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CONFIDENTIAL (FR)

February 2, 1979

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

Total employment (household survey) rose nearly 450,000 in January; unemployment edged down a little, and the unemployment rate declined to 5.8 per cent from 5.9 per cent in December. The unemployment rate has been either 5.8 or 5.9 per cent for the past 6 months. Similarly, jobless rates for adult men (4.0 per cent) and adult women (5.7 per cent) were essentially unchanged in January. Over the last twelve months, the overall unemployment rate has declined about half a percentage point. Nearly all worker groups have shared in the over-the-year improvement with the exceptions of male teenagers and part-time workers.

Nonfarm payroll increased 325,000 (350,000 on a strike-adjusted basis) in January, about on a par with the strong gains of the last three months. Hiring gains took place in nearly all of the major industry divisions. The largest increase was in retail trade, 130,000, somewhat more than the small decline in the previous month. In the goods-producing sector, manufacturing employment continued to rise, although at a slower pace than in recent months. A 65,000 gain in factory jobs during January was widespread in both durable and nondurable goods industries. The factory workweek edged downward 0.1 hour to 40.6 hours.

Wage rates, as measured by the hourly earnings index, rose 0.9 per cent in January to a level 7.9 per cent above that of a year earlier. Large increases were reported in retail trade and services, in part due to the boost in the minimum wage to \$2.90 on January 1.

The book value of manufacturers' inventories rose at a seasonally adjusted annual rate of \$8.6 billion in December, down substantially from the sizable November increase. For the fourth quarter as a whole, stocks grew at an annual rate of \$13.0 billion, the smallest quarterly gain this year. The December inventory investment was accompanied by an increase in shipments that was large enough to further reduce the ratio of inventories to sales for all manufacturers to 1.47, very low on an historical basis.

The accumulation of stocks by manufacturers in December was concentrated in durable goods, as it had been in every other month of 1978. In December these stocks increased at an annual rate of \$7.3 billion, following the \$18.9 billion rise in November. In the fourth quarter, durable inventories increased \$11.2 billion, down somewhat from the gain over the first three quarters. The book value of nondurable goods stocks rose at an annual rate of \$1.2 billion in December, less than half the November increase. In the fourth quarter as a whole, nondurable goods inventories increased at only an \$1.8 billion annual rate, following a \$4.1 billion rate of rise in the third quarter.

New orders for durable goods are now estimated to have risen .2 per cent in December, instead of the .1 per cent decline originally published in the partial-sample advance report. Nondefense capital goods orders were revised down and now indicate a 3.8 per cent decline, rather

than the 1.4 per cent reduction reported earlier. Shipments of durable goods were revised little and now show a .7 per cent increase with shipments of nondefense capital goods up 0.9 per cent. Unfilled orders are now estimated to have increased 2.1 per cent in December.

Consumer instalment credit outstanding, seasonally adjusted, increased \$3.7 billion in December, according to preliminary estimates. This rise followed a \$4.1 billion rise in November. The smaller increase in December reflects a reduction in extensions at all lenders, while credit liquidations continued near record levels.

In the fourth quarter, consumer instalment credit outstanding increased at a 17 per cent annual rate, the same as in the third quarter. The increase in 1978 as a whole was 19 per cent.

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

	1977	1978	1978				1979
			HI	QIII	QIV	Dec.	Jan.
--- Average Monthly Changes ---							
<u>Nonfarm payroll employment</u> <sup>2/</sup>	284	294	380	56	362	212	325
Manufacturing	66	62	55	-10	146	122	67
Durable	50	53	43	19	108	80	38
Nondurable	16	8	12	-29	38	42	29
Construction	30	37	54	7	32	27	18
Trade	79	64	84	45	45	-21	146
Services and finance	82	78	78	71	86	60	61
State and local government	28	17	47	-44	17	29	5
Private nonfarm production workers	215	221	260	69	296	172	179
Manufacturing production workers	52	45	37	-20	125	107	76
<u>Total employment</u> <sup>3/</sup>	342	275	347	123	282	104	445
Nonagricultural	336	268	327	129	288	- 8	600

<sup>1/</sup> Changes are from final month of preceding period to final month of period indicated.

<sup>2/</sup> Survey of establishments. Not strike adjusted.

<sup>3/</sup> Survey of households.

