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July 5, 1985

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

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### THE DOMESTIC NONFINANCIAL ECONOMY

#### Employment situation

Employment growth moderated in June, and the civilian unemployment rate was unchanged at 7.3 percent--essentially the same rate that has prevailed over the past year.

Nonfarm payroll employment rose 80,000 in June, compared to average monthly increases of 260,000 during the first five months of 1985. As in most recent months, the June data showed considerable variation in the pattern of employment change across different sectors. In manufacturing, employment fell an additional 45,000, bringing the cumulative loss in factory jobs since January to 220,000; in June, the largest employment declines were concentrated in machinery and electrical equipment, both of which have suffered substantial losses since the start of the year. In contrast to manufacturing, employment in the service-producing sectors continued to rise in June, though at a slower rate than in earlier months. In particular, employment growth in retail trade was only about half the average pace of the previous five months, and job gains in business services tapered off.

The hourly earnings index for production and nonsupervisory workers rose .3 percent in June. Wage rates were little changed in the manufacturing and construction sectors; however, wage growth in the service sector was faster than in other recent months. After some acceleration around the turn of the year, increases in the hourly earnings index slowed during the

spring quarter, and the average rate of wage change during the first half of 1985 was only fractionally above the increase for 1984 as a whole.

Automobile sales

The combined sales rate for domestic and imported cars was about 10-3/4 million units in June, down a half-million units from May's advanced pace. With fewer special financing programs in place during June, sales of domestic models fell to a 7.7 million unit rate, compared to an average rate of 8.5 million units in the first five months of 1985. However, foreign car sales rose further, to around a 3 million unit rate; sales of Japanese models were particularly strong.

CHANGES IN EMPLOYMENT<sup>1</sup>  
(Thousands of employees; based on seasonally adjusted data)

	1983	1984	1984	1985				
			H2	Q1	Q2	Apr.	May	June
-Average monthly changes-								
Nonfarm payroll employment <sup>2</sup>	293	327	296	273	185	210	266	80
Strike adjusted	293	329	299	267	180	183	263	93
Manufacturing	79	52	26	-26	-48	-59	-40	-45
Durable	61	45	27	-17	-35	-43	-18	-44
Nondurable	18	7	-1	-9	-13	-16	-22	-1
Construction	25	29	21	28	32	88	14	-6
Trade	85	106	104	91	79	50	124	64
Finance and services	103	106	107	150	107	102	117	102
Total government	4	17	25	20	-1	15	25	-43
Private nonfarm production workers	260	253	220	182	145	195	157	83
Manufacturing production workers	73	33	11	-33	-40	-60	-38	-21
Total employment <sup>3</sup>	331	270	147	282	-250	-174	15	-590
Nonagricultural	338	266	144	290	-175	-240	131	-416

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)

	1983	1984	1984	1985				
			H2	Q1	Q2	Apr.	May	June
Civilian, 16 years and older	9.6	7.5	7.3	7.3	7.3	7.3	7.3	7.3
Teenagers	22.4	18.9	18.5	18.5	18.3	17.7	18.9	18.3
20-24 years old	14.5	11.4	11.2	11.1	11.3	11.0	11.8	11.2
Men, 25 years and older	7.8	5.7	5.5	5.4	5.4	5.5	5.0	5.6
Women, 25 years and older	7.2	6.0	5.9	6.0	6.1	6.0	6.1	6.1
White	8.4	6.5	6.3	6.3	6.3	6.3	6.2	6.5
Black	19.5	15.9	15.5	15.5	15.0	15.3	15.6	14.0
Fulltime workers	9.5	7.2	7.1	7.0	6.8	6.9	6.8	6.8
Memo:								
Total national <sup>1</sup>	9.5	7.4	7.2	7.2	7.2	7.2	7.2	7.2

1. Includes resident Armed Forces as employed.

HOURLY EARNINGS INDEX<sup>1</sup>  
 (Percentage change; based on seasonally adjusted data)<sup>2</sup>

	1983	1984	1984	1985		1985		
			H2	Q1	Q2	Apr.	May	June
			--Annual rate--			--Monthly rate--		
Total private nonfarm	4.0	3.1	2.8	3.5	3.1	.2	.1	.3
Manufacturing	2.8	3.3	3.1	5.2	3.6	.3	.3	.1
Durable	2.2	3.1	2.7	5.9	3.5	.3	.4	.0
Nondurable	3.9	3.7	3.8	4.0	3.8	.3	.2	.1
Contract construction	2.0	1.3	-.1	5.2	1.6	.3	-.4	.1
Transportation and public utilities	4.3	2.9	2.5	2.7	2.1	-.2	.0	.3
Finance, insurance and real estate	5.9	3.6	3.0	5.4	1.5	.2	.2	.4
Total trade	4.8	2.6	2.5	1.8	2.1	.1	.0	.1
Services	4.8	4.0	3.9	2.1	5.2	.2	.1	.7

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.

