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CLASS III - FOMC

February 2, 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

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## SUPPLEMENTAL NOTES

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### THE DOMESTIC NONFINANCIAL ECONOMY

#### Employment and Unemployment

Despite sizable temporary layoffs in motor vehicles and related industries, the civilian unemployment rate was unchanged in January at 5.3 percent, and nonfarm payroll employment was up 275,000. The gain in jobs reported in the business survey and the 0.6 percent rise in aggregate hours of production workers probably overstate to some extent the underlying strength in labor demand: Those over-the-month changes were bolstered by large increases in construction--associated with unseasonably warm weather--and in retail trade--associated with problems in estimating seasonal swings in holiday staffing.

As expected, the payroll employment report showed a steep decline in manufacturing jobs in January: About 90,000 of the drop occurred at motor vehicle facilities, but stampings and tire production also were affected, reducing employment by another 25,000 in fabricated metals and rubber. Elsewhere, smaller declines continued in the primary metals, machinery, furniture, apparel, and textile industries. The only notable gain in factory jobs occurred in the lumber industry and may have been associated with an unusually brisk pace of construction activity last month. Indeed, construction employment jumped more than 100,000 last month, more than offsetting the drop of 50,000 that occurred in December when weather was unseasonably harsh.

In the services and finance industries, January's increases in employment were about in line with recent trends. Within services, growth in business services has slowed, on average, in recent months, but health services continue to expand at a rapid rate, adding almost 50,000 jobs again last month. In trade, employment was shown to have increased 141,000 in January. However, 25,000 of the gain reflects the reversal of December's reported drop in jobs at general merchandisers, suggesting that these retailers recently have expanded employment little, on net, apart from holiday hiring. Over the past year, employment at general merchandisers has risen only 22,000; automotive dealers and service stations also have seen a similar small gain. In contrast, employment gains have continued to be sizable at food stores and eating and drinking establishments.

In the household survey, total employment, which can fluctuate widely from month to month, edged down in January after a small increase in December. Unemployment declined as well; the number of job losers did jump 85,000, reflecting the industrial layoffs in early January, but the impact on the overall jobless rate was obscured by an unusually steep decline, of almost 170,000, in the count of unemployed entrants to the labor force. That drop also was reflected in a small decline in the labor force participation rate in January.

#### Average Hourly Earnings

Average hourly earnings of production workers edged up 0.1 percent in January to a level 3.7 percent above a year earlier. Average hourly wages apparently were held down last month by the hiring of a sizable number of relatively low wage construction workers and by the absence of laidoff auto

workers. Hourly earnings in construction were down 2 percent over the month, and wages in durable manufacturing were off 1 percent.

#### Purchasing Managers' Survey

The purchasing managers' survey in January indicates that activity in the industrial sector remained sluggish. After verging into the positive range in December, new orders apparently weakened last month, with the number of purchasing managers reporting declines in orders exceeding those reporting increases by 9 percentage points. Survey readings on production and employment remained in the negative range. Some items, though, were reported to be in short supply, in part because of disruptions caused by the record cold in late December. Thus, while the margin of suppliers making faster deliveries still was running above those reporting slower deliveries, the margin in January was not as great as in previous months. Similarly, although purchasing managers who paid lower prices in January still outnumbered those who paid higher prices, the net difference of less than 2 percentage points contrasted sharply with the 12 to 13 percentage point spread reported in the preceding several months. Also, lead times allowed by purchasing managers in ordering production materials and maintenance and repair supplies were up a bit from the low December levels.

#### Consumer Surveys

The Michigan survey of consumer sentiment edged up in January, while the Conference Board index dropped back sharply. The rise in the Michigan measure was attributable to a sharp increase in respondents' perceptions of current buying conditions for large household goods; expectations of future business conditions and personal financial situations were down somewhat from December. Respondents to the Conference Board were more pessimistic in

their appraisal of both present conditions and the outlook six months hence. The Michigan Survey measure of inflation expectations over the next 12 months increased 3/4 percentage point to 5.4 percent, the highest reading since last May.

#### Manufacturers' Inventories

In current-cost terms, manufacturers' inventories fell at an annual rate of \$16 billion in December, following moderate increases in October and November. For the fourth quarter as a whole, the current-cost data show that factory stocks rose only \$2.3 billion at an annual rate--considerably slower than the average increase of \$22-1/4 billion during the first three quarters of last year. The December inventory reduction was apparently quite widespread; outside of aircraft, most major industries reported inventory declines.

A 0.5 percent drop in factory shipments left the manufacturers' inventory-to-shipments ratio at 1.60 months at the end of December. The ratio remained largely unchanged at this level all through the fourth quarter, after following a gradual uptrend over the first three quarters of last year.

#### Addenda

The attached table on business spending indicators and the chart on nonresidential construction and selected indicators have been updated to include data through December on construction put-in-place and revised data on shipments and orders for durable goods.

CHANGES IN EMPLOYMENT<sup>1</sup>  
(Thousands of employees; based on seasonally adjusted data)

	1988	1989	1989			1989		1990
			Q2	Q3	Q4	Nov.	Dec.	Jan.
-----Average monthly changes-----								
Nonfarm payroll employment <sup>2</sup>	276	204	240	163	151	281	96	275
Strike-adjusted	275	206	245	177	127	278	22	273
Private	248	176	198	115	152	294	63	277
Strike-adjusted	248	177	203	128	128	291	-11	275
Manufacturing	29	-8	-10	-30	-23	-20	-28	-112
Durable	20	-13	-12	-29	-23	-18	-28	-101
Nondurable	9	5	2	-1	-0	-2	0	-11
Construction	14	8	10	14	-7	20	-50	104
Trade	64	47	32	38	42	87	-22	141
Finance, insurance, real estate	11	12	11	15	10	20	11	10
Services	118	99	137	76	86	157	71	106
Total government	27	28	42	48	-1	-13	33	-2
Private nonfarm production workers	197	142	151	94	120	277	24	235
Manufacturing production workers	20	-11	-14	-27	-20	-31	-18	-107
Total employment <sup>3</sup>	192	146	165	-41	156	251	52	-25
Nonagricultural	193	145	181	-68	164	288	15	37

1. Average change from final month of preceding period to final month of period indicated.

2. Survey of establishments. Strike-adjusted data noted.

3. Survey of households.

SELECTED UNEMPLOYMENT RATES  
(Percent; based on seasonally adjusted data)

	1988	1989	1989			1989		1990
			Q2	Q3	Q4	Nov.	Dec.	Jan.
Civilian, 16 years and older	5.5	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Teenagers	15.3	15.0	15.0	15.0	15.2	15.3	15.2	14.5
20-24 years old	8.7	8.6	8.4	8.7	8.9	9.0	8.9	8.5
Men, 25 years and older	4.2	3.9	3.9	3.9	4.0	4.0	3.9	4.2
Women, 25 years and older	4.3	4.2	4.2	4.2	4.3	4.2	4.3	4.1
White	4.7	4.5	4.5	4.5	4.5	4.5	4.6	4.5
Black	11.7	11.5	11.3	11.3	11.8	11.9	11.8	11.3
Fulltime workers	5.1	4.9	4.9	5.0	5.0	5.0	5.0	5.0
Memo:								
Total national <sup>1</sup>	5.4	5.2	5.2	5.2	5.3	5.3	5.3	5.2

1. Includes resident armed forces as employed.

AVERAGE HOURLY EARNINGS  
(Percentage change; based on seasonally adjusted data)<sup>1</sup>

	1988	1989	1989			1989		1990
			Q2	Q3	Q4	Nov.	Dec.	Jan.
			-Annual rate-			-Monthly rate-		
Total private nonfarm	3.7	3.9	4.0	4.1	3.8	.0	.5	.1
Manufacturing	3.0	2.7	2.2	3.6	2.2	.2	.3	-.4
Durable	2.8	2.4	2.3	4.1	1.0	.0	.3	-1.0
Nondurable	3.1	3.4	2.5	3.3	4.4	.2	.5	.4
Contract construction	2.3	3.2	3.2	2.1	4.0	.6	.7	-2.0
Transportation and public utilities	2.0	2.1	1.8	2.7	1.0	-.6	.3	.7
Finance, insurance and real estate	5.3	4.5	6.0	5.6	4.5	-1.0	1.2	-.2
Total trade	4.1	4.0	4.0	4.1	4.3	.0	.5	.4
Services	4.9	5.6	6.1	5.7	5.2	-.4	.8	.4
Memo:								
Hourly earnings index <sup>2</sup>	3.5	3.5	3.8	3.9	3.5	-.1	.6	.0

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated.
2. The Hourly Earnings Index after 1988 was produced by FRB staff.

