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March 28, 1986

SUPPLEMENT  
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

TABLE OF CONTENTS

THE DOMESTIC FINANCIAL ECONOMY

Mortgage Activity at FSLIC-Insured Institutions . . . . . 1

Tables

Mortgage activity at FSLIC-insured institution . . . . . 2  
Monetary aggregates . . . . . 3  
Commercial bank credit and short- and intermediate-  
term business credit . . . . . 4  
Selected financial market quotations . . . . . 5

INTERNATIONAL DEVELOPMENTS

U.S. Merchandise Trade . . . . . 6

## SUPPLEMENTAL NOTES

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### THE DOMESTIC FINANCIAL ECONOMY

#### Mortgage Activity at FSLIC-Insured Institutions

The volume of mortgage-related assets held at FSLIC-insured thrifts rose for the eighth consecutive month, increasing by a seasonally adjusted \$2.9 billion in February. Mortgage originations at this sample of thrifts subsided somewhat in February from the accelerated pace of the previous two-month period, though at \$17.8 billion they remained historically strong.

Loan retirements rose for the second straight month (data not shown) and reached a new high in February, consistent with information from other sources concerning a pickup in mortgage refinancing activity.

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

	Mortgage transactions		Net change in mortgage assets <sup>1</sup>		
			Total	Mortgage loans	Mortgage-backed securities
	Originations	Sales			
	(1)	(2)	(3)	(4)	(5)
1985-Jan.	15.0	6.3	4.1	4.5	-.4
Feb.	15.0	6.4	3.1	2.9	.2
Mar.	14.7	6.2	4.2	4.8	-.6
Apr.	15.9	6.4	4.1	4.5	-.4
May	16.1	7.6	2.3	3.2	-.9
June	14.3	7.8	-2.2	2.8	-5.0
July r	14.9	10.5	2.4	4.7	-2.3
Aug. r	16.0	7.7	6.6	4.9	1.7
Sept. r	16.8	9.8	9.3	4.3	5.0
Oct. r	19.4	10.9	5.1	6.4	-1.3
Nov. r	18.6	12.8	3.7	3.1	.6
Dec. r	20.2	11.1	5.1	4.5	.6
1986-Jan. r	18.4	9.2	5.5	3.4	2.1
Feb. p	17.8	9.7	2.9	2.0	1.0

1. Data are adjusted to account for structural changes through mergers, acquisitions, liquidations, terminations, or de novo institutions.  
p--preliminary. r--revised.

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

March 28, 1986

	1984:Q4	1985	1986			Growth from Q4 1985 to Mar. 1986 <sup>pe1</sup>	
	to 1985:Q4	Q4	Q1 <sup>pe</sup>	Jan.	Feb.		Mar. <sup>pe</sup>
----- Percentage change at annual rates -----							
1. M1	11.9	10.6	7-3/4	1.1	7.3	15	9
2. M2	8.6	6.0	4-1/4	1.4	3.6	8	5
3. M3	7.7	6.4	7-1/4	8.2	6.1	8	7-1/4
							Levels in billions of dollars Feb. 1986
<u>Selected components</u>							
4. Currency	7.5	7.4	7-1/2	9.1	7.0	7	172.9
5. Demand deposits	8.6	7.7	3	-11.5	0.9	19	269.1
6. Other checkable deposits	22.2	18.5	15-1/2	12.8	17.3	16	183.0
7. M2 minus M1 <sup>2</sup>	7.6	4.6	3-1/4	1.4	2.4	6	1945.2
8. Overnight RPs and Eurodollars, NSA	18.5	23.6	7-1/4	-34.7	-3.6	34	67.0
9. General purpose and broker/dealer money market mutual fund shares, NSA	9.3	0.9	10-1/2	8.2	21.6	31	180.9
10. Commercial banks	9.1	5.3	7-1/4	9.8	2.8	7	850.0
11. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	19.0	11.2	8-3/4	11.8	1.3	10	462.0
12. Small time deposits	-0.6	-1.6	5-1/4	7.5	4.7	3	388.0
13. Thrift institutions	5.1	1.4	4-1/2	4.2	6.3	7	862.4
14. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	13.7	7.4	1	-1.3	3.3	5	359.3
15. Small time deposits	-0.4	-2.9	7	8.2	8.4	8	503.1
16. M3 minus M2 <sup>4</sup>	3.9	8.2	18-3/4	35.7	16.3	6	662.5
17. Large time deposits	5.7	10.8	15-1/4	31.3	8.6	-3	451.0
18. At commercial banks, net <sup>5</sup>	5.1	14.1	18-1/2	45.6	6.6	-17	291.3
19. At thrift institutions	6.8	5.2	10	6.9	11.4	24	159.7
20. Institution-only money market mutual fund shares, NSA	11.1	3.1	25	40.9	7.2	55	67.2
21. Term RPs, NSA	-4.4	39.2	46	51.1	33.3	9	70.4
22. Term Eurodollars, NSA	-3.7	-4.5	-3-1/2	-20.2	44.3	14	78.7
-- Average monthly change in billions of dollars --							
<u>MEMORANDA:</u>							
23. Managed liabilities at commercial banks (24+25)	2.3	6.2	7	14.6	3.1	3	477.8
24. Large time deposits, gross	1.0	2.3	3-1/2	11.8	2.4	-4	351.8
25. Nondeposit funds	1.3	3.9	3-1/2	2.8	0.8	8-3/4	126.1
26. Net due to related foreign institutions, NSA	0.4	0.8	3/4	6.0	-0.5	-1-1/2	-22.2
27. Other <sup>6</sup>	1.0	3.1	2-3/4	-3.2	1.3	10-1/4	148.3
28. U.S. government deposits at commercial banks <sup>7</sup>	0.2	0.9	-1/2	1.5	2.1	-5	21.1
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. 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 February and March 1986 at rates of 2.9 percent and 5 percent, respectively. At thrift institutions, savings deposits excluding MMDAs increased during February and March 1986 at rates of 4.0 percent and 6 percent, respectively.							
4. The non-M2 component of M3 is seasonally adjusted as a whole.							
5. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.							
6. 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.							
7. 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)<sup>1</sup>

