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CONFIDENTIAL (FR)
CLASS III - FOMC

November 1, 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

Employment and Unemployment

Nonfarm payroll employment rose 415,000 in October, substantially above the average monthly increase of 225,000 posted so far this year. The service industry led the October gain, with strong advances in business and health services. Job increases were also sizable in trade establishments and state and local government. The number of workers on manufacturing payrolls rose 60,000, with most industries reporting small gains. However, the BLS cautions that the rise in seasonally adjusted factory employment may be exaggerated; employment in most industries was already at relatively low levels in September, and the usual October cutbacks were smaller than in previous years. The factory workweek remained at its high level of 40.7 hours, while factory overtime rose slightly.

Wage rates, as measured by the hourly earnings index, edged up 0.1 percent in October. The October increase represents no change in the index for service-producing industries and a moderate 0.2 percent increase in manufacturing wages. Over the past twelve months, this measure of wage inflation has risen 3.2 percent for both the private nonfarm economy and manufacturing.

Value of New Construction Put in Place

The total value of new construction put in place increased 1.9 percent in September, according to preliminary estimates. With no change in the construction cost index, constant (1977) dollar activity also rose 1.9 percent. Residential building advanced 1.8 percent in September, attributable

mainly to multifamily residences and, to a lesser extent, "other" residential outlays—chiefly additions and alterations, and hotels and motels; single-family activity was virtually unchanged. Nonresidential construction activity rose 3.0 percent in September, following a 1.1 percent increase a month earlier. All major components of building in this sector posted strong gains in September.

THE DOMESTIC FINANCIAL ECONOMY

September S&L Balance Sheet

Growth of assets at FSLIC-insured institutions slowed somewhat in September, to 10 percent, from the 18 percent pace in the previous month. September's growth rate, however, is still noticeably above the slow pace of the first half of the year. Mortgage asset acquisition continued to be brisk, rising \$7.6 billion. The September increase in mortgage assets reflected both additional holdings of mortgage loans and the largest one-month increase in holdings of mortgage-backed securities since 1982. New and outstanding mortgage commitments declined slightly in September, although both remain at relatively high levels.

In contrast to the strength in mortgage asset acquisition, non-mortgage consumer lending slowed in September, and holdings of cash and investment securities fell \$2.3 billion. Institutions apparently chose to draw down cash and securities rather than rely entirely on managed liabilities to supplement weak total deposit growth. Other borrowings increased \$937 million, and FHLB advances rose \$700 million; both increases were markedly less than the gains recorded in August.

New Issue of Farm Credit Securities

The Farm Credit Banks priced \$1,250 million of 6-month securities on Wednesday afternoon, October 30, at a spread of about 85 basis points over 6-month Treasury bills (coupon equivalent basis). This issue represents a net paydown of about \$450 million. Market participants were expecting a spread of about 100 basis points, but the issue benefitted from a news report that Treasury Secretary Baker and Agricultural Secretary Block reached an agreement on the form of financial assistance that should be made available to The Farm Credit System. On Thursday, the spread widened to about 100 basis points when a statement released by the administration gave no assistance that federal funds would be provided. The interest rate spread appears to have stabilized at about 100 basis points.

CHANGES IN EMPLOYMENT¹
(Thousands of employees; based on seasonally adjusted data)

