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CONFIDENTIAL (FR)
CLASS III FOMC

November 12, 1993

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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THE DOMESTIC NONFINANCIAL ECONOMY

Retail Sales

Nominal retail sales are estimated to have increased 1.5 percent in October, boosted by the turnaround in sales at auto dealers and by a surge in spending at building material and supply stores, which have benefited from higher levels of residential construction activity. In the retail control category, which excludes spending at automotive dealers and building material and supply stores, nominal sales rose 0.7 percent in October, following a downward-revised gain of 0.4 percent in September. About a third of the increase in outlays in the retail control category in October resulted from a jump in spending at gasoline stations, where nominal sales rose 2.9 percent. Given the 4-1/2 percent increase in gasoline prices last month--reflecting the hike in the federal excise tax--spending in this category likely fell in real terms. Elsewhere, sales in October were mixed. Purchases at general merchandise stores increased 1.1 percent, but sales at furniture and appliance stores edged down after rising strongly for several months. Spending at stores selling "other durable goods" increased 0.6 percent, but was revised down sharply for August and September.

Consumer Sentiment

The Michigan index of consumer sentiment edged down in the first part of November to 82.0, but remained well above its third-quarter average of 77.4. The current-conditions index fell slightly because of a decline in consumers' assessments of buying conditions for large household appliances. The expected-conditions index also slipped somewhat: Respondents' expectations about their personal financial situations over the next twelve months improved notably, but their outlook for general business conditions fell sharply.

Among the survey questions not included in the overall index, results for the first part of November were generally upbeat. Consumers' appraisals of buying conditions for houses continued on a strong upward trend, and assessments of buying conditions for cars rose sharply. Expectations of the change in unemployment also improved, retracing the deterioration in October.

Both the average and median values of expected inflation over the next twelve months fell 0.6 percentage point, to 3.4 percent and 2.8 percent, respectively. The average expectation of inflation over the next five to ten years dropped sharply to 4.0 percent; the median expectation also declined substantially to 3.2 percent.

November 12, 1993

RETAIL SALES
(Percent change; seasonally adjusted)

	1993			1993		
	Q1	Q2	Q3	Aug.	Sep.	Oct.
Total sales	.4	1.8	1.5	.7	.1	1.5
Previous estimate			1.4	.5	.1	
Retail control[1]	.4	1.0	1.0	.3	.4	.7
Previous estimate			1.0	.2	.7	
Total excl. automotive group	.4	1.2	1.1	.4	.6	.9
Previous estimate			1.0	.2	.6	
GAF[2]	.8	1.6	2.4	.3	1.3	.5
Previous estimate			2.3	.0	1.4	
Durable goods stores	.4	3.9	3.1	1.6	-1.2	2.6
Previous estimate			3.2	1.7	-1.0	
Bldg. material and supply	1.1	3.2	2.5	2.4	1.3	3.5
Automotive dealers	.4	4.2	3.2	1.6	-1.7	3.6
Furniture and appliances	.9	2.4	3.5	1.3	.8	-.3
Other durable goods	-1.3	5.1	2.8	.9	-3.9	.6
Nondurable goods stores	.5	.6	.6	.1	.8	.8
Previous estimate			.4	-.2	.8	
Apparel	-2.6	.3	.9	-.6	2.6	-.2
Food	.5	-.2	.8	.6	-.4	.7
General merchandise[3]	2.2	1.7	2.6	.1	.9	1.1
Gasoline stations	2.8	.2	-3.2	-2.5	-.1	2.9
Other nondurables[4]	-.6	1.0	.3	.7	1.9	.4

1. Total retail sales less building material and supply stores and automotive dealers, except auto and home supply stores.
2. General merchandise, apparel, furniture, and appliance stores.
3. Excludes mail order nonstores; mail order sales are also excluded from the GAF grouping.
4. Includes sales at eating and drinking places, drug stores and proprietary stores.

