

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,¹ and then making the scanned versions text-searchable.² 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.

¹ 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).

² 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

February 1, 1991

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 | |
| Labor market developments. | 1 |
| Purchasing managers' survey. | 3 |
| Consumer sentiment | 4 |
| Home sales | 5 |
| Nonresidential construction. | 5 |
| Erratum. | 6 |
| <u>Tables</u> | |
| Average hourly earnings. | 3 |
| University of Michigan survey of consumer attitudes. | 4 |
| Changes in employment. | 7 |
| Selected unemployment rates. | 7 |
| Business capital spending indicators | 12 |
| Private housing activity | 13 |
| Federal sector accounts. | 15 |
| <u>Charts</u> | |
| Labor market indicators. | 8 |
| Unemployment insurance | 9 |
| Purchasing managers. | 10 |
| Average lead time. | 11 |
| Private housing starts | 13 |
| Nonresidential construction and selected indicators. | 14 |
| THE FINANCIAL ECONOMY | |
| The January 1991 senior loan officer opinion survey on bank lending practices. | 16 |
| <u>Tables</u> | |
| Nonmerger-related business lending | 20 |
| Monetary aggregates | 21 |
| Commercial bank credit and short- and intermediate-term business credit | 22 |
| Selected financial market quotations | 23 |

SUPPLEMENTAL NOTES

THE DOMESTIC NONFINANCIAL ECONOMY

Labor Market Developments

Labor market conditions deteriorated again in January and, on balance, labor demand appears to have been somewhat weaker around the turn of the year than we previously thought. Total payroll employment fell 232,000 in January; the job loss in December, 148,000 jobs, is now estimated to have been larger than previously reported.¹ The civilian unemployment rate edged up another 0.1 percentage point in January to 6.2 percent.

Total private payroll employment fell 178,000 in January, with losses again concentrated in the goods-producing sector. Construction lost 155,000 jobs in January, but part of this steep decline appears to have been temporary. The BLS received reports that activity was disrupted by heavy rains in the South and flooding along the Ohio river valley during the survey week. In manufacturing, employment fell an additional 69,000 in January. Producers of durable goods shed 60,000 jobs with all major industries reporting losses in January. Motor vehicles and equipment took back almost all of its December gain (-13,000).² Employment fell 9,000 in those industries producing nondurables. Only food processing and paper

1. The downward revision totaled 72,000 in December; for private employment, it was 57,000. Most of the revision to private employment occurred in services (-23,000). In addition, employment growth in the goods-producing sector was revised down 27,000 in December with the revision almost evenly split between manufacturing and construction.

2. In both months, motor vehicle assemblies fluctuated during the month as producers attempted to adjust production to dealers' orders. Output, and probably employment, during the mid-December survey week overstated activity for the month as a whole; the reverse was true in January. Motor vehicle assemblies declined from 8.4 million units to 7.5 million units (annual rate; FRB basis) between November and December and rose to an estimated 8 million units in January.

reported gains in January while all others, including chemicals and petroleum, reported small losses.

In the private service-producing sector, employment increased 51,000 in January. But retail trade jobs more than accounted for the rise; because hiring in that industry had been slower than usual in November and December, so were January's layoffs, and on a seasonally adjusted basis, employment jumped 85,000. Smoothing through the swings of the last few months, employment in retail trade has fallen 24,000 since October.

Services, which on average added 78,000 jobs per month in 1990, lost 17,000 jobs in January--in part owing to a decline of 32,000 in business services. Employment in business services began slowing in 1989, and employment in this industry now has fallen for four consecutive months with losses totaling 88,000 jobs. Meanwhile, growth in health services in January (39,000) continued at a pace little changed from that of 1990.

Hours of production or nonsupervisory workers fell 1.9 percent in January, reflecting not only the steep decline in employment but also a sharp drop in the average workweek. About one-third of the decline in aggregate hours last month resulted from the plunge in construction hours. More generally, average weekly hours have been quite volatile over the past few months, rising to 34.6 hours in December then plummeting to 34.1 hours in January; the manufacturing workweek has followed a similar pattern. On balance, between November and January, aggregate hours of private production workers declined about 1-1/2 percent; manufacturing hours were down about 1-1/4 percent.

According to data from the household survey, the 0.1 percentage point increase in the unemployment rate in January reflected sharp increases in

the rates for younger workers. The unemployment rate for workers aged 25 and older was unchanged at 5.0 percent. In January, the labor force participation rate dropped back again to 66.0 percent; the participation rate had posted a small gain in December. Over the past twelve months, the labor force has grown by less than 150,000 or less than 0.1 percent.

Average hourly earnings of production or nonsupervisory workers fell 0.1 percent in January to a level 3-3/4 percent above a year earlier. Hourly earnings fell sharply in finance, insurance, and real estate--retracing most of the steep December increase. Meanwhile, wages rose sharply in construction and manufacturing--likely reflecting shifts in the mix of employment.

AVERAGE HOURLY EARNINGS
(Percentage change; based on seasonally adjusted data)¹

| | 1989 | 1990 | 1990 | | 1990 | | 1991 | Memo: |
|-----------------------|------|------|------|-----|------|------|------|---------------------------|
| | | | Q3 | Q4 | Nov. | Dec. | Jan. | Jan. 1990 to Jan. 1991 |
| Total private nonfarm | 4.1 | 3.7 | 4.0 | 2.4 | .2 | .5 | -.1 | 3.7 |
| Manufacturing | 2.8 | 3.7 | 2.6 | 3.0 | .0 | .4 | .3 | 4.4 |

1. Changes over periods longer than one month are measured from final month of preceding period to final month of period indicated.

Purchasing Managers' Survey

According to reports by industrial purchasing managers, new orders declined sharply again in January despite another increase in bookings from abroad. The net difference between the proportions of managers reporting lower and higher orders, on a seasonally adjusted basis, was the largest since this measure moved into the negative range in July. Production and

employment also continued to fall, and inventories of materials were reduced further. Vendor deliveries speeded up noticeably, on net, and the proportion of respondents who paid higher prices for materials dropped back for a third month and about equaled the proportion paying lower prices. According to the survey, fears of supply disruptions associated with Iraq's invasion of Kuwait had resulted in demand for early deliveries as well as rising materials prices between August and December. These fears appeared to subside last month. Lead times for ordering production materials and capital goods, which have been trending down over the past two years, decreased slightly in December while lead times for maintenance, repair, and operating supplies were little changed from recent readings.

Consumer Sentiment

Consumer sentiment, as measured by the University of Michigan's Survey Research Center, was little changed for a third month in January. Within the month, however, there were sharp gyrations the attitudes of respondents reflecting the developments in the Persian Gulf.

University of Michigan Survey of Consumer Attitudes
(Not seasonally adjusted; Feb. 1966 = 100)

| | Dec. | January | | | All |
|-----------------------------|------|---------|-------|-------|------|
| | | 2-15 | 16-22 | 23-28 | |
| Index of Consumer Sentiment | 65.5 | 66.0 | 75.0 | 61.5 | 66.8 |

In the first half of the month, the overall index was about unchanged from the December level. Attitudes then improved markedly in the week immediately following the Allied attack on Iraq and Kuwait, only to sink to a new low (for the current downturn) in the last week of the month. Results

for the subperiods are based on relatively few interviews (359, 93, and 79, respectively), and thus are not as reliable statistically as results based on a full month's complement of 500 interviews.

Taking the month as whole, consumers were slightly more upbeat than in December about their financial situations--both current and future--as well as about the near-term outlook for general business conditions. Buying conditions for large household durables were seen about as favorably in January as in December. Expectations about the future course of inflation also varied widely during the month, hitting their low point in the week after the initiation of hostilities. For the month as a whole, the average expectation for inflation over the next 12 months was 5.1 percent, down from 5.5 percent in December.

Home Sales

Sales of new single-family homes dropped back 7 percent in December to 463,000 units (annual rate) from a November reading that was lower than previously reported. The weakness in demand for new homes through yearend was consistent with the Michigan Survey's sampling of consumer attitudes toward homebuying, which trended down from July through October and remained at a relatively low level in November and December. In the January survey, attitudes toward homebuying apparently improved because more households perceived prices and interest rates to be low.

Nonresidential Construction

Nonresidential construction put-in-place increased 1/2 percent in December from the downward-revised November level. However, even with the uptick in December, construction outlays dropped more than 5 percent in the fourth quarter (not an annual rate), with sharp declines in every major

category except public utilities. The new data are in line with BEA's assumption for the advance estimate of fourth-quarter GNP and thus imply no significant revision to the estimated 16-1/2 percent (annual rate) decline in real spending for nonresidential construction.

Erratum

The federal sector accounts table has been adjusted to correctly reflect assumed foreign contribution to Operation Desert Storm. The correction reduces the projected FY1992 unified budget deficit from \$276 billion to \$266 billion.

In a corresponding correction to Part 1 text, the sentence beginning on p. 5, line 12, should now read: In particular, we now expect the unified deficit to be about \$280 billion in FY1991 and \$265 billion in FY1992.

