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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

DOMESTIC NONFINANCIAL ECONOMY

Industrial Production and Capacity Utilization

Total industrial production is estimated to have edged up 0.1 percent last month, after declines of 0.3 percent in September and 0.6 percent in October. Abstracting from the disruptions caused by the Boeing strike and natural disasters, IP has been down slightly, on balance, in recent months.

Most of the October decline in IP is attributable to the strike against Boeing, which reduced output of aircraft and parts 16-1/2 percent in that month.¹ Production of aircraft in November is estimated to have retraced about 15 percent of the October decline, as most Boeing workers were back on the job by Thanksgiving. This provided a slight boost to November IP (less than 0.1 percentage point). Aircraft production is expected to return to its pre-strike level by early next year. In addition, the California earthquake apparently disrupted output of computers and semiconductors in October; these effects seem to have been retraced almost fully in November.

Auto assemblies declined 500,000 units in November, but this was nearly offset by a 10 percent increase in output of trucks.² Output of consumer goods excluding motor vehicles declined 0.2 percent last month, after a 0.6 percent increase in October. Output of these goods advanced at a strong pace during the first half of this year, but has slowed appreciably, on balance, in recent months. Production of durables excluding motor vehicles has been particularly weak. Output of nondurables decelerated markedly

1. Aircraft and parts constitutes about 2-1/2 percent of total IP.

2. The current proportion of trucks in total IP is a bit more than 1 percent, only slightly less than that of autos.

GROWTH IN SELECTED COMPONENTS OF INDUSTRIAL PRODUCTION
(Percent change from preceding comparable period)

| | Share of total IP ¹ | 1987 ² | 1988 ² | 1989 | | 1989 | | |
|----------------------------|-----------------------------------|-------------------|-------------------|-----------------|-----------------|--------------------|-------------------|-------------------|
| | | | | H1 ² | Q3 ^r | Sept. ^r | Oct. ^r | Nov. ^e |
| | | | | -Annual rate- | | ---Monthly rate--- | | |
| Total index | 100.0 | 5.8 | 5.0 | 2.7 | 1.1 | -.3 | -.6 | .1 |
| Previous | | 5.8 | 5.0 | 2.7 | 1.3 | .0 | -.7 | |
| Excluding aircraft & parts | 95.5 | 5.9 | 5.2 | 2.6 | .9 | -.3 | -.1 | .1 |
| Final products | 47.1 | 4.6 | 5.4 | 5.0 | .0 | -.4 | -1.2 | .4 |
| Consumer goods | 24.9 | 3.2 | 6.0 | 3.5 | -1.7 | -.2 | .4 | -.2 |
| Motor vehicles | 2.7 | 4.4 | 8.8 | -3.6 | -21.6 | -1.4 | -1.8 | .0 |
| Durables ex. motor veh. | 3.6 | 4.0 | 3.9 | 6.3 | -1.2 | -.3 | -.5 | -.9 |
| Nondurables | 18.6 | 2.8 | 6.0 | 4.1 | 1.4 | -.1 | .9 | -.1 |
| Business equipment | 16.5 | 7.0 | 8.3 | 9.5 | .5 | -.7 | -2.7 | 1.3 |
| Motor vehicles | 1.0 | 3.9 | 10.7 | -13.2 | -25.0 | -.1 | -3.0 | -.8 |
| Computers | 4.2 | 9.4 | 8.7 | 24.0 | -6.4 | -.1 | -4.4 | 4.0 |
| Other | 11.2 | 6.4 | 8.0 | 6.7 | 5.9 | -.9 | -2.1 | .4 |
| Manufacturing | 3.1 | 6.2 | 12.7 | 7.0 | 5.6 | -1.1 | -.2 | .5 |
| Civilian aircraft | .8 | 3.3 | 7.1 | 22.7 | 18.7 | -.1 | -24.6 | 6.9 |
| Construction supplies | 6.0 | 4.7 | 5.2 | -0.3 | 2.7 | -.6 | .5 | .4 |
| Business supplies | 8.3 | 6.7 | 5.4 | 5.1 | 2.5 | .6 | .4 | -.2 |
| Materials | 38.6 | 7.2 | 4.6 | -.1 | 1.9 | -.3 | -.2 | -.2 |
| Durable | 20.2 | 8.0 | 6.9 | -.3 | 4.0 | -.4 | -1.1 | -.2 |
| Nondurable | 9.7 | 8.1 | 4.1 | 2.5 | 2.4 | -1.2 | 1.3 | -.1 |
| Energy | 8.7 | 4.5 | -.1 | -2.7 | -3.7 | .9 | .4 | -.2 |
| Memo: | | | | | | | | |
| Manufacturing | 87.6 | 5.9 | 5.6 | 3.4 | 1.4 | -.4 | -.8 | .2 |
| Durable | 50.8 | 6.0 | 6.0 | 2.8 | .1 | -.7 | -1.8 | .5 |
| Nondurable | 36.8 | 5.7 | 5.1 | 4.3 | 3.2 | .1 | .5 | -.2 |

1. As of 1988.

2. From the final quarter of the previous period to the final quarter of the period indicated.

r--revised

e--estimated

CAPACITY UTILIZATION IN INDUSTRY¹
(Percent of capacity; seasonally adjusted)