November 12, 1993

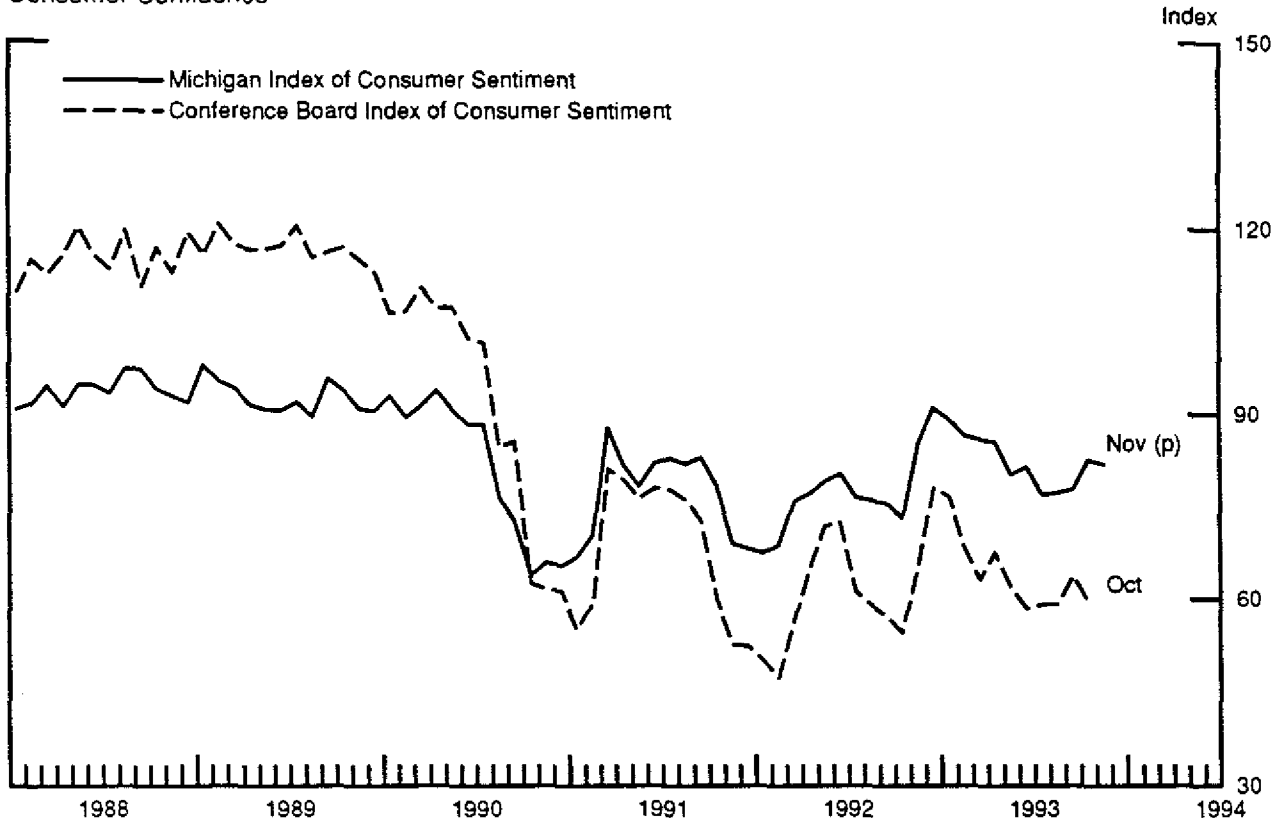
UNIVERSITY OF MICHIGAN SURVEY RESEARCH CENTER: SURVEY OF CONSUMER ATTITUDES
(Not seasonally adjusted)

	1993 Mar	1993 Apr	1993 May	1993 Jun	1993 Jul	1993 Aug	1993 Sep	1993 Oct	1993 Nov (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	85.9	85.6	80.3	81.5	77.0	77.3	77.9	82.7	82.0
Current conditions	101.6	99.9	98.7	98.7	96.2	95.1	95.2	98.7	97.9
Expected conditions	75.8	76.4	68.5	70.4	64.7	65.8	66.8	72.5	71.7
Personal financial situation									
Now compared with 12 months ago*	111	104	103	108	102	96	104	104	106
Expected in 12 months*	119	120	115	117	112	114	114	119	126
Expected business conditions									
Next 12 months*	96	95	83	89	80	76	77	95	83
Next 5 years*	88	91	76	75	66	73	76	76	78
Appraisal of buying conditions									
Cars	136	137	140	140	141	138	134	132	145
Large household appliances*	152	155	152	147	147	150	143	151	147
Houses	173	167	163	166	171	166	170	170	176
Willingness to use credit	46	43	41	35	42	42	50	43	57
Willingness to use savings	74	64	73	53	65	58	65	58	89
Expected unemployment change next 12 months	117	115	125	127	130	129	133	137	132
Expected inflation - next 12 months	4.9	4.1	4.4	4.8	4.4	4.9	4.8	4.0	3.4
Expected inflation - next 5 to 10 years	4.9	4.8	5.7	5.2	5.0	4.6	4.6	4.8	4.0

