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**August 17, 1984**

**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

#### Personal Income

Personal income continued to grow briskly in July, boosted by another large gain in private payrolls and a second monthly rise in farm proprietors' income. In addition, increases in personal interest income continue to contribute importantly to income growth.

Personal consumption expenditures slowed to a \$6-1/4 billion annual rate in July, as a rebound in spending on nondurables was largely offset by a decline for durable goods. Outlays for services rose less than in earlier months.

Revised data for the second quarter now show somewhat slower income growth, as farm income was revised down \$2-1/2 billion (annual rate). Consumption spending was revised up \$2-3/4 billion (annual rate) in nominal terms; the deflator for personal consumption expenditures was unchanged. The revisions now leave the personal saving rate at 5.7 percent in the second quarter, somewhat lower than estimated earlier.

PERSONAL INCOME AND EXPENDITURES  
(Based on seasonally adjusted data)

	1982	1983	1983 Q4	1984 Q1	1984 Q2	1984 May	1984 June	1984 July
	- - Percentage changes at annual rates <sup>1</sup> - -							
Total Personal Income								
Nominal	5.3	7.5	11.0	12.4	8.7	3.9	10.3	9.8
Real <sup>2</sup>	.4	4.3	8.6	8.3	6.6	3.9	9.8	n.a.
Disposable Personal Income								
Nominal	6.1	8.5	10.8	12.7	8.2	2.4	8.9	9.5
Real	1.1	5.3	8.3	8.6	6.1	2.9	8.3	n.a.
Expenditures								
Nominal	8.2	9.0	9.2	8.6	9.6	13.9	4.4	3.2
Real	3.1	5.7	6.8	4.6	7.5	14.4	3.7	n.a.
	- - Changes in billions of dollars <sup>3</sup> - -							
Total personal income	11.7	17.0	25.1	26.7	20.7	9.7	25.6	24.4
Wages and salaries	5.1	11.1	15.2	12.2	13.0	4.5	13.9	11.7
Private	3.3	9.5	13.5	9.7	11.6	3.1	12.4	10.0
Manufacturing	-.9	3.3	4.2	3.8	2.0	-.1	1.9	2.3
Other income	7.1	6.8	10.8	16.6	8.4	5.4	12.5	13.4
Disposable personal income	11.5	16.3	20.9	23.7	15.5	5.1	18.9	20.4
Expenditures	12.9	15.7	17.8	9.1	23.6	26.7	8.5	6.3
Durables	2.8	3.9	7.8	-.6	6.5	15.7	.4	-5.0
Nondurables	2.3	3.9	2.0	5.0	8.0	4.7	-.5	7.5
Services	7.9	7.9	8.0	4.7	9.2	6.3	8.6	3.7
Personal saving rate (percent)	6.2	5.1	5.3	6.1	5.7	5.3	5.6	6.1

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. Total personal income is deflated by the personal consumption expenditure deflator.

3. Average monthly changes are from the final month of the preceding period to the final month of period indicated; monthly figures are changes from the preceding month.

## THE DOMESTIC NONFINANCIAL ECONOMY

Housing Starts

Total private housing starts dropped 6.6 percent in July to a 1.76 million unit annual rate, the lowest since March. The July rate was 9 percent below the average for the first half of the year. In addition, newly issued building permits fell 11.7 percent in July. Issuance was down by comparable margins for both single-family and multifamily construction.

The decline in starts during July was broadly based. Falling for the third consecutive month, single-family starts were off 10 percent to 982,000 units at an annual rate--the first time since December 1982 that this figure has dropped below one million. Multifamily starts edged down 2 percent in July, but at an annual rate of 779,000 units multifamily production remained near its highest level in a decade and comprised a historically large share of total housing starts. All four regions of the country contributed to the July decline in total starts, with the largest falloffs occurring in the Northeast and Midwest regions.