February 1, 1990

SUMMARY OF SURVEY OF PURCHASING MANAGERS  
FOR INDUSTRIAL FIRMS

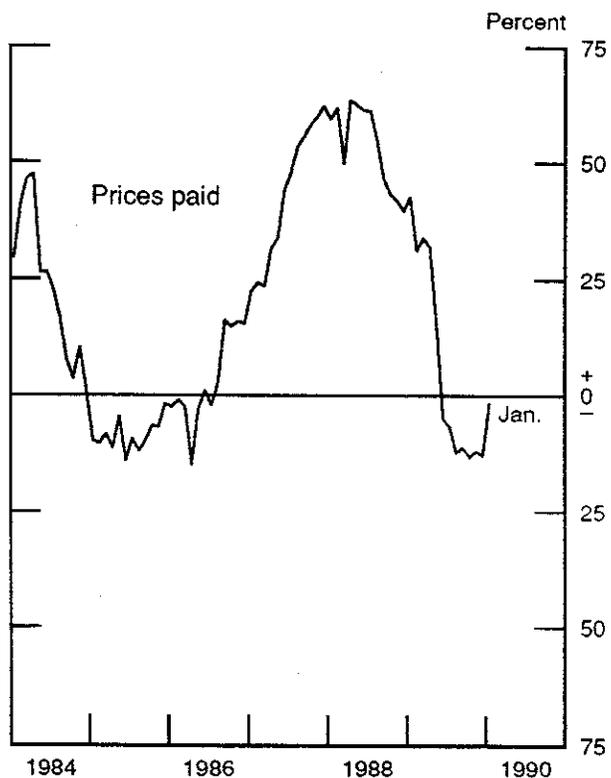
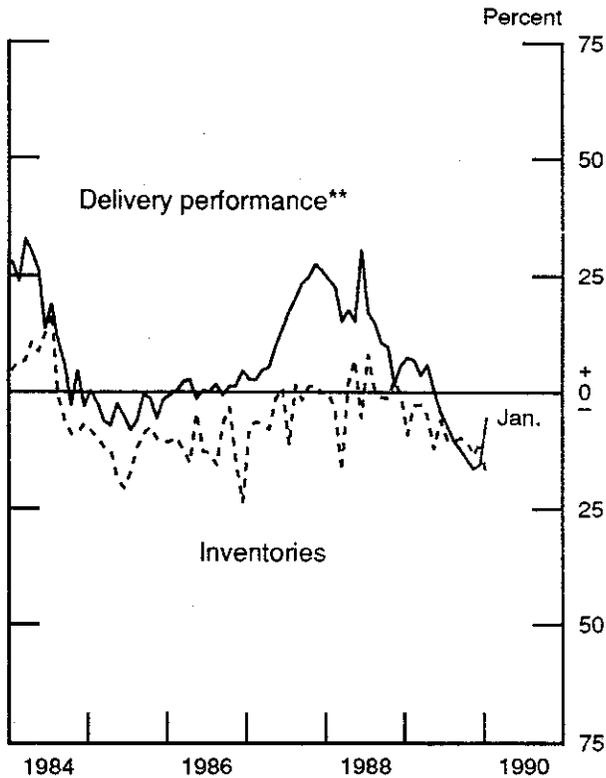
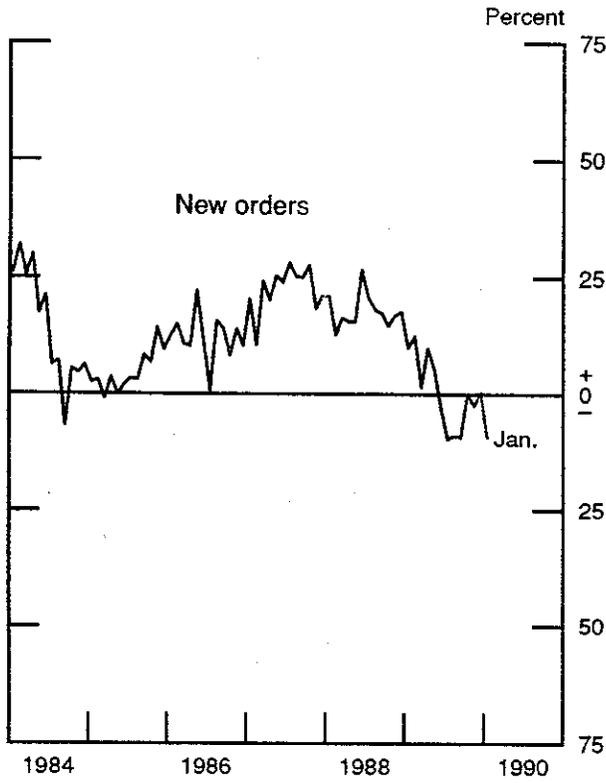
	1988 Q4	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1989 Oct	1989 Nov	1989 Dec	1990 Jan
----- Percent reporting -----									
<u>New orders</u>									
Increases	27	29	26	20	19	21	20	17	23
Same	55	56	52	51	54	54	52	56	50
Declines	18	15	22	29	27	25	28	27	27
Net change (n.s.a.) <1>	10	14	4	-9	-7	-4	-8	-10	-4
Net change (s.a.) <1>	16.4	7.8	4.0	-9.3	-7	.1	-2.6	.3	-9.2
<u>New export orders</u>									
Increases	26	24	24	24	17	19	16	15	17
Same	67	69	70	67	76	73	74	76	77
Declines	7	7	6	9	7	8	5	9	6
Net change (n.s.a.) <1,2>	18.4	17.4	17.7	15.3	9.3	11.0	11.0	6.0	11.0
<u>Production</u>									
Increases	25	26	23	16	18	17	19	17	18
Same	63	61	61	61	59	62	56	58	56
Declines	12	13	15	23	24	21	25	25	26
Net change (n.s.a.) <1>	13	12	8	-7	-6	-4	-6	-8	-8
Net change (s.a.) <1>	15.6	9.4	5.9	-4.6	-3.2	-3.9	-2.8	-2.8	-9.4
<u>Employment</u>									
Increases	16	12	13	9	10	10	12	8	8
Same	72	76	74	72	68	70	65	69	71
Declines	12	12	13	19	22	20	23	23	21
Net change (n.s.a.) <1>	4	1	0	-10	-12	-10	-11	-15	-13
Net change (n.s.) <1>	7.1	.7	-4.0	-9.4	-9.2	-9.5	-8.4	-9.8	-11.3
<u>Prices paid</u>									
Increases	41	44	28	13	10	10	10	10	24
Same	56	52	61	61	64	64	64	63	56
Declines	3	4	11	26	26	26	26	27	20
Net change (n.s.a.) <1>	38	39	17	-13	-16	-16	-16	-17	4
Net change (s.a.) <1>	41.6	36.1	13.9	-10.2	-12.9	-13.4	-12.1	-13.1	-1.8
<u>Inventories</u>									
Increases	17	16	15	15	14	13	13	15	14
Same	60	66	64	58	56	60	53	55	56
Declines	22	17	21	26	30	27	34	30	30
Net change (n.s.a.) <1>	-5	-1	-6	-11	-17	-14	-21	-15	-16
Net change (s.a.) <1>	.2	-5.0	-7.8	-10.2	-11.6	-10.3	-13.7	-10.8	-18.2
<u>Vendor performance</u>									
Slower	14	14	11	5	4	3	5	4	7
Same	78	79	76	79	78	81	75	78	82
Faster	7	7	13	16	18	16	20	18	11
Net change (n.s.a.) <3>	7	7	-2	-10	-14	-13	-15	-14	-4
Net change (s.a.) <3>	5.6	5.8	.6	-10.0	-15.5	-14.4	-16.5	-15.6	-5.7
<u>Average lead times, number of days, seasonally adjusted</u>									
MRO supplies	29	25	26	25	23	24	25	20	25
Production materials	56	58	54	51	51	49	56	48	54
Capital goods	174	171	172	166	165	164	168	162	163

<1> Increases minus declines.

<2> Data on export orders available only since January 1988.

<3> Slower less faster.

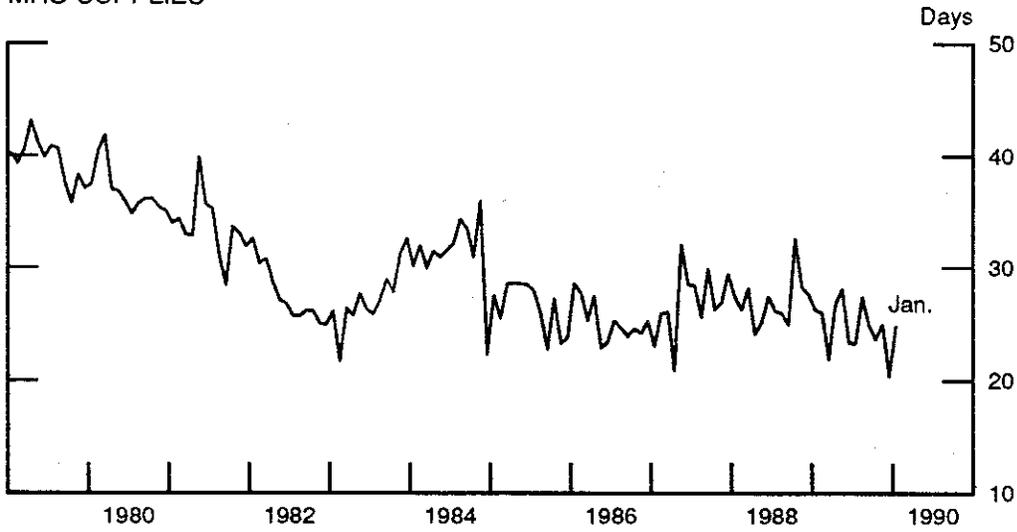
### Purchasing Managers\* (Seasonally adjusted)



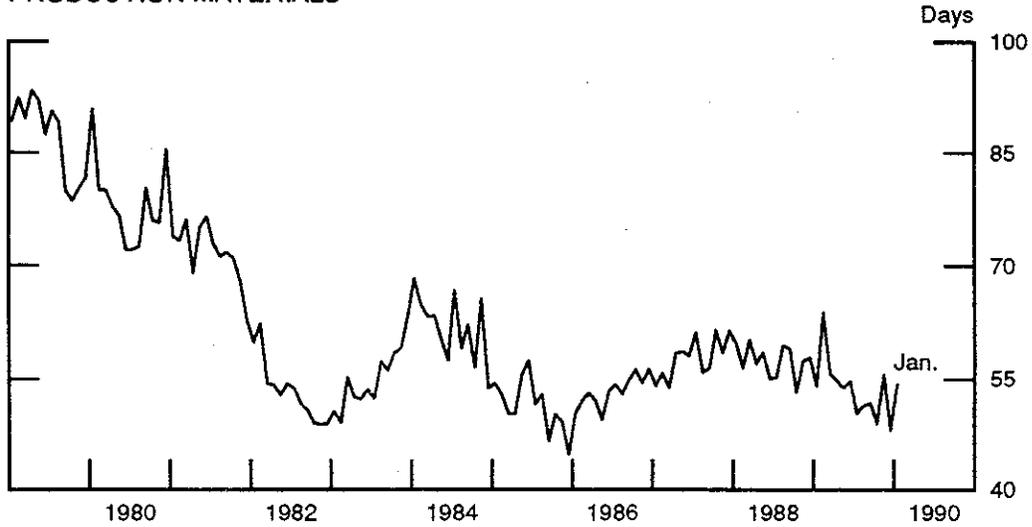
\* Percent reporting increases are netted with those reporting decreases.  
\*\* Positive entries represent slower deliveries.

