

## **Prefatory Note**

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,<sup>1</sup> and then making the scanned versions text-searchable.<sup>2</sup> Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

<sup>1</sup> In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

<sup>2</sup> A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

CONFIDENTIAL (FR)  
CLASS III - FOMC

March 23, 1990

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 fixed investment . . . . .	1
<u>Table</u>	
Business capital spending indicators . . . . .	2
THE FINANCIAL ECONOMY	
<u>Tables</u>	
Monetary aggregates . . . . .	3
Commercial bank credit and short- and intermediate-term business credit . . . . .	4
Selected financial market quotations . . . . .	5
THE INTERNATIONAL ECONOMY	
Prices of exports and imports in February . . . . .	6
<u>Table</u>	
Import and export price measures . . . . .	7

## SUPPLEMENTAL NOTES

---

### DOMESTIC NONFINANCIAL ECONOMY

#### Business Fixed Investment

The most recent data on orders and shipments of nondefense capital goods are consistent with the Greenbook outlook for considerable strength in current-quarter real outlays on equipment by domestic and foreign purchasers. Shipments of nondefense capital goods rose 4.4 percent (monthly rate) in February, after a 0.6 percent advance in January. Excluding the aircraft group, shipments rose 2.6 percent in February on the basis of an increase in communication equipment and small advances in many categories of industrial machinery. As a result, the average level of shipments (excluding aircraft) during January and February was 1.5 percent (not at an annual rate) above the fourth-quarter average.

New orders for nondefense capital goods fell 5.7 percent in February, after a 13.7 percent decline in January. However, the movement in both months was caused by large dropoffs in orders for aircraft and parts. Excluding the aircraft group, orders rose 2.6 percent in February, after falling 4.2 percent in January, and average orders during January and February were 3.4 percent above the fourth-quarter level. The increase in February orders (excluding aircraft) was almost entirely accounted for by communication equipment, for which bookings had moved sharply lower in January. Orders for industrial machinery rose, on balance, in February, as they had in January; however, bookings for office and computing equipment fell 2.4 percent.

BUSINESS CAPITAL SPENDING INDICATORS  
 (Percentage change from preceding comparable periods;  
 based on seasonally adjusted data)

	1989			1989	1990	
	Q2	Q3	Q4	Dec.	Jan.	Feb.
<u>Producers' durable equipment</u>						
Shipments of nondefense capital goods	3.0	2.2	-2.7	2.5	.6	4.4
Excluding aircraft and parts	3.0	-.2	-.4	2.9	-2.1	2.6
Office and computing equipment	6.1	-1.0	-2.1	5.9	-1.1	-1.8
All other categories	2.3	.0	.1	2.2	-2.3	3.6
Shipments of complete aircraft <sup>1</sup>	14.7	46.2	-42.0	13.2	60.4	n.a.
Sales of heavy-weight trucks	-3.7	-2.2	-4.7	-.3	8.0	-1.8
Orders of nondefense capital goods	1.0	-2.5	4.7	14.1	-13.7	-5.7
Excluding aircraft and parts	2.9	-4.2	2.2	3.3	-4.2	2.6
Office and computing equipment	1.8	6.5	-2.5	.4	-.7	-2.4
All other categories	3.1	-6.6	3.4	3.9	-4.9	3.8
<u>Nonresidential structures</u>						
Construction put-in-place	-.8	1.9	-.7	-3.9	4.5	n.a.
Office	-3.4	-3.5	-2.6	-1.6	-.4	n.a.
Other commercial	-6.5	5.4	1.3	-8.8	4.4	n.a.
Public utilities	3.8	-1.8	-.3	1.6	.7	n.a.
Industrial	3.9	7.0	2.3	-3.9	14.7	n.a.
All other	.3	5.3	-3.2	-7.0	7.2	n.a.
Rotary drilling rigs in use	16.2	3.0	-2.7	-3.4	.0	2.4

1. From the Current Industrial Report (CIR) titled "Civil Aircraft and Aircraft Engines." Seasonally adjusted with BEA seasonal factors. To estimate PDE spending for aircraft, BEA uses the aircraft shipments shown in that report, not the corresponding Census M-3 series. The CIR does not provide information on aircraft orders.

n.a. Not available.

