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August 13, 1993

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

THE DOMESTIC NONFINANCIAL ECONOMY

Consumption

Nominal retail sales increased 0.1 percent in July. Spending in the the retail control category, which excludes automotive dealers and building material and supply stores, rose 0.4 percent. Sales in July were particularly brisk in the GAF category: General merchandise stores posted a 1.4 percent increase, sales at apparel stores jumped 2.4 percent, and spending at furniture and appliance stores rose 1.7 percent. Elsewhere, movements in sales were small.

The level of spending in the retail control category for the second quarter is now estimated to have been higher than reported earlier; the May decline of 0.1 percent was revised up to a 0.2 percent gain, and June's 0.3 percent increase became a 0.4 percent rise. These upward revisions imply that real PCE for goods excluding motor vehicles was around \$2 billion higher in the second quarter than had been estimated by the BEA.

Sales of domestic motor vehicles dropped further in the first ten-day selling period of August to 10.4 million units (annual rate). Weaker sales of GM models accounted for almost all of the declines in both autos and trucks.

SALES OF NORTH AMERICAN PRODUCED AUTOS AND LIGHT TRUCKS¹
(Millions of units at a seasonally adjusted annual rate)²

	1993					
	1993		July			Aug.
	Q2	July	1-10	11-20	21-31	1-10
Total	12.05	11.66	11.54	11.89	11.50	10.39
Autos	6.94	6.74	6.61	7.07	6.51	5.88
Light trucks	5.11	4.92	4.93	4.82	4.99	4.50

1. Excludes some vehicles produced in Canada and Mexico that are classified as imports by industry. Ten-day figures include estimates for Chrysler, Hyundai, and Suzuki sales.

2. Monthly rates use BEA seasonal factors. Ten-day rates use FRB factors prorated to BEA monthly factors.

The University of Michigan's composite index of consumer attitudes posted another small decline in the first part of August. Respondents' views of expected conditions held steady in August after falling sharply in the first half of 1993, but assessments of current conditions worsened.

Among the questions not included in the composite index, consumers' appraisal of car and home buying conditions slipped in August. Respondents' expectations about the change in unemployment deteriorated further, falling to the most unfavorable reading since early 1992. Average expected inflation over the next twelve months rose by almost a percentage point, to 5.3 percent, while average expected inflation over the next five years declined slightly, to 4.8 percent.

Inventories

Retail inventories rose in June at an annual rate of \$13.2 billion in current-cost terms. Excluding auto dealers, retail stocks increased \$11.1 billion, similar to buildups in April and May. Revisions to earlier months were small. With a 0.2 percent rise in sales, the retailers' inventory-sales ratio edged up to 1.58 months in June; excluding auto dealers, the ratio was unchanged at 1.49 months.

Inventory changes in June generally were small for most types of nonauto retail establishments. However, for stores in the GAF grouping, inventories posted another sizable increase, and the inventory-sales ratio for these stores edged up further to 2.39 months in June, near the high end of the range of recent years. However, sales at GAF stores rose 1.7 percent in July, according to advance data released yesterday, and their inventory situation may have eased considerably since mid-year.

For all manufacturing and trade, inventories rose at an annual rate of \$16.9 billion in June and \$26 billion for the second quarter as a whole. With these data now in hand, the second-quarter accumulation of manufacturing and trade stocks still appears to be close to BEA's assumption in preparing the advance GDP estimate.

Prices

Consumer prices edged up just 0.1 percent in July after remaining unchanged in June. For items other than food and energy, the CPI also was up 0.1 percent in July, pushing the twelve-month change in this measure down to 3.2 percent.¹

Consumer food prices were flat in July; declines in the prices of vegetables, beef, and poultry were offset by increases elsewhere. The floods in the Midwest and drought in the Southeast have not yet had a perceptible effect on consumer food prices. Energy prices also were unchanged in July, with lower prices for gasoline and heating oil offset by higher prices for electricity and natural gas. Over the twelve months ending in July, energy prices were down 1/4 percent, with refined-petroleum products more than accounting for the decline.

Prices of consumer goods other than food and energy were unchanged in July after edging down in June. Tobacco prices retreated a bit further as the price cuts announced last April continued to be put in place. Prices of apparel and house furnishings also dropped back last month. Elsewhere, new car prices rose 0.3 percent, keeping the twelve-month change below 2-1/2 percent. However, used car prices posted another sizable increase to a level 9.1 percent above the year-earlier level.

Prices of non-energy services increased 0.2 percent in July. Owners' equivalent rent was flat after jumping 0.4 percent in June;

1. This was the lowest reading since the early 1970s, when wage-price controls were in place.

for the twelve months ending in July, this measure rose 3.1 percent, at the low end of its range over the past year. In addition, the price of medical care services posted another modest increase last month, and auto finance charges fell further. In contrast to this favorable news, airfares jumped 2.8 percent after early summer discounts were removed.

Producer prices for finished goods declined in July for a second consecutive month. Excluding food and energy, prices of finished goods edged up 0.1 percent last month, and were up just 1-3/4 percent over the twelve months ending in July. Tobacco prices fell another 0.5 percent in July, as cigarette makers finished implementing the price cuts announced last April. But prices of passenger cars rose 0.8 percent on a seasonally adjusted basis, because incentives were not sweetened as much as is usual at this time of the year.

Finished energy prices dropped 1 percent further in July, with substantially lower prices for gasoline and fuel oil partially offset by higher prices for electricity and natural gas. During the past year, producer prices of refined petroleum products have declined more than 10 percent, while electricity and natural gas prices have risen.

The index for finished food edged down 0.1 percent in July, pulled down by lower prices for meats and poultry. In contrast, prices of fresh and dry vegetables jumped last month, partially offsetting the huge decline in June that pulled these prices down to an unusually low level. The floods in the Midwest and drought in the Southeast did not have a significant effect on finished food prices in July. However, at the crude food level, the prices of corn, soybeans, and wheat rose at double-digit rates in July.

Prices of intermediate materials other than food and energy edged up 0.1 percent in July; over the past twelve months, prices of these materials have risen 1-1/4 percent, compared with 3/4 percent over in the year-earlier period. At the crude level, prices for items other than food and energy rose 0.6 percent in June; decreases for logs and timber were more than offset by increases for most other items.

Agriculture

In its August crop report, the Department of Agriculture reduced further its projections for 1993 U.S. corn and soybean production. The agency is now forecasting a corn harvest of 7.423 billion bushels, down about 5 percent from its mid-July projection, and a soybean harvest of 1.902 billion bushels, down about 4 percent.

As expected, data by state showed large declines in production of both crops in several states along the Mississippi and Missouri Rivers. Many other states also are reporting lower corn production than in 1992, but soybean production is expected to rise in some key states, notably Ohio and Indiana. If the current estimates hold up through coming months, national production of the two crops will come in well below 1992's bumper harvest, though far above the disastrously low levels of 1983 and 1988, especially for corn.