### Average Lead Time (Monthly, seasonally adjusted)

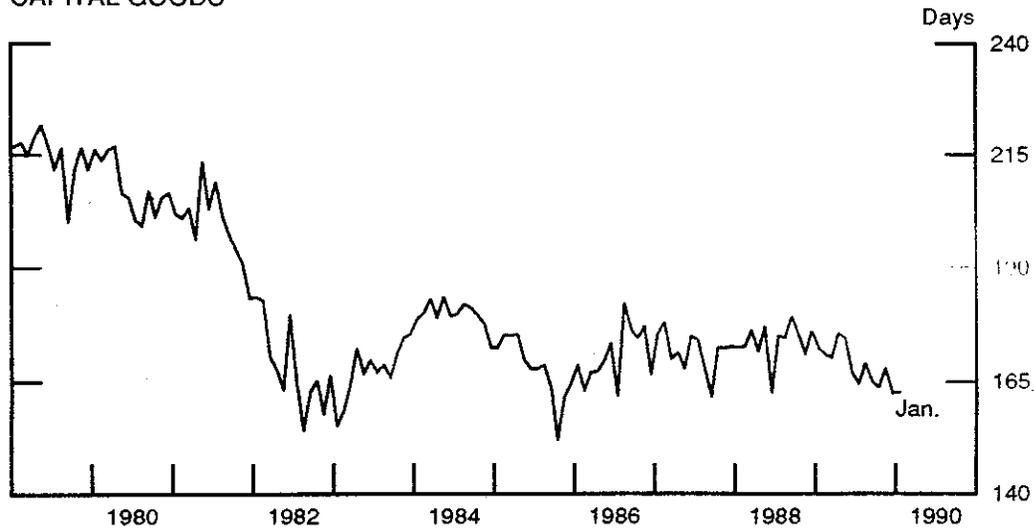
#### MRO SUPPLIES



#### PRODUCTION MATERIALS



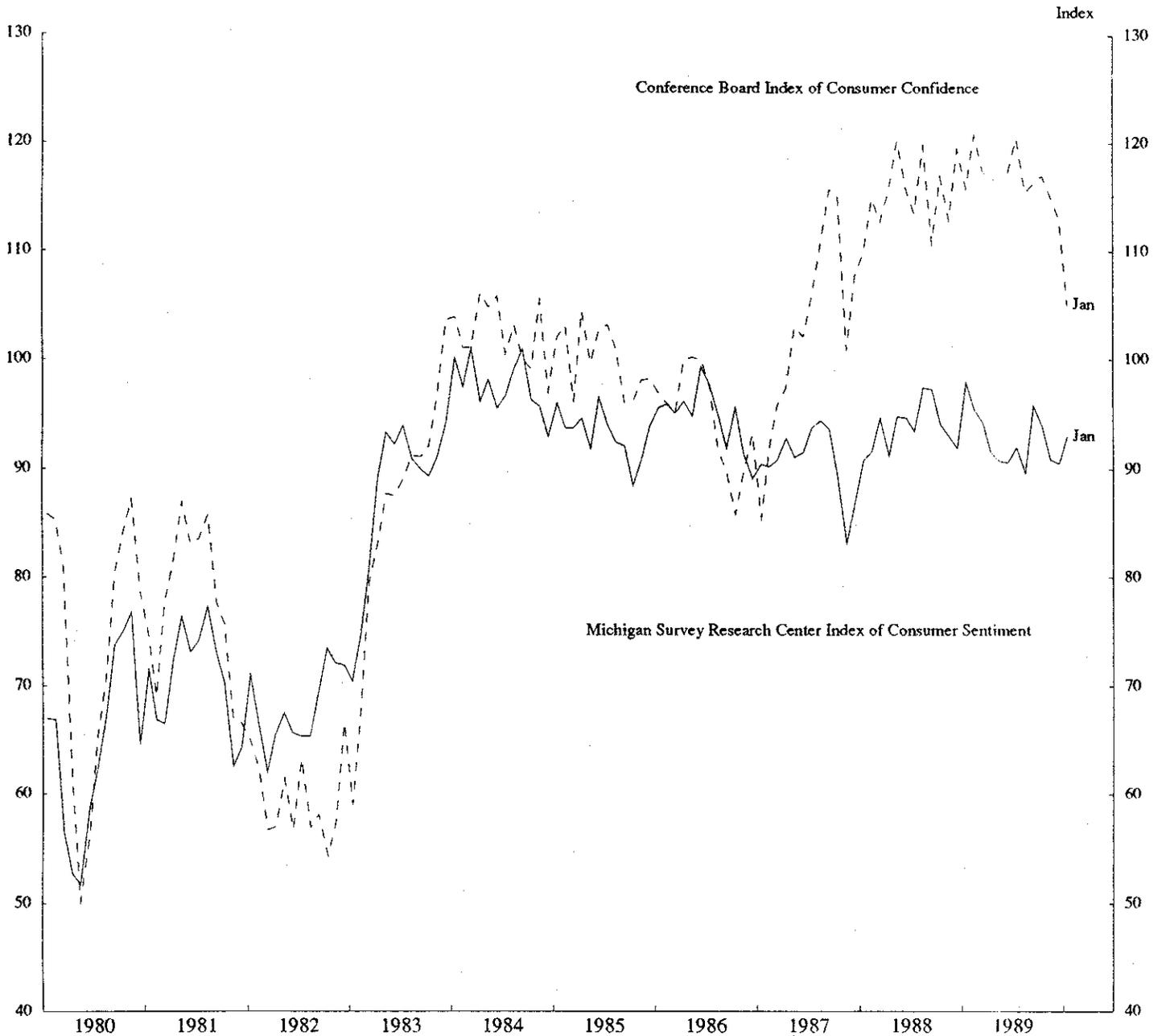
#### CAPITAL GOODS



Source: Calculated by FR staff from monthly purchasing managers reports.

February 2, 1990

## Consumer Attitudes



The base of the Michigan Index is February 1966; the base of the Conference Board Index is the annual average for 1985. Both indexes are an average of five equally-weighted questions that relate to current and expected economic conditions. However, the questions in the two surveys are different and the timing of the surveys in the field varies.

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

	1989			1989		
	Q2	Q3	Q4	Oct.	Nov.	Dec.
Current-cost basis:						
Total	61.2	39.1	--	31.0	41.3	--
Total excluding auto	47.6	30.0	--	67.1	41.7	--
Manufacturing	21.4	17.6	2.3	9.9	13.2	-16.1
Wholesale	11.5	7.4	--	38.7	11.7	--
Retail	28.3	20.1	--	-17.6	16.4	--
Automotive	13.6	9.1	--	-36.0	-.4	--
Excluding auto	14.7	11.1	--	18.5	16.8	--
Constant-dollar basis:						
Total	16.2	9.9	--	46.7	38.9	--
Total excluding auto	19.2	18.9	--	43.0	34.3	--
Manufacturing	8.3	12.0	--	1.1	11.6	--
Wholesale	5.2	-.5	--	30.6	11.7	--
Retail	2.6	-1.6	--	14.9	15.6	--
Automotive	-3.0	-9.0	--	3.6	4.6	--
Excluding auto	5.7	7.4	--	11.3	11.0	--

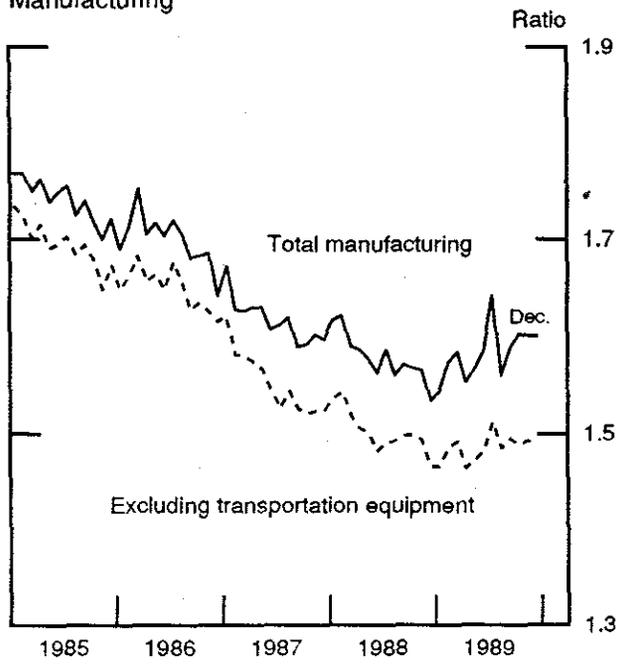
INVENTORIES RELATIVE TO SALES <1>  
(Months supply; based on seasonally adjusted data)

	1989			1989				
	Q2	Q3	Q4	Oct.	Nov.	Dec.		
Range in preceding 12 months:<2> Low High -----								
Current-cost basis:								
Total	1.48	1.54	1.51	1.52	--	1.53	1.52	--
Total excluding auto	1.46	1.51	1.47	1.49	--	1.49	1.49	--
Manufacturing	1.53	1.64	1.57	1.60	1.60	1.60	1.60	1.60
Wholesale	1.27	1.31	1.28	1.28	--	1.29	1.28	--
Retail	1.59	1.64	1.63	1.64	--	1.64	1.64	--
Automotive	1.87	2.06	2.05	2.04	--	2.03	2.04	--
Excluding auto	1.49	1.53	1.51	1.52	--	1.53	1.53	--
Constant-dollar basis:								
Total	1.48	1.52	1.50	1.49	--	1.51	1.51	--
Total excluding auto	1.46	1.51	1.47	1.48	--	1.49	1.49	--
Manufacturing	1.52	1.63	1.57	1.58	--	1.59	1.59	--
Wholesale	1.31	1.36	1.33	1.32	--	1.33	1.32	--
Retail	1.51	1.56	1.55	1.52	--	1.55	1.56	--
Automotive	1.70	1.93	1.88	1.72	--	1.81	1.84	--
Excluding auto	1.44	1.47	1.46	1.46	--	1.47	1.48	--

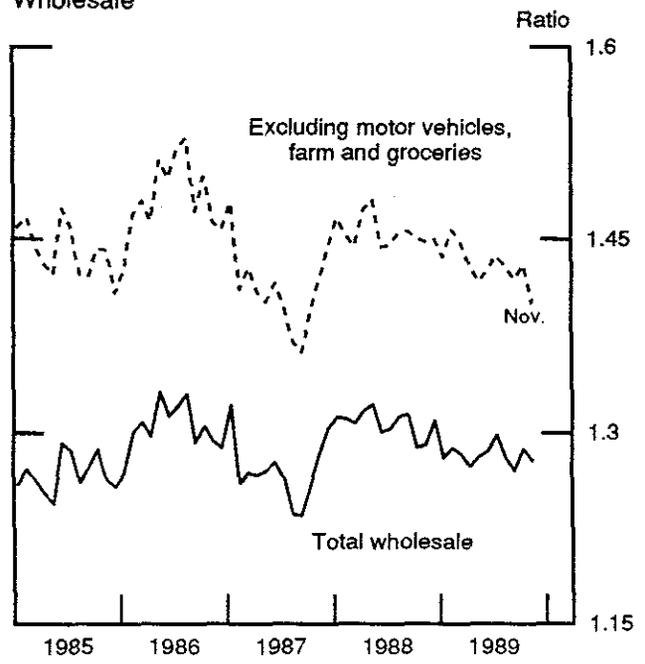
<1> Ratio of end of period inventories to average monthly sales for the period.  
<2> Highs and lows are specific to each series and are not necessarily coincidental. Range is for the 12-month period preceding the latest month for which data are available.

