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CONFIDENTIAL (FR)
CLASS II - FOMC

October 17, 1980

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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THE DOMESTIC FINANCIAL ECONOMY

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SUPPLEMENTAL NOTES

Gross National Product

Gross national product in real terms increased in the third quarter at a 1.0 percent annual rate, according to preliminary estimates, following a 9.6 percent rate decline in the second quarter. GNP in nominal terms increased at a 10.2 percent rate in the July to September period, after being about unchanged in the preceding three months. Prices as measured by the GNP implicit price deflator rose at a 9.1 percent annual rate; this was down from a 10.7 percent rate rise in the second quarter, but in terms of the GNP fixed-weighted price index the rate of increase, at 9.7 percent per year, was unchanged from the rate of increase in the second quarter. Gross domestic business product prices rose at a 10.4 percent annual rate in the third quarter measured in terms of the fixed-weighted index, the same as in the second quarter.

The third quarter rise in real GNP reflected relatively large increases in expenditures for consumer durable goods, producer durable goods, and residential construction and a large decline in imports of goods and services. Large increases in purchases of motor vehicles accounted for much of the third quarter rise in consumer expenditures and all of (actually more than) the increase in producer durable goods outlays. Inventory investment in real terms in the third quarter is indicated to have declined at a \$6.8 billion annual rate, following a \$2.6 billion rate of accumulation in the second quarter. Large declines also occurred in nonresidential construction outlays and federal government purchases of goods and services.

Personal consumption expenditures increased more in the third quarter than disposable personal income, and personal saving and the ratio of this saving to disposable income declined--the latter to 4.6 percent from 4.9 percent in the second quarter.

Personal Income

Nominal personal income rose \$19.3 billion in annual rate terms in September, at an annual rate of 11.1 percent, bringing the third-quarter rate of increase to about 12-1/4 percent per year. Growth in wage and salary disbursements was only slightly below the August advance, reflecting continued improvement in labor market conditions, while larger increases were recorded for both nonfarm proprietors' income and transfer payments.

Disposable personal income rose \$15.9 billion in September--somewhat faster than in August--as a result of the larger increase in nonwage income. At the same time, personal outlays advanced at a somewhat slower pace of \$10.9 billion, and personal saving therefore rose \$5.0 billion. Real disposable income declined slightly in August, as price increases eroded the gains in nominal income; little change in real disposable income is also estimated for September.

Housing Starts and Permits

Total private housing starts rose 9.0 percent in September to an annual rate of 1.54 million units. This large increase brought the third quarter total for this measure of new housing activity to a rate of 1.4 million units--up a third from the depressed second quarter pace. Housing permits also increased in September, rising 14.7 percent above

the August rate. The increases in both starts and permits were concentrated in the multifamily sector; those increases in housing activity apparently were associated with the end of HUD's fiscal year. The increase in starts was concentrated in the northeast and the north central, while permits increased in all regions.

CHANGES IN REAL
GROSS NATIONAL PRODUCT AND SELECTED COMPONENTS¹
(Percent change at annual rates¹, based on seasonally adjusted data)

	1979	1980		
	Q4	Q1	Q2	Q3
Gross National Product	2.0	1.2	-9.6	1.0
Final Purchases	3.6	1.5	-10.2	3.7
Personal consumption expenditures	4.1	.5	-10.6	5.2
Goods	4.7	-1.8	-18.1	5.5
Durable	-.6	-3.5	-41.0	20.9
Nondurable	7.0	-1.1	-7.0	.3
Services	3.5	3.2	-1.3	4.9
Business fixed investment	-.3	1.7	-14.6	-3.2
Residential investment	-4.5	-26.2	-61.8	5.6
Exports of goods and services	7.0	26.1	-10.0	-4.2
Imports of goods and services	8.2	10.2	-23.1	-17.4
Federal government purchases of goods and services	16.0	13.1	9.5	-3.9
State and local government purchase of goods and services	.8	-.7	-3.2	-.8
ures of price change:				
VP implicit price deflator	8.4	9.5	10.7	9.1
PCE fixed-weighted price index	10.5	13.8	11.2	9.5
GDBP fixed-weighted price index	8.4	11.2	10.4	10.4
Memoranda:				
Change in business inventory investment, billions of 1972 dollars	-5.7	-1.1	2.3	-9.4
Change in net exports of goods and services, billions of 1972 dollars	0.0	4.9	3.3	3.3
GNP in nominal terms	10.5	10.8	0.1	10.2
Personal saving rate, percent	3.5	3.7	4.9	4.6

