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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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THE DOMESTIC NONFINANCIAL ECONOMY

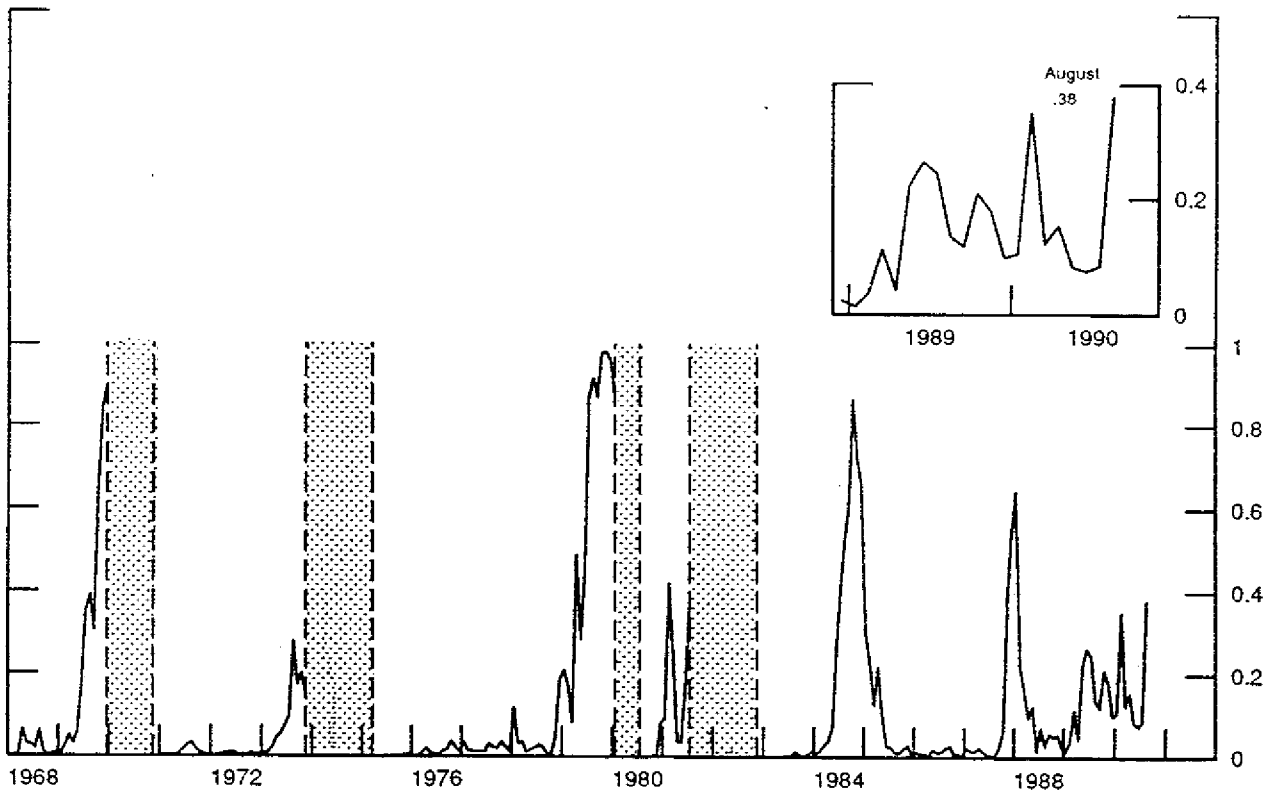
Probability of Recession

The latest readings on recession-probability measures based on indexes of leading economic indicators are quite mixed. The measure based on the Commerce Department's August index of leading economic indicators puts the probability of a recession starting in the next six months at 38 percent. The sudden deterioration is largely attributable to the substantial declines in the Michigan survey index of consumer expectations, the stock market, and contracts and orders for plant and equipment (1982 dollars).

