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CLASS II FOMC

March 24, 1995

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	
Business investment	1
Projection for 1995:Q1	2
<u>Tables</u>	
Business capital spending indicators	3
Changes in manufacturing and trade inventories	6
<u>Charts</u>	
Orders and shipments of nondefense capital goods	4
Nonresidential construction and permits	5
Inventory-sales ratio, by major sector	7
THE FINANCIAL ECONOMY	
<u>Tables</u>	
Selected financial market quotations	8
Commercial bank credit and short- and intermediate- term business credit	9

SUPPLEMENTAL NOTES

THE DOMESTIC NONFINANCIAL ECONOMY

Business Investment

With the receipt of revised data on manufacturers' shipments and orders for January and preliminary data for February, the outlook for current-quarter equipment investment has improved noticeably. In particular the January drop in shipments of office and computing machines (OCM) reported previously is now shown to have been much smaller and February shipments are reported to have been up 5-3/4 percent (Note: The detail on OCM is unpublished at this point and, thus, is strictly confidential.) Moreover, new orders for OCM spurted almost 8 percent in February after a 1-1/4 percent rise in January; the previous report for January had shown these orders dropping 4-1/4 percent.

Shipments of nondefense capital goods, excluding aircraft and computers, continued to trend up at a strong pace, advancing 2 percent last month, after a 2-1/2 percent gain in January. In February, orders for these goods retraced only about half of their sizable January gain. Thus, orders continued to run ahead of shipments, and backlogs were still rising. A number of industries that saw particularly large increases in orders in January, including construction equipment, metalworking machinery, and electrical industrial apparatus, reported partial retrenchments in their level of bookings last month. However, orders for communications equipment fell 12 percent after a smaller drop in January; as a result these orders have retraced a good part of the run-up posted over the second half of 1994.

For nonresidential structures, February's data on permits showed a third monthly decline, suggesting that some softening of the uptrend of the past two years may be under way.

Manufacturers' inventory investment in January was revised down \$3.2 billion at an annual rate to \$45.7 billion.

Projection for 1995:Q1

The new information on shipments and orders of nondefense capital goods would lead us to raise our projection of real outlays for producers' durable equipment by \$5 billion. (This would increase the growth rate for PDE from 7 percent to 10-3/4 percent, at an annual rate. The change for computing equipment would go from -7 percent to +5-3/4 percent.) But, given the relatively high levels of inventory investment we penciled in for February and March, we would be inclined to offset the bulk of the additional PDE by reducing the projected accumulation of nonfarm stocks.

BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period;
based on seasonally adjusted data, in current dollars)

	1994			1994	1995	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
<u>Producers' durable equipment</u>						
Shipments of nondefense capital goods	2.3	3.4	2.7	.2	2.2	3.0
Excluding aircraft and parts	4.6	3.2	3.3	.8	1.5	2.8
Office and computing	1.7	2.5	4.9	-1.5	-1.8	5.7
All other categories	5.4	3.4	2.9	1.4	2.5	2.0
Shipments of complete aircraft ¹	-33.1	n.a.	n.a.	.7	-14.4	n.a.
Sales of heavy trucks	5.3	1.3	8.2	-8.2	17.3	-5.0
Orders of nondefense capital goods	.2	3.3	3.4	-7.4	10.9	.1
Excluding aircraft and parts	4.2	3.4	2.7	-1.5	7.8	-2.0
Office and computing	6.7	3.3	2.0	-2.9	1.2	7.9
All other categories	3.5	3.5	2.9	-1.1	9.7	-4.5
<u>Nonresidential structures</u>						
Construction put-in-place	3.6	2.4	6.2	.1	-.7	n.a.
Office	3.7	2.8	9.3	.0	2.8	n.a.
Other commercial	11.9	1.9	4.2	4.0	2.0	n.a.
Institutional	7.4	-1.3	2.3	4.5	1.1	n.a.
Industrial	6.6	3.5	7.0	-7.4	3.6	n.a.
Public utilities	-4.5	5.4	8.8	-1.0	-9.8	n.a.
Lodging and miscellaneous	-.6	-4.6	7.1	2.8	9.0	n.a.
Rotary drilling rigs in use	2.3	-2.1	-5.3	-1.7	.1	2.2
Memo:						
Business fixed investment ²	9.2	14.1	16.1	n.a.	n.a.	n.a.
Producers' durable equipment ²	6.1	18.1	18.2	n.a.	n.a.	n.a.
Nonresidential structures ²	20.6	1.6	9.3	n.a.	n.a.	n.a.

