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August 14, 1981

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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SUPPLEMENTAL NOTES

Industrial production and capacity utilization

Industrial production increased 0.3 percent in July, following a slight decline in June. Most of the July rise reflected a continuation of the post-strike rebound in coal output. A sharp reduction occurred in the output of autos and trucks and a further decline was evidenced in production of construction supplies. Growth continued in equipment output and production of materials other than coal also increased. Industrial production in July was 9.3 percent above the recent low in July 1980 and virtually the same as the high reached in March 1979.

Production of consumer goods overall was unchanged in July, as sharp declines in the output of autos and utility vehicles were offset by increases in the production of home goods, such as appliances, and of consumer nondurable goods. Autos were assembled at an annual rate of 7.2 million units--down from a rate of 7.4 million units in June; a further reduction of nearly 10 percent is now scheduled for August. Equipment production advanced 0.5 percent in July, as both defense and space and business equipment increased; within the latter, production of transit equipment declined further. Output of construction supplies was again cut back, reflecting the broad decline in construction activity this year.

Production of materials advanced 0.6 percent, largely reflecting the surge in coal output. Smaller, but nevertheless widespread, increases occurred in output of many durable and nondurable materials, such as chemical materials and equipment parts.

INDUSTRIAL PRODUCTION
(Percentage change from preceding period;
based on seasonally adjusted data)

	1980	1981		1981		
	Q4	Q1	Q2	May	June	July
	----annual rate----			---monthly rate---		
Total	21.3	7.4	2.4	.5	-.1	.3
Final products	12.2	3.5	7.2	.8	-.1	.2
Consumer goods	13.1	.0	7.3	1.1	-.4	.0
Durable	39.9	-2.6	18.8	2.2	.0	-.7
Nondurable	4.7	1.0	3.2	.6	-.5	.3
Business equipment	11.2	10.4	9.2	.8	.4	.4
Defense and space eq.	10.9	3.4	1.1	.0	.1	.5
Construction supplies	32.2	14.1	-5.5	-.7	-1.8	-.9
Materials	34.4	12.0	-0.8	.5	.3	.6
Durable goods	48.4	17.5	4.1	.7	-.5	.3
Nondurable goods	38.2	8.5	.4	.1	-.5	.5
Energy materials	-.2	3.6	-15.1	.6	3.9	2.1

CAPACITY UTILIZATION RATES: MANUFACTURING AND MATERIALS
(Percent, seasonally adjusted)

	1978-80	1980	1981		1981	
	High	Low	Q1	Q2	June	July
Manufacturing industries	87.2	74.9	79.9	80.0	79.7	79.6
Primary processing	90.1	70.9	81.0	80.2	79.6	79.6
Advanced processing	86.2	77.1	79.4	79.8	79.7	79.6
Motor vehicles & pts.	94.5	51.0	58.6	64.6	65.9	63.1
Materials producers	88.8	73.7	81.7	81.1	81.2	81.5
Durable goods mats.	88.4	68.0	78.4	78.7	78.5	78.5
Raw steel	100.7	55.3	87.5	83.9	80.8	84.4
Nondurable goods mats.	90.9	76.8	85.9	85.3	84.8	85.0
Energy materials	88.8	83.1	84.8	80.9	83.0	84.5

Capacity utilization in manufacturing edged down 0.1 of a percentage point to 79.6 percent in July, after declining 0.5 of a percentage point in June. In contrast, the operating rate for producers of industrial materials rose 0.3 of a percentage point to 81.5 percent in July, mainly as a result of a further post-strike increase in coal production. The July rates for both manufacturers and materials producers are close to those that have prevailed since late last year.

Retail sales

Retail sales in July rose 1.3 percent from June, when they had risen 1.7 percent, but with the declines in April and May they were only 0.5 percent above those in March. An increase in the value of sales at automotive products stores, 6.4 percent, was nearly as large as the rise in sales at all retail stores; in June a large rise in sales at automotive stores accounted for half the overall increase. Sales at stores excluding the automotive group and those selling mainly nonconsumer items edged up only 0.1 percent in July, following a rise of 1.1 percent in the preceding month. Sales of general merchandise, apparel, and furniture and household appliances declined 0.5 percent, with those at general merchandise stores alone down 1.3 percent; sales at the GAF grouping of stores had increased sharply in June, as had those at general merchandise stores. Sales at gasoline service stations declined in July in dollar terms for the fourth successive month.