| | 1967-88 | 1973 | 1978-79 | 1988 | 1989 | | |
|----------------------------|---------|-------|---------|-------|------|------|------|
| | Ave. | Ave. | Ave. | Nov. | Sep. | Oct. | Nov. |
| Total industry | 81.6 | 87.9 | 85.0 | 84.1 | 83.4 | 82.8 | 82.7 |
| Manufacturing | 80.7 | 87.0 | 84.4 | 84.4 | 83.7 | 82.8 | 82.7 |
| Primary processing | 82.0 | 91.3 | 86.3 | 88.1 | 86.0 | 85.8 | 85.5 |
| Advanced processing | 80.2 | 85.1 | 83.3 | 82.6 | 82.8 | 81.4 | 81.4 |
| Durable manufacturing | 78.8 | 86.2 | 83.5 | 83.0 | 82.1 | 80.4 | 80.7 |
| Primary metals | 79.9 | 96.6 | 87.8 | 90.4 | 85.3 | 84.5 | 82.1 |
| Iron and steel | 79.0 | 97.9 | 88.2 | 90.2 | 82.4 | 82.6 | 79.9 |
| Nonferrous metals | 81.5 | 94.2 | 87.1 | 90.7 | 89.2 | 87.0 | 85.1 |
| Nonelectrical machinery | 78.2 | 86.6 | 83.2 | 82.8 | 85.8 | 83.9 | 85.5 |
| Motor vehicles & parts | 78.2 | 94.5 | 83.6 | 85.5 | 77.2 | 75.4 | 74.9 |
| Autos | 76.1 | 89.3 | 81.7 | 76.7 | 70.7 | 69.8 | 64.3 |
| Aerosp. & misc. trans. eq. | 78.1 | 75.4 | 77.6 | 85.6 | 86.9 | 77.7 | 79.1 |
| Nondurable manufacturing | 83.6 | 88.1 | 85.7 | 86.4 | 85.9 | 86.1 | 85.6 |
| Paper and products | 88.8 | 94.2 | 89.4 | 93.7 | 92.4 | 92.5 | 92.5 |
| Chemicals and products | 79.3 | 86.9 | 81.4 | 89.1 | 86.6 | 87.4 | 87.1 |
| Petroleum products | 86.9 | 97.1 | 87.8 | 84.9 | 87.3 | 88.6 | 87.8 |
| Mining | 86.5 | 91.4 | 90.5 | 83.3 | 83.1 | 83.5 | 83.8 |
| Utilities | 86.7 | 92.8 | 85.3 | 80.8 | 80.6 | 81.1 | 80.9 |
| Memo: | | | | | | | |
| Industrial materials | 82.3 | 91.1 | 86.7 | 85.1 | 83.5 | 83.2 | 82.9 |
| Raw steel | 80.7 | 100.4 | 90.7 | 89.3 | 84.0 | 84.6 | 81.8 |
| Aluminum | 87.8 | 93.8 | 94.0 | 100.5 | 96.4 | 93.5 | 91.0 |
| Paper materials | 92.0 | 96.8 | 92.1 | 96.7 | 95.2 | 95.4 | 95.4 |
| Chemical materials | 81.3 | 91.1 | 85.9 | 90.5 | 86.7 | 87.9 | 87.3 |
| Energy materials | 88.9 | 93.7 | 89.4 | 86.2 | 85.1 | 85.5 | 85.3 |

1. Data for iron and steel, nonferrous metals, paper and products, chemicals and products, raw steel, aluminum, paper materials, and chemical materials are unpublished estimates for October.

during the third quarter, but the level of output in November was up 3-1/4 percent (annual rate) from the third-quarter average.

Production of business equipment increased 1.3 percent last month; about 1 percentage point of this gain is attributable to a bounceback in computer output.³ In addition, a partial rebound in output of aircraft added about 1/4 percentage point to the business equipment index. Excluding motor vehicles, production of capital goods weakened considerably last summer when computer production turned down. More recently, abstracting from special factors, it appears to have flattened out.

Production of materials declined 0.2 percent in November, the third consecutive monthly decline. Part of this weakness stems from declines in auto and truck assemblies, both of which are at much lower levels currently than early last summer.

The manufacturing operating rate edged down 0.1 percentage point in November to 82.7 percent, and has fallen 1-3/4 percentage points since June.

Retail Trade Inventories

Retail inventories fell at an annual rate of \$9 billion in current-cost terms in October, largely reflecting a \$29 billion decline in auto dealers' stocks. With a 0.3 percent drop in sales, the retailers' inventory-sales ratio moved up from 1.63 to 1.65 months in October. Excluding auto dealers, the ratio rose from 1.52 to 1.54 months, well above the upper end of the range that has prevailed over the past year (chart). The pickup in October in the rate of accumulation of nonauto retail inventories was widespread. For the broad range of retail establishments in the general merchandise, apparel, and furniture and appliances (G.A.F.) grouping, inventories rose at

³ Computers currently constitute about one-fourth of the business equipment index.

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

| | 1988 | | | 1989 | | |
|---|------|------|-------|------|-------|-------|
| | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. |
| Current-cost basis: | | | | | | |
| Total | 47.1 | 61.2 | 39.1 | 33.4 | 2.4 | 40.0 |
| Excluding autos and aircraft ¹ | | | | | | |
| Manufacturing | 31.1 | 38.3 | 24.2 | 16.0 | -3.4 | 59.0 |
| Wholesale | 27.9 | 21.4 | 17.6 | 8.2 | -7.2 | 11.7 |
| Retail | 5.5 | 11.5 | 1.4 | -5.1 | -7.7 | 37.3 |
| Automotive | 13.8 | 28.3 | 20.1 | 30.2 | 17.3 | -8.9 |
| Excluding auto | 4.9 | 13.6 | 9.1 | 16.4 | 10.4 | -29.2 |
| | 8.9 | 14.7 | 11.1 | 13.8 | 6.9 | 20.2 |
| Constant-dollar basis: | | | | | | |
| Total | 10.1 | 16.2 | 8.4 | 23.5 | -15.8 | n.a. |
| Excluding autos and aircraft ¹ | | | | | | |
| Manufacturing | -6.7 | 13.4 | 17.2 | 18.0 | -9.8 | n.a. |
| Wholesale | 3.8 | 8.3 | 13.2 | 11.3 | -9.3 | n.a. |
| Retail | -2.1 | 5.2 | -.3 | -2.7 | -10.7 | n.a. |
| Automotive | 8.4 | 2.6 | -4.5 | 15.0 | 4.2 | n.a. |
| Excluding auto | 9.0 | -3.0 | -12.7 | 4.3 | -.7 | n.a. |
| | -.6 | 5.7 | 8.2 | 10.7 | 4.9 | n.a. |