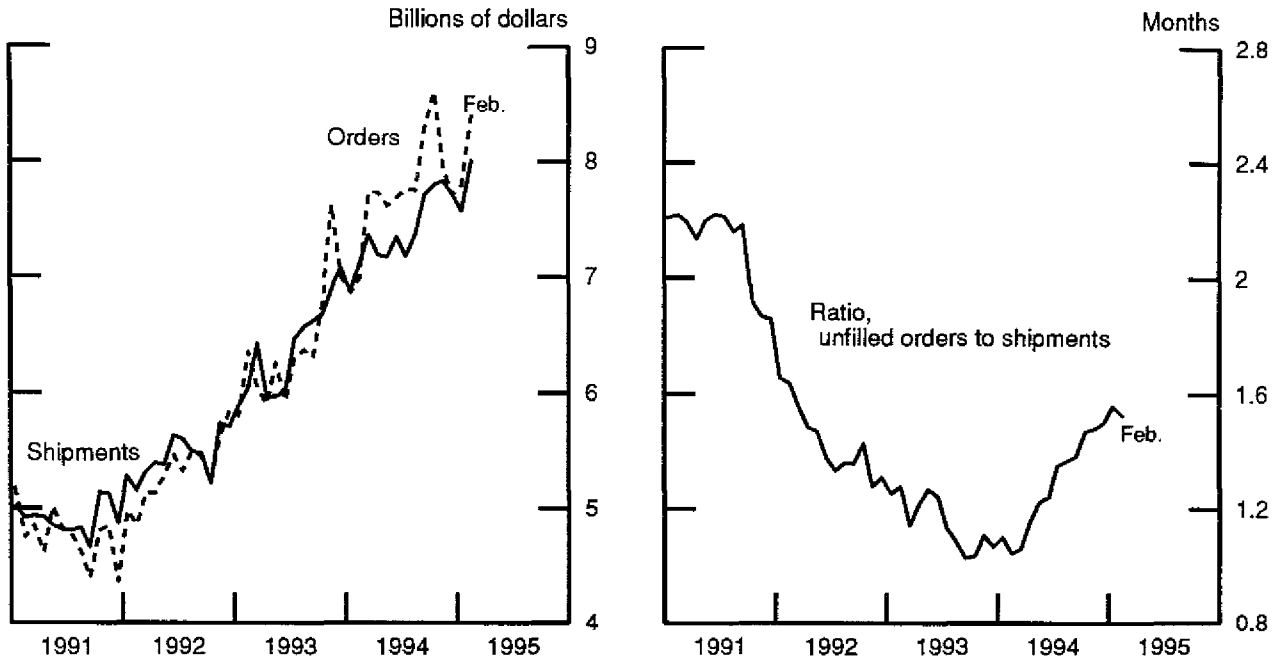
1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines." Monthly data are seasonally adjusted using FRB seasonal factors constrained to BEA quarterly seasonal factors. Quarterly data are seasonally adjusted using BEA seasonal factors.