PRIVATE HOUSING CONSTRUCTION  
(Thousands of units, SAAR)

	Q1	Q2 <sup>2</sup>	1984			Percent change in July from	
			May <sup>1</sup>	June <sup>1</sup>	July <sup>2</sup>	Previous Month	Year Earlier
Starts	1968	1898	1794	1886	1761	-6.6	-1.8
1-family	1278	1140	1131	1092	982	-10.1	-6.3
2- or more family	690	759	663	794	779	-1.9	4.6
Permits issued	1809	1757	1745	1768	1562	-11.7	-10.8
1-family	1015	929	913	916	813	-11.2	-12.6
2- or more family	794	828	832	852	749	-12.1	-8.9
Mobile home shipments	298	294	295	301	n.a.	n.a.	n.a.

1. Revised.

2. Preliminary.

n.a. Not available.

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**SUPPLEMENTAL NOTES**

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**THE DOMESTIC NONFINANCIAL ECONOMY****Mid-session Budget Review**

The administration released its Mid-session Review of the Budget on August 15. The report sets out the administration economic projections for 1984 and 1985 that were described in the Greenbook and provides budget estimates that take into account recent data and legislation. As shown on the following table, the budget deficit estimate for FY1984 is now \$174 billion, down slightly from their April figure of \$178 billion. For FY1985, the administration projects a deficit of \$167 billion compared with an estimate of \$179 billion last April. A principal source of revision is lower defense outlays. The new defense levels are now in line with the "Rose Garden" agreement reached with Senate Republicans last spring. They are, however, at the top end of the range of defense levels being debated in Congress. For FY1985, the budget estimate now includes the provisions of the recently enacted Deficit Reduction Act, and assumes further specific deficit reduction measures proposed by the administration in February, which amount to about \$7 billion.

The administration's projected budget deficits for the FY1986 through FY1989 period continue to show a down trend with the FY1989 figure at \$139 billion. The out-year deficits assume declines in short-term interest rates to 8 percent by the end of 1986 and to 5 percent by the end of the period. These longer-run budget projections reflect the assumption of annual growth rates of real GNP of about 4 percent and inflation rates trending down to 3-1/2 percent, little changed from previous assumptions.

In addition, some further reductions in outlays below the current services baseline are assumed; these require new legislation beyond the enacted portion of the down payment plan.

The current services estimates in the Mid-session Review fluctuate in a narrow range around \$175 billion between 1985 and 1988. In 1989 the current service deficit declines to \$162 billion. These administration figures contrast sharply with the baseline estimates released by the Congressional Budget Office on August 6. The CBO baseline deficit estimate for FY1989 is \$263 billion, about \$100 billion more than the administration's figure.

More than half of the divergence between the Administration and CBO out-year deficit estimates reflect differences in interest rate assumptions. In contrast to the falling rates incorporated in the administration estimates, CBO assumes that short-term interest rates will decline to 8.9 percent by 1986 and remain at that level over the remainder of the period. Other factors contributing to the differences are the higher level of economic activity but lower inflation rate assumed by the administration and technical differences in estimating current service outlay and receipts levels.

ADMINISTRATION MID-SESSION REVIEW BUDGET ESTIMATES  
(Billions of dollars, unified basis)

	Fiscal years					
	1984	1985	1986	1987	1988	1989
<u>Outlays</u>						
Current services	845	930	1000	1083	1162	1220
Proposed changes	0	1	-3	-6	-8	-11
Budget outlays	845	931	997	1077	1153	1209
<u>Receipts</u>						
Current services	671	758	826	897	986	1059
Proposed increases	0	6	6	6	8	11
Budget receipts	671	764	832	904	994	1070
<u>Deficit</u>						
Current services	174	172	174	185	176	162
Total changes	0	-7	-9	-12	-16	-22
Budget deficit	174	167	166	173	160	139
Memoranda:						
<u>Percent of GNP</u>						
Budget outlays	23.5	23.6	23.2	23.1	22.9	22.3
Budget receipts	18.7	19.4	19.4	19.4	19.7	19.7
Budget deficit	4.8	4.2	3.9	3.7	3.2	2.6
Current services deficit	4.8	4.4	4.1	4.0	3.5	3.0
<u>CBO baseline deficit</u> <sup>1</sup>	172	178	195	216	238	263

Note: Details may not add to totals due to rounding.