CHANGES IN EMPLOYMENT¹
(Thousands of employees; based on seasonally adjusted data)

| | 1989 | 1990 | 1990 | | | 1990 | | 1991 |
|---|------|------|------|------|------|------|------|------|
| | | | Q2 | Q3 | Q4 | Nov. | Dec. | Jan. |
| -----Average monthly changes----- | | | | | | | | |
| Nonfarm payroll employment ² | 193 | 53 | 236 | -72 | -198 | -267 | -148 | -232 |
| Private | 162 | 21 | 106 | 8 | -200 | -272 | -135 | -178 |
| Manufacturing | -16 | -49 | -23 | -43 | -107 | -207 | -45 | -69 |
| Durable | -16 | -39 | -20 | -44 | -79 | -161 | -33 | -60 |
| Nondurable | -0 | -10 | -3 | 1 | -28 | -46 | -12 | -9 |
| Construction | 5 | -19 | -14 | -31 | -63 | -64 | -42 | -155 |
| Trade | 47 | -4 | 27 | 3 | -68 | -65 | -71 | 71 |
| Finance, insurance, real estate | 9 | 4 | 8 | 2 | -7 | -10 | -2 | -8 |
| Services | 100 | 78 | 92 | 72 | 39 | 73 | 8 | -17 |
| Total government | 30 | 32 | 129 | -80 | 2 | 5 | -13 | -54 |
| Private nonfarm production workers | 134 | 8 | 94 | -25 | -182 | -264 | -135 | -202 |
| Manufacturing production workers | -17 | -41 | -18 | -36 | -88 | -178 | -36 | -45 |
| Total employment ³ | 148 | -32 | 1 | -118 | -103 | -347 | 188 | -652 |
| Nonagricultural | 148 | -38 | -27 | -90 | -123 | -357 | 120 | -562 |

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

2. Survey of establishments.

3. Survey of households.

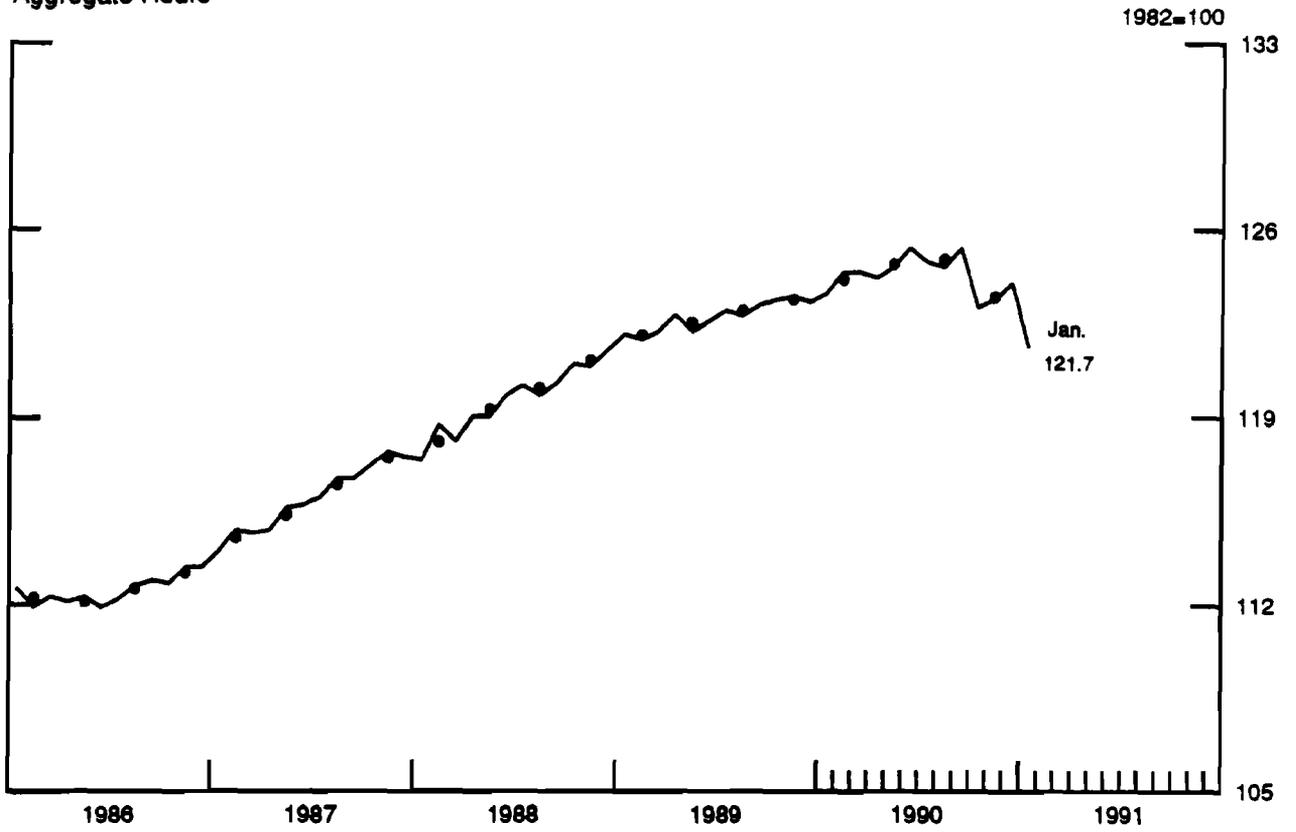
SELECTED UNEMPLOYMENT RATES
(Percent; based on seasonally adjusted data)

| | 1989 | 1990 | 1990 | | | 1990 | | 1991 |
|------------------------------|------|------|------|------|------|------|------|------|
| | | | Q2 | Q3 | Q4 | Nov. | Dec. | Jan. |
| Civilian, 16 years and older | 5.3 | 5.5 | 5.3 | 5.6 | 5.9 | 5.9 | 6.1 | 6.2 |
| Teenagers | 15.0 | 15.5 | 15.0 | 16.0 | 16.4 | 16.4 | 16.6 | 18.2 |
| 20-24 years old | 8.6 | 8.8 | 8.7 | 8.9 | 9.2 | 9.1 | 9.2 | 9.5 |
| Men, 25 years and older | 3.9 | 4.4 | 4.1 | 4.5 | 4.8 | 4.8 | 5.1 | 5.1 |
| Women, 25 years and older | 4.2 | 4.3 | 4.2 | 4.3 | 4.6 | 4.6 | 4.8 | 4.9 |
| White | 4.5 | 4.8 | 4.6 | 4.8 | 5.1 | 5.0 | 5.3 | 5.5 |
| Black | 11.5 | 11.3 | 10.6 | 11.7 | 12.0 | 12.2 | 12.2 | 12.1 |
| Fulltime workers | 4.9 | 5.2 | 5.0 | 5.3 | 5.7 | 5.7 | 5.8 | 6.0 |
| Memo: | | | | | | | | |
| Total national ¹ | 5.2 | 5.4 | 5.2 | 5.5 | 5.8 | 5.8 | 6.0 | 6.1 |

