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CLASS III - FOMC

November 2, 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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THE DOMESTIC NONFINANCIAL ECONOMY

Employment situation

Employment growth advanced strongly in October while the civilian unemployment rate remained unchanged. The October increase in payroll employment of 440,000 was accompanied by an upward revision in last month's employment advance from 139,000 to 231,000. The household survey also showed a substantial employment increase of 332,000 last month.

The growth of payroll employment was most pronounced in the service and retail industries. But manufacturing also recovered somewhat after a one-month decline in September. The increase in retail trade employment of 138,000 follows average monthly gains of about 30,000 in the third quarter. Services employment grew by 128,000, about twice the average gain in the preceding three months. In manufacturing, employment growth among producers of durable goods (58,000) was about evenly distributed across industries, after September declines in employment in metals, machinery and equipment. At the same time, hiring remained weak in the nondurable goods sector. The average workweek in manufacturing returned to its July-August level of 40.5 hours.

The unemployment rate for October remained unchanged at 7.4 percent; but the composition of unemployment shifted somewhat. A rise in the number of workers reporting that they had lost their last job was offset by a decline in unemployment among reentrants to the work force. Jobless rates for most demographic groups were about the same as their third-quarter averages.

The hourly earnings index, was unchanged in October, after a 0.7 percent increase in September. Those industries reporting large increases in September--services, transportation, and trade--showed small declines or no change in October. Overall, this measure of wage rates has been increasing at an annual rate of about 2.8 percent during 1984.

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

	1983	1984					
		Q1	Q2	Q3	Aug.	Sept.	Oct.
-Average monthly changes-							
Nonfarm payroll employment <sup>2</sup>	282	344	359	206	173	231	441
Strike adjusted	282	339	366	199	235	157	448
Manufacturing	92	108	54	-6	29	-114	56
Durable	70	82	46	13	56	-68	58
Nondurable	22	25	8	-19	-27	-46	-2
Construction	22	22	64	10	0	18	14
Trade	69	88	85	59	28	85	165
Finance and services	96	105	122	66	50	127	156
Total government	3	1	7	55	29	103	27
Private nonfarm production workers	249	259	307	112	122	84	337
Manufacturing production workers	84	81	35	-14	17	-108	55
Total employment <sup>3</sup>	330	400	536	-170	-426	270	347
Nonagricultural	336	425	495	-140	-306	179	549

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					
		Q1	Q2	Q3	Aug	Sept.	Oct.
Civilian, 16 years and older	9.6	7.9	7.5	7.5	7.5	7.4	7.4
Teenagers	22.4	19.5	18.7	18.7	18.4	19.3	18.8
20-24 years old	14.4	11.9	11.5	11.5	11.9	11.4	11.1
Men, 25 years and older	7.8	6.1	5.7	5.6	5.5	5.5	5.5
Women, 25 years and older	7.2	6.1	5.9	6.1	6.3	5.9	6.1
White	8.4	6.8	6.4	6.4	6.4	6.4	6.4
Black	19.5	16.5	15.9	16.0	16.0	15.1	15.4
Fulltime workers	9.5	7.6	7.2	7.2	7.2	7.1	7.1
Memo:							
Total national <sup>1</sup>	9.5	7.8	7.4	7.4	7.4	7.3	7.3

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		
		Q1	Q2	Q3	Aug.	Sept.	Oct.
		—Annual rate—			—Monthly rate—		
Total private nonfarm	3.9	3.5	3.2	2.7	-.2	.7	.0
Manufacturing	2.7	3.8	3.0	3.1	.3	.0	.3
Durable	2.1	3.8	2.7	2.8	.3	.0	.2
Nondurable	3.9	3.6	3.5	3.7	.2	.1	.4
Contract construction	1.5	2.3	1.9	- .7	.0	.2	-.3
Transportation and public utilities	4.3	3.7	3.1	2.6	-.4	.6	.0
Total trade	4.7	2.7	2.5	2.1	-.3	.7	-.1
Services	4.9	3.3	4.9	4.2	-.4	1.4	-.2

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.

SUPPLEMENTAL NOTES

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## THE DOMESTIC FINANCIAL ECONOMY

Monetary Aggregates

Data for the monetary aggregates have been revised to incorporate new information on the level and composition of deposits received in conjunction with annual shifts among weekly, quarterly, and annual reporting panels of depository institutions and with regular quarterly reports. The bulk of revisions affects data for the third quarter of 1984, although minor revisions to other checkable deposits extend back to January 1981. In addition, institution-only money market mutual fund shares have been revised back to November 1980 to reflect new data.

