	0.2	1	22.9

1. Amounts shown are from fourth quarter to fourth quarter.
2. Nontransactions M2 is seasonally adjusted as a whole.
3. Commercial bank savings deposits excluding MMDAs grew during August and September at rates of 7.9 percent and 7 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during August and September at rates of -2.2 percent and 4 percent, respectively.
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. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis. Consists of borrowing 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 borrowing 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.
8. pe - preliminary estimate

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT¹
 (Percentage changes at annual rates, based on seasonally adjusted data)

	1987:Q4	1989					Levels
	to	Q1	Q2	June	July	Aug	bil.\$
	1988:Q4						Aug
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	7.6	7.9	5.2	5.0	9.9	7.8	2534.4
2. Securities	4.8	2.2	.7	-.9	-1.1	1.1	559.5
3. U.S. government securities	7.3	8.2	5.4	1.0	1.9	7.1	376.6
4. Other securities	.5	-8.9	-8.2	-3.9	-7.8	-11.7	182.8
5. Total loans	8.5	9.6	6.5	6.7	13.1	9.7	1974.9
6. Business loans	6.8	10.6	4.6	-2.7	14.6	9.9	637.3
Security loans	-5.7	53.0	-22.9	97.9	-23.4	-20.8	39.6
8. Real estate loans	14.0	11.8	11.7	11.2	12.6	15.0	729.0
9. Consumer loans	8.5	5.6	6.1	2.0	1.6	7.5	369.3
10. Other loans	-.4	-2.7	1.2	12.5	45.9	-6.0	199.7
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	6.9	11.0	4.6	-2.7	14.5	9.2	634.1
12. Loans at foreign branches ²	30.3	51.9	32.8	32.7	4.5	-72.5	24.9
13. Sum of lines 11 & 12	7.6	12.4	5.6	-1.3	14.1	5.9	659.0
14. Commercial paper issued by nonfinancial firms	15.5	37.5	38.2	27.7	0.0	-9.7	123.0
15. Sum of lines 13 & 14	8.6	16.0	10.5	3.3	11.8	3.5	782.1
16. Bankers acceptances: U.S. trade related ^{3,4}	-6.8	17.9	8.0	17.0	0.0	-3.4	35.6
17. Line 15 plus bankers acceptances: U.S. trade related	7.8	16.0	10.5	4.0	11.1	3.1	815.6 ⁵
18. Finance company loans to business ³	12.3	8.0	14.7	10.8	12.6	n.a.	250.2 ⁵
19. Total short- and intermediate-term business credit (sum of lines 17 & 18)	8.9	14.1	11.5	5.6	11.6	n.a.	1065.8 ⁵

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.

5. July data.

p--preliminary.

n.a.--not available

SELECTED FINANCIAL MARKET QUOTATIONS 1/
(percent)

	1987		1989			Change from:			
	2/ Oct 16		March Highs	Jul-Aug lows	FOMC Aug 22	Sept 28	Mar 89 Highs	Jul-Aug lows	FOMC Aug 22
Short-term rates									
Federal funds 3/	7.59		9.85	8.97	8.99	9.04	-0.81	0.07	0.05
Treasury bills 4/									
3-month	6.93		9.09	7.63	8.05	7.87	-1.22	0.24	-0.18
6-month	7.58		9.11	7.34	8.00	7.85	-1.26	0.51	-0.15
1-year	7.74		9.05	7.10	7.86	7.80	-1.25	0.70	-0.06
Commercial paper									
1-month	7.94		10.05	8.52	8.85	8.92	-1.13	0.40	0.07
3-month	8.65		10.15	8.24	8.66	8.78	-1.37	0.54	0.12
Large negotiable CD's 4/									
1-month	7.92		10.07	8.45	8.86	8.90	-1.17	0.45	0.04
3-month	8.90		10.32	8.26	8.80	8.86	-1.46	0.60	0.06
6-month	9.12		10.08	8.12	8.77	8.84	-1.24	0.72	0.07
Eurodollar deposits 5/									
1-month	8.00		10.19	8.44	8.88	8.94	-1.25	0.50	0.06
3-month	9.06		10.50	8.31	8.88	9.00	-1.50	0.69	0.12
Bank prime rate	9.25		11.50	10.50	10.50	10.50	-1.00	0.00	0.00
Intermediate- and long-term rates									
U.S. Treasury (constant maturity)									
3-year	9.52		9.88	7.51	8.39	8.42	-1.46	0.91	0.03
10-year	10.23		9.53	7.74	8.29	8.30	-1.23	0.56	0.01
30-year	10.24		9.31	7.83	8.25	8.25	-1.06	0.42	0.00
Municipal revenue 6/ (Bond Buyer index)	9.59		7.95	7.17	7.39	7.59	-0.36	0.42	0.20
Corporate—A utility Recently offered	11.50		10.47	9.45	9.64	9.59	-0.88	0.14	-0.05
Home mortgage rates 7/									
Fixed-rate	11.58		11.22	9.68	10.09	10.03	-1.19	0.35	-0.06
ARM, 1-year	8.45		9.31	8.60	8.69	8.70	-0.61	0.10	0.01
Percent change from:									
	1987		1989			Percent change from:			
	Highs	Lows		FOMC Aug 22	Sept 28	1987 Highs	1987 Lows	FOMC Aug 22	
Stock prices									
Dow-Jones Industrial	2722.42	1738.74	2650.99	2694.91		-1.01	54.99	1.66	
NYSE Composite	187.99	125.91	190.11	193.55		2.96	53.72	1.81	
AMEX Composite	365.01	231.90	375.86	385.75		5.68	66.34	2.63	
NASDAQ (OTC)	455.26	291.88	458.36	471.14		3.49	61.42	2.79	

1/ One-day quotes except as noted.

2/ Last business day prior to stock market decline on Monday Oct. 19, 1987.

3/ Average for two-week reserve maintenance period closest to date shown except Feb. low which is the average to the statement week ended Feb. 10, 1988. Last observation is average to date for maintenance period ending October 4, 1989.

4/ Secondary market.

5/ Bid rates for Eurodollar deposits at 11 a.m. London time.

6/ Based on one-day Thursday quotes and futures-market index changes.

7/ Quotes for week ending Friday closest to date shown.