2. Based on constant-dollar data; percent change, annual rate.

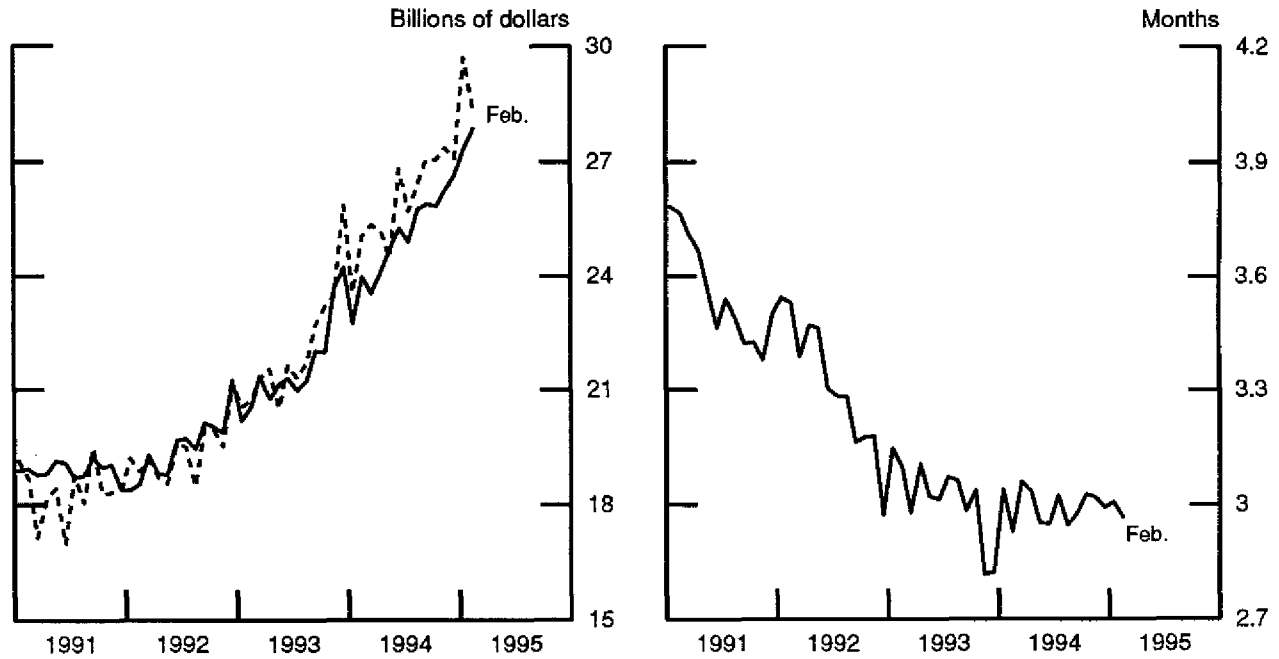
n.a. Not available.

Orders and Shipments of Nondefense Capital Goods

Office and Computing Equipment



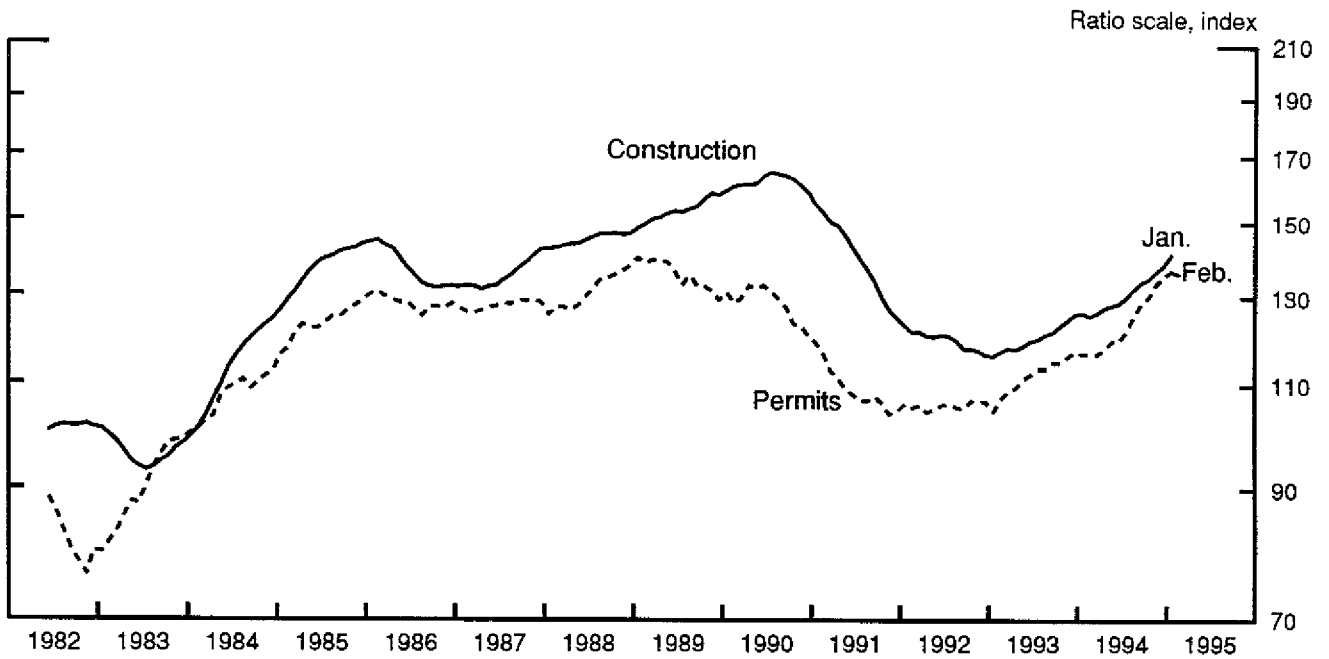
Other Equipment (Ex. Aircraft and Computing Equipment)



