

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

May 14, 1982

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

Industrial production and capacity utilization	1
Retail sales	3
Manufacturing and trade inventories	3
Producer prices	4

TABLES:

Industrial production	7
Capacity utilization rates: manufacturing and materials . .	7
Changes in industrial production	8
Retail sales	9
Recent changes in producer prices	10

THE DOMESTIC FINANCIAL ECONOMY

TABLES:

Monetary aggregates	11
Commercial bank credit and short- and intermediate- term business credit	12
Selected financial market quotations	13

SUPPLEMENTAL NOTES

Industrial Production and Capacity Utilization

Industrial production declined 0.6 percent in April, following an 0.8 percent cutback in March. Large reductions occurred in April in output of business equipment, construction supplies, and durable goods materials, while production of consumer durable goods increased markedly and defense and space equipment moderately. Since its recent high in July 1981, industrial production has declined 8.6 percent.

Output of consumer goods rose 0.6 percent in April, reflecting increases in auto assemblies and in home goods. Production of nondurable consumer goods changed little. Auto assemblies increased almost 9 percent to an annual rate of 5.1 million units, more than 40 percent from their extraordinarily low rate in January, but they remain depressed compared to earlier periods. Output of business equipment declined 1.6 percent further in April, and has fallen 10 percent since its high in July 1981--nearly 7-1/2 since the beginning of 1982. Production of industrial equipment generally continued to contract in April, and an especially large decline occurred in building and mining equipment due to reduced oil well drilling. Production of both construction and of business supplies also were reduced further in April.

Materials output declined 1.0 percent in April, and was nearly 12 percent below its peak last July; most of that large decline occurred before the turn of the year. In April, a further sharp contraction occurred in production of durable materials--particularly metals and equipment parts, and output of energy materials receded 0.9 percent further. Production of nondurable materials edged up a little.

Manufacturing output was reduced 0.4 percent in April, reflecting declines in both durables and nondurables. Sharp decreases occurred in the output of primary metals, fabricated metal products, and nonelectrical machinery, while production of motor vehicles and parts increased. Mining output was reduced more than 3 percent, reflecting cutbacks in metal mining, coal mining, and oil and gas extraction. Utility output changed little.

Capacity utilization in manufacturing industries declined further in April. Operating rates of manufacturers as a group averaged 71.1 percent of capacity, down from 71.5 percent in March, while the utilization rate for producers of industrial materials averaged 70.8 percent, down from 71.6 percent in the preceding month. The April capacity utilization rates were 18-1/2 and 20 percent, respectively, below the peak rates in 1979 of 87.2 percent for manufacturing and of 88.8 percent for producers of industrial materials (peak rates for these grouping in the 1973-74 period were only a little higher than in 1979). The April rates were about 14-1/4 and 16 percent respectively below their averages from 1967 through 1980.

The decline for manufacturing as a whole mainly reflected further reduction in operating rates for producers of metals--both ferrous and nonferrous, fabricated metal products, nonelectrical machinery, commercial aircraft, instruments, paper and paper products, and printing and publishing; the utilization rate for producers of motor vehicles and parts rose further in April. For producers of industrial materials, the decline in the overall utilization rate reflected further sharp

reductions in rates for producers of coal, as well as the continued large declines for producers of basic metals.

Retail Sales

Retail sales rose 1.4 percent in April, according to partial-sample estimates. The combined increase in sales at automotive dealers (up 5.6 percent) and at places selling building materials, hardware, garden supplies, and mobile homes (up 3.1 percent) was nearly as large as the increase in sales at all retail stores. Excluding these two groupings, retail sales in April edged up only 0.3 percent. Sales at furniture and appliance stores, food stores, and eating and drinking places each rose sharply, while they declined sharply at general merchandise and apparel stores and at gasoline service stations.

Total retail sales in the first quarter of the year were only slightly above those in the fourth quarter of last year, as were those for the grouping of stores other than those selling automotive products, building materials, and related items; within this latter grouping, sales at the GAF grouping of stores in the first quarter were about unchanged from the preceding quarter.

Manufacturing and Trade Inventories

The book value of inventories held by retailers declined at a \$1.2 billion annual rate in March, following a \$10.0 billion rate of liquidation in February (only slightly more than indicated earlier). Over the first quarter these stocks were reduced at a \$9.6 billion annual rate. In the final quarter of last year retailers' stocks had been accumulated at a \$5.3 billion rate, and at about three times that rate

in the second and third quarters of the year. In March, retailers increased stocks of general merchandise and apparel, while they reduced stocks of furniture and appliances and lumber and building materials. The ratio of inventories to sales for all retailers as a group was about unchanged in March from the preceding month and down only a little from the recent high in January.