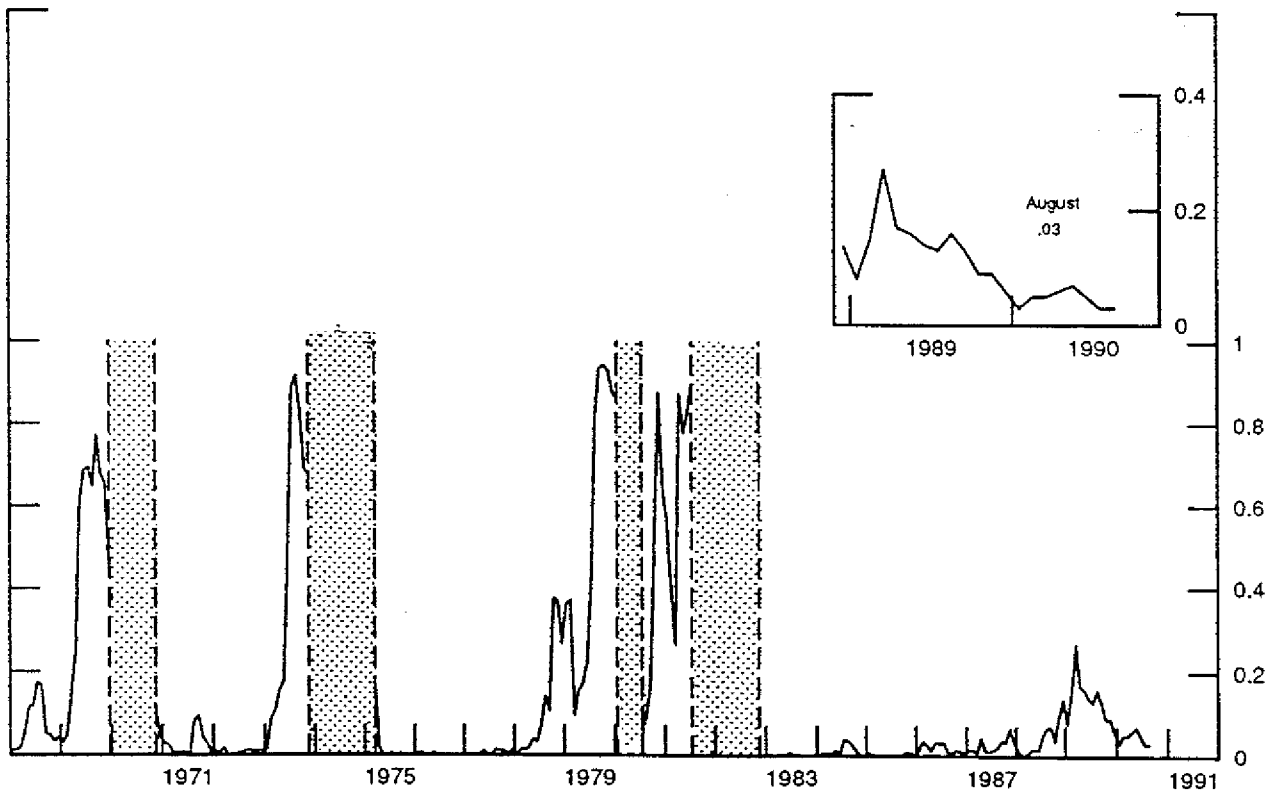
The most recent reading on the NBER measure, which includes July nonfinancial data as well as exchange rates and interest rates through September 25, shows a 3 percent probability that the economy will be in a recession in February 1991. Researchers at the NBER also have constructed an alternative version of their experimental leading index that excludes financial variables. The probability of a recession based on this alternative index is 24 percent.

