Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

CONFIDENTIAL (FR)
CLASS III - FOMC

November 9, 1990

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

Page

THE DOMESTIC NONFINANCIAL ECONOMY

Producer prices. 1
Initial claims for unemployment insurance. 2

Tables

Recent changes in producer prices. 3
Recent changes in consumer prices. 3

Chart

Unemployment insurance 4

THE FINANCIAL ECONOMY

The October 1990 senior loan officer opinion survey on bank lending practices. 5

Tables

Monetary aggregates 10
Commercial bank credit and short- and intermediate-term business credit 11
Selected financial market quotations 12

THE DOMESTIC NONFINANCIAL ECONOMY

Producer Prices

Producer prices of finished goods rose 1.1 percent in October, boosted for the third consecutive month by higher energy prices--up another 8 percent. Food prices advanced 0.9 percent, reversing the decline registered in September. The PPI for finished goods other than food and energy was unchanged in October, after jumping 0.6 percent in September; these monthly gyrations were caused by seasonal adjustment difficulties with the index for passenger cars. Accordingly, the average increase for the PPI excluding food and energy in September and October--0.3 percent per month--is a more accurate representation of the underlying inflation rate at the producer level.

As expected, the October PPI for finished energy included further large increases in refinery prices for gasoline and fuel oil, of 8 and 15 percent, respectively. Natural gas prices were down somewhat, after turning up in September. The PPI for finished energy has climbed by one-third over the past three months.

The major influence in October on the PPI excluding food and energy was a 2.7 percent decline in passenger car prices; it followed a 3.4 percent increase in September. These swings reflect the difficulties in the seasonal adjustment of car prices around the beginning of the new model year. If cars as well as food and energy items are excluded, the increase in the PPI in both months was 0.3 percent, similar to the monthly pace earlier in the year. As of October, the PPI for passenger cars was 2-1/4 percent above its level of a year earlier.

At earlier stages of processing, the PPI for intermediate materials less food and energy rose 0.4 percent in October, after an increase of 0.6 percent in September, again reflecting large increases for a variety of petroleum-based materials. Prices of crude nonfood materials less energy retreated 1.7 percent, with notable declines for steel and copper scrap and nonferrous metal ores.

Initial Claims for Unemployment Insurance

Initial claims for unemployment insurance totaled 438,000 (FRB seasonals) during the week ended October 27, only a bit below the high level recorded in the previous week. Insured unemployment, at 2.74 million, was little changed from the previous week's figure; the recent trend, though, has been clearly upward.

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

	Relative importance Dec. 1989	1988	1989	1990 Q1	1990 Q2	1990 Q3	1990 Sept.	1990 Oct.
				------Annual rate-----			-Monthly rate-	
Finished goods	100.0	4.0	4.9	7.1	.3	11.7	1.6	1.1
Consumer foods	25.9	5.7	5.2	10.6	-3.8	.6	-.9	.9
Consumer energy	9.2	-3.6	9.5	24.7	-14.3	137.4	13.8	8.0
Other finished goods	64.9	4.3	4.2	3.6	4.2	3.2	.6	.0
Consumer goods	39.5	4.8	4.4	3.5	5.4	2.2	.6	.0
Capital equipment	25.4	3.6	3.8	4.0	2.3	5.3	.8	-.2
Intermediate materials[2]	94.9	5.3	2.5	2.5	-.4	13.4	1.9	1.6
Excluding food and energy	82.5	7.2	.9	1.0	.7	4.0	.6	.4
Crude food materials	41.9	14.2	2.8	9.1	-10.2	-7.9	-1.8	1.1
Crude energy	40.5	-9.5	17.9	.5	-39.2	296.0	12.4	18.7
Other crude materials	17.5	7.5	-3.6	4.0	13.2	8.7	-.1	-1.7

