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November 9, 1989

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

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### DOMESTIC NONFINANCIAL ECONOMY

#### Producer Prices

The producer price index for finished goods rose 0.4 percent in October, boosted by a 1.4 percent jump in food prices. The food price increase reflected large price hikes for pork, dairy products, and fresh and dried vegetables. Finished energy prices rose 0.2 percent, as a 2-1/4 percent increase in gasoline prices was partially offset by a 2-1/2 percent decline in natural gas prices. Excluding food and energy, finished goods prices rose just 0.1 percent, held down by a 1.4 percent decline in prices of passenger cars. Excluding the effects of passenger cars, the PPI excluding food and energy rose 0.2 percent. The decline in auto prices comes on the heels of a 3.8 percent increase in September; this recent pattern reflects problems with seasonal adjustment at the end of the model year. Over the past twelve months, car prices have risen 1.6 percent.

Intermediate materials prices excluding food and energy rose only 0.1 percent in October and have been about unchanged since March. In October, prices continued to fall for a number of materials, including paper, steel mill products, and plastic resins and materials. However, prices rose sharply for plywood and softwood lumber.

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

	Relative importance Dec. 1988	1987	1988	1989			1989		
				Q1	Q2	Q3	Aug.	Sept.	Oct.
				-Annual rate-			---Monthly rate---		
Finished goods	100.0	2.2	4.0	10.2	5.8	-.3	-.4	.9	.4
Consumer foods	25.8	-.2	5.7	13.1	-1.3	-1.3	.3	-.6	1.4
Consumer energy	8.8	11.2	-3.6	41.0	31.8	-16.8	-7.3	6.5	.2
Other finished goods	65.3	2.1	4.3	5.1	5.1	3.3	.5	.7	.1
Other consumer goods	39.6	2.7	4.8	5.4	5.7	2.6	.5	.6	.2
Capital equipment	25.8	1.3	3.6	4.6	4.5	4.8	.3	1.0	-.3
Intermediate materials <sup>2</sup>	94.8	5.4	5.3	8.7	2.9	-1.1	-.3	.4	.1
Excluding food and energy	83.4	5.2	7.2	5.5	.3	-.7	-.1	.1	.1
Crude food materials	43.8	1.8	14.2	16.9	-17.8	-2.2	1.7	-.8	-.6
Crude energy	36.9	10.7	-9.5	48.3	23.6	-6.5	-6.7	3.5	.5
Other crude materials	19.3	22.6	7.5	10.3	-9.3	-.6	1.2	.3	.3

1. Changes are from final month of preceding period to final month of period indicated.
2. Excludes materials for food manufacturing and animal feeds.

RECENT CHANGES IN PRODUCER PRICES - RELATIVE CONTRIBUTION<sup>1</sup>  
(Percentage change; based on seasonally adjusted data)<sup>2</sup>

	Relative importance Dec. 1988	1987	1988	1989			1989		
				Q1	Q2	Q3	Aug.	Sept.	Oct.
				-Annual rate-			---Monthly rate---		
Finished goods	100.0	2.2	4.0	10.2	5.8	-.3	-.4	.9	.4
Consumer foods	25.8	-.1	1.5	3.3	-.3	-.3	.1	-.2	.3
Consumer energy	8.8	.9	-.3	3.2	2.7	-1.8	-.7	.6	.0
Other finished goods	65.3	1.4	2.8	3.3	3.2	2.1	.3	.4	.1
Other consumer goods	39.6	1.0	1.9	2.1	2.2	1.0	.2	.2	.1
Capital equipment	25.8	.3	.9	1.2	1.1	1.2	.1	.3	-.1

Memorandum:

Passenger cars	6.0	-.2	.2	.2	.1	.5	.0	.2	-.1
Light trucks	.7	.0	.0	.3	.2	-.8	.0	-.1	.1

1. Data may not add due to rounding.
2. Changes are from final month of preceding period to final month of period indicated.

