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CLASS III - FOMC

May 13, 1988

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

Total retail sales fell 0.6 percent in April, after upward-revised increases of 1 percent in February and 1.7 percent in March. These figures suggest an upward revision to first-quarter real consumer spending of around \$6 billion.

In April, spending at automotive outlets fell 1 percent, as unit sales of autos and light trucks dropped back a bit from the March pace. Declines in spending also occurred in most other categories; apparel was an exception, posting an increase of 0.7 percent over the month.

The upward revisions to sales in February and March were widespread across categories of stores. Sales of apparel are now estimated to have risen substantially in March, after a small gain in February; other large revisions were in food, furniture, and general merchandise. On balance, spending in the retail control category<sup>1</sup> now shows an increase of 1.2 percent for the first quarter, up from the 0.6 percent rise reported earlier.

#### Business inventories

In current cost terms, retail inventories rose \$2.8 billion at an annual rate in March, after declines of \$15.3 billion in January and \$13.5 billion in February. As in the first two months of this year, the March retail inventory change was heavily influenced by sizable

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1. The retail control category excludes sales at automotive dealers, building material and supply stores, and gasoline stations.

liquidations in auto dealers' stocks. Nonauto retail inventories rose at a \$19.7 billion annual rate in March, and, for the first quarter as a whole, were up \$13 billion, little changed from the \$15.3 billion rate of accumulation seen in the fourth quarter of last year.

In March, there were large buildups in stocks in the general merchandise, furniture and appliances, and miscellaneous categories. For the G.A.F. grouping as a whole, inventories posted a \$10.3 billion rise in March. However, owing to the strong gain in sales in that month, the inventory-sales ratio for this broad category of stores fell from 2.58 to 2.55.

#### Producer prices

The producer price index for finished goods rose 0.4 percent in April, somewhat less than the 0.6 percent increase in March. Higher energy prices accounted for about half of the increase in the PPI last month, reflecting particularly large increases for natural gas and home heating oil as well as further advances in gasoline prices. Food prices were up 0.4 percent in April, down a bit from March's 0.7 percent rise.

Excluding food and energy, the PPI rose 0.1 percent in April, well below its average monthly increase of 0.4 percent in the first quarter. The prices of nonfood nonenergy consumer goods were unchanged last month, held down by falling prices for cars and light trucks. Lower motor vehicles prices also caused the rate of increase in capital equipment prices to slow to 0.2 percent in April; excluding motor vehicles, the PPI for capital equipment was up 0.3 percent, reflecting the strength in demand for a wide range of industrial equipment.

At earlier stages of processing, the PPI for intermediate materials (excluding food and energy) rose another 0.7 percent in April; over the last year, these prices have advanced 6.7 percent. In April, increases in intermediate materials prices were broad-based, led by metals, chemicals, and paper-related products.

RETAIL SALES  
(Seasonally adjusted percentage change)

	1987		1988	1988		
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total sales	2.4	-.6	2.3	1.0	1.7	-.6
Previous estimate <sup>1</sup>			1.7	.6	.8	
Total less auto dealers, nonconsumer stores, and gasoline stations <sup>1</sup>	1.0	.4	1.2	.7	1.5	-.6
Previous estimate <sup>1</sup>			.6	.2	.7	
Durable	4.6	-2.2	4.9	2.1	1.7	-.6
Automotive dealers & parts <sup>1</sup>	6.7	-3.9	6.1	2.0	1.7	-1.0
Previous estimate <sup>1</sup>			5.8	2.0	.9	
Furniture and appliances <sup>1</sup>	1.6	-2.3	5.8	2.1	2.4	-.2
Previous estimate <sup>1</sup>			4.8	2.9	-2.0	
Other durable goods <sup>1</sup>	1.7	2.1	1.0	.3	.7	-.9
Previous estimate <sup>1</sup>			.8	-.4	1.5	
Nondurable	1.1	.3	.7	.4	1.8	-.6
Apparel <sup>1</sup>	2.4	-.3	-.9	.4	2.5	.7
Previous estimate <sup>1</sup>			-2.5	-1.0	.3	
Food <sup>1</sup>	.5	-.4	1.2	1.7	1.5	-.3
Previous estimate <sup>1</sup>			.3	.6	1.1	
General merchandise <sup>2</sup>	.6	1.6	-.1	-2.0	2.1	-.5
Previous estimate <sup>1</sup>			-.6	-2.6	1.6	
Gasoline stations <sup>1</sup>	3.4	-1.4	1.0	-.4	3.7	-1.3
Previous estimate <sup>1</sup>			-.3	-1.2	1.4	
Other nondurables <sup>1</sup>	.4	-1.5	.9	1.0	1.5	-1.6
Previous estimate <sup>1</sup>			1.2	1.1	2.2	
Memo:						
GAF <sup>3</sup>	1.3	.2	1.2	-.4	2.3	-.2
Previous estimate <sup>1</sup>			.3	-.8	.4	

