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# FEDERAL RESERVE BULLETIN

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, WASHINGTON, D.C.

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# Monetary Policy Report to the Congress

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*Report submitted to the Congress on February 19, 1987, pursuant to the Full Employment and Balanced Growth Act of 1978.<sup>1</sup>*

## MONETARY POLICY AND THE ECONOMIC OUTLOOK FOR 1987

The current economic expansion in the United States has entered its fifth year, ranking it among the longest of the postwar period. While substantial imbalances and risks that must be dealt with forcefully and effectively have emerged in the course of the expansion, important groundwork also has been laid for continued growth through 1987 and beyond. Significantly, price trends thus far have remained favorable, reflecting not only the dramatic drop in crude oil prices in early 1986 but also continued restraint on labor costs in many sectors. Interest rates have moved lower and stock prices higher, reducing the cost of capital for investment and enhancing wealth. Furthermore, processes are in train that should help correct the major imbalances that have been plaguing the economy: action has been taken to cut the deficit in the federal budget, and the foreign exchange value of the dollar has moved to levels that have made U.S. firms more competitive in world markets and that should help correct the imbalance in the U.S. external accounts.

While the potential for further economic progress thus appears considerable, those gains will be secured only if there is timely and constructive action by decisionmakers in the public and private sectors. The Congress and the administration must follow up the steps already taken and make basic programmatic changes that will ensure continuing movement toward budgetary

balance; failure to do so would be damaging to confidence and disruptive to the financial markets. Many of our major trading partners, which have depended greatly on external surpluses to buoy their economies over the past few years, must act to open their markets more fully and to foster sustained growth in domestic demand; without such action, prospects for world growth as well as for reducing our own trade deficit would be impaired, the risks of protectionism would rise, and prospects for the dollar would be more uncertain. And, if we are to capitalize on those trading opportunities and promote economic and financial stability at home, labor and management must avoid a return to the inflationary behavior of the past. Oil prices have firmed recently, and the sizable decline in the dollar is likely to exert upward pressure on other prices in the months ahead; the challenge is to prevent such developments from triggering a cumulative price-wage spiral.

In that context, Federal Reserve policy has a critical role to play. Monetary expansion, while adequate to support orderly economic growth, needs to be consistent with continuing progress over time in reducing the underlying rate of inflation. As the experience of recent years has demonstrated, such a policy—in part by bolstering confidence in financial markets and providing a framework of greater certainty for private decisionmaking—can make a substantial contribution to the maintenance of expansion and the reduction of unemployment. In the short run, a variety of factors—such as interest rate movements, regulatory changes, and institutional innovations, among others—may alter considerably the amount of funds the public wishes to hold in monetary form. Over time, however, expansion of the money stock measures clearly must moderate from recent rates if destabilizing pressures are to be avoided. The Federal Open Market Committee has established targets for 1987 with that fact in mind, but it will continue to

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1. The charts for the report are available on request from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

interpret the movements in the monetary aggregates in light of developments in the economy and in domestic and international financial markets and the potential for inflationary pressures.

### *A Brief Review of the Past Year*

Economic activity continued to expand moderately in 1986, at about the pace that has prevailed, on average, since mid-1984. This growth was sufficient to create 2½ million new payroll jobs, and the unemployment rate drifted down to the area of 6¼ percent at year-end.

Further progress was made in 1986 toward the objective of overall price stability. Wage and price behavior continued to be influenced by the anti-inflationary thrust of policies put in place some time ago—and by the ongoing adjustment of expectations to the new environment. Thus, while the plunge in world crude oil prices contributed importantly to the sharp slowing in inflation last year, prices outside the energy area also decelerated on average. Running counter to past cyclical patterns, labor cost pressures remained subdued, with nominal wage gains across a broad range of occupations and industries continuing to move toward less inflationary rates—rates that are more consistent with trends in labor productivity.

The Federal Reserve encouraged continued economic expansion last year by supplying ample reserves for the banking system and reducing the discount rate four times, by a total of 2 percentage points. A large portion of the reserves provided were to accommodate the strong demand for M1-type deposits. Last year, M1 grew in excess of 15 percent, and its velocity—the ratio of nominal gross national product to money—declined more than 9 percent, unprecedented during the postwar years. In part, this rapid money growth reflected the public's response to changes in interest rates, which made it more attractive to hold negotiable order of withdrawal (NOW) accounts and demand deposits. However, last year's growth was well in excess of what would be expected based on past relationships among money, interest rates, and income. Growth in the broader aggregates was more in line with past experience, taking account

of interest rate movements. Both M2 and M3 expanded almost 9 percent last year, ending 1986 just within the upper bound of their annual target ranges.

In the credit markets, short-term rates of interest declined about 2 percentage points through the first three quarters of the year. Since that time, short-term rates have backed up some, first reflecting pressure around the end of the year from a huge volume of tax-related transactions and more recently from investors' response to stronger-than-anticipated economic news and concerns about weakness in the dollar. Longer-term bond rates have fallen more than 2 percentage points since the end of 1985, with most of the decline occurring in the first four months of 1986 in response to an improved inflation outlook and sluggish growth in economic activity. After mid-April, Treasury bond rates fluctuated in a relatively narrow range, but corporate and municipal bond rates trended lower—reaching the lowest levels since the late 1970s.

The declines in interest rates contributed to the vigorous pace of household spending last year by reducing borrowing costs and boosting asset values. Housing starts, which are particularly sensitive to interest rate developments, rose a bit, despite the drag of a depressed economy in regions heavily dependent on oil and agriculture. In contrast, capital spending declined over the course of the year, largely because of the sharp cutback in oil drilling; more broadly, investment was restrained by an overhang of office and other commercial space and the weak pace of activity in major segments of the manufacturing sector.

The disparity between household spending and business investment is indicative of the imbalances that characterized the U.S. economy in 1986. Indeed, economic performance throughout the current expansion has varied considerably across industries and regions of the country. In some cases, such as agriculture, special circumstances have played a role. But more fundamentally, the imbalances are rooted in the enormous—and partly related—deficits in our external accounts and in the federal budget.

Although the foreign exchange value of the dollar has fallen sharply from its peak in early 1985—at least relative to the currencies of the major industrialized countries—the nation's

trade deficit deepened last year. The increased price competitiveness of U.S. producers contributed to a sizable improvement in real export growth, but the pickup was damped by the relatively slow pace of economic activity abroad. At the same time, the volume of imports continued to rise rapidly through most of last year, in part because the pass-through of the dollar depreciation into import prices was limited by the ability of foreign exporters and U.S. distributors to absorb much of the exchange rate swing in their profit margins. Also, American buyers apparently have developed strong preferences for certain foreign goods, and the newly industrialized and developing countries continued to rely disproportionately on U.S. markets. With import penetration remaining on an uptrend, domestic production continued to expand less rapidly than domestic demand.

The federal budget deficit also remains huge, despite substantial deficit-reducing actions taken by the administration and the Congress. Official estimates suggest that the deficit for fiscal 1987 will be in the range of \$175 billion—a good deal less than the record \$221 billion figure of a year earlier but still equal to a historically high 4 percent of GNP. Further cuts in the federal deficit are essential, in the context of movement toward better external balance, to ensure that an adequate flow of domestic saving is available to support needed domestic investment.

### *Monetary Policy for 1987*

As noted above, the members of the Federal Open Market Committee (FOMC) believe that a reduction in the growth of the money supply measures, over time, will be needed if the economy is to achieve noninflationary growth and external equilibrium. The precise timing and degree of that moderation in monetary expansion will depend on prevailing circumstances in the U.S. economy and in domestic and international financial markets. The Committee has established target ranges for M2 and M3 of  $5\frac{1}{2}$  to  $8\frac{1}{2}$  percent from the fourth quarter of 1986 to the fourth quarter of 1987, the same as those tentatively agreed upon in July. The ranges for M2 and M3 are  $\frac{1}{2}$  percentage point below those in

Ranges of growth for monetary and debt aggregates  
Percent change, fourth quarter to fourth quarter

Aggregate	1987	1986
M2 .....	$5\frac{1}{2}$ to $8\frac{1}{2}$	6 to 9
M3 .....	$5\frac{1}{2}$ to $8\frac{1}{2}$	6 to 9
Debt .....	8 to 11	8 to 11

effect for 1986 and are below the actual growth rates last year. Indeed, in an environment without the dramatic movements in interest rates of recent years, only small changes in the velocity of these aggregates would be anticipated. Accordingly, the Committee now expects growth of M2 and M3 this year to be in the middle parts of their ranges.

The FOMC elected not to establish a specific target range for M1 at this time because of uncertainties about its underlying relationship to the behavior of the economy and its sensitivity to a variety of economic and financial circumstances and assumptions at particular points in time. With the deregulation of deposit rates and the attendant changes in the composition of M1, the narrow money measure has become much more responsive in the short run to changes in interest rates, and possibly to other factors affecting the portfolio decisions of households. Moreover, only with the passage of time will it become possible to assess with any precision the longer-term trend in growth of M1, under current institutional arrangements, relative to nominal GNP. Given these circumstances, the appropriateness of different rates of growth of M1 cannot be assessed in isolation; rather, the movement of this aggregate necessarily will be evaluated in the light of expansion in M2 and M3, growth of the domestic economy, and emerging price pressures, which in turn are partly related to changes in the value of the dollar.

Clearly, there are circumstances in which much slower growth of M1 would be appropriate. For example, if, in the context of an expanding economy, inflationary forces appeared threatening, the dollar was exhibiting significant weakness on exchange markets, and the broader aggregates were growing rapidly, a less accommodative approach to reserve provision would be necessary. In those circumstances, monetary velocity likely would accelerate, and much slow-

er growth of M1 would be both a natural and essential development. Conversely, it could be appropriate to accommodate, in the short run, further sizable increases in M1 in circumstances characterized by sluggish business activity and maintenance of progress toward underlying price stability and international equilibrium. As this implies, the Committee will continue to monitor M1 behavior carefully, assessing the growth of the aggregate in the context of other financial and economic developments. And, depending on circumstances, it is possible that at some time in the year the Committee might set more specific objectives for M1.

The Committee will continue to monitor the growth of debt. Growth of domestic nonfinancial sector debt in recent years consistently has exceeded both the Committee's expectations and, more important, the expansion of income by a wide margin. This is a matter of concern, for it has resulted in potential fragilities in the nation's financial structure. Although the range for the debt measure has been kept at 8 to 11 percent, the same as in 1986, that range implies a significant slowing from the pace of almost 13 percent last year—but to a rate still in excess of that expected for income. With a reduced federal deficit, borrowing by the federal government will slow. Also, new constraints imposed by tax reform legislation should reduce the presence of state and local governments in the financial markets. Borrowing by nonfinancial business firms is expected to grow at about the same rate as last year. Tax reform should result in some reduction in the volume of equity shares retired in connection with mergers and other corporate restructurings, but such activity—and the attendant borrowing—appears likely to remain significant, in

some cases undermining the financial strength of corporations as they become more highly leveraged. Moreover, firms may have a wider gap than they did last year between internally generated funds and investment expenditures, owing in part to higher corporate tax bills.

Growth of household debt also is expected to be about the same as last year. Growth of consumer installment credit clearly is decelerating, but growth of mortgage debt should be robust, reflecting both a good housing market and the substitution of home equity lines of credit for installment borrowing.

### *Economic Projections*

The Committee believes that its monetary objectives are consistent with continued moderate growth in economic activity and a relatively modest upturn in inflation in 1987 that would be attributable almost entirely to higher import prices and a rebound in energy costs. As indicated in the table, the central tendency of the forecasts of Committee members and other Reserve Bank Presidents is for growth in real GNP of about 2½ to 3 percent. Such an increase in output would be expected to generate substantial gains in employment, and the jobless rate is projected to drift down a bit over the year. Prices, as measured by the implicit deflator for GNP, are expected to rise 3 to 3½ percent. It should be noted that the rise in energy and import prices likely will have a somewhat greater effect on consumer prices, so that measures such as the CPI may rise faster than the GNP deflator—a pattern that emerged in the second half of 1986.

#### Economic projections for 1987

Percent

Item	FOMC members and other FRB Presidents		Administration	Congressional Budget Office
	Range	Central tendency		
<i>Change, fourth quarter to fourth quarter</i>				
Nominal GNP .....	4½ to 7½	5¾ to 6½	6.9	6.5
Real GNP .....	2 to 4	2½ to 3	3.2	3.0
Implicit deflator for GNP .....	2½ to 4	3 to 3½	3.6	3.4
<i>Average level in the fourth quarter</i>				
Unemployment rate .....	6½ to 6¾ <sup>1</sup>	6½ to 6¾ <sup>1</sup>	6.5	6.6 <sup>1</sup>

1. Civilian unemployment rate.

The forecasts of the Committee members and the other Reserve Bank Presidents assume that the Congress will make further progress in reducing the federal budget deficit. Continuing evidence of fiscal restraint is viewed as crucial in maintaining financial conditions that are conducive to balanced growth and an improved pattern of international transactions.

In the Committee's view, orderly growth in GNP has become increasingly dependent upon a substantial improvement in real net exports. The international competitiveness of U.S. firms clearly has benefited from the decline in the dollar, and this should bolster export growth and help curb the expansion in imports. But there still is considerable uncertainty about some of the other factors affecting the external sector. In particular, the increase in exports is contingent on a satisfactory pace of economic activity abroad over time, on continued progress in handling international debt problems, and on enhanced access to foreign markets. On the import side, the improvement is predicated on a substantial rise in the relative price of foreign goods. That unfortunately carries with it some domestic inflationary risks, underscoring the need for prudent fiscal and monetary policies.

Slower growth of domestic demand is expected to release resources to the external sector in 1987. Consumer spending is projected to rise less rapidly than in 1986, given that the saving rate has fallen to an extremely low level and real income gains in 1987 are likely to be damped by rising energy and nonpetroleum import prices. And while the sharp rise in the value of financial assets should continue to buoy household spending, debt burdens remain troublesome for many families. Housing activity overall is expected to be well maintained, even though multifamily building will be inhibited by high vacancy rates and adverse tax changes. Nonresidential construction also will be depressed by a sizable overhang of office space; the recent firming in oil prices may well signal an end to the sharp contraction in oil drilling, but relatively little improvement seems likely at current price levels. In contrast, equipment spending by industry generally is anticipated to be supported by the continuing need to modernize and to cut costs, as well as by the improved sales prospects associated with a more positive foreign trade outlook.

The effect of the dollar depreciation on prices is likely to be felt more strongly in 1987. In addition, crude oil prices have rebounded in the past few months, reversing part of the sharp drop that occurred early last year. However, the favorable trend in wages and other costs, combined with sizable productivity gains in manufacturing, provides the opportunity for absorbing these short-run price shocks while maintaining a sense of progress toward greater underlying price stability. The Committee's projections anticipate that neither significant capacity constraints nor strong labor market pressures will develop and that domestic firms will not squander the opportunity to regain markets in a short-sighted effort to expand profit margins unduly as demand for their products increases.

The central tendency projections of real GNP and inflation are slightly lower than the forecasts of the administration. However, given the uncertainty of economic forecasting, the differences are not significant, and, in fact, the administration's projections are well within the full range of expectations among Committee members and other Reserve Bank Presidents.

#### *THE PERFORMANCE OF THE ECONOMY DURING THE PAST YEAR*

The economy completed a fourth consecutive year of expansion in 1986, with real gross national product increasing about  $2\frac{1}{4}$  percent. The rise in overall activity last year was similar to the gains that have been recorded, on balance, since mid-1984 and was sufficient to create  $2\frac{1}{2}$  million new payroll jobs. The jobless rate for civilians continued to edge down and, at year-end, was  $6\frac{3}{4}$  percent.

Inflation slowed sharply in 1986, with virtually all broad measures of price trends showing their smallest increases in many years. Although the sharpness of the deceleration owed much to specific developments in the markets for oil and other commodities, the favorable inflation performance also represented at a fundamental level the continuation of trends in wage and price behavior fostered by policies in place since the early part of the decade.

Although output continued to grow in 1986, the economy still was characterized by pro-

nounced imbalances. These were reflected in marked disparities in economic performance across industries and regions of the country. In particular, domestic oil exploration and investment was cut back sharply, and only massive federal subsidies sustained many farm enterprises faced with sharply lower crop prices. In addition, major segments of the industrial sector continued to struggle with intense foreign competition, and relatively low rates of capacity utilization—along with a glut of office space—depressed capital spending.

The most serious imbalances continue to be in the external sector and in the federal budget—developments that are linked. Although the foreign exchange value of the dollar against the other G-10 currencies has declined roughly 40 percent over the past two years, the nation's trade balance continued to deteriorate in 1986. Growth in the volume of exports did pick up in response to the enhanced international competitiveness of U.S. firms, although the rebound was damped somewhat by the relatively slow growth of the economies of our major trading partners. However, import volumes continued to expand rapidly through most of the year, in part because much of the swing in exchange rates apparently was absorbed in the profit margins of foreign exporters and U.S. distributors, thereby limiting increases in the prices of imported goods. As a result, the current account deficit continued to widen, reaching the \$150 billion range in 1986.

The federal budget deficit also increased, hitting \$221 billion in fiscal 1986; the deficit vastly exceeded official targets, as underestimates of program costs and shortfalls in revenues offset the deficit-reducing actions taken by the administration and the Congress. Recent estimates suggest that the deficit for fiscal year 1987 will decline to the neighborhood of \$175 billion, which is a good deal less than that of a year earlier, but considerably more than the Gramm-Rudman-Hollings target of \$144 billion.

### *The Household Sector*

The household sector was the major contributor to overall growth again last year. Consumer spending increased a robust 4 percent in real

terms, even though income growth was only moderate, on average, for the second year in a row. Real disposable income soared in the first half because of the plunge in energy prices, but dropped after midyear, as wage and salary gains remained sluggish and farm and interest income declined. Consequently, the personal saving rate fell to about 4 percent, the lowest annual average in nearly 40 years.

Consumer spending has been bolstered by lower interest rates, which have reduced borrowing costs and boosted asset values. Rising stock prices alone have added several hundred billions of dollars to household wealth since late 1985. Household debt also increased further last year, in part reflecting the desire of consumers to liquify the gains in their asset values. The rise in debt was somewhat smaller than in the preceding few years, but still large enough to push measures of debt burdens to new highs. For a sizable number of families, especially in parts of the country hard hit by economic adversities, servicing these debts became more difficult, as evidenced by higher consumer loan delinquencies and charge-offs and high mortgage delinquencies.

The growth in consumption last year was paced by strong gains in purchases of durable goods, while spending on nondurables and services was up at about the same rate as in the preceding few years. Within the durables category, sales of new cars rose to about 11½ million units. Effective prices of new cars were held down by a series of below-market finance incentive programs for domestic makes and by the introduction of low-priced imports from Korea and Yugoslavia. At the same time, sales of Japanese and European models remained brisk, despite appreciable increases in their sticker prices. Outlays for other durables also rose substantially last year, as purchases of home electronics products advanced sharply and sales of furniture and appliances were supported in part by the robust pace of home sales in recent years.

Housing activity continued to expand in 1986. Total housing starts edged up to 1.8 million units for the year as a whole, their highest level since the late 1970s. Single-family homebuilding increased about 10 percent, bolstered not only by a sizable decline in mortgage rates—which brought

fixed-rate loan rates back to single-digits for the first time since 1978—but also by continuing favorable demographic trends. In contrast, multifamily activity dropped off considerably over the course of the year. In part, the slowdown reflected the restraining influence of record-high vacancy rates on rental units, especially in key markets in the South. Also, several provisions of the recent tax legislation have reduced the profitability of building rental housing.

### *The Business Sector*

Business spending on plant and equipment declined 5½ percent in real terms in 1986. Much of the drop in investment was attributable to the sharp cutback in oil and gas well drilling, which fell almost 50 percent over the year. But investment outside the energy sector also was generally lackluster, as many firms—especially in the tradable goods sector—trimmed expansion plans in light of relatively low rates of utilization of existing capacity and continuing uncertainties about future sales trends. Investment in computers and other office machines remained on the reduced growth path that has been evident since the fading of the high-tech spending boom in 1985, reflecting in part concerns about the productivity-enhancing potential of some of these products. More broadly, transitory tax considerations also helped to depress equipment spending in 1986. In late 1985, the widely anticipated elimination of the investment tax credit prompted many firms to accelerate spending from early 1986; although there also was some tax-related speedup of spending in late 1986, it appears to have been comparatively small. Outlays for non-residential structures outside the energy area, which rose extraordinarily rapidly over the first few years of the expansion, fell in 1986. The decline in office construction, for which vacancy rates have reached extraordinarily high levels, was especially sharp.

Inventory investment generally remained subdued in 1986. In an environment of sluggish orders and stable or falling prices, manufacturers continued to trim their stocks. In the retail and wholesale trade sector, inventories of goods other than automobiles increased moderately for the

second year in a row; however, at year-end such stocks appeared to be roughly in line with near-term sales prospects. At auto dealers, there were sharp fluctuations in stocks, but little net change over the course of the year; drops in inventories coincided mainly with the timing of special incentive programs that pushed sales to record levels as well as with a burst in sales in December in anticipation of tax changes in 1987.

Aftertax economic profits in the nonfinancial corporate sector, although at fairly high levels relative to GNP, were essentially unchanged overall from 1985 levels. There was considerable diversity in the performance of individual industries. The petroleum industry experienced a sharp drop in profits associated with the fall in oil prices. On the other hand, petroleum-using industries such as chemicals and plastics fared relatively well.

Given these movements in business investment and corporate earnings, internal funds in the aggregate were nearly sufficient to meet the basic financing needs of nonfinancial corporations. However, some firms continued to borrow heavily to fund massive retirements of equity in association with mergers, buyouts, and share repurchases. At the same time, the drop in long-term interest rates to the lowest levels in a decade afforded businesses the opportunity to improve their financial positions by selling bonds and retiring older, high-coupon securities or short-term debt.

### *The External Sector*

Widening U.S. trade and current account deficits have aroused deep concern because of their implications both for the orderly expansion of the domestic economy and for international financial stability. The foreign exchange value of the dollar, which had declined about 20 percent against a weighted average of the currencies of other Group of Ten (G-10) countries from February 1985 to December 1985, has fallen an additional 20 percent since that time. Because the U.S. inflation rate over the past two years was approximately the same as the average inflation rate in other G-10 countries, the decline in the real value of the dollar (that is, adjusted for

relative inflation rates) was similar to the nominal decline. As measured by broader exchange-rate indexes, which include the currencies of major developing countries as well, the real decline in the value of the dollar was somewhat smaller, in part because some of those countries allowed their currencies to depreciate as part of an effort to improve their external positions. On such broader measures, the appreciation of the dollar in real terms through early 1985 also was smaller.

The decline in the dollar over the past year was associated with a fall in interest rates on dollar-denominated assets relative to rates on assets denominated in other currencies. Moreover, some correction of the dollar's external value was seen to be an essential element in the process of reducing over time the huge U.S. current account deficit—which widened to the \$150 billion range in 1986—and restoring better balance in the United States and world economies. The apparently muted response of the current account to the dollar's depreciation through most of 1986 contributed to sharp downward pressure on the dollar in early 1987.

The volume of merchandise imports rose sharply in 1986, with increases widespread across products and countries of origin. Petroleum imports surged as prices plunged and domestic production contracted, and nonpetroleum imports continued to grow at about the rapid 1985 pace. In part, the sustained strength of nonpetroleum imports reflected the relatively moderate increase to date in prices of these goods. As measured by the index compiled by the Bureau of Labor Statistics, prices of nonpetroleum imports were up 8½ percent over the year, with sizable increases for products such as automobiles, other consumer goods, and some types of capital equipment. Nonetheless, the rise in the overall index was somewhat smaller than historical patterns would suggest, given the typical lags between movements in exchange rates and import prices. The weak response of import prices was attributable in part to the ability of exporters to the United States, whose profit margins had widened substantially during the period of dollar appreciation in the early 1980s, to absorb initially a large proportion of the dollar's depreciation. In some cases when prices of

imported goods have risen, U.S. distributors have absorbed some of that increase. Also, since early 1985, the dollar has appreciated in real terms relative to the currencies of Canada and some developing countries, which account for almost half of U.S. nonpetroleum imports.

Meanwhile, the volume of merchandise exports picked up last year. This improvement mainly reflected the enhanced international competitiveness of U.S. goods in foreign markets that stemmed from the decline in the dollar, as the pace of foreign economic activity generally remained sluggish. Growth last year for the major industrialized countries as a group was slower than in 1985, in part because of a pronounced deceleration in Japan, while activity in many developing countries was damped by subdued growth in the industrialized world and the continuing pressures associated with the need to meet external debt-servicing obligations. Weakness in world commodity prices also has aggravated the financial difficulties of many developing nations, including oil-exporting countries.

### *The Government Sector*

Even though the administration and the Congress have taken significant actions in the past few years to reduce the federal budget deficit, it has remained huge. In fiscal year 1986, the fiscal imbalance hit a record \$221 billion, exceeding the previous year's figure by more than \$8 billion. Revenue growth last year was restrained by the relatively moderate rise in nominal income, while demands on a number of programs, especially in the agriculture and health areas, were strong. Although the budgetary program put in place for fiscal year 1987 was nominally consistent with the Gramm-Rudman-Hollings deficit target of \$144 billion, the administration and the Congressional Budget Office recently have published estimates in the range of \$175 billion, equal to about 4 percent of GNP—still a high ratio historically.

Excluding changes in farm inventories held by the Commodity Credit Corporation (CCC), federal purchases of goods and services rose appreciably last year. Over the course of 1986, defense purchases in real terms grew about 7 percent,

similar to the increases that have been recorded since the early 1980s. Excluding CCC purchases, real nondefense outlays, which have shown little net change in recent years, were essentially flat.

Purchases of goods and services by state and local governments rose briskly last year, mainly reflecting a surge in construction activity. An upswing in the school-age population in recent years has led to a step-up in school building, and numerous programs are under way to expand and improve basic infrastructure. The growth in overall outlays has been sustained despite concerns about the financial condition of the sector. Excluding some special one-time inflows—such as previously escrowed oil lease payments—the combined surplus of operating and capital accounts for the sector as a whole fell to near zero in 1986. Many states, including most of those in the energy and agricultural regions, have responded to budgetary pressures by raising taxes and cutting spending.

### *Labor Markets*

Nonfarm payroll employment increased 2½ million in 1986, about the same as the robust 1985 pace, and continued strong in January of this year. Hiring in trade and services again was quite vigorous, with especially large increases for business and health services. In contrast, manufacturing employment contracted over the first three quarters of 1986. However, factory hiring picked up in the autumn in response to an apparent firming in industrial activity. Employment gains in nondurable industries, in which output has risen steadily, have been widespread in recent months; meanwhile, hiring at firms producing durable goods has remained spotty.

The growth in jobs last year slightly exceeded the rise in the labor force. As a result, the civilian unemployment rate edged down, to 6¾ percent at year-end. Labor force participation maintained its upward trend; women continued to enter the work force in large numbers, in part responding to expanding job opportunities, and participation rates for adult men held steady. Overall, the number of persons employed relative to the working-age civilian population reached 61 percent—a new high.

Wages continued on a path of moderation in 1986. Hourly compensation in the nonfarm private sector, as measured by the employment cost index, rose about 3¼ percent, ¾ percentage point less than in 1985. The deceleration in wages reflected the continued slack in labor markets as well as the reduction in price inflation, and was widespread across industries and occupations. In the unionized sector, wage increases have been especially small, and a number of alternative, more flexible compensation arrangements—including the substitution of lump-sum payments for general wage increases—have been adopted. Compensation for white-collar workers, although continuing to rise more rapidly than for other groups, also moderated in 1986.

Unit labor costs in the nonfarm business sector were well contained last year, given the relatively moderate increase in wages and a small advance in labor productivity. Gains in output per hour, however, have averaged less than 1 percent per year since 1984, suggesting that the underlying trend in productivity for the business sector as a whole has improved only slightly from the very low pace of the 1970s and remains well below the pace of earlier in the postwar period. In contrast, productivity in manufacturing over the past three years has increased about 3½ percent per year, in part because intense foreign competition has induced many producers to modernize their factories and streamline their operations.

### *Price Developments*

The fixed-weighted price index for GNP rose about 2½ percent in 1986, down from an increase of 3½ percent in 1985. The increase was the smallest in more than two decades. Some other popular measures of prices decelerated even more markedly. The consumer price index for goods and services rose only about 1 percent, and the producer price index for finished goods actually fell 2½ percent.

The greater deceleration in the CPI and PPI than in the GNP price measure is a reflection of the greater importance of energy prices in those indexes. The movements in energy prices over the past year or so have been striking. World crude oil prices dropped from \$26 per barrel in

late 1985 to the \$11 per barrel range around midyear; these prices trended up over the second half and recently have risen to around \$18 per barrel in the wake of the agreement on production limits reached at the meeting of the Organization of Petroleum Exporting Countries in late December. The drop in crude oil prices in the first half was reflected fairly rapidly in prices of gasoline and home heating oil, which fell about 30 percent over the course of the year. There also were declines in charges for electricity and natural gas, but they were much smaller than those on refined petroleum products. On balance, retail energy prices declined 20 percent last year. The effects of the recent firming in oil prices are already evident in general indexes: the PPI jumped 0.6 percent in January, owing largely to the rebound in gasoline and heating oil prices.

Price increases outside the energy area generally remained moderate in the past year. Retail food prices rose 4 percent, a bit more than in 1985, reflecting the effects of last summer's heat wave in the Southeast. However, prices of retail goods excluding food and energy continued to slow and, on balance, were up only 1½ percent. The influence of the depreciating dollar on consumer goods prices was highly variable across sectors and relatively small overall. There were sizable increases in dockside prices for foreign cars and for some types of home electronic and photographic equipment, and retail prices of such goods have accelerated. But there was little evidence of any significant aggregate impact on other consumer goods. Prices for nonenergy services also slowed somewhat last year but still rose about 5 percent, boosted by continued large increases for medical services and higher premiums for various types of insurance.

Prices for many basic industrial commodities continued to decline over the first three quarters of 1986. Excess capacity in some basic industries and the generally abundant world supplies of many primary commodities contributed importantly to the weakness in these prices. Sluggish industrial activity in the United States and other large economies also was a factor. Prices in a number of these markets have turned up in recent months, possibly in response to the firming in U.S. industrial activity. Nonetheless, industrial commodity prices still are well below the most recent peaks reached in mid-1984.

## *MONETARY POLICY AND FINANCIAL MARKETS IN 1986*

The Federal Reserve faced continuing challenges in 1986, not only in discerning the underlying trends in a complex domestic and international economic setting, but also in specifying appropriate policy actions in a financial environment marked by a rapid pace of structural change. As in previous years, and in keeping with the Full Employment and Balanced Growth Act, money and credit aggregates were used as a means of assessing and characterizing policy. At the same time, however, in targeting and interpreting these aggregates, and in reaching operational decisions with respect to the degree of reserve pressures and the discount rate, the evaluation of signals provided by a broad range of economic and financial indicators played a large role.

At its meeting in February 1986, the Federal Open Market Committee established target growth ranges, measured from the fourth quarter of 1985 to the fourth quarter of 1986, of 3 to 8 percent for M1 and 6 to 9 percent for both M2 and M3. The associated monitoring range for growth of domestic nonfinancial debt was set at 8 to 11 percent. Based on the experience of recent years, the Committee recognized that the relationship between M1 and economic activity was subject to particularly great uncertainty. Accordingly, the FOMC agreed to evaluate movements in M1 in light of their consistency with the patterns in other monetary aggregates, developments in the economy and financial markets, and potential inflationary pressures.

M1 was well above its annual target range at the time of the July FOMC meeting. The available evidence suggested that the rapid growth of M1 reflected shifts in portfolios toward liquid assets in the context of declining market interest rates rather than excessive money growth with potential inflationary consequences. Against this background, the Committee concluded that M1 growth above the existing range would be acceptable, provided the broader aggregates expanded within their target ranges, price pressures remained subdued, and the economy continued to expand at a moderate pace. The Committee reaffirmed the target ranges for M2 and M3 at its July meeting. Data at that time showed that both of these aggregates had ex-

panded near the midpoints of their ranges, and Committee members felt that growth within those ranges for the year was still consistent with the overall policy objectives of reducing inflation further, promoting sustainable growth in output, and contributing to an improved pattern of international transactions. In the first half of the year, the growth of domestic nonfinancial debt exceeded both its monitoring range and the growth of nominal GNP, as it had in previous years. The Committee was concerned about the burdens and potential instabilities associated with the persistence of rapid debt growth and felt that raising the monitoring range for debt would create an inappropriate benchmark for evaluating long-term trends. As such, the existing range was maintained, but the FOMC thought that debt growth could well exceed its upper bound.

The growth of M2 quickened in the second half of the year, and M3 expanded at a somewhat faster pace as well. However, both of the broader aggregates ended the year within—although near the upper bounds of—their target ranges. The growth of M1 accelerated further in the second half of the year, resulting in a record postwar decline in velocity for 1986. The growth of nonfinancial debt slowed slightly in the second half of the year, but still exceeded its monitoring range by nearly 2 percentage points.

Pressure on reserve positions of depository institutions, as reflected in a relatively low volume of borrowing at Federal Reserve Banks, changed little over the course of 1986. The broadly accommodative thrust of policy also was manifest in the four reductions in the discount rate between March and August. In part, the discount rate cuts were intended to keep this rate in line with the yields on short-term market instruments, but they also were taken in the context of hesitant worldwide economic growth, an improved inflation outlook, and growth of the broader monetary aggregates within their annual target ranges.

In setting monetary policy the FOMC focused considerable attention on the nation's trade deficit and on the foreign exchange value of the dollar. The Committee members generally viewed the narrowing in the trade deficit as a key to achieving a sustainable and more even expansion of activity across the economy. At the same time, however, the Committee was concerned

that an unduly precipitous decline of the dollar against the currencies of our major trading partners could contribute to inflationary pressures in the United States. To help limit the effect on the value of the dollar, the first reduction in the discount rate was a coordinated action with other major central banks; similarly, the reduction in April was accompanied by a cut in the Bank of Japan's discount rate.

### *Money, Credit, and Monetary Policy*

M2 expanded almost 9 percent in 1986, placing this aggregate near the upper bound of its annual growth target. Although in recent years this aggregate has exhibited a tighter relationship with nominal GNP than M1, M2 velocity still registered a decline of 4 percent last year and reached its lowest level in decades. The buildup of M2 balances relative to income probably reflected incentives to place savings in various components of the aggregate whose offering rates were falling more slowly than market interest rates.

The slowest adjustments in rates on retail deposits last year were made in short-term accounts. Depository institutions have been reluctant to adjust savings deposit rates downward because many of these accounts have represented a stable, profitable source of funds for many years. Rates on NOW accounts also have fallen only slightly. Much larger declines were registered on time deposits, reflecting not only quicker adjustment to market rates but also the pattern of rate movements in the credit markets, in which long-term rates fell much more than short-term rates in late 1985 and early 1986. The changing structure of deposit rates at banks and thrift institutions has led to a pronounced shift in the composition of M2: inflows to transaction deposits, savings deposits, money market deposit accounts, and money market mutual fund shares were very strong last year, while small time deposits ran off, marking the second consecutive year of zero or negative growth.

The weakness in small time deposits in 1985 and 1986 also could reflect "rate shock." As existing time deposits matured, savers with high-yielding deposits acquired several years ago were unable to reinvest the funds at comparable

returns. A sizable portion of maturing deposits evidently was placed in liquid instruments in M2 while savers searched for other investment opportunities. Yield-conscious investors also may have been lured from time deposits by attractive returns on some nondeposit instruments. For example, stock and bond mutual funds grew rapidly in 1985 and 1986 after stagnating during most of the 1970s and early 1980s, and the issuance of savings bonds was strong in the summer and fall before their minimum yield was lowered from 7½ to 6 percent.

M3 also ended 1986 near the upper bound of its annual range, increasing 8¾ percent over the year. Growth of M3 close to that of M2 is not surprising, given that M2 constitutes four-fifths of the larger aggregate. The remaining share is dominated by large time deposits and certain other managed liabilities of depository institutions. Credit growth at banks and thrift institutions remained quite strong last year, but with the exception of the first quarter, the use of managed liabilities in M3 was light as growth of core deposits largely was sufficient to fund asset expansion. Large CDs expanded only 3 percent on balance in 1986, with commercial banks paying down their outstanding CDs during much of the year and thrift institutions also doing so in the fourth quarter. The weakness in CDs was widespread as institutions relied more on other managed liabilities, such as term repurchase agreements (RPs), included in M3, and advances from Federal Home Loan Banks, not included in M3.

The broad shift to liquid assets greatly affected the behavior of M1. The narrow monetary aggregate expanded more than 15 percent in 1986, marking the second consecutive year of double-digit growth. The velocity of M1 fell 9½ percent last year, compared with a decline of 5¼ percent in 1985. Since 1981 the velocity of M1 has declined 16 percent—a remarkable development in view of its tendency to climb about 3 percent per year in the previous two decades.

Much of the rapid growth in narrow money over the past two years appeared to be related to the effects of the sharp decline in market interest rates on incentives to hold both NOW accounts and demand deposits. Since their peak in the latter part of 1984, short-term market interest rates have fallen about 5 percentage points, to their lowest levels in nine years, while NOW account rates have changed considerably less. Although more rapid money growth generally would be expected in an environment of declining rates, the expansion of M1 last year and in 1985 was in excess of what would be indicated by the historical relationships among money, interest rates, and income.

About half of the growth of M1 in both 1985 and 1986 occurred in interest-bearing checkable deposits. Because depository institutions have adjusted the rates paid on NOW accounts only sluggishly, the spreads between the rates on these deposits and those on substitutes have narrowed substantially. For example, between the first quarter of 1986, when interest rates on

#### Growth of money and debt<sup>1</sup>

Percentage changes at annual rates

Period	M1	M2	M3	Domestic nonfinancial sector debt
<i>Fourth quarter to fourth quarter</i>				
1979.....	7.9	8.2	10.4	12.2
1980.....	7.3	8.9	9.6	9.6
1981.....	5.1 (2.4) <sup>2</sup>	9.2	12.3	9.9
1982.....	8.6	9.1	9.9	8.9
1983.....	10.2	12.1	9.8	11.5
1984.....	5.4	7.9	10.7	13.9
1985.....	12.1 (12.7) <sup>3</sup>	8.8	7.7	13.5
1986.....	15.2	8.9	8.8	12.9
<i>Quarterly growth</i>				
1986: 1.....	8.8	5.3	7.7	15.4
2.....	15.5	9.4	8.7	10.3
3.....	16.5	10.6	9.7	12.0
4.....	17.0	9.0	7.8	11.5

1. M1, M2, and M3 incorporate effects of benchmark and seasonal adjustment revisions made in February 1987.

2. M1 figure in parentheses is adjusted for shifts to NOW accounts in 1981.

3. M1 figure in parentheses is the annualized growth rate from the second to the fourth quarter of 1985.

NOW accounts were fully deregulated, and the fourth quarter of last year, the spread between the three-month Treasury bill rate and the average rate on NOW accounts at commercial banks shrank from 135 basis points to 53 basis points. Similarly, the average rate on NOW accounts late last year was not far below that on six-month small time deposits.

The growth of demand deposits also accelerated last year, amounting to nearly 12 percent from the fourth quarter of 1985 to the fourth quarter of 1986. As with other checkable deposits, lower short-term interest rates are an important influence on the growth of demand deposits because they reduce incentives to economize on transaction balances. Also, some demand deposits are held by business firms in exchange for services provided by banks, and these compensating balance requirements typically are enlarged as market rates decline. While these effects were important elements behind the expansion of demand deposits throughout 1986, the apparent response to declining interest rates was much larger than would be expected from historical experience.

Another element in the growth of demand deposits apparently was the large volume of financial transactions that occurred in 1986. For example, because of certain payment procedures—such as funds held in escrow accounts and transferred by officer's check rather than by wire—the massive volume of mortgage originations and prepayments last year could have influenced the movement of demand deposits. In addition, a flurry of financial transactions around year-end, induced in part by impending tax law changes, temporarily boosted demand deposits sharply.

Domestic nonfinancial debt expanded almost 13 percent last year, a slightly slower pace than in the two previous years but still above both the Committee's monitoring range and the growth of nominal GNP.<sup>2</sup> Debt issuance by the state and local sector dropped off substantially from the pace set in 1985, when it was boosted by borrow-

ing in anticipation of tax reform restrictions. In the household sector, mortgage borrowing strengthened, but a marked decrease in the expansion of consumer installment credit from the elevated rates in previous years contributed to a moderation in overall growth of household indebtedness. A continuation of corporate financial restructurings buoyed expansion of business debt, despite the maintenance of a moderate gap between capital spending and internal funds. Growth of federal sector debt remained strong.

In implementing policy in 1986, the FOMC generally accommodated through open market operations the strong demand for reserves associated with the rapid growth of transaction balances. In the context of prospects for slow growth of real economic activity, disinflationary trends in wages and prices, and growth of the broader monetary aggregates within their target ranges, four reductions in the discount rate were implemented between March and August.

Early in the year, all the monetary aggregates slowed sharply, with M2 dropping below its annual target range. Also, evidence suggested that the economy was growing sluggishly, and the outlook for inflation improved as oil prices fell. In this environment, market interest rates began to decline in mid-February, and the Federal Reserve reduced the discount rate  $\frac{1}{2}$  percentage point to 7 percent in early March. At the time, there was concern that unilateral action to lower interest rates might cause an excessive reaction in the foreign exchange market, in which the dollar had been under downward pressure. Accordingly, the reduction was timed to correspond with similar actions by the central banks of West Germany, Japan, and several other industrialized nations.

With the economy expanding slowly and underlying price pressures continuing to moderate, interest rates fell further throughout March and into April. By mid-April, most market interest rates had reached their lowest levels since the late 1970s. At that time, the Federal Reserve instituted another reduction in the discount rate to catch up with and to ratify the declines in market rates.

After mid-April, interest rates rose for a short time as market participants focused on an upturn in oil prices, an acceleration in the growth of the monetary aggregates, and a further decline in the

2. When measured from the end of December to the end of December, domestic nonfinancial debt expanded  $11\frac{1}{2}$  percent last year. The fourth-quarter-to-fourth-quarter growth cited in the text is higher because of the surge in debt at the end of 1985 and the arithmetical effects of quarterly averaging.

foreign exchange value of the dollar. By the end of June, however, a steady flow of weak statistics began to reveal anemic growth in real economic activity in the second quarter. An improvement in activity had been expected by the FOMC for the second half of the year, but the rebound now appeared likely to be less vigorous than previously anticipated and perhaps delayed because of continued disappointing movements in our trade position and the effects of pending tax reform legislation on business investment. Accordingly, shortly after the July FOMC meeting, the Board approved another cut of  $\frac{1}{2}$  point in the discount rate to 6 percent.

The final reduction in the discount rate last year took place after the August FOMC meeting. The last two reductions in the discount rate in 1986 were adopted without similar action by foreign central banks. Unilateral action to lower interest rates carried the risk of adding to the downward pressure on the dollar and possibly feeding a source of inflationary pressure. However, the Federal Reserve thought that prevailing economic and financial conditions warranted such a risk, realizing that the provision of reserves could be tightened through open market operations if adverse developments were to arise.

While the value of the dollar fluctuated considerably after the reduction in the discount rate in August, it showed no distinct downward movement until around year-end. Short-term interest rates declined about 1 percentage point over the summer months, moving either in anticipation of, or in response to, the reductions in the discount rate. Long-term rates were about unchanged on balance over the summer, but more concern about interest rate prospects developed in early fall. Economic indicators began signaling a pickup in the pace of economic activity, and rising prices of oil and precious metals, along with the potential effects of the cumulative decline in the value of the dollar, seemed to raise concerns about the outlook for inflation. Over that period and through the remainder of the year, the FOMC attempted to keep a steady degree of reserve pressure, and market interest rates fluctuated within a fairly narrow range.

Even so, short-term interest rates moved higher as the year-end approached, owing, in part, to

the exceptional volume of tax-related transactions. As firms rushed to complete mergers and buyouts, and households stepped up their sales of assets to realize capital gains, the demand for transaction balances and business loans surged. This heavy volume of financing also was reflected in unusually strong reserve demands by depository institutions. The System added reserves freely to accommodate this demand, but the pressure nevertheless showed through to short-term rates. Shortly after the turn of the year, short-term rates moved back toward their earlier levels. The dollar, however, was under substantial downward pressure in early 1987; disappointing figures on the U.S. trade deficit prompted selling of the dollar on exchange markets, and this pressure intensified with reported suggestions by some U.S. policymakers that, particularly in the absence of more growth-oriented policies abroad, further dollar depreciation might be necessary to correct the nation's external imbalance.

#### *Other Developments in Financial Markets*

As long-term interest rates declined last spring to their lowest levels in eight years, the volume of corporate bond issuance surged to record levels. Indeed, the volume of domestic corporate bonds sold last year was nearly twice the previous record set in 1985. Much of the bond issuance last year was used to refund higher-cost debt or to pay down short-term credit. With the stock market continuing to register impressive gains last year, new equity issuance also reached record levels. Of the gross proceeds from new equity issues sold last year, about 30 percent was raised by firms issuing stock in the public market for the first time.

The retirement of high-coupon bonds, the reduced dependence on short-term credit, and the issuance of new equity shares tended to improve conventional measures of corporate balance sheet strength. However, massive volumes of outstanding equity were retired through mergers, acquisitions, buyouts, and other restructurings, resulting in the third consecutive year of large net equity retirements. Reflecting the financing patterns in recent years, the aggregate debt-

equity ratio of nonfinancial corporations, on a "book" basis, swelled to a record level. When stated at market values, however, the robust gains in share prices have kept debt-equity ratios well below levels that generally prevailed during the 1970s. With interest rates trending down in recent years, interest-coverage ratios have crept up, suggesting that the ability of firms in the aggregate to service their debt has not deteriorated. These modest gains, however, have been achieved in relatively benign market and economic circumstances.

Because of the large paydown of equity, the ability of some corporations to weather economic shocks has waned. The weak financial structures of some firms, along with strains in certain industries, led to more than \$3 billion of corporate bond defaults in 1986, an amount that dwarfs the experience in nearly every other year of the postwar period. Concern that other firms also may have problems in meeting their financial obligations is reflected in the pace of bond downgradings, which last year totaled more than three or four times that of the late 1970s.

Firms with downgraded debt typically find their securities trading at higher interest rates in the secondary market. In general, however, quality spreads between private debt securities of different grades have been relatively stable in recent years, suggesting that investors have not been alarmed at the credit quality of corporations in the aggregate and have not attempted to limit their portfolios to higher-rated issues.<sup>3</sup> During the first half of 1986, spreads between the yields on corporate bonds and Treasury securities widened considerably, but this appeared to be related to the heavy volume of corporate issues and a revaluation of call and refunding provisions on long-term obligations. A narrowing of these spreads early in 1987 has reversed much of the earlier increase.

The expansion of household debt slowed last year as the growth of consumer installment cred-

it receded to about 12 percent from the 15 to 20 percent pace of recent years. Nevertheless, installment debt continued to grow faster than income, and the ratio of such debt to income established another record. With mortgage debt expanding rapidly, the ratio of overall household debt to income also reached a new high. While assets of the household sector have increased sharply in recent years, many individuals have experienced difficulty in meeting their financial commitments. The number of personal bankruptcies accelerated dramatically in 1985 and 1986, with bankruptcies last year surging well beyond the historical experience. Strains were particularly evident in the area of credit card debt, as delinquency rates on revolving balances increased appreciably. Delinquency rates on other categories of installment debt and mortgage loans fell some last year, although they were at much higher levels than in previous expansions. For some households, debt-servicing burdens were reduced last year by the refinancing of high-rate mortgages or the decline in interest payments on their adjustable-rate mortgages.

While the economy has grown continuously for more than four years, the expansion has been uneven and has left certain sectors under severe strains. The problems faced by firms in the mining, energy, agricultural, and many manufacturing industries are well known, as are those of a number of heavily indebted developing countries. The difficulties in these areas are feeding through to the financial intermediaries supplying them credit. Last year, for example, 136 commercial banks failed—compared with a total of only seven in 1981. Many of these institutions had heavy credit exposures to the oil industry, while more than 40 percent of the failed banks held large amounts of agricultural loans.

The impact of the distress in the farm sector also has been severe for the Farm Credit System, the government-sponsored agency that holds about 25 percent of outstanding farm debt in the United States. The losses of the banks in the System probably exceeded \$2 billion last year, largely reflecting provisions for loan losses, and the System's capital surplus soon will be exhausted if losses do not abate. The Congress last fall approved regulatory accounting procedures for the Farm Credit System that will allow the

3. The interest rate spreads between investment-grade and speculative issues widened about 50 basis points for a short time after the bankruptcy filing by LTV Corporation in July. Low-rated or unrated bonds also experienced substantial yield increases for a time later in the year, when concerns about the liquidity of that market segment surfaced in connection with the insider trading scandal; that widening has been reversed since the beginning of 1987.

banks to report higher net income figures than generally accepted accounting principles would permit. The higher reported income may ease some of the problems within the System relating to the preservation of capital and help to justify charging borrowers more competitive rates. By themselves, however, the accounting procedures do not provide substantive relief.

The financial condition of the thrift industry as a whole has improved markedly since the early part of the decade, but the difficulties of many institutions have intensified. As interest rates fell from their elevated levels in 1981 and 1982, the average cost of funds at thrift institutions declined much more rapidly than the average yield on their assets. The industry as a whole returned to profitability in 1983, and aggregate earnings have jumped since then. Net income for the industry in 1986 probably was strong again, although it is likely to have been below that of 1985.

At the same time, asset quality problems have become increasingly important for a sizable number of these institutions. While some of these problems are associated with economically distressed regions of the country, overly aggressive investment strategies of some institutions cer-

tainly have contributed heavily. For 1986, about one-quarter of the thrift industry will report negative net income, and the long-term prospects for many of these institutions are unfavorable. Moreover, the Federal Savings and Loan Insurance Corporation has inadequate resources to manage these problems effectively.

While the many stresses and financial vulnerabilities are not amenable to correction through general monetary policy, they do influence the economic environment and represent a potentially disruptive and destabilizing element in financial markets. The Federal Reserve has been called upon to play a positive role through its regulatory and supervisory functions. For example, steps have been taken to reduce the risks associated with large payments made by wire transfer, and several proposals have been made to ensure the capital adequacy of commercial banks. Many of the financial and sectoral stresses will take considerable time to alleviate, and will require a stable monetary environment, redress of the imbalances in the nation's federal budget and international trade positions, and—importantly—prudent private behavior, encouraged as necessary by sound regulation. □

# Basic Banking

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On October 2, 1986, the Federal Financial Institutions Examination Council approved a policy statement that endorses and encourages private sector efforts to offer basic banking services. The council's action, prompted by a recommendation made by the Federal Reserve Board, occurred at a time of heightened interest in the subject by consumer groups, legislators, industry trade associations, and individual financial institutions. This article discusses the definition and origins of the basic banking issue, explores the positions taken by various proponents of basic banking, and reports highlights of research on the subject. It also examines responses to the issue by the banking industry and its regulators. The article concludes by raising several questions about the potential effectiveness and consequences of providing basic banking services.

## BACKGROUND

In recent years, significant changes have occurred in the structure, the marketing practices, and the regulation of the financial services industry.<sup>1</sup> These changes are the consequence of rapid technological developments, declining inflation,

swings in the general level of economic activity, and new competition from largely unregulated providers of financial services. The changes have afforded consumers new opportunities to invest and save in various financial instruments that yield rates of return determined by market forces. They have also led financial institutions to change the way services are offered and priced to generate income, manage risk, and reduce costs.

Financial institutions have adopted strategies to respond to changing market pressures: explicitly pricing services previously offered without charge, consolidating or eliminating unprofitable services, and closing branch offices to reduce overhead expenses. Implementing these strategies affects consumers in different ways. Explicit pricing of services, for example, makes consumers consider the true cost of the services they receive. Before the deregulation of interest rates, financial institutions had to compete for consumers' deposits using various nonprice means, such as longer banking hours, extensive branch networks, premiums, free or low-fee checking, and nonexistent or low minimum-balance requirements on checking and savings accounts. Such nonprice competition, of course, suggests an inefficient allocation of society's scarce resources. For example, because inexpensive checking was widely available, many consumers established multiple checking accounts with small balances, when fewer accounts—or even one—might have sufficed.

While many changes in the financial marketplace have favorably affected consumers, concern has been raised that some of the changes may have adversely affected certain segments of the population. A particular concern is that pricing services explicitly and reducing the number of branches in some areas may either price some consumers out of the market for deposit services or deny them convenient access to services. Another concern is that some of the changes may

1. For example, the Depository Institutions Deregulation and Monetary Control Act of 1980, in particular, has accelerated the evolution of the banking industry. Among other changes, that act (1) authorized financial institutions nationwide to offer NOW accounts (interest-bearing checking accounts); (2) created the Depository Institutions Deregulation Committee to phase out over six years interest rate ceilings on deposits; and (3) required the Federal Reserve System to establish fees for many services it had previously provided without charge.

curtail access to credit because credit may be more difficult to obtain if a person does not have an account with a financial institution. Out of these concerns has developed a movement advocating that depository institutions provide basic banking services.

### *What Is Basic Banking?*

A uniformly accepted definition of basic banking has not evolved from the public debate. Consequently, an element of uncertainty exists about what kinds of services and associated prices constitute a basic banking program. Nevertheless, several working definitions, which vary in specificity, have been offered. Most generally, basic banking has been defined as the minimum level of financial services that should be available to all citizens, regardless of income (see inset). A more specific approach defines basic banking in terms of the financial needs that should be met. An example of this approach is the policy statement by the Federal Financial Institutions Examination Council (FFIEC), which identifies three fundamental needs: a safe and accessible place to keep money, a way to obtain cash, and a way to make payments to third parties. (See the appendix for the text of the statement.) Although the statement does not address the issue of the price that should be assessed for basic financial services, it does explicitly state that such services should be offered in a manner consistent with safe and sound business practices.

Various approaches to the provision of basic banking services have evolved. Most include an account that can be used for transactions, with reduced fees and low minimum-balance requirements. Many also include the cashing of checks (particularly government checks) for both those who hold accounts and those who do not. For example, one bank offers a checking account with no required minimum balance and unlimited check-writing privileges provided deposits and withdrawals are made through automated teller machines. A fairly high fee is assessed for conducting a transaction with bank personnel if the transaction could have been done by machine. In another instance, a thrift institution offers an account with a \$10 opening balance but no required minimum balance on which eight free checks may be written each month; additional

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*Lifeline banking* was the term originally used by those advocating the provision of financial services at reduced prices. The term was drawn from the public utilities where it referred to providing at least the minimum level of energy or telephone services necessary for health and comfort for those too poor to afford the usual charges. Use of the term for financial services drew criticism from those who felt that banking services do not carry the same life-or-death connotations that some utility services do. The critics suggested that use of what they considered an emotion-laden phrase obscures the practical elements of the issue. Over time, then, *lifeline* has largely given way to *basic*. Although the phrase *basic financial services* is sometimes used to indicate that financial institutions other than banks are involved, *basic banking* has come to be the popular designation.

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checks cost 50 cents each. In still another approach, an advisory group formed by the New York State Banking Department called for a passbook savings account with low or no minimum-balance requirements on which interest would be earned on virtually all balances.<sup>2</sup> A limited number of deposits and withdrawals (perhaps eight per month) would be permitted without charge, and three free money orders would be provided.

One aspect of the basic banking issue on which no consensus exists is to whom the services should be offered. Some feel that access to basic services should be based on an inability to pay (determined perhaps by an income test or evidence of receipt of public benefits). Others believe that such services should be universally available. Many of those who shun eligibility tests believe that basic banking services, properly designed, are likely to satisfy the modest needs of those intended to benefit while being too limited to appeal to the general public.

### *PROPOSERS OF BASIC BANKING*

Advocates of basic banking contend that recent changes in banking practices have adversely affected less affluent individuals and communi-

2. Speech by Vincent Tese, New York State Superintendent of Banks, before the 90th Annual Convention of the New York State Bankers Association, June 11, 1984.

ties. They see rising service charges and minimum-balance requirements taking an increasing proportion of the resources of lower-income people, and they allege that branch closings have effectively eliminated banking services in some communities. They believe that these developments have harmed low-income people by forcing some out of the banking system, by preventing others from entering the system, and by imposing financial hardship on those who remain in the system. Proponents of basic banking worry that saving is being discouraged and that some people have to rely more on the use of cash for transactions, with its attendant inconveniences and dangers. Moreover, they contend that access to credit may be reduced because in their view credit may be more difficult to obtain without a deposit account.

Supporters of basic banking consider banking services to be almost a necessity in today's economy. They believe that banks and other regulated financial institutions have a special obligation to address these needs because of the nature of their charters and the publicly backed benefits they receive—deposit insurance and regulatory oversight, for example.

### *Consumer and Community Organization Activity*

Over the past several years, consumer and community organizations have become increasingly vocal in their demands that financial institutions do more to make their services both affordable and accessible to all segments of the public. The techniques they employ cover a wide range: filing petitions and suits, working on joint industry-consumer task forces, publicizing surveys of fees, supporting legislation, protesting bank applications, organizing sit-ins, and picketing.

One of the earliest formal demands for basic banking was an administrative petition filed in August 1984 with California's attorney general and state banking superintendent.<sup>3</sup> Filed on be-

half of a coalition of nine California consumer groups, the petition asserted that recent banking practices—including special efforts to attract wealthy customers and requiring credit cards to open accounts—effectively shut low-income consumers out of the banking system creating, as the title states, a "crisis for the poor." Although the petition was rejected by the banking superintendent, its contents provide an example of the services and associated prices proponents of basic banking support. Specifically, the petition called for requiring banks (1) to offer those with annual incomes of \$11,000 or less savings accounts without fees and inexpensive checking accounts with 10 free checks per month, (2) to eliminate the requirement of a credit card to open an account, (3) to cash government checks for free, and (4) to charge no more than \$1.00 for a money order. The petition also proposed that a finding be required that "public convenience and advantage are preserved" before bank offices are closed or replaced by automated teller machines. Although denying the petitioners' request for adoption of new regulations, the banking superintendent did encourage the petitioners to work directly with the financial services industry to resolve informally the problems cited in the petition.<sup>4</sup>

The concerns reflected in the California petition have been echoed by other groups. Several national consumer organizations, including the Consumer Federation of America, the Consumers Union, the American Association of Retired Persons, and the Association of Community Organizations for Reform Now (ACORN), as well as state and local organizations, have devoted considerable attention in recent years to the issue of availability and affordability of financial services. These groups argue that a need for basic banking services exists, particularly among lower-income consumers. The organizations cite as the basis for their concern the growing number of complaints they receive and the evidence from surveys they conduct about increasing service

3. "Petty Larceny: Excessive Bank Charges Produce Banking Crisis for the Poor; An Administrative Petition to Ensure Essential Banking Services for All California Consumers," filed by Public Advocates, Inc., of San Francisco on August 7, 1984, on behalf of Consumer Action, Self-Help for the Elderly, Black Women Organized for Political Action,

Gray Panthers, the Oakland Citizens Committee for Urban Renewal, the League of United Latin American Citizens, the Sacramento Urban League, Progressive Senior Citizens, and the San Francisco Chapter of the National Organization for Women (NOW).

4. Letter, Louis Carter, California Superintendent of Banks, to Law Offices of Public Advocates, Inc., September 6, 1984.

charges.<sup>5</sup> In some cases, organizations have taken more direct action, such as demonstrations at banks and at the offices of a banking trade association to demand wider availability of basic banking services.

There has been a noticeable increase in the frequency with which local groups have pressed for commitments to provide basic banking services from banks and bank holding companies applying to the Federal Reserve and other regulatory agencies for approval to merge with or acquire another bank. Under the Community Reinvestment Act (CRA), the agencies are required to take into account an applicant's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods. Community organizations sometimes challenge such applications, contending that the banks have not met these needs.<sup>6</sup> (The number of protests lodged with the Federal Reserve System that were based on alleged violations of the CRA has increased from 7 in 1983-84 to 39 in 1985-86. However, although the number of applications protested on CRA grounds has grown in recent years, in relation to the total number of applications processed by the Federal Reserve, the number of CRA-based protests is small.) Most of these protests focus on credit needs, but about half of the recent protests have included complaints about the lack of other banking services. One such protest in 1984 alleged that a bank's pattern of branch closings discriminated against minority and low- and moderate-income residents, thus depriving them of essential services.<sup>7</sup> Many of the most recent protests allege that

banks fail to offer or to publicize the availability of low-cost deposit accounts and have restrictive policies for cashing government checks. Some agreements between banks and protesting groups have required banks to look at the feasibility of opening branches in "unbanked" or "underbanked" neighborhoods.

Besides filing formal protests, an increasing number of community groups have been informally pressing their demands for basic services with banks that are considering applications. The result has been several agreements in which banks have committed to offer transaction accounts at reduced prices, to cash government checks for noncustomers, and to lower fees for cashing government checks.<sup>8</sup>

### *Legislative Activity*

Local, state, and federal legislators have expressed concern about the availability and affordability of banking services. For example, in late 1982, the Philadelphia City Council considered, although it did not approve, a proposed ordinance that would require banks to notify the city in advance of a branch closing.<sup>9</sup> The city treasurer would then hold a public hearing to decide whether the closing was justified; if not, city deposits would be withdrawn from the institution.

At least 15 states have considered basic banking legislation. New York was one of the first states to consider such legislation, although it has not adopted any to date. In April 1984, the governor submitted a bill to the state legislature that would require state-chartered banks and thrift institutions to offer "lifeline" accounts in return for allowing the institutions to exercise expanded insurance powers.<sup>10</sup> The legislation

5. San Francisco Consumer Action and Consumer Federation of America, "Bank Fees on Consumer Accounts: A 10-State Survey," May 17, 1984; "Bank Fees on Consumer Accounts: The Second Annual National Survey," May 28, 1985; and "Bank Fees on Consumer Accounts: The Third Annual National Survey," June 2, 1986. Press release highlighting results of survey on availability of banking services, ACORN, New Orleans, Louisiana, April 17, 1986. See "It Pays to Comparison Shop," *American Banker*, December 19, 1984, and "Consumer Group's Study Says Rhode Island Banks Overcharge for Checking," *American Banker*, March 17, 1986.

6. See, for example, "Hibernia Refuses Compromise with Community Group," *American Banker*, May 30, 1986, and "Acorn Fails in Bid to Block Phoenix Bank Acquisition," *American Banker*, August 27, 1986.

7. See "Order Approving Acquisition of a Bank, Citicorp, New York, New York," *FEDERAL RESERVE BULLETIN*, vol. 70 (May 1984), pp. 431-33.

8. In 16 out of 22 agreements recently reviewed by Federal Reserve staff, basic banking was a negotiated issue. See also "Group Pushes for 'Lifeline' Bank Services," *St. Louis Post-Dispatch*, December 5, 1985; "Demands for Local Credit Shape More Bank Mergers," *American Banker*, June 2, 1986; and "Chase Promises Low-Cost Basic Banking Services When It Opens in Arizona," *American Banker*, August 12, 1986.

9. "Bill Aimed at Branch-Closers," *American Banker*, December 27, 1982.

10. "Cuomo Offers Bills with New Banking Powers," *American Banker*, April 19, 1984. No action was taken on the bill at that time, and the bill was reintroduced as the Governor's Program Bill, Senate 7648/Assembly 9670 (1986).

was based on recommendations made by the DeWind Commission, a group representing both industry and consumer interests formed to conduct a broadly based study of the effects of financial deregulation.<sup>11</sup> Part of the final report expressed concern that increases in fees and closings of branches might leave some consumers and some communities without access to even minimal banking services. Another recommendation of the DeWind Commission called for advance notice of branch closings. Under rules adopted by the state banking board in July 1984, the superintendent of banks, whenever determining that a closing would significantly reduce the availability of services, is authorized to call meetings with the institution and community leaders to seek a way to replace the branch with other banking facilities.

The first state to adopt a law dealing directly with fees on deposit accounts was Massachusetts. In October 1984, that state prohibited state-chartered banks from assessing service charges on savings or checking accounts held by anyone 65 years and older or 18 years and younger.<sup>12</sup> In 1985, Rhode Island adopted a similar law, prohibiting the assessment of charges on savings accounts for those 17 years of age or younger, as long as the balance is under \$500.<sup>13</sup>

In 1986, three states adopted laws to require financial institutions to offer basic banking services. Illinois requires institutions to offer "basic checking accounts" to those 65 years and older; the accounts must allow 10 free checks a month and cannot require initial deposits of more than \$100.<sup>14</sup> Minnesota and Pennsylvania have made basic banking part of their interstate banking laws: institutions involved in interstate banking are obligated to offer basic banking services. The Minnesota law defines with some specificity the "basic services transaction account" that must be offered (six free checks and six free transactions at an automated teller machine allowed per month and no periodic service charges) with eligibility restricted to those who meet an income

test or receive public benefits.<sup>15</sup> The law also requires banks to cash federal and state government checks. The Pennsylvania law authorizes the state banking department to ensure that "basic transaction account services" are available from institutions applying for interstate banking privileges.<sup>16</sup> The law leaves the definition of such services to the banking department.

The issue of basic banking has also attracted the attention of federal legislators. Although no federal legislation pertaining to basic banking has been enacted, several bills have been introduced in recent years. In the fall of 1984, a bill was introduced in the House of Representatives that would require the regulators of financial institutions to study the issue of basic banking services and offer recommendations to the Congress about what should be done "to encourage savings by individuals and to assist individuals in cashing checks."<sup>17</sup> The following year, three more bills were introduced in the House. Two of these defined in some detail the kinds of deposit accounts depository institutions would be required to offer.<sup>18</sup> The third bill would have amended the CRA to require financial regulators to consider in applications an institution's record of providing basic financial services to all members of its community, including low- and moderate-income members.<sup>19</sup>

### *Consumer Advisory Council Activity*

Established by the Congress in 1976, the Consumer Advisory Council provides advice to the Federal Reserve Board on consumer protection matters. The council consists of 30 individuals, including representatives of consumers and the financial services industry, academics, and representatives from state government agencies. In July 1984, the council formed a committee to review in greater depth the basic banking issue

11. Report of the Temporary State Commission on Banking, Insurance and Financial Services, February 15, 1984.

12. Mass. Gen. Laws Ann. ch. 167D, § 2 (West supp. 1986).

13. R.I. Gen. Laws § 19-11-11 (Supp. 1986).

14. Ill. Ann. Stat. ch. 17, § 504 (Smith-Hurd supp. 1986).

15. Reciprocal Interstate Banking Act, ch. 339, 2 Minn. Legis. Serv. 66 (West 1986) (to be codified at Minn. Stat. §§ 46.044, 48.512).

16. Act of June 25, 1986, Act. No. 1986-69, 4 Penn. Legis. Serv. 109 (Purdon 1986) (to be codified at 7 Pa. Cons. Stat. § 116(i)-(k)).

17. H.R. 6435, 98 Cong. 2 Sess. (1984).

18. H.R. 2011, 99 Cong. 1 Sess. (1985); H.R. 2661, 99 Cong. 1 Sess. (1985).

19. H.R. 15, 99 Cong. 1 Sess. (1985).

and asked the Federal Reserve staff to prepare a study of changes in bank service charges and their effect on consumers. The committee concluded that basic banking services were needed for low- and moderate-income consumers, that a voluntary approach was preferable to a legislative mandate, and that the Federal Reserve and other agencies should actively encourage the institutions they supervise to offer such services. The council endorsed the committee's conclusions and, in October 1985, recommended that the Board of Governors issue a policy statement on basic banking.

#### *AVAILABLE EVIDENCE CONCERNING BASIC BANKING*

The Federal Reserve Board and others have undertaken extensive research to assess recent changes in the way financial institutions price their deposit services. In general, this research indicates that, in the past few years, fees charged on transaction accounts have increased more quickly than the general level of prices in the economy and that minimum-balance requirements on deposit accounts have risen at about the same rate as prices overall.<sup>20</sup> The financial behavior of American families has also been investigated, and some of this research is directly relevant to the basic banking issue.

As noted earlier, proponents of basic banking have expressed concern that many Americans have no deposit account in a financial institution and that the proportion of certain groups of families in this category appears to have increased in recent years. Evidence on these points comes from two consumer surveys, the 1977 Consumer Credit Survey and the 1983 Survey of Consumer Finances, jointly sponsored by the Federal Reserve and other government agencies.<sup>21</sup> These surveys, which were conducted by

the Survey Research Center of the University of Michigan, collected detailed information on deposit accounts held by nationally representative samples of U.S. families.

#### *Characteristics of Deposit Account Holders*

In 1983, roughly 79 percent of all families held a checking account (see table 1).<sup>22</sup> In addition, 9 percent of all families held a savings account but no checking account. Taken together, these statistics imply that approximately 12 percent, or roughly 9.5 million families, in 1983 held neither a checking nor a savings account (table 2). The vast majority of these families had no other deposit accounts in a financial institution in 1983.

The 1983 survey affords an opportunity to examine the characteristics of families that do not maintain a deposit account in a financial institution. Although families without deposit accounts are in all income, age, and education groups, most of these families are concentrated in relatively few categories (see table 2). Overwhelmingly, the most common attribute of families without a deposit account is low income. Thirty-six percent of families in the lowest quintile for family income (family income less than \$8,400) did not have a deposit account in 1983. In contrast, almost all families in the highest quintile for family income (income more than \$37,000) had a checking account, a savings account, or both. Overall, 57 percent of all families without an account in 1983 fell into the lowest quintile for family income (table 2, column 3).

Families without a high-school diploma also make up a substantial fraction of all the families without a deposit account. While these less-educated families are 28 percent of all families (data not shown in tables), they account for 59 percent of all families without a deposit account.

Since families without a deposit account tend to be poor, examining the demographic characteristics of these lower-income families in some detail is informative (see table 3). The data reveal

20. See Glenn B. Canner and Robert D. Kurtz, *Service Charges as a Source of Bank Income and Their Impact on Consumers*, Staff Studies 145 (Board of Governors of the Federal Reserve System, 1985), tables B.1-B.7, pp. 21-25.

21. For a summary of basic results of these surveys, see Thomas A. Durkin and Gregory E. Eliehausen, *1977 Consumer Credit Survey* (Board of Governors of the Federal Reserve System, 1977), and Robert B. Avery and others, "Survey of Consumer Finances, 1983," *FEDERAL RESERVE BULLETIN*, vol. 70 (September 1984), pp. 679-92.

22. Checking accounts include non-interest-bearing demand deposit and NOW accounts but exclude money market deposit accounts.

# 1. Checking and savings account holdings of families with selected characteristics, 1977 and 1983

Percent of group

Family group	Hold checking account		Hold savings account only <sup>1</sup>	
	1977	1983	1977	1983
<i>Family income (decile)<sup>2</sup></i>				
Lowest.....	56	44	14	13
Second.....	58	58	15	13
Third.....	75	65	15	11
Fourth.....	79	77	12	11
Fifth.....	86	80	10	11
Sixth.....	89	87	7	7
Seventh.....	89	90	8	8
Eighth.....	96	93	3	5
Ninth.....	96	95	3	4
Highest.....	96	97	1	3
<i>Age of family head (years)</i>				
Less than 25.....	73	63	16	16
25-34.....	83	75	8	10
35-44.....	88	83	5	7
45-54.....	86	81	9	7
55-64.....	83	83	7	7
65-74.....	79	82	9	6
75 or more.....	71	76	16	9
<i>Education of family head</i>				
0-8 grades.....	63	59	14	12
9-11 grades.....	69	66	13	10
High-school diploma.....	87	80	7	10
Some college.....	90	84	8	8
College degree.....	97	95	3	3
<b>All families.....</b>	<b>81</b>	<b>79</b>	<b>9</b>	<b>9</b>

1. These families hold a savings account but not a checking account.

2. A difference of less than about 11 percentage points between 1977 and 1983 is not statistically significant.

SOURCES: Thomas A. Durkin and Gregory E. Elliehausen, *1977 Consumer Credit Survey* (Board of Governors of the Federal Reserve System, 1977); Robert B. Avery and others, "Survey of Consumer Finances, 1983," *FEDERAL RESERVE BULLETIN*, vol. 70 (September 1984), pp. 679-92.

that low-income families headed by unmarried nonwhites, regardless of age, are disproportionately represented among families without accounts. Particularly noteworthy is the disproportionate number of families headed by unmarried nonwhite women that had no checking or savings account. Families headed by such nonwhite women (regardless of age) are 17 percent of total low-income families but 34 percent of all low-income families without a deposit account. Overall, regardless of age or income, families headed by nonwhite women are 7 percent of all families but make up 27 percent of all families without accounts. Married families with a nonwhite head also are disproportionately represented among families without accounts: they are 9 percent of all families but 17 percent of all families without a checking or savings account.

## Changes in Deposit Account Holdings

Evidence from consumer surveys indicates that roughly 10 percent of families did not maintain deposit accounts in either 1977 or 1983. Close inspection of the survey data shows that between those two years certain groups of families experienced a decline in account ownership. For example, the proportion of families headed by a younger person having a checking account decreased, as did the proportion of families in the lowest income group (table 1). Moreover, the proportion of lower-income and younger families without any deposit account increased over this period (table 2).

Some proponents of basic banking contend that the decline in account ownership (particularly among the poor) is a consequence of financial deregulation. However, underlying changes in the demographic composition of the population

## 2. Proportion of families not holding a depository account, by family groups with selected characteristics, 1977 and 1983

Percent of group except as noted

Family group	1977	1983	Cumulative percentage of all families without a deposit account, 1983
<i>Family income (quintile)<sup>1</sup></i>			
Lowest.....	28	36	57
Second.....	10	17	84
Third.....	4	2	95
Fourth.....	2	2	99
Highest.....	*	1	100
<i>Age of family head (years)</i>			
Less than 25.....	11	22	13
25-34.....	9	14	39
35-44.....	7	10	54
45-54.....	6	11	68
55-64.....	10	10	80
65-74.....	12	13	92
75 or more.....	14	15	100
<i>Education of family head</i>			
0-8 grades.....	23	29	33
9-11 grades.....	18	25	59
High-school diploma.....	5	10	84
Some college.....	2	8	95
College degree.....	1	3	100
<b>All families<sup>2</sup>.....</b>	<b>9</b>	<b>12</b>	<b>100</b>

1. A difference of less than about 6 percentage points between 1977 and 1983 is not statistically significant.

2. A difference of less than about 2 percentage points between 1977 and 1983 is not statistically significant.

\*Less than 0.5 percent.

SOURCES: Durkin and Elliehausen, *1977 Consumer Credit Survey*; Avery and others, "Survey of Consumer Finances, 1983."

## 3. Distribution of account holdings by families with incomes of less than \$10,000 and by all families, by selected characteristics of head, 1983

Percent<sup>1</sup>

Head of family	Families with incomes of less than \$10,000				All families			
	Neither savings nor checking account	Savings account only	Checking account	Total	Neither savings nor checking account	Savings account only	Checking account	Total
<i>Less than 50 years of age</i>								
Unmarried								
White male . . . .	5	11	8	7	6	11	6	7
Nonwhite male . .	3	3	1	2	4	4	1	2
White female . . .	10	16	13	12	8	10	9	9
Nonwhite female .	19	11	2	9	16	8	2	4
Married								
White . . . . .	9	10	10	9	16	22	34	31
Nonwhite . . . . .	8	2	2	4	10	10	5	6
<i>More than 50 years of age</i>								
Unmarried								
White male . . . .	5	8	6	6	4	5	3	3
Nonwhite male . .	4	5	1	2	3	2	*	1
White female . . .	10	14	32	22	8	7	11	10
Nonwhite female .	15	10	4	8	11	5	1	3
Married								
White . . . . .	6	6	17	12	8	12	25	22
Nonwhite . . . . .	8	4	3	5	7	4	2	3
<b>Total . . . . .</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

1. Details may not add to totals because of rounding.

SOURCES: Robert B. Avery and Gregory E. Ellichhausen, "Additional Evidence on Deposit Account Ownership Changes and Usage

Factors," memorandum to the Board of Governors of the Federal Reserve System (June 6, 1986), table 2.

and differences in prevailing economic conditions at the times of the 1977 and 1983 surveys provide a competing explanation. Survey findings indicate, for example, that a substantially higher proportion of families in the lowest income decile were unemployed in 1983 than in 1977. Since only about one-fifth of unemployed families in this income group held either a checking or a savings account in 1983, growth in the proportion of lower-income families that were unemployed between 1977 and 1983 may account for part of the decline in measured ownership of deposit accounts among all families in this income category.

Changes in the demographic composition of the population between 1977 and 1983 may also account for the differences in checking account holdings among the poor. In particular, there were significantly more low-income families headed by a female in 1983 than in 1977 (data not shown in tables). Because this group is less likely than other families to hold accounts, the decline in account ownership among the poor may reflect in substantial part changes in the composi-

tion of the population rather than changes in regulation or underlying consumer behavior.<sup>23</sup>

### Reasons for Lack of Account Ownership

Whereas the socioeconomic attributes of families without accounts are relatively well known, much less information is available on the reasons that these families do not have accounts. Such information is important because it improves our understanding of the financial behavior of such families and helps indicate the potential demand for basic banking services.

As noted earlier, before 1980, service fees and minimum-balance requirements on checking or savings accounts either did not exist or had levels much lower than they are today. Nevertheless, in 1977, 9 percent of all families did not hold a deposit account. Factors other than the

23. Robert B. Avery and Gregory E. Ellichhausen, "Additional Evidence on Deposit Account Ownership Changes and Usage Factors," memorandum to the Board of Governors of the Federal Reserve System, June 6, 1986.

pricing of deposit services seem to explain the behavior of these families. Although no available information specifically explains consumers' decisions to hold deposit accounts in 1977, recent surveys that focus directly on the current financial behavior of consumers may help the understanding of the reasons that certain families do not hold deposit accounts.<sup>24</sup>

In 1985, the Unidex Corporation conducted one such survey.<sup>25</sup> Families that had closed their only checking account as well as families that had never held such an account were asked about their motivation for these decisions (table 4). In all cases a respondent's answer was followed by questions soliciting a more specific response. Nearly half of the consumers reported that they either did not want a checking account or did not need such an account. Among those who indicated they did not want an account, most stated that they preferred to use cash or money orders or had difficulty keeping an account balance. Some indicated they did not trust financial institutions.

A substantial number of respondents (43 percent of those who had closed an account and 44 percent of those who had never had a checking account) also stated that they could not afford such an account. When questioned further, most of these families indicated they did not have enough money to make having an account worthwhile. Some respondents also mentioned high service fees as the reason they could not afford an account. Specifically, 11 percent of those who closed an account because they could not afford it cited high service fees as the reason for their decision, and 2 percent of those who had never had an account because they could not afford it cited high service fees as the reason.<sup>26</sup> A relative-

#### 4. Reasons given by consumers for closing or never opening a checking account, 1985<sup>1</sup>

Percent

Reason <sup>2</sup>	Closed a checking account	Never opened a checking account
<i>Major reasons</i>		
<b>All reasons, total</b> .....	<b>100</b>	<b>100</b>
Do not need account .....	21	22
Cannot afford account .....	43	44
Do not want account .....	26	29
Not convenient .....	10	6
<i>Subcategories of reasons</i>		
Do not need account, total .....	100	100
Do not need account .....	10	11
Use savings account instead .....	19	33
Do not make enough transactions ....	71	56
Cannot afford account, total .....	100	100
Cannot afford account .....	6	11
Do not have enough money to make account worthwhile .....	83	87
Cannot afford service charges .....	11	2
Do not want account .....	100	29
Do not want account .....	6	13
Prefer to use cash or money order ...	35	62
Have trouble keeping account balance .....	45	13
Do not trust institution .....	14	13
Not convenient .....	100	100
Not convenient .....	58	55
Banking hours not convenient .....	12	36
No bank nearby .....	30	9

1. Respondents are low-income families without a checking account. The number of respondents who closed a checking account was 206, and the number who never opened a checking account was 312. Details may not add to totals because of rounding.