### RATIO OF INVENTORIES TO SALES (Current-cost data)

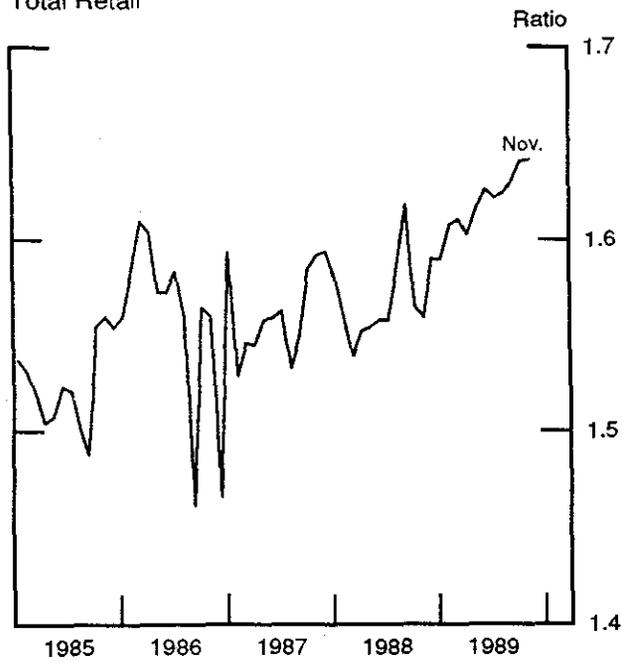
Manufacturing



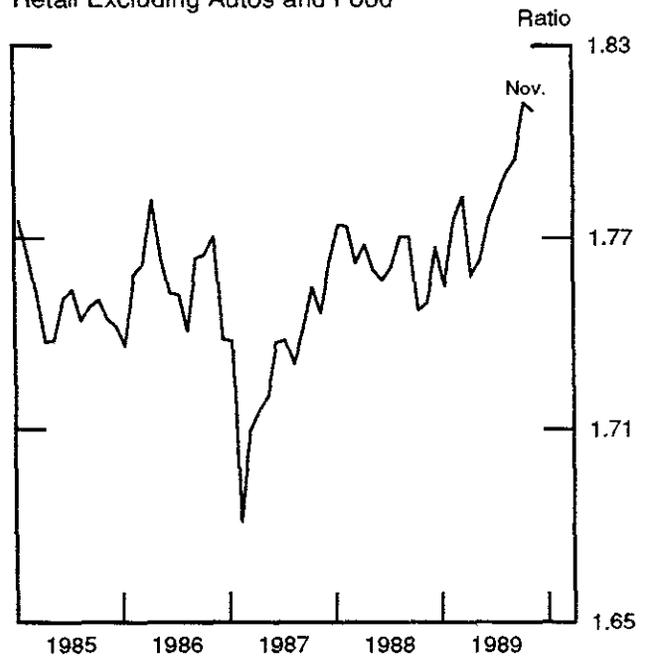
Wholesale



Total Retail



Retail Excluding Autos and Food



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

	1989			1989		
	Q2	Q3	Q4	Oct.	Nov.	Dec.
<u>Producers' durable equipment</u>						
Shipments of nondefense capital goods	3.0	2.2	-2.3	-4.4	-.1	.7
Excluding aircraft and parts	3.0	-.2	-.8	-1.9	1.2	1.5
Office and computing equipment	6.1	-1.0	-3.5	-7.9	2.2	1.3
All other categories	2.3	.0	-.2	-.4	.9	1.6
<b>Weighted PDE shipments<sup>1</sup></b>	3.1	1.2	.6	-.5	1.7	-.8
Shipments of complete aircraft <sup>2</sup>	14.7	46.2	n.a.	-43.7	-26.1	n.a.
Sales of heavy-weight trucks	-3.7	-2.2	-4.7	10.4	-11.2	-.3
Orders of nondefense capital goods	1.0	-2.5	6.0	1.8	8.1	18.0
Excluding aircraft and parts	2.9	-4.2	1.7	-4.1	4.7	1.9
Office and computing equipment	1.8	6.5	-4.2	-9.2	1.4	-4.7
All other categories	3.1	-6.6	3.2	-2.7	5.5	3.5
<b>Weighted PDE orders<sup>1</sup></b>	.8	-.4	2.2	-2.8	2.8	1.4
<u>Nonresidential structures</u>						
Construction put-in-place	-.8	1.9	-.5	-.1	-.1	-2.9
Office	-3.4	-3.5	-2.0	-2.1	-.3	-.7
Other commercial	-6.5	5.4	1.4	5.7	-1.5	-7.7
Public utilities	3.8	-1.8	-.8	-.9	.5	.6
Industrial	3.9	7.0	2.3	-1.0	.4	-1.8
All other	.3	5.3	-2.5	-2.6	.6	-4.3
Rotary drilling rigs in use	16.2	3.0	-3.1	-3.2	-.4	-3.1

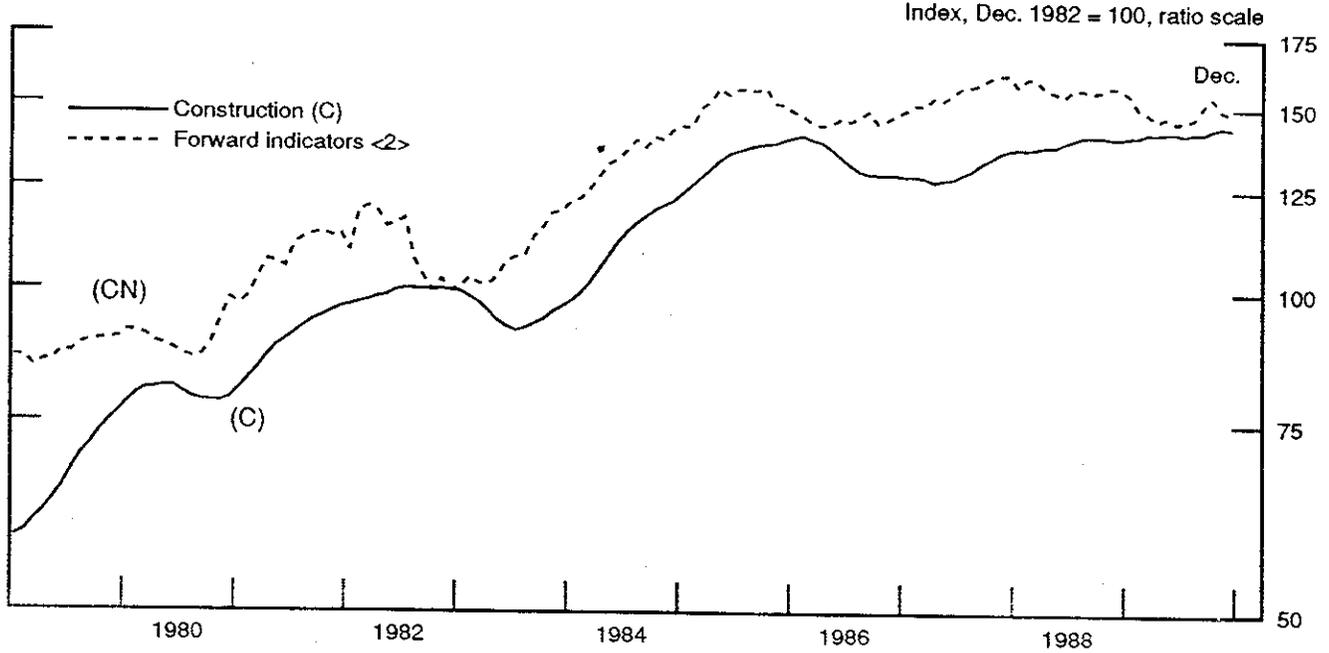
1. Computed as a weighted sum of 25 individual equipment series (excluding aircraft) from the Census M-3 report with weights equal to the fraction of final business spending for each type of equipment.

2. 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.

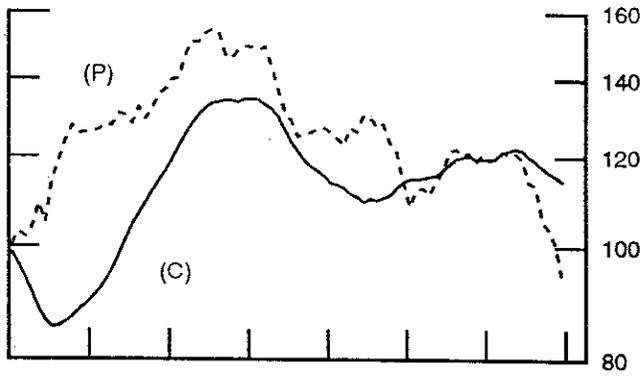
n.a. Not available.

# NONRESIDENTIAL CONSTRUCTION AND SELECTED INDICATORS <1>

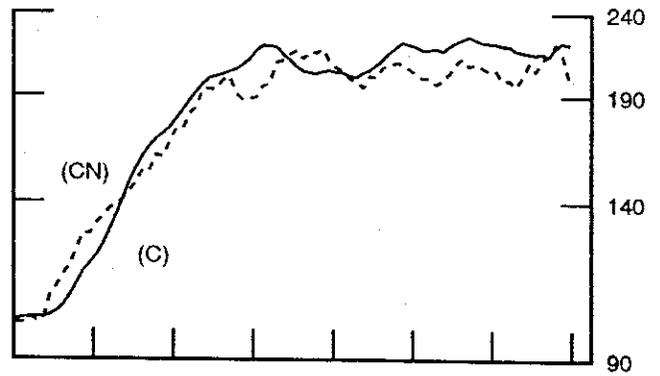
Total



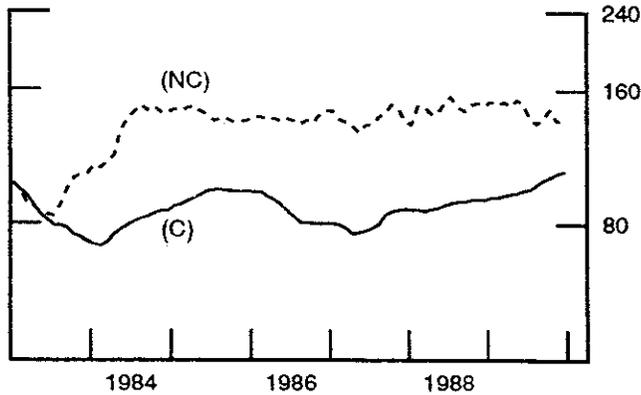
Office



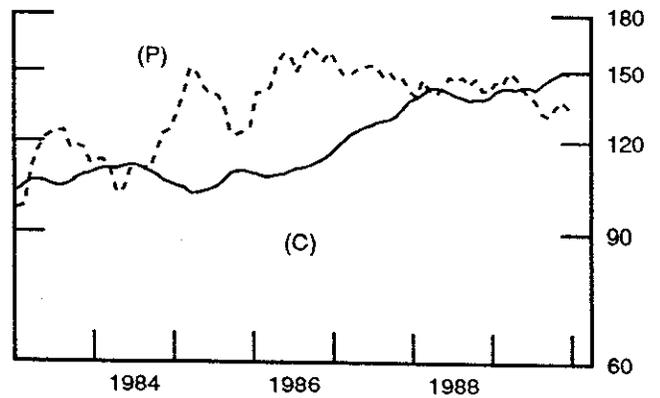
Other Commercial



Industrial



Institutional



<1> Six-month moving average for all series shown. Data end in November for all series except contracts, which go through December.  
<2> Varies by panel: either permits (P), contracts (CN), or new commitments (NC).

THE FINANCIAL ECONOMY

Summary of Responses to the January 1990 Senior Loan Officer Opinion Survey

The January 1990 Senior Loan Officer Opinion Survey on Bank Lending Practices focused on credit standards and lending terms for different types of C&I loans and whether various price and nonprice terms on new loans had been tightened recently. Respondents were asked about their loan policies with respect to different categories of C&I loans that are believed to pose different degrees of credit risk; these included merger-related loans, nonmerger-related loans to investment-grade C&I customers, nonmerger-related loans to below investment-grade firms, C&I loans to new customers, and real estate loans for acquisition, land development, and construction (ADC loans). In addition, respondents were asked to rank various factors that may have led them to alter their loan policies toward C&I and ADC customers, and what percent of their loans in this latter category would have been made by savings and loan associations in the absence of recent problems in the thrift industry.

The survey indicated that many banks reported tightening their credit standards and nonprice terms of credit for the riskier types of C&I loans, but not for nonmerger-related loans to their investment-grade borrowers. Survey results also revealed that a large majority of respondents had become less willing to make ADC loans. Nevertheless, a number of banks indicated that they were making such loans to customers that had formerly borrowed from thrifts.

Policy Changes for C&I Loans in General

About one-fifth of respondents reported a decreased willingness to extend overall business credit during the past six months. All of these banks cited a less favorable economic outlook as a reason, followed, in order of importance, by industry-specific problems, a deterioration in the quality of their overall loan portfolio, pressures on their capital positions, and regulatory pressures. About one-sixth of banks indicated that their willingness to extend business credit to new as opposed to existing customers had declined over the past half year.