The USDA report also contained production estimates for a broad range of other crops. Among the grains, production forecasts were lowered for wheat, oats, and sorghum (an important feed grain in the central and southern Plains) and raised slightly for barley. The forecast for cotton production was raised substantially, to a level 14 percent above production in 1992. By contrast, initial estimates of 1993 production of peanuts and tobacco show the output of those

crops falling about 10 percent from the levels of 1992, a reflection of drought damage in the southeast and in the mid-Atlantic states.

To help gauge the effect of agricultural crop losses on the economy, the staff priced out the USDA's production estimates, using average farm prices for 1987. These calculations indicate that the constant-dollar value of twelve major field crops will decline about \$5 billion from 1992 to 1993. Not all the decline can be attributed to drought and flood, however. USDA's farm programs encouraged farmers to withhold more acres from production this year than in 1992. More important, the likelihood of matching last year's exceptionally high yields seemed remote from the beginning. In recognition of those factors, the USDA was in May already predicting significant production declines, before any crop losses could be identified. By our tally, the USDA's May figures were indicating a drop in constant-dollar output of the field crops of about \$2-3/4 billion. The reduction since May--\$2-1/4 billion--represents the aggregate change in crop prospects since the flooding started.²

In the futures markets, prices of farm crops fell sharply on August 12, the first day of trading after the USDA crop forecast was released. The agency's soybean estimate was slightly above the range of estimates that had been anticipated in the market, and it

2. In contrast, the national press this week has been reporting much larger estimates of crop damage. Because the estimates have been presented, in most cases, without further explanation, we can only guess at the reasons why they are higher than the numbers we have derived. In contrast to our method of excluding the anticipated production decline from our estimate of crop losses, some observers may be counting all the year-to-year change in production as losses due to drought or flood. Also, some analysts probably are pricing the losses in current dollars rather than constant 1987 dollars; this practice would raise the estimate of losses, as the prices of most farm crops currently are above their 1987 levels. Finally, our estimates are derived from national totals and therefore do not factor out regional offsets to the losses that have occurred in the areas affected by flood and drought.

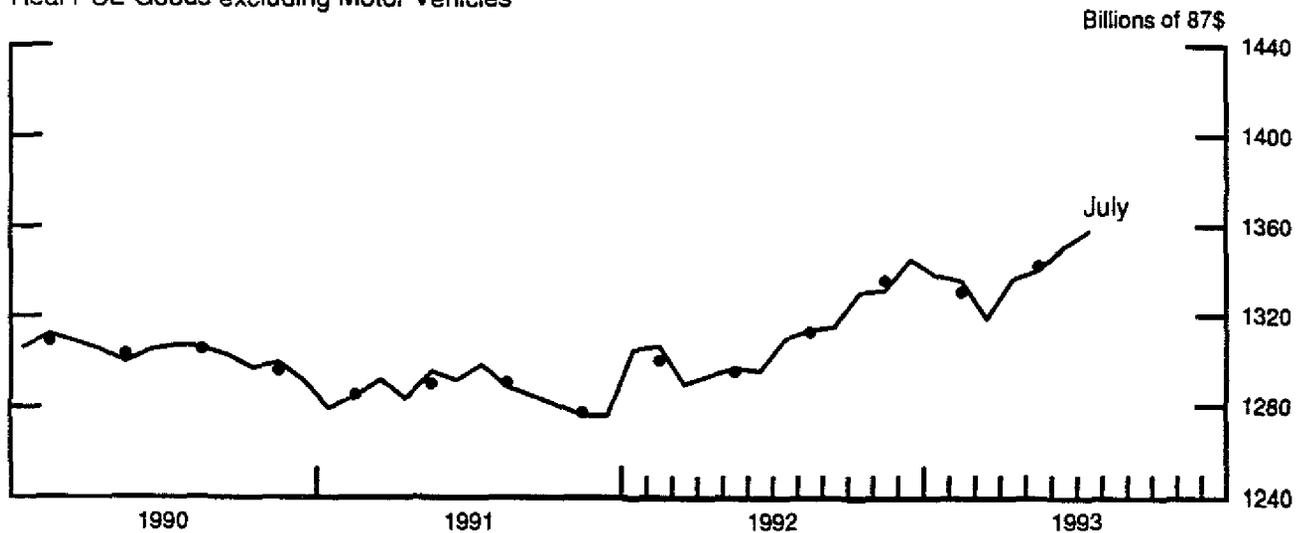
triggered heavy selling. Corn and wheat prices moved lower as well, even though the USDA figures for those crops were not out of line with forecasts that were being made before the USDA report was released. Livestock prices were mixed in yesterday's trading.

RETAIL SALES
(Percent change: seasonally adjusted)

	1992	1993		1993		
	Q4	Q1	Q2	May	June	July
Total sales	2.9	.3	1.7	.7	.2	.1
Previous estimate			1.6	.4	.4	
Retail control	2.2	.3	1.0	.2	.4	.4
Previous estimate			.7	.1	.3	
GAF	2.7	.7	1.5	.8	.7	1.7
Durable goods stores	4.3	.2	3.6	1.5	.5	-.0
Bldg. material and supply	3.9	1.1	3.0	3.4	-1.5	.6
Automotive dealers	5.5	.2	3.9	1.7	-.2	-.7
Furniture and appliances	4.4	.8	2.2	.4	.3	1.7
Other durable goods	-.1	-1.3	4.7	.1	5.6	.3
Nondurable goods stores	2.1	.4	.6	.2	.0	.2
Apparel	2.8	-2.5	.4	1.2	.4	2.4
Food	1.3	.5	-.4	-.4	.2	-.1
General merchandise	1.9	2.0	1.7	.9	.9	1.4
Gasoline stations	-.4	2.7	.3	-1.2	-.7	-.5
Other nondurables	3.9	-.7	1.1	.6	-.6	-.5

1. Total retail sales less building material and supply stores and automotive dealers, except auto and home supply stores.
2. General merchandise, apparel, furniture, and appliance stores.
3. Excludes mail order nonstores; mail order sales are also excluded from the GAF grouping.
4. Includes sales at eating and drinking places, drug stores and proprietary stores.

Real PCE Goods excluding Motor Vehicles*



* Values for May, June, and July are staff forecasts.

