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September 27, 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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THE DOMESTIC FINANCIAL ECONOMY

Security Issuance by the Farm Credit Banks

Wednesday afternoon the Farm Credit Banks priced \$1,366 million of 6-month securities at a yield of 8.30 percent, 83 basis points above the coupon-equivalent rate on 6-month Treasury bills. Security dealers were expecting a rate of 8.25 percent (representing a spread of 75 to 80 basis points over Treasury securities), but the Farm Credit System increased the rate slightly to ensure that the sale went smoothly. In secondary market trading on Thursday, the yield spread narrowed to 72 basis points; financial markets in New York were closed on Friday because of Hurricane Gloria. The issuance of this security represented a net paydown of \$641 million. A 9-month security also was scheduled to be sold, but this issue was cancelled because the 37 Farm Credit Banks expressed little interest in raising funds with this maturity.

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

September 27, 1985

	1983:Q4 to 1984:Q4		1985			Growth from Q4 1984 to Aug. 1985	
	Q1	Q2	June	July	Aug.		
	----- Percentage change at annual rates -----						
1. M1	5.2	10.6	10.2	19.8	9.3	20.5	12.6 (16.1) ²
2. M2	7.7	12.0	5.3	13.8	8.7	11.2	9.5
3. M3	10.4	10.7	5.2	10.5	4.3	8.6	7.9
							Levels in billions of dollars Aug. 1985
<u>Selected components</u>							
4. Currency	7.2	6.3	6.7	10.3	6.6	12.3	167.1
5. Demand deposits	1.1	7.0	8.6	23.0	0.9	14.3	264.0
6. Other checkable deposits	10.5	21.1	16.1	22.9	24.7	38.9	168.9
7. M2 minus M1 ³	8.6	12.5	3.7	11.9	8.5	8.2	1907.8
8. Overnight RPs and Eurodollars, NSA	7.3	64.7	-29.9	-18.8	-1.9	67.1	66.1
9. General purpose and broker/dealer money market mutual fund shares, NSA	17.0	32.7	-0.7	22.3	2.7	6.1	176.7
10. Commercial banks	8.1	13.6	9.3	16.8	6.7	2.2	826.1
11. Savings deposits, SA, plus MMDAs, NSA ⁴	5.2	29.2	11.8	30.1	19.6	15.7	441.9
12. Small time deposits	11.1	-1.8	6.5	2.2	-7.1	-13.3	384.1
13. Thrift institutions	7.3	7.9	6.5	7.0	3.6	1.0	844.6
14. Savings deposits, SA, plus MMDAs, NSA ⁴	-3.6	17.8	10.5	12.6	20.6	22.3	350.2
15. Small time deposits	15.5	1.7	4.0	3.3	-7.9	-13.9	494.4
16. M3 minus M2 ⁵	22.1	5.5	4.8	-1.9	-13.3	-1.5	622.2
17. Large time deposits	26.0	9.0	6.4	-11.2	-12.2	3.7	421.7
18. At commercial banks, net ⁶	16.0	2.6	8.3	-19.4	-9.0	8.1	267.5
19. At thrift institutions	48.8	21.0	2.6	2.3	-16.9	-3.9	153.7
20. Institution-only money market mutual fund shares, NSA	33.6	31.2	7.7	68.0	-41.1	-35.2	62.9
21. Term RPs, NSA	45.6	-19.5	16.2	-33.1	-35.9	29.6	66.5
22. Term Eurodollars, NSA	-8.3	2.4	-12.1	-37.1	-32.2	-11.0	75.5

-- Average monthly change in billions of dollars --

MEMORANDA:

23. Managed liabilities at commercial banks (24+25)	4.7	4.1	-2.5	-3.9	-7.6	6.1	437.8
24. Large time deposits, gross	3.2	1.4	-1.0	-4.4	-3.6	1.8	325.0
25. Nondeposit funds	1.5	2.8	-1.5	0.5	-4.0	4.3	112.8
26. Net due to related foreign institutions, NSA	0.9	0.6	-1.3	-4.2	-4.3	7.2	-31.3
27. Other ⁷	0.5	2.2	-0.2	4.7	0.2	-2.8	144.1
28. U.S. government deposits at commercial banks ⁸	0.2	-1.4	1.9	-5.2	7.5	-8.2	16.7

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. Figure in parentheses calculated from Q2 1985 base.

3. Nontransactions M2 is seasonally adjusted as a whole.

4. 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 July and August 1985 at rates of 12.8 percent and 9.7 percent respectively. At thrift institutions, savings deposits excluding MMDAs increased during July and August 1985 at rates of 18.3 percent and 22.9 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, loan RPs and other minor items). Data are partially estimated.