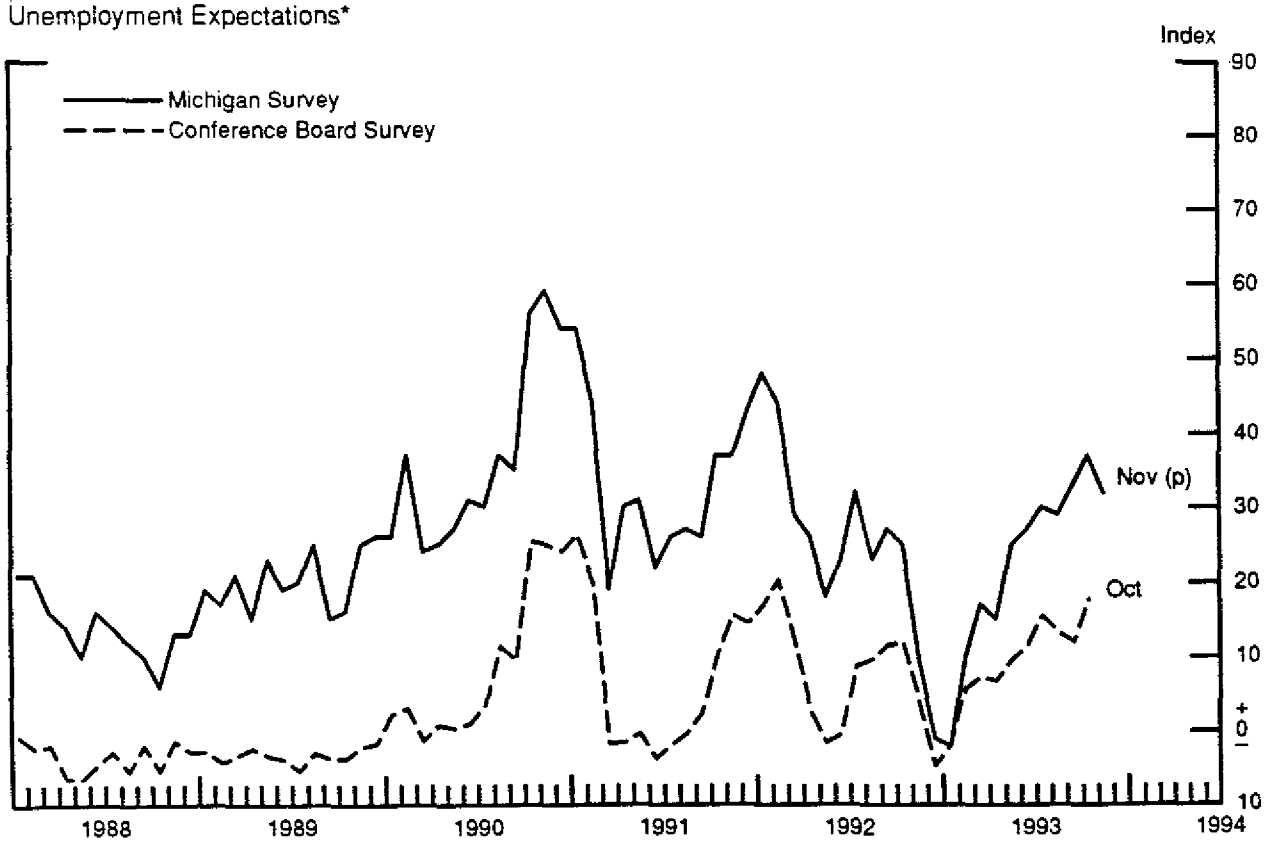
* -- *Indicates the question is one of the five equally-weighted components of the index of sentiment.*
(p) -- Preliminary
(f) -- Final
Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Asterisk (*) indicates the question is one of the five equally-weighted components of the index of sentiment. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall.

