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CONFIDENTIAL (FR)
CLASS III - FOMC

November 9, 1995

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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THE DOMESTIC NONFINANCIAL ECONOMY

Producer Prices

The PPI for finished goods edged down 0.1 percent in October. Food prices were flat, with declines in fresh fruits and vegetables offset by increases in other components, particularly rice, pasta, meat, and dairy products. Energy prices declined for the fifth consecutive month, reflecting declines in all categories except electricity. Excluding food and energy, finished goods prices were unchanged, the best performance in a year. The PPI for intermediate materials other than food and energy dropped 0.3 percent, its first decline since July 1993.

Prices of finished consumer goods other than food and energy increased 0.1 percent. Prices of nondurables rose 0.2 percent as apparel prices posted their largest increase (0.4 percent) in more than three years. Prices of durables were flat, with increases for passenger cars offset by declines for trucks and other consumer durables. In recent years, light truck prices have increased faster than car prices. Last month, however, the twelve-month change in prices of light trucks dropped below those of new car prices.

The drop in prices of light trucks also contributed to a small decline in the index for capital equipment. Prices for computers fell last month as well, but the decrease (0.6 percent) was only half the average monthly decline over the past twelve months.

The drop in the PPI for intermediate materials other than food and energy reflects the largest decline in prices of manufacturers' materials in recent years. Significant decreases were posted for metals and plastic resins as well as industrial and some agricultural chemicals.

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

	Relative importance, Dec. 1994	1993	1994	1995			1995	
				Q1	Q2	Q3	Sept.	Oct.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	.2	1.7	3.2	.6	1.3	.3	-.1
Consumer foods	22.8	2.4	1.1	-1.2	-4.6	8.8	1.0	.0
Consumer energy	13.6	-4.1	3.5	11.3	1.5	-14.3	-.5	-.9
Other finished goods	63.7	.4	1.6	2.9	2.6	2.3	.2	.0
Consumer goods	40.2	-.4	1.4	2.9	3.2	2.3	.3	.1
Capital equipment	23.5	1.8	2.0	3.0	1.8	2.1	.1	-.1
Intermediate materials ²	95.6	.8	4.8	10.6	3.9	-.6	-.1	-.4
Excluding food and energy	82.9	1.6	5.2	10.5	4.2	1.8	.1	-.3
Crude food materials	40.4	7.2	-9.4	-4.6	-.8	42.3	4.2	2.1
Crude energy	34.5	-12.3	-.1	-4.5	14.6	-22.0	3.2	-.4
Other crude materials	25.1	10.7	17.3	21.9	4.6	-18.2	-2.1	-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.

RECENT CHANGES IN PRODUCER PRICES -- RELATIVE CONTRIBUTION¹
(Percent change; based on seasonally adjusted data)²

	Relative importance Dec. 1994	1993	1994	1995			1995	
				Q1	Q2	Q3	Sept.	Oct.
				-----Annual rate-----			-Monthly rate-	
Finished goods	100.0	.2	1.7	3.2	.6	1.3	.3	-.1
Consumer foods	22.8	.5	.3	-.3	-1.0	1.9	.2	.0
Consumer energy	13.6	-.6	.5	1.5	.2	-2.1	-.1	-.1
Other finished goods	63.7	.2	1.0	1.9	1.7	1.5	.1	.0
Consumer goods	40.2	-.2	.6	1.2	1.3	.9	.1	.0
Capital equipment	23.5	.4	.5	.7	.4	.5	.0	-.0

1. Data may not add due to rounding.
2. Changes are from final month of preceding period to final month of period indicated.

THE FINANCIAL ECONOMY

The November Senior Loan Officer Opinion Survey on Bank Lending Practices

The November 1995 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, and changes in consumer loan delinquency rates. Fifty-six domestic commercial banks and twenty-one branches and agencies of foreign banks participated in the survey.