SELECTED UNEMPLOYMENT RATES  
(Per cent; based on seasonally adjusted data)

	1973	1978					1979
	Annual average	QI	QII	QIII	QIV	Dec.	Jan.
Total, 16 years and older	4.9	6.2	6.0	6.0	5.8	5.9	5.8
Teenagers	14.5	16.9	16.1	16.1	16.3	16.5	15.7
20-24 years old	7.8	10.2	9.6	9.4	9.0	9.3	8.6
Men, 25 years and older	2.5	3.5	3.3	3.3	3.2	3.2	3.2
Women, 25 years and older	4.1	5.0	5.1	5.2	4.9	5.0	5.0
White	4.3	5.4	5.2	5.2	5.1	5.2	5.1
Black and other	8.9	12.4	12.1	11.7	11.5	11.5	11.2
Fulltime workers	4.3	5.7	5.5	5.5	5.2	5.3	5.2
White collar	3.0	3.6	3.6	3.6	3.3	3.5	3.3
Blue collar	5.3	7.2	6.7	6.8	6.7	6.8	6.4
Craft and kindred	3.7	5.1	4.4	4.4	4.5	4.7	4.5
Operatives, ex. transport	6.1	8.3	8.2	8.4	7.6	7.7	7.6

HOURLY EARNINGS INDEX<sup>1/</sup>  
 (Per cent change at compound annual rates; based on seasonally adjusted data)

	1977	1978	1978		Dec. 78- Jan. 79
			H1	H2	
Total private nonfarm	7.5	8.2	8.8	7.6	10.5
Manufacturing	8.3	8.3	8.2	8.5	5.7
Contract construction	4.0	7.5	9.3	5.8	9.9
Transportation and public utilities	9.1	6.7	8.0	5.3	4.1
Total trade	7.4	9.4	10.0	8.7	17.7
Services	7.1	7.5	8.1	7.0	16.0

<sup>1/</sup> Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.



MANUFACTURER'S INVENTORIES: CHANGE IN BOOK VALUE  
(Billions of dollars; seasonally adjusted, annual rate)

	1977			1978				Nov. (p)	Dec. (p)
	QII	QIII	QIV	QI	QII	QIII	QIV		
Total	15.7	10.2	2.8	16.6	22.8	18.0	13.0	22.2	8.6
Durable	7.8	7.7	3.8	13.2	15.9	14.0	11.2	18.9	7.3
Nondurable	7.9	2.4	-1.0	3.4	6.9	4.1	1.8	3.3	1.2
Stage of Fabrication									
Materials & Supplies	8.7	-.2	-3.9	1.8	6.8	5.0	1.0	6.3	-1.5
Work-in-Process	-1.3	6.0	3.0	10.9	9.0	7.6	9.6	6.1	9.3
Finished Goods	8.4	4.3	3.8	3.9	6.9	5.4	2.4	9.9	.7

MANUFACTURERS' INVENTORY/SALES RATIOS

	1977			1978				Nov. (r)	Dec. (p)
	QII	QIII	QIV	QI	QII	QIII	QIV		
Total	1.60	1.61	1.56	1.56	1.52	1.54	1.49	1.49	1.47
Durable	1.96	1.96	1.90	1.90	1.86	1.87	1.81	1.79	1.79
Nondurable	1.22	1.22	1.18	1.17	1.15	1.16	1.12	1.12	1.11

r = revised.

p = preliminary.

