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August 16, 1985

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

THE DOMESTIC NONFINANCIAL ECONOMY

Capacity utilization

Capacity utilization in manufacturing, mining, and utilities remained unchanged at 80.8 percent in July for the fourth consecutive month. The indexes for both manufacturing and mining have been virtually flat in recent months, while the index for utilities has declined. Capacity utilization among materials producers also was unchanged in July.

Housing construction

Total private housing starts fell 2 percent in July to a 1.65 million unit annual rate, owing to an 8 percent decline in multifamily starts. This component of the total tends to show large month-to-month variation. In the single-family sector, starts edged up 1 percent to 1.05 million units (SAAR). Single-family construction has not yet shown any clear response to the declines in mortgage interest rates during the spring and early summer. Issuance of building permits for residential construction edged down 1 percent in July.

Revised CBO projections

"The Economic and Budget Outlook: An Update" was released by the Congressional Budget Office (CBO) on August 15. The report updates the CBO's economic assumptions and presents budget projections, based on the new assumptions, under baseline (FY1985) policies and under policies adopted by Congress in the first FY1986 budget resolution. Economic assumptions are summarized at the top of the table. The most significant differences between the current and previous (February) CBO economic assumptions are:

about 1 percent slower real GNP growth for 1985 and about 1 percent lower Treasury bill rates over the entire projection period.

The updated CBO baseline budget projection is shown in the middle panel of the table. It assumes that entitlements and revenues will increase in line with the formulas and tax rates specified in current law. Nondefense discretionary program estimates assume that the real level of spending provided in 1985 appropriations bills will be maintained in the future. And defense spending projections are based on the policy in the FY1985 congressional budget resolution, adopted in September 1984. The baseline deficit estimates are a bit below CBO's February estimates primarily because of the lower interest rates assumed for this projection.

The CBO projection of the deficit outlook under policy adopted by Congress on August 1 in the first budget resolution for FY1986 is presented in the lower panel. These estimates assume that FY1986 appropriations

CAPACITY UTILIZATION IN INDUSTRY
(Percent of capacity, seasonally adjusted)

	1978-80	1982	1967-84	1984	1985		
	High	Low	Avg.	High	May	June	July
Total industry	86.9	69.5	81.7	82.0	80.8	80.8	80.8
Manufacturing	86.5	68.0	80.7	81.8	80.4	80.4	80.4
Durable	86.3	63.7	78.8	80.4	78.5	78.4	78.4
Nondurable	87.0	74.4	83.5	84.4	83.3	83.4	83.5
Mining	95.2	76.9	88.0	86.4	82.4	82.5	82.6
Utilities	88.5	78.0	88.1	85.6	84.7	83.9	83.0
Industrial materials	89.1	68.4	82.7	83.1	80.2	80.3	80.3
Metal materials	93.6	45.7	78.9	70.6	66.4	69.1	70.0
Paper materials	97.3	79.9	91.3	97.2	89.6	89.9	n.a.
Chemical materials	87.9	63.3	80.9	79.1	79.2	78.8	n.a.

Note: All rates calculated from the recently revised (1977=100) output and capacity indexes.

PRIVATE HOUSING CONSTRUCTION
(Thousands of units, SAAR)

	1985					Percent change in July from	
	Q1	Q2 ¹	May ¹	June ¹	July ²	Previous Month	Year Earlier
Starts	1795	1769	1681	1694	1654	-2.4	-4.4
1-family	1121	1076	1039	1034	1045	1.1	4.9
2- or more-family	674	693	642	660	609	-7.7	-17.0
Permits issued	1667	1731	1778	1712	1696	-.9	6.6
1-family	941	947	933	961	969	.8	12.2
2- or more-family	726	784	845	751	727	-3.2	0
Mobile home shipments	277	281	287	270	n.a.	n.a.	n.a.

1. Revised.

2. Preliminary.

n.a. Not available.

CONGRESSIONAL BUDGET OFFICE ECONOMIC ASSUMPTIONS
(Calendar year, percent)

	1985	1986	1987	1988	1989	1990
Nominal GNP (yr/yr)	6.6	8.0	7.9	7.9	7.8	7.9
Real GNP (yr/yr)	2.6	3.6	3.4	3.5	3.5	3.5
CPI-U (yr/yr)	3.7	4.5	4.4	4.2	4.2	4.2
Civilian unemployment rate (CY ave.)	7.2	7.0	6.8	6.6	6.5	6.3
Three-month Treasury bill rate (CY ave.)	7.6	7.4	7.2	7.2	7.2	7.2

CONGRESSIONAL BUDGET OFFICE BASELINE BUDGET ESTIMATES¹
(Fiscal years, billions of dollars)

	1985	1986	1987	1988	1989	1990
Revenues	737	787	853	931	1002	1083
Outlays	946	1000	1082	1174	1266	1368
Deficit	210	212	229	243	264	285

1. Estimates are shown on a total budget basis, which includes the outlays of off-budget entities.

CONGRESSIONAL BUDGET OFFICE BUDGET ESTIMATES WITH POLICIES OF THE
FY1986 BUDGET RESOLUTION¹
(Fiscal years, billions of dollars)

	1985	1986	1987	1988	1989 ²	1990 ²
Revenues	737	790	858	939	1013	1094
Outlays	946	965	1021	1082	1145	1214
Deficit	210	175	163	143	132	120
Memo: Budget Resolution deficit	210	172	155	113	n.a.	n.a.