2. Subcategories represent probing for specific reason.

SOURCE: Unidex Corporation, "Low-Income Checking Study," sponsored by the American Bankers Association, February 1985.

ly small group of consumers also reported they either had closed their only checking account or had never had such an account because it was inconvenient. When questioned further, some of these consumers specifically noted that no financial institution was located conveniently for them.

In June 1986, the Federal Reserve Board sponsored a survey that collected information about deposit account ownership from a nationally representative sample of families.<sup>27</sup> Those fam-

percent had recently given up their checking accounts; 23 percent of these families cited high service fees or minimum-balance requirements as the reason they dropped their checking account. "The Money Order User Profile," survey by J. MacLachlan and Associates on behalf of Travelers Express Company, Inc., April 1985.

27. Survey of Consumer Attitudes, conducted by the University of Michigan, Survey Research Center, June 1986.

24. One limitation of these surveys is that they were conducted by telephone. As a result, families without phones could not be contacted. Whether the behavior of such families (most of whom have low incomes) is similar to that of other families, particularly other low-income families, is unknown.

25. The survey included 527 low- and moderate-income families without a checking account. See "Low-Income Checking Study," survey by Unidex Corporation on behalf of the American Bankers Association, February 1985.

26. A recent survey sponsored by the Travelers Express Company found that among regular users of money orders 14

ilies without a checking or savings account were asked why they did not hold a deposit account. Although the number of respondents without accounts in the sample was relatively small, the responses were consistent with those found in the Unidex survey. No consumers in the June survey mentioned high service fees or minimum balance requirements as the main reason for not having an account. The majority of respondents without an account indicated they would not write enough checks or did not have enough money to make having an account worthwhile (table 5). Thirteen percent of respondents indicated they preferred to use currency or money orders, rather than checks, to conduct their financial affairs. In addition, a small group (3 percent) of respondents stated that they did not have a deposit account because financial institutions were either inconveniently located or not open at convenient hours.

Although direct evidence on the financial habits of families without accounts is limited, some data are available for analysis. Like other families, those without deposit accounts incur bills associated with shelter, utilities, and the like. Unlike families with checking accounts, however, these families rely primarily on cash and money orders to pay bills.<sup>28</sup> Results of the June 1986 Survey of Consumer Attitudes indicate that 47 percent of families without accounts reported using money orders in the previous month compared with only 6 percent of families with checking accounts (data not shown in tables). Sixty-six percent of families with savings accounts but no checking accounts reported using money orders in the previous month. On average, families without accounts used only three money orders per month. These findings are consistent with those reported in the 1985 Unidex survey. That survey found that roughly half (48 percent) of the families without a checking account regularly use money orders to pay bills and that 70 percent of these families typically pay no more than five

#### 5. Reasons given by consumers for having neither a checking nor a savings account, 1986<sup>1</sup>

Reason	Respondents	
	Number	Percent <sup>2</sup>
Prefer currency or money orders . . . . .	9	13
Would not write enough checks or have enough money to make account worthwhile . . . . .	42	63
High service charges or minimum-balance requirements . . . . .	0	0
Inconvenient hours or location . . . . .	2	3
Other . . . . .	5	7
Don't know . . . . .	9	13
<b>Total . . . . .</b>	<b>67</b>	<b>100</b>

1. The survey asked each respondent: What is the most important reason that you do not now have a checking or savings account—is it because you prefer to use currency or money orders, because you do not write enough checks or have enough money to make an account worthwhile, because the service charges or minimum balance requirements are too high, because the bank does not have convenient hours or locations, or what?

2. Details do not add to totals because of rounding.

SOURCE: Survey of Consumer Attitudes, conducted by the University of Michigan, Survey Research Center, June 1986.

bills a month. This latter figure is consistent with the finding that most families without accounts have particularly low expenditures.

Analysis of data from the 1984 Currency and Transaction Account Usage Survey sponsored by the Federal Reserve Board provides further evidence that most families without deposit accounts have minimal demand for financial services.<sup>29</sup> Using survey data obtained from families with deposit accounts, a statistical model was developed to predict account usage on the basis of income and other demographic characteristics.<sup>30</sup> This model was used to forecast the manner in which low-income families without accounts would use such accounts if they had them. The model predicts that low-income families currently without checking accounts would hold account balances averaging about one-half that of other low-income families and would write only one-half as many checks. This result occurs primarily because families currently without accounts have, on average, lower incomes

28. Families without checking accounts most frequently use money orders to pay utility, rent, mortgage, insurance, medical, and charge account bills. See J.L. Pierce, "The Users of Money Orders," paper prepared for the Symposium on Money Orders and Travelers Checks, California State Banking Department, San Francisco, December 8-9, 1977. Further evidence on the use of money orders is found in "Money Order User Profile."

29. The 1984 Currency and Transaction Account Usage Survey collected detailed information from consumers about their payment practices, including their sources and uses of cash. See Robert B. Avery and others, "The Use of Cash and Transaction Accounts by American Families," *FEDERAL RESERVE BULLETIN*, vol. 72 (February 1986), pp. 87-108.

30. Avery and Elliehausen, "Additional Evidence," table 4.

and expenditures than low-income families that have checking accounts.

### RESPONSES TO CALLS FOR BASIC BANKING

The banking industry and several state and federal regulatory agencies have responded to the calls for basic banking. The responses have been diverse, ranging over a wide spectrum.

#### Industry Response

Whereas some financial institutions have chosen to offer basic banking services, others have opposed the idea that they should have to develop such special programs. Some of these institutions believe that they already offer regular banking products that meet basic banking needs. For example, many institutions have traditionally offered savings accounts with low or no fees and sold money orders. Such an arrangement gives consumers an opportunity to pay bills without using cash and provides a safe place to hold funds.

Regardless of whether they have decided to offer basic banking services, some institutions question whether such services really constitute a "right" or "necessity," and some question whether the evidence supports the contention that people have in fact been forced out of the banking system. They ask why banks and other regulated financial institutions should be required to provide services at reduced prices when similar demands are not made of sellers of other goods and services. They contend that banks should not be treated like public utilities and suggest that, if the government believes all people should have specific banking services, the government should provide subsidies.

A number of financial institutions have chosen to make basic banking services available. Such services have long been offered to certain groups (particularly to the elderly in the form of senior citizens accounts), and an increasing number of institutions are developing programs available to the general public.<sup>31</sup> A 1985 survey by the Ameri-

#### 6. Proportion of commercial banks offering basic banking services, by size of assets, selected years

Percent

Bank assets (millions of dollars)	1984	1985	Plan to offer <sup>1</sup>
Less than 50 .....	9.9	10.7	4.3
50-99 .....	9.8	15.9	25.6
100-499 .....	10.7	21.0	42.0
500-999 .....	17.4	32.3	35.5
1,000 or more .....	19.8	24.6	45.6
<b>All banks<sup>2</sup> .....</b>	<b>13.4</b>	<b>21.1</b>	<b>38.0</b>

1. In 1985, these banks stated they planned to offer basic banking services.

2. This is an average weighted by the total number of banks in each asset class.

SOURCE: *Retail Deposit Services Reports* (Washington, DC: American Bankers Association, 1984 and 1985).

can Bankers Association (ABA) revealed that 21 percent of all commercial banks offered a basic banking account, up from 13 percent in 1984 (table 6). The survey also found that 38 percent of the banks without a basic banking program had plans to initiate such services. According to the ABA survey, larger banks, most of which are located in urban areas, are more likely than smaller banks to offer basic banking services. A survey of large financial institutions conducted in 1985 by Trans Data Corporation found that 24 percent of the largest banks and thrift institutions offered basic banking accounts and a similar percentage planned to begin offering such accounts during 1986.<sup>32</sup> A Credit Union National Association survey of its members in the spring of 1985 found that 75 percent of credit unions that offer share draft accounts imposed no maintenance or per draft fees.<sup>33</sup>

Besides conducting surveys to gather information about available basic banking services, national and state trade associations have sponsored research on consumer attitudes about changes in service charges, the effect of branch closings, reasons for not holding an account, and the need for and desirability of basic banking accounts. Several trade associations have made special efforts to encourage their members to

31. Surveys of commercial banks indicate that 74 percent of banks offer "free" checking account services to senior citizens. *Pricing of Bank Services and Loans* (Austin, Texas: Sheshunoff and Company, 1983).

32. *Retail Packaging, Lifelines and Deregulation 1986* (Salisbury, Maryland: Trans Data Corporation, Deposits and Credit Products Program, 1985).

33. Credit Union National Association, "Credit Union Service Charges and Check Hold Policies" (Madison, Wisconsin: July 1985).

develop and market voluntarily products that will provide banking services at affordable prices. The ABA and the Consumer Bankers Association, for example, have called on their member institutions to respond to the demands for basic banking services and have provided models to guide the development and marketing of such programs. Both organizations have also alerted their members to related matters—such as the importance of careful evaluation of proposed branch closings and the problems caused by requiring credit cards for opening accounts—and have encouraged the development of alternative policies.

### *Regulatory Agency Response*

Concerns about the accessibility and affordability of services have been voiced by various state and federal regulatory agencies. The New York State Banking Department, for instance, convened a joint industry–consumer task force to turn the DeWind Commission's recommendations into concrete legislative proposals for basic banking accounts. Both the Office of the Comptroller of the Currency (OCC) and the Federal Reserve System have arranged several meetings, conferences, and seminars with bankers and consumer representatives to discuss basic banking services and related issues.

The OCC sent two letters to national banks in 1985 alerting them to the possible problems associated with changes in banking practices. The first letter urged banks to take steps to minimize the adverse effect branch closings and reduction of services can have on communities, particularly low- and moderate-income communities. The letter suggested using objective criteria for decisions about cutbacks, considering whether other institutions exist in the neighborhood, and giving advance notice of closings to residents. Later in 1985, the OCC issued a banking circular encouraging banks to develop and promote basic banking services to customers.<sup>34</sup>

The Federal Reserve Board first discussed the

basic banking issue in June 1986. The discussion was initiated in response to the Consumer Advisory Council's recommendation described earlier. The Board deferred action on a proposed policy statement to review the results of research then under way concerning changes in account ownership and reasons for not holding accounts. Board members were also interested in learning more about how successful the banking trade associations had been in encouraging voluntary action by their member institutions. Finally, some Board members expressed concern about whether the policy statement would be perceived incorrectly as mandating the provision of basic banking services.

The Board again considered the question in September 1986 and at this meeting approved a policy statement. The Board was influenced by the Consumer Advisory Council's request that the Board not delay approval of the policy statement. Council members felt that Board action would strengthen the industry's voluntary efforts and might reduce the likelihood of burdensome legislation. The policy statement ultimately approved by the Board differs from the draft originally considered in that the statement emphasizes supporting and encouraging trade associations to address actively the interest in basic banking services.

### *ISSUES TO WATCH*

As noted, a growing number of financial institutions are implementing basic banking programs. Efforts by trade associations to encourage the development of such programs, along with recent endorsement by regulatory agencies of such actions, will likely accelerate this trend. Despite the relatively rapid development of basic banking plans, the effectiveness and the profitability of these programs still need to be assessed.

### *Effectiveness*

Whether reduced fees for deposit account services will prove attractive to families without such accounts is unclear. When asked why they

34. Banking Circular on Basic Banking Services, Office of the Comptroller of the Currency, August 23, 1985.

do not hold a deposit account, many families cite affordability of banking services in general or say they do not have enough money or transactions to make an account worthwhile. Yet few families specifically cite high service charges and high minimum-balance requirements as the reasons they have no deposit account. Furthermore, the cost of using nondepository providers of financial services (such as check-cashing facilities and sellers of money orders) raises a question about the importance of price compared with other factors in the decision about whether or not to hold an account. Finally, lowering the price for services does not address the concern expressed by the small proportion of families without accounts who cite inconvenient hours of operation or location of banking facilities as the main reason they do not hold an account. Thus, although reduced charges for deposit account services may be attractive to the most price-sensitive families without accounts, whether the majority of families without accounts will be drawn to basic banking services is an open question.

Evaluation of the effectiveness of basic banking programs must include how well such programs are reaching targeted groups. The marketing practices of institutions offering basic banking will have a bearing on the number of families that seek such services. Financial institutions may find effective marketing difficult because they may be unaccustomed to selling products to such families. Moreover, these families undoubtedly have developed relationships with nondepository providers of financial services and may be reluctant to change established financial habits. Without special outreach efforts in both marketing and education, institutions may find basic banking programs largely unused or used by groups for whom the plans are really not intended—college students, for example.

### *Profitability*

Besides the effectiveness of basic banking programs, issues related to the profitability of such services warrant attention. Although the regulatory agencies have endorsed the concept of basic

banking, they have stated that such programs should be implemented in a manner consistent with the safety and soundness of the institution. The clear implication is that institutions should attempt to develop products that meet the needs of their potential basic banking customers without losing money. The ability of depository institutions to implement programs in this manner is unclear. For instance, a 1986 survey by the Consumer Bankers Association found that 61 percent of the banks offering basic banking plans operated them on a break-even or profitable basis.<sup>35</sup> A similar survey, conducted by the ABA in 1986, found that 53 percent of banks offering basic banking plans operated them on a break-even or profitable basis.<sup>36</sup>

### *Competitive Equity*

Competitive equity is a third area meriting attention. The market for most types of transaction account services is local in nature. Thus the type of community in which a financial institution operates will have a direct bearing on potential demand for its basic banking services. Institutions in predominately lower-income neighborhoods may find the demand for their basic banking accounts far different from that found by institutions in higher-income locations. If basic banking programs cannot be operated profitably, or at least on a break-even basis, institutions located in lower-income areas that offer such accounts will operate at a competitive disadvantage. Ironically, this situation could create an incentive for office relocations, potentially hurting all bank customers in the area.

These and other issues will need to be more fully explored as basic banking services become more common and assessments are made of how well such services meet the purposes for which they were intended.

35. Consumer Bankers Association, "Basic Banking Services Survey" (Arlington, Virginia: November 1986).

36. American Bankers Association, "Survey of Basic/No-Frills Banking Services: Management Summary of Results" (Washington, DC: January 26, 1987).

## APPENDIX

The following is the text of the policy statement approved by the Federal Financial Institutions Examination Council on October 2, 1986. The FFIEC consists of representatives from the five federal agencies that regulate financial institutions: the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Federal Reserve Board, the National Credit Union Administration, and the Office of the Comptroller of the Currency. The policy statement was also approved by three associations of state supervisors: the Conference of State Bank Supervisors, the National Association of State Credit Union Supervisors, and the National Association of State Savings and Loan Supervisors.

### *Joint Policy Statement on Basic Financial Services*

The Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, Office of the Comptroller of the Currency, Conference of State Bank Supervisors, National Association of State Credit Union Supervisors, and National Association of State Savings and Loan Supervisors are issuing this joint policy statement to encourage the efforts of trade associations and individual depository institutions regarding the offering of "basic financial services."<sup>1</sup>

The economic environment in which financial institutions operate has changed over the past few years, due in part to increased competition from outside the traditional depository institution structure, increased cost of funds following deregulation of interest rates, and interest rate volatility. As a consequence, many institutions have had to adopt new strategies to market their services, generate income, manage risk, and reduce costs. Some institutions have begun to

explicitly price their products, consolidate or eliminate services they believe to be unprofitable, and close branch offices. In many instances, institutions have increased service charges, imposed new fees, and raised minimum balance requirements.

While such adaptation may be a necessary response to competitive markets, considerable concern has developed about the potential impact of these changes in effectively denying or reducing convenient access of many individuals to the payments system and to safe depositories for small savings. Because credit availability is often dependent on an account relationship with a financial institution, access to credit for low-income or young consumers may also be adversely affected.

While a significant number of consumers have never had a deposit account, some research studies reflect declines in account ownership that may be cause for concern. For example, between 1977 and 1983 the proportion of families headed by a younger person having checking accounts decreased, as did the number of families from the lowest income group, regardless of age. The proportion of young families having either a savings or a checking account also declined. While the cause of these declines is not always clear, the surveys do suggest that a significant number of individuals or families do not have a deposit relationship of any kind.

Legislation dealing with basic financial services has been introduced at both the federal and state level[s] as a result of these concerns. The industry has also responded. Many financial institutions have independently undertaken to develop and implement new measures to meet minimum consumer needs. They are offering basic services, such as low-cost transaction and savings accounts with low or no minimum balances, accounts for consumers who use a limited number of checks or drafts, and other accounts on which minimal charges are made for account maintenance. Institutions that have for years offered such services to particular groups of customers are now advertising their availability more widely. Other institutions are exploring and finding ways to maintain a physical presence in low- and moderate-income neighborhoods even while reducing the expense normally associated

1. The Comptroller of the Currency previously issued a banking circular on this subject to all national banks in August 1985.

with full branch facilities. Trade groups too have joined in these efforts to encourage the offering of such services at affordable prices. The American Bankers Association and Consumer Bankers Association, for example, have called upon their members to address the continuing interest in basic banking services.

The member agencies of the Federal Financial Institutions Examination Council and the associations of state supervisors wish to encourage such efforts by trade associations and individual depository institutions that promote the offering of basic financial services, consistent with safe and sound business practices. While the specific type of services will, of course, vary because of differences in local needs and in the characteristics of individual institutions, we encourage efforts to meet certain minimum needs of all consumers, in particular:

- the need for a safe and accessible place to keep money;

- the need for a way to obtain cash (including, for example, the cashing of government checks);
- the need for a way to make third party payments.

We believe that industry trade associations have a key role to play in this effort, and are in a position to encourage a constructive response without the rigidities of legislation or regulation. We realize that some associations have such programs already under way.

These programs could usefully:

1. Encourage members to offer and appropriately publicize low-cost basic financial services such as those listed above.
2. Survey the current availability of such services among member institutions.
3. Make available to members not providing such services material reflecting the successful experiences of other organizations.

# Staff Studies

*The staffs of the Board of Governors of the Federal Reserve System and of the Federal Reserve Banks undertake studies that cover a wide range of economic and financial subjects. From time to time the results of studies that are of general interest to the professions and to others are summarized in the FEDERAL RESERVE BULLETIN.*

*The analyses and conclusions set forth are those of the authors and do not necessarily*

*indicate concurrence by the Board of Governors, by the Federal Reserve Banks, or by the members of their staffs.*

*Single copies of the full text of each of the studies or papers summarized in the BULLETIN are available without charge. The list of Federal Reserve Board publications at the back of each BULLETIN includes a separate section entitled "Staff Studies" that lists the studies that are currently available.*

## STUDY SUMMARY

### DETERMINANTS OF CORPORATE MERGER ACTIVITY: A REVIEW OF THE LITERATURE

*Mark Warshawsky—Staff, Board of Governors*

Prepared as a staff study in the fall of 1986

Merger and restructuring activity among corporations has increased dramatically in recent years. The high level of activity has attracted considerable attention owing to the size and prominence of the corporations involved, the predominant use of debt (in particular, low-grade "junk" bonds) to finance the activity, and the success of hostile raiders in forcing changes in management and in corporate policies. Particular concern has been expressed about the significant cutbacks in corporate expenditures and staff that often result after completion of a takeover or restructuring. More recently, several cases of "insider" trading in stocks of target firms have led to enforcement actions. These concerns have prompted several proposals to curb takeovers.

This paper reviews the relevant theoretical literature, much of it recent, regarding the major determinants of corporate merger activity and examines the empirical evidence bearing on the aptness of the suggested explanations. It also addresses the issue of increased leverage.

The literature suggests four major hypotheses

to explain merger activity. These are not by any means mutually exclusive and might all be relevant in varying degree in different periods and circumstances. The dominant view, for which empirical studies have provided support, is that mergers and takeovers primarily reflect efforts to wrest corporate control from inefficient, entrenched management in order to realize the full potential of a firm's assets. In the recent period, the targets of many threatened or actual takeovers have been firms that seemed to have larger cash flows than they could profitably plow back into their basic businesses given the long-range growth prospects of their industries. These firms in effect were forced to distribute that excess cash flow by exchanging debt for equity. In other instances, firms were forced to sell productive assets that they were unable to manage effectively. Any rise in share prices after restructuring or takeover reflects the market's expectation that the actions taken will improve a firm's profitability.

The second hypothesis focuses on tax consid-

erations. A merger may afford important tax advantages through a rise in the asset "basis" for depreciation allowances and other purposes, the capture of tax-loss carryovers, or enhanced leverage. As an explanation of the choice of a merger to realize tax savings, this hypothesis suffers from the fact that many of these tax advantages can be achieved by alternative transactions—for example, through partial asset sales or debt-for-equity swaps. Tax factors, however, may contribute to the profitability of mergers, even if the choice of this transaction is primarily motivated by other considerations. Consequently, tax factors may play a significant, although largely secondary, role in the prices paid for target companies and in the number of mergers undertaken.

The third hypothesis maintains that mergers are motivated by the desire to limit competition and gain market power. Logic suggests that merger activity might increase when some development (such as major deregulatory actions of the sort seen in recent years or a slowing of growth in demand for an industry's product) intensifies competition among firms and thereby enhances the desire to find relief from market pressures through combination. Alternatively, mergers will increase when antitrust restraints

are eased (again, something that has occurred in recent years).

The fourth hypothesis states that mergers and acquisitions are stimulated by financial market inefficiencies that leave corporate equities undervalued relative to their intrinsic worth. In this view, which is a commonplace in popular accounts of market activity, acquirers are shopping for "bargains," that is, buying existing physical assets more cheaply than they can be manufactured or built. Many corporate managers believe that raiders essentially "steal" corporate assets by purchasing shares at prices below their true value. Such undervaluations, which are independent of managerial inefficiency, tax considerations, or the extent of market power, result from the inability of the market to correctly value corporate assets. Market undervaluation is more likely during times of major economic disturbances and uncertainties when stock market prices generally reach their trough. Distinguishing financial market inefficiencies empirically from the corporate control case would be difficult; existing studies on market efficiency are not conclusive, and not surprisingly, any evidence of such inefficiencies is disputed by those who believe the markets do a good job of valuing corporate shares. □

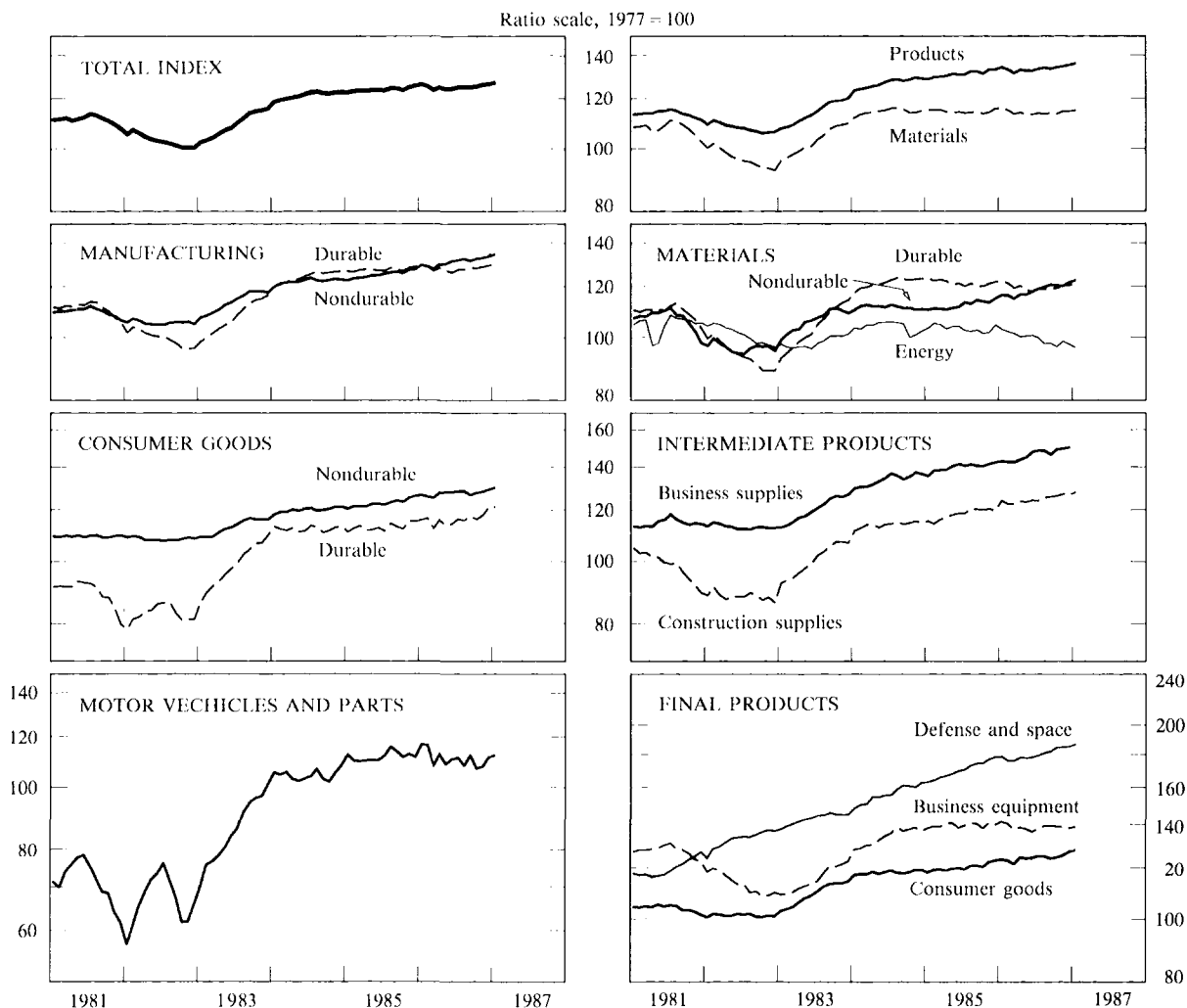
# Industrial Production

*Released for publication February 16*

Industrial production increased an estimated 0.4 percent in January following a rise of 0.3 percent (downward revised) in December. Moderate gains prevailed in most sectors, except home goods and energy materials. At 126.9 percent of the 1977 average, industrial output in January was 0.6 percent above that of a year earlier, with

manufacturing nearly 2 percent higher, but mining about 12 percent lower, than it was a year earlier.

In market groups, output of consumer goods rose 0.5 percent in January as production of nondurable consumer goods continued to advance at its recent strong pace. However, output of durable consumer goods was little changed, on balance, following a sharp gain in December.



Group	1977 = 100		Percentage change from preceding month					Percentage change, Jan. 1986 to Jan. 1987
	1986	1987	1986				1987	
	Dec.	Jan.	Sept.	Oct.	Nov.	Dec.	Jan.	
	Major market groups							
Total industrial production .....	126.4	126.9	-.1	.3	.6	.3	.4	.6
Products, total .....	135.2	135.9	-.4	.6	.4	.5	.5	1.4
Final products.....	133.9	134.6	-.3	.4	.4	.6	.5	.5
Consumer goods.....	127.1	127.8	-.7	.4	.6	1.3	.5	3.2
Durable .....	121.1	121.3	1.4	-1.0	1.3	2.8	.2	4.6
Nondurable .....	129.3	130.1	-1.4	.8	.4	.8	.7	2.8
Business equipment.....	138.3	138.9	.0	-.2	-.1	-.4	.4	-1.8
Defense and space .....	185.3	186.7	.6	1.4	.2	.2	.8	4.5
Intermediate products .....	139.6	140.3	-.6	1.3	.4	.2	.5	4.5
Construction supplies .....	126.9	127.9	.4	.3	.7	-.2	.8	3.1
Materials .....	114.4	114.6	.3	-.2	.9	.1	.2	-.7
	Major industry groups							
Manufacturing.....	131.0	131.8	.0	.3	.4	.5	.6	1.8
Durable.....	129.3	129.8	.5	.0	.4	.5	.4	.2
Nondurable .....	133.5	134.5	-.6	.7	.3	.6	.7	4.0
Mining .....	95.4	95.6	-.3	-.6	1.2	-1.3	.2	-11.6
Utilities.....	111.2	111.0	.0	.9	1.7	.0	-.1	-1.3

NOTE: Indexes are seasonally adjusted.

Production of home appliances, which expanded rapidly in late 1986, retreated in January, and auto assemblies fell to an annual rate of 7.5 million units from a rate of 7.9 million in December; these declines were offset by increases in output of trucks and home goods other than appliances.

Production of business equipment rose 0.4 percent in January, with all major categories posting gains, but the overall January level remains almost 2 percent lower than it was a year earlier. Output of defense and space equipment increased further. Following a small decline in December, the output of construction supplies rose 0.8 percent in January and production of business supplies rose 0.3 percent further to a

level more than 5 percent higher than it was a year earlier. Among materials, both durables and nondurables posted gains in January, but energy materials declined about 1 percent following a similar drop in December. Within nondurables, recent strength has been concentrated in chemicals and paper, which may have benefited, in part, from increased exports of these products.

In industry groups, output in the manufacturing sector rose 0.6 percent in January, while output of mining and utilities was about unchanged. Within manufacturing, gains were largest in nondurables, which rose 0.7 percent. Production of durables increased 0.4 percent; the gain was damped by further declines in the production of metals.

## Statements to Congress

*Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Joint Economic Committee of the U.S. Congress, February 2, 1987.*

I am pleased to appear once again before this committee to discuss the economic situation. As you know, the Federal Reserve will be submitting its semiannual report on monetary policy to the Congress later this month. My testimony at that time will provide a full account of recent monetary developments and will report on the decisions to be made by the Federal Open Market Committee regarding money and credit targets for 1987. Therefore, in my statement today I will be emphasizing more general considerations of domestic and international economic policies.

The economy is now in the fifth year of expansion, making it among the longest. During this time about 11½ million jobs have been created, and the unemployment rate has fallen more than 4 percentage points from its peak in 1982, reaching 6¾ percent in December. In contrast to the experience of the 1970s, real incomes of households have risen steadily in recent years. In the business sector, aftertax profits have recovered both absolutely and relative to overall gross national product. Interest rates, in contrast to the usual cyclical pattern, are lower today than when the expansion started.

These substantial economic gains were accompanied by—and I believe fundamentally dependent upon—consistent progress toward the objective of overall price stability. Consumer prices rose a scant 1.1 percent last year, and producer prices actually declined—a performance unrivaled since the early 1960s.

We know, of course, that such extraordinary progress reflected, in large measure, the transitory influence of the sharp drop in oil prices that occurred early last year; that movement has been partially reversed recently. Moreover, given the size of the fall in dollar exchange rates against other leading industrialized countries, increases

in some important import prices are occurring. Because of those factors, we cannot reasonably expect so satisfactory a statistical result in 1987. There is, however, encouraging evidence of continuing restraint on costs and in pricing behavior. Most significantly, the trend toward moderation in nominal wage and salary increases has continued in almost all sectors of the economy, and productivity gains in manufacturing, if not in other sectors, have been sizable during the expansion.

My purpose, however, is not to express satisfaction or complacency over past performance. What will count is whether we can build upon and sustain that progress. And the obstacles and roadblocks are evident.

You are all too familiar with regional and sectoral disparities in performance. Manufacturing has been relatively sluggish for two years or more. Much of agriculture is depressed despite massive federal assistance. The energy industry has been hard hit. Conversely, employment in services and finance has been expanding rapidly.

Overall, higher levels of consumption have been driving the economy over the past two years, while investment and domestic savings have lagged, hardly a sustainable combination. The exuberance of financial markets and the rapid pace of debt creation have been accompanied by evident pressures on some sectors of the financial system, rising loan losses, and the risks implied by greater leveraging of many businesses.

Plainly, in their particulars, many of the strains and imbalances in our economy can be traced to specific circumstances beyond the reach of broad fiscal or monetary policies. For instance, there is a worldwide tendency toward growing surpluses of basic agricultural commodities. The sharp break in oil prices has also been an international market event. Both of those circumstances have contributed to the strains on some lending institutions. But, through it all, two disturbing,

and partly related, currents run strongly—our trade and budget deficits. Those are matters that must be addressed—indeed can only be constructively addressed—by appropriate national policies. And if we delay, the adjustments will become even more difficult, compounding the risks for the future.

The direct effects of the trade deficit are clear enough. Burgeoning imports over several years, while exports in real terms have risen much more slowly, largely account for the overall sluggishness of manufacturing. With capacity ample, that sluggishness feeds back on spending for plant and equipment.

The effects of the budget deficit, in current circumstances, may be less obvious—after all, as many have noted, interest rates have fallen while the deficits have been so large, the huge new issues of Treasury securities have found a market, and private debt creation has been high as well. How is that possible when, to take one simple benchmark, our federal deficit has averaged about two-thirds of the net savings generated by our economy over the past four years?

In effect, the answer is that we are drawing on the savings of others: in 1986, the net influx of foreign capital appears to have exceeded all the savings generated by individuals in the United States. That capital influx is the mirror image of the deficit in our current account—we cannot, at one and the same time, borrow abroad (net) to cover a domestic investment-savings imbalance and run a balanced current account.

In a sense we have been fortunate. We have been able to increase consumption rather rapidly, sustain overall growth, and reduce inflation and interest rates even in the face of a large federal budget deficit by calling upon other nations' savings, which they have readily provided. But the cost has been a rising trade deficit and increasing international indebtedness, strong pressures on manufacturing in the here and now, and an unsustainable pattern of economic activity for the future fraught with political as well as economic risks.

Stated simply, we are living beyond our means—individuals, businesses, and government have collectively been spending more than we produce. That might be acceptable *if* we were matching the foreign borrowing with a surge in productive investment in the United States. That

has been the case at times in the distant past in the United States and in other countries more recently. But we are not making that match now—it's consumption that has been leading the economic parade.

In that context, the challenge for economic policy over the next few years is clear enough. We have to work toward better *external* and *internal* balance at the same time. The adjustments required are large. Given our extended position, the difficulties and risks are substantial. We do not want to achieve the needed external adjustments by recession, nor can we reasonably float off our debts by rekindling inflation—and I do not think it is realistic to think we have the option of trading one of those possibilities for the other.

That may sound like abstraction. I will be more specific.

One requirement is progress in reducing our trade deficit. That, on the face of it, will bring benefits to manufacturing in the United States. The potential is huge—to close our \$150 billion trade deficit by increased manufacturing (and I do not see any other practical avenue) implies a 15 to 20 percent increase in industrial output over the coming years above and beyond that required to support domestic growth. While a surge of that kind would be welcome in many respects, the challenge is to achieve it without renewed inflationary pressure in that sector. That will require continuing restraint on costs, more modernization, and in time more capacity, which in turn will require both money and real resources.

By definition, as we close the current account deficit, those funds and real resources will no longer be available from abroad. So we will have to increase our own savings or reduce other demands on savings at home. The obvious candidate—again, as a practical matter, it must be the largest “contributor”—is a reduction in our federal budget deficit. And, unless productivity in the economy as a whole is to dramatically increase above the recent trend of 1 percent or so—and unhappily there is no solid evidence for that—we will not be able to close the gap in trade and meet our domestic investment needs without slowing the growth in domestic consumption well below the 4 percent pace it has averaged during the current expansion.

In concept, all those things are “doable.”

They provide the outline of an appropriate economic strategy. The result would be a more balanced economy, greatly enhancing the prospects for sustained growth and greater exchange rate and financial stability.

In fact, I believe we are beginning to make progress in the required directions. But, in a sense, we have so far only set the stage. Many difficult decisions lie ahead.

- In the current fiscal year, some significant progress toward reducing the extraordinary budget deficit appears to be under way. But, as you well know, sustaining that progress will require still more difficult decisions this year, and for the years beyond. The Gramm–Rudman–Hollings targets have signaled your intentions, but more important than those numerical targets is specific action by the Congress to ensure that the deficit will, in fact, continue to decline year by year. Without that progress, it is difficult to see how we could manage to reduce the trade deficit—and with it the net capital flow from abroad—without jeopardizing growth, progress toward lower interest rates, and financial and price stability at home.

- The large realignment of exchange rates over the past two years should enable our industry to compete much more aggressively with other major industrialized countries. But that constructive development should not obscure the fact that a declining dollar at some point has high costs and risks as well. It generates inflationary pressures. Uncertainties about the future direction of currency values could dampen the willingness of others to place or maintain funds in the United States—funds upon which, for the time being, we are utterly dependent to finance internal needs.

A self-generating cumulative process of currency depreciation and inflation serves no one's interest. Economic history is littered with examples of countries that acted as if currency depreciation alone could substitute for other action to restore balance and competitiveness to their economies.

- That history emphasizes the need for national policy to remain strongly oriented toward maintaining greater price stability. As I indicated earlier, the good performance of the key price indexes in 1986 probably cannot be matched this year as we absorb higher import prices and oil

prices no longer fall. But monetary policy, in particular, must remain alert to the need to avoid any sense of cumulating inflationary pressures.

Over the past year or more, as inflation has subsided and with limited economic growth, the Federal Reserve has been able to accommodate a rapid growth in money and the discount rate has been reduced on several occasions. Clearly, renewed inflationary pressures and weakness in the dollar externally would be factors limiting our flexibility. In that context, your efforts to deal with the budget deficit are even more central to the financial and economic outlook.

- In the end, the efficiency, competitiveness, and salesmanship of U.S. industry, and its ability to resist cost increases, will be critical. As I indicated earlier, there are encouraging signs of improved productivity in manufacturing. As a result, profits and cash flow have been reasonably well maintained even as prices of goods have remained virtually stable.

All that has been achieved during a period of intense competitive pressure from abroad and at a time of little growth. The challenge will be to maintain that performance as prices of competitive imports increase, as export markets improve, and as new needs for capacity arise. If not, the gains from the realignment of currencies will be frittered away.

The point has often been made that despite the longer-run benefits for the economy as a whole, recent tax changes may tend to inhibit plant and equipment spending in some industries. On the other hand, the buoyancy of the financial markets should reduce the cost of capital and provide fresh opportunities for consolidating financial resources and balance sheet strength. Those opportunities should be used constructively and not be dissipated in excessive leveraging and financial risk-taking that could in the end jeopardize our stability.

The burden of my comments is that there are gross distortions and imbalances in the economy that we must deal with forcibly and effectively. But we also have a lot upon which to build. The outlines of an effective approach are clear enough. Major elements of that approach are in place. But we will also need time and patience—and they are in short supply.

For instance, the deterioration in our trade balance appears to have ended, but signs that the

corner has been turned are not yet decisive. Meanwhile, the inevitable adjustments in the energy industry, in agriculture, and in commercial building are continuing to work against economic growth in many areas. In these circumstances, stronger growth in 1987, as well as more sustainable growth over time, is heavily dependent on the realization of significant gains in trade.

One temptation is to try to speed that process—and to vent our understandable frustration about restrictive trade policies of others—by resorting to broad-brush protectionism. But such a course, it seems to me, would invite almost certain failure. The lesson of experience is that world trade and economic activity would be depressed together. Indeed, given the greater degree of economic and financial interdependence of nations today, the risks and potential losses are all the greater.

At the same time, that very interdependence means that we cannot be successful unless other countries are taking constructive complementary actions to maintain their own growth, to keep their markets open, and to deal with legitimate complaints of unfair trading practices.

The United States and its currency are a major force in the world economy and financial system. In that context, I can readily understand the concern expressed abroad about instability in the dollar exchange markets and about the potential impact on their own economies. At a time of rather sluggish growth among the main industrialized countries, abrupt further changes in the dollar could undercut business planning and investment. We in the United States obviously have nothing to gain—and a great deal to lose—from any interruption in growth abroad.

But it is equally obvious that the needed improvement in our trade position must be matched by others absorbing increased imports and facing stronger export competition; logically and constructively, those changes should be borne primarily by countries with huge external surpluses. For countries that have been dependent on large export surpluses to support growth, that poses difficult adjustment problems, the mirror image of ours. In those cases, the plain need is to encourage domestic growth, while also maintaining the kind of open markets and receptivity to imports that are a necessary part of

achieving better international balance in a framework of world growth. Naturally these countries, too, want to maintain and consolidate greater price stability. But with their currencies appreciated, the opportunity to do so consistent with more rapid growth will be enhanced by cheaper and more available imports.

Sometimes, and I think unfortunately, that need for complementary adjustment abroad is framed in political terms as a request for “help” by the United States to resolve our own problems. But what is at issue is not a narrow concept of help for us or any single country; rather it is what is required to achieve, in an interdependent world, the sustainable world growth and stability we all want. In that respect, no country heavily dependent on trade is an island. Sooner or later, the necessary adjustments in trade will be made. The issue is whether they will be made in an orderly way, in a framework of open markets and growth, or with excessive currency instability, or protectionism, or both.

Our own responsibilities in that connection, as I have outlined, are unmistakable. But those measures inevitably impact others, and a better international balance cannot be achieved, in the interests of the United States and its trading partners, without constructive complementary policies abroad.

Moreover, such responsibilities extend beyond the main industrialized countries to others, particularly in the Far East, that have achieved rapid growth largely by penetrating foreign markets open to them, most of all in the United States. To the extent that some of those countries have large and growing external surpluses, the time has come clearly for them to open their markets more broadly. In doing so, the benefits of their growth to their own consumers will be enhanced, even as they contribute to easing the problems of worldwide adjustments.

I want to emphasize, too, that all these actions—by the United States, by other industrialized countries, and by certain newly industrialized countries—are a necessary part of achieving the healthy economic environment essential for other developing countries to constructively deal with their problems. The heavily indebted countries, in particular, must be able to penetrate export markets outside the United States.

What I have tried to outline this morning is the

broad directions that I believe U.S. policy must take—is in fact taking—during 1987 and the years ahead. And I think there are signs as well that the need for complementary policies abroad is increasingly well understood.

Plainly, much more remains to be done. I do not underestimate the difficulties. Right now, our own growth is hesitant, and the indicators of economic activity abroad have not been entirely reassuring. The general ebullience of financial markets masks some strains and weaknesses that will need continuing attention. Despite the progress of the past, the cooperative effort to deal with the acute debt problems in Latin America by the countries themselves, by the international financial institutions, and by leading banks needs fresh impetus. With oil and commodity prices now stable or even rising, maintaining the sense of progress toward general price stability will be more difficult, particularly in the United States. Needed policy changes, here and abroad, even when accepted conceptually, are hard to implement with the needed vigor.

At the same time, I think we should be encour-

aged by the degree to which some of the needed policies are in place. There is some evidence that the needed economic adjustments are beginning. What seems to me important, as we assess progress in 1987, is not so much whether we in the United States—at least within some reasonable range—reach some specific rate of overall economic growth. Rather, our emphasis in policymaking should be on whether the necessary adjustments are clearly under way and will in fact be sustained.

We will not eliminate the budget deficit or the trade deficit easily or quickly and certainly not in 1987. By the same token, we cannot expect to achieve an appropriate balance in our internal savings and investment in so short a period of time nor sharply improve productivity. As a practical matter, a sudden spurt in growth abroad will not be a solvent for our problems.

What we collectively can do—and what we must do—is act with force and conviction in the necessary directions. In doing so we will lay the base for sustained noninflationary growth not just in 1987 but for years beyond. □

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*Statement by Wayne D. Angell, Member, Board of Governors of the Federal Reserve System, before the Subcommittee on Consumer Affairs of the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, February 5, 1987.*

I welcome this opportunity to provide the views of the Federal Reserve Board on the issue of delayed availability and specifically on S. 344, the Fair Deposit Availability Act of 1987. We share your frustration with the check hold practices of some depository institutions and with the inefficiencies of the return-item process. Therefore, we are eager to work with you and the committee to devise a legislative remedy to the delayed availability problem. I am personally sympathetic with the goals of S. 344; my family experienced some of the problems faced by many consumers when we moved from Kansas to Washington, D.C., last year.

Legislation addressing the delayed availability issue should contain two essential elements.

First, additional regulatory authority is needed to make improvements to the check collection and return process, thus reducing or eliminating the risk to depository institutions of making funds available more promptly. Second, there is a strong and straightforward case that if they delay availability of deposited funds, depository institutions should clearly disclose their policies to consumers.

S. 344 also contains a third element—schedules that dictate the maximum holds that a depository institution may place on the proceeds of deposits. The Federal Reserve Board believes that mandatory schedules raise difficult problems in minimizing risks to depository institutions and maximizing consumer benefits. We have felt that primary emphasis should be placed on improvements in the disclosure and payment system. However, the Board does believe that availability schedules could be a workable component of the delayed availability legislation. S. 344 contains the basic elements to achieve an effective availability schedule.

*EXPEDITED FUNDS AVAILABILITY*

Availability schedules should be designed so as not to encourage check fraud by basing the schedules on the time normally needed to clear and return checks. Although this time period is currently lengthy, it can be shortened to provide for relatively prompt availability schedules if the Board is given additional authority to implement initiatives to expedite the check collection process.

The Board is concerned that requiring availability before the receiving institution can reasonably be expected to learn of the return of an unpaid check will encourage check fraud, including kiting. It would be relatively easy to perpetrate a check fraud under a system in which institutions are required to make funds available to customers before there is any opportunity to learn of nonpayment.

If an individual knows that funds must be made available before a check can be returned, all he would have to do is to open accounts at two local institutions. Both accounts would be maintained in a proper manner for sufficient time to satisfy any new account exception. After that time, suppose the individual writes a check subject to the availability schedule against nonsufficient funds on his account in one institution and deposits it in his account at the other institution.

If the schedules are too stringent, the institution in which the check was deposited would be required to make the funds available to the individual depositing the check before learning that the item would be returned unpaid. If the individual withdraws the funds and leaves before the check is returned, that institution would be unable to charge the check back when it ultimately receives the return item, and it would suffer a loss for the amount of the deposit. Similar schemes involving dozens of institutions could be easily accomplished.<sup>1</sup>

While we recognize that this type of check fraud can occur today, requiring funds availability before the completion of the normal collection and return cycle will tend to encourage this type of check fraud. This is not to say that

mandatory schedules must accommodate the return of all checks, but rather that the schedules should not be designed so that individuals can rely on obtaining availability before the check is returned.

If mandatory availability schedules are adopted, the current check collection and return cycle must be shortened to provide the most expeditious availability to consumers while limiting the risk of increased check kiting. Federal Reserve authority to make needed improvements in the check system is crucial to accomplish this objective as well as to improve the check collection system generally and thereby reduce the risk to institutions from returned checks, even if those checks are not covered by mandatory availability schedules. Today, the Federal Reserve's regulatory authority generally applies only to those checks that it clears. While the Federal Reserve has devoted significant attention to improvements in the return-item process, our lack of regulatory authority has lessened our effectiveness in making significant progress in this arena.

If legislation is passed under section 5(b) of S. 344, the Board would propose several initiatives to improve the return process. One such initiative that the Board might propose would be to require the payer institution to return checks to the institution of first deposit within a specified time frame. This requirement would effectively prohibit the use of the mail for most return items. The mail is used now for more than 11 percent of returns, slowing the trip back to the depositing institution as much as several days. This requirement would expedite returns at relatively little cost to the industry, but would be effective only if it were applicable to all checks regardless of how they are cleared.

This initiative could also entail permitting institutions to return checks directly to the institution of first deposit, bypassing intermediate endorsers. This practice is not authorized by three jurisdictions, but section 5(b) would provide the Board with the authority to preempt the laws of these jurisdictions, thus making the use of direct returns feasible on a widespread scale.

A further initiative involves the automation of return items through the use of the same efficient mechanism used to collect checks. A recent test of this concept by the Federal Reserve, the

1. The attachments to this statement are available on request from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

American Bankers Association, and 75 depository institutions proved quite promising, reducing the time to return checks an average of more than one-third. However, the cost of this program falls on the institution that is returning the check, while the benefits of the expedited return accrue to the institution of first deposit. Therefore, its use is not likely to be widespread without the Federal Reserve having the authority to create incentives for payer institutions to participate in the program.

These examples illustrate the steps that could be taken to accelerate the return of checks if additional regulatory authority were granted to the Board. This authority should be sufficiently broad to enable the Board to consider not only the specific initiatives contained in the legislation but also additional proposals, perhaps not envisioned today.

With these improvements to the check collection system, a relatively prompt availability schedule would be possible. A schedule of no longer than four intervening business days, with an additional business day added when determined necessary by the Board, would be workable. Therefore, to the extent that the schedule in section 5(b) of S. 344 is based on business days, it sets a realistic goal for availability of all checks. Because many local and regional checks are collected more promptly, the Board would adopt more expeditious schedules for the large majority of checks. Under this schedule, depositors seeking to perpetrate a fraud would not be able to rely on obtaining availability before the check is returned.

If the Board implemented the expedited availability system under section 5(b), it would have the authority to establish only very limited exceptions to the schedules. However, even under an expedited system, not all checks will be returned within the time frames established for availability. Therefore, it is important that any mandatory availability schedules adopted contain adequate authority for the Board to establish exceptions, not only for instances in which the institution has specific reason to doubt the collectibility of an individual check, but also for those classes of checks that may impose increased risk even though the individual check raises no particular suspicion that it is uncollectible. For example, it may be necessary to pro-

vide an exception for foreign checks, since the receiving institution will not learn of the nonpayment of these checks within the time frame established in the bill. Similarly, general exceptions for new accounts, large dollar deposits, and other types of checks recognized in section 5(c) of S. 344 may also be warranted.

In summary, the expedited availability approach taken in section 5(b) of S. 344 provides the needed authority for the Federal Reserve to improve the check system and provides the Board with sufficient flexibility in setting the availability schedules so as to not encourage check kiting schemes. However, it is essential that these schedules allow for exceptions for limited classes of checks, as provided in section 5(c)(2) of S. 344. With the addition of these exceptions, and certain other technical changes, we believe that the approach taken in section 5(b) would ensure that customers obtain prompt availability on the funds they deposit, without exposing depository institutions to significant risks.

In contrast, the approach taken in section 5(c) of the bill, which calls for availability at the time of provisional credit, subject to broad exceptions, would likely result in increased check fraud since institutions would be required to provide availability before any opportunity to learn of the return of the unpaid item. In addition, this alternative does not give the Board the authority to expedite the check system, and thus does not address one of the underlying causes of the delayed availability problem.

## DISCLOSURES

As I stated earlier, disclosures are an essential element in any delayed availability legislation. However, we believe that the disclosure provisions in S. 344 can be made more flexible, particularly for those institutions that *do not* routinely place holds on deposits. For example, an alternative could be provided for these institutions, in which notice would be required when a hold is placed on a given deposit that falls within one of the exceptions of the bill. This notice requirement would be in lieu of the disclosure requirements. This approach would significantly lessen the compliance burden on institutions

that, except in rare situations, do not delay availability. For institutions that *do* regularly place holds on their customers' deposits, the disclosure requirements set forth in S. 344 would apply.

Further, the subcommittee may also wish to consider limiting the disclosure requirements to consumer accounts. Providing the required disclosures for all corporate accounts would be a very complex undertaking since the availability of deposits is often tied to the level of required clearing balances and other account terms. Corporate accountholders are typically far more familiar with their institution's availability schedules than are consumer accountholders. Even with this limitation, a number of small businesses may, as a practical matter, still be given the disclosures required by the bill. Given the potential civil liability for failing to follow the requirements for consumer accounts, many institutions would likely simply treat small business accounts as consumer accounts to avoid a time-consuming process of distinguishing between the two.

Finally, a number of other provisions of S. 344 bear further consideration. Under the bill, the Board's authority to make payment system improvements could be construed to expire after 48

months. The Board should be given continuing authority to make further improvements to the check system and to modify the availability schedule if warranted by these improvements. The Board is also concerned that the requirement for establishing an Expedited Funds Availability Council may slow rather than facilitate payment systems improvements. The council would duplicate the responsibilities of several other groups, such as the Consumer Advisory Council, which are already in existence. In addition, there are other technical amendments that we would like to propose. The Board staff will be pleased to work with your staff to develop the most effective legislative remedy to the delayed availability problem.

In summary, we believe that legislation that requires disclosure and provides authority to the Federal Reserve to improve the return-item process and establish availability schedules will be beneficial to consumers and ensure that the costs to the banking industry are reasonable. Again, I am pleased to be here today and would be glad to discuss the delayed availability issue in more detail as the members of the subcommittee desire. □

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*Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, February 19, 1987.*

I appreciate this opportunity to review once again with this committee the conduct of monetary policy against the background of economic and financial developments here and abroad. As usual, a more detailed review of last year, of the prospective ranges for monetary and credit growth established by the Federal Open Market Committee (FOMC), and of the Committee's projections for economic activity and inflation are set out in the Board's formal Humphrey-Hawkins Report delivered to you earlier. (See pages 239-54 of this BULLETIN.) This morning, I want to concentrate on more general considerations underlying the policy approaches of the Federal Reserve. I will emphasize particularly how those approaches must fit into a broader

pattern of complementary action both in the United States and in other countries if the common objective of sustained economic expansion and price stability is to be reached.

### *THE ECONOMIC SETTING*

The current economic expansion—now extending into its fifth year—is already among the longest in peacetime history. It is unusual in other respects as well, including the absence of certain signs of cyclical excesses that often develop after years of expansion. For instance, inventories have been held well within past relationships to sales, and spending by manufacturers for plant and equipment has, if anything, been restrained relative to prospective needs.

While the overall rate of economic growth has been rather moderate since mid-1984, averaging about 2½ percent per year, that growth has been

maintained despite strong pressures on sizable sectors of the economy. Oil exploration and development activity and agricultural prices have both been heavily affected by worldwide surpluses. Commercial construction in many areas is suffering from earlier overbuilding. Regions of the country in which those impacts have been particularly large have thus remained relatively depressed. Difficult as those regional conditions have been, however, many of the necessary adjustments are well advanced and other areas of the economy have been moving strongly ahead.

More importantly, both the inflation rate and interest rates, after four years of expansion, are substantially lower than when the recovery started. Homebuilding is being well maintained, and both capital and labor appear available to support further growth for some time without undue strain on resources. Certainly, conditions in financial markets, with stock prices exuberant and interest rates generally as low as at any time since the mid-1970s, appear supportive of new investment.

But if the traditional indicators of cyclical problems are largely absent, it is also evident that the economy is struggling with structural distortions and imbalances that, for us, have little precedent. Economic activity over the past two years has been supported largely by consumption. That has been at the expense of reduced personal saving rates that, by world standards, were already chronically low. At the same time, the huge federal deficit is absorbing a disproportionate amount of our limited savings.

For a time, we have largely escaped the adverse consequences for financial markets of that insidious combination of low saving rates and high federal deficits by drawing on capital from abroad—the flow of which in 1986 actually exceeded all the savings by U.S. households. The other side of that coin, however, is a massive trade and current account deficit, restraining growth in manufacturing generally and incentives for the industrial investment that we will need in the years ahead.

The simple facts are that we are spending more than we produce and that we are unable to finance at home both our investment needs and the federal deficit. Those conditions are not sustainable for long—not when, as at present,

the influx of capital from abroad cannot be traced to a surge in productive investment.

It is not sustainable from an economic perspective to pile up foreign debts while failing to make the investment that we need both to generate growth and to earn the money to service the debts.

It is not supportable politically, as the pressures on our industrial base are transmuted into demands for protection.

Ultimately it will not be supportable from an international perspective either, as the confidence that underlies the flow of foreign savings will be eroded.

Sooner or later, the process will stop. The only question is how.

### *THE BROAD POLICY APPROACH*

In concept, we could shut off the flow of imports by aggressive, broad-brush protectionist measures. But the result would be to drive up the rate of inflation and interest rates here, to damage growth abroad, and to invite retaliation. Instead of sustained and orderly growth, we would invite worldwide recession.

We could try to drive the dollar much lower—or complacently sit back while the market forces produce that result. But that too would undermine the hard-won gains against inflation and would risk dissipating the flow of foreign capital that we, for the time being, need. The stability of financial markets would be jeopardized, and export prospects could be undercut by adverse effects on growth abroad.

Faced with similar circumstances, many smaller countries might reasonably embark upon strong austerity programs—indeed sooner or later they would be forced to undertake such programs. Large doses of fiscal and monetary restraint would be taken, risking recession in the short run, but also anticipating that exports would respond vigorously, imports would decline, and their economies would soon resume growth on a much sounder footing. But, in the context of a sluggish growth of the world economy, for the United States to take that course would entail particularly high risks and the results would be problematical at best.

There is a reasonable alternative. It is more

complicated, but at the same time much more promising.

We can draw upon a combination of policy instruments to encourage the needed adjustments. Results may take time. But those results will come with greater certainty—and they should be consistent with maintaining growth here and abroad, with progress toward underlying price stability, and with open markets.

That is, in fact, the course on which we are embarked. To be sure, its success will require an unusual combination of discipline, patience, and international cooperation. However, given the stakes not just for the United States but for others, I do not think there is any real choice.

Important steps have already been taken in the needed directions. Most obviously, the value of the dollar vis-à-vis the currencies of other industrialized countries has declined substantially, placing our industry in a much stronger competitive position. The volume of exports is rising, despite relatively slow growth abroad. The deterioration in the trade deficit overall appears to have been stemmed, even if clear evidence of a reversal is still lacking. Moreover, while the depreciation of the dollar inevitably carries in its train rising import prices, we have been fortunate that the initial impact on the overall price level was more than offset by falling oil and other commodity prices. The underlying inflation rate, measured by trends in wages relative to productivity, has continued to fall.

We have also been fortunate that the flow of capital from abroad, buoyed by the rising stock and bond markets here and by some declines in interest rates abroad, has been well maintained as the dollar depreciated. Nevertheless, as we succeed in reducing our current account deficit, the net capital inflow will decline as well. That emphasizes the critical importance of moving ahead with further reductions in the federal budget deficit, which absorbs so much of our own savings.

The progress being made in that direction this year is heartening. But that can only be a start. The projected reduction of \$40 billion to \$50 billion this year is from a record high deficit of more than \$220 billion in fiscal 1986—more than 5 percent of the gross national product—and it is being assisted by some temporary factors. Progress next year will be harder.

Success, in my mind, will not be measured so much by whether we meet some preordained arbitrary target but by whether in fact a reasonably steady downward pace in the deficit is maintained as the economy grows—and maintained by measures that can be sustained, year after year. Failing that, it is hard to see how a sustained decline in the trade deficit, if possible at all in the face of huge budget deficits, will bring net benefit to the economy. The clear implication would be congested capital markets, higher interest rates, strong inflationary dangers, and threats to growth.

#### INTERNATIONAL CONSISTENCY

Inevitably, because we loom so large in the world economy, marked improvement in our trade balance will be matched by noticeable deterioration elsewhere. Appropriately, that should take place largely in the major countries with exceptionally large surpluses—notably Japan and Germany, both of which are now experiencing some decline in *real* net exports. That process cannot take place smoothly and effectively unless those countries and others are able to maintain a strong momentum of *internal* demand.

For years, those countries have been dependent for growth mainly on high and rising export surpluses. In both instances, some shift toward domestic demand was apparent in 1986, encouraged partly by some relaxation of monetary policies. That points in the needed direction. But there are also signs that their growth, overall, may be faltering, as exports have declined. At the same time, relatively high levels of unemployment and unused capacity, together with sharp appreciation of their currencies, offer substantial protection against a resurgence of inflationary pressures that they, understandably, want to avoid.

Quite obviously, the needed reorientation of economic policies—essentially the complement of our own—is no easier to achieve in those countries than here. Certainly, the nature and design of the needed measures will be—indeed is being—strongly debated within those countries. What is critical from a world perspective is not the precise nature of the measures or their exact

timing, but that, at the end of the day, they are successful in maintaining a strong momentum of growth even as they absorb more imports from the rest of the world.

One danger is that, in the absence of stronger domestic growth, pressures will intensify for more appreciation of their currencies, undercutting further their own economic prospects. Given the size of the exchange rate adjustments already made, greater instability in that area seems neither in their interest nor ours.

Some newly industrialized countries also have clear responsibilities for contributing to a better world balance. Taiwan and Korea, in particular, have, or are building, external surpluses that are large even by the standards of the traditional industrial powers. Part of that reflects a strong competitive position, but both also maintain a strong wall of protectionist barriers. The very strength of their external positions points—in the interests of their own citizens as consumers, as well as of world equilibrium—to the need for more forceful action to increase imports, whether by reducing tariffs, by lifting other trade restrictions or by exchange rate changes.

Success in these efforts, I must emphasize, will not necessarily or primarily be measured by changes in our own bilateral trade vis-à-vis particular countries. An open competitive trading order is by its nature multilateral, and we and others should judge equilibrium in a worldwide context.

In that connection, most of the developing world, already carrying heavy debt burdens, is in no position to revalue currencies or to absorb much higher imports (from the United States or from others) *without* more or less parallel increases in their exports. In recent years, however, the United States has, in fact, absorbed the great bulk of what increase in exports Latin America has had—their exports to Europe and Japan have apparently increased little if at all.

For us to close our markets to them now would assuredly thwart prospects for expansion, and with it the encouraging progress that has been made toward both more open, competitive economies and political democracy. What is needed instead is greater access by those countries to growing markets in Europe and Japan as well as here. The recent changes in exchange rates in the industrial world certainly provide greater incen-

tives for exports of the developing countries to shift to Europe and Japan. At the same time, imports by the developing world from the United States have become much more price competitive than a year or two earlier.

### THE DEBT SITUATION

I cannot neglect emphasizing one further continuing threat to growth and financial stability involving the developing countries. Management of the debt problems of Latin America and some other developing countries is again at a critical stage. The reason is not that progress is absent. To the contrary, most of the heavily indebted countries have been growing—if for the most part far below their potential—debt burdens are tending to move lower relative to exports or other measures of capacity to pay, and new financing needs have been reduced. Perhaps most encouraging, there has been definite, if sometimes hesitant, progress toward liberalizing trade, opening markets, and reducing internal economic distortions, with the World Bank playing a particularly helpful role.

At the same time, any failure of the industrialized countries collectively to achieve a satisfactory rate of growth would clearly impair prospects for the developing countries to find the markets they need. More immediately, in recent months, the process of reaching agreement on adequately supportive and timely financing programs, whether by restructuring existing debts or by arranging what new loans are necessary, has conspicuously slowed.

In their particulars, the reasons are as varied as the complexity of the individual financing programs themselves, most of which require the agreement of hundreds of banks around the world. In some instances, policy setbacks in the borrowing countries have complicated the task. But I also suspect the very fact that progress has been made over the past five years—most evidently in reducing the exposure of banks relative to capital to something like half of what it was in 1982—has had the unfortunate effect of dulling a sense of urgency and cooperation by some. I do not want to deny the progress. But to fail to carry through on past efforts now would plainly jeopardize much of that success and threaten new strains on the financial system.

*IMPLICATIONS FOR U.S. POLICY*

Several key implications of all this for the United States should be clear.

First, the process of restoring external balance requires first of all that we tend to our inescapable responsibilities to deal with our budget deficit. That is not just because we are dangerously dependent on foreign savings but because progress abroad is, as a practical matter, likely to be stymied without constructive leadership from the largest and the strongest nation. Should we instead resort to closing our markets, be indifferent to the depreciation of our own currency, and permit inflationary forces to regain the upper hand, then there would be no basis for confidence in the United States. Prospects for effective complementary action abroad, or for growth for the world economy, would be dim indeed.

Second, we have to recognize that the needed adjustments will require a relative shift of financial and real resources into internationally competitive industry and away from consumption and federal deficits. Without a sharp rise in overall productivity from the rate of 1 percent or so characteristic of most of the 1970s and 1980s—and I see no reason to suggest that trend will change abruptly—the recent rate of increase in consumption is simply unsustainable for long. Instead, more of our growth will need to be reflected in net exports and business investment, and less savings will be available to finance government.

Fortunately, performance with respect to productivity growth and restraint on costs in the key manufacturing sectors has been relatively strong during the period of economic expansion. That reinforces prospects for a stronger competitive position internationally. The challenge will be to maintain that performance in the face of a depreciated currency, higher import prices, and more sizable needs for new investment to meet domestic and export opportunities.

Finally, achieving these goals in the context of sustained growth and reasonable price stability is beyond the capacity of any single policy instrument. Quite obviously, monetary policy will have a critical role to play. In doing so, it has the potential advantage of more flexibility than other policy instruments. But there will also be a heavy

premium on maintaining discipline and sound judgment amid potentially conflicting criteria.

*RAPID GROWTH OF MONEY AND LIQUIDITY*

Throughout 1986, monetary policy accommodated a relatively rapid growth in the various monetary aggregates; the narrowly measured money supply—M1—grew at a particularly rapid pace. The discount rate was reduced four times by a total of 2 percentage points, more or less in line with reductions in market interest rates. The degree of reserve pressures, measured by average adjustment borrowings of depository institutions from the Federal Reserve, was relatively low throughout 1986, and has remained so since.

This generous provision of reserves and expansion in money took place in, and appeared justified by, an environment of restrained economic growth and declining inflationary pressures. The latter, to be sure, was dramatically and importantly reinforced by a temporary factor—the sudden collapse in the price of the world's most important commodity, oil. But, potentially more lasting indicators of inflationary pressure—the rate of increase in workers' compensation and in prices of some services that respond slowly to changes in the economic environment—were also trending downward. For much of the year, most commodity prices other than oil, measured in dollars, were falling despite the depreciation of the dollar in the exchange markets. Moreover, the sizable declines in long-term interest rates seemed to reflect some easing of fears of a resurgence of inflationary pressures in the future.

Nonetheless, the possibility of renewed inflation remains of concern both in the markets and within the Federal Reserve. One potential channel for renewed inflationary pressures would be an excessive fall of the dollar in the exchange markets. At times during the past year, such exchange rate considerations prompted particular caution in the conduct of policy. The timing of operational decisions with respect to the discount rate or the provision of reserves was affected; on occasion close coordination with the actions of other central banks was particularly important.

More generally, intensive analytic work during the year suggested that much of the relatively

rapid growth in the various monetary aggregates was closely related (with lags) to the rather sharp declines in market interest rates late in 1985 and the early months of 1986. The responsiveness of money demand to changes in interest rates is a well-established phenomenon. What is new in the present institutional setting is the increased sensitivity of that relationship, most particularly for M1. Today, interest rates paid on transaction accounts widely used by individuals are close to rates paid on competing financial instruments. That is because interest rates on those accounts have not declined nearly as much as market rates or those on longer-term deposit accounts. Consequently, there has been a strong incentive to transfer funds to negotiable order of withdrawal (NOW), and to some extent savings, accounts and away from other, less liquid instruments.

Demand deposits, which are largely held by businesses and pay no interest, also grew substantially more rapidly than in earlier years. In part, that was also a reflection of declining market rates; banks demanded larger balances in compensation for services provided businesses, and depositors found alternative uses of liquid balances relatively less attractive.

Because of its composition, M1 was particularly influenced by these shifts and grew 15 percent. That was far in excess of the target set at the start of the year, when the Federal Open Market Committee drew attention to the uncertainties surrounding that aggregate, and above any postwar historical experience as well.

Both M2 and M3 ended the year within—but just within—their target ranges. Even so, the increases of almost 9 percent were about as large as most earlier years, when inflation and the rate of economic growth were higher.

With inflation down and real growth moderate, these rapid increases in monetary growth meant that all measures of velocity (that is, the ratio of nominal GNP to money) declined. That was particularly evident in the case of M1; the decline in velocity of 9 percent was greater than in any year since World War II.

While velocity often moves erratically in the short run and a decline is typical of periods of falling interest rates, last year extended and amplified a pattern that has persisted since interest rates peaked in 1981 and 1982. The earlier postwar *upward* trend in M1 velocity of about 3

percent per year—a trend established during a period of generally rising inflation and interest rates—clearly does not provide a reasonable base for judging appropriate M1 growth today. Historically, there has been little or no trend in M2 velocity. Even so the current level is historically a bit low relative to other periods of low or declining interest rates.

All of this poses new questions in setting monetary targets to help guide the conduct of monetary policy. In the broadest terms, a leveling, and even some decline, in velocity could be welcomed as an appropriate sign of growing confidence in the value of holding money during a period of disinflation. But explanations revolving around declining interest rates and greater confidence in price stability beg the larger issue.

Not all the increases in money can be adequately explained by interest rate relationships, nor can we be certain about what interest rate is appropriate. Confidence is hard to win and easy to lose. We need to be conscious of the fact that the effects of excessive money creation on inflation may only be evident with lags—possibly quite long.

As a consequence, we cannot avoid relying upon a large element of judgment in deciding what, considering all the prevailing circumstances, money growth is appropriate.

Obviously, so far as 1986 is concerned, the FOMC made the judgment that relatively strong growth in the aggregates, and particularly M1, could be accommodated consistent with the more basic objectives of orderly growth and price stability. Neither the rate of economic growth, nor the margins of available resources, nor underlying cost trends, nor the movement of sensitive commodity prices suggested money growth was setting in train renewed inflationary forces.

The continuing rapid rate of debt throughout the economy—running far above the rate of economic growth since 1982—has raised one warning flag. In one sense, the enormous volume of purely financial activity, especially at year-end but also at times earlier, reinforced other factors increasing the demand for money. But from another point of view, the ready availability of reserves and money was also a factor facilitating that same increase in financial activity.

The implicit dangers should be clear. More

*Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Committee on the Budget, U.S. Senate, February 24, 1987.*

I appreciate the opportunity to appear before this committee today. As you know, the Federal Reserve submitted its semiannual monetary policy report to the Congress last week. That report, which we have distributed to you, describes in detail our plans for monetary policy, including the Federal Open Market Committee's ranges for growth of money and credit. My prepared remarks this morning will be confined to more general considerations of domestic and international economic policies within the context of recent and prospective developments.

### THE ECONOMIC SETTING

The current economic expansion—now extending into its fifth year—is already among the longest in peacetime history. It is unusual in other respects as well, including the absence of certain signs of cyclical excesses that often develop after years of expansion. For instance, inventories have been held well within past relationships to sales, and spending by manufacturers for plant and equipment has, if anything, been restrained relative to prospective needs.

While the overall rate of economic growth has been rather moderate since mid-1984, averaging about 2½ percent per year, that growth has been maintained despite strong pressures on sizable sectors of the economy. Oil exploration and development activity and agricultural prices have both been heavily affected by worldwide surpluses. Commercial construction in many areas is suffering from earlier overbuilding. Regions of the country in which those impacts have been particularly large have thus remained relatively depressed. Difficult as those regional conditions have been, however, many of the necessary adjustments are well advanced, and other areas of the economy have been moving strongly ahead.

More importantly, both the inflation rate and interest rates, after four years of expansion, are substantially lower than when the recovery start-

ed. Homebuilding is being well maintained, and both capital and labor appear available to support further growth for some time without undue strain on resources. Certainly, conditions in financial markets, with stock prices exuberant and interest rates generally as low as at any time since the mid-1970s, appear supportive of new investment.

But if the traditional indicators of cyclical problems are largely absent, it is also evident that the economy is struggling with structural distortions and imbalances that, for us, have little precedent. Economic activity over the past two years has been supported largely by consumption. That has been at the expense of reduced personal saving rates that, by world standards, were already chronically low. At the same time, the huge federal deficit is absorbing a disproportionate amount of our limited savings.

For a time, we have largely escaped the adverse consequences for financial markets of that insidious combination of low saving rates and high federal deficits by drawing on capital from abroad—the flow of which in 1986 actually exceeded all the savings by U.S. households. The other side of that coin, however, is a massive trade and current account deficit, restraining growth in manufacturing generally and incentives for the industrial investment that we will need in the years ahead.

The simple facts are that we are spending more than we produce and that we are unable to finance at home both our investment needs and the federal deficit. Those conditions are not sustainable for long—not when, as at present, the influx of capital from abroad cannot be traced to a surge in productive investment.

It is not sustainable from an economic perspective to pile up foreign debts while failing to make the investment that we need both to generate growth and to earn the money to service the debts.

It is not supportable politically, as the pressures on our industrial base are transmuted into demands for protection.

Ultimately it will not be supportable from an international perspective either, as the confidence that underlies the flow of foreign savings will be eroded.

Sooner or later, the process will stop. The only question is how.

### THE BROAD POLICY APPROACH

In concept, we could shut off the flow of imports by aggressive, broad-brush protectionist measures. But the result would be to drive up the rate of inflation and interest rates here, to damage growth abroad, and to invite retaliation. Instead of sustained and orderly growth, we would invite worldwide recession.

We could try to drive the dollar much lower—or complacently sit back while the market forces produce that result. But that too would undermine the hard-won gains against inflation, and would risk dissipating the flow of foreign capital that we, for the time being, need. The stability of financial markets would be jeopardized, and export prospects could be undercut by adverse effects on growth abroad.

Both of those courses were specifically rejected by the finance ministers and Central Bank governors at their meeting in Paris last weekend.

Faced with similar circumstances, many smaller countries might reasonably embark upon strong austerity programs—indeed sooner or later they would be forced to undertake such programs. Large doses of fiscal and monetary restraint would be taken, risking recession in the short run, but also anticipating that exports would respond vigorously, imports would decline, and their economies would soon resume growth on a much sounder footing. But, in the context of sluggish growth of the world economy, for the United States to take that course would entail particularly high risks and the results would be problematical at best.

There is a reasonable alternative. It is more complicated, but at the same time much more promising.

We can draw upon a combination of policy instruments to encourage the needed adjustments. Results may take time. But those results will come with greater certainty—and they should be consistent with maintaining growth here and abroad, with progress toward underlying price stability, and with open markets.

That is, in fact, the course on which we collectively are embarked, and the course that was endorsed at the meetings in Paris.

To be sure, its success will require an unusual combination of discipline, patience, and international cooperation. However, given the stakes

not just for the United States but for others, I do not think there is any real choice.

Important steps have already been taken in the needed directions. Most obviously, the value of the dollar vis-à-vis the currencies of other industrialized countries has declined substantially, placing our industry in a much stronger competitive position. The volume of exports is rising, despite relatively slow growth abroad. The deterioration in the trade deficit overall appears to have been stemmed, even if clear evidence of a reversal is still lacking. Moreover, while the depreciation of the dollar inevitably carries in its train rising import prices, we have been fortunate that the initial impact on the overall price level was more than offset by falling oil and other commodity prices. The underlying inflation rate, measured by trends in wages relative to productivity, has continued to fall.

Given the size of the adjustments in the exchange rate already made among the major countries, there is a point beyond which further instability would damage both our objectives and those of our trading partners. Against that background, the ministers and governors of the leading industrialized countries collectively agreed last weekend that “their currencies are within ranges broadly consistent with underlying economic fundamentals” on the assumption certain broad economic policies are carried out.

We have been fortunate that the flow of capital from abroad, buoyed by the rising stock and bond markets here and by some declines in interest rates abroad, was well maintained as the dollar depreciated. Nevertheless, as we succeed in reducing our current account deficit, the net capital inflow will decline as well. That emphasizes the critical importance of one of the policy assumptions referred to in the weekend statement—that the United States move ahead with further reductions in the federal budget deficit, which absorbs so much of our own savings.

The progress being made in that direction this year is heartening. But that can only be a start. The projected reduction of \$40 billion to \$50 billion this year is from a record high deficit of more than \$220 billion in fiscal 1986—more than 5 percent of the gross national product—and it is being assisted by some temporary factors. Progress next year will be harder.

Success, in my mind, will require a reasonably

steady downward pace in the deficit as the economy grows—and that progress will need to be maintained by measures that can be sustained, year after year. Failing that, it is hard to see how a sustained decline in the trade deficit, if possible at all in the face of huge budget deficits, will bring net benefit to the economy. The clear implication would be congested capital markets, higher interest rates, strong inflationary dangers, and threats to growth.

### INTERNATIONAL CONSISTENCY

Inevitably, because we loom so large in the world economy, marked improvement in our trade balance will be matched by noticeable deterioration elsewhere. Appropriately, that should take place largely in the major countries with exceptionally large surpluses—notably Japan and Germany, both of which are now experiencing some decline in *real* net exports. That process cannot take place smoothly and effectively unless those countries and others are able to maintain a strong momentum of *internal* demand.

For years, those countries have been dependent for growth mainly on high and rising export surpluses. In both instances, some shift toward domestic demand was apparent in 1986, encouraged partly by some relaxation of monetary policies. That points in the needed direction. Again, the Paris statement provided an indication of the intent of Japan and Germany, along with others, to sustain growth by stimulating domestic demand if necessary.

What is critical from a world perspective is not the precise nature of these measures or their exact timing, but that, at the end of the day, those countries are successful in maintaining a strong momentum of growth even as they absorb more imports from the rest of the world.

Some newly industrialized countries also have clear responsibilities for contributing to a better world balance. Taiwan and Korea, in particular, have, or are building, external surpluses that are large even by the standards of the traditional industrial powers. Part of that reflects a strong competitive position, but both also maintain a strong wall of protectionist barriers. The very strength of their external positions points—in the

interests of their own citizens as consumers, as well as of world equilibrium—to the need for more forceful action to increase imports, whether by reducing tariffs, by lifting other trade restrictions, or by exchange rate changes.

Success in these efforts, I must emphasize, will not necessarily or primarily be measured by changes in our own bilateral trade vis-à-vis particular countries. An open competitive trading order is by its nature multilateral, and we and others should judge equilibrium in a worldwide context.

In that connection, most of the developing world, already carrying heavy debt burdens, is in no position to revalue currencies or to absorb much higher imports (from the United States or from others) *without* more or less parallel increases in their exports. In recent years, however, the United States has, in fact, absorbed the great bulk of what increase in exports Latin America has had—their exports to Europe and Japan have apparently increased little if at all.

For us to close our markets to them now would assuredly thwart prospects for expansion, and with it the encouraging progress that has been made toward both more open, competitive economies and political democracy. What is needed instead is greater access by those countries to growing markets in Europe and Japan as well as here. The recent changes in exchange rates in the industrial world certainly provide greater incentives for exports of the developing countries to shift to Europe and Japan. At the same time, imports by the developing world from the United States have become much more price competitive than a year or two earlier.

### THE DEBT SITUATION

I cannot neglect emphasizing one further continuing threat to growth and financial stability involving the developing countries. Management of the debt problems of Latin America and some other developing countries is again at a critical stage. The reason is not that progress is absent. To the contrary, most of the heavily indebted countries have been growing—if for the most part far below their potential—debt burdens are tending to move lower relative to exports or other measures of capacity to pay, and new

financing needs have been reduced. Perhaps most encouraging, there has been definite, if sometimes hesitant, progress toward liberalizing trade, opening markets, and reducing internal economic distortions, with the World Bank playing a particularly helpful role.

At the same time, any failure of the industrialized countries collectively to achieve a satisfactory rate of growth would clearly impair prospects for the developing countries to find the markets they need. More immediately, in recent months, the process of reaching agreement on adequately supportive and timely financing programs, whether by restructuring existing debts or by arranging what new loans are necessary, has conspicuously slowed.

Now, the largest of the debtor countries, Brazil, after a period of strong expansion, large trade surpluses, and greater price stability, is again experiencing pronounced inflationary pressures and economic difficulties. Its suspension of most external interest payments to private creditors underscores the urgency of coming to grips with its internal economic difficulties as well as developing an appropriate financing program. I suspect that the very fact that progress has been made over the past five years—until recently in Brazil as in a number of other countries and most evidently in reducing the exposure of banks relative to capital to something like half of what it was in 1982—has had the unfortunate effect of dulling a sense of urgency and cooperation in dealing with the remaining problems. I do not want to deny the progress. But to fail in carrying through on past efforts or in dealing with the new points of strain would plainly jeopardize past successes and threaten new strains on the financial system.

### *IMPLICATIONS FOR U.S. POLICY*

Several key implications of all this for the United States should be clear.