UPDATED

MONETARY AGGREGATES  
(Seasonally adjusted)<sup>1/</sup>

	1978						Dec. '77	1979
	HI	QIII	QIV	Oct.	Nov.	Dec.	to Dec. '78	Jan. <sup>e</sup>
<u>Major monetary aggregates</u>								
1. M-1 (currency plus demand deposits)	8.1	7.6	4.5	3.7	-4.6	2.0	6.7	-5.0
2. M-1+ (M-1 plus savings deposits at CBs and checkable deposits at thrift institutions)	5.9	5.3	2.4	1.8	-7.1	-2.3	4.3	-7.0
3. M-2 (M-1 plus time & savings deposits at CBs, other than large CDs)	7.4	8.9	7.5	7.0	4.3	2.1	7.7	-1.8
4. M-3 (M-2 plus all deposits at thrift institutions)	7.8	10.1	9.8	9.6	6.7	5.2	8.9	4.2
<u>Bank time and savings deposits</u>								
5. Total	11.7	9.5	12.5	7.9	23.7	5.2	11.5	8.3
6. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2)	6.9	10.0	9.6	9.1	10.7	2.4	8.5	0.2
7. Savings deposits	2.1	1.3	-0.9	-1.6	-11.3	-8.7	0.3	-10.4
8. Individuals <sup>2/</sup>	2.1	2.5	-0.8	-2.9	-8.6	-8.7	0.7	-13.4
Other <sup>3/</sup>	1.3	-15.5	-2.7	16.0	-39.5	-16.3	-5.2	41.4
Time deposits	11.1	17.3	18.1	17.7	27.7	10.8	15.5	8.7
11. Small time <sup>4/</sup>	5.2	8.5	13.0	23.5	4.7	8.1	8.5	13.4
12. Large time <sup>4/</sup>	22.7	32.7	27.1	8.1	67.8	14.1	29.0	1.1
13. Time and savings deposits subject to rate ceilings (7+11)	3.4	4.4	5.1	9.4	-4.2	-1.2	3.8	0.3
<u>Deposits at nonbank thrift institutions <sup>5/</sup></u>								
14. Total	8.3	11.6	13.0	13.6	10.1	9.7	10.6	8.6
15. Savings and loan associations	8.5	12.8	14.5	14.9	12.2	11.8	11.5	10.6
16. Mutual savings banks	4.8	7.1	9.3	11.2	6.9	4.3	6.6	4.2
17. Credit unions	17.4	13.6	10.0	6.8	2.3	6.8	13.9	n.a.
Average monthly changes, billions of dollars								
MEMORANDA:								
18. Total U.S. Govt. deposits <sup>6/</sup>	0.0	1.5	-0.1	3.8	0.5	-4.6	0.3	-3.2
19. Total large time deposits <sup>7/</sup>	4.2	3.1	4.4	0.8	13.1	2.9	4.0	4.1
20. Nondeposit sources of funds <sup>8/</sup>	0.7	1.1	2.3	5.1	-1.9	3.8	1.2	n.a.

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

<sup>1/</sup> Quarterly growth rates are computed on a quarterly average basis.

<sup>2/</sup> Savings deposits held by individuals and nonprofit organizations.

<sup>3/</sup> Savings deposits of business, government, and others, not seasonally adjusted.

<sup>4/</sup> Small time deposits are time deposits in denominations less than \$100,000. Large time deposits are time deposits in denominations of \$100,000 and above excluding negotiable CDs at weekly reporting banks.

<sup>5/</sup> Growth rates computed from monthly levels based on average of current and preceding end-of-month data.

<sup>6/</sup> Includes Treasury demand deposits at commercial banks and Federal Reserve Banks and Treasury note balances.

<sup>7/</sup> All large time certificates, negotiable and nonnegotiable, at all CBs.

Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money (including borrowings from the Federal Reserve), gross Eurodollar borrowings, and loans sold, less interbank borrowings.

UPDATED

COMMERCIAL BANK CREDIT

(Per cent changes at annual rates, based on seasonally adjusted data)<sup>1/</sup>

	1978						12 months ending Dec.
	QII	QIII	QIV	Oct.	Nov.	Dec.	
1. Total loans and investments <sup>2/</sup>	17.0	8.7	5.9	9.8	6.7	1.1	10.9
2. Investments	11.7	1.1	-10.3	-4.5	-20.0	-6.5	1.9
3. Treasury securities	17.1	-6.1	-36.2	-24.7	-61.8	-25.2	-7.5
4. Other securities	8.5	9.0	4.8	7.1	3.6	3.5	7.5
5. Total loans <sup>2/</sup>	19.1	11.7	12.1	15.3	16.8	3.9	14.6
6. Business loans	17.4	10.3	6.7	10.6	10.0	-0.5	13.0
7. Security loans	88.9	-26.8	-43.1	-67.7	-52.2	-13.6	-7.0
8. Real estate loans	19.3	17.6	17.5	16.7	21.1	13.8	19.1
9. Consumer loans	23.7	15.6	17.6	17.3	20.8	13.9	19.6

MEMORANDA:

10. Commercial paper issued by non-financial firms <sup>3/</sup>	30.6	18.9	49.7	33.9	52.7	56.8	25.9
11. Business loans at banks net of bank holdings of bankers acceptances	17.9	10.3	8.6	12.4	12.8	0.5	14.1
12. Sum of items 10 & 11	18.8	10.9	11.8	13.9	15.8	5.3	14.9
13. Memo item 12 plus business loans from finance companies	17.4	9.1	14.9 <sup>e</sup>	18.8	17.7	7.8 <sup>e</sup>	14.8 <sup>e</sup>

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

<sup>1/</sup> Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.