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

	1983	1984					Growth from Q4 1983 to Sept. 1984
	Q4	Q1	Q2	Q3	Aug.	Sept.	
----- Percentage change at annual rates -----							
1. M1	4.8	7.2	6.2	4.5	2.0	4.8	5.8
2. M2	8.5	6.9	6.9	6.2	4.8	8.1	6.8
3. M3	9.9	8.9	10.3	8.2	4.9	7.9	9.1
							Levels in billions of dollars Sept. 1984
<u>Selected components</u>							
4. Currency	9.7	8.7	7.2	7.6	7.7	5.4	156.7
5. Demand deposits	-0.5	1.2	3.4	0.2	-7.8	4.4	246.4
6. Other checkable deposits	9.6	16.2	9.9	9.1	13.0	6.9	140.8
7. M2 minus M1 <sup>2</sup>	9.7	6.8	7.1	6.8	5.7	9.1	1757.5
8. Overnight RPs and Eurodollars, NSA <sup>3</sup>	23.4	19.3	-7.5	-2.1	42.4	-34.8	56.9
9. General purpose and broker/dealer money market mutual fund shares, NSA	-1.2	9.8	15.5	10.6	0.0	11.2	151.9
10. Commercial banks	12.4	5.4	6.7	7.3	6.0	8.4	752.0
11. Savings deposits, SA, plus MMDAs, NSA <sup>4</sup>	5.9	6.5	4.9	-3.4	-7.8	2.6	369.7
12. Small time deposits	19.3	4.4	8.6	18.4	19.7	14.0	382.3
13. Thrift institutions	7.3	6.4	6.2	7.9	6.9	9.8	805.4
14. Savings deposits, SA, plus MMDAs, NSA <sup>4</sup>	-7.0	-0.9	2.6	-13.2	-23.6	-8.4	312.5
15. Small time deposits	18.8	11.8	8.9	22.8	27.6	21.3	492.8
16. M3 minus M2 <sup>5</sup>	15.9	17.5	24.7	16.1	5.4	7.2	584.6
Large time deposits	15.7	25.0	31.6	26.3	9.3	2.8	392.9
At commercial banks, net <sup>6</sup>	-0.4	10.2	24.3	21.6	2.4	11.7	257.8
At thrift institutions	58.1	59.0	46.4	35.7	22.4	-14.0	135.1
20. Institution-only money market mutual fund shares, NSA	17.4	11.1	8.1	9.7	2.6	18.2	46.9
21. Term RPs, NSA	50.0	18.4	41.8	15.3	76.5	24.6	64.7
22. Term Eurodollars, NSA	-4.4	4.9	-0.4	-29.7	-29.1	-18.5	83.2

-- Average monthly change in billions of dollars --

MEMORANDA:

23. Managed liabilities at commercial banks (24+25)	5.3	4.6	7.0	2.5	1.3	2.5	425.5
24. Large time deposits, gross	0.1	2.0	7.9	0.0	-2.4	-0.7	312.7
25. Nondeposit funds	5.2	2.6	-0.9	2.5	3.7	3.2	112.8
26. Net due to related foreign institutions, NSA	3.2	1.9	0.9	-0.4	-1.6	0.8	-35.2
27. Other <sup>7</sup>	2.1	0.6	-1.8	2.9	5.3	2.4	148.0
28. U.S. government deposits at commercial banks <sup>8</sup>	-1.2	1.2	-1.3	1.2	1.0	3.8	16.5

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 August and September at rates of 10.4 and 3.8 percent respectively. At thrift institutions, savings deposits excluding MMDAs decreased in August and September at rates of 15.7 and 2.8 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 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>

	1984 <sup>2</sup>						Levels in bil. of dollars Sept.
	Q1	Q2	Q3	July	Aug.	Sept. <sup>7</sup>	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks <sup>3</sup>	13.9	7.2	8.0	8.7	8.2	6.9	1688.5
2. Securities	4.4	-9.2	4.4	1.7	10.6	0.8	434.6
3. Treasury securities	-2.3	-11.1	4.4	7.3	13.1	-7.1	183.7
4. Other securities	9.5	-7.9	4.5	-2.4	9.2	6.7	250.9
5. Total loans <sup>3</sup>	17.5	13.1	9.2	11.0	7.4	9.0	1253.9
6. Business loans <sup>3</sup>	18.9	17.1	7.4	10.2	9.1	2.8	463.3
7. Security loans	-4.4	-38.5	19.7	9.8	-112.2	177.6	25.6
8. Real estate loans	14.5	14.5	11.4	11.4	11.6	10.8	369.5
9. Consumer loans	21.5	21.6	14.8	21.1	14.0	8.6	253.0
----- Short- and Intermediate-Term Business Credit -----							
10. Business loans net of bankers acceptances	18.2	17.3	7.7	9.1	9.6	4.4	453.9
11. Commercial paper issued by non-financial firms <sup>4</sup>	22.8	67.1	43.8	55.4	39.2	32.3	64.9
12. Sum of lines 10 & 11	18.7	22.5	11.7	14.1	13.3	7.7	518.8
. Line 12 plus loans at foreign branches <sup>5</sup>	18.4	22.6	11.4	13.4	14.3	6.3	538.8
14. Total bankers acceptances outstanding <sup>6</sup>	-22.2	45.4	-11.8	2.9	-11.8	-26.7	79.1
15. Line 13 plus total bankers acceptances outstanding	12.9	25.4	8.4	12.0	10.9	2.1	617.9
16. Finance company loans to business <sup>6</sup>	28.8	8.4	n.a.	10.6	14.0	n.a.	n.a.
17. Total short- and intermediate-term business credit (sum of lines 15 and 16)	15.1	22.9	n.a.	11.8	11.3	n.a.	n.a.