Indicators of Consumer Sentiment

Consumer Confidence



Unemployment Expectations*



*The unemployment expectations indexes represent the fraction of households expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.

THE FINANCIAL ECONOMY

The November Senior Loan Officer Opinion Survey on Bank Lending Practices

The November 1993 Senior Loan Officer Opinion Survey on Bank Lending Practices posed questions about changes in bank lending standards and terms, changes in loan demand by businesses and households, and prime rate lending. Sixty domestic commercial banks and eighteen U.S. branches and agencies of foreign banks participated in the survey.[1]

The survey results show a further easing of the terms and standards on loans to both businesses and households; the share of banks that reported easing was about the same in the November as in the August survey. Demand for credit continued to grow in November, but responses were less uniformly positive than in the last survey. Respondents reported easing terms and standards on commercial and industrial loans to firms of all size categories, with the greatest share of banks reporting easing for large firms. Standards for commercial real estate loans were little changed. A small fraction of respondents indicated that they had eased standards on home mortgage loans, and a larger fraction reported increased willingness to make loans to individuals. Demand for business loans by large firms, which had been reported up in the previous survey, was little changed on balance over the last three months, while demand from small and middle market firms increased at about the same substantial share of banks as reported in the August survey. Household demand for credit continued to grow, particularly for installment credit, but demand for home equity lines of credit fell back a bit.

1. The response from one domestic bank had not been received when this summary was prepared.

Special questions on the survey addressed the importance of prime rate lending and the determinants of the prime rate. Respondents indicated that the fraction of their commercial and industrial loans priced off the prime had declined substantially since the late 1980s. Banks identified the federal funds rate as the interest rate having the most influence on the level of the prime. They attributed the current wide spread of the prime rate over market rates to a variety of factors, but especially to a perceived insensitivity of the demand for credit to the level of the prime.

Business Lending

Commercial and industrial loans other than for mergers. Domestic respondents reported some easing of credit standards for firms in all size categories, with around one-fifth easing for large firms and 10 percent for small firms. These figures are little changed from the August survey. About 13 percent of U.S. branches and agencies of foreign banks eased lending standards and none reported tightening; in August none of the branches and agencies reported a change in credit standards. With respect to loan terms, many banks eased the cost of credit and credit lines. About half of the domestic respondents reported reductions for large and middle market firms, and about a quarter for small firms. These levels surpass the substantial number of respondents that reported easing fees and lending rates in August. Smaller fractions of respondents eased other terms, including loan covenants, credit line size, and collateralization. About twice as many respondents eased these terms for large firms as for small firms. Similar, although slightly smaller, fractions of foreign respondents reported having eased terms.

Real estate loans. Both domestic and foreign respondents indicated that credit standards for commercial real estate loans were little changed. On net, domestic respondents reported a slight tightening on loans secured by commercial office buildings and a slight easing for other types of commercial real estate loans. Although scattered signs of easing were also evident in previous surveys, there has been no reversal of the substantial tightening of lending standards reported in 1990 and 1991. At U.S. branches and agencies of foreign banks standards for commercial real estate loans were unchanged.

Demand. Demand for business loans from large firms was mixed among respondents, with a few more banks experiencing a strengthening than a weakening; in August, the evidence of strengthening had been more clear-cut. By contrast, a substantial fraction of respondents indicated that demand from small and middle market firms increased over the last three months, continuing the pattern reflected in the August survey. Respondents attributed declines in demand from large firms to increased financing from nonbank sources, consistent with the recent heavy pace of bond and equity issuance. Changes in credit needs for funding inventories and investment in plant and equipment were commonly cited as a source of both declines and increases in demand. Branches and agencies of foreign banks experienced a moderate increase in demand for business loans.

Lending to households

As in August, there was a substantial increased willingness at respondent banks to make consumer and residential mortgage loans. Nearly a fifth of respondents reported greater willingness to make consumer installment loans, down slightly from the previous survey. Standards for approving mortgage applications have been eased in the last three months at just under 15 percent of banks queried, above the share of banks which reported having eased these standards in August.

Loan demand from households was again reported to have increased. More than a quarter of respondents experienced increased demands for consumer installment credit and for mortgages. On net, respondents found that demand for home equity loans had dropped. This decline may be due to paydowns of this form of debt with the proceeds from refinancing of first mortgages.