| | 1983 | 1984 | 1985 | | | 1985 | | |
|---|------|------|------|------|-----|------|-------|------|
| | | | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. |
| -Average monthly changes- | | | | | | | | |
| Nonfarm payroll employment ² | 293 | 327 | 273 | 188 | 214 | 270 | 138 | 414 |
| Strike adjusted | 293 | 329 | 267 | 182 | 220 | 303 | 133 | 410 |
| Manufacturing | 79 | 52 | -26 | -43 | -42 | 11 | -90 | 60 |
| Durable | 61 | 45 | -17 | -30 | -39 | 10 | -75 | 38 |
| Nondurable | 18 | 7 | -9 | -12 | -3 | 1 | -15 | 22 |
| Construction | 25 | 29 | 28 | 28 | 28 | 28 | 35 | 32 |
| Trade | 85 | 106 | 91 | 77 | 49 | 79 | 34 | 109 |
| Finance and services | 103 | 106 | 150 | 94 | 120 | 174 | 90 | 166 |
| Total government | 4 | 17 | 20 | 23 | 56 | 2 | 37 | 53 |
| Private nonfarm production workers | 260 | 253 | 182 | 130 | 136 | 241 | 64 | 324 |
| Manufacturing production workers | 73 | 33 | -33 | -47 | -31 | 8 | -68 | 64 |
| Total employment ³ | 331 | 270 | 282 | -250 | 391 | 310 | 372 | 323 |
| Nonagricultural | 338 | 266 | 290 | -175 | 445 | 343 | 488 | 273 |

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 | 1985 | | | 1985 | | |
|------------------------------|------|------|------|------|------|------|-------|------|
| | | | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. |
| Civilian, 16 years and older | 9.6 | 7.5 | 7.3 | 7.3 | 7.2 | 7.0 | 7.1 | 7.1 |
| Teenagers | 22.4 | 18.9 | 18.5 | 18.3 | 18.2 | 17.3 | 17.8 | 20.1 |
| 20-24 years old | 14.5 | 11.4 | 11.1 | 11.3 | 11.0 | 10.7 | 11.0 | 10.9 |
| Men, 25 years and older | 7.8 | 5.7 | 5.4 | 5.4 | 5.3 | 5.2 | 5.3 | 5.3 |
| Women, 25 years and older | 7.2 | 6.0 | 6.0 | 6.1 | 6.0 | 5.9 | 6.0 | 5.6 |
| White | 8.4 | 6.5 | 6.3 | 6.3 | 6.2 | 6.2 | 6.1 | 6.1 |
| Black | 19.5 | 15.9 | 15.5 | 15.0 | 14.8 | 14.0 | 15.3 | 15.0 |
| Fulltime workers | 9.5 | 7.2 | 7.0 | 6.8 | 6.8 | 6.7 | 6.8 | 6.7 |
| Memo: | | | | | | | | |
| Total national ¹ | 9.5 | 7.4 | 7.2 | 7.2 | 7.0 | 6.9 | 7.0 | 7.0 |

1. Includes resident Armed Forces as employed.

HOURLY EARNINGS INDEX¹
 (Percentage change; based on seasonally adjusted data)²

| | 1983 | 1984 | 1985 | | | 1985 | | |
|--|---------------|------|------|----------------|------|------|-------|------|
| | | | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. |
| | —Annual rate— | | | —Monthly rate— | | | | |
| Total private nonfarm | 4.0 | 3.1 | 3.5 | 3.2 | 1.9 | .2 | .5 | .1 |
| Manufacturing | 2.8 | 3.3 | 5.2 | 3.5 | 1.9 | .1 | -.1 | .2 |
| Durable | 2.2 | 3.1 | 5.9 | 3.4 | 2.3 | .2 | -.1 | .1 |
| Nondurable | 3.9 | 3.7 | 4.0 | 3.8 | 1.4 | .1 | -.1 | .3 |
| Contract construction | 2.0 | 1.3 | 5.2 | -.1 | -1.3 | .2 | .3 | .1 |
| Transportation and public utilities | 4.3 | 2.9 | 2.7 | 2.9 | 2.0 | .1 | .5 | .1 |
| Finance, Insurance, and Real Estate | 5.9 | 3.6 | 5.4 | 2.5 | 2.7 | .4 | 1.4 | -.1 |
| Total trade | 4.8 | 2.6 | 1.8 | 2.1 | 1.2 | -.1 | .9 | .0 |
| Services | 4.8 | 4.0 | 2.1 | 5.7 | 3.7 | .4 | 1.0 | .0 |

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.

