

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

September 30, 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

	Page
THE DOMESTIC NONFINANCIAL ECONOMY	
Mortgage activity at S&Ls	1
TABLES:	
Mortgage activity at federally insured savings and and loan associations	2
THE DOMESTIC FINANCIAL ECONOMY	
TABLES:	
Monetary aggregates	3
Commercial bank credit and short- and intermediate- term business credit.	4
Selected financial market quotations.	5
INTERNATIONAL DEVELOPMENTS	
U.S. merchandise trade through August	6
TABLES:	
U.S. merchandise trade.	6
Oil imports	7

THE DOMESTIC NONFINANCIAL ECONOMY

Mortgage Activity at S&Ls

Insured savings and loan associations issued new commitments to originate or purchase mortgage loans at a seasonally adjusted monthly rate of \$14.3 billion in August--10 percent below the upward-revised July figure. Outstanding mortgage commitments continued to rise, however, reaching a record \$47.8 billion at the end of August.

The net change in total mortgage assets held by insured S&Ls amounted to \$8.3 billion in August, down from a record \$8.8 billion in July. The decline reflected smaller net acquisitions of mortgage loans, as holdings of mortgage-backed securities increased by \$3.3 billion. Swaps of mortgages for pass-through securities, under the programs operated by FNMA and FHLMC, significantly affected the composition of S&L mortgage assets in August, as in most other months since late 1981.

MORTGAGE ACTIVITY AT FEDERALLY INSURED SAVINGS AND LOAN ASSOCIATIONS¹
(Billions of dollars, seasonally adjusted)

	Mortgage Commitments		Net Change in Mortgage Assets		
	New	Outstanding ²	Total	Mortgage	Mortgage-backed
	(1)	(2)		Loans	Securities
	(1)	(2)	(3)	(4)	(5)
1982-Jan.	4.4	23.2	2.3	0.3	2.0
Feb.	4.9	23.0	2.0	-0.1	2.1
Mar.	4.7	22.6	2.0	-0.9	2.9
Apr.	4.6	22.6	1.3	-1.1	2.4
May	4.7	22.6	0.3	-1.1	1.4
Jun.	5.0	23.2	1.1	-1.9	3.0
Jul.	4.5	22.3	0.9	-2.2	3.1
Aug.	5.4	23.2	-1.1	-3.1	2.0
Sept.	6.0	24.0	0.5	-1.9	2.4
Oct.	6.7	25.8	0.2	-2.4	2.6
Nov.	8.3	28.4	1.8	-0.9	2.7
Dec.	9.4	29.4	0.0	-4.6	4.6
1983-Jan.	10.7	32.2	2.4	0.5	1.9
Feb.	12.6	35.2	5.9	2.5	3.4
Mar. r	13.3	38.0	5.4	1.3	4.1
Apr. r	12.1	40.8	4.5	3.1	1.4
May r	12.9	43.1	3.4	2.0	1.4
June r	14.8	44.9	7.1	3.7	3.4
July r	15.9	46.7	8.8	5.9	2.9
Aug. p	14.3	47.8	8.3	5.0	3.3

1. Insured S&Ls account for approximately 98 percent of the assets of all operating S&Ls. Net changes in mortgage assets reflect adjustments to account for conversions of S&Ls to savings banks.

2. Includes loans in process.

r--revised.

p--preliminary.