The book value of inventories held by manufacturing and trade declined at a \$29.1 billion annual rate in March, a somewhat larger rate of liquidation than in the two preceding months. For the first quarter as a whole, these stocks were reduced at a \$27.4 billion rate; they had been accumulated at an \$11.8 billion rate in the fourth quarter of last year and at a \$53.3 billion rate in the quarter preceding that. The inventory-sales ratio for these businesses declined slightly further in March from the peak in January and was slightly below the ratio at the end of last year, but it remains above the ratio last September before it began rising sharply.

Producer Prices

Producer prices for finished goods were again little changed in April--they edged up 0.1 percent from March to April following two months of 0.1 percent reductions. Prices of intermediate materials declined 0.6 percent in April, but prices of crude materials rose 1.8 percent. At all stages of processing, prices for foods and food materials rose sharply, while those for energy and energy materials declined very markedly. Prices of finished goods excluding food and energy items rose 1/2 percent in April; they have increased at a 3-1/2 percent annual rate so far this year.

Prices of consumer foods rose 1.6 percent in April; increases in prices for meats and poultry accounted for about three-fourths of this increase. Prices of crude materials for food rose 3.5 percent, and prices of intermediate materials for food increased by 2.4 percent. The large increases in each of these three food classifications followed two months of little change on net or decline in each of them. Prices of cattle and hogs have increased sharply recently as livestock marketings have fallen below year-earlier volumes. Spot prices for livestock have continued to move up since the April pricing date.

In energy markets, the price of gasoline in the April index declined 7.2 percent and the fuel oil price fell 8.8 percent. (These energy prices enter the producer price index with a one-month lag and reflect March data.) Since March, the spot prices of gasoline and fuel oil have been rebounding following earlier steep declines, and some companies have announced increases in wholesale refinery prices for these products.

Excluding food and energy, the finished goods price index rose 0.5 percent in April. Prices of capital equipment increased 0.4 percent, slightly less than in March; these have increased at a 2.6 percent annual rate since their surge at the end of 1981. Prices also were higher in April for newspapers, drugs, household furniture, gold jewelery, and cosmetics. Lower passenger car prices reflected rebate offers; apparel prices also declined.

At the intermediate level of processing, prices excluding food and energy fell 0.3 percent, the first decline since April 1975. Falling energy costs resulted in price declines for materials such as industrial

chemicals and some plastics. In addition, the construction materials index was 0.3 percent lower; prices for these products were mixed, as increases were registered by softwood lumber and heating equipment and decreases were posted for asphalt roofing, millwork, and building paper and board.

Prices of crude nonfood materials edged down 0.2 percent in April, after posting much sharper declines in each of the three preceding months. Prices of crude petroleum fell, but natural gas and coal prices were higher. Prices of crude materials excluding food and energy rose 1.9 percent in April. Price decreases were reported for cattle hides, wastepaper, and scrap metal, both ferrous and nonferrous. Prices of raw cotton and crude natural rubber advanced.

INDUSTRIAL PRODUCTION
(Percentage change from preceding period except where indicated;
based on seasonally adjusted data)

	1981		1982	1982			
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
	---annual rate----			-----monthly rate-----			
Total	1.4	-16.6	-12.1	-1.9	1.4	-.8	-.6
Final products	.8	-9.6	-10.2	-2.4	1.0	-.5	-.1
Consumer goods	-1.5	-13.2	-8.5	-1.7	1.5	.0	.6
Durable	-8.9	-32.6	-15.5	-2.5	4.2	1.9	2.7
Nondurable	1.4	-5.0	-6.0	-1.4	.5	-.6	-.1
Business equipment	3.9	-9.4	-18.2	-3.8	-.4	-1.8	-1.6
Oil & Gas Well Dr.	6.4	10.8	-16.1	-.6	-3.6	-7.1	-8.0
Defense and space eq.	4.3	11.4	5.8	-1.7	2.3	.8	.3
Construction supplies	-8.6	-29.3	-14.6	-2.2	2.3	-.9	-1.0
Materials	2.5	-24.1	-14.7	-1.3	2.0	-1.2	-1.0
Durable goods	1.2	-29.1	-24.5	-3.2	2.0	-1.7	-1.9
Nondurable goods	-5.7	-23.3	-9.8	-.9	3.6	-.5	.2
Energy materials	22.4	-10.6	6.0	2.7	-.7	-1.1	-.9
Cr. Oil & Nat. Gas	-2.4	-5.2	5.0	1.5	-1.5	.8	1.0