1. Based on incomplete sample counts approximately one month ago.  
2. General merchandise excludes mail order nonstores; mail order sales are also excluded in the GAF grouping.  
3. General merchandise, apparel, furniture, and appliance stores.  
-- Data are unavailable because of a future release date.

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

	1987		1988	1988		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Current cost basis:						
Total	34.5	81.4	40.4	62.1	34.3	25.0
Manufacturing	20.2	27.9	22.9	37.9	20.8	9.9
Wholesale	1.2	23.8	26.2	39.5	26.9	12.3
Retail	13.1	29.6	-8.7	-15.3	-13.5	2.8
Automotive	4.5	14.2	-21.6	-21.7	-26.3	-16.9
Ex. auto	8.6	15.3	13.0	6.4	12.8	19.7
Constant dollar basis:						
Total	5.3	42.9	--	65.9	12.6	--
Manufacturing	12.1	9.4	--	33.3	15.2	--
Wholesale	1.2	13.3	--	39.1	13.7	--
Retail	-8.0	20.2	--	-6.5	-16.3	--
Automotive	-11.9	14.1	--	-10.5	-16.4	--
Ex. auto	3.9	6.2	--	4.0	.1	--

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

	1987		1988	1988		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Range in <sup>2</sup> Preceding 12 months:						
Current cost basis:	low	high				
Total	1.48	1.54	1.50	1.53	1.53	1.50
Manufacturing	1.58	1.64	1.62	1.60	1.61	1.58
Wholesale	1.21	1.30	1.23	1.27	1.31	1.29
Retail	1.56	1.64	1.59	1.65	1.60	1.58
Automotive	1.77	2.06	1.86	2.06	1.76	1.73
Ex. auto	1.47	1.55	1.51	1.54	1.56	1.53
Constant dollar basis:						
Total	1.48	1.53	1.49	1.52	--	1.53
Manufacturing	1.60	1.65	1.63	1.61	--	1.62
Wholesale	1.23	1.33	1.24	1.29	--	1.33
Retail	1.50	1.60	1.54	1.61	--	1.59
Automotive	1.70	1.89	1.68	1.90	--	1.79
Ex. auto	1.42	1.53	1.50	1.53	--	1.52

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

2. Highs and lows are specific to each series and are not necessarily coincidental.



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

	Relative Importance Dec. 1987	1987	1987		1988	1988	
			Q3	Q4	Q1	Mar.	Apr.
			-Annual rate-			-Monthly rate-	
Finished goods	100.0	2.2	3.8	-1.9	2.3	.6	.4
Consumer foods	25.9	-.2	-1.8	-5.7	5.6	.7	.4
Consumer energy	9.6	11.2	16.5	-9.6	-19.6	.9	3.1
Other consumer goods	40.1	2.7	4.6	1.7	5.3	.4	.0
Capital equipment	24.4	1.3	4.0	-.7	3.2	.4	.2
Intermediate materials <sup>2</sup>	95.0	5.5	5.6	4.3	3.9	.6	.8
Excluding energy	82.5	5.2	5.3	7.2	7.8	.7	.7
Crude food materials	39.5	1.8	-4.8	-4.8	16.7	.8	.4
Crude energy	41.9	10.7	5.9	-15.2	-23.6	-2.4	2.5
Other crude materials	18.6	22.6	39.4	18.0	13.8	1.4	.2