Probability of a Recession*

GENERATED FROM COMMERCE LEADING INDEX



GENERATED FROM NBER LEADING INDEX

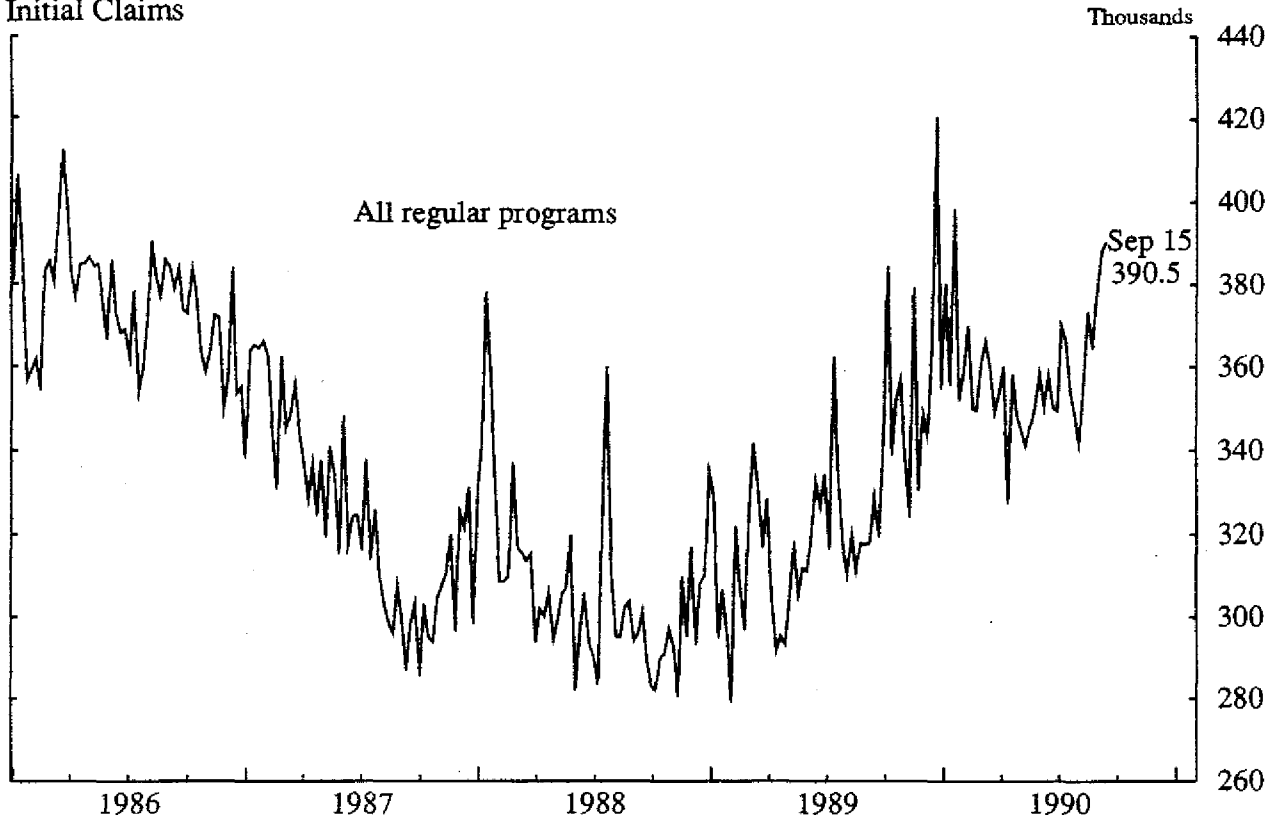


*Each probability represents the likelihood that a recession will begin during the next six months.