1. Includes resident armed forces as employed.

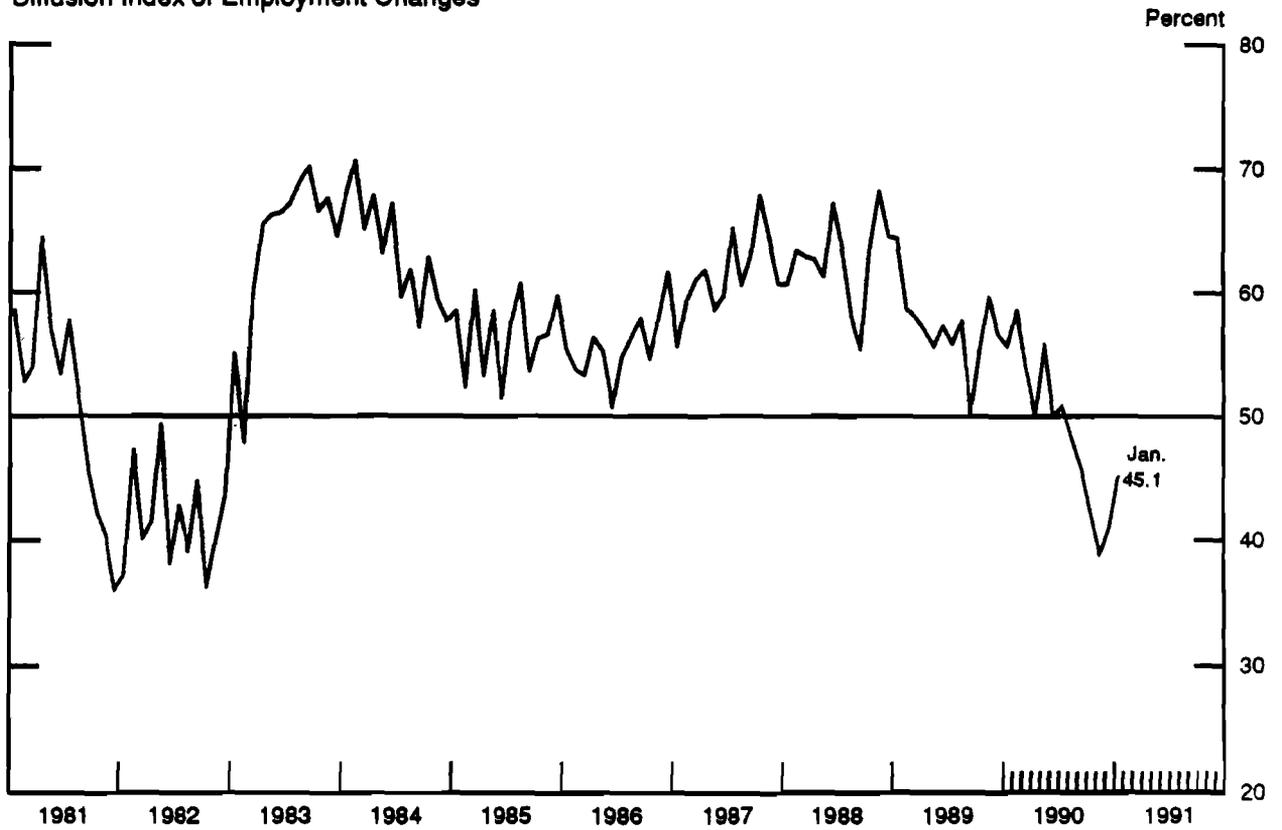
Labor Market Indicators Payroll Survey

Aggregate Hours¹

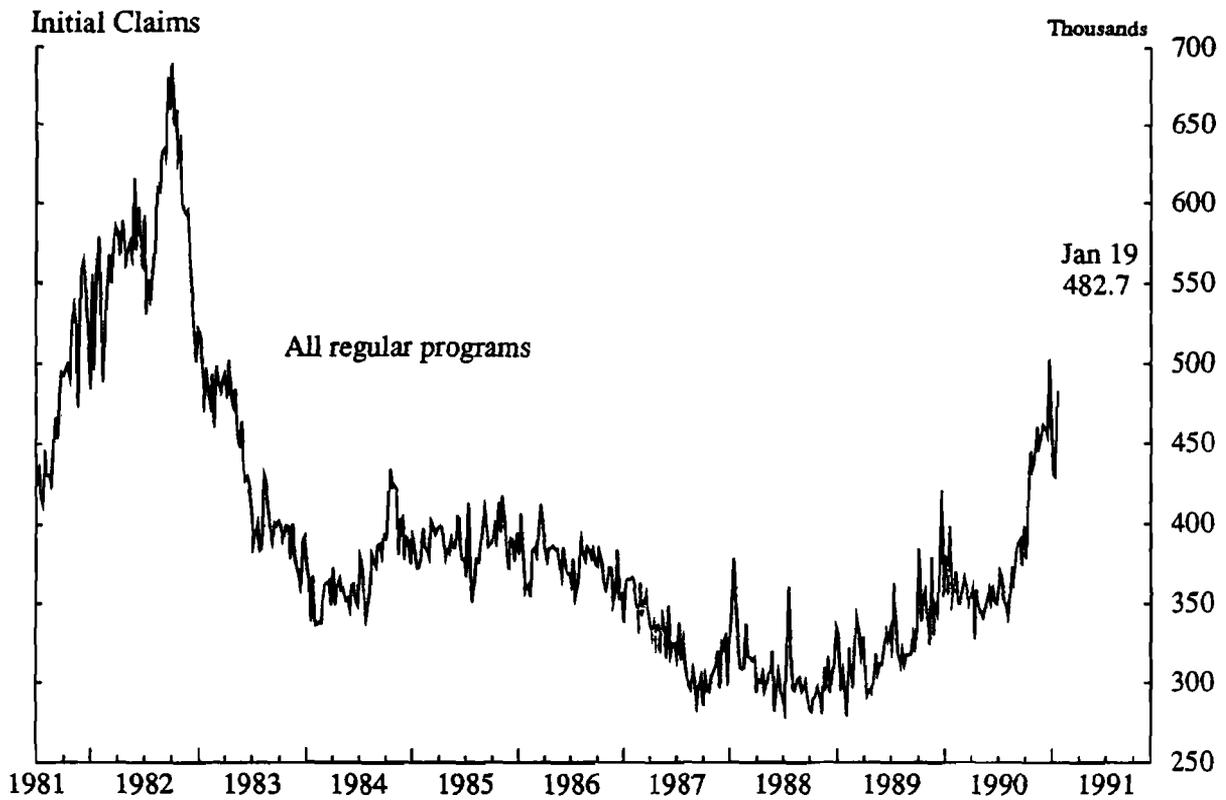


1. Dots denote quarterly averages.

Diffusion Index of Employment Changes

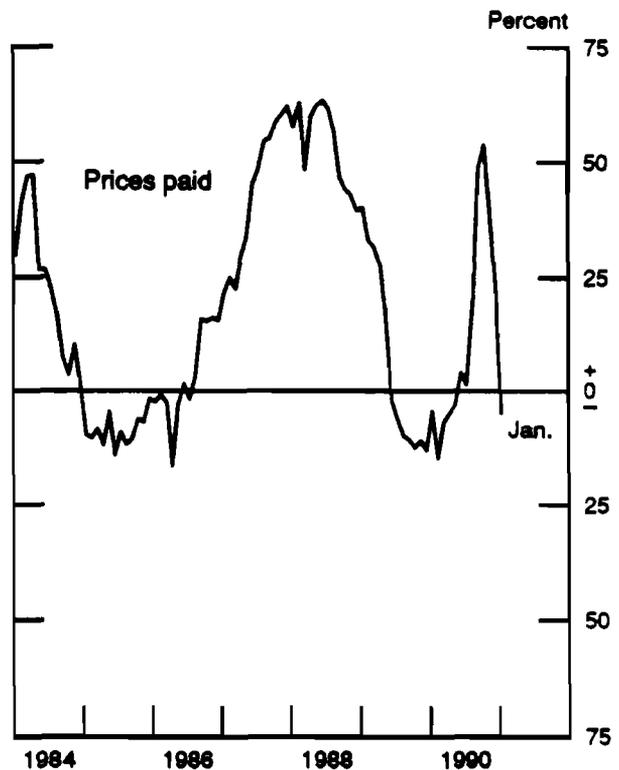
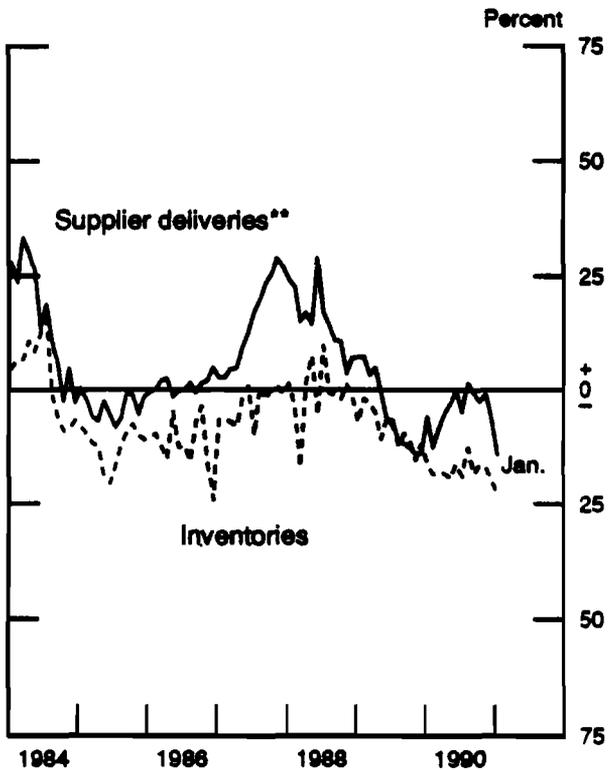
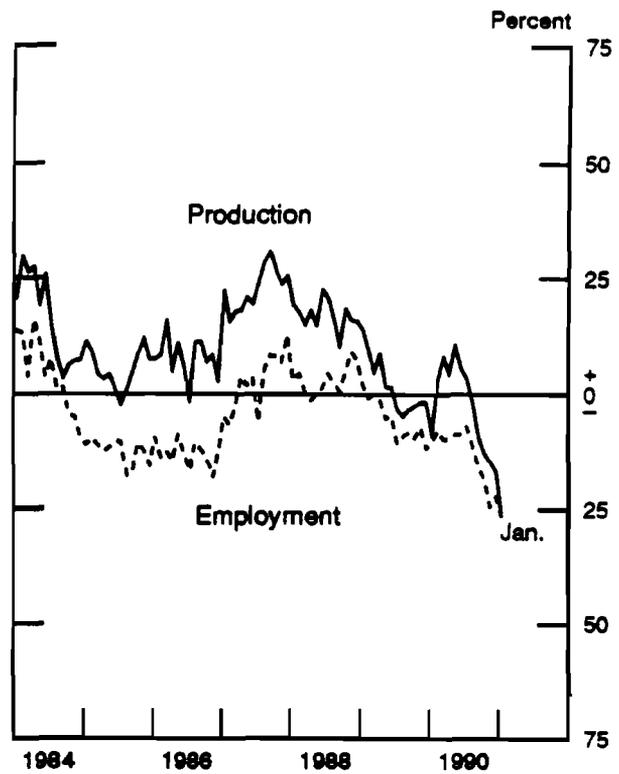
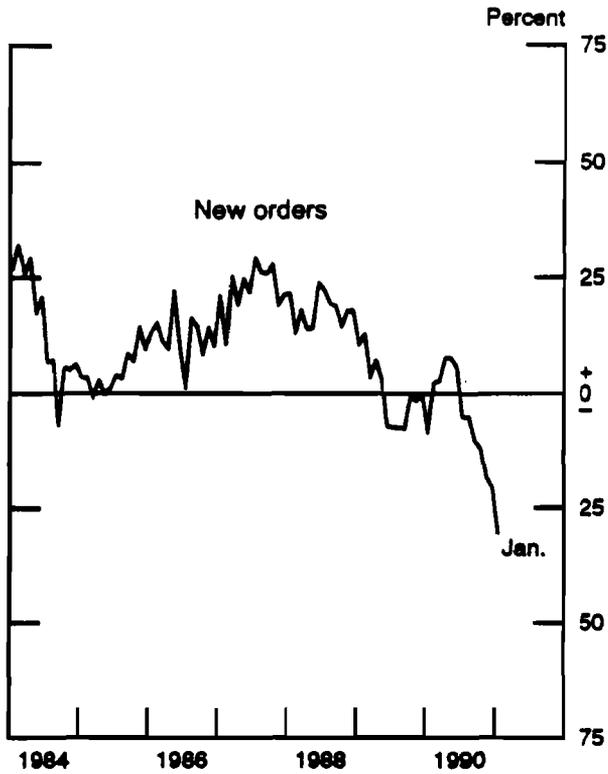