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

	1982	1983					Growth from base period to Aug. 1983 ²
	Q4	Q1	Q2	June	July	Aug.	
----- Percentage change at annual rates -----							
Money stock measures							
1. M1	13.1	14.1	12.2	10.2	8.9	2.8	9.1
2. (M1) ³	(14.5)	(13.8)	(12.7)	(7.6)	(3.3)	(7.0)	(7.5)
3. M2	9.3	20.3	10.1	10.4	6.6	6.2	8.1
4. M3	9.5	10.2	8.1	10.9	5.5	8.7	9.1
Level in billions of dollars Aug. 1983							
Selected components							
5. Currency	7.4	10.9	10.6	8.6	5.1	7.7	141.8
6. Demand deposits	8.4	2.7	4.0	7.4	8.9	-6.3	244.5
7. Other checkable deposits	34.0	46.2	30.6	17.9	14.7	15.5	125.8
8. M2 minus M1 (9+10+11+14)	8.1	22.4	9.4	10.4	5.9	7.2	1620.2
9. Overnight RPs and Eurodollars, NSA ⁴	23.9	34.2	47.3	17.4	-68.7	-6.8	52.4
10. General purpose and broker/dealer money market mutual fund shares, NSA	15.3	-57.5	-44.0	-12.8	-10.3	2.6	138.7
11. Commercial banks	9.9	57.8	16.5	14.6	13.1	9.3	688.0
12. Savings deposits, SA, plus MMDAs, NSA ⁵	35.5	296.1	62.4	25.5	2.4	-2.7	355.7
13. Small time deposits	-0.5	-48.5	-24.1	2.6	24.8	22.4	332.2
14. Thrift institutions	3.9	14.7	12.4	10.2	8.6	6.4	748.3
15. Savings deposits, SA, plus MMDAs, NSA ⁵	30.3	171.0	56.8	18.1	-3.9	-10.0	332.6
16. Small time deposits	-6.0	-51.0	-18.0	3.6	18.8	20.0	415.7
17. M3 minus M2 (18+21+22)	10.4	-36.5	-2.3	13.9	-0.6	23.1	391.6
18. Large time deposits	4.2	-43.0	-0.5	19.7	7.1	23.1	311.8
19. At commercial banks, net ⁶	-1.5	-49.9	-15.6	11.1	-14.7	3.7	226.7
20. At thrift institutions	29.3	-14.6	55.4	46.3	73.3	78.1	85.1
21. Institution-only money market mutual fund shares, NSA	32.7	-32.7	-41.9	-35.6	-18.4	-6.2	38.4
22. Term RPs, NSA	34.4	19.4	31.2	-21.2	-45.8	56.1	44.8
-- Average monthly change in billions of dollars --							
MEMORANDA:							
23. Managed liabilities at commercial banks (24+25)	-2.7	-19.0	-0.2	-2.9	-14.0	4.8	365.4
24. Large time deposits, gross	-4.0	-16.5	-4.3	-0.2	-2.1	-0.7	284.2
25. Nondeposit funds	1.3	-2.5	4.1	-2.7	-11.9	5.5	81.2
26. Net due to related foreign institutions, NSA	-0.7	-4.9	2.4	2.6	-3.8	7.4	-51.6
27. Other ⁷	2.0	2.5	1.7	-5.3	-8.1	-1.9	132.8
28. U.S. government deposits at commercial banks ⁸	0.3	0.2	0.2	1.7	11.0	-3.4	20.6

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 is the second-quarter 1983 average. The base period for M2 is the February-March 1983 average. The base period for M3 is the fourth-quarter 1982 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. Commercial bank savings deposits excluding MMDAs, were unchanged in June and declined at rates of 10.2 percent in July and 11.2 percent in August. At thrift institutions, saving deposits excluding MMDAs increased during June at an annual rate of 12.5 percent and declined during July and August at rates of 2.0 and 0.7 percent respectively.

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.