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

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

September 27, 1985

	1984	1985			Levels in		
	Q4	Q1	Q2	June	July	Aug.	bil. of dollars Aug. P
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	9.8	10.3	9.1	9.3	10.1	7.0	1824.9
2. Securities	0.2	5.5	7.3	9.1	15.8	7.5	419.1
3. U.S. government securities	3.4	10.3	-0.4	3.2	19.8	-0.4	270.9
4. Other securities	-5.6	-3.4	16.7	20.3	8.3	22.3	148.2
5. Total loans	12.8	11.7	10.3	9.3	8.5	6.9	1405.8
6. Business loans	7.8	10.6	2.6	3.6	1.2	3.2	485.7
7. Security loans	37.5	16.5	87.8	80.0	9.0	-107.2	36.7
8. Real estate loans	12.1	10.9	12.0	11.0	12.1	11.7	405.3
9. Consumer loans	16.1	17.4	14.7	12.5	15.0	10.9	277.4
----- Short- and Intermediate-Term Business Credit -----							
10. Business loans net of bankers acceptances	7.9	9.5	3.7	0.5	-0.2	3.5	482.0
11. Loans at foreign branches ²	26.0	-46.9	23.3	63.8	-12.1	-49.0	18.8
12. Sum of lines 10 & 11	8.7	7.2	4.3	2.9	-0.5	1.2	500.8
13. Commercial paper issued by nonfinancial firms ³	51.2	-6.0	33.8	14.0	0.0	43.0	81.0
14. Sums of lines 12 & 13	13.7	5.4	8.0	4.0	-0.2	6.8	581.8
15. Bankers acceptances: U.S. trade related ^{4,5}	-6.5	-5.5	-12.2	-10.2	-27.4	-7.0	34.0
16. Line 14 plus bankers acceptances: U.S. trade related	12.4	4.6	6.9	3.3	-2.0	6.1	615.8
17. Finance company loans to business ⁴	23.2	21.4	8.0	5.1	3.4	n.a.	143.2 (July)
18. Total short- and intermediate-term business credit (sum of lines 16 & 17)	14.4	7.7	7.0	3.7	-0.8	n.a.	755.9 (July)

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. Consists of acceptances that finance 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 Aug.	Sept. 26	1984 highs	FOMC Aug.
<u>Short-term rates</u>								
Federal funds ²	8.46	11.63	8.58	7.38	7.92	7.91	-3.72	-.01
Treasury bills ³								
3-month	7.08	10.67	8.80	6.66	7.12	6.94	-3.73	-.18
6-month	7.62	10.77	9.13	6.81	7.29	6.93	-3.84	-.36
1-year	7.73	11.13	9.25	6.98	7.43	7.33	-3.80	-.10
Commercial paper								
1-month	8.00	11.42	8.94	6.95	7.70	7.66	-3.76	-.04
3-month	7.97	11.35	9.12	7.01	7.70	7.65	-3.70	-.05
Large negotiable CDs ³								
1-month	8.08	11.52	8.89	7.09	7.78	7.75	-3.77	-.03
3-month	8.12	11.79	9.29	7.18	7.82	7.78	-4.01	-.04
6-month	8.20	12.30	9.92	7.30	7.94	7.86	-4.44	-.08
Eurodollar deposits ⁴								
1-month	8.68	11.89	8.89	7.45	7.89	7.96	-3.93	.07
3-month	8.71	12.20	9.58	7.50	7.99	8.09	-4.11	.10
Bank prime rate	10.50	13.00	10.50	9.50	9.50	9.50	-3.50	--
Treasury bill futures								
Dec. 1985 contract			10.30	7.12	7.30	7.01	--	-.29
Mar. 1986 contract			10.58	7.47	7.64	7.36	--	-.28
<u>Intermediate- and long-term rates</u>								
U.S. Treasury (constant maturity)								
3-year	9.33	13.49	11.22	8.73	9.20	9.12	-4.37	-.08
10-year	10.12	13.99	12.02	9.83	10.20	10.22	-3.77	.02
30-year	10.27	13.94	11.97	10.23	10.48	10.50	-3.44	.02
Municipal revenue (Bond Buyer index)	9.21	11.44	10.25	9.10	9.47 ⁵	9.69 ⁵	-1.75	.22
Corporate--A utility Recently offered	11.64	15.30	13.23	11.50	11.73 ^e	11.90 ^e	-3.40	.17
Home mortgage rates								
S&L fixed-rate	12.55	14.68	13.29	12.05	12.24 ⁶	12.21 ⁶	-2.47	-.03
S&L ARM, 1-yr.	n.a.	12.31	11.14	9.83	9.47 ⁶	9.51 ⁶	-2.80	.04
	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Percent change from:</u>				
				FOMC			1984	FOMC
	Highs	Lows	Highs	Aug.	Sept. 26		lows	Aug.
<u>Stock prices</u>								
Dow-Jones Industrial	1287.20	1086.57	1359.54	1323.70	1320.79	21.5	-0.3	
NYSE Composite	99.63	85.13	113.49	108.92	104.82	23.1	-3.8	
AMEX Composite	249.03	187.16	237.49	231.84	221.89	18.5	-4.3	
NASDAQ (OTC)	328.91	225.30	307.77	296.36	280.20	24.3	-5.5	

