

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

¹ In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

² A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

CONFIDENTIAL (FR)
CLASS II - FOMC

July 8, 1983

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

THE DOMESTIC NONFINANCIAL ECONOMY Page

Employment and Unemployment.	1
Wholesale Inventories	2
Economic Forecasts Used in Budget Projections	3

TABLES:

Revised economic forecasts of Administration and Congress.	3
Changes in employment.	4
Selected unemployment rates.	4
Hourly earnings index.	5
Changes in manufacturing and trade inventories	6
Inventories relative to sales.	6

THE DOMESTIC FINANCIAL ECONOMY

TABLES:

Monetary aggregates	7
Commercial bank credit and short- and intermediate- term business credit	8
Selected financial market quotations	9

SUPPLEMENTAL NOTES

THE DOMESTIC NONFINANCIAL ECONOMY

Employment and Unemployment

Employment rose sharply in June: the payroll measure posted a second monthly gain of more than 300,000, and the household measure, which had risen more slowly in earlier months, jumped 1.2 million. Nonfarm payroll employment rose 345,000 in June, with increases again widespread by industry. A large part of the over-the-month rise apparently was related to construction activity. Employment at contract construction sites increased 85,000, and around 30,000 of the 75,000 new manufacturing jobs in June were in industries associated with construction. Other gains in factory jobs were concentrated in the metals, rubber, and apparel and textile industries. The average factory workweek returned to its April level of 40.1 hours in June, as overtime hours again lengthened. Outside of the goods-producing sectors, employment in retail trade jumped up 95,000 in June--the largest monthly rise since January--and jobs at establishments providing personal and business services rose 145,000.

The number of unemployed persons was little changed in June as a sizable decline in joblessness among adult men was offset by increases for adult women and youth. The civilian unemployment rate continued to edge down, reaching 10 percent in June--3/4 percentage point below its December high.

The index of average hourly earnings rose .1 percent in June, yielding a second-quarter average increase of 3.3 percent (annual rate)--

the lowest quarterly figure since late 1965. The moderation in wage increases in the second quarter included a slight decline in construction pay rates and a particularly small increase in durable manufacturing.

Wholesale Inventories

The book value of merchant wholesalers' inventories fell at an annual rate of \$15 billion in May, after a large rise in April. (The April accumulation was revised down substantially, from \$18 billion (annual rate) to \$11 billion.) The May inventory run off was largely in machinery (-\$9 billion) and petroleum (-\$4 billion). The petroleum decline partially reversed the \$8.3 billion run up in the preceding month. A strong, 4.8 percent rise in sales accompanied the May inventory decline, and the wholesalers' stock-sales ratio improved markedly--falling from 1.27 to 1.20.

THE DOMESTIC NONFINANCIAL ECONOMY

Economic Forecasts Used in Budget Projections

The revised economic forecast of the Administration, which will be used in the mid-session Review of the Budget (expected in the latter part of July), was released on June 29, by the Council of Economic Advisers. This forecast is shown below in comparison with the economic forecast used by the Congress in the recently adopted First Congressional Resolution on the Budget for fiscal year 1984.

Revised Economic Forecasts of Administration and Congress
(Calendar years, percent)

	1983		1984	
	<u>Admin.</u>	<u>Cong.</u>	<u>Admin.</u>	<u>Cong.</u>
Nominal GNP				
Q4 to Q4	10.4	na	9.7	na
year to year	7.8	7.5	10.2	9.9
Real GNP				
Q4 to Q4	5.5	na	4.5	na
year to year	3.1	2.8	5.2	5.1
Deflator				
Q4 to Q4	4.6	na	5.0	na
year to year	4.6	4.7	4.8	4.6
Unemployment Rate				
Q4	9.6	na	8.6	na
annual average	9.9	10.1	8.9	9.3
Treasury-bill rates				
Q4	9.0	na	8.3	n.a.
annual average	8.6	7.8	8.5	7.4

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

	1981	1982	1983				
			Q1	Q2	Apr	May	June
- - - Average monthly changes - - -							
Nonfarm payroll employment ²	-6	-172	50	315	287	315	344
Strike adjusted	-7	-170	52	312	287	304	344
Manufacturing	-40	-127	25	98	109	110	74
Durable	-33	-99	19	71	72	94	47
Nondurable	-8	-28	5	27	37	16	27
Construction	-21	-20	-19	63	29	77	83
Trade	8	-18	31	36	-21	25	103
Finance and services	59	31	55	138	154	95	166
Total government	-25	-13	-11	-31	0	4	-98
Private nonfarm production workers	-7	-146	42	331	261	318	415
Manufacturing production workers	-47	-108	27	102	112	99	95
Total employment ³	2	-49	3	561	355	99	1229
Nonagricultural	25	-65	16	512	359	102	1074

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments. Strike-adjusted data noted.
3. Survey of households.