First, the process of restoring external balance requires first of all that we tend to our inescapable responsibilities to deal with our budget deficit. That is not just because we are dangerously dependent on foreign savings but because progress abroad is, as a practical matter, likely to be stymied without constructive leadership from

the largest and strongest nation. Should we instead resort to closing our markets, be indifferent to depreciation of our own currency, and permit inflationary forces to regain the upper hand, then there would be no basis for confidence in the United States. Prospects for effective complementary action abroad, or for growth for the world economy, would be dim indeed.

Second, we have to recognize that the needed adjustments will require a relative shift of financial and real resources into internationally competitive industry and away from consumption and federal deficits. Without a sharp rise in overall productivity from the rate of 1 percent or so characteristic of most of the 1970s and 1980s—and I see no reason to suggest that trend will change abruptly—the recent rate of increase in consumption is simply unsustainable for long. Instead, more of our growth will need to be reflected in net exports and business investment, and less savings will be available to finance government.

Fortunately, performance with respect to productivity growth and restraint on costs in the key manufacturing sectors has been relatively strong during the period of economic expansion. That reinforces prospects for a stronger competitive position internationally. The challenge will be to maintain that performance in the face of a depreciated currency, higher import prices, and more sizable needs for new investment to meet domestic and export opportunities.

Finally, achieving these goals in the context of sustained growth and reasonable price stability is beyond the capacity of any single policy instrument. Quite obviously, monetary policy will have a critical role to play. In doing so, it has the potential advantage of more flexibility than other policy instruments. But there will also be a heavy premium on maintaining discipline and sound judgment amid potentially conflicting criteria.

### *MONETARY POLICY*

Looking back, monetary policy has accommodated a relatively rapid growth in the various monetary aggregates for some time; in 1986, the discount rate was reduced four times by a total of 2 percentage points, more or less in line with reductions in market interest rates.

This generous provision of reserves and expansion in money took place in, and appeared justified by, an environment of restrained economic growth and declining inflationary pressures. The latter, to be sure, was dramatically and importantly reinforced by a temporary factor—the sudden collapse in the price of the world's most important commodity, oil. But, potentially more lasting indicators of inflationary pressure—the rate of increase in workers' compensation and in prices of some services that respond slowly to changes in the economic environment—were also trending downward. For much of the year, most commodity prices other than oil, measured in dollars, were falling despite the depreciation of the dollar in the exchange markets. Moreover, the sizable declines in long-term interest rates seemed to reflect some easing of fears of a resurgence of inflationary pressures in the future.

Nonetheless, the possibility of renewed inflation remains of concern both in the markets and within the Federal Reserve. One potential channel for renewed inflationary pressures would be an excessive fall of the dollar in the exchange markets.

Moreover, the continuing rapid expansion of debt throughout the economy—running far above the rate of economic growth since 1982—has raised one warning flag. The implicit dangers should be clear. More leveraging of corporations, aggressive lending to consumers already laboring under heavy debt burdens, and less equity in homes all increase the vulnerability of the economy to economic risk—to higher interest rates, to recession, or to both. The fact that, after four years of expansion, many measures of credit quality are tending to deteriorate rather than improve, and that too many depository institutions are strained, should be warning enough.

As we look ahead, the Federal Reserve remains highly conscious of the long historical patterns that relate high rates of monetary growth over time to inflation.

In 1987, the effects of the depreciation of the dollar and the rebound in oil prices are very likely to be reflected in somewhat larger increases in consumer prices than occurred last year. What is critical is that such a bulge in prices related to identifiable temporary external devel-

opments not be translated into a broad-based cumulative upward movement. As you well know, just such a cumulative inflationary process started in the 1960s and then extended well over a decade into the 1980s. It was eventually brought to an end, but only with great effort and at considerable cost. The scars of that experience remain.

Against that background, participants both in financial markets and in business have persistently been skeptical of prospects for lasting price stability in making investment and pricing decisions. They are bound to be alert and responsive to any sense of adverse change in the underlying inflation trend, with implications for interest rates, exchange rates, and pricing policies. The consequences for the economy would clearly be undesirable.

In effect, neither the internal nor external setting permits thinking of trading off more inflation for more growth. Nor would inflation ease the problem of international adjustment; quite to the contrary, it would both undercut some of our competitive gains and threaten the orderly inflow of funds from abroad. Naturally, in the conduct of monetary policy, we will want to encourage continuing economic expansion. But we also want to see as long an expansion as possible. To that end, the threat of renewed inflation will require continuing caution to avoid excessive increases in money and credit. Clearly, further sizable declines in the federal budget deficit will make our job in the Federal Reserve easier.

### CONCLUDING COMMENTS

In sum, we face, at one and the same time, most difficult and most promising economic circumstances.

They are difficult because there are obvious distortions and imbalances within our economy and internationally. Unless dealt with forcibly and effectively, those imbalances will impair both growth and price stability—and the adverse implications will be amplified by the effects on other countries. Moreover, those imbalances will not yield to any single instrument of policy, however wisely conducted. Instead, what are required are complementary actions here and abroad—on budgets, on monetary policies, and

on maintaining appropriate exchange rates and an open trading order.

I know none of that is easy. Many countries are involved, and all of them have tough political decisions to make. Nor are the key decisions entirely in the hands of governmental authorities. American industry, in particular, has the challenge to build upon the efforts of recent years toward effective control of costs and greater efficiency, and to seek out and exploit the greater market opportunities that exist today.

From one point of view, it may seem like a lot to ask. But equally, there is a lot to be gained.

We already have achieved a long economic expansion. We have managed to combine that expansion with progress toward price stability—and that progress has made possible lower inter-

est rates. Financial markets more generally reflect renewed confidence. And the broad outline of policies that can preserve and extend those gains are by now well known.

To fail to act upon those policies—to instead retreat into protectionism, to relax on inflation, to fail to deal with the deficit—may in some ways appear to be the course of least resistance. But those are also precisely the ways by which we would turn our back to the bright promise before us.

It is only a concerted effort here and abroad that will extend and reinforce the economic expansion, consolidate the progress toward price stability, and provide the international environment in which all countries can prosper. □

# Announcements

## *MEETING OF CONSUMER ADVISORY COUNCIL*

The Federal Reserve Board announced that its Consumer Advisory Council met on March 19 and 20, in sessions open to the public. The Council's function is to advise the Board on the exercise of the Board's responsibilities under the Consumer Credit Protection Act and on other matters on which the Board seeks its advice.

## *BANK HOLDING COMPANY SUPERVISION MANUAL: NEW EDITION NOW AVAILABLE*

The Division of Banking Supervision and Regulation has completely updated, revised, and reformatted the *Bank Holding Company Supervision Manual*. The new inspection *Manual* includes supervisory developments, policies, and procedures through June 1986. The December 1986 publication is available for purchase at \$40.00 per copy by writing to Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

The new *Manual* implements the System's intensified on-site inspection program that calls for more frequent and in-depth inspections targeted to review certain larger and weaker organizations. The intensified inspection program was the result of a Board policy statement issued in October 1985 designed to strengthen, System-wide, the supervision of banks and bank holding companies. Besides strengthening on-site inspection activity, the policies also call for greater off-site surveillance, increased efforts to better communicate the results of inspections to the senior management of bank holding companies, and the use of limited and targeted inspections.

Other prominent new topics are the following: the April 1985 Capital Adequacy Guidelines, the November 1985 Board policy statement on cash

dividend payments, the revised inspection approaches to parent company cash flow and liquidity, the inspection review of funding policies, parent company supervision and control of subsidiary lending and investment activities, use and development of a consolidated plan, budgeting, risk management, securities lending, and repurchase agreements. The nonbank activities section of the *Manual* has also been expanded to include the nonbank activities authorized by Regulation Y through June 30, 1986. Those activities approved or denied by Board order and not specifically authorized by Regulation Y are also included.

The *Manual* includes an expanded table of contents and an alphabetical index keyed to all of the section and subsection titles and numbers, allowing for easier identification and location of selected topics. The numbering system has been revised and expanded to allow for insertion of new topics as the manual is periodically updated. Comments and suggestions on the *Manual* content should be directed to the Director of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

## *PROPOSED ACTIONS*

The Federal Reserve Board requested comment on a proposed risk-based capital framework for banks and bank holding companies. Comment should be received by the Board on this matter by May 13, 1987.

The Federal Reserve Board also requested comment on two notices that would be used by financial institutions to notify their federal regulators of their status under the Government Securities Act of 1986. Comment must be received by the Board by March 27.

The Federal Reserve Board has extended the comment period on most of its proposals issued

on December 10, 1986, to reduce the risks on large-dollar payment systems. The comment period has been extended from February 27 to April 3 for the proposals concerning the risks associated with book-entry securities transfers, the reduction of existing levels for net debit caps, the establishment of a "de minimis" cap category, and the adoption of limits on interaffiliate Fedwire transfers. The comment period for the proposed changes to the automated clearing-house (ACH) procedures has been extended from March 16 to April 3.

The Board also sought comment on the concept of charging a fee for all daylight overdrafts in accounts maintained with the Federal Reserve that are subject to the net debit cap. Comment is requested by April 13.

The Federal Reserve Board also extended the comment period to March 25 on its proposed rulemaking to permit bank holding companies to engage in limited real estate investment activities.

# Record of Policy Actions of the Federal Open Market Committee

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*MEETING HELD ON DECEMBER 15-16, 1986*

## *Domestic Policy Directive*

The information reviewed at this meeting suggested that economic activity was continuing to expand at a moderate pace in the current quarter. Payroll employment increased considerably in October and November; hiring in manufacturing rose somewhat in both months after declining on balance since the beginning of the year. Apart from sales of motor vehicles, which dropped off with the end of financing incentive programs, consumer spending has posted sizable gains in recent months. Business investment spending, however, has remained sluggish, while housing starts have weakened. At the same time, the trade balance has shown only limited indications of improvement. Increases in labor costs still were moderate, but price increases have been somewhat higher than earlier in the year because of developments in food and energy markets.

Total nonfarm payroll employment rose about  $\frac{1}{4}$  million in both October and November. Much of the gain was in the private service-producing sector, but factory employment also rose moderately, and the workweek lengthened. Aggregate hours for production and nonsupervisory workers in November were a full percentage point above the third-quarter average. The civilian unemployment rate stayed at 7 percent in November for the third consecutive month.

Gains in employment and hours worked were associated with a sizable pickup in industrial production in November. The industrial production index rose 0.6 percent last month, after essentially no change over the previous three months. Increases in output were evident in most major marketing groups, with only energy materials showing a marked decline, although auto assemblies were about unchanged from October.

Capacity utilization in manufacturing, mining, and utilities rose 0.3 percentage point in November to 79.3 percent. Nonetheless, utilization has changed little on balance since March and is  $2\frac{1}{2}$  points below its most recent peak in the summer of 1984.

Sales of domestic cars fell sharply after the expiration of cut-rate financing incentive programs in early October. These sales averaged less than 7 million units at an annual rate over the October-November period, compared with the strong  $9\frac{1}{2}$  million unit pace for the third quarter as a whole. Excluding autos, gasoline, and non-consumer items, retail sales in November rose 0.9 percent paced by continued strength in purchases of furniture and appliances and in other nonauto durables. In addition, data for earlier months were revised upward slightly.

Business investment appears to have remained sluggish. Shipments of nondefense capital goods increased in October, and construction spending has firmed in recent months, but prospects for such spending have continued to be affected adversely by high vacancy rates and reactions to tax reform. In contrast, sales of heavy-weight trucks fell markedly in October, and business purchases of cars and light trucks also probably declined sharply after the sales incentive programs ended. At the same time, new orders for nondefense capital goods fell 5 percent. Initial surveys of capital spending plans for 1987 suggested that overall nominal spending on plant and equipment is likely to change little from the 1986 level.

Housing starts continued to decline in November. During the month total private housing starts, at 1.6 million units, were a bit below the reduced pace of September and October. Single-family starts were virtually unchanged from their rate during the preceding two months, but were below their level earlier in the year; new home

sales also have remained below their previous pace in recent months. Multifamily starts declined further in November in response to high vacancy rates and adverse changes in tax laws.

Price increases, although still moderate, have been somewhat higher than earlier in the year partly because of developments in food and energy markets. The consumer price index rose 0.2 percent in October and the producer price index was up 0.2 percent in November. In the food sector, some upward price pressure continued to be evident, although increases in food prices slowed from the rapid pace during the summer. In addition, energy prices turned down a bit at both the retail and refinery levels, despite the firming of crude oil prices in spot markets since midsummer. Excluding food and energy, the CPI rose 0.4 percent in October, somewhat faster than earlier in the year as new car prices increased sharply. Wage inflation has picked up a bit recently, but has continued at a moderate pace.

The trade-weighted value of the dollar against other G-10 currencies has declined somewhat on balance since the November 5 meeting of the Committee. Exchange rates have been affected by news about the pace of economic activity, developments in the U.S. trade balance, and prospects for monetary actions in the United States and in key industrial nations abroad. Short-term interest rates rose moderately abroad, about in line with movements in U.S. rates, while differentials in long-term interest rates moved slightly against dollar assets. Over the period, the dollar declined about 2 percent against the mark and was essentially unchanged against the yen, but the dollar's depreciation had been somewhat larger in early December. As of mid-December, the value of the dollar in relation to other major currencies was little changed on balance from the level prevailing in August. Economic activity in major foreign industrial countries was mixed in the third quarter. The U.S. merchandise trade deficit was estimated to be about the same in the third quarter as in the previous three quarters. Exports were flat in the quarter, while the value of oil imports was close to that in the second quarter as price declines about offset volume increases. Very preliminary data indicated that the deficit in October was the

smallest in recent months as exports of agricultural products rose somewhat and imports declined moderately.

At its meeting on November 5, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions. This action was expected to be consistent with growth in both M2 and M3 at annual rates of 7 to 9 percent from September to December. Growth in M1 over the same period was expected to moderate from its exceptional pace during the previous several months. The Committee agreed that the growth in M1 would continue to be evaluated in light of the behavior of the broader monetary aggregates and other factors. The members also decided that slightly greater or slightly lesser reserve restraint might be acceptable depending on the behavior of the monetary aggregates, taking into account the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The intermeeting range for federal funds was maintained at 4 to 8 percent.

M2 growth slowed substantially in November to a 6½ percent annual rate, and M3 growth moderated further to a 5½ percent annual rate; through November both M2 and M3 were just inside the upper bounds of their 6 to 9 percent growth ranges established by the Committee for 1986. M1 accelerated again in November, reaching a rate of 21 percent, as growth in demand deposits surged. M1 growth has remained far in excess of GNP growth so far this year and its velocity is expected to fall at a historically high rate.

Growth of total reserves picked up sharply over the intermeeting period largely because of a surge in required reserves against transaction deposits. In addition, excess reserves increased from almost \$750 million in the previous three months to around \$1 billion on average in November, reflecting mainly the usual patterns around holidays and social security payment dates. Adjustment plus seasonal borrowing in the two complete maintenance periods since the November FOMC meeting averaged about \$300 million, down somewhat from the average over the previous intermeeting period. Even so, the funds rate firmed from around 5⅞ percent at the

time of the last meeting to well above 6 percent in early December. More recently, the federal funds rate has averaged close to 6 percent.

With the federal funds rate firmer through much of the intermeeting period, other short-term market rates rose 15 to 50 basis points. However, bond yields generally were about unchanged to down 25 basis points. Rates on commitments for fixed-rate home mortgages dropped about ½ percentage point, moving toward a more normal alignment with Treasury bond yields. Although stock prices fell initially on the announcement of insider trading violations related to takeover activity, on balance they showed little change over the period.

The staff projections presented at this meeting suggested that real GNP would continue to grow at a moderate rate through the end of 1987. Prospects for an improvement in real net exports of goods and services continued to be a key element shaping the 1987 forecast; export growth was expected to accelerate next year and import growth to moderate as world trade flows adjusted to increased U.S. competitiveness. Gross domestic purchases were projected to be relatively sluggish through the end of 1987, reflecting mainly a shift toward fiscal restraint, the likely weakness in multifamily housing and nonresidential construction, and the damping influence of higher import prices on the growth of real income and consumption. Inflation was expected to pick up a bit in early 1987 as a consequence of the dollar's depreciation and higher energy prices.

In the Committee's discussion of current and prospective economic developments, members generally agreed that continuing expansion at a moderate pace remained a reasonable expectation for the year ahead, but a number of members emphasized the risks of a shortfall from current projections, especially in the early part of 1987. In particular, members mentioned the risks that the expected improvement in the nation's foreign trade might be relatively disappointing next year and that overall business spending might remain sluggish. A few members also referred to the possibility of slower growth in consumer spending. On balance, however, while no important sector of the domestic economy seemed likely to be a source of substantial strength in 1987, the members read current economic indicators and

other business information as pointing to a fifth year of moderate expansion. Such expansion might be accompanied by some rise in the rate of inflation, primarily reflecting the effects of the dollar's depreciation and energy-sector developments.

The members again gave considerable attention to the outlook for foreign trade. An improvement in trade generally was viewed as an essential factor in sustaining a moderate rate of business expansion in the context of perhaps diminishing growth in overall domestic demands. Unfortunately, there was no convincing evidence thus far of a turnaround in the trade balance, and a number of members commented that the expected improvement could be relatively limited next year. On the favorable side, the depreciation of the dollar evidently had enhanced the competitive position of U.S. firms, and individual reports of expanding export opportunities appeared to be multiplying as well as indications of an improved ability of many U.S. firms to compete domestically with imports. As they had at earlier meetings, the members referred to a number of factors that were inhibiting an overall improvement in net exports, including limited expansion in many industrial nations abroad and strong competition from a number of countries whose currencies had not appreciated against the dollar. One member also stressed that persisting debt problems in several developing countries constituted an element of vulnerability for international financial markets and international trade and also for the U.S. economy.

With regard to the domestic economy, a number of members commented that consumer expenditures on durables, especially automobiles, and some business spending appeared to have been accelerated into 1986 in reaction to provisions of the tax reform legislation. Compensating adjustments in such spending later could have a restraining effect on economic growth, notably during the first part of 1987. Nonetheless, a few members referred to the possibility that consumer spending might be well maintained during 1987 as a whole. The latter acknowledged the inhibiting effects of the growth in consumer debt, but they stressed the favorable implications of cumulative increases in the total assets and net worth of consumers and the positive impact of reduc-

tions in personal income tax rates. The outlook for business spending continued to be uncertain and in some respects unpromising, especially with regard to multifamily housing and nonresidential construction; both areas would be adversely affected by high vacancy rates and negative reactions to the tax reform legislation. There were further reports of plant closings, notably in the Midwest. However, one member observed that business spending for plant and equipment might well hold up in response to continuing growth in overall economic activity. As usual, the prospects for inventory accumulation were uncertain and would be affected by the outlook for prices.

With regard to the outlook for prices and wages, members generally agreed that increases might be somewhat larger in 1987, reflecting the impact of rising import prices and indications of a turnaround in oil prices. However, the prospect of only moderate economic growth and continued margins of slack in labor and product markets suggested that strong wage pressures were not likely over the year ahead. One member observed that agricultural conditions worldwide suggested an absence of pressure on food prices. Moreover, generally limited growth in key industrial nations together with an ample availability of productive resources abroad implied continuing strong competitive pressures and restrained advances in prices of U.S. imports. Even so, a somewhat higher rate of inflation appeared to be in prospect for next year.

At its meeting in July, the Committee had agreed on tentative ranges of  $5\frac{1}{2}$  to  $8\frac{1}{2}$  percent for growth in both M2 and M3 during the period from the fourth quarter of 1986 to the fourth quarter of 1987. The associated range for growth in total domestic nonfinancial debt was set at 8 to 11 percent for 1987. In the case of M1 the Committee had indicated on a more tentative basis than usual that it might retain the 1986 range of 3 to 8 percent for 1987. Such a range implied a marked reduction from the M1 growth experienced in 1986 and provisionally assumed that the relationship of M1 to income, interest rates, and other economic variables next year would be broadly consistent with earlier historical experience.

At this meeting the Committee held a prelimi-

nary discussion of the factors bearing on appropriate ranges for the various monetary aggregates in 1987. Most of the attention was devoted to the issue of whether a range should be established for M1, given the uncertainty surrounding behavior of that aggregate and its velocity in recent years. While most members currently did not favor establishing a formal target range for M1 growth in 1987, many of them believed that this aggregate should continue to be monitored or evaluated in light of information about the economy, prices, and the broad monetary aggregates and other financial variables. The Committee will complete its review of the role of M1 and the ranges for the broad aggregates for 1987 at its February meeting.

In the Committee's discussion of policy implementation for the period immediately ahead, all of the members indicated that they were in favor of directing open market operations, at least initially, toward maintaining unchanged conditions of reserve availability. For now, monetary policy was deemed to be exerting an appropriate degree of pressure on reserve positions in light of the growth of the broader monetary aggregates within—though at the upper ends of—their longer-run ranges, and the generally favorable prospects for sustained, albeit moderate, economic growth.

The members recognized that the outlook for the monetary aggregates remained uncertain, notably in the case of M1. According to an analysis presented at this meeting, a moderate trend in the growth of M2 and M3 might be anticipated, given the outlook for fairly limited growth in economic activity and an abatement of the effects of earlier interest rate declines. For the months ahead, growth in the broader aggregates might be well within the Committee's tentative ranges for 1987 on the assumption that there would be no significant changes in market interest rates. The outlook for M1 growth remained highly uncertain, although underlying forces seemed consistent with a considerable slowing over time from the extraordinary expansion experienced during 1986. Some concern was expressed that the failure of such a slowing to occur and the associated large provision of reserves could eventually have inflationary consequences. Even with some moderation over com-

ing months, M1 might continue to expand at rates markedly in excess of the growth in nominal GNP. In view of the uncertainties that were involved and in keeping with the Committee's practice since mid-1986, the members did not want to indicate specific expectations with regard to M1 growth in the operational paragraph of the Committee's directive. Nonetheless, it was understood that growth of this aggregate would continue to be evaluated in light of the behavior of the broader monetary aggregates and other economic and financial developments.

In their discussion of possible intermeeting adjustments in the degree of reserve pressure, the members thought it unlikely that developments would warrant more than a minor, if any, change in reserve conditions during the weeks ahead. All of the members understood that some small adjustment in either direction might be appropriate under certain circumstances. However, in the context of what they perceived as greater downside risks in the outlook for economic activity, several believed that policy implementation should remain especially alert to developments that might call for somewhat easier reserve conditions. It was noted in this connection that the relative stability of the dollar in foreign exchange markets over the past few months provided greater flexibility for potential easing actions.

At the conclusion of the Committee's discussion, all of the members indicated that they favored a directive that called for no change in the degree of pressure on reserve positions. The members expected this approach to policy implementation to be consistent with growth of both M2 and M3 at an annual rate of about 7 percent over the four-month period from November to March. Because the behavior of M1 remained subject to unusual uncertainty, the members decided they would continue to evaluate this aggregate in the light of the performance of the broader monetary aggregates and other factors. The members indicated that slightly greater reserve restraint or somewhat lesser reserve restraint would be acceptable over the intermeeting period depending on the behavior of the monetary aggregates, taking into account the strength of the business expansion, the performance of the dollar in foreign exchange markets,

progress against inflation, and conditions in domestic and international credit markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

At the conclusion of the meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that economic activity continues to grow at a moderate pace in the current quarter. Total nonfarm payroll employment grew appreciably further in October and November, and employment in manufacturing also rose after declining on balance in previous months. The civilian unemployment rate remained at 7.0 percent in November for the third consecutive month. Industrial production picked up considerably in November. Total retail sales rose moderately last month after changing little on balance over September and October. Housing starts have weakened and business capital spending generally appears to have remained sluggish. Preliminary data for the U.S. merchandise trade deficit in October suggest a moderate narrowing. Broad measures of prices have firmed somewhat in recent months due to developments in food and energy markets. Labor cost increases this year have remained moderate compared with other recent years.

Growth of M2 slowed substantially in November, while growth of M3 remained moderate. Expansion of these two aggregates for the year through November has been just below the upper end of their respective ranges established by the Committee for 1986. In November growth of M1 accelerated to a very rapid rate. Expansion in total domestic nonfinancial debt remains appreciably above the Committee's monitoring range for 1986. Short-term interest rates have risen somewhat since the November 5 meeting of the Committee, while long-term rates have declined on balance. In foreign exchange markets the trade-weighted value of the dollar against other G-10 currencies has declined moderately on balance since the November meeting.

The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable price stability over time, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives the Committee agreed at the July meeting to reaffirm the ranges established in February for growth of 6 to 9 percent for both M2 and M3, measured from the fourth quarter of 1985 to the fourth quarter of 1986. With respect to M1, the Committee recognized that, based on the experience of recent years, the behavior of that aggregate is subject to substantial uncertainties in relation to economic activi-

ty and prices, depending among other things on the responsiveness of M1 growth to changes in interest rates. In light of these uncertainties and of the substantial decline in velocity in the first half of the year, the Committee decided that growth of M1 in excess of the previously established 3 to 8 percent range for 1986 would be acceptable. Acceptable growth of M1 over the remainder of the year would depend on the behavior of velocity, growth in the other monetary aggregates, developments in the economy and financial markets, and price pressures. Given its rapid growth in the early part of the year, the Committee recognized that the increase in total domestic nonfinancial debt in 1986 may exceed its monitoring range of 8 to 11 percent, but felt an increase in that range would provide an inappropriate benchmark for evaluating longer-term trends in that aggregate.

For 1987 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1986 to the fourth quarter of 1987, of 5½ to 8½ percent for M2 and M3. While a range of 3 to 8 percent for M1 in 1987 would appear appropriate in the light of most historical experience, the Committee recognized that the exceptional uncertainties surrounding the behavior of M1 velocity over the more recent period would require careful appraisal of the target range at the beginning of 1987. The associated range for growth

in total domestic nonfinancial debt was provisionally set at 8 to 11 percent for 1987.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M2 and M3 over the period from November to March at an annual rate of about 7 percent. Growth in M1 will continue to be appraised in the light of the behavior of M2 and M3 and the other factors cited below. Slightly greater reserve restraint or somewhat lesser reserve restraint would be acceptable depending on the behavior of the aggregates, taking into account the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 4 to 8 percent.

Votes for this action: Messrs. Volcker, Corrigan, Angell, Guffey, Heller, Mrs. Horn, Messrs. Johnson, Melzer, Morris, and Ms. Seger. Votes against this action: None. Absent and not voting: Mr. Rice.

# Legal Developments

## *ORDERS ISSUED UNDER BANK HOLDING COMPANY ACT, BANK MERGER ACT, BANK SERVICE CORPORATION ACT, AND FEDERAL RESERVE ACT*

### *Orders Issued Under Section 3 of the Bank Holding Company Act*

Bellevue Capital Company  
Bellevue, Nebraska

#### *Order Approving Acquisition of a Bank*

Bellevue Capital Company, Bellevue, Nebraska, a bank holding company within the meaning of the Bank Holding Company Act ("Act"), 12 U.S.C. § 1841 *et seq.*, has applied for the Board's approval pursuant to section 3(a)(3) of the Act, to acquire 99 percent of the voting shares of Otoe County National Bank and Trust Company, Nebraska City, Nebraska ("Bank").

Notice of the application, affording interested persons an opportunity to submit comments, has been given in accordance with section 3(b) of the Act (51 *Federal Register* 43,974 (1986)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3(c) of the Act.

Applicant is a one-bank holding company by virtue of its control of Bank of Bellevue, Bellevue, Nebraska ("Bellevue"). Applicant, with deposits of \$43.8 million,<sup>1</sup> is the 64th largest banking organization in Nebraska, controlling 0.3 percent of the total deposits in commercial banking organizations in the state. Upon consummation of this proposal, Applicant will become the 27th largest commercial banking organization in Nebraska and control deposits of \$78.2 million, representing 0.6 percent of the total deposits in commercial banking organizations in the state. Applicant's principal controls Bank and thus, this proposal represents a reorganization of Bank's ownership from individuals to a corporation controlled by the same individuals. Accordingly, consummation of this proposal would

not have any significant adverse effect upon the concentration of banking resources in the state.

Bank operates in the Otoe County banking market,<sup>2</sup> where it is the largest of eight commercial banking organizations, controlling 27.5 percent of the total deposits in commercial banks in the market. Neither Applicant nor any of its principals is associated with any other commercial banking organization in the relevant market. Consummation of this proposal would not have any adverse effect on existing competition in any relevant market. Accordingly, considerations relating to competitive considerations under the Act are consistent with approval.

The financial and managerial resources of Applicant, Bellevue, and Bank are consistent with approval. This proposal is essentially a reorganization of existing ownership interests, and no additional debt will be incurred as a result of this transaction. The purpose of the proposal is to permit Applicant to use certain tax benefits that have accrued to Bank, which will enhance the debt-servicing capabilities of Applicant. Considerations relating to the convenience and needs of the communities to be served also are consistent with approval.

Based on the foregoing and other facts of record, the Board has determined that the application should be and hereby is approved. The transaction shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Kansas City pursuant to delegated authority.

By order of the Board of Governors, effective February 2, 1987.

Voting for this action: Vice Chairman Johnson and Governors Seger, Angell, and Heller. Absent and not voting: Chairman Volcker.

[SEAL]

JAMES MCAFEE  
*Associate Secretary of the Board*

1. All banking data are as of December 31, 1985.

2. The Otoe County banking market is approximated by Otoe County, Nebraska.

Northfield Bancshares, Inc.  
Northfield, Minnesota

*Order Approving Formation of a Bank Holding Company*

Northfield Bancshares, Inc., Northfield, Minnesota, has applied for the prior approval of the Board under section 3 of the Bank Holding Company Act of 1956, as amended (12 U.S.C. § 1841 *et seq.*) (the "Act"), to acquire 100 percent of the voting shares of First Bank (N.A.) — Northfield, Northfield, Minnesota ("Bank").

Notice of the application, affording opportunity for interested persons to submit comments and views, has been duly published (51 *Federal Register* 43,974 (1986)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3(c) of the Act (12 U.S.C. § 1842(c)).

Applicant is a nonoperating corporation formed for the purpose of acquiring Bank. Bank is the 153rd largest commercial banking organization in Minnesota with \$29.7 million in total deposits, representing .09 percent of total deposits in Minnesota.<sup>1</sup> Consummation of the proposal would not have a significant effect on the concentration of banking resources in Minnesota.

Bank operates in the Northfield banking market,<sup>2</sup> where it is the fourth largest commercial bank in the market, controlling 9.04 percent of the deposits in commercial banks in the market. Principals of Applicant are not affiliated with any other depository institution in the market. Based on all the facts of record, consummation of this proposal would not result in any significant adverse effects on existing or potential competition or increase the concentration of banking resources in any relevant area. Accordingly, the Board concludes that competitive considerations are consistent with approval.

The Board has indicated on previous occasions that a bank holding company should serve as a source of financial and managerial strength to its subsidiary banks, and that the Board would closely examine the condition of an applicant in each case with this consideration in mind.<sup>3</sup> This application represents the divestiture by First Bank System, Minneapolis, Minnesota ("First Bank System"), a large regional bank holding company, of Bank to a small bank holding company. Under these circumstances, the Board is particularly concerned with the financial strength and future prospects of the bank to be divested, in part because of the uncertainty associated with a change in ownership from a large regional banking organization to a bank holding company with substantially fewer resources to support the bank.

These concerns are mitigated in this case by several factors. First, First Bank System has agreed to retain an investment in Applicant until Applicant's initial leverage is reduced. Second, although Applicant will incur a certain amount of debt in connection with the proposed transaction, it appears that Applicant will have sufficient flexibility to retire the debt without adversely affecting the capital position of Bank. In addition, in contemplation of this transaction, First Bank System has taken steps to strengthen Bank's loan portfolio. All of these factors are designed to strengthen the acquiring organization and to facilitate the transfer of Bank to new ownership, thus ensuring that Bank will be financially protected following the divestiture.

In light of these and other facts of record, the financial and managerial resources and future prospects of Applicant and Bank are consistent with approval of the proposal. Considerations relating to the convenience and needs of the communities to be served are also consistent with approval.

Based on the foregoing and other facts of record, the Board has determined that the application should be, and hereby is, approved. The acquisition of Bank shall not be consummated before the thirtieth calendar day following the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Minneapolis, acting pursuant to delegated authority.

By order of the Board of Governors, effective February 13, 1987.

Voting for this action: Chairman Volcker and Governors Johnson, Seger, and Angell. Absent and not voting: Governor Heller.

WILLIAM W. WILES  
[SEAL] *Secretary of the Board*

1. Data are as of June 30, 1985.

2. The Northfield banking market is approximated by Rice County and the townships of Warsaw, Holden, and Kenyon in Goodhue County.

3. The Bank Holding Company Act requires that before an organization is permitted to become a bank holding company and thus obtain the benefits associated with the holding company structure, it must

secure the Board's approval. Section 3(c) of the Act provides that the Board must, in every case, consider, among other things, the financial and managerial resources of both the applicant company and the bank to be acquired. The Board's action in this case is based on a consideration of such factors.

## State First Financial Corporation Texarkana, Arkansas

### *Order Approving Acquisition of a Bank*

State First Financial Corporation, Texarkana, Arkansas, has applied for the Board's approval under section 3(a)(3) of the Bank Holding Company Act ("Act") (12 U.S.C. § 1842(a)(3)) to acquire American National Bank, Texarkana, Texas ("Bank").

Notice of the application, affording an opportunity for interested persons to submit comments, has been given in accordance with section 3(b) of the Act (51 *Federal Register* 41,837 (1986)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3(c) of the Act (12 U.S.C. § 1842(c)).

Section 3(d) of the Act, 12 U.S.C. § 1842(d), the Douglas Amendment, prohibits the Board from approving an application by a bank holding company to acquire a bank located outside the bank holding company's home state, unless such acquisition is "specifically authorized by the statute laws of the state in which such bank is located, by language to that effect and not merely by implication."<sup>1</sup>

Effective January 1, 1987, Texas enacted an interstate banking statute that permits out-of-state bank holding companies to acquire established Texas banks and bank holding companies.<sup>2</sup> The Texas Banking Department has informed the Board that it has no objection to this proposal. Based on the foregoing, the Board has determined that the proposed acquisition is specifically authorized by the statute laws of Texas and thus Board approval is not prohibited by the Douglas Amendment.

Applicant is the tenth largest banking organization in Arkansas, operating two subsidiary banks with total deposits of \$295.7 million, representing 2.0 percent of the total deposits in commercial banks in Arkansas.<sup>3</sup> Bank is the 586th largest bank in Texas, with \$56.0 million in deposits, representing less than one percent of the total deposits in commercial banks in Texas. Consummation of this proposal would not have a significant adverse effect on the concentration of banking resources in Arkansas or Texas.

Applicant and Bank compete in the Texarkana market.<sup>4</sup> Applicant is the largest of eight commercial banking organizations in the market, controlling 32.7 percent of total deposits in commercial banking organizations in the market.<sup>5</sup> Bank is the sixth largest commercial banking organization in the market, controlling 6.4 percent of the total deposits in commercial banks in the market. Upon consummation of the proposal, Applicant's share of the deposits would increase to 39.1 percent. The Texarkana market is considered to be highly concentrated, with the four largest commercial banks controlling 80.0 percent of the deposits in commercial banks in the market. The Herfindahl-Hirschman Index ("HHI") for the market is 2035 and would increase by 418 points to 2453 upon consummation of the proposal.<sup>6</sup>

Although consummation of the proposal would eliminate some existing competition between Applicant and Bank in the Texarkana banking market, numerous other commercial banking organizations would remain as competitors in the market. In addition, the presence of six thrift institutions, controlling approximately 33.4 percent of the market's total deposits,<sup>7</sup> mitigates the anticompetitive effects of the transaction.<sup>8</sup> Thrift institutions already exert a considerable competitive influence in the market as providers of consumer, real estate, and commercial loans in addition to traditional thrift services. Based upon the above considerations, the Board concludes that consummation of the proposal is not likely to substantially lessen competition in the Texarkana banking market.<sup>9</sup>

The financial and managerial resources of Applicant, its subsidiary banks, and Bank are consistent

4. The Texarkana market is approximated by the counties of Miller and Little River, Arkansas, and Bowie County, Texas.

5. Market data are as of June 30, 1986, and reflect known holding company acquisitions approved and mergers consummated through December 31, 1986.

6. Under the revised Department of Justice Merger Guidelines (49 *Federal Register* 26,823 (June 29, 1984)), any market in which the post-merger HHI is above 1800 is considered highly concentrated, and the Department is likely to challenge a merger that increases the HHI by more than 50 points. The Department has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by at least 200 points.

7. Thrift institution deposit data are as of June 30, 1985.

8. The Board has previously indicated that thrift institutions have become, or have the potential to become, major competitors of commercial banks. *National City Corporation*, 70 *FEDERAL RESERVE BULLETIN* 743 (1984); *NCNB Bancorporation*, 70 *FEDERAL RESERVE BULLETIN* 225 (1984); *General Bancshares Corporation*, 69 *FEDERAL RESERVE BULLETIN* 802 (1983); *First Tennessee National Corporation*, 69 *FEDERAL RESERVE BULLETIN* 298 (1983).

9. If 50 percent of deposits held by thrift institutions in the Texarkana banking market were included in the calculation of market concentration, the share of total deposits held by the four largest organizations in the market would be 68.4 percent. Applicant would control 26.2 percent of the market's deposits and Bank would control 5.1 percent of the market's deposits. The HHI would increase by 268 points to 1714.

1. A bank holding company's home state for purposes of the Douglas Amendment is that state in which the total deposits of its banking subsidiaries were largest on July 1, 1966, or on the date it became a bank holding company, whichever date is later. 12 U.S.C. § 1842. Applicant's home state is Arkansas.

2. Tex. Rev. Civ. Stat. Ann. art. 342-916 (Vernon 1986). The Texas statute requires that the majority of the directors of any bank be Texas residents.

3. Banking data are as of December 31, 1985, and reflect holding company acquisitions approved and mergers consummated through October 31, 1986.

with approval. Considerations relating to the convenience and needs of the communities to be served are also consistent with approval. Based on the foregoing and other facts of record, the Board has determined that consummation of the proposed transaction would be in the public interest and that the application should be approved.

On the basis of the record, the application is approved for the reasons summarized above. The transactions shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of St. Louis pursuant to delegated authority.

By order of the Board of Governors, effective February 9, 1987.

Voting for this action: Chairman Volcker and Governors Seger, Angell, and Heller. Absent and not voting: Governor Johnson.

JAMES MCAFEE

[SEAL]

*Associate Secretary of the Board*

SunTrust Banks, Inc.  
Atlanta, Georgia

*Order Approving Acquisition of a Bank Holding Company*

SunTrust Banks, Inc., Atlanta, Georgia, and its wholly owned subsidiary, Third National Corporation, Nashville, Tennessee (together, "Applicant"), bank holding companies within the meaning of the Bank Holding Company Act of 1956, as amended (12 U.S.C. § 1841 *et seq.*) ("Act"), have applied for the Board's approval under section 3(a)(5) of the Act to merge with Peoples Bancshares, Inc., Lebanon, Tennessee ("Company"), and thereby to acquire indirectly The Peoples Bank, Lebanon, Tennessee ("Bank").

Notice of the applications, affording interested persons an opportunity to submit comments, has been given in accordance with section 3(b) of the Act (51 *Federal Register* 44,524 (1986)). The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) of the Act.

Applicant is the second largest banking organization in Georgia, with total Georgia deposits of \$5.2 billion,<sup>1</sup> representing 15.3 percent of the total deposits in commercial banks in the state. Applicant is also the

second largest banking organization in Florida, controlling deposits in that state of \$9.7 billion, representing 13.2 percent of the total deposits in commercial banks in Florida. In addition, Applicant is the largest banking organization in Tennessee with total deposits of \$4.2 billion, representing 14.4 percent of state deposits. Bank is the 94th largest commercial banking organization in Tennessee and controls deposits of \$53.0 million, representing 0.2 percent of the deposits in commercial banks in Tennessee. Consummation of this proposal would have no significant effect on the concentration of banking resources in Tennessee, Florida, or Georgia.

Section 3(d) of the Act (12 U.S.C. § 1842(d)), the Douglas Amendment, prohibits the Board from approving an application by a bank holding company to acquire a bank located outside the bank holding company's home state,<sup>2</sup> unless the state where the bank to be acquired is located has specifically authorized the acquisition by language to that effect and not merely by implication. Applicant's home state is Florida. The Board has previously determined that Tennessee's interstate banking statute expressly authorizes a Florida bank holding company, such as Applicant, to acquire a Tennessee bank holding company, such as Company.<sup>3</sup> Accordingly, approval of Applicant's proposal to acquire a bank holding company in Tennessee is not barred by the Douglas Amendment.

Applicant and Bank compete directly in the Nashville banking market.<sup>4</sup> Applicant is the largest of 17 commercial banking organizations operating in the market, with total deposits of \$2.1 billion, representing 32.6 percent of the total deposits in commercial banks in the market. Bank is the ninth largest commercial banking organization in the market, with total deposits of \$53.0 million, representing 0.8 percent of the total deposits in commercial banks in the market. Upon consummation of the proposal, Applicant's share of the deposits in commercial banks in the market would increase to 33.4 percent. The Nashville banking market is considered to be highly concentrated, with the four largest commercial banks controlling 84.4 percent of the deposits in commercial banks in the market. The Herfindahl-Hirschman Index ("HHI") for the market

2. A bank holding company's home state is that state in which the operations of the bank holding company's banking subsidiaries were principally conducted on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

3. *SunTrust Banks Inc.*, 73 *FEDERAL RESERVE BULLETIN* 67 (1986).

4. The Nashville banking market is approximated by Davidson, Rutherford, Williamson, Wilson, Robinson and Sumner Counties.

1. All banking data are as of June 30, 1986.

is 2135 and would increase by 55 points to 2190 upon consummation of the proposal.<sup>5</sup>

Although consummation of the proposal would eliminate some existing competition between Applicant and Bank in the Nashville market, numerous other commercial banking organizations would remain as competitors in the market upon consummation. In addition, the presence of ten thrift institutions that control approximately 20.1 percent of the market's total deposits mitigates the anticompetitive effects of the transaction.<sup>6</sup> Thrift institutions already exert a considerable competitive influence in the market as providers of commercial and industrial loans in addition to traditional thrift services. Based upon the above considerations, the Board concludes that consummation of the proposal is not likely to substantially lessen competition in the Nashville banking market.<sup>7</sup>

The financial and managerial resources of Applicant, its subsidiary banks, and Bank are consistent with approval. Considerations relating to the convenience and needs of the communities to be served are also consistent with approval. Based upon the foregoing and other facts of record, the Board has determined that consummation of the proposed transaction would be in the public interest and that the applications should be approved.

On the basis of the record, the applications are approved for the reasons summarized above. The transaction shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Atlanta pursuant to delegated authority.

5. Under the revised Department of Justice Merger Guidelines, 49 *Federal Register* 26,823 (June 29, 1984), any market in which the post-merger HHI is above 1800 is considered highly concentrated. The Department has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by at least 200 points.

6. The Board has previously indicated that thrift institutions have become, or have the potential to become, major competitors of commercial banks. *National City Corporation*, 70 *FEDERAL RESERVE BULLETIN* 743 (1984); *NCNB Bancorporation*, 70 *FEDERAL RESERVE BULLETIN* 225 (1984); *General Bancshares Corporation*, 69 *Federal Reserve Bulletin* 802 (1983); *First Tennessee National Corporation*, 69 *FEDERAL RESERVE BULLETIN* 298 (1983).

7. If 50 percent of deposits held by thrift institutions in the Nashville banking market were included in the calculation of market concentration, the share of total deposits held by the four largest organizations in the market would be 74.8 percent. Applicant would control 28.9 percent of the market's deposits and Bank would control 0.8 percent of the market's deposits. The HHI would increase by 40 points to 1750.

By order of the Board of Governors, effective February 10, 1987.

Voting for this action: Chairman Volcker and Governors Seger, Angell, and Heller. Absent and not voting: Governor Johnson.

JAMES MCAFEE  
[SEAL] Associate Secretary of the Board

### *Orders Issued Under Section 4 of the Bank Holding Company Act*

United Virginia Bankshares, Inc.  
Richmond, Virginia

#### *Order Approving an Application to Purchase and Sell Precious Metals and Coins for the Account of Customers*

United Virginia Bankshares, Inc., Richmond, Virginia, a bank holding company within the meaning of the Bank Holding Company Act, 12 U.S.C. § 1841 *et seq.* ("BHC Act"), has applied pursuant to section 4(c)(8) of the BHC Act and section 225.23(a) of the Board's Regulation Y, 12 C.F.R. § 225.23(a), to engage *de novo* through its subsidiary, United Virginia Brokerage, Inc., Richmond, Virginia ("Company"), in the purchase and sale of gold and silver bullion and coins for the account of its customers.

Notice of the application, affording interested persons an opportunity to submit comments, has been duly published (51 *Federal Register* 44,124 (1986)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the public interest factors set forth in section 4(c)(8) of the BHC Act.

Company proposes to engage in the purchase and sale of silver and gold bullion and coins for the account of customers. Company will not engage in the purchase and sale of platinum and palladium,<sup>1</sup> nor will it deal in gold or silver for its own account. In addition, Company does not propose to extend credit, and does not propose to offer investment advice to customers in connection with the proposed services.

Applicant is a multibank holding company with three subsidiary banks in Virginia, Maryland, and the District of Columbia, controlling total deposits of approximately \$6.3 billion.<sup>2</sup> Company has obtained

1. In *Standard and Chartered Banking Group Ltd.*, 38 *Federal Register* 27,552 (1973), the Board found that the activities of dealing in platinum and palladium were not authorized for national banks and were not closely related to banking.

2. Data are as of September 30, 1986.

approval to engage in discount securities brokerage activities permissible for bank holding companies under section 225.25(b)(15) of the Board's Regulation Y, 12 C.F.R. § 225.25(b)(15).

The proposed activities of Company are essentially identical to activities previously approved by the Board.<sup>3</sup> In addition, banks have traditionally engaged in the purchase and sale of gold and silver bullion.<sup>4</sup> Thus, the Board concludes that Applicant's proposal to engage in the purchase and sale of bullion and coins for the account of customers is closely related to banking.

In order to approve this application, the Board is also required to determine that the performance of the proposed activities by Applicant "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects . . . ." (12 U.S.C. § 1843(c)(8)). Consummation of Applicant's proposal will result in increased convenience to customers. In addition, the Board expects that the entry of Applicant into the market for these services will increase the level of competition among providers of these services. Accordingly, the Board concludes that the performance of the proposed activities by Applicant can reasonably be expected to produce benefits to the public.

The Board has also considered the potential for adverse effects that may be associated with this proposal. There is no evidence in the record that consummation of the proposed transactions would result in any adverse effects such as decreased competition, undue concentration of resources, unfair competition, conflicts of interest, or unsound banking practices. Applicant's proposal to buy and sell gold and silver bullion and coins is a fee-generating, nonleveraged activity that the Board believes would not have an adverse effect on Applicant's financial resources. Accordingly, the financial and managerial resources of Applicant and its subsidiaries overall are consistent with approval of the application.

Based upon a consideration of all the facts of record, the Board concludes that the balance of the public interest factors that it is required to consider under section 4(c)(8) is favorable. Accordingly, the application is hereby approved.

This determination is subject to all of the conditions set forth in the Board's Regulation Y, including those

in sections 225.4(d) and 225.23(b) (12 C.F.R. §§ 225.4(d) and 225.23(b)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the BHC Act and the Board's regulations and order issued thereunder, or to prevent evasion thereof.

The activity shall be commenced not later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Richmond, pursuant to delegated authority.

By order of the Board of Governors, effective February 9, 1987.

Voting for this action: Chairman Volcker and Governors Seger, Angell, and Heller. Absent and not voting: Governor Johnson.

JAMES MCAFEE  
[SEAL] Associate Secretary of the Board

#### ORDERS ISSUED UNDER SECTIONS 3 AND 4 OF THE BANK HOLDING COMPANY ACT

##### Maryland National Corporation Baltimore, Maryland

##### *Order Conditionally Approving the Acquisition of a Bank, a Bank Holding Company and its Nonbank Subsidiaries*

Maryland National Corporation, Baltimore, Maryland, a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended ("BHC Act" or "Act") (12 U.S.C. § 1841 *et seq.*), has applied for the Board's approval under section 3(a)(3) of the Act (12 U.S.C. § 1842(a)(3)) to acquire American Security Corporation, Washington, D.C. ("ASC"), and thereby indirectly to acquire ASC's subsidiary bank, American Security Bank, Washington, D.C. ("Bank"). In order to effect the transaction, Applicant proposes to form an interim bank holding company subsidiary to be merged with ASC.

ASC engages through two nonbanking subsidiaries in the provision of financial advice and discount brokerage services. ASC also engages directly and through one subsidiary in certain otherwise impermissible travel agency, general insurance, and real estate brokerage, leasing and property management activities on the basis of grandfather privileges provided in section 4(a)(2) of the Act, 12 U.S.C. § 1843(a)(2). Applicant has applied under section 4(c)(8) of the Act

3. *Texas American Bancshares, Inc.*, 72 FEDERAL RESERVE BULLETIN 501 (1986); *First Interstate Bancorp.*, 71 FEDERAL RESERVE BULLETIN 467 (1985). See also, *The HongKong and Shanghai Banking Corp.*, 72 FEDERAL RESERVE BULLETIN 345 (1986); *Standard and Chartered Banking Group Ltd.*, 38 *Federal Register* 27,552 (1973).

4. See, e.g., 12 U.S.C. § 24(7) (national banks are explicitly permitted to buy and sell coins and bullion).

(12 U.S.C. § 1843(c)(8)) and sections 225.25(b)(4) and (b)(15) of Regulation Y (12 C.F.R. §§ 225.25(b)(4) and (b)(15)) to acquire the financial advisory and discount brokerage activities of ASC's nonbank subsidiaries. Applicant further has requested approval to retain ASC's grandfathered travel agency, general insurance, and real estate brokerage, leasing and property management activities following consummation of its proposal.

Notice of the applications, affording an opportunity for interested persons to submit comments, has been given in accordance with sections 3 and 4 of the Act (51 *Federal Register* 37,493 (October 22, 1986)). The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) of the Act (12 U.S.C. § 1842(c)) and the considerations specified in section 4(c)(8) of the Act.

Applicant is the largest commercial banking organization in Maryland with 19.4 percent of the total deposits in commercial banks in that state. Applicant's lead bank subsidiary operates 203 branch offices and controls total domestic deposits of \$5.2 billion. ASC is the second largest commercial banking organization in the District of Columbia, with 24.7 percent of the total deposits in commercial banks in the District. ASC's sole bank subsidiary operates 31 branches and controls total domestic deposits of \$2.5 billion.<sup>1</sup>

Section 3(d) of the Act (12 U.S.C. § 1842(d)), the Douglas Amendment, prohibits the Board from approving an application by a bank holding company to acquire control of any bank located outside of the holding company's home state,<sup>2</sup> unless such acquisition is "specifically authorized by the statute laws of the state in which such bank is located, by language to that effect and not merely by implication." Applicant's home state is Maryland.

The statute laws of the District of Columbia permit a bank holding company located within a defined region that includes Maryland to acquire an established District of Columbia bank or bank holding company, provided the acquiror's home state permits reciprocal acquisitions of banks in that state by bank holding companies located in the District.<sup>3</sup> The Board has previously determined that the Maryland banking

code<sup>4</sup> permits a District bank holding company to acquire a banking organization in that state,<sup>5</sup> and by resolution dated October 7, 1986, the District of Columbia City Council has indicated that the statute laws of Maryland and the District are reciprocal and provide a basis for authorizing the proposed acquisition. The Board therefore concludes that approval of the proposed acquisition is not prohibited by the Douglas Amendment.

Applicant's lead subsidiary bank competes with Bank in the District of Columbia banking market.<sup>6</sup> Applicant is the seventh largest of 65 commercial banking organizations in the District of Columbia market. Applicant controls deposits of \$1 billion, representing 4.5 percent of the total deposits in commercial banks in that area. Bank is the fourth largest commercial banking organization in the market, controlling domestic deposits of \$2.2 billion, representing 9.7 percent of the total deposits in commercial banks in the market. Upon acquisition of Bank, Applicant would become the second largest commercial banking organization in the Washington, D.C. market and would control 14.2 percent of the \$22.2 billion total deposits in commercial banks in that area.<sup>7</sup>

The Washington, D.C., banking market is unconcentrated, and would remain so after consummation of the proposed acquisition. The share of deposits held by the four largest commercial banking organizations in the market is 50.4 percent and the Herfindahl-Hirschman Index ("HHI") for the market is 816 points.<sup>8</sup> An alternative definition of the District of Columbia product market to include 50 percent of the deposits held by thrift institutions would further mitigate any adverse competitive effects arising from Applicant's proposal.<sup>9</sup> Shares of the expanded market held by Applicant and ASC would decline to 3.2 and

4. Md. Fin. Inst. Code Ann. § 5-1001 *et seq.* (Supp. 1985).

5. *James Madison, Ltd.*, 72 *FEDERAL RESERVE BULLETIN* 50 (1987).

6. The District of Columbia banking market is defined as the Washington, D.C., Ranally Metropolitan Area, which comprises the District of Columbia; all of Arlington, Fairfax and Prince William Counties; and portions of Fauquier, Loudon and Stafford Counties; the cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park in Virginia; and substantially all of Montgomery, Prince Georges, and Charles Counties, plus small portions of Anne Arundel, Calvert, Carroll, Frederick, and Howard Counties in Maryland.

7. Market deposit data are as of June 30, 1985.

8. Consummation of the proposed transaction would increase the market's HHI by 87 to 903 points and increase the four-firm concentration ratio by 4.5 to 54.9 percent. The transaction, therefore, is unlikely to be challenged by the Department of Justice under its merger guidelines, 49 *Federal Register* 26,823 (1984).

9. The Board has previously indicated that thrift institutions have become, or have the potential to become, major competitors of commercial banks. *National City Corporation*, 70 *FEDERAL RESERVE BULLETIN* 743 (1984); *NCNB Corporation*, 70 *FEDERAL RESERVE BULLETIN* 225 (1984); *General Bancshares Corporation*, 69 *FEDERAL RESERVE BULLETIN* 802 (1983); *First Tennessee National Corporation*, 69 *FEDERAL RESERVE BULLETIN* 298 (1983).

1. State deposit data are as of June 30, 1986. Applicant also operates a credit card bank in Delaware.

2. A bank holding company's home state is that state in which the operations of the bank holding company's banking subsidiaries were principally conducted on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

3. D.C. Code Ann. § 26-801 *et seq.* (Supp. 1986), as amended by the District of Columbia Regional Interstate Banking Act of 1985, D.C. Law 6-276.

6.9 percent respectively, and the HHI would increase 44 points to 466. The Board notes that numerous large commercial banking organizations currently operate in the District of Columbia market and several others have undertaken plans to establish a presence there. On the basis of these and all other facts of record, the Board concludes that consummation of the proposed transaction would not have a significant adverse effect on existing or probable future competition in the District of Columbia market.

The financial and managerial resources and future prospects of Applicant, ASC and their respective bank subsidiaries are consistent with approval of the application. Considerations relating to the convenience and needs of the communities to be served are also consistent with approval.

The Board has also considered Applicant's proposed acquisition of ASC's subsidiaries engaged in financial advisory and discount brokerage activities under the proper incident to banking criteria of section 4(c)(8) of the Act. The market for these activities is nationwide and unconcentrated. Because Applicant does not currently provide financial advisory services and because Applicant's share of the discount brokerage market is *de minimis*, the proposed acquisition of ASC's two nonbanking subsidiaries would not eliminate any significant existing competition. In view of the great number of prospective providers of financial advisory and discount brokerage services, the proposed acquisition is unlikely to have a significant adverse effect on probable future competition. Furthermore, there is no evidence in the record to indicate that approval of this aspect of Applicant's proposal would result in undue concentration of resources, unfair competition, conflicts of interest, unsound banking practices or other adverse effects. The Board therefore concludes that the balance of public interest factors it must consider under section 4(c)(8) of the Act is favorable and consistent with approval of Applicant's request to engage in permissible financial advisory and discount brokerage activities.

In addition to its applications under section 4(c)(8), Applicant seeks further approval from the Board to retain certain otherwise impermissible travel agency, general insurance, and real estate brokerage, leasing and property management activities conducted directly by ASC and one insurance subsidiary. ASC has conducted these activities on the basis of a grandfather provision in the Act for certain bank holding companies that, like ASC, were brought within the coverage of the Act as a result of enactment of the 1970 Amendments.<sup>10</sup>

10. See, Board Order, dated July 21, 1976, concluding that ASC could retain these otherwise impermissible nonbanking activities under the grandfather provision in section 4(a)(2) of the Act.

Based on a careful analysis of section 4 of the BHC Act, its legislative history, and prior Board decisions, the Board concludes that grandfather privileges provided by section 4(a)(2) of the Act are proprietary to those companies which qualified for the grandfather privilege as of December 31, 1970, and that a company may not acquire such grandfather privileges by acquiring a company that previously qualified for such privileges.

Section 4 of the BHC Act prohibits a bank holding company from acquiring direct or indirect ownership or control of any company (other than a bank) or engaging in activities other than banking or managing or controlling banks unless the acquisition or activity falls within one of the specifically enumerated exceptions in the Act to this general prohibition. 12 U.S.C. § 1841(a). While there is an exception to this prohibition for one-bank holding companies that were first brought under the Act by the 1970 Amendments,<sup>11</sup> the exception does not by its terms apply to Applicant.

The section of the Act upon which ASC relies for its grandfather privileges (section 4(a)(2)) pertains only to a "company covered in 1970." Under section 4(a)(2) of the Act, a "company covered in 1970" may engage in any nonbanking activity in which it was lawfully engaged on June 30, 1968, and continuously since that date. A "company covered in 1970" is defined to mean a company that became a bank holding company as a result of the 1970 Amendments and that would have been a bank holding company on June 30, 1968, if those amendments had been in effect on that date. 12 U.S.C. § 1841(b). This grandfather right applies only to a company that: (1) involuntarily became a bank holding company by operation of law when the 1970 Amendments were passed,<sup>12</sup> and (2) would have been a bank holding company on June 30, 1968, had the Act applied to one-bank holding companies on that date.<sup>13</sup>

Applicant does not qualify as a "company covered in 1970" because it did not control a bank on the June 30, 1968, grandfather date.<sup>14</sup> Further, there is no provision in the BHC Act for the transfer of grandfa-

11. Prior to the 1970 Amendments (enacted on December 31, 1970), the BHC Act applied only to companies that controlled two or more banks. The 1970 Amendments extended the coverage of the Act to one-bank holding companies for the first time.

12. See, *Orwig and Company, Inc.*, 62 FEDERAL RESERVE BULLETIN 160 (1975).

13. A grandfathered company is not free to conduct any nonbanking activity it desires. It may continue to engage only in those activities in which it had been engaged continuously since June 30, 1968 (as well as any additional activities that are generally permissible for bank holding companies). A grandfathered company may not expand its grandfathered activities through the acquisition of a going concern, but instead is limited to the acquisition of *de novo* companies. 12 U.S.C. §§ 1843(a)(2) and (c)(11).

14. Applicant was organized on December 9, 1968, and obtained control of a bank on April 30, 1969.

ther rights from one bank holding company to another, unless, under a Board interpretation, the second company qualifies as the "successor" to the first company.<sup>15</sup> A "successor" is defined in the Act as a company that acquires a bank from a bank holding company in such a manner that there is no substantial change in the control of the bank or the beneficial ownership of that bank.<sup>16</sup> Here, because there is a complete change in the ownership of ASC's shares, Applicant is not a "successor" as that term is used in the BHC Act.

Thus, under the terms of section 4 of the BHC Act, Applicant may not acquire control of a company engaged in the nonbanking activities in question. The fact that the proposed acquisition is to be made through the intermediary of a grandfathered bank holding company does not change this result, because Applicant must also independently qualify under the Act to acquire the company.

Applicant contends that because ASC will continue to exist as a separate holding company after the acquisition, ASC should be entitled to retain its grandfather status and continue to engage in otherwise impermissible nonbanking activities. In other words, Applicant argues that ASC does not forego its status as a "grandfathered" bank holding company even though it becomes a subsidiary of Applicant, a non-grandfathered bank holding company.

This argument incorrectly focuses on whether ASC may continue to engage in grandfathered activities, and ignores the more fundamental question whether Applicant may acquire a company engaged in such activities. While it is true that the BHC Act permits ASC to continue to engage in grandfathered activities, Applicant as an acquiring bank holding company must also comply with the nonbanking restrictions of the Act. As noted, there is a strict prohibition against a bank holding company acquiring directly or indirectly any company engaged in nonbanking activities unless they are closely related to banking (or qualify under one of the other limited exceptions in the Act). There is no provision in the Act excusing compliance by a bank holding company with this prohibition in the case of the acquisition of a company exercising grandfather

privileges under section 4(a)(2) of the Act.<sup>17</sup> Further, the Board notes that interpreting the Act to permit the acquisition of a grandfathered company would open a substantial loophole in the Act by allowing a non-grandfathered holding company to engage in a wide variety of nonbanking activities by acquiring one or more of the numerous bank holding companies with existing grandfather rights.

The legislative history of the 1970 Amendments also demonstrates that the grandfather provision in question was intended only for the select companies that qualified for the privilege in 1970, and that it was not a transferable right that could be passed from one bank holding company to another.<sup>18</sup>

Prior Board determinations have uniformly construed the grandfather provision in a narrow manner and have restricted the ability to transfer such rights. In *Wyoming Bancorporation*,<sup>19</sup> the Board conditioned the acquisition of a bank holding company with grandfathered insurance agency activities on the cessation of those activities by the acquiring bank holding company, since "grandfather rights may not be transferred." Likewise, in *Hathdel, Inc.*, *supra*, the Board permitted a company to acquire and retain the grandfathered rights of an existing one-bank holding company, but only because the succeeding company qualified as a "successor" to the existing holding company.<sup>20</sup>

The narrow interpretation given the grandfather provisions may also be illustrated by the decision of the Board in *Orwig and Company, Inc.*<sup>21</sup> The Board determined that in order to be a "company covered in 1970" the company must have controlled the same bank on June 30, 1968, and December 31, 1970, and

18. See e.g., 115 Cong. Rec. S 15,700 (daily ed. September 16, 1970) (Remarks of Senator Hart):

When any legislative body is asked to pass a grandfather clause, it is either engaged in the process of balancing equities or of conferring a benefit on a select group and denying the same to all others. The only group with any equities in this case are those one-bank holding companies formed in line with the historical purposes of the exemption.

Accord: 115 Cong. Rec. S 15,701-2 (daily ed. September 16, 1970) (Remarks of Senator Proxmire); 116 Cong. Rec. S 15,691 (daily ed. September 16, 1970) (Remarks of Senator Williams) relating to an analogous proposed grandfather provision; 116 Cong. Rec. S 15,695 (daily ed. September 16, 1970) (Remarks of Senator Mondale); 116 Cong. Rec. H 11,792 (daily ed. December 16, 1970), reprinting letter, dated November 17, 1970, from Deputy Attorney General Richard G. Kleindeinst.

19. 59 FEDERAL RESERVE BULLETIN 180 (1973).

20. See, *MorAmerica Financial Corp.*, 39 *Federal Register* 36,391 (1974), where the Board denied "successor" status to a company seeking to merge with another bank holding company which had grandfather rights. In this decision, the Board noted that the legislative history of the statute indicates that the purpose of the "successor" provision was to close a loophole in the Act, and not to expand the grandfather exemptions to section 4.

21. 62 FEDERAL RESERVE BULLETIN 160 (1975).

15. *Hathdel, Inc.*, 38 *Federal Register* 21,220 (1973). See also, *American Security Corp.*, *supra*.

16. 12 U.S.C. § 1841(e).

17. Applicant contends that its claim to ASC's grandfather privileges is supported by the Board's *BankAmerica/Seafirst* decision, 69 *FEDERAL RESERVE BULLETIN* 568 (1983), in which the Board permitted Seafirst to continue to sell credit-related property and casualty insurance (an activity which had been approved by the Board) following its acquisition by BankAmerica, which had never secured Board approval to sell such insurance. Reliance on this decision by Applicant is misplaced. Seafirst claimed grandfather rights to continue to sell credit-related insurance under the Garn-St Germain Depository Institutions Act of 1982, Public Law 97-320, rather than under the indefinite grandfather provisions of section 4(a)(2) of the Act.

continuously between those dates. The Board based this conclusion on the rationale that grandfather provisions were enacted because of a legislative concern about the disruption of holding company relationships that existed from at least June 30, 1968. The Board concluded that if a company controlled one bank on June 30, 1968, and voluntarily relinquished that control position prior to the enactment of the 1970 Amendments, it was not within the scope of the Congress' concern, even though it may have acquired control of a different bank prior to December 31, 1970.

The Board also notes that its interpretation of the grandfather provisions of the Act is in accord with general principles of statutory construction. The grandfather provision in section 4(a)(2) is an exception to the general requirement of the Act requiring the divestiture of non-conforming nonbanking activities or divestiture of all subsidiary banks. Under the rules of statutory interpretation, an exception to a general rule is to be narrowly construed.<sup>22</sup> The Board also notes that the statement by the House managers for the 1970 Amendments states that the Board should interpret exemptions in those amendments "as narrowly as possible in order that all bank holding companies which should be covered under the Act in order to protect the public interest will, in fact, be covered."<sup>23</sup>

For the foregoing reasons, the Board has concluded that Applicant may not acquire ASC except on condition that ASC terminate or divest its impermissible nonbanking activities. In accordance with its policy,<sup>24</sup> the Board believes it appropriate to provide Applicant with a period of time to divest or terminate ASC's

impermissible nonbanking activities or to conform them to the Act. Accordingly, approval of this application is conditioned upon Applicant's divestiture or termination, within two years of consummation of the proposal, of ASC's impermissible nonbanking activities, unless within that time Applicant secures Board approval to retain any of the activities under section 4(c)(8) of the Act.

Based on the foregoing and other facts of record and conditioned upon Applicant's divestiture of ASC's previously grandfathered travel agency, general insurance, and real estate brokerage, leasing and property management activities within two years from the date of consummation of the proposal, the Board has determined that the applications under sections 3(a)(3) and 4(c)(8) should be, and hereby are approved. The acquisition of ASC and Bank shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months after the effective of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Richmond, acting pursuant to delegated authority. The determinations as to Applicant's nonbanking activities are subject to all of the conditions contained in Regulation Y, including those in sections 225.4(d) and 225.23(b)(3) (12 C.F.R. §§ 225.4(d) and 225.23(b)(3)), and to the Board's authority to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasions thereof.

By order of the Board of Governors, effective February 13, 1987.

Voting for this action: Chairman Volcker and Governors Johnson, Seger, and Angell. Absent and not voting: Governor Heller.

WILLIAM W. WILES  
Secretary of the Board

[SEAL]

22. See e.g., *Honeywell Inc. v. United States*, 551 F.2d 182, 186 (Ct. Cl. 1981) (grandfather clauses are to be narrowly construed); *United States v. Allan Drug Corp.*, 357 F.2d 7134, 718 (10th Cir. 1966) (same).

23. H.R. Rep. No. 1747, 91st Cong. 2d Sess. 23 (1970).

24. See, *Security Pacific Corporation*, 72 FEDERAL RESERVE BULLETIN 800, 802, n.12 (1986).

*ORDERS APPROVED UNDER BANK HOLDING COMPANY ACT**By the Board of Governors*

Recent applications have been approved by the Board of Governors as listed below. Copies are available upon request to Publications Services, Division of Support Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

## Section 3

Applicant	Bank(s)	Effective date
Oregon Pacific Financial, Inc., Portland, Oregon	Santiam Valley Bank, Aumsville, Oregon	February 25, 1987

*By Federal Reserve Banks*

Recent applications have been approved by the Federal Reserve Banks as listed below. Copies are available upon request to the Reserve Banks.

## Section 3

Applicant	Bank(s)	Reserve Bank	Effective date
Cattlemen's Financial Services, Inc., Austin, Texas	Cattlemen's State Bank, Austin, Texas	Dallas	February 5, 1987
CCSB Corporation, Charlevoix, Michigan	Charlevoix County State Bank, Charlevoix, Michigan	Chicago	February 6, 1987
Central Wisconsin Bankshares, Inc., Wausau, Wisconsin	Bank of Plover, Plover, Wisconsin	Chicago	February 12, 1987
Commerce Bancshares, Inc., Greenwood, Mississippi	Bank of Commerce, Greenwood, Mississippi	St. Louis	February 9, 1987
Commerce Union Corporation, Nashville, Tennessee	First National Bancorp of Lewisburg, Inc., Lewisburg, Tennessee	Atlanta	February 3, 1987
Conover Bancorporation, Creston, Iowa	The First National Bank in Creston, Creston, Iowa	Chicago	February 6, 1987
CB&T Bancshares, Inc., Columbus, Georgia	First Community Bancshares of Tifton, Inc., Tifton, Georgia	Atlanta	February 11, 1987
F & M National Corporation, Winchester, Virginia	The Middleburg National Bank, Middleburg, Virginia	Richmond	February 17, 1987
First of America Bank Corporation, Kalamazoo, Michigan	Lewiston State Bank, Lewiston, Michigan	Chicago	February 20, 1987

## Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
First State Bancshares, Inc., Farmington, Missouri	Iron County Security Bank, Ironton, Missouri	St. Louis	February 11, 1987
Founders Bancorp, Inc., Scottsdale, Arizona	Founders Bank of Arizona, Scottsdale, Arizona	San Francisco	February 13, 1987
Hartland Bancshares, Inc., Hartland, Minnesota	Farmers State Bank of Hartland, Hartland, Minnesota	Minneapolis	February 5, 1987
Hawaii National Bancshares, Inc., Honolulu, Hawaii	Hawaii National Bank, Hololulu, Hawaii	San Francisco	January 14, 1987
Key Centurion Bancshares, Inc., Charleston, West Virginia	Union Bancorp of West Virginia, Inc., Clarksburg, West Virginia	Richmond	February 11, 1987
Key Centurion Bancshares, Inc., Charleston, West Virginia	Wayne Bancorp, Inc., Wayne, West Virginia	Richmond	February 11, 1987
NBD Bancorp, Inc., Detroit, Michigan	USAmeribancs, Inc., Highland Park, Illinois	Chicago	January 27, 1987
NBD Valley Corporation, Detroit, Michigan			
Norwest Corporation, Minneapolis, Minnesota	Dial Bank, Sioux Falls, South Dakota	Minneapolis	February 23, 1987
Pacific National Bancshares, Inc., Chesterfield, Missouri	Commerce Bank of Pacific, N.A., Pacific, Missouri	St. Louis	February 5, 1987
Ranco Bancshares, Inc., Spur, Texas	Sudan Bancshares, Inc., Sudan, Texas	Dallas	February 4, 1987
Southwest Bancshares, Inc., Hermitage, Missouri	Buffalo Bank, Buffalo, Missouri First National Bank, Republic, Missouri Citizens State Bank of Polk County, Bolivar, Missouri Humansville Bank, Humansville, Missouri	Kansas City	November 28, 1986
Turner Bancshares, Inc., Kansas City, Kansas	Kaw Valley Bancshares, Inc., Kansas City, Kansas	Kansas City	January 22, 1987

## Section 4

Applicant	Nonbanking Company/Activity	Reserve Bank	Effective date
Banc One Corporation, Columbus, Ohio	American Fletcher Mortgage Company, Inc., Indianapolis, Indiana American Fletcher Financial Services, Inc., Marion, Indiana	Cleveland	January 22, 1987
Deposit Guaranty Corporation, Jackson, Mississippi First Commerce Corporation, New Orleans, Louisiana First Capital Corporation, Jackson, Mississippi Hibernia Corporation, New Orleans, Louisiana First National Financial Corporation, Vicksburg, Mississippi	GulfNet, Inc., New Orleans, Louisiana	Atlanta	February 24, 1987
Eastman National Bankshares, Inc., Newkirk, Oklahoma	Eastman Company, Newkirk, Oklahoma	Kansas City	December 24, 1986
Norwest Corporation, Minneapolis, Minnesota	financing, credit-related insurance, and data processing	Minneapolis	February 23, 1987
Norwest Corporation, Minneapolis, Minnesota	home mortgage redemption insurance	Minneapolis	February 23, 1987
San Diego Financial Corporation, San Diego, California	joint venture reinsurance of group credit insurance risk	San Francisco	February 5, 1987

## Sections 3 and 4

Applicant	Bank(s)/Nonbanking Company	Reserve Bank	Effective date
FNB Corp, Mount Clemens, Michigan	First National Bank in Mount Clemens, Mount Clemens, Michigan credit life and disability reinsurance directly related to extensions of credit	Chicago	December 30, 1986

## ORDERS APPROVED UNDER BANK MERGER ACT

## By Federal Reserve Banks

Applicant	Bank(s)	Effective date	
M&I Marshall & Ilsley Bank, Milwaukee, Wisconsin	M&I Bay View State Bank, Milwaukee, Wisconsin M&I Silver Spring Bank, Milwaukee, Wisconsin M&I Bank of Greenfield, Greenfield, Wisconsin	Chicago	January 30, 1987
Orrville Savings Bank, Orrville, Ohio	Orrville Interim Bank, Orrville, Ohio	Cleveland	February 10, 1987

## PENDING CASES INVOLVING THE BOARD OF GOVERNORS

*This list of pending cases does not include suits against the Federal Reserve Banks in which the Board of Governors is not named a party.*

- Jones v. Volcker*, No. 87-0427 (D.D.C., filed Feb. 19, 1987).
- Bankers Trust New York Corp. v. Board of Governors*, No. 87-1035 (D.C. Cir., filed Jan. 23, 1987).
- Securities Industry Association v. Board of Governors, et al.*, No. 87-1030 (D.C. Cir., filed Jan. 20, 1987).
- Grimm v. Board of Governors*, No. 87-4006 (2nd Cir., filed Jan. 16, 1987).
- Independent Insurance Agents of America, et al. v. Board of Governors*, Nos. 86-1572, 1573, 1576 (D.C. Cir., filed Oct. 24, 1986).
- Securities Industry Association v. Board of Governors*, No. 86-2768 (D.D.C., filed Oct. 7, 1986).
- Independent Community Bankers Association of South Dakota v. Board of Governors*, No. 86-5373 (8th Cir., filed Oct. 3, 1986).
- Jenkins v. Board of Governors*, No. 86-1419 (D.C. Cir., filed July 18, 1986).
- Securities Industry Association v. Board of Governors*, No. 86-1412 (D.C. Cir., filed July 14, 1986).
- Adkins v. Board of Governors*, No. 86-3853 (4th Cir., filed May 14, 1986).
- Optical Coating Laboratory, Inc. v. United States*, No. 288-86C (U.S. Claims Ct., filed May 6, 1986).
- CBC, Inc. v. Board of Governors*, No. 86-1001 (10th Cir., filed Jan. 2, 1986).
- Howe v. United States, et al.*, No. 86-889 (U.S. S.Ct. filed Dec. 6, 1985).
- Myers, et al. v. Federal Reserve Board*, No. 85-1427 (D. Idaho, filed Nov. 18, 1985).
- Souser, et al. v. Volcker, et al.*, No. 85-C-2370, *et al.* (D. Colo., filed Nov. 1, 1985).
- Podolak v. Volcker*, No. C85-0456, *et al.* (D. Wyo., filed Oct. 28, 1985).
- Kolb v. Wilkinson, et al.*, No. C85-4184 (N.D. Iowa, filed Oct. 22, 1985).
- Farmer v. Wilkinson, et al.*, No. 4-85-CIVIL-1448 (D. Minn., filed Oct. 21, 1985).
- Kurkowski v. Wilkinson, et al.*, No. CV-85-0-916 (D. Neb., filed Oct. 16, 1985).
- Alfson v. Wilkinson, et al.*, No. A1-85-267 (D. N.D., filed Oct. 8, 1985).
- Independent Community Bankers Association of South Dakota v. Board of Governors*, No. 84-1496 (D.C. Cir., filed Aug. 7, 1985).

*Urwyler, et al. v. Internal Revenue Service, et al.*, No. 85-2877 (9th Cir., filed July 18, 1985).

*Wight, et al. v. Internal Revenue Service, et al.*, No. 85-2826 (9th Cir., filed July 12, 1985).

*Florida Bankers Association v. Board of Governors*, No. 84-3883 and No. 84-3884 (11th Cir., filed Feb. 15, 1985).

*Florida Department of Banking v. Board of Governors*, No. 84-3831 (11th Cir., filed Feb. 15, 1985), and No. 84-3832 (11th Cir., filed Feb. 15, 1985).

*Lewis v. Volcker, et al.*, No. 86-3210 (6th Cir., filed Jan. 14, 1985).

*Brown v. United States Congress, et al.*, No. 84-2887-6(IG) (S.D. Cal., filed Dec. 7, 1984).

*Melcher v. Federal Open Market Committee*, No. 84-1335 (D.D.C., filed Apr. 30, 1984).

*Florida Bankers Association, et al. v. Board of Governors*, Nos. 84-3269, 84-3270 (11th Cir., filed April 20, 1984).

*Securities Industry Association v. Board of Governors*, No. 86-5089, *et al.* (D.C. Cir., filed Oct. 24., 1980).

# Financial and Business Statistics

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## 1.10 RESERVES, MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES

Item	Monetary and credit aggregates (annual rates of change, seasonally adjusted in percent) <sup>1</sup>								
	1986 <sup>2</sup>				1986 <sup>3</sup>				1987
	Q1	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.	Jan.
<i>Reserves of depository institutions<sup>2</sup></i>									
1 Total .....	13.1	18.0	23.5	21.5	11.5	13.7	32.6	40.5	21.7
2 Required .....	12.3	19.8	23.9	19.9	12.0	13.4	27.7	32.3	28.8
3 Nonborrowed .....	19.1	17.9	23.8	22.4	8.4	17.9	35.2	39.3	27.4
4 Monetary base <sup>1</sup> .....	8.3	9.0	10.1	10.3	5.7	9.2	13.4	14.1	16.0
<i>Concepts of money, liquid assets, and debt<sup>4</sup></i>									
5 M1 .....	8.8	15.5	16.5	17.0	10.7	14.4	18.8	30.5	11.7
6 M2 .....	5.3	9.4	10.6	9.1	7.9	10.6	6.2	10.3	9.3
7 M3 .....	7.7	8.7	9.7	7.9	8.8	7.2	6.0	9.7	8.8
8 L .....	8.1	7.1	8.2	8.2	8.9	7.8	7.4	9.0	n.a.
9 Debt .....	15.5	10.3	12.0	11.5	11.9	9.3	12.1	13.5	n.a.
<i>Nontransaction components</i>									
10 In M2 <sup>5</sup> .....	4.2	7.4	8.6	6.4	6.9	9.3	1.8	3.4	8.4
11 In M3 only <sup>6</sup> .....	17.3	6.1	6.4	3.4	12.7	-6.3	5.4	7.0	6.8
<i>Time and savings deposits</i>									
<i>Commercial banks</i>									
12 Savings <sup>7</sup> .....	1.9	13.4	25.0	36.9	31.4	40.0	36.2	34.4	41.2
13 Small-denomination time <sup>8</sup> .....	3.9	-2.5	-7.5	-10.7	-9.2	-13.2	-13.3	-3.9	.0
14 Large-denomination time <sup>9,10</sup> .....	16.0	-3.5	-1.5	.4	-1.2	-6.2	7.1	8.3	15.2
<i>Thrift institutions</i>									
15 Savings <sup>7</sup> .....	5.9	16.0	21.0	23.0	18.9	25.8	21.7	19.6	29.5
16 Small-denomination time .....	4.8	.3	-3.4	-6.4	-3.6	-8.2	-8.2	-6.8	-5.9
17 Large-denomination time <sup>9</sup> .....	6.6	11.2	2.8	-7.3	-4.5	-9.8	-12.2	-5.4	-10.1
<i>Debt components<sup>4</sup></i>									
18 Federal .....	17.0	11.6	14.5	12.6	11.4	9.8	16.0	18.6	n.a.
19 Nonfederal .....	15.0	9.8	11.2	11.1	12.0	9.2	10.9	11.9	n.a.
20 Total loans and securities at commercial banks <sup>11</sup> .....	12.7	4.1	10.6	9.1	13.0	2.2	8.8	17.4	18.4

1. Unless otherwise noted, rates of change are calculated from average amounts outstanding in preceding month or quarter.