	1985				1986		Levels in bil. of dollars February <sup>P</sup>
	Q2	Q3	Q4	Dec.	Jan.	Feb. <sup>P</sup>	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	9.3	8.6	11.8	16.6	15.3	4.3	1926.4
2. Securities	5.5	12.4	19.6	26.2	24.3	4.0	455.7
3. U.S. government securities	0.0	9.0	-3.5	-18.8	-27.0	28.1	270.8
4. Other securities	16.1	18.8	61.3	103.0	103.8	-29.7	184.9
5. Total loans	10.4	7.4	9.4	13.7	12.5	4.3	1470.7
6. Business loans	2.6	2.4	5.5	8.1	0.7	2.7	495.3
7. Security loans	87.8	-18.0	5.2	28.6	136.4	-36.2	41.8
8. Real estate loans	12.4	11.2	13.0	11.5	8.2	14.1	431.1
9. Consumer loans	14.9	11.1	8.8	11.4	12.1	12.9	292.5
10. Other loans	7.1	12.3	13.5	32.6	26.5	-14.7	210.0
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	3.6	2.2	5.0	7.1	0.7	3.4	491.5
12. Loans at foreign branches <sup>2</sup>	17.0	-4.1	-2.1	6.2	-6.2	-62.5	18.2
13. Sum of lines 11 & 12	4.0	2.0	4.7	7.1	0.5	0.9	509.7
14. Commercial paper issued by nonfinancial firms <sup>3</sup>	33.8	-1.5	55.5	36.2	-13.5	-2.7	87.5
15. Sums of lines 13 & 14	7.9	1.5	11.5	11.3	-1.6	0.4	597.2
16. Bankers acceptances: U.S. trade related <sup>4,5</sup>	-10.8	-6.7	-13.6	25.1	-7.0	n.a.	33.7 (Jan)
17. Line 15 plus bankers acceptances: U.S. trade related	6.7	1.0	10.1	12.1	-1.9	n.a.	630.7 (Jan)
18. Finance company loans to business <sup>4</sup>	8.0	3.1	19.2	19.4	18.3	n.a.	153.1 (Jan)
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	6.9	1.4	11.8	13.5	2.0	n.a.	783.8 (Jan)

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 QUOTATIONS 1/  
(percent)