Consumer loans at banks have expanded rapidly this year, following two years of runoffs. Banks attributed this reemergence of growth to a variety of reasons: The leading explanation was increased demand, particularly for automobile loans; less commonly cited reasons included increased demand for revolving credit, increased demand for student loans, as well as a more aggressive lending stance by the bank. Although the pace of securitization of consumer loans has slowed and some banks appear to be taking back onto their balance sheet consumer receivables that had backed maturing securities, these factors were assigned a relatively minor impact on consumer loan growth this year. While a few banks reported that more than 10 percent of their consumer loans are student loans, almost two-thirds indicated this share was under 5 percent.

Prime rate lending

The November survey asked a series of questions about the fraction of loans priced off the prime rate and the determinants of the prevailing prime rate. The survey responses suggest that perhaps 20 percent of domestic respondent banks' outstanding loans are linked to the prime. The types of loans with the largest proportion tied to prime were home equity loans and C&I loans; about two-fifths of these loans were reported as prime based. A bit less than one-fifth of real estate loans other than home equity loans and around 15 percent of consumer loans are tied to prime, according to the survey responses.[2]

The responses indicate that the share of commercial and industrial loans linked to prime is inversely related to the size of borrower. Close to 60 percent of domestic respondents reported that more than three-quarters of C&I loans to small firms are prime based. About 50 percent reported that more than half of their C&I loans to middle market firms are prime based. Nearly two-thirds of the respondents reported that a quarter or less of their C&I loans to large firms were prime based. The respondents placed the shares of C&I loans that were prime based in the late 1980s at appreciably higher levels, particularly for loans to large and middle market borrowers. At U.S. branches and agencies of foreign banks, less than a quarter of C&I loans were prime based, with nearly three-quarters placing the share at less than 10 percent.

The survey asked the respondents which interest rates have had the greatest influence on the level of the prime rate and why the current spread of the prime over market rates is so high. Both domestic and foreign respondents cited the level of the federal funds rate as the most influential determinant of the level of the prime, followed at some distance by LIBOR and rates on CDs with maturities less than six months. The respondents attributed the recent high spread in part to a perceived insensitivity of the quantity of credit demanded to a rate cut. Forty-five domestic respondents felt that a prime rate cut would not increase borrowing by current customers, and almost as many believed that a cut would

2. These averages were calculated using the mid point of reported percentage ranges, weighted by separately reported data on outstanding loans as of mid-October.

not attract additional borrowers. In addition, a large number of respondents attributed the high level of the prime to the cost of having to hold additional capital and to other increases in regulatory expenses. Foreign respondents as well did not see a cut in the prime as leading to increased demand and, in addition, pointed to an increased riskiness of prime-based loans.

Slightly less than half of the domestic respondents reported using derivatives to hedge the risk associated with prime-based lending. Respondents reported that their counterparties in their derivatives transactions were primarily U.S.-chartered banks, U.S. securities firms, and foreign banks or securities firms. Only two of the U.S. branches and agencies of foreign banks used derivatives to hedge their prime-rate risk.

MONETARY AGGREGATES
(Based on seasonally adjusted data except as noted)