NEW CONSTRUCTION PUT IN PLACE

| | Billions of dollars, seasonally adjusted annual rates | | | | | Percent change from prior month | |
|-----------------------------|--|-------|--------|--------|--------|------------------------------------|--------|
| | 1985 | | | | | 1985 | |
| | QII | QIIIp | July r | Aug. r | Sept.p | Aug. r | Sept.p |
| <u>Current dollars</u> | | | | | | | |
| Total | 341.9 | 346.4 | 344.8 | 343.9 | 350.4 | -.3 | 1.9 |
| Private | 279.1 | 282.2 | 280.3 | 279.8 | 286.4 | -.2 | 2.4 |
| Residential ¹ | 145.3 | 148.8 | 149.2 | 147.3 | 149.9 | -1.3 | 1.8 |
| Single family | 83.6 | 84.0 | 83.6 | 84.2 | 84.1 | .8 | -.1 |
| Multifamily | 28.7 | 30.1 | 29.5 | 29.6 | 31.3 | .2 | 6.0 |
| Nonresidential ¹ | 133.8 | 133.4 | 131.1 | 132.5 | 136.5 | 1.1 | 3.0 |
| Industrial | 16.3 | 15.6 | 15.4 | 15.2 | 16.1 | -1.5 | 5.7 |
| Office | 31.9 | 31.8 | 31.6 | 31.0 | 32.8 | -2.1 | 6.0 |
| Commercial | 28.0 | 28.5 | 26.5 | 28.9 | 30.2 | 9.3 | 4.2 |
| Public | 62.8 | 64.2 | 64.5 | 64.1 | 64.0 | -.7 | -.1 |
| State & local | 50.5 | 51.8 | 51.8 | 52.0 | 51.7 | .5 | -.5 |
| Federal | 12.3 | 12.4 | 12.8 | 12.0 | 12.3 | -5.6 | 1.9 |
| <u>1977 dollars</u> | | | | | | | |
| Total | 203.2 | 205.7 | 204.4 | 204.5 | 208.4 | .1 | 1.9 |
| Private | 165.4 | 167.2 | 165.7 | 166.0 | 169.8 | .2 | 2.3 |
| Public | 37.7 | 38.6 | 38.7 | 38.5 | 38.5 | -.4 | .1 |

1. Contains components not shown separately.

r--revised.

p--preliminary.

MORTGAGE ACTIVITY AT ALL FSLIC-INSURED INSTITUTIONS
(Millions of dollars, seasonally adjusted)

| | Mortgage Commitments | | Net Change in Mortgage Assets ¹ | | |
|-----------|----------------------|---------------------------------|--|--------------------------|--------------------------------------|
| | New (1) | Outstanding ² (2) | Total (3) | Mortgage Loans (4) | Mortgage-backed Securities (5) |
| 1982-High | 9,453 | 29,472 | 2,678 | 349 | 5,554 |
| Low | 4,344 | 22,111 | -900 | -4,804 | 1,800 |
| 1983-High | 17,254 | 60,186 | 8,832 | 6,741 | 3,492 |
| Low | 10,466 | 32,493 | 2,870 | 498 | -39 |
| 1984-Jan. | 18,249 | 63,242 | 6,815 | 5,495 | 1,320 |
| Feb. | 18,747 | 64,642 | 6,690 | 6,509 | 181 |
| Mar. | 18,240 | 67,021 | 10,535 | 6,555 | 3,980 |
| Apr. | 18,340 | 67,585 | 10,329 | 7,799 | 2,531 |
| May | 20,079 | 70,086 | 10,913 | 8,425 | 2,489 |
| June | 18,771 | 71,206 | 10,934 | 8,286 | 2,648 |
| July | 18,127 | 72,316 | 8,808 | 8,179 | 630 |
| Aug. | 16,595 | 71,426 | 9,030 | 6,551 | 2,479 |
| Sept. | 15,915 | 70,559 | 6,412 | 5,914 | 498 |
| Oct. | 16,901 | 69,193 | 5,467 | 5,170 | 297 |
| Nov. | 16,923 | 69,575 | 4,549 | 5,933 | -1,384 |
| Dec. | 17,487 | 69,779 | 3,396 | 2,765 | 631 |
| 1985-Jan. | 16,851 | 69,100 | 3,463 | 4,349 | -886 |
| Feb. | 16,072 | 68,494 | 3,171 | 2,522 | 649 |
| Mar. | 15,961 | 67,744 | 5,085 | 5,021 | 65 |
| Apr. | 16,519 | 66,105 | 4,099 | 4,907 | -808 |
| May | 16,830 | 65,520 | 1,716 | 2,943 | -1,227 |
| June | 16,258 | 66,124 | -2,221 | 2,733 | -4,954 |
| July r | 17,966 | 66,237 | 2,152 | 4,923 | -2,771 |
| Aug. r | 21,455 | 65,966 | 7,977 | 4,732 | 3,244 |
| Sept.p | 21,278 | 65,906 | 7,642 | 3,552 | 4,089 |