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

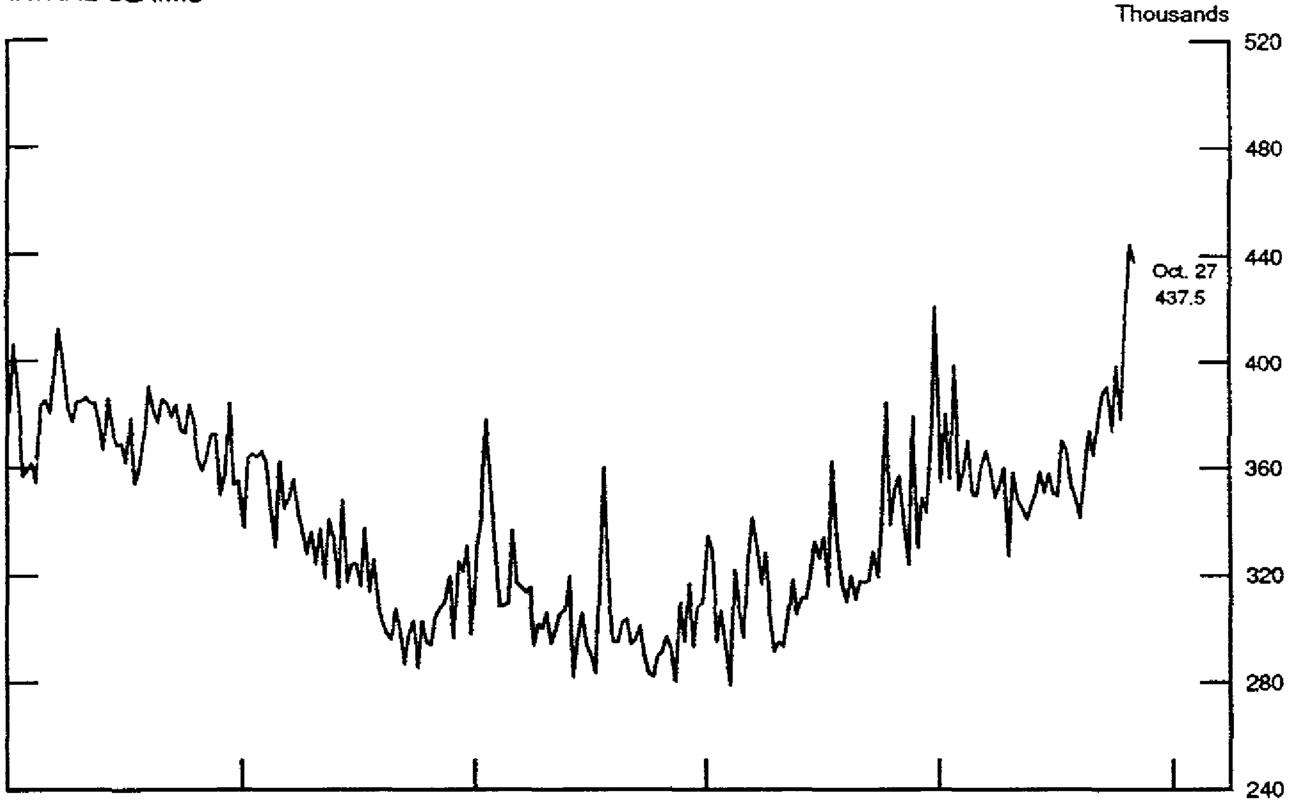
RECENT CHANGES IN CONSUMER PRICES
(Percentage change; based on seasonally adjusted data)[1]

	Relative importance Dec. 1989	1988	1989	1990 Q1	1990 Q2	1990 Q3	1990 Aug.	1990 Sept.
				------Annual rate-----			-Monthly rate-	
All items[2]	100.0	4.4	4.6	8.5	3.5	7.9	.8	.8
Food	16.3	5.2	5.6	11.4	2.1	3.7	.3	.2
Energy	7.4	.5	5.1	14.8	-2.0	42.7	4.3	5.6
All items less food and energy	76.3	4.7	4.4	7.5	3.9	5.7	.5	.3
Commodities	25.2	4.0	2.7	7.8	.7	2.9	.0	.4
Services	51.1	5.0	5.3	7.2	5.5	7.2	.8	.3
Memorandum:								
CPI-W[3]	100.0	4.4	4.5	8.3	3.2	8.0	.8	.8

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.