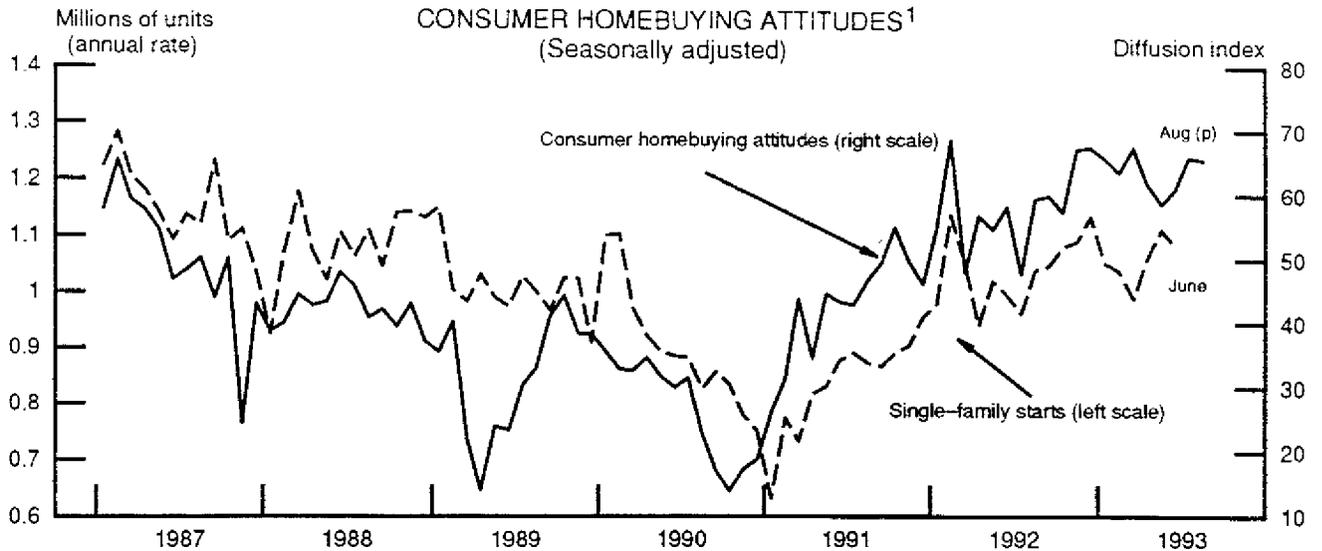
August 13, 1993

UNIVERSITY OF MICHIGAN SURVEY RESEARCH CENTER: SURVEY OF CONSUMER ATTITUDES
(Not seasonally adjusted)

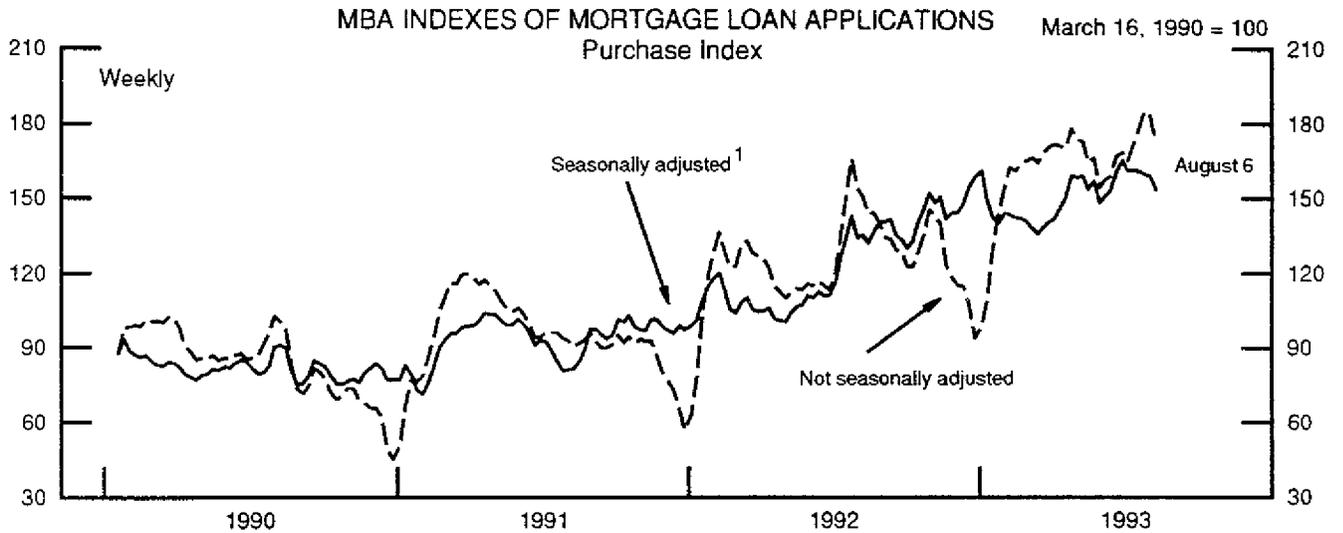
	1992 Dec	1993 Jan	1993 Feb	1993 Mar	1993 Apr	1993 May	1993 Jun	1993 Jul	1993 Aug (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	91.0	89.3	86.6	85.9	85.6	80.3	81.5	77.0	75.4
Current conditions	93.4	98.6	96.0	101.6	99.9	98.7	98.7	96.2	92.5
Expected conditions	89.5	83.4	80.6	75.8	76.4	68.5	70.4	64.7	64.5
Personal financial situation									
Now compared with 12 months ago*	99	110	100	111	104	103	108	102	90
Expected in 12 months*	131	127	125	119	120	115	117	112	116
Expected business conditions									
Next 12 months*	126	111	103	96	95	83	89	80	69
Next 5 years*	103	97	95	88	91	76	75	66	72
Appraisal of buying conditions									
Cars	145	134	132	136	137	140	140	141	134
Large household appliances*	142	145	148	152	155	152	147	147	149
Houses	162	166	158	173	167	163	166	171	165
Willingness to use credit	39	37	40	46	43	41	35	42	35
Willingness to use savings	59	64	52	74	64	73	53	65	55
Expected unemployment change - next 12 months	99	98	110	117	115	125	127	130	133
Expected inflation - next 12 months	3.3	3.5	4.6	4.9	4.1	4.4	4.8	4.4	5.3
Expected inflation - next 5 to 10 years	5.2	4.8	5.9	4.9	4.8	5.7	5.2	5.0	4.8

* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.
(p) -- Preliminary
(f) -- Final