MONETARY AGGREGATES  
(Based on seasonally adjusted data unless otherwise noted)<sup>1</sup>

July 5, 1985

	1983:Q4	1985					Growth from Q4 1984 to June 1985 <sup>pe</sup>
	to 1984:Q4	Q1	Q2 <sup>pe</sup>	Apr.	May	June <sup>pe</sup>	
----- Percentage change at annual rates -----							
1. M1	5.2	10.6	10	5.9	14.0	19	12
2. M2	7.7	12.0	5	-0.8	8.4	14	9
3. M3	10.4	10.7	5	0.2	7.1	11	8
							Levels in billions of dollars May 1985
<b>Selected components</b>							
4. Currency	7.2	6.3	7	3.0	10.4	10	163.1
5. Demand deposits	1.1	7.0	9	2.9	15.7	24	255.8
6. Other checkable deposits	10.5	21.1	16	13.3	15.5	22	157.3
7. M2 minus M1 <sup>2</sup>	8.6	12.5	4	-2.9	6.7	12	1862.9
8. Overnight RPs and Eurodollars, NSA <sup>3</sup>	7.3	64.0	-27	-152.2	95.3	-6	63.9
9. General purpose and broker/dealer money market mutual fund shares, NSA	17.0	32.7	-1	-8.8	-28.6	21	172.1
10. Commercial banks	8.1	13.6	9	-8.9	8.4	17	808.6
11. Savings deposits, SA, plus MMDAs, NSA <sup>4</sup>	5.2	29.2	12	3.2	9.2	30	418.6
12. Small time deposits	11.1	-1.8	7	15.0	7.1	3	389.9
13. Thrift institutions	7.3	7.9	7	3.5	8.4	7	836.3
14. Savings deposits, SA, plus MMDAs, NSA <sup>4</sup>	-3.6	17.8	10	1.4	6.1	13	334.4
15. Small time deposits	15.5	1.7	4	4.8	9.9	3	501.9
16. M3 minus M2 <sup>5</sup>	22.1	5.4	4	4.4	2.3	-2	629.6
17. Large time deposits	26.0	9.0	6	10.2	2.2	-12	428.0
18. At commercial banks, net <sup>6</sup>	16.0	2.6	8	15.6	-4.0	-20	272.0
19. At thrift institutions	48.8	21.0	3	0.8	13.2	3	156.0
20. Institution-only money market mutual fund shares, NSA	33.6	31.2	8	2.0	78.5	68	63.5
21. Term RPs, NSA	45.6	-19.5	17	52.2	-51.7	-23	68.8
22. Term Eurodollars, NSA	-8.3	2.0	-15	-59.6	-3.0	-38	80.1

-- Average monthly change in billions of dollars --

**MEMORANDA:**

23. Managed liabilities at commercial banks (24+25)	4.7	4.1	-2	-9.2	5.2	-4	442.7
24. Large time deposits, gross	3.2	1.4	-1	2.6	-1.5	-5	331.0
25. Nondeposit funds	1.5	2.7	-1	-11.8	6.7	1	111.7
26. Net due to related foreign institutions, NSA	0.9	0.5	-1	-3.3	3.4	-4	-30.3
27. Other <sup>7</sup>	0.5	2.2	0	-8.5	3.3	5	142.0
28. U.S. government deposits at commercial banks <sup>8</sup>	0.2	-1.4	2	2.8	8.0	-5	22.6

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. Nontransactions M2 is seasonally adjusted as a whole.

3. 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.

4. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs increased during May and June 1985 at rates of 8.0 percent and 15 percent respectively. At thrift institutions, savings deposits excluding MMDAs increased during May and June 1985 at rates of 5.0 percent and 9 percent respectively.

5. The non-M2 component of M3 is seasonally adjusted as a whole.

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, loan RPs and other minor items). Data are partially estimated.

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

pe—preliminary estimate.

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

July 5, 1985

	1984	1985		1985			Levels in bil. of dollars June <sup>P</sup>
	Q4	Q1	Q2 <sup>P</sup>	Apr.	May	June <sup>P</sup>	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	9.8	10.3	9.4	4.7	13.3	10.0	1800.2
2. Securities	1.8	5.2	5.3	-13.0	20.3	8.8	411.0
3. U.S. government securities	3.4	10.3	-0.4	-26.1	22.1	3.2	266.6
4. Other securities	-5.6	-3.4	16.4	12.1	17.1	19.4	144.4
5. Total loans	12.8	11.7	10.6	10.0	11.2	10.4	1389.2
6. Business loans	7.8	10.2	2.7	1.2	6.0	1.0	483.7
7. Security loans	37.5	16.5	89.0	84.1	82.1	83.2	40.1
8. Real estate loans	12.1	10.9	11.8	12.8	12.0	10.4	397.2
9. Consumer loans	16.1	17.4	14.8	16.5	14.5	13.0	271.6
----- Short- and Intermediate-Term Business Credit -----							
10. Business loans net of bankers acceptances	7.9	9.3	3.8	3.8	6.5	1.0	480.5
11. Loans at foreign branches <sup>2</sup>	26.0	-46.9	27.7	-25.5	26.1	83.0	20.1
12. Sum of lines 10 & 11	8.7	6.8	4.8	2.7	7.5	4.1	500.7
13. Commercial paper issued by nonfinancial firms <sup>3</sup>	51.2	-6.0	33.8	41.6	43.4	14.0	78.2
14. Sums of lines 12 & 13	13.7	5.1	8.4	7.6	12.2	5.2	578.8
15. Bankers acceptances: U.S. trade related <sup>4,5</sup>	-6.5	-5.5	n.a.	-29.9	3.4	n.a.	35.3 (May)
16. Line 14 plus bankers acceptances: U.S. trade related	12.4	4.4	n.a.	5.4	11.7	n.a.	611.6 (May)
17. Finance company loans to business <sup>4</sup>	23.2	20.8	n.a.	10.3	n.a.	n.a.	141.0 (April)
18. Total short- and intermediate- term business credit (sum of lines 16 & 17)	14.4	7.3	n.a.	6.5	n.a.	n.a.	746.7 (April)