Unemployment Insurance
Seasonally Adjusted, FRB Basis

INITIAL CLAIMS



INSURED UNEMPLOYMENT

THE FINANCIAL ECONOMY

The October 1990 Senior Loan Officer Opinion Survey on Bank Lending Practices

The October 1990 Senior Loan Officer Opinion Survey on Bank Lending Practices focused on whether credit standards and lending terms for different types of loans had been changed recently. The survey included questions about respondents' policies with respect to nonmerger-related C&I loans, about their credit standards for residential and commercial real estate loans, and about the effect of their capital positions on asset growth. Respondents were asked to rank the various factors that may have led them to alter their C&I loan policies, and what business borrowers did if they were turned down or went elsewhere for credit because of a tightening in lending policies. In addition, the survey included the usual questions about banks' willingness to make consumer loans.

The survey responses generally painted a picture of increased credit restraint, with agencies and branches of foreign banks reporting more tightening than domestic banks. As in past surveys, the pullback was least evident in consumer and home mortgage lending and was clearest in commercial real estate lending, a category for which a large majority of respondents continued to raise their credit standards. For C&I loans, almost half of the domestic reporting banks had tightened their terms and lending standards in the past three months, with a noticeable increase since the last survey in the share tightening up on loans to large corporate borrowers. As to the reasons cited for tightening their credit standards, virtually all the banks indicated a deterioration in the economic outlook, and a sizable share cited problems specific to individual industries. While home mortgage lending remained relatively favored, an increased number of domestic respondents reported a tightening of their credit standards on residential mortgages during the last quarter.

In sum, the results of this lending practices survey suggest that a deterioration in the general economic outlook since summer has prompted a sizable share of domestic respondents to tighten credit standards more and to further extend that tightening to two classes of loans--C&I loans to large firms and residential mortgages--that are thought, in general, to pose less credit risk than most other types of loans.

Policy Changes for Nonmerger-Related C&I Loans

Credit standards. Sizable shares of domestic respondents reported tightening their credit standards on nonmerger-related C&I loans to large (about one-half), middle-market (nearly one-half), and small (two-fifths) firms. Each of these figures is up noticeably since the last survey, but those for middle-market and small firms are below those indicated in the spring.[1] Almost all banks that tightened cited a less favorable economic outlook as the most important factor in their decision. The next most frequently cited and highly ranked reason was problems specific to the borrowers' industries, with about two-fifths indicating this factor. In addition, about one-quarter of these banks reported that a deterioration in the quality of their overall loan portfolio, pressures on their capital positions, and regulatory pressures were factors in their decisions to tighten credit standards.

Nearly three-quarters of foreign respondents reported tightening their credit standards for reviewing loan applications for nonmerger-related C&I loans in general. These respondents cited the same factors as the domestic

1. The question with respect to large firms was not asked in the spring survey.

banks, but put somewhat more emphasis on their capital positions as an element in their decision to exercise greater restraint.

Changes in price and nonprice terms of credit. Many domestic respondents indicated that specific price and nonprice terms of credit had been altered over the last quarter. About one-half raised the fees for credit lines and charged larger spreads of loan rates over base rates to middle-market and large corporate borrowers, but only about one-third did so for small firms. Among the nonprice terms of credit, about one-half reduced the sizes of credit lines for middle-market and large borrowers, but only one-eighth did so for small firms. Around one-half of respondents tightened loan covenants for middle-market and large borrowers, and about one-third did so for small firms. Collateral requirements also were tightened by many banks, with about one-third doing so on loans to small and large borrowers, and about one-half doing so on loans to middle-market firms.

With respect to their terms on nonmerger C&I loans in general, foreign-related institutions reported that they had primarily tightened up price terms. About three-quarters of these respondents indicated that they had raised the cost of credit lines and increased the spreads of loan rates over base rates. Roughly one-half reported reductions in the size of credit lines, tighter loan covenants, and stiffer collateral requirements.