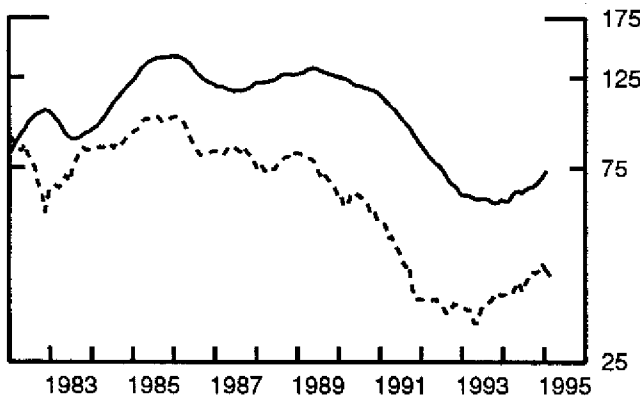
Nonresidential Construction and Permits

(Six-month moving average, Dec. 1982 = 100)

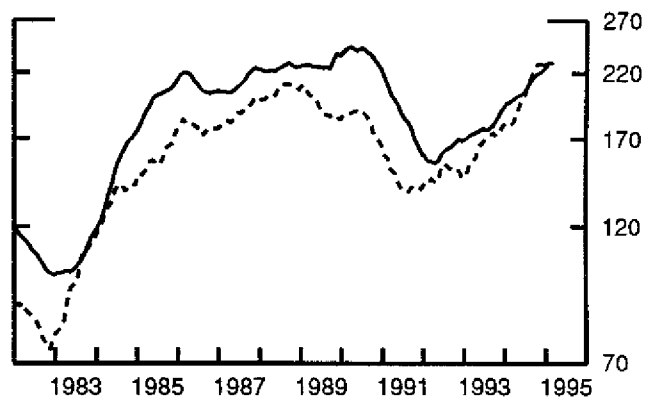
Total Building



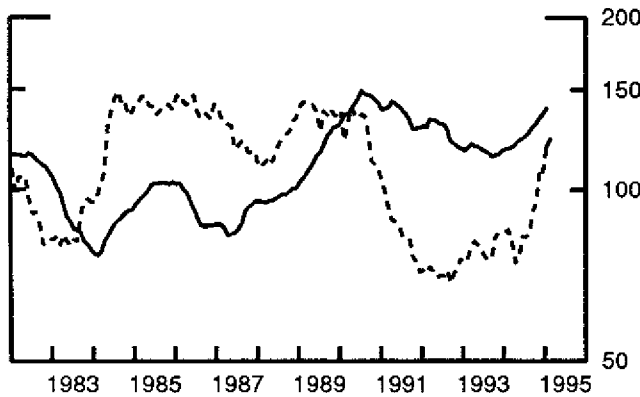
Office



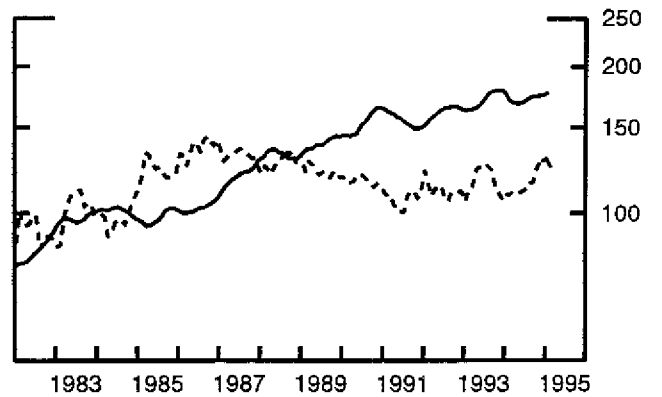
Other Commercial



Industrial



Institutional



CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars at book value and annual rates;
based on seasonally adjusted data)

	1994			1994		1995
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Total	75.6	70.6	57.3	60.1	32.3	96.3
Excluding wholesale and retail motor vehicles	58.9	53.4	54.9	55.9	28.1	57.2
Manufacturing	13.3	13.7	21.1	23.1	21.9	45.7
Computers	1.2	-3.0	-1.0	-.8	-4.8	9.1
Excluding computers	12.2	16.7	22.1	23.9	26.6	36.5
Wholesale	23.0	22.7	25.3	22.2	12.3	17.4
Excluding motor vehicles	16.6	23.0	25.8	24.4	17.5	8.1
Retail	39.4	34.2	10.9	14.7	-1.9	33.2
Automotive	10.4	17.5	2.9	6.3	9.4	29.7
Excluding auto dealers	29.0	16.7	8.0	8.5	-11.3	3.5
Constant-dollar basis						
Total	39.0	39.6	32.8	30.8	5.5	n.a.
Excluding motor vehicles	35.6	31.6	22.2	23.3	-6.3	n.a.
Manufacturing	.7	4.5	2.5	5.9	-1.6	n.a.
Wholesale	16.0	15.2	13.7	11.7	.7	n.a.
Excluding motor vehicles	10.8	15.9	14.4	13.9	5.3	n.a.
Retail	22.3	19.9	16.6	13.2	6.4	n.a.
Automotive	-1.9	7.9	11.2	9.3	15.7	n.a.
Excluding auto dealers	24.2	12.0	5.4	3.9	-9.3	n.a.

INVENTORIES RELATIVE TO SALES¹
(Months supply; based on seasonally adjusted data at book value)