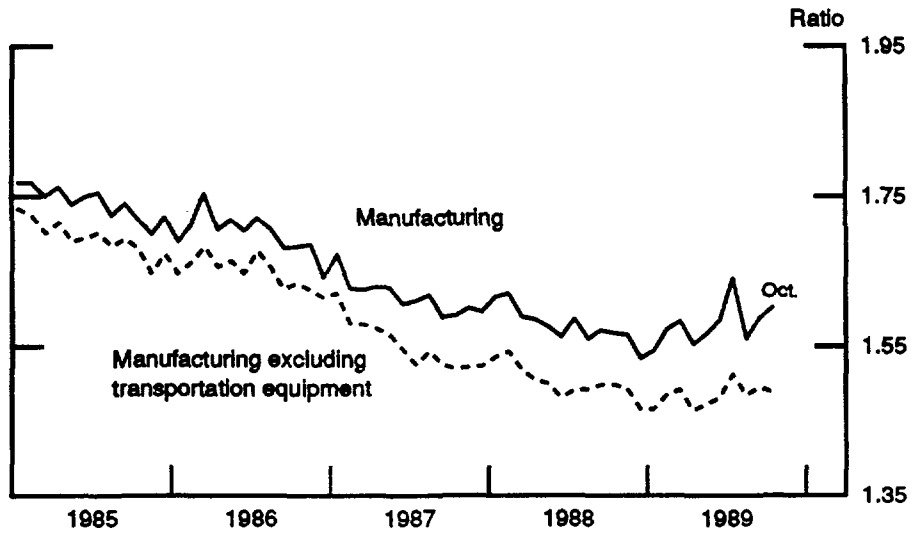
1. All manufacturing and trade excluding transportation equipment in manufacturing, and autos and auto parts at retail dealers.
n.a. Not available.

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

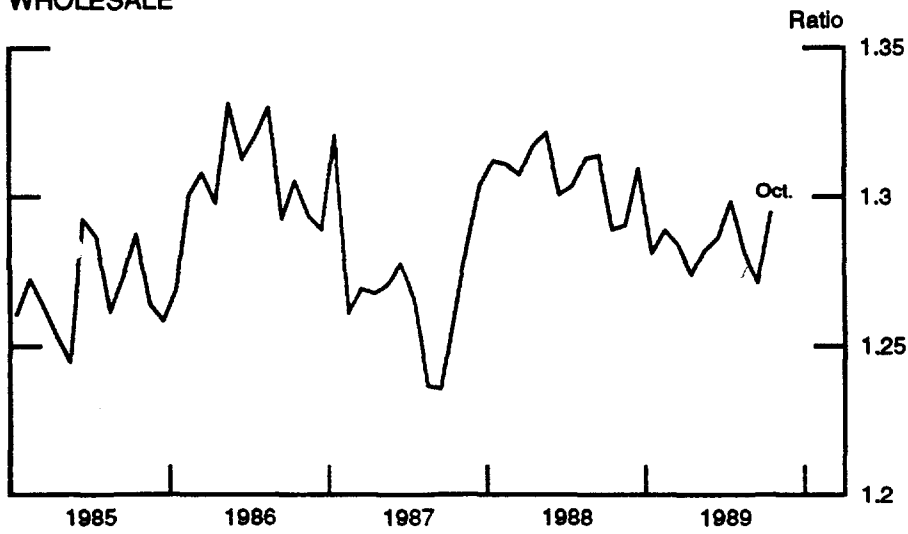
| | 1988 | | | 1989 | | |
|--|------|------|------|------|-------|------|
| | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. |
| Range in ² preceding 12 months: | | | | | | |
| | Low | High | | | | |
| Current-cost basis: | | | | | | |
| Total | 1.48 | 1.54 | 1.50 | 1.51 | 1.52 | 1.50 |
| Excluding autos and aircraft ³ | | | | | | |
| Manufacturing | 1.41 | 1.44 | 1.43 | 1.42 | 1.44 | 1.43 |
| Wholesale | 1.53 | 1.64 | 1.57 | 1.57 | 1.59 | 1.56 |
| Retail | 1.27 | 1.31 | 1.28 | 1.28 | 1.28 | 1.27 |
| Automotive | 1.56 | 1.63 | 1.61 | 1.63 | 1.64 | 1.62 |
| Excluding auto | 1.83 | 2.06 | 1.96 | 2.05 | 2.04 | 2.00 |
| | 1.48 | 1.51 | 1.51 | 1.51 | 1.52 | 1.52 |
| Constant-dollar basis: | | | | | | |
| Total | 1.48 | 1.52 | 1.50 | 1.50 | 1.49 | 1.48 |
| Excluding autos and aircraft ³ | | | | | | |
| Manufacturing | 1.42 | 1.44 | 1.43 | 1.43 | 1.43 | 1.42 |
| Wholesale | 1.52 | 1.63 | 1.57 | 1.57 | 1.58 | 1.55 |
| Retail | 1.32 | 1.36 | 1.33 | 1.33 | 1.32 | 1.32 |
| Automotive | 1.50 | 1.56 | 1.55 | 1.55 | 1.51 | 1.50 |
| Excluding auto | 1.68 | 1.93 | 1.93 | 1.88 | 1.69 | 1.68 |
| | 1.43 | 1.46 | 1.45 | 1.46 | 1.46 | 1.45 |

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. Range is for the 12-month period preceding the latest month for which data are available.
3. All manufacturing and trade excluding transportation equipment in manufacturing, and autos and auto parts at retail dealers.
n.a. Not available.

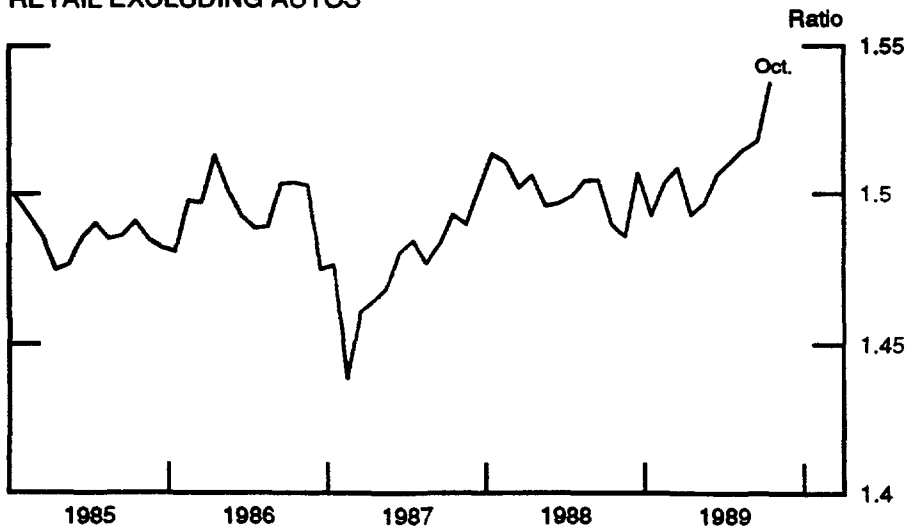
Ratio of Inventories to Sales (Current-cost data)



WHOLESALE



RETAIL EXCLUDING AUTOS



a \$6.5 billion annual rate in October. Flat sales left the inventory-sales ratio for stores in the G.A.F. grouping at 2.47 months in October--somewhat higher than the average of 2.43 months over the past year.