1. Net changes are adjusted to account for structural changes caused by mergers, acquisitions, liquidations, terminations, or de novo institutions.

2. Includes loans in process; entire series revised due to new seasonal adjustment procedures.

p--preliminary.

r--revised.

Note: Data in columns (4) and (5) are based on revised reporting procedures beginning in August 1985 and are not strictly comparable with earlier periods.

8
MONETARY AGGREGATES
(Based on seasonally adjusted data unless otherwise noted)¹

November 1, 1985

| | 1983:Q4 to | | | 1985 | | | Growth from Q4 1984 to Oct. 1985 ^{pe} |
|--|--|-------|-------|-------|-------|--------------------|--|
| | 1984:Q4 | Q2 | Q3 | Aug. | Sept. | Oct. ^{pe} | |
| | Percentage change at annual rates | | | | | | |
| 1. M1 | 5.2 | 10.2 | 15.0 | 20.3 | 11.5 | -1 | 11-1/2 (11-3/4) ² |
| 2. M2 | 7.7 | 5.3 | 10.2 | 11.1 | 7.1 | 2 | 8-3/4 |
| 3. M3 | 10.4 | 5.2 | 7.8 | 9.1 | 9.8 | 4 | 7-3/4 |
| | Levels in billions of dollars Sept. 1985 | | | | | | |
| Selected components | | | | | | | |
| 4. Currency | 7.2 | 6.7 | 9.1 | 12.3 | 5.7 | 8 | 167.9 |
| 5. Demand deposits | 1.1 | 8.6 | 11.9 | 14.3 | 12.7 | -13 | 266.8 |
| 6. Other checkable deposits | 10.5 | 16.1 | 25.9 | 38.1 | 16.4 | 10 | 171.1 |
| 7. M2 minus M1 ³ | 8.6 | 3.8 | 8.7 | 8.2 | 5.7 | 3 | 1916.7 |
| 8. Overnight RPs and Eurodollars, NSA | 7.3 | -28.7 | 19.3 | 69.1 | 9.1 | 5 | 66.6 |
| 9. General purpose and broker/dealer money market mutual fund shares, NSA | 17.0 | -0.7 | 3.9 | 6.1 | -2.0 | 2 | 176.4 |
| 10. Commercial banks | 8.1 | 9.3 | 7.8 | 2.0 | 3.8 | 4 | 828.6 |
| 11. Savings deposits, SA, plus MMDAs, NSA ⁴ | 5.2 | 11.8 | 19.2 | 16.0 | 10.6 | 11 | 445.8 |
| 12. Small time deposits | 11.1 | 6.5 | -4.4 | -13.3 | -4.1 | -3 | 382.8 |
| 13. Thrift institutions | 7.3 | 6.5 | 3.9 | 1.0 | -0.6 | 3 | 844.2 |
| 14. Savings deposits, SA, plus MMDAs, NSA ⁴ | -3.6 | 10.4 | 16.4 | 22.3 | 6.5 | 13 | 352.1 |
| 15. Small time deposits | 15.5 | 4.0 | -4.5 | -13.7 | -5.6 | -4 | 492.1 |
| 16. M3 minus M2 ⁵ | 22.1 | 4.8 | -1.6 | 0.8 | 20.8 | 10 | 634.8 |
| 17. Large time deposits | 26.0 | 6.4 | -3.3 | 3.7 | 19.7 | 14 | 428.1 |
| 18. At commercial banks, net ⁶ | 16.0 | 8.3 | -3.4 | 8.1 | 22.4 | 19 | 272.5 |
| 19. At thrift institutions | 48.8 | 2.6 | -2.8 | -3.9 | 14.8 | 5 | 155.6 |
| 20. Institution-only money market mutual fund shares, NSA | 33.6 | 7.7 | 1.3 | -25.8 | -24.5 | 17 | 62.3 |
| 21. Term RPs, NSA | 45.6 | 16.2 | -11.0 | 46.2 | 41.0 | -14 | 69.7 |
| 22. Term Eurodollars, NSA | -8.3 | -12.1 | -17.5 | -7.8 | 11.1 | -13 | 76.7 |