CAPACITY UTILIZATION RATES: MANUFACTURING AND MATERIALS
(Percent, seasonally adjusted)

	1978-80	1981	1982	1982			
	High	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Manufacturing industries	87.2	74.8	71.6	71.1	72.1	71.5	71.1
Primary processing	90.1	72.7	68.9	68.5	69.8	68.3	67.7
Advanced processing	86.2	75.9	73.2	72.8	73.6	73.2	73.0
Motor vehicles & pts.	94.5	51.5	47.5	43.7	47.6	51.3	53.7
Materials producers	88.8	75.2	71.9	71.4	72.6	71.6	70.8
Durable goods mats.	88.4	71.8	66.6	66.2	67.4	66.1	64.8
Raw steel	100.7	70.7	62.9	64.9	63.9	59.8	52.9
Nondurable goods mats.	91.6	77.2	74.7	73.2	75.7	75.2	75.2
Energy materials	88.8	82.1	83.0	83.7	83.0	82.1	81.2

CHANGES IN INDUSTRIAL PRODUCTION
(Percent)

	July 1981 to April 1982	July 1981 to Dec. 1981	Dec. 1981 to April 1982
TOTAL	- 8.6	- 6.8	- 1.9
Products	- 6.3	- 4.4	- 2.0
Automotive products	-11.7	-19.2	9.3
Home goods	- 9.9	-14.0	4.8
Nondurable goods	- 3.4	- 1.8	- 1.6
Business	-10.3	- 3.1	- 7.4
Defense and Space	6.0	4.3	1.7
Intermediate Products	- 8.4	- 6.6	- 1.9
Materials	-11.9	-10.5	- 1.6
Durable	-16.9	-12.8	- 4.8
Nondurable	- 8.2	-10.3	2.4
Energy	- 4.4	- 4.4	0.1

RETAIL SALES
(Percent change from preceding period;
based on seasonally adjusted data)

	1981			1982				
	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Total sales	1.8	1.2	-1.3	0.1	-1.4	2.7	-.6	1.4
Total, less autos and nonconsumption items	1.7	1.1	.4	.1	-.6	1.5	-1.3	.3
Total, exc. auto group, gasoline, and nonconsump- tion items	1.9	1.2	.4	.5	-.9	2.2	-.9	.6
GAF ¹	2.0	.5	-.1	-.1	-3.5	4.9	.0	-1.1
Durable	1.5	1.6	-5.6	.1	-3.4	5.9	.6	3.4
Automotive Group	2.5	3.5	-7.3	.4	-5.7	8.9	2.1	5.6
Furniture & appliances	-.4	-.3	-.8	-4.3	-7.1	4.2	.7	2.9
Nondurable	1.9	1.1	.7	.2	-.6	1.4	-1.1	.4
Apparel	.8	1.5	-.9	4.6	-.9	10.0	-2.7	-2.4
Food	2.5	1.8	1.7	-.2	-1.3	1.0	-.6	1.2
General Merchandise ²	3.3	.3	.5	-.3	-3.2	3.3	.9	-2.0
Gasoline Stations	.5	.3	.4	-2.2	1.3	-2.9	-4.6	-1.9

1. General merchandise, apparel, and furniture and appliance stores.
2. General merchandise excludes mail order nonstores; nonstore mail order sales are also excluded in the GAF composite sales summary.

