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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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DOMESTIC NONFINANCIAL ECONOMY

Manufacturers' Inventories

In current-cost terms, manufacturers' inventories rose in May at an annual rate of \$24.2 billion--similar to the pace seen in April and in the first quarter. Increases were widespread by industry; among major industrial groupings, only instruments and food reported significant declines. By stage of fabrication, the May accumulation was largely in work-in-process and finished goods inventories. As in the preceding several months, buildups in work-in-process stocks in the aircraft industry were a dominant factor, accounting for more than \$10 billion of the total factory inventory accumulation in May. Stocks of production materials and supplies fell slightly in May, after posting a larger decline in April.

Factory shipments edged down 0.2 percent in May after surging 2.6 percent in April. The manufacturers' inventory-to-shipments ratio moved up from 1.55 months in April to 1.57 months in May--still within the range observed over the past year.

In addition, today's Census report also showed that new orders for all manufactured goods fell 2.5 percent in May, retracing most of the 3 percent rise registered in April. For nondefense capital goods excluding aircraft, more complete sample counts now show that bookings fell 3.6 percent in May, slightly more than the 3.2 percent drop indicated in the advance report released last week.

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

	1988		1989	1989		
	Q3	Q4	Q1	Mar.	Apr.	May
Current-cost basis:						
Total	76.4	38.7	47.1	29.4	53.0	--
Total ex. auto	53.2	41.3	42.2	29.1	33.1	--
Manufacturing	23.3	25.5	27.9	24.9	27.9	24.2
Wholesale	19.2	5.4	5.5	-1.5	2.8	--
Retail	33.9	7.8	13.8	6.1	22.3	--
Automotive	23.2	-2.6	4.9	.3	19.9	--
Ex. auto	10.7	10.4	8.9	5.8	2.4	--
Constant-dollar basis:						
Total	25.5	26.3	16.7	2.9	21.4	--
Total ex. auto	16.8	18.8	6.7	-5.1	1.8	--
Manufacturing	5.7	11.2	6.7	2.0	12.6	--
Wholesale	8.1	2.2	-.8	-5.4	-4.5	--
Retail	11.7	12.9	10.8	6.2	13.3	--
Automotive	8.7	7.5	10.0	8.0	19.6	--
Ex. auto	3.0	5.5	.8	-1.7	-6.3	--

INVENTORIES RELATIVE TO SALES¹
(Months supply; based on seasonally adjusted data)

	1988		1989	1989				
	Q3	Q4	Q1	Mar.	Apr.	May		
Range in ² preceding 12 months:								
	Low	High						
Current-cost basis:								
Total	1.48	1.52	1.52	1.50	1.50	1.51	1.49	--
Total ex. auto	1.46	1.49	1.49	1.48	1.47	1.48	1.46	--
Manufacturing	1.53	1.59	1.58	1.57	1.58	1.58	1.55	1.57
Wholesale	1.28	1.32	1.31	1.30	1.28	1.28	1.27	--
Retail	1.55	1.62	1.61	1.59	1.61	1.61	1.61	--
Automotive	1.71	2.01	1.98	1.88	1.96	1.97	1.98	--
Ex. auto	1.48	1.51	1.51	1.51	1.51	1.51	1.50	--
Constant-dollar basis:								
Total	1.51	1.54	1.52	1.52	1.52	1.54	1.52	--
Total ex. auto	1.48	1.50	1.50	1.49	1.49	1.50	1.48	--
Manufacturing	1.55	1.60	1.59	1.58	1.59	1.60	1.58	--
Wholesale	1.31	1.33	1.33	1.32	1.31	1.32	1.29	--
Retail	1.57	1.65	1.61	1.61	1.64	1.65	1.67	--
Automotive	1.74	2.13	1.93	1.94	2.11	2.13	2.18	--
Ex. auto	1.50	1.53	1.52	1.52	1.52	1.52	1.54	--

1. Ratio of end-of period inventories to average monthly sales for the period.

2. Highs and lows are specific to each series and are not necessarily coincidental. Range is for the 12-month period preceding the latest month for which data are available.

Sales of New Single-Family Homes

Sales of new single-family homes edged up 3 percent in May to 613,000 units at a seasonally adjusted rate, after a 9 percent increase in April. Despite these gains, the May figure remained slightly below the first quarter average and well below the levels of much of last year. The median sales price of new homes rose 14 percent from a year earlier, while the average sales price increased 19 percent. The price data are not adjusted for changes in house quality or in the regional composition of sales; these factors appear to account for much of the relatively large increase in home prices over the year ending in May. The inventory of unsold new homes was little changed in May at about a 7-3/4 months supply at the current sales rate.