Reactions of borrowers that were turned down for credit or lost to competitors. Banks were asked about the typical reactions of their C&I customers who were turned away for nonmerger-related credit or who were lost to other credit sources owing to a tightening of credit standards or lending terms since late last year. With respect to large corporate borrowers, virtually all respondents indicated that these firms were able to obtain credit at another bank; this was also the most highly ranked reaction. The next most frequent response, indicated by one-half of the panel, was that some large firms cancelled, postponed, or reduced their planned borrowing. A number of banks also reported that these firms had obtained credit through private placements, commercial paper or bond issuance, or other sources. With respect to middle-market customers, virtually all indicated that these firms tended to borrow from another bank; more than half indicated that some of these companies cancelled, postponed, or reduced their planned borrowing; one-third said that these firms obtained credit from finance companies; and other sources of credit were mentioned by a few banks. In characterizing the most common reaction of small businesses, about 90 percent of respondents reported that these firms tended to go to other banks and about one-half indicated that some of these companies cancelled, postponed, or reduced their planned borrowing. Only about one-quarter indicated that such firms borrowed from finance companies, and a handful reported that such firms obtained credit via private placements.

Among the foreign bank respondents, nearly all indicated that former customers, in general, obtained loans from other banks. Almost one-half indicated that some customers cancelled, postponed, or reduced their planned borrowing, and nearly one-third reported that the corporations issued commercial paper or bonds.

Changes in Credit Standards for Commercial Real Estate Loans

Respondents were asked how they may have changed their credit standards since three months ago on four categories of commercial real estate loans. Nearly two-thirds of domestic respondents reported tightening their credit standards on loans for construction and land development, and almost as many did so on loans for commercial offices, industrial structures, and other nonfarm, nonresidential structures. The responses of foreign reporters to these questions were similar, with even more tightening evident in the construction and land development category.

Lending to Households

Changes in credit standards and the demand for residential mortgages. About one-fifth of domestic respondents, on balance, reported that they had tightened their credit standards for residential mortgages; of these banks, more than one-half required higher downpayments, and nearly as many raised their requirements with respect to household income and took other measures.

About one-half of domestic respondents, on balance, reported that the demand for residential mortgages in the third quarter had weakened somewhat relative to the first half of 1990.

Willingness to make consumer loans. The number of domestic banks reporting an decreased willingness to make consumer installment loans (and consumer loans more broadly defined to include home equity loans) was one more than those reporting an increased willingness. This is in contrast to recent surveys in which several more had indicated an increased willingness than a decreased willingness.

Effects of Capital Positions on Asset Growth

About one-fifth of domestic and most of the foreign respondents, on balance, reported that their equity and risk-based capital positions had restricted their asset growth so far this year and likely would continue to constrain it between now and year-end. Two-thirds of the domestic panel indicated that their capital positions had no effect, and a few reported that their asset growth had been and would be actually somewhat faster as a result of comfortable capital positions.

