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SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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THE DOMESTIC NONFINANCIAL ECONOMY

Revised estimate of Real GNP

Real GNP growth for the first quarter of 1988 is now estimated to have been 3.6 percent at an annual rate, fractionally lower than reported earlier. Real personal consumption expenditures were revised down \$3 billion owing to a lower estimate of spending on motor vehicles and parts. New estimates of net purchases of farm products by the Commodity Credit Corporation caused a downward revision to federal government nondefense purchases, along with an offsetting upward adjustment to farm inventories.

The increase in the GNP fixed-weight price index, 3.7 percent at an annual rate, was little changed from the earlier estimate. However, the rise in the GNP deflator was lowered to 1.4 percent at an annual rate, owing mainly to shifts in the composition of inventories.

Personal income and consumption

Total personal income advanced \$13-1/4 billion in May, a bit below the average pace during the first four months of this year. Increases in wages and salaries were well maintained and accounted for nearly all of the overall rise in income. Disposable income was up substantially in May as the level of personal tax payments, which had risen sharply in April owing to an increase in federal nonwithheld income tax payments, fell back to about its March level. Nominal disposable income has risen about 6-1/2 percent at an annual rate over the first five months of the year; in real items, disposable income probably grew at about a 2 percent annual pace.

Nominal personal consumption spending rose nearly \$16 billion in May, boosted by greater expenditures on nondurable goods and for services. Revisions to earlier months raised outlays in April, but reduced spending in February and March. In real terms, the staff now estimates that consumption increased about 1-3/4 percent at an annual rate over the first five months of the year. The personal saving rate, which had dropped in April owing to the decline in disposable income, moved up to 4.5 percent in May, similar to its first-quarter level.

Sales of new domestic motor vehicles rebounded in the second ten-day selling period of June. As a result, auto sales through June 20 averaged 7.4 million units at an annual rate, and sales of light trucks averaged 4.2 million units. In both cases, sales appear to be holding at about the same pace as in April and May despite some cutbacks in incentive programs.

REAL GROSS NATIONAL PRODUCT AND RELATED ITEMS

(Percent change from previous period at compound annual rates;
based on seasonally adjusted data)

	1986-Q4 to		1988-Q1	
	1987-Q4	1987-Q4	Previous	Revised
1. Gross national product	4.0	4.8	3.9	3.6
1a. Gross domestic product	4.1	4.4	4.3	4.4
1b. Gross domestic purchases	3.4	4.3	2.1	1.9
2. Final sales	2.0	.9	4.5	3.6
2a. Excluding CCC purchases	2.5	-.1	6.3	5.8
3. Consumer spending	1.0	-2.5	4.3	3.8
3a. Excluding motor vehicles	1.6	.6	3.5	3.3
4. Business fixed investment	5.1	1.6	20.8	21.0
4a. Producers' durable equipment	5.4	-.9	32.8	33.1
5. Residential structures	-2.6	7.4	-9.4	-8.8
6. Federal purchases	.9	14.1	-21.2	-25.7
6a. Defense	5.9	-.9	-4.3	-5.6
6b. Nondefense	-12.9	92.7	-62.3	-70.6
7. State and local purchases	3.3	5.5	1.5	1.7
8. Exports of goods and services	16.8	15.9	20.7	22.8
9. Imports of goods and services	9.1	9.9	3.4	5.9
ADDENDA:				
10. Inventory change ¹	42.9 ²	60.5	55.4	61.0
10a. Nonfarm ¹	32.5 ²	51.5	37.6	39.4
10b. Farm ¹	10.4 ²	9.0	17.8	21.6
11. Net exports ¹	-135.5 ²	-135.8	-119.1	-120.3
12. Nominal GNP	7.5	7.6	5.4	5.1
13. GNP implicit price deflator	3.3	2.7	1.7	1.4
14. GNP fixed-weighted price index	4.0	3.6	3.6	3.7
15. Disposable personal income	2.2	6.0	3.9	3.5
16. Saving rate (percent)	3.7 ²	4.8	4.7	4.7

1. Level, billions of constant dollars.
2. Annual average.

PERSONAL INCOME
(Average monthly change at an annual rate;
billions of dollars)