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

	1988 <sup>1</sup>	1989 Q2	1989 Q3	1989 Aug	1989 Sep	1989 Oct pe	Growth Q4 88- Oct 89pe
-----Percent change at annual rates-----							
1. M1	4.3	-5.6	1.7	0.8	5.7	10	0
2. M2	5.2	1.2	7.3	7.2	7.5	8	4½
3. M3	6.3	2.9	4.7	2.2	0.9	4	3½
-----Percent change at annual rates-----							
							Levels bil. \$ Sep 89
<u>Selected components</u>							
4. M1-A	2.5	-3.3	1.4	-1.9	1.7	9	503.9
5. Currency	8.1	4.1	3.7	2.2	4.9	2	219.3
6. Demand deposits	-1.2	-8.7	-0.3	-5.6	-0.9	14	277.4
7. Other checkable deposits	7.7	-9.8	2.3	5.3	13.1	13	277.5
8. M2 minus M1 <sup>2</sup>	5.5	3.5	9.2	9.4	8.1	7	2374.6
9. Overnight RPs and Eurodollars, NSA	-5.7	-23.7	0.5	-41.8	-43.3	20	72.1
10. General purpose and broker/dealer money market mutual fund shares, NSA	7.4	21.0	36.6	47.6	39.1	27	294.8
11. Commercial banks	6.9	5.4	7.1	11.1	7.6	11	1033.7
12. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	1.4	-14.9	3.7	14.0	10.2	9	523.2
13. Small time deposits	14.7	29.0	10.7	7.8	5.0	13	510.5
14. Thrift institutions	4.6	-1.1	3.8	3.1	-0.6	-5	971.9
15. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	-4.3	-24.6	-6.0	1.4	4.1	7	350.2
16. Small time deposits	11.7	14.0	9.5	4.1	-3.3	-11	621.7
17. M3 minus M2 <sup>4</sup>	10.2	9.1	-4.3	-15.4	-23.2	-9	857.4
18. Large time deposits	11.0	14.0	-1.7	-8.2	-12.4	-7	563.3
19. At commercial banks, net <sup>5</sup>	12.2	17.8	1.8	-2.1	-5.1	5	395.3
20. At thrift institutions	8.8	5.8	-9.5	-21.9	-30.0	-34	167.9
21. Institution-only money market mutual fund shares, NSA	-0.8	12.2	34.1	29.3	-17.9	-5	99.1
22. Term RPs, NSA	14.5	2.5	-27.0	-51.8	-32.1	-30	116.5
23. Term Eurodollars, NSA	11.2	-6.7	-14.7	-25.3	-57.8	-54	92.9

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

MEMORANDA:<sup>6</sup>

24. Managed liabilities at commercial banks (25+26)	5.0	9.0	3.4	0.5	5.9	12	696.2
25. Large time deposits, gross	3.3	4.0	-0.2	-1.1	-2.4	2	458.1
26. Nondeposit funds	1.7	5.0	3.7	1.6	8.3	10	238.1
27. Net due to related foreign institutions, SA	-0.4	-0.1	0.6	-1.8	0.4	1	9.7
28. Other <sup>7</sup>	2.1	5.1	3.1	3.4	8.0	10	228.5
29. U.S. government deposits at commercial banks <sup>8</sup>	0.0	2.4	-1.2	0.2	0.9	-4	23.8

- Amounts shown are from fourth quarter to fourth quarter.
  - Nontransactions M2 is seasonally adjusted as a whole.
  - Commercial bank savings deposits excluding MMDAs grew during September and October at rates of 7.9 percent and 6 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during September and October at rates of 3.8 percent and 3 percent, respectively.
  - The non-M2 component of M3 is seasonally adjusted as a whole.
  - Net of large denomination time deposits held by money market mutual funds and thrift institutions.
  - 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.
  - Consists of Treasury demand deposits and note balances at commercial banks.
- pe - preliminary estimate