RETAIL SALES
(Percent change from preceding period;
based on seasonally adjusted data)

	1981					
	Q1	Q2	Apr.	May	June	July
Total sales	4.9	-.6	-2.0	-.4	1.7	1.3
(Real) ¹	2.9	-1.9	-2.3	-.6	1.3	n.a.
Total, less autos and nonconsumption items	3.5	.8	.1	-.8	1.1	.1
Total, exc. auto group, gasoline, and nonconsump- tion items	3.3	1.0	.1	-.8	1.3	.2
GAF ²	3.1	1.2	.9	-1.4	2.7	-.5
<u>Durable goods</u>	8.5	-4.2	-7.3	.7	3.3	3.7
Automotive	10.0	-5.8	-10.8	1.5	4.7	6.4
Furniture & appliances	4.4	-2.5	-1.9	-.7	2.5	.2
<u>Nondurable goods</u>	3.3	1.1	.5	-.9	1.0	.1
Apparel	5.1	-.5	-.4	-.2	1.9	1.3
Food	2.1	2.1	.8	-.8	1.2	.8
General merchandise ³	1.8	3.2	2.5	-2.0	3.2	-1.3
Gasoline	4.9	-.4	-.2	-1.0	-.2	-.6

1. BCD series 59. Data are available approximately 3 weeks following the retail sales release. Series is not yet available for July.
2. General merchandise, apparel, and furniture and appliance stores.
3. General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

Retail trade and business inventories

The book value of retail trade inventories rose in June at a seasonally adjusted annual rate of \$24.8 billion following a \$17.6 billion rate accumulation in May. Two thirds of the June increase was at automotive stores; three fifths of the overall May rise was in autos and automotive goods. Most of the remainder of the June accumulation in retailers' inventories was in goods held by general merchandise stores, where they also had increased appreciably in the preceding month. The large June rise in retail trade inventories was accompanied by a 1.7 percent increase in sales, and the inventory-to-sales ratio remained unchanged at 1.35.

The book value of manufacturing and trade inventories rose at a \$39.0 billion annual rate in June, at a slightly higher rate than in May. The inventory-sales ratio for manufacturers and trade establishments in June also was unchanged from May. Over the second quarter, these nonfarm business stocks were accumulated at a \$32.2 billion rate, down from a \$41.1 billion rate buildup over the first quarter of the year. Retail stores accumulated stocks at a \$16.4 billion annual rate over the second quarter, at a considerably faster pace than the \$6.8 billion rate over the first quarter.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars at annual rates)

	1979	1980	1981				
			Q1	Q2	Apr.	May(r)	June(p)
<u>Book Value Basis</u>							
Total	49.0	31.0	41.1	32.2	19.1	38.8	39.0
Manufacturing	31.5	16.4	34.2	11.0	11.8	21.0	.2
Materials	12.3	2.5	10.1	-.1	7.3	-6.7	-.8
Work-in-Process	12.9	8.7	13.3	3.5	5.2	13.4	-8.0
Finished Goods	6.2	5.2	10.8	7.6	-.7	14.4	9.0
Wholesale	10.3	11.7	.0	4.8	.6	-.3	14.1
Automotive	.6	1.3	-2.4	.5	.8	-4.6	5.4
Retail	7.2	2.9	6.8	16.4	6.7	18.0	24.8
Automotive	1.4	-2.3	-3.3	12.2	9.6	10.9	16.6
<u>Constant Dollar Basis</u>							
Total	7.2	-2.5	-1.3	n.a.	6.1	11.2	n.a.
Manufacturing	6.8	-1.0	4.6	n.a.	.7	1.3	n.a.
Wholesale	.4	.6	-1.6	n.a.	.0	2.3	n.a.
Retail	-.1	-2.2	-4.3	n.a.	5.4	7.6	n.a.

INVENTORIES RELATIVE TO SALES¹

	1980		1981				
	May ²	Q4	Q1	Q2	Apr.	May(r)	June(p)
<u>Book Value Basis</u>							
Total	1.53	1.40	1.39	1.41	1.39	1.40	1.40
Manufacturing	1.76	1.59	1.61	1.60	1.60	1.61	1.58
Wholesale	1.21	1.12	1.08	1.11	1.08	1.10	1.12
Retail	1.44	1.35	1.31	1.37	1.33	1.35	1.35
<u>Constant Dollar Basis</u>							
Total	1.77	1.66	1.64	n.a.	1.67	1.69	n.a.
Manufacturing	2.12	1.96	1.97	n.a.	1.98	1.98	n.a.
Wholesale	1.46	1.39	1.37	n.a.	1.40	1.46	n.a.
Retail	1.48	1.42	1.36	n.a.	1.39	1.41	n.a.