-9-
Unemployment Insurance
(Weekly data; seasonally adjusted, FRB basis <1>)



<1> Only the state program components of these series are seasonally adjusted.

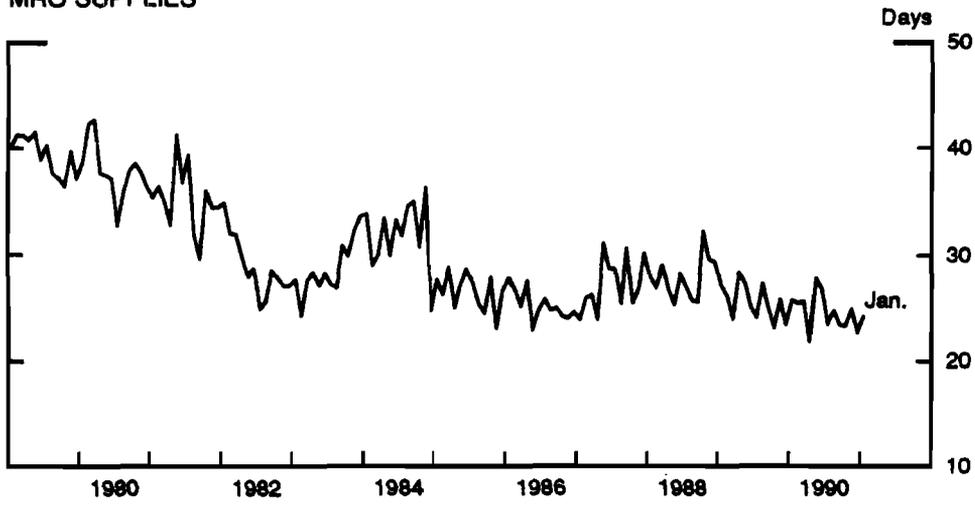
Purchasing Managers* (Seasonally adjusted)



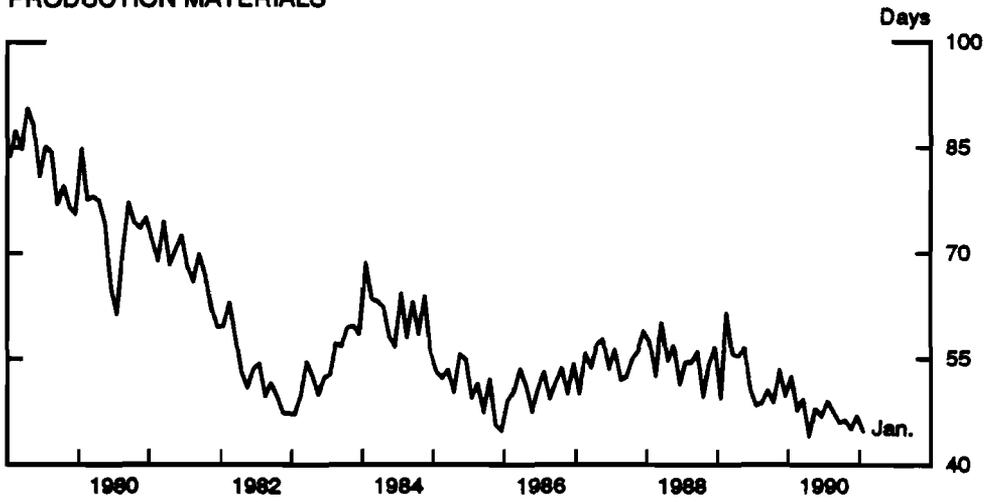
* Percent reporting increases are netted with those reporting decreases.
** Positive entries represent slower deliveries.

Average Lead Time (Monthly, not seasonally adjusted)

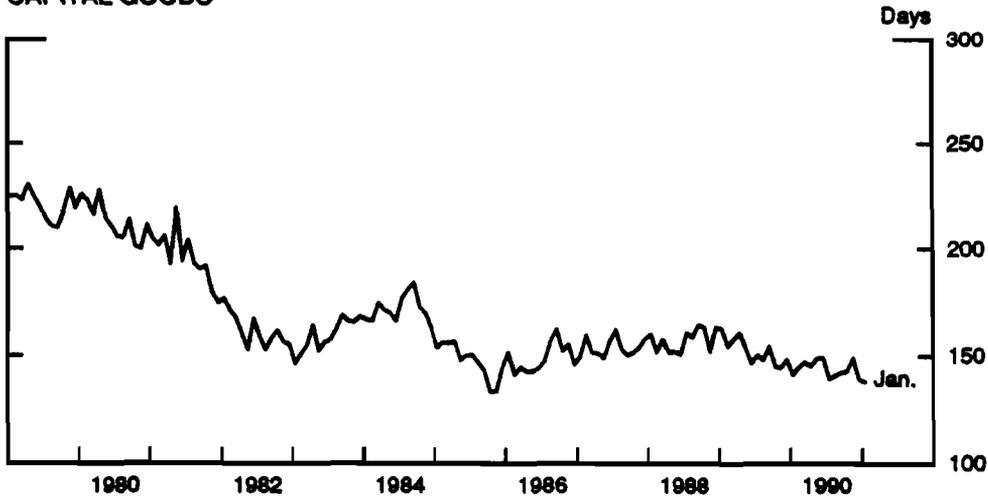
MRO SUPPLIES



PRODUCTION MATERIALS



CAPITAL GOODS



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

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

| | 1990 | | | 1990 | | |
|---------------------------------------|------|------|-------|-------|-------|------|
| | Q2 | Q3 | Q4 | Oct. | Nov. | Dec. |
| <u>Producers' durable equipment</u> | | | | | | |
| Shipments of nondefense capital goods | -0.9 | 1.1 | -0.1 | -0.1 | -1.7 | -0.4 |
| Complete aircraft | -3.1 | 16.7 | -6.5 | -1.2 | -2.0 | -0.8 |
| Excluding aircraft and parts | -1.5 | -0.8 | 0.9 | 1.3 | -1.8 | -1.5 |
| Office and computing | -1.0 | -1.4 | 4.1 | 3.5 | -6.4 | 2.4 |
| All other categories | -1.6 | -0.7 | 0.1 | 0.7 | -0.6 | -2.4 |
| Weighted PDE shipments ¹ | -1.4 | -0.1 | 2.3 | 2.8 | -1.0 | -1.7 |
| Sales of heavy-weight trucks | -5.9 | 6.4 | -10.8 | -4.5 | -5.8 | 4.0 |
| Orders of nondefense capital goods | -5.8 | 4.9 | 4.7 | 8.7 | -14.0 | 16.9 |
| Excluding aircraft and parts | -1.4 | 0.6 | -0.5 | 2.7 | -6.1 | 1.2 |
| Office and computing | -1.2 | 5.2 | -6.2 | -12.4 | -2.4 | -4.1 |
| All other categories | -1.5 | -0.6 | 1.0 | 7.0 | -7.0 | 2.5 |
| Weighted PDE orders ¹ | -0.7 | 0.1 | 1.6 | 4.6 | -4.8 | 0.4 |
| <u>Nonresidential structures</u> | | | | | | |
| Construction put-in-place | -0.5 | 1.1 | -5.3 | -2.3 | -2.1 | 0.5 |
| Office | -3.8 | 1.6 | -7.6 | -3.9 | -5.5 | 2.9 |
| Other commercial | -3.5 | -2.5 | -9.3 | -2.3 | -4.0 | 0.2 |
| Public utilities | -0.5 | 0.0 | 1.5 | -0.2 | 0.8 | -0.6 |
| Industrial | 0.7 | 2.3 | -5.7 | -1.2 | -0.3 | 6.9 |
| All other | 4.9 | 4.5 | -6.2 | -3.9 | -1.6 | -4.1 |
| Rotary drilling rigs in use | 10.7 | -2.8 | -2.8 | -0.9 | 0.3 | -2.3 |
| Footage drilled ² | 1.5 | 4.3 | n.a. | 7.2 | -10.1 | n.a. |

Note: The Census M-3 report does not provide information on complete aircraft orders.