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

	1982	1983			Levels in		
	Q4	Q1	Q2	June	July	Aug.	bil. of dollars Aug. 1983
----- Commercial Bank Credit -----							
1. Total loans and securities at banks ²	6.3	10.7	9.9	9.9	9.7	11.2	1515.7
2. Securities	15.9	25.0	23.9	18.4	4.1	8.9	422.2
3. Treasury securities	43.0	61.1	53.5	36.8	11.9	10.4	174.4
4. Other securities	2.5	5.3	5.8	6.4	-1.0	8.3	247.8
5. Total loans ²	3.0	5.7	4.8	6.8	11.5	11.9	1093.5
6. Business loans ²	-0.3	3.9	-1.3	6.4	12.2	10.1	404.5
7. Security loans	37.2	-34.0	-5.3	-56.4	75.3	-35.4	23.0
8. Real estate loans	4.8	7.1	9.7	13.0	9.1	11.6	322.5
9. Consumer loans	4.9	6.3	10.3	11.5	19.8	14.2	205.5
----- Short- and Intermediate-Term Business Credit -----							
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	-3.0	-3.1	-1.5	5.8	10.1	n.a.	n.a.
11. Business loans net of bankers acceptances	0.5	3.6	-0.4	7.2	11.3	10.0	396.0
12. Commercial paper issued by non-financial firms ³	-39.6	-33.1	-23.5	2.7	-13.4	10.8	44.7
13. Sum of lines 11 & 12	-4.6	-0.4	-2.8	7.0	8.6	10.1	440.7
14. Line 13 plus loans at foreign branches ⁴	-4.9	0.3	-2.2	7.0	7.5	9.2	457.1
15. Finance company loans to business ⁵	-15.2	4.0	7.8	10.2	11.5	n.a.	n.a.
16. Total bankers acceptances outstanding ⁵	22.9	-30.9	-7.3	-8.5	27.3	n.a.	n.a.

n.a.--not available.

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.

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1982		1983				Change from:	
	FOMC		Recent	FOMC	FOMC	Recent FOMC		
	Highs	Dec. 21	low	July 13	Aug. 23	Sept. 29	low Aug. 23	
<u>Short-term rates</u>								
Federal funds ²	15.61	8.69	8.48	9.21	9.41	9.04	.56	-.37
Treasury bills								
3-month	14.57	7.90	7.96	9.10	9.19	8.81	.85	-.38
6-month	14.36	8.01	7.97	9.30	9.33	8.95	.98	-.38
1-year	13.55	8.11	7.95	9.39	9.37	9.10	1.15	-.27
Commercial paper								
1-month	15.73	8.48	8.17	9.19	9.24	9.03	.86	-.21
3-month	15.61	8.43	8.13	9.30	9.34	9.08	.95	-.26
Large negotiable CDs ³								
1-month	15.94	8.59	8.26	9.33	9.37	9.08	.82	-.29
3-month	16.14	8.62	8.26	9.58	9.50	9.20	.94	-.30
6-month	16.18	8.78	8.29	10.00	9.81	9.48	1.19	-.33
Eurodollar deposits ²								
1-month	16.36	9.44	8.68	9.70	9.73	9.44	.76	-.29
3-month	16.53	9.56	8.71	10.05	10.04	9.50	.79	-.54
Bank prime rate	17.00	11.50	10.50	10.50	11.00	11.00	.50	0
Treasury bill futures								
Dec. 1983 contract	13.97	8.98	8.21	9.83	9.61	8.96	.75	-.65
June 1984 contract	13.50	9.56	8.53	10.17	10.09	9.61	1.08	-.48
<u>Intermediate- and long-term rates</u>								
U.S. Treasury (constant maturity)								
3-year	15.16	9.87	9.36	10.91	11.02	10.87	1.51	-.15
10-year	14.95	10.54	10.12	11.40	11.57	11.50	1.38	-.07
30-year	14.80	10.53	10.27	11.44	11.56	11.48	1.21	-.08
Municipal (Bond Buyer)	13.44	10.05 ⁴	8.78	9.55 ⁴	9.70 ⁴	9.46	.68	-.24
Corporate--Aaa utility Recently offered	16.34	11.96 ^e	11.03	12.38 ^e	12.50 ^e	12.44 ^p	1.41	-.06
S&L fixed-rate mortgage commitment	17.66	13.63 ⁵	12.55	13.30 ⁵	13.89 ⁵	13.72 ⁵	1.17	-.17
	1982	1983				Percent change from:		
	Lows	Highs	FOMC	FOMC	Sept. 29	1983	FOMC	
			July 13	Aug. 23	Sept. 29	high	Aug. 23	
<u>Stock prices</u>								
Dow-Jones Industrial	776.92	1248.30	1197.82	1192.89	1240.14	-.7	4.0	
NYSE Composite	58.80	99.01	95.90	94.27	96.86	-2.2	2.7	
AMEX Composite	118.65	246.38	241.07	229.67	232.50	-5.6	1.2	
NASDAQ (OTC)	159.14	328.91	314.59	293.66	299.29	-9.0	1.9	

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.

