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CLASS III FOMC

June 30, 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

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SUPPLEMENTAL NOTES

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THE DOMESTIC NONFINANCIAL ECONOMY

Manufacturers' Inventories and New Orders

In book-value terms, manufacturers' inventories expanded at a \$30.8 billion annual rate in May (a monthly increase of 0.6 percent), following an upward-revised increase of \$43.2 billion in April. With a 0.5 percent rise in factory shipments last month, the inventory-shipments ratio for all manufacturing was unchanged at 1.37 months; although up from earlier in the year, the ratio was about the same as the level of 1.38 months posted in May of last year.

As in earlier months, a sizable portion of the accumulation in May was in stocks of machinery and business equipment. Indeed, for nondefense capital goods as a group, stocks expanded at a \$11.3 billion annual rate in May, accounting for one-third of the total increase. In addition, the April buildup in stocks of this category was revised up sharply, from \$5 billion in the preliminary report to \$9.7 billion. In both months, stocks held by producers of computer and office equipment and telecommunications apparatus accounted for a sizable portion of the buildup. In addition, inventories held by producers of transportation equipment, chemicals, paper, printing and publishing also posted significant increases in May. (The last two categories are included in the "other nondurables" grouping in the attached table). Stocks of home goods and apparel rose \$1.9 billion in May, down from the average monthly increase of \$4-1/2 billion over the first four months of this year. By stage of processing, the May accumulation was fairly evenly distributed among stocks of materials, work-in-process, and finished goods. However, a good part of the finished goods accumulation in May occurred at

industries such as chemicals and paper, where a high proportion of "finished" products are actually materials for further processing.

New orders for all manufactured goods rose 1.4 percent in May, retracing about two-thirds of the decline in April. For nondefense capital goods excluding aircraft, new orders are now shown to have increased 4.8 percent in May, somewhat stronger than the 4.1 percent rise indicated in the advance report last week. Upward revisions in bookings were notable in industries producing special industrial machinery, construction and materials-handling equipment, and communications apparatus.

#### University of Michigan Survey

The University of Michigan SRC index of consumer sentiment rose 2.9 index points to a level of 92.7, still below the January peak of 97.6, but well within the fairly narrow range of readings that has prevailed since early 1994. This final survey result was essentially the same as the early-June reading--indicating that the early-month improvement from the May level of sentiment was maintained through the end of June. Most of the gain in the composite index was attributable to a rise of four index points in the expected conditions component; the current conditions index edged up just one index point.

#### Sales of New Homes

Sales of new single-family homes jumped 19.9 percent in May to 722,000 units (annual rate), the highest monthly pace since March 1994. In addition, the estimates of sales in February, March, and April were revised up. Large gains in sales were recorded in May in all regions but the Midwest, where sales were unchanged. The monthly estimates of new home sales are notorious for their revisions. Nonetheless, as it now stands, this report, combined with data reported earlier on sales of existing homes, and surveys

of consumers, builders, and mortgage lenders, provides strong evidence of a pickup in housing demand during the spring.

The inventory of unsold homes, which had been trending up for two years, edged down to 345,000 in May. At May's higher sales pace, the inventory represented only a 5.6 months' supply, the leanest position in a year and well below the long-run average.

The average price of new homes sold in May was up 4.2 percent from a year earlier; the median price was 3.8 percent higher. Both increases are above those reported earlier this year, but are in line with the Census Bureau's constant-quality price index for new homes, which increased 3.8 percent in the first quarter.

#### Initial Claims for Unemployment Insurance

New claims for unemployment insurance fell back 27,000 to 373,000 during the week ended June 24, retracing most of the sharp rise a week earlier. These swings, in part, resulted from temporary layoffs in the motor vehicle industry in Delaware, Missouri, and Michigan.

#### Real GDP and Related Items

A table summarizing final first-quarter data for Real GDP and related items is attached.

#### Tax Cut Provisions of the Budget Resolution

This note clarifies the potential effects of tax cuts on budget resolution totals that were in the footnote on page 2 of Part 1 of the Greenbook. The footnote incorrectly implied that the resolution contained specific tax proposals. Rather, the budget resolution merely specifies that tax cuts may not exceed \$50 billion as of fiscal year 2002 and may not total more than \$245 billion over the fiscal 1996 through 2002 period. Tax cuts are permitted only if the Congressional Budget Office certifies that the outlay savings specified in the resolution will be achieved through actions spelled

out in the bill and that a balanced budget would be attained in fiscal 2002 with the tax cuts taken into account. The specifics of the tax cuts will be provided by the Senate Finance and the House Ways and Means Committees. This means that the deficit-reduction pattern specified in the budget resolution may change substantially once tax cut provisions are specified. In particular, the House has already passed a tax cut bill that would significantly increase revenues during the first year owing, among other provisions, to the increased capital gains realizations that would result from a cut in the capital gains tax rate.