¹ Except as noted.

PERSONAL INCOME
(Based on seasonally adjusted annual rate data)

	1978	1979	1980				
			QI	QII	QIII	Aug.	Sept.
- - Percentage change, at annual rates ¹ - -							
Total personal income	12.9	11.2	10.9	4.6	12.2	8.8	11.1
Wage and salary disbursements	12.8	10.1	10.9	2.1	5.4	12.5	9.7
Private	14.1	10.8	12.0	1.0	5.3	14.3	11.2
Nominal disposable personal income	12.0	10.4	13.5	4.3	12.3	7.4	10.6
Real disposable personal income	4.2	.5	.9	-6.0	n.a.	-1.5	n.a.
- - Changes in billions of dollars ² - -							
Total personal income	\$17.8	\$16.8	\$13.9	\$ 6.8	\$23.0	\$15.5	\$19.8
Wage and salary disbursements	11.5	9.7	10.4	-.5	8.9	13.8	10.7
Private	10.1	8.4	9.1	-2.0	8.0	12.7	10.1
Manufacturing	3.2	2.0	2.7	-3.5	2.8	4.0	4.4
Other income	7.1	8.1	4.3	7.7	14.8	2.8	9.7
Transfer payments	1.5	2.9	2.4	3.4	9.9	-.4	5.3
Less: Personal contributions for social insurance	.8	.9	.8	.4	.7	1.0	.6
Memorandum:							
Personal saving rate ³	4.9	4.5	3.7	4.9	4.6	4.6	n.a.

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly periods are compounded rates of change; monthly changes are not compounded.
2. Average monthly change.
3. Monthly saving rate equals the centered three-month moving average of personal saving as a percentage of the centered three-month moving average of disposable personal income.

PRIVATE HOUSING STARTS AND RESIDENTIAL BUILDING PERMITS

	1980					Percent change from	
	QII	QIII ¹	July	Aug. ¹	Sept. ²	Aug. 1980	Sept. 1979
	(Thousands of units, SAAR)						
<u>STARTS</u>	1053	1408	1265	1416	1544	9	-18
1 - family	671	973	869	1000	1050	5	-15
2 - or more - family	382	435	396	416	494	19	-22
Northeast	126	154	124	128	211	65	29
North Central	152	233	191	224	283	26	-28
South	539	679	655	694	688	-1	-10
West	236	342	295	370	362	-2	-35
<u>PERMITS</u>	897	1386	1236	1361	1561	15	-8
1 - family	532	848	781	857	905	6	-9
2 - or more - family	365	538	455	504	656	30	-6
Northeast	99	125	119	117	139	19	-34
North Central	127	219	208	213	237	11	-23
South	439	663	566	650	772	19	14
West	232	379	343	381	413	8	-17
EMO: Mobile home shipments	175	n.a.	215	206	n.a.	n.a.	n.a.

1. Revised.

2. Preliminary.

n.a.--Not available.