Policy Changes for Specific Categories of C&I Loans

Changes in policy over the past six months toward different types of C&I loans were far from uniform. Nearly three-fourths tightened their credit standards for reviewing loan applications for merger-related loans and over half did so on nonmerger-related loans to below investment-grade firms. By contrast, less than one-tenth of respondents tightened their credit standards on nonmerger-related loans to investment-grade firms. That a decline in the general economic outlook was the most important factor motivating tighter lending policies for overall C&I loans and that standards were mainly tightened for riskier types of loans is consistent with the notion that increases in downside risk tend disproportionately to affect the perceived credit risk of highly leveraged firms and of noninvestment-grade firms.

Banks also were asked whether they changed specific price and nonprice terms for these three types of C&I loans in the last six months. Virtually all respondents indicated that they either tightened or left unchanged these terms, but for investment-grade customers not involved in merger activity,

there was relatively little restriction. Over half of the respondents reported tightening loan covenants for merger-related loans and for nonmerger-related loans to noninvestment-grade firms. (Such covenants help limit loan losses by preventing excessive risk-taking by borrowers and by providing banks more leeway in working out problem loans.) For these two types of loans, nearly two-fifths reported increasing loan rate spreads with respect to base rates. With respect to credit lines, over one-half of surveyed banks reduced maximum line sizes for merger-related loans and about two-fifths, for nonmerger-related loans to below investment-grade firms.

For nonmerger-related loans to investment-grade borrowers, one-eighth of respondents reported lowering sizes of maximum credit lines, one-tenth reported increasing loan rate spreads, and about one-tenth indicated that they tightened loan covenants. The difference in the frequency of tightening loan covenants across the different loan types may reflect, in part, the greater risks posed by borrowers involved in merger-related activity and by noninvestment-grade businesses relative to the risks posed by investment-grade firms borrowing for nonmerger-related purposes.

#### Loan Policy Changes for ADC Loans

Nearly four-fifths of respondents reported a reduced willingness to make ADC loans compared to six months ago. Of these banks, nearly three-fifths reduced permissible loan-to-value ratios, and substantial proportions reported restricting credit for income-generating properties (nearly one-half) and for single-family homes (nearly one-third) that were not sold prior to construction. About one-third of the banks reporting less willingness indicated that they had lowered loan sizes and about one-third

imposed limits on loans outside of their geographic area. Only about one-fifth reported widening the spread of loan rates over base rates, and about one-seventh reduced the maximum maturity of these loans or imposed additional limits on loan participations. Nearly two-fifths of banks reporting a reduced willingness to make these loans indicated that they had cut off credit to some customers and one-fifth had denied loans to new customers.

Almost all banks that were less willing to make these loans cited a less favorable economic outlook as a reason, and nearly three-fourths mentioned industry-specific problems as a factor. About one-half of such banks indicated that a deterioration in the quality of their loan portfolio was a factor in changing their attitude and about one-seventh cited pressures on their bank's capital position.

#### Impact of the Thrift Crisis on Bank ADC Lending

Approximately one-third of respondents indicated that their ADC loans were higher than they would otherwise be owing to the thrift crisis. Of these banks, the vast majority estimated that less than ten percent of such loans made in the last six months would have been made by savings and loan associations in the absence of problems in the thrift industry.

Geographically, these banks were concentrated in the Philadelphia, Richmond, and San Francisco Federal Reserve Districts. Several of these banks mentioned that they lent only to the higher-quality former thrift customers that sought credit.

TABLE 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES  
 AT SELECTED LARGE BANKS IN THE UNITED STATES  
 (Status of policy as of January 1990)  
 (Number of banks and percent of banks answering question)  
 (By volume of total domestic assets, in \$ billions, as of September 30, 1989)<sup>1</sup>

1.a. Has your bank's willingness to extend credit to C&I customers decreased over the last six months?

	Yes		No		Total Banks
	Banks	Pct	Banks	Pct	
All Respondents	12	(20.7)	46	(79.3)	58
\$10.0 and Over	6	(23.1)	20	(76.9)	26
Under \$10.0	6	(18.8)	26	(81.3)	32

b. If you answered yes to question 1.a, which of the following were important reasons? (Please rank by importance.)

	Pressures on bank capital position		Deterioration in quality of portfolio		Less favorable economic outlook		Industry specific problems		Regulatory pressures		Other		Total Banks
	Banks	Mean <sup>2</sup>	Banks	Mean <sup>2</sup>	Banks	Mean <sup>2</sup>	Banks	Mean <sup>2</sup>	Banks	Mean <sup>2</sup>	Banks	Mean <sup>2</sup>	
All Respondents	5	(2.0)	5	(2.0)	12	(1.6)	8	(2.4)	4	(3.5)	1	(1.0)	12
\$10.0 and Over	3	(1.7)	2	(1.5)	5	(1.7)	4	(2.0)	2	(2.0)	0	(0)	6
Under \$10.0	2	(2.5)	3	(2.3)	6	(1.5)	4	(2.8)	2	(5.0)	1	(1.0)	6

2.a. Has your bank's willingness to lend to new C&I customers decreased relative to its willingness to lend to existing customers over the last six months?

	Yes		No		Total Banks
	Banks	Pct	Banks	Pct	
All Respondents	10	(17.2)	48	(82.8)	58
\$10.0 and Over	4	(15.4)	22	(84.6)	26
Under \$10.0	6	(18.8)	26	(81.3)	32

b. If you answered yes to question 2.a, which of the following actions have been taken with respect to new customers relative to existing customers? (More than one answer may apply.)

	Credit standards tightened		Maximum loan size or credit line reduced		Spreads over base rates widened		Credit to new customers generally cut off		Other		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	9	(90.0)	4	(40.0)	2	(20.0)	0	(0.0)	2	(20.0)	10
\$10.0 and Over	3	(75.0)	1	(25.0)	1	(25.0)	0	(0.0)	1	(25.0)	4
Under \$10.0	6	(100.0)	3	(50.0)	1	(16.7)	0	(0.0)	1	(16.7)	6

1 As of September 30, 1989, 27 respondents had domestic assets of \$10 billion or more; combined assets of these banks totalled \$690 billion, compared to \$907 billion for the entire panel of 60 banks, and \$2.80 trillion for all domestically chartered federally insured commercial banks.

2 Average rank calculated using 1 for most important, 2 for next most important, and so forth.

3. Please indicate how your bank's credit standards for approving loan applications related to mergers and acquisitions have changed in the last six months. ("Credit standards" should be interpreted to encompass requirements with respect to ability to repay, ability to weather an economic downturn, quality of balance sheets, collateral requirements, as well as credit/business history. Please report changes in enforcement of already existing terms as changes in standards. Merger-related loans include those made to finance leveraged buyouts, other mergers and acquisitions, and defensive restructurings--such as equity and debt buybacks--related to mergers and acquisitions.)

	Tightened considerably		Tightened somewhat		Essentially unchanged		Eased somewhat		Eased considerably		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	5	( 8.6)	37	(63.8)	16	(27.6)	0	( 0.0)	0	( 0.0)	58
\$10.0 and Over	1	( 3.8)	18	(69.2)	7	(26.9)	0	( 0.0)	0	( 0.0)	26
Under \$10.0	4	(12.5)	19	(59.4)	9	(28.1)	0	( 0.0)	0	( 0.0)	32

4. With respect to merger-related loans your bank currently is willing to approve, please indicate how terms have changed in the last six months with respect to:

a. maximum size of credit lines

	Significantly reduced		Somewhat reduced		Essentially unchanged		Somewhat increased		Significantly increased		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	10	(17.2)	23	(39.7)	24	(41.4)	1	( 1.7)	0	( 0.0)	58
\$10.0 and Over	5	(19.2)	9	(34.6)	12	(46.2)	0	( 0.0)	0	( 0.0)	26
Under \$10.0	5	(15.6)	14	(43.8)	12	(37.5)	1	( 3.1)	0	( 0.0)	32

b. spreads of loan rates over base rates

	Significantly widened		Somewhat widened		Essentially unchanged		Somewhat narrowed		Significantly narrowed		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	2	( 3.4)	20	(34.5)	36	(62.1)	0	( 0.0)	0	( 0.0)	58
\$10.0 and Over	0	( 0.0)	8	(30.8)	18	(69.2)	0	( 0.0)	0	( 0.0)	26
Under \$10.0	2	( 6.3)	12	(37.5)	18	(56.3)	0	( 0.0)	0	( 0.0)	32

c. loan covenants

	Tightened considerably		Tightened somewhat		Essentially unchanged		Eased somewhat		Eased considerably		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	5	( 8.8)	27	(47.4)	25	(43.9)	0	( 0.0)	0	( 0.0)	57
\$10.0 and Over	1	( 3.8)	10	(38.5)	15	(57.7)	0	( 0.0)	0	( 0.0)	26
Under \$10.0	4	(12.9)	17	(54.8)	10	(32.3)	0	( 0.0)	0	( 0.0)	31

5. Please indicate how your bank's credit standards for approving loan applications from investment-grade C&I customers (other than those related to mergers and acquisitions) have changed in the last six months. ("Credit standards" and "merger-related loans" should be interpreted as in question 3.)

	Tightened considerably		Tightened somewhat		Essentially unchanged		Eased somewhat		Eased considerably		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	1	( 1.8)	3	( 5.3)	52	(91.2)	1	( 1.8)	0	( 0.0)	57
\$10.0 and Over	0	( 0.0)	2	( 7.7)	23	(88.5)	1	( 3.8)	0	( 0.0)	26
Under \$10.0	1	( 3.2)	1	( 3.2)	29	(93.5)	0	( 0.0)	0	( 0.0)	31

6. With respect to loans to investment-grade C&I customers (other than merger-related loans) that your bank currently is willing to approve, please indicate how terms have changed in the last six months with respect to:

a. maximum size of credit lines

	Significantly reduced		Somewhat reduced		Essentially unchanged		Somewhat increased		Significantly increased		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	2	( 3.5)	6	(10.5)	48	(84.2)	1	( 1.8)	0	( 0.0)	57
\$10.0 and Over	1	( 3.8)	1	( 3.8)	23	(88.5)	1	( 3.8)	0	( 0.0)	26
Under \$10.0	1	( 3.2)	5	(16.1)	25	(80.6)	0	( 0.0)	0	( 0.0)	31

b. spreads of loan rates over base rates

	Significantly widened		Somewhat widened		Essentially unchanged		Somewhat narrowed		Significantly narrowed		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	1	( 1.8)	5	( 8.8)	48	(84.2)	3	( 5.3)	0	( 0.0)	57
\$10.0 and Over	0	( 0.0)	1	( 3.8)	23	(88.5)	2	( 7.7)	0	( 0.0)	26
Under \$10.0	1	( 3.2)	4	(12.9)	25	(80.6)	1	( 3.2)	0	( 0.0)	31

c. loan covenants

	Tightened considerably		Tightened somewhat		Essentially unchanged		Eased somewhat		Eased considerably		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	1	( 1.8)	5	( 8.9)	50	(89.3)	0	( 0.0)	0	( 0.0)	56
\$10.0 and Over	0	( 0.0)	3	(11.5)	23	(88.5)	0	( 0.0)	0	( 0.0)	26
Under \$10.0	1	( 3.3)	2	( 6.7)	27	(90.0)	0	( 0.0)	0	( 0.0)	30

7. Please indicate how your bank's credit standards for approving loan applications (other than those related to mergers and acquisitions) from below investment-grade C&I customers have changed in the last six months. ("Credit standards" and "merger-related loans" should be interpreted as in question 3.)

