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CONFIDENTIAL (FR)
CLASS III - FOMC

February 3, 1989

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

DOMESTIC NONFINANCIAL ECONOMY

Employment and unemployment

The labor market surveys indicate that labor demand was quite strong in January. In the payroll survey, employment grew more than 400,000 last month and the average workweek moved up 0.2 hour to 34.9 hours. As a result of the increased pace of hiring and the longer workweeks, aggregate hours of production workers jumped more than 1 percent in January. In the household survey, employment advanced more than 700,000 last month. That gain was accompanied by a sharp pickup in labor force growth, and the unemployment rate edged up slightly to 5.4 percent.

In part, some of the strength in payroll employment seen in January may reflect temporary factors. Construction employment rose more than 100,000, as employers apparently did not lay off as many workers as usual for this time of year, owing to the unusually mild January weather. And, in retail trade, a relatively early survey week may have reduced the number of post-Christmas layoffs captured in the January report. If so, both of these components of overall employment growth could drop back somewhat in February.

Overall, however, employment gains suggest that the labor market maintained considerable momentum through mid-January. Manufacturing employment rose 45,000 last month, with large gains in nonelectrical machinery, transportation equipment, and food processing. Moreover, the factory workweek moved up 0.1 hour, suggesting that production gains remain sufficiently robust to maintain the relatively high levels of overtime seen

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

	1987	1988	1988			1988		1989
			Q2	Q3	Q4	Nov.	Dec.	Jan.
-----Average Monthly Changes-----								
Nonfarm payroll employment ²	286	303	346	227	301	446	221	408
Strike-adjusted	283	302	345	229	295	435	221	410
Manufacturing	38	32	46	2	63	66	23	46
Durable	21	21	35	7	38	42	13	22
Nondurable	16	10	12	-6	25	24	10	24
Construction	21	27	39	19	24	47	23	102
Trade	68	80	81	52	72	103	51	166
Finance and services	114	122	141	93	126	138	136	66
Total government	28	28	20	51	5	72	-18	-18
Private nonfarm production workers	208	216	258	124	237	299	193	386
Manufacturing production workers	30	20	30	-3	47	53	9	50
Total employment ³	257	189	291	123	213	374	62	702
Nonagricultural	252	191	311	105	207	374	107	595
Memo:								
Average hourly earnings ⁴	3.0	3.7	5.1	3.5	4.1	-.1	.2	.6

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments. Strike adjusted data noted.
3. Survey of households.
4. Changes are from final quarter of preceding period to final quarter of period indicated at a compound annual rate. Monthly figures are simple percent change.

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

	1987	1988	1988			1988		1989
			Q2	Q3	Q4	Nov.	Dec.	Jan.
Civilian, 16 years and older	6.2	5.5	5.5	5.5	5.3	5.4	5.3	5.4
Teenagers	16.9	15.3	15.2	15.3	14.6	14.1	14.8	16.4
20-24 years old	9.7	8.7	8.7	8.5	8.7	8.7	8.7	9.3
Men, 25 years and older	4.8	4.2	4.2	4.1	4.1	4.2	4.1	4.0
Women, 25 years and older	4.8	4.3	4.3	4.4	4.2	4.2	4.1	4.1
White	5.3	4.7	4.7	4.8	4.6	4.6	4.6	4.6
Black	13.0	11.7	11.9	11.3	11.3	11.2	11.6	12.0
Fulltime workers	5.8	5.2	5.1	5.1	5.0	5.0	5.1	5.0
Memo:								
Total National ¹	6.1	5.4	5.4	5.4	5.3	5.3	5.3	5.4

1. Includes resident armed forces as employed.

over the past year. In most other industries, hiring continued at about its recent trend pace, although some weakness was evident in business services and in finance.

In the household survey, the sharp advances in employment and the labor force represent a rebound from the inexplicably low rates of growth through much of 1988. Nonetheless, even with the bigger increase in household employment in January, payroll gains have outpaced household employment gains by a considerable amount over the past year. The unemployment rate, which probably is little affected by sampling errors in the household survey, has held steady at a bit less than 5-1/2 percent in recent months, after dropping about 1/2 percentage point over the first three quarters of last year.