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

	1989[1]	1990 Q2	1990 Q3	1990 Aug	1990 Sep	1990 Oct pe	Growth Q4 89- Oct 90pe
	------------Percent change at annual rates---------------------						
1. M1	0.6	3.5	4.1	10.1	9.3	-3	4
2. M2	4.6	2.8	3.1	6.4	5.6	1	4
3. M3	3.3	0.8	1.4	4.4	0.9	-1	1½
	------------Percent change at annual rates------------						Levels bil. $ Sep 90
Selected components							
4. M1-A	0.4	1.6	6.8	14.8	12.1	-1	529.5
5. Currency	4.8	9.2	11.6	15.3	15.6	12	241.5
6. Demand deposits	-2.8	-4.7	2.6	14.0	7.8	-12	279.7
7. Other checkable deposits	1.0	7.1	-0.8	1.6	4.1	-7	292.6
8. M2 minus M1[2]	5.9	2.6	2.7	5.2	4.5	3	2494.8
9. Overnight RPs and Eurodollars, NSA	-8.6	-2.0	7.4	-17.1	-11.6	45	82.2
10. General purpose and broker/dealer money market mutual fund shares	29.7	-0.7	12.8	32.1	22.6	10	340.1
11. Commercial banks	7.5	10.3	11.4	7.3	6.9	13	1148.1
12. Savings deposits plus MMDAs[3]	-1.7	8.6	7.5	8.3	4.4	4	572.5
13. Small time deposits	19.0	12.1	15.3	6.5	9.2	23	575.6
14. Thrift institutions	-0.2	-4.6	-10.4	-3.5	-6.1	-16	924.9
15. Savings deposits plus MMDAs[3]	-9.3	1.4	-5.3	-2.4	-3.8	-12	350.5
16. Small time deposits	5.8	-8.0	-13.3	-4.1	-7.5	-17	574.4
17. M3 minus M2[4]	-1.3	-7.3	-5.1	-4.3	-19.1	-7	773.8
18. Large time deposits	4.2	-10.3	-8.8	-14.7	-16.5	-14	516.7
19. At commercial banks, net[5]	9.9	-2.8	-0.8	-10.2	-13.3	-7	391.8
20. At thrift institutions	-7.8	-30.1	-31.7	-28.4	-26.3	-37	124.9
21. Institution-only money market mutual fund shares	17.1	11.5	22.0	56.2	22.1	38	116.1
22. Term RPs, NSA	-14.7	5.0	3.3	23.5	-41.2	-40	95.6
23. Term Eurodollars, NSA	-21.9	-22.4	-0.6	29.8	0.0	-7	66.1
MEMORANDA:[6]	-----Average monthly change in billions of dollars----						
24. Managed liabilities at commercial banks (25+26)	6.0	-1.8	1.1	-2.5	-6.9	6	726.8
25. Large time deposits, gross	2.6	-1.5	-2.4	-3.3	-5.2	-4	445.5
26. Nondeposit funds	3.5	-0.2	3.5	0.8	-1.7	10	281.3
27. Net due to related foreign institutions	0.2	-0.9	1.5	-0.1	2.5	9	19.2
28. Other[7]	3.3	0.6	2.0	0.9	-4.3	1	262.0
29. U.S. government deposits at commercial banks[8]	-0.3	0.4	2.6	18.3	-5.0	-6	28.2

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 September and October at rates of 4.9 percent and 7 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during September and October at rates of -6.5 percent and -14 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.
7. 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.

- preliminary estimate

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

		1988:Q4 to 1989:Q4	1990 Q2	Q3	Aug.	Sept	Oct. p	Levels bil.$ Oct. p
		----------------------- Commercial Bank Credit						---------------------
1.	Total loans and securities at banks	7.5	5.2	5.8	10.3	.1	1.2	2711.6
2.	Securities	4.1	9.4	6.6	4.3	11.6	2.9	628.3
3.	U.S. government securities	10.0	15.4	7.8	1.9	15.8	11.3	451.4
4.	Other securities	-6.7	-4.4	3.4	10.1	1.3	-18.1	176.9
5.	Total loans	8.5	3.9	5.6	12.1	-3.3	.7	2083.4
6.	Business loans	6.9	4.9	.9	3.9	-2.4	-2.2	649.7
7.	Real estate loans	13.3	9.3	6.5	4.9	3.5	7.5	820.5
8.	Consumer loans	6.3	-.8	3.1	5.7	3.2	-.3	381.2
9.	Security loans	3.8	-20.4	88.4	222.7	-75.7	-44.5	41.5
10.	Other loans	1.5	-6.5	8.3	41.8	-28.7	-6.3	190.5
		--------- Short- and Intermediate-Term Business Credit						----------
11.	Business loans net of bankers acceptances	7.0	4.7	1.0	4.3	-3.2	-2.1	642.2
12.	Loans at foreign branches[2]	-5.0	9.2	28.8	-15.9	80.7	20.2	24.2
13.	Sum of lines 11 & 12	6.5	4.8	2.0	3.6	-.2	-1.3	666.5
14.	Commercial paper issued by nonfinancial firms	31.2	9.3	16.8	13.3	50.3	19.0	154.1
15.	Sum of lines 13 & 14	10.0	5.6	4.6	5.3	8.7	2.6	820.6
16.	Bankers acceptances: U.S. trade related[3,4]	6.1	-9.8	-27.6	-38.5	-19.9	n.a.	29.7[5]
17.	Line 15 plus bankers acceptances: U.S. trade related	9.8	5.0	3.4	3.7	7.7	n.a.	849.2[5]
18.	Finance company loans to business[3]	10.6	15.4	20.7	20.0	17.1	n.a.	284.3[5]
19.	Total short- and intermediate-term business credit (sum of lines 17 & 18)	10.0	7.5	7.7	7.7	10.1	n.a.	1133.6[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. September data.
p--preliminary.
n.a.--not available