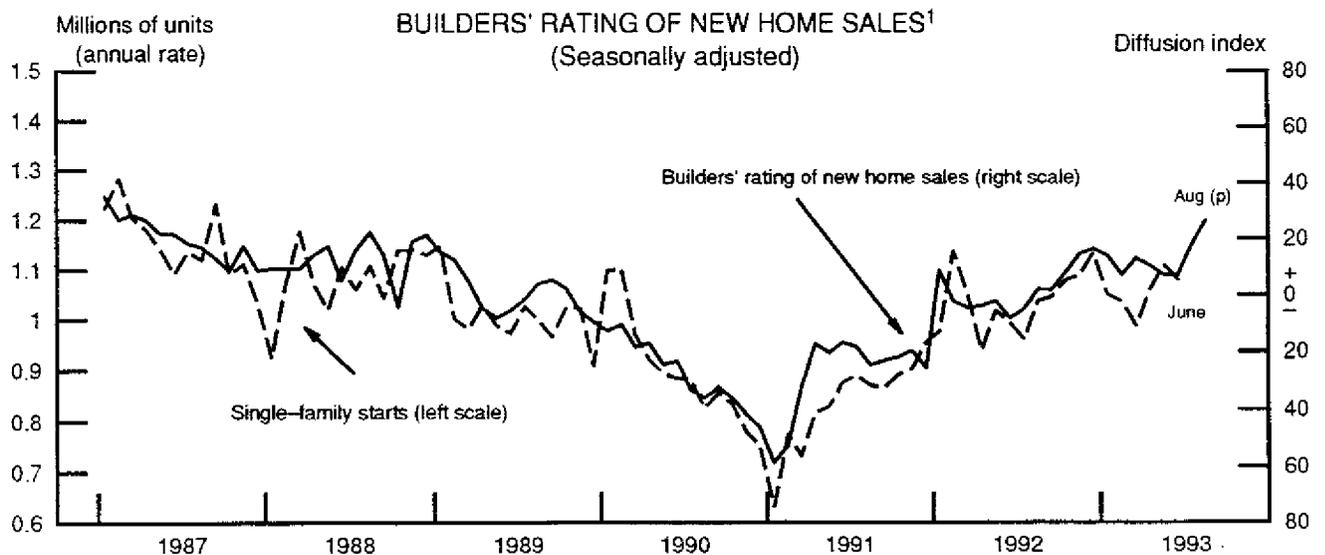
Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Asterisk (*) indicates the question is one of the five equally-weighted components of the index of sentiment. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall.



¹ The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.



¹ Seasonally adjusted by Federal Reserve Board Staff



¹ The index is calculated from National Association of Homebuilders data as the proportion of respondents rating current sales as good to excellent minus the proportion rating them as poor.

RETAIL INVENTORIES
(Change in current cost at seasonally
adjusted annual rate; billions of dollars)

	1992		1993		1993			
	Q3	Q4	Q1	Q2	Mar.	Apr.	May	June
Total retail	8.9	23.1	33.6	9.9	40.0	15.1	1.3	13.2
(previous)							.1	
Excluding auto dealers	11.7	14.4	14.3	9.9	20.6	11.7	7.0	11.1
(previous)							10.6	
Durable goods	4.0	18.6	25.0	3.9	26.4	11.8	-8.2	8.1
Lumber, bldg. mat.	2.0	.5	4.4	-.2	2.4	.4	-.6	-.3
Auto dealers	-2.8	8.7	19.3	-.1	19.5	3.4	-5.7	2.2
Furniture	1.8	6.4	-1.3	4.2	2.3	5.3	-.2	7.5
Other durable goods ¹	3.1	3.0	2.6	-.1	2.2	2.6	-1.7	-1.2
Nondurable goods	4.9	4.5	8.6	6.0	13.6	3.3	9.5	5.1
General merchandise	4.3	3.2	7.5	4.0	10.9	3.0	9.0	-.0
Food	.3	1.2	.9	-1.2	1.4	-.3	-3.4	.0
Apparel	2.3	4.1	.6	2.4	2.2	2.1	2.5	2.7
Other nondurable goods ¹	-2.1	-4.0	-.4	.8	-.8	-1.5	1.4	2.5
G. A. F. ²	8.3	13.6	6.7	10.6	15.4	10.4	11.4	10.1

1. FRB calculated.

2. Equals: General Merchandise, Apparel, and Furniture & Home Furnishings.

RETAIL INVENTORY/SALES RATIOS¹

	1992		1993		1993			
	Q3	Q4	Q1	Q2	Mar.	Apr.	May	June
Total retail	1.56	1.55	1.60	1.58	1.61	1.59	1.57	1.58
Excluding auto dealers	1.48	1.47	1.49	1.50	1.51	1.49	1.49	1.49
Durable goods	2.16	2.15	2.25	2.18	2.27	2.21	2.17	2.17
Lumber, bldg. mat.	2.20	2.14	2.23	2.16	2.25	2.21	2.13	2.16
Auto dealers	1.89	1.85	1.99	1.91	2.00	1.94	1.89	1.90
Furniture	2.27	2.35	2.30	2.36	2.32	2.30	2.29	2.35
Other durable goods	3.10	3.20	3.32	3.17	3.42	3.26	3.24	3.06
Nondurable goods	1.22	1.21	1.22	1.23	1.23	1.22	1.23	1.23
General merchandise	2.31	2.31	2.35	2.35	2.38	2.34	2.35	2.33
Food	.83	.83	.83	.83	.84	.83	.83	.83
Apparel	2.39	2.44	2.52	2.58	2.63	2.55	2.55	2.56
Other nondurable goods	3.59	3.34	3.43	3.47	3.34	3.42	3.41	3.53
G. A. F.	2.32	2.35	2.37	2.40	2.42	2.38	2.38	2.39

1. Months' supply, based on current-cost data.

BUSINESS INVENTORIES
(Change at annual rates in seasonally
adjusted current cost; billions of dollars)

	1992		1993		1993			
	Q3	Q4	Q1	Q2	Mar.	Apr.	May	June
Manufacturing and trade (previous)	16.3	20.4	39.9	26.0	52.5	40.6	20.6 21.5	16.9
Excluding autos (previous)	19.0	11.7	20.6	26.1	33.1	37.2	26.4 32.0	14.7
Manufacturing	4.4	-19.1	1.2	7.3	3.7	9.2	15.4	-2.7
Trade, total	11.9	39.5	38.7	18.7	48.9	31.4	5.2	19.6
Wholesale	3.0	16.5	5.1	8.9	8.9	16.3	4.0	6.4
Retail	8.9	23.1	33.6	9.9	40.0	15.1	1.3	13.2
Excluding autos	11.7	14.4	14.3	9.9	20.6	11.7	7.0	11.1
Durable	4.0	18.6	25.0	3.9	26.4	11.8	-8.2	8.1
Auto	-2.8	8.7	19.3	-.1	19.5	3.4	-5.7	2.2
Nondurable	4.9	4.5	8.6	6.0	13.6	3.3	9.5	5.1