The survey found that lending standards changed little over the past three months. On balance, a few banks eased standards for business loans to small and middle-market borrowers while leaving those for large firms unchanged. A few banks also tightened standards for commercial real estate loans of all types, and a couple of banks tightened residential mortgage lending standards. A small net fraction of banks reported increased willingness to make consumer loans. Taken together, these results suggest that the easing of lending standards over the past few years has virtually ceased. In contrast, a substantial fraction of banks noted that terms on business loans that their bank was willing to make had eased further over the past quarter, although the number of banks reporting easier terms has declined since the start of the year.

The survey results indicate that demand for bank loans continued to rise over the past quarter, but likely at a slackening pace. On net, surveyed banks reported higher demand for business loans, but the share reporting stronger demand was smaller than it has been for several years. The net fraction of the respondents noting stronger demand for residential mortgages and consumer installment loans had jumped in the third quarter, but fell back in the latest survey. In contrast, the share of banks reporting

stronger demand for commercial real estate loans remained near its level of the past two quarters.

Commercial and Industrial Loans

The survey found that only a few banks, about 5 percent on net, had eased standards for approving commercial and industrial loans and lines of credit, other than those to be used to finance mergers and acquisitions, to small and middle-market firms over the past three months. For the first time since mid-1993, large businesses saw no net easing. Branches and agencies of foreign banks actually reported a small tightening of business lending standards in the latest survey, after no change in August.

Many of the respondents noted that they had eased their terms on business loans over the past three months, although the net fraction reporting easier terms was somewhat smaller than in the past few quarters. Large fractions of the domestic respondents reduced credit-line costs and tightened spreads of loan rates over base rates for large and middle-market firms. Significantly smaller fractions eased these terms for small firms. Generally smaller fractions of the respondents reported having eased other terms, including the size of credit lines, loan covenants, and collateralization requirements. Large fractions of the foreign branches and agencies also reported having eased business loan terms.

As they have for several quarters, the respondents attributed the easing of loan terms and standards to more aggressive competition from other commercial banks and, to a lesser extent, from nonbank lenders. The easing may also reflect greater sensitivity of loan demand to loan terms. A significant fraction of the respondents noted that the sensitivity of business loan demand to the terms offered at their bank relative to terms available at

their competitors had increased. Except for the branches and agencies of foreign banks, however, the fraction of respondents noting increased sensitivity declined relative to the survey in May, when this question was last asked.

Over the course of the year, the net fraction of domestic banks reporting increased demand for business loans has trended down. In the latest survey, only about 10 percent of the respondents reported greater demand by large and small firms, and there was no net increase in demand reported for middle-market firms. By contrast, the comparable percentages a year ago were near 40, 20, and 30 percent for large, middle-market, and small firms, respectively. The respondents reporting increased demand in November indicated that the strength was the result of customers' inventory financing needs and investment in plant and equipment. In addition, merger and acquisition activity reportedly boosted demand, especially by larger customers. Those banks reporting weaker demand for business loans generally attributed the weakness to the same set of factors. On net, about 20 percent of the branches and agencies of foreign banks reported increased demand on the current survey, with the strong increase attributed primarily to merger and acquisition activity.

Commercial Real Estate Loans

A small net fraction of domestic respondents reported tighter standards for commercial real estate loans of all types. This was the first survey since 1992 showing a net tightening, albeit modest, of standards for all types of these loans. Demand for commercial real estate loans reportedly picked up over the last three months, with about the same net fraction of banks reporting higher demand as has prevailed since this question was added to the survey in May. The foreign branches and agencies reported no change in their

standards on commercial real estate loans and a small net increase in demand.

Loans to Individuals

The supply of credit to households was little changed over the past three months. Only about 5 percent of the domestic respondents, on net, reported that they were more willing to make consumer installment loans than they had been three months ago, down a bit from the August survey and the lowest percentage since 1991. The respondents also reported a small tightening of standards for approving residential mortgage applications, the first such tightening since 1993.

Demand for credit by households increased, on balance, but at a slower pace than was reported in the August survey. Less than 10 percent of banks, on net, reported increased demand for consumer installment loans, down from more than 20 percent in the last survey. About 15 percent of the banks reported higher demand for residential mortgages, but this was well below the 50 percent posted in August.