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

	1981	1982	1983				
			Q1	Q2	Apr	May	June
Civilian, 16 years and older	7.6	9.7	10.4	10.1	10.2	10.1	10.0
Teenagers	19.6	23.2	22.8	23.3	23.4	23.0	23.6
20-24 years old	12.2	14.8	15.8	15.0	15.3	15.5	14.3
Men, 25 years and older	5.1	7.5	8.4	8.2	8.5	8.2	7.8
Women, 25 years and older	5.9	7.3	7.8	7.6	7.4	7.6	7.9
White	6.7	8.6	9.1	8.8	8.9	8.9	8.6
Black and other	14.2	17.3	18.5	18.8	18.8	18.6	18.9
Fulltime workers	7.3	9.6	10.3	9.9	10.2	9.9	9.7
Memo:							
Total national ¹	7.5	9.5	10.2	9.9	10.1	10.0	9.8

1. Includes resident Armed Forces as employed.

HOURLY EARNINGS INDEX ¹
 (Percentage change at annual rates;
 based on seasonally adjusted data)²

	1981	1982	1983				
			Q1	Q2	Apr	May	June
Total private nonfarm	8.3	6.0	5.3	3.3	4.5	4.4	1.6
Manufacturing	8.8	6.1	4.5	1.3	- .7	4.8	1.4
Durable	8.8	6.1	4.1	.2	-1.1	4.6	- .5
Nondurable	8.7	6.3	5.2	3.3	.1	5.0	4.9
Contract construction	8.4	5.2	6.1	- .5	3.1	-11.1	-2.5
Transportation and public utilities	8.5	6.1	8.3	2.9	.4	3.2	1.6
Total trade	7.0	4.8	4.6	5.1	7.3	6.5	2.0
Services	9.1	6.6	3.6	6.4	11.2	7.0	4.1

1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime hours in manufacturing.
2. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Quarterly changes are compounded annual rates; monthly changes are not compounded.

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

	1981	1982	1982		1983	
			Q4	Q1	Apr. ^r	May ^p
<u>Book value basis</u>						
Total	33.3	-14.2	-36.2	-34.9	19.2	n.a.
Manufacturing	18.2	-17.4	-27.1	-30.4	1.1	12.0
Wholesale trade	4.6	1.8	-3.0	-8.8	10.9	-15.0
Retail trade	10.4	1.4	-6.2	4.3	7.2	n.a.
Automotive	2.1	.1	-10.2	1.5	6.6	n.a.
Nonautomotive	8.3	1.3	4.0	2.8	.6	n.a.
<u>Constant dollar basis</u>						
Total	7.1	-8.9	-20.1	-15.0	3.0	n.a.
Manufacturing	2.6	-8.7	-14.4	-11.4	1.7	n.a.
Wholesale trade	1.5	.0	-0.6	-4.8	2.4	n.a.
Retail trade	3.1	-.2	-5.2	1.3	-1.1	n.a.
Automotive	.7	-.3	-6.0	-.5	1.1	n.a.
Nonautomotive	2.3	.1	.9	1.8	-2.2	n.a.

INVENTORIES RELATIVE TO SALES¹

	Cyclical		1982	Q1	1983		
	reference points				Q4	Apr. ^r	May ^p
	June 81	1982 peak ²					
<u>Book value basis</u>							
Total	1.42	1.54	1.52	1.46	1.43	n.a.	
Manufacturing	1.59	1.78	1.72	1.61	1.58	1.54	
Wholesale trade	1.14	1.31	1.30	1.25	1.27	1.20	
Retail trade	1.39	1.45	1.40	1.40	1.37	n.a.	
Automotive	1.78	1.92	1.60	1.66	1.51	n.a.	
<u>Constant Dollar Basis</u>							
Total	1.63	1.77	1.73	1.65	1.63	n.a.	
Manufacturing	1.92	2.15	2.10	1.96	1.89	n.a.	
Wholesale trade	1.35	1.50	1.47	1.39	1.43	n.a.	
Retail trade	1.38	1.46	1.41	1.40	1.38	n.a.	
Automotive	1.75	1.94	1.61	1.61	1.53	n.a.	

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

2. Cyclical highs are specific to each series and are not necessarily coincident.
r--revised estimates.

p--preliminary estimates.