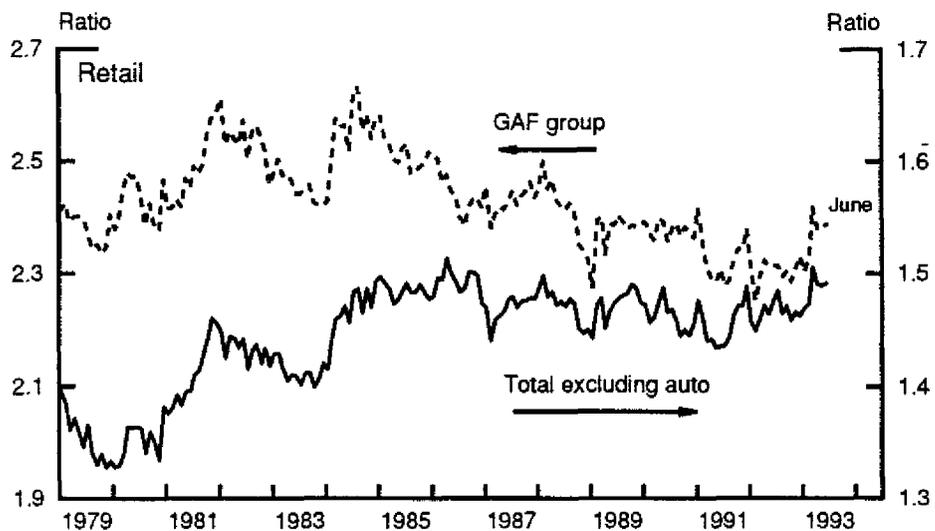
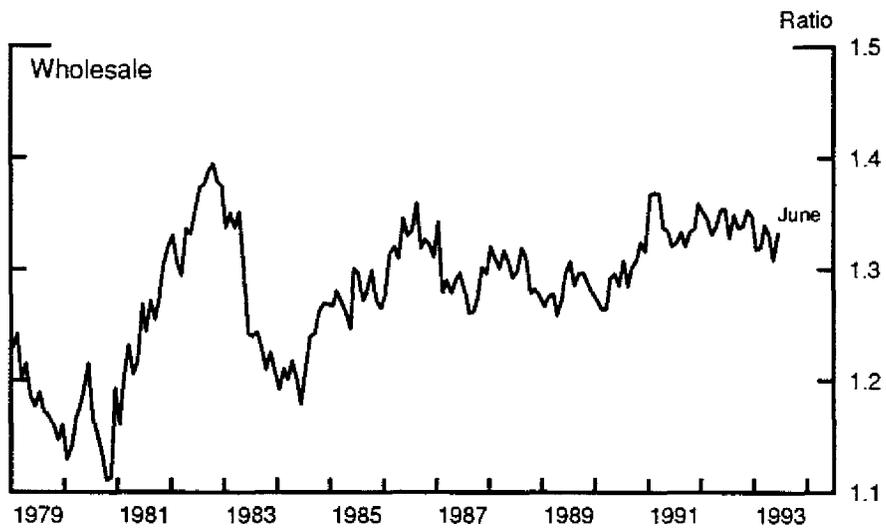
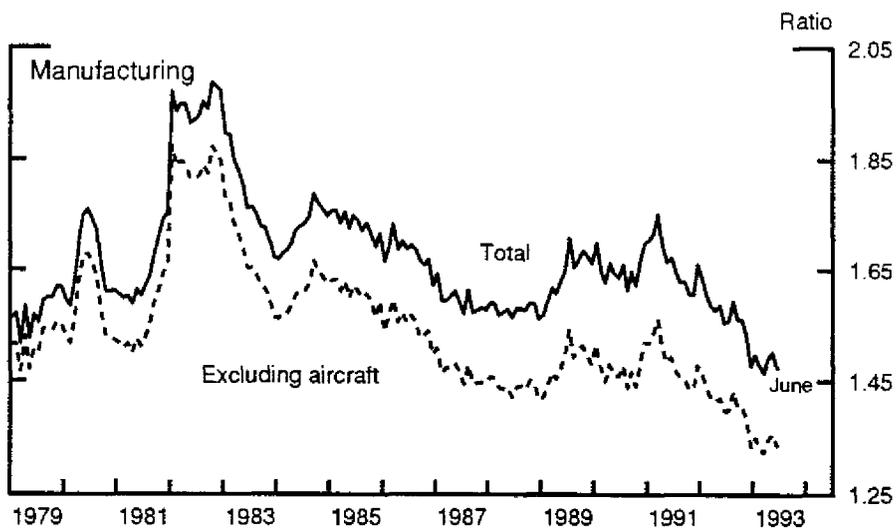
Totals may not add because of rounding.

INVENTORY/SALES RATIOS

	1992		1993		1993			
	Q3	Q4	Q1	Q2	Mar.	Apr.	May	June
Manufacturing and trade	1.50	1.48	1.47	1.47	1.47	1.47	1.47	1.47
Excluding autos	1.48	1.46	1.44	1.44	1.44	1.44	1.44	1.44
Manufacturing	1.57	1.52	1.48	1.49	1.47	1.49	1.50	1.47
Trade, total	1.45	1.46	1.47	1.46	1.48	1.46	1.45	1.46
Wholesale	1.34	1.35	1.33	1.33	1.34	1.33	1.31	1.33
Retail	1.56	1.55	1.60	1.58	1.61	1.59	1.57	1.58
Excluding auto	1.48	1.47	1.49	1.50	1.51	1.49	1.49	1.49

RATIO OF INVENTORIES TO SALES

(Current-cost data)



RECENT CHANGES IN CONSUMER PRICES
(Percent change; based on seasonally adjusted data)¹

	Relative importance, Dec. 1992	1991	1992	1992		1993		1993	
				Q4	Q1	Q2	June	July	
				-----Annual rate-----			-Monthly rate-		
All items ²	100.0	3.1	2.9	3.2	4.0	2.2	.0	.1	
Food	15.8	1.9	1.5	1.4	2.6	1.4	-.4	.0	
Energy	7.3	-7.4	2.0	1.9	3.1	-3.8	-.2	.0	
All items less food and energy	76.9	4.4	3.3	3.8	4.3	2.9	.1	.1	
Commodities	24.7	4.0	2.5	1.5	4.6	.6	-.1	.0	
Services	52.2	4.6	3.7	4.7	4.4	4.1	.2	.2	
Memo: CPI-W ³	100.0	2.8	2.9	3.2	4.1	2.0	.0	.1	

1. Changes are from final month of preceding period to final month of period indicated.
2. Official index for all urban consumers.
3. Index for urban wage earners and clerical workers.

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

	Relative importance, Dec. 1992	1991	1992	1992		1993		1993	
				Q4	Q1	Q2	June	July	
				-----Annual rate-----			-Monthly rate-		
Finished goods	100.0	-.1	1.6	-.3	4.3	.6	-.3	-.2	
Consumer foods	22.4	-1.5	1.6	3.3	-1.6	1.3	-.9	-.1	
Consumer energy	13.9	-9.6	-.3	-10.2	16.6	-3.5	-.5	-1.0	
Other finished goods	63.7	3.1	2.0	1.2	3.6	1.2	-.1	.1	
Consumer goods	40.6	3.4	2.1	1.2	3.2	1.2	-.3	.1	
Capital equipment	23.1	2.5	1.7	.6	4.4	1.2	.2	.1	
Intermediate materials ²	95.4	-2.7	1.1	-2.1	5.7	.3	.3	-.2	
Excluding food and energy	81.8	-.8	1.2	-.3	4.7	-.3	.1	.1	
Crude food materials	41.2	-5.8	3.0	5.1	1.9	-1.5	-3.1	1.2	
Crude energy	39.5	-16.6	2.3	-17.8	-10.1	19.3	.2	-4.9	
Other crude materials	19.3	-7.6	5.7	1.9	24.3	10.9	.2	.6	

1. Changes are from final month of preceding period to final month of period indicated.
2. Excludes materials for food manufacturing and animal feeds.