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

2. Period of cyclical peak in ratios.

(r) Revised estimates.

(p) Preliminary estimates.

Producer prices

Producer prices of finished goods in July rose at a relatively moderate rate, overall; at a 5-1/4 percent annual rate, the increase was a trifle less than the average in the two preceding months. However, the rate of increase in prices of finished foods accelerated sharply in July--to a 17-1/2 percent annual rate from a 5-3/4 percent rise in June; over the first half of this year these food prices had increased at about a 1-1/2 percent annual rate. Prices of capital equipment continued to rise sharply in July--at an 8.6 percent annual rate and about the same as in June; these rates of rise are considerably less than the 11-1/4 percent annual rate increase over the fourth quarter of last year and the first half of this year. Prices of finished energy goods declined at a 12-1/2 percent annual rate in July; early in the year they had risen very substantially. Producer prices of consumer finished goods other than food and energy rose only a little in July--at a 2.2 percent annual rate; in most months over the year ended in June these prices had risen at a 6 percent annual rate or more and they had increased 8 percent over that period.

Producer prices of crude materials and of intermediate materials, supplies, and components also rose moderately in July--at annual rates of 6-1/2 percent and 4-3/4 percent, respectively. However, excluding items for food and feed and for energy, these materials prices rose sharply--at a 29 percent rate for crude materials and at an 8-1/2 percent rate for intermediate items. Prices of crude materials for both the foods and feeds and energy groupings rose only modestly and prices of intermediate materials for food and feed and for energy declined.

RECENT CHANGES IN PRODUCER PRICES
 (Percentage change at annual rates; based on seasonally adjusted data)¹

	Relative importance Dec. 1980	1980	1981			
			Q1	Q2	June	July
Finished goods	100.0	11.8	13.3	5.8	6.7	5.3
Consumer foods	23.1	7.5	1.6	1.5	5.7	17.6
Consumer nonfood	56.6	14.2	18.6	6.6	6.1	-9
Energy	12.0	27.8	66.8	2.0	2.3	-12.4
Exc. energy	44.6	10.4	7.8	8.0	7.7	2.2
Capital equipment	20.3	11.4	12.0	10.1	8.7	8.6
Intermediate materials ²	93.6	12.4	14.3	7.4	3.5	5.4
Exc. energy	77.3	10.1	8.0	8.5	6.0	8.5
Crude food materials	57.7	8.6	-23.1	8.5	33.2	3.6
Crude nonfood	42.3	19.1	39.7	6.5	-6.4	9.2
Exc. energy	15.5	7.5	-36.7	22.1	-10.2	29.0