Wage rates, as measured by average hourly earnings, rose 0.6 percent in January to a level nearly 4 percent above last January. This is somewhat more than changes seen in past months, and is, in general, consistent with other measures of wage change, most of which have shown some evidence of acceleration recently.

Manufacturers' inventories

Manufacturers' inventories, measured in current-cost terms, rose \$28.7 billion at an annual rate in December, after an upward-revised increase of \$26.3 billion in the preceding month. As was the case over much of 1988, the bulk of the buildup in factory stocks in December was reported by durable goods industries; in particular, industries producing nondefense capital goods accounted for \$19.5 billion of the total increase. The December inventory rise was accompanied by a 2.4 percent gain in factory shipments. As a result, the manufacturers' inventory-shipments ratio fell

MANUFACTURERS' INVENTORIES: CHANGE IN CURRENT COST
(Billions of dollars, seasonally adjusted annual rate)

	1988				1988			
	Q1	Q2	Q3	Q4	Sept.	Oct.	Nov. ^r	Dec. ^p
Total	22.3	21.1	23.3	24.9	23.8	19.5	26.3	28.7
(Previous)							(23.5)	
Durable	15.7	13.9	16.9	21.8	19.4	18.3	24.4	22.8
Nondurable	6.6	7.2	6.4	3.0	4.5	1.3	1.9	5.9
STAGE OF PROCESSING								
Materials and supplies	9.6	7.1	11.4	- .6	8.3	3.8	.3	-5.9
Work in process	7.6	10.3	1.6	16.0	5.5	10.3	18.5	19.2
Finished goods	5.1	3.8	10.4	9.4	10.1	5.4	7.4	15.4

Detail may not add to totals because of rounding.

r--Revised.

p--Preliminary.

MANUFACTURERS' INVENTORY-SALES RATIOS

	1988				1988			
	Q1	Q2	Q3	Q4	Sept.	Oct.	Nov. ^r	Dec. ^p
Total	1.62	1.58	1.58	1.57	1.57	1.57	1.57	1.54
Durable	1.99	1.95	1.96	1.94	1.93	1.94	1.93	1.89
Nondurable	1.19	1.16	1.15	1.14	1.16	1.15	1.14	1.13

r--Revised.

p--Preliminary.

markedly, to 1.54 months in December--below the range observed over the past year.

For the fourth quarter as a whole, factory stocks posted a \$24.9 billion (annual rate) accumulation--roughly the same pace as that seen in the third quarter. In current-cost terms, the fourth-quarter factory inventory buildup was \$3.7 billion above the BEA's assumptions incorporated in the advance estimate of GNP for 1988-Q4.

Sales of new single-family homes

Sales of new homes in December were nearly 670,000, about unchanged from the level recorded in November. In contrast to the figures on single-family starts and existing home sales, the fourth-quarter pace of new home sales edged slightly below the relatively strong pace of the third quarter. The average price of new homes was up 11-3/4 percent from a year ago, while the median price increased 8-1/4 percent from a year earlier. These price measures are influenced importantly by the regional composition of sales and the year-over-year changes are volatile on a monthly basis.

Federal sector accounts (Correction)

The attached table on the federal sector accounts is a corrected copy of the version that appears on page I-15 of the Greenbook, Part I. The CBO baseline deficit shown in the third line, columns 3 and 6, should be \$155 billion in FY 1989 and \$141 billion in FY 1990, instead of \$144 billion in FY 1989 and \$136 billion in FY 1990.

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

	1987	1988	1988		1988		
	Annual	Annual	Q3	Q4 ^P	Oct. ^r	Nov. ^r	Dec. ^P
All units							
Permits	1.53	1.45	1.43	1.53	1.52	1.52	1.54
Starts	1.62	1.49	1.47	1.54	1.53	1.56	1.52
Single-family units							
Permits	1.02	1.00	.99	1.05	1.03	1.05	1.06
Starts	1.15	1.08	1.06	1.13	1.14	1.14	1.11
Sales							
New homes	.67	.68	.70	.69	.72	.67	.67
Existing homes	3.53	3.63	3.67	3.81	3.67	3.67	4.09
Multifamily units							
Permits	.51	.45	.43	.48	.49	.47	.48
Starts	.47	.41	.40	.41	.40	.42	.41

p--preliminary estimates. r--revised.