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

	1994		1995	1995		
	Q3	Q4	Q1	Mar.	Apr.	May
Total	68.9	57.7	104.8	79.8	98.1	n.a.
Excluding wholesale and retail motor vehicles	51.9	55.2	75.2	61.8	79.5	n.a.
Manufacturing	13.7	21.1	41.1	28.3	43.2	30.8
Wholesale	22.0	25.5	35.0	37.2	34.8	n.a.
Excluding motor vehicles	22.3	25.9	28.9	38.1	27.2	n.a.
Retail	33.2	11.1	28.7	14.4	20.1	n.a.
Automotive	17.3	2.9	23.4	19.0	10.9	n.a.
Excluding auto dealers	15.9	8.2	5.3	-4.6	9.2	n.a.
Constant-dollar basis						
Total	39.6	33.8	43.2	41.7	n.a.	n.a.
Excluding motor vehicles	31.6	22.7	29.5	19.5	n.a.	n.a.
Manufacturing	4.5	4.1	14.1	7.4	n.a.	n.a.
Wholesale	15.2	14.1	19.5	20.4	n.a.	n.a.
Excluding motor vehicles	15.9	14.9	14.5	22.0	n.a.	n.a.
Retail	19.9	15.6	9.6	13.8	n.a.	n.a.
Automotive	7.9	11.8	8.5	21.7	n.a.	n.a.
Excluding auto dealers	12.0	3.8	1.0	-7.9	n.a.	n.a.

INVENTORIES RELATIVE TO SALES<sup>1</sup>  
(Months supply; based on seasonally adjusted data at book value)

	1994		1995	1995		
	Q3	Q4	Q1	Mar.	Apr.	May
Total	1.40	1.38	1.40	1.40	1.42	n.a.
Excluding wholesale and retail motor vehicles	1.37	1.36	1.36	1.36	1.38	n.a.
Manufacturing	1.36	1.35	1.35	1.35	1.37	1.37
Wholesale	1.31	1.31	1.33	1.33	1.34	n.a.
Excluding motor vehicles	1.29	1.29	1.30	1.31	1.31	n.a.
Retail	1.53	1.51	1.54	1.54	1.55	n.a.
Automotive	1.76	1.68	1.81	1.80	1.85	n.a.
Excluding auto dealers	1.46	1.46	1.46	1.46	1.46	n.a.
Constant-dollar basis						
Total	1.46	1.44	1.44	1.45	n.a.	n.a.
Excluding motor vehicles	1.50	1.49	1.48	1.49	n.a.	n.a.
Manufacturing	1.41	1.39	1.38	1.38	n.a.	n.a.
Wholesale	1.40	1.40	1.42	1.43	n.a.	n.a.
Excluding motor vehicles	1.40	1.39	1.40	1.42	n.a.	n.a.
Retail	1.57	1.55	1.57	1.57	n.a.	n.a.
Automotive	1.63	1.62	1.71	1.72	n.a.	n.a.
Excluding auto dealers	1.55	1.53	1.53	1.52	n.a.	n.a.

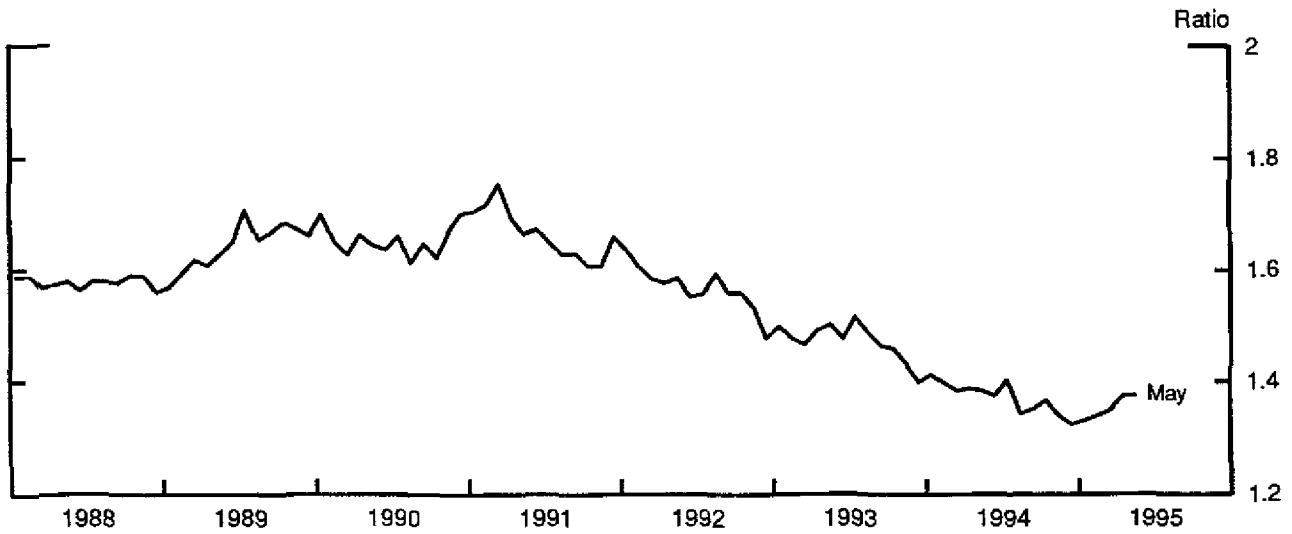
1. Ratio of end-of-period inventories to average monthly sales for the period.