1. Computed as the 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 Department of Energy. Not seasonally adjusted.

n.a. Not available.

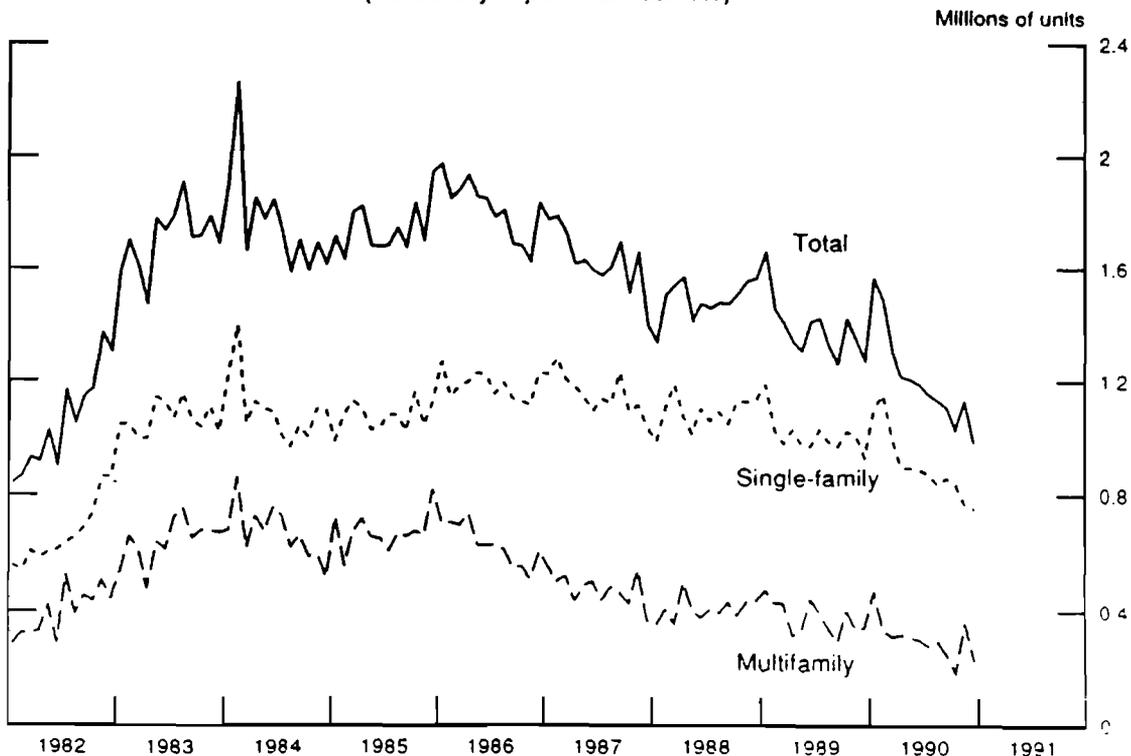
PRIVATE HOUSING ACTIVITY
(Seasonally adjusted annual rates; millions of units)

| | 1990 ^P | 1990 | | | 1990 | | |
|---------------------------|-------------------|------|------|-----------------|------|-------------------|-------------------|
| | Annual | Q2 | Q3 | Q4 ^P | Oct. | Nov. ^P | Dec. ^P |
| All units | | | | | | | |
| Permits | 1.10 | 1.09 | 1.04 | .89 | .92 | .91 | .85 |
| Starts | 1.19 | 1.20 | 1.13 | 1.05 | 1.03 | 1.13 | .99 |
| Single-family units | | | | | | | |
| Permits | .79 | .80 | .76 | .68 | .71 | .67 | .65 |
| Starts | .89 | .90 | .86 | .79 | .84 | .77 | .76 |
| Sales | | | | | | | |
| New homes | .54 | .54 | .52 | .48 | .48 | .50 | .46 |
| Existing homes | 3.30 | 3.32 | 3.33 | 3.14 | 3.05 | 3.15 | 3.22 |
| Multifamily units | | | | | | | |
| Permits | .30 | .29 | .28 | .22 | .21 | .24 | .20 |
| Starts | .30 | .31 | .27 | .26 | .19 | .36 | .23 |
| Vacancy rate ¹ | | | | | | | |
| Rental units | 9.1 | 8.5 | 9.5 | 9.0 | n.a. | n.a. | n.a. |
| Owned units | 7.2 | 7.9 | 6.6 | 6.6 | n.a. | n.a. | n.a. |

1. Percent. Owned units consist mainly of condominiums. All vacancy rate data are revised.

p Preliminary. r Revised estimates. n.a. Not available.

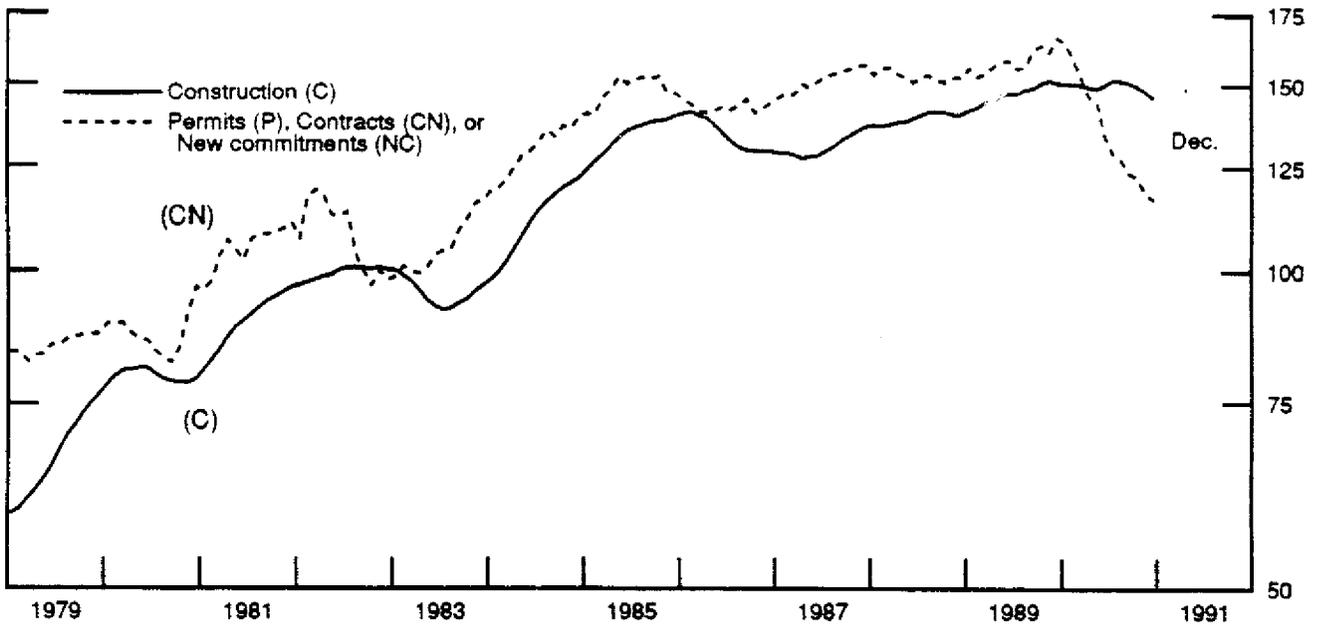
PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



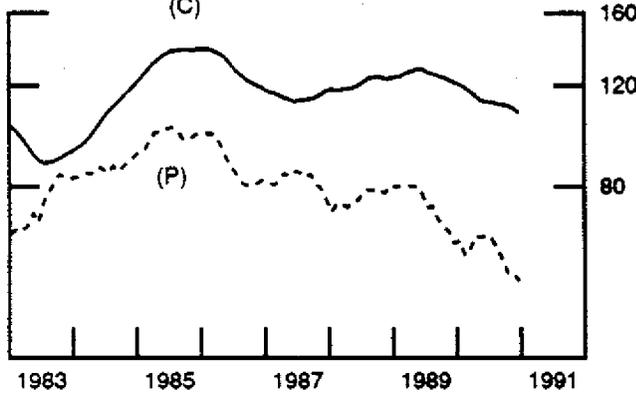
NONRESIDENTIAL CONSTRUCTION AND SELECTED INDICATORS*

(Index, Dec. 1982 = 100, ratio scale)