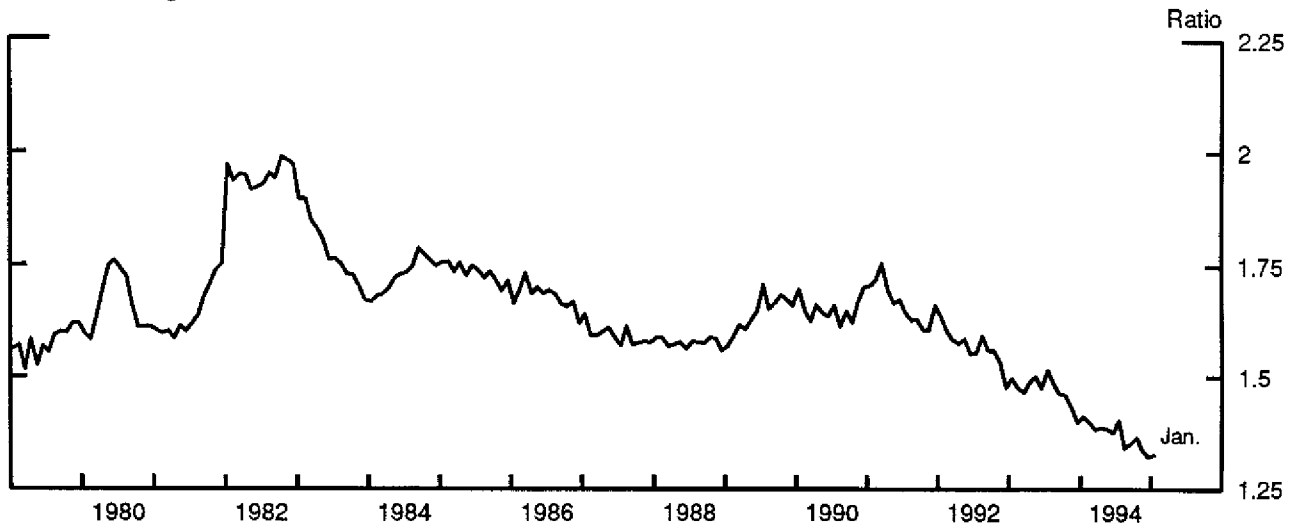
	1994			1994		1995
	Q2	Q3	Q4	Nov.	Dec.	Jan.
Total	1.41	1.41	1.39	1.39	1.37	1.38
Excluding wholesale and retail motor vehicles	1.39	1.38	1.37	1.37	1.35	1.35
Manufacturing	1.39	1.36	1.35	1.34	1.32	1.33
Computers	1.66	1.51	1.41	1.45	1.42	1.55
Excluding computers	1.38	1.36	1.35	1.34	1.32	1.32
Wholesale	1.33	1.32	1.32	1.32	1.29	1.32
Excluding motor vehicles	1.30	1.30	1.30	1.30	1.28	1.29
Retail	1.54	1.55	1.53	1.53	1.53	1.53
Automotive	1.67	1.75	1.66	1.64	1.65	1.71
Excluding auto dealers	1.50	1.50	1.49	1.49	1.49	1.48