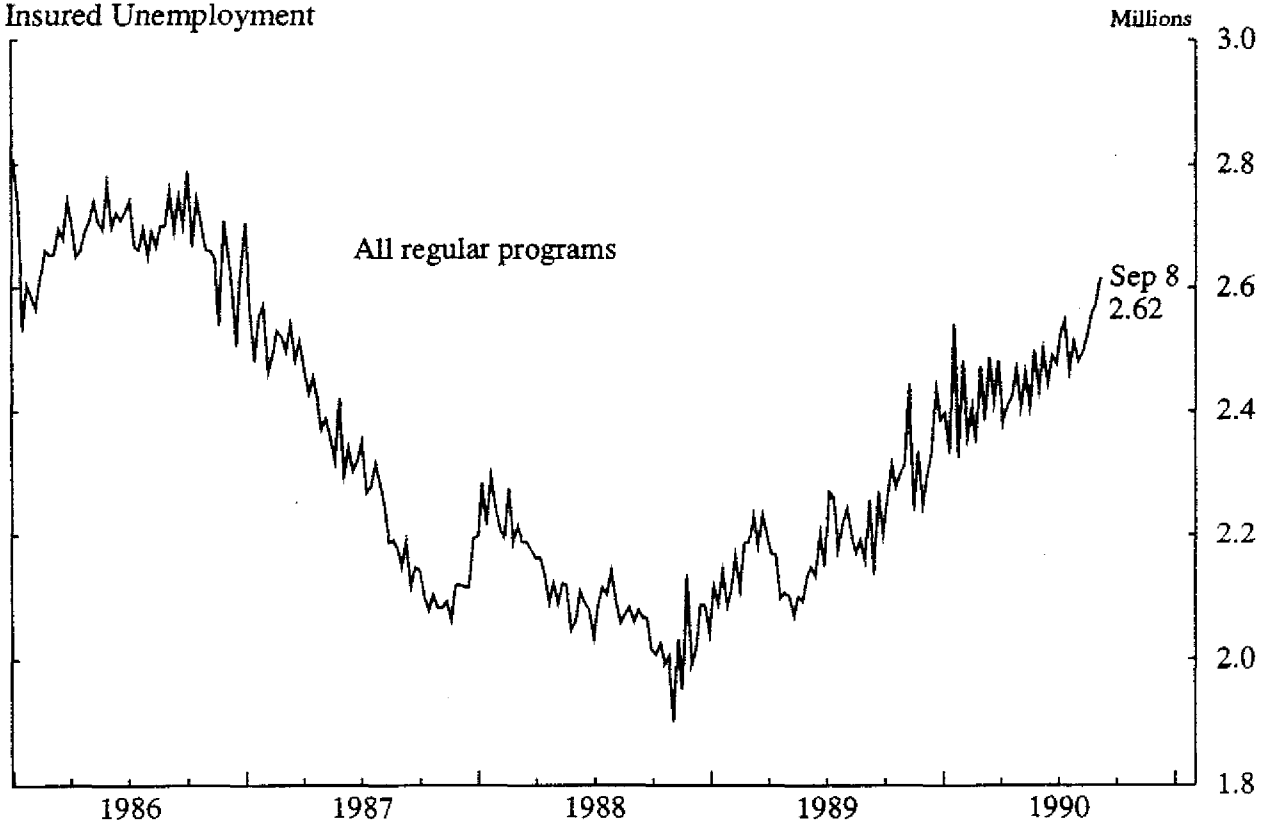
Unemployment Insurance

(Weekly data; seasonally adjusted, FRB basis <1>)

Initial Claims



Insured Unemployment



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

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

| | 1989 ¹ | 1990 Q2 | 1990 Q3pe | 1990 Jul | 1990 Aug | 1990 Sep pe | Growth Q4 89- Sep 90pe |
|--|-------------------|------------|--------------|-------------|-------------|----------------|------------------------------|
| -----Percent change at annual rates----- | | | | | | | |
| 1. M1 | 0.6 | 3.5 | 4½ | -0.3 | 10.4 | 9 | 4½ |
| 2. M2 | 4.6 | 2.9 | 3 | 1.7 | 6.6 | 6 | 4½ |
| 3. M3 | 3.3 | 0.8 | 1½ | 0.9 | 4.6 | 3 | 2 |