1. One-day quotes except as noted.

2. Averages for two-week reserve maintenance period closest to date shown. Last observation is the average-to-date for the maintenance period ending September 25, 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

SUPPLEMENTAL NOTES

INTERNATIONAL DEVELOPMENTS

In August, the U.S. merchandise trade deficit was slightly smaller than that recorded in July. Exports were about unchanged and imports declined somewhat. For the July-August period on average, the deficit was substantially smaller than in the second quarter, with most of the change coming in imports. The drop in imports occurred in all major commodity categories. The volume of oil imports averaged 4.9 million barrels per day in July-August compared with 5.4 mbd in the second quarter; the average price of imported oil fell about \$1.00 per barrel over the same period. Other large declines occurred in industrial supplies and in consumer goods.

In today's press release, the Commerce Department included a separate set of data revised for all months of 1984 and 1985. The carry-over of documents received too late for inclusion in the appropriate statistical month has become very large; and it varies in size from month-to-month. In August, this carry-over amounted to 47 percent of the recorded data for imports and 11 percent for exports. The revised data recompiles the trade figures to reflect the actual month of entry for imports and month of shipment for exports. The net effect of these changes is shown in column 4 in the table that follows. These adjustments suggest that at some point there will be a significant revision in the quarterly pattern of net trade in the GNP accounts and in the international transactions accounts.

September 27, 1985

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

	Census Basis 1/--CIF Value					BOP and GNP Bases 4/	
	Exports (1)	Imports 2/ (2)	Balance 2/ (3)	Net Revision 3/ (4)	Adj. Balance (5)=(3+4)	Balance (6)	
Years:							
1981	233.7	273.4	-39.7	n.a.	n.a.	-28.0	
1982	212.2	254.9	-42.7	n.a.	n.a.	-36.5	
1983	200.5	269.9	-69.4	n.a.	n.a.	-61.1	
1984	217.9	341.2	-123.3	-4.3	-127.6	-108.3	
Quarters:							
1983 - 1	200.9	244.6	-43.6	n.a.	n.a.	-38.5	
2	194.8	260.3	-65.5	n.a.	n.a.	-59.0	
3	201.3	280.3	-79.0	n.a.	n.a.	-68.9	
4	205.6	294.7	-89.2	n.a.	n.a.	-81.6	
1984 - 1	212.0	332.6	-120.6	+4.8	-115.8	-102.3	
- 2	212.8	332.5	-119.7	-12.8	-132.5	-102.6	
- 3	221.9	363.6	-141.7	+13.4	-128.3	-130.0	
- 4	223.8	335.4	-111.6	-22.8	-134.4	-98.2	
1985 - 1	222.8	353.9	-131.1	+7.6	-123.5	-118.1	
2	210.5	362.2	-151.7	+11.2	-140.5	-132.0	
J-A	209.0	331.5	-122.5	n.a.	n.a.		
1984	July	229.8	395.1	-165.3	+29.0	-136.3	-165.9
	Aug.	217.5	338.6	-121.1	-5.4	-126.5	-102.4
	Sept.	218.5	357.0	-138.5	+16.7	-121.8	-121.7
	Oct.	220.9	336.8	-115.9	-35.4	-151.3	-104.0
	Nov.	220.7	343.4	-122.7	-16.0	-138.7	-111.0
	Dec.	229.7	326.1	-96.4	-16.9	-113.3	-79.7
1985	Jan.	232.8	356.2	-123.4	+8.7	-114.7	-131.8
	Feb.	214.2	351.6	-137.4	+18.3	-119.1	-98.3
	Mar.	221.4	353.9	-132.5	-4.3	-136.8	-124.7
	Apr.	213.3	355.5	-142.2	-2.1	-144.3	-120.3
	May	209.0	361.0	-152.0	-1.5	-153.5	-132.7
	June	209.3	370.2	-161.0	+37.0	-124.0	-143.1
	July	208.9	335.0	-126.1	-24.0	-150.1	-117.1
	Aug.	209.1	327.9	-118.8	n.a.	n.a.	n.a.

1/ Published monthly by the Census Bureau.

2/ CIF value includes insurance and freight charges for imports only.

3/ This is the net value of the carry-over of documents received too late for inclusion in the appropriate month. These data are not seasonally adjusted.

4/ Data as defined and used in the Balance of Payments Account and in the GNP Account -- does not include insurance and freight charges for imports. In addition, different seasonal factors are used than in Census basis data.