RECENT CHANGES IN PRODUCER PRICES
(Percentage change at annual rates; based on seasonally adjusted data)¹

	Relative importance Dec. 1981	1980	1981	1981		1982	
				H2	Q1	Mar.	Apr.
Finished goods	100.0	11.8	7.1	4.5	.3	-1.7	.9
Consumer food	21.9	7.5	1.4	-1.2	6.0	-1.9	19.2
Consumer energy	12.7	27.8	14.1	2.5	-18.0	-27.8	-62.2
Other consumer goods	44.5	10.4	7.1	6.4	2.7	2.1	6.8
Capital equipment	20.8	11.4	9.2	7.7	2.1	6.1	4.4
Intermediate materials ²	94.7	12.4	7.4	4.0	-1.4	-3.4	-9.5
Exc. energy	77.6	10.1	6.6	4.6	.6	.0	-3.3
Crude Materials							
Food	50.6	8.6	-14.0	-22.0	23.3	2.9	42.3
Energy	33.6	26.9	22.8	1.8	-6.1	-13.0	-12.8
Other	15.8	7.5	-11.4	-11.6	-40.0	-49.3	23.3

1. Changes are from final month of preceding period to final month of period indicated; monthly changes at simple annual rates.

2. Excludes materials for food manufacturing and animal feeds.

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

	1981		1982				QIV. '81 to Apr. '82
	Q3	Q4	Q1	Feb.	Mar.	Apr.	
—Percentage change at annual rates—							
<u>Money stock measures</u>							
1. M1	0.3	5.7	10.4	-3.5	2.4	11.8	8.7
2. M2	8.3	8.8	9.7	4.3	11.2	9.8	9.7
3. M3	11.2	9.2	8.6	5.8	11.3	11.4	9.5
<u>Selected components</u>							
4. Currency	4.7	4.3	7.9	7.8	4.8	12.5	8.5
5. Demand deposits	-7.5	-0.2	-0.5	-24.1	-7.7	0.5	-2.8
6. Other checkable deposits	21.2	27.6	48.9	40.0	27.2	42.0	46.1
7. M2 minus M1 (8+9+10+13)	10.9	9.9	9.5	6.8	14.0	9.1	10.0
8. Overnight RPs and Eurodollars, NSA ²	14.9	-44.1	65.8	-5.5	5.6	-74.8	22.6
9. General purpose and broker/dealer money market mutual fund shares, NSA	91.2	74.0	33.0	7.8	23.2	17.4	27.5
10. Commercial banks	7.8	10.3	9.4	11.4	21.4	19.9	13.4
11. savings deposits	-22.7	-11.9	8.7	0.8	13.6	-0.7	6.9
12. small time deposits	24.3	20.8	9.7	16.1	25.1	28.5	16.3
13. Thrift institutions	1.2	1.5	1.7	3.7	5.9	4.5	3.0
14. savings deposits	-22.9	-11.7	10.2	-1.9	2.5	-0.6	6.2
15. small time deposits	11.4	6.6	-1.4	5.8	7.3	6.5	1.8
16. M3 minus M2 (17+20+21)	26.1	11.2	3.2	13.2	11.8	19.7	8.4
17. Large time deposits	30.6	3.6	8.8	21.4	16.0	13.8	11.7
18. at commercial banks, net ³	32.5	0.2	6.0	20.9	12.9	14.2	9.6
19. at thrift institutions	22.2	19.5	21.6	23.8	29.7	12.4	21.4
20. Institutions-only money market mutual fund shares, NSA	69.0	132.8	-2.5	-73.8	39.3	0.0	-1.5
21. Term RPs, NSA	-30.8	0.0	-28.7	0.0	-25.8	101.9	-2.1
—Average monthly change in billions of dollars—							
<u>MEMORANDA:</u>							
22. Managed liabilities at commercial banks ⁴ (23+24)	6.0	0.3	0.4	1.9	1.0	2.7	1.5
23. Large time deposits, gross ⁴	7.4	-0.1	2.7	2.9	4.8	2.4	2.2
24. Nondeposit funds ⁴	-1.4	0.4	-2.3	-1.0	-3.8	0.3	-0.7
25. Net due to related foreign institutions, NSA ⁴	1.0	-2.2	-2.2	1.6	-3.6	0.9	-1.4
26. Other ^{4,5}	-2.4	2.7	-0.1	-2.6	-0.2	-0.5	0.7
27. U.S. government deposits at commercial banks ⁶	-0.7	0.8	1.9	8.7	-4.7	-3.9	0.4

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. 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. Excludes retail RPs, which are in the small time deposit components.

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

4. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to April 1982.

5. 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. Changes since October 1980 are partially estimated.