1. Estimates are shown on a total budget basis, which includes the outlays of off-budget entities.

2. CBO extrapolations.

MONETARY AGGREGATES

August 16, 1985

(Based on seasonally adjusted data unless otherwise noted)¹

	1983:Q4	1985					Growth from Q4 1984 to July 1985P
	to 1984:Q4	Q1	Q2	May	June	JulyP	
----- Percentage change at annual rates -----							
1. M1	5.2	10.6	10.2	13.8	19.8	9.1	11.4(13.5) ²
2. M2	7.7	12.0	5.3	8.6	13.7	8.6	9.2
3. M3	10.4	10.7	5.2	7.7	10.7	4.2	7.8
							Levels in billions of dollars July 1985P
<u>Selected components</u>							
4. Currency	7.2	6.3	6.7	10.4	10.3	7.3	165.5
5. Demand deposits	1.1	7.0	8.6	15.7	23.0	0.9	260.9
6. Other checkable deposits	10.5	21.1	16.1	15.5	22.9	24.7	163.6
7. M2 minus M1 ³	8.6	12.5	3.7	6.9	11.9	8.4	1894.5
8. Overnight RPs and Eurodollars, NSA ⁴	7.3	64.7	-29.9	93.4	-20.7	-11.5	62.0
9. General purpose and broker/dealer money market mutual fund shares, NSA	17.0	32.7	-0.7	-27.2	22.3	1.4	175.6
10. Commercial banks	8.1	13.6	9.3	8.4	16.8	6.7	824.6
11. Savings deposits, SA, plus MMDAs, NSA ⁵	5.2	29.2	11.8	9.2	30.1	19.3	436.1
12. Small time deposits	11.1	-1.8	6.6	7.4	2.5	-7.4	388.4
13. Thrift institutions	7.3	7.9	6.6	8.7	7.2	4.0	844.3
14. Savings deposits, SA, plus MMDAs, NSA ⁵	-3.6	17.8	10.5	6.5	12.6	20.6	343.8
15. Small time deposits	15.5	1.7	4.0	10.4	3.3	-6.9	500.6
16. M3 minus M2 ⁶	22.1	5.5	4.9	4.4	-1.0	-13.1	623.8
17. Large time deposits	26.0	9.1	6.3	2.5	-11.5	-11.0	420.3
18. At commercial banks, net ⁷	16.0	2.6	8.4	-4.0	-19.0	-7.6	266.1
19. At thrift institutions	48.8	21.0	2.6	13.2	2.3	-16.9	154.2
20. Institution-only money market mutual fund shares, NSA	33.6	31.2	7.7	78.5	68.0	-41.1	64.8
21. Term RPs, NSA	45.6	-19.5	16.8	-51.7	-29.7	-39.3	64.9
22. Term Eurodollars, NSA	-8.3	2.4	-11.7	4.5	-34.1	-33.6	76.4
-- Average monthly change in billions of dollars --							
<u>MEMORANDA:</u>							
23. Managed liabilities at commercial banks (24+25)	4.7	4.1	-2.5	5.2	-3.6	-7.6	431.6
24. Large time deposits, gross	3.2	1.4	-1.0	-1.5	-4.3	-3.5	323.3
25. Nondeposit funds	1.5	2.7	-1.5	6.7	0.7	-4.1	108.3
26. Net due to related foreign institutions, NSA	0.9	0.5	-1.3	3.4	-4.0	-4.3	-38.6
27. Other ⁸	0.5	2.2	-0.2	3.2	4.7	0.2	146.9
28. U.S. government deposits at commercial banks ⁹	0.2	-1.4	1.9	8.0	-5.2	7.5	24.9

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. Figure in parentheses calculated from Q2 1985 base.

3. Nontransactions M2 is seasonally adjusted as a whole.

4. 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.

5. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs increased during June and July 1985 at rates of 14.9 percent and 12.8 percent respectively. At thrift institutions, savings deposits excluding MMDAs increased during June and July 1985 at rates of 9.2 percent and 18.3 percent respectively.

6. The non-M2 component of M3 is seasonally adjusted as a whole.

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

8. 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, loan RPs and other minor items). Data are partially estimated.

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

p—preliminary.