-- Average monthly change in billions of dollars --

MEMORANDA:

| | | | | | | | |
|--|-----|------|------|------|------|-----|-------|
| 23. Managed liabilities at commercial banks (24+25) | 4.7 | -2.4 | 2.3 | 6.1 | 8.5 | 1 | 446.4 |
| 24. Large time deposits, gross | 3.2 | -1.0 | 1.1 | 1.8 | 5.2 | 4 | 330.2 |
| 25. Nondeposit funds | 1.5 | -1.4 | 1.2 | 4.3 | 3.3 | -3 | 116.2 |
| 26. Net due to related foreign institutions, NSA | 0.9 | -1.3 | 1.3 | 7.2 | 1.0 | -1 | -30.2 |
| 27. Other ⁷ | 0.5 | -0.2 | -0.1 | -2.8 | 2.2 | -2 | 146.3 |
| 28. U.S. government deposits at commercial banks ⁸ | 0.2 | 1.9 | -0.7 | -8.2 | -1.4 | -11 | 15.3 |

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 September and October 1985 at rates of 3.9 percent and 7 percent respectively. At thrift institutions, savings deposits excluding MMDAs increased during September and October 1985 at rates of 6.1 percent and 16 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.

pe--preliminary estimate

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

| | 1985 | | | | | | Levels in bil. of dollars Oct.P |
|--|-------|-------|-------|--------|-------|-------|---------------------------------------|
| | Q1 | Q2 | Q3 | Aug. | Sept. | Oct. | |
| Commercial Bank Credit | | | | | | | |
| 1. Total loans and securities at banks | 10.2 | 9.1 | 8.6 | 6.9 | 8.6 | 3.0 | 1842.5 |
| 2. Securities | 5.6 | 5.3 | 12.1 | 7.5 | 12.6 | 0.8 | 423.8 |
| 3. U.S. government securities | 10.3 | -0.4 | 8.9 | -0.4 | 7.1 | -10.1 | 270.2 |
| 4. Other securities | -3.1 | 16.4 | 18.0 | 22.3 | 22.7 | 20.7 | 153.6 |
| 5. Total loans | 11.7 | 10.2 | 7.6 | 6.8 | 7.4 | 3.7 | 1418.7 |
| 6. Business loans | 10.1 | 2.6 | 2.9 | 3.2 | 4.2 | -3.0 | 486.2 |
| 7. Security loans | 17.8 | 87.8 | -19.0 | -107.2 | 45.8 | 0.0 | 38.1 |
| 8. Real estate loans | 10.9 | 12.0 | 11.0 | 11.7 | 8.9 | 13.5 | 412.9 |
| 9. Consumer loans | 17.4 | 14.7 | 11.5 | 10.9 | 8.2 | 3.4 | 280.1 |
| Short- and Intermediate-Term Business Credit | | | | | | | |
| 10. Business loans net of bankers acceptances | 9.2 | 3.7 | 2.8 | 3.5 | 5.2 | -3.2 | 482.8 |
| 11. Loans at foreign branches ² | -46.9 | 17.0 | -4.1 | -49.0 | 38.3 | -12.4 | 19.2 |
| 12. Sum of lines 10 & 11 | 6.8 | 4.1 | 2.6 | 1.4 | 6.5 | -3.8 | 501.9 |
| 13. Commercial paper issued by nonfinancial firms ³ | -6.0 | 33.8 | -1.5 | 43.0 | -45.9 | 58.5 | 81.7 |
| Sum of lines 12 & 13 | 5.0 | 8.0 | 2.0 | 6.6 | -0.6 | 4.7 | 583.7 |
| 15. Bankers acceptances: U.S. trade related ^{4,5} | -5.5 | -12.2 | -12.6 | -7.0 | -3.5 | n.a. | 33.9 (Sept) |
| 16. Line 14 plus bankers acceptances: U.S. trade related | 4.4 | 6.8 | 1.2 | 6.3 | -1.0 | n.a. | 615.3 (Sept) |
| 17. Finance company loans to business ⁴ | 21.4 | 8.0 | n.a. | 7.5 | n.a. | n.a. | 144.1 (Aug.) |