6. 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

	1981		1982				QIV '81 to Apr. '82
	Q3	Q4	Q1	Feb.	Mar.	Apr.	
—Commercial Bank Credit—							
1. Total loans and investments at banks ^{2,3}	6.8	6.5	10.4	12.5	8.5	8.8	9.7
2. Investments	.5	5.1	6.3	5.5	.0	9.3	6.5
3. Treasury securities	-12.0	-7.8	11.9	10.5	-9.4	22.0	11.0
4. Other securities	7.2	11.3	3.6	3.1	4.6	3.1	4.3
5. Total loans ^{2,3}	9.1	6.9	11.8	14.9	11.2	8.9	10.8
6. Business loans ^{2,3}	17.9	9.4	16.5	17.5	14.1	10.6	14.6
7. Security loans	-36.2	58.6	-18.3	11.7	5.8	.0	1.2
8. Real estate loans	8.0	7.3	8.1	10.4	7.4	7.0	8.2
9. Consumer loans	4.4	4.1	3.2	.6	3.2	1.3	3.5
—Short- and Intermediate-Term Business Credit—							
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	23.3	13.9	15.2	17.7	15.2	n.a.	n.a.
11. Business loans net of bankers acceptances ³	19.7	9.4	16.2	17.3	12.2	8.6	14.1
12. Commercial paper issued by non-financial firms ⁴	57.9	21.3	30.0	47.2	38.9	14.7	27.7
13. Sum of line 11 & 12	24.1	11.3	17.5	19.9	14.8	7.4	15.8
14. Line 13 plus loans at foreign branches ⁵	25.9	14.1	18.3	20.5	17.7	9.9	16.6
15. Finance company loans to business ⁶	14.7	7.6	1.0	4.5	.0	n.a.	n.a.
16. Total bankers acceptances outstanding ⁶	16.6	20.9	11.7	17.5	15.5	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. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to April 1982.

4. Average of Wednesdays.

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

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

n.a.—not available.

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1981		1982		Change from:	
	Highs	Nov.-Dec. Lows	FOMC Mar. 30	May 13	Nov.-Dec. Lows	FOMC Mar. 30
<u>Short-term rates</u>						
Federal funds ²	20.06	12.04	14.99	14.97	2.93	-.02
Treasury bills						
3-month	17.01	9.94	13.43	12.50	2.56	-.93
6-month	15.93	10.34	13.31	12.54	2.20	-.77
1-year	15.21	10.42	12.87	12.30	1.88	-.57
Commercial paper						
1-month	18.63	11.17	14.51	14.09	2.92	-.42
3-month	18.29	11.04	14.30	13.50	2.46	-.80
Large negotiable CDs ³						
1-month	18.90	11.16	14.65	14.24	3.08	-.41
3-month	19.01	11.23	14.69	13.87	2.64	-.82
6-month	18.50	11.64	14.70	13.84	2.20	-.86
Eurodollar deposits ²						
1-month	19.80	11.86	15.15	14.73	2.87	-.42
3-month	19.56	12.16	15.31	14.43	2.27	-.88
Bank prime rate	21.50	15.75	16.50	16.50	.75	0
Treasury bill futures						
June 1982 contract	14.46	10.58	13.49	12.02	1.44	-1.47
Dec. 1982 contract	14.20	11.07	13.68	12.42	1.35	-1.26
<u>Intermediate- and long-term rates</u>						
U.S. Treasury (constant maturity)						
3-year	16.59	12.54	14.51	13.82	1.28	-.69
10-year	15.84	12.92	14.19	13.62	.70	-.57
30-year	15.20	12.76	13.81	13.25	.49	-.56
Municipal (Bond Buyer)	13.44	11.43	13.04 ⁴	11.82	.39	-1.22
Corporate--Aaa utility Recently offered	17.72	14.52	15.35 ^e	15.38 ^p	.86	.03
S&L fixed-rate mortgage commitment	18.63	16.90	17.04 ⁵	16.78 ⁵	-.12	-.26
	1981	1982		Percent change from:		
	Highs	FOMC Mar. 30	May 13	1981 Highs	FOMC Mar. 30	
<u>Stock Prices</u>						
Dow-Jones Industrial	1,024.05	824.49	859.11	-16.1	4.2	
NYSE Composite	79.14	64.65	68.20	-13.8	5.5	
AMEX Composite	380.36	261.35	279.41	-26.5	6.9	
NASDAQ (OTC)	223.47	175.42	187.66	-16.0	7.0	

1. One-day quotes except as noted.

4. One-day quotes for preceding Thursday

2. Averages for statement week closest to date shown. 5. One-day quotes for preceding Friday

3. Secondary market.

p--preliminary. e--estimated.