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

	1987:Q4	1989					Levels
	to	Q2	Q3	Aug.	Sept.	Oct.p	bil.\$
	1988:Q4						Oct.p
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	7.6	5.2	8.0	7.7	6.2	14.5	2574.0
2. Securities	4.8	.7	1.6	1.1	4.7	26.1	573.9
3. U.S. government securities	7.3	5.4	5.4	7.1	7.0	39.3	391.2
4. Other securities	.5	-8.2	-6.2	-11.7	.7	-1.3	182.7
5. Total loans	8.5	6.5	9.9	9.6	6.6	11.1	2000.0
6. Business loans	6.8	4.6	8.3	9.9	.4	7.7	640.9
Security loans	-5.7	-21.1	-6.8	-17.8	21.1	44.3	42.1
8. Real estate loans	14.0	11.7	13.7	14.9	12.9	11.4	740.8
9. Consumer loans	8.5	6.1	6.1	7.5	9.1	6.8	374.2
10. Other loans	-.4	1.2	11.6	-1.2	-4.2	21.8	202.0
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	6.9	4.6	7.9	9.2	-.2	6.3	636.6
12. Loans at foreign branches <sup>2</sup>	30.3	32.8	-83.3	-76.7	-192.8	-51.7	20.0
Sum of lines 11 & 12	7.6	5.6	4.1	5.7	-7.5	4.4	656.6
Commercial paper issued by nonfinancial firms	15.5	38.2	10.3	-9.7	41.0	-4.7	126.7
15. Sum of lines 13 & 14	8.6	10.5	5.1	3.4	.0	2.9	783.3
16. Bankers acceptances: U.S. trade related <sup>3,4</sup>	-6.8	8.0	.0	3.4	-3.4	n.a.	35.6 <sup>5</sup>
17. Line 15 plus bankers acceptances: U.S. trade related	7.8	10.4	4.9	3.2	-.1	n.a.	817.1 <sup>5</sup>
18. Finance company loans to business <sup>3</sup>	12.3	14.7	14.1	11.0	18.1	n.a.	256.3 <sup>5</sup>
19. Total short- and intermediate-term business credit (sum of lines 17 & 18)	8.9	11.4	7.1	5.1	4.3	n.a.	1073.4 <sup>5</sup>

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. September 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 Oct 3	Nov 8	Mar 89 Highs	Jul-Aug Lows	FOMC Oct 3
<b>Short-term rates</b>									
Federal funds 3/	7.59		9.85	8.97	9.10	8.69	-1.16	-0.28	-0.41
Treasury bills 4/									
3-month	6.93		9.09	7.63	7.78	7.69	-1.40	0.06	-0.09
6-month	7.58		9.11	7.34	7.88	7.51	-1.60	0.17	-0.37
1-year	7.74		9.05	7.10	7.81	7.27	-1.78	0.17	-0.54
Commercial paper									
1-month	7.94		10.05	8.52	8.92	8.50	-1.55	-0.02	-0.42
3-month	8.65		10.15	8.24	8.84	8.39	-1.76	0.15	-0.45
Large negotiable CD's 4/									
1-month	7.92		10.07	8.45	8.89	8.46	-1.61	0.01	-0.43
3-month	8.90		10.32	8.26	8.94	8.42	-1.90	0.16	-0.52
6-month	9.12		10.08	8.12	8.85	8.25	-1.83	0.13	-0.60
Eurodollar deposits 5/									
1-month	8.00		10.19	8.44	8.94	8.50	-1.69	0.06	-0.44
3-month	9.06		10.50	8.31	9.00	8.50	-2.00	0.19	-0.50
Bank prime rate	9.25		11.50	10.50	10.50	10.50	-1.00	0.00	0.00
<b>Intermediate- and long-term rates</b>									
U.S. Treasury (constant maturity)									
3-year	9.52		9.88	7.51	8.38	7.83	-2.05	0.32	-0.55
10-year	10.23		9.53	7.74	8.23	7.87	-1.66	0.13	-0.36
30-year	10.24		9.31	7.83	8.19	7.88	-1.43	0.05	-0.31
Municipal revenue 6/ (Bond Buyer index)	9.59		7.95	7.17	7.59	7.45	-0.50	0.28	-0.14
Corporate—A utility Recently offered	11.50		10.47	9.45	9.48	9.31	-1.16	-0.14	-0.17
Home mortgage rates 7/									
Fixed-rate	11.58		11.22	9.68	10.16	9.82	-1.40	0.14	-0.34
ARM, 1-year	8.45		9.31	8.60	8.70	8.55	-0.76	-0.05	-0.15
<b>Stock prices</b>									
	1987		1989		Percent change from:				
	Highs	Lows	FOMC Oct 3	Nov 8	1987 Highs	1987 Lows	FOMC Oct 3		
Dow-Jones Industrial	2722.42	1738.74	2754.56	2623.36	-3.64	50.88	-4.76		
NYSE Composite	187.99	125.91	196.84	187.48	-0.27	48.90	-4.76		
AMEX Composite	365.01	231.90	393.02	370.72	1.56	59.86	-5.67		
NASDAQ (OTC)	455.26	291.88	477.28	454.05	-0.27	55.56	-4.87		

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 November 15, 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.