| 18. Total short- and intermediate- term business credit (sum of lines 16 & 17) | 7.5 | 7.0 | n.a. | 6.4 | n.a. | n.a. | 759.9 (Aug.) |

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.

10
SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

| | 1982/1983 | 1984 | 1985 | | | | Change from: | |
|--|-----------------|---------|----------------|--------------|----------------------|--------------------|---------------|--------------|
| | Cyclical low | Highs | March highs | June lows | FOMC Oct. | Oct. 31 | 1984 highs | FOMC Oct. |
| Short-term rates | | | | | | | | |
| Federal funds ² | 8.46 | 11.63 | 8.58 | 7.38 | 7.91 | 8.08 | -3.55 | .17 |
| Treasury bills ³ | | | | | | | | |
| 3-month | 7.08 | 10.67 | 8.80 | 6.66 | 7.03 | 7.19 | -3.48 | .16 |
| 6-month | 7.62 | 10.77 | 9.13 | 6.81 | 7.19 | 7.29 | -3.48 | .10 |
| 1-year | 7.73 | 11.13 | 9.25 | 6.98 | 7.39 | 7.37 | -3.76 | -.02 |
| Commercial paper | | | | | | | | |
| 1-month | 8.00 | 11.42 | 8.94 | 6.95 | 7.80 | 7.72 | -3.70 | -.08 |
| 3-month | 7.97 | 11.35 | 9.12 | 7.01 | 7.78 | 7.70 | -3.65 | -.08 |
| Large negotiable CDs ³ | | | | | | | | |
| 1-month | 8.08 | 11.52 | 8.89 | 7.09 | 7.84 | 7.73 | -3.79 | -.11 |
| 3-month | 8.12 | 11.79 | 9.29 | 7.18 | 7.87 | 7.75 | -4.04 | -.12 |
| 6-month | 8.20 | 12.30 | 9.92 | 7.30 | 7.97 | 7.76 | -4.54 | -.21 |
| Eurodollar deposits ⁴ | | | | | | | | |
| 1-month | 8.68 | 11.89 | 8.89 | 7.45 | 7.90 | 7.99 | -3.90 | .09 |
| 3-month | 8.71 | 12.20 | 9.58 | 7.50 | 8.01 | 8.09 | -4.11 | .08 |
| 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 | 7.06 | 7.00 | — | -.06 |
| Mar. 1986 contract | | | 10.58 | 7.47 | 8.41 | 8.16 | — | -.25 |
| Intermediate- and long-term rates | | | | | | | | |
| U.S. Treasury (constant maturity) | | | | | | | | |
| 3-year | 9.33 | 13.49 | 11.22 | 8.73 | 9.25 | 9.06 | -4.43 | -.19 |
| 10-year | 10.12 | 13.99 | 12.02 | 9.83 | 10.29 | 10.01 | -3.98 | -.28 |
| 30-year | 10.27 | 13.94 | 11.97 | 10.23 | 10.55 | 10.28 | -3.66 | -.27 |
| Municipal revenue (Bond Buyer index) | 9.21 | 11.44 | 10.25 | 9.10 | 9.74 ⁵ | 9.40 ⁵ | -2.04 | -.34 |
| Corporate—A utility Recently offered | 11.64 | 15.30 | 13.23 | 11.50 | 11.86 ^e | 11.55 ^e | -3.75 | -.31 |
| Home mortgage rates | | | | | | | | |
| S&L fixed-rate | 12.55 | 14.68 | 13.29 | 12.05 | 12.17 ⁶ | 12.07 | -2.61 | -.10 |
| S&L ARM, 1-yr. | n.a. | 12.31 | 11.14 | 9.83 | 9.49 ⁶ | 9.48 | -2.83 | -.01 |
| | 1983 | 1984 | 1985 | | Percent change from: | | | |
| | Highs | Lows | Highs | FOMC Oct. | Oct. 31 | 1984 lows | FOMC Oct. | |
| Stock prices | | | | | | | | |
| Dow-Jones Industrial | 1287.20 | 1086.57 | 1369.29 | 1340.95 | 1374.31 | 26.5 | 2.5 | |
| NYSE Composite | 99.63 | 85.13 | 113.49 | 106.77 | 109.65 | 28.8 | 2.7 | |
| AMEX Composite | 249.03 | 187.16 | 237.49 | 224.23 | 228.61 | 22.1 | 2.0 | |
| ASDAQ (OTC) | 328.91 | 225.30 | 307.77 | 281.77 | 292.54 | 29.8 | 3.8 | |