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

	1980						Sept. '79
	Q1	Q2	Q3	July	Aug. ^e	Sept. ^e	to Sept. '80 ^e
----- Commercial Bank Credit -----							
1. Total loans and investments at banks ²	11.5	-4.4	13.6	7.6	17.4	15.3	6.1
2. Investments	7.3	11.0	21.3	26.1	25.2	11.6	11.2
3. Treasury securities	3.0	10.6	39.2	47.0	42.9	24.1	11.9
4. Other securities	9.4	11.2	12.7	16.1	16.5	5.2	10.8
5. Total loans ²	12.8	-9.5	10.9	1.1	14.7	16.6	4.4
6. Business loans	16.4	-9.1	16.1	2.0	21.3	24.5	7.4
7. Security loans	-32.8	-23.8	-7.6	-60.8	64.0	-22.8	-34.0
8. Real estate loans	11.9	1.0	5.6	5.3	5.3	6.2	8.4
9. Consumer loans	3.7	-21.5	n.a.	-14.4	-6.3	n.a.	n.a.
-- Short- and Intermediate-Term Business Credit --							
10. Total short- and intermediate-term business credit (sum of lines 13,14 and 15)	22.0	1.2	n.a.	2.4	11.3	n.a.	n.a.
11. Business loans net of bankers acceptances ¹	17.6	-10.5	16.6	0.0	22.5	26.9	7.6
12. Commercial paper issued by nonfinancial firms ³	76.2	86.9	-22.5	16.9	-47.2	-37.6	42.0
13. Sum of lines 11 & 12	23.1	-0.2	11.6	2.2	13.4	19.0	10.7
14. Finance company loans to business ⁴	-2.8	-4.0	n.a.	-6.9	-3.5	n.a.	n.a.
15. Total bankers acceptances outstanding ⁴	54.1	32.3	n.a.	15.7	17.7	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. Based on average of current and preceding ends of months.

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

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

	1980						Sept.
	Q1	Q2	Q3	July	Aug.	Sept.	to Sept.
---- Percentage change at annual rates ----							
<u>Money stock measures</u>							
1. M-1A	4.8	-3.9	11.0	7.8	19.3	12.3	4.8
2. M-1B	5.9	-2.4	13.4	11.1	21.6	15.2	6.4
3. M-2	7.2	5.5	15.5	18.2	14.5	8.2	9.1
4. M-3	7.8	5.7	12.6	13.4	13.6	9.7	8.9
<u>Selected components</u>							
5. Currency	8.3	7.0	11.3	10.8	15.0	5.3	8.8
6. Demand deposits	3.4	-8.3	10.8	6.0	21.6	15.3	3.3
7. Other checkable deposits, NSA ²	29.3	31.8	61.1	73.5	63.5	65.8	41.7
8. M-2 minus M-1B (9+10+11+14)	7.7	8.1	16.1	20.5	12.2	5.9	10.1
9. Overnight RPs and Eurodollars, NSA ³	-7.5	-72.0	132.7	218.7	103.8	41.5	0.3
10. Money market mutual fund shares, NSA	151.9	82.7	75.7	103.5	1.5	-37.2	132.0
11. Commercial banks	6.9	9.8	10.7	13.5	10.4	7.0	9.2
12. savings deposits	-19.3	-22.6	26.4	38.6	26.5	7.6	-6.7
13. small time deposits	29.1	33.9	0.4	-3.1	0.0	5.7	23.8
14. Thrift institutions	-0.3	3.7	9.7	8.9	11.2	8.9	4.6
15. savings deposits	-22.5	-27.1	24.8	38.7	33.5	10.7	-10.4
16. small time deposits	12.0	19.3	2.9	-4.6	0.8	8.1	13.8
Large time deposits	17.8	10.6	-10.3	-23.4	-4.2	26.6	10.3
at commercial banks, net ⁴	9.9	7.4	-14.8	-29.6	-8.8	25.5	4.2
at thrift institutions	72.6	28.9	14.6	10.0	16.6	36.0	56.8
20. Term RPs, NSA	-31.9	-19.4	46.7	51.2	98.3	-30.3	-8.3

--Average monthly change in billions of dollars--

MEMORANDA:

21. Managed liabilities at commercial banks (22+23)	8.0	-6.6	-0.1	-3.9	-2.3	5.8	-0.2
22. Large time deposits, gross	3.1	0.0	0.3	-3.9	0.3	4.5	1.3
23. Nondeposit funds	4.9	-6.6	-0.4	0.0	-2.6	1.3	-1.5
24. Net due to related foreign institutions, NSA	1.6	-6.0	-3.0	-4.1	-1.8	-3.0	-2.5
25. Other ⁵	3.3	-0.5	2.5	4.0	-0.9	4.4	1.0
26. U.S. government deposits at commercial banks ⁶	-0.2	0.4	1.3	2.1	0.9	0.9	0.1

1. Quarterly growth rates are computed on a quarterly average basis.

2. Consists of ATS and NOW balances at all institutions, credit union share draft balances, and demand deposits at mutual savings banks.

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 purchase agreements 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.

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

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1980					Change from:		
	Mar-Apr High	Mid-June** Low	FOMC Sept. 16	Inter- meeting High	Oct. 14	Mar-Apr High	Mid-June Low	FOMC Sept. 16
Short-term rates								
Federal funds ²	19.39	8.99	10.64	12.80	12.64	-6.75	3.65	2.00
Treasury bills								
3-month	16.00	6.18	10.29	11.53	10.98	-5.02	4.80	.69
6-month	15.64	6.60	10.67	11.62	11.14	-4.50	4.54	.47
1-year	14.58	7.00	10.59	11.36	10.86	-3.72	3.86	.27
Commercial paper								
1-month	18.00	7.98	10.80	12.69	12.34	-5.66	4.36	1.54
3-month	17.69	7.78	10.95	12.78	12.11	-5.58	4.33	1.16
6-month	17.25	7.59	11.04	12.78	11.90	-5.35	4.31	.86
Large negotiable CDs ³								
1-month	17.87	7.96	11.05	12.75	12.41	-5.46	4.45	1.36
3-month	18.59	7.90	11.51	12.99	12.44	-6.15	4.54	.93
6-month	18.47	7.66	11.88	13.26	12.41	-6.06	4.75	.53
Eurodollar deposit ²								
1-month	19.04	8.88	11.06	13.05	13.05	-5.99	4.17	1.99
3-month	19.60	8.99	11.86	13.25	13.00	-6.60	4.01	1.14
Bank prime rate	20.00	12.00	12.25	13.50	13.50	-6.50	1.50	1.25
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	14.53	8.56	11.69	12.32	11.65	-2.88	3.09	-.04
10-year	13.65*	9.47	11.52	12.07	11.47	-2.18	2.00	-.05
30-year	12.85*	9.49	11.33	11.93	11.27	-1.58	1.78	-.06
Municipal (Bond Buyer) ⁴	9.44	7.44	8.82	9.22	8.81	.63	1.37	-.01
Corporate Aaa								
New issue ⁵	14.22	10.53	12.60	13.10	12.61p	1.61	2.08	.01
Recently offered ⁶	14.12	10.79	12.48	13.06	12.81p	1.31	2.02	.33
Primary conventional mortgages ⁶	16.35	12.35	13.08	13.73	13.73	-2.62	1.38	.65
	Mar-Apr Low	Mid-June High	FOMC Sept. 16	Inter- meeting Low	Oct.	Mar-Apr Low	Mid-June High	FOMC Sept. 16
Stock Prices								
Dow-Jones Industrial	759.13	881.91	945.90	921.93	958.70	199.57	76.79	12.80
NYSE Composite	55.30	66.36	73.41	71.26	76.37	21.07	10.01	2.96
AMEX Composite	215.69	297.60	340.94	324.38	358.00	142.31	60.40	17.06
NASDAQ (OTC)	124.09	159.18	191.31	185.79	197.95	73.86	38.77	6.64

1. One-day quotes except as noted.

2. Averages for statement week closest to date shown.

3. Secondary market.

* Highs reached on February 26.

4. One-day quotes for preceding Thursday.

5. Averages for preceding week.

6. One-day quotes for preceding Friday.

** Most lows occurred on or around June 13.