Aggregate or component	1992[1]	1993 Q2[2]	1993 Q3[2]	1993 Aug.	1993 Sep.	1993 Oct. (pe)	1992:Q4 to Oct. 93 (pe)	Level (bil. $) Sep 93
Aggregate	Percentage change (annual rate)							
1. M1	14.3	10.5	12.9	10.1	13.6	11	10½	1106.5
2. M2	1.7	2.2	3.1	1.6	4.0	1	1¾	3532.9
3. M3	0.2	2.3	1.2	0.8	3.4	2	¾	4176.8
Selected components								
4. M1-A	13.7	13.1	14.2	13.9	16.5	9	11¾	700.5
5. Currency	9.1	9.7	11.6	11.6	14.6	7	10½	316.4
6. Demand deposits	18.0	16.0	17.2	16.4	18.5	11	13¼	376.4
7. Other checkable deposits	15.4	6.3	10.7	3.6	8.6	12	8½	406.0
8. M2 minus M1[3]	-2.7	-1.4	-1.1	-2.1	-0.3	-4	-2½	2426.4
9. Overnight RPs and Eurodollars, n.s.a.	2.7	-10.3	35.5	42.8	45.9	34	12	81.4
10. General-purpose and broker-dealer money market funds	-5.2	-0.7	-0.6	-5.7	-6.8	2	-3½	332.4
11. Commercial banks	-0.1	-0.4	-0.9	0.1	0.2	-3	-1¼	1253.6
12. Savings deposits	14.5	4.6	5.3	6.9	5.1	1	3¾	777.2
13. Small time deposits	-15.8	-7.9	-10.5	-10.7	-7.8	-10	-8½	476.4
14. Thrift institutions	-5.8	-4.3	-4.0	-4.1	-5.2	-6	-5½	758.5
15. Savings deposits	14.8	0.7	2.9	1.7	1.1	0	1	431.6
16. Small time deposits	-22.1	-10.4	-12.7	-11.5	-13.4	-13	-13	326.9
M3 minus M2[3]	-6.7	3.3	-9.3	-3.9	0.0	9	-4¾	643.9
18. Large time deposits	-16.5	-1.7	-8.4	0.7	-6.1	3	-8	333.7
19. At commercial banks[4]	-15.8	0.1	-8.9	2.7	-7.5	4	-7¾	270.5
20. At thrift institutions	-19.5	-10.3	-6.8	-9.4	-1.9	0	-9	63.1
21. Institution-only money market mutual funds	18.2	0.4	-12.6	-10.5	5.0	15	-5¾	194.1
22. Term RPs, n.s.a.	7.8	38.3	24.3	-5.0	-7.5	-19	18¾	95.4
23. Term Eurodollars, n.s.a.	-22.6	7.7	-34.5	54.4	24.7	16	-4	44.7
	Average monthly change (billions of dollars)							
Memo								
24. Managed liabilities at com'l. banks (lines 25 26)	-2.1	6.5	9.9	6.1	7.2	1		736.7
25. Large time deposits, gross	-4.6	-1.0	-5.7	-4.9	-4.2	0		335.5
26. Nondeposit funds	2.5	7.5	15.6	11.0	11.4	1		401.2
27. Net due to related foreign institutions	2.7	2.6	11.2	14.5	4.8	0		120.7
28. Other[5]	-0.2	5.0	4.4	-3.5	6.5	1		280.4
29. U.S. government deposits at commercial banks[6]	-0.5	2.4	-0.6	-0.7	-5.2	-8		24.2

1. "Percentage change" is percentage change in quarterly average from fourth quarter of preceding year to fourth quarter of specified year. "Average monthly change" is dollar change from December to December, divided by 12.
2. "Percentage change" is percentage change in quarterly average from preceding quarter to specified quarter. "Average monthly change" is dollar change from the last month of the preceding quarter to the last month of the specified quarter, divided by 3.
3. Seasonally adjusted as a whole.
4. Net of holdings of money market mutual funds, depository institutions, U.S. government, and foreign banks ,d official institutions.
5. 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.
6. Treasury demand deposits and note balances at commercial banks.

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

Type of credit	Dec. 1991 to Dec. 1992	1993 Q2	1993 Q3	1993 Aug.	1993 Sep.	1993 Oct. p	Level, Oct. 1993 p ($billions)
	Commercial bank credit						
1. Total loans and securities at banks	3.6	7.2	5.5	3.2	4.0	.1	3,056.5
2. Securities	13.0	11.2	8.0	9.6	7.8	-5.5	898.2
3. U.S. government	17.5	12.9	8.6	9.5	9.6	-4.0	717.8
4. Other	-1.1	5.2	4.9	10.0	0.0	-9.9	180.5
5. Loans	.2	5.6	4.5	.7	2.4	2.4	2,158.2
6. Business	-3.2	-1.2	-2.2	.2	-5.1	.4	585.4
7. Real estate	2.1	5.2	3.7	2.4	4.0	5.0	917.9
8. Consumer	-1.8	7.1	8.7	8.4	4.2	12.7	380.6
9. Security	18.4	44.9	62.7	-26.5	43.7	-49.4	79.2
10. Other	1.2	12.2	-.8	-9.1	-1.8	-1.8	195.2
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-3.3	-1.4	-2.4	-.6	-3.7	-.8	576.0
12. Loans at foreign branches[2]	2.0	-5.2	-31.3	-48.0	-22.2	5.7	21.3
13. Sum of lines 11 and 12	-3.1	-1.5	-3.6	-2.2	-4.4	-.6	597.3
14. Commercial paper issued by nonfinancial firms	9.5	15.8	22.5	23.5	4.5	-8.9	160.5
15. Sum of lines 13 and 14	-.8	1.9	1.7	3.0	-2.4	-2.4	757.8
16. Bankers acceptances, U.S. trade-related[3,4]	-16.9	-14.2	-11.1	-11.4	11.5	n.a.	21.1[5]
17. Finance company loans to business[4]	1.8	-.4	3.0	4.8	5.5	n.a.	305.4[5]
18. Total (sum of lines 15, 16, and 17)	-.5	.9	1.9	3.3	0.0	n.a.	1,085.8[5]