For all manufacturing and trade, inventories rose at an annual rate of \$40 billion in October, about the same as in the third quarter. The inventory-sales ratio rose to 1.53 months in October for all manufacturing and trade, and to 1.44 months when aircraft manufacturers and retail auto dealers are excluded.

Producer Prices

The producer price index for finished goods edged down 0.1 percent in November, held down by a 3-1/4 percent decrease in finished energy prices. Reflecting recent swings in crude oil costs, gasoline prices fell 7-3/4 percent in November, and retraced much of the large runup in September and October. Food prices increased substantially for a second month, rising 0.8 percent in November. The November increase reflected sharp jumps in the prices of beef and veal, pork, and dairy products that were partly offset by a 15 percent drop in the price of fresh and dried vegetables. Excluding food and energy, finished goods prices rose 0.2 percent, held down by a 0.3 percent decrease in prices of new cars and a 1 percent drop in prices of light trucks. Prices of capital equipment increased 0.3 percent in November, as declines in truck prices only partly offset widespread increases in the prices of industrial machinery and a 1.6 percent increase in the index for civilian aircraft.

Prices of intermediate materials other than food and energy were unchanged in November, as they have been since the spring. Increases in prices of components for manufacturing and materials for nondurable manufacturing were offset by declines in prices of some industrial metals.

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

| | Relative importance Dec. 1988 | 1987 | 1988 | 1989 | | | 1989 | |
|-------------------------------------|----------------------------------|------------------|------|-----------------------|-------|-------|----------------|------|
| | | | | Q1 | Q2 | Q3 | Oct. | Nov. |
| | | | | -----Annual rate----- | | | -Monthly rate- | |
| Finished goods | 100.0 | 2.2 ^v | 4.0 | 10.2 | 5.8 | -.3 | .4 | -.1 |
| Consumer foods | 25.8 | -.2 | 5.7 | 13.1 | -1.3 | -1.3 | 1.4 | .8 |
| Consumer energy | 8.8 | 11.2 | -3.6 | 41.0 | 31.8 | -16.8 | .2 | -3.3 |
| Other finished goods | 65.3 | 2.1 | 4.3 | 5.1 | 5.1 | 3.3 | .1 | .2 |
| Consumer goods | 39.6 | 2.7 | 4.8 | 5.4 | 5.7 | 2.6 | .2 | .0 |
| Capital equipment | 25.8 | 1.3 | 3.6 | 4.6 | 4.5 | 4.8 | -.3 | .3 |
| Intermediate materials ² | 94.8 | 5.4 | 5.3 | 8.7 | 2.9 | -1.1 | .1 | -.1 |
| Excluding food and energy | 83.4 | 5.2 | 7.2 | 5.5 | .3 | -.7 | .1 | .0 |
| Crude food materials | 43.8 | 1.8 | 14.2 | 16.9 | -17.8 | -2.2 | -.6 | 1.7 |
| Crude energy | 36.9 | 10.7 | -9.5 | 48.3 | 23.6 | -6.5 | .5 | .3 |
| Other crude materials | 19.3 | 22.6 | 7.5 | 10.3 | -9.3 | -.6 | .3 | -2.3 |

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 PRODUCER PRICES -- RELATIVE CONTRIBUTION¹
(Percentage change; based on seasonally adjusted data)²

| | Relative importance Dec. 1988 | 1987 | 1988 | 1989 | | | 1989 | |
|----------------------------|----------------------------------|------|------|-----------------------|-----|------|----------------|------|
| | | | | Q1 | Q2 | Q3 | Oct. | Nov. |
| | | | | -----Annual rate----- | | | -Monthly rate- | |
| Finished goods | 100.0 | 2.2 | 4.0 | 10.2 | 5.8 | -.3 | .4 | -.1 |
| Consumer foods | 25.8 | -.1 | 1.5 | 3.3 | -.3 | -.3 | .3 | .2 |
| Consumer energy | 8.8 | .9 | -.3 | 3.2 | 2.7 | -1.8 | .0 | -.3 |
| Other finished goods | 65.3 | 1.4 | 2.8 | 3.3 | 3.2 | 2.1 | .1 | .1 |
| Consumer goods | 39.6 | 1.0 | 1.9 | 2.1 | 2.2 | 1.0 | .1 | .0 |
| Capital equipment | 25.8 | .3 | .9 | 1.2 | 1.1 | 1.2 | -.1 | .1 |
| Memorandum: | | | | | | | | |
| Beef and veal | 2.2 | .1 | .3 | .4 | -.4 | .2 | .0 | -.1 |
| Pork | 1.2 | -.2 | .0 | .7 | -.2 | -.3 | .1 | .1 |
| Dairy products | 3.7 | .0 | .2 | .1 | .1 | .8 | .1 | .1 |
| Fresh and dried vegetables | .7 | .0 | .0 | .3 | .2 | -.8 | .1 | -.1 |

1. Data may not add due to rounding.
2. Changes are from final month of preceding period to final month of period indicated.