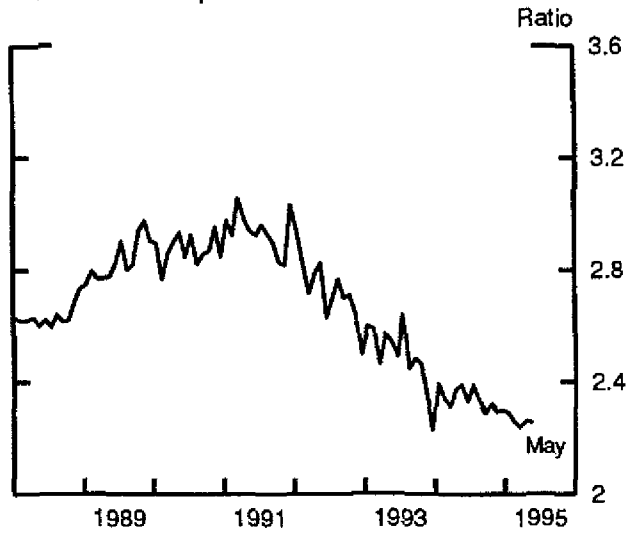
# Inventory-Sales Ratios in Manufacturing by Market Category

(Book value)

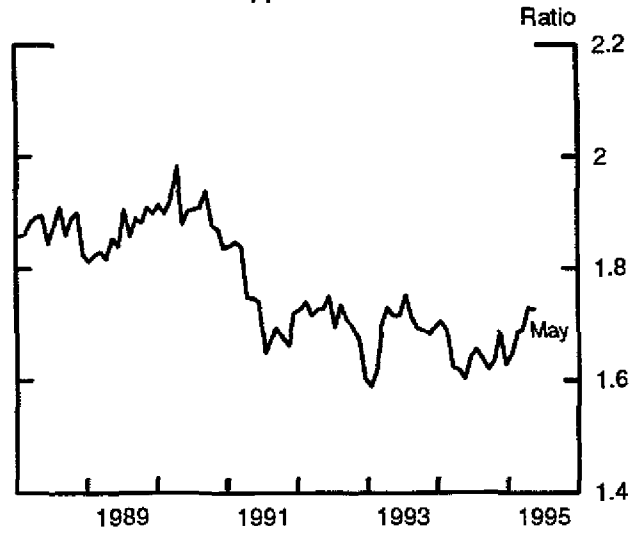
Total



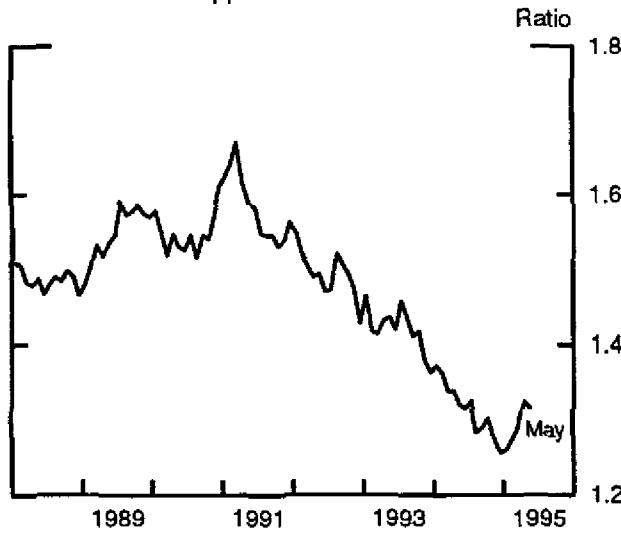
Nondefense Capital Goods



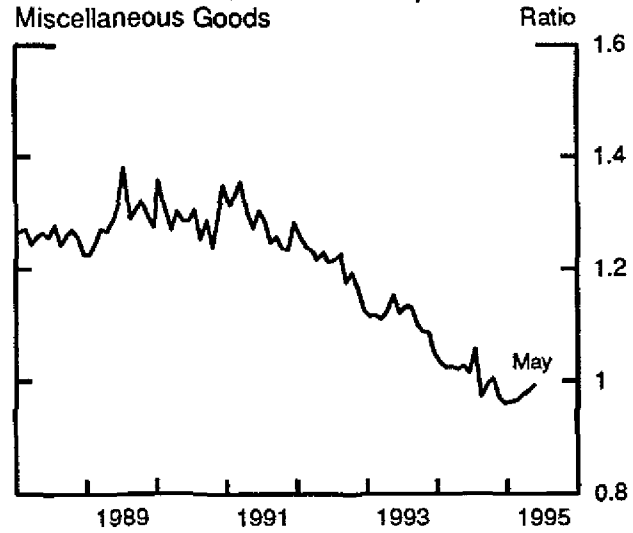