INTERNATIONAL DEVELOPMENTS

U.S. Merchandise Trade Through August

In August the U.S. merchandise trade deficit increased to a record high monthly level. For July-August combined, the deficit was about \$73 billion annual rate, well above the second quarter deficit and about double the first quarter rate.

U.S. Merchandise Trade 1/
(billions of dollars, seasonally adjusted annual rates)

	Exports			Imports			Trade Balance
	Total	Agric.	Nonagric.	Total	Oil	Nonoil	
Years							
1980	224.2	42.2	182.1	249.8	79.3	170.5	-25.5
1981	237.0	44.0	193.0	265.1	77.8	187.3	-28.1
1982	211.2	37.2	174.0	247.6	61.2	186.4	-36.4
Quarters							
1981 - 1	243.2	48.9	194.3	261.1	81.5	179.6	-17.9
2	240.1	44.0	196.1	269.5	83.2	186.3	-29.4
3	231.2	39.9	191.4	264.9	76.0	188.8	-33.6
4	233.5	43.4	190.2	264.9	70.4	194.5	-31.4
1982 - 1	222.5	40.3	182.2	247.0	61.9	185.1	-24.4
2	220.0	41.7	178.2	243.4	53.4	190.0	-23.4
3	209.0	33.8	175.2	261.3	68.9	192.3	-52.3
4	193.4	33.1	160.3	238.8	60.5	178.3	-45.4
1983 - 1	198.3	36.0	162.0	233.3	42.0	191.3	-35.2
- 2	195.7	35.3	160.3	254.3	52.1	202.2	-58.6
- J/A	202	38	164	275	65	210	-73
Months							
1983 - Jan.	201.7	37.4	164.4	241.7	51.7	190.0	-39.9
Feb.	192.3	35.9	156.4	224.5	36.0	188.5	-32.1
Mar.	200.0	34.8	165.2	233.6	38.2	195.4	-33.6
Apr.	194.5	35.4	159.1	245.3	42.3	203.0	-50.8
May	196.8	33.8	163.0	263.8	59.7	204.1	-67.1
June	195.7	36.8	158.9	253.8	54.3	199.4	-58.1
July	201	37	164	269	61	208	-68
Aug.	202	38	164	281	69	212	-79

1/ As used in the Balance of Payments accounts and in the GNP accounts.

Exports in August were at virtually the same level as in July, and for the two months combined were at a rate only marginally higher than those recorded for the previous three quarters. Sluggish economic activity in major trading partner countries and the high exchange value

of the dollar continue to adversely affect demand for exports. The rise in agricultural exports in July and August was importantly attributable to the higher export price of soybeans. Small increases in exports of chemicals, machinery, consumer goods, and automotive products to Canada were largely offset by a drop in commercial aircraft exports from strong first-half rates.

Most of the change in merchandise trade flows in recent months were in imports in response to the pick-up in U.S. economic activity. Rising oil imports accounted for two-thirds of the August import increase and nearly half of the July increase. The volume of oil imports reached more than 6-1/2 million barrels per day (seasonally adjusted) in August, up from a second quarter average of just over 5 mbd. Oil import prices rose about 2 percent in August from July levels but were still well below the level of prices at the beginning of the year. [The oil import data for August are preliminary estimates.] The rise in nonoil imports in July and August was largely in a wide range of manufactured goods.

OIL IMPORTS						
	1982	1983				
	Year	1Q	2Q	J/Ae	July	Aug.e
Volume (mbd, SA)	5.36	3.91	5.16	6.3	5.96	6.6
Price (\$/BBL)	31.26	29.41	27.69	28.25	27.94	28.60
Value (Bil\$ SAAR)	61.2	42.0	52.1	65.0	60.8	69.0