One-day quotes except as noted.

2. Averages for two-week reserve maintenance period closest to date shown. Last observation is the average for the maintenance period ending October 23, 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

INTERNATIONAL DEVELOPMENTS

U.S. merchandise trade

U.S. merchandise trade data released on October 31 showed a deficit for September of record proportions, demonstrating again the volatility of monthly export and import statistics. For the third quarter as a whole, the published deficit was substantially smaller than the September rate and less than the deficit reported for the second quarter. However, these data must be interpreted with an extra amount of caution.

Preliminary calculations of revisions anticipated in the monthly trade data suggest that the level of the deficit shown for July and August will be much larger than currently published figures imply. Revisions for September data will be available with the release of October trade figures on November 27. An estimate for the effect of the revisions is shown in column 5 of the table below. For July-August combined, the revised deficit is slightly larger than in the second quarter. A similar comparison is made for trade data on a balance-of-payments (BOP) and GNP basis (columns 6 and 7).

Exports in the third quarter were somewhat less than in the second quarter; this appears to be true whether published data or revised data are used. The current value of exports is somewhat lower than the level recorded a year ago despite a small increase in export prices and continued growth of economic activity abroad. An important factor in this weakness in exports is the continuing lagged effects of the dollar's sharp appreciation through early 1985.

Developments in imports are very difficult to assess. Published data (see the table below) indicate that imports in the third quarter were less than in the second quarter. However, preliminary

revised data for July and August suggest that imports may be substantially stronger than originally published and therefore the third quarter may well have increased a bit from the revised second-quarter level.