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

	1989 <sup>1</sup>	1989 Q3	1989 Q4	1989 Dec	1990 Jan	1990 Feb p	Growth Q4 89- Feb 90p
-----Percent change at annual rates-----							
1. M1	0.6	1.8	5.1	8.2	-0.2	10.0	5.3
2. M2	4.6	6.9	7.1	7.8	3.8	9.4	7.0
3. M3	3.2	3.9	1.8	3.8	1.8	5.5	3.7
-----Percent change at annual rates-----							Levels bil. \$ Feb 90p
<u>Selected components</u>							
4. M1-A	0.4	1.4	2.5	5.9	0.7	11.8	514.4
5. Currency	4.8	3.9	4.0	8.2	14.6	10.7	226.6
6. Demand deposits	-2.8	-0.6	1.1	3.9	-10.3	12.5	280.2
7. Other checkable deposits	1.0	2.5	9.8	12.3	-1.7	6.3	286.8
8. M2 minus M1 <sup>2</sup>	5.9	8.7	7.7	7.7	5.1	9.2	2456.0
9. Overnight RPs and Eurodollars, NSA	-9.2	-2.5	-12.8	32.1	60.9	13.4	81.6
10. General purpose and broker/dealer money market mutual fund shares	29.8	37.7	29.5	15.5	29.5	31.0	329.1
11. Commercial banks	7.5	7.6	10.9	9.5	5.7	9.7	1082.4
12. Savings deposits plus MMDAs <sup>3</sup>	-1.7	3.5	10.4	9.4	4.9	12.2	547.7
13. Small time deposits	19.0	11.9	11.3	9.6	6.6	7.2	534.7
14. Thrift institutions	-0.2	3.5	-0.9	-0.6	-3.0	-2.9	961.8
15. Savings deposits plus MMDAs <sup>3</sup>	-9.3	-5.5	1.9	-0.3	0.7	7.8	355.3
16. Small time deposits	5.8	8.8	-2.5	-0.8	-5.1	-9.0	606.5
17. M3 minus M2 <sup>4</sup>	-1.5	-6.9	-17.3	-12.0	-6.3	-9.7	808.5
18. Large time deposits	4.2	-1.3	-6.7	-5.8	-9.0	-9.7	549.6
19. At commercial banks, net <sup>5</sup>	9.9	2.9	2.7	-0.3	-0.6	-5.1	399.5
20. At thrift institutions	-7.8	-10.6	-28.8	-20.3	-29.8	-22.8	150.0
21. Institution-only money market mutual fund shares	17.1	36.9	3.2	14.2	10.6	5.8	103.7
22. Term RPs, NSA	-16.1	-29.8	-49.2	-138.8	-43.0	46.0	94.9
23. Term Eurodollars, NSA	-22.5	-33.4	-41.8	15.2	-84.1	-58.1	70.7
-----Average monthly change in billions of dollars-----							
<u>MEMORANDA:</u> <sup>6</sup>							
24. Managed liabilities at commercial banks (25+26)	5.9	3.6	4.9	0.6	-1.4	6.6	725.5
25. Large time deposits, gross	2.6	0.0	1.4	0.3	-1.6	-2.2	460.5
26. Nondeposit funds	3.4	3.6	3.5	0.3	0.2	8.8	265.0
27. Net due to related foreign institutions	0.2	1.0	-0.9	-1.4	3.2	3.7	14.5
28. Other <sup>7</sup>	3.2	2.6	4.4	1.6	-2.9	5.0	250.5
29. U.S. government deposits at commercial banks <sup>8</sup>	-0.3	-1.0	-0.6	0.7	-0.9	-2.4	17.8

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 January and February at rates of 8.9 percent and 12 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during January and February at rates of 0 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  
(Percentage changes at annual rates, based on seasonally adjusted data)<sup>1</sup>