Consumer Loan Delinquencies

Special questions on the survey asked the respondents about changes in their banks' consumer loan delinquency rates over the past year. A majority of the banks reported that their delinquency rate had increased, and only a few banks reported a decrease. The higher delinquency rates were largely anticipated, however, as only about 10 percent of the banks, on net, indicated that their banks' delinquency rates had deteriorated more than expected over the year. The banks attributed the rise in delinquencies primarily to the increase in household debt burdens. In addition, some banks noted that an increased willingness of borrowers to declare bankruptcy and slower economic growth in their market area had contributed to the

rise. A number of banks had responded to rising delinquencies by tightening lending standards, tightening non-price lending terms, or raising spreads of lending rates over market rates. In most cases, however, the banks reported that they had made small rather than large changes.

Selected Financial Market Quotations¹

(Percent except as noted)

Instrument	1994		1995		Change to Nov. 8, 1995 from:			
	Feb. 3	High	FOMC, Sep. 26	Nov. 8	1994 Feb. 3	1994 high	FOMC, Sep. 26	
Short-term Rates								
Federal Funds ²	3.07	5.66	5.80	5.74	2.67	0.08	-0.06	
Treasury Bills³								
3-month	3.13	5.78	5.29	5.36	2.23	-0.42	0.07	
6-month	3.27	6.38	5.38	5.26	1.99	-1.12	-0.12	
1-year	3.52	6.84	5.39	5.13	1.61	-1.71	-0.26	
Commercial paper								
1-month	3.16	6.13	5.81	5.82	2.66	-0.31	0.01	
3-month	3.25	6.32	5.73	5.75	2.50	-0.57	0.02	
Large negotiable CDs³								
1-month	3.11	6.10	5.75	5.74	2.63	-0.36	-0.01	
3-month	3.25	6.39	5.74	5.74	2.49	-0.65	0.00	
6-month	3.41	6.89	5.74	5.65	2.24	-1.24	-0.09	
Eurodollar deposits⁴								
1-month	3.06	6.06	5.72	5.72	2.66	-0.34	0.00	
3-month	3.25	6.38	5.72	5.75	2.50	-0.63	0.03	
Bank Prime Rate	6.00	8.50	8.75	8.75	2.75	0.25	0.00	
Intermediate- and Long-term Rates								
U.S. Treasury (constant maturity)								
3-year	4.60	7.82	5.98	5.58	0.98	-2.24	-0.40	
10-year	5.81	8.04	6.28	5.92	0.11	-2.12	-0.36	
30-year	6.31	8.16	6.58	6.25	-0.06	-1.91	-0.33	
Municipal revenue (Bond Buyer) ⁵	5.49	7.37	6.18	5.93	0.44	-1.44	-0.25	
Corporate-A Utility, recently offered	7.35	9.05	7.57	7.33	-0.02	-1.72	-0.24	
Home mortgages⁶								
FHLMC 30-yr fixed rate	6.97	9.25	7.57	7.44	0.47	-1.81	-0.13	
FHLMC 1-yr adjustable rate	4.12	6.79	5.77	5.67	1.55	-1.12	-0.10	
	Record high		1989	1995		Percentage change to Nov. 8 from:		
			Low, Jan. 3	FOMC, Sep. 26	Nov. 8	Record high	1989 low	FOMC, Sep. 26
Stock Exchange Index	Level	Date						
Dow-Jones Industrial	4852.67	11/08/95	2144.64	4765.60	4852.67	0.00	126.27	1.83
NYSE Composite	315.55	11/08/95	154.00	311.82	315.55	0.00	104.90	1.20
NASDAQ (OTC)	1067.40	9/13/95	378.56	1038.05	1047.94	-1.82	176.82	0.95
Wilshire	5843.27	9/21/95	2718.59	5774.95	5843.21	-0.00	114.94	1.18

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 November 8, 1995.
3. Secondary market.
4. Bid rates for Eurodollar deposits at 11 a.m. London time.
5. Most recent observation based on one-day Thursday quote and futures market index changes.
6. Quotes for week ending Friday previous to date shown.