Home Goods and Apparel



Materials and Supplies

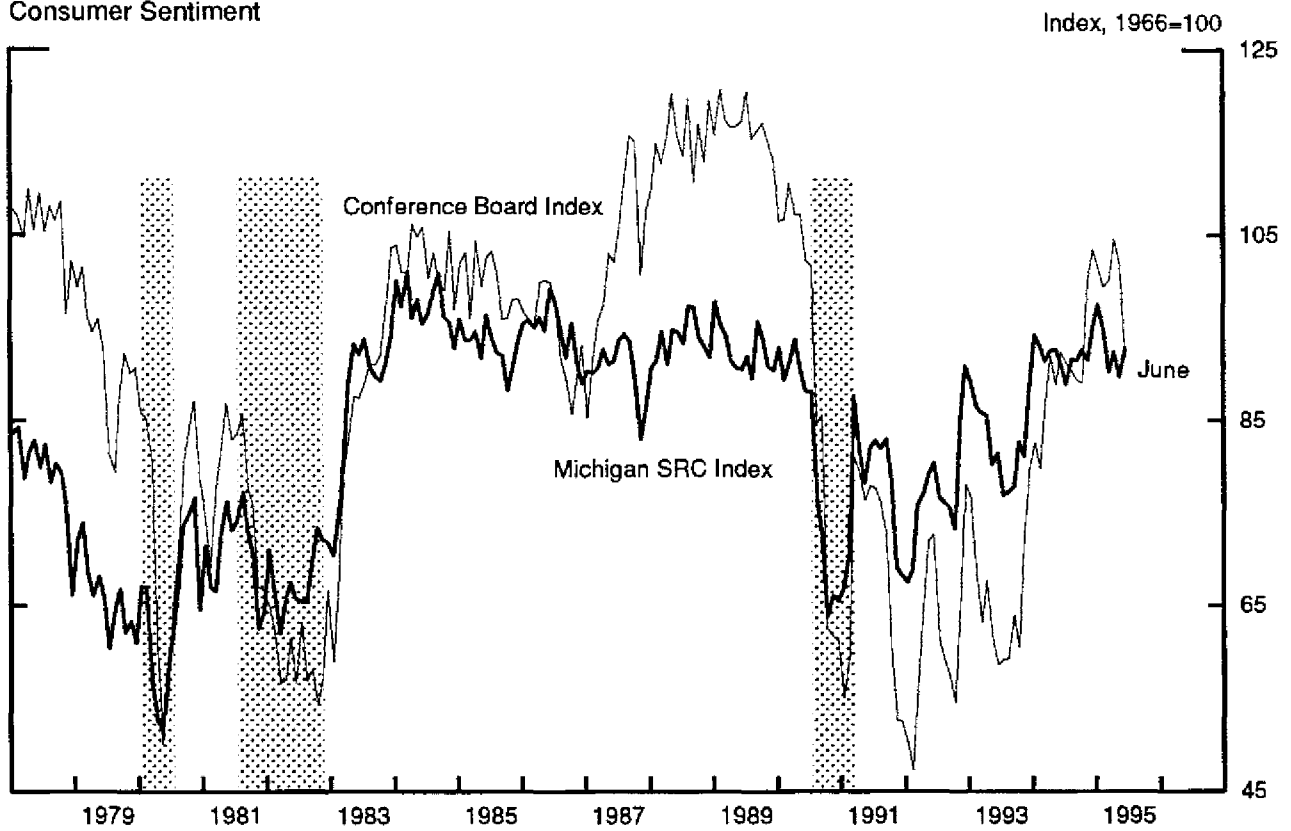


Defense Products, Consumer Staples, and Miscellaneous Goods

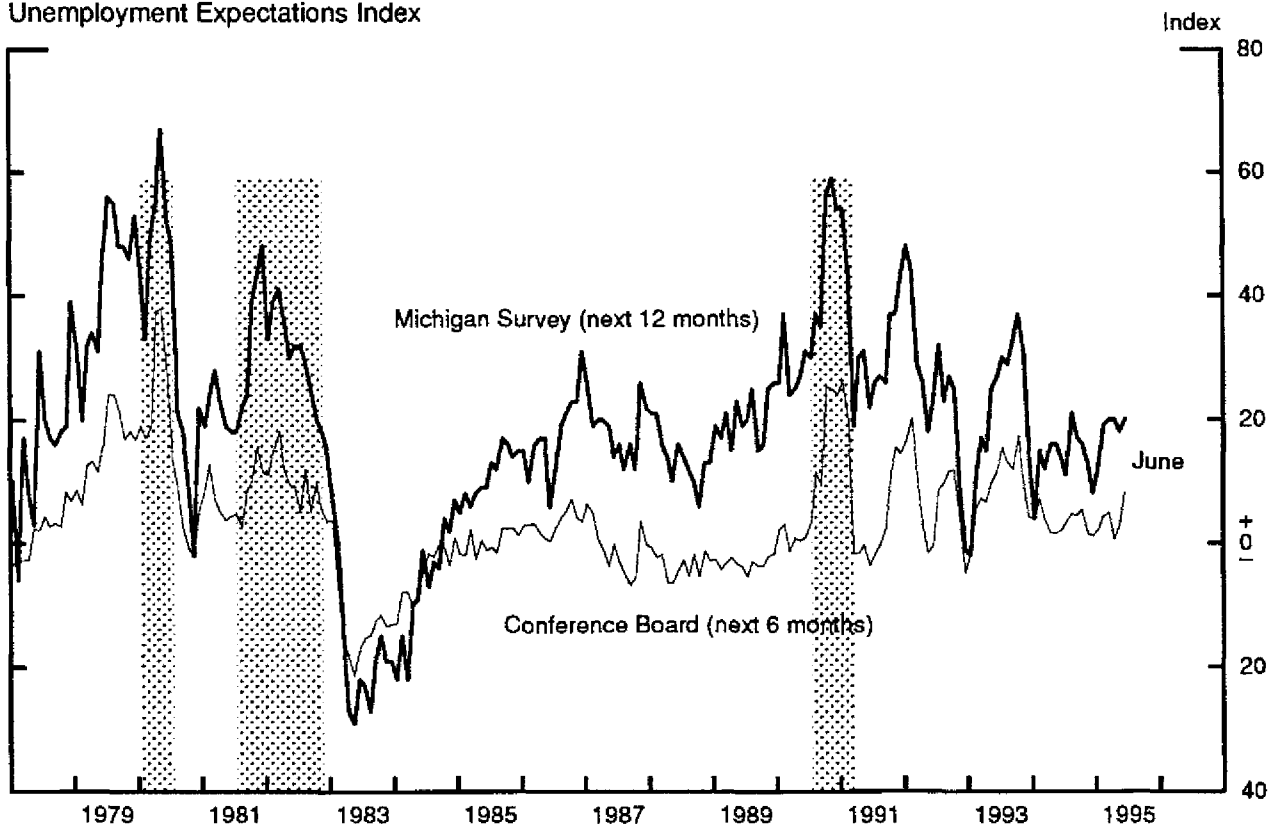


# Consumer Surveys

## Consumer Sentiment



## Unemployment