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.

7. Beginning in September, growth rates for total loans and investments, total loans, business loans, and real estate loans have been adjusted to eliminate effects of loan reclassifications and of loan transfers from Continental Illinois National Bank to the FDIC.

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

	1983	1984	1984			Change from:	
	Cyclical low	Highs	FOMC Aug. 21	FOMC Oct. 2	Nov. 1	1984 Highs	FOMC Oct. 2
<b>Short-term rates</b>							
Federal funds <sup>2</sup>	8.42	11.63	11.63	10.60	9.84	-1.79	-.76
Treasury bills							
3-month	7.55	10.67	10.42	10.23	9.01	-1.66	-1.22
6-month	7.62	10.77	10.59	10.36	9.20	-1.57	-1.16
1-year	7.73	11.13	10.68	10.39	9.33	-1.80	-1.06
Commercial paper							
1-month	8.00	11.42	11.30	10.77	9.51	-1.91	-1.26
3-month	7.97	11.35	11.24	10.73	9.52	-1.83	-1.21
Large negotiable CDs <sup>3</sup>							
1-month	8.08	11.52	11.42	10.86	9.47	-2.05	-1.39
3-month	8.12	11.79	11.56	11.01	9.53	-2.26	-1.48
6-month	8.20	12.30	11.76	11.25	9.84	-2.46	-1.41
Eurodollar deposits <sup>4</sup>							
1-month	8.68	11.89	11.66	11.09	9.74	-2.15	-1.35
3-month	8.71	12.20	11.81	11.41	10.11	-2.09	-1.30
Bank prime rate	10.50	13.00	13.00	12.75	12.00	-1.00	-.75
Treasury bill futures							
Dec. 1984 contract	8.89	11.96	10.59	10.25	9.00	-2.96	-1.25
Dec. 1985 contract	10.86	13.20	11.56	11.43	10.51	-2.69	-.92
<b>Intermediate- and long-term rates</b>							
U.S. Treasury (constant maturity)							
3-year	9.33	13.49	12.44	12.29	11.18	-2.31	-1.11
10-year	10.12	13.99	12.62	12.54	11.66	-2.33	-.88
30-year	10.27	13.94	12.35	12.35	11.53	-2.41	-.82
Municipal revenue (Bond Buyer index)	9.21	11.44	10.47 <sup>5</sup>	10.65 <sup>5</sup>	10.62	-.82	-.03
Corporate--A utility Recently offered	11.64	15.30	14.10 <sup>e</sup>	13.90 <sup>e</sup>	13.12 <sup>e</sup>	-2.18	-.78
Home mortgage rates							
S&L fixed-rate	12.55	14.68	14.39 <sup>6</sup>	14.26 <sup>6</sup>	14.05 <sup>6</sup>	-.63	-.21
FNMA ARM, 1-yr.	10.49	13.70	13.25 <sup>6</sup>	12.90 <sup>6</sup>	12.20 <sup>6</sup>	-1.50	-.70
	1982	1983	1984			Percent change from:	
	Lows	Highs	FOMC Aug. 21	FOMC Oct. 2	Nov. 1	FOMC Aug. 21	FOMC Oct. 2
<b>Stock prices</b>							
Dow-Jones Industrial	776.92	1287.20	1239.73	1191.36	1217.09	-1.9	2.1
NYSE Composite	58.80	99.63	96.30	94.38	96.48	.1	2.2
AMEX Composite	118.65	249.03	209.78	212.77	208.64	-.6	-2.0
NASDAQ (OTC)	159.14	328.91	253.33	246.10	247.97	-2.2	.7

1. One-day quotes except as noted.

2. Averages for two-week reserve maintenance period closest to date shown. Last observation is for maintenance period ended October 24.