| | -----Percent change at annual rates----- | | | | | | Levels bil. \$ Aug 90 |
|--|--|-------|------|-------|-------|-----|-----------------------------|
| Selected components | | | | | | | |
| 4. M1-A | 0.4 | 1.6 | 6½ | 5.4 | 14.8 | 11 | 524.3 |
| 5. Currency | 4.8 | 9.2 | 11½ | 10.3 | 14.8 | 16 | 238.3 |
| 6. Demand deposits | -2.8 | -4.7 | 2½ | 1.3 | 14.0 | 6 | 278.0 |
| 7. Other checkable deposits | 1.0 | 7.1 | -½ | -10.2 | 2.5 | 5 | 291.9 |
| 8. M2 minus M1 ² | 5.9 | 2.6 | 2½ | 2.4 | 5.3 | 6 | 2485.5 |
| 9. Overnight RPs and Eurodollars, NSA | -8.6 | -1.5 | 3½ | 20.4 | -17.2 | -13 | 82.7 |
| 10. General purpose and broker/dealer money market mutual fund shares | 29.7 | -0.7 | 12½ | 11.9 | 32.1 | 23 | 333.8 |
| 11. Commercial banks | 7.5 | 10.3 | 11½ | 13.0 | 7.5 | 9 | 1141.8 |
| 12. Savings deposits plus MMDAs ³ | -1.7 | 8.6 | 7½ | 7.2 | 8.3 | 5 | 570.4 |
| 13. Small time deposits | 19.0 | 12.1 | 15½ | 18.9 | 7.0 | 13 | 571.4 |
| 14. Thrift institutions | -0.2 | -4.6 | -10½ | -11.9 | -3.5 | -6 | 929.6 |
| 15. Savings deposits plus MMDAs ³ | -9.3 | 1.4 | -5½ | -5.4 | -2.7 | -2 | 351.4 |
| 16. Small time deposits | 5.8 | -8.0 | -13½ | -15.7 | -3.9 | -8 | 578.2 |
| 17. M3 minus M2 ⁴ | -1.3 | -7.4 | -4½ | -2.3 | -3.8 | -14 | 786.1 |
| 18. Large time deposits | 4.2 | -10.3 | -8½ | -5.2 | -14.5 | -14 | 524.0 |
| 19. At commercial banks, net ⁵ | 9.9 | -2.8 | -½ | 5.4 | -9.9 | -11 | 396.3 |
| 20. At thrift institutions | -7.8 | -30.1 | -31½ | -36.5 | -28.4 | -23 | 127.7 |
| 21. Institution-only money market mutual fund shares | 17.1 | 11.5 | 22 | 17.9 | 56.2 | 21 | 114.0 |
| 22. Term RPs, NSA | -14.7 | 5.0 | 5½ | -19.5 | 24.7 | -27 | 99.1 |
| 23. Term Eurodollars, NSA | -21.9 | -23.4 | -4½ | -5.6 | 28.1 | 13 | 65.5 |

-----Average monthly change in billions of dollars-----

MEMORANDA:⁶

| | | | | | | | |
|--|------|------|----|------|------|----|-------|
| 24. Managed liabilities at commercial banks (25+26) | 6.0 | -1.3 | 0 | 12.6 | -3.6 | -9 | 733.7 |
| 25. Large time deposits, gross | 2.6 | -1.5 | -2 | 1.3 | -3.2 | -4 | 450.8 |
| 26. Nondeposit funds | 3.5 | 0.2 | 2 | 11.3 | -0.4 | -5 | 282.9 |
| 27. Net due to related foreign institutions | 0.2 | -0.9 | -½ | 2.0 | 0.0 | -3 | 16.8 |
| 28. Other ⁷ | 3.3 | 1.0 | 2½ | 9.4 | -0.4 | -2 | 266.2 |
| 29. U.S. government deposits at commercial banks ⁸ | -0.3 | 0.4 | 2½ | -5.5 | 18.3 | -5 | 33.2 |

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 August and September at rates of 1.2 percent and 5 percent, respectively. At thrift institutions, savings deposits excluding MMDAs grew during August and September at rates of -1.6 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 BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)¹