1. Changes are from final month of preceding period to final month of period indicated.

2. Excludes materials for food manufacturing and animal feeds.

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

May 12, 1988

	1987 <sup>1</sup>	1987 Q4	1988 Q1	1988 Feb	1988 Mar	1988 Apr	Growth Q4 87- Apr 88
-----Percent change at annual rates-----							
1. M1	6.2	3.9	3.9	1.1	5.5	11.2	5.4
2. M2	4.0	3.9	6.7	8.7	8.8	9.9	7.9
3. M3	5.3	5.4	6.7	10.4	7.3	6.8	7.1
-----Percent change at annual rates-----							Levels bil. \$ Apr 88
<b>Selected components</b>							
4. M1-A	2.8	4.0	1.4	-2.7	4.1	9.2	499.9
5. Currency	8.7	9.9	9.4	5.4	9.6	9.6	202.5
6. Demand deposits	-1.0	0.1	-4.4	-8.7	0.4	9.2	290.1
7. Other checkable deposits	13.6	4.0	8.5	8.2	8.6	14.4	270.3
8. M2 minus M1 <sup>2</sup>	3.2	3.8	7.8	11.4	9.9	9.5	2222.0
9. Overnight RPs and Eurodollars, NSA	4.0	7.5	-12.3	-66.7	-49.2	40.1	77.4
10. General purpose and broker/dealer money market mutual fund shares, NSA	5.8	12.0	19.5	32.5	20.3	6.1	236.2
11. Commercial banks	2.5	3.5	7.2	10.1	9.9	6.5	946.5
12. Savings Deposits, SA, plus MMDAs, NSA <sup>3</sup>	1.8	-4.2	2.7	4.9	8.7	0.4	544.1
13. Small time deposits	3.5	14.8	13.7	17.6	11.6	14.8	402.4
14. Thrift institutions	3.5	3.4	8.7	12.2	12.7	9.2	963.8
15. Savings Deposits, SA, plus MMDAs, NSA <sup>3</sup>	0.8	-11.6	-7.4	-5.1	5.1	3.3	401.5
16. Small time deposits	5.6	16.0	21.3	25.0	18.0	13.8	562.4
17. M3 minus M2 <sup>4</sup>	10.7	11.3	6.7	16.7	1.6	-5.0	769.5
18. Large time deposits	8.5	14.4	7.3	17.1	4.4	2.9	492.7
19. At commercial banks, net <sup>5</sup>	11.2	10.5	3.4	17.2	5.9	-3.3	325.5
20. At thrift institutions	3.4	22.2	15.7	16.2	1.5	15.3	167.2
21. Institution-only money market mutual fund shares, NSA	3.0	20.2	44.0	54.7	-15.8	-67.8	91.9
22. Term RPs, NSA	29.9	-4.1	-0.4	37.5	-34.2	4.5	106.1
23. Term Eurodollars, NSA	12.9	11.1	-28.2	-8.5	44.0	-21.9	86.0
-----Average monthly change in billions of dollars-----							
<b>MEMORANDA:<sup>6</sup></b>							
24. Managed liabilities at commercial banks (25+26)	6.1	5.3	0.5	2.5	-1.2	1.3	569.1
25. Large time deposits, gross	3.5	5.4	2.3	5.3	1.7	-2.0	394.1
26. Nondeposit funds	2.6	-0.1	-1.8	-2.8	-2.9	3.3	175.0
27. Net due to related foreign institutions, NSA	2.9	0.9	-6.6	-6.4	-6.4	2.1	-2.5
28. Other <sup>7</sup>	-0.3	-1.0	4.8	3.5	3.5	1.3	177.5
29. U.S. government deposits at commercial banks <sup>8</sup>	0.3	0.4	-0.4	4.0	2.3	-3.0	21.9

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 March and April at rates of 14.6 percent and 5.9 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during March and April at rates of 7.1 percent and 9.6 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.

8. Consists of Treasury demand deposits and note balances at commercial banks.

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

	1986:Q4 to 1987:Q4	1987 Q4	1988				Levels bil.\$ April <sup>P</sup>
			Q1	Feb.	Mar.	Apr. <sup>P</sup>	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	7.9	2.5	7.5	8.3	8.2	11.9	2297.0
2. Securities	5.0	3.1	5.4	3.6	14.9	11.2	541.3
3. U.S. government securities	9.1	2.2	6.8	-0.4	17.6	14.2	342.9
4. Other securities	-1.3	4.7	2.7	10.5	10.4	6.1	198.4
5. Total loans	8.8	2.3	8.2	9.8	6.2	12.2	1755.7
6. Business loans	7.5	4.7	1.8	3.0	-3.8	20.0	578.8
7. Security loans	1.0	-110.2	76.6	165.3	-43.6	-51.3	38.1
8. Real estate loans	18.1	13.2	10.6	11.2	11.1	11.4	603.6
9. Consumer loans	4.9	4.5	9.9	8.8	14.5	11.1	337.3
10. Other loans	-2.3	-12.2	5.1	-1.8	16.7	6.6	197.9
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	7.6	5.4	1.4	3.2	-4.4	20.4	575.1
12. Loans at foreign branches <sup>2</sup>	-4.1	-35.9	113.2	92.3	85.7	- 6.2	19.4
13. Sum of lines 11 & 12	7.2	4.1	4.3	5.8	-1.4	19.3	594.5
14. Commercial paper issued by nonfinancial firms	-1.6	23.9	8.8	11.3	40.6	16.2	89.9
15. Sum of lines 13 & 14	6.0	6.7	4.9	6.5	3.9	18.9	684.4
16. Bankers acceptances: U.S. trade related <sup>3,4</sup>	13.3	7.1	-11.6	-24.6	3.6	n.a.	33.6 <sup>5</sup>
17. Line 15 plus bankers acceptances: U.S. trade related	6.3	6.7	4.0	5.0	3.9	n.a.	706.2 <sup>5</sup>
18. Finance company loans to business <sup>3</sup>	16.6	24.1	8.4	3.8	9.5	n.a.	214.7 <sup>5</sup>
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	8.4	10.5	5.0	4.8	5.0	n.a.	920.9 <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. March data.