Expectations Index



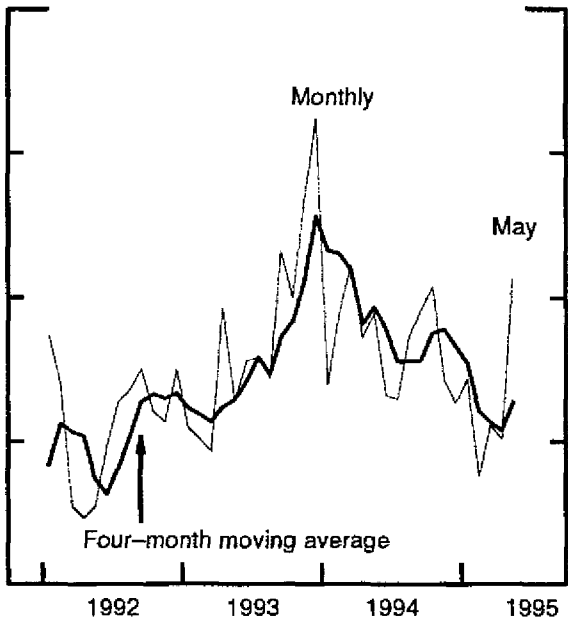
Note. The unemployment expectations index is defined as the proportion of households that believe unemployment will rise in the near term, minus the proportion who believe unemployment will fall.