U.S. CROP PRODUCTION¹

		USDA Projection for 1993				
		1991	1992	May 11	July 12	Aug. 11
billions of bushels						
1.	Corn	7.48	9.48	8.50	7.85	7.42
2.	Soybeans	1.99	2.20	2.05	1.98	1.90
3.	Wheat	1.98	2.46	2.52	2.60	2.55
4.	Sorghum	.59	.88	.66	.67	.64
5.	Oats	.24	.30	.25	.26	.25
6.	Barley	.46	.46	.41	.46	.47
billions of hundredweight						
7.	Rice	16	18	.17	.17	.17
billions of pounds						
8.	Peanuts	4.93	4.28	n.a.	n.a.	3.91
9.	Tobacco	1.66	1.72	n.a.	n.a.	1.55
millions of bales						
10.	Cotton	17.61	16.22	17.50	17.80	18.55
millions of tons						
11.	Sugar beets	28.20	28.93	n.a.	n.a.	28.05
12.	Sugar cane	30.25	30.36	n.a.	n.a.	30.85
billions of 1987 dollars						
13.	Value, 12 crops ²	41.18	47.05	44.31	43.30	42.18

1. Data are from the U.S. Department of Agriculture.

2. Calculated by the staff from USDA data.

CORN AND SOYBEAN PRODUCTION, SELECTED STATES
(Billions of bushels)

	1990	1991	1992	USDA Forecast For 1993
Corn:				
Iowa	1.56	1.43	1.90	1.25
Illinois	1.32	1.18	1.65	1.40
Nebraska	.93	.99	1.07	.95
Indiana	.70	.51	.88	.76
Minnesota	.76	.72	.74	.46
Ohio	.42	.33	.51	.40
Wisconsin	.35	.38	.31	.27
Michigan	.24	.25	.24	.24
South Dakota	.23	.24	.28	.18
Missouri	.21	.21	.32	.20
Total, 10 states	6.72	6.24	7.90	6.11
Total, U.S.	7.93	7.48	9.48	7.42
Soybeans:				
Illinois	.35	.34	.41	.37
Iowa	.33	.35	.36	.28
Minnesota	.18	.20	.17	.14
Indiana	.17	.17	.19	.22
Ohio	.14	.14	.15	.17
Missouri	.12	.14	.16	.12
Arkansas	.09	.09	.10	.09
Nebraska	.08	.08	.10	.09
South Dakota	.05	.06	.06	.04
Kansas	.05	.04	.07	.05
Mississippi	.04	.05	.06	.05
Michigan	.04	.05	.05	.05
Total, 12 states	1.64	1.71	1.88	1.67
Total, U.S.	1.93	1.99	2.20	1.90

FUTURES PRICES FOR FARM COMMODITIES¹

Commodity and contract	Pricing date					
	May 13	June 30	July 7	July 30	Aug. 11	Aug. 12
Corn, Dec.	2.40	2.38	2.58	2.42	2.47	2.44
Soybeans, Nov.	6.01	6.59	7.15	6.88	6.83	6.56
Wheat, Dec.	3.05	2.96	3.17	3.13	3.17	3.11
Cattle, Oct.	74.90	75.12	75.07	75.20	75.37	75.22
Cattle, Apr.	75.05	76.45	76.57	76.65	76.95	76.97
Hogs, Oct.	43.47	40.30	44.12	45.72	44.92	45.55
Hogs, Apr.	43.10	40.25	43.72	44.85	43.40	44.05

1. The prices of corn, soybeans, and wheat are in dollars per bushel. The prices of cattle and hogs are in dollars per hundredweight.

THE FINANCIAL ECONOMY

August Senior Loan Officer Opinion Survey on Bank Lending Practices

The August 1993 Senior Loan Officer Opinion Survey on Bank Lending Practices posed questions about changes in bank lending standards and terms, changes in loan demand by businesses and households, bank capital levels, the effects of the Credit Availability Program, and loan sales.³ Sixty domestic commercial banks and eighteen U.S. branches and agencies of foreign banks participated in the survey.

The survey results show a continuation of the easing of lending terms and standards reported in the May survey and a strengthening of demand for bank credit by both households and businesses. More respondents reported some easing of terms and standards for commercial and industrial loans than did so in the May survey. Standards for commercial real estate loans were little changed, and thus remain very restrictive. A small fraction of respondents indicated that they had eased standards on home mortgage loans, and a larger fraction reported increased willingness to make loans to individuals. A substantial fraction of respondents indicated that the demand for business loans had increased over the last three months. Household demand for bank credit was also reported to have picked up, particularly for residential mortgages.

As in the last four surveys, almost all the respondents judged their bank's capital position to be either fairly comfortable or very comfortable. The fraction of respondents taking a more aggressive lending stance owing to fairly comfortable or very comfortable capital positions increased from one-fifth in May to more than one-third in the August survey. As in May, however, most

3. The data on loan sales are not yet sufficiently complete for discussion in this report.

of those taking a more aggressive lending stance reported difficulty in finding attractive lending opportunities.

Special questions on the survey asked about the effects of the Credit Availability Program on bank lending to small and medium-sized businesses. Thus far, it appears that the program has had little effect on lending to these businesses, although the respondents expect that it will allow an easing of terms and standards for such loans when fully implemented.

Business Lending

Commercial and industrial loans other than for mergers. Domestic respondents reported a fairly significant net easing of standards and terms for commercial and industrial loans in the August survey. Standards for approving business loans to medium-sized firms had been eased by more than 20 percent of the respondents. The fractions that had eased standards for large and small borrowers were somewhat smaller, but still well above the fractions reported in the May survey. Larger fractions of the respondents reported having eased some lending terms, especially price terms, on commercial and industrial loans and lines of credit. Credit line costs and spreads for large and medium-sized firms had been eased by 30 percent to 40 percent of the respondents, while more modest, though still substantial, fractions had eased these terms for smaller borrowers. Fewer respondents reported having eased non-price terms--including the sizes of credit lines, loan covenants, and collateralization requirements. Nonetheless, the net easing of non-price terms was larger than in May.

U.S. branches and agencies of foreign banks reported no change in business lending standards. They reported very small mixed changes in most loan terms, although there was a small net decrease in credit line costs.

Real estate loans. Most domestic respondents reported that standards for commercial real estate loans were basically unchanged over the last three months. Very small net easings on commercial real estate loans other than those for commercial office buildings were reported, and the net tightening of standards for loans for commercial office buildings was the smallest in any recent survey. U.S. branches and agencies of foreign banks reported no changes in standards for commercial real estate loans.