n.a.--not available

SELECTED FINANCIAL MARKET QUOTATIONS<sup>1</sup>  
(Percent)

	1987		1988			Change from:	
	Jan.-Feb. lows	Oct. 16 <sup>2</sup>	Feb lows	FOMC Mar 29	May 12	Oct. 16 <sup>2</sup>	FOMC Mar 29
<b>Short-term rates</b>							
Federal funds <sup>3</sup>	5.95	7.59	6.38	6.56	7.03	-.56	.47
Treasury bills <sup>4</sup>							
3-month	5.30	6.93	5.59	5.74	6.21	-.72	.47
6-month	5.31	7.58	5.77	6.04	6.43	-1.15	.39
1-year	5.35	7.74	6.10	6.36	6.83	-.91	.47
Commercial paper							
1-month	5.81	7.94	6.41	6.62	7.10	-.84	.48
3-month	5.73	8.65	6.45	6.68	7.20	-1.45	.52
Large negotiable CDs <sup>4</sup>							
1-month	5.85	7.92	6.44	6.60	7.06	-.86	.46
3-month	5.80	8.90	6.49	6.67	7.25	-1.65	.58
6-month	5.78	9.12	6.55	6.88	7.56	-1.56	.68
Eurodollar deposits <sup>5</sup>							
1-month	6.00	7.79	6.60	6.70	7.09	-.70	.39
3-month	6.00	8.69	6.69	6.75	7.34	-1.35	.59
Bank prime rate	7.50	9.25	8.50	8.50	9.00	-.25	.50
<b>Intermediate- and long-term rates</b>							
U.S. Treasury (constant maturity)							
3-year	6.34	9.52	7.28	7.66	8.18	-1.34	.52
10-year	7.01	10.23	8.11	8.56	9.04	-1.19	.48
30-year	7.29	10.24	8.32	8.81	9.17	-1.07	.36
Municipal revenue <sup>6</sup> (Bond Buyer)	6.92	9.59	7.76	8.27	8.26	-1.33	-.01
Corporate A utility (recently offered)	8.78	11.50	9.63	10.07e	10.58e	-.92	.51
Home mortgage rates <sup>7</sup>							
S&L fixed-rate	9.10	11.58	9.84	9.99	10.32	-1.26	.33
S&L ARM, 1-yr.	7.52	8.45	7.59	7.52	7.63	-.82	.11

	1986	1987		1988		Percent change from:		
	Year-end	Record highs	Lows	FOMC Mar 29	May 12	Record highs	Lows	FOMC Mar 29
<b>Stock prices</b>								
Dow-Jones Industrial	1895.95	2722.42	1738.74	1988.34	1968.00	-27.71	13.19	-1.02
NYSE Composite	138.58	187.99	125.91	147.22	143.78	-23.52	14.19	-2.34
AMEX Composite	263.27	365.01	231.90	294.33	296.96	-18.64	28.06	.89
NASDAQ (OTC)	348.83	455.26	291.88	372.96	370.23	-18.68	26.84	-.73

1. One-day quotes except as noted.

2. Last business day prior to stock market decline on Monday, October 19, 1987.

3. Average for two-week maintenance period closest to date shown except lows shown which are one-week average ending Feb.25 and Feb.10, respectively. Last observation is average to date for maintenance period ending 5/18/88.

4. Secondary market.

5. Average for statement week closest to date shown.

6. One-day quotes for Thursday.

7. Quotes for week ending Friday closest to date shown.

e--estimate.