# Single-Family Homes

## New Homes

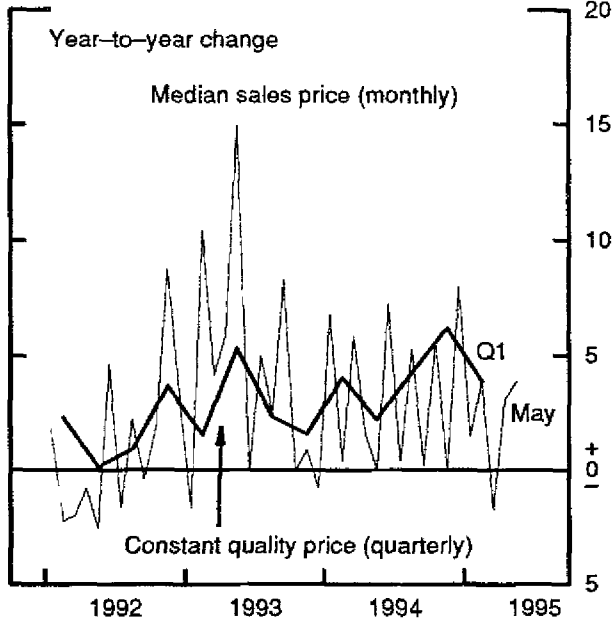
Sales

Millions of units, annual rate



Prices

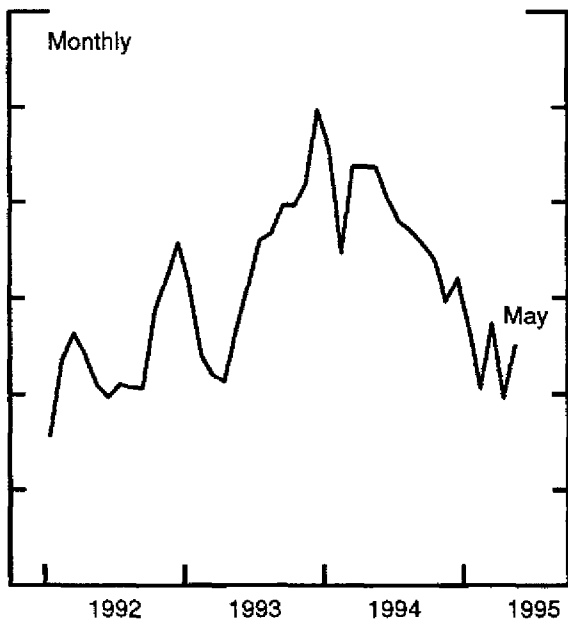
Percent



## Existing Homes

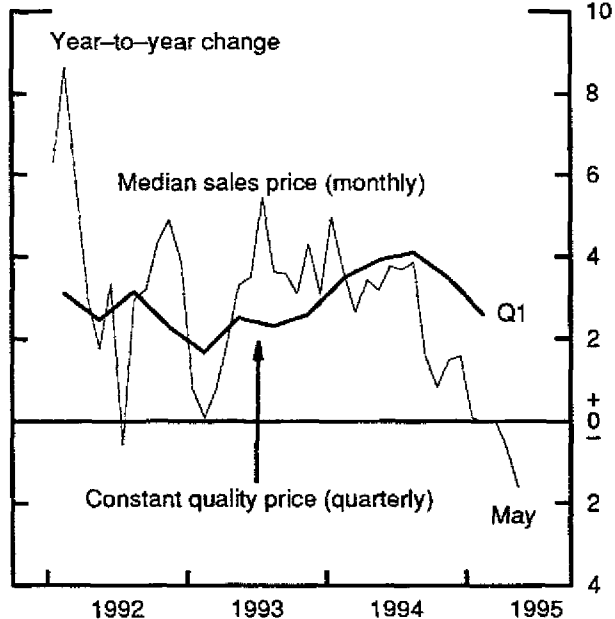
Sales

Millions of units, annual rate



Prices

Percent



## Real Gross Domestic Product and Related Items

(Percent change from previous period at compound annual rates;  
based on seasonally adjusted data, measured in 1987 dollars)

	1993-Q4 to 1994-Q4	1994-Q3 Final	1994-Q4 Final	1995-Q1	
				Prelim.	Final
1. Gross domestic product	4.1	4.0	5.1	2.7	2.7
2. Final sales	3.4	4.3	5.7	2.5	2.6
3. Consumer spending	3.5	3.1	5.1	1.8	1.6
4. Business fixed investment	12.9	14.1	17.6	20.7	21.5
5. Producers' durable equipment	15.5	18.1	19.6	22.5	24.5
6. Nonresidential structures	4.6	1.6	11.0	14.3	11.5
7. Residential investment	3.1	-6.0	2.3	-2.6	-3.4
8. Federal government purchases	-5.9	10.9	-14.4	-4.2	-3.8
9. Defense purchases	-8.2	12.8	-21.8	-7.3	-7.5
10. Nondefense purchases	-1.0	6.8	2.9	1.8	3.6
11. State and local govt. purchases	2.0	4.3	2.3	.5	1.0
12. Exports of goods and services	11.6	14.8	20.2	2.5	4.8
13. Imports of goods and services	13.8	15.6	11.4	8.8	10.1
<hr/>					
<b>ADDENDA:</b>					
14. Nonfarm inventory investment <sup>1</sup>	40.7 <sup>2</sup>	47.4	41.7	49.8	49.1
15. Motor vehicles <sup>1</sup>	6.0 <sup>2</sup>	8.0	11.1	13.6	14.2
16. Excl. motor vehicles	34.7 <sup>2</sup>	39.4	30.6	36.2	34.9
17. Farm inventory investment <sup>1</sup>	7.1 <sup>2</sup>	9.7	7.7	2.5	2.0
18. Net exports of goods and services <sup>1</sup>	-110.0 <sup>2</sup>	-117.0	-107.1	-120.0	-118.5
19. GDP fixed-weight price index	2.9	3.0	2.6	3.3	3.3
20. GDP implicit price deflator	2.3	1.9	1.3	2.2	2.2
21. Corporate profits <sup>3</sup>	542.7 <sup>2</sup>	556.0	560.3	568.8	569.7
22. Profit share <sup>4</sup>	8.1 <sup>2</sup>	8.2	8.2	8.2	8.2
23. Personal saving rate (percent)	4.1 <sup>2</sup>	4.1	4.6	5.1	5.1