| | 1988:Q4 to 1989:Q4 | 1990 | | | | | Levels bil.\$ Aug. p |
|--|--------------------------|-------|-------|------|-------|--------|----------------------------|
| | | Q1 | Q2 | June | July | Aug. p | |
| ----- Commercial Bank Credit ----- | | | | | | | |
| 1. Total loans and securities at banks | 7.5 | 7.4 | 5.2 | 7.1 | 6.9 | 10.3 | 2707.8 |
| 2. Securities | 4.1 | 17.8 | 9.3 | 15.0 | 3.7 | 4.3 | 620.5 |
| 3. U.S. government securities | 10.0 | 27.2 | 15.2 | 22.3 | 5.7 | 1.9 | 441.3 |
| 4. Other securities | -6.7 | -2.6 | -4.7 | -2.7 | -.7 | 9.4 | 179.2 |
| 5. Total loans | 8.5 | 4.4 | 4.0 | 4.8 | 7.9 | 12.1 | 2087.3 |
| 6. Business loans | 6.9 | 2.5 | 4.7 | 6.1 | 1.3 | 3.7 | 653.1 |
| 7. Real estate loans | 13.3 | 10.7 | 9.4 | 7.7 | 10.9 | 5.0 | 811.9 |
| 8. Consumer loans | 6.3 | 4.5 | -.7 | -2.8 | .3 | 5.7 | 380.1 |
| 9. Security loans | 3.8 | -26.1 | -20.4 | 17.2 | 119.0 | 222.7 | 46.0 |
| 10. Other loans | 1.5 | -7.4 | -6.5 | .6 | 12.1 | 41.1 | 196.2 |
| ----- Short- and Intermediate-Term Business Credit ----- | | | | | | | |
| 11. Business loans net of bankers acceptances | 7.0 | 2.3 | 4.6 | 5.8 | 1.9 | 4.1 | 645.9 |
| 12. Loans at foreign branches ² | -5.0 | 3.7 | 9.2 | 5.4 | 21.6 | -15.9 | 22.3 |
| Sum of lines 11 & 12 | 6.5 | 2.5 | 4.7 | 5.6 | 2.7 | 3.4 | 668.2 |
| 14. Commercial paper issued by nonfinancial firms | 31.2 | 24.5 | 9.3 | 5.0 | -13.2 | 13.3 | 145.6 |
| 15. Sum of lines 13 & 14 | 10.0 | 6.2 | 5.6 | 5.5 | -.1 | 5.2 | 813.8 |
| 16. Bankers acceptances: U.S. trade related ^{3,4} | 6.1 | -19.8 | -9.8 | 23.0 | -26.3 | n.a. | 31.2 ⁵ |
| 17. Line 15 plus bankers acceptances: U.S. trade related | 9.8 | 5.1 | 4.9 | 6.3 | -1.3 | n.a. | 842.1 ⁵ |
| 18. Finance company loans to business ^{3,6} | 10.6 | 4.7 | 15.4 | 25.9 | 23.5 | n.a. | 275.6 ⁵ |
| 19. Total short- and intermediate- term business credit (sum of lines 17 & 18) | 10.0 | 5.0 | 7.4 | 10.9 | 4.7 | n.a. | 1117.7 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. July data.

p--preliminary.

n.a.--not available

Note: Data have been revised to reflect benchmarking to the March 31, 1990 call report.

SELECTED FINANCIAL MARKET QUOTATIONS
(percent)