U.S. International Financial Transactions

Recently released data on U.S. international capital transactions for September are shown in the Summary of U.S. International Transactions Table. Private capital flows through banking and private securities transactions were broadly similar to those for August discussed in the Greenbook. Private foreign net purchases of Treasury obligations in September (line 3) were roughly half those recorded in August, a decline consistent with the pattern of Treasury offerings. Foreign official reserve assets in the United States (line 4) declined \$3-1/2 billion in September as the G-10 countries as a group made little change to their holdings in the United States, while other countries, particularly Taiwan, reduced their reserve positions in the United States.

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS  
(Billions of dollars)

	1987	1988	1988		1989			1989		
	Year	Year	Q3	Q4	Q1	Q2	Q3	July	Aug.	Sept.
<b>Private Capital</b>										
<b>Banks</b>										
1. Change in net foreign positions of banking offices in the U.S. (+ = inflow)	47.5	21.3	-0.4	9.6	-1.4	0.3	13.3	-0.9	8.3	5.8
<b>Securities</b>										
2. Private securities transactions, net <sup>1</sup>	36.4	15.5	5.8	3.4	5.8	3.7	6.2	2.3	2.0	2.0
a) foreign net purchases (+) of U.S. corporate bonds <sup>2</sup>	26.4	26.9	6.4	9.0	8.8	6.2	6.3	2.7	1.6	2.0
b) foreign net purchases (+) of U.S. corporate stocks	16.8	0.4	1.3	-2.0	0.1	3.7	5.0	1.7	0.9	2.4
c) U.S. net purchases (-) of foreign securities	-6.9	-11.8	-1.9	-3.5	-3.0	-6.2	-5.2	-2.2	-0.5	-2.5
3. Foreign net purchases (+) of U.S. Treasury obligations	-7.3	20.6	3.5	5.5	8.7	2.4	13.2	-4.2	11.7	5.6
<b>Official Capital</b>										
4. Changes in foreign official reserves assets in U.S. (+ = increase)	47.7	40.2	-2.0	10.7	8.0	-5.6	11.8	5.3	10.0	-3.6
a) By area										
G-10 countries (incl. Switz.)	38.8	15.5	-6.8	5.3	0.3	-9.5	5.7	0.8	5.5	-0.6
OPEC	-8.9	-3.4	-0.8	0.7	6.8	0.3	4.5	0.7	3.3	0.5
All other countries	17.8	28.0	5.7	4.6	0.9	3.6	1.6	3.8	1.2	-3.5
b) By type										
U.S. Treasury securities	43.2	41.7	-3.8	11.9	4.6	-9.7	12.1	3.4	10.6	-1.9
Other <sup>3</sup>	4.5	-1.6	1.8	-1.3	3.4	4.1	-0.3	2.0	-0.6	-1.7
Changes in U.S. official reserve assets (+ = decrease)	9.1	-3.6	-7.4	2.3	-4.0	-12.1	n.a.	-0.8	-1.2	n.a.
<b>Other transactions (Quarterly data)<sup>4</sup></b>										
6. U.S. direct investment (-) abroad	-44.2	-17.5	-4.9	-8.9	-5.5	-2.7	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment (+) in U.S.	48.9	58.4	11.9	23.0	19.2	12.3	n.a.	n.a.	n.a.	n.a.
8. Other capital flows (+ = inflow) <sup>5</sup>	5.7	2.2	1.8	2.5	2.1	6.1	n.a.	n.a.	n.a.	n.a.
9. U.S. current account balance	-143.7	-126.5	-32.3	-28.7	-30.4	-31.0	n.a.	n.a.	n.a.	n.a.
10. Statistical discrepancy	1.9	-10.6	24.0	-19.4	1.7	26.6	n.a.	n.a.	n.a.	n.a.

## MEMO:

U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted)	-159.5	-127.2	-30.3	-32.0	-28.4	-27.7	n.a.	n.a.	n.a.	n.a.
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1. These data have not been adjusted to exclude commissions on securities transactions and, therefore, do not match exactly the data on U.S. international transactions as published by the Department of Commerce.
2. Includes all U.S. bonds other than Treasury obligations.
3. Includes deposits in banks, commercial paper, acceptances, borrowing under repurchase agreements, and other securities.
4. Seasonally adjusted.
5. Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, and other banking and official transactions not shown elsewhere. In addition, it includes amounts resulting from adjustments to the data made by Department of Commerce and revisions to the data in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business. Less than \$50 million.

NOTE: Details may not add to total because of rounding.