Constant-dollar basis						
Total	1.46	1.46	1.44	1.44	1.42	n.a.
Excluding motor vehicles	1.51	1.50	1.49	1.49	1.47	n.a.
Manufacturing	1.43	1.41	1.39	1.38	1.37	n.a.
Wholesale	1.41	1.40	1.40	1.40	1.39	n.a.
Excluding motor vehicles	1.39	1.40	1.39	1.39	1.38	n.a.
Retail	1.56	1.57	1.56	1.55	1.55	n.a.
Automotive	1.57	1.63	1.62	1.58	1.62	n.a.
Excluding auto dealers	1.55	1.55	1.54	1.54	1.53	n.a.

1. Ratio of end-of-period inventories to average monthly sales for the period.

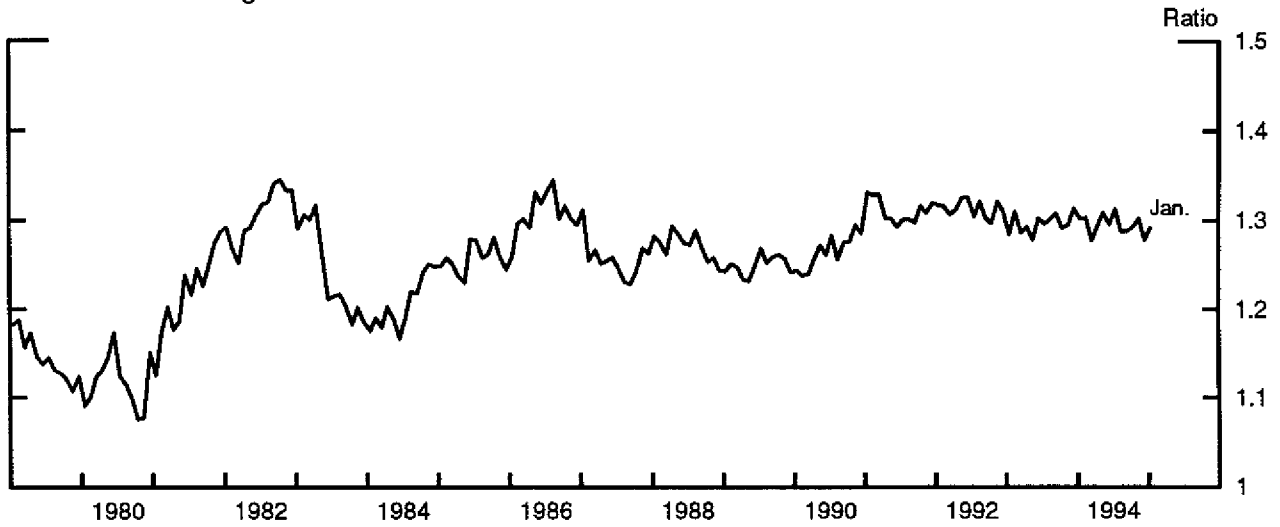
Inventory-Sales Ratio, by Major Sector

(Book value)