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(percent)

	1989		1990			Change from:		
	March highs	Dec lows	Aug highs	FOMC Oct 2	Nov 8	Dec 89 lows	Aug 90 highs	FOMC Oct 2
Short-term rates								
Federal funds[2]	9.85	8.45	8.21	8.21	7.94	-0.51	-0.27	-0.27
Treasury bills[3]								
3-month	9.09	7.53	7.59	7.18	7.09	-0.44	-0.50	-0.09
6-month	9.11	7.29	7.51	7.18	7.06	-0.23	-0.45	-0.12
1-year	9.05	7.11	7.45	7.10	6.88	-0.23	-0.57	-0.22
Commercial paper								
1-month	10.05	8.51	8.10	8.05	7.90	-0.61	-0.20	-0.15
3-month	10.15	8.22	8.05	7.95	7.88	-0.34	-0.17	-0.07
Large negotiable CDs[3]								
1-month	10.07	8.52	8.14	8.00	7.95	-0.57	-0.19	-0.05
3-month	10.32	8.22	8.18	8.00	7.99	-0.23	-0.19	-0.01
6-month	10.08	8.01	8.25	8.01	7.96	-0.05	-0.29	-0.05
Eurodollar deposits[4]								
1-month	10.19	8.38	8.13	8.00	7.88	-0.50	-0.25	-0.12
3-month	10.50	8.25	8.19	8.00	8.00	-0.25	-0.19	0.00
Bank prime rate	11.50	10.50	10.00	10.00	10.00	-0.50	0.00	0.00
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	9.88	7.69	8.50	8.10	7.82	0.13	-0.68	-0.28
10-year	9.53	7.77	9.05	8.69	8.58	0.81	-0.47	-0.11
30-year	9.31	7.83	9.17	8.84	8.73	0.90	-0.44	-0.11
Municipal revenue[5] (Bond Buyer)	7.95	7.28	7.80	7.81	7.53	0.25	-0.27	-0.28
Corporate--A utility recently offered	10.47	9.29	10.50	10.16	10.11	0.82	-0.39	-0.05
Home mortgage rates[6]								
S&L fixed-rate	11.22	9.69	10.29	10.22	10.13	0.44	-0.16	-0.09
S&L ARM, 1-yr.	9.31	8.34	8.39	8.28	8.15	-0.19	-0.24	-0.13

			1989	1990		Percent change from:		
	Record highs	Date	Lows Jan 3	FOMC Oct 2	Nov 8	Record highs	1989 lows	FOMC Oct 2
Stock prices								
Dow-Jones Industrial	2999.75	7/16/90	2144.64	2505.20	2443.81	-18.53	13.95	-2.45
NYSE Composite	201.13	7/16/90	154.98	172.59	168.14	-16.40	8.49	-2.58
AMEX Composite	397.03	10/10/89	305.24	309.63	289.07	-27.19	-5.30	-6.64
NASDAQ (OTC)	485.73	10/9/89	378.56	356.39	336.37	-30.75	-11.14	-5.62
Wilshire	3523.47	10/9/89	2718.59	2963.70	2870.49	-18.53	5.59	-3.15

1/ One-day quotes except as noted.
2/ Average for two-week reserve maintenance period closest to date shown. Last observation is average to date for the maintenance period ending November 14, 1990.
3/ Secondary market.
4/ Bid rates for Eurodollar deposits at 11 a.m. London time.
5/ Based on one-day Thursday quotes and futures market index changes.
6/ Quotes for week ending Friday closest to date shown.