<sup>2/</sup> Loans include outstanding amounts of loans reported as 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.

<sup>3/</sup> Measured from end of month.

INTEREST RATES  
(One day quotes--in per cent)

	1978		1979	
	Highs	Lows	Dec. 18	Feb. 1
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	10.25(12/27)	6.58(1/11)	9.75(12/20)	10.12(1/31)
3-month				
Treasury bills (bid)	9.37(12/22)	6.09(4/24)	9.26	9.25
Comm. paper (90-119 days)	10.60(12/28)	6.63(1/6)	10.38	9.96
Bankers' acceptances	10.88(12/20)	6.70(1/6)	10.70	9.92
Euro-dollars	12.19(12/21)	7.00(2/8)	11.75	10.56
CDs-Secondary market	11.04(12/21)	6.72(1/3)	10.89	10.17
6-month				
Treasury bills (bid)	9.61(12/20)	6.43(1/4)	9.55	9.31
Comm. paper (4-6 mos.)	10.64(12/28)	6.66(1/5)	10.46	10.04
CDs-Secondary market	11.64(12/20)	6.97(1/6)	11.41	10.51
1-year				
Treasury bills (bid)	9.69(12/29)	6.53(1/4)	9.54	9.28
Prime municipal note	5.60(12/22)	3.55(3/3)	5.50(12/15)	5.40(1/26)
<u>Intermediate- and Long-Term</u>				
Treasury (constant maturity)				
3-year	9.60(12/28)	7.38(1/4)	9.46	9.16
7-year	9.25(12/21)	7.71(1/5)	9.14	8.93
20-year	9.03(12/20)	8.00(1/5)	8.98	8.89
Corporate				
Seasoned Aaa	9.64(12/29)	8.28(1/3)	9.21	9.18(1/31)
Baa	9.28(12/28)	9.09(1/3)	9.93	10.06(1/31)
Aaa Utility New Issue	9.30(11/10)	8.61(3/24)	9.29(12/15)	--
Recently offered	9.54(12/22)	8.48(1/6)	9.35(12/15)	9.41
Municipal				
Bond Buyer index	6.67(12/21)	5.58(3/16)	6.45(12/15)	6.22
Mortgage--average yields in				
FNMA auction	10.60(12/26)	9.13(1/9)	10.40(12/11)	10.73(1/22)

U.S. merchandise trade data on an international accounts basis was released Thursday, February 1. The deficit in the fourth quarter was \$29.5 billion at an annual rate slightly less than the deficit in the second and third quarters. For the year 1978 the trade deficit was \$34.2 billion.

U.S. Merchandise Trade, International Accounts Basis  
(billions of dollars, seasonally adjusted annual rates)

	1977	1978						
	<u>Year</u>	<u>Year</u>	<u>1Q<sup>r</sup></u>	<u>2Q<sup>r</sup></u>	<u>3Q<sup>r</sup></u>	<u>4Q</u>	<u>Nov.<sup>r</sup></u>	<u>Dec.</u>
<u>EXPORTS</u>	<u>120.6</u>	<u>141.8</u>	<u>122.8</u>	<u>140.4</u>	<u>147.8</u>	<u>156.3</u>	<u>157.2</u>	<u>155.5</u>
Agriculture	24.3	29.9	25.9	31.9	31.6	30.0	29.7	31.1
Nonagriculture	96.2	112.0	96.8	108.5	116.2	126.3	127.5	124.4
<u>IMPORTS</u>	<u>151.7</u>	<u>176.0</u>	<u>167.2</u>	<u>171.2</u>	<u>179.7</u>	<u>185.9</u>	<u>187.0</u>	<u>184.7</u>
Petroleum	45.0	42.3	39.8	43.1	43.2	43.1	45.3	41.8
Nonpetroleum	106.7	133.7	127.5	128.1	136.5	142.7	141.7	142.8
<u>BALANCE</u>	<u>-31.1</u>	<u>-34.2</u>	<u>-44.5</u>	<u>-30.9</u>	<u>-31.9</u>	<u>-29.5</u>	<u>-29.8</u>	<u>-29.2</u>

NOTE: Details may not add to totals because of rounding.

<sup>r</sup>/ Revised

\*/ The monthly International Accounts figures are only rough estimates and are subject to considerable revision.