	Tightened considerably		Tightened somewhat		Essentially unchanged		Eased somewhat		Eased considerably		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	4	(6.9)	29	(50.0)	25	(43.1)	0	(0.0)	0	(0.0)	58
\$10.0 and Over	2	(7.7)	11	(42.3)	13	(50.0)	0	(0.0)	0	(0.0)	26
Under \$10.0	2	(6.3)	18	(56.3)	12	(37.5)	0	(0.0)	0	(0.0)	32

8. With respect to loans to below investment-grade C&I customers (other than merger-related loans) that your bank currently is willing to approve, please indicate how terms have changed in the last six months with respect to:

a. maximum size of credit lines

	Significantly reduced		Somewhat reduced		Essentially unchanged		Somewhat increased		Significantly increased		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	4	(6.9)	20	(34.5)	34	(58.6)	0	(0.0)	0	(0.0)	58
\$10.0 and Over	2	(7.7)	8	(30.8)	16	(61.5)	0	(0.0)	0	(0.0)	26
Under \$10.0	2	(6.3)	12	(37.5)	18	(56.3)	0	(0.0)	0	(0.0)	32

b. spreads of loan rates over base rates

	Significantly widened		Somewhat widened		Essentially unchanged		Somewhat narrowed		Significantly narrowed		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	1	(1.7)	21	(36.2)	35	(60.3)	1	(1.7)	0	(0.0)	58
\$10.0 and Over	0	(0.0)	8	(30.8)	17	(65.4)	1	(3.8)	0	(0.0)	26
Under \$10.0	1	(3.1)	13	(40.6)	18	(56.3)	0	(0.0)	0	(0.0)	32

c. loan covenants

	Tightened considerably		Tightened somewhat		Essentially unchanged		Eased somewhat		Eased considerably		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	3	(5.3)	28	(49.1)	26	(45.6)	0	(0.0)	0	(0.0)	57
\$10.0 and Over	2	(7.7)	9	(34.6)	15	(57.7)	0	(0.0)	0	(0.0)	26
Under \$10.0	1	(3.2)	19	(61.3)	11	(35.5)	0	(0.0)	0	(0.0)	31

9. Roughly what percent of the construction and land acquisition and development loans that your bank has made in the last six months would you estimate went to firms that would have borrowed from thrift institutions absent recent adverse developments in that industry?

	Essentially none		Under 10 percent		Between 10 and 25 percent		Over 25 percent		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	34	(61.8)	19	(34.5)	2	(3.6)	0	(0.0)	55
\$10.0 and Over	13	(52.0)	11	(44.0)	1	(4.0)	0	(0.0)	25
Under \$10.0	21	(70.0)	8	(26.7)	1	(3.3)	0	(0.0)	30

10. Please indicate your bank's willingness to make construction and land acquisition and development loans now as opposed to six months ago.

	Much more		Somewhat more		Unchanged		Somewhat less		Much less		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	0	( 0.0)	0	( 0.0)	11	(19.3)	35	(61.4)	11	(19.3)	57
\$10.0 and Over	0	( 0.0)	0	( 0.0)	3	(12.0)	19	(76.0)	3	(12.0)	25
Under \$10.0	0	( 0.0)	0	( 0.0)	8	(25.0)	16	(50.0)	8	(25.0)	32

11. If you answered "less" to question 10 (answers iv. or v.), please indicate which of the following steps your bank has taken in this regard (more than one answer may apply).

- i.) lowered the maximum amount that can be lent to a single borrower.
- ii.) lowered the maximum size of loans generally.
- iii.) reduced the maximum maturity of loans.
- iv.) restricted the availability of credit to finance single-family home construction prior to the homes having been sold.
- v.) restricted the availability of credit to finance the construction of income properties prior to permanent (takeout) financing having been arranged.
- vi.) imposed additional limits on out-of-area lending.
- vii.) imposed additional limits on loan participations.
- viii.) reduced permissible loan to value ratios.
- ix.) widened spreads over base rates.
- x.) cut off credit to some existing customers.
- xi.) generally denied credit to new customers.
- xii.) other (please specify).

	Lowered max. loan to ind. borrower		Lowered max. size of loans generally		Reduced max. maturity of loans		Restricted credit to single homes		Restricted credit to const. of income prop.		Imposed add. limits on out-of-area loans		Imposed add. limits on loan participations		Reduced permissible loan/value ratios		Widened spreads over base rates	
	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct	Banks	Pct
All Respondents	14	(30.4)	15	(32.6)	7	(15.2)	14	(30.4)	21	(45.7)	15	(32.6)	6	(13.0)	26	(56.5)	10	(22.2)
\$10.0 and Over	6	(27.3)	7	(31.8)	3	(13.6)	7	(31.8)	9	(40.9)	7	(31.8)	4	(18.2)	10	(45.5)	2	( 9.5)
Under \$10.0	8	(33.3)	8	(33.3)	4	(16.7)	7	(29.2)	12	(50.0)	8	(33.3)	2	( 8.3)	16	(66.7)	8	(33.3)

(CONTINUED)

	Cut off credit to some customers		Generally denied credit to new customers		Other		Total Banks
	Banks	Pct	Banks	Pct	Banks	Pct	
All Respondents	18	(39.1)	9	(19.6)	12	(26.1)	46
\$10.0 and Over	9	(40.9)	1	( 4.5)	8	(36.4)	22
Under \$10.0	9	(37.5)	8	(33.3)	4	(16.7)	24

12. If you have tightened your supply of credit for construction and acquisition and land development loans in the last six months, which of the following were important reasons? (Please rank in order of importance.)

	Pressures on bank capital position		Deterioration in quality of portfolio		Less favorable economic outlook		Industry specific problems		Other		Total Banks
	Banks	Mean	Banks	Mean	Banks	Mean	Banks	Mean	Banks	Mean	
All Respondents	7	( 3.3)	19	( 2.1)	43	( 1.6)	34	( 1.7)	7	( 3.1)	46
\$10.0 and Over	2	( 3.0)	7	( 1.9)	21	( 1.6)	16	( 1.8)	4	( 2.3)	22
Under \$10.0	5	( 3.4)	12	( 2.3)	22	( 1.6)	18	( 1.7)	3	( 4.3)	24

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

	1989 <sup>1</sup>	1989 Q3	1989 Q4	1989 Nov	1989 Dec	1990 Jan pe	Growth Q4 89- Jan 90pe
-----Percent change at annual rates-----							
1. M1	0.5	1.5	6.7	2.7	12.2	-2	3½
2. M2	4.5	7.1	7.6	8.4	7.8	4	5½
3. M3	3.3	4.0	2.8	4.9	3.7	2	3

	-----Percent change at annual rates-----						Levels bil. \$ Dec 89
Selected components							
4. M1-A	0.4	1.2	3.7	-1.9	9.9	-5	510.8
5. Currency	4.7	3.7	3.8	2.7	9.8	14	222.1
6. Demand deposits	-2.9	-0.4	3.2	-6.8	10.3	-20	281.2
7. Other checkable deposits	0.9	2.2	12.1	11.1	16.1	2	286.7
8. M2 minus M1 <sup>2</sup>	5.9	9.0	7.9	10.3	6.3	5	2418.9
9. Overnight RPs and Eurodollars, NSA	-5.5	1.1	-12.8	-16.5	16.7	46	72.8
10. General purpose and broker/dealer money market mutual fund shares, NSA	29.1	34.3	29.6	32.6	10.2	25	309.1
11. Commercial banks	7.4	6.9	10.9	14.2	11.3	8	1064.5
12. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	-1.7	3.6	13.6	22.3	14.3	7	543.3
13. Small time deposits	18.6	10.3	8.2	5.8	8.1	10	521.2
14. Thrift institutions	-0.3	4.0	-1.2	0.2	-0.4	0	968.9
15. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	-9.7	-6.0	4.8	7.8	2.7	7	354.8
16. Small time deposits	6.0	9.8	-4.6	-4.1	-2.1	-4	614.1
17. M3 minus M2 <sup>4</sup>	-1.2	-7.0	-14.9	-8.5	-12.1	-4	822.8
18. Large time deposits	4.4	-1.5	-7.5	-3.0	-10.5	-8	554.4
19. At commercial banks, net <sup>5</sup>	10.1	2.1	1.5	6.6	-5.7	2	397.9
20. At thrift institutions	-7.7	-9.8	-28.2	-27.2	-21.8	-33	156.5
21. Institution-only money market mutual fund shares, NSA	17.0	34.1	7.7	40.1	9.4	36	102.8
22. Term RPs, NSA	-15.1	-32.2	-39.8	6.5	-115.0	-48	100.0
23. Term Eurodollars, NSA	-20.2	-33.6	-29.0	8.9	38.4	-53	83.9

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

MEMORANDA:<sup>6</sup>

24. Managed liabilities at commercial banks (25+26)	5.4	3.4	4.4	5.4	-4.2	-7	709.6
25. Large time deposits, gross	2.6	-0.3	0.7	2.1	-1.3	0	460.2
26. Nondeposit funds	2.8	3.7	3.7	3.3	-2.9	-7	249.4
27. Net due to related foreign institutions	0.0	0.7	-0.8	-1.2	-1.6	1	7.2
28. Other <sup>7</sup>	2.8	3.0	4.6	4.5	-1.2	-8	242.3
29. U.S. government deposits at commercial banks <sup>8</sup>	-0.3	-1.2	-0.8	0.5	0.9	-2	21.3

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 December and January at rates of 11.5 percent and 6 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during December and January at rates of 3.8 percent and 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.
- pe - preliminary estimate

Note: Data on the monetary aggregates do not incorporate the results of the benchmark and seasonal review.

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

	1988:Q4 to 1989:Q4	1989					Levels bil.\$ December
		Q3	Q4	Nov.	Dec.	Jan. p	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	7.2	8.0	5.4	3.9	-2.8	5	2577.4
2. Securities	4.1	1.6	11.8	7.1	.8	7	588.2
3. U.S. government securities	10.3	5.4	19.1	17.8	-1.8	19	396.9
4. Other securities	-7.3	-6.2	-3.5	-15.8	6.7	-21	181.3
5. Total loans	8.1	9.9	3.6	3.0	-3.9	5	1999.2
6. Business loans	6.4	8.3	-1.6	.9	-13.7	2	634.2
7. Real estate loans	12.7	13.7	11.6	10.7	11.7	9	754.8
8. Consumer loans	6.5	6.1	6.5	8.0	3.8	8	378.1
9. Security loans	4.2	-6.8	-21.1	-26.2	-80.2	-41	37.8
10. Other loans	1.5	10.6	-9.6	-22.5	-30.1	1	194.3
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	6.3	7.9	-2.0	1.1	-13.6	2	630.1
12. Loans at foreign branches <sup>2</sup>	-4.7	-83.3	9.6	6.0	77.6	51	21.4
13. Sum of lines 11 & 12	5.9	4.1	-1.6	1.3	-10.8	3	651.5
14. Commercial paper issued by nonfinancial firms	31.3	10.3	17.3	15.2	41.2	45	132.7
15. Sum of lines 13 & 14	9.4	5.1	1.5	3.5	-2.3	10	784.2
16. Bankers acceptances: U.S. trade related <sup>4</sup>	5.8	-1.1	-12.4	-10.3	-6.9	n.a.	34.4 <sup>5</sup>
17. Line 15 plus bankers acceptances: U.S. trade related	9.2	4.9	.9	2.9	-2.3	n.a.	818.7 <sup>5</sup>
18. Finance company loans to business <sup>3</sup>	n.a.	14.1	n.a.	-2.3	n.a.	n.a.	258.5 <sup>6</sup>
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	n.a.	7.0	n.a.	1.7	n.a.	n.a.	1078.9 <sup>6</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. November data.