2. Figures incorporate adjustments for discontinuities associated with the implementation of the Monetary Control Act and other regulatory changes to reserve requirements. To adjust for discontinuities due to changes in reserve requirements on reservable nondeposit liabilities, the sum of such required reserves is subtracted from the actual series. Similarly, in adjusting for discontinuities in the monetary base, required clearing balances and adjustments to compensate for float also are subtracted from the actual series.

3. The monetary base not adjusted for discontinuities consists of total reserves plus required clearing balances and adjustments to compensate for float at Federal Reserve Banks plus the currency component of the money stock less the amount of vault cash holdings of thrift institutions that is included in the currency component of the money stock plus, for institutions not having required reserve balances, the excess of current vault cash over the amount applied to satisfy current reserve requirements. After the introduction of contemporaneous reserve requirements (CRR), currency and vault cash figures are measured over the weekly computation period ending Monday.

Before CRR, all components of the monetary base other than excess reserves are seasonally adjusted as a whole, rather than by component, and excess reserves are added on a not seasonally adjusted basis. After CRR, the seasonally adjusted series consists of seasonally adjusted total reserves, which include excess reserves on a not seasonally adjusted basis, plus the seasonally adjusted currency component of the money stock plus the remaining items seasonally adjusted as a whole.

4. Composition of the money stock measures and debt is as follows:

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of commercial banks; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to domestic banks, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float; and (4) other checkable deposits (OCD) consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. The currency and demand deposit components exclude the estimated amount of vault cash and demand deposits respectively held by thrift institutions to service their OCD liabilities.

M2: M1 plus overnight (and continuing contract) repurchase agreements (RPs) issued by all commercial banks and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks worldwide, Money Market Deposit Accounts (MMDAs), savings and small-denomination time deposits (time deposits—including retail RPs—in amounts of less than \$100,000), and balances in both taxable and tax-exempt general purpose and broker/dealer money market mutual funds. Excludes individual retirement accounts (IRA) and Keogh balances at depository institutions and money market funds. Also excludes all balances held by U.S.

commercial banks, money market funds (general purpose and broker/dealer), foreign governments and commercial banks, and the U.S. government. Also subtracted is a consolidation adjustment that represents the estimated amount of demand deposits and vault cash held by thrift institutions to service their time and savings deposits.

M3: M2 plus large-denomination time deposits and term RP liabilities (in amounts of \$100,000 or more) issued by commercial banks and thrift institutions, term Eurodollars held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada, and balances in both taxable and tax-exempt, institution-only money market mutual funds. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Also subtracted is a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

Debt: Debt of domestic nonfinancial sectors consists of outstanding credit market debt of the U.S. government, state and local governments, and private nonfinancial sectors. Private debt consists of corporate bonds, mortgages, consumer credit (including bank loans), other bank loans, commercial paper, bankers acceptances, and other debt instruments. The source of data on domestic nonfinancial debt is the Federal Reserve Board's flow of funds accounts. Debt data are based on monthly averages. Growth rates for debt reflect adjustments for discontinuities over time in the levels of debt presented in other tables.

5. Sum of overnight RPs and Eurodollars, money market fund balances (general purpose and broker/dealer), MMDAs, and savings and small time deposits less the estimated amount of demand deposits and vault cash held by thrift institutions to service their time and savings deposit liabilities.

6. Sum of large time deposits, term RPs, and Eurodollars of U.S. residents, money market fund balances (institution-only), less a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

7. Excludes MMDAs.

8. Small-denomination time deposits—including retail RPs—are those issued in amounts of less than \$100,000. All IRA and Keogh accounts at commercial banks and thrifts are subtracted from small time deposits.

9. Large-denomination time deposits are those issued in amounts of \$100,000 or more, excluding those booked at international banking facilities.

10. Large-denomination time deposits at commercial banks less those held by money market mutual funds, depository institutions, and foreign banks and official institutions.

11. Changes calculated from figures shown in table 1.23.

## A4 Domestic Financial Statistics □ April 1987

## 1.11 RESERVES OF DEPOSITORY INSTITUTIONS AND RESERVE BANK CREDIT

Millions of dollars

Factors	Monthly averages of daily figures			Weekly averages of daily figures for week ending						
	1986		1987	1986			1987			
	Nov.	Dec.	Jan.	Dec. 17	Dec. 24	Dec. 31	Jan. 7	Jan. 14	Jan. 21	Jan. 28
SUPPLYING RESERVE FUNDS										
1 Reserve Bank credit	219,190	226,527	230,490	224,476	227,065	232,826	231,444	229,012	227,489	234,201
2 U.S. government securities <sup>1</sup>	193,043	199,939	202,966	198,668	200,640	203,718	204,343	203,060	201,377	203,376
3 Bought outright	192,284	197,057	199,842	197,512	197,069	197,175	198,500	200,393	200,589	200,250
4 Held under repurchase agreements	759	2,882	3,124	1,156	3,571	6,543	5,843	2,667	788	3,126
5 Federal agency obligations	7,968	8,129	8,268	7,956	8,064	8,604	8,605	8,036	7,862	8,398
6 Bought outright	7,867	7,829	7,786	7,829	7,829	7,829	7,829	7,829	7,798	7,719
7 Held under repurchase agreements	101	300	482	127	235	775	776	207	64	679
8 Acceptances	0	0	0	0	0	0	0	0	0	0
9 Loans	802	829	586	644	554	1,818	698	311	398	979
10 Float	974	1,302	1,712	1,094	1,413	1,764	951	751	1,051	4,324
11 Other Federal Reserve assets	16,403	16,328	16,958	16,113	16,395	16,922	16,847	16,854	16,801	17,123
12 Gold stock <sup>2</sup>	11,065	11,065	11,060	11,067	11,065	11,064	11,062	11,058	11,059	11,059
13 Special drawing rights certificate account	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018
14 Treasury currency outstanding	17,516	17,541	17,593	17,538	17,548	17,558	17,569	17,583	17,597	17,611
ABSORBING RESERVE FUNDS										
15 Currency in circulation	205,069	209,228	207,962	208,350	209,759	211,636	211,199	208,782	206,978	205,945
16 Treasury cash holdings <sup>2</sup>	456	435	437	436	433	430	434	433	434	443
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	3,117	3,658	9,824	3,524	3,391	5,340	5,959	4,306	9,302	16,853
18 Foreign	233	232	226	266	211	237	241	221	217	230
19 Service-related balances and adjustments	2,064	2,230	2,353	2,421	2,273	2,219	2,281	2,619	2,268	2,183
20 Other	522	477	506	539	390	458	850	351	394	460
21 Other Federal Reserve liabilities and capital	6,345	6,404	6,412	6,406	6,411	6,425	6,163	6,452	6,360	6,451
22 Reserve balances with Federal Reserve Banks <sup>3</sup>	34,984	37,488	36,441	36,158	37,828	39,723	37,967	39,507	35,210	35,323
End-of-month figures				Wednesday figures						
1986			1987	1986			1987			
Nov.	Dec.	Jan.	Dec. 17	Dec. 24	Dec. 31	Jan. 7	Jan. 14	Jan. 21	Jan. 28	
SUPPLYING RESERVE FUNDS										
23 Reserve Bank credit	221,673	241,760	230,331	230,336	228,775	241,760	229,514	230,747	231,483	234,730
24 U.S. government securities <sup>1</sup>	196,293	211,316	202,486	200,631	200,491	211,316	202,484	204,608	204,438	204,412
25 Bought outright	194,876	197,625	199,318	197,418	196,742	197,625	198,625	198,183	202,032	201,565
26 Held under repurchase agreements	1,417	13,691	3,168	3,213	3,749	13,691	3,859	6,425	2,406	2,847
27 Federal agency obligations	8,177	10,143	8,576	8,234	8,127	10,143	8,404	8,206	7,922	8,442
28 Bought outright	7,829	7,829	7,719	7,829	7,829	7,829	7,829	7,829	7,719	7,719
29 Held under repurchase agreements	348	2,314	857	405	298	2,314	575	377	203	723
30 Acceptances	0	0	0	0	0	0	0	0	0	0
31 Loans	557	1,565	513	1,965	468	1,565	334	325	382	3,923
32 Float	748	1,261	716	2,974	1,261	1,510	1,510	1,823	1,823	756
33 Other Federal Reserve assets	15,898	17,475	18,040	16,532	17,070	17,475	16,782	17,275	16,918	17,197
34 Gold stock <sup>2</sup>	11,070	11,064	11,062	11,068	11,064	11,064	11,058	11,056	11,059	11,059
35 Special drawing rights certificate account	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018
36 Treasury currency outstanding	17,517	17,567	17,623	17,547	17,557	17,567	17,581	17,595	17,609	17,623
ABSORBING RESERVE FUNDS										
37 Currency in circulation	206,878	211,995	205,374	208,754	211,051	211,995	210,248	207,867	206,646	205,643
38 Treasury cash holdings <sup>2</sup>	445	427	446	437	430	427	433	431	434	443
Deposits, other than reserve balances with Federal Reserve Banks										
39 Treasury	2,529	7,588	15,746	4,536	3,681	7,588	4,070	5,549	15,742	17,744
40 Foreign	225	287	226	345	177	287	184	226	240	236
41 Service-related balances and adjustments	1,802	1,812	1,786	1,805	1,812	1,812	1,813	1,814	1,804	1,804
42 Other	425	917	453	471	375	917	300	359	330	517
43 Other Federal Reserve liabilities and capital	6,480	6,088	7,201	6,257	6,415	6,088	6,275	6,298	6,157	6,303
44 Reserve balances with Federal Reserve Banks <sup>1</sup>	36,494	46,295	32,802	41,364	38,473	46,295	39,848	41,872	33,816	35,740

1. *Includes* securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* any securities sold and scheduled to be bought back under matched sale-purchase transactions.

2. Revised for periods between October 1986 and February 1987. During this interval, outstanding gold certificates were inadvertently in excess of the gold

stock. Revised data not included in this table are available from the Division of Research and Statistics, Banking Section.

3. Excludes required clearing balances and adjustments to compensate for float.

NOTE. For amounts of currency and coin held as reserves, see table 1.12.

## 1.12 RESERVES AND BORROWINGS Depository Institutions

Millions of dollars

Reserve classification	Monthly averages <sup>8</sup>									
	1983	1984	1985	1986						
	Dec.	Dec.	Dec.	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1 Reserve balances with Reserve Banks <sup>1</sup>	21,138	21,738	27,620	29,499	30,313	30,165	31,922	32,947	34,803	37,360
2 Total vault cash <sup>2</sup>	20,755	22,316	22,956	22,805	23,098	23,451	23,384	23,753	23,543	24,071
3 Vault cash used to satisfy reserve requirements <sup>3</sup>	17,908	18,958	20,522	20,439	20,716	21,112	21,267	21,676	21,595	22,199
4 Surplus vault cash <sup>4</sup>	2,847	3,358	2,434	2,366	2,381	2,339	2,117	2,078	1,947	1,872
5 Total reserves <sup>5</sup>	38,894	40,696	48,142	49,938	51,029	51,277	53,189	54,623	56,399	59,560
6 Required reserves	38,333	39,843	47,085	49,007	50,118	50,538	52,463	53,877	55,421	58,191
7 Excess reserve balances at Reserve Banks <sup>6</sup>	561	853	1,058	931	910	740	726	746	978	1,369
8 Total borrowings at Reserve Banks	774	3,186	1,318	803	741	872	1,008	841	752	827
9 Seasonal borrowings at Reserve Banks	96	113	56	108	116	144	137	99	70	38
10 Extended credit at Reserve Banks <sup>7</sup>	2	2,604	499	531	378	465	570	497	418	303
Biweekly averages of daily figures for weeks ending										
1986						1987				
	Oct. 22	Nov. 5	Nov. 19	Dec. 3	Dec. 17	Dec. 31	Jan. 14	Jan. 28	Feb. 11 <sup>9</sup>	Feb. 25 <sup>9</sup>
11 Reserve balances with Reserve Banks <sup>1</sup>	33,007	33,557	34,945	35,189	36,527	38,659	38,710	35,228	33,026	33,704
12 Total vault cash <sup>2</sup>	23,955	23,208	23,405	23,871	23,485	24,729	24,583	25,028	27,327	25,237
13 Vault cash used to satisfy reserve requirements <sup>3</sup>	21,914	21,204	21,570	21,806	21,725	22,758	22,815	23,012	24,680	22,834
14 Surplus vault cash <sup>4</sup>	2,041	2,004	1,835	2,065	1,733	1,971	1,768	2,017	2,647	2,403
15 Total reserves <sup>5</sup>	54,921	54,921	56,515	56,995	58,251	61,417	61,525	58,239	57,705	56,538
16 Required reserves	54,170	53,947	55,599	55,865	57,511	59,369	60,680	57,033	56,208	55,513
17 Excess reserve balances at Reserve Banks <sup>6</sup>	751	814	916	1,130	740	2,048	845	1,206	1,497	1,025
18 Total borrowings at Reserve Banks	771	899	811	610	514	1,186	505	689	425	680
19 Seasonal borrowings at Reserve Banks	88	93	68	63	34	37	28	36	56	81
20 Extended credit at Reserve Banks <sup>7</sup>	488	476	437	368	310	282	215	227	265	299

1. Excludes required clearing balances and adjustments to compensate for float.

2. Dates refer to the maintenance periods in which the vault cash can be used to satisfy reserve requirements. Under contemporaneous reserve requirements, maintenance periods end 30 days after the lagged computation periods in which the balances are held.

3. Equal to all vault cash held during the lagged computation period by institutions having required reserve balances at Federal Reserve Banks plus the amount of vault cash equal to required reserves during the maintenance period at institutions having no required reserve balances.

4. Total vault cash at institutions having no required reserve balances less the amount of vault cash equal to their required reserves during the maintenance period.

5. Total reserves not adjusted for discontinuities consist of reserve balances with Federal Reserve Banks, which exclude required clearing balances and adjustments to compensate for float, plus vault cash used to satisfy reserve requirements. Such vault cash consists of all vault cash held during the lagged

computation period by institutions having required reserve balances at Federal Reserve Banks plus the amount of vault cash equal to required reserves during the maintenance period at institutions having no required reserve balances.

6. Reserve balances with Federal Reserve Banks plus vault cash used to satisfy reserve requirements less required reserves.

7. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as there is with traditional short-term adjustment credit, the money market impact of extended credit is similar to that of nonborrowed reserves.

8. Before February 1984, data are prorated monthly averages of weekly averages; beginning February 1984, data are prorated monthly averages of biweekly averages.

NOTE: These data also appear in the Board's H.3 (502) release. For address, see inside front cover.

1.13 SELECTED BORROWINGS IN IMMEDIATELY AVAILABLE FUNDS Large Member Banks<sup>1</sup>

Averages of daily figures, in millions of dollars

By maturity and source	1986 and 1987 week ending Monday								
	Dec. 22	Dec. 29	Jan. 5 <sup>r</sup>	Jan. 12 <sup>r</sup>	Jan. 19 <sup>r</sup>	Jan. 26	Feb. 2	Feb. 9	Feb. 16
<i>Federal funds purchased, repurchase agreements, and other selected borrowing in immediately available funds</i>									
From commercial banks in the United States									
1 For one day or under continuing contract	80,932	78,638	91,167	84,218	81,469	78,809	78,255	80,428	76,752
2 For all other maturities	7,790	9,148	8,287	7,915	8,788	8,331	8,052	8,229	8,773
From other depository institutions, foreign banks and foreign official institutions, and United States government agencies									
3 For one day or under continuing contract	34,382	31,199	33,292	37,498	35,447	32,459	38,995	39,005	38,912
4 For all other maturities	6,126	7,026	5,951	6,646	7,236	7,220	6,175	5,920	6,599
<i>Repurchase agreements on United States government and federal agency securities in immediately available funds</i>									
Brokers and nonbank dealers in securities									
5 For one day or under continuing contract	9,798	9,972 <sup>r</sup>	12,479	12,948	11,670	13,593	13,194	12,909	13,932
6 For all other maturities	9,099	7,613 <sup>r</sup>	5,942	7,731	9,759	9,611	9,043	9,734	10,371
All other customers									
7 For one day or under continuing contract	29,384	26,786	29,064	30,806	29,307	28,291	28,016	27,793	26,707
8 For all other maturities	11,233	14,973 <sup>r</sup>	11,565	10,247	10,097	10,719	10,690	10,431	10,630
MEMO: Federal funds loans and resale agreements in immediately available funds in maturities of one day or under continuing contract									
9 To commercial banks in the United States	28,024	30,563	33,044	33,777	30,719	29,211	34,026	31,178	28,125
10 To all other specified customers <sup>2</sup>	9,076	10,205	10,480	10,424	10,219	11,606	12,671	10,978	12,254

1. Banks with assets of \$1 billion or more as of Dec. 31, 1977.

2. Brokers and nonbank dealers in securities; other depository institutions; foreign banks and official institutions; and United States government agencies.

## 1.14 FEDERAL RESERVE BANK INTEREST RATES

Percent per annum

Current and previous levels										
Federal Reserve Bank	Short-term adjustment credit and seasonal credit <sup>1</sup>			Extended credit <sup>2</sup>						
				First 60 days of borrowing		Next 90 days of borrowing		After 150 days		Effective date for current rates
	Rate on 2/25/87	Effective date	Previous rate	Rate on 2/25/87	Previous rate	Rate on 2/25/87	Previous rate	Rate on 2/25/87	Previous rate	
Boston .....	5½	8/21/86	6	5½	6	6½	7	7½	8	8/21/86
New York .....	↑	8/21/86	↑	↑	↑	↑	↑	↑	↑	8/21/86
Philadelphia .....		8/22/86								8/22/86
Cleveland .....		8/21/86								8/21/86
Richmond .....		8/21/86								8/21/86
Atlanta .....		8/21/86								8/21/86
Chicago .....		8/21/86								8/21/86
St. Louis .....		8/22/86								8/22/86
Minneapolis .....		8/21/86								8/21/86
Kansas City .....		8/21/86								8/21/86
Dallas .....		8/21/86								8/21/86
San Francisco .....	5½	8/21/86	6	5½	6	6½	7	7½	8	8/21/86

Range of rates in recent years<sup>3</sup>

Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.	Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.	Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.
In effect Dec. 31, 1973 .....	7½	7½	1978— Aug. 21 .....	7¾	7¾	1982— July 20 .....	11½–12	11½
1974— Apr. 25 .....	7½–8	8	Sept. 22 .....	8	8	Aug. 23 .....	11½	11½
30 .....	8	8	Oct. 16 .....	8–8½	8½	Aug. 2 .....	11–11½	11
Dec. 9 .....	7¾–8	7¾	20 .....	8½	8½	3 .....	11	11
16 .....	7¾	7¾	Nov. 1 .....	8½–9½	9½	16 .....	10½	10½
			3 .....	9½	9½	27 .....	10–10½	10
1975— Jan. 6 .....	7¼–7¾	7¾				30 .....	10	10
10 .....	7¼–7¾	7¾	1979— July 20 .....	10	10	Oct. 12 .....	9½–10	9½
24 .....	7¼	7¼	Aug. 17 .....	10–10½	10½	13 .....	9½	9½
Feb. 5 .....	6¼–7¼	6¾	20 .....	10½	10½	Nov. 22 .....	9–9½	9
7 .....	6¾	6¾	Sept. 19 .....	10½–11	11	26 .....	9	9
Mar. 10 .....	6¼–6¾	6¼	21 .....	11	11	Dec. 14 .....	8½–9	9
14 .....	6¼	6¼	Oct. 8 .....	11–12	12	15 .....	8½–9	8½
May 16 .....	6–6¼	6	10 .....	12	12	17 .....	8½	8½
23 .....	6	6						
1976— Jan. 19 .....	5½–6	5½	1980— Feb. 15 .....	12–13	13	1984— Apr. 9 .....	8½–9	9
23 .....	5½	5½	19 .....	13	13	13 .....	9	9
Nov. 22 .....	5¼–5½	5¼	May 29 .....	12–13	13	Nov. 21 .....	8½–9	8½
26 .....	5¼	5¼	30 .....	12	12	26 .....	8½	8½
			June 13 .....	11–12	11	Dec. 24 .....	8	8
1977— Aug. 30 .....	5¼–5¾	5¼	16 .....	11	11			
31 .....	5¼–5¾	5¾	July 28 .....	10–11	10	1985— May 20 .....	7½–8	7½
Sept. 2 .....	5¾	5¾	29 .....	10	10	24 .....	7½	7½
Oct. 26 .....	6	6	Sept. 26 .....	11	11			
			Nov. 17 .....	12	12	1986— Mar. 7 .....	7–7½	7
1978— Jan. 9 .....	6–6½	6½	Dec. 5 .....	12–13	13	10 .....	7	7
20 .....	6½	6½	8 .....	13	13	Apr. 21 .....	6½–7	6½
May 11 .....	6½–7	7				23 .....	6½	6½
12 .....	7	7	1981— May 5 .....	13–14	14	July 11 .....	6	6
July 3 .....	7–7¼	7¼	8 .....	14	14	Aug. 21 .....	5½–6	5½
July 10 .....	7¼	7¼	Nov. 2 .....	13–14	13	22 .....	5½	5½
			6 .....	13	13			
			Dec. 4 .....	12	12	In effect Feb. 25, 1987	5½	5½

1. After May 19, 1986, the highest rate within the structure of discount rates may be charged on adjustment credit loans of unusual size that result from a major operating problem at the borrower's facility.

A temporary simplified seasonal program was established on Mar. 8, 1985, and the interest rate was a fixed rate ½ percent above the rate on adjustment credit. The program was re-established on Feb. 18, 1986 and again on Jan. 28, 1987; the rate may be either the same as that for adjustment credit or a fixed rate ½ percent higher.

2. Applicable to advances when exceptional circumstances or practices involve only a particular depository institution and to advances when an institution is under sustained liquidity pressures. As an alternative, for loans outstanding for more than 150 days, a Federal Reserve Bank may charge a flexible rate that takes into account rates on market sources of funds, but in no case will the rate charged be less than the basic rate plus one percentage point. Where credit provided to a particular depository institution is anticipated to be outstanding for an unusually prolonged period and in relatively large amounts, the time period in which each

rate under this structure is applied may be shortened. See section 201.3(b)(2) of Regulation A.

3. Rates for short-term adjustment credit. For description and earlier data see the following publications of the Board of Governors: *Banking and Monetary Statistics, 1914–1941*, and *1941–1970; Annual Statistical Digest, 1970–1979, 1980, 1981*, and *1982*.

In 1980 and 1981, the Federal Reserve applied a surcharge to short-term adjustment credit borrowings by institutions with deposits of \$500 million or more that had borrowed in successive weeks or in more than 4 weeks in a calendar quarter. A 3 percent surcharge was in effect from Mar. 17, 1980, through May 7, 1980. There was no surcharge until Nov. 17, 1980, when a 2 percent surcharge was adopted; the surcharge was subsequently raised to 3 percent on Dec. 5, 1980, and to 4 percent on May 5, 1981. The surcharge was reduced to 3 percent effective Sept. 22, 1981, and to 2 percent effective Oct. 12. As of Oct. 1, the formula for applying the surcharge was changed from a calendar quarter to a moving 13-week period. The surcharge was eliminated on Nov. 17, 1981.

1.15 RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS<sup>1</sup>

Percent of deposits

Type of deposit, and deposit interval	Member bank requirements before implementation of the Monetary Control Act		Type of deposit, and deposit interval <sup>5</sup>	Depository institution requirements after implementation of the Monetary Control Act <sup>6</sup>	
	Percent	Effective date		Percent	Effective date
<i>Net demand</i> <sup>2</sup>			<i>Net transaction accounts</i> <sup>7,8</sup>		
\$0 million–\$2 million	7	12/30/76	\$0–\$36.7 million	3	12/30/86
\$2 million–\$10 million	9½	12/30/76	Over \$36.7 million	12	12/30/86
\$10 million–\$100 million	11¾	12/30/76			
\$100 million–\$400 million	12¾	12/30/76	<i>Nonpersonal time deposits</i> <sup>9</sup>		
Over \$400 million	16¼	12/30/76	By original maturity		
<i>Time and savings</i> <sup>2,3</sup>			Less than 1½ years	3	10/6/83
Savings	3	3/16/67	1½ years or more	0	10/6/83
<i>Time</i> <sup>4</sup>			<i>Eurocurrency liabilities</i>		
\$0 million–\$5 million, by maturity			All types	3	11/13/80
30–179 days	3	3/16/67			
180 days to 4 years	2½	1/8/76			
4 years or more	1	10/30/75			
Over \$5 million, by maturity					
30–179 days	6	12/12/74			
180 days to 4 years	2½	1/8/76			
4 years or more	1	10/30/75			

1. For changes in reserve requirements beginning 1963, see Board's *Annual Statistical Digest, 1971–1975*, and for prior changes, see Board's *Annual Report* for 1976, table 13. Under provisions of the Monetary Control Act, depository institutions include commercial banks, mutual savings banks, savings and loan associations, credit unions, agencies and branches of foreign banks, and Edge Act corporations.

2. Requirement schedules are graduated, and each deposit interval applies to that part of the deposits of each bank. Demand deposits subject to reserve requirements were gross demand deposits minus cash items in process of collection and demand balances due from domestic banks.

The Federal Reserve Act as amended through 1978 specified different ranges of requirements for reserve city banks and for other banks. Reserve cities were designated under a criterion adopted effective Nov. 9, 1972, by which a bank having net demand deposits of more than \$400 million was considered to have the character of business of a reserve city bank. The presence of the head office of such a bank constituted designation of that place as a reserve city. Cities in which there were Federal Reserve Banks or branches were also reserve cities. Any banks having net demand deposits of \$400 million or less were considered to have the character of business of banks outside of reserve cities and were permitted to maintain reserves at ratios set for banks not in reserve cities.

Effective Aug. 24, 1978, the Regulation M reserve requirements on net balances due from domestic banks to their foreign branches and on deposits that foreign branches lend to U.S. residents were reduced to zero from 4 percent and 1 percent respectively. The Regulation D reserve requirement of borrowings from unrelated banks abroad was also reduced to zero from 4 percent.

Effective with the reserve computation period beginning Nov. 16, 1978, domestic deposits of Edge corporations were subject to the same reserve requirements as deposits of member banks.

3. Negotiable order of withdrawal (NOW) accounts and time deposits such as Christmas and vacation club accounts were subject to the same requirements as savings deposits.

The average reserve requirement on savings and other time deposits before implementation of the Monetary Control Act had to be at least 3 percent, the minimum specified by law.

4. Effective Nov. 2, 1978, a supplementary reserve requirement of 2 percent was imposed on large time deposits of \$100,000 or more, obligations of affiliates, and ineligible acceptances. This supplementary requirement was eliminated with the maintenance period beginning July 24, 1980.

Effective with the reserve maintenance period beginning Oct. 25, 1979, a marginal reserve requirement of 8 percent was added to managed liabilities in excess of a base amount. This marginal requirement was increased to 10 percent beginning Apr. 3, 1980, was decreased to 5 percent beginning June 12, 1980, and was eliminated beginning July 24, 1980. Managed liabilities are defined as large time deposits, Eurodollar borrowings, repurchase agreements against U.S. government and federal agency securities, federal funds borrowings from non-member institutions, and certain other obligations. In general, the base for the marginal reserve requirement was originally the greater of (a) \$100 million or (b) the average amount of the managed liabilities held by a member bank, Edge corporation, or family of U.S. branches and agencies of a foreign bank for the two reserve computation periods ending Sept. 26, 1979. For the computation period beginning Mar. 20, 1980, the base was lowered by (a) 7 percent or (b) the decrease in an institution's U.S. office gross loans to foreigners and gross balances due from foreign offices of other institutions between the base period (Sept. 13–26, 1979) and the week ending Mar. 12, 1980, whichever was greater. For the computation period beginning May 29, 1980, the base was increased by 7½ percent above the base used to calculate the marginal reserve in the statement week of May 14–21, 1980. In addition, beginning Mar. 19, 1980, the base was reduced to the extent that foreign loans and balances declined.

5. The Garn–St Germain Depository Institutions Act of 1982 (Public Law 97–320) provides that \$2 million of reservable liabilities (transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities) of each depository institution be subject to a zero percent reserve requirement. The Board is to adjust the amount of reservable liabilities subject to this zero percent reserve requirement each year for the next succeeding calendar year by 80 percent of the percentage increase in the total reservable liabilities of all depository institutions, measured on an annual basis as of June 30. No corresponding adjustment is to be made in the event of a decrease. Effective Dec. 9, 1982, the amount of the exemption was established at \$2.1 million. Effective with the reserve maintenance period beginning Jan. 1, 1985, the amount of the exemption was established at \$2.4 million. Effective with the reserve computation period beginning Dec. 31, 1985, the amount of the exemption was established at \$2.6 million. Effective Dec. 30, 1986, the amount of the exemption is \$2.9 million. In determining the reserve requirements of a depository institution, the exemption shall apply in the following order: (1) nonpersonal money market deposit accounts (MMDAs) described in 12 CFR section 204.2 (d)(2); (2) net NOW accounts (NOW accounts less allowable deductions); (3) net other transaction accounts; and (4) nonpersonal time deposits or Eurocurrency liabilities starting with those with the highest reserve ratio. With respect to NOW accounts and other transaction accounts, the exemption applies only to such accounts that would be subject to a 3 percent reserve requirement.

6. For nonmember banks and thrift institutions that were not members of the Federal Reserve System on or after July 1, 1979, a phase-in period ends Sept. 3, 1987. For banks that were members on or after July 1, 1979, but withdrew on or before Mar. 31, 1980, the phase-in period established by Public Law 97–320 ends on Oct. 24, 1985. For existing member banks the phase-in period of about three years was completed on Feb. 2, 1984. All new institutions will have a two-year phase-in beginning with the date that they open for business, except for those institutions that have total reservable liabilities of \$50 million or more.

7. Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, and telephone and preauthorized transfers (in excess of three per month) for the purpose of making payments to third persons or others. However, MMDAs and similar accounts offered by institutions not subject to the rules that permit no more than six preauthorized, automatic, or other transfers per month of which no more than three can be checks—are not transaction accounts (such accounts are savings deposits subject to time deposit reserve requirements.)

8. The Monetary Control Act of 1980 requires that the amount of transaction accounts against which the 3 percent reserve requirement applies be modified annually by 80 percent of the percentage increase in transaction accounts held by all depository institutions determined as of June 30 each year. Effective Dec. 31, 1981, the amount was increased accordingly from \$25 million to \$26 million; effective Dec. 30, 1982, to \$26.3 million; effective Dec. 29, 1983, to \$28.9 million; effective Jan. 1, 1985, to \$29.8 million; and effective Dec. 31, 1985, to \$31.7 million. Effective Dec. 30, 1986, the amount was increased to \$36.7 million.

9. In general, nonpersonal time deposits are time deposits, including savings deposits, that are not transaction accounts and in which a beneficial interest is held by a depositor that is not a natural person. Also included are certain transferable time deposits held by natural persons, and certain obligations issued to depository institution offices located outside the United States. For details, see section 204.2 of Regulation D.

NOTE. Required reserves must be held in the form of deposits with Federal Reserve Banks or vault cash. Nonmembers may maintain reserve balances with a Federal Reserve Bank indirectly on a pass-through basis with certain approved institutions.

1.16 MAXIMUM INTEREST RATES PAYABLE on Time and Savings Deposits at Federally Insured Institutions<sup>1</sup>  
Percent per annum

Type of deposit	Commercial banks		Savings and loan associations and mutual savings banks (thrift institutions) <sup>1</sup>	
	In effect Feb. 28, 1987		In effect Feb. 28, 1987	
	Percent	Effective date	Percent	Effective date
1 Savings .....	(2)	4/1/86	(2)	4/1/86
2 Negotiable order of withdrawal accounts .....	(3)	1/1/86	(3)	1/1/86
3 Money market deposit account .....	(4)	12/14/82	(4)	12/14/82
<i>Time accounts</i>				
4 7-31 days .....	(5)	1/1/86	(5)	1/1/86
5 More than 31 days .....	.....	10/1/83	.....	10/1/83

1. Effective Oct. 1, 1983, restrictions on the maximum rates of interest payable by commercial banks and thrift institutions on various categories of deposits were removed. For information regarding previous interest rate ceilings on all categories of accounts see earlier issues of the FEDERAL RESERVE BULLETIN, the *Federal Home Loan Bank Board Journal*, and the *Annual Report of the Federal Deposit Insurance Corporation*.

2. Effective Apr. 1, 1986, the interest rate ceiling on savings deposits was removed. Before Apr. 1, 1986, savings deposits were subject to an interest rate ceiling of 5½ percent.

3. Before Jan. 1, 1986, NOW accounts with minimum denomination requirements of less than \$1,000 were subject to an interest rate ceiling of 5¼ percent. NOW accounts with minimum required denominations of \$1,000 or more and IRA/Keough (HR10) Plan accounts were not subject to interest rate ceilings. Effective Jan. 1, 1986, the minimum denomination requirement was removed.

4. Effective Dec. 14, 1982, depository institutions are authorized to offer a new account with a required initial balance of \$2,500 and an average maintenance balance of \$2,500 not subject to interest rate restrictions. Effective Jan. 1, 1985, the minimum denomination and average balance maintenance requirements were lowered to \$1,000. Effective Jan. 1, 1986, the minimum denomination and average balance maintenance requirements were removed. No minimum maturity period is required for this account, but depository institutions must reserve the right to require seven days' notice before withdrawals.

5. Before Jan. 1, 1986, deposits of less than \$1,000 were subject to an interest rate ceiling of 5½ percent. Deposits of less than \$1,000 issued to governmental units were subject to an interest rate ceiling of 8 percent. Effective Jan. 1, 1986, the minimum denomination requirement was removed.

## 1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS

Millions of dollars

Type of transaction		1983	1984	1985	1986						
					June	July	Aug.	Sept.	Oct.	Nov.	Dec.
U.S. GOVERNMENT SECURITIES											
Outright transactions (excluding matched transactions)											
Treasury bills											
1	Gross purchases	18,888	20,036	22,214	1,402	867	2,940	861	928	3,318	5,422
2	Gross sales	3,420	8,557	4,118	0	0	0	0	0	0	0
3	Exchange	0	0	0	0	0	0	0	0	0	0
4	Redemptions	2,400	7,700	3,500	0	0	0	0	0	0	0
Others within 1 year											
5	Gross purchases	484	1,126	1,349	0	0	0	0	0	190	0
6	Gross sales	0	0	0	0	0	0	0	0	0	0
7	Maturity shift	18,887	16,354	19,763	1,152	579	1,715	1,053	974	2,974	1,280
8	Exchange	-16,553	-20,840	-17,717	-1,957	-1,253	-4,087	-1,892	-529	-1,810	-1,502
9	Redemptions	87	0	0	0	0	0	0	0	0	0
1 to 5 years											
10	Gross purchases	1,896	1,638	2,185	0	0	0	0	0	893	0
11	Gross sales	0	0	0	0	0	0	0	0	0	0
12	Maturity shift	-15,533	-13,709	-17,459	-1,152	-386	-1,194	-1,053	-969	-2,414	-1,280
13	Exchange	11,641	16,039	13,853	1,957	1,253	2,587	1,892	529	1,510	1,502
5 to 10 years											
14	Gross purchases	890	536	458	0	0	0	0	0	236	0
15	Gross sales	0	300	100	0	0	0	0	0	0	0
16	Maturity shift	-2,450	-2,371	-1,857	0	-193	-520	0	-5	-560	0
17	Exchange	2,950	2,750	2,184	0	0	1,000	0	0	200	0
Over 10 years											
18	Gross purchases	383	441	293	0	0	0	0	0	158	0
19	Gross sales	0	0	0	0	0	0	0	0	0	0
20	Maturity shift	-904	-275	-447	0	0	0	0	0	0	0
21	Exchange	1,962	2,052	1,679	0	0	500	0	0	100	0
All maturities											
22	Gross purchases	22,540	23,776	26,499	1,402	867	2,940	861	928	4,795	5,422
23	Gross sales	3,420	8,857	4,218	0	0	0	0	0	0	0
24	Redemptions	2,487	7,700	3,500	0	0	0	0	0	0	0
Matched transactions											
25	Gross sales	578,591	808,986	866,175	80,219	70,928	60,460	73,179	77,262	60,146	91,404
26	Gross purchases	576,908	810,432	865,968	80,674	69,659	60,011	70,817	81,892	60,232	88,730
Repurchase agreements											
27	Gross purchases	105,971	127,933	134,253	5,640	18,657	0	14,717	5,670	16,888	44,303
28	Gross sales	108,291	127,690	132,351	5,640	18,657	0	8,403	11,984	15,471	32,028
29	Net change in U.S. government securities	12,631	8,908	20,477	1,857	-403	2,491	4,814	-756	6,298	15,023
FEDERAL AGENCY OBLIGATIONS											
Outright transactions											
30	Gross purchases	0	0	0	0	0	0	0	0	0	0
31	Gross sales	0	0	0	0	0	0	0	0	0	0
32	Redemptions	292	256	162	0	*	90	*	93	125	0
Repurchase agreements											
33	Gross purchases	8,833	11,509	22,183	1,691	4,984	0	2,678	952	1,622	5,488
34	Gross sales	9,213	11,328	20,877	1,691	4,984	0	869	2,761	1,274	3,522
35	Net change in federal agency obligations	-672	-76	1,144	0	*	-90	1,809	-1,902	223	1,965
BANKERS ACCEPTANCES											
36	Repurchase agreements, net	-1,062	-418	0	0	0	0	0	0	0	0
37	Total net change in System Open Market Account	10,897	8,414	21,621	1,857	-403	2,401	6,623	-2,658	6,522	16,988

NOTE: Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings. Details may not add to totals because of rounding.

## A10 Domestic Financial Statistics □ April 1987

## 1.18 FEDERAL RESERVE BANKS Condition and Federal Reserve Note Statements

Millions of dollars

Account	Wednesday					End of month		
	1986	1987				1986		1987
	Dec. 31	Jan. 7	Jan. 14	Jan. 21	Jan. 28	Nov.	Dec.	Jan.
Consolidated condition statement								
<b>ASSETS</b>								
1 Gold certificate account.....	11,084	11,084	11,084	11,084	11,075	11,084	11,084	11,075
2 Special drawing rights certificate account.....	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018
3 Coin.....	485	490	508	530	545	507	485	553
Loans.....								
4 To depository institutions.....	1,565	334	325	382	3,923	557	1,565	513
5 Other.....	0	0	0	0	0	0	0	0
Acceptances—Bought outright.....								
6 Held under repurchase agreements.....	0	0	0	0	0	0	0	0
Federal agency obligations.....								
7 Bought outright.....	7,829	7,829	7,829	7,719	7,719	7,829	7,829	7,719
8 Held under repurchase agreements.....	2,314	575	377	203	723	348	2,314	857
U.S. government securities.....								
Bought outright.....								
9 Bills.....	103,775	104,775	104,333	108,182	107,715	101,026	103,775	105,468
10 Notes.....	68,126	68,126	68,126	68,126	68,126	68,126	68,126	68,126
11 Bonds.....	25,724	25,724	25,724	25,724	25,724	25,724	25,724	25,724
12 Total bought outright <sup>1</sup> .....	197,625	198,625	198,183	202,032	201,565	194,876	197,625	199,318
13 Held under repurchase agreements.....	13,691	3,859	6,425	2,406	2,847	1,417	13,691	3,168
14 Total U.S. government securities.....	211,316	202,484	204,608	204,438	204,412	196,293	211,316	202,486
15 Total loans and securities.....	223,024	211,222	213,139	212,742	216,777	205,027	223,024	211,575
16 Items in process of collection.....	8,938	8,724	6,562	11,976	6,674	4,721	8,938	5,947
17 Bank premises.....	661	662	661	663	660	654	661	665
Other assets.....								
18 Denominated in foreign currencies <sup>2</sup> .....	9,475	9,439	9,446	9,460	9,465	9,179	9,475	10,276
19 All other <sup>3</sup> .....	7,339	6,681	7,168	6,795	7,072	6,065	7,339	7,099
20 Total assets.....	266,024	253,320	253,586	258,268	257,286	242,255	266,024	252,208
<b>LIABILITIES</b>								
21 Federal Reserve notes.....	195,360	193,616	191,239	190,026	189,024	190,327	195,360	188,763
Deposits.....								
22 To depository institutions.....	48,107	41,661	43,686	35,620	37,544	38,296	48,107	34,588
23 U.S. Treasury—General account.....	7,588	4,070	5,549	15,742	17,744	2,529	7,588	15,746
24 Foreign—Official accounts.....	287	184	226	240	236	225	287	226
25 Other.....	917	300	359	330	517	425	917	453
26 Total deposits.....	56,899	46,215	49,820	51,932	56,041	41,475	56,899	51,013
27 Deferred credit items.....	7,677	7,214	6,229	10,153	5,918	3,973	7,677	5,231
28 Other liabilities and accrued dividends <sup>4</sup> .....	2,340	2,203	2,249	2,105	2,252	2,242	2,340	2,268
29 Total liabilities.....	262,276	249,248	249,537	254,216	253,235	238,017	262,276	247,275
<b>CAPITAL ACCOUNTS</b>								
30 Capital paid in.....	1,874	1,875	1,874	1,876	1,877	1,860	1,874	1,877
31 Surplus.....	1,874	1,873	1,873	1,873	1,874	1,781	1,874	1,873
32 Other capital accounts.....	0	324	302	303	300	597	0	1,183
33 Total liabilities and capital accounts.....	266,024	253,320	253,586	258,268	257,286	242,255	266,024	252,208
34 MEMO: Marketable U.S. government securities held in custody for foreign and international account.....	162,381	165,515	163,606	165,049	163,606	164,411	162,381	163,927
<b>Federal Reserve note statement</b>								
35 Federal Reserve notes outstanding.....	231,603	230,980	230,797	231,322	231,326	231,281	231,603	231,694
36 Less: Held by bank.....	36,243	37,364	39,558	41,296	42,302	40,954	36,243	42,931
37 Federal Reserve notes, net.....	195,360	193,616	191,239	190,026	189,024	190,327	195,360	188,763
Collateral held against notes net:								
38 Gold certificate account.....	11,084	11,084	11,084	11,084	11,075	11,084	11,084	11,075
39 Special drawing rights certificate account.....	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018
40 Other eligible assets.....	0	0	0	0	0	0	0	0
41 U.S. government and agency securities.....	179,258	177,514	175,137	173,924	172,931	174,225	179,258	172,670
42 Total collateral.....	195,360	193,616	191,239	190,026	189,024	190,327	195,360	188,763

1. Includes securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and excludes (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

2. Assets shown in this line are revalued monthly at market exchange rates.

3. Includes special investment account at Chicago of Treasury bills maturing within 90 days.

4. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign-exchange commitments.

NOTE: Some of these data also appear in the Board's H.4.1 (503) release. For address, see inside front cover.

## 1.19 FEDERAL RESERVE BANKS Maturity Distribution of Loan and Security Holdings

Millions of dollars

Type and maturity groupings	Wednesday					End of month		
	1986	1987				1986		1987
	Dec. 31	Jan. 7	Jan. 14	Jan. 21	Jan. 28	Nov. 28	Dec. 31	Jan. 30
1 Loans—Total.....	1,565	334	325	382	3,923	557	1,565	513
2 Within 15 days.....	1,553	333	322	374	3,920	545	1,553	508
3 16 days to 90 days.....	12	1	3	8	3	12	12	5
4 91 days to 1 year.....	0	0	0	0	0	0	0	0
5 Acceptances—Total.....	0	0	0	0	0	0	0	0
6 Within 15 days.....	0	0	0	0	0	0	0	0
7 16 days to 90 days.....	0	0	0	0	0	0	0	0
8 91 days to 1 year.....	0	0	0	0	0	0	0	0
9 U.S. government securities—Total.....	211,316	202,484	204,608	204,438	204,412	196,293	211,316	202,486
10 Within 15 days <sup>1</sup> .....	20,480	14,191	16,096	16,494	13,726	7,625	20,480	8,522
11 16 days to 90 days.....	53,611	50,768	51,124	53,048	53,124	54,077	53,611	57,100
12 91 days to 1 year.....	62,239	62,539	62,402	59,915	62,581	59,068	62,239	61,883
13 Over 1 year to 5 years.....	36,469	36,469	36,469	36,484	36,484	37,006	36,469	36,484
14 Over 5 years to 10 years.....	15,451	15,451	15,451	15,431	15,431	15,451	15,451	15,431
15 Over 10 years.....	23,066	23,066	23,066	23,066	23,066	23,066	23,066	23,066
16 Federal agency obligations—Total.....	10,143	8,404	8,206	7,922	8,442	8,177	10,143	8,576
17 Within 15 days <sup>1</sup> .....	2,704	825	526	366	907	653	2,704	1,041
18 16 days to 90 days.....	809	958	954	862	801	851	809	801
19 91 days to 1 year.....	1,224	1,215	1,220	1,318	1,338	1,376	1,224	1,338
20 Over 1 year to 5 years.....	3,854	3,854	3,814	3,718	3,733	3,730	3,854	3,733
21 Over 5 years to 10 years.....	1,178	1,178	1,318	1,300	1,305	1,193	1,178	1,305
22 Over 10 years.....	374	374	374	358	358	374	374	358

1. Holdings under repurchase agreements are classified as maturing within 15 days in accordance with maximum maturity of the agreements.

## 1.20 AGGREGATE RESERVES OF DEPOSITORY INSTITUTIONS AND MONETARY BASE

Billions of dollars, averages of daily figures

Item	1983 Dec. <sup>1</sup>	1984 Dec. <sup>1</sup>	1985 Dec. <sup>1</sup>	1986 Dec.	1986							1987 Jan.
					June <sup>2</sup>	July <sup>2</sup>	Aug.	Sept.	Oct.	Nov.	Dec.	
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS <sup>1</sup>	Seasonally adjusted											
1 Total reserves <sup>2</sup> .....	36.16	39.48	45.52	55.64	49.35	50.48	51.32	51.81	52.40	53.82	55.64	56.64
2 Nonborrowed reserves.....	35.38	36.29	44.20	54.81	48.55	49.74	50.45	50.80	51.56	53.07	54.81	56.06
3 Nonborrowed reserves plus extended credit <sup>3</sup> .....	35.38	38.90	44.70	55.11	49.08	50.12	50.91	51.37	52.06	53.49	55.11	56.29
4 Required reserves .....	35.59	38.66	44.55	54.27	48.51	49.58	50.58	51.08	51.66 <sup>4</sup>	52.85	54.27	55.58
5 Monetary base <sup>4</sup> .....	185.38	199.15	216.70	238.84 <sup>4</sup>	226.51	228.35	230.60 <sup>4</sup>	231.69 <sup>4</sup>	233.46 <sup>4</sup>	236.07 <sup>4</sup>	238.84 <sup>4</sup>	242.04
	Not seasonally adjusted											
6 Total reserves <sup>2</sup> .....	36.87	40.53	46.75	57.17 <sup>4</sup>	49.11	50.31	50.62	51.55	52.34	54.11	57.17	58.25
7 Nonborrowed reserves.....	36.09	37.35	45.43	56.34	48.30	49.57	49.75	50.54	51.50	53.36	56.34	57.67
8 Nonborrowed reserves plus extended credit <sup>3</sup> .....	36.10	39.95	45.93	56.64	48.83	49.95	50.22 <sup>4</sup>	51.11	52.00	53.77	56.64	57.90
9 Required reserves .....	36.31	39.71	45.78	55.80	48.27	49.41	49.88	50.82	51.60	53.13	55.80	57.19
10 Monetary base <sup>4</sup> .....	188.65	202.29	220.26	243.04	226.91	230.01	230.76	231.51	233.04	236.91	243.04	242.82
NOT ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS <sup>5</sup>												
11 Total reserves <sup>2</sup> .....	38.89	40.67	48.05	59.56	49.85	51.02	51.28	53.19	54.62	56.40	59.56	59.67
12 Nonborrowed reserves.....	38.12	37.48	46.73	58.73	49.04	50.28	50.41	52.18	53.78	55.65	58.73	59.09
13 Nonborrowed reserves plus extended credit <sup>3</sup> .....	38.12	40.06	47.32	59.04	49.72	50.68	50.90	52.76	54.15	56.15	59.04	59.32
14 Required reserves .....	38.33	39.84	47.08	58.19	49.01	50.12	50.54	52.46	53.88	55.42	58.19	58.60
15 Monetary base <sup>4</sup> .....	192.26	204.13	223.45	247.71	229.56	232.54	233.32	235.07	237.26	241.27	247.71	246.77

1. Figures incorporate adjustments for discontinuities associated with the implementation of the Monetary Control Act and other regulatory changes to reserve requirements. To adjust for discontinuities due to changes in reserve requirements on reservable nondeposit liabilities, the sum of such required reserves is subtracted from the actual series. Similarly, in adjusting for discontinuities in the monetary base, required clearing balances and adjustments to compensate for float also are subtracted from the actual series.

2. Total reserves not adjusted for discontinuities consist of reserve balances with Federal Reserve Banks, which exclude required clearing balances and adjustments to compensate for float, plus vault cash used to satisfy reserve requirements. Such vault cash consists of all vault cash held during the lagged computation period by institutions having required reserve balances at Federal Reserve Banks plus the amount of vault cash equal to required reserves during the maintenance period at institutions having no required reserve balances.

3. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as there is with traditional short-term adjustment credit, the money market impact of extended credit is similar to that of nonborrowed reserves.

4. The monetary base not adjusted for discontinuities consists of total reserves plus required clearing balances and adjustments to compensate for float at Federal Reserve Banks and the currency component of the money stock less the amount

of vault cash holdings of thrift institutions that is included in the currency component of the money stock plus, for institutions not having required reserve balances, the excess of current vault cash over the amount applied to satisfy current reserve requirements. After the introduction of contemporaneous reserve requirements (CRR), currency and vault cash figures are measured over the weekly computation period ending Monday.

Before CRR, all components of the monetary base other than excess reserves are seasonally adjusted as a whole, rather than by component, and excess reserves are added on a not seasonally adjusted basis. After CRR, the seasonally adjusted series consists of seasonally adjusted total reserves, which include excess reserves on a not seasonally adjusted basis, plus the seasonally adjusted currency component of the money stock and the remaining items seasonally adjusted as a whole.

5. Reflects actual reserve requirements, including those on nondeposit liabilities, with no adjustments to eliminate the effects of discontinuities associated with implementation of the Monetary Control Act or other regulatory changes to reserve requirements.

NOTE. Latest monthly and biweekly figures are available from the Board's H.3(502) statistical release. Historical data and estimates of the impact on required reserves of changes in reserve requirements are available from the Banking Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

## 1.21 MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES

Billions of dollars, averages of daily figures

Item <sup>1</sup>	1983 Dec. <sup>r</sup>	1984 Dec. <sup>r</sup>	1985 Dec. <sup>r</sup>	1986 Dec. <sup>r</sup>	1986			1987
					Oct. <sup>r</sup>	Nov. <sup>r</sup>	Dec. <sup>r</sup>	Jan.
	Seasonally adjusted							
1 M1 .....	526.9	557.5	627.0	730.5	701.4	712.4	730.5	737.7
2 M2 .....	2,184.6	2,369.1	2,569.6	2,798.2	2,760.4	2,774.6	2,798.2	2,819.4
3 M3 .....	2,692.8	2,985.7	3,205.6	3,487.7	3,442.9	3,460.2	3,487.7	3,512.7
4 L .....	3,154.6	3,528.1	3,838.3	4,140.2	4,085.4	4,110.4	4,140.2	n.a.
5 Debt .....	5,210.1	5,949.8	6,778.6	7,604.4	7,444.7	7,519.8	7,604.4	n.a.
M1 components								
6 Currency <sup>2</sup> .....	148.3	158.5	170.6	183.5	181.2	182.4	183.5	186.0
7 Travelers checks <sup>3</sup> .....	4.9	5.2	5.9	6.4	6.4	6.4	6.4	6.5
8 Demand deposits <sup>4</sup> .....	242.3	248.3	272.2	308.3	293.4	297.8	308.3	305.1
9 Other checkable deposits <sup>5</sup> .....	131.4	145.5	178.3	232.3	220.4	225.9	232.3	240.1
Nontransactions components								
10 In M2 <sup>6</sup> .....	1,657.7	1,811.6	1,942.6	2,067.7	2,059.0	2,062.1	2,067.7	2,081.8
11 In M3 only <sup>7</sup> .....	508.2	616.6	636.1	689.5	682.5	685.6	689.5	693.2
Savings deposits <sup>9</sup>								
12 Commercial Banks .....	133.2	122.2	124.6	154.5	145.8	150.2	154.5	159.7
13 Thrift institutions .....	173.0	166.6	179.0	211.7	204.6	208.3	211.7	216.9
Small denomination time deposits <sup>9</sup>								
14 Commercial Banks .....	350.9	386.6	383.9	364.7	370.0	365.9	364.7	364.7
15 Thrift institutions .....	432.9	498.6	500.3	488.5	494.7	491.3	488.5	486.1
Money market mutual funds								
16 General purpose and broker/dealer .....	138.2	167.5	176.5	207.5	206.9	207.1	207.5	208.9
17 Institution-only .....	43.2	62.7	65.1	84.1	84.5	84.4	84.1	84.0
Large denomination time deposits <sup>10</sup>								
18 Commercial Banks <sup>11</sup> .....	230.0	269.6	284.1	291.9	288.3	290.0	291.9	295.6
19 Thrift institutions .....	96.2	147.3	152.1	155.1	157.4	155.8	155.1	153.7
Debt components								
20 Federal debt .....	1,172.8	1,367.6	1,587.0	1,806.9	1,755.9	1,779.3	1,806.9	n.a.
21 Non-federal debt .....	4,037.3	4,582.2	5,191.6	5,797.6	5,688.8	5,740.5	5,797.6	n.a.
	Not seasonally adjusted							
22 M1 .....	538.3	570.3	641.0	746.6	698.9	715.5	746.6	744.4
23 M2 .....	2,191.6	2,378.3	2,580.6	2,811.7	2,756.8	2,776.8	2,811.7	2,829.7
24 M3 .....	2,702.4	2,997.6	3,218.9	3,502.9	3,439.4	3,464.5	3,502.9	3,523.5
25 L .....	3,163.1	3,538.8	3,850.2	4,153.7	4,079.7	4,113.3	4,153.7	n.a.
26 Debt .....	5,204.5	5,944.0	6,772.0	7,597.2	7,427.2	7,504.0	7,597.2	n.a.
M1 components								
27 Currency <sup>2</sup> .....	150.6	160.8	173.1	186.2	180.9	183.2	186.2	184.6
28 Travelers checks <sup>3</sup> .....	4.6	4.9	5.5	6.0	6.5	6.1	6.0	6.0
29 Demand deposits <sup>4</sup> .....	251.0	257.2	282.0	319.5	293.0	300.1	319.5	311.0
30 Other checkable deposits <sup>5</sup> .....	132.2	147.4	180.4	235.0	218.5	226.0	235.0	242.8
Nontransactions components								
31 M2 <sup>6</sup> .....	1,653.3	1,808.1	1,939.6	2,065.1	2,057.9	2,061.3	2,065.1	2,085.3
32 M3 only <sup>7</sup> .....	510.8	619.2	638.3	691.2	682.6	687.7	691.2	693.8
Money market deposit accounts								
33 Commercial banks .....	230.4	267.4	332.5	379.0	372.6	375.9	379.0	381.6
34 Thrift institutions .....	148.5	150.0	180.7	192.3	191.9	192.7	192.3	192.4
Savings deposits <sup>8</sup>								
35 Commercial Banks .....	132.2	121.4	123.9	153.8	146.4	150.3	153.8	159.1
36 Thrift institutions .....	172.4	166.2	178.8	211.7	204.8	209.0	211.7	217.2
Small denomination time deposits <sup>9</sup>								
37 Commercial Banks .....	351.1	386.7	383.8	364.4	371.3	366.7	364.4	364.4
38 Thrift institutions .....	433.5	499.6	501.5	489.6	496.1	492.9	489.6	489.1
Money market mutual funds								
39 General purpose and broker/dealer .....	138.2	167.5	176.5	207.5	206.9	207.1	207.5	208.9
40 Institution-only .....	43.2	62.7	65.1	84.1	84.5	84.4	84.1	84.0
Large denomination time deposits <sup>10</sup>								
41 Commercial Banks <sup>11</sup> .....	231.6	271.2	285.6	293.3	289.5	290.8	293.3	296.8
42 Thrift institutions .....	96.3	147.3	151.9	154.7	157.8	156.0	154.7	154.1
Debt components								
43 Federal debt .....	1,170.2	1,364.7	1,583.7	1,803.3	1,748.6	1,771.7	1,803.3	n.a.
44 Non-federal debt .....	4,034.3	4,579.2	5,188.3	5,793.9	5,678.6	5,732.3	5,793.9	n.a.

For notes see following page.

## NOTES TO TABLE 1.21

1. Composition of the money stock measures and debt is as follows:

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of commercial banks; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to domestic banks, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float; and (4) other checkable deposits (OCD) consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. The currency and demand deposit components exclude the estimated amount of vault cash and demand deposits respectively held by thrift institutions to service their OCD liabilities.

M2: M1 plus overnight (and continuing contract) repurchase agreements (RPs) issued by all commercial banks and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks worldwide, MMDAs, savings and small-denomination time deposits (time deposits—including retail RPs—in amounts of less than \$100,000), and balances in both taxable and tax-exempt general purpose and broker/dealer money market mutual funds. Excludes individual retirement accounts (IRA) and Keogh balances at depository institutions and money market funds. Also excludes all balances held by U.S. commercial banks, money market funds (general purpose and broker/dealer), foreign governments and commercial banks, and the U.S. government. Also subtracted is a consolidation adjustment that represents the estimated amount of demand deposits and vault cash held by thrift institutions to service their time and savings deposits.

M3: M2 plus large-denomination time deposits and term RP liabilities (in amounts of \$100,000 or more) issued by commercial banks and thrift institutions, term Eurodollars held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada, and balances in both taxable and tax-exempt, institution-only money market mutual funds. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Also subtracted is a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

Debt: Debt of domestic nonfinancial sectors consists of outstanding credit market debt of the U.S. government, state and local governments, and private nonfinancial sectors. Private debt consists of corporate bonds, mortgages, consumer credit (including bank loans), other bank loans, commercial paper, bankers acceptances, and other debt instruments. The source of data on domestic nonfinancial debt is the Federal Reserve Board's flow of funds accounts. Debt data are based on monthly averages.

2. Currency outside the U.S. Treasury, Federal Reserve Banks, and vaults of commercial banks. Excludes the estimated amount of vault cash held by thrift institutions to service their OCD liabilities.

3. Outstanding amount of U.S. dollar-denominated travelers checks of nonbank issuers. Travelers checks issued by depository institutions are included in demand deposits.

4. Demand deposits at commercial banks and foreign-related institutions other than those due to domestic banks, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float. Excludes the estimated amount of demand deposits held at commercial banks by thrift institutions to service their OCD liabilities.

5. Consists of NOW and ATS balances at all depository institutions, credit union share draft balances, and demand deposits at thrift institutions. Other checkable deposits seasonally adjusted equals the difference between the seasonally adjusted sum of demand deposits plus OCD and seasonally adjusted demand deposits. Included are all ceiling free "Super NOWs," authorized by the Depository Institutions Deregulation committee to be offered beginning Jan. 5, 1983.

6. Sum of overnight RPs and overnight Eurodollars, money market fund balances (general purpose and broker/dealer), MMDAs, and savings and small time deposits, less the consolidation adjustment that represents the estimated amount of demand deposits and vault cash held by thrift institutions to service their time and savings deposits liabilities.

7. Sum of large time deposits, term RPs and term Eurodollars of U.S. residents, money market fund balances (institution-only), less a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market funds.

8. Savings deposits exclude MMDAs.

9. Small-denomination time deposits—including retail RPs—are those issued in amounts of less than \$100,000. All individual retirement accounts (IRA) and Keogh accounts at commercial banks and thrifts are subtracted from small time deposits.

10. Large-denomination time deposits are those issued in amounts of \$100,000 or more, excluding those booked at international banking facilities.

11. Large-denomination time deposits at commercial banks less those held by money market mutual funds, depository institutions, and foreign banks and official institutions.

NOTE: Latest monthly and weekly figures are available from the Board's H.6 (508) release. Historical data are available from the Banking Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

## 1.22 BANK DEBITS AND DEPOSIT TURNOVER

Debits are shown in billions of dollars, turnover as ratio of debits to deposits. Monthly data are at annual rates.

Bank group, or type of customer	1983 <sup>1</sup>	1984 <sup>1</sup>	1985 <sup>1</sup>	1986					
				July	Aug.	Sept.	Oct.	Nov.	Dec.
DEBITS TO	Seasonally adjusted								
Demand deposits <sup>2</sup>									
1 All insured banks	128,440.8	154,556.0	189,534.1	188,874.2	194,457.3	197,997.9	197,222.5	187,594.4	206,689.6
2 Major New York City banks	57,392.7	70,445.1	91,212.9	91,040.8	92,961.7	95,252.0	95,919.7	96,829.5	95,831.3
3 Other banks	71,048.1	84,110.9	98,321.4	97,833.4	101,495.6	102,745.9	101,302.9	90,764.9	110,858.4
4 ATS-NOW accounts <sup>3</sup>	1,588.7	1,920.8	2,351.1	2,320.1	2,414.8	2,704.8	2,292.5	2,501.0	2,960.8
5 Savings deposits <sup>4</sup>	633.1	539.0	410.3	417.4	421.0	428.4	456.5	424.9	533.7
DEPOSIT TURNOVER									
Demand deposits <sup>2</sup>									
6 All insured banks	434.4	496.5	561.8	556.4	567.6	573.9	569.6	538.2	560.7
7 Major New York City banks	1,843.0	2,168.9	2,460.6	2,417.2	2,437.0	2,519.8	2,493.4	2,513.2	2,251.6
8 Other banks	268.6	301.8	327.4	324.2	333.4	334.5	329.2	292.8	340.0
9 ATS-NOW accounts <sup>3</sup>	15.8	16.7	16.8	16.8	16.9	18.4	15.2	16.1	18.3
10 Savings deposits <sup>4</sup>	5.0	4.5	3.1	3.2	3.2	3.1	3.2	2.9	3.5
DEBITS TO	Not seasonally adjusted								
Demand deposits <sup>2</sup>									
11 All insured banks	128,059.1	154,108.4	189,443.3	198,657.9	186,892.9	198,433.5	204,618.4	167,465.5	226,263.1
12 Major New York City banks	57,282.4	70,400.9	91,294.4	96,686.1	88,807.6	96,489.1	98,837.9	85,849.7	106,935.2
13 Other banks	70,776.9	83,707.8	98,149.0	101,971.8	98,085.3	101,944.4	105,780.4	81,615.8	119,327.9
14 ATS-NOW accounts <sup>3</sup>	1,579.5	1,903.4	2,338.4	2,240.4	2,140.8	2,524.1	2,231.9	2,255.1	2,841.5
15 MMDA <sup>5</sup>	848.8	1,179.0	1,599.3	1,575.9	1,530.6	1,612.9	1,607.4	1,434.0	2,058.2
16 Savings deposits <sup>4</sup>	632.9	538.7	404.3	419.9	413.7	414.2	449.2	382.7	503.6
DEPOSIT TURNOVER									
Demand deposits <sup>2</sup>									
17 All insured banks	433.5	497.4	564.0	587.8	554.7	577.6	593.5	476.4	600.3
18 Major New York City banks	1,838.6	2,191.1	2,494.3	2,620.6	2,421.9	2,603.6	2,656.9	2,225.4	2,483.2
19 Other banks	267.9	301.6	327.9	338.7	326.6	332.6	343.9	260.8	357.4
20 ATS-NOW accounts <sup>3</sup>	15.7	16.6	16.8	16.3	15.1	17.3	14.9	14.6	17.4
21 MMDA <sup>5</sup>	3.5	3.8	4.5	4.4	4.2	4.4	4.4	3.8	5.5
22 Savings deposits <sup>4</sup>	5.0	4.5	3.1	3.2	3.1	3.0	3.2	2.6	3.3

1. Annual averages of monthly figures.

2. Represents accounts of individuals, partnerships, and corporations and of states and political subdivisions.

3. Accounts authorized for negotiable orders of withdrawal (NOW) and accounts authorized for automatic transfer to demand deposits (ATS). ATS data availability starts with December 1978.

4. Excludes ATS and NOW accounts, MMDA and special club accounts, such as Christmas and vacation clubs.

5. Money market deposit accounts.

NOTE. Historical data for demand deposits are available back to 1970 estimated in part from the debits series for 233 SMSAs that were available through June 1977. Historical data for ATS-NOW and savings deposits are available back to July 1977. Back data are available on request from the Banking Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

These data also appear on the Board's G-6 (406) release. For address, see inside front cover.

1.23 LOANS AND SECURITIES All Commercial Banks<sup>1</sup>

Billions of dollars; averages of Wednesday figures

Category	1986												1987
	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	
Seasonally adjusted													
1 Total loans and securities <sup>2</sup> .....	1,935.5	1,944.6	1,947.9	1,957.5	1,963.7	1,985.0	2,007.7	2,029.6	2,034.0	2,049.0	2,078.7	2,110.6	
2 U.S. government securities .....	273.6	269.5	270.0	274.1	274.8	285.4	290.9	294.3	299.6	304.8	309.1	313.9	
3 Other securities .....	188.1	183.3	182.1	181.9	183.6	186.1	192.3	200.7	196.7	194.8	193.4	188.7	
4 Total loans and leases <sup>2</sup> .....	1,473.7	1,491.8	1,495.8	1,501.5	1,505.3	1,513.4	1,524.5	1,534.7	1,537.7	1,549.5	1,576.2	1,608.0	
5 Commercial and industrial .....	502.4	506.1	507.8	506.7	508.7	508.7	510.4	512.1	514.1	520.3	536.9	551.2	
6 Bankers acceptances held <sup>3</sup> .....	4.8	4.9	5.2	5.6	6.1	5.8	5.9	6.3	6.4	6.1	5.9	6.3	
7 Other commercial and industrial .....	497.6	501.2	502.6	501.0	502.6	502.8	504.4	505.8	507.8	514.1	531.0	544.9	
8 U.S. addressees <sup>4</sup> .....	488.4	491.3	492.7	490.6	493.1	493.8	495.4	496.9	499.0	505.4	522.5	535.9	
9 Non-U.S. addressees <sup>4</sup> .....	9.2	9.9	9.8	10.5	9.5	9.0	9.1	8.9	8.8	8.7	8.5	9.0	
10 Real estate .....	431.4	436.1	440.7	446.4	450.7	455.9	461.4	465.9	470.8	476.6	486.4	494.5	
11 Individual .....	297.4	299.5	301.1	303.0	304.5	305.6	306.9	308.8	309.8	311.1	313.0	314.2	
12 Security .....	43.4	50.4	48.0	46.4	42.5	44.8	44.2	44.4	39.5	40.1	37.3	38.6	
13 Nonbank financial institutions .....	31.8	32.2	32.3	33.3	34.7	34.2	34.4	35.1	35.7	35.3	35.6	35.8	
14 Agricultural .....	35.4	34.9	34.6	34.1	33.7	33.3	33.3	33.2	33.1	33.2	33.2	33.2	
15 State and political subdivisions .....	60.3	60.2	59.8	59.5	59.4	59.0	59.4	59.4	58.5	57.8	57.0	57.1	
16 Foreign banks .....	9.2	9.2	9.2	9.3	9.5	9.5	9.3	9.4	9.1	9.0	9.6	9.8	
17 Foreign official institutions .....	7.0	6.8	5.3	5.1	6.4	6.5	6.5	6.4	6.4	6.2	6.2	6.3	
18 Lease financing receivables .....	19.6	19.8	19.9	19.8	20.0	20.0	20.2	20.4	20.4	21.0	21.7	21.7	
19 All other loans .....	35.8	36.6	37.3	37.9	35.4	35.8	38.5	39.7	40.3	38.9	39.3	45.6	
Not seasonally adjusted													
20 Total loans and securities <sup>2</sup> .....	1,932.4	1,944.1	1,950.5	1,956.7	1,965.4	1,981.4	1,999.8	2,027.3	2,029.2	2,048.6	2,092.6	2,116.2	
21 U.S. government securities .....	275.0	273.2	274.0	275.4	276.2	285.3	289.1	292.6	295.2	302.5	306.8	313.4	
22 Other securities .....	188.9	183.9	181.8	182.2	182.5	183.9	192.1	200.7	196.3	194.8	194.6	189.9	
23 Total loans and leases <sup>2</sup> .....	1,468.5	1,487.1	1,494.7	1,499.0	1,506.7	1,512.1	1,518.7	1,534.0	1,537.7	1,551.3	1,591.2	1,612.9	
24 Commercial and industrial .....	500.1	506.9	510.0	508.5	509.4	508.6	508.3	511.2	513.1	519.3	539.4	550.8	
25 Bankers acceptances held <sup>3</sup> .....	4.7	5.0	5.2	5.5	6.0	6.0	5.9	6.1	6.2	6.2	6.3	6.2	
26 Other commercial and industrial .....	495.4	501.9	504.9	503.0	503.4	502.6	502.4	505.2	506.9	513.0	533.2	544.5	
27 U.S. addressees <sup>4</sup> .....	486.3	492.7	495.4	493.3	494.0	493.3	493.1	495.9	497.8	503.8	524.4	535.6	
28 Non-U.S. addressees <sup>4</sup> .....	9.1	9.2	9.5	9.7	9.4	9.3	9.4	9.3	9.2	9.2	8.8	8.9	
29 Real estate .....	430.6	434.9	439.5	445.2	450.2	455.8	461.7	466.9	472.2	478.1	487.4	494.7	
30 Individual .....	296.3	296.8	298.6	301.1	303.1	304.9	307.2	310.2	311.4	312.4	316.5	316.7	
31 Security .....	42.6	49.5	48.5	45.6	42.5	43.0	41.3	41.8	38.7	41.3	42.2	41.0	
32 Nonbank financial institutions .....	31.2	31.6	32.2	33.1	34.6	34.3	34.6	35.3	35.5	35.4	36.6	36.1	
33 Agricultural .....	34.5	34.0	33.9	34.1	34.2	34.1	34.1	33.9	33.6	33.2	32.9	32.6	
34 State and political subdivisions .....	60.3	60.2	59.8	59.5	59.4	59.0	59.4	59.4	58.5	57.8	57.0	57.1	
35 Foreign banks .....	9.3	9.1	9.0	9.1	9.2	9.4	9.1	9.4	9.3	9.3	10.1	10.0	
36 Foreign official institutions .....	7.0	6.8	5.3	5.1	6.4	6.5	6.5	6.4	6.4	6.2	6.2	6.3	
37 Lease financing receivables .....	19.8	19.8	19.9	19.9	20.0	20.0	20.1	20.3	20.3	20.9	21.7	21.9	
38 All other loans .....	36.6	37.5	38.1	37.9	37.7	36.5	36.3	39.1	38.9	37.4	41.3	45.8	

1. Data are prorated averages of Wednesday estimates for domestically chartered insured banks, based on weekly sample reports and quarterly universe reports. For foreign-related institutions, data are averages of month-end estimates based on weekly reports from large U.S. agencies and branches and quarterly reports from all U.S. agencies and branches, New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks.

2. Excludes loans to commercial banks in the United States.

3. Includes nonfinancial commercial paper held.

4. United States includes the 50 states and the District of Columbia.

NOTE: These data also appear in the Board's G-7 (407) release. For address, see inside front cover.

1.24 MAJOR NONDEPOSIT FUNDS OF COMMERCIAL BANKS<sup>1</sup>

Monthly averages, billions of dollars

Source	1986 <sup>2r</sup>												1987
	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	
Total nondeposit funds													
1 Seasonally adjusted <sup>3</sup>	132.3	142.1	135.3	137.4	134.3	136.0	137.8	142.4	140.0	143.2	143.4	152.2	
2 Not seasonally adjusted	134.8	144.3	135.6	138.5	132.1	132.9	137.7	141.7	139.1	144.7	143.5	151.7	
Federal funds, RPs, and other borrowings from nonbanks <sup>4</sup>													
3 Seasonally adjusted	152.9	160.8	160.8	158.8	158.0	165.5	167.3	166.7	167.3	165.0	162.4	167.3	
4 Not seasonally adjusted	155.3	163.0	161.0	159.9	155.7	162.3	167.2	166.0	166.4	166.5	162.5	166.8	
5 Net balances due to foreign-related institutions, not seasonally adjusted	-20.5	-18.7	-25.5	-21.3	-23.7	-29.5	-29.5	-24.3	-27.3	-21.8	-19.0	-15.1	
MEMO													
6 Domestically chartered banks' net positions with own foreign branches, not seasonally adjusted <sup>5</sup>	-25.8	-26.5	-30.2	-29.3	-30.5	-33.8	-31.2	-29.2	-31.9	-28.7	-30.7	-25.6	
7 Gross due from balances	69.4	71.7	75.2	72.9	72.2	73.9	75.2	74.0	73.5	70.8	73.4	70.8	
8 Gross due to balances	43.6	45.2	45.1	43.6	41.7	40.1	44.0	44.8	41.6	42.1	42.7	45.2	
9 Foreign-related institutions' net positions with directly related institutions, not seasonally adjusted <sup>6</sup>	5.2	7.8	4.7	8.0	6.8	4.3	1.7	4.9	4.7	6.9	11.7	10.5	
10 Gross due from balances	60.0	60.6	62.5	60.0	62.8	64.2	66.3	67.9	68.3	68.7	70.8	74.6	
11 Gross due to balances	65.2	68.4	67.2	67.9	69.6	68.6	67.9	72.7	72.9	75.7	82.5	85.1	
Security RP borrowings													
12 Seasonally adjusted <sup>7</sup>	89.7	90.0	90.1	89.9	90.2	95.1	95.8	95.7	96.5	95.9	95.4	97.5	
13 Not seasonally adjusted	92.2	92.1	90.4	91.0	87.9	92.0	95.7	95.0	95.6	97.4	95.5	97.0	
U.S. Treasury demand balances <sup>8</sup>													
14 Seasonally adjusted	20.1	16.2	17.0	19.1	17.7	15.4	14.5	16.5	17.1	23.2	21.2	21.3	
15 Not seasonally adjusted	24.2	15.7	17.8	21.8	16.1	16.8	11.1	18.2	15.3	15.3	19.2	27.5	
Time deposits, \$100,000 or more <sup>9</sup>													
16 Seasonally adjusted	349.5	346.5	346.3	341.9	341.8	341.1	344.3	344.2	342.7	343.3	345.7	350.2	
17 Not seasonally adjusted	350.9	348.5	343.6	340.5	339.2	338.3	344.0	345.5	343.8	344.1	347.1	351.4	

1. Commercial banks are those in the 50 states and the District of Columbia with national or state charters plus agencies and branches of foreign banks, New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks.

2. Data for lines 1-4 and 12-17 have been revised in light of benchmarking and revised seasonal adjustment.

3. Includes seasonally adjusted federal funds, RPs, and other borrowings from nonbanks and not seasonally adjusted net Eurodollars. Includes averages of Wednesday data for domestically chartered banks and averages of current and previous month-end data for foreign-related institutions.

4. Other borrowings are borrowings on any instrument, such as a promissory note or due bill, given for the purpose of borrowing money for the banking business. This includes borrowings from Federal Reserve Banks and from foreign banks, term federal funds, overdrawn due from bank balances, loan RPs, and participations in pooled loans.