1. Level, billions of 1987 dollars.

2. Annual average.

3. With inventory valuation and capital consumption adjustments; level, billions of dollars.

4. Economic profit as a share of nominal GNP.

1  
SELECTED FINANCIAL MARKET QUOTATIONS  
(Percent except as noted)

Instrument	1994		1995		Change to Jun 29, 1995:			
	Feb 3	High	FOMC. May 23	Jun 29	From 1994 Feb 3	From 1994 high	From FOMC. May 23	
<b>SHORT-TERM RATES</b>								
Federal funds <sup>2</sup>	3.07	5.66	5.99	5.95	2.88	0.29	-0.04	
Treasury bills <sup>3</sup>								
3-month	3.13	5.78	5.73	5.50	2.37	-0.28	-0.23	
6-month	3.27	6.38	5.69	5.41	2.14	-0.97	-0.28	
1-year	3.52	6.84	5.63	5.43	1.91	-1.41	-0.20	
Commercial paper								
1-month	3.16	6.13	6.05	6.11	2.95	-0.02	0.06	
3-month	3.25	6.32	6.06	5.95	2.70	-0.37	-0.11	
Large negotiable CDs <sup>3</sup>								
1-month	3.11	6.10	5.99	5.98	2.87	-0.12	-0.01	
3-month	3.25	6.39	6.03	5.89	2.64	-0.50	-0.14	
6-month	3.41	6.89	6.07	5.78	2.37	-1.11	-0.29	
Eurodollar deposits <sup>4</sup>								
1-month	3.06	6.06	5.00	6.00	2.94	-0.06	0.00	
3-month	3.25	6.38	5.03	5.88	2.63	-0.50	-0.15	
Bank prime rate	6.00	8.50	9.00	9.00	3.00	0.50	0.00	
<b>INTERMEDIATE- AND LONG-TERM RATES</b>								
U.S. Treasury (constant maturity)								
3-year	4.60	7.82	6.22	5.95	1.35	-1.87	-0.27	
10-year	5.81	8.04	6.57	6.28	0.47	-1.76	-0.29	
30-year	6.31	8.16	6.87	6.65	0.34	-1.51	-0.22	
Municipal revenue <sup>5</sup> (Bond Buyer)	5.49	7.37	6.15	6.28	0.79	-1.09	0.13	
Corporate--A utility, recently offered <sup>6</sup>	7.35	9.05	7.83	7.55	0.20	-1.50	-0.28	
Home mortgages								
FHLMC 30-yr. fixed rate	6.97	9.25	7.83	7.53	0.56	-1.72	-0.30	
FHLMC 1-yr adjustable rate	4.12	6.79	6.10	5.84	1.72	-0.95	-0.26	
	Record high		1989	1995		Percentage change to Jun 29		
Stock exchange index	Level	Date	Low, Jan. 3	FOMC, May 23	Jun 29	From record high	From 1989 low	From FOMC, May 23
Dow-Jones Industrial	4589.64	6/22/95	2144.64	4436.44	4550.56	-0.85	112.18	2.57
NYSE Composite	294.93	6/22/95	154.00	283.80	291.26	-1.24	89.13	2.63
NASDAQ (OTC)	940.09	6/22/95	378.56	879.64	926.81	-1.41	144.83	5.36
Wilshire	5400.87	6/22/95	2718.59	5172.35	5333.11	-1.25	96.17	3.11

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 July 5, 1995.  
 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.  
 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)<sup>1</sup>

Type of credit	1994	1994 Q4	1995 Q1	1995 Mar	1995 Apr	1995 May	Level, May 1995 (billions of \$)
Commercial bank credit							
1. Total loans and securities	6.8	4.0	7.8	8.3	14.1	9.2	3,451.8
2. Securities	4.9	-7.4	-5.1	3.3	16.6	-3.8	949.9
3. U.S. government	0.0	-11.2	-6.1	-20.8	0.0	4.8	707.3
4. Other	23.8	5.2	-1.9	81.7	66.3	-28.0	242.6
5. Loans	7.6	8.8	13.0	10.2	13.1	14.2	2,501.9
6. Business	9.2	10.3	17.1	6.3	15.9	14.4	690.1
7. Real estate	6.5	7.8	12.0	6.6	8.9	5.1	1,040.4
8. Consumer	15.2	16.4	12.7	14.4	15.2	4.3	472.7
9. Security	-17.2	-20.0	-9.1	33.6	60.3	185.2	84.5
10. Other	3.3	3.4	13.4	23.9	5.2	21.1	214.2
Short- and intermediate-term business credit							
11. Business loans net of bankers acceptances	9.4	10.9	18.1	6.9	15.5	16.0	683.7
12. Loans at foreign branches <sup>2</sup>	5.1	-3.5	17.6	-5.0	45.6	19.5	25.0
13. Sum of lines 11 and 12	9.3	10.6	18.0	6.6	16.4	16.1	708.7
14. Commercial paper issued by nonfinancial firms	1.2	25.0	22.1	20.4	36.7	20.8	181.6
15. Sum of lines 13 and 14	7.6	13.3	18.8	9.4	20.4	17.1	890.3
16. Bankers acceptances, U.S. trade-related <sup>3,4</sup>	-8.3	-25.7	-21.2	20.2	-6.6	-26.7	17.6
17. Loans at finance companies <sup>4</sup>	12.2	17.0	20.6	17.7	14.2	n.a.	376.6 <sup>5</sup>
18. Total (sum of lines 15, 16, and 17)	8.6	13.7	18.7	11.9	18.4	n.a.	1,272.5 <sup>5</sup>