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

| | 1988 ¹ | 1989 Q2 | 1989 Q3 | 1989 Sep | 1989 Oct | 1989 Nov p | Growth Q4 88- Nov 89p |
|---|-------------------|------------|------------|-------------|-------------|---------------|------------------------------|
| -----Percent change at annual rates----- | | | | | | | |
| 1. M1 | 4.3 | -5.6 | 1.5 | 5.7 | 10.1 | 3.5 | 0.3 |
| 2. M2 | 5.2 | 1.2 | 7.3 | 7.5 | 7.8 | 8.4 | 4.6 |
| 3. M3 | 6.3 | 2.9 | 4.6 | 1.0 | 4.5 | 6.0 | 3.9 |
| -----Percent change at annual rates----- | | | | | | | Levels bil. \$ Nov 89p |
| Selected components | | | | | | | |
| 4. M1-A | 2.5 | -3.3 | 1.2 | 1.9 | 8.6 | -1.7 | 506.7 |
| 5. Currency | 8.1 | 4.1 | 3.7 | 5.5 | 1.6 | 3.3 | 220.3 |
| 6. Demand deposits | -1.2 | -8.7 | -0.4 | -0.9 | 13.4 | -6.4 | 278.9 |
| 7. Other checkable deposits | 7.7 | -9.8 | 2.2 | 12.7 | 13.0 | 12.8 | 283.3 |
| 8. M2 minus M1 ² | 5.5 | 3.5 | 9.3 | 8.1 | 7.1 | 10.0 | 2409.1 |
| 9. Overnight RPs and Eurodollars, NSA | -5.7 | -24.2 | 1.1 | -41.7 | 19.9 | -16.3 | 72.5 |
| 10. General purpose and broker/dealer money market mutual fund shares, NSA | 7.4 | 21.0 | 36.5 | 39.1 | 27.3 | 33.0 | 309.8 |
| 11. Commercial banks | 6.9 | 5.4 | 6.9 | 7.4 | 11.1 | 13.8 | 1054.8 |
| 12. Savings deposits, SA, plus MMDAs, NSA ³ | 1.4 | -14.9 | 3.6 | 10.2 | 9.4 | 22.5 | 537.1 |
| 13. Small time deposits | 14.7 | 29.0 | 10.4 | 4.7 | 12.9 | 4.9 | 517.7 |
| 14. Thrift institutions | 4.6 | -1.1 | 4.0 | -0.4 | -5.8 | -0.1 | 967.9 |
| 15. Savings deposits, SA, plus MMDAs, NSA ³ | -4.3 | -24.6 | -6.0 | 4.1 | 4.8 | 9.6 | 354.4 |
| Small time deposits | 11.7 | 14.0 | 9.8 | -2.9 | -11.8 | -5.8 | 613.4 |
| M3 minus M2 ⁴ | 10.2 | 9.2 | -4.9 | -22.3 | -7.8 | -3.1 | 848.4 |
| 18. Large time deposits | 11.0 | 14.0 | -1.6 | -11.4 | -6.0 | -1.9 | 560.0 |
| 19. At commercial banks, net ⁵ | 12.2 | 17.8 | 1.9 | -3.6 | 6.4 | 8.1 | 400.6 |
| 20. At thrift institutions | 8.8 | 5.8 | -9.5 | -29.3 | -34.3 | -27.2 | 159.4 |
| 21. Institution-only money market mutual fund shares, NSA | -0.8 | 12.2 | 34.1 | -17.9 | -4.8 | 40.1 | 102.0 |
| 22. Term RPs, NSA | 14.5 | 2.8 | -32.2 | -43.7 | -35.9 | 6.5 | 110.9 |
| 23. Term Eurodollars, NSA | 11.2 | -6.7 | -13.5 | -46.7 | -43.5 | 15.9 | 91.6 |
| -----Average monthly change in billions of dollars----- | | | | | | | |
| MEMORANDA:⁶ | | | | | | | |
| 24. Managed liabilities at commercial banks (25+26) | 5.0 | 9.0 | 3.4 | 5.8 | 11.7 | 5.5 | 713.1 |
| 25. Large time deposits, gross | 3.3 | 4.0 | -0.3 | -2.4 | 1.3 | 2.0 | 461.3 |
| 26. Nondeposit funds | 1.7 | 4.9 | 3.7 | 8.2 | 10.4 | 3.5 | 251.8 |
| 27. Net due to related foreign institutions | -0.4 | -0.2 | 0.6 | 0.4 | 0.3 | -1.2 | 8.7 |
| 28. Other ⁷ | 2.1 | 5.1 | 3.0 | 7.8 | 10.1 | 4.7 | 243.1 |
| 29. U.S. government deposits at commercial banks ⁸ | 0.0 | 2.4 | -1.2 | 0.9 | -3.9 | 0.4 | 20.3 |

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 October and November at rates of 5.9 percent and 14.3 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during October and November at rates of 3.8 percent and 7.6 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.