CONFIDENTIAL FR CLASS II

February 2, 1989

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1988a	FY1989p			FY1990p			FRB Staff Projection									
		Admin ¹	CBO ²	FRB Staff	Admin ¹	CBO ²	FRB Staff	1988 IVa	1989				1990				
										I	II	III	IV	I	II	III	IV
Not seasonally adjusted																	
BUDGET																	
Budget receipts ³	909	976	983	979	1059	1069	1068	222	224	285	249	236	253	313	265	254	
Budget outlays ³	1064	1137	1138	1139	1152	1209	1195	289	286	284	279	303	299	301	292	307	
Surplus/deficit(-) to be financed ³	-155	-161	-155	-159	-93	-141	-127	-68	-62	1	-30	-66	-46	12	-26	-53	
(On-budget)	-194	-218	-211	-209	-161	-209	-192	-73	-77	-17	-42	-74	-64	-10	-43	-67	
(Off-budget)	39	56	56	49	69	68	65	6	15	18	11	8	18	22	17	13	
Means of financing:																	
Borrowing	162	144	140	139	91	141	121	54	32	28	26	46	35	16	23	39	
Cash decrease	-8	14	n.a.	4	0	n.a.	0	11	25	-24	-7	22	3	-20	-5	22	
Other ⁴	1	3	n.a.	16	2	n.a.	6	3	6	-5	12	-2	8	-8	8	-8	
Cash operating balance, end of period	44	30	n.a.	40	30	n.a.	40	34	9	33	40	18	15	35	40	18	
Seasonally adjusted annual rates																	
NIPA FEDERAL SECTOR																	
Receipts	964	1029	1037	1030	1133	1133	1117	991	1020	1045	1062	1079	1113	1128	1146	1166	
Expenditures	1107	1174	1177	1175	1213	1255	1246	1143	1172	1187	1199	1217	1244	1257	1266	1283	
Purchases	380	398	395	397	413	416	409	393	394	398	401	403	410	411	412	413	
Defense	298	298	302	301	305	311	303	298	300	301	303	300	305	304	304	304	
Nondefense	82	100	93	96	108	105	106	95	94	97	99	102	105	107	108	109	
Other expend.	727	776	782	779	800	839	837	750	778	789	798	815	834	846	854	871	
Surplus/deficit	-143	-145	-140	-146	-77	-122	-130	-152	-152	-141	-137	-139	-131	-129	-120	-117	
FISCAL INDICATORS⁵																	
High-employment (HEB) surplus/deficit(-)	-151	n.a.	n.a.	-164	n.a.	n.a.	-137	-163	-172	-162	-158	-157	-142	-132	-116	-109	
Change in HEB, percent of potential GNP	.2	n.a.	n.a.	.3	n.a.	n.a.	-.5	.6	.2	-.2	-.1	0	-.3	-.2	-.3	-.1	
Fiscal impetus measure (FI), percent	.1 *	n.a.	n.a.	-4.1 *	n.a.	n.a.	-6.9 *	.9	-2	-.4	-.4	-2.9	-3.8	-.5	-.5	-.4	

a--actual

p--projection

*--calendar year

n.a.--not available

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

1. The Budget of the United States Government, Fiscal Year 1990 (January 1989). Budget estimates include policy proposals.
2. Baseline budget estimates from The Economic and Budget Outlook: Fiscal Years 1990-1994 (January 1989).
3. Includes 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.
4. Checks issued less checks paid, accrued items and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate. 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.