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

	1984	1985					Levels in
	Q4	Q1	Q2	May	June	July	bil. of dollars July
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	9.8	10.3	9.1	13.3	9.3	9.5	1813.4
2. Securities	0.2	5.5	5.4	20.3	9.1	15.8	416.5
3. U.S. government securities	3.4	10.3	-0.4	22.1	3.2	19.8	271.0
4. Other securities	-5.6	-3.4	16.7	17.1	20.3	8.3	145.5
5. Total loans	12.8	11.7	10.3	11.2	9.3	7.7	1396.9
6. Business loans	7.8	10.2	2.7	6.0	0.7	1.7	484.3
7. Security loans	37.5	16.5	87.8	82.1	80.0	6.0	40.2
8. Real estate loans	12.1	10.9	12.0	12.0	11.0	11.8	401.3
9. Consumer loans	16.1	17.4	14.7	14.5	12.5	11.9	274.2
----- Short- and Intermediate-Term Business Credit -----							
10. Business loans net of bankers acceptances	7.9	9.3	3.7	6.5	0.8	0.2	480.5
11. Loans at foreign branches ²	26.0	-46.9	19.1	26.1	57.4	-12.2	19.5
12. Sum of lines 10 & 11	8.7	6.8	4.3	7.5	2.6	-0.2	500.0
13. Commercial paper issued by nonfinancial firms ³	51.2	-6.0	33.8	43.4	14.0	1.5	78.3
14. Sums of lines 12 & 13	13.7	5.1	8.0	12.2	4.2	0.2	578.4
15. Bankers acceptances: U.S. trade related ^{4,5}	-6.5	-5.5	-7.8	3.4	3.4	n.a.	35.4 (June)
16. Line 14 plus bankers acceptances: U.S. trade related	12.4	4.4	7.0	11.7	3.9	n.a.	613.6 (June)
17. Finance company loans to business ⁴	23.2	20.8	n.a.	10.2	n.a.	n.a.	142.2 (May)
18. Total short- and intermediate- term business credit (sum of lines 16 & 17)	14.4	7.3	n.a.	11.4	n.a.	n.a.	753.8 (May)

n.a.—not available.

p—preliminary

1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.

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

3. Average of Wednesdays.

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

5. Includes acceptances financing U.S. imports, U.S. exports and domestic shipment and storage of goods.

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1982/1983	1984	1985				Change from:	
	Cyclical low	Highs	March highs	June lows	FOMC July	Aug. 15	1984 highs	FOMC July
<u>Short-term rates</u>								
Federal funds ²	8.46	11.63	8.58	7.38	7.92	7.90	-3.73	-.02
Treasury bills ³								
3-month	7.08	10.67	8.80	6.66	6.94	7.19	-3.48	.25
6-month	7.62	10.77	9.13	6.81	7.04	7.36	-3.41	.32
1-year	7.73	11.13	9.25	6.98	7.14	7.52	-3.61	.38
Commercial paper								
1-month	8.00	11.42	8.94	6.95	7.43	7.78	-3.64	.35
3-month	7.97	11.35	9.12	7.01	7.39	7.72	-3.63	.33
Large negotiable CDs ³								
1-month	8.08	11.52	8.89	7.09	7.46	7.80	-3.72	.34
3-month	8.12	11.79	9.29	7.18	7.47	7.81	-3.98	.34
6-month	8.20	12.30	9.92	7.30	7.55	7.93	-4.37	.38
Eurodollar deposits ⁴								
1-month	8.68	11.89	8.89	7.45	7.66	7.88	-4.01	.22
3-month	8.71	12.20	9.58	7.50	7.74	8.06	-4.14	.32
Bank prime rate	10.50	13.00	10.50	9.50	9.50	9.50	-3.50	--
Treasury bill futures								
Sept. 1985 contract			9.99	6.77	6.93	7.15	--	.22
Dec. 1985 contract			10.30	7.12	7.24	7.47	--	.23
<u>Intermediate- and long-term rates</u>								
U.S. Treasury (constant maturity)								
3-year	9.33	13.49	11.22	8.73	8.89	9.28	-4.21	.39
10-year	10.12	13.99	12.02	9.83	10.07	10.36	-3.63	.29
30-year	10.27	13.94	11.97	10.23	10.33	10.64	-3.30	.31
Municipal revenue (Bond Buyer index)	9.21	11.44	10.25	9.10	9.25	9.47	-1.97	.22
Corporate--A utility Recently offered	11.64	15.30	13.23	11.50	11.40e	11.79e	-3.51	.39
Home mortgage rates								
S&L fixed-rate	12.55	14.68	13.29	12.05	12.13	12.23 ⁶	-2.45	.10
S&L ARM, 1-yr.	n.a.	12.31	11.14	9.83	9.72	9.57 ⁶	-2.74	-.15
	1983	1984	1985		Percent change from:			
	Highs	Lows	Highs	FOMC July	Aug. 15	1984 lows	FOMC July	
<u>Stock prices</u>								
Dow-Jones Industrial	1287.20	1086.57	1359.54	1332.89	1317.76	21.3	-1.1	
NYSE Composite	99.63	85.13	113.49	111.60	108.59	27.6	-2.7	
AMEX Composite	249.03	187.16	237.49	232.59	232.86	24.4	0.1	
NASDAQ (OTC)	328.91	225.30	307.77	298.51	297.61	32.1	-0.3	

1. One-day quotes except as noted.

2. Averages for two-week reserve maintenance period closest to date shown. Last observation is for the maintenance period ending August 14, 1985.

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