	1986	1987	1987	1988	1988		
			Q4	Q1	Mar. ^r	Apr. ^r	May ^p
Total personal income	14.2	21.3	28.6	22.5	45.6	4.1	13.3
Wages and salaries	7.5	12.2	13.8	14.7	16.4	11.8	12.2
Private	5.6	9.8	11.1	12.5	14.5	9.9	10.2
Other labor income	.7	.8	.8	.5	.5	.5	.5
Proprietors' income	2.6	2.5	4.8	5.6	22.1	-8.5	-.7
Farm	.5	.2	2.6	3.9	19.4	-11.9	-2.4
Rent, dividends and interest	1.7	4.9	8.6	-.8	.3	1.1	.8
Transfer payments	2.5	2.0	1.6	7.8	7.3	.0	1.3
Less: Personal contributions for social insurance	.8	1.0	.9	5.4	1.1	.7	.9
Less: Personal tax and nontax payments	3.2	3.7	4.9	-.9	10.1	36.9	-35.2
Equals: Disposable personal income	11.0	17.7	23.8	23.4	35.5	-32.8	48.5
Memo: Real disposable income	6.3	4.9	14.8	11.7	16.7	-44.0	--

r--Revised.

p--Preliminary.

NOMINAL PERSONAL CONSUMPTION EXPENDITURES
(Percent change from preceding period)

	1986	1987	1987 Q4	1988 Q1	1988		
					Mar.	Apr.	May
			--Annual rate--		--Monthly rate--		
Personal consumption expenditures	5.9	5.7	1.5	6.2	.7	.4	.5
Durable goods	13.3	-1.6	-20.1	11.1	-.2	1.9	-.4
Excluding motor vehicles	11.3	.5	-3.4				
Nondurable goods	1.8	5.0	2.7	2.2	1.4	-.5	.8
Excluding gasoline	4.9	3.8	3.3				
Services	6.6	8.3	7.4	7.5	.5	.7	.6
Excluding energy	7.5	9.0	8.4				
Memo:							
Real personal consumption expenditures	4.1	1.0	-2.5	3.8	.3	-.2	--
Personal saving rate (percent)	4.3	3.7	4.8	4.7	5.0	3.6	4.5

SALES OF AUTOMOBILES AND LIGHT TRUCKS
(Millions of units at an annual rate, FRB seasonals)

	1987		1988	1988		
	Q3	Q4	Q1	Apr.	May	June 1-20
Autos and light trucks	16.4	14.7	15.6	15.1	15.8	n.a.
Autos	11.4	10.0	10.8	10.5	10.7	n.a.
Light trucks	5.0	4.7	4.8	4.6	5.1	n.a.
Domestically produced ¹	11.9	10.5	11.8	11.2	12.1	11.6
Autos	7.8	6.6	7.6	7.2	7.6	7.4
Light trucks	4.1	3.9	4.2	4.0	4.4	4.2
Imports	4.5	4.1	3.8	3.9	3.7	n.a.
Autos	3.6	3.4	3.1	3.3	3.1	n.a.
Japanese	2.4	2.4	2.1	2.2	2.1	n.a.
Korean	.5	.3	.5	.5	.4	n.a.
European	.7	.7	.6	.5	.5	n.a.
Light trucks	.9	.8	.6	.6	.6	n.a.
Memo:						
Auto production	6.3	7.0	6.2	7.0	7.5	7.6 ^e

1. Includes vehicles produced in Canada and Mexico for General Motors, Ford, and Chrysler.

n.a.--not available.

e--estimate as of June 24.

THE FINANCIAL ECONOMY

Banking and Monetary Aggregates

Partial data through June 20 indicate a rebound in growth of the monetary aggregates from May's pace, which was depressed by runoffs of tax-related balances. Expansion in M1 and M2 in June is estimated to pick up to 7 and 6 percent annual rates, respectively. The acceleration in M1 reflects a turnaround in demand deposit growth and somewhat faster OCD expansion. The pickup in M2 is smaller than that of M1 owing to a slowdown in the nontransactions component. M3 is now estimated to accelerate to a 7 percent pace, with a marked pickup in large time deposit growth, which is occurring entirely at commercial banks.

Data from large, weekly reporting banks through June 15 suggest continued strength in bank credit. Holdings of securities expanded at a much stronger pace in early June, as these banks made sizable additions to their trading accounts. Real estate loans continued growing at a robust pace in the first half of June. Consumer loan growth picked up moderately from May's pace, which was depressed by large issuances of consumer loan-backed securities. Expansion in business loans at all large banks moderated, but still maintained a double-digit pace through mid-June. However, commercial paper of nonfinancial businesses ran off and growth in the sum of business loans and commercial paper slowed to a moderate rate from the very rapid pace of recent months.