	1982/1983	1984	1985	1986		Change from:	
	cyclical low	Higs	March highs	FOMC Feb	Mar. 27	1984 high	FOMC Feb
<b>Short-term rates</b>							
Federal funds 2/	8.46	11.63	8.58	7.91	7.42	-4.21	-0.49
Treasury bills 3/							
3-month	7.08	10.67	8.80	7.11	6.34	-4.33	-0.77
6-month	7.62	10.77	9.13	7.19	6.32	-4.45	-0.87
1-year	7.73	11.13	9.25	7.19	6.37	-4.76	-0.82
Commercial paper							
1-month	8.00	11.42	8.94	7.75	7.27	-4.15	-0.48
3-month	7.97	11.35	9.12	7.68	7.12	-4.23	-0.56
Large negotiable CD's 3/							
1-month	8.08	11.52	8.89	7.76	7.29	-4.23	-0.47
3-month	8.12	11.79	9.29	7.76	7.14	-4.65	-0.62
6-month	8.20	12.30	9.92	7.80	7.11	-5.19	-0.69
Eurodollar deposits 4/							
1-month	8.68	11.89	8.89	7.91	7.50	-4.39	-0.41
3-month	8.71	12.20	9.58	7.95	7.43	-4.77	-0.52
Bank prime rate	10.50	13.00	10.50	9.50	9.00	-4.00	-0.50
Treasury bill futures							
June 1986 contract			10.58	6.91	5.99		-0.92
Sept 1986 contract			10.74	7.02	5.91		-1.11
<b>Intermediate- and long-term rates</b>							
U.S. Treasury (constant maturity)							
3-year	9.33	13.49	11.22	8.19	7.13	-6.36	-1.06
10-year	10.12	13.99	12.02	8.91	7.49	-6.50	-1.42
30-year	10.27	13.94	11.97	9.13	7.63	-6.31	-1.50
Municipal revenue 5/ (Bond Buyer index)	9.21	11.44	10.25	8.24	7.69	-3.75	-0.55
Corporate—A utility 6/ Recently offered	11.64	15.30	13.23	10.45	9.36	-5.94	-1.09
Home mortgage rates 6/							
S&L fixed-rate	12.55	14.68	13.29	10.85	10.01	-4.67	-0.84
S&L ARM, 1-yr.	n.a.	12.31	11.14	8.98	8.67	-3.64	-0.31
	1983	1984	1985	1986		Percent change from:	
	Higs	Lows	March highs	FOMC Feb	Mar. 27	1984 lows	FOMC Feb
<b>Stock prices</b>							
Dow-Jones Industrial	1287.20	1086.57	1553.10	1629.93	1821.72	67.66	11.77
NYSE Composite	99.63	85.13	121.90	124.67	137.69	61.74	10.44
AMEX Composite	249.03	187.16	246.13	244.12	269.81	44.16	10.52
NASDAQ (OTC)	328.91	225.30	325.16	346.27	373.31	65.69	7.81

1/ One-day quotes except as noted.

2/ Averages for two-week reserve maintenance period closest to date shown. Last observation is the maintenance period ending March 26, 1986.

3/ Secondary market.

4/ Averages for statement week closest to date shown.

5/ Thursday quotes.

6/ Friday quotes.

e—estimate

## INTERNATIONAL DEVELOPMENTS

U.S. Merchandise Trade

According to data released on Thursday, the United States had a trade deficit in February of \$12.5 billion (\$150 billion annual rate) on an unrevised, not seasonally adjusted, CIF valuation basis. See the table below. The deficit in February was considerably smaller than the one reported for January. However, these data are subject to large revisions.

On a revised basis, the deficit in January was slightly smaller than in December. It appears that for January-February combined exports were about unchanged from fourth-quarter rates and that imports (particularly the price and volume of oil) may be reduced a bit.

U.S. Merchandise Trade: CIF Value  
Billions of dollars, annual rates, NSA

<u>Year</u>	<u>Unrevised Statistical Month</u>			<u>Revised Statistical Month</u>		
	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1985	213.1	361.6	-148.5	212.7	357.3	-144.6
<u>Quarters</u>						
1985 - 1	224.6	350.0	-125.5	220.4	338.3	-117.9
2	217.3	368.9	-151.6	219.4	359.8	-140.4
3	201.4	354.7	-153.4	199.4	352.5	-153.1
4	209.3	372.8	-163.5	211.5	378.4	-166.9
1986 - J/F	208.5	382.2	-173.7	n.a.	n.a.	n.a.
<u>Months</u>						
1985 - Oct.	211.4	356.3	-144.9	214.7	382.8	-168.1
Nov.	212.6	376.5	-163.8	212.0	365.7	-153.7
Dec.	203.9	385.7	-181.8	207.8	386.7	-179.0
1986 - Jan.	204.1	401.6	-197.5	204.5	377.5	-173.0
Feb.	212.8	362.7	-149.9	n.a.	n.a.	n.a.

Source: U.S. Department of Commerce, Bureau of the Census.