p - preliminary

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

| | 1987:Q4 | 1989 | | | | | Levels |
|---|---------------|-------|-------|--------|-------|--------|---------------------|
| | to 1988:Q4 | Q2 | Q3 | Sept. | Oct. | Nov. p | bil.\$ Nov. p |
| ----- Commercial Bank Credit ----- | | | | | | | |
| 1. Total loans and securities at banks | 7.6 | 5.2 | 8.0 | 6.2 | 15.2 | 4.0 | 2584.0 |
| 2. Securities | 4.8 | .7 | 1.6 | 4.7 | 27.1 | 6.9 | 577.7 |
| 3. U.S. government securities | 7.3 | 5.4 | 5.4 | 7.0 | 40.9 | 17.5 | 397.4 |
| 4. Other securities | .5 | -8.2 | -6.2 | .7 | -1.3 | -15.8 | 180.3 |
| 5. Total loans | 8.5 | 6.5 | 9.9 | 6.6 | 11.8 | 3.1 | 2006.2 |
| 6. Business loans | 6.8 | 4.6 | 8.3 | .4 | 8.1 | .7 | 641.5 |
| 7. Real estate loans | 14.0 | 11.7 | 13.7 | 12.9 | 11.9 | 10.7 | 747.7 |
| 8. Consumer loans | 8.5 | 6.1 | 6.1 | 9.1 | 7.4 | 8.3 | 377.0 |
| 9. Security loans | -5.7 | -21.1 | -6.8 | 21.1 | 50.2 | -25.5 | 41.4 |
| 10. Other loans | -.4 | 1.2 | 10.6 | -6.0 | 23.0 | -21.4 | 198.6 |
| ----- Short- and Intermediate-Term Business Credit ----- | | | | | | | |
| 11. Business loans net of bankers acceptances | 6.9 | 4.6 | 7.9 | -.2 | 6.6 | 1.1 | 637.4 |
| Loans at foreign branches ² | 30.3 | 32.8 | -83.3 | -192.8 | -51.7 | .0 | 20.0 |
| 1 Sum of lines 11 & 12 | 7.6 | 5.6 | 4.1 | -7.5 | 4.8 | 1.3 | 657.5 |
| 14. Commercial paper issued by nonfinancial firms | 15.5 | 38.2 | 10.3 | 41.0 | -4.7 | 15.2 | 128.3 |
| 15. Sum of lines 13 & 14 | 8.6 | 10.5 | 5.1 | .0 | 3.1 | 3.5 | 785.7 |
| 16. Bankers acceptances: U.S. trade related ^{3,4} | -6.8 | 6.9 | -1.1 | -6.7 | -23.7 | n.a. | 34.8 ⁵ |
| 17. Line 15 plus bankers acceptances: U.S. trade related | 7.8 | 10.4 | 4.9 | -.1 | 2.1 | n.a. | 818.3 ⁵ |
| 18. Finance company loans to business ³ | 12.3 | 14.7 | 14.1 | 18.1 | 12.6 | n.a. | 259.0 ⁵ |
| 19. Total short- and intermediate-term business credit (sum of lines 17 & 18) | 8.9 | 11.4 | 7.0 | 4.2 | 4.6 | n.a. | 1077.3 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. October data.

p--preliminary.

n.a.--not available

SELECTED FINANCIAL MARKET QUOTATIONS 1/
(percent)

| | 1987 | | 1989 | | | Change from: | |
|--|--------------|--|----------------|----------------|--------|-----------------|----------------|
| | 2/ Oct 16 | | March Highs | FOMC Nov 14 | Dec 14 | Mar 89 Highs | FOMC Nov 14 |
| Short-term rates | | | | | | | |
| Federal funds 3/ | 7.59 | | 9.85 | 8.57 | 8.50 | -1.35 | -0.07 |
| Treasury bills 4/ | | | | | | | |
| 3-month | 6.93 | | 9.09 | 7.66 | 7.62 | -1.47 | -0.04 |
| 6-month | 7.58 | | 9.11 | 7.43 | 7.39 | -1.72 | -0.04 |
| 1-year | 7.74 | | 9.05 | 7.20 | 7.21 | -1.84 | 0.01 |
| Commercial paper | | | | | | | |
| 1-month | 7.94 | | 10.05 | 8.43 | 8.65 | -1.40 | 0.22 |
| 3-month | 8.65 | | 10.15 | 8.35 | 8.35 | -1.80 | 0.00 |
| Large negotiable CD's 4/ | | | | | | | |
| 1-month | 7.92 | | 10.07 | 8.39 | 8.71 | -1.36 | 0.32 |
| 3-month | 8.90 | | 10.32 | 8.36 | 8.41 | -1.91 | 0.05 |
| 6-month | 9.12 | | 10.08 | 8.18 | 8.21 | -1.87 | 0.03 |
| Eurodollar deposits 5/ | | | | | | | |
| 1-month | 8.00 | | 10.19 | 8.44 | 8.75 | -1.44 | 0.31 |
| 3-month | 9.06 | | 10.50 | 8.25 | 8.50 | -2.00 | 0.25 |
| Bank prime rate | 9.25 | | 11.50 | 10.50 | 10.50 | -1.00 | 0.00 |
| Intermediate- and long-term rates | | | | | | | |
| U.S. Treasury (constant maturity) | | | | | | | |
| 3-year | 9.52 | | 9.88 | 7.75 | 7.70 | -2.18 | -0.05 |
| 10-year | 10.23 | | 9.53 | 7.87 | 7.79 | -1.74 | -0.08 |
| 30-year | 10.24 | | 9.31 | 7.90 | 7.85 | -1.46 | -0.05 |
| Municipal revenue 6/ (Bond Buyer index) | 9.59 | | 7.95 | 7.45 | 7.29 | -0.66 | -0.16 |
| Corporate—A utility Recently offered | 11.50 | | 10.47 | 9.27 | 9.33 | -1.14 | 0.06 |
| Home mortgage rates 7/ | | | | | | | |
| Fixed-rate | 11.58 | | 11.22 | 9.79 | 9.76 | -1.46 | -0.03 |
| ARM, 1-year | 8.45 | | 9.31 | 8.52 | 8.39 | -0.92 | -0.13 |

| | 1987 | | 1989 | | | Percent change from: | | | |
|----------------------|---------|---------|---------|----------------|---------|----------------------|--------------|----------------|----------------|
| | Highs | Lows | Oct 12 | FOMC Nov 14 | Dec 14 | 1987 Highs | 1987 Lows | 1989 Oct 12 | FOMC Nov 14 |
| Stock prices | | | | | | | | | |
| Dow-Jones Industrial | 2722.42 | 1738.74 | 2759.84 | 2610.25 | 2753.63 | 1.15 | 58.37 | -0.23 | 5.49 |
| NYSE Composite | 187.99 | 125.91 | 196.98 | 187.51 | 193.97 | 3.18 | 54.05 | -4.81 | 3.45 |
| AMEX Composite | 365.01 | 231.90 | 395.01 | 371.52 | 376.82 | 3.24 | 62.49 | -5.95 | 1.43 |
| NASDAQ (OTC) | 455.26 | 291.88 | 482.19 | 454.03 | 447.48 | -1.71 | 53.31 | -5.84 | -1.44 |
| Wilshire | 3299.44 | 2188.11 | 3485.24 | 3308.81 | 3396.59 | 2.94 | 55.23 | -5.06 | 2.65 |

1/ One-day quotes except as noted.
 2/ Last business day prior to stock market decline on Monday Oct. 19, 1987.
 3/ Average for two-week reserve maintenance period closest to date shown. Last observation is average for the maintenance period ending December 13, 1989.