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

	1988 ¹	1988 Q3	1988 Q4	1988 Nov	1988 Dec	1989 Jan pe	Growth Q4 88- Jan 89pe
-----Percent change at annual rates-----							
1. M1	4.3	5.2	2.4	2.0	5.5	-5	-½
2. M2	5.3	3.8	3.8	7.0	5.2	0	2½
3. M3	6.2	5.5	4.9	6.9	5.6	2	4
-----Percent change at annual rates-----							
							Levels bil. \$ Dec 88
Selected components							
4. M1-A	2.6	3.3	1.7	-0.7	5.2	-6	507.9
5. Currency	8.1	7.5	6.6	4.6	7.4	9	211.8
6. Demand deposits	-1.2	0.4	-1.8	-5.0	3.8	-17	288.6
7. Other checkable deposits	7.7	8.7	3.4	6.4	6.0	-3	282.4
8. M2 minus M1 ²	5.6	3.3	4.3	8.8	5.1	1	2283.0
9. Overnight RPs and Eurodollars, NSA	-5.1	-4.0	-7.6	-12.6	75.0	50	79.9
10. General purpose and broker/dealer money market mutual fund shares, NSA	7.7	-3.1	10.9	35.3	14.1	12	240.8
11. Commercial banks	6.9	5.5	6.9	12.0	6.0	4	988.4
12. Savings deposits, SA, plus MMDAs, NSA ³	1.4	1.0	-1.7	9.1	-4.4	-12	544.9
13. Small time deposits	14.8	11.6	18.3	15.9	18.7	23	443.5
14. Thrift institutions	4.7	2.3	0.4	0.5	-1.7	-2	971.7
15. Savings deposits, SA, plus MMDAs, NSA ³	-4.3	-2.0	-8.6	-7.0	-7.7	-13	389.1
16. Small time deposits	11.7	5.4	6.7	5.4	2.5	5	582.6
17. M3 minus M2 ⁴	10.0	12.1	9.1	6.6	7.2	11	842.6
18. Large time deposits	11.1	13.4	11.5	5.6	8.1	12	538.1
19. At commercial banks, net ⁵	12.2	18.1	13.1	7.0	13.3	15	365.3
20. At thrift institutions	8.7	4.1	7.8	2.8	-2.8	7	172.8
21. Institution-only money market mutual fund shares, NSA	-0.8	-23.3	10.9	39.7	2.7	25	87.6
22. Term RPs, NSA	13.3	12.0	3.9	26.2	-36.0	8	122.8
23. Term Eurodollars, NSA	10.3	38.1	6.8	37.5	20.0	-53	103.9

MEMORANDA:⁶

-----Average monthly change in billions of dollars-----							
24. Managed liabilities at commercial banks (25+26)	4.6	4.5	4.0	8.6	-0.3	-4	642.0
25. Large time deposits, gross	3.3	5.5	3.2	1.3	4.8	5	429.3
26. Nondeposit funds	1.3	-1.0	0.8	7.3	-5.1	-9	212.7
27. Net due to related foreign institutions, SA	-0.7	0.0	-0.7	5.6	-3.2	0	6.7
28. Other ⁷	2.0	-1.0	1.5	1.6	-1.7	-9	206.1
29. U.S. government deposits at commercial banks ⁸	0.0	0.5	0.5	-4.2	1.9	-5	24.9

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 -1.9 percent and -15 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during December and January at rates of -1.5 percent and -7 percent, respectively.
 4. The non-M2 component of M3 is seasonally adjusted as a whole.
 5. Net of large denomination time deposits held by money market mutual funds and thrift institutions.
 6. Dollar amounts shown under memoranda are calculated on an end-month-of-quarter basis.
 7. Consists of borrowing from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase, and other liabilities for borrowed money (including borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estimated.
 8. Consists of Treasury demand deposits and note balances at commercial banks.
- pe - preliminary estimate

Note: The "net due to related foreign institutions" component of nondeposit funds is now measured on a seasonally adjusted basis and the "other" component of this series has been revised.

Measures of the money stock have been revised to incorporate annual benchmark and seasonal adjustments. These data are to be regarded as strictly confidential until their release scheduled for February 9.