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.

U.S. Merchandise Trade

In September, the U.S. merchandise trade deficit was larger than in August but less than the record July level. For the third quarter as a whole, the trade deficit was more than \$30 billion larger, at an annual rate, than in either the first or second quarters.

Imports in the third quarter increased sharply from the second-quarter level. Despite sharp month-to-month volatility, the rate of imports in all three months exceeded that recorded in the second quarter. The increase for the third quarter as a whole was spread among a wide range of commodity categories, particularly industrial supplies and machinery. Among individual items, strong increases were recorded for steel, chemicals, electronic equipment and parts, clothing and textiles, and passenger car imports from Canada and Japan.

Oil imports declined slightly in the third quarter. The volume imported decreased steadily during the period; a rate of about 5.3 million barrels per day (mbd) in September brought the quarterly average to about 5.7 mbd. The price of imported oil dropped to about \$27.30 per barrel in September and reflected weak spot prices during the summer; the average for the third quarter was about \$27.80 per barrel. From the

## OIL IMPORTS

	1983		1984				
	Year	Q4	Q1	Q2	Q3*	Aug.	Sept.*
Volume (mbd, SA)	5.20	5.53	5.40	5.76	5.65	5.59	5.35
Price (\$/BBL)	28.42	28.30	28.05	28.26	27.80	27.77	27.30
Value (Bil. \$, SAAR)	53.80	57.14	55.41	59.61	57.70	56.78	53.40

\*/ Estimated.

summer until early October spot prices strengthened as OPEC reduced its level of crude oil production. Recent cuts in prices by Norway, the United Kingdom and Nigeria reflect a weakness in the price of light crude oil relative to heavy crude oil. The value of exports in the third quarter was slightly higher than in the second quarter. The increase was largely in manufactured goods (especially computers and parts, industrial supplies, and parts and vehicles to Canada). By area, a sharp decline in nonagricultural exports to Canada (in items other than automotive products) was offset by small increases in exports to Western Europe, Japan, Mexico, and other Latin American countries. The value of agricultural exports in the third quarter was maintained at about the second-quarter rate because a sharp increase in wheat shipments (largely to the Soviet Union) offset declines in other commodities (particularly soybeans and corn).

November 2, 1984

U.S. Merchandise Trade 1/  
(billions of dollars, seasonally adjusted annual rates)

	<u>Exports</u>			<u>Imports</u>			<u>Trade Balance</u>
	<u>Total</u>	<u>Agric.</u>	<u>Nonagric.</u>	<u>Total</u>	<u>Oil</u>	<u>Nonoil</u>	
<u>Years</u>							
1980	224.3	42.2	182.1	249.8	79.4	170.4	-25.5
1981	237.1	44.0	193.1	265.1	77.8	187.3	-28.0
1982	211.2	37.2	174.0	247.7	61.3	186.4	-36.5
1983	200.3	36.6	163.6	261.3	53.8	207.5	-61.1
<u>Quarters</u>							
1982 - 1	221.9	40.1	181.9	250.2	63.3	186.9	-28.3
2	220.5	41.7	178.8	243.7	53.3	190.3	-23.2
3	208.3	33.6	174.7	257.8	67.2	190.6	-49.5
4	194.1	33.5	160.5	239.0	61.2	177.8	-45.0
1983 - 1	197.0	35.3	161.7	234.1	43.1	191.0	-37.1
2	195.0	34.8	160.2	254.5	51.3	203.2	-59.5
3	201.7	37.2	164.5	271.8	63.7	208.1	-70.0
4	207.3	39.2	168.1	284.9	57.1	227.8	-77.6
1984 - 1	215.7	41.2	174.5	319.2	55.4	263.8	-103.4
2	218.4	37.1	181.3	321.3	59.6	261.7	-102.9
3 <u>e/</u>	220	36	184	356	58	298	-136
<u>Months</u>							
1984 - Jan	217.0	41.8	175.1	323.5	54.1	269.3	-106.5
Feb	214.8	39.3	175.5	304.9	53.4	251.6	-90.1
Mar	215.4	42.5	173.0	329.1	58.7	270.4	-113.6
Apr	215.5	38.4	177.1	344.6	64.4	280.2	-129.1
May	222.8	39.3	183.6	312.4	54.2	258.3	-89.6
June	216.8	33.6	183.2	307.0	60.3	246.7	-90.2
July <u>e/</u>	221	36	185	390	63	326	-169
Aug <u>e/</u>	224	34	190	328	57	271	-104
Sept <u>e/</u>	214	37	177	350	53	297	-136

1/ As used in the Balance-of-Payments accounts and in the GNP accounts. Monthly data are estimated.