	1988:Q4	1989			1990		Levels bil.\$ February
	to 1989:Q4	Q3	Q4	Dec.	Jan.	Feb.	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	7.1	6.9	6.7	1.6	2.7	8.6	2603.5
2. Securities	3.9	.2	9.5	.8	16.3	20.0	592.3
3. U.S. government securities	9.6	4.7	16.8	-1.8	24.0	27.4	411.5
4. Other securities	-6.8	-9.0	-5.3	6.7	-1.3	4.0	180.8
5. Total loans	8.1	8.3	5.9	1.9	-1.2	5.3	2011.2
6. Business loans	6.8	6.8	2.4	-6.7	-6.0	-1.7	637.2
7. Real estate loans	12.8	12.8	10.9	12.0	7.2	12.8	767.2
8. Consumer loans	6.2	6.6	6.2	4.8	7.4	3.5	378.9
9. Security loans	4.1	-7.9	-3.0	-60.7	-6.1	15.3	39.7
10. Other loans	.8	8.0	-.6	-1.9	-32.8	.0	188.2
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	6.7	6.6	2.2	-6.8	-5.7	-2.9	629.4
12. Loans at foreign branches <sup>2</sup>	-5.0	-76.9	9.5	58.5	83.7	-47.0	22.1
Sum of lines 11 & 12	6.3	3.3	2.5	-4.7	-2.6	-4.6	651.5
14. Commercial paper issued by nonfinancial firms	31.2	14.6	21.0	37.8	27.7	.9	137.3
15. Sum of lines 13 & 14	9.8	5.1	5.5	2.3	2.6	-3.6	788.8
16. Bankers acceptances: U.S. trade related <sup>3,4</sup>	6.1	-1.1	-9.1	-3.5	3.5	31.3	33.6
17. Line 15 plus bankers acceptances: U.S. trade related	9.6	4.9	4.8	2.0	2.6	-4.8	822.4
18. Finance company loans to business <sup>3</sup>	11.1	14.1	2.3	-3.2	-9.3	n.a.	255.8 <sup>5</sup>
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	10.0.	7.0	4.3.	.9	-.4	n.a.	1081.6 <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. January data.

p--preliminary.

n.a.--not available

Note: Data have revised due to new seasonal adjustment factors and benchmarking of the data to the June 30, 1989 Call Report.

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

	1987	1989		1990		Change from:		
	2 Oct 16	March highs	Dec lows	FOMC Feb 7	Mar 22	Mar 89 highs	Dec 89 lows	FOMC Feb 7
<b>Short-term rates</b>								
Federal funds <sup>3</sup>	7.59	9.85	8.45	8.23	8.27	-1.58	-.18	.04
<b>Treasury bills<sup>4</sup></b>								
3-month	6.93	9.09	7.53	7.81	7.90	-1.19	.37	.09
6-month	7.58	9.11	7.29	7.76	7.83	-1.28	.54	.07
1-year	7.74	9.05	7.11	7.61	7.73	-1.32	.62	.12
<b>Commercial paper</b>								
1-month	7.94	10.05	8.51	8.25	8.35	-1.70	-.16	.10
3-month	8.65	10.15	8.22	8.16	8.31	-1.84	.09	.15
<b>Large negotiable CDs<sup>4</sup></b>								
1-month	7.92	10.07	8.52	8.20	8.32	-1.75	-.20	.12
3-month	8.90	10.32	8.22	8.24	8.38	-1.94	.16	.14
6-month	9.12	10.08	8.01	8.29	8.53	-1.55	.52	.24
<b>Eurodollar deposits<sup>5</sup></b>								
1-month	8.00	10.19	8.38	8.19	8.31	-1.88	-.07	.12
3-month	9.06	10.50	8.25	8.25	8.38	-2.12	.13	.13
Bank prime rate	9.25	11.50	10.50	10.00	10.00	-1.50	-.50	.00
<b>Intermediate- and long-term rates</b>								
<b>U.S. Treasury (constant maturity)</b>								
3-year	9.52	9.88	7.69	8.43	8.60	-1.28	.91	.17
10-year	10.23	9.53	7.77	8.52	8.53	-1.00	.76	.01
30-year	10.24	9.31	7.83	8.57	8.49	-.82	.66	-.08
<b>Municipal revenue<sup>6</sup></b>								
(Bond Buyer)	9.59	7.95	7.28	7.52	7.54	-.41	.26	.02
<b>Corporate--A utility</b>								
recently offered	11.50	10.47	9.29	9.84	9.82	-.65	.53	-.02
<b>Home mortgage rates<sup>7</sup></b>								
S&L fixed-rate	11.58	11.22	9.69	10.17	10.34	-.88	.65	.17
S&L ARM, 1-yr.	8.45	9.31	8.34	8.45	8.55	-.76	.21	.10