5. Averages of daily figures for member and nonmember banks.

6. Averages of daily data.

7. Based on daily average data reported by 122 large banks.

8. Includes U.S. Treasury demand deposits and Treasury tax-and-loan notes at commercial banks. Averages of daily data.

9. Averages of Wednesday figures.

## 1.25 ASSETS AND LIABILITIES OF COMMERCIAL BANKING INSTITUTIONS Last-Wednesday-of-Month Series

Billions of dollars

Account	1986											1987
	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	
<b>ALL COMMERCIAL BANKING INSTITUTIONS<sup>1</sup></b>												
1 Loans and securities .....	2,091.4	2,113.4	2,101.3	2,105.5	2,134.0	2,154.4	2,171.1	2,173.2	2,218.1	2,303.7		2,276.4
2 Investment securities .....	427.2	429.5	430.9	432.6	445.7	455.1	464.6	467.4	470.4	474.8		477.3
3 U.S. government securities .....	253.7	255.8	257.7	259.6	269.6	272.2	275.9	281.8	286.2	291.7		295.3
4 Other .....	173.5	173.6	173.2	173.0	176.1	183.0	188.7	185.6	184.3	183.1		182.0
5 Trading account assets .....	30.1	27.8	27.0	27.4	28.7	29.3	27.9	26.0	28.1	27.8		26.4
6 Total loans .....	1,634.2	1,656.1	1,643.5	1,645.5	1,659.6	1,670.0	1,678.5	1,679.9	1,719.5	1,801.1		1,772.7
7 Interbank loans .....	146.0	155.7	146.2	139.2	148.6	149.4	145.3	146.8	161.0	173.4		166.0
8 Loans excluding interbank .....	1,488.1	1,500.4	1,497.2	1,506.3	1,511.0	1,520.6	1,533.2	1,533.1	1,558.6	1,627.7		1,606.7
9 Commercial and industrial .....	508.5	510.5	506.2	512.3	507.3	510.1	512.1	512.6	520.2	563.5		546.9
10 Real estate .....	435.9	441.7	446.4	451.4	457.6	463.2	467.7	473.5	479.3	494.8		496.9
11 Individual .....	296.9	300.4	301.1	304.0	305.6	308.4	310.5	311.8	312.8	319.6		316.0
12 All other .....	246.9	247.8	243.6	238.7	240.5	238.8	242.9	235.2	246.3	249.9		246.9
13 Total cash assets .....	198.1	209.9	221.0	196.0	206.2	205.8	196.6	200.4	223.9	270.7		211.2
14 Reserves with Federal Reserve Banks .....	29.1	25.5	30.1	27.9	28.2	27.9	27.8	31.2	31.7	40.8		32.9
15 Cash in vault .....	21.8	22.3	23.9	23.0	23.3	23.7	22.9	22.5	22.2	25.7		23.6
16 Cash items in process of collection .....	68.8	80.7	84.6	67.3	72.1	73.5	66.3	66.2	86.5	111.2		74.4
17 Demand balances at U.S. depository institutions .....	31.1	34.7	36.8	32.0	33.8	33.6	32.3	32.6	37.7	42.7		33.4
18 Other cash assets .....	47.4	46.7	45.5	45.8	48.7	47.1	47.4	46.9	45.8	50.4		46.7
19 Other assets .....	195.3	207.0	195.9	196.6	196.6	196.2	200.8	198.2	201.9	225.3		199.9
20 Total assets/total liabilities and capital .....	<b>2,484.8</b>	<b>2,530.3</b>	<b>2,518.3</b>	<b>2,498.1</b>	<b>2,536.7</b>	<b>2,556.4</b>	<b>2,568.4</b>	<b>2,571.8</b>	<b>2,643.9</b>	<b>2,799.7</b>		<b>2,687.5</b>
21 Deposits .....	1,762.8	1,798.4	1,807.4	1,791.9	1,819.5	1,833.6	1,830.8	1,843.7	1,896.8	2,014.6		1,894.5
22 Transaction deposits .....	502.5	540.7	542.7	523.3	540.0	544.2	537.4	547.5	594.8	689.6		576.2
23 Savings deposits .....	462.0	467.8	477.3	482.4	490.8	497.7	504.4	514.8	521.7	533.9		531.1
24 Time deposits .....	798.3	789.9	787.5	786.3	788.7	791.7	789.0	781.4	780.3	791.1		787.3
25 Borrowings .....	373.1	390.7	367.4	366.8	379.2	377.3	388.1	380.0	394.1	410.6		429.3
26 Other liabilities .....	179.3	170.4	173.1	168.5	168.6	174.7	177.5	175.1	180.2	199.8		188.2
27 Residual (assets less liabilities) .....	169.7	170.8	170.3	170.9	169.4	170.8	172.1	173.1	172.8	174.8		175.4
<b>MEMO</b>												
28 U.S. government securities (including trading account) .....	273.7	274.0	275.1	276.5	288.8	289.8	292.5	298.5	303.6	307.5		313.7
29 Other securities (including trading account) .....	183.6	183.3	182.8	183.5	185.6	194.6	200.0	194.8	195.0	195.0		190.0
<b>DOMESTICALLY CHARTERED COMMERCIAL BANKS<sup>2</sup></b>												
30 Loans and securities .....	1,972.4	1,993.3	1,985.3	1,990.0	2,014.0	2,029.4	2,039.8	2,046.2	2,090.2	2,150.5		2,132.1
31 Investment securities .....	416.0	416.1	417.1	419.6	432.5	440.2	448.0	450.6	454.4	456.8		459.0
32 U.S. government securities .....	248.5	248.8	250.2	253.1	263.2	264.5	267.5	272.9	278.1	282.4		286.2
33 Other .....	167.5	167.2	166.9	166.5	169.4	175.7	180.5	177.8	176.4	174.4		172.8
34 Trading account assets .....	30.1	27.8	27.0	27.4	28.7	29.3	27.9	26.0	28.1	27.8		26.4
35 Total loans .....	1,526.3	1,549.4	1,541.3	1,543.0	1,552.8	1,559.8	1,564.0	1,569.6	1,607.7	1,665.9		1,646.7
36 Interbank loans .....	120.2	129.3	123.3	117.3	122.7	123.1	118.9	122.5	137.8	142.5		138.3
37 Loans excluding interbank .....	1,406.1	1,420.1	1,418.0	1,425.8	1,430.1	1,436.7	1,445.1	1,447.1	1,469.9	1,523.4		1,508.4
38 Commercial and industrial .....	448.2	452.3	449.8	452.5	448.4	448.4	447.2	447.2	453.9	486.7		474.3
39 Real estate .....	430.7	436.3	440.7	445.8	451.9	457.3	461.7	467.6	472.7	487.8		490.4
40 Individual .....	296.6	300.1	300.8	303.6	305.3	308.1	310.1	311.5	312.4	319.1		315.7
41 All other .....	230.7	231.4	226.7	223.9	224.6	222.9	226.1	220.8	230.8	229.8		228.1
42 Total cash assets .....	182.7	194.3	205.8	180.1	187.8	189.3	180.4	183.1	207.6	251.3		194.1
43 Reserves with Federal Reserve Banks .....	28.4	24.4	28.7	26.3	27.2	26.6	26.9	29.7	29.8	39.6		31.2
44 Cash in vault .....	21.7	22.2	23.8	22.9	23.2	23.7	22.8	23.4	22.2	25.6		23.6
45 Cash items in process of collection .....	68.4	80.3	84.2	66.7	71.7	73.1	65.9	65.5	86.1	110.9		74.0
46 Demand balances at U.S. depository institutions .....	29.4	33.0	35.1	30.2	32.0	31.9	30.5	30.9	35.8	40.3		31.7
47 Other cash assets .....	34.7	34.3	34.0	34.0	33.6	34.1	34.4	33.6	33.7	34.8		33.7
48 Other assets .....	144.0	150.3	142.8	144.1	143.2	141.7	145.5	142.7	143.0	166.0		142.9
49 Total assets/total liabilities and capital .....	<b>2,299.1</b>	<b>2,337.9</b>	<b>2,334.0</b>	<b>2,314.1</b>	<b>2,345.0</b>	<b>2,360.3</b>	<b>2,365.7</b>	<b>2,372.1</b>	<b>2,440.8</b>	<b>2,567.7</b>		<b>2,469.1</b>
50 Deposits .....	1,713.1	1,749.1	1,758.7	1,741.4	1,768.0	1,779.9	1,775.2	1,788.6	1,840.5	1,952.8		1,836.3
51 Transaction deposits .....	495.0	533.1	535.3	515.5	532.1	536.1	529.3	539.7	586.8	680.8		567.9
52 Savings deposits .....	460.1	465.8	475.2	480.3	488.7	495.5	502.1	512.5	519.2	531.4		528.6
53 Time deposits .....	758.1	750.1	748.1	745.6	747.2	748.2	743.8	736.5	734.5	740.6		739.7
54 Borrowings .....	304.8	309.1	294.2	293.5	300.5	295.5	305.2	299.3	312.6	321.6		340.3
55 Other liabilities .....	114.6	112.0	113.9	111.5	110.3	117.3	116.4	114.2	118.0	121.7		120.2
56 Residual (assets less liabilities) .....	166.5	167.7	167.2	167.8	166.2	167.7	168.9	169.9	169.6	171.6		172.3

1. Commercial banking institutions include insured domestically chartered commercial banks, branches and agencies of foreign banks, Edge Act and Agreement corporations, and New York State foreign investment corporations.

2. Insured domestically chartered commercial banks include all member banks and insured nonmember banks.

NOTE: Figures are partly estimated. They include all bank-premises subsidiaries and other significant majority-owned domestic subsidiaries. Loan and securities data for domestically chartered commercial banks are estimates for the last Wednesday of the month based on a sample of weekly reporting banks and quarter-end condition report data. Data for other banking institutions are estimates made for the last Wednesday of the month based on a weekly reporting sample of foreign-related institutions and quarter-end condition reports.

**1.26 ALL LARGE WEEKLY REPORTING COMMERCIAL BANKS with Domestic Assets of \$1.4 Billion or More on December 31, 1982, Assets and Liabilities**  
Millions of dollars, Wednesday figures

Account	1986					1987			
	Dec. 3	Dec. 10	Dec. 17	Dec. 24	Dec. 31	Jan. 7	Jan. 14	Jan. 21	Jan. 28
1 Cash and balances due from depository institutions .....	107,197 <sup>r</sup>	105,565 <sup>r</sup>	112,948 <sup>r</sup>	107,969 <sup>r</sup>	134,935	107,814	108,955	112,965	105,564
2 Total loans, leases and securities, net .....	<b>996,381<sup>r</sup></b>	<b>984,060<sup>r</sup></b>	<b>995,980<sup>r</sup></b>	<b>1,009,141<sup>r</sup></b>	<b>1,019,096</b>	<b>1,020,976</b>	<b>1,015,867</b>	<b>1,013,577</b>	<b>1,015,582</b>
3 U.S. Treasury and government agency .....	118,357	115,870	114,182	115,153	113,806	114,702	114,806	115,483	113,739
4 Trading account .....	25,356	23,497	21,815	21,424	19,896	18,975	19,447	20,966	18,324
5 Investment account, by maturity .....	93,001	92,373	92,367	93,730	93,909	95,727	95,359	94,518	95,415
6 One year or less .....	17,700 <sup>r</sup>	17,626 <sup>r</sup>	17,629 <sup>r</sup>	17,587 <sup>r</sup>	17,816	18,939	18,693	18,422	17,594
7 Over one through five years .....	42,314	41,614	41,690	42,116 <sup>r</sup>	42,293	42,501	41,957	41,511	40,549
8 Over five years .....	32,987 <sup>r</sup>	33,133 <sup>r</sup>	33,048 <sup>r</sup>	34,027 <sup>r</sup>	33,800	34,287	34,709	34,585	37,272
9 Other securities .....	71,458 <sup>r</sup>	71,037 <sup>r</sup>	70,685 <sup>r</sup>	71,774 <sup>r</sup>	72,190	69,464	68,454	68,150	68,372
10 Trading account .....	5,373	5,106	5,395	5,967	7,227	4,496	3,716	3,539	3,707
11 Investment account .....	66,085 <sup>r</sup>	65,931 <sup>r</sup>	65,290 <sup>r</sup>	65,808 <sup>r</sup>	64,963	64,968	64,738	64,611	64,664
12 States and political subdivisions, by maturity .....	56,301	56,128	55,792	55,922	54,659	54,159	53,967	53,798	53,585
13 One year or less .....	8,920	8,960	8,898 <sup>r</sup>	8,707	8,140	7,572	7,470	7,515	7,383
14 Over one year .....	47,381	47,167	46,894	47,216	46,519	46,587	46,497	46,283	46,202
15 Other bonds, corporate stocks, and securities .....	9,784 <sup>r</sup>	9,803 <sup>r</sup>	9,497 <sup>r</sup>	9,885 <sup>r</sup>	10,304	10,810	10,771	10,812	11,079
16 Other trading account assets .....	6,256	6,059	5,371	4,984	5,179	4,337	3,766	4,751	4,326
17 Federal funds sold <sup>1</sup> .....	61,764	57,038	61,900	57,710	51,363	61,039	63,779	58,961	63,949
18 To commercial banks .....	39,434	33,204	39,911	36,223	31,372	40,056	41,060	36,185	37,141
19 To nonbank brokers and dealers in securities .....	15,136	15,869	14,806	14,697	13,858	13,435	14,781	15,364	16,857
20 To others .....	7,194	7,966	7,182	6,791	6,133	7,548	7,938	7,412	9,951
21 Other loans and leases, gross <sup>2</sup> .....	760,551	756,064	765,830	781,336	798,314	793,731	787,424	788,569	787,528
22 Other loans, gross <sup>2</sup> .....	743,020	738,404	748,196	763,536	780,374	775,738	769,455	770,514	769,469
23 Commercial and industrial <sup>3</sup> .....	266,275 <sup>r</sup>	265,738 <sup>r</sup>	268,849 <sup>r</sup>	275,999 <sup>r</sup>	289,127	286,811	283,242	281,351	282,260
24 Bankers acceptances and commercial paper .....	2,725	2,452	2,582	2,464	2,426	2,357	2,381	2,539	2,471
25 All other .....	263,550 <sup>r</sup>	263,286 <sup>r</sup>	266,267 <sup>r</sup>	273,535 <sup>r</sup>	286,701	284,454	280,861	278,776	279,790
26 U.S. addressees .....	259,702 <sup>r</sup>	259,424 <sup>r</sup>	262,438 <sup>r</sup>	269,640 <sup>r</sup>	282,922	280,724	277,165	274,921	276,029
27 Non-U.S. addressees .....	3,847	3,861	3,830	3,895	3,779	3,730	3,696	3,855	3,760
28 Real estate loans <sup>2</sup> .....	203,786 <sup>r</sup>	204,797 <sup>r</sup>	206,324 <sup>r</sup>	207,306 <sup>r</sup>	209,814	213,475	214,203	214,584	214,233
29 To individuals for personal expenditures .....	142,557	142,970	143,777	145,014	145,397	145,013	144,401	143,885	143,484
30 To depository and financial institutions .....	50,010	48,999 <sup>r</sup>	49,876	53,511	56,176	53,627	52,733	54,594	51,940
31 Commercial banks in the United States .....	17,683	16,975	18,118	20,266	20,502	20,503	20,572	20,979	20,758
32 Banks in foreign countries .....	5,644	5,447	5,098	6,681	6,696	5,744	5,470	6,952	5,732
33 Nonbank depository and other financial institutions .....	26,683	26,576 <sup>r</sup>	26,659	26,564	28,978	27,380	26,692	26,663	25,450
34 For purchasing and carrying securities .....	16,991	15,131	17,257	17,962	14,368	14,163	14,093	14,158	15,434
35 To finance agricultural production .....	5,669	5,598	5,592	5,611	5,784	5,616	5,503	5,375	5,339
36 To states and political subdivisions .....	35,104	34,819	34,684	34,724	34,525	34,717	34,920	34,845	34,859
37 To foreign governments and official institutions .....	3,305	3,128	3,042	2,982	3,347	3,130	3,210	3,368	3,264
38 All other .....	19,323	17,223 <sup>r</sup>	18,793	20,426	21,836	19,185	17,149	18,388	18,655
39 Lease financing receivables .....	17,531	17,661	17,634	17,800	17,939	17,993	17,970	18,056	18,059
40 Less: Unearned income .....	4,988	5,007	5,009	5,041	5,031	5,056	5,069	5,063	5,045
41 Loan and lease reserve <sup>2</sup> .....	17,016	17,001	16,978	16,777	16,725	17,242	17,293	17,275	17,288
42 Other loans and leases, net <sup>2</sup> .....	738,546	734,055	743,842	759,518	776,558	771,432	765,062	766,232	765,196
43 All other assets .....	129,207 <sup>r</sup>	127,172 <sup>r</sup>	130,888 <sup>r</sup>	132,081 <sup>r</sup>	141,936	130,977	126,522	124,014	123,864
44 Total assets .....	<b>1,232,785</b>	<b>1,216,798<sup>r</sup></b>	<b>1,239,816</b>	<b>1,249,191</b>	<b>1,295,966</b>	<b>1,259,766</b>	<b>1,251,343</b>	<b>1,250,555</b>	<b>1,245,010</b>
45 Demand deposits .....	242,311	235,205 <sup>r</sup>	244,491	251,829	289,619	245,676	233,105	241,012	228,382
46 Individuals, partnerships, and corporations .....	183,584	181,457	187,437	191,677 <sup>r</sup>	222,598	219,032	182,577	183,217	174,084
47 States and political subdivisions .....	5,425	5,702	6,138	5,956	6,975	5,905	5,557	6,071	5,311
48 U.S. government .....	3,919	2,425	1,491	3,022	1,815	2,650	3,158	4,218	2,373
49 Depository institutions in United States .....	27,979	27,049 <sup>r</sup>	28,735	30,080 <sup>r</sup>	33,985	27,152	25,290	28,468	25,535
50 Banks in foreign countries .....	6,825	6,988	5,714	7,298	7,767	7,355	5,860	8,331	7,158
51 Foreign governments and official institutions .....	914	707	758	948	887	803	743	891	789
52 Certified and officers' checks .....	13,664	10,877	14,218	12,848	15,592	10,780	9,920	9,816	13,132
53 Transaction balances other than demand deposits .....	55,286	54,910	55,829	56,954	60,137	61,718	60,227	58,796	57,281
54 Nontransaction balances .....	500,998	502,109	501,358	504,161	509,133	517,245	516,675	516,674	515,383
55 Individuals, partnerships and corporations .....	463,080 <sup>r</sup>	464,128 <sup>r</sup>	463,460 <sup>r</sup>	466,169 <sup>r</sup>	470,730	479,157	478,055	478,443	476,728
56 States and political subdivisions .....	26,300 <sup>r</sup>	26,261 <sup>r</sup>	25,966 <sup>r</sup>	25,730 <sup>r</sup>	25,813	25,756	26,250	26,152	26,156
57 U.S. government .....	794	784	752	754	762	780	783	671	680
58 Depository institutions in the United States .....	9,683	9,855	10,090	10,450 <sup>r</sup>	10,792	10,554	10,520	10,349	10,749
59 Foreign governments, official institutions and banks .....	1,140	1,081	1,090	1,058	1,035	998	1,067	1,058	1,070
60 Liabilities for borrowed money .....	263,922	253,061	265,774	259,041	261,730	267,566	270,484	262,372	268,150
61 Borrowings from Federal Reserve Banks .....	373	0	1,439	0	443	0	0	5	3,447
62 Treasury tax-and-loan notes .....	7,355	2,102	15,253	17,578	18,550	17,958	18,993	19,629	19,646
63 All other liabilities for borrowed money <sup>3</sup> .....	256,194	250,959	249,082	241,462	242,736	249,608	251,491	242,738	245,056
64 Other liabilities and subordinated note and debentures .....	85,435	86,191	87,412	92,428	89,674	81,360	83,974	84,432	88,689
65 Total liabilities .....	<b>1,147,951</b>	<b>1,131,476<sup>r</sup></b>	<b>1,154,864</b>	<b>1,164,413</b>	<b>1,210,292</b>	<b>1,173,565</b>	<b>1,164,465</b>	<b>1,163,287</b>	<b>1,157,885</b>
66 Residual (total assets minus total liabilities) <sup>4</sup> .....	84,834	85,322	84,952	84,778	85,674	86,201	86,878	87,268	87,124
MEMO									
67 Total loans and leases (gross) and investments adjusted <sup>5</sup> .....	961,268 <sup>r</sup>	955,890 <sup>r</sup>	959,939 <sup>r</sup>	974,470 <sup>r</sup>	988,977	982,714	976,598	978,751	980,014
68 Total loans and leases (gross) adjusted <sup>2,5</sup> .....	765,198	762,924	769,701	782,557	797,803	794,211	789,572	790,366	793,578
69 Time deposits in amounts of \$100,000 or more .....	151,357	151,902 <sup>r</sup>	151,273 <sup>r</sup>	153,832 <sup>r</sup>	154,365	154,891	155,666	156,149	156,606
70 Loans sold outright to affiliates—total <sup>6</sup> .....	1,631	1,713	1,756	1,654 <sup>r</sup>	1,598	1,623	1,748	1,764	1,821
71 Commercial and industrial .....	950	1,003	1,004	1,088	1,013	1,053	1,182	1,190	1,260
72 Other .....	680	710	752	566 <sup>r</sup>	585	570	566	574	561
73 Nontransaction savings deposits (including MMDAs) .....	222,687	223,531	223,718	223,850	227,984	232,253	231,245	231,024	229,689

1. Includes securities purchased under agreements to resell.

2. Levels of major loan items were affected by the Sept. 26, 1984, transaction between Continental Illinois National Bank and the Federal Deposit Insurance Corporation. For details see the H.4.2 statistical release dated Oct. 5, 1984.

3. Includes federal funds purchased and securities sold under agreements to repurchase; for information on these liabilities at banks with assets of \$1 billion or more on Dec. 31, 1977, see table 1.13.

4. This is not a measure of equity capital for use in capital adequacy analysis or for other analytic uses.

5. Exclusive of loans and federal funds transactions with domestic commercial banks.

6. Loans sold are those sold outright to a bank's own foreign branches, nonconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company.

## 1.28 LARGE WEEKLY REPORTING COMMERCIAL BANKS IN NEW YORK CITY Assets and Liabilities

Millions of dollars, Wednesday figures except as noted

Account	1986					1987			
	Dec. 3	Dec. 10	Dec. 17	Dec. 24	Dec. 31	Jan. 7	Jan. 14	Jan. 21	Jan. 28
1 Cash and balances due from depository institutions .....	26,092	28,839	30,069	25,957	32,884	23,241	29,606	26,664	32,952
2 Total loans, leases and securities, net <sup>1</sup> .....	216,340	212,332	216,971	219,590	219,526	220,193	220,232	220,952	224,049
<i>Securities</i>									
3 U.S. Treasury and government agency <sup>2</sup> .....	0	0	0	0	0	0	0	0	0
4 Trading account <sup>2</sup> .....	0	0	0	0	0	0	0	0	0
5 Investment account, by maturity .....	14,172	13,809	13,580	13,500	13,529	13,748	13,182	13,179	13,335
6 One year or less .....	1,503	1,437	1,415	1,419	1,423	1,850	1,569	1,583	1,357
7 Over one through five years .....	5,689	5,355	5,404	5,395	5,330	4,916	4,637	4,631	4,440
8 Over five years .....	6,980	7,016	6,761	6,686	6,775	6,982	6,976	6,965	7,538
9 Other securities <sup>2</sup> .....	0	0	0	0	0	0	0	0	0
10 Trading account <sup>2</sup> .....	0	0	0	0	0	0	0	0	0
11 Investment account .....	16,213	16,167	15,879	16,447	16,484	16,230	16,097	16,093	16,154
12 States and political subdivisions, by maturity .....	14,174	14,162	14,176	14,648	14,616	14,050	13,981	13,960	13,940
13 One year or less .....	1,793	1,781	1,809	1,787	1,696	1,448	1,425	1,597	1,587
14 Over one year .....	12,381	12,380	12,368	12,862	12,920	12,602	12,556	12,363	12,353
15 Other bonds, corporate stocks and securities .....	2,039	2,006	1,703	1,799	1,868	2,180	2,116	2,133	2,214
16 Other trading account assets <sup>2</sup> .....	0	0	0	0	0	0	0	0	0
<i>Loans and leases</i>									
17 Federal funds sold <sup>3</sup> .....	25,740	25,711	27,740	24,440	20,477	21,706	25,000	24,095	26,680
18 To commercial banks .....	12,308	11,183	14,556	11,797	10,054	9,450	12,162	10,773	10,076
19 To nonbank brokers and dealers in securities .....	7,549	8,034	7,459	7,267	5,858	6,184	6,759	7,640	8,583
20 To others .....	5,883	6,494	5,725	5,376	4,565	6,072	6,079	5,682	8,022
21 Other loans and leases, gross .....	166,675	163,109	166,228	171,608	175,324	175,035	172,491	174,112	174,402
22 Other loans, gross .....	162,378	158,833	161,936	167,307	171,026	170,734	168,205	169,805	170,081
23 Commercial and industrial .....	62,287	61,764	62,323	63,980	67,561	67,488	65,647	64,796	65,909
24 Bankers acceptances and commercial paper .....	956	680	742	548	544	615	590	779	768
25 All other .....	61,331	61,084	61,582	63,432	67,016	66,873	65,056	64,017	65,141
26 U.S. addressees .....	60,978	60,708	61,214	63,044	66,585	66,438	64,598	63,490	64,686
27 Non-U.S. addressees .....	352	375	368	388	432	436	459	527	455
28 Real estate loans .....	35,406	35,727	35,994	36,557	37,504	38,244	38,545	38,540	38,541
29 To individuals for personal expenditures .....	19,996	20,116	20,208	20,483	20,750	20,989	20,829	20,803	20,695
30 To depository and financial institutions .....	18,787	18,033	18,891	20,479	21,610	22,025	21,368	23,200	21,460
31 Commercial banks in the United States .....	9,225	8,848	9,778	10,716	11,321	12,451	12,076	12,395	12,204
32 Banks in foreign countries .....	2,724	2,679	2,462	3,076	3,061	2,982	2,823	4,202	2,979
33 Nonbank depository and other financial institutions .....	6,839	6,505	6,650	6,686	7,229	6,591	6,468	6,603	6,277
34 For purchasing and carrying securities .....	9,203	8,177	9,221	9,501	6,091	6,430	6,750	6,540	6,980
35 To finance agricultural production .....	310	297	325	334	346	260	236	231	240
36 To states and political subdivisions .....	8,664	8,410	8,381	8,429	8,413	8,535	8,769	8,760	8,749
37 To foreign governments and official institutions .....	990	839	771	722	1,072	908	989	1,136	1,062
38 All other .....	6,734	5,469	5,822	6,822	7,679	5,856	5,162	5,799	6,446
39 Lease financing receivables .....	4,297	4,276	4,292	4,302	4,298	4,300	4,286	4,307	4,321
40 Less: Unearned income .....	1,551	1,553	1,565	1,569	1,562	1,578	1,582	1,582	1,583
41 Loan and lease reserve .....	4,909	4,912	4,892	4,837	4,728	4,948	4,957	4,943	4,940
42 Other loans and leases, net .....	160,215	156,644	159,771	165,203	169,035	168,509	165,952	167,586	167,879
43 All other assets <sup>4</sup> .....	71,372	69,144	71,900	71,241	79,865	66,894	63,178	62,208	61,762
44 Total assets .....	313,805	310,314	318,940	316,789	332,275	310,328	313,016	309,825	318,762
<i>Deposits</i>									
45 Demand deposits .....	63,939	63,874	66,194	66,372	78,411	61,673	59,464	64,512	65,564
46 Individuals, partnerships, and corporations .....	42,231	44,555	45,484	45,521	55,129	44,102	43,072	44,768	43,905
47 States and political subdivisions .....	713	704	614	728	1,106	705	719	821	686
48 U.S. government .....	850	466	215	587	245	380	561	627	439
49 Depository institutions in the United States .....	7,101	6,951	7,370	7,900	9,213	5,747	5,918	6,313	7,285
50 Banks in foreign countries .....	5,560	5,663	4,500	5,814	6,453	6,023	4,560	7,011	5,848
51 Foreign governments and official institutions .....	764	568	608	795	681	641	610	734	617
52 Certified and officers' checks .....	6,720	4,967	7,404	5,028	5,583	4,074	4,025	4,239	6,783
53 Transaction balances other than demand deposits (ATS, NOW, Super NOW, telephone transfers) .....	6,800	6,808	7,097	7,434	7,742	7,907	7,753	7,584	7,449
54 Nontransaction balances .....	95,480	95,238	95,920	96,345	97,844	98,981	98,629	99,180	98,517
55 Individuals, partnerships and corporations .....	86,122	86,027	87,009	87,482	88,643	89,943	89,513	90,124	89,336
56 States and political subdivisions .....	6,442	6,392	6,118	6,008	6,064	5,940	6,093	6,177	6,165
57 U.S. government .....	64	62	59	56	50	50	50	37	38
58 Depository institutions in the United States .....	2,240	2,167	2,145	2,221	2,524	2,540	2,441	2,322	2,448
59 Foreign governments, official institutions and banks .....	611	589	588	579	563	508	531	520	530
60 Liabilities for borrowed money .....	83,625	80,213	83,973	80,317	80,216	80,801	82,980	74,184	81,178
61 Borrowings from Federal Reserve Banks .....	0	0	800	0	0	0	0	0	2,990
62 Treasury tax-and-loan notes .....	1,532	440	3,652	4,392	4,609	4,506	4,610	4,825	4,824
63 All other liabilities for borrowed money <sup>5</sup> .....	82,094	79,772	79,521	75,925	75,608	76,295	78,370	69,359	73,364
64 Other liabilities and subordinated note and debentures .....	36,388	36,270	37,919	39,087	39,978	33,037	36,140	36,341	38,053
65 Total liabilities .....	286,232	282,402	291,104	289,555	304,191	282,398	284,965	281,802	290,760
66 Residual (total assets minus total liabilities) <sup>6</sup> .....	27,573	27,912	27,836	27,234	28,084	27,930	28,050	28,024	28,002
<i>MEMO</i>									
67 Total loans and leases (gross) and investments adjusted <sup>1,7</sup> .....	201,268	198,766	199,094	203,482	204,440	204,818	202,532	204,311	208,292
68 Total loans and leases (gross) adjusted <sup>7</sup> .....	170,882	168,789	169,634	173,535	174,427	174,840	173,252	175,039	178,802
69 Time deposits in amounts of \$100,000 or more .....	34,390	34,229	34,093	34,743	35,176	35,727	35,491	36,057	35,885

1. Excludes trading account securities.

2. Not available due to confidentiality.

3. Includes securities purchased under agreements to resell.

4. Includes trading account securities.

5. Includes federal funds purchased and securities sold under agreements to repurchase.

6. Not a measure of equity capital for use in capital adequacy analysis or for other analytic uses.

7. Exclusive of loans and federal funds transactions with domestic commercial banks.

NOTE: These data also appear in the Board's H.4.2 (504) release. For address, see inside front cover.

## 1.30 LARGE WEEKLY REPORTING U.S. BRANCHES AND AGENCIES OF FOREIGN BANKS' Assets and Liabilities

Millions of dollars, Wednesday figures

Account	1986					1987			
	Dec. 3	Dec. 10 <sup>r</sup>	Dec. 17	Dec. 24	Dec. 31 <sup>r</sup>	Jan. 7	Jan. 14	Jan. 21	Jan. 28
1 Cash and due from depository institutions . . .	10,195	9,625	9,616	9,651	11,946	9,997	9,790	9,990	10,191
2 Total loans and securities . . . . .	77,993	77,381	81,849	87,080	91,699	85,084	84,204	86,466	86,081
3 U.S. Treasury and govt. agency securities . . .	5,985	6,231	6,100	6,066	6,508	6,715	6,460	6,630	6,430
4 Other securities . . . . .	5,463	5,626	5,678	5,846	6,102	6,118	6,158	6,256	6,453
5 Federal funds sold <sup>2</sup> . . . . .	5,502	5,002	5,664	5,137	6,671	4,612	5,513	7,463	6,645
6 To commercial banks in the United States . . .	4,589	4,028	4,717	4,218	5,675	3,308	3,864	5,856	4,880
7 To others . . . . .	913	973	947	918	996	1,303	1,648	1,606	1,765
8 Other loans, gross . . . . .	61,042	60,523	64,407	70,032	72,418	67,639	66,073	66,116	66,553
9 Commercial and industrial . . . . .	37,740 <sup>r</sup>	37,246	38,570	41,090	43,214	40,951	40,183	40,530	40,767
10 Bankers acceptances and commercial paper . . . . .	3,033	3,111	2,999	3,031	3,170	3,039	2,893	2,988	2,987
11 All other . . . . .	34,707 <sup>r</sup>	34,135	35,571	38,058	40,044	37,912	37,290	37,542	37,781
12 U.S. addressees . . . . .	32,459 <sup>r</sup>	31,987	33,354	35,620	37,989	35,764	35,085	35,324	35,364
13 Non-U.S. addressees . . . . .	2,248	2,147	2,217	2,438	2,054	2,149	2,205	2,218	2,416
14 To financial institutions . . . . .	15,056	15,021	16,034	17,378	17,310	16,059	15,974	15,546	15,798
15 Commercial banks in the United States . . .	11,749	11,573	12,360	13,388	12,770	11,916	11,981	11,785	12,044
16 Banks in foreign countries . . . . .	1,031	1,048	1,099	1,038	1,249	1,092	1,092	990	1,048
17 Nonbank financial institutions . . . . .	2,276	2,401	2,575	2,952	3,290	3,051	2,900	2,772	2,706
18 To foreign govt. and official institutions . .	510	512	518	505	548	525	527	556	576
19 For purchasing and carrying securities . . .	2,363	2,655	3,635	4,852	5,105	3,900	3,496	3,602	3,610
20 All other . . . . .	5,373 <sup>r</sup>	5,089	5,649	6,207	6,242	6,204	5,892	5,883	5,802
21 Other assets (claims on nonrelated parties) . .	22,878	22,608	23,286	22,894	23,673	22,378	22,723	22,756	22,913
22 Net due from related institutions . . . . .	12,410	13,419	14,281	16,498	14,427	15,988	16,615	14,980	13,701
23 Total assets . . . . .	123,476	123,034	129,032	136,122	141,745	133,448	133,332	134,191	132,886
24 Deposits or credit balances due to other than directly related institutions . . . . .	37,383	37,425	38,849	40,348	42,414	38,694	39,572	39,745	39,225
25 Transaction accounts and credit balances <sup>3</sup> . .	3,600	3,502	3,960	3,578	3,975	3,191	3,576	3,809	3,488
26 Individuals, partnerships, and corporations . . . . .	2,006	1,987	2,082	2,180	1,888	1,884	1,843	1,969	1,859
27 Other . . . . .	1,593	1,515	1,878	1,398	2,086	1,308	1,733	1,840	1,629
28 Nontransaction accounts <sup>4</sup> . . . . .	33,784	33,923	34,889	36,770	38,440	35,502	35,996	35,936	35,737
29 Individuals, partnerships, and corporations . . . . .	27,270	27,418	28,367	30,112	31,525	28,774	29,114	29,275	28,868
30 Other . . . . .	6,514	6,505	6,522	6,658	6,915	6,728	6,882	6,661	6,869
31 Borrowings from other than directly related institutions . . . . .	47,890	45,776	48,447	53,087	50,791	55,698	53,770	54,113	51,234
32 Federal funds purchased <sup>5</sup> . . . . .	24,298	23,176	24,656	23,552	21,822	31,088	28,147	28,405	26,191
33 From commercial banks in the United States . . . . .	16,445	15,112	15,092	14,516	12,046	20,112	18,361	17,123	16,001
34 From others . . . . .	7,853	8,064	9,564	9,036	9,776	10,976	9,786	11,282	10,190
35 Other liabilities for borrowed money . . . .	23,591	22,600	23,790	29,535	28,968	24,610	25,623	25,707	25,042
36 To commercial banks in the United States . . . . .	20,606	19,506	20,556	25,540	24,628	21,691	22,580	22,133	21,864
37 To others . . . . .	2,985	3,094	3,234	3,996	4,341	2,919	3,042	3,574	3,178
38 Other liabilities to nonrelated parties . . . .	24,735	24,746	25,433	25,296	25,119	24,077	24,519	24,517	24,967
39 Net due to related institutions . . . . .	13,468	15,086	16,303	17,391	23,421	14,979	15,472	15,817	17,460
40 Total liabilities . . . . .	123,476	123,034	129,032	136,122	141,745	133,448	133,332	134,191	132,886
MEMO									
41 Total loans (gross) and securities adjusted <sup>6</sup> . .	61,655	61,780	64,772	69,473	73,254	69,859	68,359	68,824	69,157
42 Total loans (gross) adjusted <sup>6</sup> . . . . .	50,206	49,923	52,993	57,562	60,644	57,026	55,741	55,938	56,275

1. Effective Jan. 1, 1986, the reporting panel includes 65 U.S. branches and agencies of foreign banks that include those branches and agencies with assets of \$750 million or more on June 30, 1980, plus those branches and agencies that had reached the \$750 million asset level on Dec. 31, 1984.

2. Includes securities purchased under agreements to resell.

3. Includes credit balances, demand deposits, and other checkable deposits.

4. Includes savings deposits, money market deposit accounts, and time deposits.

5. Includes securities sold under agreements to repurchase.

6. Exclusive of loans to and federal funds sold to commercial banks in the United States.

1.31 GROSS DEMAND DEPOSITS Individuals, Partnerships, and Corporations<sup>1</sup>

Billions of dollars, estimated daily-average balances, not seasonally adjusted

Type of holder	Commercial banks									
	1981 Dec.	1982 Dec.	1983 Dec.	1984 Dec.	1985			1986		
					June <sup>3,4</sup>	Sept.	Dec.	Mar.	June <sup>r</sup>	Sept.
1 All holders—Individuals, partnerships, and corporations.....	288.9	291.8	293.5	302.7	298.4	299.3	321.0	307.4	322.4	333.6
2 Financial business.....	28.0	35.4	32.8	31.7	27.9	28.1	32.3	31.8	32.3	35.9
3 Nonfinancial business.....	154.8	150.5	161.1	166.3	164.5	167.2	178.5	166.6	180.0	185.9
4 Consumer.....	86.6	85.9	78.5	81.5	82.8	82.0	85.5	84.0	86.4	86.3
5 Foreign.....	2.9	3.0	3.3	3.6	3.7	3.5	3.5	3.4	3.0	3.3
6 Other.....	16.7	17.0	17.8	19.7	19.5	18.5	21.2	21.6	20.7	22.2
	Weekly reporting banks									
	1981 Dec.	1982 Dec.	1983 Dec.	1984 Dec. <sup>2</sup>	1985			1986		
					June <sup>3,4</sup>	Sept.	Dec.	Mar.	June <sup>r</sup>	Sept. <sup>p</sup>
7 All holders—Individuals, partnerships, and corporations.....	137.5	144.2	146.2	157.1	151.2	153.6	168.6	159.7	168.5	174.7
8 Financial business.....	21.0	26.7	24.2	25.3	22.1	22.7	25.9	25.5	25.7	28.9
9 Nonfinancial business.....	75.2	74.3	79.8	87.1	83.7	85.5	94.5	86.8	93.1	94.8
10 Consumer.....	30.4	31.9	29.7	30.5	31.0	31.6	33.2	32.6	34.9	35.0
11 Foreign.....	2.8	2.9	3.1	3.4	3.5	3.3	3.1	3.3	2.9	3.2
12 Other.....	8.0	8.4	9.3	10.9	10.9	10.5	12.0	11.5	11.9	12.8

1. Figures include cash items in process of collection. Estimates of gross deposits are based on reports supplied by a sample of commercial banks. Types of depositors in each category are described in the June 1971 BULLETIN, p. 466. Figures may not add to totals because of rounding.

2. Beginning in March 1984, these data reflect a change in the panel of weekly reporting banks, and are not comparable to earlier data. Estimates in billions of dollars for December 1983 based on the new weekly reporting panel are: financial business, 24.4; nonfinancial business, 80.9; consumer, 30.1; foreign, 3.1; other, 9.5.

3. Beginning March 1985, financial business deposits and, by implication, total gross demand deposits have been redefined to exclude demand deposits due to

thrift institutions. Historical data have not been revised. The estimated volume of such deposits for December 1984 is \$5.0 billion at all insured commercial banks and \$3.0 billion at weekly reporting banks.

4. Historical data back to March 1985 have been revised to account for corrections of bank reporting errors. Historical data before March 1985 have not been revised, and may contain reporting errors. Data for all commercial banks for March 1985 were revised as follows (in billions of dollars): all holders, -.3; financial business, -.8; nonfinancial business, -.4; consumer, .9; foreign, .1; other, -.1. Data for weekly reporting banks for March 1985 were revised as follows (in billions of dollars): all holders, -.1; financial business, -.7; nonfinancial business, -.5; consumer, 1.1; foreign, .1; other, -.2.

## 1.32 COMMERCIAL PAPER AND BANKERS DOLLAR ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Instrument	1982 Dec.	1983 Dec.	1984 Dec.	1985 Dec.	1986 Dec.	1986					
						July	Aug.	Sept.	Oct.	Nov.	Dec.
	Commercial paper (seasonally adjusted unless noted otherwise)										
1 All issuers .....	166,436	187,658	237,586	300,899	332,330	311,435	326,601	326,567	329,516	321,907	332,330
Financial companies <sup>3</sup>											
Dealer-placed paper <sup>4</sup>											
2 Total .....	34,605	44,455	56,485	78,443	100,942	90,038	94,084	97,994	99,688	93,548	100,942
3 Bank-related (not seasonally adjusted) .....	2,516	2,441	2,035	1,602	2,265	1,772	1,799	1,980	2,172	2,031	2,265
Directly placed paper <sup>5</sup>											
4 Total .....	84,393	97,042	110,543	135,504	152,159	142,121	149,200	147,497	147,163	146,434	152,159
5 Bank-related (not seasonally adjusted) .....	32,034	35,566	42,105	44,778	40,860	39,067	40,415	37,455	38,957	39,205	40,860
6 Nonfinancial companies <sup>6</sup> .....	47,437	46,161	70,558	86,952	79,229	79,276	83,317	81,076	82,665	81,925	79,229
	Bankers dollar acceptances (not seasonally adjusted) <sup>7</sup>										
7 Total .....	79,543	78,309	78,364 <sup>r</sup>	68,413 <sup>r</sup>	64,974 <sup>r</sup>	66,437	64,480	67,009	65,920	64,952	64,974
Holder											
8 Accepting banks .....	10,910	9,355	9,811	11,197 <sup>r</sup>	13,423 <sup>r</sup>	11,577	12,127	13,101	12,569	12,787	13,423
9 Own bills .....	9,471	8,125	8,621	9,471 <sup>r</sup>	11,707 <sup>r</sup>	9,257	9,794	11,001	10,178	10,951	11,707
10 Bills bought .....	1,439	1,230	1,191	1,726	1,716	2,320	2,333	2,101	2,391	1,835	1,716
Federal Reserve Banks											
11 Own account .....	1,480	418	0	0	0	0	0	0	0	0	0
12 Foreign correspondents .....	949	729	671	937	1,317	931	897	924	1,131	1,052	1,317
13 Others .....	66,204	67,807	67,881 <sup>r</sup>	56,279 <sup>r</sup>	50,234 <sup>r</sup>	53,929	51,456	52,984	52,220	51,113	50,234
Basis											
14 Imports into United States .....	17,683	15,649	17,845 <sup>r</sup>	15,147	14,670 <sup>r</sup>	15,601	15,796	16,612	15,980	15,354 <sup>r</sup>	14,670
15 Exports from United States .....	16,328	16,880	16,305 <sup>r</sup>	13,204	12,940 <sup>r</sup>	13,781	12,948	12,693	12,612	12,699 <sup>r</sup>	12,940
16 All other .....	45,531	45,781	44,214 <sup>r</sup>	40,062 <sup>r</sup>	37,364 <sup>r</sup>	37,056	35,736	37,704	37,327 <sup>r</sup>	36,899	37,364

1. Effective Dec. 1, 1982, there was a break in the commercial paper series. The key changes in the content of the data involved additions to the reporting panel, the exclusion of broker or dealer placed borrowings under any master note agreements from the reported data, and the reclassification of a large portion of bank-related paper from dealer-placed to directly placed.

2. Correction of a previous misclassification of paper by a reporter has created a break in the series beginning December 1983. The correction adds some paper to nonfinancial and to dealer-placed financial paper.

3. Institutions engaged primarily in activities such as, but not limited to, commercial, savings, and mortgage banking; sales, personal, and mortgage financing; factoring, finance leasing, and other business lending; insurance underwriting; and other investment activities.

4. Includes all financial company paper sold by dealers in the open market.

5. As reported by financial companies that place their paper directly with investors.

6. Includes public utilities and firms engaged primarily in such activities as communications, construction, manufacturing, mining, wholesale and retail trade, transportation, and services.

7. Beginning October 1984, the number of respondents in the bankers acceptance survey were reduced from 340 to 160 institutions—those with \$50 million or more in total acceptances. The new reporting group accounts for over 95 percent of total acceptances activity.

## 1.33 PRIME RATE CHARGED BY BANKS on Short-Term Business Loans

Percent per annum

Effective date	Rate	Effective Date	Rate	Month	Average rate	Month	Average rate
1984—Mar. 19 .....	11.50	1985—Jan. 15 .....	10.50	1984—Jan. ....	11.00	1985—Aug. ....	9.50
Apr. 5 .....	12.00	May 20 .....	10.00	Feb. ....	11.00	Sept. ....	9.50
May 8 .....	12.50	June 18 .....	9.50	Mar. ....	11.21	Oct. ....	9.50
June 25 .....	13.00			Apr. ....	11.93	Nov. ....	9.50
Sept. 27 .....	12.75	1986—Mar. 7 .....	9.00	May. ....	12.39	Dec. ....	9.50
Oct. 17 .....	12.50	Apr. 21 .....	8.50	June ....	12.60		
29 .....	12.00	July 11 .....	8.00	July ....	13.00	1986—Jan. ....	9.50
Nov. 9 .....	11.75	Aug. 26 .....	7.50	Aug. ....	13.00	Feb. ....	9.50
28 .....	11.25			Sept. ....	12.97	Mar. ....	9.10
Dec. 20 .....	10.75			Oct. ....	12.58	Apr. ....	8.83
				Nov. ....	11.77	May. ....	8.50
				Dec. ....	11.06	June ....	8.50
						July ....	8.16
				1985—Jan. ....	10.61	Aug. ....	7.90
				Feb. ....	10.50	Sept. ....	7.50
				Mar. ....	10.50	Oct. ....	7.50
				Apr. ....	10.50	Nov. ....	7.50
				May. ....	10.31	Dec. ....	7.50
				June ....	9.78		
				July ....	9.50	1987—Jan. ....	7.50

NOTE: These data also appear in the Board's H.15 (519) release. For address, see inside front cover.

## 1.35 INTEREST RATES Money and Capital Markets

Averages, percent per annum; weekly and monthly figures are averages of business day data unless otherwise noted.

Instrument	1984	1985	1986	1986			1987	1987, week ending				
				Oct.	Nov.	Dec.	Jan.	Jan. 2	Jan. 9	Jan. 16	Jan. 23	Jan. 30
MONEY MARKET RATES												
1 Federal funds <sup>1,2</sup>	10.22	8.10	6.80	5.85	6.04	6.91	6.43	9.20	7.62	6.01	6.01	6.13
2 Discount window borrowing <sup>1,2,3</sup>	8.80	7.69	6.33	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Commercial paper <sup>4,5</sup>												
3 1-month	10.05	7.94	6.62	5.74	5.84	6.63	5.95	7.31	6.01	5.90	5.87	5.94
4 3-month	10.10	7.95	6.49	5.68	5.76	6.10	5.84	6.32	5.87	5.80	5.79	5.87
5 6-month	10.16	8.01	6.39	5.61	5.69	5.88	5.76	6.00	5.77	5.73	5.71	5.78
Finance paper, directly placed <sup>4,5</sup>												
6 1-month	9.97	7.91	6.58	5.74	5.79	6.32	5.86	6.89	5.83	5.79	5.75	5.86
7 3-month	9.73	7.77	6.38	5.56	5.67	5.81	5.59	6.05	5.57	5.57	5.44	5.61
8 6-month	9.65	7.75	6.31	5.50	5.58	5.74	5.60	6.03	5.76	5.54	5.41	5.55
Bankers acceptances <sup>5,6</sup>												
9 3-month	10.14	7.92	6.39	5.58	5.67	5.96	5.74	6.08	5.72	5.71	5.69	5.81
10 6-month	10.19	7.96	6.29	5.52	5.59	5.78	5.65	5.86	5.64	5.63	5.60	5.71
Certificates of deposit, secondary market <sup>7</sup>												
11 1-month	10.17	7.97	6.61	5.71	5.80	6.66	5.94	7.32	6.00	5.91	5.85	5.92
12 3-month	10.37	8.05	6.52	5.69	5.76	6.04	5.87	6.22	5.90	5.85	5.82	5.88
13 6-month	10.68	8.25	6.51	5.70	5.76	5.95	5.85	6.06	5.86	5.84	5.80	5.87
14 Eurodollar deposits, 3-month <sup>8</sup>	10.73	8.28	6.71	5.88	5.96	6.23	6.10	6.16	6.06	6.08	6.10	6.14
U.S. Treasury bills <sup>5</sup>												
Secondary market <sup>9</sup>												
15 3-month	9.52	7.48	5.98	5.18	5.35	5.53	5.43	5.65	5.46	5.35	5.35	5.51
16 6-month	9.76	7.65	6.03	5.26	5.41	5.55	5.44	5.64	5.49	5.41	5.33	5.47
17 1-year	9.92	7.81	6.08	5.41	5.48	5.55	5.46	5.64	5.49	5.45	5.38	5.50
Auction average <sup>10</sup>												
18 3-month	9.57	7.47	5.96	5.18	5.35	5.49	5.45	5.53	5.38	5.23	5.44	5.58
19 6-month	9.80	7.64	6.03	5.26	5.42	5.53	5.47	5.55	5.43	5.27	5.43	5.59
20 1-year	9.91	7.76	6.07	5.44	5.45	5.60	5.44	n.a.	n.a.	n.a.	5.44	n.a.
CAPITAL MARKET RATES												
U.S. Treasury notes and bonds <sup>11</sup>												
Constant maturities <sup>12</sup>												
21 1-year	10.89	8.43	6.46	5.72	5.80	5.87	5.78	5.97	5.80	5.76	5.69	5.82
22 2-year	11.65	9.27	6.87	6.28	6.28	6.27	6.23	6.36	6.22	6.22	6.18	6.26
23 3-year	11.89	9.64	7.06	6.56	6.46	6.43	6.41	6.54	6.38	6.39	6.37	6.46
24 5-year	12.24	10.13	7.31	6.83	6.76	6.67	6.64	6.79	6.63	6.63	6.58	6.66
25 7-year	12.40	10.51	7.55	7.24	7.08	6.97	6.92	7.07	6.91	6.92	6.86	6.96
26 10-year	12.44	10.62	7.68	7.43	7.25	7.11	7.08	7.20	7.05	7.07	7.03	7.15
27 20-year	12.48	10.97	7.85	7.61	7.42	7.28	n.a.	7.36	n.a.	n.a.	n.a.	n.a.
28 30-year	12.39	10.79	7.80	7.70	7.52	7.37	7.39	7.45	7.33	7.37	7.33	7.47
Composite <sup>13</sup>												
29 Over 10 years (long-term)	11.99	10.75	8.14	8.04	7.81	7.67	7.60	7.74	7.57	7.58	7.54	7.67
State and local notes and bonds												
Moody's series <sup>14</sup>												
30 Aaa	9.61	8.60	6.95	6.44	6.19	6.29	6.12	6.25	6.15	6.10	6.05	6.05
31 Baa	10.38	9.58	7.76	7.23	7.13	7.25	6.93	7.20	6.35	7.05	7.00	7.05
32 Bond Buyer series <sup>15</sup>	10.10	9.11	7.32	7.08	6.85	6.86	6.61	6.85	6.70	6.65	6.54	6.56
Corporate bonds												
Seasoned issues <sup>16</sup>												
33 All industries	13.49	12.05	9.71	9.54	9.37	9.23	9.04	9.22	9.12	9.03	8.98	9.01
34 Aaa	12.71	11.37	9.02	8.86	8.68	8.49	8.36	8.49	8.40	8.33	8.31	8.37
35 Aa	13.31	11.82	9.47	9.33	9.20	9.02	8.86	9.01	8.93	8.83	8.81	8.83
36 A	13.74	12.28	9.95	9.72	9.51	9.41	9.23	9.41	9.32	9.26	9.15	9.16
37 Baa	14.19	12.72	10.39	10.24	10.07	9.97	9.72	9.97	9.82	9.70	9.65	9.68
38 A-rated, recently-offered utility bonds <sup>17</sup>	13.81	12.06	9.61	9.48	9.31	9.08	8.92	9.14	8.92	8.88	8.84	8.81
MEMO: Dividend/price ratio <sup>18</sup>												
39 Preferred stocks	11.59	10.49	8.76	8.17	8.07	8.18	7.91	8.21	7.99	7.91	7.86	7.89
40 Common stocks	4.64	4.25	3.48	3.49	3.40	3.38	3.17	3.47	3.28	3.20	3.14	3.07

1. Weekly and monthly figures are averages of all calendar days, where the rate for a weekend or holiday is taken to be the rate prevailing on the preceding business day. The daily rate is the average of the rates on a given day weighted by the volume of transactions at these rates.

2. Weekly figures are averages for statement week ending Wednesday.

3. Rate for the Federal Reserve Bank of New York.

4. Unweighted average of offering rates quoted by at least five dealers (in the case of commercial paper), or finance companies (in the case of finance paper). Before November 1979, maturities for data shown are 30-59 days, 90-119 days, and 120-179 days for commercial paper; and 30-59 days, 90-119 days, and 150-179 days for finance paper.

5. Yields are quoted on a bank-discount basis, rather than an investment yield basis (which would give a higher figure).

6. Dealer closing offered rates for top-rated banks. Most representative rate (which may be, but need not be, the average of the rates quoted by the dealers).

7. Unweighted average of offered rates quoted by at least five dealers early in the day.

8. Calendar week average. For indication purposes only.

9. Unweighted average of closing bid rates quoted by at least five dealers.

10. Rates are recorded in the week in which bills are issued. Beginning with the Treasury bill auction held on Apr. 18, 1983, bidders were required to state the percentage yield (on a bank discount basis) that they would accept to two decimal

places. Thus, average issuing rates in bill auctions will be reported using two rather than three decimal places.

11. Yields are based on closing bid prices quoted by at least five dealers.

12. Yields adjusted to constant maturities by the U.S. Treasury. That is, yields are read from a yield curve at fixed maturities. Based on only recently issued, actively traded securities.

13. Averages (to maturity or call) for all outstanding bonds neither due nor callable in less than 10 years, including one very low yielding "flower" bond.

14. General obligations based on Thursday figures; Moody's Investors Service.

15. General obligations only, with 20 years to maturity, issued by 20 state and local governmental units of mixed quality. Based on figures for Thursday.

16. Daily figures from Moody's Investors Service. Based on yields to maturity on selected long-term bonds.

17. Compilation of the Federal Reserve. This series is an estimate of the yield on recently-offered, A-rated utility bonds with a 30-year maturity and 5 years of call protection. Weekly data are based on Friday quotations.

18. Standard and Poor's corporate series. Preferred stock ratio based on a sample of ten issues: four public utilities, four industrials, one financial, and one transportation. Common stock ratios on the 500 stocks in the price index.

NOTE: These data also appear in the Board's H.15 (519) and G.13 (415) releases. For address, see inside front cover.

## 1.36 STOCK MARKET Selected Statistics

Indicator	1984	1985	1986	1986								1987	
				May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.		Jan.
Prices and trading (averages of daily figures)													
<i>Common stock prices</i>													
1 New York Stock Exchange (Dec. 31, 1965 = 50).....	92.46	108.09	136.00	137.37	140.82	138.32	140.91	137.06	136.74	140.84	142.12	151.17	
2 Industrial .....	108.01	123.79	155.85	158.59	163.15	158.06	160.10	156.52	156.56	162.10	163.85	175.60	
3 Transportation .....	85.63	104.11	119.85	122.21	120.65	112.03	111.24	114.06	120.04	122.27	121.26	126.61	
4 Utility .....	46.44	56.75	71.35	68.65	70.69	74.20	77.84	74.56	73.38	75.77	76.07	78.54	
5 Finance .....	89.28	114.21	147.18	151.28	151.73	150.23	152.90	145.56	143.89	142.97	144.29	153.32	
6 Standard & Poor's Corporation (1941-43 = 10) <sup>1</sup> ...	160.50	186.84	236.34	238.46	245.30	240.18	245.00	238.27	237.36	245.09	248.61	264.51	
7 American Stock Exchange <sup>2</sup> (Aug. 31, 1973 = 50).....	207.96	229.10	264.38	274.22	281.18	269.93	268.55	264.30	257.82	265.14	264.65	289.02	
<i>Volume of trading (thousands of shares)</i>													
8 New York Stock Exchange.....	91,084	109,191	141,306	127,624	126,151	137,709	128,661	150,831	131,155	154,770	148,228	192,419	
9 American Stock Exchange .....	6,107	8,355	11,846	11,870	12,795	10,320	9,885	10,853	8,930	10,513	12,272	14,755	
Customer financing (end-of-period balances, in millions of dollars)													
10 Margin credit at broker-dealers <sup>3</sup> .....	22,470	28,390	36,840	32,370	32,480	33,170	34,550	34,580	36,310	37,090	36,840	34,960	
<i>Free credit balances at brokers<sup>4</sup></i>													
11 Margin-account <sup>5</sup> .....	1,755	2,715	4,880	2,405	2,585	2,570	3,035	3,395	3,805	3,765	4,880	5,060	
12 Cash-account .....	10,215	12,840	19,000	12,970	13,570	14,600	14,210	14,060	14,445	15,045	19,000	17,395	
Margin-account debt at brokers (percentage distribution, end of period) <sup>6</sup>													
13 Total .....	100.0	100.0	↑	100.0	100.0	↑	↑	↑	↑	↑	↑	↑	
<i>By equity class (in percent)<sup>7</sup></i>													
14 Under 40 .....	18.0	34.0	↑	30.0	31.0	↑	↑	↑	↑	↑	↑	↑	
15 40-49 .....	18.0	20.0	n.a.	19.0	20.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
16 50-59 .....	16.0	19.0	↑	22.0	20.0	↑	↑	↑	↑	↑	↑	↑	
17 60-69 .....	9.0	11.0	↑	12.0	13.0	↑	↑	↑	↑	↑	↑	↑	
18 70-79 .....	5.0	8.0	↑	8.0	8.0	↑	↑	↑	↑	↑	↑	↑	
19 80 or more .....	6.0	8.0	↑	9.0	8.0	↑	↑	↑	↑	↑	↑	↑	
Special miscellaneous-account balances at brokers (end of period) <sup>6</sup>													
20 Total balances (millions of dollars) <sup>8</sup> .....	75,840	99,310	↑	109,620	112,401	↑	↑	↑	↑	↑	↑	↑	
<i>Distribution by equity status (percent)</i>													
21 Net credit status .....	59.0	58.0	n.a.	58.0	59.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Debt status, equity of													
22 60 percent or more .....	29.0	31.0	↓	33.0	32.0	↓	↓	↓	↓	↓	↓	↓	
23 Less than 60 percent .....	11.0	11.0	↓	9.0	9.0	↓	↓	↓	↓	↓	↓	↓	
Margin requirements (percent of market value and effective date) <sup>9</sup>													
	Mar. 11, 1968	June 8, 1968		May 6, 1970		Dec. 6, 1971		Nov. 24, 1972		Jan. 3, 1974			
24 Margin stocks .....	70	80		65		55		65		50			
25 Convertible bonds.....	50	60		50		50		50		50			
26 Short sales .....	70	80		65		55		65		50			

1. Effective July 1976, includes a new financial group, banks and insurance companies. With this change the index includes 400 industrial stocks (formerly 425), 20 transportation (formerly 15 rail), 40 public utility (formerly 60), and 40 financial.

2. Beginning July 5, 1983, the American Stock Exchange rebased its index effectively cutting previous readings in half.

3. Beginning July 1983, under the revised Regulation T, margin credit at broker-dealers includes credit extended against stocks, convertible bonds, stocks acquired through exercise of subscription rights, corporate bonds, and government securities. Separate reporting of data for margin stocks, convertible bonds, and subscription issues was discontinued in April 1984, and margin credit at broker-dealers became the total that is distributed by equity class and shown on lines 17-22.

4. Free credit balances are in accounts with no unfulfilled commitments to the brokers and are subject to withdrawal by customers on demand.

5. New series beginning June 1984.

6. In July 1986, the New York Stock Exchange stopped reporting certain data items that were previously obtained in a monthly survey of a sample of brokers

and dealers. Data items that are no longer reported include distributions of margin debt by equity status of the account and special miscellaneous-account balances.

7. Each customer's equity in his collateral (market value of collateral less net debit balance) is expressed as a percentage of current collateral values.

8. Balances that may be used by customers as the margin deposit required for additional purchases. Balances may arise as transfers based on loan values of other collateral in the customer's margin account or deposits of cash (usually sales proceeds) occur.

9. Regulations G, T, and U of the Federal Reserve Board of Governors, prescribed in accordance with the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry margin stocks that may be extended on securities as collateral by prescribing a maximum loan value, which is a specified percentage of the market value of the collateral at the time the credit is extended. Margin requirements are the difference between the market value (100 percent) and the maximum loan value. The term "margin stocks" is defined in the corresponding regulation.

## 1.37 SELECTED FINANCIAL INSTITUTIONS Selected Assets and Liabilities

Millions of dollars, end of period

Account	1983	1984	1986										
			Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Savings and loan associations													
1 Assets.....	773,417	903,488	943,029	947,302	954,869	963,274	954,226 <sup>r</sup>	957,952 <sup>r</sup>	965,035 <sup>r</sup>	957,303 <sup>r</sup>	961,939 <sup>r</sup>	964,198 <sup>r</sup>	963,163
2 Mortgages.....	494,789	555,277	576,608	574,732	575,177	574,992	565,037 <sup>r</sup>	565,353 <sup>r</sup>	566,438 <sup>r</sup>	557,137 <sup>r</sup>	557,303 <sup>r</sup>	556,780 <sup>r</sup>	553,552
3 Mortgage-backed securities.....			98,482	99,332	103,415	108,324	113,158 <sup>r</sup>	113,099 <sup>r</sup>	113,619	117,675 <sup>r</sup>	121,238 <sup>r</sup>	122,420 <sup>r</sup>	122,847
4 Cash and investment securities <sup>1</sup> .....	104,274	124,801	127,028	131,464	132,351 <sup>r</sup>	134,881	130,877	132,791 <sup>r</sup>	138,864 <sup>r</sup>	138,552 <sup>r</sup>	138,532 <sup>r</sup>	141,504 <sup>r</sup>	142,841
5 Other.....	174,354	223,396	239,394	241,104	247,339	253,400 <sup>r</sup>	258,310 <sup>r</sup>	259,806 <sup>r</sup>	259,731 <sup>r</sup>	261,613 <sup>r</sup>	266,101 <sup>r</sup>	265,914 <sup>r</sup>	266,769
6 Liabilities and net worth.....	773,417	903,488	943,029	947,302	954,869	963,274	954,226 <sup>r</sup>	957,952 <sup>r</sup>	965,035 <sup>r</sup>	957,303 <sup>r</sup>	961,939 <sup>r</sup>	964,198 <sup>r</sup>	963,163
7 Savings capital.....	634,455	725,045	747,016	752,056	750,299	751,138	744,026	747,020	749,020	743,517 <sup>r</sup>	742,682 <sup>r</sup>	740,095 <sup>r</sup>	740,920
8 Borrowed money.....	92,127	125,666	131,671	133,407	140,427	145,032	148,054 <sup>r</sup>	146,578 <sup>r</sup>	148,535	155,735 <sup>r</sup>	152,626 <sup>r</sup>	156,896 <sup>r</sup>	156,814
9 FHLBB.....	52,626	64,207	71,214	70,464	73,815	73,520	73,553	75,058	75,594	80,364	75,295	75,626 <sup>r</sup>	80,129
10 Other.....	39,501	61,459	60,457	62,943	66,612	71,512	74,501 <sup>r</sup>	71,520 <sup>r</sup>	72,941	75,371 <sup>r</sup>	77,331 <sup>r</sup>	81,270 <sup>r</sup>	76,685
11 Other.....	15,968	17,944	23,125	20,078	21,978	24,722	20,792	22,782 <sup>r</sup>	24,703 <sup>r</sup>	15,463 <sup>r</sup>	23,264 <sup>r</sup>	24,097 <sup>r</sup>	20,557
12 Net worth <sup>2</sup> .....	30,867	34,833	41,217	41,760	42,163	42,382	41,353 <sup>r</sup>	41,571 <sup>r</sup>	42,776 <sup>r</sup>	42,588 <sup>r</sup>	43,365 <sup>r</sup>	43,110 <sup>r</sup>	42,871
MEMO													
13 Mortgage loan commitments outstanding <sup>3</sup> .....	54,113	61,305	52,542	54,366	55,818	57,997	57,200	55,687	53,180	51,163 <sup>r</sup>	49,887 <sup>r</sup>	48,222 <sup>r</sup>	41,650
FSLIC-insured federal savings banks													
14 Assets.....	64,969	98,559	146,508	152,823	155,686	164,129	180,124	183,317 <sup>r</sup>	186,810 <sup>r</sup>	196,228 <sup>r</sup>	202,106 <sup>r</sup>	204,927 <sup>r</sup>	211,368
15 Mortgages.....	38,698	57,429	81,641	85,028	86,598	89,108	99,758	101,759	103,020	108,217 <sup>r</sup>	110,830 <sup>r</sup>	112,138 <sup>r</sup>	113,403
16 Mortgage-backed securities.....	7,172	9,949	16,367	17,851	18,661	19,829	21,598	23,247	24,097	26,440 <sup>r</sup>	27,516 <sup>r</sup>	28,326 <sup>r</sup>	29,825
17 Other.....	6,595	10,971	13,759	13,923	14,590	15,083	16,774	17,025	17,056	18,492	18,693 <sup>r</sup>	19,265 <sup>r</sup>	19,784
18 Liabilities and net worth.....	64,969	98,559	146,508	152,823	155,686	164,129	180,124	183,317 <sup>r</sup>	186,810 <sup>r</sup>	196,228 <sup>r</sup>	202,106 <sup>r</sup>	204,927 <sup>r</sup>	211,368
19 Savings capital.....	53,227	79,572	114,743	119,434	121,133	126,123	138,168	140,610	142,858	149,074 <sup>r</sup>	152,834	154,447 <sup>r</sup>	157,600
20 Borrowed money.....	7,477	12,798	21,254	22,747	23,196	25,686	28,502	28,722	29,390	32,319	33,430	33,937 <sup>r</sup>	37,079
21 FHLBB.....	4,640	7,515	11,283	12,064	12,476	12,830	15,301	15,866	16,123	16,853	17,382	17,863 <sup>r</sup>	19,897
22 Other.....	2,837	5,283	9,971	10,683	10,720	12,856	13,201	12,856	13,267	15,466	16,048	16,074 <sup>r</sup>	17,182
23 Other.....	1,157	1,903	3,397	3,291	3,758	4,338	4,279	4,564 <sup>r</sup>	4,914 <sup>r</sup>	4,671 <sup>r</sup>	5,324 <sup>r</sup>	5,652 <sup>r</sup>	5,749
24 Net worth.....	3,108	4,286	7,114	7,349	7,599	7,982	9,175	9,422 <sup>r</sup>	9,647	10,163 <sup>r</sup>	10,522	10,891 <sup>r</sup>	10,939
MEMO													
25 Mortgage loan commitments outstanding <sup>3</sup> .....	2,151	3,234	7,718	8,330	8,287	8,762	9,410	10,134	9,770	10,221 <sup>r</sup>	9,356 <sup>r</sup>	9,957 <sup>r</sup>	8,687
Savings banks													
26 Assets.....	193,535	203,898	218,119	221,256	222,542	226,495	223,367	224,569	227,011	228,854	230,919	232,577	n.a.
Loans													
27 Mortgage.....	97,356	102,895	109,702	110,271	111,813	112,417	110,958	111,971	113,265	114,188	116,648	117,612	
28 Other.....	19,129	24,954	32,501	34,873	34,591	35,500	36,692	36,421	37,350	37,298	36,130	36,149	
Securities													
29 U.S. government.....	15,360	14,643	12,474	12,313	12,013	13,210	12,115	12,297	12,043	12,357	12,585	13,037	
30 Mortgage-backed securities.....	18,205	19,215	21,525	21,593	21,885	22,546	22,413	22,954	21,161	23,216	23,437	24,051	
31 State and local government.....	2,177	2,077	2,297	2,306	2,372	2,343	2,281	2,309	2,400	2,407	2,347	2,290	
32 Corporate and other.....	25,375	23,747	20,707	20,403	20,439	20,260	2,036	20,862	20,602	20,902	21,156	20,749	
33 Cash.....	6,263	4,954	5,646	5,845	5,570	6,225	5,301	4,651	5,018	4,811	5,195	5,052	
34 Other assets.....	9,670	11,413	13,267	13,652	13,859	13,994	13,244	13,104	13,172	13,675	13,421	13,637	
35 Liabilities.....	193,535	203,898	218,119	221,256	222,542	226,495	223,367	224,569	227,011	228,854	230,919	232,577	
36 Deposits.....	172,665	180,616	186,777	188,960	189,025	190,310	189,109	188,615	189,937	190,210	190,334	190,858	
37 Regular <sup>4</sup> .....	170,135	177,418	182,890	184,704	184,580	185,716	183,970	183,433	184,764	185,002	185,254	185,958	
38 Ordinary savings.....	38,554	33,739	32,693	33,021	33,057	33,577	34,008	34,166	34,530	35,227	36,165	36,739	
39 Time.....	95,129	104,732	104,588	105,562	105,550	105,146	103,083	102,374	102,668	102,191	101,125	102,240	
40 Other.....	2,530	3,198	3,887	4,256	4,445	4,594	5,139	5,182	5,173	5,208	5,080	4,900	
41 Other liabilities.....	10,154	12,504	17,793	18,412	19,074	21,384	19,226	20,641	21,360	21,947	23,319	24,254	
42 General reserve accounts.....	10,368	10,510	13,211	13,548	14,114	14,519	14,731	15,084	15,427	16,319	16,896	17,146	

## 1.37—Continued

Account	1983	1984	1986											
			Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
	Credit unions <sup>5</sup>													
43 Total assets/liabilities and capital	81,961	93,036	122,623	126,653	128,229	132,415	134,703	137,901	139,233	140,496	143,662	145,653	↑  n.a.  ↓	
44 Federal	54,482	63,205	80,024	82,275	83,543	86,289	87,579	89,539	90,367	91,981	93,257	94,638		
45 State	27,479	29,831	42,599	44,378	44,686	46,126	47,124	48,362	48,866	48,515	50,405	51,015		
46 Loans outstanding	50,083	62,561	74,207	75,300	76,385	76,774	77,847	79,647	80,656	81,820	83,388	84,635		
47 Federal	32,930	42,337	48,059	48,633	49,756	49,950	50,613	51,331	52,007	53,042	53,434	53,877		
48 State	17,153	20,224	26,148	26,667	26,629	26,824	27,234	28,316	28,649	28,778	29,954	30,758		
49 Savings	74,739	84,348	110,541	114,579	116,703	120,331	122,952	125,331	126,268	128,125	130,483	131,778		
50 Federal	49,889	57,539	73,227	75,698	77,112	79,479	80,975	82,596	83,132	84,607	86,158	87,009		
51 State	24,850	26,809	37,314	38,881	39,591	40,852	41,977	42,735	43,136	43,518	44,325	44,769		
	Life insurance companies													
52 Assets	654,948	722,979	839,856	848,535	855,605	863,610	872,359	877,919	887,255	892,304	910,691	↑	↑	
Securities														
53 Government	50,752	63,899	76,761	77,965	78,494	79,051	78,284	78,722	79,188	81,636	84,858			
54 United States <sup>6</sup>	28,636	42,204	53,264	54,289	54,705	55,120	54,197	54,321	54,487	56,698	59,802			
55 State and local	9,986	8,713	9,588	9,674	9,869	9,930	10,114	10,350	10,472	10,606	10,712			
56 Foreign <sup>7</sup>	12,130	12,982	13,909	14,002	13,920	14,001	13,973	14,051	14,229	14,332	14,344			
57 Business	322,854	359,333	435,758	440,963	445,573	450,279	455,119	455,013	463,135	462,540	473,860	n.a.	n.a.	
58 Bonds	257,986	295,998	354,911	357,196	361,306	364,122	367,966	369,704	374,670	378,267	386,293			
59 Stocks	64,868	63,335	80,847	83,767	84,267	86,157	87,153	85,309	88,465	84,273	87,567			
60 Mortgages	150,999	156,699	172,997	174,823	175,951	177,554	180,041	182,542	183,943	185,268	189,460			
61 Real estate	22,234	25,767	29,356	29,804	30,059	30,025	30,350	31,151	31,844	31,725	32,184			
62 Policy loans	54,063	54,505	54,267	54,273	54,272	54,351	57,342	54,249	54,247	54,273	54,152			
63 Other assets	54,046	63,776	57,351	57,753	57,492	57,802	58,290	58,792	57,905	58,086	58,006	↓	↓	

1. Holdings of stock of the Federal Home Loan Banks are in "other assets."

2. Includes net undistributed income accrued by most associations.

3. As of July 1985, data include loans in process.

4. Excludes checking, club, and school accounts.

5. Data include all federally insured credit unions, both federal and state chartered, serving natural persons.

6. Direct and guaranteed obligations. Excludes federal agency issues not guaranteed, which are shown in the table under "Business" securities.

7. Issues of foreign governments and their subdivisions and bonds of the International Bank for Reconstruction and Development.

NOTE. *Savings and loan associations*: Estimates by the FHLBB for all associations in the United States based on annual benchmarks for non-FSLIC-insured associations and the experience of FSLIC-insured associations.*FSLIC-insured federal savings banks*: Estimates by the FHLBB for federal savings banks insured by the FSLIC and based on monthly reports of federally insured institutions.*Savings banks*: Estimates by the National Council of Savings Institutions for all savings banks in the United States and for FDIC-insured savings banks that have converted to federal savings banks.*Credit unions*: Estimates by the National Credit Union Administration for federally chartered and federally insured state-chartered credit unions serving natural persons.*Life insurance companies*: Estimates of the American Council of Life Insurance for all life insurance companies in the United States. Annual figures are annual-statement asset values, with bonds carried on an amortized basis and stocks at year-end market value. Adjustments for interest due and accrued and for differences between market and book values are not made on each item separately but are included, in total, in "other assets."

## 1.38 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

Type of account or operation	Fiscal year 1984	Fiscal year 1985	Fiscal year 1986	Calendar year					
				1986					1987
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
<i>U.S. budget<sup>1</sup></i>									
1 Receipts, total	666,457	734,057	769,091	56,523	78,013	59,012	52,967	78,035	81,771
2 On-budget	n.a.	547,886	568,862	41,404	59,978	43,865	38,158	60,694	62,981
3 Off-budget	n.a.	186,170	200,228	15,119	18,035	15,147	14,809	17,341	18,790
4 Outlays, total	851,796	945,987	989,789	84,434	81,750	84,267	79,973	90,112	83,942
5 On-budget	n.a.	769,180	806,291	68,112	65,614	68,780	63,639	75,623	68,176
6 Off-budget	n.a.	176,807	183,498	16,322	16,136	15,486	16,334	14,489	15,766
7 Surplus, or deficit (-), total	-185,339	-211,931	-220,698	-27,911	-3,737	-25,255	-27,006	-12,077	-2,170
8 On-budget	n.a.	-221,294	-237,428	-26,708	-5,636	-24,915	-25,481	-14,930	-5,195
9 Off-budget	n.a.	9,363	16,371	-1,203	1,898	-340	-1,524	2,853	3,024
Source of financing (total)									
10 Borrowing from the public	170,817	197,269	235,745	20,278	22,188	5,936	40,352	22,824	4,353
11 Cash and monetary assets (decrease, or increase (-)) <sup>2</sup>	5,636	10,673	-18,044	10,298	-21,313	18,131	-2,721	-14,751	-9,564
12 Other <sup>3</sup>	8,885	3,989	2,997	-2,665	2,862	1,188	-10,625	4,004	7,381
MEMO									
13 Treasury operating balance (level, end of period)	22,345	17,060	31,384	10,428	31,384	13,616	17,007	30,945	41,307
14 Federal Reserve Banks	3,791	4,174	7,514	1,106	7,514	2,491	2,529	7,588	15,746
15 Tax and loan accounts	18,553	12,886	23,870	9,322	23,870	11,126	14,478	23,357	25,561

1. In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, all former off-budget entries are now presented on-budget. The Federal Financing Bank (FFB) activities are now shown as separate accounts under the agencies that use the FFB to finance their programs. The act has also moved two social security trust funds (Federal old-age survivors insurance and Federal disability insurance trust funds) off-budget.

2. Includes U.S. Treasury operating cash accounts; SDRs; reserve position on the U.S. quota in the IMF; loans to International Monetary Fund; and other cash and monetary assets.

3. Includes accrued interest payable to the public; allocations of special drawing rights; deposit funds; miscellaneous liability (including checks outstanding) and asset accounts; seigniorage; increment on gold; net gain/loss for U.S. currency valuation adjustment; net gain/loss for IMF valuation adjustment; and profit on the sale of gold.

SOURCE: "Monthly Treasury Statement of Receipts and Outlays of the U.S. Government," and the "Daily Treasury Statement."

## 1.39 U.S. BUDGET RECEIPTS AND OUTLAYS

Millions of dollars

Source or type	Fiscal year 1985	Fiscal year 1986	Calendar year						
			1985		1986		1986		1987
			H1	H2	H1	H2	Nov.	Dec.	Jan.
RECEIPTS									
1 All sources	734,057	769,091	380,618	364,790	394,345	387,524	52,967	78,035	81,771
2 Individual income taxes, net	334,531 <sup>1</sup>	348,959	166,783	169,987	169,444	183,156	24,122	33,584	46,466
3 Withheld	298,941	314,838 <sup>2</sup>	149,288	155,725	153,919	164,071	24,242	30,733	26,375
4 Presidential Election Campaign Fund	35	36	29	6	31	4	0	0	0
5 Nonwithheld	101,328	105,994	76,155	22,295	78,981	27,733	1,143	3,585	20,254
6 Refunds	65,743	71,873	58,684	8,038	63,488	8,652	1,263	734	163
Corporation income taxes									
7 Gross receipts	77,413	80,442	42,193	36,528	41,946	42,108	2,716	16,531	4,332
8 Refunds	16,082	17,298	8,370	7,751	9,557	8,230	968	839	872
9 Social insurance taxes and contributions, net	265,163	283,901	144,598	128,017	156,714	134,006	21,751	22,267	25,664
10 Employment taxes and contributions <sup>1</sup>	234,646	255,062	126,038	116,276	139,706	122,246	19,015	21,625	24,266
11 Self-employment taxes and contributions <sup>2</sup>	10,468	11,840	9,482	985	10,581	1,338	223	0	795
12 Unemployment insurance	25,758	24,098	16,213	9,281	14,674	9,328	2,377	196	1,024
13 Other net receipts <sup>3</sup>	4,759	4,742 <sup>2</sup>	2,350	2,458	2,333	2,429	360	446	375
14 Excise taxes	35,992	32,919	17,259	18,470	15,944	15,947	2,488	3,003	2,840
15 Customs deposits	12,079	13,323	5,807	6,354	6,369	7,282	1,090	1,098	1,135
16 Estate and gift taxes	6,422	6,958	3,204	3,323	3,487	3,649	488	695	652
17 Miscellaneous receipts <sup>4</sup>	18,539 <sup>2</sup>	19,887	9,144	9,861	10,002	9,605	1,279	1,696	1,554
OUTLAYS									
18 All types	946,223	989,789	463,842	487,188	486,037	505,739	79,973	90,112	83,942
19 National defense	252,748	273,369	124,186	134,675	135,367	138,544	20,907	24,401	22,057
20 International affairs	16,176	14,471	6,675	8,367	5,384	8,876 <sup>5</sup>	1,986	1,140 <sup>6</sup>	358
21 General science, space, and technology	8,627	9,017	4,230	4,727	12,519	4,594	708	843	562
22 Energy	5,685	4,792	680	3,305	2,484	2,735	553	485	390
23 Natural resources and environment	13,357	13,508	5,892	7,553	6,245	7,141	973	1,253	1,003
24 Agriculture	25,565	31,169	11,705	15,412	14,482	16,160	3,162	3,751	4,063
25 Commerce and housing credit	4,229	4,258	-260	644	860	3,647	182	-314	717
26 Transportation	25,838	28,058	11,440	15,360	12,658	14,745	2,399	2,409	1,870
27 Community and regional development	7,680	7,510	3,408	3,901	3,169	3,494	478	548	477
28 Education, training, employment, social services	29,342	29,662	14,149	14,481	14,712	15,268	2,504	2,896	2,358
29 Health	33,542	35,936	16,945	17,237	17,872	19,814	3,153	3,032	3,148
30 Social security and medicare	254,446	190,850	128,351	129,037	135,214	138,296	22,182	23,378	22,640
31 Income security	128,200	120,686	65,246	59,457	60,786	59,628	9,130	11,625	11,301
32 Veterans benefits and services	26,352	26,614	11,956	14,527	12,193	14,497	797	3,641	2,227
33 Administration of justice	6,277	6,555	3,016	3,212	3,352	3,360	505	684	482
34 General government	5,228	6,796	2,857	3,634	3,566	2,786	371	895	166
35 General-purpose fiscal assistance	6,353	6,430	2,659	3,391	2,179	2,767	-2	226	-21
36 Net interest <sup>5</sup>	129,436	135,284	65,143	67,448	68,054	65,816 <sup>6</sup>	12,441	10,958 <sup>6</sup>	12,583
37 Undistributed offsetting receipts <sup>6</sup>	-32,759	-33,244	-14,436	-17,953	-17,193	-17,426	-2,455	-2,694	-2,440

1. Old-age, disability, and hospital insurance, and railroad retirement accounts.

2. Old-age, disability, and hospital insurance.

3. Federal employee retirement contributions and civil service retirement and disability fund.

4. Deposits of earnings by Federal Reserve Banks and other miscellaneous receipts.

5. Net interest function includes interest received by trust funds.

6. Consists of rents and royalties on the outer continental shelf and U.S. government contributions for employee retirement.

SOURCE: "Monthly Treasury Statement of Receipts and Outlays of the U.S. Government," and the *Budget of the U.S. Government, Fiscal Year 1988*.