p--preliminary.

n.a.--not available

SELECTED FINANCIAL MARKET QUOTATIONS 1/  
(percent)

	1987	1989		1990	Change from:			
	2/ Oct 16	March Highs	FOMC Dec 19	Feb 1	Mar 89 Highs	FOMC Dec 19		
Short-term rates								
Federal funds 3/	7.59	9.85	8.50	8.24	-1.61	-0.26		
Treasury bills 4/								
3-month	6.93	9.09	7.67	7.76	-1.33	0.09		
6-month	7.58	9.11	7.48	7.71	-1.40	0.23		
1-year	7.74	9.05	7.20	7.54	-1.51	0.34		
Commercial paper								
1-month	7.94	10.05	8.75	8.23	-1.82	-0.52		
3-month	8.65	10.15	8.39	8.14	-2.01	-0.25		
Large negotiable CD's 4/								
1-month	7.92	10.07	8.76	8.18	-1.89	-0.58		
3-month	8.90	10.32	8.43	8.20	-2.12	-0.23		
6-month	9.12	10.08	8.20	8.23	-1.85	0.03		
Eurodollar deposits 5/								
1-month	8.00	10.19	8.81	8.19	-2.00	-0.62		
3-month	9.06	10.50	8.50	8.25	-2.25	-0.25		
Bank prime rate	9.25	11.50	10.50	10.00	-1.50	-0.50		
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	9.52	9.88	7.73	8.35	-1.53	0.62		
10-year	10.23	9.53	7.78	8.42	-1.11	0.64		
30-year	10.24	9.31	7.85	8.44	-0.87	0.59		
Municipal revenue 6/ (Bond Buyer index)	9.59	7.95	7.29	7.52	-0.43	0.23		
Corporate—A utility Recently offered	11.50	10.47	9.36	9.75	-0.72	0.39		
Home mortgage rates 7/								
Fixed-rate	11.58	11.22	9.75	10.05	-1.17	0.30		
ARM, 1-year	8.45	9.31	8.39	8.41	-0.90	0.02		
			1989	1990	Percent change from:			
	Record highs	Date	Lows Jan 3	FOMC Dec 19	Feb 1	Record highs	1989 Lows	FOMC Dec 19
Stock prices								
Dow-Jones Industrial	2810.15	1/2/90	2144.64	2695.61	2586.26	-7.97	20.59	-4.06
NYSE Composite	199.34	10/9/89	154.98	189.40	181.52	-8.94	22.21	-4.16
AMEX Composite	397.03	10/10/89	305.24	367.95	351.50	-11.47	20.54	-4.47
NASDAQ (OTC)	485.73	10/9/89	378.56	434.35	417.76	-13.99	14.74	-3.82
Wilshire	3523.47	10/9/89	2718.59	3314.70	3166.40	-10.13	21.93	-4.47

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 to date for the maintenance period ending February 7, 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.

APPENDIX

FEDERAL BUDGET DEVELOPMENTS

President Bush has submitted his FY1991 budget to the Congress, with proposals that satisfy the Gramm-Rudman-Hollings requirements. The budget projections hinge on assumptions of fairly robust economic growth and falling interest rates, which cause the baseline deficit to fall year by year. In contrast, the Congressional Budget Office (CBO) has released estimates, based on less favorable economic assumptions, that show the baseline deficit remaining in the neighborhood of \$140 billion through 1993.

Near-term Budget Developments and Prospects

This week's news contained much information about the prospects for the budget in the near term, including updated estimates for FY1990. As shown in table 1, the Administration now projects an FY1990 deficit of \$124 billion, compared with a figure of \$99 billion in the July Mid-Session Review. Outlays were revised up nearly \$20 billion, largely because of legislation passed since midsummer. Most notably, FIRREA contributed to an \$8 billion upward revision in expenditures for deposit insurance, which now are expected to total \$11 billion in FY1990. Spending on defense also was revised up. Changes to revenues were smaller, on net, as a sharp reduction in projected taxes in response to weak incoming data on corporate profits and tax payments was partially offset by technical reestimates of other revenues. CBO, however, estimates the FY1990 deficit at \$138 billion.

Table 1

ESTIMATES OF TOTAL BUDGET  
(Billions of dollars)

	Administration			CBO Baseline
	Mid-Session Review	Baseline <sup>1</sup>	Proposed	
	-----FY1990-----			
Total deficit	99	124	124	138
Receipts	1080	1073	1074	1067
Outlays	1179	1197	1197	1205
	-----FY1991-----			
Total deficit	85	102	63	138
Receipts	1152	1156	1170	1137
Outlays	1237	1259	1233	1275

1. Includes extension of food stamp program, which is scheduled to expire in 1991, and adjustments for other accounting anomalies.

The gap between the Administration and CBO baseline estimates widens in FY1991. These estimates assume that budget authority for discretionary programs is held constant in real terms at FY1990 levels and that benefit programs and taxes evolve according to current laws. In effect, they determine how much outlays will have to be cut, or revenues raised, to reduce the deficit to the Gramm-Rudman FY1991 target of \$64 billion. According to the Administration, the baseline deficit will decline to \$102 billion next year; this level requires deficit-reducing actions of at least \$38 billion to meet the Gramm-Rudman target. CBO's baseline deficit, \$138 billion, is unchanged from 1990. According to CBO's numbers, however, the package of cuts would have to be roughly twice as large as that of the Administration.

The Administration's projection of a sizable decline in the baseline deficit next year hinges largely on its favorable expectations for economic performance in 1990 and 1991--that is, it forecasts robust growth, stable inflation, declining interest rates, and booming profits (table 2). Notably, OMB anticipates an increase in real GNP of 2-1/2 percent for 1990 and 3-1/4 percent for 1991. CBO's assessment is less optimistic: It expects real GNP to advance less than 2 percent in 1990 and about 2-1/2 percent in 1991, though, like OMB, CBO sees prices continuing to rise about 4 percent per year. The interest rate forecasts of the two agencies are similar for 1990, but OMB sees rates dropping about a percentage point in 1991.

#### Longer-run Budget Prospects: The CBO Baseline

As shown in table 3, CBO expects deficits to remain sizable over the next several years but to decline somewhat as a share of GNP--from 2-1/2 percent in 1990 to 1-1/2 percent in 1995. With no real growth in discretionary spending, outlays fall from about 22 percent of GNP this year to less than 21 percent in the mid-1990s, while the revenue share drops only a little. The CBO projection is based on real GNP growth of about 2-1/2 percent per year through 1995, with inflation remaining at roughly 4 percent. Interest rates, however, are projected to decline--especially short-term rates, which fall to about 5-3/4 percent in 1995.

Table 2

## ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS

	Forecast		Projected			
	1990	1991	1992	1993	1994	1995
-----Percent change, calendar year average-----						
Real GNP						
Administration	2.4	3.2	3.2	3.1	3.0	3.0
CBO	1.7	2.4	2.5	2.5	2.4	2.4
GNP deflator						
Administration	4.1	4.2	3.9	3.6	3.3	3.0
CBO	4.0	4.0	4.0	4.0	4.0	4.0
CPI <sup>1</sup>						
Administration	3.9	4.0	3.9	3.6	3.3	3.0
CBO	4.0	4.3	4.3	4.3	4.3	4.3
-----Percent, calendar year average-----						
Unemployment rate						
Administration	5.4	5.3	5.2	5.1	5.0	5.0
CBO	5.6	5.5	5.5	5.5	5.5	5.5
Three-month Treasury bill rate						
Administration	6.7	5.4	5.3	5.0	4.7	4.4
CBO	6.9	7.2	6.9	6.5	6.1	5.8
Ten-year Treasury note rate						
Administration	7.7	6.8	6.3	6.0	5.7	5.4
CBO	7.8	7.7	7.6	7.5	7.4	7.3
Corporate profits as a percent of GNP						
Administration	6.4	7.0	7.3	7.5	7.5	7.5
CBO	5.6	5.7	5.7	5.6	5.7	5.6

1. Administration forecasts the CPI-W; CBO forecasts the CPI-U.

Table 3

CBO BASELINE BUDGET PROJECTIONS  
(Fiscal years)

	1990	1991	1992	1993	1994	1995
-----Billions of dollars-----						
Total deficit	138	138	135	141	130	118
Revenues	1067	1137	1204	1277	1355	1438
Outlays	1205	1275	1339	1418	1484	1555
Gramm-Rudman deficit targets	100	64	28	0	--	--
-----As a percentage of GNP-----						
Total deficit	2.5	2.4	2.2	2.1	1.8	1.6
Revenues	19.6	19.6	19.5	19.4	19.3	19.3
Outlays	22.1	22.0	21.7	21.5	21.2	20.8

The Administration Budget Proposals

President Bush's proposals are consistent, at this stage, with the requirements of the Gramm-Rudman law. Given the underlying economic and technical assumptions, his program meets the deficit target of \$64 billion in FY1991 and achieves balance by FY1993. President Bush proposes a modest reduction--relative to the baseline--in defense spending and some reallocation of resources among nondefense programs over the next few years. He also continues to press for a cut in capital gains taxes and proposes a new incentive to spur personal saving.<sup>1</sup>

Proposals for FY1991. The Administration is proposing deficit-reducing actions totaling \$39 billion for FY1991 (see table 4). Outlays

1. Under the Administration plan, households filing joint tax returns and earning less than \$120,000 would be allowed to contribute \$5000 per year to a Family Savings Account (FSA); single filers with incomes below \$60,000 could put in \$2500. Contributions would not be deductible, but earnings on accounts held for more than seven years would be tax-exempt. Because there is no upfront deduction for the contributions, the estimated revenue loss to the Treasury in early years is small--reaching only \$1 billion by 1995. Allowable investment vehicles would be the same as for current IRAs. Contribution limits on IRAs, 401Ks, and Keoghs would not change under this proposal, but the Administration would like to waive the penalty for early withdrawals of up to \$10,000 from IRAs, if the withdrawn funds are used for first-time home purchases.

are to be lowered \$25 billion relative to baseline, with the largest reductions slated for medicare (\$6 billion), defense (\$3 billion), and agriculture (\$3 billion). Proposed changes in miscellaneous user fees--which are scored in the budget as offsets to outlays--amount to \$6 billion.

Table 4

COMPOSITION OF ADMINISTRATION BUDGET PROPOSALS<sup>1</sup>  
(Change from baseline in billions of dollars, fiscal years)

	1991	1992	1993
Outlays	-25	-37	-53
Defense	-3	-9	-17
Medicare	-6	-8	-11
Agriculture	-3	-5	-6
User fees	-6	-4	-5
Other	-7	-11	-14
Receipts	14	11	4
Capital gains <sup>2</sup>	5	3	1
Social security <sup>2</sup>	4	4	4
Excise taxes	3	4	5
Other	2	0	-6
Deficit	-39	-48	-57

1. Excluding payments to the SSIDRF.

2. Extension of OASDI coverage to additional state and local employees and HI coverage to all workers in the sector.

The budget also calls for \$14 billion in new revenues in FY1991. About \$5 billion is projected to come from a revamped proposal to cut the effective tax rate on capital gains; this proposal would allow an exclusion from gross income of 30 percent of the realized gains on certain assets held more than three years, with smaller exclusions for assets held for shorter periods. According to the Administration, enactment of this provision would result in an increase in realizations large enough to add \$5 billion, on net, to FY1991 receipts. The longer-run relationship between capital gains rates and tax collections, of course, is uncertain; but the Administration projects small revenue gains at least through 1995.