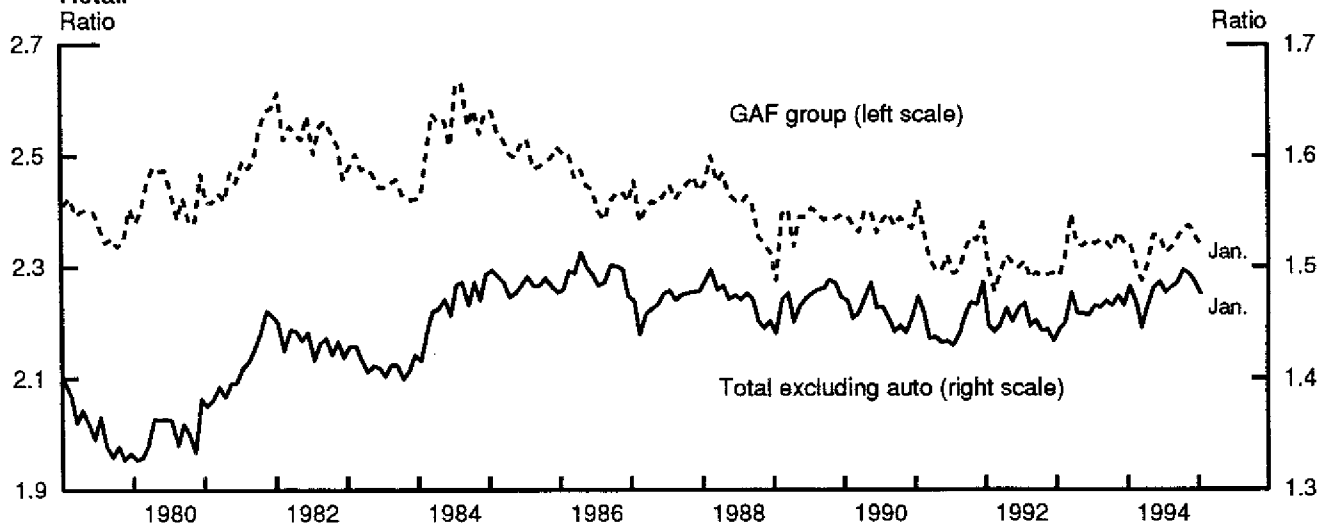
Manufacturing



Wholesale Excluding Motor Vehicles



Retail



1

SELECTED FINANCIAL MARKET QUOTATIONS
(Percent except as noted)

Instrument	1993		1994		1995		Change to Mar 23, 1995:		
	Oct lows		Feb 3	FOMC,* Feb 1	Mar 23		From Oct 93 lows	From Feb 3	From FOMC,* Feb 1
SHORT-TERM RATES									
Federal funds ²	3.07		3.07	5.55	5.97		2.90	2.90	0.42
Treasury bills ³									
3-month	3.01		3.13	5.83	5.71		2.70	2.58	-0.12
6-month	3.09		3.27	6.13	5.86		2.77	2.59	-0.27
1-year	3.23		3.52	6.41	5.98		2.75	2.46	-0.43
Commercial paper									
1-month	3.13		3.16	6.09	6.04		2.91	2.88	-0.05
3-month	3.23		3.25	6.24	6.14		2.91	2.89	-0.10
Large negotiable CDs ³									
1-month	3.08		3.11	6.03	6.01		2.93	2.90	-0.02
3-month	3.22		3.25	6.23	6.12		2.90	2.87	-0.11
6-month	3.23		3.41	6.59	6.30		3.07	2.89	-0.29
Eurodollar deposits ⁴									
1-month	3.06		3.06	6.00	6.00		2.94	2.94	0.00
3-month	3.25		3.25	6.19	6.13		2.88	2.88	-0.06
Bank prime rate	6.00		6.00	8.50	9.00		3.00	3.00	0.50
INTERMEDIATE- AND LONG-TERM RATES									
U.S. Treasury (constant maturity)									
3-year	4.06		4.60	7.39	6.87		2.81	2.27	-0.52
10-year	5.19		5.81	7.60	7.21		2.02	1.40	-0.39
30-year	5.78		6.31	7.71	7.47		1.69	1.16	-0.24
Municipal revenue ⁵ (Bond Buyer)	5.41		5.49	6.78	6.34		0.93	0.85	-0.44
Corporate--A utility, recently offered	6.79		7.35	8.69	8.39		1.60	1.04	-0.30
Home mortgages ⁶									
PHLMC 30-yr. fixed rate	6.74		6.97	9.13	8.38		1.64	1.41	-0.75
PHLMC 1-yr. adjustable rate	4.14		4.12	6.75	6.44		2.30	2.32	-0.31
Stock Exchange Index									
Stock exchange index	Record high		1989	1995		Percentage change to Mar 23:			
	Level	Date	Low, Jan. 3	FOMC,* Feb 1	Mar 23	From record high	From 1989 low	From FOMC,* Feb 1	
Dow-Jones Industrial	4083.68	3/20/95	2144.64	3843.86	4087.83	0.10	90.61	6.35	
NYSE Composite	268.05	3/20/95	154.00	255.93	267.92	-0.05	73.97	4.68	
NASDAQ (OTC)	810.49	3/20/95	378.56	755.20	811.39	0.11	114.34	7.44	
Wilshire	4868.95	3/20/95	2718.59	4631.40	4865.05	-0.08	78.95	5.04	