1. The Economic and Budget Outlook: An Update, August 1984.

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SUPPLEMENTAL NOTES

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## THE DOMESTIC FINANCIAL ECONOMY

New Debt Financing Techniques

The Treasury has established regulations pertaining to bearer bonds and registered securities targeted to foreign investors, as required by the Tax Reform Act of 1984. The new guidelines, along with provisions for some new debt financing techniques, were released on August 16.

As previously announced, the Treasury itself will not issue bearer bonds. To take advantage of the repeal of the withholding tax on interest payments to foreign holders of domestic bonds, however, the Treasury, in conjunction with its regularly scheduled auctions of marketable coupons, will offer additional amounts of certain issues in a special registered form targeted to foreign purchasers. Tentative plans call for issuance of such securities in conjunction with the four-year note issue likely to settle in early October. To qualify for exemption from withholding, distributors of the securities must certify that beneficial owners are neither citizens nor residents of the U.S. Certification will be required on initial purchase and in connection with each interest payment. The present wording of the certification procedure preserves a degree of anonymity for foreign holders.

U.S. government sponsored agencies will be permitted to issue specially registered securities, but not bearer bonds, sometime after the first Treasury issue. Private corporate issuers, however, will be permitted to issue debt obligations in bearer form targeted to foreign purchasers, provided the requirements of the certification process are met and provided the securities are not guaranteed by the U.S. These new guidelines are not retroactive.

Treasury officials also announced two changes in debt management policy. The next 20-year bond, scheduled as part of the Treasury's end-of-quarter financing package, will have 5 years of call protection. Previous 20-year bonds had complete call protection. Treasury officials will monitor the market's reaction to the new securities before deciding whether to continue the call feature.

Another innovation relates to the market for zero-coupon securities. The Treasury plans to make the interest payments on certain of its securities available for separate trading on the book-entry system after the conventional sale of the securities. The Treasury feels this should help make the market for such securities more efficient by facilitating trading in the securities.

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

August 17, 1984

	1983		1984				Growth from Q4 1983 to July 1984
	Q3	Q4	Q1	Q2	June	July**	
----- Percentage change at annual rates -----							
1. M1	9.5	4.8	7.2	6.2	11.3	-1.5	6.4
2. M2	6.9	8.5	6.9	6.8	7.0	4.9	6.8
3. M3	7.4	9.8	8.9	10.3	9.1	8.8	9.7
Levels in billions of dollars July 1984							
<b>Selected components</b>							
4. Currency	9.1	9.7	8.7	7.2	10.2	6.2	155.0
5. Demand deposits	4.0	-0.5	1.2	3.6	14.7	-5.8	247.1
6. Other checkable deposits	21.2	9.6	15.9	9.9	7.0	-3.5	138.2
7. M2 minus M1 <sup>2</sup>	6.1	9.7	6.9	7.0	5.6	7.0	1735.5
8. Overnight RPs and Eurodollars, NSA <sup>3</sup>	-8.1	23.4	19.3	-8.2	-60.8	-6.4	55.9
9. General purpose and broker/dealer money market mutual fund shares, NSA	-13.1	-1.2	9.8	15.5	18.8	12.9	150.4
10. Commercial banks	12.2	12.4	5.4	6.7	9.2	7.1	743.1
11. Savings deposits, SA, plus MMDAs, NSA <sup>4</sup>	11.0	5.9	6.5	4.9	1.6	-5.8	371.2
12. Small time deposits	13.7	19.3	4.4	8.6	17.3	20.3	371.9
13. Thrift institutions	7.3	7.3	6.4	6.2	7.5	9.4	794.7
14. Savings deposits, SA, plus MMDAs, NSA <sup>4</sup>	1.0	-7.0	-0.9	2.6	-8.4	-15.5	321.0
15. Small time deposits	12.3	18.8	11.8	8.9	18.9	26.9	473.7
16. M3 minus M2 <sup>5</sup>	9.8	15.8	17.5	25.0	17.9	24.4	577.1
17. Large time deposits	11.9	15.7	24.8	31.5	37.5	32.6	389.4
18. At commercial banks, net <sup>6</sup>	-4.6	-0.4	10.0	24.2	29.0	26.9	255.3
19. At thrift institutions	63.5	58.1	59.0	46.4	54.3	43.6	134.1
20. Institution-only money market mutual fund shares, NSA	-17.8	16.6	10.9	6.8	8.6	8.5	42.6
21. Term RPs, NSA	15.2	50.0	18.4	41.8	-40.9	-6.1	59.2
22. Term Eurodollars, NSA	-1.3	-4.4	5.3	2.2	-56.3	-10.7	88.6
-- Average monthly change in billions of dollars --							