	Record highs	Date	1989	1990		Percent change from:		
			Lows Jan 3	FOMC Feb 7	Mar 22	Record highs	1989 lows	FOMC Feb 7
<b>Stock prices</b>								
Dow-Jones Industrial	2810.15	1/2/90	2144.64	2640.09	2695.72	-4.07	25.70	2.11
NYSE Composite	199.34	10/9/89	154.98	184.31	184.70	-7.34	19.18	0.21
AMEX Composite	397.03	10/10/89	305.24	356.35	360.48	-9.21	18.10	1.16
NASDAQ (OTC)	485.73	10/9/89	378.56	426.79	434.51	-10.54	14.78	1.81
Wilshire	3523.47	10/9/89	2718.59	3218.33	3241.75	-8.00	19.24	0.73

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 March 21, 1990.

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

Prices of Exports and Imports in February

Prices for imports rose slightly in February while export prices declined. The rise in import prices was moderated by a turnaround in prices for petroleum, which declined 1.6 percent in February following a 10.3 percent jump in January. For non-oil imports, increases in prices were spread among all major trade categories; most notably, prices of imported consumer goods accelerated somewhat, while the prices of imported capital goods continued to rise at a relatively rapid pace. For exports, price declines were especially concentrated in agricultural commodities and industrial supplies (particularly fuels).

IMPORT AND EXPORT PRICE MEASURES  
(percentage change from previous period, annual rate)

	Year		Quarters			Months	
	1989-04	1988-04	1989			1990	
			Q2	Q3	Q4	Jan.	Feb.
	(annual rates)			(monthly rates)			
	- - - - - BLS Prices - - - - -						
<u>Imports, Total</u>	1.9	0.3	-4.6	4.8	1.2	0.2	
Foods, Feeds, Bev.	-4.7	-7.2	-15.5	6.5	3.3	0.9	
Industrial Supplies	6.2	8.5	-14.1	7.4	2.7	-0.6	
Ind Supp Ex Oil	-2.5	-5.5	-7.4	-1.9	-1.0*	-0.2*	
Capital Goods	-0.8	-4.2	-1.2	2.2	0.6	0.6	
Automotive Products	-0.8	-2.8	0.0	0.0	-0.4	0.2	
Consumer Goods	2.8	1.2	1.2	4.7	0.4	0.8	
Memo:							
Oil	31.5	47.8	-24.4	30.8	10.3	-1.6	
Non-oil	-0.2	-3.1	-2.8	2.9	0.2	0.4	
<u>Exports, Total</u>	0.6	-0.4	-2.8	-0.4	1.1	-0.7	
Foods, Feeds, Bev.	-7.8	-11.4	-21.6	-7.4	1.8	-3.2	
Industrial Supplies	0.1	0.7	-4.6	-2.7	1.4	-1.4	
Capital Goods	2.9	2.7	3.0	2.2	0.7	0.4	
Automotive Products	2.9	1.9	3.0	5.2	-0.1	0.3	
Consumer Goods	3.7	1.0	2.8	2.4	0.7	0.3	
Memo:							
Agricultural	-3.7	-5.3	-15.8	-4.9	1.5	-2.2	
Nonagricultural	1.3	0.7	-0.4	0.4	1.0	-0.4	
	- - - - - Prices in the GNP Accounts - - - - -						
<u>Fixed-Weight</u>							
Imports, Total	3.3	8.0	-8.9	4.0	--	--	
Oil	38.2	99.4	-31.0	23.5	--	--	
Non-oil	-0.6	-1.3	-4.9	1.3	--	--	
Exports, Total	-0.8	2.7	-4.1	-1.1	--	--	
Ag.	-7.5	-3.1	-9.4	-13.8	--	--	
Nonag.	0.6	3.9	-2.9	1.7	--	--	
<u>Deflators</u>							
Imports, Total	-0.8	0.2	-11.1	2.4	--	--	
Oil	37.9	100.2	-30.7	22.8	--	--	
Non-oil	-4.4	-6.4	-7.1	-2.7	--	--	
Exports, Total	-0.8	-0.5	-5.5	-2.2	--	--	
Ag.	-7.5	-3.1	-9.4	-13.8	--	--	
Nonag.	-0.1	0.0	-4.5	-1.2	--	--	

\*Not for publication.