Demand. A substantial fraction of domestic respondents reported stronger demand for business loans by firms of all sizes in the August survey. The increase in demand was larger than in May for middle-market and small firms, and it reversed the May survey's reported decline in demand by large firms. The causes of the increased demand were about evenly split between inventory investment and investment in plant and equipment. Branches and agencies of foreign banks reported a small net decrease in the demand for loans after reporting a small increase in May.

Lending to Households

Respondents also reported increased willingness to lend to households. A third of the banks indicated that they were more willing than they had been in May to make general purpose loans to individuals, including loans taken down under home equity lines of credit, while more than a quarter of the respondents reported increased willingness to make consumer installment loans. Moreover, there was a small net easing of standards for residential mortgages in August, reversing the small tightening reported in May.

About 30 percent of the respondents reported increased demand by households for consumer installment loans and home equity lines of credit over the last three months. About half reported stronger demand for residential mortgages.

Capital Ratios

The responses to the questions on capital adequacy indicate that the respondents' views of their capital positions had changed little since May. As in the May survey, more than 90 percent of domestic respondents reported that both their risk-based capital ratio and their tier-1 leverage ratio were either "fairly comfortable" or "very comfortable." None of the respondents reported that either ratio was tight. More than one-third of the respondents reporting comfortable capital levels said that they had taken a more aggressive lending stance as a result, compared with about 10 percent in January and 20 percent in May. Those reporting a more aggressive lending stance continue to note that it is difficult to find attractive new deals, however. As in May, most of those respondents not taking a more aggressive lending stance indicated that increasing their lending would require an unacceptable increase in risk, given the weak state of loan demand. About a quarter of the respondents reported taking steps over the past quarter to improve their capital positions, somewhat less than the fraction reported in the January and May surveys. Issuance of capital and loan sales and securitizations were the most common steps reported.

Branches and agencies of foreign banks were less comfortable with the capital positions at their parent institutions. Although the reported capital positions have improved somewhat since January, about half the branches and agencies reported that their parent's capital position was only "adequate." None of the institutions reported a fairly tight capital position, however, and one reported a "very comfortable" position. Of the eight branches and agencies that reported "comfortable" or "very comfortable" capital positions, three reported lending more aggressively as a result.

Effects of the Credit Availability Program

The August survey asked the domestic respondents a series of questions about the effects of the Credit Availability Program (CAP) on their lending to small and medium-sized businesses. This program, which was announced in March, includes provisions intended to allow the strongest banks and thrifts to make and carry a limited portfolio of loans to small and medium-sized businesses and to farms with minimal documentation; clarify the use of the category Other Assets Especially Mentioned (OAEM); reduce the appraisal burden on loans secured by real estate; change the rules regarding financing of Other Real Estate Owned (OREO); enhance and streamline the appeals and complaint processes; and improve examination processes and procedures.

The survey responses suggest that the CAP has not had a substantial effect on the supply of credit to small and medium-sized businesses, although many of the respondents expect it to do so in the future. Only four of the respondents have implemented minimal-documentation loan programs, although seven banks are in the process of doing so and another twenty reported being likely to do so in the future. The number of loans made under the minimal-documentation programs varied widely from bank to bank, as did the dollar volumes. A total of nearly \$140 million has been extended under the four banks' programs. The banks pointed out, however, that they would have made most of these loans even in the absence of a minimal-documentation program.

A substantial fraction of the respondents expect that the proposed changes in appraisal requirements will allow their bank to ease both terms and standards for small business loans. The anticipated effects of the proposed increase in the appraisal threshold to \$250,000 were about the same as those for the proposed

exemption for business loans of less than \$1 million where the sale of, or rental income derived from, the real estate taken as collateral is not the primary source of repayment.

The anticipated effects of the other CAP initiatives on the volume of lending to small and medium-sized businesses varied. A substantial fraction of respondents reported that changes in OREO financing rules and improved examination procedures would have a moderate effect on lending. Fewer respondents indicated that clarification of OAEM use would have an appreciable effect, and very few expected changes in the appeals and complaint process to have an effect on their bank's lending.

MONETARY AGGREGATES
(Based on seasonally adjusted data except as noted)

Aggregate or component	1992 ¹	1993	1993	1993	1993	1993	1993:Q4	Level
		Q1 ²	Q2 ²	May	Jun.	Jul.	to Jul. 93	(bil. \$ Jul. 93)
	Percentage change (annual rate) ³							
<u>Aggregate</u>								
1. M1	14.3	6.6	10.5	27.4	7.3	13.8	10.1	1085.6
2. M2	1.8	-1.9	2.1	10.5	2.1	1.5	0.9	3515.3
3. M3	0.3	-3.8	2.3	8.5	-1.3	-2.2	-0.6	4159.0
<u>Selected components</u>								
4. M1-A	13.7	6.2	13.0	26.5	7.3	14.0	10.9	683.3
5. Currency	9.1	9.5	9.7	10.4	11.1	11.0	10.1	309.6
6. Demand deposits	18.0	3.7	16.1	40.8	5.0	17.3	12.0	365.8
7. Other checkable deposits	15.4	7.3	6.3	28.9	7.3	13.3	8.7	402.3
8. M2 minus M1 ³	-2.6	-5.4	-1.4	3.3	-0.1	-4.0	-2.9	2429.7
9. Overnight RPs and Eurodollars, n.s.a.	1.8	-10.2	-17.0	-57.5	53.3	17.0	-6.2	71.6
10. General-purpose and broker- dealer money market funds	-5.2	-10.1	-0.7	17.4	-1.4	-1.1	-3.6	335.8
11. Commercial banks	-0.1	-2.2	0.1	4.3	-0.1	-4.4	-1.1	1254.9
12. Savings deposits	14.5	1.6	4.6	14.0	6.4	0.5	3.5	769.3
13. Small time deposits	-15.8	-7.6	-6.7	-10.3	-10.2	-11.7	-8.0	485.7
14. Thrift institutions	-5.5	-8.9	-4.8	2.5	-4.5	-5.5	-6.0	765.4
15. Savings deposits	14.8	-0.2	0.7	9.0	2.8	2.2	1.1	430.5
16. Small time deposits	-21.5	-19.0	-11.4	-5.6	-13.6	-15.2	-14.2	334.9
17. M3 minus M2 ³	-6.6	-13.0	3.5	-2.2	-19.1	-22.0	-7.9	643.7
18. Large time deposits	-16.3	-17.8	-1.3	-0.3	-13.2	-18.6	-10.4	336.8
19. At commercial banks ⁴	-15.4	-18.0	0.3	3.0	-14.1	-22.4	-10.3	273.1
20. At thrift institutions	-19.6	-17.5	-7.9	-14.7	-9.3	0.0	-10.7	63.8
21. Institution-only money market mutual funds	18.2	-14.1	0.4	14.4	-27.8	-18.8	-9.0	195.0
22. Term RPs, n.s.a.	7.9	9.9	29.5	-5.4	23.2	34.8	21.8	92.3
23. Term Eurodollars, n.s.a.	-22.6	0.0	32.3	38.2	-34.7	-76.3	0.3	47.1
Average monthly change (billions of dollars)								
<u>Memo</u>								
24. Managed liabilities at com'l. banks (lines 25 + 26)	-2.2	3.2	3.7	-2.8	4.8	16.5	...	714.0
25. Large time deposits, gross	-4.6	-3.6	-1.0	1.3	-3.7	-8.1	...	344.5
26. Nondeposit funds	2.4	6.8	4.7	-4.1	8.5	24.6	...	369.5
27. Net due to related foreign institutions	2.7	2.8	2.0	-5.1	1.8	15.2	...	100.6
28. Other ⁵	-0.3	4.1	2.7	0.9	6.8	9.4	...	268.9
29. U.S. government deposits at commercial banks ⁶	-0.5	-0.5	2.4	-5.1	7.0	4.1	...	30.2