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

	1988	1988		1989	1989		
	Annual	Q3	Q4	Q1	Mar.	Apr. ^r	May ^p
All units							
Permits	1.46	1.44	1.52	1.37	1.23	1.33	1.34
Starts	1.49	1.47	1.56	1.52	1.41	1.34	1.31
Single-family units							
Permits	.99	.99	1.04	.97	.87	.95	.91
Starts	1.08	1.06	1.14	1.07	.98	1.03	.98
Sales							
New homes	.68	.70	.68	.62	.55	.60	.61
Existing homes	3.59	3.66	3.77	3.48	3.40	3.40	3.21
Multifamily units							
Permits	.46	.45	.48	.40	.36	.38	.42
Starts	.41	.41	.42	.45	.43	.31	.33

p--preliminary estimates. r--revised.

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

	1988 ¹	1989 Q1	1989 Q2pe	1989 Apr	1989 May	1989 June	Growth Q4 88- Jun 89pe
-----Percent change at annual rates-----							
1. M1	4.3	-0.4	-5½	-4.7	-15.0	-6	-4
2. M2	5.2	1.9	1½	1.0	-3.3	7	1½
3. M3	6.2	3.8	3	2.5	-1.0	6	3½

	-----Percent change at annual rates-----						Levels bil. \$ May 89
<u>Selected components</u>							
4. M1-A	2.5	-0.2	-3½	-5.9	-6.4	-6	502.0
5. Currency	8.1	7.0	4	1.7	2.8	7	216.4
6. Demand deposits	-1.2	-5.5	-9	-11.8	-14.1	-16	278.2
7. Other checkable deposits	7.7	-0.7	-10	-2.6	-30.2	-5	271.5
8. M2 minus M1 ²	5.5	2.6	3½	3.0	0.7	11	2299.4
9. Overnight RPs and Eurodollars, NSA	-5.8	13.6	-27½	-52.8	-21.1	38	72.5
10. General purpose and broker/dealer money market mutual fund shares, NSA	7.4	20.8	22½	19.7	-1.4	30	259.9
11. Commercial banks	6.9	5.4	5½	8.0	-0.8	6	1006.7
12. Savings deposits, SA, plus MMDAs, NSA ³	1.4	-8.4	-15	-15.4	-28.5	0	509.5
13. Small time deposits	14.7	22.4	29½	34.6	28.7	14	497.2
14. Thrift institutions	4.6	-3.1	-½	-1.9	1.6	8	961.2
15. Savings deposits, SA, plus MMDAs, NSA ³	-4.3	-14.0	-24½	-32.5	-33.1	-10	352.3
16. Small time deposits	11.7	4.3	14½	17.5	22.7	18	608.9
17. M3 minus M2 ⁴	10.0	10.8	9½	7.7	7.0	5	881.5
18. Large time deposits	11.0	12.6	14	19.1	9.1	3	572.0
19. At commercial banks, net ⁵	12.2	18.0	18	22.1	9.5	3	395.7
20. At thrift institutions	8.8	1.2	6	12.5	7.5	3	176.3
21. Institution-only money market mutual fund shares, NSA	-0.8	10.6	12½	1.4	53.4	48	91.6
22. Term RPs, NSA	13.7	5.8	2	-22.3	5.7	4	127.6
23. Term Eurodollars, NSA	9.8	2.0	-3	-46.6	0.0	-18	101.4

MEMORANDA:⁶

	-----Average monthly change in billions of dollars-----						
24. Managed liabilities at commercial banks (25+26)	4.9	4.6	7½	-0.8	6.9	16	663.8
25. Large time deposits, gross	3.3	5.8	4½	6.1	4.0	3	456.7
26. Nondeposit funds	1.6	-1.2	3	-6.9	2.9	13	207.1
27. Net due to related foreign institutions, SA	-0.4	0.4	-1	-5.1	-2.9	5	0.0
28. Other ⁷	2.0	-1.6	4	-1.7	5.8	8	207.1
29. U.S. government deposits at commercial banks ⁸	0.0	-1.5	2½	0.6	6.2	0	27.1

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 May and June at rates of -20 percent and -10 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during May and June at rates of -25.9 percent and -11 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 BUSINESS CREDIT¹
(Percentage changes at annual rates, based on seasonally adjusted data)