4/ Secondary market.
 5/ Bid rates for Eurodollar deposits at 11 a.m. London time.
 6/ Based on one-day Thursday quotes and futures-market index changes.
 7/ Quotes for week ending Friday closest to date shown.

INTERNATIONAL DEVELOPMENTS

U.S. Merchandise Trade in October

The U.S. merchandise trade deficit was \$10.2 billion in October (on a seasonally adjusted Census basis, customs valuation), compared with a revised \$8.5 billion deficit in September.

Most of the widening of the deficit in October resulted from a sharp increase in imports of industrial supplies. While the October

U.S. MERCHANDISE TRADE: MONTHLY DATA
(Billions of dollars, seasonally adjusted; Census customs basis)

| | Exports | | | Imports | | | Balance |
|--------------------|---------|-----|--------|---------|-------|---------|---------|
| | Total | Ag. | Nonag. | Total | Oil | Non-oil | |
| | | | | | (nsa) | | |
| 1988-Oct. | 27.9 | 3.1 | 24.8 | 37.1 | 2.9 | 34.2 | -9.2 |
| Nov. | 27.6 | 3.2 | 24.3 | 38.1 | 2.9 | 35.2 | -10.5 |
| Dec. | 28.9 | 3.3 | 25.6 | 39.7 | 3.3 | 36.4 | -10.8 |
| 1989-Jan. | 29.0 | 3.2 | 25.7 | 37.9 | 3.5 | 34.4 | -8.9 |
| Feb. | 28.8 | 3.4 | 25.4 | 38.2 | 3.2 | 35.0 | -9.4 |
| Mar. | 30.1 | 3.9 | 26.2 | 39.5 | 3.7 | 35.9 | -9.5 |
| Apr. | 30.8 | 3.7 | 27.1 | 39.0 | 4.0 | 35.0 | -8.3 |
| May | 30.5 | 3.5 | 27.0 | 40.5 | 4.7 | 35.8 | -10.1 |
| Jun. | 31.3 | 3.3 | 28.0 | 39.3 | 4.2 | 35.1 | -8.0 |
| Jul. | 30.5 | 3.3 | 27.2 | 38.7 | 4.3 | 34.4 | -8.2 |
| Aug. | 30.6 | 3.0 | 27.5 | 40.7 | 4.3 | 36.4 | -10.1 |
| Sept. ^r | 30.7 | 3.2 | 27.4 | 39.2 | 4.0 | 35.2 | -8.5 |
| Oct. | 31.0 | 3.2 | 27.8 | 41.2 | 4.4 | 36.8 | -10.2 |

r-Revised

p-Preliminary

increase in imports of industrial supplies largely reverses declines in the previous three months, the rate of those imports in October was still about 3 percent higher than the rate recorded in either the first or second quarters. Among the different categories, the strength of imports of paper, steel, and textiles were most notable. Smaller increases were recorded in October for food and oil imports. The

average price of oil imports rose 4 percent (about 70 cents per barrel) while the quantity increased about 1/2 percent. Prices of imports of non-oil industrial supplies declined slightly on average in October.

Exports showed a small (1 percent or less) increase in October for the third month in a row. Exports of aircraft declined sharply, while exports of automotive products and industrial supplies rose.

U.S. Current Account in 1989:Q3

The U.S. current account deficit narrowed to \$91 billion (saar) in the third quarter, from \$128 billion (revised) in the second quarter (table below). Nearly all of the improvement was attributable to a swing from reported capital losses to reported capital gains on net direct investment assets (line 6), reflecting changes in the exchange value of the dollar.

Excluding capital gains and losses, the current account narrowed by \$6 billion in the third quarter, entirely the result of increased net service receipts (lines 7-10 in the table). The largest increases resulted from recovery of insured losses (from Hurricane Hugo) from foreign reinsurers (part of line 10), and increased military sales (line 9). There were also smaller increases in direct investment income other than capital gains (line 7) and in net portfolio income (line 8).

Outlook for the Current Account. Incorporating the new information for services into the staff forecast would result in a small positive adjustment to the outlook -- attributable to increased net service receipts of about \$3 billion for 1990 and \$2 billion for 1991.

U.S. CURRENT ACCOUNT
(Billions of dollars, annual rates, seasonally adjusted)

| | 1989 Q1 | 1989 Q2-r | 1989 Q3-p | \$ Change Q3-Q2 |
|---|------------|--------------|--------------|--------------------|
| 1. Trade Balance | -113.5 | -110.2 | -111.0 | -0.8 |
| 2. Exports | 351.7 | 365.7 | 366.3 | 0.6 |
| 3. Imports | 465.2 | 475.9 | 477.3 | 1.4 |
| 4. Investment Income, net | -9.7 | -24.5 | 10.4 | 34.9 |
| 5. Direct Investment, net | 23.9 | 12.2 | 46.0 | 33.8 |
| 6. Capital Gains or Losses ¹ | -13.9 | -21.1 | 10.9 | 32.0 |
| 7. Other Direct Investment | 37.8 | 33.3 | 35.1 | 1.8 |
| 8. Portfolio Income, net | -33.5 | -36.7 | -35.5 | 1.2 |
| 9. Military, net | -6.0 | -6.1 | -3.9 | 2.2 |
| 10. Other Services, net | 21.7 | 23.9 | 28.3 | 4.4 |
| 11. Unilateral Transfers | -14.1 | -11.5 | -14.6 | -3.2 |
| Current Account Balance: | | | | |
| 12. Published | -121.6 | -128.3 | -90.8 | 37.6 |
| 13. Excluding Capital Gains and Losses | -107.7 | -107.2 | -101.6 | 5.6 |

1. Gains or losses on net financial assets includes both realized capital gains (or losses) resulting from the sale of assets for more (or less) than book value, and unrealized gains (or losses) largely resulting from the revaluation at current exchange rates of assets and liabilities denominated in foreign currencies.