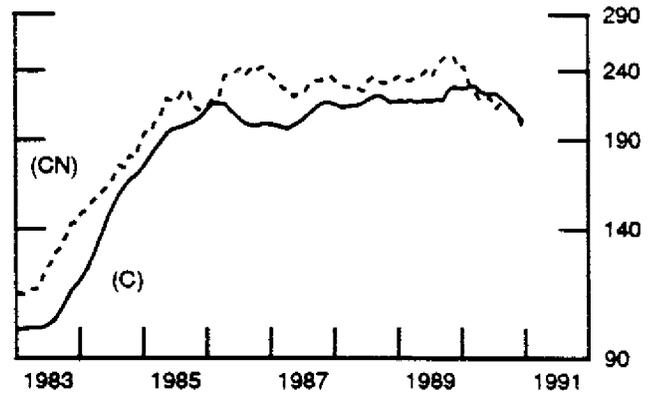
Total Building



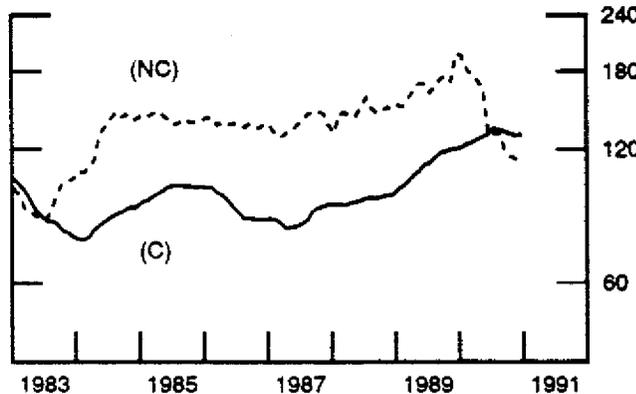
Office



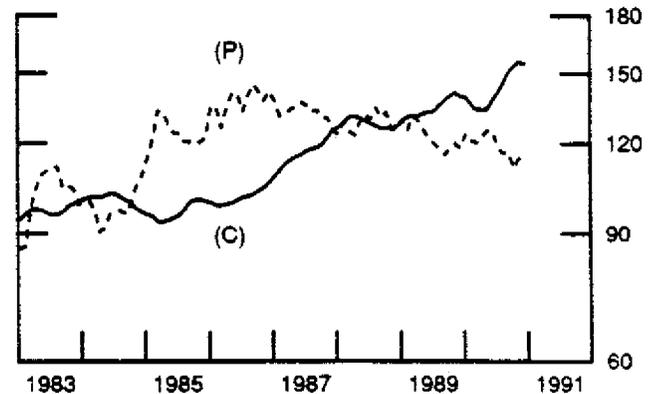
Other Commercial



Industrial



Institutional



*Six-month moving average for all series shown. For contracts, total only includes private, while individual sectors include private and public. New commitments are the sum of permits and contracts.

FEDERAL SECTOR ACCOUNTS¹
(Billions of dollars)

| | Fiscal years | | | | 1990 | | | | 1991 | | | | 1992 | | | |
|--|----------------------------------|--------|--------|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| | 1989a | 1990a | 1991 | 1992 | Ia | IIa | IIIa | IVa | I | II | III | IV | I | II | III | IV |
| BUDGET | Not seasonally adjusted | | | | | | | | | | | | | | | |
| Budget receipts ² | 991 | 1031 | 1115 | 1193 | 230 | 319 | 254 | 254 | 253 | 331 | 278 | 264 | 275 | 355 | 298 | 280 |
| Budget outlays ² | 1144 | 1252 | 1398 | 1459 | 310 | 331 | 312 | 341 | 344 | 358 | 356 | 373 | 359 | 362 | 364 | 361 |
| Surplus/deficit (-) ² | -153 | -220 | -283 | -266 | -80 | -12 | -58 | -87 | -91 | -27 | -78 | -109 | -84 | -7 | -66 | -81 |
| (On-budget) | -206 | -277 | -347 | -335 | -94 | -41 | -65 | -97 | -107 | -50 | -93 | -116 | -104 | -33 | -82 | -91 |
| (Off-budget) | 53 | 57 | 64 | 69 | 14 | 29 | 7 | 10 | 16 | 23 | 15 | 7 | 20 | 26 | 16 | 9 |
| Surplus excluding deposit insurance ³ | -131 | -162 | -192 | -172 | -74 | 17 | -41 | -72 | -71 | 0 | -49 | -85 | -61 | 16 | -42 | -68 |
| Means of financing: | | | | | | | | | | | | | | | | |
| Borrowing | 140 | 263 | 298 | 251 | 90 | 41 | 69 | 99 | 67 | 46 | 86 | 99 | 60 | 35 | 57 | 81 |
| Cash decrease | 3 | 1 | 0 | 5 | 8 | -16 | -6 | 8 | 6 | -9 | -4 | 15 | 5 | -20 | 5 | 10 |
| Other ⁴ | 10 | -44 | -15 | 10 | -18 | -13 | -6 | -20 | 17 | -10 | -3 | -5 | 19 | -8 | 4 | -10 |
| Cash operating balance, end of period | 41 | 40 | 40 | 35 | 18 | 35 | 40 | 32 | 26 | 36 | 40 | 25 | 20 | 40 | 35 | 25 |
| NIPA FEDERAL SECTOR | Seasonally adjusted annual rates | | | | | | | | | | | | | | | |
| Receipts | 1038 | 1092 | 1166 | 1263 | 1081 | 1106 | 1126 | 1135 | 1157 | 1175 | 1199 | 1222 | 1257 | 1276 | 1295 | 1318 |
| Expenditures | 1174 | 1249 | 1331 | 1399 | 1249 | 1272 | 1272 | 1300 | 1333 | 1343 | 1348 | 1371 | 1401 | 1408 | 1414 | 1435 |
| Purchases | 400 | 415 | 446 | 451 | 411 | 422 | 426 | 439 | 446 | 449 | 449 | 449 | 453 | 452 | 450 | 449 |
| Defense | 301 | 307 | 330 | 326 | 307 | 310 | 313 | 327 | 333 | 332 | 329 | 327 | 328 | 325 | 322 | 318 |
| Nondefense | 99 | 107 | 116 | 126 | 103 | 112 | 113 | 112 | 113 | 118 | 120 | 122 | 125 | 127 | 129 | 131 |
| Other expend. | 774 | 835 | 885 | 947 | 838 | 850 | 846 | 862 | 887 | 894 | 899 | 921 | 948 | 956 | 964 | 985 |
| Surplus/deficit | -136 | -158 | -165 | -136 | -168 | -166 | -146 | -165 | -176 | -168 | -149 | -148 | -144 | -132 | -119 | -116 |
| FISCAL INDICATORS⁵ | | | | | | | | | | | | | | | | |
| High-employment (HEB) surplus/deficit (-) | -149 | -150 | -109 | -82 | -166 | -154 | -127 | -123 | -114 | -107 | -90 | -92 | -90 | -78 | -66 | -64 |
| Change in HEB, percent of potential GNP | 0 | 0 | -.8 | -.5 | .3 | -.2 | -.5 | -.1 | -.2 | -.1 | -.3 | 0 | 0 | -.2 | -.2 | 0 |
| Fiscal impetus measure (FI), percent | -3.5 * | -3.4 * | -3.1 * | -3.7 * | -2.3 | 1.2 | -.8 | 1.4 | -4.3 | .7 | -.5 | -.6 | -2.2 | -.7 | -.8 | -.6 |

a--actual

*--calendar year

Note: Details may not add to totals due to rounding.

- Staff projections. CBO's January deficit estimates are \$298 billion in FY1991 and \$284 billion in FY1992. OMB's baseline deficit estimates made for the Budget Summit (September 1990), in combination with their preliminary estimates of the savings in the recent budget agreement, imply deficits of \$255 billion in FY1991 and \$233 billion in FY1992.
- Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.
- CBO's January deficit estimates, excluding deposit insurance spending, are \$194 billion in FY1991 and \$186 billion in FY1992. OMB's September deficit projections, excluding deposit insurance spending, are \$158 billion in FY1991 and \$153 billion in FY1992.
- Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
- HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.3% potential output growth in the forecast period. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

THE FINANCIAL ECONOMY

The January 1991 Senior Loan Officer Opinion Survey on Bank Lending Practices

The January 1991 Senior Loan Officer Opinion Survey on Bank Lending Practices asked a series of questions aimed at gauging changes in commercial banks' lending policies with respect to financing nonmerger-related business activities, commercial and residential real estate, and consumer expenditures generally. The results suggest a further overall tightening of business credit terms in the last three months. The number of domestically chartered banks reporting additional firming in the last three months, while significant, was somewhat fewer than the number that reported tightening in the October 1990 survey. At U.S. branches and agencies of foreign banks, by contrast, the pace of tightening appears to have accelerated since October. Domestic banks also have tightened somewhat their lending to the household sector in the last three months, both with respect to mortgage financing and consumer credit generally.

Nonmerger-Related C&I Loans

Credit standards. Roughly one-third of domestically chartered respondents indicated that they had tightened credit standards for approving loan applications from large, medium, and small commercial and industrial firms in the October-January period. (In the preceding three-month period, almost half had reported such tightening.) As in previous surveys, the most important factors behind the tightening were a deterioration in the economic outlook and industry specific problems. Of somewhat lesser importance were pressures on capital positions. However, a number of banks also cited a deterioration in their loan portfolios, a possible indication of anticipated

capital pressures. Regulatory pressures also were mentioned by some banks as a reason for tighter credit standards.