1. Changes are from final month of preceding period to final month of period indicated.

2. Excludes materials for food manufacturing and animal feeds.

MONETARY AGGREGATES
(Based on seasonally adjusted data unless otherwise noted)¹

	1980		1981				July '80
	Q4	Q1	Q2	May	June	July	to July '81
---- Percentage change at annual rates ----							
<u>Money stock measures</u>							
1. M1-A	8.2	-20.8	-5.3	-5.6	-9.9	-0.7	-4.0
2. (Adjusted) ²	n.a.	(-1.7)	(5.1)	(-6.1)	(-10.1)	(2.8)	n.a.
3. M1-B	10.8	4.9	8.7	-6.1	-7.5	4.2	7.8
4. (Adjusted) ²	n.a.	(-0.8)	(5.3)	(-5.1)	(-8.8)	(3.4)	n.a.
5. M2	8.1	8.3	10.6	3.7	4.1	8.0	9.1
6. M3	11.3	12.4	10.5	8.5	10.0	8.5	11.6
<u>Selected components</u>							
7. Currency	8.8	5.5	7.9	9.1	1.0	10.0	7.9
8. Demand deposits	7.9	-32.9	-11.8	-11.8	-14.0	-6.6	-9.2
9. Other checkable deposits	52.9	372.3	107.4	-7.1	3.6	34.0	202.6
10. M2 minus M1-B (11+12+13+16)	7.3	9.4	11.3	6.9	8.0	9.1	9.5
11. Overnight RPs and Eurodollars, NSA ³	15.3	0.0	58.9	139.9	43.9	-30.2	30.7
12. Money market mutual fund shares, NSA	-15.5	84.5	113.7	10.2	47.8	112.4	66.6
13. Commercial banks	10.2	6.0	4.2	4.5	5.9	5.7	7.0
14. savings deposits	1.5	-30.5	-11.9	-16.0	-24.0	-11.5	-11.2
15. small time deposits	16.2	30.2	13.4	15.8	22.0	14.5	19.4
16. Thrift institutions	7.6	3.5	-0.3	1.4	-0.5	-4.5	3.2
17. savings deposits	-2.2	-29.6	-12.8	-22.2	-24.5	-18.6	-12.2
18. small time deposits	12.5	19.0	4.8	10.8	9.2	1.0	10.6
19. Large time deposits	28.1	39.6	10.3	34.3	43.7	15.5	27.5
20. at commercial banks, net ⁴	24.8	40.6	10.1	37.2	50.2	19.1	27.3
21. at thrift institutions	44.9	34.7	11.2	23.0	10.0	-2.5	28.6
22. Term RPs, NSA	47.7	16.4	2.1	42.0	34.4	-24.3	26.1
--Average monthly change in billions of dollars--							
<u>MEMORANDA:</u>							
23. Managed liabilities at commercial banks (24+25)	9.1	4.0	8.4	16.9	10.9	7.7	6.6
24. Large time deposits, gross	7.0	5.1	7.5	10.5	8.8	9.2	6.3
25. Nondeposit funds	2.1	-1.1	0.9	6.4	2.1	-1.5	0.3
26. Net due to related foreign institutions, NSA	-0.2	-1.6	0.5	9.1	-3.2	-0.2	-0.5
27. Other ⁵	2.4	0.4	0.4	-2.7	5.3	-1.3	0.8
28. U.S. government deposits at commercial banks ⁶	-0.9	1.1	-0.3	1.9	-3.3	1.0	0.2

1. Quarterly growth rates are computed on a quarterly average basis.
 2. Figures in parentheses have been adjusted to remove the distorting effects since the beginning of 1981 of shifts of funds out of demand deposits and other accounts into NOW accounts. Based on a variety of evidence, it is estimated that 77-1/2 percent of inflows into other checkable deposits--in excess of "trend"--was from demand deposits in January, and 72-1/2 percent in subsequent months.
 3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers.
 4. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
 5. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve), loans sold to affiliates, loan RPs, and other minor items. Changes since October 1980 are partially estimated.
 6. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
- n.a.--not available. e--estimated.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)¹

	1980		1981				July 80	
	Q3	Q4	Q1	Q2 ^e	May	June	July ^e	to July 81 ^e
----- Commercial Bank Credit -----								
1. Total loans and investments at banks ²	12.9	14.6	7.7	7.3	11.7	5.7	5.7	10.9
2. Investments	20.5	11.9	10.5	6.2	12.3	7.5	5.7	11.0
3. Treasury securities	39.1	11.1	15.2	15.7	25.0	18.4	11.1	18.0
4. Other securities	11.5	12.3	8.2	1.3	5.5	1.6	2.7	7.5
5. Total loans ²	10.2	15.6	6.8	7.7	11.4	5.3	5.6	10.8
6. Business loans ²	15.2	21.0	6.6	10.1	11.9	15.3	17.6	15.2
7. Security loans	-10.2	60.1	27.3	36.2	18.2	23.9	-58.5	30.9
8. Real estate loans	4.5	11.0	9.4	7.3	9.4	5.3	6.6	8.5
9. Consumer loans	-7.6	-0.2	-1.4	-1.1	-4.1	1.4	n.a.	n.a.
-- Short- and Intermediate-Term Business Credit --								
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	8.9	14.5	13.9	14.8	16.6	21.5	n.a.	n.a.
11. Business loans net of bankers acceptances	14.3	24.2	5.8	7.0	13.0	14.3	17.8	15.4
12. Commercial paper issued by nonfinancial firms ³	-19.3	-3.0	30.7	40.9	48.9	82.9	7.8	13.6
13. Sum of lines 11 & 12	10.3	21.2	8.3	12.6	17.1	22.0	16.5	15.2
14. Line 13 plus loans at foreign branches ⁴	9.6	19.6	11.6	12.7	15.5	22.3	18.4	15.5
15. Finance company loans to business ⁵	-4.6	14.6	8.5	19.3	23.1	30.8	n.a.	n.a.
16. Total bankers acceptances outstanding ⁵	21.0	-15.7	35.6	23.1	15.7	5.8	n.a.	n.a.