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

	1987 ¹	1988 Q1	1988 Q2p	1988 Apr	1988 May	1988 Jun p	Growth Q4 87- Jun 88p
-----Percent change at annual rates-----							
1. M1	6.2	3.9	5-3/4	11.2	-0.2	7	5
2. M2	4.0	6.7	8	9.9	4.7	6	7-1/4
3. M3	5.4	7.0	7	7.1	4.2	7	7
-----Percent change at annual rates-----							Levels bil. \$ May 88
Selected components							
4. M1-A	2.8	1.4	3-1/2	9.2	-4.1	6	498.2
5. Currency	8.7	9.4	8-1/4	9.6	6.5	6	203.6
6. Demand deposits	-1.0	-4.4	1/4	9.2	-11.6	6	287.3
7. Other checkable deposits	13.6	8.5	10-1/4	14.4	7.1	8	271.9
8. M2 minus M1 ²	3.3	7.7	8-3/4	9.4	6.4	5	2233.6
9. Overnight RPs and Eurodollars, NSA	4.1	-12.8	9-3/4	32.1	75.0	22	81.6
10. General purpose and broker/dealer money market mutual fund shares, NSA	5.8	19.3	4-1/4	6.1	-17.3	-17	232.7
11. Commercial banks	2.5	7.2	7	6.8	1.0	10	947.5
12. Savings deposits, SA, plus MMDAs, NSA ³	1.8	2.7	3-1/4	0.9	-3.1	11	542.9
13. Small time deposits	3.5	13.7	12	15.1	6.6	8	404.7
14. Thrift institutions	3.5	8.7	9-1/4	9.5	6.2	4	969.0
15. Savings deposits, SA, plus MMDAs, NSA ³	0.8	-7.3	2-1/2	3.6	0.9	5	401.9
16. Small time deposits	5.6	21.3	14	13.6	10.2	3	567.1
17. M3 minus M2 ⁴	10.8	7.9	4	-3.4	2.5	11	776.4
18. Large time deposits	8.5	7.3	7-1/2	2.9	9.5	14	496.5
19. At commercial banks, net ⁵	11.2	3.2	7	-3.3	11.4	20	328.5
20. At thrift institutions	3.4	15.7	8-3/4	15.3	6.5	1	168.1
21. Institution-only money market mutual fund shares, NSA	3.0	44.0	-31	-67.8	-24.8	-53	90.0
22. Term RPs, NSA	29.9	3.4	10	8.9	34.4	6	111.2
23. Term Eurodollars, NSA	13.8	-23.9	14-1/4	-13.4	13.6	27	89.5

-----Average monthly change in billions of dollars-----

MEMORANDA:⁶

24. Managed liabilities at commercial banks (25+26)	6.1	0.8	7	5.1	12.9	3	586.9
25. Large time deposits, gross	3.5	2.3	1-1/4	-2.0	2.4	4	396.5
26. Nondeposit funds	2.6	-1.5	5-3/4	7.1	10.5	0	190.4
27. Net due to related foreign institutions, NSA	2.9	-6.5	4-3/4	4.8	8.5	1	8.8
28. Other ⁷	-0.3	5.1	1	2.1	2.1	-1	181.6
29. U.S. government deposits at commercial banks ⁸	0.3	-0.4	-1	-3.1	2.9	-3	24.7

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 May and June at rates of 11.7 percent and 14 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during May and June at rates of 3.5 percent and 7 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)