**MEMORANDA:**

23. Managed liabilities at commercial banks (24+25)	-2.6	5.3	4.6	6.9	-1.6	3.8	421.8
24. Large time deposits, gross	-2.0	0.1	2.0	7.8	9.8	3.1	315.8
25. Nondeposit funds	-0.6	5.2	2.6	-0.9	-11.4	0.6	105.9
26. Net due to related foreign institutions, NSA	1.3	3.2	1.9	0.9	-5.6	-0.3	-34.4
27. Other <sup>7</sup>	-2.0	2.1	0.6	-1.8	-5.8	0.9	140.3
28. U.S. government deposits at commercial banks <sup>8</sup>	1.0	-1.2	1.2	-1.3	0.7	-1.2	11.7

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 declined during June and July at rates of 1.9 and 6.6 percent respectively. At thrift institutions, savings deposits excluding MMDAs decreased in June and July at rates of 0.7 and 8.8 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), 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)<sup>1</sup>

	1983	1984 <sup>2</sup>			Levels in		
	Q4	Q1	Q2	May	June	July <sup>P</sup>	bil. of dollars July <sup>P</sup>
----- Commercial Bank Credit -----							
1. Total loans and securities at banks <sup>3</sup>	12.4	14.5	7.6	14.9	1.8	9.3	1670.4
2. Securities	10.8	4.4	-7.9	2.2	-15.6	1.1	431.9
3. Treasury securities	25.1	-1.9	-8.1	10.3	-26.9	7.9	184.5
4. Other securities	0.6	9.2	-7.6	-3.8	-7.2	-3.9	247.4
5. Total loans <sup>3</sup>	12.9	18.3	13.1	19.3	8.0	11.9	1238.5
6. Business loans <sup>3</sup>	10.1	18.8	16.6	27.7	12.9	12.5	459.0
7. Security loans	60.8	0.0	-32.2	26.8	-104.7	0.0	25.1
8. Real estate loans	10.3	14.5	14.5	14.0	15.9	11.7	362.8
9. Consumer loans	22.1	22.3	21.4	22.4	20.5	20.2	247.9
----- Short- and Intermediate-Term Business Credit -----							
10. Business loans net of bankers acceptances	10.3	18.1	16.8	27.5	14.0	11.5	448.9
11. Commercial paper issued by non-financial firms <sup>4</sup>	25.5	15.1	69.4	33.5	74.4	65.7	57.8
12. Sum of lines 10 & 11	12.0	17.7	21.9	27.9	20.4	17.2	506.7
13. Line 12 plus loans at foreign branches <sup>5</sup>	12.1	17.5	21.9	29.0	18.9	15.9	526.2
14. Total bankers acceptances outstanding <sup>6</sup>	18.9	-22.2	45.4	61.2	16.4	n.a.	n.a.
15. Line 13 plus total bankers acceptances outstanding	13.1	12.1	24.9	33.3	18.4	n.a.	n.a.
16. Finance company loans to business <sup>6</sup>	29.0	28.8	8.4	7.2	10.7	n.a.	n.a.
17. Total short- and intermediate-term business credit (sum of lines 15 and 16)	15.3	14.4	22.5	29.4	17.5	n.a.	n.a.

p--preliminary

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. Growth rates beginning 1984 have been estimated after adjusting for major changes in reporting panels and definitions that caused breaks in series at the beginning of January. Data should be regarded as highly preliminary.