## 1.40 FEDERAL DEBT SUBJECT TO STATUTORY LIMITATION

Billions of dollars

Item	1984		1985				1986		
	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30
1 Federal debt outstanding .....	1,576.7	1,667.4	1,715.1	1,779.0	1,827.5	1,950.3	1,991.1	2,063.6	2,129.5
2 Public debt securities .....	1,572.3	1,663.0	1,710.7	1,774.6	1,823.1	1,945.9	1,986.8	2,059.3	2,125.3
3 Held by public .....	1,309.2	1,373.4	1,415.2	1,460.5	1,506.6	1,597.1	1,634.3	1,684.9	1,742.4
4 Held by agencies .....	263.1	289.6	295.5	314.2	316.5	348.9	352.6	374.4	382.9
5 Agency securities .....	4.5	4.5	4.4	4.4	4.4	4.4	4.3	4.3	4.2
6 Held by public .....	3.4	3.4	3.3	3.3	3.3	3.3	3.2	3.2	3.2
7 Held by agencies .....	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
8 Debt subject to statutory limit .....	1,573.0	1,663.7	1,711.4	1,775.3	1,823.8	1,932.4	1,973.3	2,060.0	2,111.0
9 Public debt securities .....	1,571.7	1,662.4	1,710.1	1,774.0	1,822.5	1,931.1	1,972.0	2,058.7	2,109.7
10 Other debt <sup>1</sup> .....	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
11 MEMO: Statutory debt limit .....	1,573.0	1,823.8	1,823.8	1,823.8	1,823.8	2,078.7	2,078.7	2,078.7	2,111.0

1. Includes guaranteed debt of government agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds.

NOTE: Data from *Treasury Bulletin* and *Daily Treasury Statement* (U.S. Treasury Department).

## 1.41 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1982	1983	1984	1985	1985	1986			
					Q4	Q1	Q2	Q3	
1 Total gross public debt .....	1,197.1	1,410.7	1,663.0	1,945.9	1,945.9	1,986.8	2,059.3	2,125.3	
By type									
2 Interest-bearing debt .....	1,195.5	1,400.9	1,660.6	1,943.4	1,943.4	1,984.2	2,056.7	2,122.7	
3 Marketable .....	881.5	1,050.9	1,247.4	1,437.7	1,437.7	1,472.8	1,498.2	1,564.3	
4 Bills .....	311.8	343.8	374.4	399.9	399.9	393.2	396.9	410.7	
5 Notes .....	465.0	573.4	705.1	812.5	812.5	842.5	869.3	896.9	
6 Bonds .....	104.6	133.7	167.9	211.1	211.1	223.0	232.3	241.7	
7 Nonmarketable <sup>1</sup> .....	314.0	350.0	413.2	505.7	505.7	511.4	558.5	558.4	
8 State and local government series .....	25.7	36.7	44.4	87.5	87.5	88.5	98.2	102.4	
9 Foreign issues <sup>2</sup> .....	14.7	10.4	9.1	7.5	7.5	6.7	5.3	4.1	
10 Government .....	13.0	10.4	9.1	7.5	7.5	6.7	5.3	4.1	
11 Public .....	1.7	0	0	0	0	0	0	0	
12 Savings bonds and notes .....	68.0	70.7	73.1	78.1	78.1	79.8	82.3	85.6	
13 Government account series <sup>3</sup> .....	205.4	231.9	286.2	332.2	332.2	336.0	372.3	365.9	
14 Non-interest-bearing debt .....	1.6	9.8	2.3	2.5	2.5	2.6	2.6	.4	
By holder <sup>4</sup>									
15 U.S. government agencies and trust funds .....	209.4	236.3	289.6	348.9	348.9	352.6	374.4	382.9	
16 Federal Reserve Banks .....	139.3	151.9	160.9	181.3	181.3	184.8	183.8	190.8	
17 Private investors .....	848.4	1,022.6	1,212.5	1,417.2	1,417.2	1,473.1	1,502.7	1,553.3	
18 Commercial banks .....	131.4	188.8	183.4	192.2	192.2	195.1	197.2	212.5	
19 Money market funds .....	42.6	22.8	25.9	25.1	25.1	29.9	22.8	24.9	
20 Insurance companies .....	39.1	56.7	76.4	93.2	93.2	95.8	n.a.	n.a.	
21 Other companies .....	24.5	39.7	50.1	59.0	59.0	59.6	59.8	67.0	
22 State and local governments .....	127.8	155.1	179.4	n.a.	n.a.	n.a.	n.a.	n.a.	
Individuals									
23 Savings bonds .....	68.3	71.5	74.5	79.8	79.8	81.4	83.8	87.1	
24 Other securities .....	48.2	61.9	69.3	75.0	75.0	76.2	73.9	69.0	
25 Foreign and international <sup>5</sup> .....	149.5	166.3	192.9	214.6	214.6	225.4	239.8	256.3	
26 Other miscellaneous investors <sup>6</sup> .....	217.0	259.8	360.6	n.a.	n.a.	n.a.	n.a.	n.a.	

1. Includes (not shown separately): Securities issued to the Rural Electrification Administration; depository bonds; retirement plan bonds; and individual retirement bonds.

2. Nonmarketable dollar-denominated and foreign currency-denominated series held by foreigners.

3. Held almost entirely by U.S. government agencies and trust funds.

4. Data for Federal Reserve Banks and U.S. government agencies and trust funds are actual holdings; data for other groups are Treasury estimates.

5. Consists of investments of foreign and international accounts. Excludes non-interest-bearing notes issued to the International Monetary Fund.

6. Includes savings and loan associations, nonprofit institutions, credit unions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain U.S. government deposit accounts, and U.S. government-sponsored agencies.

SOURCES: Data by type of security, U.S. Treasury Department, *Monthly Statement of the Public Debt of the United States*; data by holder, *Treasury Bulletin*.

1.42 U.S. GOVERNMENT SECURITIES DEALERS Transactions<sup>1</sup>

Par value; averages of daily figures, in millions of dollars

Item	1984	1985	1986	1986		1987	1986		1987			
				Nov. <sup>2</sup>	Dec. <sup>2</sup>		Dec. 24 <sup>2</sup>	Dec. 31 <sup>2</sup>	Jan. 7	Jan. 14	Jan. 21	Jan. 28
Immediate delivery <sup>2</sup>												
1 U.S. government securities.....	52,778	75,331	95,422	96,369	88,650	112,337	76,468	64,589	101,187	120,451	117,570	107,280
By maturity												
2 Bills.....	26,035	32,900	34,249	32,166	33,166	45,148	30,688	31,053	44,163	49,549	49,542	38,226
3 Other within 1 year.....	1,305	1,811	2,116	2,119	2,353	3,013	2,734	2,125	3,695	3,141	2,588	2,484
4 1-5 years.....	11,733	18,361	24,664	25,811	22,022	24,697	21,559	13,916	20,922	25,062	27,596	24,063
5 5-10 years.....	7,606	12,703	20,435	20,756	19,383	23,967	12,095	11,959	20,239	25,887	22,851	25,443
6 Over 10 years.....	6,099	9,556	13,959	15,517	11,726	15,512	9,393	5,536	12,168	16,812	14,992	17,065
By type of customer												
7 U.S. government securities dealers.....	2,919	3,336	3,646	3,801	3,269	3,452	2,480	2,196	3,464	2,910	4,490	2,991
8 U.S. government securities brokers.....	25,580	36,222	49,355	50,091	44,050	59,844	36,977	29,754	53,338	65,387	61,034	59,714
9 All others <sup>3</sup> .....	24,278	35,773	42,205	41,960	40,783	48,343	37,010	32,638	44,385	52,153	52,045	44,574
10 Federal agency securities.....	7,846	11,640	16,726	19,909	20,159	21,410	19,164	11,561	15,489	18,820	26,100	26,124
11 Certificates of deposit.....	4,947	4,016	4,352	3,859	3,676	6,103	3,829	2,739	5,399	5,867	5,999	6,934
12 Bankers acceptances.....	3,243	3,242	3,273	2,852	2,529	3,390	2,141	1,791	3,866	3,494	3,366	2,795
13 Commercial paper.....	10,018	12,717	16,645	16,550	16,516	19,339	18,133	14,278	22,515	17,908	20,212	17,173
Futures transactions <sup>4</sup>												
14 Treasury bills.....	6,947	5,561	3,311	2,801	1,909	2,879	940	1,260	2,162	2,785	2,851	3,070
15 Treasury coupons.....	4,503	6,069	7,170	6,374	5,519	7,025	3,434	3,020	6,025	8,018	6,982	7,324
16 Federal agency securities.....	262	240	12	21	0	0	*	1	*	0	0	*
Forward transactions <sup>5</sup>												
17 U.S. government securities.....	1,364	1,283	1,873	2,419	2,066	2,053	3,061	1,313	1,103	2,087	2,857	1,927
18 Federal agency securities.....	2,843	3,857	7,823	10,257	9,933	10,698	9,796	4,299	7,331	11,837	15,903	9,896

1. Transactions are market purchases and sales of securities as reported to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers.

Averages for transactions are based on the number of trading days in the period. The figures exclude allotments of, and exchanges for, new U.S. government securities, redemptions of called or matured securities, purchases or sales of securities under repurchase agreement, reverse repurchase (resale), or similar contracts.

2. Data for immediate transactions do not include forward transactions.

3. Includes, among others, all other dealers and brokers in commodities and

securities, nondealer departments of commercial banks, foreign banking agencies, and the Federal Reserve System.

4. Futures contracts are standardized agreements arranged on an organized exchange in which parties commit to purchase or sell securities for delivery at a future date.

5. Forward transactions are agreements arranged in the over-the-counter market in which securities are purchased (sold) for delivery after 5 business days from the date of the transaction for government securities (Treasury bills, notes, and bonds) or after 30 days for mortgage-backed agency issues.

NOTE: Data for the period May 1 to Sept. 30, 1986, are partially estimated.

1.43 U.S. GOVERNMENT SECURITIES DEALERS Positions and Financing<sup>1</sup>

Averages of daily figures, in millions of dollars

Item	1984	1985	1986	1986		1987	1986	1987				
				Nov.	Dec. <sup>2</sup>	Jan.	Dec. 31 <sup>2</sup>	Jan. 7	Jan. 14	Jan. 21	Jan. 28	
	Positions											
Net immediate <sup>2</sup>												
1 U.S. government securities .....	5,429	7,391	13,049	14,367 <sup>2</sup>	10,219	13,172	8,919	10,384	12,240	17,083	15,400	
2 Bills .....	5,500	10,075	12,726	14,967	10,979	13,396	9,760	10,895	13,205	17,702	13,895	
3 Other within 1 year .....	63	1,050	3,698	2,030	2,969	3,463	3,034	3,346	3,062	3,424	3,803	
4 1-5 years .....	2,159	5,154	9,297	8,419	6,815	9,185	8,291	7,819	7,857	8,388	11,940	
5 5-10 years .....	-1,119	-6,202	-9,504	-8,131	-6,977	-7,175	-7,712	-6,824	-6,543	-7,116	-7,983	
6 Over 10 years .....	-1,174	-2,686	-3,169	-2,916	-3,567	-5,696	-4,453	-4,852	-5,341	-5,315	-6,255	
7 Federal agency securities .....	15,294	22,860	33,075	30,258 <sup>2</sup>	34,694	31,258	34,543	29,543	30,909	33,432	31,730	
8 Certificates of deposit .....	7,369	9,192	10,533	9,954 <sup>2</sup>	10,049	9,439	9,442	9,187	8,610	9,814	9,795	
9 Bankers acceptances .....	3,874	4,586	5,533	5,244	5,072	4,756	4,703	4,508	3,930	4,928	5,370	
10 Commercial paper .....	3,788	5,570	8,087	9,630	9,789	9,973	10,065	8,716	8,726	10,769	10,906	
Futures positions												
11 Treasury bills .....	-4,525	-7,322	18,063	-15,972	-16,170	-15,293	-14,305	-15,233	-15,641	-16,578	-14,340	
12 Treasury coupons .....	1,794	4,465	3,493	4,022	3,359	5,230	4,247	4,144	4,801	4,330	6,393	
13 Federal agency securities .....	233	-722	-153	82	-89	-92	-90	-92	92	-92	-93	
Forward positions												
14 U.S. government securities .....	-1,643	-911	-2,303	-781	-2,101	183	-2,775	-1,315	-1,539	416	2,434	
15 Federal agency securities .....	-9,205	-9,420	-11,920	-14,634 <sup>2</sup>	17,058	-16,649	-14,446	13,678	-18,489	-19,093	-16,036	
	Financing <sup>3</sup>											
Reverse repurchase agreements <sup>4</sup>												
16 Overnight and continuing .....	44,078	68,035	98,954	108,790	109,241	n.a.	101,861	129,183	130,627	128,525	n.a.	
17 Term agreements .....	68,357	80,509	108,693	117,299	123,297	n.a.	130,498	115,555	128,658	125,274	n.a.	
Repurchase agreements <sup>5</sup>												
18 Overnight and continuing .....	75,717	101,410	141,735	146,960	149,315	n.a.	138,766	163,641	175,674	177,665	n.a.	
19 Term agreements .....	57,047	70,076	102,640	115,968	120,500	n.a.	133,497	111,563	115,342	114,066	n.a.	

1. Data for dealer positions and sources of financing are obtained from reports submitted to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers.

Data for positions are averages of daily figures, in terms of par value, based on the number of trading days in the period. Positions are net amounts and are shown on a commitment basis. Data for financing are in terms of actual amounts borrowed or lent and are based on Wednesday figures.

2. Immediate positions are net amounts (in terms of par values) of securities owned by nonbank dealer firms and dealer departments of commercial banks on a commitment, that is, trade-date basis, including any such securities that have been sold under agreements to repurchase (RPs). The maturities of some repurchase agreements are sufficiently long, however, to suggest that the securities involved are not available for trading purposes. Immediate positions include

reverses to maturity, which are securities that were sold after having been obtained under reverse repurchase agreements that mature on the same day as the securities. Data for immediate positions do not include forward positions.

3. Figures cover financing involving U.S. government and federal agency securities, negotiable CDs, bankers acceptances, and commercial paper.

4. Includes all reverse repurchase agreements, including those that have been arranged to make delivery on short sales and those for which the securities obtained have been used as collateral on borrowings, that is, matched agreements.

5. Includes both repurchase agreements undertaken to finance positions and "matched book" repurchase agreements.

NOTE: Data on positions for the period May 1 to Sept. 30, 1986, are partially estimated.

## 1.44 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars, end of period

Agency	1983	1984	1985	1986					
				July	Aug.	Sept.	Oct.	Nov.	Dec.
<b>1 Federal and federally sponsored agencies</b>	<b>240,068</b>	<b>271,220</b>	<b>293,905</b>	<b>298,361</b>	<b>299,211</b>	<b>302,411</b>	<b>305,011</b>	<b>n.a.</b>	<b>↑</b>
2 Federal agencies	33,940	35,145	36,390	35,768	36,132	36,473	36,716	36,952	
3 Defense Department <sup>1</sup>	243	142	71	45	40	37	36	35	
4 Export-Import Bank <sup>2,3</sup>	14,853	15,882	15,678	14,953	14,953	14,274	14,274	14,274	
5 Federal Housing Administration <sup>4</sup>	194	133	115	115	115	117	123	124	n.a.
6 Government National Mortgage Association participation certificates <sup>5</sup>	2,165	2,165	2,165	2,165	2,165	2,165	2,165	2,165	↓
7 Postal Service <sup>6</sup>	1,404	1,337	1,940	1,854	1,854	3,104	3,104	3,104	
8 Tennessee Valley Authority	14,970	15,435	16,347	16,562	16,931	16,702	16,940	17,176	
9 United States Railway Association <sup>6</sup>	111	51	74	74	74	74	74	74	
10 Federally sponsored agencies <sup>7</sup>	206,128	236,075	257,515	262,593	263,079	265,938	268,295	n.a.	n.a.
11 Federal Home Loan Banks	48,930	65,085	74,447	83,081	85,997	87,133	87,146	86,891	88,752
12 Federal Home Loan Mortgage Corporation	6,793	10,270	11,926	12,818	12,801	13,548	14,007	n.a.	n.a.
13 Federal National Mortgage Association	74,594	83,720	93,896	93,417	92,286	91,629	93,272	93,477	93,563
14 Farm Credit Banks	72,816	71,193	68,851	62,857	61,575	63,073	63,073	62,693	62,328
15 Student Loan Marketing Association <sup>8</sup>	3,402	5,745	8,395	10,420	10,420	10,555	10,791	11,102	11,795
<b>MEMO</b>									
<b>16 Federal Financing Bank debt<sup>9</sup></b>	<b>135,791</b>	<b>145,217</b>	<b>153,373</b>	<b>155,526</b>	<b>156,132</b>	<b>156,873</b>	<b>157,371</b>	<b>157,452</b>	<b>↑</b>
<i>Lending to federal and federally sponsored agencies</i>									
17 Export-Import Bank <sup>3</sup>	14,789	15,852	15,670	14,947	14,947	14,268	14,268	14,268	
18 Postal Service <sup>6</sup>	1,154	1,087	1,690	1,604	1,604	2,854	2,854	2,854	
19 Student Loan Marketing Association	5,000	5,000	5,000	5,000	5,000	4,970	4,970	4,970	n.a.
20 Tennessee Valley Authority	13,245	13,710	14,622	14,937	15,306	15,077	15,515	15,751	
21 United States Railway Association <sup>6</sup>	111	51	74	74	74	74	74	74	
<i>Other Lending<sup>10</sup></i>									
22 Farmers Home Administration	55,266	58,971	64,234	65,174	65,274	65,374	65,374	65,374	
23 Rural Electrification Administration	19,766	20,693	20,654	21,321	21,398	21,460	21,506	21,531	
24 Other	26,460	29,853	31,429	32,469	32,529	32,796	32,810	32,630	

1. Consists of mortgages assumed by the Defense Department between 1957 and 1963 under family housing and homeowners assistance programs.

2. Includes participation certificates reclassified as debt beginning Oct. 1, 1976.

3. Off-budget Aug. 17, 1974, through Sept. 30, 1976; on-budget thereafter.

4. Consists of debentures issued in payment of Federal Housing Administration insurance claims. Once issued, these securities may be sold privately on the securities market.

5. Certificates of participation issued before fiscal 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration; Department of Health, Education, and Welfare; Department of Housing and Urban Development; Small Business Administration; and the Veterans Administration.

6. Off-budget.

7. Includes outstanding noncontingent liabilities: Notes, bonds, and debentures. Some data are estimated.

8. Before late 1981, the Association obtained financing through the Federal Financing Bank.

9. The FFB, which began operations in 1974, is authorized to purchase or sell obligations issued, sold, or guaranteed by other federal agencies. Since FFB incurs debt solely for the purpose of lending to other agencies, its debt is not included in the main portion of the table in order to avoid double counting.

10. Includes FFB purchases of agency assets and guaranteed loans; the latter contain loans guaranteed by numerous agencies with the guarantees of any particular agency being generally small. The Farmers Home Administration item consists exclusively of agency assets, while the Rural Electrification Administration entry contains both agency assets and guaranteed loans.

# A34 Domestic Financial Statistics □ April 1987

## 1.45 NEW SECURITY ISSUES Tax-Exempt State and Local Governments

Millions of dollars

Type of issue or issuer, or use	1984	1985	1986	1986							
				May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<b>1 All issues, new and refunding<sup>1</sup></b>	<b>106,641</b>	<b>214,189</b>	<b>134,606</b>	<b>13,215</b>	<b>12,611</b>	<b>19,833</b>	<b>25,965</b>	<b>4,532</b>	<b>8,825</b>	<b>10,085</b>	<b>14,082</b>
<i>Type of issue</i>											
2 General obligation	26,485	52,622	44,801	7,115	6,326	6,531	5,931	1,267	2,104	1,427	4,254
3 Revenue	80,156	161,567	89,806	6,100	6,285	13,302	20,034	3,265	6,721	8,658	9,828
<i>Type of issuer</i>											
4 State	9,129	13,004	14,935	2,825	1,705	2,879	2,121	9	697	111	961
5 Special district and statutory authority <sup>2</sup>	63,550	134,363	79,291	6,427	6,351	10,589	15,714	3,275	5,757	7,761	9,414
6 Municipalities, counties, townships	33,962	66,822	40,374	3,962	4,554	6,365	8,125	1,248	2,371	2,213	3,707
<b>7 Issues for new capital, total</b>	<b>94,050</b>	<b>156,050</b>	<b>79,195</b>	<b>7,155</b>	<b>8,178</b>	<b>13,165</b>	<b>17,810</b>	<b>2,558</b>	<b>3,789</b>	<b>4,085</b>	<b>8,831</b>
<i>Use of proceeds</i>											
8 Education	7,553	16,658	16,948	1,827	1,694	2,800	2,926	558	928	1,486	1,588
9 Transportation	7,552	12,070	11,666	273	947	3,164	1,460	827	1,195	976	588
10 Utilities and conservation	17,844	26,852	35,383	3,450	1,583	4,425	6,292	1,365	2,396	3,239	2,330
11 Social welfare	29,928	63,181	17,332	1,424	1,518	1,186	2,554	812	2,098	2,635	3,944
12 Industrial aid	15,415	12,892	5,594	264	255	975	489	138	499	331	2,159
13 Other purposes	15,758	24,398	47,433	5,978	6,614	7,281	12,245	832	1,708	1,418	3,473

1. Par amounts of long-term issues based on date of sale.

2. Includes school districts beginning April 1986.

SOURCES: Securities Data Company beginning April 1986. Public Securities Association for earlier data. This new data source began with the November BULLETIN.

## 1.46 NEW SECURITY ISSUES Corporations

Millions of dollars

Type of issue or issuer, or use	1984	1985	1986	1986							
				May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<b>1 All issues<sup>1</sup></b>	<b>132,531</b>	<b>201,269</b>	<b>294,218</b>	<b>19,564</b>	<b>25,776</b>	<b>21,093</b>	<b>24,245</b>	<b>16,093</b>	<b>28,582</b>	<b>28,867</b>	<b>25,041</b>
<b>2 Bonds<sup>2</sup></b>	<b>109,903</b>	<b>165,754</b>	<b>232,395</b>	<b>13,050</b>	<b>20,756</b>	<b>16,766</b>	<b>18,481</b>	<b>12,830</b>	<b>23,476</b>	<b>22,268</b>	<b>18,800</b>
<i>Type of offering</i>											
3 Public	73,579	119,559	232,395	13,050	20,756	16,766	18,481	12,830	23,476	22,268	18,800
4 Private placement	36,324	46,195	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Industry group</i>											
5 Manufacturing	24,607	52,228	52,872	3,939	5,368	2,535	4,536	2,345	2,055	3,378	3,300
6 Commercial and miscellaneous	13,726	15,140	19,220	1,776	2,056	3,409	1,045	1,405	1,067	1,213	2,066
7 Transportation	4,694	5,743	4,262	427	250	497	550	375	170	0	70
8 Public utility	10,679	12,957	25,535	1,709	1,948	1,470	2,098	1,915	2,537	2,587	2,448
9 Communication	2,997	10,456	13,430	712	810	465	1,615	417	1,255	1,158	776
10 Real estate and financial	53,199	69,232	117,080	4,487	10,324	8,390	8,638	6,373	16,392	13,933	10,140
<b>11 Stocks<sup>1</sup></b>	<b>22,628</b>	<b>35,515</b>	<b>61,823</b>	<b>6,514</b>	<b>5,020</b>	<b>4,327</b>	<b>5,764</b>	<b>3,263</b>	<b>5,106</b>	<b>6,599</b>	<b>6,241</b>
<i>Type</i>											
12 Preferred	4,118	6,505	11,514	856	1,284	726	1,290	402	817	1,390	1,293
13 Common	18,510	29,010	50,309	5,658	3,736	3,601	4,474	2,861	4,289	5,209	4,948
<i>Industry group</i>											
14 Manufacturing	4,054	5,700	14,206	1,827	1,132	746	982	250	570	2,565	1,753
15 Commercial and miscellaneous	6,277	9,149	9,234	953	421	917	803	1,009	1,271	535	691
16 Transportation	589	1,544	2,395	372	154	179	57	28	511	15	186
17 Public utility	1,624	1,966	3,788	346	406	305	208	174	410	218	870
18 Communication	419	978	1,509	74	140	107	379	0	59	104	106
19 Real estate and financial	9,665	16,178	30,691	2,942	2,767	2,073	3,335	1,802	2,285	3,162	2,635

1. Figures, which represent gross proceeds of issues maturing in more than one year, sold for cash in the United States, are principal amount or number of units multiplied by offering price. Excludes offerings of less than \$100,000, secondary offerings, undefined or exempted issues as defined in the Securities Act of 1933, employee stock plans, investment companies other than closed-end, intracorporate transactions, and sales to foreigners.

2. Monthly data include only public offerings.

3. Beginning in August 1981, gross stock offerings include new equity volume from swaps of debt for equity.

SOURCES: IDD Information Services, Inc., Securities and Exchange Commission and the Board of Governors of the Federal Reserve System.

## 1.47 OPEN-END INVESTMENT COMPANIES Net Sales and Asset Position

Millions of dollars

Item	1985	1986	1986							
			May	June	July	Aug.	Sept.	Oct.	Nov. <sup>7</sup>	Dec.
INVESTMENT COMPANIES <sup>1</sup>										
1 Sales of own shares <sup>2</sup> .....	222,670	411,747	31,251	30,619	35,684	32,636	34,690	37,150	33,672	44,670
2 Redemptions of own shares <sup>3</sup> .....	132,440	239,340	16,706	18,921	21,508	20,102	21,338	20,782	20,724	34,779
3 Net sales .....	90,230	172,407	14,545	11,698	14,176	12,534	13,352	16,368	12,948	9,891
4 Assets <sup>4</sup> .....	251,695	424,088	343,926	356,040	360,050	387,547	381,872	402,644	416,939	424,088
5 Cash position <sup>5</sup> .....	20,607	30,783	28,184	28,083	28,080	28,682	29,540	30,826	29,579	30,783
6 Other .....	231,088	393,305	315,742	327,957	331,970	358,865	352,332	371,818	387,360	393,305

1. Excluding money market funds.

2. Includes reinvestment of investment income dividends. Excludes reinvestment of capital gains distributions and share issue of conversions from one fund to another in the same group.

3. Excludes share redemption resulting from conversions from one fund to another in the same group.

4. Market value at end of period, less current liabilities.

5. Also includes all U.S. government securities and other short-term debt securities.

NOTE: Investment Company Institute data based on reports of members, which comprise substantially all open-end investment companies registered with the Securities and Exchange Commission. Data reflect newly formed companies after their initial offering of securities.

## 1.48 CORPORATE PROFITS AND THEIR DISTRIBUTION

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Account	1983	1984	1985	1984	1985					1986		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
1 Corporate profits with inventory valuation and capital consumption adjustment .....	213.7	264.7	280.6	265.0	266.4	274.3	296.3	285.6	296.4	293.1	302.0	
2 Profits before tax .....	207.6	235.7	223.1	221.9	213.8	213.8	229.2	235.8	222.5	227.7	240.4	
3 Profits tax liability .....	77.2	95.4	91.8	87.8	87.8	87.1	95.8	96.4	95.7	99.0	104.4	
4 Profits after tax .....	130.4	140.3	131.4	134.1	126.0	126.7	133.4	139.4	126.9	128.8	135.9	
5 Dividends .....	71.5	78.3	81.6	80.1	80.9	81.4	81.6	82.5	85.2	87.5	88.8	
6 Undistributed profits .....	58.8	62.0	49.8	54.0	45.1	45.3	51.8	57.0	41.7	41.2	47.2	
7 Inventory valuation .....	-10.9	-5.5	-6	-1.6	-5	1.6	6.1	-9.4	16.5	10.6	6.1	
8 Capital consumption adjustment .....	17.0	34.5	58.1	44.7	53.2	58.9	61.0	59.2	57.3	54.8	55.5	

SOURCE: Survey of Current Business (Department of Commerce).

## 1.49 NONFINANCIAL CORPORATIONS Assets and Liabilities

Billions of dollars, except for ratio

Account	1980	1981	1982	1983	1984	1985				1986
						Q1	Q2	Q3	Q4	
1 <b>Current assets</b> .....	<b>1,328.3</b>	<b>1,419.6</b>	<b>1,437.1</b>	<b>1,575.9</b>	<b>1,703.0</b>	<b>1,722.7</b>	<b>1,734.6</b>	<b>1,763.0</b>	<b>1,784.6</b>	<b>1,795.7</b>
2 Cash.....	127.0	135.6	147.8	171.8	173.6	167.5	167.1	176.3	189.2	195.3
3 U.S. government securities.....	18.7	17.7	23.0	31.0	36.2	35.7	35.4	32.6	33.0	31.0
4 Notes and accounts receivable.....	507.5	532.5	517.4	583.0	633.1	650.3	654.1	661.0	671.5	663.4
5 Inventories.....	543.0	584.0	579.0	603.4	656.9	665.7	666.7	675.0	666.0	679.6
6 Other.....	132.1	149.7	169.8	186.7	203.2	203.5	211.2	218.0	224.9	226.3
7 <b>Current liabilities</b> .....	<b>890.6</b>	<b>971.3</b>	<b>986.0</b>	<b>1,059.6</b>	<b>1,163.6</b>	<b>1,174.1</b>	<b>1,182.9</b>	<b>1,211.9</b>	<b>1,233.6</b>	<b>1,222.3</b>
8 Notes and accounts payable.....	514.4	547.1	550.7	595.7	647.8	636.9	651.7	670.4	682.7	668.4
9 Other.....	376.2	424.1	435.3	463.9	515.8	537.1	531.2	541.5	550.9	553.9
10 <b>Net working capital</b> .....	<b>437.8</b>	<b>448.3</b>	<b>451.1</b>	<b>516.3</b>	<b>539.5</b>	<b>548.6</b>	<b>551.7</b>	<b>551.1</b>	<b>551.0</b>	<b>573.4</b>
11 MEMO: Current ratio <sup>1</sup> .....	1.492	1.462	1.458	1.487	1.464	1.467	1.466	1.455	1.447	1.469

1. Ratio of total current assets to total current liabilities.

NOTE: For a description of this series, see "Working Capital of Nonfinancial Corporations" in the July 1978 BULLETIN, pp. 533-37.

All data in this table reflect the most current benchmarks. Complete data are available upon request from the Flow of Funds Section, Division of Research and

Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SOURCE: Federal Trade Commission and Bureau of the Census.

## 1.50 TOTAL NONFARM BUSINESS EXPENDITURES on New Plant and Equipment ▲

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Industry	1984	1985	1986 <sup>1</sup>	1985			1986				1987
				Q2	Q3	Q4	Q1	Q2	Q3	Q4 <sup>1</sup>	
1 <b>Total nonfarm business</b> .....	<b>354.44</b>	<b>387.13</b>	<b>380.69</b>	<b>387.86</b>	<b>389.23</b>	<b>397.88</b>	<b>377.94</b>	<b>375.92</b>	<b>374.55</b>	<b>394.34</b>	<b>386.82</b>
<i>Manufacturing</i>											
2 Durable goods industries.....	66.24	73.27	69.96	74.34	72.99	75.47	68.01	68.33	69.31	74.17	67.86
3 Nondurable goods industries.....	72.58	80.21	74.81	79.91	81.48	82.79	76.02	73.35	69.89	80.00	73.36
<i>Nonmanufacturing</i>											
4 Mining.....	16.86	15.88	11.24	16.56	15.89	15.25	12.99	11.22	10.15	10.62	10.36
5 Transportation											
Railroad.....	6.79	7.08	6.72	7.38	7.79	6.74	6.22	6.77	7.31	6.60	6.37
6 Air.....	3.56	4.79	6.04	3.71	5.17	6.07	6.58	5.77	5.69	6.12	7.22
7 Other.....	6.17	6.15	5.87	6.35	5.85	6.34	5.42	5.74	6.03	6.30	6.26
Public utilities											
8 Electric.....	37.03	36.11	33.96	36.00	35.58	36.38	34.21	33.81	33.91	33.91	33.34
9 Gas and other.....	10.44	12.71	12.57	12.61	12.86	13.41	12.82	12.74	11.99	12.72	12.97
10 Commercial and other <sup>2</sup> .....	134.75	150.93	159.50	150.99	151.62	155.42	155.67	158.18	160.25	163.91	169.08

▲Trade and services are no longer being reported separately. They are included in Commercial and other, line 10.

1. Anticipated by business.

2. "Other" consists of construction; wholesale and retail trade; finance and insurance; personal and business services; and communication.

SOURCE: Survey of Current Business (Department of Commerce).

## 1.51 DOMESTIC FINANCE COMPANIES Assets and Liabilities

Billions of dollars, end of period

Account	1982	1983	1984	1985			1986			
				Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASSETS										
Accounts receivable, gross										
1 Consumer .....	78.1	87.4	96.7	106.0	116.4	120.8	125.5	134.7	146.7	146.1
2 Business .....	101.4	113.4	135.2	144.6	141.4	152.8	159.7	160.3	152.7	165.0
3 Real estate .....	20.2	22.5	26.3	28.4	29.0	30.4	31.5	32.4	33.8	35.2
4 Total .....	199.7	223.4	258.3	279.0	286.5	304.0	316.7	327.5	333.2	346.3
Less:										
5 Reserves for unearned income .....	31.9	33.0	36.5	38.6	41.0	40.9	41.3	41.8	43.6	42.5
6 Reserves for losses .....	3.5	4.0	4.4	4.8	4.9	5.0	5.1	5.2	5.5	6.0
7 Accounts receivable, net .....	164.3	186.4	217.3	235.6	240.6	258.1	270.3	280.4	284.1	297.8
8 All other .....	30.7	34.0	35.4	39.5	46.3	46.8	50.6	52.1	63.1	61.7
9 Total assets .....	195.0	220.4	252.7	275.2	286.9	304.9	321.0	332.5	347.2	359.6
LIABILITIES										
10 Bank loans .....	18.3	18.7	21.3	18.5	18.2	21.0	20.4	22.9	25.3	30.6
11 Commercial paper .....	51.1	59.7	72.5	82.6	93.6	96.9	102.0	106.4	110.6	115.2
Debt										
12 Other short-term .....	12.7	13.9	16.2	16.6	16.6	17.2	18.5	20.9	21.6	23.1
13 Long-term .....	64.4	68.1	77.2	85.7	86.4	93.0	100.0	101.8	105.3	106.0
14 All other liabilities .....	21.2	30.1	33.1	36.9	36.6	39.6	41.4	40.4	43.2	43.6
15 Capital, surplus, and undivided profits .....	27.4	29.8	32.3	34.8	35.7	37.1	38.8	40.2	41.3	41.1
16 Total liabilities and capital .....	195.0	220.4	252.7	275.2	286.9	304.9	321.0	332.5	347.2	359.6

NOTE. Components may not add to totals due to rounding.  
These data also appear in the Board's G.20 (422) release. For address, see inside front cover.

## 1.52 DOMESTIC FINANCE COMPANIES Business Credit

Millions of dollars, seasonally adjusted except as noted

Type	Accounts receivable outstanding Dec. 31, 1986 <sup>1</sup>	Changes in accounts receivable			Extensions			Repayments		
		1986			1986			1986		
		Oct.	Nov.	Dec.	Oct.	Nov.	Dec.	Oct.	Nov.	Dec.
1 Total	164,989	5,751	1,197	1,736	32,469	26,641	30,872	26,718	25,444	29,136
Retail financing of installment sales										
2 Automotive (commercial vehicles)	17,429	281	-422	-418	1,359	651	720	1,078	1,073	1,138
3 Business, industrial, and farm equipment	20,210	11	168	177	965	1,195	1,611	954	1,027	1,434
Wholesale financing										
4 Automotive	22,078	4,592	1,194	-1,021	13,818	9,895	9,973	9,226	8,701	10,994
5 Equipment	5,017	134	149	93	715	883	945	581	734	852
6 All other	7,778	149	315	58	2,043	1,857	2,141	1,893	1,542	2,083
Leasing										
7 Automotive	18,610	248	-90	1,497	1,018	766	1,733	770	856	236
8 Equipment	43,151	-10	-237	1,244	1,770	1,290	1,985	1,780	1,527	741
9 Loans on commercial accounts receivable and factored commercial accounts receivable	16,185	-267	-125	-681	9,201	8,806	9,170	9,468	8,931	9,851
10 All other business credit	14,531	613	245	786	1,580	1,298	2,593	966	1,053	1,808

1. Not seasonally adjusted.

NOTE. These data also appear in the Board's G.20 (422) release. For address, see inside front cover.

## 1.53 MORTGAGE MARKETS

Millions of dollars; exceptions noted.

Item	1984	1985	1986	1986						1987
				July	Aug.	Sept.	Oct.	Nov.	Dec.	
	Terms and yields in primary and secondary markets									
PRIMARY MARKETS										
Conventional mortgages on new homes										
Terms										
1 Purchase price (thousands of dollars) . . . . .	96.8	104.1	118.1 <sup>r</sup>	115.7	117.9	124.0	127.5	124.2	124.8 <sup>r</sup>	133.4
2 Amount of loan (thousands of dollars) . . . . .	73.7	77.4	86.2 <sup>r</sup>	83.4	84.8	90.4	93.9	92.5	93.2 <sup>r</sup>	98.1
3 Loan/price ratio (percent) . . . . .	78.7	77.1	75.2	73.9	74.5	75.2	75.6	76.2	76.4	75.6
4 Maturity (years) . . . . .	27.8	26.9	26.6	26.2	26.5	27.1	27.9	27.3	27.4 <sup>r</sup>	27.8
5 Fees and charges (percent of loan amount) <sup>2</sup> . . . . .	2.64	2.53	2.48	2.35	2.40	2.49	2.66	2.64	2.46 <sup>r</sup>	2.28
6 Contract rate (percent per annum) . . . . .	11.87	11.12	9.82	9.89	9.84	9.74	9.57	9.45	9.28	9.17
Yield (percent per annum)										
7 FHLBB series <sup>3</sup> . . . . .	12.37	11.58	10.25 <sup>r</sup>	10.30	10.26	10.17	10.02	9.91	9.69 <sup>r</sup>	9.55
8 HUD series <sup>4</sup> . . . . .	13.80	12.28	10.07	10.28	9.88	9.96	9.89	9.47	9.33	9.09
SECONDARY MARKETS										
Yield (percent per annum)										
9 FHA mortgages (HUD series) <sup>5</sup> . . . . .	13.81	12.24	9.91	10.01	9.80	9.90	9.80	9.26	9.21	8.79
10 GNMA securities <sup>6</sup> . . . . .	13.13	11.61	9.30	9.31	9.11	9.17	9.06	8.83	8.62	8.46
	Activity in secondary markets									
FEDERAL NATIONAL MORTGAGE ASSOCIATION										
Mortgage holdings (end of period)										
11 Total . . . . .	83,339	94,574	98,048	97,255	96,675	97,717	98,402	98,210	97,895	96,382
12 FHA/VA-insured . . . . .	35,148	34,244	29,683	30,766	28,451	26,658	25,435	24,300	23,121	22,155
13 Conventional . . . . .	48,191	60,331	68,365	66,489	68,224	71,059	72,967	73,910	74,774	74,227
Mortgage transactions (during period)										
14 Purchases . . . . .	16,721	21,510	30,826	3,343	3,800	4,649	3,784	2,549	2,336	1,364
15 Sales . . . . .	978	1,301	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mortgage commitments <sup>7</sup>										
16 Contracted (during period) . . . . .	21,007	20,155	32,987	3,270	3,840	4,248	2,375	1,811	1,272	948
17 Outstanding (end of period) . . . . .	6,384	3,402	3,386	7,706	7,671	7,252	5,740	4,625	3,386	2,258
FEDERAL HOME LOAN MORTGAGE CORPORATION										
Mortgage holdings (end of period) <sup>8</sup>										
18 Total . . . . .	9,283	12,399	↑	13,795	14,010	13,359	12,905	12,315	↑	↑
19 FHA/VA . . . . .	910	841	↑	692	739	729	722	707	↑	↑
20 Conventional . . . . .	8,373	11,558	↑	13,103	13,271	12,630	12,183	11,607	↑	↑
Mortgage transactions (during period)										
21 Purchases . . . . .	21,886	44,012	n.a.	8,518	10,458	12,486	11,566	9,862	n.a.	n.a.
22 Sales . . . . .	18,506	38,905	↓	8,113	10,132	13,072	11,417	10,510	↓	↓
Mortgage commitments <sup>9</sup>										
23 Contracted (during period) . . . . .	32,603	48,989	↓	7,863	13,707	10,658	9,356	11,233	↓	↓
24 Outstanding (end of period) . . . . .	13,318	16,613	↓	n.a.	n.a.	n.a.	n.a.	n.a.	↓	↓

1. Weighted averages based on sample surveys of mortgages originated by major institutional lender groups; compiled by the Federal Home Loan Bank Board in cooperation with the Federal Deposit Insurance Corporation.

2. Includes all fees, commissions, discounts, and "points" paid (by the borrower or the seller) to obtain a loan.

3. Average effective interest rates on loans closed, assuming prepayment at the end of 10 years.

4. Average contract rates on new commitments for conventional first mortgages; from Department of Housing and Urban Development.

5. Average gross yields on 30-year, minimum-downpayment, Federal Housing Administration-insured first mortgages for immediate delivery in the private secondary market. Based on transactions on first day of subsequent month. Large monthly movements in average yields may reflect market adjustments to changes in maximum permissible contract rates.

6. Average net yields to investors on Government National Mortgage Association guaranteed, mortgage-backed, fully modified pass-through securities, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate. Monthly figures are averages of Friday figures from the *Wall Street Journal*.

7. Includes some multifamily and nonprofit hospital loan commitments in addition to 1- to 4-family loan commitments accepted in FNMA's free market auction system, and through the FNMA-GNMA tandem plans.

8. Includes participation as well as whole loans.

9. Includes conventional and government-underwritten loans. FHLMC's mortgage commitments and mortgage transactions include activity under mortgage/securities swap programs, while the corresponding data for FNMA exclude swap activity.

## 1.54 MORTGAGE DEBT OUTSTANDING

Millions of dollars, end of period

Type of holder, and type of property	1984	1985	1986	1985	1986			
				Q4	Q1	Q2	Q3	Q4
1 All holders	2,036,158	2,268,423 <sup>1</sup>	2,556,620	2,268,423 <sup>1</sup>	2,317,641 <sup>1</sup>	2,385,417 <sup>1</sup>	2,466,597 <sup>1</sup>	2,556,620
2 1- to 4-family	1,320,444	1,468,273 <sup>1</sup>	1,668,285	1,468,273 <sup>1</sup>	1,496,282 <sup>1</sup>	1,545,311 <sup>1</sup>	1,605,598 <sup>1</sup>	1,668,285
3 Multifamily	185,414	213,816 <sup>1</sup>	244,122	213,816 <sup>1</sup>	221,587 <sup>1</sup>	229,186 <sup>1</sup>	236,595 <sup>1</sup>	244,122
4 Commercial	418,300	480,719 <sup>1</sup>	545,185	480,719 <sup>1</sup>	495,879 <sup>1</sup>	509,337 <sup>1</sup>	524,235 <sup>1</sup>	545,185
5 Farm	112,000	105,615	99,028	105,615	103,893	101,583 <sup>1</sup>	100,169 <sup>1</sup>	99,028
6 Selected financial institutions	1,272,206	1,391,894 <sup>1</sup>	1,504,721	1,391,894 <sup>1</sup>	1,410,344 <sup>1</sup>	1,436,865 <sup>1</sup>	1,465,757 <sup>1</sup>	1,504,721
7 Commercial banks <sup>1</sup>	379,498	429,196 <sup>1</sup>	500,163	429,196 <sup>1</sup>	441,096 <sup>1</sup>	455,965 <sup>1</sup>	474,542 <sup>1</sup>	500,163
8 1- to 4-family	196,163	213,434 <sup>1</sup>	240,378	213,434 <sup>1</sup>	216,290 <sup>1</sup>	221,644 <sup>1</sup>	229,340 <sup>1</sup>	240,378
9 Multifamily	20,264	23,373 <sup>1</sup>	30,010	23,373 <sup>1</sup>	25,389 <sup>1</sup>	26,840 <sup>1</sup>	28,250 <sup>1</sup>	30,010
10 Commercial	152,894	181,032 <sup>1</sup>	216,771	181,032 <sup>1</sup>	187,620 <sup>1</sup>	195,247 <sup>1</sup>	204,480 <sup>1</sup>	216,771
11 Farm	10,177	11,357 <sup>1</sup>	13,004	11,357 <sup>1</sup>	11,797 <sup>1</sup>	12,237 <sup>1</sup>	12,472 <sup>1</sup>	13,004
12 Savings banks	154,441	177,263 <sup>1</sup>	224,901	177,263 <sup>1</sup>	188,154 <sup>1</sup>	203,398 <sup>1</sup>	215,036 <sup>1</sup>	224,901
13 1- to 4-family	107,302	121,879 <sup>1</sup>	155,229	121,879 <sup>1</sup>	131,381 <sup>1</sup>	142,174 <sup>1</sup>	149,786 <sup>1</sup>	155,229
14 Multifamily	19,817	23,329 <sup>1</sup>	30,291	23,329 <sup>1</sup>	23,980 <sup>1</sup>	26,543 <sup>1</sup>	28,400 <sup>1</sup>	30,291
15 Commercial	27,291	31,973 <sup>1</sup>	39,277	31,973 <sup>1</sup>	32,707 <sup>1</sup>	34,577 <sup>1</sup>	36,762 <sup>1</sup>	39,277
16 Farm	31	82	104	82	86	104	88 <sup>1</sup>	104
17 Savings and loan associations	555,277	583,236	553,552	583,236	574,732	565,037 <sup>1</sup>	557,139 <sup>1</sup>	553,552
18 1- to 4-family	421,489	432,422	404,034	432,422	420,073	415,965 <sup>1</sup>	408,152 <sup>1</sup>	404,034
19 Multifamily	55,750	66,410	67,282	66,410	67,140	66,020 <sup>1</sup>	65,827 <sup>1</sup>	67,282
20 Commercial	77,605	83,798	81,734	83,798	86,860	84,618 <sup>1</sup>	82,644 <sup>1</sup>	81,734
21 Farm	433	606	502	606	659	534 <sup>1</sup>	516 <sup>1</sup>	502
22 Life insurance companies	156,699	171,797	190,869	171,797	174,823	180,041	185,269	190,869
23 1- to 4-family	14,120	12,381	13,027	12,381	12,605	12,608	12,927	13,027
24 Multifamily	18,938	19,894	20,709	19,894	20,009	20,181	20,709	20,709
25 Commercial	111,175	127,670	145,863	127,670	130,569	135,924	140,213	145,863
26 Farm	12,466	11,852	11,270	11,852	11,640	11,328	11,420	11,270
27 Finance companies <sup>2</sup>	26,291	30,402	35,236	30,402	31,539	32,424	33,771	35,236
28 Federal and related agencies	158,993	166,928	157,049	166,928	165,041	161,398	159,505	157,049
29 Government National Mortgage Association	2,301	1,473	897	1,473	1,533	876	887	897
30 1- to 4-family	585	539	47	539	527	49	48	47
31 Multifamily	1,716	934	850	934	1,006	827	839	850
32 Farmers Home Administration	1,276	733	480	733	704	570	457	480
33 1- to 4-family	213	183	140	183	217	146	132	140
34 Multifamily	119	113	50	113	33	66	57	50
35 Commercial	497	159	120	159	217	111	115	120
36 Farm	447	278	170	278	237	247	153	170
37 Federal Housing and Veterans Administration	4,816	4,920	4,899	4,920	4,964	5,094	4,966	4,899
38 1- to 4-family	2,048	2,254	2,303	2,254	2,309	2,449	2,331	2,303
39 Multifamily	2,768	2,666	2,596	2,666	2,655	2,645	2,635	2,596
40 Federal National Mortgage Association	87,940	98,282	97,895	98,282	98,795	97,295	97,717	97,895
41 1- to 4-family	82,175	91,966	90,718	91,966	92,315	90,460	90,508	90,718
42 Multifamily	5,765	6,316	7,177	6,316	6,480	6,835	7,209	7,177
43 Federal Land Banks	52,261	47,498	40,719	47,498	45,422	43,369	42,119	40,719
44 1- to 4-family	3,074	2,798	2,396	2,798	2,673	2,552	2,478	2,396
45 Farm	49,187	44,700	38,323	44,700	42,749	40,817	39,641	38,323
46 Federal Home Loan Mortgage Corporation	10,399	14,022	12,159	14,022	13,623	14,194	13,359	12,159
47 1- to 4-family	9,654	11,881	10,927	11,881	12,231	11,890	11,127	10,927
48 Multifamily	745	2,141	1,232	2,141	1,392	2,304	2,232	1,232
49 Mortgage pools or trusts <sup>3</sup>	332,057	415,042	575,301	415,042	440,701	475,615	522,721	575,301
50 Government National Mortgage Association	179,981	212,145	259,373	212,145	220,348	229,204	241,230	259,373
51 1- to 4-family	175,589	207,198	253,388	207,198	215,148	223,838	235,664	253,388
52 Multifamily	4,392	4,947	5,985	4,947	5,200	5,366	5,566	5,985
53 Federal Home Loan Mortgage Corporation	70,822	100,387	170,393	100,387	110,337	125,903	146,871	170,393
54 1- to 4-family	70,253	99,515	165,856	99,515	108,020	123,676	143,734	165,856
55 Multifamily	569	872	4,537	872	2,317	2,227	3,137	4,537
56 Federal National Mortgage Association	36,215	54,987	97,174	54,987	62,310	72,377	86,359	97,174
57 1- to 4-family	35,965	54,036	95,791	54,036	61,117	71,153	85,171	95,791
58 Multifamily	250	951	1,383	951	1,193	1,224	1,188	1,383
59 Farmers Home Administration	45,039	47,523	48,361	47,523	47,706	48,131	48,261	48,361
60 1- to 4-family	21,813	22,186	21,682	22,186	22,082	21,987	21,782	21,682
61 Multifamily	5,841	6,675	7,453	6,675	6,943	7,170	7,353	7,453
62 Commercial	7,559	8,190	8,459	8,190	8,150	8,347	8,409	8,459
63 Farm	9,826	10,472	10,767	10,472	10,531	10,627	10,717	10,767
64 Individuals and others <sup>4</sup>	272,902	294,559	319,549	294,559	301,555	311,539	318,614	319,549
65 1- to 4-family	153,710	165,199	177,133	165,199	174,396	178,647	177,133	177,133
66 Multifamily	48,480	55,195	64,567	55,195	57,850	60,938	63,193	64,567
67 Commercial	41,279	47,897	52,961	47,897	49,756	50,513	51,612	52,961
68 Farm	29,433	26,268	24,888	26,268	26,194	25,692	25,162	24,888

1. Includes loans held by nondeposit trust companies but not bank trust departments.

2. Assumed to be entirely 1- to 4-family loans.

3. Outstanding principal balances of mortgage pools backing securities insured or guaranteed by the agency indicated.

4. Other holders include mortgage companies, real estate investment trusts, state and local credit agencies, state and local retirement funds, noninsured pension funds, credit unions, and other U.S. agencies.

NOTE: Based on data from various institutional and governmental sources, with some quarters estimated in part by the Federal Reserve. Multifamily debt refers to loans on structures of five or more units.

1.55 CONSUMER INSTALLMENT CREDIT<sup>1,4</sup> Total Outstanding, and Net Change, seasonally adjusted

Millions of dollars

Holder, and type of credit	1985	1986	1986								
			Apr.	May	June	July	Aug.	Sept.	Oct.	Nov. <sup>r</sup>	Dec.
Amounts outstanding (end of period)											
1 Total.....	535,098	594,929	555,810	562,267	567,653	573,216	576,609	584,334	591,542	594,824	594,929
By major holder											
2 Commercial banks.....	240,796	257,653	247,498	248,681	249,753	251,197	251,908	253,329	255,805	258,678	257,653
3 Finance companies <sup>2</sup> .....	120,095	145,378	128,728	131,172	134,933	137,197	138,938	144,559	146,862	146,218	145,378
4 Credit unions.....	75,127	83,998	77,957	78,474	79,095	80,130	80,622	81,374	82,500	83,104	83,998
5 Retailers <sup>3</sup> .....	39,187	40,907	39,826	40,139	40,076	40,251	40,351	40,445	40,641	40,716	40,907
6 Savings institutions.....	55,555	63,641	58,024	60,247	60,352	61,051	61,421	61,331	62,414	62,832	63,641
7 Gasoline companies.....	4,337	3,352	3,777	3,554	3,445	3,389	3,368	3,295	3,320	3,277	3,352
By major type of credit											
8 Automobile.....	206,482	241,800	215,814	218,965	222,606	226,234	228,814	236,280	240,548	241,095	241,800
9 Commercial banks.....	92,764	98,695	93,013	93,157	93,261	94,014	94,686	95,842	97,359	98,259	98,695
10 Credit unions.....	30,577	34,187	31,728	31,939	32,191	32,613	32,813	33,119	33,577	33,823	34,187
11 Finance companies.....	73,391	97,762	80,685	83,221	86,520	88,862	90,578	96,598	98,695	98,016	97,762
12 Savings institutions.....	9,750	11,157	10,386	10,648	10,634	10,745	10,736	10,721	10,916	10,996	11,157
13 Revolving.....	118,296	127,914	123,442	124,545	124,720	125,577	125,915	126,012	126,514	128,095	127,914
14 Commercial banks.....	73,893	81,213	78,421	79,151	79,397	79,998	80,133	80,160	80,273	81,706	81,213
15 Retailers.....	34,560	36,052	35,170	35,449	35,390	35,542	35,639	35,688	35,861	35,918	36,052
16 Gasoline companies.....	4,337	3,352	3,777	3,554	3,445	3,389	3,368	3,295	3,320	3,277	3,352
17 Savings institutions.....	5,506	7,297	6,075	6,392	6,488	6,649	6,775	6,869	7,059	7,194	7,297
18 Mobile home.....	25,461	25,069	25,513	25,560	25,479	25,398	25,215	24,958	24,995	25,025	25,069
19 Commercial banks.....	9,578	9,090	9,264	9,215	9,196	9,156	9,086	9,071	9,075	9,094	9,090
20 Finance companies.....	9,116	8,612	9,286	9,115	9,077	8,989	8,882	8,681	8,611	8,598	8,612
21 Savings institutions.....	6,767	7,367	6,963	7,230	7,206	7,253	7,248	7,206	7,309	7,333	7,367
22 Other.....	184,859	200,145	191,041	193,197	194,847	196,007	196,665	197,084	199,485	200,610	200,145
23 Commercial banks.....	64,561	68,655	66,800	67,158	67,898	68,030	68,003	68,256	69,098	69,618	68,655
24 Finance companies.....	37,588	39,005	38,757	38,836	39,336	39,345	39,479	39,281	39,556	39,604	39,005
25 Credit unions.....	44,550	49,811	46,228	46,535	46,903	47,517	47,809	48,255	48,922	49,280	49,811
26 Retailers.....	4,627	4,855	4,656	4,690	4,686	4,710	4,712	4,758	4,780	4,798	4,855
27 Savings institutions.....	33,533	37,820	34,600	35,977	36,024	36,405	36,662	36,535	37,130	37,309	37,820
Net change (during period)											
28 Total.....	81,518	59,831	4,871	6,457	5,386	5,563	3,393	7,725	7,208	3,282	105
By major holder											
29 Commercial banks.....	31,638	16,857	2,326	1,183	1,072	1,444	711	1,421	2,476	2,873	-1,025
30 Finance companies <sup>2</sup> .....	23,969	25,283	1,306	2,444	3,761	2,264	1,741	5,621	2,303	-644	-840
31 Credit unions.....	8,583	8,871	1,004	517	621	1,035	492	752	1,126	604	894
32 Retailers <sup>3</sup> .....	2,126	1,720	-18	313	-63	175	100	94	196	75	191
33 Savings institutions.....	15,225	8,086	451	2,223	105	699	370	-90	1,083	418	809
34 Gasoline companies.....	-24	-985	-198	-223	-109	-56	-21	-73	25	-43	75
By major type of credit											
35 Automobile.....	33,360	35,318	1,453	3,151	3,641	3,628	2,580	7,466	4,268	547	705
36 Commercial banks.....	8,864	5,931	-364	144	104	753	672	1,156	1,517	900	436
37 Credit unions.....	1,963	3,610	408	211	252	422	200	306	458	246	364
38 Finance companies.....	18,728	24,371	1,269	2,536	3,299	2,342	1,716	6,020	2,097	-679	-254
39 Savings institutions.....	3,805	1,407	138	262	-14	111	-9	-15	195	80	161
40 Revolving.....	19,782	9,618	1,311	1,103	175	857	338	97	502	1,581	-181
41 Commercial banks.....	15,748	7,320	1,400	730	246	601	135	27	113	1,433	-493
42 Retailers.....	1,496	1,492	-18	279	-59	152	97	49	173	57	134
43 Gasoline companies.....	-24	-985	-198	-223	-109	-56	-21	-73	25	-43	75
44 Savings institutions.....	2,562	1,791	128	317	96	161	126	94	190	135	103
45 Mobile home.....	1,277	-392	-71	47	-81	-81	-183	-257	37	30	44
46 Commercial banks.....	-45	-488	-84	-49	-19	-40	-70	-15	4	19	-4
47 Finance companies.....	-45	-504	-41	-171	-38	-88	-107	-201	-70	-13	14
48 Savings institutions.....	1,367	600	54	267	-24	47	-5	-42	103	24	34
49 Other.....	27,099	15,286	2,178	2,156	1,650	1,160	658	419	2,401	1,125	-465
50 Commercial banks.....	7,071	4,094	1,373	358	740	132	-27	253	842	520	-963
51 Finance companies.....	5,286	1,417	79	79	500	9	134	-198	275	48	-599
52 Credit unions.....	6,620	5,261	595	307	368	614	292	446	667	358	531
53 Retailers.....	630	228	0	34	-4	24	2	46	22	18	57
54 Savings institutions.....	7,492	4,287	131	1,377	47	381	257	-127	595	179	511

1. The Board's series cover most short- and intermediate-term credit extended to individuals that is scheduled to be repaid (or has the option of repayment) in two or more installments.

2. More detail for finance companies is available in the G.20 statistical release.

3. Excludes 30-day charge credit held by travel and entertainment companies.

4. All data have been revised.

## 1.56 TERMS OF CONSUMER INSTALLMENT CREDIT

Percent unless noted otherwise

Item	1984	1985	1986	1986						
				June	July	Aug.	Sept.	Oct.	Nov.	Dec.
INTEREST RATES										
Commercial banks <sup>1</sup>										
1 48-month new car <sup>2</sup> .....	13.71	12.91	n.a.	n.a.	n.a.	11.00	n.a.	n.a.	10.58	n.a.
2 24-month personal.....	16.47	15.94	n.a.	n.a.	n.a.	14.70	n.a.	n.a.	14.19	n.a.
3 120-month mobile home <sup>2</sup> .....	15.58	14.96	n.a.	n.a.	n.a.	13.95	n.a.	n.a.	13.49	n.a.
4 Credit card .....	18.77	18.69	n.a.	n.a.	n.a.	18.15	n.a.	n.a.	18.09	n.a.
Auto finance companies										
5 New car .....	14.62	11.98	9.44	9.35	9.31	9.29	5.40	6.12	11.83	11.71
6 Used car .....	17.85	17.59	15.95	16.06	15.83	15.56	15.23	15.17	15.20	15.12
OTHER TERMS <sup>3</sup>										
Maturity (months)										
7 New car .....	48.3	51.5	50.0	49.5	49.9	50.4	44.5	45.3	53.4	53.3
8 Used car .....	39.7	41.4	42.6	42.7	42.8	42.9	42.5	42.2	42.6	42.7
Loan-to-value ratio										
9 New car .....	88	91	91	89	89	90	92	92	93	93
10 Used car .....	92	94	97	97	97	97	98	97	97	98
Amount financed (dollars)										
11 New car .....	9,333	9,915	10,665	10,608	10,748	10,756	11,162	11,340	11,160	10,835
12 Used car .....	5,691	6,089	6,555	6,611	6,614	6,569	6,763	6,746	6,946	7,168

1. Data for midmonth of quarter only.

2. Before 1983 the maturity for new car loans was 36 months, and for mobile home loans was 84 months.

3. At auto finance companies.

NOTE. These data also appear in the Board's G.19 (421) release. For address, see inside front cover.

## 1.57 FUNDS RAISED IN U.S. CREDIT MARKETS

Billions of dollars; half-yearly data are at seasonally adjusted annual rates.

Transaction category, sector	1981	1982	1983	1984	1985	1986	1984		1985		1986	
							H1	H2	H1	H2	H1*	H2
Nonfinancial sectors												
1 Total net borrowing by domestic nonfinancial sectors	375.8	387.4	548.8	756.3	869.3	827.7	727.8	784.8	732.6	1,006.1	705.2	950.7
By sector and instrument												
2 U.S. government	87.4	161.3	186.6	198.8	223.6	214.3	181.3	216.3	201.8	245.5	211.3	217.5
3 Treasury securities	87.8	162.1	186.7	199.0	223.7	214.7	181.5	216.4	201.9	245.5	211.4	218.0
4 Agency issues and mortgages	-5	-9	-1	-2	-1	-3	-2	-1	-1	-1	-1	-5
5 Private domestic nonfinancial sectors	288.5	226.2	362.2	557.5	645.7	613.3	546.5	568.5	530.8	760.6	494.0	733.2
6 Debt capital instruments	155.5	148.3	252.8	314.0	461.7	447.0	298.4	329.6	355.4	568.0	384.3	509.7
7 Tax-exempt obligations	23.4	44.2	53.7	50.4	152.4	48.5	42.8	58.0	67.5	237.3	15.9	81.1
8 Corporate bonds	22.8	18.7	16.0	46.1	73.9	109.2	31.2	61.1	72.7	75.1	129.2	89.1
9 Mortgages	109.3	85.4	183.0	217.5	235.4	289.4	224.5	210.5	215.2	255.7	239.2	339.5
10 Home mortgages	72.2	50.5	117.1	129.9	150.3	200.6	135.2	124.7	133.1	167.5	156.4	244.7
11 Multifamily residential	4.8	5.4	14.1	25.1	29.2	30.4	27.5	22.7	24.6	33.7	30.9	29.9
12 Commercial	22.2	25.2	49.0	63.3	62.4	64.4	62.9	63.7	60.3	64.4	59.3	69.5
13 Farm	10.0	4.2	2.8	.8	6.4	-6.0	-1.1	-5.5	-2.8	-10.0	-7.4	-4.6
14 Other debt instruments	133.0	77.9	109.5	243.5	184.0	166.3	248.1	238.9	175.4	192.6	109.6	223.5
15 Consumer credit	22.6	17.7	56.8	95.0	96.6	67.9	98.7	91.3	97.3	95.9	75.3	61.2
16 Bank loans n.e.c.	57.0	52.9	25.8	80.1	41.3	80.2	91.9	68.4	24.9	57.7	22.0	138.4
17 Open market paper	14.7	-6.1	-8	21.7	14.6	-9.3	24.8	18.7	12.3	16.9	-15.7	-2.9
18 Other	38.7	13.4	27.7	46.6	31.4	27.4	32.7	60.5	40.9	22.0	28.1	26.8
19 By borrowing sector	288.5	226.2	362.2	557.5	645.7	613.3	546.5	568.5	530.8	760.6	494.0	733.2
20 State and local governments	6.8	21.5	34.0	27.4	107.8	60.0	25.2	29.6	56.8	158.7	35.7	84.2
21 Households	121.4	88.4	188.0	239.5	295.0	291.2	232.8	246.2	253.6	336.4	231.8	351.1
22 Farm	16.6	6.8	4.3	-1	-13.6	11.7	-4	5	-5.9	-21.3	-15.2	-8.3
23 Nonfarm noncorporate	38.5	40.2	76.6	97.1	92.8	100.7	101.4	92.7	85.6	99.9	95.7	105.7
24 Corporate	105.2	69.2	59.3	193.4	163.7	173.2	187.4	199.5	140.7	186.8	145.9	200.5
25 Foreign net borrowing in United States	23.5	16.0	17.4	6.1	1.7	14.4	35.5	-23.3	-4.1	7.5	24.3	4.4
26 Bonds	5.4	6.7	3.1	1.3	4.0	5.2	1.1	1.5	5.5	2.6	7.1	3.3
27 Bank loans n.e.c.	3.0	-5.5	3.6	-6.6	-2.8	2.1	-2.2	-11.1	-6.1	4	1.4	-5.6
28 Open market paper	3.9	1.9	6.5	6.2	6.2	11.5	18.0	-5.6	4.2	8.2	20.6	2.4
29 U.S. government loans	11.1	13.0	4.1	5.3	-5.7	-2	18.7	-8.1	-7.8	-3.6	-4.8	4.4
30 Total domestic plus foreign	399.3	403.4	566.2	762.4	871.0	842.0	763.3	761.5	728.4	1,013.5	729.5	955.1
Financial sectors												
31 Total net borrowing by financial sectors	101.9	90.1	94.0	139.0	186.9	242.0	134.2	143.8	154.8	218.9	189.0	295.0
By instrument												
32 U.S. government related	47.4	64.9	67.8	74.9	101.5	171.1	69.8	80.0	92.9	110.2	129.5	212.7
33 Sponsored credit agency securities	30.5	14.9	1.4	30.4	20.6	12.4	29.1	31.8	25.3	15.9	4.4	20.5
34 Mortgage pool securities	15.0	49.5	66.4	44.4	79.9	159.0	40.7	48.2	67.6	92.1	124.3	193.7
35 Loans from U.S. government	1.9	.4			1.1	-4				2.2	.8	-1.5
36 Private financial sectors	54.5	25.2	26.2	64.1	85.3	71.0	64.4	63.8	61.9	108.8	59.6	82.4
37 Corporate bonds	4.4	12.5	12.1	23.3	36.5	22.3	17.3	29.3	35.3	37.7	28.7	15.9
38 Mortgages	*	-1	*	4	-1	-1	4	4	*	-1	6	-5
39 Bank loans n.e.c.	1.2	1.9	-1	7	2.6	3.6	-1	1.4	9	4.2	2.4	4.7
40 Open market paper	32.7	9.9	21.3	24.1	32.0	25.2	31.1	17.0	13.9	50.1	14.4	36.1
41 Loans from Federal Home Loan Banks	16.2	.8	-7.0	15.7	14.2	19.8	15.7	15.7	11.7	16.7	13.5	26.2
By sector												
42 Sponsored credit agencies	32.4	15.3	1.4	30.4	21.7	12.1	29.1	31.8	25.3	18.1	5.2	18.9
43 Mortgage pools	15.0	49.5	66.4	44.4	79.9	159.0	40.7	48.2	67.6	92.1	124.3	193.7
44 Private financial sectors	54.5	25.2	26.2	64.1	85.3	71.0	64.4	63.8	61.9	108.8	59.6	82.4
45 Commercial banks	11.6	11.7	5.0	7.3	-4.9	-2.2	15.4	9	-9.2	-6	-6.7	2.3
46 Bank affiliates	9.2	6.8	12.1	15.6	14.5	4.5	23.7	7.5	13.7	15.3	1.7	7.2
47 Savings and loan associations	15.5	2.5	-2.1	22.7	22.3	31.3	20.2	25.1	12.1	32.6	23.1	39.5
48 Finance companies	18.5	4.3	11.4	17.8	52.8	36.9	4.3	31.3	44.8	60.9	40.6	33.2
49 REITs	.2	*	-2	.8	.5	.5	.8	.8	.5	.5	.9	.1
All sectors												
50 Total net borrowing	501.3	493.5	660.2	901.4	1057.8	1084.1	897.5	905.3	833.3	1,232.4	918.6	1250.1
51 U.S. government securities	133.0	225.9	254.4	273.8	324.2	385.8	251.2	296.4	294.8	353.5	340.0	431.7
52 State and local obligations	23.4	44.2	53.7	50.4	152.4	48.5	42.8	58.0	67.5	237.3	15.9	81.1
53 Corporate and foreign bonds	32.6	37.8	31.2	70.7	114.4	136.6	49.6	91.9	113.5	115.3	165.0	108.3
54 Mortgages	109.2	85.4	183.0	217.8	235.4	289.4	224.8	210.8	215.2	255.7	239.2	339.0
55 Consumer credit	22.6	17.7	56.8	95.0	96.6	67.9	98.7	91.3	97.3	95.9	75.3	61.2
56 Bank loans n.e.c.	61.2	49.3	29.3	74.2	41.0	81.7	89.6	58.8	19.8	62.3	25.9	137.5
57 Open market paper	51.3	5.7	26.9	52.0	52.8	27.4	73.8	30.1	30.4	75.2	19.3	35.5
58 Other loans	68.0	27.6	24.8	67.6	41.0	46.7	67.1	68.1	44.8	37.3	37.5	55.8
External corporate equity funds raised in United States												
59 Total new share issues	-3.3	33.6	67.0	-31.1	37.5	115.3	-40.1	-22.2	33.3	41.6	149.6	81.1
60 Mutual funds	6.0	16.8	32.1	38.0	103.4	187.6	39.3	36.6	93.6	113.1	201.5	173.6
61 All other	-9.3	16.8	34.9	-69.1	-65.9	-72.3	-79.4	-58.8	-60.4	-71.5	-52.0	-92.6
62 Nonfinancial corporations	11.5	11.4	28.3	77.0	81.6	-80.8	-84.5	-69.4	-75.7	-87.5	-68.7	-92.7
63 Financial corporations	1.9	4.0	2.7	6.7	11.7	6.7	5.9	7.6	11.0	12.4	8.3	5.1
64 Foreign shares purchased in United States	.3	1.5	3.9	1.2	4.0	1.8	-7	3.0	4.3	3.6	8.5	-4.9

## 1.58 DIRECT AND INDIRECT SOURCES OF FUNDS TO CREDIT MARKETS

Billions of dollars, except as noted; half-yearly data are at seasonally adjusted annual rates.

Transaction category, or sector	1981	1982	1983	1984	1985	1986	1984		1985		1986	
							H1	H2	H1	H2	H1'	H2
<b>1 Total funds advanced in credit markets to domestic nonfinancial sectors</b>	<b>375.8</b>	<b>387.4</b>	<b>548.8</b>	<b>756.3</b>	<b>869.3</b>	<b>827.7</b>	<b>727.8</b>	<b>784.8</b>	<b>732.6</b>	<b>1,006.1</b>	<b>705.2</b>	<b>950.7</b>
By public agencies and foreign												
2 Total net advances	104.4	115.4	115.3	154.6	203.3	313.0	132.5	176.6	201.8	204.9	261.3	364.6
3 U.S. government securities	17.1	22.7	27.6	36.0	47.2	85.5	26.8	45.2	53.1	41.3	77.4	93.5
4 Residential mortgages	23.5	61.0	76.1	56.5	94.6	156.5	52.7	60.2	85.6	103.7	121.0	191.9
5 FHLB advances to savings and loans	16.2	.8	-7.0	15.7	14.2	19.8	15.7	15.7	11.7	16.7	13.5	26.2
6 Other loans and securities	47.7	30.8	18.6	46.5	47.3	51.2	37.5	55.5	51.4	43.2	49.4	53.0
Total advanced, by sector												
7 U.S. government	24.0	15.9	9.7	17.4	17.8	14.2	9.0	25.7	28.8	6.7	14.6	13.8
8 Sponsored credit agencies	48.2	65.5	69.8	73.3	101.5	170.6	74.0	72.5	98.2	104.9	127.3	214.0
9 Monetary authorities	9.2	9.8	10.9	8.4	21.6	30.2	8.8	8.0	23.7	19.5	9.8	50.6
10 Foreign	23.0	24.1	24.9	55.5	62.4	98.0	40.7	70.4	51.0	73.8	109.7	86.2
Agency and foreign borrowing not in line 1												
11 Sponsored credit agencies and mortgage pools	47.4	64.9	67.8	74.9	101.5	171.1	69.8	80.0	92.9	110.2	129.5	212.7
12 Foreign	23.5	16.0	17.4	6.1	1.7	14.4	35.5	-23.3	-4.1	7.5	24.3	4.4
Private domestic funds advanced												
13 Total net advances	342.3	352.9	518.7	682.7	769.2	700.1	700.5	664.9	619.6	918.8	597.7	803.2
14 U.S. government securities	115.9	203.1	226.9	237.8	277.0	300.3	224.4	251.2	241.7	312.2	262.5	338.2
15 State and local obligations	23.4	44.2	53.7	50.4	152.4	48.5	42.8	58.0	67.5	237.3	15.9	81.1
16 Corporate and foreign bonds	19.8	14.8	14.6	32.6	41.2	75.3	25.6	39.6	49.7	32.7	96.4	54.3
17 Residential mortgages	53.5	-5.3	55.0	98.5	84.8	74.5	109.9	87.0	72.0	97.5	66.2	82.7
18 Other mortgages and loans	145.9	96.9	161.5	279.1	228.1	221.3	313.6	244.7	200.4	255.9	170.1	273.0
19 Less: Federal Home Loan Bank advances	16.2	.8	-7.0	15.7	14.2	19.8	15.7	15.7	11.7	16.7	13.5	26.2
Private financial intermediation												
20 Credit market funds advanced by private financial institutions	320.2	261.9	391.9	550.5	554.4	659.2	581.8	519.1	471.3	637.4	572.5	746.6
21 Commercial banking	106.5	110.2	144.3	168.9	186.3	203.2	184.2	153.5	133.8	238.8	106.9	299.8
22 Savings institutions	26.2	21.8	135.6	149.2	83.4	109.6	173.5	124.9	63.0	103.9	101.4	117.8
23 Insurance and pension funds	93.5	86.2	97.8	124.0	141.0	137.3	144.5	103.5	121.8	160.1	124.6	150.1
24 Other finance	94.0	43.7	14.1	108.3	143.6	209.1	79.5	137.2	152.7	134.5	239.6	178.8
25 Sources of funds	320.2	261.9	391.9	550.5	554.4	659.2	581.8	519.1	471.3	637.4	572.5	746.6
26 Private domestic deposits and RPs	214.5	195.2	212.2	317.6	204.8	253.3	300.2	334.9	203.0	206.6	224.5	282.3
27 Credit market borrowing	54.5	25.2	26.2	64.1	85.3	71.0	64.4	63.8	61.9	108.8	59.6	82.4
28 Other sources	51.2	41.5	153.4	168.8	264.2	334.9	217.2	120.4	206.5	322.0	288.4	381.9
29 Foreign funds	-23.7	-31.4	16.3	5.4	17.7	14.7	3.0	7.8	11.2	24.3	.9	28.6
30 Treasury balances	-1.1	6.1	-5.3	4.0	10.3	1.9	-1.1	8.2	14.4	6.1	-5.5	9.4
31 Insurance and pension reserves	89.6	92.5	110.6	112.5	107.0	120.2	146.5	78.5	97.4	116.6	104.5	135.9
32 Other, net	-13.6	-25.7	31.8	46.8	129.2	198.1	67.8	25.9	83.5	175.0	188.5	208.1
Private domestic nonfinancial investors												
33 Direct lending in credit markets	76.6	116.3	153.0	196.4	300.2	111.9	183.1	209.6	210.2	390.2	84.8	139.0
34 U.S. government securities	37.1	69.9	95.5	132.9	150.9	65.7	142.2	123.6	130.8	171.0	53.4	78.2
35 State and local obligations	11.1	25.0	39.0	29.6	59.2	6.4	25.0	34.3	20.5	98.0	-24.5	37.3
36 Corporate and foreign bonds	-4.0	2.0	-12.7	-3.4	13.2	11.5	-26.8	19.9	25.4	1.0	44.6	-21.6
37 Open market paper	1.4	-1.3	15.1	8.9	51.8	7.0	15.7	2.2	7.3	96.3	-13.0	27.1
38 Other	31.0	20.6	16.2	28.3	25.1	21.3	26.9	29.7	26.3	24.0	24.3	18.0
39 Deposits and currency	222.4	204.5	229.7	321.1	215.1	274.9	311.3	330.9	215.9	214.3	241.6	308.3
40 Currency	9.5	9.7	14.3	8.6	12.4	14.4	13.1	4.1	15.8	9.0	10.9	18.0
41 Checkable deposits	18.5	18.6	28.8	27.8	42.0	99.2	29.4	26.3	18.2	65.8	83.9	114.6
42 Small time and savings accounts	47.3	135.7	215.3	150.7	137.5	117.9	136.4	164.9	167.1	108.0	117.5	118.3
43 Money market fund shares	107.5	24.7	-44.1	47.2	-2.2	20.8	30.2	64.2	4.2	-8.6	29.0	12.7
44 Large time deposits	36.0	5.2	-6.3	84.9	14.0	1.6	93.4	76.5	-8	28.9	2.0	1.3
45 Security RPs	5.2	11.1	18.5	7.0	13.4	13.7	10.8	3.1	14.3	12.5	-7.9	35.3
46 Deposits in foreign countries	-1.7	-4	3.1	-5.1	-2.1	7.1	-2.0	-8.2	-2.9	-1.3	6.2	8.1
<b>47 Total of credit market instruments, deposits and currency</b>	<b>299.0</b>	<b>320.7</b>	<b>382.7</b>	<b>517.4</b>	<b>515.3</b>	<b>386.7</b>	<b>494.4</b>	<b>540.5</b>	<b>426.0</b>	<b>604.5</b>	<b>326.4</b>	<b>447.3</b>
48 Public holdings as percent of total	26.2	28.6	20.4	20.3	23.3	37.2	17.4	23.2	27.7	20.2	35.8	38.2
49 Private financial intermediation (in percent)	93.6	74.2	75.5	80.6	72.1	94.2	83.1	78.1	76.1	69.4	95.8	93.0
50 Total foreign funds	-7	-7.3	41.3	60.9	80.1	112.7	43.7	78.2	62.2	98.1	110.5	114.8
MEMO: Corporate equities not included above												
51 Total net issues	-3.3	33.6	67.0	-31.1	37.5	115.3	-40.1	-22.2	33.3	41.6	149.6	81.1
52 Mutual fund shares	6.0	16.8	32.1	38.0	103.4	187.6	39.3	36.6	93.6	113.1	201.5	173.6
53 Other equities	-9.3	16.8	34.9	-69.1	-65.9	-72.3	-79.4	-58.8	-60.4	-71.5	-52.0	-92.6
54 Acquisitions by financial institutions	19.9	27.6	46.8	8.2	33.3	27.8	-4.1	20.6	54.0	12.6	35.4	20.3
55 Other net purchases	-23.2	6.0	20.2	-39.4	4.1	87.5	-36.0	-42.7	-20.7	29.0	114.2	60.7

## NOTES BY LINE NUMBER.

1. Line 1 of table 1.57.
2. Sum of lines 3-6 or 7-10.
6. Includes farm and commercial mortgages.
11. Credit market funds raised by federally sponsored credit agencies, and net issues of federally related mortgage pool securities.
13. Line 1 less line 2 plus line 11 and 12. Also line 20 less line 27 plus line 33. Also sum of lines 28 and 47 less lines 40 and 46.
18. Includes farm and commercial mortgages.
26. Line 39 less lines 40 and 46.
27. Excludes equity issues and investment company shares. Includes line 19.
29. Foreign deposits at commercial banks, bank borrowings from foreign branches, and liabilities of foreign banking agencies to foreign affiliates, less claims on foreign affiliates and deposits by banking in foreign banks.
30. Demand deposits and note balances at commercial banks.

31. Excludes net investment of these reserves in corporate equities.

32. Mainly retained earnings and net miscellaneous liabilities.

33. Line 13 less line 20 plus line 27.

34-38. Lines 14-18 less amounts acquired by private finance plus amounts borrowed by private finance. Line 38 includes mortgages.

40. Mainly an offset to line 9.

47. Lines 33 plus 39, or line 13 less line 28 plus 40 and 46.

48. Line 2/line 1.

49. Line 20/line 13.

50. Sum of lines 10 and 29.

51, 53. Includes issues by financial institutions.