Much of the remaining FY1991 revenue would come from bringing additional state and local employees under the social security system (OASDI) and extending medicare coverage (HI) to all workers in that sector. Similar proposals have been rejected by the Congress in the past. The Administration is also requesting about \$3 billion of hikes

in excise taxes, including the extension of the telephone excise tax, which currently is scheduled to expire at the end of 1990.

The longer-run outlook. In contrast to CBO, the Administration expects the deficit to disappear by the mid-1990s--whether measured on a baseline or on a policy basis. However, the \$9 billion surplus shown in table 5 for the proposed budget in FY1995 understates the federal government's total contribution to national saving by \$102 billion because it includes an outlay of that amount to a new off-budget fund, the Social Security Integrity and Debt Reduction Fund (SSIDRF) which is designed to protect the assets in the social security trust funds.<sup>2</sup> Excluding payments to the SSIDRF, the budget is projected to run a surplus of \$111 billion in FY1995.

Table 5

ADMINISTRATION BUDGET PROJECTIONS  
(Fiscal years, billions of dollars)

	1990	1991	1992	1993	1994	1995
Baseline deficit (-)	-124	-102	-73	-38	-10	17
Receipts	1073	1156	1235	1324	1402	1481
Outlays	1197	1259	1308	1361	1412	1463
Proposed deficit (-)	-124	-63	-25	6	11	9
Receipts	1074	1170	1246	1328	1409	1486
Outlays	1197	1233	1271	1322	1398	1477
Memo:						
Payments to SSIDRF	0	0	0	14	54	102
Deficit excl. payments to SSIDRF (-)	-124	-63	-25	20	64	111

The Administration projections assume that real GNP will continue to grow about 3 percent per year and that inflation will decline to about 3 percent by 1995. OMB assumes a somewhat steeper fall in nominal interest rates than does CBO; but the two projections do not show much difference in the levels of real rates by the mid-1990s.

Prospects for defense spending. One reason for the projected improvement in the deficit path over this period is the lack of further growth in real defense spending. In real terms, defense appropriations have already declined 13 percent from their 1985 peak. And if they are held constant in real terms over the next five years at FY1990 levels--the baseline assumption--nominal outlays will fall from about 5-1/2

2. See page II-A-7 for a detailed description of the proposed fund.

percent of GNP in FY1990 to about 4-1/2 percent in FY1995; by contrast, the share averaged 6-1/2 percent between FY1985 and FY1987. The Bush program incorporates small across-the-board reductions in defense appropriations, which would shave another 1/2 percentage point off the defense share of GNP by FY1995; in real terms, defense outlays would decline about 2 percent a year. The proposed cuts are much smaller than those reportedly under consideration a few months ago; indeed, President Bush this week announced that he is prepared to negotiate with the Soviet Union about further troop reductions. For comparison, the \$180 billion package discussed a few months ago was widely interpreted as consistent with declines in real defense spending of about 4 percent per year.

Prospects for nondefense spending. The Bush program contains sizable reductions in nondefense spending (excluding payments to the SSIDRF) over the next five years. But the broad thrust of such spending shows little change. Outlays on human resources programs (for example, social security, health, and education) will continue at about 11 percent of GNP. Spending in other areas is expected to rise much less rapidly than nominal GNP over the next five years, but this expectation largely reflects an anticipated decline in net interest outlays. Among the major programs, the growth in medicare is shaved under the Bush proposals, with nominal outlays cut \$15 billion below baseline by FY1995, primarily through cuts in reimbursement rates to hospitals and doctors. The budget also builds in large savings in agriculture but does not specify how these will be achieved. Changes elsewhere are relatively small; funding is increased relative to baselines for a few programs such as NASA and Head Start, but the increases are more than offset by reductions elsewhere.

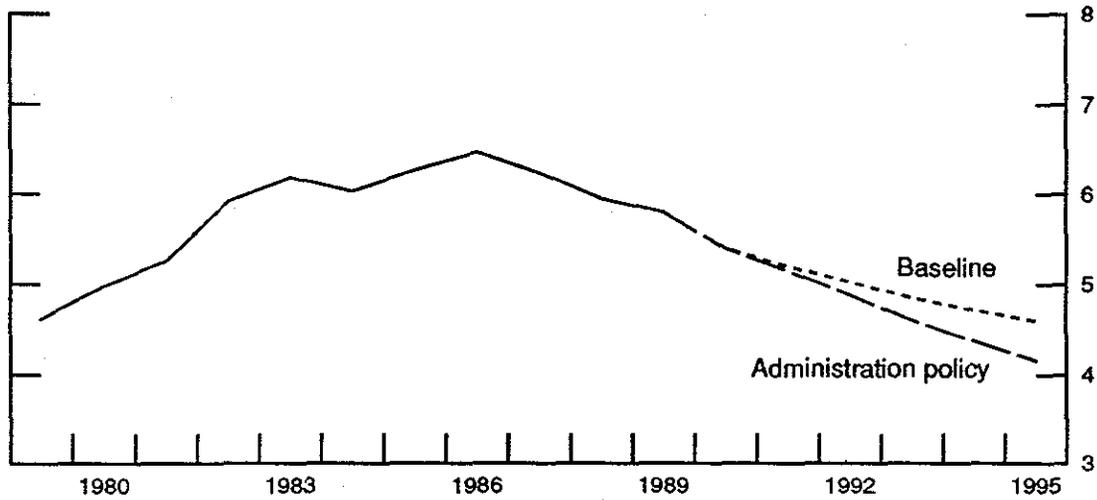
The Social Security Integrity and Debt Reduction Fund (SSIDRF). The Administration has proposed a mechanism that it believes will help to move the overall budget into surplus after the early 1990s. The plan is complicated. First, it would require the government to make annual payments from the general fund into a new off-budget fund--the SSIDRF. After a brief phase-in period, the payments would be equal to the projected annual surplus in the social security trust funds.<sup>3</sup> Thus, the SSIDRF would effectively neutralize the influence of the buildup in the social security trust funds on the official budget statistics; however, in the absence of other changes in outlays and revenues, it would do nothing to reduce government demands on credit markets.

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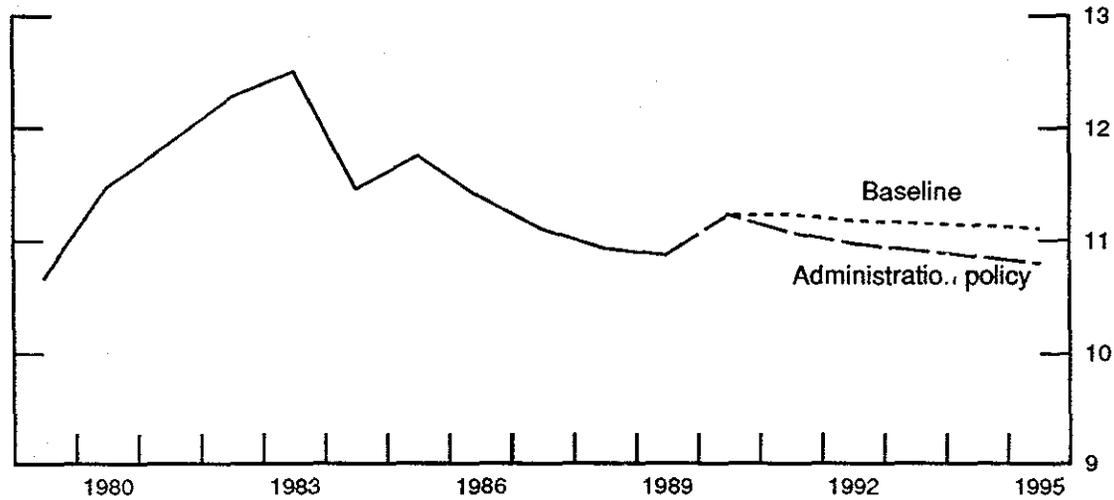
3. Payments to the SSIDRF between 1993 and 1999 would be based on the annual balances (net inflows) in the OASDI trust funds, as projected in 1989 by the Board of Trustees of the Social Security System under intermediate (II-B) economic and demographic assumptions. Payments would increase from 15 percent of the projected balance (\$14 billion) in FY1993 to 85 percent (\$102 billion) in FY1995; beginning in 1996, they would equal the projected OASDI surplus.

**FEDERAL OUTLAYS \***  
(As a percent of GNP)

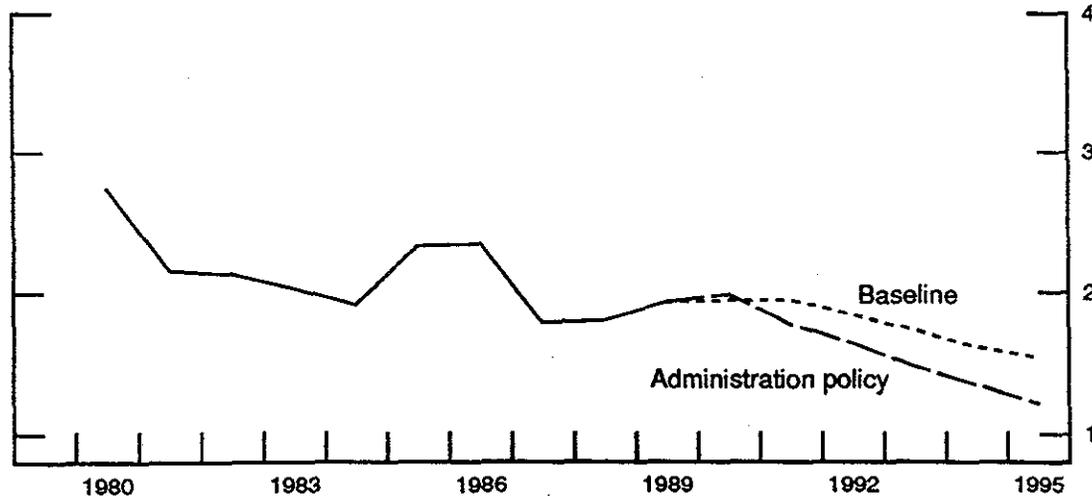
**National Defense**



**Human Resources**



**Other (excluding Net Interest Outlays)**



Source: OMB, Budget of the U.S. Government, FY 1991, January 1990.

\* Outlays exclude payments to the Social Security Integrity and Debt Reduction Fund.

Second, the proposal extends the Gramm-Rudman framework beyond 1993, with a target of zero in the official deficit in each year. Noting that this measure of the deficit would include payments to the SSIDRF, the proposal, in effect, requires that the non-social security part of the budget--as conventionally defined--be brought close to balance by the mid-1990s. Relative to the Administration baseline, balancing the budget as defined under this proposal would require sizable spending cuts and revenue increases. In FY1995, for example, such actions would need to total roughly \$100 billion. Relative to CBO's baseline, achieving balance would require even greater cuts--more than \$200 billion, equivalent to roughly 3 percent of that year's projected GNP.