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

	1987:Q4	1988					Levels
	to						bil.\$
	1988:Q4	Q3	Q4	Nov.	Dec.	Jan.	Jan.
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	7.2	4.3	4.4	6.0	.1	2.5	2403.2
2. Securities	4.5	- .2	3.7	2.4	.4	-8.9	547.7
3. U.S. government securities	7.2	2.3	9.5	5.7	13.8	2.0	361.5
4. Other securities	-.4	-4.7	-6.8	-3.7	-24.0	-29.5	186.2
5. Total loans	8.1	5.6	4.7	7.1	.0	5.8	1855.4
6. Business loans	6.5	3.2	2.2	-2.4	1.4	14.0	606.9
Security loans	-5.5	-29.4	3.3	-28.1	-22.3	-26.0	36.1
8. Real estate loans	13.0	12.6	11.4	13.3	7.3	8.7	668.0
9. Consumer loans	8.4	5.5	6.3	6.9	9.6	7.1	355.7
10. Other loans	0.0	-1.8	-12.8	23.3	-40.9	-26.1	188.7
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	6.6	3.1	2.7	-2.4	2.2	13.7	603.8
12. Loans at foreign branches ²	30.5	24.1	.0	-16.6	-16.8	-56.9	20.1
13. Sum of lines 11 & 12	7.3	3.8	2.5	-2.9	1.6	11.3	623.9
14. Commercial paper issued by nonfinancial firms	15.6	-4.8	54.0	24.4	92.0	60.9	107.7
15. Sum of lines 13 & 14	8.3	2.6	9.1	.7	13.5	18.3	731.6
16. Bankers acceptances: U.S. trade related ^{3,4}	-6.3	-7.3	24.8	26.5	70.6	n.a.	34.2 ⁵
17. Line 15 plus bankers acceptances: U.S. trade related	7.6	2.2	9.9	1.9	16.1	n.a.	754.8 ⁵
18. Finance company loans to business ³	n.a.	10.9	n.a.	9.3	n.a.	n.a.	232.9 ⁶
19. Total short- and intermediate-term business credit (sum of lines 17 & 18)	n.a.	4.2	n.a.	3.6	n.a.	n.a.	977.8 ⁶

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. December data.

6. November data.

n.a.--not available.

p--preliminary

SELECTED FINANCIAL MARKET QUOTATIONS 1/
(percent)

	1987		1988		1989	Change from:
	Jan-Feb lows	2/ Oct 16	Feb lows	FOMC Dec 14	Feb 2	FOMC Dec 14
Short-term rates						
Federal funds 3/	5.95	7.59	6.38	8.55	9.14	0.59
Treasury bills 4/						
3-month	5.30	6.93	5.59	8.12	8.38	0.26
6-month	5.31	7.58	5.77	8.33	8.41	0.08
1-year	5.35	7.74	6.10	8.45	8.36	-0.09
Commercial paper						
1-month	5.81	7.94	6.41	9.28	9.03	-0.25
3-month	5.73	8.65	6.45	9.11	9.07	-0.04
Large negotiable CD's 4/						
1-month	5.85	7.92	6.44	9.40	9.05	-0.35
3-month	5.80	8.90	6.49	9.34	9.19	-0.15
6-month	5.78	9.12	6.55	9.31	9.35	0.04
Eurodollar deposits 5/						
1-month	6.00	7.79	6.60	9.50	9.14	-0.36
3-month	6.00	8.69	6.69	9.31	9.26	-0.05
Bank prime rate	7.50	9.25	8.50	10.50	10.50	0.00
Intermediate- and long-term rates						
U.S. Treasury (constant maturity)						
3-year	6.34	9.52	7.28	9.21	9.12	-0.09
10-year	7.01	10.23	8.11	9.19	8.98	-0.21
30-year	7.29	10.24	8.32	9.06	8.82	-0.24
Municipal revenue 6/ (Bond Buyer index)	6.92	9.59	7.76	7.96	7.58	-0.38
Corporate—A utility Recently offered	8.78	11.50	9.63	10.16	10.03	-0.13
Home mortgage rates 7/						
Fixed-rate	9.10	11.58	9.84	10.46	10.60	0.14
ARM, 1-year	7.52	8.45	7.59	8.35	8.54	0.19
	1986	1987		1988	1989	Percent change from:
	Year end	Record highs	Lows	FOMC Dec 14	Feb 2	FOMC Dec 14
Stock prices						
Dow-Jones Industrial	1895.95	2722.42	1738.74	2134.25	2333.75	9.35
NYSE Composite	138.58	187.99	125.91	154.72	166.35	7.52
AMEX Composite	263.27	365.01	231.90	295.00	324.52	10.01
NASDAQ (OTC)	348.83	455.26	291.88	372.77	405.16	8.69

1/ One-day quotes except as noted.

2/ Last business day prior to stock market decline on Monday Oct. 19, 1987.

3/ Average for two-week reserve maintenance period closest to date shown except lows shown which are one-week averages ending Feb. 25 and Feb. 10, respectively. Last observation is average to date for maintenance period ending February 8, 1989.

4/ Secondary market.

5/ Average for statement week closest to date shown.

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

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

e—estimate