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

	1982		1983				Growth from base period to June 1983 ² P
	Q4	Q1	Q2P	Apr.	May	JuneP	
----- Percentage change at annual rates -----							
<u>Money stock measures</u>							
1. M1	13.1	14.1	12.2	-2.7	26.3	10.4	13.8
2. (M1) ³	(14.5)	(13.8)	(12.7)	(0.0)	(21.4)	(7.8)	(13.4)
3. M2	9.3	20.3	10.2	3.0	12.8	10.0	9.0
4. M3	9.5	10.2	8.2	3.5	11.3	10.2	9.6
Level in billions of dollars June 1983							
<u>Selected components</u>							
5. Currency	7.4	10.9	10.6	8.8	11.3	9.5	140.4
6. Demand deposits	8.4	2.7	4.0	-6.0	18.1	7.4	244.0
7. Other checkable deposits	34.0	46.2	30.6	-10.3	61.6	17.9	122.7
8. M2 minus M1 (9+10+11+14)	8.1	22.4	9.6	-4.7	8.6	9.8	1602.9
9. Overnight RPs and Eurodollars, NSA ⁴	23.9	34.2	53.1	46.8	132.8	17.1	57.0
10. General purpose and broker/dealer money market mutual fund shares, NSA	15.3	-57.5	-44.5	-56.9	-47.4	-13.6	139.3
11. Commercial banks	9.9	57.8	16.4	9.5	12.5	14.0	674.9
12. Savings deposits, SA, plus MMDAs, NSA ⁵	35.5	296.1	62.4	38.4	34.4	25.5	355.8
13. Small time deposits	-0.5	-48.5	-24.2	-19.5	-10.5	1.5	319.1
14. Thrift institutions	4.1	14.7	12.5	10.8	7.6	9.7	739.1
15. Savings deposits, SA, plus MMDAs, NSA ⁵	30.3	171.2	57.0	35.0	27.8	17.0	336.5
16. Small time deposits	-6.0	-51.0	-18.0	-8.3	-8.3	3.3	402.5
17. M3 minus M2 (18+21+22)	10.4	-36.4	-2.4	6.7	2.8	11.4	383.9
18. Large time deposits	4.2	-43.0	-0.5	16.6	-4.8	18.9	303.9
19. At commercial banks, net ⁶	-1.5	-49.7	-15.6	-2.6	-23.4	10.6	228.7
20. At thrift institutions	29.3	-16.6	55.4	85.4	57.2	44.7	75.2
21. Institution-only money market mutual fund shares, NSA	32.7	-32.7	-41.9	-69.0	-17.6	-35.6	39.2
22. Term RPs, NSA	34.4	19.4	29.3	28.8	64.6	-16.0	44.4
-- Average monthly change in billions of dollars --							
<u>MEMORANDA:</u>							
23. Managed liabilities at commercial banks (24+25)	-5.3	-19.2	1.5	4.4	1.3	-1.3	376.2
24. Large time deposits, gross	-6.5	-17.1	-2.8	0.2	-9.3	0.6	287.5
25. Nondeposit funds	1.2	-2.1	4.3	4.2	10.6	-1.9	88.7
26. Net due to related foreign institutions, NSA	-0.7	-6.5	2.4	-0.3	4.7	2.9	-54.5
27. Other ⁷	2.0	2.4	1.9	4.5	5.8	-4.7	143.2
28. U.S. government deposits at commercial banks ⁸	0.3	0.2	0.2	1.0	-2.2	1.7	13.0

1. Quarterly growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda for quarterly changes are calculated on an end-month-of-quarter basis.

2. The base for M1 and M3 targets is the fourth-quarter 1982 average. The base period for the M2 target is the February-March 1983 average.

3. M1 seasonally adjusted using an experimental model-based procedure applied to weekly data.

4. Overnight and continuing contract RPs issued to the nonbank public by commercial banks plus overnight Eurodollar deposits issued by branches of U.S. banks to U.S. nonbank customers, both net of amounts held by money market mutual funds. Excludes retail RPs, which are in the small time deposit component.

5. Beginning December, 1982, growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Savings deposits excluding MMDAs declined at commercial banks at annual rates of 12.7 percent in April and remained unchanged in May and June. At thrift institutions, saving deposits excluding MMDAs increased during April, May and June at rates of 4.0 percent, 9.9 percent, and 11.2 percent.

6. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.

7. 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 and unaffiliated foreign banks), loans sold to affiliates, loan RPs and other minor items. Data are partially estimated.

8. Consists of Treasury demand deposits at commercial banks and Treasury note balances.

P=preliminary.