1. Except as noted, levels are averages of Wednesday data and percentage changes are based on averages of Wednesday data; data are adjusted for breaks caused by reclassification; changes are measured from preceding period to period indicated.
2. Loans to U.S. firms made by foreign branches of domestically chartered banks.
3. Acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.
4. Changes are based on averages of month-end data.
5. September 1993.
p Preliminary.
n.a. Not available.

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent except as noted)

Instrument	1992 Sept. 4	1993 FOMC, Sep 21	1993 Mid-Oct lows	1993 Nov 10	Change to Nov 10, 1993: From FOMC, Sep 21	Change to Nov 10, 1993: Mid-Oct lows
SHORT-TERM RATES						
Federal funds[2]	3.19	3.01	3.07	3.00	-0.01	-0.07
Treasury bills[3]						
3-month	2.92	2.92	3.01	3.12	0.20	0.11
6-month	2.96	3.05	3.09	3.26	0.21	0.17
1-year	3.06	3.25	3.23	3.40	0.15	0.17
Commercial paper						
1-month	3.22	3.15	3.13	3.15	0.00	0.02
3-month	3.22	3.16	3.23	3.40	0.24	0.17
Large negotiable CDs[3]						
1-month	3.06	3.11	3.08	3.10	-0.01	0.02
3-month	3.06	3.12	3.22	3.35	0.23	0.13
6-month	3.11	3.25	3.23	3.38	0.13	0.15
Eurodollar deposits[4]						
1-month	3.31	3.06	3.06	3.06	0.00	0.00
3-month	3.31	3.06	3.25	3.38	0.32	0.13
Bank prime rate	6.00	6.00	6.00	6.00	0.00	0.00
INTERMEDIATE- AND LONG-TERM RATES						
U.S. Treasury (constant maturity)						
3-year	4.38	4.21	4.06	4.51	0.30	0.45
10-year	6.40	5.47	5.19	5.72	0.25	0.53
30-year	7.29	6.14	5.78	6.21	0.07	0.43
Municipal revenue[5] (Bond Buyer)	6.31	5.49	5.41	5.72	0.23	0.31
Corporate--A utility, recently offered	8.06	7.10	6.79	7.21	0.11	0.42
Home mortgages[6]						
FHLMC 30-yr. fixed rate	7.84	6.96	6.74	7.11	0.15	0.37
FHLMC 1-yr. adjustable rate	5.15	4.36	4.14	4.17	-0.19	0.03

Stock exchange index	Record high: Level	Record high: Date	1989 Low, Jan. 3	1993 FOMC, Sep 21	1993 Nov 10	Percentage change to Nov 10: From record high	Percentage change to Nov 10: From 1989 low	Percentage change to Nov 10: From FOMC, Sep 21
Dow-Jones Industrial	3697.64	11/2/93	2144.64	3537.24	3663.55	-0.92	70.82	3.57
NYSE Composite	260.48	10/15/93	154.00	251.59	256.57	-1.50	66.60	1.98
NASDAQ (OTC)	787.42	10/15/93	378.56	733.56	776.50	-1.39	105.12	5.85
Wilshire	4701.68	10/15/93	2718.59	4515.06	4628.16	-1.56	70.24	2.50

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 maintenance period ending November 10, 1993.
3. Secondary market.
4. Bid rates for Eurodollar deposits at 11 a.m. London time.
5. Most recent observation based on one-day Thursday quote and futures market index changes.
6. Quotes for week ending Friday previous to date shown.