| | 1987 | 1989 | | 1990 | | Change from: | | |
|--|-----------------|----------------|---------------|----------------|---------|----------------------|----------------|----------------|
| | 2 Oct 16 | March highs | Dec lows | FOMC Aug 21 | Sept 27 | Mar 89 highs | Dec 89 lows | FOMC Aug 21 |
| Short-term rates | | | | | | | | |
| Federal funds ³ | 7.59 | 9.85 | 8.45 | 8.16 | 8.25 | -1.60 | -0.20 | 0.09 |
| Treasury bills ⁴ | | | | | | | | |
| 3-month | 6.93 | 9.09 | 7.53 | 7.57 | 7.23 | -1.86 | -0.30 | -0.34 |
| 6-month | 7.58 | 9.11 | 7.29 | 7.48 | 7.23 | -1.88 | -0.06 | -0.25 |
| 1-year | 7.74 | 9.05 | 7.11 | 7.37 | 7.20 | -1.85 | 0.09 | -0.17 |
| Commercial paper | | | | | | | | |
| 1-month | 7.94 | 10.05 | 8.51 | 8.06 | 8.27 | -1.78 | -0.24 | 0.21 |
| 3-month | 8.65 | 10.15 | 8.22 | 7.94 | 8.15 | -2.00 | -0.07 | 0.21 |
| Large negotiable CDs ⁴ | | | | | | | | |
| 1-month | 7.92 | 10.07 | 8.52 | 8.06 | 8.28 | -1.79 | -0.24 | 0.22 |
| 3-month | 8.90 | 10.32 | 8.22 | 8.07 | 8.27 | -2.05 | 0.05 | 0.20 |
| 6-month | 9.12 | 10.08 | 8.01 | 8.07 | 8.28 | -1.80 | 0.27 | 0.21 |
| Eurodollar deposits ⁵ | | | | | | | | |
| 1-month | 8.00 | 10.19 | 8.38 | 8.06 | 8.19 | -2.00 | -0.19 | 0.13 |
| 3-month | 9.06 | 10.50 | 8.25 | 8.06 | 8.25 | -2.25 | 0.00 | 0.19 |
| Bank prime rate | 9.25 | 11.50 | 10.50 | 10.00 | 10.00 | -1.50 | -0.50 | 0.00 |
| Intermediate- and long-term rates | | | | | | | | |
| U.S. Treasury (constant maturity) | | | | | | | | |
| 3-year | 9.52 | 9.88 | 7.69 | 8.32 | 8.28 | -1.60 | 0.59 | -0.04 |
| 10-year | 10.23 | 9.53 | 7.77 | 8.84 | 8.91 | -0.62 | 1.14 | 0.07 |
| 30-year | 10.24 | 9.31 | 7.83 | 8.94 | 9.05 | -0.26 | 1.22 | 0.11 |
| Municipal revenue ⁶ (Bond Buyer) | | | | | | | | |
| | 9.59 | 7.95 | 7.28 | 7.53 | 7.81 | -0.14 | 0.53 | 0.28 |
| Corporate--A utility recently offered | 11.50 | 10.47 | 9.29 | 10.36 | 10.27 | -0.20 | 0.98 | -0.09 |
| Home mortgage rates ⁷ | | | | | | | | |
| S&L fixed-rate | 11.58 | 11.22 | 9.69 | 10.05 | 10.16 | -1.06 | 0.47 | 0.11 |
| S&L ARM, 1-yr. | 8.45 | 9.31 | 8.34 | 8.31 | 8.30 | -1.01 | -0.04 | -0.01 |
| <hr/> | | | | | | | | |
| | | | 1989 | 1990 | | Percent change from: | | |
| | Record highs | Date | Lows Jan 3 | FOMC Aug 21 | Sept 27 | Record highs | 1989 lows | FOMC Aug 21 |
| <hr/> | | | | | | | | |
| Stock prices | | | | | | | | |
| Dow-Jones Industrial | 2999.75 | 7/16/90 | 2144.64 | 2603.96 | 2427.48 | -19.08 | 13.19 | -6.78 |
| NYSE Composite | 201.13 | 7/16/90 | 154.98 | 176.94 | 165.36 | -17.78 | 6.70 | -6.54 |
| AMEX Composite | 397.03 | 10/10/89 | 305.24 | 327.34 | 305.43 | -23.07 | 0.06 | -6.69 |
| NASDAQ (OTC) | 485.73 | 10/9/89 | 378.56 | 379.68 | 341.19 | -29.76 | -9.87 | -10.14 |
| Wilshire | 3523.47 | 10/9/89 | 2718.59 | 3052.54 | 2840.36 | -19.39 | 4.48 | -6.95 |

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. Last observation is average to date for the maintenance period ending October 3, 1990.

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.

THE INTERNATIONAL ECONOMY

Prices of Imports and Exports

Prices of imports rose 3.9 percent in August, following a 2.1 percent decline between January and July. This increase was primarily the result of a 39.6 percent rise (monthly rate) in the price of imported petroleum. In August, the price of imported oil reached its highest level since December 1985.

Prices of non-oil imports also rose in August by 0.5 percent, marking the first monthly increase since March. The rise in prices of imported automotive products was the largest since last October, and the increase in prices of imported capital goods was the largest since March; prices of imported consumer goods also moved up following several months of declines. The dollar's depreciation against the yen and European currencies contributed some of the upward pressure on prices for these types of imported manufactured goods; a significant proportion of prices of these goods are reported in foreign currencies.¹

Export prices declined slightly in August, largely a result of a drop in prices of agricultural commodities. Of the increase in prices of exported nonagricultural items, most of the rise was attributable to higher prices of fuel.