	1986:Q4	1987	1988				Levels
	to		Q1	Mar.	Apr.	May	bil.\$
	1987:Q4	Q4	Q1	Mar.	Apr.	May	May
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	7.9	2.5	7.8	7.9	11.4	13.0	2322.5
2. Securities	5.0	3.1	5.4	13.3	10.7	5.3	543.6
3. U.S. government securities	9.1	2.2	6.8	14.3	14.5	10.5	346.0
4. Other securities	-1.3	4.7	2.9	11.7	4.3	-3.6	197.6
5. Total loans	8.8	2.3	8.6	6.3	11.6	15.4	1778.9
6. Business loans	7.5	4.7	2.7	-3.6	17.5	17.6	587.4
7. Security loans	1.0	-110.2	76.6	-43.6	-51.3	22.0	38.8
8. Real estate loans	18.1	13.2	10.8	10.5	12.8	16.1	612.5
9. Consumer loans	4.9	4.5	10.4	13.8	10.8	5.7	339.2
10. Other loans	-2.3	-12.2	4.5	21.7	5.4	21.8	201.0
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	7.6	5.4	2.3	-4.2	17.8	18.2	583.9
12. Loans at foreign branches ²	-4.1	-35.9	115.8	92.3	-12.2	61.9	20.4
13. Sum of lines 11 & 12	7.2	4.1	5.2	-1.4	16.8	20.0	604.4
14. Commercial paper issued by nonfinancial firms	-1.6	23.9	8.8	40.6	16.2	28.0	92.0
15. Sum of lines 13 & 14	6.0	6.7	5.7	4.1	16.5	20.9	696.3
16. Bankers acceptances: U.S. trade related ^{3,4}	13.3	7.1	-11.6	3.6	7.1	-24.9	33.1
17. Line 15 plus bankers acceptances: U.S. trade related	6.3	6.7	4.9	4.1	16.3	18.7	729.3
18. Finance company loans to business ³	16.6	24.1	8.4	9.5	15.6	n.a.	217.5 ⁵
19. Total short- and intermediate-term business credit (sum of lines 17 & 18)	8.4	10.5	5.6	5.2	16.0	n.a.	935.7 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. April data.

n.a.--not available

---preliminary

SELECTED FINANCIAL MARKET QUOTATIONS 1/
(percent)

	1987		1988			Change from:		
	Jan-Feb lows	2/ Oct 16	Feb lows	FOMC May 17	June 23	2/ Oct 16	FOMC May 17	
Short-term rates								
Federal funds 3/	5.95	7.59	6.38	7.07	7.54	-0.05	0.47	
Treasury bills 4/								
3-month	5.30	6.93	5.59	6.30	6.52	-0.41	0.22	
6-month	5.31	7.58	5.77	6.55	6.76	-0.82	0.21	
1-year	5.35	7.74	6.10	6.89	6.99	-0.75	0.10	
Commercial paper								
1-month	5.81	7.94	6.41	7.09	7.41	-0.53	0.32	
3-month	5.73	8.65	6.45	7.20	7.50	-1.15	0.30	
Large negotiable CD's 4/								
1-month	5.85	7.92	6.44	7.07	7.44	-0.48	0.37	
3-month	5.80	8.90	6.49	7.27	7.53	-1.37	0.26	
6-month	5.78	9.12	6.55	7.51	7.69	-1.43	0.18	
Eurodollar deposits 5/								
1-month	6.00	7.79	6.60	7.09	7.54	-0.25	0.45	
3-month	6.00	8.69	6.69	7.34	7.61	-1.08	0.27	
Bank prime rate	7.50	9.25	8.50	9.00	9.00	-0.25	0.00	
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	6.34	9.52	7.28	8.25	8.22	-1.30	-0.03	
10-year	7.01	10.23	8.11	9.12	8.88	-1.35	-0.24	
30-year	7.29	10.24	8.32	9.22	8.90	-1.34	-0.32	
Municipal revenue 6/ (Bond Buyer index)	6.92	9.59	7.76	8.26	8.10	-1.49	-0.16	
Corporate—A utility Recently offered	8.78	11.50	9.63	10.60	10.40	-1.10	-0.20	
Home mortgage rates 7/								
Fixed-rate	9.10	11.58	9.84	10.40	10.35	-1.23	-0.05	
ARM, 1-year	7.52	8.45	7.59	7.66	7.79	-0.66	0.13	
	1986	1987		1988		Percent change from:		
	Year end	Record highs	Lows	FOMC May 17	June 23	Record highs	1987 Lows	FOMC May 17
Stock prices								
Dow-Jones Industrial	1895.95	2722.42	1738.74	1986.41	2148.29	-21.09	23.55	8.15
NYSE Composite	138.58	187.99	125.91	144.65	155.03	-17.53	23.13	7.18
AMEX Composite	263.27	365.01	231.90	296.57	308.82	-15.39	34.17	4.13
NASDAQ (OTC)	348.83	455.26	291.88	372.27	391.03	-14.11	33.97	5.04

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 except lows shown which are one-week averages ending Feb. 25 and Feb. 10, respectively. Last observation is average to date for maintenance period ending June 29, 1988.

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