	1987:Q4 to 1988:Q4	1988 Q4	1989				Levels bil.\$ May p
			Q1	Mar.	April	May p	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	7.3	6.1	7.8	6.4	2.9	7.8	2476.8
2. Securities	4.7	5.0	1.9	13.3	-1.1	5.2	559.9
3. U.S. government securities	7.4	10.4	8.7	22.8	6.2	9.7	375.2
4. Other securities	.2	-5.1	-10.8	-5.1	-15.3	-3.9	184.7
5. Total loans	8.1	6.4	9.5	4.4	4.2	8.5	1916.9
6. Business loans	6.3	4.0	9.9	-3.9	3.3	11.1	621.9
Security loans	-6.2	15.3	51.4	-32.6	-103.3	-58.0	37.4
8. Real estate loans	13.4	11.0	12.5	12.7	16.3	10.5	700.9
9. Consumer loans	8.6	8.3	5.2	6.7	7.3	8.6	364.7
10. Other loans	.2	-5.9	-2.5	5.6	-17.9	6.3	192.0
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	6.4	4.1	10.3	-3.3	3.5	10.8	619.3
Loans at foreign branches ²	30.3	11.4	51.9	168.2	-4.9	69.1	25.7
Sum of lines 11 & 12	7.1	4.4	11.7	2.3	3.6	12.8	645.0
14. Commercial paper issued by nonfinancial firms	15.6	50.0	37.5	31.6	45.6	34.7	120.9
15. Sum of lines 13 & 14	8.2	10.3	15.5	6.8	9.8	16.2	765.9
16. Bankers acceptances: U.S. trade related ^{3,4}	-6.8	11.0	16.7	6.9	.0	n.a.	34.9 ⁵
17. Line 15 plus bankers acceptances: U.S. trade related	7.4	10.3	15.5	6.8	9.2	n.a.	790.5 ⁵
18. Finance company loans to business ³	12.4	12.1	8.0	10.6	18.6	n.a.	242.5 ⁵
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	8.5	10.8	13.7	7.7	11.5	n.a.	1033.1 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. April data.

p--preliminary.

n.a.--not available

SELECTED FINANCIAL MARKET QUOTATIONS 1/
(percent)

	1987		1988		1989		Change from:	
	2/ Oct 16		Feb lows		FOMC May 16	Jun 29	Feb 88 lows	FOMC May 16
Short-term rates								
Federal funds 3/	7.59		6.38		9.79	9.69	3.31	-0.10
Treasury bills 4/								
3-month	6.93		5.59		8.23	7.95	2.36	-0.28
6-month	7.58		5.77		8.28	7.74	1.97	-0.54
1-year	7.74		6.10		8.23	7.64	1.54	-0.59
Commercial paper								
1-month	7.94		6.41		9.49	9.36	2.95	-0.13
3-month	8.65		6.45		9.37	9.12	2.67	-0.25
Large negotiable CD's 4/								
1-month	7.92		6.44		9.51	9.39	2.95	-0.12
3-month	8.90		6.49		9.48	9.20	2.71	-0.28
6-month	9.12		6.55		9.47	9.02	2.47	-0.45
Eurodollar deposits 5/								
1-month	8.00		6.44		9.56	9.38	2.94	-0.18
3-month	9.06		6.50		9.50	9.25	2.75	-0.25
Bank prime rate	9.25		8.50		11.50	11.00	2.50	-0.50
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	9.52		7.28		8.90	8.14	0.86	-0.76
10-year	10.23		8.11		8.82	8.12	0.01	-0.70
30-year	10.24		8.32		8.84	8.09	-0.23	-0.75
Municipal revenue 6/ (Bond Buyer index)	9.59		7.76		7.64	7.34	-0.42	-0.30
Corporate—A utility Recently offered	11.50		9.63		10.12	9.59	-0.04	-0.53
Home mortgage rates 7/								
Fixed-rate	11.58		9.84		10.93	10.19	0.35	-0.74
ARM, 1-year	8.45		7.59		9.36	9.00	1.41	-0.36
	1987		1988		1989		Percent change from:	
	Record highs	Lows			FOMC May 16	Jun 29	Record highs	FOMC May 16
Stock prices								
Dow-Jones Industrial	2722.42		1738.74		2453.45	2458.27	-9.70	0.20
NYSE Composite	187.99		125.91		175.92	178.75	-4.92	1.61
AMEX Composite	365.01		231.90		349.92	360.61	-1.21	3.05
NASDAQ (OTC)	455.26		291.88		435.66	437.91	-3.81	0.52

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 Feb. low which is the average to the statement week ended Feb. 10, 1988. Last observation is average for maintenance period ending June 28, 1989.

4/ Secondary market.

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

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

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

Foreign Exchange Markets

On June 29, the Bundesbank announced 1/2 point increases in its discount and Lombard rates to 5 percent and 7 percent, respectively. The Bundesbank said that the rate increases were aimed at strengthening the mark's purchasing power. The Bundesbank also reaffirmed its 1989 target for M3 growth of "about 5 percent", saying that it aimed for as moderate a money growth rate as possible for the rest of the year. Through May, M3 growth has been 5.4 percent at an annual rate. The German Economics Ministry supported the decision to raise rates with an announcement that German consumer price inflation would exceed the target range of 2 to 2-1/2 percent for 1989. The Swiss National Bank followed the German move by raising its discount rate by a full percentage point, to 5-1/2 percent, but did not change the flexible Swiss Lombard rate. The Bank of France announced 1/2 point increases in its intervention rate and its 5-10 day RP rate to 8-3/4 percent and 9-1/2 percent, respectively. The central banks of Austria, Belgium, Denmark, and the Netherlands also followed with hikes in their official interest rates. The Bank of Japan and the Bank of England left their official rates unchanged.