1. "Percentage change" is percentage change in quarterly average from fourth quarter of preceding year to fourth quarter of specified year. "Average monthly change" is dollar change from December to December, divided by 12.

2. "Percentage change" is percentage change in quarterly average from preceding quarter to specified quarter. "Average monthly change" is dollar change from the last month of the preceding quarter to the last month of the specified quarter, divided by 3.

3. Seasonally adjusted as a whole.

4. Net of holdings of money market mutual funds, depository institutions, U.S. government, and foreign banks and official institutions.

5. 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.

6. Treasury demand deposits and note balances at commercial banks.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT¹
 (Percentage change at annual rate, based on seasonally adjusted data)

Type of credit	Dec. 1991 to Dec. 1992	1993 Q1	1993 Q2	1993 May	1993 Jun.	1993 Jul. p	Level, Jul. 1993 p (\$billions)
Commercial bank credit							
1. Total loans and securities at banks	3.6	2.7	7.3	8.6	9.5	8.6	3,037.9
2. Securities	13.0	11.6	10.7	4.4	12.7	5.2	888.7
3. U.S. government	17.5	13.0	12.0	4.0	16.4	6.1	707.8
4. Other	-1.1	5.9	5.6	6.0	-1.3	1.3	180.9
5. Loans	.2	.8	5.9	10.4	8.2	10.0	2,149.2
6. Business	-3.2	-1.0	1.0	6.9	3.9	-2.2	592.6
7. Real estate	2.1	.9	5.3	7.5	7.9	4.0	906.6
8. Consumer	-1.8	7.7	6.5	9.6	3.9	12.1	371.9
9. Security	18.4	-4.3	48.0	122.7	50.4	170.2	82.1
10. Other	1.1	-13.6	8.8	.6	15.7	11.1	195.9
Short- and intermediate-term business credit							
11. Business loans net of bankers acceptances	-3.3	-1.6	.6	6.0	3.9	-3.5	583.3
12. Loans at foreign branches ²	2.0	-33.1	-5.2	-5.1	-20.5	-20.9	22.6
13. Sum of lines 11 and 12	-3.1	-2.9	.5	5.6	3.2	-4.5	605.8
14. Commercial paper issued by nonfinancial firms	9.5	-9.3	15.8	17.5	-1.6	38.4	158.0
15. Sum of lines 13 and 14	.8	-4.2	3.5	7.8	2.4	4.1	763.8
16. Bankers acceptances, U.S. trade-related ^{3,4}	-16.9	-10.4	-14.2	-16.1	-16.4	n.a.	21.7 ⁵
17. Finance company loans to business ⁴	1.8	-5.1	.4	.8	-1.2	n.a.	303.1 ⁵
18. Total (sum of lines 15, 16, and 17)	-.5	-4.6	2.0	5.3	.10	n.a.	1,086.0 ⁵

1. Except as noted, levels are averages of Wednesday data and percentage changes are based on averages of Wednesday data; data are adjusted for breaks caused by reclassification; changes are measured from preceding period to period indicated.

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

3. Acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.

4. Changes are based on averages of month-end data.

5. June 1993.

p Preliminary.

n.a. Not available.

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent except as noted)

Instrument	1992		1993		Change to Aug 12, 1993			
	Sept. 4		FOMC. Jul 7	Aug 12	From Sept. 4	From FOMC. Jul 7		
SHORT-TERM RATES								
Federal funds ²	3.19		3.11	2.97	-0.22	-0.14		
Treasury bills ³								
3-month	2.92		3.04	3.01	0.09	-0.03		
6-month	2.96		3.11	3.13	0.17	0.02		
1-year	3.06		3.29	3.32	0.26	0.03		
Commercial paper								
1-month	3.22		3.17	3.14	-0.08	-0.03		
3-month	3.22		3.20	3.19	-0.03	-0.01		
Large negotiable CDs ³								
1-month	3.06		3.11	3.08	0.02	-0.03		
3-month	3.06		3.15	3.13	0.07	-0.02		
6-month	3.11		3.33	3.32	0.21	-0.01		
Eurodollar deposits ⁴								
1-month	3.31		3.06	3.06	-0.25	0.00		
3-month	3.31		3.19	3.13	-0.18	-0.06		
Bank prime rate	6.00		6.00	6.00	0.00	0.00		
INTERMEDIATE- AND LONG-TERM RATES								
U.S. Treasury (constant maturity)								
3-year	4.38		4.38	4.43	0.05	0.05		
10-year	6.40		5.80	5.77	-0.63	-0.03		
30-year	7.29		6.68	6.37	-0.92	-0.31		
Municipal revenue ⁵ (Bond Buyer)	6.31		5.75	5.68	-0.63	-0.07		
Corporate--A utility, recently offered	8.06		7.48	7.21	-0.85	-0.27		
Home mortgages ⁶								
FHLMC 30-yr. fixed rate	7.84		7.23	7.21	-0.63	-0.02		
FHLMC 1-yr. adjustable rate	5.15		4.58	4.55	-0.60	-0.03		
Stock exchange index	Record high		1989	1993		Percentage change to Aug 12		
	Level	Date	Low. Jan. 3	FOMC. Jul 7	Aug 12	From record high	From 1989 low	From FOMC. Jul 7
Dow-Jones Industrial	3583.35	8/11/93	2144.64	3475.67	3569.09	-0.40	66.42	2.69
NYSE Composite	251.36	3/10/93	154.00	245.68	249.17	-0.87	61.80	1.42
AMEX Composite	440.95	6/4/93	305.24	431.79	437.58	-0.76	43.36	1.34
NASDAQ (OTC)	718.77	8/9/93	378.56	698.79	717.12	-0.23	89.43	2.62
Wilshire	4477.53	8/9/93	2718.59	4392.49	4463.04	-0.32	64.17	1.61

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 maintenance period ending August 18, 1993.

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 previous to date shown.