Over 85 percent of U.S. branches and agencies of foreign banks reported tightening credit standards in the last three months, up from about 70 percent in the October survey. At foreign banks, pressures on capital positions along with a deterioration in the economic outlook were given as the primary reasons for tightening.

Price and nonprice terms of credit. A large number of domestic respondent banks indicated that in the last three months they had raised the cost of business credit. Over one-half of these banks indicated that they had increased both the cost of credit lines and of the loans taken down under lines for their large and medium-sized customers. These banks also reduced the maximum size of credit lines they were making available. (A similar number had reported taking such steps in the October survey.) More than one-third of domestic banks also reported tightening collateral requirements and covenants in the October-January period. Among foreign banks, a large majority of branch and agency respondents reported tightening the cost and terms on the loans they made in the last three months.

Reactions of business borrowers. Commercial and industrial firms that have been turned away or discouraged from borrowing at respondent banks over the last three months most commonly have ended up borrowing at another bank. Respondent banks report that some other customers have obtained credit from nonbank sources. Some large customers tapped credit markets, issuing commercial paper or bonds, while middle-market and small firms borrowed from finance companies. A number of firms, however, responded to the tightening by cancelling or postponing planned borrowing, presumably reducing their

spending plans as well. Domestic banks reported that this reaction was more common for smaller and medium sized firms than for large firms. A relatively large proportion of foreign banks reported that cancellation or postponement of borrowing was a common customer reaction.

Effect of reserve requirement change. The January survey also examined the degree to which commercial and industrial loans have been priced to explicitly account for that part of funding cost attributable to the reserve requirement on nonpersonal time and savings deposits and net Eurocurrency liabilities. The reserve requirement was reduced in two equal steps from 3 percent to zero in the maintenance periods ending December 26 and January 9. This reduces the cost to banks of funding their loans and would imply some increase in bank profitability. The gain would be attenuated, however, to the extent that some bank loans have explicitly included in their loan rates the reserve requirement cost of funding them. For such loans, the savings from the drop in reserve requirements will be passed on immediately to borrowers. According to respondents, around 25 percent of the C&I loans at domestic banks and 30 percent of loans at foreign banks are priced in this way.

Almost one-half of domestic respondents reported that they had tightened their standards for making construction and land development loans over the last three months, compared to two-thirds that so reported in the last survey. As they had in the October survey, nearly all of the foreign banks reported tightening lending standards for this type of credit in the January survey.

With regard to permanent real estate financing, a bit under one-half of domestic banks said that they had tightened standards on loans secured by

commercial buildings, industrial structures and other nonfarm nonresidential mortgages, down from around 60 percent in the last survey. Most foreign banks reported tightening standards for this type of credit in January.

Households Loans

Residential mortgages. Almost one-third of domestic respondents indicated that they had tightened standards for residential mortgages in the last three months, compared to 25 percent of banks that reported tightening in the October survey. Tighter standards most commonly took the form of higher downpayments. Over 60 percent of respondents indicated that the demand for residential mortgages also had declined in the October-to-January period.

Consumer loans. The January survey revealed some increase in the number of banks reporting that they had become less willing to make consumer installment loans. Whereas in recent surveys over 90 percent of banks had indicated no change in willingness to lend, this share fell to just over 80 percent in the January report, with the remainder indicating they had become less willing to lend.

Table 1

Non Merger-Related Business Lending
 (Percent of domestic respondent banks reporting
 tighter lending standards or terms)

| <u>Criterion</u> | <u>Survey period</u> | <u>Size of borrowing firm ¹</u> | | | <u>Memo: Branches & agencies of foreign banks</u> |
|---|----------------------|--|---------------|--------------|---|
| | | <u>Large</u> | <u>Medium</u> | <u>Small</u> | |
| Standards for approving loan applications | Aug.90-Oct.90 | 49 | 46 | 41 | 72 |
| | Oct.90-Jan.91 | 33 | 37 | 32 | 88 |
| Maximum size of credit lines | Aug.90-Oct.90 | 45 | 30 | 12 | 55 |
| | Oct.90-Jan.91 | 46 | 40 | 7 | 70 |
| Cost of credit lines | Aug.90-Oct.90 | 54 | 50 | 37 | 72 |
| | Oct.90-Jan.91 | 55 | 51 | 34 | 76 |
| Spreads of loan over base rates | Aug.90-Oct.90 | 56 | 50 | 35 | 72 |
| | Oct.90-Jan.91 | 58 | 60 | 39 | 88 |
| Covenants | Aug.90-Oct.90 | 50 | 55 | 40 | 45 |
| | Oct.90-Jan.91 | 41 | 37 | 41 | 70 |
| Collateral requirements | Aug.90-Oct.90 | 30 | 49 | 33 | 45 |
| | Oct.90-Jan.91 | 30 | 44 | 33 | 65 |

1. The middle market is often categorized as consisting of firms with annual sales between \$50 and \$250 million. "Large" firms are those larger than middle-market firms and "small" businesses are those that are smaller. Not all respondents used the same criteria to distinguish among size of customers.

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

| | 1990 ¹ | 1990 Q3 | 1990 Q4 | 1990 Nov | 1990 Dec | 1991 Jan pe | Growth Q4 90- Jan 91pe |
|--|-------------------|------------|------------|-------------|-------------|----------------|------------------------------|
| -----Percent change at annual rates----- | | | | | | | |
| 1. M ¹ | 4.2 | 3.7 | 3.4 | 3.1 | 2.9 | 1 | 2 |
| 2. M ² | 3.9 | 2.9 | 2.3 | 0.3 | 1.7 | 1 | 1½ |
| 3. M ³ | 1.7 | 1.5 | 1.1 | 0.1 | 0.2 | 4 | 2 |
| -----Percent change at annual rates----- | | | | | | | |
| | | | | | | | Levels bil. \$ Dec 90 |
| Selected components | | | | | | | |
| 4. M1-A | 4.6 | 6.0 | 4.8 | 2.3 | 2.5 | 2 | 531.5 |
| 5. Currency | 10.9 | 11.2 | 10.9 | 4.9 | 6.9 | 26 | 246.3 |
| 6. Demand deposits | -0.7 | 1.3 | -0.9 | 0.0 | -1.3 | -19 | 276.8 |
| 7. Other checkable deposits | 3.5 | -0.3 | 0.7 | 4.5 | 3.7 | 0 | 293.8 |
| 8. M2 minus M1 ² | 3.8 | 2.6 | 1.9 | -0.6 | 1.3 | 1 | 2505.2 |
| 9. Overnight RPs and Eurodollars, NSA | 2.8 | 5.9 | -22.2 | -86.2 | -60.4 | -34 | 73.6 |
| 10. General purpose and broker/dealer money market mutual fund shares | 11.4 | 9.9 | 11.2 | 4.6 | 16.4 | 30 | 347.7 |
| 11. Commercial banks | 10.0 | 11.4 | 7.9 | 2.7 | 11.2 | 5 | 1176.0 |
| 12. Savings deposits plus MMDAs ³ | 7.5 | 7.4 | 4.0 | 2.5 | 4.4 | 3 | 577.6 |
| 13. Small time deposits | 12.4 | 15.5 | 11.7 | 2.9 | 17.9 | 8 | 598.4 |
| 14. Thrift institutions | -5.4 | -9.0 | -7.5 | -2.5 | -12.8 | -7 | 906.0 |
| 15. Savings deposits plus MMDAs ³ | -2.2 | -4.9 | -7.4 | -5.6 | -11.9 | -4 | 338.9 |
| 16. Small time deposits | -7.2 | -11.4 | -7.6 | -0.4 | -13.6 | -9 | 567.1 |
| 17. M3 minus M2 ⁴ | -6.4 | -4.0 | -3.6 | -0.5 | -6.1 | 16 | 781.3 |
| 18. Large time deposits | -9.7 | -8.9 | -14.1 | -10.0 | -14.8 | 11 | 504.5 |
| 19. At commercial banks, net ⁵ | -3.9 | -2.3 | -9.7 | -3.4 | -6.5 | 24 | 383.7 |
| 20. At thrift institutions | -23.9 | -27.3 | -26.6 | -30.0 | -39.4 | -29 | 120.9 |
| 21. Institution-only money market mutual fund shares | 20.2 | 21.6 | 30.4 | 9.0 | 51.8 | 42 | 125.7 |
| 22. Term RPs, NSA | -12.7 | 0.8 | -28.8 | -5.0 | -75.9 | -8 | 88.8 |
| 23. Term Eurodollars, NSA | -10.1 | 12.2 | 26.6 | 25.3 | 1.7 | -8 | 72.7 |
| -----Average monthly change in billions of dollars----- | | | | | | | |
| MEMORANDA: ⁶ | | | | | | | |
| 24. Managed liabilities at commercial banks (25+26) | -0.1 | 0.8 | -2.0 | -0.4 | -9.6 | -6 | 719.0 |
| 25. Large time deposits, gross | -2.5 | -2.6 | -3.7 | -2.5 | -3.2 | 9 | 432.5 |
| 26. Nondeposit funds | 2.4 | 3.4 | 1.7 | 2.1 | -6.4 | -15 | 286.5 |
| 27. Net due to related foreign institutions | 2.2 | 1.5 | 4.7 | 0.2 | 4.8 | -1 | 33.4 |
| 28. Other ⁷ | 0.3 | 2.0 | -3.0 | 1.9 | -11.3 | -14 | 253.0 |
| 29. U.S. government deposits at commercial banks ⁸ | 0.3 | 1.8 | -0.5 | 2.9 | -0.8 | 1 | 24.4 |