Plus = gains; minus = losses.

r-Revised p-Preliminary

U.S. Capital Account in 1989:Q3

U.S. direct investment abroad increased sharply in the third quarter of 1989; but the increase was more than accounted for by the movement from unrealized currency translation losses to gains. (See line 6 of the Summary of U.S. International Transactions table that follows.) Foreign direct investment in the United States (line 7) dropped off further from the very high rates recorded early in the year;

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS
(Billions of dollars)

| | 1987 | 1988 | 1988 | | 1989 | | | 1989 | | |
|--|--------|--------|-------|-------|-------|-------|-------|------|-------|------|
| | Year | Year | Q3 | Q4 | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. |
| Private Capital | | | | | | | | | | |
| Banks | | | | | | | | | | |
| 1. Change in net foreign positions of banking offices in the U.S. (+ = inflow) | 47.5 | 21.3 | -0.4 | 9.6 | -1.4 | 0.3 | 13.8 | 8.4 | 6.3 | -2.8 |
| Securities | | | | | | | | | | |
| 2. Private securities transactions, net ¹ | 36.4 | 15.5 | 5.8 | 3.4 | 5.8 | 3.7 | 0.1 | 1.6 | 1.7 | 3.3 |
| a) foreign net purchases (+) of U.S. corporate bonds ² | 26.4 | 26.9 | 6.4 | 9.0 | 8.8 | 6.2 | 5.8 | 1.4 | 1.7 | 4.2 |
| b) foreign net purchases (+) of U.S. corporate stocks | 16.8 | 0.4 | 1.3 | -2.0 | 0.1 | 3.7 | 5.1 | 0.9 | 2.5 | 1.3 |
| c) U.S. net purchases (-) of foreign securities | -6.9 | -11.8 | -1.9 | -3.5 | -3.0 | -6.2 | -10.8 | -0.7 | -2.5 | -2.3 |
| 3. Foreign net purchases (+) of U.S. Treasury obligations | -7.3 | 20.6 | 3.5 | 5.5 | 8.7 | 2.4 | 12.9 | 11.7 | 5.4 | -0.2 |
| Official Capital | | | | | | | | | | |
| 4. Changes in foreign official reserves assets in U.S. (+ = increase) | 47.7 | 40.2 | -2.0 | 10.7 | 8.0 | -5.6 | 12.6 | 10.3 | 3.0 | -0.6 |
| a) By area | | | | | | | | | | |
| G-10 countries (incl. Switz.) | 38.8 | 15.5 | -6.8 | 5.3 | 0.3 | -9.5 | 6.0 | 5.6 | -0.6 | -3.7 |
| OPEC | -8.9 | -3.4 | -0.8 | 0.7 | 6.8 | 0.3 | 4.6 | 3.3 | 0.5 | -0.6 |
| All other countries | 17.8 | 28.0 | 5.7 | 4.6 | 0.9 | 3.6 | 2.1 | 1.3 | -3.1 | 3.6 |
| b) By type | | | | | | | | | | |
| U.S. Treasury securities | 43.2 | 41.7 | -3.8 | 11.9 | 4.6 | -9.7 | 12.8 | 10.6 | -1.2 | -5.9 |
| Other ³ | 4.5 | -1.6 | 1.8 | -1.3 | 3.4 | 4.1 | -0.1 | -0.3 | -1.8 | 5.2 |
| 5. Changes in U.S. official reserve assets (+ = decrease) | 9.1 | -3.6 | -7.4 | 2.3 | -4.0 | -12.1 | -6.0 | -1.2 | -4.0 | -2.3 |
| Other transactions (Quarterly data)⁴ | | | | | | | | | | |
| 6. U.S. direct investment (-) abroad | -44.2 | -17.5 | -4.9 | -8.9 | -5.5 | -5.8 | -11.0 | n.a. | n.a. | n.a. |
| 7. Foreign direct investment (+) in U.S. | 46.9 | 58.4 | 11.9 | 23.0 | 19.2 | 13.3 | 11.4 | n.a. | n.a. | n.a. |
| 8. Other capital flows (+ = inflow) ⁵ | 5.7 | 2.2 | 1.8 | 2.5 | 2.1 | 2.4 | -8.5 | n.a. | n.a. | n.a. |
| 9. U.S. current account balance | -143.7 | -126.5 | -32.3 | -28.7 | -30.4 | -32.1 | -22.7 | n.a. | n.a. | n.a. |
| 10. Statistical discrepancy | 1.9 | -10.6 | 24.0 | -19.4 | 1.7 | 33.5 | -2.6 | n.a. | n.a. | n.a. |

MEMO:

| | | | | | | | | | | |
|---|--------|--------|-------|-------|-------|-------|-------|------|------|------|
| U.S. merchandise trade balance -- part of line 9 (Balance of payments basis, seasonally adjusted) | -159.5 | -127.2 | -30.3 | -32.0 | -28.4 | -27.6 | -27.8 | n.a. | n.a. | n.a. |
|---|--------|--------|-------|-------|-------|-------|-------|------|------|------|

1. These data have not been adjusted to exclude commissions on securities transactions and, therefore, do not match exactly the data on U.S. international transactions as published by the Department of Commerce.

2. Includes all U.S. bonds other than Treasury obligations.

3. Includes deposits in banks, commercial paper, acceptances, borrowing under repurchase agreements, and other securities.

4. Seasonally adjusted.

Includes U.S. government assets other than official reserves, transactions by nonbanking concerns, and other banking and financial transactions not shown elsewhere. In addition, it includes amounts resulting from adjustments to the data made by Department of Commerce and revisions to the data in lines 1 through 5 since publication of the quarterly data in the

Survey of Current Business.

*--Less than \$50 million.

NOTE: Details may not add to total because of rounding.

intercompany debt flows between foreign banks and their finance affiliates in the United States were responsible for much of the decline in inflows in the third quarter. A single transaction (the merger of SmithKline and Beecham) accounted for more than half of the increase in foreign equity in U.S. affiliates. The statistical discrepancy (line 10) fell sharply from the revised second quarter level.

U.S. International Financial Transactions in October

Data currently available for October show net capital inflows through securities transactions. It is interesting to note that during this month of turbulence in financial markets, private foreigners continued to add on balance to their holdings of U.S. stocks (line 2b); they also added net to their holdings of corporate and U.S. government agency bonds (line 2a), but not to their holdings of U.S. Treasury securities (line 3). Inflows that had been recorded by banks in September were partially reversed in October. Foreign monetary authorities reduced their holdings of reserve assets in the United States, reflecting heavy intervention sales by the G-10 countries.