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 Mar 29, 1995.
 3. Secondary market.
 * Figures are as of the close on Jan 31, 1995.

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.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage change; seasonally adjusted annual rate)¹

Type of credit	1994	1994 Q3	1994 Q4	1994 Dec	1995 Jan	1995 Feb	Level, Feb 1995 (billions of \$)
	Commercial bank credit						
1. Total loans and securities	6.8	7.2	4.3	7.1	11.3	4.2	3,363.5
2. Securities	4.9	1.3	-7.2	-4.9	-2.2	-10.8	938.2
3. U.S. government	0.0	-4.0	-11.3	-7.0	1.8	-8.0	715.8
4. Other	24.6	20.0	6.6	1.0	-14.7	-19.6	222.4
5. Loans	7.6	9.7	9.1	12.1	16.7	10.1	2,425.3
6. Business	9.5	10.6	10.9	9.9	23.8	22.0	670.9
7. Real estate	6.3	8.7	7.6	9.3	18.0	8.9	1,021.0
8. Consumer	14.7	16.5	14.7	14.3	13.1	2.6	455.6
9. Security	-15.0	-19.5	-9.7	30.1	-27.7	-18.4	70.8
10. Other	4.0	8.9	5.8	19.7	12.9	3.5	206.9
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	9.6	10.9	11.4	10.3	24.7	23.8	663.4
12. Loans at foreign branches ²	5.1	12.6	-3.5	15.9	26.2	20.5	23.8
13. Sum of lines 11 and 12	9.4	10.9	11.0	10.3	24.9	23.5	687.2
14. Commercial paper issued by nonfinancial firms	1.2	4.5	25.0	37.3	12.3	20.1	170.3
15. Sum of lines 13 and 14	7.7	9.8	13.6	15.5	22.5	22.8	857.5
16. Bankers acceptances, U.S. trade-related ^{3,4}	-8.3	-11.5	-25.7	-50.5	-26.4	n.a.	17.8 ⁵
17. Loans at finance companies ⁴	12.2	5.2	17.0	20.0	22.7	n.a.	360.7 ⁵
18. Total (sum of lines 15, 16, and 17)	8.7	8.0	14.0	15.8	21.7	n.a.	1,220.0 ⁵

1. Except as noted, levels are averages of Wednesday data and percentage changes are based on averages of Wednesday data. For years, "percentage change" is percentage change in quarterly average from fourth quarter of preceding year to fourth quarter of specified year. For quarters, it is the percentage change in quarterly average from preceding quarter to specified quarter, annualized. Data are adjusted for breaks caused by reclassification.

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. Levels and changes are based on averages of month-end data.

5. January 1995.

n.a. Not available.