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 7.3 percent and 11 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during December and January at rates of -8.5 percent and -5 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

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM

(Percentage changes at annual rates, based on seasonally adjusted data)

| | 1989:Q4 | 1990 | | | | | Levels |
|---|---------------|-------|-------|-------|-------|-------|---------------------|
| | to 1990:Q4 | Q3 | Q4 | Oct. | Nov. | Dec. | bil.\$ Dec. |
| ----- Commercial Bank Credit ----- | | | | | | | |
| 1. Total loans and securities at banks | 5.2 | 5.8 | 1.6 | .9 | 1.5 | 2.5 | 2719.8 |
| 2. Securities | 8.9 | 6.5 | -2.4 | 3.3 | -2.5 | -7.8 | 623.1 |
| 3. U.S. government securities | 14.3 | 7.8 | .2 | 11.8 | .3 | -11.4 | 447.7 |
| 4. Other securities | -2.9 | 3.1 | -8.7 | -18.1 | -9.5 | 1.4 | 175.4 |
| 5. Total loans | 4.1 | 5.6 | 2.8 | .3 | 2.7 | 5.6 | 2096.7 |
| 6. Business loans | 2.1 | .9 | 2.3 | -2.6 | 5.5 | 3.9 | 654.5 |
| 7. Real estate loans | 9.0 | 6.4 | 6.9 | 8.1 | 5.1 | 7.4 | 829.2 |
| 8. Consumer loans | 2.1 | 3.1 | .6 | -.3 | -2.8 | 5.0 | 381.9 |
| 9. Security loans | -1.0 | 88.4 | -16.7 | -47.3 | -43.5 | 42.1 | 41.3 |
| 10. Other loans | -3.0 | 7.7 | -3.8 | -11.3 | 3.2 | -3.2 | 189.8 |
| ----- Short- and Intermediate-Term Business Credit ----- | | | | | | | |
| 11. Business loans net of bankers acceptances | 2.0 | 1.1 | 2.0 | -2.6 | 5.4 | 3.4 | 646.5 |
| 12. Loans at foreign branches ² | 20.3 | 28.8 | 30.3 | 25.2 | 19.8 | 43.7 | 25.6 |
| 13. Sum of lines 11 & 12 | 2.6 | 2.0 | 3.0 | -1.6 | 5.8 | 4.8 | 672.1 |
| 14. Commercial paper issued by nonfinancial firms | 16.4 | 16.8 | -3.2 | 19.0 | -24.1 | -4.0 | 150.5 |
| 15. Sum of lines 13 & 14 | 4.9 | 4.6 | 1.9 | 2.2 | .1 | 3.2 | 822.6 |
| 16. Bankers acceptances: U.S. trade related ^{3,4} | -11.3 | -27.6 | 18.9 | 12.1 | 44.0 | .0 | 31.1 |
| 17. Line 15 plus bankers acceptances: U.S. trade related | 4.2 | 3.5 | 2.5 | 2.5 | 1.7 | 3.1 | 853.7 |
| 18. Finance company loans to business ³ | n.a. | 20.7 | n.a. | 10.6 | 4.6 | n.a. | 287.9 ⁵ |
| 19. Total short- and intermediate-term business credit (sum of lines 17 & 18) | n.a. | 7.6 | n.a. | 4.6 | 2.3 | n.a. | 1139.3 ⁵ |

1. Average of Wednesdays.

2. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.

3. Based on average of data for current and preceding ends of month.

4. Consists of acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.

5. November data.

p--preliminary.

n.a.--not available

1
SELECTED FINANCIAL MARKET QUOTATIONS
(percent)

| | 1989 | | 1990 | | 1991 | Change from: | | |
|--|-----------------|-------------|---------------|----------------|---------|----------------------|-----------------|----------------|
| | March highs | Dec lows | Aug highs | FOMC Dec 18 | Jan 31 | Dec 89 lows | Aug 90 highs | FOMC Dec 18 |
| Short-term rates | | | | | | | | |
| Federal funds ² | 9.85 | 8.45 | 8.21 | 7.43 | 7.55 | -0.90 | -0.66 | 0.12 |
| Treasury bills ³ | | | | | | | | |
| 3-month | 9.09 | 7.53 | 7.59 | 6.73 | 6.19 | -1.34 | -1.40 | -0.54 |
| 6-month | 9.11 | 7.29 | 7.51 | 6.72 | 6.20 | -1.09 | -1.31 | -0.52 |
| 1-year | 9.05 | 7.11 | 7.45 | 6.58 | 6.13 | -0.98 | -1.32 | -0.45 |
| Commercial paper | | | | | | | | |
| 1-month | 10.05 | 8.51 | 8.10 | 8.28 | 6.99 | -1.52 | -1.11 | -1.29 |
| 3-month | 10.15 | 8.22 | 8.05 | 7.79 | 6.95 | -1.27 | -1.10 | -0.84 |
| Large negotiable CDs ³ | | | | | | | | |
| 1-month | 10.07 | 8.52 | 8.14 | 8.26 | 6.82 | -1.70 | -1.32 | -1.44 |
| 3-month | 10.32 | 8.22 | 8.18 | 7.86 | 6.88 | -1.34 | -1.30 | -0.98 |
| 6-month | 10.08 | 8.01 | 8.25 | 7.60 | 6.88 | -1.13 | -1.37 | -0.72 |
| Eurodollar deposits ⁴ | | | | | | | | |
| 1-month | 10.19 | 8.38 | 8.13 | 8.38 | 6.88 | -1.50 | -1.25 | -1.50 |
| 3-month | 10.50 | 8.25 | 8.19 | 7.94 | 6.94 | -1.31 | -1.25 | -1.00 |
| Bank prime rate | 11.50 | 10.50 | 10.00 | 10.00 | 9.50 | -1.00 | -0.50 | -0.50 |
| Intermediate- and long-term rates | | | | | | | | |
| U.S. Treasury (constant maturity) | | | | | | | | |
| 3-year | 9.88 | 7.69 | 8.50 | 7.28 | 7.30 | -0.39 | -1.20 | 0.02 |
| 10-year | 9.53 | 7.77 | 9.05 | 7.99 | 8.03 | 0.26 | -1.02 | 0.04 |
| 30-year | 9.31 | 7.83 | 9.17 | 8.15 | 8.21 | 0.38 | -0.96 | 0.06 |
| Municipal revenue ⁵ (Bond Buyer) | 7.95 | 7.28 | 7.80 | 7.28 | 7.24 | -0.04 | -0.56 | -0.04 |
| Corporate--A utility recently offered | 10.47 | 9.29 | 10.50 | 9.89 | 9.78 | 0.49 | -0.72 | -0.11 |
| Home mortgage rates ⁶ | | | | | | | | |
| S&L fixed-rate | 11.22 | 9.69 | 10.29 | 9.56 | 9.61 | -0.08 | -0.68 | 0.05 |
| S&L ARM, 1-yr. | 9.31 | 8.34 | 8.39 | 7.91 | 7.69 | -0.65 | -0.70 | -0.22 |
| Stock prices | | | | | | | | |
| | | | 1989 | 1990 | 1991 | Percent change from: | | |
| | Record highs | Date | Lows Jan 3 | FOMC Dec 18 | Jan 31 | Record highs | 1989 lows | FOMC Dec 18 |
| Dow-Jones Industrial | 2999.75 | 7/16/90 | 2144.64 | 2626.73 | 2736.39 | -8.78 | 27.59 | 4.17 |
| NYSE Composite | 201.13 | 7/16/90 | 154.98 | 180.19 | 187.59 | -6.73 | 21.04 | 4.11 |
| AMEX Composite | 397.03 | 10/10/89 | 305.24 | 305.03 | 317.54 | -20.02 | 4.03 | 4.10 |
| NASDAQ (OTC) | 485.73 | 10/9/89 | 378.56 | 370.17 | 414.20 | -14.73 | 9.41 | 11.89 |
| Wilshire | 3523.47 | 10/9/89 | 2718.59 | 3089.85 | 3245.35 | -7.89 | 19.38 | 5.03 |

1/ One-day quotes except as noted.

2/ Average for two-week reserve maintenance period closest to date shown. Last observation is average to date for the maintenance period ending February 6, 1991.

3/ Secondary market.

4/ Bid rates for Eurodollar deposits at 11 a.m. London time.

5/ Based on one-day Thursday quotes and futures market index changes.

6/ Quotes for week ending Friday closest to date shown.