NOTE. Full statements for sectors and transaction types in flows and in amounts outstanding may be obtained from Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

2.10 NONFINANCIAL BUSINESS ACTIVITY Selected Measures<sup>1</sup>

1977 = 100; monthly and quarterly data are seasonally adjusted. Exceptions noted.

Measure	1984	1985	1986	1986								1987
				May	June	July	Aug.	Sept.	Oct.	Nov.	Dec. <sup>2</sup>	
1 Industrial production.....	121.8	124.5	126.2	124.2	124.2	124.9	125.1	124.9	125.3	126.0	126.4	126.9
<i>Market groupings</i>												
2 Products, total.....	127.1	131.7	134.0	132.4	132.4	133.2	133.8	133.3	134.0	134.5	135.2	135.9
3 Final, total.....	127.8	132.0	133.9	131.6	131.1	132.0	132.6	132.2	132.7	133.4	134.2	134.6
4 Consumer goods.....	118.2	120.7	123.8	124.3	124.4	125.2	125.1	124.2	124.7 <sup>r</sup>	125.4 <sup>r</sup>	127.1	127.8
5 Equipment.....	140.5	147.1	147.5	141.2	140.0	141.0	142.5	142.8	143.3 <sup>r</sup>	143.4 <sup>r</sup>	143.0	143.7
6 Intermediate.....	124.9	130.6	134.2	135.1	137.0	137.3	137.8	137.0	138.7 <sup>r</sup>	139.3 <sup>r</sup>	139.6	140.3
7 Materials.....	114.6	114.7	115.5	113.0	113.1	113.6	113.2	113.5	113.3	114.4 <sup>r</sup>	114.4	114.6
<i>Industry groupings</i>												
8 Manufacturing.....	123.9	127.1	129.4	128.2	128.3	129.2	129.5	129.5	129.9	130.4 <sup>r</sup>	131.0	131.8
Capacity utilization (percent) <sup>2</sup>												
9 Manufacturing.....	80.5	80.1	79.8	79.4	79.3	79.7	79.7	79.6	79.6 <sup>r</sup>	79.8 <sup>r</sup>	80.1	80.3
10 Industrial materials industries.....	82.0	80.2		78.1	78.0	78.3	77.9	78.1	77.8 <sup>r</sup>	78.4 <sup>r</sup>	78.4	78.4
11 Construction contracts (1982 = 100) <sup>3</sup> .....	135.0 <sup>r</sup>	148.0 <sup>r</sup>	155.0 <sup>r</sup>	153.0 <sup>r</sup>	159.0 <sup>r</sup>	157.0 <sup>r</sup>	155.0 <sup>r</sup>	155.0 <sup>r</sup>	151.0 <sup>r</sup>	156.0 <sup>r</sup>	155.0	150.0
12 Nonagricultural employment, total <sup>4</sup> .....	114.5	118.5	121.5	121.2	121.1	121.4	121.6	121.9	122.3	122.6	122.8	123.4
13 Goods-producing, total.....	101.6	102.9	102.5	102.6	102.1	102.2	102.2	102.1	102.1	102.3	102.4	102.9
14 Manufacturing, total.....	98.6	98.7	97.5	97.5	97.2	97.1	97.1	97.0	97.1	97.3	97.4	97.5
15 Manufacturing, production-worker.....	94.1	93.5	92.1	92.1	91.8	91.7	91.7	91.7	91.7	91.8	92.1	92.3
16 Service-producing.....	120.0	125.0	129.4	129.0	129.0	129.4	129.7	130.2	130.7	131.0	131.4	131.9
17 Personal income, total.....	193.5	206.2	216.9	216.6	216.6	217.2	217.6	218.2	218.8 <sup>r</sup>	219.2 <sup>r</sup>	220.6	220.7
18 Wages and salary disbursements.....	184.8	197.8	208.6	207.1	207.6	208.5	209.6	210.1	211.5	212.5	212.8	214.0
19 Manufacturing.....	164.6	172.5	176.7	176.1	175.4	175.5	176.6	176.5	179.0	177.8 <sup>r</sup>	178.0	178.7
20 Disposable personal income <sup>5</sup> .....	193.6	205.0	215.5	215.9	215.5	215.8	215.9	216.4	216.7 <sup>r</sup>	216.8 <sup>r</sup>	217.8	219.4
21 Retail sales (1977 = 100) <sup>6</sup> .....	179.0	190.6	199.9	197.0	197.5	198.9	201.7	213.0	201.9	200.9 <sup>r</sup>	210.1	198.0
<i>Prices<sup>7</sup></i>												
22 Consumer.....	311.1	322.2	328.4	326.3	327.9	328.0	328.6	330.2	330.5	330.8	331.1	333.1
23 Producer finished goods.....	291.1	293.7	289.6	288.9	289.3	287.6	288.1	287.3 <sup>r</sup>	290.5	290.7	289.9	291.7

1. A major revision of the industrial production index and the capacity utilization rates was released in July 1985. See "A Revision of the Index of Industrial Production" and accompanying tables that contain revised indexes (1977=100) through December 1984 in the FEDERAL RESERVE BULLETIN, vol. 71 (July 1985), pp. 487-501. The revised indexes for January through June 1985 were shown in the September BULLETIN.

2. Ratios of indexes of production to indexes of capacity. Based on data from Federal Reserve, McGraw-Hill Economics Department, Department of Commerce, and other sources.

3. Index of dollar value of total construction contracts, including residential, nonresidential and heavy engineering, from McGraw-Hill Information Systems Company, F. W. Dodge Division.

4. Based on data in *Employment and Earnings* (U.S. Department of Labor). Series covers employees only, excluding personnel in the Armed Forces.

5. Based on data in *Survey of Current Business* (U.S. Department of Commerce).

6. Based on Bureau of Census data published in *Survey of Current Business*.

7. Data without seasonal adjustment, as published in *Monthly Labor Review*. Seasonally adjusted data for changes in the price indexes may be obtained from the Bureau of Labor Statistics, U.S. Department of Labor.

NOTE. Basic data (not index numbers) for series mentioned in notes 4, 5, and 6, and indexes for series mentioned in notes 3 and 7 may also be found in the *Survey of Current Business*.

Figures for industrial production for the last two months are preliminary and estimated, respectively.

## 2.11 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; monthly data are seasonally adjusted. Exceptions noted.

Category	1984	1985	1986	1986							1987
				June	July	Aug.	Sept.	Oct.	Nov.	Dec. <sup>2</sup>	Jan.
HOUSEHOLD SURVEY DATA											
1 Noninstitutional population <sup>1</sup> .....	178,602	180,440	182,822	182,732	182,906	183,074	183,261	183,450	183,628	183,815	184,092
2 Labor force (including Armed Forces) <sup>1</sup> .....	115,763	117,695	120,078	120,234	120,341	120,370	120,536	120,678	120,940	120,854	121,299
3 Civilian labor force .....	113,544	115,461	117,834	118,005	118,117	118,124	118,272	118,414	118,675	118,586	119,034
Employment											
4 Nonagricultural industries <sup>2</sup> .....	101,685	103,971	106,434	106,449	106,763	107,010	106,845	107,030	107,217	107,476	107,866
5 Agriculture .....	3,321	3,179	3,163	3,164	3,124	3,057	3,142	3,162	3,215	3,161	3,145
Unemployment											
6 Number .....	8,539	8,312	8,237	8,392	8,230	8,057	8,285	8,222	8,243	7,949	8,023
7 Rate (percent of civilian labor force) .....	7.5	7.2	7.0	7.1	7.0	6.8	7.0	6.9	6.9	6.7	6.7
8 Not in labor force .....	62,839	62,745	62,744	62,498	62,565	62,704	62,725	62,772	62,688	62,961	62,793
ESTABLISHMENT SURVEY DATA											
9 Nonagricultural payroll employment <sup>3</sup> .....	94,461	97,698	100,168	99,843	100,105	100,283	100,560	100,826	101,068 <sup>2</sup>	101,293	101,741
10 Manufacturing .....	19,412	19,426	19,187	19,135	19,121	19,123	19,105	19,118	19,156 <sup>2</sup>	19,183	19,186
11 Mining .....	974	969	792	772	768	753	743	746	742 <sup>2</sup>	740	729
12 Contract construction .....	4,345	4,661	4,961	4,947	4,980	5,012	5,010	5,001	4,993	4,997	5,139
13 Transportation and public utilities .....	5,171	5,300	5,285	5,167	5,288	5,255	5,316	5,316	5,351 <sup>2</sup>	5,359	5,363
14 Trade .....	22,134	23,195	23,829	23,773	23,841	23,893	23,924	24,007	24,056 <sup>2</sup>	24,053	24,238
15 Finance .....	5,682	5,924	6,304	6,295	6,334	6,364	6,388	6,409	6,429 <sup>2</sup>	6,469	6,491
16 Service .....	20,761	21,929	23,073	23,072	23,176	23,255	23,300	23,359	23,451 <sup>2</sup>	23,567	23,684
17 Government .....	15,984	16,295	16,738	16,682	16,597	16,628	16,774	16,870	16,890 <sup>2</sup>	16,925	16,911

1. Persons 16 years of age and over. Monthly figures, which are based on sample data, relate to the calendar week that contains the 12th day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures. Based on data from *Employment and Earnings* (U.S. Department of Labor).

2. Includes self-employed, unpaid family, and domestic service workers.

3. Data include all full- and part-time employees who worked during, or received pay for, the pay period that includes the 12th day of the month, and exclude proprietors, self-employed persons, domestic servants, unpaid family workers, and members of the Armed Forces. Data are adjusted to the March 1984 benchmark and only seasonally adjusted data are available at this time. Based on data from *Employment and Earnings* (U.S. Department of Labor).

## 2.12 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION

Seasonally adjusted

Series	1986				1986				1986						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
	Output (1977 = 100)				Capacity (percent of 1977 output)				Utilization rate (percent)						
1 Total industry .....	125.0	124.4	125.0	125.9	156.3	157.1	157.9	158.7	80.0	79.2	79.1	79.3			
2 Mining .....	105.4	99.9	96.6	95.9	132.4	132.1	131.9	131.7	79.6	75.6	73.2	72.8			
3 Utilities .....	110.5	108.9	108.8	110.6	136.3	136.9	137.5	138.1	81.1	79.5	79.1	80.1			
4 Manufacturing .....	128.4	128.4	129.4	130.4	160.5	161.4	162.4	163.4	80.0	79.5	79.7	79.8			
5 Primary processing .....	111.5	111.1	112.1	113.9	133.6	134.0	134.6	135.1	83.5	82.9	83.3	84.3			
6 Advanced processing .....	138.5	138.9	139.7	140.4	176.7	177.9	179.1	180.4	78.4	78.0	78.0	77.8			
7 Materials .....	114.5	113.3	113.4	114.0	144.2	144.7	145.3	145.8	79.4	78.3	78.1	78.2			
8 Durable goods .....	120.9	118.8	118.8	120.0	159.9	160.7	161.5	162.2	75.6	73.9	73.6	74.0			
9 Metal materials .....	79.0	75.1	73.1	75.9	115.0	114.5	114.0	113.4	68.7	65.6	64.2	66.9			
10 Nondurable goods .....	115.7	116.9	119.7	120.7	139.0	139.5	139.9	140.4	83.2	83.8	85.6	86.0			
11 Textile, paper, and chemical .....	116.2	117.0	120.4	121.6	138.4	138.8	139.2	139.6	83.9	84.3	86.5	87.1			
12 Paper .....	128.8	130.1	135.1	135.0	137.3	138.1	138.9	139.7	93.8	94.2	97.3	96.7			
13 Chemical .....	115.3	115.4	117.7	119.5	144.0	144.3	144.7	145.0	80.1	80.0	81.4	82.4			
14 Energy materials .....	102.2	100.6	98.6	97.8	121.1	121.3	121.4	121.6	84.4	82.9	81.2	80.4			
	Previous cycle <sup>1</sup>		Latest cycle <sup>2</sup>		1986		1986								
	High	Low	High	Low	Jan.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	
	Capacity utilization rate (percent)														
	15 Total industry .....	88.6	72.1	86.9	69.5	80.9	79.1	79.0	79.2	79.2	79.0	79.0	79.4	79.5	79.7
	16 Mining .....	92.8	87.8	95.2	76.9	81.6	75.5	74.9	73.5	73.1	72.9	72.5	73.4	72.5	72.7
	17 Utilities .....	95.6	82.9	88.5	78.0	82.7	79.3	79.2	79.9	78.8	78.7	79.3	80.5	80.4	80.2
	18 Manufacturing .....	87.7	69.9	86.5	68.0	80.8	79.4	79.3	79.7	79.7	79.6	79.6	79.8	80.1	80.3
	19 Primary processing .....	91.9	68.3	89.1	65.1	84.4	82.9	82.7	82.9	83.2	83.7	83.8	84.4	84.7	.....
	20 Advanced processing .....	86.0	71.1	85.1	69.5	79.2	78.0	77.7	78.4	78.0	77.6	77.8	77.7	77.9	.....
	21 Materials .....	92.0	70.5	89.1	68.4	80.1	78.1	78.0	78.3	77.9	78.1	77.8	78.4	78.4	78.4
22 Durable goods .....	91.8	64.4	89.8	60.9	76.5	73.7	73.2	73.7	73.5	73.5	73.6	74.2	74.1	74.3	
23 Metal materials .....	99.2	67.1	93.6	45.7	71.0	65.2	63.2	63.8	63.8	64.8	65.2	65.4	67.1	67.0	
24 Nondurable goods .....	91.1	66.7	88.1	70.6	83.7	83.5	84.3	85.0	85.5	86.1	85.8	85.6	86.5	87.1	
25 Textile, paper, and chemical .....	92.8	64.8	89.4	68.6	84.3	84.2	85.1	85.6	86.5	87.4	87.0	86.7	87.7	88.4	
26 Paper .....	98.4	70.6	97.3	79.9	94.6	93.1	95.9	97.8	97.9	96.1	95.7	96.0	98.2	.....	
27 Chemical .....	92.5	64.4	87.9	63.3	80.8	80.2	80.4	80.2	81.2	82.6	82.5	81.7	82.9	.....	
28 Energy materials .....	94.6	86.9	94.0	82.2	85.1	82.9	83.1	82.3	80.6	80.7	79.7	81.2	80.4	79.4	

1. Monthly high 1973; monthly low 1975.

2. Monthly highs 1978 through 1980; monthly lows 1982.

NOTE: These data also appear in the Board's G.3 (402) release. For address, see inside front cover.

## 2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value ▲

Monthly data are seasonally adjusted

Grouping	1977 pro- por- tion	1985 avg.	1986												1987
			Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct. <sup>r</sup>	Nov.	Dec. <sup>p</sup>	Jan. <sup>e</sup>
Index (1977 = 100)															
MAJOR MARKET															
1 Total index .....	100.00	123.8	126.2	125.3	123.6	124.7	124.2	124.2	124.9	125.1	124.9	125.3	126.0	126.4	126.9
2 Products .....	57.72	130.8	134.0	132.9	131.2	132.7	132.4	132.4	133.2	133.8	133.3	134.0	134.5	135.2	135.9
3 Final products .....	44.77	131.1	133.9	132.8	130.6	132.1	131.6	131.1	132.0	132.6	132.2	132.7	133.1	133.9	134.6
4 Consumer goods .....	25.52	120.2	123.8	123.3	121.8	124.5	124.3	124.4	125.2	125.1	124.2	124.7	125.4	127.1	127.8
5 Equipment .....	19.25	145.4	147.5	145.4	142.3	142.3	141.2	140.0	141.0	142.5	142.8	143.3	143.4	143.0	143.7
6 Intermediate products .....	12.94	130.0	134.2	133.4	133.3	134.5	135.1	137.0	137.3	137.8	137.0	138.7	139.3	139.6	140.3
7 Materials .....	42.28	114.2	115.5	114.8	113.3	113.8	113.0	113.1	113.6	113.2	113.5	113.3	114.4	114.4	114.6
Consumer goods															
8 Durable consumer goods .....	6.89	112.9	116.0	116.6	112.4	115.9	113.8	114.3	116.3	115.7	117.4	116.3	117.8	121.1	121.3
9 Automotive products .....	2.98	114.0	116.2	117.6	110.4	116.4	113.2	113.7	116.4	114.5	117.0	112.7	114.2	118.1	120.4
10 Autos and trucks .....	1.79	112.0	118.2	119.4	106.3	115.1	110.3	112.2	114.5	110.4	116.8	107.7	107.6	115.6	119.1
11 Autos, consumer .....	1.16	98.9	105.5	107.1	93.7	100.8	94.8	99.3	95.3	87.8	96.2	91.9	92.3	99.5	95.2
12 Trucks, consumer .....	.63	136.3	141.7	142.1	129.6	141.5	139.1	136.1	150.3	152.4	155.1	137.1	136.0	145.6	.....
13 Auto parts and allied goods .....	1.19	116.9	113.3	114.9	116.6	118.4	117.4	116.1	119.1	120.7	117.3	120.1	124.2	121.8	122.3
14 Home goods .....	3.91	112.2	115.8	115.8	113.9	115.5	114.3	114.8	116.3	116.7	117.7	119.0	120.6	123.4	122.1
15 Appliances, A/C and TV .....	1.24	131.0	133.2	135.1	133.7	138.8	133.9	137.5	138.9	139.4	141.2	142.6	146.2	152.6	145.9
16 Appliances and TV .....	1.19	131.8	135.7	137.6	136.0	140.6	135.8	139.1	141.6	142.5	143.5	144.3	147.9	154.5	.....
17 Carpeting and furniture .....	.96	119.8	125.1	124.4	121.2	121.8	123.3	122.5	126.6	125.8	126.2	128.8	131.1	132.6	.....
18 Miscellaneous home goods .....	1.71	94.3	98.0	97.0	95.5	95.0	95.0	94.1	94.1	95.1	96.0	96.5	96.3	97.2	.....
19 Nondurable consumer goods .....	18.63	122.9	126.6	125.8	125.3	127.7	128.1	128.1	128.4	128.6	126.7	127.8	128.2	129.3	130.1
20 Consumer staples .....	15.29	129.0	132.8	132.3	131.6	134.3	135.0	135.1	135.3	135.5	133.6	134.4	134.9	136.0	136.8
21 Consumer foods and tobacco .....	7.80	128.8	130.1	131.1	130.3	131.9	132.4	133.3	132.2	133.2	131.0	131.6	132.6	134.1	.....
22 Nonfood staples .....	7.49	129.2	135.6	133.5	133.0	136.7	137.7	137.0	138.5	137.9	136.3	137.2	137.4	137.9	138.8
23 Consumer chemical products .....	2.75	149.1	156.3	158.3	156.4	163.1	162.4	163.6	166.4	163.4	161.1	161.7	161.0	161.3	.....
24 Consumer paper products .....	1.88	141.9	148.9	143.4	143.1	145.1	148.6	147.1	146.4	147.7	145.7	150.3	151.6	151.8	.....
25 Consumer energy .....	2.86	101.8	107.0	103.2	104.0	106.0	106.8	104.8	106.6	107.1	106.3	105.2	105.5	106.3	.....
26 Consumer fuel .....	1.44	88.6	94.1	92.0	92.2	93.7	96.4	91.8	91.2	94.9	92.0	90.8	91.7	93.5	.....
27 Residential utilities .....	1.42	115.3	120.1	114.5	116.1	118.4	117.5	118.1	122.3	119.6	120.9	119.8	119.6	.....	.....
Equipment															
28 Business and defense equipment .....	18.01	146.0	149.1	147.8	145.5	146.6	146.0	145.1	146.4	147.8	148.0	148.4	148.3	147.9	148.6
29 Business equipment .....	14.34	139.6	141.5	140.5	137.7	138.6	137.9	136.6	137.9	139.3	139.3	139.1	138.9	138.3	138.9
30 Construction, mining, and farm .....	2.08	64.3	65.3	63.0	59.5	58.6	60.9	61.9	60.6	58.3	58.1	58.0	56.6	56.3	.....
31 Manufacturing .....	3.27	110.7	113.0	112.9	112.4	111.9	111.9	111.7	112.6	113.3	113.0	112.7	110.9	111.2	111.3
32 Power .....	1.27	83.5	82.9	82.3	82.0	83.0	82.9	83.5	81.7	81.7	80.3	80.5	79.5	80.7	81.0
33 Commercial .....	5.22	217.9	217.8	216.8	214.3	213.4	212.9	208.2	214.5	217.5	215.1	215.4	217.3	216.0	217.1
34 Transit .....	2.49	105.4	112.7	111.7	104.3	112.1	107.3	108.8	103.9	106.9	113.3	111.8	110.7	109.1	109.7
35 Defense and space equipment .....	3.67	170.6	178.7	176.3	176.2	178.0	178.0	178.4	179.5	181.0	182.0	184.6	184.9	185.3	186.7
Intermediate products															
36 Construction supplies .....	5.95	118.3	124.0	122.6	122.6	123.6	123.5	124.1	124.0	125.4	125.9	126.3	127.1	126.9	127.9
37 Business supplies .....	6.99	140.0	142.9	142.6	142.5	143.8	145.0	147.9	148.6	148.4	146.4	149.3	149.7	150.3	.....
38 General business supplies .....	5.67	143.9	147.2	146.7	146.4	148.0	148.3	151.6	153.3	152.5	151.2	154.1	153.7	154.2	.....
39 Commercial energy products .....	1.31	122.9	124.4	124.9	125.6	125.8	130.7	131.9	128.3	130.6	125.8	128.8	132.4	133.7	.....
Materials															
40 Durable goods materials .....	20.50	121.4	122.2	121.3	119.3	120.2	118.4	117.8	118.8	118.8	118.9	119.2	120.4	120.4	121.0
41 Durable consumer parts .....	4.92	100.3	103.5	103.2	99.9	99.3	96.4	96.3	96.7	95.2	95.3	97.0	98.0	98.8	99.4
42 Equipment parts .....	5.94	158.0	153.8	153.0	153.7	154.8	152.3	151.8	154.3	155.6	154.8	153.5	154.5	154.1	155.0
43 Durable materials n.e.c. ....	9.64	109.7	112.2	111.0	108.0	109.4	108.8	107.9	108.2	108.1	108.8	109.4	110.8	110.7	111.1
44 Basic metal materials .....	4.64	84.8	85.2	83.0	79.6	82.9	78.9	76.7	77.4	76.9	78.4	78.8	82.1	81.0	.....
45 Nondurable goods materials .....	10.09	112.2	116.2	116.1	114.8	116.5	116.5	117.7	118.9	119.7	120.6	120.3	120.1	121.6	122.6
46 Textile, paper, and chemical .....	7.53	112.2	116.5	116.5	115.5	115.9	116.9	118.2	119.0	120.5	121.8	121.3	121.0	122.6	123.8
47 Textile materials .....	1.52	98.7	104.1	107.5	105.7	106.7	108.4	109.5	111.2	113.4	116.0	114.3	115.0	113.9	.....
48 Pulp and paper materials .....	1.55	124.1	129.7	128.8	128.0	129.0	128.6	132.7	135.6	136.0	133.7	133.5	134.2	137.4	.....
49 Chemical materials .....	4.46	112.7	116.2	115.4	114.5	114.5	115.7	116.1	115.9	117.5	119.7	119.5	118.5	120.4	.....
50 Miscellaneous nondurable materials .....	2.57	112.1	115.4	115.0	112.8	118.2	115.3	116.4	118.3	117.2	117.1	117.5	117.6	118.7	.....
51 Energy materials .....	11.69	103.4	103.0	102.1	101.4	100.4	100.5	100.8	99.9	97.9	98.0	96.9	98.7	97.7	96.6
52 Primary energy .....	7.57	107.2	106.9	106.7	107.4	106.2	106.7	106.5	104.8	103.7	103.8	102.7	104.8	102.9	.....
53 Converted fuel materials .....	4.12	96.4	95.8	93.6	90.5	89.7	89.2	90.4	90.9	87.3	87.4	86.2	87.5	88.2	.....

## 2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value—Continued

Grouping	SIC code	1977 pro- por- tion	1985 avg.	1986												1987	
				Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct. <sup>a</sup>	Nov.	Dec. <sup>a</sup>	Jan.	
				Index (1977 = 100)													
MAJOR INDUSTRY																	
1 Mining and utilities.....		15.79	110.0	109.8	106.8	105.4	104.2	103.1	102.6	101.8	100.9	100.8	100.7	102.1	101.4	101.4	
2 Mining.....		9.83	108.8	108.1	105.1	103.0	101.0	99.8	98.9	97.1	96.4	96.2	95.6	96.7	95.4	95.6	
3 Utilities.....		5.96	111.9	112.5	109.7	109.3	109.4	108.5	108.6	109.7	108.3	108.3	109.3	111.2	111.2	111.0	
4 Manufacturing.....		84.21	126.4	129.4	128.7	127.2	128.7	128.2	128.3	129.2	129.5	129.5	129.9	130.4	131.0	131.8	
5 Nondurable.....		35.11	125.1	129.3	128.7	127.7	129.6	129.9	131.2	131.7	132.2	131.4	132.3	132.8	133.5	134.5	
6 Durable.....		49.10	127.3	129.5	128.7	126.8	128.1	127.0	126.2	127.4	127.5	128.1	128.1	128.6	129.3	129.8	
Mining																	
7 Metal.....	10	.50	75.0	73.5	77.2	75.9	76.0	72.0	65.9	69.2	70.9	70.7	68.5	.....	.....	.....	
8 Coal.....	11.12	1.60	126.8	130.8	126.5	124.7	124.4	124.0	127.3	120.2	122.2	120.8	117.6	130.1	124.8	.....	
9 Oil and gas extraction.....	13	7.07	106.2	104.9	101.1	99.2	96.2	95.1	93.3	92.4	90.7	91.0	90.5	89.4	88.8	88.7	
10 Stone and earth minerals.....	14	.66	118.3	113.5	116.8	111.6	115.0	112.4	114.5	111.8	114.8	111.7	116.4	115.2	114.8	.....	
Nondurable manufactures																	
11 Foods.....	20	7.96	130.2	132.0	132.9	132.2	133.1	133.7	134.6	134.3	135.1	134.3	133.7	134.1	134.9	.....	
12 Tobacco products.....	21	.62	100.2	93.8	97.0	93.6	100.3	101.6	97.6	97.9	97.1	89.8	100.1	99.7	.....	.....	
13 Textile mill products.....	22	2.29	103.2	107.9	109.9	108.0	111.4	111.3	112.6	113.4	114.7	116.0	116.1	117.9	117.7	.....	
14 Apparel products.....	23	2.79	100.9	105.5	102.8	102.8	103.1	102.6	101.7	102.5	102.5	102.7	104.2	105.1	106.1	.....	
15 Paper and products.....	26	3.15	127.6	133.6	132.6	132.4	134.1	133.2	137.2	138.1	138.6	136.9	137.8	139.5	141.4	.....	
16 Printing and publishing.....	27	4.54	153.9	160.9	156.7	157.8	161.6	161.9	164.0	165.4	164.6	163.0	167.8	168.5	168.5	170.0	
17 Chemicals and products.....	28	8.05	127.1	131.7	132.0	130.2	132.8	131.5	134.2	134.1	134.4	133.9	133.9	132.9	133.5	.....	
18 Petroleum products.....	29	2.40	86.8	94.7	90.1	88.6	91.3	95.7	91.8	90.6	94.0	93.3	91.1	91.5	92.5	93.5	
19 Rubber and plastic products.....	30	2.80	146.9	150.2	151.1	147.8	146.8	150.1	152.2	155.5	155.5	154.9	157.6	159.0	160.0	.....	
20 Leather and products.....	31	.53	68.5	65.4	64.8	62.7	61.5	59.5	57.9	61.9	62.0	59.4	60.2	61.3	61.1	.....	
Durable manufactures																	
21 Lumber and products.....	24	2.30	113.4	120.5	120.3	120.7	121.3	121.6	120.9	120.8	122.5	125.0	125.9	129.3	.....	.....	
22 Furniture and fixtures.....	25	1.27	139.7	141.2	143.2	142.9	145.9	146.2	147.1	149.5	148.3	147.7	149.2	148.6	150.4	.....	
23 Clay, glass, stone products.....	32	2.72	115.5	120.0	119.3	120.0	121.6	120.2	120.8	119.6	119.7	121.6	118.1	120.6	121.6	.....	
24 Primary metals.....	33	5.33	80.5	82.4	80.3	76.3	78.1	74.8	71.4	73.6	73.4	74.1	74.2	76.8	74.7	74.2	
25 Iron and steel.....	331.2	3.49	70.4	72.2	69.5	64.3	65.6	60.2	58.3	61.7	60.8	61.1	62.2	64.8	62.0	.....	
26 Fabricated metal products.....	34	6.46	107.3	109.2	108.5	107.6	108.2	106.5	106.6	105.7	105.9	107.3	108.3	107.1	108.4	109.4	
27 Nonelectrical machinery.....	35	9.54	145.3	144.9	143.9	141.7	140.8	141.3	140.4	142.6	142.6	140.9	142.2	141.6	140.7	141.7	
28 Electrical machinery.....	36	7.15	168.4	166.1	164.8	165.2	166.8	166.0	163.2	166.8	167.2	166.9	167.7	168.2	169.9	170.0	
29 Transportation equipment.....	37	9.13	121.4	128.2	127.5	122.6	126.2	124.1	125.1	125.6	125.1	127.7	125.2	125.6	127.5	127.9	
30 Motor vehicles and parts.....	371	5.25	111.5	116.5	116.4	108.1	112.6	108.7	110.6	111.2	108.2	112.2	107.1	107.9	111.5	112.2	
31 Aerospace and miscellaneous transportation equipment.....	372-6.9	3.87	134.9	143.9	142.6	142.4	144.8	145.0	144.7	145.2	148.0	148.7	149.7	149.6	149.3	149.1	
32 Instruments.....	38	2.66	139.1	141.5	141.9	142.0	142.4	140.3	139.9	141.7	142.0	141.7	140.3	141.1	142.2	142.5	
33 Miscellaneous manufactures.....	39	1.46	96.1	100.9	100.9	99.0	99.2	101.0	98.3	97.5	98.3	97.7	99.0	98.9	100.6	.....	
Utilities																	
34 Electric.....		4.17	119.7	119.7	119.5	119.8	121.6	121.7	123.1	125.4	122.4	122.8	123.8	125.2	125.5	.....	
Gross value (billions of 1978 dollars, annual rates)																	
MAJOR MARKET																	
35 Products, total.....		517.5	1,650.9	1,702.1	1,686.5	1,660.8	1,686.3	1,687.6	1,676.7	1,669.9	1,681.3	1,677.8	1,683.9	1,690.8	1,703.9	1,716.2	
36 Final.....		405.7	1,282.3	1,321.2	1,310.3	1,282.5	1,307.0	1,301.1	1,289.5	1,282.7	1,292.6	1,292.3	1,292.5	1,297.3	1,309.3	1,323.3	
37 Consumer goods.....		272.7	820.7	850.7	845.3	832.0	852.3	852.4	843.8	842.3	846.9	839.8	839.3	846.2	861.4	869.1	
38 Equipment.....		133.0	461.7	470.5	465.1	450.4	454.7	448.7	445.7	440.4	445.7	452.5	453.2	451.1	447.9	454.1	
39 Intermediate.....		111.9	368.6	380.8	376.2	378.3	379.3	386.4	387.2	387.1	388.7	385.5	391.4	393.4	394.6	393.0	

▲ A major revision of the industrial production index and the capacity utilization rates was released in July 1985. See "A Revision of the Index of Industrial Production" and accompanying tables that contain revised indexes (1977=100) through December 1984 in the FEDERAL RESERVE BULLETIN, vol. 71

(July 1985), pp. 487-501. The revised indexes for January through June 1985 were shown in the September BULLETIN.

NOTE: These data also appear in the Board's G.12.3 (414) release. For address, see inside front cover.

## 2.14 HOUSING AND CONSTRUCTION

Monthly figures are at seasonally adjusted annual rates except as noted.

Item	1984	1985	1986	1986									
				Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Private residential real estate activity (thousands of units)													
NEW UNITS													
1 Permits authorized .....	1,682	1,733	1,750	1,834	1,885	1,788	1,792	1,759	1,673	1,603	1,565	1,613	1,910
2 1-family .....	922	957	1,071	1,043	1,139	1,092	1,121	1,093	1,039	1,047	1,006	991	1,168
3 2-or-more-family .....	759	777	679	791	746	696	671	666	634	556	559	622	742
4 Started .....	1,749	1,742	1,806 <sup>r</sup>	1,887 <sup>r</sup>	1,945 <sup>r</sup>	1,848 <sup>r</sup>	1,842 <sup>r</sup>	1,786 <sup>r</sup>	1,800 <sup>r</sup>	1,689 <sup>r</sup>	1,657 <sup>r</sup>	1,637 <sup>r</sup>	1,808
5 1-family .....	1,084	1,072	1,179	1,195 <sup>r</sup>	1,220 <sup>r</sup>	1,219	1,212 <sup>r</sup>	1,147 <sup>r</sup>	1,180 <sup>r</sup>	1,123 <sup>r</sup>	1,114 <sup>r</sup>	1,129 <sup>r</sup>	1,225
6 2-or-more-family .....	665	669	626	692 <sup>r</sup>	725 <sup>r</sup>	629	630 <sup>r</sup>	639 <sup>r</sup>	620 <sup>r</sup>	566 <sup>r</sup>	543	508 <sup>r</sup>	583
7 Under construction, end of period <sup>1</sup> .....	1,051	1,063	1,085	1,099	1,135	1,132	1,151	1,157	1,164	1,154	1,142 <sup>r</sup>	1,123 <sup>r</sup>	1,111
8 1-family .....	556	539	590	574	586	597	612	623	630	626	625	616 <sup>r</sup>	615
9 2-or-more-family .....	494	524	495	526	549	534	539	533	533	527	517 <sup>r</sup>	507 <sup>r</sup>	497
10 Completed .....	1,652	1,703	1,754	1,806	1,693	1,829	1,620	1,761	1,763	1,743	1,732 <sup>r</sup>	1,771 <sup>r</sup>	1,883
11 1-family .....	1,025	1,072	1,118	1,153	1,127	1,140	1,060	1,067	1,128	1,110	1,168 <sup>r</sup>	1,174 <sup>r</sup>	1,158
12 2-or-more-family .....	627	631	637	653	566	689	560	694	635	633	564 <sup>r</sup>	597 <sup>r</sup>	725
13 Mobile homes shipped .....	296	284	244	241 <sup>r</sup>	251 <sup>r</sup>	239	232 <sup>r</sup>	238 <sup>r</sup>	231 <sup>r</sup>	243 <sup>r</sup>	241 <sup>r</sup>	237 <sup>r</sup>	251
Merchant builder activity in 1-family units													
14 Number sold .....	639	688	748	924	880	787	722	698	618	745 <sup>r</sup>	678 <sup>r</sup>	685 <sup>r</sup>	772
15 Number for sale, end of period <sup>1</sup> .....	358	350	366	338	336	336	340	349	352	355 <sup>r</sup>	357 <sup>r</sup>	354 <sup>r</sup>	362
Price (thousands of dollars) <sup>2</sup>													
16 Median .....	80.0	84.3	92.3	88.7	92.5	92.1	91.2	94.1	91.5	95.0 <sup>r</sup>	96.0 <sup>r</sup>	95.0 <sup>r</sup>	95.5
17 Average .....	97.5	101.0	112.5	108.0	110.3	114.6	110.9	116.8	113.2	114.0 <sup>r</sup>	114.9 <sup>r</sup>	114.6 <sup>r</sup>	122.6
EXISTING UNITS (1-family)													
18 Number sold .....	2,868	3,217	3,566	3,200	3,570	3,450	3,390	3,470	3,610	3,770	3,810	3,910	4,060
Price of units sold (thousands of dollars) <sup>2</sup>													
19 Median .....	72.3	75.4	80.2	79.8	80.2	83.2	82.6	79.9	82.0	79.4	79.4	80.4	80.8
20 Average .....	85.9	90.6	98.2	96.8	98.1	101.7	102.1	99.2	100.3	96.8	97.3	99.1	100.6
Value of new construction <sup>3</sup> (millions of dollars)													
CONSTRUCTION													
21 Total put in place .....	327,209	355,570	376,856	368,027	373,904	374,483	375,397	380,722	382,603	382,581	384,317	378,444	374,903
22 Private .....	271,973	292,792	305,700	298,868	303,320	302,573	304,567	309,003	310,155	308,617	310,704	308,609	303,751
23 Residential .....	155,148	158,818	174,551	165,645	170,520	172,491	174,478	178,821	178,761	178,480	181,858	182,154	178,623
24 Nonresidential, total .....	116,825	133,974	131,149	133,223	132,800	130,082	130,089	130,182	131,394	130,137	128,846	126,455	125,128
25 Buildings .....	13,746	15,769	13,611	13,354	14,557	13,658	13,027	12,866	12,543	13,180	12,948	13,428	12,739
26 Industrial .....	48,100	59,626	51,901	60,716	59,763	57,368	57,443	58,132	60,054	58,001	56,273	54,834	54,253
27 Commercial .....	12,547	12,619	13,436	13,131	13,006	13,131	13,263	13,277	13,315	14,001	14,341	13,956	13,833
28 Other .....	42,432	45,960	52,201	46,022	45,474	45,925	46,356	45,907	45,482	44,955	45,284	44,237	44,303
29 Public utilities and other .....	55,232	62,777	71,154	69,159	70,583	71,910	70,830	71,719	72,448	73,964	73,613	69,836	71,152
30 Military .....	2,839	3,283	3,847	3,673	3,725	3,637	3,761	3,553	4,132	5,050	3,695	3,722	3,847
31 Highway .....	16,343	19,998	21,383	22,673	23,155	23,240	22,001	21,603	21,607	20,552	20,465	18,371	18,932
32 Conservation and development .....	4,654	4,952	4,919	4,598	4,947	4,729	4,657	4,415	4,294	4,841	6,425	4,635	5,159
33 Other .....	31,396	34,544	41,005	38,215	38,756	40,304	40,411	42,148	42,415	43,521	43,028	43,108	43,214

1. Not at annual rates.

2. Not seasonally adjusted.

3. Value of new construction data in recent periods may not be strictly comparable with data in prior periods because of changes by the Bureau of the Census in its estimating techniques. For a description of these changes see *Construction Reports* (C-30-76-5), issued by the Bureau in July 1976.

NOTE. Census Bureau estimates for all series except (a) mobile homes, which are private, domestic shipments as reported by the Manufactured Housing Institute and seasonally adjusted by the Census Bureau, and (b) sales and prices of existing units, which are published by the National Association of Realtors. All back and current figures are available from originating agency. Permit authorizations are those reported to the Census Bureau from 16,000 jurisdictions beginning with 1978.

## 2.15 CONSUMER AND PRODUCER PRICES

Percentage changes based on seasonally adjusted data, except as noted

Item	Change from 12 months earlier		Change from 3 months earlier (at annual rate)				Change from 1 month earlier					Index level Jan. 1987 (1967 = 100) <sup>1</sup>
	1986 Jan.	1987 Jan.	1986 <sup>2</sup>				1986 <sup>2</sup>				1987 Jan.	
			Mar.	June	Sept.	Dec.	Sept.	Oct.	Nov.	Dec.		
CONSUMER PRICES <sup>2</sup>												
1 All items .....	3.9	1.4	-1.3	1.6	2.0	2.5	.3	.2	.2	.2	.7	333.1
2 Food .....	2.7	4.2	-.9	3.9	8.4	4.1	.4	.4	.4	.2	.4	328.9
3 Energy items .....	2.5	-17.1	-32.3	-12.6	-21.0	-9.9	.4	-1.9	-.5	-.2	3.0	352.2
4 All items less food and energy .....	4.4	3.7	4.4	3.3	3.7	3.7	.3	.4	.3	.2	.5	333.6
5 Commodities .....	2.1	1.4	1.2	.3	2.6	1.4	.1	.1	.1	.1	.6	265.5
6 Services .....	5.9	5.1	6.5	4.9	4.3	5.1	.3	.6	.4	.3	.5	407.5
PRODUCER PRICES												
7 Finished goods .....	1.3	-1.5	-10.5	.7	-.4	1.1	.3	.3	.1	-.1	.6	291.7
8 Consumer foods .....	.5	1.8	-7.6	8.2	11.2	1.1	-.1	.6	.0	-.4	-1.8	280.0
9 Consumer energy .....	-1.5	-31.7	-62.9	-20.7	-42.7	-18.4	1.8	-3.1	-1.1	-.9	9.9	478.5
10 Other consumer goods .....	2.4	3.0	4.1	.9	2.3	4.1	.2	.6	.3	.1	.5	263.2
11 Capital equipment .....	2.2	2.4	1.1	2.4	2.0	3.3	.3	.4	.3	.1	.2	311.2
12 Intermediate materials <sup>3</sup> .....	-.6	-3.3	-9.8	-5.1	-1.5	-1.2	.4	-.3	.0	.0	1.0	312.9
13 Excluding energy .....	-.3	.6	-.7	-1.2	1.5	1.1	.2	.2	.1	.0	.4	306.2
Crude materials												
14 Foods .....	-7.6	-2.0	-22.6	5.9	18.1	-3.8	-1.0	1.5	-1.3	-1.2	-3.0	227.1
15 Energy .....	-3.3	-22.0	-51.3	-29.1	-19.6	-10.4	2.6	1.0	-.7	-3.0	10.0	571.6
16 Other .....	-3.4	2.1	25.9	6.6	-24.1	8.0	-.5	1.1	.7	.1	.5	251.0

1. Not seasonally adjusted.

2. Figures for consumer prices are those for all urban consumers and reflect a rental equivalence measure of homeownership after 1982.

3. Excludes intermediate materials for food manufacturing and manufactured animal feeds.

SOURCE: Bureau of Labor Statistics.

## 2.16 GROSS NATIONAL PRODUCT AND INCOME

Billions of current dollars except as noted; quarterly data are at seasonally adjusted annual rates.

Account	1984	1985	1986 <sup>1</sup>	1985	1986				
				Q4	Q1	Q2	Q3	Q4 <sup>2</sup>	
GROSS NATIONAL PRODUCT									
1 Total .....	3,765.0	3,998.1	4,206.5	4,087.7	4,149.2	4,175.6	4,240.7	4,260.6	
By source									
2 Personal consumption expenditures .....	2,428.2	2,600.5	2,763.1	2,667.9	2,697.9	2,732.0	2,799.8	2,822.5	
3 Durable goods .....	331.2	359.3	388.4	362.0	360.8	373.9	414.5	404.3	
4 Nondurable goods .....	870.1	905.1	932.7	922.6	929.7	928.4	932.8	939.7	
5 Services .....	1,227.0	1,336.1	1,442.0	1,383.2	1,407.4	1,429.8	1,452.4	1,478.5	
6 Gross private domestic investment .....	662.1	661.1	684.1	669.5	708.3	687.3	675.8	665.3	
7 Fixed investment .....	598.0	650.0	676.3	672.6	664.4	672.8	680.3	687.8	
8 Nonresidential .....	416.5	458.2	459.3	474.0	459.2	457.5	459.0	461.4	
9 Structures .....	139.3	154.8	143.1	157.2	154.6	141.5	139.5	136.8	
10 Producers' durable equipment .....	277.3	303.4	316.2	316.8	304.6	316.0	319.5	324.6	
11 Residential structures .....	181.4	191.8	217.0	198.6	205.3	215.3	221.3	226.3	
12 Change in business inventories .....	64.1	11.1	7.8	-3.1	43.8	14.5	-4.5	-22.5	
13 Nonfarm .....	56.6	12.2	8.3	16.7	41.2	10.5	-10.3	-8.3	
14 Net exports of goods and services .....	-58.7	-78.9	-105.2	-105.3	-93.7	-104.5	-108.9	-113.6	
15 Exports .....	382.7	369.8	372.3	368.2	374.8	363.0	370.8	380.7	
16 Imports .....	441.4	448.6	477.5	473.6	468.5	467.5	479.7	494.3	
17 Government purchases of goods and services .....	733.4	815.4	864.5	855.6	836.7	860.8	874.0	886.5	
18 Federal .....	311.3	354.1	366.6	380.9	355.7	367.6	369.3	374.0	
19 State and local .....	422.2	461.3	497.9	474.7	480.9	493.3	504.7	512.5	
By major type of product									
20 Final sales, total .....	3,700.9	3,987.0	4,198.7	4,090.8	4,105.4	4,161.2	4,245.2	4,283.1	
21 Goods .....	1,576.7	1,630.2	1,671.4	1,644.1	1,669.0	1,661.6	1,680.2	1,674.7	
22 Durable .....	675.0	700.2	716.8	709.1	710.6	703.1	730.1	723.4	
23 Nondurable .....	901.7	930.0	954.6	935.0	958.4	958.5	950.1	951.3	
24 Services .....	1,813.1	1,959.8	2,105.4	2,025.5	2,057.7	2,087.4	2,125.2	2,151.2	
25 Structures .....	375.1	408.1	429.8	418.1	422.6	426.7	435.3	434.7	
26 Change in business inventories .....	64.1	11.1	7.8	-3.1	43.8	14.5	-4.5	-22.5	
27 Durable goods .....	39.2	6.6	-7	9.5	28.6	-1	-15.6	-15.8	
28 Nondurable goods .....	24.9	4.5	8.6	-12.7	15.3	14.6	11.1	-6.7	
29 MEMO: Total GNP in 1982 dollars .....	3,489.9	3,585.2	3,675.5	3,622.3	3,655.9	3,661.4	3,686.4	3,698.3	
NATIONAL INCOME									
30 Total .....	3,032.0	3,222.3	3,385.1	3,287.3	3,340.7	3,376.4	3,396.1	n.a.	
31 Compensation of employees .....	2,214.7	2,368.2	2,498.0	2,423.6	2,461.5	2,480.2	2,507.4	2,542.8	
32 Wages and salaries .....	1,837.0	1,965.8	2,073.5	2,012.8	2,044.1	2,058.8	2,081.1	2,109.8	
33 Government and government enterprises .....	346.2	372.2	395.7	381.6	387.2	392.5	398.4	404.4	
34 Other .....	1,490.6	1,593.9	1,677.8	1,631.1	1,656.8	1,666.3	1,682.7	1,705.4	
35 Supplement to wages and salaries .....	377.7	402.4	424.5	410.9	417.4	421.3	426.3	433.0	
36 Employer contributions for social insurance .....	193.1	205.5	215.7	209.1	212.9	214.1	215.9	220.1	
37 Other labor income .....	184.5	196.9	208.8	201.7	204.5	207.3	210.4	213.0	
38 Proprietors' income <sup>1</sup> .....	236.9	254.4	279.2	262.1	265.3	289.1	277.5	284.9	
39 Business and professional <sup>1</sup> .....	205.3	225.2	252.7	232.7	240.9	249.6	258.0	262.2	
40 Farm <sup>1</sup> .....	31.5	29.2	26.5	29.4	24.4	39.5	19.6	22.7	
41 Rental income of persons <sup>2</sup> .....	8.3	7.6	15.0	8.3	12.8	16.3	16.2	14.8	
42 Corporate profits <sup>1</sup> .....	264.7	280.7	299.7	285.6	296.4	293.1	302.0	n.a.	
43 Profits before tax <sup>3</sup> .....	235.7	223.2	235.4	235.8	222.5	227.7	240.4	n.a.	
44 Inventory valuation adjustment .....	-5.5	-6	6.5	-9.4	16.5	10.6	6.1	-7.2	
45 Capital consumption adjustment .....	34.5	58.1	56.8	59.2	57.3	54.8	55.5	59.4	
46 Net interest .....	307.4	311.4	294.2	307.6	304.9	297.7	292.9	281.5	

1. With inventory valuation and capital consumption adjustments.  
2. With capital consumption adjustment.

3. For after-tax profits, dividends, and the like, see table 1.48.  
SOURCE: *Survey of Current Business* (Department of Commerce).

## 2.17 PERSONAL INCOME AND SAVING

Billions of current dollars; quarterly data are at seasonally adjusted annual rates. Exceptions noted.

Account	1984	1985	1986 <sup>a</sup>	1985	1986				
				Q4	Q1	Q2	Q3	Q4 <sup>a</sup>	
PERSONAL INCOME AND SAVING									
1 Total personal income.....	3,110.2	3,314.5	3,486.1	3,382.9	3,432.6	3,483.3	3,498.8	3,529.6	
2 Wage and salary disbursements.....	1,836.8	1,966.1	2,073.5	2,012.8	2,044.1	2,058.8	2,081.1	2,109.8	
3 Commodity-producing industries.....	577.8	607.7	623.2	617.7	622.0	620.8	621.8	628.3	
4 Manufacturing.....	439.1	460.1	471.2	467.5	470.5	468.8	470.0	475.4	
5 Distributive industries.....	442.2	469.8	487.9	478.9	485.2	484.3	488.3	493.7	
6 Service industries.....	470.6	516.4	566.7	534.6	549.6	561.3	572.6	583.3	
7 Government and government enterprises.....	346.2	372.2	395.7	381.6	387.2	392.5	398.4	404.4	
8 Other labor income.....	184.5	196.9	208.8	201.7	204.5	207.3	210.4	213.0	
9 Proprietors' income <sup>1</sup> .....	236.9	254.4	279.2	262.1	265.3	289.1	277.5	284.9	
10 Business and professional <sup>1</sup> .....	205.3	225.2	252.7	232.7	240.9	249.6	258.0	262.2	
11 Farm <sup>1</sup> .....	31.5	29.2	26.5	29.4	24.4	39.5	19.6	22.7	
12 Rental income of persons <sup>2</sup> .....	8.3	7.6	15.0	8.3	12.8	16.3	16.2	14.8	
13 Dividends.....	74.7	76.4	81.2	76.7	79.1	81.1	82.0	82.7	
14 Personal interest income.....	446.9	476.2	475.0	480.6	480.8	480.1	473.8	465.2	
15 Transfer payments.....	455.6	487.1	513.7	493.6	504.7	510.1	518.5	521.7	
16 Old-age survivors, disability, and health insurance benefits.....	235.7	253.4	266.8	256.8	263.2	264.1	269.6	270.2	
17 LESS: Personal contributions for social insurance.....	133.5	150.2	160.3	152.9	158.6	159.5	160.8	162.4	
18 EQUALS: Personal income.....	3,110.2	3,314.5	3,486.1	3,382.9	3,432.6	3,483.3	3,498.8	3,529.6	
19 LESS: Personal tax and nontax payments.....	439.6	486.5	514.1	500.7	497.5	504.8	519.0	534.9	
20 EQUALS: Disposable personal income.....	2,670.6	2,828.0	2,972.0	2,882.2	2,935.1	2,978.5	2,979.9	2,994.6	
21 LESS: Personal outlays.....	2,501.9	2,684.7	2,858.0	2,756.4	2,789.4	2,825.5	2,895.8	2,921.1	
22 EQUALS: Personal saving.....	168.7	143.3	116.3	125.8	145.6	153.1	84.1	73.5	
MEMO									
Per capita (1982 dollars)									
23 Gross national product.....	14,721.1	14,982.0	15,219.4	15,079.9	15,188.0	15,178.9	15,245.6	15,257.0	
24 Personal consumption expenditures.....	9,475.4	9,713.7	10,016.9	9,790.3	9,857.1	9,984.4	10,124.0	10,096.5	
25 Disposable personal income.....	10,421.0	10,563.0	10,774.0	10,577.0	10,723.0	10,886.0	10,776.0	10,713.0	
26 Saving rate (percent).....	6.3	5.1	3.8	4.4	5.0	5.1	2.8	2.5	
GROSS SAVING									
27 Gross saving.....	573.3	551.5	536.1	524.1	583.2	539.7	517.2	n.a.	
28 Gross private saving.....	674.8	687.8	677.9	679.2	708.3	713.0	650.5	n.a.	
29 Personal saving.....	168.7	143.3	116.3	125.8	145.6	153.1	84.1	73.5	
30 Undistributed corporate profits <sup>1</sup> .....	91.0	107.3	108.6	106.8	115.5	106.6	108.8	n.a.	
31 Corporate inventory valuation adjustment.....	5.5	.6	6.5	9.4	16.5	10.6	6.1	7.2	
Capital consumption allowances									
32 Corporate.....	253.9	268.2	280.2	273.3	275.3	278.9	281.6	284.9	
33 Noncorporate.....	161.2	268.2	280.2	173.4	171.8	174.4	176.0	178.0	
34 Wage accruals less disbursements.....	.0	169.0	175.0	.0	.0	.0	.0	.0	
35 Government surplus, or deficit (—), national income and product accounts.....	-101.5	.0	.0	-155.1	125.1	173.3	133.3	n.a.	
36 Federal.....	170.0	198.0	204.9	-217.6	195.0	232.2	197.4	n.a.	
37 State and local.....	68.5	61.7	63.1	62.5	69.9	58.9	64.0	n.a.	
38 Capital grants received by the United States, net.....	.0	.0	.0	.0	.0	.0	.0	.0	
39 Gross investment.....	571.4	545.9	541.5	525.7	579.6	544.3	527.5	514.5	
40 Gross private domestic.....	662.1	661.1	684.1	669.5	708.3	687.3	675.8	665.3	
41 Net foreign.....	90.7	115.2	142.7	143.8	128.6	143.0	-148.3	150.7	
42 Statistical discrepancy.....	-1.9	-5.5	5.4	1.6	-3.6	4.6	10.3	10.3	

1. With inventory valuation and capital consumption adjustments.

2. With capital consumption adjustment.

SOURCE: Survey of Current Business (Department of Commerce).

## 3.10 U.S. INTERNATIONAL TRANSACTIONS Summary

Millions of dollars; quarterly data are seasonally adjusted except as noted.<sup>1</sup>

Item credits or debits	1983	1984	1985	1985		1986		
				Q3	Q4	Q1	Q2	Q3 <sup>P</sup>
1 Balance on current account .....	-46,605	-106,466	-117,677	-28,455	-33,695	-34,038	-34,413	-36,280
2 Not seasonally adjusted .....	.....	.....	.....	-32,275	-31,510	-31,020	-35,458	-40,206
3 Merchandise trade balance <sup>2</sup> .....	-67,080	-112,522	-124,439	-31,675	-37,352	-36,459	-35,669	-37,669
4 Merchandise exports .....	201,820	219,900	214,424	52,498	52,727	53,661	55,149	55,318
5 Merchandise imports .....	-268,900	-332,422	-338,863	-84,173	-90,079	-90,120	-90,818	-92,987
6 Military transactions, net .....	-370	-1,827	-2,917	-619	-1,322	-1,066	-695	-624
7 Investment income, net <sup>3</sup> .....	24,841	18,751	25,188	8,262	9,255	6,517	5,325	5,509
8 Other service transactions, net .....	5,484	1,288	-525	-422	-32	-7	705	681
9 Remittances, pensions, and other transfers .....	-3,194	-3,621	-3,787	-914	-937	-954	-834	-789
10 U.S. government grants (excluding military) .....	-6,286	-8,536	-11,196	-3,087	-3,307	-2,069	-3,245	-3,388
11 Change in U.S. government assets, other than official reserve assets, net (increase, -) .....	-5,005	-5,523	-2,824	-422	-540	-250	-209	-1,346
12 Change in U.S. official reserve assets (increase, -) .....	-1,196	-3,130	-3,858	-121	-3,148	-115	16	280
13 Gold .....	0	0	0	0	0	0	0	0
14 Special drawing rights (SDRs) .....	-66	-979	-897	-264	-189	-274	-104	163
15 Reserve position in International Monetary Fund .....	-4,434	-995	908	388	168	344	366	508
16 Foreign currencies .....	3,304	-1,156	-3,869	-245	-3,126	-185	-246	-391
17 Change in U.S. private assets abroad (increase, -) <sup>3</sup> .....	-43,821	-14,987	-25,754	-5,324	-19,579	-12,533	-25,357	-28,016
18 Bank-reported claims .....	-29,928	-11,127	-691	4,009	-8,485	6,333	-14,387	-20,507
19 Nonbank-reported claims .....	-6,513	5,081	1,665	-1,517	418	-2,842	-1,220	n.a.
20 U.S. purchase of foreign securities, net .....	-7,007	-5,082	-7,977	-1,664	-1,411	-6,133	-1,664	163
21 U.S. direct investments abroad, net <sup>3</sup> .....	-373	-3,859	-18,752	-6,152	-10,101	-9,891	-8,806	-7,672
22 Change in foreign official assets in the United States (increase, +) .....	5,968	3,037	-1,324	2,577	-1,322	2,469	14,704	15,839
23 U.S. Treasury securities .....	6,972	4,690	-546	-81	-1,976	3,256	14,538	12,262
24 Other U.S. government obligations .....	-476	13	-295	46	-171	-177	-644	-276
25 Other U.S. government liabilities <sup>4</sup> .....	725	436	483	58	263	288	679	954
26 Other U.S. liabilities reported by U.S. banks .....	545	555	522	2,932	722	-1,261	662	3,201
27 Other foreign official assets <sup>5</sup> .....	-1,798	-2,657	-1,488	-378	-160	363	-531	-302
28 Change in foreign private assets in the United States (increase, +) <sup>3</sup> .....	79,528	99,730	128,430	33,088	53,158	34,151	32,822	53,294
29 U.S. bank-reported liabilities .....	50,342	33,849	40,387	7,276	20,427	8,434	3,553	32,187
30 U.S. nonbank-reported liabilities .....	-118	4,704	-1,172	589	2,232	-2,057	-1,644	n.a.
31 Foreign private purchases of U.S. Treasury securities, net .....	8,721	23,059	20,500	7,484	5,676	7,666	3,807	597
32 Foreign purchases of other U.S. securities, net .....	8,636	12,759	50,859	11,628	22,441	18,686	23,018	17,078
33 Foreign direct investments in the United States, net <sup>3</sup> .....	11,947	25,359	17,856	6,111	2,382	1,422	4,088	3,432
34 Allocation of SDRs .....	0	0	0	0	0	0	0	0
35 Discrepancy .....	11,130	27,338	23,006	-1,343	5,125	10,316	12,437	-3,771
36 Owing to seasonal adjustments .....	.....	.....	.....	-3,687	3,771	1,216	-1,505	-3,993
37 Statistical discrepancy in recorded data before seasonal adjustment .....	11,130	27,338	23,006	2,344	1,354	9,100	13,942	222
MEMO								
38 Changes in official assets								
39 U.S. official reserve assets (increase, -) .....	-1,196	-3,130	-3,858	-121	-3,148	-115	16	280
40 Foreign official assets in the United States (increase, +) .....	5,243	2,601	-1,807	2,519	-1,585	2,181	14,025	14,885
41 Change in Organization of Petroleum Exporting Countries official assets in the United States (part of line 22 above) .....	-8,283	-4,304	-6,599	-1,831	-1,002	1,421	-1,938	-2,828
42 Transfers under military grant programs (excluded from lines 4, 6, and 10 above) .....	194	190	64	15	28	22	12	15

1. Seasonal factors are not calculated for lines 6, 10, 12-16, 18-20, 22-34, and 38-41.

2. Data are on an international accounts (IA) basis. Differs from the Census basis data, shown in table 3.11, for reasons of coverage and timing; military exports are excluded from merchandise data and are included in line 6.

3. Includes reinvested earnings.

4. Primarily associated with military sales contracts and other transactions arranged with or through foreign official agencies.

5. Consists of investments in U.S. corporate stocks and in debt securities of private corporations and state and local governments.

NOTE: Data are from Bureau of Economic Analysis, *Survey of Current Business* (Department of Commerce).

## 3.11 U.S. FOREIGN TRADE

Millions of dollars; monthly data are not seasonally adjusted.

Item	1983	1984	1985	1986						
				June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1 EXPORTS of domestic and foreign merchandise excluding grant-aid shipments .....	200,486	217,865	213,146	19,070	17,707	17,604	17,518	19,330	18,595	18,431
2 GENERAL IMPORTS including merchandise for immediate consumption plus entries into bonded warehouses .....	258,048	325,726	345,276	31,764	34,121	29,476	28,695	30,018	36,187	27,795
3 Trade balance .....	-57,562	107,861	-132,129	-12,694	-16,414	-11,871	-11,177	-10,688	-17,592	-9,364

NOTE: The data through 1981 in this table are reported by the Bureau of Census data of a free-alongside-ship (f.a.s.) value basis—that is, value at the port of export. Beginning in 1981, foreign trade of the U.S. Virgin Islands is included in the Census basis trade data; this adjustment has been made for all data shown in the table. Beginning with 1982 data, the value of imports are on a customs valuation basis.

The Census basis data differ from merchandise trade data shown in table 3.10, U.S. International Transactions Summary, for reasons of coverage and timing. On

the *export side*, the largest adjustments are: (1) the addition of exports to Canada not covered in Census statistics, and (2) the exclusion of military sales (which are combined with other military transactions and reported separately in the "service account" in table 3.10, line 6). On the *import side*, additions are made for gold, ship purchases, imports of electricity from Canada, and other transactions; military payments are excluded and shown separately as indicated above.

SOURCE: FT900 "Summary of U.S. Export and Import Merchandise Trade" (Department of Commerce, Bureau of the Census).

## 3.12 U.S. RESERVE ASSETS

Millions of dollars, end of period

Type	1983	1984	1985	1986						1987
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
1 Total .....	33,747	34,934	43,191	47,430	48,161	48,086	47,089	47,824	48,427	49,348
2 Gold stock, including Exchange Stabilization Fund <sup>1</sup> .....	11,121	11,096	11,090	11,084	11,084	11,084	11,066	11,070	11,064	11,062
3 Special drawing rights <sup>2,3</sup> .....	5,025	5,641	7,293	8,085	8,250	8,295	8,090	8,310	8,395	8,470
4 Reserve position in International Monetary Fund <sup>2</sup> .....	11,312	11,541	11,952	12,114	12,017	11,922	11,575	11,659	11,730	11,834
5 Foreign currencies <sup>4</sup> .....	6,289	6,656	12,856	16,147	16,810	16,785	16,358	16,785	17,238	17,982

1. Gold held under earmark at Federal Reserve Banks for foreign and international accounts is not included in the gold stock of the United States; see table 3.13. Gold stock is valued at \$42.22 per fine troy ounce.

2. Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of member countries. From July 1974 through December 1980, 16 currencies were used; from January 1981, 5 currencies have been used. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3. Includes allocations by the International Monetary Fund of SDRs as follows: \$867 million on Jan. 1, 1970; \$717 million on Jan. 1, 1971; \$710 million on Jan. 1, 1972; \$1,139 million on Jan. 1, 1979; \$1,152 million on Jan. 1, 1980; and \$1,093 million on Jan. 1, 1981; plus transactions in SDRs.

4. Valued at current market exchange rates.

## 3.13 FOREIGN OFFICIAL ASSETS HELD AT FEDERAL RESERVE BANKS

Millions of dollars, end of period

Assets	1983	1984	1985	1986						1987
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan. <sup>p</sup>
1 Deposits .....	190	267	480	233	227	342	303	224	287	226
Assets held in custody										
2 U.S. Treasury securities <sup>1</sup> .....	117,670	118,000	121,004	144,527	148,263	152,275	156,076	156,919	155,835	159,597
3 Earmarked gold <sup>2</sup> .....	14,414	14,242	14,245	14,131	14,120	14,115	14,110	14,057	14,048	14,041

1. Marketable U.S. Treasury bills, notes, and bonds; and nonmarketable U.S. Treasury securities payable in dollars and in foreign currencies.

2. Earmarked gold is valued at \$42.22 per fine troy ounce.

NOTE: Excludes deposits and U.S. Treasury securities held for international and regional organizations. Earmarked gold is gold held for foreign and international accounts and is not included in the gold stock of the United States.

3.14 FOREIGN BRANCHES OF U.S. BANKS Balance Sheet Data<sup>1</sup>

Millions of dollars, end of period

Asset account	1983	1984	1985	1986						
				June	July	Aug.	Sept.	Oct.	Nov.	Dec. <sup>P</sup>
	All foreign countries									
1 Total, all currencies	477,090	453,656	458,012	467,565	454,886	461,440	474,567	446,581	446,555	456,627
2 Claims on United States	115,542	113,393	119,713	117,812	113,474	117,661	116,392 <sup>r</sup>	112,078 <sup>r</sup>	108,363	113,133
3 Parent bank	82,026	78,109	87,201	82,565	79,387	83,779	82,302	79,999	76,205	81,984
4 Other banks in United States <sup>2</sup>	33,516	13,664	13,057	14,039	13,527	13,072	13,624	11,659	11,904	13,685
5 Nonbanks <sup>2</sup>		21,620	19,455	21,208	20,560	20,810	20,466 <sup>r</sup>	20,420 <sup>r</sup>	20,254	17,464
6 Claims on foreigners	342,689	320,162	315,680	324,216	314,354	315,583	328,553 <sup>r</sup>	305,562 <sup>r</sup>	308,393	314,384
7 Other branches of parent bank	96,004	95,184	91,399	98,406	92,641	93,435	103,278	90,412	91,570	97,788
8 Banks	117,668	100,397	102,960	105,648	103,095	102,849	107,503	100,707	103,292	105,281
9 Public borrowers	24,517	23,343	23,478	23,279	23,578	23,720	23,505	24,215	23,357	23,520
10 Nonbank foreigners	107,785	101,238	97,843	96,883	95,040	95,579	94,267 <sup>r</sup>	90,228 <sup>r</sup>	90,174	87,795
11 Other assets	18,859	20,101	22,619	25,537	27,058	28,196	29,622	28,941	29,799	29,110
12 Total payable in U.S. dollars	371,508	350,636	336,288	327,639	313,703	318,375	330,597	309,087	306,633	317,485
13 Claims on United States	113,436	111,426	116,645	113,519	109,263	113,636	112,133	107,612	104,224	109,190
14 Parent bank	80,909	77,229	85,971	81,073	78,025	82,261	80,753	78,335	74,705	80,574
15 Other banks in United States <sup>2</sup>	32,527	13,500	12,454	12,907	12,373	12,180	12,802	10,544	10,986	12,830
16 Nonbanks <sup>2</sup>		20,697	18,220	19,539	18,865	19,195	18,578	18,733	18,533	15,786
17 Claims on foreigners	247,406	228,600	209,905	203,934	194,102	194,643	207,701	190,030	190,663	196,491
18 Other branches of parent bank	78,431	78,746	72,689	75,883	69,135	68,604	78,400	67,835	67,835	73,704
19 Banks	93,332	76,940	71,748	66,751	65,033	64,940	68,596	62,836	64,919	66,464
20 Public borrowers	17,890	17,626	17,252	16,498	16,684	16,788	16,521	17,455	16,821	16,586
21 Nonbank foreigners	60,977	55,288	48,216	44,802	43,250	44,311	44,184	41,904	41,088	39,737
22 Other assets	10,666	10,610	9,738	10,186	10,338	10,096	10,763	11,445	11,746	11,804
	United Kingdom									
23 Total, all currencies	158,732	144,385	148,599	151,593	145,448	145,619	151,596	142,398	143,800	140,917
24 Claims on United States	34,433	27,675	33,157	31,364	30,223	29,839	30,879	30,747	28,940	24,599
25 Parent bank	29,111	21,862	26,970	25,106	24,252	23,466	24,291	24,800	22,671	19,085
26 Other banks in United States <sup>2</sup>	5,322	1,429	1,106	1,365	1,369	1,448	2,092	1,314	1,534	1,612
27 Nonbanks <sup>2</sup>		4,384	5,081	4,893	4,602	4,925	4,496	4,633	4,735	3,902
28 Claims on foreigners	119,280	111,828	110,217	113,739	108,156	109,024	113,368	105,534	108,147	109,508
29 Other branches of parent bank	36,565	37,953	31,576	34,670	31,613	31,828	31,678	31,268	29,960	33,422
30 Banks	43,352	37,443	39,250	39,430	38,393	38,048	40,204	37,836	41,145	39,468
31 Public borrowers	5,898	5,334	5,644	5,236	5,229	5,336	5,086	5,157	5,038	4,990
32 Nonbank foreigners	33,465	31,098	33,747	34,403	32,921	33,812	33,400	31,273	32,004	31,628
33 Other assets	5,019	4,882	5,225	6,490	7,069	6,756	7,349	6,117	6,713	6,810
34 Total payable in U.S. dollars	126,012	112,809	108,626	104,013	97,641	97,771	103,228	97,295	97,119	95,028
35 Claims on United States	33,756	26,868	32,092	29,944	28,848	28,446	29,512	29,312	27,564	23,193
36 Parent bank	28,756	21,495	26,568	24,693	23,888	22,972	23,826	24,323	22,106	18,526
37 Other banks in United States <sup>2</sup>	5,000	1,363	1,005	1,102	1,131	1,194	1,848	1,110	1,364	1,475
38 Nonbanks <sup>2</sup>		4,010	4,519	4,149	3,829	4,280	3,838	3,879	4,094	3,192
39 Claims on foreigners	88,917	82,945	73,475	70,697	65,472	66,465	70,325	64,873	66,298	68,138
40 Other branches of parent bank	31,838	33,607	26,011	27,559	24,258	24,657	27,151	24,632	23,223	26,361
41 Banks	32,188	26,805	26,139	22,825	21,938	21,636	22,917	21,011	24,020	23,251
42 Public borrowers	4,194	4,030	3,999	3,777	3,793	3,838	3,778	3,859	3,811	3,677
43 Nonbank foreigners	20,697	18,503	17,326	16,536	15,483	16,334	16,479	15,371	15,244	14,849
44 Other assets	3,339	2,996	3,059	3,372	3,321	2,860	3,391	3,110	3,257	3,697
	Bahamas and Caymans									
45 Total, all currencies	152,083	146,811	142,055	138,944	134,238	137,526	143,082	134,060	131,306	142,592
46 Claims on United States	75,309	77,296	74,864	70,883	69,812	73,047	71,918	68,624 <sup>r</sup>	66,021	76,620
47 Parent bank	48,720	49,449	50,553	44,183	43,867	47,694	46,635	44,476	42,166	53,068
48 Other banks in United States <sup>2</sup>	26,589	11,544	11,204	11,730	11,201	10,813	10,641	9,557	9,628	11,156
49 Nonbanks <sup>2</sup>		16,303	13,107	14,970	14,744	14,540	14,652 <sup>r</sup>	14,591 <sup>r</sup>	14,227	12,396
50 Claims on foreigners	72,868	65,598	63,882	64,043	60,363	60,167	66,610 <sup>r</sup>	59,612 <sup>r</sup>	59,436	61,433
51 Other branches of parent bank	20,626	17,661	19,042	20,585	16,682	16,539	22,763	16,985	18,139	18,803
52 Banks	36,842	30,246	28,192	27,078	27,160	27,065	27,779	26,205	25,743	27,519
53 Public borrowers	6,093	6,089	6,458	6,405	6,551	6,675	6,434	7,263	6,697	6,929
54 Nonbank foreigners	12,592	11,602	10,190	9,975	9,970	9,888	9,634 <sup>r</sup>	9,159 <sup>r</sup>	8,857	8,182
55 Other assets	3,906	3,917	3,309	4,018	4,063	4,312	4,544	5,824	5,849	4,539
56 Total payable in U.S. dollars	145,641	141,562	136,794	132,353	127,910	130,723	136,615	127,361	124,744	136,813

1. Beginning with June 1984 data, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches from \$50 million to \$150 million equivalent in total assets, the threshold now applicable to all reporting branches.

2. Data for assets vis-à-vis other banks in the United States and vis-à-vis nonbanks are combined for dates before June 1984.

## 3.14 Continued

Liability account	1983	1984	1985	1986						
				June	July	Aug.	Sept.	Oct.	Nov.	Dec. <sup>a</sup>
	All foreign countries									
57 Total, all currencies	477,090	453,656	458,012	467,565	454,886	461,440	474,567	446,581	446,555	456,627
58 Negotiable CDs <sup>1</sup>	n.a.	37,725	34,607	34,683	32,656	31,475	33,642	32,444	32,926	31,642
59 To United States	188,070	147,583	155,538	149,848	141,599	145,488	151,281	141,126	137,101	151,639
60 Parent bank	81,261	78,739	83,914	85,126	81,299	79,564	87,927	75,777	75,087	82,510
61 Other banks in United States	29,453	18,409	16,894	16,118	14,191	15,151	14,153	14,791	14,661	15,599
62 Nonbanks	77,356	50,435	54,730	48,604	46,109	50,773	49,201	50,558	47,353	53,530
63 To foreigners	269,685	247,907	245,942	262,329	259,133	262,978	269,322	253,202	256,476	253,729
64 Other branches of parent bank	90,615	93,909	89,529	97,717	91,144	91,307	102,245	87,883	87,853	95,146
65 Banks	92,889	78,203	76,814	81,008	82,854	85,239	81,953	80,709	83,655	77,789
66 Official institutions	18,896	20,281	19,523	20,480	20,608	20,637	20,109	19,436	18,831	17,835
67 Nonbank foreigners	68,845	55,514	60,076	63,124	64,527	65,795	65,015	65,174	66,137	62,959
68 Other liabilities	19,335	20,441	21,925	20,705	21,498	21,499	20,322	19,809	20,052	19,617
69 Total payable in U.S. dollars	388,291	367,145	353,470	346,428	330,183	333,581	349,259	323,699	319,885	336,406
70 Negotiable CDs <sup>1</sup>	n.a.	35,227	31,063	31,076	28,970	28,091	30,560	29,206	29,752	28,467
71 To United States	184,305	143,571	150,161	142,730	133,908	137,805	143,627	133,301	129,296	143,654
72 Parent bank	79,035	76,254	80,888	81,066	77,048	75,391	83,790	71,858	71,042	78,435
73 Other banks in United States	28,936	17,935	16,264	15,323	13,507	14,364	13,173	13,768	13,808	14,545
74 Nonbanks	76,334	49,382	53,009	46,341	43,353	48,050	46,664	47,675	44,446	50,674
75 To foreigners	194,139	178,260	163,361	163,943	158,314	158,931	167,356	153,536	153,437	156,777
76 Other branches of parent bank	73,522	77,770	70,943	75,805	68,065	66,878	77,464	65,077	63,638	71,181
77 Banks	57,022	45,123	37,323	33,745	34,827	36,460	35,358	33,802	35,177	33,847
78 Official institutions	13,855	15,773	14,354	13,772	14,091	14,125	13,697	13,320	13,139	12,371
79 Nonbank foreigners	51,260	39,594	40,741	40,621	41,331	41,468	40,837	41,337	41,483	39,378
80 Other liabilities	9,847	10,087	8,885	8,679	8,991	8,754	7,716	7,656	7,400	7,508
	United Kingdom									
81 Total, all currencies	158,732	144,385	148,599	151,593	145,448	145,619	151,596	142,398	143,800	140,917
82 Negotiable CDs <sup>1</sup>	n.a.	34,413	31,260	31,396	29,295	28,279	30,352	28,847	28,984	27,781
83 To United States	55,799	25,250	29,422	26,270	22,671	22,831	26,540	24,610	22,714	24,703
84 Parent bank	14,021	14,651	19,330	15,892	13,300	14,188	17,399	14,014	13,811	14,469
85 Other banks in United States	11,328	3,125	2,974	1,997	1,999	2,148	2,062	2,382	2,313	2,666
86 Nonbanks	30,450	7,474	7,118	8,381	7,372	6,495	7,079	8,214	6,590	7,568
87 To foreigners	95,847	77,424	78,525	84,362	83,707	84,880	85,554	80,252	83,320	79,452
88 Other branches of parent bank	19,038	21,631	23,389	27,029	25,106	24,962	28,272	24,194	23,733	25,036
89 Banks	41,624	30,436	28,581	30,505	31,678	32,250	31,190	31,001	34,192	30,860
90 Official institutions	10,151	10,154	9,676	9,543	9,074	9,330	8,652	8,068	7,875	6,836
91 Nonbank foreigners	25,034	15,203	16,879	17,285	17,849	18,338	17,440	16,989	17,520	16,720
92 Other liabilities	7,086	7,298	9,392	9,565	9,775	9,629	9,150	8,689	8,782	8,981
93 Total payable in U.S. dollars	131,167	117,497	112,697	108,375	101,095	101,397	108,249	99,820	99,321	99,707
94 Negotiable CDs <sup>1</sup>	n.a.	33,070	29,337	29,135	27,015	26,114	28,490	26,927	27,166	26,169
95 To United States	54,691	24,105	27,756	24,214	20,065	20,043	24,039	21,960	20,184	22,104
96 Parent bank	13,839	14,339	18,956	15,331	12,648	13,707	16,984	13,591	13,438	14,021
97 Other banks in United States	11,044	2,980	2,826	1,817	1,738	1,879	1,735	2,108	2,009	2,325
98 Nonbanks	29,808	6,786	5,974	7,066	5,679	4,817	5,320	6,261	4,737	5,758
99 To foreigners	73,279	56,923	51,980	51,056	49,932	50,855	52,645	47,491	48,921	48,109
100 Other branches of parent bank	15,403	18,294	18,493	20,455	17,868	17,790	21,305	17,289	16,689	17,951
101 Banks	29,320	18,356	14,344	13,073	14,251	15,056	14,491	14,123	15,855	15,203
102 Official institutions	8,279	8,871	7,661	6,914	6,658	6,724	6,015	5,685	5,655	4,934
103 Nonbank foreigners	20,277	11,402	11,482	10,614	11,155	11,285	10,834	10,394	10,722	10,021
104 Other liabilities	3,197	3,399	3,624	3,970	4,083	4,025	3,075	3,442	3,050	3,325
	Bahamas and Caymans									
105 Total, all currencies	152,083	146,811	142,055	138,944	134,238	137,526	143,082	134,060	131,306	142,592
106 Negotiable CDs <sup>1</sup>	n.a.	615	610	567	565	470	527	683	784	847
107 To United States	111,299	102,955	103,813	98,897	96,636	99,585	102,012	95,840	94,436	105,229
108 Parent bank	50,980	47,162	44,811	47,014	47,862	44,417	49,981	43,470	43,597	48,622
109 Other banks in United States	16,057	13,938	12,778	12,868	11,131	11,952	10,986	11,144	11,131	11,646
110 Nonbanks	44,262	41,855	46,224	39,015	37,643	43,216	41,045	41,226	39,708	44,961
111 To foreigners	38,445	40,320	35,053	37,340	34,827	35,216	38,447	35,427	33,841	34,400
112 Other branches of parent bank	14,936	16,782	14,075	15,882	13,561	13,368	15,918	13,574	12,527	12,631
113 Banks	11,876	12,405	10,669	9,991	9,636	10,216	10,158	8,964	8,545	8,614
114 Official institutions	1,919	2,054	1,776	2,427	2,468	2,386	2,834	2,665	2,577	2,719
115 Nonbank foreigners	11,274	9,079	8,533	9,040	9,162	9,246	9,537	10,224	10,192	10,436
116 Other liabilities	2,339	2,921	2,579	2,140	2,210	2,255	2,096	2,110	2,245	2,116
117 Total payable in U.S. dollars	148,278	143,582	138,322	134,606	130,075	133,256	138,733	130,084	127,252	138,774

3. Before June 1984, liabilities on negotiable CDs were included in liabilities to the United States or liabilities to foreigners, according to the address of the initial purchaser.