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

	1982	1983			1983		Levels in bil. of dollars June 1983P
	Q4	Q1	Q2P	Apr.	May	JuneP	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks ²	6.3	10.7	9.8	8.7	10.7	9.8	1490.4
2. Securities	15.9	25.1	24.0	22.2	29.6	18.9	447.6
3. Treasury securities	43.0	61.1	53.8	54.0	63.1	37.6	171.3
4. Other securities	2.5	5.7	5.6	2.5	7.9	6.4	246.3
5. Total loans ²	3.0	5.7	4.6	3.8	3.7	6.2	1072.8
6. Business loans ²	-2	3.9	-1.6	-11.3	0.9	5.6	396.9
7. Security loans	37.2	-34.0	-5.3	15.9	26.2	-56.4	22.3
8. Real estate loans	4.9	7.2	9.8	7.4	8.5	13.4	317.1
9. Consumer loans	4.6	6.5	9.9	7.4	11.6	10.3	199.6
----- Short- and Intermediate-Term Business Credit -----							
10. Total short- and intermediate- term business credit (sum of lines 14, 15 and 16)	-2.9	-3.3	n.a.	-10.4	n.a.	n.a.	n.a.
11. Business loans net of bankers acceptances	.6	3.5	-0.7	-11.3	3.0	6.3	388.9
12. Commercial paper issued by non- financial firms ³	-39.6	-33.1	-22.7	-27.7	-46.5	5.4	44.9
Sum of lines 11 & 12	-4.5	-0.5	-3.1	-13.3	-1.9	6.2	433.8
Line 13 plus loans at foreign branches ⁴	-4.8	0.2	-2.6	-13.6	0.0	6.0	450.6
15. Finance company loans to business ⁵	-15.2	4.0	n.a.	5.9	n.a.	n.a.	n.a.
16. Total bankers acceptances outstanding ⁵	22.9	-30.9	n.a.	-8.4	n.a.	n.a.	n.a.

1. Average of Wednesdays for domestically 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 domestically chartered banks.

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

n.a.--not available.

p--Preliminary, based on data through June 29 for large banks and U.S. branches and agencies of foreign banks, and data through June 22 for other banks.

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1982		1983			Change from:	
	highs	FOMC Dec. 21	Recent low	FOMC May 24	July 7	Recent low	FOMC May 24
<u>Short-term rates</u>							
Federal funds ²	15.61	8.69	8.48	8.72	9.39	.91	.67
Treasury bills							
3-month	14.57	7.90	7.96	8.47	9.10	1.14	.63
6-month	14.36	8.01	7.97	8.48	9.27	1.30	.79
1-year	13.55	8.11	7.95	8.47	9.33	1.38	.86
Commercial paper							
1-month	15.73	8.48	8.17	8.48	9.15	.98	.67
3-month	15.61	8.43	8.13	8.52	9.22	1.09	.70
Large negotiable CDs ³							
1-month	15.94	8.59	8.26	8.64	9.32	1.06	.68
3-month	16.14	8.62	8.26	8.73	9.49	1.23	.76
6-month	16.18	8.78	8.29	8.95	9.86	1.57	.91
Eurodollar deposits ²							
1-month	16.36	9.44	8.68	8.96	9.58	.90	.62
3-month	16.53	9.56	8.71	9.14	9.79	1.08	.65
Bank prime rate	17.00	11.50	10.50	10.50	10.50	0	0
Treasury bill futures							
Sept. 1983 contract	13.97	8.63	7.99	8.72	9.43	1.44	.71
Mar. 1984 contract	13.55	9.32	8.37	9.15	9.84	1.47	.69
<u>Intermediate- and long-term rates</u>							
U.S. Treasury (constant maturity)							
3-year	15.16	9.87	9.36	9.91	10.74	1.38	.83
10-year	14.95	10.54	10.12	10.56	11.29	1.17	.73
30-year	14.80	10.53	10.27	10.69	11.31	1.04	.62
Municipal (Bond Buyer)	13.44	10.05 ⁴	8.78	9.29 ⁴	9.55	.77	.26
Corporate--Aaa utility							
Recently offered	16.34	11.96 ^e	11.03	11.55 ^e	12.28 ^p	1.25	.73
S&L fixed-rate mortgage commitment	17.66	13.63 ⁵	12.55	12.55 ⁵	13.08 ⁵	.53	.53
	1982		1983		Percent change from:		
	lows	FOMC May 24	July 7		1982 lows	FOMC May 24	
<u>Stock prices</u>							
Dow-Jones Industrial	776.92	1219.04	1210.44		35.8i	-.71	
NYSE Composite	58.80	95.58	97.20		39.51	1.67	
NEX Composite	118.65	229.30	246.91		51.95	7.13	
SDAQ (OTC)	159.14	307.36	320.03		50.27	3.96	

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. One-day quotes for preceding Friday.

p--preliminary. e--estimated.