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. April 1995.

n.a. Not available.

THE INTERNATIONAL ECONOMY

Prices of U.S. Imports and Exports

In May, prices of non-oil imports rose 0.8 percent, the largest gain since monthly data began to be collected in January 1989. All of the end-use categories contributed to the rise, led by imported industrial supplies and foods. Prices of imported finished goods posted relatively strong gains for the second consecutive month. The price of imported oil rose sharply in May, albeit less strongly than in April.

For April-May combined, prices of non-oil imports rose at nearly a 6 percent annual rate, noticeably stronger than in the first quarter and about 1/2 percent (annual rate) stronger than recorded in the third and fourth quarters of last year. Much of the increase in April-May relates to the weakening of the dollar in recent months. The most notable price increases in April-May were for imported capital goods and consumer goods, both of which had shown only small increases for several years. While prices of imported industrial supplies continued to rise at a double-digit rate, the increase was slightly less than during the previous two quarters. The price of imported oil rose sharply in April-May. By area, the price index for imported goods from Europe, Japan, and Canada rose strongly in May; over the past twelve months prices of goods from these areas rose 7 to 9 percent (largely related to exchange rates for Europe and Japan, and to commodity prices for Canada). Over the past year, prices of imports from the NIEs edged up about 1/2 percent.

Prices of exports in May showed the smallest increase since last September, influenced importantly by a slowing in the price rise of industrial materials. For April-May combined, export prices rose less than in the first quarter, and more than in any quarter of

last year. Price increases of exported industrial supplies slowed a bit in April-May compared with the first quarter. However, prices of exported capital goods rose more strongly in April-May than in the first quarter; this compares with price declines recorded for exported capital goods in each quarter of 1994.

Erratum

The correct figure for the growth of Mexican merchandise exports for the January-May 1995 period above their year-earlier level is 32 percent. The correct figure for the decline in Mexican imports over that period is 5 percent. (See page IV-29)



PRICES OF U.S. IMPORTS AND EXPORTS  
(percent change from previous period)

	Quarters			Months		
	94Q4	95Q1	95Q2e/	Mar	Apr	May
	(annual rates)			(monthly rates)		
	-BLS Prices-					
<u>Merchandise Imports</u>	3.8	4.4	8.6	0.6	0.9	1.0
Oil	-10.9	15.2	36.5	1.9	4.2	3.1
Non-Oil	5.5	3.3	5.8	0.5	0.5	0.8
Foods, Feeds, Bev.	7.9	-0.4	-3.5	2.7	-2.5	1.2
Ind Supp Ex Oil	15.2	15.3	11.4	0.6	1.2	1.3
Computers	-6.2	-3.5	-4.7	-0.9	-0.1	-0.8
Capital Goods Ex Comp	2.6	0.6	9.1	0.4	1.2	1.2
Automotive Products	6.2	0.7	5.1	0.4	0.6	0.6
Consumer Goods	1.6	1.1	3.7	0.0	0.5	0.6
Memo:						
Oil Imports (\$/bbl)	15.19	16.01		16.20	17.26	
<u>Merchandise Exports</u>	5.9	8.6	6.7	0.6	0.9	0.3
Agricultural	7.0	12.0	14.0	1.5	1.9	0.5
Nonagricultural	5.9	8.3	5.5	0.4	0.7	0.3
Ind Supp Ex Ag	18.8	23.5	13.8	0.9	1.8	0.7
Computers	-6.3	-5.6	-1.5	-0.4	0.1	-0.1
Capital Goods Ex Comp	0.0	2.8	2.7	0.2	0.5	0.1
Automotive Products	2.3	1.0	-0.2	-0.3	0.0	0.1
Consumer Goods	1.2	1.7	2.6	0.2	0.3	0.2
	-Prices in the NIPA Accounts-					
<u>Fixed-Weight</u>						
Imports of Gds & Serv.	3.2	3.8				
Non-oil Merch Ex Comp	5.4	3.2				
Exports of Gds & Serv.	6.9	9.3				
Nonag Merch Ex Comp	7.1	9.6				

e/ Average of two months.