## 3.15 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars, end of period

Item	1984	1985	1986						
			June	July	Aug.	Sept.	Oct.	Nov.	Dec. <sup>P</sup>
1 Total <sup>1</sup> .....	180,552	178,356	194,562	198,784	203,364	209,608	211,053	210,966	211,125
<i>By type</i>									
2 Liabilities reported by banks in the United States <sup>2</sup> .....	26,089	26,734	26,142	25,143	25,482	29,544	27,188	27,743	26,994
3 U.S. Treasury bills and certificates <sup>3</sup> .....	59,976	53,252	65,790	70,721	74,766	75,095	75,457	75,132	75,674
U.S. Treasury bonds and notes .....									
4 Marketable .....	69,019	77,108	84,113	85,561	85,622	87,546	91,052	91,104	91,506
5 Nonmarketable <sup>4</sup> .....	5,800	3,550	1,800	1,300	1,300	1,300	1,300	1,300	1,300
6 U.S. securities other than U.S. Treasury securities <sup>5</sup> .....	19,668	17,712	16,717	16,059	16,194	16,123	16,056	15,687	15,651
<i>By area</i>									
7 Western Europe <sup>1</sup> .....	69,776	74,418	79,641	81,524	83,874	87,261	88,590	87,707	87,774
8 Canada .....	1,528	1,314	1,529	1,627	1,535	1,626	1,699	1,891	2,004
9 Latin America and Caribbean .....	8,561	11,141	11,046	11,242	10,801	10,353	10,047	9,111	8,381
10 Asia .....	93,954	86,459	97,359	100,070	102,362	105,598	105,336	105,418	106,013
11 Africa .....	1,264	1,824	1,717	1,525	1,958	1,864	1,715	1,544	1,464
12 Other countries <sup>6</sup> .....	5,469	3,200	3,270	2,796	2,834	2,906	3,666	5,295	5,489

1. Includes the Bank for International Settlements.

2. Principally demand deposits, time deposits, bankers acceptances, commercial paper, negotiable time certificates of deposit, and borrowings under repurchase agreements.

3. Includes nonmarketable certificates of indebtedness (including those payable in foreign currencies through 1974) and Treasury bills issued to official institutions of foreign countries.

4. Excludes notes issued to foreign official nonreserve agencies. Includes bonds and notes payable in foreign currencies.

5. Debt securities of U.S. government corporations and federally sponsored agencies, and U.S. corporate stocks and bonds.

6. Includes countries in Oceania and Eastern Europe.

NOTE. Based on Treasury Department data and on data reported to the Treasury Department by banks (including Federal Reserve Banks) and securities dealers in the United States.

## 3.16 LIABILITIES TO AND CLAIMS ON FOREIGNERS Reported by Banks in the United States Payable in Foreign Currencies

Millions of dollars, end of period

Item	1982	1983	1984	1985	1986		
				Dec.	Mar. <sup>r</sup>	June <sup>r</sup>	Sept.
1 Banks' own liabilities .....	4,844	5,219	8,586	15,368	21,336	24,088	29,227
2 Banks' own claims .....	7,707	7,231	11,984	16,294 <sup>r</sup>	19,800	21,138	24,516
3 Deposits .....	4,251	2,731	4,998	8,437 <sup>r</sup>	11,383	11,465	13,818
4 Other claims .....	3,456	4,501	6,986	7,857	8,417	9,673	10,698
5 Claims of banks' domestic customers <sup>1</sup> .....	676	1,059	569	580	1,426	1,385	1,660

1. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the accounts of their domestic customers.

NOTE. Data on claims exclude foreign currencies held by U.S. monetary authorities.

**3.17 LIABILITIES TO FOREIGNERS** Reported by Banks in the United States  
Payable in U.S. dollars  
Millions of dollars, end of period

Holder and type of liability	1983	1984	1985	1986						
				June	July <sup>r</sup>	Aug. <sup>r</sup>	Sept.	Oct.	Nov.	Dec. <sup>p</sup>
1 All foreigners	369,607	407,306	435,726	457,879 <sup>r</sup>	470,842	487,452	505,464	497,018 <sup>r</sup>	511,947	537,456
2 Banks' own liabilities	279,087	306,898	341,070	346,192 <sup>r</sup>	342,515	355,941	372,368	362,309	377,707	404,073
3 Demand deposits	17,470	19,571	21,107	21,660 <sup>r</sup>	19,693	20,246	21,388	21,730	24,772	23,530
4 Time deposits <sup>1</sup>	90,632	110,413	117,278	115,163 <sup>r</sup>	117,010	122,286	125,840	123,503 <sup>r</sup>	125,651	131,191
5 Other <sup>2</sup>	25,874	26,268	29,305	32,012 <sup>r</sup>	30,894	33,779	36,834	36,303 <sup>r</sup>	35,567	40,325
6 Own foreign offices <sup>3</sup>	145,111	150,646	173,381	177,357 <sup>r</sup>	174,917	179,630	188,307	180,773	191,718	209,027
7 Banks' custody liabilities <sup>4</sup>	90,520	100,408	94,656	111,687	128,327	131,511	133,095	134,710	134,240	133,383
8 U.S. Treasury bills and certificates <sup>5</sup>	68,669	76,368	69,133	82,701	86,789	89,586	90,467	91,305	90,351	90,271
9 Other negotiable and readily transferable instruments <sup>6</sup>	17,467	18,747	17,964	14,729	14,702	14,507	14,430	15,085	14,360	15,451
10 Other	4,385	5,293	7,558	14,257	26,836	27,417	28,198	28,319	29,529	27,661
11 Nonmonetary international and regional organizations <sup>7</sup>	5,957	4,454	5,821	3,441	3,974	5,253	3,038	3,902	4,315	4,826
12 Banks' own liabilities	4,632	2,014	2,621	891	1,857	4,090	1,721	2,426	2,944	2,977
13 Demand deposits	297	254	85	79	156	165	180	175	135	199
14 Time deposits <sup>1</sup>	3,584	1,267	2,067	551	1,209	3,233	1,243	1,939	2,299	2,166
15 Other <sup>2</sup>	750	493	469	262	492	691	299	312	511	611
16 Banks' custody liabilities <sup>4</sup>	1,325	2,440	3,200	2,550	2,118	1,163	1,317	1,476	1,371	1,849
17 U.S. Treasury bills and certificates	463	916	1,736	1,619	991	129	218	308	262	259
18 Other negotiable and readily transferable instruments <sup>6</sup>	862	1,524	1,464	918	1,126	1,033	1,099	1,162	1,104	1,590
19 Other	0	0	0	13	0	1	0	6	5	0
20 Official institutions <sup>8</sup>	79,876	86,065	79,985	92,402 <sup>r</sup>	96,467	101,371	104,640	102,645	102,875	102,668
21 Banks' own liabilities	19,427	19,039	20,835	23,399 <sup>r</sup>	22,647	23,834	26,821	24,064	25,165	24,526
22 Demand deposits	1,837	1,823	2,077	2,131	1,608	1,582	1,895	1,840	2,188	2,121
23 Time deposits <sup>1</sup>	7,318	9,374	10,949	10,550 <sup>r</sup>	10,475	10,257	10,918	10,389	11,286	10,447
24 Other <sup>2</sup>	10,272	7,842	7,809	10,718 <sup>r</sup>	10,564	11,995	14,008	11,835	11,691	11,957
25 Banks' custody liabilities <sup>4</sup>	60,448	67,026	59,150	69,004	73,820	77,538	77,819	78,581	77,710	78,142
26 U.S. Treasury bills and certificates <sup>5</sup>	54,341	59,976	53,252	65,790	70,721	74,766	75,095	75,457	75,132	75,674
27 Other negotiable and readily transferable instruments <sup>6</sup>	6,082	6,966	5,824	2,996	2,892	2,624	2,524	2,920	2,446	2,323
28 Other	25	84	75	218	207	148	199	204	132	145
29 Banks <sup>9</sup>	226,887	248,893	275,589	284,335 <sup>r</sup>	292,554	301,879	318,552	310,650	324,734	349,533
30 Banks' own liabilities	205,347	225,368	252,723	255,370 <sup>r</sup>	251,300	260,794	276,496	268,436	282,484	309,721
31 Unaffiliated foreign banks	60,236	74,722	79,341	78,013 <sup>r</sup>	76,383	81,165	88,188	87,663	90,766	100,694
32 Demand deposits	8,759	10,556	10,271	10,273 <sup>r</sup>	9,142	9,304	9,295	9,714	11,626	10,234
33 Time deposits <sup>1</sup>	37,439	47,095	49,510	48,196 <sup>r</sup>	49,059	52,411	58,006	55,630 <sup>r</sup>	57,533	64,420
34 Other <sup>2</sup>	14,038	17,071	19,561	19,544	18,181	19,451	20,887	22,319	21,608	26,040
35 Own foreign offices <sup>3</sup>	145,111	150,646	173,381	177,357 <sup>r</sup>	174,917	179,630	188,307	180,773	191,718	209,027
36 Banks' custody liabilities <sup>4</sup>	21,540	23,525	22,866	28,964	41,254	41,084	42,057	42,214	42,250	39,812
37 U.S. Treasury bills and certificates	10,178	11,448	9,832	10,688	10,934	10,543	10,635	10,601	10,491	9,962
38 Other negotiable and readily transferable instruments <sup>6</sup>	7,485	7,236	6,040	5,448	5,585	5,526	5,538	5,532	5,468	5,366
39 Other	3,877	4,841	6,994	12,828	24,735	25,016	25,883	26,081	26,291	24,484
40 Other foreigners	56,887	67,894	74,331	77,701 <sup>r</sup>	77,847	78,949	79,233	79,822 <sup>r</sup>	80,022	80,430
41 Banks' own liabilities	49,680	60,477	64,892	66,531 <sup>r</sup>	66,711	67,223	67,331	67,383 <sup>r</sup>	67,114	66,850
42 Demand deposits	6,577	6,938	8,673	9,177 <sup>r</sup>	8,786	9,196	10,018	10,000	10,824	10,975
43 Time deposits	42,290	52,678	54,752	55,866 <sup>r</sup>	56,267	56,386	55,673	55,546 <sup>r</sup>	54,533	54,158
44 Other <sup>2</sup>	813	861	1,467	1,488 <sup>r</sup>	1,657	1,642	1,640	1,838	1,757	1,717
45 Banks' custody liabilities <sup>4</sup>	7,207	7,417	9,439	11,169	11,136	11,726	11,903	12,439	12,908	13,580
46 U.S. Treasury bills and certificates	3,686	4,029	4,314	4,604	4,143	4,149	4,519	4,939	4,465	4,377
47 Other negotiable and readily transferable instruments <sup>6</sup>	3,038	3,021	4,636	5,367	5,099	5,325	5,268	5,472	5,342	6,172
48 Other	483	367	489	1,198	1,894	2,253	2,115	2,028	3,100	3,032
49 MEMO: Negotiable time certificates of deposit in custody for foreigners	10,346	10,476	9,845	6,419	6,492	6,569	6,554	6,759	6,609	7,343

1. Excludes negotiable time certificates of deposit, which are included in "Other negotiable and readily transferable instruments."

2. Includes borrowing under repurchase agreements.

3. U.S. banks: includes amounts due to own foreign branches and foreign subsidiaries consolidated in "Consolidated Report of Condition" filed with bank regulatory agencies. Agencies, branches, and majority-owned subsidiaries of foreign banks: principally amounts due to head office or parent foreign bank, and foreign branches, agencies or wholly owned subsidiaries of head office or parent foreign bank.

4. Financial claims on residents of the United States, other than long-term securities, held by or through reporting banks.

5. Includes nonmarketable certificates of indebtedness and Treasury bills issued to official institutions of foreign countries.

6. Principally bankers acceptances, commercial paper, and negotiable time certificates of deposit.

7. Principally the International Bank for Reconstruction and Development, and the Inter-American and Asian Development Banks.

8. Foreign central banks and foreign central governments, and the Bank for International Settlements.

9. Excludes central banks, which are included in "Official institutions."

## 3.17 Continued

Area and country	1983	1984	1985	1986						
				June	July	Aug.	Sept.	Oct.	Nov.	Dec. <sup>p</sup>
1 Total	369,607	407,306	435,726	457,879 <sup>r</sup>	470,842 <sup>r</sup>	487,452 <sup>r</sup>	505,464	497,018 <sup>r</sup>	511,947	537,456
2 Foreign countries	363,649	402,852	429,905	454,438 <sup>r</sup>	466,867 <sup>r</sup>	482,199 <sup>r</sup>	502,426	493,116 <sup>r</sup>	507,632	532,631
3 Europe	138,072	153,145	164,114	166,918 <sup>r</sup>	163,337 <sup>r</sup>	166,939 <sup>r</sup>	173,930	173,485 <sup>r</sup>	175,791	180,343
4 Austria	585	615	693	1,013	988	1,035	1,073	1,018	1,197	1,180
5 Belgium-Luxembourg	2,709	4,114	5,243	5,224	5,343	5,114	6,165	6,024 <sup>r</sup>	6,836	6,890
6 Denmark	466	438	513	519	560	643	483	478	604	480
7 Finland	531	418	496	490 <sup>r</sup>	449	365	406	606	448	557
8 France	9,441	12,701	15,541	19,862	20,171 <sup>r</sup>	21,469	21,339	21,242 <sup>r</sup>	21,641	22,846
9 Germany	3,599	3,358	4,835	5,140 <sup>r</sup>	6,001 <sup>r</sup>	6,062 <sup>r</sup>	5,559	6,624	5,856	5,386
10 Greece	520	699	666	657	604	570	623	646	755	706
11 Italy	8,462	10,762	9,667	8,917 <sup>r</sup>	8,746 <sup>r</sup>	9,269	8,836	8,807 <sup>r</sup>	9,304	10,865
12 Netherlands	4,290	4,731	4,212	4,224	4,682	4,495	4,952	4,826 <sup>r</sup>	4,410	5,558
13 Norway	1,673	1,548	948	710	497	542	576	654	512	719
14 Portugal	373	597	652	795	711	791	758	738	685	700
15 Spain	1,603	2,082	2,114	2,069	1,894	1,979	2,082	2,297	2,197	2,348
16 Sweden	1,799	1,676	1,422	1,118	1,267	944	1,293	1,016 <sup>r</sup>	1,301	920
17 Switzerland	32,246	31,740	29,020	27,843 <sup>r</sup>	28,455	29,064	29,207	29,848 <sup>r</sup>	30,406	31,235
18 Turkey	467	584	429	586	310	285	448	401	1,263	454
19 United Kingdom	60,683	68,671	76,728	82,313 <sup>r</sup>	78,200 <sup>r</sup>	79,954 <sup>r</sup>	86,215	84,297 <sup>r</sup>	84,058	85,431
20 Yugoslavia	562	602	673	661	542	482	562	515	544	630
21 Other Western Europe <sup>1</sup>	7,403	7,192	9,635	3,997	3,366	3,292 <sup>r</sup>	2,724	2,938	3,308	2,706
22 U.S.S.R.	65	79	105	89	48	32	84	25	16	23
23 Other Eastern Europe <sup>2</sup>	596	537	523	690	506	553	545	484 <sup>r</sup>	452	710
24 Canada	16,026	16,059	17,427	22,926	22,359	23,933	24,150	24,340	25,753	26,256
25 Latin America and Caribbean	140,088	153,381	167,856	169,644 <sup>r</sup>	182,617 <sup>r</sup>	187,924 <sup>r</sup>	196,704	187,968 <sup>r</sup>	189,383	207,902
26 Argentina	4,038	4,394	6,032	6,229	6,336	6,096	6,069	5,748	5,202	4,723
27 Bahamas	55,818	56,897	57,657	60,082 <sup>r</sup>	60,764	67,044 <sup>r</sup>	69,123	64,106	62,613	72,300
28 Bermuda	2,266	2,370	2,765	2,513	2,201	2,248 <sup>r</sup>	2,199	1,918	2,549	2,964
29 Brazil	3,168	5,275	5,373	5,185	5,134	5,168 <sup>r</sup>	5,359	5,361	4,684	4,360
30 British West Indies	34,545	36,773	42,674	43,271 <sup>r</sup>	56,432 <sup>r</sup>	55,928 <sup>r</sup>	61,635	58,713 <sup>r</sup>	61,465	70,872
31 Chile	1,842	2,001	2,049	2,270	2,227	2,139	2,426	2,398 <sup>r</sup>	2,325	2,051
32 Colombia	1,689	2,514	3,104	3,419	3,334	3,315	3,373	3,775	3,873	4,280
33 Cuba	8	10	11	8	7	8	7	6	6	7
34 Ecuador	1,047	1,092	1,239	1,262	1,196	1,232	1,260	1,216	1,199	1,235
35 Guatemala	788	896	1,071	1,108	1,123	1,140	1,129	1,126	1,129	1,122
36 Jamaica	109	183	122	185	184	177	187	151	153	181
37 Mexico	10,392	12,303	14,060	13,633	12,985	13,609	13,137	13,197 <sup>r</sup>	13,488	13,586
38 Netherlands Antilles	3,879	4,220	4,875	4,358	4,382	4,383	4,775	4,645	4,706	4,846
39 Panama	5,924	6,951	7,514	6,687 <sup>r</sup>	6,640 <sup>r</sup>	6,392 <sup>r</sup>	6,415	6,522 <sup>r</sup>	6,729	6,858
40 Peru	1,166	1,266	1,167	1,254	1,158	1,149	1,256	1,167	1,145	1,162
41 Uruguay	1,244	1,394	1,552	1,664	1,687	1,636	1,589	1,608	1,610	1,532
42 Venezuela	8,632	10,545	11,922	11,733 <sup>r</sup>	12,058	11,560 <sup>r</sup>	11,709	11,392	11,670	10,450
43 Other Latin America and Caribbean	3,535	4,297	4,668	4,783	4,770	4,701 <sup>r</sup>	5,056	4,917	4,835	5,373
44 Asia	58,570	71,187	72,280	86,976 <sup>r</sup>	91,669	96,021	100,058	99,325 <sup>r</sup>	107,025	108,959
45 China										
46 Mainland	249	1,153	1,607	1,469	1,795	1,185	1,938	1,585	1,450	1,476
47 Taiwan	4,051	4,990	7,786	13,683	14,331	15,608	16,129	16,528 <sup>r</sup>	17,540	18,980
48 Hong Kong	6,657	6,581	8,067	8,656	8,934	9,026	9,349	8,662 <sup>r</sup>	9,347	9,189
49 India	464	507	712	695	562	685	651	755	701	674
50 Indonesia	997	1,033	1,466	1,416	1,572	1,474	1,611	1,530	1,528	1,553
51 Israel	1,722	1,268	1,601	1,725	1,731	1,686	2,109	1,986	2,380	1,890
52 Japan	18,079	21,640	23,077	31,325	36,286	38,221	39,951	41,311	46,155	47,658
53 Korea	1,648	1,730	1,665	1,414	1,392	1,251	1,282	1,446	1,128	1,147
54 Philippines	1,234	1,383	1,140	1,306	1,363	1,458	1,400	1,707	1,720	1,870
55 Thailand	747	1,257	1,358	1,068	1,104	1,080	1,100	1,115	1,083	1,104
56 Middle-East oil-exporting countries <sup>3</sup>	12,976	16,804	14,523	14,581	12,739	13,227	13,056	12,045	13,010	12,369
Other Asia	9,748	12,841	9,276	9,638	9,861	11,121	11,481	10,654	10,984	11,051
57 Africa	2,827	3,396	4,883	4,291	3,962 <sup>r</sup>	4,227	4,158	3,973	4,018	3,985
58 Egypt	671	647	1,363	1,079	820	1,088	843	640	710	703
59 Morocco	84	118	163	87	93	82	91	86	84	92
60 South Africa	449	328	388	414	530 <sup>r</sup>	438	318	347	264	278
61 Zaire	87	153	163	92	65	60	80	79	96	74
62 Oil-exporting countries <sup>4</sup>	620	1,189	1,494	1,463	1,368	1,371	1,625	1,623	1,593	1,518
63 Other Africa	917	961	1,312	1,156	1,086	1,189	1,203	1,199	1,272	1,319
64 Other countries	8,067	5,684	3,347	3,682	2,924	3,155	3,425	4,026	5,662	5,186
65 Australia	7,857	5,300	2,779	2,943	2,173	2,459	2,785	2,943	4,286	4,262
66 All other	210	384	568	739	751	696	640	1,083	1,376	924
67 Nonmonetary international and regional organizations	5,957	4,454	5,821	3,441	3,974	5,253	3,038	3,902	4,315	4,826
68 International	5,273	3,747	4,806	2,471	2,714	4,147	1,759	2,748	3,232	3,575
69 Latin American regional	419	587	894	845	922	916	972	957	927	969
70 Other regional <sup>5</sup>	265	120	121	126	338	190	307	197	157	281

1. Includes the Bank for International Settlements. Beginning April 1978, also includes Eastern European countries not listed in line 23.

2. Beginning April 1978 comprises Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania.

3. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

4. Comprises Algeria, Gabon, Libya, and Nigeria.

5. Asian, African, Middle Eastern, and European regional organizations, except the Bank for International Settlements, which is included in "Other Western Europe."

3.18 BANKS' OWN CLAIMS ON FOREIGNERS Reported by Banks in the United States  
Payable in U.S. Dollars  
Millions of dollars, end of period

Area and country	1983	1984	1985	1986						
				June	July	Aug.	Sept.	Oct.	Nov.	Dec. <sup>P</sup>
1 Total .....	391,312	400,162	401,608	403,952 <sup>r</sup>	403,491 <sup>r</sup>	403,760 <sup>r</sup>	416,577	406,286 <sup>r</sup>	417,502	444,382
2 Foreign countries .....	391,148	399,363	400,577	403,496 <sup>r</sup>	402,999 <sup>r</sup>	403,340 <sup>r</sup>	416,376	405,913 <sup>r</sup>	417,331	441,399
3 Europe .....	91,927	99,014	106,413	104,505 <sup>r</sup>	100,319 <sup>r</sup>	100,323	106,735	103,622 <sup>r</sup>	106,348	106,401
4 Austria .....	401	433	598	609	619	694	654	619	748	739
5 Belgium-Luxembourg .....	5,639	4,794	5,772	7,243	6,113	6,990	6,574	7,689	8,149	7,491
6 Denmark .....	1,275	648	706	750	856	783	807	796	764	688
7 Finland .....	1,044	898	823	983	1,041	964 <sup>r</sup>	1,085	1,111	1,176	1,128
8 France .....	8,766	9,157	9,124	9,455	9,583	9,483	10,209	9,514 <sup>r</sup>	9,499	11,156
9 Germany .....	1,284	1,306	1,267	1,095	1,426	1,181	1,599	1,320	1,654	1,317
10 Greece .....	476	817	991	629	622	660	706	626	792	628
11 Italy .....	9,018	9,119	8,848	7,474	7,266	5,981	6,797	7,681 <sup>r</sup>	8,323	8,942
12 Netherlands .....	1,267	1,356	1,258	1,407	1,427	1,254	2,039	2,114	2,424	2,363
13 Norway .....	690	675	706	905	614	698	732	711	712	633
14 Portugal .....	1,114	1,243	1,058	776	789	757	734	699	682	706
15 Spain .....	3,573	2,884	1,908	2,001	1,863	1,757 <sup>r</sup>	1,995	1,922	1,722	1,459
16 Sweden .....	3,358	2,230	2,219	2,478	2,906	2,396 <sup>r</sup>	2,487	2,375	2,343	1,943
17 Switzerland .....	1,863	2,123	3,171	3,553	2,617	3,306	2,665	2,661	3,574	3,047
18 Turkey .....	812	1,130	1,200	1,856	1,709	1,649	1,586	1,612	3,527	1,534
19 United Kingdom .....	47,364	56,185	62,566	58,283 <sup>r</sup>	56,247 <sup>r</sup>	57,856 <sup>r</sup>	61,997	58,094 <sup>r</sup>	56,610	58,206
20 Yugoslavia .....	1,718	1,886	1,964	2,005	1,902	1,852	1,871	1,886	1,897	1,833
21 Other Western Europe <sup>1</sup> .....	477	596	998	1,258 <sup>r</sup>	1,102	508 <sup>r</sup>	791	799	600	556
22 U.S.S.R. .....	192	142	130	568	504	528	405	296	225	634
23 Other Eastern Europe <sup>2</sup> .....	1,598	1,389	1,107	1,176	1,112	1,026	1,002	1,097	927	1,396
24 Canada .....	16,341	16,109	16,482	18,270	18,303	19,401	18,112	19,532	20,338	20,892
25 Latin America and Caribbean .....	205,491	207,862	202,674	200,739 <sup>r</sup>	202,203 <sup>r</sup>	197,879 <sup>r</sup>	205,579	196,413	196,512	210,344
26 Argentina .....	11,749	11,050	11,462	12,077 <sup>r</sup>	12,282	12,009	12,119	12,243	12,017	12,075
27 Bahamas .....	59,633	58,009	58,258	57,076 <sup>r</sup>	56,250	55,465 <sup>r</sup>	61,705	53,557	53,967	58,694
28 Bermuda .....	566	592	499	274	432	373	320	452	447	1,379
29 Brazil .....	24,667	26,315	25,283	24,855	24,915	24,762	24,856	24,738	25,880	25,435
30 British West Indies .....	35,527	38,205	38,881	40,050 <sup>r</sup>	41,923	39,836	40,360	39,535	39,248	45,789
31 Chile .....	6,072	6,839	6,603	6,507	6,513 <sup>r</sup>	6,449	6,489	6,514	6,526	6,540
32 Colombia .....	3,745	3,499	3,249	2,789	2,776	2,642	2,633	2,674	2,665	2,818
33 Cuba .....	0	0	0	0	0	0	0	0 <sup>r</sup>	1	0
34 Ecuador .....	2,307	2,420	2,390	2,397	2,366	2,375	2,387	2,420 <sup>r</sup>	2,395	2,431
35 Guatemala <sup>3</sup> .....	129	158	194	136	113	127	135	122	138	140
36 Jamaica <sup>3</sup> .....	215	252	224	244	209	209	224	209 <sup>r</sup>	216	198
37 Mexico .....	34,802	34,885	31,799	31,399	31,168	30,839	31,037	31,061 <sup>r</sup>	30,659	30,477
38 Netherlands Antilles .....	1,154	1,350	1,340	1,086	996	1,060	1,133	972	911	1,038
39 Panama .....	7,848	7,707	6,645	5,860	6,280	5,862	6,377	6,094	5,354	5,423
40 Peru .....	2,536	2,384	1,947	1,738	1,703	1,677	1,600	1,625	1,618	1,637
41 Uruguay .....	977	1,088	960	931	927	936	1,051	930	943	1,045
42 Venezuela .....	11,287	11,017	10,871	11,304	11,363 <sup>r</sup>	11,289	11,177	11,180	11,014	12,802
43 Other Latin America and Caribbean .....	2,277	2,091	2,067	2,015	1,985	1,969	1,977	2,086	2,513	2,423
44 Asia .....	67,837	66,316	66,212	72,072 <sup>r</sup>	74,253	77,811 <sup>r</sup>	78,073	78,558	86,209	95,838
45 China .....										
46 Mainland .....	292	710	639	567	779	526	758	758	793	787
47 Taiwan .....	1,908	1,849	1,535	1,238	1,089	1,637	1,528	1,528	1,812	2,675
48 Hong Kong .....	8,489	7,293	6,796	7,526	8,445	8,632	8,883	8,337	7,598	8,300
49 India .....	330	425	450	440	372	375	355	316	327	321
50 Indonesia .....	805	724	698	675	720	729	689	694	722	718
51 Israel .....	1,832	2,088	1,991	1,772	1,567	1,541	1,622	1,630	1,615	1,648
52 Japan .....	30,354	29,066	31,249	38,524	40,902	43,327	42,751	45,167	53,265	59,482
53 Korea .....	9,943	9,285	9,226	9,016 <sup>r</sup>	8,900	8,495 <sup>r</sup>	7,846	7,023	6,569	7,162
54 Philippines .....	2,107	2,555	2,224	2,393	2,168	2,128	2,148	2,071	1,972	2,202
55 Thailand .....	1,219	1,125	845	706	711	736	636	611	595	576
56 Middle East oil-exporting countries <sup>4</sup> .....	4,954	5,044	4,298	3,680	2,919	2,764	3,724	3,396	3,778	4,115
56 Other Asia .....	5,603	6,152	6,260	5,535	5,680	6,921	6,758	7,027	7,162	7,854
57 Africa .....	6,654	6,615	5,407	4,971	4,817	4,693	4,651	4,531	4,737	4,621
58 Egypt .....	747	728	721	740	701	633	593	577	560	567
59 Morocco .....	440	583	575	642	615	617	636	621	621	598
60 South Africa .....	2,634	2,795	1,942	1,705	1,661	1,683	1,607	1,549	1,586	1,531
61 Zaire .....	33	18	20	17	17	21	33	35	27	27
62 Oil-exporting countries <sup>5</sup> .....	1,073	842	630	415	413	445	511	545	690	688
63 Other .....	1,727	1,649	1,520	1,452	1,410	1,294	1,271	1,203	1,253	1,209
64 Other countries .....	2,898	3,447	3,390	2,939	3,103	3,232	3,225	3,259	3,187	3,303
65 Australia .....	2,256	2,769	2,413	2,023	2,159	2,293	2,221	2,143	1,985	1,952
66 All other .....	642	678	978	916	945	940	1,004	1,115	1,202	1,350
67 Nonmonetary international and regional organizations <sup>6</sup> .....	164	800	1,030	456	493	420	200	372	171	2,983

1. Includes the Bank for International Settlements. Beginning April 1978, also includes Eastern European countries not listed in line 23.

2. Beginning April 1978 comprises Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania.

3. Included in "Other Latin America and Caribbean" through March 1978.

4. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

5. Comprises Algeria, Gabon, Libya, and Nigeria.

6. Excludes the Bank for International Settlements, which is included in "Other Western Europe."

**3.19 BANKS' OWN AND DOMESTIC CUSTOMERS' CLAIMS ON FOREIGNERS Reported by Banks in the United States**  
Payable in U.S. Dollars  
Millions of dollars, end of period

Type of claim	1983	1984	1985	1986						
				June <sup>r</sup>	July <sup>r</sup>	Aug. <sup>r</sup>	Sept.	Oct. <sup>r</sup>	Nov.	Dec. <sup>r</sup>
1 Total .....	426,215	433,078	430,489	432,762	.....	.....	448,426	.....	.....	444,382
2 Banks' own claims on foreigners .....	391,312	400,162	401,608	403,952	403,491	403,760	416,577	406,286	417,502	444,382
3 Foreign public borrowers .....	57,569	62,237	60,507	60,639	60,667	60,046	60,603	60,745	60,668	64,877
4 Own foreign offices <sup>1</sup> .....	146,393	156,216	174,261	181,906	181,590	182,170	193,355	182,548	189,093	210,326
5 Unaffiliated foreign banks .....	123,837	124,932	116,654	113,045	114,099	115,922	116,808	117,392	120,266	122,936
6 Deposits .....	47,126	49,226	48,372	47,093	49,324	52,410	52,178	53,074	52,834	56,381
7 Other .....	76,711	75,706	68,282	65,951	64,775	63,512	64,630	64,319	67,431	66,555
8 All other foreigners .....	63,514	56,777	50,185	48,363	47,136	45,621	45,811	45,601	47,475	46,243
9 Claims of banks' domestic customers <sup>2</sup> ..	34,903	32,916	28,881	28,810	.....	.....	31,849	.....	.....	.....
10 Deposits .....	2,969	3,380	3,335	3,475	.....	.....	3,743	.....	.....	.....
11 Negotiable and readily transferable instruments <sup>3</sup> .....	26,064	23,805	19,332	20,620	.....	.....	22,337	.....	.....	.....
12 Outstanding collections and other claims .....	5,870	5,732	6,214	4,715	.....	.....	5,769	.....	.....	.....
13 MEMO: Customer liability on acceptances .....	37,715	37,103	28,487	28,328	.....	.....	27,172	.....	.....	.....
Dollar deposits in banks abroad, reported by nonbanking business enterprises in the United States <sup>4</sup> .....	46,337	40,714	37,780 <sup>r</sup>	46,200	47,464	48,575	44,515	43,690	44,903	n.a.

1. U.S. banks: includes amounts due from own foreign branches and foreign subsidiaries consolidated in "Consolidated Report of Condition" filed with bank regulatory agencies. Agencies, branches, and majority-owned subsidiaries of foreign banks: principally amounts due from head office or parent foreign bank, and foreign branches, agencies, or wholly owned subsidiaries of head office or parent foreign bank.

2. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the account of their domestic customers.

3. Principally negotiable time certificates of deposit and bankers acceptances. 4. Includes demand and time deposits and negotiable and nonnegotiable certificates of deposit denominated in U.S. dollars issued by banks abroad. For description of changes in data reported by nonbanks, see July 1979 BULLETIN, p. 550.

NOTE: Beginning April 1978, data for banks' own claims are given on a monthly basis, but the data for claims of banks' own domestic customers are available on a quarterly basis only.

**3.20 BANKS' OWN CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Banks in the United States**  
Payable in U.S. Dollars  
Millions of dollars, end of period

Maturity; by borrower and area	1982	1983	1984	1985	1986		
				Dec.	Mar.	June	Sept.
1 Total .....	228,150	243,715	243,952	227,903	221,172 <sup>r</sup>	222,559 <sup>r</sup>	224,317
By borrower							
2 Maturity of 1 year or less <sup>1</sup> .....	173,917	176,158	167,858	160,824	152,666 <sup>r</sup>	152,551 <sup>r</sup>	154,731
3 Foreign public borrowers .....	21,256	24,039	23,912	26,302	23,845	23,164 <sup>r</sup>	22,392
4 All other foreigners .....	152,661	152,120	143,947	134,522	128,821 <sup>r</sup>	129,388 <sup>r</sup>	132,339
5 Maturity of over 1 year <sup>1</sup> .....	54,233	67,557	76,094	67,078	68,506 <sup>r</sup>	70,008	69,586
6 Foreign public borrowers .....	23,137	32,521	38,695	34,512	36,681	37,177	38,115
7 All other foreigners .....	31,095	35,036	37,399	32,567	31,825 <sup>r</sup>	32,830	31,471
By area							
8 Maturity of 1 year or less <sup>1</sup> .....							
9 Europe .....	50,500	56,117	58,498	56,585	53,435 <sup>r</sup>	57,927 <sup>r</sup>	59,331
10 Canada .....	7,642	6,211	6,028	6,401	5,899	6,078 <sup>r</sup>	5,968
11 Latin America and Caribbean .....	73,291	73,660	62,791	63,328	59,537 <sup>r</sup>	57,399 <sup>r</sup>	57,814
12 Asia .....	37,578	34,403	33,504	27,966	28,032 <sup>r</sup>	25,777 <sup>r</sup>	26,713
13 Africa .....	3,680	4,199	4,442	3,753	3,331	3,297	3,038
14 All other <sup>2</sup> .....	1,226	1,569	2,593	2,791	2,433	2,072 <sup>r</sup>	1,866
Maturity of over 1 year <sup>1</sup> .....							
15 Europe .....	11,636	13,576	9,605	7,634	7,809 <sup>r</sup>	7,934	7,285
16 Canada .....	1,931	1,857	1,882	1,805	1,925	2,256	1,861
17 Latin America and Caribbean .....	35,247	43,888	56,144	50,674	52,165	53,572	54,147
18 Asia .....	3,185	4,850	5,323	4,502	4,251	4,034	3,990
19 Africa .....	1,494	2,286	2,033	1,538	1,634	1,497	1,479
20 All other <sup>2</sup> .....	740	1,101	1,107	926	722	714	824

1. Remaining time to maturity.

2. Includes nonmonetary international and regional organizations.

3.21 CLAIMS ON FOREIGN COUNTRIES Held by U.S. Offices and Foreign Branches of U.S.-Chartered Banks<sup>1,2</sup>

Billions of dollars, end of period

Area or country	1982	1983	1984		1985				1986		
			Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept. <sup>P</sup>
1 Total .....	436.1	433.9	406.4	405.7	405.5	396.8	394.9	391.9	394.3	390.9	391.4
2 G-10 countries and Switzerland .....	179.6	167.8	147.5	148.1	153.0	146.7	152.0	148.5	156.4	159.8	158.6
3 Belgium-Luxembourg .....	13.1	12.4	9.8	8.7	9.3	8.9	9.5	9.3	8.3	9.0	8.5
4 France .....	17.1	16.2	14.3	14.1	14.5	13.5	14.8	12.3	13.8	15.1	14.6
5 Germany .....	12.7	11.3	10.0	9.0	8.9	9.6	9.8	10.5	11.2	11.5	12.5
6 Italy .....	10.3	11.4	9.7	10.1	10.0	8.6	8.4	9.8	8.5	9.3	8.1
7 Netherlands .....	3.6	3.5	3.4	3.9	3.8	3.7	3.4	3.7	3.5	3.4	3.9
8 Sweden .....	5.0	5.1	3.5	3.2	3.1	2.9	3.1	2.8	2.9	2.9	2.7
9 Switzerland .....	5.0	4.3	3.9	3.9	4.2	4.0	4.1	4.4	5.4	5.6	4.8
10 United Kingdom .....	72.1	65.3	57.1	60.3	65.4	65.7	67.1	64.6	68.5	68.9	70.1
11 Canada .....	10.4	8.3	8.1	7.9	9.1	8.1	7.6	7.0	6.2	6.8	6.1
12 Japan .....	30.2	29.9	27.7	27.1	24.7	21.7	24.3	24.2	28.1	27.4	27.4
13 Other developed countries .....	33.5	36.0	36.2	33.6	32.8	32.3	32.0	30.4	31.6	30.6	29.4
14 Austria .....	1.9	1.9	1.8	1.6	1.6	1.6	1.7	1.6	1.6	1.7	1.7
15 Denmark .....	2.4	3.4	2.9	2.2	2.1	1.9	2.1	2.4	2.5	2.4	2.3
16 Finland .....	2.2	2.4	1.9	1.9	1.8	1.8	1.8	1.6	1.9	1.6	1.7
17 Greece .....	3.0	2.8	3.2	2.9	2.9	2.9	2.8	2.6	2.5	2.6	2.3
18 Norway .....	3.3	3.3	3.2	3.0	2.9	2.9	3.4	2.9	2.7	3.0	2.7
19 Portugal .....	1.5	1.5	1.6	1.4	1.4	1.3	1.4	1.3	1.1	1.0	1.0
20 Spain .....	7.5	7.1	6.9	6.5	6.4	5.9	6.1	5.8	6.4	6.4	6.7
21 Turkey .....	1.4	1.7	2.0	1.9	1.9	2.0	2.1	1.9	2.3	2.5	2.1
22 Other Western Europe .....	2.3	1.8	1.7	1.7	1.7	1.8	1.7	2.0	2.4	2.1	1.6
23 South Africa .....	3.7	4.7	5.0	4.5	4.2	3.9	3.3	3.2	3.2	3.1	3.1
24 Australia .....	4.3	5.4	6.1	6.0	6.1	6.2	5.6	5.0	4.9	4.2	4.2
25 OPEC countries <sup>3</sup> .....	26.9	28.4	24.4	24.9	24.5	22.8	22.7	21.6	20.7	20.6	20.0
26 Ecuador .....	2.2	2.2	2.1	2.2	2.2	2.2	2.2	2.1	2.2	2.1	2.1
27 Venezuela .....	10.5	9.9	9.2	9.3	9.3	9.3	9.0	8.9	8.7	8.8	8.7
28 Indonesia .....	2.9	3.4	3.2	3.3	3.3	3.1	3.1	3.0	3.3	3.0	2.8
29 Middle East countries .....	8.5	9.8	7.3	7.9	7.4	6.1	6.2	5.5	4.8	5.0	4.7
30 African countries .....	2.8	3.0	2.5	2.3	2.3	2.2	2.3	2.0	1.8	1.7	1.7
31 Non-OPEC developing countries .....	106.5	110.8	111.6	111.8	110.8	110.0	107.8	105.1	103.5	101.4	99.6
Latin America .....											
32 Argentina .....	8.9	9.5	9.1	8.7	8.6	8.6	8.9	8.9	8.9	9.2	9.3
33 Brazil .....	22.9	23.1	26.3	26.3	26.4	26.6	25.5	25.6	25.7	25.3	25.2
34 Chile .....	6.3	6.4	7.1	7.0	7.0	6.9	6.6	7.0	7.0	7.1	7.1
35 Colombia .....	3.1	3.2	2.9	2.9	2.8	2.7	2.6	2.7	2.3	2.2	2.0
36 Mexico .....	24.2	25.8	26.0	25.7	25.5	25.3	24.4	24.2	24.0	23.8	23.8
37 Peru .....	2.6	2.4	2.2	2.2	2.2	2.1	1.9	1.8	1.7	1.6	1.5
38 Other Latin America .....	4.0	4.2	3.9	3.9	3.8	3.7	3.5	3.4	3.3	3.3	3.4
Asia .....											
39 China .....											
40 Mainland .....	2	3	5	7	7	3	1.1	5	6	6	6
41 Taiwan .....	5.3	5.2	5.1	5.1	5.3	5.5	5.1	4.5	4.3	3.7	4.3
42 India .....	5	9	1.0	9	9	9	1.1	1.2	1.2	1.3	1.3
43 Israel .....	2.3	1.9	1.7	1.8	1.7	2.3	1.5	1.6	1.3	1.6	1.4
44 Korea (South) .....	10.7	11.2	10.3	10.6	10.4	10.0	10.4	9.4	9.5	8.6	7.3
45 Malaysia .....	2.1	2.8	2.9	2.7	2.7	2.8	2.7	2.4	2.2	2.0	2.1
46 Philippines .....	6.3	6.1	5.9	6.0	6.1	6.0	6.0	5.7	5.6	5.7	5.4
47 Thailand .....	1.6	2.2	1.8	1.8	1.7	1.6	1.6	1.4	1.3	1.1	1.0
48 Other Asia .....	1.1	1.0	9	1.1	1.1	9	9	1.0	9	8	7
Africa .....											
49 Egypt .....	1.2	1.5	1.2	1.2	1.1	1.0	1.0	1.0	9	9	7
50 Morocco .....	7	8	8	8	8	8	9	9	9	9	9
51 Zaire .....	1	1	1	1	1	1	1	1	1	1	1
52 Other Africa <sup>4</sup> .....	2.4	2.3	1.9	2.1	2.2	2.0	2.0	1.9	1.9	1.7	1.6
53 Eastern Europe .....	6.2	5.3	4.5	4.4	4.3	4.3	4.6	4.2	4.0	4.0	3.3
54 U.S.S.R. .....	3	2	2	1	2	3	2	1	3	3	1
55 Yugoslavia .....	2.2	2.4	2.3	2.3	2.2	2.2	2.4	2.2	2.0	2.0	1.9
56 Other .....	3.7	2.8	2.1	2.0	1.9	1.8	1.9	1.8	1.7	1.7	1.4
57 Offshore banking centers .....	66.0	68.9	65.1	65.6	63.2	63.9	58.8	65.4	61.5	57.2	62.6
58 Bahamas .....	19.0	21.7	23.3	21.5	20.1	21.1	16.6	21.4	21.5	17.3	20.0
59 Bermuda .....	9	9	1.0	9	7	9	8	7	7	4	5
60 Cayman Islands and other British West Indies .....	12.8	12.2	11.1	11.8	12.3	12.1	12.3	13.4	11.3	12.8	13.2
61 Netherlands Antilles .....	3.3	4.2	3.1	3.4	3.3	3.2	2.3	2.3	2.3	2.3	1.9
62 Panama <sup>5</sup> .....	7.5	5.8	5.6	6.7	5.5	5.4	6.1	6.0	5.9	5.5	6.8
63 Lebanon .....	1	1	1	1	1	1	0	1	1	1	1
64 Hong Kong .....	13.3	13.8	11.6	11.4	11.4	11.4	11.4	11.5	11.4	9.4	10.4
65 Singapore .....	9.1	10.3	9.4	9.8	9.9	9.7	9.4	9.9	8.4	9.3	9.7
66 Others <sup>6</sup> .....	0	0	0	0	0	0	0	0	0	0	0
67 Miscellaneous and unallocated <sup>7</sup> .....	17.5	16.8	17.1	17.3	16.9	16.9	17.3	16.9	16.7	17.2	17.8

1. The banking offices covered by these data are the U.S. offices and foreign branches of U.S.-owned banks and of U.S. subsidiaries of foreign-owned banks. Offices *not* covered include (1) U.S. agencies and branches of foreign banks, and (2) foreign subsidiaries of U.S. banks. To minimize duplication, the data are adjusted to exclude the claims on foreign branches held by a U.S. office or another foreign branch of the same banking institution. The data in this table combine foreign branch claims in table 3.14 (the sum of lines 7 through 10) with the claims of U.S. offices in table 3.18 (excluding those held by agencies and branches of foreign banks and those constituting claims on own foreign branches).

2. Beginning with June 1984 data, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches

from \$50 million to \$150 million equivalent in total assets, the threshold now applicable to all reporting branches.

3. Besides the Organization of Petroleum Exporting Countries shown individually, this group includes other members of OPEC (Algeria, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and United Arab Emirates) as well as Bahrain and Oman (not formally members of OPEC).

4. Excludes Liberia.

5. Includes Canal Zone beginning December 1979.

6. Foreign branch claims only.

7. Includes New Zealand, Liberia, and international and regional organizations.

### 3.22 LIABILITIES TO UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States<sup>1</sup>

Millions of dollars, end of period

Type, and area or country	1982	1983	1984	1985		1986		
				Sept.	Dec.	Mar.	June	Sept. <sup>2</sup>
1 Total .....	27,512	25,346	29,357	25,533 <sup>r</sup>	27,662 <sup>r</sup>	25,635	24,222	24,380
2 Payable in dollars .....	24,280	22,233	26,389	22,634 <sup>r</sup>	24,352 <sup>r</sup>	22,022	20,692	20,633
3 Payable in foreign currencies .....	3,232	3,113	2,968	2,899 <sup>r</sup>	3,310 <sup>r</sup>	3,613	3,530	3,747
By type								
4 Financial liabilities .....	11,066	10,572	14,509	12,092 <sup>r</sup>	13,437 <sup>r</sup>	12,328	11,117	11,620
5 Payable in dollars .....	8,858	8,700	12,553	10,050 <sup>r</sup>	11,313 <sup>r</sup>	10,205	9,177	9,418
6 Payable in foreign currencies .....	2,208	1,872	1,955	2,041 <sup>r</sup>	2,123 <sup>r</sup>	2,123	1,940	2,201
7 Commercial liabilities .....	16,446	14,774	14,849	13,441	14,225	13,307	13,105	12,760
8 Trade payables .....	9,438	7,765	7,005	5,694	6,685	5,598	5,503	5,592
9 Advance receipts and other liabilities .....	7,008	7,009	7,843	7,747	7,540	7,710	7,602	7,168
10 Payable in dollars .....	15,423	13,533	13,836	12,584	13,039	11,817	11,516	11,214
11 Payable in foreign currencies .....	1,023	1,241	1,013	857	1,186	1,490	1,590	1,546
By area or country								
12 Europe .....	6,501	5,742	6,728	6,816 <sup>r</sup>	7,616 <sup>r</sup>	6,971	6,705	7,254
13 Belgium-Luxembourg .....	505	302	471	367	329	338	288	322
14 France .....	783	843	995	849	857	851	701	501
15 Germany .....	467	502	489	509 <sup>r</sup>	434 <sup>r</sup>	371	262	289
16 Netherlands .....	711	621	590	624	745	630	651	708
17 Switzerland .....	792	486	569	593	676	702	561	692
18 United Kingdom .....	3,102	2,839	3,297	3,584 <sup>r</sup>	4,254 <sup>r</sup>	3,736	3,960	4,272
19 Canada .....	746	764	863	826	760	753	287	282
20 Latin America and Caribbean .....	2,751	2,596	5,086	2,619	3,184 <sup>r</sup>	2,788	2,404	2,269
21 Bahamas .....	904	751	1,926	1,145	1,123 <sup>r</sup>	954	859	863
22 Bermuda .....	14	13	13	4	4	13	14	4
23 Brazil .....	28	32	35	23	29	26	27	28
24 British West Indies .....	1,027	1,041	2,103	1,234	1,843 <sup>r</sup>	1,610	1,362	1,256
25 Mexico .....	121	213	367	28	15	20	30	18
26 Venezuela .....	114	124	137	3	3	4	3	5
27 Asia .....	1,039	1,424	1,777	1,767	1,815 <sup>r</sup>	1,799	1,660	1,790
28 Japan .....	715	991	1,209	1,136	1,198 <sup>r</sup>	1,192	1,189	1,354
29 Middle East oil-exporting countries <sup>2</sup> .....	169	170	155	82	82	78	43	3
30 Africa .....	17	19	14	14	12	12	12	4
31 Oil-exporting countries <sup>3</sup> .....	0	0	0	0	0	0	0	2
32 All other <sup>4</sup> .....	12	27	41	50 <sup>r</sup>	50 <sup>r</sup>	4	49	21
Commercial liabilities								
33 Europe .....	3,831	3,245	4,001	3,897	4,074	3,915	3,761	4,337
34 Belgium-Luxembourg .....	52	62	48	56	62	66	58	75
35 France .....	598	437	438	431	453	382	357	369
36 Germany .....	468	427	622	601	607	546	512	628
37 Netherlands .....	346	268	245	386	364	545	587	613
38 Switzerland .....	367	241	257	289	379	251	283	360
39 United Kingdom .....	1,027	732	1,095	858	976	957	861	1,086
40 Canada .....	1,495	1,841	1,975	1,383	1,449	1,442	1,351	1,240
41 Latin America and Caribbean .....	1,570	1,473	1,871	1,262	1,088	1,097	1,304	843
42 Bahamas .....	16	1	7	2	12	26	10	37
43 Bermuda .....	117	67	114	105	77	210	294	172
44 Brazil .....	60	44	124	120	58	64	107	43
45 British West Indies .....	32	6	32	15	44	7	35	38
46 Mexico .....	436	585	586	415	430	256	235	196
47 Venezuela .....	642	432	636	311	212	364	488	207
48 Asia .....	8,144	6,741	5,285	5,353	6,046	5,384	5,068	4,781
49 Japan .....	1,226	1,247	1,256	1,567	1,799	2,039	2,095	2,114
50 Middle East oil-exporting countries <sup>2,5</sup> .....	5,503	4,178	2,372	2,109	2,829	2,171	1,731	1,528
51 Africa .....	753	553	588	572	587	486	569	578
52 Oil-exporting countries <sup>3</sup> .....	277	167	233	235	238	148	215	176
53 All other <sup>4</sup> .....	651	921	1,128	975	982	983	1,053	980

1. For a description of the changes in the International Statistics tables, see July 1979 BULLETIN, p. 550.

2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

3. Comprises Algeria, Gabon, Libya, and Nigeria.

4. Includes nonmonetary international and regional organizations.

5. Revisions include a reclassification of transactions, which also affects the totals for Asia and the grand totals.

3.23 CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States<sup>1</sup>

Millions of dollars, end of period

Type, and area or country	1982	1983	1984	1985		1986		
				Sept.	Dec.	Mar.	June	Sept. <sup>2</sup>
1 Total	28,725	34,911	29,901	28,626 <sup>2</sup>	28,437 <sup>2</sup>	30,927	32,519	32,262
2 Payable in dollars	26,085	31,815	27,304	25,760 <sup>2</sup>	26,135 <sup>2</sup>	28,740	30,337	29,787
3 Payable in foreign currencies	2,640	3,096	2,597	2,866	2,302	2,187	2,182	2,475
<i>By type</i>								
4 Financial claims	17,684	23,780	19,254	19,220 <sup>2</sup>	18,451 <sup>2</sup>	21,540	23,324	23,165
5 Deposits	13,058	18,496	14,621	15,331 <sup>2</sup>	15,204 <sup>2</sup>	18,146	20,034	18,554
6 Payable in dollars	12,628	17,993	14,202	14,627 <sup>2</sup>	14,589 <sup>2</sup>	17,689	19,479	18,066
7 Payable in foreign currencies	430	503	420	704	615	457	555	488
8 Other financial claims	4,626	5,284	4,633	3,889	3,248	3,394	3,290	4,611
9 Payable in dollars	2,979	3,328	3,190	2,351	2,213	2,301	2,269	3,392
10 Payable in foreign currencies	1,647	1,956	1,442	1,538	1,035	1,093	1,021	1,220
11 Commercial claims	11,041	11,131	10,646	9,406	9,986	9,387	9,195	9,097
12 Trade receivables	9,994	9,721	9,177	7,932	8,696	8,086	7,858	7,925
13 Advance payments and other claims	1,047	1,410	1,470	1,475	1,290	1,301	1,337	1,172
14 Payable in dollars	10,478	10,494	9,912	8,782	9,333	8,750	8,589	8,329
15 Payable in foreign currencies	563	637	735	624	652	637	606	767
<i>By area or country</i>								
<i>Financial claims</i>								
16 Europe	4,873	6,488	5,762	6,463	6,530 <sup>2</sup>	6,859	8,877	9,338
17 Belgium-Luxembourg	15	37	15	12	10	10	11	67
18 France	134	150	126	132	184	217	257	418
19 Germany	178	163	224	158	223	172	148	129
20 Netherlands	97	71	66	127	61	61	117	44
21 Switzerland	107	38	66	53	74	166	177	138
22 United Kingdom	4,064	5,817	4,864	5,736	5,725 <sup>2</sup>	5,986	8,051	8,315
23 Canada	4,377	5,989	3,988	4,038 <sup>2</sup>	3,260 <sup>2</sup>	4,024	4,464	3,690
24 Latin America and Caribbean	7,546	10,234	8,216	7,619 <sup>2</sup>	7,841 <sup>2</sup>	9,934	9,151	9,300
25 Bahamas	3,279	4,771	3,306	2,321 <sup>2</sup>	2,698 <sup>2</sup>	3,500	3,251	2,912
26 Bermuda	32	102	6	5	6	2	17	19
27 Brazil	62	53	100	92	78	77	75	101
28 British West Indies	3,255	4,206	4,043	4,642 <sup>2</sup>	4,571 <sup>2</sup>	5,904	5,359	5,871
29 Mexico	274	293	215	201	180	178	176	173
30 Venezuela	139	134	125	73	48	43	42	40
31 Asia	698	764	961	969	696	621	723	673
32 Japan	153	297	353	725	475	350	499	387
33 Middle East oil-exporting countries <sup>3</sup>	15	4	13	6	4	2	2	2
34 Africa	158	147	210	104	103	87	89	84
35 Oil-exporting countries <sup>3</sup>	48	55	85	31	29	27	25	18
36 All other <sup>4</sup>	31	159	117	26	21	14	20	81
<i>Commercial claims</i>								
37 Europe	3,826	3,670	3,801	3,235	3,533	3,387	3,304	3,345
38 Belgium-Luxembourg	151	135	165	158	175	148	131	123
39 France	474	459	440	360	426	384	390	412
40 Germany	357	349	374	336	346	396	414	397
41 Netherlands	350	334	335	286	284	221	237	183
42 Switzerland	360	317	271	208	284	248	221	232
43 United Kingdom	811	809	1,063	779	898	793	668	830
44 Canada	633	829	1,021	1,100	1,023	1,060	970	929
45 Latin America and Caribbean	2,526	2,695	2,052	1,660	1,753	1,599	1,590	1,665
46 Bahamas	21	8	8	13	13	27	24	29
47 Bermuda	261	190	115	62	93	82	148	132
48 Brazil	258	493	214	211	206	231	194	206
49 British West Indies	12	7	7	7	6	7	24	23
50 Mexico	775	884	583	416	510	388	320	299
51 Venezuela	351	272	206	149	157	172	180	190
52 Asia	3,050	3,063	3,073	2,712	2,982	2,606	2,649	2,471
53 Japan	1,047	1,114	1,191	884	1,016	801	846	788
54 Middle East oil-exporting countries <sup>3</sup>	751	737	668	541	638	630	691	597
55 Africa	588	588	470	434	437	491	447	456
56 Oil-exporting countries <sup>3</sup>	140	139	134	131	130	167	171	168
57 All other <sup>4</sup>	417	286	229	264	257	244	235	231

1. For a description of the changes in the International Statistics tables, see July 1979 BULLETIN, p. 550.

2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

3. Comprises Algeria, Gabon, Libya, and Nigeria.

4. Includes nonmonetary international and regional organizations.

## 3.24 FOREIGN TRANSACTIONS IN SECURITIES

Millions of dollars

Transactions, and area or country	1984	1985	1986	1986						
			Jan.- Dec.	June	July	Aug.	Sept.	Oct.	Nov.	Dec. <sup>2</sup>
	U.S. corporate securities									
STOCKS										
1 Foreign purchases .....	59,834	81,995	147,919	11,176	13,275 <sup>r</sup>	12,045	12,206	10,979 <sup>r</sup>	12,034	13,923
2 Foreign sales .....	62,814	77,054	129,855	10,832	11,261 <sup>r</sup>	10,615	10,948	12,300 <sup>r</sup>	12,085	12,784
3 Net purchases, or sales (-) .....	-2,980	4,941	18,064	344	2,014 <sup>r</sup>	1,430	1,258	-1,322 <sup>r</sup>	-52	1,139
4 Foreign countries .....	-3,109	4,857	18,272	464	2,079 <sup>r</sup>	1,470	1,303	-1,179 <sup>r</sup>	-18	1,059
5 Europe .....	-3,077	2,057	9,436	192	577 <sup>r</sup>	824	587	-1,124 <sup>r</sup>	-485	416
6 France .....	-405	-438	462	219	182	105	30	-92	-69	113
7 Germany .....	-50	730	339	-174	-130	-42	9	-104	-3	22
8 Netherlands .....	-357	-123	936	97	52	50	36	-19	-50	14
9 Switzerland .....	-1,542	-75	1,559	-134	-198	44	70	-405	-236	47
10 United Kingdom .....	-677	1,665	4,702	38	482 <sup>r</sup>	521	462	-481	-114	225
11 Canada .....	1,691	356	795	131	214	97	93	-115 <sup>r</sup>	42	101
12 Latin America and Caribbean .....	495	1,718	2,535	60	271 <sup>r</sup>	108	145	154	367	-272
13 Middle East <sup>1</sup> .....	-1,992	238	977	-236	181	78	58	-51	-92	268
14 Other Asia .....	-378	296	3,859	288	830	376	346	16	80	445
15 Africa .....	-22	24	298	-3	30	-1	-13	39	23	17
16 Other countries .....	175	168	373	32	-23	-13	86	-97	48	84
17 Nonmonetary international and regional organizations .....	129	84	-208	-121	-65	-40	-45	-143	-34	80
BONDS <sup>2</sup>										
18 Foreign purchases .....	39,296	86,587	122,659	8,964	8,937	9,420	10,160	9,712	9,232	11,977
19 Foreign sales .....	26,399	42,455 <sup>r</sup>	71,840	5,686	5,679	5,348	5,585	5,527	6,032	7,863
20 Net purchases, or sales (-) .....	12,897	44,132 <sup>r</sup>	50,819	3,278	3,259	4,072	4,575	4,185	3,200	4,114
21 Foreign countries .....	12,600	44,227 <sup>r</sup>	50,161	2,798	3,197	4,077	4,871	4,457	2,881	4,377
22 Europe .....	11,697	40,047	39,266	2,763	2,395	2,484	3,386	3,475	2,102	3,064
23 France .....	207	210	388	-6	6	20	-29	0	328	32
24 Germany .....	1,724	2,001	-251	-3	-91	-81	26	82	-108	-19
25 Netherlands .....	100	222	387	-37	-39	98	51	-55	113	52
26 Switzerland .....	643	3,987	4,530	490	180	564	30	265	204	-117
27 United Kingdom .....	8,429	32,762	33,855	2,214	2,213	1,917	3,414	3,177	1,416	2,760
28 Canada .....	-62	190	548	55	85	110	2	88	154	153
29 Latin America and Caribbean .....	376	498	1,483	63	250	160	64	101	67	116
30 Middle East <sup>1</sup> .....	-1,230	-2,648 <sup>r</sup>	-2,951	-632	-718	-40	-169	-33	-355	-258
31 Other Asia .....	1,817	6,091	11,684	480	1,177	1,329	1,586	819	926	1,297
32 Africa .....	1	11	17	3	-3	5	6	-3	3	4
33 Other countries .....	0	38	114	66	11	29	-4	11	-15	3
34 Nonmonetary international and regional organizations .....	297	-95	657	480	61	-4	-296	-273	319	-263
	Foreign securities									
35 Stocks, net purchases, or sales (-) .....	-1,101	-3,892 <sup>r</sup>	-1,492	-238	404	-83	676	1,256 <sup>r</sup>	390	27
36 Foreign purchases .....	14,816	20,861 <sup>r</sup>	49,880	3,775	4,310	4,610	5,091	6,324 <sup>r</sup>	4,149	4,597
37 Foreign sales .....	15,917	24,754 <sup>r</sup>	51,372	4,013	3,907	4,694	4,415	5,068 <sup>r</sup>	3,758	4,570
38 Bonds, net purchases, or sales (-) .....	-3,930	-3,999 <sup>r</sup>	-3,162	1,540	359	1,232	-2,231	2,151	-680	-455
39 Foreign purchases .....	56,017	81,216 <sup>r</sup>	165,591	15,632	13,559	14,086	15,182	16,249 <sup>r</sup>	12,599	16,128
40 Foreign sales .....	59,948	85,214 <sup>r</sup>	168,753	14,091	13,200	12,854	17,412	14,098 <sup>r</sup>	13,278	16,583
41 Net purchases, or sales (-), of stocks and bonds .....	-5,031	-7,891	-4,653	1,302	762	1,149	-1,555	3,407 <sup>r</sup>	-289	-428
42 Foreign countries .....	-4,642	-8,954	-5,781	1,122	438	1,090	-1,492	3,078 <sup>r</sup>	-292	-876
43 Europe .....	-8,655	-9,887	-17,650	-1,332	-683	-714	-3,379	-647 <sup>r</sup>	-984	-1,372
44 Canada .....	542	-1,686 <sup>r</sup>	-884	16	245	263	111	88	-109	-263
45 Latin America and Caribbean .....	2,460	1,846 <sup>r</sup>	3,420	742	278	127	351	502 <sup>r</sup>	16	158
46 Asia .....	1,356	659 <sup>r</sup>	11,180	1,639	659	1,337	1,852	3,194 <sup>r</sup>	802	1,482
47 Africa .....	-108	75 <sup>r</sup>	55	3	9	1	3	-1	4	6
48 Other countries .....	-238	38	-1,903	55	-70	75	-430	-58	-21	-886
49 Nonmonetary international and regional organizations .....	-389	1,063	1,128	180	324	59	-63	330	3	448

1. Comprises oil-exporting countries as follows: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

2. Includes state and local government securities, and securities of U.S. government agencies and corporations. Also includes issues of new debt securi-

ties sold abroad by U.S. corporations organized to finance direct investments abroad.

## 3.25 MARKETABLE U.S. TREASURY BONDS AND NOTES Foreign Transactions

Millions of dollars

Country or area	1984	1985 <sup>c</sup>	1986	1986						
			Jan.- Dec.	June	July	Aug.	Sept.	Oct.	Nov.	Dec. <sup>p</sup>
			Transactions, net purchases or sales (-) during period <sup>1</sup>							
1 Estimated total <sup>2</sup> .....	21,501	29,208	24,307	3,112	-279 <sup>r</sup>	754 <sup>r</sup>	4,993	3,093	-2,298	-1,254
2 Foreign countries <sup>2</sup> .....	16,496	28,768	25,455	2,230	2,705	2,217 <sup>r</sup>	3,997	2,778	-340	-227
3 Europe <sup>2</sup> .....	11,014	4,303	17,327	2,562	2,544	2,442	-685	3,135	-668	1,301
4 Belgium-Luxembourg .....	287	476	343	82	-46	180	239	4	-53	75
5 Germany <sup>2</sup> .....	2,929	1,917	7,805	357	818	1,050	1,133	2,560	716	347
6 Netherlands .....	449	269	1,312	64	1,756	-64	-313	112	38	-29
7 Sweden .....	40	976	132	16	42	-25	85	-6	-70	236
8 Switzerland <sup>2</sup> .....	656	773	415	349	-278	52	-53	449	-499	-322
9 United Kingdom .....	5,188	1,810	4,725	698	610	1,207	-1,970	153	-285	1,072
10 Other Western Europe .....	1,466	1,701	2,596	1,125	-358	43	195	-136	-515	1,089
11 Eastern Europe .....	0	0	0	0	0	0	0	0	0	0
12 Canada .....	1,586	-188	874	-302	67	105	-198	230	19	297
13 Latin America and Caribbean .....	1,418	4,315	901	-460	28	-37	220	-219	74	97
14 Venezuela .....	14	248	69	-170	-72	-294	266	69	-139	29
15 Other Latin America and Caribbean .....	536	2,336	1,131	-290	96	255	32	-314	5	97
16 Netherlands Antilles .....	869	1,731	-161	0	5	2	-78	26	208	30
17 Asia .....	2,431	19,919	5,178	515	137	132 <sup>r</sup>	4,848	-58	-250	-2,079
18 Japan .....	6,289	17,909	3,800	223	273	683	4,395	-453	88	-2,104
19 Africa .....	67	112	-54	5	6	-1	11	-13	2	-14
20 All other .....	114	308	1,229	-80	198	-160	-200	163	482	171
21 Nonmonetary international and regional organizations .....	5,009	442	-1,148	882	2,984 <sup>r</sup>	1,462	996	314	-1,958	-1,481
22 International .....	4,612	-436	1,474	899	-2,829 <sup>r</sup>	-1,511	890	365	-2,010	1,414
23 Latin American regional .....	0	18	157	5	0	0	39	-5	0	0
MEMO										
24 Foreign countries <sup>2</sup> .....	16,496	28,768	25,455	2,230	2,705	2,217 <sup>r</sup>	3,997	2,778	-340	-227
25 Official institutions .....	505	8,135	14,351	1,612	1,448	61	1,877	3,506	52	401
26 Other foreign <sup>2</sup> .....	15,992	20,631	11,106	619	1,257	2,156 <sup>r</sup>	2,119	-727	-393	-628
Oil-exporting countries										
27 Middle East <sup>3</sup> .....	-6,270	-1,547	-1494	-290	14	-239	205	-377	-1,016	-14
28 Africa <sup>4</sup> .....	-101	7	5	0	2	1	2	-1	1	0

1. Estimated official and private transactions in marketable U.S. Treasury securities with an original maturity of more than 1 year. Data are based on monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.

2. Includes U.S. Treasury notes publicly issued to private foreign residents denominated in foreign currencies.

3. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

4. Comprises Algeria, Gabon, Libya, and Nigeria.

## 3.26 DISCOUNT RATES OF FOREIGN CENTRAL BANKS

Percent per annum

Country	Rate on Jan. 31, 1987		Country	Rate on Jan. 31, 1987		Country	Rate on Jan. 31, 1987	
	Per-cent	Month effective		Per-cent	Month effective		Per-cent	Month effective
Austria .....	3.5	Jan. 1987	France <sup>1</sup> .....	7.25	Dec. 1986	Norway .....	8.0	June 1983
Belgium .....	8.5	Jan. 1987	Germany, Fed. Rep. of ...	3.5	Mar. 1986	Switzerland .....	3.5	Jan. 1987
Brazil .....	49.0	Mar. 1981	Italy .....	12.0	May 1986	United Kingdom <sup>2</sup> .....	8.0	Oct. 1985
Canada .....	7.74	Jan. 1987	Japan .....	3.0	Oct. 1986	Venezuela .....		
Denmark .....	7.0	Oct. 1983	Netherlands .....	4.5	Mar. 1986			

1. As of the end of February 1981, the rate is that at which the Bank of France discounts Treasury bills for 7 to 10 days.

2. Minimum lending rate suspended as of Aug. 20, 1981.

NOTE: Rates shown are mainly those at which the central bank either discounts

or makes advances against eligible commercial paper and/or government commercial banks or brokers. For countries with more than one rate applicable to such discounts or advances, the rate shown is the one at which it is understood the central bank transacts the largest proportion of its credit operations.

## 3.27 FOREIGN SHORT-TERM INTEREST RATES

Percent per annum, averages of daily figures

Country, or type	1984	1985	1986	1986						1987
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
1 Eurodollars .....	10.75	8.27	6.70	6.54	6.06	5.88	5.88	5.96	6.23	6.10
2 United Kingdom .....	9.91	12.16	10.87	9.91	9.79	10.05	11.08	11.12	11.30	10.98
3 Canada .....	11.29	9.64	9.18	8.45	8.50	8.38	8.45	8.39	8.34	7.95
4 Germany .....	5.96	5.40	4.58	4.61	4.56	4.48	4.56	4.67	4.80	4.45
5 Switzerland .....	4.35	4.92	4.19	4.80	4.30	4.13	3.96	3.88	4.08	3.63
6 Netherlands .....	6.08	6.29	5.56	5.69	5.28	5.17	5.32	5.48	6.03	5.58
7 France .....	11.66	9.91	7.68	7.13	7.09	7.07	7.38	7.51	7.92	8.49
8 Italy .....	17.08	14.86	12.60	11.70	11.18	10.84	10.85	11.05	11.40	11.39
9 Belgium .....	11.41	9.60	8.04	7.25	7.25	7.25	7.29	7.38	7.39	7.88
10 Japan .....	6.32	6.47	4.96	4.62	4.68	4.71	4.75	4.39	4.40	4.23

NOTE: Rates are for 3-month interbank loans except for Canada, finance company paper; Belgium, 3-month Treasury bills; and Japan, Gensaki rate.

## 3.28 FOREIGN EXCHANGE RATES

Currency units per dollar

Country/currency	1984	1985	1986	1986					1987
				Aug.	Sept.	Oct.	Nov.	Dec.	
1 Australia/dollar <sup>1</sup> .....	87.937	70.026	67.093	61.23	62.21	63.83	64.45	65.95	66.09
2 Austria/schilling .....	20.005	20.676	15.260	14.502	14.349	14.111	14.251	13.996	13.087
3 Belgium/franc .....	57.749	59.336	44.662	42.701	42.315	41.635	42.069	41.381	38.616
4 Brazil/cruzeiro .....	1841.50	6205.10	13.051	13.84	13.84	13.98	14.10	14.54	15.58
5 Canada/dollar .....	1.2953	1.3658	1.3896	1.3885	1.3872	1.3885	1.3863	1.3801	1.3605
6 China, P.R./yuan .....	2.3308	2.9434	3.4615	3.7129	3.7150	3.7257	3.7314	3.7314	3.7314
7 Denmark/krone .....	10.354	10.598	8.0954	7.7657	7.7278	7.5607	7.6444	7.5235	7.0591
8 Finland/markka .....	6.0007	6.1971	5.0721	4.9377	4.9190	4.8684	4.9576	4.8980	4.6419
9 France/franc .....	8.7355	8.9799	6.9256	6.7215	6.6835	6.5628	6.6206	6.5296	6.2007
10 Germany/deutsche mark .....	2.8454	2.9419	2.1704	2.0621	2.0415	2.0054	2.0243	1.9880	1.8596
11 Greece/drachma .....	112.73	138.40	139.93	134.68	135.07	135.44	139.12	140.13	134.80
12 Hong Kong/dollar .....	7.8188	7.7911	7.8037	7.8003	7.8026	7.7999	7.7974	7.7931	7.7698
13 India/rupee .....	11.348	12.332	12.597	12.567	12.676	12.848	13.076	13.149	13.029
14 Ireland/pound <sup>1</sup> .....	108.64	106.62	134.14	134.67	134.53	135.89	134.64	136.78	143.90
15 Italy/lira .....	1756.10	1908.90	1491.16	1420.33	1410.23	1387.67	1401.08	1379.44	1317.17
16 Japan/yen .....	237.45	238.47	168.35	154.18	154.73	156.47	162.85	162.05	154.83
17 Malaysia/ringgit .....	2.3448	2.4806	2.5830	2.6121	2.6174	2.6245	2.6131	2.5966	2.5701
18 Netherlands/guilder .....	3.2083	3.3184	2.4484	2.3242	2.3050	2.2663	2.2870	2.2470	2.0978
19 New Zealand/dollar <sup>1</sup> .....	57.837	49.752	52.456	50.068	47.950	50.392	51.382	51.339	53.605
20 Norway/krone .....	8.1596	8.5933	7.3984	7.3534	7.3429	7.3611	7.5401	7.5294	7.1731
21 Portugal/escudo .....	147.70	172.07	149.80	146.17	146.83	147.24	149.54	148.61	142.90
22 Singapore/dollar .....	2.1325	2.2008	2.1782	2.1601	2.1680	2.1777	2.1922	2.1900	2.1510
23 South Africa/rand <sup>1</sup> .....	69.534	45.57	43.952	38.39	43.36	44.42	44.37	44.94	47.70
24 South Korea/won .....	807.91	861.89	884.61	886.45	883.06	879.22	873.54	868.43	862.86
25 Spain/peseta .....	160.78	169.98	140.04	134.11	134.10	133.43	136.10	134.49	129.54
26 Sri Lanka/rupee .....	25.428	27.187	27.933	28.187	28.297	28.407	28.471	28.532	28.578
27 Sweden/krona .....	8.2706	8.6031	7.1272	6.9365	6.9191	6.8901	6.9683	6.9081	6.6188
28 Switzerland/franc .....	2.3500	2.4551	1.7979	1.6616	1.6537	1.6433	1.6858	1.6647	1.5616
29 Taiwan/dollar .....	39.633	39.889	37.837	37.422	36.885	36.647	36.438	36.001	35.304
30 Thailand/baht .....	23.582	27.193	26.314	26.093	26.120	26.129	26.278	26.239	26.037
31 United Kingdom/pound <sup>1</sup> .....	133.66	129.74	146.77	148.61	146.98	142.64	142.38	143.93	150.54
MEMO									
32 United States/dollar <sup>2</sup> .....	138.19	143.01	112.22	107.50	107.15	106.58	107.90	106.54	101.13

1. Value in U.S. cents.

2. Index of weighted-average exchange value of U.S. dollar against currencies of other G-10 countries plus Switzerland. March 1973 = 100. Weights are 1972-76 global trade of each of the 10 countries. Series revised as of August 1978. For description and back data, see "Index of the Weighted-Average Exchange Value of the U.S. Dollar: Revision" on p. 700 of the August 1978 BULLETIN.

3. Currency reform.

NOTE: Averages of certified noon buying rates in New York for cable transfers. Data in this table also appear in the Board's G.5 (405) release. For address, see inside front cover.

# Guide to Tabular Presentation, Statistical Releases, and Special Tables

## GUIDE TO TABULAR PRESENTATION

### *Symbols and Abbreviations*

c	Corrected	0	Calculated to be zero
e	Estimated	n.a.	Not available
p	Preliminary	n.e.c.	Not elsewhere classified
r	Revised (Notation appears on column heading when about half of the figures in that column are changed.)	IPCs	Individuals, partnerships, and corporations
*	Amounts insignificant in terms of the last decimal place shown in the table (for example, less than 500,000 when the smallest unit given is millions)	REITs	Real estate investment trusts
		RPs	Repurchase agreements
		SMSAs	Standard metropolitan statistical areas
		. . . .	Cell not applicable

### *General Information*

Minus signs are used to indicate (1) a decrease, (2) a negative figure, or (3) an outflow.

"U.S. government securities" may include guaranteed issues of U.S. government agencies (the flow of funds figures also include not fully guaranteed issues) as well as direct

obligations of the Treasury. "State and local government" also includes municipalities, special districts, and other political subdivisions.

In some of the tables details do not add to totals because of rounding.

## STATISTICAL RELEASES

### *List Published Semiannually, with Latest Bulletin Reference*

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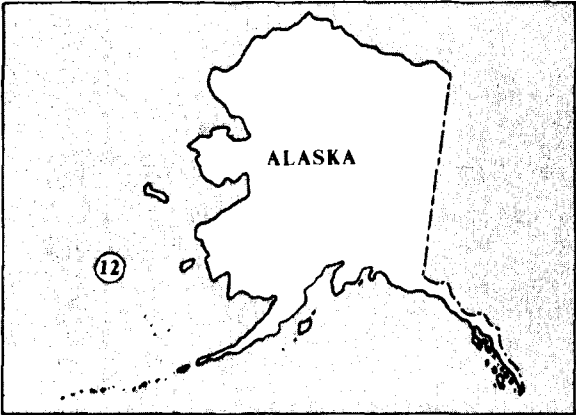
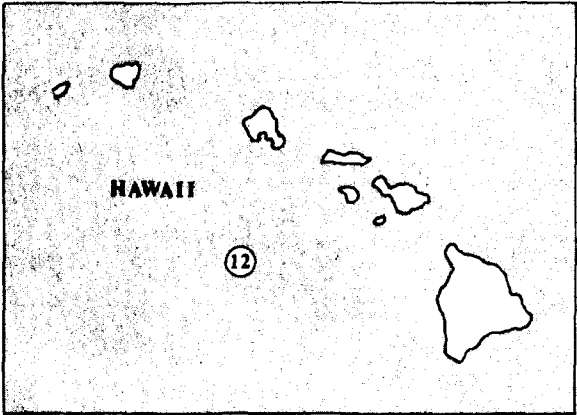
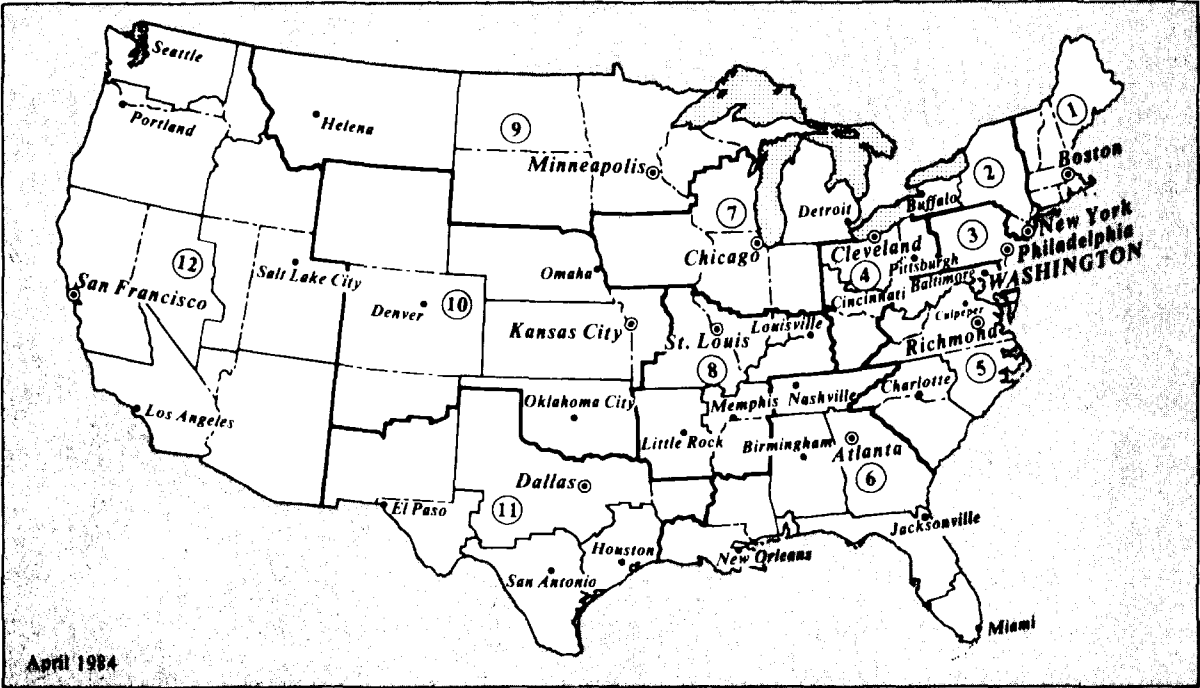
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# The Federal Reserve System

## Boundaries of Federal Reserve Districts and Their Branch Territories



### LEGEND

- Boundaries of Federal Reserve Districts
- Boundaries of Federal Reserve Branch Territories
- ★ Board of Governors of the Federal Reserve System
- Federal Reserve Bank Cities
- Federal Reserve Branch Cities
- Federal Reserve Bank Facility