1. Prices are sampled during the first week of the month. Foreign currency prices are translated into dollars using the average exchange rate of the preceding full month. Thus, the exchange rate used to translate August foreign currency prices was the average for July.

IMPORT AND EXPORT PRICE MEASURES
(percentage change from previous period, annual rate)

| | Year | Quarters | | | Months | |
|--|---------|----------------|------|-------|-----------------|------|
| | 1990-Q2 | 1989 | 1990 | | 1990 | |
| | 1989-Q2 | Q4 | Q1 | Q2 | July | Aug |
| | | (annual rates) | | | (monthly rates) | |
| - - - - - BLS Prices - - - - - | | | | | | |
| <u>Imports, Total</u> | -1.0 | 5.2 | 3.7 | -6.4 | 0.1 | 3.9 |
| Foods, Feeds, Bev. | 0.8 | 7.3 | 11.5 | 2.2 | -0.3 | 0.9 |
| Industrial Supplies | -7.2 | 8.6 | -0.4 | -18.1 | 0.2 | 12.0 |
| Ind Supp Ex Oil | -3.9 | -2.2 | -2.2 | -3.8 | -0.3* | 0.1* |
| Capital Goods | 2.4 | 2.8 | 9.1 | -0.9 | -0.1 | 0.8 |
| Automotive Products | 0.0 | 5.7 | -0.3 | -5.4 | 0.2 | 0.8 |
| Consumer Goods | 3.1 | 4.1 | 6.9 | 0.3 | -0.3 | 0.4 |
| Memo: | | | | | | |
| Oil | -14.3 | 35.8 | 3.3 | -42.8 | 1.4 | 39.6 |
| Non-oil | 0.4 | 2.9 | 3.8 | -2.1 | -0.2 | 0.5 |
| <u>Exports, Total</u> | 0.1 | 0.0 | 1.8 | 1.4 | 0.3 | -0.1 |
| Foods, Feeds, Bev. | -7.2 | -7.4 | -3.3 | 5.7 | 0.6 | -4.5 |
| Industrial Supplies | -2.2 | -2.7 | 0.0 | -1.7 | 0.0 | 1.3 |
| Capital Goods | 2.9 | 2.2 | 4.1 | 2.2 | 0.3 | 0.3 |
| Automotive Products | 2.8 | 4.8 | 1.8 | 1.4 | 0.1 | 0.0 |
| Consumer Goods | 3.5 | 2.1 | 6.3 | 2.4 | 0.2 | 0.0 |
| Memo: | | | | | | |
| Agricultural | -4.0 | -4.9 | -1.1 | 7.1 | 0.3 | -4.2 |
| Nonagricultural | 0.6 | 0.4 | 2.1 | 0.4 | 0.2 | 0.7 |
| - - - - - Prices in the GNP Accounts - - - - - | | | | | | |
| <u>Fixed-Weight</u> | | | | | | |
| Imports, Total | -2.4 | 3.2 | 10.1 | -12.3 | -- | -- |
| Oil | -13.7 | 20.9 | 48.2 | -56.7 | -- | -- |
| Non-oil | -0.6 | 0.7 | 4.9 | -2.3 | -- | -- |
| Exports, Total | 0.0 | -2.2 | 3.8 | 1.5 | -- | -- |
| Ag. | -3.0 | -15.2 | 2.7 | 10.7 | -- | -- |
| Nonag. | 0.6 | 0.6 | 4.1 | -0.2 | -- | -- |
| <u>Deflators</u> | | | | | | |
| Imports, Total | -4.0 | 0.4 | 5.4 | -8.7 | -- | -- |
| Oil | -13.7 | 20.9 | 48.2 | -56.6 | -- | -- |
| Non-oil | -2.8 | -3.7 | 2.8 | -1.1 | -- | -- |
| Exports, Total | -1.0 | -2.7 | -0.6 | 4.7 | -- | -- |
| Ag. | -3.0 | -15.2 | 2.7 | 10.7 | -- | -- |
| Nonag. | -0.7 | -1.1 | -1.2 | 4.4 | -- | -- |

*Not for publication.