3. 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.

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.

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

	1981	1983	1984			Change from:	
	Cyclical peak	Cyclical low	FOMC May 22	FOMC July 17	Aug. 16	FOMC May 22	FOMC July 17
<u>Short-term rates</u>							
Federal funds <sup>2</sup>	20.06	8.42	9.75	11.21	11.63	1.88	.42
Treasury bills							
3-month	17.01	7.55	10.04	10.18	10.26	.22	.08
6-month	15.93	7.62	10.50	10.62	10.50	--	-.12
1-year	15.21	7.73	10.70	10.96	10.61	-.09	-.35
Commercial paper							
1-month	18.63	8.00	10.16	11.04	11.19	1.03	.15
3-month	18.29	7.97	10.52	11.18	11.18	.66	--
Large negotiable CDs <sup>3</sup>							
1-month	18.90	8.08	10.47	11.28	11.34	.87	.06
3-month	19.01	8.12	11.10	11.58	11.50	.40	-.08
6-month	18.50	8.20	11.80	12.13	11.71	-.09	-.42
Eurodollar deposits <sup>2</sup>							
1-month	19.80	8.68	10.73	11.51	11.60	.87	.09
3-month	19.56	8.71	11.58	12.01	11.79	.21	-.22
Bank prime rate	21.50	10.50	12.50	13.00	13.00	.50	--
Treasury bill futures							
Sept 1984 contract	--	8.71	11.29	10.71	10.11	-1.18	-.60
Dec. 1985 contract	--	10.86	12.68	12.57	11.49	-1.19	-1.08
<u>Intermediate- and long-term rates</u>							
U.S. Treasury (constant maturity)							
3-year	16.59	9.33	12.86	13.12	12.46	-.40	-.66
10-year	15.84	10.12	13.52	13.37	12.70	-.82	-.67
30-year	15.21	10.27	13.53	13.18	12.51	-1.02	-.67
Municipal revenue (Bond Buyer index)	14.24	9.21	10.82 <sup>4</sup>	10.88 <sup>4</sup>	10.47	-.35	-.41
Corporate--A utility Recently offered	18.33*	11.64	14.90 <sup>e</sup>	14.85 <sup>e</sup>	14.16 <sup>5</sup>	-.74	-.69
Home mortgage rates							
S&L fixed-rate	18.63	12.55	14.04 <sup>5</sup>	14.68 <sup>5</sup>	14.54 <sup>5</sup>	.50	-.14
FNMA ARM, 1-yr.	N.A.	10.49	13.00 <sup>5</sup>	13.60 <sup>5</sup>	13.25 <sup>5</sup>	.25	-.35
	1982	1983	1984			Percent change from:	
	Lows	Highs	FOMC May 22	FOMC July 17	Aug. 16	FOMC May 22	FOMC July 17
<u>Stock prices</u>							
Dow-Jones Industrial	776.92	1287.20	1116.62	1112.90	1209.14	8.3	8.6
NYSE Composite	58.80	99.63	88.43	87.76	94.23	6.6	7.4
AMEX Composite	118.65	249.03	202.68	193.64	207.29	2.3	7.0
NASDAQ (OTC)	159.14	328.91	240.80	233.50	250.33	4.0	7.2

1. One-day quotes except as noted.

2. Averages for statement week closest to date shown.

3. Secondary market.

\*September average.

4. One-day quotes for preceding Thursday.

5. One-day quotes for preceding Friday.

e--estimated.