October 31, 1985

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

| | Census Basis 1/--CIF Value | | | | | BOP and GNP Bases 4/ | | |
|------------------|----------------------------|------------|------------|-----------------|--------------|----------------------|------------------|--------|
| | Exports | Imports 2/ | Balance 2/ | Net Revision 3/ | Adj. Balance | Balance | | |
| | (1) | (2) | (3) | (4) | (5)=(3+4) | Old (6) | Est. Rev. (7) | |
| Years: | | | | | | | | |
| 1981 | 233.7 | 273.4 | -39.7 | n.a. | n.a. | -28.0 | n.a. | |
| 1982 | 212.2 | 254.9 | -42.7 | n.a. | n.a. | -36.5 | n.a. | |
| 1983 | 200.5 | 269.9 | -69.4 | n.a. | n.a. | -61.1 | n.a. | |
| 1984 | 217.9 | 341.2 | -123.3 | -4.3 | -127.6 | -108.3 | -112.4 | |
| Quarters: | | | | | | | | |
| 1983 - 1 | 200.9 | 244.6 | -43.6 | n.a. | n.a. | -38.5 | n.a. | |
| 2 | 194.8 | 260.3 | -65.5 | n.a. | n.a. | -59.0 | n.a. | |
| 3 | 201.3 | 280.3 | -79.0 | n.a. | n.a. | -68.9 | n.a. | |
| 4 | 205.6 | 294.7 | -89.2 | n.a. | n.a. | -81.6 | n.a. | |
| 1984 - 1 | 212.0 | 332.6 | -120.6 | +4.8 | -115.8 | -102.3 | -97.9 | |
| - 2 | 212.8 | 332.5 | -119.7 | -12.8 | -132.5 | -102.6 | -114.6 | |
| - 3 | 221.9 | 363.6 | -141.7 | +13.4 | -128.3 | -103.0 | -117.2 | |
| - 4 | 223.8 | 335.4 | -111.6 | -22.8 | -134.4 | -98.2 | -119.7 | |
| 1985 - 1 | 222.8 | 353.9 | -131.1 | +7.6 | -123.5 | -118.1 | -111.1 | |
| 2 | 210.5 | 362.2 | -151.7 | +11.2 | -140.5 | -132.0 | -121.3 | |
| 3 | 210.3 | 354.1 | -143.8 | -23.7* | -146.2* | -110.0* | -132.4* | |
| 4 | July | 229.8 | 395.1 | -165.3 | +29.0 | -136.3 | -165.9 | -138.8 |
| | Aug. | 217.5 | 338.6 | -121.1 | -5.4 | -126.5 | -102.4 | -106.9 |
| | Sept. | 218.5 | 357.0 | -138.5 | +16.7 | -121.8 | -121.7 | -106.0 |
| | Oct. | 220.9 | 336.8 | -115.9 | -35.4 | -151.3 | -104.0 | -137.6 |
| | Nov. | 220.7 | 343.4 | -122.7 | -16.0 | -138.7 | -111.0 | -125.9 |
| | Dec. | 229.7 | 326.1 | -96.4 | -16.9 | -113.3 | -79.7 | -95.6 |
| 1985 | Jan. | 232.8 | 356.2 | -123.4 | +8.7 | -114.7 | -131.8 | -124.3 |
| | Feb. | 214.2 | 351.6 | -137.4 | +18.3 | -119.1 | -98.3 | -80.4 |
| | Mar. | 221.4 | 353.9 | -132.5 | -4.3 | -136.8 | -124.7 | -129.2 |
| | Apr. | 213.3 | 355.5 | -142.2 | -2.1 | -144.3 | -120.3 | -122.3 |
| | May | 209.0 | 361.0 | -152.0 | -1.5 | -153.5 | -132.7 | -133.8 |
| | June | 209.3 | 370.2 | -161.0 | +37.0 | -124.0 | -143.1 | -107.9 |
| | July | 208.9 | 335.0 | -126.1 | -24.0 | -150.1 | -115.5 | -138.3 |
| | Aug. | 209.1 | 327.9 | -118.8 | -23.5 | -142.3 | -104.0 | -126.4 |
| | Sept. | 212.8 | 399.4 | -186.6 | n.a. | 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 estimated 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.

*/ Average of July and August .