1. Average of Wednesdays for domestic chartered banks and average of current and preceding ends of months for foreign-related institutions.

2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.

3. Average of Wednesdays.

4. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestic-chartered banks.

5. Based on average of current and preceding ends of months.

n.a.--not available. e--estimated.

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1980 Dec. High	1981				Change from:	
		Mar. Low	Early May High	FOMC July 7	Aug. 13	Early May High	FOMC July 7
<u>Short-term rates</u>							
Federal funds ²	19.83	13.48	18.91	19.93	18.29	-.62	-1.64
Treasury bills							
3-month	17.14	12.36	17.01	14.89	15.42	-1.59	.53
6-month	15.74	11.58	15.83	14.47	15.44	-.39	.97
1-year	14.06	11.50	14.85	13.63	14.54	-.31	.91
Commercial paper							
1-month	20.77	12.62	18.57	17.92	17.59	-.98	-.33
3-month	19.88	12.48	18.29	16.68	17.21	-1.08	.53
6-month	18.58	12.19	17.38	15.38	16.54	-.84	1.16
Large negotiable CDs ³							
1-month	21.29	12.94	18.80	17.97	17.93	-.87	-.04
3-month	20.90	12.99	19.01	17.34	17.92	-1.09	.58
6-month	19.19	12.94	18.50	16.66	17.90	-.60	1.24
Eurodollar deposits ²							
1-month	22.54	13.84	19.39	18.86	18.80	-.59	-.06
3-month	21.36	14.31	19.56	18.19	18.78	-.78	.59
Bank prime rate	21.50	17.00*	19.00	20.00	20.50	1.50	.50
<u>Intermediate- and long-term rates</u>							
U.S. Treasury (constant maturity)							
3-year	14.41	12.85	15.69	14.73	15.83	.14	1.10
10-year	13.57	12.58	14.69	14.04	14.65	-.04	.61
30-year	13.17	12.16	14.11	13.42	13.88	-.23	.46
Municipal (Bond Buyer)	10.56	9.81	10.94	10.85 ⁴	11.63 ⁴	.69	.78
Corporate Aaa							
New issue	14.51	14.42	16.12	— 5	—5	--	--
Recently offered	15.03	13.98	16.26	14.94 ⁶	16.69p ⁶	.43	1.75
Primary conventional mortgages	14.95	--	16.12	16.64 ⁶	17.13 ⁶	1.01	.49
	1980		1981		Percent change from:		
	Dec. 31	June 30	FOMC July 7	Aug. 13	Dec. 31	FOMC July 7	
<u>Stock Prices</u>							
Dow-Jones Industrial	963.99	976.88	954.15	944.35	-2.1	-1.0	
NYSE Composite	77.86	76.15	74.39	77.53	-.4	4.1	
AMEX Composite	348.99	374.63	360.77	380.36	8.2	5.2	
NASDAQ (OTC)	202.34	215.75	208.01	212.36	4.7	2.0	

1. One-day quotes except as noted.
 2. Averages for statement week closest to date shown.
 3. Secondary market.
 4. One-day quotes for preceding Thursday.
 5. Averages for preceding week.
 6. One-day quotes for preceding Friday.
- * Low reached on April 2.

GREENBOOK SUPPLEMENT Addendum:

The attached table for page II-8 should replace the one in Part II of the August 12 Greenbook.

AUTO SALES
(Millions of units; seasonally adjusted annual rates)

	1980		1981				
	Q4	Q1	Q2.	May	June	July	Aug.
Total	9.0	10.0	7.9	7.9	7.6	8.2	n.a.
Foreign-made	2.5	2.7	2.3	2.2	2.2	2.3	n.a.
U.S.-made	6.6	7.3	5.6	5.7	5.4	5.9	7.3 ¹
Small	3.3	3.9	2.9	2.9	2.9	3.1	n.a.
Intermediate & standard	3.3	3.4	2.8	2.8	2.6	2.8	n.a.

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

1. First 10-days.