n.a.—not available.

p—preliminary.

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

2. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.

3. Average of Wednesdays.

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

5. Includes acceptances financing U.S. imports, U.S. exports and domestic shipment and storage of goods.

SELECTED FINANCIAL MARKET QUOTATIONS<sup>1</sup>  
(Percent)

	1982/1983	1984	1985				Change from:	
	Cyclical low	Highs	FOMC March 26	FOMC May 21	June lows	July 3	1984 highs	FOMC May 21
<b>Short-term rates</b>								
Federal funds <sup>2</sup>	8.46	11.63	8.57	8.03	7.38	7.76	-3.87	-.27
Treasury bills <sup>3</sup>								
3-month	7.08	10.67	8.34	7.30	6.66	7.02	-3.65	-.28
6-month	7.62	10.77	8.80	7.43	6.81	7.07	-3.70	-.36
1-year	7.73	11.13	8.98	7.64	6.98	7.21	-3.92	-.43
Commercial paper								
1-month	8.00	11.42	8.63	7.54	6.95	7.51	-3.91	-.03
3-month	7.97	11.35	8.75	7.56	7.01	7.44	-3.91	-.12
Large negotiable CDs <sup>3</sup>								
1-month	8.08	11.52	8.60	7.59	7.09	7.50	-4.02	-.09
3-month	8.12	11.79	8.79	7.66	7.18	7.53	-4.26	-.13
6-month	8.20	12.30	9.35	7.84	7.30	7.60	-4.70	-.24
Eurodollar deposits <sup>4</sup>								
1-month	8.68	11.89	8.78	7.84	7.45	7.56	-4.33	-.28
3-month	8.71	12.20	9.19	8.01	7.50	7.70	-4.50	-.31
Bank prime rate	10.50	13.00	10.50	10.00	9.50	9.50	-3.50	-.50
Treasury bill futures								
Sept. 1985 contract			8.86	7.65	6.77	7.06	--	-.59
Dec. 1985 contract			9.74	8.00	7.12	7.39	--	-.61
<b>Intermediate- and long-term rates</b>								
U.S. Treasury (constant maturity)								
3-year	9.33	13.49	10.97	9.39	8.73	9.06	-4.43	-.33
10-year	10.12	13.99	11.77	10.60	9.83	10.23	-3.76	-.37
30-year	10.27	13.94	11.72	10.85	10.23	10.45	-3.49	-.40
Municipal revenue (Bond Buyer Index)	9.21	11.44	10.24 <sup>5</sup>	9.34 <sup>5</sup>	9.10	9.24 <sup>5</sup>	-2.20	-.10
Corporate--A utility Recently offered	11.64	15.30	13.11e	12.02e	11.50	11.56p	-3.74	-.46
Home mortgage rates								
S&L fixed-rate	12.55	14.68	13.24 <sup>6</sup>	12.94 <sup>6</sup>	12.05	12.15 <sup>6</sup>	-2.53	-.79
S&L ARM, 1-yr.	n.a.	12.31	10.97 <sup>6</sup>	10.59 <sup>6</sup>	9.83	9.77 <sup>6</sup>	-2.54	-.82
	1983	1984	1985		Percent change from:			
			FOMC		1984		FOMC	
	Highs	Lows	Lows	May 21	July 3	lows	May 21	
<b>Stock prices</b>								
Dow-Jones Industrial	1287.20	1086.57	1184.96	1309.70	1326.39	22.1	1.3	
NYSE Composite	99.63	85.13	94.60	109.65	111.02	30.4	1.2	
AMEX Composite	249.03	187.16	202.06	232.47	231.28	23.6	.5	
NASDAQ (OTC)	328.91	225.30	246.00	293.9	297.33	32.0	1.2	

1. One-day quotes except as noted.

2. Averages for two-week reserve maintenance period closest to date shown. Last observation is for the maintenance period ending July 3, 1985.

3. Secondary market.

4. Averages for statement week closest to date shown.

5. One-day quotes for preceding Thursday.

6. One-day quotes for preceding Friday.  
e--estimated.